CYPRESS

ASSET MANAGEMENT, INC.

MARKET COMMENTARY **January, 2026**

2025 ASSET PERFORMANCE

	Q4	YTD
S&P 500 Total Return	**2.65%**	**17.88%**
NASDAQ	**2.72%**	**21.17%**
Dow Jones	**4.03%**	**14.92%**
Russell 2000	**2.19%**	**12.81%**
World ex. US	**6.03%**	**25.09%**
Gold ($4346/oz)	**14.18%**	**67.41%**
Oil ($57.44/bbl)	**-7.90%**	**-20.00%**
Long Term Treasury (4.84%)	**-0.49%**	**5.33%**
As of December 31, 2025		

The fourth quarter capped a strong and eventful year for global markets. U.S. equities advanced further in Q4, extending gains driven by resilient economic growth, continued earnings strength, and a tailwind from easing monetary policy and rate cuts. Despite persistent geopolitical risks and elevated valuations, the S&P 500 finished 2025 with a solid double-digit return, marking the third consecutive year of strong performance for U.S. large-cap stocks.

The defining feature of 2025 remained earnings. Corporate profits consistently exceeded expectations, supported by durable consumer demand, a still-healthy labor market, and an extraordinary surge in capital spending on artificial intelligence, data centers, power infrastructure, and advanced manufacturing. By year-end, earnings growth for the S&P 500 was running in the low double digits, with technology, communication services, and select industrial and financial companies again leading the way.

International equities improved meaningfully in 2024, helped by a softer U.S. dollar and improving growth expectations abroad, though U.S. equities again proved to be the deepest, most profitable, and most resilient market globally.

Artificial Intelligence: From Theme to Foundation

As we move into 2026, it is increasingly clear that artificial intelligence has become a foundational driver of economic activity. We also believe it is leading to a surge in productivity. What began as concentrated spending by a handful of mega-cap technology companies has broadened into a multi-year investment cycle touching nearly every sector of the economy. Semiconductor demand, cloud infrastructure, power generation and transmission, industrial automation, cybersecurity, and defense are all beneficiaries of this transformation.

Importantly, the companies leading this buildout are exceptionally well capitalized, highly profitable, and operating at enormous scale. This distinguishes the current cycle from prior technology booms and helps explain why earnings growth has remained robust even as investment spending has accelerated. While stock prices will inevitably experience periods of volatility, we continue to believe that ownership of best-of-breed franchises with durable competitive advantages remains the most reliable way to compound capital over time.

2026 Outlook: Big Picture

- Current mid-cycle economy good for U.S stocks, can last for many years, and corporate earnings continue to beat expectations while productivity is accelerating
- Fed rate hike cycle is over and rate cut cycle underway
- Inflation has come down but tariffs and trade issues complicate outlook, while job growth may be slowing
- AI spending boom, favorable pro-business growth policies of Trump administration including deregulation, investment incentives & lower tax rates
- Decades-long trade imbalances and accelerating geopolitical shifts challenge the framework of post WWII global world order

POSITIVE	NEGATIVE
• U.S. Economy Still In Mid-Cycle Growth Phase with growth, jobs, and inflation approaching equilibrium with productivity accelerating	• Restructuring of Global World Order: NATO Modernization & Reform; Tariffs and China cold-war tensions; Venezuela Intervention & Reassertion of Monroe Doctrine in Western Hemisphere
• The U.S. remains the indispensable market	• Wars in Ukraine and Middle East & Flashpoints of Conflict in Taiwan, Korea, and Asia Pacific
• Fed Rate Cut Cycle Began Fall 2024, further cuts and easing conditions expected in 2026	• Market Valuation: At 22 times forward earnings market is not cheap and reflects a high level of investor confidence in outlook
• AI & Technology Investment Spending Boom appears to have legs and to be a critical foundation in the high stakes global battle for technological advantage	• US National Debt at Record High Level ($38.5T), @1.25x Greater than Nominal GDP: Challenge to U.S. Debt Markets and Interest Rates

Monetary Policy: A Clear Tailwind

An old investing maxim is "don't fight the Fed," and by late 2025 the Federal Reserve had clearly shifted from restraint toward accommodation. With inflation continuing to moderate and employment growth slowing gradually, the Fed delivered additional rate cuts in the second half of the year and signaled that policy would move closer to neutral in 2026. At the same time the Fed announced in December an end to three and a half years of QT ("quantitative tightening" involved the sale of bonds to shrink the Fed balance sheet) and a surprisingly rapid pivot to monetary easing through the purchase of T-bills and potentially other short-dated securities. This means increased liquidity to support investors, businesses, consumers, and economic activity broadly.

This policy shift matters greatly for markets. With trillions of dollars still sitting in money market funds and short-duration instruments, declining short-term yields increase the relative attractiveness of equities and other risk assets. While valuations are elevated by historical standards, easier monetary policy provides meaningful support, particularly for companies with strong earnings visibility and pricing power.

2026 Outlook: Productivity Driven Growth

In the words of ISI strategist Krishna Gupta, however, "the lasting significance of the Fed December policy meeting may lie not in the moderate version of a hawkish rate cut or the aggressive pivot to renewed balance sheet growth but the bullish shift by the Fed to embrace a more upbeat view on productivity and growth."

Productivity and growth both accelerated in the second half of 2025. U.S. non-farm productivity increased at a 4.9% annual rate in the third quarter of 2025 and was revised up to a 4.1% advance in the 2Q. This is the strongest surge in productivity in years and could herald an end to a nearly two-decade period of slower productivity growth (well above the longer-term average of 2.2%). GDP growth also surged to 4.3%, the highest rate in two years. The acceleration in productivity and growth underpins our positive view of the market in 2026 and helps to explain why stocks are highly valued in the current environment. We expect even faster earnings growth in 2026, potentially approaching 15%.

Your Cypress Portfolio

Your Cypress portfolio is built around best-of-breed businesses that are critical enablers of the modern economy. These companies possess durable competitive advantages, strong balance sheets, substantial free cash flow generation, and management teams with long records of disciplined capital allocation. They are also among the primary beneficiaries of the secular forces shaping the next decade, including artificial intelligence, digitization, infrastructure investment, onshoring of U.S. manufacturing and national security priorities.

In periods like the one we are entering—when confidence is high, valuations are elevated, and risks are visible but uncertain—the margin of safety comes not from market timing, but from business quality. While markets will inevitably experience corrections and sentiment will fluctuate, we believe these companies are positioned not only to withstand economic and geopolitical volatility, but to emerge stronger from it.

As always, we remain focused on protecting and compounding your assets over full market cycles, not quarters. We appreciate your continued confidence and remain committed to navigating the opportunities and risks ahead.

Global Economic Outlook & S&P Earnings - December 2025 (S&P 500 @ 6,900)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025e**	**2026f**
Global Real GDP Growth (y/y rate)	3.1%	-3.2%	5.9%	3.6%	3.2%	3.1%	***3.2%***	***3.3%***
U.S.	2.3	-2.8	5.9	1.9	2.5	2.7	***2.1***	***2.5***
Euro Area	1.2	-6.1	5.2	3.4	0.5	0.6	***1.3***	***1.2***
Japan	0.7	-4.3	2.2	1.1	1.8	1.0	***1.0***	***1.0***
Developing Asia	5.2	-1.1	6.8	4.2	5	4.8	***4.5***	***4.7***
China	6.1	2.2	7.9	3	5.1	4.7	***4.5***	***4.7***
Latin America	0.8	-6.2	6.8	4	2.2	2	***2.0***	***2.2***
Emerging Market & Developing Economies	3.7	-1.5	6.7	4.2	4.2	4.1	***4.5***	***4.5***
S&P 500 Aggregate EPS	165	140	208	218	225	245	***272***	***305***
Earnings (y/y rate)	1.9%	-15.2%	48.6%	4.8%	3.4%	9.2%	12.0%	13.5%
PE Ratio (December 2025 price @ 6,900)	19.6	26.8	22.9	17.6	21.2	24.7	*25.4*	*22.6*

Sources: IMF, ISI Group, BAML