LEAVELL INVESTMENTS
Since 1979

Fourth Quarter 2025 Commentary

Dear Clients,

Please find enclosed your Fourth Quarter 2025 Investment Reports. US Large Cap Stocks finished a strong year with a relatively quiet +3.1% for the quarter. Mid Cap Stocks retreated -0.8% for the quarter, while US Small Cap Stocks were up +1.8%. For the year, investors earned double digit returns in US Large Cap Stocks and US Mid Cap Stocks, and the laggard category, US Small Cap Stocks, was still up a respectable +8.8% for year. International stock indexes produced positive results in all four quarters of 2025. Developed International Stocks led the way this quarter, up +4.9%. Emerging Market Stocks were not far behind at +4.7% for the quarter. Both international stock indexes produced returns north of +30% for the year. U.S. Bonds returned +1.1% for the quarter, while Global Bonds were a bit weaker at +0.2%. For the year, bond investors enjoyed solid positive returns.

Benchmark Returns

	Last Quarter	Last Twelve Months	Last Five Years (annualized)
U.S. Large Cap Stocks	3.1%	19.4%	15.0%
U.S. Mid Cap Stocks	-0.8%	11.7%	8.6%
U.S. Small Cap Stocks	1.8%	8.8%	7.3%
Developed International Stocks	4.9%	31.2%	8.9%
Emerging Market Stocks	4.7%	33.6%	4.2%
U.S. Bonds	1.1%	7.3%	-0.4%
Global Bonds	0.2%	8.2%	-2.1%

Data source: YCharts (get.ycharts.com/disclosure/). Past performance does not guarantee future results. It is not possible to invest directly in an index. Last five years data is annualized. Indexes in table are:
US Large Cap Stocks: CRSP US Mega Cap TR
US Mid Cap Stocks: CRSP US Mid Cap TR
US Small Cap Stocks: CRSP US Small Cap TR
Developed International Stocks: MSCI EAFE NTR
Emerging Market Stocks: MSCI Emerging Markets NTR
US Bonds: Bloomberg US Aggregate TR
Global Bonds: Bloomberg Global Aggregate TR

This is the time of year when financial firms write year-end newsletters that make a variety of references to the "average" investor's return experience. While the index averages quoted by us in our preceding table and the different "average" datapoints offered by other newsletters are mathematically correct figures, they can hide a blind spot in the way we apply them to our specific circumstances.

This blind spot is captured by a concept called ergodicity. The inspiration to discuss ergodicity in this quarterly note came in part from a passing statement made during the recent College Football Playoff games. Kirby Smart, the head football coach of the University of Georgia Bulldogs, was speaking at the press conference after his higher seeded Bulldogs lost to the University of Mississippi. In the press conference he said, "We made a bunch of plays. You can take that [decision to unsuccessfully go for it on 4th down] and the fake punt [earlier in the game] and call it even."

Kirby Smart's statement was implying that the game of football is ergodic; that two plays (one good and one bad) effectively cancel each other out over time. Is that really the case? Let's discuss two scenarios to better imagine whether you think two chronological events cancel each other out as his statement implies.

In the first scenario, imagine 100 different teams (over the course of a season, for example) decide to execute a fake punt. They each do their best at surprising their opponent, and after all the games are said and done, we calculate the average success rate for the group. If one team's fake punt results in a disastrous outcome, that individual result does not directly affect the other teams' results; the "ensemble average" or "group average" remains a mathematically correct reflection of the group's success rate. This is an ergodic system.

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In the second scenario, imagine you are a college football coach who decides to execute a fake punt in 100 straight games. If you get fired after your 20th game, there is no observation to update your average fake punt success rate based on the team's 21st fake punt. Your statistical journey has already ended. This scenario describes how we experience a non-ergodic system in real life; a system where results are characterized by your specific chronological journey, not the group average.

We would contend that most of personal investing should be looked at through a non-ergodic lens because, as an individual investor, you do not coach 100 different teams. You have one life, and you must navigate it chronologically. What are some investing lessons to draw from this?

One lesson is to listen carefully to Wall Street pitches. Investment marketers are almost always pitching the ergodic "group average" from the first scenario; in effect, they are telling you that on average, fake punts have an x% success rate based on the experience of many other teams. Consider, for example, how we hear about the performance of a stock, a mutual fund, or an ETF; in most cases, very few investors have experienced the quoted total returns of any particular security; some investors have done better and some have done worse because of when they bought or sold the security, but Wall Street usually designates a fund or a stock as "good" based on the "group's average" experience. Yet, our actual investment experience is highly personalized; to succeed, we must optimize for our unique circumstances. Think again of the football example. In a pure ergodic system, chronological order doesn't matter. Executing a fake punt early in the game is no different than executing one later in the game. We think most sports fans would argue that the order of events in a sporting contest *does* matter because it influences such things as emotional momentum and subsequent decision making. The same is true for investing.

Ask yourself this broader question: does the path you take in life matter? We think many would agree that humans understand the world through stories. In stories, the journey itself is what creates the meaning behind the narrative. Investing, like life, is non-ergodic, because you only experience one path. So, take heed when you hear what the "average" person's investing returns were. It has been said that "comparison is the thief of joy". Indeed, in a non-ergodic system where each of our journeys create special meaning, comparisons across each other's paths are particularly unproductive.

Or consider the "average" person who is married, has 1.8 kids and 0.5 dogs. We all have enough of an innate sense of our own individuality that we each intuitively understand that we are more than an average. Our lives are created by a distinctive pattern of events, and the chronology of those events shapes our perceptions and how we react to future events. That is why when clients ask us: how should we be positioned for this or that potential economic scenario, we answer with: it depends. The way each investor should be positioned for the myriad of future outcomes in the market varies. You might ask: shouldn't we all just own the highest returning stocks? That might be the correct answer if we experience life ergodically or if we knew the future with certainty. But neither of those are the case.

We expect 2026 to hold some surprises that very few pundits anticipate at this moment (and in fact, we believe that no pundits can anticipate in totality). We believe our team of Portfolio Managers are as equipped and well trained as the best of our competitors in anticipating economic trends, but it is our depth of experience that tells us that we must remain humble. We encourage our clients to remain humble as well, fully appreciating the breadth of outcomes that might be in store for 2026, not just the averages. Your Investment Counselor stands ready as always to discuss how your account is positioned and to listen carefully to how future events and outcomes might personally impact you. At Leavell, we are here to help you confidently prepare and respond to your personal, non-ergodic life's journey.

As always, we thank you for your continued trust in us.

Leavell Investment Management, Inc.