Stapp Financial Investment Letter

Stapp Wealth Management, PLLC **Fourth Quarter 2025**

"When you boil it all down, it's the investor's job to intelligently bear risk for profit. Doing it well is what separates the best from the rest."

- Howard Marks

Market Recap

The performance of markets hides much of what has occurred in the last few months. Gold is the only asset that gives us an indication that the news agencies are keeping plenty busy. The most notable recent event took place at the beginning of the new year – the ouster of Maduro, Venezuela's leader, by the US. This event suggests that we are perhaps returning to the era of the Monroe Doctrine, or as some are calling it – the "Donroe Doctrine."

Prior to this crazy start to the year, the 4th quarter was quite strong for most asset classes. Bonds clipped their coupons, with investment grade bonds generating a return of +1.1% and high yield bonds returning +1.3%. For the year, bonds produced high single digit returns, a nice support to portfolios. Stocks continued their upward trend, with large cap US stocks gaining +2.7% in the quarter, while small caps lagged slightly at +2.2%. International equities continued to be the strongest performers with Developed International Stocks producing a return of +4.9% for the quarter amid a weakening dollar and renewed optimism in global growth. Emerging Market Stocks weren't far behind, adding +4.7% in the quarter. These outsized gains reflect a classic rotation out of U.S. exceptionalism and into cheaper, higher-potential markets abroad. Across categories for the full year, stocks produced double-digit returns, but non-US stocks had a much stronger performance, almost doubling the returns of US stocks. Meanwhile, gold's strength was unparalleled as it went up in price another +14.2% in Q4 alone, bringing its full-year tally to a robust increase of +67.4%, suggesting that safe-haven demand is at an all-time high. With geopolitical risks continuing to flare up, safe havens are in dire need. Our managed futures proxy returned +4.8% in the quarter but ended the year in the red at -3.7%. Fortunately for us, the specific managed futures strategies we allocated to bucked the proxy and generated positive returns for the year.

Asset Class Performance		
	4th Quarter	2025 Full Year
Investment Grade Bonds	+1.1%	+7.3%
High Yield Bonds	+1.31%	+8.62%
US Large Cap Stocks	+2.65%	+17.88%
US Small Cap Stocks	+2.19%	+12.81%
Developed International Stocks	+4.86%	+31.22%
Emerging Market Stocks	+4.73%	+33.57%
Gold	+14.18%	+67.41%
Managed Futures	+4.76%	-3.74%

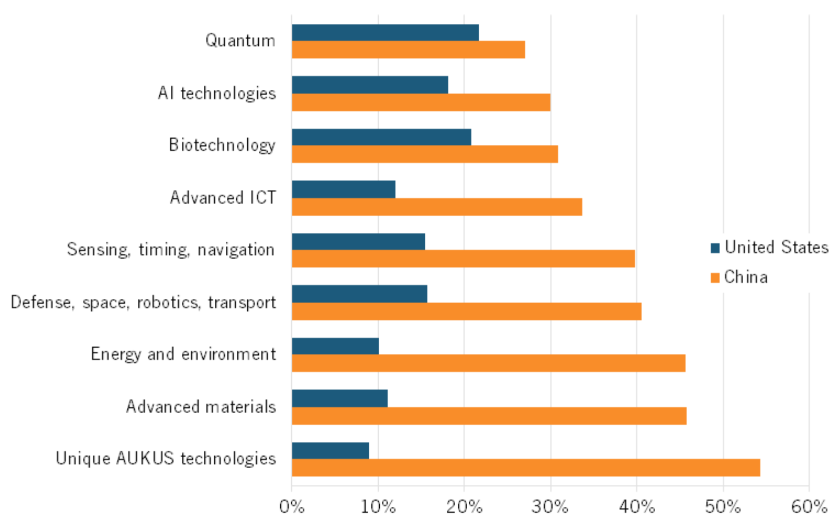
Data as of 12/31/2025. Source: Kwanti Analytics[1]

[1] Indexes used: Bloomberg US Aggregate Bond Index, Bloomberg US Corp High Yield, S&P 500 TR, Russell 2000 TR, and MSCI EAFE TR, MSCI Emerging Markets Index TR; Gold represented by the change in the gold spot price; Managed futures represented by a 50/50 allocation to ASFYX and PQTIX set to rebalance quarterly.

Investment Outlook and Portfolio Positioning

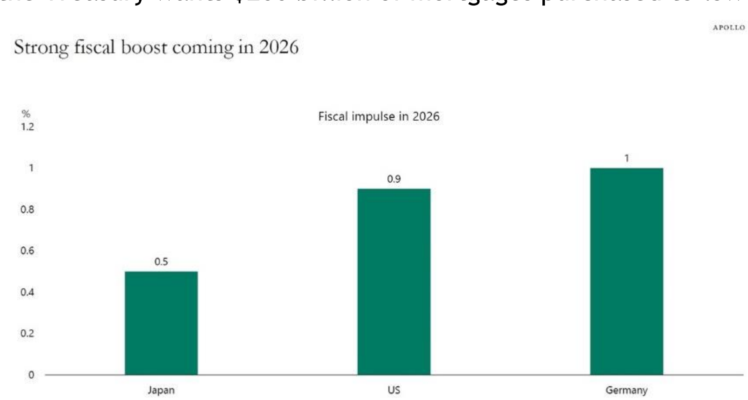
The race for global power is afoot. Since the liberation day tariff announcements, the economic competition between the US and China has intensified. China's "economic miracle" began in 1978 when Deng Xiaoping instituted a series of reforms that shifted Chinese policy closer to the Washington Consensus policies that were occurring in the West. Many have referred to this set of rival policies as the Beijing Consensus. China's rise, initially, was viewed as a positive development for western nations, but after the admission into the World Trade Organization, that perception reversed. China's low-cost manufacturing provided affordable goods to western consumers, integrated global supply chains, and opened a vast market for Western exports and investments. After the admission into the WTO, however, cooperation turned into competition. China's state-led model led to massive trade surpluses, manufacturing dominance, and job losses in Western industries. At the current juncture, the US and its allies remain ahead of China in some key areas, particularly in AI and semiconductors, but China appears to have surpassed us in many other key areas and is rapidly advancing. Across many domains, the research produced by Chinese academia has surpassed the research done in the US.

Figure 1: Share of the top 10 percent of quality publications across eight critical domains



Source: Australian Strategic Policy Institute

In response to this threat and perhaps in response to upcoming midterms, we have seen a plethora of news coming out of the White House. Just so far this year we have seen that the Fed appointee Miran wants 150 bps of rate cuts by year end, the Treasury wants $200 billion of mortgages purchased to lower mortgage rates, defense spending is proposed to be increased from $1 trillion to $1.5 trillion, and they want to cap credit card rates at 10%. On the side of the private sector, $1.5 trillion is planned to be spent this year on AI Capex and data center buildout. The administration is doing whatever they can to keep the economy running hot. The result is a reasonably large fiscal boost that will hit the economy throughout 2026.



On the opposing side, China is not letting up either. While China hasn't announced any bazooka spending bills, they have been providing increasing support to local governments, state banks, and state-owned enterprises to ensure the economy remains robust. Additionally, great effort is being made to compete against Western semiconductor companies. Just in the last month, there was an announcement of a Chinese "Manhattan Project" whose goal is to build out AI chips that rival leading Western chips. Reports suggest we won't see working chips until 2030, but if the DeepSeek release in early 2025 is anything to go off of, the Chinese tech sector isn't as far behind as the big tech leaders would have you think.

China Vows More Efficient Fiscal Spending to Support 2026 Growth

By Bloomberg News
December 27, 2025 at 10:50 PM PST
Updated on December 28, 2025 at 8:49 PM PST

Exclusive: How China built its 'Manhattan Project' to rival the West in AI chips

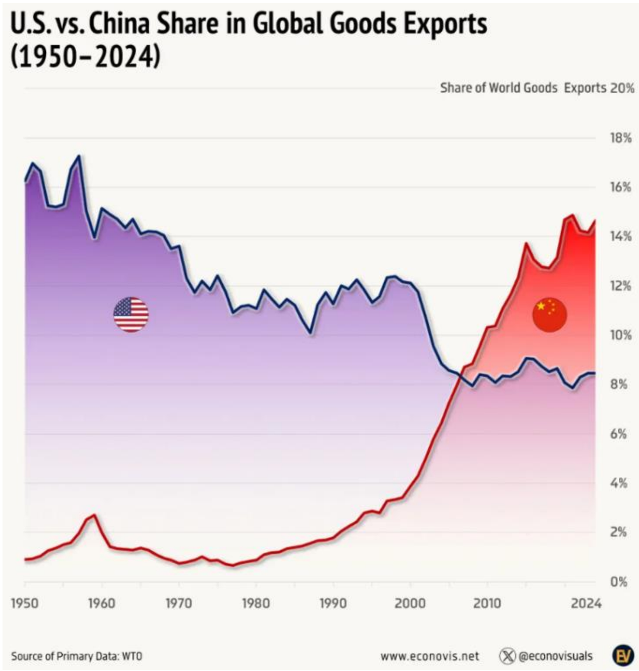
By Fanny Potkin
December 17, 2025 8:11 PM PST · Updated December 17, 2025

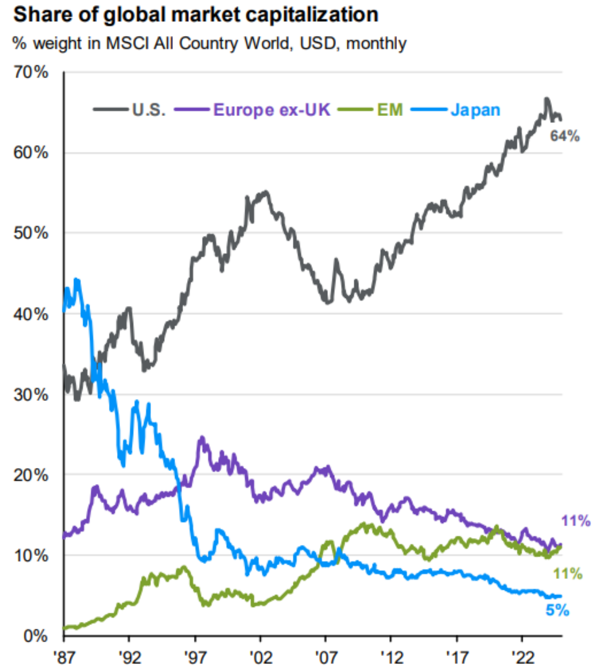
The market dynamics underlying this "run it hot" global economy would typically be something to be cautious about. Depending on which metrics you look at, markets are at near record high valuations and the success of big tech has made the market the most concentrated it has been since the pre-WWII era. This typically results in poor forward returns, but an economy running hot may stave off weakness over the short to medium term. Over the long term, we remain cautious. The CAPE ratio for the S&P 500, which is perhaps the best valuation metric for predicting long term returns, just hit a reading at the end of the year of 40.92. This level has only been surpassed by the dot-com bubble. At these levels, the expected 10-year annual returns implied by the CAPE for the S&P 500 are in a range of -2% to +2%. We continue to find it imprudent to make any sort of large bet on US stocks.

S&P 500 CAPE Ratio

Source: Multpl

With both the US and Chinese economies running at full throttle, the rest of the world should see strong growth. As China has overtaken the US in global trade, the overall global economy is now more closely linked to the Chinese economy than the US economy, particularly other emerging market countries. As US investors, we remain weary about investing in China, but neutral countries whose success is linked to the Chinese economy remains an area we find favorable. This long period of US outperformance has, along with creating very stretched valuations for US stocks, pushed the share of global stock market capitalization that is taken by the US to a near record level of 64%. Any reversion to the mean that might occur would be a big tailwind to non-US stocks. As such, non-US stocks continue to be a favorable area of investment in our portfolio strategies.





The US National Security Strategy (NSS) is a document that is typically published once per presidential term that outlines the broad strategic vision that the administration sees for the US. The NSS is not a law or executive order, but it does provide strategic direction. Depending on what is outlined, there may not be much staying power of strategy across administrations, but often times strategic stances can become irreversible. A new NSS was just released in December. Our investment thesis for the past year has been that we are seeing a reversal of the Washington Consensus. It was interesting to see that this NSS explicitly critiques and rejects many core tenets of the Washington Consensus, framing them as failures that have harmed U.S. interests. This strongly confirms our thesis. What we are continuing to monitor now is the extent to which this national strategy has staying power.

The investment implications of this thesis remain as we posited several months ago. We think this is an environment of investment winners and investment losers.

We want to own -

- Insurance against US government error (Gold, maybe bitcoin)
- Non-US assets in everything except consumer discretionary
- Political utilities and national champions
- Non-capex reliant tech
- Real assets
- Long/short strategies that can identify winners and losers

We want to avoid/underweight -

- Financial system business models that break if the USD or US treasuries decline
- High capex businesses
- Premiumization/wealth effect business winners
- Dominant US brands that face consumers that may become global political targets
- Interest rate sensitive bonds

Since we posited this thesis, these areas we have allocated to have done far better than we would have expected. This has benefited our portfolios as we saw notable outperformance across our strategies in 2025.

We continue to believe that a multi-asset multi-strategy approach is the superior way to invest. While we align our portfolios with our macro and micro views, we do it in a way that allows us to generate returns even when we are wrong. Given the valuation risks and inflation risks that are present, we think this is a superior approach to what's more typical in the industry – solely allocating to stocks and bonds.

Closing Thoughts

If the events of the last few weeks are any indication, 2026 will be a volatile year. Investment returns for any one year are unpredictable, but we would be surprised if we didn't see at least one 10% correction in the stock market. We believe we are well positioned for any turmoil that may come our way, but we remain vigilant as always. In investing as in life, there are good times and bad times. Our goal is to mitigate the impact of the bad times and to benefit from the good times.

We deeply value the confidence you place in us to manage your capital. Should you have any questions, insights, or wish to discuss your unique circumstances, please don't hesitate to reach out. We're here for you, ready to connect at your convenience.