

December 2025

Thoughts & Comments

Looking ahead into 2026

Here are highlights so far this year:

1. The Stock Market



- 1.1.1 The S&P 500 (white line) has been volatile this year, down almost 20% from its high in early April, the index is up 16.45% as of the end of November.
- 1.1.2 The Equal Weight S&P 500 (yellow line) has also been volatile this year, and is up 9.30% as of the end of November. However, this is only 56% of the move the S&P 500 Weighted Index.
- 1.1.3 The difference between the two indexes is due to seven stocks (the Mag 7), accounting for over 40% of the entire Index's return.

What does this infer?

When a tiny fragment of the entire index accounts for the majority of the index's return, it suggests that the index does not reflect the general economy and that investors may be exposed to more risk than they realize.

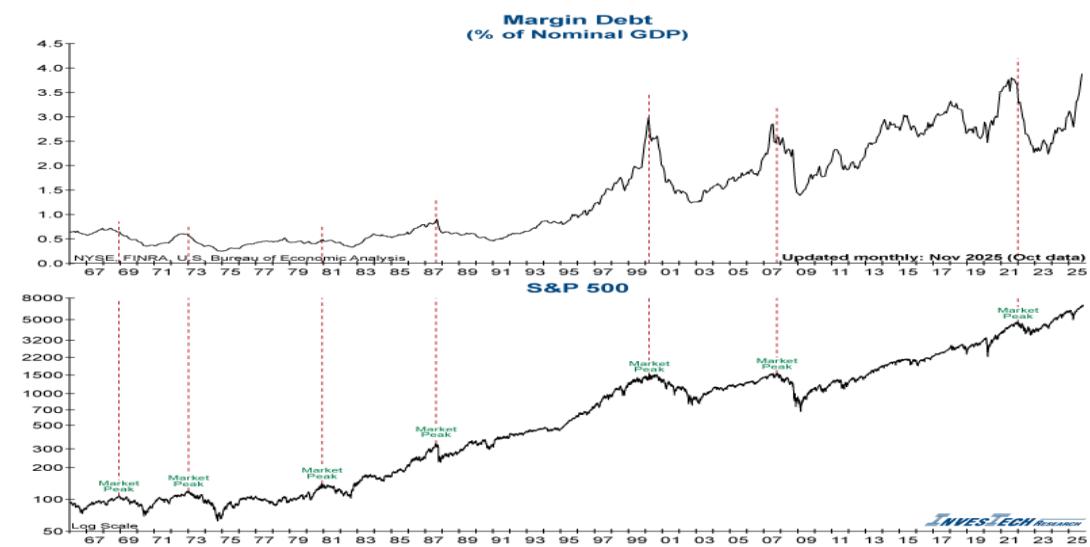
2) Other Risk Assets



2.1 Gold (white line) has had a great year, up over 61% through November. It is up over 32% annually for the past three years.

2.2 Bitcoin (yellow line) is down 2.7% this year and is down almost 32% from its high.

3) Margin Debt, QE, QT, RMOP and Treasuries





- 3.1.1** Margin debt is at all-time highs.
- 3.1.2** QT (Quantitative Tightening which was to partially unwind QE from the Covid Era) was ended by the Fed as of 12/1/2025
- 3.1.3** SLR (amount of capital banks are required to hold vs investments) is set to be lowered April of 2026.
- 3.1.4** QMOP (new Fed way of buying its own debt – a new form of QE) to be implemented April of 2026.
- 3.1.5** Treasury yields have been quite volatile as can be seen in the chart above, with the ten-year trading in a broad range of between 3.99% and 4.53%.

What does this infer?

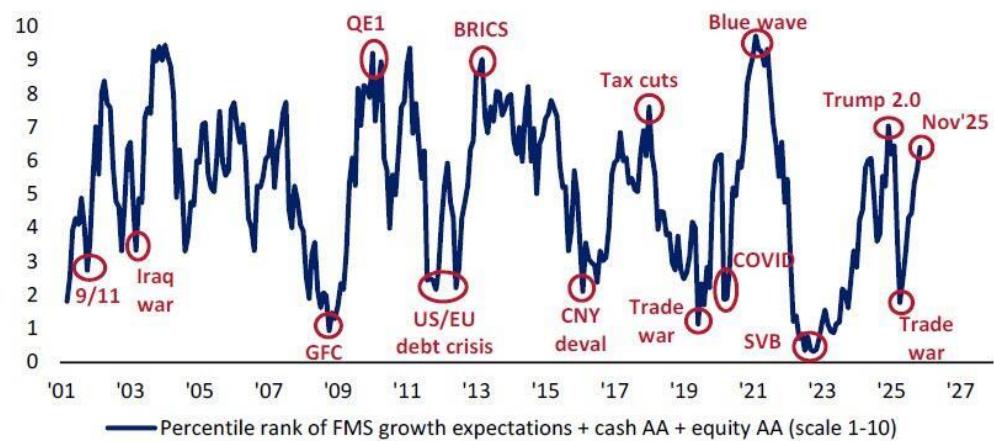
Looking at both #2 and #3 suggests: 1) Market participants expect the government to continue to debase the currency (thus gold so strong); 2) The Fed's goal of reaching 2% inflation is not expected to be achieved, but also, for now, inflation will not dramatically increase either (interest rates have been volatile, but in a range); 3) There is a lot of leverage in the markets which suggests volatility will continue to be high (why stocks, bonds, and Bitcoin have dramatic down-drafts).

4) Looking Ahead into 2026

Consensus, according to the Bank of American (BofA) Fund Manager Survey published 11/19/25 is very bullish: "investors are bullish, most overweight stocks since February 2025, based on cash levels, equity allocation, and global growth expectations. Commodities are the most overweighted since September 2025 and cash levels running at 3.7% which is a bearish signal. There is heavy weighting into EM (Emerging Markets) as well." This is largely confirmed in meetings I have had with six large fund managers as well in the past two weeks, as well.

Chart 2: BofA Global FMS investor sentiment at 9-month high

Percentile rank of FMS growth expectations, cash level, and equity allocation

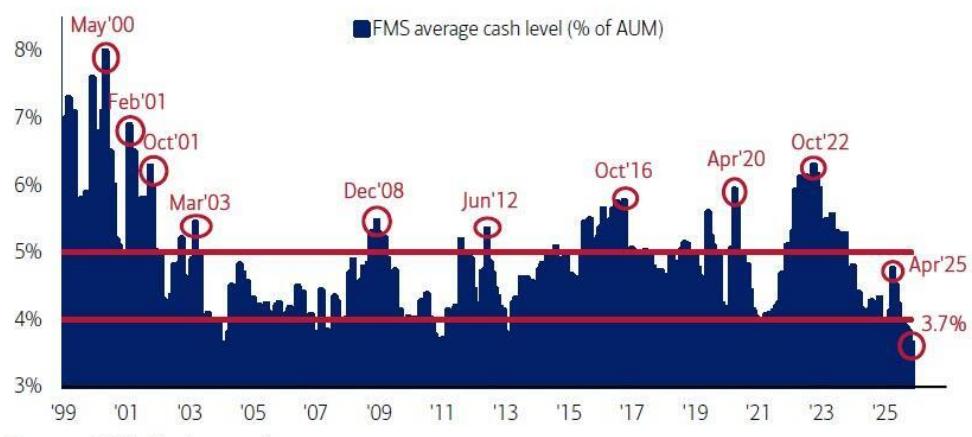


Source: BofA Global Fund Manager Survey

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Chart 3: FMS cash level drops to 3.7% from 3.8%

BofA Global FMS average cash level (%)



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

This broad consensus is worrisome; when everyone has the same expectations, I get nervous. There certainly are factors that suggest optimistic outcomes: 1) The Fed will continue to lower interest rates and they have ended QT (which drains liquidity) as of the beginning of December; 2) Spending from the "Big Beautiful Bill" should provide some grease for the investment wheels starting in Q1 2026. Add the expansion of RMOP and the reduction of SLR at the beginning of April and liquidity should continue to drive the stock markets.

However, there are headwinds which suggests some caution: 1) Inflation: the more Congress and the White House leverage, the more inflation we will experience because interest on the debt has started consuming a significant portion of GDP; 2) Consumers – a small and smaller segment of consumers account for most of the spending in the US; 3) Layoffs are picking up; 4) Credit is getting weaker: several large private credit defaults, increasing subprime auto delinquencies have/are occurring this year; and 5) Margin debt is at all-time highs, which, if de-levered quickly, as happens when there are corrections of any magnitude because of margin calls, leads to panic resulting in larger corrections.

Given the interplay of prevailing headwinds and tailwinds, alongside historically elevated equity valuations, we continue to utilize a balanced investment approach designed to capture growth opportunities while effectively managing risk exposure for our investors. Specifically, diversification by asset class and sector as well as by investment strategy has been key to our success this past year and will our driving focus for 2026 as well.

This approach will allow us to withstand a pullback in stocks, whether it is due to worries about a recession or some black swan event, without having to be reactionary. Given that speed at which markets correct these days due to leverage and perfection pricing, if one reacts, one is already too late. It is critical to anticipate and then one can take advantage of opportunities suddenly arise.

The Bottom Line...

The adage that the best defense is a strong offense holds true in today's stock market. Despite economic headwinds like persistent inflation risks, elevated valuations, and geopolitical tensions, fleeing to cash often erodes long-term returns for investors without flawless timing.

A combination of long-term growth investment approaches utilizing complimentary but different strategies in multiple asset classes should provide attractive returns while moderating volatility and at the same time, provide ample liquidity when opportunities arise.

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