

Annual Investment Update

Economic Review and Outlook

DECEMBER 31, 2025

Amid a tsunami of headlines, the challenge for investors in 2025 was tuning out the high-decibel drama of Washington, D.C., and Silicon Valley to see the steady macroeconomic fundamentals and the powerful growth of corporate earnings. Most measures for labor, prices, and growth barely changed from the beginning of the year to the end, though the fluctuations between quarters were significant. Ultimately, financial markets were able to ignore headlines and instead focus on the growth of company earnings and a relatively stable interest rate environment.

Growth, as measured by gross domestic product (GDP), began the year with a surprise Q1 contraction of 0.6% as tariff announcements forced companies to significantly increase imports and stock up ahead of price increases. Q2 recovered rapidly with a sharp rebound of growth to 3.8% as inventories were drawn down and sold but not restocked. For the full year, growth is estimated to be around 2% according to a consensus of economists, well below recent history but at a sufficient level to support labor markets without triggering significant inflation. Unemployment remained just above 4% for most of the year, while inflation hovered slightly below 3%.

Policy Chaos With a new administration came a rapidly shifting policy landscape that dominated headlines and caused significant market volatility. As early as Inauguration Day, Wall Street analysts began to factor in the impact of tariffs on prices and inventories. However, early April's "Liberation Day" tariff announcements sent shock waves through markets, with both stocks and bonds plummeting. As negotiations began in earnest and the harsh realities of market dynamics forced the administration to walk back some of its threats, stocks rapidly recovered.

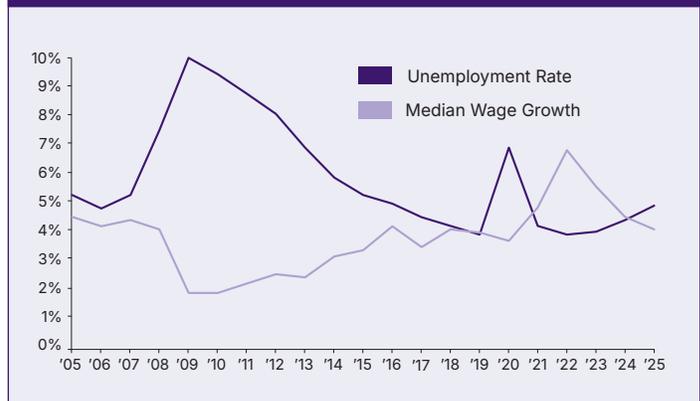
Further support for market fundamentals came from the so-called One Big Beautiful Bill (OBBB), a tax and spending

Key Economic Releases

EMPLOYMENT	As of	Expected	Actual	Prior
Unit Labor Costs (2Q)	SEPT	1.2%	1.0%	1.6%
Unemployment Rate	NOV	4.5%	4.6%	4.3%
Average Hourly Earnings (YoY)	NOV	3.7%	3.5%	3.7%
Change in Manufact. Payrolls	NOV	-5K	-5K	-9K
Change in Non-Farm Payrolls	NOV	50K	64K	-105K
INFLATION (year over year)	As of	Expected	Actual	Prior
Consumer Price Index	NOV	3.1%	2.7%	3.0%
CPI Ex Food & Energy	NOV	3.0%	2.6%	3.0%
Producer Price Index	SEPT	2.6%	2.7%	2.6%
PPI Ex Food & Energy	SEPT	0.3%	0.3%	-0.1%
HOME PRICES (year over year)	As of	Expected	Actual	Prior
S&P/Case Shiller Top 20 Mkts.	OCT	1.1%	1.3%	1.4%
MANUFACTURING ACTIVITY	As of	Expected	Actual	Prior
Capacity Utilization	NOV	75.9%	76.0%	75.9%
Leading Indicators	SEPT	-0.3%	-0.3%	-0.5%
GDP Annualized (3Q)	DEC	3.3%	4.3%	3.8%
PRODUCTIVITY	As of	Expected	Actual	Prior
Non-Farm Productivity (2Q)	SEPT	2.7%	3.3%	2.4%
Industrial Production	NOV	0.1%	0.2%	-0.1%

Source: Bloomberg

Unemployment and Wages



Source: Bloomberg



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Perkins Coie Trust Company LLC is a Washington state-chartered trust company.

ECONOMIC REVIEW AND OUTLOOK (CONTINUED)

package signed into law on July 4 that made permanent tax cuts from President Trump's previous administration and gave significant benefits to corporations to incentivize research-and-development spending and capital expenditures. The fiscal stimulus contained in the OBBB will continue through 2026 as tax refunds are expected to be substantial.

The final policy shock of the year was a prolonged government shutdown, lasting from the beginning of October through mid-November, the longest shutdown in U.S. history at 43 days. Due to the shutdown, much of the government-produced economic data that was expected in the fourth quarter was canceled, inaccurate, or delayed, and the economy experienced a "soft patch."

Labor's Year of Change: Immigration Reform, Peak 65, and AI For American workers, 2025 may be remembered as the year that redefined the labor market. Rapid changes in immigration policy left shortages in some low-wage labor pools as fewer people entered the United States and undocumented workers faced deportation. Tech employees, too, felt the impact of H-1B visa changes, which increased the costs and complexity of bringing in highly skilled workers.

For older workers, this year marks a new high in the "silver tsunami" of retirements, with 4.18 million people reaching the traditional retirement age. Between 2024 and 2027, up to 11,000 Americans per day will turn 65, a historic demographic surge dubbed "Peak 65." This will have implications for the demands on Social Security, Medicare, healthcare, and retirement communities and may also affect firms' institutional knowledge as many experienced employees depart their long-term places of employment.

For younger workers and recent graduates, the labor market is in a state of suspended animation in which employers are too nervous to expand and too traumatized by recent talent shortages to reduce staff. This period of "low-hire, low-fire" has companies hoarding their talent, as the layoff rate has fallen to a historically low 1.2%, but also selectively hiring as new job creation is well below trend. Employees also seem paralyzed by labor market developments as the "quits rate" has fallen to just 1.8%, the lowest rate since the first weeks of the pandemic.

Artificial intelligence (AI) increasingly shaped the labor market in 2025. While AI can serve as a tool for boosting productivity, it also carries the potential to replace or eliminate jobs. Displacement of jobs in data processing, research, and other

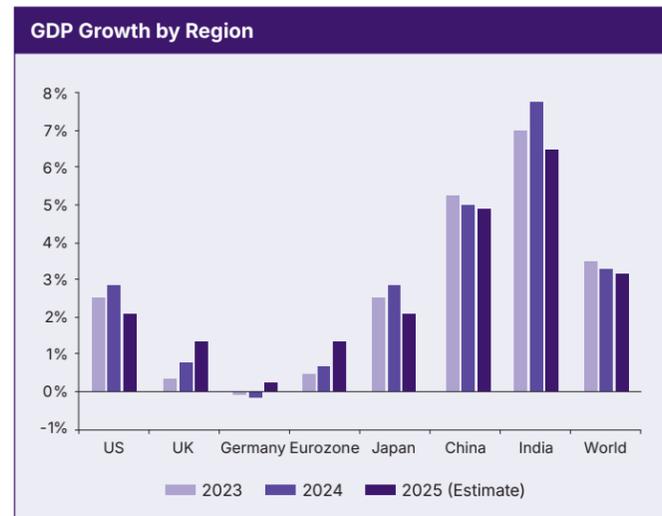
fields where AI excels is being offset by some job creation, particularly in decision-making roles that interpret results, or in fields that require empathy or have a "human moat" such as healthcare, client service, and the trades.

The Protectionist Pivot The sudden reversal of decades of diplomatic norms and the implementation of massive trade barriers catalyzed many European and Asian countries to seek new business relationships and implement domestic reforms.

The European Union (EU) implemented structural reforms to address long-standing economic stagnation and U.S. dependence for defense and trade. Sixteen EU countries have activated the Excessive Deficit Procedure to allow above-threshold spending on defense, moving from an era of the "peace dividend" to a defense buildup phase. EU GDP grew from 1.1% to an estimated 1.6% this year, a significant improvement, though still well below the United States.

Japan, too, instituted capital market and corporate governance reforms, aiming to release significant economic stimulus and unlock shareholder value in its markets. After decades of stagnation, the Japanese economy appears to have now escaped the deflationary trap, only to find itself in new peril as enormous deficits may need to be refinanced at significantly higher rates.

Emerging markets (EM) countries shrugged off rising trade barriers to post significant market returns and economic growth as EM economies now contribute close to 60% of global GDP growth. South Korea, China, and India are emerging as significant competitors in the race for AI.



Source: Bloomberg

Bond Market Review and Outlook

DECEMBER 31, 2025

2025 proved to be a largely positive year for bond investors. Benefiting from high starting yields and central bank interest-rate cuts, most fixed income categories posted robust total returns. The Bloomberg U.S. Aggregate Bond Index, a broad-based benchmark that measures U.S. government and corporate bond performance, returned 7.3% for the year, its best result since 2020.

Corporate bonds, including credit-riskier high-yield bonds, performed particularly well. Attractive yields, stable credit fundamentals, and healthy demand supported their strong returns. Credit spreads, the extra yield corporate bonds pay over Treasuries to account for their extra risk, remained near their narrowest levels again this year, reflecting continued investor confidence in this space.

Economic Uncertainty Affects Treasury Market Throughout much of 2025, investors struggled to decipher the true state of the economy. The U.S. Federal Reserve (the Fed), after initial caution, resumed its easing cycle, with three 25-basis-point rate cuts occurring in the latter half of the year, bringing the federal funds rate target range to 3.50%–3.75%.

Inflation remained a central topic, hovering around 3% and stubbornly above the Fed's 2% target. Unemployment, the Fed's other focus, remained relatively low, although layoff announcements made headlines throughout the year. Uncertainty was exacerbated in the fourth quarter by a government shutdown and subsequent delay in economic data releases.

This environment led to a volatile year for the U.S. Treasury market. The Treasury yield curve steepened as short-dated bonds benefited more from the Fed cuts, while longer dated bonds faced pressure from fiscal and inflation concerns. The 10-year Treasury yield fluctuated month-to-month but settled around 4.2% by the end of December, down 0.4% from the start of the year.

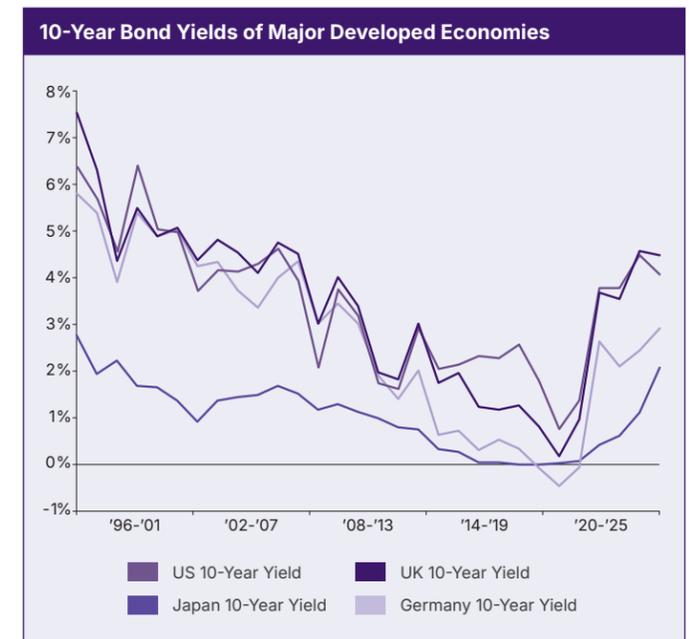
Persisting National Debt, Persisting Concern Persistent government budget deficits worldwide continued to be a concern for the fixed income market. Unease about long-run fiscal sustainability, especially in the United States, contributed to the volatility in the Treasury market and weakening of the U.S. dollar.

Reflecting a more subdued inflation and economic growth outlook, most global central banks cut their policy rates this year. One notable exception was the Bank of Japan (BOJ).



Source: Bloomberg

Bond Market Calendar Year Returns are measured using the Bloomberg US Aggregate Total Return Index



Source: Bloomberg

In December 2025, the BOJ raised its policy interest rate to 0.75%, the highest level in 30 years. While this is still low on a global scale, the increase has implications for the U.S. bond

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BOND MARKET REVIEW AND OUTLOOK (CONTINUED)

market, potentially leading to less demand for U.S. Treasuries and corporate bonds. Additionally, higher Japanese yields could raise the floor for rates across the world and increase sovereign borrowing costs, despite recent central bank cuts.

Heading into 2026, budget deficits remain elevated, and large fiscal stimulus packages are set to take effect in Japan, China, Germany, and the United States. This will likely continue adding to government debt burdens.

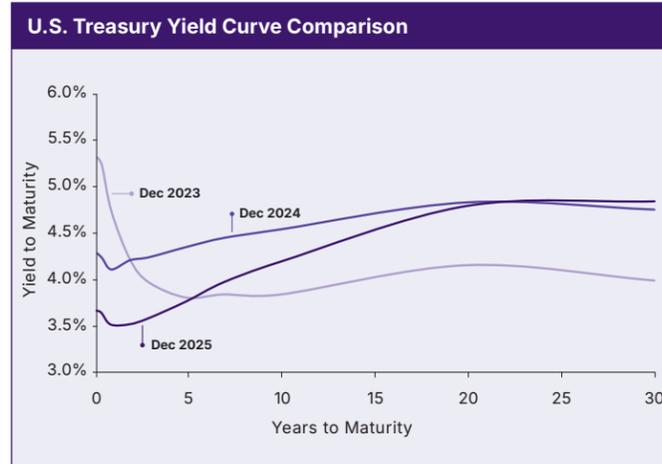
Municipalities Issuing More Debt but Remain in Good Shape

Municipal bonds, issued by state and local governments and known for their tax-free interest, also experienced a volatile but ultimately positive year. The Bloomberg Municipal Bond Index ended up 4.25%. Municipal credit quality has generally been strong in recent years, buoyed by healthy rainy-day funds, broad-based revenue gains, and pandemic-related federal aid. High tax-free yields and low defaults have also supported the asset class. However, the April tariff announcements, uncertainty surrounding the expiration of Tax Cuts and Jobs Act provisions, and policy changes introduced by the OBBB pressured the municipal market at various times during the year.

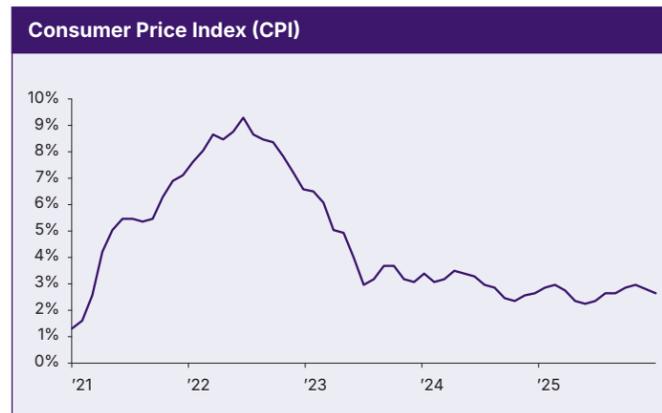
Municipal debt issuance in 2025 topped the record levels of 2024. The surge in supply was driven by unease about tax policy changes, along with growing infrastructure needs, dwindling pandemic aid, and monetary and fiscal uncertainty. Various factors will influence issuance going forward, but many municipalities are looking to finance significant infrastructure projects in the near term. This, along with inflation-induced added costs, supports the likelihood of elevated supply again in 2026.

Bonds in the New Year In 2025, fixed income markets were influenced by changing monetary policies, persistent inflationary pressures, and growing concerns about elevated global debt levels. Many global central banks cut interest rates and are expected to continue to do so in 2026, albeit at a slower pace.

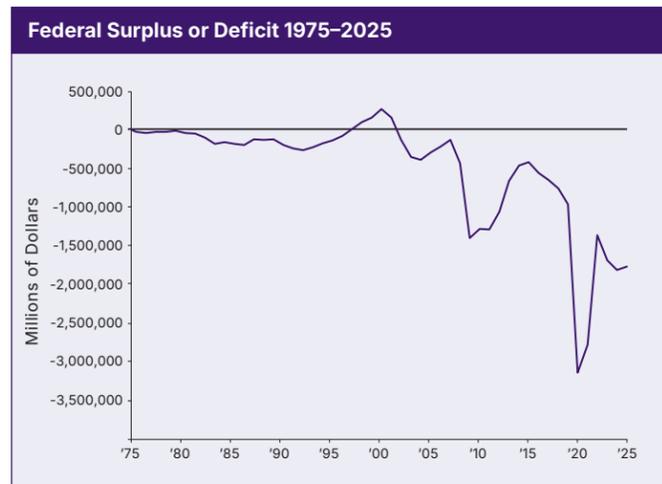
In the United States, Jerome Powell's term as Fed chair will end in May 2026, potentially leading to a shift in policy. However, we believe the Fed will continue to balance its dual mandate of maximum employment and stable prices as we move through the next year. In the meantime, bonds can still serve as a ballast for portfolios, offering diversification from stocks, attractive yields, and supported by generally solid credit fundamentals.



Source: Bloomberg



Source: Bloomberg



Source: U.S. Office of Management and Budget via FRED

Stock Market Review and Outlook

DECEMBER 31, 2025

The U.S. stock market saw another year of strong performance despite volatility in the face of unpredictable tariffs and geopolitical uncertainty. The S&P 500 Index delivered its third consecutive year of double-digit results, posting a 17.86% return backed by strong corporate earnings and healthy profit margins.

AI Continues to Drive Markets As in 2024, investments in AI and related sectors continued to be the primary force driving the U.S. stock markets. Unsurprisingly, Information Technology (24%) and Communications Services (33.6%), where many of the AI stocks reside, were the leading sectors for the year. Massive capital expenditures in an amount north of \$1 trillion were announced by the AI hyperscalers (including Alphabet, Amazon, Meta, Microsoft, and Oracle), which in turn helped other sectors that provide key infrastructure. The Industrials sector has been bolstered by the need to build new data centers, and the Utilities sector has grown to meet the ever-increasing electricity demands of those data centers. However, with AI adoption in the early stages and capital investments climbing while profits have yet to be realized, worries about valuations and bubbles surfaced. Though valuations are elevated for some companies, many analysts point to the unprecedented scale of contractual backlogs as evidence that this cycle is rooted in tangible industrial demand rather than mere speculation.

A shift in the regulatory environment toward easing capital requirements and lower government scrutiny of mergers and acquisitions (M&A), combined with the Fed easing cycle, gave the Financials sector a boost this year. M&A activity has been particularly upbeat due to these deregulatory tailwinds; assuming all pending deals are completed, total transaction value is on track to hit \$4.8 trillion, a 36% increase from 2024. IPOs are also on the rise, recovering from 2023 lows back to their historical average. The big banks that underwrite these deals, such as JPMorgan and Wells Fargo, are beneficiaries of this increased transaction volume.

However, performance by the U.S. stock markets did not occur in a linear fashion. Tariff announcements and the subsequent pauses and negotiations surrounding them were arguably the largest single source of volatility for the U.S. stock markets this year. Immediately following "Liberation Day" in April, the S&P 500 plummeted nearly 15% on the year, with technology stocks down even more. At that time, the

CBOE Volatility Index (VIX), which measures volatility in the S&P 500 and is often referred to as the stock market's "fear gauge," jumped nearly 150% to 52.33, one of its highest levels since the start of the pandemic in 2020. After the initial shocks made their way through the markets, things seemed to settle as the VIX ended 2025 at a more modest 14.95.

International Stocks and Emerging Markets: Best in Class

2025 was also marked by a departure from the decade-long trend of U.S. market dominance. Developed international

Stock Market Returns	Latest Quarter	12 Months	Last 3 Years*
S&P 500	2.65%	17.86%	22.98%
Russell 1000 Growth	1.12%	18.55%	31.14%
Russell 1000 Value	3.80%	15.88%	13.87%
S&P 400 MidCap	1.64%	7.48%	12.53%
MSCI Developed (EAFE)	4.91%	32.03%	17.97%
MSCI Emerging Markets	4.76%	34.29%	16.93%
Alternative Assets			
Bloomberg Commodity	4.84%	11.07%	-0.93%
MSCI World Real Estate	-2.33%	3.77%	6.89%
S&P Global Infrastructure Index	2.32%	22.51%	14.58%

Source: Bloomberg

*Returns are annualized



Source: Bloomberg

STOCK MARKET REVIEW AND OUTLOOK (CONTINUED)

equities, measured by the MSCI EAFE, saw a return of 32%, and the MSCI Emerging Markets Index, representing EM equities, returned 34.3%. Both outperformed the S&P 500 Index in the United States. Investors who had global stock exposure reaped the benefits of their diversification. In part, U.S. investors holding foreign investments were rewarded by the significant weakening of the U.S. dollar.

International stock outperformance was not uniform but was driven by structural reforms, fiscal stimulus, and sector-specific rebounds across individual countries and regions. Japan, for example, continued its corporate governance reform as the Tokyo Stock Exchange urged companies to improve capital efficiency, leading to share buybacks and dividends reaching record highs. The BOJ's cautious path away from negative interest rates also gave the Financials sector a lift, allowing improved lending margins and profitability. Japan's Nikkei 225 Index saw a 28.63% return.

Germany announced a significant fiscal spending plan that included a large infrastructure fund and increased defense spending. As a result of this stimulus, sectors relating to defense and infrastructure, such as Industrials and Utilities, led the way for the German DAX Index, with a total return of 23.01%.

Much like in the United States, a number of EM companies had a great year as a result of the AI surge. South Korea and Taiwan both benefited from their respective critical positions in the manufacturing supply chain. From a revenue standpoint, Taiwan Semiconductor produced two-thirds of all chips made by foundries, driven primarily by the AI accelerator, a type of chip designed to train and run large language models. South Korea's chipmakers, such as Samsung Electronics and SK Hynix, also gained meaningfully from the AI trends in combination with a state-backed corporate governance overhaul designed to increase the value of their firms.

Looking Toward 2026

The outperformance of international and emerging markets alongside heightened U.S. volatility highlights why diversification remains essential for minimizing risk and smoothing out returns. It's also important to note that despite the stellar year experienced by international stocks, valuations relative to U.S. stocks are still cheap, making them an attractive asset class to invest in. Although past performance does not guarantee future results, seeing profitable companies with growing earnings estimates and the resilience of the market over the last year gives us reason to be optimistic as we look forward to 2026.



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Investment Process

- 1 **LEARN** Client Goals and Needs
- 2 **ESTABLISH** Client Investment Objective and Strategy
- 3 **DETERMINE** Asset Allocation Strategy
- 4 **CONSTRUCT** and Monitor Investment Portfolio
- 5 **REVIEW** and Reassess Client Needs

Trust Company Service



The investment process at Perkins Coie Trust Company is always client driven.

We meet routinely with clients to ensure that we incorporate changing life cycle needs into our investment strategies.

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