

December 2025 Monthly Commentary

Jan. 2, 2026

Stock Market & Portfolio Performance

4th Qtr, 2025: U.S. equities posted solid gains for the quarter. International stocks generated another strong quarter, while bonds posted modest gains.

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	4th Qtr	FY 2025	Description:
Without Dividends:			
S&P 500	2.4%	16.4%	500 Largest Public U.S. Companies
Russell 2000	1.9%	11.3%	2000 of the smallest U.S. stocks
MSCI EAFE	4.5%	27.9%	international stock index
U.S. Aggr Bond	0.7%	7.2%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	2.2%	12.1%	non-very conservative MAM portfolios
MAM Consvr	2.1%	10.5%	portfolios with 45%+ bond allocation

The returns showed above are unaudited. Past performance is not indicative of future results. Returns for McCarthy Asset Management Portfolios (“MAM Portfolios”) are net of management fees and transaction costs, and reflect the reinvestment of dividends. Results represent a composite of clients using a similar investment strategy, individual results will vary.

Returns for the indices are provided solely as a general indication of current market conditions. MAM Portfolios are not invested in a style substantially similar to any index. Indices do not reflect the deduction of management fees or transaction costs or the reinvestment of dividends. Performance for the indices would be lower if these costs were reflected.

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2026 Economic and Stock Market Outlook



U.S. Economy: For 2025, U.S. real Gross Domestic Product (GDP) growth is estimated to have grown at a rate of 1.9% to 2.0%. This growth showed surprising resilience despite policy shifts on tariffs and a late-year government shutdown. Further growth is expected for 2026 due to the following factors:

- Fiscal stimulus. The One Big Beautiful Bill Act (OBBBA) is expected to support economic growth through tax cuts for individuals and businesses.
- Supportive monetary policy. Since early September, the Federal Reserve has cut short-term interest rates by 0.75%. At its December meeting Fed Chairman Powell indicated one more 0.25% cut is likely to occur in 2026.
- Artificial intelligence spending. The primary AI hyperscalers—Alphabet, Amazon, Meta, Microsoft and Oracle are projected to spend \$400 to \$500 billion to build out AI infrastructure in 2026, which is 30% above 2025 levels. This surge in spending would represent 1.2% to 1.6% of U.S. GDP.
- Consumer spending, which makes up approximately 70% of GDP, may be a mixed bag. On the negative side, the soft labor market may curtail spending from middle and low-income households as they struggle to make ends meet. On the positive side, high-income households, buoyed by the stock market, will likely keep spending.

Stock Market: For the sixth time in the last seven years, the U.S. stock market delivered double-digit returns in 2025. Our outlook for 2026 is for further gains, but likely at a more moderate level. Here are factors that will impact the stock market this year.

- No recession for 2026. In the absence of an economic contraction, stocks have historically delivered gains.
- Solid earnings. Analysts currently project 2026 will continue a string of double-digit earnings growth.
- Expensive Market: The S&P 500 starts 2026 at near record valuations. Stock prices are expensive on just about every measure. As can be seen on the J.P. Morgan below, the S&P 500 recently traded at a forward price-to-earnings ratio of 22.4. This compares to a 30-year average of 17.1. Furthermore, the dividend yield is currently 1.4%, compared to a 30-year average of 2.0%.

S&P 500 valuation measures

GTM U.S. 5

S&P 500 index: Forward P/E ratio



Source: Bloomberg, FactSet, Moody's, Refinitiv Datastream, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management. Forward P/E ratio is the most recent S&P 500 index price divided by consensus analyst estimates for earnings in the next 12 months, provided by IBES since March 1994 and FactSet since January 2022. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as consensus estimates of dividends in the next 12 months, provided by FactSet, divided by the most recent S&P 500 index price. EY minus Baa yield is the forward earnings yield (the inverse of the forward P/E ratio) minus the Bloomberg U.S. corporate Baa yield since December 2008 and interpolated using the Moody's Baa seasoned corporate Baa yield for values beforehand. Guide to the Markets - U.S. Data as of November 28, 2025.

J.P.Morgan
ASSET MANAGEMENT

2026 Economic and Stock Market Outlook– Con't

When stocks trade at elevated valuations, that historically has meant low returns in the long run. But history also suggests no link between expensive valuations like we have today and returns over the next year. Expensive stocks can always get more expensive and often do.

- The Fed cutting-rate cycle should provide another tailwind for stocks in 2026, as it did in 2025. If the economy holds up, rate-cut cycles tend to be followed by stock market gains. Per a recent report from LPL Financial, “This rate-cutting cycle is unique because stocks are near all-time highs. In previous instances when the Fed cut rates and stocks were at or near record highs (we found 28 cases), the S&P 500 was 13% higher on average 12 months later, with 93% of those 28 periods producing gains.”
- Technology Concentration Risks: As we wrote about in our October 2025 Monthly Commentary, the top 10 companies constitute 40% of the S&P 500 index, compared to 20% historically. Since most of these 10 companies are technology firms, investors are making a bet that tech firms will continue to lead the stock market. While that may prove to be the case, some are concerned that if the massive spending planned on A.I. for 2026 (much of it debt-financed), does not provide sufficient returns, tech stocks could experience a market correction.
- Despite considerable attention, tariffs have not caused the economic disruption many feared in 2025. For 2026, there will be other political developments, including the appointment of a new Federal Reserve Chairman and the November midterm elections. Markets, though, have historically performed well across different political environments. In managing portfolios, we are more focused on the state of the economy.

Foreign Stocks: As we have written before, after years of U.S. equities outperforming foreign equities, it would be just a matter of time for this to reverse. Despite a strong year for U.S. stocks for 2025, international stocks did even better with the MSCI EAFE international equity index rising 28%, compared to a rise 16% in the S&P 500. For 2026, we think it is likely that international equities will continue to perform well, helped in part by a further decline in the value of the U.S. dollar.

Bond Market: For 2025, the widely tracked Bloomberg U.S. Aggregate Bond Index returned 7.2%. This is the best annual performance since 2019. The reason for the strong results can be explained by what we wrote in our December 2024 Monthly Commentary, “After a few years of very low yields, things changed when the Fed aggressively raised interest rates in 2022 and early 2023. Bond yields now are very attractive. We particularly like short to intermediate-term bonds. We are cautious on long-term bonds due to the risk of the ever-growing national debt eventually leading to higher inflation. If bond yields remain at attractive levels, they could offer some competition for the equity market.”

Our 2026 outlook for the bond market is still bullish, particularly for short and intermediate-term bonds. While we continue to be cautious about long-term bonds, during 2025 we shifted our very short-term bond exposure into slightly longer maturity bonds to lock in attractive yields as the Fed cut short-term interest rates.

MAM Comments: With stock prices trading at rich valuations, we expect stock market returns over the next ten years to be below their historical average. For 2026, though, we expect further gains as the U.S. economy is expected to perform well, albeit with one or more short-term market pullbacks of 8% to 10%. To hedge against the heavy S&P 500 concentration in large-cap tech stocks, we maintain diversification with value stocks, dividend-paying stocks, international equities and bonds. For 2026, we also anticipate another good year for bonds.

Creating an IRS Online Account; Obtaining an IP PIN



To safeguard taxpayers' identity, the IRS recommends that all taxpayers sign up for an IRS Online Account and obtain an identity protection personal identification number (IP PIN).

IP PIN: An IP PIN is a six-digit number that prevents someone else from filing a federal tax return using a taxpayer's Social Security number or individual identification number. The IP PIN is known only to the taxpayer.

An IP PIN is valid for one calendar year. For security reasons, new IP PINs are generated at the beginning of each calendar year. Some taxpayers will receive their IP PIN in the mail, while others will have to log in to their Online Account to view their current IP PIN. *Be sure to provide your current IP PIN to your tax preparer so they can e-file your completed federal tax return.* If you are applying for an IP PIN for the first time, the IRS will not be issuing it until on or after January 6, 2026 (due to website maintenance). If you have not yet applied for an IP PIN, the best way is to obtain one is to go to "IRS.gov" and click on "Get an identity protection PIN" and then log into your IRS Online Account. The IRS should then generate an IP PIN instantly.

IRS Online Account: We recommend that all taxpayers establish an IRS Online Account. Here is a list of features available if you establish an Account:

- Request an IP PIN and view it throughout the year.
- Account Status for the most recent year. Whether the tax return has been processed, is in process, or a tax extension has been filed. This is one way to keep an eye out for suspicious activity with your tax return. This also allows you to check refund status, as well as the status of an amended return.
- Federal estimated payments by year for the last five years.
- View, make or cancel payments.
- Obtain a copy of Information Return Documents that have been filed on your behalf with the IRS (W-2s, Form 1099s, 1098s, etc.).
- The amount owed for prior years. Additionally, the account status will show the amount owed as of the current day.
- Sign tax forms like powers of attorney or tax information authorization.
- View notices and letters the IRS has sent to you.
- Details about your payment plan, if you have one.
- Sign up to receive email notification of IRS letters.
- Access Record of Account Transcripts for the last ten years.

Here's how to create an IRS Online Account:

- 1) Select [View Your Account](#) at IRS.gov homepage.
- 2) Select the "Sign in or create account" link.
- 3) If you already have an "ID.me" account, click "sign in with ID.me". Once you enter your email address and password, you will be logged into your Online IRS Account.
- 4) If you don't yet have an "ID.me" account,
 - a. Click "ID.me Create an account".
 - b. Enter your email address and create a strong password.
 - c. Agree to terms.
 - d. Access your email for a code (check spam if you don't see it).
 - e. Select what you need ID.me for (IRS, Social Security, etc.).
 - f. Pass the "Secure Access" authentication. This is a rigorous process to verify that you are who you say you are. You will need to authenticate your identity to continue. You will need a government issued photo ID (i.e., driver's license), phone number and camera access.
 - g. Upload photo of your ID.
 - h. Complete identity verification (text code or video selfie) If you run into a problem, you can access the [ID.me IRS help site](#).
 - i. Once verified, your ID.me account is active.
 - j. You can now sign in to the Online IRS account with your ID.me login credentials.

All password-protected IRS tools for taxpayers are protected by multi-factor authentication. In my case, when I log into my IRS account via ID.me, a text is sent to my cell phone with a code that I must then enter to access my IRS Online Account.

Sincerely,

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Our Services

McCarthy Asset Management, Inc. (MAM) is an independent, privately owned Registered Investment Advisor firm. We provide clients with the peace of mind that comes from knowing professionals are managing their financial affairs. The services we offer include:

Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.
- Social Security Planning is an analysis of the best strategy for when and how to start claiming Social Security benefits.

Tax Services: Clients are able to utilize the income tax services provided through either the firm Stephen P. McCarthy, CPA or from the CPA firm of Lauren Be. These services are offered at an hourly rate and may include:

- Tax Return Preparation
- Income Tax Projections
- Tax Minimization Ideas
- Tax Authority Representation

Other Services: MAM has retained outside experts, whose services are available at no cost to our clients:

- Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.
- Medicare Advisory Program (MAP) - Eileen Hamm

Reminders/Updates

- 1) **Estimated Tax Payments:** 4th Quarter 2025 Federal & State are due January 15, 2026.
- 2) **ADV Part II:** You were provided a copy of our ADV Part II when you became a MAM client. As a Registered Investment Advisor, we file this this document annually with the Securities and Exchange Commission. Along with other items, it contains information regarding our fees, experience and educational backgrounds. Each year, the SEC requires us to offer clients the opportunity to receive a copy of our most recent ADV Part II. Please let us know if you would like to receive a copy.



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