

The views expressed below are those of Anchor Capital Advisors, LLC (“Anchor”) as of the stated date and are subject to change at any time. They are based on our proprietary research and general knowledge of said topic. The below content and applicable data are in support of our views on said topic. Please see additional disclosures at the end of this publication.

Overview: Global Capital Markets

Marked by sharp shifts in policy, sentiment, and market leadership, 2025 unfolded amid a complex global backdrop defined by tariff pressures, heightened geopolitical risk, uneven regional growth, and rapid advances in artificial intelligence (AI). Political realignments, trade frictions, and security concerns reshaped policy priorities worldwide, while accelerating technology adoption and resilient corporate fundamentals helped offset macro uncertainty. Against this setting, financial markets once again demonstrated notable resilience, absorbing shocks that in prior cycles might have triggered more sustained dislocations.

U.S. trade policy was a central source of volatility during the year, contributing to disruptions in global trade flows and an early-year equity correction that preceded months of negotiation and recalibration tempered the scope of trade measures and eased recession concerns. More broadly, global trade dynamics reflected a shift toward regionalization, supply-chain realignment, and strategic autonomy across major economies. The year was further marked by an overhaul of the U.S. tax code under the One Big Beautiful Bill Act (OBBBA) and the longest government shutdown in U.S. history, underscoring elevated policy uncertainty and governance risk in the world’s largest economy.ⁱ At the time, Europe grappled with slower growth and rising security commitments, China worked to stabilize activity amid structural headwinds and policy recalibration, and Japan benefited from political change and ongoing corporate reform. Despite these dynamics, markets increasingly treated the volatile policy environment, both in the U.S. and abroad, as a manageable constraint rather than a shock.

This reinforced a theme we have emphasized in earlier commentaries: markets are transitioning away from a purely macro-dominated regime toward one increasingly shaped by a combination of macro and micro fundamentals, including earnings durability and asset-class-specific drivers of performance. Inflation prints, central-bank messaging, and geopolitical headlines still matter, but they increasingly function as inputs into earnings durability and cash-flow sustainability rather than serving as the sole determinants of returns.

In this environment, the global economy is increasingly operating within a multipolar and less synchronized framework, with growth, inflation, and policy paths diverging across regions.ⁱⁱ As these regional differences widen, dispersion in corporate outcomes has increased, elevating the importance of micro fundamentals. Europe, Japan, China, and emerging markets are following increasingly distinct economic and policy paths. In the euro area, resilient consumption, looser fiscal policy, and supportive monetary conditions are helping stabilize activity,ⁱⁱⁱ even as the Russia–Ukraine war enters its fourth year and reinforces a longer-term shift toward elevated defense spending. Japan is benefiting from political change, corporate reform, and rising domestic capital flows. China remains an important variable for global growth, with policy increasingly focused on stabilization and advancing domestic technology and strategic capacity.

A more regional focus is partly driven by an expanded role for government across fiscal, trade, industrial, and defense policy. Globally, expanding defense, climate, and social spending is contributing to larger fiscal deficits and rising sovereign debt issuance, increasing the burden on government bond markets.^{iv} Although markets have historically been complacent about sovereign debt sustainability, fiscal risks are increasingly part of investor concern and are most likely to surface through government bond markets via upward pressure on yields.^v

TABLE 1 – ASSET CLASS PERFORMANCE HISTORY (AS OF DECEMBER 31, 2025)

Source: FactSet financial data and analytics

	3Q25	YTD	Trailing 12 Months
Bonds			
Short Term (3 Month T-Bills)	1.0%	4.4%	4.4%
Total US Bond (Bloomberg Agg)	1.1%	7.3%	7.3%
Stocks			
US Large Cap (S&P 500)	2.7%	17.9%	17.9%
US Small Cap (Russell 2000)	2.2%	12.8%	12.8%
International Developed (MSCI EAFE)	4.9%	31.9%	31.9%
Emerging Markets (MSCI EM)	4.8%	34.4%	34.4%
Real Assets			
Real Estate (NAREIT)	-1.6%	2.9%	2.9%
Infrastructure (S&P Global)	2.4%	22.6%	22.6%
Commodities (Bloomberg)	5.8%	15.8%	15.8%
Currency			
USD	0.6%	-9.4%	-9.4%

U.S. Equities – Performance, Earnings, and Market Structure

U.S. equities delivered another year of strong absolute performance in 2025, with major U.S. indices all positive for the year. Although participation broadened across capitalization segments, performance remained skewed toward larger stocks, with the Russell 2000 lagging large-cap indices.^{vi}

The S&P 500 was up 16.4%, marking its third consecutive year of double-digit gains in 2025.^{vii} A defining feature of the S&P 500's 2025 performance was the composition of equity returns. Approximately 79% of the S&P 500's return was attributable to earnings growth rather than valuation expansion—a notable contrast with prior years.^{viii} This shift reinforces a core theme we have emphasized consistently: earnings and fundamentals are increasingly driving equity performance and broader market participation. It's our view that while valuations remain elevated in parts of the market, strong margins, free cash flow generation, and AI-driven productivity gains continue to underpin earnings durability.

We continue to be constructive, though increasingly selective, on U.S. equities. Headline measures such as nominal GDP growth and aggregate employment have tended to overstate underlying economic strength relative to the conditions experienced by many companies and households.^{ix} While select segments, most notably data centers and AI-related businesses, have remained resilient, earnings growth across much of the broader corporate sector has remained flat or negative.^x

Looking ahead, we believe that a normalization and recovery in earnings across lagging areas could help broaden market participation and support equity performance, even as valuations remain elevated and policy uncertainty persists. Cyclical sectors and small-cap stocks appear positioned to benefit as financial conditions ease and the yield curve steepens.

The U.S. consumer remains central to the expansion, with consumption accounting for roughly two-thirds of GDP.^{xi} While spending has cooled from post-pandemic peaks, it remains resilient overall, reflecting a K-shaped dynamic in which higher-income households continue to spend while lower-income consumers face pressure from elevated

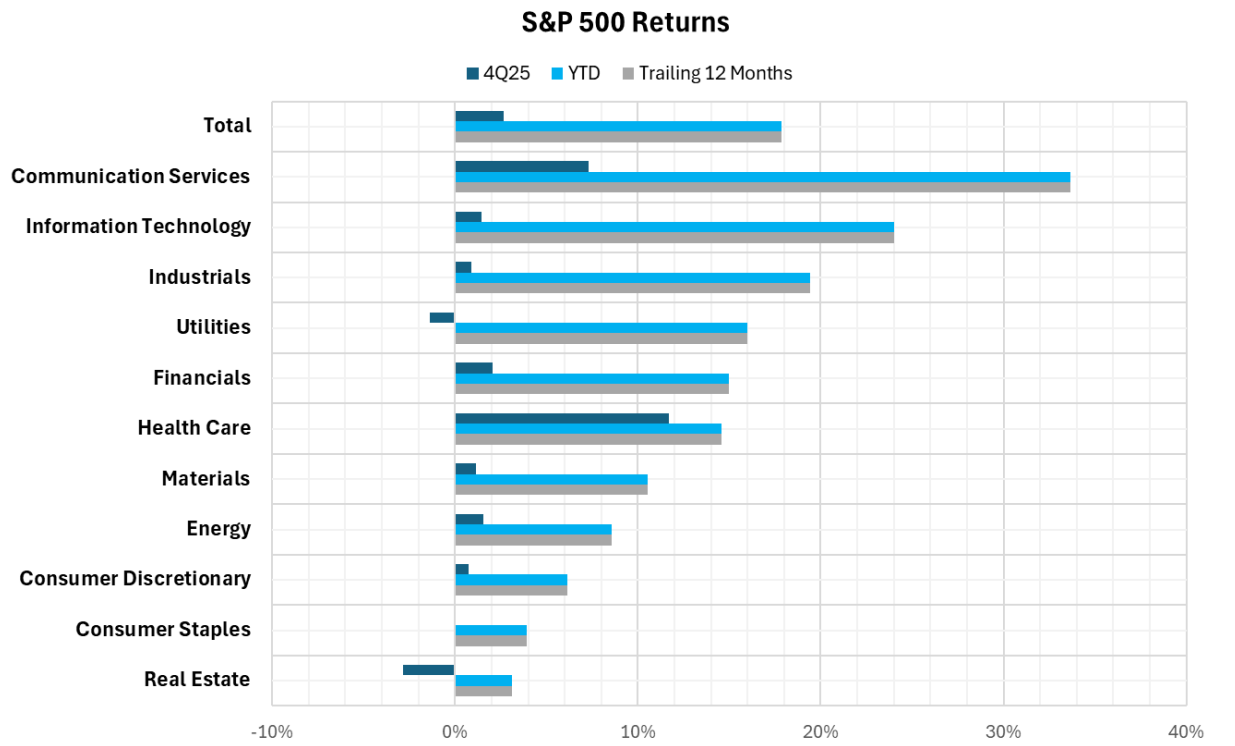


prices, tariffs, and borrowing costs. Household leverage remains near multi-decade lows and OBBBA provisions may provide incremental support as growth moderates.^{xii}

Job growth has slowed meaningfully, but layoffs remain limited, consistent with a continued “low-hire, low-fire” labor environment.^{xiii} Wage growth has moderated, leaving the labor market a key variable for both growth and inflation. As a result, labor dynamics now sit at the center of the Federal Reserve’s policy framework. Inflation likewise remains above target and likely sticky. Ongoing sources of upward price pressure, including tariffs, fiscal spending, and defense outlays, complicate the inflation outlook. For equities, these forces matter less through headline inflation prints and more through their impact on corporate margins and pricing power.

TABLE 2 – S&P 500 SECTOR RETURNS (AS OF DECEMBER 31, 2025)

Source: FactSet financial data and analytics



International Equities – Developed Markets & Emerging Markets

International equities delivered sustained outperformance in 2025^{xiv}, reinforcing the view that as global growth becomes less synchronized, dispersion across regions has increased, creating a more favorable environment for selective international exposure.

Europe’s recovery remains slower and more uneven than in the U.S., but the direction of travel has improved. Growth is supported by stronger consumption, accommodative monetary policy, and looser fiscal policy, particularly in Germany. Germany’s approximately €500 billion in multi-year fiscal and defense initiatives represent a meaningful shift in Europe’s policy stance and coincide with a broader increase in defense and security spending. At the same time, structural headwinds persist, including regulatory burdens, higher energy costs, and exposure to global trade fragmentation.^{xv}



Japan stands out as a relative bright spot. Following Prime Minister Sanae Takaichi's election victory, improved policy clarity and renewed reform momentum have supported a more constructive outlook for Japanese equities. At the corporate level, fiscal and regulatory reforms are boosting returns on equity and capital efficiency, while ongoing corporate governance improvements continue to unlock shareholder value.^{xvi}

We are moderately more constructive on China heading into 2026, while remaining mindful of ongoing risks such as persistent deflation. Structural challenges persist—including high debt levels, demographic pressures, and lingering property-sector stress^{xvii}— but improved policy coordination and targeted stimulus measures have helped stabilize growth and sentiment at the margin.

Emerging markets (excluding China) enter 2026 from a position of relative strength, reflecting easing monetary conditions, improving earnings growth, stronger governance, and fiscal frameworks that are more resilient than in prior cycles. Over the past 25 years, the adoption of more disciplined frameworks has strengthened EM resilience. Today, over 90% of EM debt is issued locally, reducing reliance on foreign capital.^{xviii}

Interest Rates & Central Banks

Across developed markets, central banks are navigating an increasingly difficult trade-off between slowing growth and inflation that remains above target.

While the recent 25bp rate cut by the Fed was modest, the more important signal was the restart of balance-sheet expansion through \$40 billion per month in Treasury bill purchases aimed at supporting liquidity.^{xix} At the same time, heavier Treasury issuance and inflation uncertainty are pushing longer-term yields higher, contributing to a steeper yield curve.

Fed leadership and policy uncertainty add to complexity. In 2026, a new Fed Chair will replace Jerome Powell, potentially shifting the policy emphasis toward greater accommodation. While operational independence remains intact, perceptions of Fed independence matter for inflation expectations and long-end yields. Legal and policy uncertainty—including Supreme Court review of IEEPA tariff authority, ongoing U.S.–China negotiations, and the scheduled 2026 review of the USMCA—adds another layer of complexity to the policy outlook.^{xx}

Globally, policy divergence persists. The ECB remains cautious amid soft growth and above-target inflation, though markets increasingly expect easing in 2026 as inflation moderates. In Japan, a pro-growth policy environment and the Bank of Japan's decision to maintain accommodative conditions—reinforced by wide global rate differentials—have contributed to yen weakness, supporting exporters and corporate earnings.^{xxi} In China, the PBOC continues to balance growth stabilization with financial-system risks through targeted easing, alongside a widening fiscal deficit and policy support aimed at AI investment and technology capacity.^{xxii}

Currency

The U.S. dollar weakened 9.4% in 2025 as growth and interest-rate differentials narrowed.^{xxiii} Near-term downside pressures appear more limited, but a sustained rally appears unlikely, as large fiscal deficits, rising Treasury issuance, and reduced policy divergence limit upside despite the dollar's reserve-currency status, which remains intact even amid cyclical weakness.^{xxiv}

Bonds, Real Estate & Infrastructure

Fixed income markets remained stable in 2025, with falling policy rates supporting returns across most sectors. Credit spreads remain contained, reflecting strong corporate balance sheets and limited default risk. In this environment, bonds continue to provide portfolio defense, particularly amid elevated fiscal uncertainty and higher volatility. Yield-curve steepening has increased dispersion across maturities, with long-end yields more sensitive to fiscal and inflation concerns. As money-market yields decline, bonds are regaining appeal as a source of income and diversification.^{xxv}

Against this income-oriented backdrop, attention is increasingly shifting toward capital-intensive investment cycles. AI has emerged as a multi-year infrastructure investment requiring significant investment across data-center infrastructure



and power generation, increasingly financed through investment-grade credit, infrastructure funds, and private capital vehicles.^{xxvi} Of the nearly US\$3 trillion in data center–related capital expenditure expected through 2030, less than 20% has been deployed, leaving an estimated US\$1.5 trillion financing gap even after hyperscaler cash flows.^{xxvii} Certain real-asset exposures, including select real estate, may benefit from these long-duration, capital-intensive investment cycles, reinforcing the role of infrastructure and real assets in portfolio construction.

Outlook & Portfolio Positioning

We expect slower but positive global growth, inflation remaining above target for longer, and wider fiscal deficits. Consumer confidence remains fragile amid inflation fatigue and rising unemployment concerns, while upcoming political cycles may add to policy uncertainty. As a result, dispersion across regions, sectors, and asset classes is likely to remain elevated.

In this setting, the interaction between rising structural costs, fiscal pressure, and accelerating technological adoption is likely to increasingly differentiate returns across regions and asset classes. In our view, diversified, multi-asset portfolios that emphasize income generation, real assets, selectivity, earnings quality, and balance-sheet strength are better positioned to navigate dispersion and policy uncertainty than strategies reliant on broad market beta alone.

The Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the stock performance of 500 large companies listed on stock exchanges in the United States. It is one of the most commonly followed equity indices. The Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. The MSCI Europe Index is a stock market index that measures the performance of large and mid-cap companies across developed countries in Europe. With 432 constituents, the index covers approximately 85% of the market capitalization across developed countries in the European region. For a complete listing of all strategies contact Anchor Capital Advisors LLC (617) 338-3800. The views expressed are those of Anchor Capital Advisors, LLC ("Anchor") as of the date written and are subject to change at any time. Anchor does not undertake any obligation to update the information contained herein as of any future date, nor does it have liability for decisions based on this information. Certain information (including any forward looking statements and economic and market information) has been obtained from sources we deem reliable, but is not guaranteed by Anchor, nor is it a complete summary of available data. The information is for educational purposes only and should not be considered investment advice or a recommendation of any particular strategy or investment product. These opinions are not intended to be a forecast of future events or a guarantee of future results. No part of this document may be reproduced in any form, or referred to in any other publication, without express written permission of Anchor. Past performance is not guarantee of future results. Inherent in any investment is the possibility of loss. The benchmark returns include in reinvestment of income. Time-weighted portfolio returns are calculated for each monthly period in the prior quarter. Quarterly results are linked to determine annual returns. Individual client portfolio results may vary from the results presented for the model because of different investment objectives, tax status and other considerations. Returns of individual client accounts will be reduced by advisor fees and other expenses which might be incurred to provide investment management, custody, administrative, actuarial, accounting or other services to the client. A complete list of each security that contributed to performance is available upon request.

ⁱ Fidelity. "2026 outlook for stocks". <https://www.fidelity.com/learning-center/trading-investing/stock-market-outlook>. December 17, 2025.

ⁱⁱ Goldman Sachs. "Seeking Catalysts Amid Complexity: Investment Outlook 2026". <https://am.gs.com/en-us/institutions/insights/article/investment-outlook>. November 18, 2025.

ⁱⁱⁱ Morgan Stanley. "2026 Global Economics Outlook: At the Crossroads". November 16, 2025.



-
- ^{iv} Goldman Sachs. “Seeking Catalysts Amid Complexity: Investment Outlook 2026”. <https://am.gs.com/en-us/institutions/insights/article/investment-outlook>. November 18, 2025.
- ^v Fidelity. “2026 outlook for stocks”. <https://www.fidelity.com/learning-center/trading-investing/stock-market-outlook>. December 17, 2025.
- ^{vi} FactSet
- ^{vii} FactSet
- ^{viii} JP Morgan Asset Management. “What’s driving stock market returns?”. <https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/market-updates/on-the-minds-of-investors/whats-driving-stock-market-returns/>. December 17, 2025.
- ^{ix} Morgan Stanley. “US Equity Strategy | North America Weekly Warm-up: Payroll Data Supports Our Thesis on Rolling Recession and Recovery”. September 8, 2025.
- ^x Morgan Stanley. “US Equity Strategy | North America Weekly Warm-up: Payroll Data Supports Our Thesis on Rolling Recession and Recovery”. September 8, 2025.
- ^{xi} Man Group. “Man Global Outlook 2026:Divergent Paths: What happens when the world stops moving together?”. <https://www.man.com/outlook-2026>.
- ^{xii} “2026 Outlook: Innovation Drives Opportunities”. <https://www.bny.com/wealth/global/en/insights/2026-outlook.html>.
- ^{xiii} Morgan Stanley. “2026 US Economics Outlook: Emerging from Policy Uncertainty”. November 16, 2025.
- ^{xiv} FactSet financial data and analytics
- ^{xv} BNY Mellon. “2026 Outlook: Innovation Drives *Opportunities*”. <https://www.bny.com/wealth/global/en/insights/2026-outlook.html>.
- ^{xvi} MS_2026_Global_Strategy_Outlook
- ^{xvii} Man Group. “Man Global Outlook 2026:Divergent Paths: What happens when the world stops moving together?”. <https://www.man.com/outlook-2026>.
- ^{xviii} RBC Global Asset Management. “Polina’s Perspective: a journey to maturity - reflections from the window seat”. <https://institutional.rbcgam.com/en/us/research-insights/article/polinas-perspective-a-journey-to-maturity/detail>. November 12, 2025.
- ^{xix} Morgan Stanley. “US Equity Strategy | North America Weekly Warm-up: Fed Actions Support Our “Run It Hot” Thesis, but Are They Enough?”. December 15, 2025.
- ^{xx} Morgan Stanley. “2026 US Economics Outlook: Emerging from Policy Uncertainty”. November 16, 2025.
- ^{xxi} BNY Mellon. “2026 Outlook: Innovation Drives *Opportunities*”. <https://www.bny.com/wealth/global/en/insights/2026-outlook.html>.
- ^{xxii} Morgan Stanley. “2026 Global Strategy Outlook: The Year of Risk Reboot”. November 16, 2025.
- ^{xxiii} FactSet
- ^{xxiv} BNY Mellon. “2026 Outlook: Innovation Drives *Opportunities*”. <https://www.bny.com/wealth/global/en/insights/2026-outlook.html>.
- ^{xxv} Franklin Templeton. “Global Investment Outlook: 2026 and beyond”. <https://www.franklintempleton.com/insights/collections/global-investment-outlook-2026>.
- ^{xxvi} Morgan Stanley. “Cross-Asset Strategy: 2026 Outlook in Charts – The Year of Risk Reboot”. November 24, 2025.
- ^{xxvii} Morgan Stanley. “2026 Global Strategy Outlook: The Year of Risk Reboot”. November 16, 2025.