What's on Our Minds

January 5, 2026

MARKET HIGHLIGHTS

- **A third consecutive year of strong equity market returns ended in a whimper last week** as mega-cap tech saw some profit-taking. U.S. equity portfolios appear to be repositioning for greater breadth of participation in a cyclically rebounding manufacturing environment.
- **Minutes for the December Federal Open Market Committee meeting revealed that most members expect more federal funds rate cuts in 2026,** although the belief is not unanimous and further cuts are dependent on disinflationary progress.
- **Economic data was rather sparse** in a holiday-shortened week but may be signaling some revival in the dormant housing and manufacturing sectors.
- **On Saturday morning, U.S. forces invaded Venezuela and seized President Nicolás Maduro,** who was flown to New York City to face narco-terrorism charges. A regime change does not appear to be the near-term goal, as Vice President Delcy Rodríguez was sworn in as acting president and has promised to work with the U.S. administration. However, President Donald Trump said the United States will be effectively running the country as it transitions to a new leader.

MARKET PERFORMANCE

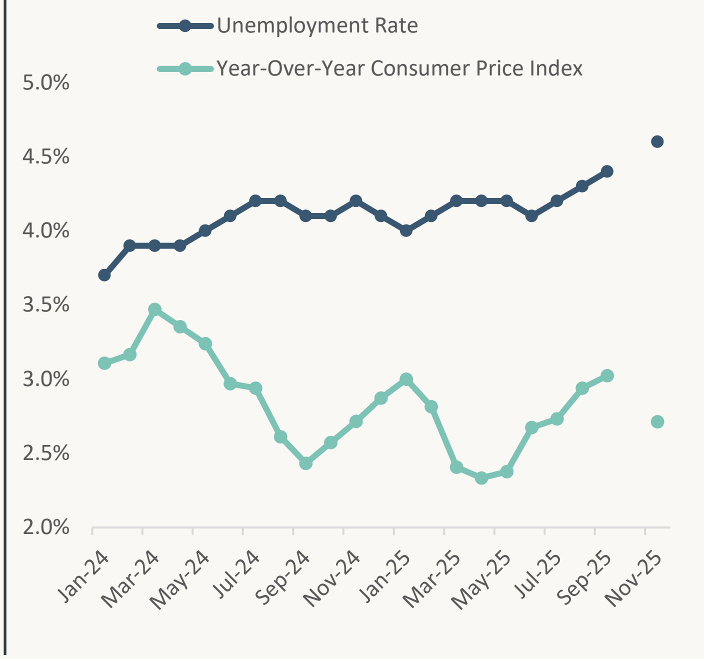
ASSET CLASS	1-WEEK	YTD
U.S. Aggregate Bond (Agg)	-0.21%	-0.20%
Municipal Bonds 1-10Y	0.11%	0.06%
U.S. High Yield	0.20%	0.00%
S&P 500	-1.00%	0.21%
Russell 2500 (SMID cap)	-0.68%	1.37%
MSCI EAFE (International)	0.55%	0.60%
MSCI Emerging Markets	2.33%	1.79%
MSCI ACWI (Global)	-0.29%	0.50%
Crude Oil (NYMEX WTI)	-0.95%	-0.10%
Gold LBMA PM	0.37%	-0.34%
60/40 ACWI/Agg Portfolio	-0.26%	0.22%

WHAT CAUGHT OUR EYES THIS WEEK

The Starting Point for 2026

As we begin 2026, we see a supportive macro backdrop with a few big "known unknowns" that will likely set the path for the year. Top-line gross domestic product growth is back on track, up 4.3% in Q3. Notably, 2.4% of that 4.3% came from personal consumption. Inflation is still in the 2.5% to 3% range: above the Federal Reserve target but not high enough to cause too much concern. Unemployment has slowly crept up due to tepid job creation rather than increasing layoffs. The S&P 500 gained 18% in 2025. Most of that was attributed to earnings growth, leaving the forward price-to-earnings multiple near where it started the year at 22.2x. The 10-Year Treasury yield is at 4.18%, still sitting in the "new normal" range where recession and inflation or deficit risks are in balance. Credit spreads are flashing green. In general, we like what we see and expect some of the biggest question marks (e.g., labor markets) to resolve for the better in 2026. Whatever the year has in store, we'll be ready to roll with the punches. Happy New Year!

The Known Unknowns



Please see important disclosures and other key information on page 4.

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OUR CURRENT OUTLOOK

- **The U.S. economy is resilient,** but softer labor markets translate into slower (albeit still positive) trends for consumer spending.
- **Our current expectations of a recession in the next 12 months are moderately low.**
- The One Big Beautiful Bill Act can **offset some of the negative impacts of tariffs on consumers and businesses**, with benefits accelerating in 2026**.**
- **The Federal Reserve is still looking to cut interest rates**. We expect one or two cuts for 2026.
- **We expect S&P 500 profits to continue with their momentum from 2025,** growing in the low to mid-teens again in 2026.
- **AI capital spending, driven by the hyperscalers, should continue to boost the U.S. economy,** fueling productivity gains and infrastructure growth.
- **Potential risks to our outlook include** disappointments in return on investment for AI spending, growing signs of speculative excess in certain pockets of equity markets, continued geopolitical uncertainty, and further deterioration in foreign sentiment for U.S. dollar assets.

IN CASE YOU MISSED IT

INSIGHTS

Retirement Planning for Single Women: How to Prepare

Is the Stock Market Overvalued? What Investors Can Do

Should Investors Fear an AI Bubble?

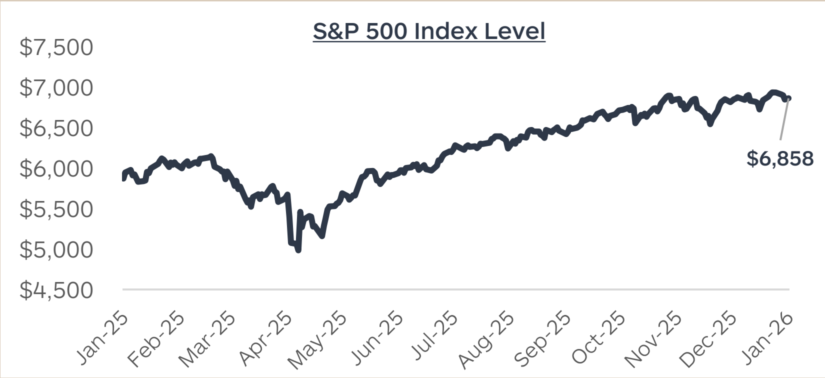
ARCHIVE

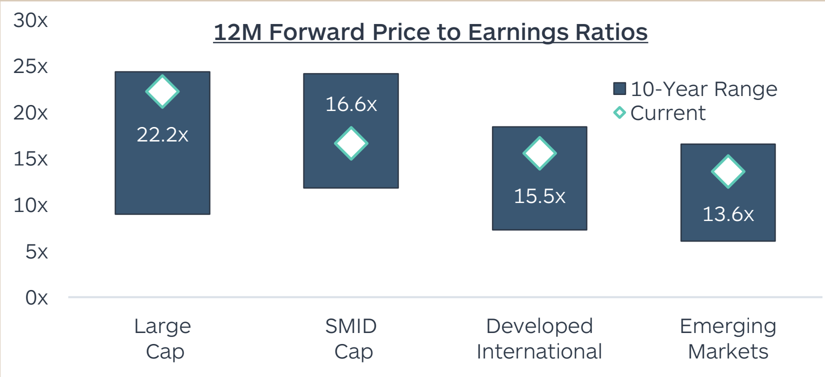
Historical Economic and Market Outlooks Insights

WEBINARS

Recording: Q4 2025 Market & Economic Outlook

EQUITIES





S&P 500 SECTOR	1-WEEK	YTD
Energy	3.3%	2.1%
Utilities	1.0%	1.2%
Industrials	0.5%	1.9%
Materials	-0.3%	1.6%
Real Estate	-0.3%	0.1%
Health Care	-0.3%	0.5%
Comm. Services	-0.6%	-0.4%
Consumer Staples	-0.8%	-0.1%
Financials	-1.2%	0.3%
Information Technology	-1.5%	0.1%
Consumer Discretionary	-3.2%	-1.1%

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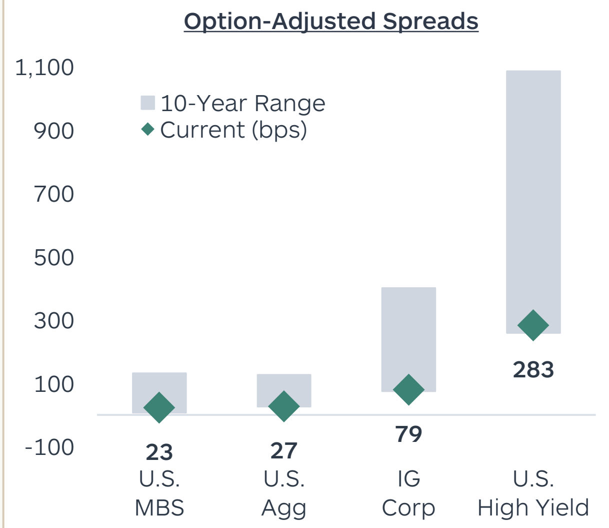
FIXED INCOME

KEY INTEREST RATES	1/2/25	Δ YTD
Municipal Bonds 1-10Y	2.97%	0.00%
3M T-Bill	3.62%	-0.02%
Effective Federal Funds Rate	3.64%	0.00%
10Y Treasury Yield	4.19%	0.02%
U.S. Aggregate	4.36%	0.04%
30Y Mortgage Rate	6.33%	0.08%
Prime Rate	6.75%	0.00%
U.S. High Yield	7.09%	0.01%



COMMODITIES, CURRENCIES, CRYPTO

Asset Class	1/2/2026
Crude Oil	$57.34
Gold	$4,352.95
U.S. Dollar Index	$98.42
Bitcoin	$90,190.00

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THE WEEK AHEAD

Jan. 5 (Mon)
- ISM Manufacturing

Jan. 6 (Tue)

Jan 7 (Wed)
- ADP Employment
- JOLTS Job Openings
- ISM Services
- Factory Orders

Jan. 8 (Thu)
- Initial Claims
- Q3 Productivity
- Consumer Credit

Jan. 9 (Fri)
- Unemployment Rate & Nonfarm Payrolls
- Michigan Sentiment

Coming Up
- December CPI (1/13)
- December Retail Sales (1/15)
- January FOMC Meeting (1/27–1/28)

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ABBREVIATIONS: Agg: Aggregate. EM: Emerging Markets. SOFR: Secured Overnight Financing Rate. MBS: Mortgage-backed securities. IG: Investment Grade.

CHART OF THE WEEK: Cerity Partners, FRED, 1/5/2026. (Note: Both unemployment rate and CPI for October 2025 were unavailable due to the federal government shutdown.)

MARKET PERFORMANCE: All returns represent total return for the stated period. 1-Week and Year-to-Date (YTD) returns are as of 1/2/26. Underlying indices are in descending order: Bloomberg US Aggregate provided by Bloomberg Capital; Bloomberg Municipal Bond 10 Yr provided by Bloomberg Capital; ICE BofA US High Yield Index provided by Bloomberg Capital; S&P 500; provided by: Standard & Poor's. Index; Russell 2500; provided by: Russell Investments; MSCI Europe, Australasia, and the Far East (EAFE) provided by MSCI net official pricing; MSCI EM provided by MSCI net official pricing; MSCI All Country World Index (ACWI) provided by MSCI net official pricing; Crude Oil (WTI) provided by CME; LBMA Gold Price PM provided by FactSet. The 60/40 ACWI/Agg Portfolio (60% ACWI / 40% AGG) is not a recommendation and is provided for reference purposes only.

EQUITIES: Top Left-hand Chart. S&P 500 Index Level as of 1/2/26 and provided by Standard & Poor's. Bottom Left-hand Chart. Forward Price to Earnings Ratios refers to the price-to-earnings ratio for the forward 12 months, which is a valuation measure applied to respective broad equity indices as of 1/2/26. Large Cap data is proxied with the S&P 500 and provided by FactSet. SMID data is proxied by the Russell 2500 and provided by FactSet. Developed International data is proxied with the MSCI EAFE and provided by FactSet. Emerging Markets data is proxied by the MSCI EM and provided by FactSet. S&P 500 Sector performance table. Sectors are based on the GICS methodology. Return data are calculated by FactSet using constituents and weights as provided by Standard & Poor's. Returns are cumulative total return for stated period, including reinvestment of dividends. 1-Week and Year-to-Date (YTD) returns are as of 1/2/26.

FIXED INCOME: Top Table. Effective Federal Funds Rate provided by FactSet. Composite Municipal Bond Yield provided by FactSet. Bloomberg US Aggregate provided by FactSet. 3-Month Treasury Bill rate provided by FactSet. 10-Year Treasury Yield provided by FactSet. 30-Year Mortgage Rate provided by FactSet. ICE BofA US High Yield Index provided by FactSet. Prime Rate provided by FactSet. Bottom Table. Option Adjusted Spreads as of 1/2/26. Bloomberg US Aggregate Securitized – MBS, Bloomberg US Aggregate, ICE BofA US Corporate, ICE BofA US High Yield data provided by Bloomberg Capital.

COMMODITIES, CURRENCIES, CRYPTO: WTI NYMEX Crude Oil provided by FactSet. Gold is proxied with the LBMA Gold PM and provided by FactSet. Bitcoin is proxied by the Bitcoin (CME) Continuous index and provided by FactSet. U.S Dollar prices are proxied with the U.S. Dollar Index and provided by FactSet.

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