VIEWPOINT2026

PORTFOLIO ASSUMPTIONS

WASHINGTON CROSSING ADVISORS

Washington Crossing Advisors, LLC (“WCA”) is an SEC registered investment adviser and wholly owned subsidiary of Stifel Financial Corp. WCA helps supervise and manage over $10 billion in assets under advisement for individuals and institutions.*

The team is managed by Kevin R. Caron, CFA and Chad A. Morganlander, who were among the founding members of Washington Crossing Advisors.

Washington Crossing Advisors’ views on investing and markets are regularly sought by national media outlets, including *CNBC*, *Bloomberg*, *Fox Business News*, *The Wall Street Journal*, *Forbes*, and *Reuters*.

WCA’s Approach to Tactical Asset Allocation

Tactical Asset Allocation (TAA) is a disciplined strategy that exploits market inefficiencies while respecting long-term fundamentals. Using ETFs, TAA dynamically adjusts portfolios to balance short-term opportunities with long-term rationality.

We adopt TAA because the shortcomings of passive allocation—such as blind exposure to risks, market inefficiencies, and inability to adapt to changing conditions—pose significant risks to investors. TAA addresses these flaws by allowing us to navigate market dynamics, manage risk, and align portfolios with evolving opportunities and investor needs.

TAA is built on four core principles. First, market prices determine returns through yield, growth, and valuation changes. Second, relative returns reflect perceived risks, guiding allocation toward assets with higher risk-adjusted reward. Third, markets overshoot and trend in the short term, creating exploitable opportunities through momentum and valuation signals. Fourth, markets are rational and mean-reverting over time, enabling TAA to benefit from extreme deviations.

Our framework begins with a policy portfolio—a baseline allocation reflecting a blended benchmark of stocks, bonds, and other assets, selected based on risk tolerance. Market conditions are analyzed through top-down data trends, measures of asset class “richness” or “cheapness,” and observed relative price behavior. Tactical adjustments leverage trends and mean reversion, while ETFs are intended to provide efficient diversification across asset classes. Regular rebalancing keeps the portfolio aligned with evolving conditions.

TAA is a strategy of rational adaptation. By addressing market inefficiencies and aligning with long-term fundamentals, it seeks to enhance returns and mitigate risks in a volatile, ever-changing world.

** As of September 30, 2025. Total Assets include Assets Under Management and Assets Under Advisement. Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets for which the firm provides a model portfolio and does not have trading authority over the assets.*

Executive Summary

This Viewpoint 2026 addresses short-term market conditions, intermediate-term trends, and long-term fundamentals in a cohesive framework designed to navigate both opportunity and uncertainty.

The past year was marked by sharp swings in market confidence. After a brief period of heightened volatility and tariff-related anxiety, optimism returned quickly, driven by enthusiasm around artificial intelligence, expectations for policy support, and easing financial conditions. Equity markets ultimately reached new highs, reinforcing the role confidence and liquidity now play in shaping market outcomes.

These developments have occurred against a backdrop of extraordinary aggregate wealth. Over the past decade, U.S. household net worth has nearly doubled, supporting consumption, investment, and risk-taking. In many respects, last year's optimism was justified by subsequent economic and market performance.

At the same time, signs of elevated risk appetite have become increasingly evident. Valuations are near historical extremes, credit spreads are compressed, dividend yields are low, and market gains have become highly concentrated in higher-risk stocks. These conditions are uncommon and suggest a narrower path forward, where outcomes depend more heavily on confidence holding together.

In environments like this, risk unfolds across multiple time horizons. This Viewpoint 2026 addresses short-term market conditions, intermediate-term trends, and long-term fundamentals in a cohesive framework designed to navigate both opportunity and uncertainty.

A year ago, we saw an economy picking up steam. That strength persisted through the next twelve months despite tariff challenges. As we wrap up 2025, the economy remains strong, but continued momentum depends critically on confidence, liquidity, and capital allocation decisions, especially those related to artificial intelligence (AI).

We might look back at the last year and marvel at all the artificial intelligence (AI) bullishness in 2025. Then again, doing so would risk forgetting just how much volatility played out along the way. It was not very long ago that the S&P 500 slipped into bear-market territory following the announcement of tariffs in late winter to early spring. During that spell, nervous markets plunged, and volatility spiked to levels not seen since the onset of the pandemic in early 2020.

Yet tariff despair would not last. Instead, optimism about AI spending — along with expectations for tax relief and interest rate cuts — soon held sway, helping drive equity markets to new records.

Extraordinary Times

It is worth repeating that we live in an age of highly concentrated aggregate wealth. For most of the past 50 years, total wealth in the United States has grown at roughly 6-7% per year before inflation and about 3-4% after inflation. Other than the dot-com bust, the Financial Crisis, and the sharp upward rate adjustment of 2022, most years in recent financial history have delivered gains in overall U.S. household net worth.

Over the past decade alone, household wealth has nearly doubled, rising to almost $180 trillion from just under $90 trillion in 2015. A major contributor to this rise in wealth has been the stock market. The past few years have also seen a rising tide of risk-taking. As memories of earlier market disruptions fade, many market participants appear increasingly willing to take risks. Cryptocurrency, prediction markets, and AI-related speculation were all en vogue in 2025. Credit spreads for high-yield corporate bonds are near record lows.

Valuations across the equity market — measured by price-to-earnings, price-to-sales, and price-to-book ratios — are at or near historical extremes. The S&P 500's dividend yield has fallen to a near-record low of 1.15%, a level last seen in 1999.

Perhaps most telling, market gains have become unusually concentrated. Over the past three years, almost 83% of capitalization-weighted S&P 500 gains came from higher-than-average-risk stocks (stocks with Beta greater than 1). Even for the equal-weighted S&P 500, 75% of the gain came from higher-than-average risk stocks. These conditions are not typical.

STARTING POINT RISK SCORECARD

Current Conditions Relative to History

The table below summarizes today's starting conditions across valuations, income, investment, and risk appetite—factors that help explain both the strength of the current expansion and the narrower path forward.

Indicator	Current Observation	Historical Context	Implication
Equity Valuations	Elevated across multiple measures	Near upper historical ranges	Lower prospective returns from today's starting point
Dividend Yield (S&P 500)	S&P 500 dividend yield at record low	Comparable to late-1990s extremes	Less income cushion, greater reliance on price appreciation
Market Concentration	S&P 500 returns driven mainly by higher risk	Uncommon outside late-cycle environments	Narrow leadership increases vulnerability to shifts in sentiment
Credit Spreads (High Yield)	Compressed, near past cycle lows	Below long-term averages	Limited compensation for credit risk
Investment Spending	Strong and accelerating	Outpacing long-run economic growth	Supports profits today, raises sensitivity to future slowdowns
Corporate Profits	Elevated relative to GDP	Above historical norms	Profits more dependent on continued demand and investment
Household Wealth	Historically high	Well above long-term trend	Supports spending, amplifies wealth effects
Risk Appetite	Elevated across asset classes	Consistent with optimistic market regimes	Confidence-sensitive environment

Source: WCA

They represent a meaningful departure from historical norms and pose a challenge for forward-looking return expectations.

What Elevated Risk Appetite Tells Us

Periods of elevated risk appetite often coincide with strong economic performance. Optimism encourages investment, supports asset prices, and reinforces demand through rising wealth. In that sense, today's bull market has been sustaining the economy. It has helped sustain growth, as rising investment spending has helped generate corporate profits, which in turn reinforces confidence and capital flows toward new technologies and infrastructure.[1]

At the same time, elevated confidence changes how most of us perceive risk. In highly liquid markets, risk is typically viewed through the lens of short-term price movements. Few investors think about owning a data center for the next 10 or 20 years, for example. Instead, investments in public stocks are seen as "available for sale" at any time. If an investment can be sold quickly, it is easy to believe that risk can be quickly curtailed by exiting if conditions change. That belief shortens time horizons, which can be significantly misaligned with the long economic life of the underlying investments. This disconnect potentially makes elevated valuations feel more sensible.

The bigger risk, however, lies elsewhere. Capital committed to businesses, infrastructure, and technology is not easily reversed. Data centers, factories, software platforms, and supply chains must ultimately earn their keep over the long term. Squaring the long-run returns from real investments with the shorter-term profits they are assumed to generate introduces risk, especially when profits depend on continued spending rather than realized cash flows. While liquid markets allow individuals to pass long-term uncertainty along to others, that uncertainty does not disappear. It remains embedded in the real economy, even if it is less visible in day-to-day market prices. Ultimately, the return expectations embedded in stock valuations will need to align with what the actual investments can deliver over their lives.

This distinction helps explain why periods of strong confidence can sustain high valuations for longer than fundamentals alone might suggest—and why reversals, when they occur, can feel abrupt. The potential for differences between forecasts and what is ultimately delivered can produce unexpected price swings. When large amounts of capital are rapidly deployed into novel businesses, the potential for capital misallocation increases, and so too does risk. This is exactly the situation today with AI, and it helps explain why volatility is increasingly driving market averages.

None of this implies that markets must reverse, nor does it diminish the potential of innovation. It does suggest, however, that the path forward narrows as starting valuations rise and assumptions become more optimistic. Gains may remain possible, though they depend significantly on confidence holding together. What may be underestimated is not only the risk of an unexpected slowdown but also the longer-term effects of capital deployed under assumptions that may prove overly optimistic.

Policy Backdrop

Last year, the incoming Trump administration's objectives around trade and fiscal policy dominated the policy agenda for the first half of the year. For the second, we saw monetary policy become less restrictive, and we expect this trend to continue into 2026. The policy backdrop should continue to support financial markets, as the direction appears to have shifted toward a more market-friendly one in 2025. Markets are already moving in anticipation of further accommodation, and financial and liquidity conditions remain supportive. As mentioned earlier, maintaining liquidity at today's levels is helpful for sustaining momentum, but it also raises risks, including the potential for faster inflation and increased speculation.

Why Time Horizons Matter

One way to navigate environments like this is to recognize that multiple time horizons are involved. There is a short-run view (under three months), a somewhat longer view (three to nine months), and a long-run view (ten years or more). The long-run view is strategic and should be considered for long-term planning, and the shorter perspective is helpful for navigating along the way.

This Viewpoint 2026 looks to address each of these perspectives in a cohesive way. We will examine what the data is telling us now and over the next few months via our WCA Barometer, outline our tactical positioning across the asset classes we track with a 3- to 9-month perspective, and present our long-run forecasts by asset class grounded in fundamental observations. Periods like this call for a framework that can adapt as short-term signals, intermediate trends, and long-term fundamentals evolve—and we hope this Viewpoint provides that framework.

1. Using vector autoregression and Granger causality tests on annual S&P 500 data, we find that changes in investment spending tend to precede changes in profits, while profits also feed back into future investment.

Portfolio Strategy

We enter 2026 with a slight overweight to stocks over bonds as improving data trends lead to greater tactical equity exposure. From a longer-term perspective, we expect lower returns from stocks. However, we are pleased to see bonds offering higher yields. Those yields now exceed the inflation rate, providing bond investors with a positive expected real return.

How CONQUEST Adjusts Risk Over Time

Markets move in cycles. When confidence rises, investment, profits, and asset prices tend to rise with it. When confidence falls, the opposite can happen. These ups and downs are a normal part of investing, even though long-term returns are ultimately driven by fundamentals like economic growth, productivity, and innovation. Our approach is designed to stay invested for the long run while adjusting thoughtfully as conditions change along the way.

Long-run Strategic Allocation

We start with a long-run strategic allocation chosen by the client and advisor. This reflects personal goals, risk tolerance, and financial circumstances, and it sets clear boundaries for how much risk is appropriate. This long-term structure serves as the foundation for all portfolio decisions.

Within that framework, we make adjustments across three time horizons. In the ***short term***, we monitor financial and economic conditions using our WCA Barometer. When the Barometer's outlook improves or deteriorates, we adjust stock and bond exposure within a limited portion of the portfolio. This allows us to respond to changing conditions in a disciplined, objective way without reacting emotionally to headlines or market noise.

Over the ***intermediate term***, we make gradual adjustments based on valuation and market trends. These changes are made within the portfolio's core holdings, tilting toward assets that are showing stronger momentum or more attractive pricing, while maintaining diversification.

Finally, we keep a ***long-term*** perspective through capital market assumptions that help set realistic expectations for returns and risk over a full market cycle. This structure allows portfolios to adapt as conditions evolve — without losing discipline, diversification, or long-term focus.

This structure allows portfolios to remain invested while adapting to evolving cycles.

SHORT TERM CYCLE

- **Time Horizon | Short (Weeks to Months)**
- **Primary Tools**
  WCA Barometer
  Objective signals from financial and economic data
- **What Adjusts**
  Equity vs. bond exposure
  Risk posture (risk-on/risk-off)
- **Where in Portfolio**
  Tactical Satellite (~30% of portfolio)
- **What Doesn't Change**
  Long-run strategic allocation
  Diversification framework

INTERMEDIATE TERM CYCLE

- **Time Horizon | Intermediate (Months to Quarters)**
- **Primary Tools**
  Valuation and Momentum
  Relative pricing and market trends
- **What Adjusts**
  Asset class tilts
  Regional, style, and sector biases
- **Where in Portfolio**
  Tactical Core (~70% of portfolio)
- **What Doesn't Change**
  Overall risk profile
  Strategic allocation ranges

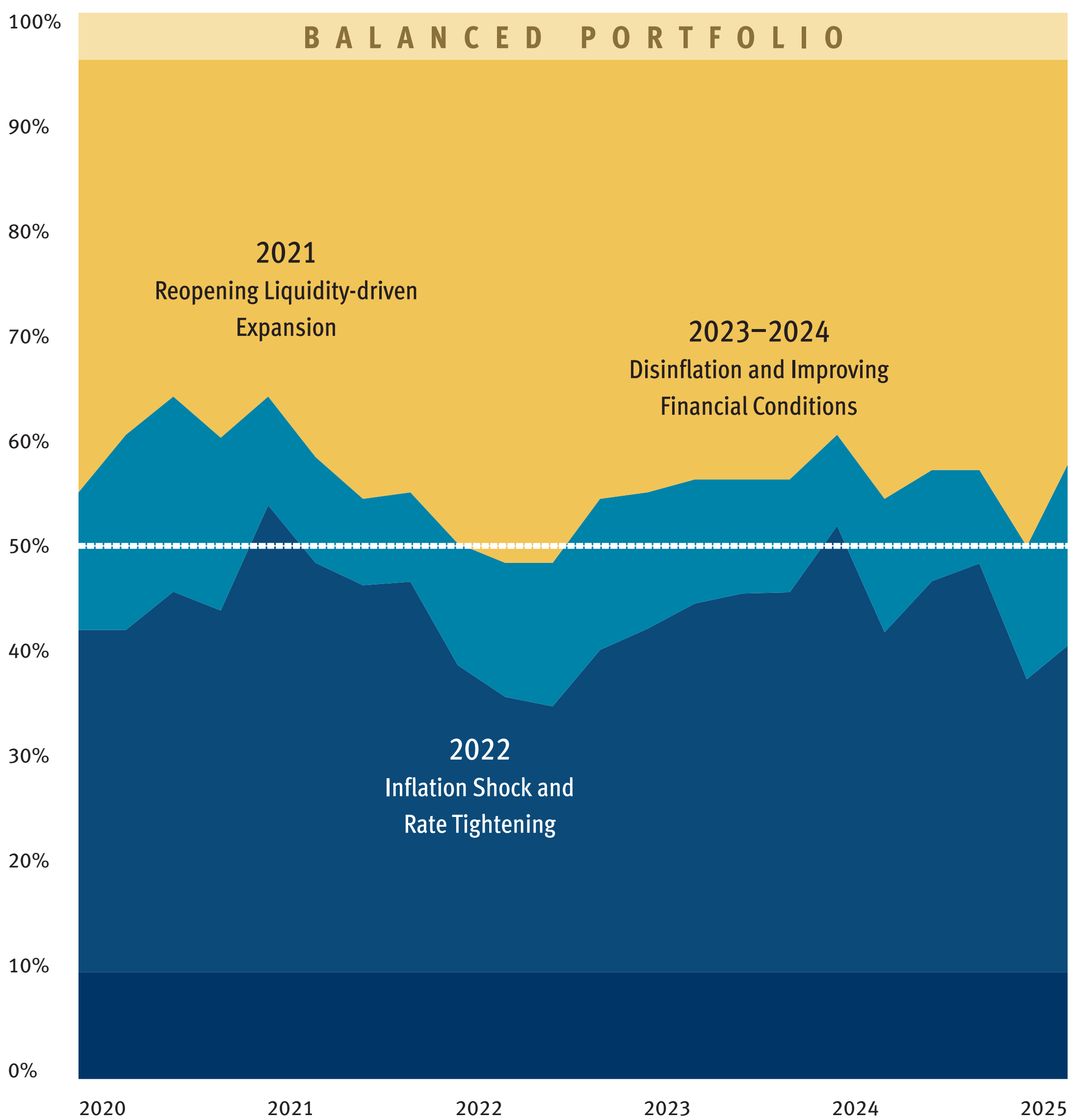
LONG TERM CYCLE

- **Time Horizon | Long (Years to Decade)**
- **Primary Tools**
  Capital Market Assumptions
  Growth, inflation, income, valuation normalization
- **What Guides**
  Return expectations / Volatility expectations
  Strategic portfolio design
- **Who Owns This Decision**
  Client and Advisor
- **What Doesn't Change Quickly**
  Strategic mix
  Financial plan alignment

HOW TACTICAL POSITIONING HAS EVOLVED THROUGH MARKET CYCLES

Quarterly Allocations Reflect Changes in Financial Conditions, Trends, and Risk Appetite

Source: WCA with Bloomberg data



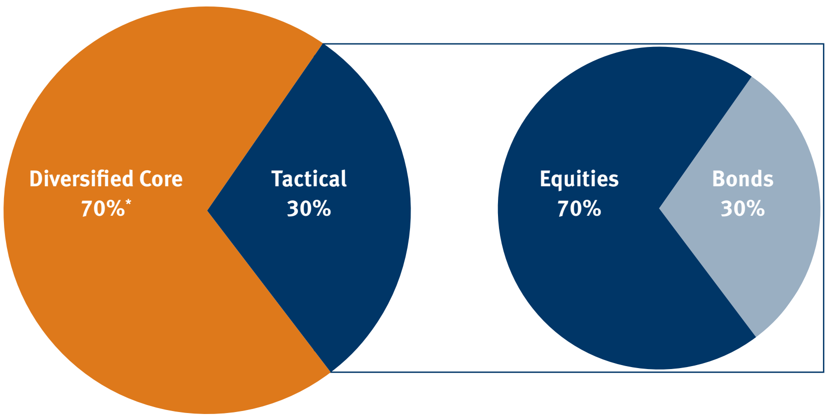
The chart illustrates how portfolio risk has been adjusted incrementally with Bloomberg data in response to changing market conditions, rather than large or binary shifts.

Diversifying Assets · Domestic Equity · Foreign Equity · Fixed Income

PORTFOLIO STRUCTURE

DIVERSIFIED CORE
Longer-Term Focus

SATELLITE
Shorter-Term Focus



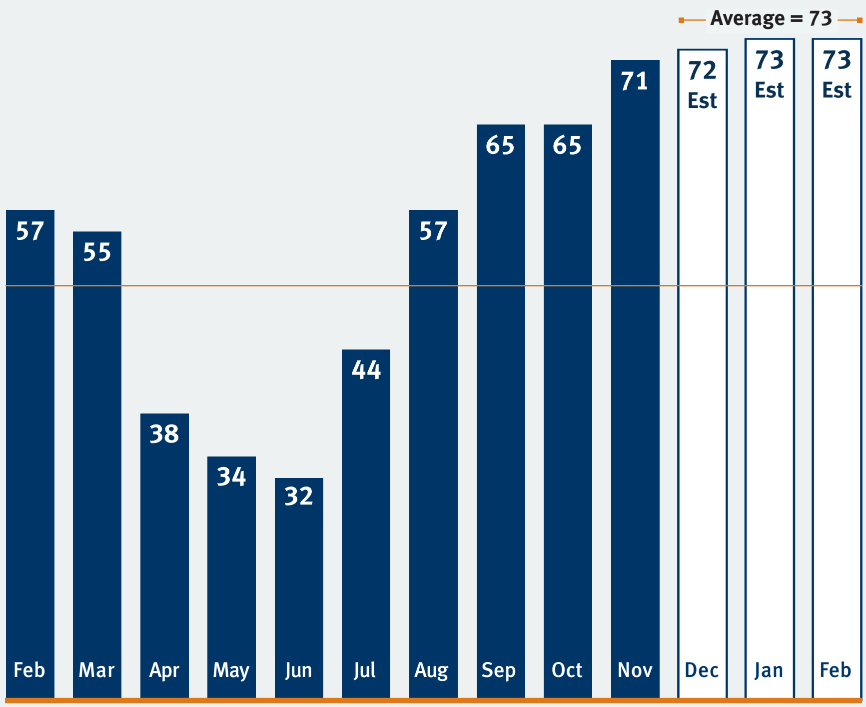
COMBINING LONGER- AND SHORTER-TERM PERSPECTIVES IN ONE ACCOUNT

We think of portfolios as having two parts. At the "core" of the portfolio is a diversified equity and diversified bond allocation. The forecasts, valuations, and trends on page 7 guide these allocations. Because these factors are longer term, changes in the core tend to be slower than the satellite, reducing turnover.

The smaller 30% (blue circle) is the "satellite." As fundamental conditions change, shorter term "tactical" tilts between stocks and bonds are implemented here.

SATELLITE POSITIONING: SHORTER-TERM FOCUS

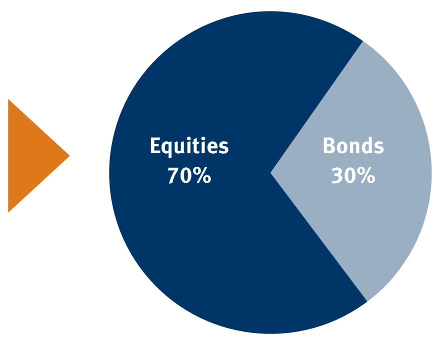
WCA FUNDAMENTAL CONDITIONS BAROMETER
—**Below 50: Heightened Risk of Recession**



We regularly assess changes in fundamental conditions to help guide near-term asset allocation decisions. Analysis incorporates approximately 30 forward-looking indicators in categories ranging from Credit and Capital Markets to U.S. Economic Conditions and Foreign Conditions. From each category of data, we create three diffusion-style sub-indices that measure the trends in the underlying data. Sustained improvement that is spread across a wide variety of observations will produce index readings above 50 (potentially favoring stocks), while readings below 50 would indicate potential deterioration (potentially favoring bonds). The WCA Fundamental Conditions Index combines the three underlying categories into a single summary measure. This measure can be thought of as a "barometer" for changes in fundamental conditions.

SATELLITE
Shorter-Term Tactical

The equity allocation is tactically adjusted to align with the forecast barometer (see chart left).



As of December 31, 2025.
* Including stocks, bonds, and other assets.

ASSET CLASS	10-YEAR VIEW RETURN	RISK	RETURN/RISK	TACTICAL POSITION
BOND ASSUMPTIONS				
Core Bonds	**3.3%**	**5.0%**	**0.7**	**UNDERWEIGHT**
1-3 Year Treasury Bond	**3.1%**	**1.6%**	**2.0**	**NEUTRAL**
Mortgage-Backed Securities	**3.2%**	**5.1%**	**0.6**	**OVERWEIGHT**
Intermediate Government/Credit	**3.2%**	**3.3%**	**1.0**	**UNDERWEIGHT ▾**
20+ Year Treasury Bond	**4.7%**	**13.4%**	**0.4**	**NEUTRAL ▴**
Investment-Grade Corporate Bonds	**3.8%**	**8.2%**	**0.5**	**NEUTRAL**
High-Yield Corporate Bonds	**3.9%**	**7.3%**	**0.5**	**UNDERWEIGHT ▾**
EQUITY ASSUMPTIONS				
Equity	**4.9%**	**15.4%**	**0.3**	**OVERWEIGHT**
Domestic Large Cap Value	**4.5%**	**17.3%**	**0.3**	**UNDERWEIGHT**
Domestic Large Cap Growth	**5.3%**	**15.0%**	**0.4**	**NEUTRAL**
Foreign Developed Equity Markets	**4.2%**	**15.8%**	**0.3**	**OVERWEIGHT**
Foreign Emerging Equity Markets	**4.1%**	**14.0%**	**0.3**	**OVERWEIGHT**
Gold	**1.9%**	**17.3%**	**0.1**	**NEUTRAL**
REITs	**4.8%**	**15.6%**	**0.3**	**UNDERWEIGHT ▾**

As of December 31, 2025. Past performance does not guarantee future results.

Core **Satellite**

CORE POSITIONING: DECISION TREE	
EQUITY vs. FIXED	**Overweight on WCA Barometer direction**
FOREIGN vs. DOMESTIC	**Lean toward foreign over domestic on relative strength and weak USD**
EMERGING vs. DEVELOPED	**Small overweight to developed over emerging**
GROWTH vs. VALUE	**Neutral domestic growth on better relative strength**
CREDIT vs. SOVEREIGN	**Overweight sovereign and neutral high quality**
SHORT vs. LONG DURATION	**Move to neutral on longer-term Treasuries from underweight**
NON-CORRELATED ASSETS	**Gold valuation stretched | remain close to benchmark weights**

These views are provided by Washington Crossing Advisors, LLC (WCA). Assumptions are estimates based on historic performance and an evaluation of the current market environment. These are estimates only and not intended to represent future performance. References to future expected returns and performance do not constitute a promise of performance for any asset class or investment strategy. Risk refers to an expected standard deviation of returns, a measure of uncertainty around our estimate. The forecasts contained herein are for illustrative purposes only and not to be relied on as advice or interpreted as a recommendation to engage in the purchase or sale of any security or financial product. These forecasts are based upon subjective estimates and assumptions about circumstances and events that may not have taken place and may never do so. In addition, WCA used historic index returns in evaluating past return relationships. This information was gathered from third-party sources we deem reliable, but no independent verification has been undertaken. Actual returns could be higher or lower than shown herein. Opinions are subject to change without notice.

Equity Market Outlook

Equity markets enter the coming year from a position of strength, supported by rising profits, accelerating investment, and sustained confidence in long-term growth drivers such as technology and infrastructure. These forces have propelled markets higher despite periodic volatility, but leadership has become increasingly concentrated. Elevated valuations now reflect optimistic assumptions about future growth and margins, suggesting that while further gains are possible, future returns are likely to be more modest and more variable than those of the past decade.

In this environment, equity strategy emphasizes flexibility over prediction. Shifting financial conditions, currency trends, and narrow leadership call for an adaptive approach that balances long-run fundamentals with intermediate-term trends. A weaker U.S. dollar and improving momentum abroad have supported foreign equities, while tactical positioning adjusts incrementally as conditions evolve. Selectivity, diversification, and disciplined adaptation remain central as markets navigate a more conditional path forward.

Markets Driven by Confidence and Investment

Equity markets enter the coming year from a position of relative strength, though leadership remains highly concentrated in a relatively small group of companies. Corporate profits have grown steadily, investment spending has accelerated, and confidence in long-term growth drivers — particularly in technology and infra-structure — remains elevated. High levels of confidence and liquidity have supported risk-taking across the economy and help explain why equities have continued to perform well despite periodic volatility.

From a long-run perspective, our equity return expectations remain grounded in fundamentals. Economic growth, inflation, dividends, and share repurchases continue to provide a reasonable foundation for equity returns over time. While prospects for a technology-driven productivity boost could lift future growth, elevated starting valuations suggest that much of this optimism is already reflected in prices.

As a result, future returns are likely to be more modest — and more variable — than those experienced over the past decade.

Based on these assumptions (right-side bottom chart), we estimate a one-year S&P 500 range of approximately 8,250 in a bullish scenario and 6,150 in a bearish scenario. The bull case assumes continued confidence, strong growth, and further improvement in profitability, allowing today's investment–profit cycle to persist without meaningful mean reversion in margins or valuations. Under this scenario, markets assume that large-scale invest-ments in AI and infrastructure could translate into durable cash flows.

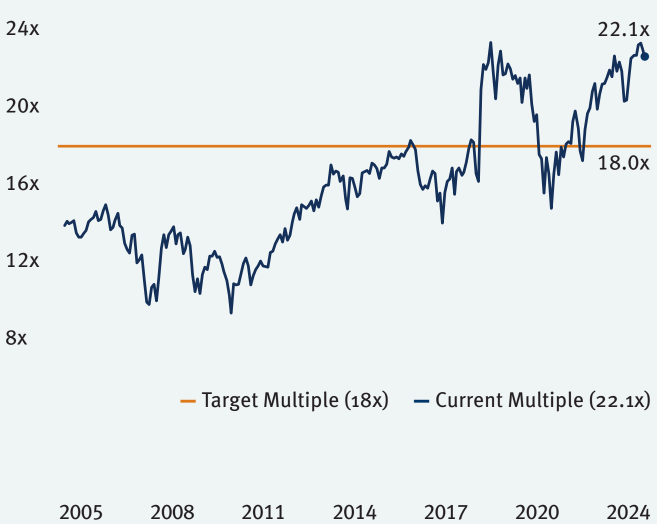
The bear case would require a more abrupt reversal in confidence and a faster normalization of profits and multiples. At present, however, there are few signs of a broad-based breakdown. Credit spreads remain tight, financing conditions are accommodative, and capital remains readily available. Global merger and acquisition activity has been robust in 2025, with unusually high transaction premiums — further evidence that confidence continues to anchor valuations.

Narrow Leadership and Market Concentration

While headline returns have been strong, the underlying drivers of performance remain highly concentrated. Through mid-December, the S&P 500 returned roughly 16%, driven primarily by revenue growth, margin expansion, and modest multiple expansion, with dividends contributing

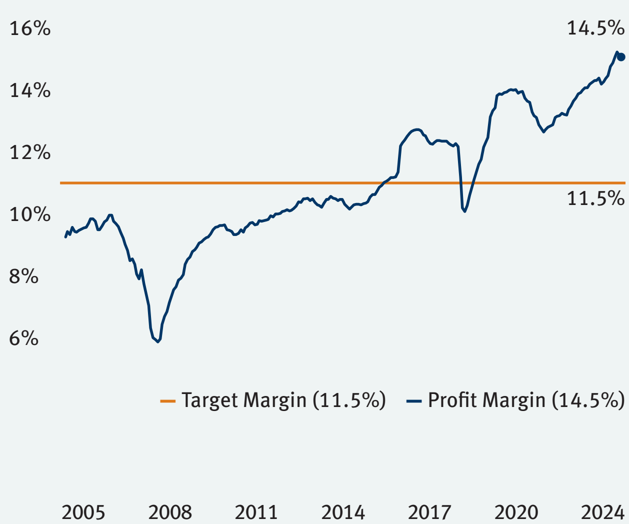
S&P 500 FORWARD 12-MONTH P/E RATIO

Source: Bloomberg, WCA



S&P 500 FORWARD 12-MONTH PROFIT MARGIN

Source: Bloomberg, WCA



little. Over the past three years, more than 80% of index gains have come from companies with above-average risk, and roughly half of the index's market value is now concentrated in its 20 largest constituents. Currency dynamics also played an important role this year. The U.S. dollar declined, easing global financial conditions and supporting risk assets. A weaker dollar augments foreign market returns, reduces funding pressure on dollar-denominated borrowers, and boosts the translated value of foreign earnings.

Against this backdrop, foreign equities outperformed domestic markets for much of the year — a notable reversal after more than a decade of U.S. dominance.

Sector leadership has also remained narrow. Technology, communications, and utilities led performance, driven largely by enthusiasm surrounding AI-related infrastructure investment. Many other sectors — including healthcare, consumer-oriented businesses, and industrials — struggled to attract sustained interest. Historically, such narrow leadership has either broadened over time as confidence spreads or increased vulnerability should expectations or financing conditions change.

Positioning with Flexibility Across Time Horizons

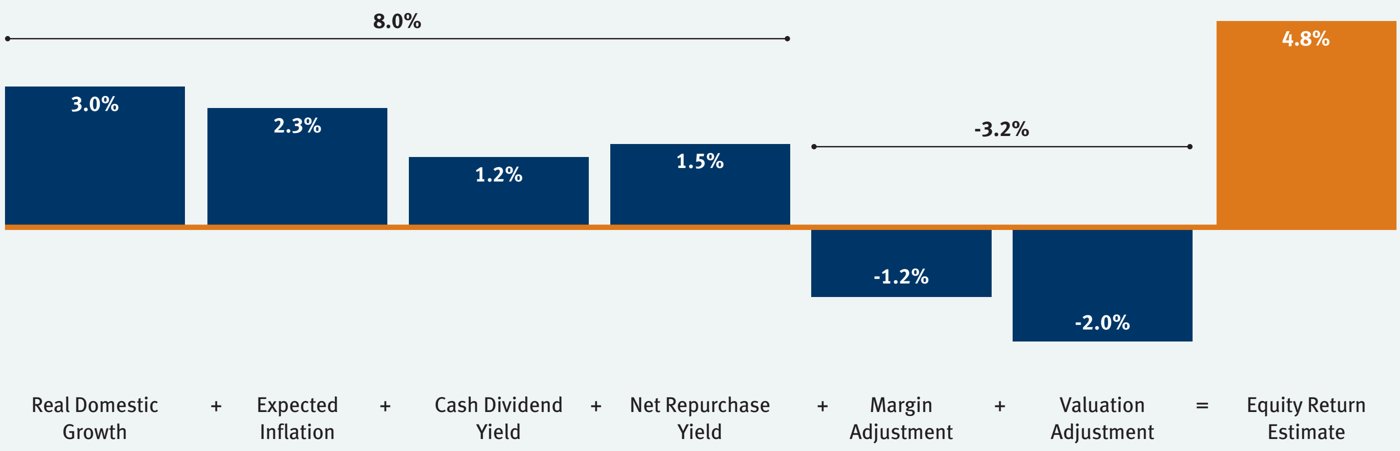
This environment reinforces the importance of flexibility within equity allocations. Rather than anchoring expectations to recent returns or assuming that the experience of the past decade will repeat, we believe it is essential to remain open-minded as conditions evolve. Equity markets are shaped by shifting fundamentals, policy, and sentiment, and no single regime remains dominant indefinitely.

Within this framework, adjustments are made thoughtfully and incrementally — guided by changing financial conditions and market behavior, but bounded by long-run strategic guardrails.

Given our WCA Barometer's near-term outlook, we are currently overweight equities relative to fixed income. Within equities, we favor foreign markets, maintain a neutral stance toward domestic growth due to valuation considerations, and remain underweight domestic value given weaker relative momentum.

In our view, the equity opportunity set remains constructive — but increasingly conditional. The charts below translate these conditions into long-run return expectations by decomposing equity returns into their fundamental components.

FORWARD-LOOKING FACTORS CONTRIBUTING TO LONG-RUN (10 YEARS) EQUITY MARKET RETURN ASSUMPTIONS



Source: Washington Crossing Advisors, LLC. Assumptions are estimates based on historic performance of the above factors looking back the previous 15 years and an evaluation of the current market environment. These are estimates only and not intended to represent future performance. References to future expected returns and performance do not constitute a promise of performance for any asset class or investment strategy. The forecasts contained herein are for illustrative purposes only and not to be relied on as advice or interpreted as a recommendation to engage in the purchase or sale of any security or financial product. Margin and valuation adjustments assume normalization measured as annualized log return differentials over our forecast horizon.

Fixed Income Outlook

Fixed income markets face a growing demand for capital from both the public and private sectors, as persistent fiscal deficits and rising investment in infrastructure, AI, and energy increase borrowing needs. While this expanded supply of credit could place upward pressure on interest rates over time, financing conditions remain relatively supportive today. Short-term rates have declined, yield curves have normalized modestly, and credit spreads remain near cycle lows, signaling continued confidence among lenders.

In this environment, higher yields provide a stronger foundation for long-run bond returns than in the prior decade, while also restoring fixed income's role as a source of income and diversification. Portfolio positioning balances these opportunities with sensitivity to changing rate and credit conditions, emphasizing high-quality exposure and flexibility as the cycle evolves.

Funding Demand, Rates, and Portfolio Resilience

Demand for capital continues to accelerate. We expect the United States to run fiscal deficits above 5% of GDP for the foreseeable future, extending a pattern that has been in place since the early 2000s. Unlike the postwar period, when deficits tended to shrink meaningfully during expansions, recent decades have been characterized by persistently wider deficits with larger swings around a rising trend.

With limited political appetite for either materially higher taxes or large-scale spending cuts, borrowing remains the primary mechanism for funding these gaps. Federal debt as a share of GDP has now moved above 100% for the first time since World War II outside of wartime conditions.

At the same time, private-sector borrowing needs are also expanding. Large-scale investment in AI, energy, and infrastructure is expected to require trillions of dollars of capital over the coming years. A growing share of this financing is likely to come from non-traditional sources such as private credit, where outstanding loans are projected to approach $3 trillion within the next few years. Together, rising public and private borrowing needs suggest a substantial increase in the supply of credit, which could place upward pressure on borrowing costs over time.

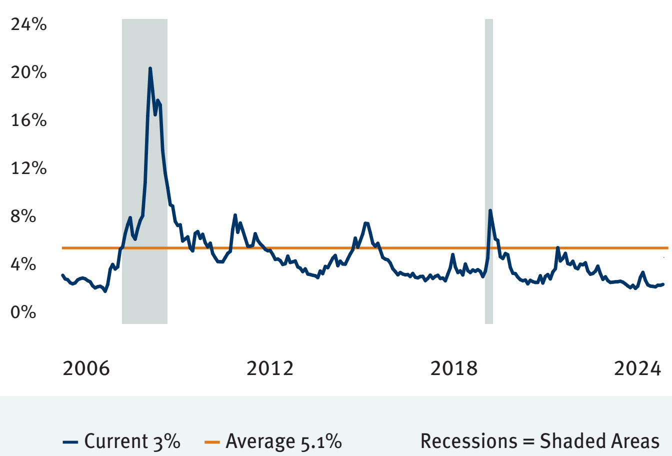
For now, however, financing conditions remain relatively benign. Short-term interest rates have declined over the past year, with three-month Treasury bills yielding near 3.5%, roughly one percentage point below levels seen two years ago. The spread between 10-year Treasury yields and short-term bills has turned modestly positive, though it remains historically low. Lower short-term rates reduce returns on cash holdings but also ease the government's near-term financing burden.

Credit markets continue to signal confidence. Spreads on high-yield corporate bonds remain near cycle lows, indicating little concern about near-term defaults despite elevated leverage in parts of the economy. While such conditions are supportive of risk-taking, they also imply limited compensation for bearing additional credit risk. From a portfolio perspective, today's rate environment represents a meaningful shift from the past decade. Higher yields may provide a stronger foundation for long-run fixed income returns and could help restore bonds' role as both an income generator and a diversifier.

Heading into 2026, we have moved toward a more neutral stance on longer-dated Treasuries and remain neutral high-quality corporates and overweight mortgage-backed securities, balancing income opportunities with sensitivity to changing rate and credit conditions.

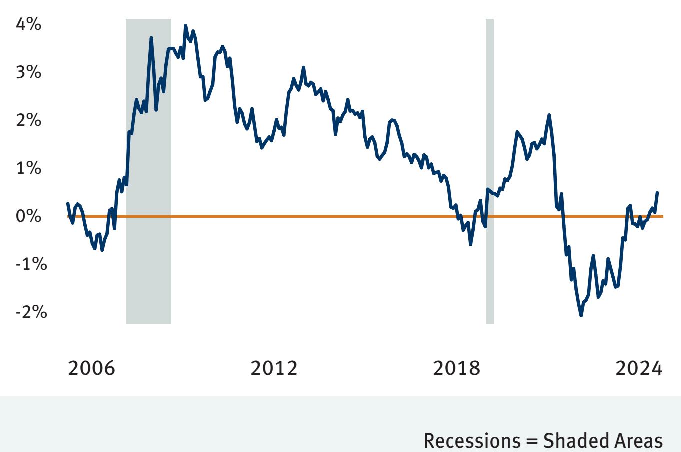
U.S. CORPORATE HIGH YIELD SPREAD VS. TREASURIES (OAS)

Source: WCA, Federal Reserve



U.S. 10-YEAR TREASURY VS. THREE MONTH BILL SPREAD

Source: WCA, Federal Reserve



Description of Indices and Terms: All performance calculations of indices are calculated on a total return basis (reflecting reinvestment of dividends and other earnings). Indices are unmanaged, are not available for direct investment, and have no associated management fees.

S&P 500 Index: Capitalization-weighted composite of 500 stocks traded on the NYSE, AMEX, and NASDAQ; not the largest 500 stocks in U.S., but rather a blend of leading companies in leading industries in the U.S. economy; index comprised of 10 broad industrial sectors.

Moody's Baa Corporate Bond Index—An index comprised of industrial bonds rated Baa by Moody's with a minimum maturity of 20 years.

Consumer Price Index—A measure of the average change in prices over time for a basket of consumer goods.

Asset Allocation—Asset allocation does not ensure a profit or protect against loss.

International and Emerging Markets Investing—There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Bonds and High Yield Bonds—When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High yield bonds have greater credit risk than higher quality bonds.

Commodities and Futures—The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Diversification—Diversification does not ensure a profit or protect against loss.

Dividends—Changes in market conditions or a company's financial condition may impact a company's ability to continue to pay dividends, and companies may also choose to discontinue dividend payments.

Real Estate—When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

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Assets Under Management represents the aggregate fair value of all discretionary and non-discretionary assets, including fee paying and non-fee paying portfolios. Assets Under Advisement represent advisory-only assets where the firm provides a model portfolio and does not have trading authority over the assets.

We regularly assess changes in fundamental conditions to help guide near-term asset allocation decisions. Analysis incorporates approximately 30 forward-looking indicators in categories ranging from Credit and Capital Markets to U.S. Economic Conditions and Foreign Conditions. From each category of data, we create three diffusion-style sub-indices that measure the trends in the underlying data. Sustained improvement that is spread across a wide variety of observations will produce index readings above 50 (potentially favoring stocks), while readings below 50 would indicate potential deterioration (potentially favoring bonds).

The WCA Fundamental Conditions Index combines the three underlying categories into a single summary measure. This measure can be thought of as a "barometer" for changes in fundamental conditions.

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