

Enhanced Equity Income Q4 2025 Commentary

Market Review:

The US equity market extended its rally in the 4th quarter, as the S&P 500 returned 2.7% while the Russell 1000 Value was up 3.8%. For the full year, the S&P 500 was up 17.9% while the Russell 1000 Value returned 15.9%. It was the third consecutive year of outsized returns for the S&P 500, after a 25.0% gain in 2024 and a 26.3% gain in 2023. The bull market appeared to come to a halt following President Trump’s “Liberation Day” in early April, when his administration announced sweeping tariffs on all trading partners at rates much higher than markets previously anticipated. Equities worldwide reacted swiftly, with the S&P 500 dropping 11% over just three trading days. However, stocks rallied a week later when Trump paused the so-called reciprocal tariffs for 90 days. The market rally was further strengthened on the July 4th holiday when Trump signed the comprehensive budget package, the One Big Beautiful Bill Act, into law. The bill made permanent many of the 2017 tax cut provisions and included significant reductions in taxes on capital expenditures. In August, Trump’s reciprocal tariffs took effect, but at substantially reduced levels than the initially proposed rates. From the April 8th “Liberation Day” lows through year-end, the S&P 500 returned 38%.

Full-year returns were also driven in large part by the euphoria surrounding artificial intelligence. The top hyperscalers continued to escalate capital spending on AI data centers, while several tangential Industrial and Utilities companies benefited from the buildout. Communication Services (+33.6%) and Information Technology (+24.0%) were the top-performing sectors for the year, while Real Estate (+3.2%) and Consumer Staples (+3.9%) were the laggards (Figure 1). Remarkably, Communication Services and Information Technology have been the top two performing sectors for the past three consecutive years. Furthermore, every sector in the S&P 500 has posted a positive return in each of the past three years, except for Materials, which declined only 0.2% in 2024.

Figure 1: S&P 500 Sector Performance
Technology and Communications Services Led for 3rd Consecutive Year

	2023	2024	2025
Technology	60.9%	Comm. Svcs. 40.2%	Comm. Svcs. 33.6%
Comm. Svcs.	55.8%	Technology 36.6%	Technology 24.0%
Discretionary	43.2%	Financials 30.6%	Industrials 19.4%
<i>S&P 500</i>	<i>26.3%</i>	Discretionary 30.1%	<i>S&P 500 17.9%</i>
Industrials	16.0%	<i>S&P 500 25.0%</i>	Financials 16.0%
Financials	15.0%	Utilities 23.4%	Utilities 15.0%
Real Estate	14.6%	Industrials 17.5%	Healthcare 14.6%
Materials	10.5%	Staples 14.9%	Materials 10.5%
Healthcare	8.5%	Energy 5.8%	Discretionary 8.5%
Staples	6.0%	Real Estate 5.2%	Energy 6.0%
Energy	3.9%	Healthcare 2.6%	Staples 3.9%
Utilities	3.2%	Materials (0.2)%	Real Estate 3.2%

Source: Bloomberg, 1/1/2026.

The 4th quarter began with a shutdown of the federal government on October 1st, as Congressional Republicans and Democrats could not agree on issues primarily surrounding healthcare funding. The shutdown added uncertainty to economic data releases and raised concerns for particular industries that rely directly on the federal government. However, on November 12th, President Trump signed a spending bill ending the longest government shutdown in US history.

Delayed economic data was mostly positive when finally released in December. 3rd quarter GDP growth came in at 4.3%, well above consensus expectations of 3.2%, driven in part by strong consumer spending.¹ The Consumer Price Index for November rose at a 2.7% annualized rate, well below the 3.1% anticipated.² However, November's unemployment rate rose to 4.6%, the highest level since September 2021. A more encompassing measure that includes discouraged workers and those holding part-time jobs for economic reasons increased to 8.7%, its highest level since August 2021.³ The data adds to concerns surrounding a bifurcated US economy, with higher-income consumers benefiting from the wealth effect of rising asset prices while lower-income consumers struggle with declining job prospects. Following a 25 basis point cut in the federal funds rate in September, the Federal Reserve cut rates twice in the 4th quarter to the current range of 3.50% to 3.75%.

Healthcare (+11.7%) was the standout sector, rebounding after entering the quarter as the worst-performing sector in 2025. Investors bid for deeply discounted names in the sector, as Healthcare has lagged over the past three years. Communication Services (+7.3%) was the 2nd best performer, benefiting in part by a strong return from Alphabet, which alone accounts for 53% of the sector's weight in the S&P 500 Index. Real Estate (-2.9%) was the worst-performing sector in the quarter, weighed down by elevated interest rates and still-struggling fundamentals in much of the commercial property market. Utilities (-1.4%) was the 2nd worst performer, in part due to uncertainty surrounding the AI data center buildout.

Income and Options Summary:

Relying on a large dividend contribution of 4.1%, the Enhanced Equity Income strategy representative account recorded a total yield of 7.2% for the year, as investor interest remained focused on a limited number of sectors and equities. Thirty dividend increases were declared in the strategy during the year, averaging 4.9%; of the 34 positions held at year end, 24 had declared.

Call writing was again limited and difficult, with coverage remaining near the bottom of target range and investors focused on earnings quality on every earnings report. Volatility, a good indicator of call buyer interest, and as measured by the VIX Index, spiked in April at 60. It then trended generally down throughout the year, reflecting consistent and sustained equity market strength, before making its year low near 13, compressing moneyness and limiting call exposure.

The 3.1% call premium yield was generated from 127 calls. Static premium returns were very strong, marking near 20% average annualized for the year, and likely reflecting the strength of call buyer selectivity. However, the limited opportunities did not impact the assignment rate, as it fell to a since-inception low of 29% of the positions not written to be called. Called return numbers were also solid, averaging nearly 80% annualized. Moneyness during the year averaged 3.7%, remaining above the historical average, although it fell below that mark in December.

¹ <https://www.bea.gov/news/2025/gross-domestic-product-3rd-quarter-2025-initial-estimate-and-corporate-profits>

² <https://www.bls.gov/news.release/pdf/cpi.pdf>

³ <https://www.bls.gov/news.release/pdf/empst.pdf>

Performance Analysis:

The Enhanced Equity Income strategy returned 2.0% (net) for the 4th Quarter and 7.5% (net) for the year, compared with 6.5% and 8.9% from its primary benchmark, the S&P 500 Buy/Write Index, and 1.4% and 8.7% from its secondary benchmark, the SPDR Barclays High Yield Bond ETF (JNK), respectively.

Figure 2: Enhanced Equity Income Returns vs. Benchmark

December 31, 2025	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incept*
SCCM Enhanced Equity Composite (gross)	2.3	8.7	8.7	6.3	8.6	8.2	8.7
SCCM Enhanced Equity Composite (net)	2.0	7.5	7.5	5.1	7.4	7.0	7.5
S&P 500 Buy-Write Index (BXM)	6.5	8.9	8.9	13.5	9.3	7.3	7.2
SPDR Bloomberg High Yield Bond ETF (JNK)	1.4	8.7	8.7	9.7	3.8	5.6	4.9
Russell 1000 Value Index	3.8	15.9	15.9	13.9	11.3	10.5	10.8

**12/31/2010. Performance for periods greater than 1 year is annualized. Past performance is no guarantee of future results. Value of portfolio will fluctuate based on underlying securities. Current performance may be higher or lower than stated returns. Fees vary by size of account. Please see ending page for complete performance disclosures.*

Sandwiched between strong first quarter and final two-month outperformances, the strategy's total return was strongly impacted by investor rejection of high-dividend and low-volatility factors, and an equity market that did not broaden into most economic sectors or equities. Only three of 11 GICS sectors and 31% of stocks in the S&P 500 Index outperformed it. The median return of the S&P 500 Index was 5.9%.

The strategy underperformed some peer value strategies, including its underlying strategy, significantly, while curiously performing in line with other strategies, its benchmarks, and its dividend-paying performance metrics. Returns from the strategy's allocation to the Financials, Industrials and Utilities sectors significantly outpaced those of the S&P 500 Index, while its underperformance versus Information Technology, Communications Services and Consumer Staples sectors was notable.

The fourth quarter initially trended higher, led by the same narrow group of large-cap Technology and AI-related winners. In November, however, pushback from Fed governors against a December rate cut – combined with concerns over AI demand, circular financing dynamics, and extended valuations – triggered a market correction. As the quarter progressed, the Fed signaled strong support for a December rate cut, which helped stabilize markets and supported a year-end rally led by small-cap and value stocks. While the Russell 1000 Growth outperformed Russell 1000 Value by 2.7 ppt for the year, in the fourth quarter, Value outperformed Growth by 2.7 ppt, as the market broadened, with additional sectors – including Healthcare and Financials – emerging as leaders.

Market breadth remained narrow for much of the year, as the capitalization-weighted S&P 500 outperformed the equal-weighted index by 1.3 percentage points in the quarter and 6.7 percentage points for the year. In 2025, only 31% of stocks outperformed the S&P 500 – consistent with the 29% average observed in 2023-2024 – marking the most extended period of narrow market breadth in more than five decades.

From a factor perspective, momentum and high beta stocks once again led markets; however, high dividend and low volatility stocks narrowed their performance gap in the fourth quarter (Quintile 1 returns):

- **Momentum** was one of the best-performing factors in the quarter, with Quintile 1 returns of +7.7%.
- **High Beta** delivered Quintile 1 returns of +3.7% in the quarter.
- **High Dividend** stocks produced more modest Quintile 1 returns of +0.6% in the quarter.
- **Low Volatility** was one of the weakest factors, with Quintile 1 returns of -0.3% in the quarter.

The highest dividend-yielding quintile returned +0.9% (price return) in the fourth quarter and +10.3% (price return) for the year, underperforming the broader market in 2025 (Figure 3).

Figure 3: S&P 500 Price Performance by Dividend Quintile

S&P Dividend Yield Quintiles		Q4	YTD	2024	2023	2022	BofA Adj Beta	Forward P/E Ratio	Dividend Yield
Low Yield ↓ High Yield	0.00 To 0.00	-1.8	7.9	32.7	51.0	-37.2	1.24	30	0.0
	0.02 To 1.07	5.3	24.2	32.2	39.8	-25.0	1.20	26	0.5
	1.07 To 1.94	1.1	12.8	17.1	14.1	-10.3	0.99	18	1.5
	1.94 To 3.28	1.4	10.5	9.4	2.6	-11.5	0.84	17	2.6
	3.28 To 23.89	0.9	10.3	14.5	-0.8	6.9	0.77	14	4.9
S&P 500		2.4	16.4	23.3	24.2	-19.4	1.09	22	1.2

Source: BofA/ML, US Performance Monitor, 12/31/2025. **Past performance is no guarantee of future results.**
 Distribution of S&P 500 as of 12/31/2025 (Quintiles are held and re-balanced monthly).
 Investors cannot invest directly in an index.

Market leadership over the past three years has been highly concentrated in a narrow group of AI-related stocks, driving stretched relative returns, elevated valuations, optimistic sentiment, and outsized capital flows. A confluence of valuation, positioning, macro, and market-structure dynamics is increasingly favorable for high-dividend and value equities. US equity markets have already discounted much of the future AI-driven growth, with an estimated \$9-\$12 trillion of post-2022 market capitalization gains unexplained by fundamentals, even as hyperscalers face slowing free cash flow, rising leverage, and a shift toward capital-intensive business models. Earnings growth expectations for the Magnificent Seven are converging with the broader market, weakening the justification for historically extreme valuation premiums amid record index concentration and speculative excess in leveraged ETFs and retail trading.

At the same time, defensive and dividend-oriented sectors – now at multi-decade lows in index weight and investor interest – trade at unusually attractive relative valuations, with the Growth-to-Value valuation spread near historical extremes. With nearly \$8 trillion parked in money market funds and yields declining meaningfully from their peaks, equity income is becoming increasingly competitive, particularly when coupled with dividend growth. Together, extreme underweight positioning, elevated valuations in growth, easing monetary policy, and historically favorable mean-reversion dynamics create a compelling setup for high-dividend and value stocks to deliver strong risk-adjusted returns. The Market Outlook section of the commentary provides further details on these points.

Portfolio Changes:

Purchases/Additions

Shares of **Qualcomm (QCOM)** were purchased in the strategy during the quarter. Qualcomm is a leading global semiconductor and wireless technology company with a strong competitive position in premium smartphones and an increasingly diversified portfolio across automotive, IoT and AI-enabled computing. While near-term uncertainty around handset demand, competitive dynamics in China, and the gradual reduction of Apple modem volumes has weighed on sentiment, we view these factors as manageable within a broader, improving long-term growth profile. Qualcomm continues to benefit from a mix shift toward higher-end Android devices, where its content per handset and pricing power are structurally higher, supporting resilience even in a flat unit environment. Beyond handsets, Qualcomm's automotive business now represents around 10% of QCT revenue and, together with its expanding presence in edge AI and AI-enabled PCs, reinforces the company's ongoing revenue diversification. As these non-handset businesses scale and Apple-related headwinds diminish, we believe Qualcomm's earnings profile should become more durable over time. Qualcomm trades at an attractive valuation of 14.0x 2026 EPS with a 2.1% dividend yield.

Shares of **UnitedHealth Group (UNH)** were purchased in the strategy during the quarter. UnitedHealth is the largest diversified managed care organization in the US, with leading positions across commercial insurance, Medicare Advantage, Medicaid, and a differentiated healthcare services platform through Optum. After a period of elevated medical cost trends, management has taken proactive steps to reset margins and improve earnings quality, including disciplined repricing, targeted cost actions, and selective portfolio rationalization. Within Medicare Advantage, the company expects to reduce membership by approximately 1 million lives in 2026 to prioritize profitability and restore margin discipline. At Optum Health, management is restructuring the business, including a roughly 10% reduction in value-based care exposure, to improve sustainability and align with long-term margin objectives. As these actions take effect and investments normalize, UnitedHealth's scale, diversified revenue streams, and integrated Optum platform position the company for improving profitability and more consistent earnings growth over time. UNH trades at 19.9x 2026 EPS with a 2.6% dividend yield.

Union Pacific (UNP) is one of North America's largest Class I railroads, operating a premier network across the western two-thirds of the United States that connects key ports, industrial hubs, and population centers. The company benefits from a structurally advantaged network with long haul lengths, dense freight mix, and strong exposure to intermodal, industrial, and agricultural end markets, supporting durable pricing power and margin potential. A key catalyst is the increasing likelihood and growing investor focus on the proposed transcontinental merger with Norfolk Southern, which offers a clear path to meaningful revenue synergies, cost efficiencies, and an accelerated earnings growth profile. Even on a standalone basis, Union Pacific is positioned for continued operating ratio improvement driven by labor productivity gains, network efficiency initiatives, and catch-up pricing as contracts reset. Management's execution track record and robust free cash flow generation provide flexibility for capital returns while continuing to invest in service and reliability. As merger clarity improves, the market is likely to re-rate the shares to reflect a differentiated long-term growth opportunity and enhanced earnings power. Overall, Union Pacific combines high-quality assets, visible operational momentum, and compelling strategic optionality that support an attractive investment outlook. The stock trades at 18x forward earnings and offers a 2.4% dividend yield.

Sales/Trims

Kenvue (KVUE) was sold from the strategy during the quarter. The company, a global consumer health business spun off from Johnson & Johnson in 2023, has seen volume trends stabilize following significant investment in its R&D and marketing across its health and beauty brands. However, it continues to face multiple challenges, including pressures on US consumer spending, a prolonged winter season that likely delayed allergy and sun care season, and persistent headwinds from China destocking and distribution issues. Additionally, growing competition from challenger brands and shrinking shelf space have eroded market share, while categories including cold/flu and allergy remain subject to volatile inventory trends. At 19x 2025 EPS, the stock's valuation is less compelling than when it was initially added to the portfolio in 2023.

JPMorgan Chase (JPM) was sold in the quarter. JPMorgan has been a long-term holding within the strategy, providing a strong dividend yield and ample opportunities for call writing over the years. However, after considerable appreciation particularly over the past three years, the yield is now below 2% despite strong 13.2% annualized dividend growth over three years. Furthermore, the share price at 15.5x 2026 EPS estimates and 2.4x book value, while not expensive, has become more fully valued. We continue to view JPMorgan as being among the highest-quality money center banks.

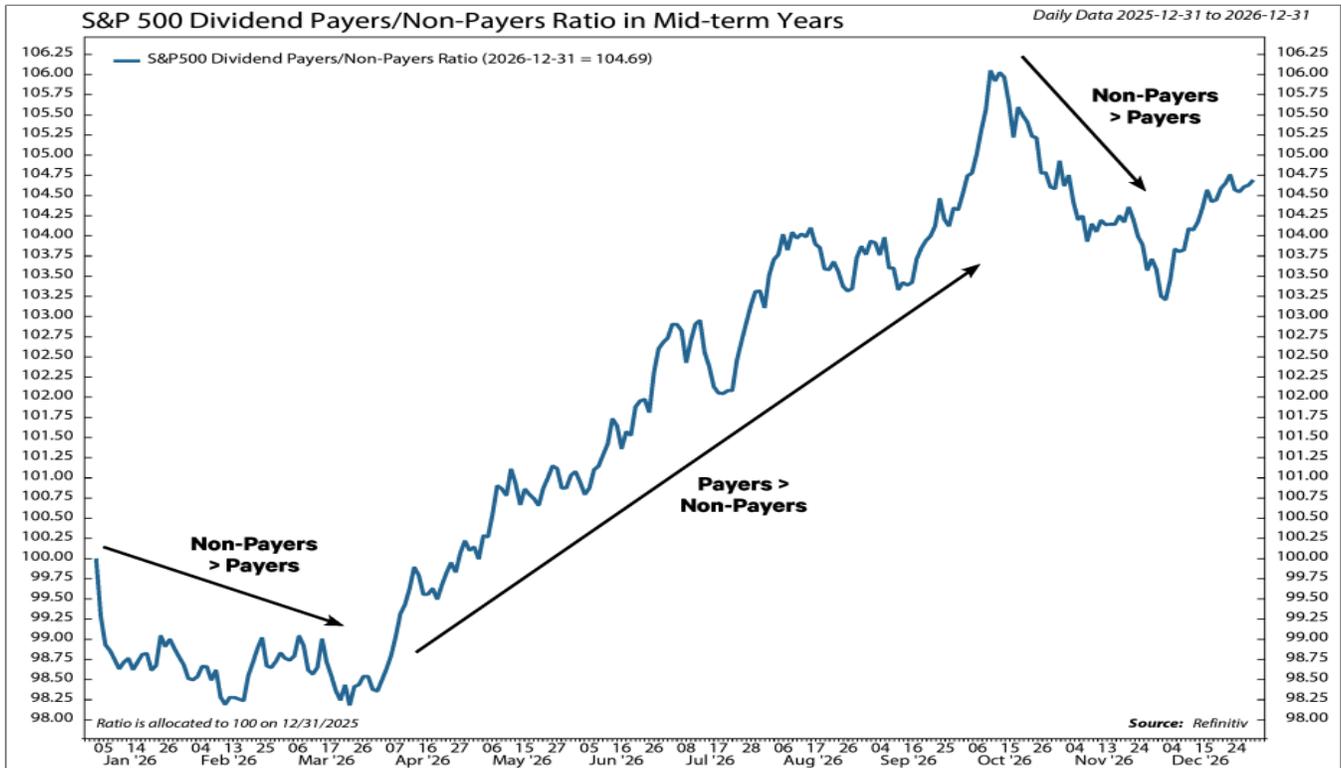
Norfolk Southern (NSC) was sold in the quarter. Shares of Norfolk Southern were purchased in the strategy in May of 2025 and therefore held for well less than a year. However, in July, Union Pacific announced its acquisition of Norfolk Southern and the deal is expected to close by early 2027. Shares of Norfolk Southern have appreciated significantly since our purchase date, aided by the bid from Union Pacific but also driven by strong Merchandise revenue as well as an improving operating ratio. At 22x earnings and a dividend yield now under 2%, we decided to sell the shares and buy shares of Union Pacific, which trades at a lower P/E and higher dividend yield.

Market Outlook:

The economic outlook for 2026 appears constructive, supported by the Federal Reserve's front-loading of interest-rate cuts, fiscal stimulus from lower taxes and capital-expenditure bonus depreciation (OBBBA), and the potential for lower tariffs – all of which should further bolster growth. The resumption of the Fed's easing cycle has increased optimism that activity can reaccelerate from muted levels, particularly in rate-sensitive sectors such as manufacturing and housing. In addition, expansion of the Fed's balance sheet is likely to support M2 growth. Stable employment should underpin consumer confidence and spending, while improving corporate productivity may drive further profit expansion. The US equity market has also become an increasingly important driver of consumption and sentiment, as the wealth effect from rising asset prices reinforces confidence and spending – creating, at least for now, a self-reinforcing feedback loop.

Markets appear comfortable discounting key risks: weakening employment, the persistence of a “K-shaped” economy in which higher-income household wealth effects increasingly support consumption, and the possibility that higher bond yields, widening credit spreads, or a loss of confidence in the AI narrative could quickly destabilize risk assets. Meanwhile, several structural headwinds remain elevated and could come to a head in 2026, including stretched valuations, frothy retail trading activity that is contributing to extremely bullish sentiment, and decades-high market concentration. While the Fed is expected to continue cutting rates in 2026, the pace of easing is likely to slow. Moreover, 2026 is a midterm election year, historically the weakest year of the four-year presidential cycle; in past midterm years, dividend-paying stocks have tended to outperform non-dividend-payers (Figure 5).

Figure 5: S&P 500 Dividend Payers/Non-Payers Ratio in Mid-Term Years



Source: Ned Davis Research, Dividend Outlook, 12/23/2025.

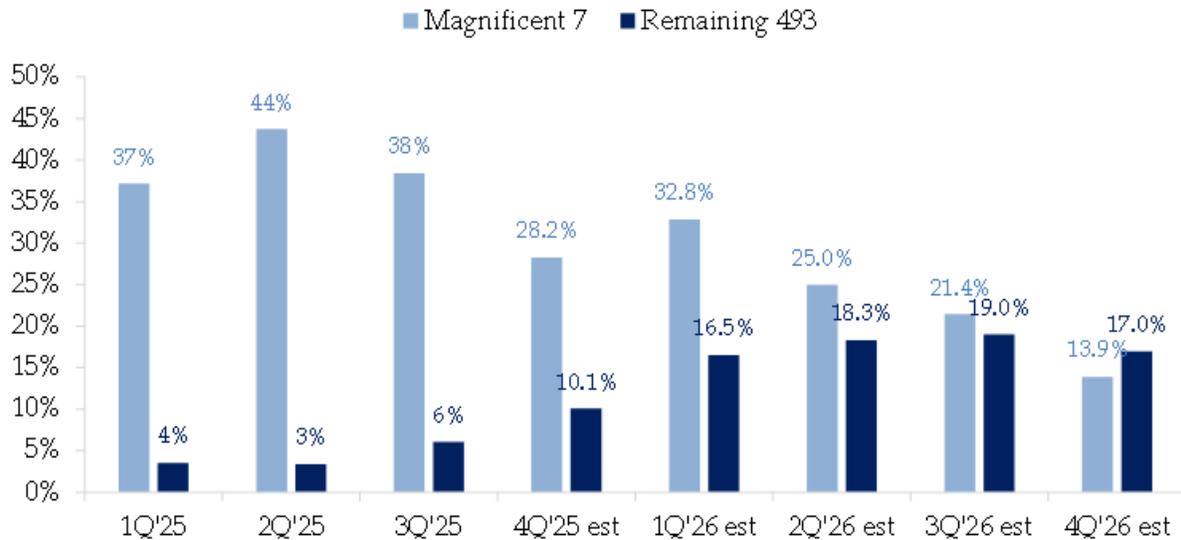
Since the release of ChatGPT in November 2022, US equities have added nearly \$24 trillion in market capitalization. BCA Research conservatively estimates that \$9-\$12 trillion of this increase cannot be explained by higher earnings or lower bond yields, implying that markets have already more than discounted substantial future AI-driven growth. To justify the roughly \$500 billion in annual capital spending by the top five hyperscalers – directed toward model training, compute, data centers, power infrastructure, and talent to secure leadership in agentic AI – Bain & Company⁴ estimates these firms would need to generate approximately \$2 trillion in annual revenue by 2030 to profitably fund data centers, compared with roughly \$1.2 trillion in their current combined revenue across Nvidia, Meta, Microsoft, Alphabet, and Apple⁵. Increasingly, companies are turning to capital markets to finance these investments; debt-driven expansion has historically been a late-cycle indicator associated with prior boom-and-bust episodes, including railroads, electrification, the internet, and US shale. This aggressive spending has materially slowed both free cash flow and earnings growth, raising questions about the durability of hyperscalers’ historically superior growth profiles and shifting their business models from asset-light to capital-intensive. From a performance standpoint, the Magnificent Seven generated a 22.4% return, outperforming the S&P 500; however, only Nvidia and Alphabet exceeded the index on an individual basis. Looking ahead, Nvidia and TSLA are the only members of the group expected to deliver > 20% earnings growth in 2026 (TSLA earnings expected to bounce back from a 40% EPS decline in 2025). As earnings growth expectations for the Magnificent Seven converge with those of the broader S&P 493, the rationale for the group’s expanding valuation premium weakens – setting the stage for a potential broadening of market leadership (Figure 6).⁶

⁴ Bain & Company, 6th Annual Global Technology Report, 09/23/2025.

⁵ BCA Research, An AI Investment Framework for Long-Term Investors, 12/03/2025.

⁶ BCA Research, 2026 Key Views: US Equity, 12/10/2025

Figure 6: Magnificent 7⁷ vs S&P 493 EPS Growth



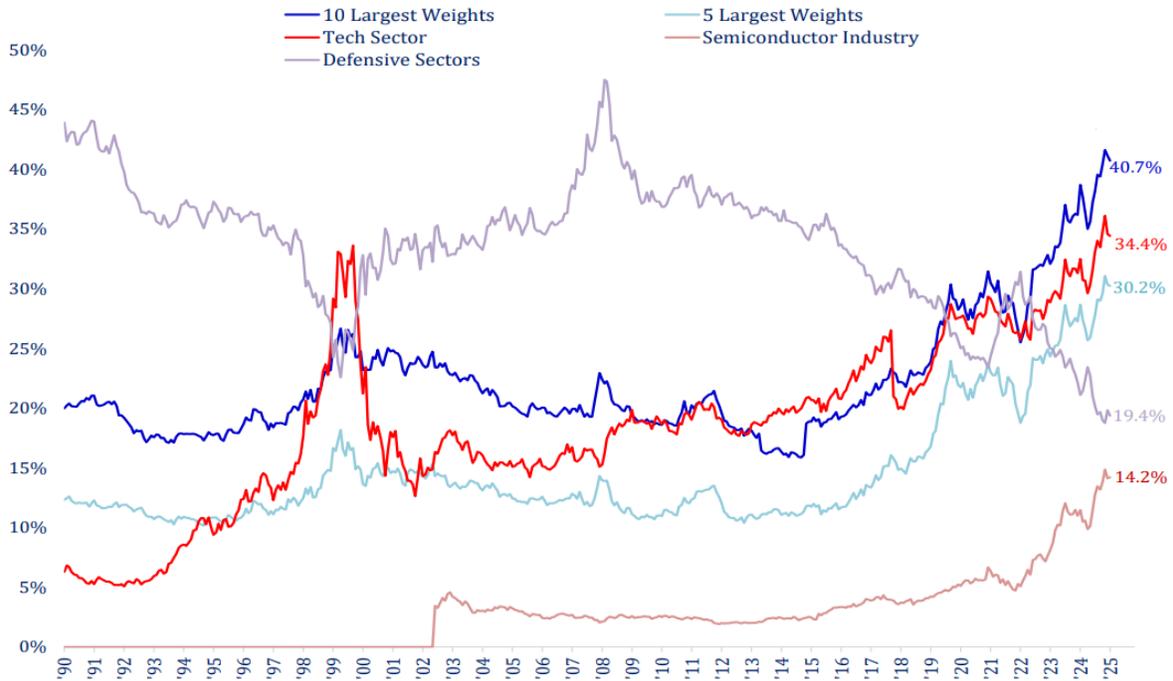
Source: Strategas Research, Data as of 01/07/2026. **Forecasts are estimates and not guarantees.**

The recent rise in speculative trading vehicles has contributed to the outperformance of AI-related stocks. Leveraged ETFs, in particular, now represent roughly 1% of total ETF assets under management yet account for more than 12% of overall ETF trading volume. There are more than 700 leveraged equity ETFs, including over 70 that offer 3x exposure to single stocks. Over the past six months, approximately one in four newly launched ETFs has involved leverage. Recent analysis of leveraged long single-stock ETFs shows dozens with drawdowns exceeding 80% from their 52-week highs – many of which are less than six months old. Meanwhile, retail investors now account for roughly 25% of total trading volume, more than twice the long-term average. This dynamic has historically served as a signpost of market excess and potential tops.

Concentration within the S&P 500 has reached historic extremes, with the top five and top ten constituents now representing a record 30% and 40% of index weight, respectively (Figure 7) – levels not seen in more than five decades and well in excess of their share of aggregate S&P 500 earnings. The weight of the Technology sector and the Semiconductor industry has risen to nearly 34% and 14% of the index, respectively, both at all-time highs. A similar pattern is evident in the Russell 1000 Growth Index, where the top five stocks now account for 47% of total index weight. In contrast, the combined weight of traditionally defensive sectors – Consumer Staples, Healthcare, Utilities, and REITs – has declined to just 19%, a multi-decade low and less than half of their representation in 2009. This divergence has been driven mainly by sector ETF flows that have disproportionately favored Technology at the expense of defensive areas, including Staples, Utilities, Real Estate, and Healthcare. As a result, investor interest in dividend-oriented and defensive value strategies is near record lows, creating a potentially compelling opportunity for contrarian positioning.

⁷ The Magnificent 7 refers to seven dominant US technology companies (Apple, Microsoft, Amazon, Alphabet, Meta, Nvidia, Tesla) that have significantly driven stock market growth.

Figure 7: Largest S&P 500 Weights



Source: Strategas Research, 12/31/2025.

Market valuations have risen to extremely elevated levels, with broad-based valuation metrics now sitting at multi-decade highs. The forward price-to-earnings (P/E) multiple of the capitalization-weighted S&P 500 now stands at nearly 24.3x 2025 earnings – its second-highest valuation level in over thirty years – marking a significant divergence from the equal-weighted S&P 500, which trades at 20.4x. Importantly, the valuation gap between Growth and Value stocks has reached historically extreme levels. Growth stocks currently trade at a nearly 100% premium to Value stocks – double the long-term historical average of 57% and near the last peak seen during the speculative surge of 2020 (Figure 8).

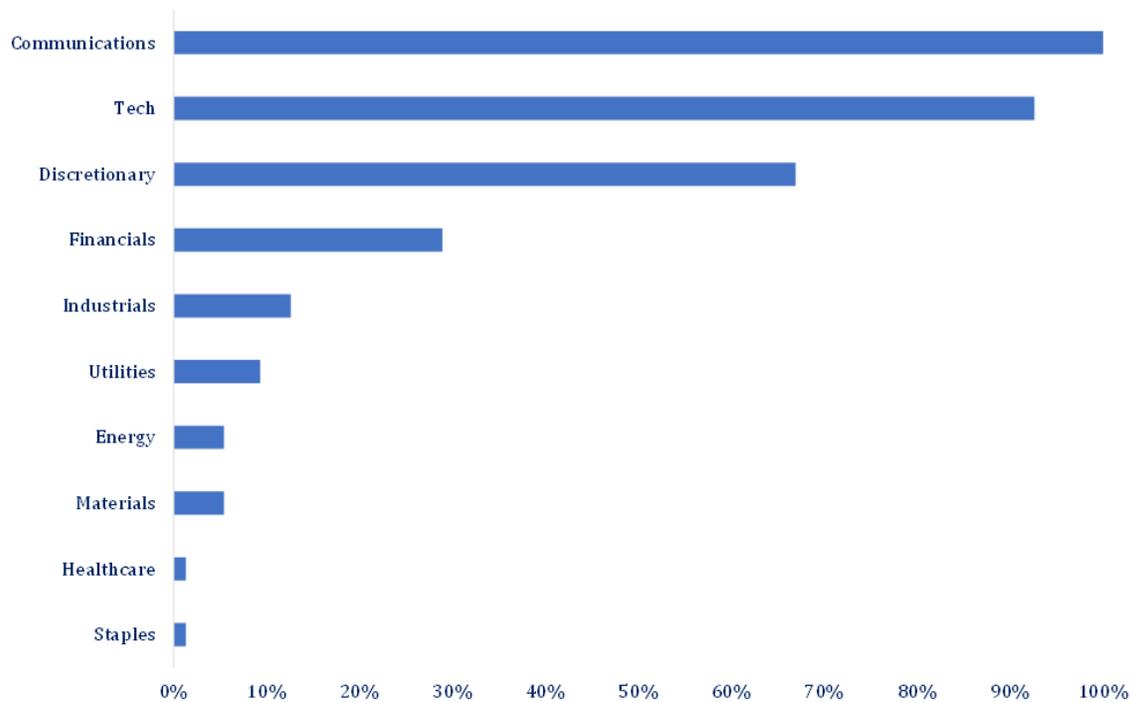
Figure 8: Valuation of Growth vs. Value Stocks



Source: Goldman Sachs Global Investment Research, 12/31/2025.
Value and Growth are based on GSGI internal sector-neutral growth and value factors.

The outperformance of the Communication Services and Technology sectors over the past three years – relative to the past 50 years – has rarely been stronger (Figure 9), with those two sectors the best performing over each of the past three years. The weight of the Communications Services and Technology sectors combined rose to nearly 50% of the S&P 500, a 100-year high. By contrast, the relative performance of Value and defensive sectors, including Healthcare, Staples, and Energy, has rarely been weaker. This combination of extreme pessimism, underweight positioning, and attractive valuations in lagging sectors creates favorable conditions for mean reversion. In this context, Healthcare stands out: it was the best-performing sector in the fourth quarter of 2025 and has historically outperformed the S&P 500 in 11 of the past 13 midterm election years (2026 is a midterm year).

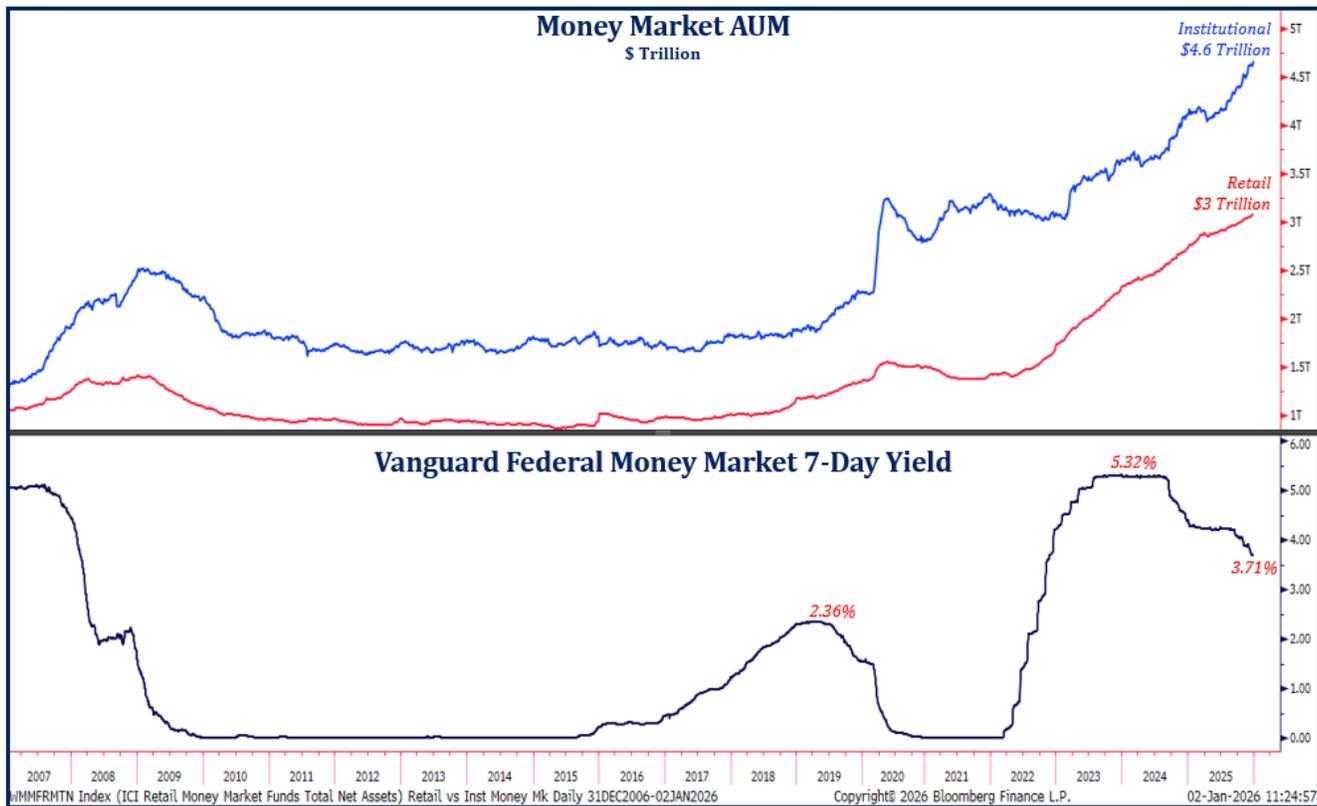
Figure 9: S&P 500 Sector Relative Performance Percentile



Source: Strategas Research, 12/31/2025. Last 3 years vs. History, data since 1972.

The rise in long-term interest rates over the past several years has been a headwind for high-dividend stocks, as capital flowed toward higher-yielding money market funds, CDs and fixed income. With the Federal Reserve now embarking on a rate-cutting cycle, the expected decline in short-term rates should make equity dividend yields increasingly attractive – particularly when accounting for dividend growth over time. Nearly \$8 trillion is currently invested in money market funds, and as yields have fallen from peaks above 5% to 3.7%, a rotation toward high-dividend equities with growing income streams may be underway (Figure 10).

Figure 10: Money Market AUM and 7-Day Yield



Source: Strategas Research, 01/02/2026.

A confluence of valuation, positioning, macro, and market-structure dynamics is increasingly favorable for high-dividend and value equities. US equity markets have already discounted much of the future AI-driven growth, with an estimated \$9-\$12 trillion of post-2022 market capitalization gains unexplained by fundamentals, even as hyperscalers face slowing free cash flow, rising leverage, and a shift toward capital-intensive business models. Earnings growth expectations for the Magnificent Seven are converging with the broader market, weakening the justification for historically extreme valuation premiums amid record index concentration and speculative excess in leveraged ETFs and retail trading. At the same time, defensive and dividend-oriented sectors – now at multi-decade lows in index weight and investor interest – trade at unusually attractive relative valuations, with the Growth-to-Value valuation spread near historical extremes. With nearly \$8 trillion parked in money market funds and yields declining meaningfully from their peaks, equity income is becoming increasingly competitive, particularly when coupled with dividend growth. Together, extreme underweight positioning, elevated valuations in growth, easing monetary policy, and historically favorable mean-reversion dynamics create a compelling setup for high-dividend and value stocks to deliver strong risk-adjusted return opportunities in our view.

Thank you for your continued support. Feel free to reach out to us if you have any questions.

Best Regards,

Schafer Cullen Capital Management, Inc.

All charts included are for illustrative purposes only and there is no assurance any trends will continue.

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