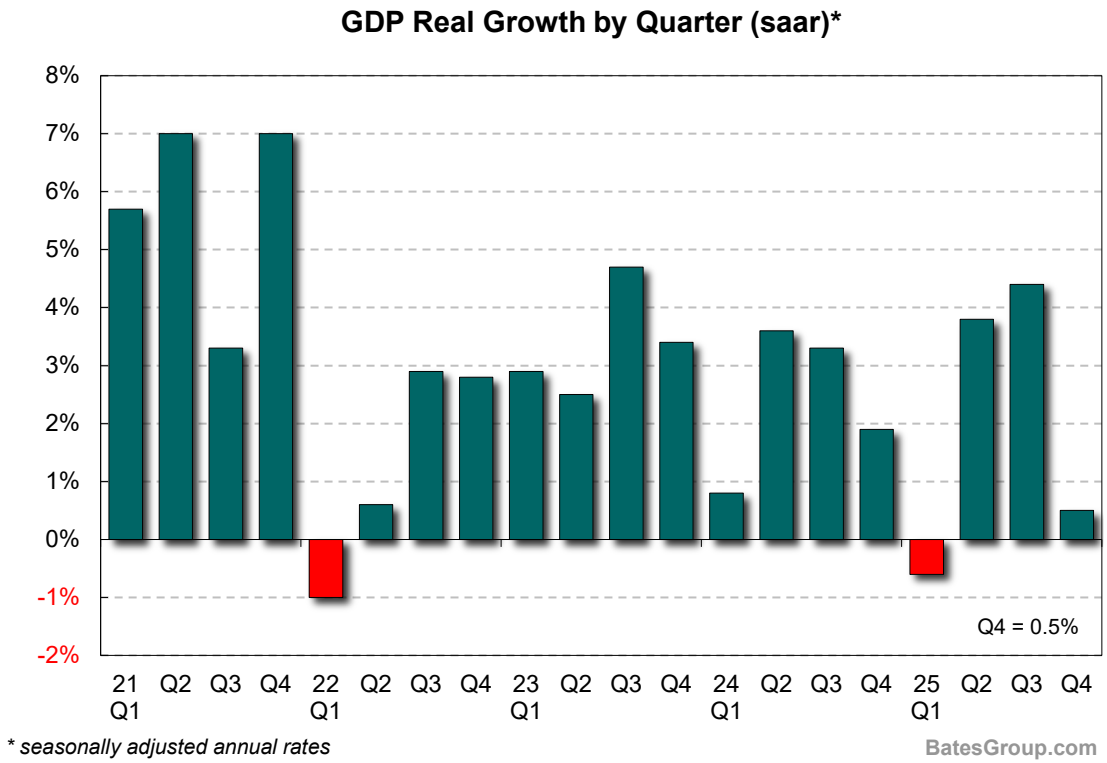
BATESGROUP

U.S. Chartbook

Economic and Capital Markets Analysis

2025 Year in Review

A Slowdown in Economic Growth



Source: U.S. Bureau of Economic Analysis (BEA)

GREG KYLE

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TARIFFS WERE THE MAIN THEME FOR YEAR

Lackluster Economic Growth

2025 was a challenging year for the U.S. economy with numerous headwinds slowing GDP growth to a 0.5% annual rate in the fourth quarter of the year. On-again/off-again tariff swings led to uncertainty for businesses in deciding whether to order needed supplies before announced higher tariffs were enacted, or wait for tariff rates to fall again. The impact was most notable in the second quarter of the year as private fixed investment fell at a 13.8% annual rate. Softness in the job market also negatively impacted economic growth.

Coming back to tariffs, when the U.S. Administration announced a new global trade policy on Liberation Day with increased tariffs across the board, it set the tone for the rest of the year. Needless to say, tariffs became the main theme of 2025.

By late 2025, the average tariff rate was nearly 17%, up significantly from less than the 2% average from 2000 to 2024.[1] This increase in tariff rates did have a significant impact on core goods prices, but services prices also increased during the year despite soft economic growth. For example, hospital services prices rose 6.6% yoy in December 2025. This was due to higher prices for medical supplies and pharmaceuticals which are passed through to consumers in higher services prices.

Other industries from manufacturing to construction were also impacted as the price of steel, aluminum, commodities and other inputs increased during the year. This in turn has had an impact on the jobs market in 2025.

Overall, various estimates place the cost of tariffs in 2025 at between $1,000 and $1,600 per household.

Weak Employment Situation

On the employment front, job gains were weak in 2025, with only 181,000 jobs added during the year. This was the weakest growth in jobs since 2020. Job gains and losses were uneven, with the manufacturing sector being the hardest hit., shedding 113,000 jobs in 2025. The headlined unemployment rate rose in during the year, finishing 2025 at 4.4%, while the 'real' unemployment rate (U-6), increased to 8.4%. On the positive side, wage growth did manage to slightly outpace inflation.

A Volatile Year for Equities

After a volatile start to the year, with the broad market index (S&P 500) falling 15% due to tariff uncertainty, the equity markets bounced back with all three major indices (S&P 500, Nasdaq Composite and the Russell 2000) posting double digit returns. However, much of the gains were driven by the promise of spending on AI (artificial intelligence) infrastructure and services. The Magnificent seven tech stocks (Apple, Microsoft, Nvidia, Alphabet, Amazon, Meta, and Tesla) dominated the S&P 500 performance, accounting for roughly 40 percent of the market capitalization-weighted S&P 500 Index performance.

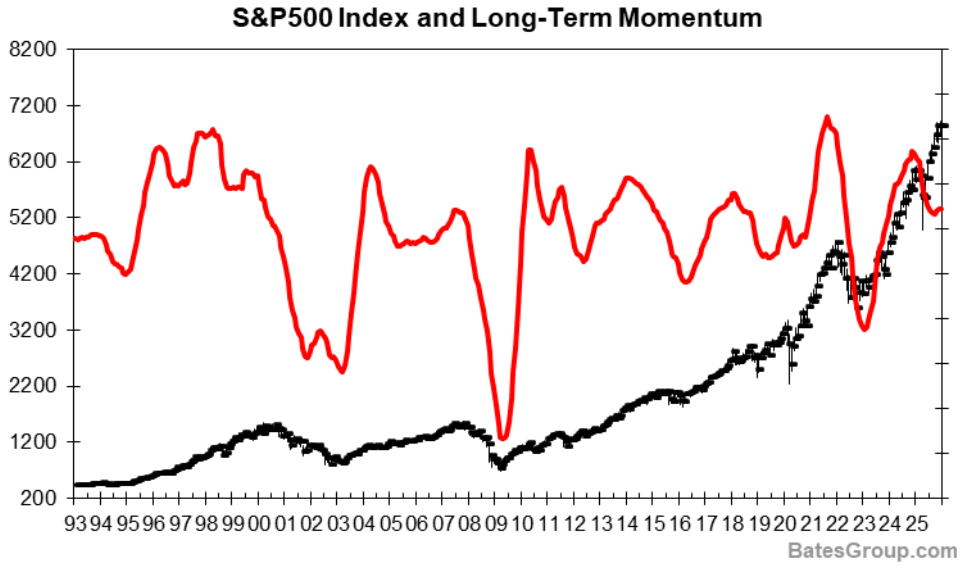
[1] Federal Reserve Bank of San Francisco, *The Effects of Tariffs on the Components of Inflation*, March 30, 2026.

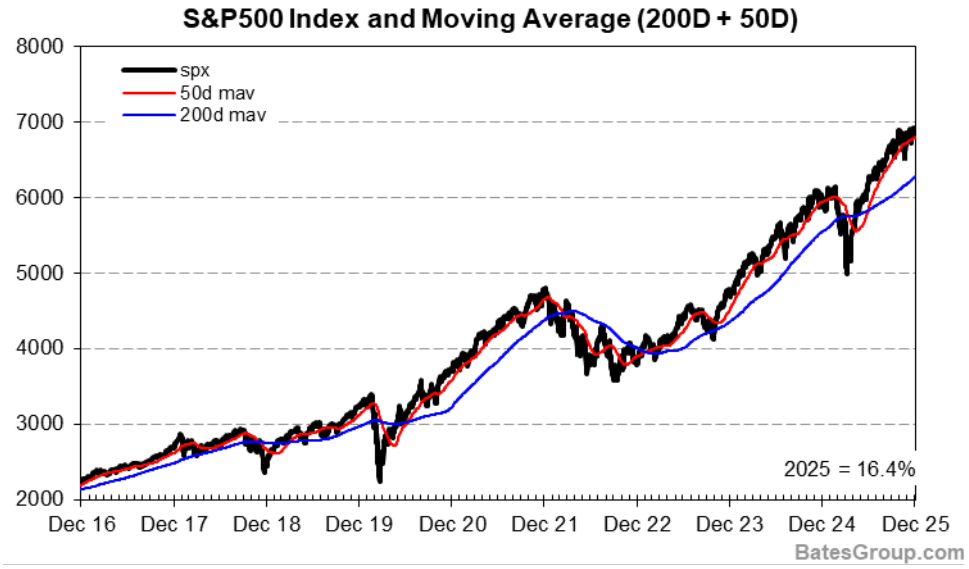
Equity Markets – S&P 500 Market Trends

After a shaky start in early 2025, the S&P 500 Index recovered, continuing the gains from the prior two years with the broader index up 16.4% in 2025. However, the gains have largely been the result of just a handful of stocks. Just seven stocks (the Magnificent Seven) were responsible for 42% of the S&P 500's gains in 2025. Much of those gains were driven by optimism on AI growth.

Since the end of 2022, the S&P 500 Index has gained 78.3%.

Overall, the S&P 500 Index was up eight of the twelve months in 2025. Q2 was the strongest quarter, with the index up 10.6%.



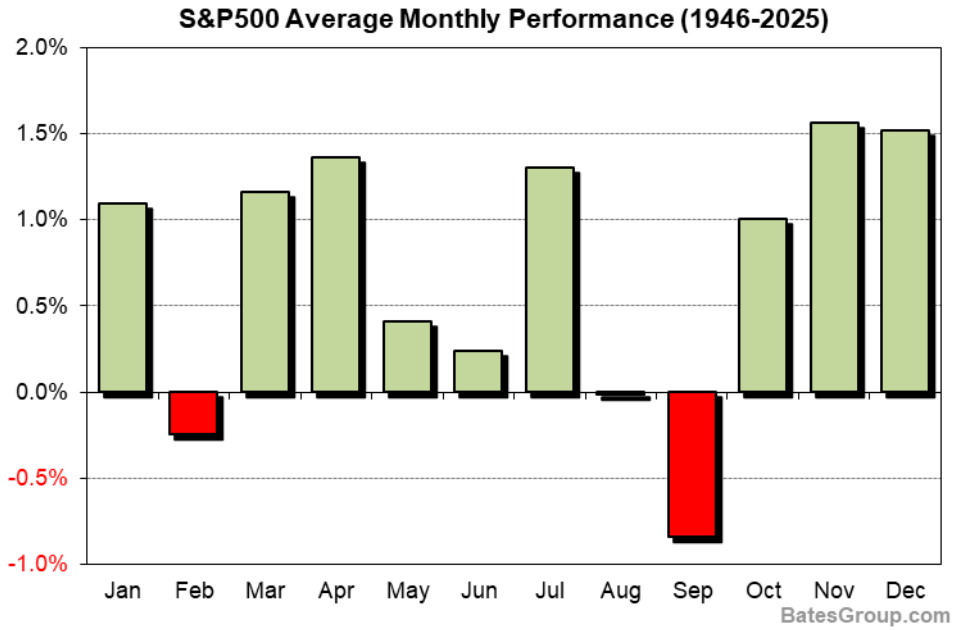


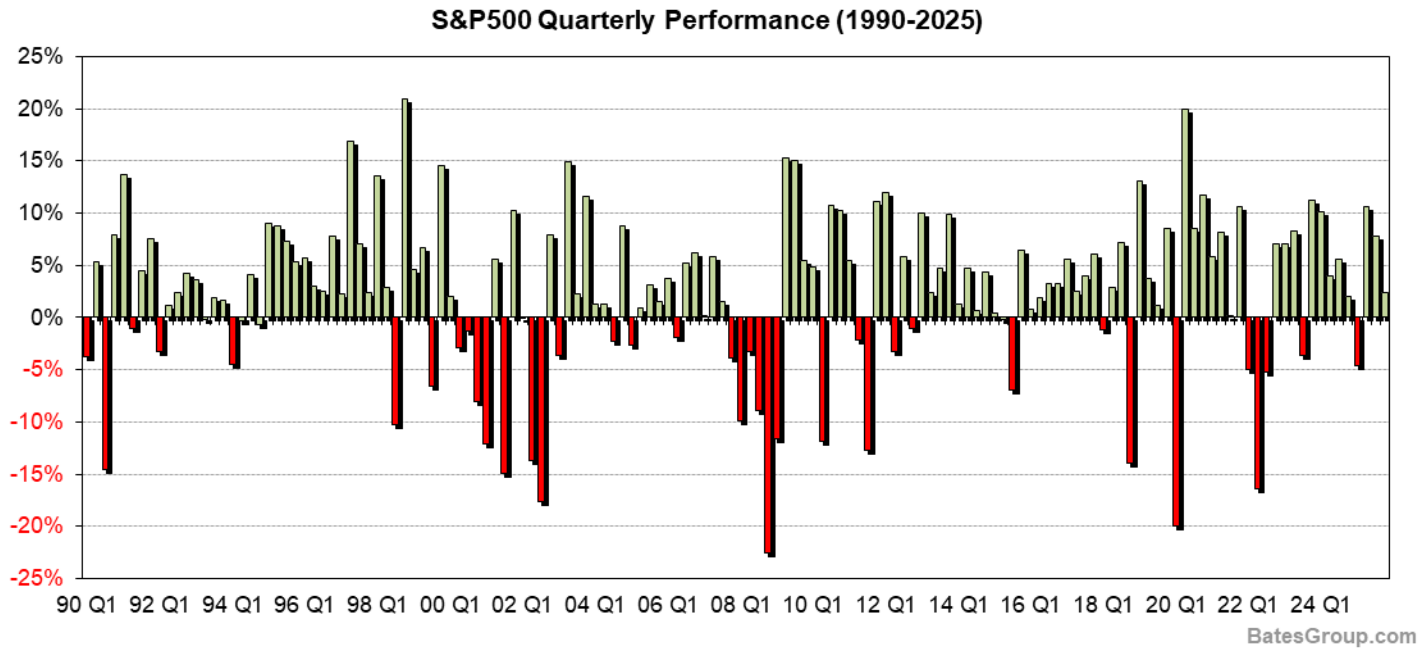
S&P 500 Monthly Performance (% change over previous month)

															--- 1946-2025 ---		
Month	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Avg	Min	Max
Jan	4.4%	5.0%	-3.6%	-3.1%	-5.1%	1.8%	5.6%	7.9%	-0.2%	-1.1%	-5.3%	6.2%	1.6%	2.7%	1.1%	-8.6%	13.2%
Feb	4.1%	1.1%	4.3%	5.5%	-0.4%	3.7%	-3.9%	3.0%	-8.4%	2.6%	-3.1%	-2.6%	5.2%	-1.4%	-0.2%	-11.0%	7.1%
Mar	3.1%	3.6%	0.7%	-1.7%	6.6%	-0.0%	-2.7%	1.8%	-12.5%	4.2%	3.6%	3.5%	3.1%	-5.8%	1.2%	-12.5%	9.7%
Apr	-0.7%	1.8%	0.6%	0.9%	0.3%	0.9%	0.3%	3.9%	12.7%	5.2%	-8.8%	1.5%	-4.2%	-0.8%	1.4%	-9.0%	12.7%
May	-6.3%	2.1%	2.1%	1.0%	1.5%	1.2%	2.2%	-6.6%	4.5%	0.5%	0.0%	0.2%	4.8%	6.2%	0.4%	-8.6%	9.2%
Jun	4.0%	-1.5%	1.9%	-2.1%	0.1%	0.5%	0.5%	6.9%	1.8%	2.2%	-8.4%	6.5%	3.5%	5.0%	0.2%	-8.6%	8.2%
Jul	1.3%	4.9%	-1.5%	2.0%	3.6%	1.9%	3.6%	1.3%	5.5%	2.3%	9.1%	3.1%	1.1%	2.2%	1.3%	-7.9%	9.1%
Aug	2.0%	-3.1%	3.8%	-6.3%	-0.1%	0.1%	3.0%	-1.8%	7.0%	2.9%	-4.2%	-1.8%	2.3%	1.9%	-0.0%	-14.6%	11.6%
Sep	2.4%	3.0%	-1.6%	-2.6%	-0.1%	1.9%	0.4%	1.7%	-3.9%	-4.8%	-9.3%	-4.9%	2.0%	3.5%	-0.8%	-14.4%	8.8%
Oct	-2.0%	4.5%	2.3%	8.3%	-1.9%	2.2%	-6.9%	2.0%	-2.8%	6.9%	8.0%	-2.2%	-1.0%	2.3%	1.0%	-21.8%	16.3%
Nov	0.3%	2.8%	2.5%	0.1%	3.4%	2.8%	1.8%	3.4%	10.8%	-0.8%	5.4%	8.9%	5.7%	0.1%	1.6%	-11.4%	10.8%
Dec	0.7%	2.4%	-0.4%	-1.8%	1.8%	1.0%	-9.2%	2.9%	3.7%	4.4%	-5.9%	4.4%	-2.5%	-0.1%	1.5%	-9.2%	11.2%

Historically, November and December have been the strongest months on average. September continues to remain the weakest performing month on average followed by February.

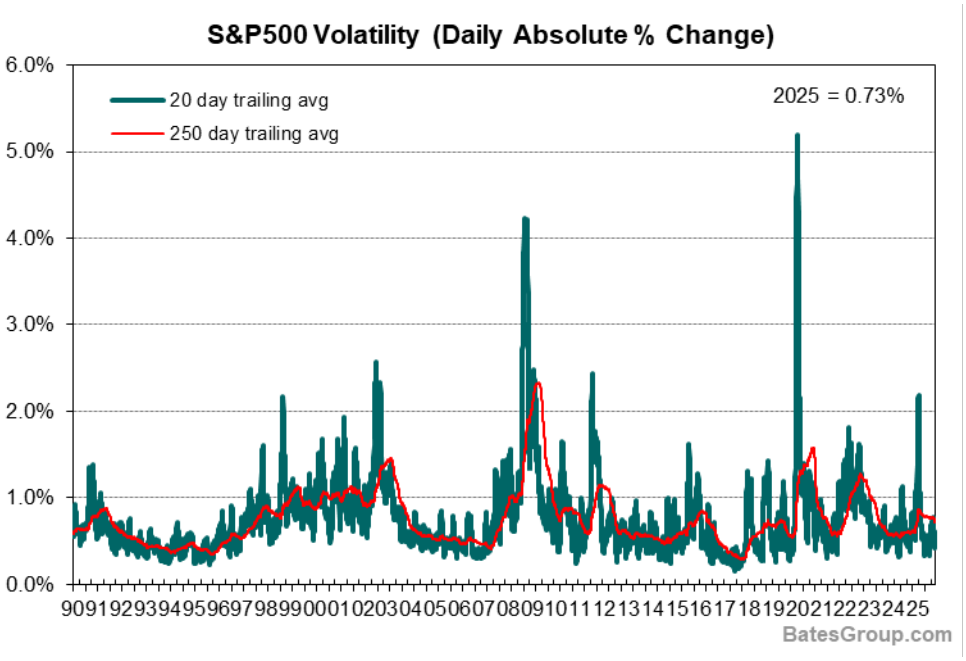
The summer months, with the exception of July, have also been historically weak. This has led to the old Wall Street adage, *"Sell in May, go away."*





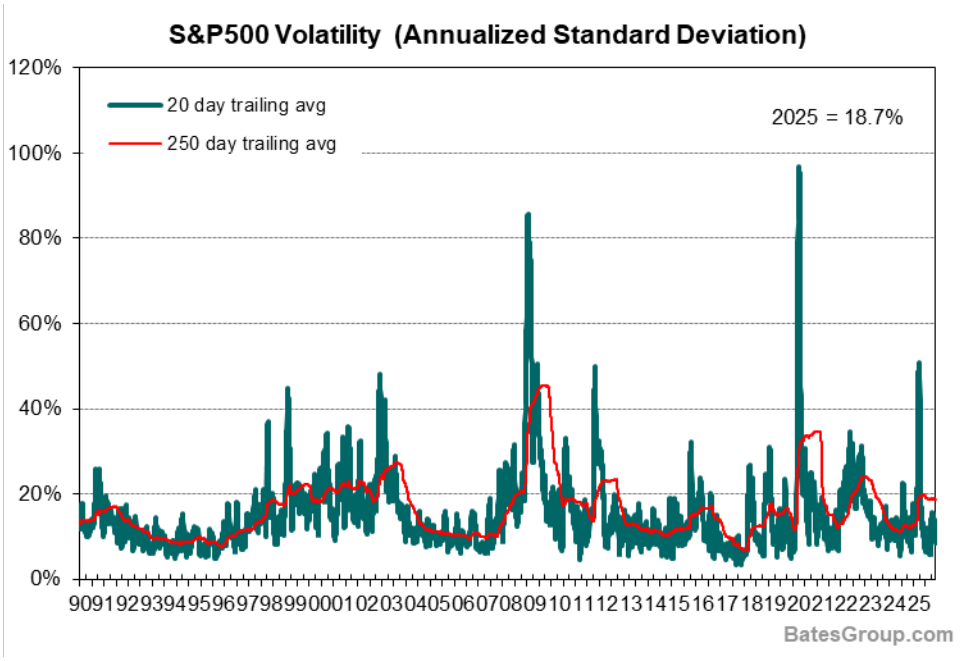
In 2025, volatility for the broader market trended higher, with the S&P 500 Index moving up or down 0.73% each day on average. This compares with average absolute daily price swings of 0.59% in 2024.

By way of comparison, over the past 30 years the average daily absolute price swing has been 0.78%.



In terms of annualized standard deviation, the S&P500's volatility was 18.7% in 2025, up from 12.6% in 2024.

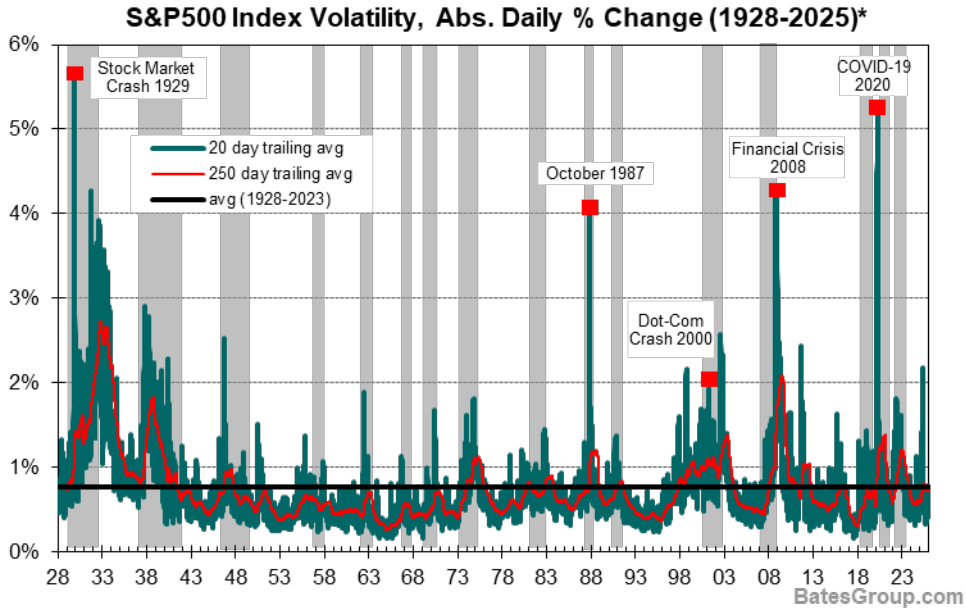
In comparison, the average volatility over the past thirty years has been 18.6%.



The chart to the right shows volatility for the broader market over the past nearly 100 years.

The global pandemic in 2020 had a significant impact on the equity markets, with the markets experiencing some of the highest volatility levels in history, even surpassing the crash of October 1987.

In 2025, the S&P 500 experienced 55 days of ±1% or greater daily price moves.



A History of Bear Markets (1929-2025)

-------- Date --------		----- Index Value -----		Percent	Duration		Years to	
Start	End	Start	End	Loss	(Months)	Recession	Recover	Comments
16-Sep-1929	1-Jun-1932	31.86	4.40	-86%	33	Yes	25.0	Crash of 1929
10-Mar-1937	28-Apr-1942	18.67	7.47	-60%	61	Yes	8.9	Austerity measures, WWII
29-May-1946	13-Jun-1949	19.25	13.55	-30%	36	Yes	4.0	Post WWII inventory recession
2-Aug-1956	22-Oct-1957	49.74	38.98	-22%	15	Yes	2.1	Cold War concerns
12-Dec-1961	26-Jun-1962	72.64	52.32	-28%	6	No	1.7	Bay of Pigs, Cold War escalatior
9-Feb-1966	7-Oct-1966	94.06	73.20	-22%	8	No	1.2	Vietnam War concerns
29-Nov-1968	26-May-1970	108.37	69.29	-36%	18	Yes	3.3	Vietnam tensions in U.S.
11-Jan-1973	3-Oct-1974	120.24	62.28	-48%	21	Yes	7.5	OPEC oil embargo
28-Nov-1980	12-Aug-1982	140.52	102.42	-27%	21	Yes	1.9	Volker high interest rates (20%)
25-Aug-1987	4-Dec-1987	336.77	223.92	-34%	3	No	1.9	Black Monday crash
16-Jul-1990	11-Oct-1990	368.95	295.46	-20%	3	Yes	0.6	Iraq invades Kuwait (Iraq War)
24-Mar-2000	9-Oct-2002	1527.46	776.76	-49%	31	Yes	7.2	Dot-com crash
9-Oct-2007	9-Mar-2009	1565.15	676.53	-57%	17	Yes	5.5	Financial crisis
20-Sep-2018	24-Dec-2018	2930.75	2351.10	-20%	3	No	0.6	US-China trade war
19-Feb-2020	23-Mar-2020	3386.15	2237.40	-34%	1	Yes	0.5	COVID-19
3-Jan-2022	12-Oct-2022	4796.56	3577.03	-25%	9	No	2.0	Inflation concerns
Average		--	--	**-37%**	**18**	**Yes**	**4.6**	--

** Shaded areas represent bear markets*

S&P 500 Historical Volatility Table*

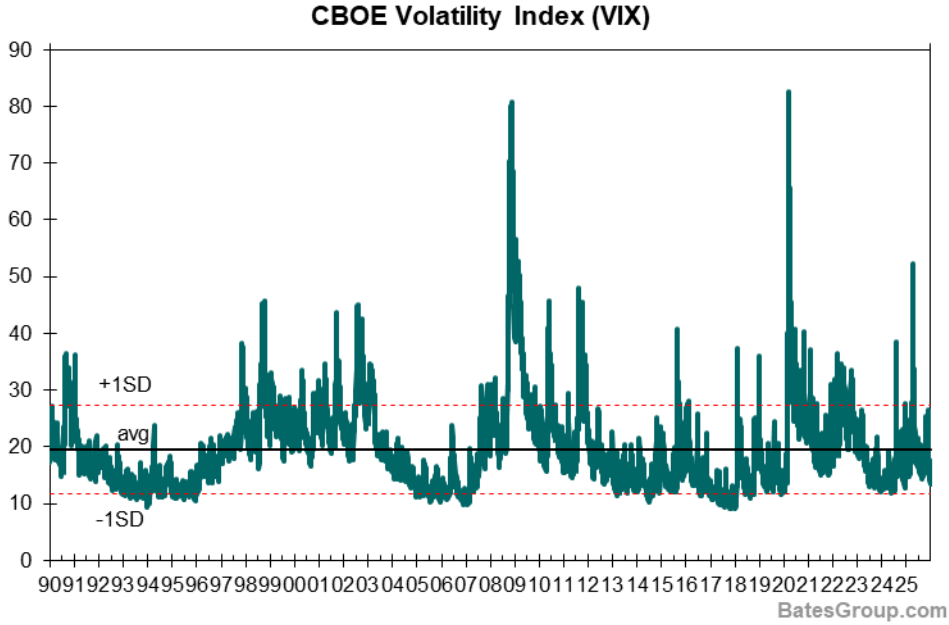
Number of Days with Percentage Moves Greater Than …

	<-1.0%	>1.0%	Total	<-2.0%	>2.0%	Total	<-4.0%	>4.0%	Total	<-5.0%	>5.0%	Total	Abs % ch	Annual. StDev
1970	34	31	65	4	7	11	0	1	1	0	1	1	0.69%	15.10%
1971	14	18	32	0	1	1	0	0	0	0	0	0	0.48%	10.17%
1972	6	4	10	0	0	0	0	0	0	0	0	0	0.40%	7.93%
1973	43	35	78	6	9	15	0	0	0	0	0	0	0.78%	15.76%
1974	67	47	114	15	17	32	0	3	3	0	0	0	1.06%	21.73%
1975	35	45	80	3	8	11	0	0	0	0	0	0	0.79%	15.37%
1976	14	25	39	0	0	0	0	0	0	0	0	0	0.57%	11.06%
1977	12	5	17	0	0	0	0	0	0	0	0	0	0.45%	9.04%
1978	24	19	43	1	3	4	0	0	0	0	0	0	0.61%	12.55%
1979	13	17	30	1	2	3	0	0	0	0	0	0	0.51%	10.80%
1980	37	43	80	7	4	11	0	0	0	0	0	0	0.82%	16.40%
1981	30	24	54	4	3	7	0	0	0	0	0	0	0.66%	13.40%
1982	38	44	82	6	11	17	0	1	1	0	0	0	0.85%	18.18%
1983	26	29	55	1	3	4	0	0	0	0	0	0	0.66%	13.27%
1984	16	25	41	0	7	7	0	0	0	0	0	0	0.61%	12.70%
1985	7	21	28	0	1	1	0	0	0	0	0	0	0.50%	10.12%
1986	25	35	60	6	3	9	1	0	1	0	0	0	0.67%	14.64%
1987	42	53	95	20	20	40	4	3	7	3	2	5	1.13%	32.01%
1988	31	37	68	5	11	16	2	0	2	1	0	1	0.74%	17.02%
1989	14	26	40	2	2	4	1	0	1	1	0	1	0.58%	13.01%
1990	42	33	75	8	5	13	0	0	0	0	0	0	0.77%	15.89%
1991	25	34	59	2	7	9	0	0	0	0	0	0	0.67%	14.24%
1992	11	17	28	0	0	0	0	0	0	0	0	0	0.46%	9.64%
1993	7	10	17	1	0	1	0	0	0	0	0	0	0.40%	8.57%
1994	15	12	27	1	1	2	0	0	0	0	0	0	0.46%	9.80%
1995	4	9	13	0	0	0	0	0	0	0	0	0	0.37%	7.78%
1996	17	21	38	3	0	3	0	0	0	0	0	0	0.56%	11.73%
1997	31	50	81	6	9	15	1	1	2	1	1	2	0.85%	18.06%
1998	32	47	79	12	11	23	1	2	3	1	1	2	0.92%	20.21%
1999	40	52	92	9	14	23	0	0	0	0	0	0	0.91%	18.00%
2000	54	48	102	19	18	37	1	1	2	1	0	1	1.06%	22.13%
2001	54	51	105	13	12	25	2	2	4	0	1	1	1.03%	21.47%
2002	72	53	125	29	23	52	1	5	6	0	2	2	1.27%	25.94%
2003	37	45	82	5	10	15	0	0	0	0	0	0	0.83%	17.00%
2004	20	21	41	0	0	0	0	0	0	0	0	0	0.54%	11.05%
2005	17	13	30	0	0	0	0	0	0	0	0	0	0.52%	10.24%
2006	13	16	29	0	2	2	0	0	0	0	0	0	0.47%	10.00%
2007	34	31	65	11	6	17	0	0	0	0	0	0	0.72%	15.92%
2008	75	59	134	41	31	72	15	13	28	11	7	18	1.74%	40.79%
2009	55	62	117	28	27	55	6	5	11	1	2	3	1.24%	27.18%
2010	37	39	76	10	12	22	0	1	1	0	0	0	0.80%	17.98%
2011	48	48	96	21	14	35	4	3	7	1	0	1	1.04%	23.18%
2012	21	29	50	3	3	6	0	0	0	0	0	0	0.59%	12.72%
2013	17	21	38	2	2	4	0	0	0	0	0	0	0.54%	11.02%
2014	19	19	38	4	2	6	0	0	0	0	0	0	0.53%	11.33%
2015	31	41	72	6	4	10	0	0	0	0	0	0	0.72%	15.43%
2016	22	26	48	5	4	9	0	0	0	0	0	0	0.58%	13.04%
2017	4	4	8	0	0	0	0	0	0	0	0	0	0.30%	6.66%
2018	32	32	64	15	5	20	1	1	2	0	0	0	0.74%	16.98%
2019	15	22	37	5	2	7	0	0	0	0	0	0	0.57%	12.42%
2020	45	64	109	25	19	44	9	8	17	5	5	10	1.35%	34.29%
2021	21	34	55	5	2	7	0	0	0	0	0	0	0.63%	13.05%
2022	63	59	122	23	23	46	2	1	3	0	1	1	1.19%	24.08%
2023	28	36	64	1	1	2	0	0	0	0	0	0	0.65%	13.04%
2024	19	31	50	4	3	7	0	0	0	0	0	0	0.59%	12.60%
2025	29	26	55	7	6	13	2	1	3	1	1	2	0.73%	18.68%
1928-2025	**29**	**32**	**61**	**9**	**8**	**17**	**2**	**1**	**3**	**1**	**1**	**2**	**0.76%**	**18.69%**

** Based on daily closing prices*

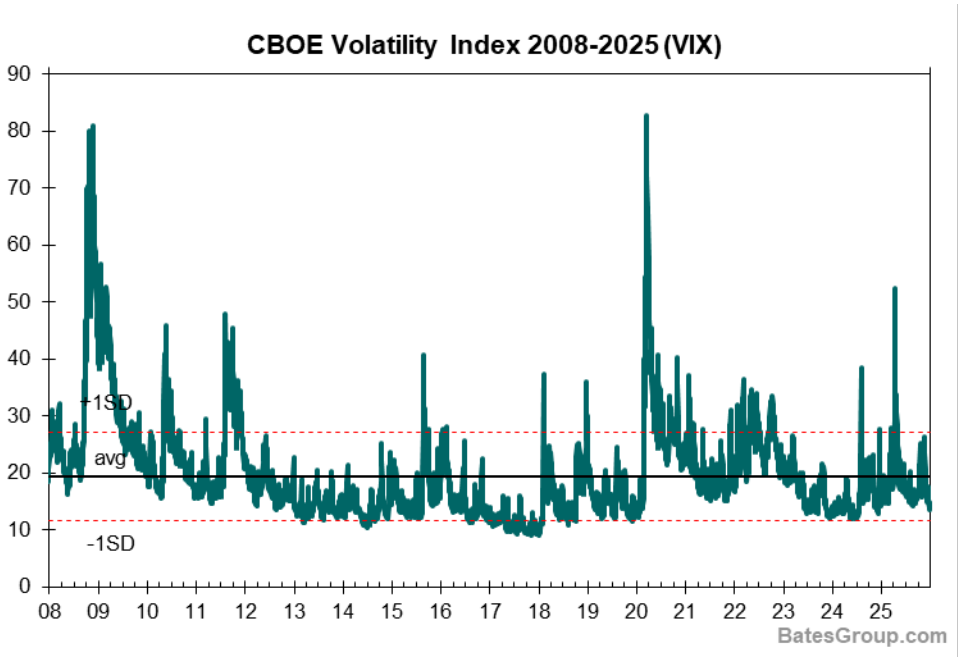
The VIX Index is a measure of *investors' expectation* of future short-term volatility and is composed of S&P 500 call and put options over a wide range of strike prices, with expirations between 23 and 37 days.

Uncertainty over the on-again/ off-again impact of tariffs on corporate profits led to higher volatility in 2025.



The two days with the greatest single-day increase in the history of the VIX occurred in March 2020.

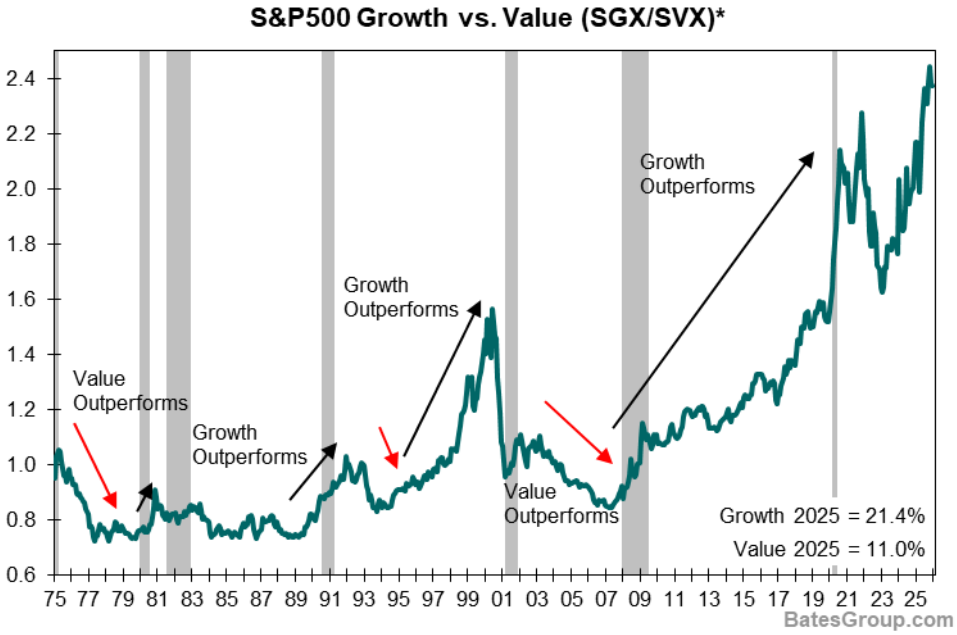
On March 12, as the S&P Index, driven by COVID pandemic fears, fell 9.5% the VIX Index jumped 21.57 points. Two trading days later, on March 16, the VIX surged another 24.86 points as the S&P Composite Index plunged 12%.



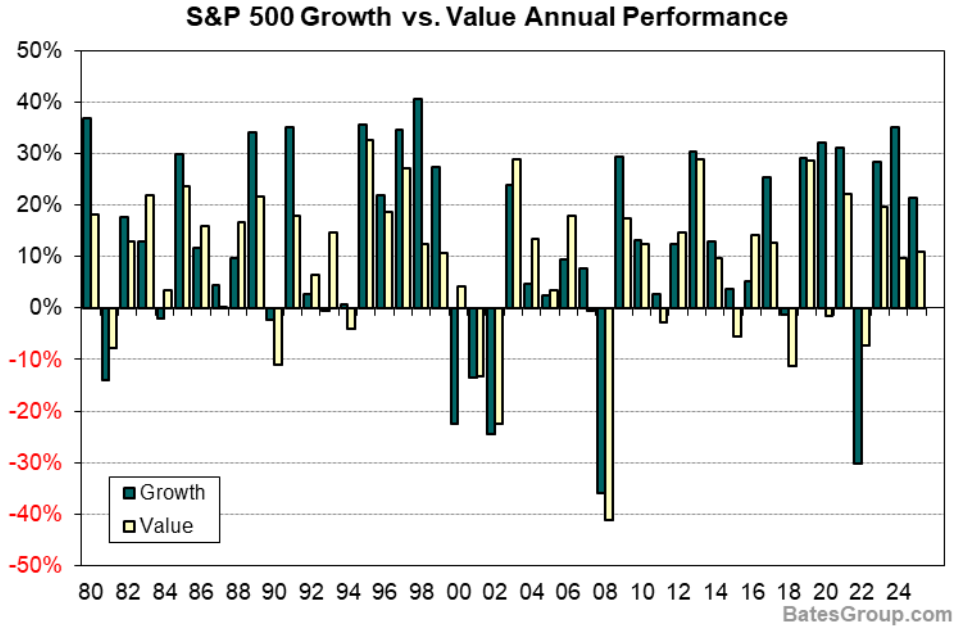
Source: Bloomberg, Chicago Board Options Exchange

Growth vs. Value

In the trade-off between growth and value, growth stocks outperformed value stocks with the S&P Growth Index up 21.4% for the year. In comparison, the S&P Value Index was up 11.0% in 2025.



The chart to the right provides a more detailed performance comparison between growth and value styles over the past 40 years.

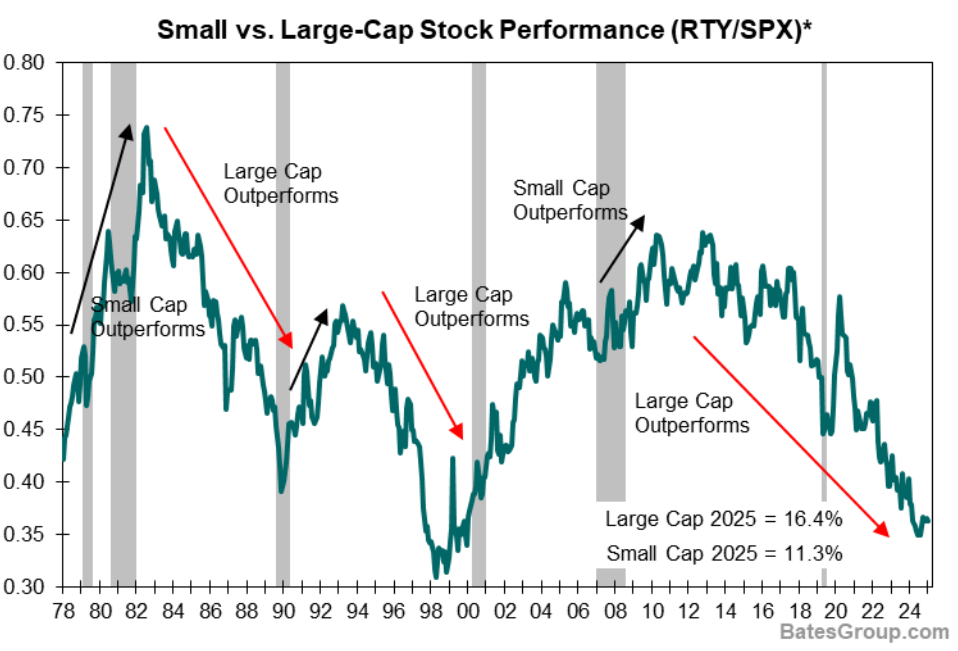


** Shaded areas represent recessions*
Source: Bloomberg, Standard & Poor's

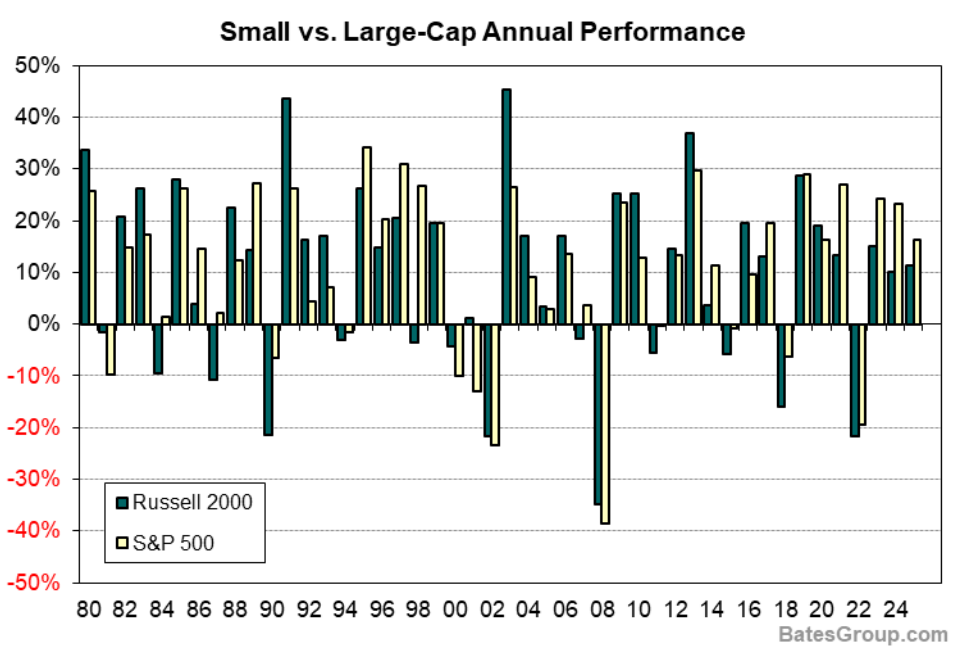
Large vs. Small

Continuing a trend of the last few years, large cap stocks outperformed small cap stocks in 2025.

Large capitalization stocks, as represented by the S&P 500, were up 16.4% while small capitalization stocks, as represented by the Russell 2000 Index, were up 11.3% during the year.



Historically during recessions, neither investment styles tend to provide shelter. This can be seen in the chart to the right in which both indices declined during the 1990, 2000, 2008 and most recent recessions.



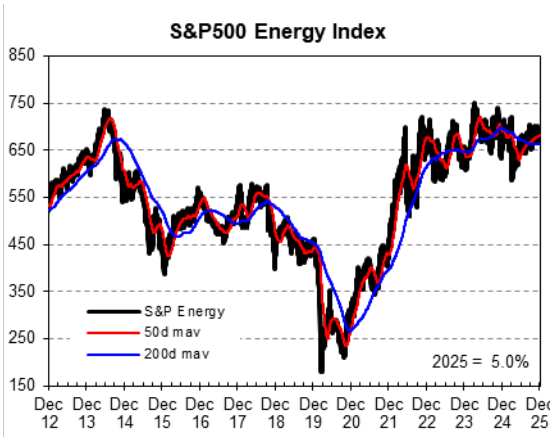
** Shaded areas represent recessions*
Source: Bloomberg, Standard & Poor's

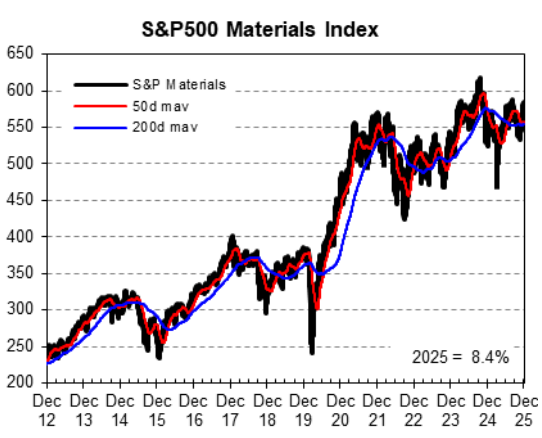
S&P 500 Sector Trends

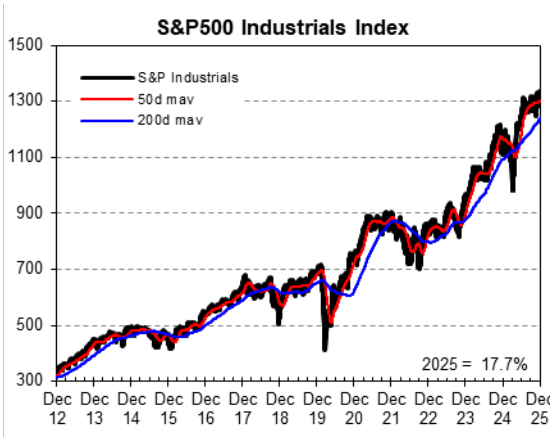
The breadth of the stock market in 2025 was overall strong with all of the S&P 500 sectors closing the year in the black.

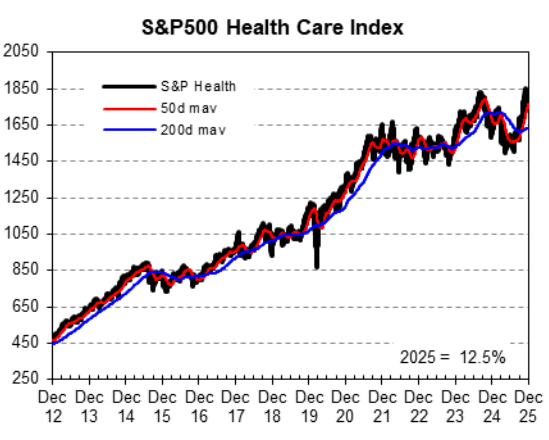
The Communication Services sector led the gains, with a strong 32.4% finish, followed by the Information Technology sector which was up 23.3% for the year.

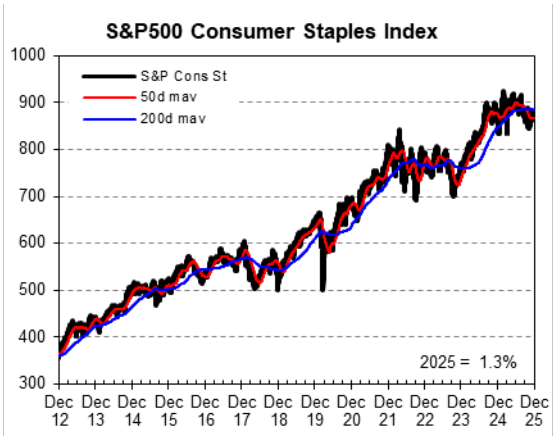
The weakest sector was Consumer Staples which was advanced only 1.3% for the year. The Energy sector was the second weakest sector with a 5.0% price return in 2025.

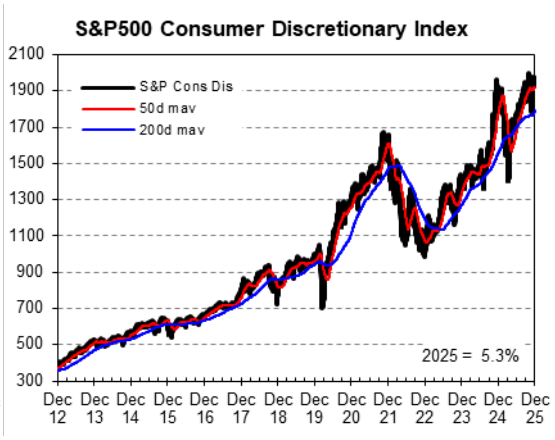




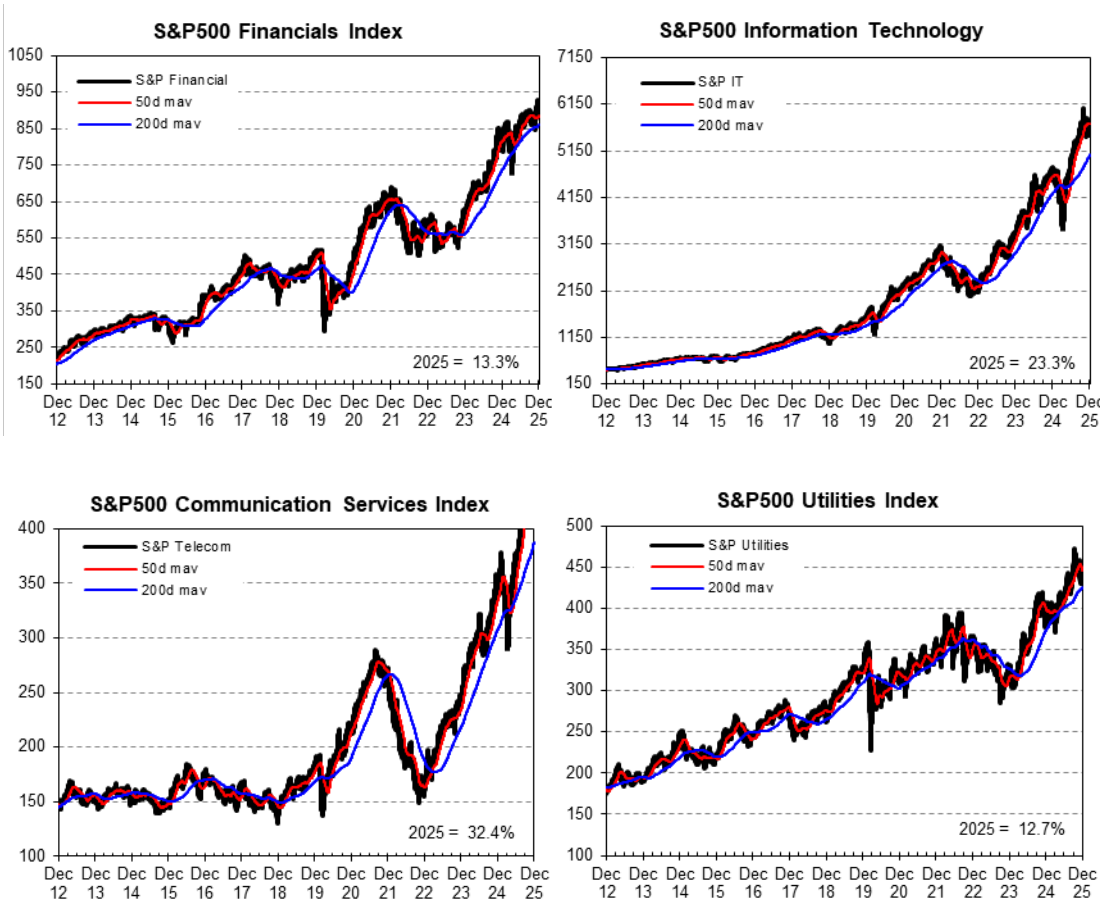








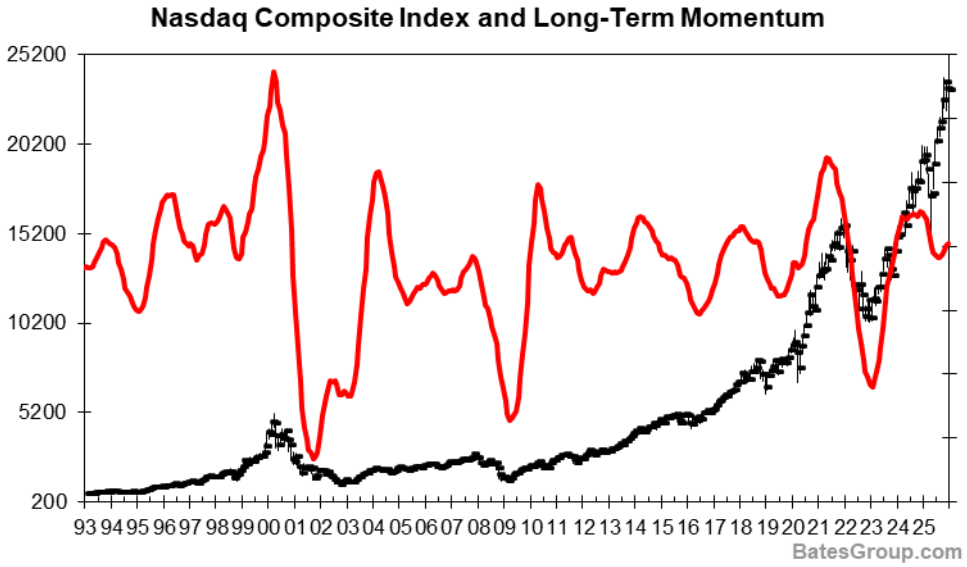
Source: Bloomberg, Standard & Poor's



Source: Bloomberg, Standard & Poor's

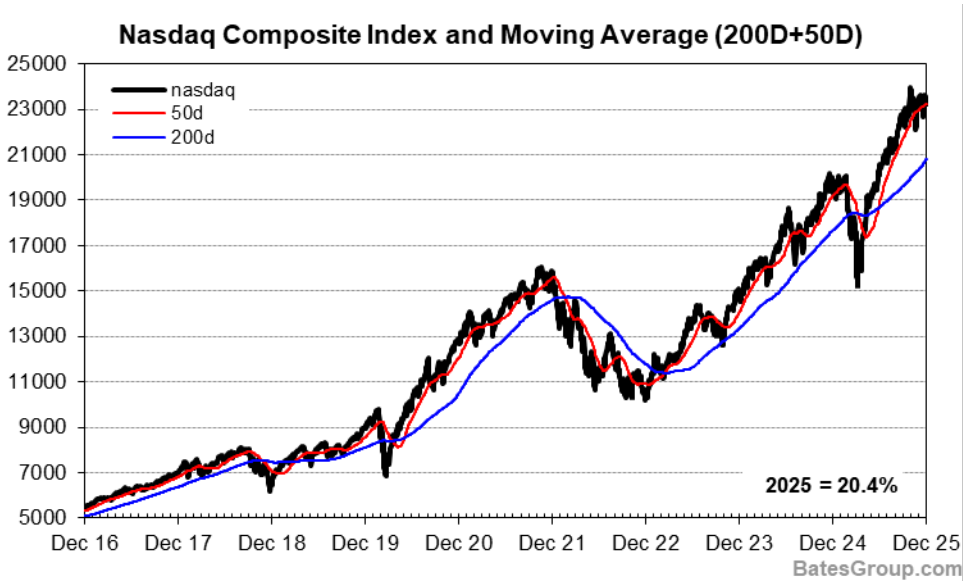
Nasdaq Market Trends

After a volatile start, the tech-focused Nasdaq Composite Index finished 2025 up 20.4%. Much of the gains were driven by increasing artificial intelligence (AI) adoption. The focus on AI adoption also helped semiconductor stocks.



In 2025 the Nasdaq Composite Index posted gains in eight of the twelve months of the year.

The strongest quarter in 2025 was the second quarter with a 17.7% gain as the tech-heavy index bounced back from uncertainty in the part of the year. Long-term, the second quarter has also been the strongest quarter on average with a 4.1% average return.



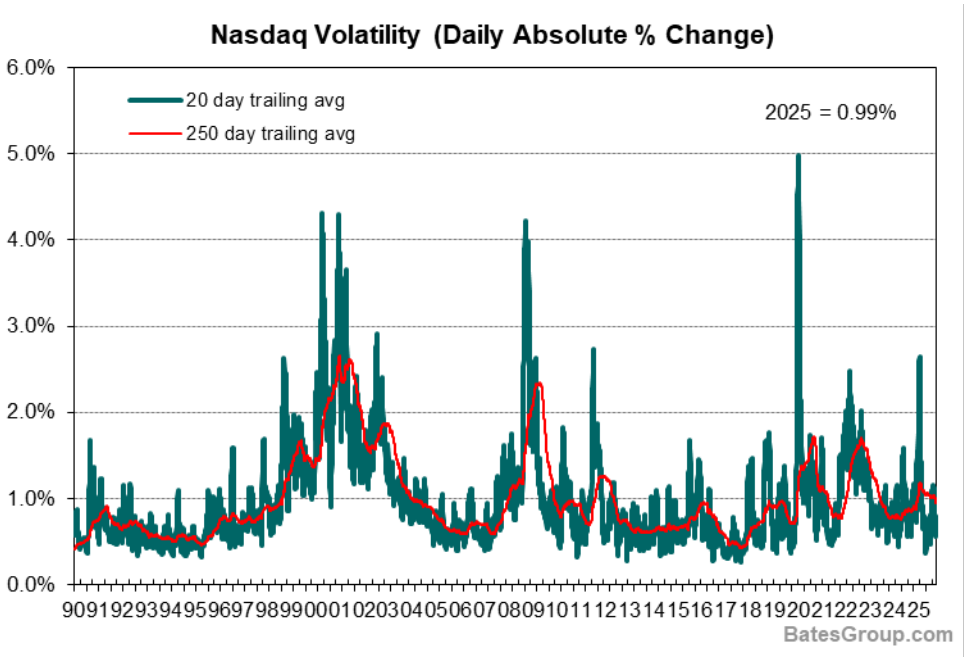
Nasdaq Monthly Performance (% change over previous month)

Month	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	85-25 Avg
Jan	-5.4%	1.8%	8.0%	4.1%	-1.7%	-2.1%	-7.9%	4.3%	7.4%	9.7%	2.0%	1.4%	-9.0%	10.7%	1.0%	1.6%	2.4%
Feb	4.2%	3.0%	5.4%	0.6%	5.0%	7.1%	-1.2%	3.8%	-1.9%	3.4%	-6.4%	0.9%	-3.4%	-1.1%	6.1%	-4.0%	0.7%
Mar	7.1%	-0.0%	4.2%	3.4%	-2.5%	-1.3%	6.8%	1.5%	-2.9%	2.6%	-10.1%	0.4%	3.4%	6.7%	1.8%	-8.2%	0.7%
Apr	2.6%	3.3%	-1.5%	1.9%	-2.0%	0.8%	-1.9%	2.3%	0.0%	4.7%	15.4%	5.4%	-13.3%	0.0%	-4.4%	0.9%	1.0%
May	-8.3%	-1.3%	-7.2%	3.8%	3.1%	2.6%	3.6%	2.5%	5.3%	-7.9%	6.8%	-1.5%	-2.1%	5.8%	6.9%	9.6%	1.7%
Jun	-6.5%	-2.2%	3.8%	-1.5%	3.9%	-1.6%	-2.1%	-0.9%	0.9%	7.4%	6.0%	5.5%	-8.7%	6.6%	6.0%	6.6%	1.2%
Jul	6.9%	-0.6%	0.2%	6.6%	-0.9%	2.8%	6.6%	3.4%	2.2%	2.1%	6.8%	1.2%	12.3%	4.0%	-0.8%	3.7%	1.3%
Aug	-6.2%	-6.4%	4.3%	-1.0%	4.8%	-6.9%	1.0%	1.3%	5.7%	-2.6%	9.6%	4.0%	-4.6%	-2.2%	0.6%	1.6%	0.3%
Sep	12.0%	-6.4%	1.6%	5.1%	-1.9%	-3.3%	1.9%	1.0%	-0.8%	0.5%	-5.2%	-5.3%	-10.5%	-5.8%	2.7%	5.6%	-0.8%
Oct	5.9%	11.1%	-4.5%	3.9%	3.1%	9.4%	-2.3%	3.6%	-9.2%	3.7%	-2.3%	7.3%	3.9%	-2.8%	-0.5%	4.7%	1.0%
Nov	-0.4%	-2.4%	1.1%	3.6%	3.5%	1.1%	2.6%	2.2%	0.3%	4.5%	11.8%	0.3%	4.4%	10.7%	6.2%	-1.5%	2.2%
Dec	6.2%	-0.6%	0.3%	2.9%	-1.2%	-2.0%	1.1%	0.4%	-9.5%	3.5%	5.7%	0.7%	-8.7%	5.5%	0.5%	-0.5%	1.7%

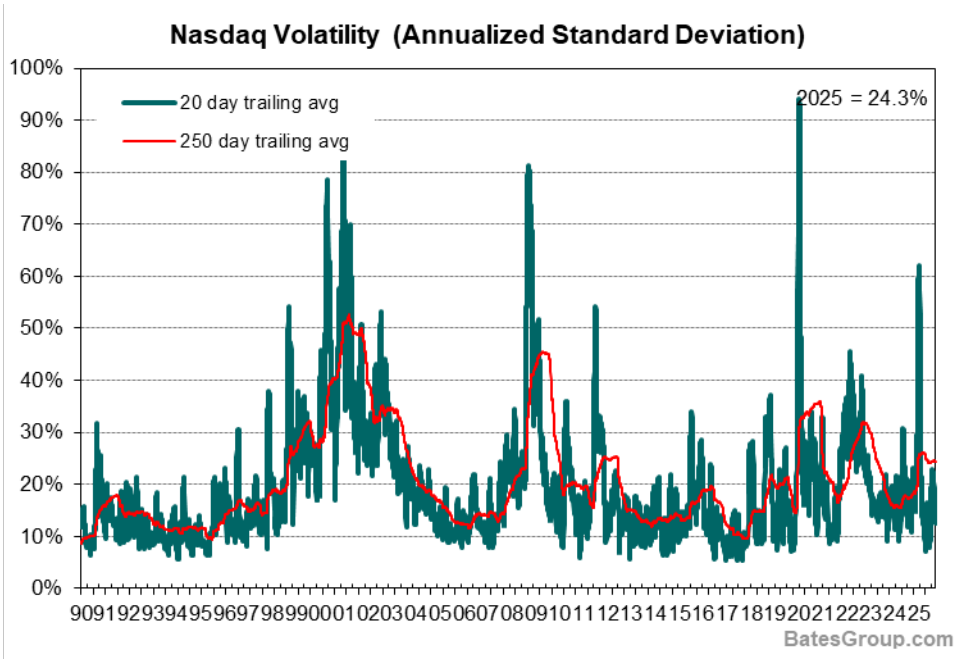
Volatility, as measured by daily price swings, increased in 2025 with the Nasdaq Composite Index moving up or down 0.99% each day on average.

In comparison the tech-focused index had average daily price swings of +/- 0.85% in 2024.

The long-term average volatility, as measured by absolute daily price swings is ±1.04%.



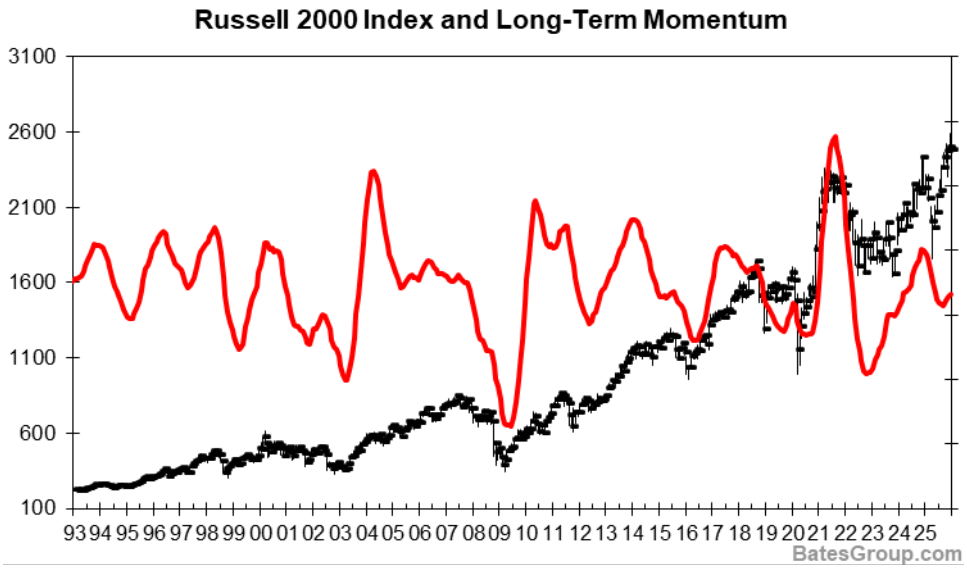
Volatility as measured by the traditional metric of annualized standard deviation was 24.3% in 2025. This was slightly above the long-term average annual volatility (1985-2025) for the Nasdaq Composite Index of 23.9%.

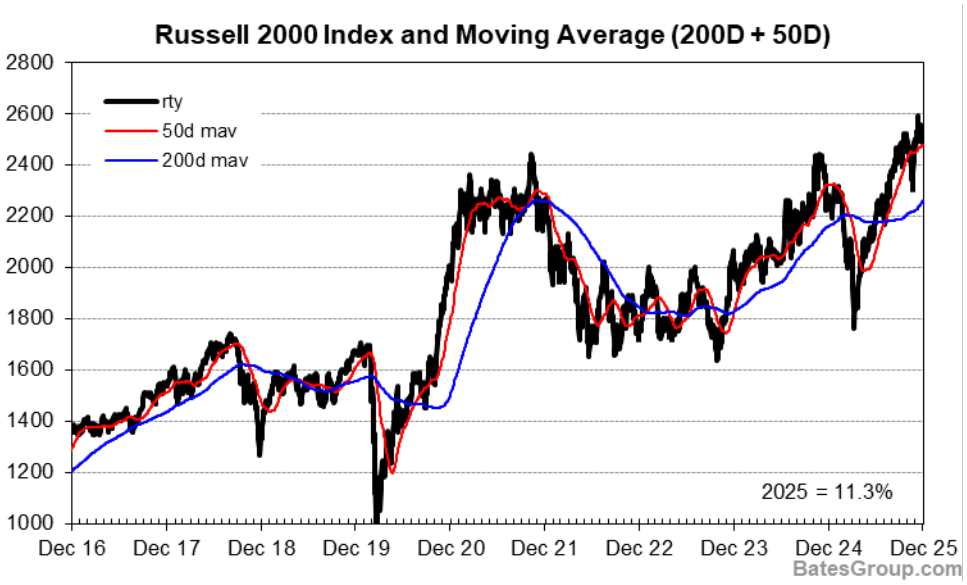


Russell 2000 Market Trends

Small cap stocks as measured by the Russell 2000 Index closed the year up 11.3%.

Most of the gains in the small cap index were in the third quarter with the Russell 2000 Index up 12.0%.





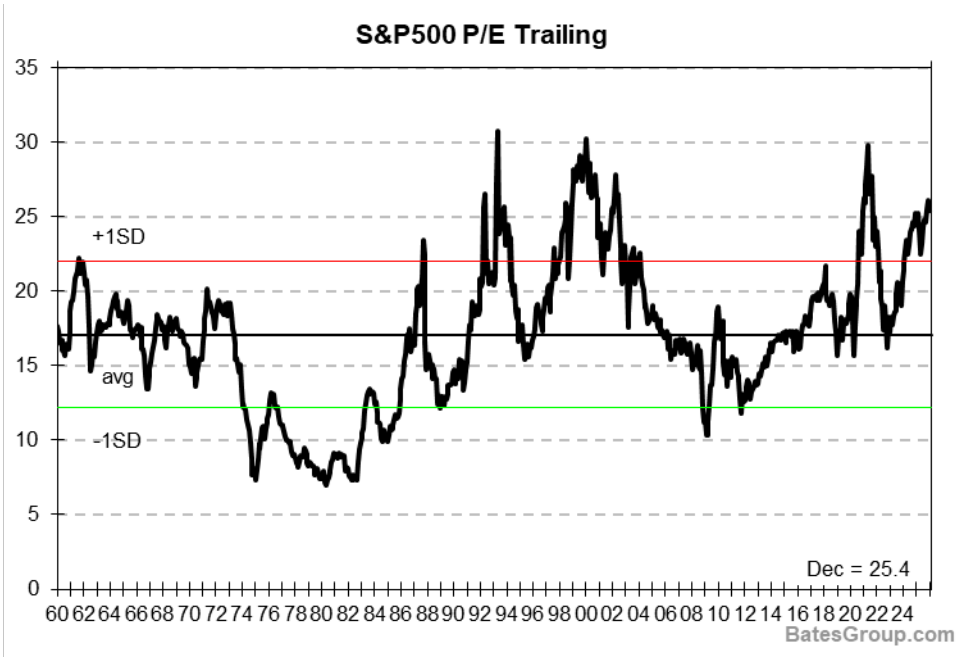
Russell 2000 Monthly Performance (% change over previous month)

Month	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	86-25 Avg
Jan	-3.7%	-0.3%	7.0%	6.2%	-2.8%	-3.3%	-8.8%	0.3%	2.6%	16.0%	-3.2%	5.0%	-9.7%	9.7%	-3.9%	2.6%	1.0%
Feb	4.4%	5.4%	2.3%	1.0%	4.6%	5.8%	-0.1%	1.8%	-4.0%	5.1%	-8.5%	6.1%	1.0%	-1.8%	5.5%	-5.4%	1.3%
Mar	8.0%	2.4%	2.4%	4.4%	-0.8%	1.6%	7.8%	-0.1%	1.1%	-2.3%	-21.9%	0.9%	1.1%	-5.0%	3.4%	-7.0%	0.7%
Apr	5.6%	2.6%	-1.6%	-0.4%	-3.9%	-2.6%	1.5%	1.0%	0.8%	3.3%	13.7%	2.1%	-10.0%	-1.9%	-7.1%	-2.4%	0.9%
May	-7.7%	-2.0%	-6.7%	3.9%	0.7%	2.2%	2.1%	-2.2%	5.9%	-6.6%	6.4%	0.1%	-0.0%	-1.1%	4.9%	5.2%	1.3%
Jun	-7.9%	-2.5%	4.8%	-0.7%	5.2%	0.6%	-0.2%	3.3%	0.6%	5.5%	3.4%	1.8%	-8.4%	7.9%	-1.1%	5.3%	0.7%
Jul	6.8%	-3.7%	-1.4%	6.9%	-6.1%	-1.2%	5.9%	0.7%	1.7%	0.5%	2.7%	-3.6%	10.4%	6.1%	10.1%	1.7%	0.3%
Aug	-7.5%	-8.8%	3.2%	-3.3%	4.8%	-6.4%	1.6%	-1.4%	4.2%	-5.1%	5.5%	2.1%	-2.2%	-5.2%	-1.6%	7.0%	-0.2%
Sep	12.3%	-11.4%	3.1%	6.2%	-6.2%	-5.1%	0.9%	6.1%	-2.5%	1.9%	-3.5%	-3.1%	-9.7%	-6.0%	0.6%	3.0%	-0.6%
Oct	4.0%	15.0%	-2.2%	2.5%	6.5%	5.6%	-4.8%	0.8%	-10.9%	2.6%	2.0%	4.2%	10.9%	-6.9%	-1.5%	1.8%	-0.4%
Nov	3.4%	-0.5%	0.4%	3.9%	-0.0%	3.1%	11.0%	2.8%	1.4%	4.0%	18.3%	-4.3%	2.2%	8.8%	10.8%	0.8%	2.2%
Dec	7.8%	0.5%	3.3%	1.8%	2.7%	-5.2%	2.6%	-0.6%	-15.7%	2.7%	8.5%	2.1%	-6.6%	12.1%	-8.4%	-0.7%	2.1%

Equity Valuation

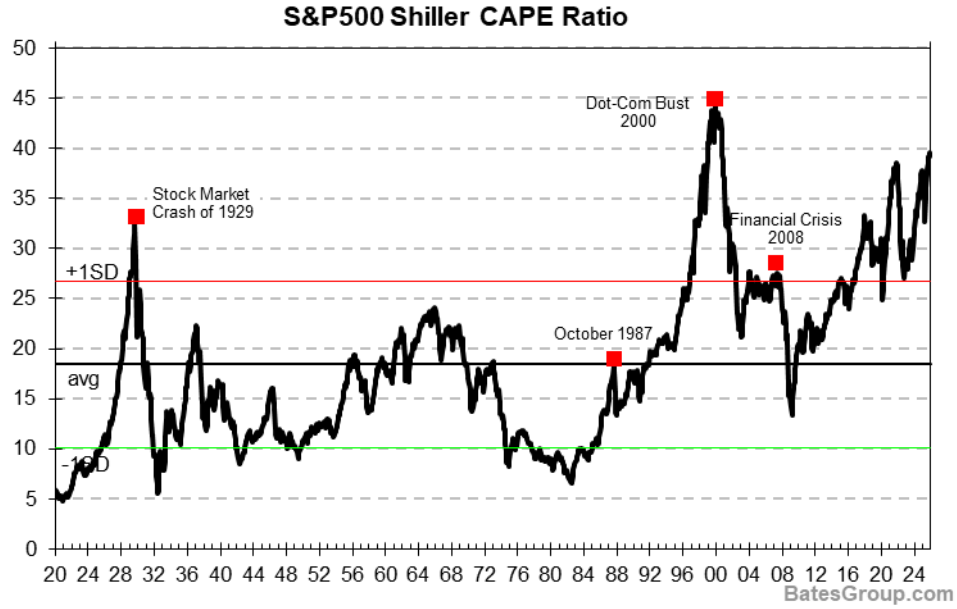
Based on S&P estimates for trailing four quarter operating earnings, the S&P 500 Index was above the upper range of fair value.

As of the end of December 2025 the S&P 500 Index traded at 25.4 times trailing 4Q earnings. This is not as high as the near-record 30.7 times in early 2021, but still above the long-term average of 17.1x.



The CAPE ratio continued to rise in 2025, pushing this valuation metric further into overvalued territory.

The CAPE ratio, developed by Nobel Laureate Robert Shiller, is a cyclically adjusted price/earnings ratio. This valuation measure smooths out economic cycles by using 10-year average earnings.

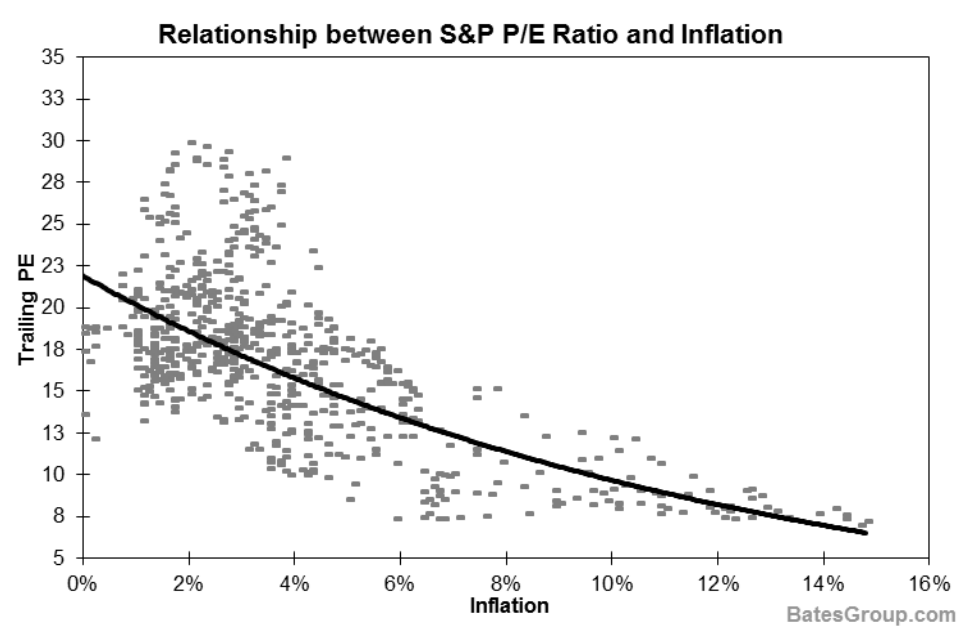


Source: Bloomberg, Robert Shiller

Lower inflation rates tend to lead to higher equity market valuations and vice versa.

The chart to the right shows the relationship between P/E ratios (S&P 500) and inflation over the past 70 years.

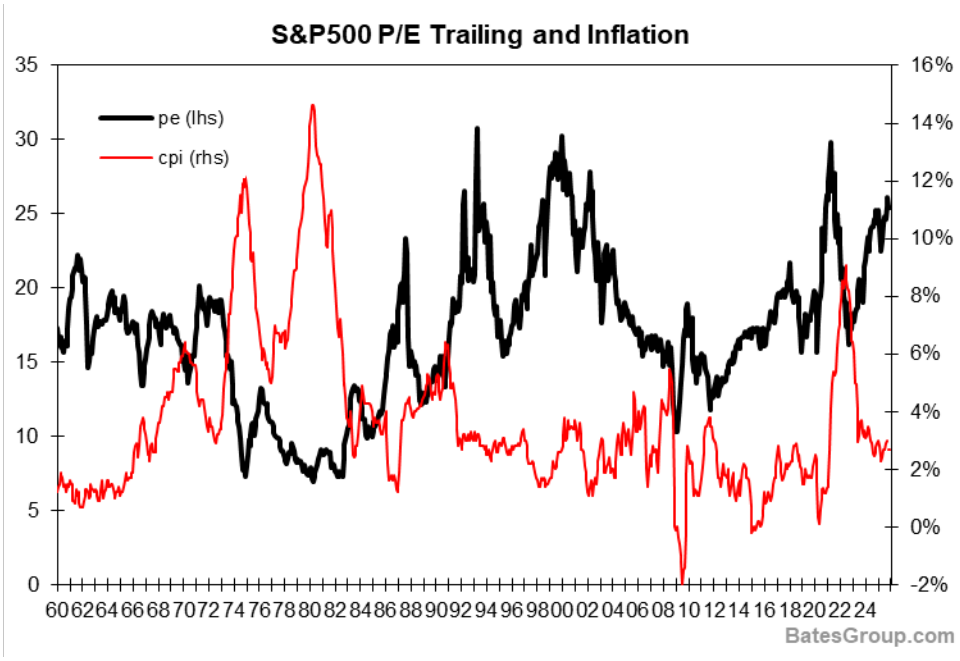
In similar periods when inflation has been above 5%, the S&P 500 has traded in a range of 8 to 18 times trailing earnings.



Here is another view showing the relationship between P/E ratios and inflation.

P/Es have tended to be higher in low inflation periods and vice versa.

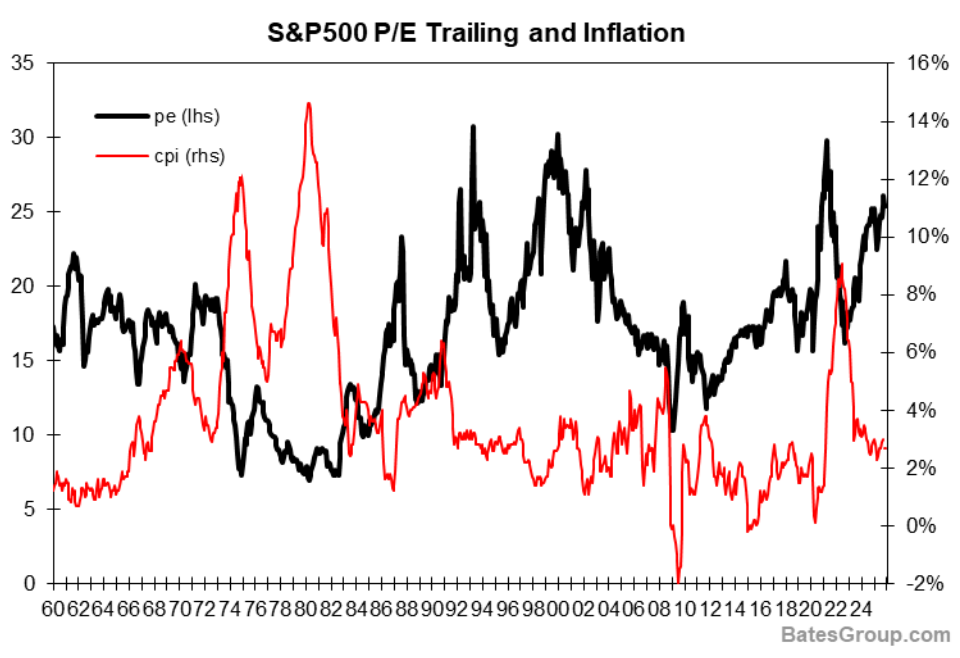
Trailing P/E if inflation is:	<3.5%	3.5-5%	>5%
Low	9.8	9.8	7.0
Avg.	**18.9**	**15.8**	**12.6**
High	30.7	29.7	29.6
-1SD	14.8	11.9	7.7
+1SD	23.0	19.8	17.5



Source: Bloomberg, Standard & Poor's

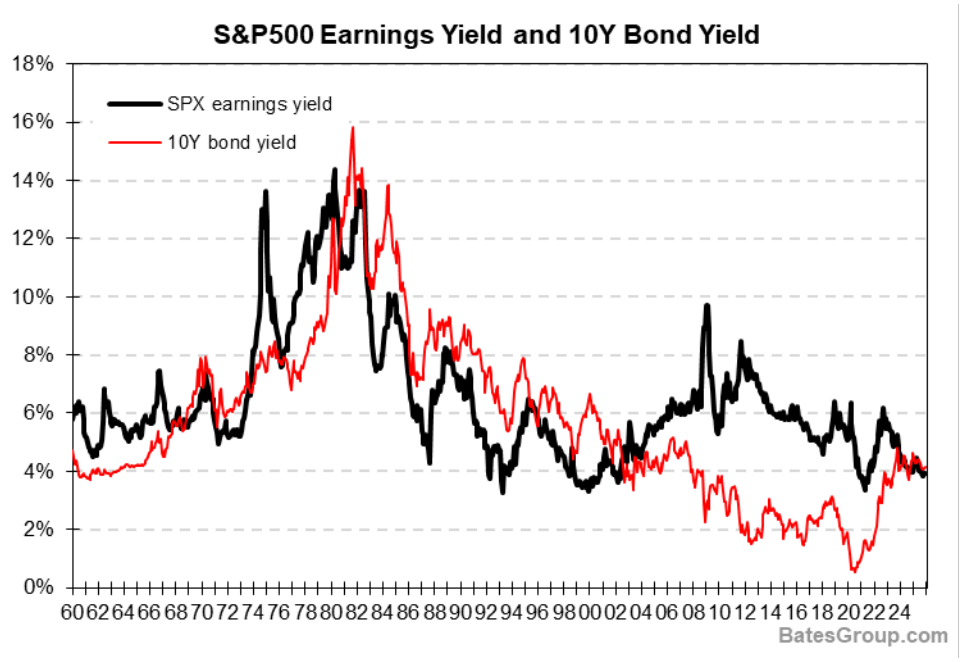
Another valuation metric, the earnings yield (inverse of the P/E ratio) closed 2025 moderately overvalued.

It's worth noting, that the high earnings yield (and low P/Es) of the 1970's and early 1980's was a function of high inflation and double-digit interest rates.



Historically, there has been a high correlation between the level of interest rates and equity market valuations.

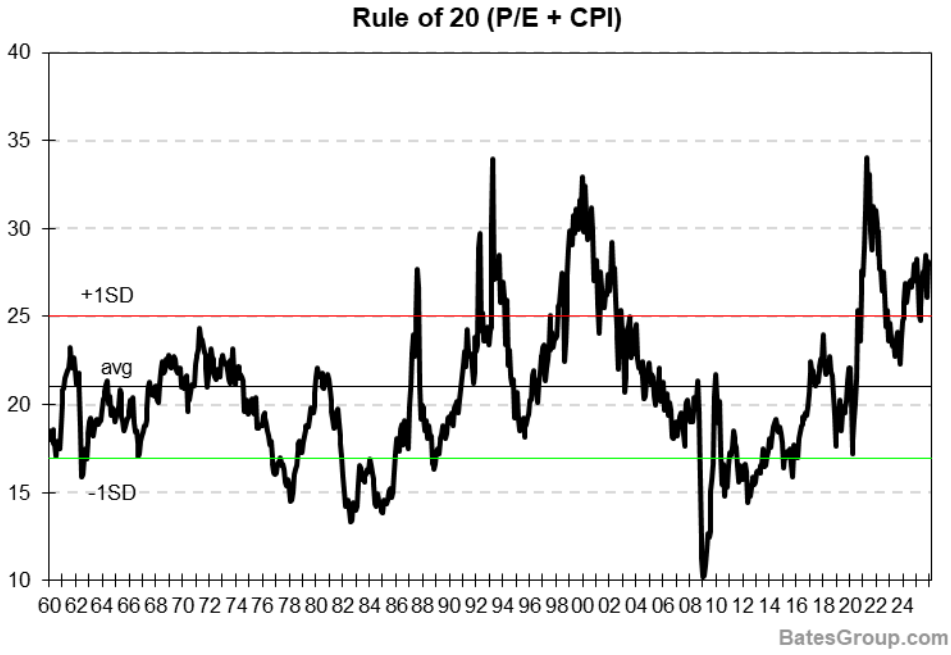
As can be seen by the chart on the right, there tends to be a positive relationship between the earnings yield for the S&P500 Index and interest rates. When interest rates increase, the earnings yield has also tended to increase (indicating a decline in P/E ratios).



Source: Bloomberg, Standard & Poor's

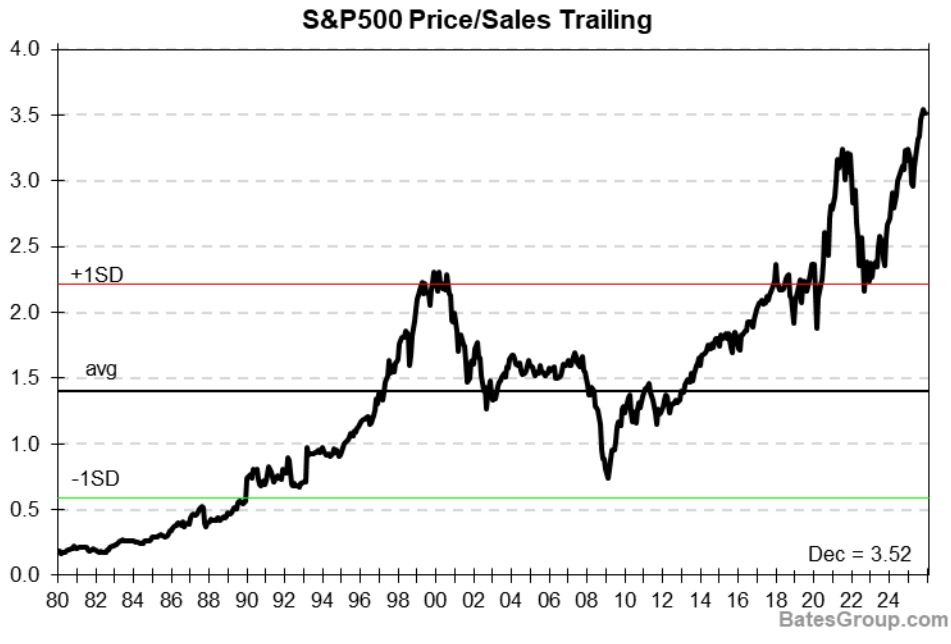
The Rule of 20 is a popular measure used to assess P/E ratios for the broader market, adjusting for inflation.

Taking inflation into account, but ignoring the impact of interest rates, the S&P 500 appeared to be overvalued at year-end 2025.



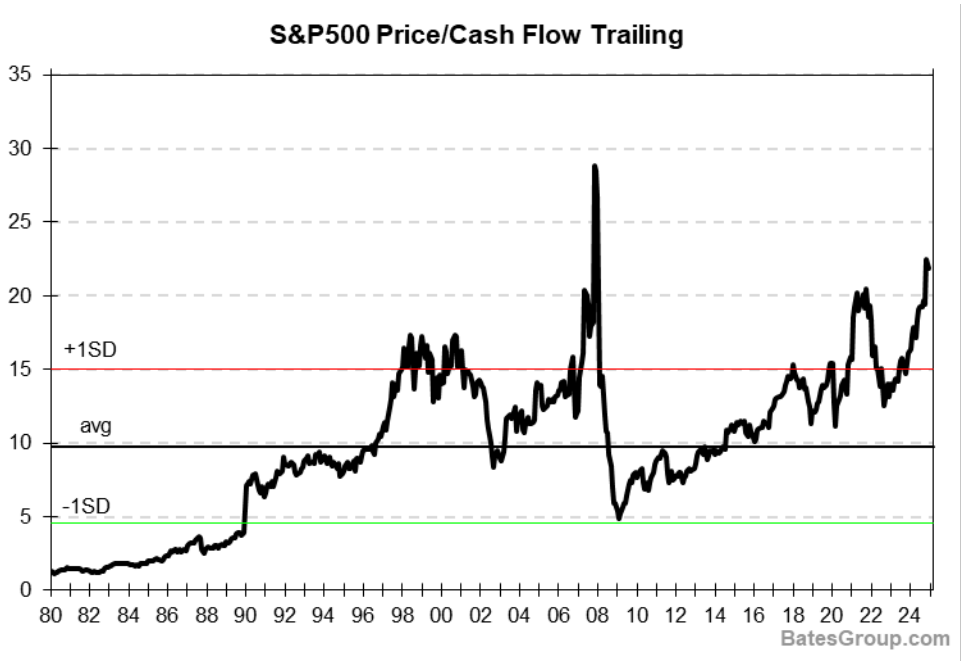
Using the price/sales ratio as another measure of equity market valuation, the S&P 500 was trading significantly above long-term average levels.

As of December 2025, investors were paying 3.5 times trailing 12-month sales for the broader market. The historic average has been 1.4x sales.

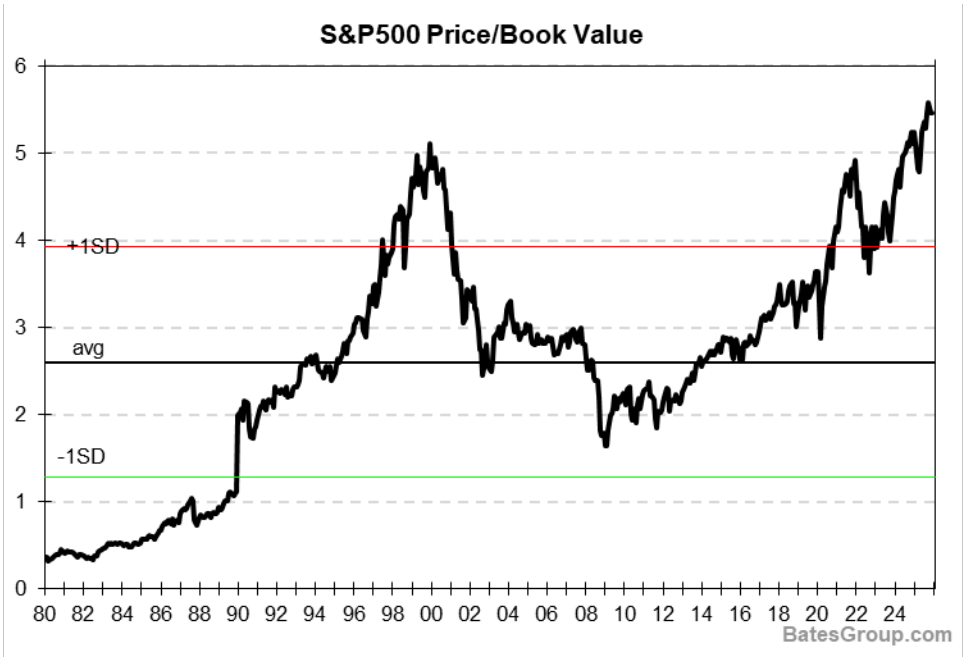


Source: Bloomberg, Standard & Poor's

Valuation for the broader market, if measured by price to cash flow, was also at the high end of the range. At the end of 2025, this metric reached the second highest level, with only the valuation levels prior to the financial crisis of 2008 surpassing it.



Price-to-book value is another common valuation metric. By this measure, the S&P 500 Index also appeared to be significantly overvalued.

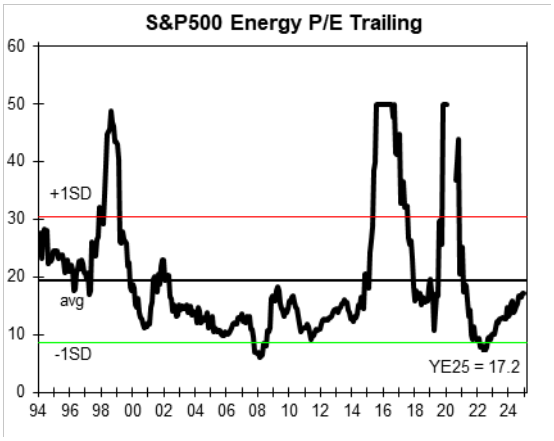


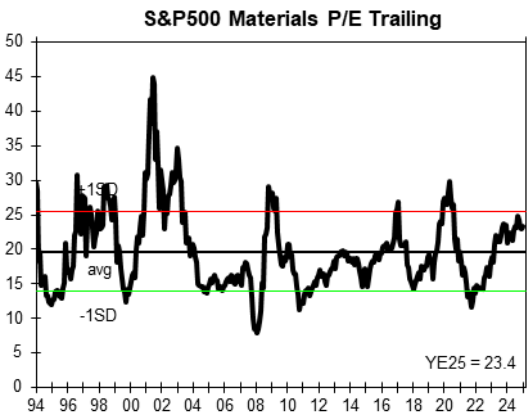
Source: Bloomberg, Standard & Poor's

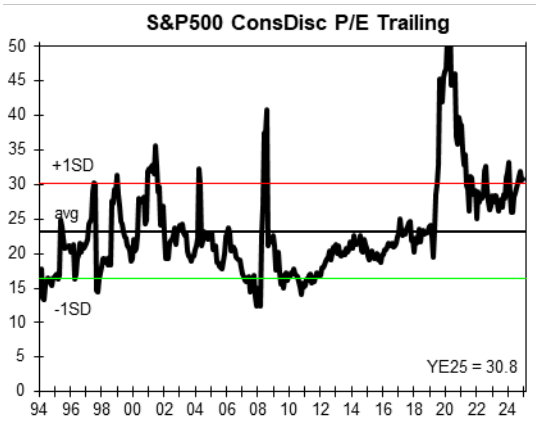
S&P 500 Sector Valuations*

In 2025, valuation expansion across the various S&P 500 sectors was mixed, with six sectors experiencing higher P/Es at the end of 2025 compared to the end of 2024

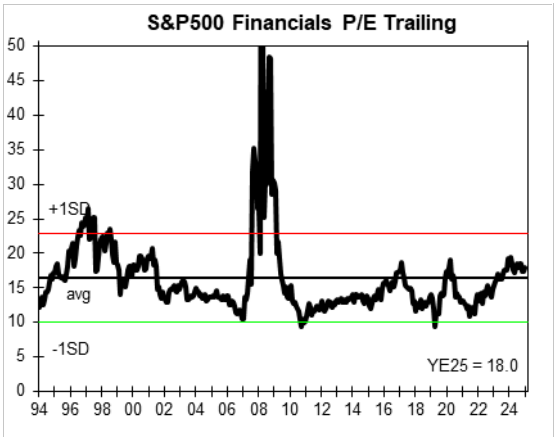
Excluding the extreme valuations during the dot-com bubble, the average P/E ratio for the Technology sector from 2004-2025 has been 27.9x trailing earnings. As of December 2025, it was above 35x.

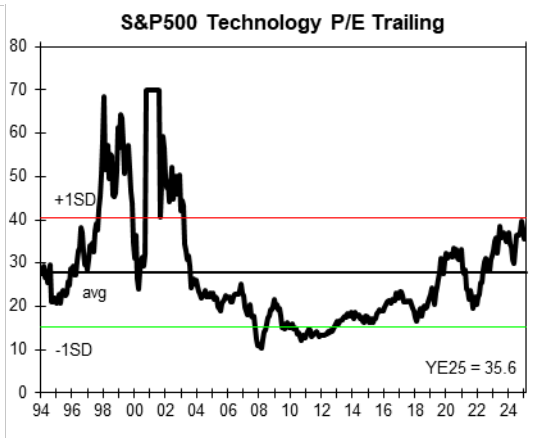


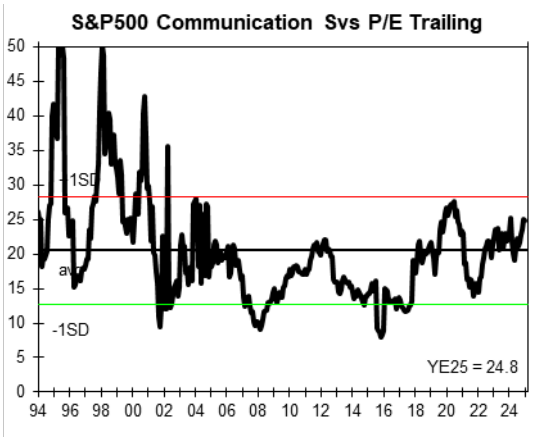


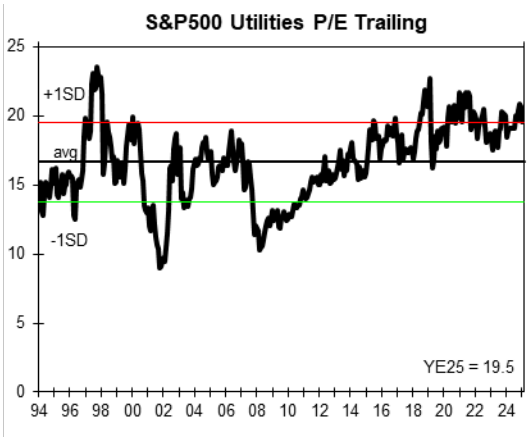


** Some P/E ratios are capped at 50 (or 70 for the Technology sector) due to extreme values*
Source: Bloomberg, Standard & Poor's







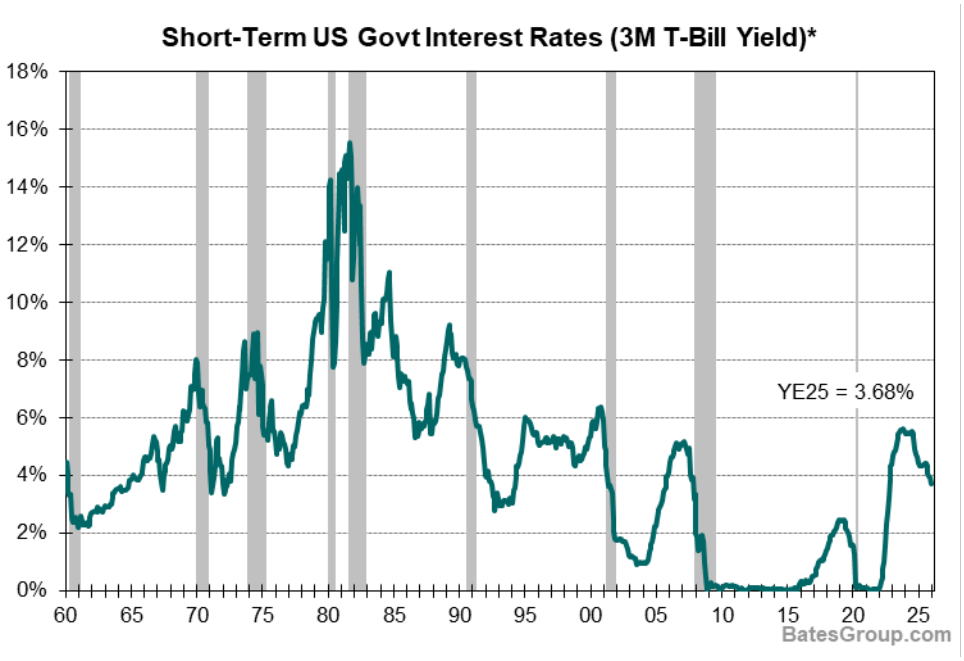


** Some extreme values in P/E ratios are capped at 50 (or 70 for the Technology sector)*
Source: Bloomberg, Standard & Poor's

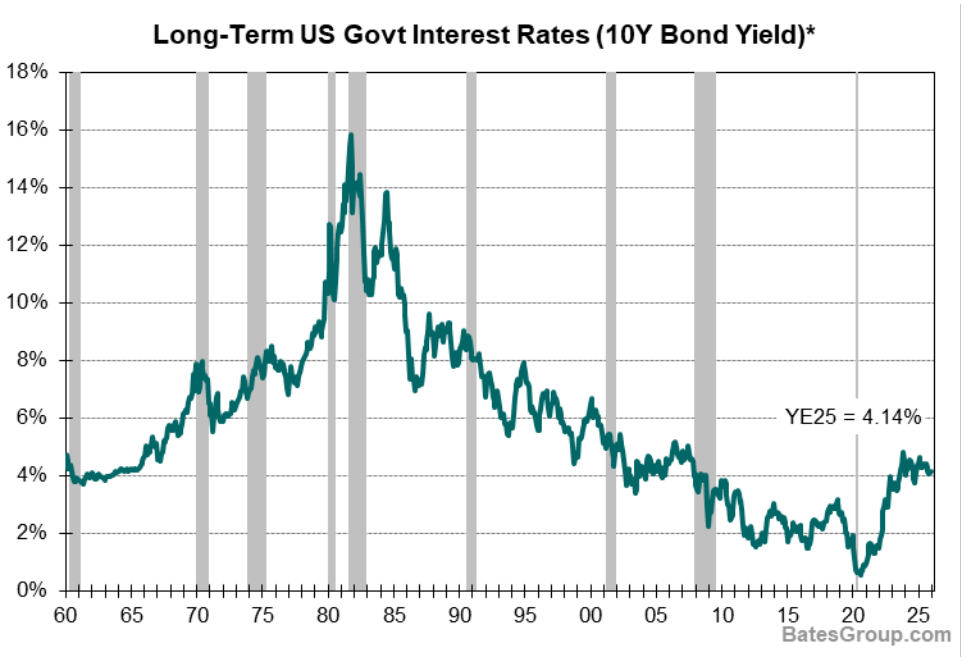
Credit Market Trends – Interest Rates

During 2025 the yield on three-month (3M) Treasury bills declined to 3.68% in December from 4.39% at the end of 2024.

This decline in yields in 2025 has been a result of the Federal Reserve's steps to bring down interest rates.



Long-term Treasury yields (10Y) declined in 2025 to finish the fourth quarter at 4.14% compared to 4.39% at the end of 2024.

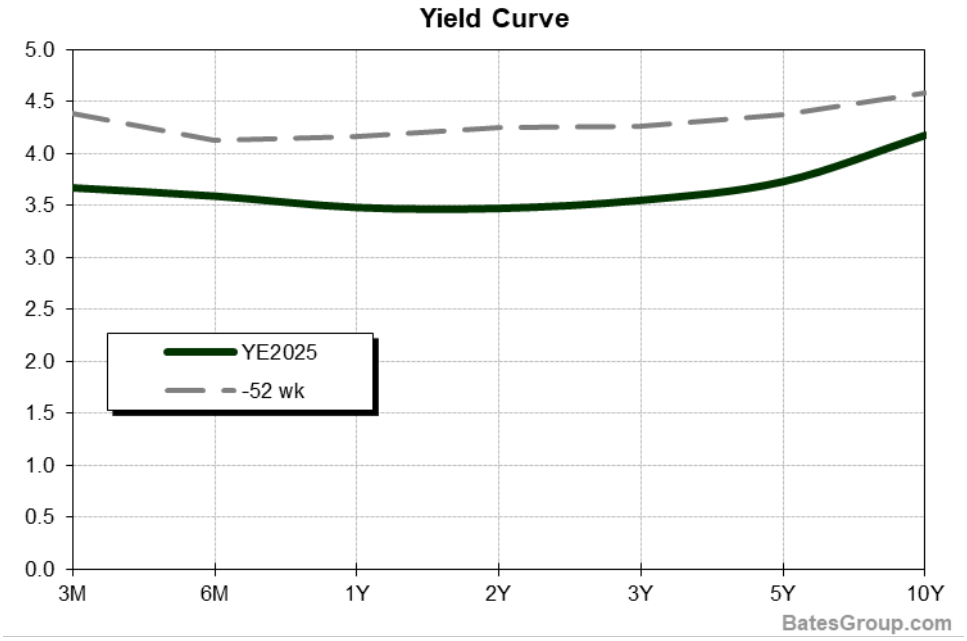


** Shaded areas represent recessions*
Source: Federal Reserve, Bates Research

In 2025 the yield curve remained relatively flat, indicating uncertainty on the direction of the economy.

Generally, a flat yield curve is an indicator of uncertain future economic growth while an inverted yield curve has been considered a “powerful predictor of future recessions” according to the Federal Reserve.

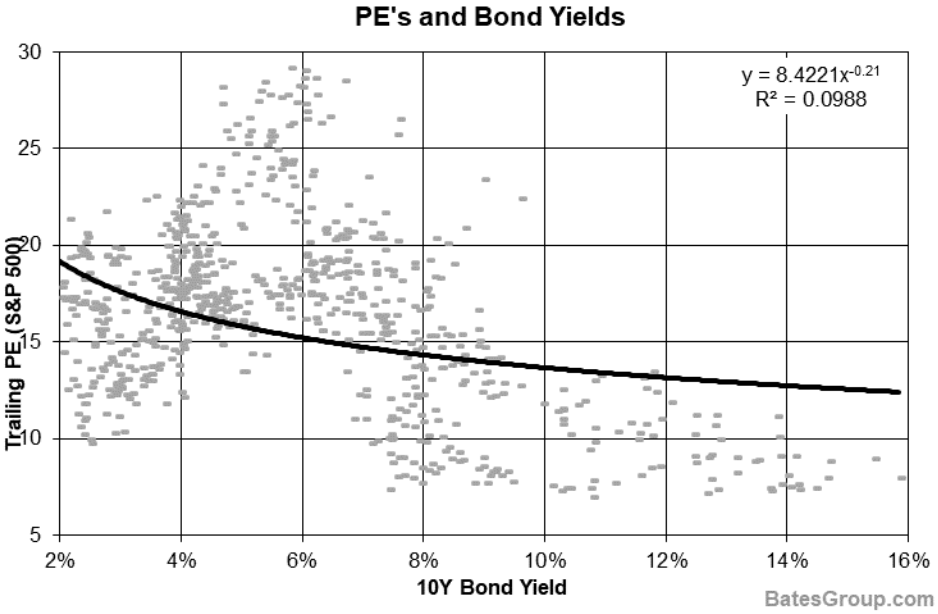
It bears noting though, that this forecasting tool (inverted yield curve) in 2023 did not precede a recession.



To the right is a view of the relationship between interest rates and equity valuations.

PEs tend to be higher when long-term rates are low and vice versa.

PE if interest rates:	<4%	4-8%	>8%
Low	9.8	7.3	7.0
Avg.	**17.8**	**18.6**	**11.5**
High	30.7	30.0	23.4
-1SD	13.8	14	8.0
+1SD	21.7	23.3	15.0

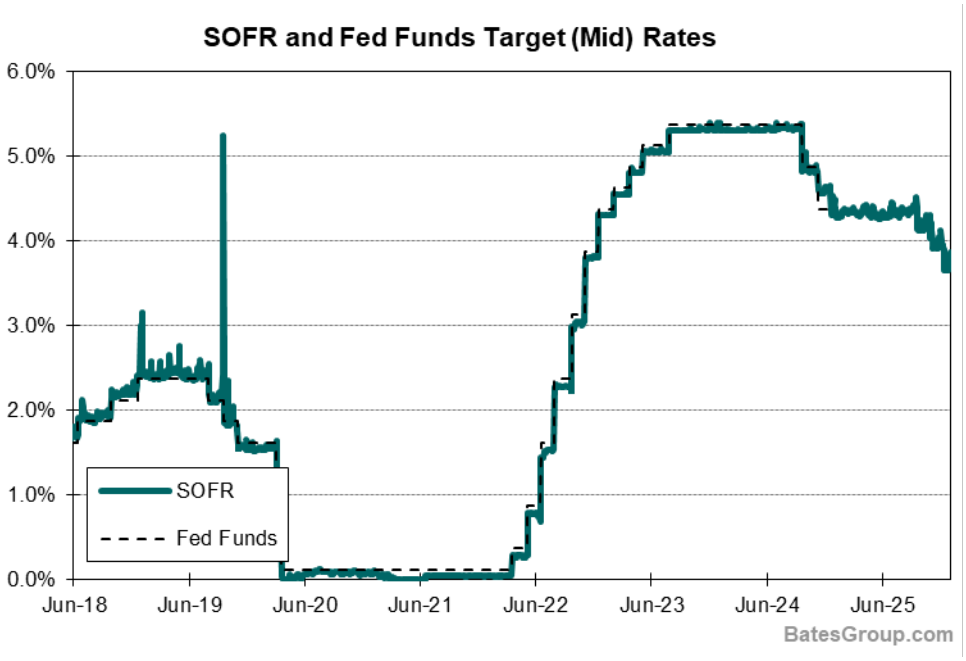


** Shaded areas represent recessions*
Source: Federal Reserve, Bates Research

SOFR (Secure Overnight Funding Rates)

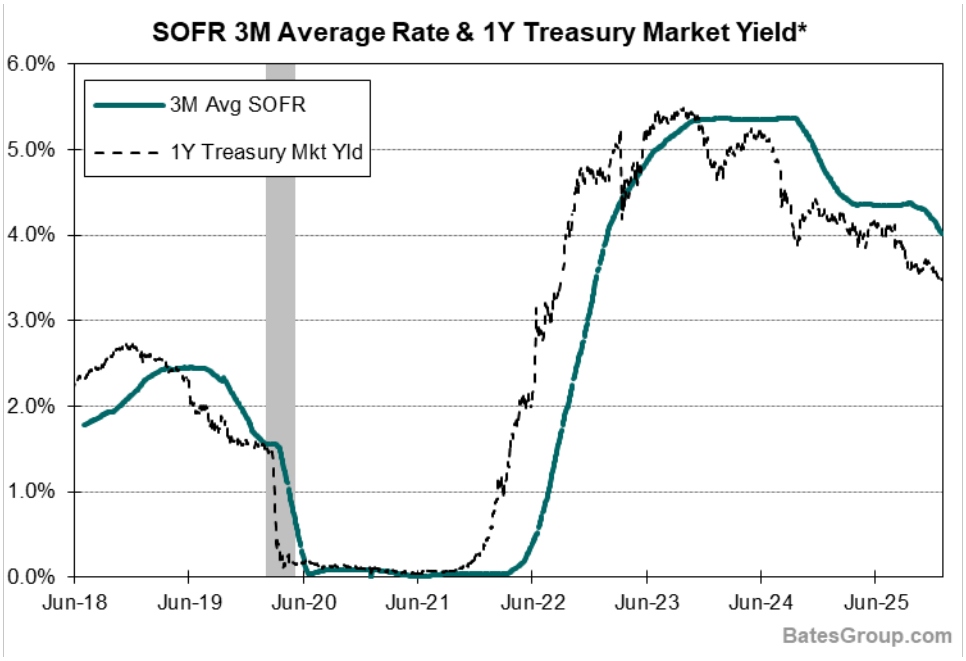
Since launching in early April 2018, SOFR has closely tracked Federal Funds target rates, with the exception of a spike in September 2019.**

SOFR, or the Secured Overnight Funding Rate, is based on observable, or actual transactions of overnight lending rates and replaced LIBOR as a benchmark overnight lending rate for US Dollar transactions.



Towards the end of 2025, the market yield on one-year Treasuries trended lower than average overnight SOFR rates (three month rolling average).

This relationship is similar to the inverse rate in mid- to late-2019 that preceded the recession in 2020. Typically, the longer the duration or maturity of borrowings, the higher the interest rate.

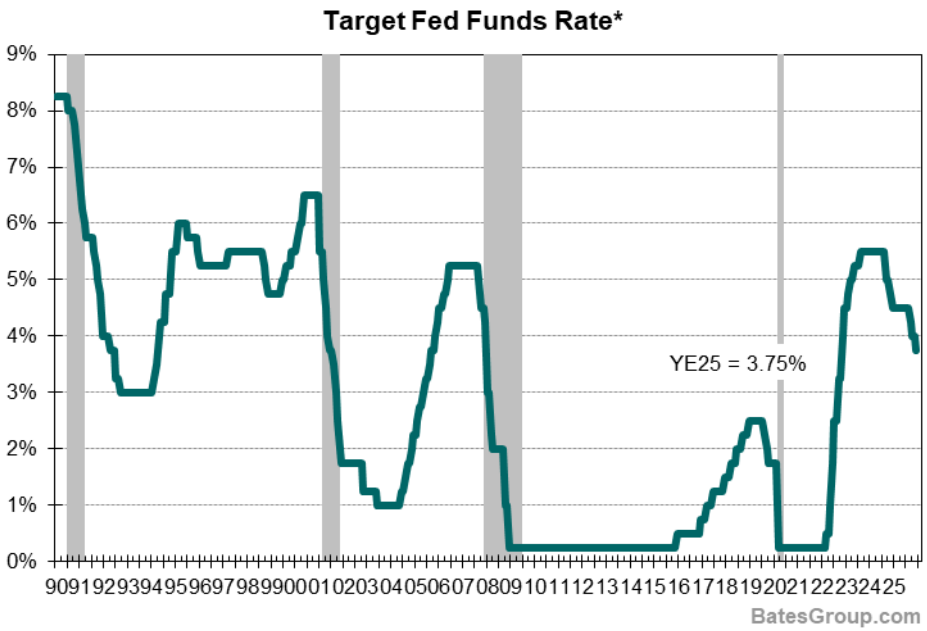


** Shaded areas represent recessions*
*** This spike was, according to the Federal Reserve, due to a "momentaneous shortage in liquidity resulted in a momentous increase in secured borrowing costs".*
Source: Federal Reserve, Bates Research

Federal Funds Rate

In response to a rapid rise in inflation, the Federal Reserve began to lower interest rates in September 2024. In total, the Federal Reserve cut rates six times since it began a more accommodative rate policy.

By December 2025, the Federal Funds Rate had fallen to a range of 3.50% to 3.75%, down from the 5.25% to 5.50% range at the end of 2023.



Changes in the Federal Funds Rate (2006-2025)

Date	Change (basis points) (+)	(-)	Level (%)
2025			
11-Dec	...	25	3.50-3.75
30-Oct	...	25	3.75-4.00
18-Sep	...	25	4.00-4.25
2024			
19-Dec	...	25	4.25-4.50
8-Nov	...	25	4.50-4.75
19-Sep	...	50	4.75-5.00
2023			
27-Jul	25	...	5.25-5.50
4-May	25	...	5.00-5.25
23-Mar	25	...	4.75-5.00
2-Feb	25	...	4.50-4.75
2022			
15-Dec	50	...	4.25-4.50
3-Nov	75	...	3.75-4.00
22-Sep	75	...	3.00-3.25
28-Jul	75	...	2.25-2.50
16-Jun	75	...	1.50-1.75
5-May	50	...	0.75-1.00
17-Mar	25	...	0.25-0.50

Date	Change (basis points) (+)	(-)	Level (%)
2020			
16-Mar	...	100	0.00-0.25
4-Mar	...	50	1.00-1.25
2019			
31-Oct	...	25	1.50-1.75
19-Sep	...	25	1.75-2.00
1-Aug	...	25	2.00-2.25
2018			
20-Dec	25	...	2.25-2.50
27-Sep	25	...	2.00-2.25
14-Jun	25	...	1.75-2.00
22-Mar	25	...	1.50-1.75
2017			
14-Dec	25	...	1.25-1.50
15-Jun	25	...	1.00-1.25
16-Mar	25	...	0.75-1.00
2016			
15-Dec	25	...	0.50-0.75
2015			
17-Dec	25	...	0.25-0.50

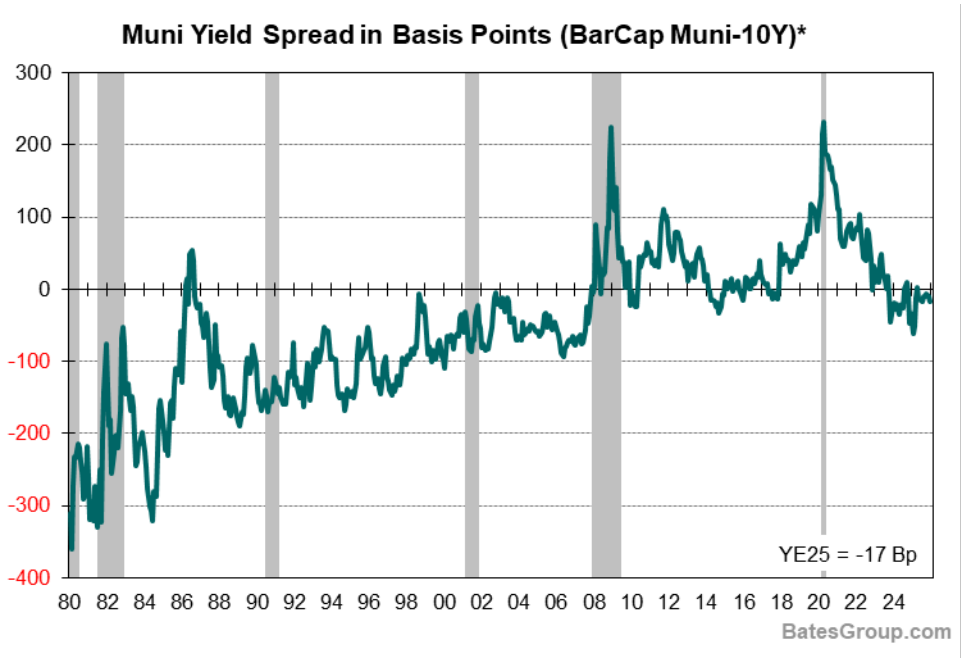
Date	Change (basis points) (+)	(-)	Level (%)
2008			
16-Dec	...	75-100	0.00-0.25
29-Oct	...	50	1.00
8-Oct	...	50	1.50
30-Apr	...	25	2.00
18-Mar	...	75	2.25
30-Jan	...	50	3.00
22-Jan	...	75	3.50
2007	...		
11-Dec	...	25	4.250
31-Oct	...	25	4.500
18-Sep	...	50	4.750
2006			
29-Jun	25	...	5.250
10-May	25	...	5.000
31-Jan	25	...	4.750

** Shaded areas represent recessions*
Source: Federal Reserve, Pegasus Research

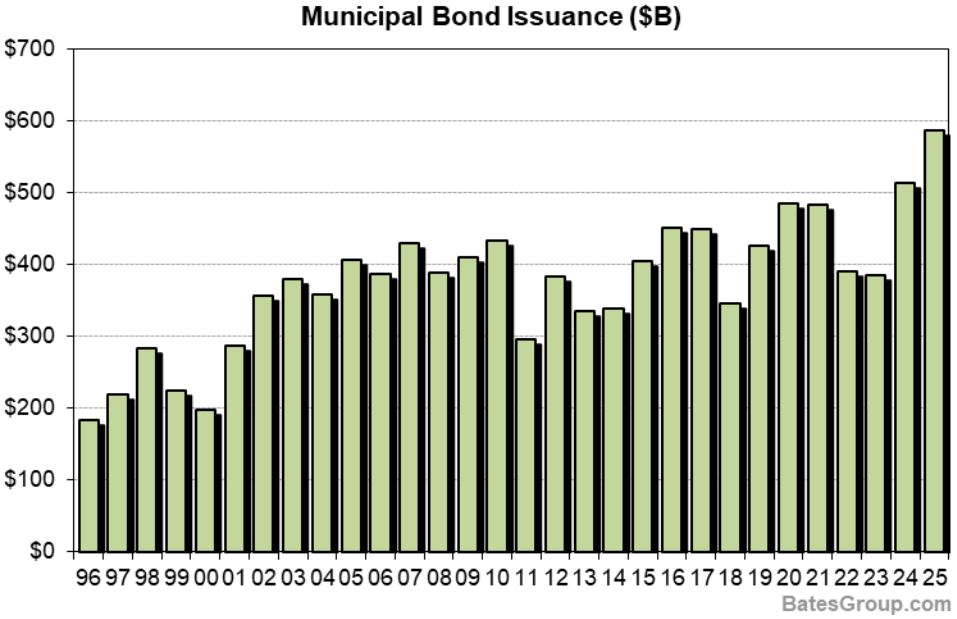
Municipal Bonds

In 2025, the municipal bond market was marked by higher volatility due to the varying impacts of the One Big Beautiful Bill Act, Federal Reserve rate decisions, and economic uncertainty.

Notwithstanding those factors, trading activity climbed in 2025, and overall performance was positive. The Bloomberg Municipal Bond Index was up 6.3% for the year.



2025 was solid year for municipal bond issuance, with total issuance up 14.3% from the prior year to an estimated $587 billion.

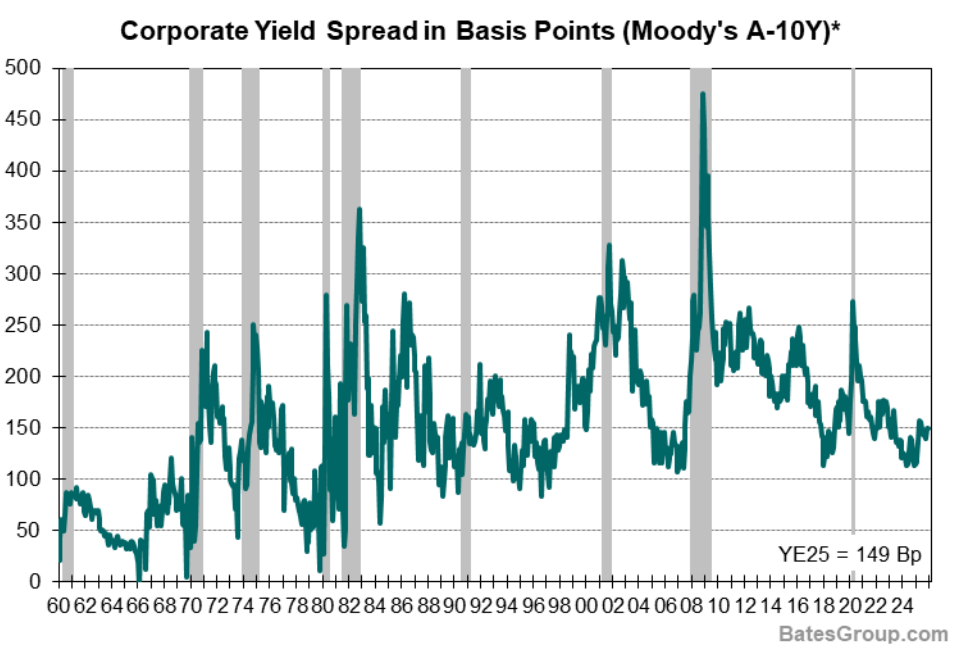


** Shaded areas represent recessions*
Source: Bloomberg, SIFMA, Standard & Poor's, Thomson Reuters, MSRB

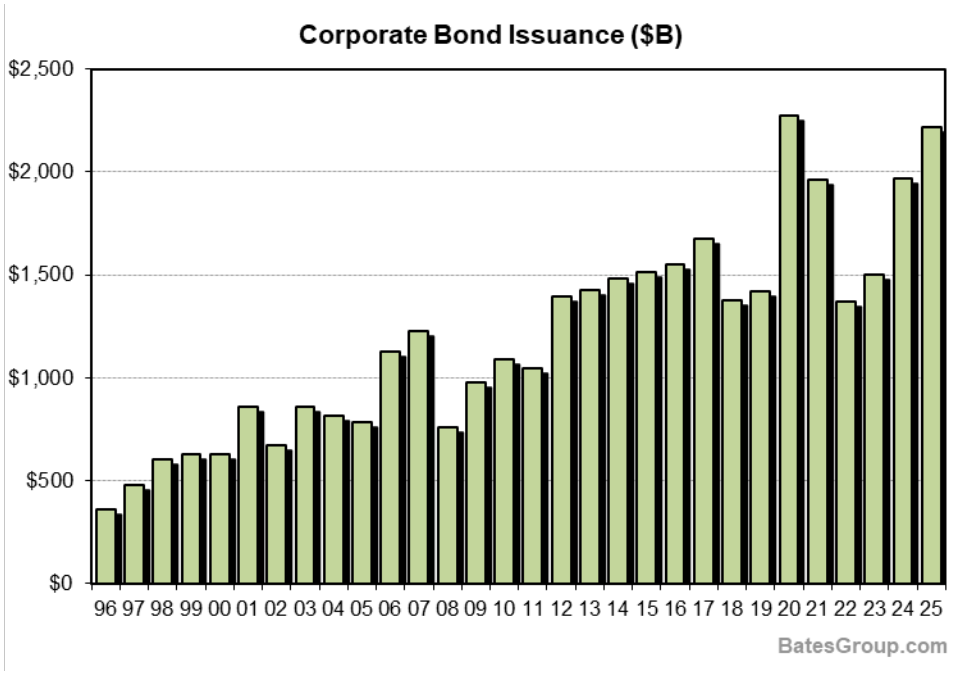
Corporate Bonds

Following a lackluster 2024 performance, U.S. investment-grade corporate bonds gained 8.6% in 2025.

The U.S. Government's announcement of an aggressive tariff policy in early 2025 led to yield spreads jumping from 114 basis points at the end of 2024 to 157 Bp by April 2025. Since then, the yield spread between the Moody's A Corporate Bond Index and 10-year Treasuries have hovered around 140-150 Bp through 2025.



U.S. corporate bond issuance totaled an estimated $2,216 billion in 2025, up 12.6% from the prior year.

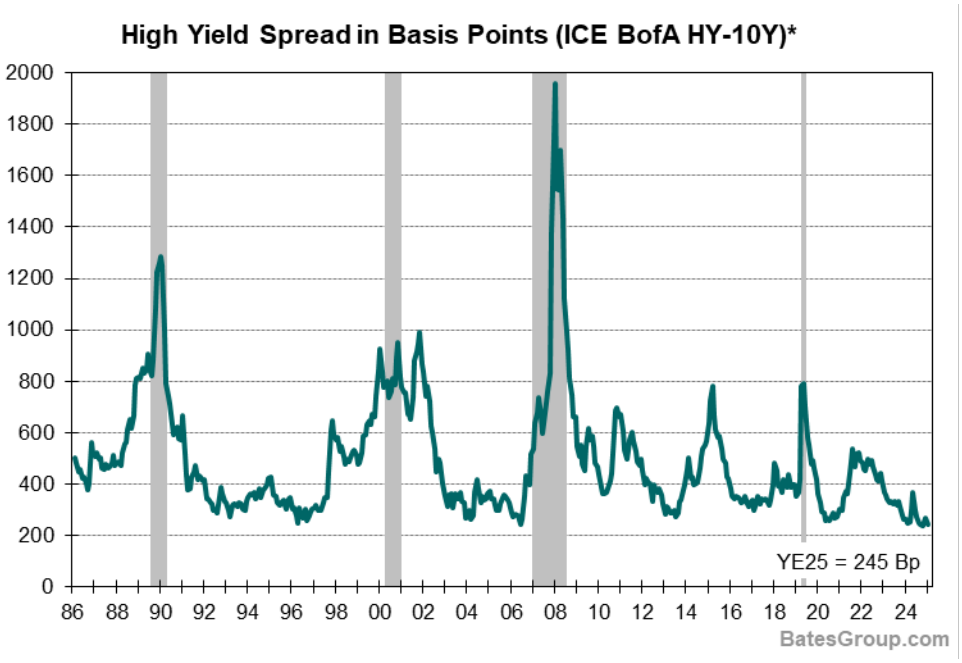


** Shaded areas represent recessions*
Source: Bloomberg, Thomson Reuters, SIFMA

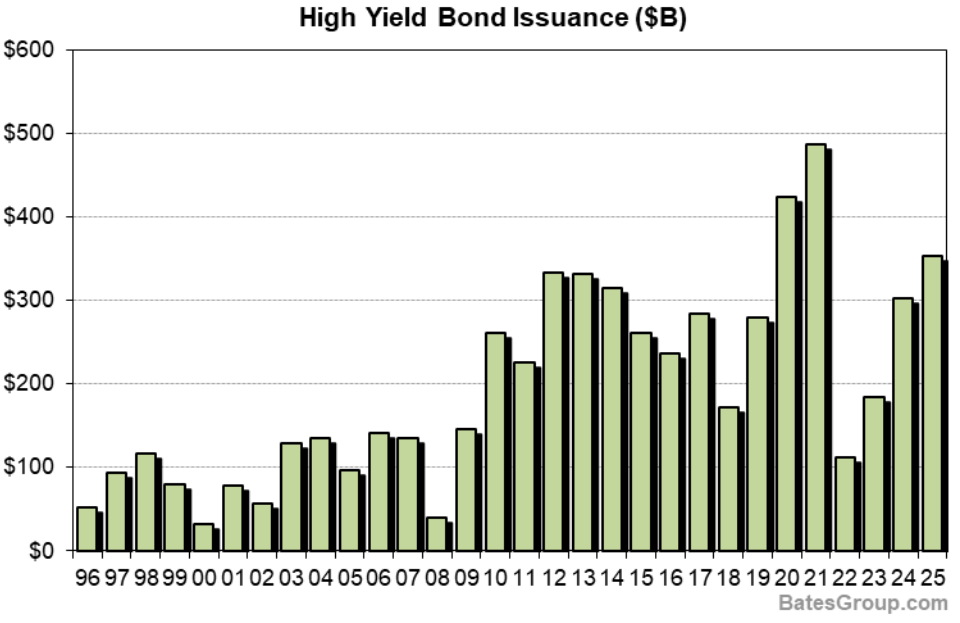
High Yield Securities

High yield risk or yield spreads initially rose above 330 Bp in April 2025 but declined to 245 Bp by the end of 2025. Speculative-grade yields closed the year at 6.59% compared to 7.02% at the end of 2024.

According to Moody's, the 12-month trailing U.S. speculative-grade default rate was 3.3% in December 2025, down from 4.4% mid-year.



High yield bond issuance continued to remain strong in 2025, with total issuance up 16.8% to an estimated $353 billion. This is up significantly from the cyclical low of $112 billion in 2022.

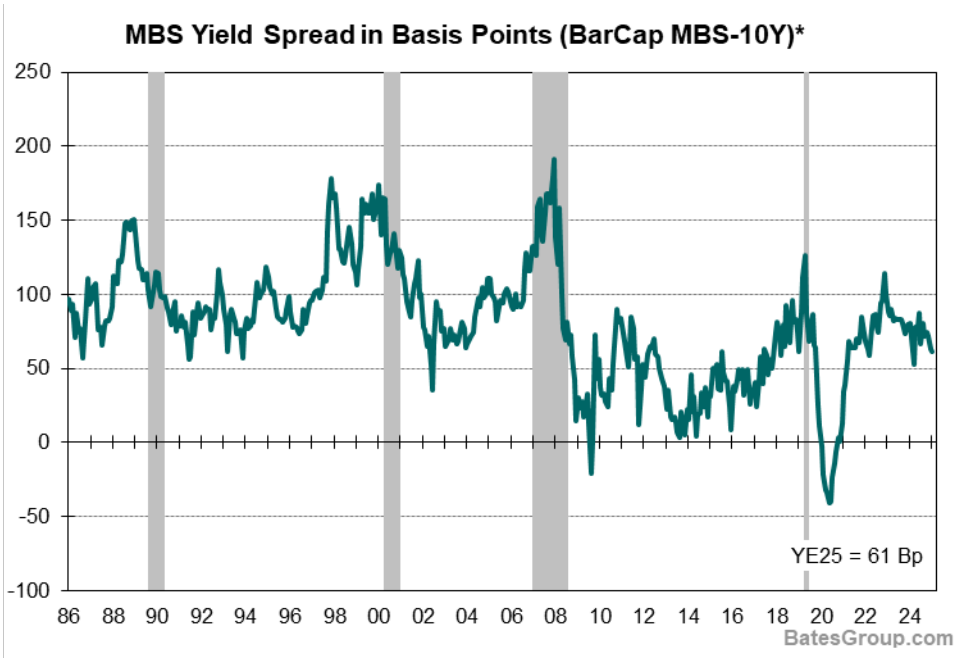


** Shaded areas represent recessions*
Source: Bloomberg, Moody's, SIFMA, Standard & Poor's

Mortgage-Backed Securities

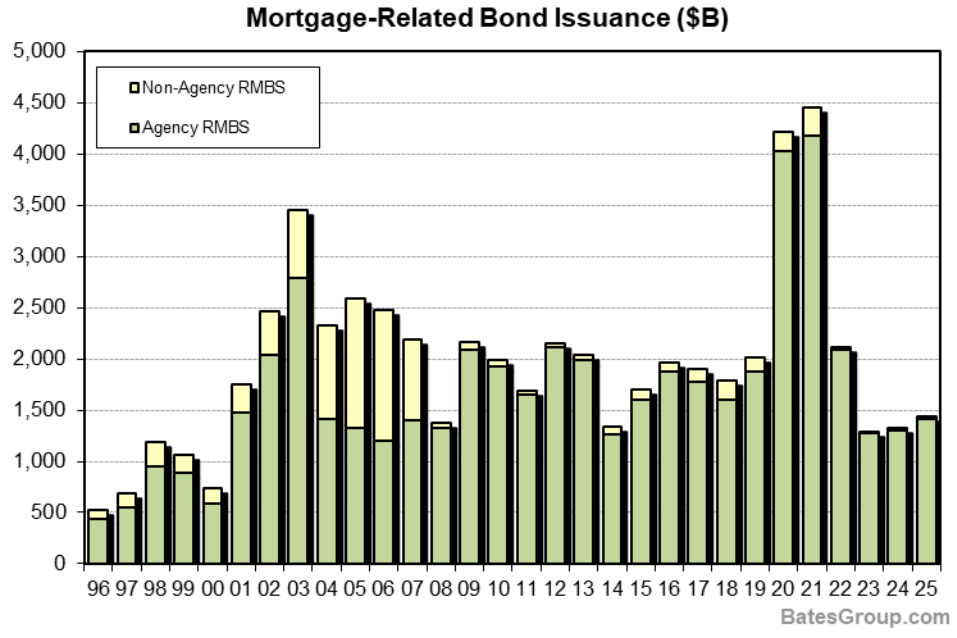
MBS yield spreads declined at year-end 2025 to 61 basis points from 81 basis points in December 2024.

MBS performance was positive in 2025, with an 8.6% return compared to a 1.2% return in 2024.



Mortgage-related bond issuance increased in 2025, totaling an estimated $1,895 billion.

Agency RMBS issuance was $1,413 billion in 2025 while non-agency or private RMBS issuance was $30 billion.



** Shaded areas represent recessions*
Source: Bloomberg, Thomson Reuters

Heatmap of Fixed Income Securities Total Returns (2002-2025)

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Intl Govt 19.59%	High Yield 28.97%	High Yield 11.13%	Long Govt 6.50%	High Yield 11.85%	Intl Govt 10.57%	Long Govt 24.03%	High Yield 58.21%	High Yield 15.12%	Long Govt 29.93%	High Yield 15.81%	High Yield 7.44%
Long Govt 16.79%	Intl Govt 14.78%	Intl Govt 10.33%	Munis 3.51%	Intl Govt 6.44%	Long Govt 9.81%	Intl Govt 10.23%	Corp Bonds 18.68%	Long Govt 9.38%	Munis 10.70%	Corp Bonds 9.82%	Short Govt 0.36%
Corp Bonds 10.12%	Corp Bonds 8.24%	Long Govt 7.70%	High Yield 2.74%	MBS 5.22%	Short Govt 7.31%	MBS 8.34%	Munis 12.91%	Corp Bonds 9.00%	Corp Bonds 8.15%	Munis 6.78%	MBS -1.41%
Munis 9.60%	Munis 5.31%	Corp Bonds 5.39%	MBS 2.61%	Munis 4.84%	MBS 6.90%	Short Govt 6.67%	MBS 5.89%	Intl Govt 5.90%	Intl Govt 6.33%	Long Govt 3.56%	Corp Bonds -1.53%
MBS 8.75%	MBS 3.07%	MBS 4.70%	Corp Bonds 1.68%	Corp Bonds 4.30%	Corp Bonds 4.56%	Munis -2.47%	Intl Govt 2.63%	MBS 5.37%	MBS 6.23%	MBS 2.59%	Munis -2.55%
Short Govt 5.87%	Long Govt 2.48%	Munis 4.48%	Short Govt 1.62%	Short Govt 3.93%	Munis 3.36%	Corp Bonds -4.94%	Short Govt 0.80%	Short Govt 2.40%	High Yield 4.98%	Intl Govt 1.83%	Intl Govt -4.30%
High Yield -1.41%	Short Govt 1.92%	Short Govt 0.91%	Intl Govt -6.66%	Long Govt 1.85%	High Yield 1.87%	High Yield -26.16%	Long Govt -12.92%	Munis 2.38%	Short Govt 1.55%	Short Govt 0.43%	Long Govt -12.7%

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Long Govt 25.07%	Munis 3.30%	High Yield 17.13%	Long Govt 8.53%	Short Govt 1.56%	Long Govt 14.83%	Long Govt 17.70%	High Yield 5.28%	Short Govt -3.82%	High Yield 13.45%	High Yield 8.19%	High Yield 8.62%
Munis 9.05%	MBS 1.51%	Corp Bonds 6.11%	High Yield 7.50%	Munis 1.28%	Corp Bonds 14.54%	Corp Bonds 9.89%	Munis 1.52%	Munis -8.53%	Corp Bonds 8.52%	Short Govt 4.03%	Corp Bonds 8.61%
Corp Bonds 7.46%	Short Govt 0.56%	MBS 1.67%	Intl Govt 7.29%	MBS 0.99%	High Yield 14.32%	Intl Govt 9.50%	Short Govt -0.60%	High Yield -11.19%	Munis 6.40%	Corp Bonds 2.13%	MBS 8.58%
MBS 6.08%	Corp Bonds -0.68%	Intl Govt 1.65%	Corp Bonds 6.42%	Intl Govt -0.38%	Munis 7.54%	High Yield 7.11%	Corp Bonds -1.04%	MBS -11.81%	MBS 5.05%	MBS 1.20%	Intl Govt 6.82%
High Yield 2.45%	Long Govt -1.21%	Long Govt 1.33%	Munis 5.45%	Long Govt -1.84%	MBS 6.35%	Munis 5.21%	MBS -1.04%	Corp Bonds -15.76%	Short Govt 4.29%	Munis 1.05%	Long Govt 5.59%
Short Govt 0.63%	Intl Govt -3.29%	Short Govt 0.86%	MBS 2.47%	High Yield -2.08%	Intl Govt 5.59%	MBS 3.87%	Long Govt -4.65%	Intl Govt -17.47%	Intl Govt 4.18%	Intl Govt -3.58%	Short Govt 5.17%
Intl Govt -0.8%	High Yield -4.5%	Munis 0.2%	Short Govt 0.4%	Corp Bonds -2.5%	Short Govt 3.6%	Short Govt 3.2%	Intl Govt -6.6%	Long Govt -29.3%	Long Govt 3.1%	Long Govt -6.4%	Munis 4.25%

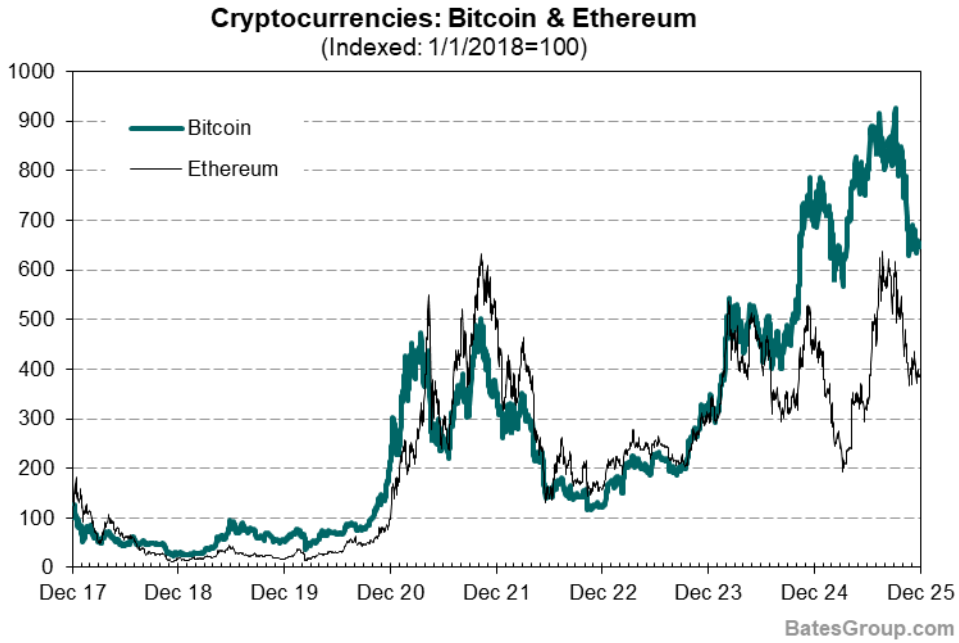
Note: The heatmap table ranks various fixed income categories each year in descending order from best performing total return to worst performing. Colors remain the same for each category in order to help quickly identify the relative ranking of each fixed income category.

Source: Bloomberg, Bates Research

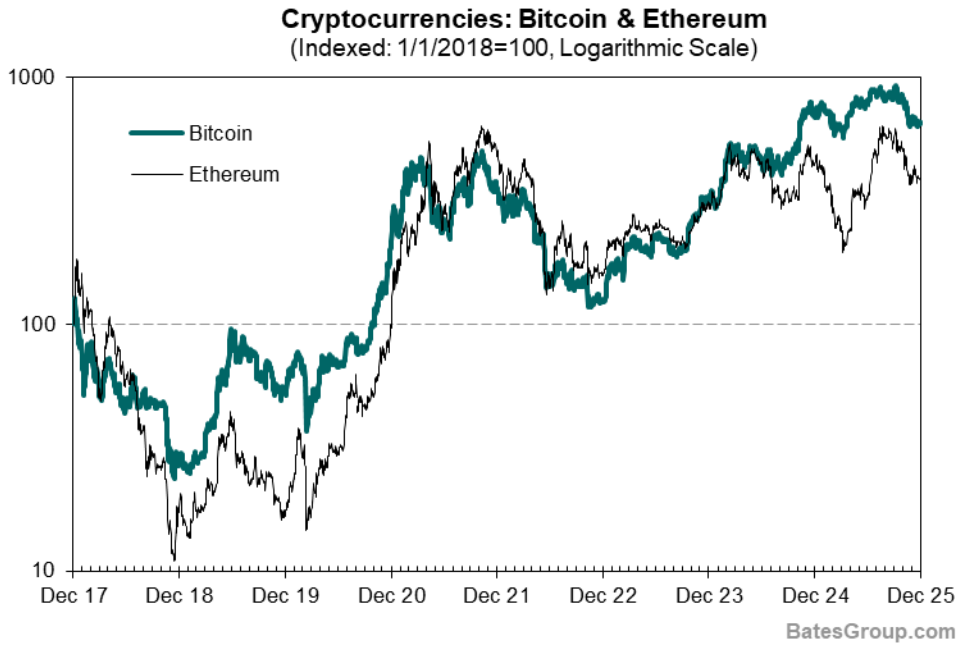
Cryptocurrency Trends

Cryptocurrencies started 2025 off on a strong note with Bitcoin briefly surpassing $100,000 in January. Early gains were fueled by a new U.S. Administration that quickly adopted crypto-friendly policies. This also helped increase institutional involvement in the cryptocurrency market.

However, reflecting the still volatile nature of cryptocurrencies, Bitcoin and other crypto currencies experienced a sharp pullback in the last quarter of the year, with Bitcoin falling 26.1% in Q4 and Ethereum down 31.6%.



The chart to the right shows changes in Bitcoin and Ethereum on a logarithmic scale. A logarithmic scale better shows percentage changes in large price movements than a linear scale.

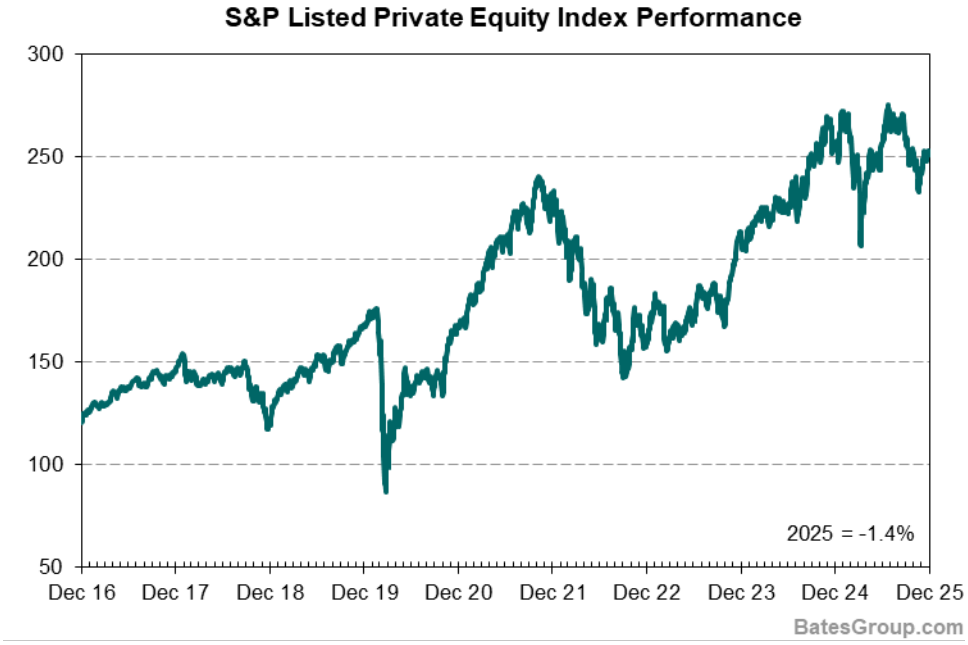


** Shaded areas represent recessions*
Source: Federal Reserve FRED, Coinbase, SIFMA, CoinMarketCap

Private Equity Trends

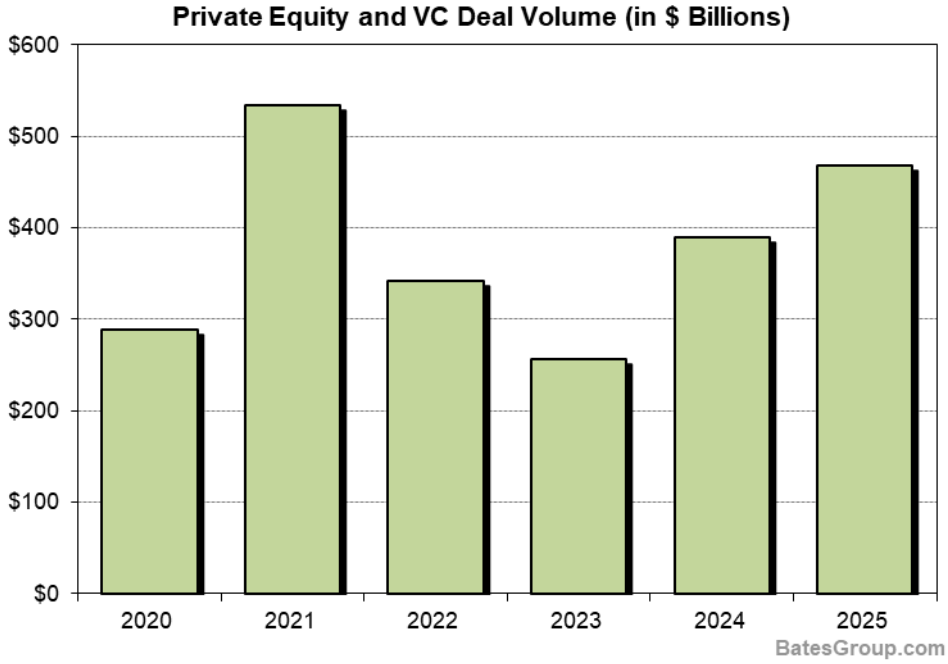
In 2025, publicly listed private equity companies experienced negative returns on average, with the S&P PE Index down 1.4% for the year.

In terms of industry-wide IRR (a key performance metric) private equity performance was an estimated 16%, using Blackstone's 2025 realized IRR as a proxy for the sector.



Exit volumes were down in dollar terms compared to 2025 but were up 5% in terms of number of deals. This weakness in values led to average holding periods for private firms increasing in 2025.

Deal volume continued to expand in 2025. According to S&P Global Market Intelligence, the aggregate value of private equity and venture capital entries rose 20% to $469 billion.

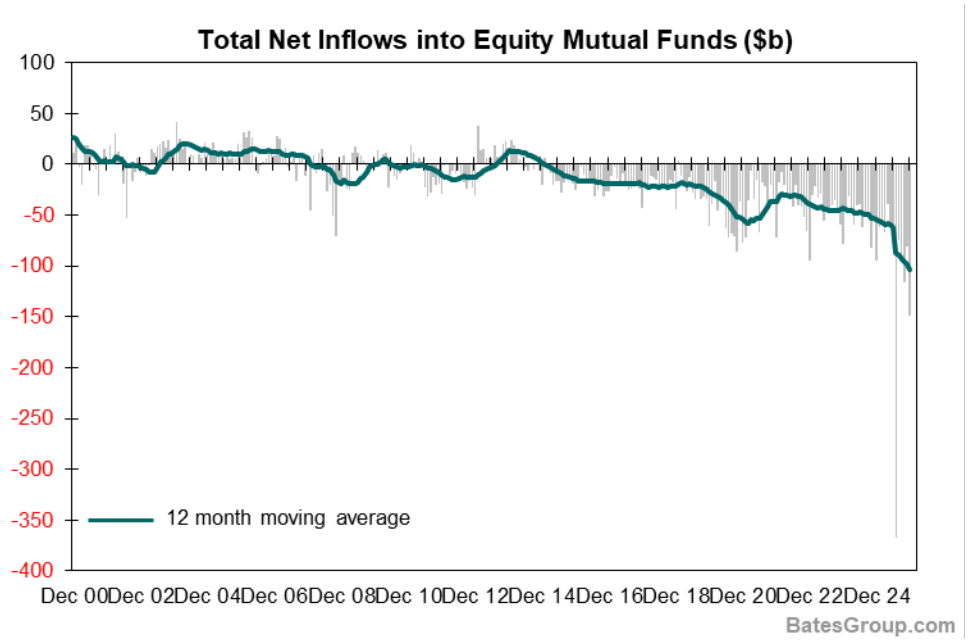


Source: Blackstone, Standard and Poor's, S&P Global Market Intelligence

Mutual Fund Flows

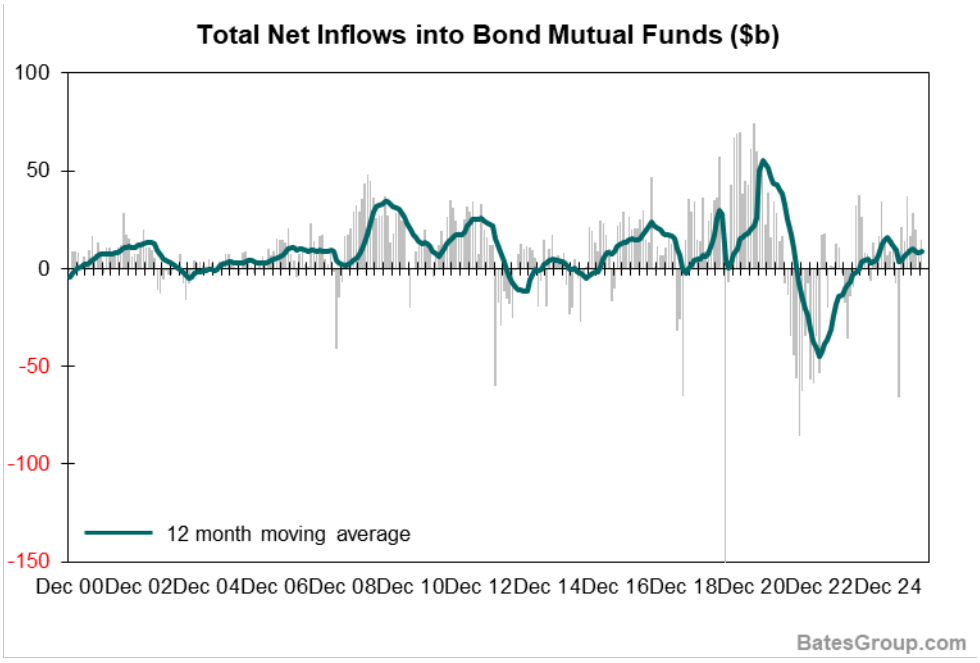
Total net outflows from equity mutual funds continued to accelerate in 2025. In December 2025 alone, nearly $149 billion flowed out of equity funds.

Total assets for equity funds increased 9% in 2025 to an estimated $23,636 billion.



With the interest rate environment continuing to ease in 2025, bond funds experienced net inflows through most of the year.

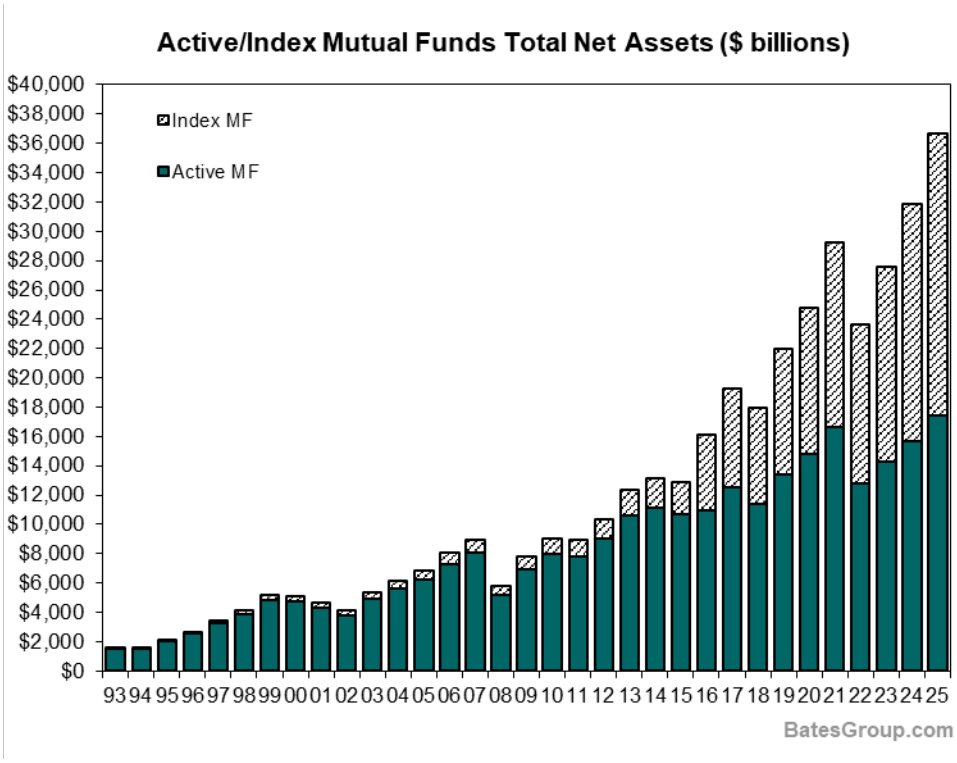
The estimated total assets in bond mutual funds was $4,679 billion at the end of 2025 compared to $4,273 billion in 2024.

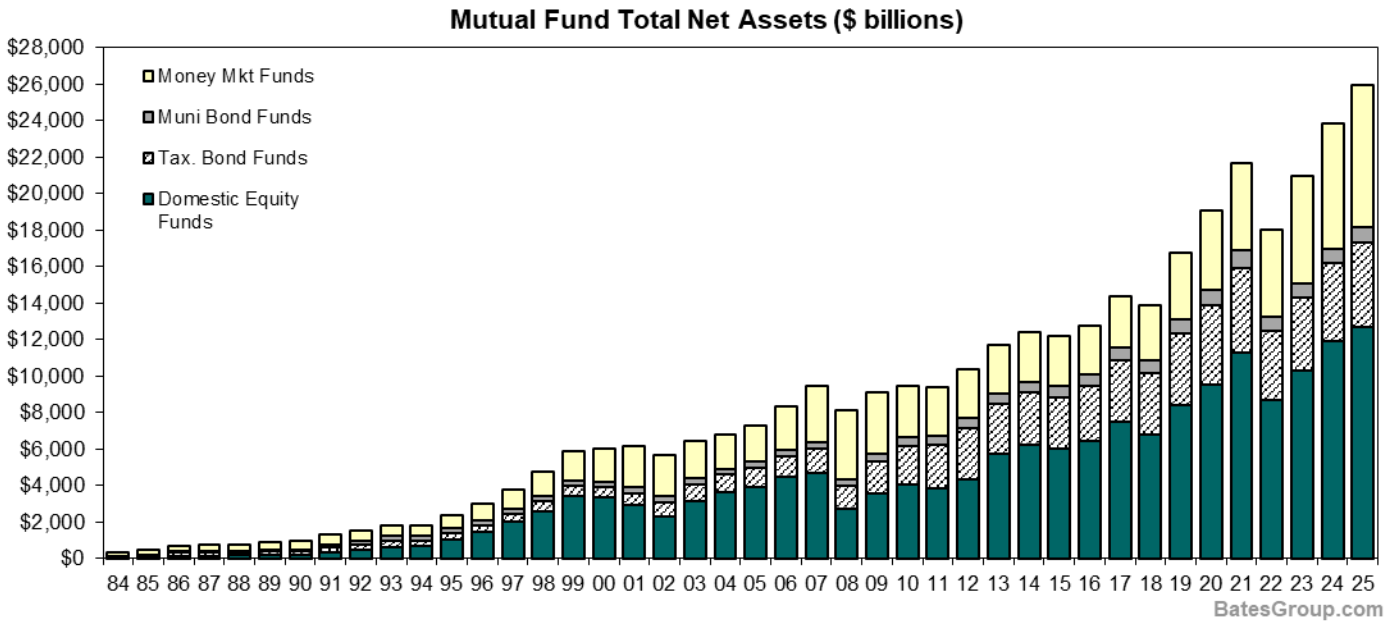


Source: Investment Company Institute

In terms of total net assets, actively managed mutual funds continued to lose share to index funds, with active mutual funds accounted for 47% of all mutual funds at year-end 2025.

Ten years ago in 2015, actively managed funds accounted for over 80% of all mutual funds.





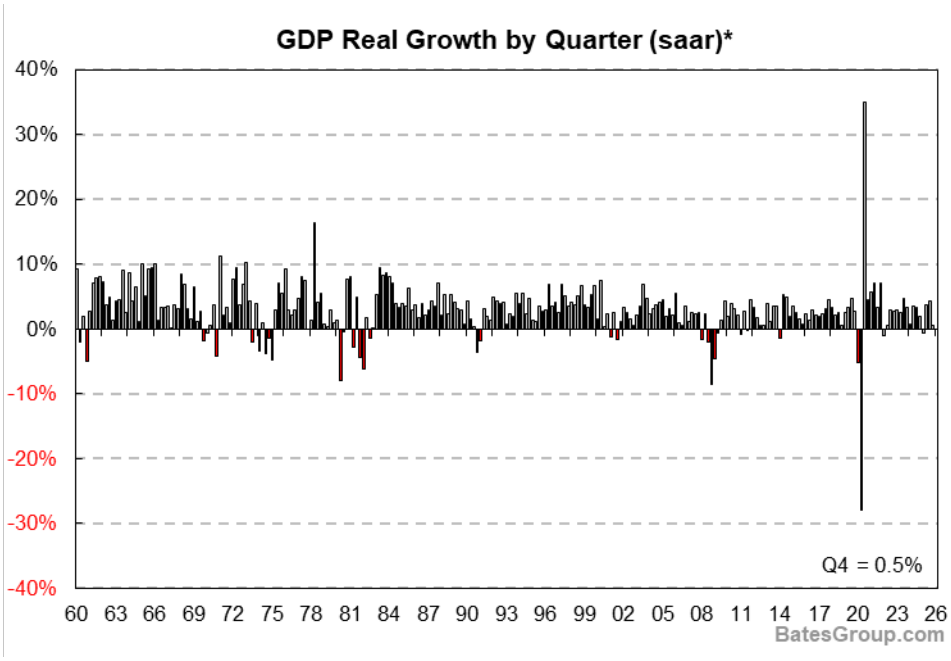
Source: Investment Company Institute

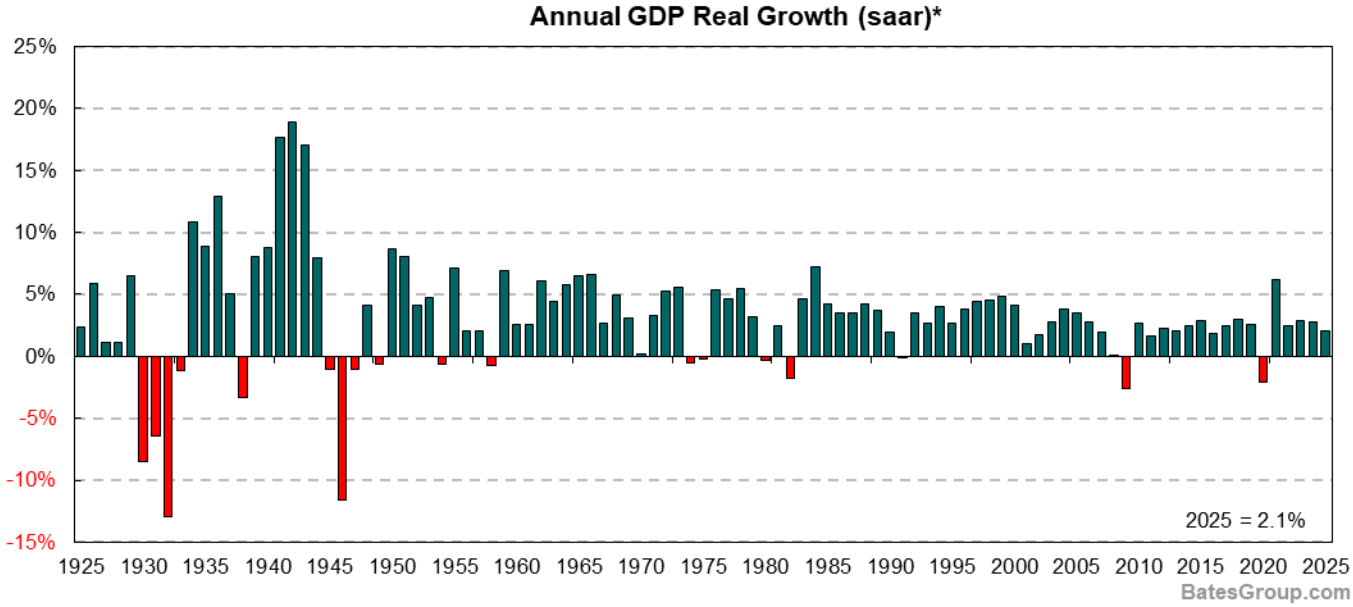
The Economy (GDP = C+I+G+(X-M))

Economic growth was generally weak in 2025 with the U.S. economy expanding at a 0.5% annual rate in the last quarter of 2025. For the year, GDP was up 2.1% compared to 2024.

Much of the weakness in the fourth quarter was due to the 43-day government shutdown leading to a decline in federal spending in the last quarter of the year.

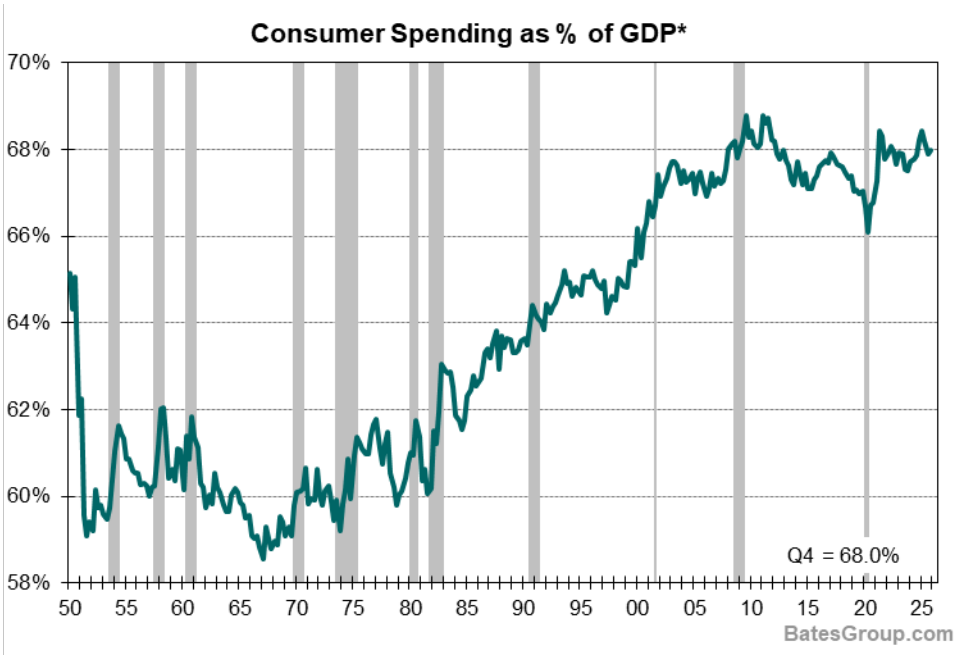
In terms of contribution to GDP growth in Q4, Wholesale trade and Information (driven by AI spending) were the main contributors.





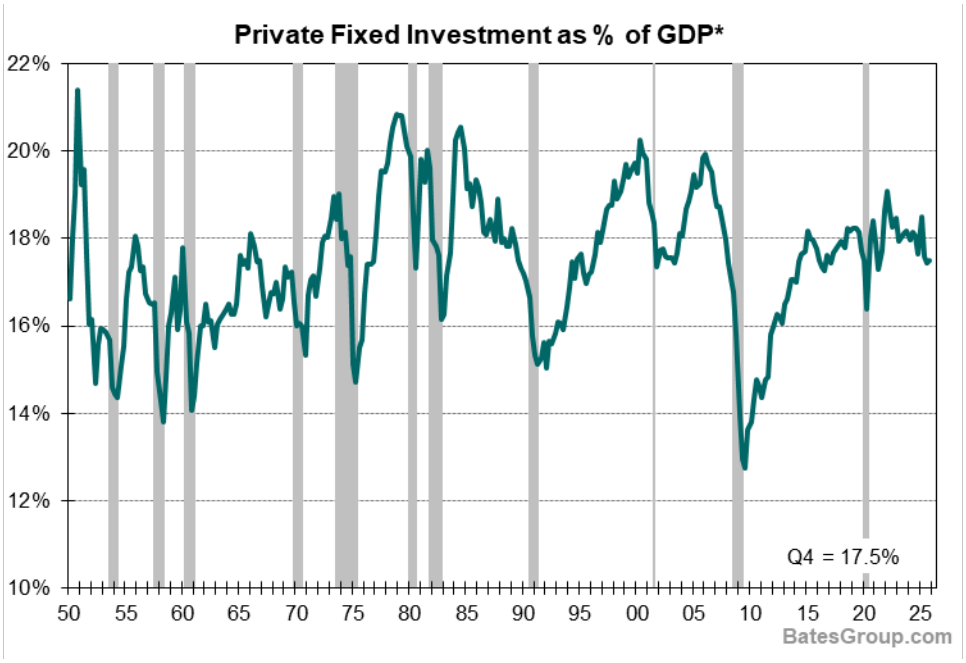
** saar – seasonally adjusted annual rate*
Source: Bureau of Economic Analysis, National Bureau of Economic Research

Consumer spending increased at a 1.9% annual rate in the fourth quarter, largely due to contribution from services. Of the 1.3% overall contribution of consumer spending to GDP, 1.23% of that contribution was due to higher services expenditures including in health care and housing/ utilities.



Private fixed investments grew at a seasonally adjusted 2.3% annual rate in the last quarter of 2025.

For the year, spending on private fixed investment was up 1.9% compared to 2024.

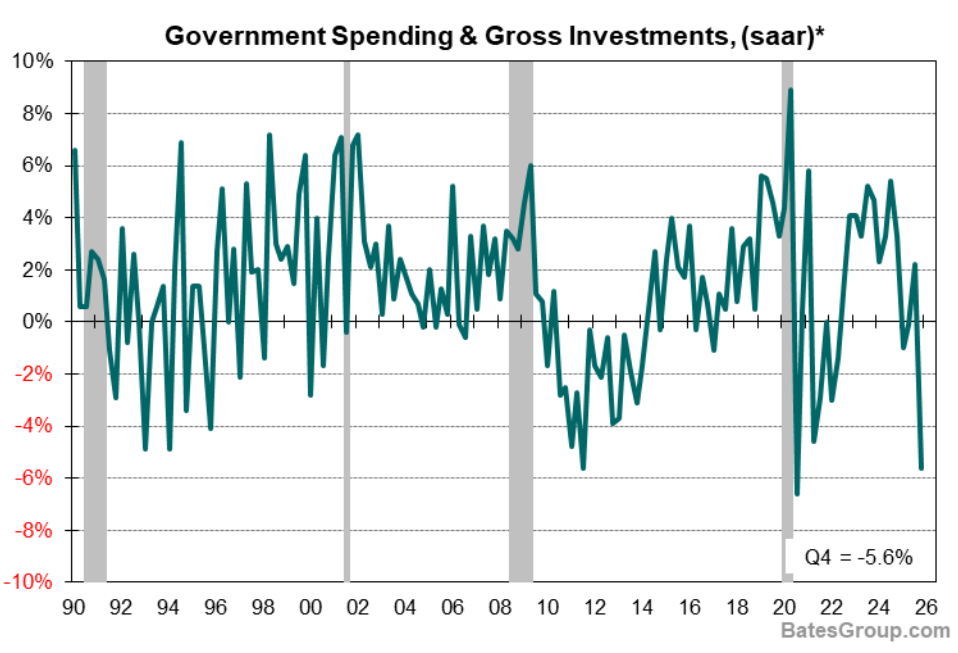


** Shaded areas represent recessions*
Source: Bureau of Economic Analysis

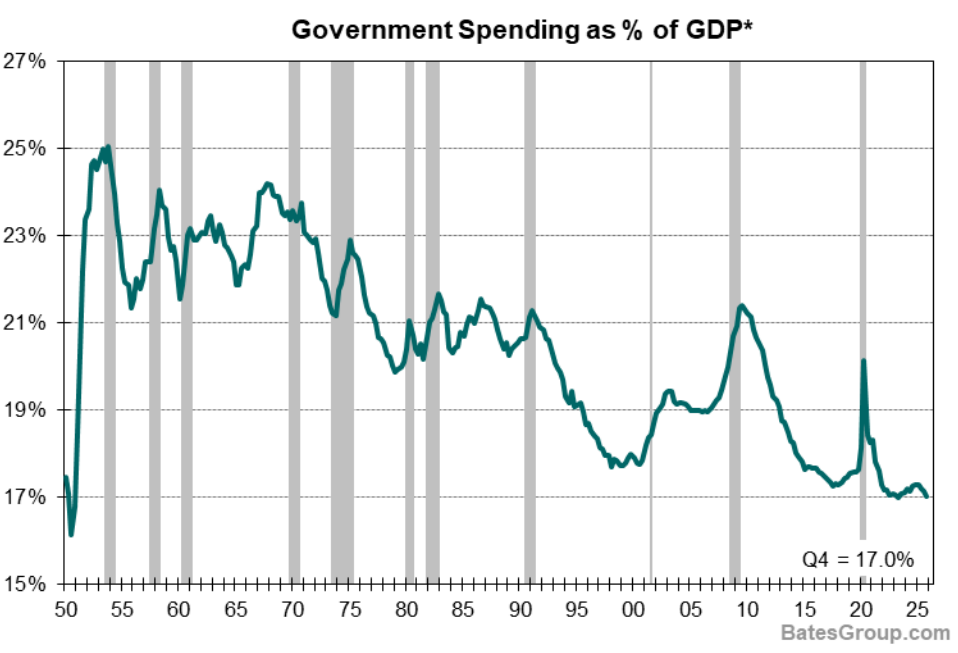
The government shutdown in the last quarter of the year lead to federal spending falling at a 16.6% annual rate in Q4. Nondefense spending was down 24.3% and defense spending was down 10.7%.

At the local level, state and local spending increased at a 1.5% annual rate in the last quarter of 2025.

Overall, government spending dragged GDP down by nearly 1% in the fourth quarter.

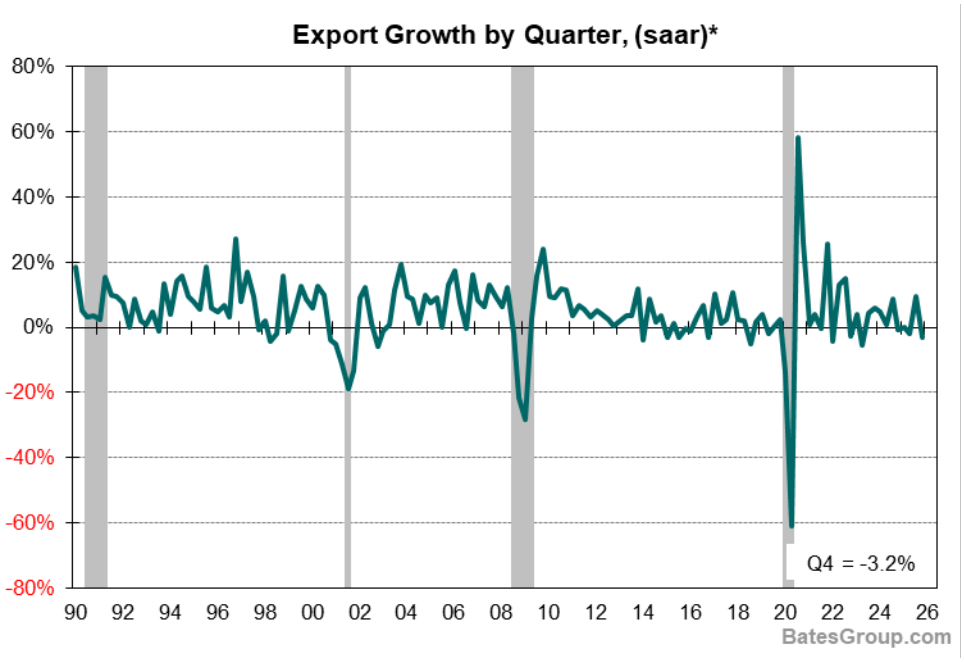


Relative to GDP, overall government spending continued to decline and finished the year at 17.0% of GDP.



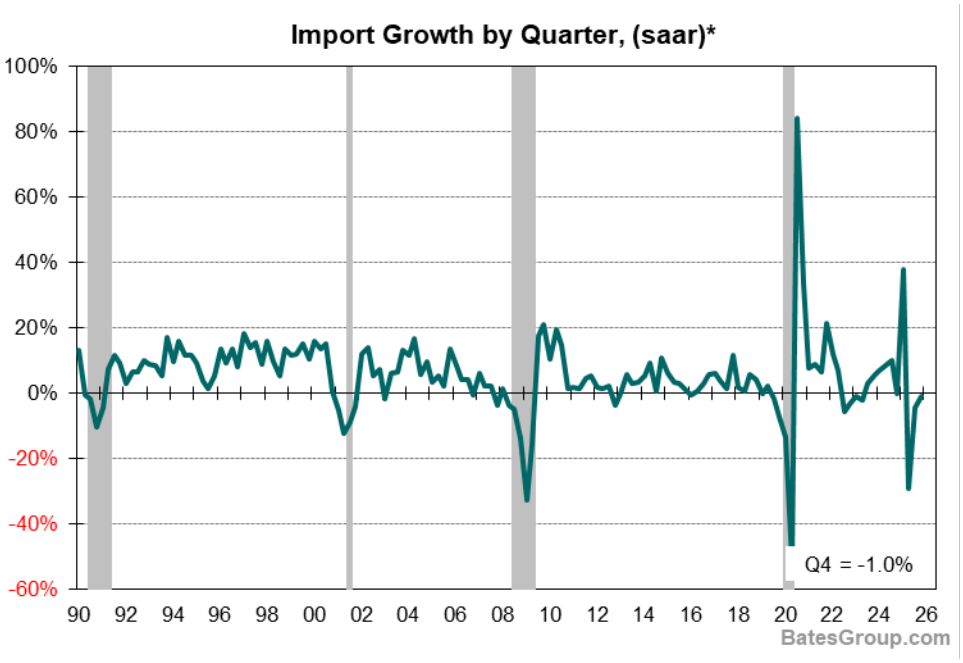
** Shaded areas represent recessions, saar – seasonally adjusted annual rate*
Source: Bureau of Economic Analysis

In the last quarter of 2025 exports declined at a 3.2% annual rate compared to a 9.6% rate in the third quarter. For the year, exports of goods and services advanced 1.6%.



Imports were down at a 1.0% annual rate in the fourth quarter. Imported services were up at a 4.2% rate while imported goods declined at a 2.4% annual rate.

For the year, imports were up 2.7%.

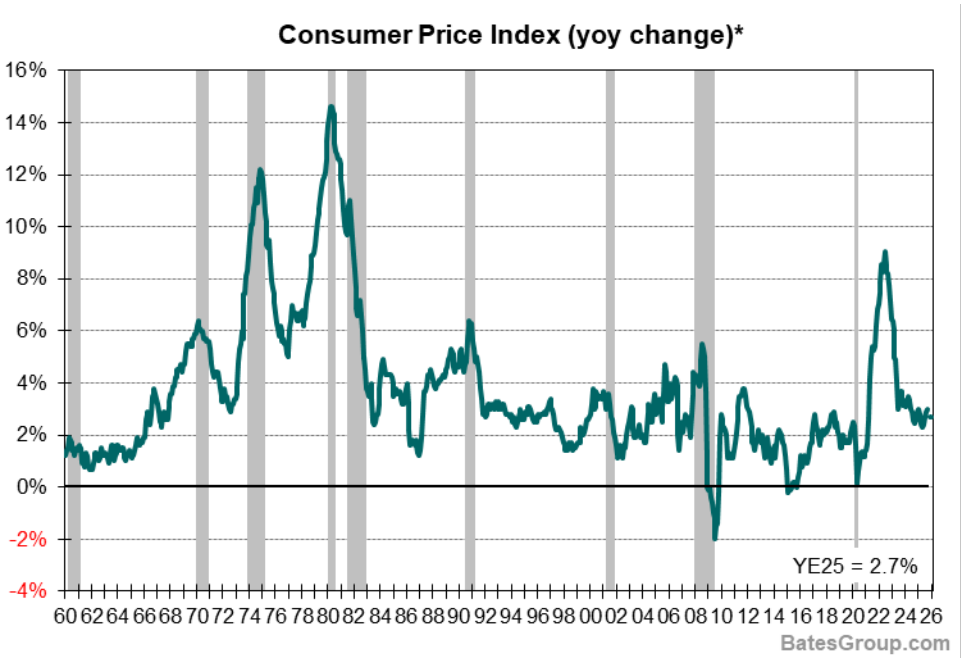


** Shaded areas represent recessions, saar – seasonally adjusted annual rate*
Source: Bureau of Economic Analysis

Inflation

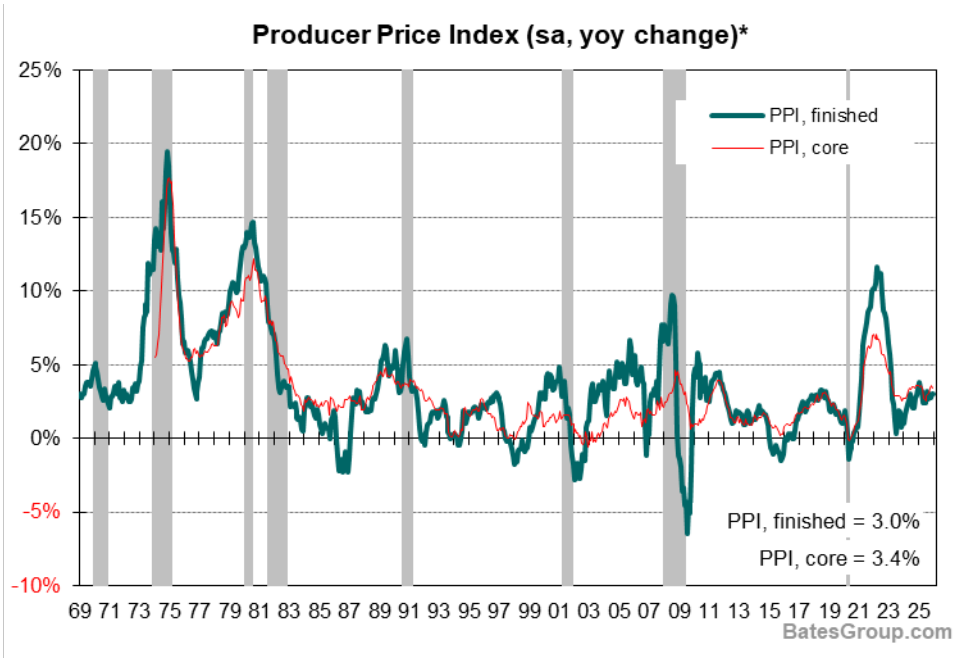
After falling to a low of 2.3% in April 2025, tariffs ending up putting upward pressure on prices leading to inflation ticking up through the rest of the year. December ended 2025 with a 2.7% inflation rate.

Energy prices rose the most in 2025, with utility gas service and electricity prices up 10.8% and 6.7% respectively on a 12-month basis. Food prices increased 3.1% in 2025.



Producer prices for final demand rose 0.5% in December. For the 12 months ended December , the index for final demand rose 3.0% in 2025.

The 12-month core PPI rate (final demand finished goods less foods and energy) was up 3.4% in December.



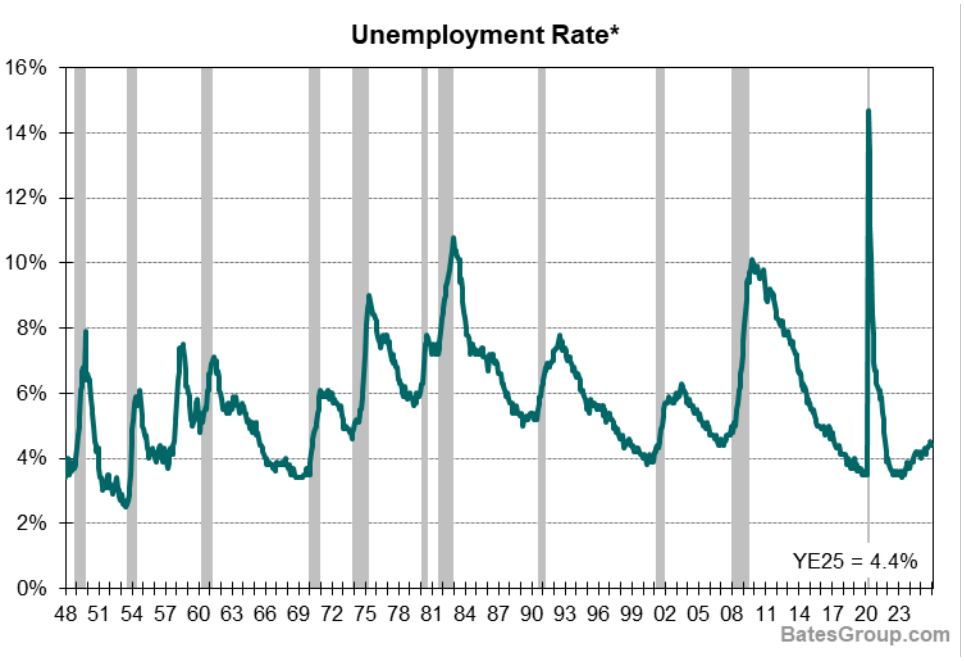
** Shaded areas represent recessions*
Source: Bureau of Labor Statistics

Employment

The top-line (or headline) unemployment rate continued to rise in 2025 and reached 4.4% in December.

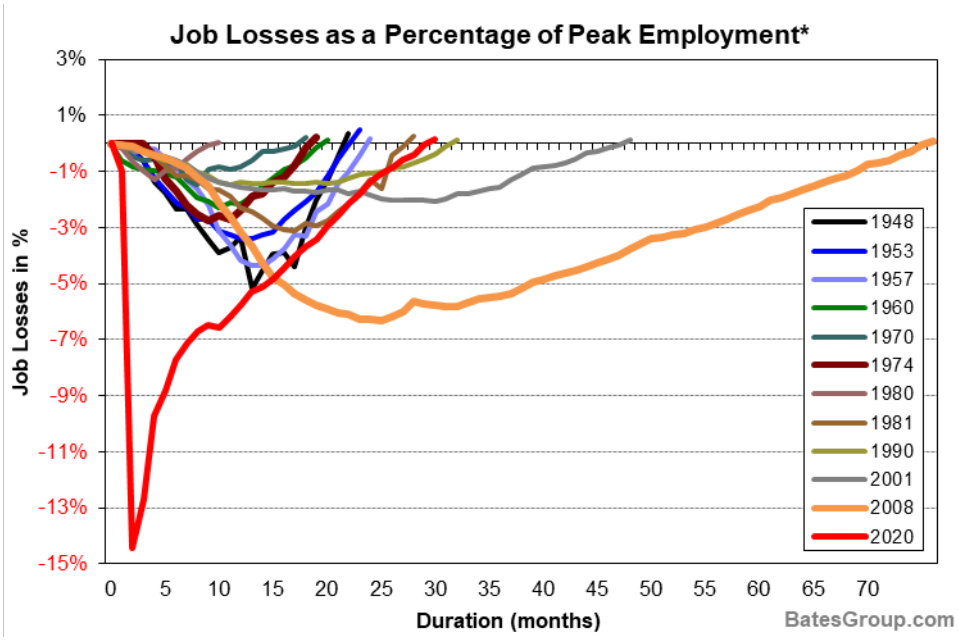
A fuller, or better measure of unemployment is the U-6 number, which is often referred to as the 'real' unemployment rate. In December it rose to 8.4%.

The U-6 number measures people who are either unemployed, have given up on finding work, or are only marginally employed.



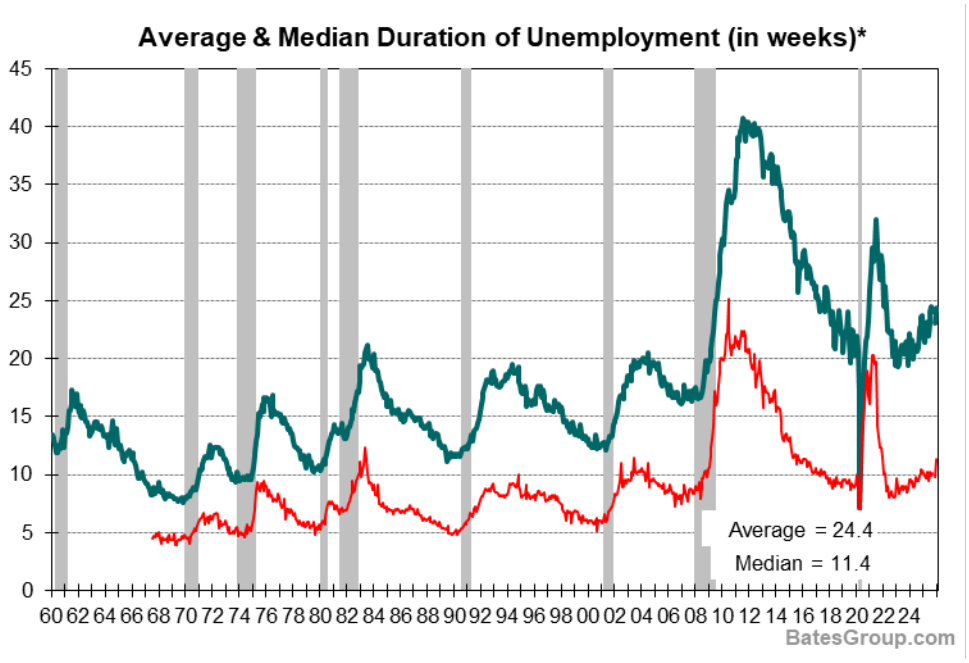
2020 was notable for the steepest decline in employment since the Great Depression. In just two months in early 2020, nearly 15% of the workforce lost their jobs.

It also marked the worst jobs recession in post-WW II history. Since then, the job situation has bounced back above pre-pandemic levels.



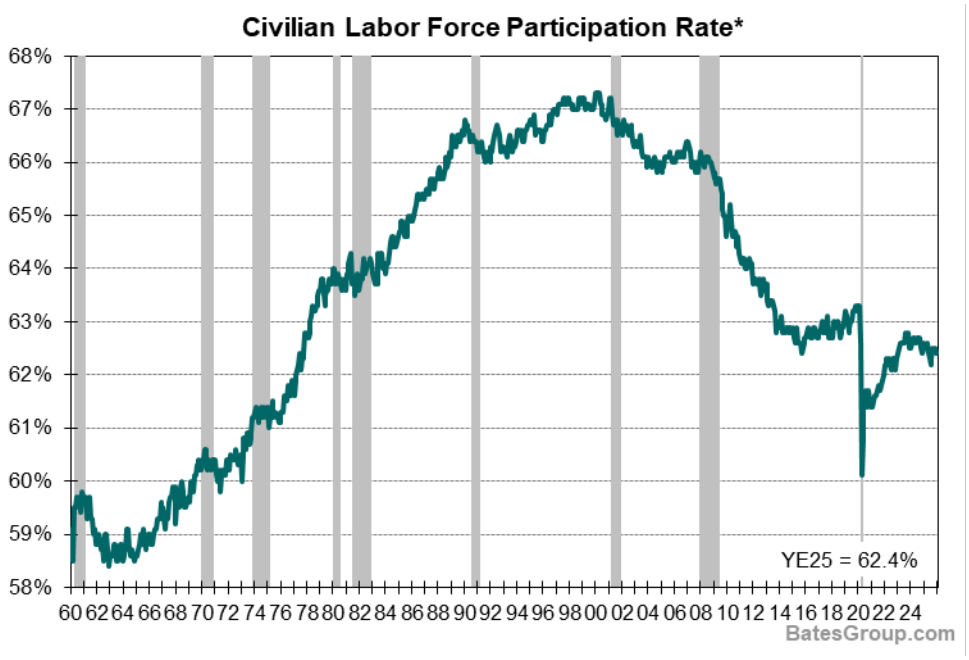
** Shaded areas represent recessions*
Source: Bureau of Labor Statistics

After declining from the recent peak in 2020, the average duration of unemployment has continued to rise over the past two years. In December 2025, the average duration of unemployment was at 24.4 weeks while the median length of unemployment was 11.4 weeks.



The civilian labor force participation rate declined from the 1980-2000 period in large part due to secular changes. Beginning in the 2000s, baby boomers began reaching retirement age and started dropping out of the labor force.

However, other changes also accounted for the decline. Life cycle or generational changes have recently led to less men participating in the labor force compared to earlier generations.

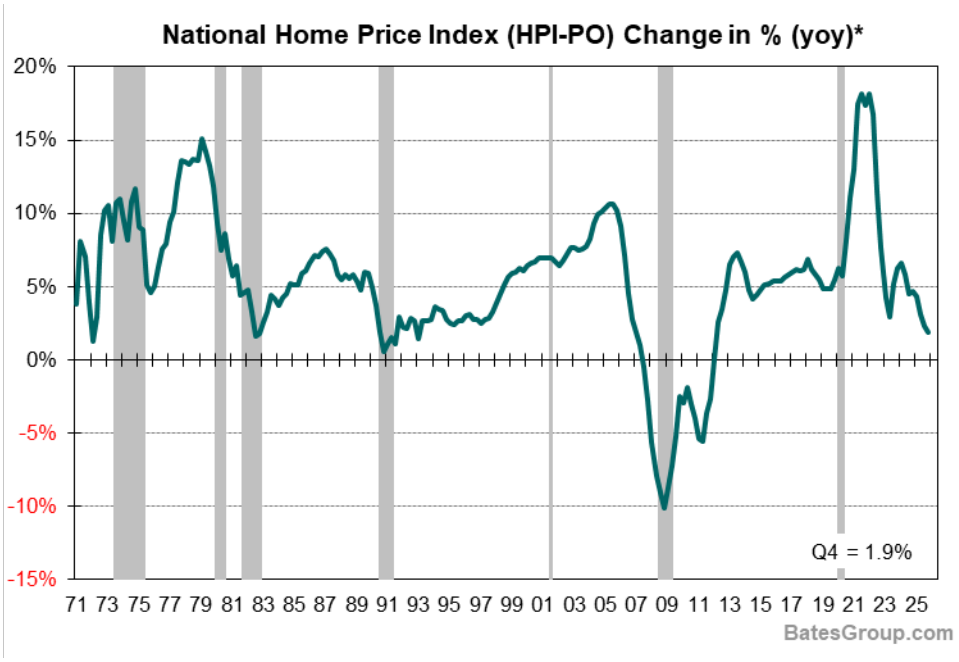


** Shaded areas represent recessions*
Source: Bureau of Labor Statistics

Housing

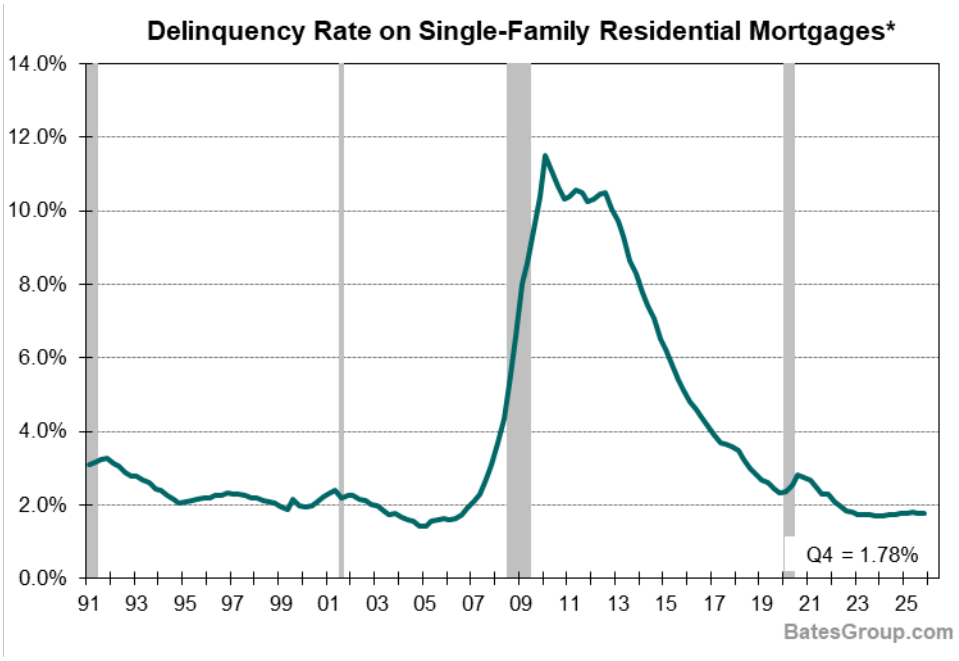
Housing price appreciation (purchases only) trended lower in 2025, with only a 1.9% year-over-year (yoy) gain in the last quarter. This was down from the 4.7% gain in housing prices in 2024.

Of the nine census divisions, the East North Central region experienced the strongest price increase, up 5.2% yoy. The weakest division was the Mountain where prices fell 0.6% yoy.



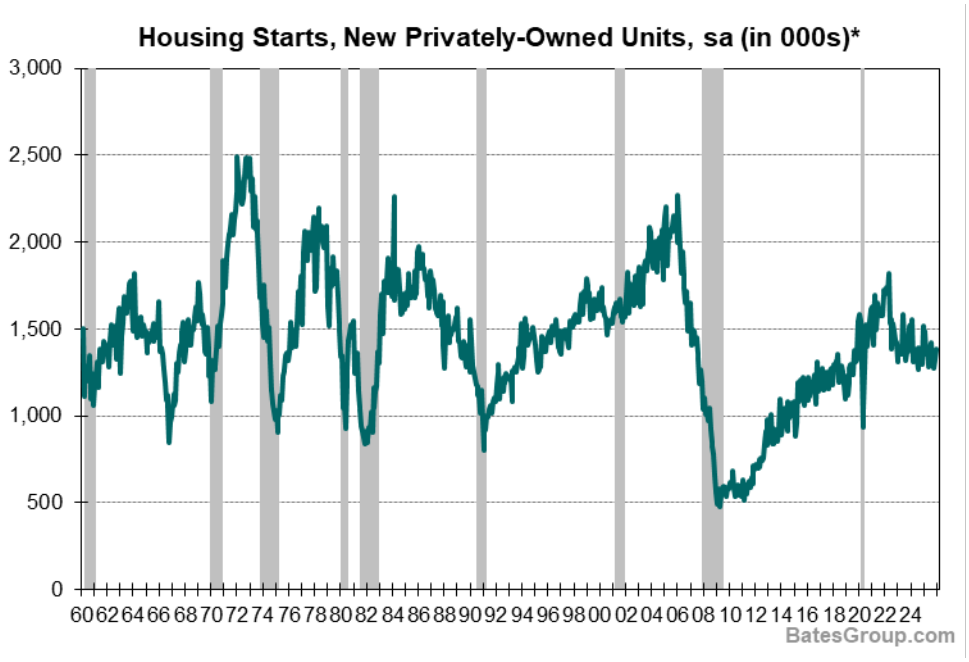
According to the Federal Reserve, delinquency rates on single-family residential mortgages remained flat, ending Q4 at 1.78% compared to 1.77% at the end of 2024.

In contrast, Fannie Mae's serious delinquency rate for single-family homes was 0.58%, virtually unchanged from the prior year.



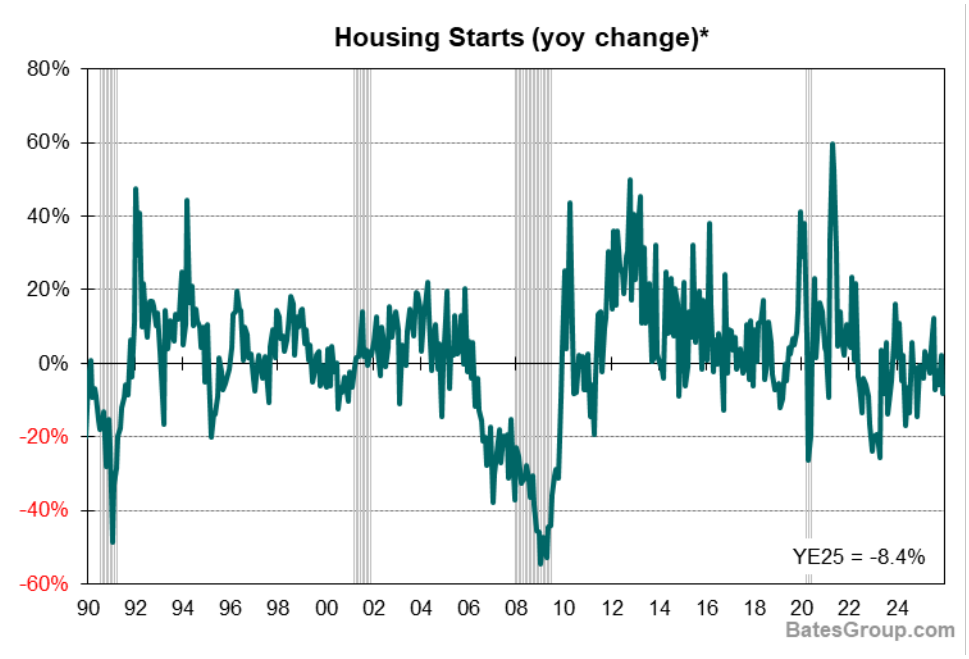
** Shaded areas represent recessions*
Source: FHFA, Federal Reserve, Bloomberg

In 2025, the number of new home constructions fell compared to the previous year. In December 1.39 million units were started.



On an annual basis, housing starts fell 8.4% in December from a year earlier.

The South region was the weakest for housing starts with total units started down 16% from the prior year. In contrast, housing starts in the West region were up over 19% yoy.



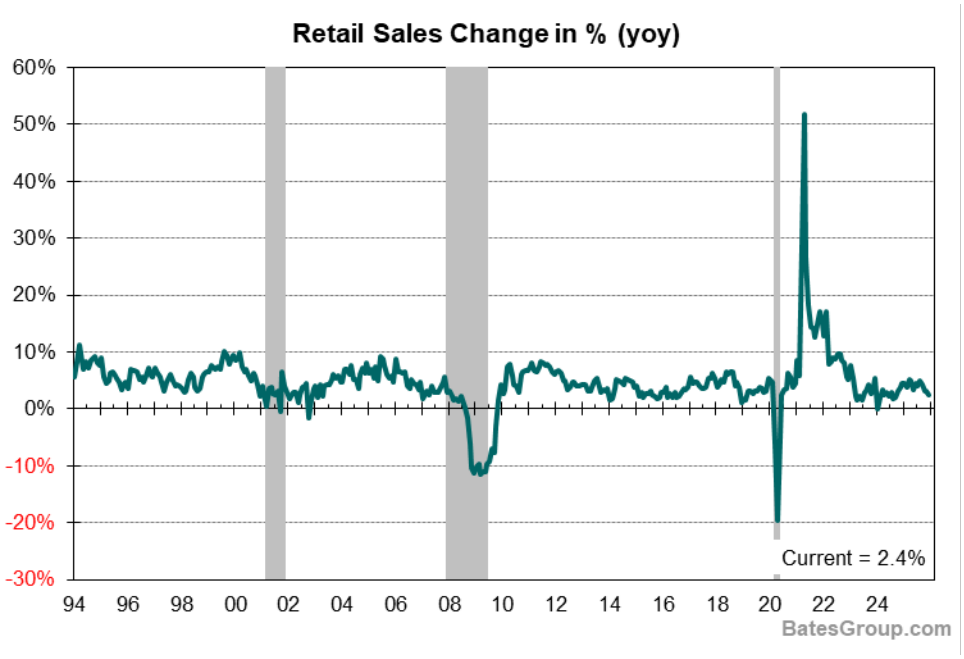
** Shaded areas represent recessions*
Source: Census Bureau, HUD

The Consumer

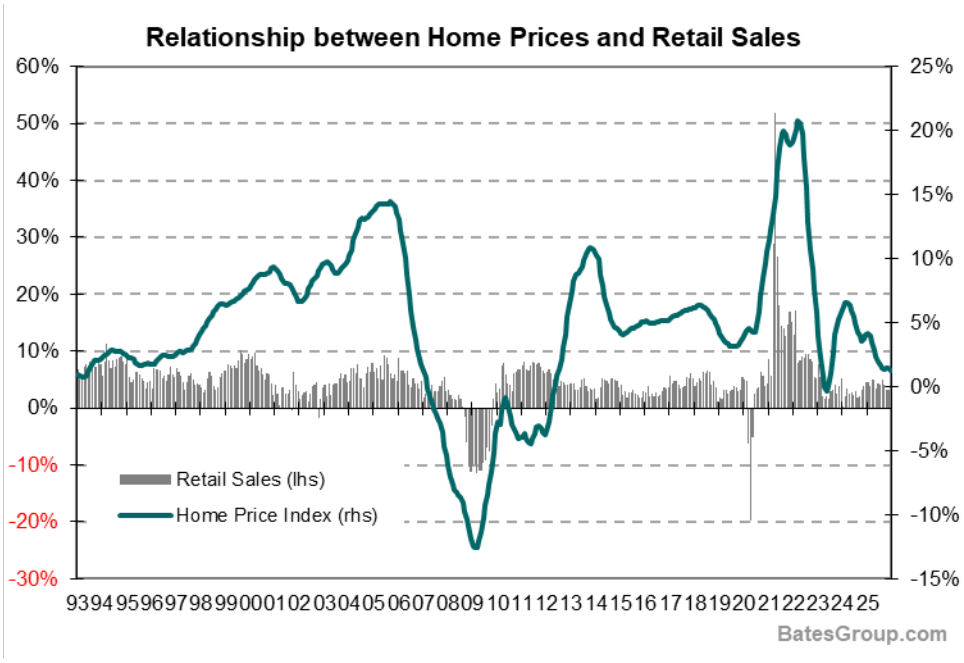
In the last month of 2025, the advance estimate of retail sales was flat compared to the previous month, while year-over-year (yoy) retail sales increased an estimated 2.4%.

On a 12-month basis, miscellaneous store retailers showed the largest gain, up 9.2%, while health and personal care stores were up 7.0%.

Gas station sales were the weakest, down 1.4%, followed by building material dealers with a 1.3% yoy decline.



The chart to the right shows the relationship between home prices and retail sales.

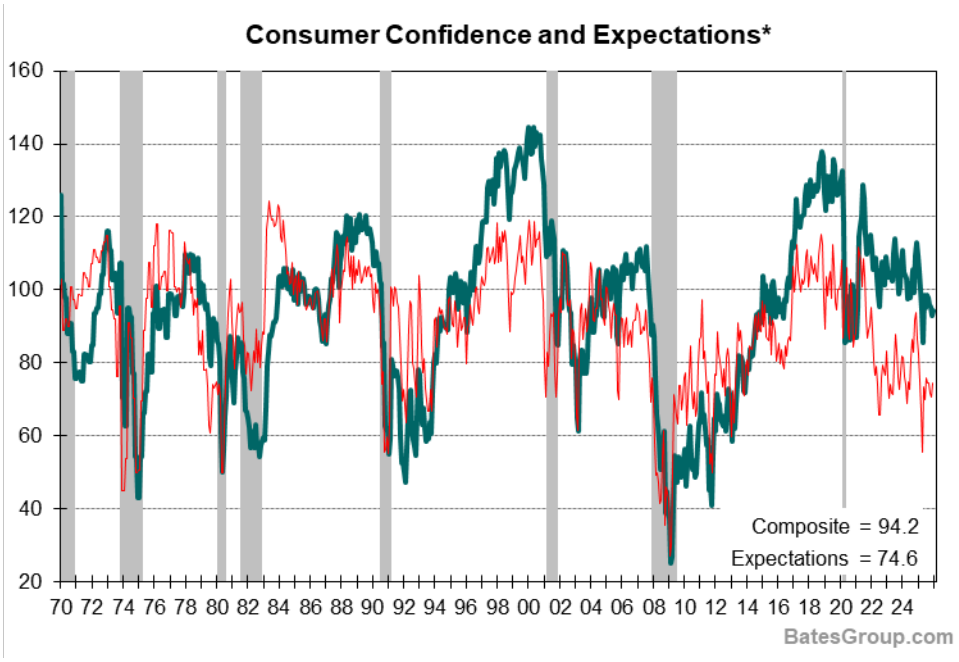


** Shaded areas represent recessions*
Source: U.S. Census Bureau, FHFA

Consumer confidence was lower at the end of 2025 with an index level of 94.2 compared to 109.5 in December 2024.

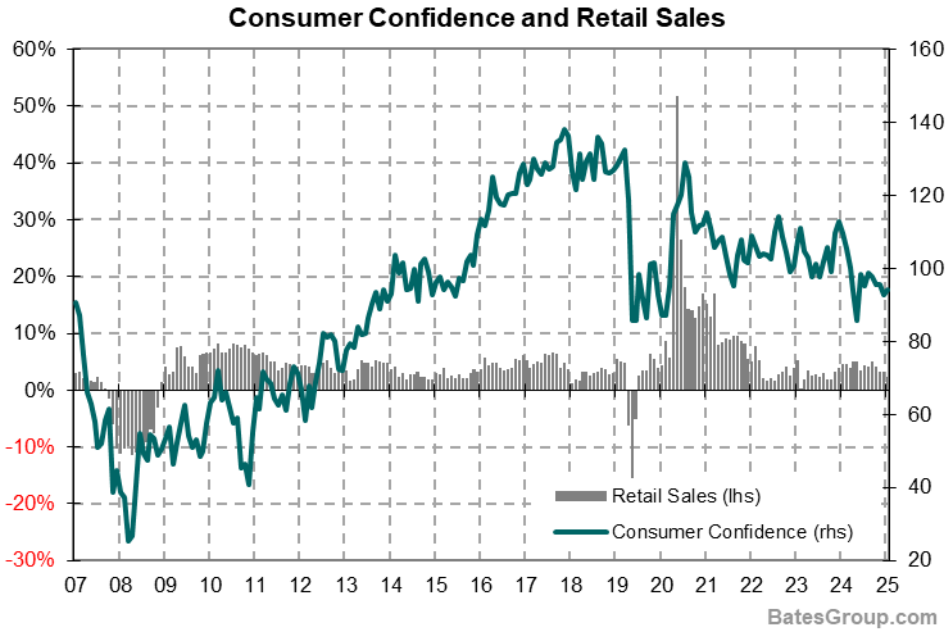
The consumer expectations index was 74.6 in December 2025 compared to 86.5 a year earlier.

With consumer spending accounting for roughly 70% of economic activity, consumer confidence is a key metric for gauging spending trends.



As the chart to the right highlights, consumer confidence tends to be a good barometer of retail spending levels.

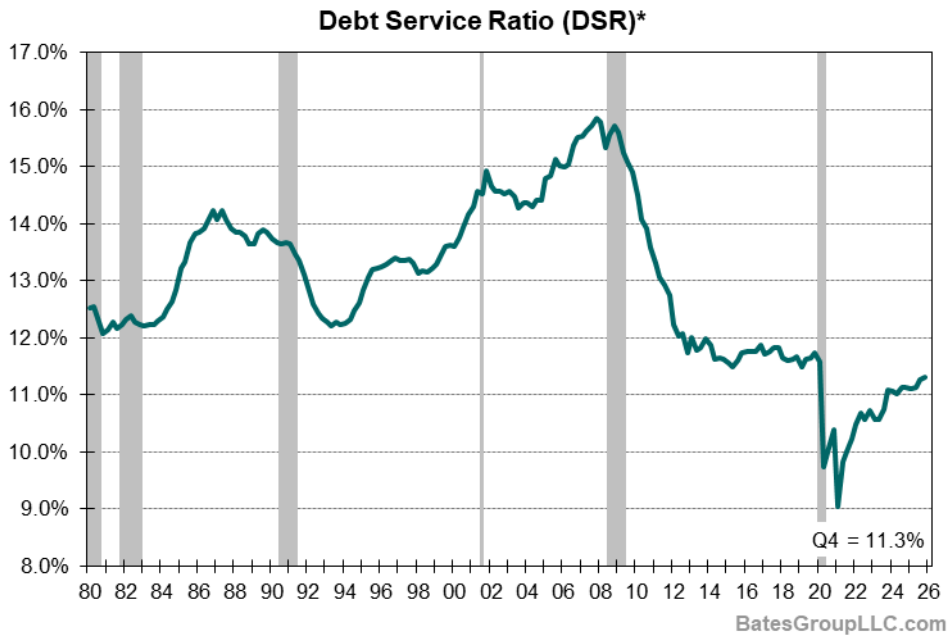
As consumer spending accounts for roughly 70% of economic activity, the consumer confidence measure is a key metric for gauging spending and economic trends.



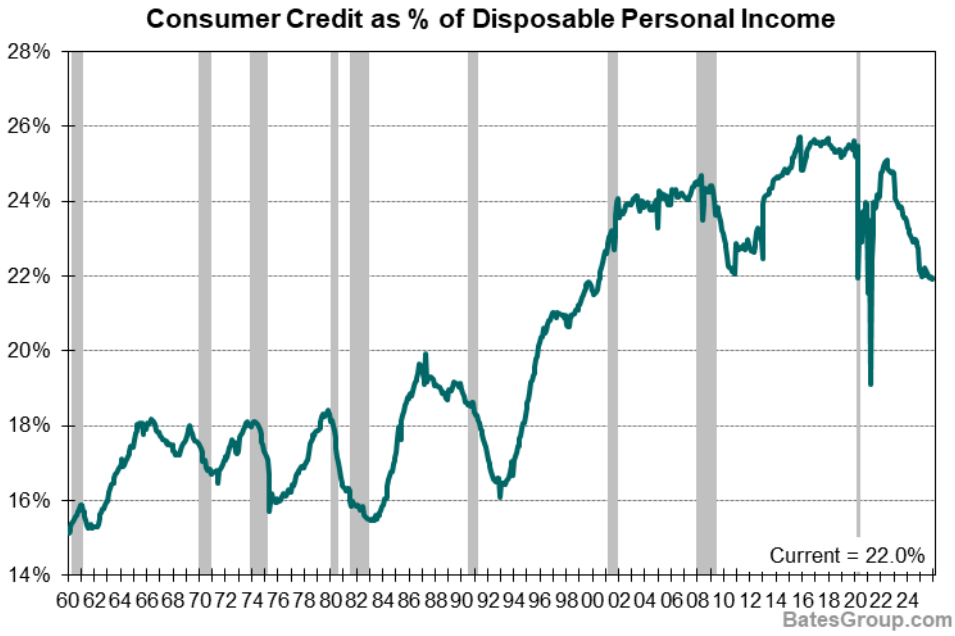
** Shaded areas represent recessions*
Source: The Conference Board, U.S. Census Bureau

The Federal Reserve's Debt Service Ratio (DSR) is an estimate of total required household debt payments as a percentage of total disposable income.

During the pandemic the debt level fell to the lowest level since the Federal Reserve began tabulating the data. Since 2022 the economic metric has bee steadily rising again.



After significant household deleveraging during the credit crisis in 2008-2010, consumer credit expanded in the 2013-2019 period. That all changed in early 2020 as pandemic-fueled financial fears drove consumer credit levels sharply lower.

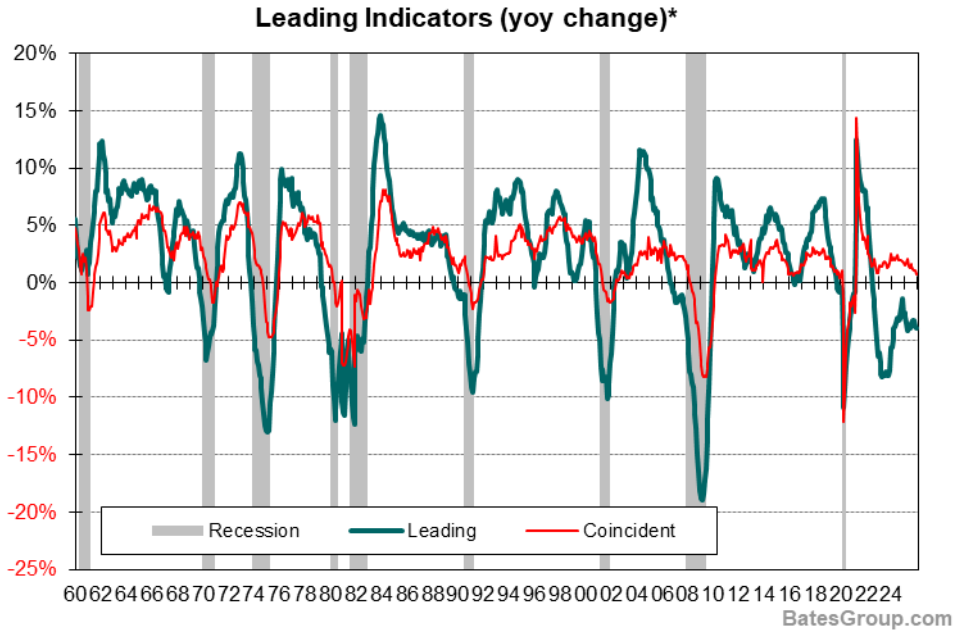


** Shaded areas represent recessions*
Source: Federal Reserve

Industry Indicators

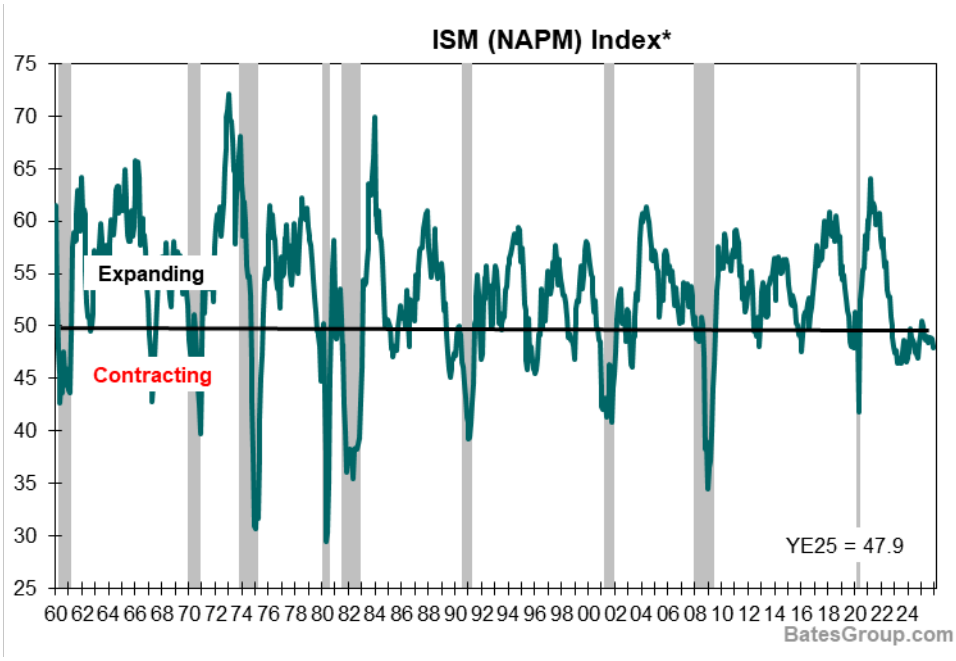
In a sign that the U.S. economy may be slowing, the index of leading indicators declined to 97.6 in December, from 101.6 at the end of 2024.

According to the Conference Board, a number of factors contributed to the decline including persistently weak consumer expectations and labor market conditions.



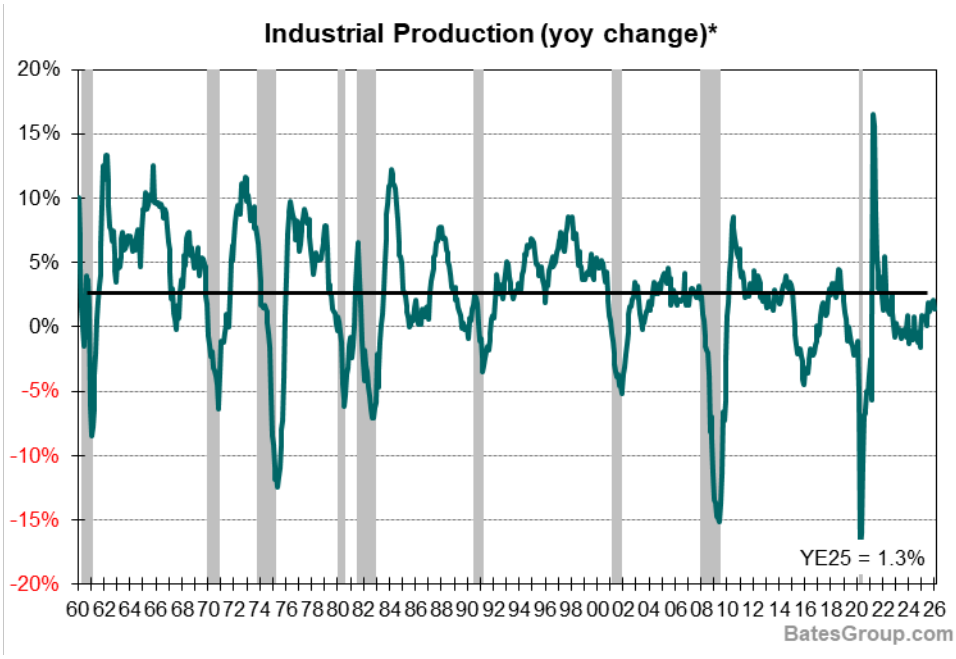
The Institute for Supply Management Index, a gauge of the health of the manufacturing sector, continued to remain in contraction territory at 47.9 in December 2025.

According to ISM, a reading below 50 represents a contraction in manufacturing activity.



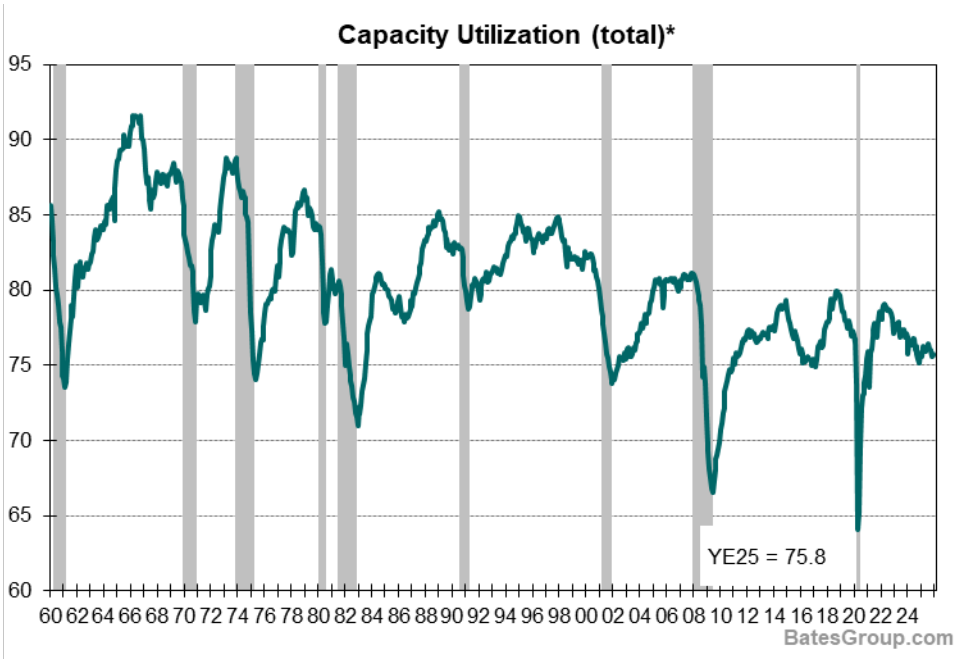
** Shaded areas represent recessions*
Source: The Conference Board, Institute for Supply Management

Industrial production rose 1.3% yoy in December with strength in business equipment up a strong 10.1% yoy. Consumer goods and nonindustrial supplies were the weakest areas with both showing gains of only 0.7%.



In December, the utilization rate was 75.8%, below the long-term average of 79.5%.

The mining utilization rate was 83.8% while utilities was 73.8%. Manufacturing utilization was 74.9%.

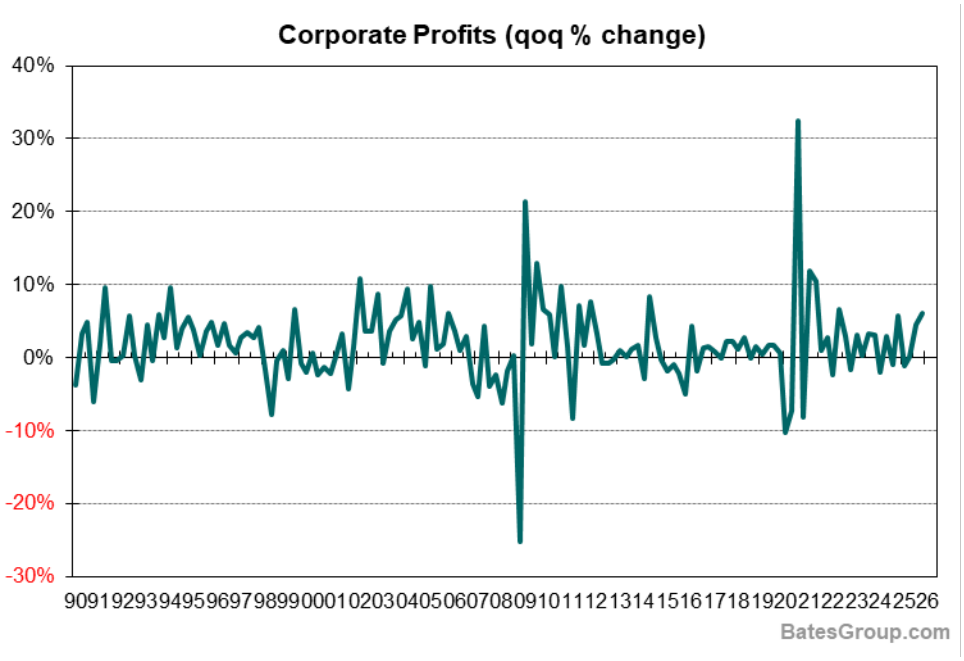


** Shaded areas represent recessions*
Source: Federal Reserve

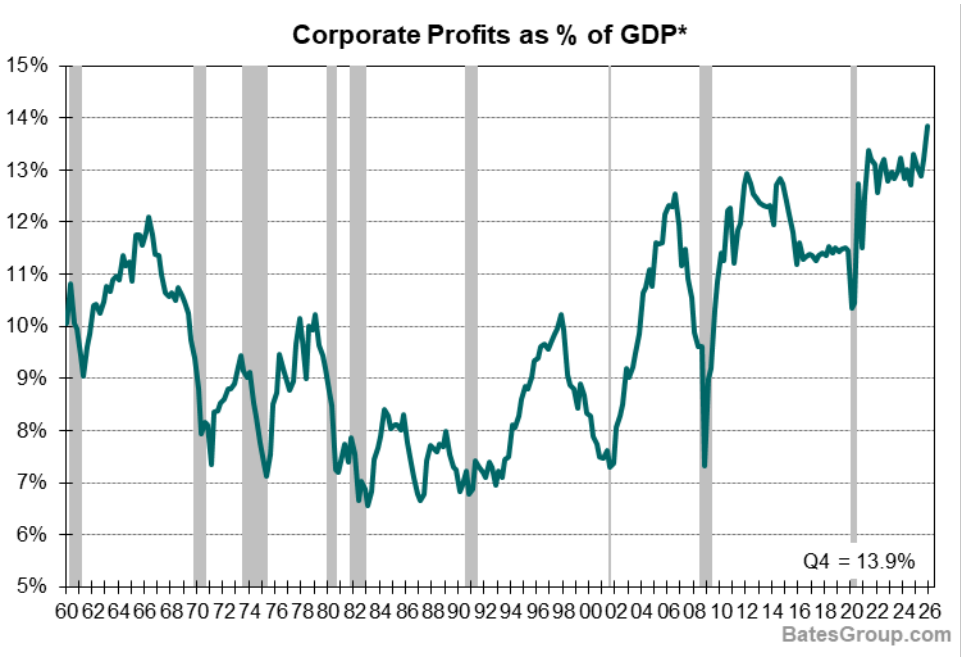
Corporate Profits

In the last quarter of the year overall corporate profits increased 6.0% to approximately $4,352 billion. Domestically, corporate profits were up 3.9%.

In the fourth quarter of 2025, profits for domestic financial corporations increased $154.9 billion from a year earlier, and profits for domestic nonfinancial companies were up $123.2 billion.



Corporate profit margins as measured by the ratio of corporate profits to GDP increased to 13.9% in the fourth quarter of 2025.



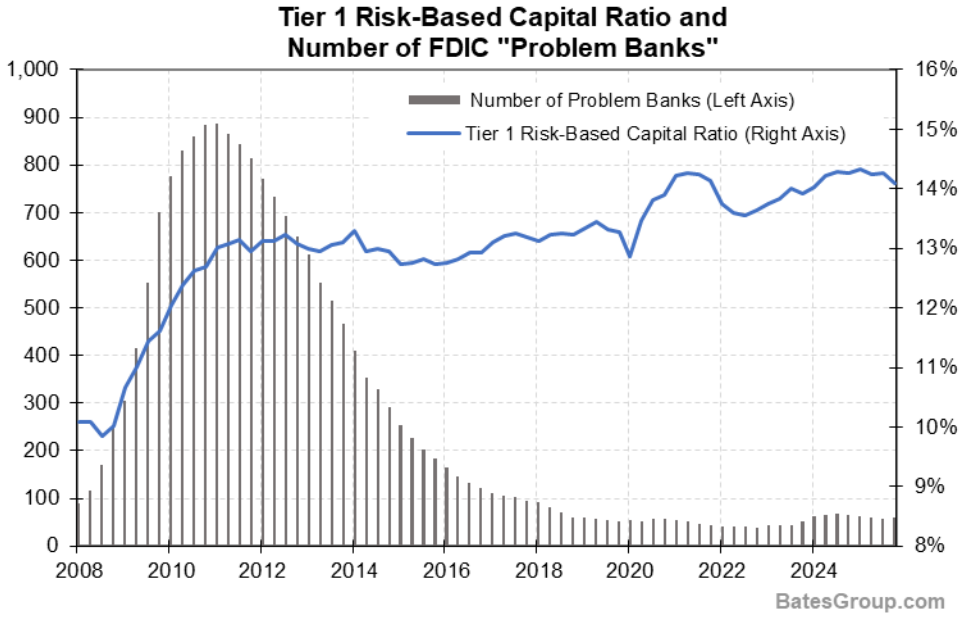
** Shaded areas represent recessions*
Source: Bureau of Economic Analysis

Banking Industry

Capital ratios remained constant in 2025, and the banking industry's financial strength continued to remain solid with risk-based Tier 1 capital ratios above 14%.

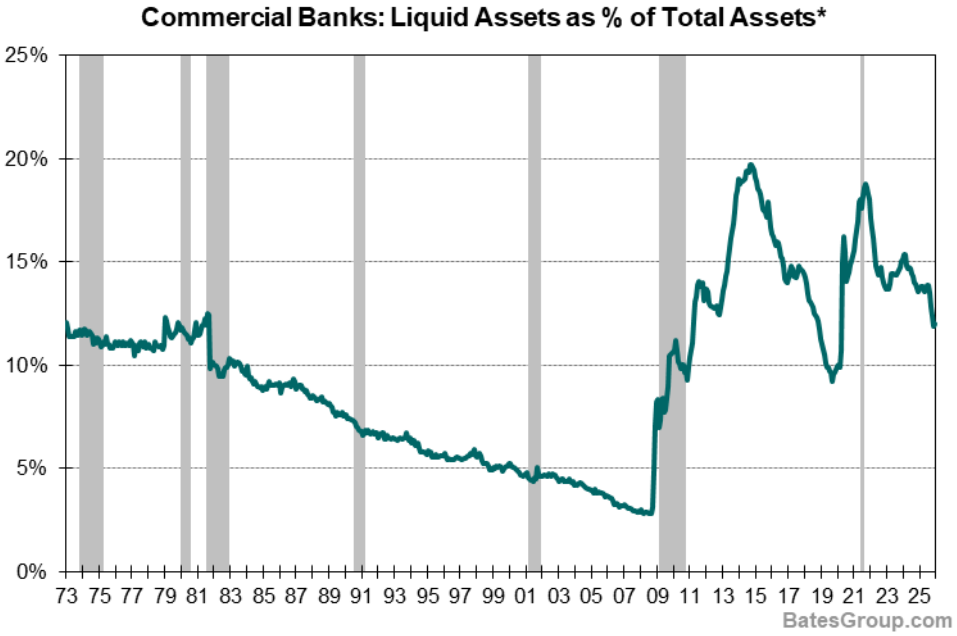
The number of problem FDIC institutions declined in the fourth quarter of 2025 to 60 from 66 at the end of 2024.

A problem bank is one that has a CAMELS composite rating of 3,4 or 5 signifying financial, managerial or operational weakness.



Aggregate liquidity ratios for commercial banks, defined as cash and CE as a percentage of total assets, declined in December 2025 to 12.0% from 13.6% a year earlier.

Cash as a percent of total deposits also declined in 2025, ending the year at 15.9% compared to 17.9% a year earlier.

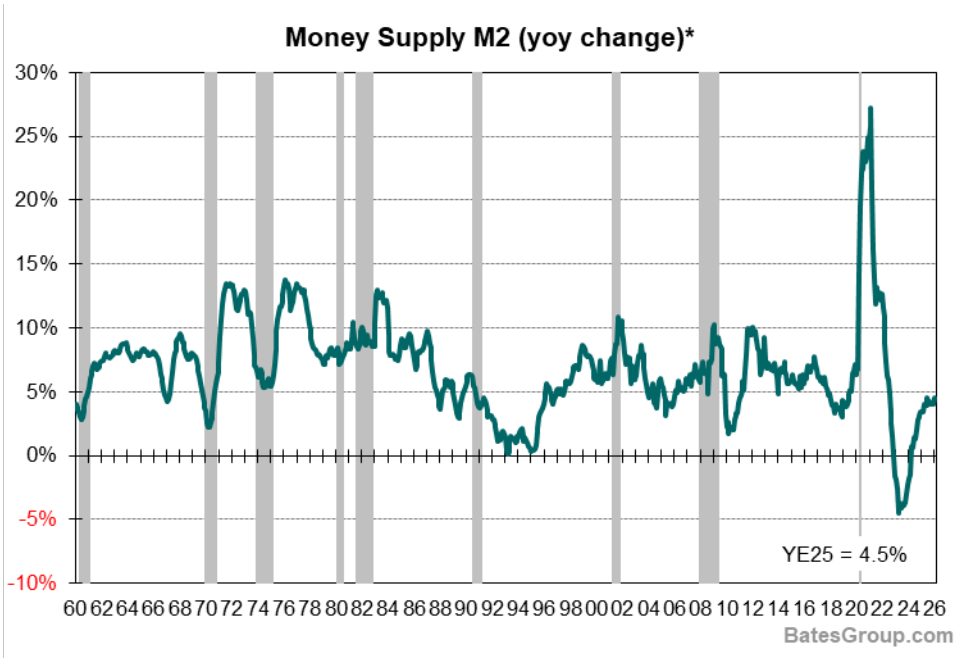


** Shaded areas represent recessions*
Source: Federal Reserve, FDIC, OCC Comptroller's Handbook, Problem Bank Supervision, September 2021.

Money Supply

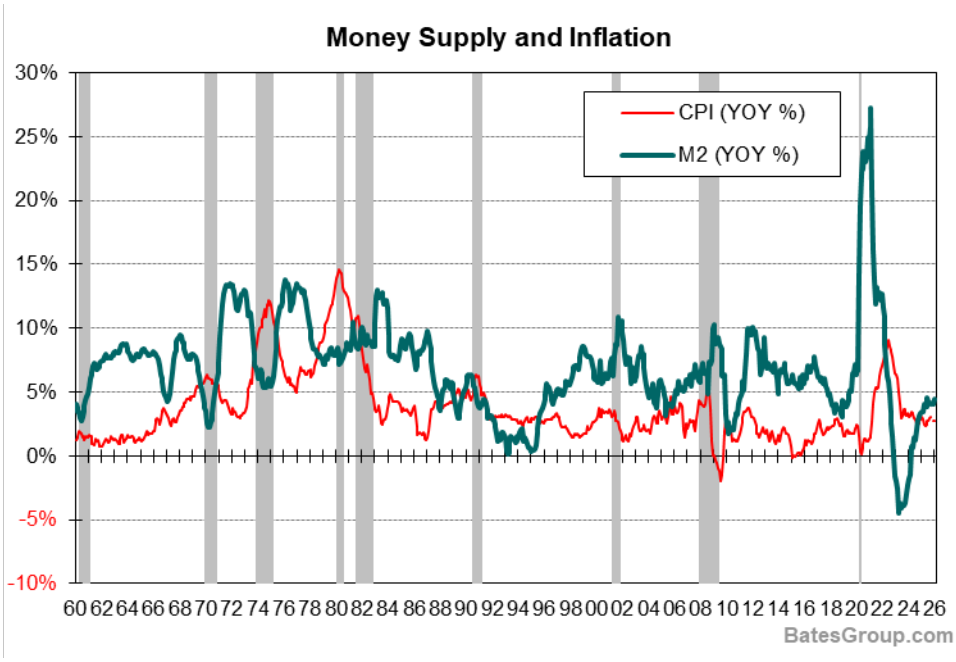
The growth in money supply turned positive in 2024 and remained positive through 2025 as the Federal Reserve began to relax its restrictive policies aimed at reducing inflation.

It bears noting, that in 2022, M2 money supply experienced one of its steepest drops in history following one of the most rapid increases in history.



Contrary to popular belief, money supply, although one of the factors, is not the determining factor in inflationary growth.

As the chart to the right shows, there is a low correlation between growth in M2 money supply and growth in inflation. Even adjusting for a time lag (i.e. money supply growth precedes inflation changes by 6 months or a year) the correlation, or relationship, is still weak.



Source: Federal Reserve, U.S. Bureau of Labor Statistics, Bates Research

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