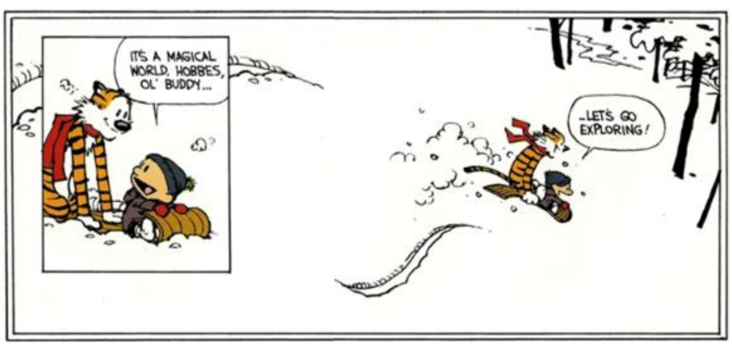
AMI INVESTMENT MANAGEMENT
Registered Investment Advisor

Quarterly Investment Commentary

FOURTH QUARTER, DECEMBER 2025

As we turn the page on 2025, the staff at AMI Investment Management extends our warmest wishes to our clients, friends, and their families for a happy and healthy New Year. With AMI now entering its fourth decade in business, we recognize that longevity in this profession is built with consistent stewardship, but it is sustained by the trust and loyalty of our clients—for which we are deeply grateful.

For fans of the *Calvin and Hobbes* cartoon, December 31st marked the 30-year anniversary of its final comic strip. In the closing frame, Calvin looks ahead and says, “Let’s go exploring”—which seems like a fitting sentiment as we enter a new year. While life and the investment world will always carry a degree of unpredictability, having a steady plan and a trusted partner can help with navigating the journey ahead. Thank you for your continued trust, and we look forward to working with you in the New Year.



Year-End Recap

Over the past 12 months, markets experienced their usual share of noise and unease, still investors were once again rewarded with solid returns as the bull market entered its third year. Many of today’s media headlines echo those from a year ago, with the ongoing themes of geopolitical conflicts, stocks at all-time highs, potential interest rate cuts, and continued debates around the future of artificial intelligence (AI).

At the same time, many of the concerns from a year ago largely persist today, including:

- Elevated U.S. equity valuations relative to historical averages.
- Concentration risk of the indexes, with the “Mag 7”[1] now making up roughly 37% of the S&P 500.
- The significant spending on AI infrastructure, with questions on the future profitability of these ventures.
- Continued signs of speculative investor behavior and Fear of Missing Out (FOMO). An example of this includes retail investors plowing record amounts into leveraged ETFs—which provide 2x or 3x the daily returns of an underlying index or single stock.

[1]Magnificent 7 stocks are Nvidia, Apple, Microsoft, Amazon, Meta (Facebook), Alphabet (Google), Tesla
“Calvin and Hobbes” comic strip (December 31, 1995), Bill Watterson

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Despite these risks and additional concerns emerging—including tariffs, inflationary pressures, and signs of a softening labor market—markets continued to climb the proverbial "wall of worry". U.S. stocks delivered returns of around 18%,[2] marking the third year in a row of gains in excess of 15%. While technology and AI related stock sectors once again led the advance, the rapid buildout of datacenters and supporting infrastructure also helped lift other areas of the market, such as utilities and industrials.

Outside the U.S., international stocks outperformed domestic markets by the widest margin since 2009, with returns of more than 30%.[3] High-quality bonds also joined the party with solid returns in excess of 6%.[4] While interest rates have declined from a year ago, bonds continue to offer attractive income relative to money market funds while also providing a buffer against stock market volatility.

Bubble Talk

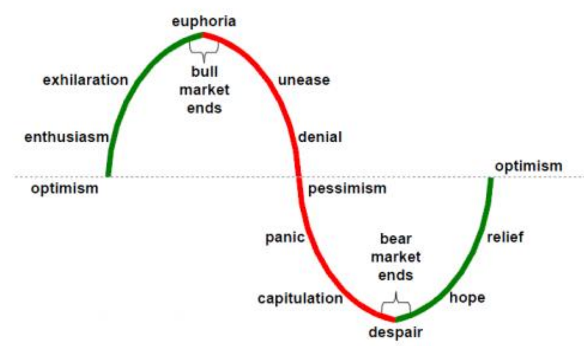
Rumblings of a potential AI bubble have been around for a couple of years, but the past quarter has seen a noticeable uptick in media coverage and high-profile warnings, which have amplified concerns. Outside of the rapid rise in AI-related stocks, the increasing bubble talk centers around a few main issues:

- **Accounting Practices**: The technical accounting used by some large tech companies regarding the useful lifespan of semiconductor chips and whether this is overstating earnings.
- **Capital Spending**: Concerns that the huge AI capital spending boom will result in overinvestment, added competition, and poor stock returns.
- **Circular investment**: The practice by some tech companies to invest in each other, which raises the risk that if one stumbles the rest fall in this interconnected web.

The term "bubble" can sound unsettling, but its meaning—and how it ultimately unfolds—is often open to interpretation. Historically, market bubbles tend to form around a new technology or transformative development. This was seen around the initial buildout of the railroads, telecom fiber optics, and the internet—each of which changed the world in its own way. As Howard Marks of Oaktree Capital Management noted in a recent memo:

"..the new thing understandably inspires great enthusiasm, but bubbles are what happen when the enthusiasm reaches irrational proportions. Who can identify the boundary of rationality? Who can say when an optimistic market has become a bubble? It's just a matter of judgment".

From euphoria to despair



Source: Russell Investments; investor sentiment framework.

In this investor behavior diagram, it's difficult to pinpoint exactly where markets stand at any given time. We are clearly not in the "despair" phase—but are we still in "enthusiasm" or edging closer to "euphoria"?

[2] Returns for the S&P 500 Stock Index for 2025 were 17.7% with dividends
[3] As measured by the ACWI ex-USA stock Index
[4] As measured by the Bloomberg Intermediate Government/Credit Bond Index

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That distinction is a judgement call and nobody knows for sure. While this is a simplified framework, it serves as a helpful reminder that investor emotions tend to swing more dramatically than the underlying fundamentals—and at times, those swings can be excessive, even if the point of excessive is sometimes determined in hindsight.

A market bubble can also be broadly broken down into two types:

- **Benign Bubble:** This typically involves a rapid rise in asset prices without the widespread use of leverage or borrowing. While some investors suffer losses due to poor timing or unwise decisions, the fallout is usually contained. In many cases, these episodes help lay the groundwork for the next phase of this new technology or new bull market. Examples would be the 1987 market crash and the internet bubble.
- **Toxic Bubble:** This type of bubble is fueled by too much debt, speculative borrowing, and interconnected financial risk. When it unwinds, the damage tends to extend well beyond investors, creating broader economic stress. Notable examples include the crash of 1929 and the financial crisis that followed the housing boom in 2008.

There are smart investors on both sides of today's bubble debate, and no one knows for sure how this will ultimately play out. While the economy and stock market's increasing reliance on AI-related spending warrants attention, debt levels remain reasonable and balance sheets are generally strong among the largest market players.

Risks rise for investors chasing already expensive stocks that rely heavily on big tech spending, carry high levels of debt, or are tied to complex and interconnected financing deals.

The Road Ahead

Rather than trying to predict exactly how or when the AI-debate will unfold, our approach has been not to abandon AI-related investments altogether, but rather focus on proven, high-quality, well capitalized companies—without allowing any single name or theme to become over invested. This discipline is supported through diversification across geographies and sectors, along with continued focus on valuations.

The year ahead will no doubt have a few road bumps. Markets could potentially be influenced over the short-term by events such as the Supreme Court ruling on tariffs, midterm elections, and lingering geopolitical tensions. That said, the broader investment backdrops remains reasonably supportive. Earnings growth expectations are upbeat while the upcoming transition to a new Federal Reserve Chair suggests interest rate policy that is likely to remain steady, if not supportive. When combined with the economic benefits of recent legislation (the Big Beautiful Bill) and bullish investor sentiment, the year ahead appears favorable. However, at this stage of the bull market, we want to remain cautious and mindful of downside risks. Higher equity valuations can lead to increased volatility, making portfolio rebalancing and risk management increasingly important as we move ahead.

As always, please do not hesitate to reach out with any questions or conversations you'd like to have regarding this newsletter or other matters.