



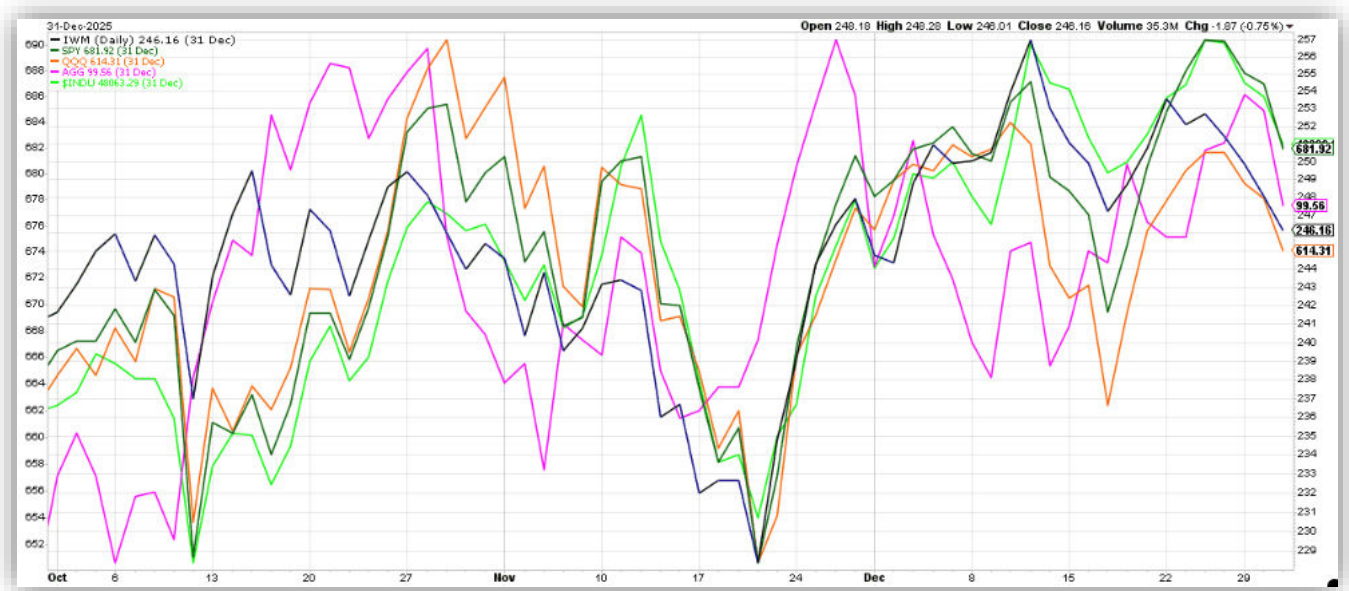
February 2026

2026 Q1 Economic and Market Review / Preview:

Key Indices in Q4 2025

The fourth quarter of 2025 extended the market's constructive tone, though with greater sector dispersion as investors balanced year end positioning against evolving growth and policy expectations. Markets continued to price in a soft landing, supported by cooling inflation, steady labor market data, and growing confidence that the Federal Reserve would begin easing policy in 2026. Despite intermittent volatility, risk assets broadly finished the year on solid footing.

- The S&P 500 advanced approximately 6%, led by large cap technology, communication services, and consumer discretionary names tied to AI, automation, and productivity gains¹.
- The Dow Jones Industrial Average rose roughly 4%, supported by strength in industrials, defense, and financials as capital spending and balance sheet quality remained in focus¹.
- The Nasdaq Composite gained about 7%, continuing to outperform on sustained demand for semiconductors, cloud infrastructure, and AI related investment, though gains were more selective¹.
- Small cap equities posted a modest advance, with the Russell 2000 Index up around 3 to 4%, as higher funding costs continued to weigh on more leveraged companies¹.
- Fixed income markets also delivered positive returns, with the Bloomberg U.S. Aggregate Bond Index rising approximately 1.5% as long term yields drifted lower and credit spreads remained contained¹.



Overall, Q4 2025 capped a resilient year for diversified portfolios. Equity markets continued to reward earnings durability and secular growth exposure, while bonds reasserted their stabilizing role. A key takeaway moving into 2026 is that leadership is becoming more selective, with returns increasingly driven by positioning within the market rather than broad exposure alone.

A Volatile Beginning for 2026

During the latter part of Q4 2025 and into early 2026, the technology sector experienced a notable selloff, driven largely by weakness in software companies as investors reassessed future earnings durability amid AI's rapid transformation of work². High growth and AI adjacent software firms faced pressure as concerns emerged around pricing power, customer retention, and the long-term viability of traditional subscription models. This was compounded by periodic risk-off sentiment tied to softer macro data and by capital rotating toward value oriented and capital-intensive sectors with clearer earnings visibility. Tighter funding conditions and the repricing of longer duration assets further accelerated the unwind of concentrated software exposure, resulting in meaningful valuation compression, particularly among smaller and mid-sized innovators.

Entering the Year of the Horse

As we enter the Year of the Fire Horse beginning February 17, 2026 (Chinese new year according to the lunar calendar), the global investing landscape is characterized less by stability and more by speed, rotation, and widening dispersion. Symbolically associated with acceleration and momentum, this environment tends to reward agility and penalize complacency. Market narratives are shifting faster, leadership is changing more frequently, and outcomes are diverging beneath headline indices. Global capital flows are increasingly driven by mobility and connectivity across data, energy, goods, and

people, while elevated geopolitical and policy risks continue to favor resilience, redundancy, and real assets tied to economic throughput³.

In the United States, this backdrop favors execution, productivity, and capital investment. Innovation driven capex remains central, particularly across AI infrastructure, power generation, grid modernization, and defense related industries with structural and policy supported demand⁴. Conversely, the environment is less forgiving for highly leveraged balance sheets, duration heavy assets, and overcrowded trades dependent on stable conditions. Volatility and rotation remain features of this cycle, reinforcing the importance of active risk management and selective positioning.



What to Expect in 2026

Looking ahead, we expect a more supportive monetary backdrop in 2026, though not in the form of rapid or continuous rate cuts. Interest rates are likely to trend lower in a measured fashion, with easing extending into the summer as the Federal Reserve balances moderating inflation against a still resilient economy. Inflation continues to cool, and real time measures such as Truflation* suggest disinflation is progressing faster than official CPI data reflects. Meanwhile, the labor market remains during a significant structural shift, characterized by slower headline job growth, rising productivity, increased automation, and sector level reallocation rather than broad based weakness. Together, these dynamics point to a year defined by normalization and selectivity rather than crisis or excess.

* **Truflation**⁵ is an alternative inflation index that uses real time, high frequency data from millions of live data points across the economy. Unlike CPI and PPI, which rely on survey based and backward-looking methodologies, Truflation provides a more current view of price trends. Recent readings indicate inflation running below 1%, reinforcing the case that disinflation is advancing more rapidly than widely acknowledged.



Winners and Losers

This environment underscores a key reality for 2026 and beyond: AI will create clear winners and losers within the software ecosystem. Task based, rules driven software faces the greatest disruption, as core functions can increasingly be automated by AI at far lower cost. Companies such as LegalZoom⁶, built around standardized documentation and workflow automation, are particularly vulnerable to replacement rather than incremental competition. Similarly, tax preparation platforms such as TurboTax[®] may face sustained pressure as AI simplifies filing and compresses margins. In contrast⁸, platform and operating system level software providers such as Microsoft are well positioned to thrive, given their central role in enterprise workflows, cloud infrastructure, security, and AI deployment. Leadership will increasingly favor companies that control distribution, data, and infrastructure rather than narrow, easily replicated solutions.

Closing Thoughts

In summary, we see significant opportunities emerging in 2026, particularly among oversold sectors and individual names impacted by volatility and narrative driven selloffs. As markets shift from broad multiple expansion to a more fundamentals driven environment, dislocations are creating attractive entry points for companies with durable business models, strong balance sheets, and clear paths to cash flow growth. With inflation easing, interest rates gradually moving lower, and productivity gains from AI beginning to materialize. We believe 2026 will reward disciplined investors focused on quality, valuation, and long-term structural trends rather than short term market noise.

Andrew Tang
Chief Investment Officer



As an investment professional with over twenty-six years of experience in the financial services industry, Andrew helps clients to protect, grow and transfer wealth during their lifetime with objective, unbiased, customized and efficient strategies.

Education, Professional Licenses Acquired & Affiliations

- ◆ *Series 7, 63, 65 and 24 Licensed.*
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With extensive experience in the Financial Services Industry, Andrew Tang and Turner Financial Group provides disciplined wealth management with an intelligent caring approach to each and every client that compliments the Dedicated Financial offering.

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