

Weekly Market Recap

The week in review

- Headline/core CPI rose 2.7%/2.6% y/y
- Retail sales rose 0.6% m/m

The week ahead

- Consumer spending
- Consumer sentiment

Thought of the week

In a bid to lower mortgage rates, President Trump recently directed two government-sponsored enterprises (GSEs) to purchase \$200bn worth of mortgage-backed securities (MBS). While the details of these purchases remain in flux, the announcement helped 30-year mortgage rates slide to a 3-year low. However, multiple factors influence mortgage rates, most of which aren't impacted by MBS demand. These fundamental drivers may prove more consequential for the outlook for mortgage rates.

Due to their similar duration profiles, 30-year mortgage rates track closely with 10-year Treasury yields. In simple terms, 10-year yields can be decomposed into three drivers: real policy rates, inflation and a term premium that compensates investors for additional risks borne over longer investment horizons. Abnormally low policy rates, quantitative easing and subdued inflation suppressed these drivers in the decade after the GFC. However, that period was an anomaly. 10-year yields averaged 2.4% in the 2010s vs. 7.2% in the 25 years before the GFC. Additional rate cuts could lower mortgage rates but might prove counterproductive if they boost inflationary pressures. Even without further rate cuts, tariffs could lift inflation, while the term premium today is already low and could be pressured higher by fiscal concerns. Mortgage rates also reflect a mortgage spread, or the gap between mortgage rates and 10-year Treasury yields. This spread embeds origination and servicing costs and compensation for prepayment, liquidity and credit risks. This spread could compress as GSEs ramp up MBS purchases, even with the Fed reducing its holdings.

All to say, increased MBS demand could modestly reduce mortgage rates, but not sustainably. Moreover, even at 6.1%, mortgage rates remain low by historical standards, and investors shouldn't expect them to return to the artificially low levels of the 2010s.

Please see important disclosures on next page.

Weekly Data Center

| Equities | Level | Index Returns (%) | | | | | NTM P/E | P/B | Div. Yld. | Mkt. Cap (bn) |
|---------------------|-------|-------------------|-------|-------|--------|------------|---------|-------|-----------|---------------|
| | | 1 week | QTD | YTD | 1 year | 3-yr. Cum. | | | | |
| S&P 500 | 6940 | -0.36 | 1.44 | 1.44 | 18.39 | 81.14 | 22.22 | 5.35 | 1.09 | 59239 |
| Dow Jones 30 | 49359 | -0.28 | 2.74 | 2.74 | 16.35 | 52.35 | 20.84 | 5.64 | 1.63 | 21179 |
| Russell 2000 | 6655 | 2.05 | 7.92 | 7.92 | 19.74 | 48.14 | 24.97 | 2.24 | 1.10 | 3091 |
| Russell 1000 Growth | 3132 | -1.19 | -0.56 | -0.56 | 17.76 | 114.92 | 28.31 | 13.40 | 0.49 | 32544 |
| Russell 1000 Value | 1331 | 0.65 | 4.14 | 4.14 | 17.44 | 47.27 | 17.66 | 3.07 | 1.74 | 31049 |
| MSCI EAFE | 2992 | 1.40 | 3.45 | 3.45 | 35.14 | 58.06 | 16.04 | 2.20 | 2.49 | 21142 |
| MSCI EM | 1485 | 2.27 | 5.78 | 5.78 | 43.14 | 57.03 | 13.48 | 2.24 | 1.80 | 10813 |
| NASDAQ | 23515 | -0.66 | 1.19 | 1.19 | 22.39 | 116.97 | 27.10 | 7.34 | 0.55 | 39715 |

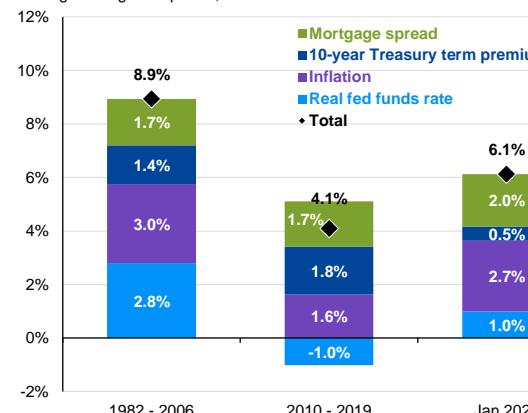
| Fixed Income | Yield | 1 week | QTD | YTD | 1 year | 3-yr. Cum. |
|-------------------|-------|--------|------|------|--------|------------|
| U.S. Aggregate | 4.38 | -0.14 | 0.01 | 0.01 | 7.31 | 11.60 |
| U.S. Corporates | 4.87 | -0.01 | 0.09 | 0.09 | 7.93 | 15.59 |
| Municipals (10yr) | 3.06 | 0.22 | 1.06 | 1.06 | 7.37 | 10.66 |
| High Yield | 6.99 | 0.17 | 0.56 | 0.56 | 8.52 | 29.11 |

| Key Rates | Levels (%) | | | | | |
|-----------------------|------------|--------|----------|----------|---------|---------|
| | 1/16/26 | 1/9/26 | 12/31/25 | 12/31/25 | 1/16/25 | 1/16/23 |
| 2-yr U.S. Treasuries | 3.59 | 3.54 | 3.47 | 3.47 | 4.23 | 4.22 |
| 10-yr U.S. Treasuries | 4.24 | 4.18 | 4.18 | 4.18 | 4.61 | 3.49 |
| 30-yr U.S. Treasuries | 4.83 | 4.82 | 4.84 | 4.84 | 4.84 | 3.61 |
| 10-yr German Bund | 2.83 | 2.87 | 2.86 | 2.86 | 2.57 | 2.16 |
| SOFR | 3.66 | 3.64 | 3.87 | 3.87 | 4.29 | 4.30 |
| 3-mo. EURIBOR | 2.03 | 2.02 | 2.03 | 2.03 | 2.74 | 2.33 |
| 6-mo. CD rate | 1.86 | 1.87 | 1.88 | 1.88 | 1.86 | 1.83 |
| 30-yr fixed mortgage | 6.20 | 6.22 | 6.25 | 6.25 | 7.11 | 6.41 |
| Prime Rate | 6.75 | 6.75 | 6.75 | 6.75 | 7.50 | 7.50 |

Chart of the Week

30-year fixed-rate mortgage rate drivers

Average during each period, %



Style Returns

| | V | B | G |
|---|-----|------|------|
| L | 0.7 | -0.4 | -1.2 |
| M | 1.0 | 0.8 | 0.2 |
| S | 2.2 | 2.1 | 1.9 |
| L | 4.1 | 1.4 | -0.6 |
| M | 5.2 | 4.7 | 3.2 |
| S | 7.7 | 7.9 | 8.1 |

S&P 500 Sector Returns

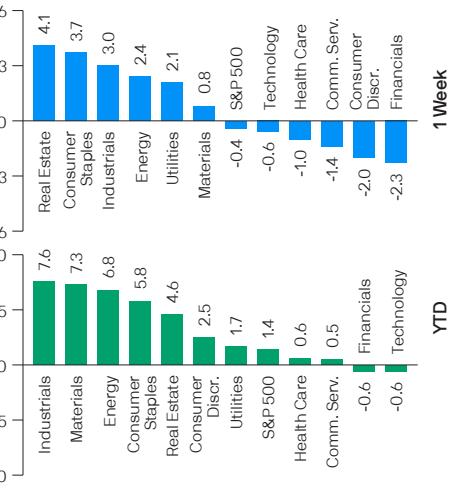


Chart of the Week: Source: Bloomberg, BLS, Freddie Mac, J.P. Morgan Asset Management. Real federal funds rate = nominal federal funds rate - y/y headline inflation. 10-year Treasury term premium = 10-year Treasury yield - nominal federal funds rate. Mortgage spread = 30-year fixed-rate mortgage rate - 10-year Treasury yield.

Thought of the week: Source: Bloomberg, BLS, Freddie Mac, J.P. Morgan Asset Management.

Abbreviations: Cons. Sent.: University of Michigan Consumer Sentiment Index; CPI: Consumer Price Index; EIA: Energy Information Agency; FHFA HPI: - Federal Housing Finance Authority House Price Index; FOMC: Federal Open Market Committee; GDP: gross domestic product; HPI: Home Price Index; HMI: Housing Market Index; ISM Mfg. Index: Institute for Supply Management Manufacturing Index; PCE: Personal consumption expenditures; Philly Fed Survey: Philadelphia Fed Business Outlook Survey; PMI: Purchasing Managers' Manufacturing Index; PPI: Producer Price Index; SAAR: Seasonally Adjusted Annual Rate

Equity Price Levels and Returns: All returns represent total return for stated period. Index: S&P 500; provided by: Standard & Poor's. Index: Dow Jones Industrial 30 (The Dow Jones is a price-weighted index composing of 30 widely-traded blue chip stocks.); provided by: S&P Dow Jones Indices LLC. Index: Russell 2000; provided by: Russell Investments. Index: Russell 1000 Growth; provided by: Russell Investments. Index: Russell 1000 Value; provided by: Russell Investments. Index: MSCI - EAFE; provided by: MSCI - gross official pricing. Index: MSCI - EM; provided by: MSCI - gross official pricing. Index: Nasdaq Composite; provided by: NASDAQ OMX Group.

MSCI EAFE is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia, and the Far East.

Bond Returns: All returns represent total return. Index: Bloomberg US Aggregate; provided by: Bloomberg Capital. Index: Bloomberg Investment Grade Credit; provided by: Bloomberg Capital. Index: Bloomberg Municipal Bond 10 Yr; provided by: Bloomberg Capital. Index: Bloomberg Capital High Yield Index; provided by: Bloomberg Capital.

Key Interest Rates: 2 Year Treasury, FactSet; 10 Year Treasury, FactSet; 30 Year Treasury, FactSet; 10 Year German Bund, FactSet. 3 Month LIBOR, British Bankers' Association; 3 Month EURIBOR, European Banking Federation; 6 Month CD, Federal Reserve; 30 Year Mortgage, Mortgage Bankers Association (MBA); Prime Rate: Federal Reserve.

Commodities: Gold, FactSet; Crude Oil (WTI), FactSet; Gasoline, FactSet; Natural Gas, FactSet; Silver, FactSet; Copper, FactSet; Corn, FactSet. Bloomberg Commodity Index (BBG idx), Bloomberg Finance L.P.

Currency: Dollar per Pound, FactSet; Dollar per Euro, FactSet; Yen per Dollar, FactSet.

S&P Index Characteristics: Dividend yield provided by FactSet Pricing database. Fwd. P/E is a bottom-up weighted harmonic average using First Call Mean estimates for the "Next 12 Months" (NTM) period. Market cap is a bottom-up weighted average based on share information from Compustat and price information from FactSet's Pricing database as provided by Standard & Poor's.

MSCI Index Characteristics: Dividend yield provided by FactSet Pricing database. Fwd. P/E is a bottom-up weighted harmonic average for the "Next 12 Months" (NTM) period. Market cap is a bottom-up weighted average based on share information from MSCI and Price information from FactSet's Pricing database as provided by MSCI.

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Russell 1000 Value Index, Russell 1000 Growth Index, and Russell 2000 Index Characteristics: Trailing P/E is provided directly by Russell. Fwd. P/E is a bottom-up weighted harmonic average using First Call Mean estimates for the "Next 12 Months" (NTM) period. Market cap is a bottom-up weighted average based on share information from Compustat and price information from FactSet's Pricing database as provided by Russell.

Sector Returns: Sectors are based on the GICS methodology. Return data are calculated by FactSet using constituents and weights as provided by Standard & Poor's. Returns are cumulative total return for stated period, including reinvestment of dividends.

Style Returns: Style box returns based on Russell Indexes with the exception of the Large-Cap Blend box, which reflects the S&P 500 Index. All values are cumulative total return for stated period including the reinvestment of dividends. The Index used from L to R, top to bottom are: Russell 1000 Value Index (Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values), S&P 500 Index (Index represents the 500 Large Cap portion of the stock market, and is comprised of 500 stocks as selected by the S&P Index Committee), Russell 1000 Growth Index (Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values), Russell Mid Cap Value Index (Measures the performance of those Russell Mid Cap companies with lower price-to-book ratios and lower forecasted growth values), Russell Mid Cap Index (The Russell Midcap Index includes the smallest 800 securities in the Russell 1000), Russell Mid Cap Growth Index (Measures the performance of those Russell Mid Cap companies with higher price-to-book ratios and higher forecasted growth values), Russell 2000 Value Index (Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values), Russell 2000 Index (The Russell 2000 includes the smallest 2000 securities in the Russell 3000), Russell 2000 Growth Index (Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values).

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