

NORTHEAST SEQUOIA

PRIVATE CLIENT GROUP



2026 Outlook

The Point of Know Return

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About The Title

Point of Know Return is the title of Kansas's 1977 album and its opening track and is a deliberate pun on the familiar phrase "point of no return." We chose this title to frame our 2026 Outlook because it captures a defining feature of the present moment: progress driven not by momentum alone, but by greater understanding.

At its core, the report's title speaks to discovery. The intentional misspelling of know signals the accumulation of insight and the moment when information and knowledge propel humanity forward. Today, advances in artificial intelligence and digital infrastructure have accelerated this process, compressing years of learning into real time. Patterns once obscured by scale or complexity are now visible. Assumptions that once guided decisions are increasingly tested, modeled, and quantified. Having reached this threshold, returning to a simpler or less informed view of the world is neither possible nor desirable.

The song's maritime imagery deepens the metaphor. The ship sailing toward the edge of the world represents exploration and risk. In an earlier era, such journeys unfolded slowly, buffered by distance and uncertainty. In the modern economy, technology has removed those buffers. AI sharpens the horizon, revealing both opportunity and vulnerability with unprecedented speed. The Point of Know Return becomes the moment when exploration gives way to commitment, with no turning back.

This is not a story of technology replacing human judgment, but of technology redefining its stakes. As algorithms and AI increasingly shape capital flows, labor markets, supply chains, and even geopolitical actions, awareness and wisdom become strategic assets. Knowledge grants advantage, but also responsibility. Choices made with clearer information carry greater consequences.

Seen through this lens, the Point of Know Return is not a warning, but an invitation. It reflects a willingness to move forward deliberately, informed by deeper insight and enabled by powerful tools. For 2026, this framework acknowledges a world where innovation has outpaced tradition, where clarity arrives faster than may be comfortable, and where progress favors those prepared to navigate uncertainty with eyes open and intent intact.

We hope you enjoy reading our 2026 Outlook.

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Executive Summary

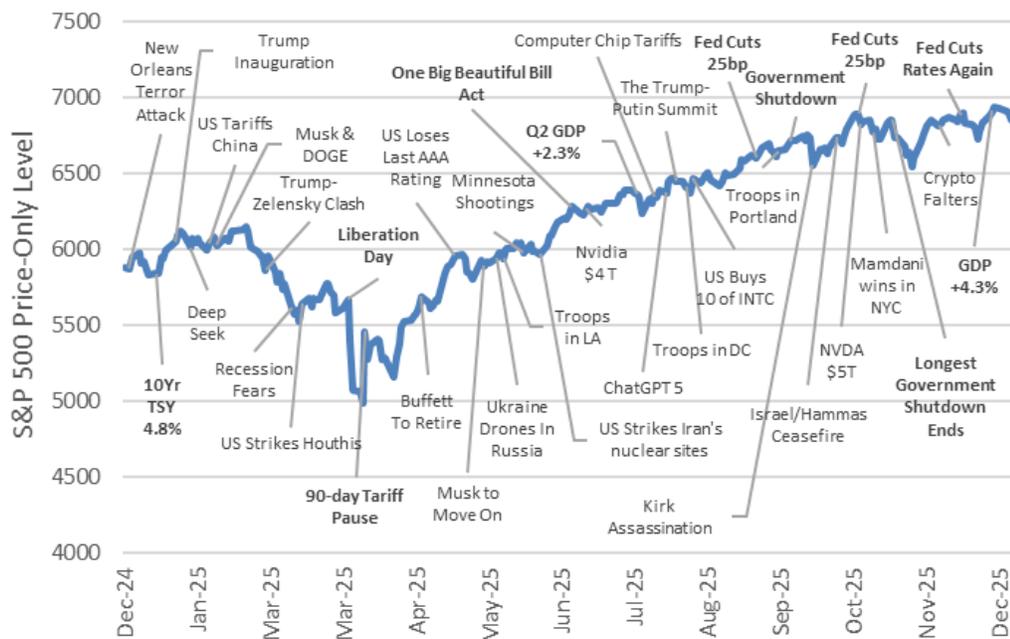
- The belief that investors had already endured the most extreme post-pandemic shocks in 2024 proved premature. If 2024 reminded markets of their resilience, 2025 reinforced their capacity to surprise. Despite a 15% sell-off by early April, equities rebounded decisively. The S&P 500 finished 2025 up 17.9%, marking a rare third consecutive year of double-digit gains. Over the past decade, equities have returned nearly 15% annualized, underscoring a timeless truth: **time in the market continues to outweigh timing the market**, even amid elevated volatility and uncertainty.
- Equity gains in 2025 were broad, led by Emerging Markets (+32%), the NASDAQ (+21%), and Global Equities (+20%), while Cyclical outperformed Defensives and Large Caps continued to lead Small Caps. Growth again outpaced Value, with sector leadership concentrated in Communication Services, Technology, Industrials, and Financials. In Fixed Income, High-Yield bonds outperformed for a third consecutive year. Although on a risk-adjusted basis, Treasury Bills and Municipal Bonds offered attractive relative value.
- In 2025, the U.S. economy entered late-cycle territory with headline stability masking eroding resilience. Data quality has deteriorated, weakening traditional indicators, while household behavior has become increasingly bifurcated—higher-income consumers support demand while lower- and middle-income households face persistent affordability pressures. Tariffs have evolved into a structural inflation drag, compressing margins, particularly for smaller, import-dependent firms. At the same time, labor market signals remain distorted by tight supply/immigration constraints, as well as AI-driven capital substitution.
- The One Big Beautiful Bill Act (OBBBA) represents one of the most meaningful late-cycle fiscal interventions in decades, delivering consumer stimulus, business tax relief, and defense and infrastructure spending, offset by reductions in select social programs. Benefits are uneven, likely accretive only in 2026, reinforcing K-shaped outcomes across households. AI-driven capital investment remains a key growth engine, though growth is becoming more capital-intensive and concentrated amid rising scrutiny around monetization, returns on capital, and infrastructure constraints. Lagging monetary policy impulses should help offset near-term economic weakness through 1H26.
- Looking ahead into 2026, we expect **positive but more muted equity returns, modestly positive fixed-income performance, and elevated volatility driven by geopolitics, policy uncertainty, and a narrowing growth engine**. The Federal Reserve is likely to deliver one to two 25-basis-point interest rate cuts in early 2026, followed by a pause, resulting in a bull-steepening yield-curve environment. Earnings growth remains the primary support for equities, with S&P 500 EPS projected to grow 13–14%, disproportionately driven by the Magnificent Seven. **Our base-case 2026 S&P 500 target is approximately 7,500.**
- In this environment, we favor **Defensive Growth positioning**, emphasizing Healthcare, Consumer Staples with pricing power, recurring-revenue Technology tied to AI, and select Industrials, while underweighting Consumer Discretionary and favoring select Financials. Within fixed income, we remain duration-mindful, emphasizing securitized assets, municipal bonds, private credit, and preferred securities. **Key risks include tariffs, geopolitical uncertainty, midterm election volatility, and perceived threats to Federal Reserve independence.**

2025 Year In Review: You Ain't Seen Nothing Yet

The opening chapter of our 2025 Outlook—aptly titled “Just When You Think You’ve Seen It All”—reflected the belief that the extraordinary economic, market, and geopolitical shocks following the pandemic had hardened even the most seasoned investors. As such, 2024 served as a reminder that markets retain a powerful capacity to surprise. In hindsight, 2025 made 2024 look tame, reinforcing a timeless lesson: **time in the market ultimately matters more than timing the market.** Despite a series of disruptive economic and political events that heightened the risk of a sustained correction, investors largely looked through the noise, propelling global markets higher. After suffering a drawdown of more than 15% by early April 2025, the S&P 500 staged a decisive rebound, rising over 39% into year-end and finishing the year up 17.9% on a total-return basis. This marked the index’s third consecutive year of double-digit gains. Over the past decade, the S&P 500 has generated a 14.8% annualized return, underscoring the market’s long-term resilience—even in the wake of setbacks such as the modest decline in 2018 (-4.4%) and the more severe pullback in 2022 (-18.1%).

Tale Of The Tape

Exhibit 1: 2025 Tale of the Tape



NEPCG and FactSet data as of 12/31/2025

Capital Market Review

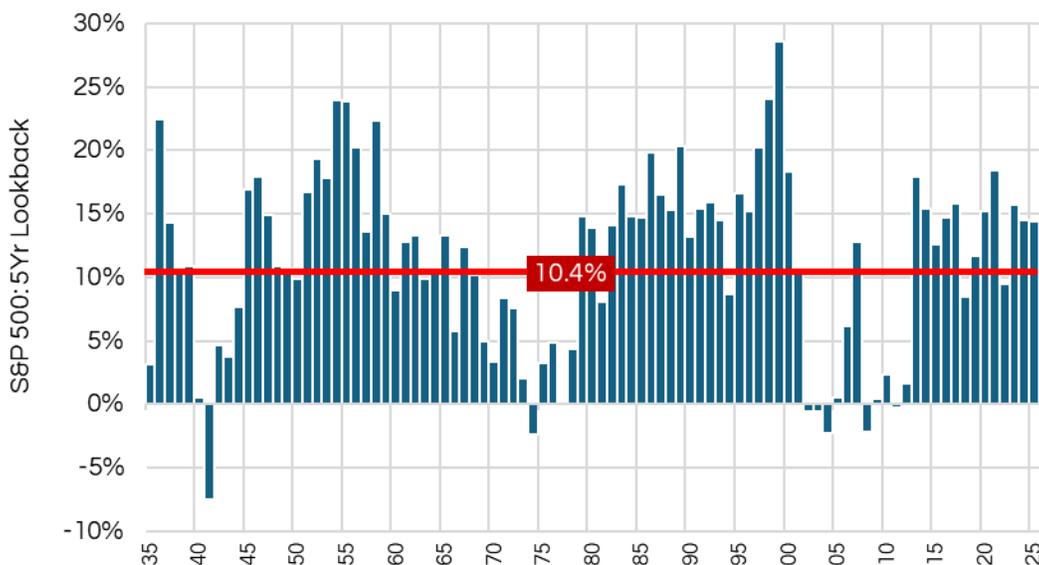
The S&P 500 finished 2025 higher by 17.9% on a total return basis, marking the third straight year of double-digit returns. This phenomenon has happened only three (3) times over the last 25 years, the

previous time – ominously—was leading into the 2022 midterm elections. While some investors may view this as a harbinger of things to come in 2026, we are not entirely convinced, which we will discuss in more detail later in this report.

Furthermore, from a historical perspective, investors have generally been rewarded handsomely by investing in stocks. Over the past 100 years, equity markets have delivered a positive average annual return of 12.3%. Returns were positive in 74 years, with an average gain of 21.4%. In the remaining 26 years with negative returns, the S&P 500 declined by an average of 13.4% per annum.

That said, considering individual annual returns over 100 years may seem disingenuous to some, so we also analyze returns over 5-year and 10-year lookback periods. When extending the holding period from one to five years, the average return across rolling 60-month periods is 10.4%. In addition, across these 95 rolling five-year periods, 83 produced positive returns, with an average annualized gain of 12.6%. In the 12 periods with negative outcomes, losses averaged just 4.6%. This means investors were rewarded approximately 87% of the time over five-year horizons, and disappointed only 13% of the time.

Exhibit 2: 5-Year Equity Look-Back Total Returns

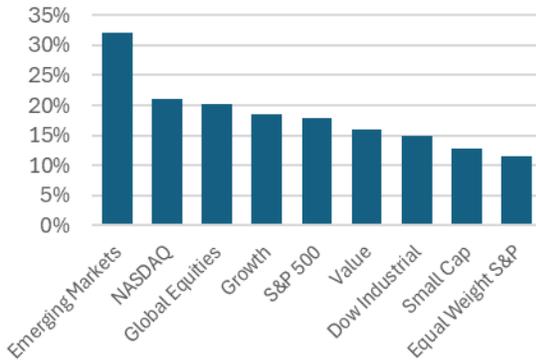


NEPCG and FactSet data as of 12/31/2025

When we extend the holding period to 10 years, the average rolling return is 10.7%. There have been 86 rolling 10-year periods of positive returns, with an average return of 11.2%, and four instances of negative returns whereby the S&P 500 fell by -0.8%. Clearly, another example that time in the market trumps timing the market.

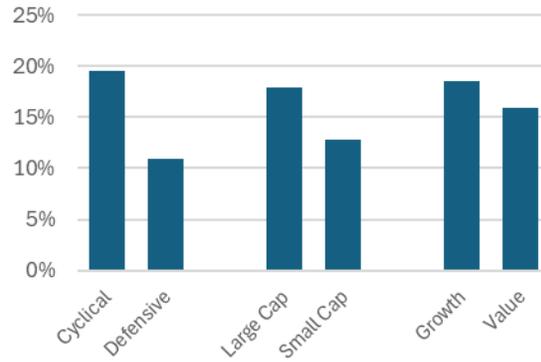
Across the major equity market indices, Emerging Market Equities posted the best results in 2025, higher by 32%, followed by the NASDAQ (+21%) and Global Equities (+20%). Lagging the group was the Equal Weighted S&P (+11%).

Exhibit 3: Major Market Indices Total Returns



FactSet & NEPCG

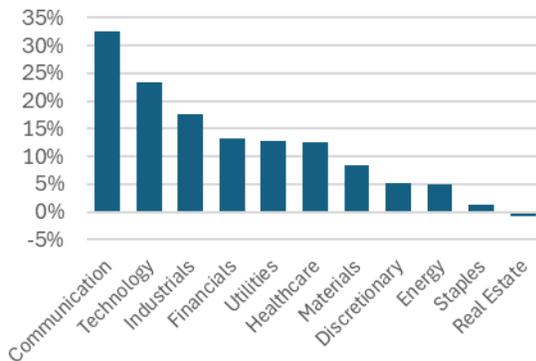
Exhibit 4: Style Total Returns



FactSet & NEPCG

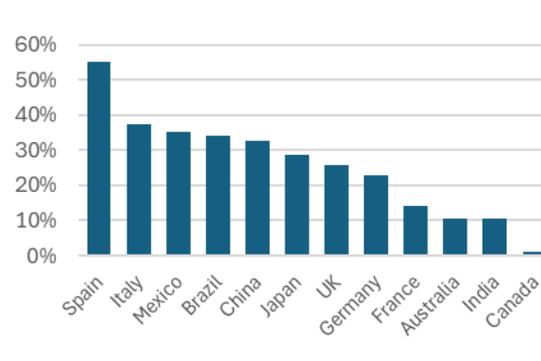
In 2025, Cyclical (+20%) outperformed Defensives (+11%), while Large Caps (+18%) outperformed Small Caps (+13%). In addition, Growth (+19%) outperformed Value (+16%).

Exhibit 5: 2025 Sector Total Returns



FactSet & NEPCG

Exhibit 6: International Equity Total Returns



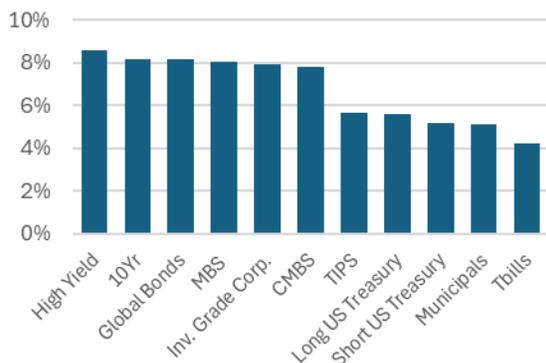
FactSet & NEPCG

Across equity sectors, the Communication Sector stood out in 2025, higher by 32%, followed by Technology (+23%), Industrials (+18%), and Financials (+13%). The only negative S&P sector to finish 2025 in the red was Real Estate, down roughly 1%. Other laggards included Staples (+1%), Energy (+5%), and Discretionary (+5%).

Across Fixed-Income, High-Yield bonds outperformed for the third straight year. In 2025, this segment was higher by almost 9%, after being up 8% and 13% in 2024 and 2023, respectively. This was followed by US 10Yr Treasuries and Global Bonds, both up just over 8% on a total return basis, followed by Mortgage-Backed securities (+8%) and Investment Grade US Bonds, higher by just under

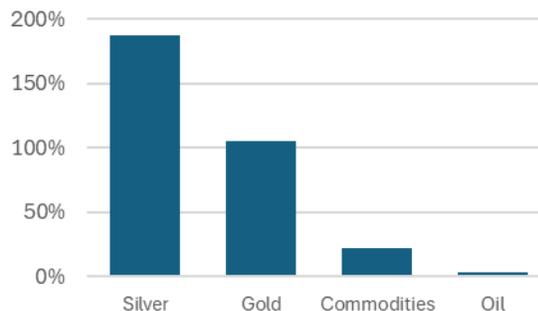
8%. Lagging the group in 2025 were T-Bills (+4%) and Municipals and Short-Term Treasuries, both up about 5%. That said, when viewed through a default-risk lens, Treasury Bills and Municipal Bonds offered attractive relative returns.

Exhibit 7: Fixed Income Returns



FactSet & NEPCG

Exhibit 8: Commodity Returns



FactSet & NEPCG

The Economic Outlook

Assessing the U.S. economy has grown more challenging, as the longest government shutdown on record has degraded data quality and reduced the signal value of traditional indicators relied upon by economists and policymakers. Manufacturing remains soft but has failed to provide clear warning signs, while services continue to support headline growth. Household behavior is increasingly divided: higher-income households (Baby Boomers) continue to spend and sustain demand, even as the broader base of growth softens and underlying economic fragility builds. Lower and middle-income cohorts are struggling with affordability pressures and costs across shelter, insurance, food, and utilities, despite moderation in headline inflation data.

While the economy generally appears stable, its underlying resilience is eroding. Tariffs have evolved from a perceived one-time shock into a persistent structural drag, with uneven and often dysfunctional application across countries and sectors. Labor-market signals remain distorted by self-inflicted methodological shortcomings, immigration constraints, and AI-driven capital substitution.

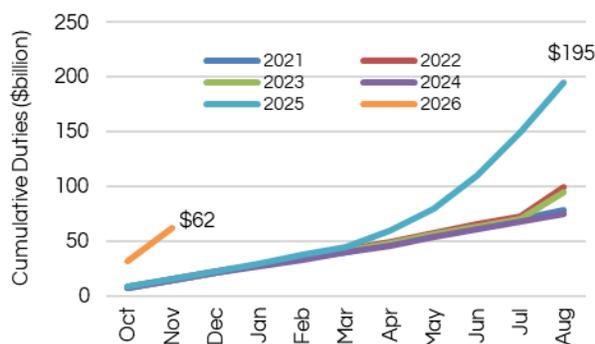
Looking ahead, we believe growth will be supported by AI-related investment, lagging monetary stimulus, productivity gains, OBBBA tailwinds, easier financial conditions, and gradually easing tariff pressures. The result is an economy that can continue to grow into 2026—but one with diminishing resilience. As growth momentum narrows, vulnerability to external shocks and policy missteps increases, raising the risk of sharper and more volatile adjustments across both the economy and equity markets.

In the following sections, we further unpack the key drivers, in our opinion, that will shape the U.S. economy in 2026.

Tariffs

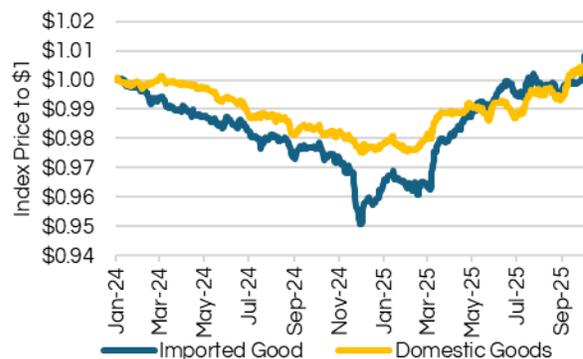
Tariffs have shifted from a temporary policy tool to a lasting structural drag on the US economy. Retail prices are estimated to be about 5 percentage points higher, according to the [Tax Foundation](#). Much of this higher tariff trend has been driven by direct import cost pass-through and reduced competitive pressure on domestic producers to cut prices. Early on, companies absorbed much of the impact through margin compression (especially in the retail sector), inventory management, and supply-chain adjustments. However, those buffers are now largely exhausted. As a result, tariff costs are increasingly passed on to consumers—especially in non-discretionary categories—keeping inflation sticky even as headline measures cool.

Exhibit 9: Cumulative Duties Received



US Treasury Department & NEPCG

Exhibit 10: Tariffs' Impact On Costs



US Facts & NEPCG

Recent, selective tariff rollbacks suggest a growing acknowledgment—particularly ahead of the midterm elections—that tariffs are weighing on consumers, and that headline disinflation alone will be insufficient to prevent a shift in control of the House. Effective tariff rates remain in the double digits, and in many cases, tariff-related price pressures have become embedded within broader cost structures.

The burden continues to fall most heavily on lower-income households, while higher-income consumers remain relatively insulated. At the corporate level, larger firms with scale, stronger margins, better access to financing, or direct exposure to fiscal support have generally performed well. In contrast, smaller companies—especially those reliant on imported inputs or discretionary demand—have faced weaker profitability and earnings growth.

Looking forward, the Supreme Court’s pending ruling on IEEPA tariff authority could introduce uncertainty and may provide limited relief¹, particularly for smaller retail and goods-producing sectors

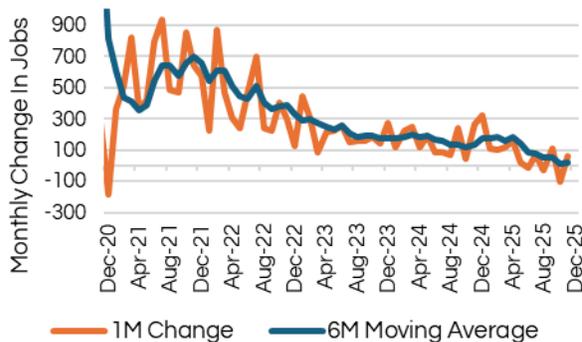
¹ This report was drafted in late December 2025.

and companies. However, regardless of the outcome, we expect the administration to preserve elevated tariffs through alternative legal channels, making tariffs a lasting feature of the 2026 environment. **As labor supply continues to shrink and tariffs squeeze margins, the economy becomes less efficient. That combination is likely to slow economic growth in 2026 while keeping everyday prices rising faster than the Fed would like.** Even if policymakers modestly cut rates, it will probably not address the underlying obstacle. Instead, the economy risks muddling along with weak growth and stubbornly high prices—and the longer adjustments are postponed, the more sudden and painful these economic risks ultimately become. **For equities, tariffs represent a sustained margin and valuation headwind rather than a temporary shock.** Market performance is likely to remain selective, favoring companies with pricing power, scale, and domestically oriented supply chains, while lower-margin and import-dependent sectors face ongoing earnings risk.

Labor Market

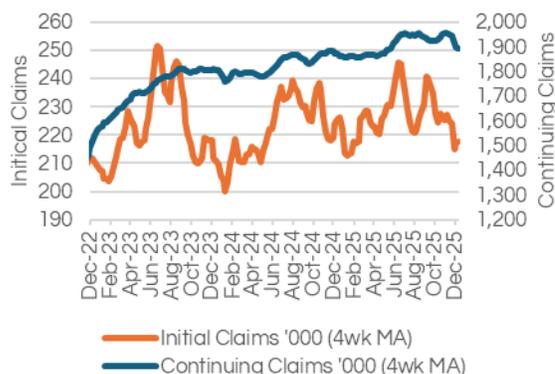
The labor market has become harder to read, with traditional signals losing reliability. **Headline employment data still appear stable, but underlying trends point to gradual weakening rather than a sharp downturn.** Labor outcomes are increasingly split: large, capital-intensive firms—particularly those tied to AI infrastructure—continue to retain workers or hire selectively, while smaller firms and white-collar sectors are experiencing job losses driven by higher financing costs, margin pressure, and weaker demand visibility.

Exhibit 11: Monthly Employment Growth



FactSet & NEPCG

Exhibit 12: Unemployment Claims



FactSet & NEPCG

Initial jobless claims remain low, likely reflecting labor hoarding and a lower labor supply, while continuing claims are rising, indicating a growing difficulty in finding new jobs due to skill mismatches and higher productivity requirements. Pay increases are cooling and returning to more normal, pre-pandemic levels, leaving workers with less bargaining power for higher wages and fewer opportunities—or incentives—to change jobs. **AI further complicates the picture by suppressing future hiring, compressing middle management, and shifting growth away from headcount toward technology—delaying traditional recession signals. These trends are hitting lower-**

income workers disproportionately hard, as critical expenses like housing, healthcare, and food remain elevated.

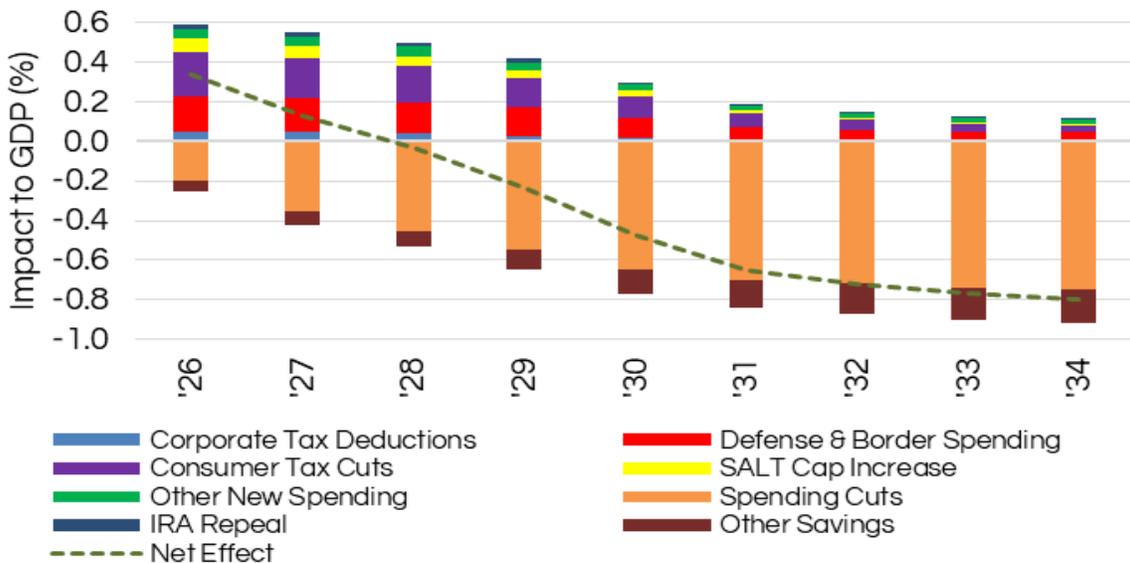
Looking forward, with stricter immigration enforcement and reducing labor supply, breakeven job growth has fallen sharply—from roughly 100,000 jobs per month to around 20,000. We expect modest job gains in 2026 within a low-hire, low-fire environment. We believe the unemployment rate will top out at 4.5% before triggering additional fiscal or monetary policy stimulus. **While our 2026 expectations support headline labor stability, it leaves the labor market more exposed to sector-specific shocks or demand slowdowns that could quickly push unemployment higher.**

Fiscal Policy

The One Big Beautiful Bill Act (OBBBA) represents one of the most meaningful late-cycle fiscal measures in decades. While much of the legislation makes existing policies permanent, key corporate provisions—especially full expensing for capital investment and R&D—will lower the cost of capital and improve cash-flow visibility. This has encouraged companies to accelerate investment in AI, automation, and productivity-enhancing technologies, rather than expanding headcount.

Over the next few months, roughly \$135 billion in stimulus is expected to flow directly to consumers, with most of the impact landing between February and April. At the same time, about \$130 billion in business tax cuts should support corporate investment—particularly in manufacturing and research-heavy industries. The plan also includes more than \$40 billion in new spending on defense and border infrastructure. These boosts, however, are partly offset by \$20–25 billion in spending reductions.

Exhibit 13: OBBBA Impact To GDP By Category



Morgan Stanley

In short, the package provides meaningful economic support in 2026, but with trade-offs that reduce benefits in specific social programs. In addition, with labor supply already constrained, the downside effects of slower hiring may not become visible until later in 2026. On the household side, fiscal benefits are uneven. Higher-income households—supported by equity-market gains and stable employment—are more likely to turn tax relief into discretionary spending. Lower- and middle-income households primarily use relief to offset higher living costs, limiting the overall boost to consumption and reinforcing K-shaped outcomes.

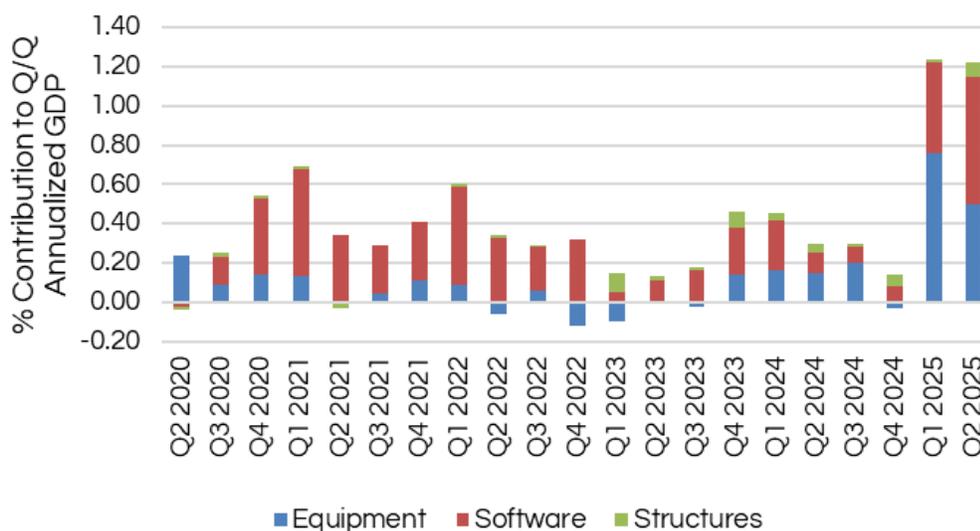
Looking forward, fiscal policy, particularly the OBBBA, should continue to support modest GDP growth in 2026. Household benefits, including tax refunds tied to tip and overtime exclusions, are likely to be concentrated in Q2 and Q3. This may temporarily boost consumption and further mask underlying labor market softness.

Government support helps in the short run, but it adds to the country’s debt. Over time, that growing debt makes it harder to borrow without pushing interest rates higher. Investors may demand higher returns to hold government bonds, which can raise borrowing costs across the economy—possibly tightening financial conditions on their own, even if the Federal Reserve stops cutting rates or steps back from supporting markets.

The AI Impact

AI-driven capital spending has become a significant driver of US growth, accounting for a substantial share of recent expansion. Investment in data centers, advanced computing hardware, and power infrastructure has supported industrial activity, construction employment and technology earnings, reinforcing US growth leadership—particularly among large-cap firms.

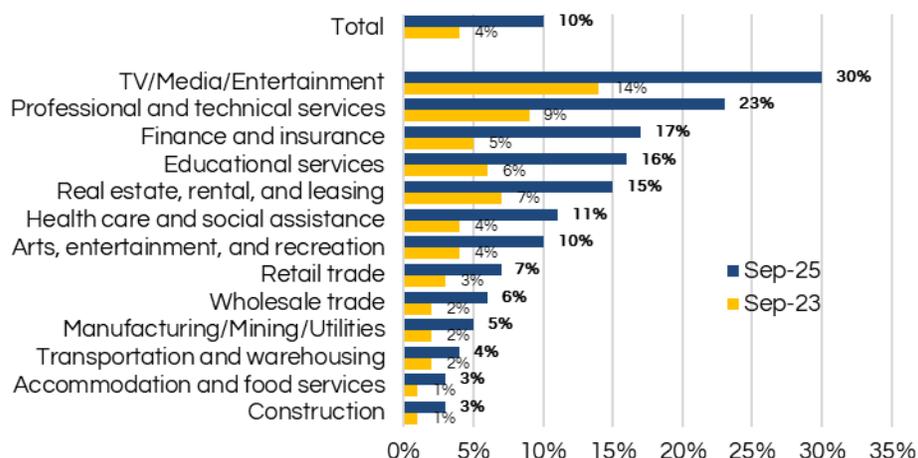
Exhibit 14: AI/Technology Contribution To Annualized GDP



At the same time, growth has become more capital-intensive and concentrated. Markets are drawing a clear line between firms that build and enable AI and those that simply use it. Further concerns persist regarding circular financing, vendor-supported demand, and infrastructure constraints—especially power availability, data center construction capacity, and supply chain limitations.

Looking forward, AI investment is expected to continue through 2026, but with greater scrutiny on monetization, returns on invested capital, and execution risk. If productivity gains fall short, earnings disappoint, or infrastructure bottlenecks worsen, capital spending could slow, which would weigh on growth and equity valuations. Market leadership is likely to remain with companies that can demonstrate clear AI-driven efficiency and margin gains, rather than speculative exposure.

Exhibit 15: US Business Usage Of AI By Industry



NEPCG and EY Parthenon

Capital Market Outlook

If 2026 resembles 2025, we expect continued—though muted—capital-market strength, with positive but lower full-year equity returns and modestly positive fixed-income performance. **Near-term volatility across both equities and bonds is likely, driven by rising geopolitical uncertainty and increasingly erratic economic data, as well as uncertainty surrounding rate cuts.** Corporate earnings should balance out the potential turbulence; however, elevated speculation around AI-related capital spending and shareholder monetization may temper investor exuberance. In the sections that follow, we unpack our views and basis that frame our 2026 Capital Market Outlook.

Interest Rates

In 2026, the journey of interest rates matters as much as the destination. From 2022 to 2024, the FOMC raised rates at one of the fastest paces on record to curb inflation, increasing the overnight borrowing rate (Federal Funds) eleven times from 0.25% to 5.25% between March 2022 and July

2023. That tightening weighed heavily on housing and other rate-sensitive sectors, while consumer spending and business investment—particularly in technology—proved more resilient than expected.

In 2025, the Fed pivoted to cautiously easing, cutting rates three times, not in response to recession or financial stress, but to gradually normalize policy as inflation stabilized. **In our opinion, the lagging impact of these reductions has yet to be fully felt across the economy and capital markets, which will continue to provide additional stimulus through early 2026.**

Looking ahead, the central challenge is calibration—easing too quickly risks reigniting inflation, while moving too slowly could unnecessarily deepen an already slowing economic backdrop. As a result, we expect rates in 2026 to drift modestly lower, barring an unforeseen shock. The Fed is likely to deliver one or two 25 bp interest rate cuts in the first half of the year, bringing the Fed Funds Rate to a target range of 3.00%-3.25%, and then pause.

With inflation still above target and growth slowing but intact, the scope for aggressive easing remains limited, in our view. Longer-term rates should follow a similar, muted path. Mortgage rates and longer-dated Treasury yields are likely to compress somewhat but remain relatively elevated, restrained by heavy government borrowing and persistent inflation risk premiums. We note that the 10-Year Treasury Note historically trades roughly 100-125bps wider than the Fed Funds rate, which would imply a range of 4.0-4.5%. This outcome suggests a steeper yield curve, a Bull-Steepening interest rate regime for equities, and limited upside for a sharp bond rally.

Earnings Growth

We expect earnings per share growth to remain the primary support for equity valuations, particularly as valuation multiples already appear stretched. Consensus estimates project S&P 500 earnings growth of approximately 13–14% in 2026, once again disproportionately driven by the Magnificent 7, where earnings are expected to grow closer to 20%. As of this report, the S&P 500 is trading at roughly 22.3x times forward 12-month earnings, compared with a long-term historical average (since 2007) of 17.5x.

Outlook For Equities

Our base-case expectation is for the S&P 500 to finish 2026 at approximately 7,500. As in prior years, this forecast is derived by averaging the results of two complementary valuation frameworks.

The first is our earnings-yield approach, which incorporates the consensus 2027 S&P 500 EPS estimate of \$355, a 4% 10-year Treasury yield assumption, and an earnings-yield spread of 125 basis points. Together, these inputs imply a one-year forward target of roughly 6,900.

The second is our forward multiple approach, which uses the same 2027 EPS estimate of \$355 but applies a blended forward P/E multiple of 23x. This blended multiple reflects a 32x multiple weighted at 30% for the Magnificent Seven and a 19x multiple weighted at 70% for the remaining 493 S&P 500

constituents, consistent with their respective market-cap weights. This framework yields a forward target of approximately 8,150. Averaging these two approaches produces our 2026 base-case target of 7,500. We assign a bull-case outcome of 8,300 and a bear-case outcome of 5,900.

Sector Tilts. We continue to take cues for our sector allocation from our Interest Rate Regime construct. In our 2020 Outlook, entitled “What Goes Up,” we introduced our Interest Rate Regime paradigm, which suggests that by understanding the historical relationships between bond prices and yields, also known as the yield curve, investors can gain a better understanding of economic and capital market trends, as well as general sector allocation. As we sit here today, we firmly believe the U.S. economy and capital market is in a Bull Steepener regime.

A Bull Steepener occurs in the late stages of the monetary policy cycle when the Federal Reserve begins cutting interest rates aggressively in response to a weakening economy. This action drives down short-term yields more rapidly than long-term yields, causing the yield curve to steepen—hence the term. Historically, this has signaled the onset of a recession rather than just a yield curve inversion.

Notably, the re-steepening often precedes a recession by just weeks or months, as seen in periods like 1990–1992, 2001, 2003, 2008, and 2020. In these environments, markets tend to favor “defensive growth”—sectors that combine resilience with earnings potential. Falling rates lower discount rates, which boosts the valuations of growth-oriented equities. But because recessions also bring fundamental economic weakness, investors prioritize companies with stable cash flows and pricing power.

Hence, we suggest overweight Healthcare, Consumer Staples with pricing power, and recurring revenue Technology companies, deeply rooted into the AI boom. Given the demand for power and data center construction, we also favor segments of the Industrial sector. These sectors balance growth appeal with defensive characteristics—making them well-suited for bull steepening periods. We suggest market-weighting the remaining S&P sectors, except for Consumer Discretionary, which we suggest underweighting. We also remain underweight to Financials overall but tend to suggest a concentration in larger money-center and regional banks.

There are several risks to our equity market thesis—most notably, the trajectory of the economy, which may ultimately constrain the glide path for lower interest rates. **Geopolitical uncertainty also remains a significant wildcard.** The recent capture and expected trial of Venezuelan President Nicolás Maduro sets a delicate precedent—not only for future “America First” initiatives, but also in potentially giving other nations (e.g., China regarding Taiwan) a perceived green light for similar actions.

Furthermore, 2026 will be a midterm election year—a period that has historically been marked by heightened volatility. Notably, the last two midterm election years (2018 and 2022) were the only years in the past decade when the S&P 500 posted negative returns. Lastly, concerns about the Federal Reserve’s independence cannot be dismissed. If the FOMC is perceived as a mouthpiece for

President Trump, the credibility of U.S. capital markets could be called into question, potentially driving long-term interest rates higher and upending established asset pricing models and triggering a recession along the way.

Outlook for Fixed Income

We remain cautiously optimistic on fixed income heading into 2026. For some investors, fixed income is a straightforward buy-and-hold source of income; for others, it is an actively managed asset class that, like equities, should be purchased at attractive valuations and trimmed when it becomes expensive. Regardless of philosophy, one reality is unavoidable: the level and trajectory of interest rates are central to the valuation and performance of bonds and all fixed-income-oriented investments.

First, the “cautious” element of our Outlook. **As we move into 2026, we expect the near-term direction of interest rates to be lower, but the ultimate destination remains highly uncertain.** That uncertainty hinges on two critical factors: the true resilience of the underlying economy, and the extent to which President Trump may influence the Federal Reserve and its next, hand-picked, Chairman. **In this environment, we believe investors should remain duration-mindful and resist the temptation to make outsized bets on aggressive or sustained rate cuts.** Additionally, we remain concerned about the longer-term implications of burgeoning federal debt levels, as well as the need for corporates to refinance COVID-era debt at materially higher rates, and potentially to place upward pressure on interest rates more broadly.

Now, the “optimistic” element of our Outlook. **Broadly speaking, we believe the underlying trend for inflation continues to move lower, even if the path is uneven.** While corporate borrowers are facing higher refinancing costs, credit spreads suggest markets remain relatively comfortable with the economic backdrop and default risk. In this environment, securitized assets and municipal bonds stand out as attractive alternatives, particularly for investors who are wary of historically tight corporate credit spreads.

Beyond traditional markets, private credit continues to play an important supporting role, especially as public credit appears fully priced. **In the near term, private lending may help absorb higher refinancing costs—particularly for non-investment-grade borrowers—helping to keep spreads contained and overall fixed-income volatility lower.** Finally, preferred securities help round out the 2026 fixed-income story. After underperforming in 2025 amid rate volatility and policy uncertainty, preferreds enter 2026 on firmer footing, supported by moderating inflation, a gradually cooling labor market, and anticipated Fed leadership changes that are expected to tilt monetary policy in a more dovish direction.

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