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ADVISORY Notes

DECEMBER 2025

Happy New Year

As the year 2025 comes to a close, we find ourselves reflecting on a market environment that has been both resilient and complex. We have consistently emphasized the importance of a long-term, fundamental approach, and the fourth quarter provided a clear example of why this discipline is vital. While the year as a whole was spectacular for investors, the final three months introduced a shift in momentum with the S&P 500 index breaking its seven-month win streak in December. Despite this late season cooling off, the equity market finished the year with a robust total return of approximately 18% and marked its third consecutive year of double-digit gains, which is historically a rare feat. The year was led by the Nasdaq Composite, followed by the S&P 500 and the Dow Jones Industrial Average. The fourth quarter did rotate a bit away from AI trade and the Dow led all indices, followed by the S&P 500 and the Nasdaq (See Market Table).

The narrative for last quarter was largely driven by a delicate balance between strong corporate earnings and shifting interest rate expectations. We saw 2025 earnings grow by roughly 12%, supported by a U.S. economy that maintained an annualized growth rate near 2% despite headwinds from a federal government shutdown in October. This fundamental strength allowed the markets to shrug off geopolitical tensions and the "bite" of various tariff policies.

In the fixed-income arena, the fourth quarter brought a degree of stability compared to the volatility seen earlier in the year. The Bloomberg Aggregate Bond Index yields settled into a more attractive range as the 10-year Treasury yield moderated from its 2025 peak of 4.8% down to approximately 4.1% by year-end. This decline in rates provided a tailwind for bond prices and eased some of the pressure on equity valuations. For our clients, we continue to view high-quality fixed income not just as a source of yield, but as a critical diversifier. With the equity risk premium hovering near zero, the relative value of bonds compared to expensive stocks has become much more compelling. Corporate bonds returned above 7%, followed by municipal bonds at 4.5%, with short-term treasuries near 4.3% for the year, following the fourth quarter rate cuts (See Market Table).

Looking globally, 2025 was a year where international markets often led the charge. Emerging markets and international small caps benefited from a weaker U.S. dollar and a cyclical shift away from the concentrated "Magnificent Seven" tech leadership that dominated recent years. We have long advocated geographic and style diversification, and the fourth quarter reinforced this stance. As domestic, large-cap quality remains our core focus, we are finding

See **Happy New Year** *on Page 3*

MARKET TABLE	VALICENTI ADVISORY SERVICES, INC. Comparative Index Period Returns From 12-31-24 THROUGH 12-31-25								
	Dow Jones Industrial Average	S&P 500 Equal Weight Index	S&P 500 Index	NASDAQ	Russell 2000	BBG Barclays AGGR Bond Index	BBG Barclays Muni Bond Index	FTSE USBIG Corporate Bond Index	ICE B of A US Treasury Bill Index (0-3)
12-31-24 to 03-31-25	-0.87	-0.61	-4.27	-10.26	-9.48	2.78	-0.24	2.34	1.04
03-31-25 to 06-31-25	5.46	5.46	10.94	17.96	8.50	1.21	-0.13	1.70	1.07
06-30-25 to 09-30-25	5.67	4.84	8.12	11.41	12.39	2.03	3.24	2.68	1.09
09-30-25 to 12-31-25	4.03	1.39	2.66	2.72	2.19	1.10	1.69	0.78	1.01
YTD Returns 12-31-24 to 12-31-25	14.92	11.43	17.88	21.14	12.81	7.30	4.59	7.71	4.28

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Director's Chair

Cash on Demand is a 1961 British film from Hammer Studios and is one of the few movies the studio made not from the horror genre. This film is actually an adaptation of Charles Dickens' book *A Christmas Carol*. The movie centers around a hard-nosed, no-nonsense banker named Harry Fordyce, a Scrooge type stand-in, who is given a comeuppance by a polished bank robber who could be viewed as the Ghost of Christmas Present. The bank robber puts Fordyce in a position to be accomplice to steal £97,000 on Christmas Eve.

Tax code changes from the One Big Beautiful Bill Act will provide an average $2,000 benefit to the median family of four, so hold off on robbing the bank. Some of the benefits will come from an expanded deduction in the state and local tax deduction, otherwise known as SALT, which was capped at $10,000 in 2017. The 2017 cap increased taxes for those in higher state tax jurisdictions particularly found in the northeast and western coastal states. The deduction will increase to $40,000 for single and joint filers who earn less than $500,000. The effect is to lower Federal taxable income by putting more money in your pocket, although not quite as how Fordyce would eventually be found in the film.

The bill allows for up to a $25,000 deduction on tips and up to $12,500 on overtime pay for single filers and $25,000 for joint, with the deduction phasing out beginning at incomes of $150,000 for single filers and $300,000 for joint. These provisions are in force for tax years 2025-2028.

The Act also brings us back temporarily to a pre-1986 world where auto loan interest is deductible for new automobiles bought from 2025-2028. Up to $10,000 of interest is deductible if the vehicle was U.S. assembled. The deduction begins to disappear like a Christmas ghost at incomes of $100,000 for single filers and $200,000 for joint.

A bonus for seniors over the age of 65 takes effect for tax years 2025-2028 and provides an additional $6,000 deduction for singles and $12,000 for married couples, but begins to phase out for those with incomes above $75,000 for single filers and $150,000 for joint.

Lastly, we will highlight for those who take the standard deduction because they do not qualify to itemize, a new charitable gift deduction of up to $1,000 for singles and $2,000 for joint filers will be allowed without having to itemize.

Each of these provisions in aggregate will increase the average refund in the United States, returning money to taxpayers much like the money was returned to the bank when the bank robber was caught in *Cash on Demand*.

The stimulative nature of larger refunds, particularly for the lower income quartile of Americans, is likely to give an economic boost. Typically, higher corporate earnings translate into a higher stock market, so we will make a New Year's wish that this pans out in 2026.

Louis F. Ruize
Director of Research
Portfolio Manager
Chief Investment Officer

Reflecting on 2025 and Looking Ahead to 2026

As we reflect on 2025 and look ahead to the new year, we would like to take this opportunity to wish you a Happy New Year.

While the past year was positive for financial markets, it was not without periods of volatility. The U.S. economy demonstrated notable resilience despite earlier expectations of a slowdown. Economic growth remained solid, with GDP expected to continue slightly above its long-term trend. Inflation has remained somewhat sticky near 3%, above the Federal Reserve's 2% target, while the labor market has shown modest softening but remains fundamentally healthy.

Following a prolonged period of elevated interest rates, the Federal Reserve implemented its first rate cut in September 2025. Looking ahead, market expectations point to two or three additional rate cuts in 2026, depending on inflation and economic conditions.

Equity market performance in 2025 was led by Information Technology, Communication Services, and Industrials. As we move into 2026, corporate earnings are expected to remain strong, with signs that market leadership may broaden beyond Technology. We remain focused on quality growth, profitability, and earnings durability.

Entering the first half of 2026, we continue to closely monitor macroeconomic developments, Federal Reserve policy, and corporate earnings trends. Our investment strategy remains dynamic, emphasizing large-capitalization companies with strong balance sheets, resilient profit margins, and consistent cash flows. Our current asset allocation reflects a balanced and flexible approach, with approximately 40–60% equities, 30–40% fixed income, and 5% allocated to money markets and short-term government securities. This structure allows us to adapt to changing market conditions while addressing individual client needs.

We remain grateful for the trust you place in us as we navigate evolving market conditions together and sincerely appreciate your continued confidence. We look forward to the year ahead and remain committed to helping you achieve your long-term objectives.

Jeffrey S. Naylor
Executive Vice President
Chief Financial Officer
Chief Compliance Officer

Happy New Year

(Continued from Page 1)

selective opportunities in sectors like Industrials and Financials, which have shown the ability to weather inflationary pressures while benefiting from recent regulatory relief and tax certainty provided by the One Big Beautiful Bill Act.

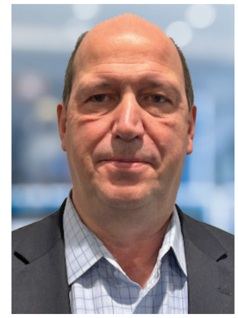
As we turn the page to 2026, we remain mindful of the "difficult seasonality" often associated with midterm election years. While the momentum of the past three years has been encouraging, history suggests that we should expect more moderate returns and increased volatility in the coming quarters. Our commitment at Valicenti Advisory Services remains unchanged: to provide proactive, thoughtful planning that aligns your portfolio with your specific life goals. We thank you for the continued trust you have in our team and wish you a healthy and prosperous New Year.

Joseph M. Valicenti
President
Chief Executive Officer

Team Spotlight: Welcoming Rich and Kate

We are pleased to welcome Richard P. Burchill and Kathryn E. Stage to the firm, each bringing valuable experience and expertise to their respective roles.

Rich, Director of Tax and Business Services, joined the firm in October 2025 and brings more than 30 years of experience in public accounting, corporate finance, and executive leadership. He specializes in the preparation and review of complex federal and state income tax returns for individuals, trusts, partnerships, and corporations, and partners with firm leadership on strategic tax planning. Rich also ensures financial accuracy through GAAP-based financial review, audit support, and comprehensive tax research across federal, state, trust, corporate, pass-through, and tax-exempt matters. He holds an MBA in Financial Planning from California Lutheran University, a B.S. in Accounting from St. John Fisher College, is a CPA, and holds advanced credentials including ABV, CFF, PFS, CEPA, and ChSNC.



Richard P. Burchill

Kate, Client Relationship Associate, joined the firm in March 2025. She provides administrative and operational support to Portfolio Managers by preparing client communications, presentations, and account review materials. Kate holds an Associate degree in Applied Science from Corning Community College, certificates in Leadership Training, and is a Financial Paraplanner Qualified Professional™ designee. Her prior experience includes roles in the insurance industry and restaurant management, contributing to her strong organizational skills and client-focused approach.

Kathryn E. Stage

We are excited to have Rich and Kate on our team and look forward to the contributions they will continue to make in support of our clients and firm.

Melissa B. Mickley, FPQP®
Tax Client Services Associate

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New Director Joins Leadership Team

We are pleased to announce that Andrew S. Cartwright has been promoted to Director. This achievement reflects his demonstrated leadership, technical expertise, and continued commitment to delivering exceptional service to our clients.

In his new role, he will join our existing team of Directors consisting of Tracy L. Jenkins, Theresa R. Stewart, Daniel P. Burchill, Louis F. Ruize and Richard P. Burchill, working collaboratively to guide the firm's strategic direction, mentor staff, and uphold the high standards of quality and professionalism our clients expect. Drew's experience and insight strengthen our leadership team and positions the firm for continued growth and long-term success.

Please join us in congratulating our new Director on this well-deserved milestone.

Analyst Corner

Investors experienced noticeable weakness in the main equity indices in the middle of the fourth quarter of 2025, only to see markets snap back to near all-time highs by the end of the year. Indications out of the Federal Reserve were sounding a hawkish tone in the fall, leading the market to believe that the Fed would be on hold for the rest of the year as far as the short-term rate was concerned. However, December ultimately saw the Federal Open Market Committee deliver another 25 basis point rate cut, and the current expectation going into next year is for continued modest easing as widely held inflation concerns are waning, while worries about the labor market appear to be headed in the opposite direction, at least for now.

There seem to be two competing economic narratives going into next year. The first asserts that productivity growth is rising and real growth expectations are similarly elevating—this is to be disinflationary, which potentially could create a "good growth" economy that is felt a bit more positively by a greater share of individuals. The second is that the fiscal impulse from the One Big Beautiful Bill Act will provide a front-loaded fiscal driver and thereby push upward aggregate demand and overall economic growth, and this, combined with tariffs, will exert upward pressure on prices once again.

These narratives are enveloped inside a double-digit expectation for S&P 500 earnings growth. Either outcome could see continued resilience in the equity space, with the latter potentially challenging bond returns, smaller companies, and cyclical parts of the economy more. As always, unforeseen shocks could materialize to challenge current views. In contrast, overinvestment, credit concerns, and friction within the economy over distributional issues are the known potential sources of headwinds. Pivoting to Q4 return analysis, the S&P 500 returned 2.7% in the final quarter, with returns driven by outstanding performances from the Healthcare, Communications Services, and Financial Sectors. Only Real Estate, Utilities, and Consumer Staples sectors saw negative results. The 10YR US Treasury rate, as well as credit spreads in the investment-grade bond arena, remained stable with the 10YR yield ending the quarter pretty much where it began at 4.18%.

Positive Market Influences	Negative Market Influences
Interest Rate Cuts	Labor Market
Real GDP Estimates	Market Valuation
Fiscal Stimulus	

Positive Market Influences

- **Interest Rate Cuts** – Current market expectations appear to be for around two more 25 basis point rate cuts to the overnight Federal Funds target rate. Anything challenging this expectation as we progress into the year may provide headwinds for markets.
- **Real GDP Estimates** – Economic growth estimates have recently seen an uptick, and largely due to strong continued core consumer activity with little expected to show up at least in the first half of the year that would be seen to challenge this.
- **Fiscal Stimulus** – Lower tax withholding rates and higher refunds will likely start the consumer out feeling better off than the previous year. This effect, however, could be dependent on feeling secure about one's income going forward.

Negative Market Influences

- **Labor Market** – Recently, the unemployment rate ticked up to 4.6%. While not a high absolute figure in and of itself, the trend has been higher. Additionally, U.S. nonfarm payroll data, while delayed and revision prone, has come in on the softer side. This could ultimately challenge resilient consumer attitudes should it continue.
- **Market Valuation** – With CPI inflation only slightly elevated versus its longer-term average, the S&P 500 index price-to-forward earnings level is inflated versus a longer-term average. The current multiple is north of 22x with the 25-year average below 17x. There are nuances that can arise when contemplating an expression of a valuation concept such as this, yet it illustrates that there are those in the marketplace that may view the current index level expensive to a fairer value.

Daniel P. Burchill
Director of Economic Research and Investments

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Trump Savings Accounts

Buzz has been in the news about the new Trump Savings Accounts that were introduced in the One Big Beautiful Bill Act (OBBBA). This bill allows families to create tax-advantaged accounts for the benefit of their children, as long as the child is under the age of 18 by the end of the calendar year in which the account is to be established. The child must also be a U.S. citizen and have a valid Social Security number.

At this point in time, there has been no guidance as to where these accounts may be opened and the Treasury will choose which financial institutions may serve as trustees of the initial Trump Savings Accounts. We are anticipating more information on this during the first quarter of 2026.

Guidelines state that no contributions to these accounts may be made prior to July 5, 2026. Following that start date, parents/guardians may contribute up to $5,000 per year, which is not tax deductible. Other family members and friends may also contribute, but their contributions do count towards the $5,000 annual maximum contribution limit.

Much has been said about the $1,000 government contribution. Children born between January 1, 2025, and December 31, 2028, will receive the $1,000 "pilot contribution". The contribution goes directly to the Trump Savings Account for the child. For example – a child born in May of 2024 would be eligible for an account but would not receive the $1,000 pilot deposit. A child born in March of 2026 would be eligible for an account and would receive the $1,000 deposit.

Employers may also contribute up to $2,500 per year. These contributions, however, count towards the parents' $5,000 contribution limit. The contributions are excluded from the employee's gross income and not considered taxable income.

There are exempt contributions that will not count toward the $5,000 cap. These include:

- Pilot contribution of $1,000
- Qualified rollovers between Trump Accounts
- Qualified general contributions (from government/charities)

All contribution deadlines are at the end of the calendar year.

Assets held in the Trump Accounts are to be invested in only mutual funds or ETFs and must track a broad U.S. index, like the S&P500. Fund appreciation and earnings grow tax free. Distributions prior to age 18 are generally not allowed. After age 18, the account is treated as an Individual Retirement Account (IRA) and, if the child pulls out funds, there is a 10% tax penalty, and the funds would be taxed as ordinary income. Like an IRA, there are qualified withdrawals that can be made without the 10% penalty, specifically for qualified education expenses or up to $10,000 for a first-time home purchase.

Currently, no guidance has been provided on how these accounts will affect financial aid qualifications. As we receive more information, we will keep you updated.

Ann S. Nolan, FPQP®
Client Relationship Manager

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Healthcare Policy Shifts

As of January 2026, several significant healthcare policy shifts have taking effect, driven by both the Inflation Reduction Act (IRA) and the more recent One Big Beautiful Bill Act (OBBBA). These changes primarily impact prescription drug costs, Medicare benefits, and insurance eligibility.

Medicare and Prescription Drug Changes

The most immediate impact for seniors in 2026 is the implementation of historic drug price negotiations and new spending caps.

- **Medicare Part D Out-of-Pocket Cap:** Yearly out-of-pocket costs for Medicare Part D prescription drugs are now capped at $2,100. This limit applies to all Part D enrollees, regardless of their total medication expenses.
- **Negotiated Drug Prices:** For the first time, Medicare has negotiated lower prices for 10 of the most expensive and common drugs, including Eliquis, Jardiance, and Januvia. Enrollees taking these specific medications may see cost-sharing dropping by an average of 51%.
- **TrumpRx Platform:** A new direct-to-consumer launching this month to link patients with pharmaceutical deals, aiming to further lower costs for those outside the Medicare program.

Marketplace and Insurance Shifts

The landscape for private insurance through the Affordable Care Act (ACA) is undergoing a major transition this year.

- **Expiration of Enhanced Subsidies:** The enhanced premium tax credits that had been in place since 2021 expired on December 31, 2025. As a result, many enrollees are seeing significantly higher monthly premiums in 2026.
- **HSA Expansion:** Under the OBBBA, Health Savings Account (HSA) has been expanded to include all Bronze and Catastrophic marketplace plans, allowing more individuals to pay for medical expenses with tax-free dollars.
- **Eligibility Restrictions:** New rules now restrict ACA tax credits to U.S. citizens and specific categories of lawful residents, removing eligibility for some previously covered noncitizen groups.

Medicaid and Provider Updates

- **Rural Health Funding:** A portion of $10 billion in federal funding is being dispersed to states this month to revitalize rural health systems and expand telehealth capacity.
- **Price Transparency:** Starting January 1, hospitals face stricter price transparency requirements mandating the disclosure of actual prices and standardized machine-readable files for consumer use.
- **Medicaid Work Requirements:** While some broader Medicaid changes are phased in over several years, many states are beginning to implement community engagement and work requirements for able-bodied adults in 2026.

Suzanne M. Valicenti
President
Chief Executive Officer
Valicenti Insurance Services

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Getting Ready for the 2025 Tax Filing Season

As the 2025 tax filing season begins, early preparation is the most effective way to ensure an efficient and stress-free experience. With the IRS typically beginning to accept returns in late January, now is the ideal time for clients to organize information, review changes from the prior year, and plan ahead for filing.

To accomplish this, clients should begin gathering tax documents as they become available. Delays in filing are often caused by missing or incomplete information, particularly when income statements or investment reports arrive later in the season. Organizing these materials early helps reduce errors and minimizes the need for follow-up requests.

It is also important to review any life or financial changes that occurred during 2025. Events such as job changes, bonuses, new income sources, retirement distributions, family changes, or business activity can significantly affect tax outcomes and filing requirements. Sharing this information early allows for more accurate preparation and better planning.

Clients who owed tax or received a large refund with their prior-year return may view that result as a planning opportunity. Reviewing withholding and estimated payments early in the year can help prevent surprises and improve cash flow for the year ahead.

For business owners, investors, and those involved with trusts or estates, timely and complete records are especially important. In some cases, filing an extension may be appropriate when third-party information is not available early in the season, but proactive communication helps set clear expectations.

Early organization and prompt responses throughout the filing process contribute to a smoother tax season and more accurate results.

Melissa B. Mickley, FPQP®
Tax Client Services Associate

Client Checklist: Getting Ready for Tax Season

Gather Key Documents

- Forms W-2 and all 1099s
- Investment and brokerage statements
- Retirement and Social Security statements
- Mortgage interest and property tax statements
- Charitable contribution records
- Documentation for digital assets, side income, or rental activity

Review 2025 Changes

- Job changes, bonuses, or new income sources
- Marriage, divorce, or dependents
- Home purchases, sales, or refinances
- Retirement distributions or rollovers
- Business or rental activity changes

Plan Ahead

- Review prior-year refunds or balances due
- Confirm withholding and estimated tax payments
- Prepare for potential April tax payments
- Respond promptly to tax organizer requests

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- Business retirement plans
- Agent for the Fiduciary

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- 401(k) review and analysis
- Income
- Retirement
- Taxes

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