

Global Asset Allocation ETF Strategies

Performance Commentary | Fourth Quarter 2025



EQUITY ALLOCATION PERFORMANCE

Contributors

- International Equities
- US Banks

Detractors

- Software
- Healthcare Providers

Equities faced volatility during the quarter, including a government shutdown, weak job data, and AI valuation concerns. Ultimately, markets recovered and investors gained clarity on a few fronts, including Fed cuts, and economic data showed resilience with a robust GDP number. Within equities, growth underperformed value, and more defensive sectors like healthcare outperformed. International equities ended the year on a strong footing given a favorable growth/policy mix.

The equity strategy delivered a positive quarterly return. The strategy's allocation to international developed market equities was the largest contributor, with the largest detractors being software and healthcare providers given regulatory concerns.

Notable Portfolio Adjustments During the Quarter

- Initiated US Banks, Retailers
- Initiated Canada position
- Trimmed US Growth
- Exited Software Sector, US Quality

OUTLOOK & CURRENT POSITIONING

- The outlook remains tilted bullish for sentiment and risk assets, supported by tailwinds of a healthy consumer, stimulus from the tax bill, tariff revenues, and AI-related spending. At the same time, slowing service prices, slowing wage growth, and fading tariff impact should help contain inflation.
- In global allocation strategies, we enter the year neutral to US exposure and full beta. Within equities, we are balancing our risk position with lower average valuation multiples than the broad market, an allocation to small caps to increase diversification and reduce concentration risk, and several tactical sector tilts. These are focused on valuation opportunities and stability, and include healthcare, banks, and retail.
- Within core plus strategies, we carry moderate and well-diversified exposure in non-core sectors. We lowered high yield and loan exposure in the second half of 2025 in favor of increased preferred stock and higher-income securitized exposure.

FIXED INCOME ALLOCATION PERFORMANCE

Contributors

- MBS
- Corporate Bonds (IG/HY)

Detractors

- Preferreds
- Long Treasuries

In fixed income, two Fed cuts drove performance, with shorter duration segments outperforming on curve steepening. While the labor market was weak enough to warrant Fed rate cuts, the economy remained in expansion, supporting the outlook for corporate fundamentals. Credit had positive performance as spreads remained historically tight but underperformed broad market returns, and MBS showed strength during the quarter. Bonds posted the best year since 2020 with the Aggregate Bond Index returning 7.3%.

The fixed income strategy posted a strong positive quarterly return, driven by performance in the strategy's MBS and corporate bond allocations.

Notable Portfolio Adjustments During the Quarter

- Added Treasuries
- Exited Loan Exposure

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