WESTEND Advisors
A VICTORY CAPITAL® INVESTMENT FRANCHISE

Economic and Market Commentary

December 15, 2025

Macro Drives Markets. WestEnd Knows Macro.

2025 Year-in-Review
A Tale of Two Halves

Volatility was a hallmark of the first part of 2025, as markets digested significant economic and policy uncertainty. In the back half of the year, equity markets have pushed to new highs as some aspects of uncertainty eased. Amid a renewed concentration of market leadership, shifting policy actions, and disruptions of economic data, we are pleased with how our portfolios have captured market upside as we actively managed risk this year.

As we near the end of 2025, we look back at some of the year's key economic and market developments, as well as how key portfolio allocation decisions evolved along the way (see call-out boxes).

2025 YTD REVIEW (through December 15, 2025)

- At the start of 2025, we anticipated late-cycle economic growth could persist globally, though we saw elevated valuations, market concentration, and policy uncertainty as key market risks.
- Across portfolios, we have balanced select economically sensitive and defensive exposures throughout 2025, though we regularly refined positioning as conditions and our outlook evolved.
- In Q1, U.S. equities initially extended post-election gains, then turned down around mid-quarter amid concerns over economic growth, trade policy, news of cheap AI competition from China, and a rate cut pause by the Fed.
- At the start of Q2, first stocks then bonds reeled at the unexpected scale of tariffs announced by the U.S., but equities began to recover as the administration rapidly adjusted policies.
- While overall U.S. economic growth appears to have decelerated from 2024 levels, we still see mature expansion, based on a wide range of traditional and alternative data that helps us look past issues like distortions tied to tariff front-running in the spring and data disruptions from the government shutdown in the fall.
- In the second half of the year, U.S. stocks progressed to new highs, supported by earnings growth across multiple sectors as economic growth continued and stagnation in the labor market bolstered expectations for the Fed to resume rate cuts.
- The growth of AI remained a key focus for many investors throughout 2025, supporting outsized returns and market leadership from some of the largest tech-related companies which, in turn, contributed to continued concentration of market capitalization in the mid-phase Information Technology, Communication Services, and Consumer Discretionary sectors.
- Internationally, economic growth in most developed regions remained below the U.S., but we saw signs of reacceleration in both Japan and Europe, despite lingering trade policy headwinds.
- International equities have outperformed the U.S. so far in 2025 as monetary easing and relative economic acceleration abroad buoyed confidence and as a declining dollar in the first half of the year boosted international returns for U.S.-based investors.
- U.S. fixed income markets have also generated solid returns YTD, while providing diversification benefits for balanced portfolios amid equity market volatility in the first half of the year.
- Gold has been rewarding in 2025 for portfolios that have real asset exposure, rising more than 60% YTD through mid-December, while some more economically cyclical real assets were mixed, e.g., crude oil was down while returns for real estate, various infrastructure assets, and soft commodities were muted.
- While overall equity returns have been stronger than we expected this year, we believe the mix of volatility, market concentration, and a shifting macroeconomic backdrop in 2025 highlight the importance of active management for investors seeking attractive risk-adjusted returns.

1ST HALF 2025: VOLATILITY AND UNCERTAINTY

U.S. economic data was noisy in the first half of 2025, tied to a mix of factors including a strong pull-forward of imports ahead of expected U.S. tariffs. Investor uncertainty over tariffs and the economy more broadly, as well as a sharp drop in consumer expectations, drove a downturn in U.S. stocks in the back half of Q1. The downturn accelerated sharply in early April with

Late February 2025

Increased U.S. Info. Tech. sector exposure with an increased Software industry allocation and reduced U.S. Financials sector exposure across our ETF strategies. In multi-asset portfolios, we increased gold exposure and trimmed energy infrastructure.

20251216-5068717

valuation compression across global equities following the U.S. administration's "Liberation Day" announcement of sweeping tariffs that vastly exceeded expectations in both scope and scale.

April 2025
Increased U.S. Communication Services sector exposure and reduced U.S. Financials sector exposure across ETF portfolios. In multi-asset portfolios, we also reduced real asset exposure in favor of increased allocations to both equity and fixed income.

U.S. Treasury yields initially dropped on the tariff news, providing some modest cushion for returns in balanced portfolios, but then spiked in a sign of market stress that contributed to the administration pulling back on some of the initial tariff plans. The administration's partial reversal on tariffs, in turn, signaled to markets that the worst-case scenario for trade was likely off the table. This helped spark a broad market rally that led U.S. stocks to new highs by the end of Q2.

Meanwhile, a slide in the U.S. dollar's global exchange rate helped bolster international stock returns for U.S. investors amid the uncertainty around tariffs throughout the first half of 2025. Many countries were also pursuing monetary easing and fiscal stimulus measures at that time, and we believe that helped support investor sentiment toward international markets, despite generally slower economic growth abroad than in the U.S. this year.

Mid-June 2025
Shifted part of Developed Asia equities overweight to Emerging Asia in global portfolios.

Our portfolios benefitted from the traditionally defensive side of our positioning early in the year. In February, we also temporarily shifted emphasis within portfolios' U.S. Information Technology sector allocations toward the Software industry, where we saw less risk from trade policy issues. After the market pullback in April, we adjusted some of our economically sensitive U.S. exposure across portfolios and rebalanced to take advantage of opportunities we saw from valuation compression in Communication Services, and we also broadened our global portfolios' Asia exposure late in Q2 as we saw evolving economic trends beginning to favor emerging markets alongside developed markets in the region.

2ND HALF 2025: EXTENDED CYCLE AND MARKETS

Early July 2025
Refined U.S. defensive equity sector allocations by reducing Health Care exposure and adding a Utilities allocation across ETF portfolios.

Federal policies and monetary policy remained a focus for investors in the second half of 2025. In early July, Congress finalized its One Big Beautiful Bill Act, which codified a range of tax cut extensions and fiscal policies that we have anticipated could partially offset lingering economic headwinds from shifting trade policy. Meanwhile, softness in the labor market, which we have noted bubbling under the surface for many quarters, came to the fore as net job growth stagnated in the middle of the year. This helped boost investor expectations that the Fed would resume interest rate cuts, which it did at its September meeting, despite inflation remaining above target.

Mid-August 2025
Modestly reduced U.S. Health Care exposure and eliminated emphasis of Software within U.S. Info. Tech. allocations while adding to large-cap U.S. Info. Tech. and Communication Services exposure across ETF portfolios.

Amid an easing of economic and trade policy uncertainty, the resumption of monetary policy easing, and continued strength in earnings growth, global stocks extended their post-Liberation Day recovery rally in the back half of the year. After a temporary broadening of U.S. equity market leadership in the early months of 2025, subsequent gains have featured a resumption of narrow leadership concentrated in AI and technology-related mega-cap stocks. A reversal of first-half multiple compression has pushed valuations for many of these companies back to historically elevated levels, but gains have also been supported by significant earnings growth. For example, while the Information Technology sector in the S&P 500 has seen virtually no *net* change in valuations year-to-date, it has experienced aggregate growth in forward earnings expectations in excess of 25%. Also, roughly half of the 32% year-to-date return (through Dec. 12) for the Communication Services sector is attributable to earnings growth.

Early November 2025
Added opportunistic small-cap U.S. equity allocation and reduced U.S. large-cap allocation in global and balanced portfolios.

While earnings data have continued to support equities in the back half of 2025, a record six-week U.S. government shutdown at the start of Q4 disrupted the flow of most Federal economic data. As of mid-December, various key reports have yet to be released, including the Q3 GDP and October employment reports. However, a wide range of economic data from state and private sources – which is often released on a higher-frequency basis than Federal data and is a regular part of our macroeconomic analysis – has allowed us to continue assessing U.S. economic trends and retain a high degree of confidence in our outlook.

U.S. economic growth trends have generally continued to outpace global growth this year, but some key international economies have seen relative economic acceleration recently. Although we have continued to underweight international equities as a whole in global portfolios, largely reflecting an underweight of Europe, we continue to see opportunities in both developed and emerging Asia equities.

Mid-November 2025
Reduced U.S. mid-phase Info. Tech., Comm. Services, and Consumer Discretionary sector exposure, added to U.S. Financials allocation and to Biotech industry within U.S. Health Care allocation across ETF portfolios.

Over the second half of the year, we refined our portfolios' defensive U.S. exposures. We added a new allocation to the Utilities sector, which we believe could benefit from the evolving interest rate backdrop and increased electricity demand. We also shifted focus within the U.S. Health Care

20251216-5068717

sector toward an emphasis on the Biotechnology industry, which we believe should benefit from rising M&A activity as larger drug and bio-pharma companies seek to refill product pipelines through acquisition ahead of late-decade patent expirations.

In mid-Q4, we also reduced exposure to mid-phase U.S. sectors where mega-cap AI and tech-related firms are concentrated. This included a reduction in U.S. Consumer Discretionary exposure. The relatively healthy U.S. consumer has continued to support gains for the sector this year, but we have seen a sharp pullback in consumers' economic expectations alongside lower labor demand, which could put future spending at risk. Additionally, we have concerns over some of the highly valued AI-related exposure within the sector. In global and balanced portfolios, we also shifted some of our large-cap U.S. allocation to small-cap U.S. stocks, where we see various fundamental headwinds easing tied, in part, to easing credit conditions, and we view small caps as an increasingly attractive-yet-underappreciated part of the U.S. equity market with the potential to outperform amid widening market breadth.

2026 OUTLOOK PREVIEW

We look forward to detailing our 2026 outlook in early January with our regular quarterly commentary and Macroeconomic Highlights pieces. Meanwhile, given how 2025 has played out, we note a few key observations below.

We believe late-cycle growth can persist in the U.S. in 2026, supported by positive impulses from tax cuts and recent Fed interest rate cuts. However, our analysis suggests those positive tailwinds will be front-loaded and could fade as 2026 progresses. Internationally, we see potential for continued economic reacceleration, particularly in Asia, as impacts from prior monetary easing and fiscal stimulus persist. International headwinds also persist, however, from factors like ongoing shifts in the international trade landscape and, in Europe, political upheaval and ongoing geopolitical threats.

From a market perspective, with YTD returns for the S&P 500 currently in the high teens and returns in the two prior years above 20%, history suggests that double-digit equity returns are unlikely to persist for a fourth consecutive year. Further, market leadership by mega-cap AI and tech-related firms over the past three years has led to record market concentration in a handful of mid-phase sectors and stocks with very elevated valuations. The expectations for these stocks' continued earnings growth are also elevated which, in our view, sets up the potential for investor disappointment if AI demand and revenue assumptions fall short of estimates. We believe this creates particular risk for passive investors whose portfolio allocations typically reflect the market cap weightings of major indices and, thus, are currently concentrated in those largest sectors and stocks. We expect broadening market leadership in the U.S. in 2026 is likely to enhance return opportunities for active management.

Given our evolving outlook, we retain a balance of both economically sensitive and defensive exposures across our portfolios. As always, we stand ready to adjust portfolio allocations as the macroeconomic backdrop and our outlook evolve.

WestEnd Advisors Investment Team | December 15, 2025