FOURTH QUARTER 2025

GKV CAPITAL

MARKET
REVIEW
AND OUTLOOK

The Great Vibecession

2025 DATA POINTS

S&P 500	+17.9%
GLOBAL EX. US	+33.1%
REAL ESTATE	+3.8%
US BOND INDEX	+7.3%
10-YEAR TREASURY YIELD	4.18%
S&P 500 LTM DIVIDEND YIELD	1.15%
S&P 500 12-MONTH EPS	$310.84
S&P Forward P/E	22.0x

GKV CAPITAL MANAGEMENT IS AN INDEPENDENT REGISTERED INVESTMENT ADVISOR. FOR MORE INFORMATION ABOUT US PLEASE CALL (805) 497-2616 OR VISIT GKVCAPITAL.COM

Opening Thoughts

Every year offers new challenges and opportunities, and 2025 was a particularly big year for GKV Capital Management. The year marked our 50th anniversary. It was also the year that our founder, Peter Vogel, officially retired. We welcomed new faces to the firm – both in staff and clients. We look forward to working together for many years to come, building on the foundation of long-standing clients, whose families have been with us for multiple generations now. We are extremely grateful for the trust and continued partnership. We also rolled out new technology including the GKV Capital app so that clients can easily track their financial wellbeing at their convenience from their phone. In 2026 we will continue to expand our capabilities to provide leading financial services while retaining our boutique client experience.

With the turn of the calendar, we reevaluate our investment outlook and consider how to best position client portfolios. The U.S. economy is in a “vibecession”. The economic data is positive, but consumers have a decidedly negative view of the outlook. This divergence will be a challenge for investment in 2026, but our overall outlook remains positive. Much of the strength in U.S. equity markets continues to come from the massive growth in capital spending to build out artificial intelligence computing infrastructure. Analysts forecast 2026 AI spending to reach $500 billion up from $300 billion in 2025. That’s nearly 2% of the U.S. annual gross domestic product. The numbers are big and they are still growing. We believe that the opportunity in AI will continue through 2026. At the same time, we are increasing investment in both stocks outside the U.S. with lower relative valuations and increasing fixed income holdings with attractive yields to diversify risk.

»DOT.COM VS AI BULL MARKET

2025 *Review*

2025 marked a third sequential year of better than average returns for the equity markets. Despite the shock of higher than anticipated tariffs and their haphazard rollout in April, companies and consumers proved to be surprisingly resilient. Global equities, bonds, gold, and silver all turned in stellar gains in 2025. Only real estate and cryptocurrencies were left out of the rally.

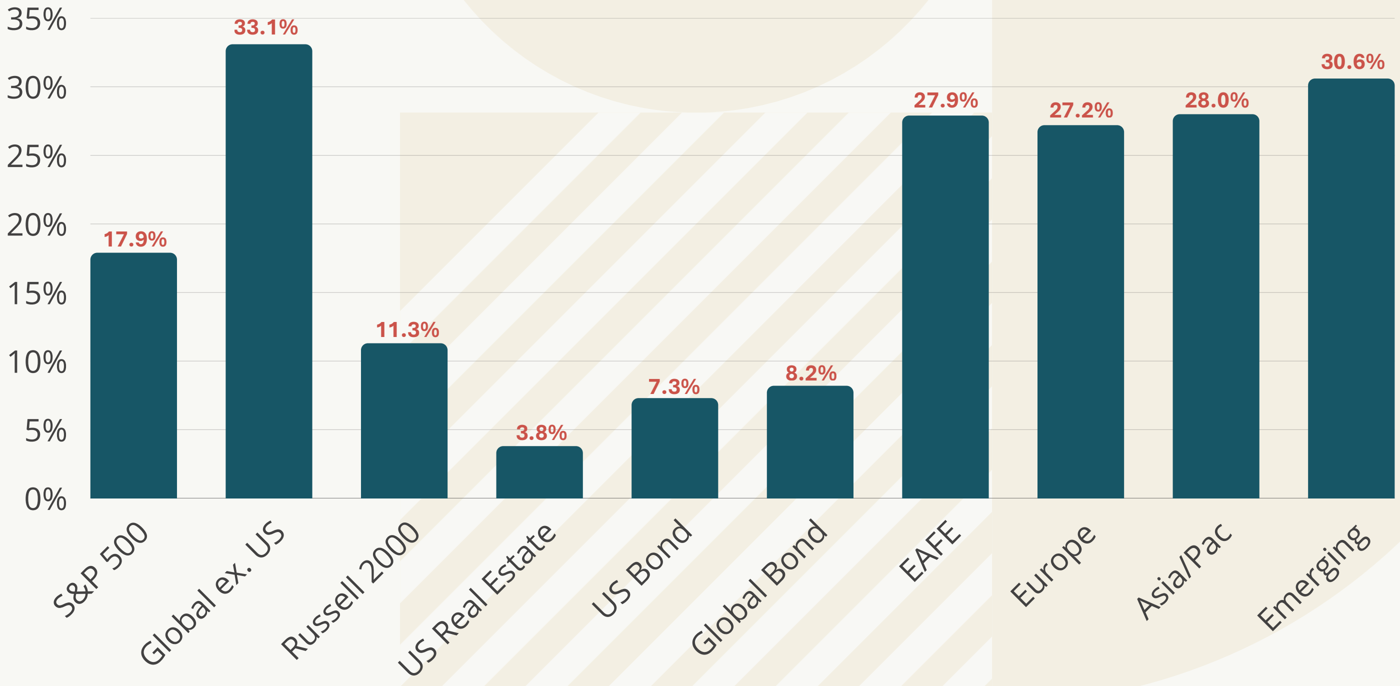
The S&P 500 index gained 17.9% in 2025, after rising 23.3% in 2024. The small cap Russell 2000 index gained 11.3%, an improvement on its gain of 10.0% in 2024, but still well behind the performance of the S&P 500 which tracks approximately 500 of the largest companies in the U.S. The disparity in performance between the two reflects the rapid growth in technology companies that have been the principal beneficiaries of artificial intelligence investment.

Market gains in the last two years have been driven largely by a narrow concentration of companies. The ten largest companies now comprise over 40% of the total value of the S&P 500. This percentage is double its 2016 representation, which stood at 20% of the S&P 500 value. Not surprisingly, the top 10 companies are technology companies with the notable exceptions of Berkshire Hathaway and JP Morgan Chase. The largest of these companies, Nvidia, is currently valued at $4.6 trillion, larger than the GDP of every economy in the world apart from the U.S. and China.

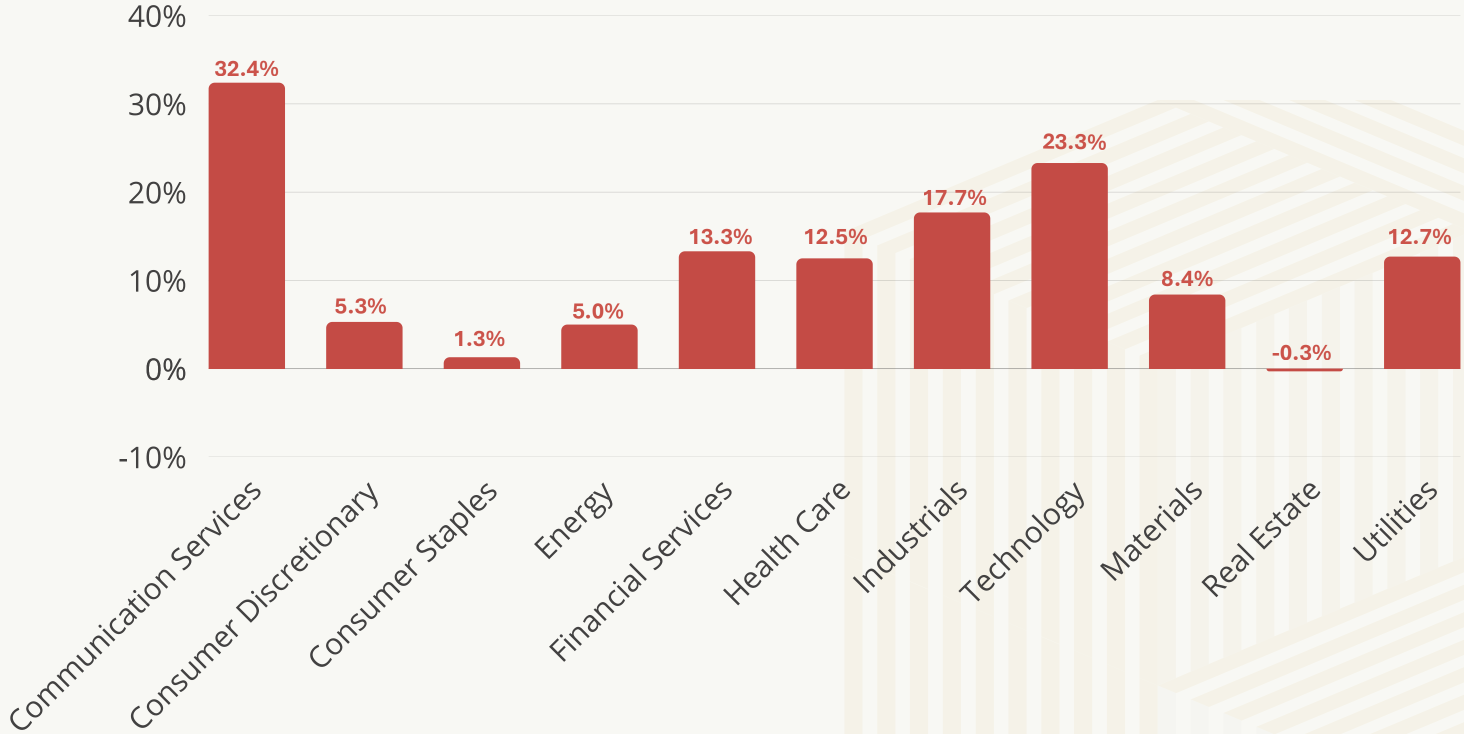
The best performing sectors in 2025 are at the center of artificial intelligence development. Communication services, which includes Google and Meta, closed the year up 32.4% followed by information technology, up 23.3%. Within technology, electronic components and semiconductor capital equipment were the best performers up 91% and 84% respectively due to massive spending to build out artificial intelligence capability. Industrial companies also turned in strong growth of 17.7%, as the datacenter boom drives up demand for construction equipment, building materials, electrical components, and climate control.

After underperforming U.S. equities for the last fifteen years, international stocks were big winners in 2025. The MSCI EAFE Index ended the year up 27.9%. As the Trump Administration set about remaking the postwar economic and political alliances in short order, Europe suddenly found itself in need of increased self-sufficiency for their defense and growth. The European defense industry soared with the prospect of additional government spending. Emerging markets were also strong despite

2025 MAJOR INDEX PERFORMANCE



2025 SECTOR PERFORMANCE



moderating growth in China, gaining 30.6% for the year. The political and economic convulsions in the U.S. contributed to a 10% decline in the dollar in the first half of 2025, its worst performance since 1973. The weaker dollar combined with tariffs means that imported goods have become significantly more expensive, and assets denominated in other currencies have become more expensive in dollar terms. This hurts U.S. consumers but can benefit U.S. exporters whose goods are now cheaper abroad.

Core economic fundamentals ended the year in the U.S. showing continued strength. Over two-thirds of the U.S. economy is driven by consumer spending. Although consumer sentiment hit record-low levels during 2025, unemployment remains positive by historical standards at 4.6% and consumers have continued to spend. Disposable income is up 4.8% over last year while retail sales gained 3.5%. Many of these indicators are backward looking-they won't tell you what is going to happen in the future, but weakening trends can provide some insight into the direction of the broad economy.

Although global GDP forecasts for 2025 were revised downward due to the impact of tariffs, the U.S. is still expected to turn in 2.0% GDP growth in 2025. China's 2025 GDP growth is forecast to hit 4.8% growth, while the Eurozone likely grew 1.2% in 2025, according to the International Monetary Fund. The global GDP forecast for 2026 is 3.1%, roughly flat with 2025's projected 3.2% growth. The US GDP forecast calls for 2.1% while Europe is forecast at 1.1%.

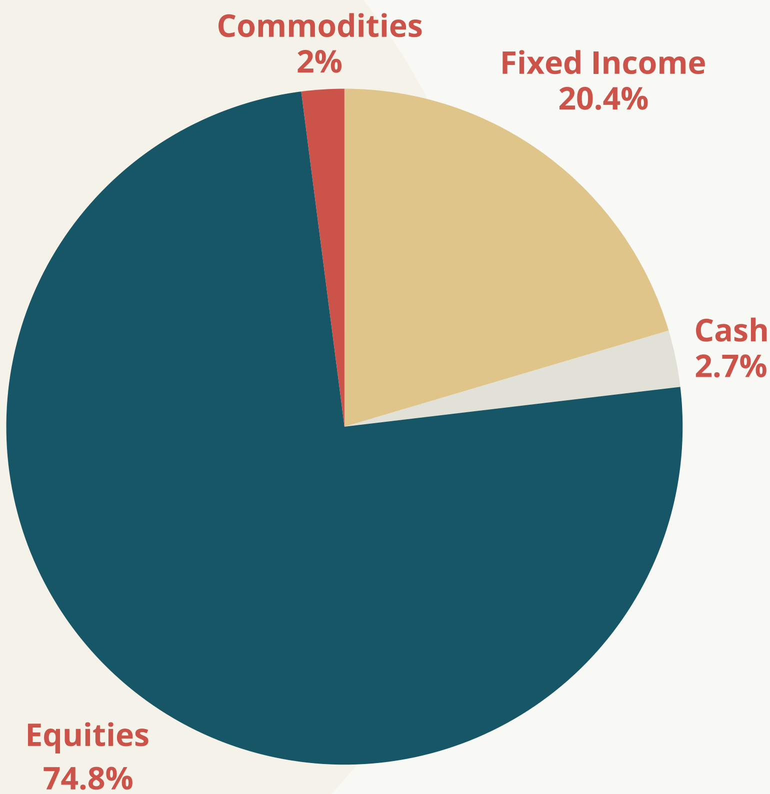
The strong gains in U.S. stocks have come from a combination of earnings growth and investors willing to pay higher price-to-earnings multiples for expected future growth. Combined earnings for all of the companies making up the S&P 500 are forecast to reach $310.84 per share in 2026. This represents an 18% increase from what is likely to be about $263.62 per share, which was a 13% increase from the previous year. For comparison, earnings grew 9.3% in 2024 over 2023. Meanwhile, the S&P 500 gained 23% and 24% each year respectively. The 2026 earnings forecast of 18% earnings growth appears optimistic, but as long as any downward revision remains slight; stocks can continue to move higher in 2026.

The 10-year treasury yield ended the year at 4.18%, down from 4.58% in 2024. The U.S. Federal Reserve reduced the Federal Funds Rate three times during 2025 from 4.5% to a range of 3.50% to 3.75%. Despite the 1% rate cut, the 10-year Treasury yield has declined by about half as much. We anticipate only marginal reductions in the 10-year Treasury as increased government debt coupled with above-target inflation will keep rates elevated. Lending rates from credit cards to auto loans and mortgage rates are dependent on the 10-year Treasury, and mortgage borrowers saw some relief at the 30-year mortgage rate dipped to 6.25% from 6.85% at the start of the year. The U.S. housing market is likely to remain moribund with little supply in the secondary market as homeowners with sub-3% mortgages are unlikely to want to give up their historically low rates.

The U.S. Aggregate Bond Index closed the year with a strong gain of 7.3%, one of the better years for fixed income on record. Fixed income performance was better than anticipated as the lowering of interest rates helped drive bond prices upward (interest rates and bond prices move in opposite directions). We anticipate more moderate gains in the bond market this year with performance to come in slightly better than current yields of around 4%-5% for corporate bonds.

Firmwide, we ended 2025 with 74.8% in equities, 20.4% in fixed income, 2.0% in commodities, and 2.7% of assets in cash. The strength in earnings growth provides a level of confidence that we will see continued gains in equities in 2026. In 2025 we increased our allocation to stocks outside the U.S. as well as fixed income. We will likely continue to diversify into these areas as the year progresses.

WE MANAGE SEPARATE ACCOUNTS FOR EACH OF OUR CLIENTS. EACH PORTFOLIO IS CUSTOM TAILORED FOR THE CLIENT



GKV FIRMWIDE

Asset Allocation

2026 Outlook
The Great Vibecession

Extensive research has shown that people relate more to narrative stories than abstract concepts. This seems intuitive. Stories engage the brain more holistically. They make the issue being discussed relatable, creating an emotional connection. This engagement aids in both memory and empathy, greatly increasing persuasive power.

The U.S. inflation rate remained elevated above the Federal Reserve's 2% target in 2025, but moderated from the highs exiting the Covid pandemic, averaging approximately 2.7%. Interesting piece of information, right? Not really. Chances are, you have already stopped paying attention. If I went on to explain what the implications of 3% inflation mean for your investment portfolio maybe it would increase the engagement a little. To go even further, if I said inflation was generally contained in 2025, most people would disagree with me, data be damned.

Or I could tell you the story of my daughter who recently graduated with a bachelor's degree in international affairs and Spanish. How she wants to live in New York City and spent nearly six months looking for work. She was fortunate to land a job in Manhattan at a law firm as an executive assistant. Living in New York City at 22 years old is a fantastic experience. And it's an expensive one. Expensive rent, expensive health care. Most importantly, really expensive cocktails. Do cocktails really cost $28?! You can probably relate. Everything now seems expensive. We clearly have an affordability crisis in this country, and the inflation rate "feels" like it's a lot higher than 3%.

Although the data says we should feel *fine* financially, our perception is skewed by personal experience and anecdotal narratives. The inflation rate hit nearly 10% in June of 2022. Even though inflation since then has moderated, everything is more expensive than it was. The inflation hangover is persistent. Our point is not to convince that you should feel differently, but to be aware that your perception may be inaccurate. There can be a disconnect between perception and reality and it can pay investment dividends if you can reconcile the two.

Wall Street struggled last year with very conflicting data creating uncertainty. The University of Michigan Consumer Sentiment Index has been bumping along at all-time lows for some time now. It's hard to overstate the negativity. The Index is a random survey asking questions about the state of the economy. The December 2025 level of 52.9 is lower than any of the readings taken during the global recession of 2008. The lowest score during that painful recession was 55. Nearly 50% of respondents blamed high prices for poor financial finances. Despite the terrible sentiment, consumer spending has remained robust, unemployment remains below 5% and disposable personal income per capita, last released in September, is $67,453. This is an all-time high and up 4.2% from the prior year. Consumers feel terrible but *are* doing just fine.

ALTHOUGH THE DATA SAYS WE SHOULD FEEL FINE FINANCIALLY, OUR PERCEPTION IS SKEWED BY PERSONAL ANECDOTAL NARRATIVES

Back in June of 2022, as we were still recovering from the COVID pandemic, economic commentator and author Kyla Scanlon coined the term “vibecession”. The term succinctly describes the current feelings about the economy. The data says we are definitely not in a recession, but it sure feels like one. When two-thirds of our economy is driven by consumer spending, investors and economists ignore consumer sentiment at their peril. But if you took consumer sentiment at face value, and reduced exposure to stocks in 2025, you would have missed out on an 18% rally.

Yes, the labor market has shown signs of weakening. The unemployment rate has ticked up from a low of 4.1% to 4.6%. Hiring has slowed but remains positive.

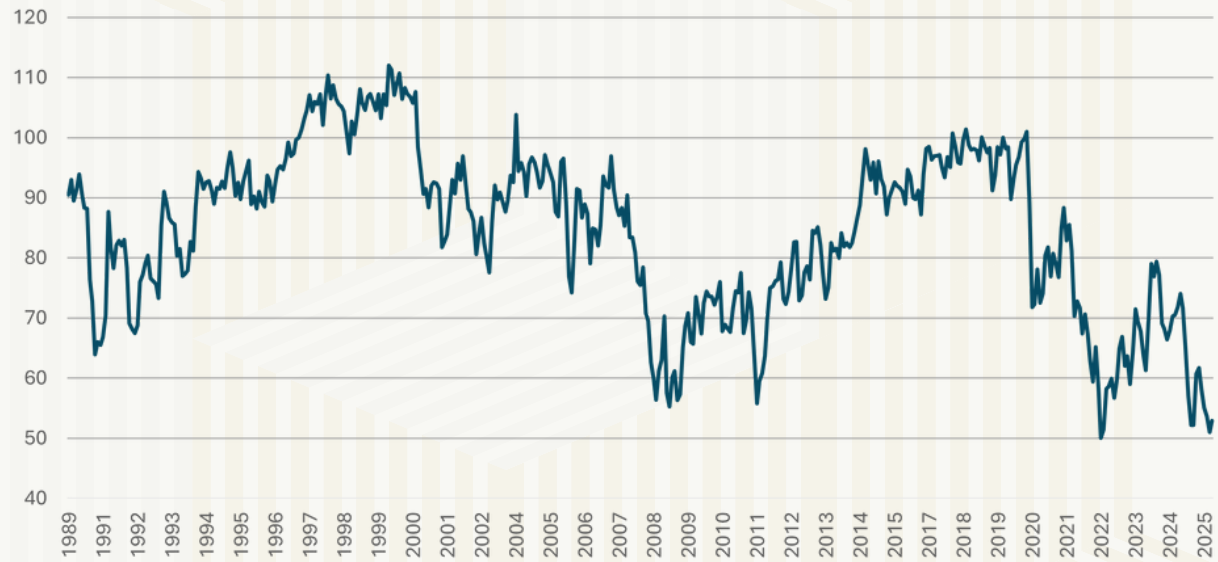
Tariffs have disrupted businesses and have slowed demand but have not led to expected material price increases. Corporate operating margins hit 13.5% in the September quarter, which is close to an all-time high. Corporate earnings grew 13% in 2025, up markedly from a strong 9% growth in 2024.

Stock prices reflect the expectation of future cash flow. Negative sentiment will often put pressure on prices in the short term because investors believe that the outlook for earnings is too optimistic. Prices reflect the current outlook. If sentiment is negative, but the data comes in positive, the data wins. Investors will then adjust expectations to the new data by pushing prices higher.

The transition into a new year is a natural time to both reflect and look forward. This is particularly true in the financial services industry. Tracking investment performance requires marked periods of time to evaluate results. A year is a long enough period to fairly evaluate gains and losses. After looking at how we did over the last year, the immediate follow-on question is what to expect going forward. Every year in early January, investment banks trot out detailed research reports to kick off the new year with expert prognostications which are all covered extensively in the media. And every year the forecasts are the same. The experts all predict the market to gain between 6-9%. I’ll give you one guess as to what the long-term annual average return for the S&P 500 is.

If I wanted to know what the weather will be more than 10 days from now, the best we are able to do, with all the weather forecasting technology at our disposal, is give the historical average temperature and rainfall. At least that gives you a rough idea of what to expect, but it really isn’t much of an answer. Honestly, we do not have the capability to

»UNIVERSITY OF MICHIGAN CONSUMER SENTIMENT



University of Michigan, December19nd 2025 forecast further than about 10 days into the future. Reciting the historical average is the best we can do.

We have been spending more time looking at the prediction markets. If you haven't checked out Kalshi or Polymarket, you really should. They are fascinating. And so obvious that we wish we had launched a prediction market ourselves. Great ideas always seem obvious in hindsight. There is no need to listen to "expert" opinions anymore. No point in conducting polls. We find it far more interesting to see what the consensus forecast is from people willing to bet dollars on the outcome. Want to know what people believe the odds of an interest rate cut in January is? Kalshi says 90% likelihood that there is no cut in January with more than $6 million bet. The 90% expectation seems about right to us but I'm not sure paying $100 today to potentially get back $110 on January 28th is worth it. A lot can change as new data is released.

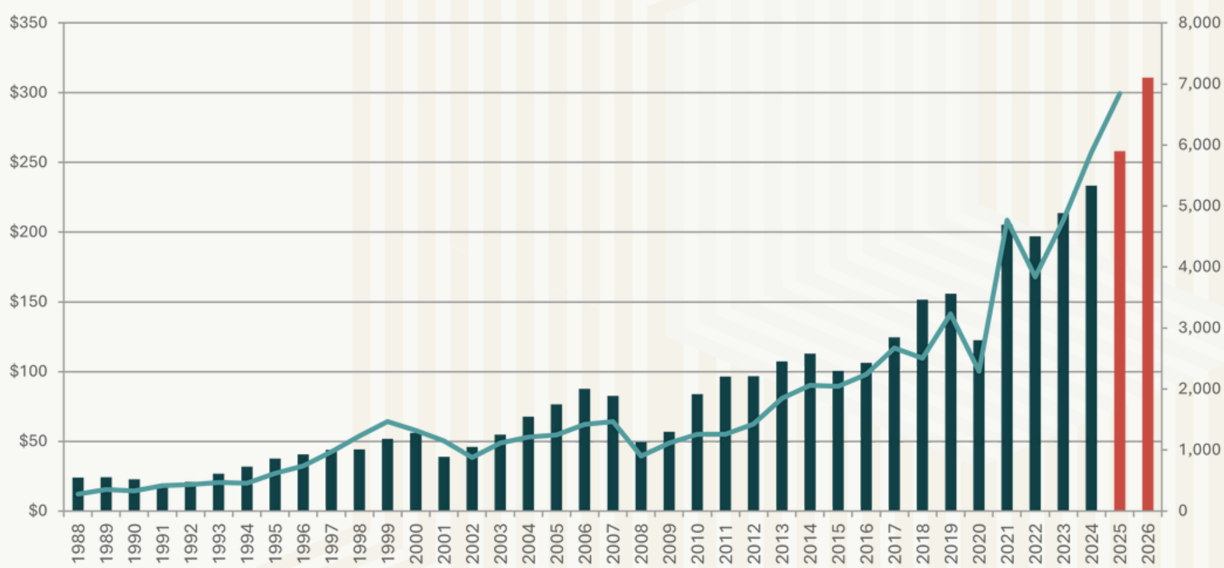
And of course, you can place bets on what the performance of the S&P 500 is going to be in 2026. It should not be a surprise that the leading forecasts are for a 5% to 11% gain. In other words, no one has any idea. One sidenote- we find it particularly humorous that although the long-term average performance of the S&P 500 is 5% to 11%, in the last 25 years, the performance of the index fell within that range on only two occasions.

Any sports bettor knows that betting on the most likely outcome is going to pay you the least. The more likely the expectations are, the less the payout. If you want to make any money you want to bet when you think the consensus is wrong. You make a lot of money if the unexpected thing happens and you are correct. The problem is this doesn't happen very often.

We go through the same exercise in making investment selections. A great company with a really high valuation and lofty expectations is often a more difficult investment than a good company that is working through challenges but has low investor expectations and a stock price to match. Knowing the consensus view is critically important as an investor.

So, this brings us back to our expectations for 2026. The consensus for the economy is weak, but the data still looks positive. People are more worried about their jobs, but per capita income is at an all-time high. The potential applications for artificial intelligence are driving incredible demand for enabling technologies, but many investors are wary of a bubble. The domestic political environment appears chaotic and

»S&P 500 TOTAL EARNINGS AND INDEX PRICE



S&P 500 Estimates,, January 2nd 2026

geopolitical risk seems to be rising, but companies are doing just fine both domestically and abroad. To navigate the cross currents, we believe it is even more important than ever to track the data.

Most of the headline events in 2025 were unpredictable, but few of them had an impact on earnings. In this report a year ago we stated, "we are encouraged by the fundamentals of low employment, strong household income and stable sales growth but a continued 10% earnings growth in 2025 is more likely than 16% in our view." Turns out 13% was plenty good enough. Good enough for the S&P 500 to gain 18%, more than double the perennially predicted long-term average. The expectations are for significant earnings growth again in 2026. The consensus earnings forecast has earnings on the S&P 500 accelerating, increasing 18% over 2025. Once again, we find this forecast to be overly optimistic. However, like last year, it's not critical that earnings hit or exceed this optimistic forecast.

Given the cross currents mentioned earlier, if earnings can do better than double-digit growth for the year, stocks will move higher, in our view. It would be fine if once again the current earnings expectations turned out to be a little optimistic.

The probability of a recession in the near-term is low. The data continues to show that the consumer is in generally good shape, even though they may not feel that way. Corporate operating margins are at peak levels. Lastly, there is opportunity. We see parallels between the late 1990s Internet boom and the transformative power of artificial intelligence. Significant investment will continue to pour into the AI buildout. As a result, earnings growth is expected to accelerate for the fourth year in a row. Not all of the companies will be winners long-term, but we think the investment cycle in technology will continue through 2026.

It is important to understand what the general consensus view is. If you believe that the outcome will be better or worse than that consensus you should invest accordingly. Our outlook for 2026 is positive. Last year growth in corporate earnings accelerated slightly from the year before and the markets did well. This year, corporate earnings are expected to accelerate even more.

»POLYMARKET ODDS FOR A JANUARY RATE CUT

Polymarket, January 2nd 2026

Charitable Giving and The One Big Beautiful Bill

As the One Big Beautiful Bill Act (OBBBA) goes into effect this year, most headlines will focus on tax brackets, standard-deduction changes, locked-in estate and gift tax exemptions, or even the new ‘Trump Accounts’ for newborns. Tucked inside the legislation is a subtle, but powerful shift. OBBBA paves the way for charitable incentives that have the potential not only to change the way we give, but also to change how families instill generosity across generations.

Before we highlight some of the opportunities, we must acknowledge that itemizers will see a less favorable landscape. A new 0.5% of AGI floor means that only charitable gifts above that threshold may be deducted. For example, if your AGI is $300,000, the first $1,500 of donations in 2026 (and moving forward) won’t count toward your deduction.

High-income donors in the top marginal tax bracket of 37% will also see a subtle reduction in the value of their charitable deductions, capping them at 35%, while those in lower brackets will receive deductions that continue to match their marginal rate.

Yet interestingly, what’s removed on one side is re-introduced on the other: the bill widens the giving base, seeding a philanthropic mindset in younger and lower-income donors who might have never itemized. Beginning in 2026, individuals can deduct up to $1,000 (or $2,000 for married couples) in charitable gifts without itemizing.

This seemingly modest provision, arguably, has large implications. Americans who don’t itemize will have the opportunity to receive a direct tax benefit for supporting nonprofits they care about. Unlike earlier temporary provisions, this deduction is permanent. To qualify for the deduction, contributions must be made in cash to qualified public charities. It does not extend to donor-advised funds or private foundations.

This widening of the donor base creates a legacy planning opportunity: older generations can gift money to younger family members (within annual gift-tax exclusion limits), and those recipients can then make charitable gifts eligible for the new deduction.

Perhaps you have a desire for your child or grandchildren to understand the joy of giving. In the past, you may have made donations on behalf of your family. Taking advantage of OBBBA, you can gift $1,000 to the next generation during the year, encouraging them to choose a cause that matters to them and allowing them to make a personal, deductible donation.

Perhaps it's your son who wants to support a local foster program or a granddaughter who wants to donate to an animal-rescue organization. Each can receive up to a $1,000 tax deduction for donations they direct themselves (assuming they have taxable income to offset). The experience is theirs. The benefit is theirs. And the values become theirs.

This transforms charitable giving from something done *for* the next generation into something done *with* and by them.

Additionally, for the itemizers, some of the downsides to OBBBA can be offset through "bunching" donations, paving the way for Donor Advised Funds (DAFs). A DAF is one of the most flexible, tax-efficient charitable giving vehicles available. It allows you to make a charitable contribution today, receive an immediate tax deduction, and then recommend grants to your favorite (qualified) charities over time. You can also invest your contributions while you decide on where to ultimately grant the funds. This means your donation and impact has an opportunity to grow even more.

Going back to the example of someone earning $300,000, rather than spreading out their donations annually and consistently losing the deductibility of the $1,500 floor, they can pre-gift X number of years' worth of anticipated donations to a DAF and only lose that floor in the first year. And, to make things even better, contributions to a DAF don't have to be made in cash. You can donate appreciated stock, meaning you avoid capital gains AND you get a tax deduction. It's a win-win.

Generationally, a DAF still feeds into this idea of instilling philanthropic value. When you open a DAF, you become a DAF "advisor", meaning you can control how the contributed funds are invested and what charities you want to support. You can name a successor "advisor" to take over when you pass away. They cannot take the funds out for their benefit, but they can see the history of charitable impact you have made and continue that legacy by choosing the same or new charities to donate to – or even contribute funds of their own to keep the bucket growing.

With OBBBA, charitable giving isn't just a tax strategy. It becomes a multigenerational teaching tool. By giving younger family members both the means and the tax incentive to participate, parents and grandparents can cultivate enduring philanthropic habits and help shape a legacy of generosity that lasts far longer than the deduction itself.

Tax Deductibility

$23,500 vs **$10,000**

$25k DAF One Time	$2,500/Yr for 10 Years

*Assumes $300k AGI

CHARITABLE GIVING IS A MULTIGENERATIONAL TEACHING TOOL

2025

BUILD YOUR WEALTH

To Fund Your Passions

GKV Capital Management is an independent investment advisory firm registered with the Securities and Exchange Commission since 1975. We provide portfolio management services for our clients which include individuals, families, charitable trusts, corporations and retirement plans. We are an independent, fee-only advisor. We do not receive commissions, and we do not sell any financial products. We have a fiduciary responsibility to put our clients' interest first.

Client accounts are separately managed and tailored to meet the specific needs, including risk tolerance, investment objectives, and tax consequences of each client. Client assets are held at an unaffiliated brokerage firm.

With extensive expertise in security analysis, we make direct investments on behalf of our clients buying individual securities. This eliminates costly mutual fund fees and increases the flexibility to manage volatility. We actively allocate capital to take advantage of investment opportunities altering exposure to individual companies, industry sectors, and asset classes in anticipation of the changing investment and economic environment.

We are transparent in all facets of our asset management practice and believe it is important for our clients to know what they own, why, what their performance is, and what they are paying in fees. We build comprehensive portfolios for our clients with a goal of reducing volatility and producing prudent growth.

We protect and build wealth at GKV Capital.

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