

the serious investor

WINTER 2026

THE SERIOUS INVESTOR: WINTER 2026

Welcome to the winter edition of LVW's *The Serious Investor*.

If one were to look only at the start and end prices for 2025, it would be easy to assume the market had a straightforward year. **The S&P 500 ended up 18%**, closing out the year with an impressive eight-month winning streak—momentum not seen since 2017!¹

However, these strong returns masked a year filled with significant challenges. The gains were hard-fought, **as the market endured a 19% peak-to-trough drawdown** mid-year—almost double the typical median drop of 10%. From the “Tariff Shock” in April to liquidity events in the summer, including the longest government shutdown in U.S. history, 2025 proved far more complex than many expected.

2025 Year-in-Review: An Unexpected Global Lead

Perhaps the most striking outcome of 2025, and one unexpected by many, was the significant outperformance of international markets. Entering the year, projections suggested international equities would lag behind the U.S. due to anticipated dollar strength and higher U.S. yields.

In contrast, the U.S. Dollar declined by 9%, and increased fiscal spending buoyed international markets.² The MSCI EAFE Index surged +31.2% for the year, and the MSCI Emerging Market index was up +33.6%.³ While the U.S. markets have been a beneficiary of much of the AI theme, international markets also provide key players in areas like advanced manufacturing and continue to trade at more attractive valuations.

Market Internals: A Meaningful Increase in Breadth

While the S&P 500 Index remains highly concentrated, with the top ten stocks representing more than 40% of the index, market participation broadened later in 2025. In contrast to the narrow, top-heavy gains of previous years, all 11 S&P 500 sectors finished the year in positive territory for the first time since 2021. While AI-powered leaders in Communication Services (+33%) and Technology (+24.4%) continued to lead, the rally broadened to include Industrials (+18.7%).⁴

The “Mag 7” continued to dominate the headlines, contributing an additional \$4.0 trillion in market cap; nonetheless, their market dominance has moderated. In fact, **only two of the Magnificent Seven stocks outperformed the S&P 500 in 2025**.

Beneath the surface, the second half of the year saw a rotation into smaller, more highly leveraged companies as interest rate cuts resumed. The Russell 2000 Index posted a +12.8% return for the year, outperforming the S&P 500 during the second half of the year. However, many of the best performing smaller firms have yet to produce a profit and continue to face structural challenges, such as negative margins and high refinancing risks.

The “Silent” Rally: Gold and Commodities

While equity market volatility captured headlines, real assets also made historic moves. In 2025, commodities and hard assets returned to focus.

A 9% decline in the U.S. Dollar led investors to seek alternatives to fiat currencies. **Gold** surged with a 65% rally, proving to be a vital asset for those hedging against concerns over sovereign debt. **Silver** soared even higher, up 148%, and industrial metals like **copper** (+43%) rose on persistent demand from AI infrastructure development.

This dramatic repricing in commodities signals that structural investors, such as central banks, are actively diversifying their reserves.

The “Bubble” Question: Signposts for 2026

With valuations reaching levels comparable to the dot-com era, we are frequently asked if the market is in a “bubble”. While true bubbles are historically characterized by a shift toward “fear of missing out” (FOMO), current data presents a mixed picture. We are monitoring several signs of potential excess.

For example, OpenAI recently committed to pay Oracle \$60 billion per year, an amount OpenAI doesn't earn yet, to provide cloud computing facilities that Oracle hasn't built yet, and which will require 4.5 GW of power (the equivalent of 2.25 Hoover Dams or four nuclear plants).⁵ As companies race to build capacity to meet the anticipated demand, investors must remain diligent in understanding and underwriting the potential risks.

Market Analysis: Valuation, Growth, and Liquidity

Valuation: Stretched but Nuanced - The S&P 500 ended the year at an elevated forward P/E ratio of 22.0x.⁶ However, this is largely driven by mega-cap concentration; if the 10 largest companies are excluded, the P/E ratio drops to a more reasonable 18.2x.

Growth: The Earnings Engine - Corporate America showed notable progress, with forward profit margins reaching a new high of 13.9%. Full-year 2025 earnings growth is on pace for 12%, and analysts are projecting a further 14%–16% growth in 2026.⁷

Liquidity: Supportive Conditions - Financial conditions remain accommodative as the Fed continues its easing cycle. Additionally, significant corporate capital spending and over \$7 trillion in money market assets suggests ample liquidity remains available to support markets.⁸

Looking Ahead to 2026: A “High Velocity” Environment

Our outlook is constructive, but 2026 will require proof of AI-driven productivity and careful navigation of U.S. debt concerns. Bullish sentiment is widespread, raising the risk of disappointment if earnings or productivity gains fall short.

The Bottom Line: 2025 proved that fundamentals matter. Staying disciplined through the 19% drawdown turned a significant correction into a buying opportunity, and the unexpected strength in international markets rewarded those who maintained global diversification. For 2026, maintaining perspective will be essential. Markets may shift, headlines may fluctuate, and economic narratives will continue to evolve, but disciplined investors who stay aligned with their long-term financial objectives are best positioned to navigate uncertainty and capture future opportunities. Staying focused, patient, and grounded in a well-constructed plan remains one of the most effective strategies for long-term success.

1 CNBC, December 31, 2025

2 J.P. Morgan Asset Management, U.S. Guide to the Markets, December 31, 2025

3 MSCI, December 31, 2025

4 J.P. Morgan Asset Management, U.S. Guide to the Markets, December 31, 2025

5 J.P. Morgan Eye on the Market, Michael Cembalest, September 24, 2025

6 J.P. Morgan Asset Management, U.S. Guide to the Markets, December 31, 2025

7 Factset Earnings Insight, December 19, 2025

8 Federal Reserve Bank of St. Louis, FRED, December 31, 2025

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