



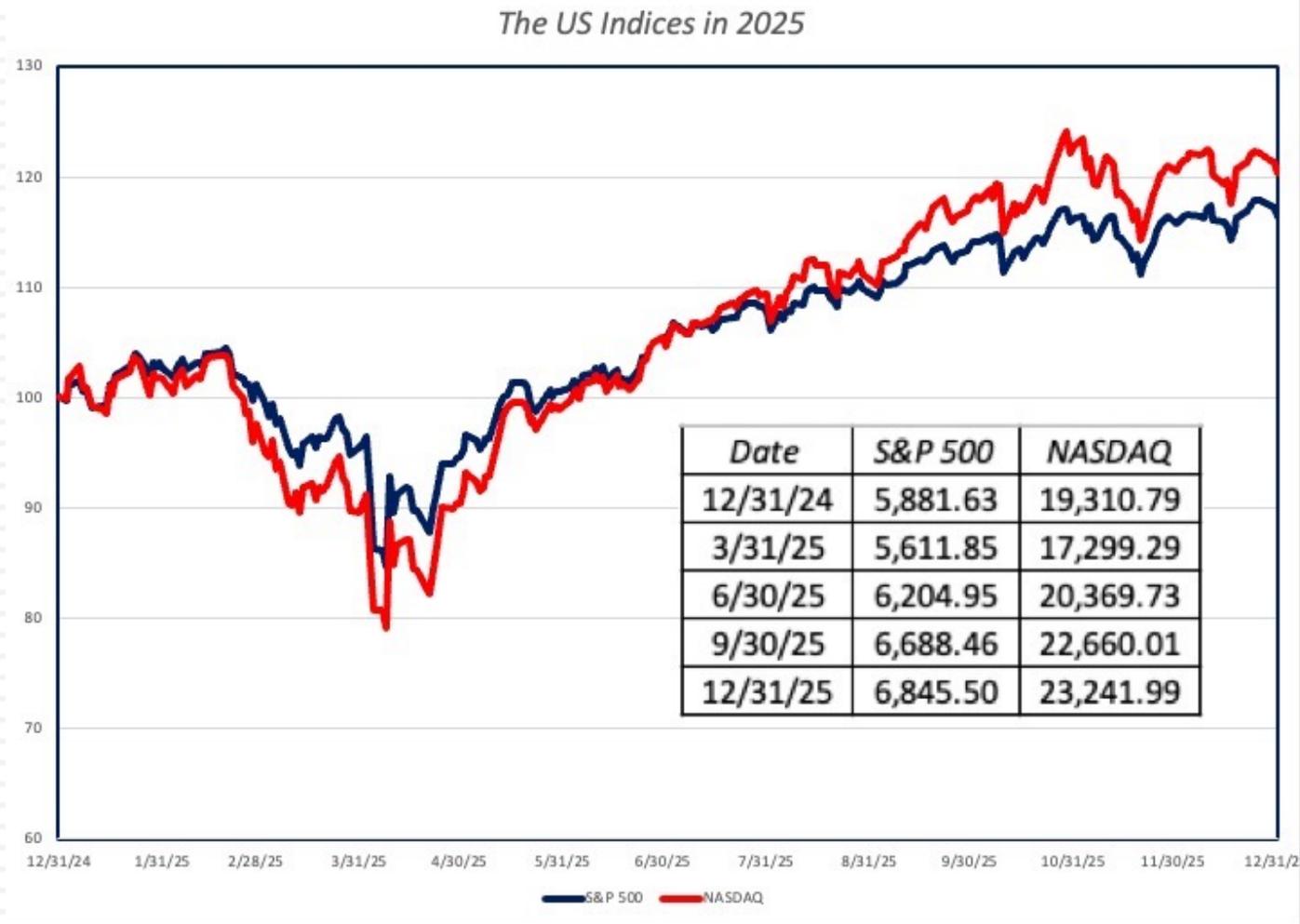
**DATA UPDATE 2 FOR 2026:  
EQUITIES GET TESTED, AND PASS  
AGAIN!**

Walls of worry, but...

# A year of living dangerously!

- It was a disquieting year , as **political and economic news stories shook the foundations of the post-war economic order**, built around global trade and the US dollar.
- In fact, if you had been **read just the news all through the year**, and were shielded from financial markets, and been asked what stocks did during the year, you would have **guessed, based on the news, that it was a bad year**.
- You would have been wrong, though, as **equity markets proved resilient and delivered another solid year of returns** for investors. In this post, I will focus on US equities, starting with the indices, and then slicing and dicing the data to see the differences in the cross section.

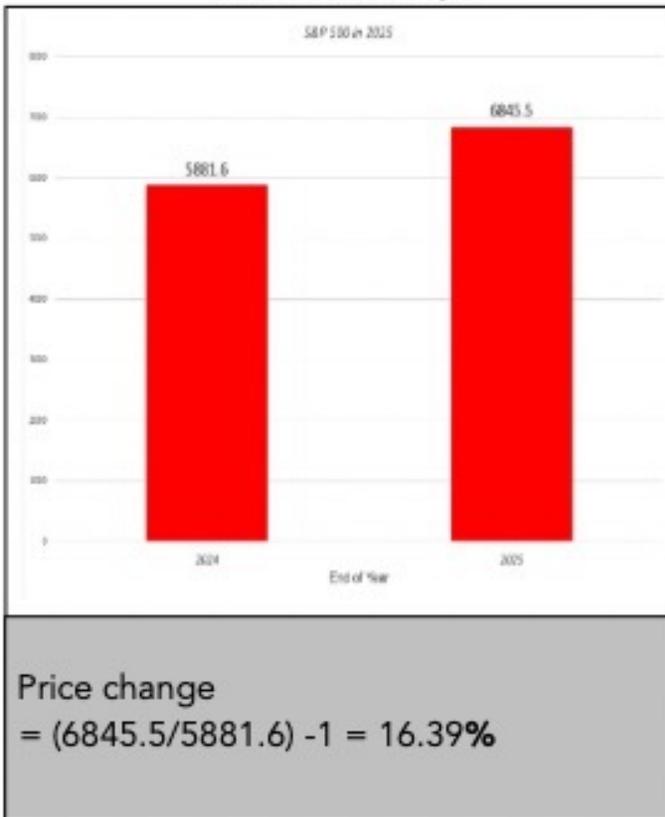
# US Equity Indices in 2025



# The Return on the S&P 500 in 2025

## The S&P 500 in 2025

### Price Change



### Dividends

Dividends on the S&P 500 in 2025  
= 78.57 (estd thru Dec)  
Index Level on Jan 1, 2025  
= 5881.63  
Dividend Yield =  $78.57/5881.6 = 1.34\%$

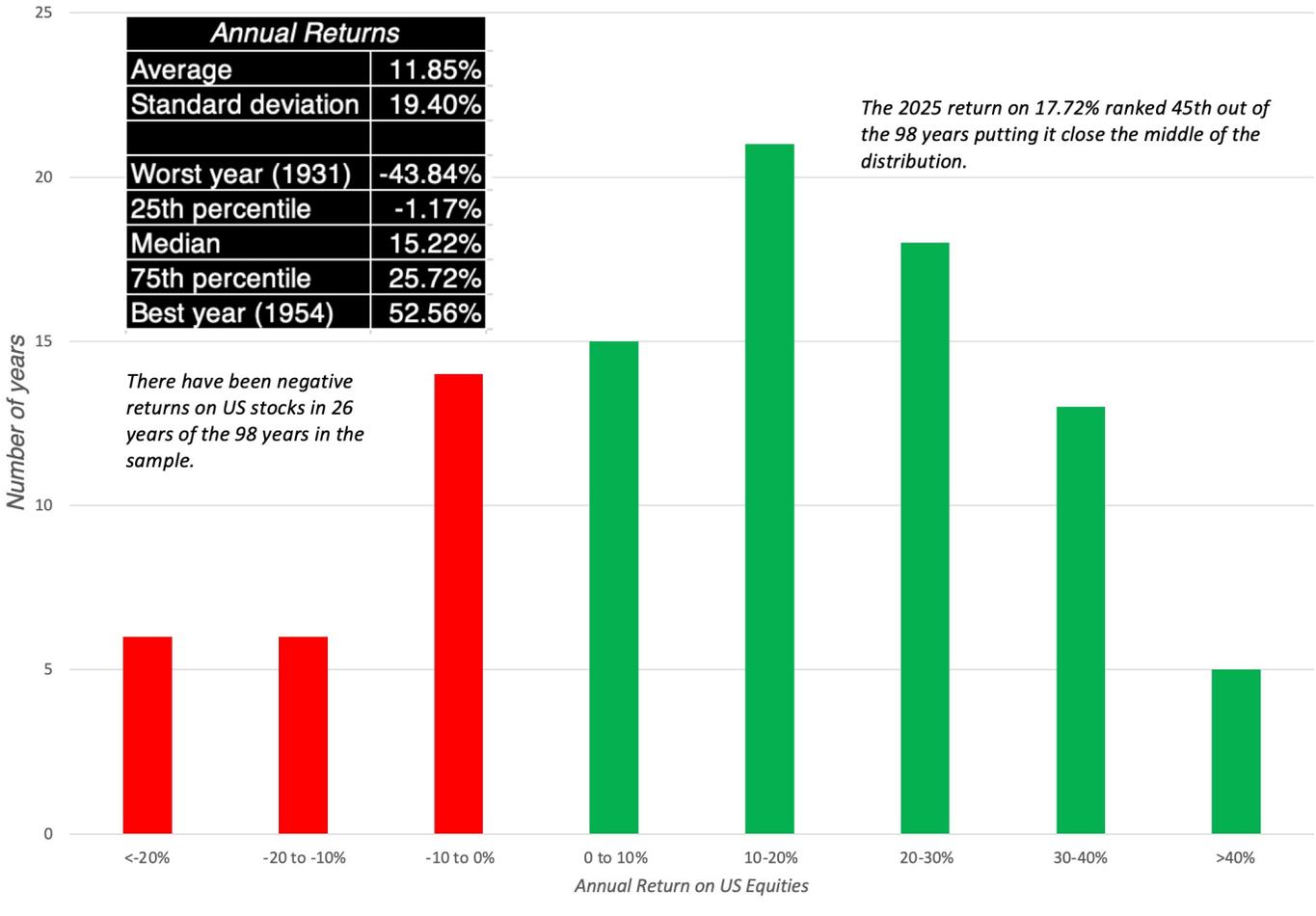
Of the 500 companies in the index, 367 paid dividends during 2024, and 342 of these firms increased dividends during the year.

### Total Return

Return in 2025  
 $= 16.39\% + 1.34\%$   
 $= 17.72\%$

# A Historical Context

Annual Return on US Stocks: 1928 - 2025



# Deconstructing US Equities – A Sector Breakdown!

Primary Sector	# firms	Market Capitalization					Quarterly Chg in Market Capitalization					% Chg in Market Capitalization				
		12/31/24	3/31/25	6/30/25	9/30/25	12/31/25	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Communication Services	315	\$5,773,863	\$5,393,094	\$6,298,825	\$7,079,779	\$7,542,373	-\$380,769	\$905,731	\$780,954	\$462,594	\$1,768,510	-6.59%	16.79%	12.40%	6.53%	30.63%
Consumer Discretionary	581	\$7,101,569	\$6,117,616	\$6,848,680	\$7,520,497	\$7,538,283	-\$983,953	\$731,063	\$671,817	\$17,786	\$436,714	-13.86%	11.95%	9.81%	0.24%	6.15%
Consumer Staples	297	\$3,449,511	\$3,555,363	\$3,605,956	\$3,532,360	\$3,528,824	\$105,852	\$50,593	-\$73,596	-\$3,537	\$79,313	3.07%	1.42%	-2.04%	-0.10%	2.30%
Energy	282	\$1,934,388	\$2,070,904	\$1,922,877	\$2,060,411	\$2,034,988	\$136,517	-\$148,027	\$137,533	-\$25,422	\$100,601	7.06%	-7.15%	7.15%	-1.23%	5.20%
Financials	1,224	\$8,702,000	\$8,882,341	\$9,405,213	\$9,793,261	\$9,900,566	\$180,341	\$522,871	\$388,048	\$107,305	\$1,198,566	2.07%	5.89%	4.13%	1.10%	13.77%
Health Care	1,178	\$6,001,710	\$6,221,439	\$5,866,550	\$6,158,806	\$6,925,500	\$219,730	-\$354,890	\$292,257	\$766,694	\$923,790	3.66%	-5.70%	4.98%	12.45%	15.39%
Industrials	796	\$5,271,847	\$5,128,488	\$5,787,167	\$6,116,723	\$6,190,765	-\$143,359	\$658,679	\$329,556	\$74,042	\$918,918	-2.72%	12.84%	5.69%	1.21%	17.43%
Information Technology	706	\$17,644,731	\$15,331,313	\$19,149,476	\$21,804,432	\$21,818,517	-\$2,313,419	\$3,818,163	\$2,654,957	\$14,085	\$4,173,785	-13.11%	24.90%	13.86%	0.06%	23.65%
Materials	273	\$1,086,807	\$1,088,448	\$1,127,655	\$1,211,989	\$1,264,877	\$1,642	\$39,207	\$84,333	\$52,889	\$178,071	0.15%	3.60%	7.48%	4.36%	16.38%
Real Estate	253	\$1,495,842	\$1,537,917	\$1,519,451	\$1,573,416	\$1,533,478	\$42,076	-\$18,467	\$53,965	-\$39,939	\$37,636	2.81%	-1.20%	3.55%	-2.54%	2.52%
Utilities	89	\$1,290,037	\$1,356,887	\$1,412,263	\$1,523,145	\$1,494,680	\$66,849	\$55,376	\$110,883	-\$28,466	\$204,642	5.18%	4.08%	7.85%	-1.87%	15.86%
<b>All US firms</b>	<b>5,994</b>	<b>\$59,752,305</b>	<b>\$56,683,812</b>	<b>\$62,944,112</b>	<b>\$68,374,820</b>	<b>\$69,772,850</b>	<b>-\$3,068,493</b>	<b>\$6,260,301</b>	<b>\$5,430,708</b>	<b>\$1,398,030</b>	<b>\$10,020,545</b>	<b>-5.14%</b>	<b>11.04%</b>	<b>8.63%</b>	<b>2.04%</b>	<b>16.77%</b>

# Best and Worst Performing Industries

## Best Performing Industries in 2025

Industry Group	# firms	Market Capitalization					% Chg in Market Capitalization				
		12/31/24	3/31/25	6/30/25	9/30/25	12/31/25	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Precious Metals	56	\$78,786	\$103,290	\$121,780	\$174,516	\$212,091	31.10%	17.90%	43.30%	21.53%	169.20%
Green & Renewable Energy	15	\$12,442	\$17,802	\$20,530	\$21,309	\$24,208	43.08%	15.32%	3.79%	13.61%	94.57%
Semiconductor Equip	31	\$392,434	\$364,844	\$453,080	\$553,694	\$690,401	-7.03%	24.18%	22.21%	24.69%	75.93%
Coal & Related Energy	16	\$14,641	\$13,292	\$15,026	\$24,227	\$23,824	-9.22%	13.05%	61.23%	-1.66%	62.72%
Metals & Mining	73	\$148,916	\$149,892	\$168,331	\$192,838	\$232,491	0.66%	12.30%	14.56%	20.56%	56.12%
Software (Internet)	29	\$204,781	\$220,350	\$351,119	\$348,065	\$318,436	7.60%	59.35%	-0.87%	-8.51%	55.50%
Electronics (General)	114	\$347,025	\$315,058	\$409,031	\$486,753	\$518,764	-9.21%	29.83%	19.00%	6.58%	49.49%
Broadcasting	24	\$40,000	\$55,460	\$46,289	\$61,886	\$59,031	38.65%	-16.54%	33.69%	-4.61%	47.58%
Electrical Equipment	112	\$379,448	\$325,649	\$455,129	\$520,945	\$550,055	-14.18%	39.76%	14.46%	5.59%	44.96%
Aerospace/Defense	79	\$1,104,816	\$1,159,253	\$1,414,151	\$1,555,744	\$1,588,348	4.93%	21.99%	10.01%	2.10%	43.77%

## Worst Performing Industries in 2025

Industry Group	# firms	Market Capitalization					% Chg in Market Capitalization				
		12/31/24	3/31/25	6/30/25	9/30/25	12/31/25	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Chemical (Basic)	29	\$85,752	\$75,094	\$62,539	\$58,518	\$53,676	-12.43%	-16.72%	-6.43%	-8.27%	-37.41%
Beverage (Alcoholic)	14	\$74,354	\$65,028	\$54,153	\$48,490	\$48,057	-12.54%	-16.72%	-10.46%	-0.89%	-35.37%
Chemical (Diversified)	4	\$6,199	\$5,247	\$4,092	\$4,507	\$4,123	-15.36%	-22.01%	10.14%	-8.52%	-33.50%
Advertising	52	\$90,665	\$54,993	\$64,637	\$58,443	\$60,588	-39.35%	17.54%	-9.58%	3.67%	-33.17%
Paper/Forest Products	6	\$11,650	\$10,178	\$8,898	\$8,724	\$8,342	-12.63%	-12.58%	-1.96%	-4.38%	-28.40%
Shoe	11	\$154,954	\$120,178	\$129,433	\$127,622	\$118,733	-22.44%	7.70%	-1.40%	-6.96%	-23.38%
Household Products	110	\$684,166	\$685,281	\$644,153	\$607,773	\$570,380	0.16%	-6.00%	-5.65%	-6.15%	-16.63%
Building Materials	41	\$246,385	\$220,021	\$228,413	\$228,673	\$209,523	-10.70%	3.81%	0.11%	-8.37%	-14.96%
Cable TV	9	\$220,459	\$221,729	\$221,288	\$194,640	\$188,903	0.58%	-0.20%	-12.04%	-2.95%	-14.31%
Food Processing	78	\$351,517	\$363,040	\$335,074	\$326,969	\$302,436	3.28%	-7.70%	-2.42%	-7.50%	-13.96%

# The Small Cap and Value Effects?

	By Market Cap					By PBV Ratios				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
Bottom 50%	-33.50%	75.05%	296.12%	12.20%	33.53%	-4.77%	7.77%	13.81%	6.48%	24.37%
Top 50%	-40.13%	43.48%	58.61%	15.51%	15.94%	-5.54%	11.53%	8.46%	1.71%	16.20%
Differential	6.63%	31.56%	237.51%	-3.31%	17.59%	0.77%	-3.75%	5.35%	4.77%	8.17%
<i>Analysis</i>	<i>Small companies outperformed large cap companies in 2025, earnings 17.59% more.</i>					<i>Low PBV stocks outperformed high PBV stocks in 2026, delivering 8.17 higher returns.</i>				

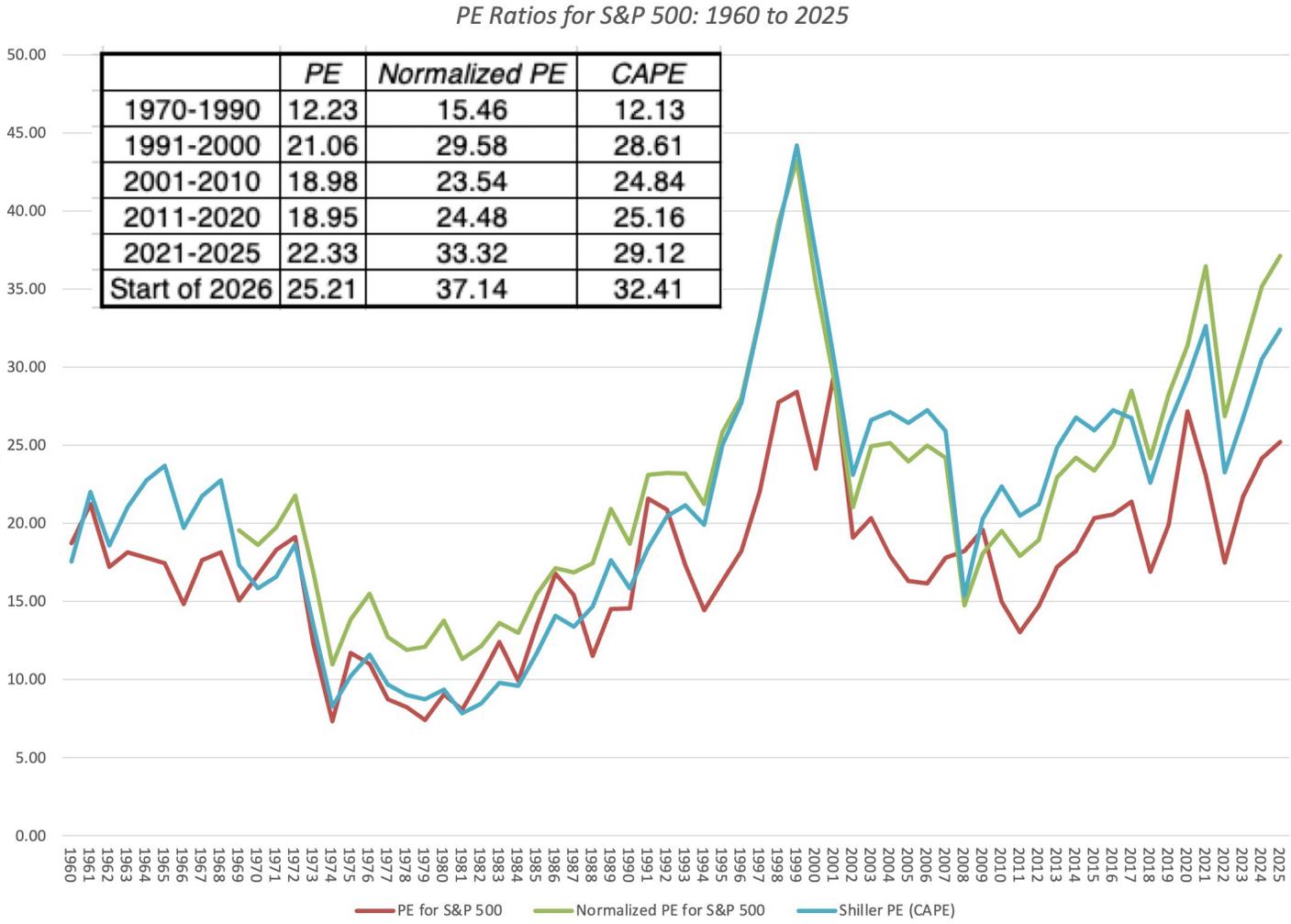
# Top Heavy? The Mag Seven Effect

Company Name	Market Capitalization (\$ millions)					% Chg in Market Capitalization (\$ millions)				
	12/31/24	03/31/25	06/30/25	09/30/25	12/31/25	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	2025
NVIDIA Corporation	\$3,288,762	\$2,644,472	\$3,854,956	\$4,533,894	\$4,531,764	-19.59%	45.77%	17.61%	-0.05%	37.80%
Apple Inc.	\$3,785,304	\$3,336,853	\$3,064,383	\$3,778,809	\$4,017,099	-11.85%	-8.17%	23.31%	6.31%	6.12%
Alphabet Inc.	\$2,323,530	\$1,893,802	\$2,144,840	\$2,942,495	\$3,781,297	-18.49%	13.26%	37.19%	28.51%	62.74%
Microsoft Corporation	\$3,133,802	\$2,790,643	\$3,697,022	\$3,850,009	\$3,594,447	-10.95%	32.48%	4.14%	-6.64%	14.70%
Amazon.com, Inc.	\$2,306,888	\$2,016,324	\$2,329,122	\$2,341,695	\$2,467,516	-12.60%	15.51%	0.54%	5.37%	6.96%
Meta Platforms, Inc.	\$1,478,113	\$1,460,300	\$1,855,800	\$1,844,867	\$1,663,775	-1.21%	27.08%	-0.59%	-9.82%	12.56%
Tesla, Inc.	\$1,296,351	\$833,593	\$1,023,169	\$1,478,761	\$1,495,687	-35.70%	22.74%	44.53%	1.14%	15.38%
<b>Mag Seven</b>	<b>\$17,612,751</b>	<b>\$14,975,986</b>	<b>\$17,969,291</b>	<b>\$20,770,528</b>	<b>\$21,551,584</b>	<b>-14.97%</b>	<b>19.99%</b>	<b>15.59%</b>	<b>3.76%</b>	<b>22.36%</b>

# And relative to US equities (in the aggregate)

Date	Market Cap (\$ millions)			Chg in Market Cap		
	Mag Seven	Rest of US equities	Mag 7 as % of all US Equities	Mag Seven	Rest of US equities	Mag 7 as % of all US Equities
12/31/14	\$2,419,683	\$19,575,772	11.00%			
12/31/19	\$11,896,163	\$38,544,184	23.58%	\$9,476,480	\$18,968,411	33.32%
12/31/20	\$6,921,281	\$32,229,947	17.68%	-\$4,974,882	-\$6,314,237	44.07%
12/31/21	\$12,038,024	\$36,429,824	24.84%	\$5,116,744	\$4,199,878	54.92%
12/31/22	\$17,612,751	\$42,139,554	29.48%	\$5,574,727	\$5,709,730	49.40%
12/31/23	\$14,649,694	\$39,455,514	27.08%	-\$2,963,057	-\$2,684,041	52.47%
12/21/24	\$17,612,751	\$42,139,554	29.48%	\$2,963,057	\$2,684,041	52.47%
3/31/25	\$14,975,986	\$41,707,826	26.42%	-\$2,636,765	-\$431,728	85.93%
6/30/25	\$17,969,291	\$44,974,821	28.55%	\$2,993,305	\$3,266,995	47.81%
9/30/25	\$20,770,528	\$47,604,292	30.38%	\$2,801,237	\$2,629,470	51.58%
12/31/25	\$21,551,584	\$48,221,266	30.89%	\$781,056	\$616,974	55.87%
2025				\$3,938,833	\$6,081,711	39.31%

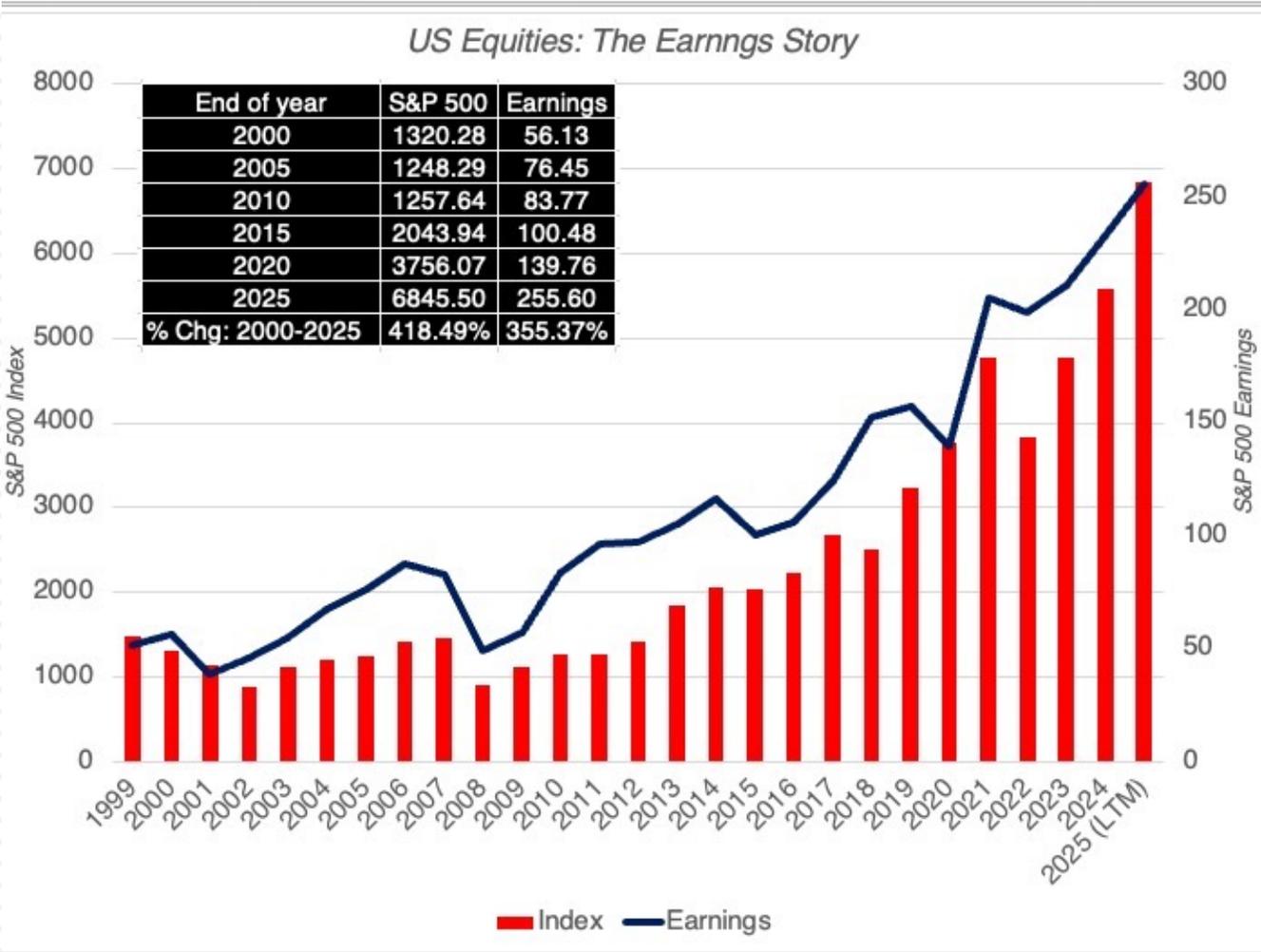
# The Forward Look: Stocks at the start of 2026



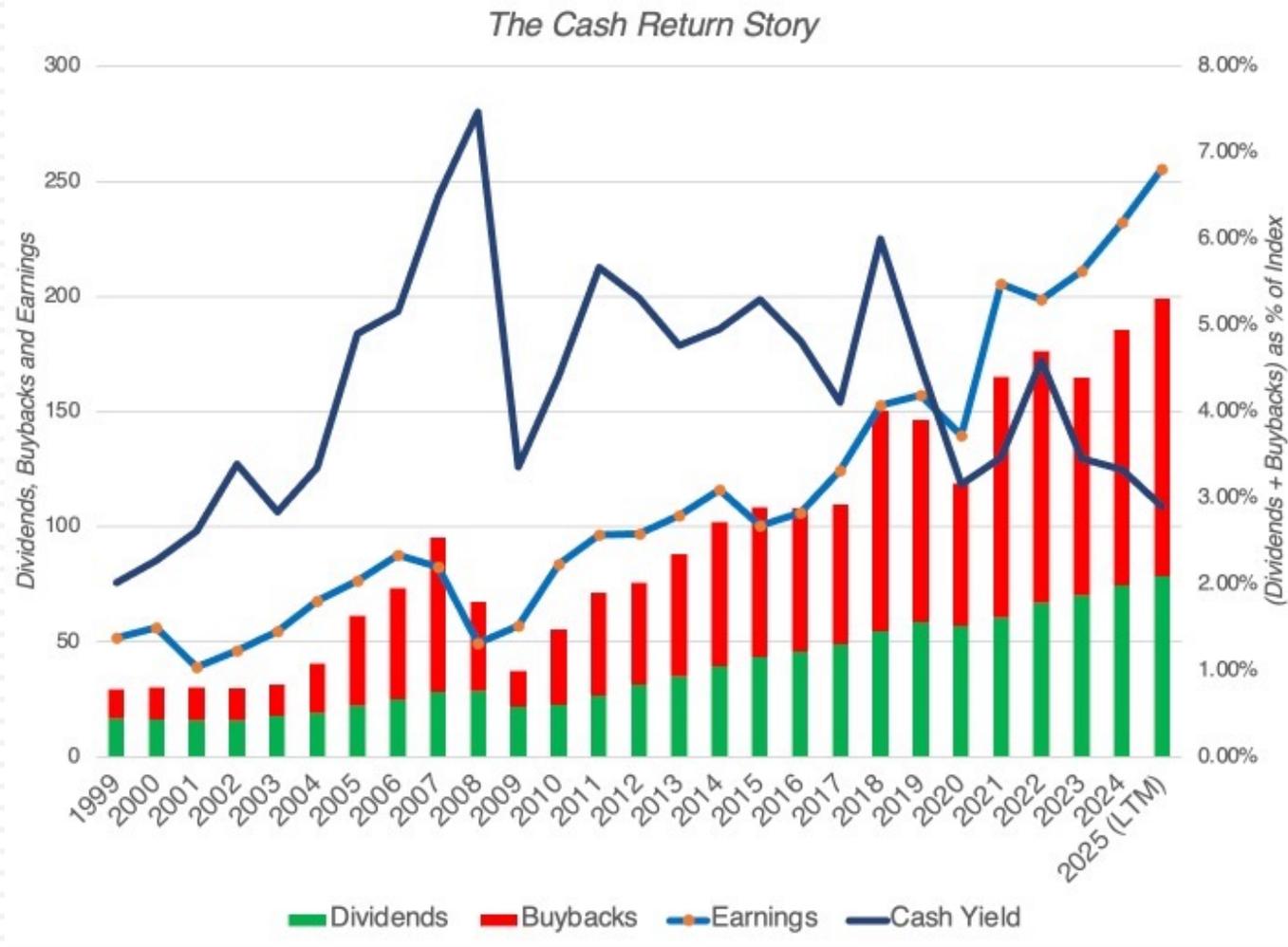
# The PE argument

- Using every PE ratio measure, it is undeniable that the PE ratio for the S&P 500, at the start of 2026, is **much higher than it has been at any period in history, starting in 1970.**
- While this may sound like a slam dunk argument for US stocks being overpriced, it is **worth remembering that this indicator would have suggested staying out of US equities for much of the last decade.**
- The problem with the PE pricing metric is that it is noisy and an unreliable indicator, and before you use it to build a case that equity investors in the US have become irrational, **you may want to consider reasons why US stocks have benefited able to fight the gravitational forces of mean reversion.**

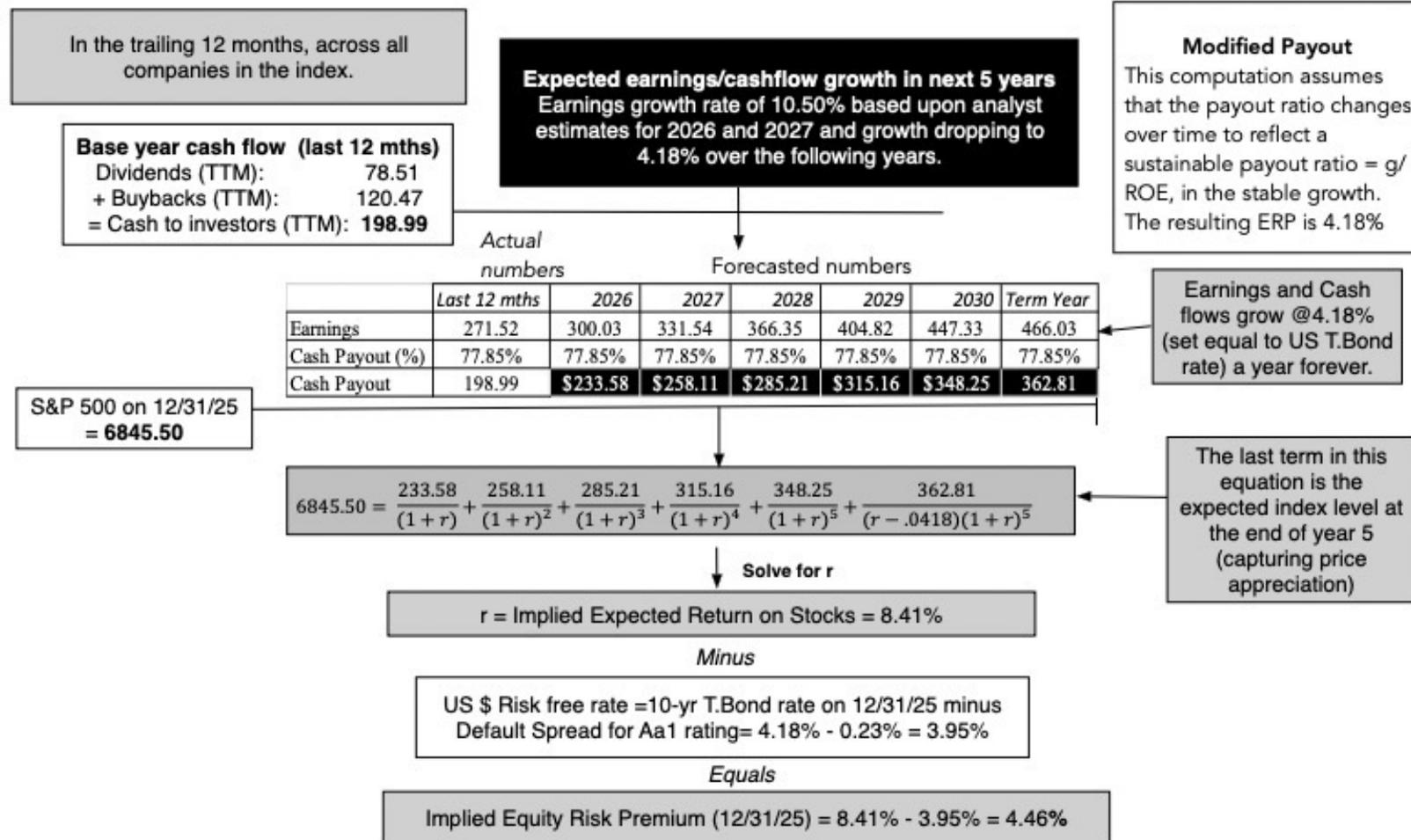
# The Earnings Engine revs up..



# With cash return on steroids...

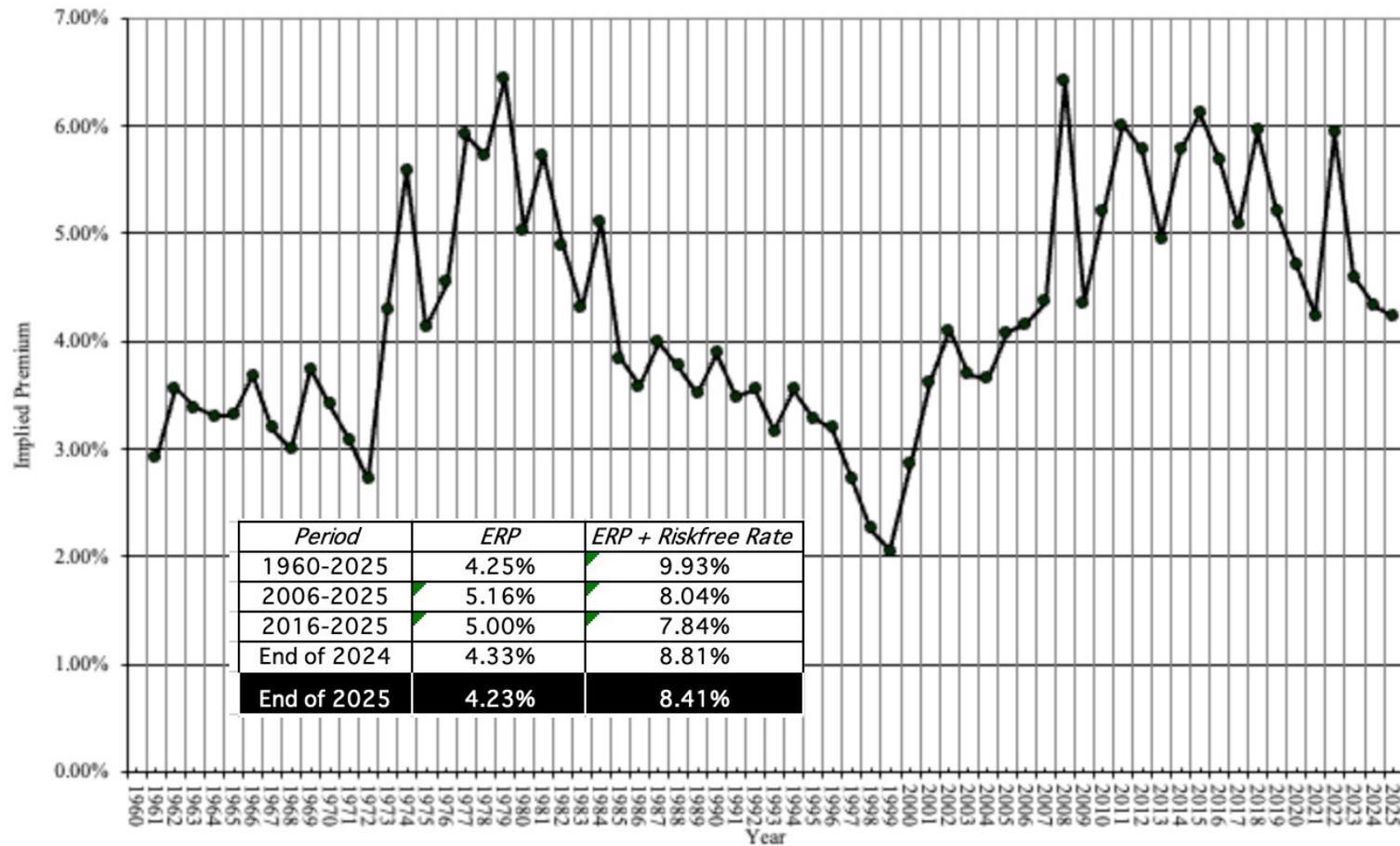


# My Tie Breaker...



# With historical context again..

*Implied Equity Risk Premium for US Equity Market: 1960-2025*



# The Bottom Line

- US equities had a good year in 2025, and there are **signs of excess in at some parts of the market, especially related to AI**. That said, the capacity of US companies to continue to deliver earnings and return cash flows even in the face of a tsunami of bad news continues to sustain the market.
- **I am, at my core, a non market-timer**, but I have held back on putting idle cash back into US equities in the last year, preferring to keep that cash in treasury bills.
- It is entirely possible that the market will continue to prove the naysayers wrong and post another strong year, but much as it may pain equity investors, **the healthiest development for the market may be to deliver a return roughly equal to its expected return (8-9%)**.
- This may also be the year when the bad news stories of last year, including tariffs and political whiplash, will **finally start to hit the bottom line, reducing aggregate earnings and cash flows**.