Q4 25 WEALTH MANAGEMENT QUARTERLY INVESTMENT LETTER

Opus CAPITAL MANAGEMENT

All-Time Highs Have Never Felt Worse

Quick Look

- Despite three separate significant drawdowns, the S&P 500 Index enters Year 2026 having posted 15% annualized returns since the start of the decade.
- All-time highs can be found in most major global stock indices, be it the S&P 500 Equal-Weight Index, the Russell 2000 Index, the MSCI EAFE Developed International Index, or the Emerging Markets Index.
- Presently, investor attitudes are extremely favorable, risk tolerances are high, and investors expect the recent strong returns to continue thanks, in part, to enthusiasm around future profit expectations.
- Conversely, consumer sentiment readings are abysmal. Readings at this level have only occurred during periods of recession.
- At no point in prior history can we find consumer sentiment at these depths with the stock market continuously posting new all-time highs.
- Persistently high prices and a weakening labor market are two of the issues contributing to consumer gloominess.
- Historically, investor sentiment and consumer sentiment are highly correlated, but currently they have never felt further disconnected.

Contacts

KEVIN P. WHELAN, CFA
President & CEO
kwhelan@opusinc.com

NATHAN A. BISHOP, CFA
Principal & CIO
nbishop@opusinc.com

NATHAN M. BAILEY, CFA, CFP®
Principal & Portfolio Manager
nbailey@opusinc.com

221 East Fourth Street, Suite 2850
Cincinnati, Ohio 45202
P (513) 621-6787

www.opusinc.com

Follow Us:

About Opus Capital Management

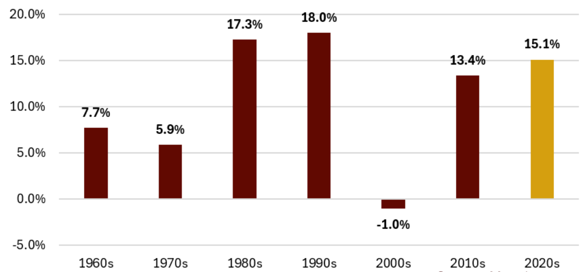
Opus Capital is an evidenced-based investment advisory firm driven by our overriding mission to help people. We believe the marriage of comprehensive financial planning + statistically proven investment principles creates the clearest roadmap to long-term success.

We are independent and transparent in all aspects of investment management decision making and financial planning. We selectively partner with like-minded individuals and families, endowments, foundations, and 401(k) plans in over 30 states.

Quarterly Investment Letter, Q4 2025

Season's greetings as we welcome in 2026. We have now reached the back half of the decade, which started with a pandemic and has remained frantic throughout. The dizzying feeling has extended to markets; despite three separate significant drawdowns, the S&P 500 Index has posted 15% annualized returns since the start of the decade. Through its first six years, the 2020s have produced the best returns since the 1990s.

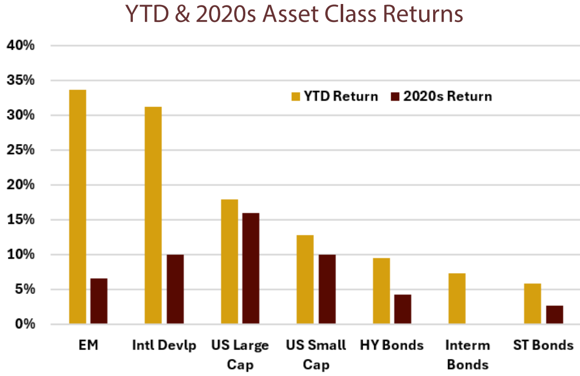
S&P 500 Decade Returns



Source: Morningstar

This past year encapsulated the roller-coaster ride of investing in the 2020s. The S&P 500 Index fell 20% from mid-February into Liberation Day, and then roared back to gain more than 40% since mid-April, closing at all-time highs. Unlike recent years, market gains were not confined just to U.S. large caps. In fact, the U.S. finished in the bottom third of country returns this year. The rest of the world, ex-USA, posted gains of 32% collectively. All-time highs can be found in most major global stock indices, be it the S&P 500 Equal-Weight, the Russell 2000, the MSCI EAFE Developed International, or Emerging Markets. For balanced investors, even bonds got in on the act, gaining over 7% as the Barclays Agg Bond Index posted its best annualized return since 2020.

YTD & 2020s Asset Class Returns

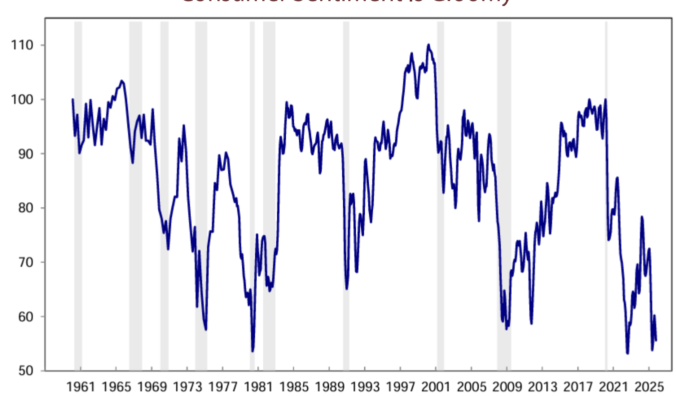


Source: Morningstar

Given these returns, it is no surprise that Bank of America's latest Global Fund Manager Survey showed investor sentiment at its highest level of the decade, save for the spike immediately after the successful COVID-19 vaccine trial results. That same survey shows that allocations to stocks and commodities are at three-year highs, while allocations to cash are at record lows among survey respondents. In summary, the survey suggests that investor attitudes are extremely favorable, risk tolerances are high, and investors expect the recent strong returns to continue thanks, in part, to enthusiasm around future profit expectations.

Investor sentiment juxtaposed against consumer sentiment provides starkly contrasting narratives. Historically, these two are highly correlated, but currently they have never felt further disconnected. The most recent consumer sentiment registered an abysmal reading of 53. As can be seen in the chart below, consumer sentiment readings of this level have only occurred during periods of recession. The lone exception was the dip in sentiment in Year 2022, during which economic growth stalled and just narrowly avoided the recession level. At no point in prior history can we find consumer sentiment at these depths with the stock market continuously posting all-time highs.

Consumer Sentiment Is Gloomy



Source: UofM Survey Research Center

U.S. EQUITY RETURNS (%)

As of 12/31/2025	Q4 2025	1-Year	3-Year	5-Year	10-Year
S&P 500	2.7	17.9	23.0	14.4	14.8
Russell 1000 (Large Cap) Growth	1.1	18.6	31.2	15.3	18.1
Russell 1000 (Large Cap) Value	3.8	15.9	13.9	11.3	10.5
Russell 2000	2.2	12.8	13.7	6.1	9.6
Russell 2000 (Small Cap) Growth	1.2	13.0	15.6	3.2	9.6
Russell 2000 (Small Cap) Value	3.3	12.6	11.7	8.9	9.3

Source: Morningstar

Continued from page 2 . . .

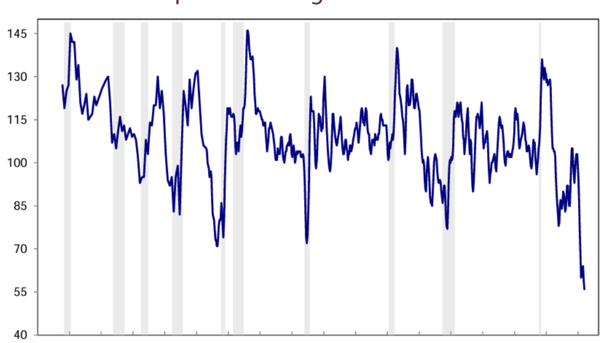
In our last investment letter, we wrote extensively about investor enthusiasm regarding the technological potential of AI, noting that in the short run, sentiment is the primary market driver and often disconnected from economic reality. This quarter, we thought it would be fruitful to open the hood on consumer sentiment, given the paucity of recent economic data that went offline due to the lengthy government shutdown this quarter.

Before diving in, it is worth discussing the question as to whether the political divide in our country has rendered the consumer sentiment survey obsolete. On the surface, this theory has some merit, as there has long been a gap in sentiment based on political party. Sentiment from registered Democrats is currently as low as Republican sentiment was in 2022. The counter to that argument is that sentiment for registered Independents has been fully aligned with declining national trends. Second, sentiment popped to the upside immediately after the 2024 Election, debunking the prenotion of just an anti-Trump bias. In fact, sentiment reached its highest levels since the 1990s during President Trump's first tenure.

Another argument is that the University of Michigan changed its survey methodology in 2024, switching from phone interviews to web-based surveys. Perhaps this change has negatively impacted comparisons to prior years, but again, sentiment continued to improve for the six months after this change was fully implemented. Additionally, the change in methodology has doubled the sample size of respondents. In short, survey data is far from perfect, but that does not mean it lacks merit.

With these disclaimers out of the way, let's start this exercise by looking at sentiment regarding business conditions. This fell precipitously early in the year, driven by uncertainty around tariff policy. According to the ISM Manufacturing Survey, factory activity has been contracting for the last nine months, though its readings are more in line with continued weakness over the last three years. The White House is banking on tariffs to spur a recovery in domestic-based manufacturing, but manufacturers have cited the ever-shifting tariff policy this year as a hindrance to moving forward on both hirings and business investment. Conversely, AI-specific

Sentiment: Expected Change in Business Conditions



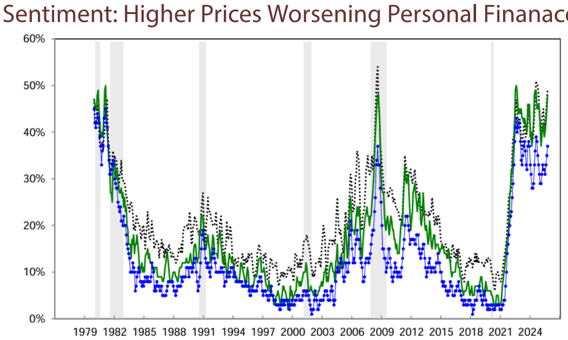
Source: UofM Survey Research Center

business investment has been booming, accounting for half of U.S. GDP growth this year, which is remarkably strong.

In total, while acknowledging the overhang of uncertainty throughout the year, it is hard to rationalize how business conditions sentiment can be at an all-time low, while the stock market is at all-time highs. The Supreme Court is soon set to determine the validity of the President's authority to implement tariffs, which could provide some clarity for businesses and reduce uncertainty. With policy uncertainty largely to blame for the initial slump in sentiment, recent focus has shifted back to consumer dissatisfaction with affordability.

Inflation is well below its 2022 peak but is still above the Federal Reserve's 2% long term target. Year-over-year inflation has moved higher since March, and at 2.7%, is the same level as it was one year ago. As has historically been the case, high prices weigh more heavily on lower and middle-income sentiment, but high-income earners are feeling the impact as well. The challenge with inflation sentiment is that consumers consider the cumulative impact more so than any year-over-year comparisons. Over the last five years, inflation is up 25% cumulatively. That is hard to get over psychologically, even if wage growth is up 27% over the same time. In one way, it can even be more frustrating receiving wage raises and still feeling financially strained.

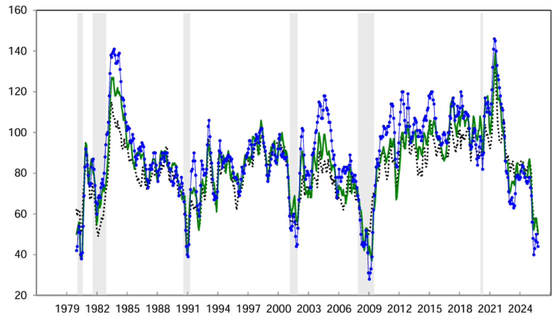
Sentiment: Higher Prices Worsening Personal Finanaces



Source: UofM Survey Research Center

While inflation has been a multi-year issue that has festered, this year saw a marked downturn in employment sentiment, falling to levels only seen during recessions. Interestingly, the issue is even more concerning to upper-income respondents. Indeed, the last seven months have only seen monthly payrolls grow by 17,000 on average, and the unemployment rate has jumped half a point to 4.6%. Furthermore, the rise of AI has likely fueled anxiety about job security, particularly among white-collar workers. Recent Federal Reserve rate cuts have been made to improve the labor market, outweighing their acknowledged concerns about upside risks to inflation.

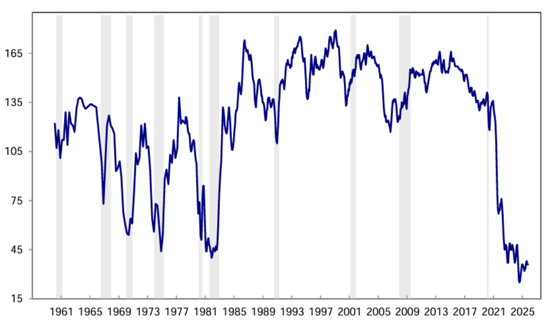
Sentiment: Expected Change in Unmployment



Source: UofM Survey Research Center

All told, the Fed has cut the Federal Funds rate 1.75% since September 2024. These cuts have reduced revolving credit rates but have done little to alleviate the issue of housing affordability. In fact, mortgage rates, which follow longer-term rates, have fractionally increased since the Fed's first rate cut, as the 10-year Treasury yield is up 0.5% over this time period. Homebuying sentiment remains at all-time lows, even as some conditions are improving, such as home sellers now outnumbering buyers by roughly 35%.

Sentiment: Buying Conditions for Houses



Source: UofM Survey Research Center

To summarize, tariff uncertainty, persistent price shocks, a slumping jobs market, and a frozen housing market all have us feeling rather dour about an economy….that grew 4.3% according to the advance reading of third quarter GDP. An annualized figure for the first three quarters of the year shows that the economy is on pace to grow 2.5% in 2025, just slightly below last year's 2.8% GDP growth figure. This is where the narrative simply is not matching reality. If there is a theme this decade, it has been the notion that things are lousy for everyone but me. This phenomenon has been dubbed a "vibecession", and Year 2025 is when this theme went into overdrive.

Consumer sentiment is an important metric because of how dependent the U.S. economy is on consumer spending. The prevailing logic has always been that if people feel good about their prospects, they will spend more (or vice versa), as sentiment has been thought to be self-fulfilling. This link has been upended, as sentiment has not (collectively) altered spending habits; in fact, we have seen the opposite. Consumer spending has strengthened each quarter while sentiment has deteriorated. Perhaps this is the result of a K-shaped economy, in which spending is driven by the upper income consumers who are more inclined to spend thanks to the wealth effect from asset prices. The counter to this argument is that upper-income household sentiment is nearly as lousy as lower-income household sentiment. Perhaps social media has made us too online. Perhaps consumers, regardless of income level, just really loathe higher prices.

The labor market is worth watching, as sentiment aside, it is unusual to have economic growth increasing while unemployment is rising. Reduced immigration is certainly a factor contributing to a higher unemployment rate. Fed Chair Powell has mentioned the potential for negative job growth in the coming year, and declining payrolls have always coincided with recessionary periods. Will this time be different? For its part, the Fed raised its GDP forecast for the upcoming year to 2.5% at its December meeting, a noticeable increase from their outlook in September. Continued policy accommodation by the Fed is expected, and tax rebates will be strong and should provide a boost to consumer spending during the first half of 2026.

In closing, a Deutsche Bank survey asked respondents what they felt were the biggest risks to market stability in 2026. Respondents answered that the biggest risk was AI enthusiasm and Tech valuations, while a U.S. hard landing (i.e. recession) registered a distant 10th place. As we enter 2026, investor sentiment is in the clouds, consumer sentiment is in the tank, and the economy is somewhere between. We appreciate your partnership with Opus and wish you the best in the coming year.

INTERNATIONAL RETURNS (%)

As of 12/31/2025	Q4 2025	1-Year	3-Year	5-Year	10-Year
Int'l Developed ex US	4.9	31.2	17.2	8.9	8.2
Emerging Markets	4.7	33.6	16.4	4.2	8.4

Source: Morningstar

FIXED INCOME RETURNS (%)

As of 12/31/2025	Q4 2025	1-Year	3-Year	5-Year	10-Year
Aggregate Bond	1.1	7.3	4.7	-0.4	2.0
Muni	1.5	4.4	3.9	0.9	2.1
Int'l Bonds	0.6	9.7	5.0	-1.1	1.6
High-Yield	1.3	8.0	9.3	4.2	5.6
Short-Term	1.1	6.0	5.6	2.3	2.5
90-Day T-Bill	1.0	4.3	5.0	3.4	2.3

Source: Morningstar