

Chris Hyzy:

This is Chris Hyzy, Chief Investment Officer for the March Viewpoint titled, “Interesting Times.” We believe 2026 is setting up as an economic and market backdrop that contains many interesting aspects in all in the face of a sharp rise in geopolitical risk, specifically across the Middle East.

As we highlighted in our viewpoint year ahead for this year which was titled “The Bull Powers On”, we expected growth environment around the world that would likely to surprise through the year with a rotation across and within equity markets following that lead. So, the world that was likely to move forward was one which would be different, but also as expected once growth picked up.

To start the year, a number of worries have pressured various areas across the capital markets. We maintain our proud bull pieces for this year despite the list of concerns, as believe the broader backdrop is on solid footing.

What are the 2026 expected developments? Here they are. Number one, economic growth in the U.S. and around the world is regathering momentum. The growth backdrop should not be materially affected by the escalating conflicts in the Middle East. The U.S. consumer remains resilient in aggregate despite some areas that have become more selective. Capital investment is powering ahead and doesn’t appear to be slowing down anytime soon. Fiscal spending overseas is now creating a transparent tailwind to growth, not just in Europe but in other parts of the developed world.

Lower short-term rates in the U.S. are on track, while longer term rates still remain sticky despite the recent volatility. Natural resource demand namely metals and advanced powered generation are all growing well

above trend. The U.S. dollar remains in a slightly weak path despite this recent short-term strength. Geopolitical risk remains highly elevated and unclear. Artificial intelligence disruption concerns are still reverberating into new areas. We don't expect this to slow down, but in the end, AI sitting on top of the chip stack is how we viewed it, not necessarily disrupting all of the chip stack, including software.

Credit concerns are rising as refinancing timetables roll in. Stronger growth and transparent outlook on rates should help alleviate the worries overtime. And finally, higher than normal volatility presents itself in midterm election years. This has proven to be normal in our opinion.

Now, what do we expect to unfold this year across the markets given the views that we just presented? Well first, equity market rebalancing should continue. The equal weighted S&P 500 index year-to-date is outperforming the market capitalization weighted main index by more than 6%. Now, this is as of February 26th. Value is generally outperforming growth, small and midcap shares are also outperforming even in the face of this latest down draft. The valuation of mega cap technology shares has dropped considerably, and portfolio flows are filtering into other more asset-heavy areas. The asset-light areas such as software are subsidizing the lift in prices in power generation, utility infrastructure, component manufactures, energy, metals, and materials just to name a few. We expect this to continue.

Geographic rebalancing marches on. Non-U.S. markets including the emerging markets continue to outperform the U.S. in the medium term. Now, this short-term digression here as it relates to an exhale in those areas due to the conflict in the Middle East, we expect that to slowdown as we get into the middle parts of the year. Emerging markets may exhale in

the very short term given the oil price concerns and risk of sediment, but their fundamentals collectively are strong and should pierce through again the short-term disruptions.

The recent up move in consumer staple sector is a defensive move, and we believe that will likely fade as more cyclical shares regain their footing as growth proves to be better than expected as we work through the year. Higher nominal growth leads to better topline growth in our opinion. This better growth outlook mixed with productivity upcycle and cost management can also lead to positive surprises on margin.

In the end, equity momentum can follow profit margins higher as they both march on. To diversify portfolios concentrated and large cap U.S. consider adding exposure to small caps and emerging markets on weakness, maintain an overweight to equities but diversify overseas. Look for new sector leadership – in other words, financials, industrials, utilities, and to a certain degree, healthcare continue to gather momentum later this year. Consider trimming down exposure to technology and communication services if exposure is too heavy.

In terms of precious metals, gold continues to be supported by fiscal expansion, elevated geopolitical risk, and reserve diversification, while silver remains supported by rising long-term industrial usage and advance automation application.

And finally, for thematic investment exposure as addition to diversified portfolios, we expect biotechnology, life sciences, and robotics in general to be a major beneficiary of AI applications and industrial infrastructure in modernizing the grid system overtime. We also expect power generation, aerospace, and defense to be the largest receivers of investment capitals in

the year ahead. Aerospace and defense for obvious reasons, has risen significantly in the past few days, and now, valuations are a little frothy. So, on weakness, aerospace and defense areas remain attractive.

Bottomline, we expect weak episodes in the equity markets, primarily driven by high headline risk, as a potential buying and/or rebalancing opportunities, given the better economic growth that we see unfolding in the months ahead. Also, given our view of transparency on rates, an eventual reflationary tailwinds from double digit profit growth and margin expansions. Stay the course. These are interesting times indeed, but we should climb the wall of worry once again as economic and profit growth powers ahead.

That will do it for today. Thanks for listening.

Operator:

Please see important information provided in this report.

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