ICR® 4th Quarter Newsletter – January 2026

Markets edged higher in the fourth quarter with the S&P 500 registering a 2.3% gain. Health care stocks – which had been the biggest laggard through the first three quarters – posted the only double-digit gain (11.7%) among the eleven stock sectors. Two of the most interest-rate-sensitive sectors, real estate and utilities, were the only two with losses in the quarter, though every sector finished positive for the year. Value stocks (+3.8%) outpaced their growth counterparts (+1.1%), but still lagged overall for 2025.

Foreign markets continued to outpace the U.S. with the MSCI EAFE index for developed markets gaining 4.5% and finishing the year with a 28% return. Emerging markets also rose over 4% and finished the year up more than 30%. While dollar weakness contributed somewhat to that performance, most of those gains were due to strong earnings among foreign companies.

Gold continued its meteoric rise, gaining 12% for the quarter and over 60% for the year. Geopolitical tensions, anticipated softer monetary policy, and a desire to diversify away from a weakening U.S. dollar are all factors that have led individuals and central banks alike to stockpile gold. Silver has benefited from the same factors but also has the added tailwind of a supply shortage relative to the increased demand from solar, electric vehicles, and AI data centers.

With a new year upon us and so many moving parts, we'll be using the rest of this letter to discuss some of the upcoming events that may shape the financial markets in 2026.

Populist Economic Proposals

President Trump recently called for a one-year 10% cap on credit card interest rates and Elizabeth Warren – of all people – quickly endorsed his idea. When those two agree on something, it raises eyebrows, but in this case, it probably shouldn't. Trump is incentivized to propose populist ideas to help his party heading into the midterm elections and Warren is a long-time critic of the big banks.

While this proposal sounds good on the surface and may be well-intentioned, it could have some ugly downstream effects. First, people with bad credit are only able to obtain credit by agreeing to a higher rate than those with good credit. If banks can't charge them more than 10%, there's a very simple solution to that: they'll cut off their credit. Banks won't be willing to take on high-risk debtors if they have to treat them like they're low-risk. So, if you're someone with bad credit and, all of a sudden, the bank says they're not going to loan you money any longer, but you absolutely need a loan, what do you do? You're potentially pushed to predatory lending groups like payday loan companies that charge even higher rates than credit cards. You may be thinking, I have good credit and I pay off my balance every month, so this wouldn't affect me. But, all those rewards that credit cards offer are subsidized by the people who pay high interest rates on their balances, so you may have to say goodbye to your cash back or your airline miles. The more serious impact on everyone, of course, would be the significantly increased risk of a recession. When the people who most need credit to buy everyday goods are suddenly cut off, that would have a huge impact on consumer spending, which would lead to an overall economic contraction. As of now, it sounds unlikely to have enough support to become law since there is significant bipartisan resistance in Congress, but these types of proposals are worth watching in the coming year as they could impact financial markets.

The AI vs. Everything Else Trade

After the brief tariff-induced scare in April, stocks began trading as if AI was the only thing that mattered for the next few months – and for good reason. As we discussed in our last newsletter, large profitable companies have been pouring money into AI infrastructure, which has bolstered GDP and buoyed stock prices. In the fourth quarter, however, some of the luster seemed to fade from the biggest companies. When 2025 concluded, only two of the "Magnificent 7" stocks had outperformed the S&P 500 as a whole. In 2024, six of them outperformed and in 2023, all of them did. This broadening of returns to the "other 493" is a welcome development, though, as it's seen as somewhat unsustainable for the top handful of companies to represent such a large share of the index as they currently do. Whether that broadening continues or if the big tech companies resume their role as the dominant market movers will be closely watched in 2026.

The Next Fed Chair

Jerome Powell's term as Federal Reserve Chair is set to expire in May and President Trump seems likely to name a potential successor any day. Leading up to this point, the president has publicly criticized Powell, suggested he might fire him, and the Department of Justice recently subpoenaed the Federal Reserve related to Powell's testimony last year before the Senate Banking Committee. These types of actions have led many to question whether Fed independence will be a thing of the past beginning with this next Fed Chair. Some members of Congress have even vowed to oppose any nominee until the Trump administration can prove that they believe Fed independence is vital. Among the perceived finalists, the markets would likely respond most favorably to Rick Rieder, who is currently BlackRock's head of fixed income. Rieder is someone who not only understands economic issues, but is also cognizant of the Fed's impact on financial markets.

As always, there's a lot going on in the world. If you have questions or concerns or if circumstances have changed in your life, we want to hear from you. Thank you for giving us the privilege of helping you meet your financial goals.

Sincerely,

James A. Heine　　James L. Cobb

Market Report (as of 12/31/25)

Index	2025 (%)	3-Year Annualized (%)	5-Year Annualized (%)
S&P 500	16.4	21.3	12.8
Dow Jones Industrial Average	13.0	13.2	9.5
U.S. Aggregate Bond Index	7.3	4.7	-0.4
MSCI EAFE (Foreign Index)	27.9	14.2	6.1