



January 1, 2026

Dear Valued Client:

Returns for the major stock indexes for 2025 and the current bond and money market yields are as follows:

Index	2025 Year End
Dow Jones Industrial Average	14.92%
S&P 500	17.88%

Fixed Income Yields	1 year	2 year	5 year	10 year	30 year
Municipals	2.49%	2.44%	2.39%	2.73%	4.19%
US Treasuries	3.47%	3.47%	3.73%	4.17%	4.84%

Fidelity Government Cash Reserves Money Market Fund	3.56%
Fidelity Money Market Fund Class Premium	3.66%

Happy New Year! Once again, the markets delivered strong annual returns for equity investors. The S&P 500 recorded a 17% return, with every major asset class except for the largest cryptocurrencies posting gains. Despite a 20% intra-year decline that bottomed in April, all US equity sectors and major international markets posted positive returns for the year. All style indices recorded solid returns, with growth stocks again outpacing value, and large-cap stocks outperforming mid-cap and small-cap stocks. Investors who bought the market dips and those who have held for the long term were again rewarded.

At LYNCH & Associates, we are continually reminded of the humbling nature of equity markets as 2025 again showed us that markets can be both expensive and resilient. In our year-end letter one year ago, we highlighted multiple concerns about high market valuations. Equity valuations were, and remain, priced far above historical norms across multiple metrics. One indicator we cited last year remains even more elevated: the S&P 500 Cape Ratio, which measures a 10-year rolling average of price-to-earnings ratios. This measure is now above the 98th percentile and has only been this expensive one other time in the last 100 years. Also, the total market capitalization of all US stocks divided by the total money supply is at a historical high. Both metrics are on par with valuations from the late 1990s dot-com era.

The markets are indeed expensive relative to history. The humbling ambivalence we wrestle with remains today; as we noted our high valuation concerns last year, the market returned 17% for the year. Again, the market can and will remain highly valued for extended periods. As we regularly state, we do not advocate market timing; however, adjusting asset allocation as needed is critical to managing money effectively over time.

Meanwhile, the US economy is humming along, with solid GDP growth, inflation moderating, and strong employment. The AI boom is significantly boosting productivity while also fueling a bullish, “fear-of-missing-out” narrative that drives speculation. Company profits are forecasted to grow impressively at double-digit rates in 2026 in the US and internationally. The markets are also pricing in at least two more interest rate cuts. All of this, along with exorbitant projected corporate spending and seven trillion dollars in money market funds, provides a credible basis for optimism.

Expectations are the name of the game in investing. As legendary investor Ben Graham famously said, “In the short run, the market is a voting machine, in the long run, it is a weighing machine.” In the short term, prices are driven by emotion, popular narratives, fear, and hype. Current markets reflect these human realities. Combine these forces with the excitement from the AI narrative and the massive additions to the money supply over recent years, and asset prices have naturally risen across the board.

In 2026, we believe the current momentum in equity markets can continue despite our valuation concerns. The concentration of the largest companies can skew index valuations higher, and many individual companies do not seem overpriced. We maintain a value bias in our equity holdings and expect to increase our international equity allocations.

Regarding bonds, the spread between a 3-month T-bill and a 30-year Treasury is below 1.25%, which does not bolster our optimism about longer-term issues. We remain unenthusiastic about the bond market outlook, even with a new Fed Chairman taking over in 2026. As interest rates come down, we are again wrestling with the TINA (There Is No Alternative) narrative, as the alternative to equities is NOT very attractive. We continue to allocate a large portion of our fixed-income holdings to money markets until better fixed-income opportunities arise.

We encourage our clients to stay focused on their long-term investment goals. Our team is here to provide guidance and support as needed, and we remain committed to helping you achieve your investment objectives. We thank you for your continued confidence in LYNCH & Associates.

Sincerely,

Ryan T. Lynch, CFP® ChFC®
President

Form ADV Part II and III of the LYNCH & Associates Uniform Application for Investment Advisor Registration and the LYNCH & Associates Code of Ethics are available to all clients at any time. If you would like to receive a copy, please contact Evan Lynch at (812) 853-0878.

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