Q4 MARKET INSIGHTS

Winter 2026

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KEY TAKEAWAYS

Markets finished the year on a strong footing, despite a notable rise in volatility driven by the prolonged U.S. government shutdown and concerns around AI-related valuations.

Our 2026 outlook remains constructive for further investment gains, as improving corporate profitability and accommodative monetary policy combine to provide a supportive backdrop for equities and select areas of fixed income.

Are we in a bubble? Today's leading technology and AI companies are supported by far stronger fundamentals than those seen during the Dot-Com Era.

The incorporation of alternative investments, where appropriate, may provide opportunities to enhance portfolio yield and diversification.

The fourth quarter of 2025 finished on a strong note, with most major asset classes posting positive returns. This performance came despite a notable pickup in volatility during October and November, driven by the longest government shutdown in U.S. history and growing investor scrutiny around the sustainability of the massive investment cycle in artificial intelligence ("AI"). While the shutdown delayed the release of several key economic indicators, the data ultimately pointed to continued underlying economic resilience and steady growth. At the same time, the Federal Reserve (the "Fed") met investor expectations by delivering two interest-rate cuts, helping to ease financial conditions. Strong Q4 corporate earnings growth further reinforced investor confidence, providing a supportive backdrop for risk assets and allowing markets to end the quarter on firm ground. The S&P 500® Index rose 2.7% for the quarter. For 2025, the index shrugged off concerns surrounding President Trump's tariff policies and delivered its third consecutive year of double-digit returns, finishing the year up 17.9%. International equities were a notable bright spot in 2025. Both developed and emerging markets outperformed U.S. equities for the full year, marking the first instance of broad international outperformance since 2017. This relative strength was driven by a weaker U.S. dollar, alongside a renewed embrace of fiscal stimulus in Europe and Japan. Foreign developed markets, as measured by the MSCI EAFE Index, gained 4.9% during the fourth quarter and finished the year up 32.0%. Emerging markets also delivered positive results, with the MSCI Emerging Markets Index rising 4.8% in the quarter and 34.3% for the year. Switching to fixed income markets, the Bloomberg Barclays U.S. Aggregate Bond Index, the leading benchmark for U.S. bonds, rose 1.1% during the fourth quarter, supported by better-than-expected inflation readings and the Fed's shift toward easier monetary policy. These gains helped round out a positive year for bonds, with the index finishing 2025 up 7.3%.

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ARE WE IN A BUBBLE?

After three consecutive years of strong performance in U.S. equities, investor concern has grown around the possibility that stocks, particularly within technology and AI-related industries, are entering bubble territory. While the speed and scale of capital deployed into AI have understandably raised questions about whether current valuations reflect sustainable earnings growth or a period of excessive exuberance, we believe the evidence suggests that today's environment does not yet resemble a classic market bubble. Comparisons to the Dot-Com bubble of 2000, while common, overlook several critical differences. Valuations during the Dot-Com Era reached extreme levels, with many companies trading at lofty prices despite having little to no earnings, and in some cases, no viable path to profitability. By contrast, many of today's leading AI-related companies are well-established businesses with proven revenue models, generating substantial earnings and robust free cash flow. The table below highlights this point. As you can see, the leading technology companies back in the year 2000 traded at 2.5x premium to the top technology/AI-focused companies of today (based on the average price/earnings multiples of each group). In addition, after-tax corporate margins for these companies were materially lower during the Dot-Com Era (20.1% versus 32.3% today), which constrained their ability to fund growth initiatives internally. As a result, many firms were far more reliant on debt financing. By contrast, today's market leaders are operating with significantly stronger profitability and healthier balance sheets, enabling a substantial portion of AI-related capital spending to be funded through free cash flow rather than excessive leverage. Debt levels were considerably higher during the Dot-Com period relative to today. The chart at right, courtesy of Goldman Sachs, displays the ratio of net debt (which is total debt minus cash held) relative to

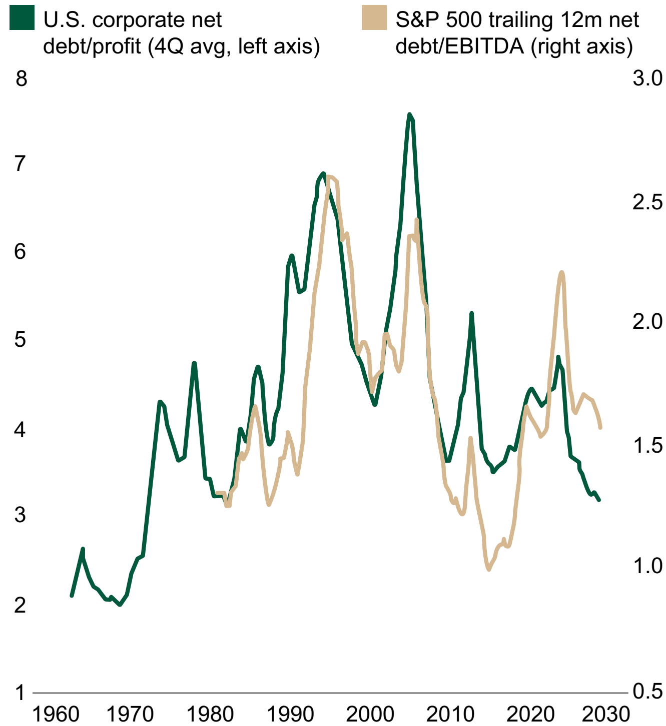
Valuations: Dot-Com Bubble vs. Today

Tech/Telecom Leaders (2000)	NTM P/E
Microsoft	57
Cisco Systems	126
Intel	44
Oracle	107
IBM	26
Lucent	39
Nortel Networks	92
Average	**70.1**

Tech/AI Leaders (2025)	NTM P/E
Apple	33
Nvidia	27
Microsoft	29
Amazon	24
Alphabet	27
Meta Platforms	20
Broadcom	34
Average	**27.6**

Source: FactSet, S&P, Bloomberg. Data based on next twelve months (NTM) price/earnings ratios and observed on March 31, 2000 and December 31, 2025.

Corporate Balance Sheets Are Much Stronger Than During the Dot-Com Era



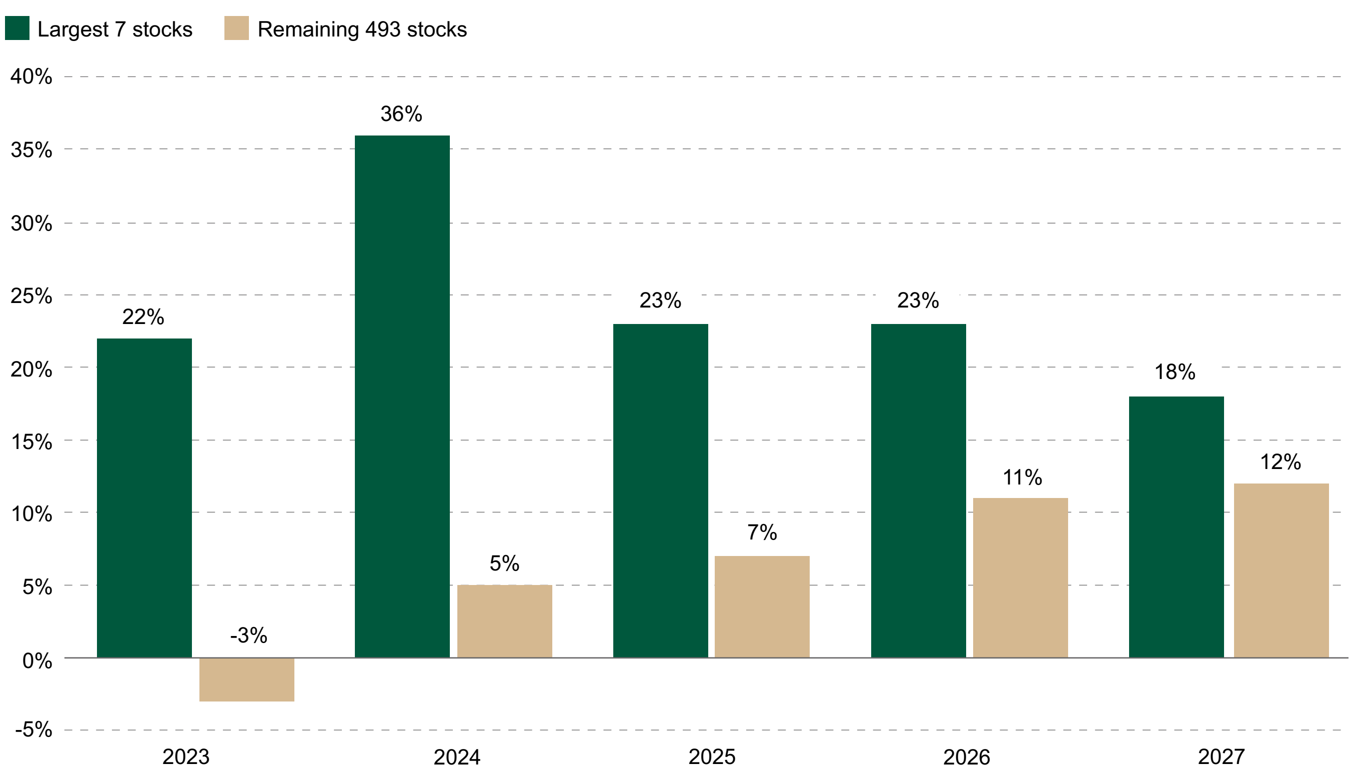
Source: Goldman Sachs

EBITDA (which is an acronym for earnings before interest, taxes, depreciation and amortization - a proxy for operating cashflow) for the S&P 500, as well as the economy-wide ratio of net debt for all U.S. corporations (both public and private) relative to profit. According to the chart, during the late 1990's and into 2000, both measures were elevated and rising, while today's leverage metrics are meaningfully lower, and in recent years, have generally been stable or declining. Net debt relative to profits and EBITDA currently sits well below Dot-Com peaks, reflecting a corporate sector that has stronger earnings, greater cash balances, and more disciplined capital structures. The implication is that the current cycle is far less vulnerable to a sharp sell-off driven by over-leveraged corporations. Lower debt burdens reduce refinancing risk, increase flexibility during economic slowdowns, and allow companies to self-fund investment through free cash flow rather than relying on capital markets. While the stocks of today's technology and AI-related companies would likely experience a correction if growth expectations were to moderate, the underlying fundamentals for these firms are far stronger than those that characterized the Dot-Com bubble.

2026: FAVORABLE CONDITIONS AHEAD

As we turn the page on 2025 and look ahead to 2026, we believe several fundamental tailwinds are in place to support continued investment gains, with corporate profitability expected to remain a key driver. In addition to the reduced tax rates resulting from the passage of the One Big Beautiful Bill Act ("OBBBA"), which we discussed in our last update, the continued adoption of artificial intelligence should further enhance profitability across the corporate landscape. Over the past quarter, investors have focused not only on how much companies, particularly the narrow group of mega-cap technology companies often referred to as the "Magnificent 7" , are spending on AI, but also on whether that spending will make other businesses more productive and profitable over time. Encouragingly, early evidence suggests that it is. During their third quarter earnings calls (which took place during the fourth quarter), many companies from a variety of industries reported that using AI is creating efficiencies, reducing costs, and improving productivity. Nonfarm business productivity, a quarterly report from the U.S. Bureau of Labor Statistics which measures how efficiently the U.S. nonfarm business sector produces goods and services, rose at a 4.1% annual rate in the second quarter of 2025 (revised upward from 3.3% previously) and accelerated further to 4.9% in the third quarter (note that these updates were just recently reported due to the delay from the government shutdown). These gains are well above the roughly 1.6% average annual pace recorded over the previous five years, reinforcing the point that these AI investments are likely to translate into improving operational efficiencies across a broad range of industries. This dynamic is particularly important in an environment where management teams continue to emphasize cost discipline amid tariffs. As these investments advance and adoption broadens, rising productivity should provide a more durable foundation for profit margin expansion and earnings sustainability. We believe these gains may have important implications for the breadth of corporate earnings growth, particularly beyond the Magnificent 7. While the Magnificent 7 have driven much of the market's earnings growth and outperformance in recent years, and are expected to continue growing in 2026 and 2027, analysts project that earnings growth for the remaining 493 companies in the S&P 500 will accelerate by double digits over the next two years, even as the growth rate of the Magnificent 7 moderates (see chart below).

Annual Earnings Growth (Consensus Estimates for 2025-2027)



Source: Goldman Sachs

> **“During the quarter, the Fed reduced the federal funds rate by an additional 0.50%, bringing the target range to 3.50%–3.75%. This marked the third consecutive rate cut to close out 2025, with the easing cycle restarting in September."**

In our view, the broadening of earnings growth beyond the Magnificent 7 is a decisively positive development for the stock market. Productivity gains should boost profitability across the remaining large-cap companies in the S&P 500, as well as mid-cap and small-cap firms. This widespread earnings strength provides firm support for current valuations, reduces reliance on a narrow group of mega-cap leaders, and strengthens the case for continued upside in equities over the near term.

Aside from strong corporate earnings, we expect markets to be supported by further monetary easing as the Fed continues to cut interest rates. During the quarter, the Fed reduced the federal funds rate by an additional 0.50%, bringing the target range to 3.50%–3.75%. This marked the third consecutive rate cut to close out 2025, with the easing cycle restarting in September. The Fed's shift reflects a growing emphasis on safeguarding the labor market (as a reminder, the Fed is guided by its dual mandate to promote maximum employment and maintain price stability). As we discussed in our last update, Fed policymakers have indicated that the “balance of risks” has tilted toward the employment side of its dual mandate as labor market conditions have become more nuanced. While job growth has slowed, it reflects the natural slowing of momentum in the labor market following the post-COVID recovery. Recent data continues to suggest that the labor market is stagnant but not collapsing. The pace of corporate layoffs remains inconsistent with a sharply weakening jobs outlook, yet hiring activity has slowed meaningfully. In our view, much of the current softness in job creation reflects a “no hire, no fire” environment as companies are holding on to workers but are hesitant to expand payrolls meaningfully. Again, we attribute this dynamic to several factors, including a reduction in government employment tied to the Department of Government Employment (DOGE), lower levels of immigration, ongoing retirements among baby boomers, and the increasing adoption of AI and automation.

Taken together, these forces have tightened labor supply while simultaneously reducing incremental hiring needs. At the same time, inflation continues to trend lower, albeit gradually. The most recent Consumer Price Index (CPI) reading came in at 2.7%, slowly moving closer to the Fed's 2.0% target. While progress on inflation has been uneven, we believe disinflation will persist as lagged components of the CPI, most notably housing-related costs (1/3 of the CPI Index), continued to decelerate in 2025. In fact, the largest category within the CPI Housing Component, called the Owner's Equivalent Rent, now makes up over 25% of the entire CPI Index. Therefore, the significant reduction in this component increases the likelihood that inflation may reach the Fed's target by year-end, providing policymakers with additional flexibility to ease policy. Adding to this outlook is the upcoming leadership transition at the Fed. Chairman Jerome Powell's term is set to conclude in May, at which point President Trump will nominate his successor. President Trump has been openly critical of Chairman Powell's approach, arguing that monetary policy has remained too restrictive for too long and has acted as a headwind to economic growth and affordability. While the next Fed chair has yet to be formally announced, reports suggest the administration favors a candidate who is more inclined toward an accommodative policy stance, including a greater willingness to lower interest rates. This approach aligns closely with the Trump administration's broader economic objectives, as attention increasingly turns toward the midterm elections, where affordability is likely to be a central issue for U.S. voters. Lower interest rates would not only provide additional support to business investment and consumer spending, but also directly address household affordability concerns, most notably through lower mortgage rates, which remain a key constraint in the housing market. As a result, the leadership transition at the Fed represents an additional tailwind for monetary easing and reinforces our expectation that financial conditions will remain supportive in the period ahead.

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IMPLICATIONS

Equities

We believe there is a compelling argument for continued gains over the near-term, driven by the combination of strong earnings growth and an accommodative Fed. Improving profitability, driven by fiscal measures (like the OBBBA) and rapid AI adoption, should create a positive fundamental backdrop for further appreciation. At the same time, lower interest rates allow for cheaper borrowing costs, permitting firms to refinance debt, invest in growth, and fund capital projects more efficiently. Beyond corporate balance sheets, easier monetary policy stimulates consumer spending and business investment, driving revenue and earnings growth across the economy. Finally, lower interest rates reduce the discount rate applied to those future earnings, theoretically increasing their present value, thereby making their valuations more attractive.

Bonds

With the Fed now firmly in an easing mode, we believe the risk-reward profile is increasingly favorable for modestly extending duration, particularly within the 1–5 year segment of the U.S. Treasury curve. While T-bills have offered attractive yields over the past several years, those yields are highly sensitive to the Fed's policy rate. As the easing cycle progresses, investors rolling short-dated securities will be forced to reinvest at progressively lower rates, leading to a decline in portfolio income. Extending a little further out in maturity allows investors to better lock in today's yields while maintaining limited interest-rate risk. We continue to favor U.S. Treasuries over publicly traded investment-grade and high-yield corporate bonds, as credit spreads remain near multi-decade lows. As a reminder, credit spreads represent the additional yield investors receive for taking on corporate credit risk relative to comparable-maturity U.S. Treasuries, which are considered risk-free. That extra yield is meant to make up for the chance that a company could default on its debt. At current levels, we believe spreads in both the investment-grade and high-yield markets suggest investors are not being adequately compensated for taking on credit risk. In addition, we are cautious about extending duration too far, particularly into the 10-year and longer-dated U.S. Treasuries. While falling rates could pull longer-term rates lower and push prices higher, there are two key risks that warrant caution. First, sustained rate cuts increase the probability that inflation pressures could re-emerge later in the cycle (2027 and beyond), which in turn may limit the return potential of longer-dated U.S. Treasury bonds. This risk is especially relevant because their performance is highly sensitive to changes in inflation. If investors begin to anticipate that higher inflation may materialize in the future, they will demand greater compensation for holding long-maturity bonds, pushing yields higher and prices lower. Second, lower interest rates may incentivize the U.S. Government to increase spending, due to reduced debt-servicing costs, potentially expanding fiscal deficits even further. In fact, President Trump has already proposed a 50% increase in U.S. defense spending (to $1.5 trillion) in the 2027 budget. Financing larger deficits would likely require increased Treasury issuance, which could keep long-term yields elevated, even in an environment of easier monetary policy, thereby constraining price appreciation.

"We continue to favor U.S. Treasuries over publicly traded investment-grade and high-yield corporate bonds, as credit spreads remain near multi-decade lows. "

Alternative Investments

Against the current macroeconomic backdrop, we see growing opportunities within alternative investments that can enhance portfolio yield and diversification. Areas such as private credit and private real estate stand out, as lower financing costs can improve deal economics while still offering attractive income streams relative to traditional fixed income. At the same time, we view stores of value such as gold and Bitcoin as complementary portfolio components. Both can serve as potential hedges against currency debasement, elevated fiscal deficits, and longer-term inflation risks, while also providing diversification benefits in periods of monetary easing and heightened macroeconomic and

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geopolitical uncertainty. Please be aware that investments such as these carry unique risks that may result in limited liquidity, elevated volatility, or potential for loss. As a result, investments in alternatives may not align with every investor's financial needs or risk profile and should be evaluated within the broader context of an individual's overall asset allocation.

IN CLOSING

While markets will inevitably face periods of volatility as policy, politics, and growth expectations evolve, we believe the broader investment landscape remains constructively positioned as we move into 2026. Increasingly broad-based earnings growth, improving productivity driven by AI adoption, and a Fed that is firmly oriented toward easing should create a supportive environment for both stocks and select areas of fixed income. Importantly, today's market leadership is underpinned by healthier balance sheets, stronger cash flows, and more disciplined capital structures than in past speculative cycles, reducing the risk of a severe market selloff. As always, we maintain that a well-structured, long-term, and diversified asset allocation—tailored to your financial goals, risk tolerance, and time horizon—remains the cornerstone of navigating an evolving investment environment with confidence.

We thank you for your ongoing confidence and trust. Please reach out to your relationship manager with any questions or if you wish to discuss your portfolio allocation.

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The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East), excluding the U.S. & Canada. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. With 913 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Indices are not managed and do not incur fees or expenses. Performance numbers for the index are total return with dividends reinvested in the index.

The MSCI Emerging Markets Index captures large and mid-cap representation across 24 Emerging Markets (EM) countries*. With 838 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Performance numbers for the index are total return with dividends reinvested in the index.

The Bloomberg Barclays U.S. Aggregate Bond Index provides a measure of the total return performance of the U.S. dollar denominated investment grade bond market, which includes investment grade government bonds, investment grade corporate bonds, mortgage pass through securities, commercial mortgage backed securities and asset backed securities that are publicly for sale in the United States.

The Consumer Price Index (CPI) is issued by the U.S. Bureau of Labor Statistics and is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Indexes are available for the U.S. and various geographic areas.

Nonfarm Business Productivity is issued by the U.S. Bureau of Labor Statistics and measures the efficiency of labor in the U.S. economy, defined as the ratio of inflation-adjusted output (goods & services) to hours worked, specifically excluding output from farms, general government, non-profits, and private households, focusing on about 76-80% of GDP to gauge overall business health and economic growth. It's a key economic indicator, showing how much is produced per hour by the majority of the workforce. It is issued on a quarterly basis.

The P/E (Price-to-Earnings) ratio is a stock valuation metric that divides a company's share price by its earnings per share, showing how much investors pay for each dollar of a company's earnings.

EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) is a financial metric showing a company's core operational profitability by adding back non-operating expenses (interest, taxes) and non-cash expenses (depreciation, amortization) to net income, helping compare businesses' raw performance or assess debt repayment ability without financing or asset structure differences. It's a proxy for cash flow, revealing how much cash a business generates from its main activities before accounting for financing, taxes, and asset write-downs

Artificial intelligence (AI) is a wide-ranging branch of computer science concerned with building smart machines capable of performing tasks that typically require human intelligence. While AI is an interdisciplinary science with multiple approaches, advancements in machine learning and deep learning, in particular, are creating a paradigm shift in virtually every sector of the tech industry. Artificial intelligence allows machines to model, or even improve upon, the capabilities of the human mind. And from the development of self-driving cars to the proliferation of generative AI tools like ChatGPT and Google's Bard, AI is increasingly becoming part of everyday life — and an area companies across every industry are investing in.

Please contact us for more information on how we can assist you with your financial needs.

Disclosures:

Past performance is no guarantee of future results. An investment cannot be made directly in an index. Investment return and principal value will fluctuate; you may have a gain or loss when positions are sold.

As with all investments, there are associated inherent risks including loss of principal. Although not specified below, these risks are also present in private investments and institutional interval funds. Stock markets are volatile and can decline significantly in response to adverse issues, political, regulatory, market, or economic developments. Sector, commodity, and factor investments may concentrate in a particular industry and the investments' performance could depend heavily on the performance of that industry and be more volatile than the performance of less concentrated investment options. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets. The risks are particularly significant for securities that focus on a single country or region. Fixed income investments are subject to inflationary, credit, market, and interest rate risks. Cash positions are subject to inflation risk.

Cryptocurrency is more volatile than traditional currencies. Its value is speculative, given that they are not currently, widely accepted as a medium or exchange, is derived by market forces of supply and demand, and may be impacted by the continued willingness of market participants to exchange fiat currency for cryptocurrency. Cryptocurrencies are not covered by either FDIC or SIPC insurance. Bitcoin, Ethereum, and other cryptocurrencies are very speculative investments and involve a high degree of risk. An investment in cryptocurrency is not suitable for all clients. Clients must have the financial ability, sophistication/experience, and willingness to bear the risks of an investment, and a potential total loss of their investment. Fees and expenses associated with a cryptocurrency investment may be substantial.

Private credit has gained traction in recent years as traditional banks have scaled back lending activity in response to stricter regulatory requirements implemented after the 2008 financial crisis. As a result, non-bank lenders have stepped in to fill this financing gap, providing capital to middle-market companies, private equity–backed firms, and other borrowers that may have limited access to public markets. These investments typically offer higher yields, reflecting both the elevated credit risk of the underlying borrowers and the illiquid nature of private credit structures, which often involve longer lock-up periods and limited secondary market liquidity. While these characteristics can make private credit attractive in a yield-focused environment, they also introduce additional risks, including reduced transparency, valuation uncertainty, and limited flexibility. Consequently, private credit may not be appropriate for all investors and should be considered carefully within the context of an investor's overall objectives, time horizon, liquidity needs, and risk tolerance.

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