



2026 SPRING INVESTMENT OUTLOOK

The broad based U.S. capital markets have moved modestly lower in the opening months of the year. After a strong showing in 2025, when many asset classes experienced significant gains, investors seem to be searching for direction thus far in 2026 as evidenced by the year-to-date returns listed in the chart below. U.S. economic growth, which registered a 2.1% advance in 2025, has remained sufficient to provide jobs for the vast majority of those seeking employment. It has also allowed corporate America to post earnings growth which has satisfied investors and helped the S&P 500 achieve a record high level in late January of this year.

While the number of working Americans grew last year, job market growth cooled meaningfully, producing an average of only 10,000 new jobs per month in 2025 versus 122,000 per month in 2024. At the same time, however, the dramatic decrease in immigration levels has reduced the supply of workers to the benefit of those still holding jobs as evidenced by the 3.8% annual rise in average hourly earnings as reported in the Bureau of Labor Statistics' (BLS) February jobs report. This provided an inflation adjusted boost to spending, the key lifeblood to our consumer driven economy. Layoffs remain at historically low levels in a continuation of what has been described as a “no hire, no fire” job market.

The U.S. economy remains resilient to the everchanging tariff policies of the President. The average effective tariff rate was estimated to have risen roughly fivefold over the course of last year. A recent 6-3 Supreme Court ruling struck down many of those tariffs, though it is expected that the administration will attempt to reimpose similar levies using different authorities. Therefore, consumers and businesses, the two groups which bore the brunt of those higher costs, should not expect significant pricing relief. Tariffs are one reason that inflation has remained stubbornly high. The Federal Reserve's favored measure of inflation, the Core Personal Consumption Expenditures (PCE) index, posted a 3.1% annual increase in January and has risen methodically since April of last year when widespread tariffs began to work their way into prices.

Other recent inflation metrics have indicated cause for concern, even before the commencement of war with Iran which will only add to upward price pressures. One immediate consequence of the war has been the dramatic rise in oil and gas prices since hostilities began on February 28th. Brent crude prices are up over 45% while the average U.S. retail gas price is over 30% higher. The duration of the conflict and the path of future events will determine if these price increases prove to be temporary or if they herald a more systemic upward trajectory on costs that negatively impact the economy more broadly.

Potential signs of stress have begun to emerge in the private capital markets. Private equity investors are seeing their capital tied up for longer periods of time while, simultaneously, it is more difficult to achieve the same rates of return now that financing costs have adjusted upwards. Meanwhile, the private credit market, which has experienced enormous growth over the past several years, has suffered some

high profile challenges recently which may be a harbinger of more problems to come. These markets are more important than ever as they help finance a wide array of businesses which employ a significant percentage of American workers. They also have important ties to the mainstream banking industry that may not be fully understood which raises the risk of contagion should economic conditions worsen.

Equity Markets – 3/20/26

	<u>Index Price Level</u>	<u>2026 YTD Total Return</u>
Dow 30 Industrials	45,577	-4.8%
S&P 500	6,506	-4.7%
NASDAQ Composite	21,648	-6.7%
MSCI All Country World Index ex-USA	421	+0.4%

Outlook

The main engines of U.S. economic activity appear to be intact for now. While a slowdown in 2025's fourth quarter real gross domestic product (GDP) to only 0.7% growth raised cause for concern, the deceleration had more to do with the partial government shutdown during that period and the timing of trade flows. As mentioned, the job market remains sufficiently strong to underpin consumer spending. Meanwhile, business fixed investment, which continues to be driven by artificial intelligence (AI) and data center spending, is providing another tailwind to growth. Bloomberg consensus forecasts call for GDP to advance 2.5% this year, a pickup from 2025. Like with most forecasts today, however, the war in Iran will be a determining factor in how things play out. It is true that the U.S. is less exposed to oil shocks compared to history as our energy intensity, as measured by the energy used per dollar of GDP, has been roughly halved since the early 1980s. Also, for the past several years our nation has been a net exporter of petroleum products, so we are more energy independent than in the past. Furthermore, despite the recent price spike, oil remains far below its inflation adjusted highs of 2022, 2008, 1990 and the early 1980s.

The longer prices remain elevated, however, the greater the risks to the outlook. A rapid increase in energy prices contributed to the recessions which began in 1973, 1980, 1990 and 2008. Goldman Sachs estimates that a sustained \$10 rise in the price of a barrel of oil depresses GDP growth by 0.1%. At the same time, Barclays notes that each 10% increase in the price of oil will raise the U.S. inflation rate by 0.2% within two months. While comparisons to the painful stagflation of the 1970s are overdone, the combination of slowing growth and rising inflation would not be a welcome development if sustained for any meaningful period of time.

The Federal Reserve met last week and decided to leave its key policy interest rate unchanged at a target range of 3.50%-3.75%. The statement accompanying the decision indicated that their two main policy objectives, promoting maximum employment and maintaining stable prices, appear fairly in balance. Fed Chair Jerome Powell noted, however, that the current wartime environment makes conditions far less predictable than has been the case in several years. Bond market investors have spoken though. Prior to the war's outset, the futures markets were pricing in two fed funds interest rate cuts by year end. Now, no cuts are predicted, suggesting that investors believe inflation is a bigger threat than a weakening job market in the coming quarters. This seems reasonable given that we have spent the last five years with an inflation rate above the Fed's 2% target. While some on Wall Street have suggested that this has been due to the effects of one-time events (Covid stimulus, Ukraine war, tariffs, Iran war), the longer inflation remains elevated, the risk increases that higher inflation expectations may begin to become embedded and therefore self-fulfilling.

While the headline job numbers remain consistent with an expanding economy, there are signs of concern below the surface. According to BLS data, U.S. employment has shrunk in five of the past nine months and during that span the economy has lost a total of 32,000 jobs. Rising employment costs, uncertainty around tariffs and what AI's impact will be on labor demand are among the issues negatively impacting hiring decisions. On a positive note, weekly unemployment claims, which often head south ahead of a deterioration in the job market and can be a portent of a recession, remain stable. The employment situation will be a critical variable to monitor in the coming months as a lackluster labor market could threaten consumer confidence and spending, which are the key drivers of economic activity in this country.

For those who already own a home, the housing market remains a positive factor in their personal financial health. Modest price increases continue while most homeowners have taken advantage of the opportunity to refinance at attractive rates in recent years. The opposite is true for those looking to make their first home purchase as housing affordability hovers near multi-decade lows. Thirty-year fixed mortgage rates briefly dropped below 6% in February for the first time since 2022. Since the war has reignited inflation fears, rates have edged higher putting a damper on new purchase and refinancing activity. Furthermore, according to the Case-Shiller U.S. National Home Price Index, house prices have surged nearly 40% over the past five years, well ahead of the roughly 25% increase in the consumer price index during that span. Mortgage rates have almost doubled over that period, too, putting a home purchase out of reach for many Americans.

The fate of the stock market is critical to the outlook as it is an important driver of economic activity as the wealth effect impacts a growing percentage of Americans. It is particularly important for consumers in the upper two quintiles of the income distribution which account for the majority of total spending according to Moody's Analytics. Prior to the outbreak of the war in Iran, investors had reasons to be confident. With results for 2025 almost complete, FactSet S&P 500 bottoms up earnings estimates call for an 11.6% advance, the second consecutive year of double-digit growth. That optimism has been carried forward as analysts forecast 16.3% growth in 2026. This is occurring at a time when corporate profit margins continue near record high levels. Forward earnings estimates may need to be adjusted lower should the war drag on, however. It is possible that this process has already begun as all three major stock market indices have moved lower for four weeks in a row as the war continues.

It is possible that this good news may already be fully reflected in share prices. Stock market valuations remain above historical averages as measured by any number of metrics including price earnings ratios, cyclically adjusted price earnings ratios, price to book and price to sales to name a few. At the same time, new concerns have emerged regarding the emergence of AI as a transformative, but potentially disruptive, technology that could upend business models and job opportunities. Equities across a wide range of industries have experienced dramatic selloffs in recent weeks as investors fear that new AI capabilities will seriously threaten their business models. Additionally, a rotation away from some of the mega-capitalization technology companies has begun. One concern is that the massive expenditures that these companies are making to build out data centers and other AI initiatives is upending their formerly capital light business models. This has also diverted cash from being used to repurchase shares and helps explain why S&P 500 stock buybacks recently hit their lowest levels since 2020. These technology investments are expected to unfold over many years causing investors to fear that they will transform those firms into capital intensive endeavors with weaker free cash flows and increased debt burdens. At a minimum, this introduces a new risk and investors have responded by selling shares in those companies on the margin.

Historically, private market investors have been willing to trade the relative lack of liquidity for the hope of higher long term returns. Sentiment toward this asset class began to shift last fall when the first signs of stress arose with the collapse of auto parts manufacturer First Brands and subprime auto lender

Tricolor Holdings. In both cases, sophisticated lenders including UBS, Jefferies and JP Morgan were unable to foresee problems that were emerging due to the increasing complexity and opacity of the financing arrangements backing those firms. This led the banks to believe that sufficient collateral existed to back the loans, when in fact it did not, raising concerns that the private credit industry has grown faster than the ability to put compliance frameworks in place to effectively monitor it.

According to Bloomberg, bank lending (including undrawn commitments) to these non-depository financial institutions (NDFIs) has risen more than six-fold from \$300 billion in 2015 to \$1.9 trillion last year. At the same time, NDFI loans as a percentage of total bank loans nearly tripled from under 5% to 14%. Banks have responded to recent problems by restricting lending in order to mitigate their exposure to the industry as it becomes more apparent that there are issues with weak cash flows, excessive leverage and poorly constructed debt covenants. As JP Morgan CEO Jamie Dimon noted during the company's October conference call in reference to these challenges, "When you see one cockroach, there's probably more." Increasingly, problems in this market will impact not just large institutional investors, but also average ones as private equity and private credit investments are now more easily accessible via mutual funds and other financial products available to most investors.

Investment Conclusions

As always, we continuously partner with our clients to understand their needs, both near and long term, and then build customized portfolios which we modify over time to help achieve those goals. We do this in an environment of varying uncertainty, which there is certainly no lack of today. At first glance, the backdrop for investors seems constructive as economic growth, the employment situation, enthusiasm for AI's potential and overall liquidity in the market offer investors hope that the bull market remains alive and well. On the other hand, the list of potential headwinds continues to grow and includes above average valuations, stubbornly high inflation, rising interest rates, a job market that is weakening on the margin, the threat of AI disruption to many industries, cracks in the private capital markets and a new war in the Middle East.

In recent months markets have trended modestly lower. Beneath the surface, significant sector rotations have taken place which have benefited portfolios like the ones we construct as investors pay greater attention to the challenges noted which disproportionately impact those that have been farther out on the risk curve. We will continue to maintain sensible portfolios designed to perform appropriately over full market cycles. As has been the case over our firm's history, we believe this will allow our clients to enjoy some upside when the capital markets remain friendly while better protecting principal when inevitable downturns come along.

March 23, 2026

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Material Changes

Below is a summary of the material changes that have been made to the brochure since our last update on March 11, 2025:

- **Item 4 – Assets Under Management**

WIC's assets under management were updated to reflect that our firm has discretionary assets under management of approximately \$1.11 billion as of December 31, 2025.

- **Item 8 - Methods of Analysis, Investment Strategies**

WIC amended its disclosure pertaining to the risks associated with the use of artificial intelligence.