

2026 Capital Markets Forecast



Economic Experimentation

Trade, Labor, and Debt Under the Microscope

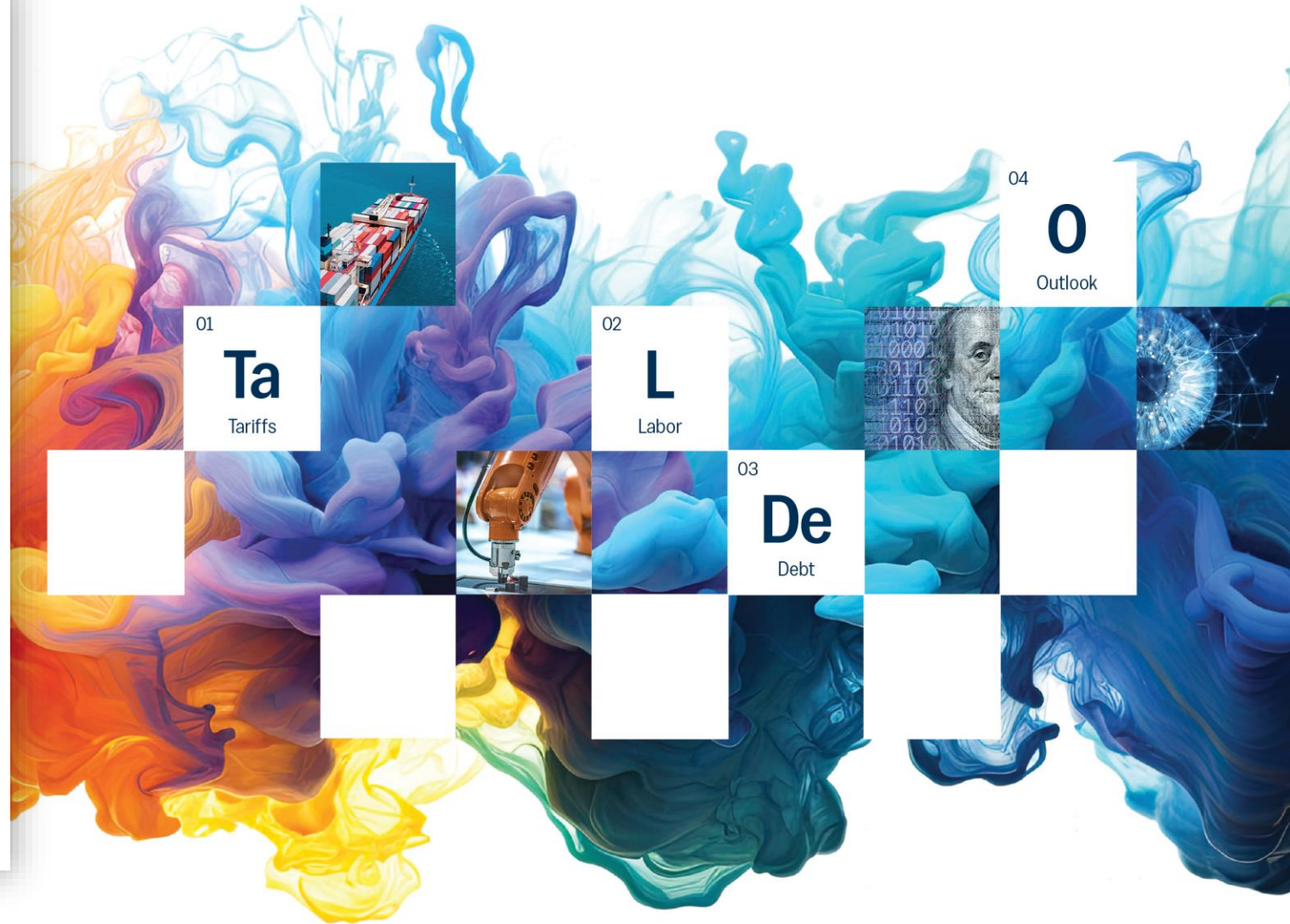
Agenda

Theme 1 **The Reshoring Experiment**
Tariffs and Smart Manufacturing

Theme 2 **The Labor Experiment**
Replacing Work with Artificial Intelligence (AI)

Theme 3 **The Debt Experiment**
Investing in a Debt Cycle

The Outlook From Lab to Portfolio Reality



Balanced outlook for 2026

Reasons for optimism

- Consumer resilience
- Falling mortgage rates
- Receding inflation
- Positive GDP momentum
- Easing monetary policy
- Fiscal stimulus
- Strong corporate earnings outlook
- AI and productivity

Reasons for caution

- Weak labor market
- Economic and policy uncertainty
- Elevated credit delinquencies
- Housing affordability
- Lackluster consumer spending
- AI-driven, debt-fueled capex
- Equity market valuations

Outlook for 2026

Economy

Slower U.S. economic growth of 1% in 2026 on weaker consumer

Labor market job growth expected to stagnate, unemployment to rise to 4.8% in 2026H1 then stabilize and drift down

Inflation expected to return to Federal Reserve's target of 2% by mid-year

Federal Reserve to continue cutting rates, reaching neutral range of 2.75%-3%

Markets

Solid earnings outlook of 14% for U.S. equities

Likelihood of volatility given stretched valuations in 88-98th percentile

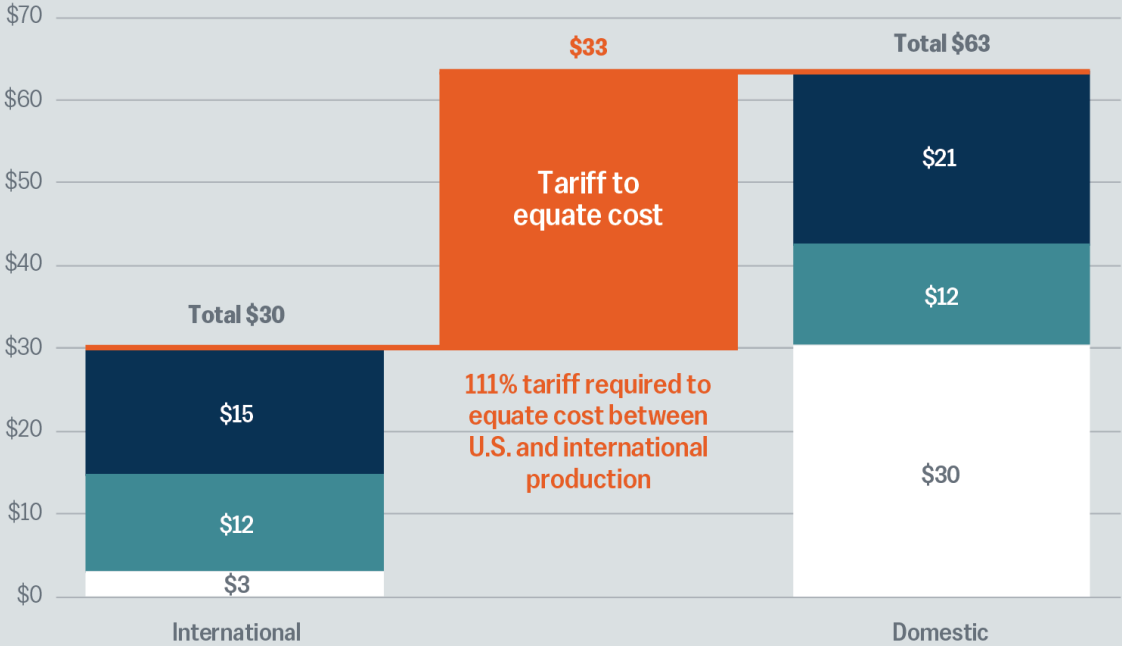
Anticipate continued strength in earnings and returns from core, megacap growth equities

Positioning for rebound of the quality factor after a year of performance in the 5th percentile

Bloomberg, WTIA. Earnings outlook reflects Bloomberg consensus estimates for 2026 vs 2027, as of January 6, 2026. Valuation percentile range is representative of a variety of valuation metrics, including price-to-next-12-month-earnings, price-to-free-cash-flow, 12-month-forward price-to-sales, and trailing price-to-free-cash-flow. Percentile rank for quality performance looks at the MSCI Quality minus MSCI USA index over the past 20 years.

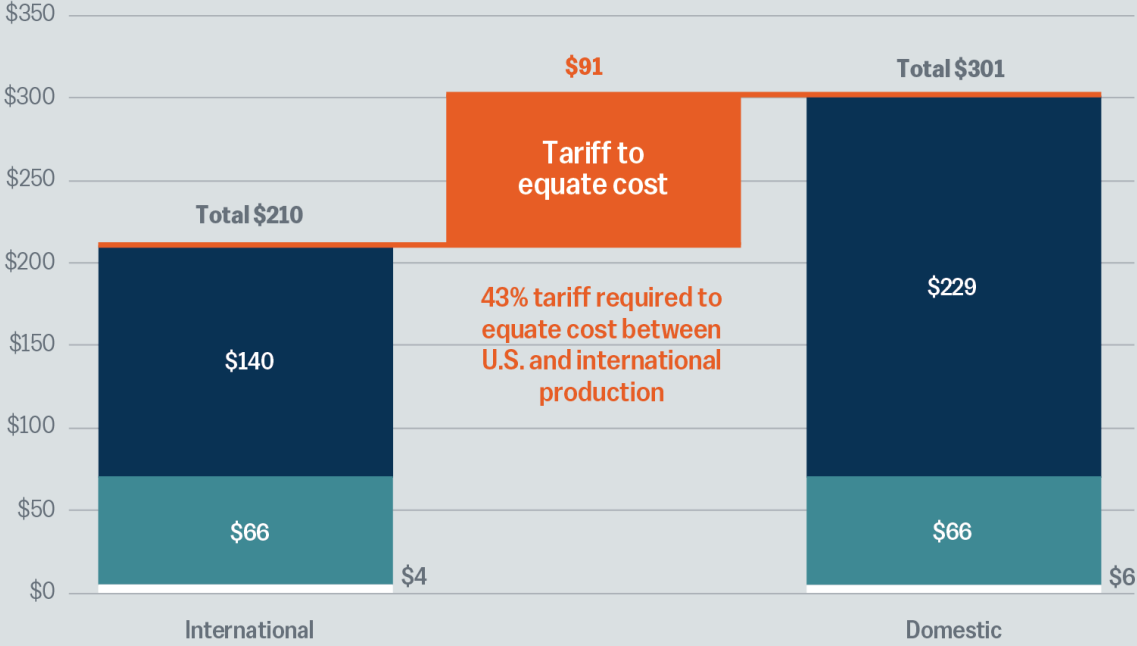
Reshoring hinges on labor intensity

Shoes



Overhead Raw materials Labor Tariff

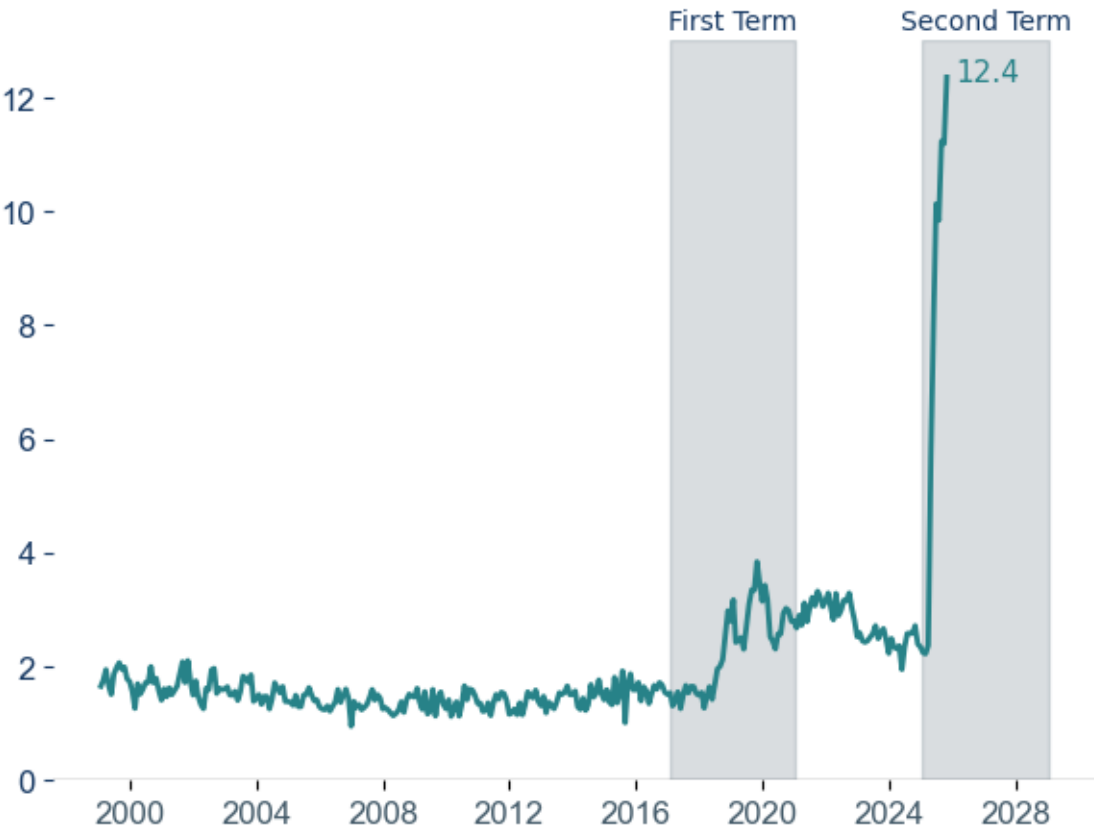
Semiconductors



Source: Wilmington Trust. Data as of October 31, 2025.

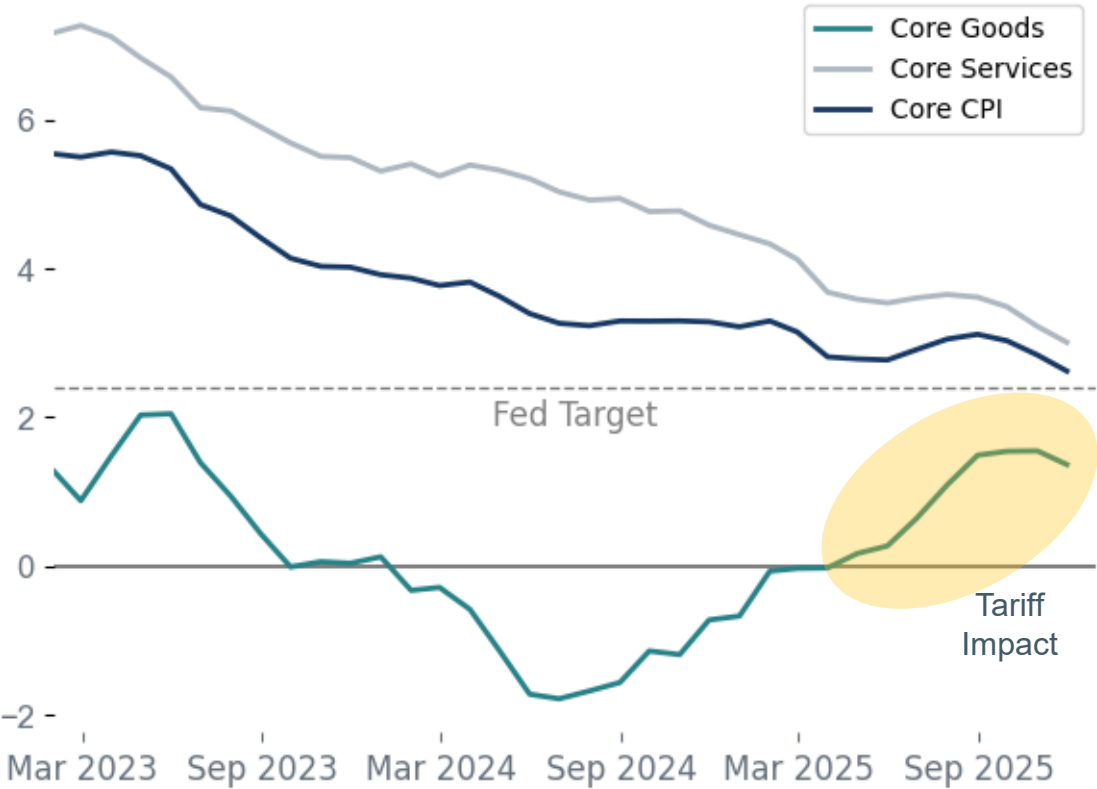
Tariffs push goods prices higher but services slow

Effective Tariff Rate (%)



U.S. Treasury, U.S. Census Bureau, Wilmington Trust
Last: September 2025. Gray bars represent recessions.

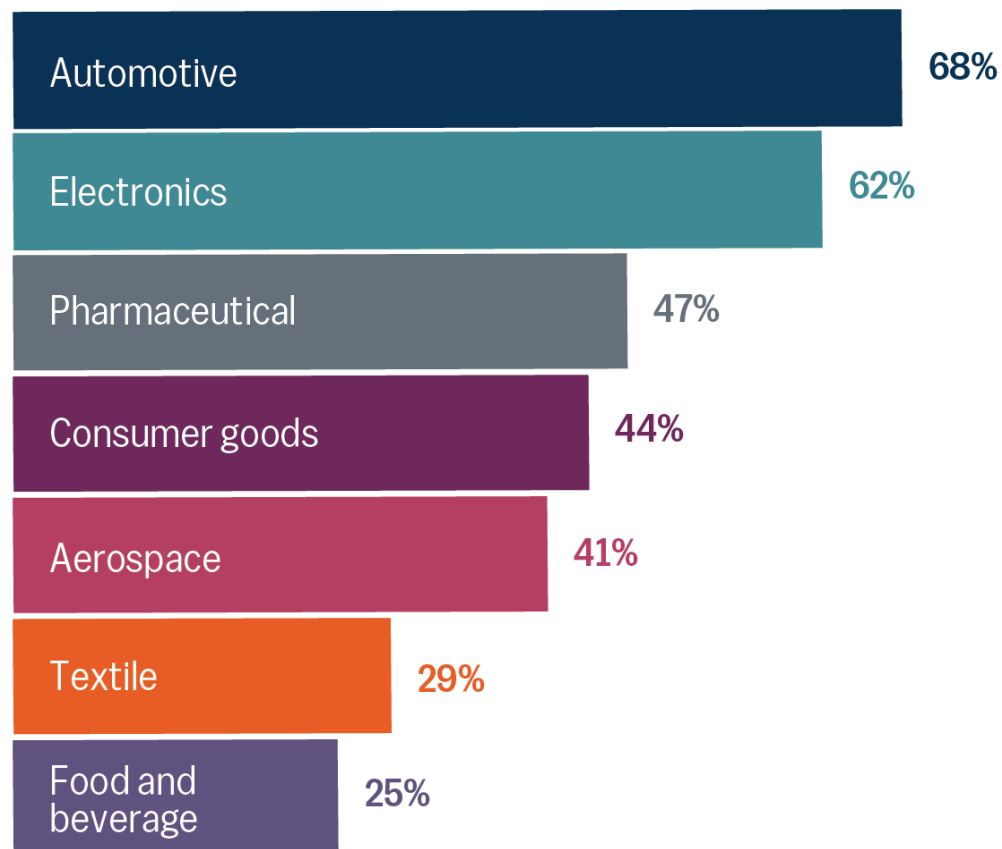
Core Consumer Price Index Inflation (% year-over-year)



Bureau of Labor Statistics, Wilmington Trust
Last: November 2025. Gray bars represent recessions.

Capital-intensive industries lean into smart manufacturing

% adoption of smart manufacturing across industries



Investment Opportunities

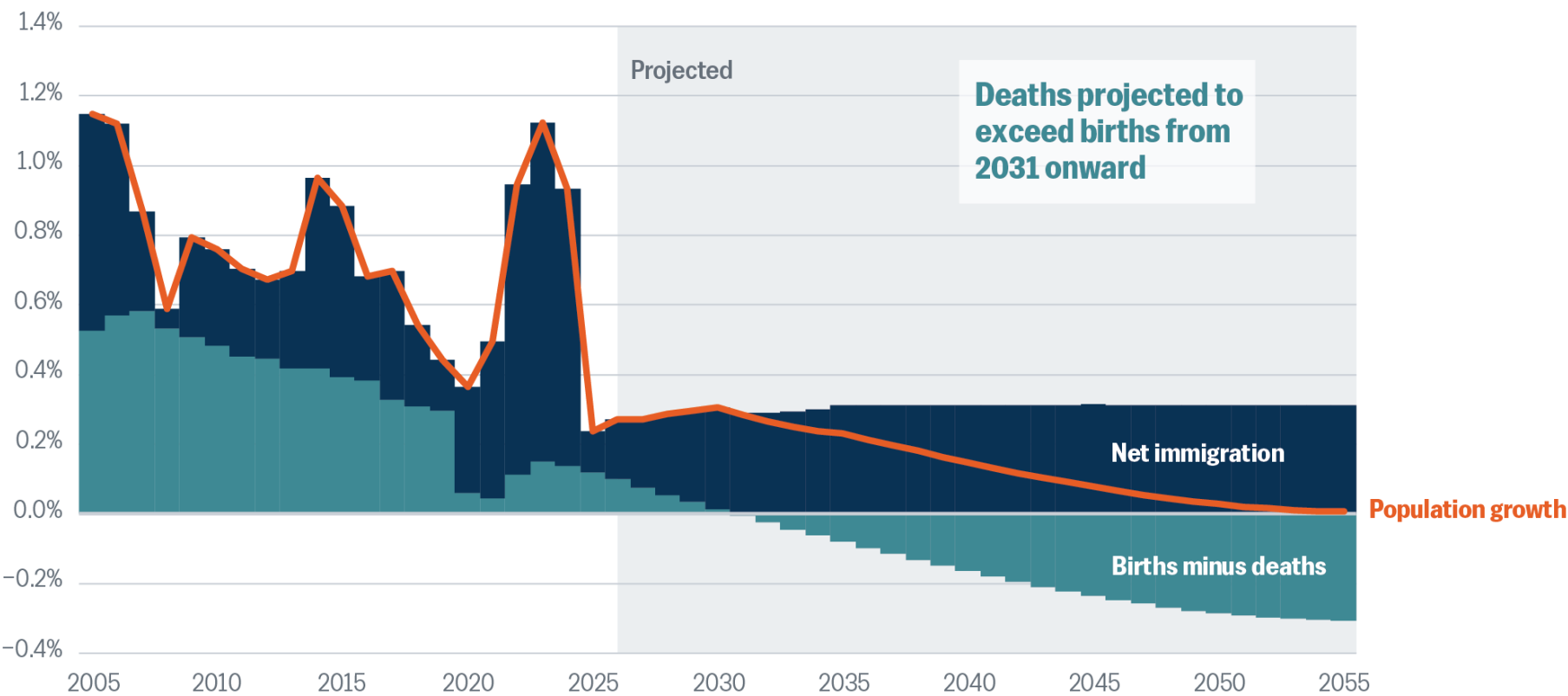
- Industrial capital goods
- AI software
- Cybersecurity
- Private equity & debt*

*These funds are available only to certain investors who meet the specific income, experience, and investable assets thresholds set forth by the U.S. Securities and Exchange Commission's definition of accredited investors and/or qualified purchasers, as necessary. Investing involves risks, and you may incur a profit or a loss.

2025 Smart Manufacturing and Operations Survey: Navigating challenges to implementation, Deloitte Insights, May 1, 2025.

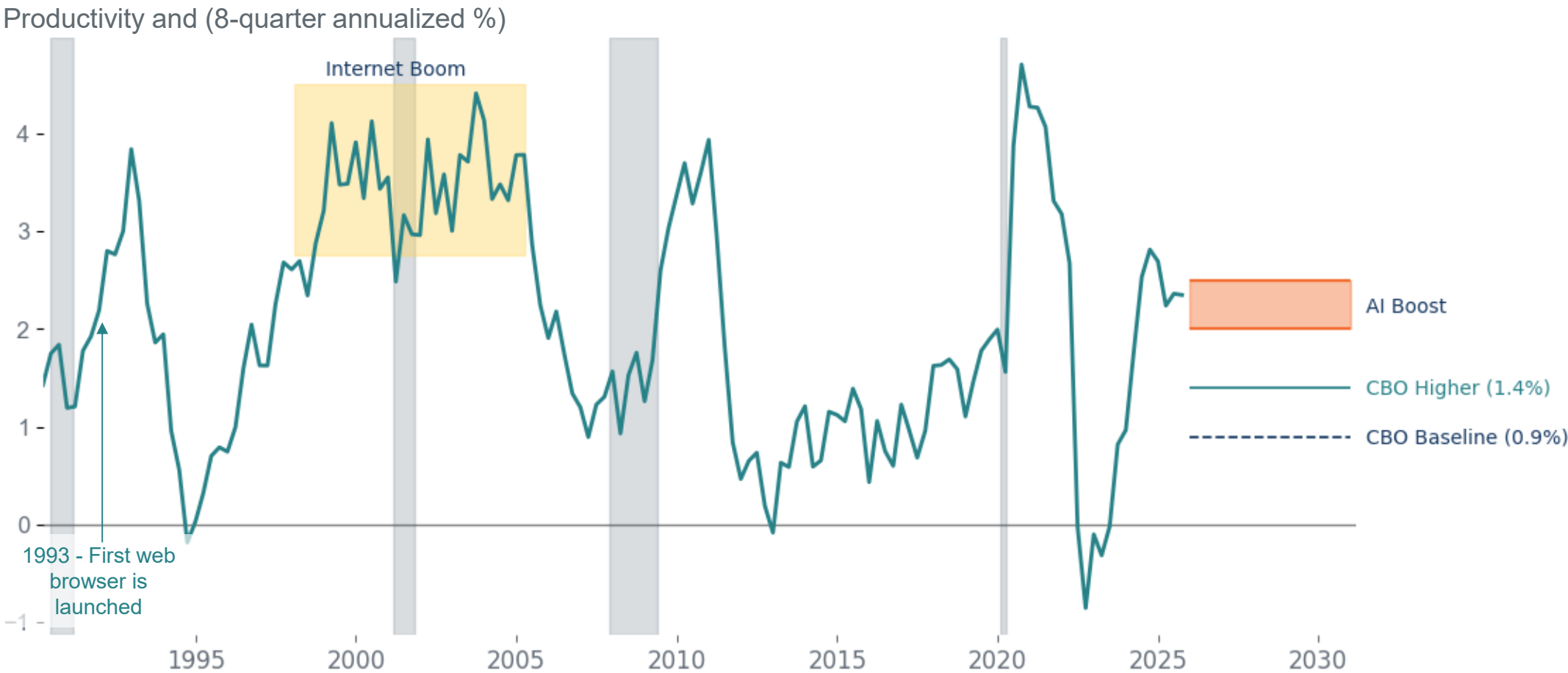
Dwindling labor force and immigration

U.S. Population growth and contributing factors



Congressional Budget Office. Data as of September 30, 2025.

AI expected to boost productivity



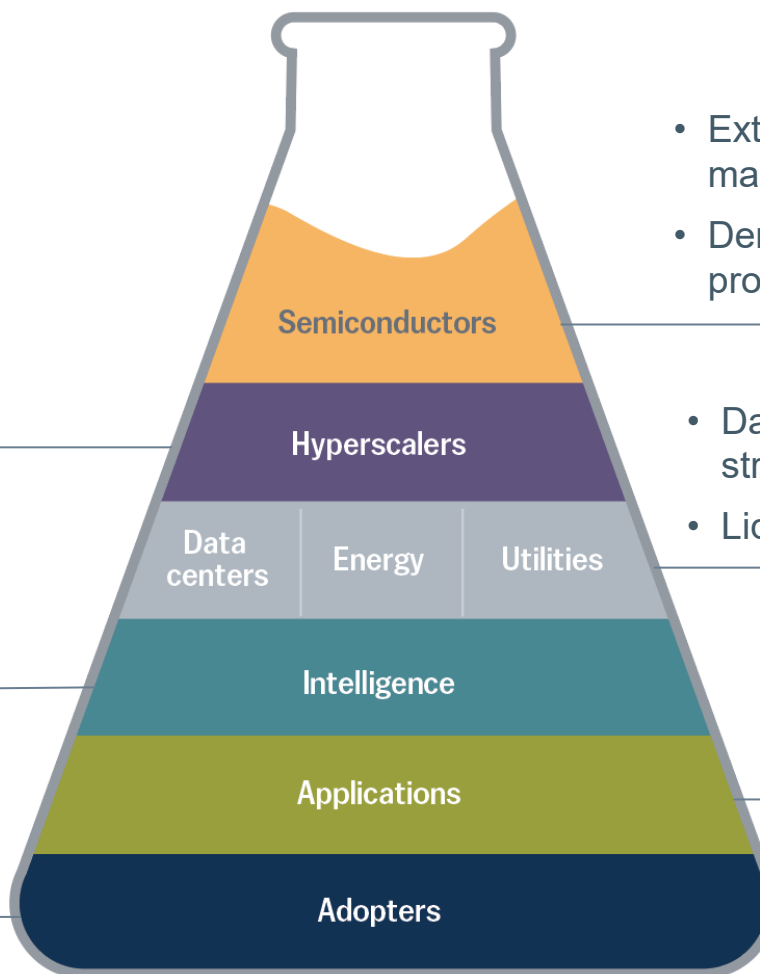
Gray bars represent recessionary periods.
Bureau of Economic Analysis, Congressional Budget Office, (CBO) Wilmington Trust. Data as of December 31, 2025.

Investing across the layers of the AI ecosystem

- Reasonable valuations and diversified revenue streams
- Cloud market penetration only ~50%

- Private companies look expensive
- Competition is fierce and market is limited

- Largest opportunity
- Expect adoption across sectors; small companies may benefit



- Extended valuations amid massive increase in market cap for main suppliers
- Demand outstripping supply, but demand projections the main risk

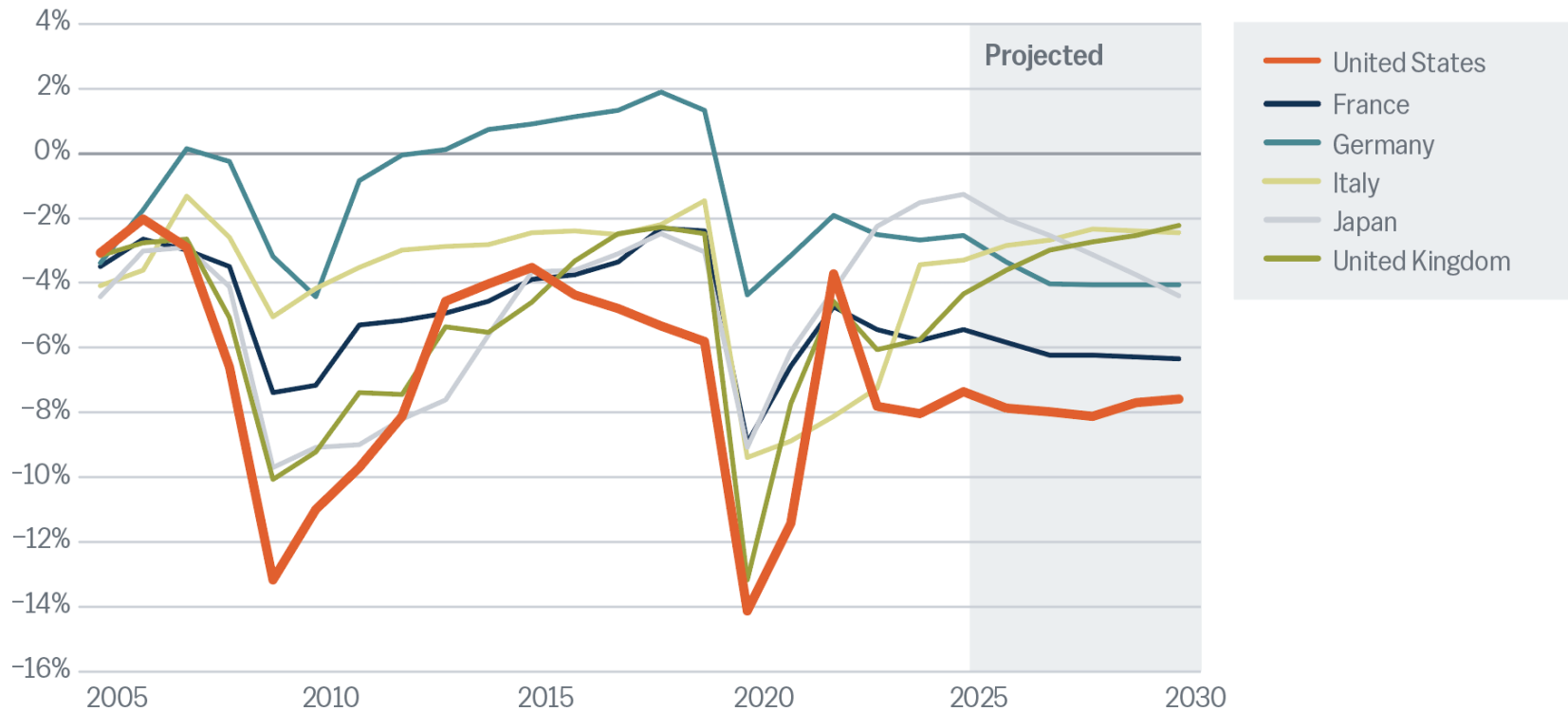
- Data centers face risk of overbuilding; valuations stretched for data centers and utilities
- Liquid cooling solutions may present opportunity

- Agentic AI is expected to be transformative
- Disruption risk is high; too early to determine winners vs losers

Wilmington Trust.

U.S. deficits projected to remain large

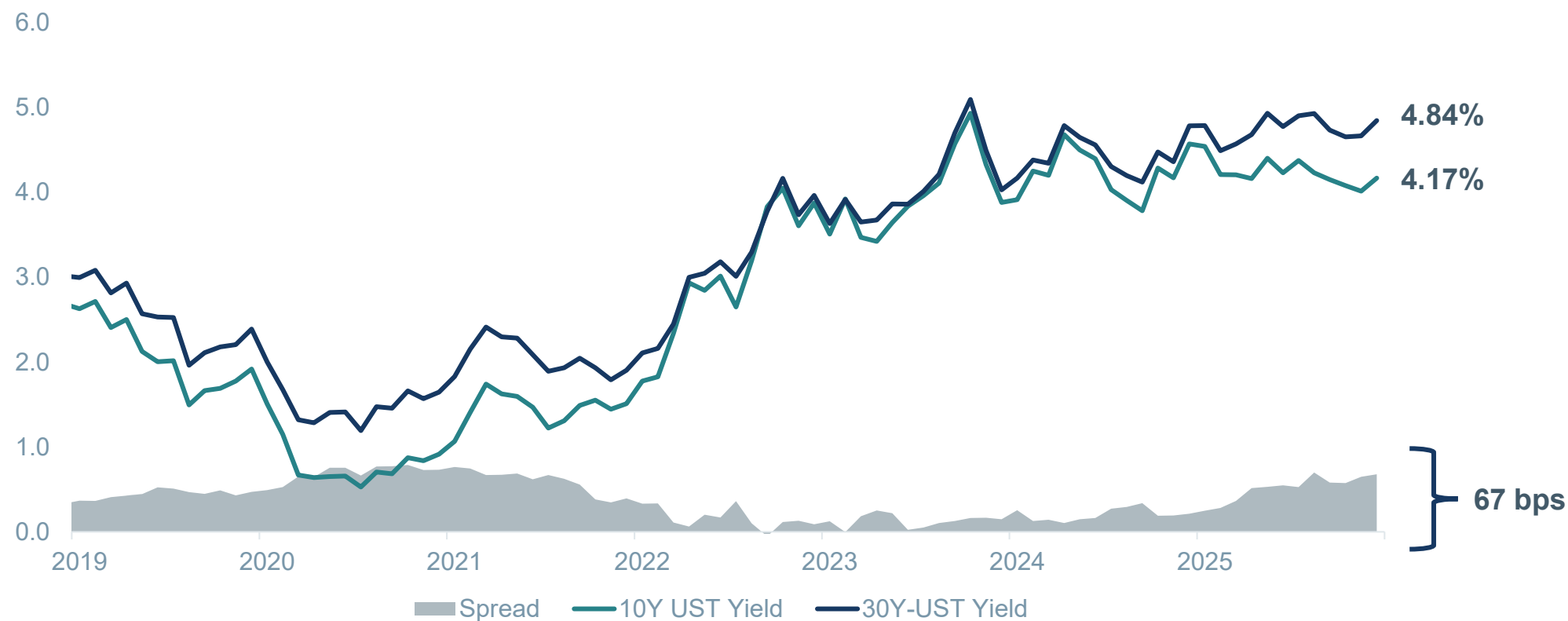
Deficits (% share of GDP) and IMF projections



International Monetary Fund (IMF), Wilmington Trust. Data as of December 31, 2024.

Long rates attuned to fiscal debt risks

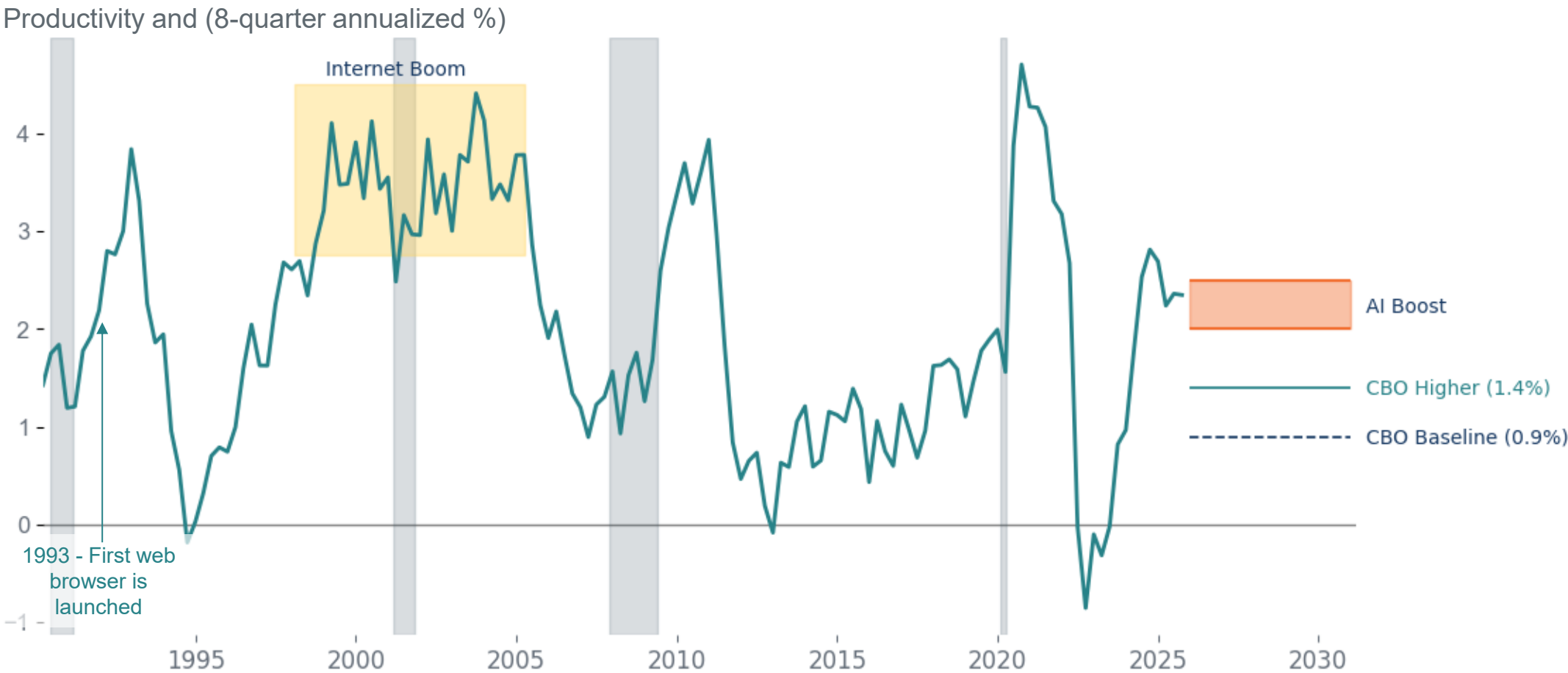
10-year U.S. Treasury (10Y UST) & 30-year U.S. Treasury (30Y UST) yields (% , since 2019)



Investing involves risks, and you may incur a profit or a loss. Past performance cannot guarantee future results.

Data as of December 31, 2025. Sources: Bloomberg, WTIA. Spread represents the difference between the 30Y UST yield and the 10Y UST yield (in basis points, bps).

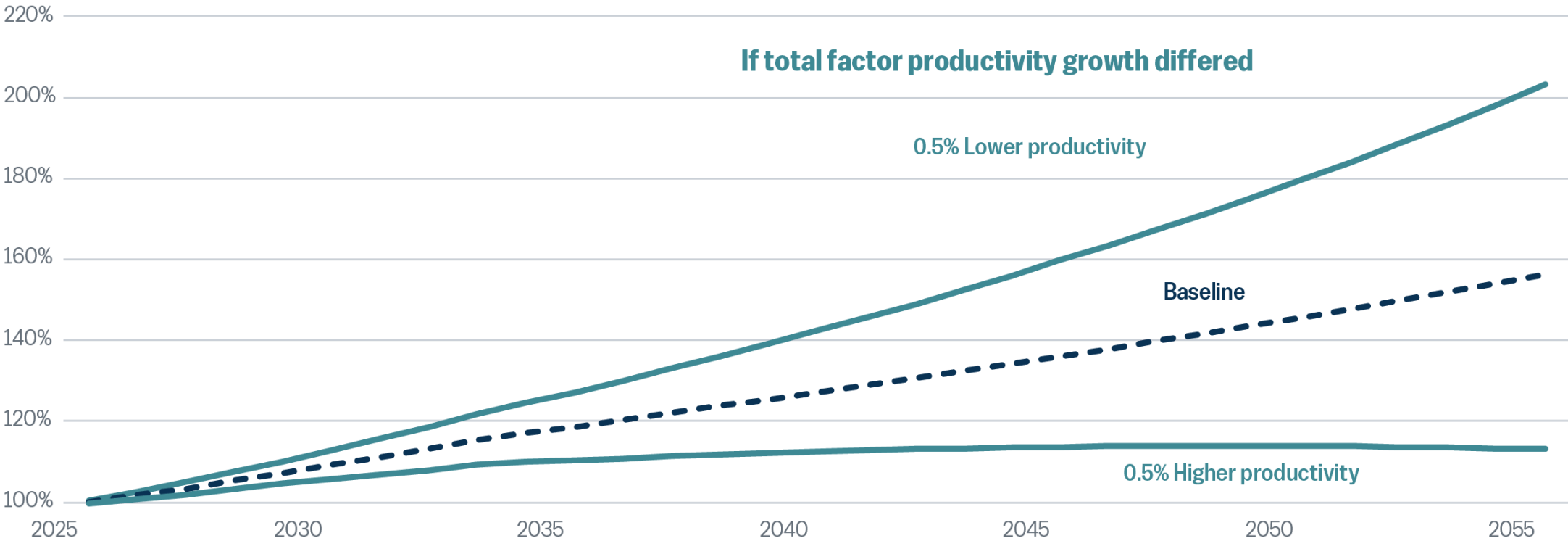
AI expected to boost productivity



Gray bars represent recessionary periods.
Bureau of Economic Analysis, Congressional Budget Office, (CBO) Wilmington Trust. Data as of December 31, 2025.

Productivity could help “bend the curve” on Federal debt

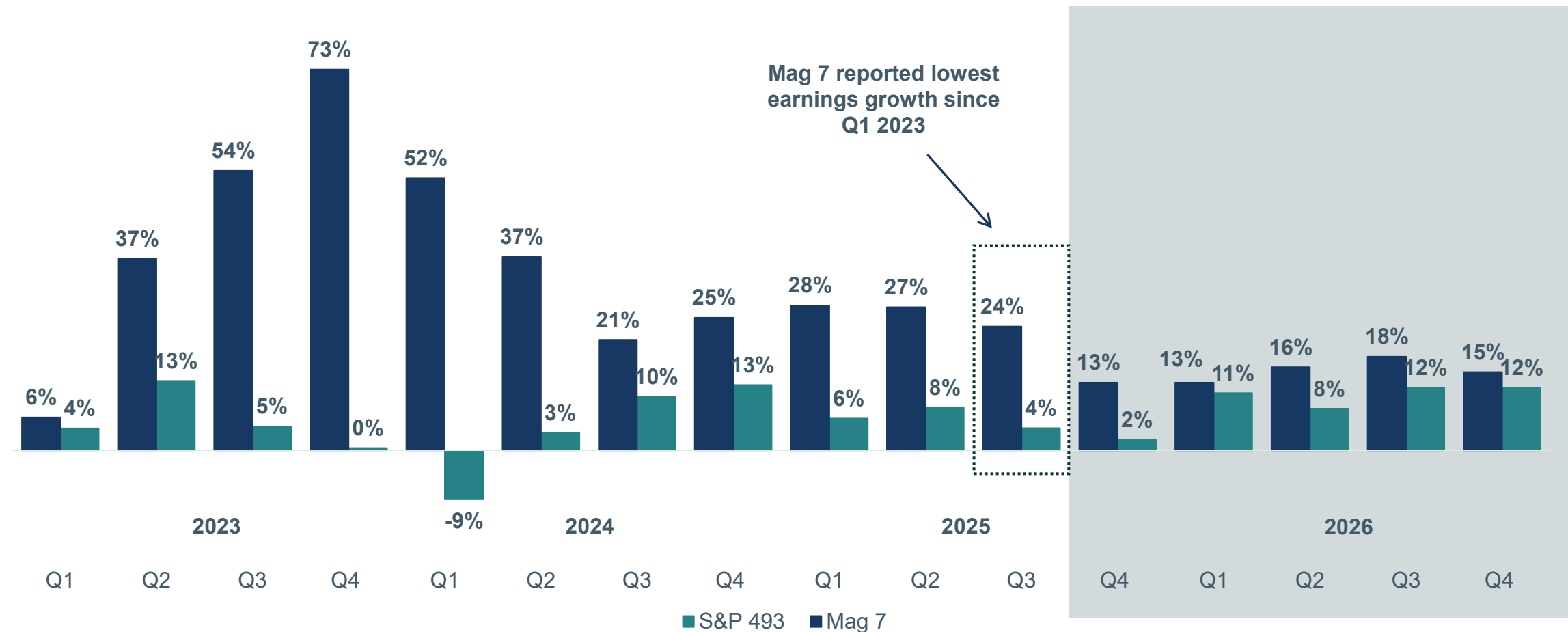
Federal debt projections (% of GDP)



Congressional Budget Office. Data as of May 31, 2025.

Convergence of earnings growth for Mag7 vs “S&P 493”

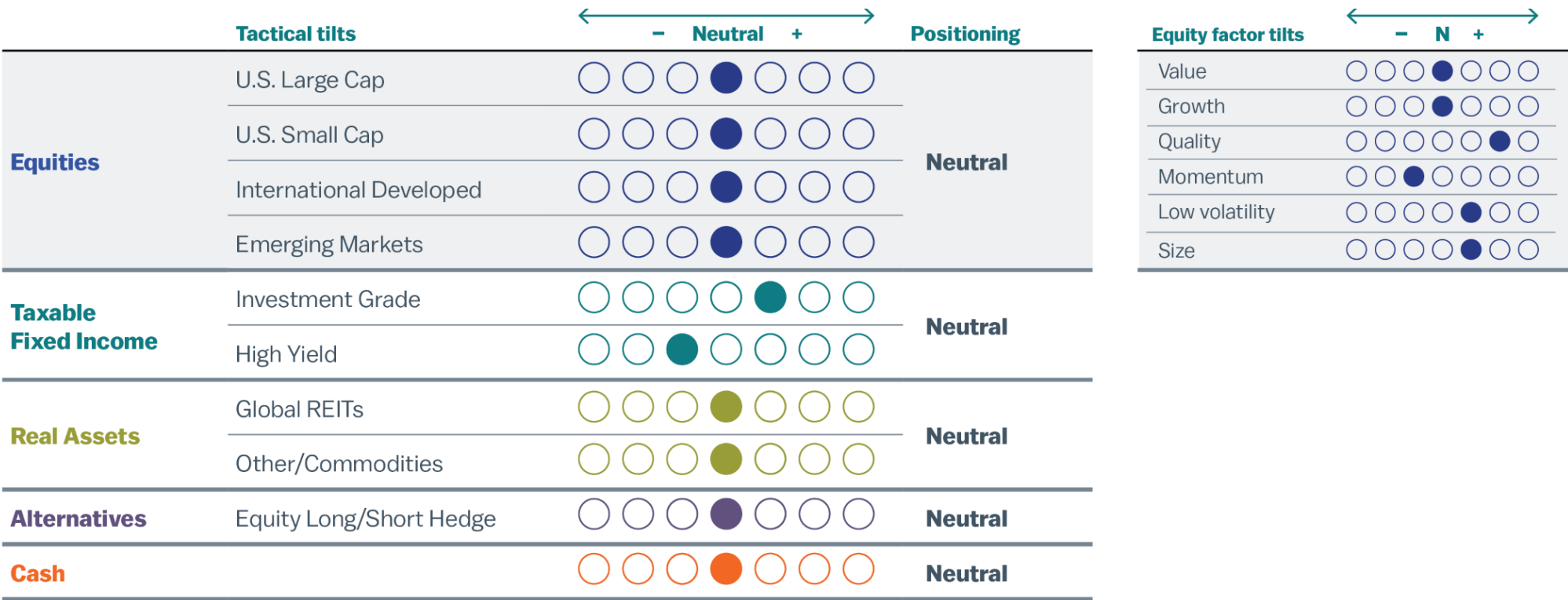
Magnificent 7 versus “S&P 493” quarterly earnings growth (y/y)



The Magnificent Seven or Mag 7 refers to a group of seven high-performing technology stocks that have driven a significant portion of the market's returns in recent years. These stocks include Apple, Microsoft, Amazon, Alphabet (Google), Tesla, Nvidia, and Meta Platforms). S&P 493 is the remaining stocks in the S&P 500. Investing involves risks, and you may incur a profit or a loss. Past performance cannot guarantee future results. Data as of December 31, 2025. Sources: Bloomberg, WTIA. Shaded area represents consensus estimates for quarterly earnings growth.

Full allocation to equities to start the year

High-net-worth portfolios with private markets*



Data as December 31, 2025. Positioning reflects our monthly tactical asset allocation (TAA) versus the long-term strategic asset allocation (SAA) benchmark. For an overview of our asset allocation strategies, please see the disclosures.

*Private markets are only available to investors that meet Securities and Exchange Commission standards and are qualified and accredited. We recommend a strategic allocation to private markets we do not tactically adjust this asset class.

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Specializing In

- Economics
- Monetary policy

BIOGRAPHY

Luke Tilley

Chief Economist and Department Head

Luke is chief economist and head of Asset Allocation & Quantitative Services for Wilmington Trust Investment Advisors (WTIA), a part of the M&T Bank family. Luke is also a member of WTIA's Investment Committee.

Prior to joining Wilmington Trust in 2015, Luke was an officer and economic advisor with the Federal Reserve Bank of Philadelphia. Earlier in his career, Luke worked as a senior economist at IHS Global Insight (now part of S&P Global) and as an economist for the U.S. Department of Housing and Urban Development.

Luke holds a Ph.D. in economics from Temple University and a bachelor's degree in economics and history from James Madison University. He is the current chair of the American Bankers Association Economic Advisory Committee; a former president of the Philadelphia Council for Business Economics, a chapter of the National Association for Business Economics; and a former adjunct faculty member at Temple University.

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The gold industry can be significantly affected by international monetary and political developments as well as supply and demand for gold and operational costs associated with mining.

Investing involves risks, and you may incur a profit or a loss. Past performance cannot guarantee future results. Diversification does not ensure a profit or guarantee against a loss. There is no assurance that any investment strategy will be successful.

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Dividend yield is the estimated average annual dividends divided by market value. Dividend yield is the portion of the expected return that will be earned each year in the form of dividends. It is a portfolio characteristic at a specific point in time provided to illustrate the relative focus on dividends and does not reflect historical or expected portfolio results. Yield is one component of total return—yield remains positive, and may increase, as prices decline. Higher dividend yields do not always indicate attractive investment opportunities because the dividend yield may be elevated due to a declining stock price.

Investments: Are NOT FDIC Insured * Have NO Bank Guarantee * May Lose Value

Disclosures

Index Descriptions

The Bloomberg U.S. Aggregate Index measures the performance of the entire U.S. market of taxable, fixed-rate, investment-grade bonds. Each issue in the index has at least one year left until maturity and an outstanding par value of at least \$250 million.

The Bloomberg U.S. High Yield Corporate Index, formerly known as Lehman Brothers U.S. High Yield Corporate Index, measures the performance of taxable, fixed-rate bonds issued by industrial, utility, and financial companies and rated below investment grade. Each issue in the index has at least one year left until maturity and an outstanding par value of at least \$150 million.

The Bloomberg World Government Inflation-Linked Bond (WGILB) Index measures the performance of investment grade, government inflation-linked debt from 12 different developed market countries.

Bloomberg Commodity Index measures the performance of 19 futures contracts on physical commodities. As of the annual reweighting of the components, no related group of commodities (for example, energy, precious metals, livestock, and grains) may constitute more than 33% of the index and no single commodity may constitute less than 2% or more than 15% of the index.

The Dow Jones Global ex-U.S. Index is an equal-weighted stock index composed of the stocks of 150 top companies from around the world (excluding the U.S.) as selected by Dow Jones editors and based on the companies' long history of success and popularity among investors. The Global Dow is designed to reflect the global stock market and gives preferences to companies with global reach.

The HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is composed of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

The MSCI All-Country World Index ex USA measures the performance of large- and mid-capitalization stocks in approximately 50 developed and emerging equity markets, excluding the United States.

The MSCI EAFE® (net) Index measures the performance of approximately 20 developed equity markets, excluding those of the United States and Canada. The total returns of the index are net of the maximum tax withholding rates that apply in many countries to dividends paid to nonresident investors.

The MSCI Emerging Markets Index captures large- and mid-cap representation across 26 emerging markets countries. With 1,198 constituents, the index covers approximately 85% of the free-float-adjusted market capitalization in each country.

Russell 1000® Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. As of its latest reconstitution, the index had a total market capitalization range of approximately \$128 million to \$1.3 billion.

The Russell 3000® Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. As of its latest reconstitution, the index had a total market capitalization range of approximately \$128 million to \$309 billion.

The S&P 500 Index measures the performance of approximately 500 widely held common stocks listed on U.S. exchanges. Most of the stocks in the index are large-capitalization U.S. issues. The index accounts for roughly 75% of the total market capitalization of all U.S. equities.

The S&P Developed Property defines and measures the investable universe of publicly traded property companies domiciled in developed markets.

The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance.

The S&P Municipal Bond High-Yield Index consists of bonds in the S&P Municipal Bond Index that are not rated or are rated below investment grade.

The S&P Municipal Bond Index is a broad, market value-weighted index that seeks to measure the performance of the U.S. municipal bond market.

The S&P United States REIT Index measures the investable U.S. real estate investment trust market and maintains a constituency that reflects the market's overall composition.

The UBS Magnificent Seven (Mag7) Index refers to a group of seven US technology superpowers that are considered to have significant competitive advantages, or "moats," in their respective markets. These companies are often highlighted for their dominant positions and substantial contributions to market performance. The Magnificent Seven typically includes: Apple, Microsoft, Alphabet (Google), Amazon, Meta (Facebook), NVIDIA, and Tesla.

Disclosures

Definitions

The 10-year nominal US Treasury bond yield is the interest rate the US government pays to borrow money for 10 years through the issuance of Treasury notes.

Capital expenditures (capex) is the money an organization or corporate entity spends to buy, maintain, or improve its fixed assets, such as buildings, vehicles, equipment, or land.

Dividend yield is a financial ratio that shows how much a company pays out in dividends each year relative to its stock price.

Earnings contribution refers to the portion of a company's total earnings that is attributed to a specific segment or division.

Multiple expansion is a financial strategy where an asset is purchased and sold for a higher valuation multiple. It's a type of arbitrage, which is a way to profit from price differences in different markets.

Personal consumption expenditures (PCE) is a measure of how much money US households spend on goods and services.

The core Personal Consumption Expenditures (PCE) price index is a measure of the prices paid by consumers for goods and services, excluding food and energy.

The price-to-earnings (P/E) ratio measures a company's current share price relative to its per-share earnings.

The price-to-earnings (P/E) multiple is used to compare a company's market value (price) with its earnings. A company with a price or market value that is high compared to its level of earnings has a high P/E multiple. A company with a low price compared to its level of earnings has a low P/E multiple.

A real interest rate is one that has been adjusted for inflation, reflecting the real cost of funds to the borrower and the real yield to the lender.

Total return is a performance measure that reflects the actual rate of return of an investment or a pool of investments over a given evaluation period.