



**BLUE GRANITE CAPITAL, LLC**

## **INVESTMENT COMMENTARY, January 2026**

Happy New Year. We hope your holidays were joyful and restorative.

By any measure, 2025 was another exceptional year for U.S. equities. The S&P 500 finished near record highs, gaining 17.9%, capping a remarkable three-year advance, the seventh-best three-year performance on record. The tech-heavy Nasdaq outperformed again, rising 21% for the year.

Markets began 2025 strongly before a sharp pullback in early April following President Trump's announcement of proposed global tariffs. However, fears of a tariff-induced slowdown or renewed inflation never materialized. As uncertainty faded, equities rebounded decisively, with the S&P 500 climbing nearly 38% from its April lows.

Rather than tariffs, artificial intelligence and aggressive capital-spending plans proved to be the dominant market drivers. While this fueled strong returns, it also left markets with elevated valuations and increased concentration risk. By year-end, the ten largest stocks represented roughly 40% of the S&P 500's total market capitalization, far above historical norms and responsible for a disproportionate share of index gains—highlighting structural risks embedded in passive, capitalization-weighted benchmarks. In contrast, Blue Granite portfolios reflect a disciplined emphasis on quality, dividends, and prudent diversification. We believe this approach offers more balanced participation with lower risk.

Within AI, leadership has narrowed. Semiconductor manufacturers—such as Nvidia, Micron, and AMD—have been the clearest beneficiaries, supplying the critical infrastructure behind AI deployment. As hundreds of billions continue to be invested, the market is shifting toward a “show-me” phase, demanding measurable profitability from AI initiatives. Encouragingly, we are now seeing signs of broader sector rotation, reinforcing our long-held view that durable returns rarely come from a single theme or technology.

Consumer spending remained a key pillar of economic growth throughout the year, benefiting retail and service-oriented businesses. At the same time, economic signals have grown more mixed. Employment conditions have softened, even as certain sectors remain resilient. Federal Reserve policy remains highly debated, with inflation still running above target and internal divisions complicating the outlook. JP Morgan's 2026 Outlook notes that the current combination of accelerating business investment alongside a weakening labor market is historically unusual, making near-term policy decisions particularly difficult to predict.

Outside of equities, gold and silver traded like momentum stocks delivering extraordinary gains, rising approximately 65% and 145%, respectively. In contrast, despite growing accessibility and

significant attention, Bitcoin declined 6% in 2025, underscoring its volatility and uncertain role as a hedge.

Looking ahead, we remain cautiously constructive on the economy and capital markets, while recognizing that a powerful multi-year rally has lifted valuations to elevated levels. Strong bank earnings confirm underlying economic strength, yet risks remain—including labor market softness, inflation pressures, and policy uncertainty. In this environment, we have high conviction in our balanced, risk-aware discipline, combining high-quality equities for growth and income aligned with fixed income for stability.

As always, please reach out with any questions or if you would like to discuss your portfolio in greater detail.

Wishing you a healthy and prosperous 2026.

*Scott, John & Dave*

[1] JP Morgan 2026 Outlook, Global Research, December 3, 2025