INVESTMENT STRATEGY UPDATE

MARKET REPORT
JANUARY 2026

ASCENTIAL WEALTH ADVISORS

MARKETS RISE AGAIN IN AI WAVE

Equity markets rose for the third consecutive year in 2025. The optimism over the possibilities surrounding Artificial Intelligence (AI) was again a key driver for market gains, with investors overlooking concerns regarding tariff policy and mixed economic data. Technology-related stocks generated above average returns, and the NASDAQ ended the year up +20.4%.

Outside of AI related companies, returns varied considerably across the market, with the "equal weighted" S&P 500 index increasing +9.3%, about half of the return of the tech dominant, market capitalization weighted index. The Russell 2000 Index of small cap companies also lagged, up +12.8%.

After trailing the US market in recent years, both the developed international and emerging market indices also topped the return charts for 2025, with the MSCI EAFE up +31.2% and the MSCI Emerging Markets Index up +33.6%. A decline of roughly 10% in the value of the US dollar aided already strong performance, particularly for developed

Index	*2025 (through 12/31)*
S&P 500	+17.9
Dow Jones Ind. Avg.	+14.9
MSCI EAFE	+31.2
BC US Aggr. Bond	+7.3

international stocks. Even after the year's price increases, foreign equity valuations remain cheaper than US equities.

Precious metals benefited from the falling US dollar with significant price increases, as gold and silver rose 64% and 141% respectively. Historically a volatile asset class, precious metals were buoyed by increased purchases from global central banks and investors looking to buffer inflation and currency risks.

Bonds posted positive returns as well, with the US Federal Reserve (Fed) continuing monetary easing. The Fed cut interest rates three times in 2025, lowering the benchmark interest rate by 0.75% in total. The impact across the yield curve was mixed; short-term rates fell correspondingly, but long-term

Dow Jones Relative Risk Benchmarks	
Conservative	+7.1
Moderate	+13.8
Aggressive	+20.1

rates are also influenced by other factors leading to mixed results. From year-end 2024, the 10-year US Treasury yield fell from 4.6% to 4.2%, while the 30-year treasury yield held steady near 4.8%.

After multiple years of gains, equity valuations may be stretched, particularly in the technology and AI related segments of the market if growth does not play out as anticipated. The economic outlook also remains mixed, with uncertainty surrounding how the combination of current monetary policy, trade policy, and fiscal policy decisions will play out. We remain cautiously optimistic that financial markets and the economy can remain resilient, supported in part by ongoing fiscal stimulus that continues to bolster consumer spending and business investment, and that areas of opportunity still exist in a bifurcated market.

OUR VIEW

FIXED INCOME:

Bond markets are anticipating one or possibly two interest rate cuts from the Fed in 2026. Longer term rates are less directly controlled by the Fed and have the potential to remain higher as they are more influenced by other factors such as long-term inflation expectations and credit risks. Given this, we are in favor of a blend of traditional fixed income and fixed income alternatives to hedge against interest rate uncertainty. Fixed income is also a critical tool for diversification, potentially offsetting equity market risk.

US EQUITY:

The S&P 500 has posted three consecutive years of double-digit performance and closed 2025 trading at 22 times forward earnings. Earnings growth has remained solid, and profit margins have been high. Growth in AI has surpassed expectations, and stock prices for AI-related firms reflect the high hopes for this trend to continue. Risks remain surrounding the inability of AI to live up to expectations.

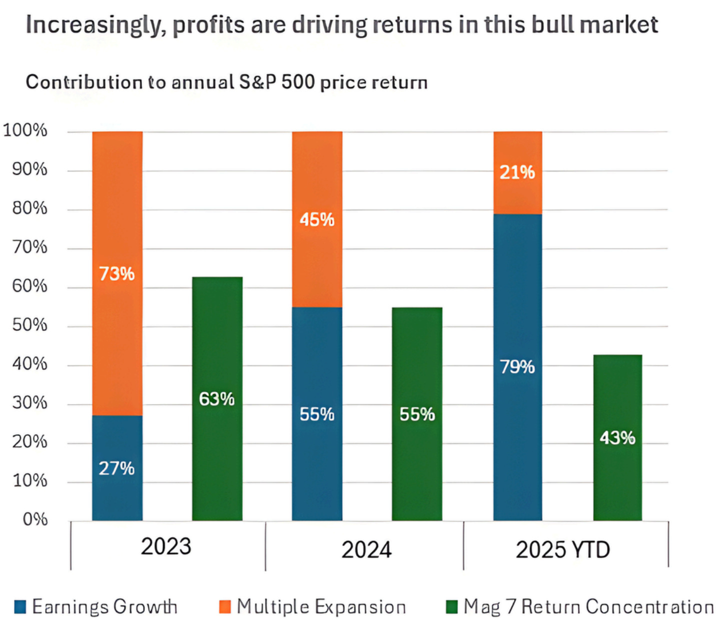
CONTINUED ON NEXT PAGE ▶

US EQUITY (CONT.)
The economy is also showing signs of slowing, but we anticipate an economic boost from the tax bill to hit the economy in the first half of 2026. Given these factors and current elevated valuations, we are neutral on US equities while focusing on quality, selectivity, and flexibility.

INTERNATIONAL EQUITY:
International equities were a standout in 2025. A multitude of factors contributed to foreign stock outperformance including cheaper valuations, investors' desire to geographically diversify in a changing trade landscape, a weakening US dollar, and increased economic stimulus from foreign governments. These contributors are likely to persist in the new year. Even after this period of outperformance, foreign stock valuations remain relatively cheaper than US stocks, and forecasts for earnings growth in foreign markets are positive. We believe there is more potential in foreign equities and are in favor of maintaining a slightly higher weighting in both developed and emerging markets.

AI Investment Fueling the Market & Economy

Excitement surrounding AI has propelled markets higher since the launch of Chat GPT in November 2022. Companies tied to the novel technology have risen in value by significantly more than average, and in many cases the earnings have supported these higher valuations. As the chart illustrates, over the past three years, returns for the S&P 500 have been increasingly driven by actual earnings growth and less by pure enthusiasm (multiple expansion). In addition, returns are beginning to broaden from being concentrated in the Magnificent 7, to include more of the other 493 companies in the S&P 500 Index. If this trend continues, and the spillover from AI investment flows through to other areas of the economy, it could translate into additional opportunities for equity appreciation.



Sources: Factset, S&P Global, JP Morgan Asset Management, Data as of 12/15/2025

Concerns have also been raised regarding the overall level of market valuation, with correlations drawn between AI and the "Dotcom" bubble in the early 2000s. Present valuations are nowhere close to where they were at that time. The NASDAQ Composite closed 2025 trading at around 34 times earnings, whereas at the peak of the "Dotcom" rally it reached a multiple of 90 times earnings. (Raymond James 2026 Outlook, Jan 2026). It is understandable for investors o have concerns about market excess, and rather than trying to predict the outcome, in these situations we believe in staying diversified and maintaining appropriate asset allocation based on risk tolerance. Market trends can persist much longer than investors might think.

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