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2025 was uncertain, unusual, unnerving, unprecedented, unimaginable

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2025 offered investors a year that tested nerves, rewarded patience, and reminded us why we stay invested despite the headline news and trading turmoil. The S&P 500 finished the year up 16 percent, the Nasdaq climbed 20 percent, and the Dow Jones Industrial Average rose 13 percent. It was the third consecutive year of double-digit gains. That isn't bad for a year that included what traders are now calling the "April Shock" – one of the largest cumulative two-day drops for the S&P on record.

December itself was a quiet month. The S&P finished essentially flat, the Nasdaq dipped half a percent, and the Dow eked out a 0.7 percent gain for its eighth winning month in a row. No fireworks or widely anticipated Santa Claus rally occurred at year-end. Santa's GPS must have malfunctioned, because he instead arrived with his rally in the first few trading days of 2026.

But what a year it was getting there. In early April, sweeping tariff announcements for our closest allies and largest trading partners sent markets into a tailspin. The S&P 500 dropped more than 10 percent in just 48 hours. Trillions of dollars in market value vanished. The financial press was filled with dire predictions. Recession calls multiplied like rabbits in springtime.

When most of the draconian tariffs were quickly postponed or retracted when the stock market plummeted, the negative market reaction immediately reversed. Despite this whiplash chaos unfolding in financial markets, corporate quarterly earnings reports held firm, reminding traders of the underlying strength of the U.S. economy. Stocks staged one of the fastest V-shaped recoveries in recent memory. By late June, the major indices had reclaimed their highs and were setting new records. Investors who panicked and sold in April missed one of the sharpest rebounds in decades. Those investors who stayed the course were rewarded, although many small businesses, typically the backbone of job growth, were irreparably damaged. The dramatic decrease in immigration has likely softened what otherwise might have been a notable rise in unemployment as these businesses failed.

Artificial intelligence and the announcements of massive investments in data center infrastructure to support its build-out continued to dominate the narrative. Technology and communication services led all sectors, with semiconductor companies and any company involved in AI infrastructure posting impressive gains. Nvidia crossed the five trillion-dollar market capitalization threshold in October – a feat that seemed unimaginable just a few years ago. The market moved from asking whether AI is real to worrying about overbuilding and over-leveraging. Companies that delivered plausible answers to these concerns were rewarded; those that didn't were penalized by investors.

The Federal Reserve navigated a tricky path in 2025. After holding rates steady through the first half of the year, the central bank began cutting them in September; three quarter-point reductions finished the year with a target range of 3.5 to 3.75 percent. The December meeting was contentious, with three dissenting votes reflecting genuine disagreement about whether inflation had cooled enough to justify continued easing. Fed Chair Jerome Powell acknowledged it was a "close call." He positioned the Fed to wait and see how the economy evolves in 2026.

Expect fewer cuts ahead, even with a soon-to-be-appointed new Fed Chair (Powell, much publicly maligned by Trump, was appointed by him). Even if the new chair will likely have promised Trump rate cuts, he (currently, there are no women in contention) will have to convince a majority of the Federal Open Market Committee (FOMC) members to vote in favor of cuts, and they include regional Federal Reserve bank presidents.

Additional rate cuts are less likely in the near term if the economy continues to be more resilient than many predicted. In 2025, GDP grew modestly, unemployment ticked up slightly but remained historically low, and consumer spending held firm despite tariff-related price pressures. The soft landing that seemed improbable a year ago so far appears to have materialized, with the "wealth effect" of increased retirement and investment account balances encouraging consumers to continue to spend.

In 2026, stock valuations are elevated. The S&P 500 is trading at roughly 22 times forward earnings – a level we have seen only a few times in history. Wall Street strategists project modest gains, with most targets clustering around 7,500 to 7,700 for the S&P by year-end. Since the era of easy Fed cuts seems to be ending, corporate earnings will need to continue to do the heavy lifting, as they did in 2025.

The AI theme will evolve from infrastructure build-out to practical application. Companies that can get new data centers up and running, and operators that can demonstrate real productivity gains from AI will be rewarded. Those selling picks and shovels to the gold rush may find the easy money has been made – or at least already announced. The ability

to access power to run these massive new productivity centers is likely to be a constraint on their rate of growth. As always, the market will sort winners from pretenders.

Geopolitical risks remain elevated. Trade policy continues to create uncertainty. Energy markets face conflicting pressures from oversupply and regional instability. These are not reasons to flee equities, but they are reasons to maintain appropriate diversification. Invest for the long term. Stay diversified across sectors and market capitalizations. Do not try to time the market based on headlines. The April sell-off taught us that the investors who kept their heads ended the year with solid gains. Interestingly, this time retail investors largely were the ones who stayed the course and bought the dip, while the algorithms widely deployed on Wall Street drove the market down.

There is a lesson here worth repeating: the market hates uncertainty, but it adapts faster than we expect. Time and again, we see that the cost of being out of the market during recoveries far exceeds the pain of riding through corrections.

Will 2026 be another year of double-digit returns? It is an election year, and incumbent politicians like to use the fiscal purse to get reelected. It's especially important this year with consumers feeling the pinch of tariff-induced price increases for food and consumer staples. We will be seeing fiscal stimulus take effect shortly with accelerated depreciation tax deductions and tax refunds for individuals resulting from the One Big Beautiful Bill Act passed last July.

History tells us that over time, the market rewards patient investors who own quality companies with strong balance sheets and growing earnings. That principle has not changed. Nevertheless, be prepared for another unrivaled ride ahead.

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