OpenArc
CORPORATE ADVISORY

Market Brief

MACRO

Growth: The government resumed most economic data releases, providing more visibility into the broader economy. The unemployment rate increased by +0.1% to 4.6%, and +64,000 jobs were added to the U.S. economy during the month of November, according to the December 16th nonfarm payrolls report. This came in above the consensus estimate of +50,000, a welcome change after missing expectations for October. Unemployment registered 4.4% in the December report, and despite month-to-month noise, the broader trend remains upward, with underemployment consistently moving higher.

Inflation: November's CPI data, released on December 18th, came in below expectations at +2.7% (versus expectations of +3.1%). Core inflation also came in under expectations, with Core CPI coming in at +2.6% vs expectations of +3.0%. Shelter inflation continues to march lower, notching the lowest mark (+1.81%) since 2021.

Monetary Policy: The Fed delivered another 25 bp rate cut at the December meeting, despite the probability falling toward 30% in late November. December FOMC takeaways were also more balanced and less hawkish than expected, with help from the Treasury bill purchase announcement ($40B/month), firmer growth and lower inflation forecasts for 2026, Powell's comments on the labor market and productivity, and the median longer-run dot still at 3.0%.

MARKET

Equities: Markets were split in December as international markets finished 2025 the strongest. International developed equities led the way, up +2.7% for the month, as the S&P 500 ended virtually flat. The Russell 2000 posted the worst December of all major indices, down -0.7%. Sector performance was also split for the month, as Financials led, advancing +3.1%. Communication Services, Materials, and Technology were all positive in December. Utilities were the most challenged during the month, down -5.1%, followed by Real Estate, which was down -2.1%.

Bonds: Fixed income markets navigated a stable but shifting macro backdrop in December, as services activity strengthened while manufacturing remained in contraction. The yield curve steepened modestly as front-end rates declined, and sector performance within the Bloomberg U.S. Aggregate Index was led by Agency MBS, with CMBS and ABS also generating positive excess returns. Credit markets experienced modest spread widening amid heavy high-quality issuance late in the year, contributing to flat investment-grade performance and notable dispersion across rating tiers and maturities.

Currencies: Currency markets were once again shepherded by Fed signals and economic data. The Fed's decision to cut rates and keep the door open for more cuts early in 2026 pushed the dollar down during the month. In addition, the resumption of official economic data releases, which revealed cooling CPI prints, became another headwind for the dollar. European FX held firmer as a softer dollar and stronger international equity performance supported Euro markets. Asian FX was more uneven, as the yen continues to see pressure while other regional currencies moved with tech sentiment and shifting global risk appetite.

Commodities: Commodities saw wide dispersion, with Gold rising +2.2% and Silver gaining a blistering +25.8% as investors continued to pile into precious metals amidst regional conflicts. Oil continued to trend lower, losing -2.7% on the month as demand continues to fall and supply remains relatively elevated.

CIO SNAPSHOT

We maintain a tactical risk-on stance in our asset allocation, reflecting our confidence in the current market's return potential. We remain overweight equities, and recently increased exposure to U.S. markets funded from International Developed, as we believe robust U.S. earnings growth continues to underpin domestic equity performance. Within equities, we are responsibly bullish on the AI supercycle, with targeted allocations to technology and power infrastructure, and are optimistic on financials and defense, supported by lighter regulation and elevated fiscal spending, respectively. In fixed income, we hold a neutral position in duration to manage rate sensitivity, while emphasizing higher-yielding opportunities that deliver compelling income generation in today's environment.

▲ Overweight
— Neutral
▼ Underweight

	Asset Class	***CIO View***
	Equities	
Regions	US Large Cap	▲
Regions	US Small Cap	▼
Regions	Developed International Equities	▼
Regions	EM Equities	—
Factors	Growth	▲
Factors	Quality	—
Factors	Value	▼
Sectors	Industrials	▲
Sectors	Technology	▲
Sectors	Healthcare	▼
Sectors	Financials	▲
	Fixed Income	
Factors	Credit	▲
Factors	Duration	—

Source: Dynasty Financial Partners, Morningstar, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, as of 12/31/2025

US Related

ETF	Description	December	YTD
SPY	S&P 500	0.08%	17.72%
DIA	Dow Jones Ind	0.93%	14.71%
QQQ	Nasdaq 100	-0.67%	20.77%
IJH	S&P Midcap 400	-0.02%	7.42%
RSP	S&P 500 Eq Weight	0.41%	11.21%
QQQE	Nasdaq 100 Eq Weight	0.16%	14.38%
IWB	Russell 1000	0.03%	17.18%
IWM	Russell 2000	-0.71%	12.66%
IWV	Russell 3000	-0.05%	16.96%

Factors

ETF	Description	December	YTD
IVW	Russell Growth	-0.18%	21.95%
IVE	Russell Value	0.30%	13.02%
IJK	Midcap 400 Growth	-0.29%	7.28%
IJJ	Midcap 400 Value	0.31%	7.27%
IJT	Smallcap 600 Growth	-1.06%	5.26%
IJS	Smallcap 600 Value	0.79%	6.54%
DVY	DJ Dividend	-0.57%	11.60%
MTUM	Momentum	0.29%	22.15%
USMV	Low Volatility	-0.82%	7.65%
SIZE	Size	0.29%	10.51%
QUAL	Quality	0.58%	12.65%

Global

ETF	Description	December	YTD
EWA	Australia	3.05%	13.35%
EWZ	Brazil	-2.16%	48.81%
EWC	Canada	3.25%	35.92%
MCHI	China	-2.24%	31.04%
EWQ	France	1.45%	28.90%
EWG	Germany	3.86%	35.79%
EWH	Hong Kong	-1.38%	34.50%
INDA	India	-1.21%	2.68%
EWI	Italy	3.99%	55.72%
EWJ	Japan	0.91%	25.84%
EWW	Mexico	3.27%	53.65%
EIDO	Indonesia	1.13%	4.90%
EWP	Spain	5.81%	78.03%
EIS	Israel	7.11%	45.11%
EWU	UK	3.89%	34.95%
EFA	EAFE	2.71%	31.55%
EEM	Emerging Mkts	2.16%	33.98%
IOO	Global 100	0.21%	27.02%
VT	All World	0.92%	22.43%
CWI	All World ex US	2.54%	32.75%

Sectors

ETF	Description	December	YTD
XLY	Cons Disc	1.20%	7.37%
XLP	Cons Stap	-1.34%	1.52%
XLE	Energy	-0.30%	7.88%
XLF	Financials	3.06%	14.90%
XLV	Health Care	-1.39%	14.50%
XLI	Industrials	1.28%	19.35%
XLB	Materials	1.98%	9.94%
XLRE	Real Estate	-2.11%	2.63%
XLK	Technology	0.75%	24.61%
XLC	Comm Services	2.35%	23.08%
XLU	Utilities	-5.09%	16.03%
SMH	Semis	2.55%	49.17%

Currencies

ETF	Description	December	YTD
FXB	British Pound	2.06%	10.37%
FXE	Euro	1.33%	14.52%
FXY	Yen	-0.42%	0.09%
DXY	Dollar	-1.20%	-9.40%

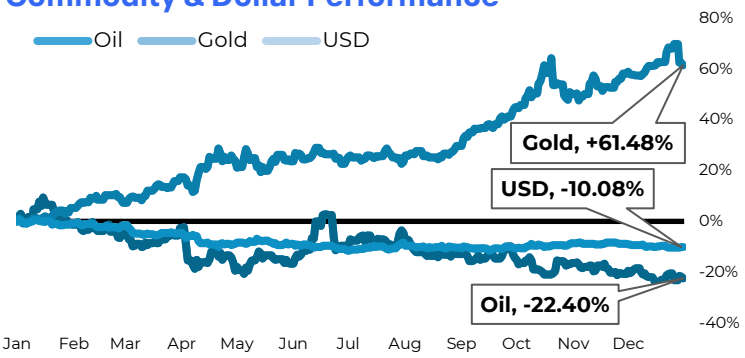
Fixed Income

ETF	Description	December	YTD
SHY	1-3 Yr Treasuries	0.29%	4.95%
IEI	3-7 Yr Treasuries	-0.16%	6.96%
IEF	7-10 Yr Treasuries	-0.76%	8.03%
TLH	10-20 Yr Treasuries	-1.61%	6.47%
TLT	20+ Yr Treasuries	-2.66%	4.25%
AGG	Aggregate Bond	-0.28%	7.19%
TIP	T.I.P.S.	-0.62%	6.77%
JNK	High Yield	0.60%	8.76%
MBB	Mortgage-Backed	0.14%	8.38%
LQD	IG Corporate	-0.74%	7.90%

Commodities

ETF	Description	December	YTD
DBC	Commodities	0.23%	8.10%
DBA	Agric Commod.	0.08%	-0.56%
USO	Oil	-2.69%	-8.46%
UNG	Nat. Gas	-16.77%	-27.07%
GLD	Gold	2.17%	63.68%
SLV	Silver	25.80%	144.66%

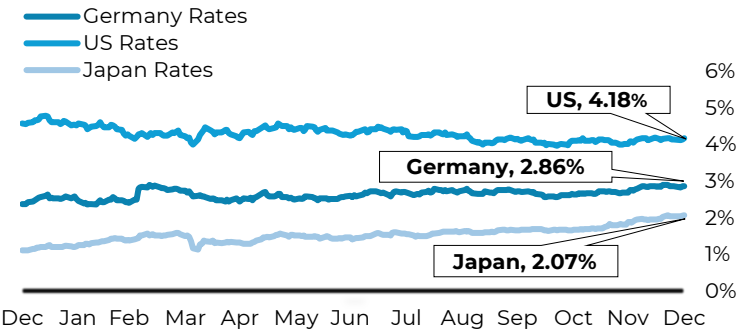
Commodity & Dollar Performance



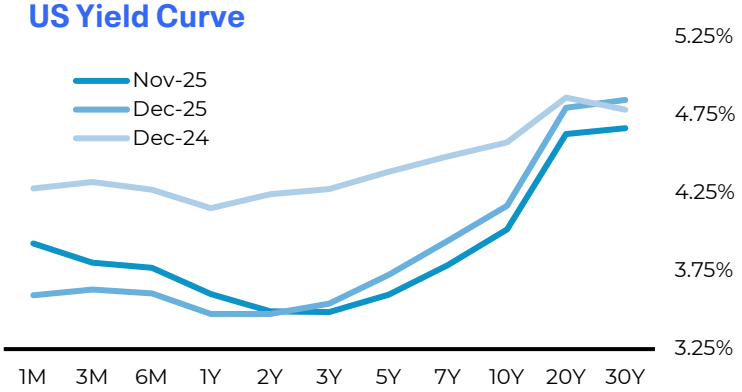
International Beat Domestic in 2025

The S&P 500 ended 2025 with a strong total return of over +17%. Even so, its performance was overshadowed by the MSCI EAFE and MSCI Emerging Markets indices, which returned +31.55% and +33.98%, respectively. The weak dollar, especially in the first half of the year, helped drive incremental performance across international markets.

10-Year Bond Yields



US Yield Curve



Economic Data	Prior Release Date	Prior Estimate	Prior Actual	Next Release Date	Upcoming Forecast Estimate
Effective Federal Funds Rate	12/10/2025	350-375 bps	350-375 bps	1/28/2026	No Change
US Total Nonfarm Payrolls	12/16/2025	50,000	64,000	1/9/2026	70,000
US Unemployment Rate	12/16/2025	4.4%	4.6%	1/9/2026	4.5%
Core PCE Index YoY%	12/5/2025	2.9%	2.9%	1/22/2026	--
US CPI YoY%	12/18/2025	3.0%	2.7%	1/13/2026	2.7%
US Real GDP QoQ%	12/23/2025	3.3%	4.3%	1/22/2026	4.3%

Source: Dynasty Financial Partners, Morningstar, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, as of 12/31/2025

Tactical Asset Allocation Guide

Q4 2025

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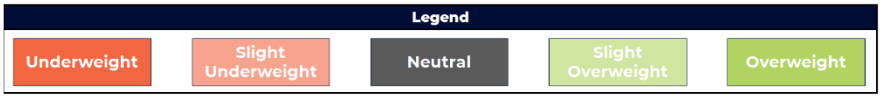


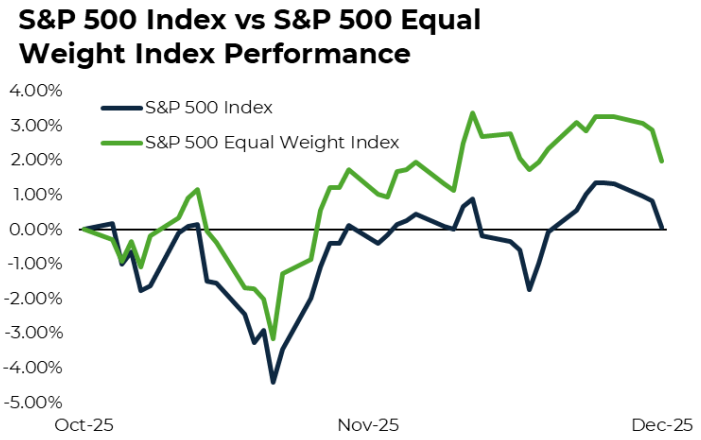
	Asset Class	View	Commentary
Equities	US Large Cap		Public company count has halved over the last two decades, concentrating quality in large caps. These firms benefit from diversified revenue streams and stronger balance sheets, positioning them to weather slowing growth better than smaller, cyclical peers.
	US Small Cap		Despite historical optimism during rate-cut cycles, small caps have underperformed when recessions are avoided—averaging +6% vs. +12% for large caps. Current leverage, weaker pricing power, and lower quality fundamentals suggest limited upside unless cuts accelerate and growth rebounds sharply.
	Developed International		Europe's fiscal push on defense and infrastructure and ECB flexibility to ease are positives. However, earnings delivery remains weak. Until growth materializes, we favor regions where valuations align with earnings momentum.
	Emerging Markets		Neutral stance persists as growth and earnings remain uneven. China's pivot to domestic consumption is structural but challenged by trade frictions. Upside in EM will be driven by AI growth, particularly in South Korea, Taiwan, and China
Factors	Growth		AI-driven demand continues to underpin growth stocks, supported by robust margins, free cash flow, and capex. In addition, adoption is starting to accelerate. While valuations are elevated, earnings delivery remains strong.
	Value		Value has lagged as growth dominates performance, fueled by AI and tech capex. Without a clear catalyst—such as a sharp rate-driven rotation – we maintain an underweight bias.
	Quality		We are neutral quality in our portfolio, as we believe that this current cycle has a combination of early innings as well as late stage.
Sectors	Technology		Tech earnings and profitability outpace the market, driven by structural AI demand and strong balance sheets. Despite trade tensions, secular growth trends remain intact.
	Financials		Easing regulation, steeper yield curve, and improving capital markets activity support financials. IPO and M&A pipelines are strengthening, adding cyclical upside. We are watching for credit quality deterioration if growth slows.
	Industrials		AI-driven power demand and infrastructure upgrades create tailwinds for industrials. Execution risk lies in cost inflation and project delays. Accelerated grid modernization funding is adding fuel to the fire.
Fixed Income	Duration		Two cuts priced in for 2026, but sticky inflation and fiscal stress limit downside for yields. We prefer favoring the front end of the yield curve as we expect curve steepening to continue.
	Credit		Elevated yields and stable fundamentals make credit attractive. IG spreads remain tight and HY offers carry but limited upside. We are comfortbale with the income from credit and like select structured credit assets.

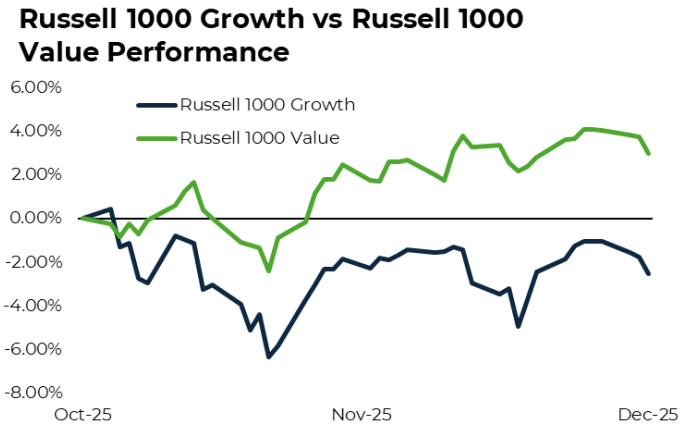
Source: Dynasty Financial Partners, Morningstar, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, as of 12/31/2025

CIO Spotlight: The Equal Weight Strikes Back

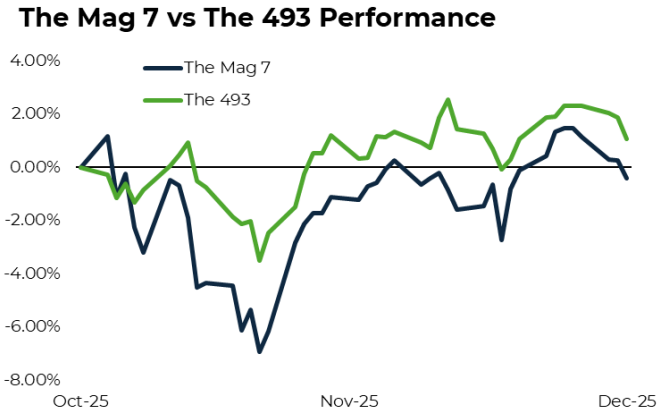
Market Breadth is Expanding

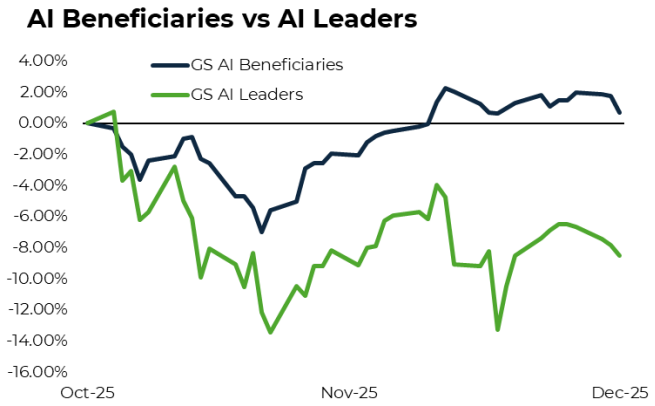
The last two months delivered a notable shift beneath the surface of equity markets, as leadership broadened beyond the mega-cap growth names that have dominated since early 2023. Equal-weight and value indices meaningfully outperformed their cap-weighted and growth counterparts into year-end, reflecting a market recalibration following heightened volatility around AI-linked names and the late-year selloff tied to concerns about high spending and delayed returns on AI investment. Our internal research reinforces this trend: equal-weight valuations remain more reasonable than cap-weight indices, with significant room for catch-up after a prolonged period of concentration at the top of the S&P 500.





From our perspective, this developing shift is less a reversal of the AI narrative and more an evolution of it. As we highlighted in our recent 1Q 2026 Market Outlook, the first phase of the AI cycle rewarded infrastructure and hyperscaler beneficiaries. However, we think the next phase should increasingly favor companies poised to gain from applied AI, productivity improvements, and downstream adoption. As the earnings gap between mega-caps and the broader market narrows, and AI leaders keep benefiting from the ongoing AI boom, conditions appear favorable for further market broadening in 2026.





Bottom Line

We expect breadth to expand further as performance transitions from early AI "builders" to the wider ecosystem of corporate adopters. For investors, this environment should reward balance – as well as active management – to identify the winners and losers in the next phase of AI-enabled growth. In our view, a more distributed market leadership landscape is not only healthy but overdue, and it creates compelling opportunities heading into the new year.

Source: Dynasty Financial Partners, Morningstar, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, as of 12/31/2025

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Source: Dynasty Financial Partners, Morningstar, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, as of 12/31/2025