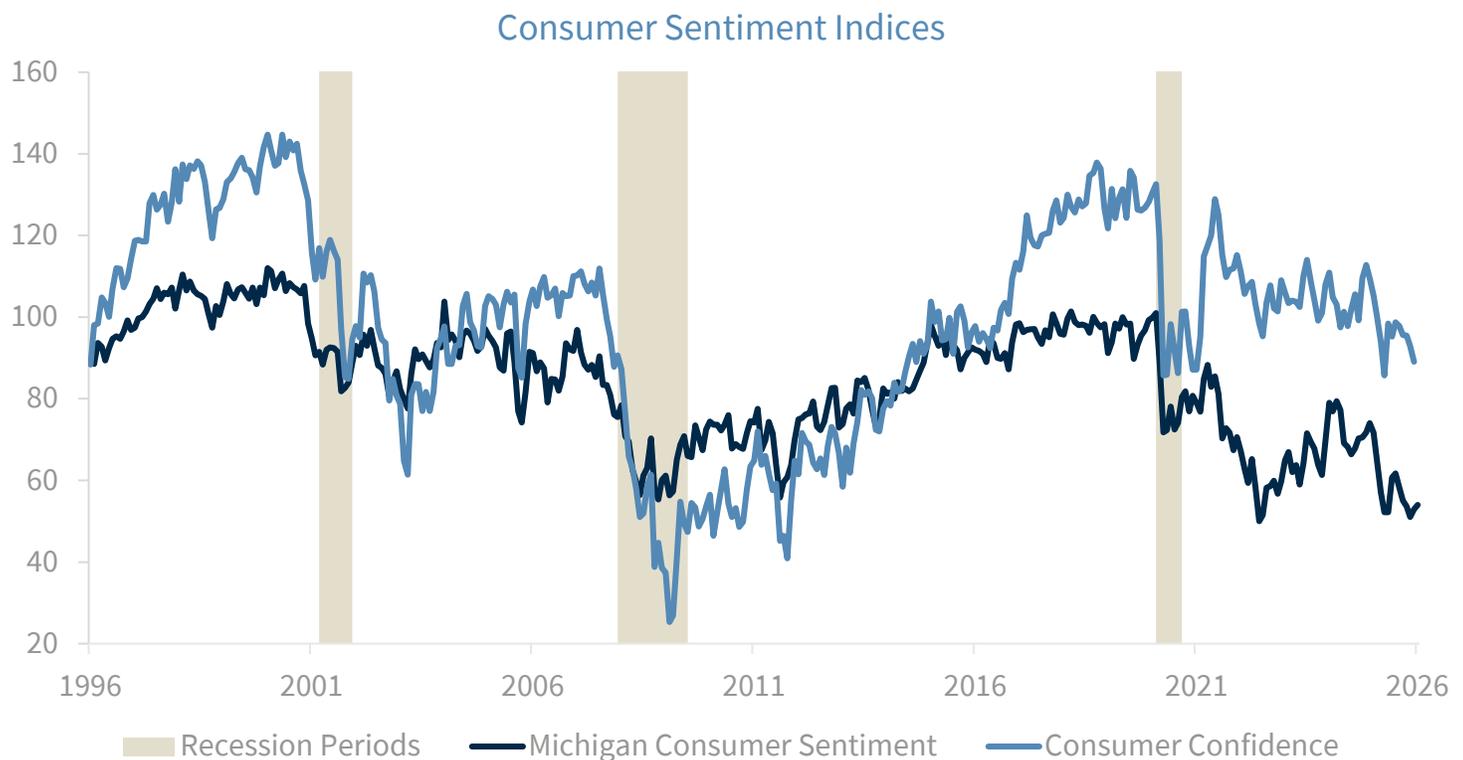


THOUGHTS OF THE WEEK

A Strong Economy, But Few Feel The Benefits

Americans are in a very similar environment today as during the Biden administration in terms of the existing mismatch between the strength in economic activity, on the one hand, and the failure of consumers to feel good about it, as reflected by consumer confidence as well as consumer sentiment indices (graph below). This points to a fundamental detachment between the economy and the benefits accruing to individuals and households, something that will keep politicians guessing and it is typically not a good omen for incumbents, especially during a midterm election year. But we are not political analysts so we will skip any potential political consequences from this mismatch.



Source: FactSet, RJ Economics

Both the Consumer Confidence and the Consumer Sentiment Indices are low today, with the Consumer Sentiment Index recording its 2nd lowest ever reading in November 2025, while the Consumer Confidence Index is not as low, but it is close to the levels recorded during the pandemic recession. A lot has been said over the last several years about consumer strength being driven by the top or high earners (and high financial wealth holders) while mid-to-low income households continue to struggle. But there is another group of households that is also driving consumption in this economy, and its impact is not small.

We are talking about retirees. But not all retirees. We are talking about retirees with 401ks and IRAs, which have reaped the benefits of strong market returns over the last several years.

An anecdote will help make this point. During a conversation with friends, a couple who have been retired for ten years, we asked what their biggest concern was ten years into retirement. To our surprise, the couple indicated that they were concerned with how much taxes they will have to pay due to large Required Minimum Distributions (RMD). Of course, this is nothing new; there are many retirees, especially high-income retirees, who have been concerned with RMDs, and they continue to work with advisors to try to reduce those concerns.

Let's Call This Group The 'Remain Invested Couple-Household' (RIC-H)

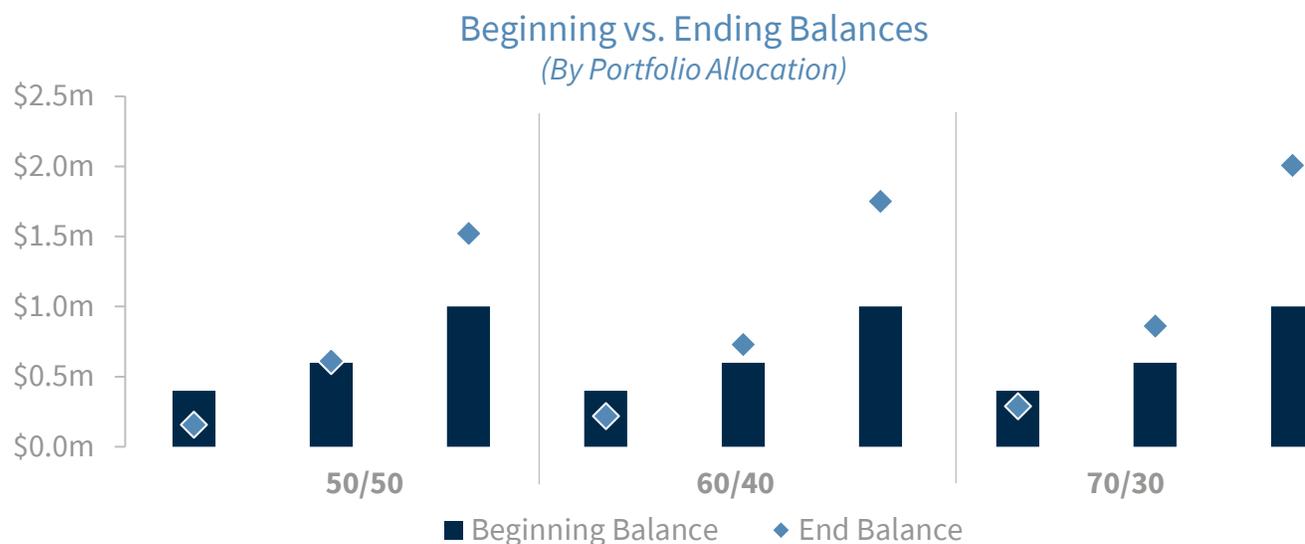
What surprised us was that this was not a 'rich' couple; they are a somewhat middle-income couple who planned conservatively and have continued to remain invested, with a relatively large allocation to equities, or what we are calling 'RIC-H.' But their commentary struck us because they said that they have almost the same amount of savings they had ten years ago and are concerned that they will have to pay more in taxes than they had previously estimated. They have been moving money through Roth conversions, but that has not been enough to make their potential tax bill lower.

This is a very good thing to be concerned with, of course. They had originally planned one or two trips plus one cruise per year, but they are now taking four cruises per year and more than two non-cruise trips as they continue to try to spend more than originally planned. However, even that has not been enough.

If we look at a simple 50/50 portfolio in 2016, without annual rebalancing, and assume a steady \$50,000 annual withdrawal, the picture today is far better than many would have expected a decade ago. Thanks to a strong market cycle, most notably the performance of US equities, retirees who began 2016 with at least \$600,000 in savings would still have slightly more money today, even after ten years of withdrawals. A household that started with \$1 million would now be sitting on ~\$500,000 more than they began with.

Why? Because the market environment since 2016 has been extraordinarily favorable. The S&P 500 delivered a cumulative total return of about ~300% over the period, meaning \$100 invested in early 2016 grew to roughly \$400 by 2026, dividends reinvested, equivalent to an annualized return of ~15%.

Of course, every retiree's experience is different. Allocations vary, withdrawal needs differ, and some households rebalance regularly while others don't. Bond returns were more mixed, including a historically difficult 2022 for fixed income, but the dominant force was equity appreciation. In fact, as shown in the chart below, retirees with portfolios with higher exposure to equities experienced even higher returns



The broader takeaway is this: Households entering retirement in 2016 likely ended up in far stronger financial shape than they anticipated. The decade-long equity rally not only offset withdrawals for many investors, but it also actually expanded their nest eggs in numerous cases. This stands in sharp contrast to the more conservative expectations many retirees held at the beginning of the period, when average return assumptions were significantly lower.

If we consider that 47%-54% of households aged 65 and older held retirement accounts in 2022, while 70% of households 70 years and older held retirement accounts, it is no wonder that sectors like travel, leisure, and hospitality, etc., have continued to do well even in an environment where employment growth has slowed down to a trickle.

These retirees do not depend on income from employment; they depend on income from accumulated wealth, and that source of income for retirees who hold retirement accounts is the income coming from accumulated wealth to the 'RIC-H', which is alive and well.

There is even good news for our fiscal accounts also. If our 'RIC-H' couple is representative of those who are retired, then fiscal revenues over the next several decades may be much higher than expected, which is good news for the US fiscal deficit.

Changes to our Forecast

We have revised our forecast for the 4th quarter of 2025 and thus for the year as a whole, from 2.0% to 2.2%. This change is also impacting our forecast for 2026, which we have revised up to 2.4% from 2.2%.

Forecast Table

	Actual								Forecast								Actual		Forecast		
	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27	2023	2024	2025	2026	2027
Real Gross Domestic Product ¹	1.6	3.0	3.3	1.9	-0.6	3.8	4.3	2.0	1.8	2.1	2.3	2.4	2.4	2.1	2.1	2.3	2.9	2.8	2.2	2.4	2.3
Real Gross Domestic Product ²	2.9	3.1	2.8	2.4	2.0	2.1	2.3	2.4	3.0	2.6	2.0	2.1	2.3	2.3	2.2	2.2	2.9	2.5			
Consumer Price Index ²	3.2	3.2	2.7	2.7	2.7	2.4	2.9	2.8	2.3	2.3	2.5	2.8	2.6	2.4	2.2	2.3	4.1	3.0	2.7	2.5	2.4
Ex-food & energy ²	3.8	3.4	3.3	3.3	3.1	2.8	3.1	2.7	2.4	2.5	2.5	2.7	2.5	2.2	2.1	2.2	4.8	3.4	2.9	2.5	2.3
PCE Price Index ²	2.8	2.7	2.4	2.6	2.6	2.4	2.7	2.7	2.6	2.6	2.6	2.5	2.4	2.3	2.3	2.2	3.8	2.6	2.6	2.6	2.3
Ex-food & energy ²	3.1	2.8	2.8	3.0	2.8	2.7	2.9	2.8	2.6	2.6	2.5	2.5	2.4	2.3	2.2	2.1	4.2	2.9	2.8	2.5	2.2
Unemployment Rate	3.8	4.0	4.2	4.1	4.1	4.2	4.3	4.5	4.5	4.4	4.3	4.3	4.3	4.3	4.3	4.3	3.6	4.0	4.3	4.4	4.3
Fed Funds Rate ³	4.00	5.50	5.00	4.50	4.50	4.50	4.25	3.75	3.75	3.50	3.50	3.50	3.50	3.25	3.25	3.25	5.1	5.1	4.3	3.6	3.3

¹ Annualized Quarter-Over-Quarter Growth² Year-Over-Year SA Percentage Change³ Upper Bound of the Federal Funds Target Range

Economic Releases

Pending Home Sales: The Pending Home Sales Index was significantly weaker than expected in December, plunging by the most since the start of the pandemic and marking the weakest December since 2001. Since this index is a leading indicator for home sales, this decline points to a weaker performance in the US housing market in the coming months. While lower mortgages will likely help home sales, available inventory remains low. Today's report aligns with our view that residential investment continues to be soft, and we remain cautious on the Real Estate sector's prospects in 2026. The Pending Home Sales Index (PHSI) was much weaker than expected in December, according to the National Association of Realtors, at 71.8 compared to a reading of 79.2 in November, down 9.3%, month-on-month. The PHSI was down 3.0% compared to a year earlier. Every region of the country experienced a decline, with three regions experiencing double-digit declines, according to the release. The Northeast recorded an 11% decline month-on-month and 3.6% year-over-year. The Midwest declined 14.9%, month-on-month, and 9.8% compared to a year earlier. The South saw the regional PHSI decline by 4.0% compared to the previous month, but increase 2.0% year-over-year. Finally, the West declined 13.3% month-on-month and 5.1% year-over-year. According to the Chief Economist of the NAR, Lawrence Yun, "The housing sector is not out of the woods yet. After several months of encouraging signs in pending contracts and closed sales, the December new contract figures have dampened the short-term outlook. Data shows closing activity increased in December. However, new listings did not keep pace, so inventory decreased. Consumers prefer seeing abundant inventory before making the major decision of purchasing a home. So, the decline in pending home sales could be a result of dampened consumer enthusiasm about buying a home when there are so few options listed for sale."

Construction Spending: Construction spending remained directionless in September and October of last year but was weaker compared to a year earlier. Since this report is measured in nominal terms, the year-over-year fall of 1.0% means that in real terms, construction spending is probably lower by approximately 3% to 4%. As has been the case over the last year, public construction spending continues to slowly move higher, but private construction spending is steady to weakening. Although residential construction spending was positive, month-on-month in October, new single and multifamily construction spending were negative, which means that private residential improvements is the only sector in residential construction spending that is improving. Construction spending was up 0.5% in October of 2025 compared to September of the same year, according to the US Census Bureau. Compared to October of 2024, construction spending was down by 1.0%. Residential construction spending was down 1.2% in October of 2025 compared to a year earlier, while nonresidential construction spending was down by 0.9%. Private construction spending increased by 0.6%, month-on-month in October, as residential construction spending increased by 1.3%, month-on-month, while nonresidential construction spending was down by 0.2% during the same period. On a year-over-year basis, private construction spending was down by 1.9%. Public construction spending was up 0.1% in October compared to September as educational construction spending increased by 0.7%, month-on-month while highway construction spending increased by 0.1%. This report included September as well as October 2025 construction spending, another delayed report due to the government shutdown in 2025.

Personal Income: Income and spending were broadly in line with expectations in October and November, according to the delayed report from the Bureau of Economic Analysis. The strength in consumption compared to income continued to push down the saving rate, which has declined from 5.5% in April of last year to just 3.5% in November. That is, consumption has remained strong while incomes have not, prompting Americans to dip into savings to continue current consumption. The PCE price index increased in line with expectations as both the headline and the core increased by 0.2% in both October and November, while they accelerated a bit from 2.7% in October to 2.8% in November, further away from the 2.0% target. This was in contrast with what happened to the CPI reading for the same months of last year (see observations below). Personal income, as well as disposable personal income, increased by 0.1% in October, while both were up 0.3% in November, month-on-month, according to the delayed report from the Bureau of Economic Analysis. Personal consumption expenditures (PCE) were up 0.5% during both months, according to the release. Real disposable personal income was down 0.1% in October but up 0.1% in November, month-on-month while real personal consumption expenditures were up 0.3% in both months, month-on-month. The headline PCE price index was up by 0.2% in both October and November, according to the release. The core PCE price index was also up 0.2% in both months, month-on-month. On a year-over-year basis, both the headline PCE price index and the core PCE price index were up to 2.8% compared to a 2.7% reading in October of 2025 and a 2.8% year-over-year rate in September of last year. The personal saving rate, that is, personal saving as a percentage of disposable personal income, continued to decline, to 3.7% in October and to 3.5% in November, from a rate of 4.0% in September. The PCE price index increased on a year-over-year basis once again and drifted away from the 2.0% Federal Reserve target. This was in complete contrast to the Consumer Price Index release from the Bureau of Labor Statistics. One of the most important distinctions is that the weight of shelter costs in the PCE price index is much lower than the weight of

Economic Releases

Personal Income (continued): shelter costs in the CPI and since the BLS estimated no increase in shelter costs in October of last year, this was one of the reasons why the CPI slowed down so much in October and November. At the same time, the PCE price index includes all that is consumed in the US economy, not just a limited basket of goods, as is the case with the CPI.

Disclosures

Economic and market conditions are subject to change.

Opinions are those of Investment Strategy and not necessarily those of Raymond James and are subject to change without notice. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. There is no assurance any of the trends mentioned will continue or forecasts will occur. Past performance may not be indicative of future results.

Consumer Price Index is a measure of inflation compiled by the US Bureau of Labor Statistics. Currencies investing is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Consumer Sentiment is a consumer confidence index published monthly by the University of Michigan. The index is normalized to have a value of 100 in the first quarter of 1966. Each month at least 500 telephone interviews are conducted of a contiguous United States sample.

Personal Consumption Expenditures Price Index (PCE): The PCE is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The change in the PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

The Consumer Confidence Index (CCI) is a survey, administered by The Conference Board, that measures how optimistic or pessimistic consumers are regarding their expected financial situation. A value above 100 signals a boost in the consumers' confidence towards the future economic situation, as a consequence of which they are less prone to save, and more inclined to consume. The opposite applies to values under 100.

Certified Financial Planner Board of Standards Center for Financial Planning, Inc. owns and licenses the certification marks CFP®, CERTIFIED FINANCIAL PLANNER®, and CFP® (with plaque design) in the United States to Certified Financial Planner Board of Standards, Inc., which authorizes individuals who successfully complete the organization's initial and ongoing certification requirements to use the certification marks.

Links are being provided for information purposes only. Raymond James is not affiliated with and does not endorse, authorize or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any website or the collection or use of information regarding any website's users and/or members.

GDP Price Index: A measure of inflation in the prices of goods and services produced in the United States. The gross domestic product price index includes the prices of U.S. goods and services exported to other countries. The prices that Americans pay for imports aren't part of this index.

Employment cost Index: The Employment Cost Index (ECI) measures the change in the hourly labor cost to employers over time. The ECI uses a fixed "basket" of labor to produce a pure cost change, free from the effects of workers moving between occupations and industries and includes both the cost of wages and salaries and the cost of benefits.

US Dollar Index: The US Dollar Index is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" when compared to other currencies.

The FHFA HPI is a broad measure of the movement of single-family house prices. The FHFA HPI is a weighted, repeat-sales index, meaning that it measures average price changes in repeat sales or refinancings on the same properties.

The Pending Home Sales Index (PHS), a leading indicator of housing activity, measures housing contract activity, and is based on signed real estate contracts for existing single-family homes, condos, and co-ops.

Disclosures

Import Price Index: The import price index measure price changes in goods or services purchased from abroad by U.S. residents (imports) and sold to foreign buyers (exports). The indexes are updated once a month by the Bureau of Labor Statistics (BLS) International Price Program (IPP).

ISM Services PMI Index: The Institute of Supply Management (ISM) Non-Manufacturing Purchasing Managers' Index (PMI) (also known as the ISM Services PMI) report on Business, a composite index is calculated as an indicator of the overall economic condition for the non-manufacturing sector.

The ISM Manufacturing Index: The GDP Now Institute of Supply Management (ISM) Manufacturing Measures the health of the manufacturing sector by surveying purchasing managers at manufacturing firms. The survey asks about current business conditions and expectations for the future, including new orders, inventories, employment, and deliveries.

Consumer Price Index (CPI) A consumer price index is a price index, the price of a weighted average market basket of consumer goods and services purchased by households.

Producer Price Index: A producer price index (PPI) is a price index that measures the average changes in prices received by domestic producers for their output.

Industrial production: Industrial production is a measure of output of the industrial sector of the economy. The industrial sector includes manufacturing, mining, and utilities. Although these sectors contribute only a small portion of gross domestic product, they are highly sensitive to interest rates and consumer demand.

The NAHB/Wells Fargo Housing Opportunity Index (HOI) for a given area is defined as the share of homes sold in that area that would have been affordable to a family earning the local median income, based on standard mortgage underwriting criteria.

Conference Board Coincident Economic Index: The Composite Index of Coincident Indicators is an index published by the Conference Board that provides a broad-based measurement of current economic conditions, helping economists, investors, and public policymakers to determine which phase of the business cycle the economy is currently experiencing.

Conference Board Lagging Economic Index: The Composite Index of Lagging Indicators is an index published monthly by the Conference Board, used to confirm and assess the direction of the economy's movements over recent months.

New Export Index: The PMI New export orders index allows us to track international demand for a country's goods and services on a timely, monthly, basis.

Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

The Conference Board Leading Economic Index: Intended to forecast future economic activity, it is calculated from the values of ten key variables.

Source: FactSet, data as of 1/23/2026

RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM

© 2026 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. © 2026 Raymond James Financial Services, Inc., member FINRA/SIPC.

Raymond James® is a registered trademark of Raymond James Financial, Inc.

Investment products are: not deposits, not FDIC/NCUA insured, not insured by any government agency,
not bank guaranteed, subject to risk and may lose value.