BlackDiamond Financial

INVESTMENT INSIGHTS

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Black Diamond team member and Olympic skier, Troy Murphy, in Alaska's Chugach Mountains

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Market Momentum Continues

The S&P 500 completed one of the strongest three-year periods in its history, delivering a total return of 86% since the start of 2023. Much of that performance came from a small group of technology leaders benefiting from the growth of artificial intelligence. In 2025, the S&P 500 gained 18%, driven largely by Google and Nvidia, which accounted for 38% of the return. The other five stocks in the Magnificent Seven underperformed the S&P 500 this year.

Valuations ended the year higher as well. The S&P 500 now trades at a next twelve months price-to-earnings ratio of about 22x, well above the pre-COVID average of roughly 16x. Investors have shown a willingness to pay more for growth, particularly for companies viewed as long-term beneficiaries of artificial intelligence.

While U.S. stocks delivered solid gains, international markets performed even better. The S&P 500 lagged the MSCI All Country World ex-U.S. Index's 33% return by the widest margin since the global financial crisis in 2009. After 15 years of U.S. market leadership, this marked a notable shift in global returns.

The broader economic backdrop remained supportive of stock market valuations. U.S. growth was steady, corporate profits continued to rise, and consumers kept spending despite inflation remaining above the Federal Reserve's 2% target. Over the course of the year, the Fed cut short-term interest rates by 0.75% and longer-term yields moved lower, helping support both stocks and bonds. In fact, U.S. bonds had their best year since 2021, gaining 7.3%.

As always, we believe successful investing requires a disciplined, long-term approach that emphasizes thoughtful asset allocation, broad diversification, and prudent risk management. While market leadership and economic conditions will inevitably evolve, we remain focused on building portfolios designed to compound value over time rather than reacting to short-term market movements.

Comparative Returns

		Annualized Performance			
	Q4 2025	1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks[1]	2.7%	17.9%	23.0%	14.4%	14.8%
Small Cap U.S. Stocks[2]	2.2%	12.8%	13.7%	6.1%	9.6%
International Stocks[3]	5.1%	33.1%	18.0%	8.5%	8.9%
Real Estate[4]	(2.3%)	3.8%	6.9%	4.9%	5.8%
U.S. Bonds[5]	1.1%	7.3%	4.7%	(0.4%)	2.0%

1 S&P 500 index. 2 Russell 2000 index. 3 MSCI ACWI ex-U.S. index. 4 Dow Jones US Real Estate Index Total Return index. 5 Bloomberg Barclays US Aggregate Bond index.

One of the most important changes in today's market is not how expensive stocks appear, but the actual composition of the stock market.

Innovation-oriented companies now represent a record 56% of the S&P 500's total market capitalization, more than tripling since the 1980s when manufacturing dominated. Four decades ago, roughly two-thirds of the index consisted of manufacturing. Today, that figure is just 14%, reflecting a shift from asset-heavy industries toward businesses built on software, data, and intellectual property.

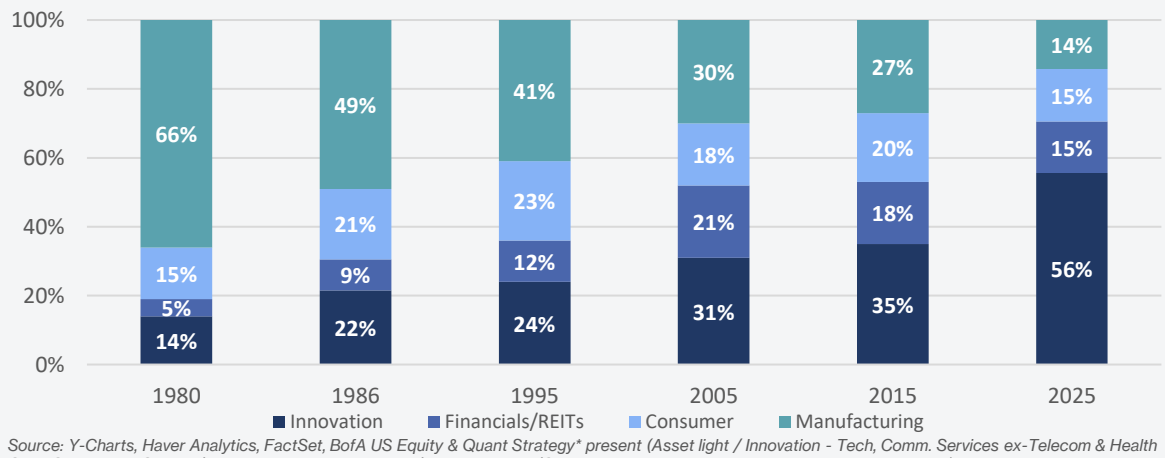
This evolution helps explain why today's market trades at higher valuation multiples than prior decades. Many of the index's largest companies have fundamentally different economics, with higher margins, less need for physical capital, and the ability to quickly achieve global scale. Comparing today's S&P 500 to the index of the 1980s or 1990s without accounting for this change can be misleading.

Just as important, this shift highlights a key advantage of broad index investing. The S&P 500 is not a static list of companies; it continuously adjusts as the economy evolves. As new industries emerge and grow, they naturally become a larger part of the index. As older industries shrink or lose relevance, their weight declines.

The same is true at the company level. Winners grow within the index over time, while weaker businesses fade or are replaced. Investors do not need to predict these changes in advance. By owning the index, portfolios stay aligned with the changing economy and capture long-term growth wherever it appears.

Over the past several decades, the names at the top of the S&P 500 have changed dramatically. What has remained consistent is the market's ability to reflect innovation, reward success, and adapt to the times. This adaptability is a feature, not a flaw, and it remains one of the strongest arguments for maintaining diversified exposure to the broader market through index investments.

S&P 500 Composition Since 1980: From Manufacturing to Innovation



Source: Y-Charts, Haver Analytics, FactSet, BofA US Equity & Quant Strategy present (Asset light / Innovation - Tech, Comm. Services ex-Telecom & Health Care, Consumer - Staples/Discretionary, Manufacturing/Asset Intensive/Capex - Industrials, Materials, Energy, Utilities, Telecom)*

BlackDiamond Financial

ABOUT US

Black Diamond Financial, LLC is a fee-only registered investment adviser with a unique and holistic focus on preserving and enhancing wealth. Our mission is to help you achieve your financial goals through the use of low cost, tax-efficient investment strategies. We create individualized investment portfolios for each client that are risk-appropriate, return optimized, and tax-efficient. Where appropriate, we incorporate institutional quality private investments to capture illiquidity premiums or yield opportunities. Furthermore, we believe cost is a critical factor in any successful investment strategy and therefore offer fully transparent pricing that is below industry standard. As an employee-owned firm focused on our fiduciary duty, we make our clients' interests our highest priority.

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