



Atlantic Retirement & Wealth Advisors LLC

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Spectacular IT Spending and Profits in 2025, Unspectacular Growth in Other Sectors

Fourth Quarter Highlights

- Capital flows continue to be increasingly concentrated in one asset class, large cap US equities. Technology earnings growth and spending have been impressive and resilient. Return on that spending will be key in the second half of 2026.
- Mid and small capitalized firms improved their performance in the fourth quarter based on the assumption of further rate cuts from the Federal Reserve. Many of these firms have a higher debt load so any interest expense reduction should help them.
- International stocks had fantastic performance in 2025; helped by government spending, lower interest rates, depreciating dollar and defense spending. Even with this outperformance, we think the landscape is still very positive.
- US unemployment and inflation have shown a mixed picture in the second half of 2025. With the government shut-down occurring during this past quarter, it is difficult to get a clear reading. Based on our reviews and discussions, we believe employment is weak, inflation is stubbornly around 3% and the outlook requires the Federal Reserve and the government to intervene to keep economic activity healthy. With that backdrop, we expect GDP to be slower in 2026.
- Fixed income (bonds) had a very good year in 2025, helped by lower interest rates and solid credit fundamentals. This led to lower defaults (missed payments) across the globe.
- Finally, global geo-political events continue by the day. However, our long-term investment themes continue even with the ongoing noise. That is not to say we are not monitoring impacts or market volatility. If there are events that we believe could impact long term results or our investment positioning we will act and reach out to you.

Overall Landscape

We continue to focus on long term results, client outcomes and objectives. A diversified portfolio can benefit investors as volatility increases and valuations become more important. Diversification comes in many forms: stocks, bonds, commodities, currencies, leverage, cash, alternative assets and real estate are good examples. Our goal is to match our portfolios to our clients' goals, risk levels, timeframe, market opportunities and dynamics as well as current valuations and thoughts. These are never static given all the variables included in our analysis as well as our clients' life changes.

Index Returns

Index	Q4 2020	2025
Dow Jones Average (TR)	4.03%	14.92%
S&P 500 (Price)	2.35%	16.39%
S&P 500 (TR)	2.66%	17.88%
Morningstar US Mid Cap Core (TR)	.90%	8.49%
Morningstar US Small Cap Core (TR)	3.81%	10.76%
S&P Mid Cap 400 (TR)	1.64%	7.50%
Morningstar Large Cap Value (TR)	4.14%	18.18%
Morningstar Small Cap Value (TR)	4.18%	11.84%

International Equity

MSCI ACWI All Cap NR (International)	3.22%	22.13%
MSCI Emerging Markets GR	4.78%	34.36%
MSCI EAFE	4.86%	31.22%

Fixed Income / Bonds

Bloomberg US Bond Aggregate (TR)	1.10%	7.30%
BBGBARC Muni 10 Yr 8-12 TR US	1.74%	5.92%
BBGBARC Muni Inter-short 1-10 (TR)	.77%	5.01%
Bloomberg High Yield Muni (TR)	1.15%	2.46%
Morningstar US CEF Municipal	1.59%	6.29%

S&P Target Risk Models

S&P Target Risk Conservative (PR)	.31%	7.99%
S&P Target Risk Moderate (PR)	.62%	9.78%
S&P Target Risk Growth Agg (PR)	1.24%	13.34%
S&P Target Risk Aggressive (PR)	1.83%	16.86%

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