FOURTH QUARTER 2025

SEI *Forward.*

James Smigiel
Chief investment officer

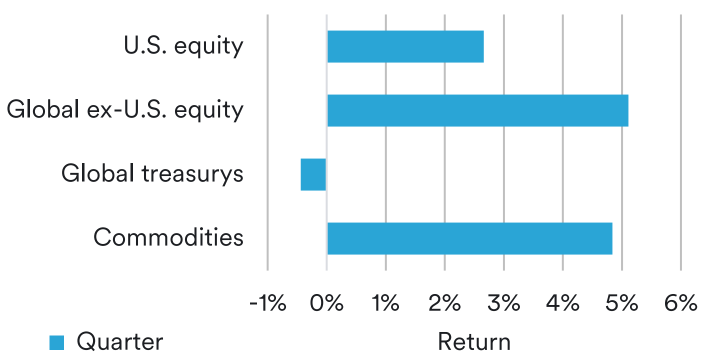
Market review

Equity markets capped off a stellar year with a positive fourth quarter. Earnings continued to broaden, monetary policy continued to ease, and artificial intelligence (AI) hyperscalers continued to spend. Heightened volatility was also a theme to close out the year as data-center debt financing raised AI bubble concerns, and the U.S. government shutdown left both policymakers and investors a bit in the dark on the state of the U.S. economy.

Data issues notwithstanding, the U.S. Federal Reserve (Fed) delivered two interest-rate cuts during the quarter as the central bank focused on a softening labor market despite inflation remaining well above target.

U.S. and global yields broadly followed a similar pattern of lower short-term yields (on easing monetary policy) and flat-to-higher longer-term yields (due to lingering debt concerns). Credit reflected the risk rally with spread levels near all-time tight levels, but attractive absolute yields. Meanwhile, commodities were a mixed bag of supply and demand imbalances as crude oil sold off while precious metals enjoyed a strong rally. Finally, the U.S. dollar ended the year mostly weaker as rate cuts weighed on the greenback.

Tales of the tape*



Source: Bloomberg, SEI as of 12/31/25.
Past performance does not guarantee future results.

Notables for the quarter

- **Silver:** +54%, Spiking demand, China export controls lead to massive rally
- **Oil:** -6.6%, U.S. production at record levels, OPEC+ increasing output
- **Oracle:** -31%, Gave back all of the OpenAI euphoria on debt concerns
- **Japan 10-year yield:** 2.06%, Highest level in over 25 years as inflation accelerates

Reflections and resolutions

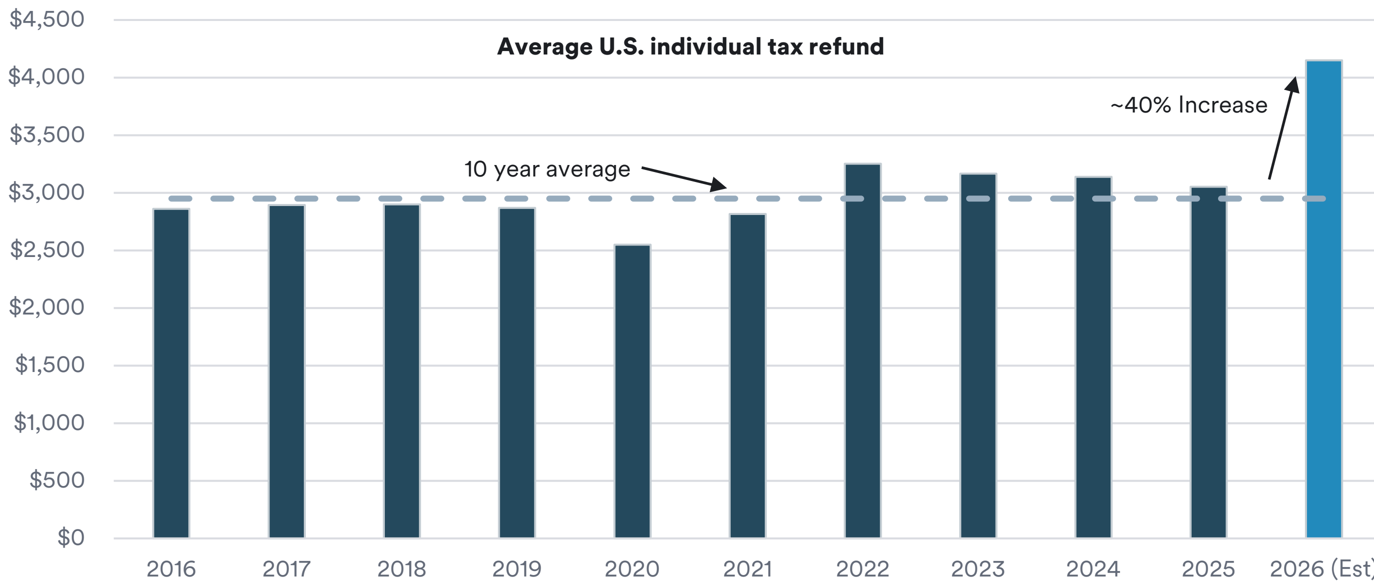
Reflections and resolutions abound this time of year and for good reason. After all, what better time than the start of a new year to reflect on the current state of affairs in order to establish some actionable resolutions for a better way forward? In that spirit, let's reflect on the global capital markets and establish some investor resolutions for 2026.

Reflecting on global equity markets reveals quite a few positive trends, many are likely to carry over into 2026. Earnings have been strong and expanding beyond just the mega-cap technology companies. In fact, in the U.S., roughly 85% of all companies beat earnings estimates for the third quarter—one of the highest readings in years. Using the S&P 500 Index as an example, while technology outpaced the other sectors, both financials and utilities also grew earnings by over 20% year-over-year during the third quarter. Earnings expectations in the new year also remain broadly positive, with all 11 sectors of the S&P 500 Index expected to report rising earnings over the next year.

In addition, both monetary and fiscal policies will remain supportive of risk assets. While global central banks are nearing the end of this most recent easing cycle, it is worth noting the substantial easing that has already taken place and the lagged effects of monetary policy, which can extend up to 24 months. Despite many central banks being on hold and Japan notably restricting policy, expectations for 2026 still include more than 70 rate cuts across the globe. In short, monetary policy will remain a tailwind for markets, particularly in the first half of the year.

On the fiscal side, while much has been made of stimulus coming out of Europe and, to a lesser extent, China, the U.S. will be experiencing its own fiscal stimulus pulse in 2026 as retroactive tax policy changes from the One Big Beautiful Bill Act will deliver a windfall for U.S. consumers. Exhibit 1 highlights the expected 40% jump in average tax refunds in the new year, which should help boost consumption, lending support to the main driver of U.S. gross domestic product.

Exhibit 1: U.S. consumers will see a tax refund boost in 2026



Source: IRS, Piper Sandler 2026 Estimate.

While we view earnings and policy as positive trends for 2026, we also see concentration and valuations as meaningful challenges for markets. We have been vocal throughout 2025 on the highly concentrated nature of the U.S. equity market where a single name, Nvidia (NVDA), makes up roughly 8% of market cap; a single sector, technology, makes up nearly 35% of market cap; and the 10 largest names represent over 40% of the market. This market structure represents heightened risk for investors, not necessarily reflected in volatility measures, but clearly in the form of increased fragility, or the drawdown susceptibility that comes with concentration in name, sector, and theme.

Valuations present a high hurdle for mega-cap tech in particular (forward P/E ratio=29x) and U.S. equities more broadly. We are still in the early stages of the AI revolution and have already experienced several surprises along the way; Deepseek called into question the U.S.'s exclusivity regarding AI winners. Oracle highlighted the perils of debt financing versus cash-flow funding and Google reminded investors that there are alternatives to NVDA's GPUs (graphics processing units) with their TPU-based (tensor processing units) focused processing approach. In short, AI is a revolutionary technology and a highly profitable business which will invite substantial competition. We are simply not convinced this is reflected in current hyperscaler valuations. However, we are very bullish on AI's ability to drive profitability across market sectors, which may not be reflected in valuations outside of technology.

All returns are in USD.

EM is an attractive diversifier. Long-term debt should be avoided.

Outside of the U.S., we are particularly interested in emerging markets (EM) for 2026. EM equities (both with and without China) returned roughly 30% in 2025 and while we don't expect a repeat of such lofty returns, we do believe that conditions remain particularly favorable. Easing global fiscal and monetary policies against a backdrop of relatively robust global growth should bode extremely well for emerging countries. In addition, in the U.S, further rate cuts and a ballooning debt situation could continue to weigh on the dollar in the coming year, lending further support to risk assets outside of the U.S. and benefiting EM currencies in particular. Finally, valuations appear very favorable, with EM equities trading at just 13.5x forward earnings.

SEI's tactical views represent both our expectations of potential returns and our assessment of potential risks. Our investor resolutions for equities in 2026 encompass both aspects and include 1) maintaining a global footprint, including EM and 2) avoiding excessive concentration by underweighting the so-called Magnificent 7 in favor of a more diversified posture.

Fixed-income market reflections also reveal strong trends that we see continuing into 2026. Most notably, we expect global yield curves to steepen further as monetary policy pushes short-term rates lower and debt concerns continue to boost longer-term yields. There will be plenty of wild cards, however, in the first half of the new year, which include a U.S. Supreme Court decision regarding the Trump administration's tariffs and a new Fed Chairman, which may affect inflation and inflation expectations in the short term. Regardless, we continue to hold the view that inflation is likely to remain stubborn and above most central bank targets. Credit markets were resilient in 2025 despite some notable headline events, and we continue to expect a "bottom-up" market in 2026 that avoids broader spread widening. Corporate balance sheets remain relatively healthy, and the maturity schedule is light in 2026.

Our fixed-income investor resolutions for 2026 include 1) staying neutral duration (interest-rate sensitivity) but avoiding long-term debt and 2) remaining defensive in credit, emphasizing risk-adjusted-yields in securitized sectors such as collateralized loan obligations (CLOs).

Finally, the commodity market offered quite a bit to reflect on in 2025 as investors experienced sharp moves in both directions across many complexes. The current state of the global economy and the substantial stimulus measures we expect to see in the new year reinforce our view that investors should have strategic exposure to commodities. Therefore, for our final investor resolution for 2026, we believe that investors should maintain broad commodity exposure given the high inflation sensitivity of the market, particularly in times of positive economic growth.

Summary views

Macro/Cross-asset	• Our inflation bias remains above market consensus although tariff legality and election posturing may widen the range of potential outcomes. • No recession in sight. The global economy remains resilient and will benefit from additional stimulus in 2026. • We remain positive on risk assets in 2026 and strategically exposed to broad commodities.
Equity	• Earnings have been strong and broadening by sector and geography. • Underweight mega-cap tech in the U.S. on concentration concerns. Active management and positive exposures to global value, quality, and momentum factors remain our preferred approach. • EM equities are particularly interesting this year given the reflation dynamic of stimulus on top of positive economic growth.
Fixed income	• Yield-curve steepening should continue, and we remain exposed in the U.S. and Europe. • We avoid long-term maturities on debt concerns, although overall interest-rate sensitivity is neutral. • Defensive in credit. Our approach continues to focus on securitized sectors such as CLOs. • FX carry exposure with an emphasis on emerging currencies is attractive.

Indexes

*Tales of the tape: U.S. equity: S&P 500 Index; Global ex-U.S. equity: MSCI ACWI ex-U.S. Index; Global Treasurys: Bloomberg Global Treasury Index; Commodities: Bloomberg Commodity Index.

Glossary and index definitions

For financial term and index definitions, please see: https://www.seic.com/ent/imu-communications-financial-glossary

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