



CARSON

Investment
Research

Market Outlook 2026

RIDING THE WAVE



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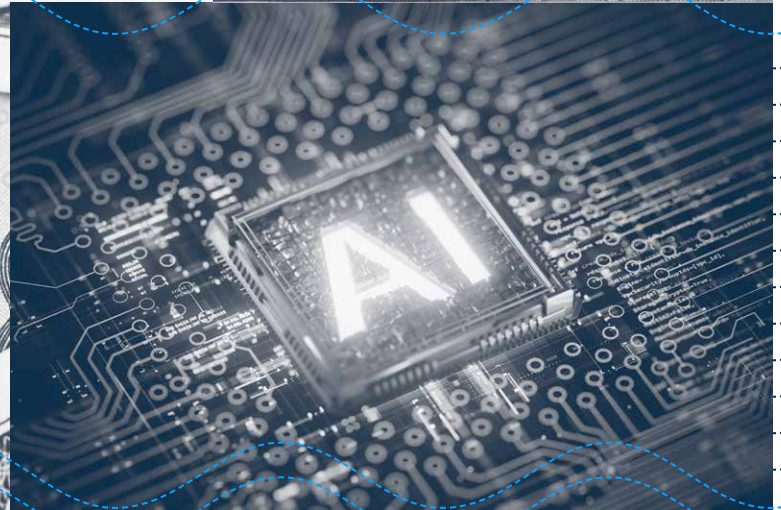
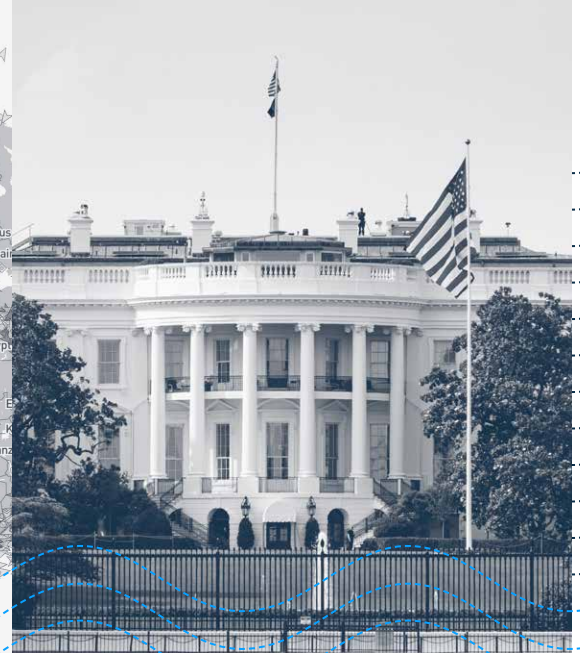
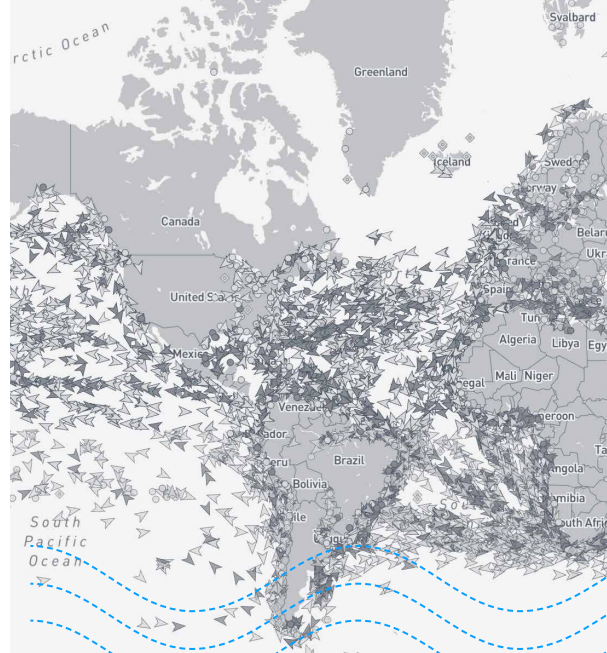
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Markets and the economy are riding a wave right now. Three powerful forces—expansive fiscal policy, a decisive shift in monetary policy, and the extraordinary surge in artificial-intelligence investment—are all carrying markets forward.

Looking at each in turn, the federal government is providing deficit-financed stimulus at levels not seen outside wartime or recession. The Federal Reserve has moved from a historic tightening cycle to active rate cutting. And AI spending (and enthusiasm) has not only sustained equity markets, but has also begun to show up as a meaningful driver of economic growth just over three years after the public release of ChatGPT.

Despite this favorable backdrop, the economy is not without risk. The unemployment rate has drifted higher and parts of the economy have cooled. Tariff policy, while not as bad as feared, has created challenges for many businesses. The underlying growth engine today is not as strong as it was in the immediate post-pandemic rebound, but the cushion against a meaningful shock has widened. Government largesse, a powerful technology-spending boom, wealth effects from rising home prices and equity markets, and generally healthy consumer and corporate balance sheets have all contributed to a remarkable degree of resilience. Waves can crest and crash, but right now the underlying momentum argues for seeking participation, not bailing out.

The path to get here hasn't been easy. Going into 2025, we saw potential for a rise in economic "animal spirits," as fiscal stimulus from the One Big Beautiful Bill Act (OBBBA), easier monetary policy, and a looser regulatory environment potentially shifted the market mood. Then came "Liberation Day," a burst of policy overreach that scrambled expectations and tossed

markets into uncharted waters, the theme of our 2025 Midyear Outlook. What should have been a straightforward expansion suddenly had currents moving in different directions: strong fundamentals on one side, political turbulence on the other. But even then, we saw a path through the uncertainty and did not lower our stock target.

Even now, the macro picture shows moderate slowing. But corporate earnings have powered ahead and markets ultimately behaved as if catching the next wave mattered more than the uncertainty that surrounded them. Yes, the S&P 500 fell roughly 18% from its February peak to the April 8 low—the moment turbulence reached full force. But from there, underlying support reasserted itself even if the mood has remained sour. **By year end, the S&P 500 posted a total return of 17.9%. International equities did even better, with the MSCI ACWI ex-US, a broad international benchmark, returning 33.1%. Bonds finally had their moment, too: the Bloomberg Aggregate Bond Index delivered 7.3%.**

Policy support explains part of the story, and employer reluctance to cut staff has also contributed, helping to sustain consumer spending. But the defining surprise of the year was the scale and speed of AI-related investment. Firms spent aggressively on data centers, chips, cloud capacity, and a sprawling web of alliances and acquisitions. The level of investment is historic and large enough to influence economic growth even as the level of spending starts to create new concerns.

That's the wave rolling beneath the economy today: a mix of policy support, solid fundamentals, and transformational technology. The question as we look ahead is not whether a wave exists—it plainly does—but how long it can carry us. We present our thoughts on that and other key questions for markets over the next year in *Outlook 2026: Riding the Wave*.

'26 Forecast

- » A wave of deficit-financed stimulus, lower rates, and AI spending lifts profits despite labor market risk.
- » High starting yields help but inflation uncertainty may limit participation in rate cuts.

RETURNS

Stocks
12-15%

Bonds
3-5%

Current View At-a-Glance

| | | Economic | | Valuations | | | | |
|----------------------------|-----------------|-------------------|--------|------------|------------|---|-------------------|--|
| | | Strategic View | Policy | | Technicals | | Tactical View | |
| EQUITIES | | Overweight | + | = | + | = | Overweight | Economic growth may be a little below trend but fiscal stimulus, lower rates, and a strong international backdrop likely to provide solid support for earnings |
| U.S. Equities | | Neutral | + | = | = | - | Neutral | US still an innovation leader but opportunities also look attractive abroad |
| International Equities | | Neutral | + | = | + | + | Neutral | Valuations relatively attractive and stimulus, trade relations ex-US may provide an economic edge |
| Emerging Markets | | Underweight | = | - | + | = | Neutral | Policy risk, especially in China, remains a major issue; likely to benefit from lower rates |
| U.S. Equities | Large Cap | Overweight | + | + | + | - | Neutral | Solid companies up top, including AI leaders, but some valuations stretched |
| | Mid & Small Cap | Underweight | = | = | - | + | Neutral | Rewards for scale may still be the focus but rates may help |
| | Growth | Neutral | = | + | + | - | Neutral | Rich valuations a headwind but fundamentals are solid; home of many higher momentum stocks |
| | Value | Neutral | = | = | = | + | Neutral | Some traditional value sectors may benefit from deregulation; source of diversification if AI stumbles |
| | | | | | | | | |
| FIXED INCOME | | Underweight | = | - | = | = | Underweight | We still prefer stocks but yields still attractive |
| Treasuries | | Overweight | = | = | = | + | Overweight | Moderate gains can continue given yields; still the best diversifier if there is an economic downturn |
| Investment Grade Corporate | | Underweight | = | + | = | - | Underweight | Spreads are tight but balance sheets still strong and economy supportive |
| High Yield | | Underweight | = | + | = | - | Underweight | Spreads are tight, credit cycle getting later, and we find stocks more attractive |
| Diversifiers | Cash | Underweight | + | = | = | = | Overweight | Rates still attractive for now, even with the Fed cutting; safer than core bonds if inflation surprises |
| | Diversifiers | Overweight | = | + | + | = | Overweight | Modest exposure to gold as a hedge still merited; managed futures can add diversification |



The Economy

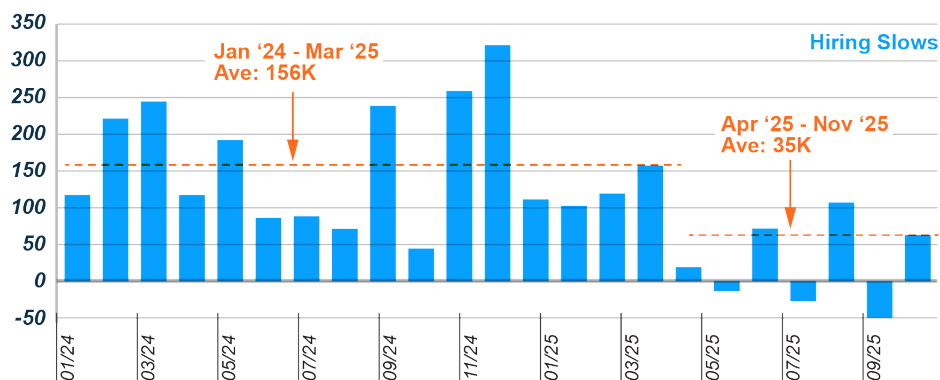
There is some uncertainty about the state of the US economy heading into 2026 for reasons that should largely be addressed over time. One problem is that government data gathering was largely suspended during the government shutdown in October 2025, but the government is playing catchup and we should have more clarity in early 2026.

Another is that broad economic changes the Trump administration is trying to effect have made it difficult to interpret some of the data we have, but this should settle out, too. At the same time, we still had economic data from private sources and official data from other countries giving us a picture of the economy outside the US, plus a lot of market data and even earnings reports from corporate America.

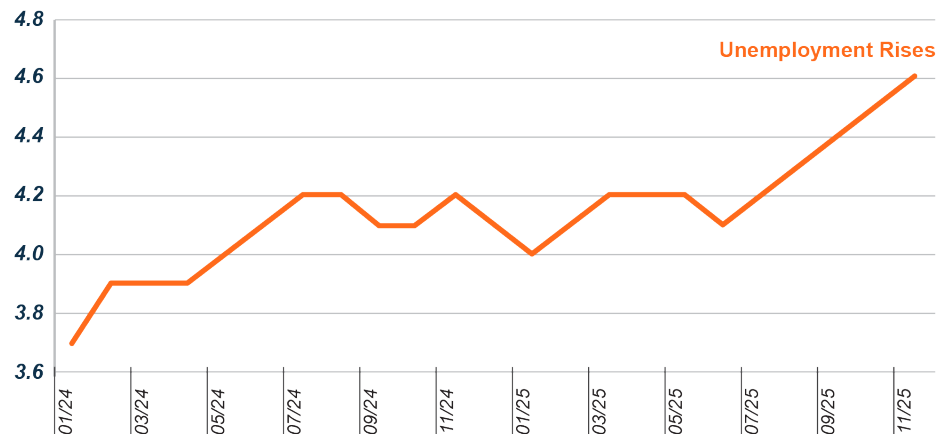
There are important things we do know. Fiscal stimulus from a bill already made law is coming. The Fed is likely to continue to lower rates. The president seems ready to capitulate on some tariffs if needed to preserve the economy (and market gains). And AI spending will continue for at least the near future based on a series of commitments and deals already in place.

Put it all together, and we see an economy growing near trend and likely to have the support to continue along this path in 2026. That's good news for investors.

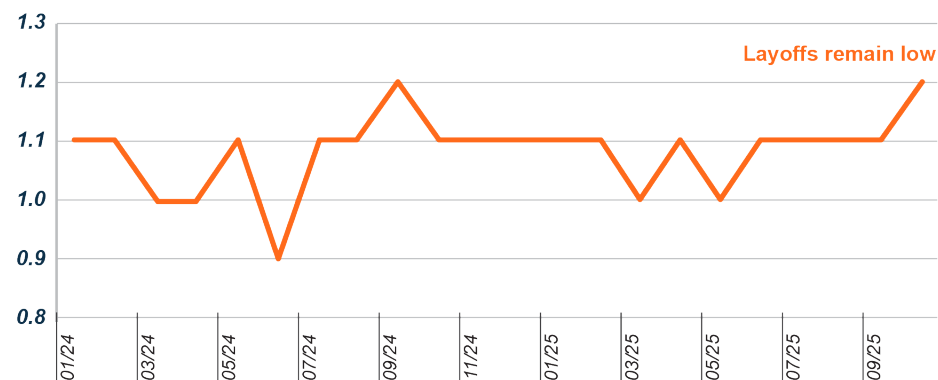
Non-Farm Payrolls, Monthly Change (Thousands)



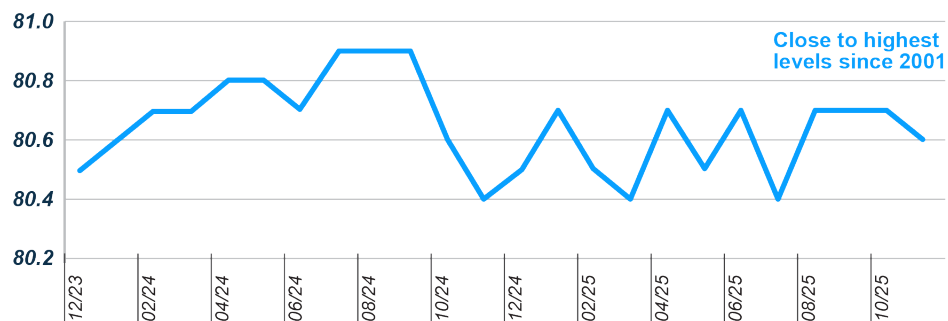
Unemployment Rate (Percent)



Layoff Rate (Percent)



Prime Age (25-54) Employment-Population Ratio (Percent)



Source: Carson Investment Research, Factset 12/17/2025 | October 2025 unemployment rate and employment-population ratio imputed due to lack of data.

US Economy Hanging in There, Despite Uncertainty

We believe the most important area of economic uncertainty mostly revolves around the labor market, and a dichotomy in the data does not help, so let's start there. Monthly payroll growth has averaged less

than 35,000 over the six months through November. That by itself is a red flag. On top of that, the economy would have actually lost jobs over the last six months if not for job growth in the healthcare sector. At the same time, the unemployment rate remains at a historically low level of 4.6%, though that's slowly crept up this year. The prime-

age (25-54) employment-population ratio has remained fairly steady at 80.6%, not far below the highest level achieved in this expansion and above anything we saw from 2001 through 2019. The aggregate layoff rate is also at historical lows, pushing against the narrative about layoffs at prominent large firms **[CH01]**.

The question is whether weakness in hiring will morph into a pickup in layoffs and a much higher unemployment rate, eventually leading to a recession. Or is it mostly a supply issue (largely due to the big pullback in immigration) and companies freezing hiring amid economic uncertainty, and perhaps taking a breather after over-hiring in 2021-23? The drop in immigration has likely pulled down the number of new jobs needed to keep up with population growth, coming down by around 50,000 jobs a month from its prior level (but there's a lot of uncertainty around this).

For a broader perspective, we use our proprietary leading economic index (LEI) for the US, which includes both official and private data. It's been rebounding over the second half of 2025. Even during the worst of the post-Liberation Day downturn (April-May), levels were well above what we would normally associate with a recession, let alone levels we've historically seen in advance of a recession (like in 2000 or 2007), which is partly why we didn't call for a recession in our Midyear Outlook. Right now, the LEI tells us that the economy is growing close to trend with no sign of a major slowdown.

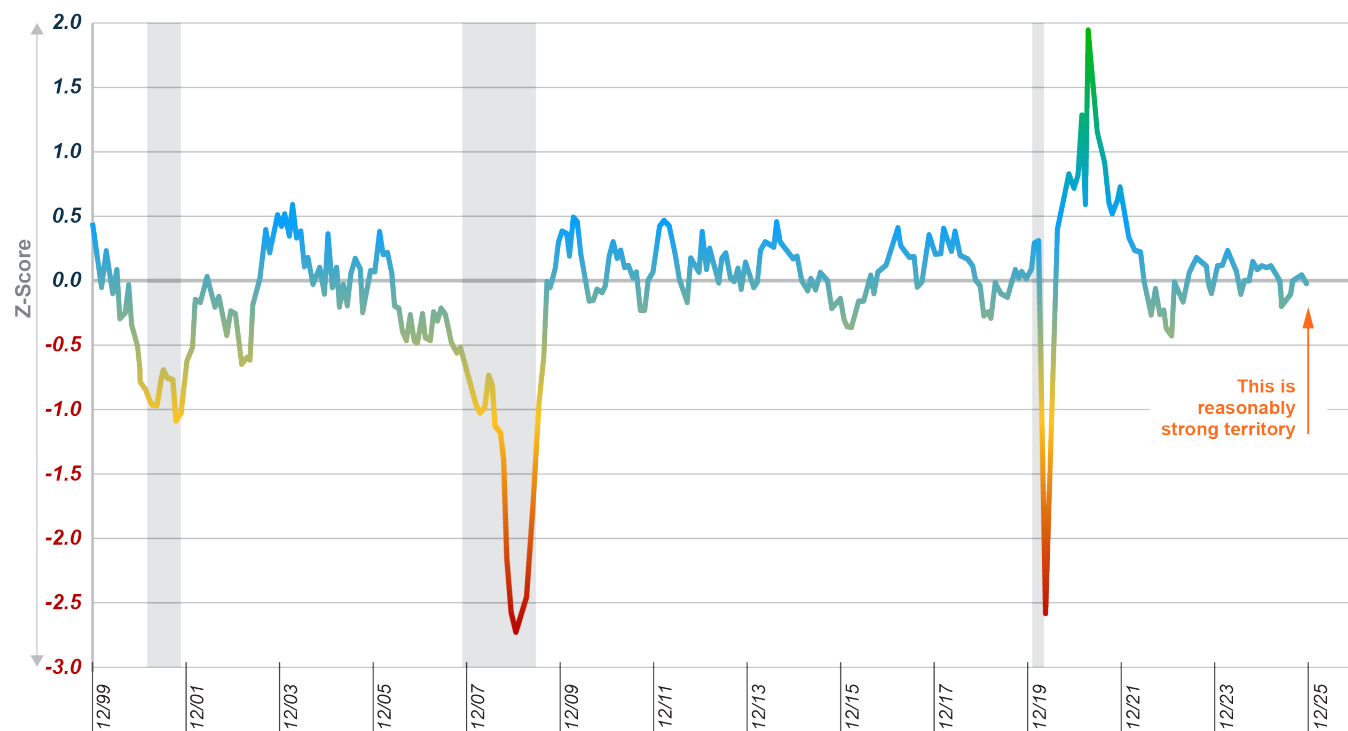
Current levels for the US LEI are better than what we saw in mid-2022, when recession risks were elevated but the economy never actually entered a recession [CH02]. This was a big reason

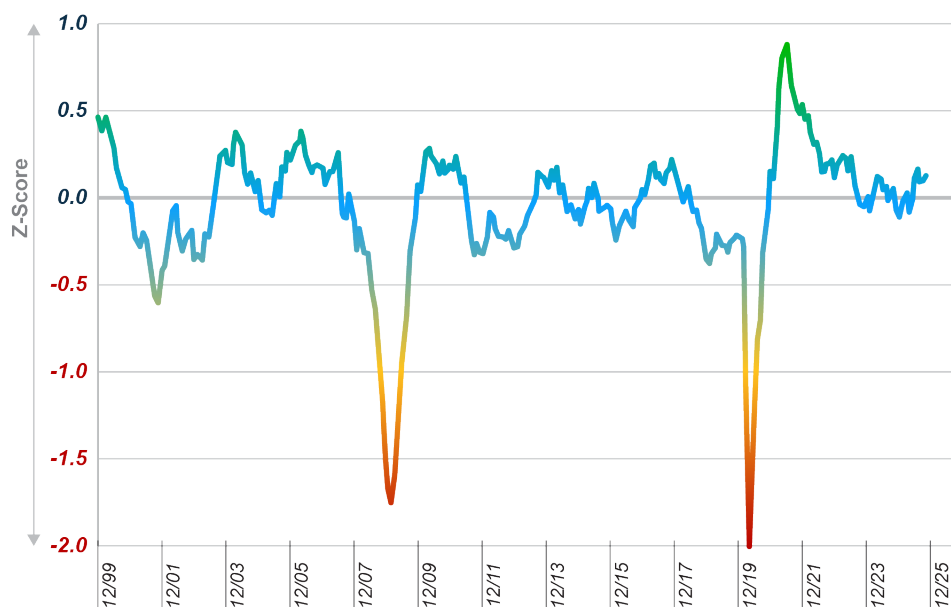
why we didn't call for a recession anytime between 2022 and 2024, in sharp contrast to all the recession calls you saw in 2022 and 2023 (including signals from other popular leading economic indicators). Another historical note: The LEI deteriorated sharply back in 2018, amid the trade war and Fed tightening, but the economy avoided a recession then, too. A stretch of below-trend growth isn't enough. Those occur regularly during long expansions.

Global Economic Activity Provides a Favorable Tide

Our LEI for developed markets (ex US) points to above-trend growth as we enter 2026 [CH03]. And it's not being driven by any one country—countries across Europe (especially Germany, Spain, Italy, and the Netherlands) are seeing activity running above trend, as well as Japan and Australia outside of Europe. Keep in mind that trend growth in these countries is

CH 02 US Economic Activity Running Along Trend, With No Sign of Deterioration Typical of Recession Carson Proprietary Leading Economic Index - USA

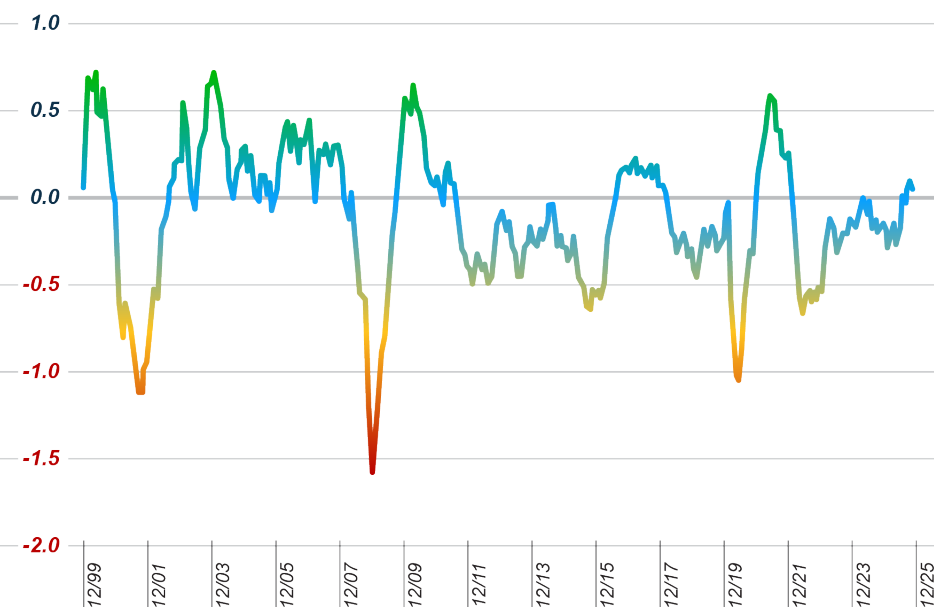




Source: Carson Investment Research 11/30/2025

lower than what it has been in the US over the last 25 years. Still, there's a global fiscal refraction story here, plus the tailwind of more accommodative monetary policy from central banks across the developed world.

Activity in emerging markets is also rebounding after running below trend for more than three years. This is mostly on the back of activity recovering in China, Taiwan, and South Korea. These countries have also been helped by the fact that the worst of the trade chaos is now behind us, with China especially getting a big reprieve. We're also likely to see more fiscal spending next year in countries like Germany and China, which would be positive for those countries and the regions around them.



Source: Carson Investment Research 11/30/2025

The rebound in global economic activity is a tailwind for US companies, but also the US economy. It's hard to picture a significant slowdown (let alone a recession) in the US when growth in the rest of the world is rebounding. Contrary to the narrative of deglobalization, globalization is alive and well, especially for US companies, which continue to benefit from global trade as they have over the last 25 years. This is corroborated by the earnings picture, which shows a rebound in international revenue for US companies (about 40% of S&P 500 revenue comes from abroad).

The message: In our opinion, "Don't fight a potential global recovery and companies' ability to benefit from that."

The AI Wave—This Is a Big One

It's a cliché to say that things happen much faster these days, but here we are three years after OpenAI released ChatGPT and there's already a lot of chatter about the "AI bubble" (so much so that we've seen articles on the "bubble in articles about the AI bubble"). Yet despite the bubble narrative, this AI wave lacks the exuberance typical of past tech manias—perhaps because it's the first one that forces us to confront the future of work itself in a way other technological revolutions haven't (while also raising our electricity bills).

The question isn't really whether we're in a bubble, let alone how much euphoria there is or isn't. "Bubble" is such a vague term that whether we'll be talking about an "AI bubble" in 10 years can only be known in hindsight. The real question is how long the current trend in AI spending will last and how bad the fallout will be when it ends. What's clear right now is that something massive is happening in the economy, and it's useful to understand the dynamics behind that and the potential risks.

AI is already having a significant impact on the economy via investment (spending on AI-related hardware and software). In real (inflation-adjusted) terms, these contributed an average of 1.05 percentage points (105 basis points, or "bps") across the first two quarters of 2025—exactly as much as consumer spending. Keep in mind, consumer spending makes up 70% of the economy, versus about 4% for the AI-related investment categories. Some of the strength in equipment spending in the first half of 2025 was likely a result of companies front-running tariffs (since a lot of the equipment is imported), but that still leaves strong software spending.

The current boom has led investors to draw parallels to other historical periods in which private firms made massive capital outlays to build the infrastructure of a transformative technology—railroads in the 1870s and the internet in the late 1990s. Relative to GDP, the current AI capex

boom is already larger than the peak of the internet boom, but it's still below the peak of the railroad buildout. The railroad boom began after the Civil War, with more than 33,000 miles of tracks laid down from 1869 to 1873. However, the useful life of chips is much shorter than that of railroads, or even fiber-optic cables. After adjusting for depreciation, the current AI buildout tops the chart. Chips will have to be replaced relatively frequently because of improving technology, while railroad tracks are much more durable [CH04].

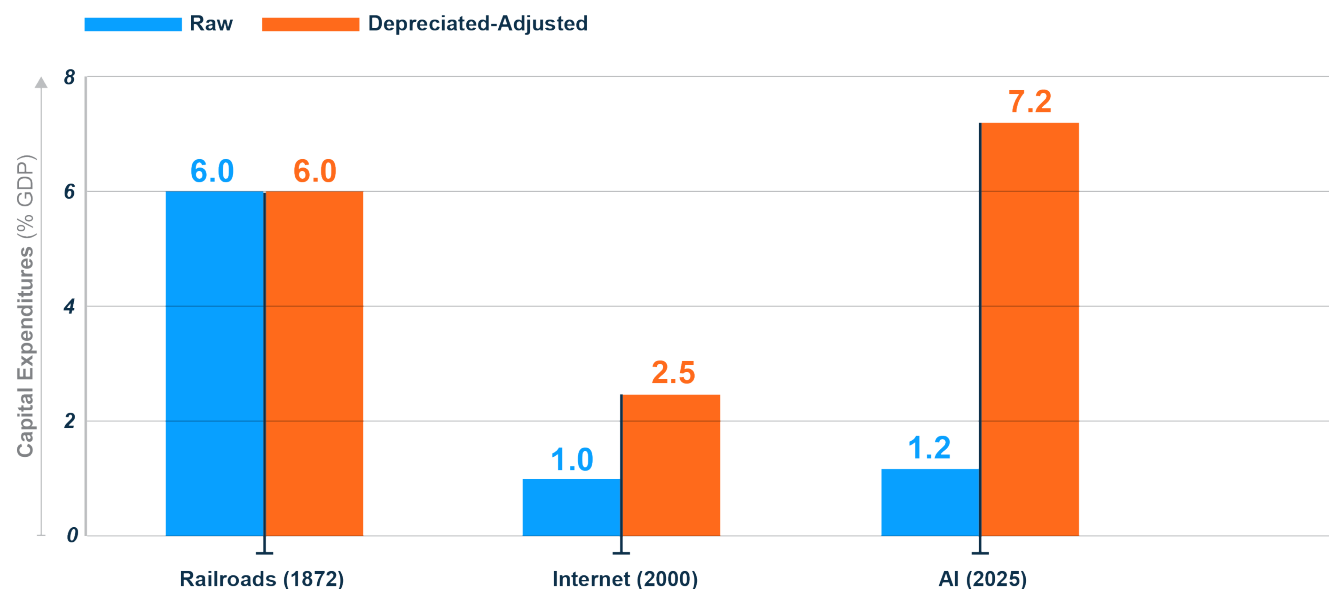
You don't have to be a student of history to know what happened with the railroad and internet booms. Railroad stocks rose about 50% before collapsing. Telecom stocks rose

400% in the late 1990s before crashing.

The internet boom is not the only economic boom we've seen over the last few decades. In fact, just after the internet boom/crash, we got the housing boom from 2003-07 (which was also a financial sector boom, including areas like real estate and insurance). Then we also got a mini-energy boom amid the shale revolution from 2012-15.

The dynamics are similar across these booms. The promise of new technology pushes firms to make massive investments. Investors like that, and stock prices soar, facilitating even more investment. But ultimately, demand fails to keep up and

CH 04 The AI Capex Boom Is Already Huge



Historical Boom (and Bust) Cycles

Internet boom: From 1996-2000, technology equipment and software spending contributed an average of 76 bps to real GDP growth every year (GDP growth averaged 4.3% during this period). But that massive contribution collapsed to an average of just 1 basis point in 2001-02 amid the bust, pulling down economic growth significantly.

Housing/finance boom: From 2004-07, construction and financial services (real estate/insurance) contributed an average of 68 bps to real GDP growth every year (GDP growth averaged 3% during this period). The pendulum swung hard in the other direction amid the bust, with the contribution turning into an average annual drag of 63 bps in 2008 and 2009.

Energy (shale) boom: From 2012-15, oil and gas extraction and pipeline transportation contributed an average of 24 bps to real GDP growth every year (GDP growth averaged 2.5% during this period). That isn't a lot, but this area made up less than 2% of the economy! The bust turned the contribution into a 3 bps average annual drag in 2016 and 2017. That swing wasn't large enough to send the economy into a recession, but growth slowed in 2016, and energy companies' earnings took a big hit (negatively impacting S&P 500 profit growth).

there's excess supply, although that ultimately benefited society, whether it was railroads, high-speed internet that allowed us to connect as never before (and stream cat videos), new housing to meet the demand of the next generation, or cheap oil. Overcapacity leads to lower stock prices and lower valuations, and investment spending reverses. The dynamic is exacerbated when debt enters the picture, as the unwind becomes ugly.

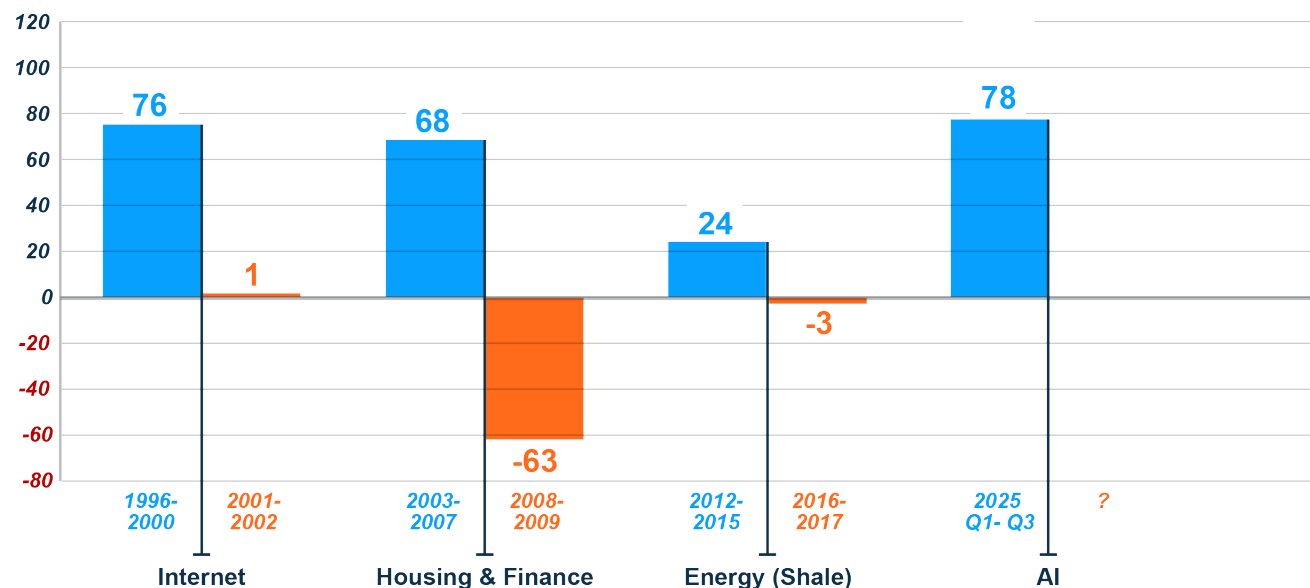
Economic growth then takes a hit as the boom leads to a bust. It's not like any of these areas—tech in the late 1990s, housing/finance in the mid-2000s, energy in the 2010s—were large parts of GDP. But when they were booming, GDP growth benefited. But the flipside was a sharp swing in the other direction when the booms ended [CH05].

One Company's Spending Is Another Company's Revenue (and Profits)

Private sector investment is a source of corporate profit growth. Since profits are the main driver for stock prices, the key question is whether this level of investment spending will continue. The short answer seems to be yes, and it looks like early innings on that front.

AI-related capital expenditures ("capex") are being driven by large tech companies, especially those that provide large-scale

Average Annual Contribution to Real GDP Growth (Basis points, 1 bps = 0.01%)



Source: Carson Investment Research, Bloomberg 12/23/2025 | 2025 GDP contribution are for the first three quarters

cloud compute capacity and operate hyperscale-level data centers (Microsoft, Alphabet, Amazon, Meta, Oracle). Total capex at these firms is expected to clock in at almost \$400 billion in 2025, up from \$239 billion in 2024. Next year, it's expected to increase to \$515 billion [CH06].

These are staggering sums of capex. 2025 capex is running around 1.3% of GDP, more than double the 0.5% in 2023 and more than 4x the size of where it was in 2019 (0.3%). It's expected to increase to around 1.6% of GDP in 2026.

The big tech companies are massive cash-flow generating machines, with huge moats (protection from competition, especially

new entrants). But they're in a bind. Each one sees an existential need to "win" the AI race, and so they're incentivized to ramp up investment. If one company starts down that path, others feel the need to join the race and go all-in, which is why Google co-founder Larry Page said, "I'm willing to go bankrupt rather than lose this race."

This also raises the question about financing. After all, AI is a very capital-intensive business (whereas the tech companies' current business lines are capital light). Right now, what we are seeing is a set of circular arrangements between the hyperscalers (big tech firms mentioned above), Nvidia, and OpenAI (who perhaps

started everyone down this path in late 2022 when they released ChatGPT). The tech firms provide the investments but also gain a large customer (OpenAI), as does Nvidia (who gets to sell their chips). Investors react positively to these partnership announcements, bidding up stocks of:

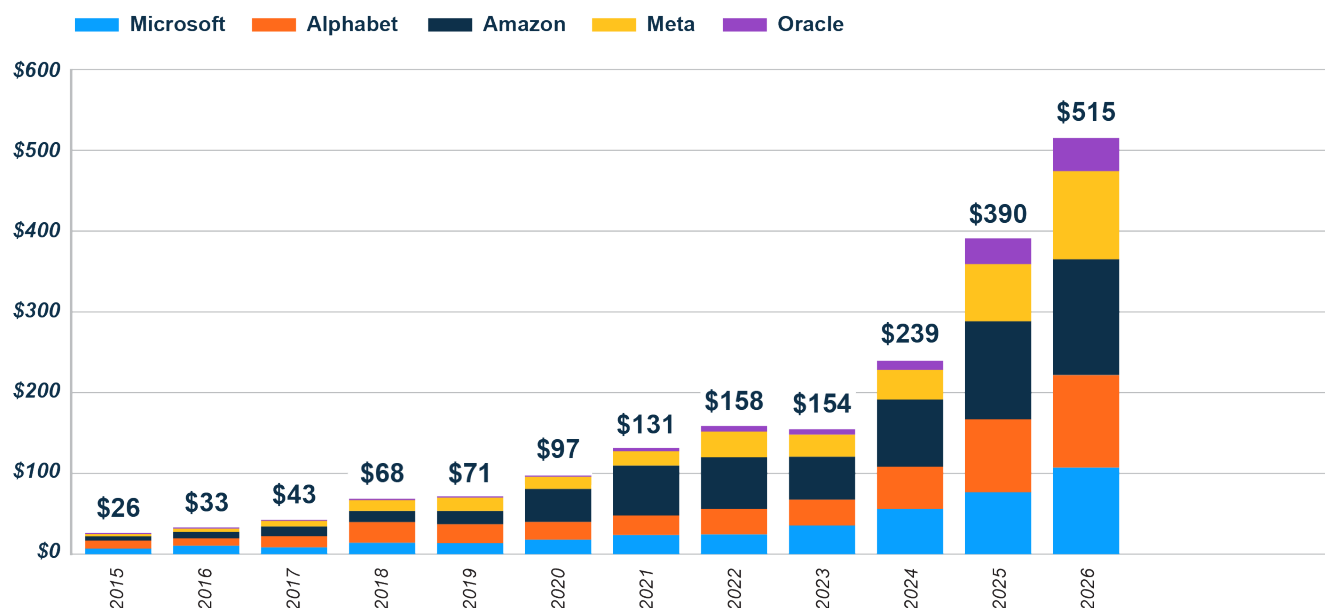
- ▶ **Chipmakers:** in anticipation of continued AI demand
- ▶ **Hyperscalers:** in anticipation of AI-driven cloud profits
- ▶ **OpenAI:** in anticipation of platform dominance

All this keeps the wheel turning. Higher prices and valuations grease the wheels, allowing funding of even more aggressive investments. However, if stock prices pull back sharply, and over a sustained period, that's going to throw sand into all the gears. As we mentioned above, the big tech firms have a lot of cash flow, but the capital intensity of AI means they are also turning to debt financing to fund AI infrastructure. That means another corner of the market, namely private credit lenders and real estate trusts, are also tied to the AI boom. It's still early days—the big tech companies have relatively low debt right now, which means there's a lot of room to ramp up leverage. These companies are also finding creative ways to keep the debt off their books, which

may lead to potential trouble down the road, but not right now.

Bigger picture, we are in a capex cycle with some strong parallels to those in the past, but we believe the length of the cycle (only a few years old), technology acceleration, and low current debt levels suggest we're not in the latter part of the cycle. This is our 2026 Outlook, and we don't think the negative part of the cycle is a 2026 story, or even necessarily 2027. For now, we believe we can ride the AI boom but don't believe it's time to chase the AI theme with concentrated positioning—better to tilt in that direction for participation within a broadly diversified portfolio.

CH 06 Big Tech Capital Expenditures (Billions of USD)





Policy Tailwinds (And Risks)

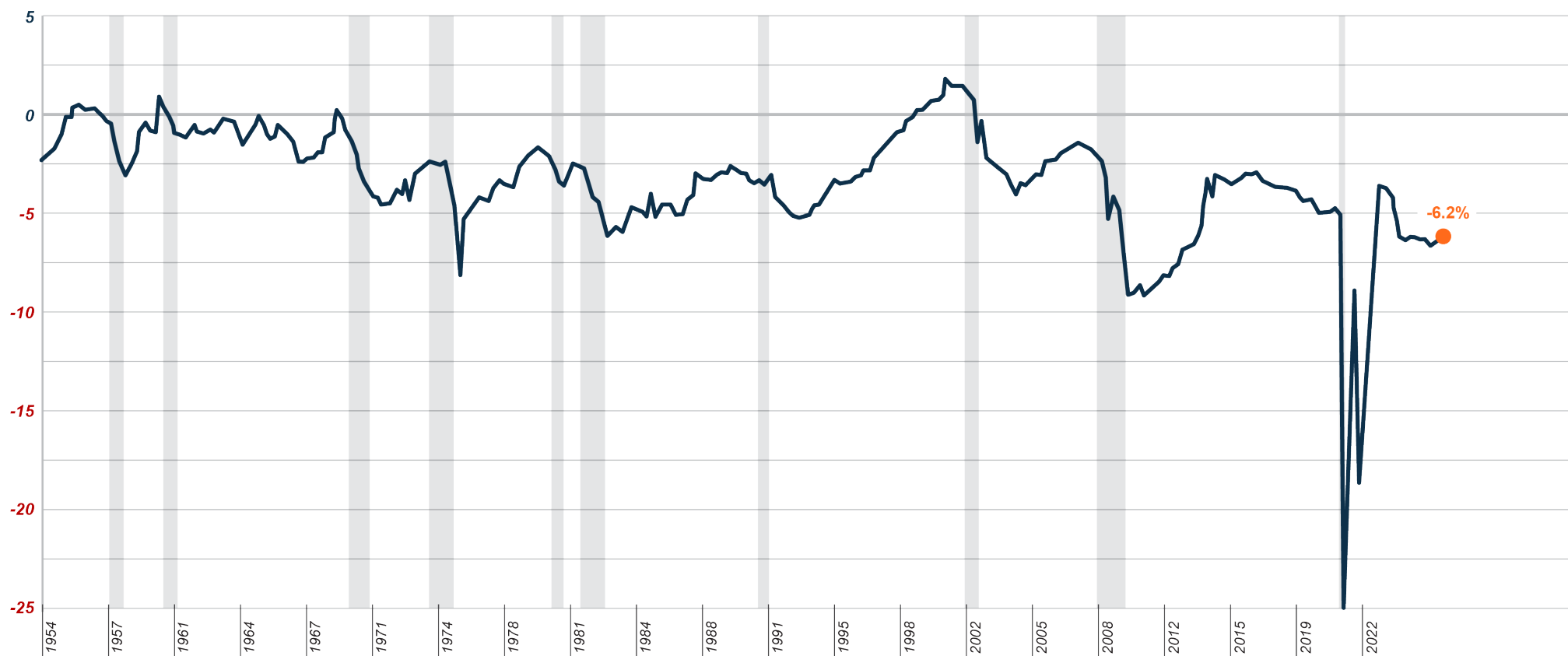
Tailwind #1: Tax Cuts

The One Big Beautiful Bill Act (OBBBA) is going to increase deficits by about \$4 trillion over the next decade, including interest costs (the cost will rise to \$5.5 trillion if tax cuts are extended beyond 2028, which is likely). That means the deficit is going to run at a whopping 6-8% of GDP for a few more years. The US government has never run this level of deficits (as a percent of GDP) in the middle of an economic expansion. Historically, the budget balance heads toward a surplus as expansion continues, but not now [CH07]. That's not great for the government's balance sheet (more than half the deficit is interest costs), but the other side is that deficits eventually flow into corporate profits. That's good for markets in the near term, especially since a lot of the tax cuts will be front-loaded. Tariff revenue will offset some of this but not all (assuming that the tariffs even stick around).

The positive impact of the tax bill, for the economy and even markets, will be felt as soon as 2026 begins. That's because a lot of tax cuts were made retroactive to 2025. This includes new deductions on tips and for seniors' income, and much larger deductions for state and local taxes (income and property taxes). A lot of households are going to see outsized tax refunds in the first half of 2026, which is likely to boost consumption (and markets, if households use some of the money to buy stocks).

The message: In our opinion, "Don't fight loose fiscal policy."

US Federal Government Budget Balance As Percent of GDP



Source: Carson Investment Research, FRED 11/30/2025 | Shaded areas indicate U.S. recession

The risk here is obvious—households spending all that money could boost inflation further from already elevated levels, which creates a headache for the Fed.

Tailwind #2: End of Tariff Uncertainty and Chaos

The trade war has really simmered down since May. The effective level of tariffs is around 10 percentage points higher than where it was at the start of the year, but with all the workarounds and exemptions (especially for items crucial to the AI build-

up), tariffs are in a much better spot than the worst-case scenario expected around Liberation Day [CH08]. Companies have obviously figured out how to deal with tariffs as well, which is why earnings growth is strong. Moreover, the latest “deal” with China puts the trade war further in the rearview mirror. That means there’s a lot less uncertainty in 2026 (assuming the US-China détente lasts awhile).

The president has also floated a few trial balloons of sending “tariff refunds” back to households. While he will need Congress to sign off on this, it speaks to intent. The White House is very tuned in to concerns over affordability, especially in an election year. They’re also likely to try and mitigate as much market volatility as possible.

The message here: In our opinion, “Don’t fight the White House.”

The only wrinkle here is that the Supreme Court could rule against a chunk of the administration’s tariffs imposed under IEEPA (International Emergency Economic Powers Act). The obvious positive there is that companies could request refunds, bolstering their balance sheets/cashflow in 2026. The administration is likely to use other tariff powers to reimpose the tariffs, especially on large trading partners, but that’s going to take time—so the cloud of tariffs, and associated uncertainty, could hang over companies next year as well.

Tailwind #3: Interest Rate Cuts

The Fed’s caught between the two sides of their mandate: stable inflation and maximum employment. Inflation is running around 3% currently, well above the Fed’s target of 2% (as it has been for 4½ years now). On the other hand, there’s elevated risk on the labor market side, with hiring weak. In the Fed’s view, the risks to both

sides of their mandate are balanced, and that suggests policy rates ought to be “neutral” (neither too loose nor too accommodative), which is around 3% based on the Fed’s own projections. Policy rates are just shy of 4% right now, which means we’re likely to see more rate cuts that take us closer to that 3%, if not by a Powell-led Fed, then under a new chair appointed by President Trump (and one likely to be much more amenable to rate cuts). That’s why markets are pricing in a dovish Fed over the next couple of years, followed by gradual tightening after 2028 as the Fed refocuses on the inflation fight [CH09].

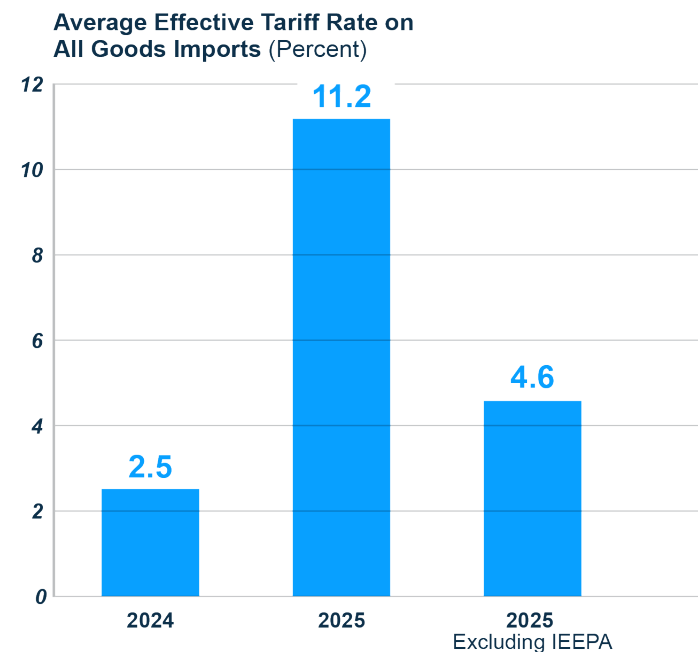
A dovish Fed that is cutting in the face of elevated inflation is yet another near-term tailwind for markets. The Fed has already cut 0.5 percentage points in 2025, on top of 1 percentage point in 2024. That cumulative 1.5 percentage points of cuts is now the largest mid-cycle adjustment since the mid-1980s (granted, after very aggressive hikes). The impact of recent cuts will likely flow through into the economy in 2026, with cyclical, rate-sensitive areas of the economy benefiting.

The message: In our opinion, “Don’t fight the Fed.”

We could very well see a period of inflationary growth in 2026—thanks to rate cuts on top of already massive fiscal deficits that look set to increase further as more money flows to households in 2026 by way

CH
08

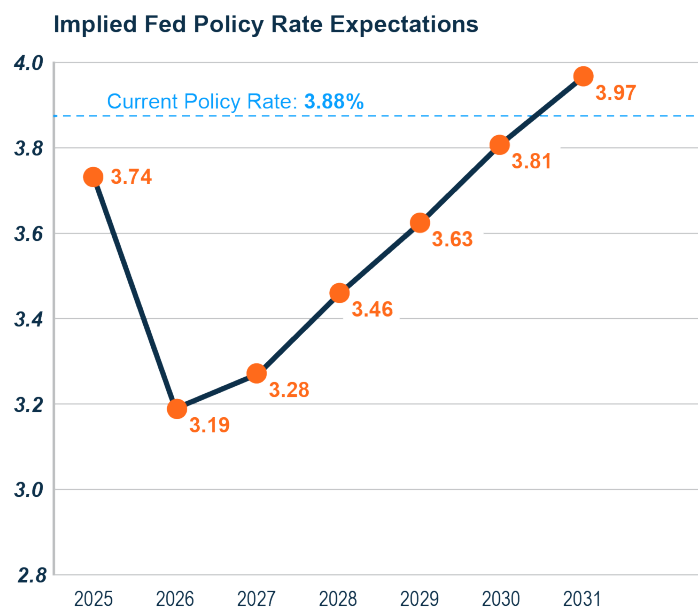
Tariffs Are Much Higher Now, But Not As Bad As It Could've Been



Source: Carson Investment Research, Tax Foundation 11/30/2025

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Markets Still Predict A Near 3% Policy Rate By 2026, Followed By Gradual Rate Hikes From 2028



Source: Carson Investment Research, Bloomberg 12/2/2025
Implied policy rate proxied by SOFR futures

of tax cuts/refunds (and perhaps even tariff refund checks). This would be good for stocks, which is why we remain overweight. The risk is that the Fed pulls back from the expected rate cut trajectory, perhaps because the labor market picks up steam again (which would not be a bad thing for the economy), or inflation shows no sign of abating and rises even further amid tax-cut fueled spending (more worrying).

How this Expansion Cycle Could End

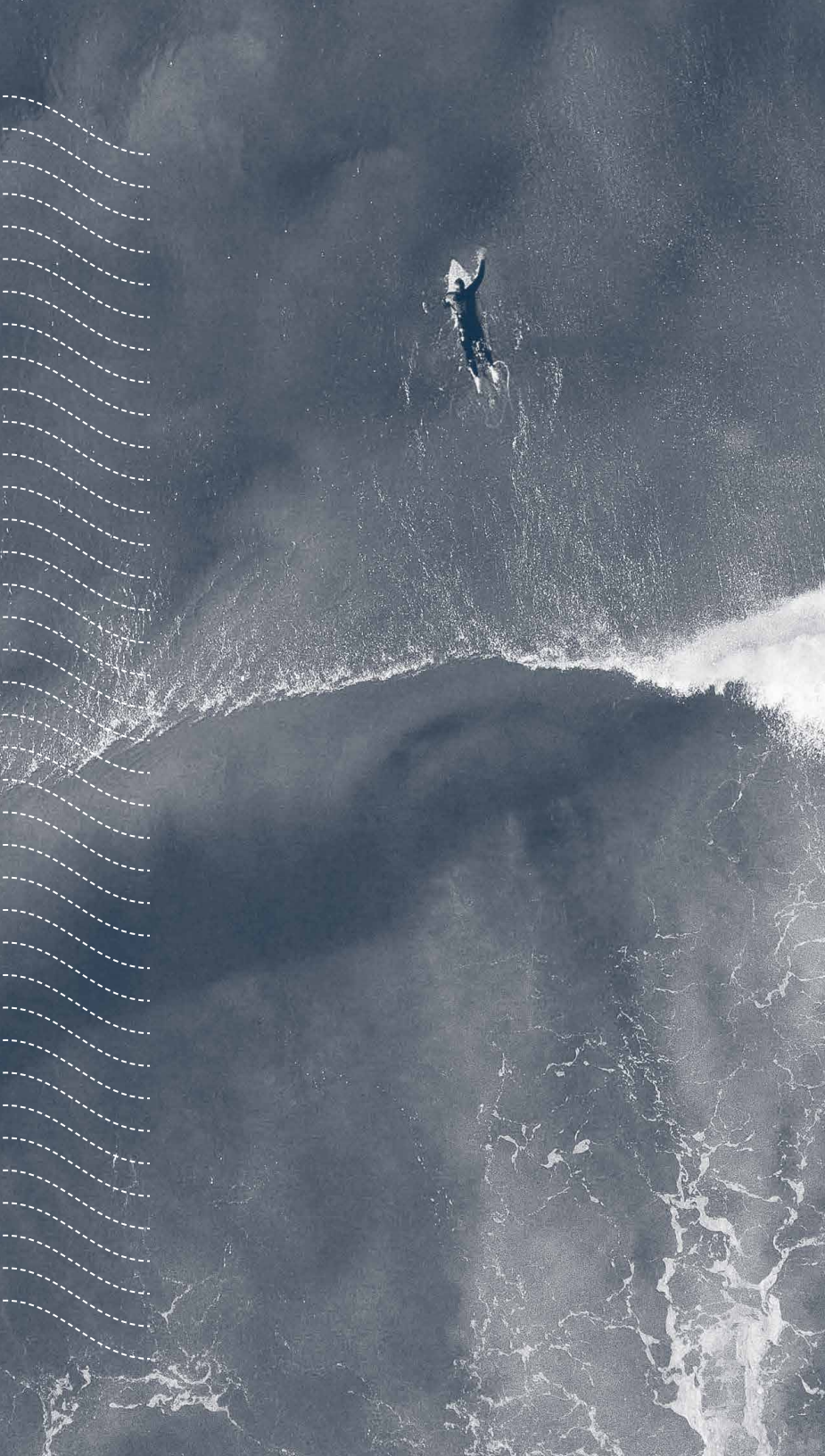
A Fed that gets more hawkish in the face of elevated (and rising) inflation is one possible path by which this economic cycle ends. That would send asset prices lower, which would puncture the AI boom as well (higher asset prices are partly what fuel the AI investment boom).

We have a historical analogy: the late 1960s. The policy picture leading into 1967-68 was similar to now. Thanks to Great Society programs (Medicare, Medicaid, education, poverty, and housing programs), fiscal deficits were running high, around 2.0-2.5% of GDP. (Seems laughably low compared to the current level of 6.5%. Oh, and the largest publicly traded companies? Tech innovation giants IBM and Bell Telephone.) The Fed also cut rates by almost 2 percentage points between the end of 1966 and mid-1967, believing they had squelched inflation.

But they had not, and inflation picked up over the next two years, rising from a low of 2% to almost 6%. The Fed kept chasing

inflation higher, raising rates all the way from 3.5% to 7.9% across 1968 and 1969, slowing the economy in the process (the recession began in December 1969). The S&P 500 had rallied about 50% from the prior bear market low in October 1966 through November 1968. But a hawkish Fed that was trying to get a handle on inflation sent the index down by 37% from November 1968 through May 1970—an 18-month bear market that saw the S&P 500 fall back to where it was in 1963! Bonds didn't fare well during this period, either, as rates were rising.

We're not saying the expansion will end in 2026 (we think the Fed will remain dovish and cut rates 2-3 times), but there's the risk of higher inflation volatility, even more so if the Fed remains accommodative and then has to correct for that as the 2020s draws to a close. This is one reason why we diversify our diversifiers, with allocations to gold and managed futures (a long/short trend following strategy with exposure to a wide variety of assets, including commodities, via futures markets).



Portfolio Views

Riding the AI Wave, and Avoiding a Wipeout

The AI wave combines several elements of what we've seen across prior investment booms, including technological innovation, infrastructure investment, credit, real estate, and even energy (to power data centers).

None of this implies that AI is a passing fad. On the contrary, it could have a significant impact on how society functions several years from now, both in our daily lives and in how businesses operate. But from an investment perspective, historical infrastructure booms start with a period of overinvestment and end with poor returns.

At the same time, while there's a left tail risk (a crash), there's also a right tail risk (missing out on a boom that could last awhile). The most traditional ways to "protect a portfolio"—by buying insurance (put options) or outright shorting technology stocks—are likely to suffer from the fact that you will most likely get the timing wrong, with potentially very large opportunity costs. As the saying goes, "the market can stay irrational longer than you can stay solvent."

It seems cliché to say this, but we believe the answer to avoiding a wipeout (if and when there's a bust) is diversification. So, "surf the wave"—that is, don't be underexposed to the boom—but don't go all in. Instead, diversify, which is also our answer to index concentration (the top seven stocks making up 35% of the S&P 500).

The AI-infrastructure firms are concentrated in the technology and technology-adjacent sectors (like communication services and consumer discretionary). But if AI usage does become much more widespread, and

boosts aggregate productivity, a lot more companies will benefit. Normally, exposure to smaller companies would be another way to diversify, but we believe there's more opportunity outside the US than domestic small- and mid-cap companies. Emerging economies, especially China, Taiwan, and South Korea, are likely to ride the AI-infrastructure wave, but developed market economies may be primed to benefit from more widespread and cheaper AI usage. As we discussed above, a pickup in global activity is a potential tailwind for markets in 2026, and to that end, diversifying outside the US is attractive from both a portfolio risk-management perspective as well as an opportunistic play.

We remain overweight equities as we move into 2026, but are neutral on US vs. international stocks. Within the US, we are overweight large-cap stocks, but barbell exposure to technology (and related areas) with diversified bets on areas within the industrials sector and even low-volatility stocks, which tend to be more risk-efficient. On the international side, we are overweight developed markets, and underweight emerging markets.





Equities

The Wave Rolls On

The current bull market began more than three years ago in October 2022. At the time, we were on record that a major market low had taken place and stocks were about to surprise to the upside. It wasn't a popular call at the time, and going against the crowd is never a comfortable move, but we backed it up with data and took the road less traveled. Stocks gained 25% in 2023 for one of the most surprising rallies ever. We remained bullish in 2024, and stocks again gained more than 20% for a second year in a row.

Many doubted the rally heading into 2025, believing it had gone too far and was due for some pain. While we acknowledged that some scary moments were likely, we thought there would also be opportunities. Little did we know stocks would have a near bear market and one of the worst two-day drops in history around Liberation Day in early April. But we stuck to our overall bullish call and never wavered. We came into 2025 looking for stocks to gain 12-15% and avoid a recession, and we never changed our view when many other research shops were cutting their targets and predicting a recession. Once again, we didn't follow the crowd; we followed the data. Stocks then staged a historic rally for more than seven months, and many money managers who sold back in April were left behind.

As we move into 2026, we think the S&P 500 will gain between 12-15% this year, as this bull market continues to defy the pundits. Solid corporate profits and margins, a dovish Fed, strong corporate and household balance sheets, a still fairly young bull market, overall solid momentum, and a lack of excitement for this bull market are all reasons we expect another solid year for investors.

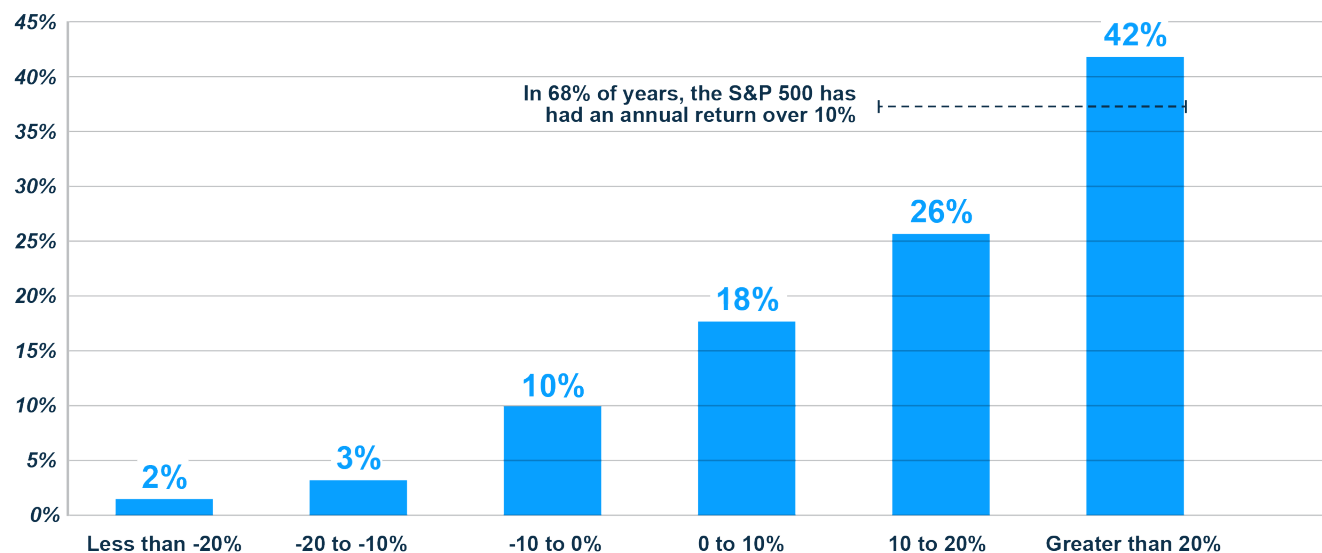
That doesn't mean we think the year will be without challenges. Midterm years tend to be volatile, so plan for as much as a 15% peak-to-trough correction at some point during the year. One thing we've been seeing more and more lately is quick moves that are just as quickly erased. Should we have a well-deserved correction in 2026, given the overall positive economic tailwinds still in place, we'd expect a move higher to happen quite quickly as well.

Start With the Big Picture

As we've already laid out, continued economic expansion is our base case in 2026—there are too many shock absorbers in the economy to believe a recession is likely just yet. Yes, stocks have seen explosive gains the past three years, but does that mean this year can't see more solid gains? To answer that, we like to take a big-picture look at years without recessions to see what is possible. The good news: The data suggests another double-digit year is likely.

It turns out, years without a recession rarely have big losses, as only 5% of the time do stocks fall double digits. Taking it the other way, double-digit gains happen 68% of the time in expansionary years and stocks finish the year higher 85% of the time [CH10]. Like red hitting three times in a row at the roulette table and, as a result, speculators betting on black, many think a few years in a row of big gains means they are "due" to end, but there is no evidence supporting

Distribution of 1-Year S&P 500 Returns in Non-Recession Years | 1950 - 2024 (Total Return)

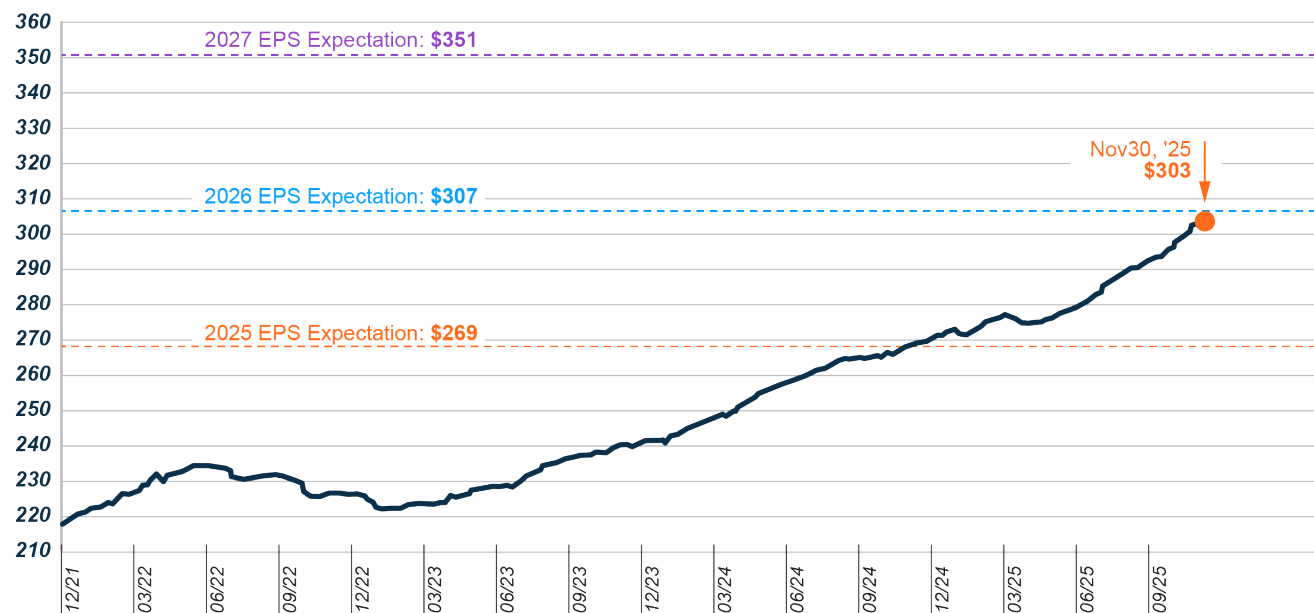


Source: Carson Investment Research, Aswath Damodaran Data 11/30/2025

Recession years are defined as years in which there was a recession in at least 6 out of 12 months

Forward Earnings Expectations Still Rising

S&P 500 Index - Next 12 Month Earnings Per Share



Source: Carson Investment Research, Factset 11/30/2025

this, and it could keep many investors from participating in potential solid returns in 2026 if the economy continues to chug along.

The Dual Tailwinds

This might sound familiar, as we've been noting it as a reason to remain bullish for three years now, but earnings and profit margins remain very strong and these dual tailwinds to this bull market are alive and well.

We follow a lot of economic indicators, but believe earnings are among the most important. Earnings drive long-term stock gains, and 2025 was yet another year that earnings surprised to the upside. In the third quarter (the most recent quarter available), more than 80% of companies beat earnings estimates, better than the 10-year average of 75%, and revenue came in at the highest level in three years. In 2025, with one quarter of earnings to go, S&P 500 earnings are expected to grow more than 11%, higher than the 10% seen in 2024. Meanwhile, 2026 is expected to once again hit the low to mid-teens (approximately 14%), a level we think is very achievable [CH11]. More good news is that history shows that earnings estimates tend to come within about 1% of estimates outside of years with exogenous events (like the Great Financial Crisis and COVID), so another year of low-teens earnings growth is quite possible.

Back in the middle of 2023, we noted earnings estimates breaking out to new highs would drive the bull market higher, and we see no reason for record earnings to slow down now. As we already laid out, the global economy should remain on firm footing, maybe even surprising to the upside, another overall tailwind to earnings.

It doesn't stop there, though. Profit growth is driven by sales growth and profit margins. Margins continue to expand and are at their highest levels this cycle [CH12]. A very underrated story the past few years is that corporate America has a lot of "operating leverage," which allows firms to expand margins as sales expand.

This Bull Is Younger Than You Think

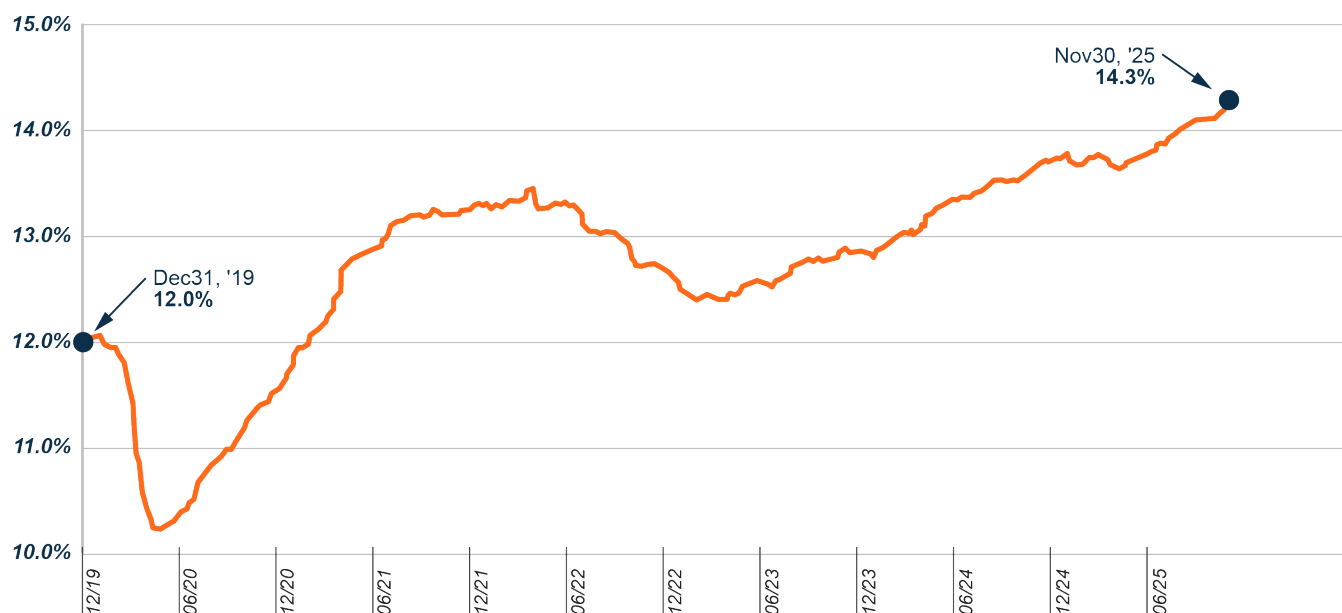
The bull market turned three years old and entered its fourth year in October, which on the surface might feel old, but this is still a fairly young bull market. In fact, looking at the 11 bull markets since World War II, the average one lasts more than five years [CH13].

Looking at returns, the S&P 500 is up a very impressive 100% in a little over three years since the bull market started (October 13, 2022, to November 30, 2025). That sounds like a lot, but then you see the average bull market since WWII gained more than 191%,

CH
12

Margins Continue To Expand

S&P 500 Index - Profit Margin (Forward 12-months)

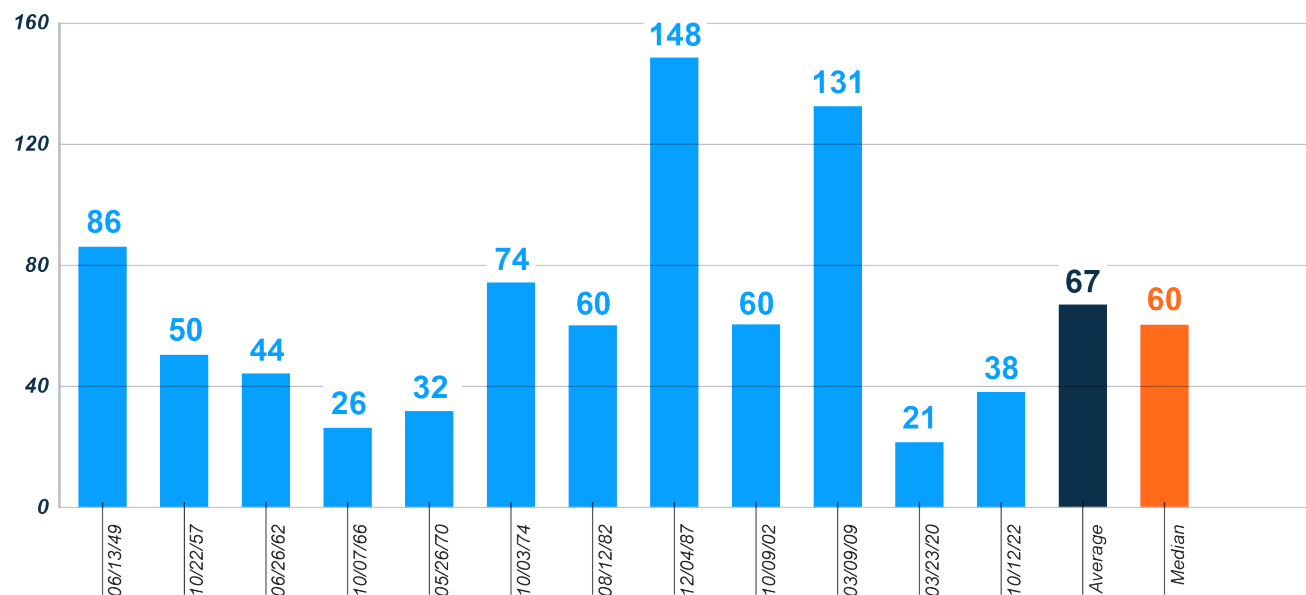


and it again puts in perspective that this bull market might be younger than many think, and more gains may be coming [CH14].

Going back 50 years, we found five other bull markets that made it this far. You know what happened with those bulls? They all lasted several more years, with the shortest bull market five years and two lasting more than a decade, with an average length of eight years. No, we aren't saying this bull has another five years left to it, but we are saying be open to the possibility that this bull market could last longer than you might think.

One thing we were on record for at the start of 2025 was to be on high alert for some volatility. We didn't know it was going to be the near bear market we saw around Liberation Day, but the odds were high for as much as a 15% correction in our eyes. We noted many times that early in a post-election year, you tended to see weakness, not to mention the third year of bull markets tends to be frustratingly choppy. It all suggested to us that some type of shake-the-tree moment was likely in the first six months of 2025.

Clearly, we saw that volatility and then some, after one of the sharpest selloffs in history that saw the S&P 500 down nearly 20%. But that was 2025—what could be next? The good news is the fourth year of a bull market tends to be quite strong, something we think could happen once again over the next 12 months [CH15].



Source: Carson Investment Research, FactSet 11/30/2025

This Bull Market Might Be Three, But It Is Still Young

S&P 500 Bull Markets (1950 - Current)

| Bear Market Bottom | Bull Market Peak | S&P 500 Change | Years | Bull Start in Oct? |
|--------------------|------------------|----------------|------------|--------------------------|
| 06/13/49 | 08/02/56 | 267.1% | 7.1 | No |
| 10/22/57 | 12/12/61 | 86.4% | 4.1 | Yes |
| 06/26/62 | 02/09/66 | 79.8% | 3.6 | No |
| 10/07/66 | 11/29/68 | 48.0% | 2.1 | Yes |
| 05/26/70 | 01/11/73 | 73.5% | 2.6 | No |
| 10/03/74 | 11/28/80 | 125.6% | 6.2 | Yes |
| 08/12/82 | 08/25/87 | 228.8% | 5.0 | No |
| 12/04/87 | 03/24/00 | 582.1% | 12.3 | No |
| 10/09/02 | 10/09/07 | 101.5% | 5.0 | Yes |
| 03/09/09 | 02/19/20 | 400.5% | 11.0 | No |
| 03/23/20 | 01/03/22 | 114.4% | 1.8 | No |
| 10/12/22 | 12/23/25 | 93.2% | 3.0 | Yes |
| Average | | 191.6% | 5.5 | 5/12 Started Oct. |
| Median | | 114.4% | 5.0 | |

Source: Carson Investment Research, YCharts 12/23/2025 | * Current Bull Market Is Still Active

Every Year Has Bad News and Volatility

Thanks to the near bear market back in April, 2025 joined the ranks of basically every other year in history as having scary headlines and market volatility. Just think about 2023-24. The S&P 500 gained more than 20% each year, yet there were some real freakout moments for investors. In 2023, March saw the regional bank crisis, which brought legitimate but very exaggerated fear that the entire system was going to collapse because of what was happening at just a few regional banks. Sounds silly now, but if you were there, then you know exactly what we're talking about.

2024 saw more strong gains, but for a few days in early August, many investors suddenly became panicked about the "yen carry trade unwind." We won't get into all of that, but know that the Japanese Nikkei had its worst day since the 1987 crash and global markets were melting down. Then, a few days later, it was over and we were off to the races again.

You can do yourself a big favor if you go into each year expecting to see some scary headlines and big down days. As President Dwight D. Eisenhower said, "Plans are useless, but planning is everything." Plan for some bad days!

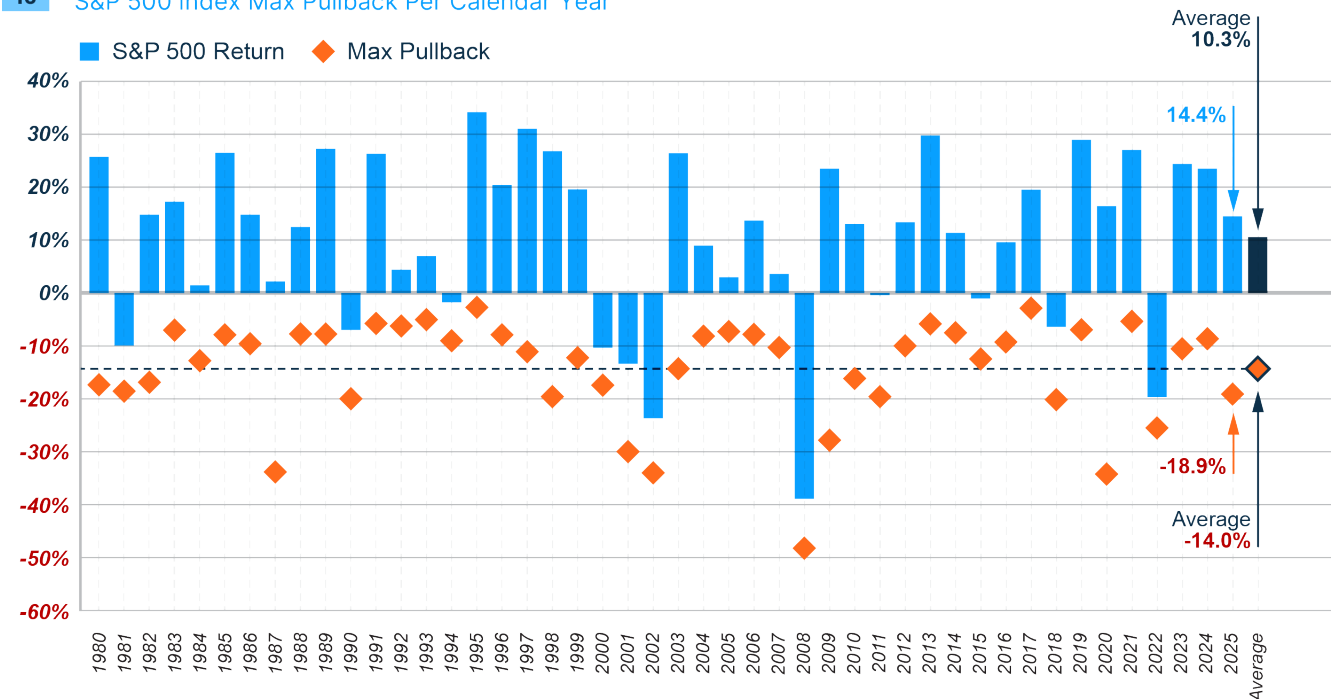
| Bull Start Date | Bull End Date | Return First 3 years of Bull Market | Year 1 | S&P 500 Returns | | Year 4 |
|-----------------|---------------|--|--------|-----------------|--------|--------|
| | | | | Year 2 | Year 3 | |
| 06/13/49 | 08/02/56 | 79.9% | 40.0% | 14.5% | 12.9% | -3.1% |
| 10/22/57 | 12/12/61 | 38.2% | 31.5% | 9.7% | -4.8% | 27.5% |
| 06/26/62 | 02/09/66 | 59.7% | 32.7% | 17.4% | 2.3% | X |
| 10/03/74 | 11/28/80 | 50.0% | 34.6% | 21.2% | -8.4% | 6.2% |
| 08/12/82 | 08/25/87 | 83.9% | 12.8% | 15.2% | 13.9% | 27.8% |
| 12/04/87 | 03/24/00 | 44.1% | 57.7% | 2.0% | -8.0% | 17.5% |
| 10/09/02 | 10/09/07 | 54.0% | 21.4% | 29.0% | 5.4% | 12.9% |
| 03/09/09 | 02/19/20 | 99.9% | 28.8% | 5.7% | 3.5% | 13.7% |
| 10/12/22 | 10/28/25* | 83.2% | 21.0% | 34.7% | 12.7% | ? |
| Average | | 66.4% | 31.2% | 16.6% | 3.3% | 14.6% |
| Median | | 59.7% | 31.5% | 15.2% | 3.5% | 13.7% |
| % Higher | | | 100.0% | 100.0% | 66.7% | 85.7% |

Source: Carson Investment Research, FactSet 11/30/2025 | 'X' means the bull peaked and a bear market started this year

* Current Bull Market Is Still Active

Putting 2025 In Perspective

S&P 500 Index Max Pullback Per Calendar Year



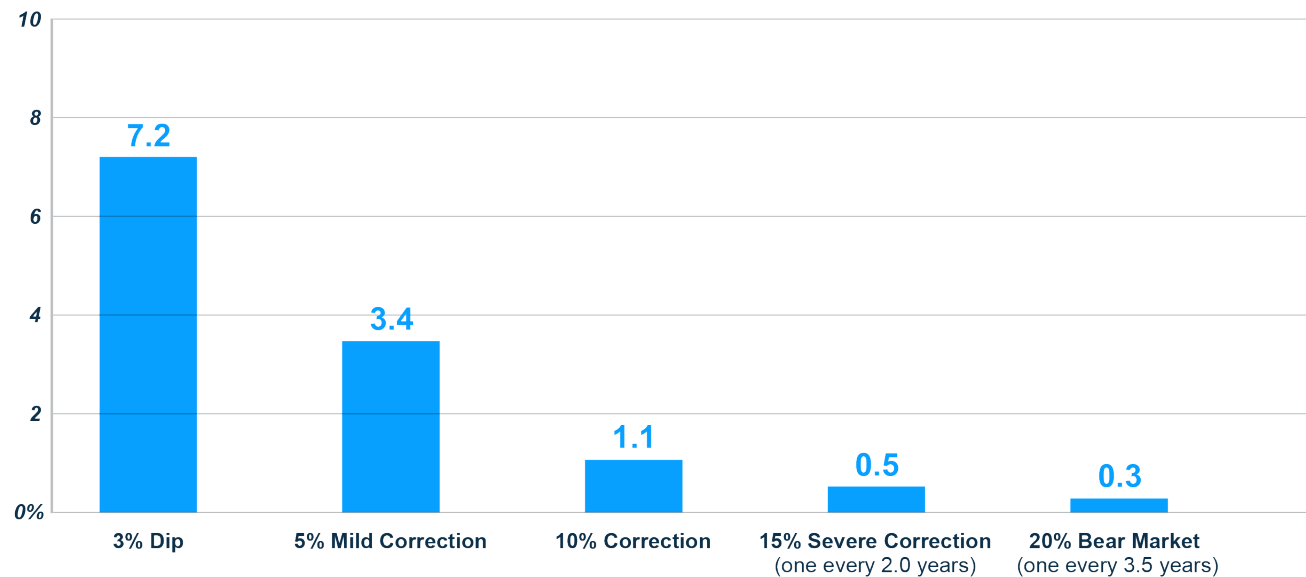
Source: Carson, YCharts 11/30/2025 (1980 - Current)

Declines are normal, but give into emotion and you'll find yourself selling low and buying high, which at its worst can trim years off portfolio returns that you can never make up. Here's a nice chart that shows the average year since 1980 has gained double digits, but also saw an average peak-to-trough decline of 14% **[CH16]**.

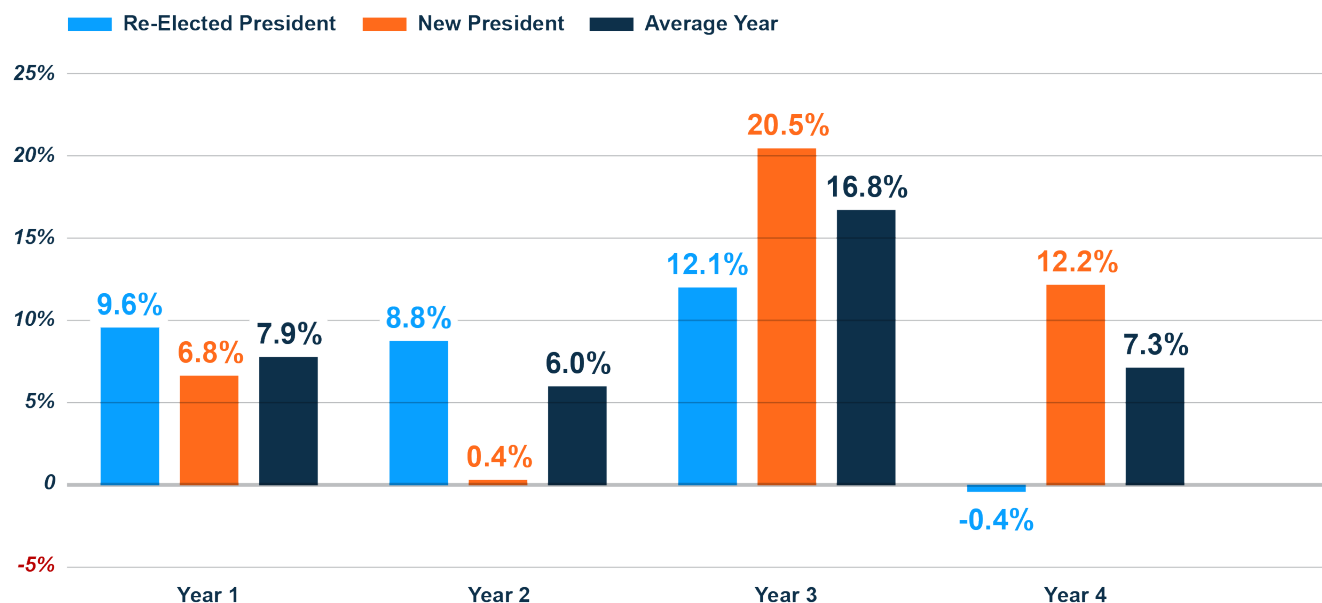
Always remember that some of the very best years in history have a bad day or two. The S&P 500 gained more than 30% in 1997, yet there was a single day that it fell nearly 7%! 2026 won't be any different. There will be times when you want to bail out. The best defense is understanding patterns of volatility before they happen—it's much harder to be unemotional in the moment.

For 2026, we'd once again be open to a correction in the 12-15% range. Midterm years do tend to be more volatile (more on this next, but we think this year will be better than 2018 and 2022, the last two midterm years), and as this bull market ages, some normal volatility is quite possible.

Here's a very popular chart we've shared many times, and it's still one of our favorites **[CH17]**. We like to say that volatility is the toll we pay to invest. In order to benefit from longer-term gains, you may need to deal with some short-term pain. This is one you should print off and put on your desk as a reminder of that message when those scary days happen.



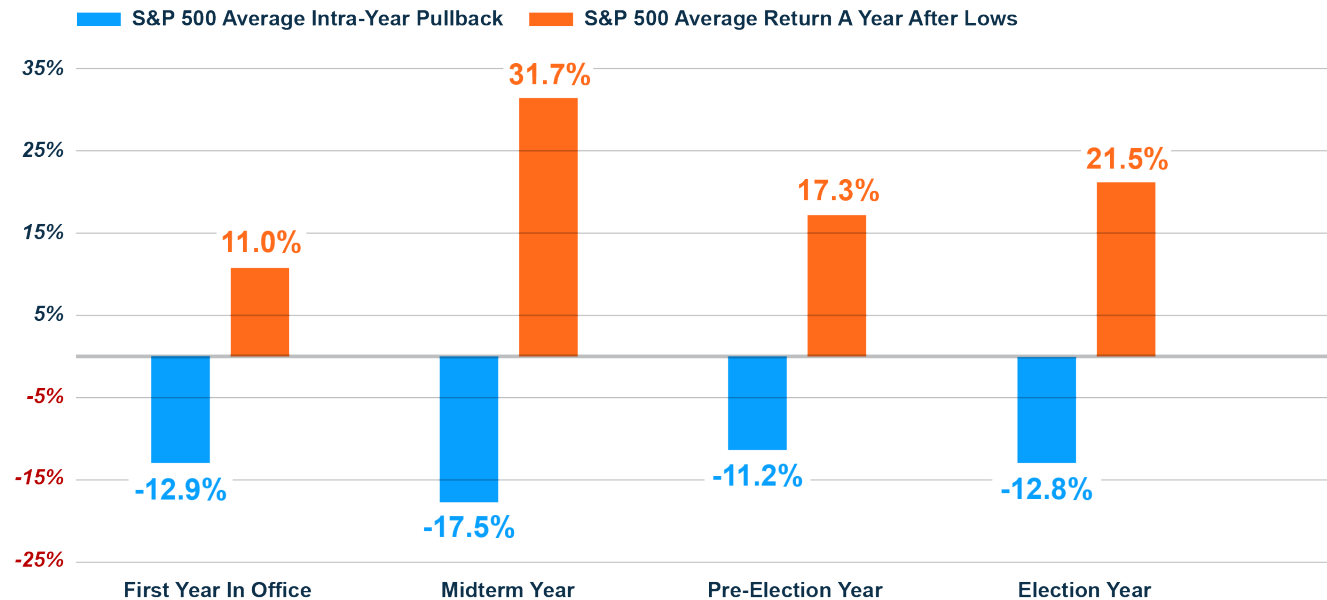
Source: Carson Investment Research, Ned Davis Research 11/30/2024



Source: Carson Investment Research, YCharts 11/30/2025

Midterm Years See The Largest Intra-Year Pullback

Pullbacks and Returns A Year Off The Lows For The S&P 500 Index Based On The Four-Year Presidential Cycle



Source: Carson Investment Research, FactSet 11/30/2025 (1950 - 2024)

Let's Talk About Midterm Years

Get ready to hear this a lot, but historically, midterm years are the weakest during the four-year presidential cycle. In fact, think back to 2018 and 2022—both saw vicious stock declines and negative returns for the year.

Midterm years gain less than 5% on average, by far the worst of the four-year presidential cycle. But when you look closer, it turns out that under a second-term president, the returns do much better, so there's something for everyone here [CH18].

But what midterms are really known for is their intra-year volatility. As we show here, midterm years see a 17.5% peak-to-trough maximum drawdown during the year, far and away the largest in the four-year election cycle. That's the bad news; the good news is one year off the midterm-year lows, stocks have never been lower and are up an impressive nearly 32% on average [CH19]. One last bit of important information is that midterm year corrections tend to bottom later in the year (August 18 on average and a median of September 29).

Where's the Excitement?

One of the fascinating aspects of this ongoing bull market is the unusual amount of fear and outright disdain it has seen. From a purely contrarian point of view, you tend to see excitement near peaks, not skepticism. As Sir John Templeton

Volatility is the toll we pay to invest.

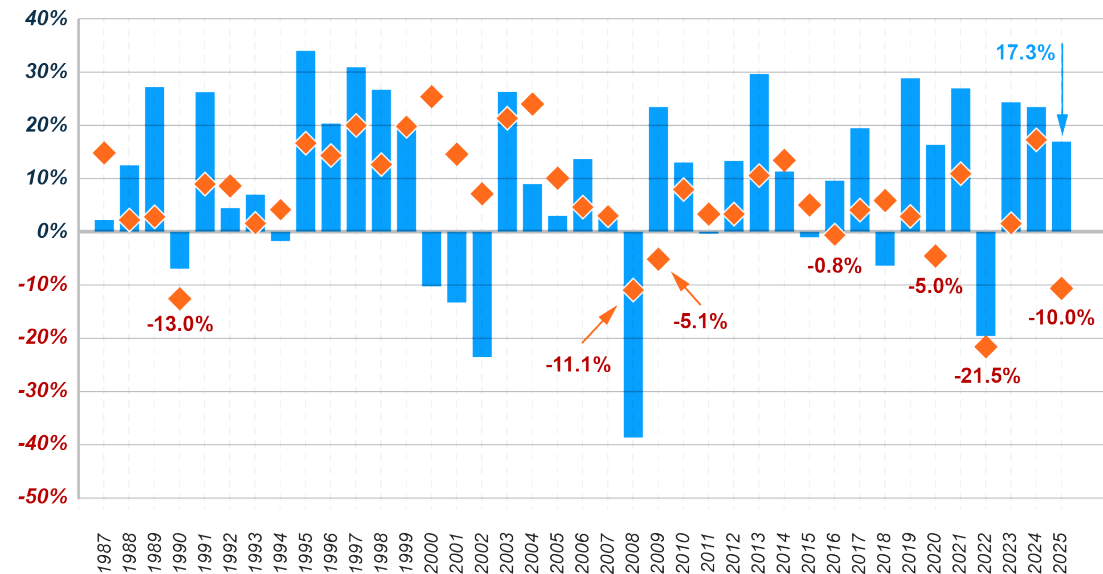
famously said, “Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria.” We aren’t anywhere near euphoria.

2025 was full of worries in the headlines. We heard about Warren Buffett holding record cash, famous hedge fund managers shorting AI stocks, high profile op-eds warning of another 1929, magazine covers auguring chaos, and a large bank CEO forecasting a recession and bear market, to name a few.

Even later in the year, with the S&P 500 near all-time highs, various sentiment polls were flashing fear usually seen closer to major bear market lows, not near all-time highs. Incredibly, the Michigan Consumer Confidence poll late in the year showed that consumers were more worried than they were 25 years ago during the tech bubble bursting, or in the depths of the Great Financial Crisis, or during a once-in-a-century pandemic. Things aren’t nearly this bad and, once again, all this negative sentiment is actually a reason this rally may continue.

The American Association of Individual Investors (AAIL) sentiment poll continues to show historic levels of worry. In fact, only three years in history saw bears outnumber bulls by 10% or more on average for the full year: 1990, 2008, and 2022 [CH20]. All were down years for investors (with 2008 and 2022 two of the

■ S&P 500 Return ◆ Difference Bulls - Bears



Source: Carson Research, AAIL 12/11/2025 (1987 - Current)

worst years ever) and all three saw bear markets. Well, we just added 2025 to that list, as we saw rare levels of skepticism this year, yet stocks were up nicely. Once again, it shows this rally is indeed unpopular and, from a contrarian point of view, that could be quite bullish.

Equity Valuations

With any strong run in the market, examining where valuations end up is a worthwhile exercise. Often, price appreciation is warranted on the back of strong earnings growth and fundamentals—something we are seeing today. Yet despite the strong earnings growth, we still see valuations for

certain segments of the market at elevated levels. Having a broadly diversified portfolio that’s not “all in” on more expensive parts of the markets can help to provide balance going forward.

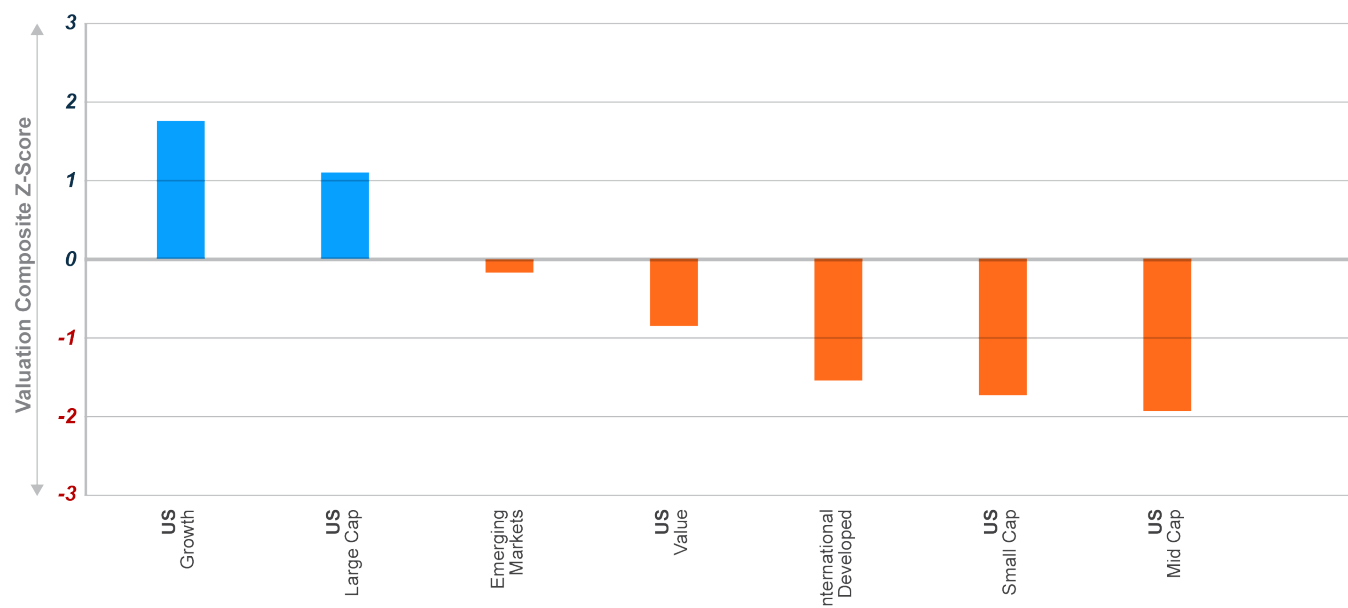
Looking at valuations at a global equity level, the same story that has been true for the last several years is still playing out—US large-cap and growth stocks are trading at higher valuations relative to their history than smaller-cap stocks and those overseas [CH21]. As we have witnessed, this spread can persist for a long period of time, but at a certain point, expectations for growth become exceedingly difficult to beat, with the opposite being true for beaten-down

smaller-cap stocks. It is interesting to note that despite a very strong year for developed international stocks, relative to their history, they are still quite attractive from a valuation standpoint.

Looking at sectors, change is also minimal from what we've seen earlier in the year and corresponds with the same theme—tech and then everything else [CH22]. Generally, the more defensive areas of the market are trading cheap relative to their history, which is to be expected with a market run like we've seen. By definition, these areas of the market tend to hold up better when markets stumble like we saw last March and April. If stocks fall due to valuation concerns about certain pockets of the market, it's a good bet these defensive areas will fare better.

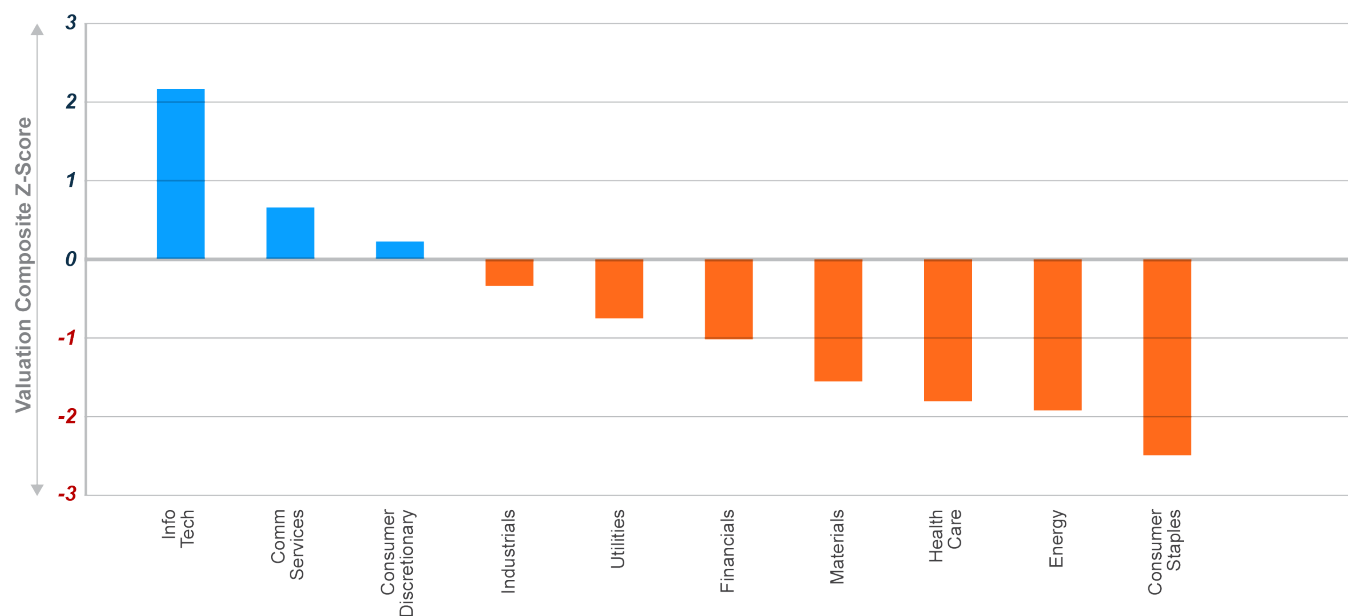
A natural question to ask when looking at these relative comparisons is what things look like when you remove (or at least minimize) the amount of technology and technology-related exposures from the analysis. One simple way to do this is to look at the S&P 500 on an equal-weight basis. The equal-weight index has less than half the exposure to technology and communication services than the cap-weighted index, and no single stock is more than a few tenths of a percent (depending on last rebalance). Looking at these two indices in comparison using the same valuation composite but in absolute terms, we can see a widening spread between the

CH 21 Global Equity Relative Valuations Valuation Composite



Source: Carson Investment Research, Morningstar Direct 10/31/2025
Relative Valuations utilize P/E, P/B, P/C, P/S ratios relative to parent index

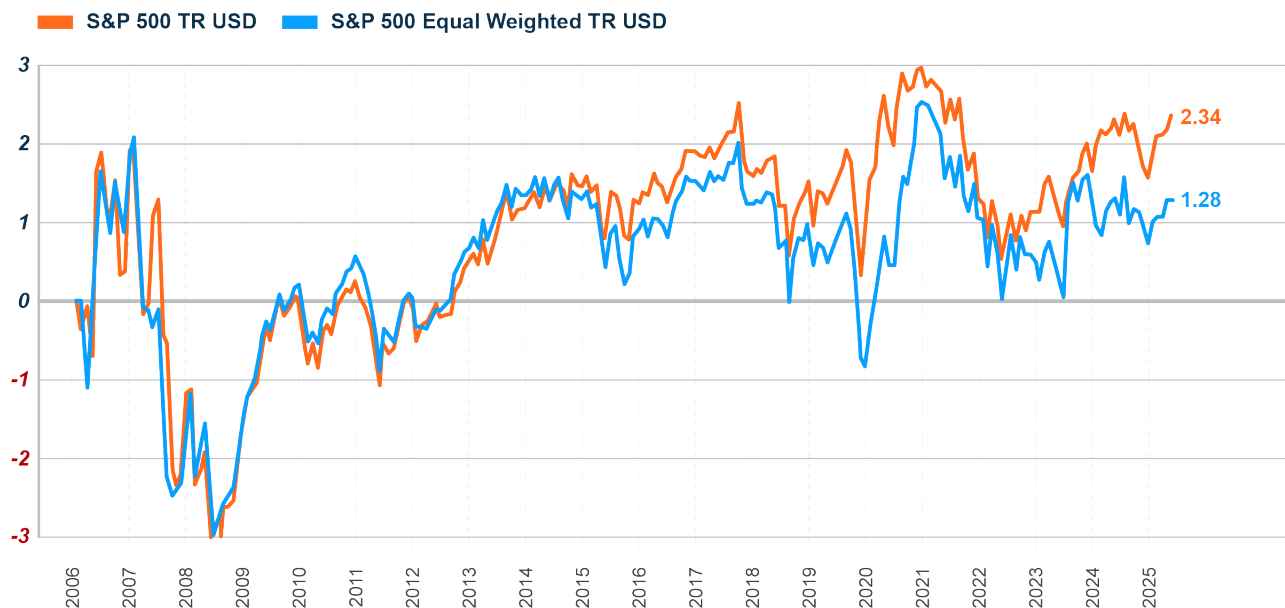
CH 22 US Sector Relative Valuations Valuation Composite



Source: Carson Investment Research, Morningstar Direct 10/31/2025
Relative Valuations utilize P/E, P/B, P/C, P/S ratios relative to parent index

Valuation Composite

Displayed as a Z-score (a Z-score is a way of scaling different statistics so they have a similar range)



Source: Carson Investment Research, Morningstar Direct 10/31/2025
Relative Valuations utilize P/E, P/B, P/C, P/S ratios relative to parent index

capitalization-weighted and equal-weighted index **[CH23]**. What's important here is not necessarily the widening spread between the indices, but more that once you strip out the effects of the mega caps, there is a more reasonable value proposition in the index than many valuations measures might give credit for. This connects back to the first chart, indicating that outside of mega cap growth, there is plenty of attractive value for an investor to diversify into.

As always, the caveat to valuations is that they don't matter until they do. Over- and under-valuation can remain that way for many years, but in certain choppy periods, we have seen the market punish areas that are more expensive. As we look into 2026, the market continues to present many opportunities if you know where to look.



Bonds

In 2025, the Bloomberg Aggregate Bond Index (“Agg”), a widely used broad benchmark for US investment grade bonds, gained 7.3%. Bond investors have not been accustomed to solid bond returns for most of the five years since the strong diversification bonds provided in 2020 during the COVID-related bear market, but those who had conviction in a central principle of bond investing—that higher starting yields on average means higher returns—were rewarded.

Core Bond Returns May Be in Line with Cash

Our 2026 forecast for the Bloomberg US Aggregate Bond Index is 3-5%, with our base case at the lower end of the range and out-of-base-case expectations skewed to the upside. For intermediate Treasuries, we would take that down another approximately 0.7 percentage points to account for the absence of a risk premium. (The Agg has corporate bonds and mortgage-backed securities, which both have some added risk.) Overall, that gives us a base case for bonds roughly in line with our forecast for very short maturity Treasuries bills (“cash”), namely something in the mid-3% range **[CH24]**. For cash, that prices in 2-3 additional rate cuts in 2026.

Core bonds are more volatile than cash due to their rate sensitivity. Interest rate change can send bond prices higher or lower, impacting their return in the near term (prices fall when interest rates rise, lowering returns). However, simply because of the way bonds work, they also provide more certain returns than cash over the life of the bond, since the price at maturity is known. Meanwhile, short-term bond returns over a longer period depend on what rates will be in the future, which is unknown. That makes bonds an easier strategic asset to forecast, and that shouldn’t be neglected when thinking about bond allocations despite the volatility. Even when yield

forecasts see potential for some downside, an allocation to bonds remains reasonable when yields are attractive.

Diversification Benefits of Bonds Have Grown Less Robust

While bonds still provide substantial diversification benefits, we don't expect the benefits to be as strong as they were in the decades prior to 2022 due to our expectation of structurally higher stock-bond correlations because of higher inflation uncertainty. Intermediate Treasuries are volatile enough to historically account for an average of about 24% of the risk in a portfolio of 60% stocks and 40% bonds if you assume they are correlated, and that number doesn't vary a whole lot. But because stocks and bonds aren't correlated (don't move together), bonds can actually account for none of the risk in the portfolio or even a negative percentage of risk in periods when stock-bond correlations are negative [CH25]. But as the correlation between stocks and bonds has risen, that diversification benefit has become smaller. That's what we're seeing now, and we believe it may persist.

Despite that, we would still lean into bonds over cash at a ratio of around two to one in an investment portfolio given that bonds would likely be strong diversifiers in a deflationary recession, even if we think that's relatively unlikely in 2026. Bonds are subject to drawdowns, but we

CH 24

Intermediate-Maturity Bonds Underperform T-Bills Even With A Small Yield Increase

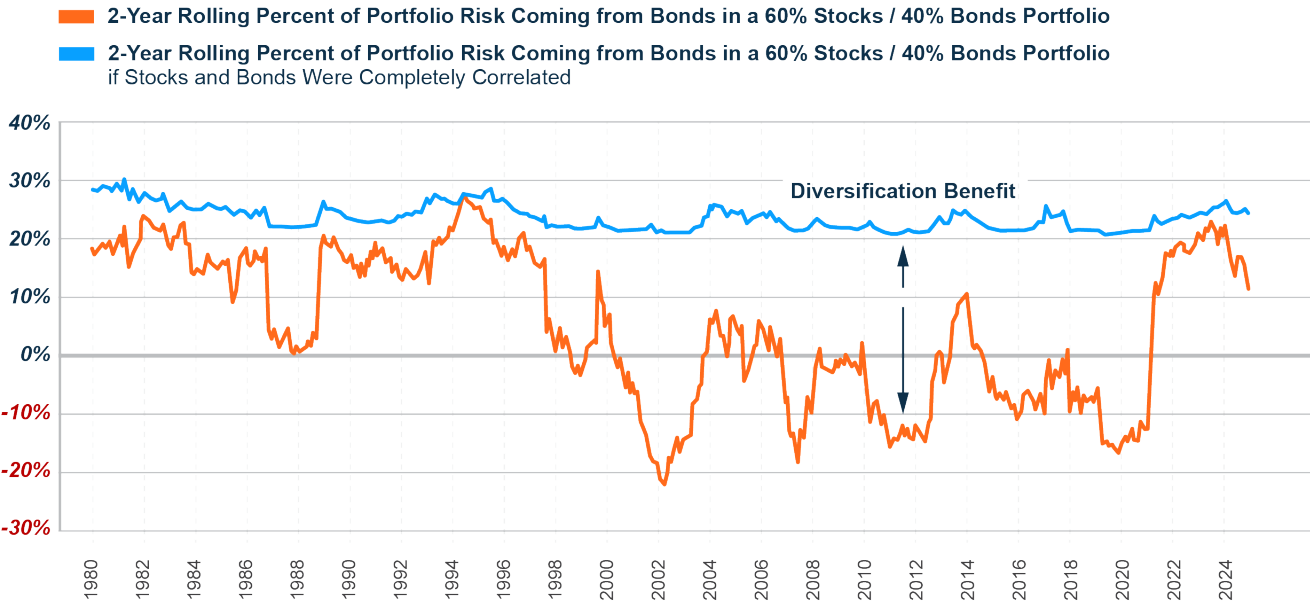
| One Year Change in Yields | -1.00 | -0.67 | -0.33 | 0 | 0.33 | 0.67 | 1 |
|---|-------|-------|-------|-----|------|------|------|
| Projected Bloomberg US Aggregate Return | 10.7 | 8.7 | 6.7 | 4.7 | 2.7 | 0.7 | -1.3 |
| Projected 3-Month Treasury Return | 3.3 | 3.5 | 3.6 | 3.8 | 4.0 | 4.1 | 4.3 |

Source: Carson Investment Research, FactSet 11/30/2025 | Scenarios assume no change in spreads, reinvestment at the current yield, and a one year holding period. Indexes: Bloomberg US Short Treasury (1-3 months), Bloomberg US Aggregate Bond Index | Baseline range highlighted.

CH 25

Bonds Still Diversifiers

But the diversification benefit have not been as strong as most of 2000-2020

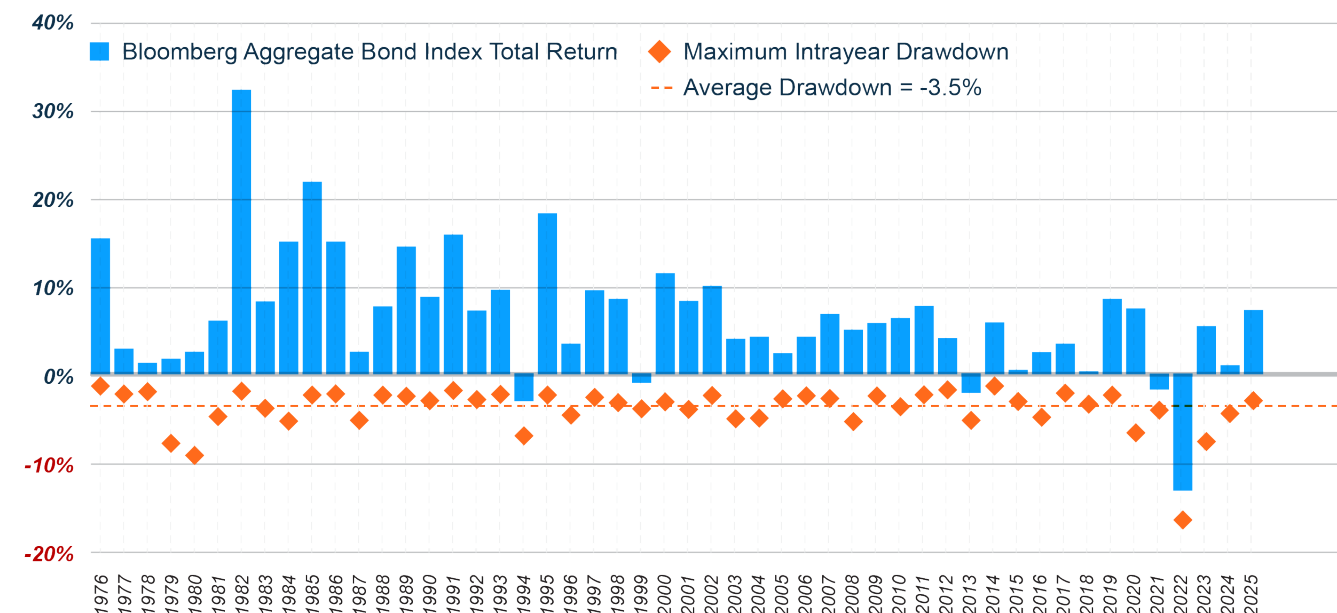


Source: Carson Investment Research, FactSet 11/30/2025
Stocks represented by the Russell 1000 Index; bonds represented by the Bloomberg US Government: Intermediate Index.

shouldn't treat the drawdown from 2022's "bondmegeddon" as our baseline, as some investors have done lately [CH26]. The bond pain from 2022 is still recent, but like stocks, the drawdown from bonds is part of the price of their reward. Granted, the reward for bonds is much lower than stocks, but then so is the risk. We can't say 2022 won't happen again, but it's easy to see it as an anomaly, driven by ultra-low yields, a historically aggressive rate hiking campaign, and complacency among bond investors. With starting yields higher, we still think the best approach is to emphasize bonds over cash while still having a meaningful allocation to cash while short-term rates remain somewhat elevated.

Recommended Bond Sector Positioning Leaning Conservative

From a sector perspective, because our general allocation recommendations lean to the aggressive side due to stock overweights, we recommend a more conservative bond sector allocation, emphasizing Treasuries, including some Treasury Inflation-Protected Securities ("TIPS"), and giving up some of the added return that may be provided by investment-grade corporate bonds. Where we do have credit exposure, we generally include some active management that may better navigate the credit environment. While our outlook is consistent with credit spreads remaining tight, they don't have a lot of room to get



Source: Carson Investment Research, FactSet 11/30/2025 | Drawdowns are based on monthly data for 1976-1988.

much tighter, providing some additional upside in our base case scenario but larger downside for an out-of-base-case scenario.

Reflationary Expansion May Limit 10-Year Yield Declines

There are two basic forces in play for 10-year Treasury yields right now. First, there's the tendency of longer-term yields to decline when the Fed cuts. Over major cutting cycles in the past, the 10-year yield has always fallen with the three-month yield, but at a slower rate, which is what leads to yield curve steepening. On average, the 10-year yield moves about half as much as the three-month yield over an

entire major cutting cycle (measured by the three-month yield peak to trough, which might slightly anticipate cuts) [CH27].

A second important force is the potential for a reflationary expansion and the upward pressure (and greater uncertainty) that creates for inflation. We think this influence may be underestimated.

It's important to keep in mind that we are already well into this cutting cycle. Even if the 10-year Treasury stayed constant at this point (near 4% as of the end of November), but the three-month Treasury follows a declining fed funds rate all the way to 3.0%, the ratio of declines for this cycle would

Long-Term Yields Decline More Slowly than Short-Term Yields

| 3-Month Treasury Yield Peak Date | 3-Month Treasury Yield at Peak Date | 10-Year Treasury Yield at Peak Date | 3-Month Treasury Yield Trough Date | 3-Month Treasury Yield at Trough Date | 10-Year Treasury Yield at Trough Date | 3-Month Treasury Yield Change | 10-Year Treasury Yield Change | 3-Month Yield Change / 3-Month Yield Change |
|----------------------------------|-------------------------------------|-------------------------------------|------------------------------------|---------------------------------------|---------------------------------------|-------------------------------|-------------------------------|---|
| 10/16/57 | 3.67 | 3.97 | 05/27/58 | 0.55 | 2.93 | -3.12 | -1.04 | 0.33 |
| 01/06/60 | 4.68 | 4.71 | 07/01/60 | 2.05 | 4.02 | -2.63 | -0.69 | 0.26 |
| 09/21/66 | 5.59 | 5.21 | 06/23/67 | 3.33 | 5.14 | -2.26 | -0.07 | 0.03 |
| 12/29/69 | 8.08 | 8.05 | 03/11/71 | 3.22 | 5.69 | -4.86 | -2.36 | 0.49 |
| 07/19/71 | 5.53 | 6.71 | 02/11/72 | 2.99 | 6.12 | -2.54 | -0.59 | 0.23 |
| 08/23/74 | 9.74 | 8.15 | 12/20/76 | 4.24 | 6.84 | -5.50 | -1.31 | 0.24 |
| 03/25/80 | 16.00 | 13.10 | 06/13/80 | 6.18 | 9.51 | -9.82 | -3.59 | 0.37 |
| 12/11/80 | 17.14 | 13.57 | 08/20/82 | 7.31 | 12.24 | -9.83 | -1.33 | 0.14 |
| 09/04/84 | 11.14 | 12.88 | 10/08/86 | 5.18 | 7.31 | -5.96 | -5.57 | 0.93 |
| 03/27/89 | 9.45 | 9.44 | 10/01/92 | 2.67 | 6.23 | -6.78 | -3.21 | 0.47 |
| 02/01/95 | 6.07 | 7.66 | 02/16/96 | 4.89 | 5.76 | -1.18 | -1.90 | 1.61 |
| 12/22/97 | 5.46 | 5.72 | 11/16/98 | 3.65 | 4.44 | -1.81 | -1.28 | 0.71 |
| 11/06/00 | 6.42 | 5.87 | 06/19/03 | 0.81 | 3.35 | -5.61 | -2.52 | 0.45 |
| 08/01/06 | 5.24 | 4.98 | 12/10/08 | 0.01 | 2.68 | -5.23 | -2.30 | 0.44 |
| 03/06/19 | 2.46 | 2.69 | 03/26/20 | -0.06 | 0.81 | -2.51 | -1.88 | 0.75 |
| 10/03/23 | 5.50 | 4.80 | ? | ? | ? | ? | ? | ? |
| | | | | | Average | -4.64 | -1.98 | 0.50 |

Source: Carson Investment Research, FactSet, Federal Reserve 11/30/2025 | Post-meeting policy statements were not a regular part of Fed communication until 1995. Prior numbers are estimates based on our own research. The period starting in December 1980 and October 1984 included both hikes and cuts.

be 0.28. That's below average, but higher than five of the 15 previous cycles. In other words, based on history, more declines in 10-year Treasury yields would be expected, but the absence of a decline would be entirely feasible.

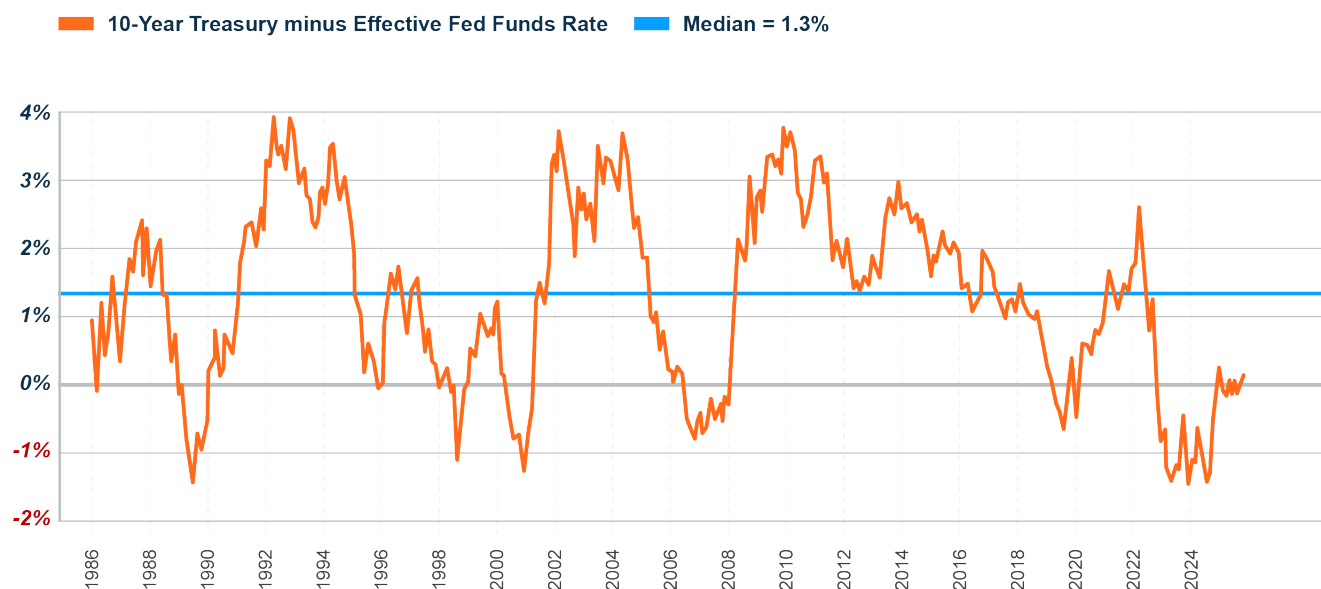
We believe features of the current environment move this from feasible to likely. With tailwinds from Fed cutting despite inflationary pressure, deficit-financed fiscal stimulus, and the continued AI infrastructure buildout, we expect below-trend real growth (but not recessionary) with modest continued job gains amid somewhat elevated inflation. (By the way, that wouldn't be a bad environment for stocks.) If that's true, the pull of rate cuts on the 10-year yield would be below average compared to history, which would allow more yield curve normalization.

Looking at the yield curve [CH28], the median steepness of the 10-year Treasury yield versus the fed funds rate going back to 1986 is 1.3%, although it varies quite a lot. We're still near 0 now and have not come even close to normalization at any point during this expansion, in part because of the aggressive Fed rate hike cycle. Since a 3% fed funds rate is what the Fed consensus currently views as neutral based on the forecast it provides, normalization may lead to something like typical historical yield curve steepness. If the fed funds rate fell to the 3.0-3.25% range, working

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The Yield Curve Remains Unusually Flat

A lower policy rate may not fully offset natural steepening.

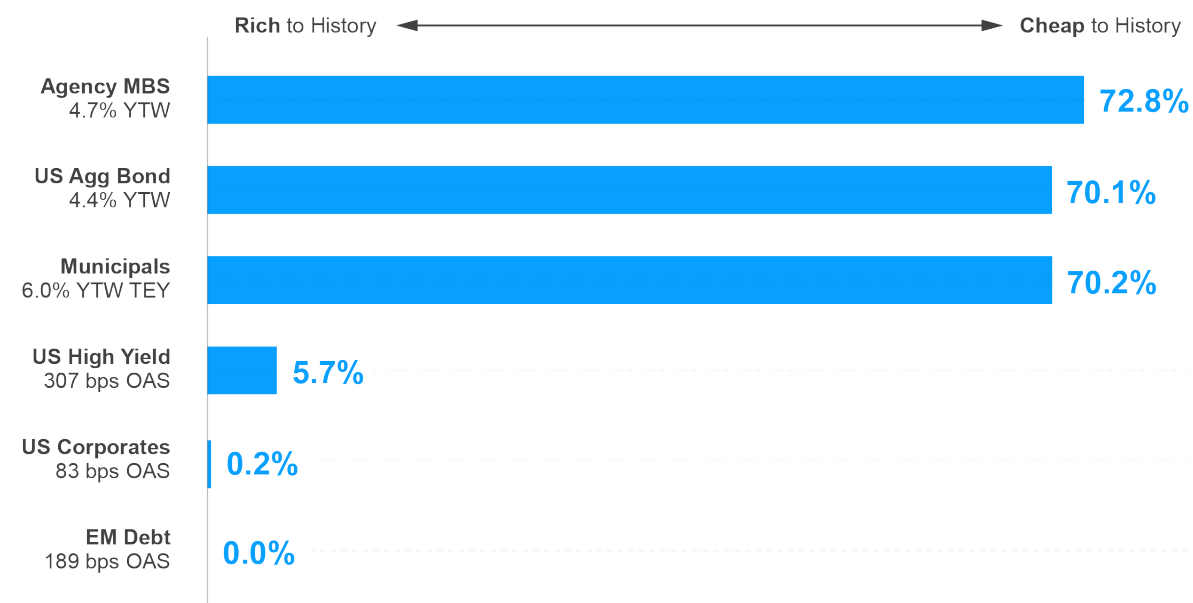


Source: Carson Investment Research, Board of Governors of the Federal Reserve System via FRED 11/30/2025

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Fixed Income Valuations

20-year Percentile Rank - YTW and OAS



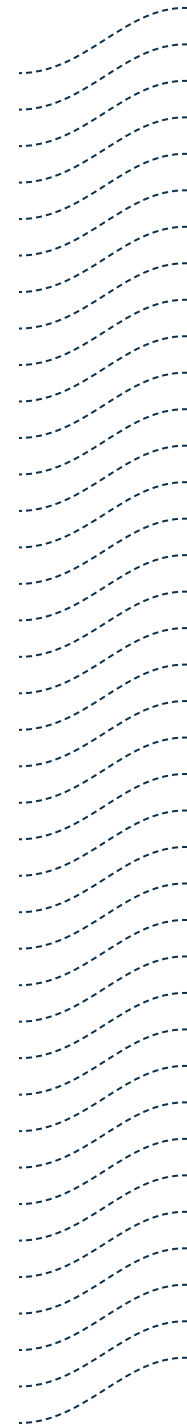
Source: Carson Investment Research, Factset 11/30/2025

YTW = yield to worst. OAS = option adjusted spread. TEY = Treasury equivalent yield.

from the middle of the range, that would imply a 10-year yield at 4.4%. We think that's closer to what we'll get, but that implies a pace of normalization that's too fast. A more reasonable expectation would be approaching 4.25%. That's a nice starting yield looking longer term, and our out-of-base-case expectations skew toward lower yields than our forecast, but it makes the case for still employing some cash in tactical portfolios—a different perspective than we had at the start of 2025 when we believed rate cuts were likely to put downward pressure on the 10-year yield.

Bond Valuations

For investors who reserve a long-term spot in a portfolio for bonds, looking at bond valuations is an important input to allocation decisions. In the chart below, a higher value is better, indicating an attractive relative level of yield compared to what that asset class has offered historically. What's nice about this analysis is that with bonds, math rules the day. Bonds mature at par (barring default), and so returns can be predicted in a more accurate manner. High-quality fixed income still looks good, agency mortgages and the broad aggregate bond index (of which a large portion is agency mortgages and Treasuries) trade at reasonable yield profiles. Spread sectors like corporates, high yield, and emerging markets, however, continue to trade at very tight spreads (which corresponds to a higher valuation) **[CH29]**. In fact, based on our data, emerging-market debt (USD-denominated) has never traded at a tighter spread than right now. While these sectors may continue to offer decent absolute yields, the potential for additional spread tightening, which helps improve returns, remains quite low. Risks skew to the downside (i.e., spread widening), leading us to prefer taking risk in equities or alternatives while keeping fixed income high-quality.





Conclusion

We have long reminded investors that one of the simplest and most straightforward ways to protect against volatility, concentration, and other concerns is to own a variety of asset classes and stay within an appropriate risk tolerance. This was no doubt true in 2025, as the market presented a number of challenges throughout the year despite strong headline numbers. Reversals of previous trends were the norm into the April lows, with essentially everything outperforming the US large-cap growth behemoths. Since the April lows, the market has recovered strongly—this time not led by high-flying growth and AI names, but by international stocks. Growth has had very strong returns once again and surged off the lows of the year, but the head start that both developed international and emerging markets had going into that time period has made for a very strong year for stocks outside the US—so strong, in fact, that emerging markets had one of their best years in decades and developed international markets sit near their best return since 2009.

On the commodity front, gold has deservedly garnered all the attention, having still a historic year (+65%), with other areas in commodities having mixed results. The underlying theme playing out with international stocks and commodity (particularly metals) performance is a declining US dollar, down 8%, its weakest year in some time.

Broad fixed income had its best year since 2020, yet that still pales in comparison to any other major asset class besides cash. Lost in the strong global stock market returns, a 7.3% 2025 return for high-quality fixed income is nothing to bat an eye at, with certain areas of credit doing even better.

Putting this all together, a traditional, well-balanced, moderate portfolio of 60% stocks and 40% fixed income/cash—what we use as our moderate benchmark—has returned over 15%! That is lagging just behind US large-cap stocks with much lower volatility. Diversification has paid off, despite small, mid-cap, and value stocks lagging the overall market (but again, strong absolute returns). The headlines may indicate otherwise, but 2025 was an outstanding year for markets across the board, and therefore an outstanding year for a diversified portfolio.

We take those lessons learned to 2026. Even as we counsel riding the wave next year, anticipating another year of economic expansion and leaning into equity overweights, we continue to recommend a diversified portfolio. For 2026, that includes exposure to low-volatility stocks as well as momentum stocks, meaningful exposure to international stocks, and some exposure to asset classes outside of stocks and bonds (such as gold and managed futures).

Remember that even if conditions turn out to be excellent, there are shared jitters out there that can be contagious. It will take perspective and possibly some guidance to stay on course. From that perspective, it's worth studying the Carson Quilt Chart before closing this year's Outlook **[CH30]**. Every category in the chart has been near the top and bottom of returns since 2010,

but in the middle, you'll see one category that swells up and down more gently: our diversified moderate benchmark. It has not always been positive, but also has not hit the extremes of other categories. For those who feel comfortable braving the big waves, we still believe equities have the best long-term return outlook, and even there, diversification across equities can help provide balance. But for many investors seeking progress toward finding their endless summer with a more moderate risk profile, a well-diversified portfolio is a wave worth riding.



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The Carson Quilt Chart

Returns for Various Sectors (2010-2025)

Each category is represented by a specific color block with percentage gain / lose

| | | | | | | | | | | |
|-----------|------|--------------|--------|-----------|----------|-----------|---------|--------------------|-----------|-------|
| Commodity | Cash | Fixed Income | Growth | Int'l Dev | Int'l EM | Large Cap | Mid-Cap | Moderate Benchmark | Small Cap | Value |
| 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

Blue line tracks Moderate Benchmark Category



| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | Return | Risk | 2000s | 2010s | 2020s |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Small Cap | Fixed Income | Int'l EM | Small Cap | Large Cap | Growth | Small Cap | Int'l EM | Cash | Growth | Growth | Large Cap | Commodity | Growth | Growth | Int'l EM | Growth | Growth | Int'l Dev | Growth | Growth |
| 26.9% | 7.8% | 18.2% | 38.8% | 13.7% | 5.7% | 21.3% | 37.3% | 1.8% | 36.4% | 38.5% | 28.7% | 16.1% | 42.7% | 33.4% | 29.7% | 9.8% | 17.0% | 9.6% | 15.2% | 18.1% |
| Mid-Cap | Growth | Value | Mid-Cap | Value | Large Cap | Value | Growth | Fixed Income | Large Cap | Small Cap | Growth | Cash | Large Cap | Large Cap | Int'l Dev | Mid-Cap | Mid-Cap | Commodity | Large Cap | Large Cap |
| 25.5% | 2.6% | 17.5% | 34.8% | 13.5% | 1.4% | 17.3% | 30.2% | 0.0% | 31.5% | 20.0% | 27.6% | 1.5% | 26.3% | 25.0% | 27.4% | 9.3% | 17.3% | 7.1% | 13.6% | 16.7% |
| Int'l EM | Large Cap | Int'l Dev | Growth | Mid-Cap | Fixed Income | Mid-Cap | Int'l Dev | Growth | Mid-Cap | Large Cap | Commodity | Value | Int'l Dev | Mid-Cap | Growth | Large Cap | Large Cap | Fixed Income | Mid-Cap | Value |
| 18.9% | 2.1% | 17.3% | 33.5% | 13.2% | 0.5% | 13.8% | 25.0% | -1.5% | 30.5% | 18.4% | 27.1% | -7.5% | 18.2% | 15.3% | 19.3% | 8.9% | 15.1% | 6.3% | 13.2% | 13.7% |
| Commodity | Moderate Benchmark | Mid-Cap | Value | Growth | Cash | Large Cap | Large Cap | Large Cap | Value | Int'l EM | Value | Fixed Income | Mid-Cap | Value | Large Cap | Int'l EM | Int'l EM | Mid-Cap | Small Cap | Mid-Cap |
| 16.8% | 0.7% | 17.3% | 32.5% | 13.0% | 0.0% | 12.0% | 21.8% | -4.4% | 26.5% | 18.3% | 25.2% | -13.0% | 17.2% | 14.4% | 17.8% | 8.5% | 20.6% | 5.0% | 11.8% | 12.3% |
| Growth | Value | Small Cap | Large Cap | Moderate Benchmark | Moderate Benchmark | Commodity | Mid-Cap | Moderate Benchmark | Small Cap | Mid-Cap | Mid-Cap | Int'l Dev | Small Cap | Small Cap | Commodity | Small Cap | Small Cap | Moderate Benchmark | Value | Commodity |
| 16.7% | 0.4% | 16.3% | 32.4% | 6.6% | -0.6% | 11.8% | 18.5% | -4.8% | 25.5% | 17.1% | 22.6% | -14.5% | 16.9% | 11.5% | 16.1% | 8.2% | 20.8% | 3.6% | 11.8% | 12.0% |
| Value | Cash | Large Cap | Int'l Dev | Fixed Income | Int'l Dev | Int'l EM | Small Cap | Value | Int'l Dev | Moderate Benchmark | Small Cap | Moderate Benchmark | Moderate Benchmark | Moderate Benchmark | Value | Value | Value | Small Cap | Moderate Benchmark | Small Cap |
| 15.5% | 0.1% | 16.0% | 22.8% | 6.0% | -0.8% | 11.2% | 14.6% | -8.3% | 22.0% | 13.3% | 14.8% | -14.8% | 14.9% | 10.5% | 15.1% | 7.6% | 15.2% | 3.5% | 8.0% | 11.8% |
| Large Cap | Mid-Cap | Growth | Moderate Benchmark | Small Cap | Mid-Cap | Moderate Benchmark | Moderate Benchmark | Mid-Cap | Moderate Benchmark | Int'l Dev | Int'l Dev | Mid-Cap | Value | Int'l EM | Moderate Benchmark | Moderate Benchmark | Moderate Benchmark | Cash | Int'l Dev | Int'l Dev |
| 15.1% | -1.5% | 15.3% | 15.3% | 4.9% | -2.4% | 7.4% | 14.4% | -9.1% | 19.8% | 7.8% | 11.3% | -17.3% | 11.5% | 7.5% | 14.6% | 6.5% | 9.7% | 2.8% | 5.5% | 11.2% |
| Moderate Benchmark | Small Cap | Moderate Benchmark | Cash | Cash | Value | Growth | Value | Small Cap | Int'l EM | Fixed Income | Moderate Benchmark | Large Cap | Int'l EM | Commodity | Small Cap | Int'l Dev | Int'l Dev | Value | Fixed Income | Moderate Benchmark |
| 12.6% | -4.2% | 11.5% | 0.0% | 0.0% | -3.8% | 7.1% | 13.7% | -11.0% | 18.4% | 7.5% | 11.1% | -18.1% | 9.8% | 5.4% | 13.5% | 5.3% | 16.5% | 2.5% | 3.7% | 8.4% |
| Int'l Dev | Int'l Dev | Fixed Income | Fixed Income | Int'l EM | Small Cap | Fixed Income | Fixed Income | Commodity | Fixed Income | Value | Cash | Int'l EM | Fixed Income | Cash | Mid-Cap | Fixed Income | Fixed Income | Int'l Dev | Int'l EM | Int'l EM |
| 7.8% | -12.1% | 4.2% | -2.0% | -2.2% | -4.4% | 2.6% | 3.5% | -11.2% | 8.7% | 2.8% | 0.0% | -20.1% | 5.5% | 5.3% | 10.9% | 3.8% | 4.2% | 1.2% | 3.7% | 7.8% |
| Fixed Income | Commodity | Cash | Int'l EM | Int'l Dev | Int'l EM | Int'l Dev | Commodity | Int'l Dev | Commodity | Cash | Fixed Income | Small Cap | Cash | Int'l Dev | Fixed Income | Cash | Cash | Large Cap | Cash | Cash |
| 6.5% | -13.3% | 0.1% | -2.6% | -4.9% | -14.9% | 1.0% | 1.7% | -13.8% | 7.7% | 0.5% | -1.5% | -20.4% | 5.1% | 3.8% | 7.5% | 1.8% | 0.5% | -0.9% | 0.5% | 3.1% |
| Cash | Int'l EM | Commodity | Commodity | Commodity | Commodity | Cash | Cash | Int'l EM | Cash | Commodity | Int'l EM | Growth | Commodity | Fixed Income | Cash | Commodity | Commodity | Growth | Commodity | Fixed Income |
| 0.1% | -18.4% | -1.1% | -9.5% | -17.0% | -24.7% | 0.3% | 0.8% | -14.6% | 2.2% | -3.1% | -2.5% | -29.1% | -7.9% | 1.3% | 3.9% | 1.5% | 15.5% | -4.0% | -4.7% | -0.3% |

Source: Carson Investment Research, Morningstar Direct as of 11/30/2025. Moderate benchmark consists of 14% S&P 500 TR, 8% Russell Mid Cap TR, 4% Russell 2000 TR, 8% Russell 1000 Value TR, 8% Russell 1000 Growth TR, 18% MSCI ACWI Ex-USA NR, 35% Bloomberg US Agg Bond TR, 5% Bloomberg US Treasury 1-3M TR | Risk and return are 2001 - November 2025.

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The Bloomberg U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The MSCI World ex-U.S. Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries -- excluding the United States. With 871 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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