

Chris Hyzy:

This is Chris Hyzy, Chief Investment Officer for the November viewpoint titled as the Flywheel Hums. We are now post-Halloween period as we move towards the end of the year. The flywheel is humming with U.S. markets at or close to all-time highs as we work through a solid corporate earnings season, easier financial conditions, and easing trade pressures with China. Valuations still remain high and concerns regarding lower-quality credits are whispering in the alleys, but the consumer in aggregate remains healthy and artificial intelligence, in other words known as AI. Capital investment is driving investor enthusiasm. Therefore, we expect the equity uptrend to hold heading into year-end. Of course, it is normal to have a watchful eye out for signs that our positive investment narrative is getting tired or showing some small signs of strain, but we believe we are still early to mid-cycle in this capital investment and productivity boom. We will continue to examine credit spreads, employment trends, AI financing arrangements, Fed action, and detailed consumer spending patterns as we work our way through 2025 and into 2026. Capital markets enjoy rising profits and lower rates, which backstops our positive outlook for next year. We are heading into year four of a bull run, which has largely been fueled by a narrow technology and technology-like corner of the market. This, in our view, has been justified by the flywheel concept of triple momentum. We call earnings momentum, news, and price momentum. Having said this, we should expect potential returns to more closely match profit growth, in other words, high single-digit growth percentages in the coming year, given the high price-to-earnings multiples, rather than just counting on both price-to-earnings multiple expansion and profit appreciation to power another year of well-above average returns in the S&P 500. We prefer to level-set our expectations and rely on the denominator, which is corporate profits for the S&P 500, to drive another uptrend in equities in 2026. This rational

thinking also supports our view that over the course of a full cycle, think six to seven years, we believe the S&P 500 can potentially double from the 6500 level, we discussed a few months back in August. This would require average annual returns, including dividends, closer to historical norms around 9% to 11%, versus approximately 15%, including dividends that has been produced in the last six and a half years through January 1, 2019, through August end of 2025.

In addition to broad and diversified equity exposure, we favor adding growth themes and attractive dividend strategies on weakness, given our Eight trends we expect to continue to unfold in the coming years. The flywheel hums heading into 2026, but we also focus our efforts on a full business cycle term, which centers around, again, our eight trends in the next six to seven years. We believe the eight are still in their infancy, but will not be without pockets of above-average volatility from time to time. Therefore, we continue to emphasize a diversified approach to building an overall portfolio across all asset classes. We would use market weakness and excessive strength also to rebalance your tactical exposures and be mindful of overexposure to areas more vulnerable to unexpected increases in the cost of capital, driven by yield spikes or Fed hikes in the future. In our opinion, the four main probability scenarios heading into 2026 remain. Our bull case at 25%, our base case at 55%, a bear case at 15%, and a grizzly case at 5%.

Here are the eight. Number one, the next business cycle could produce the greatest increase in productivity in history, in our opinion. Two, we are still early in the AI investment cycle. We believe we are building the digital infrastructure and power generating capacity of the global economy. Three, the S&P 500 could likely double from 6,500 through the August to 25 level through and into the next six and a half years to 13,000

as corporate profits rise more than expected. Four, the private markets are already, in our view, creating the next magnificent seven innovation leaders. Five, yields are likely range bound for the next few years in a more normal yield curve environment. Six, gold continues to be a hedge on multiple concerns as the new world order evolves. Seven, premium valuations relative to history are likely here to stay as the supply of assets drops relative to the demand for assets. Finally, eight, we are likely in the beginning stages of another great investment cycle. Don't time the markets overall. It's more important to have time in the markets. Stay diversified. Stay ready. Watch out for overexposure to the hyper growth and momentum areas overall. That will be good for today. Thanks for listening.

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