

ROANOKE CONNECTIONS

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FOURTH QUARTER 2025 REVIEW & OUTLOOK

Looking Beyond the Tech Horizon

As we look back on 2025, it's a fitting time to reflect on a year that defied many skeptics' expectations. The financial landscape last year was defined by resilience, even as the rally shifted its focus. The S&P 500 Index finished the year with a robust gain of approximately 16%, while the tech-heavy NASDAQ – despite a volatile fourth quarter – maintained its lead for much of the year. Interestingly, the Russell 2000 small-cap index found its footing in the latter half of the year, buoyed by a more favorable interest rate environment. However, the standout story for many international investors was the MSCI EAFE Index, which outperformed U.S. markets for significant stretches of the year.¹ This strength was primarily front-loaded in the first half, driven by a weakening U.S. dollar and a resurgence in European and Japanese equities, which benefited from attractive valuations compared to their American counterparts.

Rotation and the AI Reality Check

The fourth quarter of 2025 marked a distinct shift in investor sentiment, often referred to as rotation. For the past two years, the Magnificent 7 mega-cap tech stocks were the undisputed engines of the market. Recently, however, we have seen a noticeable migration of capital away from these giants toward broader sectors like Financials, Industrials, and Utilities. This shift stems from growing scrutiny over the massive capital expenditures required for Artificial Intelligence (AI) infrastructure. With some estimates suggesting that nearly 95% of enterprises are still waiting to see a tangible return on their multi-billion dollar AI investments, investors have begun to question whether current valuations are sustainable.² This has created a "show me the money" environment, where the market is rewarding companies with proven cash flows and exposure to traditional economic activity rather than just speculative growth.³



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The Federal Reserve: A "Hawkish Cut" to Close the Year

The Federal Open Market Committee (FOMC) remained the center of attention in December, concluding their final meeting of the year with a 25-basis-point rate cut. This move brought the federal funds rate to a target range of 3.50% to 3.75%, the third reduction in 2025. Despite this easing, Chair Jerome Powell and other Fed officials have signaled a more neutral and cautious stance for 2026. The Fed's current outlook suggests that while the labor market is cooling and inflation has drifted lower, the era of aggressive rate cuts may be pausing. The committee's goal for 2026 is to balance the risk of "sticky" inflation against the need to support a labor market that has shown signs of softening.⁴ Most analysts expect a wait-and-see approach in the first quarter of the new year as the Fed monitors the delayed effects of 2025's policy shifts.

De-risking the "Bubble" Narrative

With every major technological shift comes the inevitable talk of a "bubble," and 2025 was no exception. However, there is a strong argument that the AI bubble concerns are overstated precisely

MARKET MEASURES	4th QTR	YTD
S & P 500 (price)	2.3%	16.4%
Dow Jones Industrial Average	3.6%	13.0%
NASDAQ Composite	2.6%	20.4%
Russell 2000	1.9%	11.3%
MSCI EAFE	5.5%	28.4%
Bloomberg Inter. Gov't/ Credit Bond Index	1.3%	7.0%
	12/31/25	12/31/24
10-Year U.S. Treasury Bond Yield	4.16%	4.57%
Three-month U.S. Treasury Bill Yield	3.64%	4.33%

Source: Telemet Orion

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because they are so widely discussed. In historical market bubbles, such as the dot-com era, the prevailing mood was one of "irrational exuberance" – a belief that prices could only go up. Today, the market is characterized by a healthy level of skepticism and caution. When so many participants are actively looking for the exit or questioning valuations, it suggests that the "froth" is being managed in real-time rather than building up toward a catastrophic burst. This collective caution often acts as a natural stabilizer, preventing the type of blind euphoria that typically precedes a true market crash.

Preservation and Growth through Balance

If 2025 taught us anything, it is that market leadership is never permanent. The transition from a tech-dominated market to a more diversified one serves as a vital reminder for the long-term investor. Maintaining a portfolio balanced across the major asset classes – equities, fixed income, cash, and alternatives – is an effective strategy to manage volatility. While it can be tempting to chase the hot sector of the moment, history shows that wealth is preserved and grown through discipline and diversification. As 2026 begins, we remain committed to ensuring your strategy is aligned with your long-term goals, regardless of which way the market winds blow. ■

¹ Telemet Orion, December 22, 2025

² The GenAI Divide: The State of AI in Business 2025, MIT NANDA, July 2025

³ Investment Outlook 2026, J.P. Morgan Asset Management, November 2025

⁴ Federal Reserve Board of Governors, December 10, 2025

THE POWER OF

ASSET CONSOLIDATION

IN WEALTH MANAGEMENT

As you accumulate wealth, it is normal for assets to build in various accounts and across custodial platforms. You may have a 401k with your employer plus other 401k plan assets from previous employers that never got transferred, 529 plan for kids or grandkids, stocks held directly with a company under a direct stock purchase plan, a Rollover IRA or ROTH IRA, an individual or joint investment account, and the list can go on. As wealth builds and as you approach retirement, however, it can get overwhelming and unwieldy.

Here are four reasons to consider consolidation:

When you have assets with multiple advisors, you are not obliged to just one advisor or firm. Some clients perceive it as taking less risk and/or creating more accountability. You may have had a relationship with a previous advisor (now retired or departed) with that firm, or the advisor may be a friend or have a family connection. There is, however, a trade-off. Wealth management is highly administrative, and juggling multiple statements, tax documents, login credentials, and communication threads consumes valuable time and mental energy. With consolidation comes operational efficiency and reduced complexity.

Multiple advisors are not integrating their services. When different advisors manage different pots of money, they are working to maximize asset growth of their specific account(s), often without any broader view of other aggregated assets. Without that broader view, you can end up with over-concentration in a single security, asset segment, or asset class. A single advisor has a 360-degree view of your entire balance sheet – from your investments,

real estate, business interests, and estate plan. This unified view allows for holistic wealth planning, an integrated tax strategy, and cohesive risk management.

When assets are scattered, it can make asset titling, beneficiary designations, and alignment with your trust documents more complex. Gaps between your estate attorney and multiple custodians can lead to significant headaches and unintended consequences for your heirs. Asset consolidation can potentially streamline estate and legacy planning. A single advisor can work seamlessly with your legal and tax professionals, acting as the central hub of information. They can ensure that the management of your investments is properly aligned with the dictates of your will and trusts – safeguarding your legacy and simplifying your transition process to the next generation.

Finally, utilizing a single advisor/team can foster a deeper client-advisor relationship and may offer access to a broader range of services. Consolidation also has the potential to reduce costs; however, these outcomes may vary based on individual circumstances and are not guaranteed.

The points above do require that the right advisor/team have the capabilities and competencies to manage the relationship holistically. The result is an immensely powerful alignment of interests: your comprehensive success is the advisor/team's primary measure of performance. We welcome the opportunity to discuss further as you deem appropriate.



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DON'T FORGET ABOUT YOUR HEALTH SAVINGS ACCOUNT (HSA)

Health Savings Accounts (HSAs) are often viewed as simple savings accounts for paying medical expenses with tax advantages. For eligible clients¹ who understand the full potential and flexibility of HSAs, however, HSAs can function as powerful long-term investment vehicles and flexible

retirement income resources. This article discusses several of the tax advantages, investment options and income strategies associated with HSAs, but is far from an exhaustive discussion of HSAs and how they can be used in a client's financial plan.

HSA Tax Advantages

To begin, HSAs offer three layers of tax benefits unmatched by any other account type (meaning that no other account type offers all three advantages):

- **Account holders can make pre-tax contributions that are tax-deductible;**
- **Contributions grow on a tax-deferred basis, and;**
- **Account holders can make tax-free withdrawals from an HSA at any time (i.e., both before and during retirement) for qualifying medical expenses.**

Investing through an HSA

Several HSA providers allow account holders to use self-directed brokerage windows that afford account holders access to a broad range of investments--including stocks, bonds and Exchange Traded Funds--similar to a traditional brokerage account. Please note that the investment options offered through various HSA providers are not all created equal when it comes to flexibility, investment selections and minimum cash balances required for investment, so be sure to consult with your financial advisor and ask the HSA provider about its investment options. Investing HSA contributions is a great way for account holders to put these

In summary, HSAs can offer tax advantages and opportunities for investment and supplemental income that should be considered when planning for the future. This article scratches the surface, but we encourage you to discuss the role HSAs could have in planning for your financial future with your Cary Street Partners financial advisor. ■

funds to work and grow if not being put to immediate use for qualifying medical expenses.

Using an HSA as a Source of Retirement Income

■ **Tax-Free Funding for Healthcare in Retirement:**

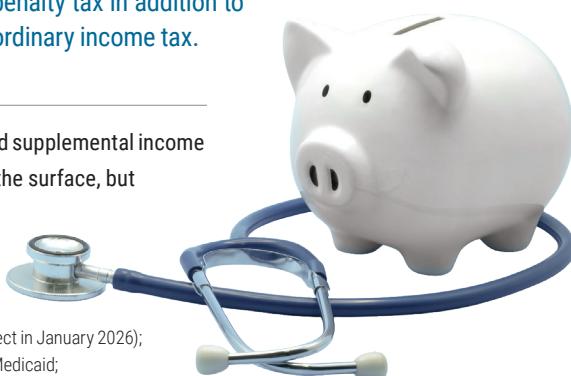
As discussed above, account holders can make tax-free withdrawals from an HSA at any time before or during retirement for qualified medical expenses. Funds in an HSA can therefore be a valuable source of funds to cover additional medical expenses not covered by Medicare or other health coverage in retirement.

■ **Deferred Reimbursement Strategy:**

An additional feature of an HSA is the account holder's ability to reimburse themselves for qualified medical expenses after incurring the expense on an out-of-pocket basis. There is no stated timeline in which individuals must reimburse themselves through the HSA for qualified expenses, so individuals with HSAs who are able to pay for qualified medical expenses out-of-pocket initially can allow the assets in the HSA to remain invested and grow while preserving the ability to reimburse themselves for qualified expenses years down the road, thereby providing a source of tax-free income in retirement. Of course, keeping excellent records and receipts of qualifying expenses is recommended if deferred reimbursements are anticipated.

■ **Penalty-Free Withdrawals After Age 65:**

After reaching age 65, funds can be withdrawn from an HSA penalty-free for non-medical withdrawals. Any such withdrawals will be taxed at the account holder's ordinary income tax rate, making taxation very similar to withdrawals from a Traditional IRA in retirement. Prior to age 65, withdrawals for non-qualified medical expenses will incur a 20% penalty tax in addition to ordinary income tax.



¹To be eligible to contribute to an HSA, generally one must be: (1) covered under an IRS-qualified High Deductible Health Plan (HDHP) (or other qualifying health care plan under new rules taking effect in January 2026); (2) have no other health insurance that conflicts (exceptions apply); (3) not enrolled in Medicare or Medicaid; (4) not claimed as a dependent by another taxpayer; and (5) be at least 18 years old.



QUALIFIED CHARITABLE DISTRIBUTION (QCD) REMINDER

Many of our clients donate funds to their favorite charities each year. The simplest donating method is writing checks. However, there are other ways that may be more tax efficient, including donating appreciated stock. A client may have a large gain due to price appreciation and rather than selling and paying tax on the gain, they donate some or all the appreciated shares to a charity. Their shares are donated at the current market price even though that may be several multiples over their original cost-basis.

Additionally, we have helped clients set up a variety of Trusts or Donor-Advised Funds to support charitable causes. The mechanics of these options are more involved but will serve to gain favorable tax treatment while still supporting the needs of charities.

One of the newest and most tax efficient methods was created as a temporary measure, made permanent 10 years ago, and involves donating directly from an IRA (Individual Retirement Account). These are known as Qualified Charitable Distributions. As a reminder, traditional IRAs hold funds that are contributed on a pre-tax basis. Created in the early 1980s, many IRAs have grown to quite significant balances. When the IRA owner reaches age 70½, they may donate up to \$108,000 (adjusted for inflation annually) to their favorite charity or charities. Donating from an IRA may reduce taxable income which in turn may potentially lower Medicare premiums. The process is quite simple. A client can authorize us to request checks from their IRA custodian, or a client may get a checkbook tied to their IRA and write their own checks directly to the charity.

As we always stress, no two clients' situations are identical. If you would like to explore any of these options, let us know. We are happy to coordinate a meeting with you and your tax professional to determine the most beneficial strategy for you.



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WEALTH MANAGEMENT

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TAKE YOUR WEALTH
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Fixed income investments have several other asset-class specific risks. Inflation risk reduces the real value of such investments, as purchasing power declines on nominal dollars that are received as principal and interest. Interest

rate risk comes from a rise in interest rates that causes a fixed income security to decline in price in order to make the market price-based yield competitive with the prevailing interest rate climate. Fixed income securities are also at risk of issuer default or the markets' perception that default risk has increased.

International and foreign securities are subject to additional risks such as currency fluctuations, political instability, differing financial standards, and the potential for illiquid markets.

Comparative Index Descriptions: Historical performance results for investment indices have been provided for general comparison purposes only and generally do not reflect the deduction of transaction or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings do or will correspond directly to any comparative indices. An investor cannot invest directly in the indices shown, and accurate mirroring of the indices is not possible.

The Standard & Poor's (S&P) 500 Index is an index of 500 stocks seen as a leading indicator of U.S. equities and a reflection of the performance of the large cap universe, made up of companies selected by economists. The S&P 500 is a market value weighted index and one of the common benchmarks for the U.S. stock market.