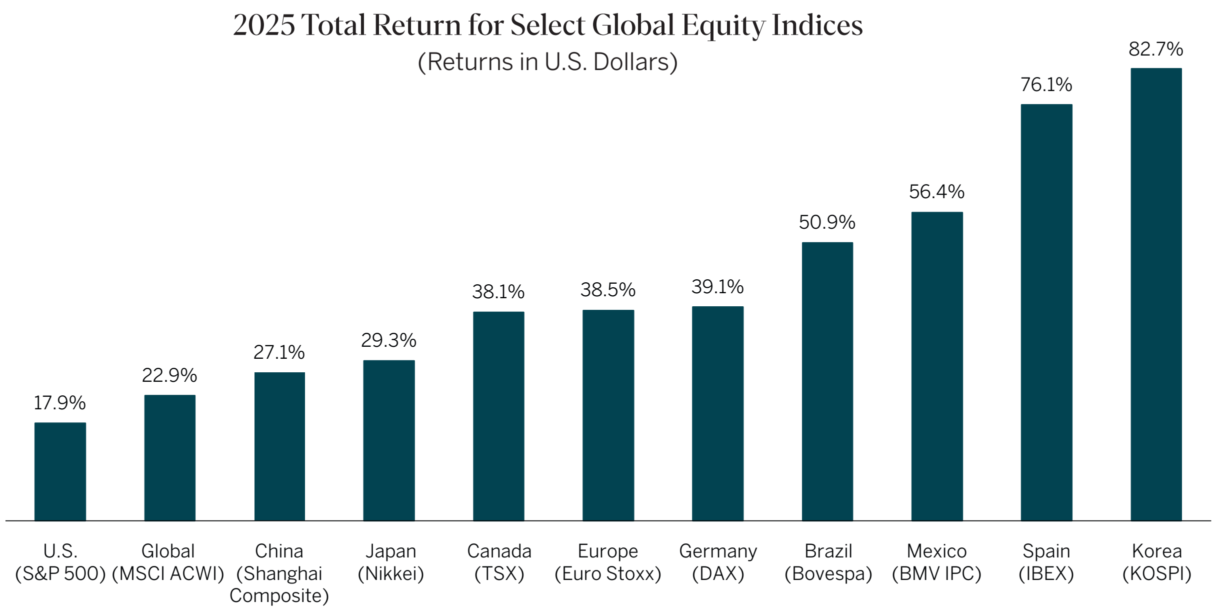
INVESTMENT UPDATE
FOURTH QUARTER 2025

After a year of exceptionally strong returns globally, we expect more muted performance in equity markets in the year ahead. We are excited, however, by the dynamics unfolding for our investment themes, which we believe provide excellent hunting grounds for companies with significant, long-term share price appreciation.

THE BULL MARKET CHARGED AHEAD

It was a great year for equity investors globally. Most major indices touched all-time highs during 2025. Fiscal stimulus, low and falling short-term interest rates in much of the world and relatively low energy prices drove the broadest global equity market rally since 2007.

Most Major Equity Indices Hit All-Time Highs in 2025



	U.S. (S&P 500)	Global (MSCI ACWI)	China (Shanghai Composite)	Japan (Nikkei)	Canada (TSX)	Europe (Euro Stoxx)	Germany (DAX)	Brazil (Bovespa)	Mexico (BMV IPC)	Spain (IBEX)	Korea (KOSPI)
All-Time High in 2025	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Source: Chevy Chase Trust, Bloomberg

HOW LONG CAN THE GOOD TIMES ROLL?

The S&P 500 closed 2025 more than 90% above its October 2022 low. In each of the past three calendar years, the index's total return exceeded 17%. Such strong returns seem unlikely in 2026. The last time the S&P 500 delivered double-digit returns for four consecutive years was during the tech and telecom bubble of the late 1990s. The time before that was way back in the 1950s.

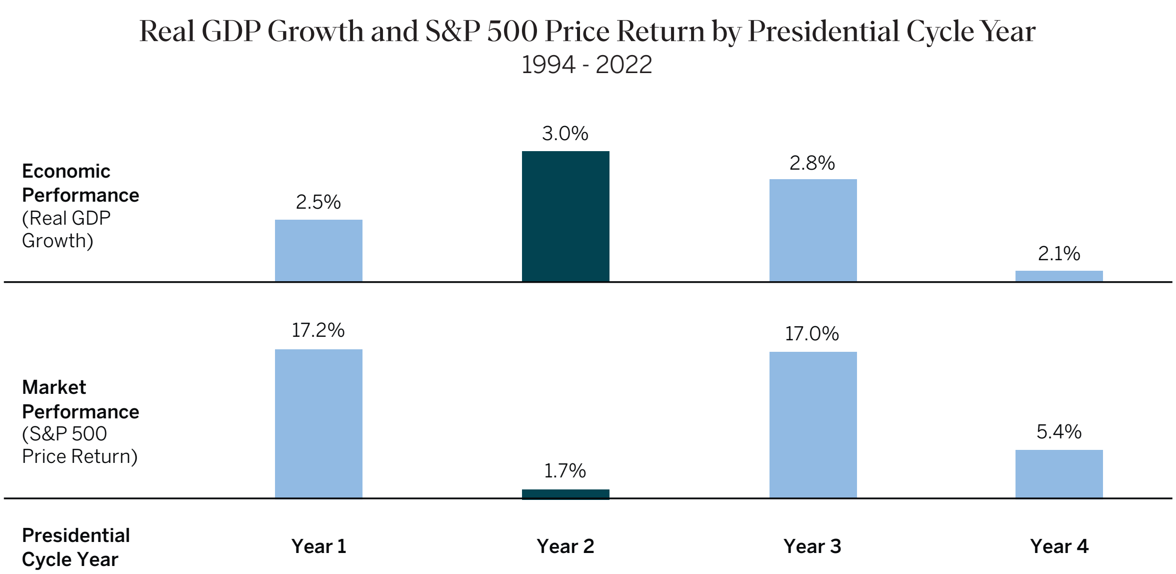
As Yogi Berra once quipped, "Predictions are hard – especially about the future." Many upcoming events could have a big impact on the economy and financial market performance in 2026. These include the Supreme Court decision on the legality of the 2025 tariffs, the naming of a new Chairman of the U.S. Federal Reserve (Fed), the path of unemployment and interest rates and any change in the consensus on the ultimate profitability of artificial intelligence (AI).

Despite the uncertainty resulting from the factors listed above, several tailwinds should support continued U.S. and global economic growth. In addition to relatively low oil prices and the expected impact of the Fed's 175 basis points of interest-rate cuts since September 2024, the U.S. consumer will receive generous tax refunds in the first half of 2026 from the One Big Beautiful Bill Act. U.S. companies will also pay lower effective tax rates, due to provisions in the bill designed to stimulate capital investment. Europe and Japan also appear to be willing to dole out ample fiscal largesse in the year ahead.

While we believe the odds are in favor of solid economic growth in 2026, there are three areas of concern that bear watching. Each is likely to weigh more on U.S. equity market performance than the economy, but a stock market decline could depress consumer and corporate spending, which would lead to slower economic growth.

The Curse of the Midterm Election Year: Midterm election years tend to see the strongest economic growth of the four-year U.S. election cycle. But economic strength does not necessarily translate to strong equity market returns. Historically, the second year of the presidential term has delivered the *strongest* economic growth, but the *weakest* stock returns, of the four-year election cycle. Equity markets are forward-looking and tend to price in growth before it occurs.

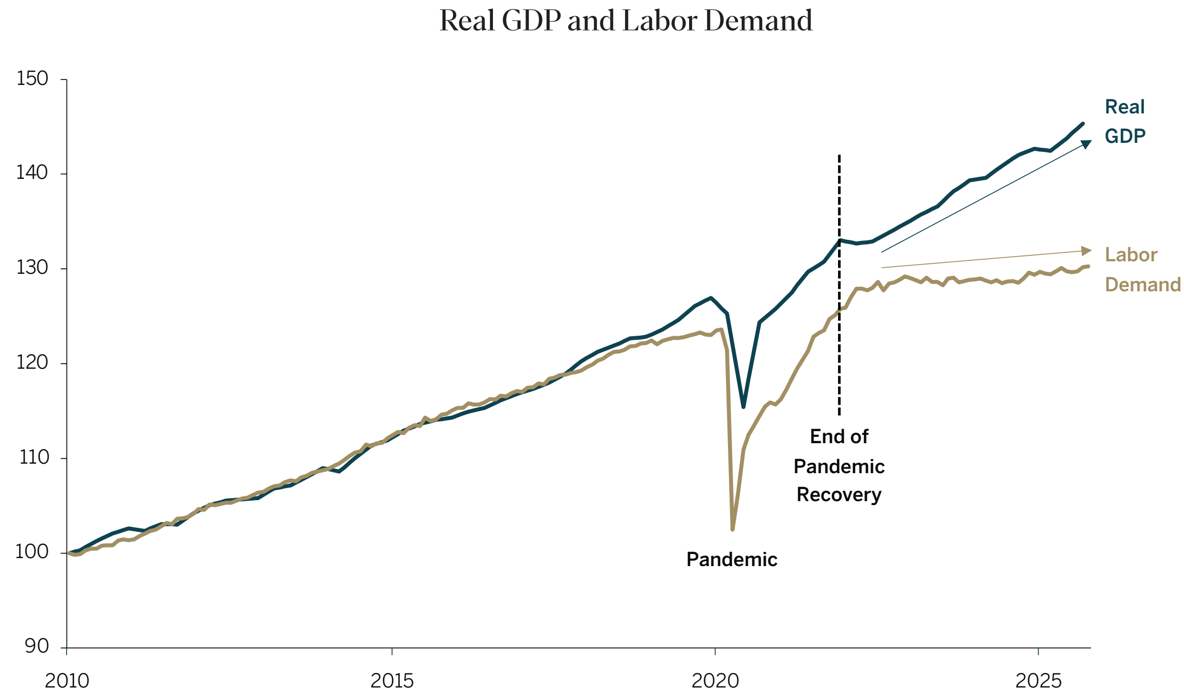
Midterm Election Years Have Been Good for the Economy, But Not for Stocks



Source: Strategas

The Unemployment Conundrum: The U.S. economy has two principal weaknesses now. Price levels are still too high for many consumers, and, perhaps more important, job growth is very slow. Typically, the economy and employment grow together. That hasn't been true recently. While employment bounced back from extreme lows as the pandemic-related shutdown ended, it has barely grown for the last three years.

U.S. Economic Growth Continued, But Job Creation Stagnated



Note: Data indexed. Q1 2010 = 100.
Labor Demand = Nonfarm private payrolls plus job openings.

Source: Alpine Macro

Although still relatively low at 4.6%, the U.S. unemployment rate is up 1.2 percentage points from its trough in April 2023. It is unclear whether the economy can continue to grow robustly while the labor market languishes. This is the first time that the unemployment rate has risen this much outside of a recession.

AI (Over) Optimism: For the last three years, excitement about the potential of AI has driven very high expectations for sales and earnings for most of the Magnificent Seven (Mag 7)[1] stocks and a few other AI-related companies.

As we have previously written, AI is an extremely capital-intensive and competitive business, unlikely to produce the extraordinary profitability of the prior generation of technology companies, which engaged in "capital light" and naturally monopolistic businesses, such as software, media and advertising. Like research and development (R&D) spending on new drugs, AI capital spending is likely to pay off over longer time horizons and with less certainty than technology investors have come to expect. Today, capital spending and R&D consume a greater share of the sales and gross cash flows of the largest AI providers[2] than R&D does for drug stocks, which trade at much less lofty valuations.

The Mag 7's weight in the S&P 500 has jumped from approximately 11% in 2015 to almost 35% at the end of 2025. History shows that stocks priced on expectations of exponential future growth can fall sharply if investors lose faith in the narrative. Given the Mag 7's huge current weight in the S&P 500, a diminution of AI fervor could drag down the index as a whole.

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[1] Alphabet (owner of Google), Amazon, Apple, Meta Platforms (owner of Facebook), Microsoft, Nvidia, and Tesla
[2] The largest providers, dubbed hyperscalers, provide corporations with access to the massive, specialized infrastructure needed to train, build and run AI models. The largest five are Amazon Web Services, Microsoft Azure, Google Cloud, Meta and Oracle Cloud. Alibaba Cloud, Tencent Cloud, Byte Dance, NVIDIA's DGX Cloud and CoreWeave, are other big players.

Over the past decade, our thematic research led us to invest in many of the companies now benefiting from AI euphoria for reasons wholly unrelated to AI. Many years of strong cash flow growth from their non-AI business lines allowed them to comfortably afford rapid, large AI investment. Our increasing concern about the future return on AI investment led us to reduce exposure to many of these companies over the last year. We still own several of the Mag 7 stocks, but we hold them at well below their weight in the S&P 500.

THEMATIC UPDATE

Our thematic investment approach is geared to identifying beneficiaries of disruption and investible changes in the global economy. Most of our themes have been in our portfolios for years, although our focus on particular companies changes as themes evolve.

Today, we have five investment themes that we see as rich hunting grounds for the rare companies that can disrupt the status quo in a way that benefits their shareholders.

Two of our themes, *The End of Disinflationary Tailwinds* and *Opportunities Abound Abroad*, relate to what we see as seismic changes in the global economy that we believe will lead to new market leadership in the coming years:

- Widespread monetary and fiscal policy shifts from economic austerity or restraint to unabashed stimulus and debt growth, and
- Protective trade policies that lead to more redundant and less efficient supply chains.

The End of Disinflationary Tailwinds: After four decades of declining interest rates and ten years of very low inflation, both rates and inflation have returned to long-term norms. While the impact of higher interest rates was initially cushioned in the U.S. by the long-term, fixed-rate debt that many consumers and companies locked-in during the pandemic, we think sustainably higher levels of inflation and interest rates mark a notable shift in the global investment landscape that has not yet been reflected in most investors' portfolio positioning.

Opportunities Abound Abroad: U.S. equity markets have outperformed global equity markets by over 45% since 2004. But recent structural reforms in fiscal, energy, industrial and capital-market policies are taking hold in several non-U.S. geographies, creating exciting investment opportunities. In China and Europe, savings rates stand at 45% and 15% of GDP respectively, versus roughly 4% in the U.S. Both regions are taking steps to stimulate domestic consumption and to expand their domestic technology firms.

We believe these policies, coupled with recent and potential future weakness in the U.S. dollar, will lead to better equity performance in certain industries and companies outside the U.S. Given the long stretch of U.S. outperformance, many equity investors are very under-allocated to non-U.S. markets, creating opportunities we can capture.

Our research also continues to uncover attractive new areas for investment across our other themes.

The Rise of Purpose-Built Tech (formerly, *Age of Heterogeneous Computing*): For nearly 50 years, the performance and cost of computing technologies improved exponentially, as Moore's Law predicted. Now, physical and economic challenges limit such rapid growth. When we launched this theme, our initial focus was on how computational technologies would benefit from specialized, purpose-built solutions, rather than one-size-fits-all approaches. We are now expanding our focus to include companies in adjacent areas, including software and security. We believe firms that generate and leverage bespoke, high-quality proprietary data and technology solutions will displace prior scale-based winners.

The Advent of Molecular Medicine: After decades of promise, breakthroughs in genomics have changed the practice of medicine. Genomic sequencing technology, clinical knowledge and data analytics have converged to generate diagnostics and treatments specific to individual patients and diseases. We expect more data-intensive practices will improve medical outcomes and alter which companies in the healthcare ecosystem win or lose. After several years of uncertainty that depressed valuations and equity returns in the broad healthcare sector, we believe companies leading the genomic medical revolution are well positioned for long-term outperformance.

Next-Generation Automation: As the global labor force ages and the need for supply-chain redundancies becomes more acute, companies are increasingly seeking ways to do more with fewer people. Automation technologies, previously concentrated in automobile and electronics production, have matured and reached an inflection point. They now offer attractive returns on investment to companies across many industries.

CONCLUSION

After the strong performance of the past several years, one can't know if, when or by how much the U.S. equity market might drop, or how great the impact on the economy will be. Stock markets go up most of the time. Down years are rare. The S&P 500 has only declined in seven of the last 25 years. But the higher frequency of positive returns is partly offset by the greater magnitude of negative returns. Declines can be particularly painful following periods when the market is highly concentrated and richly priced. After the internet bubble burst in 2001, the S&P 500 fell by 49%, and the Nasdaq dropped 78%.

To address this challenge, we adhere to a set of time-tested portfolio- and risk-management practices. These include routinely trimming winning positions. Even though these sales may generate taxable gains, we believe this practice results in client portfolios that are well diversified and able to better withstand periods of turbulence.

We continue to focus our research energies on identifying the next disruptive investment themes and the companies poised to benefit from them. Historically, the long-term outperformance of equities versus fixed income has been driven by less than 5% of companies—superstar stocks that delivered excessive returns. Investing early in these businesses, when their market capitalizations were relatively small and expectations reasonable, has generated strong outperformance for investors.

We approach 2026 glad for the strong year just ended, excited for the future and grateful for our clients' continued trust in us.

SIGNIFICANT PORTFOLIO ACTIONS IN THE FOURTH QUARTER

Ascendis Pharma A/S

During 4Q25, we initiated a position in Ascendis Pharma A/S, a Danish biopharmaceutical company, as part of our *Advent of Molecular Medicine* theme. Ascendis specializes in treatments for rare endocrine disorders and has developed a proprietary drug delivery technology, TransCon, which extends dosing intervals, leading to improved efficacy and safety. TransCon has a wide range of disease applications and provides opportunities for partnership with other pharmaceutical companies without the need to take on excessive R&D. Their ongoing commercial launches, supplemented by their proprietary technology, aligns well with our thematic focus on identifying cutting edge companies with diverse revenue streams.