

Asset Allocation Perspectives

January 2026

*Market Outlook and Key
Investment Themes*

Sage Advisory Services
5900 Southwest Parkway
Building 1, Suite 100
Austin, Texas 78735

SAGE | INVEST WITH WISDOM™

Summary of Outlook

Resiliency

- Recent data momentum has been positive and consumer strength points toward further resilience.
- Consumer health and a still-favorable policy mix should translate into growth in the 2.0%-2.5% range in 2026.
- Inflation remains sticky but expect progress toward 2% target, as energy, service prices, and tariff impact have all eased.

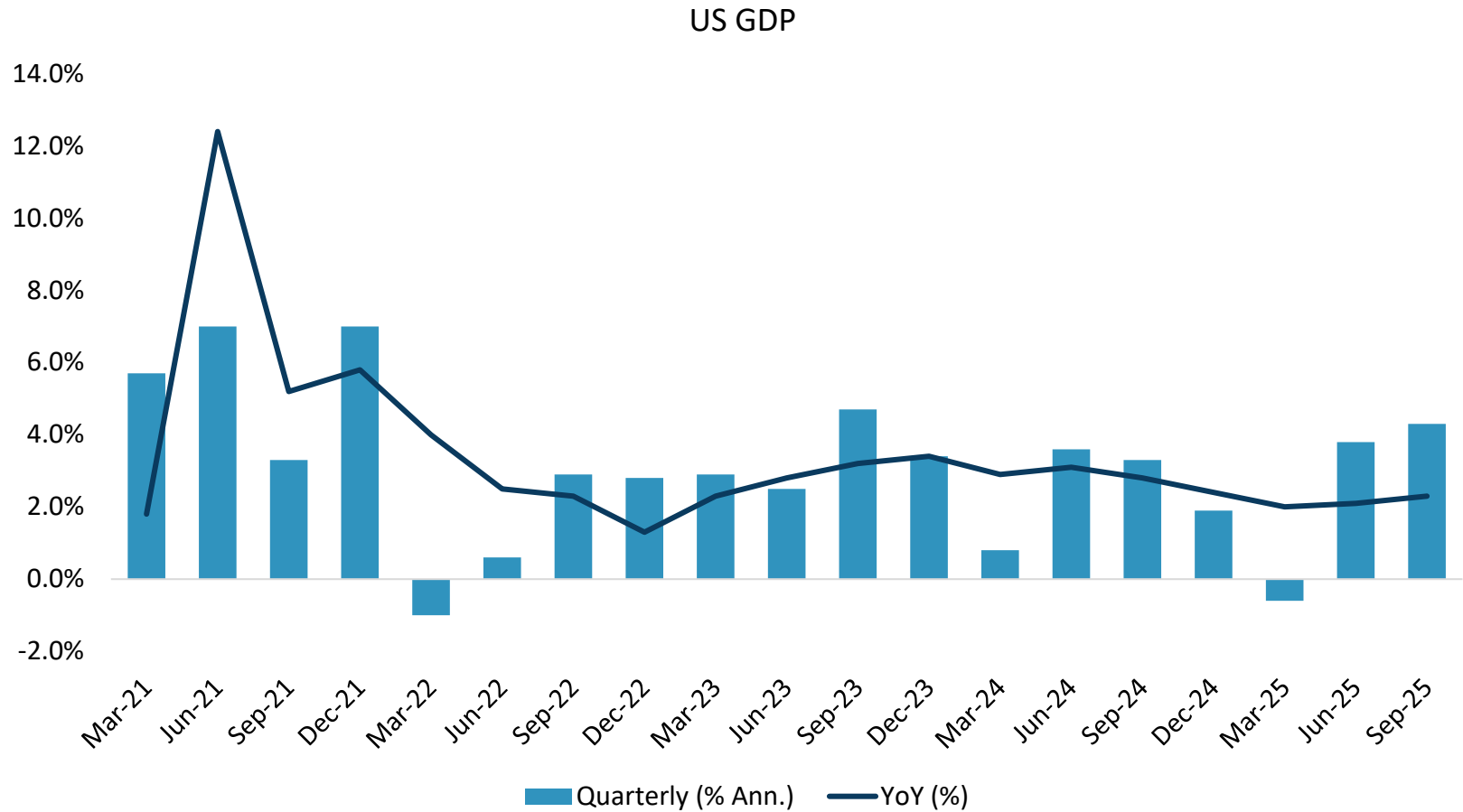
Risks

- The primary economic risk is the labor market, but a shrinking pool suggests a period of stalling not contraction.
- AI capex pace has downside potential to growth and is also a near-term valuation driver in equity and spreads.
- Aggressive global central bank easing is in the final stages and liquidity may become tighter in 2026 – suggesting quality tilts.

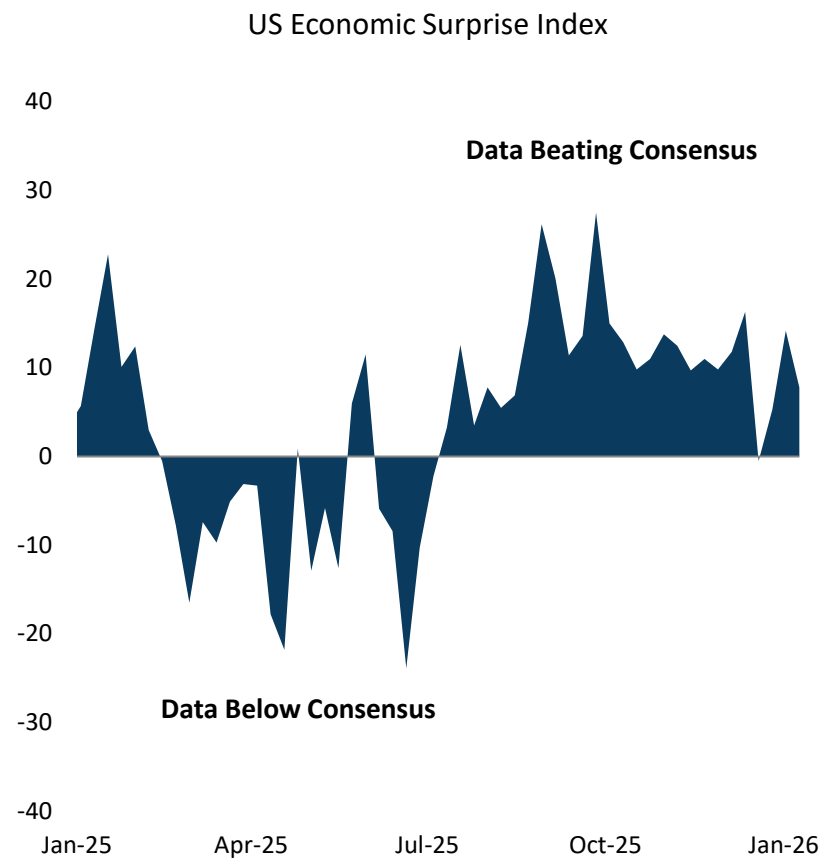
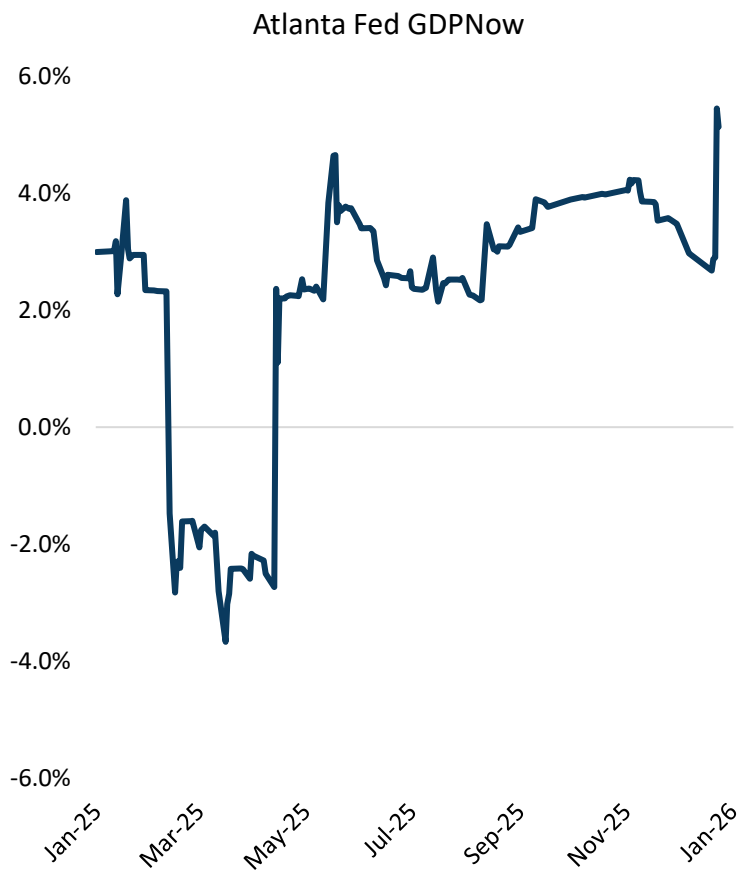
Returns

- Strong earnings and attractive yield carry create potential for solid gains in equities and fixed income – just less than in 2025.
- Fixed income: 1-3 cuts and yield carry should deliver moderate gains, and credit risk should be tamped down given spreads.
- Equities: Returns depend on earnings given multiples; diversification and valuation-based rotations are recommended in 2026.

US Economy Remains in Expansion, Despite Labor Weakness and Tariff Shock



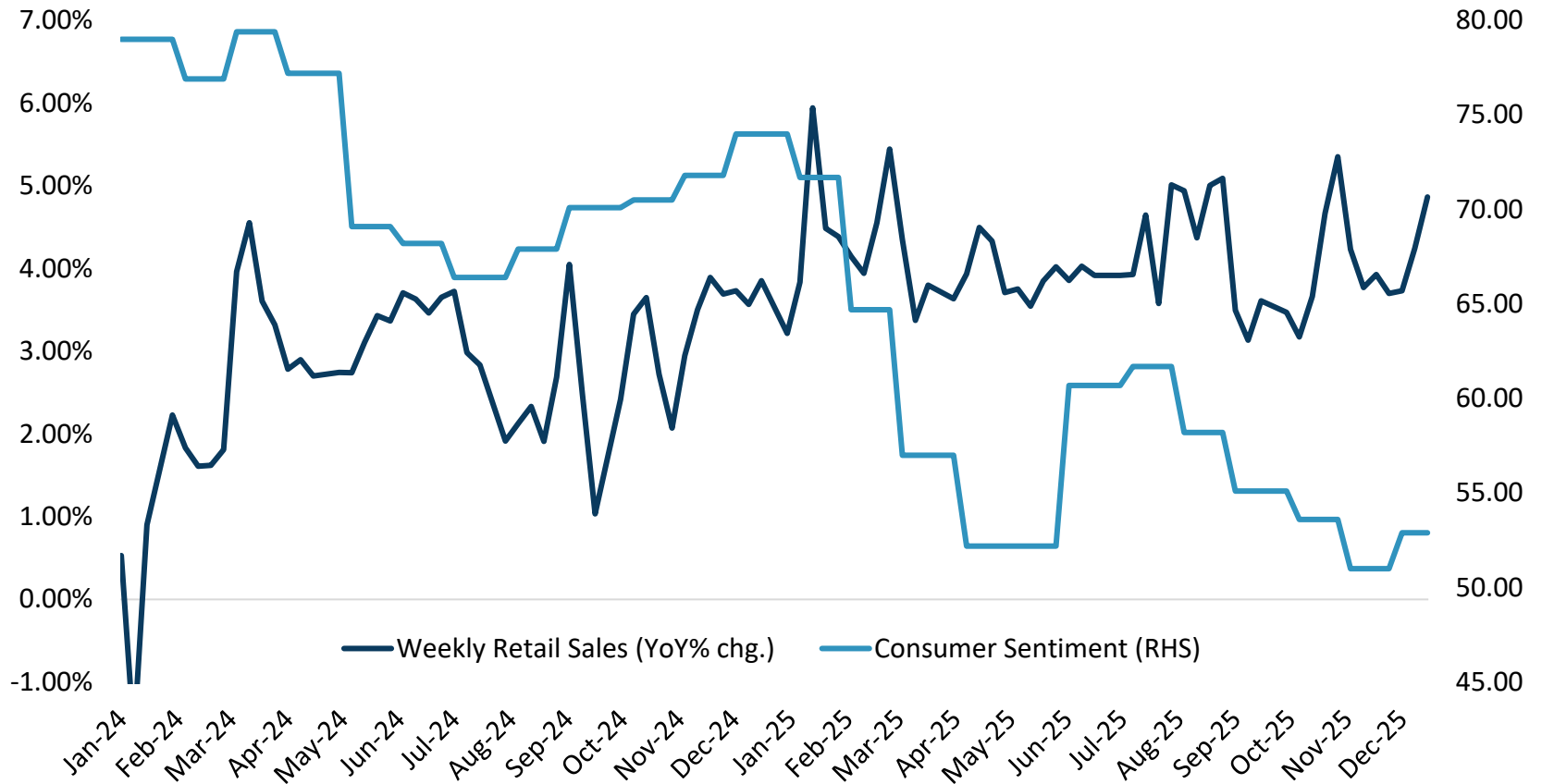
Momentum Since Mid-Year Has Been Positive, Suggests Upside Growth Potential



Source Bloomberg as of 1/9/2026. Note: GDPNow is a nowcasting model created by the Federal Reserve Bank of Atlanta that forecasts real GDP growth by aggregating 13 components that make up GDP.

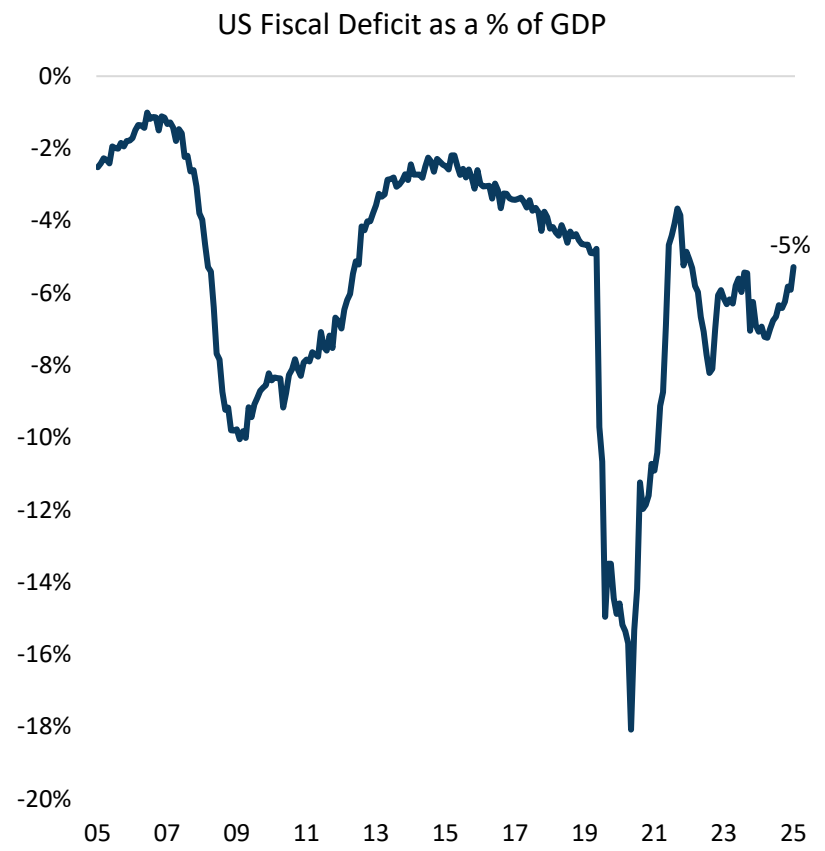
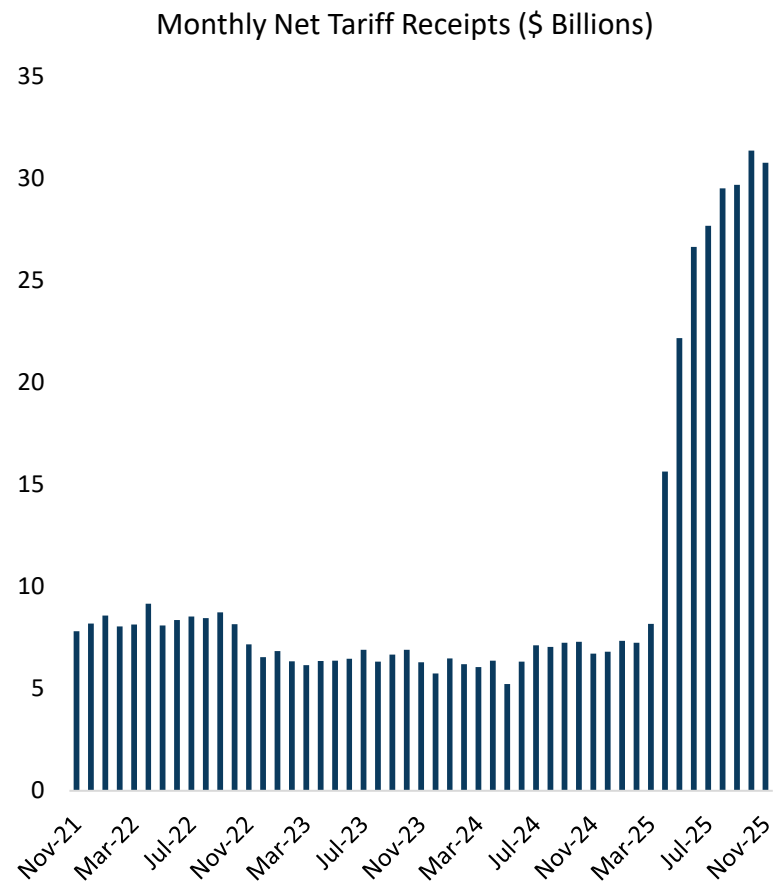
Consumer Remains a Tailwind to Growth Despite Drop in Overall Sentiment

Firm Retail Sales vs. Weaker Consumer Sentiment



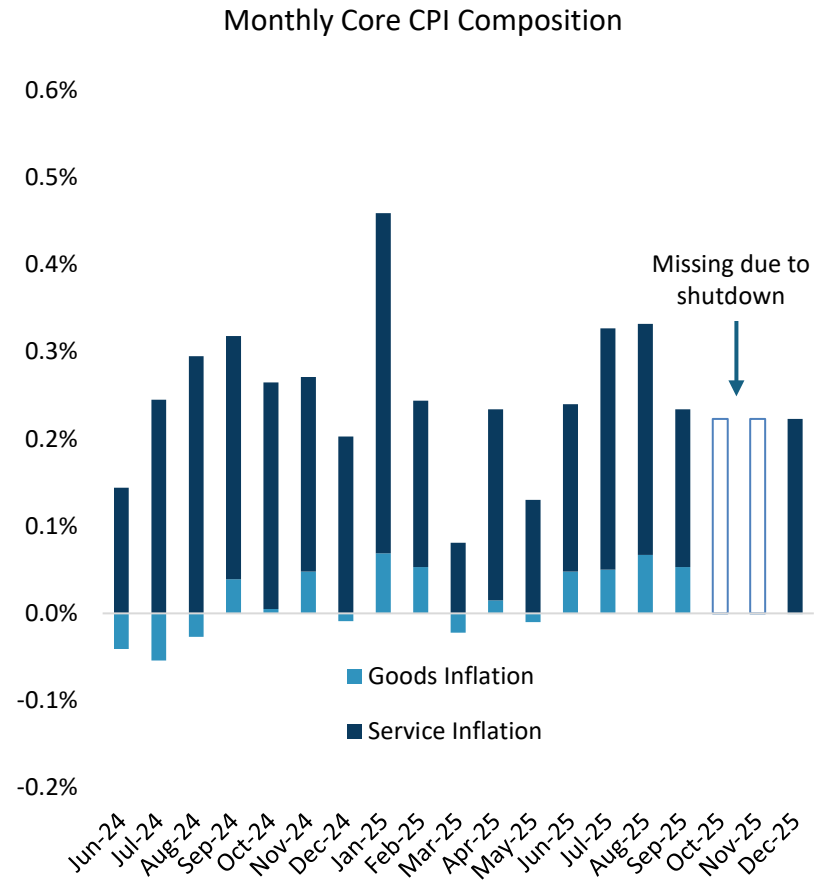
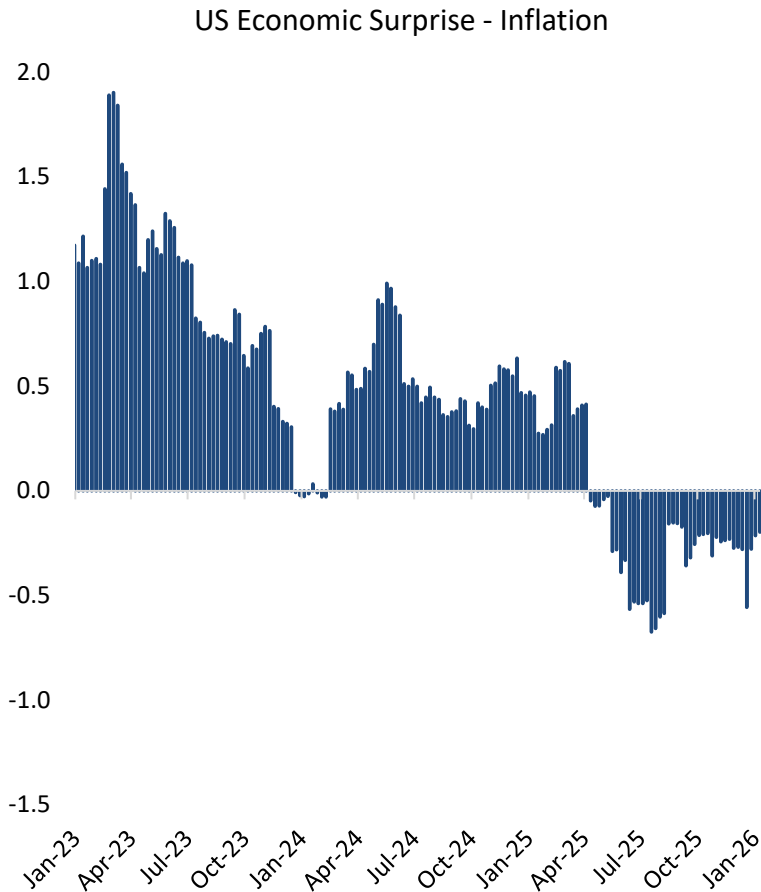
Source: Sage, Bloomberg as of 12/31/2025

While a Source of Uncertainty, Tariffs at ~\$300 Billion/Year is a Fiscal Tailwind

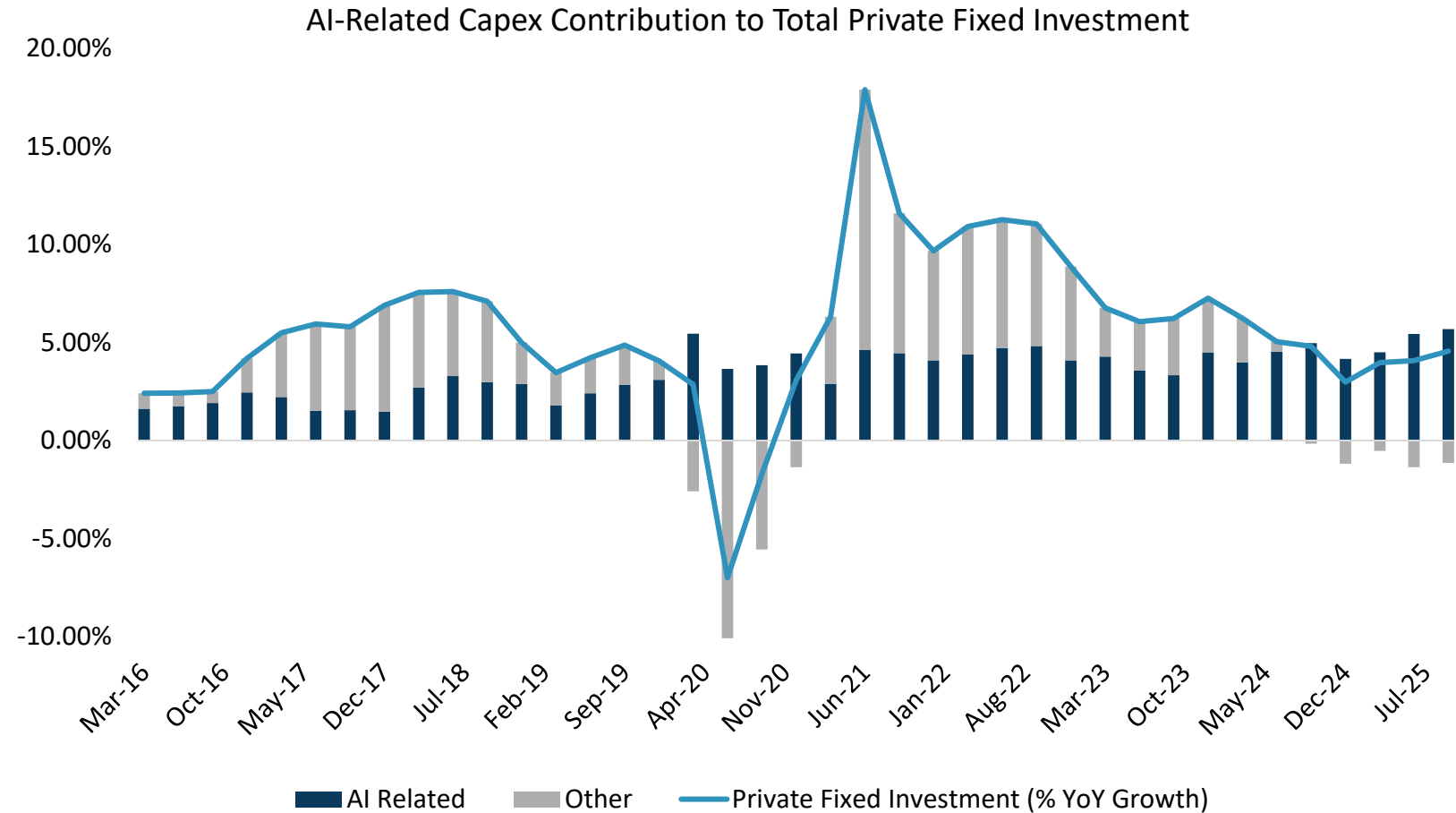


Source: Sage, Bloomberg as of 12/31/2025

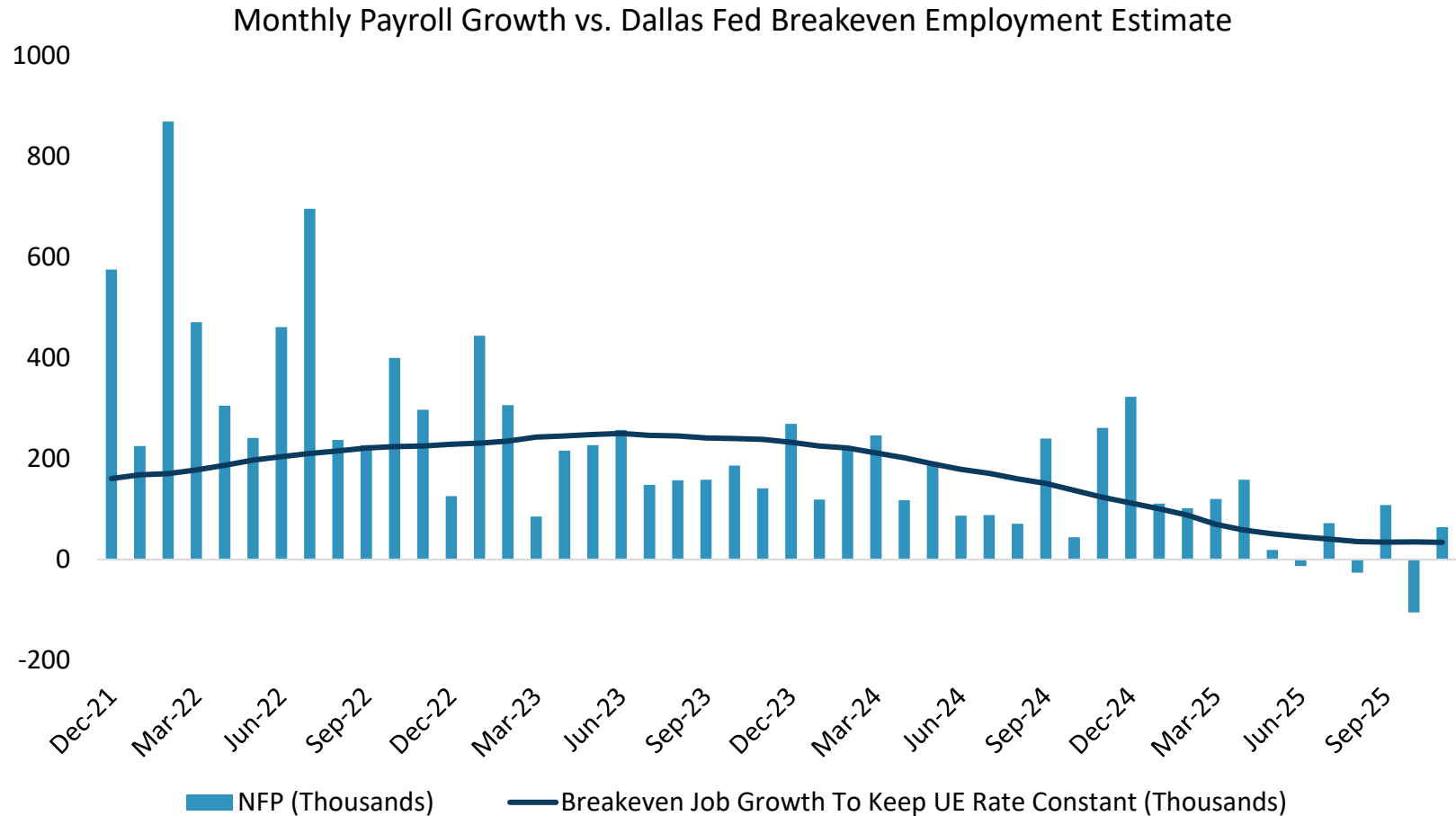
Peak Tariff Impact on Goods and Stable Service Prices Suggest Contained Inflation



Risk – AI Capex Accounts for All US Aggregate Capital Expenditures



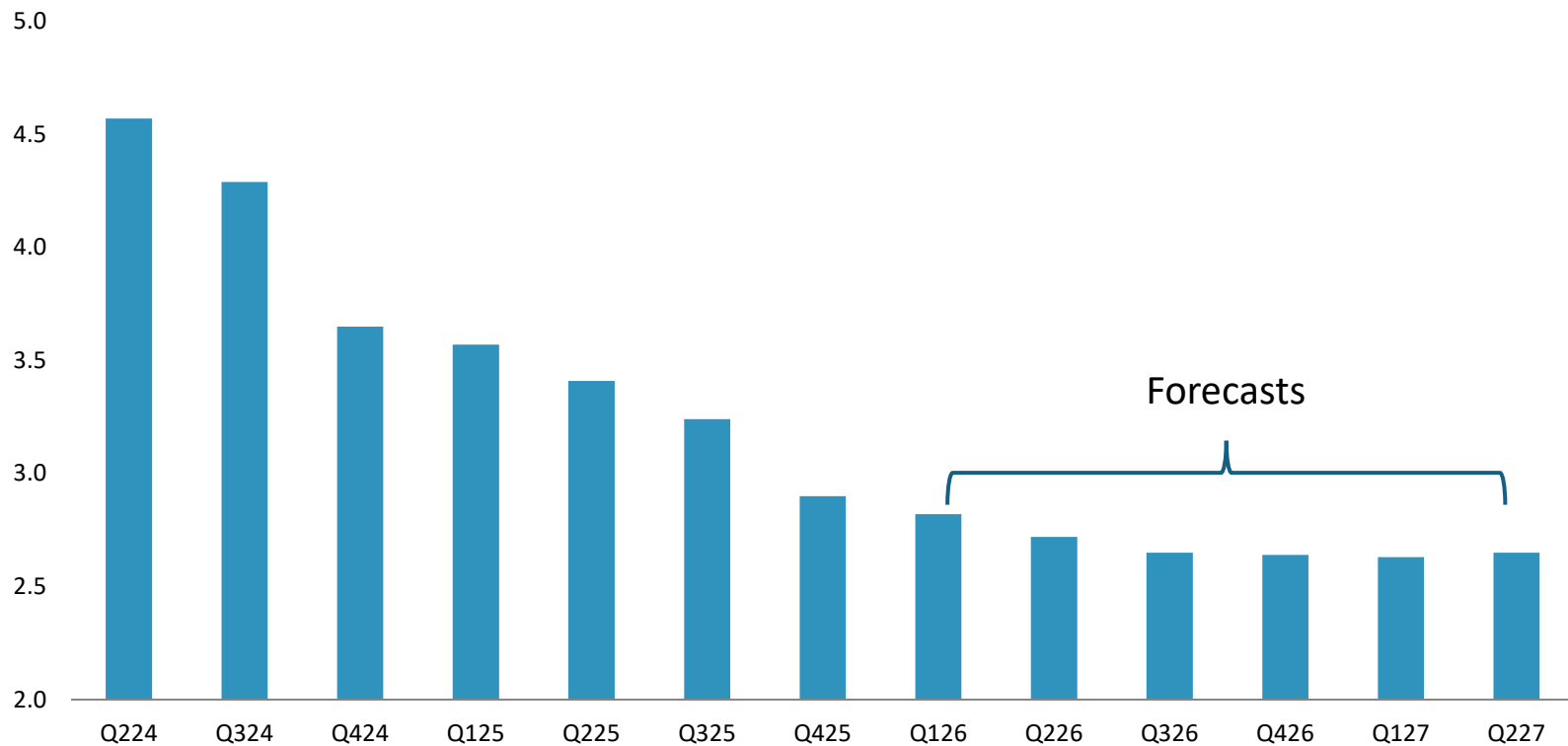
Risk – Downside Labor Surprises Grow as Breakeven Job Growth Shrinks



Source: Sage, Dallas Fed, BLS, Bloomberg as of 12/31/2025

Risk – The Era of Aggressive Rate Cuts Is Ending and Liquidity Concerns Could Rise

Developed Markets (G10) Central Bank Policy Rate and Forecasts (%)



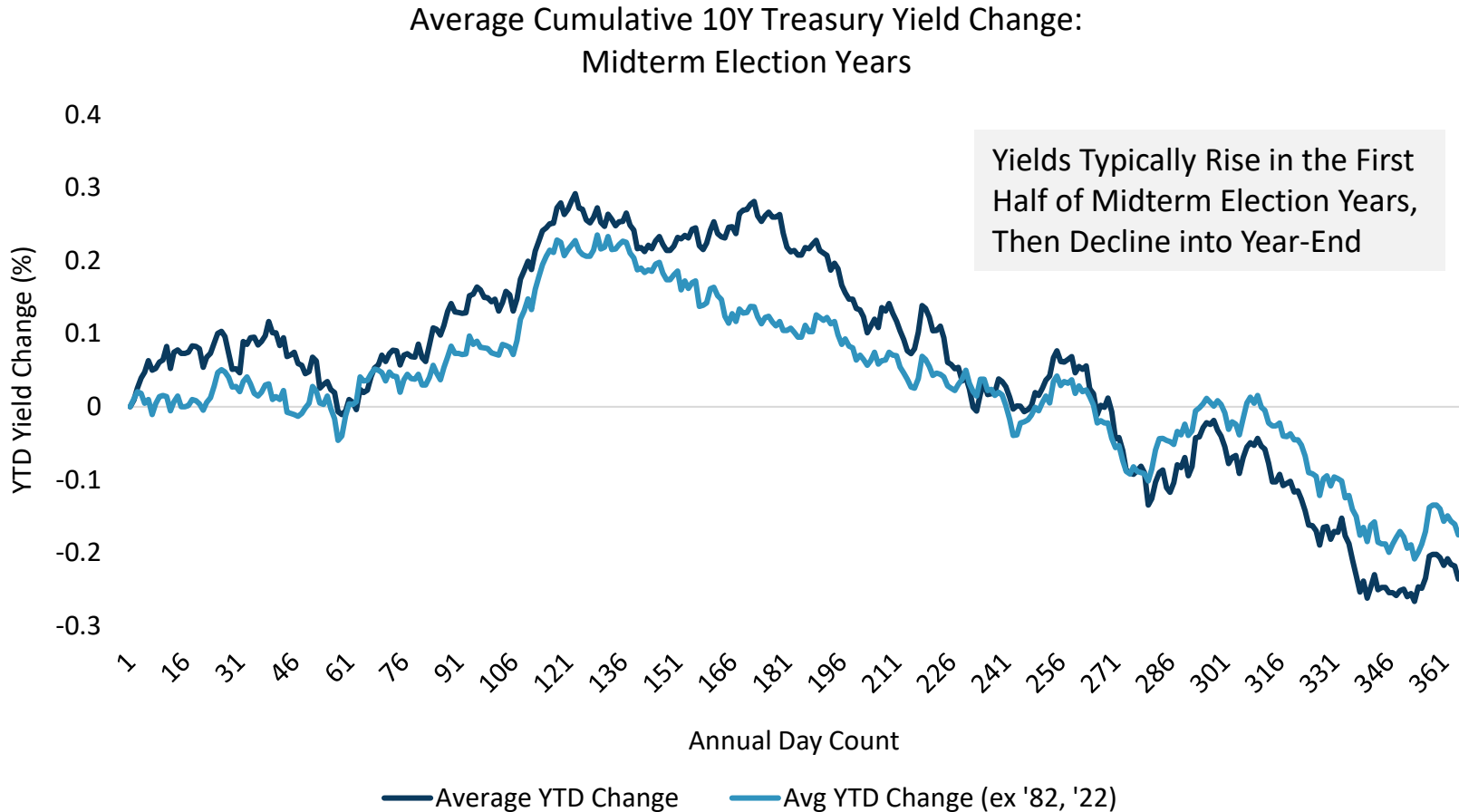
Returns – Fixed Income Outlook is Favorable with Mix of Carry and Cuts

Estimated 12-Month Total Returns Based on Parallel Yield Shifts

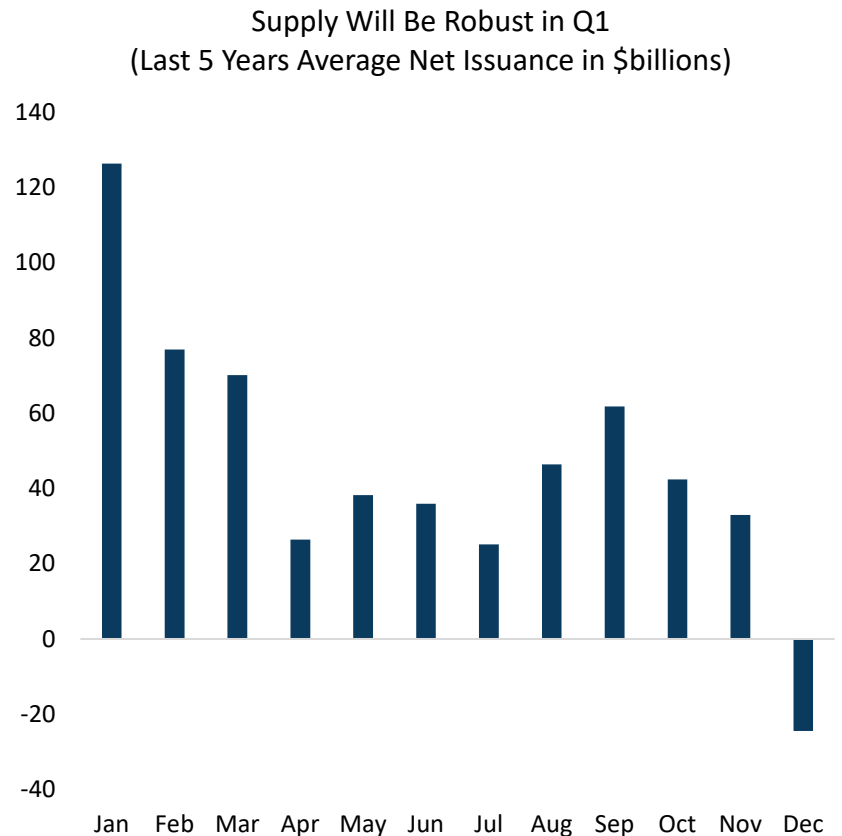
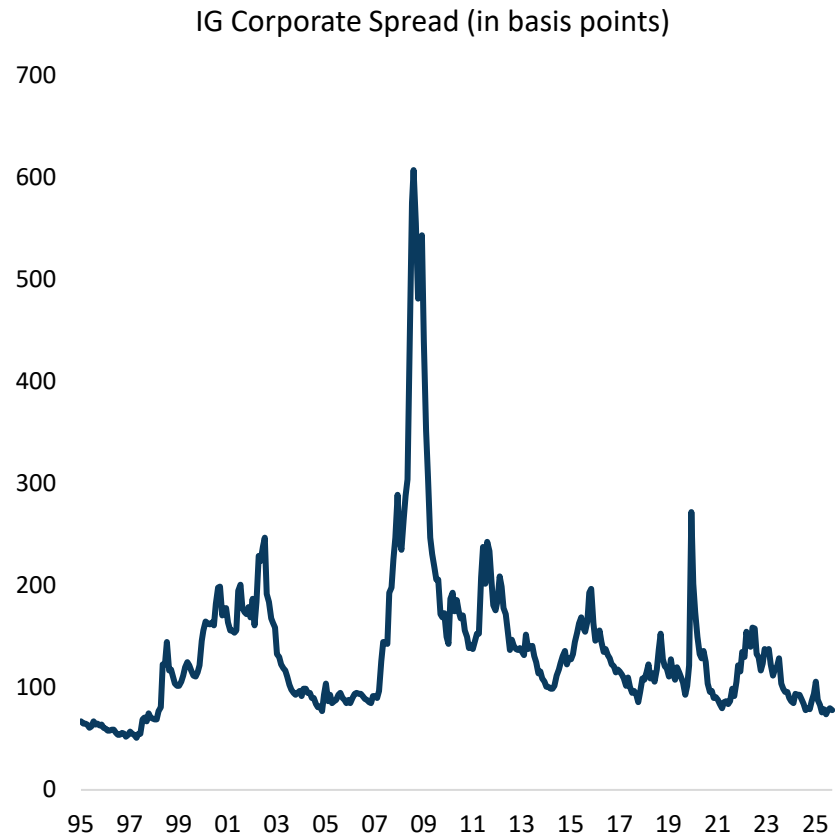
	T-bills	Short Gov/Credit	Int. Gov/Credit	Int Credit	Core Aggregate
-1.00%	3.0%	5.0%	7.2%	7.9%	9.8%
-0.75%	3.1%	4.7%	6.4%	7.0%	8.5%
-0.50%	3.3%	4.3%	5.5%	6.2%	7.1%
-0.25%	3.4%	4.0%	4.7%	5.3%	5.7%
Unchanged	3.5%	3.6%	3.9%	4.4%	4.3%
0.25%	3.6%	3.3%	3.1%	3.5%	2.9%
0.50%	3.8%	2.9%	2.3%	2.6%	1.6%
0.75%	3.9%	2.6%	1.4%	1.7%	0.2%
1.00%	4.0%	2.2%	0.6%	0.8%	-1.2%

Note: Analysis uses Bloomberg Indices as of 1/5/26. Return estimates assume a parallel shift in interest rates across the curve, adds average yield and rate impact.

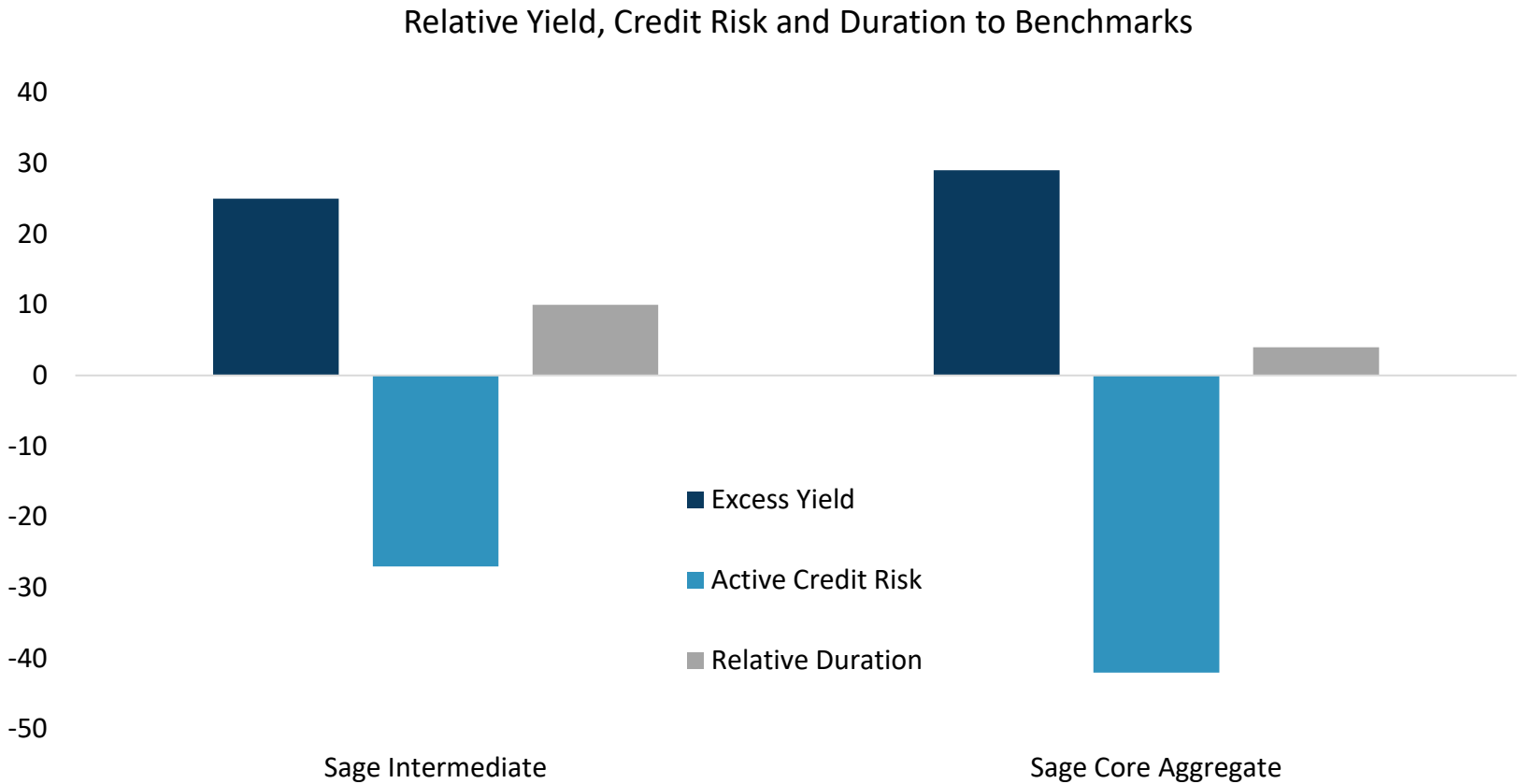
Tactically – Yields Under Pressure Early in the Year, but Expect Lower Yields in 2026



Corporate Spreads Are Lowest Since 1998, Offering Little Margin for Shocks



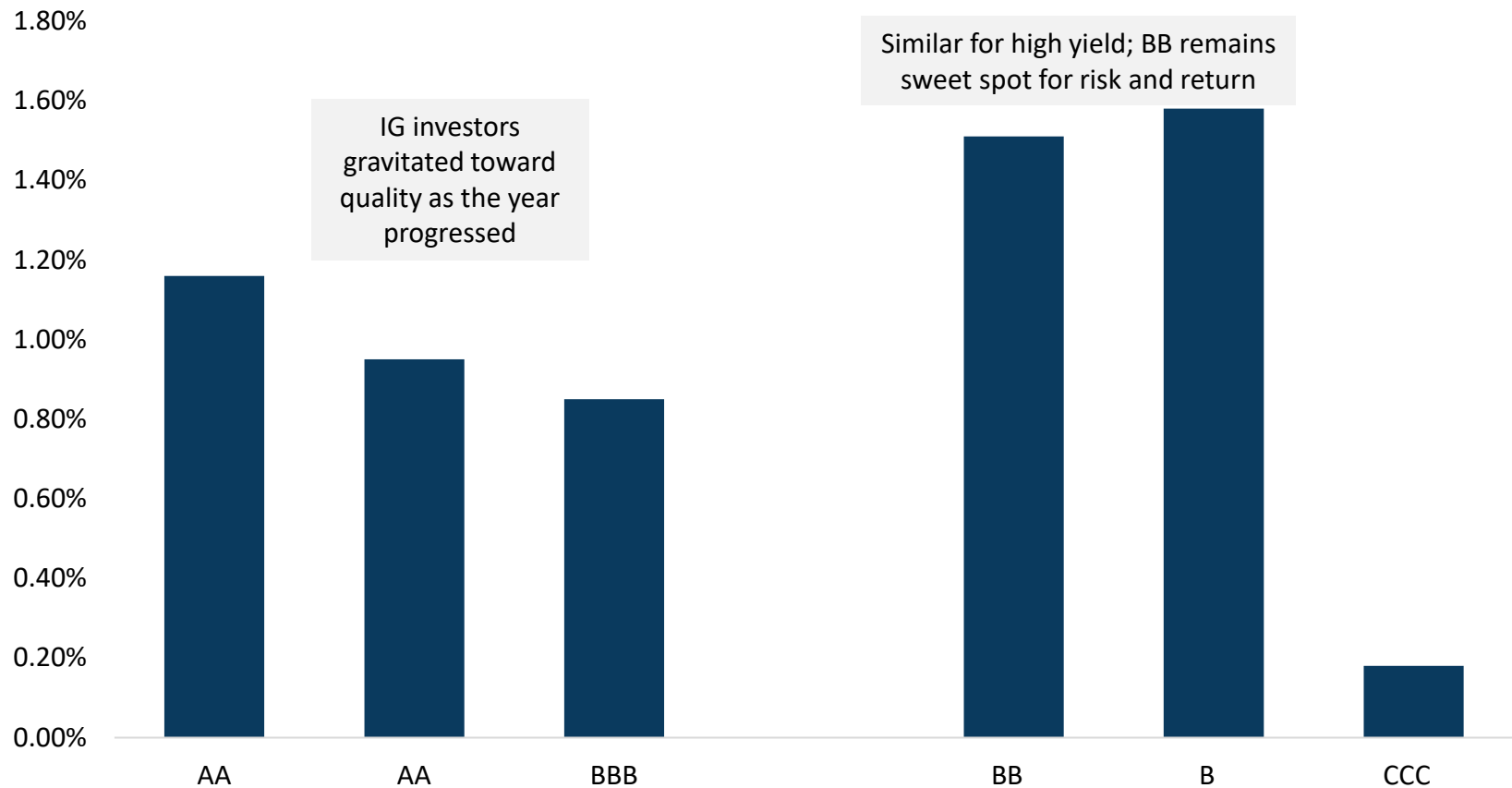
2026 Game Plan: Active Management of Credit Risk While Driving Excess Yield



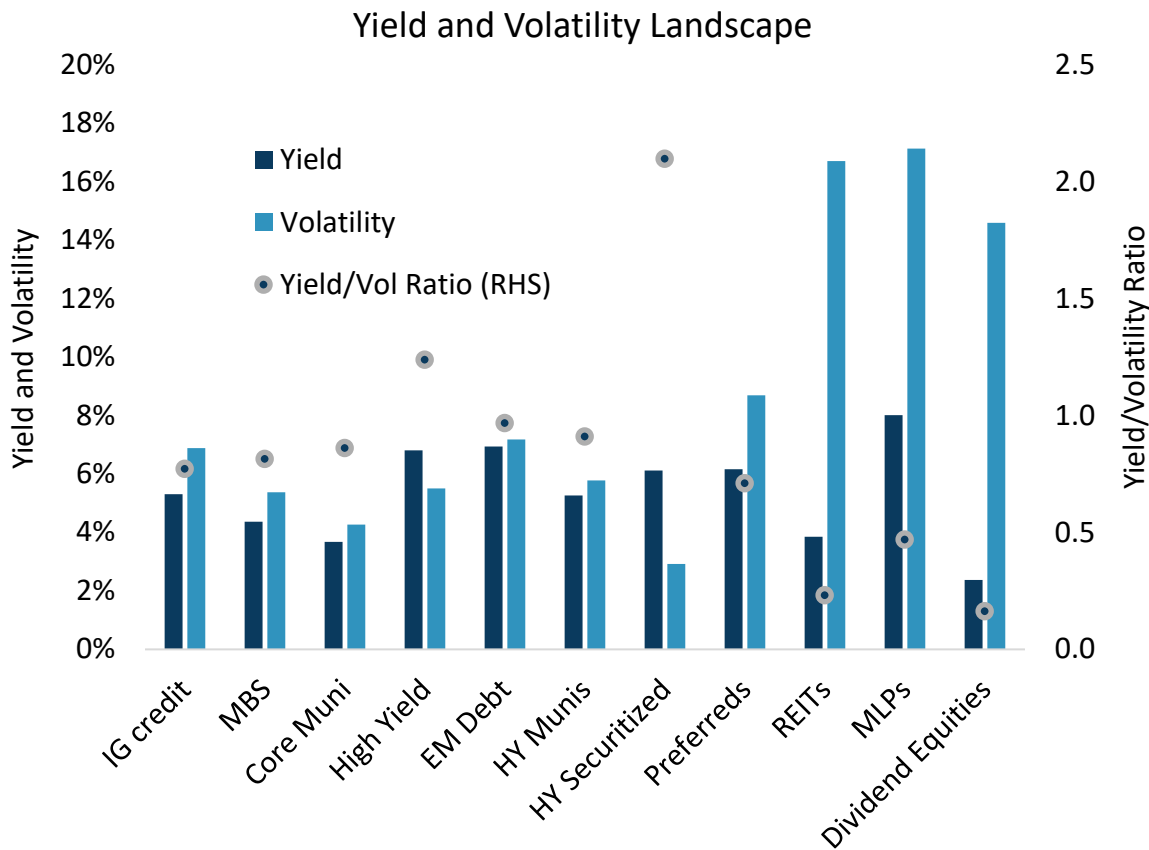
Note: Analysis uses Sage composite data as of 1/2/26 vs. Bloomberg Indices. Excess yield is measured in relative YTM, and active credit risk is measured in relative spread contribution to duration (CTD).

For Core Investors – Cautious on Credit with Focus on Quality and Stability

Fixed Income Total Returns in 4Q of 2025



For More Aggressive Yield Seekers, MAI Approach vs. Dividend or High Yield Only Focus



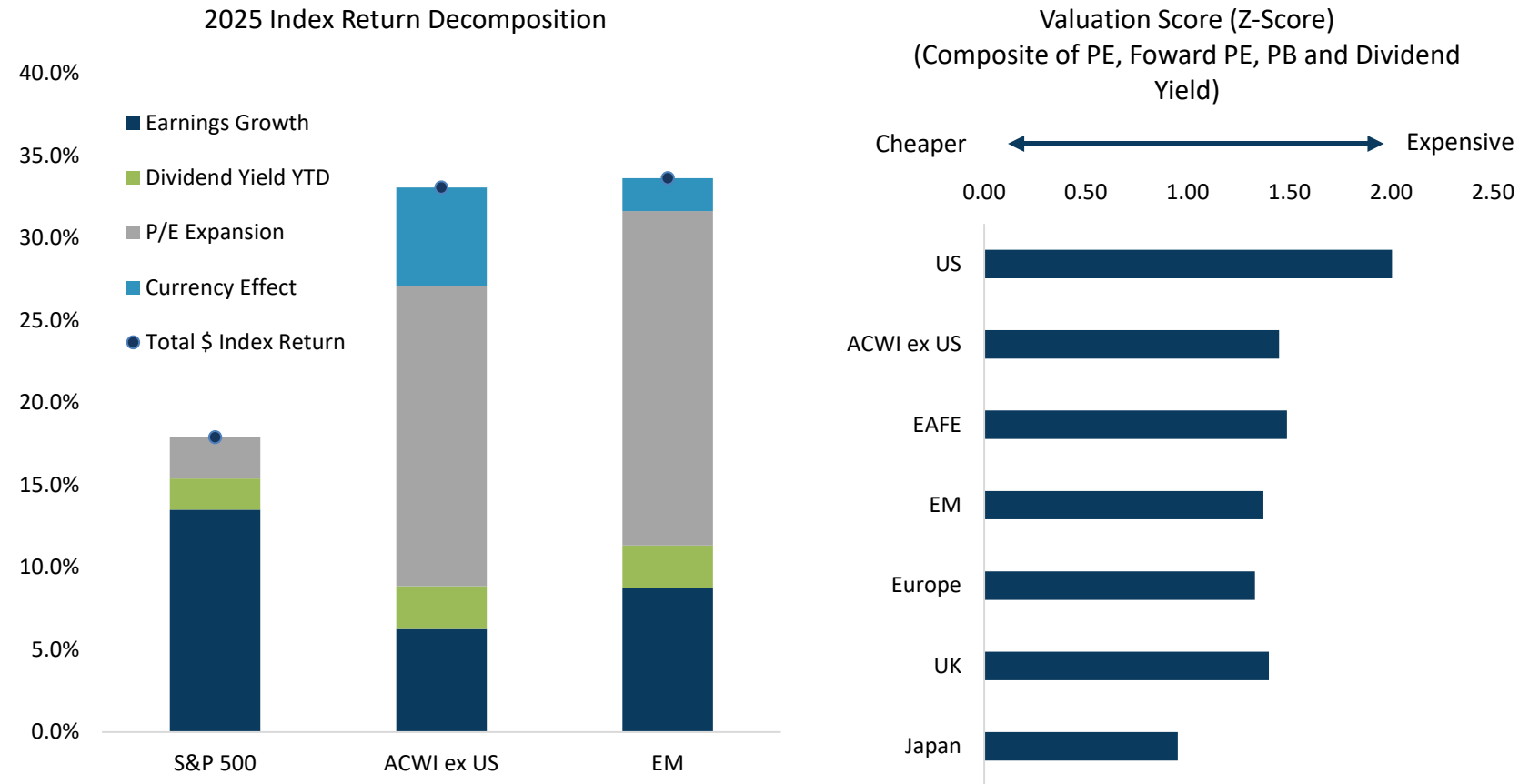
- Diversified multi-asset approach for income expands opportunity set in difficult valuation backdrop.
- MBS yield is competitive to credit, creating better risk/reward with less credit risk.
- Higher yield securitized markets offer better trade-off than many noncore fixed markets.
- Equity-oriented markets should be a smaller focus given the volatility trade-off and attractive fixed income yields.

Note: Yield based on YTM or dividend yield. Volatility is based on 360-day price volatility. Source: Sage, Bloomberg.

Returns – Strong Earnings Will Drive Return Potential, But Valuations Are Limiting

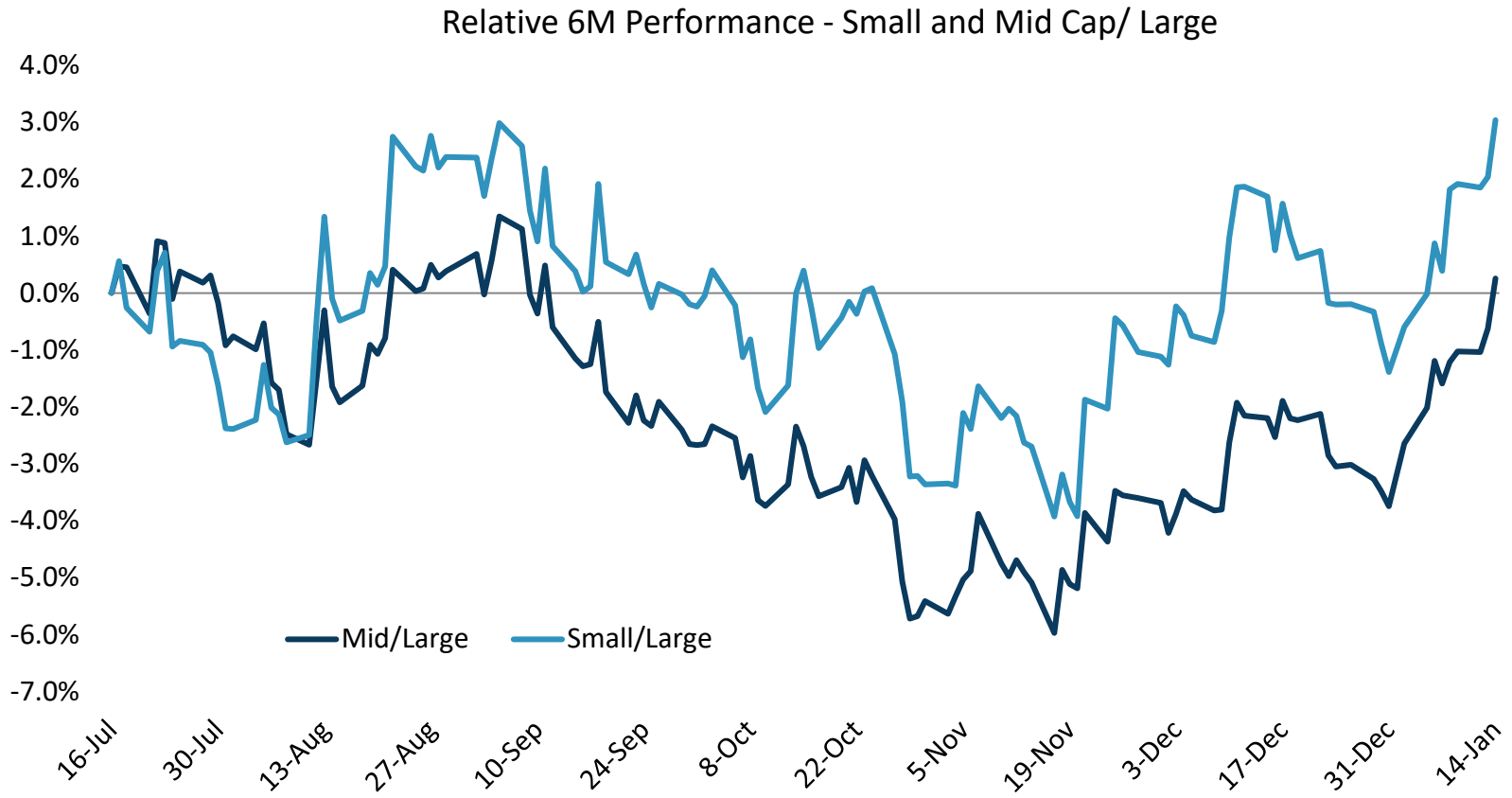
		12M Foward PE Ratio						Baseline potential if forward multiples remain elevated and earnings deliver consensus
		<u>20x</u>	<u>21x</u>	<u>22x</u>	<u>23x (Current)</u>	<u>24x</u>	<u>25x</u>	
12M Fwd. EPS@ YE 2025	\$292	-15%	-11%	-7%	-3%	1%	6%	
	\$309	-10%	-6%	-1%	3%	7%	12%	
	\$326	-5%	-1%	4%	9%	13%	18%	
	\$343	0%	4%	9%	14%	19%	24%	
	\$360	4%	10%	15%	20%	25%	31%	
	\$377	9%	15%	20%	26%	31%	37%	
	\$394	14%	20%	26%	32%	37%	43%	

Improving Global Outlooks and Valuations Suggest Increased International Diversification



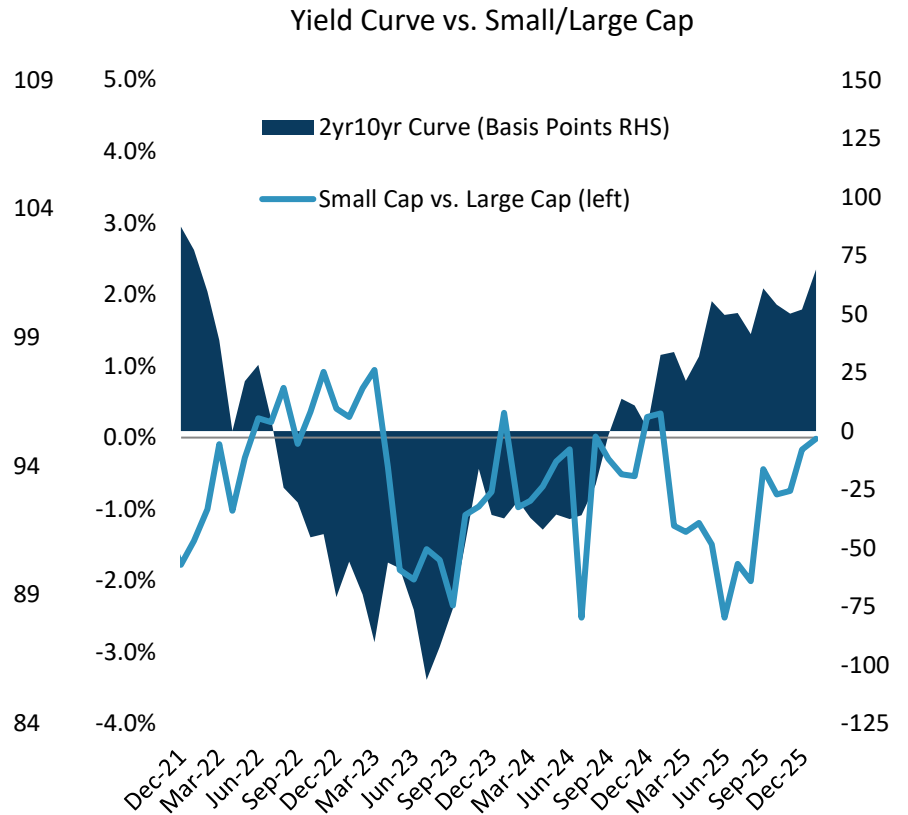
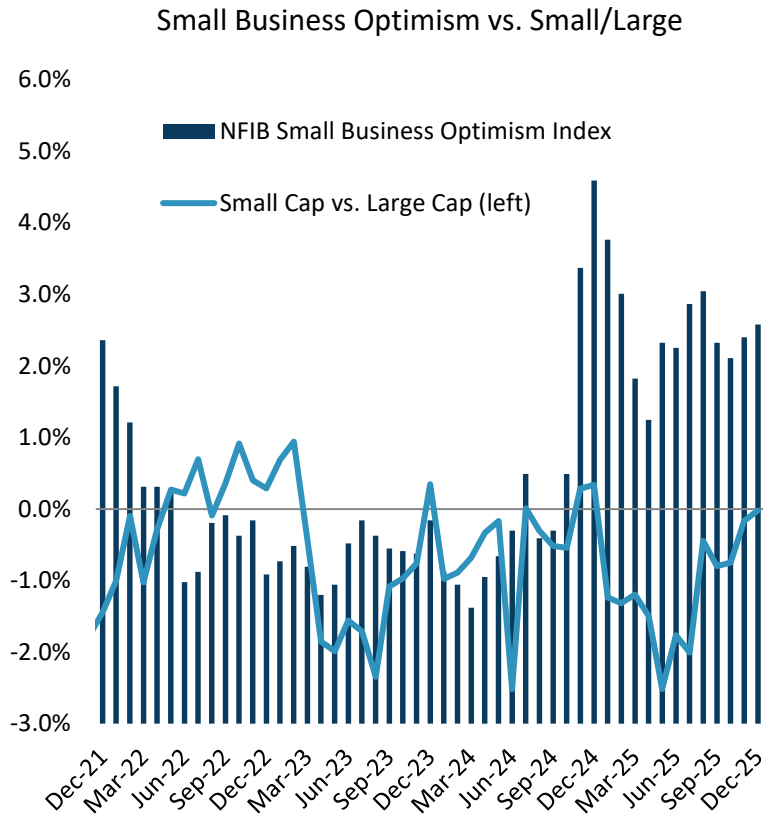
Source: Sage, Bloomberg as of 12/31/25

Small Caps Have Outperformed Since July and Valuations Remain Attractive



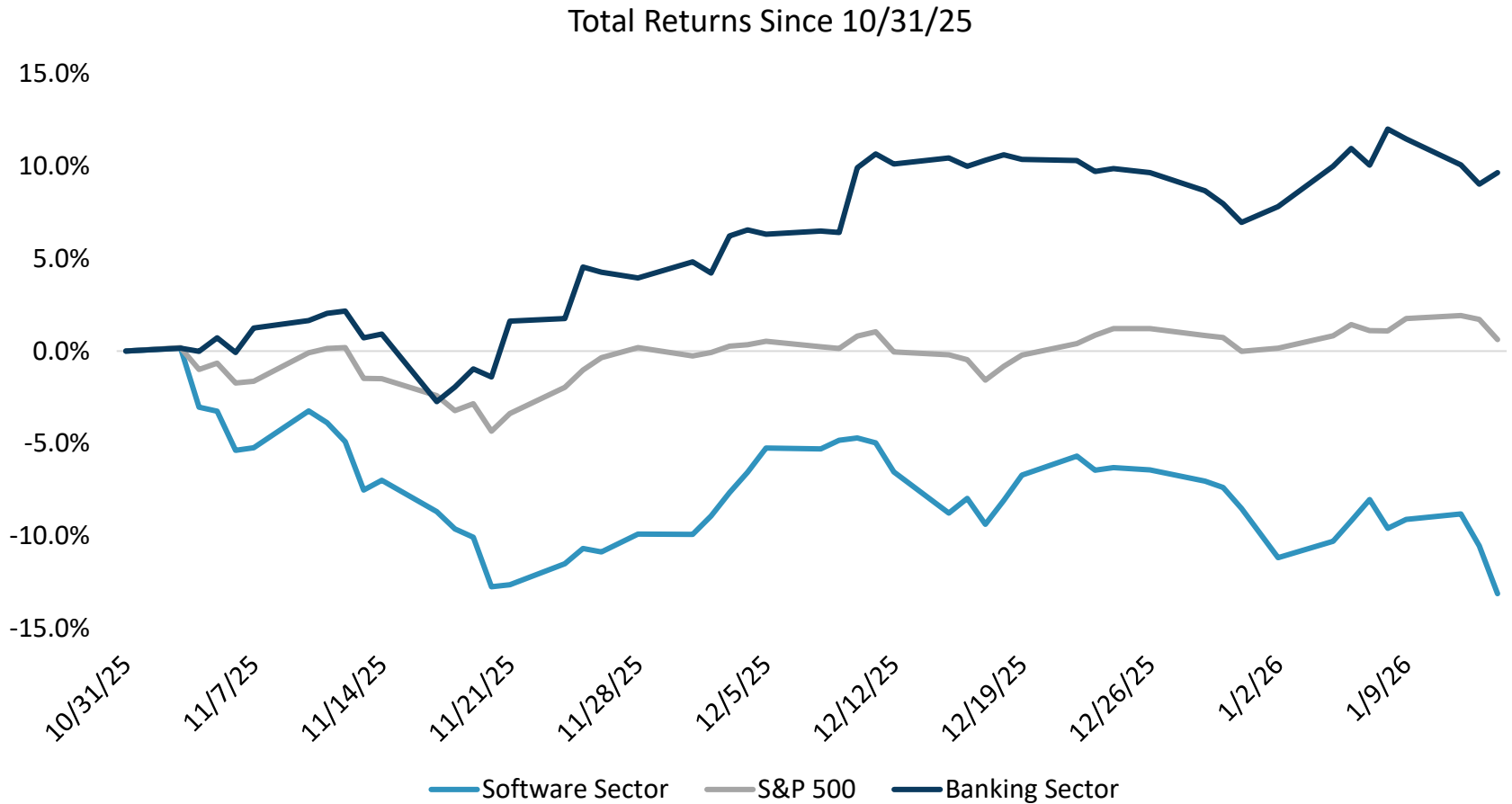
Source: Sage, Bloomberg as of 1/14/26

Improving Earnings Outlooks and Macro Conditions Support Sustainable Small Cap Trend



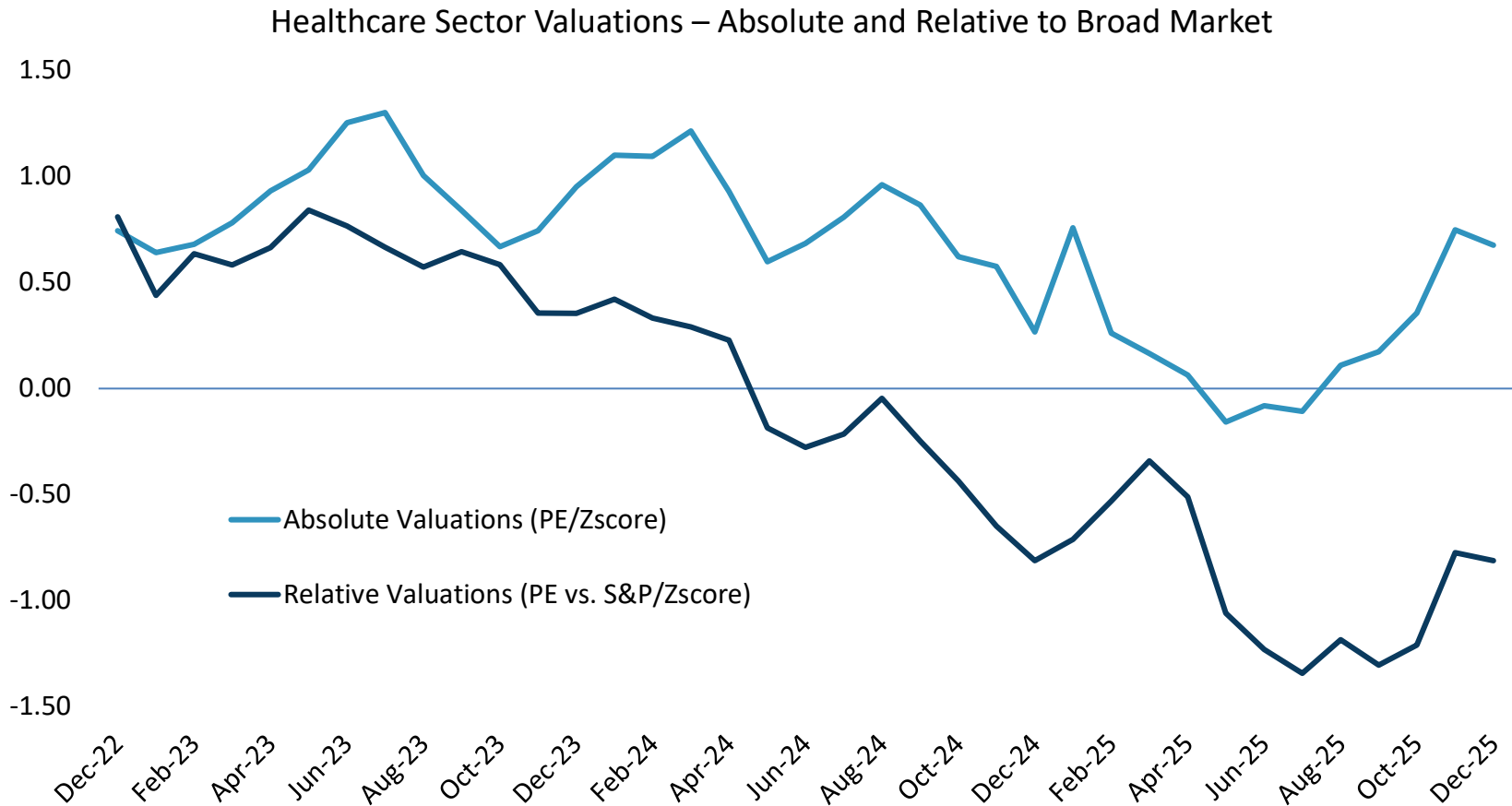
Source: Sage, Bloomberg as of 12/31/25

Risk Management Opportunities: We Rotated Some Tech (Software) to Banks in Late 3Q



Source: Sage, Bloomberg as of 1/14/26

Valuation Opportunities – Healthcare Rotation in 3Q on Attractive Valuations



Source: Sage, Bloomberg as of 12/31/25

IMPORTANT DISCLOSURES

This report is for informational purposes only and is not intended as investment advice or an offer or solicitation with respect to the purchase or sale of any security, strategy or investment product. Although the statements of fact, information, charts, analysis and data in this report have been obtained from, and are based upon, sources Sage believes to be reliable, we do not guarantee their accuracy, and the underlying information, data, figures and publicly available information has not been verified or audited for accuracy or completeness by Sage. Additionally, we do not represent that the information, data, analysis and charts are accurate or complete, and as such should not be relied upon as such. All results included in this report constitute Sage's opinions as of the date of this report and are subject to change without notice due to various factors, such as market conditions. No part of this Material may be reproduced in any form, or referred to in any other publication, without our express written permission.

Investors should make their own decisions on investment strategies based on their specific investment objectives and financial circumstances. All investments contain risk and may lose value. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, derivatives risk, income risk, and other investment company risk. As interest rates rise, bond prices fall. Credit risk refers to an issuer's ability to make interest payments when due. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Foreign investments involve additional risks as noted above. Investing involves substantial risk and high volatility, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise. Past performance is not a guarantee of future results.

Sage Advisory Services, Ltd. Co. is a registered investment adviser that provides investment management services for a variety of institutions and high net worth individuals. For additional information on Sage and its investment management services, please view our web site at www.sageadvisory.com, or refer to our Form ADV, which is available upon request by calling 512.327.5530.