Investment Watch

4th Quarter, 2025

Baby New Year

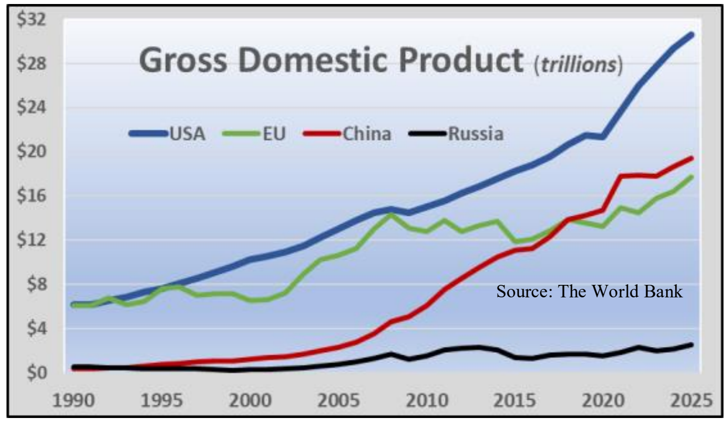
Father Time appears weary, while the **Baby New Year** is eager to rush ahead—a familiar, recurring theme as one year gives way to the next. But as we bid farewell to the dizzying pace of 2025, this **Baby New Year** arrives with a whirlwind agenda, poised to make our heads spin. Faster, more adaptive, and far less patient, the Baby embodies the traits required to confront a world caught in a vortex of change: rising nationalism, deepening isolationism, persistent war, and an intensifying global struggle for economic and AI dominance.

Father Time has witnessed more than his share of technological revolutions that have reshaped economies, work and daily life - from the Industrial Revolution in the 19th century to the Information Age of computers, the internet, and mobile technology. The **Baby New Year** now presides over the explosion of Artificial intelligence, not just merely an innovation, but an accelerant. AI compresses time, completing in minutes what once took hours or even days.

The most innovative tech companies in the world are based here at home. The pursuit of the best AI solutions is being led by Google, Apple, Microsoft and Nvidia - companies flush with cash from outsized profit margins. This race is fueled by their explosive AI spending, estimated at $375 billion in 2025 and rising above $500 billion in 2026. Like a new engine starting to rev, this AI buildout adds resilience to the economy at a time when consumer spending and labor markets appear to be softening.

The United States has the financial power to succeed. Not long ago, the Euro area appeared to be our economic equal whereas China's growth was widely expected to overtake the U.S. Instead, China's response to COVID faltered, while coordinated fiscal policy and decisive Federal Reserve action helped propel the U.S. economy forward. Europe, by contrast, has struggled to generate sustained growth since the mid-2000s. These diverging paths are likely to persist with U.S. growth, boosted by AI investment, outpacing Europe and China both of which face the headwinds of tariffs and ongoing structural challenges.

AI's transformation depends on essential infrastructure. Data centers, power grids, memory chips, and networks form the backbone of its potential, but like a highway system under strain, construction will take time to meet the demand and may struggle to keep pace with the pledged AI capital. Eventually, AI will power a tsunami of economic gains with implications on productivity, wages, corporate profitability and the labor market.



Baby New Year must navigate the AI spending boom carefully, encouraging innovation while avoiding speculative bubbles, all while managing powerful non-AI forces. **Father Time** has endured world wars, the Cold War, the collapse of the Soviet Union and the rise of China. **Baby New Year** confronts a new peak of geopolitical uncertainty. Putin's aggression to restore the glory days of the Soviet Union coupled with the "no limits" partnership with Chinese President Xi Jinping whose ambition is to thwart Western influence and boost China to its rightful place on the global stage. Sustaining America's economic and cultural leadership will be central to the year ahead.

Assisted by AI spending, America's surging **Gross Domestic Product** has lifted the stock market climbing 75% in the last three years, each with double-digit gains. This historic performance was led by AI's massive corporate profits, yet stocks have not gotten more pricey as measured by their forward earnings. The current stock prices may feel high, but some argue they are justified by unusually high profit margins particularly among large technology firms who may benefit even further from the AI rollout. Bonds have also enjoyed outsized gains as interest rates declined. All in all long-term investors have grown their portfolios building wealth for their futures.

As **Father Time** bids farewell to 2025, a year shaped by protectionism, conservative sentiment, and restrained foreign policy, he understands that even in periods of retreat, America remains globally consequential. Beyond economic and military power, American culture - music, sport, films and language - continues to reach nearly every corner of the world. This enduring influence elicits confidence in our nation's global economic leadership. Reflecting that optimism, the **Baby New Year** stands eager to confront uncertainty, navigate a whirlwind of change, and charge forward into 2026.

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