TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

January 2026

Quarterly Insights

EXECUTIVE SUMMARY

2025 - The S&P 500 Index Was Up 17.88%

In 2025, the domestic S&P 500 Index was up 17.88%, lagging global developed and emerging markets performance. Our initial 2025 market prediction for the S&P (up 8%%) was off. We were somewhat surprised as to how much the area of artificial intelligence (AI) would continue to drive the market. Another event we did not anticipate was the Q1 tariff threats, which had huge impact on domestic versus foreign performance. The Bloomberg Barclay's Aggregate Bond Index was up 7.30%.

High S&P 500 Forward P/Es Signal Lower Long-Term Returns

The S&P 500 Forward P/E ratio has historically been around 18, but has been much higher over the past 5 years. Right now, the ratio is 24. This indicates a high probability of lower than average annualized long-term (5+ year) returns in the range of 4%-7%. We see a stable stock market in 2026. Right now we have:

- Rate cut expectations amidst stable inflation, resulting in a steepening yield curve
- GDP growth and favorable earnings expectations
- Anticipated tax incentives, economic stimulation, and bank deregulation
- A stock market that showed broader strength in the last six months of 2025

Fourth Quarter 2025

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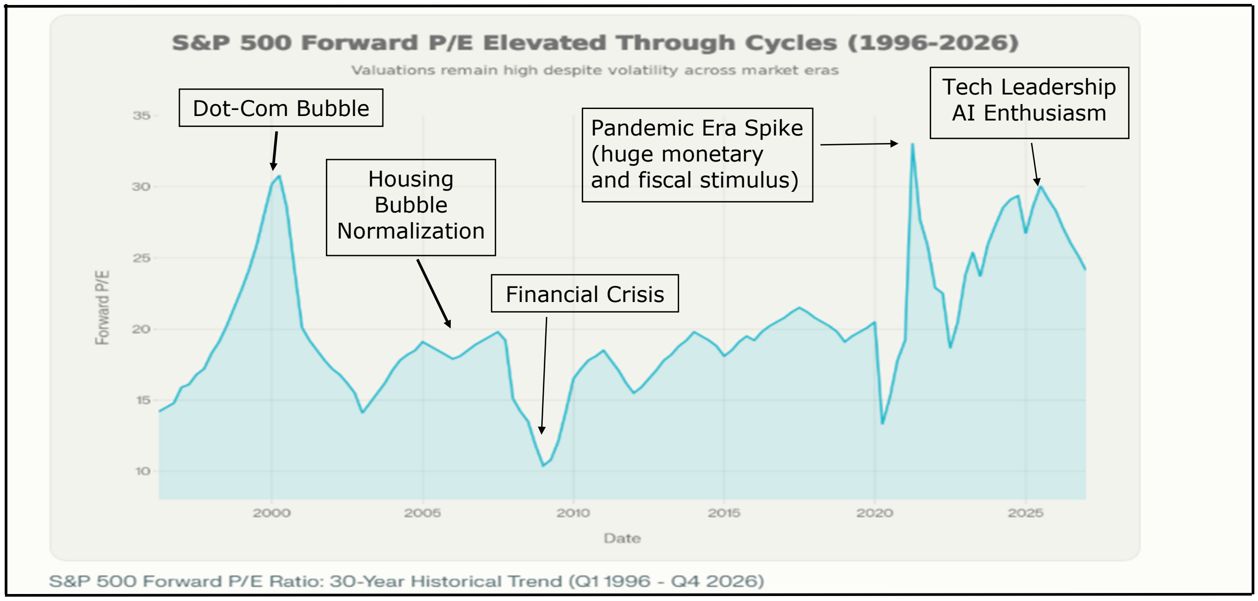
High S&P 500 Forward P/Es Signal Lower Long-Term Returns

The S&P 500 Index forward price/earnings (P/E) ratio is a valuation metric that measures how much investors are willing to pay today for a dollar of the Index's expected future earnings. Specifically, it divides the Index level by its estimated earnings per share (EPS) for the next 12 months. To illustrate, let's say the S&P 500 Index is at 7200 and the consensus estimate of EPS for the next 12 months is $300:

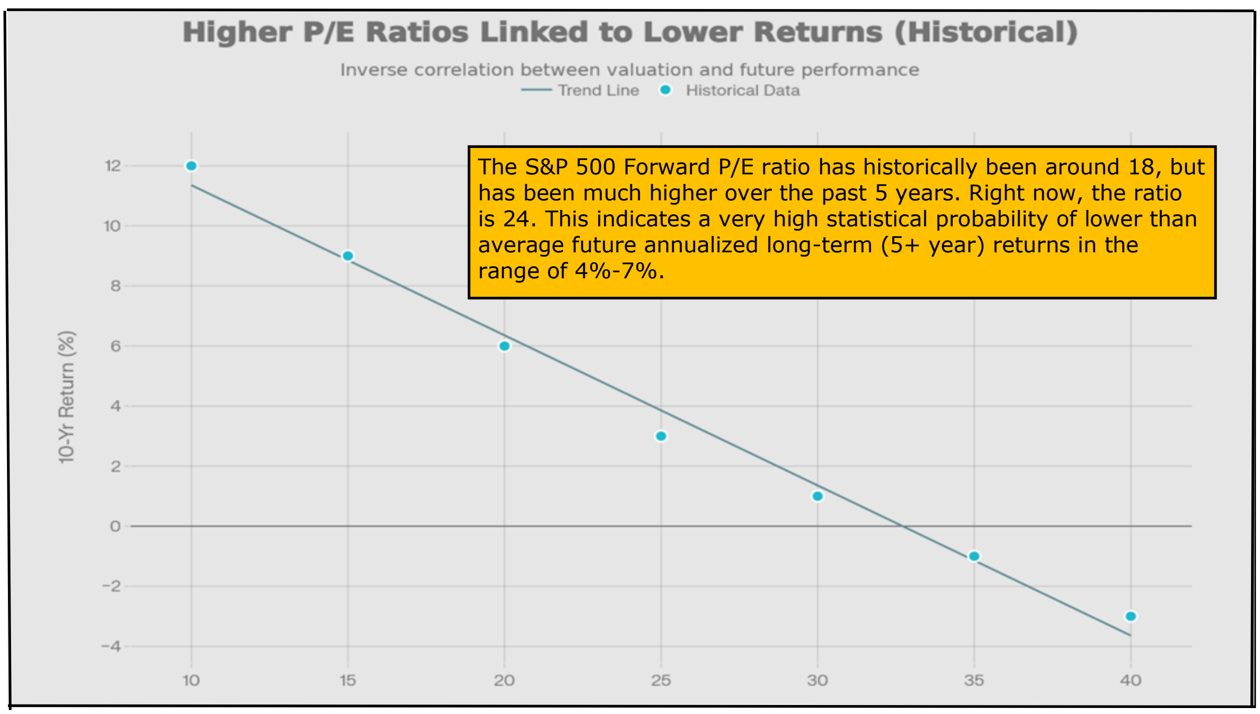
Forward P/E of the S&P 500 Index = Share Price / Estimated Future EPS (next 12 months) = 7200 / 300 = 24.

The S&P 500 Forward P/E Has Been Above Historical Averages For The Last 5 Years

The S&P 500 Forward P/E has historically been around 18, but it has been much higher over the past 5 years.

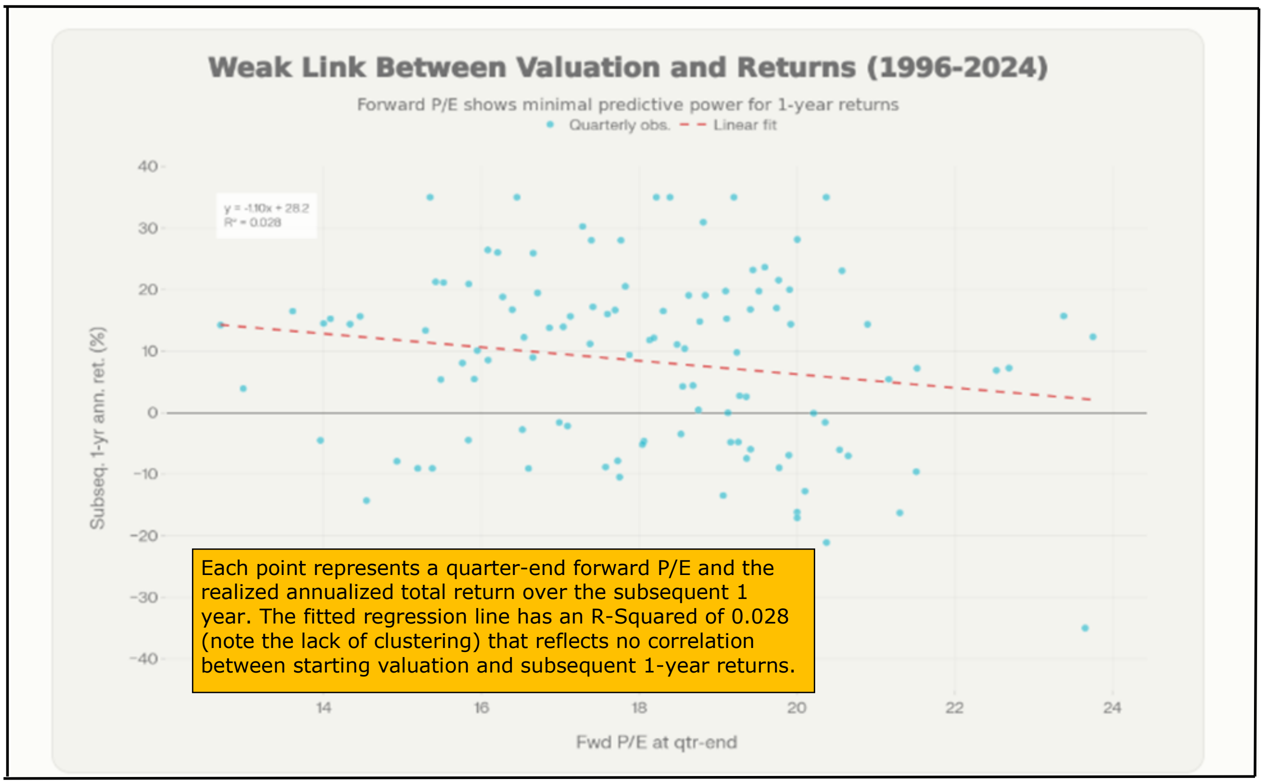


Why is this important? The correlation between the S&P 500's forward P/E ratio and subsequent 5+ year annualized returns is significant but inverse: higher P/E ratios generally predict lower future 5+ year returns.



Valuation Is A Poor Indicator Of Short-Term Stock Performance

The statistical regression measure "R-Squared" ("squared residuals") measures how much the variation of S&P 500 Index returns can be explained by the forward P/E ratio. An R-Squared value will be between 0 and 1. An R-Squared of 0 indicates absolutely no statistical relationship or predictive ability. An R-Squared of 1 indicates perfect predictive ability. A higher R-Squared means a tighter fit between observation points (data) and the regression line. For short-term (1-year) stock returns, the scatter plot of quarterly observations from 1996-2024 shows a wide range of observations at every forward P/E level, ranging from deep negatives to strong positives. The fitted linear regression on the chart is nearly flat, and the associated R-Squared of only 0.028 indicates that less than 3% of the variation on the 1-year returns can be explained by the forward P/E ratio (statistically very weak). This indicates that short-horizon returns are dominated by factors other than starting valuation.



Factors Other Than Valuation That Drive Our 2026 S&P 500 Prediction Of A Stable Market

Predicting a precise 2026 return is at best a guess given the high randomness of 1-year subsequent returns. Longer-term predictions are more meaningful. Having said this, we foresee a stable market in 2026 due to:

- Rate cut expectations - the Fed expects a total 0.50% rate cut in 2026 (two 0.25% rate cuts)
- History: the S&P 500 has risen double digits for four consecutive years only four times since 1926
- Stable inflation - the Fed sees core inflation down to 2.4% by December 2026, very close to its 2% target
- A steepening (normalized) yield curve following Fed rate cuts: a positive sign for economic stimulation
- GDP growth (the BEA reported surprise 4.3% GDP growth in Q3 2025 and the CBO projects 2.2% in 2026)
- A consensus projection of a 13% increase in 2026 S&P 500 earnings per share (rising to $310 EPS)
- Anticipated tax incentives, economic stimulation, and bank deregulation in a mid-term election year
- AI momentum - sustained AI capital expenditures underpin multi-year company revenue growth
- A stock market that showed broader strength in the second half of 2025

Possible market deterrents include fewer than expected rate cuts, higher than expected inflation, lower than expected company profits, and tariffs (which would further pressure inflation and negatively impact profits).

Valuation Is An Excellent Indicator Of Long-Term Stock Performance

The longer the time frame, the higher the measure of R-Squared regarding the S&P 500 forward P/E and subsequent Index performance attributable to the forward P/E. A level of statistical significance starts 4 years out and peaks at 10 years. Valuation is an excellent indicator of long-term stock performance.

Investment Time Frame	R-Squared
1 Year	0.028
3 Years	0.190
4 Years	0.706
5 Years	0.760
7 Years	0.794
10 Years	0.913

Low Significance

High Significance

The Schiller CAPE index, or Cyclically Adjusted Price-to-Earnings ratio (the Schiller P/E), measures stock market valuation by dividing the current price of the S&P 500 Index by the average inflation-adjusted earnings over the prior 10 years. Developed by Nobel laureate Robert Schiller, it smooths out short-term earnings volatility tied to business cycles, providing a longer-term view of whether equities appear overvalued or undervalued. The long-term average CAPE for the S&P 500 Index is roughly 20, with values above 25 signaling subdued future longer-term returns. **The current CAPE is 40.37 (January 1, 2026).**

The Past 100 Years: Schiller P/E At Start Of Year And Subsequent Annualized Returns						
Valuation (Schiller P/E)	Observation Frequency (# of Years)	1-Year Return (Low Significance)	3-Year Return (Low Significance)	5-Year Return (High Significance)	7-Year Return (High Significance)	10-Year Return (Highest Significance)
>40	2	4.36%	(8.04%)	(1.46%)	1.42%	(1.18%)
35 to 39.9	3	(5.26%)	(6.54%)	0.51%	3.28%	1.40%
30 to 34.9	6	12.52%	9.46%	8.64%	5.49%	4.40%
25 to 29.9	10	13.65%	6.89%	4.67%	7.64%	7.14%
20 to 24.9	21	4.09%	8.67%	10.10%	9.10%	8.37%
15 to 19.9	22	7.96%	5.90%	7.91%	9.24%	10.03%
10 to 14.9	26	16.89%	16.76%	13.97%	13.26%	14.21%
5 to 9.9	10	17.16%	17.31%	16.38%	15.49%	14.23%

Average Annual Return = 10.5%

At current forward P/Es, we expect less-than-average longer-term (5+ years) returns in the range of 4%-7% with a high level of confidence (statistical significance as indicated by R-Squared).

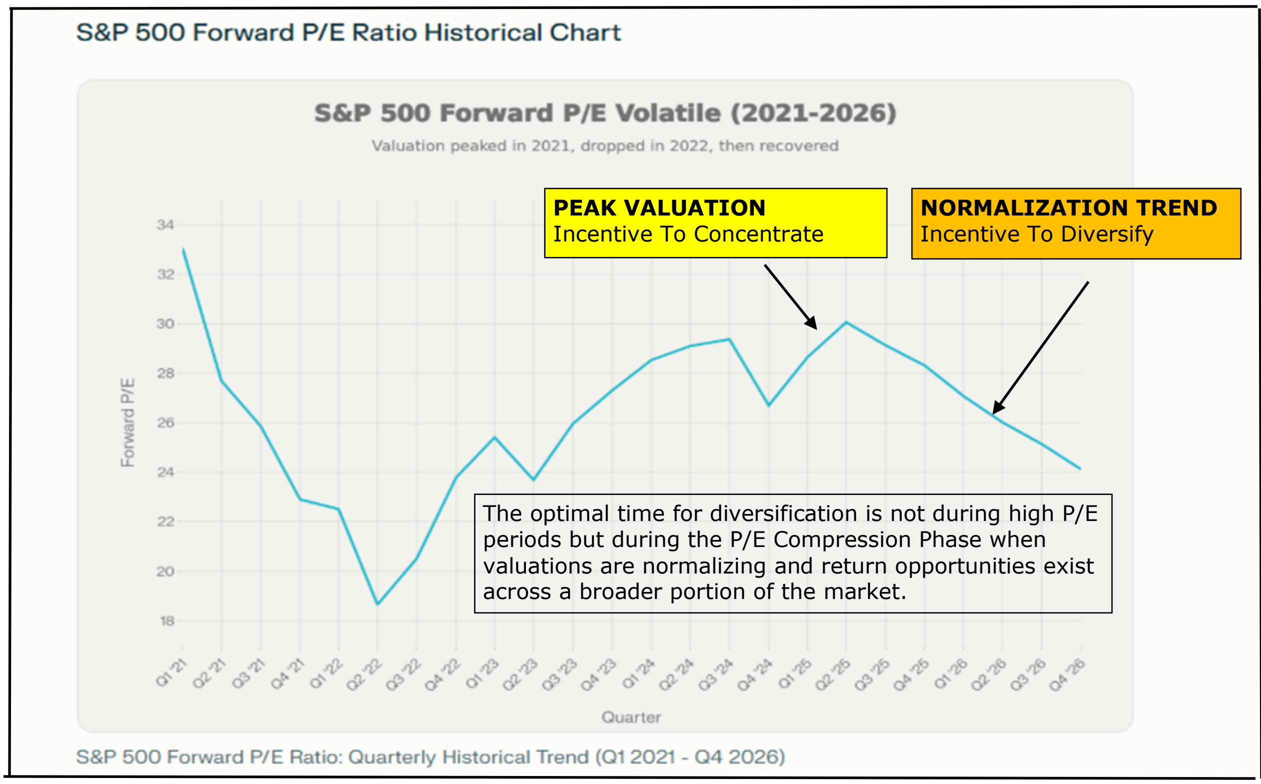
We are also observing P/E compression at this time (please see the chart on page 5). There is historical significance and lessons to learn. Please see the chart on page 2. During a time of P/E compression from 2004 to 2014, the S&P 500 Equal-Weighted Index out-performed the S&P 500 (cap-weighted) Index by an annualized 1.76%. During a time of expanding P/E ratios (2015 to 2025), the S&P 500 (cap-weighted) Index out-performed the S&P 500 Equal-Weighted Index by an annualized 3.71%. Looking ahead to 2026 and beyond, we anticipate a broader market and a benefit to portfolio diversification.

From a behavioral finance standpoint, watching us diversify your portfolio at a time when relatively few stocks have dominated market performance is tough - but we are confident it is the right thing to do.

Portfolio Strategy Considerations With Higher-Than-Average Forward P/Es

Higher-than-average forward P/Es predict lower-than-average longer-term S&P 500 annualized returns. How do we manage your portfolio with this expectation? The short answer is that we stay invested according to your target allocation and maintain portfolio diversification.

1. When the forward P/E is rising to an elevated level, such as Q2 2025 when it peaked at 30, the market is pricing in significant future earnings growth expectations. This elevated multiple creates a rational economic incentive to concentrate portfolio holdings in the highest growth megacap stocks because the valuation premium they command is justified by the market growth expectations.
2. However, as forward P/E ratios decline (it has fallen from 30 in Q2 2025 to 24 by Q4 2026), the market is simultaneously reducing its earnings growth expectations and becoming more skeptical of mega cap expansion. Concentration risk becomes uncompensated as the gap narrows between the high growth stocks and the broader market. This compression removes the justification for portfolio concentration and becomes the rationale for diversification.



Why We Maintain Portfolio Diversification Amidst Elevated Forward P/Es

Higher S&P 500 forward P/E ratios have historically been associated with narrower market leadership and more concentrated returns. While diversification may become necessary from a risk management perspective at extreme valuations, the performance incentive for diversification actually declines as forward P/Es rise. Why are we hesitant to over-weight the high-flying stocks even as they out-perform? We are trying to optimize risk-adjusted returns. The earnings expectations for the high-flying stocks are so high that they face execution risk. Any failure to meet growth expectations could result in large price corrections. We maintain diversified portfolios because the risk-reward tradeoff at high valuations favors diversification for managing downside risk. When we implement diversification strategies at the peak of a high P/E cycle, we are positioning the portfolio for longer term outperformance as valuations normalize.

Portfolio Diversification Strategies

Broad Sector Exposure

Sectors outside of Technology and Telecommunication Services offer compelling valuations relative to their earnings growth. As forward P/Es normalize (compress), market breadth widens. In these times, the S&P 500 Equal-Weighted Index has historically out-performed the S&P 500 Cap-Weighted Index (the S&P 500 Index). The equal weight index assigns each of the 500 companies an equal (0.20%) weight rather than weighting by market capitalization. The cap weight index weights its 500 constituents by market capitalization, giving the larger companies (such as Nvidia, Apple, Microsoft) much greater influence on performance.

Valuation Discipline

We screen for sectors and companies with attractive Price/Earnings ratios.

Maintain Core Mega-Cap Positions

While we anticipate a broadening of the market, the "Magnificent 7" stocks are projected to contribute 46% of total S&P 500 earnings growth in 2026 with collective earnings expected to rise 29% in 2026.

Emphasize Quality Companies

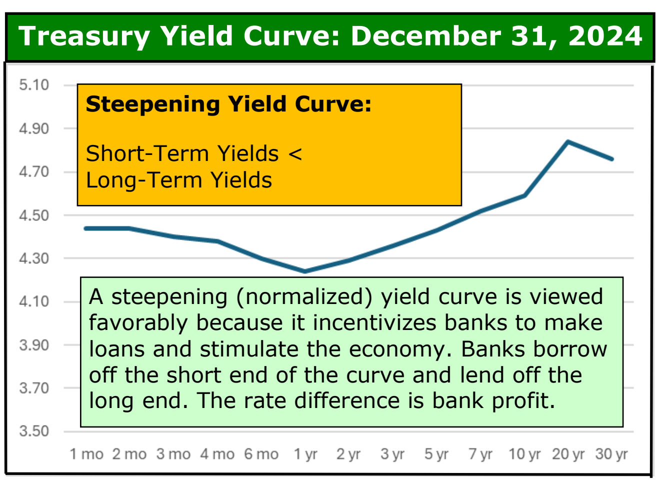
We seek "great companies" for the portfolio. Great companies have a sustainable competitive advantage. These advantages may include superior resources, operations systems, distribution capabilities, cost controls, product/service differentiation, supplier relationships, and considerable switching costs.

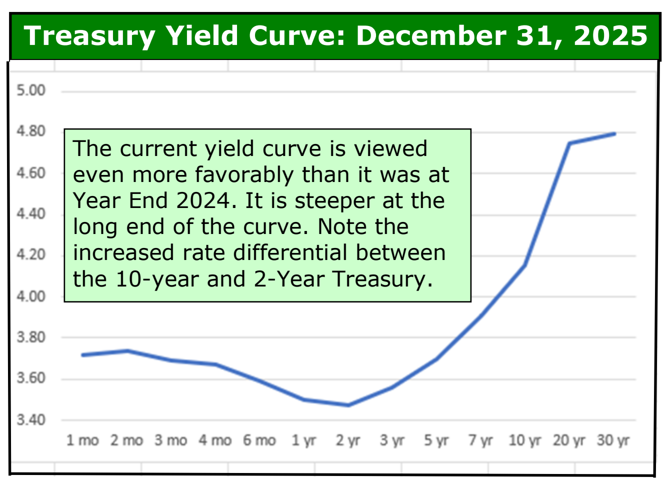
Increase Foreign Exposure

The foreign MSCI EAFE index trades at a forward P/E of roughly 15. In a high US P/E environment (such as a recent level of 30), concentrating in mega-cap US Technology is rational because the valuation gap is too extreme to overcome through geographic diversification. However, as the US companies compress to a level of 24 and potentially lower , the valuation gap narrows, making foreign diversification more competitive.

Bond Outlook: Good News, The Treasury Yield Curve Is Further Steepening

Remember the inverse relationship between bond prices and bond yields. As prices rise, yields fall (and vice versa). In 2025, the Bloomberg US Aggregate Bond Index (AGG) rose 7.30% as short-to-medium term yields fell. The Fed controls short-term interest rates but longer term yields are controlled by inflation expectations. Therefore, the market is showing very slightly higher concerns about inflation (likely related to potential Fed rate cuts) and the possible impact of extended tariffs (which would increase prices and inflation). These concerns could prove to be over-blown. Yields remain attractive. Our bonds are positioned to avoid substantial bond price declines.





Our 2025 Market Prediction Was Way Off

We predicted the S&P 500 Index would be up 8% in 2025 - the index rose 17.88%. These were our thoughts:

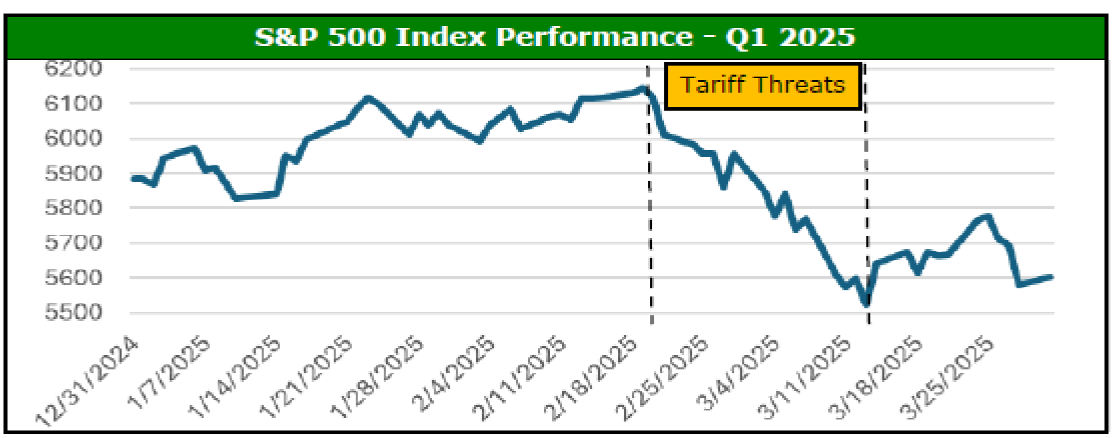
We believe the S&P 500 Index will be up 8% in 2025. Conditions point to a year of favorable trends for stocks that include interest rates, inflation, and economic resilience. Possible market deterrents include fewer than expected rate cuts, higher than expected inflation, and tariffs (which would further push up inflation if enacted). Right now we have:

- *Rate cut expectations - the Fed expects a total 0.50% rate cut in 2025 (two 0.25% rate cuts)*
- *Cooling inflation - the Fed sees core inflation peaking at 2.5% next year, very close to its 2% target*
- *A steepening (normalized) yield curve, which is a positive sign for economic stimulation*
- *GDP growth (the CBO projects 1.9% in 2025) and a strong consumer*
- *A healthy labor market - the current unemployment rate is 4.2%*
- *Projected 11% increase in 2025 S&P 500 earnings, which implies a Price/Earnings ratio of 24X (a little high)*
- *Anticipated bank deregulations with the new Administration*
- *A stock market that showed broader strength in the last six months of 2024*
- *History - since 1928, the S&P 500 has averaged 7.85% in the first year of a Republican presidency*

What Did We Miss?

Why was our market prediction so far off the mark? What did we miss? It wasn't the assumptions that drove our prediction: they proved fairly accurate. We had a resilient economy (the CBO projects 2.2% GDP growth in 2026), a steepened yield curve, and moderate inflation (the Fed projects 2.4% inflation in 2026). Fed rate cuts totaled 0.75% in 2025, close to our expectation. Market valuation remained above-average (forward P/E is 24). S&P 500 earnings were as projected. The labor market was challenged (unemployment rate is now 4.6%).

As was the case in 2024, we were somewhat surprised as to how much the area of artificial intelligence (AI) continued to drive the market. Another event we did not anticipate that had huge impact on domestic versus foreign performance was tariff threats. During the rapid Q1 correction that commenced on February 19, investors moved to foreign stocks and U.S. Treasurys, and the U.S. Dollar fell 3.96% to the Euro.



2025 - The Market Started To Broaden In Q3 When We Saw Forward P/E Compression

The start of forward P/E compression in Q3 was highly significant in terms of our future market expectations (see Normalization Trend, page 5). Q3 was when the market started to broaden. In Q4, Health Care (+8.31%) led sector returns and Technology (+0.99%) lagged. In Q4, the S&P 500 Equal-Weighted Index (+1.32%) approximated the S&P 500 (cap-weighted) Index (+2.66%) after lagging it considerably through Q3.

There is historical precedent. Please see the chart on page 2. During a time of P/E compression from 2004 to 2014, the S&P 500 Equal-Weighted Index out-performed the S&P 500 (cap-weighted) Index by an annualized 1.76%. During a time of expanding P/E ratios (2015 to 2025), the S&P 500 (cap-weighted) Index out-performed the S&P 500 Equal-Weighted Index by an annualized 3.71%. We cannot look at previous decades because the Equal Weight Index was only launched in 2003. Looking ahead to 2026 and beyond, we anticipate a broader market and a benefit to portfolio diversification.

1. The US Lagged And The Lag Was Attributable To Q1 Tariff Fears And A Falling US Dollar

US stocks lagged foreign stocks in 2025. It is interesting to note that the lag was almost entirely attributable to the tariff fears in Q1 that started on February 19 and carried through to quarter end. In Q1, the US lagged the MSCI EAFE by 11%, the MSCI EMU by 16%, China by 19%, and Japan by 5%. The rest of the year, US stocks performed almost identically to foreign stocks. Another factor in the US performance lag was currency. The Bloomberg Dollar Index fell about 8%, the sharpest annual retreat in 8 years, due to tariffs and Fed rate cuts.

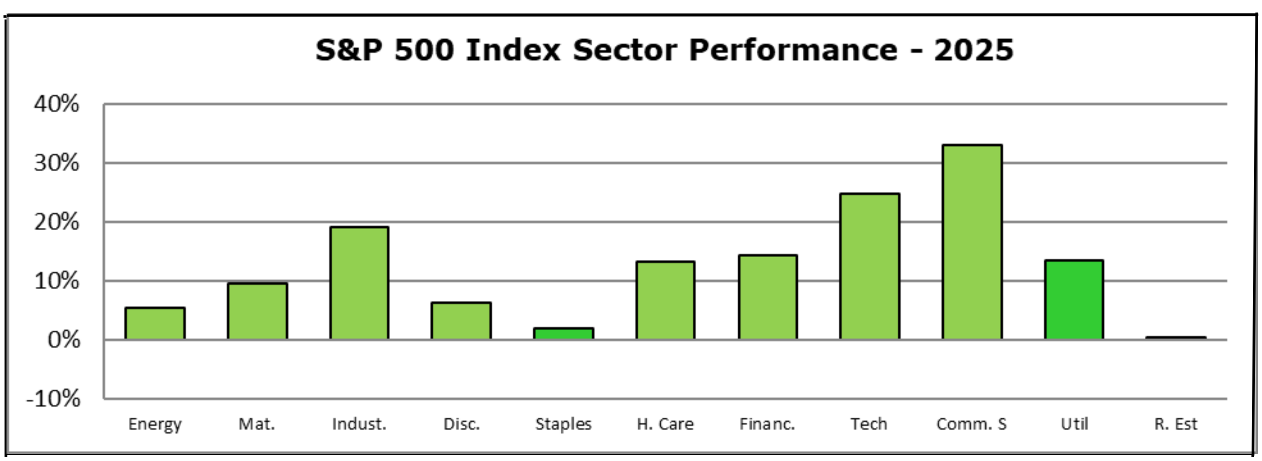
Equity Index Performance

Index	Q4 2025	2025
S&P 500 (Domestic)	2.66%	17.88%
MSCI EAFE (Foreign) *	4.86%	31.22%
MSCI Emerging Markets	4.73%	33.57%
MSCI EMU (European Monetary Union)	5.08%	40.30%
MSCI Japan	3.23%	24.60%

* Europe, Australia and the Far East

2. Technology, Communication Services, & Industrials Out-Performed

Technology (+23.82%), Communication Services (+32.68%), and Industrials (+18.12%) out-performed. Notable sector laggards were Staples, Consumer Discretionary, Energy and Real Estate. Health Care recovered in Q4.



Highlights Of Federal Tax Changes In 2026

1. Standard Deductions

Year	2026	2025
Single	$16,100	$15,000
Above 65 (Additional) (Single/Head of Household)	$2,050	$2,000
Married Filing Jointly	$32,200	$30,000
Above 65 (Additional, per person (Married Filing Jointly)	$1,650	$1,600

2. 2026 Federal Ordinary Income Tax Brackets

Single	Married Filing Jointly	Rate
Up to $12,400	Up to $24,800	10%
$12,401 - $50,400	$24,801 - $100,800	12%
$50,401 - $105,700	$100,801 - $211,400	22%
$105,701 - $201,775	$211,401 - $403,550	24%
$201,776 - $256,225	$403,551 - $512,450	32%
$256,226 - $640,600	$512,451 - $768,700	35%
Over $640,600	Over $768,700	37%

3. 2026 Federal Long Term Capital Gains Tax Brackets

Single	Married Filing Jointly	Rate
Up to $49,450	Up to $98,900	0%
$49,451 - $545,500	$98,901 - $613,700	15%
Over $545,500	Over $613,700	20%*

* Subject to an additional 3.8% Net Interest Income Tax above MAGI Limits

4. Federal Estate Taxes

	2026	2025
Basic Exclusion Amount	$15,000,000	$13,990,000
Annual Gift Tax Exclusion	$19,000	$19,000

5. 2026 IRA and 401(k) Contribution Limits

Account Type	Under 50 Years Old	Age 50-59, Age 64+	Age 60-63
IRA	$7,500	$8,600	$8,600
401(k)	$24,500	$32,500	$35,750

Income Limits To Contribute To A Roth IRA (MAGI)	2026	2025
Single Tax Filer	< $168,000	< $165,000
Married Filing Jointly	< $252,000	< $246,000

6. Social Security Inflation Adjustment

Social Security benefits and Supplemental Security Income (SSI) payments will increase by 2.8% in 2026. This is the annual cost-of-living adjustment (COLA) required by law. The increase will begin with benefits that Social Security beneficiaries receive in January 2026.

Tariffs added a high level of uncertainty to businesses and consumers in 2025, and there does not appear to be relief in sight. While tariffs have and may continue to generate significant revenue to the government (over $600 billion is projected), there are legal challenges and economic pushback that will persist in 2026. From a portfolio management standpoint, it has been very difficult to strategize tariffs. The story changes frequently.

Businesses absorbed the majority (roughly 80%) of tariff costs in 2025, which helped consumers and muted inflation. However, the pass-through to consumers could rise in 2026, which in turn could pressure inflation. Goldman Sachs forecasts an additional 0.3% inflation bump in 2026 if tariffs persist. In turn, higher inflation could dampen the enthusiasm of the Fed to further lower its target interest rate. The market is projecting two more 0.25% rate cuts in 2026, and if this does not happen, the market may react unfavorably.

The U.S. Supreme Court has a pending decision on the legality of President Trump's tariffs imposed under the International Emergency Economic Powers Act (IEEPA). Oral arguments occurred on November 5, 2025. No opinion has yet been issued. Analysts anticipate a ruling in early 2026.

Over 100 U.S. importers, including notable companies Costco, Revlon, and Toyota, have filed lawsuits in the U.S. Court of International Trade (CIT) to preserve rights to refunds on tariffs if the Supreme Court invalidates them.

In the event of tariffs being ruled unfavorably by the Supreme Court, many analysts expect the Administration to move quickly to re-impose some tariffs under alternative legal bases. Stay tuned.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC