

# Maclura Investments

4Q25 Review - A Year of Resilience, AI, and Policy Swings



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2025 proved to be a year of remarkable resilience for U.S. equity markets, with major benchmarks achieving their third consecutive year of gains despite significant volatility driven by trade policy, Federal Reserve actions, and intense scrutiny of artificial intelligence (AI) investments.

## Exhibit 1. Investment-Style Returns

Morningstar Index Market Returns		2017	2018	2019	2020	2021	2022	2023	2024	2025				
										1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	YTD
Growth	U.S. Growth	29.52%	0.78%	35.90%	44.65%	24.79%	-36.70%	38.48%	23.42%	-9.24%	19.43%	6.89%	-1.61%	14.00%
	Large Growth	31.15%	2.94%	33.81%	38.86%	21.47%	-40.36%	47.26%	27.75%	-7.53%	23.05%	6.66%	-1.42%	19.64%
	Mid Growth	25.67%	-3.16%	36.01%	46.17%	14.97%	-32.37%	25.38%	20.33%	-6.27%	15.96%	2.53%	-5.41%	5.42%
	Small Growth	23.77%	-5.67%	27.60%	43.52%	-1.00%	-33.13%	26.65%	12.89%	-8.43%	13.13%	8.54%	1.50%	14.12%
	US Market	21.47%	-5.05%	31.22%	20.99%	25.78%	-19.43%	26.44%	24.09%	-4.63%	11.14%	8.09%	2.43%	17.35%
Value	U.S. Value	14.23%	-7.51%	25.09%	-1.31%	23.98%	-0.72%	11.98%	13.77%	4.44%	1.33%	6.36%	4.15%	17.24%
	Large Value	15.09%	-5.90%	25.70%	-0.62%	21.49%	0.26%	11.82%	14.69%	5.95%	0.89%	6.61%	4.14%	18.18%
	Mid Value	13.02%	-10.63%	24.81%	-3.76%	29.02%	-2.39%	10.94%	12.28%	2.15%	2.04%	6.71%	4.23%	15.93%
	Small Value	8.40%	-16.61%	19.96%	1.01%	31.79%	-6.60%	14.58%	9.67%	-3.74%	4.01%	7.22%	4.18%	11.84%

Source: Morningstar

The year had a challenging start, with the S&P 500 and Nasdaq posting their worst quarter in years in the first quarter, driven by growth fears and tariff uncertainty weighing on the markets. By the second quarter, things really got interesting in early April as President Trump's broad package of import duties announced on Liberation Day was much higher than anticipated. A "tit-for-tat" reaction ensued as impacted countries started to reciprocate with their own tariff packages, causing a brief market meltdown to nearly bear market level before President Trump paused the implementation to allow deals to be made. This resulted in a strong recovery of the market, in addition to better-than-expected reported earnings during the quarter and a renewed excitement around the AI growth tailwind.

For the last half of the year, there is an analogy that I heard years ago about comparing the market volatility to climbing a tree. When you are on the ground looking up, you see all of the limbs as opportunities, and they are big and strong. If the wind is blowing, it really doesn't deter a climber when you have two feet on the ground; there is little consequence of any fall. But as you climb higher and higher, and the limbs become smaller, weaker, and further apart, a slight breeze can strike fear into you, as the consequence of a fall from higher up can have real consequences.

That best describes how the last six months of the year felt. While there are plenty of secular drivers to propel the market higher, recession fears, government shutdown, Federal Reserve policy uncertainty, China and the United States' unresolved trade issues, and heightened scrutiny on whether the massive AI infrastructure spending would yield adequate returns kept the market from finishing higher. The growth sector that has been the major driving force of the overall market for the past several years was down in the fourth quarter, as seen in the table above. While the market was up for the year, it paled in comparison to previous positive years.

That brings us back to the tree-climbing analogy. We are still fairly high in the tree, so expect market volatility in 2026 to continue. With an expected Supreme Court ruling early in the year on the legality of Trump’s authority to set tariff policy via executive order under the International Emergency Economic Powers (IEEP) Act. While I’m no legal expert, I suspect that the Court will have issues with some of Trump’s tariff authority and is likely to rule against Trump’s legal authority. The Trump Administration has already announced that it has options for continuing its tariff diplomacy outside of using the IEEP Act, but regardless, a Liberation Day 2.0 likely won’t be received well by the market in the short term.

In the long term, global trade will continue to change. Currently, Mexico is the largest trade partner of the United States, and while China continues to be a key supplier of certain products, Latin America will likely become a much larger force for trade for the United States. In December, the White House released its National Security Strategy, which highlighted the United States returning to a pre-World War I strategy of being Western Hemisphere-focused and avoiding prolonged military conflicts. This document and the significant buildup of military presence near Venezuela were a precursor to the military’s action this past weekend when it took Venezuela’s President Nicolas Maduro and his wife into custody. After being a thorn to the United States for the past 70-plus years, Cuba will likely undergo a similar change soon, and I suspect that Venezuela was more of a dry run for the main objective, Cuba. Expect a lot of moving pieces in 2026 from a geopolitical perspective, such as: normalized relations between the United States and China, the ending of the Ukraine and Russian conflict, and new potential governments in Venezuela, Cuba, and Iran. These should positively influence markets throughout the world.

Another factor influencing the market will be the Federal Reserve. The new year will bring a new Federal Reserve Chairman, as President Trump has been very vocal about replacing Chairman Powell after his term ends in early 2026. Though the Fed eased the federal funds target rate a third consecutive time in December to 3.50% to 3.75%, it is divided on the cadence and rate of future interest rate cuts. The yield curve below illustrates the change in U.S. Treasury interest rates since the beginning of the year and explains why money market funds aren’t paying at the rate they were 12 months ago. The reacceleration in inflation that many anticipated when President Trump announced the tariffs has not materialized, with core PCE inflation remaining range-bound throughout most of 2025 in the 2.6 to 2.9% range, which isn’t far from the Federal Reserve’s goal of 2% inflation.

**Exhibit 2. US Treasury Yield Curve (as of 12/31/25)**



Moderate inflation is healthy for an economy, but it is often misunderstood by equating high prices with inflation. Inflation is the annual rate of change of the price of a basket of goods, but often the argument is that prices are still high. The across-the-board decline in prices of all goods and services is a deflationary environment, which can become an economic quagmire and is as undesirable as rampant inflation. So, regardless of high prices, inflation is normalizing and reasonable. The Federal Reserve's other mandate, to promote maximum employment, will be the cause of concern in 2026 and inevitably will result in lower interest rates. There was a significant decline in year-over-year hiring from 2024 to 2025, with 2 million new hires in 2024 compared to 600,000 in 2025, and unemployment rose to 4.6% by the end of the year. There are a number of reasons why unemployment is rising in a growing economy, such as mandated higher minimum wages, government shutdown, and adoption of AI to replace human capital, but eventually the Federal Reserve will have to address it by lowering interest rates.

### Exhibit 3. US Unemployment rate

Civilian unemployment rate, seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

Though when most think of the government shutdown that took place this last fall, it is often an afterthought that the shutdown was resolved with a short-term spending bill, and a partial shutdown will take place again on February 1st if another spending bill is not passed. With mid-term elections coming in the fall of 2026, never underestimate a politician's willingness to seize upon a crisis for fundraising material. While most previous shutdowns have been short, as evident with last fall's shutdown, the delay of economic data creates a significant cloud on the status of the economy. I suspect any potential shutdown will be a short duration.

The market seems to oscillate between believing that AI is a major advancement and thinking it will be a total bust for the amount of capital being deployed to build an infrastructure capable of supporting widespread use of the technology.

AI infrastructure spending in the United States by the hyperscalers (like Microsoft, Amazon, Google, Meta, OpenAI) is projected to be over \$500 billion in 2026 and expected to climb towards \$600 billion in 2027. To put this into perspective, this is close to the estimated defense spending budget for China, Russia, India, and Saudi Arabia combined for 2025, which totaled \$542 billion. I can assure you that AI will not be a fad, and the winnings will be enormous.

Where valid concerns arise is regarding the sustainability of the spending spree until a return can be made on the massive spending for the infrastructure and technology. This is where there will be significant losses from an investment standpoint. OpenAI, the company that released ChatGPT in November 2022 and started the AI race, isn't currently profitable and has to raise funding at a near-constant pace to survive.

According to its own financial projections, OpenAI will need to grow its revenue to roughly \$200 billion to turn a profit in 2030. OpenAI's revenues in 2022 were approximately \$200 million, and the company has disclosed that it is on track to generate more than \$20 billion in annualized revenue in 2025. In the next five years, OpenAI will need to grow its revenue by 1000% to hit \$200 billion in sales. To put this into perspective, when Google went public in 2004, it was generating just over \$3 billion in sales, and it didn't reach \$20 billion plus in revenue until 2008, four years later. It then took 13 more years to break the \$200 billion level in 2021. The speed at which OpenAI believes it can grow illustrates the high stakes that are available to the winners, but the AI competitive moat changes rapidly, and the final winner (or winners) can't be determined at this point in time.

The new year will likely continue to see a broadening out of the market into other sectors besides technology benefiting from the AI trade. Aerospace and defense industries continue to be an area of outperformance for 2026. After significant struggles with supply chain issues, the global backlog for commercial aircraft is at a record high (nearly 16,000 planes), and it will take years for manufacturers to catch up. The AI infrastructure buildout of new data center capacity will increase power usage in the United States and necessitate major grid upgrades. Additionally, the capital needs of the AI infrastructure buildout and potential infrastructure investment in foreign countries (i.e., potentially Ukraine, Venezuela, and Cuba) should be favorable to the financial industry. The new year will have a number of strong tailwinds that should benefit the stock market and economy, but expect a bumpy ride.

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