



KESTREL

WEALTH MANAGEMENT

Kestrel's View

Quarterly Economic Commentary
January 2026

Market Returns

	12/31/2024	12/31/2025	% Gain/Loss
Dow	42,544	48,063	14.9%*
S&P 500	5,882	6,846	17.9%*
NASDAQ	19,311	23,242	21.1%*

**Total Return Including Dividends*

Despite a tumultuous April, 2025 turned out to be an excellent year across the board, equities (domestic and international), fixed income, and cash. The 10-year Treasury was up 8.2%, U.S. bonds were up 7.3% and cash yielded 4.4%. Based on the latest GDP reading, the economy is strong, unemployment is softening, but overall, I see a good setup for the first half of 2026.

The Fed did as was expected in December with a 0.25% interest rate cut. However, the language from the meeting suggests a less dovish Fed in 2026, at least in the first quarter. The 2-year versus 10-year spread went from negative to positive in 2025, ending with an almost 70 basis points spread, the biggest so far. CD rates have fallen well below 4% and should continue to decline in 2026. I expect money market funds to follow suit as well.

The equity markets boasted a strong year, with the best results coming from the three sectors: Communications Services up 33.3%, Technology up 24.0%, and Industrials up 19.4%. The bottom three sectors were Consumer Discretionary, up 6.0%; Consumer Staples, up 3.9%; and Real Estate, up 3.2%. The dispersion of the equity rally widened in 2025, and I expect it will continue into 2026. I still believe that Technology will be a significant winner in 2026, and the AI and data center buildout continues.

One very promising development is that gas prices are now actually responding to lower oil prices. With oil in the upper \$50s and low \$60s, this will help lower inflation and keep more disposable income in consumers' pockets. I expect oil prices to remain in this range, depending on geopolitical concerns and developments. This will be a significant factor in the overall performance of the economy for 2026. Lower oil/gas prices benefit everyone and all industries, boosting the economic output.

While inflation proved stubborn in 2025, it did not materially affect the economy. With inflation staying in a tight range of 2.6% to 2.9%, it was not the

economic killer that was predicted. I expect inflation will remain stubborn but trend modestly lower in 2026. I predict the final number for 2026 will be in the 2.3% to 2.5% range, slowly getting closer to the FOMC's target of 2.0%. I think this will keep the Fed mostly on the sidelines in 2026, with maybe two cuts during the year.

As I indicated last quarter, my biggest concern is the fallout from the Russia / Ukraine war and any resulting resolution. I am concerned that Putin has become bolder and will not honor any concessions. While Russia on its own is a concern, they have fairly strong ties with India and China, most likely allowing Putin to push the envelope. The events in Venezuela over the weekend appear to have benefited the people of Venezuela and their economy. I do not think it will be negative for the markets.

To update you all on our upcoming vendor conversion, everything is looking great. Yesterday, I had the opportunity to sit in on a demonstration for the client account access. What you will see once this goes live is head and shoulders above where we are now. I was very impressed, and I think you will be as well. While this has been a long process, we expect to have it fully in place by the late first quarter of 2026. You will be hearing more about this in the next four weeks.

Now let's review my ten expectations for 2025!

1. The U.S. stock market will end the year with a high, single-digit or low, double-digit return - Better than expected results!
2. Oil prices will remain in the \$70-\$85 range - Oil ended lower than expected, a nice surprise, especially at the gas pump.
3. By 12/31/2025 the yield on the 10-year U.S. Treasury will be between 4.0% and 4.25% - Right in the middle at 4.15%.
4. The U.S. economy will continue to grow between 2.0% and 2.5% - For 2025, this should be right in-line.
5. Inflation concerns increase, but does not mean-

ingly re-accelerate - Tariff concerns caused inflation expectations to rise, but it did not materialize.

6. Russia/Ukraine conflict is resolved - Did not happen.
7. Iran crawls back into the dark corner - With the strike on Iran, I would say this did happen.
8. North Korea goes quiet - This did happen.
9. Relations with China get more tenuous as U.S. moves to limit/repurchase U.S. land currently owned by China - Relations with China have waivered back and forth, but are still less than ideal (but probably always will).
10. There will be another attempt on Trump's life - Not that was publicized.

Jim's seven expectations for 2026:

1. The U.S. stock market will end the year with a high, single-digit or low, double-digit return.
2. Oil prices will end the year in the \$55-\$65 per barrel range.
3. By 12/31/2026 the yield on the 10-year Treasury will be between 3.60% and 3.90%.
4. The U.S. economy will continue to grow between 2.0% and 2.5%.
5. Inflation will be between 2.4% and 2.6% in 2026.
6. Mid-term elections will not materially change the balance of power in Congress.
7. Iran will test Israel and the U.S. once again in 2026.

As we move into 2026 you will be receiving additional communications from Noah Holt. He has been assisting me with portfolio management and has some perspectives on the market and economy I would like for him to share with you all.

We appreciate each client's uniqueness and will always strive to do what is best for each individual client. Please do not hesitate to ask us questions or express your concerns. This is your money and we are your stewards.



KESTREL

WEALTH MANAGEMENT



Our Company

Since 2015 our mission has been to protect, manage, and grow our client's wealth. With our truly holistic client approach, we get to know you and your goals on a deeper level. By doing this, we can create a financial plan that meets your needs now, and in the years to come. And as life changes and priorities shift, our team of experts will be right by your side.

Our Services

Kestrel Wealth Management offers a full range of services including:

- Investments
- Retirement Planning
- Financial Planning
- Employee Benefits Administration
- Trust & Estate Management
- Business Succession Planning

We serve a variety of clients, each with unique circumstances and challenges that improve us daily. We create a fully custom strategy for each client to ensure the best fit for your situation.

Scan the QR code
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