QUARTERLY REVIEW & OUTLOOK **Q4-2025**

"I've suffered a great many catastrophes in my life. Most of them never happened."
-Mark Twain

As we enter 2026, the economic and market landscape looks more balanced than it has in several years. Recent data continues to point toward steady, sustainable growth rather than extremes, and the equity market is showing signs of healthier participation beneath the surface. With mid-term elections approaching later this year, investors are naturally focused on how political dynamics may influence returns, but history suggests that clarity, rather than any particular outcome, tends to be the most important catalyst.

Economic Conditions: Slow but Steady Momentum

The U.S. economy continues to expand at a measured pace. Growth in the second half of 2025 was supported by consumer spending, services activity, and improving supply chain conditions. Inflation has moderated meaningfully from its peaks, and while month to month readings can fluctuate, the broader trend has been toward greater price stability. The labor market has cooled from its post pandemic tightness but remains healthy by historical standards, with unemployment hovering in a range consistent with long run norms.

Professional forecasters expect real GDP growth in 2026 to track close to the economy's long-term potential. Wage growth has eased from its highs, which helps temper inflation while still supporting household incomes. Overall, the macro backdrop remains constructive: not overheated, not recessionary, but steady enough to support corporate earnings and long-term investment.

A Market That Is Broadening and Rotating

One of the most encouraging developments in recent months has been the broadening of market leadership. For several years, a small group of high growth, high multiple companies carried a disproportionate share of index level returns. Recently, however, participation has widened across sectors and market caps.

Value oriented and cyclically sensitive areas such as industrials, materials, transportation, financials, and select consumer segments, have begun to show improving relative strength. This shift suggests that investors are rediscovering companies tied more directly to the real economy rather than relying solely on the narrow group of prior leaders.

Importantly, this type of rotation can help support the major averages even if high growth names consolidate. When more sectors contribute to performance, the market becomes less fragile and less dependent on a handful of companies. Historically, periods of broadening participation have often coincided with more durable market advances.

Mid-term Elections in a Second Term Presidency

With mid-term elections approaching, it's natural for investors to wonder how political dynamics may influence markets. Historically, mid-term years tend to be volatile in the months leading up to the vote as uncertainty builds around potential policy changes. However, once election outcomes are known, markets have often responded positively as clarity replaces speculation.

In cycles where the presidency is in its second term, some historical analyses suggest that post mid-term performance has been particularly strong. While the exact statistics vary by source, the broader pattern is consistent: markets tend to prefer stability, and second term mid-terms often result in fewer major

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shifts. That combination has historically supported investor sentiment in the year that follows.

The key message is not about predicting political outcomes, but about recognizing that markets have navigated many different political configurations over time and have continued to compound value for disciplined, long-term investors.

Looking Ahead

The combination of steady economic growth, improving market breadth, and a more balanced leadership structure provides a constructive backdrop for diversified portfolios. The rotation toward value and cyclicals suggests that opportunities are expanding beyond the narrow group of companies that dominated recent years. While the upcoming mid-term elections may introduce short term volatility, history shows that clarity, regardless of outcome, has often been a catalyst for renewed strength.

As we enter 2026, there is certainly a long list of things to be nervous about. This year's worries include Venezuela, the Russia Ukraine War, Taiwan and China tensions, politics inside and outside the U.S, housing and living affordability, homelessness, accusations against the Federal Reserve, the upcoming mid-term elections, corporate earnings, interest rates, inflation, and even Greenland is now in the news. We will continue to monitor these and other events that could affect the investment landscape. However, as Mark Twain implies in the above quote, we can envision many catastrophes that will materialize, most will not.

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