QUARTERLY
INVESTMENT REPORT

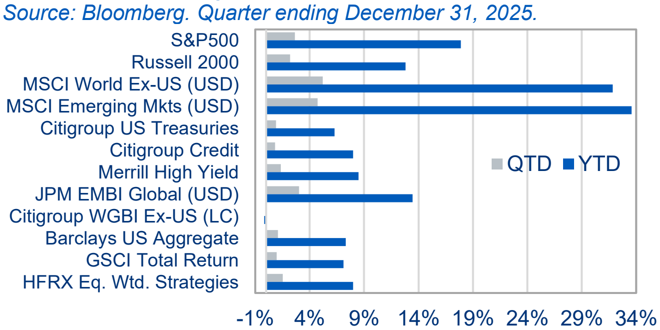
Q4 2025

Strategic Investment Group®

Global Market Review

Global equity markets rose in the fourth quarter to cap another year of double-digit gains, the third in succession. The potential of AI remained the focus of speculation and a main market driver. In addition, strong corporate earnings, resilient economic growth, easing monetary policy, and the prospect of considerable fiscal stimulus ahead also contributed to the U.S. equity market's solid performance, despite the uncertainty created by sharp swings in trade and other macro policies. U.S. Treasury prices rose in the fourth quarter. Yields across the maturity spectrum closed 2025 below their levels at the start of the year. Investment grade and high yield credit markets also rose in the quarter. Credit spreads remain quite compressed. The U.S. dollar rose slightly in the quarter but closed the year down nearly 10%. Gold prices, in contrast, soared, rising 12% in the quarter and 64% for the year. Plagued by oversupply, oil prices closed the year down nearly 20%.

Exhibit 1
Performance of Major Market Indices
Source: Bloomberg. Quarter ending December 31, 2025.

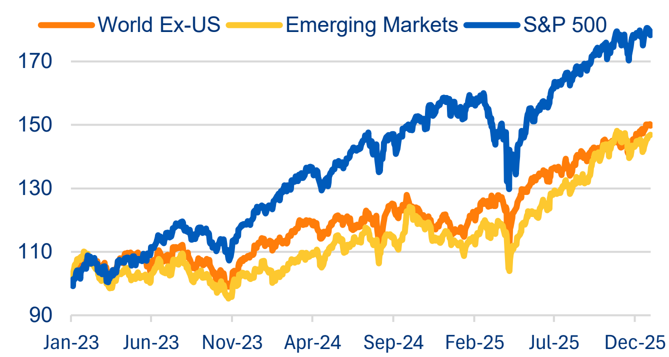


Global equities generate double-digit returns in 2025.

U.S. Equities Extend Gains

The S&P 500 rose 2.7% in the fourth quarter to close the year up 17.9%, notwithstanding high levels of uncertainty surrounding the scope and impact of tariffs and other major policy shifts. Over the past three years, the S&P 500 has generated an average annual return of 23%. Non-U.S. advanced and emerging equity markets have also experienced stellar returns over this period (Exhibit 2).

Exhibit 2
Global Equities Extend Streak of Double-Digit Returns
Source: Bloomberg. Index January 1, 2023 = 100.



Intense speculation surrounding the transformative impact of AI on productivity and the surging earnings growth of AI firms were the dominant market drivers. The gains of the communications services (+32.1%) and IT (+23.4%) sectors led all other sectors. U.S. equities also benefited from the resilience of the U.S. economy, which was itself buoyed by massive AI-related capital expenditures that accounted for the bulk of U.S. economic growth last year, by some measures. The Fed's continued easing of monetary policy provided further support to the market and the economy as did significant fiscal stimulus and the prospect of further stimulus to come in 2026.

Challenges to Positive Market Momentum

The market has so far benefited from powerful positive momentum driven largely by the pervasive AI narrative and the prospect of further monetary and fiscal support. Momentum has remained positive despite a number of mounting risks. After three years of double-digit gains, U.S. equity valuations are near record levels, despite rapid earnings growth. The S&P

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500 cyclically adjusted P/E ratio is at the second highest level in over 150 years, topped only by the valuations of the 2001 tech bubble. Market concentration is at all-time highs, increasing the risk that any disappointment of the lofty expectations for AI could have far-reaching repercussions.

Macro policies pose a further risk to the market. The Fed appears committed to reducing rates further despite an economy operating near full employment and the easy financial conditions created by buoyant equity and credit markets. Moreover, the independence of the Fed is under attack. Fed Chair Powell's successor is likely to be more politically pliable. Fiscal policy is a further worry. Federal debt dynamics are on an unsustainable path. The current fiscal deficit of 6% of GDP is way too high given the strength of the economy and is set to increase, accelerating the pace of debt accumulation. An overly stimulated economy and the lagged price impact of tariffs could trigger an unexpected spurt of inflation at a time when the Fed's credibility is in doubt.

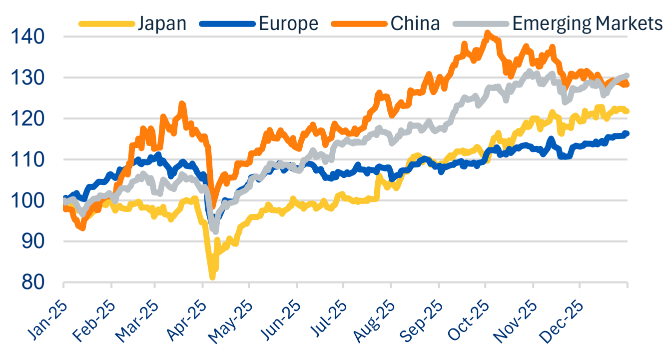
Non-U.S. Equity Markets Outperform U.S.

The MSCI World ex-US index of advanced non-U.S. equities rose 5.2% in the fourth quarter to bring its gain for the year to 31.8% (Exhibit 2). Japanese stocks closed the year at a record high buoyed by technology stocks as Japanese markets shared in the AI boom. European equities rose 6.2% in the fourth quarter and 35.4% in 2025 (Exhibit 3). Expectations for continued monetary and fiscal stimulus as well relatively attractive valuations and solid earnings growth contributed to the market's gains.

Exhibit 3

Non-U.S. Markets Post Strong Gains

Source: Bloomberg. Index January 1, 2025 = 100.



Emerging equity markets rose 4.7% in the fourth quarter, bringing their gain for the year to 33.6% (Exhibit 3). Korean equities surged 92% higher in 2025 on the back of huge AI-related gains. Despite declining 7.4% in the fourth quarter, Chinese equities closed the year up 31.2%. Shrugging off the high tariffs imposed by the U.S., the Chinese trade surplus reached an all-time high in 2025 of $1.2 trillion, equivalent to more than 6% of Chinese GDP. Faced with insufficient domestic demand, tremendous excess productive capacity, and the lingering effects of a property bubble, the Chinese economy remains in the grip of deflationary forces. Chinese policy makers nevertheless remain reluctant to reorient policies toward boosting domestic consumption. They have doubled down instead on an export-oriented growth policy, despite increasing resistance from trading partners.

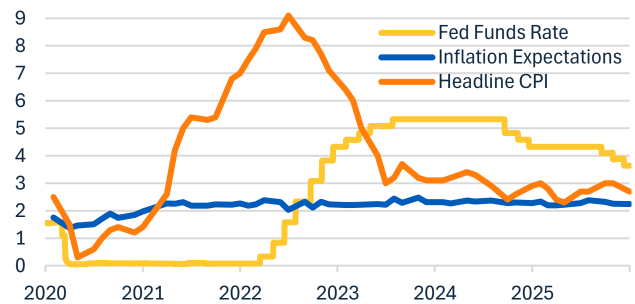
U.S. Treasury Market Sanguine on Inflation

U.S. inflation has moderated, inflation expectations are well anchored and the slope of the yield curve, though once again positive, is not very steep. The Treasury market remains sanguine about the risk of inflation, despite rising debt levels and the risk of overheating (Exhibit 4). Gold in contrast, which rose 64% in 2025, appears singularly less sanguine about the prospects for inflation and the U.S. dollar. Nevertheless, the Fed appears set to continue to reduce rates.

Exhibit 4

Moderating Inflation; Stable Inflation Expectations

Source: Bloomberg. In percent. Inflation expectations based on 5-year inflation expectations in 5 years' time.



Environment Ripe for Hedge Fund Success

The HFRX equal-weighted hedge fund index rose 1.5% in the fourth quarter. It is up 8% so far this year. The market environment characterized by wide valuation dispersion remains favorable for skilled hedge fund managers.

Income Drives Real Estate Returns

Real estate, as measured by the NCREIF Open-End Diversified Core Equity Index (reported with a delay), rose 4% in the 12 months through September 2025, reflecting income growth that more than offset a slight decline in prices. The office sector remained the worst performer over the one-year period, while retail and apartments led other property types. Real estate cap rates remain low and are below real 10-year Treasury yields.

AI Fuels Rebound in Venture Valuations

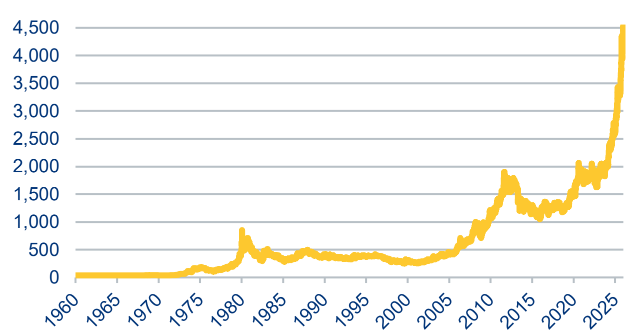
The Thomson Reuters/Cambridge Index (reported with a delay) was up 8.7% for the year ending June 2025. Venture capital (+11.4%) and growth equity (+10.2%) strategies outperformed buyout (+8.2%) over this one-year period. Rapidly growing AI firms have recently fueled a substantial increase in venture capital investments and valuations. Over longer periods, however, buyout and growth equity strategies have outperformed venture. Although exit activity picked up in the second half of 2025, it continues to significantly lag previous peaks.

Outlook & Strategy

Norms Shatter, Gold Soars

The price of gold increased by 64% in 2025 and has risen further to record highs in the opening weeks of this year (Exhibit 1). While the magnitude of the recent spike in gold prices has doubtless been amplified by the shallowness of the gold market and momentum generated by FOMO, the key factor for the historic price spike is the uncertainty generated by the shattering of longstanding norms governing monetary arrangements, international trade, and the geopolitical order. Core tenets that have guided post-war economic policy and the assumptions of economic agents around the world are in flux. Free trade, central bank independence, the role of the U.S. dollar as the anchor of the global financial system, and that of U.S. Treasury securities as the ultimate safe haven can no longer be taken for granted. The alliances and treaties underpinning post-war global security also appear under threat. As a result, the reliability of the U.S. as a trading partner, the steward of the world's reserve currency, the keystone of global financial markets, and indispensable NATO ally is being questioned. It is little wonder that faced with these circumstances many are seeking safety in gold.

Exhibit 1
Gold Prices Soar to Record Highs
Source: Bloomberg. U.S. dollars per ounce of gold.



While gold prices suggest that something fundamental is seriously awry, other assets paint a more benign prospect. The U.S. dollar, although depreciating by about 10% against major trading partners last year, remains near 40-year highs when adjusted for inflation. U.S. equity market moves also suggest no hint of concern. U.S. equity volatility remained well below crisis peaks last year, the U.S. equity market registered double digit returns for the third year in succession, and valuations are near record highs. Bond markets also appear sanguine. Credit spreads are quite tight, and the structure of U.S. Treasury yields conveys little concern about the risk of inflation or of financing pressures from continued high deficits, rapidly mounting debt, and growing debt service costs.

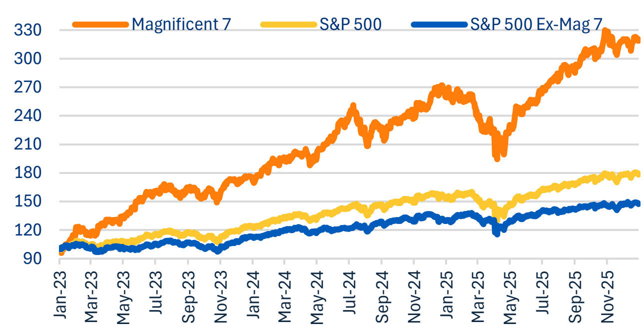
Inertia, Momentum, Stimulus, and AI

With so much in flux, why are asset prices rising and the economy growing? Inertial forces, momentum, policy stimulus, and the promise of AI help explain the apparent disconnect between buoyant markets and heightened uncertainty.

The inertial resistance to change arising from the dollar's massive presence across all aspects of the international monetary system is a powerful force. The dollar represents 58% of central bank currency reserves, 40% of global export invoicing, 88% of spot and FX derivatives turnover, 39% of outstanding global bonds, and 43% of total global equity market capitalization. While its preeminence is being eroded, the decline is likely to be gradual, if only because there is for the present no clear alternative. The U.S. dollar is likely to remain the indispensable currency for the foreseeable future.

U.S. equity markets are benefiting from the strong positive momentum of three years of double-digit price gains, continued economic resilience, easing monetary policy, and strong fiscal stimulus. In addition, the hope that advances in AI will bring about a technological revolution is boosting the earnings and stock prices of AI-related firms and spurring massive capital expenditure. AI-related firms have accounted for a large proportion of the U.S. equity market's price gains and earnings growth in recent years (Exhibit 2).

Exhibit 2
Tech Stocks Dominate Broader U.S. Equity Market Moves
Source: Bloomberg. Index. January 1, 2023 =100.

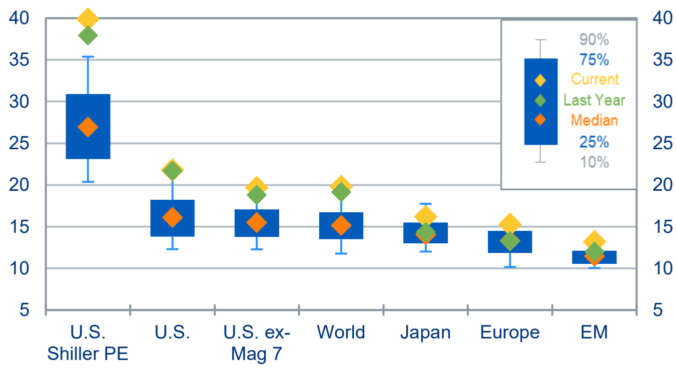


The costs of eroding longstanding norms will not be immediately felt. They are more likely to emerge insidiously in the form of opportunity costs and foregone benefits. Risk premiums across U.S. assets will likely be higher than they would have been if the role of the dollar as a safe haven had not been questioned. Similarly, the term premium on U.S. Treasuries will likely face upward pressure if federal debt dynamics continue to deteriorate and monetary policy is subordinated to budgetary exigencies (See this quarter's Special Topic). Marginally lower growth and higher inflation are likely to result from the efficiency loss of more restrictive global trade. While all of these potential costs will result in lower levels of prosperity over the long run, their impact is likely to be gradual. In light of this, the market's positive momentum will, at least for a while, overwhelm any concern over shattered norms.

Public Equity Pricing and Positioning

Our allocation to public equities targets a benchmark weight structured as an underweight allocation to U.S. equities given their extreme valuation and an offsetting overweight to more favorably valued non-U.S. equities (Exhibit 3). Our active U.S. equity manager structure comprises a combination of quantitative and fundamental strategies, risk-controlled extension and portable alpha strategies, and industry-focused specialty managers in the biotech sector. This structure increases the scope for adding value through security selection, diversifying the sources of portfolio return, and enhancing the resilience of the portfolio.

Exhibit 3
U.S. Equity Valuations Approach Historic Highs
Sources: FactSet and Strategic estimates. Data as of December 31, 2025.



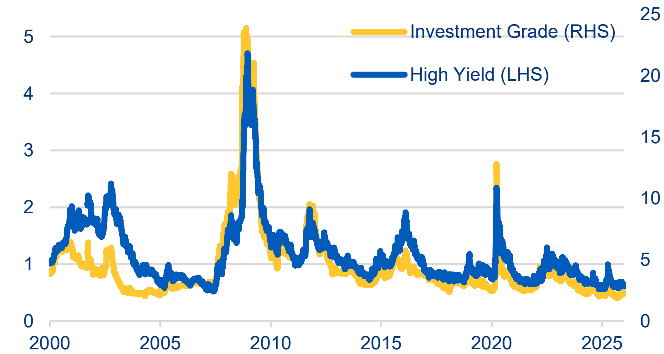
Although recent U.S. equity market moves have been dominated by mega-cap tech stocks, the equity rally has broadened recently as small cap and value stocks have also begun to perform well. This market broadening has helped the relative performance of our active equity managers. Active managers have also benefited from the stock selection opportunities created by large pricing anomalies across securities. Recent market conditions have favored nimble managers able to take advantage of bouts of volatility over managers focusing on buy and hold strategies.

Our non-U.S. equity portfolio also includes managers using a combination of quantitative and fundamental techniques. The portfolio comprises global strategies, managers specializing in developed, emerging, or frontier markets, as well as country-focused strategies. We have found that this combination helps us to be nimble and increases our ability to take advantage of opportunities as they arise.

Credit Opportunities Despite Tight Spreads

Although investment grade and high yield credit spreads are quite compressed, overall yields are at attractive levels and downgrades and defaults remain limited (Exhibit 4). We continue to see opportunities to add value through security selection in the credit markets. The heterogeneous and segmented credit markets offer opportunities to specialist managers with the requisite experience to discriminate among issuers in niche segments.

Exhibit 4
Spreads Remain Tight Across Credit Spectrum
Source: Bloomberg. Yield spread over U.S. Treasuries in percentage points.



We complement the public fixed income portfolio with direct lending and opportunistic investments in less liquid credit strategies. These investments have higher expected returns than our public fixed-income investments and provide a degree of diversification to the portfolio, albeit at the cost of lower liquidity.

Portfolio Resilience Through Hedge Funds

We continue to target a neutral allocation to hedge funds, balancing return potential and diversification benefits against liquidity needs. We view hedge funds as a critical source of diversification and value added and design the hedge fund portfolio to contribute to overall portfolio resilience. To this end, we have structured our hedge fund portfolio to minimize its broad market exposure while including a wide array of largely uncorrelated sources of alpha. We allocate the hedge fund portfolio across a wide range of strategies and diversify the sources of risk across managers.

Improving Real Estate Prospects

The valuation and prospects of real estate investments have improved. Accordingly, we are implementing a phased increase in our real estate allocation from underweight to neutral. Our commitments have focused on both open-end and closed-end fund investments. We are focusing on favorably valued properties across sectors including warehouse, retail, hotel, and residential as well as across strategies including core, value add and opportunistic.

Attractive Opportunities in Private Equity

Investments in private firms continue to offer attractive opportunities for strong returns and added value. In seeking to exploit these opportunities, we focus on lower and middle market firms with solid earnings growth in the industrial, technology, and consumer sectors. Our portfolios include a combination of buyout and growth equity funds at their core combined with smaller positions in venture capital investments. We continue to make co-investments with select managers and are considering opportunities in the growing secondary market across private equity strategies.

Special Topic

Fiscal Dominance

The U.S. faces unsustainable debt dynamics characterized by mounting debt levels and rapidly increasing debt service costs. At the same time, the Fed's independence is under attack and there is speculation that the new Fed Chair might subordinate monetary policy to fiscal or political considerations. This quarter's special topic examines the risks of eroding central bank independence and illustrates how monetary policy operated during a previous period of fiscal dominance.

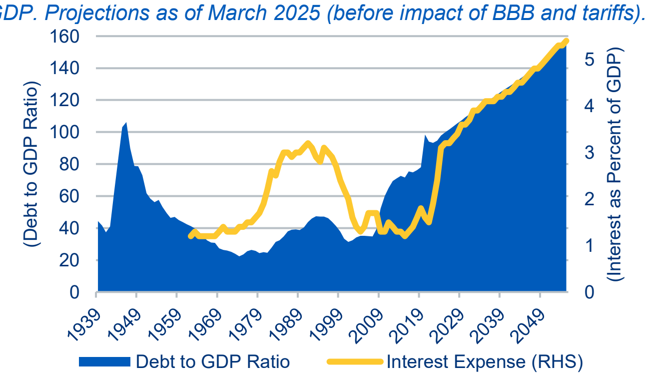
Fiscal Dominance During WWII

Government debt can become unsustainable as a result of large and persistent fiscal deficits and debt service costs that exceed the rate of nominal GDP growth. A policy of fiscal dominance can appear attractive when debt dynamics become unsustainable.

Under fiscal dominance, the central bank is compelled to reorient policy to containing debt service costs. We often hear that this is achieved by inflating away the debt, but that image is incomplete and potentially misleading. If the yield on U.S. Treasuries is not controlled, higher inflation will merely lead to rising yields and higher debt service costs as debt is rolled over. If allowed to persist, such a dynamic ultimately culminates in a doom loop of hyperinflation.

When the average maturity of the debt is short, as it is today, inflating away the debt is especially ineffective. To be effective, there must be a hard ceiling on interest rates, as the Fed imposed during WWII.

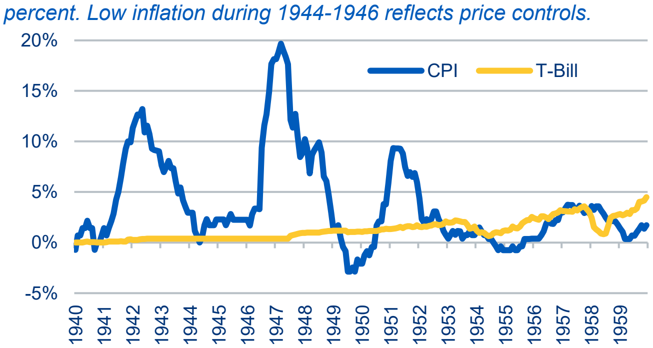
Exhibit 1
Unsustainable Debt Dynamics During WWII and Now
Source: CBO. Federal debt and net interest payments in percent of GDP. Projections as of March 2025 (before impact of BBB and tariffs).



The costs of WWII led to a rapid accumulation of debt exceeding 100% of GDP (Exhibit 1). To avoid a situation in which persistent deficits and rising debt service costs resulted in explosive debt growth, U.S. monetary policy was reoriented toward pegging U.S. Treasury yields across the yield curve. To achieve this, the Fed purchased U.S. Treasuries whenever yields threatened to breach predetermined ceilings. In this precursor to QE, the Fed expanded its balance sheet to achieve fiscal, not monetary ends.

Thanks to Fed intervention, from 1940-1951 the yield on T-bills averaged 0.6% and U.S. 10-year bond yields never exceeded 2.5%, well below the rate of inflation, which was high and volatile and averaged 5.5% (Exhibit 2). With the Fed effectively eliminating the price risk of holding longer duration Treasuries, the market gravitated toward higher yielding long-term bonds, leaving the Fed to absorb mainly lower yielding T-bills.

Exhibit 2
Fiscal Dominance During WWII
Sources: BLS and FRED. YoY change in CPI and 90-day T-bill yield in percent. Low inflation during 1944-1946 reflects price controls.



This policy of debt monetization resulted in yields that were deeply negative in real terms. This, combined with rapid economic growth following the war, contributed to a steep decline in the debt ratio and allowed the return to an independent monetary policy in 1951.

Today's Unsustainable Debt Dynamics

The debt ratio currently exceeds its previous peak during WWII and is projected to increase rapidly (see Exhibit 1). This increase reflects many years of high fiscal deficits that are currently running at 6% of GDP despite strong economic growth. Fiscal deficits are forecast to remain high. In addition, debt service costs are on a steep upward trajectory, crowding out other spending. This combination creates the risk of explosive debt dynamics, making it tempting to once again subordinate monetary policy to the budget. Whether a return to fiscal dominance would be successful in today's highly integrated global capital markets is an open question. Successful or not, a strategy of fiscal dominance would entail grave risks.

A return to a policy of fiscal dominance would result in higher and more volatile inflation. Confidence in the Fed, the reserve currency status of the U.S. dollar, and the safe haven role of U.S. Treasuries would be undermined. The Fed would not be able to engage in countercyclical policies and its ability to respond to crises would be impaired. Repairing the credibility of the Fed would be difficult, and the economic costs of ultimately restoring price stability high.