

**Executive Summary:**

- The U.S. economy is performing well, but there is “room for improvement.”
- Signs of improvement in underperforming sectors are taking place, and 2026 has multiple catalysts.
- The market is showing signs of healthy sector/factor rotation – consistent with economic expansion.

Real GDP grew at a 4.4% annualized rate in third quarter of 2025, and that appears to be a tremendous pace of growth. Many Wall Street analysts now argue that growth must inevitably decelerate from here. However, if you look under the hood, things aren't as they appear.

First, the most recent GDP print is distorted by significant accounting effects related to private inventory and trade flows. If we strip away these acyclical factors by looking at **Real Final Sales to Private Domestic Purchasers**, or even the **New York Fed's Weekly Economic Index**, it becomes clear that the U.S. private sector is growing at a rate closer to **2.5%** on a normalized basis.

To be clear, that represents a robust level of growth for a mature economy like that of the U.S., but the level belies a certain narrowness. Capex related to technology and artificial intelligence has boomed, contributing 30-40 basis points/quarter for the last year. Meanwhile, other areas of the economy have lagged: the labor market has softened, the housing sector remains stagnant, and manufacturing capacity utilization sits meaningfully below potential.

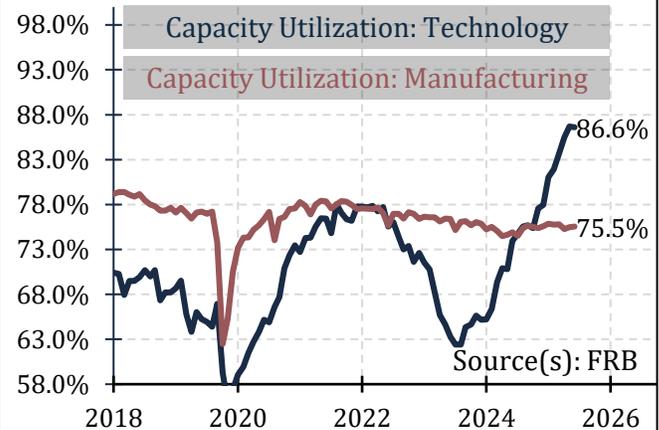
In our view, this dynamic is likely to change in 2026. While we expect AI-related investment to continue growing, its pace of acceleration is expected to moderate. At the same time, **interest-rate relief** and the broad fiscal stimulus embedded in the “*One Big Beautiful Bill*” should induce improvement in growth conditions outside of technology.

Markets appear to be anticipating this change. While many investors may not have noticed, the Nasdaq 100 peaked on October 29<sup>th</sup>. Meanwhile, the Russell 2000, the equal-weight S&P 500 Index, and the S&P Regional Bank Select Index have gone on to make new highs.

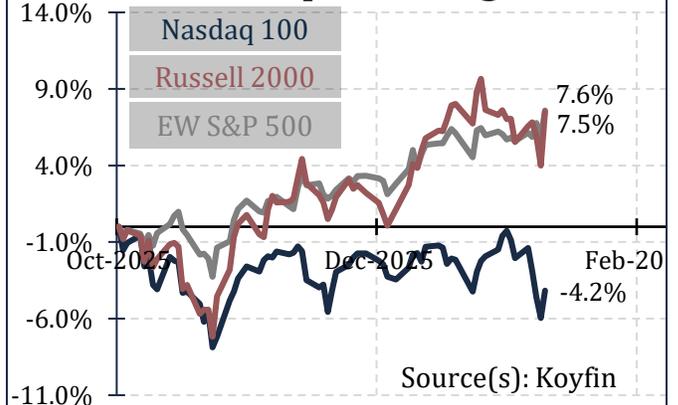
**Normalized US Growth ~2.5%**



**Tech Aside, There's a Lot of Slack**



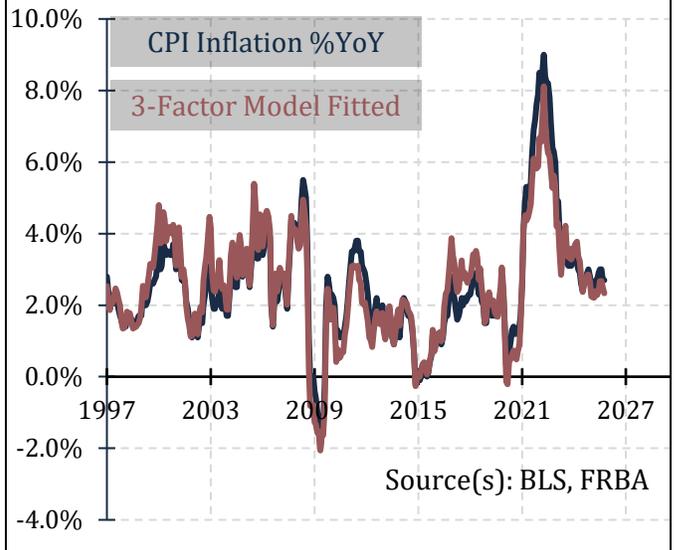
**Tech Leadership is Waning**



That shift is not a cause for concern; rather, it reflects the classic late-cycle broadening. As Ralph Acampora famously noted, “Sector rotation is the lifeblood of bull markets.” It does, however, call for careful portfolio positioning and an active approach to risk management.

Could inflation undermine this constructive outlook? We believe inflation will likely remain benign. Historically, roughly 90% of inflation can be explained by three factors: **energy prices, housing costs, and wage growth**. Today, all three exhibit signs of disinflation. With meaningful slack remaining in key pockets of the economy, these pressures should continue to ease in the coming quarters. Given the current trajectory of the data, we believe the burden of proof lies with inflation hawks, and with those still predicting a recession.

## CPI: Watch Oil, Housing, & Wages



SECTORS	2025	YTD	EQUITY INDICES	TICKER	2025	YTD	COMM. & CURRENCIES	LAST CLOSE	YTD
S&P 500 COMM SVC	33.56%	1.18%	S&P 500 INDEX	SPX	17.86%	1.35%	WTI CRUDE FUTURE Mar26	63.55	11.41%
S&P 500 CONS DISCRET IDX	6.04%	-2.93%	DOW JONES INDUS. AVG	INDU	14.92%	4.35%	BRENT CRUDE FUTR Apr26	68.05	12.83%
S&P 500 CONS STAPLES IDX	3.90%	14.21%	NASDAQ COMPOSITE	CCMP	21.17%	-0.88%	NATURAL GAS FUTR Mar26	3.42	2.24%
S&P 500 ENERGY INDEX	8.68%	19.48%	S&P 400 MIDCAP INDEX	MID	7.48%	8.60%	LME COPPER 3MO (\$)	12,994.00	4.60%
S&P 500 FINANCIALS INDEX	14.97%	-1.00%	RUSSELL 1000 GROWTH INDX	RLG	18.55%	-3.44%	Gold Spot \$/Oz	4,991.11	16.53%
S&P 500 HEALTH CARE IDX	14.60%	1.89%	RUSSELL 1000 VALUE INDEX	RLV	15.88%	6.83%	Silver Spot \$/Oz	79.19	11.84%
S&P 500 INDUSTRIALS IDX	19.27%	11.67%	RUSSELL MIDCAP RT INDEX	RMC	10.59%	5.74%	Euro Spot	1.19	1.23%
S&P 500 INFO TECH INDEX	24.04%	-3.00%	RUSSELL 2000 INDEX	RTY	12.79%	7.69%	British Pound Spot	1.36	1.65%
S&P 500 MATERIALS INDEX	10.54%	12.51%	MSCI ACWI ex US	NDUEACWZ	32.39%	5.92%	Japanese Yen Spot	156.68	0.21%
S&P 500 REAL ESTATE IDX	3.15%	4.44%	MSCI EAFE	MXEA	32.03%	5.78%	DOLLAR INDEX SPOT	97.63	-1.16%
S&P 500 UTILITIES INDEX	16.04%	1.58%	MSCI EM	MXEF	34.32%	7.33%			

Source: Bloomberg

As of: 2/9/2026

### Total Return

Bloomberg Barclays Bond Indices	2024	2025	YTD	Effective Duration	Avg. Maturity	Yield-to-Worst	Key Rates	
U.S. Aggregate	1.25%	7.30%	0.39%	6.03	8.26	4.33%	Effective Fed Funds	3.64%
Intermediate	3.00%	6.97%	0.29%	3.85	4.34	3.93%	2-yr Treasury	3.48%
Global Agg ex USD	-4.22%	8.85%	0.99%	6.69	8.23	2.84%	10-yr Treasury	4.22%
Inv Grade Corporate	2.13%	7.77%	0.44%	6.94	10.45	4.83%	10-yr German Bond	2.84%
U.S. Corporate High Yield	8.19%	8.62%	0.62%	3.02	4.79	6.58%	Prime Rate	6.75%
<b>Tax Exempt</b>							30 Year Fixed Mortgage	6.30%
Muni 1-10 Yr Blend (1-12)	0.91%	5.14%	1.31%	4.07	6.39	2.71%		

Source: Bloomberg

As of: 2/9/2026

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