

# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

As we close out 2025, it is worth pausing to celebrate another strong year of performance and take a moment to realize how unusual this year truly was. I would encourage you to quickly glance at the annual market return slide-deck below and notice the short and long-term returns from the US compared to the rest of the world. This year, almost all major market areas delivered attractive returns, led by gold, international and emerging markets, which had 2-3x the returns of US markets. In my 27-year career, it has been rare when almost everything worked. Stocks, bonds, gold, real estate, US and international, value, and growth. All of it went up - shrugging off the increased geo-political risk from tariffs, realigning global supply chains, Trump's strains on NATO, Venezuela, Iran, China and the Russia/Ukraine Conflict.



Mike Mills  
Managing Partner  
CFP, CLU, CFS

Judging by the full planes at airports and the shoppers in Southlake town square, the wealth created from strong markets has outpaced inflation and is spurring spending by those with financial assets. These broad market gains have added wealth to the 50% of Americans that own stocks, pensions and other financial assets. A truly interesting and wonderful year of 2025.

## [SECTION I—QUARTERLY MARKET REVIEW](#)

## [SECTION II—MIKE'S COMMENTARY, QUESTIONS, AND QUOTES](#)

## [SECTION III—TAX CORNER – 2026 TAX PLANNING](#)

## [SECTION IV—AROUND THE MWA OFFICE – WELCOME ROBIN AUSTIN](#)

## [SECTION V—PICTURES WORTH LOOKING AT](#)

## Quarterly Market Review

The fourth quarter of 2025 delivered strong results, with most markets posting gains. International Developed markets led the way, returning 5.20%,

followed by Emerging markets at 4.73%. The U.S. Stock market gained 2.4%, while the U.S. Bond market rose 1.10% and the Global Bond market (ex-U.S.) increased 0.52%. The Global Real Estate market was the exception, finishing the quarter down -0.81%. Even more encouraging, all of these markets, except the 5-year U.S. bond market, have generated positive returns over the past 1, 5, and 10-year periods. To read the full Market Review Deck, [CLICK HERE](#).

## Mike's Commentary, Questions, and Quotes

### 2025: A Rare Year for Broad Market Returns

Later, I'm going to dig into the optimism that is priced into the largest, most widely owned US Tech stocks that make up the biggest parts of the S&P500, NASDAQ, and DOW. I wanted to point out that the past 15 years are now rivaling some of the **best US market returns EVER**, almost equaling the post-World War II boom and the 1980s – 1990s tech boom that led to internet bubble.

Figure 1 Returns through 12-31-2025

### Asset Class Performance

	YTD Total Return	1 month Total Return	3 month Total Return	6 month Total Return	1 year Total Return	5 year Total Return	5 year Total Return	10 year Total Return
Emerging Markets	34.4%	Emerging Markets	World exUSA	Emerging Markets	Emerging Markets	US Growth	US Growth	US Growth
World exUSA	32.5%	World exUSA	Emerging Markets	US Small	World exUSA	S&P 500	Commodities	S&P 500
US Growth	18.4%	US Value	US Value	US Growth	US Growth	World exUSA	S&P 500	US Value
S&P 500	17.9%	Muni Bonds	S&P 500	S&P 500	S&P 500	Emerging Markets	US Value	US Small
US Value	15.9%	S&P 500	US Small	World exUSA	US Value	US Value	World exUSA	World exUSA
US Small	12.8%	Aggregate Bonds	Muni Bonds	US Value	US Small	US Small	US Small	Emerging Markets
Aggregate Bonds	7.3%	Commodities	US Growth	Commodities	Aggregate Bonds	US Real Estate	US Real Estate	Commodities
Commodities	7.1%	US Treasuries	Aggregate Bonds	Muni Bonds	Commodities	Aggregate Bonds	Emerging Markets	US Real Estate
US Treasuries	6.8%	US Small	Commodities	Aggregate Bonds	US Treasuries	Muni Bonds	Muni Bonds	Muni Bonds
Muni Bonds	4.2%	US Growth	US Treasuries	US Treasuries	Muni Bonds	Commodities	Aggregate Bonds	Aggregate Bonds
US Real Estate	3.8%	US Real Estate	US Real Estate	US Real Estate	US Real Estate	US Treasuries	US Treasuries	US Treasuries

Past performance is no guarantee of future results. You cannot invest directly in an index.

\*Data as of 12/31/2025

Asset	Index
US Real Estate	Dow Jones US Real Estate Index Total Return
US Growth Stocks	Russell 1000 Growth Total Return
Commodities	S&P GSCI Total Return
US Small Cap	Russell 2000 Total Return
S&P 500	S&P 500 Total Return
US Value Stocks	Russell 1000 Value Total Return
World ex USA	MSCI World Ex USA Total Return
Emerging Markets	MSCI Emerging Markets Total Return
Aggregate Bonds	Barclays US Aggregate Total Return
Muni Bonds	Barclays Municipal Bond Total Return
US Treasuries	Barclays US Treasury Total Return

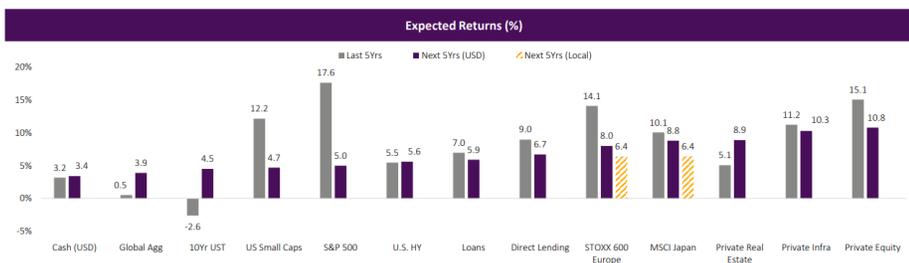
# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

US Growth's 10-year return has now returned 18.1%/year for a decade and the S&P500's 10-year return is now up to 14.8%/year, approximately 50% above what it has returned over the long term. The tariff related declines that took these same US indexes down 20-25% in April 2025 is now just a distant memory. In times like today where big well-known companies seem like they can't lose, investors are often faced with two competing emotions: **optimism** and **complacency**.

After any hockey stick type move in markets, we like to remind investors to reassess your risk and to consider ways to tax-efficiently reduce risk to hot areas that seem like they can only go up and trim some gains and add money back to areas that have not grown as fast, or that offer more compelling values, even if they are less sexy. In Figure 2a below, we wanted to highlight **KKR's 5-year forecast** for various asset class returns. KKR, a publicly traded private equity firm, is one of the world's preeminent authorities on business valuation. The purple bar is their estimate of the returns major asset classes may experience over the next 5 years. If we build a portfolio using their assumed portfolio numbers, you can see a moderate growth portfolio might only return in the 4.5% - 6%/year range, well below what we have experienced the last few years. At the end of this letter, we share how we are positioning models to profit in this higher valuation world.

stocks' products would unleash future productivity (similar to AI today). Unfortunately, markets often overshoot the speed at which these technologies will turn into profits. This has been a common phenomenon in past technological revolutions like railroads, radio, and automobiles. Once investors get excited, they tend to overpay for future growth causing market prices to run ahead of fundamentals, (usually way ahead). As the euphoria spreads and more investors make easy money, greed takes over and next thing you know young adults are buying whatever.com on margin on their lunch break and the internet sector begins to act like a vacuum cleaner and literally sucks the money out of good stable boring investments like real estate investment trust, dividend companies, and profitable smaller businesses around the globe. FOMO, the fear of missing out on easy money, sets in, and the next IPO, makes normal people go crazy. They begin to sell the last of their slow and steady high dividend paying boring businesses like Walmart or the small local bank in town, so they could get in on the next IPO of Pets.com. At the peak of the internet bubble, it felt like a feeding frenzy, and it was good while it lasted. Young kids a few years out of college had stock options worth millions on paper, meanwhile the yields and future returns on those left for dead boring businesses just continued to rise. In March of 2000 at the peak of the internet boom, REITs had yields north of 8%/year setting up a 15-year period where they would be one of the highest returning investments making 12.8%/year as indicated by the FTSE NAREIT Index, but you could not give them away because investors were not looking for 8%/year they were looking for 50% tomorrow.

Figure 2a: KKR's 5 year forward estimate of asset class returns



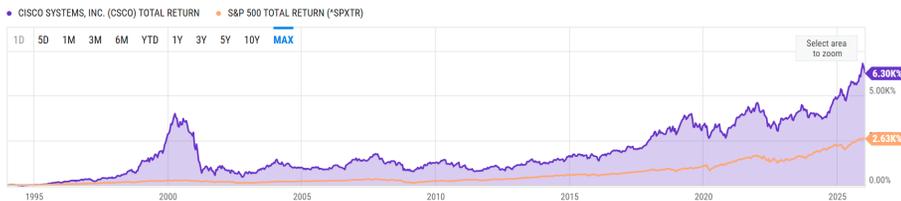
Last 5-Years return from October 31, 2020 to October 31, 2025 for consistency across asset classes. Private Markets as at 2025. Source: Bloomberg, BofA, Burgis, Cambridge, KKR Global Macro & Asset Allocation analysis. No representation is made that the trends depicted or described above will continue. For Financial Advisor Use Only. Target returns are hypothetical in nature and are shown for illustrative, informational purposes only. Past performance does not guarantee future results. Indexes are unmanaged. It is not possible to invest directly in an index. Model returns are hypothetical in nature and are shown for illustrative, informational purposes only. Past performance does not guarantee future results. For Financial Advisor Use Only.

**Blast from the past:** In the internet boom of the late 90s, it was obvious that the internet would change the world as we knew it and leading technology

The Nvidia of the late 1990s was Cisco Systems. They made the routers that connected the internet together. The market was right that this company was going to make a lot of money in the future, as it has dominated its business niche for 25 years. Take a look at Cisco System's chart in Figure 2b below and you can see it took over 21 years for investors to get back to the level it was bid up to in 2000. That is a long, long time to wait to get your money back (and that was the best business of its day, if you owned the others, most went bankrupt).

# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

Figure #2b. Cisco Systems return including dividends



Today the largest companies in the S&P500 are considered to be some of the best capital light businesses ever built. With the network effects, high return on capital, I think it can be hard to understand how valuable Nvidia is today; at 4.5 - 5 trillion it is worth about the same as Japan's GDP, and it is worth just slightly less than all the stocks in France and Germany combined. Apple the 2<sup>nd</sup> largest company is worth about 4 trillion, making it larger than all the businesses in the 3.8 trillion-dollar British Empire, "upon which the sun never sets".

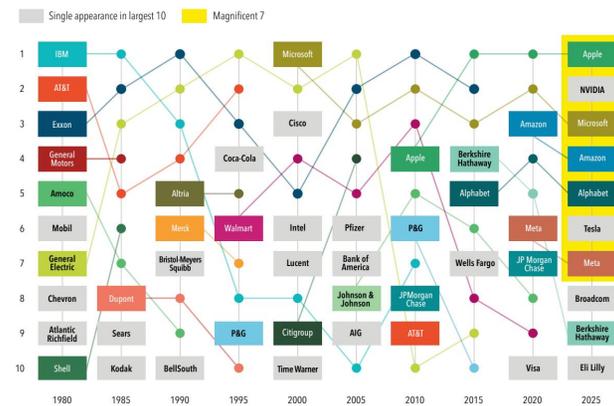
As these businesses compete to try and win the AI race, it will be interesting to see if "it" will be different this time. AI chips, datacenters and the power to run them are extremely capital-intensive and Mr. Market may not consider the post AI Magnificent 7 to be as good of a business as they are in their current niches where profits just gush like Spindletop in 1901. **How might this affect their current valuations?**

I always say the market price is usually "pretty right" because all of us are smarter than just one of us, However, when business valuations reach nosebleed levels investors must exercise caution. Volatility usually increases and some investors are not looking for the long-term they are just looking to sell it to someone else at a higher price. When valuations are high and there is a lot of optimism in prices, it is important for investors to understand that everything must go right or better than right to maintain high valuations. If you want to see some similar market winners from the past, **take a quick look at the list of companies in Figure 3** and reflect on some of the reasons these dominant companies eventually fell out of the top companies in the S&P500.

I wonder how many of the Magnificent 7 stocks will be able to remain Magnificent in the top 10 most valuable businesses 10-20 years into the future, living up to today's optimism. It is easy to imagine that if you are looking at the most valuable businesses list in 2030, 2035, or 2045 several of the Mag7 may be pushed to the side just like Sears, or Kodak below.

Figure #3 Lesson from History on the 10 largest stocks- Notice how few stay in the top 10 over time

LARGEST 10 US STOCKS BY MARKET CAP  
Rankings as of start of years shown, 1980-2025



The Magnificent 7 entered 2025 among the Top 10 largest US stocks. But before making an outside bet on gains from these technology giants, investors should consider a few lessons from market history.

- It's hard to stay on top. For example, only three of the 10 biggest companies from 1980 made the 2000 list—and none of them was in 2025's Top 10.
- Industries ebb and flow. Technology-focused firms currently dominate the list. But in 1980, six of the 10 largest companies were in the energy sector.
- New technology doesn't benefit only tech firms. Throughout history, companies across industries have used technology to innovate and grow.

*Diversification enables investors to share in the success of today's top companies while staying positioned to benefit from tomorrow's market leaders.*

Source: "Will the Magnificent 7 Stay On Top" DFA QuickTake

The factors we own in your portfolio have paid pretty consistent premiums to the broad market over time, but we never know exactly when the **size premium** paid to smaller companies or the **value premium** paid to companies trading closer to their book value or the **high profit premium** will show up, only that these 3 premiums have been persistent across all markets and pervasive over all the periods studied. Diversification is the only free lunch in investing, so after a large run up in one area, it has historically been wise to siphon off a portion of the gains and to reapply them to other areas that have lagged and may be the next decade's winner. History is full of examples where this was a wise course of action.

# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

One of my favorite value managers is GMO. They are famous for calling the Japanese bubble in the late 1980s, the Tech bubble of 2000, the housing bubble 2007, and the everything bubble post 2020. They are on alert when they spot euphoric valuations. Below I highlight a few slides and quotes from their recent article **Artificially Inflated** to help quantify how much optimism may reside inside the S&P500 stocks. GMO illustrated 2 different ways to compare the S&P500 valuations: 1. The S&P500 market cap-weighted, (meaning each stock is size weighted by its market value. This is the most popular indexing method where the top 7 companies make up about 33% of the index) 2. The Equal weighted index (where every company is just 1/500 of the index.) According to GMO, “One striking sign of this euphoria is: **more than 30% of U.S. market capitalization now trades above 10x sales**, a level reminiscent of the tech bubble. Five of the “Magnificent 7” companies exceed this threshold, which explains much of the surge in aggregate valuations on a cap-weighted basis.”

*% stocks with Price/Sales > 10x is at an extreme even after adjusting for select number of mega-caps*



As of 10/31/2025 | Source: GMO

“Some argue these multiples are justified by the Mag 7’s dominant business models and exceptional growth—but we see several problems with that logic:

1. **Even great companies can disappoint** when expectations are sky-high.
2. **Speculation has inflated valuations** for many firms without the market power or fundamentals of the top-tier leaders.

3. **Equal-weight perspective reveals the breadth of excess. Roughly 8% of all U.S. stocks trade above 10x sales**, approaching the 2000 peak and not far from the 2020 growth bubble.

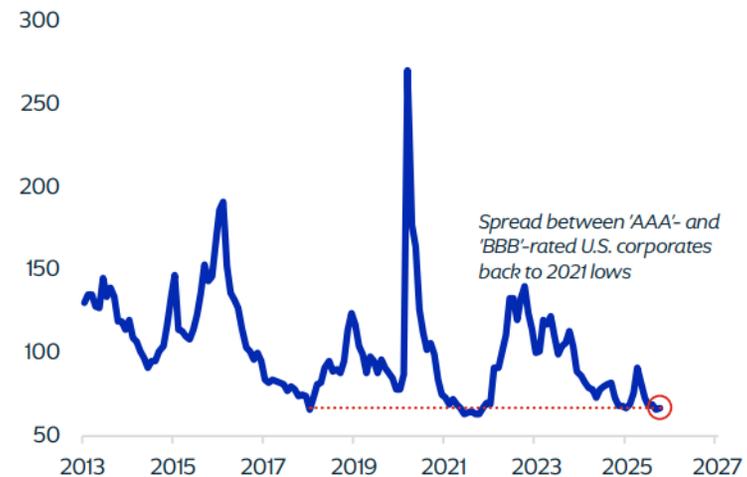
“In short, today’s market reflects more than optimism—it reflects risk. History suggests such extremes rarely persist without painful corrections.” **Source: (Artificially Inflated GMO)**

When GMO starts calling bubbles investors should probably listen, I know I do.

If you need yet another graph to help you grasp that caution should be warranted, take a look at Figure 4 which illustrates investor sentiment by comparing the spread between guaranteed Treasury Bonds and higher risk BBB loans to high yield corporate borrowers. This indicator shows how much extra yield investor’s demand to take default risk.

Figure 4:

## Relative Valuations: U.S. Credit Spreads BBB - AAA Corporates



Data as at November 30, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

## Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

When investors are optimistic, more investors buy higher yielding bonds instead of treasury's causing the spreads to narrow. In Figure 3 you will notice today's spreads are some of the lowest on record. High valuations and low credit spreads have been predictive of periods with lower-than-normal returns. **We think these indicators all point in considering upgrading the quality of your portfolio globally.** In the portfolio we manage we plan to barbell risk with both offensive investments that can withstand volatility and have a time frame greater than 5 years, and defensive assets that are higher quality and can cover protecting equities if they stumble, and provide the cash flow needed to spend within 5 years.

In **Figure 5** Below we include a long-term picture of the **S&P-to-gold ratio** which tracks the amount of gold in grams it takes to buy the S&P 500. When viewed over longer periods it can give some indication of market's view toward risk and caution.

Figure 5 S&P to Gold Ratio



Today the index is near 1.5, its lowest recent level since the early pandemic period. This narrowing reflects an uncommon market dynamic – gold gained about 65% in 2025, compared with the S&P 500's 17.88% rise. The contrast suggests a degree of economic caution not yet mirrored in equity volatility, potentially signaling that investors may be positioning defensively despite resilient stock prices. I think this shows that some market participants could be worried about stickier inflation from the AI infrastructure spending, tariffs or the geopolitical risk from Trump's radically changing foreign policy. The world looks much less stable today than in the past periods and I think gold is signaling to watch out for the effects of a new cold war.

Good times will not last forever, however they can last longer than you would think, so I'm not advising you to sell everything and bury it in your backyard. Instead, I always want our investors to be aware of how much optimism or pessimism is priced into various parts of the market, so they can make wise decisions based on matching investment strategies with when financial resources will be needed. Using a financial plan to match liabilities with resources we can make investing much less arbitrary and easier to stick with. **By balancing both offensive and defensive strategies with your personal goals, sleeping soundly at night becomes much easier, even in volatile markets.**

### Expectations:

Today geopolitical risk is rising. Venezuela, Iran, China, Russia, Greenland, EU tension,

Expect more volatility (Gold to S&P)

Dollar weakness – esp. if we going to reshore manufacturing jobs to the US

Tech keeps making up a larger part of the major indexes

At some point they are likely to have lower returns in major US equity indexes so continue to maintain non-US investments with lower valuations

# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

As market valuations rise to some of the most expensive ever, I think it probable that volatility will continue to increase as future returns become more uncertain.

We want our clients to sleep well at night, so continue I just want to caution our clients to follow the 5 year rule. If you need to spend money within 5 years let's set it. Historically large US companies pay investors about 10%/year. When market returns nearly double that eventually markets must fall back closer to long-term average returns. This could occur with a quick fall that resets prices, or the stocks could just stop rising and the prices just sit stagnant for 10-15 years while valuations catch up with the optimism in today's stock prices. Only time will tell, but prudent investors will continue to evaluate the risk they are taking.

Historically, ratios below 1.7 have often coincided with economic stress, including the stagflation of the 1970s, the 2008 crisis and the 2020 pandemic shock. While today's conditions differ, the combination of AI-driven equity optimism and record gold prices highlights a cautious undercurrent.

Source <https://capital.com/en-int/analysis/s-p-500-to-gold-ratio-what-does-it-mean-and-where-might-it-go>

Figure 6 Average US house priced in Gold



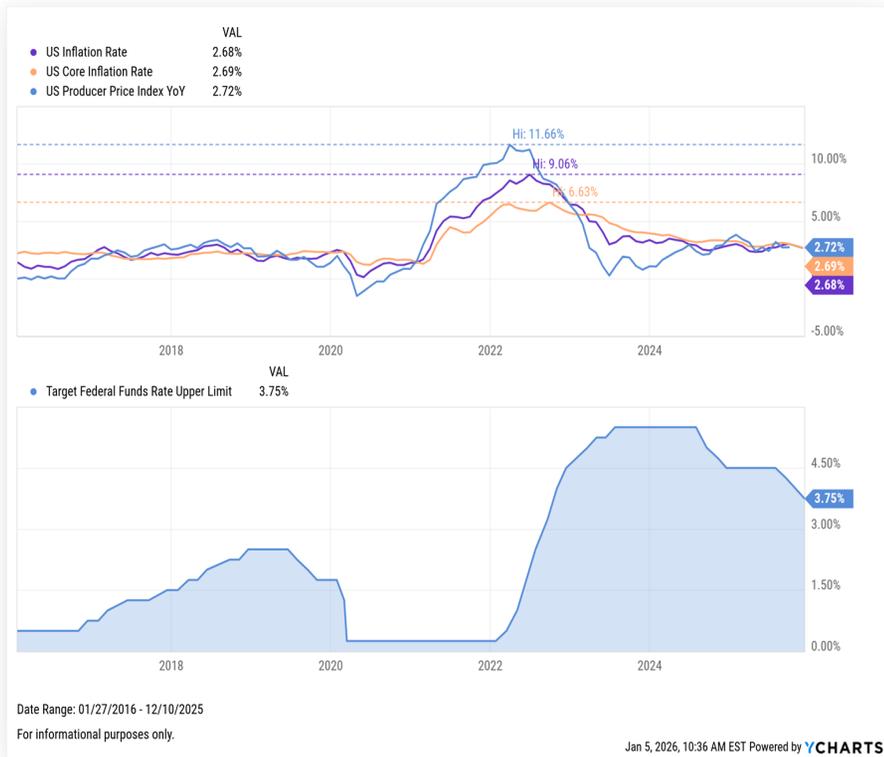
While most politicians know we are short on housing and prices are high in dollars, housing appears pretty inexpensive historically when priced in gold given gold's recent runup in price. I don't have a feel for when investors should sell or rebalance their gold holdings, but I think for clients that have small positions in gold we recommend just holding on for now as we have the gold hedging the bonds from the risk of money printing to bail out overspending. I think a possible outcome we must address in portfolios is the possibility of sticky inflation that could average 3-3.5% above the Fed's target. Inflation risk is the biggest risk our retirees face and generating higher returns with global equities, small cap value, real estate, pipelines, natural gas royalties and trees are all ways we are hedging portfolios to protect you if we have low returns on large companies in the US market indexes.

Figure 7 Mortgage Rates



# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

**Figure 8 Inflation & Interest rates:** In the following charts you can see how stated inflation has declined since 2022, and how the short-term US interest rates have declined as inflation has retreated.



**Figure 9: Federal Reserve Policy Estimates (under Jerome Powell)**

## Federal Reserve projections: slower but steady growth

The Federal Reserve's November 2025 projections point to moderate growth and a gradual easing in policy rates:

Variable	2025	2026	Longer run
Change in real GDP	1.7%	1.9%	1.8%
Unemployment rate	4.2%	4.1%	4.0%
PCE inflation	2.4%	2.2%	2.0%
Core PCE inflation	2.3%	2.1%	2.0%
Federal funds rate	3.9%	3.1%	2.5%

How accurate will these FED forecast play out when Trump replaces Jerome Powell? The President has strong opinions on how he wants the FED to price interest rates and handle monetary policy. How will this lack of independence be received by the market? I am not an interest rate forecaster, but we will make slight changes depending on what the FED gives us.

### Maintain Exposure to the size premium:

In the past when markets resembled today, we think the best things to own were diversified assets tilted toward lower valued assets with a higher income, or effective income from buybacks and shareholder yield. If you can find high quality or high-profit companies where the assets are trading closer to internal value (higher yields per book values per dollar invested.) Today we see value in Global Value stocks, we continue to think a weighting toward the size factor is likely to be rewarded, as it has in the past. When invested in smaller more undervalued companies around the world we think it safer to use DFA's methodology, have a longer time horizon, have access to some defense that could be added to if markets falter. We think Dimensional's flexible approach can use their scale to systematically buy many businesses below value in time-tested low-cost, tax-efficient manner that is just hard to beat.

# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

According to Professor [Aswath Damodaran](#), historically, small-cap stocks have outperformed large-cap stocks during periods of high inflation, such as the 1970s. In a [podcast](#) he explained how small-cap companies exhibit greater flexibility and adaptability in response to changing economic conditions. Unlike large-cap companies, which may face challenges in adjusting their operations and pricing structures, smaller companies have the ability to swiftly pivot and capitalize on the opportunities presented by inflation.

I think one of the most notable developments that occurred in 2025 was the significant outperformance of non-US investments located in both developed international markets, and emerging markets. These markets have grown at low single-digit returns for the past decade only to pop in April when the tariffs were announced and the dollar weakened. Most of our overseas investments have significantly outperformed their benchmarks and posted returns between 30-50% this year, we feel they still have room to grow and think it is likely these areas of the market will have the potential to deliver some of the highest risk adjusted returns.

## Several themes stood out in 2025:

- Precious metals, particularly gold, benefited from persistent inflation concerns, geopolitical uncertainty, and growing government debt burdens.
- Developed international markets, especially small-company and value-oriented stocks, outperformed expectations as valuations normalized.
- Emerging markets benefited from more attractive starting valuations and, in some cases, favorable currency dynamics

**Exhibit 1: On the Equity Side, the Premium for Moving into High Quality Global Stocks Has Fallen to Just 17%...**

## Relative Valuations: NTM P/E, MSCI AC World Quality Index vs. MSCI AC World



Quality defined as stocks with high ROE, stable earnings, and low leverage. Data as at November 28, 2025. Source: Bloomberg, MSCI, KKR Global Macro & Asset Allocation analysis.

# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

## Positioning Portfolios for 2026

- ETFs have proliferated throughout your portfolios because of their tax advantages, low cost, and the fact that they have no ticket charge to buy and sell. Over the last few years, we loosened up our trading software on the buy side to put money to work quicker and in smaller amounts (in the past we had different rules that forced larger trades in fewer spots.) Given the large run up in prices combined with the model rule changes mentioned above, and updates to the models given higher valuations, we are planning to make a large rebalancing trade at the end of January early February where we are going to rebalance risk, and clean up some of the smaller trades by selectively combining some of the same holdings owned in multiple accounts back to one account where we want to own the position the most. For those clients that add new money to accounts frequently by dollar cost averaging, we are always rebalancing using the new money to buy into the lower valued components of the portfolio.

China's leadership in the green energy transition and its dependence on imported oil remains substantial as its economy faces broader growth challenges. Our US foreign policy is causing unpredictable changes that are disruptive to China. From Venezuela, to Iran, Russia, Greenland, NATO, Gaza, and Taiwan. The geopolitical spillovers from Venezuela, Iran, are significant. These risks extend beyond just oil and could threaten regional stability and the changing world order. In times of heightened fear Gold always seems to get a bid. Despite its price movements in 2025 supported by persistent inflation expectations, geopolitical uncertainty and steady central bank buying we may continue to increase exposure to Gold, Bitcoin, or a broad commodity fund if we can get comfortable with the high prices.

I think KKR coined the term to "High grade" your portfolio. I think that is a good description of some of the subtle changes you may notice under the hood inside our model construction. Here are some of the ways we intend to do this on the offensive and defensive side of our portfolios:

## Defensive Positioning:

- We are removing the money market positions we have held in the model and migrating that money toward 1–3-year high quality US and global bonds hedged back to the US dollar in tax deferred accounts and high quality short-term municipal bonds in taxable accounts.
  - As I mentioned above, we favor bar-belling portfolios. Our bonds provide high-quality time-constrained protection for planned spending and protection for the equity risk on the other end of the barbell. Currently we prefer high-quality municipal bonds over high-quality taxable bonds for tax rates greater than or equal to 24%. For tax rates below 4.5%, we prefer high quality global bonds hedged back to US dollars. By using multiple curves with flexible duration, we can get the highest returns for the little amount of risk we assume. When we can get tax-equivalent yields greater than 4.5% on intermediate term debt that is hedged to US dollars, we will slightly increase duration or try to put money to work. If rates stay in the ballpark of 4 - 4.5% we expect to keep about 60% of the fixed income in 4 - 8 year bonds as these provide the most protection in a non-inflationary market scare. Today our low-cost, active management, Vanguard intermediate bond ETF, has a position in emerging market local currency bonds which have offered a compelling value. These bonds offer higher yields and protection from the dollar, if our government prints money or lowers rates or chooses the financial repression path. We think a possible scenario is somewhat higher projected inflation than the Feds targets (assume 2.5-3.75%).
- In the past we have had a few percent of our fixed income in gold/pipelines/Bitcoin/Trees linked to the size of our fixed income weighting in order to protect our bonds from money printing. We have under owned REITs and publicly traded real estate for nearly 10 years, but we expect to slowly increase exposure to REITs and other tangible, asset-

# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

backed businesses that have historically performed better when inflation is higher when we can find attractive entry points or a position we believe in. We expect to fund this from both equity and a little bit from fixed income.

- Consider Increasing slightly exposure to Gold/Bitcoin/Broad Commodity Fund in portfolios that have greater weighting to bonds.

## Offensive Positioning

- **Sell the S&P500 across our book:** Our portfolios are tilted toward 3 factors (High profit, Smaller Companies & Undervalued Companies), in accounts like 401ks where we have limited investment menus we want to Own less company size weighted stock market positions as described above and shift weightings to more global value if offered or “high grade” the position as best as possible by using some defense and a piece of one of the other funds offered.
- Even though International & Emerging markets had great years vs the US we believe earnings are accelerating, so we intend to maintain current exposure to Europe, Asia, Japan, and Emerging Markets
  - We want to continue to own non-China Asia. Corporate reform and consumption upgrade stories are gaining momentum. In Japan, 40% of companies still trade below book value. In India, affluent and upper-middle-income households are expanding rapidly, driving durable consumption trends. In Korea and Southeast Asia, reform and digitalization are accelerating. We think the DFA funds we use in this area are still the best tool to monetize these long-term trends.
- With Trump’s various stimulus measures like tax changes, reshoring, lowering interest rates to get housing going combined with AI infrastructure spending committed by the hyperscalers, we expect to see stronger US growth, and potentially higher short-term inflation. Because of these factors we intend to accept the higher volatility that is likely to develop and to hang on to our US holdings in similar weights as in the

past but we intend to carve of some the recent gains and increase funding to real estate, and other more tangible assets that may offer diversification if the FED attempts to further expand its Balance sheet by printing money or doing some kind of Quantitative easing.

- This may involve adding a sliver toward oil & gas. Natural Gas was one of the largest declining currencies last year, falling **-21.88%** in 2025. With all of the data center energy demand we think having exposure to energy through natural gas royalties and pipelines is still prudent.
- Security Theme: AI is going to make it much more difficult to tell friends from foes online. We think the trend of various kinds of security will continue to be an area that will grow faster than other areas of the market.

Looking ahead, we are not making dramatic portfolio shifts or attempting to predict short-term market movements. Instead, we are making incremental, disciplined adjustments informed by valuation, history, and risk management. Our goal remains unchanged: to build portfolios that can compound over time while managing risk across a wide range of economic outcomes. Markets will continue to surprise investors, we will continue to have the discipline to stay diversified, focused on the long-term while ignoring the noise.

We are grateful for the trust you place in us and look forward to navigating the years ahead together.

- Mike Mills & the Mills Wealth team

# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

## Tax Corner – 2026 Tax Planning

As we begin the year, ensuring your plan is aligned for the recent tax number changes can make the rest of the year more efficient.

Each January, the IRS adjusts tax brackets, standard deductions, and retirement account contribution limits for inflation. These changes are often incremental but can have a meaningful impact on how much you can save and shelter from tax in the current year.

### Key 2026 Contribution Limits

Here's what's new for retirement and health savings accounts:

#### 401(k), 403(b), and similar plans

- Employee deferral limit: \$24,500 (up from \$23,500 in 2025)
- Standard catch-up (age 50+): \$8,000
- Enhanced catch-up (age 60–63, if plan allows): \$11,250
- Total employee + employer contributions: up to \$72,000

#### Individual Retirement Accounts (IRAs)

- Annual contribution limit: \$7,500
- Catch-up (age 50+): \$1,100

#### Health Savings Accounts (HSAs)

- Self-only coverage: \$4,400
- Family coverage: \$8,750
- Catch-up (age 55+): \$1,000

#### Standard Deduction Adjustments

The standard deduction also increased for 2026, providing a bit more reduction of income.

These updated limits are more than just numbers; they define how much you can put toward tax-advantaged savings this year. Adjusting your contributions in Q1 gives you the best opportunity to:

- Spread savings evenly across the year
- Maximize tax-advantaged space before year-end pressure
- Reassess whether pre-tax or Roth savings make more sense based on income trends

For example, contributing early toward your 401(k) or IRA ensures that you are taking full advantage of the new limits without having to make large catch-up amounts later in the year.

A small shift in January can lead to more disciplined saving and better tax outcomes over the long run.

## Around the MWA Office - Welcome Robin Austin!



In November, we had the opportunity to bring on an experienced advisor to help us level up the advice we are giving. Some of you have had the chance to speak with Robin already, but we are excited to have her join the team. She has a wealth of experience at other firms, such as Merrill Lynch, Morgan Stanley, and Wells Fargo. We are excited to have her join us and excited for you to work with her.

In addition to this news, we did our annual anonymous client survey in the 4<sup>th</sup> quarter. We learned what was going well, and where we can better serve you. We gained great insight into how you would like to interact with you and how we can be at our very best.

If you did not receive our email response or catch the video we created around it, here is the email [link](#) and video [link](#). **Thank you** again for your participation and your continued trust in us.

# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

## Pictures Worth Looking At

Many of the pictures above were too small to adequately see, they have been placed below for better viewing options.

## Asset Class Performance

YTD Total Return	1 month Total Return	3 month Total Return	6 month Total Return	1 year Total Return	3 year Total Return	5 year Total Return	10 year Total Return
Emerging Markets 34.4%	Emerging Markets 3.0%	World exUSA 5.3%	Emerging Markets 16.3%	Emerging Markets 34.4%	US Growth 31.2%	US Growth 15.3%	US Growth 18.1%
World exUSA 32.5%	World exUSA 3.0%	Emerging Markets 4.8%	US Small 14.9%	World exUSA 32.5%	S&P 500 23.0%	Commodities 14.7%	S&P 500 14.8%
US Growth 18.6%	US Value 0.7%	US Value 3.8%	US Growth 11.8%	US Growth 18.6%	World exUSA 18.3%	S&P 500 14.4%	US Value 10.5%
S&P 500 17.9%	Muni Bonds 0.1%	S&P 500 2.7%	S&P 500 11.0%	S&P 500 17.9%	Emerging Markets 17.0%	US Value 11.3%	US Small 9.6%
US Value 15.9%	S&P 500 0.1%	US Small 2.2%	World exUSA 11.0%	US Value 15.9%	US Value 13.9%	World exUSA 10.0%	World exUSA 9.1%
US Small 12.8%	Aggregate Bonds -0.1%	Muni Bonds 1.6%	US Value 9.3%	US Small 12.8%	US Small 13.7%	US Small 6.1%	Emerging Markets 8.9%
Aggregate Bonds 7.3%	Commodities -0.3%	US Growth 1.1%	Commodities 5.1%	Aggregate Bonds 7.3%	US Real Estate 6.9%	US Real Estate 4.9%	Commodities 6.1%
Commodities 7.1%	US Treasuries -0.3%	Aggregate Bonds 1.1%	Muni Bonds 4.6%	Commodities 7.1%	Aggregate Bonds 4.7%	Emerging Markets 4.7%	US Real Estate 5.8%
US Treasuries 6.3%	US Small -0.6%	Commodities 1.0%	Aggregate Bonds 3.2%	US Treasuries 6.3%	Muni Bonds 3.9%	Muni Bonds 0.8%	Muni Bonds 2.3%
Muni Bonds 4.2%	US Growth -0.6%	US Treasuries 0.9%	US Treasuries 2.4%	Muni Bonds 4.2%	Commodities 3.9%	Aggregate Bonds -0.4%	Aggregate Bonds 2.0%
US Real Estate 3.8%	US Real Estate -2.1%	US Real Estate -2.3%	US Real Estate 0.7%	US Real Estate 3.8%	US Treasuries 3.6%	US Treasuries -1.0%	US Treasuries 1.4%

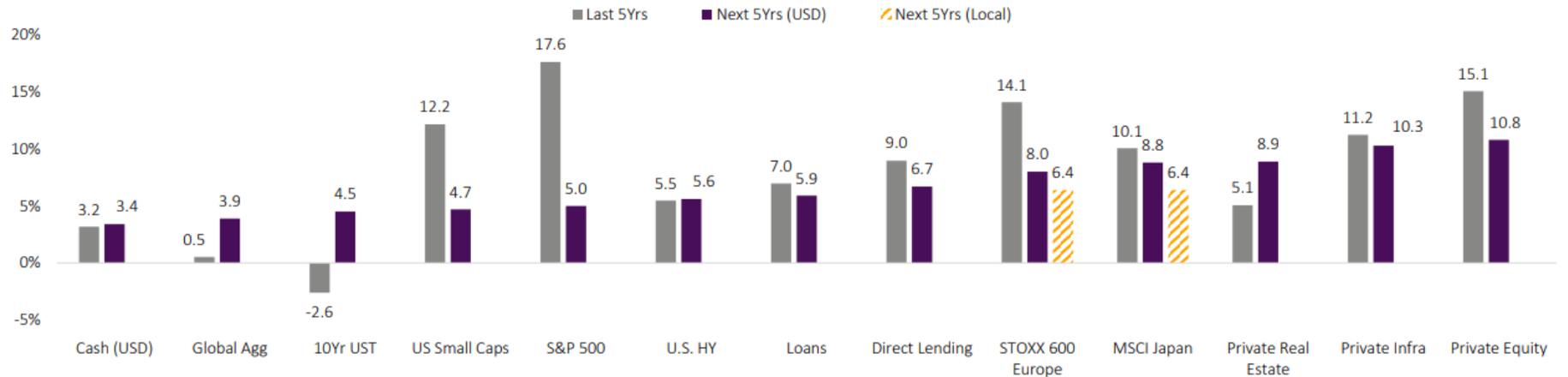
Past performance is no guarantee of future results. You cannot invest directly in an index.

\*Data as of 12/31/2025

Asset	Index
US Real Estate	Dow Jones US Real Estate Index Total Return
US Growth Stocks	Russell 1000 Growth Total Return
Commodities	S&P GSCI Total Return
US Small Cap	Russell 2000 Total Return
S&P 500	S&P 500 Total Return
US Value Stocks	Russell 1000 Value Total Return
World ex USA	MSCI World Ex USA Total Return
Emerging Markets	MSCI Emerging Markets Total Return
Aggregate Bonds	Barclays US Aggregate Total Return
Muni Bonds	Barclays Municipal Bond Total Return
US Treasuries	Barclays US Treasury Total Return

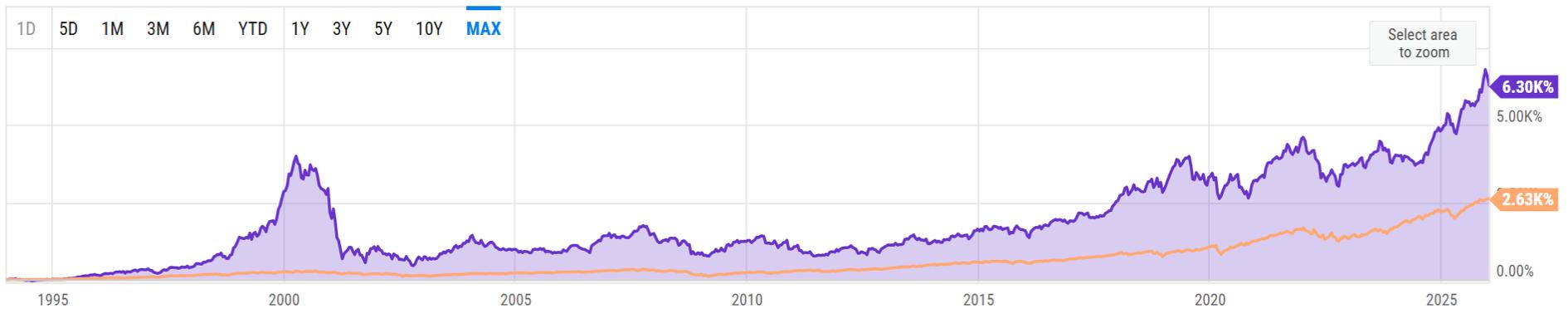
# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

## Expected Returns (%)



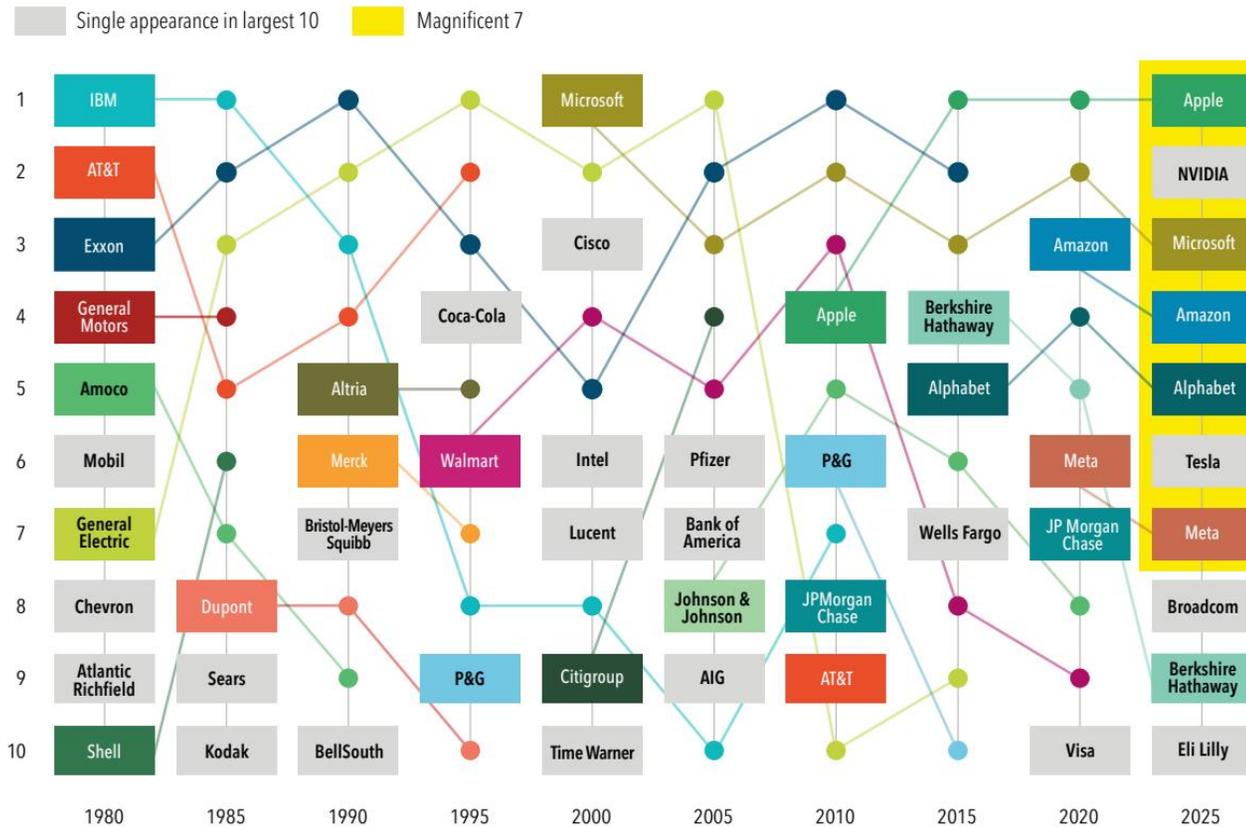
Last 5-Years return from October 31, 2020 to October 31, 2025 for consistency across asset classes. Private Markets as at 2Q25. Source: Bloomberg, BofA, Burgiss, Cambridge, KKR Global Macro & Asset Allocation analysis. No representation is made that the trends depicted or described above will continue. For Financial Advisor Use Only. Target returns are hypothetical in nature and are shown for illustrative, informational purposes only. Past performance does not guarantee future results. Indexes are unmanaged. It is not possible to invest directly in an index. Model returns are hypothetical in nature and are shown for illustrative, informational purposes only. Past performance does not guarantee future results. For Financial Advisor Use Only.

- CISCO SYSTEMS, INC. (CSCO) TOTAL RETURN
- S&P 500 TOTAL RETURN (^SPXTR)



# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

LARGEST 10 US STOCKS BY MARKET CAP  
Rankings as of start of years shown, 1980–2025



The Magnificent 7 entered 2025 among the Top 10 largest US stocks. But before making an outside bet on gains from these technology giants, investors should consider a few lessons from market history.

- It's hard to stay on top. For example, only three of the 10 biggest companies from 1980 made the 2000 list—and none of them was in 2025's Top 10.
- Industries ebb and flow. Technology-focused firms currently dominate the list. But in 1980, six of the 10 largest companies were in the energy sector.
- New technology doesn't benefit only tech firms. Throughout history, companies across industries have used technology to innovate and grow.

*Diversification enables investors to share in the success of today's top companies while staying positioned to benefit from tomorrow's market leaders.*

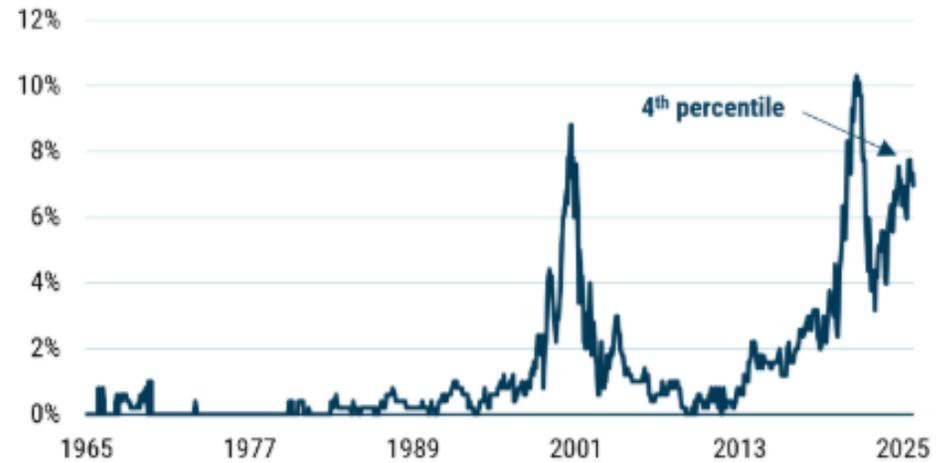
# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

*% stocks with Price/Sales > 10x is at an extreme even after adjusting for select number of mega-caps*

MARKET CAP WEIGHTED



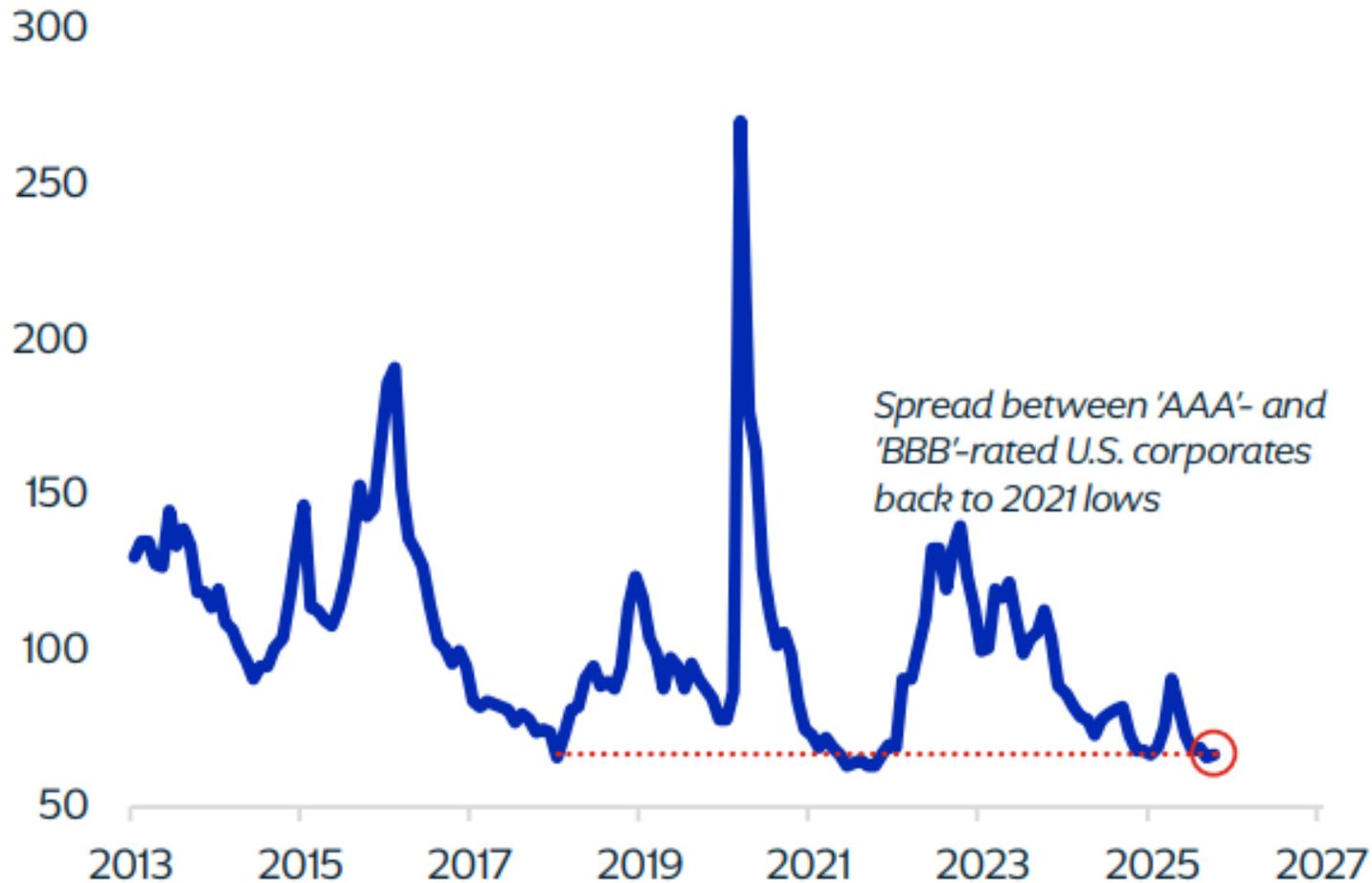
EQUAL WEIGHTED



As of 10/31/2025 | Source: GMO

## Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

### Relative Valuations: U.S. Credit Spreads BBB - AAA Corporates



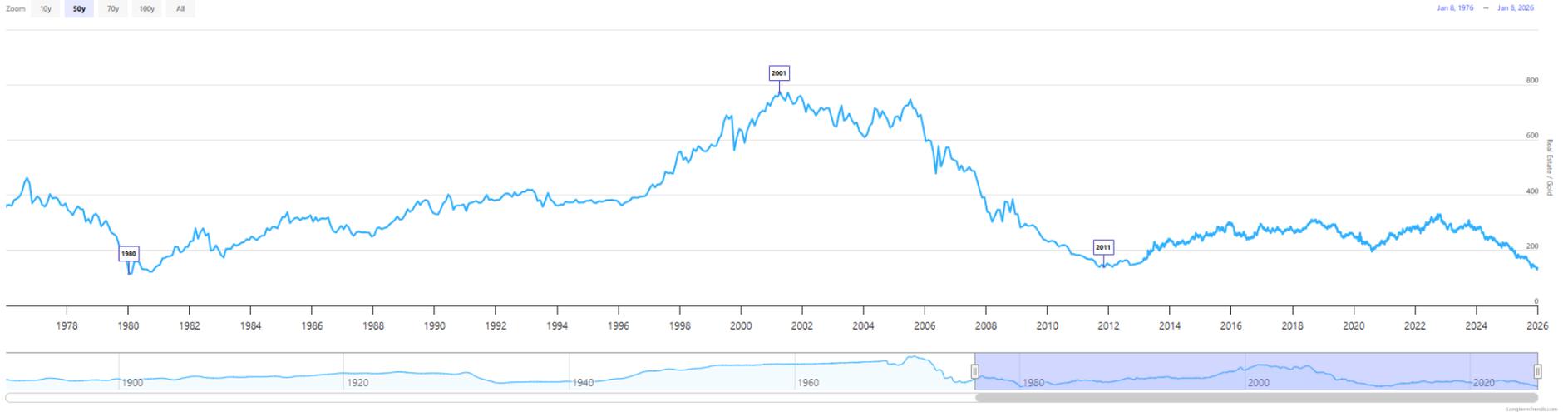
Data as at November 30, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

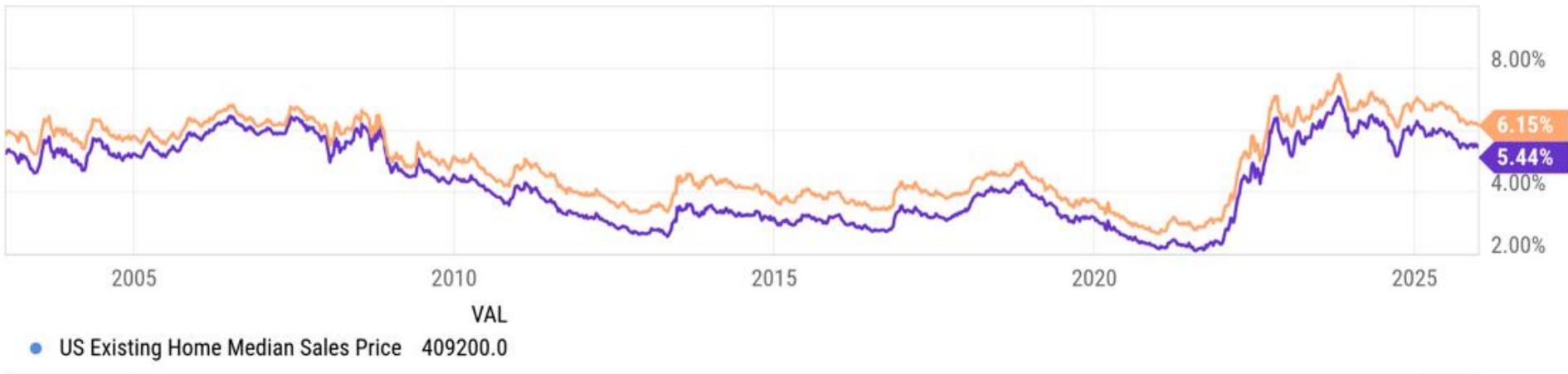


# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

Shiller Case Home Price Index / Gold Ratio



- VAL
- 15 Year Mortgage Rate 5.44%
- 30 Year Mortgage Rate 6.15%

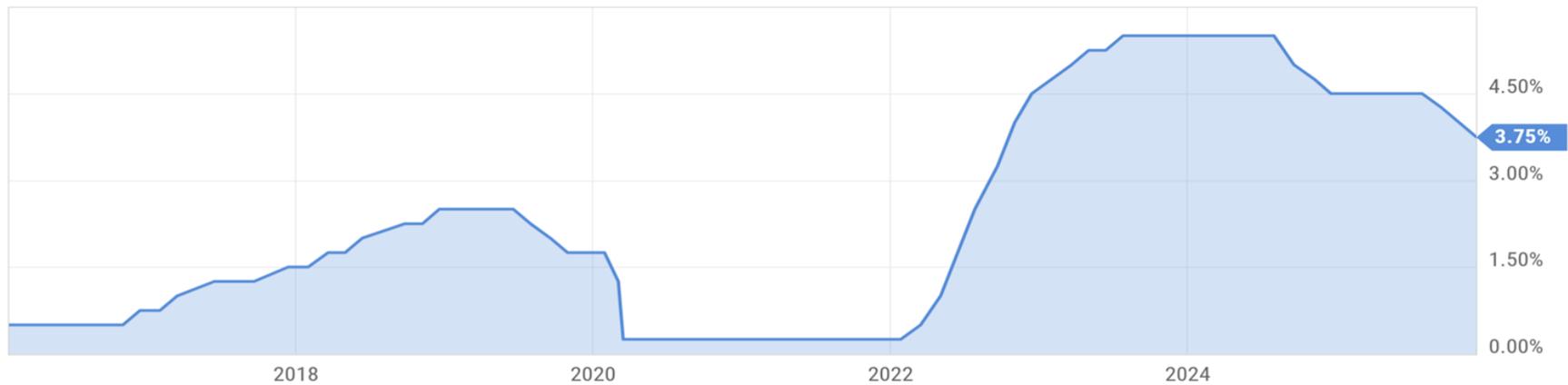


# Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

	VAL
● US Inflation Rate	2.68%
● US Core Inflation Rate	2.69%
● US Producer Price Index YoY	2.72%



	VAL
● Target Federal Funds Rate Upper Limit	3.75%



Date Range: 01/27/2016 - 12/10/2025

For informational purposes only.

## Federal Reserve projections: slower but steady growth

The Federal Reserve's November 2025 projections point to moderate growth and a gradual easing in policy rates:

Variable	2025	2026	Longer run
Change in real GDP	1.7%	1.9%	1.8%
Unemployment rate	4.2%	4.1%	4.0%
PCE inflation	2.4%	2.2%	2.0%
Core PCE inflation	2.3%	2.1%	2.0%
Federal funds rate	3.9%	3.1%	2.5%

## Mills Wealth 4<sup>th</sup> Quarter Market Update - 2025

**Exhibit 1:** On the Equity Side, the Premium for Moving into High Quality Global Stocks Has Fallen to Just 17%...

### Relative Valuations: NTM P/E, MSCI AC World Quality Index vs. MSCI AC World



Quality defined as stocks with high ROE, stable earnings, and low leverage. Data as at November 28, 2025. Source: Bloomberg, MSCI, KKR Global Macro & Asset Allocation analysis.