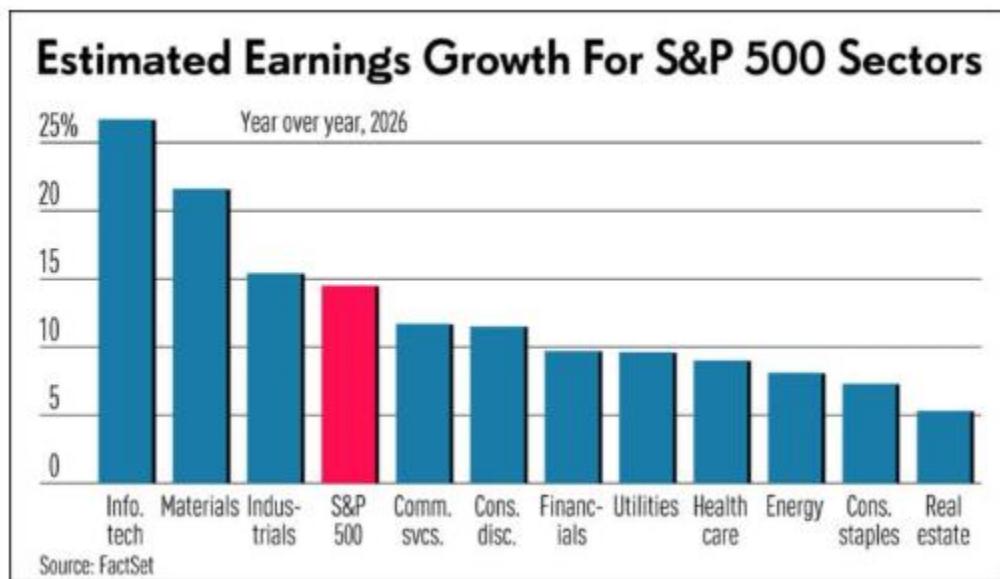


Outlook: This will be our last update this year. Hard to believe but indeed an eventful yet rewarding year for investors. I will resume my updates on Sunday January 4th (weather permitting as will be driving back from Southern Utah).

Thank you to our wonderful clients for your continued support and confidence. We wish you all a Happy New Year and May 2026 be another prosperous year for all of us.

Onward to our outlook and review.

Outlook Reiterating our outlook from last week: As the year heads towards close, a third consecutive year of double-digit gains appears near certain across all three of the major indices. Despite the robust past performance, I believe there is a strong likelihood for another positive year in 2026. The estimated EPS growth for the S&P 500 is close to 15%, nearly double the typical 7-9% per year. Moreover, according to LPL Research via Investor's Business Daily, since 1950 the S&P500 has averaged nearly +13% during the 4th year of a bull market and returns have been positive six out of the seven times that it was during a 3-year bull market run. Further, when bull runs go at least three years, the median gain was 126% and the average gain was 199%. The current bull run over the last three years is ~87% excluding dividends suggesting additional upside.



Source: 2026 Stock Market Forecast: Can The Bull Keep Up Its Run? | Investor's Business Daily

Moreover, the initial read on Q3 GDP came in at +4.3% SAAR (well ahead of consensus for +3.0%), Q2 GDP growth final estimate posted at +3.8%, annual GDP growth now at +2.3% vs consensus +1.9%, core CPI has dropped to +2.5%, the lowest in nearly five years, the Federal Reserve is still easing modestly ("don't fight the Fed"), oil prices are at the lowest prices in nearly five years, enough skepticism exists in the market to help contain market

froth/excesses, AI spending is primarily out of cash flow by some of the most successful companies in human history, and returns on capital from the capital spending result in 3-4 year paybacks or 15% to 30+% type of comments. For example, Microsoft CFO Amy Hood indicated cap ex “correlated to contracted backlog” of \$368B and Mark Zuckerberg, CEO of Meta noted “very compelling returns from AI capacity.” Nvidia CEO Jensen Huang has commented about “staggering demand,” production being sold out for over 12 months on its Blackwell GPU and sustained over subscription on data center related revenue.

Summary: Stability was the theme of last week. Many institutional investors headed home for the holidays so trading quieted down and closed in positive territory near all time highs. The S&P500 finished the week with a gain of +1.4%. The DJ Industrial Average posted a +1.24% gain, and the Nasdaq Composite climbed +1.22%. The equal-weighted S&P500 (RSP) advanced +0.5% for the week and the small caps Russel 2000 (IWM) tacked on +0.25%. Notable leaders included Nvidia (NVDA) which jumped +5.3%, Taiwan Semiconductor (TSM, +4.8%), Vertiv Holdings (VRT, +4.9%), Ciena (CIEN, +4.9%), Lumentum (LITE, +5.2%). Micron Technology (MU) jumped another +7% on top of the +10% it posted the prior week.

Sectors were mostly higher. Materials (XLB) led with +1.6% gained with Technology not far behind (XLK, +1.3%). Consumer Staples (XLP, -0.7%) and Retail (XRT, -0.3%) were the main weak spots. .

The S&P500 has its moving averages stacked in the proper positions for a power trend to kick into gear but the Nasdaq is showing the 21day moving average slightly above the 10day. Five of the Mag 7 stocks (MAGS, +1.3%) were higher on the week led by Nvidia (NVDA, +5.3%).

The odds of a Fed rate cut for January 28 remained weak with odds at just 19% (see FedWatch - CME Group) for a cut. Decisive odds of rate cut remain well out in the future with June 17 meeting (+82% down from 90% the prior week). Futures are flattish with the S&P500 -0.1%, the Nasdaq -0.1%, and the Dow Jones Industrial Average up ~-0.1%.

Dow Futures	Change		S&P 500 Futures	Change		NASDAQ Futures	Change	
49,002.00	- 27.00	0.06%▼	6,977.00	- 5.50	0.08%▼	25,855.50	- 25.00	0.10%▼
Fair Value	Implied Open		Fair Value	Implied Open		Fair Value	Implied Open	
49,003.56	- 1.56		6,979.14	- 2.14		25,859.54	- 4.04	

Source: [After-Hours Stock Quotes | CNN](#)

Here's an updated view on hyperscaler AI/data center investment returns (ROIC, ROI, payback periods) as of late December 2025. Executives continue to emphasize strong, visible ROI tied to contracted demand and accelerating monetization. Analyst frameworks

point to solid economics—often ~30% annual yields or ~3-4 year paybacks on incremental AI capex—with actuals trending supportive amid cloud/AI revenue beats.

The numbers remain robust (though more nuanced than peak enthusiasm levels), reinforcing disciplined investment rather than speculation.

Company	Estimated AI-Related ROIC / Payback / Multiplier	Key Commentary & Sources (Q3/Q4 2025)	Notes
Microsoft (Azure)	~25-30% ROIC; ~3-4 year payback on incremental; "good ROI today"	CFO Amy Hood: CapEx "correlated to contracted backlog" (\$368B+); strong correlation to revenue growth. Analysts note high efficiency vs. peers.	Tied to visible demand; utilization driving early returns.
Amazon (AWS)	~15-20% ROIC; long-term "strong returns"; 3x faster growth than early AWS	CEO Andy Jassy/CFO Olsavsky: "Massive opportunity with potential for strong ROIC over long term"; AI business multibillion run-rate, triple-digit growth.	Internal + external monetization; analysts see improving yields.
Alphabet (Google Cloud)	~30%+ ROIC; justified by demand/backlog	CEO Sundar Pichai/CFO Anat Ashkenazi: Investments driven by "strong Cloud demand"; backlog supports continued elevation.	Tight supply-demand; analysts highlight favorable vs. market avg (~10-18%).
Meta	Early-stage but "strong ROI" in core ads; longer horizon for genAI	CEO Zuckerberg/CFO Susan Li: "Very compelling returns from AI capacity" (e.g., ad efficiencies, engagement lifts); optimistic on monetization.	Primarily internal (ads/engagement); analysts note compounding potential post-build.
Oracle	Rapid conversion; high ROI via quick revenue ramp	CEO Safra Catz: CapEx "in line with bookings"; vast majority revenue-generating with fast backlog-to-revenue.	Aggressive cloud/AI deals; analysts cite tangible enterprise savings (50-80% in cases).
Overall Hyperscalers	~20-30% incremental ROIC; ~3.5-year avg payback	Analyst aggregates (e.g., Convergint, Morgan Stanley, Jefferies): ~30% yields on recent AI builds; ROICs improved hundreds of bps despite surge; > hurdle rates (e.g., 16%+ over 2 years).	~75-80% AI-attributed capex; paybacks healthy if utilization holds; risks if slows post-2026.

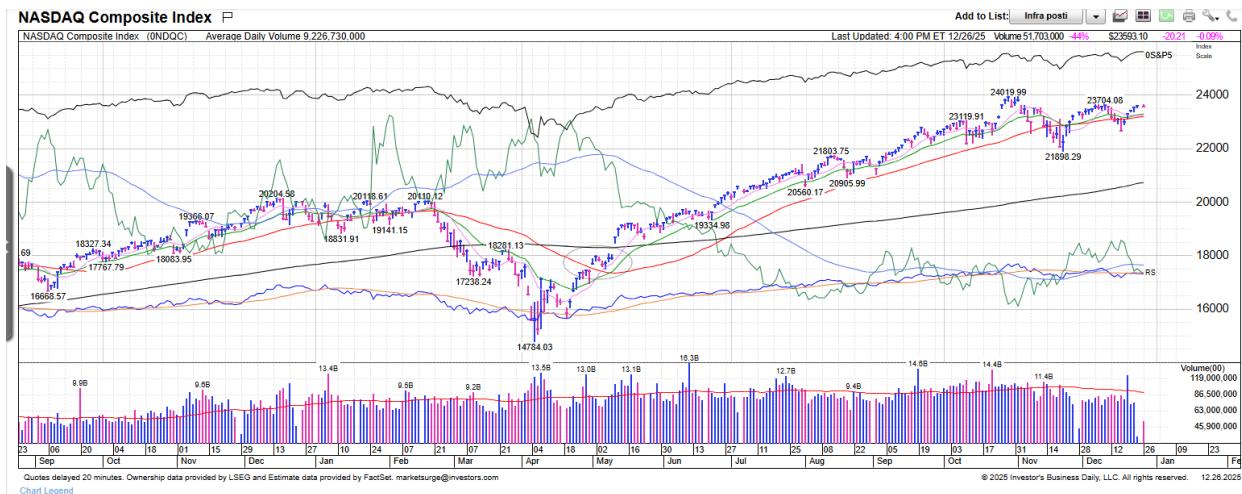
The theme hasn't shifted materially: Returns are described as strong and accelerating (backed by 30-50%+ cloud growth, multibillion AI run-rates, and backlogs far outstripping supply). Skeptics focus on near-term FCF pressure and longer genAI horizons (especially for Meta), but consensus frames current levels as rational—far from bubble territory, with early indicators (e.g., ad lifts, enterprise adoption) validating the buildout. If demand signals remain this firm into 2026, expect upward revisions to these frameworks.

The bearish argument continues to be pointing out that Oracle's data center growth/development relies on debt financed capital spending. Such spending introduces greater risk should its major customer, OpenAI, is unable to meet its contractual obligations.

Stock Market Today/Week: Dec 19, 2025

Index	Level	Day change	Week Change
S&P 500	6,929.94	-0.03%	+1.40%
Nasdaq Composite	23,593.10	+1.22%	+0.5%
Dow Jones Industrial Avg.	48,710.97	+1.20%	-0.04%
US 10 year	4.14%		-1bp

Source: Factset



Source: [MarketSurge](#)

Key events for the week ahead:

Very few earnings for the week ahead and none with significant market impact as we head into the holiday slowdown. Core PCE deflator for November would have the most market implications.

12/29/2025 Pending home sales for Nov: +0.8% M/M. Dallas Fed Index for Dec: -4.0 vs -10.4 prior month.

12/30/2025 Chicago PMI for Dec: 41.0 expected vs 36.3 prior month. Case-Shiller Home Price Index for Oct: +1.1% y/y expected.

12/31/2025 FOMC minutes. Jobless claims. Shortened trading day for NYE.

1/1/2026 Closed for New Years Day.

1/2/2025 Global PMI Mfr final for Dec.

Source: Factset

Bull/bear debate: Bulls back in charge.

Bulls: Strong economic data as mentioned above: +4.3% SAAR for Q3 GDP. Core capital goods orders show solid growth. Santa Claus rally in full swing. US Treasury 7y notes auction bright spot with strong foreign demand. M&A Dec deals up +30% y/y with Nvidia entering a non-exclusive licensing agreement with Groq for \$20B, largest deal to date. Russia-Ukraine war heading toward resolution (or seems to be for now).

Bears: Strong Q3 GDP print pushing first Fed rate cut out until at least March. Consumer confidence weakened for 5th consecutive month in December. Consumer financial situation went negative for first time in four years. Continuing jobless claims above 1.9M after moving below for the prior two weeks. A lot of uncertainty around US enforcing boycott on Venezuelan oil shipping.

What to do now: Raising equity exposure gaining more conviction.

Appendix:

What kind of positive technical confirmations for a power trend per IBD (“Webby’s rules”):

1. Follow through day (FTD)
2. Subsequent FTDs.
3. Close above 21-day exponential moving average (EMA).
4. Low above 21EMA.
5. 3 consecutive days with low above 21EMA.
6. Close above 50-day moving average (DMA).
7. Low above 50dma.
8. 3 consecutive days with low above 50dma.
9. Close above 200dma.
10. Low above 200dma.
11. 3 consecutive days low above 200dma.
12. 21ema moves above 50dma.
13. 21ema moves above 200dma.
14. 50dma moves above 200dma.

In the current rally as of 12/28/2025 all conditions met.

John D. Edwards, CFA

Sr. Portfolio Manager – Infrastructure PLUS Equity Strategy

Disclaimer

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