MARKET UPDATE

The Rotation is Upon Us

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Halfway through the first quarter, we're starting to see some interesting rotations in the markets. The mega-cap growth, technology focused, AI driven, Magnificent 7 are no longer the top dogs. So far in 2026, just about everything else is outperforming with only one positive Magnificent 7; it's the return of the 493! With the S&P 500 up just over 1% on the year through February 20, here are the key highlights:

- Value (+4.4%) is off to one of its strongest starts versus growth (-1.7%)
- Small-cap stocks (+7.4%) have an even stronger outperformance over large-caps (+1.1%)
- International (+9.4%) continues its momentum from last year, particularly emerging markets (+11.7%)
- Real estate (+7.3%) is having a much-needed rebound, and
- Lastly, and perhaps most surprising of all, bonds (+1.2%) are beating stocks!

The rotation into broader areas of the market is primarily driven by valuations, and despite the recent performance, there's a lot more to go before catching up to those more concentrated areas of the market. Additionally, there are growth drivers in play as AI trickles down the supply chain and begins to benefit a wider range of sectors.

Overall, it continues to be a great time to be a diversified and balanced investor.

LOOKING AHEAD

Looking ahead, let's review the latest economic data that influences the Federal Reserve (Fed), interest rates and eventually, market returns:

1. **Economy Slows Down.** The U.S. Bureau of Economic Analysis (BEA) released the latest Gross Domestic Product (GDP) growth rate, showing the U.S. economy expanded at an annualized 1.4% in the fourth quarter 2025. This is below economist estimates, which ranged from 2.5–3.0%, and well below the third quarter growth of 4.4%. The slowdown was primarily attributed to a decline in federal spending amid the prolonged government shutdown with some estimates suggesting it shaved a full percentage point off the headline number. Thus, the slowdown may be temporary, but more importantly economic growth remains positive.
2. **Inflation Creeps Up.** The BEA also provided the latest Personal Consumption Expenditures (PCE) annual change, representing a key inflation gauge for the U.S. economy. The reading most preferred by the Fed, Core PCE (which excludes more volatile food and energy prices), came in at 3% for December of 2025, slightly above consensus estimates and higher than the previous month's reading of 2.8%. This is a move in the wrong direction when thinking about the Fed's 2% inflation target but may be attributable to short-term shifts in tariffs — not necessarily structural changes.
3. **Tariffs In Check.** Perhaps the biggest recent market-moving news is the U.S. Supreme Court's rule to overturn the Trump administration's sweeping global tariffs. While this decision may have limited impact on the broader U.S. economy (both in terms of growth and inflation), it has provided some clarity for financial markets and lifted uncertainty for investors. The news was certainly well received by the stock market.

> ***In summary,*** *the slowdown in the economy increases the probability of further rate cuts in the future from the Fed. However, we will need to keep a close eye on inflation remaining stable, which could be supported by more clarity around tariffs. A more accommodative monetary policy, driven by lower interest rates, will be supportive of economic growth, consumer spending and ultimately provide tailwinds for the markets to continue to push ahead through 2026.*

DIVERSIFICATION IS YOUR SEATBELT

If the stock market is like a roller coaster — with constant ups and downs — then diversification is like a seatbelt, keeping you secured to make sure you finish the ride. In this analogy, getting spooked and getting out of the market, would be equivalent to falling off the ride, a worst-case scenario.

However, when you're invested in a broad market exposure represented by hundreds of stocks, you may unknowingly become less diversified through certain market concentrations. How can diversification protect you in these scenarios? Let's explore by looking at concentrations over time for the U.S. versus international markets:

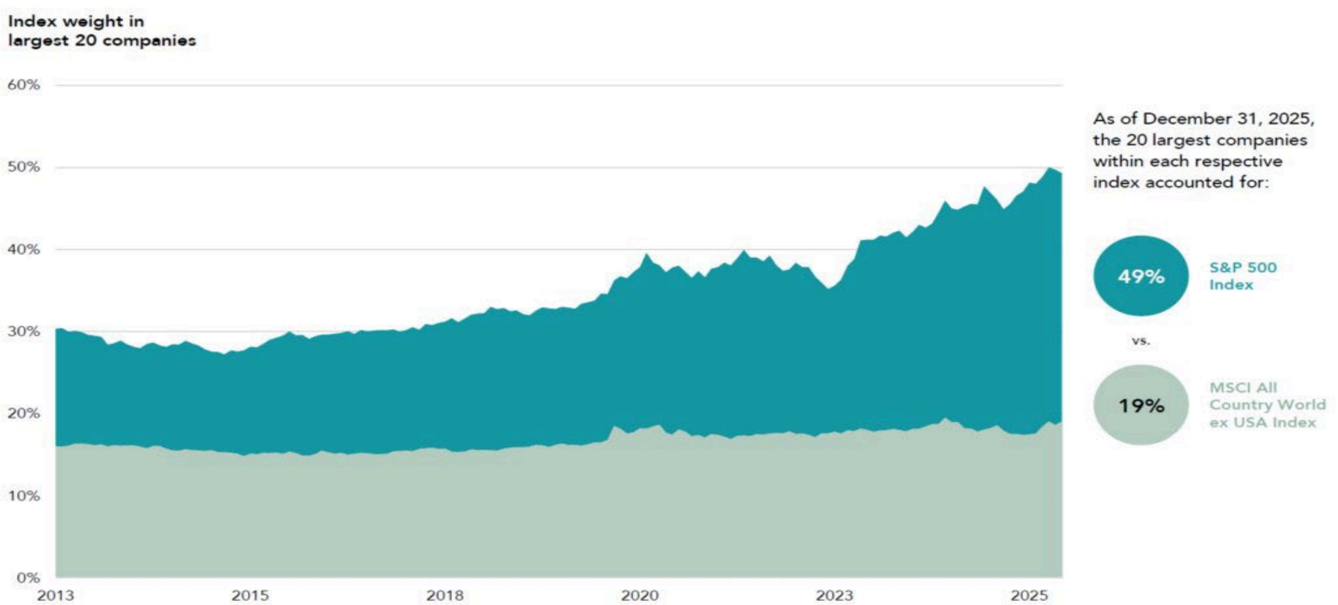
1. **High Concentration in U.S.** The largest 20 companies in the S&P 500 (which is a market-capitalization weighted index of the 500 largest companies in the U.S.) currently represent almost 50% of the entire index. This is meaningfully higher than the sub-30% levels we were seeing a decade ago and doesn't leave much room for the other 480. And it means that if you only invested in the S&P 500, your portfolio returns were heavily dependent on just those 20 companies. Think about a situation where a disruptive new technology is introduced and one of those companies' primary products becomes obsolete, that stock could plummet, and your portfolio would be subject to significant concentration risk.
2. **Markets Balanced Abroad.** International markets, on the other hand, have less than 20% in their top 20 companies, relatively consistent over the past 10 years. This can be attributable to not only a larger investable universe of companies (a lot more than 500), but also a wider range of countries with unique economies and growth potential. There is a much lower risk of any one company derailing your portfolio.
3. **Diversification is Important.** So, what's better to invest in, the U.S. market or international? The beauty of diversification is you don't have to choose. It's always best to be diversified across the globe, in a variety of regions and asset classes. Diversification offers a smoother ride for the investor, regardless of market conditions in a specific country or what may be happening with a specific company. A smoother ride offers the comfort — and safety — needed to stay seated and invested for the entire track, ensuring that investors reach the end of their ride.

Stay diversified, my friends.

GLOBAL MARKET CONCENTRATION COMPARISON

Weight in Largest 20 Companies in U.S. vs. International Markets

Jan. 1, 2013–Dec. 31, 2025



Source: Dimensional. Weight determined by constituent percentage of each respective index at the issuer level. Diversification neither assures a profit nor guarantees against loss in a declining market. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. S&P data © 2026 S&P Dow Jones Indices LLC, a division of S&P Global. MSCI data © MSCI 2026, all rights reserved. Past performance does not guarantee future results.

As always, FD Wealth recommends staying balanced, diversified and invested. Despite short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their goals.

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