

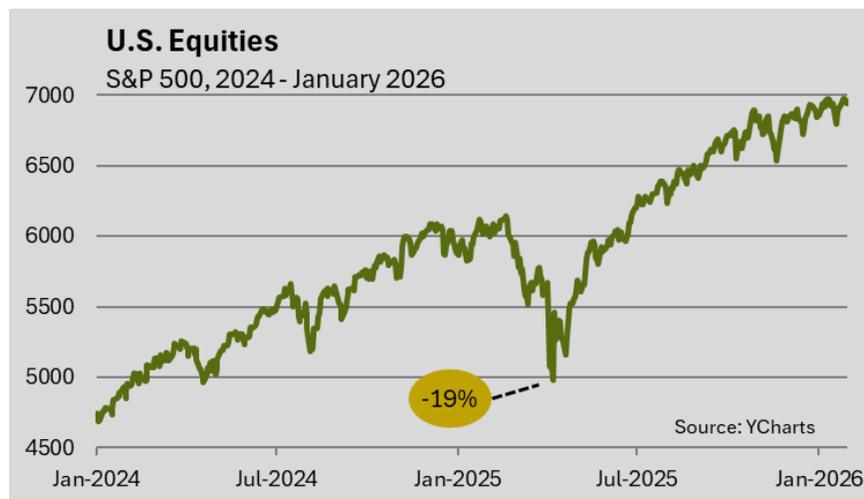


Assessing a Mature Market

February 2026

Summary

In 2025, the U.S. stock market realized a third year of positive results – all three with double digit positive returns. The year did include a 19% drawdown in stocks after the Liberation Day tariff announcements. Despite the bumpy ride, the S&P 500 finished the year up a healthy 18%. Can the stock market generate a fourth year in a row of double-digit returns? Such a streak has only happened twice since 1950 – a four-year run from 1949 to 1952 and a five-year period from 1995 to 1999. The bull market is maturing, so it will need corporate earnings to continue, no policy mistakes from the Fed, and the economic slowdown to end with a soft landing.



Several factors will be important to financial markets in 2026:

- **The job market is weakening.** Absent the pandemic, wage growth and job openings are at the lowest levels since 2017. The absolute number of unemployed is the highest since 2017.
- **Corporate profits remain strong.** The post pandemic trend has been resilient, but it may be more difficult to maintain altitude in 2026 given a slowing economy.
- **The mid-term year tends to generate lower stock market returns and higher volatility** than other years. Three of the past four mid-terms have realized drawdowns of 16% to 25%.
- **The bull market is maturing.** The current bull market began in 2022 and is now 1200 days old. It is the fourth longest out of the 13 bull markets since 1980.
- **Returns were solid in 2025.** After two years of very strong returns (2023 and 2024), volatility increased. Stock returns were positive, and the strongest returns occurred in international and emerging markets.

As expected, volatility increased in 2025, but stocks ended the year well into positive territory. While it is certainly possible that the strong impulse from technology spending will continue to buoy the economy, the risk of heightened volatility continues. Rising unemployment, inflation risk and sour consumer sentiment are challenging issues and need to improve for stock markets to see significant gains. Accordingly, client portfolios remain slightly above neutral equity levels.



2025 By The Numbers

4-2

April 2 became known as “**Liberation Day**” as President Trump announced sweeping tariffs. Uncertainty from the tariffs caused stocks to fall by 19%, but markets recovered well and ended up positive.

\$289

Revenue from **tariffs** reached \$289 billion in 2025. The highest tariffs in the U.S. in over 80 years increased revenue by 210% from \$93 billion in 2024.

43

The longest government **shutdown** in history started in October and lasted 43 days. The shutdown exceeded 35 days in 2018 when Trump expanded barriers on the U.S.-Mexico border and 21 days in 1996 over Clinton’s spending cuts

3rd

After two years of strong returns in U.S. stocks, the S&P 500 saw a **third consecutive year** of strength, appreciating by 18%.

9 mo

After nine-month hold, **the Fed cut rates three** times in late 2025. Seeking a balance between inflation and unemployment, the Fed had lowered rates three times in 2024 before a pause due to inflation concerns.

48%

Limited inventory and strong demand have pushed **home prices** to record highs. The average home price increased 48% over the last five years. The median age of all homebuyers is 56 today, up from 31 in 1981.

30%

Technology stocks have appreciated significantly over the past several years. Seven stocks known as **the “Mag 7”** (Nvidia, Google, Microsoft, Meta / Facebook, Tesla, Amazon) now represent 30% of the U.S. stock market (S&P 500)

32/34

After lagging U.S. stocks for several years, **international** and emerging market stocks exceeded U.S. returns, posting 33% and 34% returns, respectively.

4.5%

Spending on **AI technology** was a significant boost to economic growth. Information processing equipment and software capex increased 15% over 2024 and accounted for a record high 4.5% of GDP.

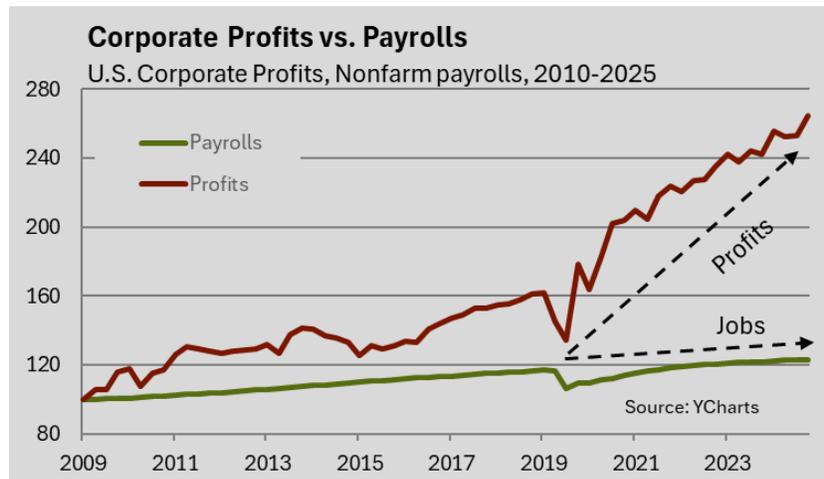
36%

President **Trump’s approval rating** is 36% – the lowest rating for a president in the first 300 days of their term.



The K-Shaped Economy

The job market is cooling from its very robust post-pandemic levels – hiring has slowed, layoffs have ticked up in several industries, and wage growth is losing momentum – yet corporate profits remain strong. Many companies have managed to protect or even expand margins through automation, cost-cutting, and price increases that outpaced expenses. Some journalists have called this a “K-shaped” economy due to rising corporate profits and stock prices, combined with a weakening employment picture.



This disconnect is noteworthy and unlikely to persist indefinitely. While employment is soft, a “no hire, no fire” environment and vastly lower immigration rates have allowed the unemployment rate to stay relatively low. However, both the number of job openings and new hires are near the lowest level in 10 years. The number of job openings per unemployed worker slid to its lowest level since mid-2017 (excluding the pandemic). If unemployment continues to rise, it could indicate that the likelihood of a recession is increasing.



In terms of the environment, the K-shaped economy is another reason that consumers feel uneasy. Jobs are not plentiful. The impact of AI is in headlines every day, raising further questions on the future of the job market. When you add worries about employment prospects to high prices and a rising cost of living, it is not surprising that consumers feel anxious. For now, higher income consumers, including retirees who no longer have to worry about the job market, are helping to keep the economy afloat.



Presidential Election Cycle is Weak in Mid-Term Years

There are many drivers of return in financial markets, and an important historical influence has been the presidential election cycle. While no single indicator is perfect, the cycle does seem to line up with the 2026 environment. Historically, several themes are found in the four-year cycle. The strongest period in the cycle is the pre-presidential election year (2023). A strong tailwind for markets exists as politicians pursue policies (and spending) that will help them get re-elected. The election year (2024) is often steady since there are few policy changes with the pending election. The post-election year (2025) brings positive results from optimism after the conclusion of the election. In the mid-term year (2026), translating ideas into legislation turns out to be more challenging than expected. Monetary and fiscal stimulus typically lessen.

The midterm year is typically characterized by a somewhat robust economy leading to low unemployment and inflationary concerns. Political uncertainty increases while both monetary and fiscal support for the economy slow (since there is less need for monetary stimulus and legislation slows heading into the midterm elections).

Presidential Election Cycle U.S. Stocks (since 1948)

	# of cases	Post-election	Mid-term	Pre-election	Election
Percent positive	20	65%	58%	90%	84%
Median gain per year	20	10%	1%	19%	12%

Source: Ned Davis Research

This general cycle narrative fits 2026 very well. The stimulus from tax cuts was positive in 2025, and the drag from tariffs was not fully in place until late in 2025. Monetary policy is expected to be less accommodative. The Fed cut rates three times in 2024 and three times in 2025. Fewer cuts are expected in 2026 as lingering inflation remains a concern and the unemployment rate remains stable.

In a mid-term year, the combination of disappointment and lack of stimulus often weighs on markets. As a result, the mid-term election year is the weakest year in the four-year cycle. Since 1948, the S&P 500 is positive only just over half of the time, and the median gain per year was only 1%, significantly less than the other three years. The mid-term year tends to be even weaker in periods after the incumbent party loses an election.

The dynamics of the midterm years often lead to more volatility. Only 6 of the 31 midterm years since 1900 have experienced maximum stock market drawdowns of less than 10%. The median midterm correction is 18% versus 13% for all years. The last four mid-term years (2010, 2014, 2018 and 2022) had drawdowns of 16%, 7%, 20%, 25%, respectively.



A Mature Bull Market

The stock market rarely moves in a straight line and bull markets tend to age just like economic cycles do. As rallies extend, gains often become more concentrated, volatility picks up, and pullbacks grow more frequent. There is no clock governing markets, and no perfect indicator that dictates precisely when a cycle must end, but today's bull market is maturing, indicating that it is only a matter of time before volatility increases.

Ned Davis Research studied the strength and duration of cyclical bull markets, which are defined as periods when the stock market rises sharply (i.e. more than 20%). Cyclical bulls are typically associated with strong economies and a boom in the business cycle. The study is based on global stocks, which capture large and mid-cap companies across 23 developed markets countries

Global Bull Markets 1980 - 2026

Period	Total Percent gain	Percent gain per annum	Number of days
Aug 1982 – May 1984	63%	33%	629
Jul 1984 – Aug 1987	144%	33%	1127
Dec 1987 – Jan 1990	59%	25%	761
Sept 1990 – Jul 1998	192%	15%	2852
Oct 1998 – Mar 2000	68%	42%	536
Sept 2001 – Mar 2002	23%	53%	179
Mar 2003 – Oct 2007	123%	19%	1675
Mar 2009 – Feb 2011	81%	36%	711
Oct 2011 – Apr 2015	76%	17%	1301
Feb 2016 – Jan 2018	51%	24%	715
Dec 2018 – Feb 2020	34%	29%	421
Mar 2020 – Jan 2022	93%	44%	652
Oct 2022 – TBD	85%	30%	1204
Median (1980-2022)	72%	31%	713

Source: Ned Davis Research

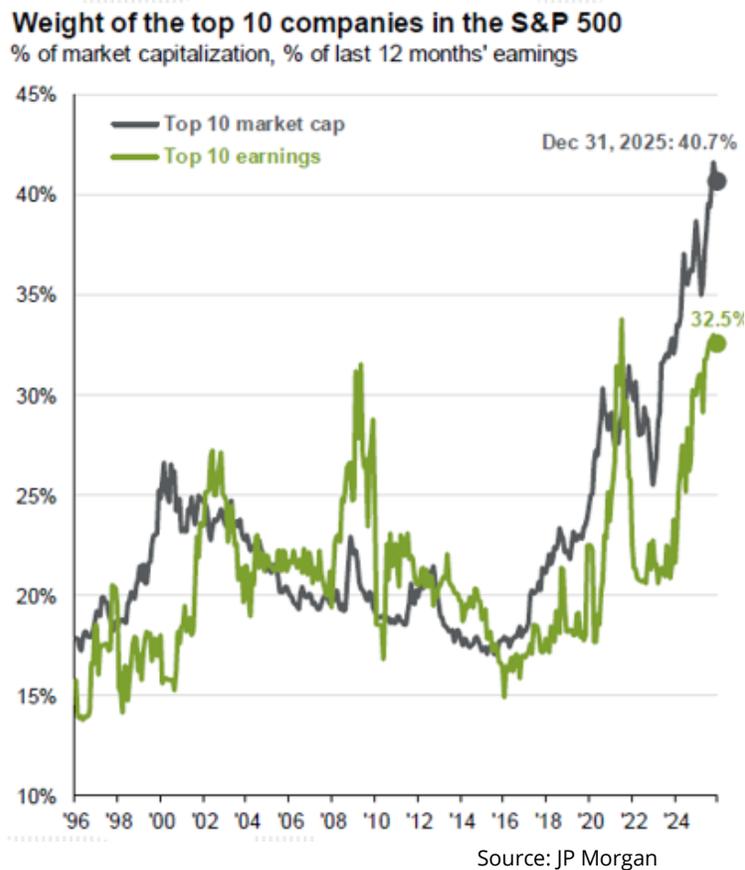
The study indicates that the current bull market is mature, and the potential for volatility is increasing. Among the 13 global bulls since 1980, the current bull's gain ranks fifth and its duration ranks fourth. The median gain in a cyclical bull is 72%, and the median duration is 713 days. While there is potential for the bull market to continue, history suggests that returns tend to moderate as cycles mature. In addition, the margin for error is narrowing as valuations rise and expectations grow.



Artificial Intelligence (AI) & Markets

There has been a lot of buzz about AI over the past two years. It is obviously a powerful technology with many uses and applications. However, it is still very early in the development cycle. Which technologies will ultimately prevail and the strength of those business models remain to be seen.

Expectations for AI will evolve over time and likely subject the broad financial markets to increasing volatility. For those investors holding specific technology stocks, the experience is likely to be even more bumpy. For example, in early 2025 when President Trump first announced broad tariffs, the U.S. stock market fell by 19%. During that same period, the Magnificent 7 technology stocks fell by 30%.

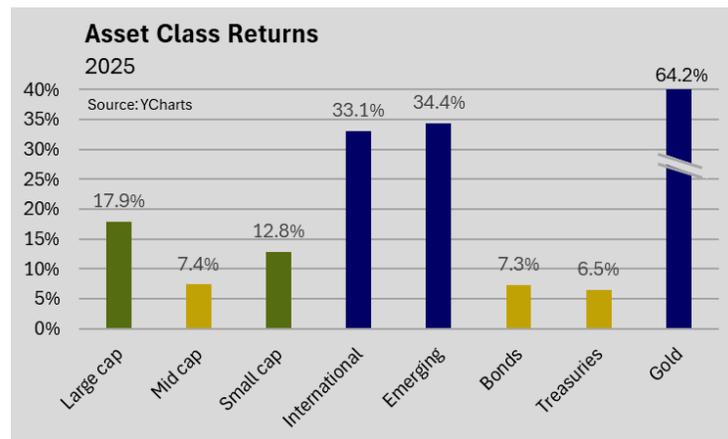


There has been some concern in recent months about technology companies and their weight in the U.S. stock market. The largest 10 companies, which are almost all technology stocks, now make up 41% of the S&P 500. However, those same companies also represent 33% of corporate earnings. While there are high expectations for future growth, the underlying business models for the largest technology companies are solid.



2025 Investment Returns

In 2025, U.S. large-cap equities delivered solid gains for the third year in a row, with the S&P 500 posting a 17.9% return. Small caps posted positive but more modest gains at 12.8%, reflecting a broadening market rally. Developed international markets notably outpaced domestic stocks posting a 33.1% return. Many foreign indices rose sharply as global economic optimism and easing monetary conditions buoyed equities. Emerging markets equities were among the strongest performers, returning 34.4% as growth prospects improved. While strong even in local currency terms, foreign stock returns were turbocharged by the significant drop in the value of the U.S. dollar. Meanwhile, a broad basket of bonds delivered positive returns of 7.6% as rate cuts and declining yields supported price appreciation. Treasury bonds returned 6.5%, generally lagging equities' robust performance.



Assessing Risks

There are numerous risks lingering that could impact the global economy and financial markets. Many potential obstacles are complex, interconnected and fast moving. Importantly, history shows that the most consequential risks are often the ones markets fail to anticipate, emerging suddenly rather than from the list of well-known concerns. Regardless, highlighted below are three specific risks that could be negative for markets:

- 1) **Fed credibility:** Ed Clissold from Ned Davis Research summarized the risk succinctly, "My biggest concern for 2026 is Fed credibility. The market often tests a new Fed chair, and Hasset (or whoever the new chair is) may be forced to choose between proving their inflation fighting credentials and delivering rate cuts, especially if Powell hands over neutral Fed policy and the economy is enjoying a OBBBA bump."
- 2) **Geopolitical risk:** Acknowledging that President Trump's approach to tariffs and foreign policy is a wildcard, geopolitical risks stemming from Venezuela, Greenland, and Iran each carry distinct implications for global stability and markets. Venezuela is politically fractured and economically unstable. Greenland's strategic location and national resources are significant but are at odds with longstanding allies. Iran remains a flashpoint in the Middle East, where persistent tensions fueled by sanctions and internal unrest pose risks to supply routes. Further escalation could lead to sharp oil price spikes.
- 3) **Consumer sentiment:** In aggregate, consumers still feel pessimistic about the economy and their personal finances. In 2025, consumer sentiment was lower than it was during the Great Financial Crisis in 2008. The reading could still go lower as pressure mounts from the high cost of living.



Final thoughts

An aging bull market does not mean a major drawdown is imminent. Markets operate without a clock, schedule, or single indicator that signals precisely when a run is over. Still, when weighing risk and reward, it is important to recognize that later stages of a cycle often come with higher volatility and less forgiving market conditions.

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