



## Traphagen 2025 Review Newsletter

Calendar year 2025 started off as an extremely volatile and policy driven market, with geopolitical, tax, healthcare, and especially tariff/trade headlines and narratives taking center stage. As the year progressed, these uncertainties abated and the market recovered swiftly with positive returns across almost all financial assets. We will provide an in-depth review of 2025 market performance, portfolio adjustments, private investment updates, and our outlook for 2026 in the newsletter that follows.

---

### Economic & Market Update

2025 was a very good year across the vast majority of financial markets in terms of investment performance and fundamentals. The combination of roughly 13% SP500 earnings growth, 3% estimated real GDP growth/6% nominal GDP growth, slowly increasing (but still low) unemployment at 4.4%, stable inflation, lower short-term interest rates, and much greater certainty (and tailwinds) from tax policy has fueled these results.

The good performance was broad, but certain assets did stand out. Foreign stocks (both emerging markets and developed foreign) were up 32%. Gold, which had its best year in 46 years (1979), was up 71%. These top performers (although having few common attributes) are both great beneficiaries of a lower US Dollar. The US Dollar was down roughly 10% in 2025, marking its worst year relative to a basket of other currencies since 2017. The weakening US Dollar is not good or bad, but the impacts are significant. Other top performers were private equity (+12% to +23%), US large cap stocks (+18%), insurance linked securities (+17% average), and the majority of other traditional bonds and alternatives were up between +7% and +12%. The only notable laggards were real estate (both public and private) which on average were up single digits and finally Bitcoin with a -7% return.

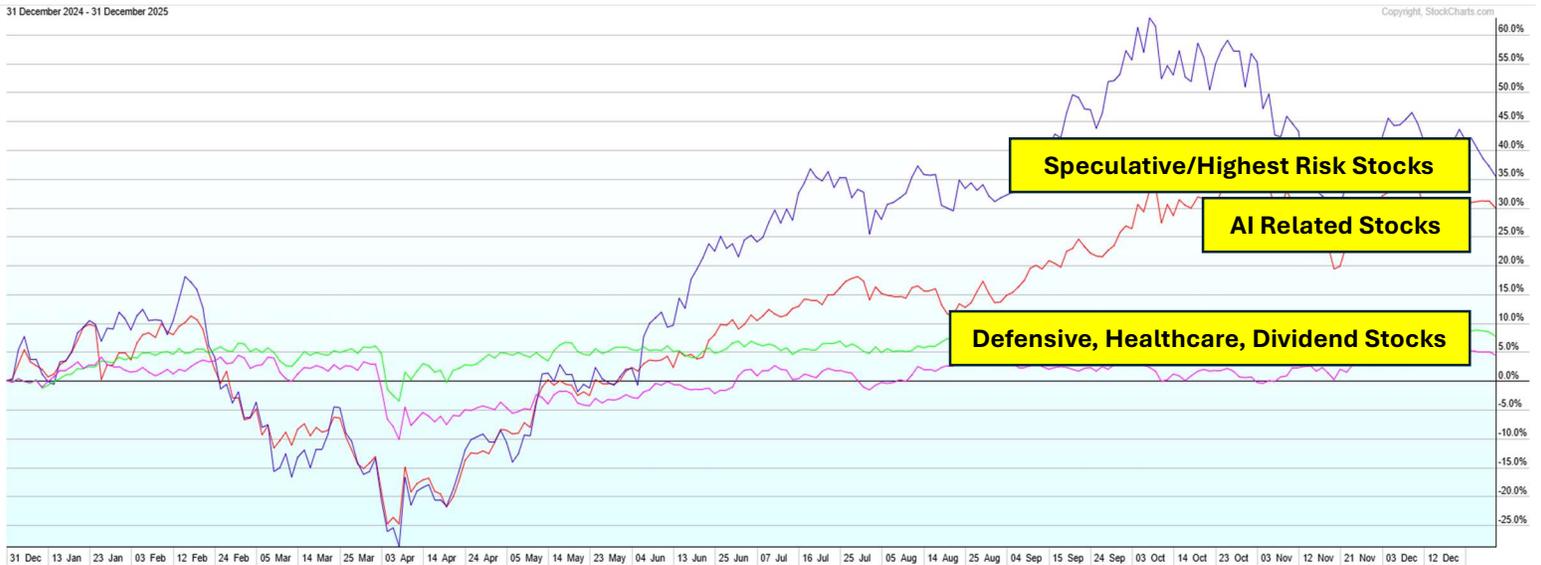
The bond market had low volatility and was very well behaved during the prior year. While the FED brought down short-term rates by 0.75% in the period (yields now near 3.7%), longer term rates (10Yr and 30Yr) yields were little changed over the past year. The 10 Year Treasury yield was 4.55% on January 1<sup>st</sup>, 2025, and currently sits at 4.27%.

The Traphagen alternative suite had its best year since its inception with returns of +8% to +12%, depending on the exact portfolio. As importantly, we were able to earn these stock-like returns with almost no volatility or correlation to any other financial markets.

## Equity Market Performance

On the index level the US stock market had good performance, however underneath the surface there were large differentials between themes and sectors. Below is a chart depicting some of the most obvious examples of this divergence.

Although only a little more than a month into 2026, we have seen this trend fully reverse with the more defensive/physical sectors outperforming and technology/higher risk sectors lagging.



The chart above illustrates the performance of these themes for 2025. *Red* = AI Related Index (ARTY), *Blue* = Speculative/Highest risk companies (ARKK), *Green/Pink* = defensive, healthcare, and dividend stocks

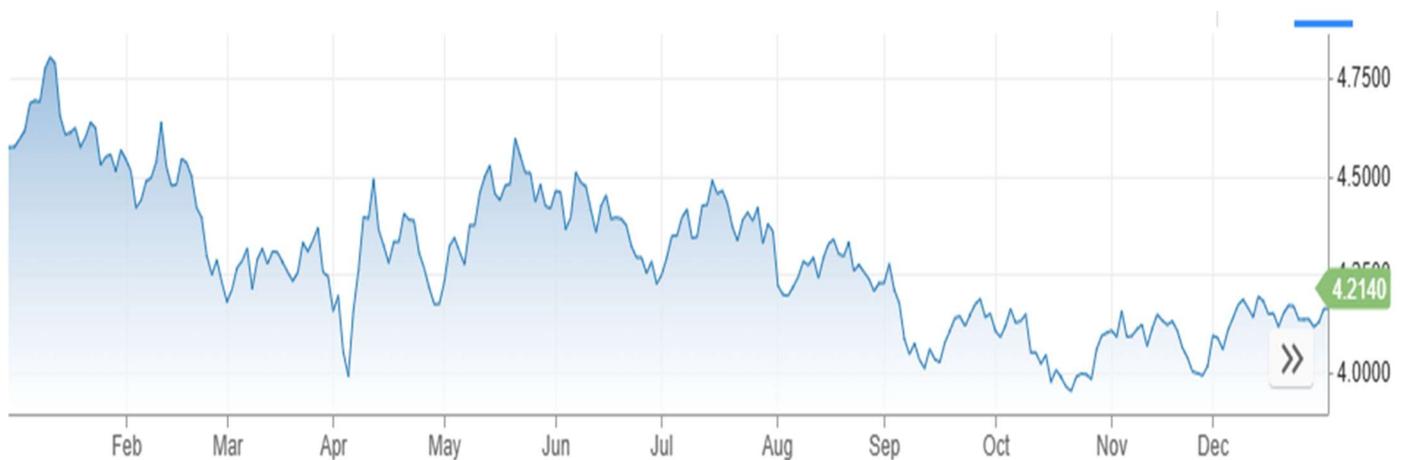
Sector	2025 Performance	Key Drivers
Technology	+ 26.1%	Highest correlation to AI, earnings growth
Healthcare	+ 15.3%	Attractive valuations, high policy uncertainty
Consumer Staples	+ 2.3%	Slow growing/defensive sector, no AI
Utilities	+ 16.5%	Defensive sector, although AI beneficiary
Energy	+ 7.7%	Declining Oil/Gas prices
Financials	+ 16.1%	Attractive valuations & higher GDP growth
Industrials	+ 20.7%	AI related trade & higher Q2 – Q4 growth
Consumer Discretionary	+ 8.7%	Concerns over consumer spending/no AI
Materials	+ 10.9%	Reasonable valuations, limited AI
Communication Services	+ 23.4%	High allocation to GOOGL & other AI trades

## Bond Market Insights

The bond market had a good year with either near steady rates for long term Bonds or lower rates for short and mid term credits. The overall US bond aggregate index returned just over 7% for 2025, with the majority of that return coming from the actual cash yield.

The highest returning bond security was our unique holding (TLTW), which holds both very long-term bonds (now yielding 4.9%) in addition to selling call options, which creates additional return. Last year, this ETF returned 11.5%.

All traditional bond types returned between 3.8% and 8.5%, which were generally close to their cash yield and in some cases small capital gains with lower rates.



*Above: Chart of the 10 Year Treasury Yield throughout 2025.*

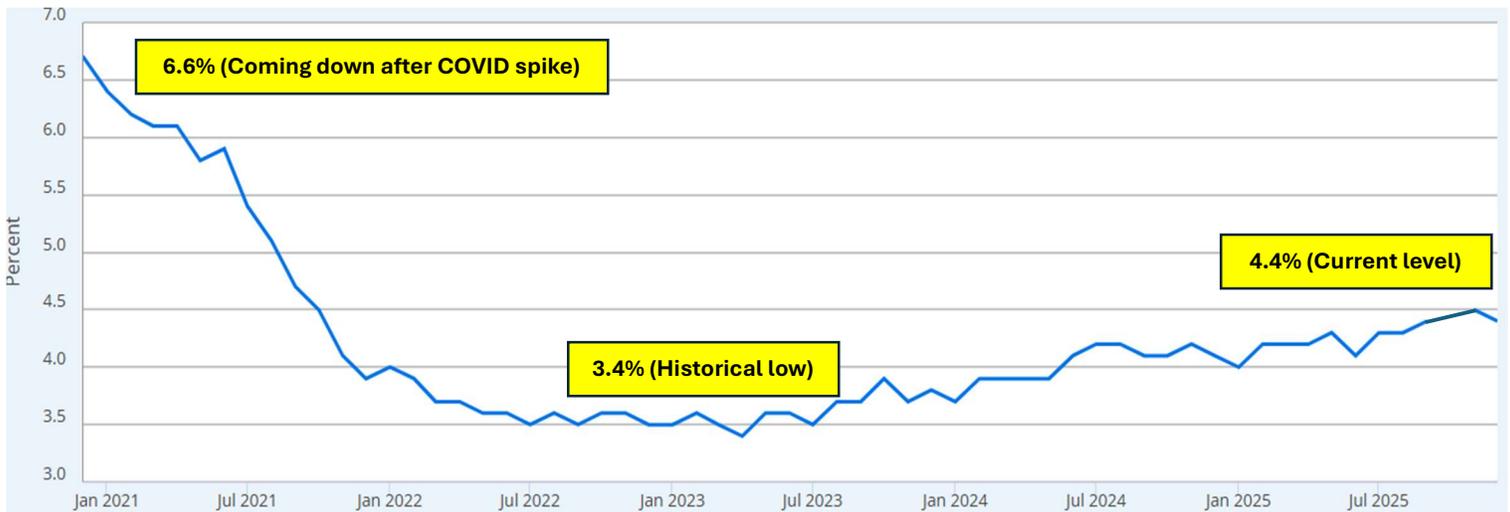
## Economic Indicators

Most economic indicators are either signaling a positive or neutral path forward for the US (and global) economies.

After a slow start in 2025 in terms of economic growth, once the tariff uncertainty waned, Q2 grew at a 3.8% pace, with Q3 accelerating to 4.4%. Although Q4 2025 is not yet known, it is widely expected to be in the 2.5% to 3.5% range. This type of real economic growth (meaning up and above the inflation rate), and a total 2025 nominal growth rate for the US economy of around 5.5% - 6.0% creates a tough environment to be bearish.

If we can keep nominal GDP growth in the 5%+ range (or 2% - 3% real growth), that is an enormous tailwind to corporate earnings, the global/US economy, and financial markets. As we stated in the last newsletter, if this level of growth can be sustained, it would be unlikely to get anything more than a 10% - 15% correction in the stock market on the downside.

**Below: US Unemployment rate over the past 5 years. After reaching a low of 3.4% in early 2023, unemployment remains historically low, but with a slow/gradual upward drift.**

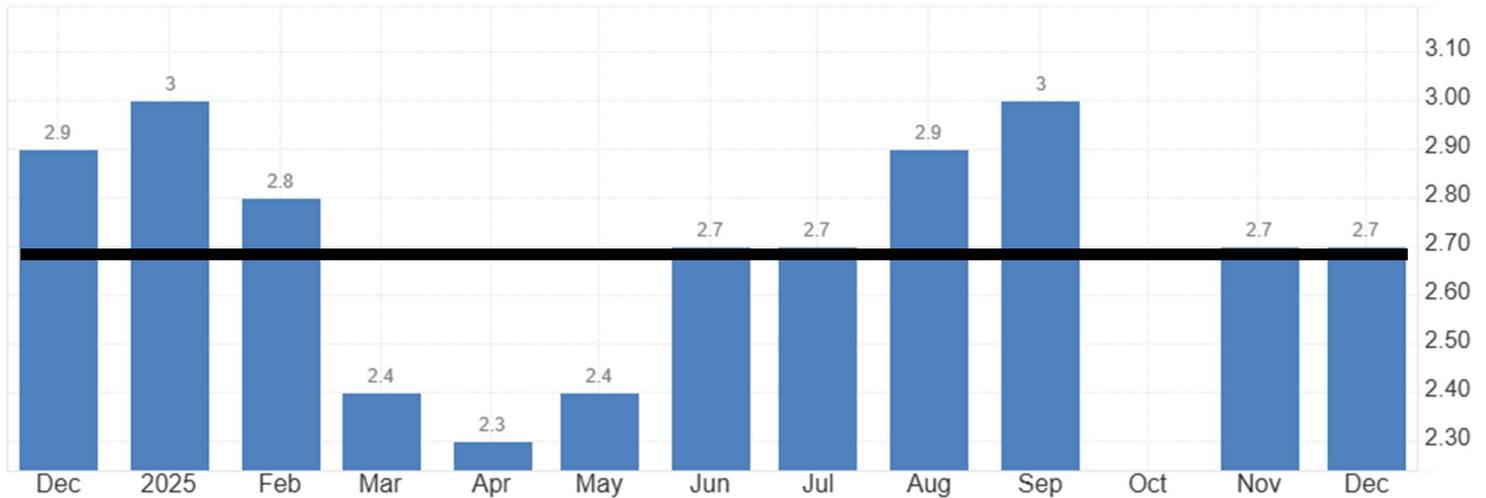


**In terms of unemployment,** we see a unique environment where both the hiring and firing rates are both fairly low at the same time. Unemployment is experiencing an odd balance with lower supply and somewhat lower demand. This dynamic is also starting to be impacted by the wider adoption of AI throughout the economy. Although it is tough to say definitively, AI seems to be putting some pressure on more entry-level white-collar job demand. It is too early for anyone to forecast how AI will impact the economy or the jobs market, but Traphagen (and many economists/market participants) are looking at this in depth.

Corporate earnings, despite early year volatility and tariff uncertainty have continued to show solid growth from 2024 to 2025, and that is expected to continue into 2026. SP500 corporate earnings were \$244 in 2024, expected to be \$270 or so in 2025 (12% growth), and current estimations for 2026 are for 13% earnings growth. Mirroring the GDP data, if these rates of growth are realized, it would be tough to get a deep stock market drawdown in the short to intermediate term.

**Inflation,** as measured by the Consumer Price Index (CPI), continues to be roughly steady between 2.5% and 3.0% over the past year, with no clear trend in place. The most recent reading of + 0.3% for December 2025 and + 2.7% year over year have been roughly flat. Although these levels remain above the FED's 2% target, it seems the market is okay (and in some cases might even prefer) this level of inflation as it does benefit certain companies while not being prohibitive to economic growth/confidence.

**Below is a chart of month-over-month inflation for the past year.** The relationship between inflation, anticipated interest rate cuts, and the financial markets is extremely important. This being the case, inflation/rates continue to be one of the most important metrics Traphagen is tracking for allocation purposes.



## Real Estate and Alternatives

As we stated in the prior newsletter, non-single-family home real estate continues to be the poorest performing asset class over the past 2-3 years with the NCREIF real estate index down close to 15% from top to bottom. We have started to see signs of this starting to reverse with mixed results for many of the real estate funds we own for clients. Net asset value returns have ranged from near breakeven on the low end to + 8% on the high end depending on exact strategy.

Within this asset class we had one special situation where the Bluerock Private Real Estate Fund (formally TIPWX) converted to a publicly traded closed end fund (BPRE; with the same net asset value and underlying assets transferring over). This type of conversion usually comes with an initial drop in price as investors wanting to sell are able on the free market, and that did indeed occur. Shortly after the conversion the NAV (value of assets within the fund) was \$23.75/share but the price on the open market dropped as low as \$14.5/share. This large discrepancy presents an opportunity where we can purchase these assets at a large discount to fair value (35% - 40%). Although there are never guarantees, we believe chances are high this discount shrinks over time and we can obtain outsized gains by holding/purchasing additional shares. As we write this update, 'BPRE' is up already 18% or so off the recent lows and produces 8% in cash distributions per year.

Traphagen's Private/Alternative investment suite (**TRAPALTS**) continued well above target performance for 2025. In addition to stock-like returns, our suite has exhibited almost no volatility or correlation to traditional financial markets, with a cash yield over 5%. **TRAPALTS** was up between 8.5% and 12% (depending on exact allocation) for 2025.

Over the past 5 years, **TRAPALTS** has now averaged just over 9% per year net of fees with almost no volatility. We continue to use this part of the portfolio as an extremely valuable tool as both offense and defense. It is important to note that through time we are constantly reviewing and changing (if needed) the exact make-up of the suite between the component parts (private real estate, several types of private credit, private equity, insurance linked securities, and infrastructure). This alternative/private allocation was integral in producing our 10% - 15% performance for most portfolios in 2025.

---

# Major Factors Impacting Markets in 2025

Although there were many factors that had impacts on financial markets in 2025, we have focused on five that we think had (and will continue to have) outsized importance on portfolios going forward.

## 1. The "AI Productivity" Reality Check

In 2025, the market narrative shifted from **infrastructure** (buying chips and servers) to **implementation** (software and margins). Investors stopped rewarding companies simply for mentioning "Generative AI" and began demanding proof of bottom-line impact. We are now seeing a divergence: "AI Winners" are those successfully using automation to offset rising labor costs, while laggards face "AI fatigue" as high valuations meet mediocre earnings growth. In addition (and just as importantly) we are seeing the need to play defense in the portfolio by avoiding companies and sectors that can be disrupted/largely eliminated by AI over the coming years.

## 2. The Weaponization of Trade: Tariffs 2.0

In 2025, trade policy moved from a tactical negotiation tool to a permanent fixture of national industrial strategy. The implementation of broad-based tariffs—particularly those targeting intermediate goods and green technology—has fundamentally rewritten the global commerce story. While these policies were designed to repatriate manufacturing, the 2026 narrative is focused on the "pass-through" effect (if any), and what the US Supreme Court decides on the constitutionality of these policies. Traphagen will be closely monitoring the court decision, how the administration reacts to it, and any market impacts. Traphagen believes if the tariffs remain largely as they are now, there will be limited further impact.

## 3. Fiscal Sovereignty and the Debt "Term Premium"

The era of "free money" is firmly in the rearview mirror. In 2025, bond markets began to price in the long-term reality of massive sovereign deficits. Investors are now demanding a higher **term premium**—extra yield for holding long-term debt—due to concerns over government spending levels in both the U.S., Japan, and Europe. This means that even if short-term rates fall, long-term mortgage and corporate borrowing costs may remain elevated. This is not a bad thing and actually can be helpful to investors seeking higher yielding alternatives to stocks for their portfolio/retirement.

## 4. The Resilience of the US/Global Consumer

Despite higher interest rates (versus the prior decade) and the depletion of "excess savings" from the pandemic era, the consumer remained remarkably resilient throughout 2025. This was driven by a robust labor market and "wealth effects" from housing and equity gains. Heading into 2026, the focus has shifted to consumer bifurcation: while high-income spenders remain active, lower-income tiers are showing some signs of stress, leading to a "K-shaped" recovery in the retail and discretionary sectors. The hope is that higher overall GDP growth and a shift of importance to many 'blue collar' jobs will cushion the squeeze for many consumers.

## 5. The Energy Transition Pivot/Infrastructure Boom

2025 saw a pragmatic and needed shift in the "Green Transition." While renewable investment remained high, there was a resurgence in nuclear and natural gas as "bridge fuels" to meet the staggering electricity demands of AI data centers. The narrative for 2026 is no longer just about "ESG," but about energy security and reliability.

Infrastructure of many types (pipelines, data centers, utility companies, electrical components, etc.) has become an important structural play for portfolios looking to take advantage of a world that is increasingly power-hungry and AI reliant.

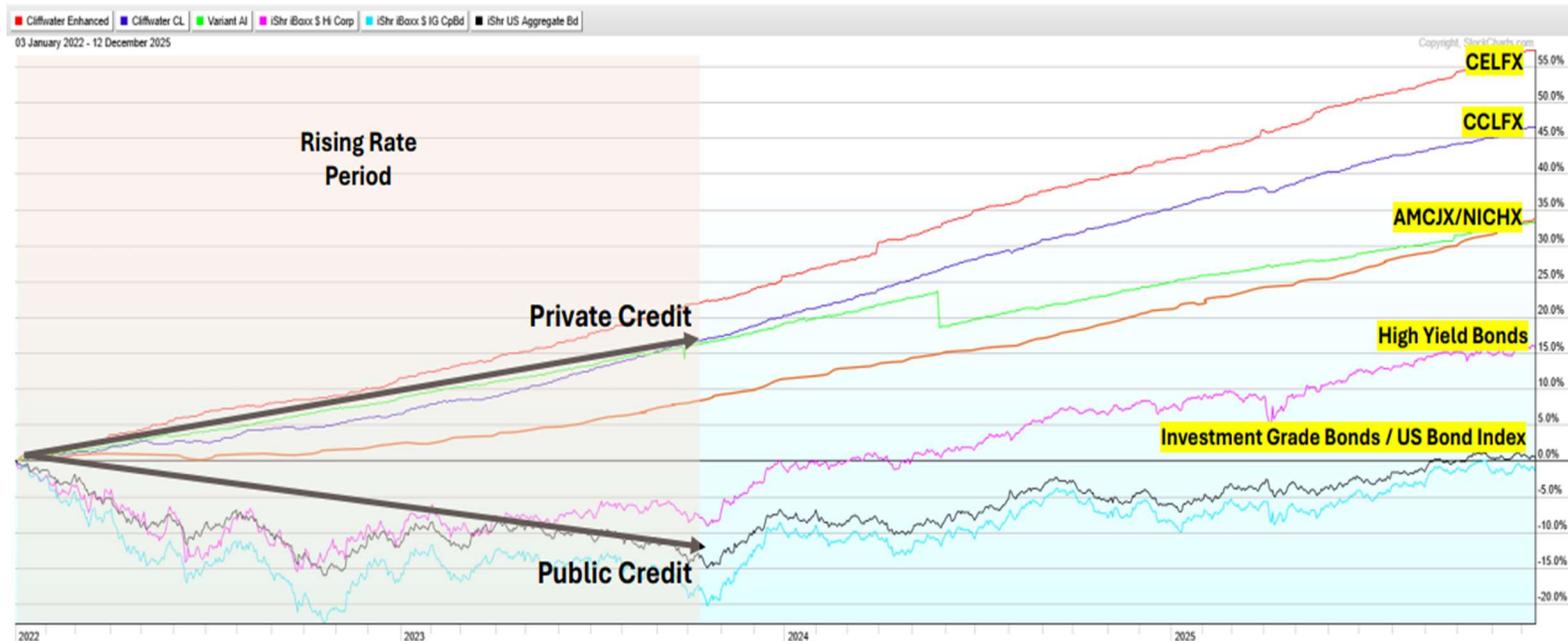
---

## Traphagen 2026 Portfolio Changes

As we enter the new year and look to reallocate and rebalance portfolios with the most recent trends and data in mind, we have highlighted the most important changes below. Some of these investments/trades have already occurred and others will be made over the next couple of weeks.

### 2026 Portfolio Adjustments/Security Changes:

- **Trimming roughly a quarter of our private credit exposure.** After 5+ years of outsized gains within our private credit allocation (between 4-5 different funds for most clients) we are taking some profits. This investment asset class has produced income (and total returns) net of fees of around 9% per year over the past 5 years and although we continue to like the space, we wanted to trim and reallocate to other areas that we think also offers diversifying value.



*Above: Four of our Private Credit Funds vs. public bonds since January of 2022.*

- Adding some Foreign Developed stock exposure.** After a decade of owning virtually no foreign stock investments (to our client’s benefit), we are seeing shifting fundamentals that we think will continue over the next several years. The US Dollar can stagnate or continue to fall further against other currencies, which is a strong tailwind for foreign investments. In addition, earnings growth and foreign government spending estimates are roughly in line with the US for the first time in many years. These factors in conjunction with lower valuations has caused Traphagen to allocate roughly 10% of public stocks to Europe, Japan, and other developed countries.
- Shifting from Catastrophe Bonds to ILW/QS within the Insurance Linked Security Asset Class.** Insurance securities over the past five years have outperformed stocks (+80% vs. +70%) while showing almost no volatility or correlations to anything else in portfolios. This was due to a combination of more modest natural disaster related losses and very high premiums. Premiums are coming down some from recent highs but still can produce 7% to 13% in an ‘average loss’ year. We are shifting dollars within this asset class to be lighter in catastrophe bonds and heavier in other parts of the sector.



*Above: Chart of our ILS position (gray line) vs. ACWI (global stocks) (red line) from 1/2021 – Current.*

- For more aggressive portfolios, we are adding specific AI enabler/adopter exposure.** For our more risk-tolerant clients we will be adding a new actively managed and ‘concentrated’ portfolio that concentrates solely on the companies that enable AI (AI infrastructure) and companies that actually use AI to enhance profits/margins (AI beneficiaries). The ticker on this new fund is ‘ALAI’.

- **For more conservative portfolios we are adding value orientated/high dividend stock exposure.** For middle risk and conservative portfolios, we will (or already have) added specific higher dividend yielding stocks. This is an ultra-low cost, high quality, and high dividend yield ETF that currently yields 3.6%. That represents about 3X the SP500 dividend yield overall. We think this is a part of the market that has largely been ignored over the past couple of years and can play catch-up to an extent. The ticker for this ETF is ‘SCHD’.
- **Adding to our infrastructure allocation.** Infrastructure is really in the investment sweet spot for several reasons. Traphagen has been heavy in this asset class for the past 3 years as a clear beneficiary of the increased energy needs of AI and we see no end in sight. In addition to solid growth, infrastructure offers inflation protection, defensive/predictable cash flows, critical operations, high dividend yields, and reasonable valuations. We will be adding more regulated utility and natural gas pipeline exposure into 2026.

As we first stated in July of 2025, we were estimating low to mid double digit returns for all but the most conservative portfolios for the full year. As we progressed through the rest of 2025, this seemed increasingly likely, and that is where most client portfolios net of all fees settled for the year. Outside of the most conservative, all our portfolios returned between 10% and 15%.

---

## Private Investment Update (For Accredited Investors Only; \$1M+ with Traphagen)

- **Private Equity (GPB Fund II):** No new information from GPB on the timing or amount of any further checks. We continue to wait for confirmation here and as soon as we do get any relevant information, we will pass it along to GPB holders. For now, the cash held within the funds continues to earn interest while invested in Treasury bills.
- **I-Direct Private Markets Fund:** Up 12.0% through November 2025, this fund has benefited from the addition of two new managers specializing in mid-market buyouts and growth equity. Its diversified approach has mitigated volatility in public markets, although we are researching the extent of software/SaaS allocation this fund holds in terms of AI disruption.
- **KKR Private Equity Fund:** Up 16.8% in 2025 with direct ownership of roughly 64 portfolio companies (vast majority being profitable).  
**BREIT:** Up 8.1% in 2025 which represents a turnaround for the fund (and possibly parts of commercial real estate) and is the highest return for any of our real estate funds since 2021. This fund holds a large amount in data centers, industrial, and multi family properties.
- **JPM REIT:** Up 6.1% in 2025 and represents a nice turnaround from near breakeven returns for the past 1-2 years.

- **STEPSTONE Funds:** Our suite of Stepstone investments includes private equity (XPMIX, + 12.1% 2025), infrastructure (STRUX, + 16.3% 2025), and Venture Capital (SPRING + 38.8% 2025). Both our private equity and infrastructure Stepstone funds performed very well in 2025 with low teens to just shy of 40% total returns net of fees. We are also reviewing these funds (outside of STRUX) for potential software/SaaS exposure.
- **Cascade Private Equity Fund:** This well diversified private equity fund continues is outstanding performance and was up 23% in 2025. Like most of our other private equity holdings we are reviewing any outsized software exposure.

## 2026 Market and Economic Outlook Update

Looking ahead through the rest of 2026 we remain generally optimistic. The combination of a favorable Federal reserve (neutral or cutting rates), positive tax bill impacts on the individual and corporate side, solid real and nominal GDP/corporate earnings growth, and continued generally favorable or neutral unemployment and inflation trends supports this stance. When looked at together we get a fundamental backdrop where it is tough to see a sustained stock market drawdown of 15% or more in the US. There is a compelling case that developed foreign markets are even more favorably positioned. This is why we are constructive on a ‘broader’ US stock market (stocks outside of technology can participate or even outperform) and for the first time in many years are taking a position in foreign stock markets. Valuation is the only material headwind in the US, while foreign markets remain cheap on a relative basis. As is always the case, there are risks we are monitoring and protecting portfolios against. The most important are listed below.

### Key Risks

*The table below outlines the risks we are monitoring, along with their potential impact on portfolios, and the mitigation strategies we are using to reduce any possible impact:*

Issue/Risk	Importance	Potential Portfolio Impacts	Mitigation Strategy
Supreme Court/Tariffs	Low/Moderate	Overall Stock Market/Currencies	Closely monitor court ruling and react quickly if changes are mandated
US Stock Valuations	High/Moderate	Stocks (especially technology)	Value/free cash flow stocks / concentrate on fundamentals
Recession Risk	Low	Most risk assets	High alternative exposure/AA bonds
New Fed Chair/Policy	Moderate	All rate/liquidity risk assets	Infrastructure, certain stock sectors, Alternative exposure, short bonds

<b>Geopolitical Tensions</b>	Low	Select stocks in short term	None taken (only short-term impact)
<b>Slowing Employment</b>	Moderate	Most risk assets/Consumer	Defensive stock exposure / AA bonds / Alternative exposure
<b>AI Disruption Risk</b>	High	Certain technology sectors	Avoid sectors that will likely be disrupted by AI in next 2-4 years

We expect a continued balanced approach—combining opportunities in select growth and defensive/value areas of the market (healthcare, utilities, infrastructure, foreign stocks) with downside protection (namely AAA/A rated bonds and alternative/private investments)—will be key to navigating 2026. Our firm is now pivoting around the AI theme. We remain holding an ‘offensive’ position in the sector (with a shift to higher quality/defensive names) and also to AI beneficiaries in all sectors. As importantly we are playing ‘AI defense’ and avoiding sectors that look vulnerable to severe disruption (software/SaaS, some digital services, and professional services). Lastly, as we constantly do, we are repositioning our alternative/private allocation to better reflect where we think the best risk adjusted returns reside.

---

## Conclusion

Although starting off on an extremely volatile and uncertain note, once the tariff dust cleared, 2025 turned into a strongly positive year for almost all financial assets producing 10% - 15% total returns for almost all our client portfolios. This was accomplished with a significant amount of downside protection. We look forward to changing portfolios across our three main pillars (stocks/risk assets), (alternative/private investments), and traditional bonds to reflect the latest trends and opportunities. Despite higher US stock technology valuations there remains many other areas of opportunity to invest both domestically and internationally. We wish you all the best as we eventually exit a very cold and snowy winter and start to plan for a warmer spring season.

**Best regards,  
Your Traphagen Investment Team**