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Financial markets delivered solid results in 2025, navigating a year of headlines that included April's tariff announcements, ongoing developments in artificial intelligence stocks, passage of the One Big Beautiful Bill Act, the Fed's interest rate pivot, and a record-setting 43-day government shutdown. Through it all, investors enjoyed a spectacular run of equity performance.

The S&P 500 Index recorded positive performance for the third consecutive year, despite experiencing significant volatility and briefly nearing bear market territory in April 2025. A swift recovery followed that propelled the index to a strong year-end total return of 17.9% and culminating in 39 new record closing highs. The index has now provided double-digit returns in six of the past seven years, nearly doubling in value since the market bottom in 2022. With a full century of U.S. equity market history to reference (1926–2025), U.S. large-company stocks have posted positive calendar-year returns approximately 74% of the time. This remarkable record underscores the long-term wealth-building power of equities and reinforces the importance of remaining invested and committed to a long-term investment horizon.

Favorable outcomes were widespread across many market segments, with domestic market leadership concentrated in technology and artificial intelligence (AI) linked names. This drove the Nasdaq 100 Index to another year of outperformance and helped push the major indices to or near record highs. Enthusiasm over interest rate cuts propelled the rally to broaden towards mid and small cap stocks, and international equities across both developed and emerging markets surpassed expectations, delivering exceptional returns. Fixed income performance normalized; the U.S dollar weakened due to improved conditions abroad; and crypto currency returns fluctuated reflecting significant inflows, volatility, and drawdowns. Elsewhere in the markets, commodities posted double-digit gains, oil and gas recorded a solid performing year, and real estate lagged but ultimately finished on a positive note.

Artificial intelligence continued to be a central theme this year. Significant investment in infrastructure and rapid adoption supported economic growth and contributed meaningfully to market returns, while also raising concerns around valuation and market concentration. The so-called "Magnificent 7" stocks now account for roughly one-third of the market cap in the S&P 500, increasing concentration risk and leaving many investors with substantial exposure to these companies—often without fully realizing it.

While 2025 will likely be remembered for delivering remarkable returns to investment portfolios, experienced investors know that such outcomes are not consistently repeatable, as market leadership tends to shift from year to year. Regardless of the attention or enthusiasm surrounding any single company or sector of the market, a well-constructed diversified portfolio remains the most effective foundation for managing risk and achieving consistent outcomes over time.

The table below provides a 2025 snapshot of stock and bond performance.

Bond and Stock Index Total Return January 2025 - December 2025		
Sector	**Index**	**Return**
Short-Term U.S. Bond	Bloomberg 1-3 Year Treasury	5.17%
Intermediate-Term U.S. Bond	Bloomberg Interm Treasury	6.51%
Long-Term U.S. Bond	Bloomberg Long-Term Treasury	5.59%
Inflation Protected Bond	Bloomberg Treasury TIPS	7.01%
Domestic Large Company	Dow Jones Industrial	14.92%
Domestic Large Company	S&P 500	17.88%
Domestic Small Company	Russell 2000	12.81%
Domestic Large/ Information Tech.	NASDAQ	21.14%
Developed International	MSCI EAFE	31.22%
Emerging Markets	MSCI EM	33.57%
Real Estate/REITs	DJ U.S. Select Real Estate	3.67%
Oil and Gas	DJ U.S. Oil and Gas	8.24%
Commodities	Bloomberg Commodity	15.77%
Source: Dimensional Fund Advisors, YCharts		

The economy demonstrated sustained resilience as economic data gradually normalized following the record-setting federal government shutdown. Revised figures indicated that economic activity outpaced expectations, with growth reaching 4.3%. Inflation moderated, with year-over-year headline CPI coming in at 2.7%. The labor market showed some signs of softening with a slower pace to job additions, and the November unemployment rate rose to 4.6%. Meanwhile, the manufacturing sector contracted, the services sector expanded, consumer spending remained steady, and household finances continued to be strong.

See the chart below for a summary of economic trends.

GDP	Inflation	Interest Rates	Jobs	Unemployment Rate	Manufacturing
↑	↓	↓	↔	↑	↓
Housing	**Consumer Spending**	**Business Spending**	**Corporate Profits**	**Energy Prices**	**Stock Market**
↓	↑	↑	↑	↔	↑

In 2025, the Federal Reserve signaled a notable shift in policy, moving away from a "higher for longer" stance toward a more gradual easing cycle. That transition was reinforced at the December Federal Open Market Committee (FOMC) meeting, which delivered a third consecutive quarter-point rate cut, lowering the federal funds rate to a range of 3.50%–3.75%.

Additional economic updates were shared at the December meeting, with Fed policymakers describing growth as "moderate," job gains as having "slowed," and inflation as "somewhat elevated." This language reflected a change from an inflation focus toward a more balanced concern that also includes signs of labor market softening. The updated Summary of Economic Projections outlined a slower path for rate reductions, with officials anticipating just two further cuts through 2027, resulting in rates settling in the low-3% range, significantly above pre-pandemic levels. Based on growth forecasts and lower core inflation expectations, the Committee expects a long softer path rather than a hard landing. Minutes from the FOMC meeting showed a closely divided 9–3 vote, marking the highest number of dissents since 2019. Some policymakers cautioned that additional rate cuts could re-ignite inflation, while others warned that maintaining current policy could weaken the labor market. Officials described the decision as "finely balanced," with debate focused on whether disinflation had become sufficiently durable to support further easing.

Looking ahead to 2026, our outlook continues to be optimistic. We think policy headwinds will become more neutral. We expect economic activity to moderate, with growth supported by steady consumer spending, improving productivity, and a services sector that remains a primary driver of expansion. We believe the evidence increasingly suggests that artificial intelligence is emerging as a meaningful driver of economic growth, though the adoption and investment cycle remains in its early stages for many businesses. We anticipate inflation conditions that will drift towards the Fed's long-term expectations, and we expect a labor market that should remain low and stable. In the current environment, we think policymakers will continue to favor an "easy money" approach with greater flexibility towards sustaining economic momentum rather than inflation containment. While some expectations differ, our base case calls for one interest rate cut in the first half of 2026, after which the Fed is likely to pause. Should economic growth accelerate, inflationary pressures could reemerge, reinforcing the Fed's reliance on incoming data to guide subsequent actions.

Federal Reserve Chair Jerome Powell's term is set to expire in May 2026, and we expect an announcement regarding President Trump's successor in the coming months. While the Fed Chair serves as the public face of the Federal Reserve and plays an influential role in shaping policy discussions, we do not expect a dramatic shift in monetary policy. Interest rate decisions are determined by a majority vote of the Federal Open Market Committee, and with most current FOMC members generally leaning neutral to dovish, we believe the prevailing policy trajectory is likely to remain intact.

We expect the global economy to stay relatively stable, with the year ahead marked by modest growth across international markets. The combination of fiscal support, easing interest rates, and lower trade-related uncertainties should foster a more accommodative environment, even as growth remains uneven across regions.

We continue to approach conditions of uncertainty with vigilance. Among our primary concerns heading into 2026 are decelerating economic growth, a weaker labor market, stubborn inflation, shifting trade and tariff dynamics, potential missteps in monetary policy, an overheated AI investment cycle, elevated valuation levels, fiscal uncertainties, and heightened geopolitical tensions. Despite these significant challenges, long-term investment opportunities continue to be attractive.

Our investment philosophy is built on strong fundamentals that emphasize patience, discipline, and stability through market fluctuations. At the core of our process is a well-diversified asset allocation strategy, thoughtfully aligned with each investor's unique risk tolerance and financial objectives. Remember, ***it is time in the market, not timing the market***, that drives long-term success.

The start of a new year is an opportune time to revisit and update your financial plan, or to review your estate planning documents for any personal circumstance changes.

The items below are common events that could necessitate financial/estate plan alterations:

- Birth or adoption of a child or grandchild
- Death of a spouse or family member
- Marriage, divorce, or re-marriage
- Health issues or disability
- Education funding
- Child or grandchild reaching the age of majority
- Death of a guardian, executor, trustee
- Change in income or expenses
- Change in career
- Retirement
- Sale of a home or business interest
- Large gift or inheritance
- Revisions in federal or state income tax or estate tax laws

As our firm celebrates its 42nd year of providing advisory services, we want to wish you and your family a happy, healthy, and prosperous New Year. If you would like to schedule an appointment, wish to receive William Howard & Co.'s SEC Registration Form ADV Part 2A and Part 2B Narrative Brochure, or if you have any questions, please contact our office.

In closing, we want to say thank you for the opportunity to work with you, for being a valued client, and for your continued confidence and trust in William Howard and Co. Financial Advisors.

With kindest personal regards, I am

Very truly yours,

WILLIAM HOWARD & CO. FINANCIAL ADVISORS, INC.

Bill

William B. Howard, Jr., ChFC®, CFP®

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Enclosures: Index Performance and U.S. Economic Data

2025 Total Return Index Performance			
Asset Class	**Index**	**4th Qtr.**	**YTD**
Cash	BofA/ML Three-Month U.S. Treasury	0.97%	4.18%
U.S. Bonds	Bloomberg U.S. Intermediate-Term Treasury	1.15%	6.51%
U.S. Large Co. Stocks	S&P 500	2.66%	17.88%
U.S. Small Co. Stocks	Russell 2000	2.19%	12.81%
International Stocks	MSCI EAFE (net div.)	4.86%	31.22%
Real Estate	DJ Select Real Estate Securities Total Return	-0.79%	3.67%
Source: Dimensional Fund Advisors			

U.S. Economic Data	
GDP	4.3% increase (annual rate) – 3rd Quarter 2025
Inflation	2.7% CPI (all items less food and energy) and 2.6% CPI (all items) over last 12-months ending December (Energy index up 2.3%; Food index up 3.1%).
Interest rates	Federal Funds Rate range at 3.50% - 3.75%. Third consecutive decrease of 0.25% percentage point. 2024-2025 rate reduction = 1.75%.
Jobs	December 2025 data - Unemployment at 4.4%; non-farm payroll employment rose by 50,000 jobs; Labor force participation rate 62.4%; Job gains trended higher in food services, health care, and social assistance.
Manufacturing	Economic activity in the manufacturing sector contracted for the tenth straight month; December ISM Manufacturing Index registered at 47.9% (lowest reading of 2025). The monthly contraction was faster, demand was weaker, output slipped, and inputs were mixed.
Business Spending	Private non-residential investment continued to climb higher (42.92% increase since Jan 2021); Orders for manufactured goods decreased slightly. Durable orders declined 2.2%, and nondurable orders decreased by 0.4%.
Corporate Profits	3rd Quarter 2025 - U.S. corporate profits increased 4.2%. S&P 500 Earnings per share = $72.03 (one-year increase of 21.75%).
Housing	Current 2025 year-over year data - New home sales were up 18.7%; Existing home sales increased 1.4%; Median sales price of existing homes increased 0.4% from the prior year to $405,400; Housing starts decreased 7.8%; Building permits fell 1.1%; Housing inventory was up 3.5% from last year; Unsold inventory = 3.3 month supply; MBA fixed 30-yr mortgage rates = 6.25% ending 1/2/2026.
Consumer Spending	Disposable income continued to trend slightly higher; Consumer Confidence Index fell to remain below the January 2025 peak; Retail and food services sales increased; Total vehicle sales were weaker; Personal durable and nondurable spending remained elevated; Personal savings rate remained low.
Energy	Oil price (West Texas Intermediate) = $57.26/bbl – 12/31/2025 (2025 decrease of 20.96%); Gas price (U.S. average regular unleaded) = $2.811/gal – 12/29/2025 (2025 decrease of 6.49%)