Monthly Newsletter

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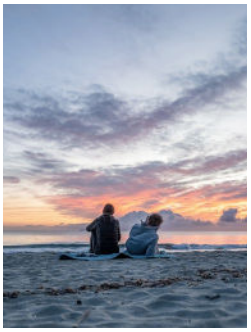


Q1 MARKET AND ECONOMIC OUTLOOK

Riding the Tides of Change

Coming off a year of double-digit market gains, we face competing crosscurrents as 2026 begins. Between an economy that continues to grow, inflation that remains stubbornly above target, geopolitical tensions and precedent-breaking questions about Federal Reserve independence, disorienting distractions abound. For investors, this environment calls for patience, a long-term perspective, portfolio diversification and a focus on planning.

Here are some of the largest market-moving themes we're following and where we see opportunity in the months ahead.

The Federal Reserve: Policy Meets Politics

After cutting rates three times in late 2025, the Fed is poised to pause, despite mounting political pressure. December meeting minutes revealed division among officials, with some arguing they could have held rates steady instead of cutting. Today, futures markets overwhelmingly expect the Fed to hold rates steady at the Jan. 28 meeting, with cuts more likely to follow later—perhaps in April or September if inflation and the job market cooperate.

The economic case for patience is straightforward: Headline consumer inflation sits at 2.7% and core at 2.6%—better than peak levels but still above the Fed's 2% target. Tariff policy adds uncertainty, with potential to push prices higher even as the Supreme Court weighs whether the administration's tariff authority is legal.

The Justice Department's criminal investigation of Fed Chair Jerome Powell—ostensibly about renovation cost overruns, but which Powell himself called a consequence of "setting interest rates based on our best assessment of what will serve the public, rather than following the preferences of the president"—represents an unprecedented challenge to Fed independence.

Powell's term expires in May, and the Trump administration will name a new chair, presumably someone who shares the president's views on central bank policy. Whoever takes the role will inherit both sticky inflation and executive pressure. Markets have historically priced Fed independence as a given; that assumption is now being tested. The bond market, as one strategist put it, "can vote"—and sharp moves in yields or the dollar may serve as a check on any policy that strays too far from the Fed's mandate.

The Economy: Resilient but Uneven

The labor market is showing some cracks. As of year-end, unemployment is low at 4.4%, but job gains slowed to around 49,000 per month in 2025, down from 168,000 a month in 2024. Initial jobless claims remain historically low at 198,000. This may be normalization from the overheated post-pandemic labor market or a sign that tariffs and AI adoption are taking a toll.

The [K-shaped economy]() also persists. Consumer confidence weakened in December, yet actual spending remains solid because the top earners who drive consumption are in good financial shape. Lower-income households face slower wage growth and higher sensitivity to prices. Those top earners are also larger beneficiaries of a rising stock market, and the wealth effect of seeing your portfolio reach new highs is real. It gives them confidence to continue spending but also raises the stakes should we see equity market momentum downshift.

Stocks: The Diversification Story

Even as U.S. stocks recorded a third consecutive year of double-digit returns, foreign outperformance stole the show. Developed international markets returned 31.2% and emerging markets gained 33.6%. This marked a reversal from over a decade of U.S. dominance and served as a reminder of the benefits of global diversification.

The broadening investors hoped for within U.S. markets was more modest. The equal-weight S&P 500 lagged the cap-weighted index (the one most often cited in media) by 650 basis points, as mega-cap tech continued to drive returns. The Magnificent Seven accounted for over 40% of earnings growth, and the tech and communications sectors delivered more than 60% of the index's gains. The build-out of AI fueled much of this, but the investment thesis is entering a new phase.

So-called hyperscalers are spending over $400 billion annually on AI infrastructure, yet surveys show fewer than half of corporate AI projects are generating positive returns. Investor patience is wearing thin—stock price correlations among the major AI players have dropped from 80% to 20% since mid-2025 as markets have begun distinguishing between companies burning cash on infrastructure and those actually monetizing the technology. We expect this trend of emerging winners and losers will continue.

The labor market effects of AI are also becoming visible. Entry-level hiring has slowed as companies reassess headcount needs, with unemployment among recent college graduates diverging from more experienced workers. 2026 may be the first year we can measure AI's actual job displacement effects, though the impact will likely be uneven—white-collar roles at junior and middle levels face more pressure than skilled trades. This suggests selectivity matters more than broad AI exposure going forward.

Geopolitical developments are making headlines but so far have not been a significant obstacle to stock market returns. U.S. policy regarding Venezuela—including the arrest of President Nicolás Maduro and seizure of tankers—has yet to disrupt the oil market, which absorbed the news without significant moves. The Trump administration's interest in acquiring Greenland as a U.S. territory is a source of tension with our NATO allies but has only just this week started to show a perceptible effect on stocks.

Bonds: Income Returns

Fixed income had a strong year in 2025, with the aggregate bond index returning 7.3%. Most of those gains came from bonds' income returns, which contributed nearly 4%, while price appreciation added another 3%. Intermediate-duration bonds outperformed longer maturities—a positioning that benefited portfolios tilted toward the middle of the curve.

Current yields remain attractive by recent standards. Investment-grade corporates offer 4.81%, and municipal bonds at 3.60% translate to tax-equivalent yields above 4.3% for investors in higher-income tax brackets. Even in a rate-cutting cycle, bonds continue to provide meaningful income and portfolio stability.

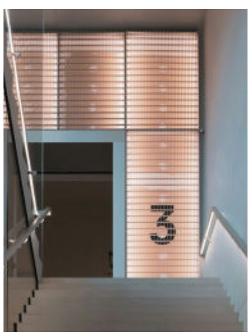
Looking Ahead

The threads running through this Outlook are interconnected. Fed policy uncertainty—driven by both sticky inflation and unprecedented political pressure—affects rate expectations, which in turn influence bond yields, stock valuations and the dollar. The K-shaped economy means monetary policy hits households across the affluence spectrum differently, with lower-income families more sensitive to both inflation and rate changes. And the concentration of U.S. market returns in a handful of AI-driven mega-caps underscores why global diversification mattered in 2025 and may matter even more in 2026.

Uncertainty is elevated, but that's often when discipline matters most. Despite 2025's volatility—including tariff scares, AI-related scrutiny and a record government shutdown—global markets rose. And sentiment troughs like those experienced in December have historically preceded above-average equity returns.

For the year ahead, we're watching the Fed transition closely, monitoring tariff developments and their inflation implications, and maintaining diversified exposure across U.S. and international markets. The case for quality—in both stocks and bonds—remains compelling when the path forward is unclear.

As always, we're here to discuss how these themes apply to your larger wealth plan. CEO and Chief Economist Michelle Knight's list of [26 questions for 2026](#) serves as a great starting point for conversations with your RWA team this year.



WEALTH WELLNESS

Why a Financial Plan Matters: Guarding Against Costly Behavioral Biases

At its core, financial planning is about creating a road map that aligns your wealth with your goals, values and priorities. For high-net-worth families, this often means coordinating investments, tax strategies and estate planning. For ultra-high-net-worth families, complexity increases: Multiple entities, generational wealth transfers, philanthropic goals and sophisticated risk management are all part of the planning picture.

But no matter the level of complexity, a well-designed financial plan is your best defense against costly mistakes driven by human behavior.

Even the most successful investors are susceptible to behavioral biases. These are mental shortcuts that can lead to poor decisions.

Let's review three of the most damaging biases: loss aversion, overconfidence and recency.

Loss Aversion: The Fear of Losing Overshadows Logic

Loss aversion is the tendency to feel the pain of losses more intensely than the pleasure of gains. This can lead people to hold on to underperforming assets too long or avoid risk altogether.

For example, a family hesitates to rebalance their portfolio after a market downturn, fearing further losses. By clinging to an outdated allocation, they miss the recovery and underperform by hundreds of thousands of dollars over a decade.

During down years like 2022, investors fearing further losses sold low and missed the recovery. That year, it's estimated to have cost investors 3% in returns on average compared with index performance.

Another instance might be when an entrepreneur sells a business and insists on keeping the proceeds in cash "until markets feel safe." Inflation erodes purchasing power, and the opportunity cost of sitting out a bull market could mean substantial losses or nudge your retirement timeline off course.

Studies have found that the emotional impact of losses is about twice that of equal gains. This psychological imbalance is what can prompt irrational decisions.

Overconfidence: Believing You're the Exception

Overconfidence bias leads investors to overestimate their ability to predict markets or pick winners. It often results in concentrated bets or ignoring diversification principles.

This might happen to a tech executive who invests heavily in their company stock, convinced it will outperform. When the sector corrects, their net worth drops significantly, jeopardizing retirement plans.

Research shows that overconfident investors who frequently buy and sell typically earn lower returns compared with more passive investors.

Another example of overconfidence could be when a family office bypasses professional advice and pursues a complex tax strategy they believe they've mastered. An IRS audit reveals compliance gaps, resulting in large penalties.

Recency: Thinking That Events Will Repeat Because They Happened Once

Recency bias (also known as availability bias) is our tendency to make decisions based on what we remember most easily. If something is more readily available in memory, as most recent experiences are, we perceive it as being more likely to happen again.

We observe this behavior anytime the markets rise or fall significantly. After big gains, investors will take greater risks; when markets crash, investors become risk averse. Either way, it can harm financial health and impact progress toward long-term goals if you make big changes to your investment portfolio or plan based solely on your response to recent events.

The Role of a Financial Plan—a Practical Way to Bypass Biases

A well-designed, personal financial plan acts as a guardrail against these biases. Academic research affirms that when financial advisors build trust and apply targeted strategies, they can measurably help clients reduce behavioral biases.

A financial plan sets clear objectives, defines risk parameters and creates a framework for decision-making. As a result, your decisions are guided by strategy, not emotion.

A strong plan creates clear rules so you know what to do when markets move. Here are six essential guardrails a trusted financial advisor can help you establish:

1. **Investment policy statement.** Define return objectives and risk limits to keep decisions anchored to your strategy.
2. **Preset action triggers.** Document "if-then" rules so you act with discipline, not emotion.
3. **Cash policy.** Maintain minimum reserves for spending and emergencies to avoid selling investments at the wrong time.
4. **Rebalancing rules.** Automate rebalancing on a schedule or when allocations drift beyond set bands to keep risk in check.
5. **Governance and documentation.** Record major decisions, clarify roles, and set a review schedule for accountability and consistency.
6. **Risk and scenario testing.** Stress-test your plan for market shocks, liquidity needs and big commitments so you're prepared before they happen.

When markets swing or headlines spark fear, your plan provides perspective. It reminds you why you're invested, how your assets align with your goals, and what actions (or lack of) serve your long-term interests.

In short, a financial plan doesn't just organize wealth; it protects you from the most unpredictable variable of all: human behavior. That's why we focus on the human side of wealth®. The biggest risks aren't always in the markets or economy, but in our own decisions.

Your RWA team can work with you to build rules in your plans that help ensure emotion-driven impulses don't derail your long-term objectives. If you'd like to review your current strategy or design a plan that keeps you focused on your goals, we're here to help.

WEALTH AND LEGACY PLANNING

How Family Loans Can Help Loved Ones Fund Their Goals

In this day and age, when adult children or grandchildren need to borrow money—whether to buy a first home, launch a business or finish a degree—the options are often expensive. Mortgage rates hover near 6% and personal loans run into double digits.

Gifting money can be one solution, but sometimes there are constraints or limits to how much we want to give. However, parents and grandparents can lend a hand (and a sizable sum) without running afoul of annual or lifetime gift tax consequences by offering a family loan, either personally or via trust entities that may be in place. A structured lending arrangement can provide below-market financing and flexibility for the borrower and retain repayment rights for the lender. It's a practical tool for transferring opportunity across generations.

How It Works

With the assistance of your attorney or an experienced advisor like RWA, you would create a formalized, legally binding loan agreement between family members. It allows you to provide capital to a borrower within the family at an interest rate that meets IRS requirements but remains well below commercial alternatives.

The IRS publishes applicable federal rates (AFR) monthly. These are minimum rates that must be charged to avoid the loan being treated as a gift. For January 2026, these rates are 3.63% for short-term loans (up to three years), 3.81% for mid-term (three to nine years) and 4.63% for long-term (over nine years). Rates are locked at origination, and loans can be structured as interest-only or with principal and income payments.

Rate Comparison: Family Loans vs. Commercial Alternatives

The table below illustrates the potential savings of family bank financing versus traditional options.

RATE COMPARISON: FAMILY LOANS VS. COMMERCIAL ALTERNATIVES

Loan Type	Rate	Typical Term	Common Use	Notes
Family Bank (Short-term AFR)	3.63%	Up to 3 years	Bridge financing, education	Rate locked at origination
Family Bank (Mid-term AFR)	3.81%	3–9 years	Business startup, vehicle	Rate locked at origination
Family Bank (Long-term AFR)	4.63%	9+ years	Home purchase	Rate locked at origination
15-Year Mortgage	5.25%	15 years	Home purchase	Requires qualification
30-Year Mortgage	5.87%	30 years	Home purchase	Requires qualification
Home Equity Line of Credit (HELOC)	7.44%	10-year draw	Home improvement, consolidation	Variable rate
Personal Loan	12.20%	3–5 years	Debt consolidation, major purchase	Credit score dependent

Sources: IRS (AFRs), Zillow (mortgage), Bankrate (personal loan and HELOC). Rates as of January 2026.

Family Bank Savings Opportunities

The rate differential is significant. A child borrowing $300,000 for a home purchase at the long-term AFR of 4.63% rather than a 15-year mortgage at 5.25% saves roughly $100 per month in interest payments—about $1,200 annually. Over the life of the loan, that's more than $18,000 that stays within the family rather than going to a bank.

Beyond the math, a family loan can accomplish what an outright gift cannot: It creates accountability and establishes a framework for ongoing financial dialogue between generations. The regular payments become a touchpoint, a reminder of shared commitment to family values.

Logistics of a Family Loan

A family loan requires a written promissory note specifying the principal, interest rate (at or above the applicable AFR), repayment schedule and consequences of default. If the loan is secured by real estate, the mortgage or deed of trust should be recorded, especially to ensure the borrowers can claim the mortgage interest deduction up to the maximum benefit. The lender reports interest income on their tax return. Payments must actually be made—and tracked—or the IRS may recharacterize the arrangement as a gift. Advisors like RWA perform this function routinely.

Important Considerations

Family loans aren't without risk. The most obvious: What happens when a borrower can't—or won't—make payments? Enforcing a promissory note against a child or grandchild creates relationship strain that no interest-rate savings can justify. Lenders should also consider whether the capital might be needed elsewhere, the tax consequences of making funds available for the loan, etc. There is real opportunity cost to contemplate. This is why many lenders will liquidate fixed-income securities within their portfolio to the extent they can, substituting the loan with its AFR for bonds in their view of asset allocation. In short, you trade some bond interest payments for loan repayments in your portfolio.

Consider these factors carefully and set expectations appropriately so that the loan does not become a source of stress and resentment. Remember, the point is to use your resources to enable your child or grandchild to embark on the life they want—a life you likely wish to be a welcome part of.

A Legacy That Connects

Done well, a family loan is more than a legal and financial arrangement—it's an expression of confidence in the next generation's ability to build something meaningful. It's an opportunity to lend help when they most need it, keep wealth savings in the family, and open the door to home ownership, continuing education or the start of a new venture during your lifetime.

If you're interested in exploring whether a family loan might work for your situation, we are here to lend our expertise.