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## Weekly Market Guide

**The S&P 500 remains in a sideways consolidation phase, trading just below October highs.** The market-leading Tech/AI area has borne the brunt of the recent weakness, while improvement from the lagging areas has been a positive. **Profit-taking in the AI trade is a normal (and healthy) market function**, as some of the excesses get reined in. We don't believe the AI trade is over by any means, as fundamental trends remain strong, and demand outstrips supply. Importantly, **broader participation beneath the surface is supportive of market trends**. Moreover, **underlying risk-appetite is healthy** with areas like the banks, industrials, and small caps breaking to new highs.

**Along with increased scrutiny on AI spending (ROI, payoff timeline, etc.), economic softness and Fed expectations have been primary influences of late.** The government shutdown muddies economic reports; however corporate announcements, surveys, and strong holiday shopping support our view that the **economy is healthy**. Additionally, the Fed cut interest rates last week (25bps for the third consecutive meeting) and initiated monthly asset purchases. The **Fed in easing mode**, along with an expansion in its balance sheet, adds liquidity to the system and **supports lending plus economic growth ahead**.

### BIG PICTURE/2026 VIEW

**Positives into 2026: Economic health/strength**- backed by investment spending/AI and fiscal stimulus (i.e. tax savings, investment incentives) along with Fed easing and the wealth effect (equities at highs). **Earnings are the #1 driver for stocks over the long-term**. Economic strength (current 2026 GDP estimates are 2% and rising) supports earnings strength over the coming year. Current S&P 500 earnings estimates reflect double-digit growth in 2026 (and estimates are rising). Margins are holding at high levels. This increases earnings potential over time with secular growth themes (i.e. onshoring, AI/tech build-out, energy transition) and productivity gains ahead.

**Lots of noise potential:** Expectations are elevated on the economy, earnings, Fed, geopolitics, AI, etc. Valuation is lofty at the index level (due to Tech/AI concentration). We are positive on those factors, but little knocks in the trend can create volatility when the bar is high (like it is now). Be mindful of sentiment (following three strong years of gains in equities), and be pragmatic in your investing. Volatility may increase and returns moderate from the path we've been on.

**Biggest risks:** Tech/AI enthusiasm (along with market concentration in those names) is elevated. A dramatic shift in the AI narrative would be a major development (i.e. spending levels/patterns, return on investment, supply constraints, timeline of widespread adoption, etc.). Elsewhere, keep an eye on geopolitics ("trade deals" will be followed-up on), financial strains (some small incidents have occurred), inflation, and jobs.

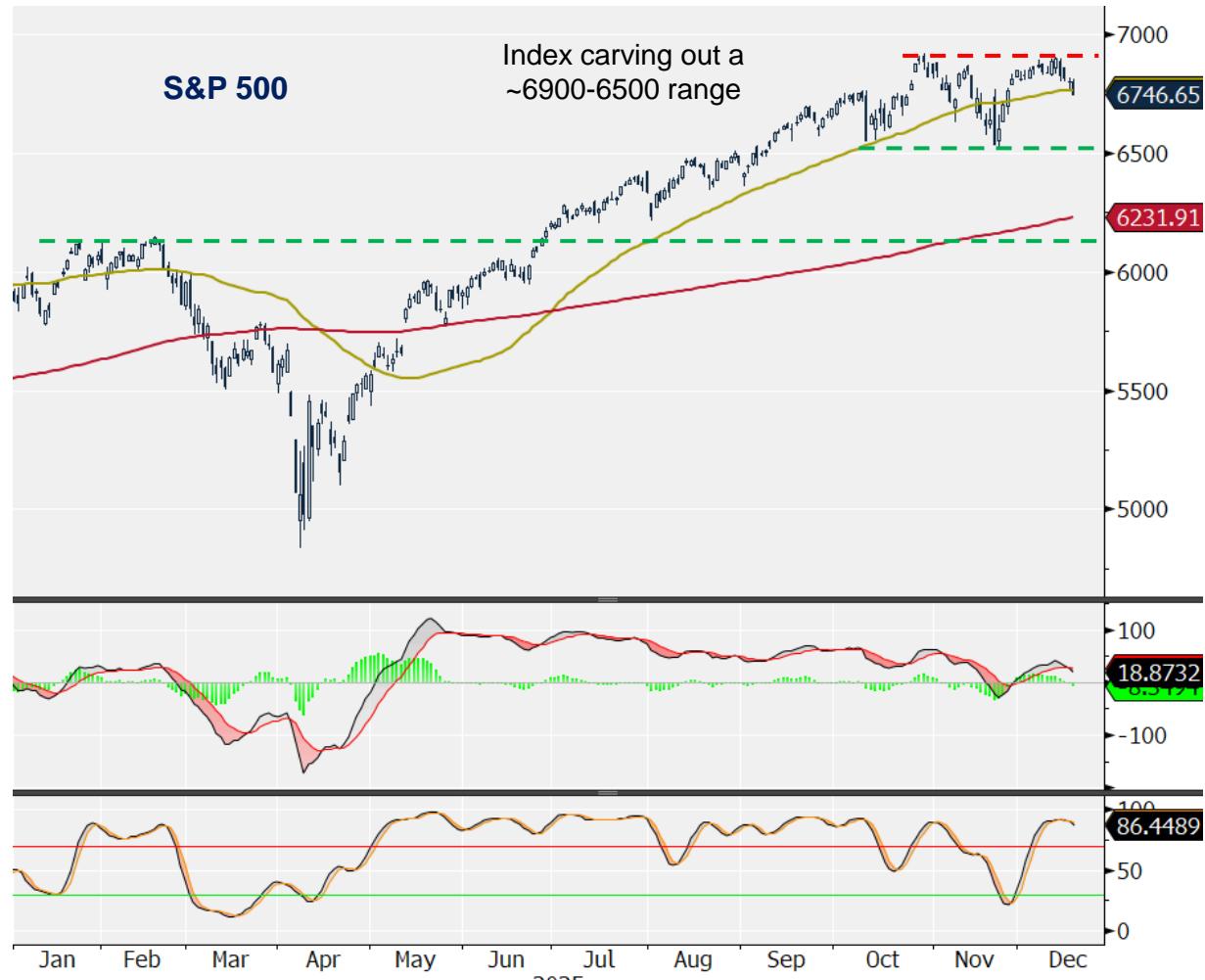
Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	13.1%	10.1%
S&P 500	15.6%	12.0%
S&P 500 (Equal-Weighted)	9.4%	5.9%
NASDAQ Composite	19.7%	14.6%
Russell 2000	13.0%	6.7%
MSCI All-Cap World	19.2%	15.6%
MSCI Developed Markets	26.2%	23.2%
MSCI Emerging Markets	25.8%	22.6%
NYSE Alerian MLP	1.3%	0.6%
MSCI U.S. REIT	-1.1%	-4.7%
S&P 500 Sectors	Price Return	Sector Weighting
	Year to Date	Weighting
Communication Svcs.	30.6%	10.5%
Information Technology	21.6%	34.2%
Industrials	18.1%	8.2%
<b>S&amp;P 500</b>	<b>15.6%</b>	-
Utilities	12.9%	2.3%
Financials	12.7%	13.5%
Health Care	11.6%	9.6%
Materials	7.0%	1.7%
Consumer Discretionary	6.6%	10.5%
Consumer Staples	2.8%	4.8%
Energy	1.8%	2.8%
Real Estate	-1.1%	1.7%

Source: FactSet

**In sum-** Equities have a lot going for them into 2026 (i.e. economic & earnings strength, Fed easing, AI & other secular growth themes). We believe this will support higher prices over the coming year. But the bar is also higher for these factors, and hiccups in their trend can impact volatility. This may result in normal pullbacks and more moderate returns. Additionally, we would like to see the market broaden out in 2026 from the narrow sleeve of AI outperformance that has driven the index since early 2023. We believe the current setup bodes well for diversification and active management.

***We wish you and your loved ones a Merry Christmas, Happy Holidays, and Prosperous New Year! This will likely be the last Weekly Market Guide of 2025 with a return on 1/7/2026.***

## Technical: S&P 500



The S&P 500 remains in a consolidation phase, while underpinnings are healthy.

Action beneath the surface has been constructive in the recent sideways grind. While the Nasdaq Composite and S&P 500 have failed to break out yet (due to Tech concentration & recent softness), the equal-weighted S&P 500, Mid Caps, and Small Caps have all traded to new highs.

This rotation from leaders to laggards, in conjunction with broader participation in the rally, is supportive in our view.

At the S&P index level, a recent range has been set between ~6900-6550. We view the recent action as normal and healthy following a 6-month up-move (on minimal volatility).

We believe pullbacks should be limited and would view them opportunistically. Short-term support lies at ~6500, while major longer-term support lies in the ~6200-6000 area.

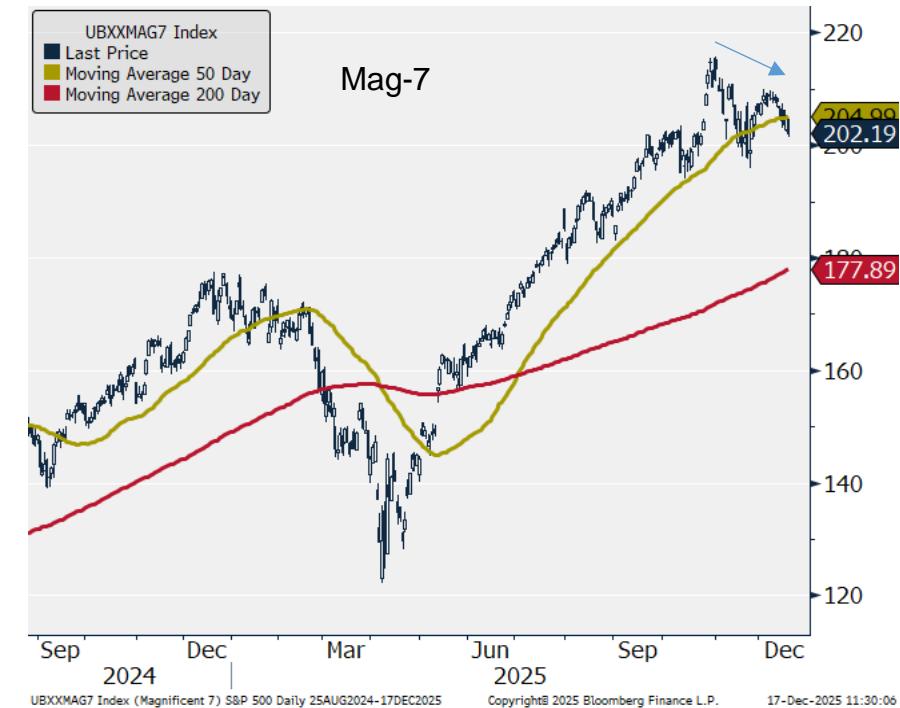
Source: Bloomberg, FactSet

## Market Rotation

The market-leading Tech/AI area has borne the brunt of the recent weakness, while improvement from the lagging areas has been a positive. Profit-taking in the AI trade is a normal (and healthy) market function, as some of the excesses get reined in. We don't believe the AI trade is over by any means, as fundamental trends remain strong and demand outstrips supply. Importantly, broader participation beneath the surface is supportive of market trends.  
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## Russell 3000 YTD Return Deciles - Since October Peak



Source: Bloomberg, FactSet

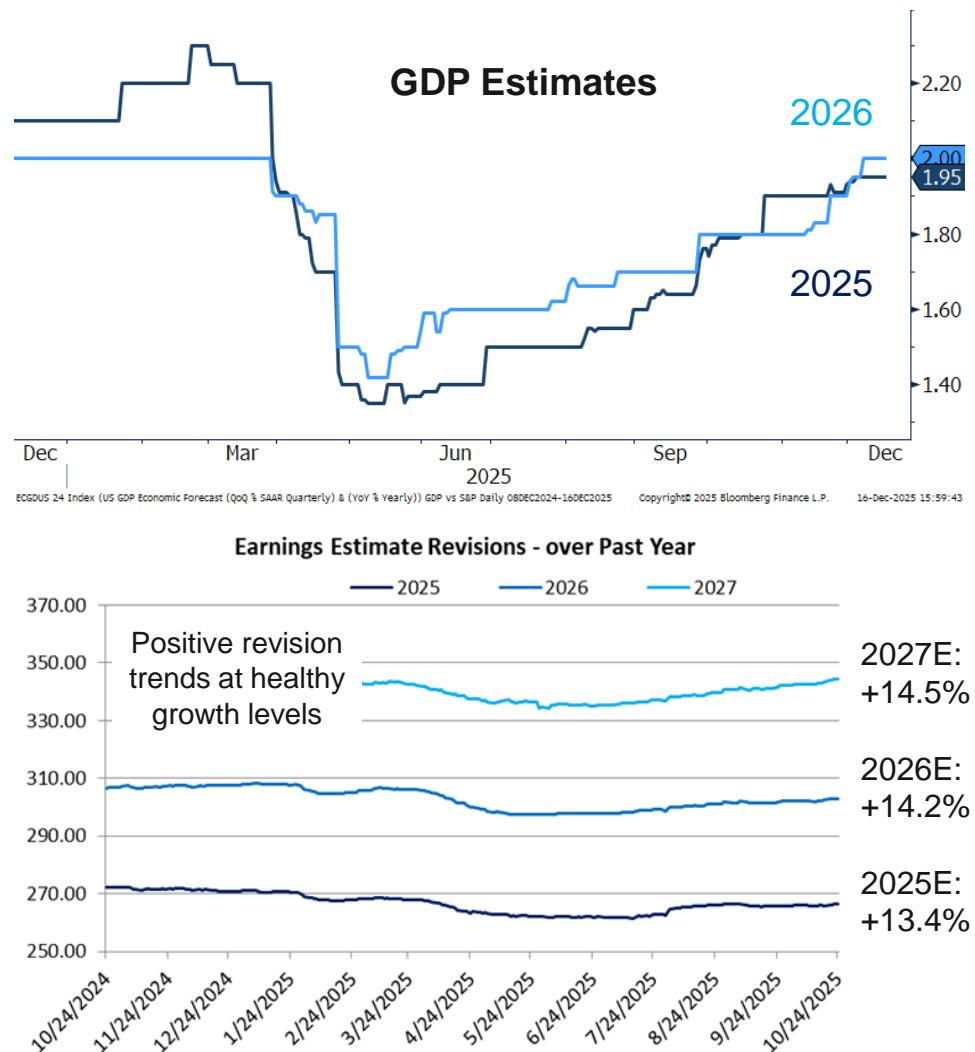
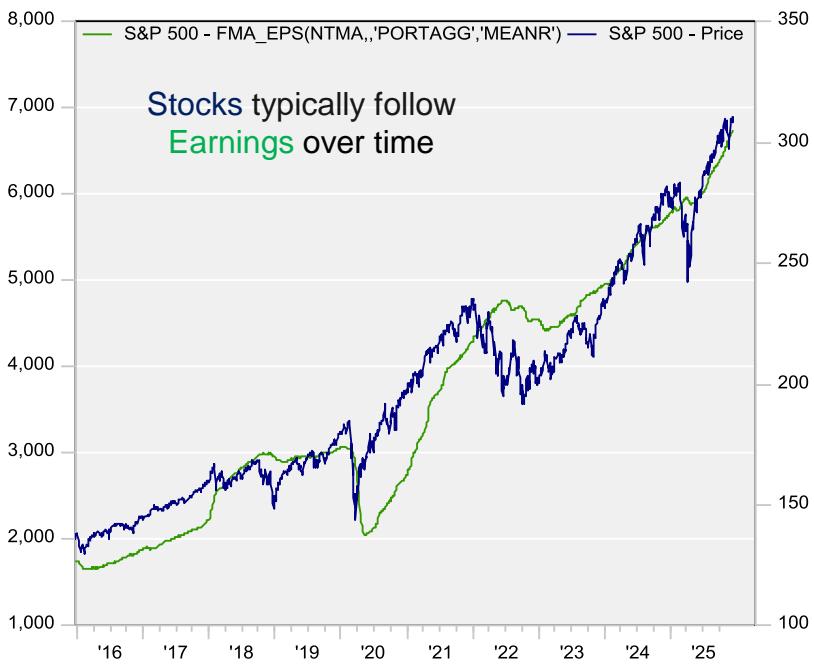
## Diversification is Still Important

As we move through 2026, we would like to see market performance sustain broader participation and break the streak of narrow AI outperformance in place since early 2023. While Tech remains leadership overall, the bar is high for Tech given AI enthusiasm and lofty valuations. The bar is much lower elsewhere. The current setup and potential for broadening participation, bodes well for diversification and active management in our view.



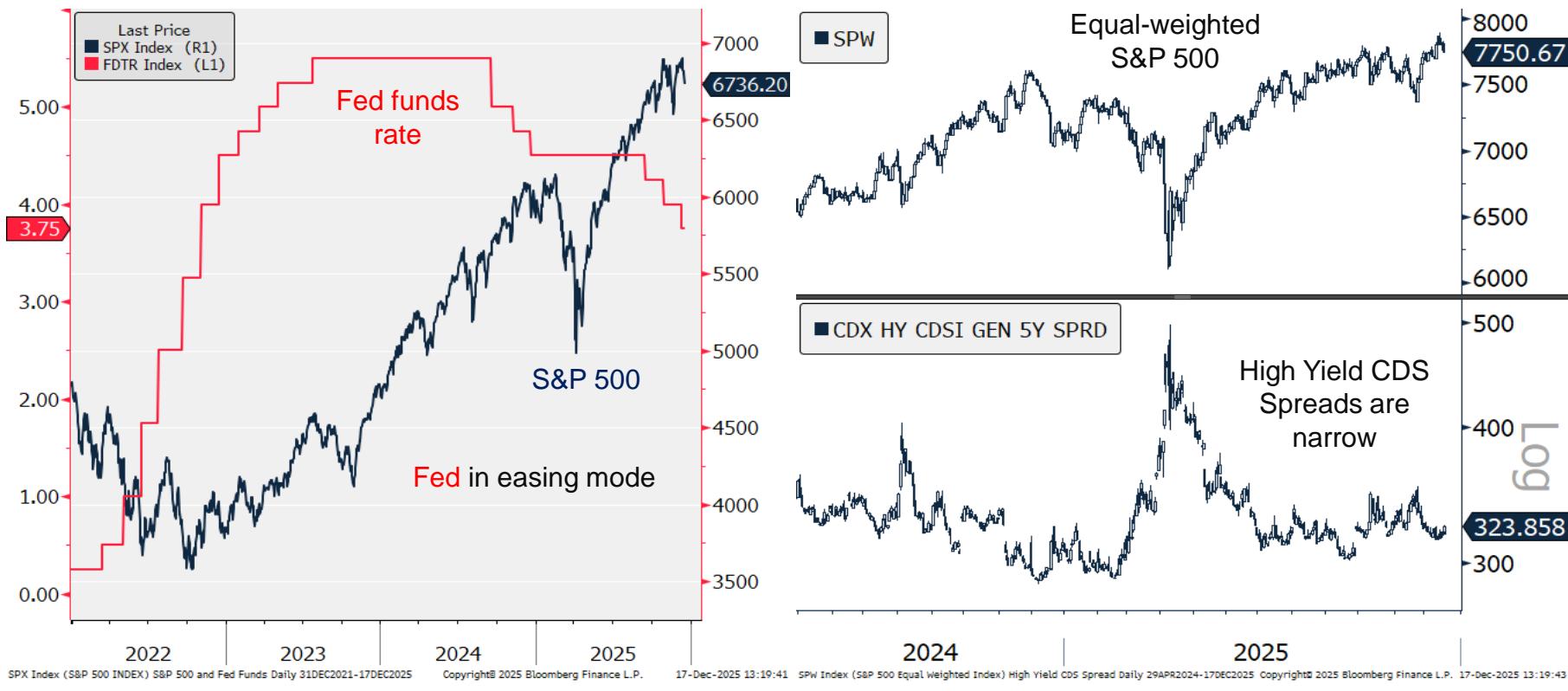
## Earnings are the Long-Term Driver of Equities

The #1 driver for stocks over the long-term is earnings. Economic strength (current 2026 GDP estimates are 2% and rising) supports earnings strength over the coming year. Current S&P 500 earnings estimates reflect double-digit growth in 2026 (and estimates are rising). Margins are holding at high levels. This increases earnings potential over time with secular growth themes (i.e. onshoring, AI/tech build-out, energy transition) and productivity gains ahead. We believe this will support higher prices over the coming year.



## Macro Positives

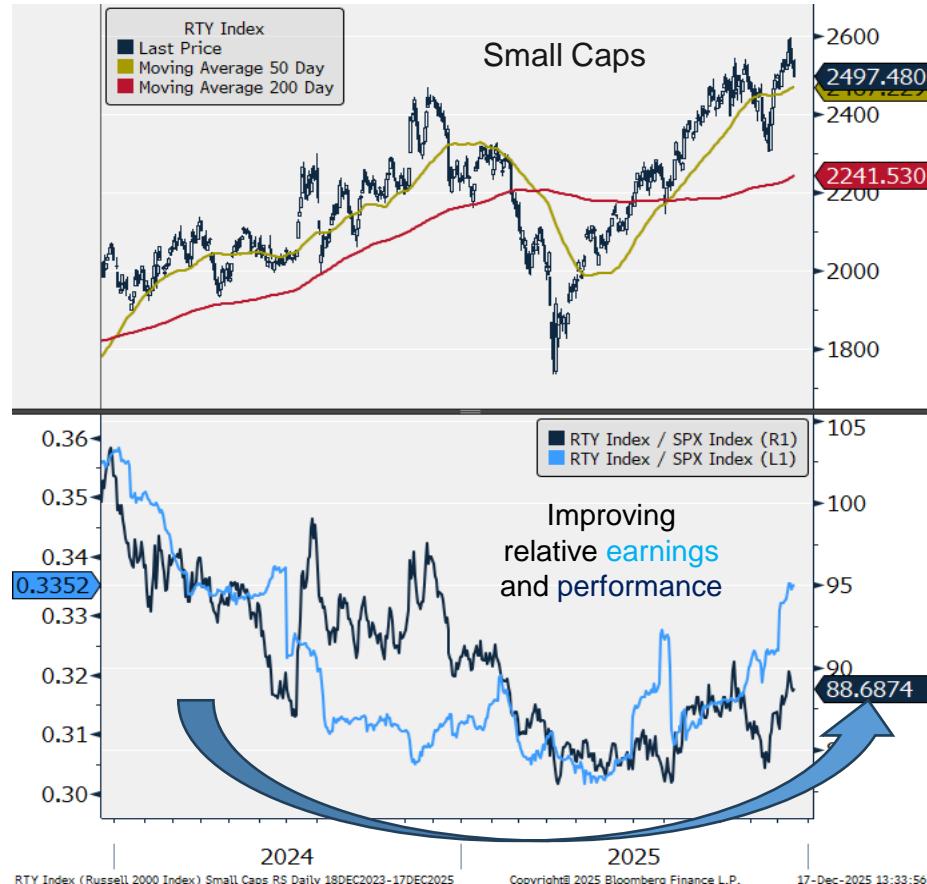
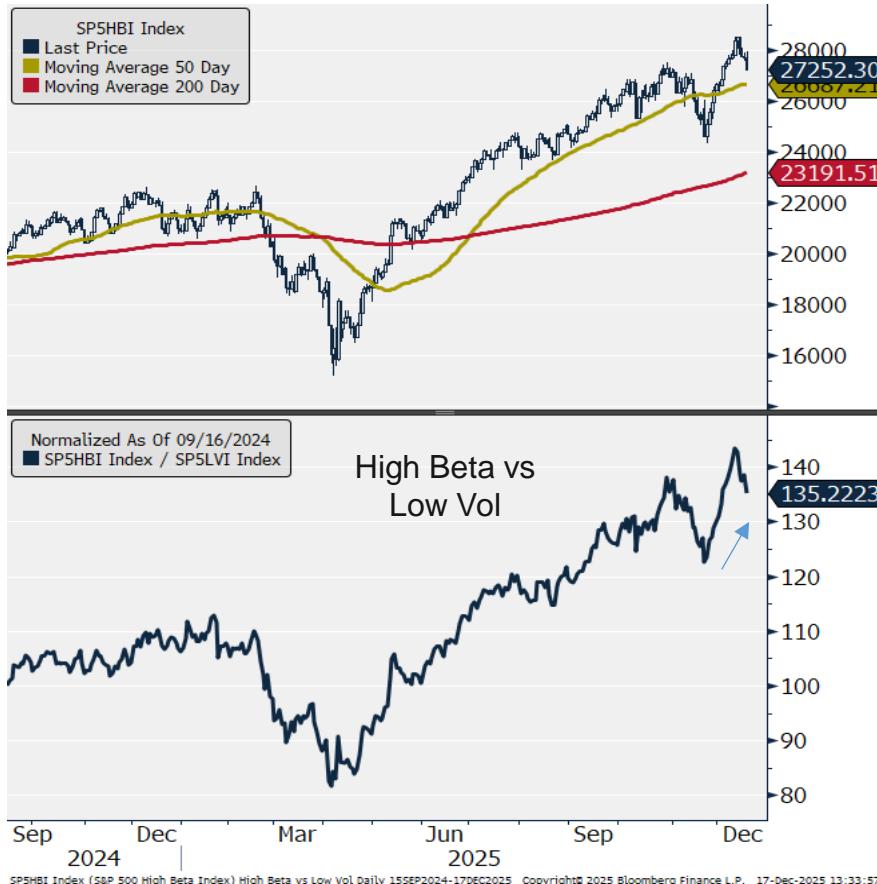
While we experienced an economic “soft-patch” this Fall, corporate announcements, surveys, and strong holiday shopping support our view that the economy is healthy. Credit spreads remain narrow, reflecting a lack of financial stress/concern in the bond market. Additionally, the Fed cut interest rates last week (25bps for the third consecutive meeting) and initiated monthly asset purchases. The yield curve expanded to its highest levels of the year, which is a positive indicator for the banks. The Fed in easing mode, along with an expansion in its balance sheet, adds liquidity to the system and supports lending plus economic growth ahead. The combination of these factors is a tailwind to equities.



Source: Bloomberg, FactSet

## Technical Positives

Underlying risk-appetite is healthy with high beta holdings its relative uptrend vs. low volatility. As discussed previously, the “average stock” is breaking out to highs with notable strength from cyclical areas like the banks, industrials, and small caps. This broader participation is supportive of market trends.



Source: Bloomberg, FactSet

## IMPORTANT INVESTOR DISCLOSURES

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### Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange's Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

**Europe: DAX** (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

**Asia: Nikkei** is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.