



## Resilience Amid Uncertainty

### 2025 by the Numbers

#### Markets & Investing

- **18%** – The S&P 500’s total return in 2025. The benchmark index ended the year near record highs and delivered its third consecutive year of double-digit returns.
- **8%** – The approximate total return of the US core bond market (Bloomberg US Aggregate Index) in 2025. After years of headwinds from higher interest rates, high-quality bonds enjoyed a solid comeback as rates declined slightly and credit spreads remained tight.
- **3** – The number of interest rate cuts enacted by the Federal Reserve in 2025, marking a decisive shift from tightening to easing. Facing cooler inflation and a murkier economic outlook, the Fed reduced its benchmark federal funds rate by a total of 0.75 percentage points over the year.
- **306** – The number of S&P 500 companies’ earnings calls in Q3 2025 that mentioned “AI,” a record high. This topped the previous record of 292 such calls, which was set during Q2 2025.
- **3 years** – The approximate amount of time it took for OpenAI’s ChatGPT to reach 800 million global users. By comparison, global internet users did not reach 800 million until a decade after the 1994 launch of Netscape.
- **\$423 Billion** – The estimated total amount of global capital expenditures on Artificial Intelligence in 2025, up 88% on a year-over-year basis.

#### The Economy

- **4.3%** – The annualized growth rate of US real GDP in Q3 2025. Despite a variety of headwinds including tariff policy and sluggish job growth, the domestic economy continues to be resilient.
- **2.7%** – The US consumer inflation rate (annual CPI) as of November 2025. Getting ever closer to the Fed’s 2% target, this cooler-than-expected reading indicates that price pressures may (finally) be easing.

#### Firm Highlights

Congratulations to **Mike Walsh**, whom we honored for embodying our Accountable core value and for celebrating his 45th anniversary as a key member of the JAG team. Mike is a consummate professional and tireless advocate for our clients. His dedication also extends beyond our firm, through his longtime service on the Finance Council and Investment Committee for the Archdiocese of St. Louis and the Investment Committee for the Sisters of the Good Shepherd in St. Louis. Thank you, Mike!



- **4.6%** – The US unemployment rate in November 2025, up from 4.2% a year earlier amid a gentle cooling of the job market.
- **0** – The number of recessions the US experienced in 2025, defying many forecasters’ predictions of an economic downturn. For the second year in a row, the economy avoided recession, despite still-elevated interest rates.

#### Culture

- **\$2.08 billion** – The total global gross of Taylor Swift’s epic Eras Tour, officially the highest-grossing concert tour of all time (according to Fox Business). An astonishing 10 million+ fans attended the tour across its many stadium shows, boosting host cities’ fortunes as “Swifties” traveled and spent big on hotels, restaurants and more during tour dates.
- **2** – The number of Super Bowl championships now won by the Philadelphia Eagles franchise. The Eagles captured their second title (and first since 2018) by crushing the Kansas City Chiefs 40–22 in Super Bowl LIX in February 2025, denying the Chiefs a historic three-peat attempt.
- **2** – The Los Angeles Dodgers’ count of consecutive World Series titles winning in 2025. The Dodgers became the first MLB team in 25 years to repeat as World Series winner.

## Market Overview

*"Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria."*

- Sir John Templeton

Roughly three years on from the bear market declines of 2022, the S&P 500 delivered its third consecutive year of double-digit gains in 2025. There was no shortage of volatility and skepticism along the way, especially during the market's "Tariff Tantrum" last spring. In an outcome that seemed unlikely to most observers, the US stock market rallied strongly in the back half of the year, leaving the S&P 500 with a total return of 17.9%.

The Federal Reserve delivered two quarter-point rate cuts in Q4 (November and December), its second and third cuts of 2025, bringing the benchmark rate down to about 3.5%–3.75%. The Fed's voting members were not unanimous, reflecting a delicate balancing act between cooling inflation and a softer job market. Inflation continued to trend lower, with the Core PCE price index hovering around 3%, and November's headline CPI fell to 2.7%. Meanwhile, the once-hot labor market clearly cooled: monthly payroll gains turned anemic, and the unemployment rate ticked up to a four-year high of 4.6%.

The AI-driven super cycle continues unabated. Companies poured record capital expenditures into AI infrastructure and capabilities in 2025, driving rapid earnings expansion for tech giants. A handful of mega-cap "Magnificent 7" stocks still exerted outsized influence on market returns, but market breadth began to quietly improve late in the year. The Health Care sector delivered strong quarterly returns, and pockets of the Financials and Industrials sectors also rallied.



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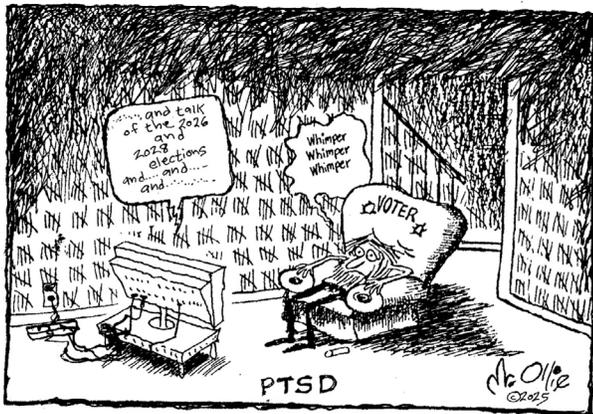
## Market Outlook

For most of the past few years, our stance was cautiously optimistic – until early 2025, when we tweaked it to "optimistically cautious" amid rising uncertainties. Now, after a volatile but ultimately resilient year for the markets and the economy, we are incrementally more bullish on the prospects for 2026.

Looking ahead, our investment team is monitoring five core themes for US equities in 2026:

- 1. AI Supercycle Broadens:** Artificial Intelligence remains the defining growth engine of the market and the US economy. The massive AI capex boom is expected to continue driving above-trend earnings growth, especially for the mega-cap tech leaders benefiting from a "winner-take-most" dynamic. Additionally, we expect to see mounting evidence of AI's impact drive opportunities outside of technology-oriented industries. This wider diffusion of AI could deliver an underappreciated productivity dividend across the economy, as well as support profit margin expansion. Additionally, effective utilization of AI could level the competitive playing field in many industries over the coming year. Nimble and innovative small- and mid-sized companies may be able to use AI to compete more effectively against their bigger competitors. This implies that there could be a growing number of interesting investment opportunities in small- and mid-cap stocks as we move through the year.
- 2. Manufacturing Renaissance:** A renaissance in capital spending is underway in the US industrial economy. New factories, chip fabs, EV battery plants, and infrastructure projects are breaking ground nationwide. With financial conditions now easing and many fiscal programs front-loaded into early 2026, capital spending could surprise to the upside as companies race to execute projects.
- 3. Inflation and the Fed's Balancing Act:** Even as growth remains solid, inflation is proving sticky in its "last mile" back to target. Core inflation is projected to hover in the upper-2% range in 2026 – a bit lower than 2025, but still above the Fed's 2% goal. The good news is that price pressures have eased significantly from the peaks of 2022, and recent inflation prints show moderation. The Federal Reserve thus faces a delicate balancing act: it wants to further normalize rates without snuffing out the expansion. We are monitoring inflation and Fed signals closely, but for now a soft landing still appears attainable.
- 4. Corporate Capital Discipline:** After the boom-bust whiplash of the pandemic era, many management teams have become far more disciplined about capital spending and expansion. Instead of rushing to build new capacity at the first sign of demand, companies are holding the line on expansion and prioritizing margins and returns over empire-building. This

means that as demand recovers, supply remains relatively constrained. This a recipe for more sustained pricing power and better profit margins, especially in more cyclical sectors of the economy.



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**5. Election Uncertainty and Policy Gridlock:** The 2026 midterm elections will be elbowing into the picture later this year. Control of Congress is at stake, and current indicators suggest the Republicans are likely to lose the House. This would make sweeping policy changes less likely for the last two years of President Trump’s term in office. For businesses, that means fewer surprises (no major new tax surprises or drastic regulatory overhauls). Key sectors currently clouded by political risk may actually breathe a sigh of relief. For example, health insurers have lived under the threat of drastic healthcare reforms, but gridlock in Congress could lift this overhang. The road to November could be bumpy, and we expect bouts of volatility as polling shifts and political drama unfolds. After the votes are counted, a more predictable policy environment could be a tailwind for the market heading into 2027.

We will do our best to proactively participate in opportunities, while also preparing for the inevitable bumps in the road. As always, we invest alongside our clients with a long-term perspective.

Thank you for your continued trust and confidence in JAG. We wish you and your loved ones a **healthy, happy, and prosperous New Year**. We look forward to navigating 2026’s opportunities and challenges **together** with you.

Best,

*Norm*

**Norm Conley**  
CEO, Chief Investment Officer & Portfolio Manager

## Disclosures

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A Veteran Owned Business (VOB) is a business owned, (51% ownership or greater) by a Veteran who has met the definition of a veteran. The following represents the criteria that the National Veteran Business Development Council (NVBDC) uses in determining ownership:

**Ownership:** Fifty-one percent ownership by a Veteran or Veterans. The applicant must share in all risk and profits commensurate with their ownership interest.

**Control and Management:** Proof of active management of the business. Veteran must possess the power to direct or cause to direct the management and policies of the business.

**Contribution of Expertise and Capital:** Contribution of capital and/or expertise by Veteran owner(s) to acquire their ownership interest shall be real and substantial and be in proportion of the interest acquired.

**Independence:** The Veteran owner(s) shall have the ability to perform in their area of specialty/expertise without substantial reliance on non-Veteran-owned businesses.

## About JAG

JAG Capital Management (JAG) actively invests for institutions and individuals in highly selective, customizable, and nimble equity and fixed income strategies. JAG is a boutique, independent, employee-owned investment management firm in St. Louis.

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