



## Early Signs of a Major Market Rotation

The S&P 500 delivered another strong year, marking its third consecutive period of above-average performance. The index rose 16%, while final 2025 earnings reports are expected to grow by about 12% according to FactSet—pushing an already expensive market further into overvalued territory. For the past two years, we’ve cautioned that the stock market appears overvalued. Several valuation models suggest current levels rival those seen during the 1999 dotcom bubble. As we often note, money goes where money is treated best, and we’re beginning to see early signs of rotation into other areas of the market.

**International Stocks: Value Abroad** - A major driver of U.S. overvaluation has been the steady inflow of global capital over the past 15 years. U.S. equities have outperformed most broad international indexes, with the S&P 500 beating the MSCI International Index in 12 of the last 15 years. What began as a deeply undervalued U.S. market after the 2008 financial crisis has evolved into one we view as significantly overvalued today.

Meanwhile, European and Asian markets have risen at a much slower pace and, by historical measures, remain fairly valued to undervalued. Last year, a nearly 28% gain in the MSCI Index outpaced a strong year for the S&P 500 and may mark the beginning of a shift of investors allocating more to these regions.

**Metals & Commodities: Broad Strength** - The Morgan Stanley Commodity Index delivered a strong year, posting a solid 14% gain, even though it lagged the broader stock market. Metals were the standout performers in this sector. Following a rotation into gold that began a few years ago, demand for metals broadened dramatically last year. Silver was the clear outperformer, more

than doubling over the year, while copper, steel, and other key industrial metals saw double-digit percentage gains. While oil prices remained relatively weak, several agricultural commodities—including beef, corn, and wheat—also posted healthy gains.

**Rotation Within the U.S. Market** - Although AI continues dominating market headlines, the U.S. equity landscape is beginning to rotate toward more traditional cyclical sectors, particularly industrials and materials. Industrials tend to outperform when the economy is expanding, capital expenditures rise, and supply chains move back onshore. Materials benefit from similar forces, especially when industrial production strengthens, and construction and infrastructure activity accelerate.

At the same time, small and mid-cap stocks appear inexpensive relative to historical valuation measures. These segments typically lead during periods of economic growth, declining interest rates, and a weakening U.S. dollar—conditions that are emerging in the current macro environment.

**Fundamentals Over Momentum** - Valuations tend to revert over time, and today’s elevated prices may not support historical returns. Still, opportunities remain in select areas that are fundamentally strong and attractively priced. While near-term momentum may continue, we maintain a more defensive overall stance. We continue to recommend:

1. Hold 5–10% less equity exposure than your typical risk target.
2. Increase international exposure, where valuations remain more attractive.
3. Maintain a defensive tilt within U.S. equities.

## What We Know, What We Think

	What We Know	What We Think
<b>STOCK MARKET</b>	The S&P powered ahead nearly 16% last year. According to FactSet, reported earnings for 2025 are expected to be up nearly 12%.	With markets running ahead of earnings, valuations remain elevated. We expect 2026 to lead to rotation into more fairly valued segments of the market.
<b>THE ECONOMY</b>	In 2025, inflation continued to moderate, with the Consumer Price Index for the year coming in at 2.7%; however, inflation remains above the 2% target.	Overall inflation should continue to moderate as the housing sector cools off from the hot housing market of the last several years.
<b>INTEREST RATES</b>	The Federal Reserve reduced the short-term Fed Fund rate three times in 2025, reducing its target from 4.5% to 3.75%.	Inflation’s continued moderation should allow the Fed to reduce rates further this year, adding additional growth possibilities in 2026.

# Maximizing 2026 Contribution Limits

by Chris McCrea, CFP®

The new year brings new contribution limits. Maximizing the 2026 contribution limits isn't just about putting more money away - it's about using every available tool to strengthen your long-term financial position. For savers and retirees alike, maximizing these limits can help reduce taxable income, boost long-term growth, and enhance financial security.

First, **front-load if cash flow allows**. Contributing earlier in the year gives your money more time to grow in the market.

Next, **take advantage of tax diversification**. Traditional accounts provide tax deductions today, while Roth accounts offer tax-free withdrawals later. Given the uncertainty surrounding

future tax rates, especially with expiring provisions from prior tax legislation, it's essential to determine which option is right for you.

Don't overlook **catch-up contributions** if you're age 50 or older. These additional limits help "fast-track" retirement savings for those making up for earlier low-contribution years and can increase tax savings.

If you have access to an **HSA**, maximize it. It's the only account with triple tax advantages: deductible contributions, tax-free growth, and qualified tax-free withdrawals.

By planning proactively and utilizing each account's unique advantages, investors can fully harness 2026's contribution limits and strengthen their long-term financial position.

2026 Key Contribution Limits (IRS)

Account Type	Standard Limit	Catch-Up (Age 50+)
401(k), 403(b), 457(b)	\$24,500	+\$8,000 (Super +\$11,250)
IRA (Traditional & Roth)	\$7,500	+\$1,100
SIMPLE IRA	\$17,000	+\$4,000 (Super +\$5,250)
HSA (Individual / Family)	\$4,400 / \$8,750	+\$1,000

# Balancing Spending Saving, and Giving

by TC Falkner, CFP®

Deciding what to do with our money is one of the central financial challenges today. For small business owners in particular, financial management goes beyond generating profit to intentionally allocating resources. Every dollar earned ultimately goes to one of three places: spending, saving, or giving. Finding the right balance among these categories can reduce stress, increase stability, and create new opportunities.

## Spending

Spending is the most immediate use of money and an essential part of a healthy economy. Not all spending is harmful; for example, reinvesting profits into a business can strengthen families, companies, and communities.

Problems arise when spending becomes excessive. High-interest debt is a common warning sign and can quickly strain cash flow. This is why the principle of "spend less than you make" remains critical. While leveraging assets and investing can be wise, it should not come at the expense of long-term stability. Clearly defining how much income you truly need helps guide spending decisions and frees resources for other priorities.

## Saving

Saving connects present needs with future goals. Financial literacy begins with recognizing that today's income must also support your future self. Establishing an emergency fund—typically a few months of expenses—is a foundational step, especially for those with variable income.

Beyond that, many professionals recommend saving around 15% of income for retirement, depending on individual goals. Investment choices should align with time horizons, using safer options for short-term needs and growth-oriented investments for long-term objectives.

## Giving

Generosity helps counter materialism and creates a meaningful impact. Whether through charitable donations, tithing, or philanthropy, even modest giving—such as 5–10% of income—can be transformative. While tax incentives may support generosity, the greatest value comes from aligning money with personal values.

Thoughtfully balancing spending, saving, and giving leads to stronger families, healthier businesses, and greater financial security.



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