



Quarterly Economic Update Fourth Quarter 2025

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Equity markets closed out the fourth quarter of 2025 on a strong note, buoyed by an interest rate cut from the Federal Reserve in December. Delighting investors, 2025 marked the third consecutive year in which equities delivered double-digit returns. This extended bull market was powered largely by three federal rate cuts during the second half of the year, robust AI-driven technology earnings, and broadly positive investor sentiment.

During the fourth quarter, inflation continued to show incremental signs of easing, while economic growth remained resilient, contributing to an environment often described as the “Goldilocks” scenario. This balance of moderating inflation and steady growth helped maintain investor confidence throughout the quarter.

The S&P 500 continued to experience new highs during the fourth quarter. The S&P 500 gained 2.4% in the fourth quarter, closing 2025 at 6,845.50, marking a roughly 16% gain for the year. The Dow Jones Industrial Average (DJIA) closed the quarter up 4.5%, ending at 48,063.29 and up approximately 13% for the year. (Source: Morningstar.com; cnbc.com)

Equity market conditions remain strong and investor sentiment is largely bullish, although there are some underlying risks that warrant close attention. A decelerating labor market, historically high stock valuations, potential



MONEY RATE (as posted in Barron's 12/29/2025)		
	LATEST WEEK	YR AGO
Fed Funds Rate*	3.64%	4.37%
Bank Money Market²	0.52%	0.47%
12-month Certif²	1.90%	1.93%

Z - Bankrate.com; * - Average effective offer (Source: Barron's; bankrate.com)

overextension in AI and technology stocks, and economic uncertainty, may weigh on investor enthusiasm and returns moving forward.

According to the U.S. Bureau of Labor Statistics, the unemployment rate for November 2025 rose to 4.6%. This is up from September's data of 4.4% (October data, as of the writing of this newsletter, was delayed due to the government shutdown). Unemployment is now at the highest rate it has been since 2021. This data suggests that the labor market might be on a weakening trend.

Many analysts feel that 2026 will be another good year for equity markets. Prominent Wall Street strategist Tom Lee expects 2026 to mirror much of 2025, with intermittent volatility followed by a potential year-end rally. Looking ahead, whether markets can achieve a fourth consecutive year double-digit returns remains uncertain. *(Source: marketwatch.com, 12/11/25)*

Overall, the data continues to support a watchful but constructive long-term outlook for equities. As always, investors need to carefully choose portfolios that represent their unique objectives. Our role as financial professionals is to closely monitor market developments and ensure our clients' portfolios remains aligned with their time horizon, risk tolerance, and financial objectives. We remain committed to keeping them informed, proactive, and well-positioned to navigate evolving market conditions with confidence.

Inflation & Interest Rates

Key Points:

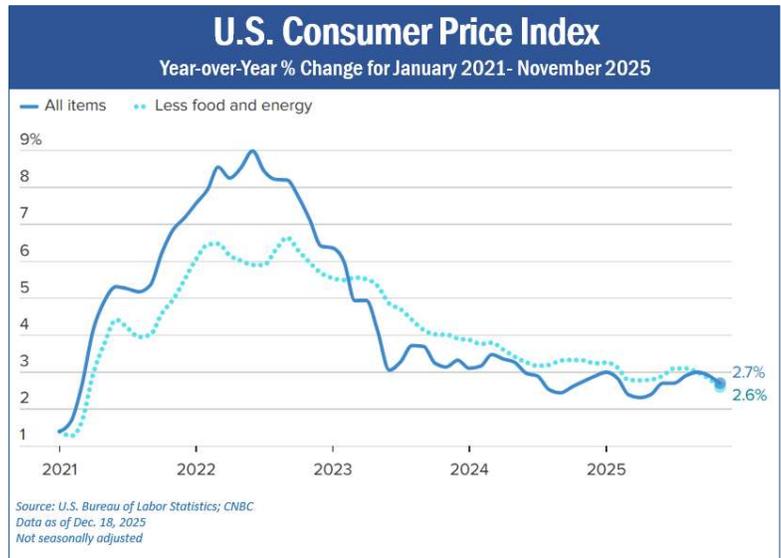
- **Interest rates were lowered by 50 basis points in the fourth quarter, resting at 3.5 - 3.75%, for a total of three consecutive rate cuts since September.**

KEY TAKEAWAYS

- Equities continued to reach record highs in the fourth quarter. The rally was fueled primarily by additional easing of monetary policy, the AI boom, a resilient labor market, and consistently strong corporate earnings.
- In the fourth quarter, The Fed reduced the federal funds rate twice by a total of 50 basis points to finish the year at a range of 3.5-3.75%, with the potential of additional, but slower, cuts next year.
- Inflation numbers came in better than expected and in November, the Consumer Price Index rose 2.7%.
- Bonds were relatively muted during the quarter.
- While investor sentiment remains positive, we continue to monitor potential disruptors.
- Focusing on your long-term goals and staying the course of a well-guided plan can help you stay grounded and confident during these times of uncertainty.
- ***We are here for our clients! Their financial well-being is always our priority.***

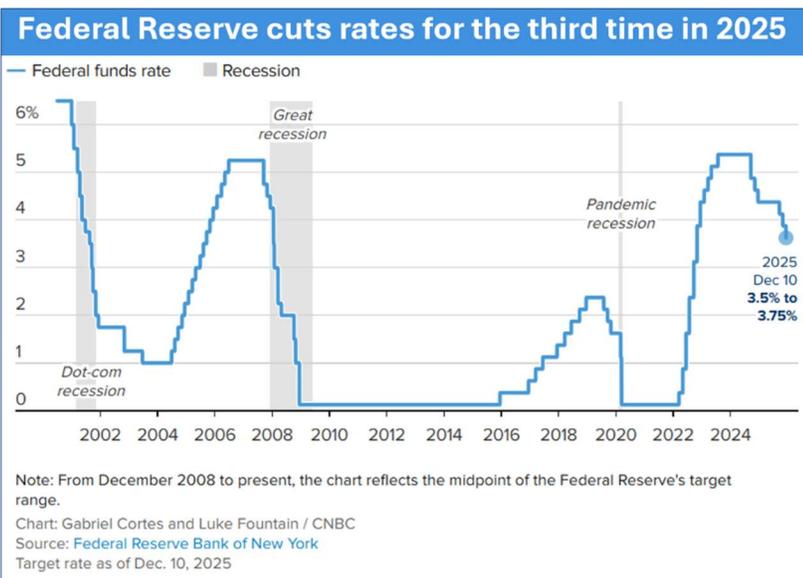
- The Fed ended the year forecasting rate cuts in 2026, although at a slower pace than we experienced this quarter.
- The core CPI, which does not include food and energy prices, was cooler than anticipated, increasing 2.6% over 12 months.

The Federal Open Market Committee (FOMC) lowered interest rates in October for the second time in a row. Then, during the last meeting of the year in December, the committee members had to make a decision on interest rates without complete economic data for October and November. The committee had to operate and make decisions based on data that was behind schedule or unavailable, due to the government shutdown that ended November 12. With the information available that showed a good economic landscape, the FOMC voted to lower interest rates once again. The December rate cut represented the third in a row, bringing the rate range to 3.5 – 3.75%. Equity markets reacted positively to this news, with major indexes reaching record highs. (Source: finance.yahoo.com, 9/18/25)



Looking ahead, the Fed anticipates there could be additional rate cuts, but they are not guaranteed. The committee is beginning to have a more hawkish outlook, but the third reduction put the Fed in a comfortable position. Fed Chairman Powell said, “We’re in the high end of the range of neutral,” He also added, “It so happened that we’ve cut three times. We haven’t made any decision about January, but as I said, we think we’re well positioned to wait and see how the economy performs.” (Source: cnbc.com, 12/10/25)

“In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks,” was the message in the December FOMC statement.



Vital economic data was finally released on December 18 after being delayed by the government shutdown. The most recent Bureau of Labor Statistics data for consumer prices came from November, when the annual rate rose by 2.7%, lower than expected. The core Consumer Price Index (less

food and energy) rose 2.6%. Economists polled by the Dow Jones were surprised by this result, as they had anticipated the CPI to rise to 3.1%. (Source: *cnbc.com*; 12/18/25)

Equities responded very well to this data which incited optimism that inflationary pressures could prompt the Fed to continue to ease monetary policy at an appropriate pace.

The December 18 news release by the Bureau of Labor Statistics showed year-over-year, food showed a gain of 2.6% while energy increased 4.2%. Shelter costs increased 3.0%.

Movements in interest and inflation rates are critical for investors' financial planning, and we will continue to closely monitor these key economic indicators.

The Bond Market and Treasury Yields

Key Points:

- **The fourth quarter of 2025 was relatively calm for the U.S. bond market.**
- **Bond behavior continues to hinge on the direction of interest rates. Should the Fed pursue additional rate cuts, existing bonds could appreciate in value. Conversely, expectations of slower easing or persistent inflation pressures could push yields higher.**

During the fourth quarter, the U.S. Treasury market demonstrated cautious behavior relative to equities. Although the Federal Reserve's December rate cut supported risk assets, treasury yields remained elevated, reflecting investor concern over inflation durability and economic strength.

As the quarter ended, the 10-year Treasury yielded 4.18%, the short-term 2-year Treasury was 3.47% and the 30-year Treasury yielded less than a basis point lower at 4.84%. (Source: *treasury.gov resource center*)

In basic terms, when bond prices rise yields fall; when prices fall, yields rise. In late 2025, long-term yields have slightly drifted higher from earlier in the year, suggesting that investors may be pricing in a mix of slower rate easing, sticky inflation expectations, and moderation in growth.

For investors, bonds can still play a meaningful role in diversification, providing relative stability during periods of equity volatility. However, it's important to remember that bond investments must be evaluated in the context of your individual risk tolerance, investment horizon, and financial goals. Bonds remain a core component of many well-balanced portfolios, helping to mitigate risk and provide income. Nevertheless, diversification does not guarantee profits or prevent losses, and we will continue to monitor the fixed-income landscape closely as conditions evolve.

Treasury Par Yield Curve Rates							
January 2, 2025				December 31, 2025			
5-year	10-year	20-year	30-year	5-year	10-year	20-year	30-year
4.38%	4.57%	4.86%	4.79%	3.73%	4.18%	4.79%	4.84%

Treasury.gov

Investor's Outlook

Key Points:

- **The bull market is expected by most strategists to extend into 2026.**
- **Market volatility is likely to persist, making discipline and perspective essential.**
- **Volatility can create opportunities for long-term investors.**
- **Maintaining a long-term focus—and avoiding short-term distractions—has historically been one of the most reliable ways to achieve financial goals.**

Experience imparts wisdom and broadens an investor's perspectives. After the S&P 500 endured a drawdown of almost 20% in the first half of 2025, patient, non-emotional, well-disciplined investors were rewarded with new highs and robust returns in the second half of the year.

After a healthy fourth quarter for investors, we feel good about our portfolios. We still enter the new year with some lingering questions including, will 2026 be able to deliver another

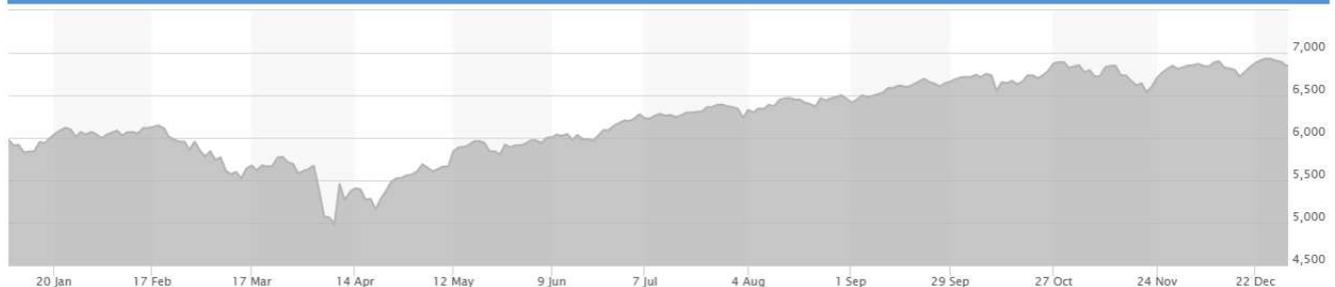
strong year of returns for the fourth consecutive year?

Analysts are optimistic about 2026, with a consensus that year-end returns will be positive, however, investors are aware that market pullbacks occur on average every year and a half, so we must remain prepared. If 2025 taught us anything, it's that during challenging times, it's best to avoid emotional decisions. Although history is not a forecast of future outcomes, in 2025 the equity market rewarded investors who demonstrated patience and discipline during tough times.

As we begin 2026, there are numerous concerns that are reasons for investors to be cautious. While we are optimistic about the opportunity for another positive year in 2026, there are still many uncertainties to consider.

Many analysts feel that the Federal Reserve's monetary policy trajectory will set the tone for global markets in 2026. The second half of the year will bring the appointment of a new Fed chairman. Dennis Dick, chief market strategist at Stock Trader Network, shares that, *"The next Fed Chair is probably going to be much more dovish than Jerome Powell, so I would imagine that we actually see in the second half of this year that interest rates go down substantially."*

2025 S&P 500



Source: MarketWatch.com

The continuation of tariff talks and the possibility of a struggling economy could also cause issues in the first half of 2026. High valuations mean that any earnings disappointments could also disrupt the recent upward trajectory of equity markets. Additionally, geopolitics in several regions are at a challenging point and could lead to more uncertainty, which always seems to disrupt equity markets.

Statistically, speaking, investors should be prepared for a potential correction of 10% or more at some point in 2026, but as analyst estimates share almost every major institution feels that by year-end, we will see markets higher.

2026 is a midterm election year and that historically has created increased uncertainty, as investors assess potential changes in Congressional control and their implications for taxes, spending, and regulation.

Geopolitical conflict also remains a concern. Ongoing conflicts, such as instability in the Middle East, the war in Ukraine, South America's issues and the continued rivalry among major global powerhouses, including China and Russia, continue to contribute to an unclear global environment.

While uncertainties remain, our focus continues to be on the factors most relevant to your personal financial situation. Many analysts still see the potential for the bull market to extend into 2026, supported by easing monetary policy and continued momentum in artificial intelligence and innovation. At the same time, high valuations and a complex political environment—both domestically and internationally—suggest that volatility is likely to remain a feature of the market.

Rather than viewing volatility solely as a risk, it can also be seen as a potential opportunity. Periods of market weakness can present openings to invest at more attractive prices, rebalance portfolios, or harvest losses to help offset capital gains.

For now, we can appreciate the benefits of the current bull market while continuing to emphasize our guiding principle: **proceed with caution.**

A new year always brings the opportunity to review your expenses thoughtfully and we still recommend making informed financial

How Market Experts See the S&P 500 Ending in 2026	
FIRM OR ANALYST	S&P 500 YEAREND 2026 VALUE
OPPENHEIMER	8,100
DEUTSCHE BANK	8,000
MORGAN STANLEY	7,800
WELLS FARGO	7,800
TOM LEE, FUNDSTRAT	7,700
CITIGROUP	7,700
GOLDMAN SACHS	7,600
FACTSET	7,501
J.P. MORGAN	7,500
BANK OF AMERICA	7,100
NED DAVIS RESEARCH	7,100
2025 Year-end Closing	6.845.50
<i>Source: The Street</i>	

decisions. Proactive preparation can help you maintain a well-structured financial strategy designed to weather a wide range of market environments. From an investment standpoint, equities remain a long-term commitment, and our disciplined, long-term strategy continues to be a cornerstone of prudent investing.

Here are some proactive planning reminders:

- **Consider IRA contributions for tax year 2025:** Contributions can still be made until April 15, 2026. This is also a good time to let us know if you are considering changes to your estate plan and beneficiary designations.
- **Life changes and important milestone “birthdays”:** Please notify us of any anticipated changes, such as retirement, estate planning updates, and remind us of significant age-based milestones.
- **Cash flow evaluation:** Review your 2026 spending and savings plan to reflect upcoming goals and expected changes. Maintaining adequate cash or short-term reserves can help cover near-term expenses.
- **Portfolio rebalancing:** We try to use periodic rebalance as a strategy for helping keep your portfolio aligned with your risk tolerance, time horizon, and goals. The beginning of the year is an ideal time to confirm—or adjust—your objectives if your circumstances have changed.

We believe an informed client is the best client. Our commitment is to exceed our clients’ expectations in 2026 by delivering exceptional service, maintaining consistent, meaningful

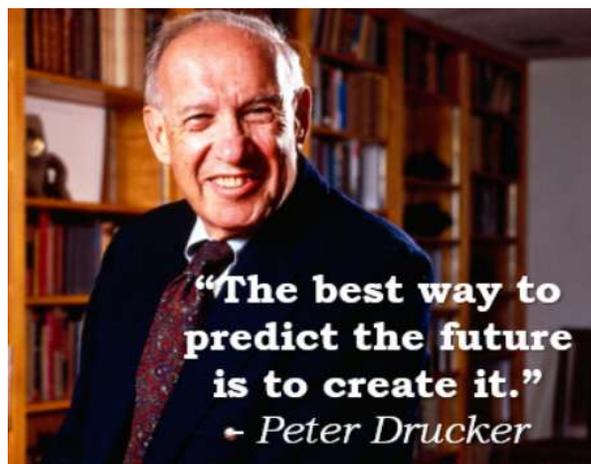
communication throughout the year, and proactively planning to help them navigate the changing economic environment.

As our clients’ financial stewards, we will continue to monitor the economic landscape and areas that we believe are important to their financial well-being. Key items we will be watching in 2026 include:

- Inflation trends
- Interest rates and the path of monetary policy
- Corporate earnings and profit margin trends
- Overall economic health, including unemployment data
- Geopolitical developments and policy changes

We will keep our clients informed about developments that could impact their personal situation.

If you would like to explore our services, please contact us. We always recommend discussing any potential changes, concerns, or ideas that you may have with a qualified financial professional prior to making any financial decisions so they can help you determine your best strategy and make sure your plan is still aligned with your goals.



We are accepting new clients!

- Do you feel your advisor is fully aware of your financial situation? Yes No Not Sure
- Are you satisfied with how your advisor is keeping you updated? Yes No Not Sure
- Has your advisor reviewed your tax forms to understand how to coordinate your investments with your taxes? Yes No Not Sure
- Has your advisor discussed tax planning strategies that could help you keep more of what you make? Yes No Not Sure
- Is your advisor updated and current on tax planning strategies? Yes No Not Sure
- Would you like a complimentary review of your financial situation? Yes No Not Sure

*If you answered **No** or **Not Sure** to any of these questions, we would like to offer you a **complimentary, one-hour, private consultation** with one of our professionals at absolutely no cost or obligation to you. To schedule your financial check-up, please call us at **317-577-8233***

Note: The views stated in this letter should not be construed, directly or indirectly, as an offer to buy or sell any securities mentioned herein. Investors should be aware that there are risks inherent in all investments, such as fluctuations in investment principle. With any investment vehicle, past performance is not a guarantee of future results. Material discussed herewith is meant for general illustration and/or informational purposes only, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice. This material contains forward-looking statements and projections. There are no guarantees that these results will be achieved. All indices referenced are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. There is no guarantee that a diversified portfolio will enhance overall returns outperform a non-diversified portfolio. Diversification does not protect against market risk.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. Stock market. The modern design of the S&P 500 stock index was first launched in 1957. Performance prior to 1957 incorporates the performance of the predecessor index, the S&P 90. Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. Past performance is no guarantee of future results. CDs are FDIC Insured and offer a fixed rate of return if held to maturity. Due to volatility within the markets mentioned, opinions are subject to change without notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. Sources: usbank.com; hbls.gov; factset.com; yahoofinance.com; cnbc.com; federalreserve.com; Morningstar.com; bls.gov; U.S. Department of Treasury. Contents provided by the Academy of Preferred Financial Advisors, 2026