FOURTH QUARTER 2025 INSIGHT BRIEF

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Investing Outlook

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Highlights

- **The U.S. Economy Remains Resilient:** As we head into the end of 2025, the economy continues to grow. Job gains and spending have cooled somewhat, but overall, the economy has remained resilient.
- **AI Dominance:** Artificial intelligence continues to drive market performance, lifting earnings, fueling investment in data centers and shaping expectations for growth and inflation.
- **Mounting Uncertainties:** At the same time, several dynamics may pressure markets, including the possibility of a prolonged government shutdown, a softer U.S. dollar, concentration of returns in a few large tech names and heightened international tensions.
- **Portfolio Implications:** With powerful global forces reshaping the world order—forces that are likely to remain unresolved for some time—it's critical to maintain a disciplined investment approach, staying well-diversified to balance potential risks and opportunities that lie ahead.

Macro Environment at a Glance

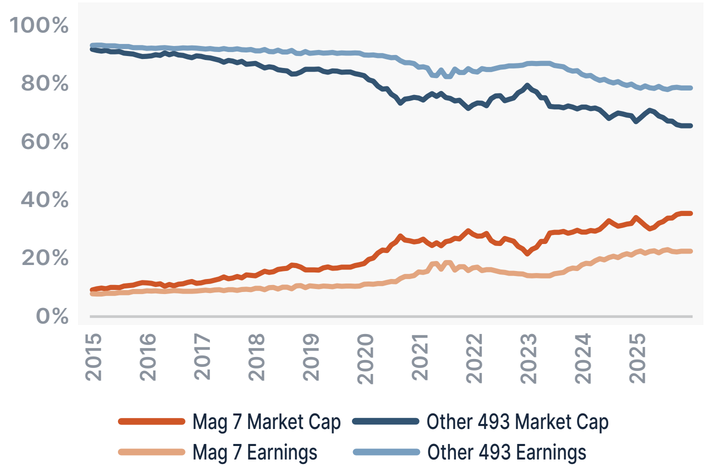
Decomposing the S&P 500: The Magnificent 7 have come to dominate the market across multiple metrics. In 2015, they accounted for 9% of the earnings and 11% of the market capitalization of the S&P 500. Today, they represent roughly 22% of earnings and 35% of market capitalization. That means seven companies out of 500—or just 1.4% by count—constitute roughly a quarter of total earnings and one-third of the U.S. large-cap equity market's value. Figure 1 illustrates how the Mag 7's share of S&P 500 earnings and market capitalization has expanded over the past decade.

Market concentration of this magnitude benefits investors only as long as the Mag 7 continue to outperform. To sustain high valuations and expectations for AI-related growth, several have invested hundreds of billions in capital expenditures to acquire advanced graphics processing units (GPUs) and build data centers. At these levels, there is little margin for error if adoption or economics fall short of expectations.

FIGURE 1

S&P 500 Earnings & Market Cap Decomposed into the Mag 7 & Other 493

Percentage of S&P 500



Source: Aspiriant analysis. Data from Bloomberg. The S&P 500 is a market-capitalization weighted index that includes the most widely held companies chosen with respect to market size, liquidity and industry. Magnificent 7 (Mag 7) refers to the seven largest U.S. technology-oriented companies by market capitalization: Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Meta Platforms (META), Tesla (TSLA), and Nvidia (NVDA).

What's Fueling AI: Propelling development forward and reinforcing the AI capital-expenditure (capex) cycle the industry created a web of interdependencies. Nvidia invested in leading AI model developers—xAI, Mistral and OpenAI—while those companies use those same proceeds to buy Nvidia chips. Similar dynamics exist linking OpenAI to start-ups and hyperscalers such as Microsoft and Oracle. This tangled web of relationships may accelerate AI growth in the near term, but it could also make the AI complex more fragile and politically exposed as conflicts of interest become more apparent and disruptive.

One potential chokepoint for AI development is access to electricity. An AI search requires about 10 times more energy than a standard Google search. As data centers sprout up to support the increasing use of AI, demand for power is expected to accelerate significantly. As shown in **Figure 2**, global data-center electricity consumption is projected to rise sharply over the next decade.

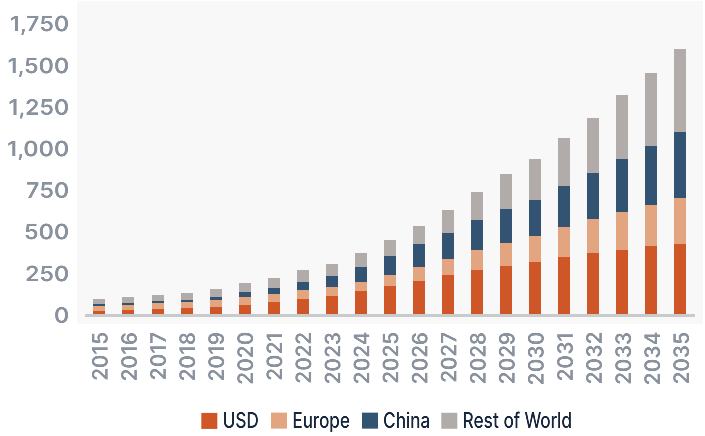
Within five years, power demand from data centers is forecast to double and in ten years, more than triple. In the U.S. alone, data centers are expected to account for 10 to 12% of electricity consumption by 2030.

Rare Earth Elements: Rare earth elements (REEs) are needed for magnets vital to several industries, including automakers, aerospace, semiconductors and national defense. China's global supply is estimated to represent roughly 70% of REE mining and 85–90% of refining and processing, making most developed countries heavily reliant on its exports. Stocks of REE miners and refiners in the U.S., Canada and Australia have surged as China flexed its negotiating position by announcing plans to restrict exports and new deals are emerging.

FIGURE 2

Global Power Demand from AI Data Centers

Power Consumption, TWhs



Data as of 12/31/24. Source: Aspiriant analysis. Data from International Energy Agency (IEA), Bloomberg NEF. Estimates of global power demand from AI data centers are based on IEA and Bloomberg NEF modeling. Both organizations combine observed data on current data-center electricity use with projections for computing capacity growth, hardware efficiency gains, and regional infrastructure expansion. Forecasts are scenario-based and approximate, reflecting uncertainty in AI adoption rates, grid constraints, and future efficiency improvements.

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Final Thoughts & Portfolio Considerations

- The U.S. economy remains relatively strong, with growth around 2% annualized in the third quarter. At the same time, youth unemployment reached a 10-year high and core inflation remains above the Fed target.
- Uncertainties persist around AI, trade, U.S. fiscal sustainability and geopolitical tensions. While market volatility can feel uneasy, investors must exercise discipline, agility and wherewithal to thoughtfully reallocate the portfolio as new opportunities emerge.
- We remain optimistic about the opportunities ahead and believe the best approach is to maintain a diversified portfolio, including a mix of U.S. and international stocks and bonds, gold and other hard assets, and private markets where appropriate.

Important disclosures