

## Quarterly Review and Strategy Update

**4<sup>th</sup> Quarter 2025**



- ❖ 2025 ends with a third year of double-digit equity returns, shrugging off skepticism about AI capex sustainability. Almost all major asset classes generated positive returns for the year.
- ❖ The Federal Reserve cuts interest rates in December as it struggles to reconcile persistent inflation with the weakening labor market
- ❖ Potential IPOs of SpaceX, OpenAI and Anthropic could add fuel to equity market momentum in 2026

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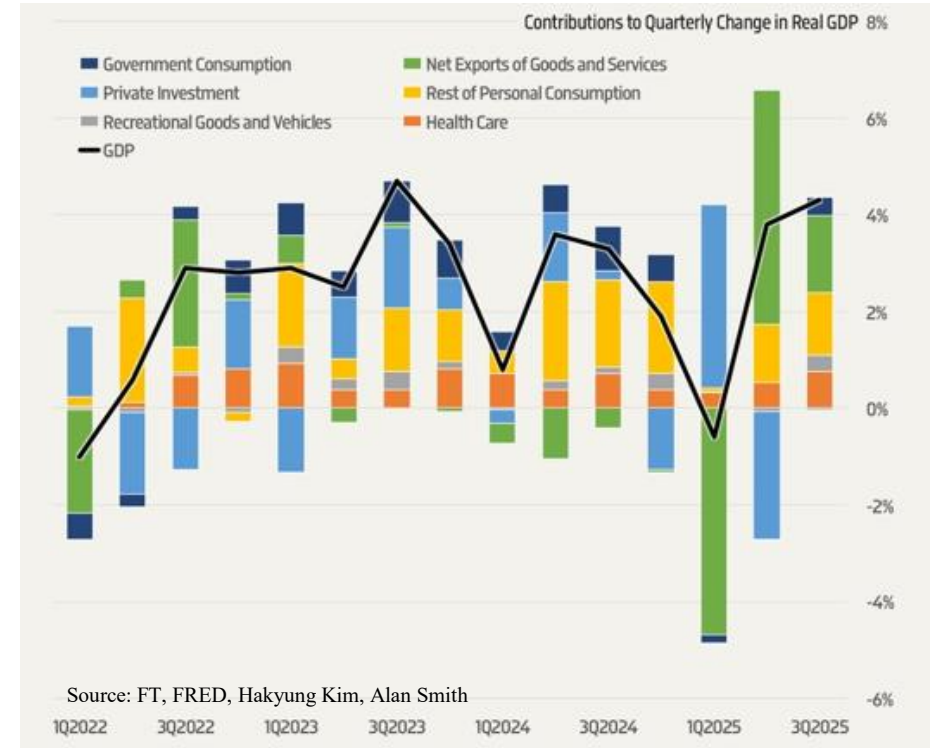
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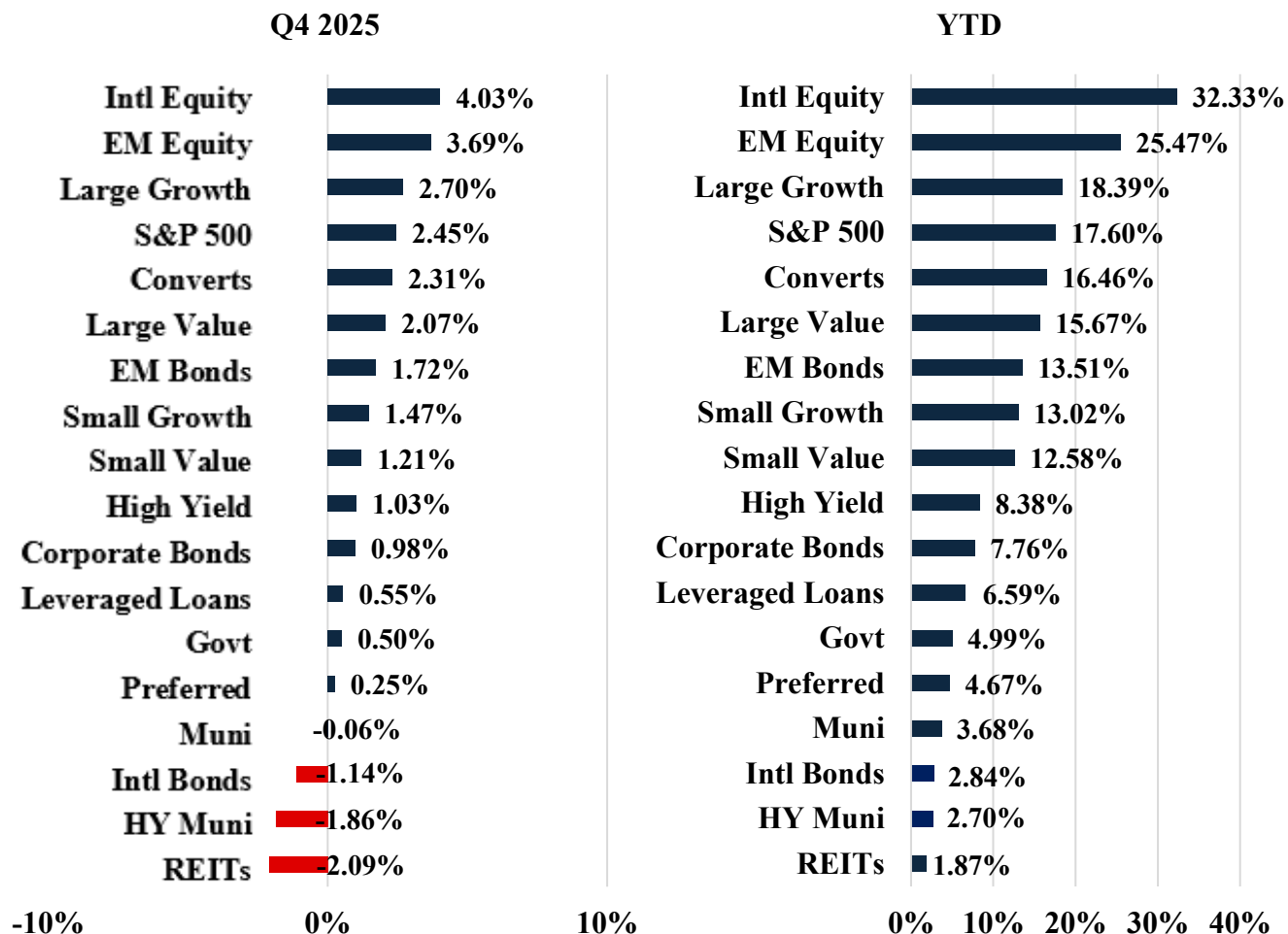
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- ❖ **Economic growth appears robust.** The economy expanded at a higher-than-expected annualized rate of 4.3% in the third quarter, driven primarily by net exports and consumer spending, with full-year growth expected to be close to the long-term trend of around 2%. Job gains totaled only 64,000 in November, following a loss of 105,000 jobs in October, and payrolls for both August and September were revised downward. Other indicators including job openings, quits, and layoffs also point to a weaker labor market. The unemployment rate rose to 4.6%, its highest level since the fall of 2021. The economy continues to exhibit a K-shaped pattern. Higher-income households are driving consumption, supported by strong asset prices, including rising home values and equity markets. In contrast, lower-income consumers are facing increasing pressure from higher prices and tighter credit conditions, reflected in rising subprime auto delinquencies and trade-down behavior. While wages have risen by approximately 4% this year, financial stress among lower-income households continues to build.
- ❖ **The decline in inflation is showing signs of resistance.** The Consumer Price Index rose 2.7% in November, while core prices increased 2.67%. Energy, shelter, food, and healthcare costs all edged higher. This mixed picture cooling but still sticky inflation alongside a softening labor market presents a challenge for the Federal Reserve. This was evident at the December meeting, where policy views were unusually divided: nine members supported a 25-basis-point rate cut, two favored no change, and Stephen Miran, the President’s recent appointee, argued for a larger 50-basis-point cut. The median forecast implies an additional 50 basis points of easing in 2026 from the current federal funds target range of 3.50%–3.75%.
- ❖ **The tariff environment remains volatile.** According to the Tax Foundation, the effective average tariff rate currently stands at 15.8%, the highest level since the 1930s. Businesses continue to navigate a shifting landscape of country and product-specific exemptions, including categories such as furniture, kitchen cabinets, and even Italian pasta. In October, Presidents Trump and Xi agreed to a one-year “truce,” under which U.S. tariffs on Chinese goods were reduced from 57% to 47% overall, while China suspended new export controls on rare earth metals. A durable agreement remains critical for trade stability. The Supreme Court may also invalidate the tariffs in the spring, which could prompt the administration to pursue alternative measures. If inflation does not come down significantly, President Trump may moderate his tariff stance as we approach midterm elections.
- ❖ **Potential global risks also bear watching.** In Japan, rising inflation and the prospect of interest rate hikes threaten the Yen carry trade that has supported U.S. asset prices. Meanwhile, developments in Venezuela and Iran, countries with the world’s largest oil reserves, could introduce additional volatility into the energy markets.

### Contributions to Economic Growth



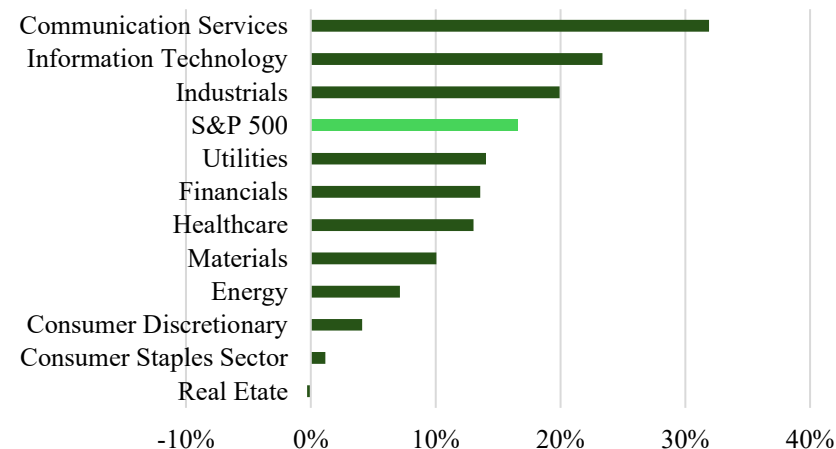
*Some economists estimate that as much as 40% of current economic growth is driven by investment in artificial intelligence. Data center construction, semiconductor purchases, and software development are captured under “private investment” in GDP. However, a significant share of AI-related hardware such as advanced chips and specialized equipment is imported and therefore netted against exports, reducing its contribution to GDP. In addition, investments in human capital, including compensation for AI talent, are not fully captured, meaning the total impact of AI may not be fully reflected in formal GDP data.*



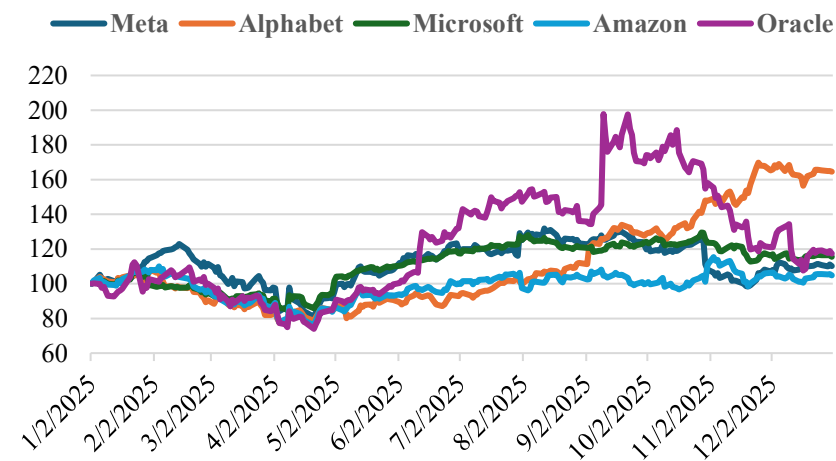
- ❖ All major asset classes generated positive returns in the 4<sup>th</sup> quarter. However, performance dispersion beneath the surface remained meaningful, highlighting the importance of selectivity and active positioning as returns varied across regions, styles, and sectors.
- ❖ International and Emerging Markets Equities materially outperformed the U.S. markets last year, reinforcing the diversification benefit of maintaining an overseas equity allocation.
- ❖ While Value stocks continued to lag Growth stocks, the gap narrowed last year to less than 3% for large-cap stocks compared to 15% in 2025 as investors expressed greater confidence in cyclical and rate-sensitive sectors. The gap between small-cap growth and value also narrowed to its tightest level in many years.
- ❖ Most Fixed Income asset classes generated returns for the year consistent with their credit risk. Exceptions were Emerging Market bonds, which performed well due to strengthening local currencies and improving economic fundamentals in many countries; and U.S. Investment-Grade Corporate Bonds, which performed above expectations due to spread tightening.

- ❖ **The U.S. equity markets overcame increased volatility in the 4th quarter to generate double digit returns for the third year in a row.** The S&P 500 gained 2.7% in the quarter and 17% for the year; the NASDAQ index gained 3.2% in the quarter and 19.8% for the year, and the small cap Russell 2000 index rose 2% in the quarter and 11.3% for the year. Overcoming the uncertainties created by tariffs and lingering inflation, stocks benefitted from lower energy and financing costs. Boosted by AI spending, Communication Services and Technology were the top performing industry sectors (at 33% and 24.4%), while Real Estate was the only sector reporting a loss at -0.6%.
- ❖ **Market concentration** has increased, with the top 10 stocks in the S&P 500 now 42% of its market capitalization. The Magnificent 7 still accounted for 40% of the S&P500's gains in 2025, lower than their 54% contribution in 2024. Earnings growth for the Magnificent 7 was 22.3% in 2025, and while the rest of the market was much lower at 9.4%, that is still solid growth.
- ❖ **Small cap stocks failed to meet their promise** as investors became concerned about lower growth and the slow pace of interest rate cuts and favored cash-rich large cap stocks. International stocks, however, outperformed U.S. equities. Developed international markets, represented by the MSCI World ex USA Index, rose 8% in the quarter and 31.85% for the year. The MSCI Emerging Markets Index posted a 7.3% return in the quarter and 33.57% for the year. The Dollar, which weakened by 10%, boosted returns on foreign assets for U.S. investors.
- ❖ **Can the capex into Artificial Intelligence generate returns?** The major hyperscalers are planning to spend over \$500 billion, around 25% to 30% of their revenues, on AI, up from 9% in 2021. This metric for Meta has spiked to 70%. These firms are currently generating only a few dozen billion Dollars of revenue from AI applications. While we can only guess at the potential profitability of AI tools and services, the market is becoming increasingly skeptical. The volatility of Oracle's stock price – up 200% from the start of the year to its peak in September, only to collapse 60% by year end – shows the uncertainty surrounding the sector.
- ❖ In November, the SEC approved Dimensional Fund Advisors' application to offer parallel **ETF share classes** alongside its legacy mutual funds. This landmark development will spur fundamental, active managers to launch ETFs using their mutual fund track record, accelerating the shift into more liquid, tax-efficient EFT vehicles. Investors will need to consider carefully if shifting to ETFs will be appropriate for their objectives and tax situations.
- ❖ Equity valuations have become more elevated this year due to speculative AI revenue projections. While investors should continue to maintain exposure to technology and growth stocks, we recommend selective profit taking and keeping an eye on target allocation weights. As more capital gains become embedded in equity portfolios, we recommend investors explore tax-loss harvesting strategies. New equity allocations should focus on likely underweight sectors such as value, small cap, international, and emerging markets.

Performance of Equity Industry Sectors in 2025

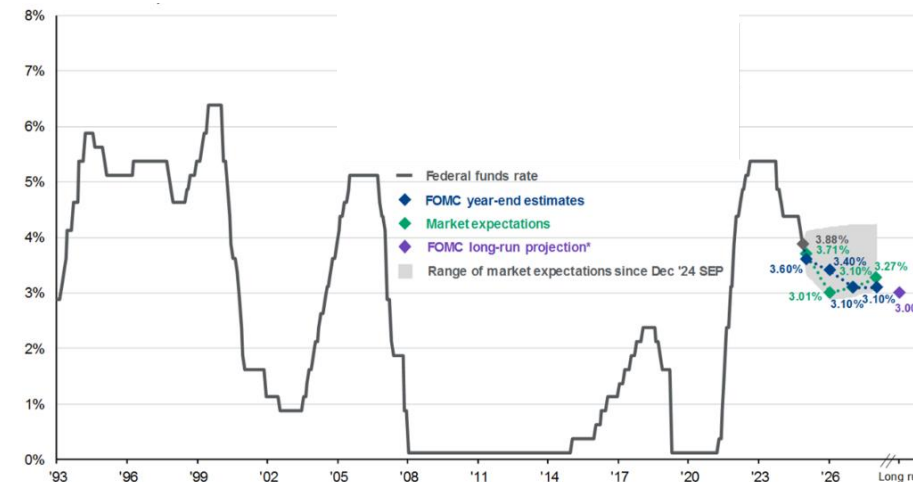


Performance of Select AI Stocks in 2025



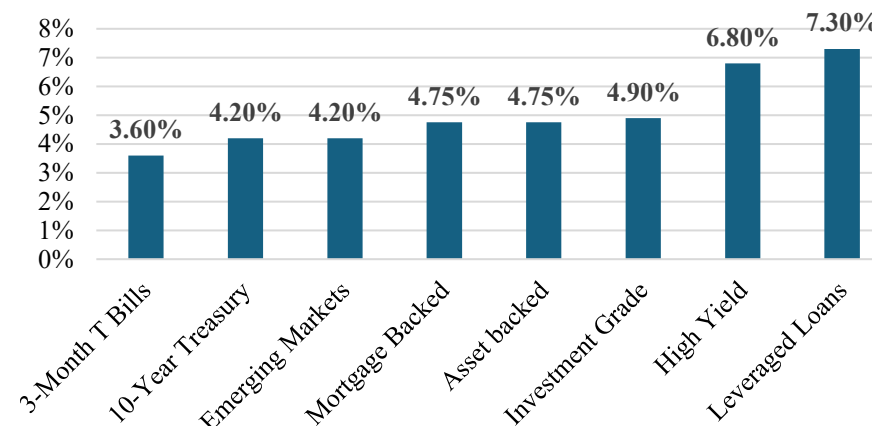
- ❖ **Fixed income markets posted steady returns in the fourth quarter.** Although short-term rates declined following the Federal Reserve’s two 25-basis-point cuts during the quarter, both the 5-year and 10-year Treasury yields traded within a narrow range and ended the year at roughly the same levels as at the start of the quarter (3.7% and 4.2%, respectively). The yield curve may continue to steepen in the year ahead. Bond investors largely looked past the longest government shutdown in U.S. history, and concerns about the growing federal deficit have not materially affected demand for Treasuries. The Federal Open Market Committee projects two additional rate cuts in 2026, bringing the federal funds rate to approximately 3.4%, while market participants are pricing in slightly lower rates.
- ❖ **Because many foreign central banks began easing earlier than the Federal Reserve, policy rates abroad are generally lower.** The European Central Bank’s policy rate stands at 2.15%, Canada at 2.25%, the United Kingdom at 3.75%, Japan at 0.75%, and China at 3.0%. Despite these lower rates, the U.S. dollar weakened by approximately 10% against major currencies last year, boosting returns on foreign and emerging market debt. The J.P. Morgan EMBI Global Diversified Index returned 14% for the year.
- ❖ **Most corporate bond funds generated returns largely in line with their coupon income in 2025.** Credit spreads remain near historically tight levels, which may be difficult to sustain amid softening employment conditions and persistent inflation pressures. Further spread compression appears limited. As a result, investors are increasingly expected to rotate capital from Treasury bills and money market funds into longer-duration bonds in search of higher yields.
- ❖ **Municipal bonds reversed their relative underperformance in the fourth quarter.** The sector absorbed a record \$590 billion in new issuance as municipalities addressed the expiration of COVID-related subsidies and funded infrastructure projects. While elevated issuance is expected to continue into 2026, with approximately \$600 billion anticipated, demand should remain strong given that municipal bonds continue to offer attractive tax-adjusted yields relative to Treasuries and corporate bonds.
- ❖ **Below-investment-grade debt performed well in 2025,** with high-yield bonds returning 8% and leveraged loans generating returns between 7.5% and 8.0%. Despite several high-profile bankruptcies, including First Brands and Tricolor, default rates remained relatively contained. S&P and Moody’s reported trailing 12-month default rates in the 4%–5% range. Collateralized loan obligation (CLO) issuance reached a record \$201.5 billion, slightly above last year’s \$201.2 billion. Although credit spreads have historically widened during periods of falling base rates often keeping total yields stable, some investors have begun to redeem from floating-rate bank loan funds.
- ❖ We recommend allocating capital away from T-bills and money market funds particularly as short-term rates fall, while maintaining some duration exposure due to the economic slowdown.

**Federal Funds Rate Forecast**



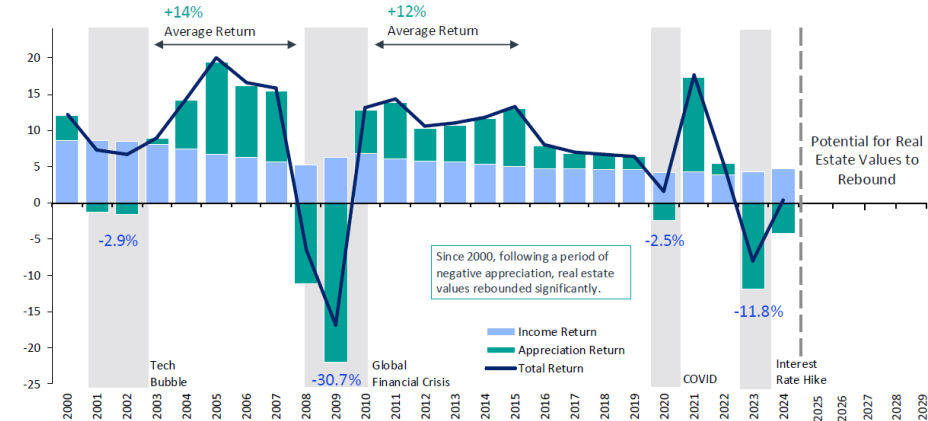
Source: Actinvest

**Fixed Income Asset Yields**



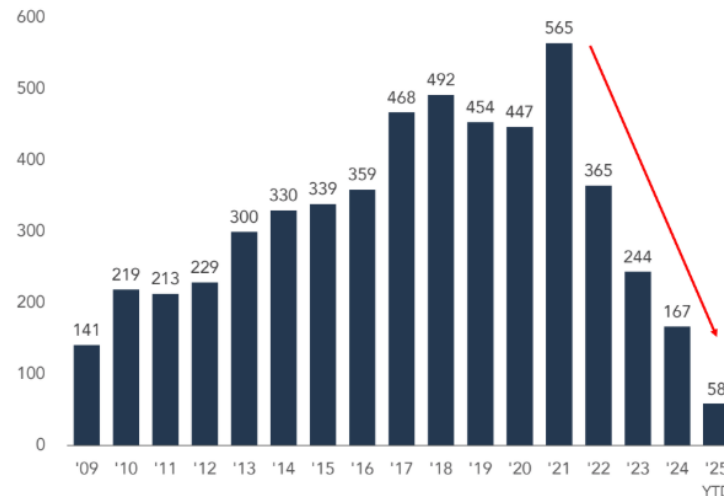
- ❖ **The history of private real estate suggests that once returns turn positive following a drawdown, there is a strong likelihood of a sustained recovery.** However, investment strategy matters. During the Global Financial Crisis, asset selection was critical, with higher-quality properties generally outperforming regardless of property type. The recent drawdown has been different, as property type has played a much larger role in performance than individual asset quality. As a result, investors overweight industrial properties and underweight office would have outperformed. Looking ahead, there is increasing evidence that asset selection is once again more important.
- ❖ Rent growth in multifamily properties has slowed to approximately 2% as the market absorbs recent supply, while sectors such as senior housing where new construction has been limited since 2022 are experiencing rent growth of more than 5%. Investors are reallocating capital from office to niche property types, though caution is warranted to avoid herd behavior that could push too much capital into sectors with limited capacity. High construction and labor costs continue to discourage new development, leading to increased competition for existing assets.
- ❖ While opportunities exist to acquire fundamentally sound properties from distressed sellers, underwriting discipline is essential. Current cap rate spreads relative to interest rates are tight at roughly 1%, compared with 4.5% in 2020 and more than 5% in 2010. Historically, cap rate spreads have tended to widen as interest rates decline rather than through rising cap rates. As a result, real estate valuations may depend heavily on the path of interest rates going forward.
- ❖ **The environment for alternatives is increasingly split.** Private credit continues to attract capital, with strong demand from insurance companies and retail investors supporting new manager launches. In contrast, private equity has become far more challenging, as limited distributions and constrained liquidity have made investors highly selective. For investors, success now depends on manager quality rather than access. Capital is gravitating toward established managers with proven track records and clear value-creation capabilities, reinforcing the importance of disciplined manager selection and long-term relationships.
- ❖ **Several high-profile private companies, including SpaceX, OpenAI, and Anthropic, are expected to pursue public listings.** Well-received IPOs could provide incremental support to equity markets by broadening investor participation in long-term growth themes. At the same time, valuation discipline will matter, as overly optimistic expectations could temper returns and contribute to periods of increased volatility.
- ❖ We recommend maintaining target allocations to hedge funds, private credit, and private equity, with an emphasis on selectivity in private equity given tighter liquidity conditions and a slower exit environment. Within real estate, we favor a barbell approach pairing core, income-oriented holdings with selective opportunistic investments to balance stability with the potential to capitalize on market dislocations.

NCREIF Property Index Total Return By Calendar Year



Source: Clarion

New Private Markets Manager Launches



Source: Arctos

# Disclaimer

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## VIEW CAPITAL RIA, LP

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### **Glossary and Index Definition**

- Alerian MLP Index (MLP) - The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology. The index is disseminated by the New York Stock Exchange real-time on a price return basis (NYSE: AMZ). The corresponding total return index is calculated and disseminated daily through ticker AMZX.
- Barclays Capital U.S. Municipal Index – The U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligations, revenue bonds, insured bonds, and prefunded bonds. Many of the sub-indices of the Municipal Index have historical data to January 1980. In addition, several subindices based on maturity and revenue source have been created, some with inception dates after January 1980 but no later than July 1, 1993. In January 1996, Barclays Capital also began publishing a non-investment grade municipal bond index and “enhanced” state specific indices for Arizona, Connecticut, Maryland, Massachusetts, Minnesota, and Ohio. These indices are published separately from the Barclays Capital Municipal Bond Index.
- BofA Merrill Lynch Convertible Bond Index (Convertibles) - The BofA Merrill Lynch Convertible Bond Index tracks the performance of US dollar denominated convertible bonds issued in the US domestic market. In addition, qualifying securities must have at least one-year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of \$100 million.
- BofA Merrill Lynch Perpetual Preferred Securities Index (Preferred) - The BofA Merrill Lynch Fixed Rate Preferred Securities Index tracks the performance of US dollar denominated preferred securities issued in the US domestic market. Qualifying securities must be rated investment grade (based on an average of Moody's, S&P and Fitch) and must have an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).
- BofA Merrill Lynch US High Yield Master II Index – This index tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.
- BofA Merrill Lynch EM External Debt Sovereign Index – This index tracks the performance of US dollar-denominated debt issued by sovereign issuers in countries belonging to emerging markets.
- BofA Merrill Lynch Mortgage Master Index – This index tracks the performance of US dollar-denominated mortgage securities.
- BofA Merrill Lynch Municipal Bond Index – This index tracks the performance of US dollar-denominated investment grade tax-exempt bonds.

## Disclaimer (Continued)

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- Credit Suisse Leveraged Loan Index – This index tracks the investable market of the U.S. dollar denominated leveraged loan market. It consists of issues rated “5B” or lower, meaning that the highest rated issues included in this index are Moody’s/S&P ratings of Baa1/BB+ or Ba1/BBB+. All loans are funded term loans with a tenor of at least one year and are made by issuers domiciled in developed countries.
- JP Morgan Emerging Market Bond Index (EMBI+) - The Emerging Markets Bond Index Plus tracks total returns for traded external debt instruments in the emerging markets. The instruments include external-currency-denominated Brady bonds, loans and Eurobonds, as well as U.S. dollar local markets instruments. The EMBI+ is concentrated in instruments from the three major Latin American countries (Argentina, Brazil, and Mexico), reflecting the size and liquidity of these external debt markets. The non-Latin countries are represented in the index by Bulgaria, Morocco, Nigeria, the Philippines, Poland, Russia, and South Africa.
- MSCI Emerging Market Index (Emerging Market Equities) - The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of March 2015, the MSCI Emerging Markets Index consisted of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Türkiye, and United Arab Emirates.
- MSCI Frontier Market Index – The MSCI Frontier Market Index is a free float-adjusted market capitalization index designed to measure equity market performance of the frontier markets. As of March 2015, the MSCI Frontier Markets Index consists of the following 24 frontier market country indices: Argentina, Bahrain, Bangladesh, Bulgaria, Croatia, Estonia, Jordan, Kenya, Kuwait, Lebanon, Lithuania, Kazakhstan, Mauritius, Morocco, Nigeria, Oman, Pakistan, Romania, Serbia, Slovenia, Sri Lanka, Tunisia, Ukraine, and Vietnam.
- Russell 2000 Index (TR) - The best-known of a series of market-value weighted indices published by the Frank Russell Company. The index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization.
- Russell 1000 Index (TR) –A market-value weighted indices published by the Frank Russell Company. The index measures the performance of the largest 1,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization.
- S&P 500 Index (TR) -Widely regarded as the best single gauge of the U.S. equities market, this world-renowned index includes 500 leading companies in leading industries of the U.S. economy. S&P 500 is a core component of the U.S. indices that could be used as building blocks for portfolio construction. It is also the U.S. component of S&P Global 1200. Total return (TR) provides investors with a price-plus-gross cash dividend return. Gross cash dividends are applied on the ex-date of the dividend.
- FTSE NAREIT US Real Estate Index Series – The FTSE NAREIT US Real Estate Index Series is designed to present investors with a comprehensive family of REIT performance indexes that span the commercial real estate space across the US economy, offering exposure to all investment and property sectors. In addition, the more narrowly focused property sector and sub-sector indexes provide the facility to concentrate commercial real estate exposure in more selected markets.
- Data Sources: Bloomberg, L.P., JPMorgan, BofA Merrill Lynch, Standard and Poors, Barclays Capital, Alerian, Morningstar Direct, MSCI, HFR, Goldman Sachs, Trading Economics, HIS Markit, Eurostat, Eaton Vance.