QUARTERLY MARKET COMMENTARY: 2025-Q4

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A memorable 2025, for both bulls and bears, appears to be a blip as markets continue to establish new highs in overbought territory within the first two weeks of 2026. As investors quickly celebrated year-end high-water marks for portfolios, it is important to step back and objectively assess the current market environment for what it is, where upside is driven largely by market sentiment, while downside risk is supported by clarity in underlying fundamentals.

This past year provides a reminder of our overall portfolio strategy, which utilizes both active and passive approaches contingent upon market levels relative to fundamentals. We reiterate that oversold markets can provide opportunities for active management, seeking investments that may deliver incremental returns above overall market performance. Conversely, overbought markets can challenge the ability to identify such opportunities, often favoring a more passive approach. Importantly, one cannot exist without the other when considering the concept of market efficiency.

We are beginning to notice changes in the behavior of individual investors during the recent bull run. Instead of discussions centered on returns relative to risk, the focus has shifted almost entirely to returns. We observed a similar pattern in the 1990s, as 401(k) plans transitioned toward an open-architecture format and participants directed a significant portion of assets into equity investments averaging 25% to 30%+ annual returns over three- to five-year holding periods. These same funds later declined by as much as 75% during the “tech wreck,” while more conservative equity funds fell closer to 50%, often shocking novice participants. Hence the familiar disclosure: “Past performance is not indicative of future results.”

Where appropriate, we have utilized the S&P 500 as a core equity position as part of our passive strategy in the current market environment, while also gaining exposure to the technology sector. As we periodically review and analyze the underlying 500 companies for potential opportunities, we have begun to question the continued appropriateness of the S&P 500 as a benchmark, given its considerable evolution over the past five years. Is it still a valid benchmark when approximately 37% of the index is represented by just seven companies (the “Magnificent Seven”), all within the technology and communication services sectors? At what point does exposure to the S&P 500 challenge individual security or sector allocation parameters established under fiduciary guidelines? Could an equally weighted S&P 500 serve as a more appropriate benchmark from a fiduciary perspective?

The cautious guidance we have provided is intended to help manage expectations surrounding future market volatility. While we remain bullish over the long term and continue to see opportunities in both oversold and overbought conditions, we recognize that a key concern for 2026 is geopolitical risk. We will continue to monitor factors that may impact economic outlooks and corporate fundamentals. It remains important to regularly review your financial plan with your advisor to ensure that return targets are appropriately aligned with your long-term goals. As a wealth management firm, we strongly believe that the planning process drives the investment strategy.

Wishing everyone a healthy and happy New Year!