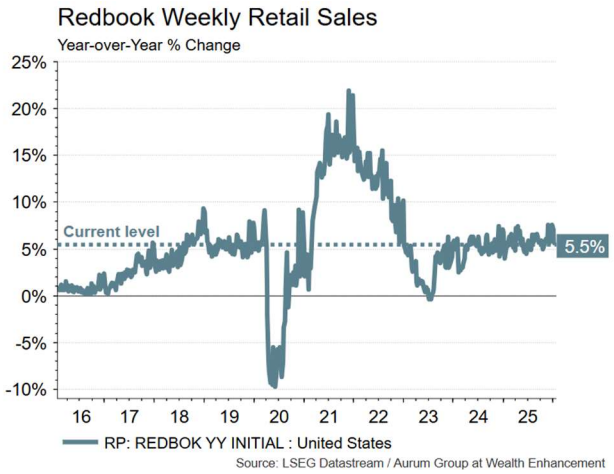
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# 1st Quarter 2026 – Strategy Newsletter

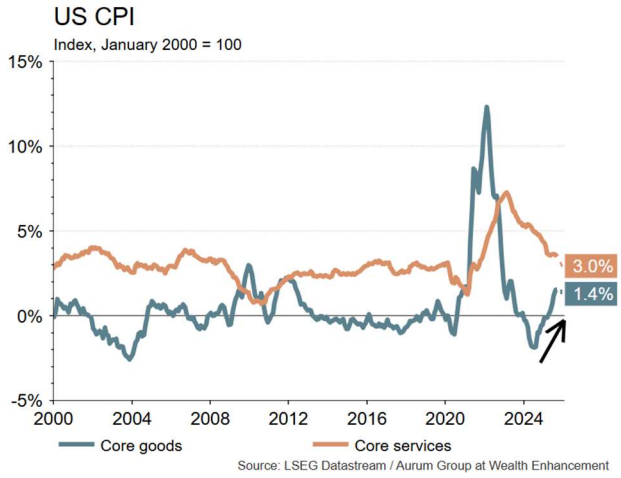
- The U.S. consumer remains resilient while inflation remains above the goals.
- International equities outperformed, with value stocks and financials leading the way.
- Bond markets were steady while spreads remain low around the globe.

## Economy

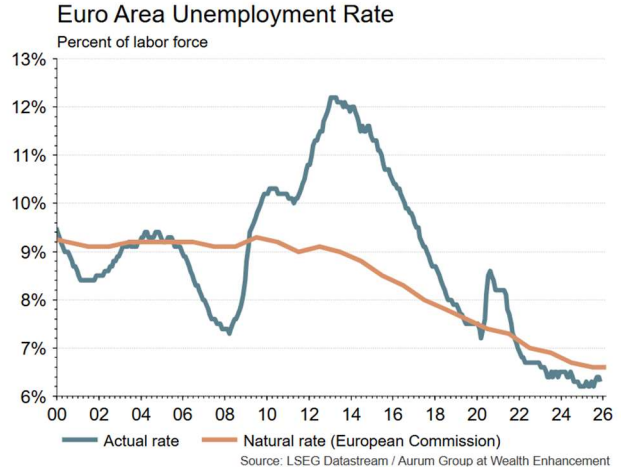
Betting against the American consumer is rarely rewarded. Consumer spending remains the core engine of U.S. economic growth, with weekly Redbook retail sales consistently posting annual gains above 5% over the past year.




Recent government shutdowns temporarily interrupted several inflation reports, creating gaps in the monthly data. Even so, it's clear that headline inflation remains above the Federal Reserve's target. Core goods prices rose over the past year—likely a one-time spike related to tariffs rather than a sustained trend. On the positive side, services inflation is easing and now sits closer to its 25-year average.




In Europe, the economic backdrop quietly improved. Unemployment declined over the last three years, in contrast to the U.S. where it drifted up from 3.4% in 2023 to 4.4% today. European manufacturing output is also strengthening, supported in part by increased defense-related production.




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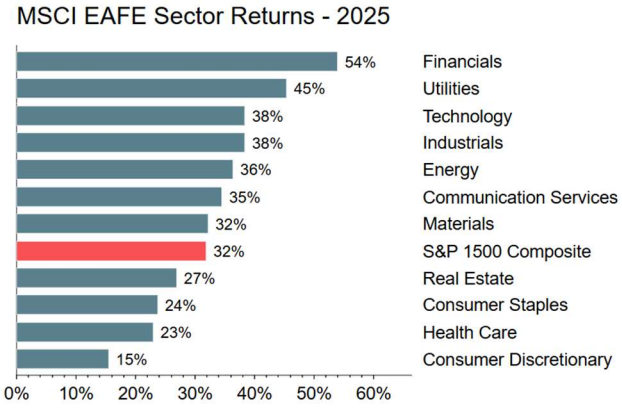
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## Equity

International equities continued their trend of outperforming U.S. markets during the quarter.

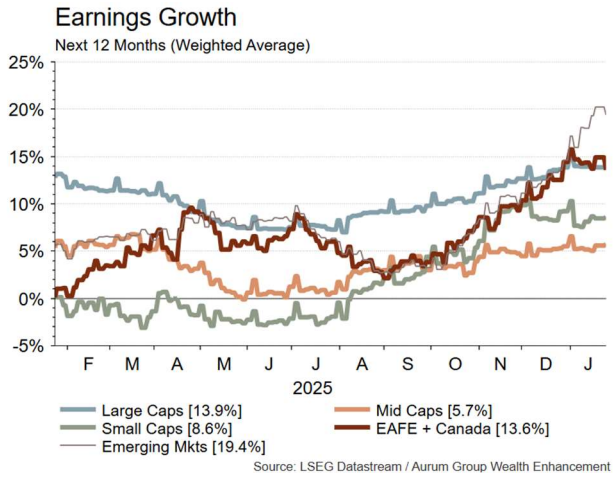
| U.S. Equity | 4Q 2025 |
|---|---|
| **Large Cap Stock** | |
| S&P 500 | 2.7% |
| **Small & Mid Cap** | |
| S&P 400 Mid Cap | 1.4% |
| S&P 600 Small Cap | 1.5% |
| **All Cap Style Indices** | |
| S&P 1500 Value | 3.1% |
| S&P 1500 Growth | 2.1% |
| **International Equity** | **4Q 2025** |
| MSCI EAFE | 4.9% |
| MSCI EAFE Value | 7.9% |
| MSCI EAFE Growth | 1.9% |
| MSCI Emerging | 4.8% |
| MSCI EM Value | 6.5% |
| MSCI EM Growth | 3.3% |

Value stocks overseas continued to outperform growth, as it has in six of the last seven quarters. The primary driver was sector exposure — driven by financials, the largest component of value indices. Healthy bank performance is typically a constructive signal for global equity markets.



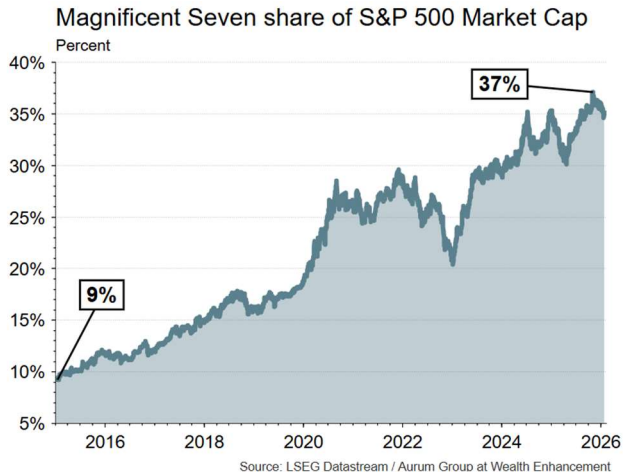

Source: LSEG Datastream / Aurum Group at Wealth Enhancement

As we begin the year, emerging market equities are expected to grow earnings by 20%. This compares favorably to developed international markets expecting growth of 15%. Large cap US equities, driven by the technology sector, are expected to grow earnings by 14%.




Source: LSEG Datastream / Aurum Group Wealth Enhancement

Although not all classified in the technology sector, the earnings of of the Magnificent 7 stocks continue to drive results. The "Magnificent 7"—Apple, Amazon, Nvidia, Google, Meta, Microsoft, and Tesla—remain outsized contributors to U.S. equity returns. Their combined weight in the S&P 500 has climbed from 9% a decade ago to a peak of 37% at the end of 2025.




Source: LSEG Datastream / Aurum Group at Wealth Enhancement

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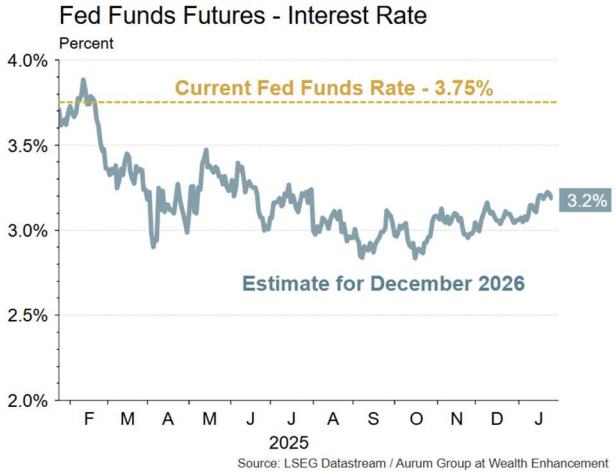
## Fixed Income

Treasury yields were stable during the quarter, with the 10-year Treasury rising slightly from 4.13% to 4.14% after hitting a low of 3.93% in October. The steady rate environment supported solid bond market performance.

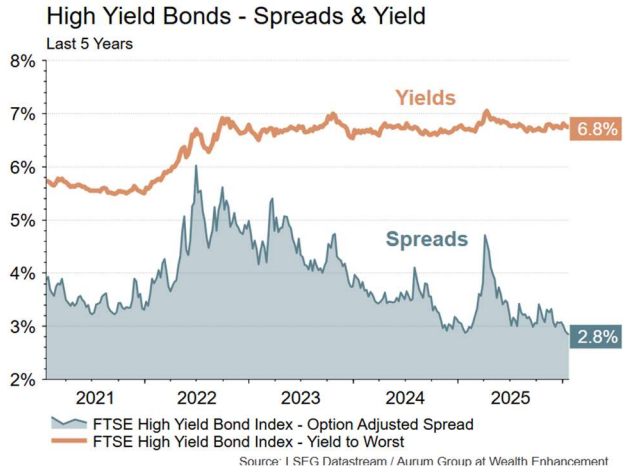
| Fixed Income | 4Q 2025 |
|---|---|
| Bloomberg U.S. Aggregate Bond | 1.1% |
| Bloomberg Corporate Inv. Grade | 0.8% |
| Bloomberg High Yield Bond | 1.3% |
| Bloomberg Global ex. U.S. Treas. | 0.5% |
| Bloomberg Municipal Bond | 1.6% |
| Bloomberg TIPS | 2.1% |

The Federal Reserve and Chairman Powell have taken center stage in Washington. With his term ending in May, the markets are anticipating who will be next up to lead the committee of twelve voting members that set interest rate policy.

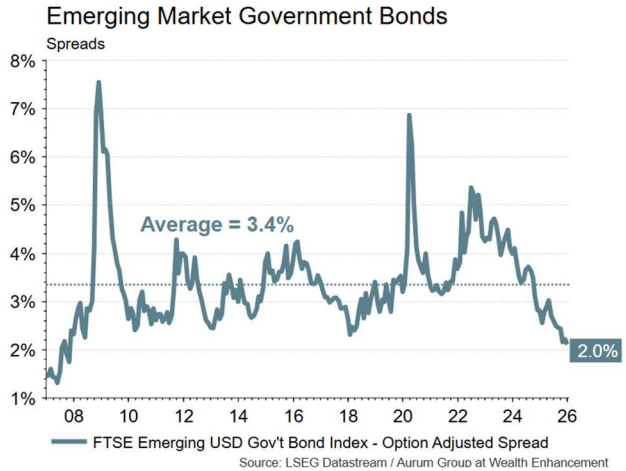
Investors see two interest rate cuts by the end of 2026. With a new chair, many economists see more potential interest rate cuts next year. If inflation continues to trend down and the jobs market remains weaker than expected, the table would be set for lower interest rates than expected.




High yield corporate bond yields hovered near 7% over the past three years. Under the surface, spreads narrowed significantly from 6% at their peak to under 3% today.




Investors are increasingly looking to diversify away from the US dollar. Emerging market bonds offer one avenue, but yields relative to Treasuries are at their lowest levels in two decades.



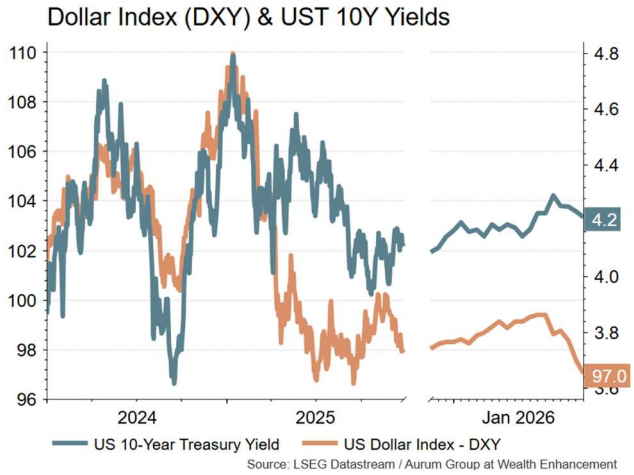

In this environment, we prefer strategies with flexibility to take both positive and negative views on foreign currencies and debt markets. A manager expressing both long and short positions can create diversifying exposure for portfolios.

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## Closing Thoughts

A material portion of international equity performance in 2025 came from currency gains, with foreign currency appreciation contributing 8% of the 31% total return. A weaker U.S. dollar aligns with current U.S. policy priorities and tends to benefit domestic exporters. History shows similar patterns when trade policy changed as it has in the US — for example, the British pound weakened significantly following the Brexit referendum in 2016.

Concerns about dollar risk continue to rise. Precious metals have surged, with gold reaching new all-time highs. Notably, this trend has occurred even as U.S. interest rates have moved higher—an indication that multiple factors, rather than rates alone, are driving investor behavior.




### Asset Allocation Frameworks

| | Income | Conservative | Balanced | Moderate | Growth |
|---|---|---|---|---|---|
| **Asset Class** | Strategic | Strategic | Strategic | Strategic | Strategic |
| **Equity** | **23%** | **38%** | **53%** | **68%** | **83%** |
| U.S. Equity | 15% | 24% | 33% | 42% | 51% |
| International Equity | 6% | 11% | 15% | 20% | 24% |
| Emerging Markets Equity | 2% | 4% | 5% | 7% | 8% |
| **Fixed Income** | **77%** | **62%** | **47%** | **32%** | **17%** |
| US Fixed Income | 69% | 56% | 42% | 29% | 15% |
| Global Bonds | 8% | 6% | 5% | 3% | 2% |

The risk designations are relative only to the five Strategic Allocation targets and do not represent comparisons with any other investment or risk of the overall strategies.

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