



Market update

January 5, 2026

Financial market returns were quite mixed in December with modest losses for both U.S. bonds and U.S. stocks. Six of eleven U.S. stock market sectors posted losses. For the full year, however, all sectors posted gains. Foreign stocks outpaced U.S. stocks both for the month and for the year. Some of this performance disparity reflected a weaker U.S. dollar. U.S. Treasury, 10-year bond yields backed up modestly to 4.12% even as the Federal Reserve cut its target policy rate 0.25%. This policy change came amidst the Fed's sensitivity to shifting risks even as uncertainty over the inflation outlook and labor market trends remained elevated.

	DECEMBER	Y-T-D
• U.S. Taxable Bonds	-0.1%	+7.3%
• U.S. Stocks	-0.1%	+17.1%
• Foreign Stocks	+3.2%	+33.1%

Domestic policy and the near-term trend of the U.S. economy captured investor attention as 2025 came to a close. Outlooks around U.S. trade policy, inflation, labor-market strength and the timing of monetary policy changes have moved with the calendar from 2025 to 2026. The odds of a U.S. recession remain low even as the quarterly rate of economic growth is projected to slow from the stronger rates experienced in the second and third quarters of 2025. While the inflation goal remains 2.0%, projections are for levels closer to 2.5% throughout 2026. It remains to be seen if such a shift impacts either policy or investors.

FEW BARGAINS AMONG STOCKS	
MARKET SECTOR	DISTANCE FROM ALL-TIME HIGH AS OF 12/31/2025
DOW JONES INDUSTRIAL AVERAGE	-1.4%
S&P 500	-1.2%
LARGE-CAP GROWTH	-2.2%
LARGE-CAP VALUE	-1.0%
S&P MIDCAP	-2.5%
S&P SMALLCAP	-3.7%
DEVELOPED FOREIGN	-0.2%
EMERGING FOREIGN	-2.7%

As seen in the table here, many stock market sectors ended 2025 below but very near all-time highs. This raises challenges for both buyers and sellers. For sellers, there is the concern of triggering realized capital gains, thus raising reportable income. One potential practical and undesirable outcome is to raise income to a level that would increase Medicare premiums. At the same time, if the rationale for making such a sale is concern over the future direction of the stock's price, there is a real trade-off to be measured. For buyers, there is a concern over buying anything that is near its all-time high. Perhaps this is less of a constraint when many stocks are near their highs and there is no assurance of lower prices ahead. One could inadvertently end up in some sort of a market timing "trap", never reaching the desired portfolio position.