

4th Quarter 2025 Market/Economic Update

January 21, 2026

"It's liquidity that moves markets." ~Stanley Druckenmiller

"It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change." ~Charles Darwin

"Excellent firms don't believe in excellence -- only in constant improvement and constant change." ~Tom Peters

Happy New Year! I hope the holiday season was good for everyone. It was good for us, but the transition we've made has kept us incredibly busy through the end of 2025 and into the first couple of weeks of 2026. I'll go into that more later, but first a brief recap on what transpired last year.

Despite a rough patch from mid-February to the period just after the oddly named, "Liberation Day" in April, when President Trump announced his tariff policy, all but two asset classes finished 2025 on the positive side; the outliers were the S&P Commodity Index and the U.S. Dollar. The major U.S. stock indices were all higher by between 12% and 20%. Coming on the heels of 2023 and 2024, this is three straight years with double digit gains for U.S. equity markets. In fact, it is the best three-year move for equities since 1997-1999. However, for the first time in a decade, both developed market and emerging market equity indices outperformed their U.S. counterparts. The weakness in the U.S. Dollar certainly helped in this regard.

In the fixed income world, a similar story emerged. According to Ned Davis Research's Benchmark Report, every single sector of the fixed income market finished higher in 2025. All bond sectors ranged from total returns of 4% to 8%, except for emerging market debt, which led with a double-digit gain for the year. It is notable to me that emerging markets led in both equity and fixed income performance in 2025. Is this a harbinger of things to come? So, is this outperformance by international markets a harbinger of things to come? It's impossible to say at this point, but what I can say with some confidence is that valuations are much cheaper internationally than they are in the U.S.

Finally, commodities were a mixed bag, as they always seem to be. Gold, silver, and other metals were positive on the year, while oil prices and many agricultural commodities were lower in 2025. Orange juice prices fell 58% last year, so if you notice the price of OJ to be lower at the grocery store, then you'll know why.

As all of you know by now, I don't rely on predictions to allocate capital in your investment portfolio; that would be foolish. While making predictions can be a fun game, we will always look to our objective models and indicators to make any asset allocation decisions for your portfolio. History can be a useful guide, for as Mark Twain was reported to have said, *"History doesn't repeat itself, but it does often rhyme."* Finally, discipline also plays a part in managing portfolios, as we must have the discipline to adhere to the messages of the indicators and models. When many "experts" were suggesting that a recession was imminent and markets were ready to collapse in 2025, I relied on those objective indicators and our discipline to be much more optimistic. So, what could 2026 bring for financial markets?

We are now over three years into the current cyclical bull market, which exceeds the median length of all cyclical bull markets, including those that have taken place within secular bull markets. The current secular bull market is now almost 17 years old. As a reminder, a cyclical trend is one that can last from a few months to a few years, while a secular trend typically lasts a decade or longer. According to data from NDR going back to 1900, we are currently in the fifth secular bull market; there have been four secular bear markets. Why does identifying the secular trend matter? In secular bull markets, the average gain in equity market indices has been greater than 10% per year. Allocating more towards equities and trading infrequently have traditionally been the right approach in that period. Within secular bulls, the cyclical bulls last longer, while the cyclical bears are shorter in duration. However, in secular bear markets, the major stock averages have experienced annual average losses. Under that scenario, allocating capital towards other asset classes and trading more frequently (though not excessively) have traditionally been the right approach. The cyclical bears last longer within a secular bear, and the cyclical bulls are shorter. Both fixed income and commodities have their own secular histories and tendencies as well.

One thing that is common in bear markets is a lack of excess liquidity in the financial system, while bull markets typically have an abundance of liquidity. Arguably the greatest macro trader in history, Stanley Druckenmiller, is a legend in the investment world. He is among the most respected investors by other professionals as one will ever see. His quote on the previous page simply states liquidity is what drives markets. It is through this lens that I am relatively sanguine in my view of financial markets in 2026. Most central banks around the world are lowering their respective short-term interest rates, and that includes the Federal Reserve. Speaking of the Fed, we will have a new Fed Chair in May, as Chair Powell's term will expire, and he will not be reappointed. President Trump will certainly appoint someone who agrees with his vision that interest rates should be lower. Lower interest rates are typically stimulative to economic growth, so that's one box checked on the monetary side for more liquidity. Additional stimulative measures adding liquidity will come from the fiscal side. Without getting too much into the weeds on this one, President Trump has directed Fannie Mae and Freddie Mac to buy \$200 billion of agency mortgage bonds in an attempt to improve housing affordability. It remains to be seen, but the impact on mortgage rates may be relatively muted. Another boost to liquidity should come from tax cuts enacted in 2025, which will start being realized this year. So, with so much liquidity set to enter the system, it is hard to imagine a recession. Accordingly, our objective indicators do not show a recession as being imminent.

While all of you know my crystal ball is permanently cracked and broken, and I cannot see the future, my hopeful outlook does not mean I expect another year of double digit returns for U.S. equity indices. Instead, I expect returns to be more muted in 2026. Further, diversification outside of the large-cap growth stocks may be a key to outperformance this year. To be clear: I am not saying 2026 will be smooth sailing. As you know, I can change my mind based on any new economic and market data. I fully expect some volatility in markets, and possibly a few 5% or greater corrections in the major stock indices this year. With valuations stretched and the global bull market mature, some risks that may lead to a correction include inflation rising due to the excess liquidity, geopolitical strife, and a further narrowing of stock market winners. The healthiest markets are one in which rallies are broad-based. Interestingly, while the large tech stocks have not done much over the last couple of months, we've seen a broadening out to other sectors and areas of the domestic equity market. This is a healthy development for now.

To be certain, there are always risks, and I worry about everything. The mechanics of the market have changed greatly over the past two decades as more money is traded by computer algorithms than ever before. This can lead to periods of unprecedented volatility. It's one reason we now see such wild

swings intraday. Regulatory changes enacted after the 2007-2009 Great Financial Crisis have led to less liquidity in some markets, and that just adds to volatility. In the end though, investing is about buying assets for the long-term. That's how you grow your wealth over time: buying great assets at good to great prices and holding them until they become overvalued, or something changes with the investment. The key is to remain flexible and to avoid having a myopic view of the macro environment and of the assets into which we've invested. Now, onto the transition.

Change is hard! I know I sound like Captain Obvious, but this transition to Farther was much more difficult than we imagined it would be. We still haven't finished just yet, but we are almost at the end. **THANK YOU for your cooperation and patience during this period.** As we are about coming closer to the end, the benefits of this transition have become increasingly clear to me.

As a reminder, this transition to join Farther gives you access to powerful new tools that make managing your wealth simpler and more seamless than ever. I chose Farther because it gives us more time and better tools to do what we do best, which is focusing on you. They have taken things like compliance and cyber security off our plate. Farther has also given us the best technology I've seen in the industry. Frankly, I was worried about falling behind the technology curve, but that is no longer of concern to me.

Even though we have partnered with Farther and moved our custodial relationship from Pershing to Schwab, most things will not change for you. For example, **HFA should continue to be your main point of contact.** If a service need arises or a question comes up, then please contact us. There is no need for you to contact either Farther or Schwab directly. HFA will continue to oversee the management of your portfolios and to provide all your planning and wealth management services. Now, we just have an amazing firm standing behind us in every capacity to help you achieve your goals.

Some exciting enhancements include a dedicated customer service team (CX Team) at Farther to work with HFA and our clients. There may be times when a member of our CX team reaches out to you directly to help us. Another enhancement is a dedicated trading team to help me allocate portfolios will help all of us to be more efficient in conducting our operations.

As wonderful as this new technology is, we are working through a couple of kinks. I expect those to be worked out by month-end. In the meantime, please log in and play around on the app. Once again, THANK YOU for your cooperation and patience as we made this transition. Please contact us with any questions.

I hope you and yours are healthy and enjoying a wonderful start to the new year. Please let us know if there is anything we can do for you. We're always here to help. From all of us at HFA, thank you for your trust, confidence, and loyalty. It is a joy and a privilege to work with you and your family.

Best wishes,
Harvey E. Hutchinson IV
Principal, Wealth Advisor at Farther

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