ALTA
CAPITAL MANAGEMENT
A member of Guardian Capital Group Limited

MARKET LETTER

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The year 2025 proved to be one of the most reactive years for the market in recent memory. While the S&P 500 ultimately delivered an 18% return, the path to those gains was marked by extraordinary volatility and dramatic policy shifts. The first quarter saw equity markets decline sharply on recession fears and elevated uncertainty, only to experience a stunning turnaround following announcements of trade policy modifications. The subsequent rally rewarded more speculative holdings while higher-quality growth stocks saw a more measured rebound. Across the S&P 500, aggregate earnings demonstrated remarkable resilience, with growth expected to reach approximately 12% when final Q4 results are reported. Much of that growth was driven by the largest names in the index, but earnings growth excluding the Magnificent 7 is still expected to reach 9% when final numbers are tallied. While broadening relative to 2024, the market remained narrow with just 31% of S&P 500 stocks outperforming the broad benchmark and 37% down on the year.

Investors entered 2025 with considerable uncertainty stemming from the pending change in administration and many unknowns related to the rapid advancement of artificial intelligence (AI) technology. Early-year market volatility was driven by heightened policy uncertainty, emerging concerns about deteriorating economic fundamentals, and the “DeepSeek Moment”. As uncertainty mounted following the announcement of "Liberation Day" tariff policies, markets hit fresh lows for the year. All-in, the S&P 500 experienced a near 20% pullback between February and early April.

The "Liberation Day" trade policies, including sweeping tariffs, fundamentally reshaped market expectations and investor sentiment. The April 2nd announcement imposed a baseline 10% tariff on all imports, with higher country-specific rates ranging up to 60%. The announcement sparked widespread concern of a potential trade war. The S&P 500 fell nearly 5% in a single session as the market appeared to price-in severely constrained economic growth and widespread business margin compression. These concerns proved short-lived, however. Just one week later, a pause in implementation and plan for negotiations with major trade partners calmed investor fears. The market rallied decisively, and this strength continued largely throughout the remainder of the year. This dramatic reversal of fortune set the stage for a complete rotation in market leadership and investor sentiment. Within weeks, the broader market returned to positive territory for the year, and by late June, both the S&P 500 and Nasdaq achieved new all-time highs. The consistent macroeconomic and earnings improvement was a source of optimism driving eight straight months of positive returns for the S&P 500.

Ongoing strength in AI-related revenue coupled with increased data center compute demand drove dominance in Information Technology and Communication Services stocks. This strength was underpinned by solid fundamentals. Information Technology delivered exceptional earnings growth north of 25% for the year, driven by robust demand for AI infrastructure and semiconductors. Communication Services delivered ~19% earnings growth. Outside of technology sectors, we observed double-digit earnings growth in Health Care and high single-digit growth in both Financials and Industrials.

At Alta, we used the weakness in the spring to add to some of our favorite positions, in many cases increasing our exposure to more growth oriented artificial intelligence names, while also improving the broader quality characteristics of our portfolios. We continue to believe the investment opportunity in AI is attractive, but are cognizant that not all companies touting artificial intelligence capabilities will be winners. Our focus is on owning leading players that have already demonstrated positive cash flow from investments made in AI-related offerings.

Looking ahead to 2026, concerns about softening employment, elevated long-term interest rates, and persistent inflation are largely outweighed by solid U.S. economic growth expectations. These expectations are supported by government policy focused on increasing U.S. based growth and potential additional rate cuts from the Federal Reserve. In addition, momentum in AI advancements and reshoring initiatives support a favorable outlook for the U.S. economy. Current projections call for ~15% earnings growth in 2026, an impressive figure reflecting continued optimism among Wall Street forecasters. While the growth outlook is favorable, policy change and geopolitical crosscurrents can create meaningful volatility along the way. Our portfolios are built for that reality, anchored in high-quality businesses with resilient fundamentals that can compound through uncertainty. In particular, strong free cash flow generation and durable competitive moats should help cushion downside and protect client capital if valuations and growth projections come into question.

At Alta, we remain committed to our long-standing investment philosophy: we seek to identify companies with strong competitive advantages, resilient business models, sustainable free cash flow growth, and the ability to compound earnings across multiple economic cycles. We believe continued shifts in market leadership during 2025 serve as an important reminder that disciplined, diversified investing provides the most reliable pathway to long-term wealth creation.

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The S&P 500 is an index of 500 stocks designed to reflect the risk/return characteristics of the large-cap universe.

Magnificent 7" stocks refer to Nvidia, Apple, Microsoft, Alphabet, Amazon, Meta, and Tesla.

The Nasdaq Stock Market;(National Association of Securities Dealers Automated Quotations) is an American stock exchange, the second-largest by market capitalization on the list of stock exchanges, and the first fully electronic stock market.