withum WEALTH MANAGEMENT

Winter, 2026

# Investment Commentary

## Q4 and Full-Year 2025 Market Summary

Equity markets closed 2025 with solid gains, extending a run that now includes three consecutive positive years for U.S. stocks. For the full year, the Dow Jones Industrial Average rose nearly 13%, the S&P 500 gained more than 16%, and the Nasdaq Composite advanced just over 20%. While returns were broadly positive, market leadership once again skewed toward the largest companies, with the equal-weighted S&P 500 still trailing the cap-weighted index by a wide margin.

Notably for diversified investors, strength in international equities added meaningful value in 2025. Developed markets outside the U.S. rose nearly 32% for the year, while emerging markets gained more than 33%, handily outpacing U.S. stocks. These returns reflected a combination of improving growth expectations abroad, a weaker U.S. dollar, and strong performance across parts of Europe and Asia. While international stocks were not immune to volatility, their outperformance served as a powerful reminder of how global diversification can benefit investors over full market cycles.

One of the defining episodes of the year occurred early on, as markets reacted to a sharp escalation in U.S. trade policy rhetoric. The rollout of a broad "reciprocal tariff" framework in late winter sparked a swift selloff, with the S&P 500 falling nearly 19% from mid-February through early April, and the Nasdaq declining even more sharply. Investor anxiety around global growth,

### Total Returns

| Total Returns | 4th Quarter | Full Year 2025 |
|---|---|---|
| **US Stocks** | | |
| S&P 500 | 2.3% | 17.9% |
| S&P 500 Equal Weight | 1.2% | 11.2% |
| Nasdaq Composite | 2.3% | 21.1% |
| Russell 2000 | 1.9% | 12.8% |
| **International Stocks** | | |
| MSCI World Ex-US | 4.6% | 31.9% |
| MSCI Emerging Markets | 4.3% | 33.6% |
| **Fixed Income** | | |
| Bloomberg US Agg Bond Index | 0.9% | 7.3% |
| 90-Day Treasury Bill | 1.0% | 4.2% |
| **Other** | | |
| Gold | 12.1% | 64.7% |
| Bitcoin | -23.1% | -6.3% |

Return figures from FactSet

inflation, and supply chains rose quickly. However, the drawdown ultimately proved short-lived. Delays in tariff implementation, renewed bilateral negotiations, and a growing perception that policy outcomes might be less severe than initially feared helped stabilize markets and set the stage for the rapid, "V-shaped" recovery that carried through the remainder of the year.

Beneath the headline index returns, market performance in 2025 was highly uneven. Large-cap technology and AI-related companies again played an outsized role, though leadership broadened at times to include industrials, financials, and materials. Corporate earnings were a key source of support. S&P 500 earnings are estimated to have grown by more than 12% for the year, marking a second consecutive year of double-digit growth and well above long-term averages. While the largest technology firms were major contributors, earnings growth was not limited to a handful of names, helping to underpin broader market resilience despite elevated valuations.

Artificial intelligence remained a central investment theme throughout the year. Corporate spending on AI infrastructure, computing power, and related technologies accelerated meaningfully, and companies tied to those trends were among the strongest performers. As the year progressed, however, investor sentiment toward AI became more discerning (see: **Fall Investment Commentary**). Questions around capital intensity, leverage, and the timing of monetization led to greater dispersion within the technology sector, particularly late in the year, reinforcing the importance of selectivity rather than blanket exposure.

Monetary policy also shaped market conditions. After holding rates steady for much of 2025, the Federal Reserve delivered three quarter-point cuts in September, October, and December, lowering policy rates by 75 basis points in total. Short-term Treasury yields declined meaningfully over the year, while longer-term yields were comparatively stable, resulting in a modest steepening of the yield curve. Ongoing debate around inflation, labor market softness, and political pressure on the Fed added to uncertainty, but financial markets generally interpreted policy moves as supportive rather than restrictive.

The fourth quarter encapsulated many of these themes. U.S. equities finished higher for a third straight quarter, though gains were narrower and more rotational. Momentum-driven strategies lagged, while both growth and value posted modest advances. Sector leadership shifted toward healthcare, select financials, industrials, and materials, while parts of the AI infrastructure and consumer sectors faced pressure. Outside of equities,


gold continued its strong run with another double-digit quarterly gain, oil prices declined again, and bitcoin experienced a sharp pullback after a volatile year.

In sum, 2025 delivered another strong year for diversified investors, but it was far from straightforward. Markets navigated sharp policy-driven drawdowns, shifting leadership, and an evolving macro backdrop, yet ultimately advanced on the strength of earnings growth, improving global participation, and supportive financial conditions. The experience of the year - and the more nuanced tone of the fourth quarter - underscores the value of diversification, discipline, and maintaining a long-term perspective as markets move into 2026.

## Near-Term Tailwinds Heading Into 2026

Looking ahead to early 2026, several identifiable forces could support economic activity and corporate earnings, even as broader growth appears to be moderating. Chief among them is the timing of fiscal policy. The passage of the One Big Beautiful Bill Act (OBBBA) late last year permanently extended key elements of the 2017 tax framework and introduced additional provisions aimed at supporting household cash flow and corporate investment. While the longer-term fiscal implications of these policies remain a subject of debate, their near-term impact is more straightforward.

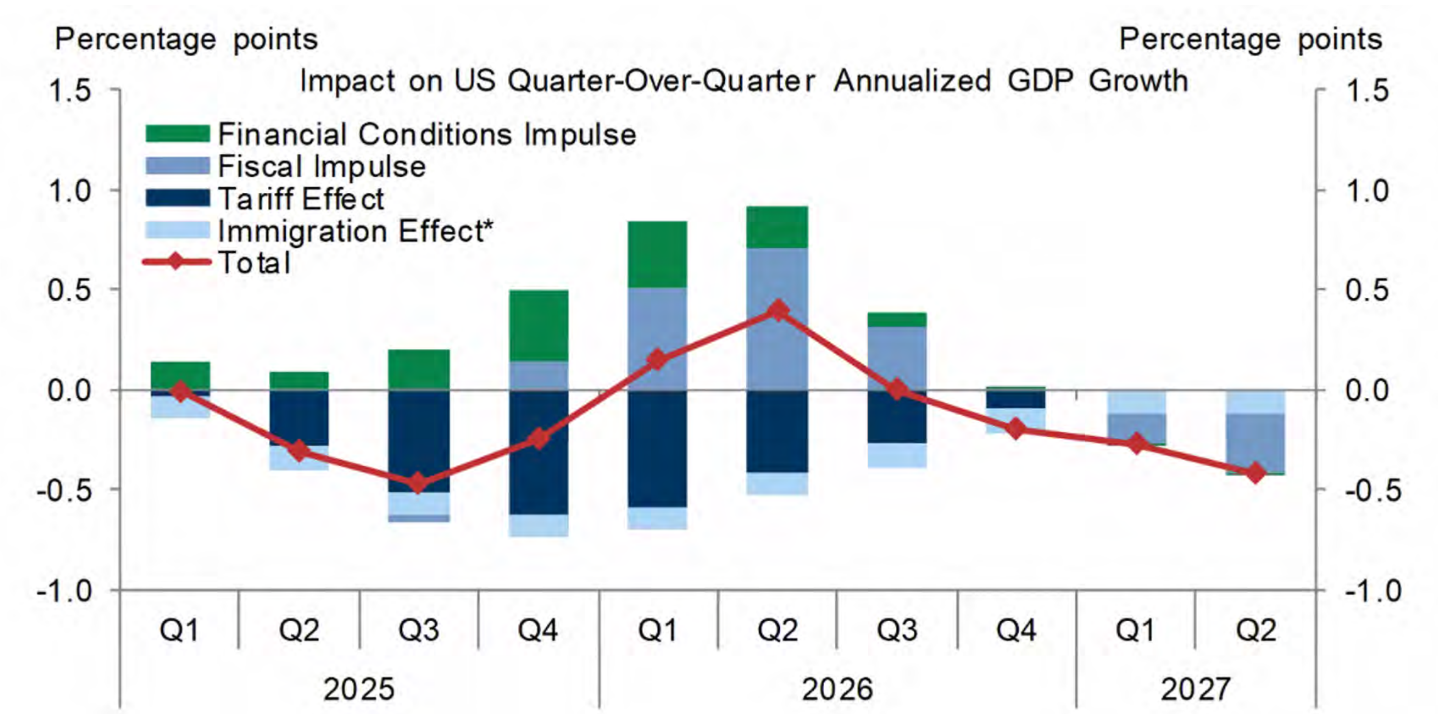
For households, the most visible effect is likely to be larger income tax refunds in the first half of 2026. For many consumers, particularly higher-income households that already benefit from rising asset values, these refunds may arrive as incremental rather than essential income. Even so, the timing matters. A surge in refunds early in the year has the potential to temporarily lift consumer spending, helping to offset slowing job growth and pockets of softness in the broader economy. This dynamic may help explain why economic momentum could reaccelerate early in the year before fading later on.

On the corporate side, OBBBA includes provisions that encourage capital investment, most notably through more favorable depreciation rules. These incentives arrive at a time when businesses are already committing substantial resources to artificial intelligence, data centers, and related infrastructure. As a result, capital expenditures tied to productivity, automation, and digital transformation are likely to remain elevated, at least in the near term. While these investments do not guarantee higher growth on their own, they can help support earnings and reinforce longer-term efficiency gains.

Taken together, these fiscal dynamics suggest that economic growth in early 2026 may prove more resilient than recent sentiment indicators would imply. Importantly, this does not point to a return to the above-trend growth experienced earlier in the post-pandemic cycle. Rather, it reflects a temporary boost layered on top of an economy that is otherwise slowing toward a more sustainable pace.

Financial conditions also appear broadly supportive. The Federal Reserve's rate cuts in late 2025 have eased some pressure on interest-sensitive areas of the economy, even as policymakers remain cautious about declaring victory over inflation. Short-term rates have moved lower, credit markets remain orderly, and corporate balance sheets, in aggregate, continue to look relatively healthy. These conditions provide a buffer against near-term shocks, even if they do not eliminate longer-term risks.

### US Growth Likely to Benefit from Reduced Tariff Drag, Tax Cuts and Easier FCI




*Above: Goldman Sachs sees easier financial conditions and fiscal factors boosting GDP early in 2026 before leveling off. Note that Goldman's projection for 2.6% GDP growth in 2026 is above the Wall Street consensus.*

*Impact of current immigration rate relative to the average pre-pandemic rate of about 1mn per year
Source: Goldman Sachs Investment Research

Finally, corporate earnings remain a key pillar of support. Despite a challenging macro backdrop and slowing nominal growth, U.S. companies delivered another year of double-digit earnings growth in 2025. This strength reflects a combination of factors, including productivity gains, disciplined cost control, a weaker dollar boosting foreign revenues, and the early benefits of recent tax policy changes. While earnings growth is inherently cyclical and vulnerable to economic downturns, current trends suggest a degree of resilience entering 2026.

In short, the outlook for early 2026 includes several meaningful tailwinds that could help sustain economic activity and market confidence in the near term. These supports are not permanent, nor do they eliminate underlying challenges. However, they help explain why markets may continue to look through mixed economic data and why periods of slowing growth need not immediately translate into deteriorating fundamentals.

## The K-Shaped Economy and an Uneven Experience

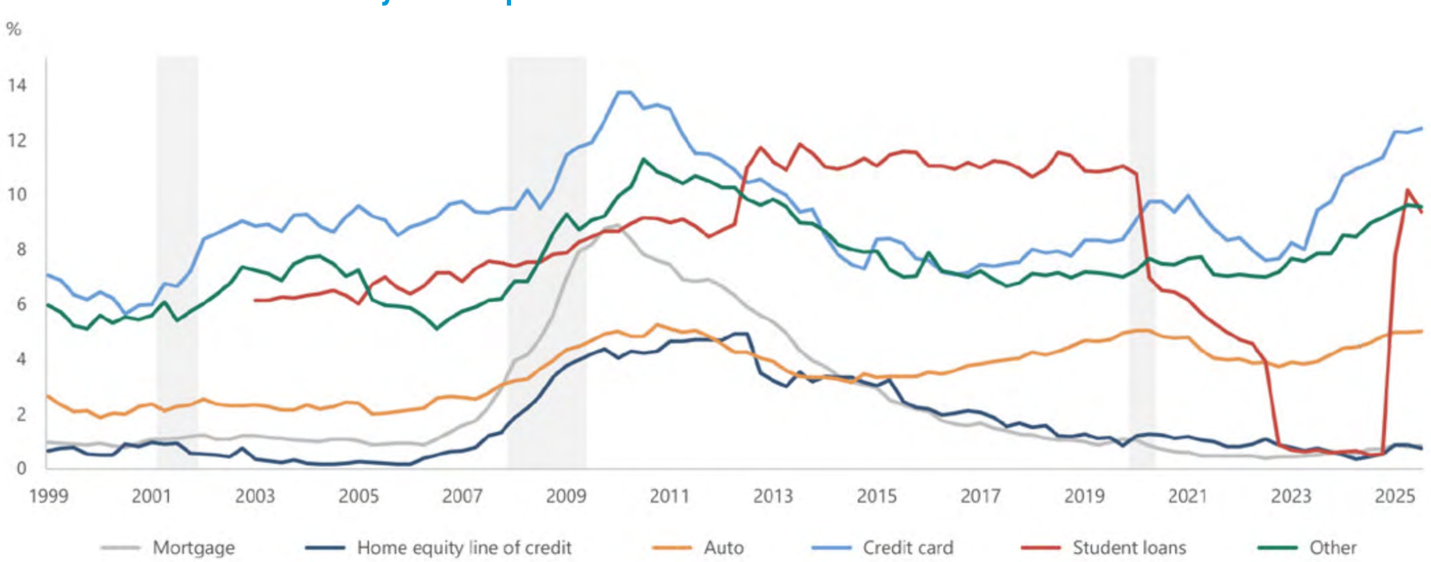
Despite another year of solid market returns and a near-term fiscal boost on the horizon, the economic experience for households in the United States remains deeply uneven. This disconnect - between financial markets that appear resilient and consumers who remain pessimistic - has become one of the defining features of the current cycle. In many ways, it reflects the persistence of a "K-shaped" economy, in which different segments of the population continue to move along very different paths.

At the upper end of the K, households with significant exposure to financial assets have continued to benefit from rising equity markets, home price stability, and higher interest income on cash and short-term investments. After three strong years for U.S. stocks, household balance sheets for these investors are meaningfully larger than they were just a few years ago. This "wealth effect" has helped sustain consumer spending among higher-income households, even as borrowing costs remain elevated and broader growth has slowed. It also helps explain why certain segments of the economy - particularly travel, services, and discretionary spending at the higher end - have remained more resilient than many expected.

At the other end of the K, the picture looks very different. Lower- and middle-income households continue to feel pressure from higher prices for essentials such as housing, food, insurance, and healthcare. While inflation has come down significantly from its peak, the cumulative impact of several years of elevated costs has not been undone. For households with limited financial assets and less pricing power in their wages, the economy still feels unforgiving. This gap between improving headline inflation data and the lived experience of many consumers has weighed heavily on confidence, helping to keep consumer sentiment near historically depressed levels.

One area where this bifurcation is becoming increasingly visible is in consumer balance sheets. Recent data from Apollo's Chief Economist, Torsten Slok, shows a rise in delinquency rates across several forms of consumer credit, most notably student loans. Following the resumption of payments (and reporting delinquent loans) after a multi-year forbearance period, student loan delinquencies have jumped sharply. Credit card

### Percent of Balance 90+ Days Delinquent




Sources: Federal Reserve Bank of New York, Macrobond, Apollo Chief Economist


and auto loan delinquencies have also been trending higher as the cumulative impact of higher interest rates continues to work its way through the system. Notably, delinquency rates in both categories are now approaching levels last seen during the Global Financial Crisis.

These pressures are not evenly distributed. Households carrying higher debt burdens, which tend to skew toward lower-income consumers, are feeling the strain first. Even before student loan payments formally restarted, many consumers were already under financial stress, limiting their ability to absorb higher prices, rising borrowing costs, or unexpected expenses. While this does not imply an imminent collapse in consumer spending, it suggests that the marginal consumer is becoming more constrained, which could be a headwind to broader economic growth.

The labor market sits squarely in the middle of this divide. Employment conditions have clearly softened, with job growth slowing materially over the past year. Hiring has become more cautious across many industries, and workers increasingly report that jobs are harder to find, even if layoffs remain relatively contained. At the same time, the labor market has not deteriorated in a way typically associated with recession. Unemployment has drifted higher but remains historically moderate, and wage growth, while cooler than in prior years, has generally stabilized.

Several structural factors help explain this mixed picture. Slower economic growth and federal job cuts have weighed on payroll gains, while lower immigration has constrained labor supply, limiting the rise in unemployment. The result is a labor market that feels less secure and less dynamic, without yet tipping into outright contraction. For many workers, this combination (slower hiring, fewer opportunities, and lingering inflation pressure) has translated into heightened anxiety, even as aggregate data remains relatively stable.

All these dynamics help explain the persistent gap between economic statistics and consumer sentiment. Confidence surveys reflect how people feel about their financial prospects, not just where the economy stands in aggregate. When job security feels fragile and household budgets are tight, optimism is hard to sustain, even in the absence of a recession. From an investment perspective, this tension is important: it underscores why periods of economic slowing can coexist with ongoing market strength, particularly when asset ownership and income growth are unevenly distributed.

For investors, the implication is not that markets are ignoring reality, nor that consumers are irrationally pessimistic. Rather, both perspectives can be valid at the same time. The economy is being supported by asset-driven spending, fiscal policy, and corporate profitability, while many households remain constrained by affordability pressures and labor market uncertainty.

Navigating this environment requires acknowledging both sides of the K, recognizing the sources of resilience without losing sight of the underlying fragility that continues to shape behavior.

## Midterm Elections and The Market

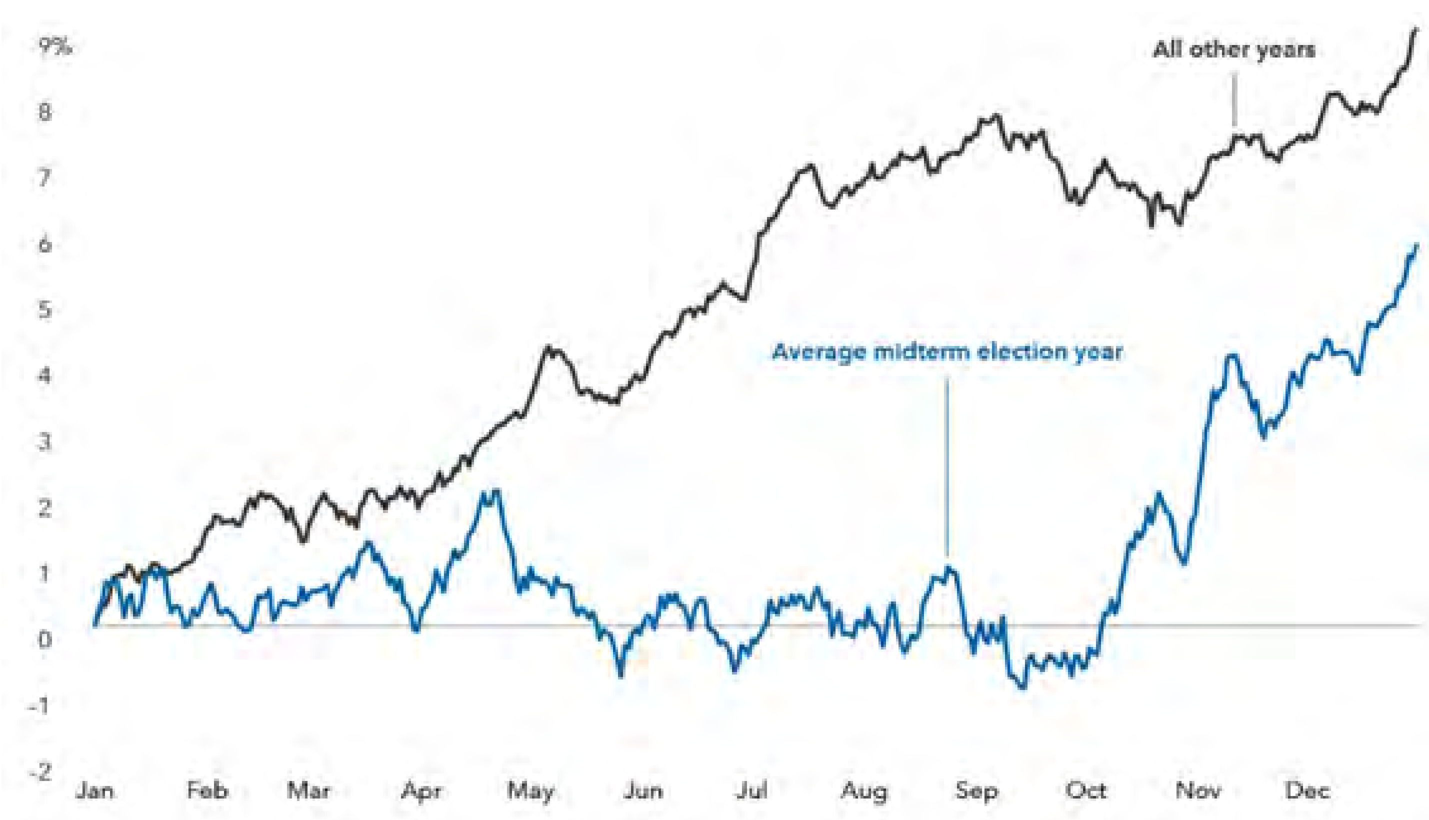
An additional factor worth keeping in mind as we look ahead is that 2026 is a midterm election year. Historically, midterm years have tended to be among the most volatile periods for equities within the four-year presidential cycle, as markets grapple with policy uncertainty, shifting congressional dynamics, and heightened political noise.

According to CFRA research, the S&P 500 has experienced an average intra-year drawdown of roughly 18% during midterm election years since 1946, with most of that weakness typically occurring between May and October. Similar analysis cited by Aptus Capital Advisors shows that midterm years have produced the largest average intra-year declines of any year in the presidential cycle, underscoring that volatility during these periods is more the rule than the exception.

Importantly, history also suggests that this volatility has often created opportunity rather than lasting damage. Again according to CFRA, the S&P 500 has advanced an average of approximately 16% from October 31 of a midterm election year through October 31 of the following year, and this post-midterm rally has occurred *100% of the time* over that period. In other words, while midterm years have tended to deliver uncomfortable drawdowns, they have also historically set the stage for some of the most favorable forward return windows in the cycle.

### Market Returns Tend to be Muted Until Later in Midterm Years

**S&P 500 Index Average Returns Since 1931**




Sources: Capital Group, RIMES, Standard & Poor's. The chart shows the average trajectory of equity returns throughout midterm election years compared to non-midterm election years. Each point on the line represents the average year-to-date returns as of that particular month and day and is calculated using daily price returns from 1-1-31 - 12-31-21.

Market commentators have also noted that some of the typical midterm-year turbulence may already have been partially "pulled forward." The sharp selloff earlier in 2025 tied to trade policy uncertainty resembled the type of drawdown that often emerges later in a midterm year. While this does not eliminate the possibility of additional volatility in 2026, the sharp repricing earlier this year may have already forced investors to confront many of the policy and political risks that typically surface later in a midterm cycle. While this does not preclude further volatility in 2026 - particularly given additional potential catalysts such as changes at the Federal Reserve, ongoing legal challenges around tariffs, and renewed fiscal debates in Washington - it does suggest that markets may enter the year with more realistic expectations.

The broader takeaway is a familiar one. Election years can be noisy, emotionally charged, and uneven, but they don't alter the long-term trajectory of markets. Historically, periods of heightened volatility around midterms have more often reinforced the value of discipline, rebalancing, and maintaining a long-term perspective than rewarded attempts to sidestep uncertainty.

## Closing Thoughts

As we move into 2026, the investment landscape remains both encouraging and complex. Markets are being supported by solid corporate fundamentals, easing financial conditions, and near-term fiscal tailwinds, even as growth moderates and economic experiences remain uneven across households. Periods like this can feel uncomfortable precisely because positive and negative signals coexist, and because market narratives often shift quickly as new data and policy developments emerge.

History suggests that navigating this kind of environment successfully is less about reacting to headlines and more about maintaining a disciplined, long-term approach. Diversification, thoughtful asset allocation, and periodic rebalancing remain essential tools, particularly after several strong years for U.S. equities. While volatility can test patience, it has also historically created opportunities for investors who stay focused on long-term objectives.

As always, our role is to help ensure that portfolios remain aligned with your goals, risk tolerance, and time horizon, while adjusting thoughtfully as conditions evolve. We remain committed to monitoring the economic and market backdrop closely, evaluating risks and opportunities, and positioning portfolios with both resilience and flexibility in mind.

We are grateful for the trust you place in us and do not take that responsibility lightly. If you have questions about the markets, your portfolio, or how current conditions relate to your broader financial plan, we encourage you to reach out. We look forward to working with you in the year ahead. ▪

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