NDS WEALTH ADVISORS

FIDUCIARIES SINCE 1992

MARKET REVIEW & OUTLOOK

4th Quarter 2025

Strength in Paradox – *Opportunity through Uncertainty*

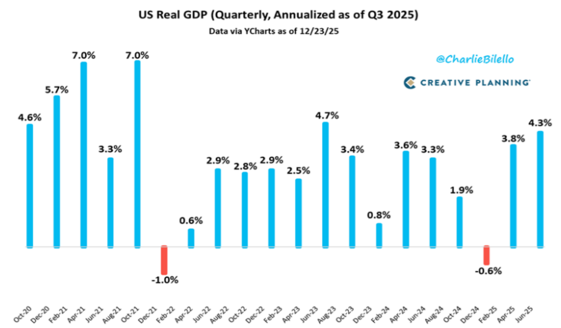
ECONOMY & MARKETS

In 2025, markets delivered a powerful reminder that resilience often thrives in contradiction. Equity returns were robust, corporate earnings exceeded expectations, and GDP growth remained solid – hallmarks of a healthy economy. Yet these achievements unfolded against a backdrop of historically elevated valuations, a labor market showing signs of softness without tipping into recession, and policy crosscurrents that introduced complexity rather than clarity. These paradoxes underscore a central truth: strength is not the absence of challenges, but the ability to navigate them with discipline and foresight. As we look ahead to 2026, the positives continue to outweigh the negatives, and opportunities remain abundant for those who stay focused on fundamentals and long-term goals.

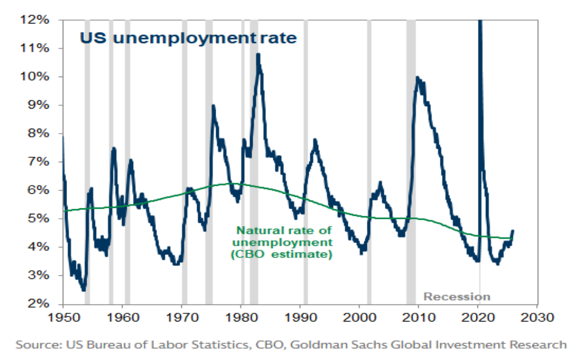
The fourth quarter was not unlike earlier quarters in the year – all tech, all the time (except for international). For the quarter, the **DJIA** gained 4.0% while the **S&P** advanced 2.7%. The **NASDAQ** jumped 2.7% as tech stocks continued to rally. International markets were strong as the **EAFE** Index rose 4.3% for the quarter. Bond yields dropped as prices rose, and the Bloomberg Aggregate **Bond Index** finished up 1.1%.

For the year, the **DJIA** gained 14.9% while the **S&P 500** advanced 17.9% (the third year in a row that they both achieved double-digit returns). The tech-heavy **NASDAQ** continued its upward trajectory and jumped 21.1%. Developed international markets bested U.S. markets as the **MSCI EAFE** index added 31.2% for the year. Bonds had an excellent year in 2025 as the Fed resumed their dovish tilt and inflation moderated. For the year, the Bloomberg Aggregate **Bond Index** finished higher by 7.3%.

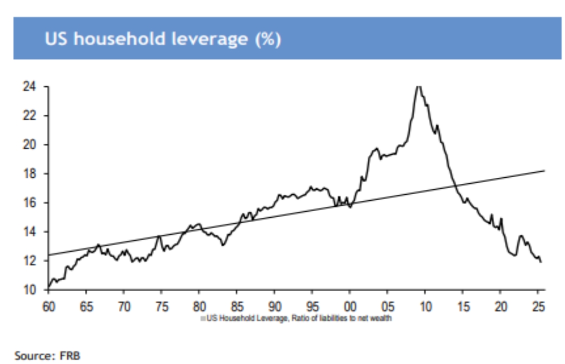
A favorable economic backdrop helps to support decent **GDP growth** (*see below*).

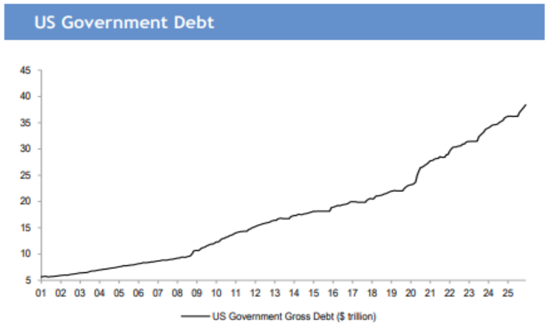


The **labor market** (*see below*) is a wildcard … decent shape, but slowly softening with payrolls slipping (normalizing). Technology is helping companies be more productive.



Household balance sheets (*see below*) are in good shape and consumer spending has been resilient.





Source: Bloomberg Finance L.P.

2026, the *Year of the Horse*, has headwinds that we can't ignore. Chief among them are: high equity valuations, seemingly unbridled optimism (Wall Street firms are overwhelmingly optimistic for 2026), a concentrated market, AI uncertainty, **U.S. national debt** of over $38.4 trillion (*see above chart*), annualized interest expense on the US Federal debt is over $1 trillion, geopolitical tensions (Venezuela, Iran, Syria, etc…), the wars in Ukraine and Gaza, mid-term elections and policy uncertainty. The Wall of Worry is alive and well.

OUTLOOK

Bottom Line – For the third year in a row, most economists and strategists are optimistic about the year ahead, and we agree (somewhat reluctantly). Equity markets reflect a justified optimism around near and medium-term growth – with S&P 500 earnings expected to be up 14%, profit margins at 13.9%, and real GDP growth of 2.4% yoy in 2026. With all these great expectations, what could go wrong? We are well aware of the risk of a cheery consensus. If you were looking for a quieter year ahead then you will likely be disappointed.

The risk of a U.S. recession in 2025 has lessened given the fairly robust earnings expectations, advancements in artificial intelligence (increased productivity), a dovish Fed, better supply channels, favorable regulatory and tax backdrop, low oil prices, and moderating inflation.

According to the Stock Trader's Almanac, the second year of the presidential cycle tends to be the weakest with average returns of ~4.6% (we expect 8-10% returns). Midterms often bring new policy focus and adjustments that can introduce uncertainty.

According to FactSet, consensus 2026 earnings expectations for the S&P 500 are $309. Given earnings of $309, the S&P 500 is selling for 22.0X forward earnings … decently higher than the 30-year average of 17.1X. By most metrics, the S&P 500 is overvalued. The question is whether the market deserves to trade at a such a premium. The predictability and quality of technology stocks help to justify part of the valuation premium in the market as AI and technology-related stocks offer higher earnings growth and profit margins. In the end, elevated multiples increase the magnitude of potential equity market downside if the economy and earnings disappoint.

Bond yields should be mostly range-bound in 2026. Yields at the short-end of the curve should move lower as the Fed continues its dovish tilt and lowers rates one or two more times. Long bond yields are the most vulnerable to moving higher should inflation fail to moderate. After such a good year for bond returns in 2025, investors should be able to collect their coupons in 2026 and get reasonable returns and diversification.

Small and mid-cap equities add value to an overall asset allocation strategy as their valuations remain reasonable. We intend to add to positions as the market broadens out. *International equities* – both *developed* and *emerging* - are attractive as their valuation gap to U.S. equities remains compelling. International equites represent 36% of the MSCI All Country World Index. The S&P 500 trades at a forward P/E of 22.0X while international equities (ACWI ex-US) trade at 14.9X. *Large-cap domestic equities* - particularly those with higher quality attributes and increasing dividends, remain a core position in client portfolios. A broadening of the domestic equity market would be a healthy move as the concentration of the top 10 stocks sits at 41% of the S&P 500.

After three very good years in the market (and a fairly concentrated/narrow market), it is easy to lose sight of the importance of risk management. We suggest that investors maintain a fully diversified portfolio consistent with one's longer-term objectives and risk tolerance. ***Happy New Year!***

The lifetime estate and gift tax exemption for 2026 is $15,000,000

Must be 70 and 1/2 or older for QCDs

Summary of Retirement Contribution Plan Limits and Other Financial Planning Limits and Rates

Type of Limitation	2026 (1)	2025 (2)	Change
Elective Deferrals (401(k) and 403(b); not including adjustments and catch-ups)	$24,500	$23,500	$1,000
457(b)(2) and 457(c)(1) Limits (not including catch-ups)	$24,500	$23,500	$1,000
Section 414(v) Catch-Up Deferrals to 401(k), 403(b), 457(b), or SARSEP Plans for Individuals Over Age 50 [3]	$8,000	$7,500	$500
Section 414(v) Catch-Up Deferrals to 401(k), 403(b), 457(b), or SARSEP Plans for Individuals Ages 60-63 [4]	$11,250	$11,250	$0
Social Security wages requiring Roth to be used for catch-up [5]	$150,000	NA	
Defined Benefit Plans	$290,000	$280,000	$10,000
Defined Contribution Plans (annual additions limit)	$72,000	$70,000	$2,000
Annual Compensation Limit	$360,000	$350,000	$10,000
Annual Compensation Limit for Grandfathered Participants in Governmental Plans Which Followed 401(a)(17) Limits (With Indexing) on July 1, 1993	$535,000	$520,000	$15,000
Highly Compensated Employee ("HCEs")	$160,000	$160,000	$0
Key Employee/Officer	$235,000	$230,000	$5,000
Individual Retirement Accounts ("IRAs"), for individuals 49 and below	$7,500	$7,000	$500
Individual Retirement Accounts ("IRAs"), for individuals 50 and above	$8,600	$8,000	$600
SIMPLE Retirement Accounts	$17,000	$16,500	$500
SEP Coverage	$800	$750	$50
SEP Compensation	$360,000	$350,000	$10,000
Tax Credit ESOP Maximum Balance	$1,455,000	$1,415,000	$40,000
Amount for Lengthening of 5-Year ESOP Period	$290,000	$280,000	$10,000
Income Subject to Social Security Tax	$184,500	$176,100	$8,400
Annual Gift Tax Exclusion	$19,000	$19,000	$0
Aggregate Amount of Qualified Charitable Distribution	$111,000	$108,000	$3,000

1. 2026 limits reflect issuance of IRS Notice 2025-67

2. 2025 limits reflect issuance of IRS Notice 2024-80, 2024-47 I.R.B. 1120

3. This number is only the catch-up available under Code section 414(v). Code sections 457(b)(3) and 402(g) provide separate catch-up rules, which must also be considered in appropriate cases.

4. This additional catch-up only became effective in 2025.

5. The requirement that catch-ups be made as Roth if Social Security wages were above a certain limit only became effective in 2026.

2026 Selected Income Tax Rates

Marginal Tax Rate Summary

Status	Marginal Tax Rate	Applies Up To	Taxes Owed
Single	10%	$12,400	10% of taxable income
	12%	$50,400	$1,240.00 plus 12% of the amount over $12,400
	22%	$105,700	$5,800.00 plus 22% of the amount over $50,400
	24%	$201,775	$17,966.00 plus 24% of the amount over $105,700
	32%	$256,225	$41,024.00 plus 32% of the amount over $201,775
	35%	$640,600	$58,448.00 plus 35% of the amount over $256,225
	37%	Over $640,600	$192,979.25 plus 37% of the amount over $640,600
Joint	10%	$24,800	10% of taxable income
	12%	$100,800	$2,480 plus 12% of the amount over $24,800
	22%	$211,400	$11,600 plus 22% of the amount over $100,800
	24%	$403,550	$35,932 plus 24% of the amount over $211,400
	32%	$512,450	$82,048 plus 32% of the amount over $403,550
	35%	$768,700	$116,896 plus 35% of the amount over $512,450
	37%	Over $768,700	$206,583.50 plus 37% of the amount over $768,700

Using Standard Deduction

Gross Income to Threshold		
Bracket	Annual	65+ or Blind
12%	$28,500	$30,550
22%	$66,500	$68,550
24%	$121,800	$123,850
32%	$217,875	$219,925
35%	$272,325	$274,375
37%	$656,700	$658,750
12%	$57,000	$60,300
22%	$133,000	$136,300
24%	$243,600	$246,900
32%	$435,750	$439,050
35%	$544,650	$547,950
37%	$800,900	$804,200

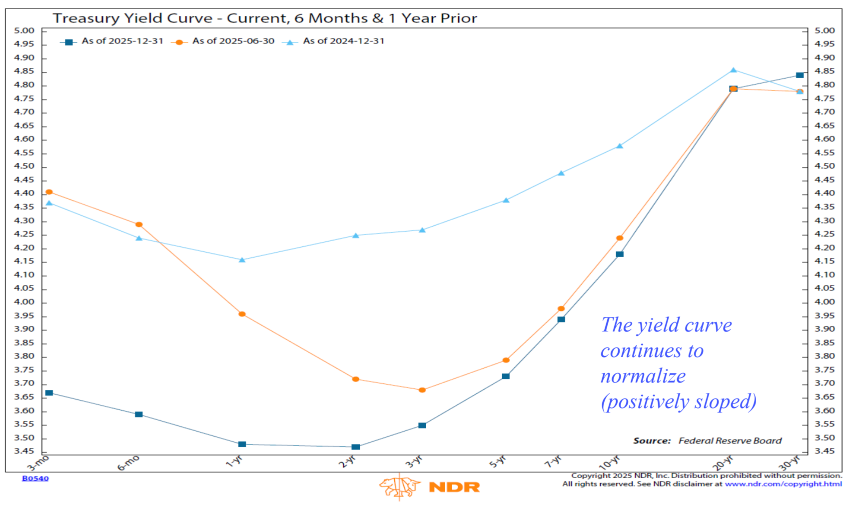
4th QUARTER 2025 SCOREBOARD

Index	Close	4th Quarter % Change	Year-to-Date % Change	
DJIA	48063.3	4.0	14.9	
S&P 500	6845.5	2.7	17.9	
NASDAQ	23242.0	2.7	21.1	
Russell 2000	2481.9	2.2	12.8	
MSCI EAFE	10604.8	4.3	31.2	*Big Comeback!*

3 Month T-Bill	3.57%	Fed Funds Rate	3.50% - 3.75%
5 Year T-Note	3.73%	Prime Rate	6.75%
10 Year T-Note	4.17%	Gold	$4325.60
30 Year T-Note	4.85%	Oil	$57.42

Gold was up 64.5% in 2025 while oil was lower by 19.9%

2025 was a good year for bonds



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