



The Wealth Compass

Navigating Your Financial Journey

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Market Pullbacks, Diversification, and Long-Term

Over the past few weeks, more clients have reached out with a familiar question: What's going on with the market?

That question usually comes after a pullback, and it rarely comes from panic. More often, it reflects something quieter: uncertainty. Markets had been moving higher, confidence felt easy, and now things feel less settled. That shift alone can be unsettling.

I do not spend much time offering market commentary, and that is intentional. Short-term market movements are noisy, emotional, and often driven by narratives that change faster than portfolios should. Still, periods like this are a good reminder to step back and revisit the framework behind how we invest and why diversification matters, especially when the headlines feel uncomfortable.

Market Pullbacks Are Uncomfortable, but Not Unusual

Market pullbacks are not a sign that something is broken. They are part of how markets work. Periods of strong performance tend to create confidence and sometimes complacency. When leadership narrows or enthusiasm cools, markets adjust. That adjustment can feel abrupt even when it is normal.

What we are seeing now looks less like a single event and more like a shift in sentiment. Certain areas of the market that had driven recent gains are being questioned, while other, more familiar parts of the economy are holding up better. This kind of rotation can feel confusing if you are focused on individual headlines, but it is not unusual in longer market cycles.

One of the simplest ways to understand why diversification matters is to look at how different parts of the market take turns leading. The graphic on the next page shows annual market returns ranked by performance over time. What stands out is not consistency, but constant change. The strongest performers one year often look very different the next, which is why portfolios are built around balance and discipline rather than trying to guess what will lead next.

“You can't
predict.

You can
prepare.”

Howard Marks

NHTrust
FINANCIAL ADVISORS

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	10 Years
Small Cap	26.6%	EM	Cash	Large Cap	Large Cap	REITs	Comdty	Large Cap	Large Cap	EM	Large Cap
Mid Cap	20.5%	Int'l Stocks	Bonds	REITs	EM	Comdty	Cash	Int'l Stocks	Mid Cap	Int'l Stocks	Mid Cap
Comdty	12.9%	Large Cap	TIPS	Mid Cap	Mid Cap	Large Cap	EW	Mid Cap	Small Cap	Large Cap	Small Cap
Large Cap	12.0%	Mid Cap	Large Cap	Small Cap	Small Cap	Small Cap	TIPS	Small Cap	EW	Comdty	Int'l Stocks
EM	10.9%	Small Cap	REITs	Int'l Stocks	TIPS	Mid Cap	Bonds	REITs	EM	EW	EM
EW	10.0%	EW	EW	EM	EW	EW	Mid Cap	EW	Comdty	Bonds	EW
REITs	8.6%	REITs	Small Cap	EW	Int'l Stocks	Int'l Stocks	Int'l Stocks	EM	Cash	Mid Cap	Comdty
TIPS	4.7%	Bonds	Mid Cap	Bonds	Bonds	TIPS	Small Cap	Bonds	REITs	TIPS	REITs
Bonds	2.4%	TIPS	Comdty	TIPS	Cash	Cash	Large Cap	Cash	Int'l Stocks	Small Cap	TIPS
Int'l Stocks	1.4%	Comdty	Int'l Stocks	Comdty	Comdty	Bonds	EM	TIPS	TIPS	Cash	Cash
Cash	0.1%	Cash	EM	Cash	REITs	EM	REITs	Comdty	Bonds	REITs	Bonds

Funds: EEM, VNQ, MDY, SPSM SPY, EFA, TIP, AGG, DJP, BIL
EW = Equal Weight of All Asset Classes

If predicting the top performer were easy, this chart would look very different.

Source: <https://awealthofcommonsense.com/2026/01/updating-my-favorite-performance-chart-for-2025/>

The takeaway is not which color finishes on top in any given year, but that no single asset class stays there consistently.

Investment Risk Is Real, and Discipline Matters

It is important to say this clearly: investing involves risk. Markets can and do decline. Diversification does not prevent losses, and no strategy removes uncertainty entirely. What diversification does provide is structure. It allows decisions to be made in advance, based on goals, time horizons, and risk tolerance, rather than reacting emotionally to short-term market moves.

A well-constructed, diversified portfolio is not built for perfect conditions. It is built to navigate imperfect ones.

If recent market moves have you feeling uncertain or simply want to talk things through, please know we are always available. Sometimes a brief conversation is all it takes to put short-term market noise back into long-term perspective.



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