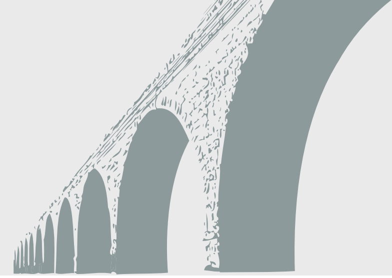
January 26, 2026

4Q25 Market Commentary



LEUTHOLD FUNDS

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Late November brought a sudden reality check for the stock market. After months of seemingly nonstop gains, the S&P 500[1] stumbled as investors began questioning how profitable AI companies will really be—especially given the enormous cost of building out their infrastructure. That uncertainty triggered a piercing one-day drop of 231 points in the S&P 500. Coming on the heels of losses in four of the prior five trading sessions, the index was down about 4.5% for the month heading into Thanksgiving.

Fortunately, a strong Black Friday helped lift spirits, and stocks rebounded quickly. By month-end, the S&P 500 posted its best five-day stretch since mid-May and (just barely) locked in its seventh straight monthly gain.

Seven consecutive "up" months is a rare feat. In fact, this is only the 19th time since 1926. The latest run delivered a 23% S&P 500 gain, right in line with the historical average of past "lucky seven" streaks. While "month eight" supplied another gain only half the time, looking further ahead is encouraging: In the majority of past cases, the index went on to post gains over the next three and six months, without suffering a major loss from a sharp reversal.

Nonetheless, the November stumble by mega-cap Tech tarnished fourth-quarter performance. The S&P 500's +2.66% three-month return is fairly pedestrian considering the big advances in earlier quarters. Yet, all major market segments finished the year in positive territory, led once again by large-cap growth. The NASDAQ[2] surged more than 31%, while the S&P 500 gained nearly 18%, extending large caps' winning streak over smaller stocks to three years running.

Historically, that kind of momentum is a good sign. It's unusual for the economy to roll over in the year following such robust market performance. With one notable exception—leading into the Great Financial Crisis[3]—strong equity returns generally cushion the economy against recession.

In early December, the Federal Reserve made its third interest-rate cut of 2025, sticking with a cautious, incremental approach. The Fed also began purchasing $40 billion per month in Treasury bills. Combined with a steepening yield curve[4], these moves improved liquidity conditions—something the market welcomed.

Stocks responded positively. After the rate cut, the S&P 500 and several of our key market indicators hit new all-time highs. More followed on Christmas Eve, reinforcing the market's technical strength and pushing November's nose-dive further into the background.

The last trading days of December were fairly quiet, with stocks drifting slightly lower. Precious metals were a different story altogether. Silver, in particular, saw eye-popping daily swings of 9–10%. That kind of volatility in an already overheated market is worth watching closely.

As we entered 2026, the setup looked familiar: stocks firmly in an uptrend, but with valuations stretched and optimism running high. Despite geopolitical uncertainty, equity indexes have continued to push ahead. In early January, the S&P 500 hit another record, joined by fresh highs across most of our bellwether[5] indexes. Liquidity remains supportive, inflation appears to be easing, and investors' appetite for risk hasn't waned.

So far, the new year is off to a solid start. A steady flow of new highs and broader market participation suggests this bull market still has legs. That said, if we were tracking indicators like "central bank independence" or "global military stability," the message wouldn't be nearly as reassuring.

Vigorous technical trends in U.S. equities have outweighed weaker signals elsewhere. As a result, net equity exposure in Leuthold tactical strategies has increased alongside the market and now sits just under 60%. Even with far lower stock exposure than the S&P 500, these tactical portfolios captured about 80% of the index's gains in 2025 while taking on significantly less risk.

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Within the fixed-income allocation, we maintained a small overweight in credit during the fourth quarter. FX[6] exposure was reduced slightly, while duration[7] decreased modestly, from 6.1 to 5.9 (versus 5.7 for the U.S. Aggregate[8] Bond Index and 6.2 for the Global Aggregate[8] Index). We remain overweight high-quality corporate bonds and short-term Treasury Inflation Protected Securities (TIPS).

Our Select Industries equity portfolio also did well, outperforming the S&P 500 for the full year. Two high conviction positions were Precious Metals (which rallied alongside gold) and Electronic Manufacturing Services (a beneficiary of AI-driven capital expenditures). Concentrations in Diversified Banks, Investment Banking & Brokerage, and Health Care Distributors were also highly favorable.

The path of least resistance for equities remains to the upside, and if this market ultimately follows a more traditional course, we wouldn't expect a peak to form for at least a few more months. Still, nosebleed valuations and rising economic risks argue for restraint. Leuthold tactical portfolios are therefore positioned to take part if the bull market continues, while allocations reflect heightened awareness of potential downside.

Thanks, as always, for your continued trust and support.

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[1] S&P 500 is a capitalization-weighted index of 500 stocks measuring performance of the broad domestic economy.

[2] NASDAQ Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange.

[3] Great Financial Crisis was a severe global economic downturn sparked by the collapse of the U.S. housing bubble and the bursting of the subprime mortgage market in 2007–2008.

[4] A steepening yield curve means the gap between long-term and short-term interest rates is widening, often signaling expectations for stronger economic growth and higher inflation, as long-term yields rise faster (or short-term yields fall faster).

[5] One Dow Jones 65 (a price-weighted average of 65 stocks—30 industrial, 20 transportation, and 15 utility companies); Dow Jones Transports (includes-major airlines, rail carriers, delivery services, trucking, and car rental companies); Dow Jones Utilities (water, electric, and renewable power producers); Russell 2000 (the smallest 2,000 stocks in the Russell Index); S&P 500 Financials (companies classified in the Financials sector); S&P 500 Cyclical Index (Consumer Discretionary, Industrials, and Materials stocks); S&P 500 Equal-Weighted Index (equally weighted version of the S&P 500); NYSE Daily Advance/Decline Line (a technical market breadth indicator tracking the cumulative total of daily advancing minus declining stocks on the New York Stock Exchange).

[6] Foreign exchange (FX) exposure is the risk that a business's or investor's financial performance will be negatively impacted by unexpected changes in currency exchange rates.

[7] A measure of a bond's sevnsitivity to interest rate changes, typically expressed in years.

[8] U.S. Aggregate Bond Index is a broad benchmark for the investment-grade U.S. bond market. The Global Aggregate Index is a flagship measure of global investment grade debt from a multitude of local currency markets.

Other Market Notes

2025 PULLS OFF A RARE "THREE-PEAT"

"Three-peats" are rare for a reason. Not every team is built to be the Lakers, Bulls, or Yankees. Dynasties eventually crumble, luck runs out, and even greatness takes a breather. Markets are no different, which is why the S&P 500 pulling off a three-peat of +15%-plus returns in three consecutive years feels almost surreal.

Since 1929, this feat has occurred only twice before (shown in the table). The first instance, 1995-1997, should not be a surprise. These were the first three years of the Tech bubble, which ultimately delivered a record *five consecutive years of +15%-plus returns* between 1995 and 1999—although 1998's stellar return of +26% was a bumpy ride, as Russia's default and the collapse of Long Term Capital Management triggered a Fed-orchestrated bailout, which cemented the notion of a "Fed put"[1] and permanently reshaped investors' perception of risk.

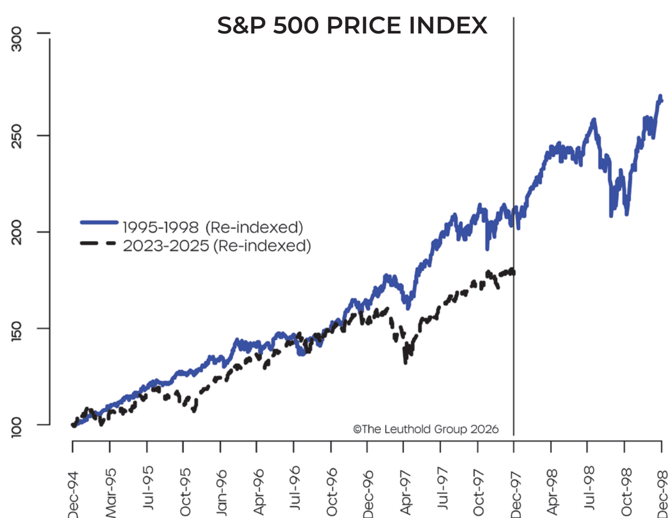
The second three-peat was 2019-2021, a bull run that was more of a policy-fueled joyride. Monetary easing laid the groundwork in 2019, then the pandemic unleashed fiscal and monetary stimulus on a scale previously reserved only for wartime: trillions in stimulus checks and a Fed backstop for everything except your neighbor's garage sale. It was asset price inflation on steroids. The inevitable hangover arrived in 2022, when the rapid withdrawal of liquidity reminded investors that there was truly nowhere to hide in any asset class.

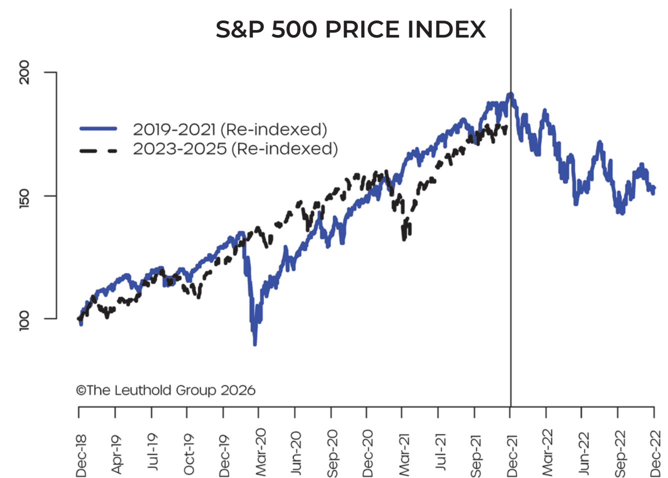
Today, a new generation of investors has been thoroughly spoiled, having enjoyed two three-peats over the last seven years. A Trump put, and a Fed put will do that. While we still believe that exceptionally strong years merely borrow returns from the future, this market has shrugged off valuation concerns, policy whiplash, and geopolitical shocks.

Whether this reflects U.S. Exceptionalism, unwavering momentum, or markets simply drinking their own Kool-Aid, one thing is clear: Three-peats are rare, and what often follows is much higher volatility.

S&P 500 ANNUAL PRICE RETURNS

THREE-PEAT			YEAR AFTER THREE-YEAR RUN
1995 +34.1%	**1996** +20.3%	**1997** +31.0%	**1998** +26.7%
2019 +28.9%	**2020** +16.3%	**2021** +26.9%	**2022** -19.4%
2023 +24.2%	**2024** +23.3%	**2025** +16.4%	**2026** ??





[1] The market belief that the Federal Reserve will intervene to support financial markets, especially stocks, during significant downturns, acting like an insurance policy (a put option in trading) to prevent severe losses.

Other Market Notes

S&P 500 POTENTIAL DOWNSIDE: -44% (1957 TO DATE); -32% (1995 TO DATE)

The S&P 500 faded the last few days of 2025, leading to a small price loss for December. This broke a very impressive seven-month winning streak. After narrowly averting a bear market in April, the index rocketed 39% higher to end the year with an +18% total return.

Excellent fundamental gains nearly matched the market's advance, with downside estimates for valuations little changed from the end of 2024 (1957 to date: -43% vs. -44%; 1995 to date: -30% vs. -32%). Still, the S&P 500 enters 2026 with generationally high valuations—as it did in 2025.

ALL YEARS 1957 to Date S&P 500 December Close: 6,845.5	Current Base Estimate	Current Valuation	**1957 To Date** Historical Median	Implied Median Market Level	Gain/Loss From Here
Normalized "Adjusted EPS" P/E	$214.59	31.9	19.5	4,179	-39%
Non Normalized Operating EPS P/E	$270.86	25.3	17.1	4,638	-32%
ROE Based P/E	$176.45	38.8	19.0	3,351	-51%
Price To Cash Flow	$397.63	17.2	10.4	4,116	-40%
Dividend Yield*	$80.78	1.2	2.8	2,848	-58%
Price To Book*	$1,353.49	5.1	2.1	2,908	-58%
			Weighted Average	3,832	**-44%**

NEW ERA - 1995 to Date S&P 500 December Close: 6,845.5	Current Base Estimate	Current Valuation	**1995 To Date** Historical Median	Implied Median Market Level	Gain/Loss From Here
Normalized "Adjusted EPS" P/E	$214.59	31.9	22.1	4,749	-31%
Non Normalized Operating EPS P/E	$270.86	25.3	19.1	5,163	-25%
ROE Based P/E	$176.45	38.8	23.1	4,071	-41%
Price To Cash Flow	$397.63	17.2	13.0	5,182	-24%
Dividend Yield*	$80.78	1.2	1.8	4,595	-33%
Price To Book*	$1,353.49	5.1	2.9	3,914	-43%
			Weighted Average	4,684	**-32%**

** Dividend Yield and Price/Book statistics add depth to the data, but are less meaningful, therefore given a weight of only 50%.*

Normalized "Adjusted EPS" P/E: Five-year arithmetically-averaged annual earnings, six-months ahead and 54-months back. "Adjusted" earnings are the mid-point between reported and operating earnings.

Non-Normalized Operating EPS P/E: 12-month estimated operating earnings, looking six-months back and six-months forward (June 2025–June 2026).

Return On Sales Norm EPS P/E: Long-term arithmetically-averaged Return on Sales (1956 to date)\ multiplied by estimated sales for the twelve months ending 06/26.

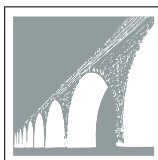
ROE Based P/E: 1976-to-date long-term average of Return On Equity (ROE) multiplied by the current estimated Book Value.

Price To Cash Flow: Estimated 12-months' cash flows for the period ending 06/26. Net income plus depreciation (1955 to date).

Price To Sales: 12-months' estimated sales for the period ending 06/26 (1955 to date).

Dividend Yield: Indicated 12-months' dividends as calculated by *Barron's* (1926 to date).

Price To Book: Based on Dow Jones and Standard & Poor's Book Value calculations.



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Past performance does not guarantee future results. Investing involves risk, principal loss is possible. Index performance does not reflect fund performance and it is not possible to invest directly in an index.

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