The Capital Markets

The beginning of a new year naturally invites reflection. For investors, however, perspective matters far more than hindsight. While 2025 delivered strong returns across a broad range of asset classes, the more meaningful question is how portfolios are positioned for the opportunities and risks that lie ahead, not simply how markets performed in the past.

As we enter 2026, the investment landscape continues to be shaped by familiar forces, including policy uncertainty, easing—but still elevated—inflationary pressures, and signs of a gradually cooling labor market. These dynamics have challenged traditional market expectations, yet markets have shown impressive resilience through a period marked by extraordinary uncertainty. This adaptability is encouraging and reinforces the importance of staying invested through changing conditions.

At the same time, after several consecutive years of strong market performance, it is reasonable to expect that returns may become more uneven. Periods of volatility are a normal part of long-term investing, and they often create both challenges and opportunities for disciplined investors. Preparing for less predictable conditions allows portfolios to remain resilient without sacrificing the potential for continued growth.

Our focus remains unchanged. We emphasize disciplined decision-making, thoughtful risk management, and strategic diversification, while keeping portfolios aligned with long-term financial goals. Rather than reacting to short-term market movements, we continue to take a measured approach—seeking to balance caution with opportunity and positioning portfolios to navigate the road ahead with confidence.

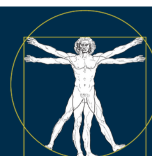
Newsletter Highlights:

Market Recap: Strength Across Asset Classes
Equities soared, intl markets jumped ~30%, and high-quality bonds returned 7%—discover how broad-based gains shaped 2025.

Policy & Politics: Navigating Uncertainty
Fed leadership changes, midterm elections, and trade policy—learn what could drive market volatility and how to stay prepared.

Economic Outlook: Cooling, Not Contracting
Inflation moderates, unemployment rises modestly, and fiscal support adds tailwinds

Valuations & Positioning: Balancing Opportunity and Risk
Equity valuations are elevated, earnings growth is critical, and balanced portfolios aim to capture upside while managing volatility.



2025 Market Recap and the Case for Staying Diversified

From a market perspective, 2025 was a strong and encouraging year for investors. Both U.S. and international equity markets reached new highs, reflecting continued economic resilience despite ongoing uncertainty around inflation, interest rates, and global policy. Importantly, returns were not limited to stocks alone. Bonds and alternative investments once again played a meaningful role by providing income, stability, and diversification—key components of a well-constructed long-term portfolio.

While much of the media focus remained on artificial intelligence and a small group of large technology companies, market performance was far broader than headlines might suggest. Companies such as Nvidia contributed meaningfully to overall index returns—supported in part by its approximately 8% weighting in the S&P 500—but gains were not confined to a narrow segment of the market. The equal-weighted S&P 500 rose approximately 11%, demonstrating that the average stock also delivered solid performance. This breadth is an important indicator of market health and reinforces the value of diversification across sectors and styles.

While the past year offers valuable context, it provides only limited guidance about what markets may deliver next. The more important conversation centers on the environment investors will be navigating in 2026 and how portfolios are positioned to manage a wide range of potential outcomes. By focusing on diversification, quality, and long-term fundamentals, portfolios can remain resilient while continuing to participate in future opportunities.

International markets further strengthened the case for global diversification. International equities gained roughly 30% in 2025, benefiting in part from improving economic conditions abroad and the steepest decline in the U.S. dollar since 2017. For U.S.-based investors, this currency movement meaningfully enhanced returns from overseas holdings and highlighted how global exposure can complement domestic investments during different market cycles.

Fixed income also reasserted its role within portfolios after several challenging years. High-quality taxable bonds returned approximately 7%, marking their strongest annual performance since 2019. For many investors, bonds once again provided both income and downside protection, helping to balance portfolio volatility while supporting more consistent returns.

While the strength of 2025 provides helpful perspective, it offers limited insight into what markets may deliver next. Looking ahead to 2026, investors are likely to face a more complex environment marked by moderating growth, evolving monetary policy, and periodic volatility. Rather than attempting to predict short-term market movements, our focus remains on building and maintaining portfolios designed to withstand a wide range of potential outcomes—balancing caution with opportunity and keeping long-term financial goals firmly in focus.

+11% — Equal-Weighted S&P 500 (broader market participation)

~30% — International Equity Returns

~7% — High-Quality Taxable Bond Returns

Largest U.S. Dollar Decline Since 2017

Policy, Politics, and Markets in an Uncertian Backdrop

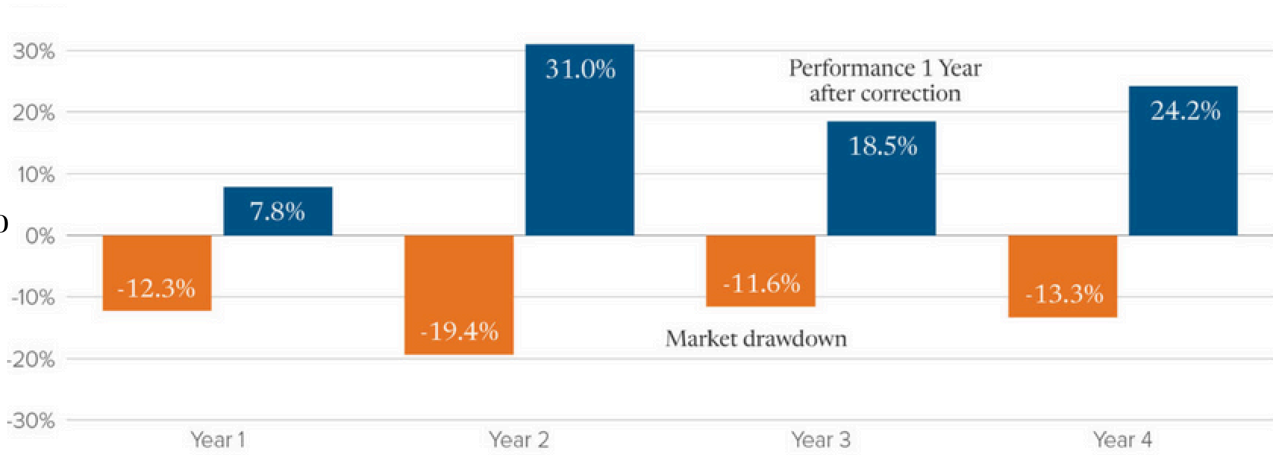
Monetary policy remains one of the most important variables shaping the investment landscape. After an extended period of aggressive interest rate increases aimed at controlling post-COVID inflation—followed by more recent rate cuts—the Federal Reserve is now working to strike a careful balance between keeping inflation in check and supporting continued economic growth. This transition from tightening to stabilization is a critical phase, and markets are likely to remain sensitive to economic data and policy signals along the way.

Adding another layer of uncertainty is an upcoming transition in Federal Reserve leadership. Chair Jerome Powell's term is set to expire in May, and his successor—once nominated by President Trump—may introduce questions around the future direction and independence of the Fed. Even modest shifts in tone regarding inflation tolerance, interest rate policy, or balance sheet management can have meaningful implications for stock, bond, and currency markets. While leadership changes are not uncommon, they often increase short-term uncertainty as investors assess potential changes in policy priorities.

Trade policy also continues to be a source of uncertainty. Although the initial market reaction to tariffs has largely faded, unresolved legal and policy questions remain. An upcoming Supreme Court ruling related to the President's use of emergency tariff powers could introduce near-term volatility. That said, regardless of the outcome, trade-related risks are unlikely to disappear entirely, given the broad unilateral authority granted to the executive branch by Congress. As a result, global supply chains and international markets may continue to experience periods of disruption and adjustment.

Compounding the policy backdrop, 2026 is a U.S. midterm election year. Historically, midterm election years have tended to be more volatile for equity markets as investors navigate shifting political dynamics, policy uncertainty, and heightened headline risk.

S&P 500 Corrections & Subsequent Returns by Presidential Cycle(1960-2024)



Source: Mackenzie Investments

On average, markets have experienced intra-year drawdowns of approximately 19% during midterm years. Importantly, increased volatility does not necessarily translate into negative annual returns, but it can test investor discipline and reinforce the importance of maintaining a diversified, long-term investment strategy.

While the policy environment entering 2026 is complex, uncertainty alone does not preclude opportunity. Periods like these often reward investors who remain disciplined, diversified, and focused on long-term objectives rather than reacting to short-term headlines. Our approach remains centered on managing risk thoughtfully while positioning portfolios to participate in future growth as conditions evolve.

Economic Conditions: Cooling, Not Contracting

Beyond policy and political considerations, recession risks remain relatively low as we enter 2026, though the economic picture is not without challenges. Inflation has moderated significantly from its 2022 peak, reflecting the impact of tighter monetary policy and easing supply-chain pressures. However, price growth remains above the Federal Reserve's long-term 2% target, keeping inflation firmly on the radar for both policymakers and investors. Rising electricity and food costs, in particular, continue to complicate the path toward full price stability and contribute to elevated inflation expectations.

At the same time, the labor market is showing signs of gradual cooling. The unemployment rate has increased modestly to approximately 4.6%, and the pace of job growth has slowed from prior years. Economists continue to debate whether this shift reflects softening demand for workers—potentially linked to slower business activity or increased adoption of artificial intelligence—or a tightening labor supply driven by lower immigration and higher retirement rates. In reality, the labor market is likely being influenced by a combination of these factors, adding another layer of complexity for policymakers attempting to calibrate future actions.

JOLTS Report for total Non-farm employments (2000-2025)

Recessions · Job Openings · Hires · Quits · Layoffs & Discharges — Thousands

Since 2020

Monthly data points with the solid lines showing their six-month moving averages

Source: etftrends

Balancing these areas of uncertainty are several constructive forces supporting the broader economic outlook. Fiscal policy is expected to provide a meaningful tailwind in the months ahead, aided by recently enacted legislation that could deliver an estimated $350 billion in tax savings to households and small businesses. This potential stimulus may help offset slower growth in other areas and support consumer spending, business investment, and overall economic stability.

Taken together, these crosscurrents reinforce the importance of maintaining balance within portfolios. While caution remains warranted given ongoing inflation and labor market uncertainty, the presence of fiscal support and a still-resilient economy argues against adopting an overly defensive stance. Our approach continues to focus on navigating these conditions thoughtfully—remaining prepared for volatility while positioning portfolios to benefit from longer-term opportunities as the economic landscape evolves.

Positioning Portfolios for a More Complex Market

Building on this economic backdrop, market valuations remain an important consideration as we look ahead. After several years of strong performance, equity valuations are elevated by historical standards. The market's forward price-to-earnings ratio or (P/E) as of Jan 30th was around 22 times expected earnings, meaning investors are paying approximately $22 for every $1 of future profit—well above the long-term average of 17 times. While valuations are not a reliable tool for timing markets, they do help frame expectations and explain why markets can become more sensitive to unexpected developments or shifts in sentiment.

One reason valuations have remained relatively stable over the past year is the strength of corporate earnings. Throughout 2025, earnings consistently exceeded expectations and accounted for roughly 80% of total market gains, allowing markets to advance without a significant expansion in valuation multiples. Looking ahead, consensus forecasts call for earnings growth of approximately 14% in 2026. Meeting those expectations will be an important factor in supporting further market gains, particularly if earnings growth continues to broaden beyond a narrow group of technology-driven companies. A wider base of contributors would represent a healthy and constructive signal for markets overall.

Taken together, these dynamics support a balanced and disciplined approach as we move through 2026. Across portfolios, we remain neutrally positioned between stocks and bonds—an allocation that recognizes the potential for continued upside while also respecting the increased likelihood of volatility following several years of strong returns. This positioning is designed to participate in long-term growth while maintaining flexibility should market conditions shift.

As we move into the year ahead, our outlook remains balanced and deliberate. This is reflected in our neutral positioning between equities and fixed income across portfolios—an approach that recognizes the potential for continued market upside while remaining mindful of elevated valuations and the increased likelihood of volatility following several years of strong returns.

Redefining the Benchmark

After several strong years in the markets, it can be tempting to measure success solely by index performance. Yet a client's true benchmark is how well their portfolio supports their personal financial goals—not a single market index. Thoughtfully designed strategies help provide confidence in funding retirement, managing income and taxes, and preserving wealth through market cycles. By focusing on disciplined portfolio construction and a long-term perspective, we aim to help you navigate uncertainty and stay on track toward the outcomes that matter most to you and your family.

The experience of 2025 reinforces this approach. Markets delivered broad-based gains across asset classes, supported by resilient economic activity and strong corporate earnings, which accounted for roughly 80% of total market gains. International equities advanced about 30%, and high-quality bonds returned approximately 7%, their strongest performance in several years. These results highlight the benefits of diversification and disciplined positioning, rather than chasing short-term market movements.

As we move through 2026, elevated valuations, policy shifts, and periodic volatility underscore the importance of patience over prediction. In environments like this, thoughtful decisions grounded in fundamentals—rather than reactions to headlines—are key to long-term success. Our approach remains steady: monitoring conditions closely, making adjustments only when warranted, and maintaining portfolios aligned with your unique goals.

Thank you for the confidence you place in us. We wish you and your family a happy, healthy, and successful year ahead. ***The Capital Markets*** is published quarterly to provide timely insights on market developments and what they mean for your financial plan. As always, you are welcome to reach out to us with any questions or concerns—we are here to help.

"Managing policy today can feel like moving through a dark room filled with furniture.
The right response is not to rush—but to proceed deliberately."

Jerome Powell, Federal Reserve Chair

ALL INVESTMENTS CARRY CERTAIN RISK AND THERE IS NO ASSURANCE THAT AN INVESTMENT WILL PROVIDE POSITIVE PERFORMANCE OVER ANY PERIOD OF TIME. PAST PERFORMANCE IS NOT A GUARANTEE OR A RELIABLE INDICATOR OF FUTURE RESULTS.

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