**CRM 4Q25 Market Commentary**

The market rally that started post the "Liberation Day" recovery paused in the first half of the fourth quarter as the government shutdown and further tariff proposals weighed on overall sentiment. However, we enjoyed a positive reversal in late November, which carried us through mid-December when New York Fed President John Wiliams (a close advisor to Chair Powell) suggested there was "room for a further adjustment" in interest rates. This resulted in sharp repricing of Fed Funds futures towards what was perceived as a near certainty of the eventual interest rate cut in December from around 30% prior to his comments. This more accommodative posture by the Federal Reserve and the ending of the government shutdown in mid-November helped the market, particularly smaller cap stocks, rally. Despite this strong finish to the year, smaller cap stocks finished 2025 lagging behind large cap stocks for the nineth year in a row, the longest losing streak on record. Active managers also endured the headwind of a historic rally in high beta, non-earners this year (see chart and table below), a group of stocks active managers are typically meaningfully underweight given their poor long-term historical performance. While this type of rally was a headwind to active management in 2025, we know that high beta, non-earner rallies do not last long, and active managers typically produce strong alpha over the ensuing 12 months. In addition, we expect faster GDP growth in 2026, lower interest rates, the eventual easing of inflation, additional domestic manufacturing, and lower taxes should provide a strong tailwind to earnings growth for small and mid-cap companies and allow for the market to broaden out from the recent historical large cap dominance.

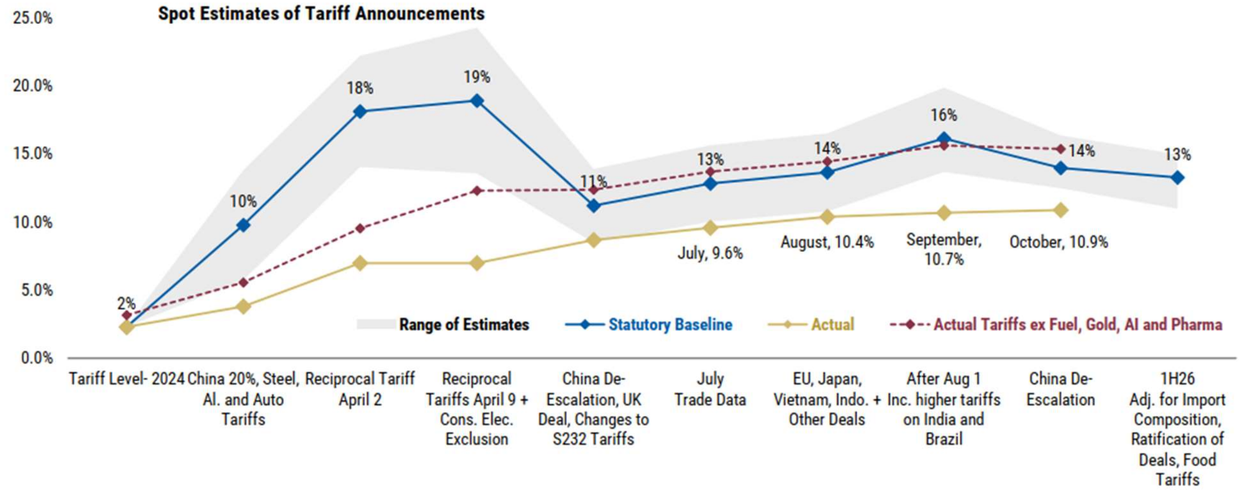
**Russell 2000 Value Non-Earner Performance by Sector**

| | Russell 2000 Value Performance (in %) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fourth Quarter | | | Since April 8th | | | Year to Date | | |
| **GICS Sector** | **Earners** | **Non- Earners** | **Overall** | **Earners** | **Non- Earners** | **Overall** | **Earners** | **Non- Earners** | **Overall** |
| Comm Services | -5.0 | 15.9 | 9.8 | 16.9 | 145.1 | 85.5 | -13.1 | 94.9 | 44.0 |
| Discretionary | -2.5 | 7.3 | -1.8 | 33.4 | 89.9 | 36.8 | 4.3 | 32.9 | 6.4 |
| Staples | -2.8 | -9.2 | -4.0 | 4.1 | 2.2 | 3.3 | -7.4 | 3.5 | -6.0 |
| Energy | 4.3 | 5.8 | 4.3 | 45.8 | 84.3 | 50.6 | -1.3 | 12.3 | 1.2 |
| Financials | 3.7 | 0.8 | 3.5 | 29.7 | 28.5 | 29.6 | 10.4 | 14.0 | 10.5 |
| Health Care | 4.7 | 29.0 | 19.9 | 16.4 | 114.7 | 67.7 | -2.7 | 46.4 | 25.7 |
| Industrials | 0.3 | 3.6 | 0.6 | 32.8 | 93.1 | 37.3 | 7.6 | 17.6 | 7.9 |
| Info Tech | -4.8 | -5.8 | -4.5 | 53.1 | 135.1 | 73.0 | 9.6 | 58.8 | 21.6 |
| Materials | 10.7 | 6.8 | 10.1 | 78.7 | 111.3 | 81.0 | 42.5 | 62.5 | 44.2 |
| Real Estate | 1.2 | -3.9 | -0.2 | 20.3 | 26.2 | 21.8 | 2.2 | -2.6 | 0.8 |
| Utilities | 3.7 | -18.8 | -0.2 | 15.6 | 60.1 | 17.0 | 15.7 | -0.9 | 16.4 |
| **Benchmark** | **1.8** | **8.9** | **3.3** | **31.3** | **85.9** | **39.7** | **8.0** | **34.6** | **12.6** |

Performance is through December 31, 2025
Source: FactSet; FTSE Russell; Jefferies

Even with Liberation Day being in our rearview mirror, we still experienced meaningful tariff volatility this quarter. The President kicked off the quarter with an additional 100% tariff on most Chinese imports effective November 1, 2025. In addition, the administration finalized Section 232 tariffs on medium and heavy-duty trucks and key truck parts. On a positive note, we reached a framework with China by mid-November, which helped to de-escalate tensions between the two countries. Just as important, the Supreme Court heard oral arguments on the legality of President Trump's Liberation Day Tariffs under IEEPA (International Emergency Economic Powers Act) on November 5th. The initial read-out appeared to be negative for the administration's position, but the Supreme Court has still not rendered its decision. The prediction markets are still expecting the Supreme Court to rule against the President, but we likely won't know the decision until February 20th at the earliest. Some market participants believe a negative decision for the President could give him an off ramp to de-escalate his tariffs policies and allow him to pivot more towards his affordability agenda, a key platform that would help the Republicans maintain control of Congress at the mid-term elections. Any reduction in tariffs or diminution in future actions would be highly beneficial to small and mid-cap companies, given their narrower operating margins compared to large cap companies, and less ability to price for higher inputs.

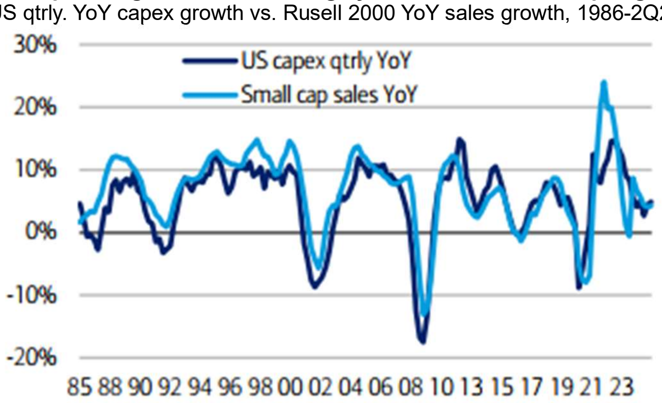
**Changes to the composition of US imports, removal of tariffs on food, considerably higher-than-expected USMCA compliance rates, and a host of scope-limited exclusions suggest headline tariffs levels may only rise to about 12-13%. This is in line with Morgan Stanley's policy teams expectation that the administration may orient trade policy to address affordability concerns.**




Source: US Census, US HTS, USITC, Morgan Stanley Research estimates

Despite the hand-wringing caused by the President's volatile tariff policies, we believe the goal of bringing back manufacturing of critical goods to the U.S. will be highly supportive for small and mid-cap companies who are the "picks and shovels" of the U.S. economy. As indicated in the graph below, small cap sales growth has historically been highly correlated with U.S. capex growth. With stepped up capex spending and consumer related tax incentives, the OBBB reconciliation bill could drive an additional 100 bps of domestic GDP growth next year. According to Morgan Stanley, the One Big Beautiful Bill should allow consumers to benefit from 1) $10 billion from tips deduction, 2) $33 billion in overtime deduction, 3) $23 billion in enhanced deduction for seniors, 4) $5 billion in car loan interest deduction, and 5) $34 billion in SALT benefits. They believe this pick-up should begin in February (specifically around Feb 20$^{th}$) and run through April as the retroactive 2025 pieces from OBBB will come with tax refunds - usually 40-50% of refunds are received by end of Feb and 70-75% by end of March. A nice catalyst for consumer spending and domestic growth.

**Small cap sales growth has been highly correlated with US capex growth**
US qtrly. YoY capex growth vs. Rusell 2000 YoY sales growth, 1986-2Q25

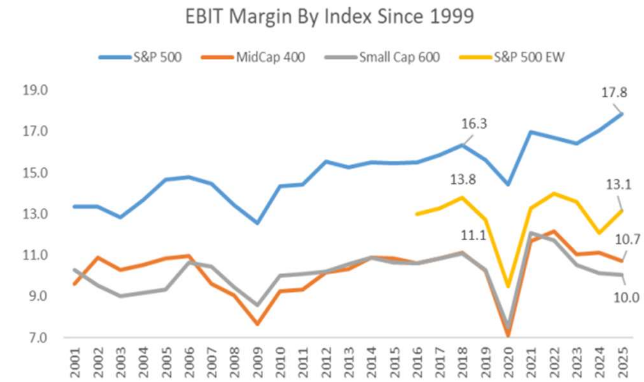



**Source:** FactSet, Haver Analytics, BofA US Equity & US Quant Strategy

As we discussed earlier, New York President John Williams, and ultimately Chair Powell and the FOMC (Federal Open Market Committee), made an important pivot this quarter. After an "insurance cut" at the September 2025 meeting and a bearish cut at the October 2025 meeting, the market presumed the FOMC would be on hold for an extended period. Chair Powell warned the market about assuming a future rate cut was a foregone conclusion for the December meeting and the two dissents, one for no cut and one for a 50-bps cut, was an indication of the divide forming amongst the members. With limited economic data releases due to the government shutdown, the market concluded that the FOMC would pause unless more definitive data was available. The market was jolted in late- November when John Wiliams (a close advisor to Chair Powell) suggested there was "room for a further adjustment" in interest rates, which eventually happened on December 10th. This accommodative stance was welcomed by the market with a sharp repricing of Fed Funds futures and a rally in the equity market. The next debate has been about who will be the next Fed Chair, which is expected to be announced in the next few weeks. Whomever it is, the President has been clear that he expects them to be more accommodative. Although this is a political comment, a more accommodative stance by the FOMC may actually be justified economically. Chair Powell and others have indicated that artificial intelligence has "a potential upside risk to productivity," which would be highly supportive to a lower neutral interest rate. This would be a welcome development for small and mid-cap companies, which tend to have a higher percentage of variable rate as well as shorter duration debt compared to their larger cap brethren. In addition, history has shown us that small and mid-cap stocks tend to outperform large cap stocks during an interest rate easing cycle.

Despite the tariff debates and the geopolitical flare up around the world, the real test for President Trump and the Republicans will be the mid-term elections in November. With less than ten months to go, U.S. voters will need to see an improvement in the employment picture and a lessening of inflationary pressures to keep the current party in power. The bottom line for Republicans is the U.S. economy needs to grow faster and broaden out beyond just AI/Data Centers. As such, the President has pivoted to his pro-growth agenda with a focus on affordability to win voters over. We believe that is a recipe for better alpha from active management and more domestic focused companies. An acceleration in domestic growth and a lessening of the tariff burden should be a powerful combination for small and mid-cap companies. Over the past three years, small and mid-cap companies have absorbed the highest inflation rate and the fastest and steepest Fed tightening since the early 1980s. Subsequently in 2025, the group was hindered by the announcement of the largest tariff rate in nearly 100 years on Liberation Day. However, we expect faster GDP growth, lower interest rates, the eventual easing of inflation, additional domestic manufacturing, and lower taxes will provide a strong tailwind to earnings growth for small and mid-cap companies after a 3-year hurricane of headwinds. This earnings acceleration should provide a nice catalyst for the group.

## And EBIT Margins Are Already At All Time Highs For Large Caps, But Not For EW, Mid And Small



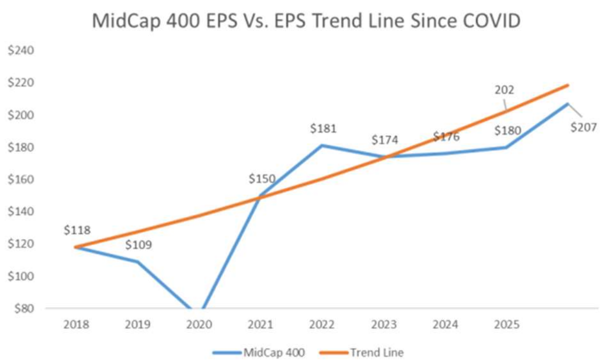

**EBIT Margin vs. 2019 By Sector/Index**

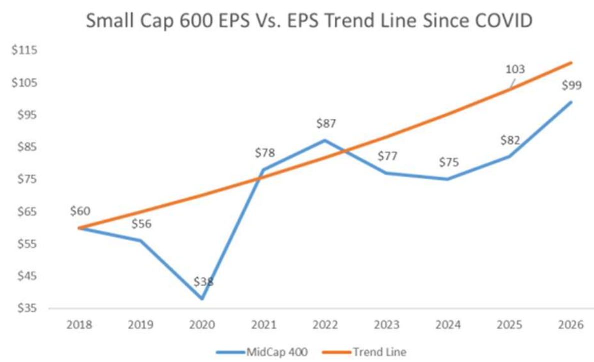
| Sectors | Small | Mid | Large |
|---|---|---|---|
| Technology | 2.0 | 2.6 | 9.9 |
| Health Care | 0.8 | 2.2 | (2.3) |
| Consumer Discretionary | (1.4) | 0.2 | 1.6 |
| Consumer Staples | 1.3 | (0.3) | (0.4) |
| Energy | 1.9 | 3.1 | 3.1 |
| Materials | (2.5) | (2.0) | 1.6 |
| Industrials | (0.3) | 1.6 | 1.3 |
| Financials | 2.3 | 2.7 | 4.0 |
| Real Estate | 1.0 | (3.5) | 1.0 |
| Utilities | 2.0 | 3.2 | 1.8 |
| Comm Services | (7.9) | (2.0) | 5.6 |
| Core Index | (0.2) | 0.5 | 2.2 |

- Generally, Small, Mid and Equal Weighted Margins Are Slightly Below 2018 Levels, Likely Due To Higher Rates, While The Market Cap Weighted S&P 500 Is At All Time High EBIT Margins.

Source: Factset, Raymond James research

## Small And Mid Cap Indexes Are 10%-20% Below EPS Growth Trend Line Pre-Pandemic, We Suspect Mostly Due to The Impact Of Higher Rates (Most Small/Mid Caps Finance On Variable Basis at Front End Of The Yield Curve).




Source: FactSet, Raymond James research

We expect the market to begin to broaden out in 2026 and the administration's pivot to a pro-growth agenda will be highly constructive for small and mid-cap stocks. We believe tariff uncertainty has peaked and a negative Supreme Court decision for the President on IEEPA could give him an off ramp to de-escalate his tariff policies. This would allow him to pivot more towards his affordability agenda. With the trade deals currently negotiated, small and mid-cap companies should reap the benefits of a more domestic oriented manufacturing economy and a better balance to global trade. We also believe a lessening of regulation and a smaller government will likely be highly productive for the markets. The removal of the regulatory tax across a multitude of industries should create a more level playing field for small and mid-cap companies to effectively compete against large cap companies. In addition, small and mid-cap companies have been in an earnings recession for the past two years due to the negative impact of higher interest rates and higher inflation. The group is poised to benefit from lower interest rates, the re-shoring and near-shoring of critical infrastructure, and the reorientation of supply chains, which should accelerate domestic economic growth. Lastly, we also expect a recovery in M&A activity will be supportive of small and mid-cap stocks as the market broadens beyond large cap transactions. Despite the recent rally in high beta, non-earning companies, we know from history these rallies do not last long, and active managers typically produce strong alpha over the ensuing 12 months. We believe this is an opportunistic time to invest in down-cap strategies given their lower starting valuation (which inherently should provide higher future potential returns), as well as a part of the market that is highly under-allocated and neglected to by investors. Any meaningful reversal by investors could provide an additional tailwind to a highly productive fundamental backdrop for small and mid cap companies.