



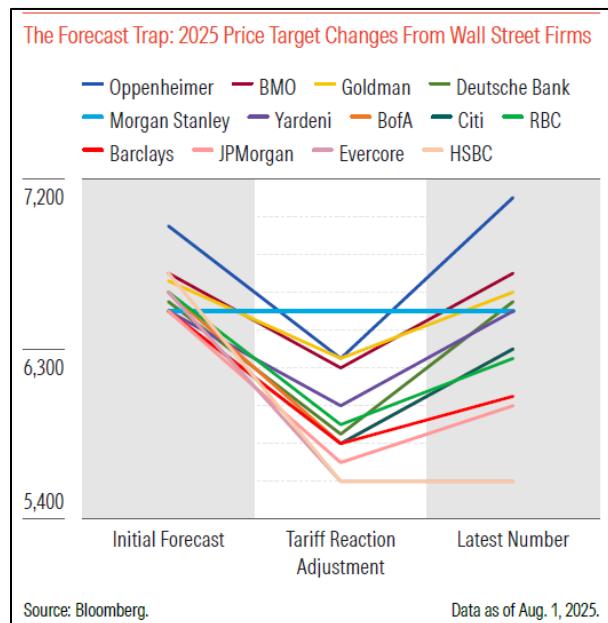
Hollow Brook Quarterly Roundup

4Q 2025

Market Overview

The U.S. stock market closed out 2025 near all-time highs, with the S&P 500 up 17.8% for the year capping off the index's seventh-best three-year run on record. This outcome looked far from assured last spring, when President Trump's "Liberation Day" tariffs triggered a sharp shift in sentiment, a wave of "Sell America" trades, and renewed concerns that the long-running rally was coming to an abrupt end.

Those policy changes, and the market volatility that followed, led to meaningful revisions in analyst forecasts throughout the year. Equity price targets were cut during the selloff, only to be raised again as markets recovered.



The widely anticipated slowdown on Wall Street never materialized. Tariffs ultimately raised prices less than feared, while AI-driven investment and a more accommodative Federal Reserve helped support earnings and risk assets.

As we enter 2026, many outlooks once again offer confident projections for growth and returns. Yet last year's experience underscored how frequently forecasts change as events unfold. As the fictional character Dennis Hope in Cameron Crowe's award-winning film *Almost Famous* stated, ***"I didn't invent the rainy day, man. I just own the best umbrella."***

Owning the proverbial best umbrella captures how we approach investing. We look through a lens of asymmetry – seeking to participate when conditions are favorable while limiting downside when they are not. We achieve this by coupling the insights of our tenured relationships and research partners with meticulous, independent analysis. We turn high-quality research into disciplined asset allocation, diversification, and thoughtful investment selection – all in support of a long-term plan.

We remain focused less on forecasting the weather of the markets, and more on ensuring portfolios are prepared for the long term.

The AI Capital Cycle

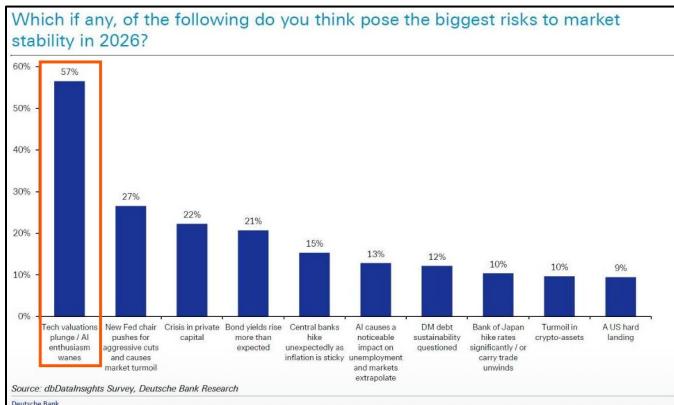
The loudest macro question in markets is familiar by now:

Are the hyperscalers spending too much on AI?

Microsoft, Google, Meta, Amazon, and Oracle are projected to spend hundreds of billions of dollars, data centers, power, and chips over the next several years. A natural comparison is the late-1990s fiber boom. However, this fiber infrastructure lasted decades compared to today's AI buildout which relies on chips that may become obsolete in just a few years. So, even adaptable data centers could face much faster economic decay, making this cycle far harder to predict.

A recent piece from our friends at Macro Strategy framed the issue directly. To paraphrase their argument: *...LLM AIs are value destructive. They believe that the spending on the AI build has not led to higher profits, lower costs, or better productivity in a durable way. As a result, we are in a cycle of misallocated capital, and the major risk is that AI may become economically hollow despite its technical sophistication.*

Deutsche Bank's risk survey, shown in the chart below, confirms broad investor acknowledgment of the risk Macro Strategy outlined. That said, no one yet knows how this plays out.



But not knowing does not mean guessing. It means asking better questions and listening closely to the people closest to the AI build-out.

We discussed the topic directly with our venture partners, who are actively funding AI companies today. Where they diverge from Macro Strategy's claims is the idea that AI is a single, non-value add technology. Importantly, our venture partners stressed, AI operates across three layers: *model training*, which is costly and capital-intensive; *inference*, the everyday use of models where costs are falling rapidly; and *applications*, where AI is deployed in real businesses through task and industry specific tools that help people work faster,

cheaper, and more effectively. Their responses made it clear that, yes, there is potentially overinvestment; yes, there is hype; and yes, there will be losers. But we must not characterize AI as one big bucket of ChatGPT, as there are far more complex players across the layers that are and should continue to be value creative.

We do not believe we need to predict how this cycle resolves. We need exposure that can participate in progress without requiring perfect outcomes.

Energy: From Underinvestment to AI-Driven Demand

That same lens applies to industries adjacent to the AI build-out, particularly energy. Well before the data-center enthusiasm of 2025, our President and Co-Founder Philip Richter discussed the underinvestment across the energy ecosystem on [Bloomberg TV](#) in November 2024. Since then, AI-driven demand for electricity has added an important new dimension. As data centers and compute-intensive systems expand, the need for reliable power continues to grow, reinforcing our energy transition thesis.

Yet despite this demand, the U.S. energy sector has been quietly marginalized in public markets. Today, energy represents just 2.6% of the S&P 500, near an all-time low, down roughly 13 percentage points since the 2008 financial crisis. In the early 1980s, energy made up nearly a quarter of the index. To put today's concentration in perspective, NVIDIA alone accounts for roughly 8.5% of the S&P 500 – about three times the combined market value of every energy stock in the index.

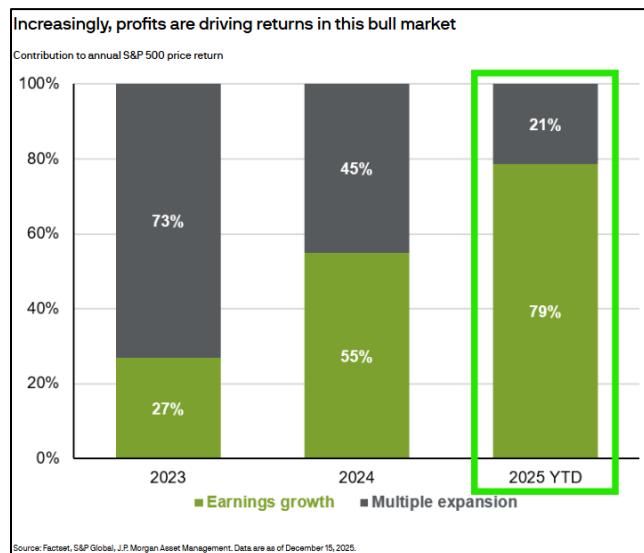
A pullback in today's most crowded areas could just as easily lead to rotation toward underappreciated parts of the market where fundamentals, cash flows, and long-term demand are better aligned.

Broadening Beyond the Magnificent Seven:

The data increasingly supports the view that opportunities are expanding beyond the most concentrated trades.



Profit growth has broadened, with financials, industrials, utilities, and materials all delivering double-digit year-over-year earnings growth. Added to that, the broader fundamentals remain encouraging. Roughly 79% of the S&P 500's year-to-date return has come from earnings growth, while the forward P/E remains at 22x, little changed from where it began 2025.



The quality of market momentum may be improving, as equities advanced in 2025 despite five of the seven 'Magnificent 7' stocks underperforming the broader S&P 500.

This is not to say we are bearish on technology. Rather, we recognize that AI is shifting large tech companies from capital-light software businesses to capital-heavy infrastructure operators. For decades, large technology companies earned premium valuations through high returns on invested capital - *does this new reality support or undermine those valuations?* These trends and questions reinforce the need for selectivity and diversification.

The Global Backdrop: Trump, Trade, and Tariffs

Just as market leadership can rotate, the global backdrop can shift as well. This was outlined to us within the first few days of the new year. On Saturday, January 3rd, U.S. forces captured Venezuelan President Nicolás Maduro after months of escalating tensions between the two countries. Following the weekend's events, many questions have surfaced, with the most common being the potential impact on the oil market.

Venezuela holds 303 billion barrels of proven oil reserves, the most globally. However, the oil itself is lower quality, measured by API gravity (*a scale created by the American Petroleum Institute that tells you how light or heavy oil is*), Venezuelan crude is thick, sulfur-heavy, and requires specific refineries, unlike the light oil produced in Saudi Arabia or the Permian Basin in the U.S. Therefore, turning those reserves into usable fuel could take years of investment and infrastructure work.

As Gavekal Research states: *"In short, just as it is too early to conclude what domestic politics in Venezuela will look like in the coming months, it*

might be too early to conclude with confidence what impact the weekend's events will have on the capital spending plans of the broader energy industry, and by extension on the oil price."

However, the broader signal is clear: the administration is increasingly willing to pull every available lever – military, economic, and diplomatic – to shape outcomes. The clearest expression of this approach has been the implementation and continuation of tariffs.

According to the Penn Wharton Budget Model, *"The Trump administration's tariff policies have resulted in substantial increases in effective tariff rates. In January, the effective tariff rate was 2.2%. By September, the effective tariff rate climbed to 10.65%, an increase of over 383%"*

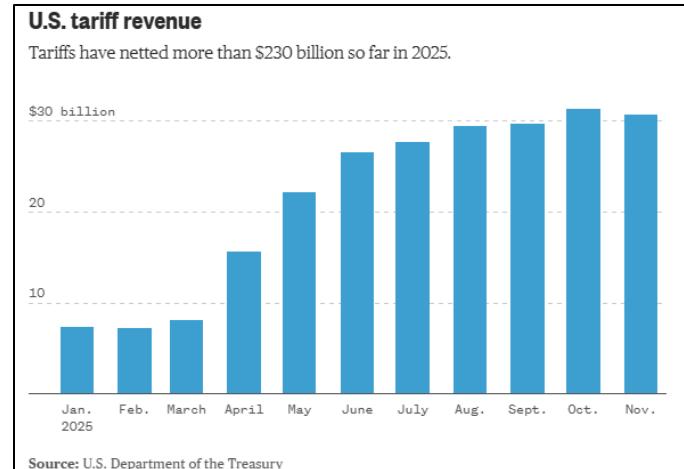
This backdrop matters because the cost of tariffs does not disappear just because headline subside – they tend to work their way through the economy over time. As we move into 2026, those costs may increasingly show up in the form of higher prices for consumers and businesses, which could weigh on economic growth. The timing and magnitude remain uncertain.

U.S. Debt: Accelerating to \$38 Trillion

Federal tariff revenue soared to historic highs in fiscal year 2025, fueled by the Trump administration's aggressive trade strategy. From January through November, \$236 billion of tariff money has been collected.

In theory, this surge in revenue should help improve the government's balance sheet. In practice, however, spending continued to rise. Even if the administration were to put that entire amount toward reducing the national debt, it would cover

less than 1% of America's current \$38 trillion in outstanding obligations.



The sustainability of the government's fiscal trajectory remains a critical question. Interest payments on the U.S. debt were the second-largest component of government spending in 2025, exceeding \$1.2 trillion. With another \$9 trillion in debt set to mature in 2026, interest payments are poised to consume an even larger portion of government liabilities.

The reaction of safe-haven assets to these fiscal concerns was telling. U.S. Treasury bonds delivered modest, low-single-digit returns in 2025. Gold's response was far more pronounced. Prices rose more than 64%, marking the strongest annual performance since 1979. As investors questioned the safety of U.S. Treasuries amid mounting debt levels, trade wars, and political uncertainty, gold emerged as the preferred safe-haven asset. The fact that central banks worldwide now hold more gold than US Treasuries for the first time in 30 years underscores a fundamental shift in how global investors view U.S. fiscal credibility.

Portfolio Positioning

The environment may be evolving, but our strategy has not shifted, as our long-term outlook still holds:

- **Asset Allocation & Diversification:** Equities remain foundational; however, we believe true diversification means more than owning the index – which has become increasingly concentrated in a few large-cap tech names. We continue to remain largely underweight the Mag 7 names and focus on differentiated high-conviction ideas designed to deliver durable returns over time. For larger portfolios, we complement them with assets like opportunistic credit, farmland, real assets, and unique, asymmetric investments.
- **Focus on Quality:** We favor businesses with strong balance sheets, healthy free cash flows, growing dividends, pricing power, and durable models built to weather inflation. We remain mindful of valuations, and with global trade frictions still present, growth expectations carry a degree of negative asymmetry.
- **Focus on Liquidity:** Liquidity in financial markets is a given until it is suddenly nowhere to be seen. We believe that a cornerstone of prudent portfolio management and risk control is to continually monitor liquidity and position portfolios so a client's life is not disrupted should there be a change in market liquidity.
- **Drawdown Protection:** We focus on preparing portfolios for environments where traditional assumptions may not hold. We do not rely on long-term government bonds as our primary downside hedge. Instead, gold

and cash have played that role more effectively. Our allocation to gold was additive to performance in 2025. However, our gold thesis was not underwritten for outsized returns, but as a hedge against inflation and volatility. Given the evolving geopolitical, fiscal and monetary challenges, we believe gold continues to serve that purpose into 2026.

Staying the Course

Markets could continue to surprise, just as they did last year. Forecasts could be revised, narratives could rotate, and confidence could rise and fall with price action. Yet, there is reason to stay optimistic. Human progress has been remarkably resilient: pediatric cancer death rates have fallen by two-thirds since the 1970s, violent crime just saw its largest one-year decline on record, traffic fatalities are falling, obesity rates have declined for a second straight year, drug overdose deaths are now 26% below their recent peak, and the weekly number of new business applications is at all-time highs

As our board member Jason De Sena Trennert of Strategas Research observes, *“A combination of the One Big Beautiful Bill’s impact on consumer and capital spending, America’s hosting of the World Cup, and the country’s 250th anniversary will all lead to a meaningful uptick in economic growth and earnings in 2026... Add to this a Fed increasingly focused on full employment rather than inflation, and it’s difficult to get bearish for very long...”*

Things that could help the economy keep moving forward:

Trade war uncertainty is starting to fade
Spending on AI and data centers remains strong
High AI stock prices are making consumers feel wealthier
A weaker dollar helps U.S. companies sell abroad
Lower oil prices reduce costs for households and businesses
The Soccer World Cup brings a short-term boost to travel and spending
Overtime pay and tips are no longer taxed at the federal level
The child tax credit increases to \$2,200 per child
Businesses can fully expense equipment and factory investments
Lower overall taxes may mean larger tax refunds for households

Many parts of the economy are already at extreme levels:

Stocks are at record highs
Gold is at a record high
Silver is at a record high
Home prices are at record highs
Copper is at a record high
Platinum is at a record high
Money market fund balances are at a record high
U.S. debt is at a record high
Deficit spending is at a record high
Household debt is at a record high

As the tables outline, the backdrop for 2026 is set against record-high asset prices, record high debt levels, and potentially constructive economic tailwinds. To us, this combination raises more questions than answers about how the economic and market environment ultimately plays out. Therefore, we return to the quote that opened this piece: *"I didn't invent the rainy day, man. I just own the best umbrella."* With that mindset, we continue to invest through the lens of asymmetry: positioning portfolios to participate in long-term innovation and growth, while being prepared and remaining resilient if the path ahead proves sub-optimal.

Thank you for your continued trust and partnership.

Sincerely,

The HBWM Team



Alan Bazaar

CEO & Partner



Philip E. Richter

President & Partner



Equity Indices	Price	MTD	QTD	YTD
S&P 500	6845.5	0.58%	2.30%	17.86%
Nasdaq	25249.85	-0.31%	1.97%	21.02%
Dow Jones Industrials	48063.29	1.79%	3.93%	14.92%
Russell 2000	2481.907	0.66%	1.94%	12.79%
Russell 3000	3882.769	0.54%	2.07%	17.13%
S&P 500 Sectors				
Utilities	433.81	-2.83%	-2.33%	16.04%
Consumer Disc.	1928.433	0.74%	0.02%	6.04%
Telco	452.39	0.03%	8.11%	33.56%
Consumer Staples	864.89	-1.48%	0.23%	3.90%
Industrials	1313.14	2.76%	1.19%	19.27%
Technology	5684	-0.32%	0.70%	24.04%
HealthCare	1805.89	0.13%	8.41%	14.60%
Materials	574.41	2.52%	2.27%	10.54%
Financials	911.6	3.95%	2.95%	14.97%
Energy	687.344	-0.71%	1.57%	8.68%
Real Estate	255.03	-0.81%	-2.84%	3.15%
US Interest Rates				
3 Month	3.63	-3.73%	-7.71%	-15.95%
2-Year Note	3.47	-1.62%	-1.74%	-18.12%
5-Year Note	3.73	1.67%	1.46%	-14.99%
10-Year Bond	4.17	1.97%	1.68%	-8.80%
30-Year Bond	4.84	2.25%	2.85%	1.30%
Commodities				
Crude (WTI)	57.42	-2.79%	-5.84%	-15.06%
Brent	60.85	-3.07%	-5.83%	-14.40%
N. Gas	3.69	-17.81%	-10.69%	-15.13%
Gold	4319.37	2.06%	11.73%	64.58%
Silver	71.66	23.58%	51.45%	147.95%
Currencies				
DXY	98.32	-1.10%	0.63%	-9.37%
EUR	1.17	1.17%	0.12%	13.42%
CAD	0.73	1.99%	1.53%	4.83%
GBP	1.35	1.98%	-0.02%	7.65%
JPY	0.01	-0.81%	-6.15%	0.33%

Source: Bloomberg as of 12/31/2025

Quotes of the Quarter

You are never too old to set another goal or to dream a new dream.

Malala Yousafzai

Earnings don't move the overall market; it's the federal Reserve Board. Most people in the market are looking for earnings. It's liquidity that moves markets.

Stanley Druckenmiller

History rarely yields to one person but think and never forget what happens when it does. That can be you. That should be you. That must be you.

Tim Cook

It is during our darkest moments that we must focus to see the light.

Aristotle

Artificial intelligence is going to replace literally half of all white-collar workers in the U.S.

Jim Farley

Weaknesses are just strengths in the wrong environment.

Marianne Cantwell

The bottleneck in AI isn't the algorithms anymore; it's the engineering of data pipelines, compute clusters, and deployment.

Jensen Huang

Headline Highlights

AI Is Already Creating A Billionaire Boom: There Are Now 498 AI Unicorns—And They're Worth \$2.7 Trillion

No longer do business leaders need to spend decades building the next big thing to join the ranks of Bill Gates, Mark Zuckerberg, and Jeff Bezos at the top of the billionaires club; they just need to build an AI company.

OpenAI CEO Sam Altman Declares 'Code Red' To Improve ChatGPT Amid Rising Competition

This week marks three years since OpenAI first released ChatGPT, sparking global fascination and a commercial boom in generative AI technology and giving the San Francisco-based startup an early lead.

Trump Blames 'Radical Left' For Charlie Kirk Shooting, But Does Not Mention Attacks on Democrats as Search for Suspect Continues

Kirk, a 31-year-old influential ally of President Donald Trump, was fatally shot on Wednesday while speaking at a university in Utah, triggering a manhunt for a lone sniper who the governor said had carried out a "political assassination".

Nvidia Hits New Milestone as World's First \$5tn Company

The US chipmaker has rapidly climbed from a niche graphics-chip manufacturer to an AI titan, as euphoria about the potential of artificial intelligence keeps driving demand for its chips and propelling its stock to record highs.

Federal Reserve Lowers Interest Rates By 0.25 Percentage Points in First Cut Since December

The Federal Reserve on Wednesday lowered its benchmark interest rate by 0.25 percentage points — its first cut since December — as the U.S. grapples with a stalling labor market and slower economic growth.

AOL ends dial-up service after more than 30 years

Launched more than 30 years ago, AOL dial-up was known for its chirpy whirring start-up sound, but it has long since been replaced by faster alternatives.

Mamdani Blazes Trail as New York's First Muslim and South Asian Mayor-Elect

Along the way, he energized South Asian and Muslim communities that rarely receive sustained attention from politicians.

Trump signs spending bill to end longest shutdown in US history

Speaking in the Oval Office, Trump said the government would now "resume normal operations" after "people were hurt so badly" from the 43-day shutdown.

A Powerball Player in Arkansas has Won a \$1.817 Billion Lottery Jackpot on Christmas

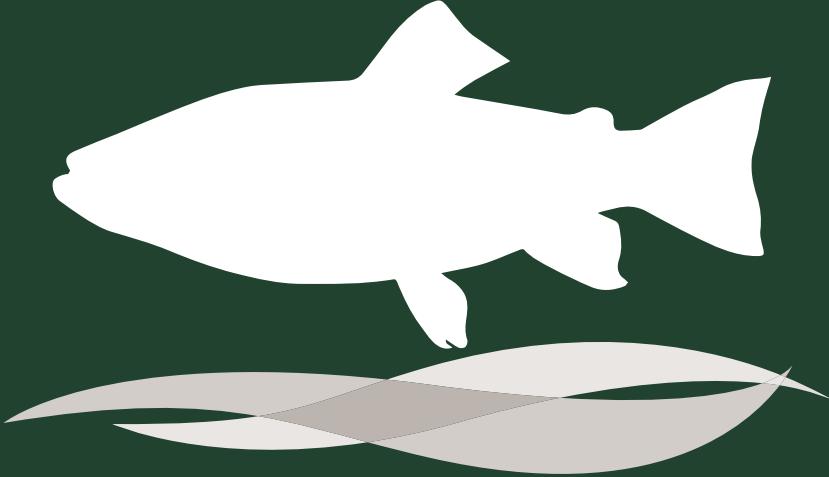
The last time someone won a Powerball jackpot on Christmas Eve was in 2011, Powerball said. The company added that the sweepstakes also has been won on Christmas Day four times, most recently in 2013.

Texas launches cryptocurrency reserve with \$5 million investment

Texas has launched its new cryptocurrency reserve with a \$5 million purchase of Bitcoin as the state continues to embrace the volatile and controversial digital currency.

Netflix to buy Warner Bros film and streaming businesses for \$72bn

The streaming giant has emerged as the top bidder for Warner Bros ahead of rivals Comcast and Paramount Skydance after offering \$28 (£21) per share, according to several outlets.



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