

summaries



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MARKET COMMENTARY

“Resilience” was the word of the year for markets in 2025. Despite numerous headwinds and heightened levels of uncertainty, 2025 was the year of the “everything rally” and the first year since the pandemic in which all major asset classes delivered positive returns. While U.S. markets continued to show strength, international markets joined the party in 2025, as developed and emerging markets both beat the S&P 500 for the first time in almost a decade.

The S&P 500 was up 17.9%, its third consecutive year of double-digit gains, while mid cap and small cap U.S. stocks were up 7.5% and 6.0%, respectively. Overseas markets performed very well, as developed markets were up 31.2%, and emerging markets were up 33.6%. The Bloomberg U.S. Aggregate Bond Index was up 7.3% for the year. The Bloomberg precious metals index returned 80.2%, with gold dominating the headlines as international central banks continued to diversify their reserve holdings and gold exchange-traded funds (ETFs) saw strong inflows. Silver performed even better, up 149.1% on the year. Bitcoin was down 6.3%, and some “crypto treasury” companies like MicroStrategy lost half their value.

In late January, the European Commission released their Competitiveness Compass for the EU, a report that outlines steps to increase innovation, reduce regulatory burdens, increase regional security, and regain competitiveness in global markets. These potential reforms, combined with improving company earnings and relatively attractive valuations heading

into the year, helped power international equities. A declining U.S. dollar further enhanced international equity returns for U.S. based investors.

April brought significant market volatility with “Liberation Day” tariffs. The S&P 500 flirted with bear market territory (20% drop from the prior peak), though markets quickly recovered as these prohibitively high tariffs were paused a week later and trade frameworks were agreed upon with several major trading partners over the subsequent months. In addition, the Trump Administration has quietly backed away from some of the tariffs and created carve outs for specific industries due to lobbying by companies and affordability concerns from voters, further blunting the impact. Consumer-facing companies were also hesitant to pass on tariff costs to consumers as sluggish job growth weighed on consumer confidence. The Supreme Court is expected to rule on the legality of the tariffs sometime early this year, though the Administration has several other levers to pull if the Supreme Court rules against them.

The One Big Beautiful Bill Act (OBBBA) was signed into law on July 4th and is expected to add to GDP growth this year, though it did little to address long-term concerns about U.S. government debt sustainability. In the fall, several high-profile auto bankruptcies stirred fears about the health of the private credit markets, though these appear to be isolated incidents for now. Adding to the year’s uncertainty, the longest government shutdown in U.S. history finally ended in mid-November, and

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delayed government data releases made it difficult for market participants to assess the health of the economy and labor market.

Artificial Intelligence (AI) has been by far the most important theme driving markets since the release of ChatGPT in November 2022. In January, there was a “DeepSeek Moment” that temporarily derailed the AI trade, as a Chinese AI company came out with a model that purportedly was much cheaper to build and run than U.S. models. Many of their claims appeared dubious, and U.S. tech stocks resumed their upward march. However, in late October volatility returned to the AI trade, as investors became more discerning regarding who the AI winners and losers might ultimately be. All 7 “Magnificent 7” tech stocks outperformed the S&P 500 in 2023, 6 of the 7 outperformed in 2024, and only 2 (Nvidia and Alphabet) outperformed in 2025. Other AI-related stocks viewed as higher risk sold off more significantly late in the year. The market now appears more focused on whether companies will get a solid return on their significant AI spending, and on identifying which companies in the broader economy will lead in AI implementation and productivity improvements.

The U.S. economy remains relatively strong with solid GDP growth and low unemployment, though the job market has been soft as companies have been reluctant to hire and there have been several high-profile layoffs. Many fear that AI could massively

disrupt the labor market, but at this point the soft employment picture seems mostly due to general economic uncertainty. Inflation is still above the Federal Reserve’s (Fed) 2% target, though the Fed now appears to be more concerned about the labor market and lowered rates 3 times late in the year by a total of 0.75%. Consumer sentiment remains near post-Covid lows, largely driven by continued price increases, though overall consumer spending remains resilient.

The S&P 500 has posted double-digit returns 3 years in a row, and 4 consecutive years of double-digit returns have only happened twice since World War II: 1949-1952 and 1995-1999, with the latter being the only period of 5 consecutive years. Based on market history, it may be difficult to continue achieving the same level of above average returns we have recently experienced. Given the strong recent performance, elevated valuation levels, and high market concentration in a handful of tech names, we recently made allocation adjustments to reduce some of these risks and better diversify client portfolios.

We appreciate the opportunity to serve as your investment advisors, and we wish you and your families a happy and healthy 2026!

David Drogheo, CFA
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