SPECTRUM
INVESTMENT ADVISORS

Quarterly Newsletter

First Quarter 2026

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Newsletter Snapshot:

International stocks led the way in 2025 as markets recovered from the April tariff shock.

U.S. economy continued to grow, boosted by large scale investment in AI.

Tax refunds may provide relief to the consumer.

The S&P 500 moved higher by 2.7% in the fourth quarter to finish 2025 with a 17.9% total return. International stocks led all broad stock categories with the MSCI EAFE index posting a 31.2% return. The Bloomberg US Aggregate Bond index rose by 7.3%, its best return since 2020.

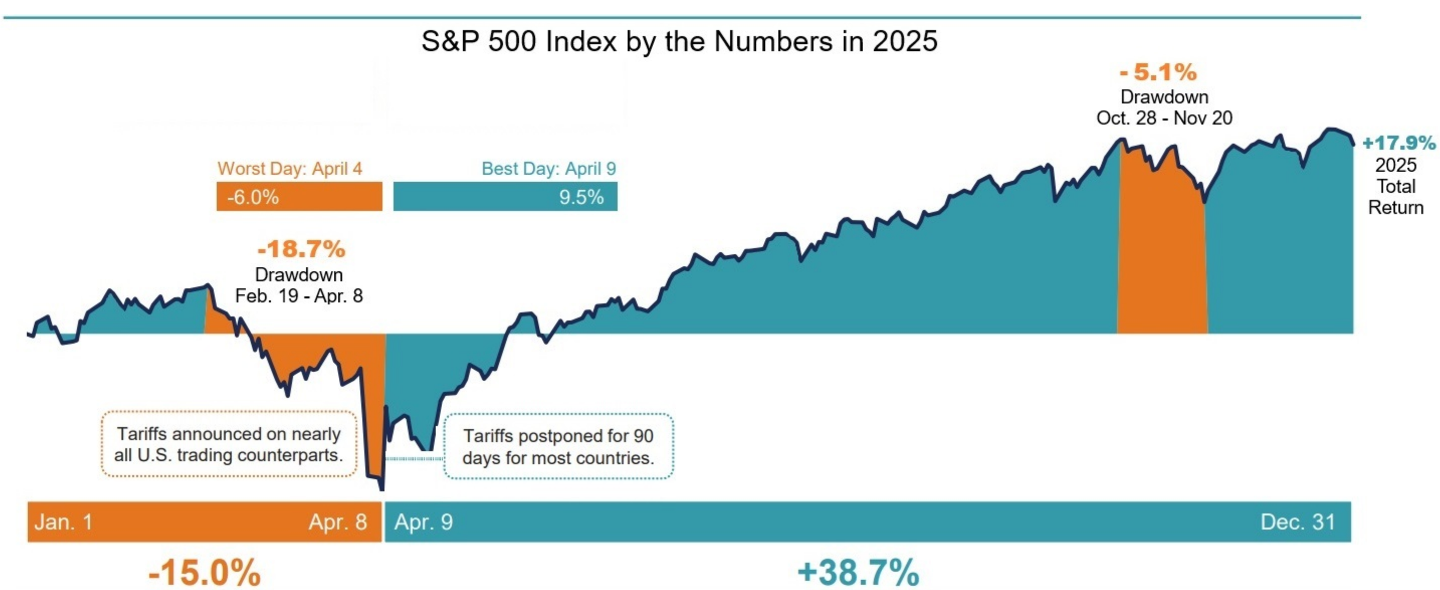
Category	2025 Total Return
US Stocks	17.9%
International Stocks	31.2%
Bonds	7.3%
Diversified 60-40	16.1%

Source: Morningstar as of 12/31/2025, Total Returns including dividends. US Stocks: S&P 500 Index, International Stocks: MSCI EAFE NR USD, Bonds: Bloomberg U.S. Aggregate Bond Index. Diversified 60/40: 42% S&P 500, 18% MSCI EAFE, 40% Bloomberg US Aggregate Bond. For illustrative purposes only, not indicative of portfolio returns.

Lessons from 2025

As seen in the table to the right, international stocks outperformed U.S. stocks by 13.3% in 2025. It was the largest outperformance by international stocks over U.S. stocks since 1993 (MSCI EAFE vs S&P 500). A weakening U.S. dollar generally helps international returns for U.S. investors. In 2025, currency effects accounted for roughly one-third of international stock returns, highlighting the diversification benefit that global equities can provide.

The chart below shows investors who stayed the course in 2025 were rewarded. The S&P 500 gained almost 39% off of the low in April. It also shows that the highest single day return for the year occurred just 5 days after the worst day. It is not uncommon for the best days in a year to closely follow some of the worst days. It is tempting to "get out until things settle down", but that could mean missing out on some of the best returns during the recovery.



Data from 1/1/2025 - 12/31/2025. Source: Bloomberg, Avantis Investors. **Past performance is no guarantee of future results.**

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Economic Update

In April, many economists feared new tariffs would lead to slower growth, higher inflation and higher unemployment. Thankfully, the economy avoided that scenario as seen in the table to the right. The first half of the 2025 endured sweeping government spending cuts and tariff increases, but the second half had more favorable news. The One Big Beautiful Bill Act (OBBBA) that was signed in July extended stimulus for the economy. The Federal Reserve also provided support by lowering interest rates three times in the fall. Perhaps the biggest lift to the economy throughout 2025 was the continued expansion of artificial intelligence. According to PIMCO, the tech sector's capital spending on AI contributed 40-45% of US GDP growth over the first nine months of 2025. These tailwinds are expected to support solid economic growth in 2026.

Economic Data	Dec 31 2024	Dec 31 2025
Tariff Rate	2.3%	15.6%
GDP Growth	1.9%	2.2% (est.)
Inflation	2.9%	2.7%
Unemployment Rate	4.1%	4.4%
Fed Funds Rate	4.3%	3.5%
Avg. 30Y Mortgage Rate	6.9%	6.2%

Tariff Rate: Average effective tariff rate applied to imports into the United States. **GDP Growth**: Gross domestic product quarter over quarter growth, seasonally adjusted annualized rate - a measurement of economic growth. 4Q25 estimate range is from the January 2025 Wall Street Journal Survey of Economists. **Inflation:** Consumer Prince Index (CPI) year over year. **Unemployment Rate**: % of unemployed in the workforce. **Federal Funds Rate**: lower limit of the range set by the Federal Reserve. **Avg. 30 Year Mortgage Rate**: an average from the Primary Mortgage Market Survey conducted by Freddie Mac. Source: Ycharts, JPMorgan Guide to the Markets, BLS, BEA.

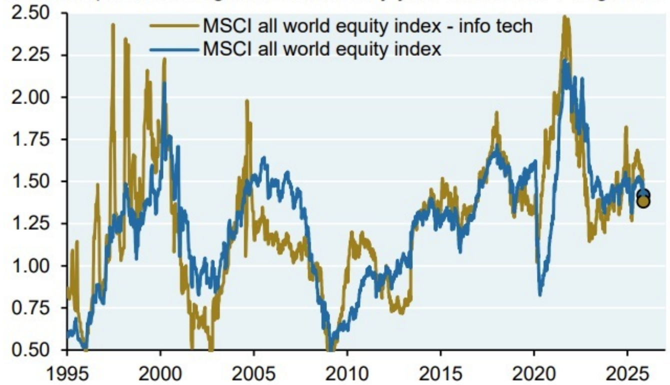
AI Bubble?

Consecutive years of strong market returns naturally raise questions about the sustainability of future performance.

The good news is the majority of returns from the big tech sector names have come from real growth in revenues and earnings, not speculation in stock price. According to FactSet, 2026 earnings for tech companies in the S&P 500 are expected to grow 30% after increasing 24% in 2025.

The chart to the right shows that when factoring in the expected growth rates, tech sector valuations are roughly in line with the rest of the market.

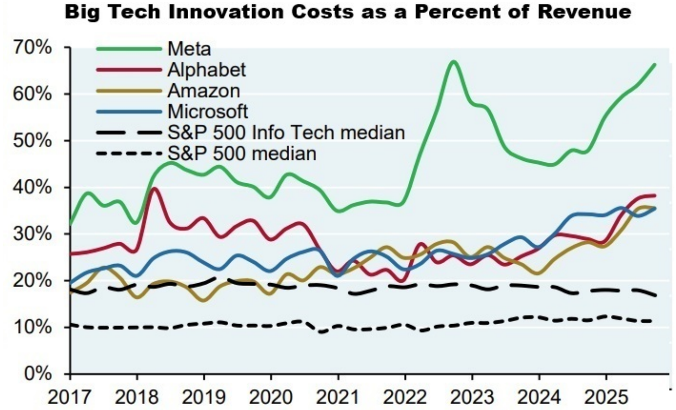
PEG ratios for global tech stocks vs the market
Forward price/earnings ratio divided by year 2 forward EPS growth



Source: JPM - Eye on the Market, Datastream, GS Global Investment Research, December 1, 2025

Although AI hyperscalers (Alphabet, Amazon, Meta, Microsoft, and Oracle) are spending hundreds of billions on innovation, much of the spending is being supported by higher revenues, limiting the impact on their strong balance sheets. Roughly 55% of people use AI in some fashion today, leaving plenty of room for continued growth.

Big Tech Innovation Costs as a Percent of Revenue

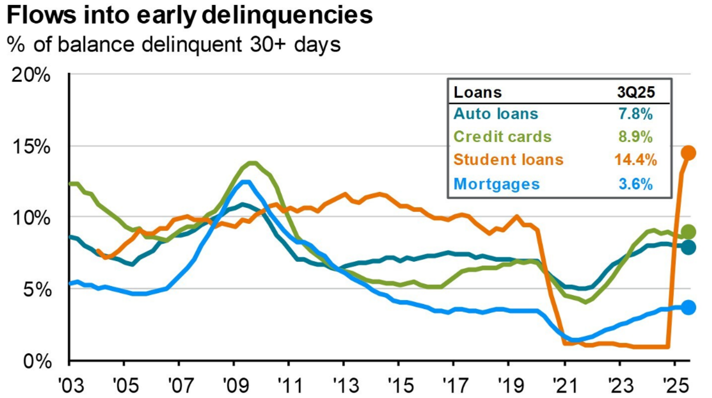


Source: JPM - Eye on the Market, Bloomberg, JPMAM, Q3 2025
Innovation costs: capital expenditures plus research and development

Overall, AI does not appear to be in a bubble. However lofty expectations could lead to volatility if sales and earnings disappoint. 2025 was a prime example that downside surprises can happen. Big tech/AI stocks are not immune to that. For context, tech stocks in the S&P 500 went through four declines of over 20% in the last 10 years, yet still delivered an annualized 24% return during the full period. Diversification and rebalancing can help participate in the gains while reducing some of the downside pain.

The U.S. Consumer - Health Check

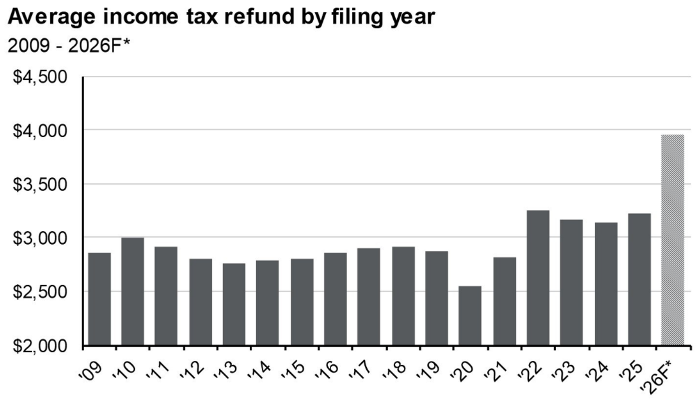
While AI investment has supported recent growth, the U.S. consumer remains central to economic activity. Consumption has been strong, but on average the bottom 60% of households are outspending their income. This has contributed to an increase in delinquencies (late payments) on loans. The good news is delinquencies stabilized in 2025, with the exception being student loans (see chart). The resumption of student loan payments following Covid-era relief has proven challenging. There is speculation some borrowers were unaware payments resumed in October 2023. On January 16, 2026, the Department of Education paused involuntary wage garnishments on defaulted loans to allow borrowers more time to bring their loan back into good standing.



Source: BEA: Due to the moratorium on delinquent student loan payments being reported to credit bureaus, missed federal student loan payments were not reported until 4Q24. *Guide to the Markets – U.S.* Data are as of December 31, 2025.

Tax Refunds May Provide Relief

The One Big Beautiful Bill Act signed in July included several tax breaks. For example, standard deductions for single filers went up $750. Since withholding tables were not adjusted mid-year, this should mean larger refunds when tax returns are filed. J.P.Morgan estimates that the average tax refund this spring will be greater by $800. Not all will receive a bigger refund, but the aggregate increase should help consumers.

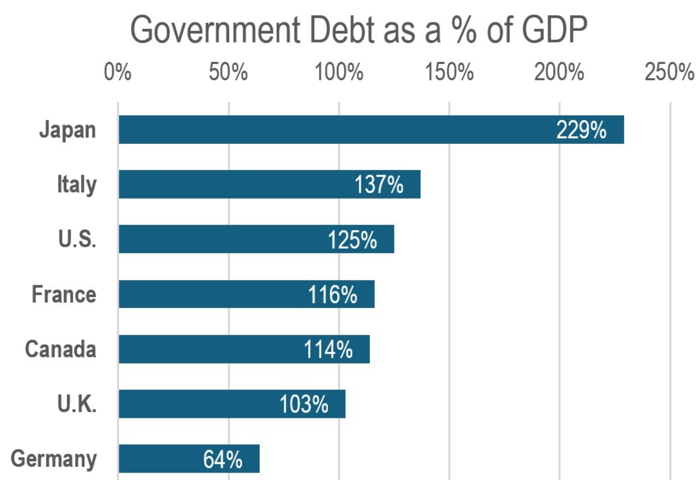


Source: J.P. Morgan Asset Management & IRS - *2026 figure is a J.P. Morgan Asset Management forecast. *Guide to the Markets – U.S.* Data are as of December 31, 2025.

U.S. Debt Watch

U.S. debt has grown to 125% of GDP, up from 105% in 2015. The U.S. is not an outlier in terms of current debt. Out of the list of countries to the right, only the U.K. has a higher 10 year government bond yield.

According to Rick Reider, Chief Investment Officer of Fixed Income at BlackRock, the greatest concern with the debt isn't the ability to pay obligations, but that an unforeseen shock destabilizes the market. Recent volatility in Japan is an example of the concern. Reider is also finalist to replace Jerome Powell as Chairman of the Federal Reserve. He believes nominal GDP growth must exceed deficit growth for U.S. debt levels to be sustainable. Jack Bowers, of Fidelity Monitor & Insights agrees. He estimates getting the deficit down to 3% of GDP from the current 6-7% would solve a lot of problems.



Source: International Monetary Fund, General Government Gross Debt, World Economic Outlook, Oct 2025

Saying Goodbye

In November, Warren Buffett announced he will be "going quiet" as he relinquished his role as CEO of Berkshire Hathaway to Greg Abel. We leave you with another bit of advice from what may be his final letter: "Don't beat yourself up over past mistakes - learn at least a little from them and move on. It's never too late to improve."

Spectrum Investor® Update

As of December 31, 2025

Morningstar Category Averages	3 Month	1 Year	3 Year
Intermediate-Core Bond	1.02%	7.07%	**4.81%**
Moderate Allocation	1.96%	12.50%	12.90%
Large Cap Value	3.15%	14.97%	13.88%
Large Cap Blend	2.21%	15.54%	20.08%
Large Cap Growth	0.55%	16.10%	**27.59%**
Mid Cap Value	2.00%	10.24%	11.65%
Mid Cap Blend	1.06%	9.08%	13.23%
Mid Cap Growth	**-1.87%**	7.67%	15.15%
Small Cap Value	1.84%	6.89%	10.58%
Small Cap Blend	1.53%	7.89%	11.84 %
Small Cap Growth	1.46%	8.06%	13.01%
Foreign Large Cap Blend	4.35%	30.40%	16.73%
Real Estate	-1.80%	**1.60%**	6.61%
Natural Resources	**7.54%**	**39.14%**	10.67%

Source: Morningstar, 3 yr return is annualized. Morningstar classifies categories by underlying holdings and then calculates the average performance of the category. Past performance is not an indication of future results. Returns in Blue = Best, Returns in Red = Worst. Please see Benchmark Disclosures below.

Data as of 12/31/25 unless otherwise noted. The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. Barrel of Oil: West Texas Intermediate. Inflation Rate: CPI. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. Indices cannot be invested into directly.

To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

As of December 31, 2025

DOW: 48,063
NASDAQ: 23,242
S&P 500: 6,845
Barrel of Oil: $57.42

10 Yr T-Note: 4.18%
Inflation Rate: 2.7% (November, 2025)
Unemployment Rate: 4.6% (November, 2025)
Source: Yahoo Finance, bls.gov, eia.gov

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