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A Quiet Finish to a Historic Year

Alan F. Skrainka, CFA
Chief Investment Officer

Monthly Market Summary

2025: A Year of Resilience and Rotation

The stock market successfully navigated a transition year in 2025, defying recession fears to post its third consecutive year of double-digit gains. While the pace of appreciation moderated from the blistering rallies of 2023 and 2024, the S&P 500's performance highlighted the durability of the current expansion. The year was defined by a broadening of market breadth, where returns were less dependent on a handful of mega-cap tech names and more evenly distributed across sectors. As we enter 2026, investors face a landscape of normalized interest rates and reasonable valuations, requiring a continued focus on earnings growth and discipline.

- S&P 500: The S&P 500 finished December with a flat return of +0.1%, consolidating the strong gains from November. For the full year, the index returned +17.9%, a solid follow-up to the explosive performance of the previous two years. Unlike 2023 and 2024, the 2025 rally saw participation broaden significantly beyond just the largest technology leaders.

- Best/Worst Sectors: Health Care and Financials were the standout performers in December, benefiting from clarity on regulatory policy and a steepening yield curve. Conversely, the Technology and Consumer Discretionary sectors lagged in the final month, as investors rotated profits into more defensive areas of the market.

- Small-Caps and Mid-Caps: Small-cap stocks, as measured by the Russell 2000 Index, gained +1.2% in December to close the year up +11.5%. Mid-Cap stocks, represented by the S&P 400 Mid-Cap Index, outperformed their smaller peers for the month with a +1.8% gain, finishing the year with a robust +13.4% return. While both segments trailed the S&P 500 for the full year, their strong finish in Q4 highlights a rotation toward domestic companies that benefit most from stabilizing interest rates and a resilient U.S. consumer.

- Bonds: The Bloomberg U.S. Aggregate Bond Index rose +0.8% in December, cementing a total return of +8.3% for the year. This marks the best year for fixed income since the start of the decade, validating the view that bonds have returned as a viable diversifier. High-yield bonds added +0.6% for the month and finished the year up +8.6%, reflecting a benign default environment.

- International Developed/Emerging Markets: International markets were a bright spot in 2025. Developed Markets (MSCI EAFE) gained +0.9% in December and finished the year significantly ahead of historical averages. Emerging Markets also posted strong results. Notably, both international regions outperformed the S&P 500 on a relative basis for the first time in several years, driven by attractive starting valuations and a weakening U.S. dollar.

Market Commentary

U.S. equities took a breather in December, a logical consolidation following November's explosive post-election rally. While the headline number for the S&P 500 was negative (-2.5%), the underlying story of 2024 remains one of exceptional strength. The index's +17.9% total return was fueled by a "Goldilocks" economic backdrop: falling inflation, resilient growth, and the promise of AI-driven productivity. However, the divergence between winners and losers remains stark. The cap-weighted S&P 500 crushed the equal-weighted version of the index, as mega-cap tech stocks continued to do the heavy lifting.

Small caps and Real Estate faced a harsh reality check in December. After rallying in Q3 on hopes of aggressive rate cuts, the Russell 2000 gave back gains as Treasury yields ticked higher. The -8.4% monthly drop highlights how sensitive these smaller firms are to the "higher for longer" narrative. Similarly, REITs, which often trade like bond proxies, slumped -8.0% as the 10-year Treasury yield climbed, making their dividend yields less competitive.

International markets staged a dramatic comeback in 2025, shattering years of underperformance relative to U.S. equities. The MSCI EAFE index delivered a stunning +31.6% return, decisively outpacing the S&P 500's +17.9% gain. This reversal was driven by a confluence of factors: a weakening U.S. dollar that amplified foreign returns for American investors, attractive starting valuations in developed markets after years of neglect, and a synchronized global economic recovery that favored the industrial and cyclical compositions of European and Japanese indices. Emerging Markets proved even more explosive, returning +33.3% as investors rotated into cheaper assets and benefited from exposure to commodity-linked economies. After a decade in which the "value trap" narrative dominated—where international stocks were perpetually cheap but failed to deliver—2025 proved that mean reversion in asset class performance is real and powerful. The lesson is clear: diversification across geographies is not just prudent, it is essential for capturing the opportunities that emerge when investor sentiment shifts.

In the fixed income world, the Bloomberg US Aggregate Bond Index delivered its strongest performance in over a decade, returning +8.3% for the year. This was a dramatic reversal from the brutal bear market in bonds during 2022–2023, validating the view that fixed income has reclaimed its role as a genuine diversifier alongside equities. The positive month in December (+0.8%) reflected falling long-term interest rates and the Fed's patient approach to future rate cuts. High-yield corporate bonds were the standout performer in credit, delivering equity-like returns of +8.6% as the feared wave of corporate defaults never materialized. The benign credit environment, combined with reasonable starting yields, made high-yield an attractive risk-adjusted bet throughout 2025. For investors who had abandoned bonds after years of negative returns, 2025 served as a powerful reminder that patience and diversification are rewarded in the long run.

Economic Roundup: Inflation's "Last Mile" Proves Stickier Than Expected

Labor Market

The employment picture remained the bedrock of the 2025 expansion. The December jobs report showed the economy added a steady 195,000 jobs, consistent with a "soft landing" scenario. The unemployment rate held firm at 4.1%, a level that supports consumer confidence without generating a wage-price spiral. Market reaction was muted but positive, as the data confirmed that the Fed's efforts to cool the economy have not resulted in widespread layoffs. The labor market's resilience has been one of the defining characteristics of this cycle, with companies proving reluctant to cut payrolls despite economic headwinds.

Consumer Spending and Inflation

The consumer has shifted gears but remains active. December retail sales rose 3.2% year-over-year, indicating a healthy holiday season driven by middle-income spending. On the inflation front, the Consumer Price Index (CPI) finished the year at 2.4%, just above the Fed's 2% target. While goods prices have largely normalized, services inflation remains sticky, preventing a complete victory declaration on price stability. Energy prices moderated significantly, providing relief at the pump and helping to cool headline inflation, though shelter costs continue to run above trend despite some softening in residential real estate markets.

Economic Growth

The final read on Q3 GDP came in at 2.8%, confirming that the U.S. economy grew at an above-trend pace for much of 2025. This growth was not fueled by government stimulus, but by real productivity gains—likely a downstream effect of the heavy technology investments made by corporations over the last three years. The breadth of growth across sectors was notable, with contributions coming from consumer spending, business investment, and exports. Manufacturing activity stabilized after weakness in late 2024, and the service sector continued its steady expansion.

Federal Reserve Policy

The Federal Reserve concluded its 2025 campaign with a "hold" decision in December, keeping the target rate steady after delivering three cuts earlier in the year. The policy rate now sits in the 3.75%-4.00% range, a level that is considered broadly neutral by most economists. Chairman Powell's commentary focused on "balance," signaling that while the hiking cycle is definitively over, the path back to a lower rate environment will be gradual and data-dependent. The Fed is no longer fighting an emergency, allowing them to prioritize flexibility in their decision-making. Market pricing suggests another round of modest cuts is possible in 2026, but the pace will hinge on incoming inflation data and any shifts in the economic outlook.

Insights: Consensus Bullishness Amid Stretched Valuations

As we begin a new year, Wall Street firms are projecting continued gains in 2026, with Bank of America forecasting the index to reach 7,100, JPMorgan Chase targeting 7,500, and

Goldman Sachs projecting 7,600. Yet beneath these bullish calls lies a disquieting reality: valuations are stretched, consensus is broad, and history suggests that such confluences warrant caution.

The case for optimism rests on two pillars: falling interest rates and robust corporate earnings. The Federal Reserve has signaled at least one quarter-point rate cut for 2026, and expectations of a dovish turn under the next Fed chair have buoyed sentiment. More importantly, corporate profits are expected to grow 15% this year—the highest rate since 2021—driven by productivity gains from AI investments and the prospect of tax cuts under the new administration. If earnings growth materializes, stocks may have room to run despite their current valuations.

However, the warning signs are equally clear. The S&P 500 trades at 22 times forward earnings, well above the 10-year average of 19. More concerning, half of the S&P 500's valuation metrics are now elevated beyond levels seen near the March 2000 dot-com peak. After surging roughly 80% from the start of 2023 through year-end 2025, the market has already delivered extraordinary returns. Attempting to maintain that pace indefinitely is mathematically improbable.

The speculative frenzy that accompanied the 2025 rally—meme stocks and record options trading volumes—offers another cautionary signal. Bitcoin's 30% decline from its October peak, after a spectacular run, mirrors the pattern of exuberant rallies that often precede corrections. Even within AI, which has been the market's primary engine, analysts worry that the massive capital expenditures by tech giants may struggle to generate adequate returns, potentially limiting future upside.

Investors should always be a bit skeptical when there is such a broad consensus that everything will go well. Four-year rallies are rare; maintaining the kind of returns seen over the past three years in a fourth year is rarer still. The S&P 500 returned +26.3% in 2023, +25.0% in 2024, and +17.9% in 2025—a cumulative gain of roughly 85% over three years. For 2026 to deliver similar returns would defy historical precedent.

Outlook

As we embark on 20256, the principles of successful investing—patience, discipline, and perspective—remain your most valuable assets. The "easy" recovery gains from the 2022 lows have been realized; the next phase of this cycle will likely be driven by earnings delivery rather than valuation expansion. The market has priced in a great deal of optimism regarding a soft landing and AI adoption. While these outcomes are plausible, they leave little margin for error.

For individual investors, this is not a time to chase yesterday’s winners. The dispersion between the S&P 500 and other asset classes (like small caps and international stocks) is at historic extremes. While momentum can persist longer than logic dictates, mean reversion is a powerful force in finance. A prudent approach involves rebalancing portfolios to ensure you are not inadvertently overexposed to the largest technology names.

Stay focused on your long-term goals and control what you can: your savings rate, your asset allocation, and your behavior. Volatility is the price we pay for the superior long-

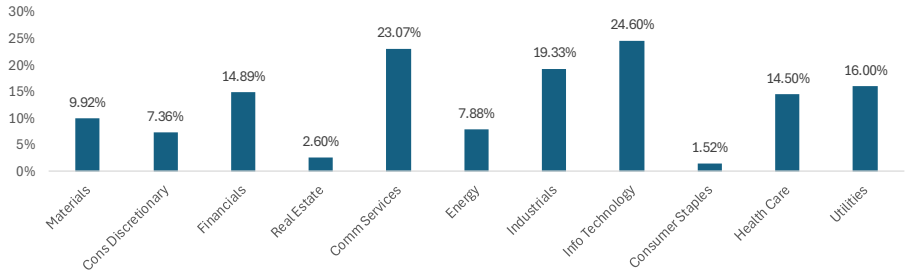
term returns of equities. By maintaining a diversified portfolio and ignoring the noise of monthly fluctuations, you position yourself to capture the opportunities that 2026 will undoubtedly present.

Data Center

Style YTD Returns

	Value	Blend	Growth
Large	15.26%	17.82%	19.40%
Mid	12.08%	11.62%	10.72%
Small	9.09%	8.87%	8.50%

Sector YTD Returns



Market Data Center

Stocks	1 Month	3 Month	6 Month	YTD	1 Year	3 Year	Div Yield	P/E	P/B
SPDR S&P 500 ETF Trust	0.08%	2.66%	11.00%	17.72%	17.72%	22.87%	1.07%	33.93	11.85
SPDR Dow Jones Industrial Average ETF Trust	0.93%	4.02%	9.89%	14.70%	14.70%	15.18%	1.43%	26.20	10.40
iShares Russell 2000 ETF	-0.71%	2.08%	14.78%	12.66%	12.66%	13.61%	1.04%	28.90	5.12
iShares Russell 1000 Growth	-0.56%	1.15%	11.69%	18.33%	18.33%	30.99%	0.36%	40.79	17.37
iShares Russell 1000 Value ETF	0.66%	3.82%	9.31%	15.68%	15.68%	13.72%	1.69%	26.07	4.78
iShares MSCI EAFE ETF	2.72%	4.72%	9.38%	31.55%	31.55%	17.26%	3.38%	23.83	4.39
iShares MSCI Emerging Markets ETF	2.17%	3.93%	15.05%	33.98%	33.98%	15.86%	2.22%	22.52	4.49
Invesco NASDAQ 100 ETF	-0.65%	2.48%	11.65%	20.84%	20.84%	33.03%	0.50%	39.86	14.30

Fixed Income	Yield	1 Month	3 Month	YTD	1 Year	3 Year
iShares Core US Aggregate Bond ETF	3.89%	-0.28%	0.94%	7.19%	7.19%	4.69%
Vanguard Total Bond Market Index Fund ETF	3.86%	-0.30%	0.90%	7.08%	7.08%	4.68%
iShares National Muni Bond ETF	3.14%	0.24%	1.66%	3.78%	3.78%	3.52%
State Street SPDR Bloomberg High Yield Bonc	6.54%	0.60%	1.36%	8.76%	8.76%	9.61%

Key Rates	12/31/2025	11/30/2025	10/31/2025	9/30/2025	8/31/2025	7/31/2025
2 Year Treasury Rate	3.47%	3.47%	3.60%	3.60%	3.59%	3.94%
10 Year Treasury Rate	4.18%	4.02%	4.11%	4.16%	4.23%	4.37%
30 Year Treasury Rate	4.84%	4.67%	4.67%	4.73%	4.92%	4.89%
30 Year Mortgage Rate	6.15%	6.23%	6.17%	6.30%	6.56%	6.72%
Bank Prime Loan Rate	6.75%	7.00%	7.00%	7.25%	7.50%	7.50%

Commodities	Level	1 Month	YTD
WTI Crude Oil Spot Price	57.89	-1.18%	-20.09%
US Retail Gas Price	2.94	-7.84%	-6.01%
Henry Hub Natural Gas Spot Price	4.35	-5.23%	27.94%
US Propane Wholesale Price	0.92	14.05%	-3.88%
US Fuel Ethanol Imports	0.00		
Gold Price in US Dollars	4053.28	0.00%	53.30%
Silver Price	50.43	0.00%	63.93%
Copper Price	10812.03	0.00%	21.26%
S&P GSCI Corn	363.47	-1.68%	-3.98%
S&P GSCI Soybeans	415.88	-7.93%	3.66%

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