

Turning the Page | 12.19.2025

The S&P 500 remains near its all-time high, but the mix of companies driving the market is shifting. AI-related stocks have lost momentum since November as investors weigh whether companies can sustain such heavy spending. This slowdown has been offset by a shift toward more traditional sectors such as financial services, manufacturing, health care, and consumer-focused industries like retail and travel. With more sectors taking the lead beyond technology, the market appears to be forming a stronger and more stable foundation for 2026.

Hiring has slowed slightly, but the economy remains on solid footing. Employers added 64,000 jobs in November, while the unemployment rate ticked up to 4.6% from 4.4% in September, mainly because more people entered the job market rather than widespread layoffs. Job openings are still high compared to pre-COVID levels, new unemployment claims remain steady, and more people are entering the workforce. Inflation has eased, with prices up about 2.7% from a year ago, and there is no broad evidence that tariffs are pushing prices higher.

With inflation moderating, the Federal Reserve has shifted its focus towards employment. The prolonged government shutdown disrupted the normal flow of data, making it more challenging for the committee to draw clear conclusions. Federal Reserve Chair Jerome Powell has acknowledged some uneven signals and slower job growth. The Fed has lowered interest rates three times in 2025, and markets anticipate further cuts in 2026 as the committee leans toward supporting the economy. Meanwhile, the recently passed One Big Beautiful Bill Act (OBBBA) is expected to provide a significant boost to both consumers and businesses, helping the economy continue to move forward. Taken together, these factors suggest policymakers are focused on sustaining growth and maintaining market confidence heading into next year.

Even with AI-related stocks losing momentum, traditional economic sectors such as banks, industrials, and consumer goods and services are seeing renewed strength. Health care has been a notable part of the rotation, historically performing well during volatile midterm years. Investor optimism about expanding lower-cost, direct-to-consumer access has added further strength to the sector. The shift toward traditional sectors appears driven by easing inflation, potential interest rate cuts, and the OBBBA stimulus, which should support consumer spending and business investment. Investors are shifting toward areas likely to benefit from steady economic activity, signaling a broader, more durable leadership emerging beneath the surface of the S&P 500.

If this trend continues, 2026 could be a year in which market gains are more broadly shared among companies rather than concentrated in a few dominant names, unlike what we have seen since 2023. Strength in more traditional economic sectors, supported by fiscal and monetary policy, suggests a wider range of companies could participate in the rally, creating a more balanced and resilient market environment.

Thanks,
Preston May, CBE® | Assistant Portfolio Manager & Analyst

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