



In This Edition:

- “Some People...”
- 2026: Outlook & Opportunities

“Some people want it to happen, some wish it could happen, others make it happen. – Michael Jordan

2026: OUTLOOK AND OPPORTUNITIES

Analysis and Review by [Thomas Burnett, CFA](#), Vice Chairman & Director of Research and [Neil Cataldi](#), Chief Investment Officer, Starboard Advisors, a Division of KFA

As we look ahead to 2026, our KFA outlook remains constructive, though more nuanced than in prior years. Market leadership, which has been heavily concentrated in a small group of large technology companies, showed signs of narrowing in 2025. Notably, only two of the “Magnificent 7” outperformed the broader S&P 500 last year. While these companies remain important drivers of innovation and earnings, this shift suggests investors are becoming more selective as valuations remain elevated.

2026 Outlook & Takeaways

- Understand your **risk exposure** and where needed to reduce it.
- Make sure you have **balanced holdings**, especially with your equities.
- Stay **disciplined and unemotional** (as best you can, we’re all humans!).

Periods like this often create opportunity. When leadership broadens, returns are less dependent on a handful of names and more reflective of underlying fundamentals across the market. In that context, we believe more balanced approaches, such as the equal-weight S&P 500, can become increasingly attractive, particularly if market participation continues to widen.

International markets also warrant renewed attention. After several years of relative underperformance, global equities delivered one of their strongest years in recent memory

during 2025. Improving earnings trends, more attractive valuations, and currency dynamics have helped create a more compelling opportunity set outside the United States.

That said, risks do remain. Elevated valuations leave less room for disappointment, making earnings growth increasingly important. A shift away from expectations for additional Federal Reserve rate cuts, or a renewed rise in inflation, could also introduce volatility. As we have seen repeatedly, markets rarely move in straight lines.

Despite these uncertainties, our approach at KFA remains steady. We continue to emphasize high-quality investments, thoughtful diversification, and disciplined risk management as we position portfolios for the opportunities, and challenges, of the year ahead.

2025: A YEAR OF RESILIENCE AND DIVERGENCE

Looking back, 2025 was a year defined by resilience across both the economy and financial markets, despite a complex and often volatile backdrop. Economic growth continued to slow gradually, labor market conditions softened, and inflation pressures remained uneven. Yet many companies executed exceptionally well, delivering earnings that exceeded expectations and ultimately drove equity markets higher.

<u>INDEX</u>	<u>% Change YTD as of 12/31/2025</u>
Dow Jones Industrial AVG. (TR)	14.2%
S/P 500 Index (TR)*	18.6%
NASDAQ	20.4%
STOXX Euro 600	16.6%
Nikkei 225 (Japan)	26.2%
China (Shanghai)	18.4%
GOLD (\$ per oz.)	63.8%
Crude Oil (\$ per bbl.)	-20.4%
Rate on Ten-Year UST Note	4.17%
VIX Volatility Index	-13.9%

Source: WSJ.com Jan. 2, 2026
 *(TR) indicates an index return that includes dividends.

Bonds also posted positive results as inflation moderated, and the Federal Reserve lowered short-term interest rates multiple times in an effort to complete a soft landing for the economy. Both consumers and corporations demonstrated durability, extending a pattern that has characterized much of this cycle. One of the most notable features of the year was divergence across asset classes. Gold emerged as the standout performer, rising to an all-time high near \$4,400 per ounce.

In contrast, crude oil prices declined sharply, and several agricultural commodities struggled, underscoring how selective leadership became as the year progressed.

Equity markets themselves experienced meaningful swings. After digesting the strong gains of 2024, stocks entered the year cautiously. That caution intensified in early April following unexpectedly aggressive tariff announcements, which triggered a sharp sell-off as earnings estimates and growth forecasts were revised lower. Markets recovered relatively quickly as the most extreme proposals were scaled back, and corporate fundamentals remained intact.

Investor enthusiasm around artificial intelligence remained a dominant theme throughout the year. While the long-term potential of AI is significant, certain areas of the market became overheated and were later corrected, reinforcing the importance of valuation discipline and fundamentals, even during periods of rapid innovation.

*Our very best regards,
Neil & Tom*



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Our firm acts as both an adviser, formulating long-term strategies, and as a manager, making specific recommendations and implementing decisions in areas such as portfolio construction, estate planning and investment management.

KFA educates our clients, communicating with them and sharing our rationale and analysis about issues that should be considered on an ongoing basis and ensuring that appropriate actions are taken. We do not sell proprietary financial products and are paid solely by our clients. In this way, KFA is able to recommend and incorporate independent investment vehicles and managers into a portfolio as needed.



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