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January Market Update

December served as a fitting finale to a year that defied expectations, anchored by a classic late-cycle mix: moderating price pressures, a supportive Federal Reserve, and resilient equity markets. This backdrop allowed investors to traverse another rate cut without shaking the prevailing 'soft-landing' consensus for 2026.

Leadership shifted noticeably as the year drew to a close. Beyond the "Magnificent 7" and AI-centric stocks, a broader array of companies climbed higher in December. This expansion beyond mega-cap tech suggests a healthier, more balanced market environment as we enter the new year.

Let's dive into December's performance, the trends that shaped the month, and the key catalysts we're watching as we head into 2026.

Major U.S. Stock Indices

Market averages diverged significantly throughout December. The S&P 500 ended nearly unchanged after a strong annual run, while the Nasdaq 100 surrendered ground to profit-taking despite leading for most of the year on AI and semiconductor strength. The Dow outperformed, rising as year-end capital flowed toward more defensive industrial names.

- The S&P 500 ticked lower 0.05%.
- The Nasdaq 100 dipped 0.73%.
- The Dow Jones Industrial Average gained 0.73%.

Fed Policy, Minutes, and Dots

- The December 10th Federal Open Market Committee (FOMC) meeting delivered a third consecutive 25-basis-point cut, lowering the funds target to 3.50%–3.75%. Policymakers called growth "moderate," job gains "slowed," and inflation "somewhat elevated," pivoting from inflation concerns toward a more balanced worry about labor market weakness.

- The Summary of Economic Projections telegraphed a shallow easing cycle. Officials penciled in just two more cuts through 2027, with rates bottoming in the low-3% range, far from the pre-pandemic zero-rate era. Growth forecasts hovered near sub-trend, and core inflation drifted toward 2%, reinforcing a long glide path rather than a hard landing.
- Minutes released December 29th revealed a contentious 9–3 vote, the most dissents since 2019. Some officials argued cuts risked reigniting inflation; others warned that holding steady could hurt employment. The decision, officials said, was "finely balanced," with debate centering on whether disinflation had proven durable enough to justify further easing.

Inflation Cools Further

- The November Consumer Price Index (CPI) report showed headline inflation at 2.7% year-over-year, undershooting estimates and hitting the lowest rate since mid-year. Core CPI climbed 2.6%, with shelter up 3.0%, medical care 2.9%, and household furnishings 4.6% — evidence of cooling but still-sticky core services. Monthly gains of 0.3% for headline and 0.2% for core both came in below consensus.
- Shelter inflation ran at 3.6% annually while gasoline jumped 4.1% month-over-month, yet the overall picture supported a good disinflation narrative: energy's bounce was more than offset by moderating momentum in shelter and core services.

Hiring Loses Steam

- The unemployment rate rose to 4.6% in November, up from 4.4%. This prompted the Fed to recast the labor market as having “moved toward better balance” with downside employment risks now front and center. Analysts described a low-hiring, low-firing regime: openings have normalized, but layoffs remain historically subdued.
- November payrolls rose just 64,000—well below the 2025 monthly average and further indication of a cooling labor market. Healthcare and construction added workers, but transportation, warehousing, and consumer-facing sectors shed jobs.

Services Strong, Manufacturing Weak

- Services are still driving growth. The ISM Services Purchasing Managers’ Index (PMI) held at 52.6 in November, its ninth consecutive expansionary print, with business activity at 54.5 and new orders at 52.9. But cracks emerged: the employment index stayed below 50 at 48.9, signaling slower hiring in the services sector.
- Manufacturing told a darker story. The ISM factory gauge slid to 48.2, its lowest reading in four months and the latest sign of ongoing contraction. Purchasing managers cited weak export demand and inventory destocking, a goods recession running alongside resilient services.

The Path Forward

As 2026 begins, the consensus among major strategists is for a soft landing, underpinned by modest growth, inflation drifting closer to 2%, and a measured pace of Fed cuts. For diversified, long-term investors, the key themes are unchanged: staying invested, maintaining balance between growth and quality income, and using any periods of volatility as opportunities rather than reasons to abandon the plan.

As always, your advisor is here if you have any questions or concerns for the new year. Give the office a call anytime.

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