FSA INSIGHTS

LEARNING TO FLY

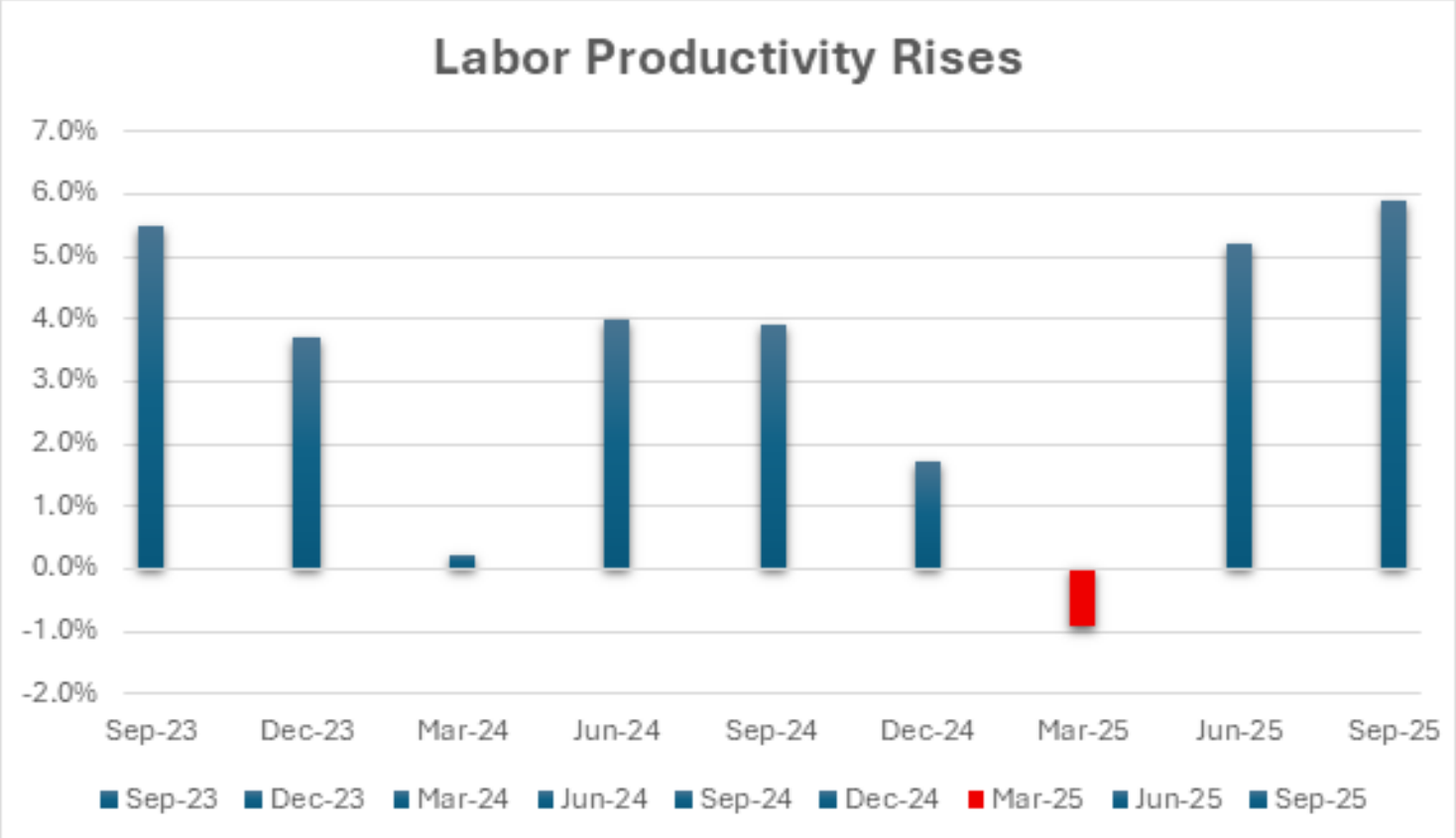
Another solid year for investors as global equity markets delivered strong performance in 2025, supported by improving earnings, healthier market breadth, and easing inflation pressures. U.S. large cap equities posted solid results, with the S&P 500® returning 17.9% for the year, led by a late year rotation into previously lagging sectors and more balanced leadership beyond mega cap technology names. Small cap stocks also advanced, with the Russell 2000® gaining 12.8%, with most of the gain in the last 4 months of the year, reflecting renewed investor interest in domestically focused companies as financial conditions improved. International markets outperformed the U.S. on a relative basis, driven by attractive valuations and improving economic trends abroad. Developed international equities (MSCI EAFE) surged 31.9%, while emerging markets delivered a robust 34.2% return amid supportive currency dynamics and demand for industrial and precious metals. As Pink Floyd's Learning to Fly reminds us, progress often comes not from avoiding uncertainty, but from adapting to it. Like any long flight, markets don't move in a straight line—but 2025 showed that investors are learning to navigate changing conditions with greater balance, discipline, and resilience.

Bond markets recovered meaningfully in 2025 as inflation eased and the Federal Reserve executed two additional quarterpoint rate cuts late in the year. These policy moves helped anchor short-term yields and contributed to broadbased gains across fixed income sectors. Core U.S. bonds, represented by the Bloomberg U.S. Aggregate Bond Index, returned 7.3%, reversing much of the pressure seen during the prior ratehiking cycle. Credit markets remained resilient, supported by stable corporate fundamentals, low default rates, and tight credit spreads.

Overall, 2025 was a constructive year for diversified investors. With inflation moderating and central banks transitioning toward less restrictive policy, both stocks and bonds entered 2026 with improving fundamental backdrops and healthier riskreturn dynamics compared to the prior two years.

It's also important to consider the broader economic environment, particularly the unusual combination of strong economic growth alongside very modest job gains. Over the past two quarters, the U.S. economy has grown at more than 4% annualized GDP, yet monthly job creation has averaged less than 11,000 jobs added per month the last six months, an extremely rare divergence. In fact, there have been only three instances this century in which the U.S. has delivered two consecutive quarters of GDP growth above 4%. Looking ahead, the benefits of the One Big Beautiful Bill have yet to meaningfully influence 2025 data, but these tax incentives should act as a tailwind to growth in 2026. At the same time, solid expansion across the world's three largest economies, the U.S., the Euro area, and China, should further support global trade and reinforce a positive backdrop for progrowth assets.

Separately, it's worth recognizing that traditional measures like GDP may become less relevant as the economy becomes increasingly driven by artificial intelligence and automation. GDP growth assumes that economic expansion is tied to more hours worked or more workers, both of which flow through wages and transaction activity. But AI-enabled growth comes from autonomous systems, digital agents, and robotics, none of which show up as wages. This helps explain why we may continue to see softer job growth even as overall economic output remains elevated. It also contributes to the surge in U.S. labor productivity, which has been notably strong in recent quarters (see Figure 1).



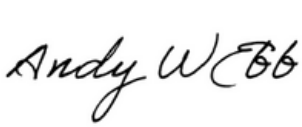
SOURCE: BUREAU OF LABOR STATISTICS, AS OF 9/30/25

Recent market leadership has been somewhat surprising. Large technology companies, including the so called Magnificent Seven, have underperformed the broader market. Conversely, U.S. smallcap stocks, despite more than 40% of their constituents generating negative earnings, have been outperforming. All while previously lagging areas such as health care and energy are beginning to break out from multiyear relative slumps. Emerging markets have also continued to post solid returns, demonstrating resilience even in the face of President Trump's newly implemented tariffs.

Since October, we have made several targeted adjustments within client portfolios. We reduced exposure to U.S. marketcap–weighted equities in favor of a more balanced, equal-weighted approach. For clients where it was appropriate, we also introduced a private real estate fund and increased allocations to real assets more broadly. Private real estate remains one of the few major asset classes still showing negative returns over the past two years; however, transaction activity has been rising recently. Historically, higher transaction volumes tend to precede improvements in valuations, and we believe we may be nearing a turning point for this category.

As we navigate the months ahead, maintaining discipline and staying committed to a well-diversified portfolio will remain essential, particularly in an environment shaped by political uncertainty and structural economic change. Short-term volatility is inevitable; please ensure your seat belt is fastened and your tray table is in the upright and locked position. But volatility alone is no reason for derailing our long-term progress toward cruising altitude. In fact, we don't need to predict turbulence; we need to understand how to fly through it. By staying focused on long-term objectives and avoiding emotional reactions to volatility driven by geopolitical events or temporary growth scares, clients remain best positioned for resilience and sustainable success across market cycles.

With appreciation for your continued trust,



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