

YEAR END 2025 INVESTMENT WRAP-UP

LETTER FROM OUR CIO

JANUARY 5, 2026

2025 YEAR IN REVIEW

As we welcome the new year 2026, we want to express our gratitude for your trust and partnership. We recognize that economic headlines and market swings can sometimes feel overwhelming, so we prepared this update to summarize recent developments and share our outlook for the year ahead, in straightforward terms. Let us start with the status of the US economy. 2025 was an eventful year for the US economy. In many ways, America's economic engine stayed resilient despite facing a few bumps along the road:

- **Growth:** After a few strong years, economic growth continued, but the pace became more uneven. The third quarter of 2025 saw robust US Gross Domestic Product (GDP) growth at a 4.3% annual rate, mainly driven by solid consumer spending, the highest rate in two years. However, the year started and ended weakly (approx. 2% growth), so overall 2025 growth came in just below the previous year's level. Additionally, below the level the Fed would like to see (3%)
- **Jobs & Spending:** While consumers continued to spend, the job market softened, moving the unemployment rate to 4.6%. This means more people found it harder to get or keep jobs compared to earlier in the recovery from the pandemic.
- **Inflation:** Prices for everyday goods and services rose at a pace above the Federal Reserve's 2% target. Inflation hovered between 2.5% and 3% by year-end. While improved from previous spikes, it still touches our wallets.
- **Policy Changes:** The federal government faced the longest shutdown on record, briefly disrupting some economic reports and increasing uncertainty. Meanwhile, the Federal Reserve (the Fed) lowered interest rates three times over the course of the year to help support the economy and return the policy rate to a level that is more normal given current economic conditions.

On the back of the solid economic picture, lower interest rates, as well as another year of strong earnings growth in corporate America, leading indexes reached new highs several times. This marked their third consecutive year of gains. Despite occasional worries, stock markets both in the US and worldwide largely had a positive year in 2025:

- **US Markets:** Once again, solid returns in the US were driven by strong earnings in the technology sector. The S&P 500 was up 17% while the Nasdaq Composite surged 20% higher. However, the divergence between Growth (+19%) and Value (+16%) was not quite as significant as it was in the past two years, bringing some breadth back to markets. Lagging their large cap counterparts, the small cap Russell 2000 rose 13% in 2025.
- **Global Markets:** Performance was more mixed in the international markets. European markets showed pockets of strength, with London's FTSE 100 climbing and other European indexes posting strong gains. Strong earnings, solid dividends as well as a surging Euro currency helped the MSCI EAFE Index to a 32% gain in 2025. Asian markets were bumpy, due to economic challenges in Japan and South Korea, but overall, the MSCI Emerging Markets index surged 34% in 2025. Overall, the global mood ended the year cautiously optimistic, while the robust performance marked the first time since 2017 that all international equity markets outperformed the US.
- **Not to be left out,** the bond market had a particularly good 2025. Taxable bonds, as represented by the Bloomberg Aggregate Index (US Treasuries, Corporates, etc.) led the way with a 7% total return last year. Municipal bonds lagged a bit, coming in with a 4% return as represented by the Bloomberg Municipal Bond Index.

2026 OUTLOOK

Looking ahead, most analysts expect both the economy and stock markets to remain on solid ground in 2026:

- **Economic Outlook:** The United States is expected to continue leading global growth, thanks to consumer spending, ongoing investment in technology and AI, and the effects of anticipated tax cuts and stimulus measures. Corporate earnings are projected to rise, especially among large tech companies. The Federal Reserve is expected to cut interest rates in early 2026 to help keep the economy growing. However, with a new Fed chair taking over mid-year and inflation still a bit above target, uncertainty around the pace and timing of future rate changes could lead to some choppiness in financial markets.
- **Market Outlook:** Corporate America proved to be resilient in the past few years coming out of the COVID-19 pandemic and we believe that earnings will hold up reasonably well again in 2026. 2025 stock market returns were supported by 13% growth in company earnings. Analysts are projecting 6% earnings growth in the S&P500 index for 2026, which should provide a solid foundation for positive equity returns. However, a repeat of the level of returns from 2023-2025 does not seem likely.

Here are a few key statistics that we are relying on as we think through 2026 and portfolio positioning:

- Market multiples in the US appear priced for the base case economic scenario of double-digit US corporate earnings growth with the potential for 1-2 more rate cuts from the Fed. The 12-month forward-looking P/E multiple of the S&P500 is 24X, which is significantly higher than the historical average (17X), as well as the average over the past 5 years (20X) and the past 10 years (19X).
- Once again, Value stocks look “cheap” after further resurgence in growth stock performance in 2025. The P/E ratio of the Russell 1000 Value is 20X while the P/E ratio of the Russell 1000 Growth is 38X.

Taking into consideration these above factors, and factoring in clients’ risk and objectives, here are some thoughts as we begin looking ahead to 2026: Overall, portfolios are neutral US compared to the developed and emerging international markets based on the MSCI All Country World Index, though we remain underweight to China. We remain overweight Value vs. Growth and are still leaning portfolios to Quality over Core. Quality represents companies with high return-on-equity and low debt-to-equity ratios. We are targeting specific growth opportunities with allocations to Technology (Artificial Intelligence & Cybersecurity), Healthcare, Industrials (Physical & Energy Infrastructure), and Consumer Staples.

In summary, in 2026 we are expecting corporate profitability to remain strong while both fiscal and monetary policy should be accommodative. While no one can predict the future with perfect accuracy, the foundation for 2026 looks promising. We encourage you to maintain your long-term investment plan and stay diversified, as periods of volatility and opportunity often go hand in hand. Our team remains focused on helping you achieve your financial goals, grow your wealth, and protect your legacy. At Legacy Edge Advisors, we have positioned portfolios to reflect not only the risks inherent in today’s economy, but to take advantage of potential growth. We are nimble enough to react quickly if anything should change. Happy New Year!

Regards.

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