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## MARKET COMMENTARY

Stocks stumbled a bit in November but ended the year near highs. The S&P 500, representing large-cap stocks, rose 2.66% in the quarter resulting in an annual return of 17.88%. Small cap stocks in the Russell 2000 Index rose 2.19% in the quarter and 12.81% for the year. International stocks also continued to rise as developed market stocks had gains of 4.86% for the quarter and 31.22% in 2025. Emerging market stocks were up 4.73% this quarter and 35.57% for the year. The Barclays U.S. Aggregate Bond Index had a return of 1.10% for the quarter and 7.30% for the year.

This year, all sectors had positive returns but the communication services, technology, and industrial sectors were the ones that outperformed the S&P 500 with returns of 33.6%, 24.0%, and 19.4%, respectively. Meanwhile, the real estate, consumer staples, and consumer discretionary sectors were the worst performers with returns of 2.7%, 3.9%, and 6.0%, respectively.

For the third quarter, the S&P 500 had 13.9% earnings growth, much stronger than the initial 5.5% expected. Zacks projects the S&P to have earnings growth of 6.9% in the fourth quarter and 11.4% for 2025 and 12.3% for 2026. Don Rissmiller of Strategas notes that "as long as corporate profits are growing, the capitalist US economy tends to avoid big trouble".

The government shutdown delayed the release of key economic indicators. However, when finally released, initial estimates for GDP growth in the third quarter of 4.3% was unexpectedly strong. Fourth quarter growth may be stunted due to the shutdown, but the full year may end up near 2% which is what the Federal Reserve was predicting at the beginning of the year.

### 2025 BENCHMARK RATES OF RETURN

| INDEX | FOURTH QUARTER | YTD |
|---|---|---|
| S&P 500 | 2.66% | 17.88% |
| Russell 2000 | 2.19% | 12.81% |
| International | 4.86% | 31.22% |
| Fixed Income | 1.10% | 7.30% |
| JPMorgan Diversified* | 2.23% | 14.77% |

*25% S&P 500 large cap stocks,10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

The unemployment rate has been creeping higher and is 4.6% as of November. This is slightly above the Fed's year end expectation and is the highest it has been since September 2021. The labor market is showing signs of softening as job growth and hiring has slowed, but it is not collapsing as layoffs remain low.

Inflation has inched up slowly since the low of 2.3% in October 2024. The Fed's favorite measure—the Core PCE deflator—is 2.8% as of September, down slightly from August's reading of 2.9%. Tariffs have contributed to this rise in inflation affecting consumer goods, durable goods and material costs, but these are a small share of Core PCE. Services such as healthcare, housing, and personal services are not directly affected by tariffs and have been more inflationary. Fed projections show that their 2% target won't be reached until 2028.

Gold has continued to rally and is now up more than 64% year-to-date. Gold is often seen as a safe haven in times of geopolitical and/or economic uncertainty and as a store of value or inflation hedge when higher inflation is expected.

### 2026 Retirement Contribution Limits

| Retirement Plans | 2026 | 2025 |
|---|---|---|
| 401k and 403b Plans | $24,500 | $23,500 |
| Catch up age 50-59, 64+* | $ 8,000 | $ 7,500 |
| Catch up age 60-63* | $11,250 | $11,250 |
| **IRAs** | | |
| Traditional or Roth IRA | $ 7,500 | $ 7,000 |
| Catch up contributions* | $ 1,100 | $ 1,000 |
| SIMPLE IRA | $17,000 | $16,500 |
| Catch up age 50-59, 64+* | $ 4,000 | $ 3,500 |
| Catch up age 60-63* | $ 5,250 | $ 5,250 |

*The additional catch up contribution now depends on your age

***We value our relationship with you, and we are always available to meet with you in person, virtually or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account. A copy of our proxy voting policy and how proxies have been voted is available on request.***

Bitcoin and crypto currencies fell significantly in the last quarter resulting in a loss for the year. Bitcoin touched a high of $126,198 but ended the year near $88,000. This could be profit taking from long-term holders who finally have the ability to sell some of their Bitcoin without destroying value. Bitwise Asset Management projects high growth opportunities over the long term as countries (and even states) announce plans for building Bitcoin reserves and as it becomes more accessible in retirement plans. Institutions are also adding allocations; Harvard University's Endowment initiated a position in the second quarter and added to it in the third quarter. Although the allocation is less than 1%, it was their largest public holding at the end of September. Bitwise has a $1.35 million price target on Bitcoin for 10 years from now. Please note that even with attractive growth potential, digital assets carry significant risk and do have much higher levels of volatility as demonstrated this quarter.

The Fed lowered rates in September for the first time this year and continued in October and December. The current rate is between 3.50% and 3.75%. Fed Chairman Powell indicated two additional 0.25% rate cuts are expected—one in 2026 and one in 2027.

Money markets are yielding around 3.6%. The 10-year Treasury bond yield was 4.15% at the end of September and at year-end is still near there at 4.16%.

Diversification continues to be prudent in times of uncertainty. Bonds can provide stability and income when stocks are volatile. "Target outcome" or "buffer" ETFs can also add protection to portfolios and provide upside potential if stock prices rise. Dividend income is also attractive in equity and premium income funds. In these funds, managers own dividend paying stocks and sell out-of-the-money call options to collect extra income. The dividends help with total returns or with income needs depending on the account.

Measuring risk tolerance and investing accordingly is important in this environment. Timing the market or chasing returns may work in the short-term but is more difficult over longer periods. The goal is to be invested appropriately so that you don't panic and sell when the market goes down. Selling out when markets are volatile, can be detrimental. We use Nitrogen software to help us measure your risk tolerance and make sure you have the appropriate risk in your accounts. Want to check your risk tolerance? Scan this QR code and you will be directed to a risk survey. We'll receive your results and compare it to your current risk score.

RISK 53

Cambridge Risk QR Code

## CAMBRIDGE ADVISORS NEWS

2025 marked Cambridge Advisors' 35th anniversary. We want to sincerely thank you for the trust you've placed in us over the years. You have been the foundation of our success and we're honored to walk beside you and your families. We are grateful for the opportunity to serve you and look forward to continuing to help you plan, invest, and navigate life's opportunities and transitions.

If you have friends or family who would benefit from a relationship with Cambridge, please tell them about us. We would love to help the people who are important to you and we waive our $500,000 minimum for your referrals.

Cambridge Advisors has a Facebook page now! We'd love to have you follow us. Also, have you checked out the client portal? The client portal has account information and also a document vault which provides a secure place to upload and download files or forms. Our website www.cambridgeadvisors.net has a direct link—hover over "clients" and click on "client portal". Your Username is your email address and you can reset your password if needed. If you haven't accessed the client portal in a while and have any trouble getting in, let your advisor know—inactivity can toggle off your access but it is easy to restore.

## SCAM ALERT

Each quarter we want to highlight a scam we've seen in hopes it helps prevent it from happening to you. Artificial intelligence has expanded the tools scammers use. Through AI, fraudsters can mimic human voices and carry on conversations by phone or in a "live chat" with text messages.

If you receive a call from your bank where they need you to "verify your account" and provide security codes or passwords, this should raise a red flag. Do not provide this information to an incoming call. Instead, call the number for your bank that is published on the website or is a number you know.

It is also common that a scammer could send a text message impersonating your bank and asking if you authorized a large purchase. If you reply to the text, you may be directed to "secure" your funds by moving money to a "safe account" possibly by wire, or Zelle. The scammer may also call you impersonating the bank's fraud department. Again, call your bank directly with known phone numbers.

Be aware and be cautious and let us know if you have seen other scams we should alert our clients to in future newsletters.