Quarterly Letter
January 2025

Comments as of
January 23rd, 2026

Dear Clients and Friends,

EXECUTIVE SUMMARY

Last year offered another reminder that markets often climb a wall of worry. While tariff related concerns triggered a sharp pullback early in the year, as shown in Exhibit 1, the S&P 500 still managed to finish 2025 with a strong 18% total return, with the fourth quarter representing a third straight quarter of gains and 2025 marking the third consecutive year of double-digit returns. Although policy uncertainty limited the broad market participation many had expected for the year, with the average stock again lagging, this was more than offset by artificial intelligence (AI) related optimism as the Great 8 (Magnificent 7 plus Broadcom) continued to lead markets higher. To that end, we saw continued outperformance for the tech sector and growth stocks for the full year. Fixed income also had a strong year, benefiting from lower interest rates, with the Bloomberg Agg generating over 7% returns and now comfortably in positive territory since its 2022 drawdown.

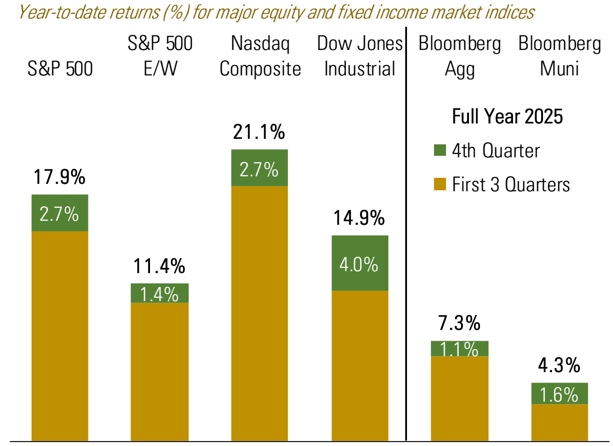
With stock markets hovering near all-time highs, a fear of heights has some suggesting we are due for a drawdown. Yet, as highlighted in Exhibit 2, history suggests the opposite, with highs leading to new highs. Our outlook is more nuanced. With market concentration and valuation extended, future returns increasingly depend on earnings beyond the Great 8. The good news is that the improved participation many expected in 2025 may emerge in 2026, as a resilient economy and accommodative policy drive expectations for broadening profit growth. We saw signs of optimism in fourth quarter returns, as value beat growth and Tech ranked sixth among 11 sectors. This positive view is balanced by potential risks, including an AI air pocket, stubborn inflation, weakening labor data, geopolitical uncertainty and poor seasonality in mid-term elections, all of which we'll actively monitor. While cautiously optimistic, we note thoughtful diversification has become increasingly important in a concentrated market sensitive to AI headlines.

Entering 2026, there are a few planning items to consider: taxes, retirement contributions, and new Roth catch-up rules. Please contact your advisor.

Respectfully submitted by the Professional Staff at United Asset Strategies.

Exhibit 1: Positive fourth quarter contributes to another year of strength across stock and bonds.

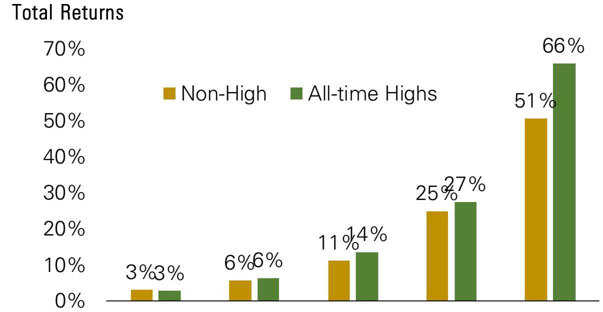
Year-to-date returns (%) for major equity and fixed income market indices



Source: United Asset Strategies, Orion

Exhibit 2: With S&P 500 hovering near all-time-highs, history suggests market strength begets more strength.

Historical forward cumulative total returns (%) for the S&P 500, 1989-2025



Hit Rate	3 Mo	6 Mo	1 Yr	2 Yr	4 Yr
High	75%	80%	87%	89%	87%
Non-High	71%	74%	80%	85%	80%

Source: United Asset Strategies, Bloomberg

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MACRO ENVIRONMENT

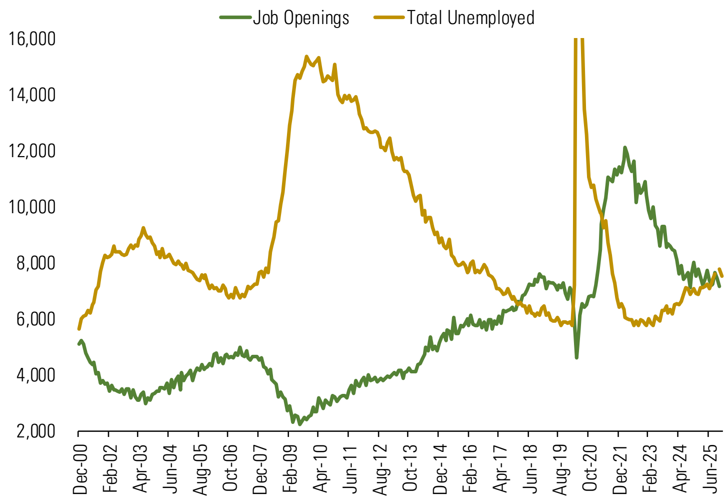
Resilient macro poised for fiscal tailwinds. As we have discussed in recent letters, the US economy was surprisingly resilient in 2025, with Gross Domestic Product (GDP) growth exceeding forecasts despite the uncertainties created by an aggressive tariff policy. In addition to positive contributions from the consumer, heavy investment in AI resulted in a spike in the Fixed Investment portion of GDP.

Looking into 2026, we expect substantial policy tailwinds to drive the economy. This includes fiscal stimulus from the One Big Beautiful Bill Act (OBBBA), Federal Reserve (Fed) balance sheet expansion, financial deregulation, and moderating tariff comparisons. Economists estimate stimulus to exceed a net $700 billion, consisting of $150B in individual tax refunds; $200B in business investment tax cuts; $300B from Fed balance sheet expansion and $200B from financial deregulation, partially offset by $150B in tariffs in the first half of the year. Tax revenues are expected to be healthy in 2026, as a $10 trillion increase in shareholder wealth in 2025 should translate into $250B in tax revenues this year. At the time of this writing, we are awaiting the Supreme Court's ruling on the appropriateness of the Administration's use of the International Emergency Economic Powers Act (IEEPA) to enact tariffs.

One potential risk to the economy is weakening employment. Data has cooled, but we believe a deeper examination suggests a balanced labor market at this point. While the number of job openings and unemployed workers have moved in the wrong direction, as seen in Exhibit 3, they are now equal in size, suggesting a level of equilibrium should trends stabilize.

Exhibit 3: Labor market has weakened but appears at equilibrium point between job openings and unemployed.

Number of Job Openings (JOLTS) and Number of Unemployed, in thousands



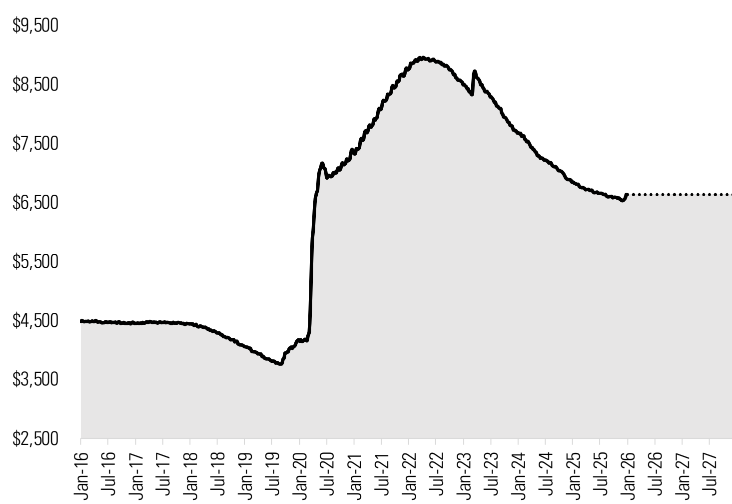
Source: United Asset Strategies, Bloomberg, Bureau of Labor Statistics (BLS)

Clear shift toward easier monetary policy. After pausing for much of 2025, the Fed cut rates by 25 basis points (bp) at its September, October, and December meetings, totaling 75bp of cuts for the year. These cuts were in line with expectations to start the year, but those expectations shifted often as tariff policy, inflation trends and labor-market data evolved. Looking ahead, the median forecast in the Fed's Summary of Economic Projections (SEP) calls for one cut in 2026, with a central range of zero to three. Market's expectations for two fit well within that range, and all occur after Chairman Powell's term ends in May, when Trump is expected to nominate a more dovish chair.

While rate cuts may be on hold early in 2026, the Fed did shift to a more accommodative balance sheet stance at its recent meeting. As shown in Exhibit 4, the Fed has steadily shrunk its balance sheet since 2022, allowing Treasuries and mortgage-backed securities to roll off as they mature. This restrictive posture, known as quantitative tightening (QT), removes liquidity from the financial system. The Fed estimates QT had the effect of raising the policy rate by 50 bp. In December, the Fed not only halted QT, it also modestly increased its balance sheet by $80 million through "reserve management purchases" aimed at maintaining ample reserves in the banking system. While Wall Street is monitoring whether the Fed expands these purchases should liquidity tighten further, ending QT and future rate cuts already shift policy to a more accommodative stance.

Exhibit 4: Taken together, rate cuts and the end of QT is a notably accommodative shift in Fed policy stance.

Federal Reserve Balance Sheet, Total Assets (Less Eliminations from Consolidation) in $ Billions



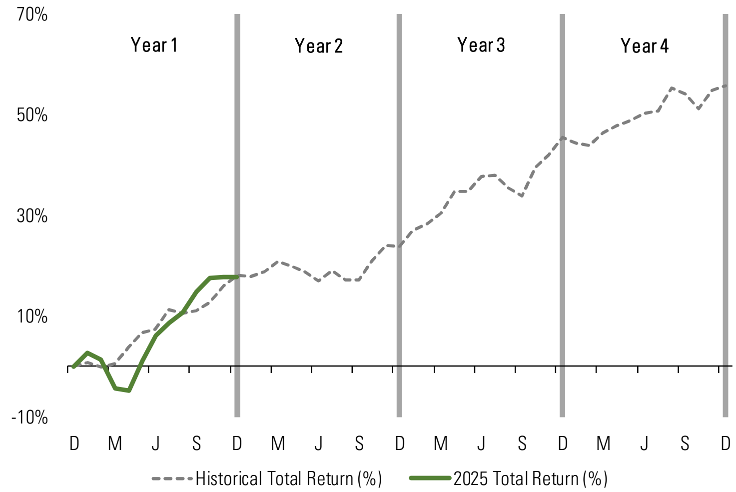
Source: United Asset Strategies, Board of Governors of the Federal Reserve System (US) via FRED

Weak seasonality in mid-term election years. With 2026 a mid-term election year, it is no coincidence to see the party in power providing meaningful macro stimulus. A key focus of this administration is tackling the "K-shaped" economy, in which high-end consumers continue to spend, but low-end consumers struggle with affordability. As a result of this fiscal tendency, the second year of a president's term typically sees the highest GDP growth. Interestingly, this has not translated into stronger stock market returns. In fact, as illustrated in Exhibit 5, returns in the second year of a president's term are typically the weakest, especially in the quarters leading up to the election.

As for the midterms, Republicans control the White House, have a slight majority in the House, and a 53/47 majority in the Senate. All 435 House seats are up for grabs this year, while 35 Senate seats are up. Two predictive measures on the House outcome include (1) the Generic Ballot, which currently favors Democrats by 4% and (2) the President's Approval Rating, which is at -12%. If held, these numbers would be consistent with meaningful House wins for Democrats. In the Senate, there are elections taking place for 22 Republican-held seats and 13 Democrat-held seats. Given seat locations, it is likely an uphill battle for Democrats to gain the net four seats needed for control. Currently, betting odds give Democrats a 77% and 33% chance to win the House and Senate, respectively.

Exhibit 5: Stimulative policy usually boosts GDP in second year of election cycle, but SPX returns mostly muted.

Total Return (%) for the S&P 500 through the election cycle (1992-2024, vs. 2025)



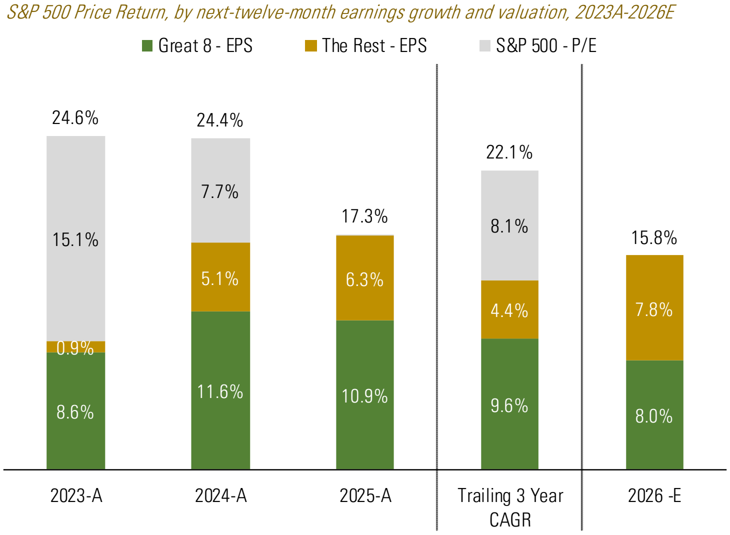
Source: United Asset Strategies, Bloomberg

INVESTMENT MANAGEMENT

Little headroom on concentration and valuations. This bull market began alongside the launch of ChatGPT in late 2022, with the S&P 500 rising at an impressive 22% annualized pace over three years. As shown in Exhibit 6, strong AI-driven fundamentals at the largest eight technology companies—the Great 8—accounted for over 40% of that upside, with their high-30% earnings (EPS) growth adding 10 percentage points (pp) annually to market returns. Valuation also contributed, with S&P 500 multiple (P/E) expansion adding another 8 pp a year.

Exhibit 6: Trailing returns are mostly driven by Great 8, but 2026 should benefit from wider EPS breadth.

S&P 500 Price Return, by next-twelve-month earnings growth and valuation, 2023A-2026E



Source: United Asset Strategies, FactSet

In contrast, the remaining greater than 490 stocks (the Rest) reported modest fundamentals, with 6% EPS growth adding just 4pp of market upside annually. Much like the consumer, many firms struggled in this "K shaped" economy, as those less exposed to AI tailwinds also faced increased costs amid higher rates and inflation. As such, the market has become expensive and concentrated by historical standards, with the Great 8 now 40% of the S&P 500 and the index at 22x forward EPS.

Broadening EPS growth a key source of stock returns. Elevated market valuations make forward returns dependent on EPS growth, particularly from companies outside the Great 8. The good news is that the policy backdrop appears to be more supportive, as fiscal focus shifts from tariff-related uncertainty to more business-friendly tax and deregulation measures. Accommodative monetary policy also helps, with rate cuts and the removal of QT potentially lowering financing costs.

We would not interpret the 2026 S&P 500 data in Exhibit 6 as a return target, as it takes no stance on valuation. But it does illustrate expectations for broader profit strength, with stocks outside the Great 8 accelerating to double-digit percentage EPS growth and contributing 8pp of the 16pp growth forecasted for the market. Wall Street estimates have a track record of being optimistic, so potential risks to monitor include stubborn inflation, labor-market weakness and geopolitical uncertainty.

Exhibit 7: S&P 500 has become an "AI Index," but there remains complementary opportunities under the surface.

AI exposure, based on trailing 1-year correlation with semi-conductor and AI ETFs

Business Sector	AI Correlated	AI Neutral	AI Complimentary
Technology	25%	9%	0%
Communications	8%	1%	1%
Discretionary	7%	2%	2%
Industrials	3%	2%	2%
Materials	0%	1%	1%
Energy	0%	2%	1%
Real Estate	0%	1%	1%
Utilities	0%	0%	2%
Financials	3%	5%	6%
Staples	0%	0%	5%
Health Care	0%	3%	6%
Total Weight	**47%**	**26%**	**27%**
Weighted Beta	1.41	0.94	0.36
Beta Adjusted	**66%**	**25%**	**10%**

Source: United Asset Strategies, FactSet

Seek diversification in a concentrated stock market.

Heavy market concentration makes thoughtful diversification increasingly important. While this AI-driven market echoes the 2000 Dot-com bubble, today's Big-Tech are higher quality and not as pricey. While we aren't in bubble territory yet, the S&P 500 does appear highly levered to AI. One way of quantifying it, Exhibit 7 breaks out market exposure by its correlation to AI, with nearly 50% of the index trading in sympathy with that theme. Further, when accounting for the higher beta of that exposure, AI represents 2/3rds of market volatility, emphasizing how sensitive the index has become to AI headlines.

While optimistic on AI, this multi-year tailwind may experience air pockets along the way. The exhibit also shows areas of the market with low correlation to AI, which may be more likely to retain value if AI leadership falters. We favor the durability of more diversified portfolios less reliant on a single theme, especially as the opportunity set outside the Great 8 improves.

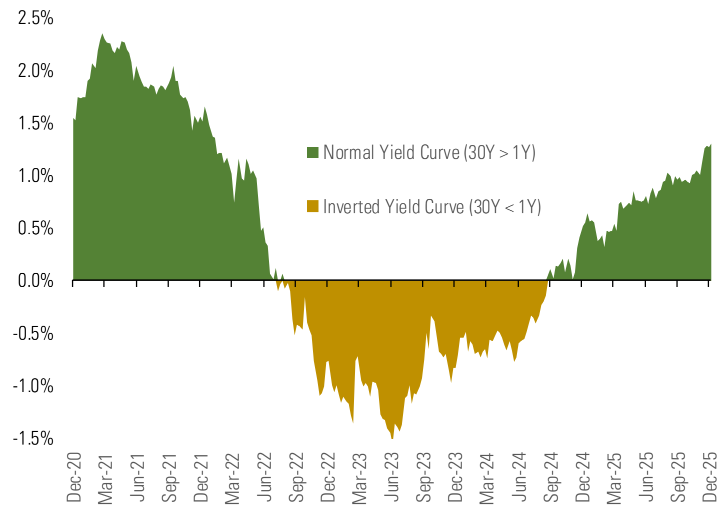
Extending duration for yield and upside potential. After nearly two years of inversion, the Treasury yield curve returned to a more typical upward slope in late 2024. As shown in Exhibit 8, the curve continued to steepen through 2025, driven primarily by declining short-term rates, while long-term yields remained relatively stable. In our view, bond markets are signaling confidence that inflation has moderated and is moving closer to target, while long-term growth and inflation expectations remain well anchored. Also, credit spreads further tightened, reinforcing the outlook for a healthy economy.

Against this backdrop, within tax-deferred accounts, we took profits in sectors that performed well - such as corporate bonds and taxable municipals - and modestly extended duration to enhance portfolio yield. In taxable accounts, we increased municipal bond exposure early in the year, when heavy issuance created attractive entry points. These buys proved timely, as municipals outperformed in the second half of 2025.

Looking ahead, we continue to see value in gradually reallocating from very short-term assets, such as cash and money market funds, into longer term bonds. These bonds offer higher yields today and the potential for price appreciation should interest rates decline. We also maintain exposure to Treasury Inflation-Protected Securities (TIPS) for cost-effective inflation protection, along with curve-steepener strategies designed to benefit from a more normally sloped yield curve.

Exhibit 8: We favor extending duration; long-term bonds should offer attractive yields and potential price upside.

Spread between 10 year and 1 year Treasury Yields, since 2020



Source: United Asset Strategies, Bloomberg

FINANCIAL PLANNING

Tax and retirement planning items for new year. As we begin the new year, there are several planning items to keep in mind related to taxes, retirement contributions, and changes to Roth catch-up rules.

- <u>2025 Tax Documents</u>: Tax reporting documents for 2025, including Forms 1099, 1099-R, and K-1s, will become available starting in February. Availability varies by institution and account type, so it's important to look for these documents before filing your tax return.
- <u>Retirement Contributions</u>: Contributions for the 2025 tax year to an IRA or Roth IRA can be made up until the tax filing deadline, which is generally April 15th, 2026, unless you file for an extension. This provides an opportunity for you to complete 2025 retirement savings and potentially to reduce your tax liability.
- <u>New Roth Catch-Up Contribution Requirement</u>: Effective January 1st, 2026, a new IRS rule will require certain employees to make retirement plan catch-up contributions on a Roth (after-tax) basis. This applies to individuals age 50 or older who earned more than $150,000 in the prior year, based on 2025 FICA (Social Security) wages for the 2026 threshold. This income limit is indexed for inflation and will be updated annually.
- For impacted employees, catch-up contributions will no longer be pre-tax. While taxes are paid in the year of contribution, qualified Roth withdrawals in retirement will be tax-free. Standard pre-tax contributions are not affected; you may still contribute up to the regular IRS annual limit, which is $24,500 for 2026. Once that limit is reached, salary deferrals must shift to Roth contributions. This rule also applies to the higher "super catch-up" limits available to employees ages 60 to 63.

Proactive tax and retirement planning can have a meaningful long-term impact. We encourage you to contact your United advisor to discuss specific strategies and considerations that may apply to your situation.

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