

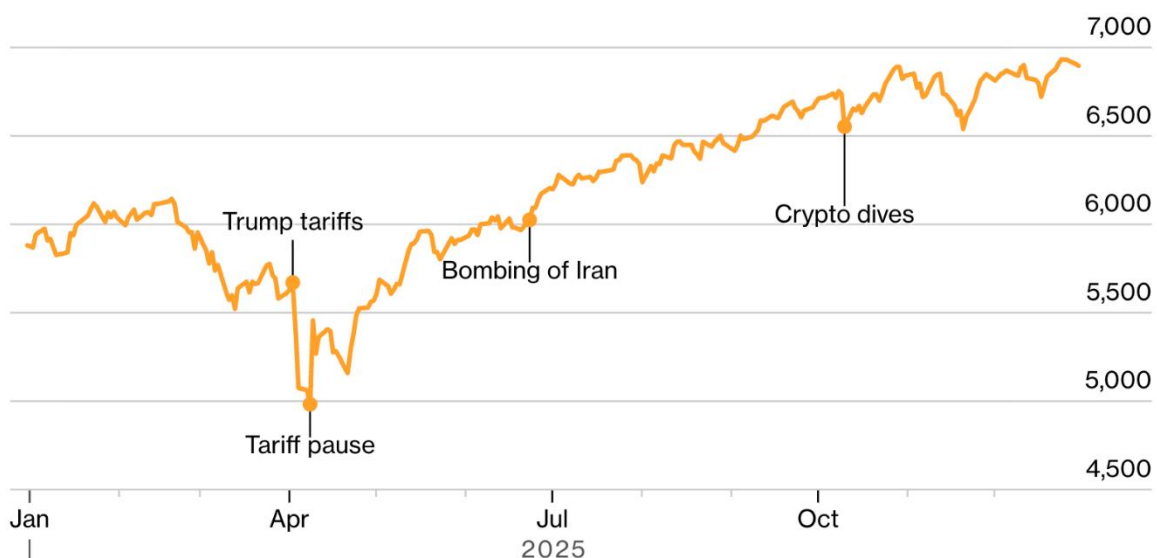
December Market Commentary | A Strong Year, Despite a Mixed Finish

While December returns were mixed, 2025 was a strong year for markets overall. According to Bloomberg, global equities and precious metals were among the year's top performers. Bonds delivered modest gains, while Bitcoin, the U.S. dollar, and oil posted negative returns.

U.S. equities proved resilient through a volatile year. Stocks powered through a series of disruptions, including April's Liberation Day tariffs, the bombing of Iran, and a correction in cryptocurrencies. None were enough to derail the S&P 500's 16.9% total return in U.S. dollars.

The US Stock Market Powered Through a Rollercoaster Year

— S&P 500 Index



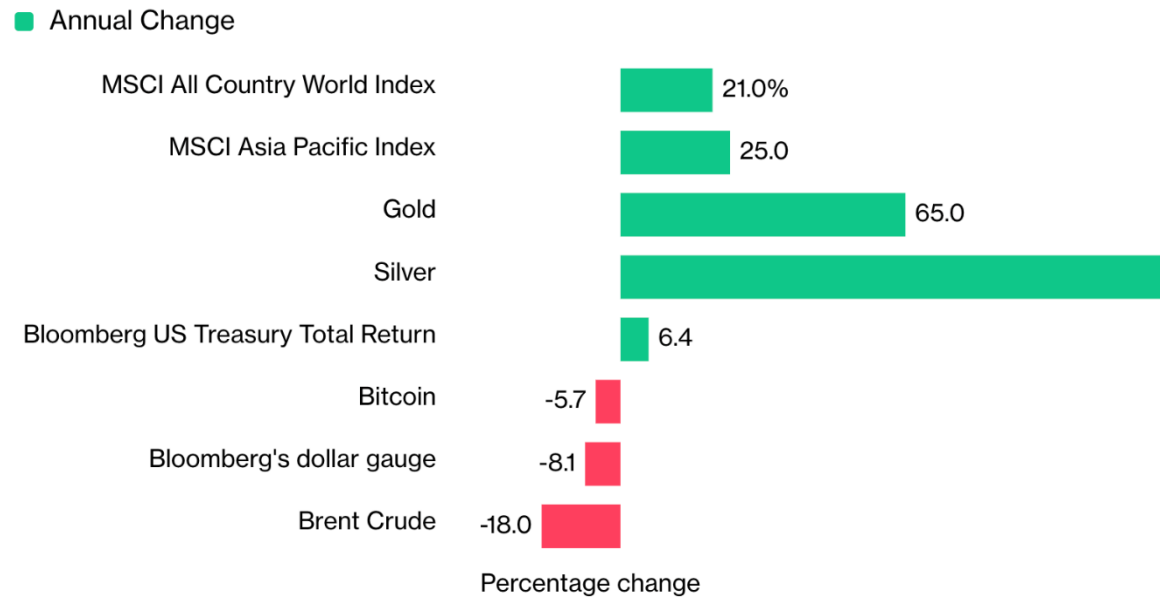
Source: Bloomberg

International markets [outperformed U.S. equities](#) by a wide margin. The MSCI All Country World Index ex-U.S. gained 33.2% in U.S. dollar terms, marking its largest outperformance versus the S&P 500 since the 2009 global financial crisis. Canadian equities also delivered exceptional results. The S&P/TSX rose 31.7% in Canadian

dollars, or 38.1% in U.S. dollar terms.

The Great Upheaval of 2025

Annual changes by asset and index



Source: Bloomberg

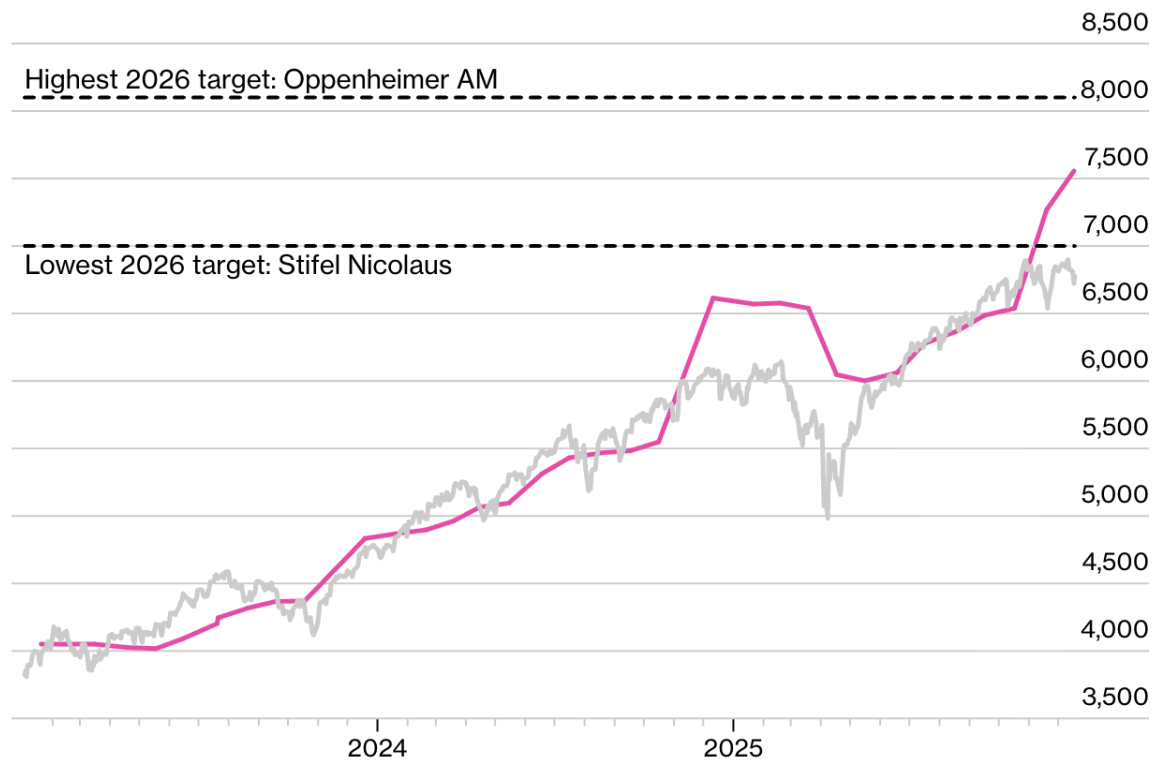
Optimism Runs High on Wall Street

Wall Street, typically optimistic, sees little reason for the rally to end in 2026. Oppenheimer holds the highest year-end target for the S&P 500 at 8,100, implying an 18% gain. If achieved, this would mark the index's fourth consecutive double-digit return and its longest winning streak since 1999.

Wall Street Strategists Are Bullish About Equity Outlook

Forecasters expect US stock rally to continue in 2026

— S&P 500 — Strategists' average year-end forecast



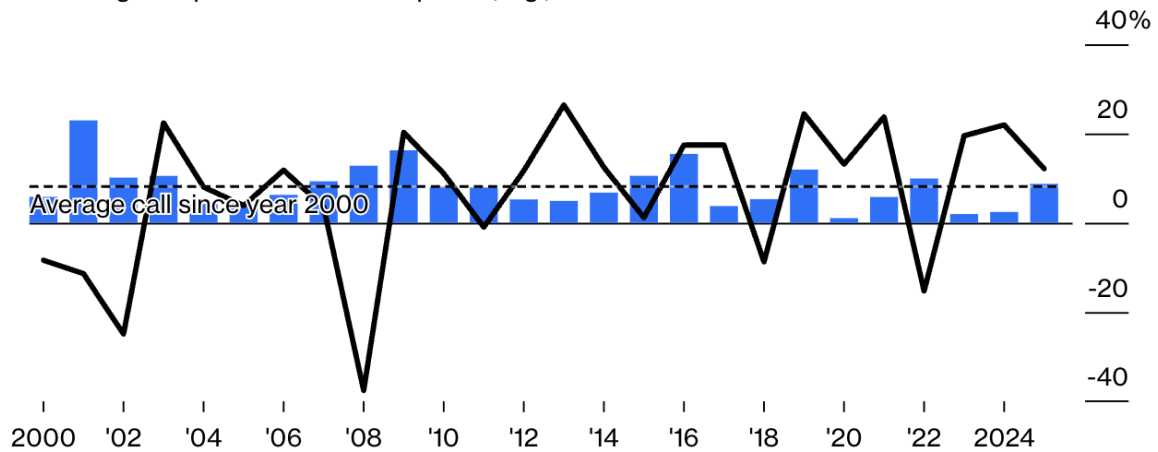
Source: Bloomberg

Historically, single-digit returns are relatively uncommon. Since 1926, the S&P 500 has delivered single-digit annual gains only 14 times, with double-digit returns occurring more frequently. Still, a recent article highlighted Wall Street's [poor track record](#) in forecasting markets, cautioning investors against placing too much weight on year-end targets.

Not Very Predictive

Strategist target prices usually don't tell us much about market outcomes

■ Strategist implied % S&P 500 upside (avg.) / Actual outcome



Source: Bloomberg

Note: "Upside" is how much strategists thought the index would rise from the day of the call through Dec. 31; 2025 realized performance is measured through 12/19/25.

Seasonal Signals Offer Mixed Messages

A great deal can change over the course of a year, which makes early-year target setting closer to marketing than comprehensive fundamental analysis. Seasonal indicators also deserve caution.

Market lore suggests that if the so-called Santa Claus rally fails to appear, weaker returns may follow. Carson Investment Research highlights that the years without a Santa Claus rally have seen average January declines of 2.5% and modest full-year gains of just 0.4%. This year, the S&P 500 fell 0.1% between December 24 and January 5.

If Santa Should Fail To Call, Bears May Come To Broad & Wall

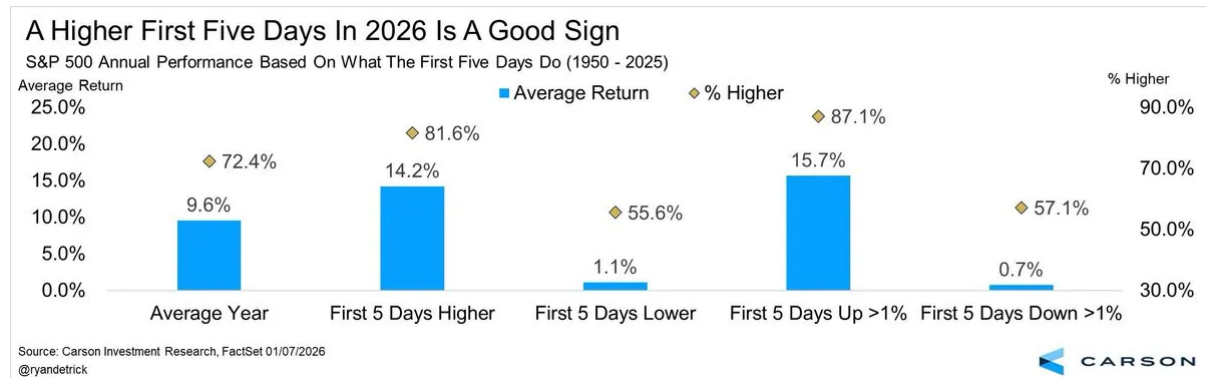
If Santa Doesn't Show, There Could Be Trouble

Santa Comes To Town	Santa Goes Back To North Pole	Santa Claus Rally	S&P 500 Index Returns		
			January	Q1	Calendar Year
12/27/1999	1/4/2000	-4.0%	-5.1%	2.0%	-10.1%
12/27/2004	1/4/2005	-1.8%	-2.5%	-2.6%	3.0%
12/24/2007	1/3/2008	-2.5%	-6.1%	-9.9%	-38.5%
12/24/2014	1/5/2015	-3.0%	-3.1%	0.4%	-0.7%
12/24/2015	1/5/2016	-2.3%	-5.1%	0.8%	9.5%
12/22/2023	1/3/2024	-0.9%	1.6%	10.2%	23.3%
12/24/2024	1/3/2025	-0.5%	2.7%	-4.6%	16.4%
Average			-2.5%	-0.5%	0.4%
Median			-3.1%	0.4%	3.0%
% Positive			28.6%	57.1%	57.1%

Source: Carson Investment Research, FactSet 01/05/2026

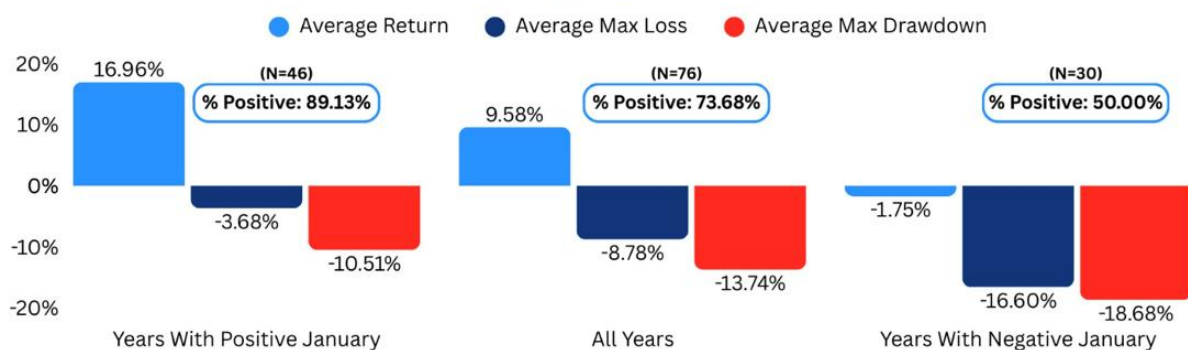
The Santa Claus Rally is the final 5 trading days of a calendar year and the first two of the following year.

That said, 2025 marks the third consecutive year without a Santa Claus rally, and both 2023 and 2024 delivered relatively strong double-digit returns. Carson also highlights the “first five days” rule, which suggests the market tends to finish the year higher if the first five trading sessions are positive. With the S&P 500 up 1.1% over that period, history suggests an 87% probability of a positive year.



Other indicators focus on January as a whole. According to BlueKurtic Market, positive January returns have historically led to positive full-year results 89% of the time, with average gains near 17%. While it is too early to draw conclusions, these signals underscore why caution remains warranted.

S&P 500: What a Positive January Signals for the Full Year (1950-2025)

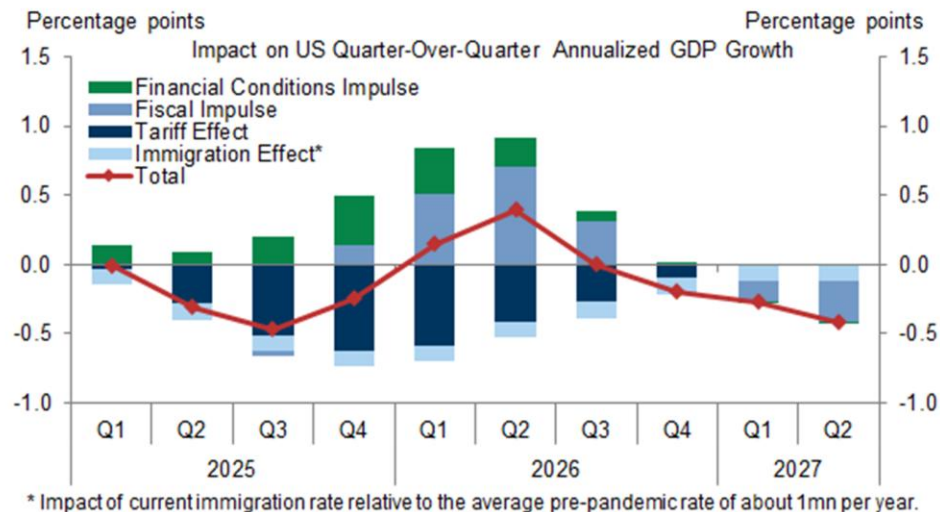


Source: Bluekurtic Market Insights

Why Fundamentals Still Anchor the Outlook

Rather than focusing on short-term signals, we prefer to anchor our outlook in fundamentals, specifically economic growth and interest rates. Stronger economic growth tends to support rising corporate earnings, while lower interest rates generally allow for higher equity valuations.

Exhibit 2: US Growth Likely to Benefit from Reduced Tariff Drag, Tax Cuts, and Easier FCI



Source: Goldman Sachs Global Investment Research

U.S. growth should benefit from Trump's tax cuts, reduced tariff drag, and easier financial conditions. Strategas estimates that fiscal policy will provide approximately \$650 billion in stimulus in 2026, compared with \$548 billion in austerity during 2025. With the Federal Reserve also expected to continue easing, it is not difficult to see why many strategists believe the rally can persist.

Tallying Up the Economic Costs and Benefits of US Economic Policy

Economic Lever	2025	2026	Notes
Fed Balance Sheet	-212	340	QT in 2025 ended. Fed balance sheet is now expanding
Tariffs	-189	-110	More tariffs coming, but mid-year comps go negative y/y
Fiscal Policy	-147	220	Tax cuts for consumers, businesses hit in 2026, net of total tax revenues
Financial Deregulation	0	200	SLR implemented, 2026 GSIB changes proposed
Estimate	-548	650	Shock & Awe Economic Policy Is Coming In 2026

The Fed is cutting rates on top of this swing from \$548bn in austerity last year to \$650bn in net stimulus this year.

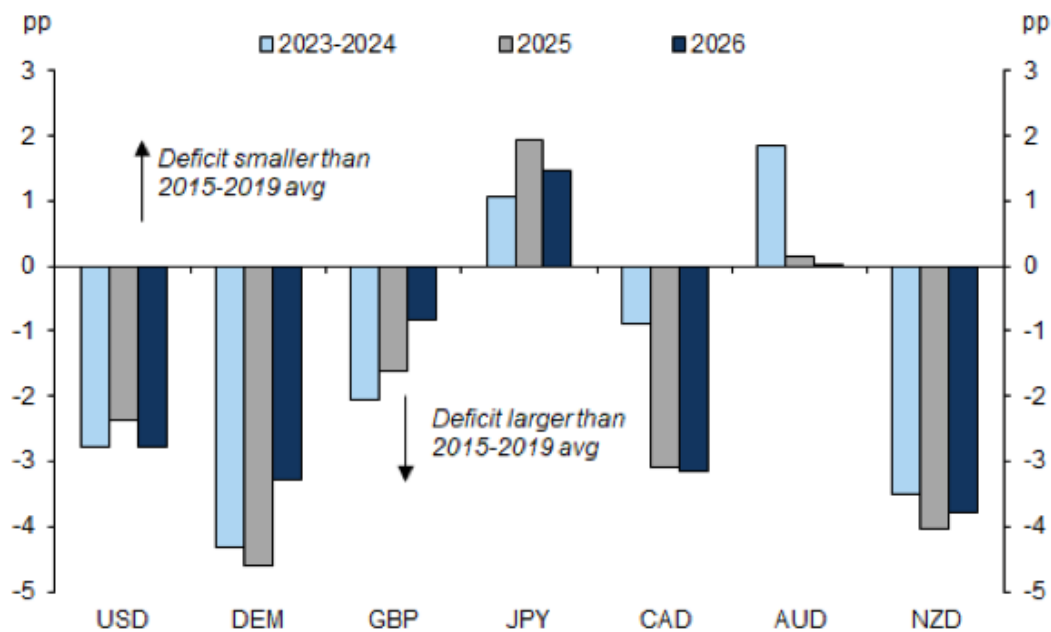
Supportive policy conditions are not limited to the U.S. Central banks globally have been cutting rates, with global manufacturing activity remaining positive. Apollo also points to [meaningful fiscal support](#) expected in Japan and Germany. Goldman Sachs expects government deficits to remain elevated across much of the G10.

Global Monetary Policy Stimulus



Exhibit 2: Deficits are poised to remain elevated relative to the prior cycle across much of G10

Realized and projected budget balance as % of GDP vs 2015-2019 average



Source: Goldman Sachs Global Investment Research

When Long-Term Yields Stop Behaving

Despite supportive policy, several red flags remain. One area of focus is the rise in long-term bond yields. Historically, long-term yields tend to fall when the Fed begins cutting rates. This cycle has been different.

Falling short-term rates and rising long-term rates have resulted in a steepening of the yield curve. While an inverted yield curve is typically viewed as a reliable recession signal, Société Générale notes that it is often the subsequent re-steepening that coincides with the onset of a recession. Yield curves usually invert as investors, sensing economic risk, move into bonds, pushing long-term yields lower. The Fed has historically been slower to respond, often delaying cuts to short-term rates, which contributes to the inversion. Once the Fed recognizes that the economy is weakening, it cuts short-term rates and the yield curve re-steepens, often as recession begins.

It's not the US yield curve inversion that foretells recession, but the subsequent steepening



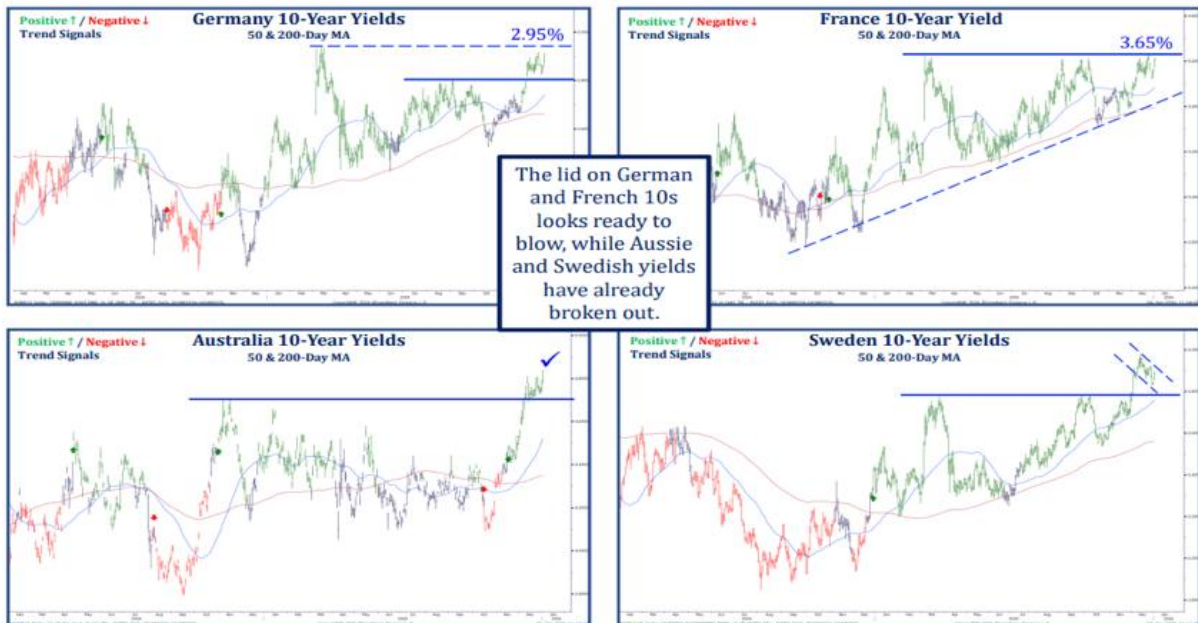
Source: Datastream

In this cycle, falling short-term rates combined with rising long-term rates would normally point to elevated recession risk. Instead, the bond market appears to be signalling something different. Higher future inflation expectations or excess bond supply are plausible explanations.

Global Bond Markets, Japan, and Gold

Rising long-term yields are not limited to the U.S. Strategas notes that 10-year yields in Germany, France, Australia, and Sweden have also been moving higher.

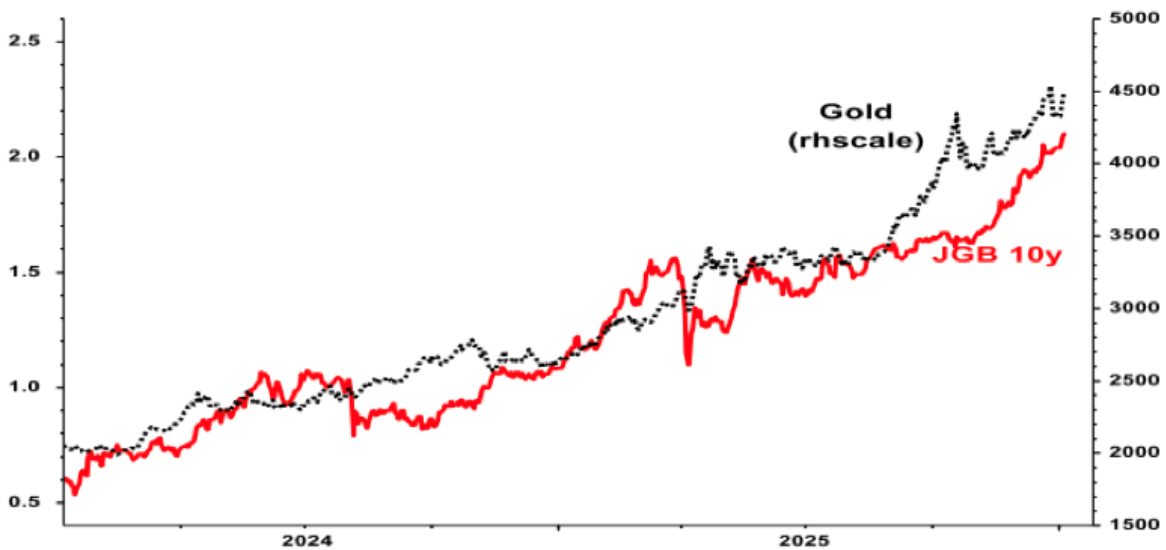
GLOBAL YIELDS BREAKING OUT



Source: Strategas, January 2026

Japanese yields and gold are even more concerning. As Société Générale's Albert Edwards has highlighted, both have been trending higher. Rising Japanese yields are notable given Japan's role as a key funding source for global carry trades. Higher domestic rates could prompt Japanese investors to sell U.S. Treasuries and repatriate capital, potentially pushing U.S. yields higher.

Japanese 10y bond yield and gold price



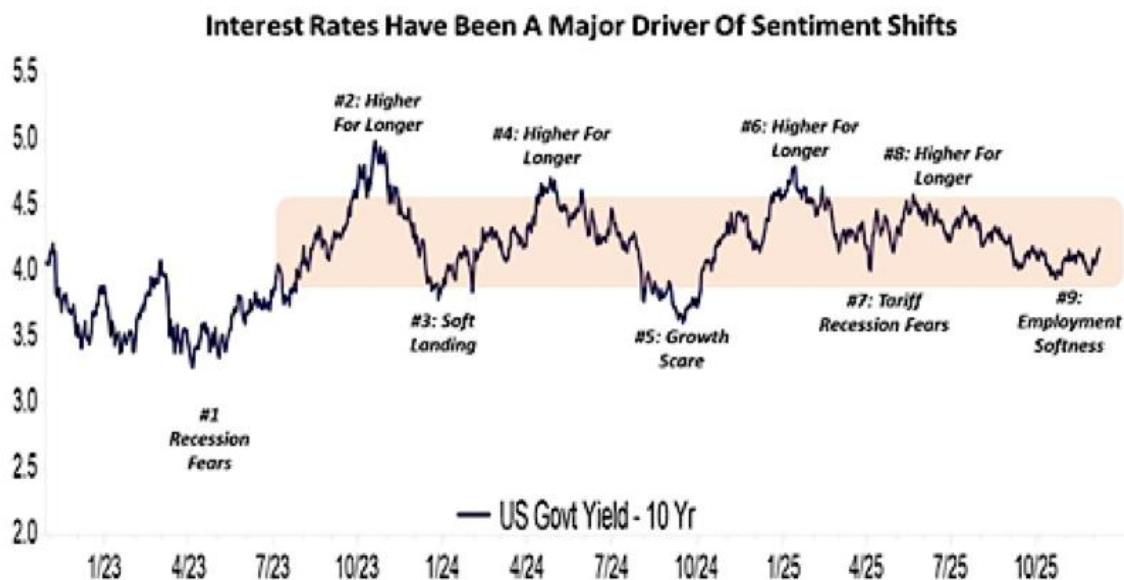
Source: Datastream

Gold's surge to an all-time high in December also warrants attention. Gold is commonly viewed as a store of value and an inflation hedge. Because it does not generate income, it tends to be most attractive when nominal interest rates are low relative to inflation, resulting in negative real rates. In those environments, purchasing power erodes, making gold a compelling alternative to bonds and fiat currencies. Rising long-term yields alongside a surging gold price suggest investors increasingly view the future as riskier. While real rates remain stable for now, markets appear to be pricing in the potential for future purchasing power erosion, driving demand for higher yields and real assets.

Why Interest Rates Still Set the Tone for Equities

So far, U.S. long-term yields have behaved relatively well, trading within a narrow range between 4.0% and 4.2% since September. The more relevant question is why yields have not declined alongside Fed easing, and whether they could be pulled higher by rising global yields.

For equity investors, interest rates matter. A chart prepared by Piper Sandler's Michael Kantrowitz highlights how rates have been a key driver of shifts in market sentiment. Goldman Sachs also notes that equities are particularly vulnerable when interest rates rise sharply.



[@michaelkantro](#)

Exhibit 13: Equities often struggle when interest rates rise sharply



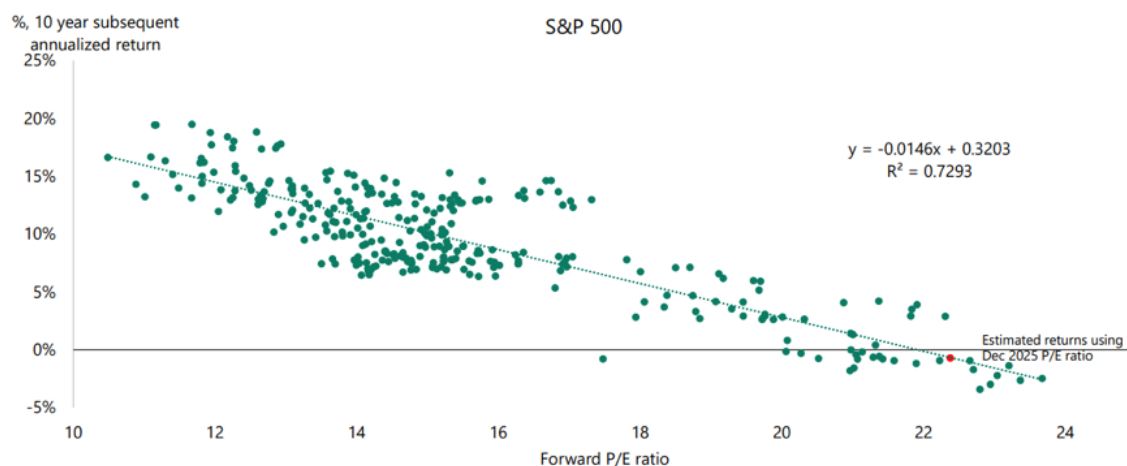
Source: Goldman Sachs Global Investment Research

Valuations Matter Over Time, Not Overnight

Compounding these concerns, valuations remain elevated. As highlighted by Apollo, the higher the starting forward price-to-earnings ratio, the lower the subsequent 10-year annualized return. Based on current forward P/E ratios, projected returns over the next decade are modest and potentially slightly negative.

APOLLO

S&P 500 forward P/E ratio vs subsequent 10-year annualized returns

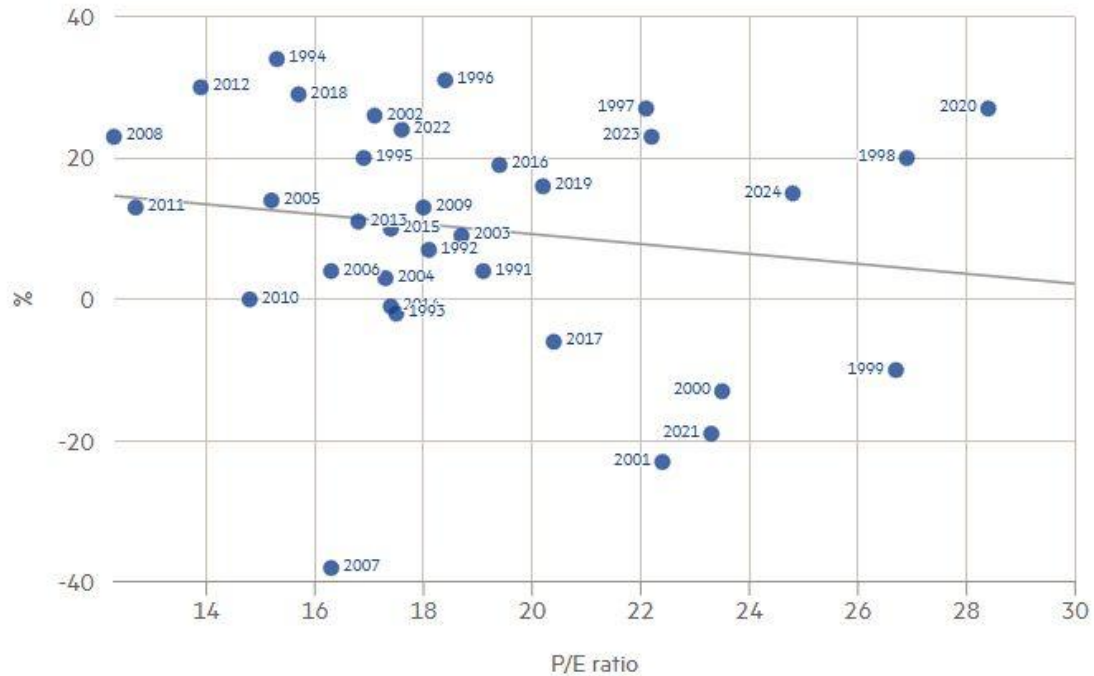


Sources: Bloomberg, Apollo Chief Economist

This does not imply negative returns in 2026. As Bloomberg data reported in the Financial Times shows, valuation and returns are closely correlated over longer

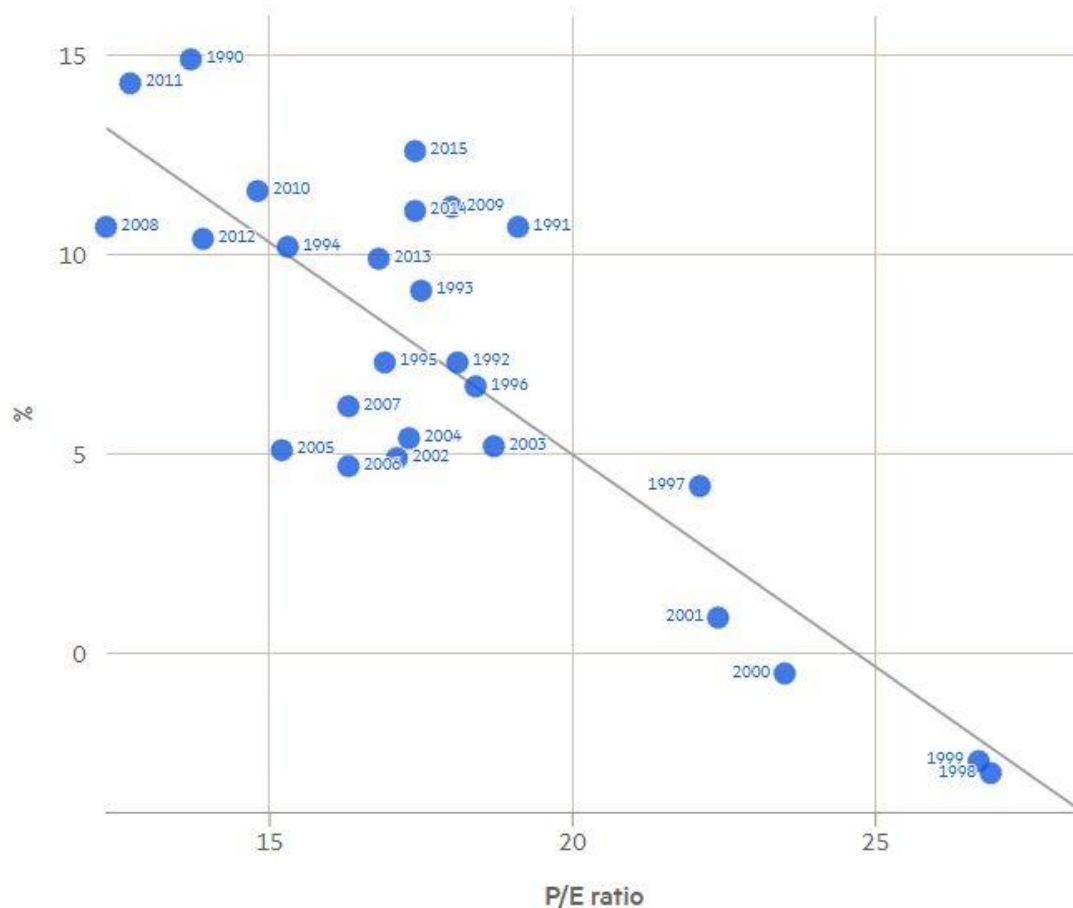
periods, but the relationship weakens significantly over shorter 12-month horizons. In the short term, valuation is rarely a decisive factor.

Forward P/E ratios and subsequent 12-month price returns since 1991



Source: Bloomberg • R-squared = 0.029

S&P 500 forward P/E ratios and subsequent 10-year annualised price returns, 1991-2015

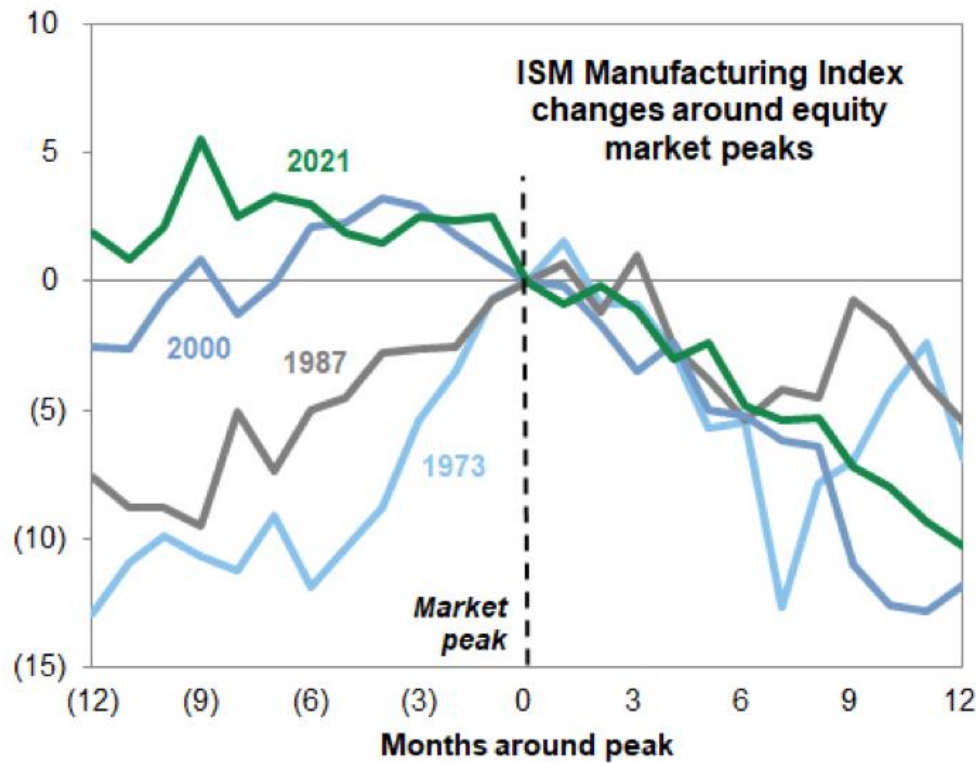


©FT Source: Bloomberg • R-squared = 0.694

Earnings Are Doing the Heavy Lifting

What does matter in the short term is the economy and earnings growth. According to Goldman Sachs, equity markets typically peak when economic growth begins to deteriorate. Since 1990, earnings growth has been the primary driver of equity returns, accounting for roughly 8% of the S&P 500's 9% annualized return.

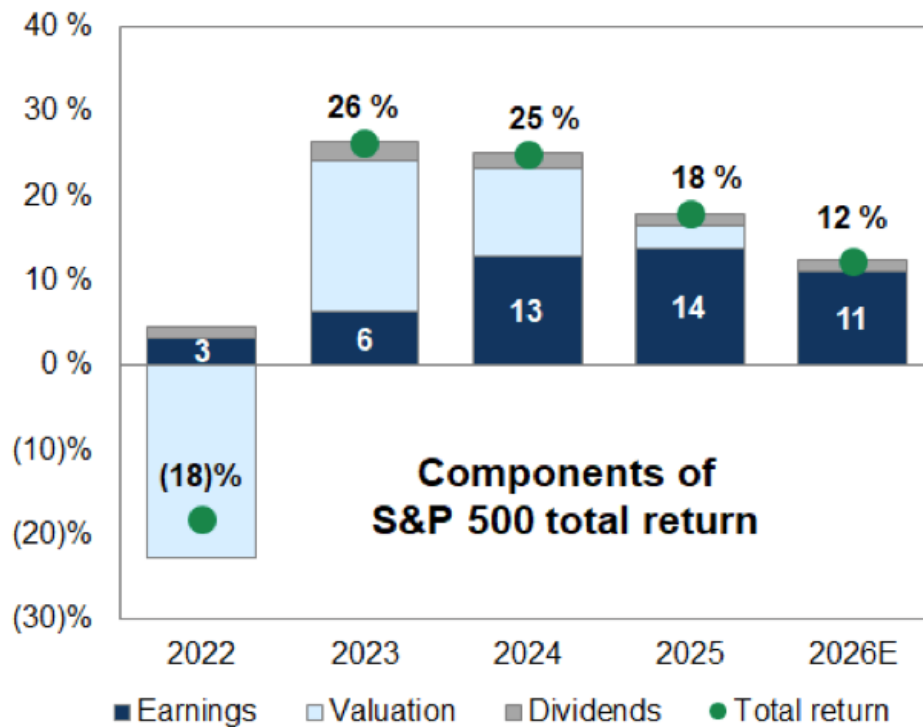
Exhibit 13: Equity market peaks typically coincide with economic growth deterioration



Source: ISM, Goldman Sachs Global Investment Research

In 2025, earnings growth alone contributed an estimated 14% to the S&P 500's total return, representing nearly 80% of overall gains. For 2026, Goldman expects its 12% return forecast to be driven almost entirely by earnings growth.

Exhibit 2: Earnings drove the majority of S&P 500 returns in 2025 and our 2026 target embeds a similar dynamic

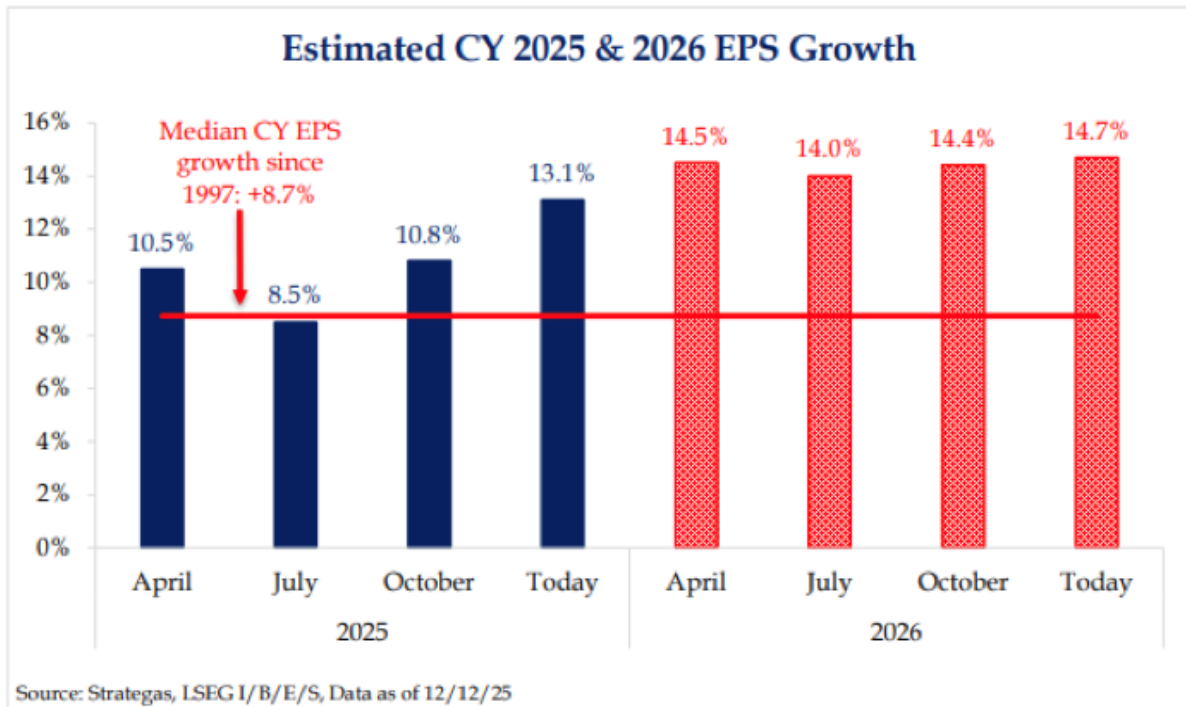


Source: Goldman Sachs Global Investment Research

Market Leadership Remains Narrow

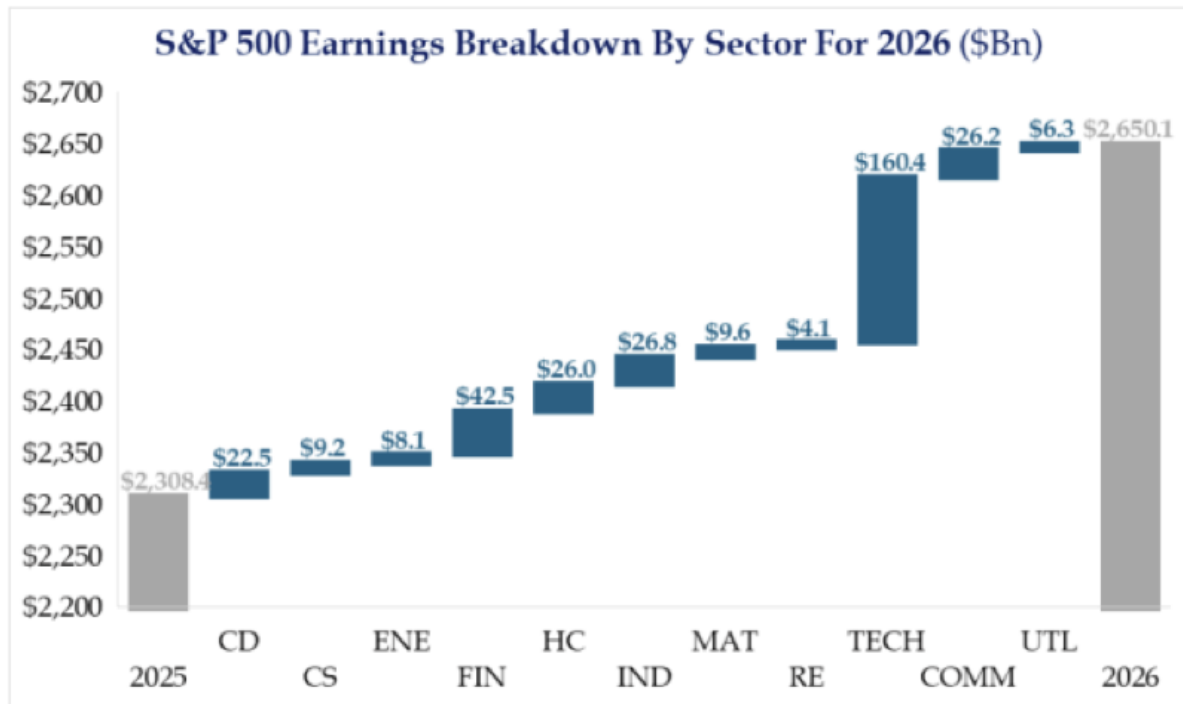
Wall Street broadly shares this confidence. Strategas notes that median calendar-year earnings growth for the S&P 500 since 1997 has been 8.7%. For 2026, consensus forecasts point to earnings growth near 15%, with operating margins expected to exceed 19% for the first time.

S&P 500 Earnings Expected to Grow +13% in 2025 and Nearly +15% in 2026, Exceeding Prior Estimates



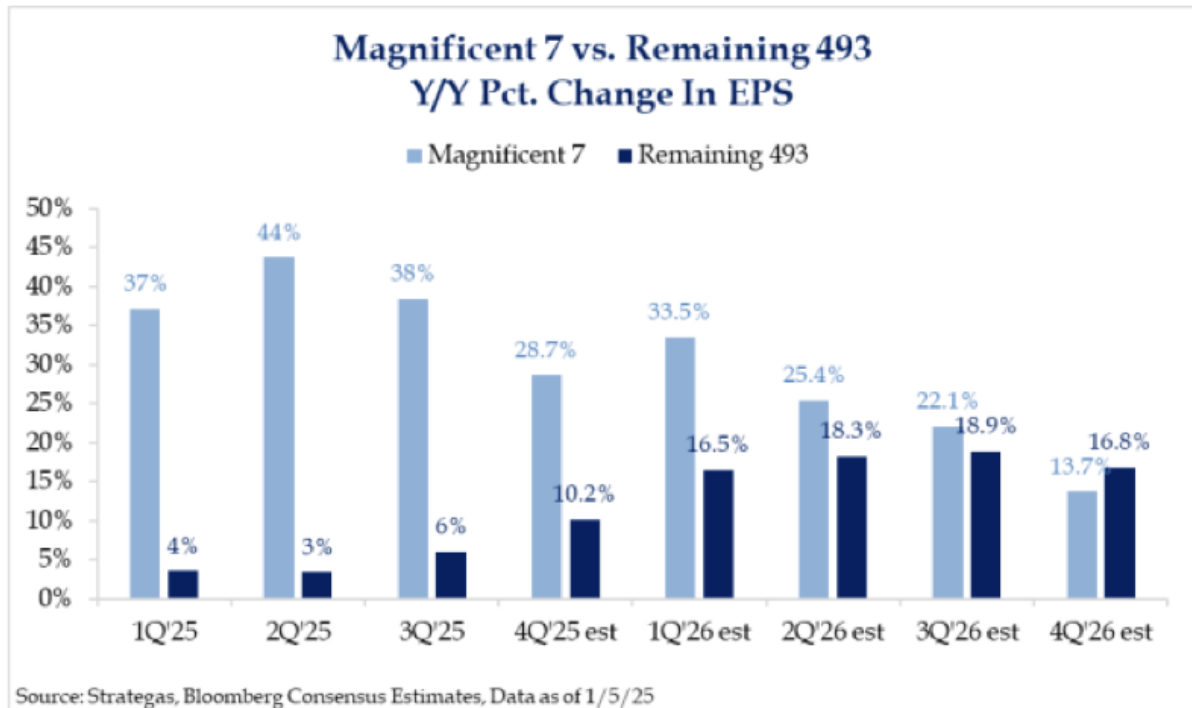
One ongoing concern is the outsized contribution from the technology sector, particularly artificial intelligence. Strategas estimates that nearly 47% of the S&P 500's forecast earnings growth in 2026 will come from technology, driven largely by the Magnificent Seven. While earnings growth is expected to broaden, Strategas does not anticipate the remaining 493 companies to exceed the Magnificent Seven until the fourth quarter of 2026.

2026 EARNINGS ESTIMATE CONTINUES TO RATCHET HIGHER, NOW SITS AT 14.2%



Source: Strategas, January 2026

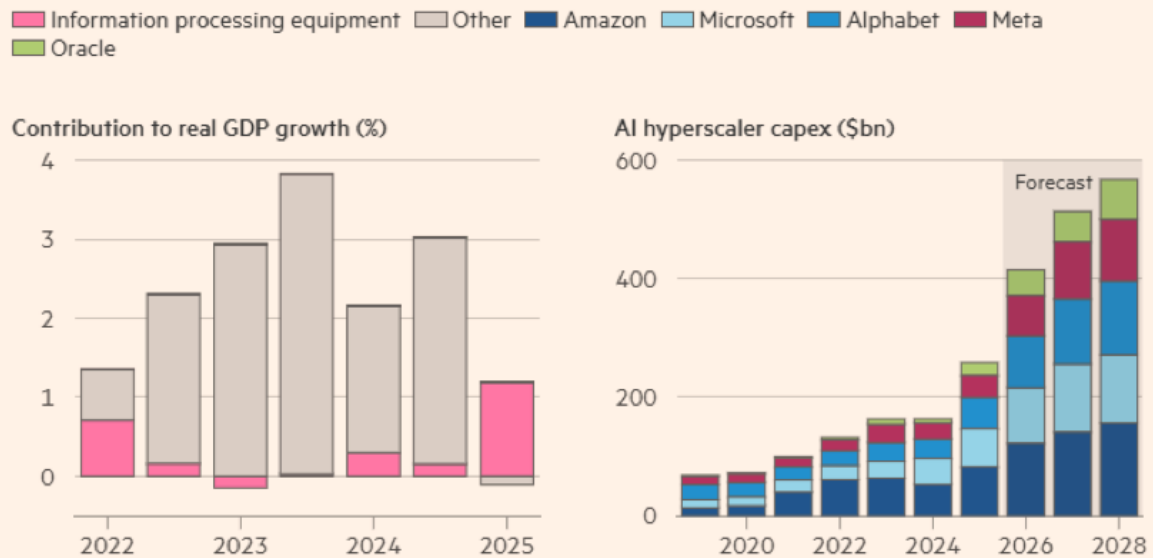
BROADENING OUT OF FUNDAMENTALS BEING PUSHED LATER INTO 2026



Artificial Intelligence Carries Big Expectations

Technology, and artificial intelligence in particular, has played a central role in the U.S. economy and is expected to remain an important driver of growth. According to the Financial Times and the OECD, AI-related investment accounted for nearly all U.S. GDP growth in the first half of 2025.

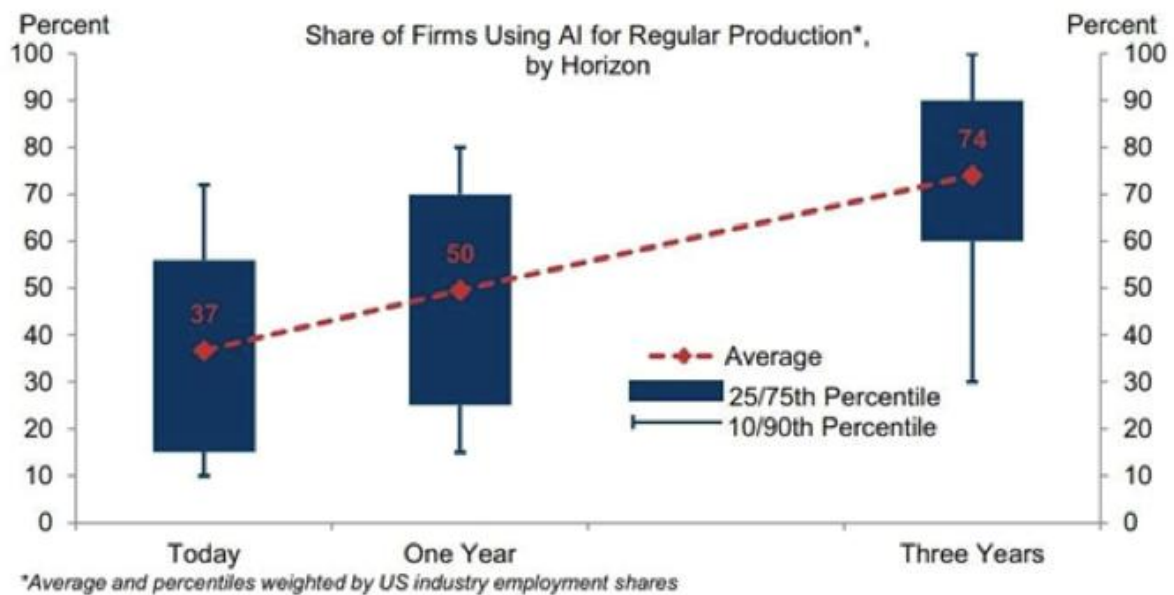
AI-related investment drove all of US GDP growth in the first half of 2025



FINANCIAL TIMES

Source: FRED, OECD, Capital IQ

The long-term value of this investment depends on its ability to drive sustained productivity gains without generating inflationary pressure. Goldman Sachs estimates that 37% of firms currently use AI in regular production, a figure expected to rise to 74% within three years. Estimates for productivity gains vary widely, ranging from 0.1% to 3.4% annually.



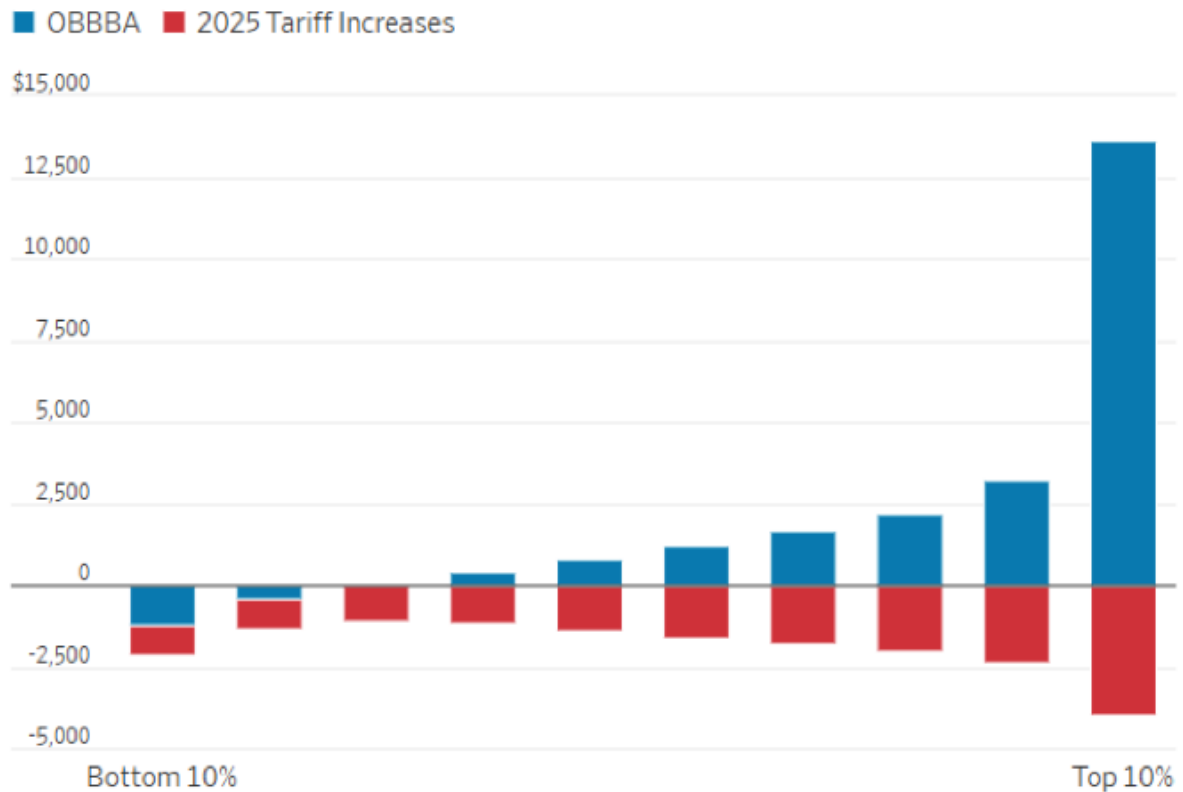
Goldman Sachs via Zero Hedge

The Affordability Divide Widens

Another red flag is growing consumer anxiety around affordability, which markets have largely overlooked. Strategas notes that consumers remain confident in the stock market, but less confident about the broader economic outlook.

In what is often described as a K-shaped economy, higher-income households and those with greater equity exposure are more confident and spending more. According to the Financial Times and Moody's Analytics, the top 10% of U.S. earners account for [nearly half](#) of all consumer spending. Looking ahead, the Budget Lab at Yale estimates that President Trump's One Big Beautiful Bill Act will disproportionately benefit higher-income households, while the bottom 20% may be worse off.

Combined annualized effect of the One Big Beautiful Bill Act and tariffs by income decile



Note: From 2026 to 2034.

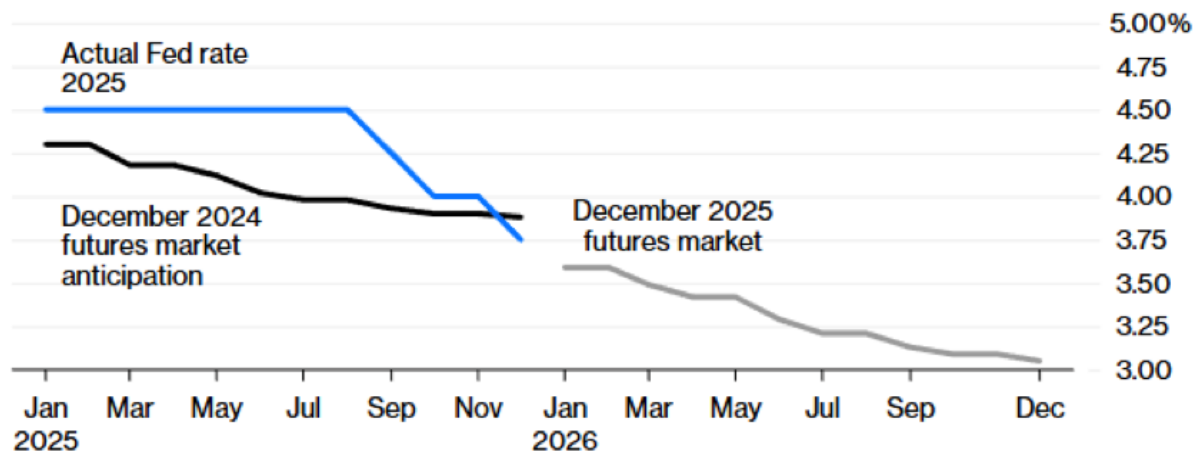
Source: The Budget Lab at Yale

Politics, Policy, and Rate Expectations

President Trump is under increasing pressure to address affordability ahead of the November midterm elections and has intensified calls for the Federal Reserve to continue cutting rates. The Fed kept rates higher than both the President and markets expected last year.

Will the Fed Meet Expectations This Year?

The central bank spent much of 2025 keeping rates higher than expected. Will the market get the cuts it anticipates this year?



Source: Bloomberg

Note: Expectations for 2026 are as of Dec. 22

Futures markets currently price in two rate cuts, or 50 basis points, in 2026. It remains unclear which outcome poses greater risk, whether the Fed cuts less than expected or cuts more aggressively. While the Fed controls short-term rates, longer-term yields largely reflect fiscal conditions and economic fundamentals. Despite 175 basis points of rate cuts during the current easing cycle, mortgage rates have edged higher. If rate cuts reignite inflation, long-term yields could rise further, which would be unfavourable for equities.

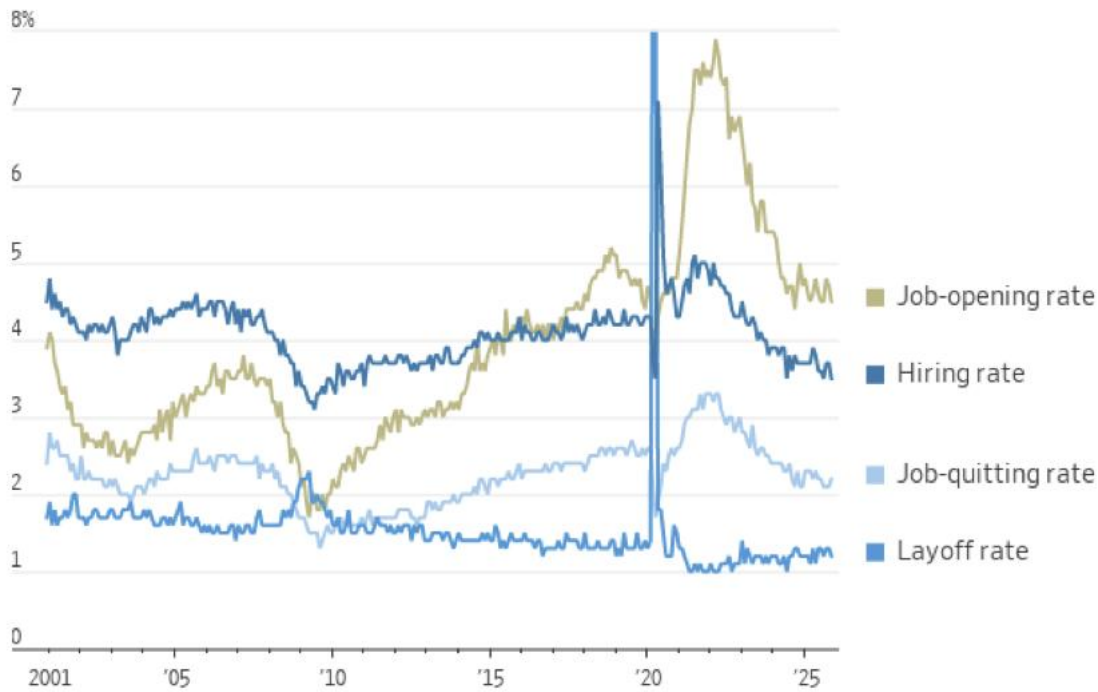
The Fed's Narrow Path Forward

The Federal Reserve remains in a difficult position. While it may be sensitive to political pressure and the realities of a K-shaped economy, policymakers continue to emphasize data dependence.

Inflation has trended lower but remains above the Fed's 2% target. Lower [shelter costs](#) helped ease core CPI recently, though some data remain difficult to interpret. In the labour market, a low-hire, low-fire environment persists. Job growth has slowed, but limited layoffs have helped keep unemployment relatively stable.

Job Turnover

Rates of hiring, quitting, layoffs, and openings for private-sector workers as a share of employment



Note: Seasonally adjusted
Source: Labor Department

It is possible the Fed cuts rates less than markets or the President hope, even under a new chair. Rate hikes appear unlikely. Goldman Sachs notes that past equity market peaks have typically followed periods of Fed tightening. Its research suggests that stable or accelerating economic growth combined with stable or declining policy rates tends to support equities. Corrections can occur, but they are often short-lived and difficult to time. Risks remain, particularly rising bond yields and the reliance on AI-driven productivity gains. Valuations are elevated, but absent renewed Fed tightening, they are unlikely to drive short-term outcomes. With affordability already strained, the Fed is likely to remain cautious. The bull market may still have room to run, though sustaining momentum is becoming increasingly challenging.

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