Holt Capital
Partners, L.P.

Fourth Quarter Financial Market Commentary

"Ninety Days in Ninety Seconds"

December 31, 2025

2025: Technology, Politics, and Monetary Policy

- The dominant business and technology theme of this past year was the emergence of seemingly limitless expectations for artificial intelligence. As the year evolved, estimates for the capital outlays necessary to achieve AI's potential also skyrocketed. While the long-term impact on business and consumers could end up being transformational, legitimate questions have arisen regarding the ultimate rate of return on those massive capital expenditures.
- It was not just AI that pushed established boundaries and norms. The administration expanded the powers of the presidency across multiple dimensions. These unilateral actions have weakened the power of Congress and could establish a precedent for future presidents or potentially trigger a backlash against executive power.
- The Federal Reserve shifted policy dramatically in September to emphasize labor market risks, rather than continuing its post-COVID battle to drive inflation toward its targeted 2% level. The Fed cut policy rates three times in the past four months to offset slow growth in job creation and a rise in the unemployment rate.

Looking Forward

- Corporate AI adoption has the potential to reshape the future of work. Productivity should rise over time, thereby generating higher returns on capital and higher equity markets. While technology companies garnered most of the AI headlines last year, even Weyerhaeuser, a 125-year-old forest products company, is implementing AI across the organization to accelerate growth and cut costs.
- Better than expected earnings growth was a major driver for stocks in 2025. Forecasts are for double digit earnings growth to be sustained in 2026 and 2027. In addition, easier Federal Reserve policy is clearly a tailwind for the economy. Monetary policy has traditionally been described as operating with "long and variable lags." Based on that theory, the three cuts to policy rates in the second half of 2025 will positively impact economic growth well into 2026.
- The recently passed One Big Beautiful Bill becomes effective in the new year and will provide broad-based fiscal stimulus, especially for capital expenditures. The administration's looser approach to business regulation was evident in 2025 and will continue to positively impact merger and acquisition activity in 2026. The energy sector should be among the biggest beneficiaries of deregulation, while the investment banks are likely to see a big jump in M&A fees.
- The initial estimate of third quarter Gross Domestic Product (GDP) showed a robust 4.3% growth in economic activity. The Atlanta Fed's GDPNow model is forecasting 3.0% growth for the fourth quarter and retail sales data for the holiday period remained strong. The combination of a strong economy, an accelerating rate of earnings growth, expansive monetary policy, and fiscal stimulus are powerful tailwinds for the stock market in 2026. The biggest caveat to this economic and policy cocktail is the risk of the economy overheating, pushing inflation higher, and challenging the direction of Fed policy.

Alternative Scenarios for 2026

- While our base case forecast is optimistic for the new year, it is always fruitful to think about unanticipated events. Trump will be nominating a new Chair of the Federal Reserve, which could impact the pace and magnitude of future interest rate cuts. However, further rate cuts will not be without dissenting opinions among members of the Federal Open Market Committee (FOMC). If the Fed underdelivers on interest rate cuts, both the equity and fixed income markets could react poorly.
- Artificial intelligence is almost certain to have a broad range of impacts on economic growth. On the positive side, the benefits of AI could emerge more quickly than expected. This would boost economic growth through higher productivity, while simultaneously improving profit margins. However, if data center capex spending is scaled back, it will be damaging to the entire AI investment thesis.
- Historically, the President's political party loses seats in Congress during midterm elections. The catalyst for such a shift in 2026 could be sparked by Democratic candidates embracing a populist "affordability" platform. In contrast to the broad tax cuts that were passed by Congress in 2025, four Democratic-leaning states or cities (Colorado, Washington, Michigan, and New York City) are proposing to raise taxes on high income taxpayers in 2026. A broad populist push for higher taxes would probably be a headwind for stock prices.
- Geopolitics are always a source of uncertainty with Russia, Ukraine, China, Iran, and North Korea perennial hot spots. The recent ouster of President Maduro in Venezuela adds further uncertainty to the global stage. While geopolitical events make headlines and potentially pose serious risks, they tend to be minimized by the financial markets.

The Fed Remains Divided

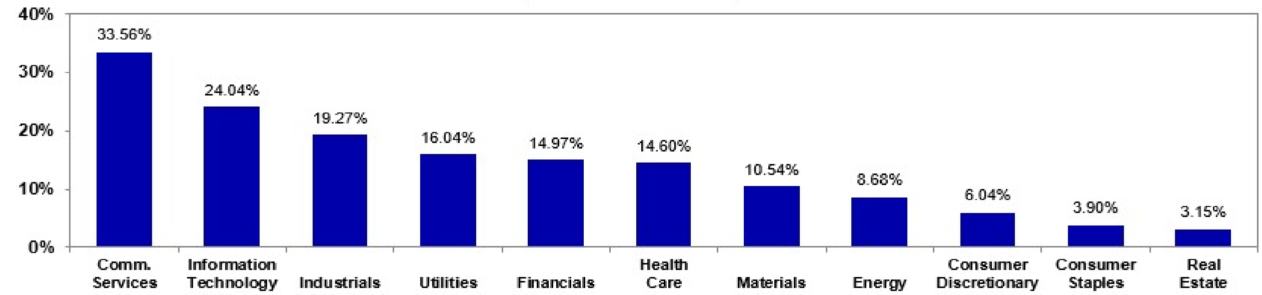
- Policymakers at the Fed are engaged in an intellectual battle about how to weigh the risks of an inflation rate that is too high and a labor market that is weak. While two members of the FOMC voted to dissent on the most recent rate cut, a majority of members indicated their disagreement more quietly in quarterly interest rate projections.
- Importantly, the Fed's stated inflation target of 2% could be subject to an official or unofficial upward revision. This would be a delicate issue with repercussions on the Fed's credibility and political independence. However, fiscal and inflation worries are already putting upward pressure on the bellwether ten-year government bond which ended the year with a higher yield than before the Fed's first interest rate cut in September.

Market Concentration - Another View

- How valuable are the biggest stocks? NVIDIA is the largest constituent in the S&P 500 with a weighting of 7.8%. The energy, utility, and materials sectors are comprised of 79 constituents, yet the collective weight of those stocks is only 7.0%. It is hard to grasp that oil stocks such as Exxon Mobil and Chevron, or utility giant NextEra Energy can be viewed as relatively inconsequential to the index!
- Every quarter we present detailed return data across economic sector, size, and style metrics. We believe those graphs add insight and understanding to market activity. The data presented below takes that analysis a step deeper and illustrates that narrow and concentrated leadership exists not only at the index level, but also within sectors.

Total Returns by Economic Sector

Supplemental Analysis
(12/31/24 - 12/31/25)



	Comm. Services	Information Technology	Industrials	Utilities	Financials	Health Care	Materials	Energy	Consumer Discretionary	Consumer Staples	Real Estate
Return of the Median Stock	8.68%	9.36%	9.72%	15.32%	11.33%	8.29%	0.16%	8.59%	8.57%	-7.30%	-5.89%
Total Number of Constituents	23	70	80	31	76	60	26	22	48	36	31
Number that Outperformed the Return of the Sector	8	24	26	13	33	20	11	11	26	12	7
Number that Underperformed the Return of the Sector	15	46	54	18	43	40	15	11	22	24	24

- The median stock underperformed the market-cap weighted sector return in 9 out of 11 sectors. The two measures of return were approximately equal in the energy sector, while the median consumer discretionary stock outperformed.
- The lack of breadth in the technology sector was striking. The 9.36% return of the median stock paled in comparison to the 24.04% sector return and 66% of the constituents (46/70) underperformed.

Conclusion

- The fundamental backdrop for 2026 is characterized by strong earnings growth, easing monetary policy, stimulative fiscal policy, and a regulatory environment that is conducive to deals. However, with stimulus from multiple sources, the risks of a policy mistake loom large. While it is not our base case forecast, an overheated economy and a pickup in inflation could derail this delicate policy balance.

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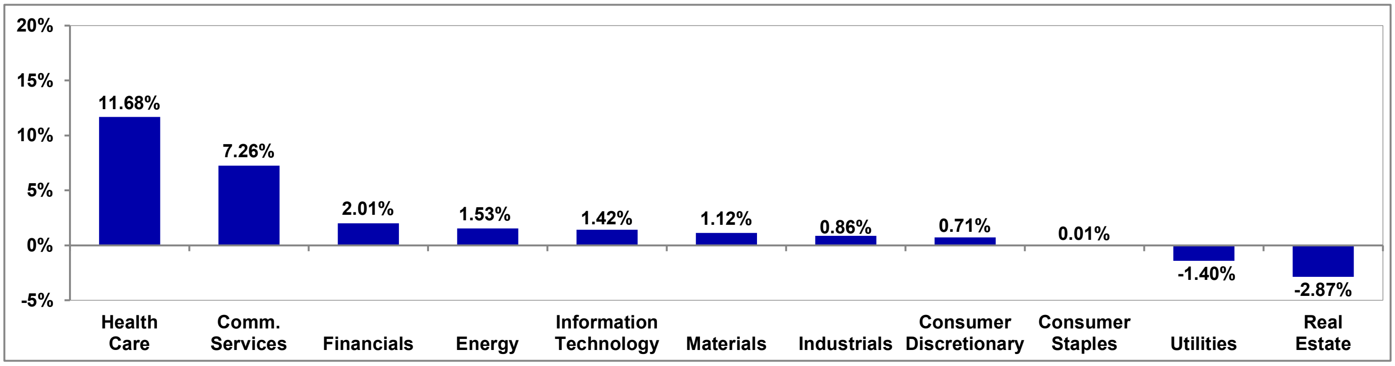
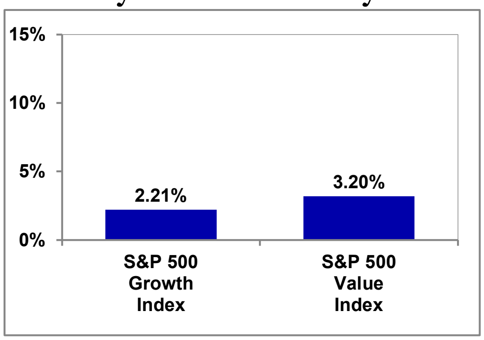
Fourth Quarter Investment Performance (including income)

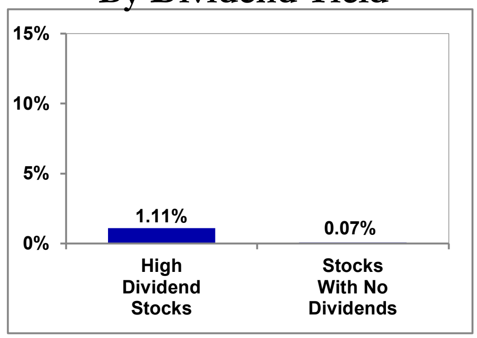
By Economic Sector



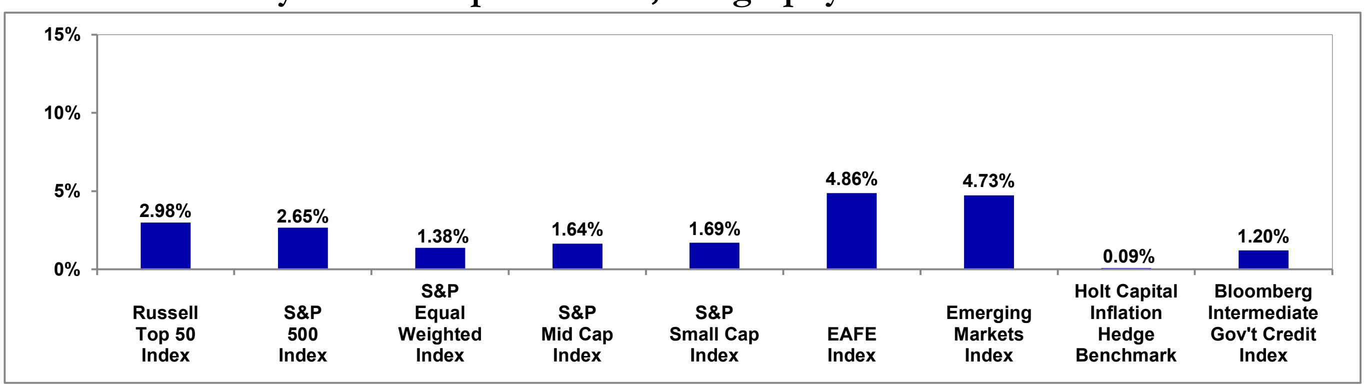
By Investment Style



By Dividend Yield



By Market Capitalization, Geography and Asset Class



- The health care sector was the best performer for the quarter and benefited from strong demand for obesity drugs and an acceleration in merger and acquisition activity. Biotech indexes rallied as much as 22% during the quarter.
- The return of the communications sector was primarily driven by the 28% appreciation in Alphabet (formerly known as Google). The company reported strong Q3 earnings, released a new Gemini AI model, and introduced new AI chips.
- The quarter began with continued tech sector leadership, but the last two months experienced much broader participation. Concerns about the magnitude of AI capex and limited visibility on the returns from that spending resulted in technology being the worst performing sector in November and December.

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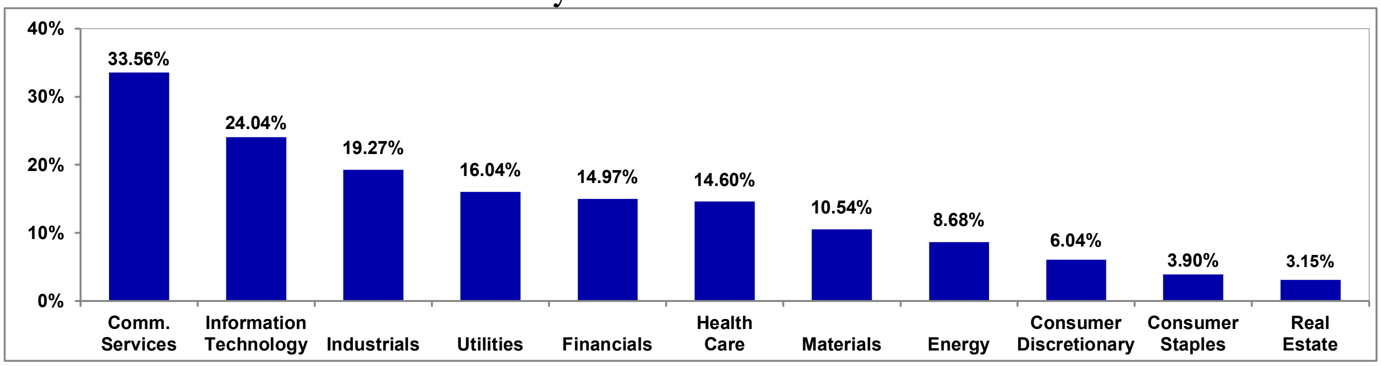
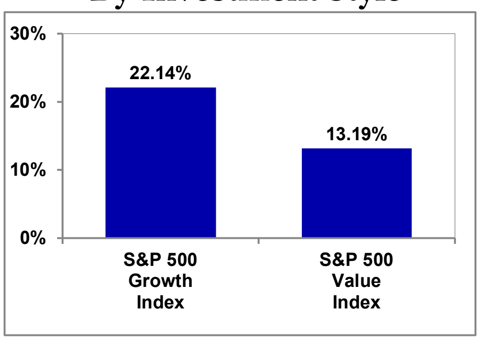
Year-to-Date Investment Performance (including income)

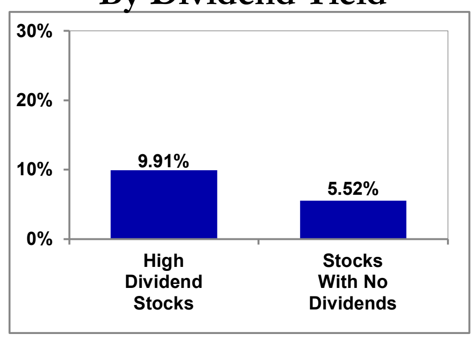
By Economic Sector



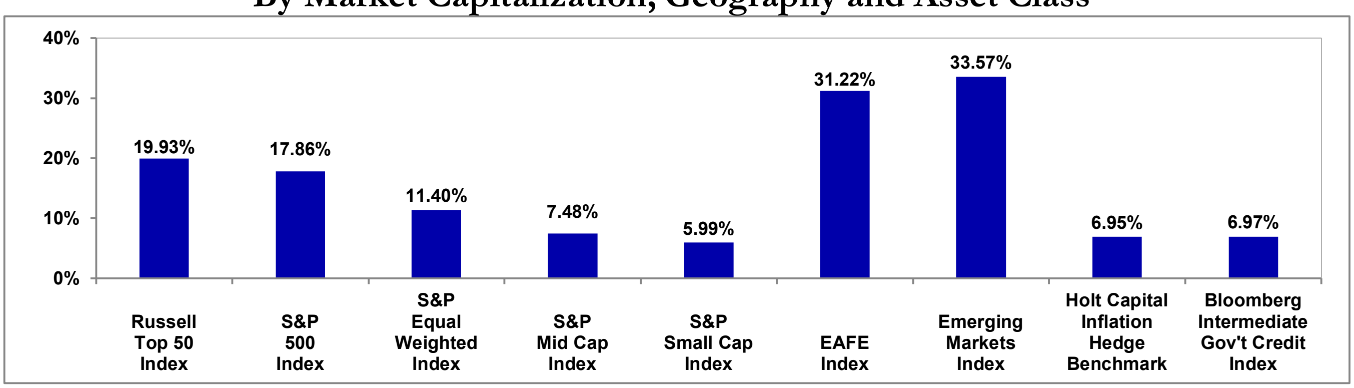
By Investment Style



By Dividend Yield



By Market Capitalization, Geography and Asset Class



- Economic sector, investment style, and company size trends for the calendar year remained similar to prior quarters.
- The Russell Top 50 Index was the best performer for the year, while the average stock, as represented by the S&P Equal Weighted Index, posted a total return of 11.40%. Reflecting the narrowness of market leadership, 35% of the stocks in the S&P 500 Index posted negative total returns.
- International stock returns benefited from lower valuations, easier monetary policy, less political turmoil, and a weaker dollar. International stocks have not outperformed the S&P 500 Index by this magnitude since 2006.