

# Full Year 2025 Commentary

## 1 Year In...

### Macro Commentary

The US economy remains resilient. Growth continues to exceed expectations, but cracks are growing. Middle class consumers are beginning to spend less, lower end consumers have lowered their spending or taken on debt, while high end consumers continue to spend. The dollar weakened considerably over the course of 2025, boosting the competitiveness of US exports in foreign markets offset somewhat by the new global tariff regime. Due to the depreciation of the dollar, foreign investors' returns (responsible for an estimated 18-20% of stock market ownership), were not meaningfully positive in 2025, and has caused foreign investors to more effortfully look away from US equities to other markets and to precious metals.

The efficacy of AI expenditures started to be questioned during the fourth quarter and continues in January. Companies, like Microsoft, have and continue to spend aggressively to build cloud capacity, but the value of that spend is now considered in the context of the customer. Customers who are less likely to turn intent into cash have led to more uneven returns for the artificial intelligence infrastructure stocks. At the same time, the increasing competence of AI in performing some tasks has begun to impact the once high flying software as a service sector, creating at least temporary losers in what was once an all-winners environment. There is now gold to be found here, we think, while others have had their stretched valuations reset somewhat closer to reality.

Labor markets are softening with layoff announcements reaching levels last seen in the pandemic. Wages are growing at slow rates. The latter is a welcome respite for labor intensive companies, like restaurants, that have experienced wage pressure since Covid, while inflation is a more complicated story. Inflation due to tariff increases have yet to reach the consumer, but studies suggest over 90% of those costs have been passed to the importer of the goods, either resulting in lower margins for those businesses or a missed opportunity for disinflation. I believe it's equally likely to see a meaningful break higher or lower in inflation in 2026, with factors like energy prices, tariffs, US dollar strength, and the decision of a Fed to be proactive or reactive to all play a part. Many of the Trump administration's re-shoring and foreign investment announcements of the past year have yet to have a significant impact. If successful, those efforts

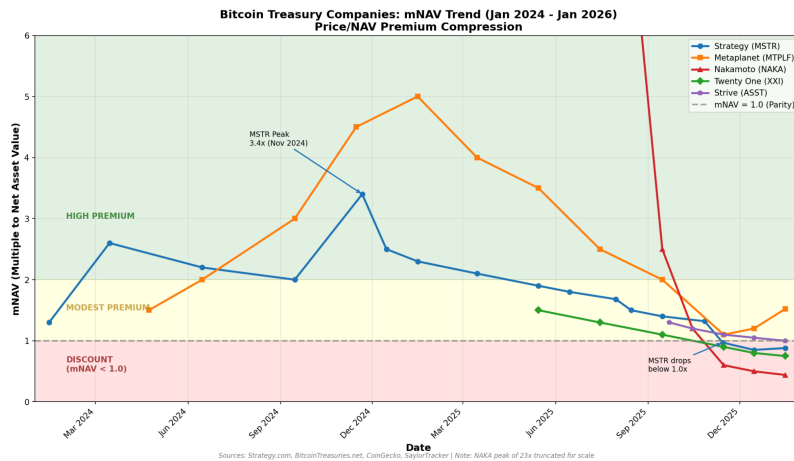
will result in a different and exciting growth paradigm for the US economy. If unsuccessful, there will be disappointment and the stock market, now responding to negative news, will suffer.

## Revisiting Bitcoin Treasury Companies

In the second quarter of 2025 commentary we wrote that bitcoin treasury companies were an example of an ongoing investor mania. As a reminder, bitcoin treasury companies are public companies whose primary function is to own bitcoin. They turn a commodity into a stock. Led by then MicroStrategy, Inc (MSTR) (now Strategy Inc's) success, these companies temporarily found the elusive Infinite Money Machine. Companies issued shares to buy bitcoin in large amounts and their stocks and the price of bitcoin increased. The action broke logic, but management teams made money as the value of assets grew due to the ever increasing demand from the companies themselves and the retail hype due their buying created.

It appears we're at the end of this mania. As of late January, the most popular bitcoin treasury companies now trade meaningfully below the value of their bitcoin reserves. They "have broken the Buck". When faith in the US dollar declines and money market funds trade below \$1, the Federal Reserve steps in to shore up confidence. Bitcoin, at least today, doesn't have a federal backstop. These companies are trapped, unable to sell bitcoin to buy back shares and unable to sell stock to buy bitcoin as doing either would drive down the price of their stock, and given the presence of willing bitcoin sellers, drive down the price of bitcoin. The vicious cycle that the Fed is designed to prevent isn't there.

Today, owning bitcoin treasury companies is a testament to faith that the US government will rescue a passionate donor base. What was once an indicator of investor willingness to take risk - given that ownership was at best an exercise in risk taking, but in the main, simply the facilitation of illicit activity - is now an indicator of government capture. To buy a bitcoin treasury company is to bet that the government will rescue bitcoin. We'll see.



## **The Ethical S&P 500 Strategy**

In 2025, the Ethical S&P 500 Strategy performed in line with the S&P 500. The strategy notably does not include defense companies, companies who customize their goods and services for defense, and vice companies. Early in the year, restricted companies outperformed and the strategy lagged. Later in the year, the market outperformed those companies, and the strategy's performance caught back up. In the end, strategy performance was bang in line with the S&P 500 index.

The strategy is extremely diversified and is composed of the same companies as the S&P 500 and with similar concentrations - excepting the exclusions. It is meant as an S&P 500 index replacement for those that want passive exposure to the US's largest companies but do not want to profit from companies who facilitate death, destruction, and vice. We have been pleased with the strategy's performance and gratified by the interest it has received. The end of the assault in Gaza, the administration's recently proposed enhanced involvement of the government in the defense sector, and renewed focus on ending the war in Ukraine may benefit the index relative to the S&P 500 if military spending, or the prospect of its continuation, declines.

As an example of the work we do for the Ethical S&P 500 strategy - Microsoft Corporation (MSFT) is a core holding of other "ethical" indices. We believe the company's behavior over the past two years disqualifies it from ownership by any investor who doesn't wish to profit from war. The memo and the strategy fact sheet are available on White Brook Capital's website at <https://www.whitebrookcapital.com/strategies>.

The Ethical S&P 500 strategy is now accessible through the Schwab Manager Marketplace as well and therefore is accessible to any client of any investment manager who custodies at Schwab - if you ask for it. White Brook Capital will work with any investment manager.

## **Small Cap Absolute Growth Strategy**

The Small Cap Absolute Growth Strategy is a long only strategy that buys small and micro cap stocks with significant growth potential. While its performance moderated in the fourth quarter, its performance for the year vastly exceeded any expectations we had for it in 2025 and it continues to perform well so far in 2026.

Given their smaller size, the portfolio's companies are less predictable quarter-to-quarter and thus more prone to surprise. However, for the diligent, patient, and active investor, we

believe they are also more analyzable, and offer the potential for high returns. Due to the early and significant success of one of the portfolio's early holdings, the model portfolio is somewhat concentrated in that company, but continues to diversify. Continued success is expected in the near term and therefore we have not materially sold down the position.

During the fourth quarter and early in 2026, we've intentionally sought to increase the number of holdings in the strategy. By early February, we expect the strategy to hold at least 13 positions and believe it's likely to increase further in the months to come. The strategy has relatively high turnover for White Brook, but would still be considered low turnover by many, and currently an extremely high concentration in the healthcare sector with 8 of the positions, including the supersized position, in healthcare, particularly in the technology, equipment, and tools industries.

The Small Cap strategy is only open for accredited investors. Due to our focus on price and the lower than average liquidity in the underlying positions, it should be expected to take some time for new accounts to mimic the model portfolio. The strategy fact sheet is available on White Brook Capital's website at <https://www.whitebrookcapital.com/strategies>.

### **The All Cap Strategy**

The All Cap Strategy is the successor to the midcap strategy that launched White Brook Capital in 2017 and was shut down in April. On one hand, Liberation Day inspired us to end the midcap only strategy, a strategy limited to a group of companies that underperformed the S&P 500 significantly over 10 years - including by 10% in 2025 alone. The closure of White Brook Capital Partners, the pooled asset that followed this strategy, was a public failure. On the other hand, since mid year we've invested across market capitalizations, adding both small and large capitalization stocks. While the third quarter was difficult, in the fourth quarter our relative fortunes improved as the artificial intelligence mania began to subside. So far in the first quarter, the strategy has performed well. We feel as good about owning a nimble portfolio of stocks with the ability to find new pockets of returns as we have since starting the firm.

The strategy now houses companies of all sizes with a predilection towards investing in best in class operators while using weak stock prices to enter a position. One principle we've taken away from the small cap effort is to look for companies with more significant upside than the standard 50% over 3 years or 25% in one, and to wait for price to give us opportunity for supranormal returns. The goal is a portfolio of what we believe to be potential or realized doubles regardless of market cap. For instance, despite my distrust of the AI economy and our

relative underweightedness, we used Alphabet Inc's (GOOG) weakness earlier this year to take a position on the thesis of earnings and multiple growth resulting in a double. We also own Nvidia Corp and Taiwan Semiconductor Manufacturing Corporation (TSM) as best in class operators, in the process of realizing a double, based on earnings growth due to their ability to extract the last of the rents from this artificial intelligence investment wave. While we'll miss, as we have so far with Portillo's Inc (PTLO), if it's in the portfolio, our belief is that there's the potential to double our investment. We continue to be overweight housing in Builders FirstSource, Inc (BLDR) and Floor & Decor, Inc (FND), meaningful laggards in 2025, as we wait for their cheapness and the industry's latent need to build to significantly grow earnings. The All Cap Strategy also borrows from the highest conviction theses in liquid stocks owned in the Small Cap Strategy and has been a beneficiary of Rapid Micro Biosystems (RPID) rapid rise while also holding the heretofore underwhelming JAKKS Pacific, Inc (JAKK). We are confident in the future of the new strategy. The strategy fact sheet is available on White Brook Capital's website at <https://www.whitebrookcapital.com/strategies>.

As always, feel free to reach out to discuss this or any of your investments at White Brook Capital. I thank you for your support and will strive to continue to earn your trust.

Sincerely,



Basil F. Alsikafi

Portfolio Manager

White Brook Capital, LLC