



As we approach the end of the year, financial markets remain positive but have become quiet. The stock market remains near all-time highs, with the S&P 500 notching a third straight double-digit return for the year. Bonds have also performed well. Major bond asset classes returned high single-digits while cash continues to earn nearly 4% risk-free. Unless something unforeseen happens, markets will likely remain peaceful into year end.ⁱ

Thus far, the largest story of the fourth quarter was the shutdown of the federal government. This shutdown was the longest in history, impacting holiday travel, distribution of federal benefits, and the collection of important economic data, such as labor statistics. Some of this data will be released late, while others will simply never be known. As government workers were not paid on time, there was concern that it could reduce consumer spending. The Atlanta Fed's GDPNow allays that concern, currently projecting 3.5% GDP growth for the third quarter.ⁱⁱ

It's rare for Supreme Court decisions to directly impact markets. But the ruling regarding President Trump's tariffs have the potential to have important consequences. The decision is expected by early 2026, but will possibly come with little or no warning. Prediction markets show a 30% chance of ruling in Trump's favor. It's not clear what the economic and political fallout will be if they overturn the tariffs. This has the potential to inject substantial volatility into markets depending on how it plays out.

The Federal Reserve is widely expected to cut interest rates on December 11th, the third cut in a row.ⁱⁱⁱ This is despite a lack of economic data due to the shutdown, prompting concerns that the Fed risks overstimulating markets. The Fed is in a bind, reacting to a marginally weaker labor market could spur inflation higher – inflation which already remains above target, and which was a central theme to recent elections, now rebranded as “affordability.” Because of the uncertainty, it's likely that we see a number of dissenting votes, possibly even a 6-6 vote, for which the Fed has no official remedy. This decision occurs shortly before President Trump selects his new Federal Reserve Chairman, now expected to be Kevin Hassett.

Artificial Intelligence continues to be the main driver of stock markets. The S&P 500 is arguably composed of nearly 50% companies who are beneficiaries of this technology, frustrating investors who are seeking diversification.^{iv} Over the last two months investors have viewed the enormous ongoing AI infrastructure spending with some skepticism. This spending had previously been financed with cash, but with the race continuing to heat up these companies are now borrowing significantly. Sam Altman, CEO of OpenAI and obvious beneficiary of the AI boom, recently remarked that “my opinion is yes [we're in a bubble].” He followed that up with “Is AI the most important thing to happen in a very long time? My opinion is also yes.” Separately, on a podcast, OpenAI CFO Sarah Friar mused about a “government backstop” for this borrowing. Suffice to say, investors were not pleased to hear one of the most successful private companies in the world lobbying for the government to support their exorbitant spending while also declaring that it's a bubble. It's becoming apparent that there's a real risk of over-investment in data centers, drawing comparisons to the railroad boom in the 1800's, which was beneficial to the country as a whole, but bankrupted many companies along the way.

Private credit has been a popular area of markets for retail investors over the last ten years or so. These private loan managers can undercut bank lending due to their lesser regulatory burden.

This has appealed to retail investors who are always interested in getting access to new investing products. The growth comes largely due to its solid performance, though it's occurred during a period of relative stability. The only major credit event that's occurred during the growth of private credit was the pandemic, which saw few defaults because of massive government spending. There are now some cracks showing; two auto loan-related companies have defaulted on their debt, prompting worries about potential systemic issues related to oversight of private credit loans. So far these bankruptcies appear idiosyncratic.^v

With just three weeks remaining in the year, we don't anticipate much market movement. News flow will likely slow significantly into the second half of December. The end of the year typically gives way to a "Santa Claus Rally" where markets gradually rise on low volume.^{vi}

Despite three strong years of returns, it's difficult to be bearish heading into 2026, though we do remain cautious. It will be the 250th anniversary of the United States, a mid-term election year, and we'll be hosting the World Cup. Further, a variety of stimulus measures from the One Big Beautiful Bill will go into effect. The major factor giving us pause is the current historically-high valuations. We expect the new year to bring a broader rally in stock prices. The AI providers will need to demonstrate an ability to monetize their significant investments in order to continue rising. Falling interest rates should provide a general market tailwind, especially for smaller companies which are generally more dependent on borrowing. It will be important to see whether a decline in short-term interest rates causes long-term interest rates to rise due to fears of inflation.

As a business, the last fifteen months have been busy and challenging. As we celebrated Thanksgiving and now approach a full calendar year as an independent entity, we wish to reiterate our thanks to all of our clients for placing their trust in us during this transition process. We wish you all a joyful holiday season and a happy new year!

Best regards,



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The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

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ⁱ Bloomberg

ⁱⁱ Atlanta Federal Reserve

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^{iv} Bloomberg

^v Bloomberg

^{vi} Bloomberg