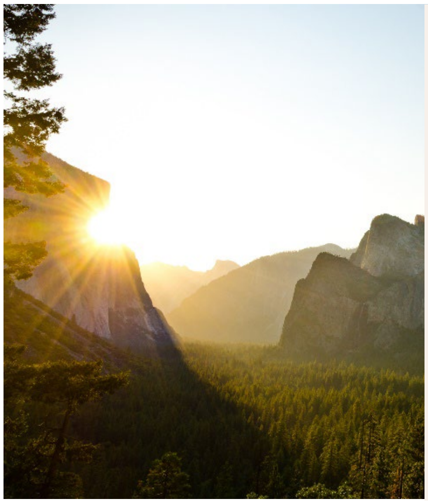
Market Update | January 2026

2025 in Review and Looking Ahead



Key Takeaways

2025 ended as another strong year for U.S. financial markets despite mixed underlying trends.

Market performance was uneven with returns driven by a narrow group of large-cap stocks.

AI is reshaping capital markets, productivity, labor dynamics, and business operations across nearly every sector.

Volatility is likely to remain elevated in 2026.

As we close out 2025, we reflect on the year behind us, the forces shaping today's markets, and how we are positioning portfolios for the opportunities and risks that lie ahead.

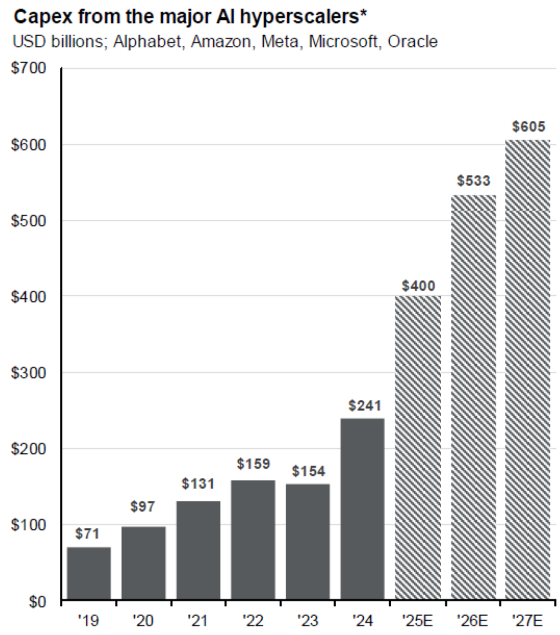
The Macro Analysis

At a headline level, 2025 was another strong year for U.S. financial markets. Economic growth remained resilient, employment stayed firm, and corporate earnings, particularly within the technology sector, continued to exceed expectations. However, beneath the surface, market performance was far more uneven. Returns were driven by a relatively narrow group of stocks, with momentum and artificial intelligence (AI) themes dominating investor attention. This dynamic has widened the gap between headline index performance and conditions across much of the broader economy.

The Impact of AI

Over the last three years, AI has emerged as a dominant investment theme. The breadth and scale of capital investment across data centers, cloud infrastructure, semiconductors, power generation, and networking are without recent precedent. Corporations and governments alike are accelerating investment, driven in part by the fear of falling behind as AI capabilities advance. This buildout is real and is reshaping capital markets, productivity, labor dynamics, and business operations across nearly every sector.

At the same time, the benefits of this transformation are not being distributed evenly. Market leadership has been concentrated in a small group of large-cap stocks, whose rapid growth has widened valuation differences across the equity landscape. Notably, despite their prominence, only two of the so-called Magnificent Seven stocks outperformed the broader S&P 500 last year, while five underperformed. Even so, as this chart shows, the largest technology companies in the S&P 500 continue to commit capital at an unprecedented rate to AI infrastructure buildout. Unlike spending during the dot-com peak, the technology is constrained by supply-side limitations rather than demand-side weakness.



Source: Bloomberg, J.P. Morgan Asset Management

Interest Rates

The interest-rate environment has also played an important role. Higher rates have generally favored large, well-capitalized companies with strong balance sheets and access to funding, reinforcing market concentration. Meanwhile, many sectors tied more closely to the real economy (the production, distribution, and consumption of tangible goods and services) have faced tighter financial conditions, margin pressure, and slower growth. Recent geopolitical stress has added further uncertainty, as evolving trade and tariff policies have raised input costs and complicated planning for global businesses.

Looking Ahead to 2026

We remain constructive, but measured. The AI-driven capital expenditure cycle is likely to continue, and we expect further innovation, deployment, and monetization across technology and adjacent industries. Over time, AI has the potential to enhance productivity, improve efficiency, and unlock new revenue opportunities well beyond the technology sector, influencing healthcare, financial services, manufacturing, logistics, and everyday consumer experiences.

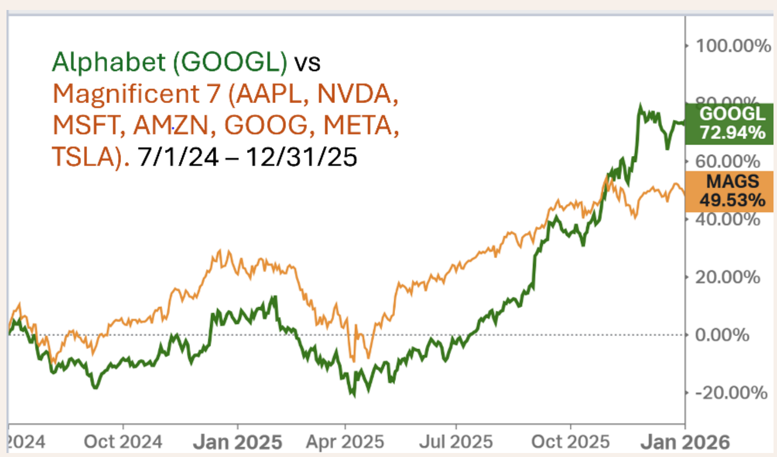
That said, periods of rapid technological investment are rarely linear. Valuations matter, funding conditions matter, and the economic benefits of new technologies often take longer to materialize than markets initially expect. We also believe volatility is likely to remain elevated as investors reassess growth assumptions, interest rates remain restrictive, and geopolitical risks persist.

Google has moved from AI laggard back to perceived leader

Alphabet (parent company of Google) was an early leader in modern AI. As Google went from acquiring DeepMind in 2014 to pioneering custom AI chips, the company's long term AI investments have reached a monetization inflection point. This journey has seen Google move from being perceived as playing catch up to renewed leadership in generative AI. The release of Gemini 3 marks the culmination of a decade of foundational research, now converging into scalable products, platform integration, and accelerating growth across Search, Cloud, and Android.

Long before generative models captured public attention, Alphabet had already been infusing AI into its internal systems—from optimizing data center efficiency and targeting ads, to powering search relevance and YouTube recommendations. When ChatGPT's debut in late 2022 reshaped market perceptions, investors and analysts questioned whether Google had fallen behind despite its early leadership. The competitive jolt triggered a so called "code red," culminating in the merger of Google Brain and DeepMind into a unified AI division and a strategic acceleration of model development. Since then, Google has embedded generative AI deeply into Google Cloud, positioned it across Workspace and Search, and leveraged its own custom silicon (TPUs) to enhance computational efficiency and control model scaling economics.

Apple's confirmation earlier this month of a major shift in its AI strategy underscored Google's progress across the entire AI stack: Google's Gemini models will help power the next generation of Siri and Apple Intelligence features. The partnership between two rivals demonstrates the strength of Gemini 3. For nearly a decade, Google persistently traded at a valuation discount to its peers; however, the combination of its competitive advantages, consistent compounding, and embedded optionality are rewarding long-term shareholders, a tenet of HTC's core investment philosophy.



Our Perspective

Against this backdrop, our investment philosophy remains unchanged. We are committed to maintaining a long-term perspective and building sustainable portfolios designed to participate in transformative growth trends, such as the current technology and infrastructure buildout, while also maintaining broad exposure to the real economy. We believe this balance is essential to tempering volatility, managing risk, and compounding capital responsibly over time.

> We continue to emphasize diversification, valuation discipline, and fundamental quality

Rather than attempting to predict short-term market movements or chase crowded trades, we continue to emphasize diversification, valuation discipline, and fundamental quality. This approach may not always capture the most speculative phases of market enthusiasm, but we believe it offers a more durable path through a wide range of economic and market environments.

Contact Us

As always, we are grateful for the trust you place in us. We look forward to navigating the opportunities and challenges of 2026 together and remain focused on helping you achieve your long-term financial objectives.

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