January 2026

Alexis Investment Partners

Practical | Tactical

Summary

December was mixed but mostly positive. 2025 was a great year. Our portfolios generally outpaced benchmarks. Performance reports will be available in a few weeks.

Investors enter 2026 with positive momentum offset by legitimate concerns that will likely require a mix of discipline and flexibility.

Schwab 1099 tax forms will be available starting mid-late February.

We delayed sending new AIP/ISWM Agreements to allow us to focus on year-end activities and allow our clients to focus on enjoying the holidays. As a reminder, these will be sent using Adobe Sign in the next weeks. We appreciate your prompt response and intend to be up and running some time in Q1 2026. You can expect a separate email with instructions and additional information.

Key Market and Economic Data

- Including dividends, the S&P 500 delivered returns of 17.9% during 2025, setting 39 new record highs. The Dow Jones Industrial Average climbed 14.9% while the Nasdaq posted gains of 21.2%.
- Fixed income performance was strong, with the Bloomberg U.S. Aggregate Bond Index advancing 7.3%, marking its strongest year since 2020. The 10-year Treasury yield declined to 4.17% from 4.57% at year-start.
- Both international developed and emerging markets posted gains exceeding 30% in U.S. dollar terms, as measured by the MSCI EAFE Index and MSCI EM Index.
- The U.S. dollar index declined 9.3%, ending at 98.32 compared to 108.49 at the beginning of the year. The dollar touched its lowest point of 96.63 in September.
- Gold delivered exceptional performance throughout the year, surging 64% to finish at $4,341 per ounce.

What to Expect in Portfolios

Last month we said, “Our current expectation is that the correction and recovery have increased the probability of further gains through year-end.”

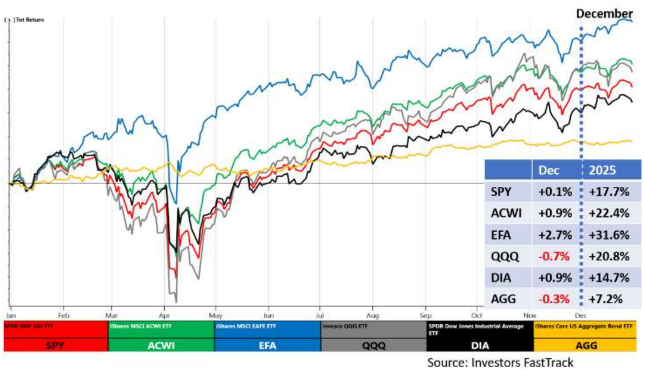
Returns were generally positive through year-end although the “Santa Clause rally” was dull and tech leaders lagged.

The transition to a new year is always interesting as investors reflect on portfolios and consider changes. We expect 2026 will be positive but volatile. We plan to scale back equity exposure into early strength but remain overall constructive. We also plan to further broaden exposure away from large cap US tech leaders and gold.

Contents

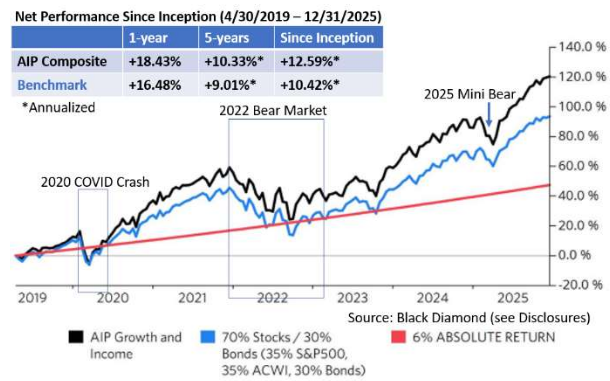
December was flat to positive for most indexes, the tech-heavy Nasdaq (QQQ) and Bonds (AGG) fell.

Foreign stocks (EFA) led for both December and the full calendar year. After a decade of US dominance, it will be interesting to see if this is short-lived or the start of a more durable leadership shift. Relative valuation continues to favor non-US companies.



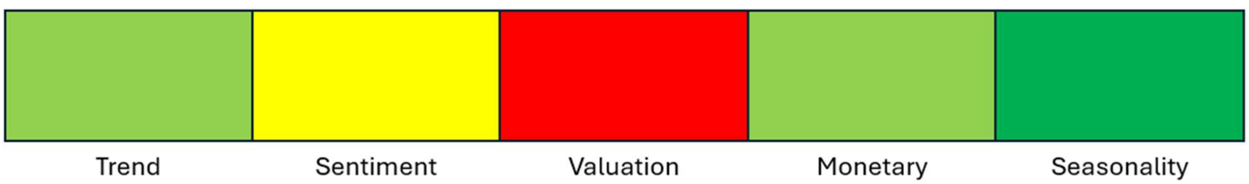
Source: Investors FastTrack

The chart below shows the net performance of our most popular composite since inception (120 accounts – see disclosures on page 4). The 6+ years shown have been volatile including COVID and the 2022 Bear market. **Our strategy and discipline led to greater participation in gains than declines, allowing us to add value through this volatile time.**



Insights and Commentary

Investing can be an emotional roller coaster, leading to costly mistakes. To navigate effectively as we seek greater participation in advances than declines, we have found it helpful to monitor a series of indicators and models based on 3 key tenants, (Don't Fight the Fed, Don't Fight the Trend, Follow Sentiment Except at Extremes) The tiles below summarize current conditions:



Our indicators remain optimistic entering 2026 despite complacent sentiment and stretched valuations.

Trend strength is undeniable across major US and foreign stock market indexes. Since the April 2025 lows, pullbacks have been relatively shallow and short-lived. We credited much of this to investors who had sold stocks in the April selloff and were therefore caught offsides having missed the rebound.

We continue to see substantial cash (over $7 Trillion) in money market funds – and as money market yield decline we expect significant flows from these funds into both stocks and bonds. The Fed is also cutting rates, which are now close to "neutral" relative to current inflation expectations. We view monetary conditions as constructive but not stimulative.

We are seeing signs of investors complacency in recent sentiment surveys and retail asset allocation reports show healthy equity allocations. This is why **sentiment is neutral at best.** Optimistic investors tend to chase recent winners, become less price sensitive and allow portfolios to tilt more aggressively. This contributes to elevated valuations and makes markets more susceptible to disappointing news. **Sentiment tends to sour in pullbacks, fueling steeper dips that can lead to deeper corrections.**

Seasonality remains favorable through May. This can be fickle in mid-term election years. Considering positive trend/momentum and the generally favorable monetary backdrop, we expect markets to remain resilient through January.

Considering the election cycle, pending change in Fed leadership and more cautious sentiment and valuation picture, **we would be surprised if markets make it through the first half of 2026 without some form of pullback or correction.**

Although our indicators are incrementally more cautious, we characterize the current picture as cautiously optimistic and our calendar year outlook is positive.

Update, Observations, Indicators and Outlook:

Our **Market Pulse** continues to highlight a **Bull Market supported by trend strength and an easing Fed.**

Investors **hope that innovation, extensive foreign direct investment, tax incentives and reduced regulatory burden will boost earnings and justify stretched valuations.**

In a year focused on American exceptionalism, it's interesting to note that **foreign stock** index funds (ACWI, EFA and EEM) **outpaced** major **US** indexes (DIA, SPY, QQQ, IWM) in 2025. History suggests this may be the start of a durable trend.

Gold was exceptional in 2025, perhaps a little too good. We have benefited from significant gold exposure in our tactical strategy and see the potential for continued upside. That said, history suggests the gold bull market spurred by recent inflation is mature and **we are tactically reducing our gold exposure.**

Bonds had a good year in 2025 as yields fell. We expect the Fed will continue to cut rates in 2026, especially as Powell is replaced by a new chairman mid-year. We also continue to believe that longer-term market-based interest rates have been suppressed by quantitative easing and fear of a Fed induced recession – a trend we think will revert in 2026.

Anyone with children or grandchildren under 18 will be interested in new Trump accounts that will be available later this year. Details are still in flux, but children born in 2025 will be eligible for a $1000 contribution from the US government. Significant private donations promise to contribute $250 (perhaps more) for those under 18 but born before 2025 who live in a zip code where the average income is under $150,000.

AIP can't manage Trump accounts as they are invested by the government in an index fund, but the concept is compelling and we are happy to discuss some of the nuances and help clients consider how these accounts can help with both education planning and potential long-term retirement planning. This is also a reminder that **we are happy to help you plan and make informed decisions on a broad range of financial topics.**

Please keep in mind that **financial planning services are included as part of our advisory relationship.** Popular topics include paying down or considering new debts (i.e. mortgages, auto loans/leases and credit cards), tax planning around real estate or business sales, education planning, retirement income planning and more.

Market Pulse:

We try to avoid jargon, but a few terms are helpful when describing financial conditions.

Bull Market: markets trending up (making higher highs on rallies and higher lows in periods of decline). **We can expect periodic pullbacks and corrections, but these should be relatively short and shallow – followed by resumption of the up-trend.**

Consolidation: after a period of strong gains or steep declines sometimes markets become range bound, moving up and down by 3-5% over several weeks. After consolidation, the prior trend resumes.

Pullback: a decline of 3-5% that generally happens at least twice per year. Pullbacks often resolve within a few weeks.

Correction: a decline of 5% to 10% that typically happens once per year. Like pullbacks, markets recover quickly after corrections, generally within 3- 6 months.

Bear Market: a decline of 20% or more. Many bear markets are fully recovered within 18- 24 months, but severe bear markets like 2000-2003 and 2007-2009 can take 5-7 years or longer to recover from.

Bottoming Process: After a correction or bear market, stocks often bounce and re-test lows multiple times before recovery.

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Closing Comments:

Several clients have recently been speaking with friends who are looking to make a change either because they are nearing a life transition or have been unhappy with their current advisor.

We appreciate your referrals and are pleased that our company continues to enjoy steady growth. Our focus is always on providing exceptional service and performance and we are very grateful for your confidence and support!

Although our focus is on financial planning and investments, we also have relationships and resources to help with life and LTC insurance and annuities.

AIP acts as a 3(38) Fiduciary Advisor to 401k plans and has been able to help several small business owners reduce costs, significantly improve their plans and offload some of their liability as plan sponsors while creating a better experience for employees.

Please call and/or email me personally for most of your account servicing needs and especially when you have questions or concerns.