

INVESTMENT UPDATE

DECEMBER 2025



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A CASE OF BAD BREADTH...



By the most common metrics, the market is having a pretty good year. Through November 30, the S&P 500, Dow, and S&P 500 Equal Weighted are up 16.4%, 12.2%, and 9.0% respectively. Overall investors have been happy, but it has not been an easy road. Markets, and particularly individual stocks, have been very volatile and choppy.

As you undoubtedly recall, April saw a very brief bear market plunge (a decline of 20%) on tariff concerns, and the market just endured a 5% correction in November on concerns over AI exuberance and uncertainty over a December rate cut (now certain). But what is often overlooked behind the broad index performance figures, is the carnage that has been left behind in many individual stocks that remain far from their 52-week highs.

In our December 2023 newsletter, we took a deeper dive into the structure of the S&P 500, introduced its "equal weight" counterpart, and discussed the "breadth" or overall participation of individual stocks to the return of those indices. As explained then, the S&P 500 is a market capitalization weighted index meaning that larger companies contribute more to the return of the index than smaller companies. Therefore, a few of the largest companies can mask the performance of the many in the index.

In 2015, the combined weight of the Magnificent 7 was just 12% of the total market cap of the index. However, it has grown dramatically, rising to 38% today. That means that just slightly over 1% of the 500 companies in the index have roughly the same contribution to the performance of the S&P 500, as roughly 200 companies (38%) in its Equal Weight counterpart!

A comparison of the S&P 500 and the S&P 500EW show market breadth at its lowest since 2003. In October, the S&P 500 climbed 2.3%, marking its sixth straight monthly gain. As we would expect, not every stock in the index participated in this upward move. However, you wouldn't have expected the number of declining S&P 500 stocks (296 or almost 60% of the companies) to outnumber advancing ones during the month of October.

Historically, periods of high concentration on a limited number of highfliers—like the early 70s with the "Nifty Fifty" or the late 90s tech boom have preceded bear markets. However, timing is never certain and there is always a case to be made for "this time it's different." Many analysts point to a lower interest rate environment, strong earnings, and strong labor market in support of that view.

Still, considering above average double-digit market returns for the past three years we are concerned about a potential return to the mean (hard to remember the S&P 500 returning -18.0% and NASDAQ -30% in 2022). Thus, we have by and large been trimming outsized concentrated positions in client portfolios and taking profits where prudent while of course being mindful of capital gains tax repercussions. After all, our goal is to sell into market strength not weakness. We continue to follow market events, monitor portfolios accordingly and adjust portfolios as needed.

All of us here wish you and your families the most wonderful holiday season and prospects for the New Year. We thank you and your family for your continued trust and confidence in each of us and the firm since 1962.

JOE ROMANO
President

WHAT REALLY DRIVES INFLATION TODAY?

MONEY SUPPLY VS. INTEREST RATES



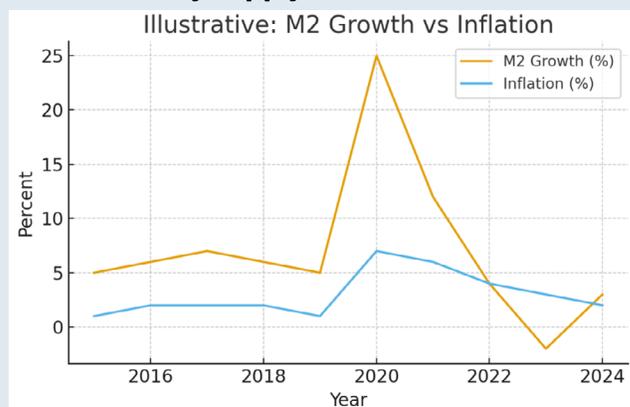
Inflation continues to shape markets, influence household budgets, and guides long-term financial planning. A common question is: What matters more for inflation—money supply or interest rates? Both are important, but they affect prices over different timeframes. Understanding that difference helps explain Federal Reserve policy and where the economy may be headed.

What is the money supply?

It's simply the total amount of spendable money in the economy—cash, checking accounts, savings accounts, and short-term deposits. When the money supply grows, people and businesses have more to spend, which tends to push prices higher. When it contracts, spending slows down and inflation cools, but overall economic activity may slow as well.

For decades, economists viewed inflation mainly through the lens of money supply. When the money supply grows far faster than the economy, inflation eventually follows. This pattern showed up in the inflationary 1970s and again in 2020–2021, when a sharp surge in M2 (M2 is a measure of the money supply used by the Federal Reserve) set the stage for the 2021–2022 inflation spike.

Chart 1: Money Supply Growth vs. Inflation



However, today's financial system has weakened the short-term link between money and inflation. Most of the money in the modern economy isn't created directly by the Federal Reserve—it's created by banks through the lending process. When banks are cautious and loan growth is

slow, the money supply doesn't expand much, even if the Fed is active. As a result, monetary policy takes longer to influence everyday spending. Money supply still creates the conditions for inflation, but many economists now believe it no longer predicts when inflation will appear. Because of this, the Fed relies primarily on interest rates as its main tool to control inflation.

Interest rates, meanwhile, influence the economy in real time. By raising or lowering the funds rate, the Fed affects certain borrowing costs, business investment, housing activity, wage pressures, corporate financing, and even the value of the U.S. dollar. From the Fed's perspective, inflation only cooled after the aggressive 2022–2023 series of rate hikes pushed the federal funds rate from 0% to 5.25%, slowing demand across the economy.

But did interest rates really do all the work?

After the 2008 financial crisis, the Fed kept interest rates near zero for seven years, yet inflation remained low and economic growth was sluggish. During COVID, the Fed again held rates near zero—but this time inflation surged to 9%, even as real economic growth remained modest. This raises an important question: Are short-term interest rates truly as powerful as the Fed believes?

What stands out is the pattern in money supply. It did not accelerate after 2008, but it increased dramatically during COVID. That difference may explain far more about today's inflation than rate policy alone.

If it were up to me, money supply would still hold a meaningful place in the conversation. While the Federal Reserve no longer emphasizes it, the historical record suggests it deserves far more attention than it receives today. A fuller understanding of monetary trends, alongside Federal Reserve interest rate decisions, can offer valuable insight into the forces shaping inflation and economic growth.

DOUGLAS N. GEISSER
Vice President

RWM TO HOST CYBERSECURITY WEBINAR IN JANUARY



Cybersecurity is an important topic for everyone these days. Whether you go online via phone, laptop, or tablet, it is important to safeguard your personal information. It is also important to distinguish between messages from legitimate senders you work with and from those who are attempting to steal your personal information, or to manipulate your device for their benefit.

As a courtesy to our clients and friends, we are hosting an educational seminar on this topic. Our guest speaker will be Justin Ellerman, Senior Vice President of the Wells Fargo Cybersecurity group. Justin will speak on current cybersecurity threats and how best to protect yourself. Additionally, members of the RWM management team will be on hand to address topics such as:

- What policies and procedures does RWM have in place to protect against fraudulent withdrawals?
- Regarding my RWM account(s), what should I do if I suspect someone has fraudulently obtained my personal information (PII)?
- What happens if my login credentials for the RWM Access Online website are compromised?

The presentation will take about 30 minutes and afterward there will be time for questions and answers.



The seminar will be presented online via webinar. This is a type of video conference that you register for and attend online.

Webinar Details

Date: Wednesday January 21, 2026

Time: 10:00 am Central

Registration information will be sent out to all our clients in late December. You will also be able to receive registration information from your Portfolio Manager. You are welcome to forward this invite to friends or family who may find it helpful.

In the meantime, please reach out to your Portfolio Manager with any questions.

ERIC BEDERMAN

Chief Operating & Compliance Officer

BEACON ACADEMY VISITS ROMANO



Joe Romano hosted students from Beacon Academy to share the history and mission of Romano Wealth Management as well as the services we offer our clients. Joe was impressed by their interest and in-depth questioning during the Q & A.

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ROMANO NEWS



Romano employees enjoyed a sampling of the food and beverages offered at The Evanston Mash Up. This annual event takes place at The Autobarn and members of the Evanston Chamber of Commerce run tasting booths to educate the public on their offerings.



We loved receiving this picture from a client and thrilled the Romano umbrella is being put to good use!

This newsletter has been prepared by Romano Wealth Management for our clients and other recipients. Within this document, we may express opinions about the direction of financial markets, investment sectors, trends, and taxes. These opinions should not be considered predictions of future results, and are subject to change at any time. Past performance is not indicative of future returns. Nothing in this document represents a recommendation of any particular strategy, security, or investment product. This information is provided for educational purposes only and was obtained from sources considered reliable, but is not guaranteed and not necessarily complete. Please consult your portfolio manager for more information.

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