

***Year-End
Market Update
January 2026***





Q4'25 Market Performance, Key Drivers, & Go-Forward Outlook

2025 at times seemed like a rollercoaster, with a combination of twists and turns, including the announcement of historic tariffs on Liberation Day, the passage of the One Big Beautiful Bill Act (OBBA), the longest government shut-down on record, dramatically lower immigration, and massive spending on AI infrastructure. Market participants exited the rollercoaster feeling somewhat dizzy, but still smiling, as markets continued to be resilient. The year included a sharp draw-down around 'Liberation Day' with U.S. stocks seeing a max decline of nearly 20%, before staging an astounding rally back, underscoring the value of a steady-hand and a long-term orientation. In the full-year 2025, the U.S. Total Market generated 17.1% returns, with an even stronger performance in international markets. Fixed Income, as measured by the US Aggregate Bond Index, also had a strong year, putting up a 7.3% total return, as bond yields broadly declined (see **Figure 1**).

In equity markets, a fierce debate continues to rage on, regarding artificial intelligence. Most observers recognize artificial intelligence as a major technological transformation that will likely change the world, much like the internet, radio, railroad, and automobile, before it. That said, technological transformation does not necessarily translate to investment success, and we continue to approach AI-related investments with a focus on fundamentals and, in our view, an appropriate level of skepticism.

Figure 1. Market Performance, Total Return

	4th Quarter	Full-Year 2025
Equities		
U.S. Total Market ¹	2.4%	17.1%
International Developed ²	6.1%	35.2%
Emerging Markets ³	1.8%	26.4%
Fixed Income		
Aggregate Bond ⁴	1.1%	7.3%

Source: Bloomberg; 1. S&P Total Market Index, 2. FTSE Developed ex U.S. Index, 3. FTSE Emerging Index, 4. Bloomberg U.S. Aggregate Bond Index

We believe the S&P 500 has more AI-related exposure than many suspect, which underscores the need for prudent portfolio construction. We also advocate for a middle path, with more manageable-levels of exposure to the AI theme, and a larger focus on companies that benefit from AI, but are not entirely dependent on it.



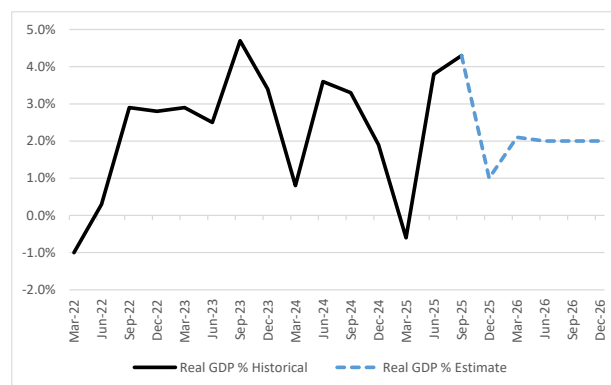
U.S. Economic Trends

According to consensus estimates among analysts polled by Bloomberg, Real Gross Domestic Product (GDP) is expected to have grown by 2.0% in 2025, close to the economy's long-run potential, while inflation, measured by the Consumer Price Index (CPI), is expected to have increased 2.8%, well above the Fed's 2.0% target. See **Figure 2.** for quarterly historical and projected GDP.

We believe the economy has been propelled forward by staggering levels of AI investment, and continued strength in consumption by higher-income households, buoyed by higher wages, in addition to the 'wealth effect', as asset-owners experienced gains in equity and real-estate holdings. Unfortunately, at the same time, lower-income households continue to struggle, as demonstrated by increased default rates on student loans, auto loans, and credit card balances. As a caveat, economists currently view the economic picture as somewhat cloudier than usual, as a result of missed data collection during the government shut-down.

In the words of Mark Twain, 'it is difficult to make predictions, particularly about the future'. We believe there are a few key variables to watch this year. Importantly, the OBBA is expected to stimulate growth (e.g., accelerated depreciation rule promoting greater corporate investment, higher expected tax refunds), and with mid-term elections in focus, it's possible that the Trump administration will be more focused on growth-oriented policy (e.g., de-regulation, affordability). It's also possible that the Supreme Court will strike down the use of the International Emergency Economic Powers Act (IEEPA) to impose tariffs. While the administration has other legislative avenues to pursue tariffs, these would likely be more difficult, and lower effective tariffs would potentially stimulate growth. On the negative side of the ledger, risks to the economic outlook include higher inflation should existing tariffs be passed through to consumers, and the possibility that the AI-theme sputters. If AI loses momentum, the economy would be impacted by reduced capital investment and the aforementioned 'wealth effect' running in reverse. Of course, geopolitics are also top-of-mind with military conflicts around the world posing risks.

Figure 2. Real Gross Domestic Product (GDP)



Source: Bloomberg; Bureau of Economic Analysis



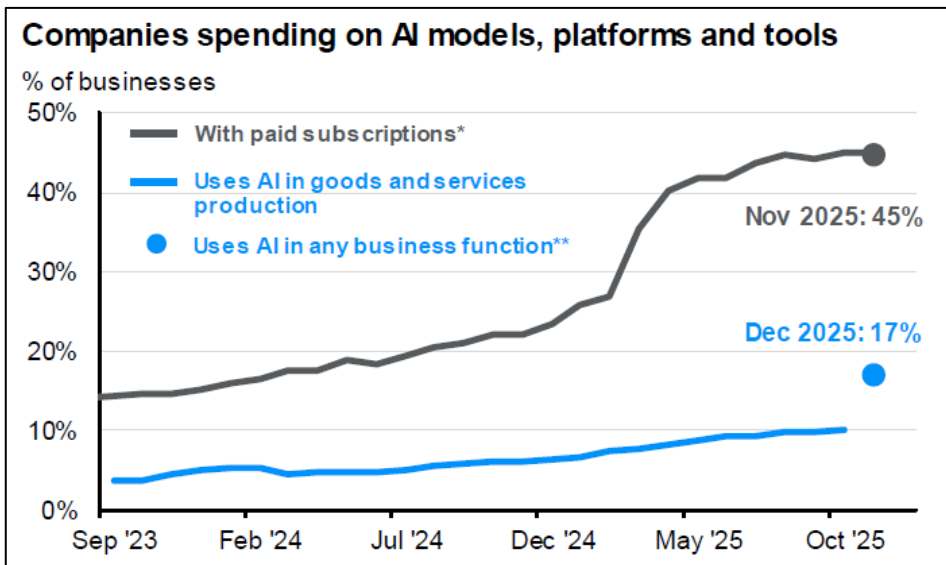
U.S. Stocks

The fourth quarter and the full-year 2025 saw the U.S. Total Stock Market generate 2.4% and 17.1% total returns, respectively. This was despite a sharp drawn-down around ‘Liberation Day’ with a max decline of nearly 20%, before staging an astounding rally back, underscoring the value of a steady-hand and a long-term orientation.

Throughout the year, there was also a dichotomy between thematic names (e.g., namely artificial intelligence, but also robotics, crypto, etc.), that captured investors imaginations, vs. non-thematic names, often regardless of business-quality or underlying business-fundamentals. Far from dismissing artificial intelligence, we believe this new technology is likely destined to change the world, much like railroads, radios, automobiles, and the internet before it. In fact, it’s already being used successfully in a number of commercial applications, like computer programming, advertising and customer service. Experts cite dramatic improvement in AI models and express confidence that further improvements will continue. That said, technological transformation does not necessarily translate to investment success, and we continue to approach AI investments with a focus on fundamentals and, in our view, an appropriate level of skepticism.

While acknowledging AI adoption is in its early stages, and shouldn’t be expected to proceed in a ‘straight-line’, it also appears that adoption-rates have flattened out (**see Figure 3**). Anecdotally, we are hearing about many enterprise AI projects ‘failing’, especially where accuracy is critically important.

Figure 3. Companies Spending on AI Models, Platforms & Tools



Source: Ramp AI Index* based on anonymized corporate card and bill-pay transactions with AI vendors across over 50k U.S. businesses on Ramp’s spend platform; U.S. Census Bureau; J.P. Morgan Asset Management



Howard Marks, Co-Chairman of Oaktree, recently wrote a memo entitled “Is It a Bubble?”. As Mr. Marks points out, Alan Greenspan’s famous phrase ‘irrational exuberance’ serves as a reasonable litmus test. Is the exuberance around artificial intelligence rational or irrational? The answer to this question is up for debate. That said, we see a number of ‘antenna-raising’ trends that may be indicative of ‘end-of-cycle’ behavior, including circular deals (e.g., a supplier invests in a start-up, which then uses the proceeds to buy products from the supplier) and speculative debt-financed infrastructure investment.

Rather than eschew all AI-related investments, we advocate for a middle path, whereby investors allocate reasonable amounts of capital to the AI-theme, in order to participate in the potential upside of a transformative technology, while maintaining a well-diversified portfolio. Unfortunately, as we’ve previously discussed, the S&P 500 no longer represents exposure to a wide swath of American business, and is more akin to a concentrated large cap growth fund. The top 10 stocks in the S&P 500 now make up ~40% of the index and are made-up primarily of mega-cap tech names, all with a meaningful exposure to AI. As a result, many investors have more concentration, and more AI exposure, than they suspect.

So where else do we think there’s opportunity in the United States for those looking to diversify? We continue to like value, mid-cap, and small cap stocks. See **Figure 4.** for current Price-to-Earnings Ratios vs. 20-year average Price-to-Earnings ratios by size and style. Mid, small, and value stocks, are less richly valued than large and growth stocks, relative to their history. We also think that accelerating economic growth may serve to benefit these more cyclically-oriented parts of the market. By industry, we think many ‘sleepier’ parts of the market represent a stronger value (e.g., financials, consumer discretionary, healthcare) than many parts of the market that may be seeing more excessive ‘exuberance’.

Figure 4. Forward P/E as a % of 20-Yr Avg P/E

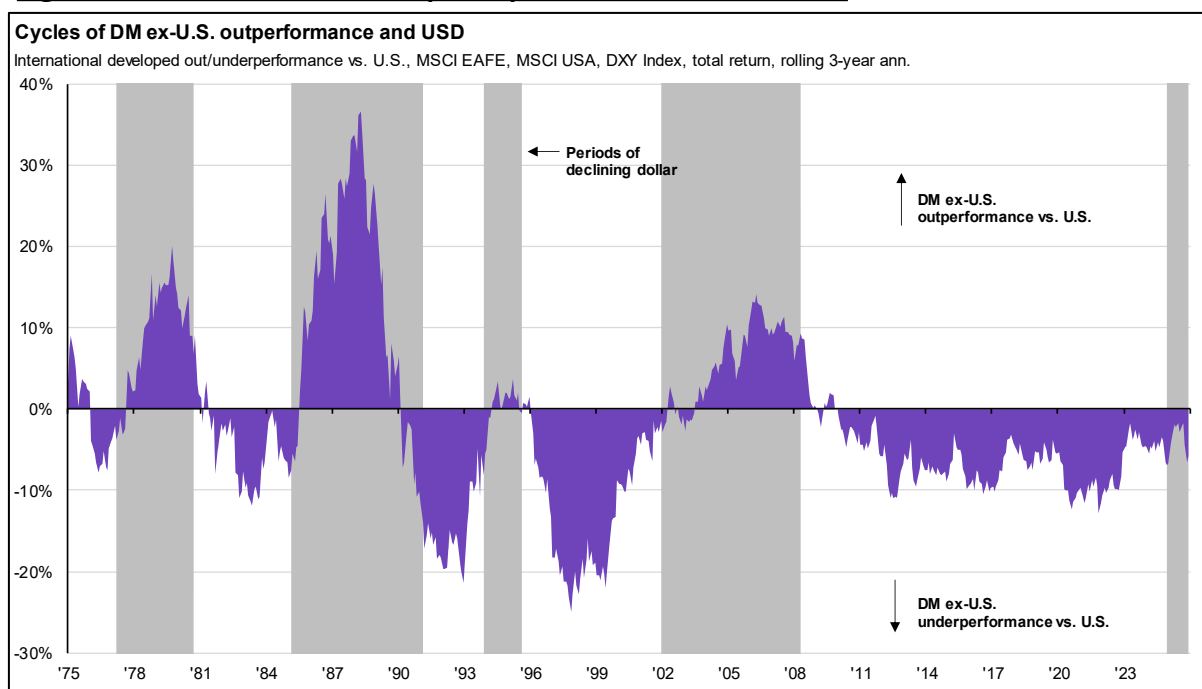
Forward P/E as % of 20-year avg. P/E			
	Value	Blend	Growth
Large	122.5%	135.8%	144.9%
Mid	107.1%	105.2%	125.9%
Small	102.1%	101.6%	110.1%

Source: FactSet, FTSE Russell, Standard & Poor’s;
J.P. Morgan Asset Management

International Stocks

Investors were finally rewarded for geographic diversification in 2025, as International Developed and Emerging Market stocks generated 35.2% and 26.4% total returns, respectively, based on FTSE indices. See **Figure 5.** for a graph of rolling three-year returns for Developed Markets excluding the United States vs. domestic stocks. You can see in the chart below that international outperformance has historically coincided with periods of a declining U.S. dollar, which are marked with gray vertical bars. Intuitively, international stocks benefit when the dollar weakens, since revenues generated overseas become more valuable when translated into USD.

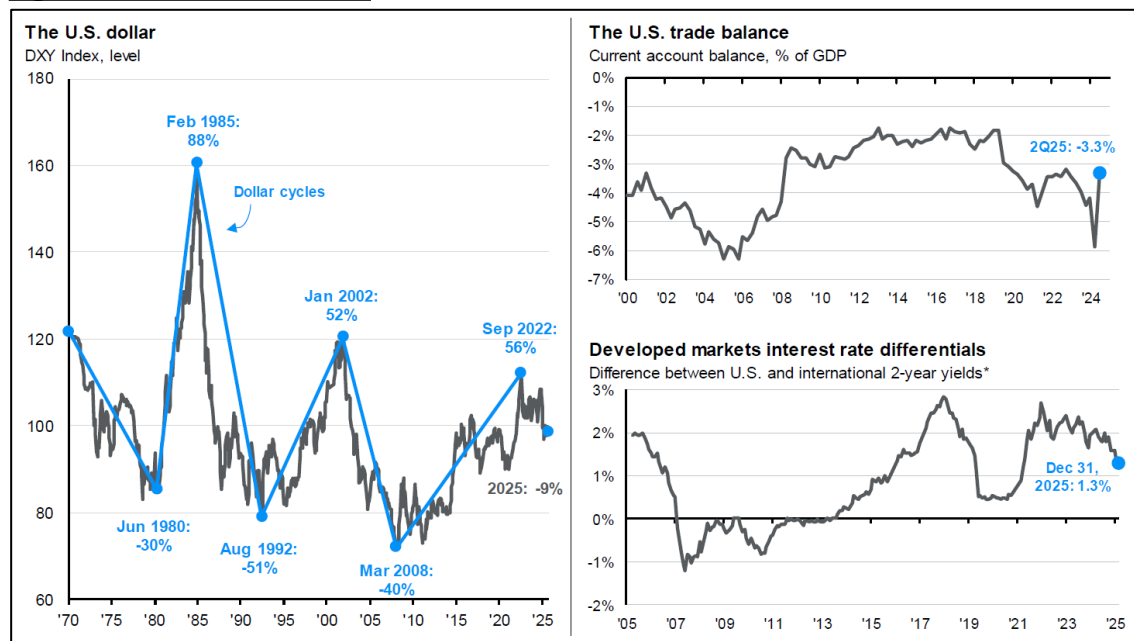
Figure 5. International Developed Equities and the U.S. Dollar



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

Exchange rates are largely driven by the flow of currencies around the world, which are influenced by interest rate differentials, the flow of investment dollars, and the trading of goods and services, among other things. Looking into 2026, if the Fed cuts rates more aggressively than other central banks, dollars would be expected to flow out of the United States, and into other currencies, leading to a weaker dollar. After 15-years of U.S. dominance, we believe that many investors, both domestic and abroad, remain overweight U.S. assets, and flows back into international assets may provide a further tailwind to international currencies. See **Figure 6.** for a historical trend line of the U.S. Dollar Index, the U.S. trade balance, and interest rate differentials.

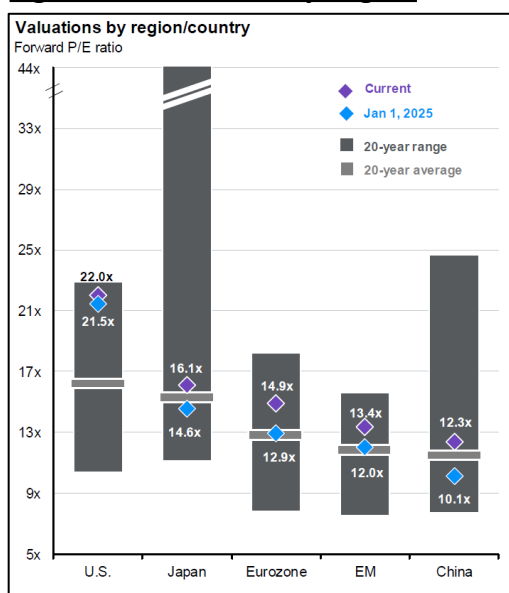
Figure 6. US Dollar Drivers



Source: Bloomberg, FactSet, Bureau of Economic Analysis; J.P. Morgan Asset Management; currencies in DXY Index are British pound, Canadian dollar, Euro, Japanese yen, Swedish krona and Swiss franc; International 2-year yield utilizes a basket of major trading partners and is weighted by total government bonds outstanding

In regards to valuations, even after the recent run, international stocks remain cheaper relative to the United States, on an absolute basis, and relative to their own history. See **Figure 7.** for valuations by region.

Figure 7. Valuations by Region



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

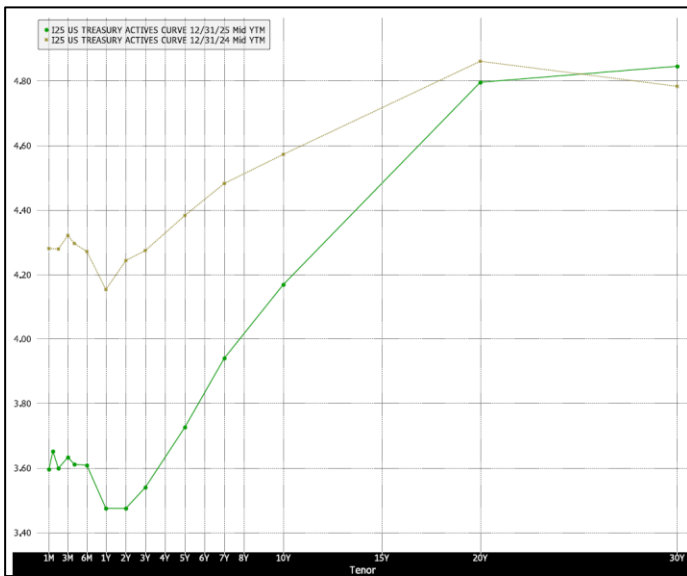
While international markets are not a monolith, and thus, hard to summarize, we think there are a few trends worth watching. These include a nearly €1T fiscal stimulus package targeted at defense and infrastructure in Germany, new pro-growth leadership in Japan, and the continuation of strong economic and corporate earnings growth in India.

We also think that inflation-risk is more muted overseas, given trade-war dynamics domestically. From a macro perspective, similar to the United States, many economies across the world are set to benefit from further rate cuts and looser fiscal policy. We think international equities remain well-positioned, and more strategically, over the long-run, represent an important part of a well-diversified portfolio.

Fixed Income

The U.S. Aggregate Bond Index generated a 1.1% total return in the fourth quarter and a 7.3% total return for the full-year. In 2025, after a nine-month pause, in response to slower job growth and greater confidence around moderating inflation, the Fed cut rates by 75 basis points (or 0.75 percentage points), with 25 basis points of cuts in September, October, and November, respectively. This was in addition to 100 basis points of cuts in 2024. After a multi-year period of fighting pandemic-era inflation, rates are now within, but at the higher-end, of the Fed’s estimated range of ‘neutral’ (i.e., a rates that are neither ‘restrictive’ or ‘stimulative’ to the economy). As a reminder, when the Fed cuts rates, it more directly impacts the shorter-end of the curve. See **Figure 8.** for the yield curve, which shows yields across treasury maturities, both at the beginning of the year (yellow) and the end of the year (green). In ‘fixed income speak’, 2025 was a ‘bull steepener’. When yields decline, bond prices rise, hence the word ‘bull’. The short to intermediate portion also fell more than the longer-end, meaning the curve got ‘steeper’.

Figure 8. US Treasury Yield Curve, 12/31/24 & 12/31/25



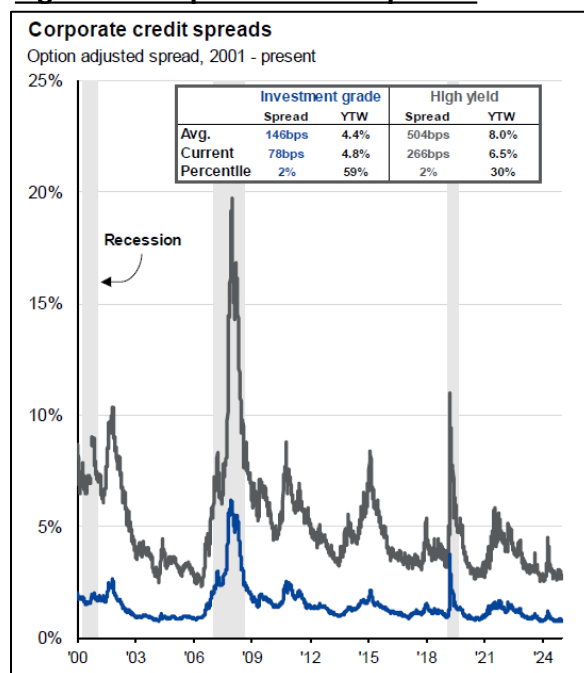
Source: Bloomberg; Power Wealth Management

Going forward, the median of the Fed’s ‘dot plot’, which shows Fed officials estimates, implies just one more cut in 2026. The market is more aggressive and anticipates ~2-3 cuts. As always, the Fed will respond to incoming data, with a focus on their dual mandate of promoting maximum employment and price stability. The Fed currently finds themselves ‘between a rock and a hard place’ with inflation running above-target, which requires *higher* rates, and slower employment growth, which requires *lower* rates. In this situation, ‘neutral’ appears to be the best path forward until data suggests otherwise.

So what’s going on with the longer-end of the curve? The longer-end of the curve is impacted by a number of variables that are somewhat difficult to untangle, including 1) expectations for economic growth, 2) expectations for inflation, and 3) supply and demand. We think there are a few key issues to watch. In regards to supply and demand, higher deficit spending translates to a higher issuance of Treasuries, and as a result, more supply is a drag on prices. This could be further exacerbated by the Supreme Court ruling against the use of IEEPA in imposing tariffs, which would likely reduce government revenue collection. Additionally, a new Fed Chair will be named this year, and to the extent that investors perceive Fed independence to be compromised, inflation expectations could rise. On the other hand, a healthy dose of duration (e.g., longer maturities) in fixed income portfolios remains important from a portfolio construction perspective. If the economy contracts, or geopolitical issues flare, a ‘flight to quality’ would likely occur, and longer-dated fixed income would see the most meaningful benefit. Given the balance of risks, in most portfolios, we recommend a somewhat lower duration than the U.S. Aggregate Bond Index.

Credit spreads (or the additional yield fixed income investors earn for buying riskier securities) is another important driver of returns in fixed income portfolios. Investment-Grade (IG) credit spreads briefly spiked around ‘Liberation Day’, but finished the year roughly where they started. Spreads remain tight, meaning the extra yield on offer for moving further out on the risk-spectrum is small. See **Figure 9.** for trends in corporate credit spreads, which ended the year in the 2nd percentile of ‘tightness’. For this reason, our posture is more conservative on credit risk.

Figure 9. Corporate Credit Spreads



Source: Bloomberg, J.P Morgan Asset Management



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Power Wealth Management

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