

State of the Market

The S&P 500 Index continues to trade at a historically high multiple, supported by resilient economic growth, projections of future AI generated efficiencies and an expanding corporate earnings base. As of late 2025, forward estimates in the 21 to 23 times range imply meaningful optimism about earnings growth over the next 12-24 months. Much of this confidence is predicated on expectations that corporate profits will rise in the mid-teens percentage range during 2026. While valuations do not appear extreme in the context of low recession risk and stable inflation, they do suggest that the market is priced for relatively smooth economic conditions.

Trends

Trend one: Earnings growth is broadening across sectors after several years of tech-driven concentration. Industrials, financials, certain areas of healthcare, and high-quality consumer companies are showing improving profitability. This could be a healthy sign for the overall market.

Trend two: A mildly weakening U.S. dollar and more stable international growth profiles are drawing capital toward developed foreign markets and we are already seeing some outperformance in international equities.

Trend three: The rapid advance of AI continues to influence corporate strategy and investor sentiment. Although AI-related spending remains a powerful long-term theme, monetization timelines and profitability vary significantly. To that end we prefer investing in companies and industries with stronger balance sheets rather than chasing speculative growth narratives.

DISCLOSURES.

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Outlook

The most likely outlook for 2026 calls for steady economic growth, moderating inflation, stable interest rates, and corporate earnings rising around 13–15 percent. Under these conditions, equity markets could deliver positive returns, albeit with periods of heightened volatility.

Against this backdrop, high-quality U.S. equities remain central to our long-term thesis. Our allocations emphasize companies with durable earnings, strong cash flows, and reasonable valuations rather than relying solely on mega-cap technology leadership. Global diversification is increasingly important, both to expand the opportunity set and to reduce exposure to high U.S. valuations. AI and technology infrastructure continues to offer meaningful upside, but a portion of our focus will be on companies that will be able to use AI to improve efficiencies. Throughout 2026, we expect to maintain modest liquidity, flexibility, and a disciplined allocation strategy.

Balancing growth and preservation of capital will be key and, as always, we will be vigilant.

Happy Holidays!

Ben, Steve, Charlie and Micah

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