

# MORENO DYE CERVANTES

WEALTH MANAGEMENT GROUP

*of Wells Fargo Advisors*

3020 Old Ranch Pkwy., Suite 190

Seal Beach, CA 90740

Office 562-493-3511

Toll Free 844-219-0260

[www.morenodyecervanteswmg.wfadv.com](http://www.morenodyecervanteswmg.wfadv.com)

## 4<sup>th</sup> Quarter 2025 Moreno Dye Cervantes

### Wealth Management Group of Wells Fargo Advisors Quarterly Newsletter

The 4<sup>th</sup> Quarter continued a string of three consecutive positive quarters as well as a third consecutive year of double digit returns for the equity markets. International and Emerging market stocks roared back to life in 2025 as the best performers of the year thanks in part to a weaker U.S. dollar. Investors were definitely tested by increased volatility in the first half of the year, mostly as a result of the administration's tariff policy, but were rewarded in the end as every major market ended 2025 in positive territory.

	4 <sup>th</sup> Quarter	2025 Annual Performance
Dow Jones Industrial Average	4.0%	14.9%
S&P 500 Index	2.7%	17.9%
S&P 500 Equal Weighted Index	1.4%	11.4%
NASDAQ Composite Index	2.7%	21.1%
Russell Mid Cap Index	0.2%	10.6%
Russell 2000 Index (Small Cap)	2.2%	12.8%
MSCI EAFE – International Index	4.9%	31.9%
Bloomberg Barclays US AGG Bond	1.1%	7.3%

\*Wells Fargo Investment Institute Capital Market Summary

As we have emphasized in previous newsletters, earnings growth has broadened and profit margins have been expanding, which in our opinion was the most important development last year for the financial markets. Instead of the stock market relying almost entirely on growth related tech companies, we saw double digit earnings growth last year in financials, industrials, utilities and materials. It is estimated that almost 80% of the S&P 500's return last year was driven by growth in corporate earnings. It was also great to see the rate of inflation continued to slow throughout 2025, while wages for workers grew at over 4%.

In a year with a lot of headline risks, we were pleasantly surprised at the financial market's ability to tune out the "short-term noise" created by policy and geopolitical uncertainty. Financial markets seemed to focus on positive economic developments that we believe can continue into 2026. Once the Trump administration admitted that their tariff policy was a negotiation measure and a significant number of important trading partners implemented new trade agreements, the stock and bond markets quickly recovered from their 1<sup>st</sup> quarter swoon.

Speaking of the Trump administration's tariff policy, most of the added costs from the tariffs appear to have been absorbed by exporters and U.S. retailers, but as expected, we have seen some of the costs passed through to consumers. We should expect this to continue over the first half of 2026 with an increase in inflation pressures that we anticipate will fade over the second half of the year. Any re-emergence of inflation would be a concern, so we are going to be paying close attention as the year progresses.

#### Investment and Insurance Products are:

<b>Not Insured by the FDIC or Any Federal Government Agency</b>	<b>Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate</b>	<b>Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested</b>
---	---	--

*Investment products and services are offered through Wells Fargo Advisors, a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer and non-bank affiliate of Wells Fargo & Company*

Another concern is that the elevated post-Covid inflation has created an environment where the economic recovery has become K-shaped. This is an economy where higher income households are not significantly impacted by the higher cost of goods and services, while middle and lower income households struggle as they are very sensitive to prices. This obviously isn't the type of economy that we want to see and is another reminder of how excessive inflation has a regressive impact on consumers. Therefore, it is very important that both the Trump administration and the Federal Reserve keep their focus on inflationary risks in 2026.

Possibly the most impactful item we will be paying attention to this year will be the Federal Reserve's interest rate policy when the new FED chief starts in May. As you have heard us say many times over, the Federal Reserve has a very strong influence on financial market performance. The next FED chief will have a more dovish lean than Chairman Powell currently has, so the markets are anticipating that interest rates will continue downward in 2026. The concern or reservation that we have is if the new Federal Reserve Board is too dovish and push interest rates too low during a period of economic growth, then we could see inflation pick back up again as we head into 2027. We have seen the yield curve steepen each time the FED has cut interest rates, so it appears that the bond market is cautioning that easing the money supply too quickly could create the conditions for higher consumer prices and/or asset prices.

Another possible development for 2026 is for the stock market performance to broaden as money rotates away from high valuation technology companies. We see this as a real possibility as Mega cap tech stocks have had two consecutive years of significant performance. A number of clients have been asking if the stock market is in an "AI Bubble", which is an understandable question. We too have concerns about the high AI related stock valuations and the large influence that they have on various major stock market indices, but we also recognize that there are significant differences to today and the late 1990s. The primary differences are that current AI tech companies have actual earnings, measurable earnings growth rates, strong balance sheets and significant cash flow. Most tech companies in the late 1990s had hopes of future earnings, negative cash flow and debt laden balance sheets. This doesn't mean that we think the AI tech companies today will continue their market performance at the same rates as the previous two years. At the end of the day, valuation does matter and these companies are expensive even when considering their growth potential. Therefore, we have been proactively reducing exposure and taking profits in order to make sure that we are not overweight technology right now.

International equity performance was the highlight of 2025 with the largest outperformance over U.S. equities since 1993. A weaker U.S. dollar combined with historically low valuations when compared to U.S. stocks along with improved sentiment was the perfect backdrop. We think that this trend can continue into 2026 as investor focus turns away from past tariff related uncertainty. It is nice to see that investor patience finally paid off after a long stretch of frustrating underperformance.

As we kick off 2026, we hope that you and your families had a wonderful holiday season. This year has already brought more fast paced news (i.e. Venezuela), so we are going to stay nimble when considering asset allocation and portfolio adjustments. We will be reaching out to review your investments, but please know that you can always call if you have any questions, concerns or compliments!! We greatly appreciate working with you and thank you for the trust you place in our team. Best wishes for a great start to the New Year with an abundance of health and happiness!

Sincerely,



Jose A. Moreno, CFP®  
Managing Director – Investments



Michael B. Dye, CRPC®  
Managing Director – Investments



Oliver A. Cervantes, CFP®, CRPC®, RICP®  
Managing Director – Investments

Dividends are subject to change or elimination and are not guaranteed.

Investing in fixed income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high yield bonds, which have lower ratings and are subject to greater volatility. All fixed income investments may be worth less than original cost upon redemption or maturity.

Wells Fargo Advisors did not assist in the preparation of this report, and its accuracy and completeness are not guaranteed. The opinions expressed in this report are those of the author(s) and are not necessarily those of Wells Fargo Advisors or its affiliates. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Past performance is no guarantee of future results. Additional information is available upon request.

The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

The S&P 500/Barra Growth Index is an unmanaged capitalization-weighted index stocks in the Standard & Poor's 500 index having the highest price to book ratios. The Index consists of approximately half of the S&P 500 on a market capitalization basis.

The S&P 500/Barra Value Index is an unmanaged, market-capitalization-weighted index of the stocks in the Standard & Poor's 500 Index having the lowest price to book ratios. The index consists of approximately half of the S&P 500 on a market capitalization basis.

The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P Small Cap 600 Index in size: between \$1-4 billion.

The S&P Small Cap 600 Index consists of 600 domestic stocks chosen for market size, liquidity (bid-asked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market value-weighted index (stock price times the number of shares outstanding), with each stock's weight in the index proportionate to its market value.

The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia, and the Far East, excluding the U.S. and Canada.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Wells Fargo Investment Institute, Inc. is a registered investment adviser and wholly owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

PM-07102027-7829487.1.3