



## The Foundation for Enhancing Communities

Investment Advisory Committee

Fourth Quarter 2025 Market Overview

Authored by: Robert E. Caplan, Chair, Investment Advisory Committee

People in general began 2025 with trepidation about equity markets. Stocks were pricey, tariffs would rise, immigration (workers) would be stymied, and the US government would be more tumultuous than normal. Economists were on recession watch. Surely stocks would fall. Surprise, not the case!

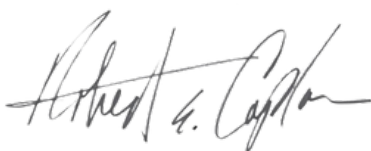
Despite the noise, the US economy grew about three percent in 2025 and corporate profits grew an impressive 13 percent. Long-term interest rates were stable; however, short-term rates fell. Rising profits and falling interest rates explain the positive stock market direction. The S&P 500 rose 2.3 percent in the fourth quarter and jumped 16.7 percent for 2025.

Much of the economic growth came from a combination of affluent consumer spending and the Artificial Intelligence (AI) boom. These two factors accounted for 70 percent of GDP expansion. The five largest cloud service providers are spending more than \$400 billion in AI capital expenditures. The magnificent seven tech companies powered the S&P 500 higher for most of the year. They are such a large component of the S&P 500 that the index is becoming a projection of the future of AI. 2025's fourth quarter did provide some rotation to other sectors that were previously ignored. Financials, transportation, health care, and energy became leaders. Tech stocks retreated. Having more sectors participate in advances makes for a healthier stock market.

As always, there are worries. Inflation remains well above the Fed's 2 percent target. If the Fed cuts rates too much then investors will expect more inflation. Is AI a bubble that will pop? Will there be another government shutdown? Will tariff inflation arrive in 2026? Will government debt deficits? There are always issues to be concerned about!

With all that being said, TFEC is optimistic for 2026. S&P 500 earnings projections for 2026 are for 14 percent growth. Couple this with a Fed poised to cut interest rates into a growing economy and you have a tailwind for higher stock prices.

Sincerely,



**Robert E. Caplan**  
**Chair, Investment Advisory Committee**



# Investment Options, Asset Allocation & Historical Performance

TFEC's Total Return Investment Policy, which includes fund investment options and distribution rates, was established in 1996 and is continually monitored by the Investment Advisory Committee (IAC). The IAC meets quarterly to review the investment performance of each investment model and to make any changes based on current market and economic conditions. Within each investment model, asset allocations are rebalanced as new cash investments or cash distributions permit. The annual distribution rates apply to permanent (endowment) funds only. Donors may initially recommend the division of fund assets in any proportion between Investment Models E and F to achieve a desired asset mix and risk profile. The annual distribution rate, if applicable, is blended proportionately. Please refer to additional materials for detailed explanations of investment holdings and strategies. Past performance may not be indicative of future performance.

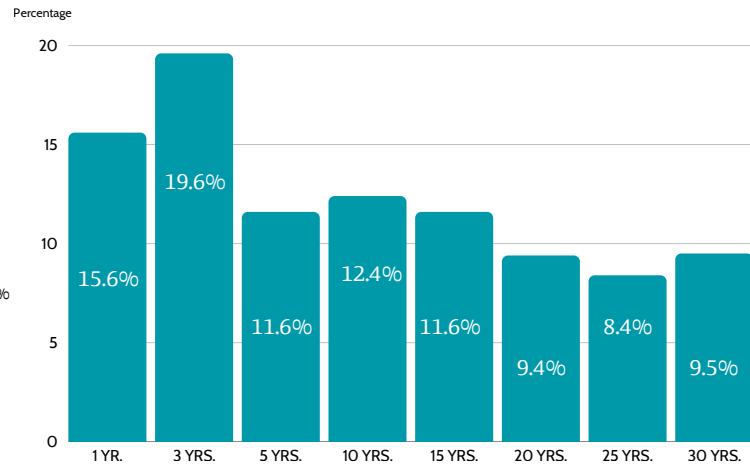
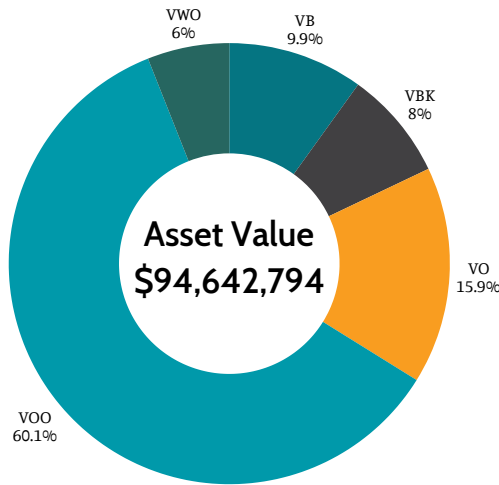
## Asset Allocation (as of 12/31/25)

## Performance (as of 12/31/25)

### 100% Equities

(Model E)

Annual Distribution Rate: 6.2%  
(less fund administration fee)

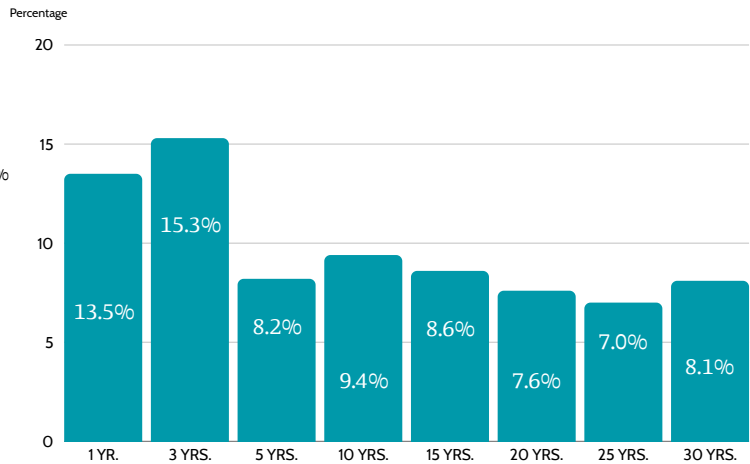
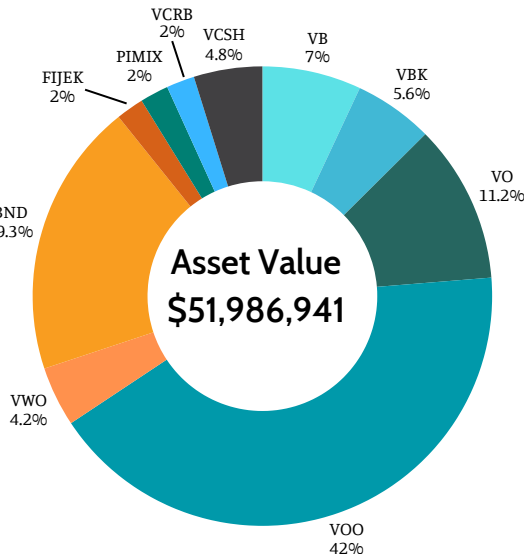


### 70% Equities

30% Fixed Income

(Model A)

Annual Distribution Rate: 5.2%  
(less fund administration fee)



1. Results are net of fees included in the mutual funds but before TFEC's fee for investment and fund management and are as of 12/31/25.
2. To minimize market fluctuations, the fixed income component is invested in funds that focus on high quality, intermediate term bonds. It is heavily weighted to U.S. Government bonds.

\* Since inception of model

VANGUARD S&P 500 ETF VO VANGUARD MID CAP ETF (VOO)  
VANGUARD SMALL CAP ETF (VB)  
VANGUARD ESG INTERNATIONAL STOCK ETF (VSGX)  
VANGUARD SHORT-TERM CORPORATE BOND ETF (VCSH)

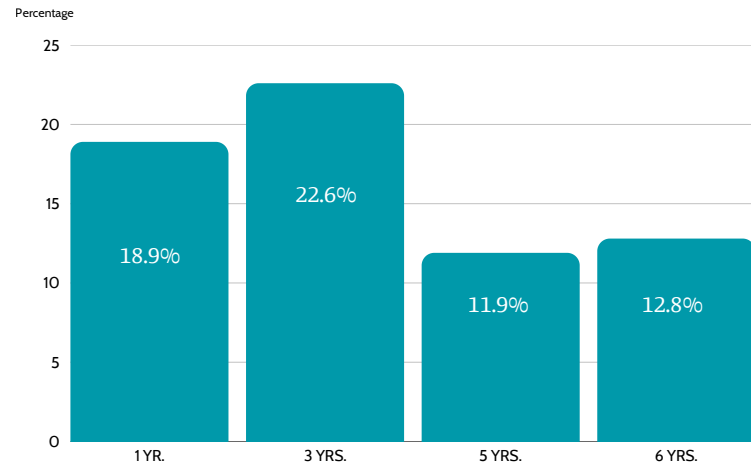
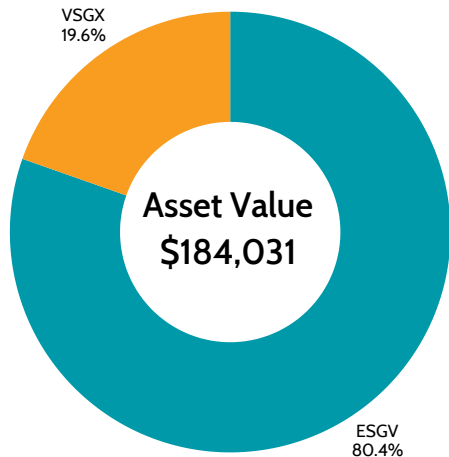
VANGUARD SMALL-CAP GROWTH ETF (VBK)  
VANGUARD FTSE EMERGING MARKETS ETF (VWO)  
VANGUARD ESG U.S. STOCK ETF (ESGV)  
VANGUARD TOTAL BOND MARKET ETF (BND)

## Asset Allocation (as of 12/31/25)

## Performance (as of 12/31/25)

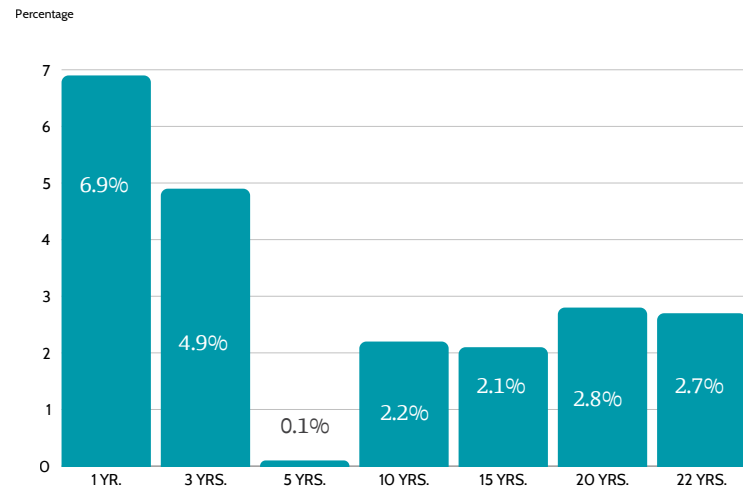
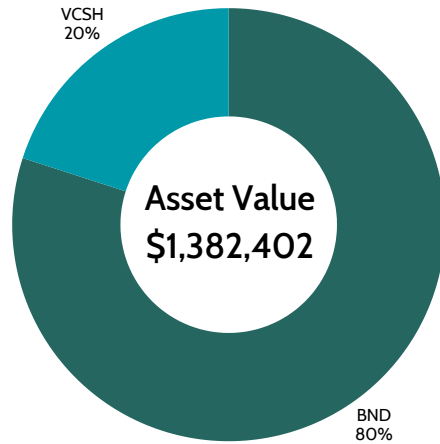
### 100% Equities; Socially Responsible (Model ESG)

Annual Distribution Rate: 6.2%  
(less fund administration fee)



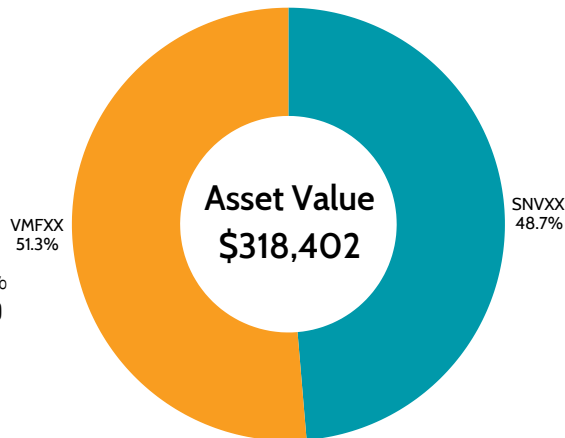
### 100% Fixed Income (Model F)

Annual Distribution Rate: 3.0%  
(less fund administration fee)



### Money Market (Model M)

Annual Distribution Rate: 3.0%  
(less fund administration fee)



100% Money Market  
Schwab Government Money (SNVXX)  
Vanguard Prime Money Market (VMXX)

*This option is for nonpermanent funds only.*

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