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RIVERBRIDGE QUARTERLY

4TH QUARTER 2025

MARKET COMMENTARY

Rick D. Moulton, CFA
Managing Director of Equities

For the third consecutive year, the S&P 500 index delivered investors double-digit returns. Unlike prior years, however, market leadership broadened meaningfully in 2025 to include international equities, fixed income, and commodities such as gold. These strong results were catalyzed by a resilient U.S. economy that once again defied widespread predictions of a recession.

Achieving these returns was not without challenge. Investors were required to endure two significant market shocks, each of which rapidly erased nearly 20% of market value before reversing. Ultimately, strong corporate earnings restored investor confidence and rewarded those who remained committed to domestic equities.

History suggests that, following three consecutive years of robust returns, markets often face a more challenging environment. While 2026 may test investors, several constructive catalysts remain in place.

In late January and again in early April, even a modestly positive year for equities appeared uncertain. January's volatility stemmed from the DeepSeek event, when China unveiled an artificial intelligence platform that rivaled U.S. tools at a fraction of the development cost, unsettling markets heavily concentrated in generative AI infrastructure. In April, President Trump's announcement of sweeping tariffs sparked a global equity selloff. That decline proved short-lived, lasting just one week before the administration announced a tariff pause. Investors who remained disciplined through both episodes were ultimately rewarded.

Entering 2025, many feared the U.S. economy would stall and slip into recession. That outcome never materialized. While growth initially decelerated, it consistently exceeded expectations and finished the year with renewed momentum. Inflation continued to trend lower, delivering real wage growth to consumers. This favorable backdrop allowed the Federal Reserve to implement three rate cuts in the second half of the year. Meanwhile, impressive corporate profits, combined with extraordinary capital spending on AI-related initiatives, provided powerful support for equity markets.

Looking ahead, investors can point to benign inflation, declining interest rates, and strong corporate earnings as a strong foundation for 2026. Consensus expectations currently call for two additional rate cuts in the coming year. Corporate profit margins also appear poised to expand further, driven by productivity and efficiency gains from the implementation of generative AI.

> From our perspective as we enter 2026, the Riverbridge strategies and portfolio companies have rarely been better positioned, both in terms of fundamental strength and relative valuation.

That said, storm clouds remain. Valuations are extended by historical standards, and certain areas of the market appear especially vulnerable to valuation-driven corrections. According to some estimates, nearly half of the S&P 500 index consists of AI-related stocks; should data center capital expenditures slow or AI leaders warn of slower monetization than anticipated, the market reaction is unlikely to be isolated. Finally, many of 2025's top-performing segments were populated by companies with no earnings, and in some cases, no revenues at all. These conditions are not sustainable and are being supported largely by short-term investor enthusiasm.

From our perspective as we enter 2026, the Riverbridge strategies and portfolio companies have rarely been better positioned, both in terms of fundamental strength and relative valuation. We believe our companies are among the most likely long-term beneficiaries of generative AI adoption within their own operations. Equally important, many are enabling their customers to deploy AI more effectively and operate with greater efficiency. While these businesses may not have dominated 2025's financial headlines, we are confident that they are well-positioned to thrive in the year ahead—and beyond.