FIVE MILE RIVER *Investment Management, LLC*

Five Mile River Investment Management, LLC

Client Quarterly Letter

4th Quarter 2025

January 8, 2026

PERFORMANCE

	Dow Jones Industrial	S&P 500 (Capitalization Weighted)	S&P 500 (Equal Weighted)
2025 Q1	-1.28%	-4.27%	0.61%
2025 Q2	5.94%	10.94%	5.46%
2025 Q3	5.22%	8.12%	4.84%
2025 Q4	3.59%	2.66%	1.39%
2025 FY	12.97%	17.88%	11.43%

The S&P 500 - 2025 in Review:

The equal weighted S&P 500 rose 11.4% in 2025. FMR stated in the client Q4 2024 letter that we anticipated equity markets (the S&P 500 Equal Weighted Index) would rise between 8% to10%. The forecast assumed this expansion would mirror the growth in earnings in 2025 versus 2024, all-the-while, the Price Earnings Ratio (PE) was expected to remain constant at approximately 22 times earnings.

During 2025 a pronounced shift occurred by the major central banks. Almost in concert, major central banks sold dollars and chose to put the money in gold. This was a primary contributor to the dramatic rise in the price of Gold (+69%) and a concurrent 9% decline in the dollar. Why the exit from the dollar? This selling has been attributed to geopolitical uncertainty, along with concerns about confidence in the Federal Reserve's policies and independence. The dollar's decline is far more significant than is generally assumed because it has a direct impact on inflation (all imports cost more) which becomes a red light for any interest rate cuts. Also, the Federal Reserve will have to weigh the effect that lower interest rates are contributing to further dollar selling (weakness). It would not be hard to make the case that lingering inflation and dollar weakness provide cover for the Federal Reserve to put on hold any further rate cutting. Unfortunately, the causes for the dollar's decline are unlikely to reverse in 2026.

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The S&P 500 - 2026 Outlook:

2025 was the third year in a row when the S&P 500 advanced double digits each year. Almost all forecasters are estimating 2026 will demonstrate a fourth year of similar double-digit growth. This would mark only the third time since WW II when the S&P 500 rose double digits, four years in a row.

Five Mile River's (FMR) forecast for 2026 is a balance of positives and negatives which virtually guarantee continued market volatility. The good news is that FMR stock selection process and investment strategies have proven to reduce a declining market's effect on FMR client portfolios. The bullish case for the market's fourth double digit expansion in 2026 is explained by probable lower interest rates (?); a neutral to expanding PE; and corporate earnings advancing 8% to 14%. Possible additional bullish catalysts could be a new manufacturing incentive program encouraging capital spending in the U.S., and the potential resolutions to the wars in the middle east or Ukraine.

Alternatively, a 10% decline could be viewed as a normal market correction with the specter of continued wars; weaker than anticipated economic data; and a continued decline in the dollar. A dollar decline limits the Federal Reserve's ability to lower rates. There is always the possibility that the Supreme Court could disallow Trump's tariffs. This decision could come any day, and it would be disruptive to markets. Offsetting a negative Supreme Court tariff decision, the tariffs already negotiated are probably unaffected by such a decision (no $$ returned) and Trump has other executive actions that would act similarly to tariffs. Another unknown potential negative for the market is whether the Democrats retake the House in November 2026, which could return the U.S. to a legislative stalemate.

FMR has used market volatility and concurrent price declines as attractive entry points for new investment purchases and adding to existing positions. FMR has used market volatility to the advantage of our clients. Examples of this during 2025 were adding to existing holdings in Applied Materials, IDEXX Labs, and JP Morgan while new positions were taken in Boeing, JNJ, Merck, Medtronic, Quanta Services, and PAYCHEX.

The Addition of BOEING

Early in December, FMR purchased Boeing shares at $118 for growth portfolios. While there may still be some lingering past legacy issues, the focus on the company is the manufacturing ramp against a backlog which stretches comfortably past 2030. This manufacturing ramp is being overseen by the new CEO Kelly Ortberg. Most recently he held the CEO position at Rockwell Collins before selling that company to Raytheon. Mr. Orberg has been CEO for 18 months and has executed a dramatic manufacturing turn-around. The cash flow that this manufacturing turn-around implies is north of $20/share, suggesting a conservative stock valuation that should exceed $200/share as a three-year price objective. Unlike traditional FMR investments, Boeing will not be using this cash flow for dividends or share repurchases, rather, the cash flow will be used to pay down the debt the company issued to extricate itself from the legal and regulatory snafus caused by previous management.

It is broadly understood that Boeing has taken the second seat of the duopoly with Airbus. Boeing is also a distant second in the newer narrow body upgrades the industry desperately needs. Nevertheless, Boeing still participates in the growth of the narrow body demand, while still dominating the longer haul wide body market. Because of the debt level and past issues, this is a more speculative investment. Nevertheless, the price objective is quite attainable, as is the cash flow potential from simple blocking and tackling.

Summary

The portfolio changes have increased the weightings in industries anticipated to be well positioned for strong performance in 2026. Specifically, industry weightings have been increased in health care, banks, and aerospace. Interestingly, the news regarding Venezuela has provided a significant lift to our over-weighted energy exposure. FMR reduced technology exposure in part by eliminating our long-term holding in Microsoft. While it is easy to be negative on the market, FMR is quite optimistic, going into 2026, about the construction of client portfolios and the ability of the holdings to weather market volatility favorably.

Please do contact us if your investment objectives should change, or you would like to discuss the investment style employed for your account/s, or you would like to have an account review early in 2026. Five Mile River Investment Management has a distinct advantage for our clients in that investment strategies and/or changes can be discussed directly with FMR Portfolio Managers, unlike larger institutions. FMR can implement broadly different strategies for an individual, and if appropriate, implement adjustments in portfolio construction fairly quickly.

We wish you a most enjoyable, healthy and prosperous start to the New Year.

Sincerely,

Lee Todd Martha Mary

**The S&P 500 Index is a market capitalized weighted index of 500 companies. It is a growth-biased index because the larger the capitalization of a company, the larger the weighting it contributes to the S&P 500 Index performance. The index referenced <u>includes the dividends</u> issued by these 500 companies. This index is used for a comparison for FMR accounts.*

***The S&P 500 performance has been driven by only a handful of richly valued companies (technology) and those companies have accounted for a disproportion of the 2025 S&P 500 performance. In this quarter's client letter, the S&P 500 Equal Weight Index is included in the performance chart to demonstrate how the S&P 500 Performance looks without the overweighting of the seven technology companies.*

The performance data included in this letter are not audited and have not been otherwise reviewed or verified by an outside party. While Five Mile River Investment Management, LLC endeavors to furnish accurate information, investors should not rely upon the accuracy or completeness of this information.

This letter is not meant as a general guide to investing, or as a source of any specific investment recommendation, and makes no implied or express recommendation concerning the manner in which any clients' accounts should or would be handled as appropriate investment decisions depend upon clients' investment objectives. Any offer to sell or the solicitation of an offer to buy any interests in any securities may be made only by means of delivery of a Five Mile River Investment Management Agreement and/or other similar materials which contain a description of the material terms and various considerations and risk factors relating to such securities or fund. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy will be either suitable or profitable for a client's or prospective client's portfolio, and there can be no assurance that investors will not incur losses.

Please remember to contact Five Mile River Investment Management if there are any changes in your personal/financial situation or investment objectives *Please also advise us if you would like to impose, add or modify any reasonable qualifications to your investment portfolio(s).*