POINTE CAPITAL
MANAGEMENT LLC

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December Quarter 2025 Market Review and Investment Outlook for 2026

On the strength of better-than-expected economic growth, a shift from a restrictive monetary policy to a more neutral position and strong earnings in the September quarter, stock market gains were respectable in the fourth quarter, rising 2.7% for the S&P 500 Index®. Sector performance widened with healthcare, financials and materials posting solid returns and outperforming the technology sector. For the full year, overall returns were robust with the S&P 500 Index® +17.9%. This performance marks the third consecutive year of double-digit returns for the index. International stocks led all returns, rising 31.9% for the developed markets (MSCI EAFE Index) and 34.4% for the emerging markets (MSCI EAFE Index) as shown in Table 1 below.

Table 1: Returns Moderated in Fourth Quarter 2025 but Full Year Returns Were Robust

	4th QTD 2025	2025
Benchmarks:		
S&P 500 Index®	2.7%	17.9%
S&P 500 Index Equal Wtd	1.4%	11.4%
Russell 1000® Value Index	3.8%	15.9%
Russell 1000® Growth Index	1.1%	18.6%
Russell 2000® Index	2.2%	12.8%
MSCI EAFE (Foreign Stocks)	4.9%	31.9%
MSCI EM (Emerging Markets)	4.8%	34.4%

Source: FactSet. Past performance does not guarantee future results. Data as of December 31, 2025.

The quarter was not without drama, as a brief correction in late October and early November took the S&P 500 Index® down by 5.0% (October 29 – November 20). The correction was caused by rising worries over sharply higher technology stock valuations and incomplete evidence that AI chip order rates may be softening. The correction was short lived as earnings reports, especially in technology and communication services, helped restore confidence and attract renewed buying interest. Better than expected results reported by NVIDIA Corp. on November 19th sparked a significant rally in both tech and communications services as NVIDIA beat expectations and guided forward earnings higher than expected. Markets were also stimulated by three U.S. Federal Reserve (Fed) short term interest rate cuts which support equities – especially growth stocks – by lowering the cost of capital.

International Equity – A Recovery is Underway

International markets significantly outperformed US markets in 2025, one of only three years of outperformance in the last ten years. The weakness in the US Dollar (off 9.7% in 2025, which occurred in the first half of the year) supported foreign stocks, particularly emerging markets. In the fourth quarter, developed markets outperformed on gains in the healthcare sector. A trade deal reached in

mid-November to cut U.S. tariffs on Swiss imports from 39% to 15% helped sentiment and business planning for exporters. Emerging markets were robust with strong gains in S. Korea, Chile, Hungary and Columbia (+18% or higher), though a 9% decline occurred in China. Please find a deeper discussion of the evolving investment case for international equities at the end of this letter.

US Equity Sectors – Market Broadened out as Value Stocks Rebound, Including Healthcare

The quarter saw a sharp rebound in healthcare stocks, which rose 11.7% due to favorable tariff renegotiations and improved fundamental performance. Communication services gained 7.3% primarily due to Google which reported stronger than expected performance across its businesses. Laggards for the quarter were consumer-related sectors, including real estate (-2.9%), utilities (-1.4%) and staples (0.0%), which were hurt by continued weak sentiment surveys. Utilities were lower in sympathy with AI-driven concerns. Finally, energy (+1.5%) was challenged by lower crude oil prices, caused by higher-than-expected production. Table 2 below outlines these returns for the quarter and full year.

Table 2: S&P 500 Sector Returns – Communication Services and Technology Remain Best Performers in 2025

Sectors	4th Qtr 2025	2025
S&P 500 Communication Services	7.3%	33.6%
S&P 500 Technology	1.4%	24.0%
S&P 500 Industrials	0.9%	19.4%
S&P 500 Utilities	-1.4%	16.0%
S&P 500 Financials	2.0%	15.0%
S&P 500 Healthcare	11.7%	14.6%
S&P 500 Materials	1.1%	10.5%
S&P 500 Energy	1.5%	8.7%
S&P 500 Consumer Discretionary	0.7%	6.0%
S&P 500 Consumer Staples	0.0%	3.9%
S&P 500 Real Estate	-2.9%	3.2%
S&P 500 Index®	2.7%	17.9%

Index Results, S&P Dow Jones Indices, December 31, 2025

US Fixed Income – Decent Full Year Performance on Fed Rates Cuts, Despite Modest Fourth Quarter

In the fourth quarter, fixed income markets were lackluster but still positive. US Treasury bond prices (short- to intermediate-term) were hurt by the long U.S. Federal Government shutdown and continued sticky inflation reports. For the full year, fixed income returns remained solid. As indicated in Table 3 below, returns ranged between 3.3% and 8.6% for the year. High yield and the ML US 10 Year Treasury Index posted best returns, rising 8.6% and 7.8%, respectively.

Table 3: Fixed Income Returns were Modest in Fourth Quarter Resulting in Decent Full Year

Fixed Income	4th Qtr 2025	2025
Bloomberg High Yield Bond Index®	1.3%	8.6%
ML US 10 Year Treasury®	0.8%	7.8%
Bloomberg Aggregate Bond Index®	1.1%	7.3%
Bloomberg 1-3Yr Gov't Corp Bond Index®	1.1%	5.1%
Bloomberg Municipal Bond Index®	1.6%	4.3%
90-Day Treasury Bill	0.9%	3.4%
ML US 30 Year Treasury®	-1.0%	3.3%

Index Results, FactSet, December 31, 2025

Market Outlook – Still Positive, but a Correction in 2026 is Possible

Higher Inflation, Midterm Elections and Venezuela Fallout are Risks but Likely Manageable

Economic Backdrop - Supportive for Equities

Despite modest economic growth and continued inflation debate, the outlook remains constructive for higher equity prices. Recent and expected Fed short term interest rate cuts support economic and earnings growth into 2026. U.S. GDP growth should improve modestly, with consensus estimates showing 1.9% growth for both 2026 and 2027. Easier monetary policy and gradual productivity gains support economic growth forecasts. Current economic forecasts are positive but modest, which has created investor caution - a healthy sign.

Inflation - Sticky but Manageable

Economists are currently forecasting moderating inflation but still above the Fed's 2% target, with 2026 forecasts in the 2.8–3.0% range. Services and housing remain key sources of stickiness. AI-driven productivity helps overtime, but accelerating inflation is still the primary risk to the current market rally.

Monetary Policy - Fed Easing Likely to Continue, Slowly

The Fed is expected to continue to move toward lower rates, albeit slowly. Median projections suggest one added interest rate cut in 2026, following three cuts late last year. Data-dependent policymakers are still divided between inflation concerns and signs of labor market softening making the move toward lower rates slow.

Midterm Elections - Risk or a Benefit?

With the Trump administration facing midterm elections in 2026, we reviewed what typically happens in midterm elections. First, it is typical that an incumbent president will lose seats in the House/Senate. Data from ING Think (team of ING economists) mentions that only three midterm elections saw incumbents gain seats in the House: 1934 (FDR), 1998 (Clinton) and 2002 (G.W. Bush). While there are periods of exception, history shows that midterm losses by the incumbent administration are typically bullish for stocks. This generally occurs because:

- Fewer sweeping tax changes
- Fewer regulatory surprises
- Lower risk of major spending shocks
- More predictable business planning environment

That stability is exactly what markets prefer. Historically, gridlock has been bullish.

Venezuela Regime Overthrow – A New Risk

While the immediate reaction by investors was positive, the risk is that the US move allows (or sparks) Russia and or China to join the party given Russia's war in Ukraine and China's claim that Taiwan is or should be part of China. This risk is somewhat offset by higher global oil production, which could cause lower oil prices.

Equity Markets - Upside with Greater Selectivity

We continue to see upside potential in both U.S. equities across both growth and value styles. According to FactSet, consensus forecasts call for 12–14% year/year earnings growth in 2026 for the S&P 500 Index® vs 12.3% expected in 2025 and above longer-term historical average of 8.6% (2015-2024). During the past few years, the largest technology companies created nearly half of the earnings growth in the index. However, earnings growth for the remaining 493 companies in the S&P 500 Index® is improving, rising from 9% year/year in 2025 to 12% in 2026.

Correction is Always Possible - but Likely Does Not Last Long

Given higher valuations in the US market, higher market concentration risk, continued sticky inflation and

moderate economic growth forecast for 2026, odds are rising that we will see a correction in 2026. However, corrections are typically a buying opportunity. Key points:

- The market historically rebounds after corrections, often leading to new highs over the subsequent months and years.
- Seasoned investors view corrections as discounted buying windows – like shopping sales on quality brands – rather than signals to exit. Corrections typically reduce valuation extremes and create entry points for long-term investors.
- The two causes of corrections – a recession or higher inflation – remain possible but the Fed's monetary policy (so far) has been spot on in responding quickly and correctly to support US economic growth. A recession is always possible, but economic growth rates have been modest over the past year - not excessive.

International Stocks - An Opportunity Underway

We continue to see international stocks as being increasingly attractive. For the past decade, U.S. equities significantly outperformed international peers – driven by U.S. tech and growth leadership. This long U.S. advantage occurred due to massive earnings growth from mega-cap technology stocks and strong price-to-earnings valuation expansion compared to international markets.

The investment case for international stocks:

- Weaker U.S. dollar boosting foreign returns for U.S. investors.
- Style shifts favoring international value sectors.
- Broader regional economic strength outside the U.S.
- Much more attractive valuation ratios vs US equities.

Small Cap & Mid Cap Stocks - Market Breadth Is Improving

We see compelling opportunities in small cap and mid cap stocks, particularly in value-oriented segments that have lagged large cap growth stocks and offer attractive relative valuations.

Fixed Income Securities - Turning More Constructive

Lower yields are beginning to support longer maturity bond prices. If inflation continues to ease, longer maturity bonds should outperform, while money market returns fade. We are actively watching opportunities to extend bond maturities selectively as many money market rates are near or below 3%.

Conclusion - Positioning for 2026: Stay on Course

• Be prudent • Expect volatility • Think generationally

We stay optimistic that returns should remain positive - though corrections are always possible.

Our path forward favors quality, balance and discipline. On market weakness, we favor adding to stocks, including international, value, small cap and mid cap strategies.

At the same time, we recommend gradually redeploying excess cash into longer-maturity fixed income securities as opportunities arise.

We take wisdom from Warren Buffet, though now retired, still an avid, thoughtful and admired investor:

"The most important quality for an investor is temperament, not intellect." – Warren Buffett

We thank you for your continued confidence in Pointe Capital Management.

Should you have any questions, please feel free to contact us.

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