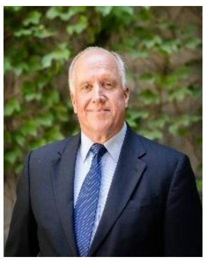
2025 – 4th Quarter Review & 2026 Outlook

Economic and Investment Review



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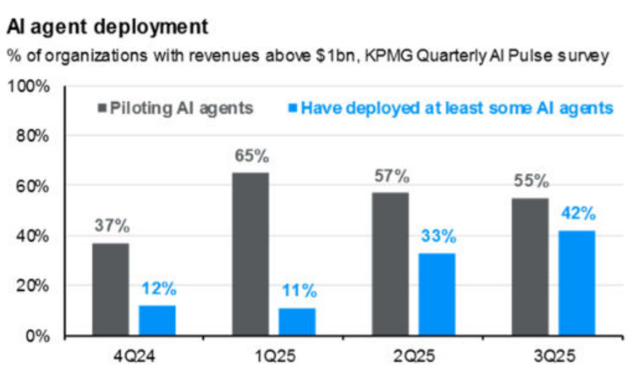
Economic Growth: Tariffs and a government shutdown added significant uncertainty to economic growth in 2025. However, the economy seems to have largely looked past these issues. U.S. Q3 GDP of 4.3% surprised well to the upside of the consensus forecast of 3.2%. The number may be subject to revision due to delays in data related to the government shutdown. Consumer spending remained strong, and government spending rebounded. AI capital spending continued to play a strong role in the additional growth. The increasing business adoption of AI should serve as ongoing support to GDP growth.

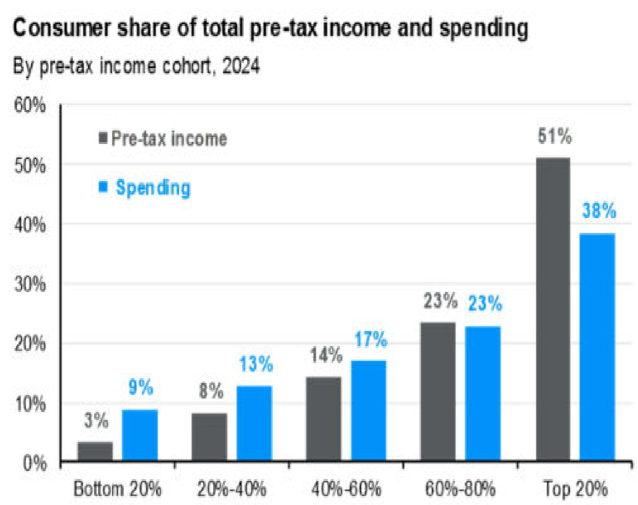


Source: JPMorgan Asset Management

The consensus forecast for 2025 GDP started the year at 2.1%, declined to 1.5% mid-year, and ended the year at 1.9%. The current consensus forecast for 2026 GDP is also 1.9%. Tax refunds and tariff rebates may add stimulus to the economy in 2026.

Strong consumer spending seems to be somewhat at odds with the current weak consumer confidence level. The Conference Board's Consumer Confidence Index® fell for a fifth straight month in December, dropping 3.8 points to 89.1. This is the lowest level for the index since April of last year. Consumers continue to struggle with affordability and low levels of hiring. However, the more pocketbook-based Consumer Sentiment Index indicated the consumers' frame of mind improved somewhat in January as gasoline prices declined.

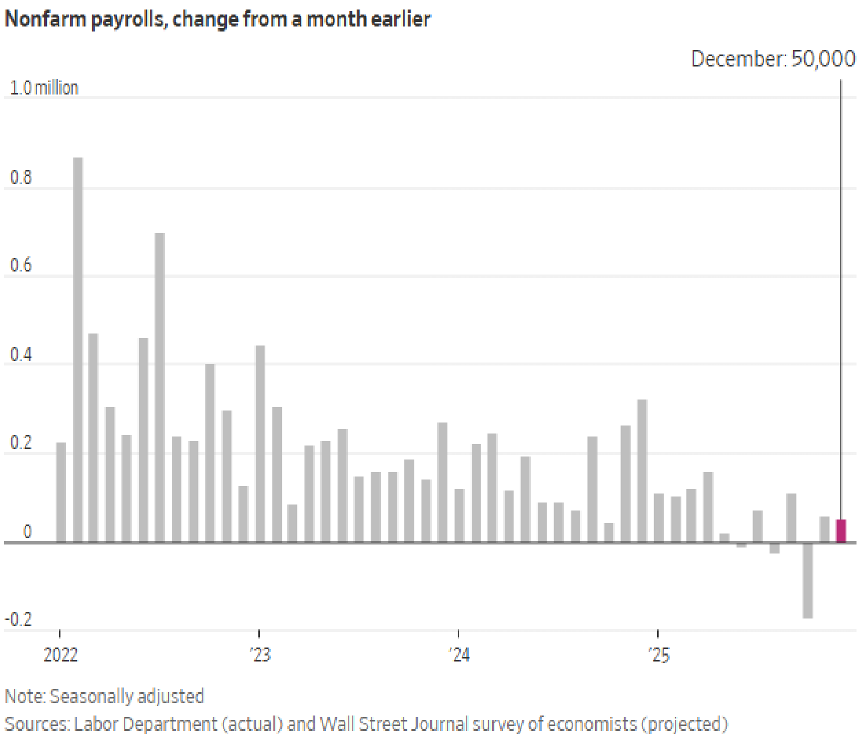
Consumer spending is bifurcated by levels of income. Consumers in the bottom 20% of income account for just 9% of spending, while the top 20% account for 38% of spending.



Source: JPMorgan Asset Management

Labor Markets: The labor market has been softening as companies have been hesitant to hire due to significant levels of uncertainty. There is also a declining supply of workers due to increased immigration enforcement and retirements in the baby boomer population. Increased deployment of AI may also allow some companies to hire fewer workers than in the past.

Growth in nonfarm employment has been declining over the past 4+ years following a jump up in the post-pandemic period.



The downward trend in payroll growth is not unique to the U.S. The same trend has been occurring in most of the developed markets.

Even though hiring has been weak, the unemployment rate remains low. The rate dropped slightly last month from 4.5% to 4.4% and has ranged from 4.0% to 4.5% over the past twelve months.

Inflation: Inflation, as measured by the consumer price index (CPI), rose 2.7% on an annualized basis in November compared with 3.0% in September. There was no report for October due to the government shutdown. The CPI and the personal consumption expenditure index (PCE) both remain above the Fed target of 2.0%. Tariffs kept inflation higher than it otherwise would have been in 2025. The consensus estimate for year-end 2026 PCE is 2.4%. Inflation is expected to moderate as the impact of tariffs declines in the second half of the year, housing costs continue to decline, and energy costs remain lower than in 2025.

Interest rates: The Fed reduced the Fed Funds target rate by 25 bps to a range of 3.50% to 3.75% in December, following similar reductions in September and October. The market expects an additional 50 bps in cuts in 2026. However, the Fed may be on hold until a new chairman is installed in May.

The slope of the U.S. Treasury yield curve was altered markedly in 2025. The short end of the curve moved down in tandem with Fed Funds rate cuts. In contrast, the 30-year Treasury began the year near 4.9% and ended the year only about 10 bps lower, near 4.8%. The 10-year Treasury bond, which acts as a benchmark for mortgage rates, saw a decline of about 50 bps during the year. Consensus estimates for the 10-year 2026 year-end point to little expected change for the year.

Global: Goldman Sachs forecasts world GDP growth of 2.8% for both 2025 and 2026. The forecast for the Euro Area lags the U.S. at 1.5% and 1.3% for the same time periods. India and the Asia ex-Japan area are expected to experience the strongest growth.

Equity Markets

The U.S. large-cap equity market, as measured by the S&P 500, has delivered three consecutive years of strong double-digit growth. The S&P 500

2025 Q4 Returns				
EQUITY	Q4 2025	YTD 12.31.25	1 Year 12.31.25	3 Years Annualized
S&P 500	2.66	17.88	17.88	23.01
S&P 500 Value	3.20	13.19	13.19	15.82
S&P 500 Growth	2.21	22.18	22.18	29.30
Dow Jones Ind Avg	4.03	14.92	14.92	15.36
NASDAQ Composite	2.72	21.14	21.14	31.43
S&P Mid Cap 400	1.64	7.50	7.50	12.56
S&P Small Cap 600	1.70	6.02	6.02	10.17

Source: FactSet

increased 17.9% in 2025 and 23.0% annualized for three years through 2025. Value stocks made up some ground in the fourth quarter, but growth stocks led the way for one and three years. The return for the year was impressive, but the past year was not without volatility. The S&P 500 dropped nearly 20% from its high on February 19, to its low on April 8. The drop was primarily the result of the introduction of the Trump tariffs. Additional turbulence was created during the year by the Israel-Iran war, threats to Federal Reserve independence, and the evolution of the AI story.

Earnings growth has been remarkable over the past two years and is expected to continue in 2026 and beyond. Earnings growth was 11.0% in 2024 and is expected to finish 2025 up 12.4%. Forward estimates are always subject to revision, however the consensus forecasts for 2026 and 2027 are near 15% earnings growth for each year.

The price/earnings multiple on forward estimated earnings is near the high end of the range since the internet bubble in 2000 and early 2001. Without considering current favorable factors, some reversion to a more long-term mean of P/E multiple would seem reasonable. Nevertheless, some factors/supports for current high valuation levels include:

- Continued positive economic growth
- Continued strong earnings growth
- Positive revisions to earnings estimates
- Stable-to-improving margins
- Inflation trending lower
- The potential for lower interest rates and additional Fed rate cuts
- Fiscal stimulus through tax relief, refunds, and deductions
- Strong corporate capital expenditures related to AI, data centers, infrastructure, energy, etc.

It should be noted that this long list of positives does not remove us from the impact of higher geopolitical risks around the world.

The weight of the top 10 stocks in the S&P 500 has recently reached new levels. The largest 10 companies by market cap represent just 2% of the 500 stocks in the index, but represent 40% of the market capitalization. The weight of the top 10 stocks has risen by over 20% in the past ten years.

Source: FactSet, Standard & Poor's, JPMorgan Asset Management

The S&P 500 is trading at 133% of its thirty-year P/E multiple but just 122% when the top ten stocks are removed. Multiple expansions played the largest role in returns for several years before 2025, but profits were the primary engine last year.

Our year-end forecast for the S&P 500 is 7,800. The forecast assumes 14% earnings growth and a P/E multiple near current levels. Firm or analyst forecasts range from 7,100 to 8,100. Goldman Sachs forecasts 7,600 for 2026, and Yardeni Research forecasts 7,700.

Mid-cap and small-cap stocks lagged large-cap stocks in Q4 and for all of 2025. The S&P Mid-Cap 400 was up 1.6% in Q4 and 7.5% for the year. The S&P Small-Cap 600 rose 1.7% in the quarter and 6.0% for the year. However, both mid and small-cap stocks have been making up ground on large-cap stocks and have outperformed in the initial weeks of 2026.

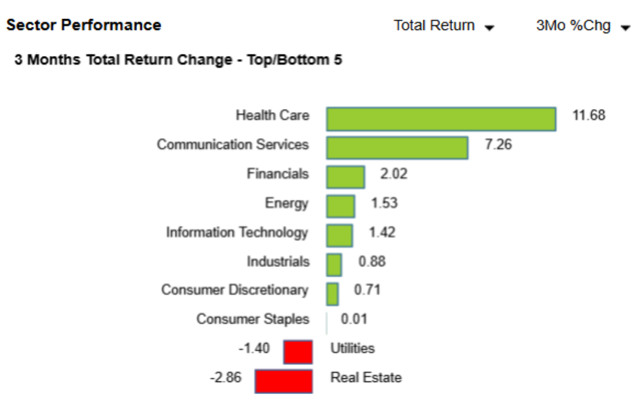
International stocks lagged U.S. large-cap stocks in six of the seven years prior to 2025 but were the star performers last year. Developed international stocks represented by the MSCI EAFE index returned 4.9% in Q4 and 31.2% for the year. Emerging markets stocks represented by the MSCI Emerging Markets Index moved up by 4.7% in Q4 and 33.6% in 2025.

2025 Q4 Returns				
EQUITY	Q4 2025	YTD 12.31.25	1 Year 12.31.25	3 Years Annualized
MSCI EAFE	4.86	31.22	31.22	17.22
MSCI Emerging Mkts	4.73	33.57	33.57	16.40

Source: FactSet

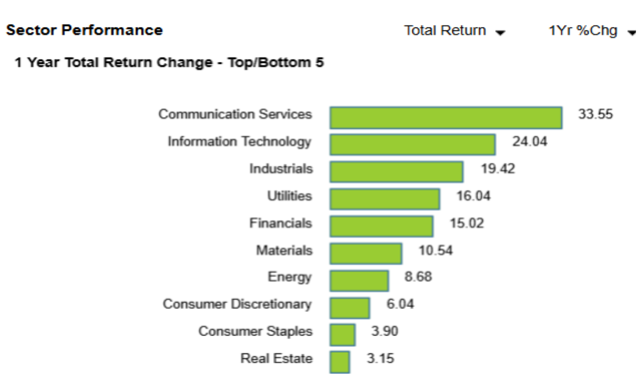
International stocks benefited from lower relative valuations, re-allocation, broader market participation, increased government spending, and a decline in the value of the dollar relative to foreign currencies.

Sector returns for the quarter were led by Health Care, up 11.7%, and Communication Services, up 7.3%. Consumer Staples, Utilities, and Real Estate were the biggest laggards.



Source: FactSet

Sector returns for 2025 were led by Communications Services and Information Technology, returning



Source: FactSet

33.6% and 24.0%, respectively. The largest holdings in the Communications Services sector are Alphabet and Meta Platforms. The largest holdings in the Information Technology sector are NVIDIA, Apple, and Microsoft.

Fixed Income Markets

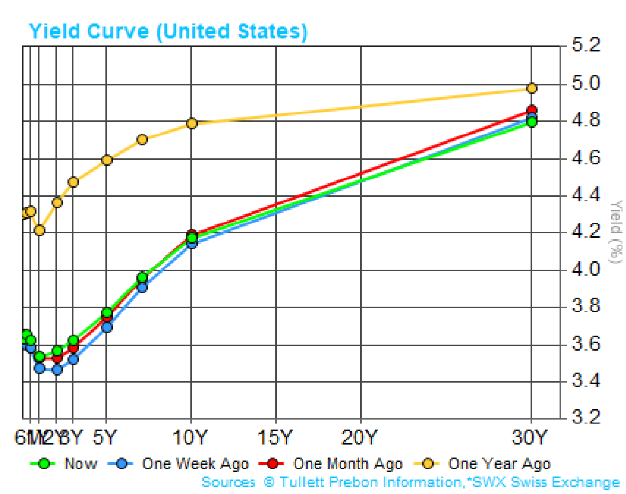
Taxable investment-grade fixed Income had its best year of the past five years in 2025. The Bloomberg U.S. Aggregate bond index was up 1.1% in Q4 and 7.3% for the year. High-yield bonds correlate more with equities than investment-grade bonds do. Returns have been positive in seven of the last eight years. The Markit iBoxx USD Liquid High Yield Index rose 1.4% for the quarter and 8.8% for the year.

2025 Q4 Returns				
FIXED INCOME	Q4 2025	YTD 12.31.25	1 Year 12.31.25	3 Years Annualized
Bloomberg US Agg Bond	1.10	7.30	7.30	4.66
ICE AMT-Free Nat'l Muni	1.52	3.90	3.90	3.67
Markit iBoxx USD Liquid High Yield Index	1.43	8.79	8.79	10.04

Source: FactSet

Municipal bonds lagged taxable bonds in 2025 due to a heavy new supply during the year. Fundamentals remain strong, which should support municipal bonds in 2026.

The U.S. Treasury yield curve pivoted down in response to cuts in the Fed Funds target rate in 2025. The shape of the yield curve steepened as rates on the short end declined much more than rates on the long end.



The outlook for bonds is favorable in 2026 due to positive economic growth, moderating inflation, strong corporate balance sheets and additional Fed rate cuts

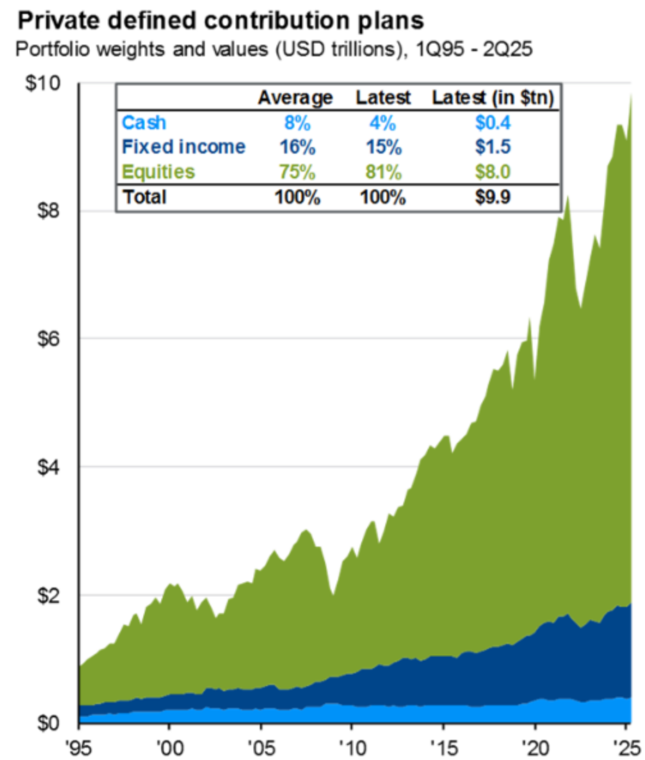
Real Assets

The Dow Jones Real Estate Index was down -2.3% in Q4 and up just 3.8% for the year. Economic uncertainty, tariffs, and high capital costs acted to keep a lid on the asset class.

The GSCI commodities benchmark was up 1.0% in Q4 and 7.1% for 2025. Energy was a drag on returns, but precious metals were in great demand and boomed during the year. The gold benchmark was up 67.3% for the year.

Asset Allocation

Individuals who are able to participate in a company 401k plan have benefited greatly from strong equity returns. The total amount in private defined contribution plans has moved sharply higher over the past fifteen years. The asset allocation in those plans has also evolved to be more aggressive.



Source: JPMorgan Guide to the Markets

Participants should review their time horizon and appetite for risk and then rebalance accordingly.