Our 2026 Playbook   January 16, 2026

Each year, we look back at the prior year's Investment Playbook to assess what we got right, what we got wrong, and what we learned in the process. We then turn to the coming year, putting our dominant ideas in writing, with hopes of gaining greater clarity on the factors that might drive our investment returns going forward.

This piece is not meant to be detailed or comprehensive like the many forecast pieces that Wall Street publishes at the beginning of each year. We also will not promote headline-grabbing predictions just to get the attention of readers – we're far more comfortable being boring, if that's what seems right and is more helpful to clients.

Our Playbook is as much for us as it is for you; it is meant to serve as a compass for orienting our investment decisions during the year and helping you to understand the primary influences that may affect those decisions. How we react to new information that comes along during any given year is always subject to our discretion, a distinguishing feature of active management.

Regardless of the outcome, the intent is always to drive superior returns over time, learning from our inevitable mistakes along the way. Thank you for your continued confidence in our approach and interest in our work!

Looking Back and Looking Forward

Our annual playbook has typically focused on three variables each year: the economy, the markets, and politics. This framework has served us well over the years so we will stick with it!

The Economy

We made the following predictions (paraphrased) about the economy in last year's Playbook.

> *"Employment should remain vibrant and capex should continue to tick up…GDP growth of at least 3% feels like it is in the cards…the Fed will be on hold in 2025…higher rates may remain a headwind for housing and auto demand…a retrenchment in globalism may keep longer term rates higher than they have been and inflation at the 2.5-3% level may be the price of a shift in these priorities…but artificial intelligence can be a potential offset (via disinflationary productivity gains)."*

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In general, these views were reasonably accurate. The economy continued to grow at a healthy clip, averaging 2.7% over the full year, but finishing Q4 over 4%. Employment, however, was another story. While unemployment levels remained low, new hiring was hardly vibrant as DOGE related cuts, tariffs associated with "Liberation Day," and immigration crackdowns slowed hiring and reduced job hopping. We read this morning that other than the last two recessions, average monthly job gains in 2025 were less than any year in the past two decades! The slowdown in hiring contributed to the Fed reversing course to cut rates three times in 2025 rather than staying on hold as we expected.

Outside of interest rate sensitive areas like housing and autos, consumer spending was healthy as unemployment levels remained low and the wealth effect from strong financial markets offered further support. Ten-year bond yields fell slightly, from about 4.5% to 4.2% around the time of Liberation Day but then moved sideways for the rest of the year. Inflation remained in the 2.5-3% range.

On the positive front, productivity levels spiked as the year ended. Normally spikes like these coincide with recessions as companies cut employees suddenly – but that hasn't happened today and recent earnings call comments from JP Morgan suggest that leading indicators of that prospect, like an uptick in consumer loan losses, isn't occurring. One explanation for the productivity gains? Perhaps artificial intelligence – companies getting more out of their existing workforce instead of having to hire new employees.

What do we see for 2026? More of the same.

We would assign the highest probability (60%) to GDP remaining at recent levels, with AI and tech driving the bulk of overall growth in the economy, as was the case in 2025. We believe employment should remain stable, not moving too much in either direction. It is possible we could see a "jobless profit boom" as corporate America does more with fewer employees and as real wages rise. A less likely outcome (30%) might be a big uptick in hiring following last year's volatile policy uncertainties, but with what has already happened in January, this would appear to be wishful thinking. Job cuts and a recession feel like the least likely (10%) outcome, but could occur from an AI bubble popping, something we don't expect.

Inflation should continue to moderate in the face of disinflationary productivity gains, but interest rates may remain elevated at the long end of the curve (4.5-5%) as financing demands persist in a capex driven economy and as foreign investors reassess their options given the geopolitical climate. Economic growth should continue to be driven by tech leadership broadening to other AI beneficiaries in the financial, industrial, and utility sectors. Consumer spending may mirror what we saw in 2025, with some areas that aren't tied to interest rates doing better than others. Stimulus associated with Trump's Big Beautiful Bill may also provide some support, at least in the short run.

<u>The Markets</u>

We have long held to a proprietary investment approach in which three cycles work together to influence value creation in the stock market. These three cycles include the *Economic Cycle, the Innovation Cycle and the Credit Cycle.*

Last year, we made the following statement about the stock market for 2025, also paraphrased:

> *"We think the market can make additional progress, but perhaps not to the same extent that we have seen in each of the last two years…the potential for greater turbulence in 2025 seems probable given the multiple expansion we saw in 2024, yet we still think 2025 can end up in the positive column…the Innovation Cycle will be the primary driver of returns, but some mature areas typically associated with the Economic Cycle may see an upswing to the extent they receive an assist from spending on innovation…the Credit Cycle will likely be a relative headwind to what it might otherwise have been if rates were lower, but businesses and consumers should eventually accept higher rates as a necessary cost of bringing future projects to life."*
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> We continued:
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> *The greatest risk to the market is still the unexpected…a geopolitical flare up or the popping of an asset bubble that few see coming…productivity gains should manifest themselves more clearly within the enterprise and then for consumers as the technology makes its way to the iPhone and other devices…it is important to realize that the gains associated with the internet have lasted for over twenty years…artificial intelligence should similarly be long lasting and enduring.*

Again, we believe our overall views were on target. The markets experienced another double-digit year of gains - the third in a row - and the drawdown investors can usually expect in any given year came in the form of Liberation Day tariffs last spring. The Innovation Cycle was the primary driver of returns domestically, with others normally associated with the Economic Cycle also contributing. The Credit Cycle was mixed, restraining areas associated with the consumer, but benefiting those associated with M&A and business capex. Fears of an AI bubble surfaced on and off throughout the year, hitting crescendo levels in the fourth quarter as described in our performance commentary published at year end.

What do we see for the markets in 2026?

Despite the fatigue, we believe AI will continue to drive stock market gains not only for the tech sector, but also for those companies that begin to reap some of its benefits. Bottleneck Investing may be a theme worth considering for 2026, as areas that currently function as a constraint on AI's full deployment gain greater attention – areas like power generation and the labor that provides new physical facilities. While we don't see this as a Mag7 versus SP493 title match, there will be AI beneficiaries beyond the core heavyweights.

During the last month of the fourth quarter and the early weeks of January, the market has been undergoing a Great Rotation - away from where we traffic, large growth companies, to many other areas of the market. This rotation, or broadening, has had short term head fakes several times in the past few years. Will it be real this year? Though it is never a sure thing, two lessons come to mind. First, price is what you pay, but value is what you get. And second, value is a state which typically requires a catalyst to be recognized.

In 2025, it finally paid dividends to be diversified across asset classes. In particular, the international markets did very well and in some cases better than our domestic benchmarks. Typically, substantial growth shifts, as occurred during the inflation scare, are necessary catalysts for creating new value in areas that are not getting much attention.

While there are theories about where the next legs of growth could come from in 2026, we are not sure what the most recent great rotation is chasing at this point, at least from a catalyst perspective. We suspect, but don't know, that this Great Rotation could be more fear based, one in which other areas don't necessarily see compelling new growth as much as the current areas of growth are hit as might occur if there is an AI bubble and it pops. Just as ChatGPT reignited growth in the tech sector relative to inflation beneficiaries a couple of years ago, it is possible the opposite might occur if this innovation theme experiences a setback.

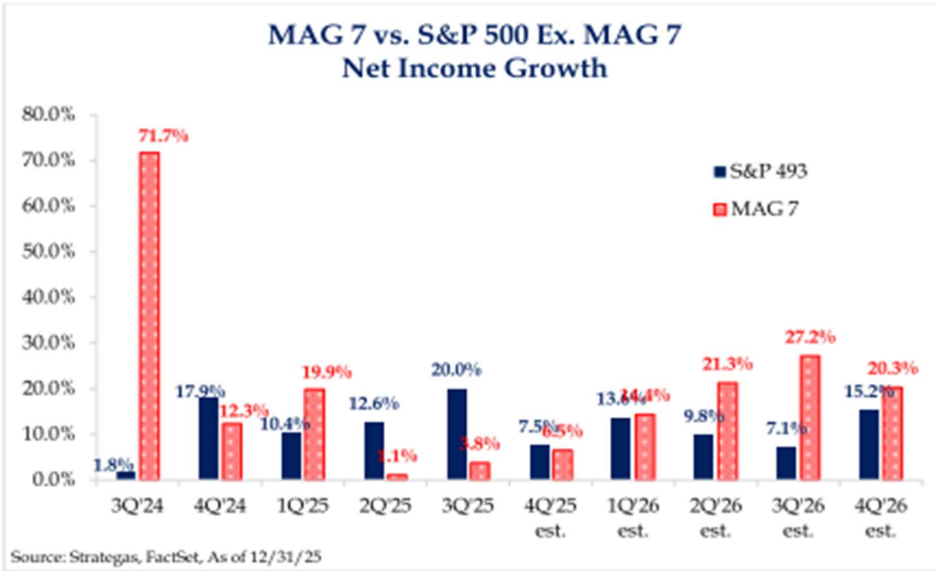
The attached charts, courtesy of Strategas Research Partners, show that the Mag7 continue to enjoy a valuation premium to other sectors of the market relative to their earnings growth as has been the case for many years. At the same time, the second chart shows that most of the expected earnings growth for the coming year remains with these types of companies. The recent rotation has had a dramatic impact on small and mid-cap companies in recent trading as it represents reallocation of a lot of market capitalization to much smaller companies!

S&P 500 Sector NTM Earnings Contribution & Market Cap Weight

Sector	LTM Earnings Contribution	NTM Earnings Contribution	Market-Cap Weight	Difference Between NTM Contribution & Market-Cap Weight
FIN	20.0%	18.0%	13.3%	4.7%
HC	11.3%	11.6%	9.6%	2.0%
ENE	4.6%	3.8%	2.9%	0.9%
UTL	3.0%	2.9%	2.2%	0.7%
COMM	3.1%	2.7%	2.4%	0.3%
CS	5.3%	5.1%	4.8%	0.3%
CD	4.8%	4.8%	4.5%	0.3%
MAT	1.9%	2.2%	1.9%	0.2%
TECH	8.6%	13.4%	14.0%	-0.6%
RE	1.4%	1.2%	1.8%	-0.7%
IND	8.1%	7.6%	8.4%	-0.8%
MAG 7	28.0%	26.9%	34.3%	-7.4%

Source: Strategas, FactSet, Data as of 12/31/25, Sectors are ex Mag 7

…BUT THAT'S WHERE THE ACTION IS



We remain overweight the Mag7, believing their growth profile remains superior and more durable to most areas, but wouldn't argue against the idea that some broadening would make for a healthier market. Will it sustain? Time will tell. Incidentally, while we have been pleased to own a good slug of Google, we think it is too premature to believe the AI race has been won. The environment is too fluid and early in its development.

As mentioned in our year end quarterly, investors may need to adjust to a highly capex driven economy in the coming year(s) and the cyclicality associated with it. *While the last decade was marked by steady returns and spending associated with an everything is a subscription-based economy, upgrading America's infrastructure could represent a paradigm shift*. An offense rather than defense heavy portfolio may be warranted.

After three years of gains, can further upside be possible in 2026? We wouldn't rule it out, but given where we've come from, investors buying today absolutely need to be looking out not for one year, but many!

Politics

This year was a crazy one politically speaking.

Last year we closed this section of our Playbook with a comment that Trump was partly like Teddy Roosevelt who advocated "Talking softly and carrying a big stick." Trump, in contrast, would "Talk loudly and carry a big stick." Barely a few weeks into 2026, the observation is even more apparent.

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In addition to that characterization, we also made the following observations, again paraphrased:

> *"The incoming administration will run the country like a business rather than a non-for-profit enterprise dependent on tax contributions…Elon Musk (DOGE) has a strong pedigree when it comes to getting a house in order while simultaneously investing in things that bring the realm of science fiction to life…but Washington DC also has a strong pedigree as a bureaucracy…as alpha males, we shouldn't be surprised if they (Trump and Musk) spar with one another on more than one occasion in the coming four years… gains will be made, but not without a hard fight; it will likely prove more difficult than expected… wild ideas like annexing Greenland, Canada, and the Panama Canal are like the talk over tariffs…hard to know how much is substantive versus negotiation strategy…this is Trump at his finest…we suspect our allies and enemies alike will have nothing to worry about…President Trump will more clearly spell out where our boundaries as a nation lie."*

We got some things right here…the Musk and Trump bromance barely lasted a few months let alone four years…but there were also a lot of things we underplayed, especially the part about allies and enemies having nothing to worry about. People are worried, that is for sure. Whether or not it is justified is still up for debate. In hindsight, we can see how insensitive our comment that "this is Trump at his finest" may now sound – we were referring to his hoped-for negotiating skills and not his overall character or universal likeability! Darn these political sections!

The government does play a role in the markets and the economy, so politics is something we pay attention to and try to have an opinion on even if it can get us into trouble at times. Historically, we have always believed that making investment decisions based on one's political views can be a poor one if your primary measure of success is investment return. We've seen it attempted many times from both sides of the aisle, and at least from a financially defined measure of success, it has often negatively impacted performance. We would also point out that it wasn't so long ago that most of Silicon Valley seemed extraordinarily liberal!

President Trump and his administration are indeed taking us into uncharted waters that we've not experienced as a nation in quite some time. There will be many more surprises, politically speaking in 2026, we are sure, both for those that are frightened by his actions and those that are encouraged.

The biggest political event of 2026 will be the midterm elections where Republicans have a very narrow majority. Typically, majorities flip during midterm elections, something that Trump knows, and is a reason he is at war with the Fed over lowering rates and has browbeaten the executives of many industries to try to get consumer living costs down. He, no doubt, would like to run the economy hot in 2026 and will undertake everything in his power to do so. Whether or not that comes at the expense of kicking the can further down the road remains to be seen.

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We will close our 2026 Playbook as we have always done, by reminding investors that our business is never easy but it is always an intellectual challenge we enjoy pursuing. We appreciate your faith and trust in Broadleaf and will work hard to honor both.

May God bless you abundantly in the coming year, even if it comes in ways you do not expect!

Kindest Regards,

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