City National Bank
Wealth

Economic and Market Overview

Fourth Quarter 2025
Outlook 2026

Economic and Market Overview

Fourth Quarter 2025

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Wealth Management and Trust Services

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The Economy

After stumbling early in the year, the U.S. economy accelerated meaningfully into the summer: according to the Bureau of Economic Analysis' initial report, real **Gross Domestic Product (GDP) grew at an annualized 4.3% in Q3 2025** up from 3.8% in Q2. That strength sits alongside a more uneven labor backdrop: nonfarm payrolls increased 64 000 in November 2025 following a sharp October decline, and the unemployment rate rose to 4.6% signaling a gradual cooling in hiring and broader slack emerging in the job market. Against this mixed backdrop, the Federal Open Market Committee (FOMC) **cut the federal funds rate by 25 bps to a 3.50%–3.75%** target range on December 10 2025 extending a cautious easing path aimed at supporting employment without reigniting inflation. Price pressures remain above target but are not re-accelerating: the BEA's PCE Price Index rose 2.8% year-over-year in Q3 2025 (core PCE at 2.9% consistent with a slow drift lower in underlying inflation. Reflecting that trajectory, the Fed's December Summary of Economic Projections places 2025 PCE inflation at 2.9% acknowledging persistent, yet easing, pressures as policy navigates between **esilient growth and a softening labor market.**

Highlights and Perspectives

GROSS DOMESTIC PRODUCT (GDP)

The U.S. economy delivered a surprisingly strong performance in the third quarter of 2025 marking a sharp contrast to the sluggish first half. According to the Bureau of Economic Analysis' initial estimate, real GDP surged at an annualized rate of 4.3% in Q3 accelerating from 3.8% in Q2. This momentum was fueled by robust consumer spending and a rebound in exports and government outlays, while imports declined and investment remained soft. A key gauge of underlying demand, real final sales to private domestic purchasers, rose 3.0% underscoring continued strength in household and business spending despite tighter financial conditions. Inflation pressures persisted but showed signs of moderation: the PCE price index climbed 2.8% and core PCE (excluding food and energy) increased 2.9% both above the Fed's 2% target yet trending lower than earlier in the year. Corporate profitability rebounded sharply, with profits from current production jumping $166.1 billion, a dramatic improvement from the modest $6.8 billion gain in Q2. While economists remain cautious, citing policy uncertainty and tariff risks, the third-quarter surge reflects resilient consumer behavior, easing trade distortions, and stabilizing financial conditions. Inflation expectations for year-end hover near 2.9% broadly aligned with prior projections but signaling gradual progress toward price stability.

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HOUSING

The housing market showed tentative improvement heading into year-end, supported by easing mortgage rates but still constrained by affordability challenges. Existing-home sales edged up 0.5% in November to a seasonally adjusted annual rate (SAAR) of 4.13 million, marking the third consecutive monthly gain but remaining well below long-run norms. On a **year-over-year basis, sales were down 1.0%** underscoring persistent demand headwinds. Price growth continued at a subdued pace: the median existing-home price reached $409 200 up 1.2% from November 2024 the slowest annual increase since mid-2023. Inventory tightened slightly from October but improved versus last year, with 1.43 million units available—about 4.2 months' supply, compared to 3.8 months a year ago. In the new-home segment, **builder sentiment remains deeply negative** despite a modest uptick: the NAHB/Wells Fargo Housing Market Index rose to 39 in December, its highest since April but still well below the breakeven level of 50. Builders continue to grapple with high input costs and weak buyer traffic, prompting aggressive incentives 67% of builders offered concessions and 40% cut prices in December, with average reductions near 5%. While future sales expectations have climbed above 50 for three straight months, signaling cautious optimism for early 2026 affordability and elevated construction costs remain key obstacles. Overall, **analysts expect only gradual improvement in housing** conditions as lower mortgage rates and wage gains provide some relief, but structural supply constraints and regional disparities will keep the outlook mixed.

EMPLOYMENT

The November employment report confirmed a **labor market that continues to cool, though not collapse.** Employers added 64 000 jobs in November, rebounding from a sharp 105 000 decline in October, yet still far below the pace seen earlier in the year. Downward revisions to prior months deepened the picture of softness: August payrolls were revised to a 26 000 loss and September to a 108 000 gain, leaving combined August–September employment 33 000 lower than previously reported. The unemployment rate climbed to 4.6% its highest since September 2021 while the labor force participation rate held steady at 62.5% signaling that the rise in joblessness reflects weaker hiring rather than surging labor supply. Wage growth moderated further: average hourly earnings rose just 0.1% in November to $36.86 bringing the year-over-year increase down to 3.5% the slowest since mid-2021. Job gains were narrowly concentrated in health care (+46 000 construction (+28 000 and social assistance (+18 000 while cyclical sectors continued to struggle: transportation and warehousing shed 18 000 jobs, leisure and hospitality lost 12 000 and manufacturing declined by 5 000. Federal government employment fell another 6 000 following the steep October drop tied to deferred buyouts. Taken together, the data underscore a labor market that is gradually loosening. Analysts note that employers remain cautious amid policy uncertainty and cost pressures, though steady hiring in health care and construction and positive real wage growth still provide some support to household spending and confidence.

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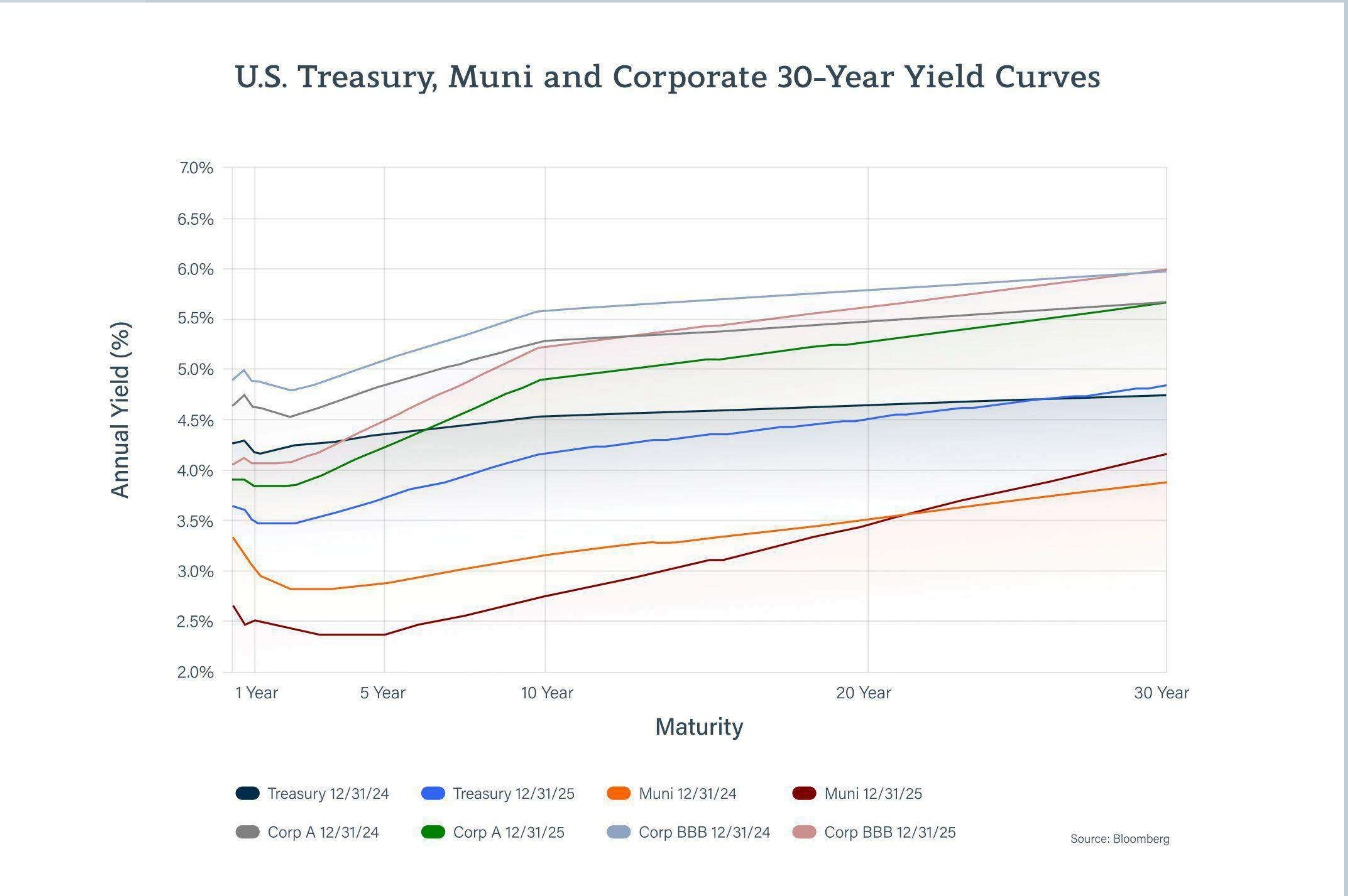
FEDERAL RESERVE POLICY

At its December 9–10 2025 meeting, the Federal Open Market Committee (FOMC) delivered its **third consecutive 25-basis-point rate cut** lowering the target range for the federal funds rate to 3.50%–3.75% the lowest level since late 2022. The decision reflected growing concern over downside risks to employment amid a cooling labor market, even as inflation remains above the Fed's 2% goal. The accompanying Summary of Economic Projections (SEP) shows modest progress on inflation: the median projection for headline PCE inflation in 2025 is now 2.9% down slightly from September's 3.0% with core PCE near 3.0%. The SEP's median path for the federal funds rate at year-end remains at 3.6% signaling that policymakers expect no further cuts this year and only a gradual easing in 2026. Growth expectations improved slightly, with GDP projected at 1. % for 2025 (up from 1.6% and 2.3% for 2026 while the unemployment rate is still forecast to end 2025 near 4.5% underscoring the Fed's balancing act between inflation control and labor market stability. Chairman Powell struck a cautious tone in his press conference, emphasizing that while inflation has eased from its peak, **"greater confidence" is needed that price pressures are on a sustainable path toward 2%.** He reiterated that policy is not on a preset course, framing the Fed's stance as data-dependent and signaling that the Committee is "well positioned to wait and see how the economy evolves. Powell also noted that risks to employment have risen, but ruled out rate hikes as a base case, reinforcing expectations for a **gradual glide toward neutral policy over the next two years.**

INTEREST RATES

Fixed income markets extended their rally through the fourth quarter, buoyed by a combination of moderating inflation, continued Fed easing, and growing expectations for a softer economic landing. Treasury yields generally declined, with the 10-year yield falling roughly 40 basis points from its early-October highs as investors priced in a more dovish policy trajectory. The Fed's December rate cut reinforced this sentiment, helping anchor short-term rates and steepen the curve modestly. **Credit markets remained resilient.** Investment-grade spreads tightened to near year-to-date lows, supported by strong corporate fundamentals and steady demand from institutional buyers. High-yield bonds also posted solid gains, aided by improving risk appetite and limited default activity. ETF flows into investment-grade credit accelerated in November and December, signaling renewed confidence in high-quality assets as volatility receded. **Municipal bonds delivered their strongest quarterly performance of the year,** benefiting from seasonal reinvestment flows and a favorable supply-demand backdrop. Global fixed income markets participated in the rally as well, with European and emerging-market debt supported by easing inflation abroad and currency tailwinds. Despite these gains, positioning remains cautious. Investors continue to weigh downside risks tied to slowing growth, fiscal uncertainty, and regulatory developments. The market narrative has shifted toward a more balanced outlook, pricing in gradual disinflation and measured policy support, while maintaining hedges against potential volatility in early 2026.


U.S. Treasury, Muni and Corporate 30-Year Yield Curves
7.0%
6.5%
6.0%
5.5%
5.0%
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
Annual Yield (%)
1 Year
5 Year
10 Year
20 Year
30 Year
Maturity
Treasury 12/31/24
Treasury 12/31/25
Muni 12/31/24
Muni 12/31/25
Corp A 12/31/24
Corp A 12/31/25
Corp BBB 12/31/24
Corp BBB 12/31/25
Source: Bloomberg

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The shape of the Treasury yield steepened slightly during the quarter, maintaining a normal upward-sloping shape. At the same time, interest rates on the very short-term maturities of up to one year declined by as much as 50 basis points, while rates for periods between 20 and 30 years rose slightly. By the end of the quarter, **the yield on the benchmark 10-year US Treasury note was little changed,** ending at 4.17% compared to 4.15% on September 30.

The yield on the 10-year Treasury meandered within a range of 3.95%-4.20% throughout the quarter. Within this context, the yield on the 3-month Treasury Bill settled at 3.63% at the end of the quarter, down 31 basis points from the prior quarter. The yield on the 5-year Treasury Note ended the quarter at 3.73% compared to 3.74% on September 30 and as mentioned above, the yield on the 10-year Treasury Note settled at 4.17% compared to 4.15% over the same period. The yield on the 30-year Treasury Bond was little changed, ending the period at 4.85% compared to its beginning level of 4.73%.

US FIXED INCOME MARKETS

Total returns on fixed income securities were, on balance, positive during the quarter. The Bloomberg Treasury 5- Yr. Index rose by 1.2% for the quarter. The Bloomberg US Credit Corporate 5-10 Yr. Index gained 1.3% during the three months. High yield securities, which often follow the performance of equities, were higher, posting a gain of 1.3%. Municipals were higher in the quarter, as the Bloomberg Municipal Bond Index advanced by 1.6%.

2025 FULL YEAR RETURNS FROM US FIXED INCOME MARKET

2025 was a very strong year for returns across all major sectors of the US Income Markets as short term interest rates trended lower and credit spreads tightened. All major sectors outperformed Money Market/Cash returns.

A snapshot of the full year 2025 returns across the US Fixed Income Markets can be seen in the table below.

US Fixed Income Markets	Total Return 2025*
US Aggregate Bond Index	7.1 %
Bank Loans	5.9 %
High Yield Bonds	8.5 %
Short Term Investment Grade Corp Bonds	5.7 %
Short Intermediate Investment Grade Corporate Bonds	7.2 %
Short Duration Municipal Bonds	3.7 %
Intermediate Duration Municipal Bond	4.2 %

*Bloomberg, Morgan Stanley Price, Black Rock iShares

US EQUITY MARKETS

Equities advanced broadly in the fourth quarter, with major indexes posting **solid gains and most sectors delivering positive returns.** The gains were fueled by easing inflation trends, expectations of continued monetary policy accommodation, and resilient corporate earnings, even as investors navigated lingering geopolitical risks and fiscal uncertainty. While inflation remains above the Federal Reserve's target, its steady moderation has tempered policy concerns and supported a more constructive tone in equity markets. When the quarter ended, the S&P 500 Index was higher by 2.66% and finished the year with a 17.88% gain.

Performance of the 11 primary economic sectors of the US Equity Market was on balance positive, with only two of the sectors posting losses. Health Care, Communications Services, and Financials were the strongest performers on a relative basis, generating returns of +11. % + .3% and +2.0% respectively. The Real Estate, Utilities, and Consumer Staples sectors were the poorest relative performers, posting returns of -2.9% -1.4% and +0.0% respectively.

The Russell 1000 Index of large capitalization stocks generated a +2.4% total return. Within the large cap segment, value stocks outperformed growth stocks. Small cap stocks, as represented by the Russell 2000 Index, outperformed large caps and finished the quarter with a total return of +2.2%. Small cap value outperformed small cap growth. The NASDAQ Composite, dominated by information technology stocks, finished the quarter with a gain of 2. %. The Dow Jones Industrial Average of 30 large industrial companies posted an advance of 4.0%.

Real Estate Investment Trusts (REITs) were mixed during the quarter, with the DJ US Select REIT Index posting a return of -0.8%. Commodities posted gains, with the Bloomberg Commodity Index advancing by 5.9%.

2025 FULL YEAR RETURNS OF US EQUITY MARKETs

2025 was a very strong year for returns across all major sectors of the US Equity Markets. The growth in corporate profits, the capex cycle in all areas of technology and AI, the expansion of Price to Earnings multiples as well as the trending lower of both inflation and interest rates were the primary combined drivers of returns. It is worth noting that 2025 represents the 3rd full year of double digit equity market returns.

A snapshot of the full year 2025 returns across the US Equity Markets can be seen in the table below.

US Equity Markets	Total Return 2025*
S&P 500	17.4 %
Russell 1000 Growth (Large Cap Growth Index)	18.5 %
Russell 1000 Value (Large Cap Value Index)	15.9 %
NASDAQ 100	20.2 %
DJ Industrial Average	14.9 %
Russell 2000 (Small Cap Index)	12.8 %

*S&P Dow Jones, FTSE Russell, Slickcharts,

INTERNATIONAL EQUITY MARKETS

International stocks generated positive results during the quarter and overall performed in line with US equities. The MSCI ACWI Ex-USA Index, which measures performance of world markets outside the US, was higher by 5.1%. The MSCI EAFE Index of developed markets stocks was higher by 4.9% and the MSCI Emerging Markets Index advanced by 4. % for the quarter.

A snapshot of the full year 2025 returns across the International Equity Markets can be seen in the table below.

International Equity Markets	Total Return 2025*
ACWI Ex-US (International Developed Mkts)	32.6 %
MSCI Emerging Markets	34.0 %
Eurozone	18.9 %
Asia	31.5 %
Latin America	52.3 %

*S&P Dow Jones, FTSE Russell, Slickcharts,

ALTERNATIVE INVESTMENTS – METALS & REITS

As a reminder Alternative assets are assets other than traditional equities and fixed income that are part of the broader investment universe and tend to have either low or inverse correlation to traditional asset classes. Alternative Assets can play an important role as a diversifier, as a hedge against a certain type of risk or as a way of capturing an investment theme.

During the fourth quarter we saw continued demand and asset price appreciation for metals, particularly Gold. Gold has traditionally been seen as an inflation hedge, serves an industrial purpose and is also the support behind central bank currencies. Fourth quarter's performance was strong, with gold prices reaching an all-time high.

The diversified publicly traded real estate investment index continued to see strength through the 4th quarter.

A snapshot of the full year 2025 returns across 3 select alternative investments can be seen in the table below.

Alternative	Total Return 2025*
Bloomberg Commodity Index	15.7 %
Gold (GSCI Gold TR Index)	62.5 %
REITs US (Real Estate Investment Trust Index)	2.3 %

*Bloomberg, S&P GSCI, FTSE Nareit All equity Reits Index

PERIODIC TABLE OF ASSET CLASS RETURNS

This chart shows that different investments perform differently every year, and no one can predict the winner. By owning a mix of investments (diversification), you reduce risk and improve your chances of steady long-term performance. Staying invested matters because long-term returns tend to be positive even when some individual years are negative.

PERFORMANCE	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018	2020	2021	2022	2023	2024	2025
BEST	Foreign Stocks 26.34%	Commodity 16.23%	Interm. Term Bond 5.24%	High Yield 58.21%	Small Cap Growth 29.09%	Interm. Term Bond 7.84%	Mid Cap Value 18.51%	Small Cap Growth 43.30%	Mid Cap Value 14.75%	Large Cap Growth 5.67%	Small Cap Value 31.74%	Large Cap Growth 30.21%	Short Term Bond 1.60%	Large Cap Growth 36.39%	Large Cap Growth 38.49%	Mid Cap Value 28.34%	Commodity 16.09%	Large Cap Growth 42.68%	Large Cap Growth 33.36%	Foreign Stocks 31.22%
	Small Cap Value 23.48%	Large Cap Growth 11.81%	Short Term Bond 4.97%	Mid Cap Growth 46.29%	Mid Cap Growth 26.38%	High Yield 4.98%	Small Cap Value 18.05%	Mid Cap Growth 35.74%	Large Cap Value 13.45%	Short Term Bond 0.65%	Mid Cap Value 20.00%	Mid Cap Growth 25.27%	Interm. Term Bond 0.01%	Mid Cap Growth 35.47%	Mid Cap Growth 35.59%	Small Cap Value 28.27%	Short Term Bond -3.69%	Mid Cap Growth 25.87%	Mid Cap Growth 22.10%	Large Cap Growth 18.56%
	Large Cap Value 22.25%	Mid Cap Growth 11.43%	High Yield -26.16%	Large Cap Growth 37.21%	Mid Cap Value 24.75%	Large Cap Growth 2.64%	Large Cap Value 17.51%	Small Cap Value 34.52%	Large Cap Growth 13.05%	Interm. Term Bond 0.55%	Large Cap Value 17.34%	Foreign Stocks 25.03%	Large Cap Growth -1.51%	Small Cap Growth 28.48%	Small Cap Growth 34.63%	Large Cap Growth 27.60%	Large Cap Value -7.54%	Small Cap Growth 18.66%	Small Cap Growth 15.15%	Large Cap Value 15.91%
	Mid Cap Value 20.22%	Foreign Stocks 11.17%	Small Cap Value -28.92%	Small Cap Growth 34.47%	Small Cap Value 24.50%	Short Term Bond 1.59%	Foreign Stocks 17.32%	Large Cap Growth 33.48%	Mid Cap Growth 11.90%	Mid Cap Growth -0.20%	High Yield 17.13%	Small Cap Growth 22.17%	High Yield -2.08%	Mid Cap Value 27.06%	Diversified Portfolio 13.07%	Commodity 27.11%	High Yield -11.19%	Foreign Stocks 18.24%	Large Cap Value 14.37%	Commodity 15.77%
	Diversified Portfolio 13.44%	Small Cap Growth 7.05%	Diversified Portfolio -29.14%	Mid Cap Value 34.21%	Diversified Portfolio 16.91%	Large Cap Value 0.39%	High Yield 15.81%	Mid Cap Value 33.46%	Interm. Term Bond 5.97%	Foreign Stocks -0.81%	Commodity 11.77%	Diversified Portfolio 13.74%	Mid Cap Growth -4.75%	Large Cap Value 26.54%	Foreign Stocks 7.82%	Large Cap Value 25.16%	Mid Cap Value -12.03%	Small Cap Value 14.65%	Mid Cap Value 13.07%	Diversified Income 13.46%
	Small Cap Growth 13.35%	Interm. Term Bond 6.97%	Commodity -35.65%	Foreign Stocks 31.78%	Commodity 16.83%	Mid Cap Value -1.38%	Mid Cap Growth 15.81%	Large Cap Value 32.53%	Small Cap Growth 5.60%	Small Cap Growth -1.38%	Diversified Portfolio 11.69%	Large Cap Value 13.66%	Diversified Portfolio -6.77%	Diversified Portfolio 21.19%	Interm. Term Bond 7.51%	Diversified Portfolio 15.14%	Diversified Portfolio -12.96%	Diversified Portfolio 14.54%	Diversified Portfolio 11.74%	Small Cap Growth 13.01%
	High Yield 11.85%	Short Term Bond 6.83%	Large Cap Value -36.85%	Diversified Portfolio 28.28%	Large Cap Growth 16.71%	Mid Cap Growth -1.65%	Large Cap Growth 15.26%	Foreign Stocks 22.78%	Diversified Portfolio 4.57%	Diversified Portfolio -3.70%	Small Cap Growth 11.32%	Mid Cap Value 13.34%	Large Cap Value -8.27%	Small Cap Value 22.39%	High Yield 7.11%	Mid Cap Growth 12.73%	Interm. Term Bond -13.01%	High Yield 13.45%	High Yield 8.19%	Small Cap Value 12.59%
	Mid Cap Growth 10.66%	Diversified Portfolio 5.64%	Large Cap Growth -38.44%	Small Cap Value 20.58%	Large Cap Value 15.51%	Diversified Portfolio -1.77%	Small Cap Growth 14.59%	Diversified Portfolio 21.12%	Small Cap Value 4.22%	Large Cap Value -3.83%	Mid Cap Growth 7.33%	Small Cap Value 7.84%	Small Cap Growth -9.31%	Foreign Stocks 22.01%	Mid Cap Value 4.96%	Foreign Stocks 11.26%	Foreign Stocks -14.45%	Mid Cap Value 12.71%	Small Cap Value 8.05%	Mid Cap Value 11.05%
	Large Cap Growth 9.07%	High Yield 1.87%	Mid Cap Value -38.44%	Large Cap Value 19.69%	High Yield 15.12%	Small Cap Growth -2.91%	Diversified Portfolio 12.48%	High Yield 7.44%	High Yield 2.45%	High Yield -4.47%	Large Cap Growth 7.08%	High Yield 7.50%	Commodity -11.25%	High Yield 14.32%	Small Cap Value 4.63%	High Yield 5.28%	Small Cap Value -14.48%	Large Cap Value 11.46%	Commodity 5.38%	Mid Cap Growth 8.66%
	Interm. Term Bond 4.33%	Large Cap Value -0.17%	Small Cap Growth -38.54%	Commodity 18.91%	Foreign Stocks 7.75%	Small Cap Value -5.50%	Interm. Term Bond 4.21%	Short Term Bond 0.64%	Short Term Bond 0.77%	Mid Cap Value -4.78%	Interm. Term Bond 2.65%	Interm. Term Bond 3.54%	Mid Cap Value -12.29%	Interm. Term Bond 8.72%	Short Term Bond 3.33%	Small Cap Growth 2.83%	Small Cap Growth -26.36%	Interm. Term Bond 5.53%	Short Term Bond 4.36%	High Yield 8.62%
	Short Term Bond 4.25%	Mid Cap Value -1.42%	Foreign Stocks -43.38%	Interm. Term Bond 5.93%	Interm. Term Bond 6.54%	Foreign Stocks -12.14%	Short Term Bond 1.26%	Interm. Term Bond -2.02%	Foreign Stocks -4.90%	Small Cap Value -7.47%	Short Term Bond 1.28%	Commodity 1.70%	Small Cap Value -12.86%	Commodity 7.69%	Large Cap Value 2.80%	Short Term Bond -0.47%	Mid Cap Growth -26.74%	Short Term Bond 4.61%	Foreign Stocks 3.82%	Interm. Term Bond 7.30%
WORST	Commodity 2.07%	Small Cap Value -9.78%	Mid Cap Growth -44.32%	Short Term Bond 3.82%	Short Term Bond 2.80%	Commodity -13.32%	Commodity -1.06%	Commodity -9.52%	Commodity -17.01%	Commodity -24.66%	Foreign Stocks 1.00%	Short Term Bond 0.84%	Foreign Stocks -13.79%	Short Term Bond 4.03%	Commodity -3.12%	Interm. Term Bond -1.54%	Large Cap Growth -29.14%	Commodity -7.91%	Interm. Term Bond 1.25%	Short Term Bond 5.35%

20 Year Annualized Return

Commodity -0.54%	Short Term Bond 2.41%	Interm. Term Bond 3.25%	Foreign Stocks 5.58%	High Yield 6.74%	Diversified Portfolio 7.25%	Small Cap Value 7.40%	Large Cap Value 8.32%	Mid Cap Value 8.69%	Small Cap Growth 8.76%	Mid Cap Growth 10.31%	Large Cap Growth 13.23%

2026 Outlook and Expectations

Looking ahead, we expect market conditions to be shaped by 3 primary factors:
1) A continued trend lower of interest rates as the Federal Reserve eases policy,
2) low double digit corporate earnings growth leading toward more normalization, and
3) an elevated level of ongoing geopolitical risk.

Below are our Top 10 predictions for the year ahead:

1) US & Global GDP expands at an annualized rate of 2.5% and the risk of a US or Global recession is Low
2) Inflation measured by CPI averages less than 3%
3) Interest rates trend lower, (toward a Fed Funds Rate Target of 3 -3.25%)
4) Credit spreads for corporate and high-yield bonds remaining tight near current levels and credit markets remain calm
5) Corporate earnings continuing to grow, with S&P 500 operating earnings projected at $300–$310 per share (over 10% YoY)
6) The S&P 500 returns a high single digit percent driven by earnings growth and participation beyond the technology sector
7) US Small and Mid-Cap stocks outperform
8) International Equities outperform
9) Oil prices remain near current levels of approx. $60/Barrel
10) The USD stabilizes near current levels (measured against of baskets of trade weighted currencies)

Our Investment Positioning for 2026

U.S. EQUITY

We see continued attractiveness in U.S. Equities and believe maintaining exposure to AI and large-cap technology at target allocation levels is prudent. We do expect markets to broaden out from the unusual concentration of the last three years and we sectors such as Industrials, Financial, & Utilities as well as Small- and Mid-Cap equities all positioned to perform well. All of the previous are trading at discounts to the P/E ratio of the S&P 500 and to their historical averages. **We have adjusted accordingly our allocations to Small and Mid Cap Equities that stand to benefit from both further AI Adoption as well as lower interest rates.**

INTERNATIONAL EQUITY

A similar set of circumstances are present in **International Equities which can also provide a meaningful source of portfolio diversification and dividend yield. We have slightly increased our Allocations to International Equities with the majority of exposure being in International Developed Markets.** For 2026 the narrowing of the valuation gap to US Equities and the earnings growth are the 2 primary expected drivers of return we do not expect a meaningful contribution from further weaking of the US Dollar.

Highlights and Perspectives

FIXED INCOME

Within fixed income, despite credit spreads being historically (which we have factored into our position thesis) we see high conviction benefits of locking in fixed income yields at current absolute levels and fundamentals in corporate bonds remain solid. We expect the Federal Reserve to continue lowering the Fed Funds Rate and our base case is for the term premium between Fed Funds and the 10 Yr US Treasury to be approx. 100-125 Bps. **We have reduced a modest Short Duration tilt across portfolios and shifted that Duration positioning to more Intermediate.** For investors in the highest tax bracket we favor **Investment Grade Municipal Bonds of Intermediate maturities over Shorter Term.** Our portfolios are positioned for 2026 primarily for yield and the potential diversification benefits that Fixed Income can provide in periods of broader market volatility.

ALTERNATIVE INVESTMENTS

Within Alternative Assets, Gold and publicly traded diversified Real Estate continue to be our highest conviction positions. Public REITs look increasingly attractive heading into 2026 offering meaningful diversification benefits, lower correlation to traditional assets, and consistent cash-flow support within portfolios. Gold remains a reliable diversifier and strategic hedge, supported by steady central-bank demand and its resilience during periods of inflation, geopolitical tension, and market uncertainty. After several years of extraordinary returns in Gold we have adjusted our allocation target accordingly.

Risks are Ever-Present

The market outlook right now is solid but not without risks. Risks are ever-present and we skillfully manage forward. We recognize that we are currently in a period of adjustment with respect to global trade agreements, relationships, and policies and that is on the forefront of risks to our outlook. The transformational opportunities of AI, the resilience of profit margins in the face of tariffs, and the economic stimulus of the OBBB (One Big Beautiful Bill) should must be balanced with the caution warranted by geopolitical turbulence, budget deficits in much of the developed world, the concentration in many markets and political unrest in many places.

More structural issues like labor participation and demographic trends remain slow-moving headwinds, while technology adoption and AI introduce both transitional challenges and long-term productivity upside. Overall, the balance of evidence **favors a scenario of more moderate but sustained growth.**

Important Disclosures

Before investing, you should carefully consider the investment objectives, risks, fees and expenses of the portfolio you have chosen. Past performance is no guarantee of future results. The value of the investments varies and therefore the amount to be received at the time of sale may be higher or lower than was originally invested. Actual returns may be better or worse than those shown in this material.

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Not Bank Guaranteed	**Subject to Investment Risk**	**May Lose Value**

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Investments in smaller companies carry greater risk than is customarily associated with larger companies for various reasons, such as volatility of earnings and prospects, higher failure rates, and limited markets, product lines, or financial resources. Investing overseas involves special risks, including the volatility of currency exchange rates and, in some cases, limited geographic focus, political and economic instability, and relatively illiquid markets.

Income (bond) securities are subject to interest rate risk, which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates. Exchange Traded Funds (ETFs) are subject to risks similar to those of stocks, such as market risk. Investing in ETFs may bear indirect fees and expenses charged by ETFs in addition to their direct fees and expenses, as well as indirectly bearing the principal risks of those ETFs. ETFs may trade at a discount to their net asset value, and are subject to the market fluctuations of their underlying investments. Investing in commodities can be volatile, can suffer from periods of prolonged decline in value, and may not be suitable for all investors. Index performance is presented for illustrative purposes only, and does not represent the performance of any specific investment product or portfolio. An investment cannot be made directly into an index.

Alternative Investments may have complex terms and features that are not easily understood and are not suitable for all investors. Investors should conduct their own due diligence to ensure they understand the features of the product before investing. Alternative investment strategies may employ a variety of hedging techniques and nontraditional instruments, such as inverse and leveraged products. Certain hedging techniques include matched combinations that neutralize or offset individual risks, such as merger arbitrage, long/short equity, convertible bond arbitrage, and fixed income arbitrage. Leveraged products are those that employ financial derivatives and debt to try to achieve a multiple (for example two or three times) of the return or inverse return of a stated index or benchmark over the course of a single day. Inverse products use short selling, derivatives trading, and other leveraged investment techniques, such as futures trading, to achieve their objectives, mainly to track the inverse of their benchmarks. As with all investments, there is no assurance that any investment strategies will achieve their objectives or protect against losses.

Any tax statements contained herein are not intended or written to be used, and cannot be used, for the purpose of avoiding US federal, state, or local tax penalties. Taxpayers should always seek advice based on their own particular circumstances from an independent tax advisor.

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INDEX OVERVIEW

The **Dow or DJIA** (Dow Jones Industrial Average) is an unmanaged index of 30 common stocks comprising 30 actively traded blue chip stocks, primarily industrials, and assumes reinvestment of dividends. The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. The **S&P 500** Index is an unmanaged index comprising 500 widely held securities considered to be representative of the stock market in general. The **DJ US Select REIT Index** is a subset of the Dow Jones Americas Select RESI and includes only REITs and REIT-like securities (The Dow Jones US Select Real Estate Securities Index (RESI) represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the US). The **Bloomberg Commodity Index** is a broadly diversified commodity price index that tracks prices of futures contracts on physical commodities on the commodity market, and is designed to minimize concentration in any one commodity or sector. The **MSCI EAFE Index** is recognized as the preeminent benchmark in the US to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia, and the Far East.

The **MSCI Emerging Markets Index** is a free float-adjusted market-capitalization index that is designed to measure equity market performance in the global emerging markets. The MSCI ACWI Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. The **MSCI ACWI** consists of 46 country indices comprising 23 developed and 23 emerging markets country indices. The **MSCI Emerging Markets (EM) Eastern Europe Index** captures large and mid cap representation across four emerging markets (the Czech Republic, Hungary, Poland, and Russia) countries in Eastern Europe. With 52 constituents, the Index covers approximately 85% of the free float-adjusted market capitalization in each country. The **MSCI EM (Emerging Markets) Latin America Index** is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of emerging markets in Latin America. The **MSCI ACWI Ex-US Index** is a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of US-based companies. The **MSCI China Index** captures large and mid cap representation across China H shares, B shares, Red chips, and P chips covering about 85% of this China equity universe. The **Bloomberg Municipal Bond Index** is an unmanaged index comprising investment-grade, fixed-rate municipal securities representative of the tax-exempt bond market in general. The **Bloomberg Global Aggregate ex-US Index** is a market-capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most US-traded investment- grade bonds are represented. Municipal bonds and Treasury Inflation-Protected Securities are excluded, due to tax treatment issues. The Index includes Treasury securities, government agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in the US.

The **Bloomberg US 5-10 Year Corporate Bond Index** measures the investment return of US dollar-denominated, investment-grade, fixed-rate, taxable securities issued by industrial, utility, and financial companies, with maturities between 5 and 10 years. Treasury securities, mortgage-backed securities (MBS), foreign bonds, government agency bonds, and corporate bonds are some of the categories included in the Index. The **Bloomberg US 5-7 Year Treasury Bond Index** is a market-capitalization-weighted index, and includes Treasury bonds issued by the US with a time to maturity of at least 5 years, but no more than years. The **Russell 1000 Index** is a market-capitalization-weighted benchmark index made up of the 1000 largest US companies in the Russell 3000 Index (which comprises the 3000 largest US companies). The **Russell 2000 Index** is an unmanaged index considered representative of small cap stocks. The **Russell 3000 Index** is an unmanaged index considered to be representative of the US stock market, and measures the performance of the largest 3 000 US companies representing approximately 98% of the investable US equity market. The **Russell Midcap Index** is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The **Housing Market Index** (HMI) is based on a monthly survey of NAHB members designed to take the pulse of the single-family housing market. The survey asks respondents to rate market conditions for the sale of new homes at the present time and in the next six months, as well as the traffic of prospective buyers of new homes. Builders rate current sales, future sales expectations (next six months), and prospective buyer traffic. The HMI is a weighted average of these three components, with a score above 50 indicating a positive market outlook and below 50 indicating a negative one. The **JPMorgan Emerging Market Bond Index** (EMBI Global) tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JPMorgan EMBI+. As with the EMBI+, the EMBI Global includes US dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million. The **CBOE Volatility Index** (VIX) is an up-to-the-minute market estimate of expected volatility that is calculated by using real-time S&P 500 Index option bid/ask quotes. The Index uses nearby and second nearby options with at least 8 days left to expiration and then weights them to yield a constant, 30-day measure of the expected volatility of the S&P 500 Index.

DEFINITIONS

The **Federal Open Market Committee** (FOMC) is the monetary policymaking body of the Federal Reserve System. The **federal funds rate** is the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The **European Central Bank** (ECB) is the central bank for Europe's single currency, the euro. The ECB’s main task is to maintain the euro's purchasing power, and thus price stability, in the euro area. The euro area comprises the 19 European Union countries that have introduced the euro since 1999. The **Gross Domestic Product** (GDP) rate is a measurement of the output of goods and services produced by labor and property located in the United States. The **Bureau of Labor Statistics** (BLS) is a unit of the United States Department of Labor. It is the principal fact-finding agency for the US government in the broad field of labor economics and statistics, and serves as a principal agency of the US Federal Statistical System. The **Bureau of Economic Analysis** (BEA) is an agency in the US Department of Commerce that provides important economic statistics, including the gross domestic product of the US. It is a governmental statistical agency that collects, processes, analyzes, and disseminates essential statistical data to the American public, the US Congress, other Federal agencies, state and local governments, business, and labor representatives. The **PCE (Personal Consumption Expenditure) Index of Prices** is a US-wide indicator of the average increase in prices for all domestic personal consumption. Using a variety of data, including US Consumer Price Index and Producer Price Index prices, it is derived from personal consumption expenditures, and is essentially a measure of goods and services targeted towards and consumed by individuals. Sector performance is represented by the **Global Industry Classification Standard (GICS)** sectors, developed by Standard & Poor’s and MSCI Barra. The **Consumer Price Index (CPI)** measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending. The **Federal Funds (fed funds) Rate** refers to the interest rate that banks charge other institutions for lending excess cash to them from their reserve balances on an overnight basis.