



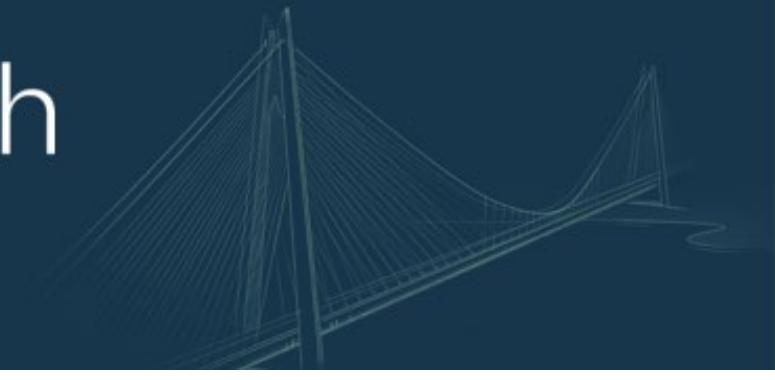
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Wealth Advisory Market Update

January 8, 2026



Market Update



Market Update and Portfolio Positioning

U.S. equities once again delivered strong results. Although the S&P 500 fell just short of achieving eight consecutive monthly gains in December, it capped off a third consecutive year of returns exceeding 15%. Market leadership remains largely unchanged, with large-cap technology stocks continuing to dominate. Investor attention remains focused on signals that could prompt the Federal Reserve to continue lowering interest rates and easing monetary policy further.

Despite strong performance, valuations have become increasingly stretched relative to historical norms. The Buffett Indicator—U.S. equity market capitalization relative to GDP—has reached a record 218%, surpassing its peak during the dot-com bubble. Similarly, when averaging four key valuation measures (price-to-earnings, CAPE ratio, Q ratio, and the S&P Composite relative to its regression trend), valuations stand near 175%, compared to approximately 125% at the height of the dot-com era. Elevated valuations reinforce the importance of discipline and resisting the temptation to chase returns. That said, select areas of the market—such as Materials—continue to offer pockets of relative value.

Markets have historically exhibited one consistent tendency: mean reversion. While it cannot be timed, investors can prepare for it through disciplined risk management—rebalancing portfolios and avoiding excessive concentration. The past several years has tested this approach, leading many to believe that “this time is different.” While that may ultimately prove true, we continue to align with history and probability, which suggest otherwise.

Recent years have also highlighted the challenges facing active managers. Despite strong absolute returns, many strategies—particularly value-oriented approaches—have trailed the S&P 500. In 2025, our equity strategies delivered double-digit, tax-efficient returns and reached new all-time highs, yet underperformed the index. The most successful strategy proved remarkably simple: owning the stocks that had already risen the most, regardless of valuation. In effect, the S&P 500 has evolved from a broadly diversified benchmark into a concentrated growth portfolio.

This concentration is becoming increasingly pronounced. Since the end of 2022, the S&P 500’s valuation multiple has expanded by approximately 31%, while the average stock’s multiple has risen only 7%.ⁱ Our portfolios have never looked more different from the index. As of December 31, 2025, our largest holding represents less than 5% of the portfolio, compared to over 7.3% for the S&P 500. Technology accounts for less than 15% of our portfolio versus approximately 35% for the index.

Market volatility has also increased meaningfully. Stock-level dispersion within the S&P 500 exceeded levels seen during 2008, underscoring the risks of excessive concentration. As a result of our differentiated positioning, our correlation to the S&P 500 is at its lowest level since inception. Lower correlation enhances diversification and reduces portfolio risk—an increasingly valuable attribute in today’s market environment.

From a macroeconomic perspective, growth has remained resilient. Third-quarter GDP increased at a robust 4.3%, driven primarily by consumer spending on services. Healthcare alone contributed more than 75 basis points to growth, reflecting rising healthcare costs and insurance premiums.ⁱⁱ At the same time, concerns about a “K-shaped” economy persist. Roughly half of all consumer spending is generated by the top 10% of householdsⁱⁱⁱ, while lower-income

consumers continue to face pressure from elevated inflation and rising debt burdens, as evidenced by higher delinquency rates.

Economic data following the government shutdown has been more difficult to interpret due to reporting disruptions, though recent releases suggest inflation continues to ease. Core CPI recently posted its lowest reading since March 2021, and goods inflation remains subdued, including limited impact from tariffs. Labor market data remains mixed: job openings have declined, layoffs have moderated, and the quits rate has increased. Markets are watching upcoming employment reports closely for further clarity.

Strategy and Outlook

Given elevated valuations, heightened volatility, and increased market concentration, we remain cautious—but not bearish. We believe compelling opportunities exist outside the largest index constituents. Our focus remains on companies with durable demand, strong free cash flow generation, and resilient balance sheets that are better positioned to navigate economic uncertainty.

Within fixed income, we continue to emphasize the intermediate portion—or “belly”—of the yield curve. This positioning has allowed us to lock in attractive yields while benefiting from price appreciation as rates have declined. We also maintain an allocation to mortgage-backed securities, which continue to offer compelling spreads and favorable risk characteristics relative to other fixed-income sectors.

We no longer view the S&P 500 as a low-risk, “buy-and-hold” allocation. Investors should reassess whether heavy exposure to a concentrated index aligns with their long-term objectives. For those primarily indexed to the S&P 500, we believe our strategy offers an opportunity to improve diversification, reduce risk, and enhance expected returns.

While recent years have tested patience, if history ultimately prevails, our positioning should benefit both returns and risk management. We remain committed to disciplined, active portfolio management and appreciate your continued trust and partnership as we navigate this evolving market environment together.

Matthew J. Roach, CFA®
Chief Investment Strategist

Mike Servetas
Assistant Portfolio Manager

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ⁱ CapitalIQ S&P Global, December 2025

ⁱⁱ “News Release.” *Gross Domestic Product, 3rd Quarter 2025 (Initial Estimate) and Corporate Profits (Preliminary) | U.S. Bureau of Economic Analysis (BEA)*, www.bea.gov/news/2025/gross-domestic-product-3rd-quarter-2025-initial-estimate-and-corporate-profits. Accessed 3 Jan. 2026.

ⁱⁱⁱ Chazan, Guy. “The Gap Is Widening.” *Subscribe to Read*, Financial Times, 24 Dec. 2025, www.ft.com/content/49274d50-d781-45d5-a4cd-9ab00986d033#:~:text=The%20top%2010%25%20of%20US,consumer%20spending%20by%20income%20percentile.