

Colvin Quarterly



By: Kristian Colvin

What a Hat Trick.

Points of Interest:

- * Valuations
- * The Fed Under Pressure
- * Tax Bill Incentives
- * Employment
- * Wealthy Consumers
- * Earnings

Stocks posted their third straight year of double digit returns in 2025. This marked the seventh best three year period ever, what a hat trick. Markets overcame major policy changes, including the highest import taxes in decades. Tariff exemptions and a plethora of trade deals muted expected inflationary spikes. The artificial intelligence (AI) infrastructure build out triggered massive growth in capital spending from corporations. Increases in equity and housing values provided confidence to wealthier Americans to spend freely, which powered our GDP growth to the best in years.

Republicans signed into law the President's *One Big Beautiful Bill* tax legislation which is estimated to increase tax returns for millions, which will act like stimulus to our economy. It cannot all be rainbows and butterflies, however as these same tax refunds will add to deficits over the next decade. The Fed continued to be under attack by the administration to lower interest rates, threatening their independence. Employment growth continued its slowdown.

The S&P 500 is currently trading at a highly elevated 24 times forward

price to earnings (P/E). This ranks in the upper 5th percentile of historical P/Es dating back 40 years. These multiples are being (Turn page over)



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California Billionaire Tax Proposal

California has recently proposed a tax act for a one time 5 percent tax on billionaires wealth. First of all, most of us would love the opportunity to have so much money that we would be subject to such a taxation. It is estimated that around 200 California Billionaires would be impacted. The taxation would exclude real estate, pensions and retirement accounts. The taxes raised in 2027 from this tax act would be used for healthcare, education and food assistance, all important and beneficial to the state. There is a

potential downside, the billionaire exodus. Founders from Google, Palantir, Oracle and Door Dash have all been reported filing papers with the state for moving businesses out of California. Not all are opposed, Nvidia's Jensen Huang has said he is "perfectly fine" with it. This proposal is far from becoming law, but is creating quite a stir. I am not so sure the benefit from the one time tax would outweigh the ongoing taxes and innovative businesses many of these billionaires provide to California.

What a Hat Trick.

tolerated due to exceptional earnings, 84 percent of companies beat earnings estimates. The S&P 500 earnings were up 15.9 percent year over year in the third quarter. Analysts are optimistic about 2026, when earnings are expected to grow 12.6 percent versus 2025.

At a meeting in New York in December organized by the Yale School of Management, 66 percent of business leaders surveyed said they planned to either fire workers or maintain the size of their existing workforce. Employment growth has been stuck at a slow pace since February of 2024. Business leaders are concerned about the economy along with the belief that AI can handle more work within their companies. Workers are holding on to their jobs knowing now is not the time to swap for something better. IBM recently said that their employees are leaving them at the lowest level in 30 years. The U-6 unemployment rate counts all people who are unemployed plus all those who are working part-time for economic reasons, which recently surged to 8.7 percent. This is a troubling statistic since it stood at 6.6 percent in December of 2022.

Since taking office in January, President Trump has advocated for the Fed to lower their Fed Funds Rate. His push escalated recently with the Justice Department serving a criminal investigation into Chairman Powell's handling and testimony surrounding the Federal Reserve building renovation. A criminal investigation of a sitting chair is without precedent. Past Fed chairs, including Alan Greenspan, Ben Bernanke and Janet Yellen, rushed to defend Powell and his ability to set monetary policy free from political influence. Powell was appointed by Trump in his first term and granted an additional term under Biden. Through both administrations, Powell has chosen his words carefully and maintained a neutrality with his comments related to the White House, until now. In a short video recently released, Powell said "The threat of criminal charges is a consequence of the Federal Reserve setting interest rates based on our best assessment of what will serve the public, rather than following the preference of the president." This escalation has the possibility of backfiring Trump's plans to lower rates. Senator Thom Tillis (Rep NC) said he would block any new nominee to the Fed until the investigation is resolved. Additionally, this could motivate Chairman Powell to stay on as a Fed governor after his term as Fed Chairman ends, which would deprive Trump of another appointee. Economists and investors have long believed that a central bank free from political influence is critical to keeping inflation stable and is important to the health of equity markets. Given this, I hope the pressure on the Fed stops so our

monetary policy avoids becoming more like that of some emerging market central banks, with outrageous inflation and unstable markets.

Aside from juggling political pressure, the Fed has been very active. Inflation remains elevated relative to their preferred 2 percent rate but has not spiked as feared with the increase of tariffs. The employment picture has softened in the past few years and now shows little to no job creation. This prompted The Fed to lower their Fed funds rate three times by 25 basis points each in the second half of last year. Intermediate and long-term rates went down, but only marginally. The Fed has outlined one 25 basis point move in 2026 and one in 2027. As I have written in the past, intermediate and long-term rates are impacted more by supply and demand, and we have a significant amount of supply. There is approximately \$9 trillion in US treasury debt maturing in 2026, not to mention the \$1.5-2 trillion we add on each year. They have started buying back around \$40 billion in US treasury bonds each month to provide liquidity to markets for the next several months.

GDP grew at an annualized rate of 4.3 percent in the third quarter, well above expectations and the highest we have seen in several years. Personal consumption expenditures grew at 3.5 percent in the third quarter, up from 2.5 and 0.6 percent in Q2 and Q1. Consumer spending accounts for 68 percent of US GDP, so this trend favors growth. Wealthier consumers are driving these economic trends. As individuals' investment accounts and home values have surged in recent years, wealthy consumers have become quite confident in spending. Real retail sales have grown at around 4 percent over the past year, which is well above the roughly 2 percent we had seen for the previous few years. Holiday retail sales broke records between Thanksgiving to Cyber-Monday period and are expected to exceed \$1 trillion for the first time. Historically, there is not a correlation between bear markets and recessions. This time could be different if we were to encounter a bear market it is plausible that this could erode consumer confidence, which would reduce spending and could lead to a recession.

Chaos in government seems to be the norm these days. Many of you who meet with me regularly know I advise that corporations find a way to make money regardless of what is going on in Washington. I continue to advocate taking profits and staying in-line with your asset allocation, aside from overweighting international over US equities.

If you need additional copies of this newsletter for friends, family or neighbors please let me know. I am grateful for any opportunity to get in front of other investors like yourselves. Please keep me in mind to help others you know that may need financial advisory assistance.