

WHAT A YEAR

Of all the many events of 2025, one theme dominated for investors: Artificial Intelligence. The short-term implications for the economy and markets can be debated. But AI is no passing trend. It will continue to shape 2026 and beyond.

That makes AI the overwhelming #1 on **RockCreek's Top Five for 2025**. The reasons and ramifications are described below. First, the list:

1. Artificial Intelligence: Everywhere All at Once.

From the outstanding performance of AI-related tech stocks in 2025 to the impact on related industries, notably energy and power, to the broader implications for society and jobs, AI has been everywhere. Look for more of that in 2026.

2. The Federal Reserve Shifts Gear. After a long wait, the Fed cut interest rates in each of its final three meetings this year. In 2026, a new chair will take over. Will Chair Jerome Powell stay on the Fed once his term as chair ends in May? Watch for more cuts, but also more dissents.

3. Dollar Fade: Gold Sparkles. Investors still like the US. But doubts about the dollar after April's Liberation Day lingered, with hedging again the norm. Gold triumphed – silver too. No sign that will reverse in 2026.

4. Digital Assets Up – Bitcoin Not So Much. Interest in stablecoins took off in the US in 2025, and will likely expand further in 2026, even as regulatory approaches differ across countries. The shine came off Bitcoin after a volatile year.

5. The K-shaped Economy Here to Stay. Tariffs are

raising revenue, so someone is paying. Most evidence points to middle- and lower-income consumers for whom imported goods make up a big part of spending. At the other end of the income scale, stock market gains have fueled the wealth effect.

#1 AI: THEME FOR 2025 AND HERE TO STAY

Breakthroughs in AI came before 2025, notably with OpenAI's unveiling of ChatGPT large language model in 2022. But this was the year that everyone paid attention. It began in January with Chinese firm DeepSeek's shock announcement that it had developed an AI model rivalling capacity of those in the West, but at much cheaper costs. At first, US tech stocks cratered. But not for long. By mid-December, the Nasdaq was up 18.3%, the Magnificent 7 up 22.0%, and several AI-related baskets were up more than 70%.

The AI revolution has been both a blessing and a curse for equity investors this year. On the positive side, the technology's promise is profound. AI is already reshaping professional and personal workflows, as we have seen at RockCreek across investments and operations, with productivity gains that are difficult to overstate. Its broad applicability has attracted an extraordinary amount of capital, making AI the dominant driver of US equity market returns in 2025. Importantly, the winners have not been confined to a narrow slice of technology. Gains have extended across the AI ecosystem – from semiconductor designers and manufacturers to industrial and utility companies supplying the equipment, data centers, and power infrastructure required to support large-scale deployment.

At the same time, familiar late-cycle (although some would say we are in early-cycle) dynamics have begun to emerge. As with most transformative technologies, AI has attracted a significant amount of speculation, particularly from retail investors. The scale of investment required is immense, with trillions of dollars earmarked for related infrastructure, increasingly financed with debt. The pace of technological progress and user adoption remains uncertain, creating a wide dispersion of potential returns on invested capital. While the long-term outlook may be very bright, it is easy to envision meaningful capital destruction along the way. Traditional “quality” investors – those focused on near-term profitability, balance-sheet strength, and predictable cash flows – have often been crowded out of the market’s best-performing stocks, while the heavy concentration of Big Tech beneficiaries has turbocharged market-cap-weighted benchmarks and made them increasingly difficult to beat.

The impact on active management has been stark. According to our data and many recent reports, around 20% of actively managed funds are beating their benchmarks in 2025, which would mark the worst year on record going back to 1999. October and early November largely extended this trend, but the past several weeks have shown signs of change. Growing concerns about a potential AI bubble – particularly among weaker or more highly levered players – have led to notable dispersion within the theme. High-profile examples such as Oracle’s uneven performance and the growing scrutiny around capital-intensive AI infrastructure providers like CoreWeave have highlighted the risks embedded beneath the surface of the trade.

More recently, we have seen early evidence of rotation. High-quality stocks in non-AI sectors such as financials and consumer discretionary have begun to regain some lost ground, suggesting investors may be broadening their opportunity set. Whether this represents a temporary pause within a still-dominant AI cycle or the beginning of more

diversified market leadership into early 2026 remains an open – and increasingly important – question for equity investors.

As investors have poured money into AI and AI-related stocks, experts have offered divergent views on the broader implications for society and the economy. Some tech entrepreneurs foresee a world of unemployment – with incomes for laid-off workers perhaps supported by funds from enormous AI-related profits. Health-related innovations may revolutionize treatments for common and rare conditions, improving life and longevity.

Most economists argue that the impact is likely to be slower and less dramatic, even if adoption is faster than with earlier technologies, such as electricity. There are still enough unmet needs in the US – never mind in the rest of the world – that suggest that we are not close to a ceiling on consumer demand. However, the rapid advance of AI and its ability to replace so many human functions raises challenges for businesses and policymakers. Disruption to existing modes of production may be localized, as with the “China shock”, either geographically or affecting particular groups of workers more strongly than others. Measures to respond, e.g., through education and training or increased financing of unemployment, may become popular.

#2 MONETARY POLICY CONUNDRUM

Central bankers always have to wrestle with uncertainty. But 2025 saw more shifts in the US economic environment than in most years. The new Trump Administration announced major new policies on trade, environmental subsidies and federal jobs. At the same time, policies concerning the Fed itself changed. Discussions of a new Fed Chair became loud, ahead of the ending of Jerome Powell’s term as Chair in May 2026. And, unusually, a divergence of views on interest rate policy emerged among Fed policymakers with three

dissents at the mid-December meeting. Two argued against the majority support for a 25 basis point rate cut. One argued for a deeper cut.

On top of concerns about Fed independence and the uncertain impact of trade policy changes ushered in by President Trump, the Federal Reserve faced a tension for much of the year between its two main goals: maximum sustainable employment and price stability. Continued sticky inflation meant that interest rate cuts were a long time coming. Fed Chair Powell and colleagues did not want to allow another flare-up in inflation. At the same time, evidence grew during the year that the labor market was softening. Fewer people were willing to leave their jobs. Hiring slowed. And unemployment began to creep up.

When the Fed finally moved in September 2025, it pointed to weakening labor markets. Despite less than usual confidence in official jobs data, following the government shutdown, the Fed moved another 25 basis points in October and December, bringing its Fed funds rate to 3.625%. More cuts are expected in 2026. Relatively benign consumer price data released December 18 reinforces that view. But with inflation still well above the Fed's 2% price stability goal, at 2.7% year on year in November, dissents from the hawks may grow. This would complicate the job of the new Fed chair. President Trump has made clear that he is looking forward to whomever he appoints pressing for further substantial cuts in interest rates to boost the economy. While there has been much written about the "two Kevins" (Hassett and Warsh), Fed Governor Christopher Waller has also been interviewed by the President, and there are even some who believe that Treasury Secretary Scott Bessent could take on the Fed Chairmanship, despite his saying that he doesn't want the job.

#3 DOLLAR DOWN, GOLD UP

The dollar is ending 2025 some 10% lower in trade-weighted terms than a year ago. While we do not expect a further sharp decline in 2026, there are

structural headwinds that make a recovery unlikely. Dollar weakness was an unexpected result of the tariff turmoil in the first half of the year. Theory would suggest that tariff barriers would cause the dollar to climb. But the shift in US policies on trade and global economics led to concerns of a step change in the desirability of holding dollars. This concern was overblown: the strength of the US economy and its deep financial markets are unmatched. But overseas investors who had earlier bought into US assets unhedged, put on hedges that led the dollar to drop in the first half of 2025. The path of the dollar has meaningful implications for all investors' asset allocation decisions and thus has rightfully garnered significant attention.

As concerns about dollar stability grew, many investors – including central banks as well as individuals and institutions – saw gold as an attractive alternative. In dollar terms, the yellow metal has risen by more than 60% this year as global institutions and investors diversified their currency exposure. Central banks around the world had begun to step up purchases of gold several years ago. This elevated level of buying persists and according to some research, gold may have surpassed Treasury security holdings on some central bank balance sheets. Gold ETF buying has also boomed as investors – both institutional and retail – have joined in the trade. Silver has, unusually, outperformed gold with a rise of some 130% this year. Buying was spurred by demand for industrial processes in addition to monetary policy reasons. As the dollar slipped, both developed and emerging market currencies rose. In developed markets, top performers included the Swedish Krona, Swiss Franc, and the Euro, which have risen 19%, 14%, and 13%, respectively through mid-December. In emerging markets, the Hungarian Forint, Mexican Peso, Colombian Peso, and Brazilian Real have risen 20%, 16%, 14%, and 12%, respectively, in dollar terms. The Japanese yen stands out in comparison to developed market peers. After strengthening against the dollar along with other G10 currencies in the first half of the year, it gave back all gains to end the year roughly

where it began, despite a second rate hike from the Bank of Japan today and several rate cuts from the Fed.

The top performing currencies illustrate idiosyncratic drivers of the FX pairs, giving a guide to whether those trends will persist in 2026. Euro and Swiss Franc, for example, are large, relatively safe, currencies that managed to strengthen despite more accommodative central bank policy through 2025. Their strength was likely driven by either purchases by repatriated dollars or hedges for dollar-based assets back into these currencies. Assuming investors feel comfortably hedged at this point, these forces are unlikely to provide a further tailwind in 2026. However, next year could see a more dovish Fed (as discussed above) coupled with an ECB on hold, or even tightening. The Japanese yen, another traditional safe-haven currency, is likely to be buoyed by continued monetary tightening. This could provide a further headwind to the dollar against these currencies.

In emerging markets, the broad strength there is being driven by a wide range of factors – from election optimism in Hungary to high real interest rates in Brazil. The continued strength in those currencies will thus depend on how those stories play out in 2026.

#4 DIGITAL ASSETS: STABLE COINS IN, BITCOIN OUT?

2025 was a year of reckoning for Bitcoin's 'digital gold' narrative. After opening the year at approximately \$93,000, the market was jolted by President Trump's 'Liberation Day' announcements, which triggered a wave of volatility that dragged prices down to \$75,000 by mid-April. This retreat proved temporary; however, the passage of the GENIUS Act in July catalyzed a massive summer rally, propelling Bitcoin to a peak of nearly \$125,000 as regulatory clarity emboldened institutional buyers. Yet, this momentum hit a wall in the fourth quarter. A widespread unwinding of crowded momentum trades across all asset

classes saw Bitcoin slide back to \$85,000, erasing its mid-year gains. Ultimately, the year cemented a stark contrast in the 'safe haven' debate: while gold remained remarkably resilient, Bitcoin's price action mirrored that of a high-beta, volatile technology stock rather than a stable store of value.

The passage of the Guiding and Establishing National Innovation for US Stablecoins (GENIUS) Act in 2025 represented a watershed moment for the digital economy, transforming stablecoins from speculative tools into a formally regulated pillar of the American financial system. This legislation defines "payment stablecoins" as digital assets backed by high-quality liquid reserves, specifically restricting their issuance to qualified US entities subject to bank-like oversight. By prohibiting algorithmic models and the payment of interest to holders, the Act prioritizes stability and consumer protection over speculative yield, effectively treating stablecoins as modern, digital versions of the dollar.

While the GENIUS Act provides the foundational safety net, its impact on the broader market is nuanced. For the US Treasury, stablecoins have become a consistent, albeit marginal, source of demand for T-bills, currently representing approximately 4% of the market, per Bridgewater. Rather than creating entirely new demand, stablecoins often serve as a "digital wrapper" for existing fiat, reducing transactional friction and enabling 24/7 settlement without fundamentally altering the global supply of dollars. However, this efficiency creates a dual-edged sword: while it strengthens the global reach of the US dollar, it accelerates capital flight in emerging markets, where residents use stablecoins to flee local currency volatility.

The horizon of 2025 extends beyond simple payments into the "tokenization of everything." While the CLARITY Act continues to navigate the Senate to resolve jurisdictional disputes between the SEC and CFTC, market leaders like NASDAQ are already pushing toward the final frontier: tokenized

public equities. By moving traditional stocks onto blockchain infrastructure, the financial system is shifting toward a model where stablecoins serve as the primary liquidity layer for a global, programmable, and instantly settled marketplace. This evolution suggests that the future of finance lies not in replacing the dollar, but in enhancing its utility through transparent, enterprise-grade infrastructure.

#5 THE K-SHAPED US ECONOMY: GOOD FOR SOME BUT MANY UNHAPPY

The US economy proved its resilience once again in 2025. Despite shocks from tariff shifts and supply chain disruptions, the economy continued to grow. The labor market weakened, but not dramatically. Private investment – boosted significantly by AI-related enthusiasm for building data centers and developing new energy sources – bolstered GDP. Corporate earnings were largely on track. The odds of a recession in 2026 are low. Growth is mostly expected to stay close to potential, taking into account diminished labor supply as a result of the Administration's success in curbing illegal immigration and aggressive approach to deportations.

Despite this benign picture, polls – both opinion polls and actual voting in off-year and special elections – show that most Americans are dissatisfied with the economy, unhappy with higher prices for groceries and health care, concerned about housing affordability and worried about employment prospects. Perhaps surprisingly, this has not translated into a collapse in consumer spending. Instead, consumers above median income levels are holding up spending. In 2026, Americans will have a chance to vote for Congress in the November midterms. The White House will likely do what it can to make voters happier by then.