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Weekly Market Guide

It's been an eventful start to the year! While the S&P 500 is roughly flat year-to-date (and most stocks have risen), market rotation and pockets of volatility have been a persistent occurrence beneath the surface. For example, S&P 500 stocks have experienced a 5% drawdown (on average) at some point over the first three weeks.

The Administration has stirred headlines on affordability (i.e. health care costs, housing, credit card caps, power supply) and geopolitics (i.e. Venezuela, Iran, Greenland). Why? Mostly for leverage in negotiations (makes for an interesting Davos World Economic Forum this week) and political reasons (midterms this year) in our view. Aggressiveness is his style, and we believe most of this will amount to noise *for the stock market*. **The main driver- corporate earnings- has a big cushion from fiscal and monetary stimulus in 2026.** As the market regains focus on this, through the headline smoke, equities are likely to resume higher.

The dominant market trend is bullish and should influence your thinking. Positives: We have an improving economic backdrop (with boosts from the tax bill and Fed cuts), solid earnings growth, and underlying market momentum (with broader participation of late). **Negatives:** Noise items such as Japan (rapidly higher bond yields, unwind of Yen carry trade), tariffs (Greenland, negative economic drag), and questions over AI return on capital (heightened due to sentiment and Tech's weighting in the S&P 500).

The items of uncertainty are minor by themselves (as of now), but stacked together can become a bigger headwind to the market. The global financial system is inter-connected and levered. A quick shift in the structure can create a rapid unwind that exacerbates price moves (with more volatile areas getting hit harder). 5-10% pullbacks are normal and can occur due to noise items- we believe this scenario is the highest probability if a broad market pullback were to occur. A 15-20% pullback is a lower probability, but still possible- this scenario requires more potentially macro-threatening developments.

How does the long-term diversified investor react? Be patient and take advantage of the unwind if it transpires. Whatever transpires will pass- focus on economic and earnings growth will resume (boosted by the AI build-out and adoption, along with tax bill stimulus). Technically, watch for initial S&P 500 support at 6720. If concerns over Japan and EU/Greenland build, the ~6520-6550 lows of October-November may come into play. If earnings disappoint, 6200-6300 is possible.

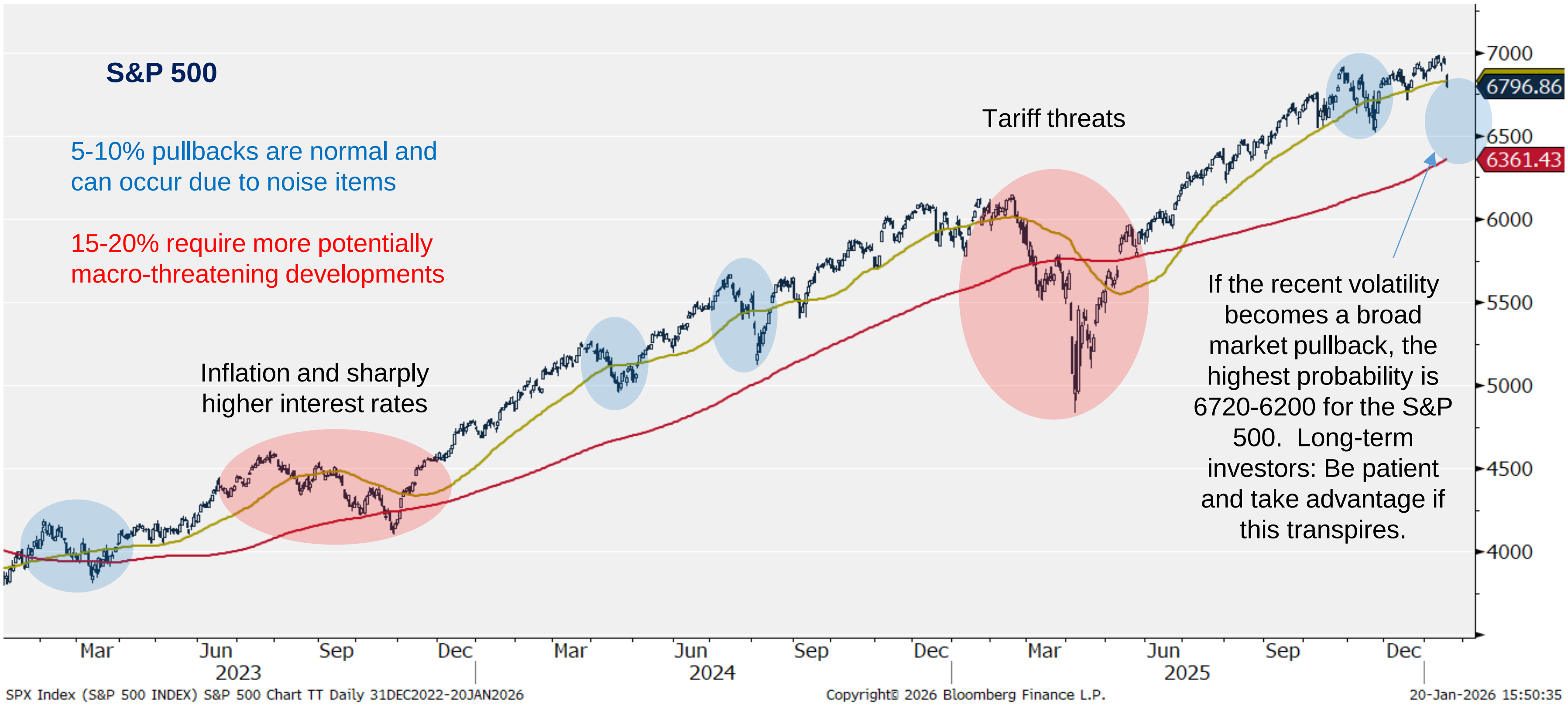
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	0.9%	11.5%
S&P 500	-0.7%	13.3%
S&P 500 (Equal-Weighted)	2.3%	8.9%
NASDAQ Composite	-1.2%	16.9%
Russell 2000	6.6%	16.2%
MSCI All-Cap World	0.8%	19.5%
MSCI Developed Markets	2.6%	29.7%
MSCI Emerging Markets	5.4%	38.4%
NYSE Alerian MLP	4.9%	-1.8%
MSCI U.S. REIT	2.9%	1.9%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Energy	6.6%	3.0%
Materials	6.4%	2.0%
Consumer Staples	5.8%	5.0%
Industrials	5.4%	8.7%
Real Estate	2.7%	1.8%
Utilities	0.6%	2.3%
Health Care	0.3%	9.7%
Consumer Discretionary	-0.4%	10.4%
S&P 500	***-0.7%***	-
Communication Svcs.	-1.6%	10.5%
Financials	-3.0%	13.1%
Information Technology	-3.5%	33.5%

Source: FactSet

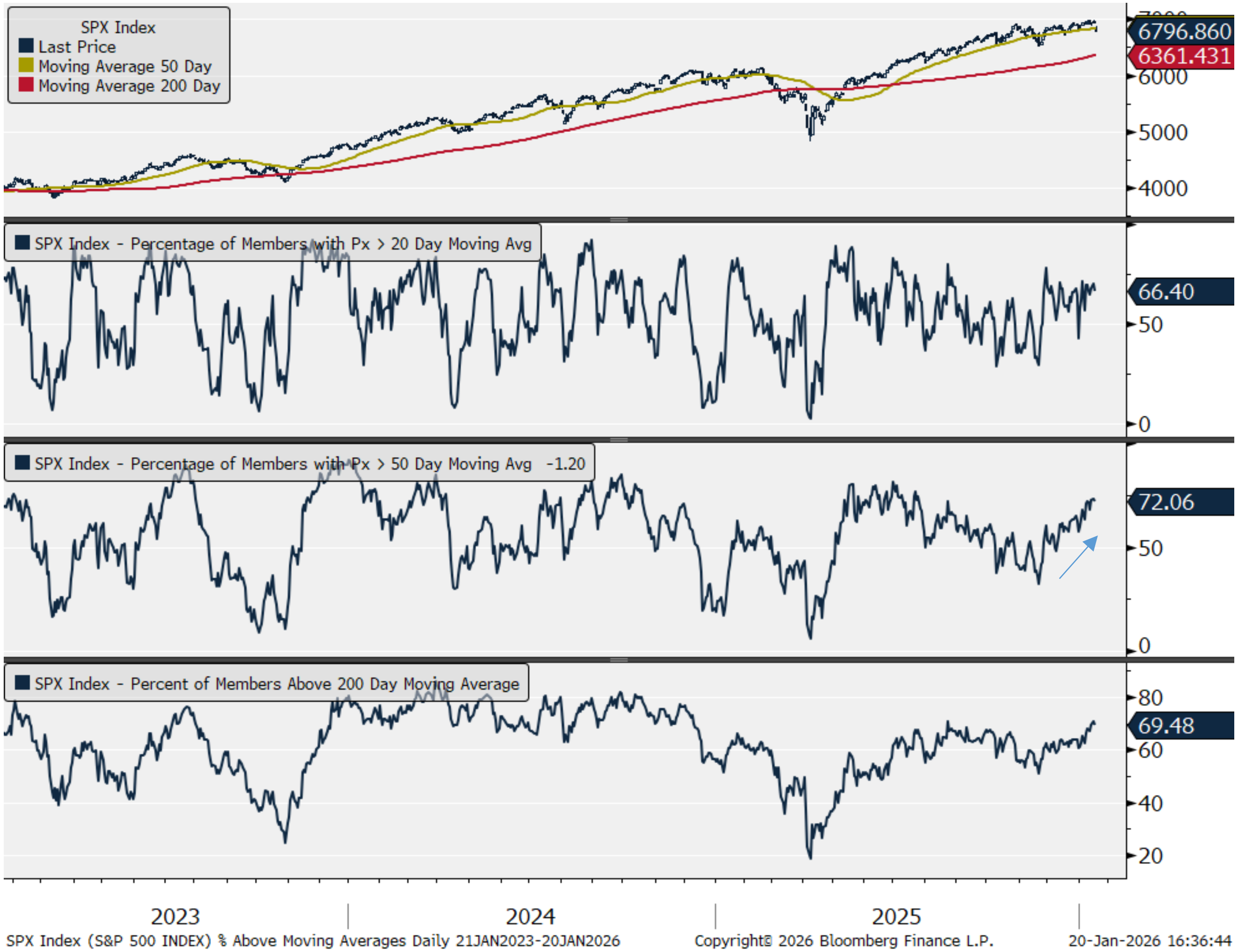
Technical: S&P 500

The S&P 500 breached its 50-day moving average yesterday, as headline volatility (surrounding Greenland and Japan bond yields for example) becomes market volatility. The dominant market trend is bullish and should influence your thinking. However, for a market that has gone up as much as it has, little things can knock the momentum. 5-10% pullbacks are normal and can occur due to noise items- we believe this scenario is the highest probability if a broad market pullback were to occur. Technically, watch for initial S&P 500 support at 6720. If concerns over Japan and EU/Greenland build, the ~6520-6550 lows of October-November may come into play. If earnings disappoint, 6200-6300 is possible.



Source: Bloomberg, FactSet

S&P 500: Pros vs. Cons Support Positive Bias



Positives: We have an improving economic backdrop (with boosts from the tax bill and Fed cuts), solid earnings growth, and underlying market momentum (with broader participation of late). Technically, the % of stocks above their 50 DMA has expanded to 72% and the NYSE advance-decline line recently moved to new highs.

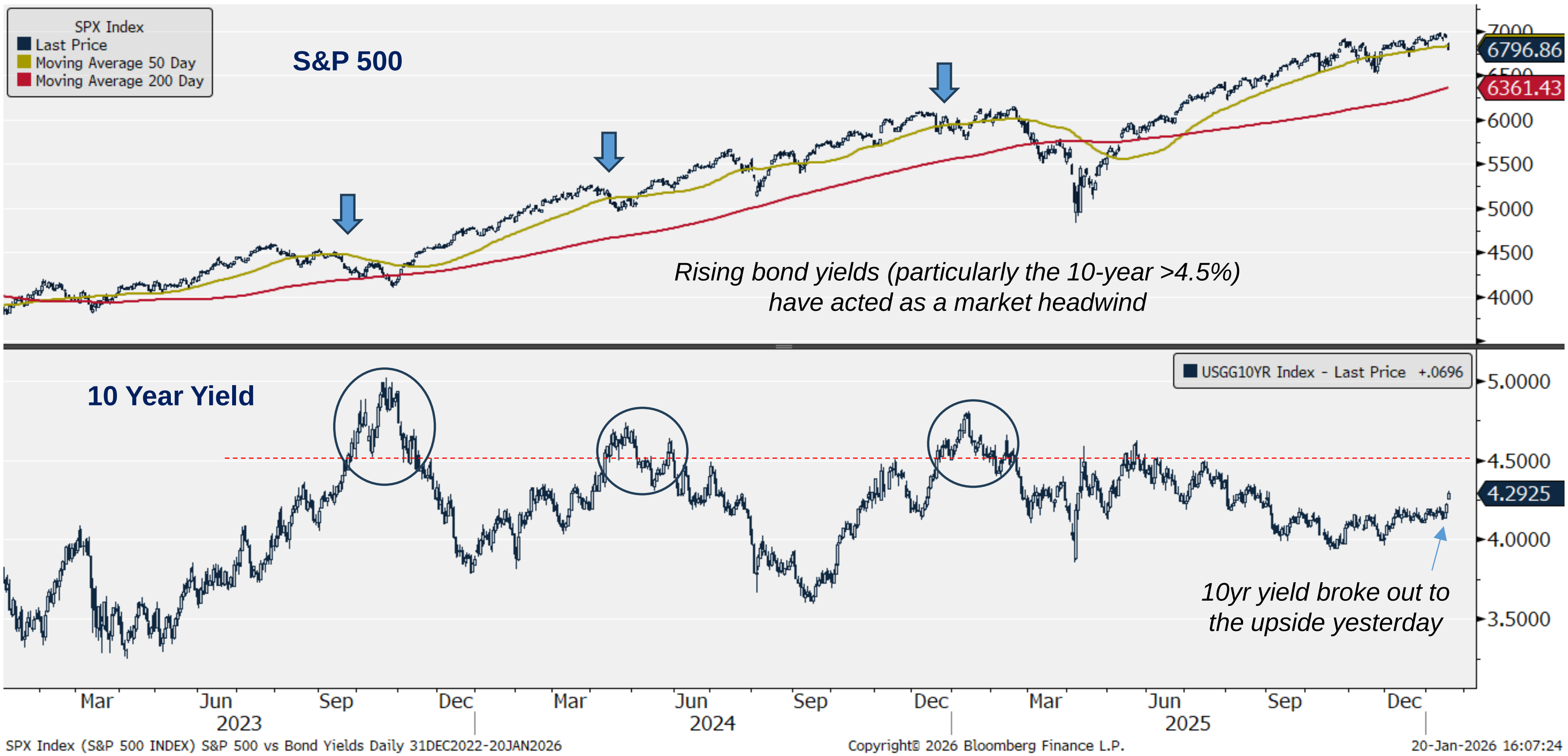
Negatives: Noise items such as Japan (rapidly higher bond yields, unwind of Yen carry trade), tariffs (Greenland, negative economic drag), and questions over AI return on capital (heightened due to sentiment and Tech's weighting in the S&P 500).

Whatever transpires will pass, and focus on economic and earnings growth will resume (boosted by the AI build-out and adoption, along with tax bill stimulus)- creating opportunities in the drawdowns in our view.

Source: Bloomberg, FactSet

10-Year Yield Broke-Out Yesterday

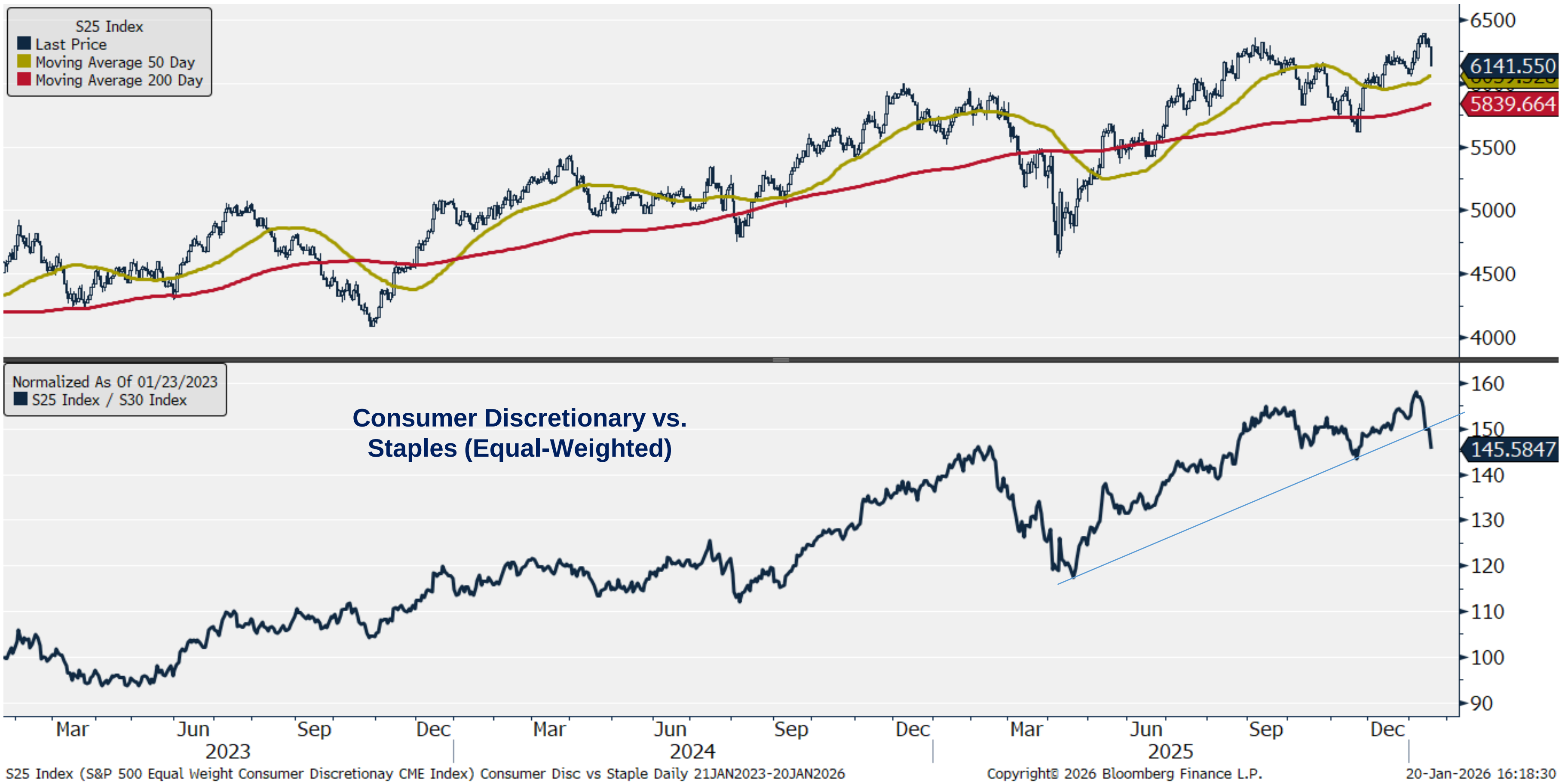
Keep an eye on bond yields- the US 10-year Treasury yield broke out to the upside yesterday. Higher global bond yields (led by Japan's bond yield rise) are contributing to the push higher in US bond yields. The 10-year yield is up to 4.3% (roughly the midpoint of its multi-year range). While low/stable rates have been a tailwind to equities, a continued rise would add to the market's consternation. As you can see, normal pullbacks have transpired over the past couple of years when the 10-year Treasury yield broke above 4.5%.



Source: Bloomberg, FactSet

Consumer Discretion vs. Staples

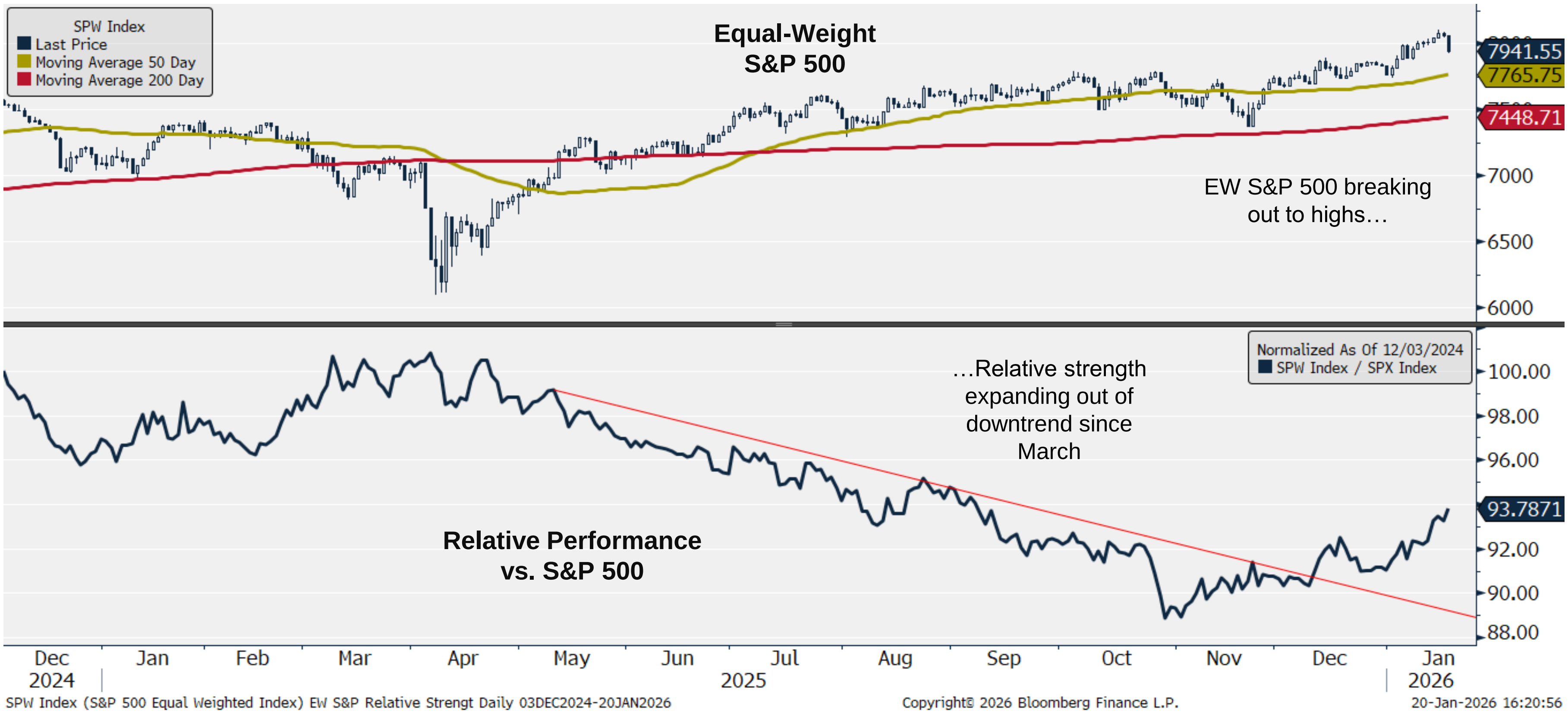
Relative performance of Consumer Discretionary vs. Staples broke below its uptrend yesterday. To be sure, this is an initial move and the overall technical backdrop is still supportive. However, this indicator does show the market getting a bit more defensive.



Source: Bloomberg, FactSet

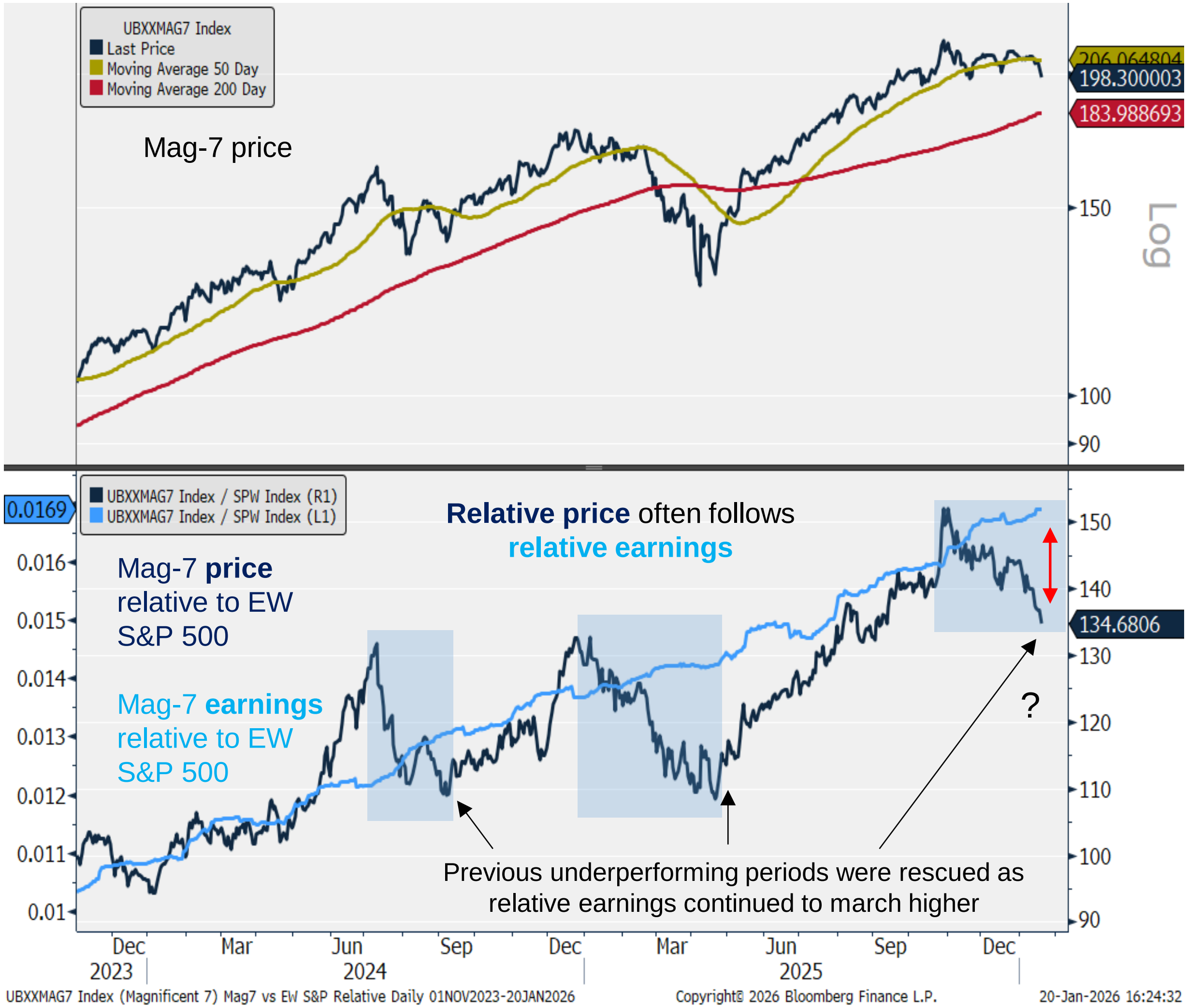
Market Rotation

The "average stock" has improved to begin 2026, breaking out to new highs and driving index performance. This is a welcome rotation, as the AI/Tech names "take a breather" (and trade below October highs). As you can see, relative strength trends for "the average stock" are advancing out of last year's downtrend. As we move through 2026, we would like to see market performance sustain broader participation and break the streak of narrow AI leadership (in place since early 2023). If so, there should be benefits to diversified portfolios. *Continued on next page*



Source: Bloomberg, FactSet

Mag-7



Source: Bloomberg, FactSet

As mentioned on the previous page, market performance has broadened out since late October (from one-sided Mag-7 dominance). Is this broader performance here to stay? Maybe not given the strength of mega-cap Tech earnings.

We have seen a couple periods of Mag-7 underperformance (and "average stock" outperformance) over the past two years. Relative earnings strength from the Mag-7 ultimately drove improvement (and outperformance) out of those periods.

Our sense is this recent consolidation may be similar to the post-June 2024 period. While market rotation may continue for a while, we doubt Tech/AI has peaked. Earnings trends remain favorable (quarterly results for these companies will be important next week).

Regardless of how the Mag-7 trades on a relative basis, the **investment opportunity due to AI spending is not over in our opinion. Focus on the enablers** (i.e. chips, data center connection- equipment and supplies- power, etc.) until the hyerscalers can quantify ROIC.

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Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

Europe: DAX (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange.

Asia: Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.