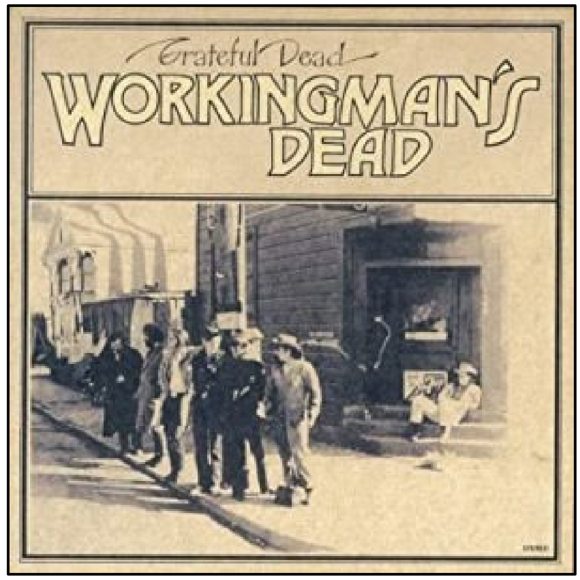
EASY STREET

A Raging Bull



Bob Weir, a founding member of the Grateful Dead, recently passed away, following six decades of songwriting and touring. Bob was a teenager when he joined the band, bringing a distinct style of rhythm guitar and balancing the sound of drummers Mickey Hart and Bill Kreutzmann, the bass of Phil Lesh, and the lead guitar of Jerry Garcia. Bob was the everyman of the Grateful Dead, with his country and folk influence first coming through on *Workingman's Dead*. The band's catalogue has endless memorable lyrics, some about pending tragedy, or nearly avoiding one (see my daughter's favorite, *Monkey and the Engineer*). From the opening track of this album, *Uncle John's Band*, "Well the first days are the hardest days, don't you worry any more, Cause when life looks like easy street, there is danger at your door." [i]

The S&P 500 finished 2025 up 16.4%, with the Magnificent 7 accounting for 46% of those gains (versus 55% and 63% in the prior two years). Comparatively, the equal weighted S&P 500, which is more representative of average stock performance, finished higher by 9.3%. Market rotation was evident in the fourth quarter, as companies outside of the technology sector, like Financials and Healthcare, gained momentum. Notably, just two of the Mag 7 stocks, Alphabet (GOOGL) and Nvidia (NVDA), outperformed the S&P 500 in 2025. As this bull market enters its fourth year, investors face a similar wall of worry from 12 months ago. The S&P 500 remains historically expensive, still trading at a forward price-to-earnings multiple of 22x as of yearend, and historically top heavy, still dominated by the largest companies in the index. As such, strong corporate earnings were required to propel the market higher, with S&P 500 earnings expected to have grown by 11% in 2025. Although led by Mag 7 earnings growth of ~21%, the rest of the index grew earnings by ~9%. High valuations could continue to be supported as analysts project double digit earnings growth in 2026, from both mega cap tech stocks (~24% growth) and the broader market (~12% growth).[ii]

A third year of market gains is remarkable considering the sharp shifts in economic and foreign policy that led many market experts to predict economic stress and a prolonged "Sell America" trade. Given the ~19% tariff-driven correction in April, a steep decline in the US dollar index, and record high gold prices, economists also expected elevated inflation and slowing demand to the point of recession. This has yet to be the case even with the effective tariff rate around ~11%, significantly higher than levels over the last 80 years. Although a pending Supreme Court ruling may call for some tariff revenue to be returned, the U.S. collected $287 billion in 2025, without materially slowing consumer demand or dampening corporate earnings[iii]. The most recent inflation reading from December came in as expected with year-over-year CPI at 2.7%. While some economists argue this rate of inflation is higher due to tariffs, the direction of inflation is likely lower if additional tariffs are not imposed. At the same time, U.S. GDP remains robust, with Q2 and Q3 real growth of 3.8% and 4.3%, respectively, led by strong, but uneven, consumer spending. The escalating capital investment in artificial intelligence infrastructure was also an unexpected boon to economic growth.

RMC Investment Advisors
Q4 2025 Market Commentary

Turbulence in 2026?

Last year provided a reminder on the value of staying invested despite rather manic swings in market prices. While there is little reason not to expect further turbulence through 2026, like this time last year, there are also reasons to remain optimistic. On the economic front, interest rates may continue to move lower, although future action from the Federal Reserve will be dependent on inflation and employment levels. The Fed lowered its benchmark rate by 0.75% in 2025 to a range of 3.50-3.75%. Further cuts would be supportive for both the market and interest rate sensitive parts of the economy. Additionally, labor productivity surged by an annualized rate of 4.9% in Q3, marking a second consecutive quarter of substantial gains. The drivers of this are debated, as it's likely too early to be from artificial intelligence adoption. It could potentially be from companies simply learning to do more with less, as lessons from the pandemic linger, creating a resistance to overhiring, as an example. The unemployment rate also moderated lower to 4.4% in December. On the policy front, tax cuts from the One Big Beautiful Bill Act are expected to provide significant economic stimulus, with some estimates assuming a $150 – 200 billion injection into the economy[iv]. Anticipated refunds will provide additional strength to consumers, the most significant contributor to economic growth, while lower effective corporate rates will boost corporate earnings, the most recent driver of market performance. More generally, deregulation in financial markets is expected to boost lending and capital market activity, while less volatile trade policy from the White House could provide greater clarity for businesses.

If the market continues to look like Easy Steet, however, this is when disciplined investing is most important. This means not being complacent by managing concentrations, sticking to a diversified strategy that matches your risk tolerance, and not chasing returns despite the "fear of missing out". As it did last year, the S&P 500 carries a rich valuation, which typically requires continued good news to maintain momentum and makes it more susceptible to pullbacks. The index is on a streak of 164 trading weeks without a 20% correction and has historically experienced one every 141 trading weeks[v]. The AI infrastructure buildout does not just have an outsized impact on markets, but on economic activity as well. Concerns of an AI bubble are likely to persist as long as hyperscalers continue to invest billions of dollars, leaving the market and economy vulnerable to stress when there is a reason for disruption, such as insufficient power generation or political pushback. While GDP growth and productivity gains have been higher than expected, the labor market is in a "low-hire, low fire" environment, potentially from policy uncertainty, artificial intelligence anxiety, and holdover pandemic effects. Outside of the two most recent recessions, 2025 had the lowest pace of average monthly job growth since 2003 (~49,000 jobs per month added vs. ~168,000 jobs per month added in 2024)[vi]. The timeliest concerns, however, could be the Trump administration's criticism of the Fed and tough tactics on foreign policy. While the central bank rhetoric and seemingly mounting geopolitical tension across the globe have not yet materially rattled markets, the idiosyncratic risk from these events or their consequences bears watching into the new year.

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[i] Warner Records Inc.
[ii] JPMorgan Asset Management
[iii] Federal Reserve Bank of Richmond
[iv] Evercore
[v] Northern Trust Asset Management
[vi] The Wall Street Journal, Labor Department

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