

~ Prevailing Winds ~

A Quarterly Market Update

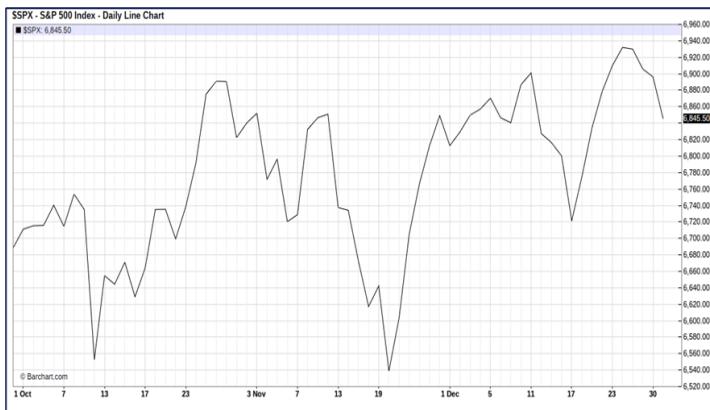
December 31, 2025

Quarterly Recap:

While 2025 ended with a whimper, overall, the year was a whirlwind. We entered the year bolstered by the promise of lower interest rates, deregulation, and tax reductions. Unfortunately, we first had to deal with profound uncertainty in the form of "Liberation Day" and a roster of heavy tariffs ("taxes"). As we close out the year, it is clear that tariffs will be part of our reality for the foreseeable future. It is also clear that the U.S. and global economies are extremely resilient and dynamic. The events of 2025 have been profound. Left unwritten is the impact that these changes will have on the future.

Quarter Ending December 31, 2025

Equity Indexes	Close	% Change
DJIA	48063.29	3.6%
S&P 500	6845.50	2.3%
NASDAQ	23241.99	2.6%
Treasuries	Close	Change
10-Year Yield	4.18%	0.02
2-Year Yield	3.47%	-0.13

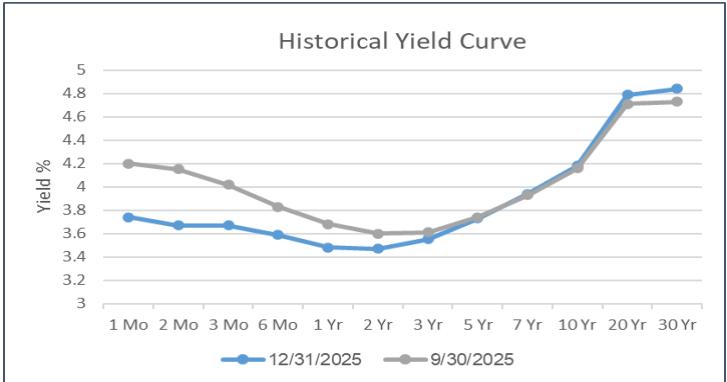


The Stock Market:

We have often commented about the vast differences between the "average stock" and those associated with AI. Investors decided in 2025 to put faith in the growth and promise of AI and the infrastructure needed to support it. More recently, investors have turned their attention to how and when these investments will payoff. We seem to be reaching a point when speculation will collide with reality. This does not mean that the current list of winners will not continue to win. It simply means that we might be reaching the point where a promise for the future is not enough. Expectations are high and profitability will matter more in the year ahead.

The Bond Market:

The year ahead will include a new Federal Reserve chairperson and likely new board members. Still, it seems as though the bond market will not be the newsmaker of 2026. Short term rates could decrease a bit, but we are getting closer to what one might consider a "neutral" interest rate policy. Longer term rates are more in a trading range and have priced in the risk of stubborn inflation and budget deficits. Many concede that despite drama and disagreement, the Federal Reserve does not have the tools to remedy affordability, fiscal imprudence, or a "K-shaped" economy.



Looking Ahead:

It has often been said that the markets (specifically the stock market) climbs a wall of worry. Looking back as far as 2020 and COVID, it seems like the wall keeps getting higher. We have experienced extreme levels of uncertainty and disruption. Unfortunately, there are few signs that this will change anytime soon. Fear and frustration are real emotions, however, they are not investment strategies. Conversely, unbridled optimism also often leads to disappointing investment results. "Resolve" is the operative word as we move forward into a new year filled with both opportunities and risks.