JANUARY 2026

MARKET NEWSLETTER

The latest news from Gasaway Investment Advisors

"Helping you navigate your financial course."

What's New

A Word from Jim Gasaway

A couple of winters ago, as I broke out my trusty coat to clear the driveway after the first snowfall, I reached into the pocket to discover a Lowe's gift card I had forgotten about from the year before. What a pleasant surprise, especially considering I usually just find empty mint wrappers or crumpled receipts.

In 2025, fixed income felt a lot like that forgotten gift card. Compared to equities, it's a safe, boring asset class that is easily overlooked and rarely top of mind yet has the potential to pleasantly surprise. And pleasantly surprise it did. Investment-grade bonds returned >7% in 2025, not a bad return for your safe, boring money![1]

Other often-overlooked asset classes, like international stocks and precious metals, also delivered impressive returns in 2025. This again highlights the importance of remaining diversified, the closest thing to a free lunch in investing.

WHAT HAVE WE BEEN DOING IN THE PAST QUARTER?

- **Equities:** *"The key is to wait. Sometimes the hardest thing to do is to do nothing." – David Tepper*
- Markets continued to creep higher during Q4, helped again by positive earnings results.
- We were again relatively passive throughout the quarter, maintaining a slight overweight in Large Cap stocks but remaining diversified across Mid Cap, Small Cap, International, and sector-specific funds. Not to sound like a broken record, but we continue to believe corporate profits will rise, the US and other economies will grow, and equity prices will rise in the long term, despite inevitable volatility and disruptions in the short term.

- **Fixed Income:** In 2025, the bond market saw its best returns since 2020 due to yields being near their highest levels since 2007 and interest rate cuts driving bond prices higher. These positive returns look set to continue as rising unemployment and falling inflation set the stage for further rate cuts in 2026.
- We remain diversified among
- Certificates of Deposit (CDs), intermediate-term bond funds, ultra-short-term bond funds, and municipal bond funds in non-qualified (taxable) accounts.
- The CDs we buy are brokered. Brokered CDs generally have higher interest rates than those you will find at local banks or credit unions, can be sold before maturity without penalty, and include accrued interest if sold early. It is also good to remember that, although your statement may show an unrealized loss on your CDs, you will get the entire principal back plus the stated interest at the maturity date. Our intermediate-term bond funds own a basket of debt securities, mostly U.S. Treasuries, that mature in anywhere from 6-9 years. These funds offer an attractive yield (~3.5-5%) while being somewhat sensitive to interest rates. Rates rising will cause the fund's price to drop, while rates falling will cause its price to rise. Ultra-short-term bond funds also offer a >4% yield but without the interest rate sensitivity, essentially acting as a money market fund. Municipal bonds generally have lower yields than other fixed income investments (although the one we hold is still yielding >4%) because their interest is not taxable at the federal level (and not at the state and local level if you live in the issuing municipality).

We appreciate the trust that you have placed in us. We are diligently watching your investments and will continue to make adjustments as we see fit. If you have any questions, please reach out to us.

[1] https://www.morningstar.com/bonds/bond-market-wraps-up-2025-with-broad-gains

ASSET ALLOCATION AND WHY IT IS IMPORTANT

by: Chase Imberger, CFP®, ChFC®, CRPC™, Financial Advisor

We are all risk takers to some extent, though some more than others. Many of us enjoy a bit of excitement, whether it comes from a friendly card game, a roller coaster, or following a favorite sports team. However, when it comes to retirement, that same level of excitement may not be desirable. This is where asset allocation becomes critically important.

Retirement should be focused on enjoying the activities you value most, not worrying about market fluctuations or daily changes in your account balance. Establishing an appropriate asset allocation can help reduce stress and create a more enjoyable retirement experience.

But what is asset allocation, and how should it be used for my situation? Asset allocation refers to the mix of investments in your portfolio designed to balance growth and risk, including exposure to assets such as the stock market.

By understanding your goals and risk tolerance and working closely with your financial advisor, you can create an investment mix aimed at achieving your desired returns while helping protect your principal. When asset allocation does not align with an individual's goals or comfort with risk, retirement can become unnecessarily stressful, with attention shifting from enjoying life to closely monitoring account balances. Reviewing your asset allocation annually helps ensure it remains aligned with your goals and that any changes are properly reflected in your retirement investment strategy.

MARKET ANALYSIS

by: Ethan Thies, ChFC®, Investment Analyst

MONTHLY HIGHLIGHTS

October:

The stock market, measured by the S&P 500 index, rose 2.3% in October.[1] Due to the government shutdown, labor market and inflation data were cancelled.[2,3] Later in the month, the Federal Reserve lowered the federal funds rate by a quarter point to a level of 3.75%-4.00%.[4]

November:

The S&P 500 rose 0.3% in November.[1] The unemployment rate jumped to 4.6%.[2] Inflation came in at 2.7%, below expectations but still well above the 2% target.[3]

December:

The market rose 0.1% in December, eking out its ninth straight positive month and ending the quarter up just under 3%.[1] The unemployment rate dipped to 4.4%; inflation came in at 2.7% again.[2,3] The Fed lowered interest rates again to their current level of 3.50-3.75%.[4]

THE ECONOMY

Government Shutdown & GDP

The defining event of the quarter was the longest government shutdown in U.S. history, lasting 43 days from October 1 to mid-November. As we expected, the minor negative effects the shutdown had on markets were temporary, and the steady climb higher continued.[5]

While government shutdowns rarely harm stock market performance, the temporary reduction in the workforce and other factors often drag on economic growth, and by extension the Gross Domestic Product (GDP). However, that was not the case this time. Q3 GDP, which was forecasted to grow at just over 3%, came in at 4.3% (Figure 1).[6] Even more notably, early estimates for Q4 GDP point to 5.3% growth, which would be the fastest pace since the COVID recovery period in 2021.[7] Consumer spending has

What does the future of the economy look like?

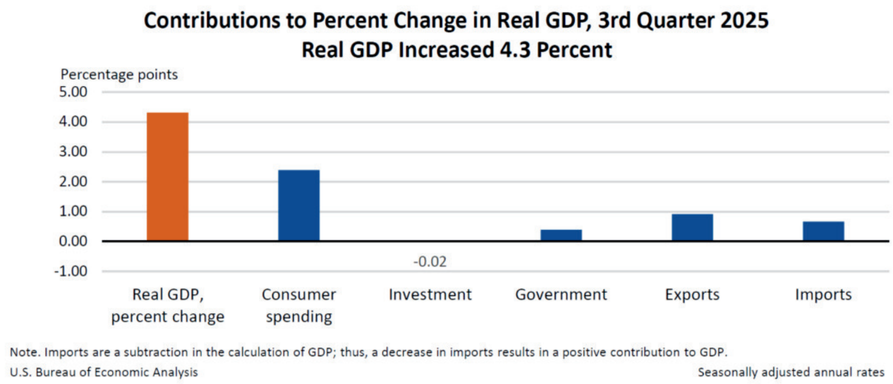

Figure 1. BEA. Q3 2025 GDP by Component Contribution

remained strong, and net exports continue to rise as expansive tariffs remain in place.

The US Dollar

Along with boosting net exports, tariff policy has led to the U.S. dollar weakening significantly against other currencies. In fact, the dollar had its biggest annual drop since 2017 in 2025. Along with tariff uncertainty, the rising, unsustainable national debt has led to uncertainty around investing in America, and several rate cuts have decreased the attractiveness of buying U.S. Treasuries with USD. This all helped push international stocks higher, allowing them to outperform U.S. stocks by double digits for the first time in 20 years.[8]

Interest Rates, Inflation, & the Labor Market

In March 2022, to fight runaway inflation, the Federal Reserve began raising the federal funds rate from 0% to levels not seen since 2001. While this has worked to bring inflation down, prices are still rising well above the Fed's 2% target and have been for over 4.5 years now (Figure 2).[3] In September 2024, the Fed began to cut rates from a range of 5.25%-5.50%, citing progress on inflation and signs of a weakening labor market. Unemployment had been rising steadily, job growth was slowing, and job openings were declining. Fast forward to today, inflation has remained relatively stagnant and above the 2% target, and the labor market has continued to gradually weaken (Figure 3).

The Housing Market

The housing market sits at the center of both inflation and interest rates. Housing is by far the largest component of the Consumer Price Index (CPI), thus the steady increase in housing prices has been a key reason inflation has remained above the Federal Reserve's target for so long. This high inflation, combined with strong economic growth, has pushed long-term interest rates (including mortgage rates) higher. Higher mortgage rates, in turn, further hurt affordability.

Therefore, consistent cooling in housing

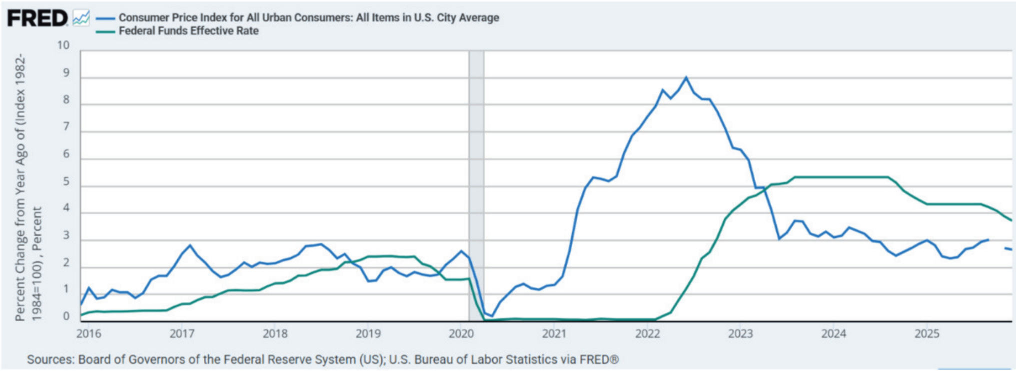

Figure 2. FRED. CPI Inflation and the Federal Funds Rate past 10 years

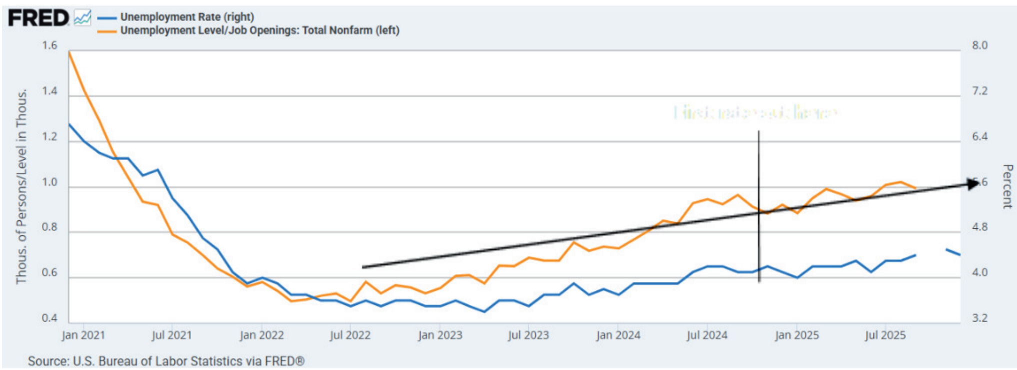

Figure 3. FRED. Unemployment rate and Unemployment Level/Job Openings past 5 years

prices will be critical to bring inflation meaningfully lower and help longer-term rates (including mortgage rates) to fall. Recently, President Trump instructed the purchase of $200 billion in mortgage-backed securities to help push rates lower.[9] Lower rates, along with obviously easing affordability by lowering monthly payments, could help ease the "lock-in effect," where homeowners with low mortgage rates delay moving during periods of high rates. This could then increase supply, further lowering housing prices and overall inflation.

THE STOCK MARKET

Broadening Performance & the Bull Market

In the 4th quarter, diversification didn't matter much. Whether investors were invested in the S&P 500, the Nasdaq 100, the Russell 2000, or the MSCI ACWI (All Country World Index), returns were the same, give or take 0.50% (Figure 4). After years of Big Tech and AI names dominating the headlines and market returns, this broadening is a positive sign for this bull market.

Speaking of the current bull market, how does it match up with past bull markets? Historically, the average bull market has lasted roughly 4-5 years and has delivered a ~150% return, depending on the year you start from (Figure 5). As of the end of 2025, the S&P 500 is up just under 100% since the start of the bull market in October 2022, about 3.3 years ago.[10]

OUR OUTLOOK & CONCLUSION

After a year in which every major index posted above-average returns and the

Figure 4. TradingView. S&P 500 (SPY), Nasdaq 100 (QQQ), Russell 2000 (IWM), MSCI ACWI (IXUS) in Q4

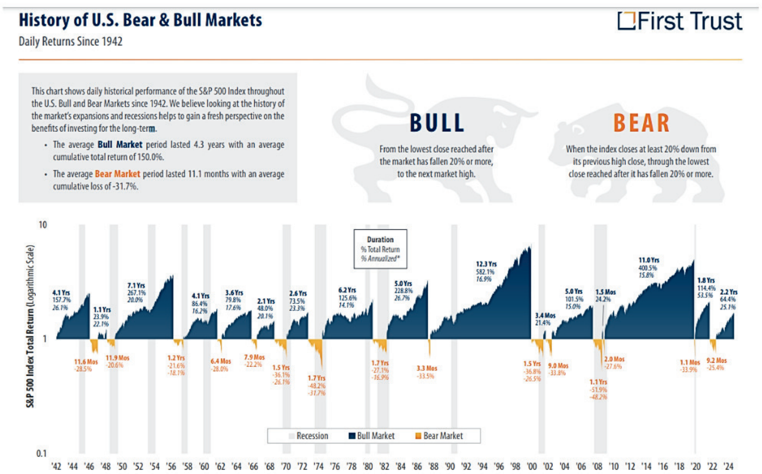

Figure 5. First Trust/Bloomberg. History of Bull and Bear Markets since 1942

Figure 6. Avantis. S&P 500 performance vs estimates

S&P 500 logged its third straight year with double-digit gains, history and probability suggest that 2026 is unlikely to produce similar results. Valuation metrics reinforce this cautious outlook. The S&P 500's trailing price-to-earnings (PE) ratio of ~30 is well above the long-term average of ~17, and its Shiller PE ratio (which divides the price by average earnings for the past 10 years) of ~40 is well above the long-term average of ~17.[11,12] Should the 15% earnings growth expected for 2026 not hold up, these increasingly expensive large-cap stocks could see some overdue reversion to the mean. That said, we will not be attempting the futile exercise of estimating the year-end price for the S&P 500, as those who do are usually drastically off (Figure 6).

We believe other areas of the market, particularly small cap, value, and international, are more likely to outperform in 2026. These sectors are significantly cheaper, have recently shown improved performance, and have similarly impressive earnings expectations for 2026. As always, remaining diversified across sectors and countries, especially for the long term, is the best strategy.

Looking ahead to policy developments, the Supreme Court is expected to rule in January on whether President Trump's tariffs, enacted under the International Emergency Economic Powers Act (IEEPA), are lawful. If the Court rules against the Trump administration, the administration will likely attempt alternative methods to reinstate them, though existing tariff revenue may have to be refunded somehow.[13] Either way, tariff policy and geopolitical events will be potential market-movers in 2026.

In fixed income, while the Federal Reserve tentatively remains in a rate-cutting cycle, we continue to favor a more balanced approach. We are overweight CDs, complemented by intermediate-term bond funds, municipal bonds funds in non-qualified accounts, and a modest allocation to shorter-term bond funds. Although investors expect further rate cuts, inflation remains a major issue and lower short-term rates do not always translate into lower long-term yields. Therefore, we are avoiding an aggressive shift into longer-term bonds.

We greatly appreciate the trust you have placed in us. We will continue to watch the stock and bond markets, global factors, corporate earnings, inflation, interest rates, tariffs, and the overall economy in order to manage and invest your money prudently. As always, feel free to reach out to us with any questions, comments, or concerns about your investments or the markets in general.

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