



## **To Our Clients and Friends of Parthenon LLC,**

In the early 1980s, the game show *Press Your Luck* first aired on CBS. The premise was simple: contestants answered trivia questions to earn spins on a brightly lit game board filled with cash, vacations, and other major prizes. But there was a catch. Land on a mischievous cartoon “Whammy,” and all your accumulated winnings disappeared in an instant.

In 1984, an ice cream truck driver named Michael Larson stepped onto the stage and stunned the television world. Over the course of an extraordinary run, Larson amassed more than \$110,000 in cash and prizes—the largest single-day winnings in game show history. His secret was not luck. After painstakingly reviewing episodes on his VCR, he discovered that the “random” board actually followed a limited number of repeating light patterns. By recognizing those patterns and timing his spins precisely, Larson was able to avoid the Whammies almost entirely.

### **Pattern Recognition and the Stock Market**

At its core, pattern recognition was the key to Larson’s success—and in many ways, it also characterized the markets in 2025. Pattern recognition lies at the heart of artificial intelligence (AI), and optimism surrounding AI continued to propel markets higher throughout the year.

The S&P 500 rose 17.9% for the year, marking its third consecutive year of double-digit returns. Even more striking, the index has now delivered gains of more than 17% in six of the past seven years, with 2022 standing as the lone exception, declining by more than 18%. Continuing a familiar pattern, returns were driven largely by a concentrated group of mega-cap companies, as the market-cap-weighted index outperformed the equal-weighted index by more than 6%. Encouragingly, however, the rally broadened as the year progressed. In total, the market reached over 38 new all-time highs during 2025.

The journey was far from linear. Volatility spiked in April following sweeping U.S. trade policy announcements as markets worked to assess their potential impact. Later in the year, shifting Federal Reserve messaging and heightened global tensions again unsettled investors. Despite these bouts of uncertainty, economic fundamentals remained resilient. GDP growth and corporate earnings continued to expand, margins improved, and balance sheets strengthened. By year-end, S&P 500 earnings per share grew 14.5%, reinforcing that market gains were supported by fundamentals rather than valuation expansion alone.

## ***Jeopardy!* and Interest Rates**

In *Jeopardy!*, contestants must quickly process vast amounts of information and respond with precision. In a similar fashion, the Federal Reserve spent 2025 digesting an enormous volume of economic data to determine the appropriate path for interest rates.

Inflation for 2025, as measured by CPI, stood at 2.7%, representing a modest decline from 2024. With inflation showing signs of moderation, the Fed implemented three rate cuts in the second half of the year, totaling 75 basis points. These moves provided meaningful support to the bond market, which generated solid returns. The Bloomberg Intermediate Government/Credit Index gained 7% for the year, a notable improvement over 2024. The 10-year Treasury yield ended the year at 4.15%, and the yield curve steepened over the course of the year.

## ***Deal or No Deal*: Risks and Unknowns**

*Deal or No Deal* centers on a simple but powerful dilemma: a contestant selects a briefcase with an unknown value and is then presented with offers that tempt them to trade certainty for possibility. Each decision weighs guaranteed outcomes against potential upside—an exercise in risk, psychology, and disciplined judgment.

In many ways, this framework mirrors our perspective as we look toward 2026. At times, investing can feel like selecting a briefcase without knowing what lies inside, aware that any outcome can meaningfully change the picture. As we step into the year ahead, several key risks remain on our radar:

- **Inflation:** While manageable today, any reacceleration could unsettle markets.
- **Geopolitical forces:** Global economies remain deeply interconnected, and disruptions through trade policy or supply chains would be unwelcome.
- **Corporate earnings durability:** Earnings growth has been strong, but sustaining momentum will be critical.
- **Market concentration:** Mega-cap stocks continue to exert outsized influence.
- **Valuations:** Equity valuations remain elevated relative to historical norms.
- **AI:** Expectations are high and execution will matter.

Success on a game show rarely comes from guessing wildly. The best contestants prepare carefully, remain patient, and make thoughtful decisions under pressure. That same philosophy underpins our investment discipline.

As we look ahead, despite these potential challenges, we remain cautiously optimistic and firmly committed to our principles. We continue to favor companies with durable earnings, strong cash flows, and prudent capital allocation. We remain attentive to valuations, particularly after several years of above-average returns. Most importantly, we maintain a long-term mindset, recognizing that despite inevitable cycles and volatility, the American economic engine has propelled growth forward over time.

### **A Cautionary Tale**

The conclusion of Michael Larson's story serves as an important reminder. Although he ultimately kept his game show winnings despite network accusations of cheating, his success fueled a taste for get-rich-quick schemes. In one particularly unfortunate episode, Larson withdrew nearly \$100,000 in cash to participate in a radio contest that promised \$30,000 to anyone who could match a dollar bill's serial number. After he failed to win, roughly half the cash was stolen from his home. Combined with other poor investments, Larson lost all his *Press Your Luck* winnings less than two years after his appearance.

We have seen many moments in the market when greed overwhelms rational decision-making. One of Parthenon's enduring strengths is our ability to remain disciplined in both favorable and challenging environments. The bright lights, spinning wheels, and cheering audiences can be distracting—but our focus remains on filtering out the noise through thoughtful analysis, prudent risk management, and alignment with your long-term goals.

We are grateful for your continued trust and partnership.



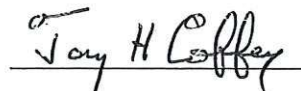
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