

Equities in Focus

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Reflections and Expectations

As 2025 marked the launch of *Equities in Focus*, and with the year drawing to a close, we wanted to provide an assessment of how things played out versus our expectations. We close with a brief outlook for 2026 and highlight areas of opportunity.

Key Takeaways

1. A Report Card for 2025

What were the hits, misses and toss-ups relative to our outlooks, and why?

2. Key Callouts

Updates on particular occurrences that broke or persisted with our views.

3. Thoughts and Advice for 2026

After checking the rearview mirror, we take a peek through the windshield.

The Tale of the Tape

Below (*Display 1*) is a recap and assessment of our views throughout the year, where we note those that either stayed or strayed (with one toss-up in the May post) of what we expected to occur and why.

Display 1: Taking Stock of Our 2025 Views

Month	Title	Path of View	What's the Latest
February	Sector Leadership Has Changed		Early outperformance of defensive sectors faltered, while communication services and technology resumed their leadership
March	Defensive Shifts Are Not Always Dire		The market rallied as policy uncertainty ebbed
April	Volatility Food for Thought		Staying the course paid off, despite tariff tantrum concerns
May	A Round Trip and then Some		While US policy uncertainty faded, lower-quality, highly levered stocks continued to post strong returns
June	The International Comeback Continues		International equities maintained their performance edge over their US counterparts
July	From Magnificent to Divergent: Rethinking the Magnificent Seven		Still a wide dispersion among the Magnificent Seven with new leaders taking charge since July
August	Earnings Season Pivots to a Seasons Change		The S&P 500's September 2025 return of roughly 3.7% bucked its historical trend of negative tallies

September	Beta Is Back, but Sharing the Wealth Pays		Beta as a factor continued to outperform shareholder and dividend yields, and dividend growth
October	All Tech, All the Time?		Stocks outside the tech sector continue to benefit from rising estimates for consumption
November	Fear vs. Fundamentals		Stocks continue to rally on better-than-expected core personal consumer expenditures data

Notables Warranting a Closer Look

Considering our business is a humbling one, let's first rip the Band-Aid off and drill down on two viewpoints that broke from our expectations, namely sector and factor leadership. The middle column of *(Display 2)* shows that while traditionally defensive sectors such as healthcare and consumer staples got out of the gate strong earlier in the year, ultimately a Yogi Berra factor, "It's déjà vu all over again" took hold and technology and communication-services sectors regained top-performers status. This transpired not only from the sustained AI trade, but the expectations of Fed rate cuts and tariff fears proving to be more bark than bite allowed the market to re-embrace a risk-on tone.

Turning to more *formal* factors, while beta lagged the dividend-centric counterparts during a good portion of November, it also reasserted itself as a star given the reasons mentioned above pertaining to sector performance *(Display 3)*.

Conversely, the markets have thankfully posted strong returns since our March letter, where we mentioned that investors typically celebrate a reduction in policy uncertainty *(Display 4)*. Additionally, the Magnificent Seven have remained the "Divergent Seven" year to date, given many of these stocks have lagged the S&P 500 Index versus being strong outperformers the prior two years *(Display 5)*.

Our Views for 2026

Investors are grappling with a scarcity of growth, a scarcity of capital and a scarcity of certainty. While valuations are rich versus history, a favorable offset is healthy earnings growth, and we suggest the following strategy guidelines for next year:

Seek active approaches to curb volatility. Questions on the duration of US exceptionalism and AI dynamics could provoke turmoil in 2026. The mega caps will face heightened scrutiny and AI-related disappointments may prompt equity declines. Consider adding defensive equity strategies to your allocation, which include those focusing on dividend growth.

Cast a wider net for long-term return potential. This year reminded us that diversification is not dead—witness international stock returns versus US equities. For investors who have been overweight US stocks, consider expanding toward non-US markets, where the revival of value stocks offers diversification to popular US growth allocations. We also encourage rebalancing toward less-loved areas such as value and small caps.

Double down on quality. Short-term lapses in quality stock performance don't necessarily signal a fundamental erosion of long-term potential. Our research suggests that quality companies with consistent profitability and resilient business models tend to outperform over time. In our view, earnings and cash flows are still the best predictors of equity returns over long time horizons.

We appreciate your support and partnership and wish you a joyous holiday season and a prosperous 2026!

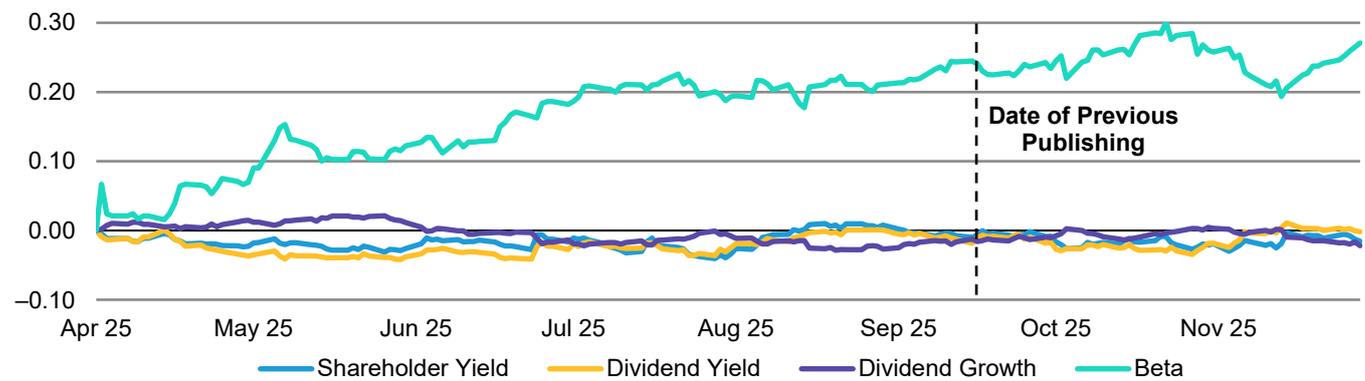
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Display 2: Sectors Reverted Back to Their Recent Trends...
S&P 500 Index Sector Performance (Percent)

CY24	YTD As of February 24, 2025	YTD As of December 5, 2025
Communication Services	38.9	Healthcare 7.0
Technology	35.7	Consumer Staples 6.4
Consumer Discretionary	29.1	Energy 5.3
Financials	28.4	Financials 5.3
Utilities	19.6	Utilities 5.1
Industrials	15.6	Materials 4.4
Consumer Staples	12.0	Communication Services 4.1
Energy	2.3	Real Estate 4.1
Real Estate	1.7	Industrials 1.7
Healthcare	0.9	Technology -1.7
Materials	-1.8	Consumer Discretionary -4.3

Past performance does not guarantee future results.
As of December 5, 2025
Source: Bloomberg and AllianceBernstein (AB)

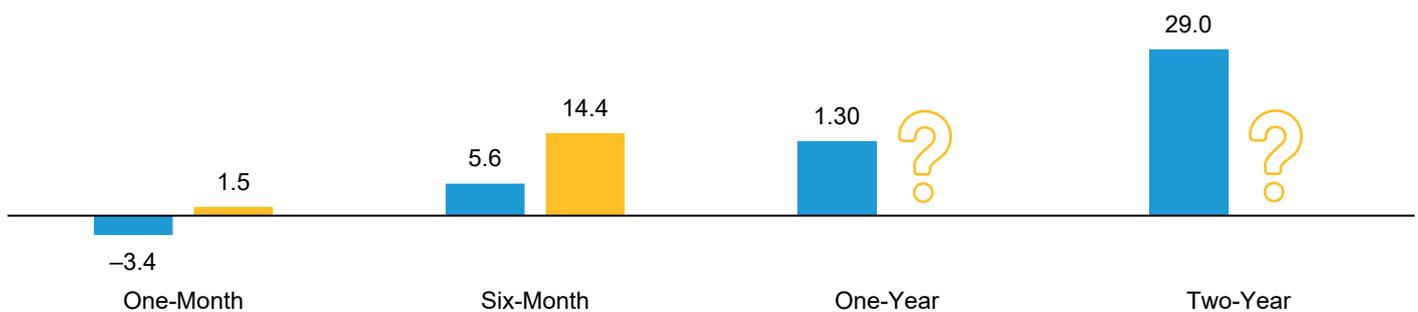
Display 3: ...As Did Certain Factors, Especially Beta*
For period April 8, 2025 – December 5, 2025 (Percent)



Past performance does not guarantee future results.
*Factor returns are calculated by the relative performance of the top-quintile cohort vs. the bottom-quintile cohort within the S&P 500.

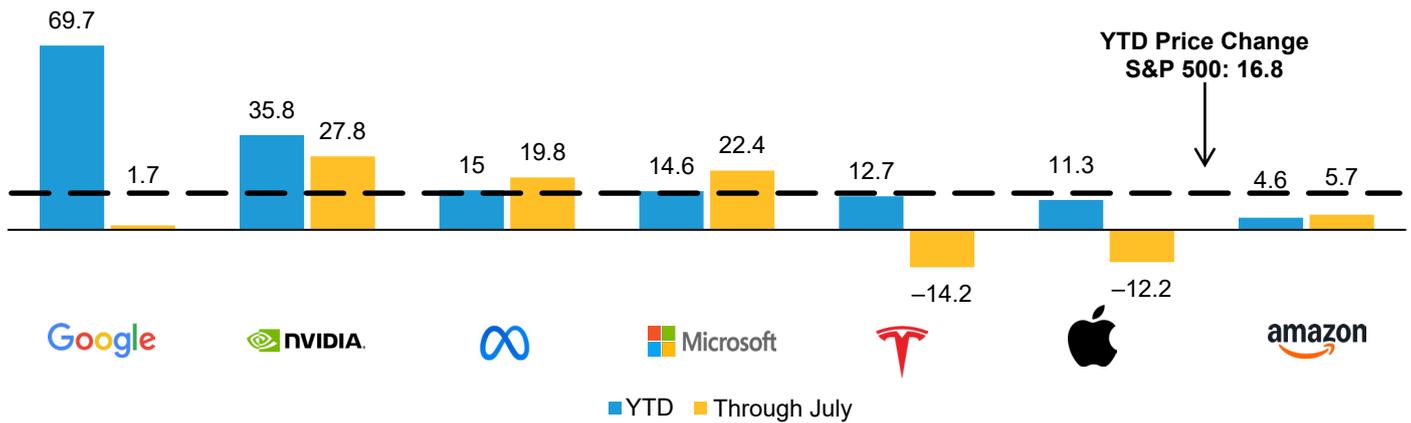
As of December 5, 2025
Source: Piper Sandler and AB

Display 4: Favorable S&P 500 Index Returns After Past Policy Uncertainty Highs March vs. December
Forward Cumulative Returns (Percent)



Blue data as of March 21, 2025, and returns are cumulative using monthly data and are based on the average of the forward returns of the S&P 500 following 10 time periods when the US Economic Policy Uncertainty Index attained high levels from 1985 to 2020. Yellow data as of December 5, 2025. Source: Bloomberg and AB

Display 5: The Divergent 7: As AI and Tech Evolve, so Will These Companies' Fortunes
 YTD Price as of July vs. December (Percent Change)



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Blue data as of December 5, 2025. Yellow data as of July 28, 2025. Source: Bloomberg

The value of an investment can go down as well as up, and investors may not get back the full amount they invested. Capital is at risk. Past performance does not guarantee future results.

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