

February 2026

Market Outlook

A Global Transition is Underway

2025 Recap

2025 was a strong year for nearly all asset classes, despite the uncertainty and volatility in the first half. The US stock market ended the year up 17.9% and was again driven by the 10 largest stocks. These 10 companies made up 38% of the S&P 500 and contributed over 60% of the index return for the year. Internationally, it was the weakening US dollar which drove equity market outperformance, with the MSCI All-Country World ex-US Index returning 32.4% to US-based investors.

Fixed income assets provided positive total returns, benefitting from attractive starting yields and declining interest rates. The Bloomberg Aggregate Index ended the year with a total return of 7.3%. High yield bonds added incremental performance, up 8.6%.

Private markets showed signs of improvement after a slow dealmaking environment over the past few years. The Burgiss Private Equity Index returned 8.7% during the first three quarters of 2025. Private credit posted another year of solid performance, despite some recent negative headlines. The Cliffwater Direct Lending Index returned 7.0%, year-to-date through 9/30/25, aided by healthy credit fundamentals and a normalized Federal Funds Rate.

Real estate valuations stabilized after multiple years of headwinds from rising interest rates and excess supply, particularly in multi-family and industrial property types. The ODCE index returned 3.7% year-to-date through 9/30/2025, with positive returns in each of the last 5 quarters. The multi-family component of the ODCE Index performed slightly better, returning 4.3% over the same period.

2026 Outlook

As 2025 unfolded and policy uncertainty waned, signs of broader market strength started to emerge and continued into early 2026. The second Trump administration ushered in aggressive change across nearly all facets of the economy, namely trade, taxes, and deregulation. The administration's stated objective has been to secure critical inputs to the American economy domestically, such as energy and materials, health care, technology, and manufacturing, rather than seeking a lower cost option globally. Whether you agree with the merits or approach, the shift toward trading additional cost for perceived greater reliability and national security will continue having investment implications throughout 2026 and beyond.



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The impact of tariff increases has taken hold, with the US trade deficit reaching \$148 billion for Q3 2025, the lowest since Q1 2021. It is no surprise that countries with the highest tariff rates have seen the trade deficit shrink the fastest as the trade deficit with China hit \$189 billion for 2025, the lowest since 2006 and nearly half of the total for 2022. This change has reduced demand for products made overseas and led to US GDP growth accelerating in Q3 2025 to 4.4%.

The One Big Beautiful Bill Act (OBBBA) delivered changes to the tax code which will provide over \$150 billion in tax savings, primarily for lower wage earners and businesses that invest in domestic capital projects and research and development. These tax savings are expected to come in the form of higher refunds during the upcoming tax filing season. Lower wage earners maintain a very low savings rate and are likely to spend their tax refunds, further supporting US GDP growth and corporate earnings in 2026.

Lastly, a deregulatory agenda is unfolding across industries. The energy and materials sectors are seeing regulations rolled back to incentivize domestic production as the United States reduces its reliance on other countries, namely China. Another area we anticipate deregulation is the banking sector, which has been under intense scrutiny since the Great Financial Crisis nearly 20 years ago. We expect regulators to begin relaxing bank capital requirements in support of more private sector credit creation.

Adding all this together, we see the US economy and corporate earnings entering 2026 with tailwinds, however, we continue to monitor the risks in the economy. The US stock market is highly concentrated in the Magnificent 7 stocks, whose weighted average Price / Earnings ratio is currently 36.1 versus the total S&P 500 at 24.4. This elevated starting valuation combined with increasing amounts of capital expenditures means the bar for outperformance by these companies is quite high. Inflation, while stable throughout 2025, remains at somewhat elevated levels relative to the Federal Reserve's 2% target and reacceleration may prompt the Federal Reserve to revisit recent rate cuts. Finally, geopolitical risks and uncertainty remain elevated as the implications of US policy changes are likely to play out over time and in ways we do not expect.

As we look ahead to 2026, the beginning of our 10th year in business, I want to take a moment to thank you for your tremendous support and confidence. Your partnership has enabled the firm to grow, now reaching over 250 relationships and advising over \$4 billion in assets. Our team remains energized and committed to delivering on our mission of strong investment performance coupled with exceptional client service. Please reach out to our team anytime if we can be helpful.

Best regards,



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