



## 2025 in Review: When Process Mattered Most

2025 began with optimism bordering on euphoria. Markets entered the year on a wave of post-election enthusiasm, anticipating deregulation, tax relief, and a business-friendly policy environment. By mid-February, the S&P 500 had reached new all-time highs. Then came the tariff shock that tested investor resolve—and revealed which analytical frameworks would hold. As we look toward 2026, we see opportunities in areas the market has overlooked, and risks that deserve closer attention than they're receiving.

This letter summarizes where we've been, what we're seeing now, and how we're positioning for the year ahead.

### Where We Started

The first two months of 2025 felt almost effortless. Volatility was low, sentiment was high, and the consensus view was that modest policy adjustments would accompany an already-strong economy. The S&P 500 peaked on February 19th. Then the ground shifted.

Through late February and March, tariff rhetoric escalated. Markets began to weaken. By mid-March, the S&P 500 had already fallen ten percent from its February high. Then came April 2nd—'Liberation Day'—when the administration announced sweeping tariffs far exceeding market expectations. Over the following two trading sessions, the S&P 500 dropped another ten percent. Roughly six trillion dollars in market value was erased in forty-eight hours. The VIX spiked above 50, its highest level since the pandemic crash of March 2020.

We took a different view than the prevailing panic. Rather than react reflexively, we conducted sector-by-sector analysis of potential impacts, mapped plausible international responses, and ran scenario assessments across portfolios. Our conclusion: the market was pricing in outcomes that, while possible, were neither probable nor permanent. The severity and speed of the selloff showed clear characteristics of forced technical selling. Margin calls triggered rapid deleveraging, institutions hit stop-loss thresholds, and systematic strategies unwound simultaneously. This was not a fundamental reassessment of the economy's long-term prospects.

We communicated this assessment to clients who called seeking guidance. Our published letters from that period—available at [stanleylaman.com](https://stanleylaman.com)—captured this analysis in real time. The message was straightforward: remain disciplined. If you have liquidity and a long time horizon, this kind of dislocation creates opportunity. Politicians ultimately respond to economic pain, and the most punitive tariff scenarios were unlikely to survive contact with reality.

That framework proved correct. On April 9th, a ninety-day pause was announced. Tariffs were subsequently amended and negotiated. By mid-May, markets had turned positive for the year. By late June, the S&P 500 had recovered to new all-time highs. As we close the year near 7,000—up eighteen percent—investors who stayed disciplined were rewarded. Those who sold into the panic locked in losses that were soon erased for those who held firm.





## Where We Are

That brings us to today. Risk assets have recovered—emphatically so—but a different set of dynamics now commands attention.

Much has been written about artificial intelligence—some of it breathless, some of it skeptical. Investor sentiment has soured as early enthusiasm gave way to questions about monetization timelines and whether current spending levels are sustainable. We hear the bubble comparisons to 1999.

The comparisons miss something important. The dot-com era built speculative capacity for demand that hadn't yet materialized. Today, the situation is reversed: demand arrived first. Every major cloud provider reports the same constraint—they cannot build data centers fast enough to meet customer needs. Cloud backlogs at the major providers have grown to hundreds of billions of dollars in committed contracts, signed by established enterprises—from financial services to healthcare to manufacturing—integrating these tools into daily operations rather than speculative startups burning through venture capital.

The distinction matters: these companies describe themselves as “capacity constrained,” not “demand constrained.” When multi-year construction timelines—not customer demand—have become the limiting factor for the world's largest technology platforms, the investment thesis shifts from speculative to execution-dependent.

This is why we've focused our attention not on AI software—where outcomes remain uncertain and valuations are stretched—but on the physical infrastructure that must be built regardless of which applications ultimately succeed. Data centers need electricity whether the software running on them generates profits or not. Servers need memory chips, power equipment, and cooling systems. Transformers and electrical distribution equipment face multi-year backlogs. Grid interconnection queues stretch for years. We've been writing about these themes throughout the year—nuclear power's resurgence, the transformer shortage, the semiconductor equipment bottleneck. These aren't speculative bets on which AI company will “win.” They're investments





in the picks and shovels of a buildout that is already underway and constrained by physical reality, not market sentiment.

## Where We're Going

Looking toward 2026, we see tailwinds in two areas:

**Power and energy infrastructure.** For the first time in nearly two decades, the United States is entering a sustained period of electricity demand growth, with consumption rising approximately two percent annually through 2026. Data centers are part of this, but so is reshoring of manufacturing, electrification of transportation, and grid modernization after years of underinvestment. Nuclear plants scheduled for retirement are being restarted. Utilities that haven't built new generation capacity in decades are scrambling to meet demand. The companies that supply this buildout—power generation, electrical distribution, grid equipment—face demand that is structural, not cyclical.

**Semiconductor supply chains.** While attention remains focused on the companies that design chips, the equipment makers and component suppliers that enable production are entering their own multi-year demand cycle. The global scramble for semiconductor sovereignty—driven by national security concerns as much as commercial opportunity—is driving fab construction in the U.S., Europe, and Asia simultaneously. The companies that make irreplaceable equipment for these facilities benefit regardless of which end customers ultimately win market share.

### Risks we're monitoring:

Valuations leave little margin for error. The S&P 500 trades at historically elevated multiples, and concentration in the largest stocks has reached levels that exceed prior peaks. That said, elevated multiples partly reflect elevated expectations: analysts have revised 2025 earnings estimates upward over the past five months—the opposite of the typical year-end pattern—and project another fifteen percent growth in 2026.

Inflation remains sticky. The “last mile” to the Federal Reserve's two percent target is proving stubborn. If inflation settles higher than expected, the Fed may be forced to hold rates higher for longer than markets anticipate. Counterbalancing this: the same labor market softness discussed below could ease wage pressures, giving the Fed more room to maneuver than current inflation readings suggest.

The labor market shows early stress. Entry-level hiring has weakened meaningfully—recent graduates report a markedly tougher job market than even two years ago, with some measures of new-grad unemployment approaching rates for workers without degrees. Whether this reflects cyclical caution or something more structural remains to be seen. Headline unemployment remains low, but workers aren't quitting jobs at normal rates—a sign of eroding confidence. Consumer spending represents seventy percent of the economy. If employment weakens more than expected, spending follows.





## Looking Ahead

The same discipline that served us well during the tariff volatility of April guides our positioning now: systematic analysis over premature reaction, focus on what's observable rather than what's speculative, and attention to both opportunity and risk.

For existing clients, these broad themes inform our approach—but your portfolio reflects your specific circumstances: liquidity needs, tax situation, time horizon, and tolerance for volatility. If a review of your current positioning would be valuable as we enter the new year, we welcome the conversation.

For prospective clients, we offer a complimentary portfolio diagnostic: an objective look at your current holdings, concentration risks, and whether your positioning aligns with your stated objectives. You'll leave with actionable perspective—whether we work together or not.

We appreciate your time and attention.

Bradford Stanley, CFA  
Chief Investment Officer  
[stanleylaman.com](https://stanleylaman.com)

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