

Lessons from 2025: A Century of Evidence Reinforces Time-Tested Principles

The Equius Team | February 2026

For nearly three decades, the Equius team has guided clients through every type of market environment. Throughout that time, one truth has never wavered: **empirical research – not headlines – drives successful long-term investing**. The principles that anchor our approach remain as relevant today as when Eugene Fama first published his groundbreaking research on market efficiency almost sixty years ago:

- Forecasting short-term market movements is a losing game.
- Broad diversification across asset classes and geographies reduces portfolio risk and expands opportunity.
- Discipline during periods of volatility or temporary asset-class under performance separates long-term winners from performance chasers.

The year 2025 offered powerful confirmation of these enduring convictions.

When Discipline Pays

True to form, 2025 delivered its share of surprises. U.S. stocks returned 17.2%¹ (another solid year) but international developed markets gained 33.1%², marking their strongest out performance relative to the U.S. since 1993. Investors who remained committed to global diversification were well rewarded for their patience and conviction.

While emerging markets returned 32.1%³, developed international large value and small value stocks delivered standout gains of 42.3%⁴ and 37.7%⁵, further validating the academically grounded risk factors embedded in our portfolios. Meanwhile, the Federal Reserve implemented three rate cuts despite ongoing inflation pressures, and the 10-year Treasury yield moved in ways that contradicted consensus forecasts. This reinforced why our investment process never relies on predicting interest rates.

Technology's pullback, even after one company briefly touched a \$5 trillion market cap, served as a reminder that diversified exposure to innovation is far safer and more reliable than chasing individual stocks. History has shown that breakthrough technologies diffuse across the global economy, benefiting broadly diversified investors rather than concentrated speculators.

The Fundamental Impossibility of Prediction

Perhaps the most important lesson of 2025 was the reaffirmation of a simple but often overlooked truth: **accurate market forecasting is effectively impossible**.

No investor or economist could have reasonably predicted the 16-percentage-point advantage of international developed markets over U.S. stocks or the Fed cutting rates during an inflationary cycle. William Sharpe's research shows that successful market timing requires near-perfect consistency, while Burton Malkiel's work demonstrates that expert forecasts routinely fail to outperform random chance. Our decades of observing investor behavior led us to the same conclusion.

Behavioral evidence is equally compelling: even sophisticated investors tend to buy high, sell low, and react emotionally to short-term noise. Add in the unpredictability of currencies, geopolitics, sector rotations, and policy responses, and forecasting becomes mathematically implausible.

Financial-media predictions fared no better. As expected, year-ahead outlooks once again matched random-chance accuracy. Even seemingly straightforward narratives, such as tariff announcements in April, defied simple cause-and-effect logic as markets absorbed new information and ultimately moved higher.

Observations – Concentration and Valuation Concerns

A key structural development in recent years has been the increasing concentration of the U.S. stock market in a small group of mega-cap companies. By year-end, the largest 20 stocks in the U.S. market accounted for nearly 50% of the index, up from less than 33% in 2013. At times, the U.S. market has resembled a team leaning heavily on a handful of star players, with the largest companies exerting an out-sized influence on overall returns.

A global perspective helps mitigate these concentration risks. Outside the U.S., the largest companies represent a far smaller share of their markets, and that share has grown much more slowly. As of year-end 2025, the top 20 companies in international developed markets comprised only about 19% of the index, up modestly from 16% in 2013. For investors, this contrast highlights the value of global diversification in reducing portfolio concentration while maintaining broad exposure to global equity markets.

Valuation discussions have also intensified. As of November 30, the aggregate price-to-book ratio of the U.S. market stood at 5.21. More than double that of non-U.S. developed and emerging markets. Many observers have drawn parallels to the late 1990s, when valuation gaps between U.S. and international stocks were similarly wide. Some interpret this as a warning sign for future returns, recalling the U.S. market’s “lost decade” beginning in 2000.

But this comparison may not be apples-to-apples. Weighted-average profitability in the U.S. market has surged - from 42% five years ago to 62% as of November 30. This stands in stark contrast to 1999, when U.S. market profitability declined over the following five years.

High valuation ratios can reflect low expected returns, or they can reflect high expected future earnings growth. There is no reliable evidence that investors can consistently disentangle these forces in real time. However, the strong profitability growth of recent years suggests a more nuanced backdrop behind today’s U.S. valuation levels. It is not clear that the U.S. market requires poor future returns in order to “grow into” its current valuation measures.

For long-term investors, this reinforces a familiar conclusion: valuation differences may influence future return patterns, but they are not reliable timing tools. Disciplined global diversification remains the most robust way to navigate both concentration risk and valuation uncertainty.

Our Enduring Commitment

Our mission remains unchanged: to position client portfolios for long-term wealth creation using broad diversification, disciplined re-balancing, and steadfast resistance to market timing. A century’s worth of evidence supports patient investing measured in decades, not quarters.

We are grateful to our clients for embracing these principles even when tempting alternatives emerge. Your commitment to evidence-based investing is a cornerstone of long-term success.

2025 reinforced what academic research has been telling us for generations: Diversification works. Prediction fails. Discipline wins.

U.S. stock returns: Russell 3000 Index.

International developed market returns: MSCI All Country World ex USA Index (Gross Div.).

Emerging markets returns: MSCI Emerging Markets IMI Index (Gross Div.).

International developed large value returns: MSCI EAFE Large Value Index (Gross Div.).

International developed small value returns: MSCI EAFE Small Value Index (Gross Div.).