

Bulls & Bears

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First Quarter 2026

Another Winning Year

The year 2025 was another strong one for equities. After gains of 24.2% in 2023 and 23.3% in 2024, the S&P 500 advanced 16.4% in 2025, or 17.8% on a total-return basis including dividends. Historically, the index has posted back-to-back annual increases 16 times since 1960. However, in those instances, the average return in the third year was only 3%. By that measure, 2025 significantly outperformed expectations.

Most major indices and a wide range of individual stocks climbed steadily from April through the end of October. Although the S&P 500 briefly reached a new all-time high in December, it finished the year largely unchanged in the final two months. All sectors recorded positive results in 2025, and the performance gap between growth and value stocks narrowed to single digits, down from a premium of more than 20% in favor of growth in 2024.

A market still dominated by the traditional growth sectors might face a choppy start to the new year. However, we believe the broader sector participation seen in 2025 positions the market for a smoother transition into 2026.

Slower Pace Ahead

At its December meeting, the Federal Open Market Committee cut the federal funds rate by 0.25% to 3.50%-3.75% and signaled a slower path of easing ahead. We expect only two rate cuts in 2026, with the earliest likely in March.

Divergent dissents highlight the challenge of balancing softer employment data against still-firm inflation. Meeting minutes noted that some members who supported the cut would also have been comfortable holding rates steady, an early sign of the wide range of views the next Chair will have to navigate.

The Fed also shifted quickly on balance sheet policy as liquidity in overnight funding markets tightened. An end to quantitative tightening was announced on October 29 and implemented December 1. With funding rates remaining elevated, the Fed authorized up to \$40 billion per month in reserve management purchases to support short-term market liquidity. While not a return to quantitative easing, the move underscores its commitment to maintaining orderly market function.

Cyclical Rotation

After a three-year market winning streak, any early stumble in 2026 is likely to prompt investors to ask, "What have you done for me lately?" While we see some challenges ahead, the overall outlook remains reasonably constructive.

Historically, following two strong years is difficult, and following three is even harder. Compounding this, 2026 is the second year of the presidential cycle, typically the weakest. Since 1980, second-year returns have averaged just 3.3%, versus 15.6% in year one, 16.5% in year three, and 7.2% in year four. Markets also have yet to navigate a full year of tariffs, as they may in 2026, along with the potential effects of tighter immigration policy on employment and consumer spending.

Still, there's plenty to like. The U.S. is coming off two strong growth quarters, with GDP rising 3.8% in 2Q25 and a preliminary 4.3% in 3Q25, both signaling solid underlying momentum. Earnings have also been robust, with mid-teens growth in 3Q25 supported by upper-single-digit revenue gains and operating margins of 12.4%.

Meanwhile, the "Mag 7" lost steam late in 2025 as cyclical value sectors rallied on continued Fed easing. We expect this rotation to persist and see attractive opportunities in mid-cap, small-cap, value, and international equities, all trading at discounts to the S&P 500 as we move into 2026.

Please contact us at 1-855-829-7192 if we may be of assistance.

Market Indicators

12/31/25 Year-to-Date Change

S&P 500	17.88%
NASDAQ	21.14%
Russell 2000	12.81%

Interest Rates

	6/30/25	12/31/25
10-Year Treasury Note	4.23%	4.15%
3-Month Treasury Bill	4.30%	3.63%



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