THE PRIVATE CLIENT GROUP
BALANCING LIFE & WEALTH

ECONOMIC & MARKET

INSIGHTS

An Executive Summary for Year-End 2025

2025 was another productive year for investment assets despite intermittent volatility, marking a third straight year of double-digit U.S. equity gains. Fixed income also played a key role in supporting diversified portfolio returns. After years of underperformance, international equities stood out in 2025, with developed and emerging markets up significantly. A weaker dollar helped, but local market strength was equally impressive. Artificial intelligence dominated 2025, attracting massive attention and capital. Progress is rapid, but implications for work and life are unfolding in real time. Bubble concerns persist, though excesses remain concentrated rather than widespread. Gold and other precious metals had a breakout year, posting gains that outshined cryptocurrencies. While unresolved sovereign debt issues support ownership, these assets lack clear valuation drivers, making long-term strategic positions questionable. For bond investors, yields outside the long end have fallen as central bank actions ease inflation fears. Lower rates and tight spreads have normalized opportunities in high-quality fixed income, though pockets of value, such as municipals, persist. Private market results were also compelling in 2025, although at times lagged public market equivalents given their tendency to over- or underreact. Given aforementioned dynamics in public markets, the rationale for a strategic allocation to private markets remains alive and well. Domestically, the economy has taken on a K-shaped form: higher-income households benefit from rising incomes and asset prices, while lower-income cohorts face stagnation and declining real purchasing power. This two-speed dynamic helps to explain the disconnect between headline data and consumer sentiment, which is near historic lows despite GDP growth, inflation, and employment remaining supportive. 2025 brought no shortage of domestic policy volatility from tariffs to a government shutdown. Both tested the resiliency of the U.S. economy and contributed to investment asset value turbulence, but were unable to fully derail an otherwise resilient economy. The Fed delivered several policy rate adjustments (three 0.25% cuts in 2025), bringing the policy rate closer to a neutral level of 3.50- 3.75%. Boundaries around the central bank's political independence continue to be called into question as Fed Chair Powell faces potential criminal prosecution over renovation costs of its headquarters. Geopolitical instability is rising and likely to stay elevated, most recently highlighted by Venezuelan President Maduro's capture. Exogenous shocks in 2026 could trigger sharp market swings, reinforcing the case for broad diversification. With 2025 now closed, focus shifts to the road ahead where risks skew higher. U.S. equities trade at elevated valuations and near-record concentration levels after several strong years. International valuations have also risen but remain more reasonable, supporting global exposure. Despite pockets of heightened volatility, several years of sustained, supportive investment asset returns potentially paves a rockier path for the future. While the opportunity set skews in favor of caution, predicting the timing and path of future market performance is often a fool's errand suggesting proper liquidity management paired with an appropriate strategic asset allocation is the best predictor of future successful outcomes.

Economic Insights

As we close out 2025, the U.S. economy stands at a crossroads marked by resilience and divergence. Growth has stayed above trend, supported by robust AI investment, wealth effects, and a more accommodative policy stance. Yet beneath the surface, the labor market has softened, with payroll growth slowing and unemployment at 4.4%. This moderation reflects supply-side constraints like tighter immigration and demand-side pressures from tariffs and cautious hiring, highlighted by 50,000 jobs being added in December, meaningfully below the 70,000 consensus estimate.

Inflation remains a concern, with core PCE expected to hover above 3% into early 2026, driven by services inflation and tariff pass-through effects. While the Fed has cut rates by 175 basis points since September 2024, bringing the policy rate to 3.50-3.75%, the path forward is uncertain. The hawk-versus-dove debate will likely persist, especially with a new Fed chair expected mid-2026. Fiscal policy, notably the One Big Beautiful Bill Act, has shifted from headwind to tailwind, supporting growth and aiding lower-income households through tax cuts and initiatives to make housing more affordable.

Manufacturing continues to face headwinds with activity remaining in contraction territory for much of 2025. The ISM Manufacturing PMI has struggled to break above 50 into expansion, reflecting higher input costs, supply chain disruptions, and cautious sentiment. While some stabilization is evident, new orders and employment remain subdued. Uneven tariff impacts have raised costs for import-reliant industries, also adding to a cautious outlook.

Consumer confidence tells a tale of two economies. High-income households remain resilient, buoyed by wealth effects from rising equity and housing markets, while lower-income consumers face affordability challenges. Despite these pressures, aggregate consumption has held up, supported by fiscal measures and a robust labor market for skilled workers. Surveys suggest sentiment among lower-income cohorts remains fragile, but the gap with higher-income groups may shrink in 2026 as policy focuses on housing affordability and energy costs.

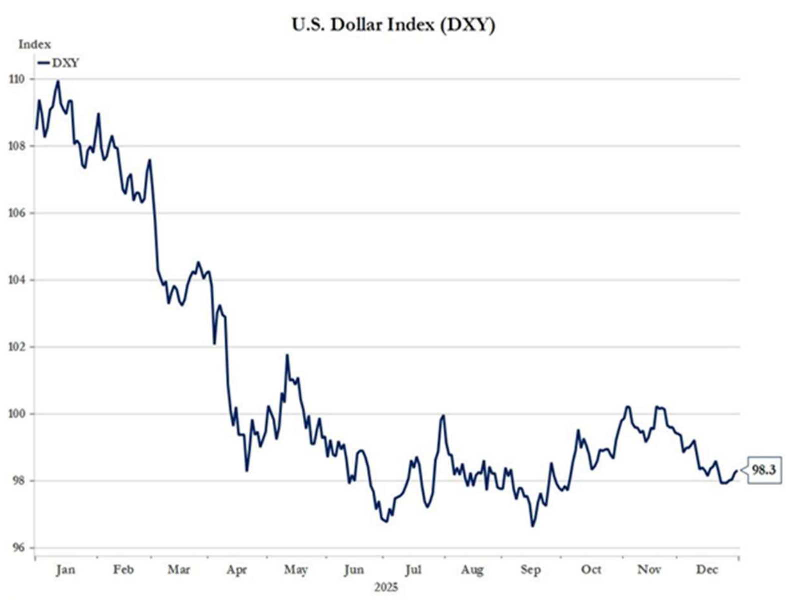
Financial conditions eased modestly in late 2025, with lower rates and improved credit availability supporting markets. The Fed's accommodative stance has stabilized funding markets, though volatility persists amid policy debates. Liquidity should stay supportive into 2026, providing a tailwind for risk assets, but investors should remain vigilant as midterm elections and global uncertainties could spark volatility.

The recent U.S. military operation in Venezuela captured headlines but had a muted impact on oil markets. Crude prices remained mostly stable as participants assessed limited changes to supply. Over the longer term, Venezuelan oil output remains uncertain, requiring several years of significant investment to restore infrastructure.

Despite these challenges, several tailwinds should support the economy in 2026. AI and digital infrastructure investment should drive productivity and business formation. Supportive monetary and fiscal policies, including lower rates and targeted relief, could sustain spending and improve confidence, while wealth effects and labor market stabilization should bolster demand. Key risks that warrant investor attention include persistent inflation, further deterioration within labor markets, and geopolitical tensions that could disrupt supply chains and financial conditions. While these warrant caution, the outlook is constructive, indicating potential for steady growth.

DXY Declines in 1H25, Remains Rangebound in 2H

- The U.S. dollar index (DXY) fell roughly 9% in 2025, reflecting slower growth, rising fiscal deficits, and shifting capital flows from trade policy and rate differentials.
- While the dollar's reserve currency status remains intact, its decline boosted returns on non-U.S. assets but raised import prices and added inflationary pressure at home.
- If the Fed continues cutting rates, the dollar may stay under pressure, especially if other central banks maintain a more hawkish stance.
- However, if the Fed holds a tighter stance than peers, U.S. growth outpaces international growth, or geopolitical uncertainty drives safe-haven demand, DXY could see renewed strength in 2026.



Equity Markets

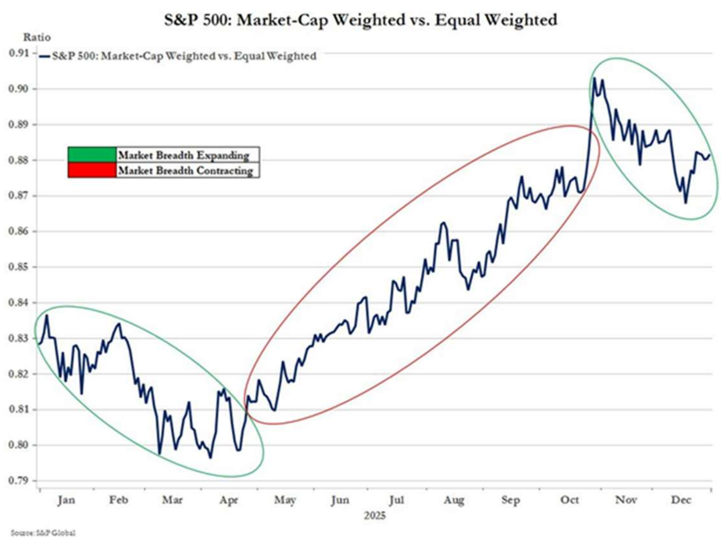
Global equity markets delivered impressive results in 2025, building on several years of strong performance. The S&P 500 marked a third straight year of double-digit gains. International markets outpaced the U.S. Emerging markets were a highlight, as the MSCI Emerging Markets Index had its best year since 2009 and the first time it surpassed U.S. equities since 2017.

U.S. equities benefited from strong earnings, especially from technology leaders, reflecting the ongoing impact of cloud computing, artificial intelligence, and digital advertising. Market breadth improved, and European stocks surged, particularly in bank-heavy indices such as the FTSE 100. Emerging markets were supported by lower local interest rates, higher earnings growth, attractive valuations, and a weaker U.S. dollar. However, trade tensions, rising bond yields, and technology sector losses late in the year tempered overall enthusiasm and led to a more cautious outlook.

Looking to 2026, public equities face both promising opportunities and notable risks. The artificial intelligence supercycle is expected to drive record capital expenditures and rapid earnings growth, supporting U.S. and emerging market equities, while Europe may benefit from fiscal stimulus and improving credit conditions. However, investors should remain cautious as escalating tariffs, trade tensions, and geopolitical instability could challenge markets. Stretched technology valuations, persistent inflation, high global debt, and political uncertainty in major economies add to the risk landscape. Despite these headwinds, the market enters 2026 with solid momentum and supportive structural trends, but vigilance will be essential across both developed and emerging markets.

U.S. Equity Breadth Improves in Q4

- Market breadth improved as gains broadened beyond the AI-driven mega-cap leaders, with sectors like industrials and financials contributing meaningfully to Q4 performance.
- Small- and mid-cap stocks also outpaced large caps, benefiting from easing inflation and lowers rates, signaling healthy participation across the capitalization spectrum.
- Despite widening breadth, the S&P 500 remains highly concentrated versus its history, making diversification across geographies and market caps a key consideration for 2026.



Fixed Income Markets

U.S. fixed income delivered modest returns in 2025 but underperformed emerging markets as U.S. debt levels and lingering policy uncertainties remained in focus. A weaker dollar provided an additional tailwind for EM, reducing debt-servicing costs for sovereigns and corporates while supporting commodity prices that fueled growth.

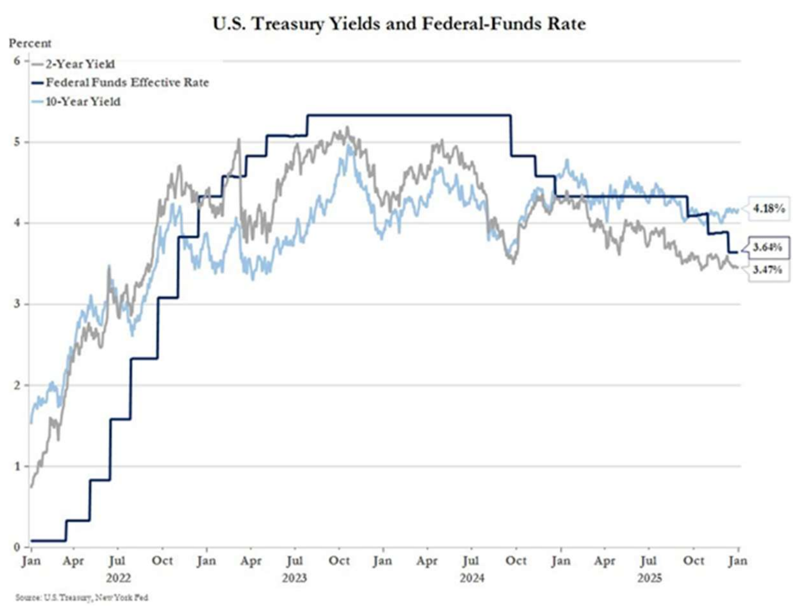
Spreads briefly widened in April but have since normalized. Investment-grade spreads ended the year near 80 bps, with high yield around 300 bps, suggesting credit risk is not currently a major concern within debt markets. Corporate fundamentals remain stable, with leverage and interest coverage improving as base rates declined. Refinancing activity accelerated as the year progressed, and while funding costs remain above pre-2022 levels, they are still manageable for issuers. Demand for high-quality fixed income remains strong, reflected in consistent inflows and healthy market activity. Default rates stayed low, reinforcing the view that credit is not signaling stress.

Municipals faced a challenging start to 2025, but conditions improved meaningfully later in the year. Heavy issuance, elevated valuations, and renewed debate over tax-exempt status drove early volatility. Those pressures have since eased, with valuations resetting to more attractive levels and inflows rebounding. The passage of President Trump's OBBBA removed a major overhang by preserving the tax-exempt status of municipals. With supply normalizing and investor demand returning, the sector enters 2026 with a more constructive backdrop.

Looking ahead, the policy landscape is far from settled. President Trump has signaled a preference for additional rate cuts, but the Federal Open Market Committee remains divided. Chair Powell's term ends in May, and his successor could adopt a more aggressive stance on easing. Until then, the Fed has indicated that it does not see an urgent need for further reductions and will remain data dependent in its decision-making. This dynamic introduces an element of uncertainty that markets will be watching closely as 2026 unfolds.

Fed to Remain Data Dependent in 2026

- The Fed cut the fed funds rate by 75bps to a target range of 3.50-3.75% in 2025, as inflation concerns faded and labor market conditions weakened.
- The current rate is now at the upper end of the Fed's neutral rate estimate, and therefore, additional rate cuts in 2026 will be highly data dependent.
- According to futures pricing, the market is expecting no rate cuts until June and one additional rate cut in September, with a total of two rate cuts in 2026.
- During December's FOMC press conference, Chair Powell stated that rate hikes are no longer in anyone's base case and that they will act according to upcoming labor market developments.



Real Assets

Led by precious metals, real assets delivered strong results in 2025 despite negative returns within agriculture and energy. The year was characterized by supply disruptions, shifting demand dynamics, and evolving macroeconomic conditions that created distinct winners and losers across the asset class. Industrial metals finished strong, benefiting from mine disruptions and tariff concerns in key markets. MLPs and commodities also delivered strong 2025 results.

Despite being down in Q4, real estate posted a solid return for 2025. The U.S. housing market continues to face severe supply constraints, with millions of homes needed to close the gap after years of underbuilding. President Trump has initiated steps to address the imbalance, including proposals to ban large institutional buyers and expand mortgage bond purchases to lower rates. Industrial REITs underperformed in the first half due to excess supply and trade policy uncertainty, but rebounded in the second half as trade tensions eased. Strong demand for industrial and logistics assets, as well as resilient transport volumes, helped to bolster returns.

Infrastructure delivered a robust gain in 2025 as the AI revolution moved beyond software into the physical realm, fueling unprecedented electricity demand from data centers and accelerating power grid modernization. This strength was reinforced by a strategic rotation toward infrastructure's resilient cash flows, offering investors a critical hedge against persistent inflation and macroeconomic uncertainty throughout the year.

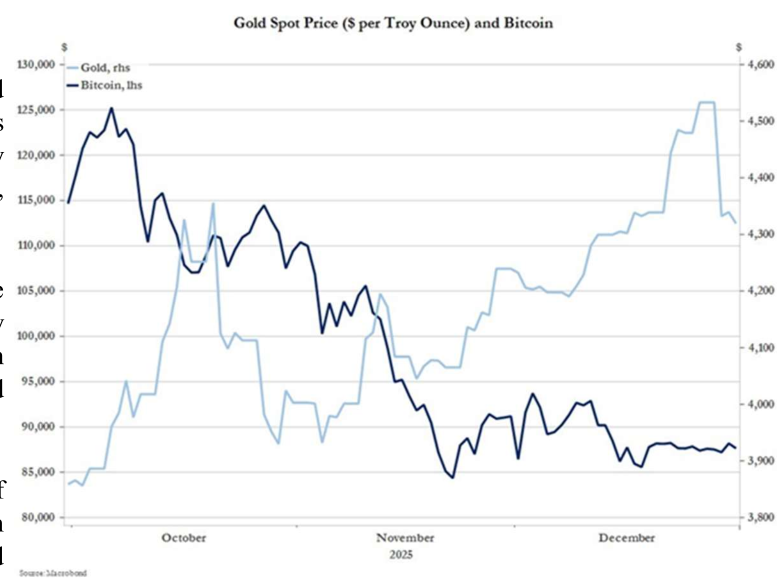
Agriculture struggled in 2025 as commodity prices broadly weakened, while energy was the largest drag, declining in Q4 to finish at a loss for the year. Economic and geopolitical headwinds softened global oil demand and outlooks suggest more of the same in the first half of 2026, though some strategists feel that natural gas may be a bright spot. The U.S. intervention in Venezuela is likely to add to supply, though the amount, timing, and level of investment needed remain in question.

Gold Continues Rally as Bitcoin Decouples

- Despite giving back some ground late in the year, gold soared in 2025, to finish above $4,300 per ounce. This marked its strongest rally since 1979 and was driven by central bank buying, trade volatility, global tensions, and multiple Fed rate cuts.

- Precious metals broadly delivered strong performance in 2025 as silver posted impressive gains supported by industrial demand and investor interest, while platinum and palladium also advanced on supply constraints and resilient automotive sector demand.

- After briefly topping $126,000 in October, the price of Bitcoin dropped through year-end as it decoupled from traditional stores of value amid regulatory shifts and trade uncertainty.



Alternatives

After a prolonged stretch of muted dealmaking and constrained exits, optimism is returning within private equity. This rebound is fueled by a more favorable operating environment, improving M&A activity, and the transformative impact of AI. According to Pitchbook, over half of PE-backed portfolio companies now have active AI initiatives driving efficiency and growth. Elevated valuations and limited liquidity have remained headwinds, likely tempering new investments, while higher interest rates and geopolitical uncertainty added pressure throughout 2025. At the same time, tailwinds such as easing inflation, stabilizing credit markets, and strong operational performance, specifically in technology and healthcare, supported a modest recovery in deal flow. The pace of exits, sustainability of AI-driven performance, and crowding in certain sectors as 2021–2022 deals approach monetization remain key risks. Looking ahead to 2026, expectations center on gradual normalization in fundraising and exit activity, with AI integration continuing to differentiate winners, though competition for quality assets and macro volatility should keep selectivity high.

Private credit continued its climb in 2025, with global fundraising reaching $220B+, up over 3% from 2024. Investor appetite remains strong, particularly among individuals accessing semi-liquid vehicles which continue to see impressive inflows. Robust fundamentals, declining defaults, and improving EBITDA coverage underpin resilience, though credit quality, sector concentration, and a “higher for longer” M&A cycle shifting supply-demand dynamics will likely remain key risks throughout 2026. While several high-profile bankruptcies made headlines in 2025, the asset class overall remains healthy, and widespread defaults are not considered likely in the near-term.

Real assets demonstrated resilience in 2025 with real estate beginning to recover as valuations stabilized, yields peaked, and NAVs improved while fundraising through September kept pace with 2024 levels. Lower interest rates are expected to support deployment and continued recovery in 2026, though uneven regional trends, rate volatility, and evolving preferences remain significant headwinds. Infrastructure maintained strong momentum driven by digitalization, electrification, and the energy transition with data centers and renewable energy assets leading performance. U.S. data centers alone are projected to add more than 50 gigawatts of power demand by 2028 reinforcing investment opportunities, though disciplined asset selection will be key as geopolitical uncertainty and evolving regulations persist.

Hedge funds delivered strong returns in 2025 as macro strategies and long/short equity funds benefited from tariff-related market volatility, with periods of sharp price swings creating opportunities for skilled managers. This environment underscored the effectiveness of both fundamental analysis and quantitative models in capturing alpha during rapidly shifting market conditions.

Looking ahead to 2026, selectivity and diversification will be paramount as dispersion across asset classes and strategies widens. Policy uncertainty around tariffs and interest rates will shape market outcomes, while the pace of AI adoption and its influence on earnings, financing, and valuations will remain a defining theme. Persistent inflation and fragile labor dynamics add complexity, and geopolitical and regulatory risks, particularly in infrastructure and real estate, underscore the need for disciplined asset selection.

Growth	12/31/2025	9/30/2025
GDP Growth	5.1%*	4.3%
U.S. Leading Economic Indicator (YoY%)	Exp. 1/21/26**	-3.3%
Unemployment Rate (%)	4.4%	4.4%
Initial Claims (Weekly as of 12/26/25, thousands)	200.0	224.0
Industrial Production (YoY%)	2.5%***	1.9%
Consumer Confidence	52.9	55.1
ISM Manufacturing Index	47.9	49.1
ISM Non-Manufacturing Index	54.4	50.0
Retail Sales (YoY%)	3.5%**	4.2%
Building Permits (mil)	1.41**	1.42

Inflation	12/31/2025	9/30/2025
Headline CPI (YoY)	2.7%	3.0%
Core CPI (YoY)	2.6%	3.0%
Core PCE (YoY)	Delayed	2.8%
Forward Breakeven Inflation Expectation (5-year)	2.4%	2.3%

*GDP Now estimate as of 1/12/2026
**As of 10/31/2025, data delayed due to government shutdown
***As of 11/30/2025
Source: Bloomberg and Federal Reserve Bank of Atlanta

Market Sentiment	12/31/2025	9/30/2025
MOVE Index	64.0	77.9
VIX Index	15.0	16.3
National Financial Conditions Index (NFCI)	-0.55	-0.53

Rates & Credit Conditions	12/31/2025	9/30/2025	10-Year Average
3-M U.S. Treasury	3.6%	3.9%	2.2%
10-YR U.S. Treasury	4.2%	4.2%	2.7%
Spreads over 10-YR U.S. Treasuries (bps)			
U.S. Corporate Investment Grade	65	66	114
U.S. Corporate High Yield	236	255	394
U.S. Municipal	-57	-49	-14

Federal Reserve Economic Projections	2025	2027	2028
Real GDP (YoY%)	2.0%	2.1%	2.0%
PCE Price Index (YoY%)	2.6%	2.6%	2.2%
Core PCE (YoY%)	2.8%	2.7%	2.2%
Unemployment %	4.3%	4.5%	4.3%

The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS, and CMBS (agency and non- agency). The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes Treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers. The Bloomberg Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. It is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are included. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The S&P 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity, and industry group representation. Included are the stocks of eleven different sectors. The MSCI EAFE Index (Europe, Australasia, Far East) captures large- and mid-cap representation across developed markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Emerging Markets Index captures large- and mid-cap representation across emerging markets countries across the world. The index covers approximately 85% of the free float-adjusted market capitalization in each country. The HFRX Global Hedge Fund Index is comprised of funds representing the overall hedge fund universe. Constituent funds include but are not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event-driven, macro, merger arbitrage, and relative value arbitrage. The underlying strategies are asset-weighted based on the distribution of assets in the hedge fund industry. The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITS worldwide. Index constituents are free float-adjusted, subject to liquidity, size, and revenue screening for inclusion. The Bloomberg Commodity Index reflects commodity futures price movements and is calculated on an excess return basis. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. The roll period typically occurs from the 6th-10th business day based on the roll schedule. The Consumer Confidence Index reports how consumers feel about the current situation of the economy and about where they feel it is headed. Conducted by the Conference Board, the survey consists of five questions about the present situation and three questions about their expectations for the economy in the future. It provides insight into how they spend and save, which helps businesses and economic leaders track inflation and output. The U.S. Dollar Index (DXY) is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. The Index goes up when the U.S. dollar gains "strength" (value) when compared to other currencies. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow", is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

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