ACROPOLIS®
INVESTMENT MANAGEMENT

# PORTFOLIO INSIGHTS

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## Acropolis was born from a simple idea:

**In an industry where high quality, objective advice is hard to come by, we make a difference by putting the client's interests above our own.**

# ANOTHER YEAR, ANOTHER RALLY

The S&P 500 enjoyed another strong year in 2025, gaining 17.9 percent, just slightly behind the two consecutive 25 percent gains posted in 2023 and 2024.

That brings the three-year annualized return to 22.9 percent, placing it in the 88th percentile of all three-year rolling return periods since 1926.

The gains were broad-based as well. In fact, the S&P 500 ranked third for the year among the major equity asset classes, trailing both emerging and developed international equity markets.

The S&P 500 narrowly avoided a bear market following its February high, falling 18.9 percent through April 8 on tariff-related concerns. While tariffs subsequently increased, markets ultimately shook off those fears and reached new highs before the end of the second quarter.

As tariff concerns subsided, enthusiasm for AI-related stocks reignited, with technology and communication services stocks rising approximately 25 percent and 35 percent, respectively.

Bond investors fared well also, with the Bloomberg US Aggregate Bond Index up 7.5 percent for the year. The Federal Reserve cut interest rates to support economic growth as inflation pressures eased, and yields declined out to the 10-year maturity, pushing bond prices higher.

Despite the favorable market backdrop, investor sentiment appears cautious.


"Could we see some figures on that 'bunch'?"

Many investors remain more inclined to save than spend, are delaying large purchases, and continue to worry about the potential reemergence of inflation. At the same time, they are balancing concerns about elevated technology stock valuations against the persistent fear of missing out.

After several years in which a narrow set of market leaders has driven outsized returns, diversified allocations continue to play a critical role in managing risk, tightening the range of outcomes, and preserving flexibility across a range of economic and market scenarios.

While diversification does not eliminate volatility, it provides a way for participating in long-term growth without becoming overly dependent on any single asset class, sector, or narrative—an approach we believe is well suited to periods marked by both strong returns and elevated uncertainty, like today.

"All of our reasoning ends in surrender to feeling."

*Blaise Pascal*
*French Mathematician*
*1623 - 1662*

# STOCK MARKET SUMMARY

*By David Ott*

The fourth quarter was broadly positive for equities, though gains came at a slower pace than the second and third quarter.

Earnings were stronger than expected, hyperscalers (which are large-scale cloud service providers) continued to invest aggressively in AI-related infrastructure, the Federal Reserve delivered a 50 basis point rate cut, the consumer remained resilient, and the United States and China agreed to a one-year extension of their trade truce along with selected tariff relief.

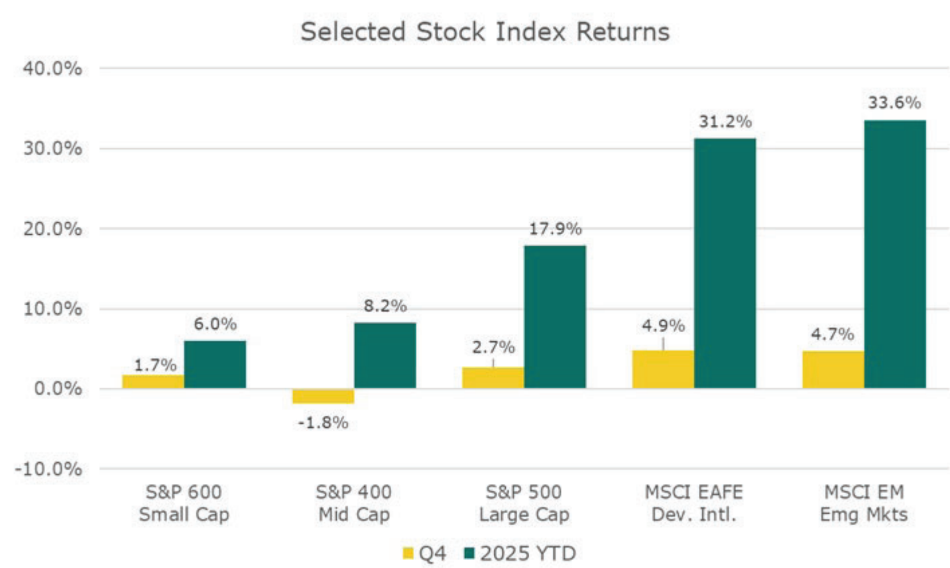
Inflation-adjusted Gross Domestic Product increased at a better-than-expected 4.3 percent annualized pace in the third quarter, supported in part by a robust 3.5 percent increase in consumer spending.

Other positive economic indicators included private payroll growth, which stood out as a relative bright spot amid broader labor-market softening. In addition, the ISM Services Index rose to a nine-month high in its November reading.

Foreign stocks continued their relative strength, with both developed and emerging markets nearly doubling the performance of the S&P 500 during the fourth quarter.

Unlike earlier in the year, this outperformance was less directly tied to U.S. dollar weakness. In the fourth quarter, developed-market stocks gained 6.7 percent in local-currency terms but only 4.9 percent in U.S. dollar terms, implying a modestly stronger dollar. For the full year, developed-market stocks gained 23.1 percent in local-currency terms, meaning dollar weakness contributed an additional 8.1 percent for U.S.-based investors.

A similar, though more muted, currency effect played out in emerging markets. Emerging-market stocks gained 5.7 percent in local-currency terms and 4.7 percent in U.S. dollar terms during the fourth quarter. For the full year, emerging-market stocks rose 31.5 percent in local-currency terms, with dollar weakness adding approximately 2.1 percent to returns.




*Data Source: Bloomberg*

# BOND MARKET REVIEW

*By Ryan Craft, CFA*

The final quarter of 2025 was a fairly quiet yet productive quarter for the bond market. The Aggregate market grew by 1.1 percent for the quarter, bringing the 2025 return to 7.3 percent. Credit spreads remain very tight; mortgage spreads tightened over the past quarter, and municipal yields continued to fall.

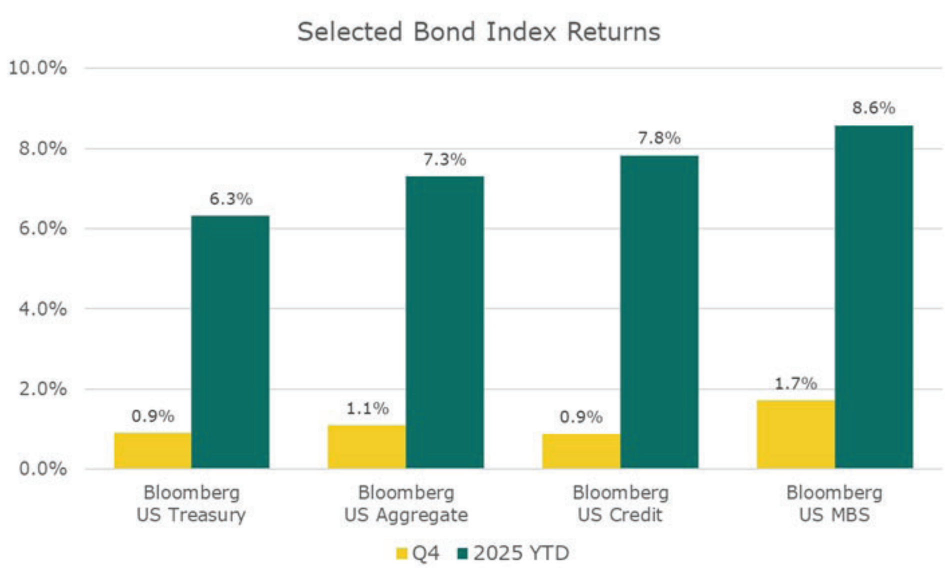
The yield curve continued to steepen over the past quarter. The Federal Reserve cut the Fed Funds rate by another 50 basis points, pulling short-term rates down as well. Long-term rates remained relatively unchanged for the quarter as inflation continued to trend lower.

The market anticipates less Fed action in 2026, with just two 25 basis point cuts priced in for the entire year. However, with a new Fed Chair on the horizon and diverging opinions on the current FOMC, there will be much debate in the coming months around the future of monetary policy.

While all sectors of fixed income performed well last quarter, Mortgage-Backed Securities (MBS) posted the best returns of investment-grade bonds. MBS have lagged most other sectors over the past few years and have offered investors attractive yields.

The 2026 outlook for the bond market will remain dependent on macroeconomic factors and their influence on Fed policy. Employment has softened throughout the year but remains growing. Despite expectations of a tariff-induced resurgence, inflation has continued to trend lower but remains above the Fed's two percent long-term target. Higher yields, lower inflation, and softening employment have been positive for bond investors. This situation is likely to change soon, but it is challenging to know which way.

Bottom line: Q4 2025 was a constructive quarter for bonds, driven by easing monetary expectations, resilient performance across key sectors, and broader macroeconomic signals pointing to slower growth. Investors benefitted from attractive yields and positive returns, though tight credit spreads and policy shifts remain focal risks heading into 2026.




*Data Source: Bloomberg*

**"No nation has friends, only interests."**

*Charles De Gaulle*
*French General & Statesman*
*1890 - 1970*

> **"What I have been taught, I have forgotten; what I know, I have guessed."**
>
> *Charles Maurice de Talleyrand*
> *French Diplomat*
> *1754-1838*

# DECOMPOSING EQUITY RETURNS

*By David Ott*

Even after nearly twenty-five years in this business, I still have occasional aha! moments—times when I see something that feels genuinely new.

About six months ago, I subscribed to a software service that decomposes equity market returns into three (sometimes four) basic drivers. The tool looks backward—typically over the past ten years—to explain how returns turned out as they did, and it also allows users to input assumptions about the future to frame reasonable expectations for returns.

Although I like the software, I ultimately rebuilt the framework in Excel using Bloomberg indexes. The results are not perfectly identical to those produced by commercial providers such as S&P or MSCI, but the approach offers licensing advantages and gives me greater flexibility.

The model breaks stock returns into three simple components: dividend yield, earnings growth, and changes in valuation. This is well-established financial theory and largely uncontroversial.

The chart on the opposite page shows these three components for the Bloomberg 500 over the ten years ending in December. The first column is the dividend yield, which stood at 2.3 percent ten years ago.

The second column shows earnings growth over the decade, which was a healthy 8.3 percent annualized. If valuations had remained unchanged, we could have expected a return of roughly 10.6 percent per year—very close to the long-term average return of the S&P 500.

But valuations did not remain constant. They expanded materially. Ten years ago, the price-earnings ratio was 17.4. By December, it had risen to 28.1—an increase of 61.1 percent, equivalent to approximately 4.9 percent per year.

The fourth column is the error term, which simply represents the difference between the sum of the three drivers and the actual return, shown in the fifth column.

As noted earlier, this framework does not forecast future returns. Two of the variables, earnings growth and valuation change, are inherently unknowable. But it does provide valuable context for thinking about what future returns might reasonably look like.

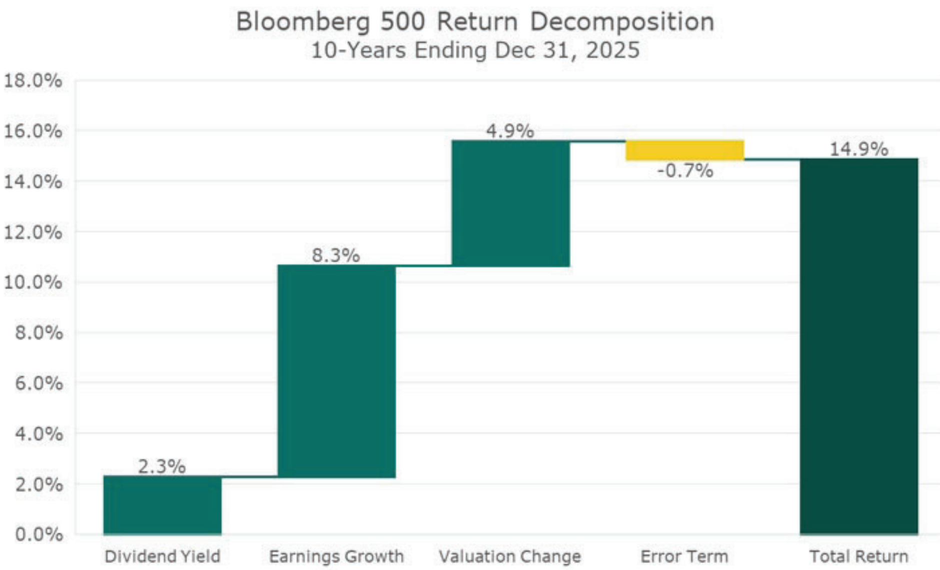
Consider technology stocks, for example. Many investors want to add money to technology precisely because recent returns have been so strong, and there is a natural fear of missing out if those returns continue. Let's use this framework to contemplate what may lay ahead for the Bloomberg technology index.

Ten years ago, the dividend yield was 1.9 percent. Over the subsequent decade, earnings grew at an extraordinary 11.9 percent per year. Valuation expansion was equally dramatic: the price-earnings ratio rose from 16.1 to 41.1. That more-than-doubling added 9.8 percent per year to returns.

The sum of those three drivers (dividends, earnings growth, and valuation change) was 23.7 percent per year, which exactly matches the index's realized return.

The critical question is what is reasonable to expect over the next ten years.

The dividend yield is straightforward. Today it is about 0.5 percent—roughly 75 percent lower than a decade ago, but not a meaningful driver either way. Earnings growth is more uncertain.




Let's be optimistic and assume technology companies manage to grow earnings at an even faster pace—say 12.5 percent annually over the next decade. If valuations remain unchanged, that would imply total returns of roughly 13 percent per year, which would be an excellent outcome.

The complication, of course, is valuation. While we cannot predict how valuations will change, history provides some guideposts. Since 2004, the average price-earnings ratio for this index has been about 24. Over that period, it has ranged from a low of 10.6 to a high of 46.7.

Let's begin with an optimistic valuation scenario. If the price-earnings ratio were to rise from today's 41.1 back to its historical high of 46.7, that would add roughly 1.3 percent per year to returns, bringing the total to about 14.6 percent. To repeat the last decade's 23.7 percent annual return, however, the price-earnings ratio would need to rise to approximately 104.7—a plainly unrealistic assumption.

Now consider a reversion toward the long-term average. If the price-earnings ratio fell from 41.1 to 24.0 over ten years, that would subtract about 5.4 percent per year from returns. Even with strong earnings growth, total returns would be closer to 7.6 percent annually. That is not a poor outcome, but it is nowhere near what investors experienced over the past decade.

Finally, consider a bearish valuation scenario, while still assuming solid earnings growth. If valuations fell to their historical low of 10.6, the valuation drag alone would subtract roughly 12.6 percent per year. In that case, total returns would be approximately flat.

The encouraging takeaway is that it is not difficult to construct scenarios that produce reasonable long-term returns, even for technology stocks.

I will be writing more on this topic in future pieces, including long-run earnings histories, the role of currency movements in foreign stock markets, and how these components interact across different regions over time.

**"Opinion has caused more troubles on this little earth than plauges or earthquakes."**

*Francois-Marie Arouet de Voltaire*
*French Writer and Satirist*
*1694 - 1778*

“Man cannot discover new oceans unless he has the courage to lose sight of the shore.”

*Andre Gide*
*French Writer*
*1869 - 1951*

# INSIDE THE ECONOMY: CAPEX

*By: David Ott*

Demand for digital infrastructure continues to accelerate. Some economists estimate that data-center construction accounted for as much as half of GDP growth in the second quarter, while other estimates suggest that more data centers are currently under construction than exist today.

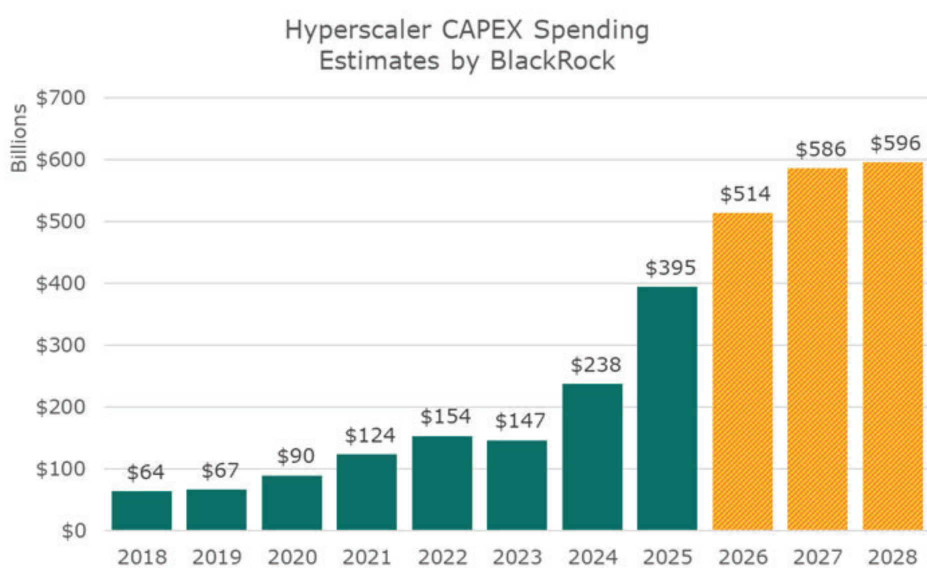
Against that backdrop, BlackRock's data show that capital expenditures (CAPEX) by the five largest hyperscalers (Amazon, Microsoft, Alphabet, etc.) accelerated from roughly 25 percent annual growth prior to the launch of ChatGPT in November 2022 to nearly 65 percent since then. Looking ahead, BlackRock expects hyperscaler CAPEX to grow about 15 percent annually over the next three years, reaching roughly $500 billion per year.

That scale of spending raises an important question about how quickly AI investments will pay off. While AI adoption will almost certainly broaden, the more important issue is whether the economic benefits will scale fast enough to justify the extraordinary pace of capital formation now underway.

Skeptics point to the massive fiber investment of the late 1990s, which ultimately enabled widespread internet adoption—but only after years of overcapacity, bankruptcies, and poor investor returns. Companies like Global Crossing and Level 3 Communications built networks well ahead of demand, correctly anticipating explosive traffic growth but far too early for the economics to work.

Investors today are more optimistic about the current build-out, and it is far too soon to know whether the outcome will resemble the fiber experience or prove more favorable. Many AI use cases are already commercially viable, but the scale and speed of capital deployment leave little margin for error, making the timing and durability of monetization critical variables to watch.

At a minimum, this level of investment is providing a meaningful near-term boost to economic activity, supporting construction, energy, manufacturing, and a wide range of upstream suppliers.




*Data Source: BlackRock*

# YOUR LEGACY: A CULTURE OF GIVING

*By: Michael Lissner, CFP®, CEPA, & Rebecca Buell, MBA*

One of the most enduring gifts you can give your children and grandchildren is the mindset and habits that turn resources into meaningful impact. Philanthropy, when taught intentionally, can help future generations develop empathy, critical thinking, and a sense of responsibility. Wealth can be a tool for good, not just in the wider world, but within your own family.

Many of our clients share a common dream: to pass on more than assets to the next generation. They want to pass on values, purpose, and a deep sense of responsibility. Thoughtful philanthropy is a powerful ways to do this.

Research shows that children who see their parents, or grandparents, actively engage in charitable giving are significantly more likely to carry that behavior forward as adults—teaching the "how" and "why" of giving is essential to raising capable, thoughtful stewards of family resources.

So where do you begin? It starts with shared purpose. I often encourage families to hold a values conversation—an intentional gathering where you define the principles and causes that matter most. As a couple, we then document these in a short "Family Philanthropy Charter," a brief document that outlines your priorities, decision-making processes, and guiding principles. This process not only clarifies priorities but also creates alignment across generations.

From there, the learning should be hands-on and progressive. For young children, it might be as simple as helping choose a charity from a short list. For teens, it could include visiting nonprofits, evaluating their impact, and making a grant recommendation from the family. Young adults can take on greater responsibility by managing a small grant budget or co-chairing a family giving committee.

We also recommend building governance into the process early. Regular family meetings and clear decision-making rules give structure to generosity. Rotating leadership roles among family members encourages accountability, skill-building, and active participation.

And just like a portfolio, philanthropy benefits from regular review—both to measure impact and to ensure it remains aligned with your family's evolving values. Your legacy is more than a portfolio. It's the example you set, the lessons you share, and the culture of giving you nurture. Together, we can ensure that your wealth is not only preserved but also transformed into a living legacy of generosity—one that inspires, educates, and unites generations to come.

Your team at Acropolis Investment Management can help. Our role is to help design and facilitate these steps—bringing financial, legal, and strategic insight while ensuring that the next generation gains the confidence, skills, and joy that come from giving well.

Now is the perfect time to take the first step. Schedule an appointment with your Acropolis Portfolio Manager to begin the process of creating your Family Philanthropy Charter. Together, we'll craft a plan that reflects your values, engages your family, and ensures your legacy is one of both prosperity and purpose. Your financial legacy is more than numbers—it's the values and vision you pass on. Let's build it together.

**"Patience and time do more than strength or rage."**

*Jean de La Fountaine*
*French Poet*
*1621 - 1695*

| Major Indexes | 2025 YTD |
|---|---|
| Dow Jones | 14.9% |
| S&P 500 | 17.9% |
| S&P 400 Mid-Cap | 8.2% |
| S&P 600 Small-Cap | 6.0% |
| MSCI EAFE (Intl) | 31.2% |
| MSCI Emerging Mkt | 33.6% |

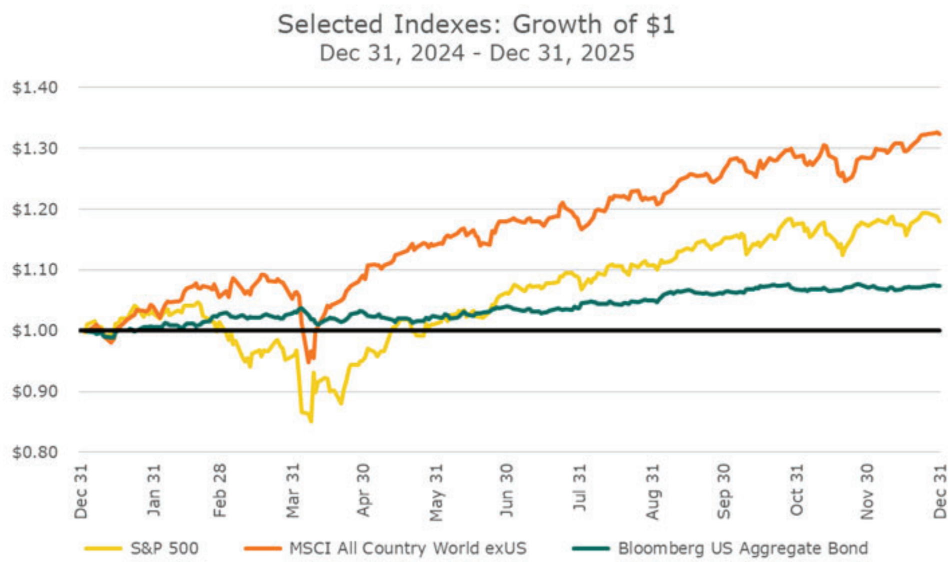
| Equity Styles | 2025 YTD |
|---|---|
| S&P 500 Growth | 22.1% |
| S&P 500 Value | 13.2% |
| S&P 500 Quality | 13.4% |
| S&P 500 Momentum | 26.8% |

| S&P Sectors | 2025 YTD |
|---|---|
| Basic Materials | 10.5% |
| Communications | 33.6% |
| Consumer Discretion. | 6.0% |
| Consumer Staples | 3.9% |
| Energy | 8.7% |
| Financials | 15.0% |
| Healthcare | 14.6% |
| Industrials | 19.3% |
| REITs | 3.2% |
| Technology | 24.0% |
| Utilities | 16.0% |

| Interest Rates | 2025 Q4 |
|---|---|
| Fed Funds | 3.75% |
| Prime Rate | 6.75% |
| 3-mo. Treasuries | 3.6% |
| 2-yr. Treasuries | 3.5% |
| 5-yr. Treasuries | 3.7% |
| 10-yr. Treasuries | 4.2% |

All Data as of 12/31/25

# THE BIG PICTURE





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