

January 11, 2026

Extraordinary headlines published during the first eleven days of 2026 make 2025 seem like the distant past. That said, the S&P 500 Index posted a total return of 2.7% during the fourth quarter of 2025 and 17.9% during the calendar year. International equities outperformed domestic stocks, with the MSCI ACWI ex-US Index returning 33.1% during 2025 when tallied in US Dollars. Fixed income markets also delivered positive results. The U.S. Aggregate Bond Index produced a total return of 7.3% during 2025. Today, we find ourselves in an investment environment that was recently described as follows:

“Pricey valuations, index concentration, circular finance, sticky inflation, and government debt are just a few of investors’ many concerns. Then there is geopolitics...” – Barron’s

So, is it truly different this time? In 2001, when I first moved to Louisville to work for Sam Harvey, he instructed me in no uncertain terms. “Never listen to anyone who isn’t responsible for managing money.” Since then, Sam’s advice has saved me thousands of hours that I might have otherwise wasted while reading sell-side research or watching CNBC and its ilk.

BlackRock, which recently reported an eye-popping \$13.5 trillion (with a *t*!) in assets under management, is worth a listen. The firm deploys a small battalion of researchers under its BlackRock Investment Institute flag, which influences investment decisions at the massive firm and beyond.

A key point of differentiation that separates BlackRock Investment Institute from other investment research organizations is Aladdin, its proprietary analytics system. In a nutshell, Aladdin crunches historical numbers with the goal of predicting the future.

More precisely, Aladdin performs Monte Carlo simulations, factor modeling, mean-variance optimization, value-at-risk (VaR) calculations, scenario-based stress testing, and cross-asset covariance. It employs



exponentially weighted moving averages where recent observations receive higher weights and older data "decays" over time. Although algorithms like these are certain to create a false sense of precision, many investors rely on them and BlackRock's resultant *capital market assumptions* to support asset allocation decisions.

A few years ago, BlackRock Investment Institute used Aladdin to generate elegant charts that depicted expected annual returns within a range of uncertainty for U.S. government bonds and for a global 60/40 portfolio.* Here's the part that's really interesting. They stopped. Why? BlackRock provided the answer in October:

We have seen the loss of long-term macro anchors – expectations for stable growth, inflation, and fiscal discipline – that investors relied on to drive long-term asset returns.

Said differently, BlackRock is signaling *This time, it's different*. We tend to agree, and believe this environment creates attractive conditions for Sapphire's approach to investing. As Charlie Munger said during the Berkshire Hathaway shareholder meeting in 2016, "Micro is what we do, macro is what we put up with." Rather than attempting to forecast macroeconomic outcomes, we focus on identifying high-quality businesses trading at reasonable prices. Such companies possess durable competitive advantages that generate sustainable returns on capital, which can be reinvested to compound business value over time. In our view, investors who employ disciplined, bottom-up analysis and concentrate on what is genuinely knowable are better positioned to navigate an indeterminate macroeconomic backdrop.

We welcome the opportunity to discuss these observations and your portfolio with you. Please email info@sapphirefiduciary.com, dial (502) 509-2568, or click sapphirefiduciary.com/contact if you would like to schedule time with us to review your investments or to learn more about what Sapphire does for clients.

Sincerely,

A handwritten signature in black ink that reads "Paul Stropkay". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

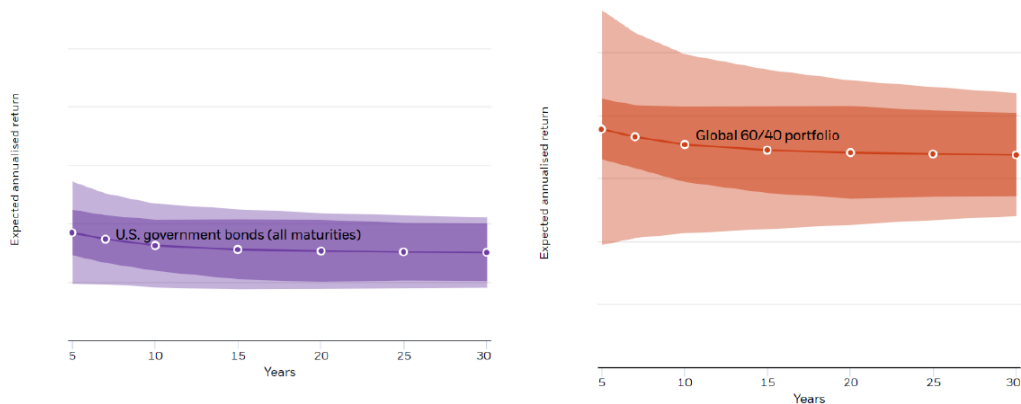
Paul Stropkay, CFA

Sources

- Barron's, *Our Roundtable Pros See More Gains for Stocks, Especially Those Left Behind Until Now*, by Lauren R. Rublin, 01/09/26
- J.P. Morgan Asset Management *Guide to the Markets*® U.S. 1Q 2026 as of 12/31/25
- blackrock.com/ca/institutional/en/insights/charts/capital-market-assumptions (10/14/25)
- BlackRock Investment Institute May 2023*

Footnote

* The scale on the Y-axis of the following charts that we published by BlackRock in 2023 have been deleted to avoid confusion.





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