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MARKET COMMENTARY

Prepared by Theresa Gusman

Everything Everywhere All at Once

First Affirmative
FINANCIAL NETWORK

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Theresa Gusman, CIO
January 30, 2026

The final quarter of 2025 capped off an extraordinary year in which nearly every major asset class, region, and sector posted gains in unison – a rare occurrence that inspired our theme Everything Everywhere All at Once. Despite myriad headwinds, US equities notched their third consecutive year of double-digit returns, with the S&P 500 rising 2.7% in Q4 and +17.9% for the full year. Global stocks fared even better: International markets outpaced the US by a wide margin in 2025, buoyed by a weakening dollar and robust global growth. The MSCI World ex-US Index surged 33.1% (its best year since 2009), handily beating the S&P 500's gain. Bonds, too, delivered solid results – the US Aggregate Bond Index returned +7.3% in 2025 – as interest rates pulled back from cycle highs.

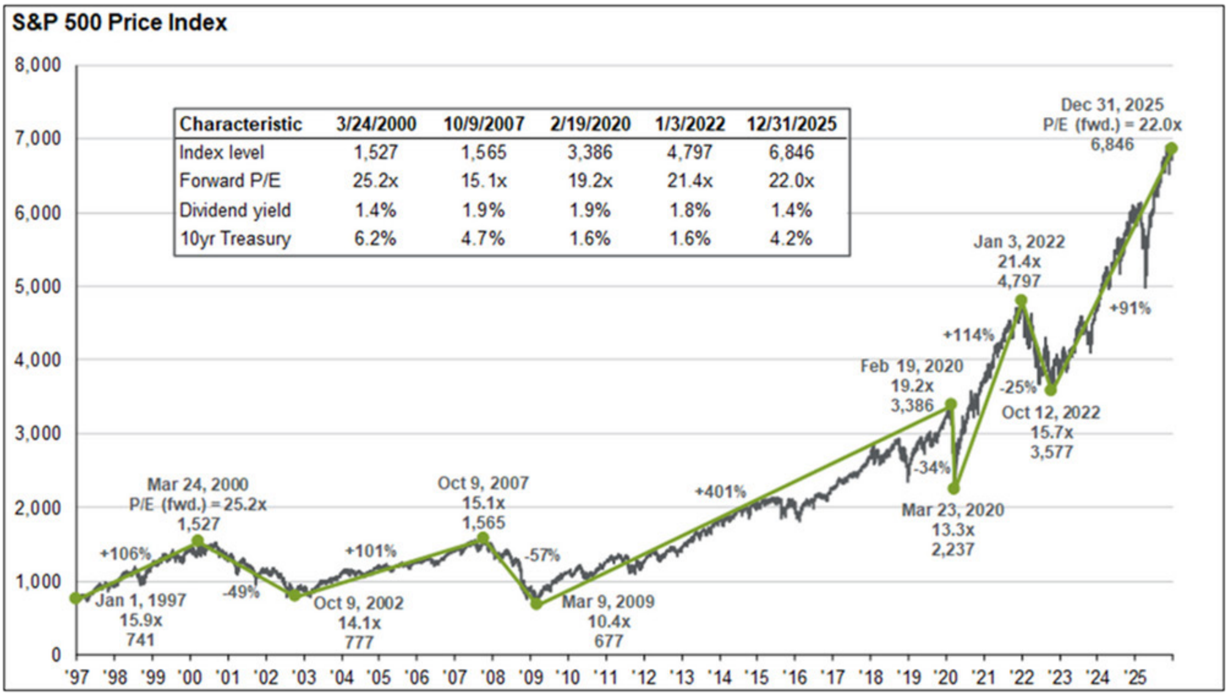
This broad-based strength extended to most asset classes. Gold soared nearly 65% in 2025, its strongest year since 1979, and traditionally "risk-off" sectors joined the rally late in the year. Healthcare, a traditionally defensive sector, jumped 11.7% in Q4 alone. Apart from a 20% plunge in oil prices and a sharp 9% drop in the US dollar, virtually every major asset posted gains. Such across-the-board strength is highly unusual – typically, if stocks and commodities are booming, bonds or defensives lag, and vice versa. In 2025, however, markets defied that pattern as ample liquidity, improving economic data, and AI-driven optimism lifted nearly all boats simultaneously.

This market euphoria coexisted with gloomy sentiment on Main Street – where 2025 often "felt like a recession" to the average person even though by many metrics it was far from one. The US economy remains resilient; inflation and unemployment (both marginally higher) are in check, and corporate earnings are strong. Renewed uncertainty surrounding geopolitical posturing, tariffs, and a possible second government shutdown might dampen market sentiment in the near term. Against this backdrop, we reiterate: Uncertainty is a feature, not a bug for the current Administration, and we must learn to live with volatility as President Trump issues sweeping edicts to bring adversaries to the table, only to retreat to pragmatism as negotiations progress.

Resilience Meets Pessimism in an Unusual Rally

In 2025, the stock market was euphoric, yet public sentiment was morose – a striking divergence. As J.P. Morgan's David Kelly highlighted, consumer confidence indices fell to multi-decade lows even as economic conditions improved. In December, the University of Michigan sentiment index registered just 52.9 – lower than 99% of all months in the past 48 years. This pessimism persisted despite a historically low "misery index" (unemployment at 4.6% plus inflation at 2.7% is a very benign combo). Financial markets were divorced from this dour mood.

Figure 1. S&P 500 at Inflection Points - Bull and Bear Markets, 1996 to Date

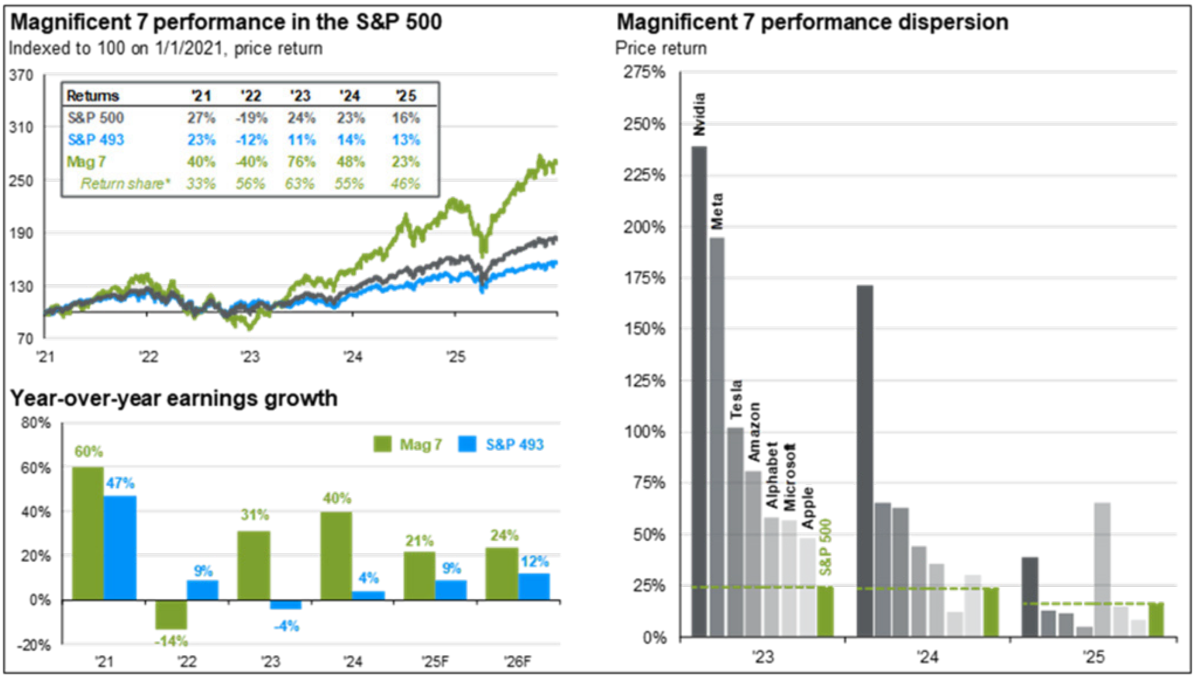


Source: J.P. Morgan Asset Management Guide to the Markets – U.S. Data are as of December 31, 2025

The Magnificent 7 and the AI Boom: Heights of Concentration and Real Opportunities

For the third consecutive year, the outsized influence of mega-cap technology and AI-focused companies remained a key equity market theme. All year, market gains were highly concentrated in the largest tech names, sparking debate about concentration risk and the durability of the AI-driven boom. These giants' sheer impact is hard to overstate. As shown in Figure 2, for the full year, these seven stocks accounted for nearly half (46%) of the S&P 500's total return, despite representing only about 35% of the index by weight. NVIDIA alone contributed roughly 15% of the market's gains, and Alphabet (Google) contributed approximately 13%. All was not rosy, however, as Meta, Tesla, Amazon, and Apple lagged the S&P 500 in 2025, suggesting the performance of this group may be fragmenting and the AI "play" may be broadening.

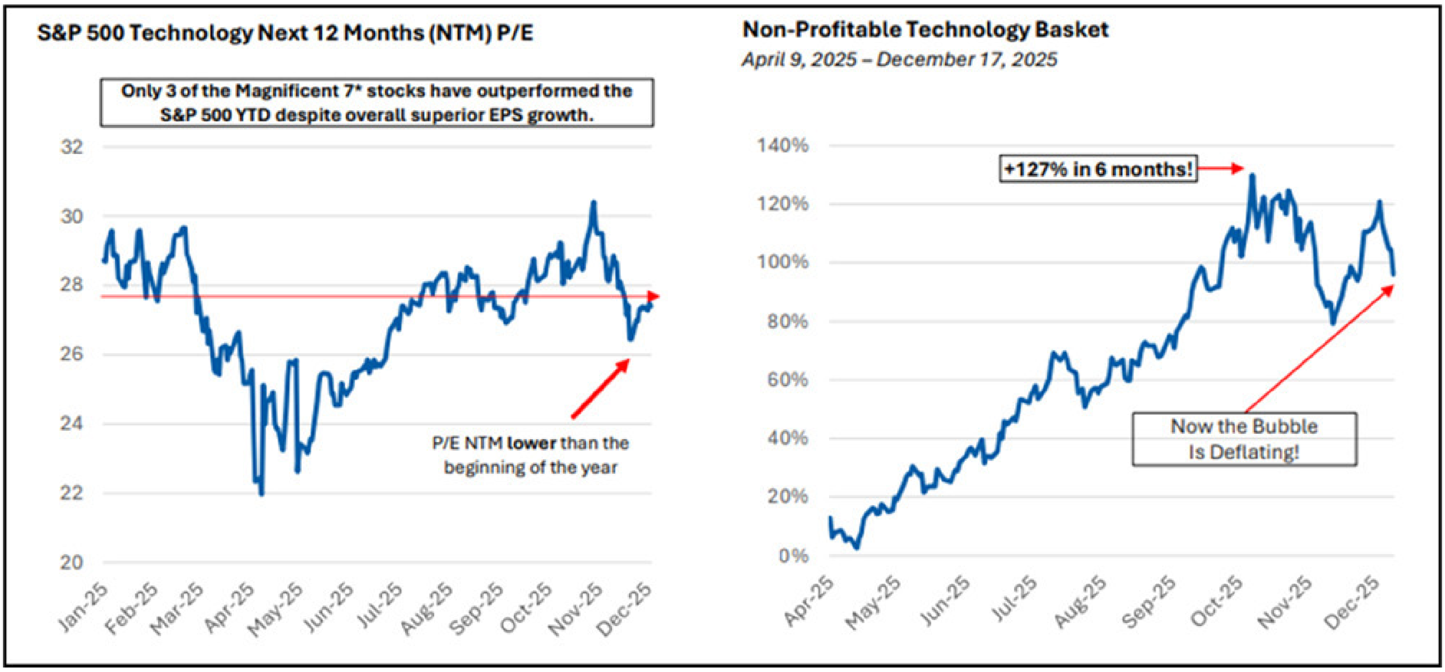
Figure 2. Magnificent 7: Performance, Earnings, and Dispersion



Source: J.P. Morgan Asset Management Guide to the Markets – U.S. Data are as of December 31, 2025

Figure 3 from Eaton Vance's The Beat shows that high levels of skepticism have constrained technology stock valuations. As shown in the chart on the left, with only three of the Magnificent 7 stocks outperforming the S&P 500 and earnings growth remaining strong, the NTM P/E ratio for the Technology sector is now below the level of the beginning of 2025. In contrast, a basket of speculative, unprofitable technology companies surged 127% earlier this year only to fall by year end. This is more characteristic of a bubble than the performance of the broad technology sector.

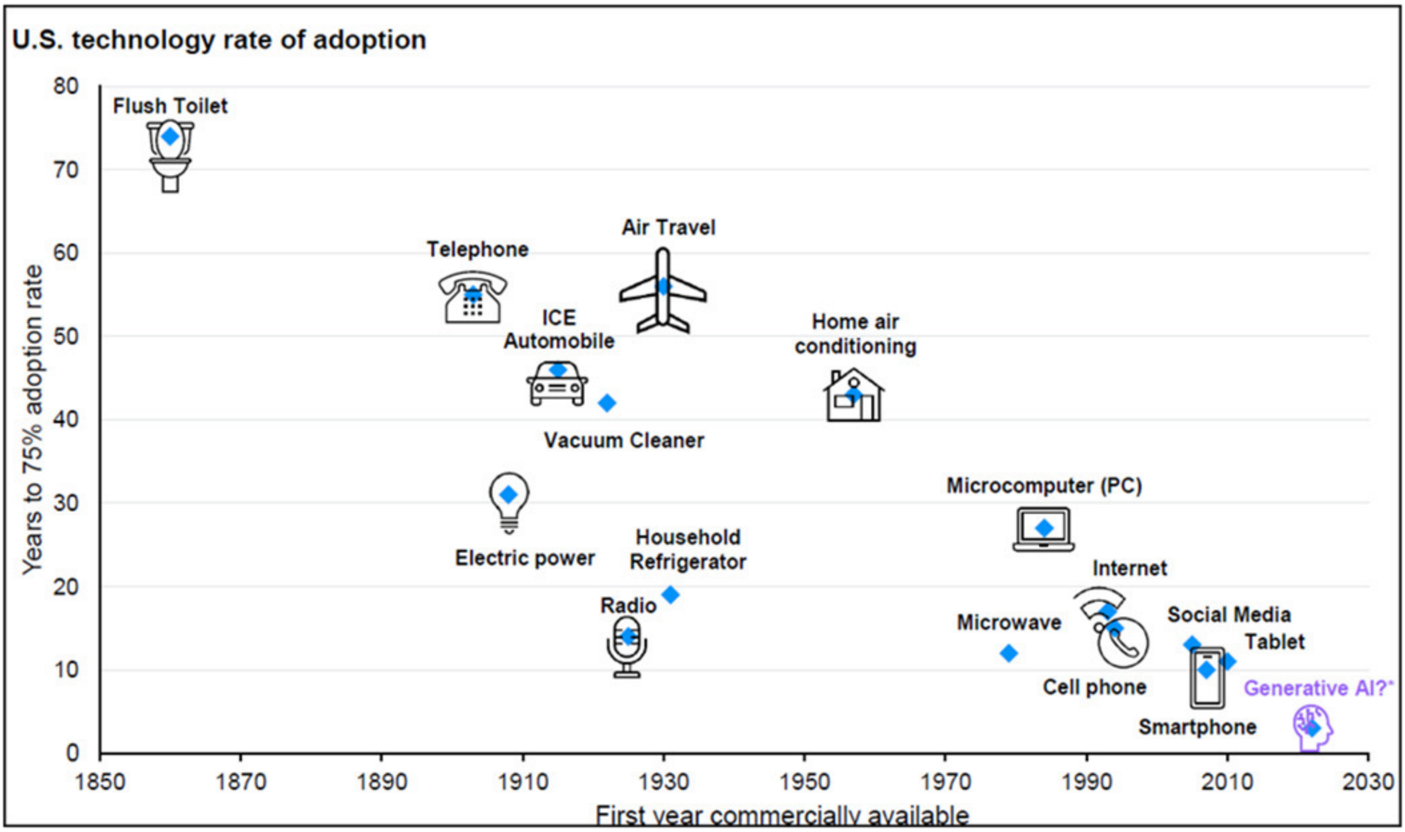
Figure 3. Technology Performance - Broad Basket v "Bubble" Stocks



Source: Bloomberg. As of December 16, 2025. Non-profitable technology basket as defined by the GS Non-Profitable Tech Basket (GSXUNPTC). Consists of non-profitable U.S. listed companies in innovative industries. *Magnificent 7 are Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla. For illustrative purposes only. Not a recommendation to buy or sell any security. It is not possible to invest directly in an index. The views and opinions expressed are those of the portfolio management team at the time of writing/of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass.

According to JP Morgan's Michael Cemblast, since the launch of ChatGPT in late 2022, 65–75% of S&P 500 returns, profits, and capital spending have been driven by a cohort of approximately 42 AI-linked companies. In his excellent "Smothering Heights" (December 2025) report, Mr. Cemblast cites an analysis that compared 2025's technology outlays to the largest infrastructure projects of the 20th century: When measured as a share of GDP, tech spending in 2025 was roughly equivalent to the combined scale of the Manhattan Project, the Apollo moon program, the Interstate Highway System, and several New Deal public works projects. As inconceivable as this seems, it is possible that the massive investment in AI is underpinned by extraordinarily rapid adoption rates and potential returns. Figure 4 shows the adoption rates of selected new technologies from the mid-1800s to date. AI is seeing some of the fastest adoption in technology history, reinforcing its transformative impact. ChatGPT reached 100 million users within just 2 months of launch – a milestone that took Instagram 2–3 years and Facebook 5 years to achieve. Consumers and developers have rapidly embraced generative AI tools, and companies across industries are racing to integrate AI into their workflows.

Figure 4. US Technology Rate of Adoption, Data as of October 2024

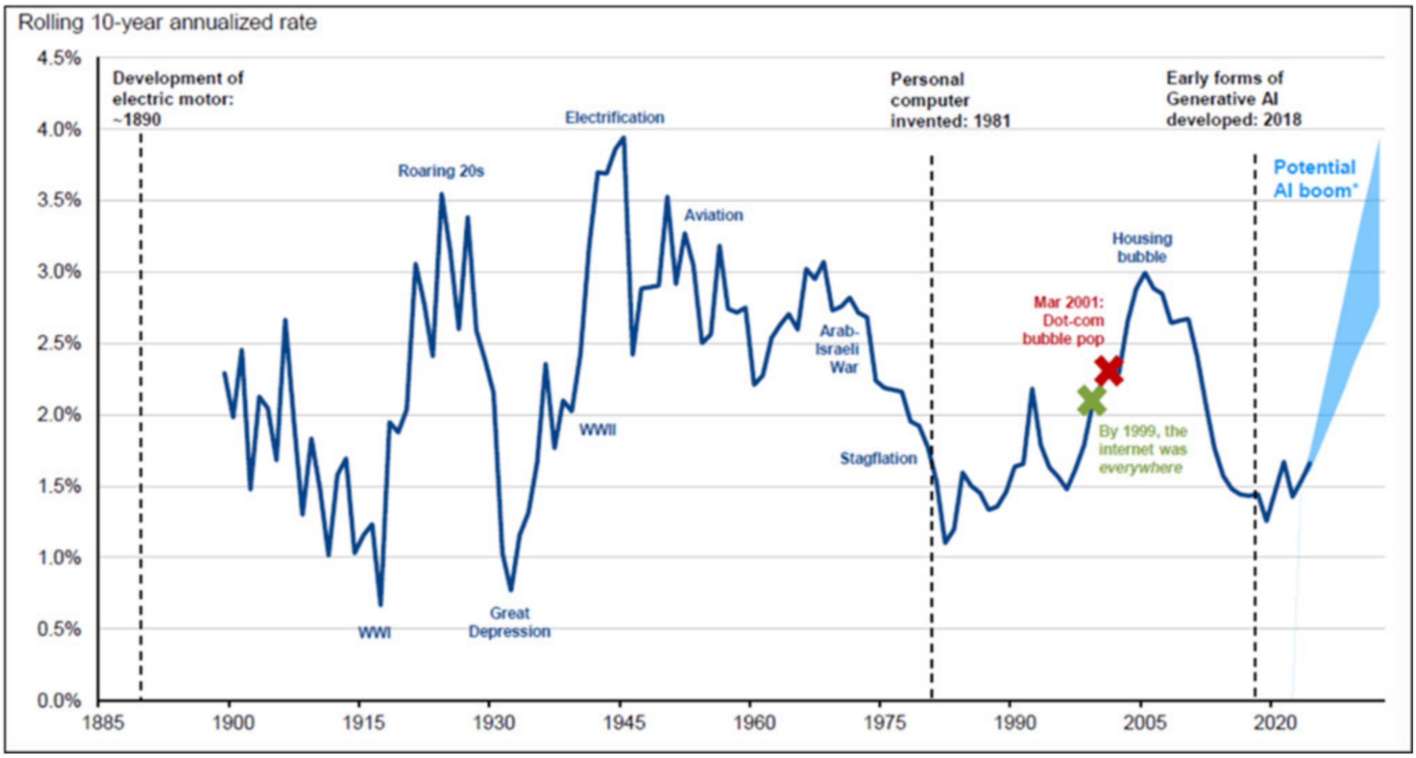


Source: Asymco, J.P. Morgan Asset Management. Asymco, compiled from various sources with support of the Clayton Christensen Institute.
*As of August 2024, researchers at the St. Louis Fed estimated that almost 40% of the U.S. population aged 18 to 64 have used generative AI to some degree. However, depending on how you define AI, usage could be nearly 100% if you include the usage of AI-powered products across search, maps, social media, etc. Gallup finds that only 64% of Americans consciously realize they are using AI-powered products.
Data are as of October 31, 2024.

At Davos earlier this week, Accenture CEO Julie Sweet noted that 78% of C-suite leaders believe that AI is the most important technology for growth and productivity. She emphasized that CEO adoption of AI requires a fundamental "reinvention" of business operations rather than just implementing new technology, according to late 2025 and early 2026 reports, it's happening now, and the C suite appears to be gripped by FOMO (Fear of Missing Out). Early productivity gains from AI are already being reported. For example, JPMorgan Chase disclosed that its AI-driven code assistant has boosted software developer productivity by 10–20%, yielding roughly $1.5 billion in annual cost savings across fraud detection, payments, and operations. Citigroup similarly noted that AI automation is freeing up 100,000 developer hours per week, accelerating product delivery and compliance work. More broadly, US labor productivity growth accelerated in 2025. Nonfarm productivity jumped 4.9% (annualized) in Q3, the fastest pace in two years – suggesting that after a long lull, technological innovation may finally be lifting output per worker. These are real, quantifiable efficiencies that bolster the case for AI as more than a speculative bubble (which we addressed in our 3Q Market Commentary).

The potential for an AI-induced long-term productivity surge as projected by JP Morgan is depicted in Figure 5. Company-specific and macro-trends in AI, if sustained, bode well for corporate margins and profits, as well as economic capacity – and strong, less concentrated equity market performance.

Figure 5. US Labor Productivity Growth, Rolling 10-Year Annualized Rate



Source: J.P. Morgan Asset Management

Note: JP Morgan Asset Management estimates plausible productivity gains of 1.4-2.7% from generative AI and other AI technologies over the next few years, in addition to the expected 1.5% annual productivity growth projected by the Congressional Budget Office.

Global Markets Outlook: A Synchronized Expansion

We were encouraged to see broadening in market leadership globally throughout 2025 and in the US market late last year. Developed international markets (MSCI World ex-US) continued to outpace the S&P 500 in the 4Q, rising 5.3%, compared with 2.7% for the S&P 500. This brought the full year gain for broader ACWI ex US to 33.1%, compared with 17.9% for the S&P 500 (see Figure 6). Within the US, Value outperformed Growth in the 4Q – although growth dominated for the year (see Figure 7). This rotation hints that 2026 could see more equal contributions from different sectors and styles, especially if the economy stays strong, interest rates stabilize, and the promise of AI investments come to fruition. The bottom line: AI and the Magnificent 7 powered 2025's gains "all at once," but prudent investing requires looking beyond the glamour of the moment. We continue to participate in the innovation upswing while diversifying across sectors and market caps, ensuring the portfolio isn't overly reliant on the next AI breakthrough or the next quarterly report from a single company.

The underperformance of US markets relative to the rest of the world could reverse in 2026. Extreme US dollar weakness, internal policy shifts (Japan and Germany), and dramatically lower oil prices – which benefit Europe and Japan disproportionately – were tailwinds for international markets in 2025. These tailwinds are unlikely to persist in 2026, and underpinned by lower taxes and deregulation, US economic growth is set to remain strong in 2026. This will drive US corporate profit growth: According to FactSet, analysts expect the S&P 500 to report double-digit earnings growth for the third consecutive year in CY 2026 (see Figure 8). The estimated (year-over-year) earnings growth rate for CY 2026 is 15.0%, which is well-above the trailing 10-year average (annual) earnings growth rate of 8.6% (2015 – 2024).

According to FactSet, analysts expect the Magnificent 7 companies to report earnings growth of 22.7% for CY 2026, which is slightly above the estimated earnings growth rate of 22.3% for CY 2025. On the other hand, analysts predict that the other 493 companies will report earnings growth of 12.5% for CY 2026, which is above the estimated earnings growth rate of 9.4% for CY 2025. With the US likely to post stronger earnings growth, the valuations of non-US markets will be scrutinized as investment decisions are made in 2026. Whereas international valuations were attractive coming into 2025, valuations outside the US have "caught up" and are now at or above their long-term averages (see Figure 9). Valuations in the US across all sectors (see Figure 10) also are approximately in line with their 10-year averages, suggesting that performance differentiation worldwide will come at the stock level.

Figure 6. Global Equity Markets Performance, As of December 31, 2025

Returns	2025		2024		15-years
	Local	USD	Local	USD	Ann.
Regions					
U.S. (S&P 500)	-	17.9%	-	25.0%	14.1%
AC World ex-U.S.	25.1%	33.1%	13.2%	6.1%	6.4%
EAFE	21.2%	31.9%	11.8%	4.3%	7.1%
Eurozone	24.7%	41.3%	10.3%	3.4%	7.8%
Emerging markets	32.1%	34.4%	13.7%	8.1%	4.2%
Selected Countries					
Japan	24.7%	25.1%	21.2%	8.7%	6.9%
UK	25.8%	35.1%	9.5%	7.5%	6.4%
France	14.2%	29.5%	1.8%	-4.6%	7.8%
Canada	30.9%	37.4%	23.0%	12.7%	6.8%
Germany	20.9%	37.1%	18.4%	11.0%	7.3%
China	30.7%	31.4%	19.8%	19.7%	4.1%
Taiwan	34.0%	39.8%	44.3%	35.1%	13.0%
India	9.5%	4.3%	15.7%	12.4%	5.8%
Brazil	35.6%	50.4%	-11.4%	-29.5%	-0.3%

Source: J.P. Morgan Asset Management Guide to the Markets – U.S. Data are as of December 31, 2025

Figure 7. US Equity Style Box Performance, December 31, 2025

Q4 2025

	Value	Blend	Growth
Large	4.14	1.58	-1.42
Mid	4.23	0.90	-5.41
Small	4.18	3.81	1.50

Q3 2025

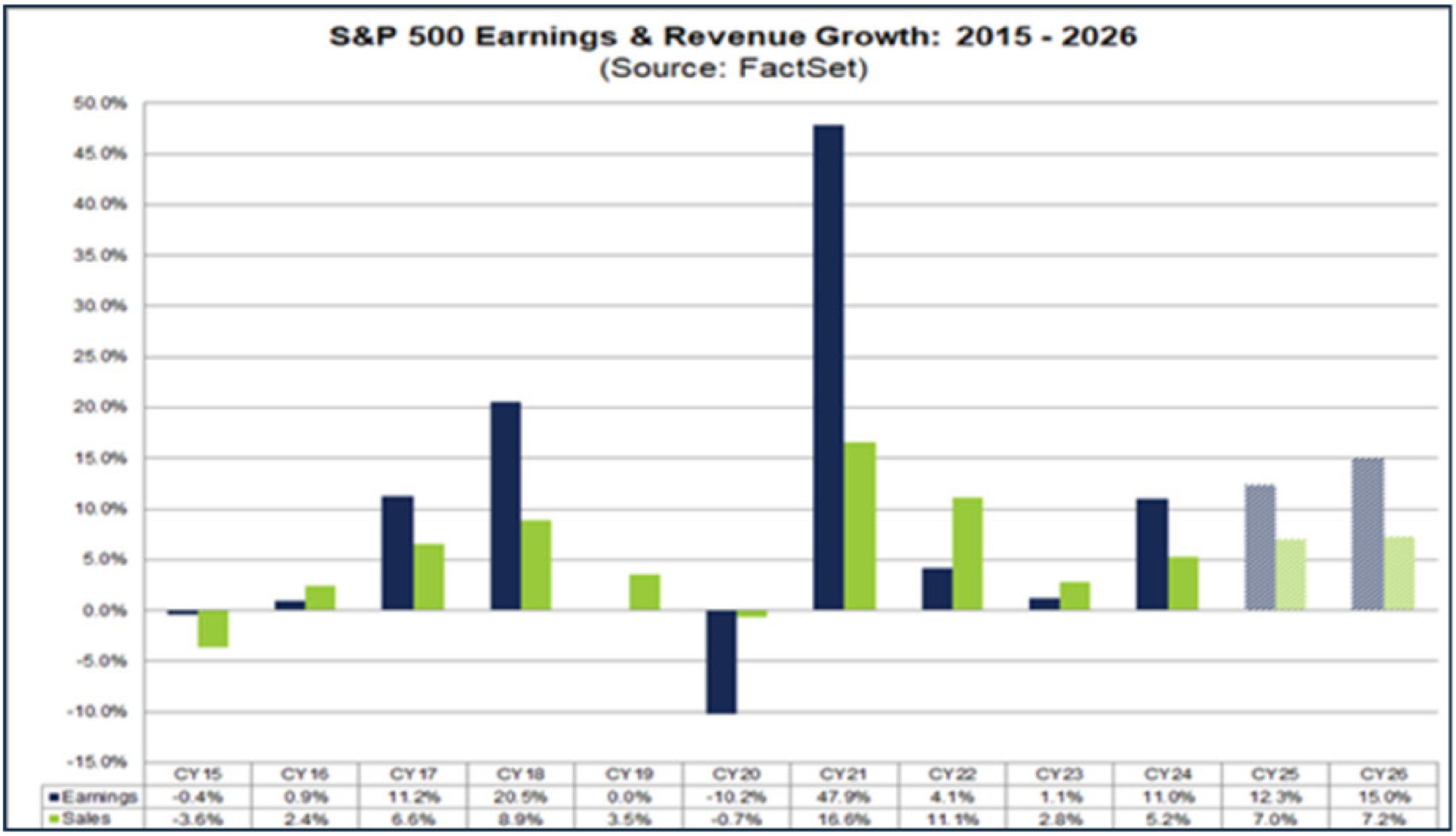
	Value	Blend	Growth
Large	6.17	4.62	6.66
Mid	6.71	4.80	2.53
Small	7.22	8.06	8.54

2025

	Value	Blend	Growth
Large	18.18	11.74	19.64
Mid	15.93	8.49	5.42
Small	11.84	10.76	14.12

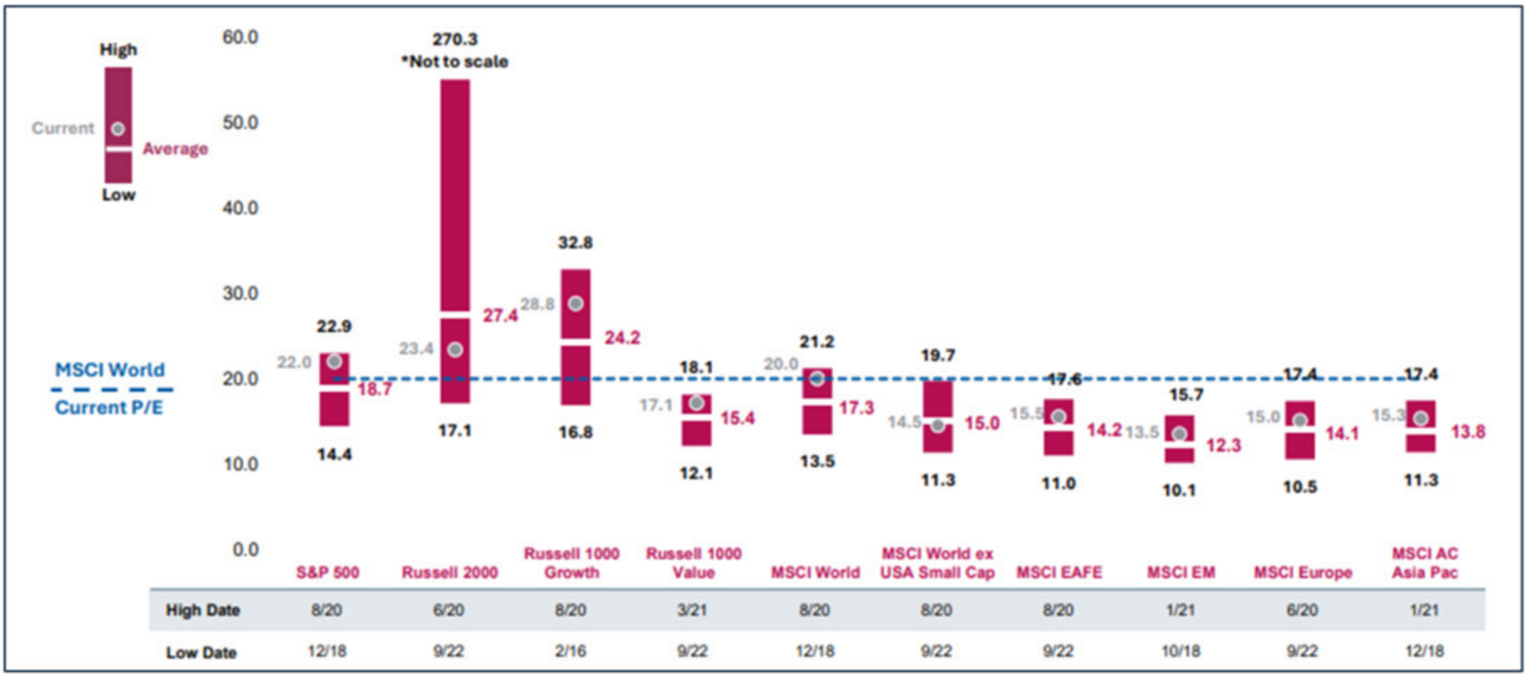
Source: Morningstar -- Data are as of December 31, 2025

Figure 8. S&P 500 Earnings and Revenue Growth, 2015-2026E



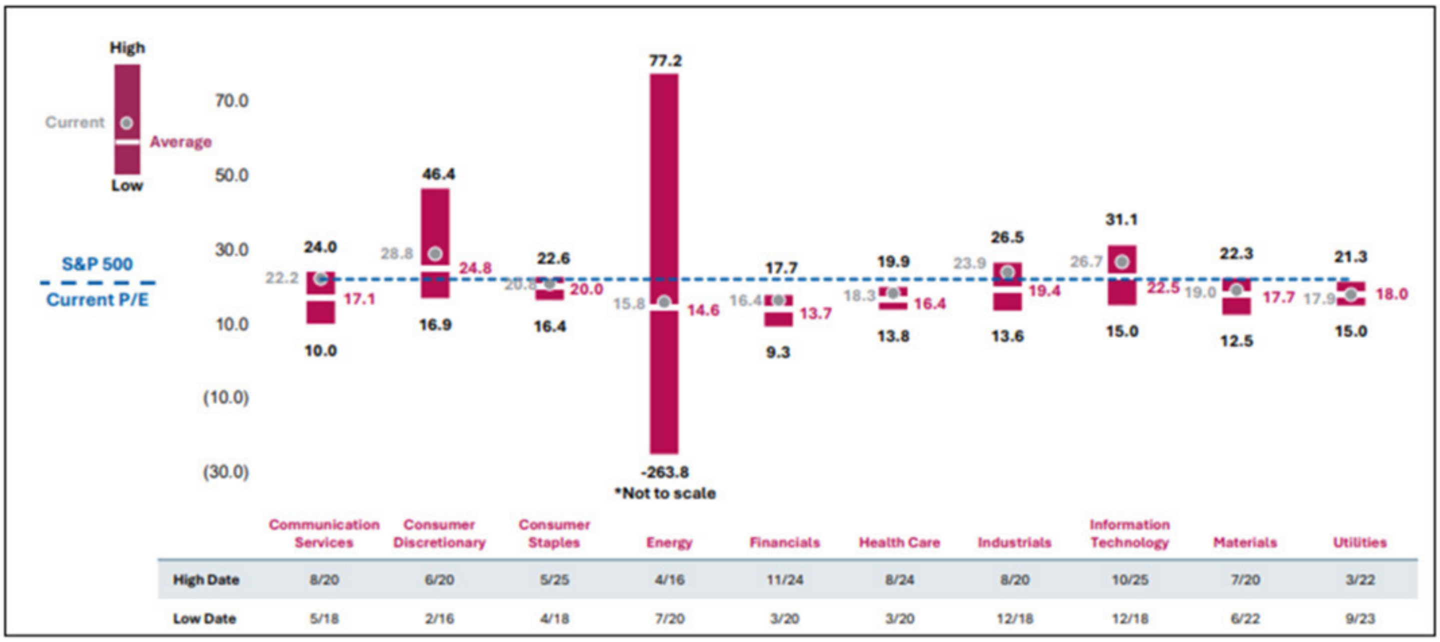
Source: FactSet

Figure 9. Valuation Analysis - Regions/Styles: Current NTM P/E v 10-year High, Low, Average, December 31, 2025



Source: Easton Vance, The Beat December 2025

Figure 10. Valuation Analysis - S&P 500 Sectors: Current NTM P/E v 10-year High, Low, Average, December 31, 2025



Source: Easton Vance, The Beat December 2025

Values-Aligned Investing: Persistence of Purpose in a Polarized Environment

Values-aligned investing faced significant headwinds in 2025, which are set to continue in 2026. In the US, we saw backlash against environmental, social, and government (ESG) principles and investing. Several states proposed or passed "anti-ESG" laws aiming to restrict public investments that consider sustainability factors. More than 100 anti-ESG bills were introduced in state legislatures during 2025, though the vast majority failed to pass, and proxy voting and advocacy were targeted at the federal level. Despite these headwinds our resolve remains strong. Investors must be allowed to invest their money their way, incorporating their personal values preferences into their portfolios and advocacy efforts.

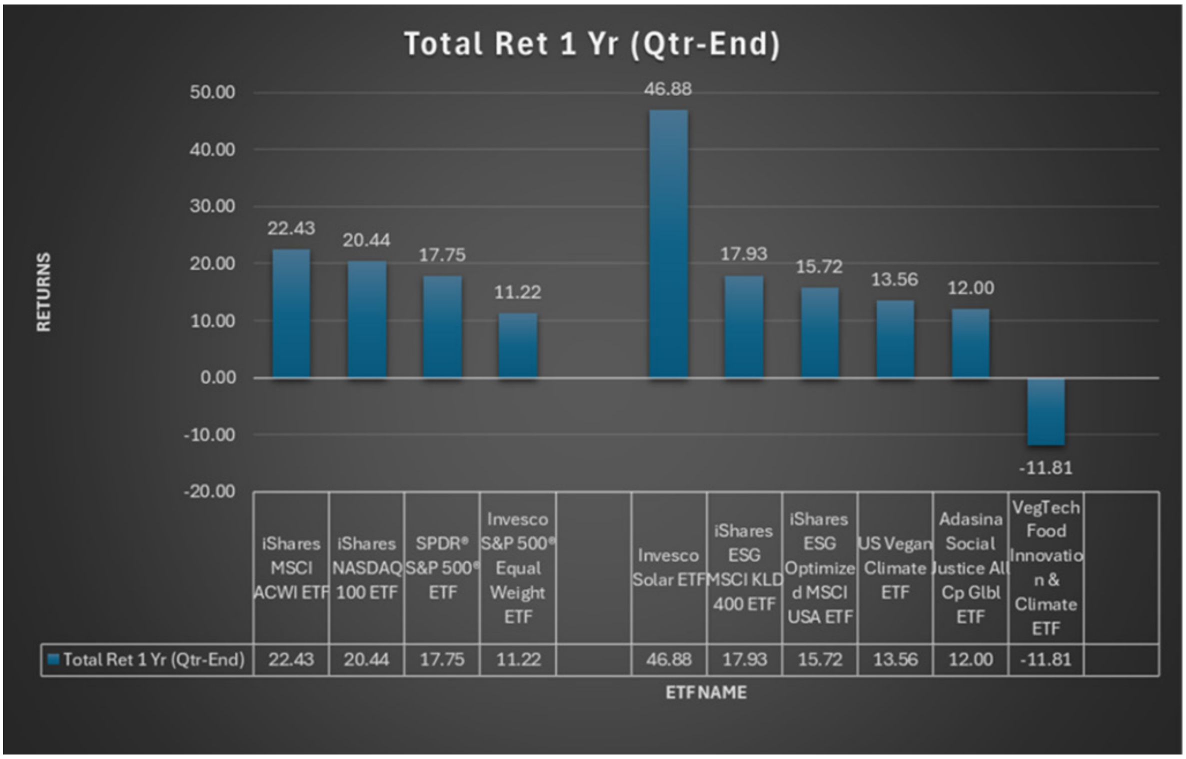
At the same time, companies are quietly reinforcing their commitment to sustainability – not because it's fashionable but because it makes good business sense. According to Deloitte's 2025 Global C-Suite Sustainability Report 83% of companies increased sustainability investments over the past year, and individual companies are choosing the environmental, social, and governance projects best suited for their growth, cost structure, and resource management. Of more than 2,100 C-Suite executives surveyed worldwide, 81% said sustainability initiatives improved financial performance; 69% said the initiatives generated new revenue opportunities, and 57% indicated they delivered measurable cost savings. Nearly three-quarters (74%) cited investor and client expectations as a primary reason for continued ESG investment, underscoring the need for a clear commitment to engaging companies from advocacy and proxy voting perspectives.

Purpose and performance are converging among both corporations and investors. For corporations, the best way forward is to identify the sustainability projects best aligned with their objectives. For investors, the best way forward for values-focused Advisors and their clients is to emphasize education, accessibility, transparency, and personalization in in their interactions, and portfolio management, proxy voting, and corporate advocacy efforts. Our Values Aligned Direct Index Solution (VADIS) and proxy voting and advocacy efforts enable advisors to educate their clients and work with them to identify the Values Set best aligned the client's view of the world, incorporate those Values into the client's personal Investment Universe, and construct a portfolio and advocacy plan targeting the client's long-term financial and impact objectives.

Sustainable strategies were mixed in 2025, which is not surprising in markets still driven by the Magnificent 7. Renewable energy rebounded in 2025, while the performance of broader strategies was directly correlated with exposure to US mega cap companies (see Figure 11). For example, the tech-heavy MSCI KLD 400 index advanced 2.5% in the fourth quarter and 17.9% for the year, about in line with the S&P 500, while other broad values-aligned strategies underperformed. We look for excess performance to resume as we move through the current period of Values-Aligned investing backlash.

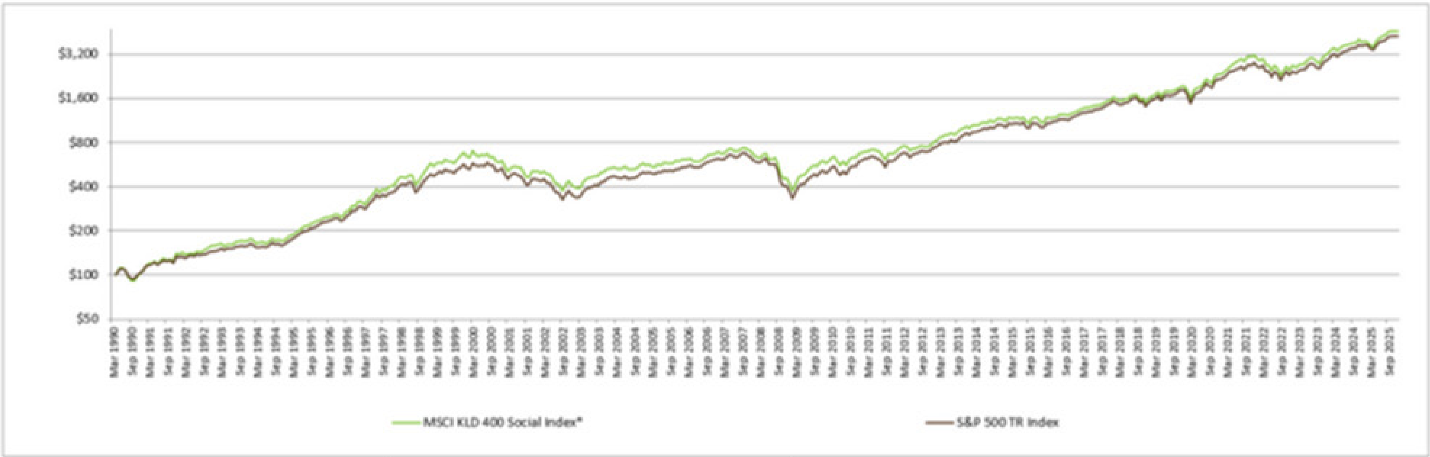
As we know, the market reflects the world as it is today. Values-aligned investors invest in the world as they want it to be and look to achieve long-term financial and impact goals aligned with their values. At First Affirmative, we remain convinced investors must take responsibility for the impact their money has in the world. Since 1988, we have served individuals and institutions seeking to achieve financial returns and align their portfolios with their values to meet both their financial and impact objectives. VADIS represents the future of hyper-customized portfolio management and enables clients to invest in the world as they want it to be. By combining trusted personal financial advice, leading sustainable and responsible investment expertise, and scalable technology, VADIS enables advisors to provide personalized portfolios aligned to each client's financial goals and values.

Figure 11. Selected Sustainability-Themed ETFs – Third Quarter 2025 Returns



Source: First Affirmative, Data are as December 31, 2025

Figure 12. MSCI KLD 400 vs S&P 500 Indices, December 31, 2025



	MSCI KLD 400 Social Index*	S&P 500 TR Index
Annualized Return Since 5/1/90	13.46%	13.19%

Source: Morningstar. *Data prior to 9/1/2010 is that of the MSCI KLD 400 Social Index GR, while data since 9/1/2010 is that of the MSCI KLD 400 Social Index NR. Indices are unmanaged groups of securities. Index performance does not include the impact of cash, fees, or transaction costs. Investors cannot invest directly in indices but may purchase mutual funds or other investment products designed to track the performance of various indices.

First Affirmative Financial Network
5475 Mark Dabling Boulevard, Suite 320, Colorado Springs, Colorado 80918
719-478-7036 | www.firstaffirmative.com
Registered Investment Advisor (SEC File #801-56587)

Advisor Inquiries
phone: 719-478-7036
businessdevelopment@firstaffirmative.com

Business Development, Marketing, and Media Inquiries
phone: 719-478-7036
businessdevelopment@firstaffirmative.com

Service Inquiries
phone: 719-478-7036
service@firstaffirmative.com

General Inquiries
service@firstaffirmative.com

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