FSA INSIGHTS

HOLD THE LINE: MARKETS AREN'T ALWAYS ON TIME

In 1978, Toto sang "Hold the Line — love isn't always on time." The same could be said for markets. Leadership rotates, trends stall, and patience is often tested. This year has reminded investors of a timeless lesson: market leadership can change, often without a calendar invite. While U.S. large caps remain resilient, gains have started to broaden beyond the mega cap cohort and, notably, non-U.S. equities have delivered superior results this year.

What we're seeing:

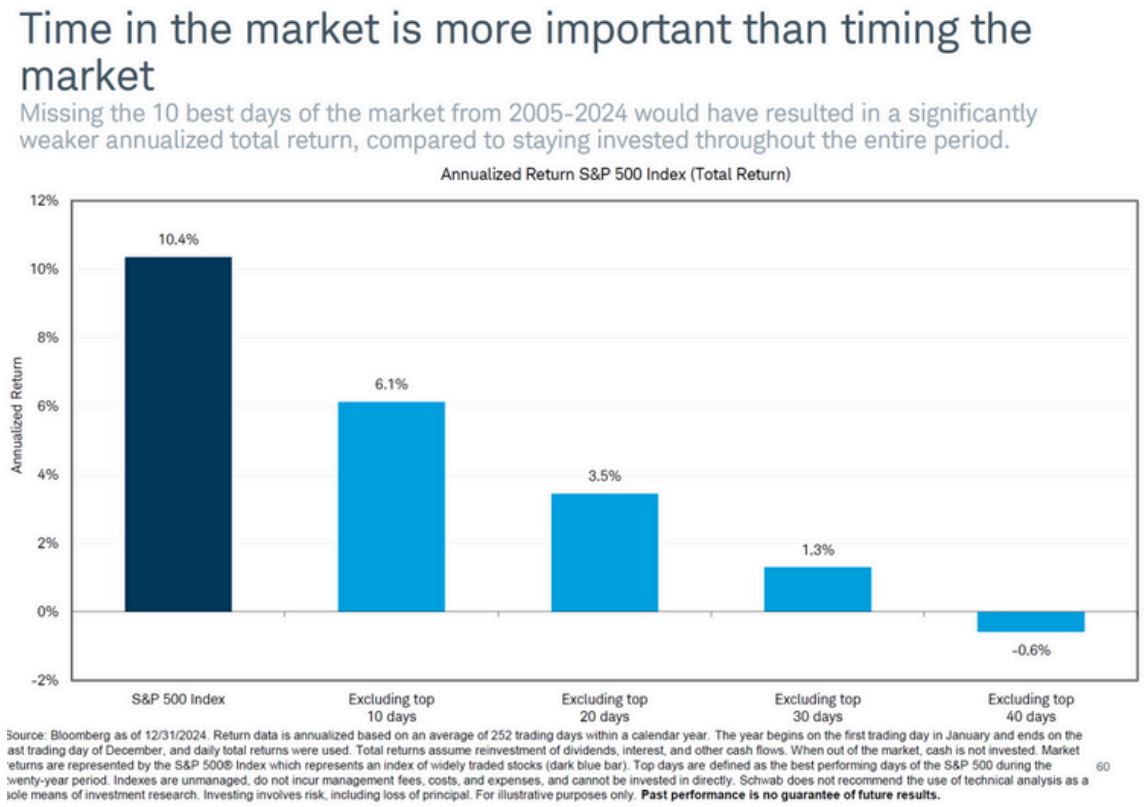
- **Leadership is widening, but concentration risk hasn't vanished.** The "Mag 7" premium has eased at the margin, yet U.S. performance is still top heavy—making global breadth and a quality tilt valuable risk controls.
- **International equities offer a better relative set-up.** Valuations and earnings momentum outside the U.S. remain constructive. 2025 has featured stretches where developed ex-U.S. markets outpaced the S&P 500, reinforcing the case for global balance rather than home-bias.
- **Rates: less of a headwind, more of a foundation.** Services inflation is sticky and policy is data-dependent, but today's higher yields improve forward return math for core bonds and help restore diversification benefits. Independent macro work we track also points to a glide path of policy normalization rather than a return to zero.
- **Economic growth remains elevated, but there are more signs of uneven growth with the wealthiest propping the economy while the lower end struggles.** The top 10% of the US income now accounts for over 50% of total US spending. With the government still shutdown and benefits such as SNAP ending, we continue to expect this trend to persist. Bellwether companies like JP Morgan and American Express are targeting the wealthiest customers who have high cash balances and large liquid financial portfolios. Meanwhile, delinquencies in credit cards and student loans are rising at the fastest pace since 2020, as the lower income struggles. We believe it's this dichotomy along with a slowdown in job hiring that will keep the Federal Reserve in cutting mode through 2026.

From an asset class perspective, we remain **neutral overall on equities**, with a strong emphasis on diversification. Within U.S. large caps, we maintain core exposure but favor companies with quality balance sheets and durable margins, avoiding overreliance on a narrow leadership cohort. U.S. small and mid-cap equities stay neutral to modest underweight until earnings breadth improves, with a focus on cash-flow generators. Outside the U.S., we hold a neutral to modest overweight in developed markets, supported by more attractive valuations and improving earnings trends, while acknowledging currency as a swing factor. Emerging markets remain neutral, with allocations tilted toward countries and sectors benefiting from supportive policy and healthier external balances.

In **fixed income**, bonds are back to doing their job. We keep core bonds at policy weights, preferring intermediate duration to balance reinvestment opportunities against rate risk. Treasuries and agencies form the foundation, complemented by select investment-grade credit and well-structured securitized exposure where spreads justify default risk. While there have been some recent headlines regarding a few companies defaulting, we see these as company-specific and not a systemic issue with credit. In fact, when we look at weekly data for bankruptcy filings, we see a clear downtrend in recent months. Credit is an area that we will be looking very closely into 2026, especially if we see a slowdown in economic growth.

For **real assets and diversifiers**, we continue to invest in global infrastructure. We see this asset class benefiting from both structural and tactical tailwinds with the need for energy build out and data centers. We also have been adding exposure to gold to diversify dollar exposure.

Why staying invested still matters
Our decks regularly highlight how **missing even a handful of the market's best days can permanently impair long-term outcomes.** Recent periods where non-U.S. markets outperformed the S&P 500 underscore another point: diversification is not about predicting the next winner; it's about **owning a sensible mix and letting leadership rotate.** The discipline is simple: **own global equities, own true core bonds, rebalance on rules, and let compounding work.**



What you can expect from us:
Our philosophy remains unchanged: **risk management first; returns as a byproduct.** We will keep positioning your portfolios to benefit from broader equity breadth and improved fixed income starting yields, while defending against concentration and timing risk through systematic rebalancing and cashflow aware implementation.

With appreciation for your continued trust,

Andy Webb
Chief Investment Officer

Brett Akers
Director of Investments

READ MORE INSIGHTS

Disclosures

The information contained herein reflects the views and opinions of FSA Investment Group, LLC as of the date indicated and is subject to change without notice. While efforts have been made to ensure accuracy, data may include preliminary figures based on information provided by third parties, including Charles Schwab, and may be subject to revision.

Past performance is not indicative of future results. Index returns are presented for comparison purposes only and do not represent actual portfolio performance. You cannot invest directly in an index. Investing involves risk, including the possible loss of principal. Forward-looking statements are based on assumptions that may differ materially from actual events.