



Market Commentary

Weekly perspective on current market sentiment

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Last week's S&P 500 Index: -0.4%

Stick to your plan

Key takeaways

- Financial markets have been known to sometimes take a “shoot first and ask questions later” mentality in extrapolating from headlines.
- While further escalation remains a risk, we think the more likely outcome is an increase in market risk aversion that likely lasts only a short time until investors can see a winding down of hostilities.

Another weekend of unexpected events has injected a new round of volatility into financial markets this week as U.S. and Israeli forces initiated attacks on Iranian assets throughout the country. This will continue to be a fast moving story in the early days of the conflict, and markets will very likely continue to be volatile and quickly responsive to information flows as they occur. But keep in mind that news headlines should be taken with a grain of salt as officials on all sides can and do offer public comments as a way to signal resolve to adversaries, even if back channel communications are different.

In addition, the media can often take and amplify any such statements and extrapolate potential outcomes. Financial markets have also been known to sometimes take a “shoot first and ask questions later” mentality in extrapolating from headlines. In short, a range of events is still possible and media reports may not help interpret among the various outcomes still possible. We believe investors need to try and keep a clear head, look through the headlines, and stick to a well thought out plan. A diversified portfolio is one key to that plan. While further escalation remains a risk, we think the more likely outcome is an increase in market risk aversion that likely lasts only a short time until investors can see a winding down of hostilities.

The bottom line is we continue to look for a global economic recovery this year that is led by the United States. We believe that portfolios should be positioned in asset classes and sectors that we expect should benefit from that recovery. Here at home, more domestic corporations are contributing to overall earnings growth throughout virtually all capitalization segments. In the large-cap segment of the equity market, the S&P 500 Equal Weight Index (SPW) closed last week at a new all-time record high. This index has outperformed the capitalization-weighted S&P 500 Index (SPX) by nearly 7% since mid-November and indicates that market performance is broadening out well beyond the tech and tech-like companies that carried the markets higher for most of the last two years. We see this broadening out as a positive and expect more companies to participate as the economy improves over the balance of the year.

We see the broadening equity market and improved economic performance in 2026 resulting in the fourth consecutive year of record earnings for the SPX. We expect the U.S. economy to grow 2.9%, up from the initial 2.4% projection we outlined in our 2026 Outlook report published in early December. We are focused on our most favored sector, Financials, as well as the favored Industrials and Utilities sectors. We believe these sectors should benefit from a better economy and the continued buildout of artificial intelligence (AI) related infrastructure, including data centers and the upgrade and expansion of the U.S. electric grid.

We also favor holding allocations in line with strategic weightings in Emerging Market Equities and Developed Market ex-U.S. Equities along with Commodities. Diversified portfolios should also lean toward our favored investment-grade corporates segment of the fixed-income market with a focus in the three-to-seven year maturity range.

Continued market volatility may create opportunities in coming weeks or months to make adjustments toward favored equity and fixed-income asset classes. For now, stick to your plan.

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Risk considerations

Forecasts, estimates, and projections are not guaranteed and are based on certain assumptions and views of market and economic conditions which are subject to change.

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Small- and mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks. **Bonds** are subject to market, interest rate, price, credit/default, liquidity, inflation and other risks. Prices tend to be inversely affected by changes in interest rates. The **commodities** markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Investing in a volatile and uncertain commodities market may cause a portfolio to rapidly increase or decrease in value which may result in greater share price volatility.

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility. Investing in the **Financial** services companies will subject an investment to adverse economic or regulatory occurrences affecting the sector. There is increased risk investing in the **Industrials** sector. The industries within the sector can be significantly affected by general market and economic conditions, competition, technological innovation, legislation and government regulations, among other things, all of which can significantly affect a portfolio's performance. **Utilities** are sensitive to changes in interest rates, and the securities within the sector can be volatile and may underperform in a slow economy.

Definitions

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market.

S&P 500 Equal Weight Index is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

An index is unmanaged and not available for direct investment.

Investment Grade bonds - A rating that indicates that a municipal or corporate bond has a relatively low risk of default. Bond rating firms, such as Standard & Poor's, use different designations consisting of upper- and lower-case letters 'A' and 'B' to identify a bond's credit quality rating. 'AAA' and 'AA' (high credit quality) and 'A' and 'BBB' (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, and are commonly referred to as "junk bonds".

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