THE CAPITAL MARKETS

New Covenant Trust Company

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MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished November at 47,716, up +0.32% for the month and up +12.16% so far in 2025. The S&P 500 closed November at 6,849, up +0.13% for the month and up +16.45% year-to-date. The NASDAQ Composite lost -1.51% in November, still up +21.00% for the year. Small-company stocks as measured by the Russell 2000 ended November up +0.85% for the month, up +12.12% so far for the year.

S&P 500 POISED FOR ANOTHER DOUBLE-DIGIT YEAR IN 2025 — WHAT LIES AHEAD?

The S&P 500 ended November up over +16% year-to-date and is set to once again turn in double-digit gains —its sixth out of the last seven years. Four of those years saw returns of +25% or more. Despite starting the year with consternation around trade policy and tariffs, since bottoming in early April, the stock market has been buoyed by optimism on tax cuts, deregulation and a Federal Reserve easing interest rates.

Markets have remained sanguine in the face of a weakening labor market, stubborn inflation and increasingly frothy valuations in stocks. The anticipation for further interest rate cuts, fiscal stimulus and resilient corporate earnings has been enough for stocks to climb the wall of worry through 2025.

In this edition, we'll review our key drivers from the mid-year 2025 review, explore how they impacted markets in the second half of 2025, and what their implications may be as we look ahead to 2026.

Inflation and the Fed

There's been a well-documented mismatch between U.S. consumers' dour sentiment on the economy and economic readings that continue to show an otherwise "good" economy by many measures.

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"But it remains unclear how the central bank will proceed in 2026, raising questions about whether this year's stock rally has more room to run. 'The Fed is going to have to deliver a dovish tone to keep that going,' said Matt Miskin, co-chief investment strategist at Manulife."

The Wall Street Journal, December 9, 2025

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Inflation is likely a big driver of this dynamic. After peaking as high as +9% in 2022, the Consumer Price Index has steadily declined to around +3% but has stubbornly hovered around there for the past year.

Normally, this above-target inflation level would lead the Federal Reserve to continue its restrictive monetary policy (higher interest rates), until inflation was closer to target. Weakness in the labor market, however, has put the Fed's other mandate, supporting full employment, in conflict with its mandate to support stable prices.

So far, moving to a more accommodative monetary policy to support employment has been the Fed's move in 2025, with three interest rate cuts year-to-date. Looking ahead, however, markets are still pricing in an additional three to four rate cuts in 2026 — an expectation that may lead to disappointment in our view.

With additional uncertainty surrounding a new Fed chair in June, fiscal policy working against low inflation targets and stock valuations priced to perfection, unexpected upward pressure on inflation and a more hawkish Fed in 2026 is a key risk to markets next year in our view.

Trade Policy and Tariffs

Most observers would likely agree that the ultimate level and impact of global tariffs — where we stand today — are meaningfully lower than what was feared earlier in the year.

Most of the highest levies were scaled back significantly through the year, and the likelihood for a return to the highest levels of unilateral tariffs is now lower given the legal challenges and rulings made this year. This factor still remains relevant, however, in the context of political uncertainty.

Coming off the longest government shutdown ever, and with geopolitical tensions still swirling, the risk of unexpected surprises remains elevated, and a sharp market reaction can ensue from these surprises as we saw in April.

Artificial Intelligence

Investing is a forward-looking exercise, and the future return for a stock is how its business ends up doing relative to the expectations (or price) when you buy it. Companies that do OK, but that had expectations for extraordinary, will likely see their stock price go down. Companies that do OK but had expectations for bankruptcy, will likely see their stock price rocket up.

Many expect, perhaps rightfully so, that AI will be a transformative technology for our economy and society. The question for investors in 2026, however, is whether the 10 companies that now make up over 40% of the S&P 500 will continue to live up to and exceed expectations for price levels and valuations that are now near historic highs.

In the near term, in our view, there's an elevated risk for volatility in these AI-related companies. Any developments or surprises that put pressure on stocks will likely affect these high-growth companies most, as we saw in April. Any developments that put into question current assumptions around AI's timeline for impact and profitability may drive significant volatility in these names.

A Look Ahead to 2026

Our long-term outlook remains constructive for investors to continue benefiting from investing in the global capital markets. 2026 has no shortage of risks, but broad diversification and balance, in an appropriate asset allocation with sufficient liquidity, should serve investors well if the weather turns stormy.

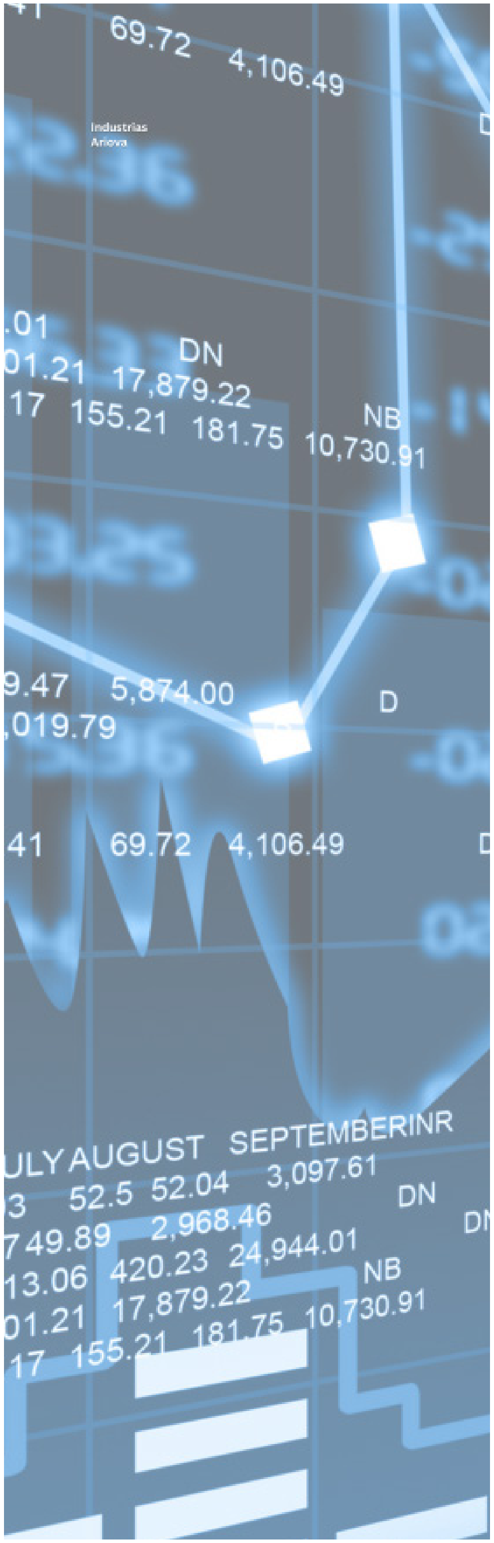
We thank our readers for another year together and wish you all a blessed Advent and Christmas season.

"Investing real money now and hoping for payments sometime in the future is the core of investment. But big companies rarely spend so much on a technology where uncertainties are so high. Wei Li, chief investment strategist at the Blackrock investment Institute ... said the uncertainties are so big it isn't even worth trying to forecast how much productivity AI might lead to. 'We spend first, and we're hoping that at some point revenue will come,' she said. 'But that hasn't happened yet."

The Wall Street Journal, December 7, 2025

Market Metrics

Index or Metric	Close as of 10/31/2025	Close as of 11/30/2025	Change Previous Month End	2025 YTD % Change
Dow Jones Industrial Average	47,562.87	47,716.42	+153.55	12.16%
S&P 500	6,840.20	6,849.09	+8.89	16.45%
NASDAQ Composite	23,724.96	23,365.69	-359.27	21.00%
RUSSELL 2000	2,479.38	2,500.43	+21.05	12.12%
Fed Funds Rate	3.75% - 4.00%	3.75% - 4.00%	UNCHANGED	
2-Year Treasury	3.60%	3.47%	-0.13%	
10-Year Treasury	4.11%	4.02%	-0.09%	
Crude Oil $ per Barrel	$60.98	$58.55	-$2.43	-18.36%
Gold $ per Troy oz.	$3,996.50	$4,254.90	+$258.40	61.11%
UK Point in U.S. $	$1.3139US=1£	$1.325US=1£	$ WEAKER	5.80%
Euro in U.S. $	$1.1542US=1	$1.1606US=1	$ WEAKER	12.08%
Canada $ per U.S. $	$1.40115C=$1.00US	$1.39405C=$1.00US	$ WEAKER	-3.07%
Japan Yen per U.S. $	154.055¥=$1.00US	156.05¥=$1.00US	$ STRONGER	-0.71%



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