ACCESS FINANCIAL SERVICES, INC.

January 14, 2026

2025 Year End Review and Outlook

Index Returns as of Dec. 31, 2025	3 Mo.	6 Mo.	12 Mo.
US STOCKS			
S&P 500 Index TR (large-cap stocks)	2.65	11.00	18.14
S&P 500 Equal Weight TR	1.39	6.30	11.74
Dow Jones Select Dividend Index TR	0.56	8.70	12.31
NASDAQ 100 Index TR	2.72	14.44	21.33
Russell 2000 Index TR (small-cap stocks)	2.19	14.86	12.73
FOREIGN STOCKS			
MSCI EAFE Net Total Return Index (US$)	4.86	9.86	31.35
S&P Europe 350 Index Net TR Index (US$)	6.52	10.55	18.96
MSCI Japan Net Total Return Index (US$)	3.23	11.51	24.60
MSCI Emerging Markets Net TR Index (US$)	4.73	15.88	34.12
COMMODITIES & CURRENCIES			
US Dollar	0.56	0.56	(9.37)
Euro	0.10	(0.35)	13.44
Gold	11.15	28.01	58.30
Oil (West Texas Intermediate)	(6.61)	(6.83)	(11.67)
CME CF Bitcoin Reference Rate	(23.46)	(18.77)	(6.84)
BONDS			
Bloomberg US Aggregate Bond (inv. grade)	1.10	3.15	7.30
Bloomberg US Treasury 20+ Year	(0.93)	1.52	4.22
Bloomberg US Treasury Inflation Notes	0.13	2.24	7.01
Bloomberg Municipal Bond	1.56	4.61	4.25
Bloomberg US Corporate	0.84	3.46	7.77
Bloomberg US Corp. High Yield Bond	1.31	3.88	8.62
S&P International Sov Ex-US Bond TR USD	(0.44)	(0.67)	6.82

Source: Bloomberg

Describing the past 12 months as tumultuous is an understatement, especially since Trump's inauguration. And he has come out swinging in 2026 with a barrage of announcements. President Trump seems intent on ruffling the feathers of every industry he has not already gone after including defense, energy, credit card issuers and rental property investors.

Despite all the focus on tariffs and geopolitics, neither actually mattered in 2025. Financial markets have become increasingly less concerned by US political and global geopolitical events that, in the past, would have mattered to market participants. Investors have become somewhat indifferent to the news flow out of Washington because we have learned that the administration will claim to be implementing a policy one day and reverse course shortly thereafter.

For the year, foreign stocks outperformed their US counterparts by a wide margin for US based investors on the back of a 9.4% decline in the US dollar (Chart 1). However, in local currency terms, the results were less impressive. Chart 2 illustrates the normalized returns for the MSCI Europe stock index for a US dollar based investor (blue line) and a European investor in native currency terms (purple line). In local currency terms, returns from the Europe index and the US S&P 500 index were essentially the same. It is an odd macro reality that all anyone could talk about (from an investment perspective) was artificial intelligence (AI) and yet the epicenter of AI (the US) underperformed.

Chart 1: 2025 US Dollar

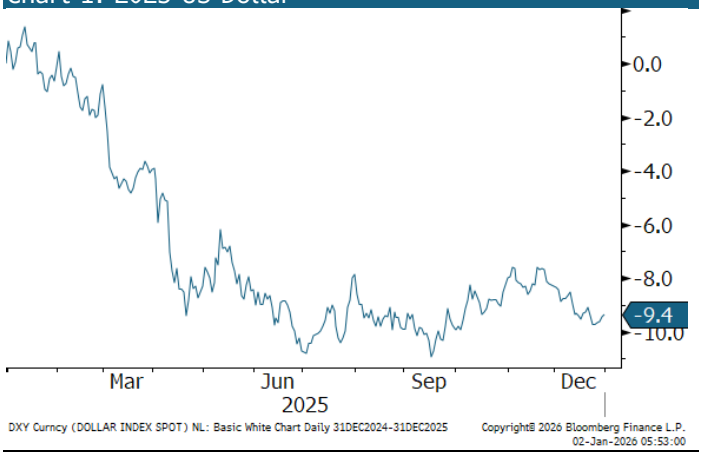


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 2: MSCI Europe Index Return in US Dollar & Local Currency Terms

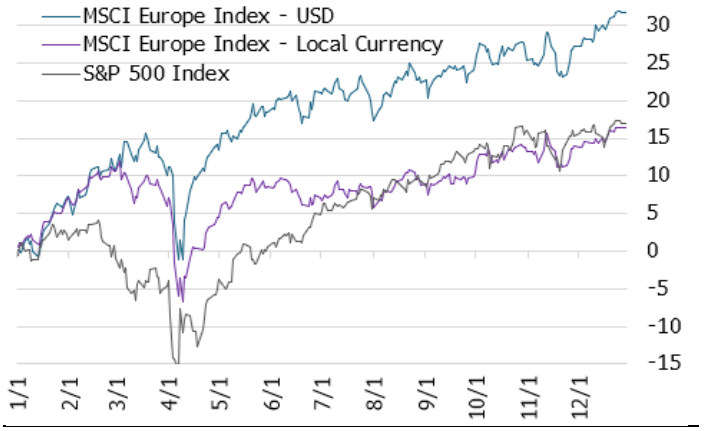


Chart Source: Access Financial Services using data from Bloomberg

US dollar weakness, foreign central bank purchases, tight supply and momentum investors also contributed to an amazing year for precious metals (Chart 3) with silver advancing 66% in the fourth quarter alone. Industrial metals also generally performed well, with copper having its biggest annual gain since 2009 while energy related commodities sold off.

The Bloomberg Energy Subindex declined -13% as OPEC raised production throughout the year. This was probably an effort to stay in Trump's good graces by helping contain inflation and is unlikely to continue as the Gulf states need higher oil prices to sustain their

economies. Energy related stocks bucked the trend though and returned 9.2% for the year.

Chart 3: Silver, Gold & US Dollar

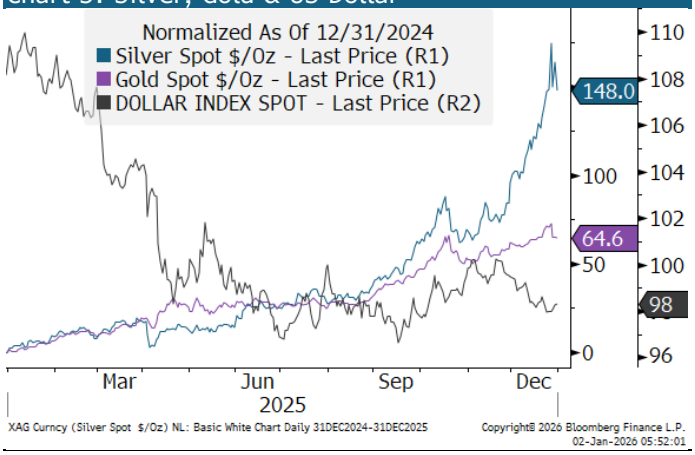


Chart source: Access Financial Services using Bloomberg Software & Data

Within the US stock market, technology related shares – especially those tied to AI and the ongoing data center build out – were once again the top performers. Communication services [30% Meta (Facebook) and Alphabet (Google)] and information technology [40% NVDIA, Apple and Microsoft] sectors were up 32.4% and 23.3%, respectively. Table 1 shows 2025 S&P 500 returns by sector.

Table 1: 2025 Sector Total Returns with Top Holdings

Communication Services (Meta, Alphabet, Netflix)	32.41%
Information Technology (NVIDIA, Apple, Microsoft)	23.31%
Industrials (GE, Caterpillar, RTX, GE Verona, Boeing)	17.70%
S&P 500 (NVDIA, Apple, Microsoft, Alphabet, Amazon)	16.39%
Financials (Berkshire Hath., JPMorgan, Visa, Mastercard)	13.32%
Utilities (NextEra, Constellation Energy, Sothern Co.)	12.69%
Health Care (Eli Lilly, J&J, AbbVie, UnitedHealth Group)	12.53%
Materials (Linde PLC, Newmont, CRH PLC)	8.43%
Consumer Discretionary (Amazon, Tesla, Home Depot)	5.31%
Energy (Exxon Mobil, Chevron, ConocoPhillips)	4.96%
Consumer Staples (Walmart, Costco, Procter & Gamble)	1.32%
Real Estate (Welltower, Prologis, American Tower)	-0.35%
Average	*12.34%*

Source: Bloomberg

For the year, investment in tech equipment and software reached 4.5% of GDP, surpassing its prior peak in 2000 (Chart 4). The five hyperscalers – Amazon, Google, Meta, Microsoft, and Oracle – have plans to add about $2 trillion of AI related assets to their balance sheets by 2030. The number is at least $3 trillion according to a Moody's report covered by Bloomberg on January 12. Given that AI assets typically depreciate at a rate of around 20% per year, this implies that the hyperscalers are facing an annual depreciation expense of $400 billion – more than their combined profits in 2025.

These capital expenditure (capex) plans do not capture the full extent of the AI buildout. OpenAI alone intends to spend $1.4 trillion on data centers, alongside the billions that Anthropic and xAI plan to spend, and the additional billions in AI related assets targeted by the emerging "neocloud" companies such as CoreWeave, Nebius, IREN, Lambda, and Crusoe. Technology related companies have justified this spending on the grounds that AI will significantly boost their sales and profits.

Chart 4: US Investment in Information Processing Equipment & Software as a Percent of GDP

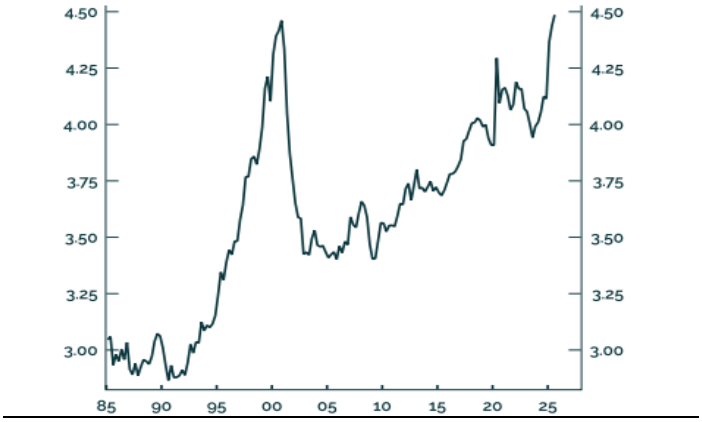


Chart source: BCA Research using data from the BEA

As we enter 2026, that assumption has started to look a bit shaky. For example, Yann LeCun left his role as Meta's chief AI scientist, arguing that the capabilities of LLMs were limited. In his estimation, large language models (LLMs) were great at regurgitating old knowledge but not great at coming up with new knowledge.

Many AI related companies are also justifying their capex intentions on the grounds that massive capital investments are necessary to secure first mover advantage in the industry. However, first mover advantage is generally only important in the presence of network effects, significant economies of scale, or legal protections. None of these apply to AI in a meaningful way.

Unlike social media, people do not interact with other users of AI. We interact with the AI itself, implying few network effects. Likewise, unlike a piece of software that can be developed and sold to customers with either an upfront cost or on a subscription basis, expanding the user base of an AI system requires costly investments in data centers and a large ongoing energy expense. This limits the economies of scale of AI. Plus, many AI systems are either open source or at least are not that difficult to replicate because they use the same underlying neural-net technologies.

In some respects, the AI industry could end up looking like the airline industry – a commoditized, capital-intensive industry where first-mover advantage is not particularly important.

According to legendary investor Howard Marks, Founder of Oaktree Capital Management, "There's a consistent

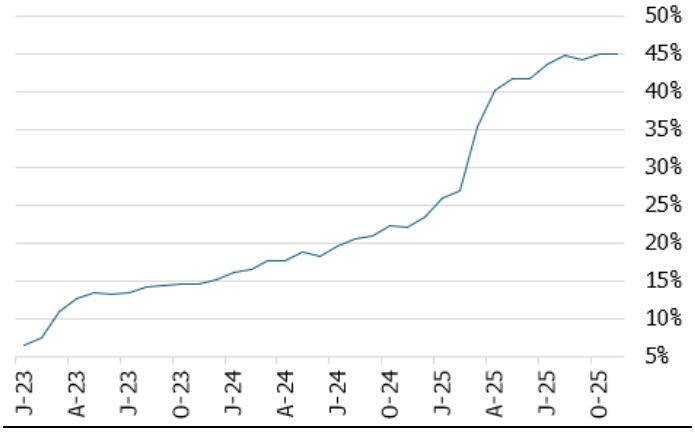
history of transformational technologies generating excessive enthusiasm and investment, resulting in more infrastructure than is needed and asset prices that prove to have been too high... Bubbles created in this process usually end in losses for those who fuel them."

From my perspective, the biggest risk to the stock market in 2026 is that the AI story sours. It is by far the most significant factor that has powered US risk assets and the economy higher over the last year.

According to Harvard economist Jason Furman, US GDP growth in the first half of 2025 was almost entirely driven by investment in data centers and information processing technology. AI related capital expenditures – specifically in software, data centers, and computing equipment – accounted for an estimated 92% of real US GDP growth. Excluding these technology related categories, Furman calculated GDP growth would have been just 0.1% on an annualized basis.

At this point, it is a struggle to find evidence of a sustained AI productivity boom, but I am open to one emerging. For now, corporate AI adoption rates are lagging what C-suite executives predicted they would be and have leveled off a bit – over the last nine months at least (Chart 5). This is consistent with a recent study by Brookings Institutional finding that only around 8% of respondents believed that access to AI models had significantly improved their productivity (Chart 6).

Chart 5: Ramp AI Index - Overall Adoption Index



Source: https://ramp.com/data/ai-index

In the end, if AI does not boost productivity the way the Internet revolution of the 1990s did, then the investments in infrastructure could become stranded assets.

As I wrote in last quarter's *Outlook,* it still seems that the most profitable path for an AI future is probably AI enabled devices (robots, phones, cars, etc.) and applications (accounting, legal, strategy, etc.) and that ultimately, AI may be less of a "tech play" and more of an industrials, consumer discretionary, health care and financials play.

Chart 6: % of Respondents Reporting AI's Impact on Their Productivity by Age

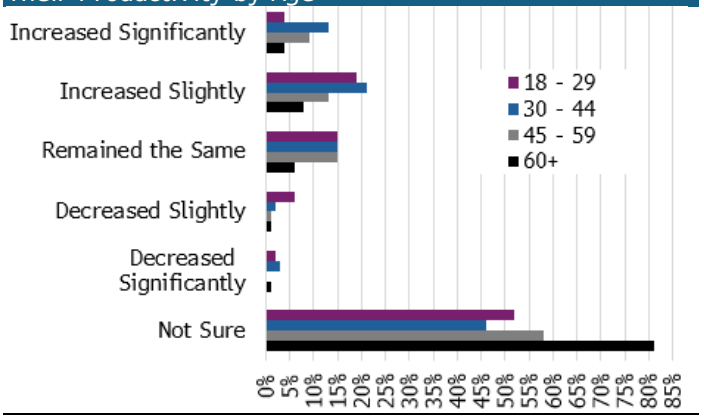


Chart Source: Access Financial Services using data from Brookings Inst.

Looking toward the year ahead, the famous quote that "it is difficult to make predictions, especially about the future" rings as true today as ever. Even so, here is what I am thinking...

If investors decide to punish the hyperscalers and other AI related technology companies for the vast sums being spent on AI capex and question whether their lofty expectations for future returns on invested capital are realistic, the impact on market capitalization based measures of the US stock market could be significant and lead to real weakness in consumer spending. The follow-on effects would include weaking corporate profits, higher unemployment and negative economic growth.

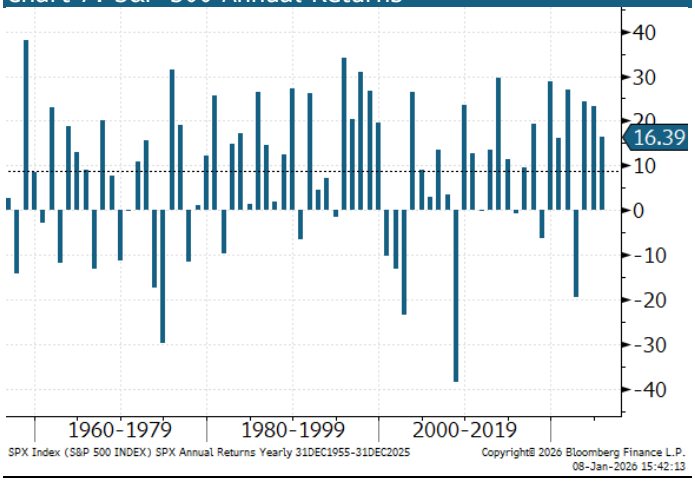
Despite no growth in real personal disposable income, real consumption rose by 3.5% in the third quarter of 2025. At the same time, the US savings rate declined to 4.2% from 5.0% in the second quarter and is now 3.1 percentage points lower than it was in 2019. The wealth effect from a rising stock market likely helped propel this increase in consumer spending along with a rising trend in revolving debt. With pandemic related fiscal stimulus having dried up, the lower 70% of income earners have spent through their savings.

Most studies suggest that consumption rises by 3 to 5 cents for every additional dollar in equity wealth. At the end of 2025, US households held $65 trillion in stock market wealth. This means that every 10% drop in the stock market would reduce household wealth by $6.5 trillion, leading to a reduction of around $250 billion (or 0.8% of GDP) in lost consumption demand.

A large drop in risk assets is not the outcome I expect, but four above average return years in a row is uncommon (Chart 7) and with US stock market valuations near record highs (Chart 8), there could be real pressure to the downside – particularly for the stocks that have increased in market value the most –

especially if longer term interest rates do not move down from here. This could easily come to pass even though the Federal Reserve Open Market Committee (Fed) is likely to continue lowering short term interest rates this year (inflation could remain sticky, foreign demand for US Treasuries could weaken further and/or a reduction or elimination of tariff revenue causes the deficit to increase faster than the bond market expects).

Chart 7: S&P 500 Annual Returns



Dotted black line is the average annual return since 1956
Chart source: Access Financial Services using Bloomberg Software & Data

Chart 8: Broad Based US Stock Market Valuation

Source: Bloomberg

Most investors underestimate the impact that longer term interest rates have on risk assets. The stock market recovery following the "Liberation Day" sell off during the first quarter of 2025 has been accompanied by the interest rate (yield) on the ten year US Treasury declining from around 4.5% to 4.0%. With the ten year yield having backed up to around 4.15%, the rally in US stocks has slowed (Chart 9). It has also become a headwind to the relative performance of the high momentum stocks that have powered the S&P 500 higher. Chart 10 highlights that the performance of momentum stocks relative to the overall market has tended to lead the direction of the S&P 500 by around three months over the last few years.

Chart 9: Low Bond Yields Support Stocks

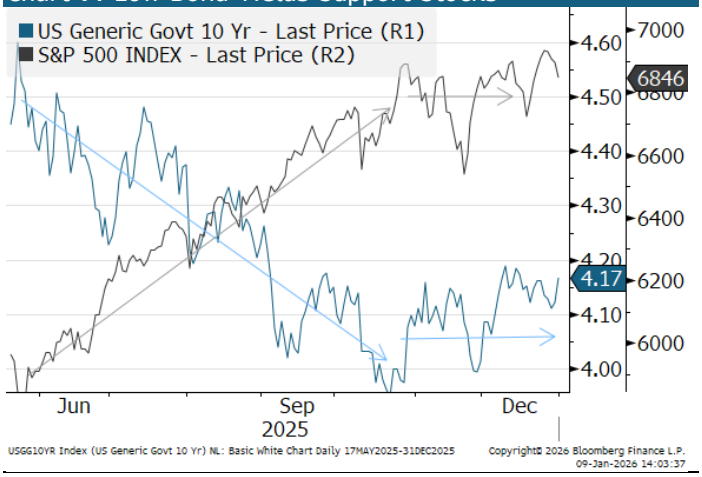


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 10: Momentum Stock Relative Performance Has Led the S&P 500 by Three Months

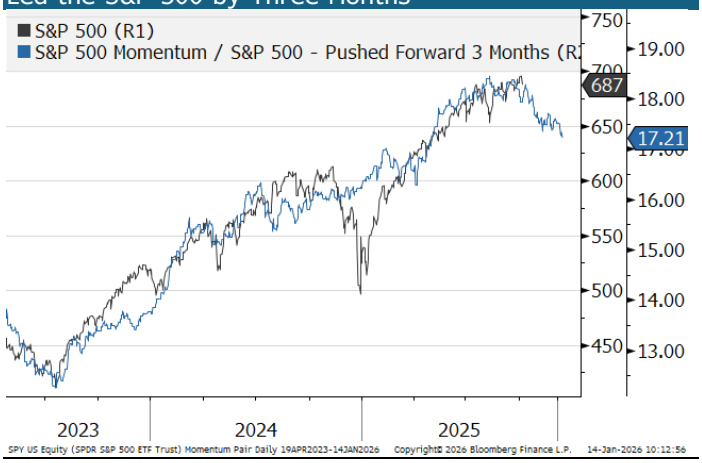


Chart source: Access Financial Services using Bloomberg Software & Data

The fundamental logic behind the negative bond yield-stock market correlation is that the US economy needs lower borrowing rates if it is to avoid a significant slowdown. 68% of US GDP is consumption. While AI capex is a strong tailwind for now, it cannot drive US growth forever. With the cash fueled economy now depleted, US growth probably needs to start transitioning to a leverage fueled one. That will not happen with yields stuck above 4%.

We have been underweight the high momentum, high beta, and high valuation cohort of the US stock market. This was a headwind to our clients' US stock performance relative to the S&P 500 for the first ten months of 2025 and a tailwind in November and December as higher quality companies (high return on equity, consistent earnings growth, low leverage, etc.) and stocks of companies with lower market capitalizations outperformed during that period (Chart 11).

A broadening stock market becoming more constructive toward higher quality companies is a good sign for the stock market sustaining its gains. It is the first step

towards a market that is less dependent on the fortunes of a very small group of stocks that are all essentially technology related names (Table 2).

Chart 11: Higher Quality Outperformed in Nov. & Dec.

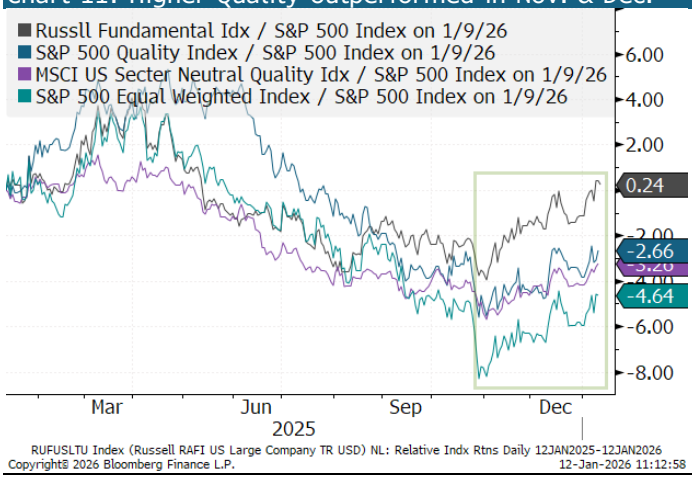


Chart source: Access Financial Services using Bloomberg Software & Data

Table 2: S&P 500 Top 8 Stocks

Company	Index Weight
NVIDIA Corp	7.5%
Apple Inc	6.4%
Microsoft Corp	6.0%
Alphabet Inc (Google)	5.8%
Amazon.com Inc	4.0%
Broadcom Inc	2.7%
Meta Platforms Inc (Facebook)	2.4%
Tesla Inc	2.1%
	37.0%

Source: Access Financial Services using data from Bloomberg

In addition to longer term interest rates moving lower and a broadening in market leadership, there are three major themes I am watching that would increase my confidence in the sustainability of the gains we have had in risk assets. They are a US housing recovery, strengthening global growth and AI capex staying strong.

US policymakers understand that large doses of fiscal stimulus are a thing of the past (this is not the case in other countries). They have become increasingly constrained by the bond market and uncooperative legislators in Congress. Voters, too, have reembraced deficit reduction as a top priority (Chart 12). The favored approach to stimulating the economy will be trying to get consumers to spend more.

It has been said that housing *is* the business cycle and the Trump administration has been signaling that the White House may declare a "housing emergency" in 2026. No one knows exactly what this means, but it is probable that almost anything is on the table. From widening the eligibility of assumable/portable mortgages to using macroprudential tools to suppress borrowing rates.

Chart 12: Pew Research – Share (%) of Respondents Who Say Deficit Reduction Should be Top Priority

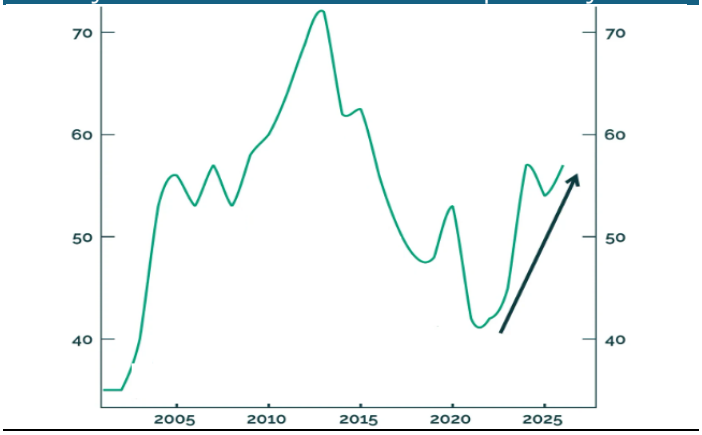


Chart source: BCA Research using data from the Pew Research Center

Already, Trump has floated a ban on institutional buyers purchasing single family homes, directed Fannie Mae and Freddie Mac to purchase $200 billion of mortgage bonds and is putting massive pressure on the Fed to lower interest rates that would drive down mortgage interest rates – especially on adjustable rate mortgages.

The question that we do not have an answer for, however, is how low do borrowing rates have to go to help the US consumer? For car loans and credit cards, apparently a lot lower, with delinquency rates high for both (Chart 13). For housing, at least a full 1% lower, according to latest survey data (Chart 14). What is concerning in Chart 14 is that survey respondents lost appetite for 5.5-6% mortgage rates over the second half of the year, especially as the savings rate plunged amid a sluggish labor market.

Chart 13: Consumers Need Lower Borrowing Rates

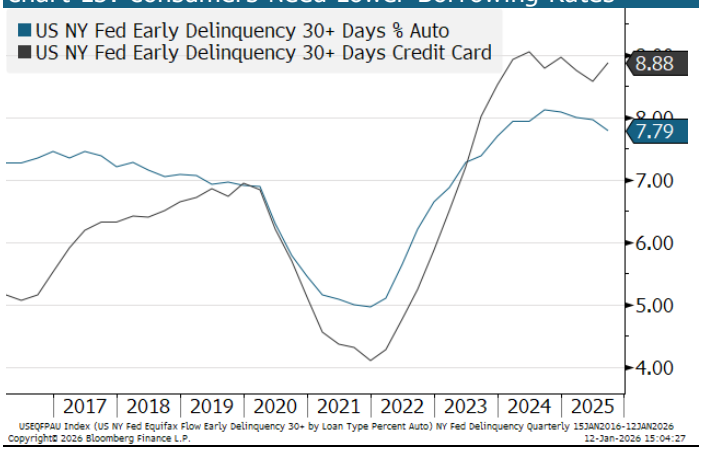


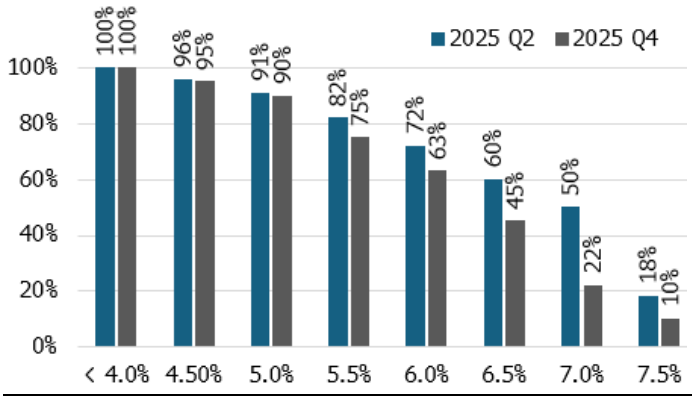
Chart source: Access Financial Services using Bloomberg Software & Data

To gauge the success of President Trump's policy on housing revival, we will be tracking:

> The spread between 30 year mortgage rates and the 10 year yield – a ratio that has been improving since the huge widening in March, 2023 (Chart 15)

- Mortgage applications – both purchase and refinance
- Housing starts and homebuilder stocks
- Home improvement and appliance stocks (Chart 16)

Chart 14: Highest Mortgage Rate Real Estate Investors Say They Would Accept on Their Next Purchase



Source: Access Financial Services using data from ResiClub

Chart 15: Difference between 30 Year Mortgage Rates & 10 Year Treasury Yield

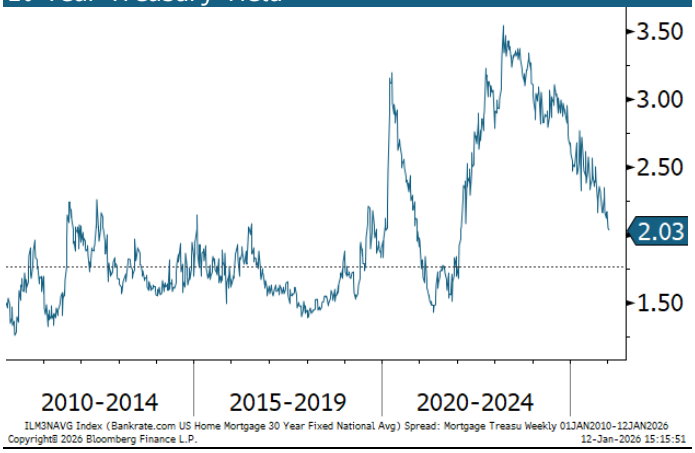


Chart source: Access Financial Services using Bloomberg Software & Data

Chart 16: Housing Related Market Action

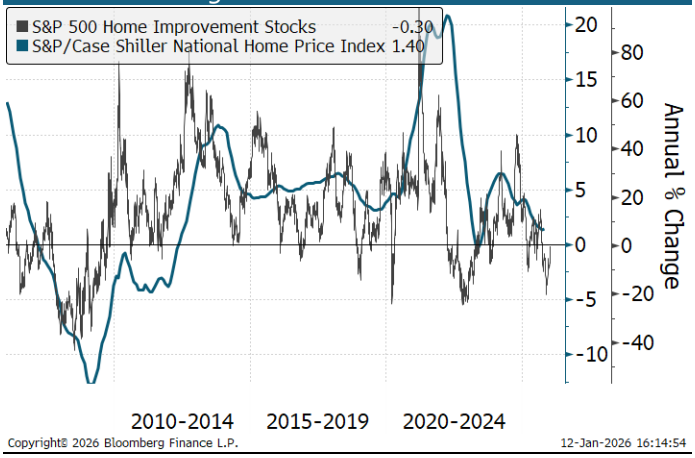


Chart source: Access Financial Services using Bloomberg Software & Data

These benchmarks offer a fairly grim reading at the moment. There just is not any evidence that the Trump administration has managed to unlock housing and the desire for consumers to tap the historically high levels of home equity in any way. They will either manage to do so over the next six months via reforms and unorthodox policy, or the economy may need to experience a recession before borrowing rates are allowed to fall meaningfully.

While the AI capex buildout may ultimately be a house of cards, we are not in the late stages yet. That said, the AI news flow is not looking great recently. One of the latest developments – Google's Gemini 3 release in mid-November – has already lost momentum with many users complaining that the hallucinations of the model remain a significant problem.

It is possible that we experience more positive developments in the AI story. Some of the data points we'll be following are:

- Measures of corporate AI adoption - The US Census Bureau survey of corporate America on AI adoption shows a gap between aspiration and reality. If that gap does not close in 2026, on the side of aspiration, the AI capex story could begin to fade as a source of positive market inertia (Chart 17).

Chart 17: Adoption Rate (%) of AI – Businesses with 250+ Employees

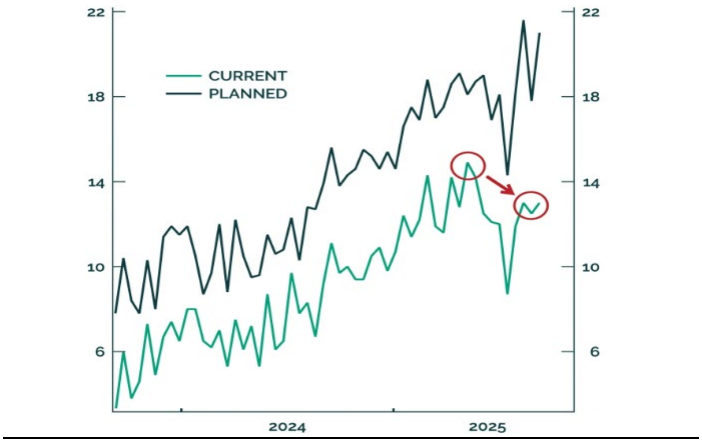


Chart source: BCA Research using data from US Census Bureau

- Corporate profit margins remain high and stable. So far, there is no evidence that AI has boosted those margins. The promise of AI is that it would boost non-tech profit margins as the new technology is adopted en masse. Currently, ex-tech return on equity is actually trending lower. Specifically, it will be important to see small- and medium-sized companies that dominate the bulk of employment in most developed economies adopt AI.

Finally, I am watching global growth and global ex-US stimulus.

For years the US led global economic growth on the back of fiscal largesse. It is now time for the rest of the world to step up with domestic stimulus of its own.

Unfortunately, according to the IMF Fiscal Monitor, most major economies are not yet planning to offset the decline in US fiscal thrust over the next 12 months. Germany is doing its part, but few other countries have joined it in an act of coordinated fiscal stimulus.

China in particular is puzzling. It is highly dependent on investment and exports, with the latter driving growth thus far. This is an unsustainable geopolitical position for Beijing. Too much of its final demand comes from its adversaries. The Country's position for quite some time is that driving domestic consumption higher is a priority, yet Beijing has committed very little support for its economy on the home front.

With Chinese manufacturing capex growth declining from 26% in 2009 to its most recently published figure of less then 3%, it seems likely that government consumption and state investment will succumb to the pressure on their economy over the course of 2026 as labor market measures, consumption propensity, retail investor sentiment, and housing sector are all very low. Fresh stimulus combined with Trump's apparent desire to nail down a détente with Beijing ahead of the midterms could see Chinese assets post another strong year (Chart 18).

Chart 18: MSCI China Index

Chart source: Access Financial Services using Bloomberg Software & Data

The US AI capex boom cannot last forever. However, we are evolving from a unipolar geopolitical environment where the US has enjoyed the preponderance of global power and influence to a multipolar geopolitical environment in which spheres of influence drive political and economic decisions. This new geopolitical environment means countries will pursue strategies that reduce their dependence on nations outside their spheres of influence, engage in strategies to expand their spheres of influence, and develop their ability to be self-sufficient.

All of this should benefit industrial capex as the effort requires physical structures. Whether that is alternative transportation routes, new energy sources, or industrial plants to create resiliency of supply. The effort also includes more defense spending, which further aids industrial sectors. At the core of the endeavor is an increasing demand for commodities.

This view has been borne out in the performance of industrial metals. Despite an absolute carnage in Chinese real estate demand, metals have held up (Chart 19). This has no doubt been aided by the AI capex boom as well.

Chart 19: Chinese RE Investment & Industrial Metals

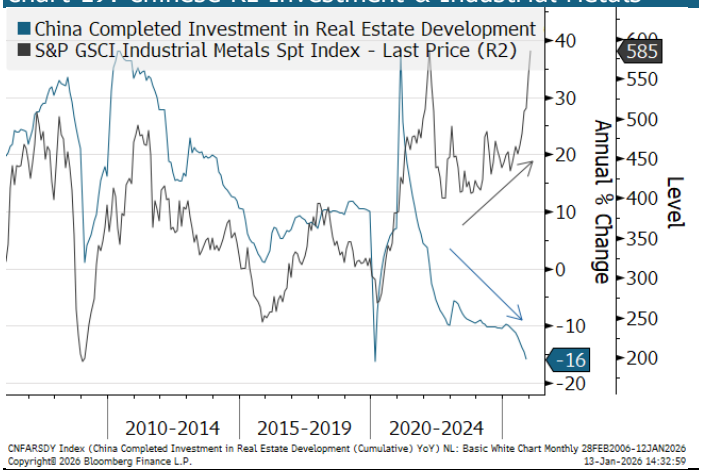


Chart source: Access Financial Services using Bloomberg Software & Data

President Trump's intervention in Venezuela and repeated talk of annexing Greenland break all norms against the hoarding of natural resources that may have existed since the end of the Cold War. The premise that all the world's commodities are freely traded on the open market – and thus need not be hoarded – has been upended. This is a major departure from the norm. One that I suspect will lead global powers – and investors – to begin hoarding physical commodities. This type of non-economic demand has had a major influence on precious metals. It looks increasingly likely that 2026 will see a continued rise in demand for industrial metals too.

On Venezuela and energy prices, I disagree with the notion that oil prices should fall given the opening up of new supply. The 2025 story of lower oil prices has a lot more to do with increased OPEC+ supply. It is likely that OPEC+ policy will have to be reversed due to Riyadh's policy priorities and deteriorating fiscal picture. At the same time, Venezuela is very unlikely to bring online any new oil barrels in 2026, or in the foreseeable future for that matter. The Country's energy infrastructure is in disrepair and cost of increasing production in Venezuela is just way too high relative to the price of crude. This should put a floor under oil prices at their current levels (Chart 20) with the possibility of a sharp increase in prices if the situation in the Middle East escalates to the point where the Strait of Hormuz is impacted.

Chart 20: Oil Price Chart

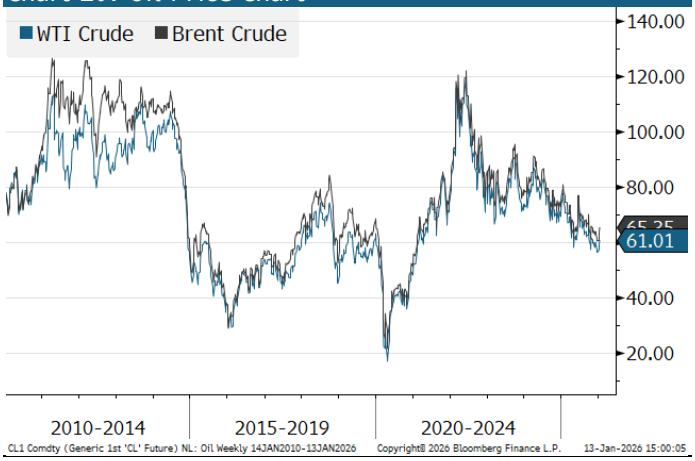


Chart source: Access Financial Services using Bloomberg Software & Data

While the factors driving commodity prices differ by commodity, metal input costs are increasing due to supply constraints, trade frictions and strong investment demand. Industrial metals sit early in the cost chain with higher copper, aluminum and tin prices feeding into manufacturing, construction and infrastructure. These price pressures tend to surface first in producer prices rather than in consumer inflation. Even though inflation expectations (as measured by the one year inflation swap market) have yet to mirror the surge in commodities, Chart 21 below shows us that they rarely diverge for long.

Chart 21: Commodity Prices & US Inflations Expectations

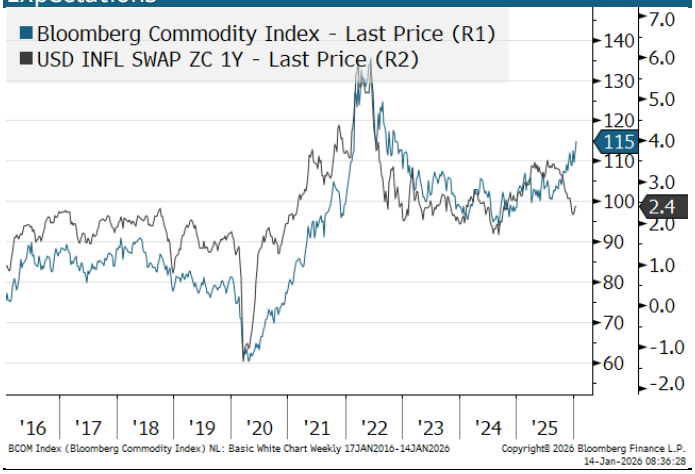


Chart source: Access Financial Services using Bloomberg Software & Data

Bringing it all together, US economic forecasts imply that a pro-cyclical Fed (i.e. easing monetary policy during periods of solid economic growth and above-target inflation) under increasing government pressure will manage to deter a recession without generating inflation.

Markets can only have their cake and eat it too for so long. Either a greater chance of recession needs to be priced in via lower yields and stock prices, or higher inflation should be reflected in higher bond yields, and likely stocks too. Either way, the stage is set for an increase in volatility.

For now, the narrative is that AI will lead to a productivity-driven increase in economic growth this year without also sinking employment. But the anticipated combination of rising real GDP, slowing inflation and improving payrolls has only ever occurred during or after economic slumps. Recession indicators, however, show a very low chance of one, at least through the first half of the year.

This contradiction is resolved based on the notion that the Fed will behave in a way it hasn't for decades, by loosening policy regardless of economic re-acceleration risk, all without generating inflation. Believing in two mutually exclusive things is fine if you are in Wonderland, but in the real world the inconsistency is likely to result in some havoc with asset prices.

The previous occasions when nominal GDP and annual payrolls growth have been what they are expected to be this year have been either during or just after recessions. In other words, at the beginning of cycles, not in the middle of them. What payrolls alone are expected to do is unmatched. Its growth has never been as low as it is expected to reach in 2026 and then reversed course. It has always subsequently fallen further and into contraction territory.

The market anticipates short term interest rates being cut below most estimates of neutral. The recent legal action taken against the Fed is a reminder that the White House means business in its assault on the institution, leaving even lower rates than currently priced as a plausible outcome. That, along with the rise in industrial and precious metals prices, is a recipe for inflation and higher interest rates – the opposite of what we need for a recovery in housing market activity and for consumers to tap their massive home equity to support domestic demand.

We may also see more dissension within the Fed as a result of the administration's interference in monetary policy. Even if the Committee steamrolls short term interest rates lower, we could see more individual members willing to publicly voice their objection. Historically that has meant increased volatility in interest rates.

It looks increasingly unlikely that stocks and bonds can go on pricing an outcome that is not too hot to reinvigorate inflation, and not too cold to mean a collapse in job growth and a recession, but just the right temperature forever.

A shake-out in risk assets seems likely this year after three consecutive years of strong returns. That is not necessarily to say I expect global stocks to be lower at the end of 2026, but given the environment we are in, it would not surprise me a bit.

It seems likely that volatility will increase as investors grapple with the fallout from the rapidly evolving geopolitical environment (political pressure on the Fed, the implications of the "Donroe Doctrine" in a multipolar world, the pressure Trump is applying to specific companies and sectors, etc.) and the impact of a possible setback in the prices of the assets that have had outsized moves to the upside (AI related technology stocks and precious metals in particular).

It is also possible that investors continue ignoring all of this and keep plowing money into the financial assets that have been so rewarding even though in many cases the parabolic advances in assets like precious metals (Chart 22) and some of the AI related companies cannot be sustained forever.

Chart 22: Precious Metals

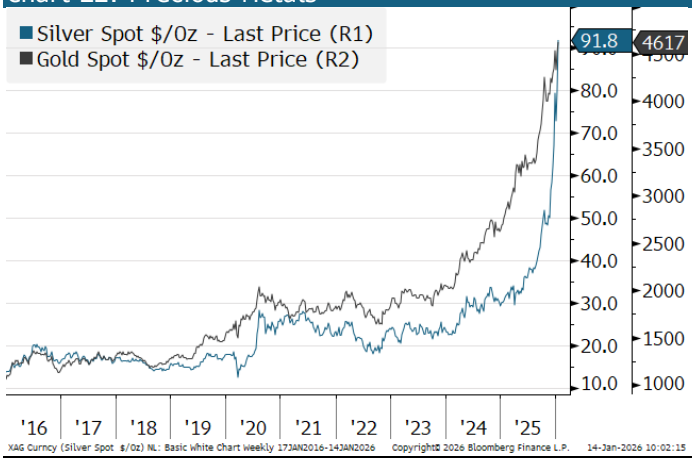


Chart source: Access Financial Services using Bloomberg Software & Data

Coming into 2026, our clients' US stock portfolios are positioned for market breadth to continue expanding (underweight the top eight stocks that make up 37% of the S&P 500) and increased volatility (exchange traded funds structured to protect against a decline in the S&P 500). We are also maintaining our energy sector holdings as we expect oil prices to increase – especially if tensions in the Middle East intensify to the point where oil supply is impacted in a meaningful way, are overweight industrials including aerospace and defense, and expect to buy housing related stocks if we see the catalysts spelled out earlier indicate that the housing market is set to strengthen.

We have been increasing our clients' allocation to foreign stocks – both developed foreign and emerging markets and expect to continue down this path. The rationale is based on:

> Much more attractive valuations
> Continued dollar weakness
> Lower weightings in the technology sector
> Fiscal stimulus
> Greater economic integration in Europe
> A capex cycle the rotates from the US toward other markets
> A high weighting in industrial companies that will benefit lower natural gas prices (Chart 23)

Chart 23: Natural Gas

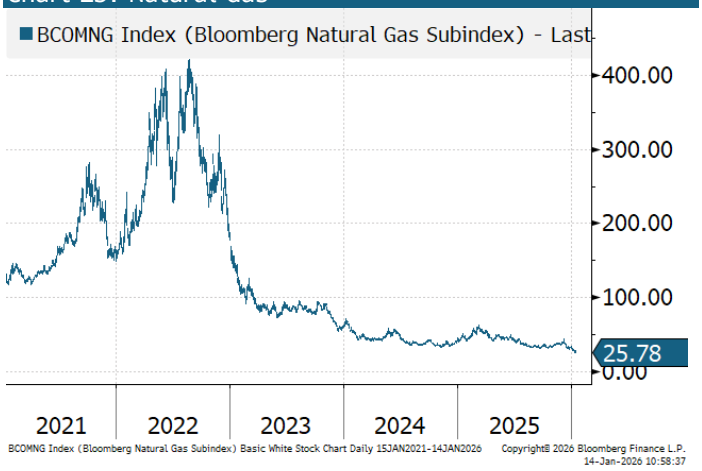
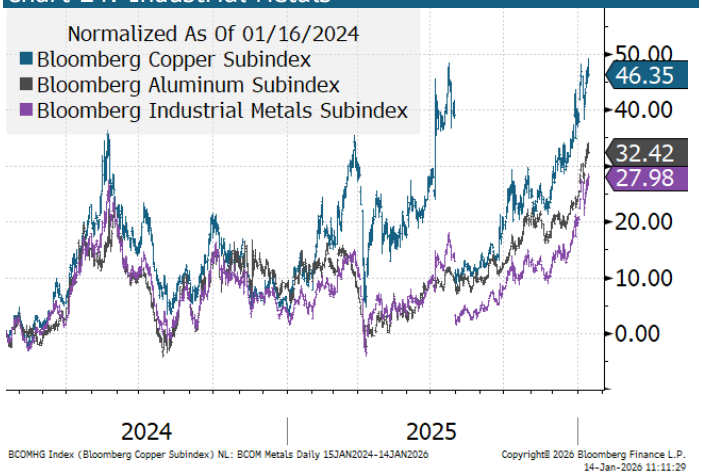


Chart source: Access Financial Services using Bloomberg Software & Data

Our clients' bond allocations are overweight shorter term bonds relative to the US bond benchmark (Bloomberg US Aggregate Bond index). We also (in most cases) have exposure to fixed income sectors with yields in the 6% to 10% range.

We are leaning toward adding industrial metals exposure, but are reluctant at this point given the massive ramp over the last five months (Chart 24).

Chart 24: Industrial Metals



As always, we thank you for the confidence you have placed in us. Please do not hesitate to contact me if you would like to discuss any of this in more detail.

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