



# Edgemoor's Quarterly Report

Suite 315  
7250 Woodmont Avenue  
Bethesda, MD 20814  
(301) 543-8881  
[www.edgemoorinv.com](http://www.edgemoorinv.com)  
[www.edgemoorblog.com](http://www.edgemoorblog.com)

**January 2026**

---

## **Another Strong Year for Investors**

In 2025, U.S. markets experienced significant volatility at the start of the year but ended it with most major stock indices near record highs.

There was a sharp selloff in April 2025 following the announcement of new tariffs on nearly all U.S. trading partners, which sent the S&P 500 Index down nearly 20%, briefly approaching bear market territory. However, U.S. equities staged a remarkably quick recovery when many of the tariffs were paused just a week later. By late June, the S&P 500 was once again reaching record highs, as trade conditions stabilized, corporate earnings remained strong, and AI-related investments continued at a rapid pace.

For the year, the S&P 500 Index delivered a total return of 17.9%, representing the third consecutive year of double-digit returns for equity investors. The cumulative return for the S&P 500 over the last three years topped 78%, in quite a remarkable multi-year performance.

Bond investors also saw positive returns in 2025, with the Bloomberg Aggregate Bond Index returning a strong 7.3% for the year.

The volatility that marked the beginning of 2025 also subsided by year-end, with the CBOE Volatility Index (VIX) settling in below 15 in December after hitting a high of 50 in April and compared to its 5-year average of around 20.

Although still dominated by U.S. mega-cap technology stocks, the equity rally did broaden as the year progressed, with all 11 sectors of the S&P 500 ending the year in positive territory. Strong performers outside of the tech sector included industrials, financials, and utilities. Lagging sectors, though still positive, were consumer, energy, and real estate.

International stocks also outperformed the S&P 500, with the MSCI All Country World Index returning over 30% in 2025.

## **2025: The Year in Review**

Several notable events took place in 2025 that impacted markets, both positively and negatively.

In January, the Chinese firm DeepSeek made a surprise announcement that it had developed a much cheaper AI model that rivaled the speed and capacity of much more expensive platforms. U.S. tech stocks initially sold off but subsequently recovered when the validity of DeepSeek's claims came under scrutiny.

Then came the Liberation Day announcement on April 2<sup>nd</sup> of significant new tariffs on nearly every trading partner of the U.S. Markets were rattled again, but not for long.

Another external shock occurred in October, as the U.S. Federal government began its longest shutdown in history, lasting for 43 days and likely

costing the U.S. economy about \$50 billion of lost output, or nearly 1% of GDP.

On the positive side, the Federal Reserve took its finger off the pause button and cut its benchmark Fed Funds rate by  $\frac{1}{4}$  of 1% in each of its last three meetings of the year - September, October, and December. These cuts were largely applauded by markets, although they reflected a fundamental reality that the labor market was starting to slow.

### **The AI Revolution**

Artificial Intelligence (AI) was the dominant theme of the year, as this transformative technology was a key driver of global economic growth and market returns.

The build-out of AI infrastructure accelerated in 2025 at a staggering pace, with the biggest U.S. tech companies spending an estimated \$400 billion on AI capex alone. Globally, AI spending approached \$1.5 trillion in 2025 and is expected to top \$2 trillion in 2026.

The AI Revolution has already proved transformative in a myriad of ways, from workflow efficiencies to productivity gains and medical breakthroughs. But the future pace of progress and user adoption remains uncertain, and therefore the returns on these massive investments may vary widely.

We believe we are still in the early stages of the development and deployment of AI, so we will be watching carefully how the benefits and risks unfold for investors.

### **The U.S. Economy: Still Showing Resilience**

Overall, the U.S. economy continued to show remarkable resilience in 2025.

U.S. GDP grew at a better-than-expected annual rate of 4.3% in the third quarter of 2025, the fastest pace in two years and significantly higher than the 3.3% rate that economists expected. The growth was driven by robust consumer spending, rebounding exports, slowing imports, and increased government spending (prior to the shutdown).

For the fourth quarter of 2025, the latest forecast for GDP from the Atlanta Fed's GDPNow model is a slower growth rate of 2.7%, reflecting an expected decline in both personal consumption and private investment, though not including a slowdown in tech investment. Government spending is also expected to have slowed in Q4 due to the shutdown.

For the full year 2025, GDP growth is expected to range between 1.5% and 2.0%, which, while positive, would represent a slowdown from the 2.8% growth in 2024.

Another bright spot in the economy has been corporate earnings, which continued to grow at an impressive clip in 2025. Year-over-year earnings of the S&P 500 index grew by a better-than-expected 14% in Q3, marking the fourth consecutive quarter of double-digit growth for earnings. For the fourth quarter, earnings are expected to grow by a solid 8.3%, and for the full year 2025, the figure is projected to be 10.8% higher than 2024 earnings.

### **Headwinds Remain**

Despite the overall positive state of the U.S. economy, headwinds remain.

The U.S. labor market took the spotlight from inflation in 2025, as it lost much of the positive momentum it displayed in 2024. Over the course of the year, new job growth declined steadily, hiring slowed significantly, and wage growth was flat. The U.S. unemployment rate climbed steadily over the course of 2025, starting the year at a 4.0% rate and ending the year at a 4.4% rate in December.

Overall, 2025 saw the slowest pace of average monthly job growth since 2003, due to uncertainties around trade and tariff policies, immigration, and AI-related job losses. All totaled, employers added 584,000 new jobs in 2025 compared to nearly 2 million new jobs added in 2024.

Inflation also remained above the Fed's target rate of 2.0% all year. The Consumer Price Index (CPI), the broadest measure of inflation, increased by 2.7% year-over-year in December. Elevated costs for food, shelter, and medical services continued to drive inflation. The expectation for 2026 is an annual inflation rate stuck between 2.4% and 2.7%, according to economists.

Finally, the U.S. economy is increasingly described as K-shaped. Simply put, this refers to the divergent state of the economy, with upper-income Americans, represented by the top part of the K, seeing their incomes and wealth rise, while the lower-income households, represented by the bottom part of the K, struggle with stagnant wages and rising prices. But ultimately, higher-income

consumers drive the majority of spending – as much as 80% of it – and consumer spending is the primary driver of economic growth (GDP). Therefore, as long as upper-income consumers keep spending, the economy should continue to grow, hopefully to the benefit of all.

### **What We are Watching in 2026**

As we look ahead, there are a number of things we'll be watching.

First, a new Fed Chair is expected to be announced as soon as January, to take over from Chairman Jerome Powell when his term expires in May 2026. We expect the new Chair to be more closely aligned with the administration's view that interest rates should continue to be cut to stimulate the economy.

We will also be following the mid-term elections, which take place in November, to see whether both houses of Congress stay in Republican control or not.

Finally, we will look forward to America's 250<sup>th</sup> birthday celebration on July 4<sup>th</sup> and the FIFA World Cup that starts in June. It should be a fun summer of 2026!

### **Portfolio Implications and Actions**

After three consecutive years of double-digit gains in the market, we are somewhat cautious on equities in the near-term. But we are still finding pockets of value, even as the S&P 500 continues to notch new highs, as evidenced by the five new stocks we added to our equity buy list in 2025.

The forward price-to-earnings ratio of the S&P 500 is approximately 22 times, which is just above its 5-year average of 20 times. As we have noted before, we believe that some sectors of the market warrant higher valuations than their historical averages, based on factors like technological progress, productivity advances, and more asset-light business models that have resulted in consistently higher profit margins and revenue growth for these companies.

In addition, not all segments of the market carry what might be considered lofty valuations. For example, many healthcare, energy, and financial stocks are trading substantially below the market's average multiple, and we continue to look for opportunities in these and other undervalued sectors.

Overall, we continue to favor more value-oriented, dividend-paying stocks that have strong cash flow characteristics, leading market share, a wide economic moat, and solid growth prospects. We also still find 6-to-12 month Treasury bills and other cash equivalents with annualized yields of 3.7% - 4.0% attractive uses for excess cash.

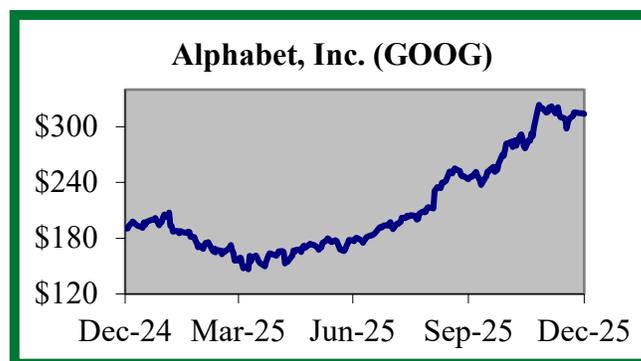
### Outlook

Our short-term outlook for the markets is guardedly optimistic, as we believe volatility may continue until there is more clarity on unemployment, interest rates, and the long-term impact of tariffs and AI on the economy.

### Analysis of Selected Securities

The following are three selected securities we are currently buying for client accounts.

#### Alphabet, Inc. (GOOG)



Source for price chart and financials: FactSet. Past performance is not indicative of future results. Please see disclosures on page 9.

Price (12/31/2025)	\$ 313.80	Forward P/E	29.1
Market Cap (\$T)	\$ 4.0	Price/Book	10.3
Dividend Yield	0.3%	Price/Sales	10.4
Return on Equity	27.0%		

Alphabet, Inc. is a global technology company best known for its dominant internet search engine, Google, which captures close to 90% of global search engine revenues. Alphabet's other services and applications include Gmail, YouTube, Google Maps, Google Play, the Android operating system, and Waymo self-driving cars. Together, these assets provide a cohesive, end-to-end experience for consumers and, most importantly, drive advertisers to Alphabet's platforms.

Alphabet has benefited from several strong secular trends over the past few decades, including advertisers' shift to digital/online platforms, the

growth of the cloud, and declining cable subscribers. Most of the company's revenue is derived from advertising, where it enjoys a dominant online presence, allowing the firm to benefit from the ongoing secular growth in digital/mobile advertising spending. Google Cloud, a newer and fast-growing business for Alphabet, provides businesses and developers cloud services such as computing power, storage, and data analytics on Google's cloud infrastructure.

The advent of artificial intelligence (AI) has provided yet another secular tailwind to fuel Alphabet's continued growth. The continued integration of AI features across the company's various offerings provides opportunities for significant future growth. We believe that the company is well positioned to benefit from the expected growth in AI due to its custom hardware, massive infrastructure, foundational models (i.e. Gemini), and research leadership in the space.

The company has a high-quality financial profile with strong free cash flow, high returns on invested capital, and a fortress balance sheet. Alphabet has compounded its revenue growth at an annualized rate of 18% over the past ten years, and it is projected to deliver annual earnings growth of 16% over the next five years. Additionally, the company held \$98 billion of cash and marketable securities compared to only \$22 billion of long-term debt as of September 30, 2025.

Alphabet's shares trade at a forward P/E multiple of 29 times, which we think is justified given its strong growth prospects. The company's stock has consistently outperformed the S&P 500 over

its history, and we believe the shares still have solid long-term appreciation potential.

**Lowe's Companies, Inc. (LOW)**



Source for price chart and financials: FactSet. Past performance is not indicative of future results. Please see disclosures on page 9.

Price (12/31/2025)	\$241.16	Forward P/E	20.8
Market Cap (\$B)	\$ 149.9	Price/Book	NM
Dividend Yield	1.8%	Price/Sales	1.8
Return on Equity	NM		

*Due to the company's negative shareholders' equity balance, the Price/Book and Return on Equity ratios are not meaningful (NM).*

Lowe's is the world's second largest home improvement retailer, generating \$84 billion in annual sales and operating 1,756 home improvement stores throughout the United States. The highest concentration of Lowe's stores are located in Texas (8% of stores), Florida (8%), North Carolina (7%), and California (6%). Since divesting its Canadian retail business in 2023, Lowe's has delivered stronger profits and higher capital efficiency for investors.

The home improvement market is highly fragmented, and Lowe's enormous size and scale afford it numerous advantages over smaller competitors, including an extensive distribution network, economies of scale, and the brand awareness it has built with consumers and

professionals. Lowe’s infrastructure, which includes owning and operating more than 100 supply chain facilities in its network, allows it to deliver on consumer expectations for fast fulfillment and delivery. Additionally, the company is developing a professional fulfillment network to service the high-margin professional contracting market.

We believe Lowe’s is financially strong. In 2025, the company generated \$7.1 billion of free cash flow from \$9.2 billion of operating cash flow, posting an impressive conversion rate of 77%. The company is also committed to returning excess capital to shareholders, returning \$2.1 billion to shareholders through share repurchases and dividends through the first three quarters of fiscal year 2025.

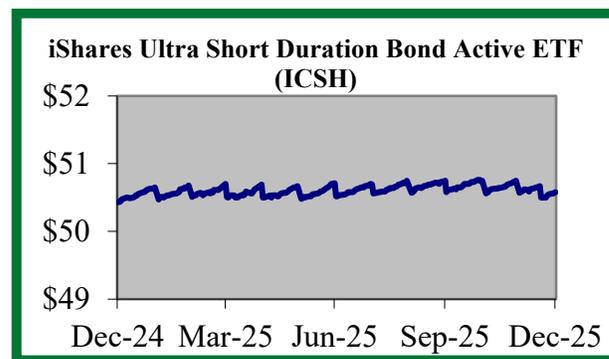
CEO Marvin Ellison joined Lowe's in 2018 (from JC Penney and Home Depot) and has successfully improved the company’s operations, including upgrading the company’s supply chain, inventory control procedures, and customer engagement efforts. These improvements, along with others, have enabled Lowe’s to generate higher earnings from its growing revenue base.

Looking ahead, the home improvement industry should continue to benefit from a multi-year secular shift in consumer habits and the wealth effect from higher home prices, which should continue to spur home improvement demand.

Lowe’s shares currently trade for 21 times fiscal year 2026 earnings, which is slightly above its 5-year historical average but below the S&P 500’s forward price-to-earnings ratio of 22 times. Lowe’s stock underperformed the broader market in 2025 due to concerns about high interest

rates, high inflation, and low housing affordability. But we believe that Lowe’s is a high-quality stock with solid long-term return potential, given the company’s dominant market position, durable earnings, robust cash flow, and long runway for growth ahead.

**iShares Ultra Short Duration Bond Active ETF (ICSH)**



Source for price chart and financials: FactSet. Past performance is not indicative of future results. Please see disclosures on page 9.

Price (12/31/2025)	\$50.58	Yield	4.0%
AUM (\$B)	\$ 7.0		

From 2022 through 2023, the Federal Reserve raised interest rates eleven times due to rising inflation, bringing the benchmark federal funds rate to a target range of 5.25% - 5.50%. Since then, inflation has come down from a peak of 9.1% in June 2022 to 2.7% in December 2025 and, in response, the Fed cut rates six times from 2024 through 2025, bringing the target range back down to the current 3.50% - 3.75%.

Short-term Treasuries and other short-term bonds have been attractive and safe places to invest cash during this time, due to their lower sensitivity to interest rate movements. One of the funds Edgemoor has utilized for such exposure is the iShares Ultra Short Duration Bond ETF (ICSH),



an actively managed, low-cost fund holding investment-grade bonds with ultra-short-term maturities. ICSH currently yields 4% and its short-term focus helps limit volatility and reduce sensitivity to interest rate changes. We think this is an attractive risk-reward tradeoff for client cash.

We do not know what the Fed will do in 2026, having made three rate cuts in late 2025. In addition, headline inflation remains sticky, the labor market is showing softness, and Fed Chair Powell is maintaining a cautious, data-driven

stance. Regardless of near-term Fed policy, we believe ICSH remains an attractive and safe vehicle for investing cash.

*Source for text and charts: FactSet, Morningstar, S&P/CFRA, Schwab, ValueLine, Black Diamond Performance Reporting, Yahoo Finance, Bank of America, JP Morgan Markets, MarketWatch, WSJ and Argus reports.*



*Edgemoor Investment Advisors is an independent wealth management firm providing investment and financial planning advice to individuals, retirement plans, trusts, family foundations, and an equity mutual fund. We manage approximately \$1.6 billion as of December 31, 2025, for our clients and focus on long-term capital appreciation, preservation of capital, and income generation through disciplined management of value-oriented equity and income portfolios. Please contact us if you would like more information.*

**Anne B. Baker**

Office Administrator

(301) 543-8366

[abaker@edgemoorinv.com](mailto:abaker@edgemoorinv.com)

**Timothy C. Coughlin, CFP®**

Managing Director

(301) 543-8371

[tcoughlin@edgemoorinv.com](mailto:tcoughlin@edgemoorinv.com)

**Paul P. Meehan, CFA**

President

(301) 543-8373

[pmeehan@edgemoorinv.com](mailto:pmeehan@edgemoorinv.com)

**Christine J. Potts**

Senior Vice President

(301) 543-8881

[cpotts@edgemoorinv.com](mailto:cpotts@edgemoorinv.com)

**Gay S. Truscott, CFP®**

Director

(301) 543-8375

[gtruscott@edgemoorinv.com](mailto:gtruscott@edgemoorinv.com)

**Philipp B. Bentley**

Senior Investment Analyst and Lead Trader

(301) 543-8369

[pbentley@edgemoorinv.com](mailto:pbentley@edgemoorinv.com)

**Steven D. LaRosa, CFA, CFP®**

Director and Senior Portfolio Manager

(301) 543-8361

[slarosa@edgemoorinv.com](mailto:slarosa@edgemoorinv.com)

**Sara R. Parker**

Vice President

(301) 543-8881

[sparker@edgemoorinv.com](mailto:sparker@edgemoorinv.com)

**Bryce Sistrunk-Lewis, CFA**

Senior Analyst and Trader

(301) 543-8374

[bsistrunklewis@edgemoorinv.com](mailto:bsistrunklewis@edgemoorinv.com)

7250 Woodmont Avenue, Suite 315

Bethesda, MD 20814

(301) 543-8881, (301) 543-8358 fax

[www.edgemoorinv.com](http://www.edgemoorinv.com)

[www.edgemoorblog.com](http://www.edgemoorblog.com)



Past performance is not indicative of future results. The opinions expressed are those of Edgemoor Investment Advisors. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Forward looking statements cannot be guaranteed. Material presented has been derived from sources, including Bank of America, JP Morgan Asset Management, BlackRock, Fidelity Investments, Morningstar, S&P, Schwab, ValueLine, Argus, Credit Suisse, Black Diamond Performance Reporting, and Yahoo Finance, considered to be reliable, but the accuracy and completeness cannot be guaranteed. The information provided in this report should not be considered financial advice or a recommendation to buy or sell a particular security. There is no assurance that any securities discussed herein will be included in or excluded from an account's portfolio. The securities discussed may not represent an account's entire portfolio and, in the aggregate, may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. The current yields of the specific securities referenced herein may not be a reliable guide to future performance. Yields and gross returns to individual investors will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Edgemoor Investment Advisors, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. The companies identified above are examples of holdings and are subject to change without notice. The companies have been selected to help illustrate the investment process described herein and were selected based on a pre-set methodology. This information should not be considered a recommendation to purchase or sell any particular security. All recommendations for the last 12 months are available upon request.

The S&P 500 index is an unmanaged market-capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. The S&P 500 index is discussed for comparative purposes only. The comparisons have limitations because the indexes have volatility, investment, and other characteristics that differ from the investment strategies of Edgemoor. Further, it is not possible to invest directly in the indexes.

The NASDAQ measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite includes over 3,000 companies.

The Barclays U.S. Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. The Index is frequently used as a stand-in for measuring the performance of the U.S. bond market. In addition to investment grade corporate debt, the Index tracks government debt, mortgage-backed securities (MBS) and asset-backed securities (ABS) to simulate the universe of investable bonds that meet certain criteria. In order to be included in the Index, bonds must be of investment grade or higher, have an outstanding par value of at least \$100 million and have at least one year until maturity.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries\*. With 2,308 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

Edgemoor Investment Advisors, Inc. is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Edgemoor Investment Advisors, Inc. including our investment strategies, fees, and objectives can be found in our ADV Part 2 and/or Form CRS, which is available upon request.