

## RODGERS BROTHERS, INC.

# PERCEPTIONS

4 <sup>th</sup> Quarter, December 31, 2025	12/31/2025	% Change 4 <sup>th</sup> Quarter	% Change Year to Date
Dow Jones Industrial Average	48,063.29	4.03 %*	14.92 %*
S&P 500	6,845.50	2.66 %*	17.88 %*
Russell 2000	2,481.91	2.19 %*	12.81 %*
Bloomberg Aggregate Bond Index		1.10 %	7.30 %
10 Year Treasury Yield	4.17 %		
30 Year Treasury Yield	4.84 %		

\* Includes reinvested dividend

Source: Bloomberg

### Foundations

As we celebrated our 40<sup>th</sup> anniversary last year, many of you toured our historic buildings in Harmony, which were originally constructed in 1806 and 1807. While our walkthroughs primarily featured the first-floor trade room and second-floor library, they did not include the basement, despite it being the most structurally important (and frightening) part of the building. In 1860, a fire destroyed most of the original structure; however, the massive stone foundation remained intact. This well-engineered base provided the structural integrity necessary to restore our building, forming the backbone of the office that stands today.

### Consumer Staples

When we begin managing a new portfolio, we seek to start with a strong foundation. With Treasury Bills, Money Market Funds, and Consumer Staples (CS) serving as a stable base, we can add growth exposure when opportunities allow. We are often asked why we include a proverbial tortoise like Consumer Staples as part of the foundation for your portfolios. This group of equities provides essential products for daily life, such as foods, beverages, and household items. We feel that the sector tends to be defensive in nature, underperforming in bull markets and outperforming in flat or bear markets. This group is characterized by lower volatility and higher dividend payouts. Stocks in the CS sector include familiar names like Colgate-Palmolive, Clorox, Estee Lauder, General Mills, Hershey Foods, Pepsi, Target, and Walmart.

Of the eleven sectors in S&P 500, the CS sector was the worst performing in 2025, up approximately 1.6% versus the S&P 500's overall gain of 17.9%. In part, the excitement of AI-fueled growth pulled money away from the defensive sectors. Over the last ten years, the S&P 500's CS sector weighting dropped from approximately 10% to 5%. This decline in index weight and value, while painful in the short term, has enhanced potential in the long term. At the end of the year, the eight staple stocks listed above had a dividend yield of 3.35%, which is approximately 2% higher than the average yield of S&P 500. In addition to slow and steady growth, quality CS companies tend to increase their dividend most years. According to S&P Dow Jones Indices, dividends have provided 31% of the total return in the S&P 500 since 1926.

## **Sector Rotation and Balance**

The last 15 years have been extremely favorable to equity prices with only two annual declines in the S&P 500, 4.4% in 2018 and 18.1% in 2022. The art of portfolio management allows us to reduce risk and re-balance sectors to match your investment objectives and risk profiles as markets change. Our philosophy has always been to let winners run and cull out our weaker selections when necessary. Occasionally, when individual securities perform so well in the long term that they exceed 10% of your portfolio value, we are inclined to trim positions to manage risk; Coherent and Eli Lilly are two recent examples. In addition to individual equities, sectors may become overweight in a portfolio and periodically need pruning. Conversely, securities and sectors can fall out of favor in the market while offering attractive value opportunities.

We have always worked with a bottom-up perspective, believing we can add more value by analyzing individual securities and sectors as opposed to forecasting from a macro perspective. That said, economic cycles have been consistent since the founding of our country, and we assume those fluctuations will continue. With the cyclical nature of the economy, stock market sectors have historically rotated with the economy and that rotation will likely continue. Our bottom-up analysis has acted as our canary in the coal mine, signaling when stocks or sector valuations become extremely bullish or bearish. These fluctuations in sentiment typically occur over years, as opposed to days, weeks, or months.

We currently view the Consumer Staple sector as extremely undervalued and out of favor in the current market environment. As we await this weekend's Snowmageddon, we are reminded of financier Bernard Baruch's quote:

“Buy straw hats in the wintertime. Summer will surely come.”

Being contrarian value investors, the decade long slide provides an opportunity to strengthen the base of your portfolio with blue chip consumer staples.

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