The Legacy Group, Inc.

Dear Legacy Clients,

Thank you for your continued partnership and trust, and happy New Year! Welcome to our quarterly economic and investment update letter, wherein we will be detailing our thoughts on the current investment landscape, reflecting on the fourth quarter of 2025, and providing our general economic/investment outlook going forward.

During the final quarter of 2025, equity markets posted moderate gains at a slower pace than they did in quarter three, and the S&P 500 starts off 2026 by once again reaching new highs. While 2025 was largely characterized by the administration's threats of using ultra high tariff rates to start trade wars with other countries, we and many others believe this risk is likely now more behind us than in front of us. The last update we gave on this situation was a potential re-escalation of China trade tensions this past October, but even that has subsided. Now, much more reasonable tariff rates have remained in place, and there is an on-going supreme court case taking place which could potentially see major tariff refunds paid back to affected American companies if it is ruled that Trump's IEEPA tariffs were unconstitutional. Besides tariffs, the other government-related story that unraveled this quarter was the government shutdown that took place during October and November due to Congress' failure to pass appropriations legislation before September 30th. The government has since re-opened, but now faces another deadline: January 30th. These events are usually resolved, but are still relevant because shutdowns delay the announcements of key economic data (inflation, jobs) used by the Federal Reserve.

The latest employment reports for November and December speak to a topic we discussed last quarter: a slowdown in jobs growth, possibly due to uncertainty about this administration's tariff policies. These reports showed modest jobs growth in new employed workers, but the employment rate still ticked up in November to 4.6% from 4.3% previously, and sits at 4.4% today. These are still low unemployment numbers historically speaking. The increase in unemployment is due not to people losing their jobs, but rather an increase in new job-searchers entering the workforce who cannot find work as quickly. We have always mentioned that one of the things that insolates our labor market is job openings, which help buffer against a rapid increase in joblessness, and as of November, we still do have 7.14 million job openings. However, what is noticeably different now is that the ratio of job openings to unemployed workers is below 1, meaning there are more people searching for work than there are job openings. If layoffs start to pick up, they may have a more noticeable impact than previously thought. Thankfully, initial claims for unemployment insurance remain at historically low levels, which suggests that even though companies are slower to hire, they are also not engaging in widespread layoffs.

In 2025, this dynamic significantly impacted the Federal Reserve's interest rate policy. The Federal Reserve (the "Fed") is tasked with a dual mandate from Congress: stable prices and maximum employment. They raise interest rates higher when they want to slow down the economy thereby reducing inflation (aka stabilize prices), and they cut rates lower when they want to support the economy and labor market. The idea is that lower rates reduce companies' cost of capital which should allow them to spend more on growth. This matters for the stock market as well since lower rates are generally supportive of stock prices. Labor market risks have been the primary reason for the rate cuts we have seen this year thus far. At the Fed's December rate meeting press conference, Fed Chair

Jerome Powell essentially stated that the cumulative effect of rate cuts over the past year leaves the Fed "well positioned" to wait and see how these lower interest rates continue to filter through the economy. We reiterate that the Fed still wants to be patient with the speed at which they cut rates to ensure that any potential tariff-related inflation remains muted. Several other Federal Open Markets Committee (FOMC) members were revealed to have shared this same sentiment at the release of the "Fed Minutes," which essentially are more detailed records of the FOMC policy discussions. This reaffirms our opinion that even after President Trump replaces Chair Powell in May, the Federal Reserve as a whole is still more likely to hold steady and remain prudent, rather than deliver more rate cuts needlessly.

As it pertains to current inflation, the year-over-year PCE inflation rate ("PCE" inflation is the Fed's preferred measurement of inflation) is 2.8% as of September, still relatively far away from the Fed's 2% target. PCE inflation data for the months of October, November, and December have not been released yet as they normally would be, due to the Government shutdown. However, CPI inflation, a more commonplace measurement of inflation often correlated with PCE, is more up-to date. As of November, year-over-year CPI inflation is 2.7%, which may not seem much different, but we believe it's significant because it was expected to come in at 3.1%. In our view, this could suggest that inflationary pressures may be easing more quickly than anticipated, which would be encouraging news given that many expected tariff-inflation to be playing a bigger role by now. We maintain our stance that inflation should continue to cool over time. A large portion of current inflation is being driven by higher shelter prices, and we believe that continued price pressure in this area is likely not sustainable. On top of this, we see continued progress (albeit slow and steady), in the trend of declining wage inflation as measured by the Federal Reserve Bank of Atlanta's wage growth tracker.

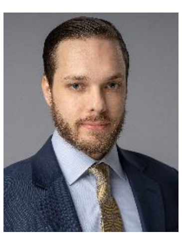
As mentioned earlier, U.S. stocks posted modest gains during the quarter, but at a slower pace compared to the prior two quarters. Large-cap technology stocks experienced a brief drawdown in November amid concerns about valuation multiples and the sustainability of AI-related capital expenditures, but underlying earnings fundamentals remain supportive. Datatrek Research's Nick Colas made the point in early December that the technology sector had outperformed this year despite valuation multiples actually declining, driven by strong upward revisions to earnings expectations rather than price momentum alone. Broad S&P earnings growth remains in the high single digits, coupled with projections for earnings growth to broaden out from the "magnificent 7" stocks (Nvidia, Microsoft, Apple, etc.) to the rest of the S&P 500. International equities also rallied this quarter at a faster pace than U.S., and remain constructive in our view, even after a very strong year. State Street Investment Management's research indicates that despite 2025's incredible rally, stock valuations outside the U.S. still remain well below historical levels. Bond performance was muted this quarter as 10-year treasury interest rates oscillated between 3.9% and 4.2%, and gold once again rallied to newer highs.

Turning now to our own domestic economy, datapoints continue to signal strong economic activity with few signs of recession. The Federal Reserve Bank of Atlanta forecasts well-above-trend economic growth of 5.1% (annualized) for the third quarter, even higher than last quarter's 4.3% annualized. Though many have referred to our consumer economy as "K-shaped," (used to signify the divergence in consumer activity and income inequality between the top-earners and bottom-earners), the reality is that right now, the aggregate consumer as a whole still appears to be in very good shape. JPMorgan's quarterly "Guide to the Markets Research" continues to point out that the highest income earners in this country (the upper 40% of earners by income cohort) account for 61% of consumer spending. This is crucial because consumer spending makes up 68% of U.S. GDP, and strength in this area insolates us from recessionary risks. Significant tax cuts proposed in the "One Big Beautiful Bill" (OBBBA) should fuel consumption across all income levels even further in 2026. The deficit increases from this bill will have to be addressed in the future via higher taxes and/or reduced spending, but in our view, this is a much longer-term issue that is fundamentally impossible to predict.

Since last quarter, the main new economic risk has continued to center more around our slowing labor market. Since job openings are now fewer in number than unemployed workers, the risk that a pickup in layoffs would have a larger effect has increased, as new levels of joblessness would not be absorbed as quickly. However, as long as initial claims for unemployment remain low, we view this as a risk that is more theoretical than imminent. But if it did happen, the Fed in our view would be able to cut rates and help support the labor market and economy if need be. More importantly though, multiple sources including Franklin Templeton's "Anatomy of a Recession" research state that many Economists expect a rebound in job creation into 2026 as we receive more clarity on policy headwinds, i.e. tariffs. In other words, tariff uncertainty likely played a big part in disincentivizing businesses to hire workers in 2025, and now this could be more in the rear-view mirror. Moreover, the aforementioned OBBBA stimulus should be able to fuel not just consumption, but business hiring activity as well.

Although the Fed is pausing its cutting cycle, we view this as a positive signal that the economy does not currently require additional support. The state of our labor market has certainly become more nuanced, but nevertheless, we believe that 2025 marked a turning point in which many of the trade-related and labor-related policy headwinds moved into the past. Ultimately, the fact remains that our economy stands on strong fundamental footing, insulated by the strength of our consumer, and the Fed still has the ability to provide additional support it if necessary. We hope that you find these updates helpful, and please do not hesitate to reach out if you have any questions.

Sincerely,



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Resources used:

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DataTrek Research: DataTrek Morning Briefing

- December 9, 2025: “PEs & Earnings Power, Small Cap Growth/Value, Big Tech Returns”
- December 11, 2025: “Powell Comments, New SEP, Big Tech Market Correlations”