

Talbot Financial – Fourth Quarter 2025 Review

Please find attached your Talbot Financial Fourth Quarter 2025 portfolio review to supplement your monthly account statements available from Schwab. The report provides a performance summary of your investment portfolio compared to the S&P 500 Total Return Index (“Index”), Talbot Financial’s benchmark, and lists your investment portfolio holdings by industry sector.

Investment Review

2025 was another year of strong growth in the equity markets with the Index posting a return of 17.9%. This marks the third consecutive year of robust performance for U.S. equities. The favorable results were primarily driven by resilient economic growth, stout corporate earnings, and sustained investor interest in large-capitalization growth companies, especially those involved in artificial intelligence (AI) themes. Notably, the three best-performing sectors—Communications Services, Industrials, and Information Technology—benefited from the momentum surrounding AI.

Given the continued strength in the equity market over the past three years, investors may question if the market is overvalued, or too high. While we recognize the impressive market performance, it is important to clarify the distinction between our investment approach and simply owning the market. Owning the market, the S&P 500 Index, as an example, involves holding a broad range of companies, including high, medium, and low-quality businesses. In contrast, our strategy is to rigorously screen out medium and lower-quality companies, focusing solely on those with the highest quality. The companies in your investment portfolio are characterized by superior balance sheets, strong cash flows, higher earnings compounding, intelligent capital allocation, and consistently profitable returns.

The importance of consistent profitability cannot be overstated, as it lessens the reliance on debt financing and enables greater self-funding. To substantiate our high-quality investment thesis, we reviewed the current portfolio companies’ profitability over the past decade. The results were compelling: there were only four instances over the last 10 years in which a company in our portfolio did not report profits for a calendar year. In two of these cases, the company was Chevron, where annual returns can be impacted by the inherent volatility of the global oil market. The typical client portfolio holds about 45 stocks; and therefore, over 90% of the positions in the portfolio generated profits in each of the last 10 years.

Economic and Equity Market Outlook

Looking ahead, we believe the U.S. economy and stock market are well-positioned for continued strength in the coming year. Economic growth remains robust, underpinned by solid corporate earnings, healthy consumer spending—particularly among higher-income households—and ongoing innovation driven by advances in artificial intelligence. These positive factors are further supported by moderating inflation and a more predictable interest rate environment, creating a favorable outlook for U.S. equities in the year ahead.

Furthermore, we anticipate that AI adoption is entering a critical next phase. Companies are moving beyond building infrastructure and are now focused on utilizing AI capabilities to achieve real productivity gains. For technology firms, this involves leveraging AI-powered software to enhance operations, automate business processes, and improve product development. For other large-cap companies in our portfolio, AI is being used to streamline workflows, reduce costs, and support better decision-making through advanced analytics. We expect these efficiency gains to lead directly to higher profit margins and stronger overall profitability, providing a powerful tailwind for earnings growth in the years to come.

We welcome the opportunity to review your portfolio in person, by phone or a virtual meeting. Please contact us for a review, or to answer any questions you may have about your portfolio.

Sincerely,

Talbot Financial, LLC

www.talbotfinancial.com