

MARKET UPDATE

Q4 2025

The year 2025 was extraordinarily unusual for the economy and the markets. Sweeping tariffs, a cooling labor market, rising consumer prices, a prolonged U.S. federal government shutdown, turmoil in the Middle East and the Russia/Ukraine war were some of the many factors that should have signaled economic contraction and a downturn in the stock market. Yet the opposite occurred largely because of the optimism over deregulation, the One Big Beautiful Bill Act, interest rates trending down, a boom in Artificial Intelligence (AI) spending and expanding corporate profits.

President Trump announced tariffs with every country affecting a wide range of imported goods. Investors were shaken, worried about a recession and rising inflation. In addition to a plunge in stock prices, the value of the U.S. dollar fell, and U.S. Treasuries and the bond market experienced a big selloff. Over the course of the next several months, new trade agreements prompted a reduction in some tariff rates and created a significant revenue stream allowing equities to deliver a robust year, and fears of massive inflation and a recession subsided.

Overall industrial production ended the year with a gain of about 2.5% despite early-year volatility and aggressive trade policy shifts. Gross domestic product expanded by above 2.0% for the full year and because of the government shutdown numbers are still being refined. After a sluggish start in the first quarter, activity accelerated significantly in the third quarter, reaching a robust 4.3% annualized rate of growth before moderating again. Consumer spending remained the primary engine of economic growth aided by business investment in AI and software, which provided a critical tailwind, offsetting weakness in manufacturing and housing.

According to FactSet, S&P 500 companies were projected to report earnings growth of approximately 12.1%-12.3% for 2025. This performance is well above the 10-year average of 8.6%. Corporate revenues for the year grew by approximately 7.0%, also surpassing the 10-year average of roughly 5.3%. The estimated net profit margin, at 12.9% would mark the highest annual net profit margin since FactSet began tracking the metric in 2008.

The housing sector remained relatively cool for much of the year. While mortgage rates began to recede late in the year due to Fed interest rate cuts, high prices and low inventory kept sale volumes low. Mortgage rates eased to 6.12% in the second half of the year after peaking at just over 7.0% in January.

The unemployment rate ticked up throughout the year, starting near 4.1% and ending at approximately 4.6% in November. While layoffs remained relatively low, companies became hesitant to backfill roles due to policy uncertainty and AI integration. Wage gains grew roughly 3.5%, in line with long-term averages.

Market/Index	2024 Close	As of September 30	2025 Close	Month Change	Q4 Change	2025 Change
DJIA	42,544.22	46,397.89	48,063.29	0.73%	3.59%	12.97%
Nasdaq	19,310.79	22,660.01	23,241.99	-0.53%	2.57%	20.36%
S&P 500	5,881.63	6,688.46	6,845.50	-0.05%	2.35%	16.39%
Russell 2000	2,230.16	2,436.48	2,481.91	-0.68%	1.86%	11.29%
Global Dow	4,863.01	5,917.39	6,169.34	1.81%	4.26%	26.86%
Fed. Funds	4.25%-4.50%	4.00%-4.25%	3.50%-3.75%	-25 bps	-50 bps	-75 bps
10-yr. Treasuries	4.57%	4.14%	4.16%	14 bps	2 bps	-41 bps

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Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.



HOW YOU CAN BYPASS PROBATE

The probate process can be time consuming and expensive. The goal is to bypass probate, and have your estate go directly to your beneficiaries without any court proceedings, saving you time and money. The probate process averages six to nine months to complete but may take up to two years or more, tying up the assets that your family may need immediately. Also, for larger estates, the cost may be as high as 5%. Here are some tips to help you avoid probate:

TRANSFER YOUR ASSETS TO A REVOCABLE LIVING TRUST

To hold your assets, consider a revocable living trust (inter vivos trust) which is flexible enough to include almost any asset that you own. While you are living, you can act as the trustee and can add or remove property as you see fit. You can also terminate or amend the trust at any time. When you die, the trust assets are distributed to beneficiaries, according to the trust agreement. A revocable living trust usually require a lawyer to draw up the trust documents and does not shield your estate from your creditors or estate taxes.

OWN PROPERTY AS JOINT TENANCY WITH RIGHTS OF SURVIVORSHIP

Real estate assets owned as joint tenancy with rights of survivorship pass automatically to the surviving joint owner(s) at your death. To establish joint ownership for real estate, you may need to record a new real estate deed which may require a lawyer. Some drawbacks are that the joint owner has immediate access to your property, and your joint owner's creditors may reach the jointly held property.

DESIGNATE BENEFICIARIES

Assets pass outside of probate if you establish payable-on-death (POD), transfer on death (TOD) or beneficiary designations for your bank accounts, CDs, brokerage accounts, stocks, bonds, mutual funds, life insurance and retirement accounts such as profit-sharing plans, 401(k)s, and IRAs.

MAKE LIFETIME GIFTS

Another way to avoid probate is to simply give away your property to your beneficiaries while you are living. Carefully planned gifting can also free those assets from gift and estate taxes. The following are usually nontaxable gifts:

- Gifts to your spouse
- Gifts to qualified charities
- Gifts totaling \$19,000 (2026 is unchanged from 2025) or less per person, per year (\$38,000 in 2026 unchanged from 2025 if you and your spouse can split the gifts)
- Tuition payments on behalf of an individual directly to an educational institution
- Medical care expenses paid directly to the provider on behalf of an individual

Avoiding probate is a key strategy in your overall wealth management plan. We can help make it easy to understand and implement the necessary steps to give you peace of mind that your assets and wishes are carried out accurately and efficiently.

HIGHLIGHTS FOR YOU OF THE ONE BIG BILL ACT

The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, is a comprehensive tax and budget legislation that includes provisions affecting many retirees through changes in deductions, taxes on benefits, healthcare and estate planning. Here are the highlights:

POSITIVE IMPACTS

- 1. Tax Deductions and Relief:** Retirees aged 65 and older can claim an additional deduction of up to \$6,000 for individuals or \$12,000 for joint filers, on top of the existing extra standard deduction for seniors. This phases out gradually for higher incomes (starting at \$75,000 for singles or \$150,000 joint). This will expand the share of retirees paying no tax on Social Security from 64% to 88%, averaging an after-tax income boost of about 1.5% for senior households. It also permanently increases the standard deduction and makes the lower individual income tax rates and brackets permanent, preventing a reversion to higher rates in 2026.
- 2. Estate and Wealth Transfer:** The federal estate and gift tax exemption is permanently raised to \$15 million per individual (indexed for inflation), facilitating easier wealth transfer to heirs with reduced tax burdens for retirees.
- 3. Charitable and Business Deductions:** Starting in 2026, non-itemizers can take an above-the-line deduction for cash charitable contributions, and the pass-through

business deduction is extended permanently, benefiting retirees with business income or philanthropic interests.

- 4. Retirement Accounts:** Have increased contribution limits. The most common are 401Ks, 403bs and 457s with increased limits of \$24,500 with a \$7,500 catchup for those over 50. IRAs increased to \$7,500 with \$1,100 catchup for those over 50.
- 5. SALT (State and Local Tax):** Deductions increase to \$40,000 from \$10,000 until 2029 for those making less than \$500,000, then the increase is phased out for those with income over \$600,000 per year.
- 6. Tax Brackets:** Were set to sunset to much higher rates on 12/31/25. The new bill keeps the bracket the same with no increases and is helpful to small businesses.
- 7. Capital Gains:** Remain the same with no increases at lower rates than ordinary income.
- 8. Standard Deduction:** Increased to \$16,100 for single and married filing separately, \$32,200 for married couples.
- 9. 529s:** Tax-free K-12 qualified distributions were increased from \$10,000 to \$20,000 per year.

Overall, OBBBA offers significant tax breaks for many retirees and introduces some costs and limitations that could affect higher-income or healthcare-dependent seniors. If you have any questions, we can help you navigate eligibility and optimize strategies.



EYE ON THE QUARTER AHEAD

Looking toward to 2026, persistent inflation and a cooling labor market remain key concerns. Potential tax cuts and investment in AI could offer a balance against higher tariffs, rising prices, and a stagnant labor market.

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LAYTON TEAM NEWS AND EVENTS



Josue' Castillo brings over 32 years of experience as a Financial Planner and was the very first advisor at Focus Financial. He joined the Layton Team in 2025 and is proud to work alongside his son, Spencer Castillo, serving clients. Outside the office, Josue' is a dedicated endurance athlete, having completed more than 25 marathons, four Ironman events and continues to pursue mountain biking year-round. Winter riding requires a fat tire bike and warm gear. He and his wife, Jan, enjoy spending time with their five adult children and five active grandchildren.



Josue's favorite quote is: "On this planet, you don't get what you don't ask for."



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