

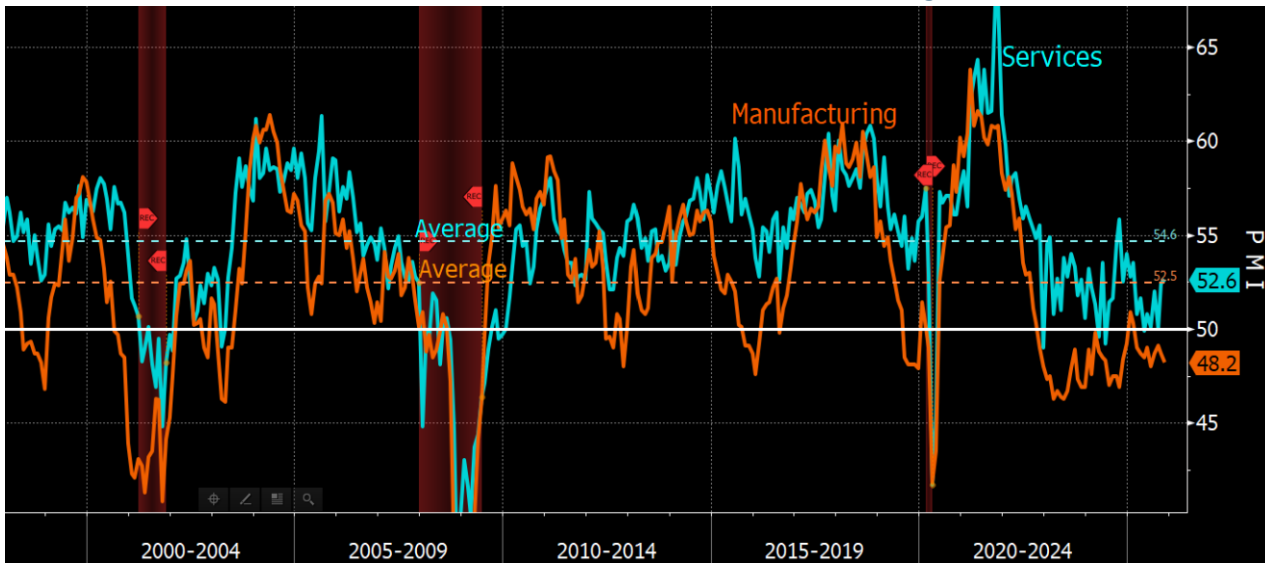
“Small cheer and great welcome make a merry feast.”

William Shakespeare

1. US ECONOMY

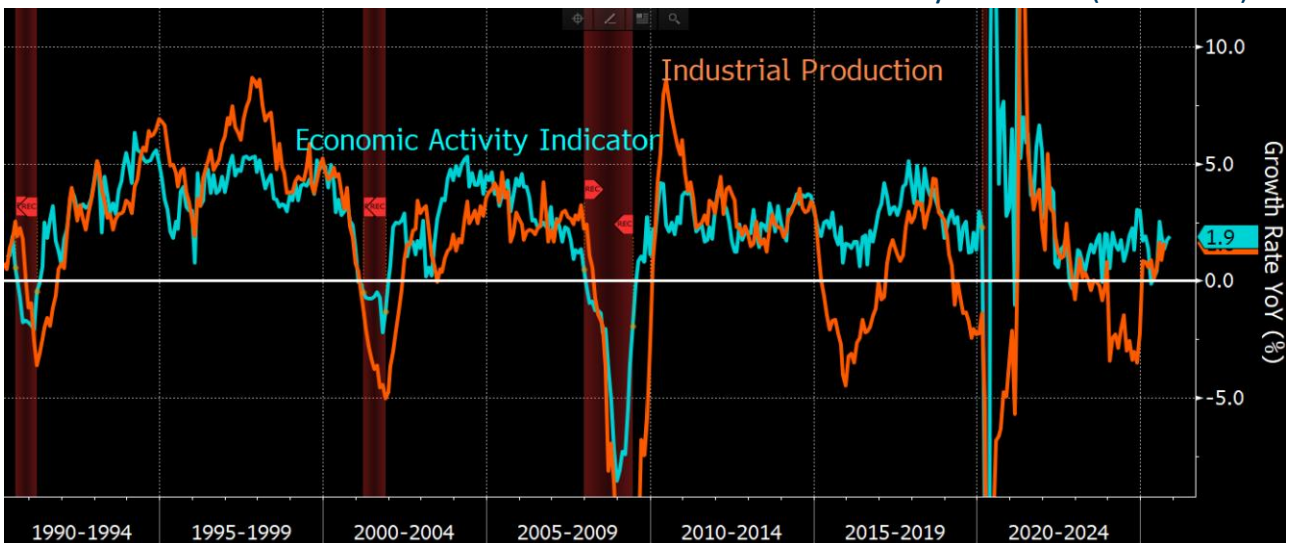
As we approach the end of 2025, we have a review of the current fundamental issues around capital markets, as a base for 2026:

US PMI Indices – Services & Manufacturing



The Manufacturing PMI Index remains in a rising trend, but slightly below the 50 neutral level, while the Services PMI Index is in a rising trend above the 50 neutral level. As the latter makes up a much larger part of the economy, on this basis it seems the US economy is stable and slowly expanding.

US – Industrial Production and Goldman Sachs Economic Activity Indicator (% Growth)

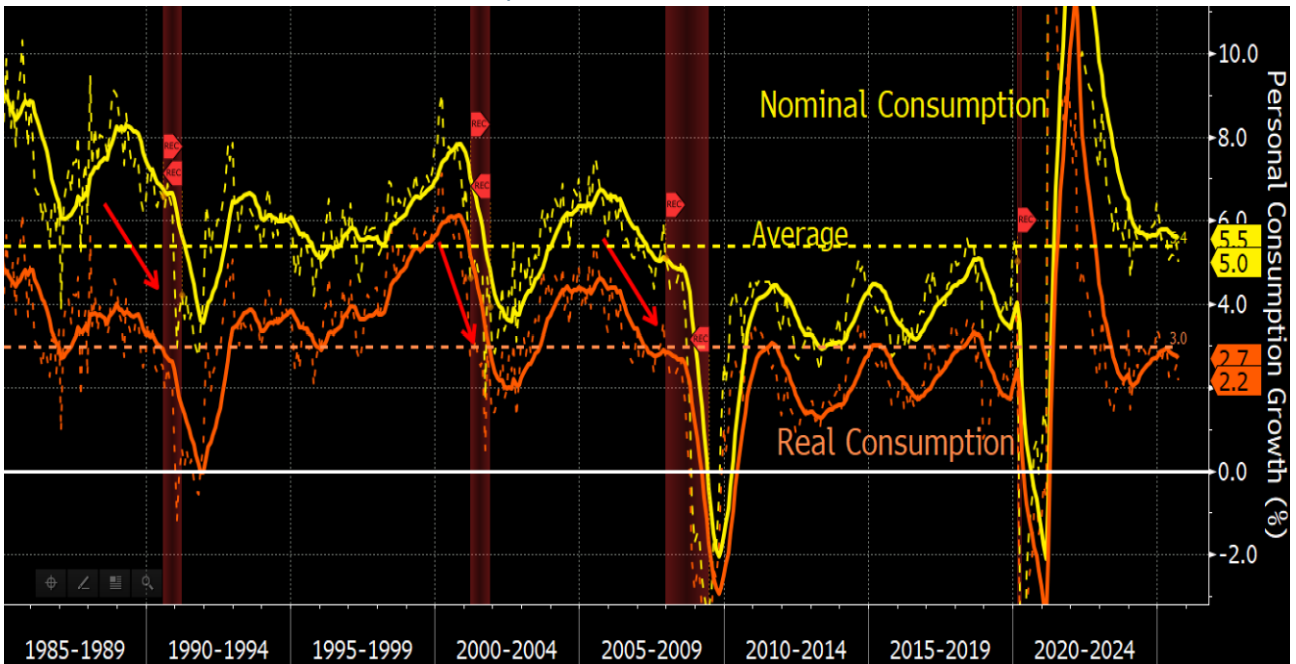


The preceding comment is confirmed with the above chart – both the Economic Activity Indicator and Industrial Production indices are currently growing at almost +2%. This reflects a positive US economy, and we can confidently say the long-feared US recession is not imminent.

2. US CONFIDENCE

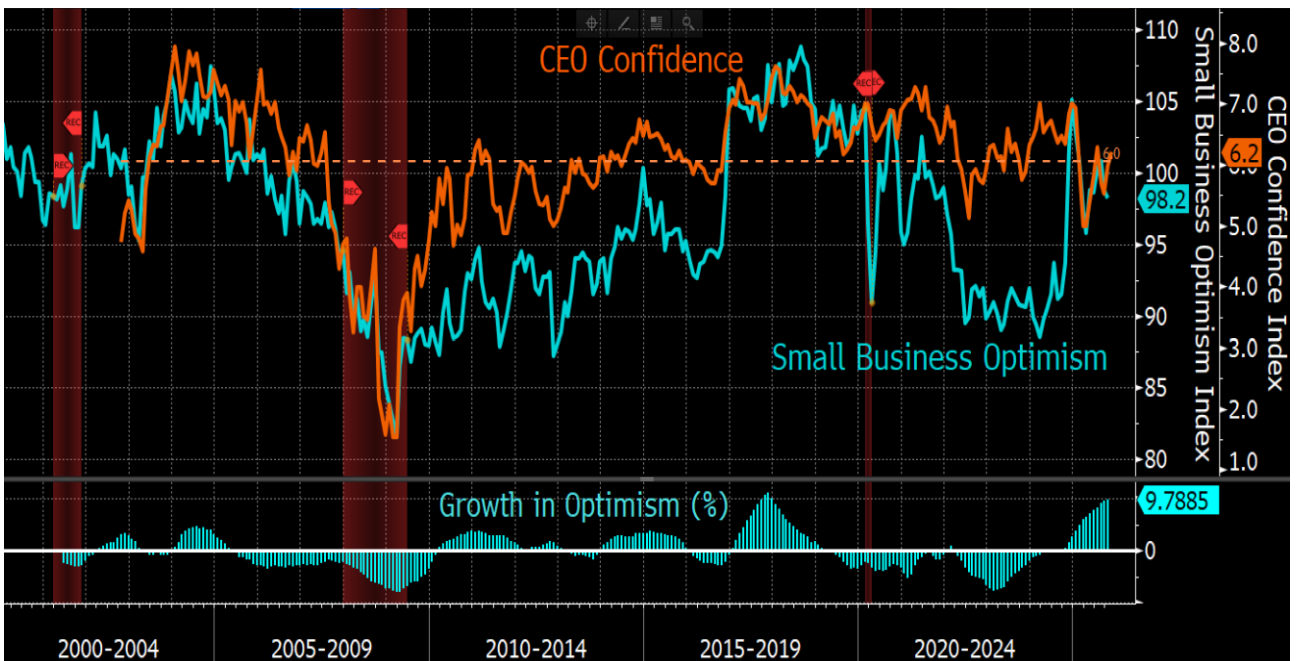
Consumer confidence (as reflected in the Conference Board Consumer Confidence Index) is dropping and is currently slightly below average. Despite this, Retail Sales are accelerating, currently growing at +4%. We show below also the overall Consumption Index:

US – Consumption Growth (Nominal & Real %)



Nominal Consumption is currently growing at +5%, close to average (the yellow line). Consumption is also growing close to average in real terms (the orange line). With the US being a consumption-driven economy, on this basis the current picture seems a healthy one.

US – CEO and Small Business Confidence Indices



CEO confidence has been rising this year and is currently also on average (the orange line). Small Business Optimism has been more volatile (the blue line) but sharply growing at +10% (the blue bars on the bottom chart).

3. INVESTOR CONFIDENCE

Apart from absolute valuation multiples (e.g. P/E ratio), relative valuation multiples that investors are willing to pay for their asset class are a key indicator of their confidence in the economy and that asset.

US – High Yield Spread with 10-Year Treasury Yield (%)



The High Yield Spread in the above chart is close to a record low at a -1-standard deviation. This reflects high conviction in the US economy and also in second-league US businesses to be able to continue servicing their debt. This level of conviction has only been seen seven times over the past 40 years.

S&P 500 Equity Risk Premium (%)



The S&P 500 Equity Risk Premium has been in slightly negative territory for almost a year now. This level is close to a -1-standard deviation. Negative levels were last seen pre the dot-com bubble when Equities were supported by high operational business growth and an unattractive bond market. Current Equity Risk Premium levels therefore reflect high confidence in sustained strong earnings growth and a less attractive bond market.

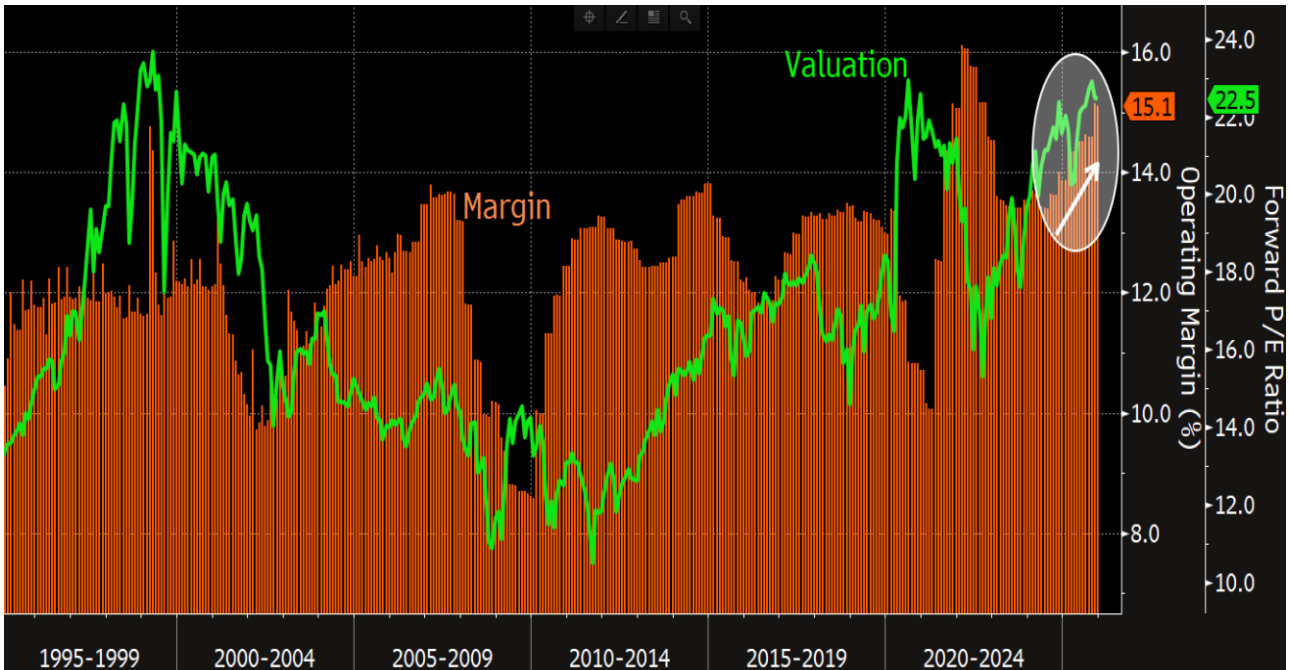
Overall, Equity investor confidence is currently high, based on the strong delivery of the asset class and the point that especially the US, but also the world economy, keeps growing and recession fears are not materialising. It is also clear that this confidence does not protect from negative surprises.

4. REASONS FOR INVESTOR OPTIMISM

Valuation multiples are currently elevated, with the S&P 500 Forward P/E at a +2-standard deviations. Apart from our preceding discussion, we perceive the reasons for this confidence briefly as follows:

Company balance sheets are generally strong. The S&P 500 Net Debt-to-EBITDA ratio currently is 1.6 times, 40% below average. The Debt-to-Equity ratio is 1.1 times, half of the average. Cash makes up 44% of Debt, 42% above the ratio's average. These strong balance sheets deserve higher valuation multiples.

S&P 500 Forward P/E Valuation vs Operating Margin (%)



Overall business profitability is currently elevated, and rising further (the orange bars). For every extra Dollar of Revenue, more profits are being generated. Current profitability levels are higher than when earning multiples were previously at current levels (at the turn of the century, when Equity Risk Premiums were also lower – see par. 3). With AI-driven productivities to start kicking in, profitability can probably increase further.

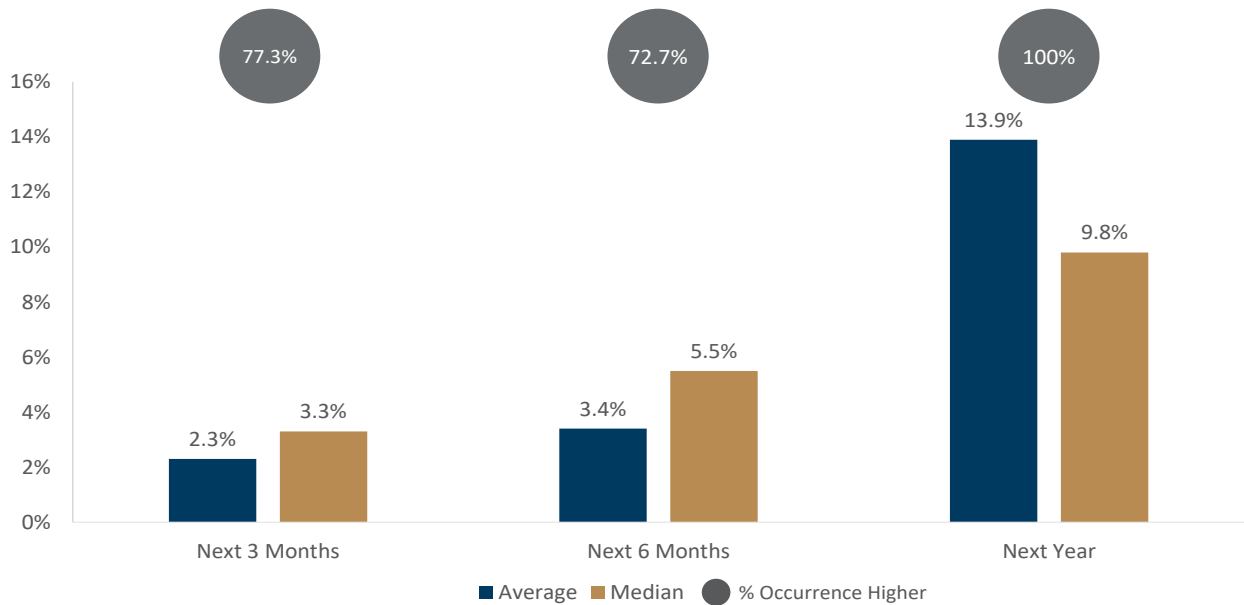
S&P 500 Trailing Earnings per Share (\$) vs 12-Month Expected Growth (%)



S&P 500 companies have recently reported excellent results (Revenue +8%, Earnings +13%, the green line). Consensus expectations for the coming year have been in a rising trend (the yellow line) since June, and keep rising, currently at +13%. With share prices generally following earnings, this is a positive backdrop.

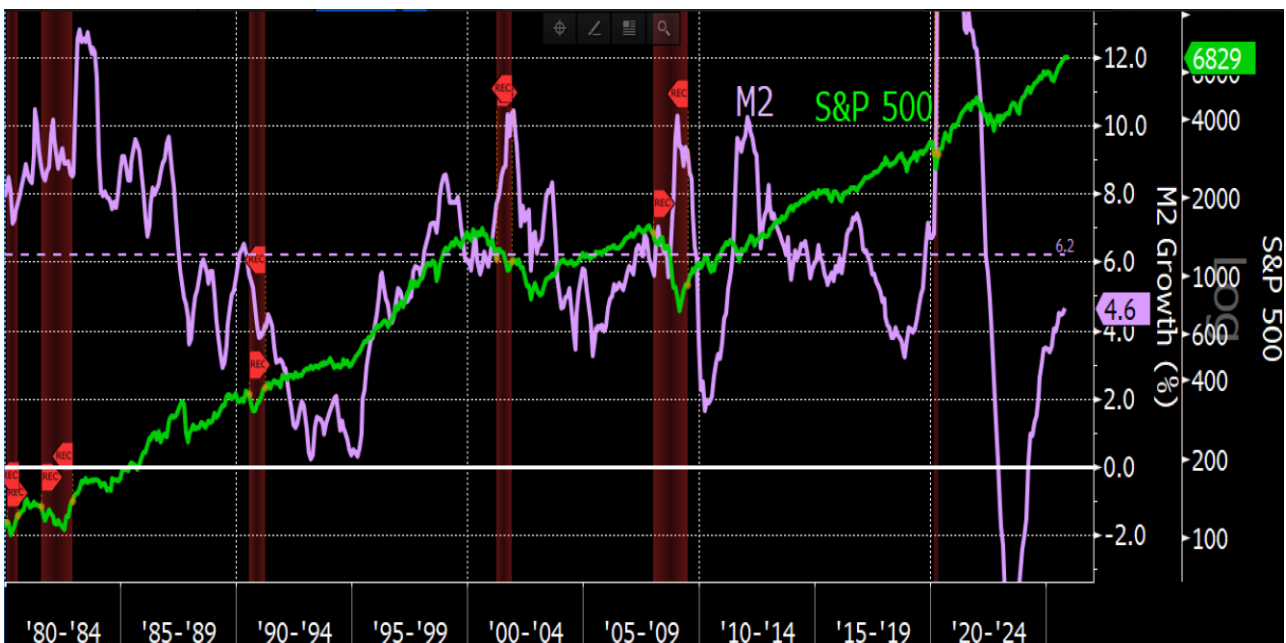
S&P 500 Return Following First Cycle Fed Rate Cut with S&P 500 Index within 2% of Its High

22 observations since 1980



The Fed cuts this time have been done on the ‘front foot’ with the stock market close to record levels. The above chart reflects the S&P 500 historical returns following a first cycle rate cut (this time in September). All previous occasions delivered, on average, double digit returns over the following year. Current expectations are for another three cuts next year.

M2 Growth vs S&P 500



The lower US interest rates are coming through in the form of money supply accelerating at +4.6%. Further to this, fiscal stimulus is expected to become more effective next year with the OBBBA (One Big Beautiful Bill Act)’s combination of extended tax cuts, business investment incentives (expensing certain capital investments), targeted tax reliefs, tax refunds and the proposed \$2,000 tariff dividends all expected to be a material boost to GDP.

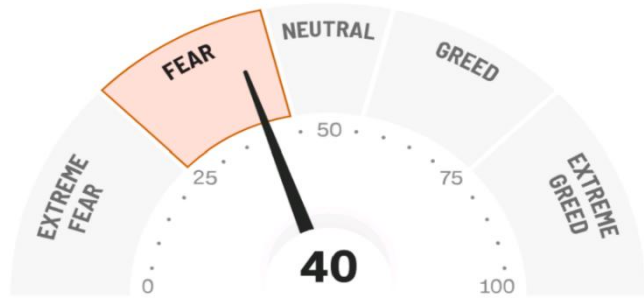
There are good reasons for the high investor confidence. A further important point to make is also that there is no correlation between valuation levels and the subsequent one-year returns – it is more about the fundamental issues than valuation levels.

5. TECHNICAL PICTURE

The November sell-off has technically reversed:

The Fear & Greed Index (a compilation of seven different equally weighted indicators that each measure specific aspects of stock market behaviour) has recovered from an 11 reading to the current 40 reading. This puts it in the Fear category. This category, along with the direction of travel, is technically indicating more reason for optimism than pessimism.

CNN Fear & Greed Index

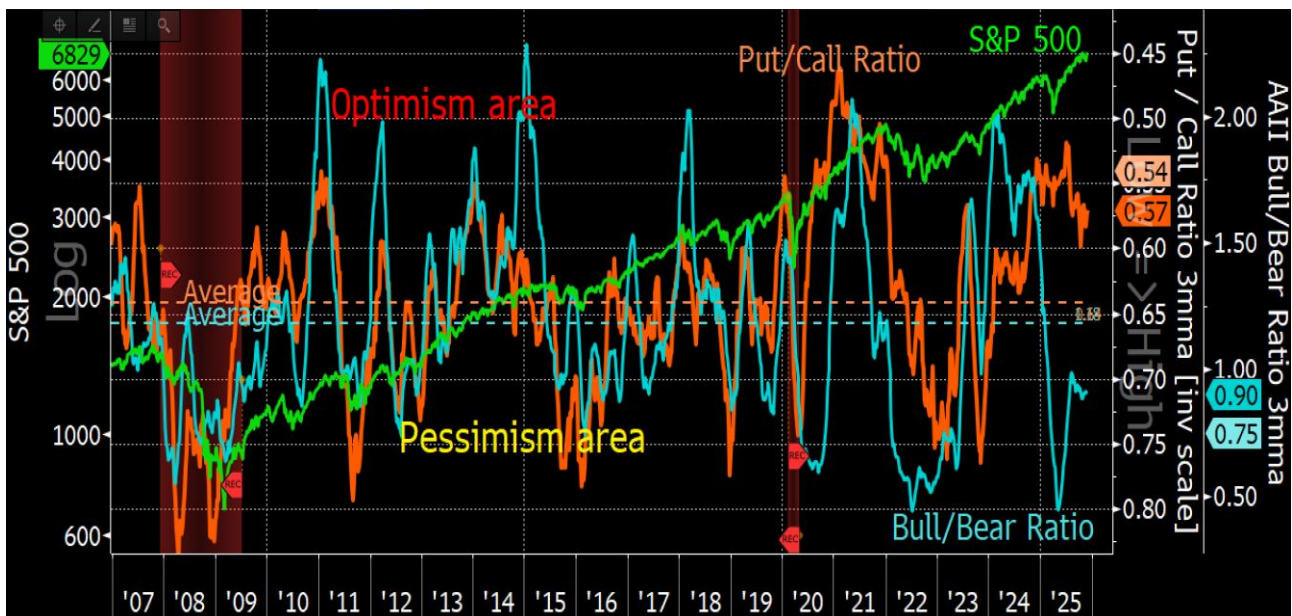


S&P 500 vs 50- and 200-day Moving Average and Fibonacci Golden Ratio



The Index is technically sound with it having recently crossed its 50-day moving average (upwards), both the 50- and 200-day moving averages are rising trend, and it being well above its Golden ratio. These are also true for the Nasdaq Index.

S&P 500 vs Put/Call Ratio and AAI Bull/Bear Ratio



The Put/Call ratio is elevated, though less so than earlier this year, while the Bull/Bear ratio reflects lower confidence. This, respectively, indicates a more constructive institutional investor market and a more uncertain individual investor market. On balance, this indicates a healthy, more constructive market than any high-risk investor exuberance.

6. 2026 WISH LIST

We again have reason to be thankful – eight of the nine items on our 2025 Wish List came to fruition. It is only the Russia/ Ukraine conflict that is not resolved.

Apart from hopes of no major economic recessions, our 2026 Wish List is as follows:

- The US tariff issues do not affect inflation increase much beyond 3%.
- The OBBBA delivers on its intentions to stimulate the US economy.
- The Fed continues steadily cutting their target rate with no particular urgent reason to.
- AI exuberance softens without affecting the overall market.
- China's consumption stays its course.
- China does not invade Taiwan.

Our sincere gratitude to our clients for your continuing support and friendship through another investment year. It is hugely appreciated. We wish you and yours all the very best for the Festive Season and the New Year.

Gerrit Smit

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RISK DISCLOSURE

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