

Investment Tally & Perspective

MAJOR ASSET CLASS RETURNS					
	4th Qtr. 2025	1-Year	3-Year	5-Year	10-Year
Equities					
S&P 500 Composite	2.7%	17.9%	23.0%	14.4%	14.8%
MSCI EAFE Net	4.9%	31.2%	17.2%	8.9%	8.2%
MSCI EM (Emerging Markets) IMI Net	4.3%	31.4%	16.3%	4.7%	8.4%
Fixed Income					
Bloomberg US Aggregate	1.1%	7.3%	4.7%	-0.4%	2.0%
Bloomberg US Corp Investment Grade	0.8%	7.8%	6.1%	-0.1%	3.3%
Bloomberg Emerging Markets Unhedged	2.4%	11.1%	8.9%	1.5%	4.2%
Other Assets					
Dow Jones US Select REIT	12.1%	64.4%	33.5%	18.0%	15.1%
S&P GSCI	-0.8%	3.7%	8.5%	6.7%	4.8%
S&P GSCI Gold Spot	1.0%	7.1%	3.9%	14.7%	6.1%

Source: Tamarac
All returns greater than one year are annualized
* The market indices discussed are unmanaged. Investors cannot directly invest in unmanaged indices

Market Activity – Equity markets continued their upward trajectory in the fourth quarter of 2025, though the pace of gains moderated compared to earlier in the year. The S&P 500 rose 2.7% in Q4, capping off a stellar year with an 18% total return, despite a sharp selloff in April and a volatile macro backdrop.

International equities outperformed U.S. stocks by one of the widest margins in recent memory. Developed markets, as measured by the MSCI EAFE, and emerging markets both posted gains exceeding 30% for the year. This outperformance was driven in part by a 9% decline in the U.S. dollar, which boosted returns for U.S. investors holding foreign assets.

Fixed income delivered positive returns as well. The Bloomberg U.S. Aggregate Bond Index returned 7.3% for the year. The fourth quarter saw modest returns, as yields ended the quarter essentially where they started. Investment grade bonds underperformed this quarter. Amidst a backdrop of strong economic growth and low defaults, the added yield for owning corporate bonds continues to be historically tight. Municipal bonds did well in the quarter and also had a strong 2025, with taxable-equivalent returns in the mid-single-digits range.

Economic Activity – The U.S. economy showed resilience in 2025, but signs of cooling emerged in Q4. For the just finished quarter, the Atlanta Fed's GDPNow model projects a 5.1% increase. Consensus estimates point to a softer finish to the year with real GDP growth estimated at 1.0%, according to Bloomberg. The largest contributor to the diverging views is trade, with the GDPNow forecast showing a strong boost to growth due to sagging imports and growing exports. Government spending will likely contract in Q4, and consumer spending should remain positive but less robust.



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Our 35th Year as a
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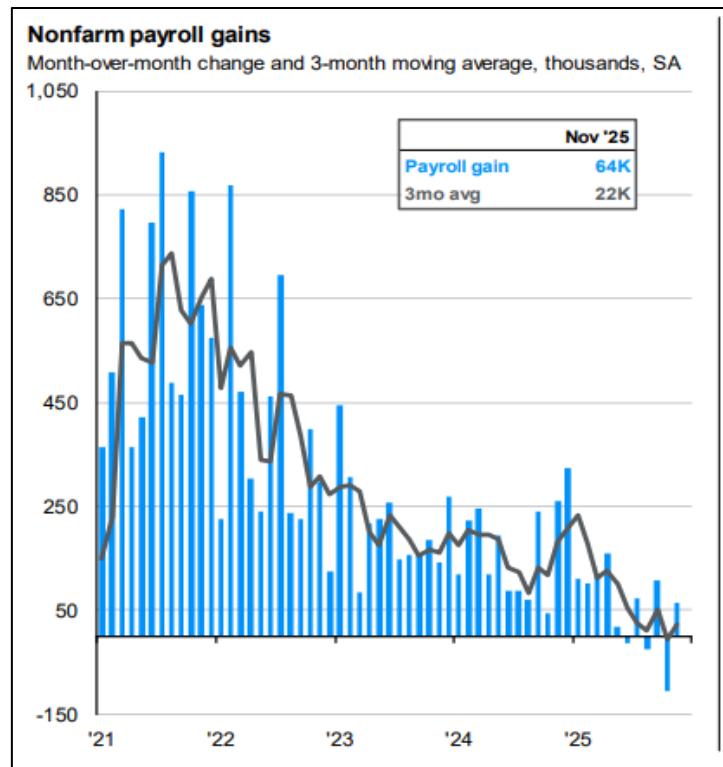
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The first half of 2026 should see some benefits from the One Big Beautiful Bill. According to the Congressional Budget Office, the impact on 2026 growth should be a 0.9% boost to GDP. Part of this is coming through tax changes, which are expected to result in bigger tax refunds this year. J.P. Morgan expects the average tax refund to climb from just over \$3,000 per filer to close to \$4,000.

With the government shut down for close to 1/2 the quarter, economic data was sparse, and the data we did receive was viewed suspiciously. Nonetheless, the readouts on the labor market continue to cause concern. Through November, the 3-month average of monthly payroll growth was just 22,000. The lack of immigration has helped keep the unemployment rate from soaring, so for now, supply is meeting demand. Looking at a broader measure like the employment-to-population ratio of 25-54 year olds, this statistic has been flat since early 2023. One interesting aspect of hiring this year is how concentrated it's been in just a few sectors. Healthcare, social assistance, leisure, and hospitality accounted for more than 100% of the job growth seen from May through September. Without these sectors, the economy would have shed 220,000 jobs. With the consumer still the dominant driver of the U.S. economy, trends in the labor market bear watching.



Source: JP Morgan

Monetary Policy – The Federal Reserve cut rates by 25 basis points at its December meeting, lowering the target range to 3.50% to 3.75%. Concerns of committee members were tilted towards a slowdown in the labor market. Nine of the 12 decision makers voted to reduce rates by 0.25% in December, two wanted to hold steady, and one, Stephen Miran, wanted to cut rates by 0.50%. This is the first time since 2019 that there were three or more dissents at a rate setting meeting. Fed Chair Jerome Powell poured cold water on the idea of additional cuts anytime soon, and the median projection of the Fed is for a funds rate of 3.4% at the end of 2026, just 0.25% lower than the level today.

Globally, the central bank picture is very similar. The market is implying two cuts for both the U.S. Federal Reserve, and the Bank of England; no cuts for the Bank of Canada and the European Central Bank; while the only major central bank expected to be hiking rates in 2026 is the Bank of Japan, with one hike priced in.

Valuation and Sentiment – The S&P 500 appears set to grow earnings double digits this year, after posting a similar performance in 2024. Looking out at 2026 and 2027, analysts are penciling in more of the same. For reference, earnings per share growth averaged 7.3% from 2001 through 2024. Investors are rewarding these above average fundamentals with a commensurately high price-to-earnings multiple. Any disappointment on the earnings front could lead to a resetting of valuations.

Sentiment, as measured by multiple surveys and judged by market activity, appears to be fairly balanced. On average, artificial intelligence associated equities have been treading water relative to the S&P 500 since October. Bitcoin, which we view as the purest gauge of speculative behavior, is well off its high, though it appears to have stabilized around \$90,000.

The Investment Outlook

Despite a turbulent start, 2025 turned out to be a momentous year for returns from every asset class. As we turn the calendar, how key themes develop will determine the path from here.

Artificial Intelligence (AI) – As discussed in past Tally's and in recent client meetings, AI is still the most important trend impacting the economy and investing landscape right now. Since the release of ChatGPT (November 2022), what started as a self-funded initiative by the likes of Microsoft, Meta, Alphabet, and Amazon has morphed into a spending surge that requires enormous amounts of external capital. Traditional bond markets, loan providers, and private credit are all doing their part to support the buildout. While capital is needed to move at the speed deemed crucial by the top AI labs, external funding does increase investment risks by involving parties less interested in achieving super intelligence and more concerned about earning a return *on* their invested capital, as well as a return *of* their funds. Main Takeaway: any negative developments in servicing this new debt could result in less AI capital being available and/or becoming more costly, resulting in a slower growth rate than investors currently anticipate.

The U.S. Consumer – While AI has captured most headlines, consumption is still the lion's share of the U.S. economy. After a brief interlude in the first quarter of 2025, the consumer regained its footing and has been spending at its historical pace. Funds stashed away during the pandemic (a la the Federal government deposited checks directly into bank accounts) augmented spending in post-pandemic years, as travel bans were lifted and normalcy gradually returned. Historically, spending growth is related to income growth and here the picture is cloudy. Job gains and wages are both on a downward trend, while the unemployment rate has held up better due to a drop in immigration. Which way this delicate balance breaks will be a crucial variable for 2026.

Geopolitics – From wars to tariffs, geopolitics will continue to play prominently in investors' minds. Tariffs rattled markets in April, yet companies continue to navigate the rules-based maze with offsetting adjustments. Ceasefires or attempts to reach one have occurred in the Middle East and in Ukraine. There will certainly be jarring moments to come, such as currently with Venezuela. Following outstanding performance in recent years, we believe the upcoming mid-term elections will help keep economically damaging ideas on ice. For better or worse, the world is reassessing alliances and reprioritizing self-sufficiency, a trend which will have long-term market implications.

Fiscal Impulse & The Fed – The economy should receive a jolt from the One Big Beautiful Bill, as Americans retain excess tax funds at tax-filing time. The President's pick for the next Federal Reserve chair makes for entertaining headlines, yet we expect the actual impact will be muted. As we move towards the second half of 2026, odds favor a more stable Fed that is expected to cut rates twice. Stimulative fiscal policies combined with easing interest rates may provide wind at the back of most assets in 2026.

Summary – We see the risks to economy and equity fundamentals as balanced. While we do not see a need to position portfolios more conservatively, we are increasingly and gradually tilting in a defensive direction. Equity valuations are high, yet they have been well supported by above average economic and profit growth. In the area of fixed income, the compensation for providing credit is low and the returns earned for taking above average risk are unappealing today. While asset classes are priced on expectations for a continuation of the positive environment we have been enjoying post pandemic, we stand ready to move in either direction, if one of the themes outlined above presents opportunities or undue risks.

Major Retirement Rule Changes in 2026: What Savers Need to Know

New this year, a series of significant changes to retirement planning, savings limits, and tax rules will affect millions of retired (or retiring) Americans. These adjustments—driven by cost-of-living adjustments (COLAs), IRS inflation indexing, and provisions of the SECURE 2.0 Act—offer new opportunities to save more but also introduce complexities that require proactive planning.

- **Higher Contribution Limits:** One of the most impactful updates for retirement savers in 2026 is the increase in contribution limits to key tax-advantaged retirement accounts. The IRS has boosted the annual 401(k), 403(b), and most 457(b) plan contribution limit to **\$24,500**, up \$1,000 from 2025. Traditional and Roth IRA contribution limits are also expanding—for 2026, the maximum amount individuals under age 50 can contribute to IRAs rises to **\$7,500**. Those aged 50 and over get an increased **catch-up contribution** limit of **\$1,100**.
- **Enhanced Catch-Up Savings for Older Workers:** The SECURE 2.0 Act continues to refine retirement incentives for older workers. For those aged **50 and older**, the “catch-up” contribution for 401(k), 403(b), and similar plans increases to **\$8,000** in 2026 (from \$7,500). Workers aged **60–63** benefit from a higher “super catch-up” amount of **\$11,250**—unchanged from 2025. However, the most consequential tax change involves how catch-up contributions are treated for high earners. Starting in 2026, if an employee’s **prior year** earnings exceed a threshold (\$150,000), all catch-up contributions must be made to **Roth (after-tax) accounts**. This alters the tax profile of contributions: instead of reducing taxable income today, the contributions grow tax-free and are withdrawn tax-free in retirement. This rule only affects the *catch-up* portion, not regular 401(k) deferrals. However, for savers without a Roth option in their employer plan, this change may restrict their ability to make any catch-up contributions, at least until plan terms are amended.
- **Broader Retirement Policy Adjustments:** Beyond savings limits, broader economic and policy shifts will shape retirement outcomes in 2026. Social Security beneficiaries will receive a modest cost-of-living adjustment of 2.8%, but the base rate for Medicare Part B premiums will increase by close to 10%. Other changes include:
 - Higher standard deductions
 - An additional \$6,000 deduction for people over age 65 with a modified adjusted gross income of up to \$75,000 for individuals and \$150,000 for joint filers. This phases out for incomes above \$175,000 for individuals and \$250,000 for joint filers
 - Higher ceiling for qualified charitable deductions to \$111,000 from IRAs

For most Americans, 2026 brings valuable opportunities to save more for retirement due to higher limits and expanded catch-up options. Please view us as your financial resource and, as always, please contact us if we may be of assistance in any manner.

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