

QUARTERLY NEWSLETTER 2025.Q4

December 31, 2025

Time machine status update: Arrived at 9:05pm PST on 12/31/2024¹

Location: Jack's Front Lawn

As I opened the door to exit my time machine, I heard a robotic voice coming from the speakers: "Welcome to your destination. Please remember to return within 1 hour so we have enough energy for our return trip. I must also warn you that meeting yourself in the past is extremely dangerous. In fact, in a worst-case scenario, you could initiate a localized quantum time loop which would release an amount of energy equivalent to two atomic...."

"Yeah, yeah, yeah, whatever, I'm sure I'll be fine" I mumbled as I approached my front door. Everyone knows you don't go visit yourself when travelling through time, but I just couldn't resist. Plus, AI bots are not to be trusted. I knocked and saw Past Jack shuffle his feet towards the front door. He opened it and stared blankly. Then he looked at the half-empty champagne glass in his hand. He stuttered a bit, then quivered "what on EARTH was in this?"

After the initial shock, he invited me in. We exchanged the normal pleasantries² while he poured me a glass of champagne. "The ball just dropped in New York" he said, "I can't believe anyone would want to be in Times Square during all this. Looks like a nightmare."

"No kidding." I responded. We spent the next 45 minutes talking about the time machine. How does it work (no idea), where/when have I already been (signing of the Magna Carta, Jack Nicklaus' triumph in the 1986 Masters, and the JFK assassination³). As the conversation came to a lull, I told Past Jack "Look, I only have about 15 minutes left before I have to leave. I'm sure you have a lot of questions about what happened over the past year, so why don't you ask away and I'll do my best to answer them."

"Sounds good." I saw Past Jack pull out the Notes app on his phone. "Winning Powerball numbers, please."

"I'm not going to tell you those" I said. "That would be akin to trading off non-public material information, and I'll never facilitate such an action.⁴ Don't you want to know something more important about society as a whole?"

"Ok.... uh sure.... how's the US economy doing?"

¹ Important message from Douglass in Compliance: This is fictional. It is 100% made up. Time travel is not real.

² The wife and kids are doing great. The golf game, not so much.

³ There was definitely a second shooter.

⁴ Yes, Douglass, this is me trying to get in your good graces.

"It's fine."

"Care to elaborate on that?"

"Sure. There are quite a few macroeconomic variables that look pretty attractive. Real GDP growth in Q2 and Q3 averaged about 4% on an annualized basis.⁵ We don't have the numbers for Q4 yet, but they'll probably be a bit lower... The US Government shut down for 43 days starting in October."

"Oh, great."

"Yeah, anyways, those quarters looked pretty good, but Q1 actually showed a contraction of 0.6%, which most people think was the result of tariffs put into place by President Trump, but that might just be a one-time hit."

"OK, well overall that's not bad."

"Not at all, and the unemployment rate is still low at 4.6%. That's historically great, even if it is higher than the 4.1% it ended at last year. And inflation seems to be under control, but still a little elevated. The last print was a 2.7% annualized rate, though many have argued that is artificially low because it includes impacts from that previously mentioned government shutdown. Still, most inflation readings have been around the 2.5-3.0% range this year. Overall, not terrible."

"OK, makes sense. What's the Fed done? Seems like they're in a tough spot – rising unemployment and sticky inflation."

"Totally, I would not want to be Jerome Powell right now. The Fed kept rates steady the entire year until September. Then we've had three cuts since then, so the Federal Funds Rate now sits at 3.5-3.75%. I think it's unlikely they cut again in the next meeting; market expectations are for only about one cut in each of the next two years. Feels like we're maybe at an equilibrium, for now."

"Got it. Anything concerning you see?"

"Yeah, a few things. As I said, the unemployment rate is low, but it has been steadily rising. I think it's still at a healthy level, but if its trend continues, or, worse, accelerates, it'll be a problem. And I've seen a lot of anecdotal evidence that the labor market is not very strong; tons of articles about layoffs at various major companies (UPS, Amazon, Intel, Microsoft, etc.)⁶. It's possible that companies are using AI "efficiency gains" as an excuse to do layoffs because business is slowing, but they don't want to say that, plus the market loves AI adoption.

Speaking of AI, there are concerns that infrastructure spending in the industry has amounted to a bubble and it's all going to come crashing down. I think those fears are a bit overblown, a large amount of the spending has been done by the so-called Big 5 Hyperscalers (Meta, Google, Microsoft, Amazon, Oracle), who are still highly profitable, though I suppose margins might come under pressure as they move from asset-light to asset-heavy businesses. Capital expenditures for AI are astonishing. The Big 5 alone spent almost \$400B in 2025 and that amount is expected to

⁵ All economic data from Federal Reserve Bank of St. Louis.

⁶ <https://intellizence.com/insights/layoff-downsizing/major-companies-that-announced-mass-layoffs/>

increase to over \$600B by 2028. Some researchers have estimated that AI spending has accounted for more than 100% of year-over-year growth in total investing activities by companies. In other words, all non-AI related spending is in decline. To make matters more concerning, much of the spending is now being debt-financed. Researchers estimate 30% of USD credit net supply this year is AI-related.⁷ Some companies have even resorted to keeping some of these liabilities off their balance sheets. I'll skip all the accounting intricacies, but Oracle, for example, recently managed to keep nearly \$250B of lease commitments off its books.⁸

Also, consumer sentiment is abysmal, lowest we've ever seen it, at least according to the Michigan Consumer Sentiment Survey. A lot of times consumer sentiment isn't a great reflection of reality, so I take those readings with a grain of salt, but I worry it will eventually have an impact in our consumption-driven economy." Many people have referred to us being in a "K-shaped" economy where the upper class is doing well and everyone else is struggling. I think something along those lines may explain the poor sentiment readings.

"Let's switch topics." Past Jack tried to hide himself opening the DraftKings app on his phone. "Want to tell me who won any major sporting events this year? NBA Finals, World Series, Super Bowl. Really, anything will do."

"How is that different than asking for Powerball numbers?"⁹

"Fine. How are those wars going? I really hope we found a resolution in Ukraine and Gaza."

"Uhhh.... not great. Ukraine/Russia is still a complete quagmire, as far as I can tell. Both sides seem to be completely entrenched and there doesn't seem to be much progress for a peace deal. And Gaza is a humanitarian disaster. It's just.... gone. For now we at least have a ceasefire, but it's already been broken a few times and I'd be surprised if that doesn't continue. Oh yeah, and Iran/Israel had a brief conflict after Israel launched a surprise attack on Iran's military and nuclear facilities. Of course, Iran responded. I'm thankful there weren't too many casualties and there's been an effective ceasefire, but it's all a little unsettling. And don't forget there's a brutal civil war happening in Sudan right now. That one's been going on for a while but doesn't get much coverage. I don't advise looking up the details – it's horrific. It's all kind of horrific. I think I need another drink."

"Sure thing." Past Jack poured me another glass of the best champagne money can buy at Walmart. "How about some good news? The election just finished and it went surprisingly smoothly. There's such a great opportunity for Americans to find common ground and..."

"Next question."

Past Jack and I watched as the one-minute countdown in Chicago commenced on the TV. "OK, well did anything GOOD happen in 2025? I saw Ozzy Osbourne is doing shows again, that's amazing!"

"Oh boy."

⁷ <https://fortune.com/2025/12/23/us-gdp-alive-by-ai-capex/>

⁸ <https://finance.yahoo.com/news/oracles-248-billion-ai-bet-195143106.html>

⁹ See how great I am, Douglass?

"OK, seriously, you haven't exactly been upbeat. I'm scared to even ask how the stock market did with all this turmoil."

"The stock market did great. Sure, we had some volatility, especially early in the year after the tariff announcements, but the S&P500 Total Return finished the year up 17.9%¹⁰. And this year, the returns were more evenly spread throughout the market. The S&P500 Equal Weight Index reached an all-time high near year-end, the Russell 2000 Total Return Index was up 12.8%, and only two of the Magnificent 7 stocks returned more than the S&P500 Total Return during the year. It's so easy to focus on all the bad news, but the stock market just seems to have a way of grinding through it. Of course, we know it'll lose value at SOME point, but the historical returns are in the favor of the optimist who stays invested."

"Huh.... and global stocks? They had to have been.... not great?"

"Even better than the US. The MSCI Ex-US Total Return Index was up 32.4%"

"Wow."

"Yeah, you and Philip are going to consider moving client funds away from US large cap into international stocks early in the year. Make sure you do that."

"Noted."

I checked my watch. 10:03PM. "I've got a couple minutes left. Anything else you want to know before I take off?"

Past Jack swiped around on his phone again. It looked to me like he opened his Kalshi app. "Yeah, what would you say the odds of Taylor Swift getting engaged this year are?"

"Nice try."¹¹



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¹⁰ All index and security return data from YCharts.

¹¹ I am so ethical, aren't I, Douglass?