THE CHANCELLOR REPORT
Quarterly Market Insights

Q1 2026

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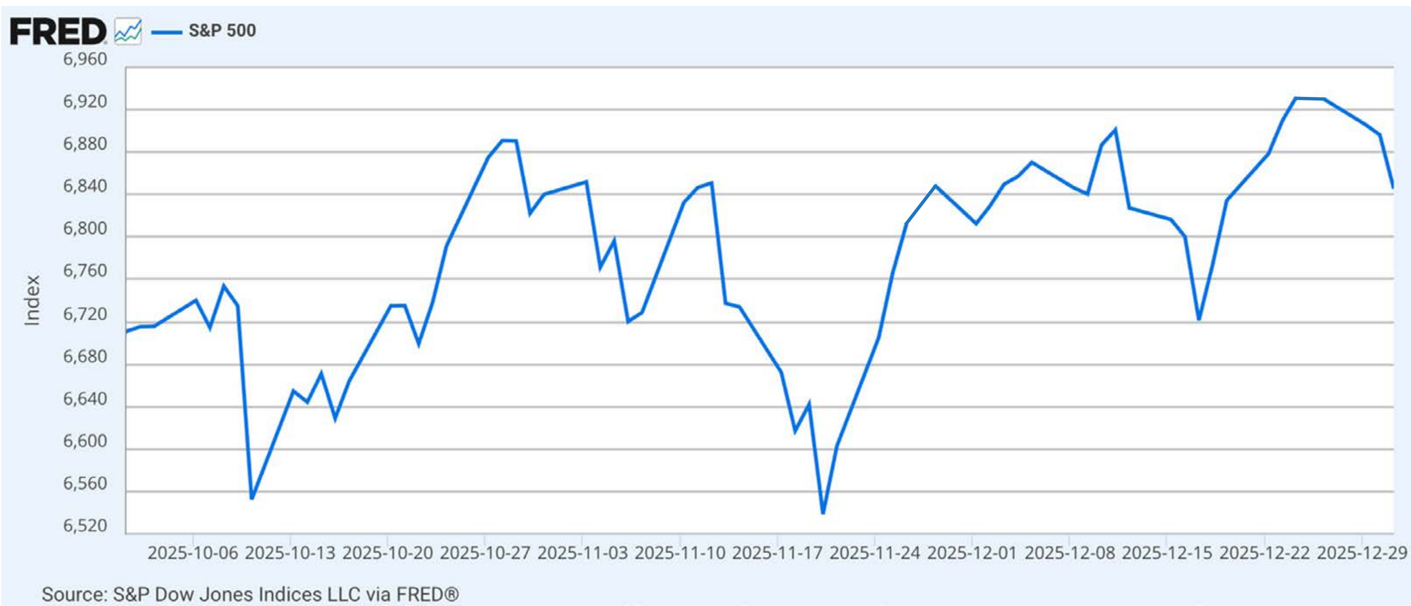
S&P 500 CHART FOR 4TH QUARTER 2025



MARKET SNAPSHOT

The fourth quarter of 2025 ended a third straight positive year of equity performance as inflation remained above target but stable, and the Federal Reserve moved further into an easing cycle. Following an initial rate cut late in the third quarter, the Federal Reserve implemented two additional 25-basis-point cuts by year-end, bringing the federal funds target range to 3.50%–3.75%.

Headline inflation (CPI) ended the year at 2.7% as of November, while core inflation remained closer to 3%, reflecting ongoing pressure in goods and services which includes price adjustments from newly added tariffs from the year. As progress toward the Fed's long-term inflation target of 2% has slowed, policymakers are wrestling with the reality that a longer term 2.5%-3% inflation rate might be unavoidable. Economic growth was reported strong at 4.3% for the third quarter of 2025 after a solid 3.8% in the second quarter of 2025, according to the Bureau of Economic Analysis (BEA). Labor market conditions softened over the fourth quarter, with unemployment rising slightly to 4.6% in November. These developments reinforced expectations for a soft landing rather than a sharp downturn, although pockets of stress remain.

Overall, the fourth quarter reflected a cautiously constructive tone. Markets balanced steady growth supported by easier monetary policy and resilient corporate earnings, against persistent fiscal challenges. While uncertainty around inflation, government borrowing, and global geopolitical risks remains elevated, investors appeared increasingly focused on the transition toward a more accommodative monetary policy heading into 2026.

Overall, the quarter reflected a positive tone. Inflation progress has slowed but remains on a stable path, the Fed has begun to pivot to be more supportive, and the economy continues to show resilience heading into the final quarter of the year. While U.S. fiscal challenges, global tensions, and the potential for economic cooling remain, investors appear to be looking ahead towards the end of the year with cautious optimism.

Selected Indices	12/31/24	3/31/25	6/30/25	9/30/25	12/31/25	4Q%
S&P 500 (Large Cap)	5,881	5,611	6,209	6,688	6,845	2.35%
S&P 400 (Mid Cap)	3,120	2,919	3,102	3,263	3,340	2.36%
S&P 600 (Small Cap)	1,408	1,277	1,333	1,449	1,467	1.24%
Dow Jones Industries (Large Cap)	42,544	42,001	44,126	46,397	48,063	3.59%
Nasdaq	19,310	17,299	20,409	22,660	23,241	2.56%
MSCI/EAFE (International)	76	82	89	93	95	2.15%
Treasury Bond Rates						
5-year Treasury Note Yield (%)	4.38	3.98	3.79	3.74	3.72	-0.53%
10-year Treasury Note Yield (%)	4.57	4.25	4.21	4.15	4.18	0.72%

The chart above indicates the performance for each major asset category for the past 5 quarters.
Returns shown reflect index price performance and exclude dividends.

Domestic Stocks

U.S. equities delivered solid gains in 2025, with performance led by large-cap stocks and supported by continued earnings resilience. Based on index level changes, the S&P 500 increased from 5,881 at year-end 2024 to 6,845 at year-end 2025, reflecting a 16.4% gain for the year. Large-cap performance continued to be driven by companies with strong balance sheets, pricing power, and exposure to secular growth trends, particularly within technology and communication services. The Nasdaq Composite rose 20.4% for the year, ending 2025 at 23,241, while the Dow Jones Industrial Average advanced 13.0%, closing at 48,063, as participation broadened beyond the largest growth-oriented companies.

Mid- and small-cap stocks also posted positive results, though they lagged large-cap stocks. The S&P MidCap 400 increased 7.1% during 2025, while the S&P SmallCap 600 rose 4.2%, reflecting continued sensitivity to interest rates, financing conditions, and economic uncertainty. While market breadth improved as the year progressed, leadership remained concentrated in larger-cap segments of the market.

Overall, domestic equity performance in 2025 reflected a constructive but uneven environment, with strong gains among large-cap and technology-oriented stocks and more modest participation from mid- and small-cap equities.

International Markets

International equities also delivered positive results in 2025. Based on index level changes, the MSCI EAFE Index increased from 76 at year-end 2024 to 95 at year-end 2025, representing a 25.0% gain for the year. Performance was supported by a weaker U.S. dollar, valuation catch-up following several years of relative underperformance, and improving investor sentiment across developed international markets.

Note: Equity performance figures are based on index level changes and do not include dividends

Treasury Bond Yields

Treasury yields were relatively stable but volatile during the fourth quarter. The 5-year Treasury note yield declined from 4.38% at year-end 2024 to approximately 3.72% at year-end 2025, while the 10-year Treasury yield edged lower from 4.57% to approximately 4.18%. Yield movements reflected the competing forces of Federal Reserve rate cuts, moderating inflation, and elevated Treasury issuance tied to ongoing U.S. budget deficits. These supply-and-demand dynamics continue to contribute to uncertainty around the longer-term path of interest rates.

Federal Reserve Actions

The Federal Reserve continued its easing cycle during the fourth quarter of 2025, cutting the federal funds rate by 25 basis points in October and again in December, bringing the target range to 3.50% to 3.75% by year end. These moves followed an initial rate cut in September and reflected evidence of a gradually softening labor market alongside continued progress on inflation.

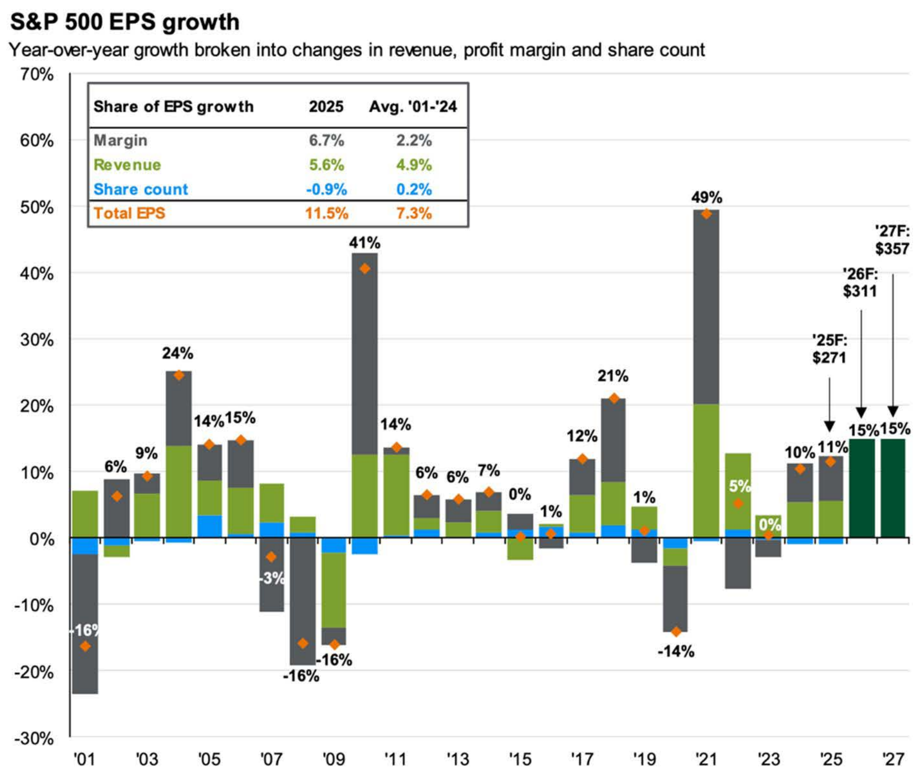
In addition to lowering rates, the Federal Reserve formally concluded its Quantitative Tightening program late in the fourth quarter. Rather than continuing balance sheet runoff, the Fed shifted to a reinvestment plan, rolling principal payments from maturing securities into Treasury bills to maintain reserve levels. This change signaled a move away from further balance sheet contraction and toward stabilizing financial conditions as monetary policy becomes more accommodative. Together, these actions underscore the Fed’s transition from a restrictive stance toward a more neutral policy posture heading into 2026.

EARNINGS AND PROFIT MARGINS

Corporate earnings have remained a key support to equity markets. S&P 500 earnings grew approximately 11.5% in 2025, driven by a combination of solid revenue growth and continued margin strength. While revenue growth of roughly 5.6% reflects a slowing but still healthy economic backdrop, the more notable contributor has been profit margins, which expanded by nearly 6.7% over the year. Analyst expectations are for earnings growth will continue in 2026 and 2027 at around 15% per year.

Profit margins remain historically elevated, with S&P 500 margins approaching 14%. This resilience is notable, especially given higher interest rates, rising labor costs, and persistent inflation pressures. Several factors help explain this outcome. Large-cap companies continue to benefit from pricing power, operational efficiency, and scale advantages, allowing them to protect margins even as input costs fluctuate. In addition, ongoing investment in automation, artificial intelligence, and productivity-enhancing technologies has helped offset wage pressures and improve operating leverage.

Another important contributor has been industry concentration. Earnings growth has been disproportionately driven by growth sectors with structurally higher margins, particularly technology and communications. These firms tend to have high market share and global reach, which supports profitability even if overall economic growth moderates.



Source: FactSet, Federal Reserve, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management

Looking ahead, margins at current levels may prove difficult to sustain. Elevated profit margins leave less room for error should economic growth slow, financing costs rise, or competitive pressures increase. That said, the persistence of strong earnings and margins helps explain why equity valuations have remained elevated despite higher interest rates and increased uncertainty. For now, earnings strength continues to be a stabilizing force for markets, but investors remain sensitive if we do experience slower profit growth in 2026.

EQUITY PRICE MACRO TRENDS

As of December 31, 2025, the S&P 500 trades at a forward price-to-earnings ratio of approximately 22x, well above the long-term average near 17x. Historically, valuation levels this high have often been followed by periods of market pullbacks or slower returns. What stands out in the current cycle/trend is how long elevated valuations have persisted. Since the financial crisis of 2009, equity valuations have remained consistently higher rather than reverting back toward historical norms.

One reason for this shift has been the long period of low interest rates, which increased the value investors are willing to pay for future earnings. When interest rates are low, the discount applied to future cash flows is lower, supporting higher valuation multiples. Even though interest rates have risen in recent years, valuation levels have not materially adjusted downward, suggesting a more lasting change in how markets are priced.

Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management

Another important factor has been the expansion of government spending and rising levels of public debt. As government debt has grown faster than the economy, policy responses have increasingly emphasized supporting growth and maintaining financial stability. Over time, this has contributed to a gradual decline or dilution in the purchasing power of the dollar. In that environment, asset prices, including equities, tend to rise in nominal terms simply to keep pace. This dynamic helps explain why the long-term trend in equity prices has moved higher and why valuation levels have remained elevated.

Schiller P/E Ratio

Price earnings ratio is based on average inflation-adjusted earnings from the previous 10 years, known as the Cyclically Adjusted PE Ratio (CAPE Ratio), Shiller PE Ratio, or PE 10 Source: Robert Shiller

Dividend yields reinforce this point. The S&P 500 currently yields about 1.5%, below its long-term average near 2%, indicating that investors are willing to accept lower current income in exchange for expected future growth and inflation protection. This reflects both higher equity prices and a market increasingly dominated by growth-oriented companies.

Longer-term valuation measures also remain high. The Shiller P/E Ratio, which smooths earnings over a ten-year period, is currently above 40x, compared to a long-term average around 28x. While this suggests valuations are stretched relative to history, it also reflects a structural shift in the market driven by policy, inflation dynamics, and the changing composition of public companies.

Elevated equity valuations today are not solely the result of short-term optimism. They reflect a combination of lower long-term discount rates, persistent fiscal expansion, and a market environment in which nominal asset prices have increasingly had to rise simply to maintain relative value. While this does not eliminate the risk of market pullbacks, it does help explain why valuation levels have remained structurally higher than in past cycles.

INTERNATIONAL EQUITIES UPDATE

International equities were a notable bright spot in 2025, significantly outperforming U.S. markets on a U.S. dollar basis. Developed international markets, as measured by the MSCI EAFE Index, gained approximately 32% in USD terms for the year. However, it is important to separate how much of that return came from underlying equity performance versus currency changes between the dollar and foreign exchanges.

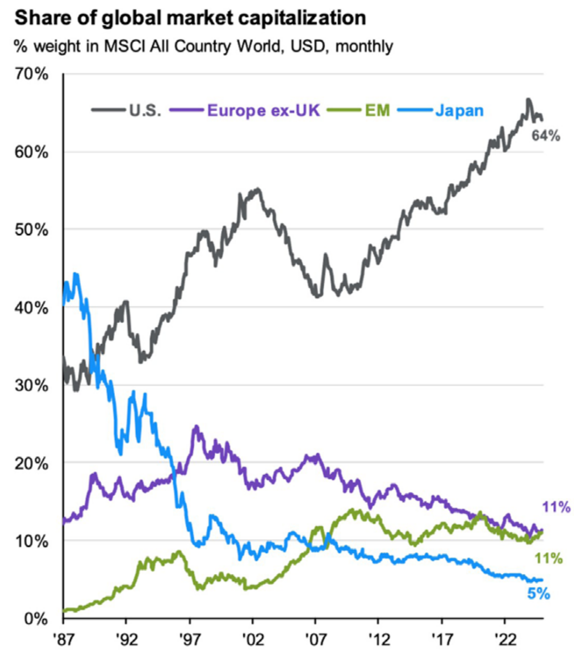
In local currency terms, international markets delivered solid but more moderate returns. However, based on estimates, roughly 8–10% of the MSCI EAFE's 2025 return can be attributed to U.S. dollar weakness, with the remaining 20–22% was driven by local equity market gains. In other words, approximately one-third of the international total return for U.S.-based investors came from favorable currency movement rather than stock price appreciation alone.

The weakening dollar amplified returns across Europe in particular. This underscores a key point: international diversification does not require faster growth abroad to add value. Currency exposure itself can be a meaningful return driver during periods when the dollar is declining. It is important to note that international markets entered 2025 at much lower valuation levels following years of underperformance versus the U.S. As investor sentiment improved and capital rotated globally, valuation normalization contributed to returns.

The chart below highlights how global market leadership has shifted over time. While the U.S. has steadily increased its share of global market capitalization over the past several decades, periods of international outperformance often coincide with dollar weakness and valuation catch-up. The experience in 2025 is consistent with that pattern.

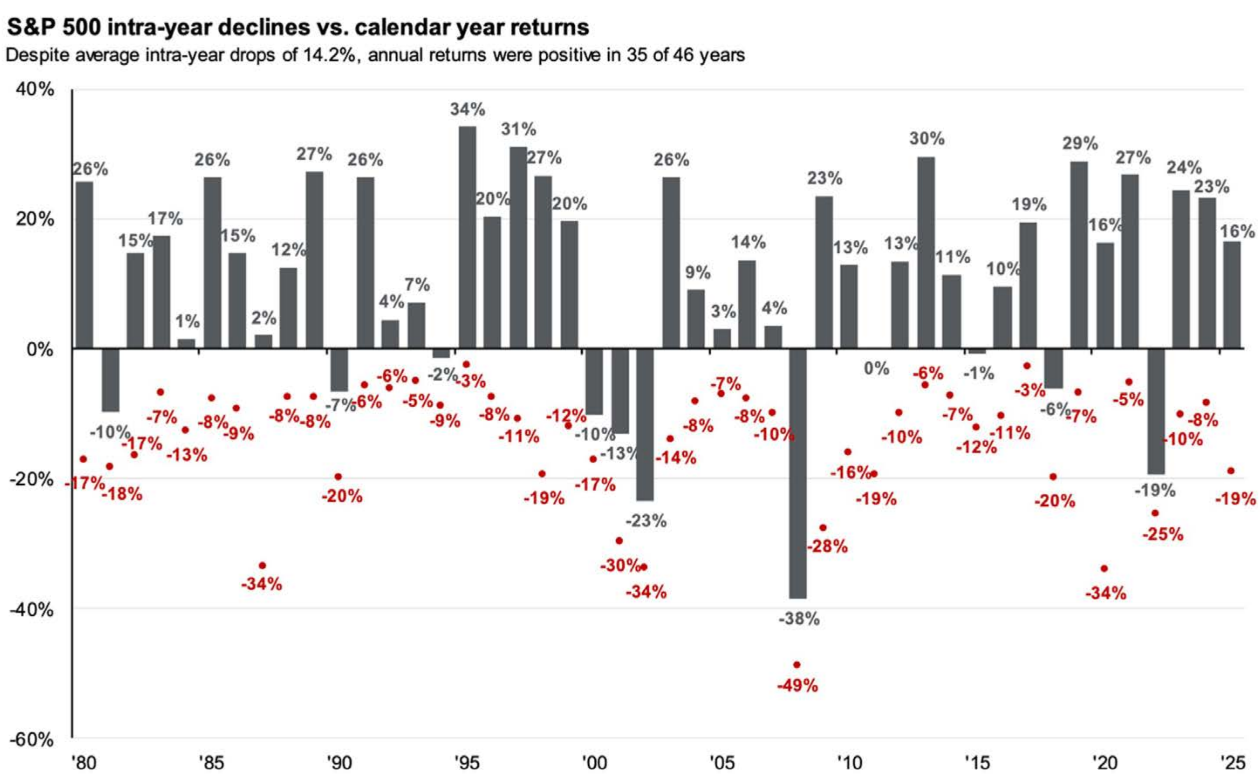
International Equity vs. US Equity

Returns	2025		2024		15-years
	Local	USD	Local	USD	Ann.
Regions					
U.S. (S&P 500)	-	17.9%	-	25.0%	14.1%
AC World ex-U.S.	25.1%	33.1%	13.2%	6.1%	6.4%
EAFE	21.2%	31.9%	11.8%	4.3%	7.1%
Eurozone	24.7%	41.3%	10.3%	3.4%	7.8%
Emerging markets	32.1%	34.4%	13.7%	8.1%	4.2%
Selected Countries					
Japan	24.7%	25.1%	21.2%	8.7%	6.9%
UK	25.8%	35.1%	9.5%	7.5%	6.4%
France	14.2%	29.5%	1.8%	-4.6%	7.8%
Canada	30.9%	37.4%	23.0%	12.7%	6.8%
Germany	20.9%	37.1%	18.4%	11.0%	7.3%
China	30.7%	31.4%	19.8%	19.7%	4.1%
Taiwan	34.0%	39.8%	44.3%	35.1%	13.0%
India	9.5%	4.3%	15.7%	12.4%	5.8%
Brazil	35.6%	50.4%	-11.4%	-29.5%	-0.3%



International equity outperformance in 2025 was driven by both strong local market returns and a meaningful currency tailwind. For U.S.-based investors, this reinforces the role international equities can play not only as a diversification tool, but also as a partial hedge during periods when the purchasing power of the U.S. dollar is under pressure.

SUMMARY



Source: Bloomberg, Standard & Poor's, J.P. Morgan Asset Management.

The fourth quarter of 2025 capped a volatile but third consecutive positive year for equity markets. As illustrated in the above chart, intra-year market declines remain a normal feature of equity investing, even in years that ultimately produce positive returns. Despite frequent pullbacks, history shows that patient investors have often been rewarded by staying invested through periods of volatility rather than attempting to time short-term market moves.

While risks remain, including elevated government borrowing, geopolitical uncertainty, and signs of slowing in the labor market, the overall backdrop entering 2026 reflects a transition toward more accommodative monetary policy, stable earnings growth, and improving global breadth. At Chancellor Wealth Management we remain committed to personalized planning and disciplined investment management, and we welcome the opportunity to support your goals.

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