

# GW&K MARKET INSIGHTS

Transcript of 4Q25 conversation with Harold Kotler and Bill Sterling,  
moderated by Dan Fasciano



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We invite you to [listen to](#) this dynamic conversation between with Harold Kotler, Bill Sterling, and moderator Dan Fasciano as they review events from the fourth quarter of 2025 and discuss:

- How discipline, diversification, and humility remain essential for investors – especially when navigating volatile markets;
- Why artificial intelligence is still in the early innings, with growing market focus on productivity gains, labor cost savings, and differentiation between long-term winners and losers as the investment cycle matures; and
- How improving productivity, falling inflation pressures, and supportive fiscal and monetary policy could drive a broadening of market leadership across small cap stocks, international equities, and bonds.

## Edited transcript

**Dan Fasciano:** Welcome to the Fourth Quarter Client Conference Call for GW&K Investment Management. This call represents the views and opinions of GW&K Investment Management and does not constitute investment advice, nor should it be considered predictive of any future market performance.

To everyone listening in, greetings and Happy New Year from the team at GW&K. My name is Dan Fasciano, Director of Private Wealth. Joining me on today's call is Harold Kotler, the firm's Founder-Chairman and Chief Investment Officer, as well as Bill Sterling, our Global Strategist.

Harold, the new year is a good time to reflect and recalibrate, for both investment professionals and our clients. Your current [quarterly letter](#) emphasizes the need for resilience and humility. You also point out that psychological dynamics – things like fear, sentiment, and knee-jerk behavior – often lead to poor investment decision-making. As you reflect on 2025 and contemplate the year ahead, how do you translate things like discipline and humility into specific action items within multi-asset class portfolios?

**Harold Kotler:** I'd like to say that one year, this is another year – the discipline of investing should not change. That doesn't mean the character of the portfolio may not change, but I think you have to go into every year with the same attitude: That you have a diversified, healthy portfolio with capital reserve, so you can sleep at night, and understand that volatility is just something that we all have to live with. I emphasize that volatility is not risk. Volatility is volatility. And it's only risk when one behaves in a poor fashion – i.e., sells. So, structuring a portfolio for this year, last year, or next year – it's the same. It's a discipline, including diversification, and keeping your eye on what you're really trying to accomplish in your financial life.

**Dan Fasciano:** You're bringing in words like volatility and risk, so I want to follow up with you. I mean, how do you balance behavioral prudence and discipline with the need to adapt when things change?

**Harold Kotler:** When do things change? And when do we know things have changed — and how do we know things have changed? Do we know before the fact, or after the fact, that things have changed?

One could argue that if you stayed invested from the end of World War II to today, nothing's changed — although we've gone through terrible ups and downs — but I don't know anybody who anticipated and reacted properly all the time to the changes. I think it's a misnomer to think that we actually have the ability to be that clever. Don't forget, now you're changing the world from emotion to discipline in investing. I feel it's very important, as an investor, you buy securities in a portfolio that really meets your needs, knowing full well that you've made mistakes — this is not a science. Having known that, the question is: So what?

If you diversify correctly, have enough cash reserve, know your limits, and don't get caught up in the emotions of the moment, you'll do fine. That's the problem with the stock market: Unlike any other investment, it's liquid. So people can make decisions too often, too quickly, and oftentimes wrong.

**Dan Fasciano:** In the background there, too — you didn't say it as much, but there's the humility. Who gets it right all the time?

**Harold Kotler:** Yes.

**Dan Fasciano:** So, Bill, despite what Harold just said, there are some winds of change out there, and those are AI. I want to pick up 2026 where we left off last year, as it relates to artificial intelligence. You and Harold have been consistent and aligned about AI's economic and market benefits. Assuming that we've moved beyond the initial excitement phase, as the AI cycle matures, what are the opportunities and risks that come to mind for you?

**Bill Sterling:** I think we're still in the early innings of the way AI is going to transform the world economy and the US economy, but I'd say there have been some signs in recent months that markets have started to focus a little more on the show-me-the-money phase of looking for companies that will be able to generate a significant return on investment from their massive investments, versus those who are just throwing money at AI as part of an arms race dynamic.

In that particular race, Google started to look like a winner in recent months, while companies like Meta and Oracle have started to lag. And while I think no one doubts that AI will be transformative, and that there's still huge infrastructure spending in the pipeline, I think it's healthy to see some skepticism and differentiation among the players that have started to show up in both equity prices and in credit spreads.

But the other dynamic that I think is likely to become increasingly important for investors is to focus not just on revenues of the companies that are building out the AI systems, but on companies whose labor cost savings from using AI will be an important part of their business proposition.

Interestingly, BlackRock just put out a paper that speculates the present value of such labor cost savings could exceed \$100 trillion in coming years, and that compares to a total market value of the broad stock market in the US of currently about \$70 trillion. So, that's why I believe we're still in early days, and it means the market will be spending many, many, years sorting out the winners and losers in that process. But I think the theme of cost savings seems to be certain to be an important market focus going forward. I think that also may point to a broadening of market performance beyond those magnificent seven tech giants that have powered the market for the last several years, and which are no longer trading as a monolith.

**Harold Kotler:** I couldn't agree more. I think we're in the early stages, and of course, securities will go up and down based on whatever factors that play out in that particular week, day, or month. But that's not the message. The message is: This is big. This is really important stuff. And there's a lot of money to be made. And it's going to change the economy in a major way, and you have to be invested in this world, in AI. You must.

**Dan Fasciano:** Well, I can't help but think, as Bill was talking, back to your original comment, Harold, while the market's liquid, you need to be disciplined, you need to be patient, you need to let it unfold, and you need to stay invested.

**Harold Kotler:** That's right, Dan. People will sell their stocks and they'll look back 10 years from now and say, "What an idiot, why did I sell it? What made me sell? Why would I sell it?" Because it went down 10% – 15%? Or we're going to invade Greenland? I mean, really, you can't make decisions like that.

**Dan Fasciano:** Well, alright, you mentioned the Greenland word, but I want to follow back up with Bill. We talked about AI as a macro theme here. Geopolitical risk is obviously still out front as a theme. What macro themes, Bill, as we enter the year, do you see dominating?

**Bill Sterling:** It's hard to know where to start on that one — Venezuela, Iran, Gaza, or now Greenland — other than maybe to say that financial markets have ultimately tended to trade on economic fundamentals rather than the shocking headline of the day. There are clearly concerns in the market right now about whether President Trump's push to acquire Greenland or get greater rights for operating in Greenland will trigger another round of tariff wars with the US. It's hard to know how much of that noise on that issue is just posturing and negotiation tactics, and that all remains to be seen. Last year, investors benefited by ignoring the noise around the tariff issues, and we suspect that could be true again this year.

**Dan Fasciano:** So, Harold, let me turn it to you. When you step back and look at the investment landscape, as well as talk to our investment teams, are there particular areas or sectors that you believe offer better relative-value opportunities?

**Harold Kotler:** To pick up on Bill's point, last year I liked the word "noise." All that noise. And it didn't impact returns at all. Why? Because the private sector was able to move on, and have its own conclusions about what's happening in the world. And I think that's absolutely going to happen this year, too. And I think the market will broaden out. I think small caps, which had such

a terrible year — or 2 or 3 — will finally get a bid, because I think they're cheap, and there's some great companies in the small cap world and they should do well. But I think the market's going to be broad. It's not a question of either-or. I think it's participating in all parts of the market — Europe, internationally. I just think that it's a bull market, and the noise is just going to keep on driving people nuts, which is why it's a bull market. The disbelief that this is going to keep on going up. It's so strong. People, although making money, are scratching their heads — I think even with a little guilt.

**Dan Fasciano:** I want you to hold that thought, because I'm going to come back to you in a moment, but I want to get Bill to zoom out a little bit, because there is a lot to discuss on the macroeconomic front. It's early days here in the year, Bill. How are you thinking about domestic growth prospects and inflation?

**Bill Sterling:** Well, the economic data we track has been suggesting that both growth and inflation are doing better than almost all forecasters expected 3 – 6 months ago. We've seen the growth forecast being revised up over that time, and the inflation forecast revised down, and I think an underappreciated aspect of the current setup is the huge acceleration in productivity that we've seen in recent quarters, with rates of productivity growth 4% – 5% annualized in the past several quarters, compared to a trend of about 1.5% in the previous decade. Put briefly, we've had big gains in output with little growth in labor in recent quarters, and that's what defines a productivity boom.

Interestingly, I think AI itself has only been a small part of that story so far, but it is likely to play a big role in boosting productivity over the next few years. And I think, importantly, from the Fed's point of view, higher productivity has reduced inflation pressure, with unit labor costs up only about 1% over the past year. So it's almost become a get-out-of-jail-free card for the Fed. And that's let them cut interest rates three times in the last few months, even as inflation forecasts have been moderating. And I think it sets the stage for more rate cutting this year.

**Dan Fasciano:** If I could, let me push you a little harder on both fiscal and monetary policy. We've got some fiscal policy changes taking effect this year. We do have tariff threats as a kind of background noise, if you will. There are some shifting thoughts on monetary policy, and the reality is President Trump is about to make a nomination for the next Fed Chair. What role do you see policy — whether it be fiscal or monetary — playing, as it relates to either extending or curtailing the current cycle, Bill?

**Bill Sterling:** Well, I think policy is very supportive for growth and could probably deliver growth this year in the 2.5% – 3% range for GDP. To start with fiscal policy, that's on autopilot to boost growth with the Congressional Budget Office estimating a boost of nearly 1% to GDP based on big tax refund checks, as well as a big boost to investment spending, thanks to tax incentives that were passed last July in the One Big Beautiful Bill Act. And now, ahead of the fall midterm elections, there's talk in Congress about part 2 of the Big Beautiful Bill with additional incentives, but we'll have to wait and see how that plays out.

Regarding the next Fed chair, I think the markets expect the president to pick a successor to Chair Powell, who leans dovish, but still has the respect of Wall Street. And so that's a bit like threading a needle, but the names that have floated around on the short lists we've seen seem to fit the bill.

And for all the controversy, Chair Powell himself has leaned dovish as well. I do wonder if bond yields could have already become a bit lower than they are without the aggressive threats we've seen to Fed independents. Those threats may have added a bit to the risk premium priced into long-term bond yields. So, to that extent, those threats may have been counterproductive, and they're also threats that reinforce, I think, the case for global diversification, which we've always talked about.

**Dan Fasciano:** That's helpful, and it kind of leads back to you, Harold. First, I want to pick up right where I left off on that last question. You do see a broadening and an extending of the rally here?

**Harold Kotler:** Yes.

**Dan Fasciano:** You do. And you mentioned small caps, non-US — I mean, you're really feeling pretty confident about equity allocations in general right now?

**Harold Kotler:** Yes.

**Dan Fasciano:** All right. Let me try to push you to the other side of that and take us out a little ways. You know, and it's not a fair question, because I hear you loud and clear, but what would you be looking for as an early indication that things are a little frothy, or that we have got ahead of ourselves here? What advice can you give us?

**Harold Kotler:** Well, of course there's going to be froth, and of course there's going to be overvaluations, and of course there's going to be corrections. It is human nature to get overexcited about this trend or another trend. Yes, all will happen, and the volatility may increase. That's true. So what? My message is, volatility is not risk. Human behavior is where the risk is. You have to make sure you're investing in quality companies. Some will do better than others at any given point in time. But that's all part of the stock market. It's just — no one rings the bell when you're supposed to get out. And certainly, no one rings the bell when you're supposed to get in. It's an impossible game to play that way.

On the other hand, it's a simple game. We know where the world is going. We know technology. We know AI. We know some great companies are doing some fantastic things. The drug industry's going to change. Our lives are going to be changed over the next 5 — 10 years in ways that we can't imagine. So why don't we want to invest in the world that is going to be part of that change, and enjoy the ride? That's all I'm saying. And don't look over your shoulder for the next shot to be fired. It may come, but, okay. Then you pick yourself up, you keep on moving forward.

**Dan Fasciano:** That's helpful to hear.

Bill, Harold's pressed the button, so now I want to widen the lens a bit further here. International developed and emerging market stocks finally bested the US after a number of years of underperformance. In fact, many of the non-US equity indices returned in the vicinity of 30% last year, which underscores Harold's repeated calls for us to make sure we diversify regardless of what's trendy in the market. Give us a little bit, if you could, about what the dynamics were behind last year's resurgence on the non-US side, and what should clients be looking for as they contemplate their non-US equity exposure coming into the year.

**Bill Sterling:** Well, I think the big dynamic was the weaker US dollar. The dollar historically has tended to trade higher and lower with long, multi-year cycles — 5, 6, 7, 8, 9 years in some cases. And for a variety of reasons, non-US equities tend to outperform the US during those weak dollar cycles and underperform when the dollar strengthens.

I think that happens because not only do your foreign investments become more valuable when the dollar weakens because of direct currency translation effects, but also periods like that with a weaker dollar tend to put pressure on foreign policymakers to stimulate their domestic demand, to offset any hits to their exports as they're strengthening currencies price their products out of global markets. So, all of those dynamics were in place last year, and nearly 10% of the gains from non-US equities — which were up 30% plus — came from currency translation effects.

But now here's the thing: From a long-term perspective, the dollar remains very strong, and that means it has ample room to continue to decline, especially if the US keeps cutting rates under a new Fed chair. So we would recommend continuing to maintain international portfolio diversification, even after last year's big run-up in non-US markets. And as an added incentive, they're still trading at substantial P/E ratio discounts to the US market.

**Dan Fasciano:** All of that reminds me again: Discipline, humility, and the long-term nature of investing. And whether you're calling it volatility or risk, don't give in to it.

**Harold Kotler:** Keep it simple, stupid.

**Dan Fasciano:** Don't look at me when you're saying that that way!

All right, well, Harold, Bill, I want to thank you both for sharing your thoughts. As always, should anyone listening in have a follow-up question or two, please feel free to get in touch with your GW&K advisor. And to all our clients and friends, please enjoy your early 2026 months, and we look forward to reconvening in April.

## Disclosure

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