

Market Commentary

January 2026

Equity and Bond Market Update

(as of December 31, 2025)

Index	YTD	1-Year
Dow Jones Industrial Average TR	+14.9%	+14.9%
S&P 500 Total Return Index	+17.9%	+17.9%
Russell 2000 Total Return Index	+12.8%	+12.8%
MSCI EAFE Index (net)	+31.2%	+31.2%
MSCI Emerging Markets Index (net)	+33.6%	+33.6%
Bloomberg US Aggregate Bond TR	+7.3%	+7.3%

Recent Economic Indicators

	Statistic	Data as of
Unemployment Rate	4.4%	Dec 2025
Gross Domestic Product (GDP)	+4.3%	Q3 2025
Consumer Price Index (CPI) – Y/Y	+2.7%	Nov 2025
Consumer Confidence (1985=100)	89.1	Dec 2025
30-year fixed mortgage rate	6.21%	Wk of Jan 4
Housing Starts (single family)	874,000	Oct 2025
10-Year Treasury Yield	4.16%	12/31/2025

Equity and Bond Market Update

All major market indices closed out 2025 with strong full-year returns. In addition, these indices significantly outpaced their average annual returns over the past fifteen years:

Index	2025 Return	15-year average annual return
S&P 500 Total Return Index	+17.9%	+14.1%
Russell 2000 Total Return Index	+12.8%	+9.5%
MSCI EAFE Index (net)	+31.2%	+7.1%
MSCI Emerging Markets Index (net)	+33.6%	+4.2%
Bloomberg US Aggregate Bond TR	+7.3%	+2.4%

By December 31st, all these indices --- except for the small-cap Russell 2000 --- were at or within 1% of their respective all-time highs. Market participation broadened meaningfully in 2025 compared to 2024. The S&P 500 Growth Index finished within 1% of the aggregate performance of the ten largest mega-cap stocks, whereas in 2024 the gap between the two was approximately 28 percentage points.

Much of the outperformance in foreign equity markets, both developed and emerging, occurred during the first quarter of 2025, coinciding with an approximate 10% decline in the value of the U.S. dollar. Over the remaining three quarters of the year, the dollar stabilized and foreign markets largely matched the performance of domestic equities.

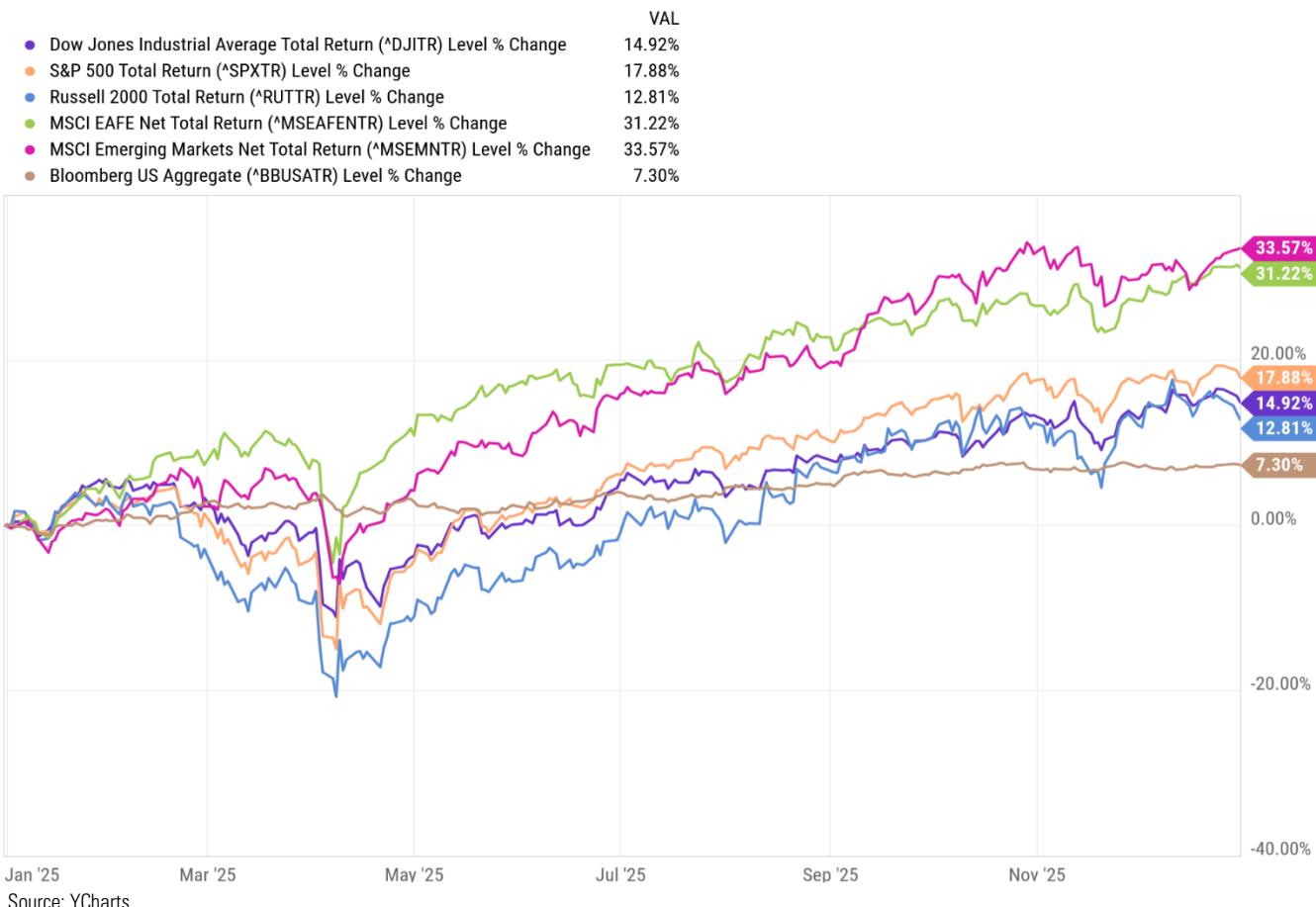
Outlook for 2026

S&P 500 forecasts for 2026 vary widely, ranging from double-digit gains to double-digit declines. On average, however, most major banks project returns of approximately +8% to +9%. This does not preclude periods of heightened volatility. Historically, since 1980, the stock market has experienced intra-year drawdowns of roughly 14% yet finished positive in 76% of those years.

Absent systemic risks --- such as the dot.com bubble or the Great Financial Crisis --- market pullbacks should be viewed as opportunities to rebalance portfolios and reallocate capital toward long-term strategic targets. Time and time again, this disciplined approach has proven effective for long-term investors.

Currently, futures markets are pricing in one to two Federal Reserve rate cuts of 25 basis points each this year. However, expectations for a sustained rate-cutting cycle are not reflected until mid-2025. Two cuts would place the fed funds rate in the 3.00%-3.25% range, which aligns closely with the Fed's projected long-run rate and its estimate for the end of 2027. In short, investors should not expect significant monetary policy support over the next several years unless recessionary risks materially increase.

Major Market Indices Total Return (YTD through December 31, 2025)



Economic Backdrop

Most analysts are projecting a positive year ahead for both the economy and equity markets, with one notable caveat: the labor market. Inflation has moderated, tariff-related pressures have been less severe than initially feared, and investment in artificial intelligence infrastructure continues at a robust pace. However, labor market conditions warrant close monitoring.

Since bottoming at 3.4% in April 2023, the unemployment rate has risen to 4.4%. While still historically healthy, the trend bears watching. Initial unemployment claims have remained relatively steady near 200,000 per month, but continuing claims have increased from approximately 1.4 million in mid-2022 to roughly 1.9 million today. These figures are not yet alarming, but they do suggest some fragility beneath the surface.

Corporate Earnings

Corporate earnings for S&P 500 constituents have remained strong:

- 2023 full year earnings were **8.4%** above 2022
- 2024 full year earnings were **9.3%** above 2023
- 2025 earnings are projected (still awaiting Q4 releases) to be **12.9%** above 2024
- Currently, 2026 earnings are projected to be above 2025 by **17.8%**

The bottom line is that there remains ample reason for optimism, though investors should remain alert for potential cracks beneath the surface.

Always keep in mind that fear, panic, and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 992-9220 or by email at pjackson@lsaminc.com should you have any questions or comments.

Sources:	S&P Dow Jones Indices website (us.spindices.com)	FTSE Russell (www.ftserussell.com)
	MSCI Barra website (http://www.msbarra.com)	Bankrate.com (www.bankrate.com)
	The Conference Board (www.conference-board.org)	Bureau of Labor Statistics (www.bls.gov)
	Bureau of Economic Analysis (www.bea.gov)	United States Census Bureau website (www.census.gov)
	JP Morgan Guide to the Markets	Federal Reserve Bank of Atlanta (https://www.atlantafed.org/cqer/research/gdpnow)
	CME FedWatch Tool (www.cmegroup.com)	OpenAI, ChatGPT

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities. The index is meant to reflect the risk/return characteristics of the large capitalization U.S. universe.

The S&P 500® Equal Weight Index is the equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The Russell 2000 is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of the 3,000 largest stocks in the United States. The Russell 2000 serves as a benchmark for small-cap stocks in the U.S. and is meant to reflect the risk/return characteristics of the small capitalization U.S. universe.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra, a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets.

The Barclays US Aggregate Bond Index is a broad-based benchmark index that measures the investment-grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

The Dow Jones Equity All REIT Index is designed to measure all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

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