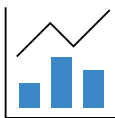




Economic Update

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This weekly update provides a snapshot of changes in the economy and markets and their implications for investors.



Growth

The U.S. economy grew by a stronger than expected 4.4% saar in 3Q25. Consumers continued to power the economy forward, with spending up 3.5%. Business fixed investment rose 3.2% as spending on equipment and IP products was partially offset by weaker spending on structures, while inventories were a modest drag. Residential fixed investment remained weak, contracting by 7.1%. Elsewhere, a 2.2% rise in government spending, a 9.6% spike in exports and a 4.4% decline in imports all helped support growth. While the government shutdown likely weighed on activity in 4Q25, fiscal stimulus should boost growth in early 2026.



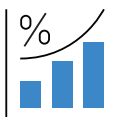
Jobs

The results of the December jobs report were mixed. Job growth remained sluggish with the U.S. economy adding 50k jobs. Downward revisions were sobering, removing 76k jobs from the prior two months. On a more positive note, the unemployment rate fell by 16bps to 4.4% after spiking in November. Total private wages rose 0.3% m/m and 3.8% y/y, but wages for private production and non-supervisory workers (~80% of private payrolls) slowed to 3.6% y/y from 3.8%, suggesting that most of this month's wage growth came from supervisory or high-skilled roles. On balance, this report showed a labor market with little momentum heading into 2026. Still, with labor demand and supply both weakening, labor market slack is not growing worse. Payroll growth could accelerate alongside economic growth as fiscal stimulus kicks in in early 2026.



Profits

The 4Q25 earnings season is in full swing. With 43.5% of market cap reporting, consensus is currently estimating EPS will grow by 10.1% y/y. Looking at the three main sources of EPS growth, sales, margins and shares are expected to contribute 6.6, 4.4 and -0.8 percentage points, respectively. From a sector perspective, tech is doing the heavy lifting this quarter, on track to drive 66% of the y/y EPS growth, with industrial earnings up an impressive 27% y/y. However, the consumer and health care sectors are struggling as rising costs hurt profitability.



Inflation

The December CPI report showed that inflation came in largely as expected with headline and core CPI up 2.7% and 2.6% y/y, respectively. However, the reversal of shutdown-driven data quirks that biased inflation lower last month was milder than expected. Food prices rose at their fastest monthly pace since 2022 while declines in gasoline and fuel oil were offset by a spike in utility gas services prices. Core goods prices were flat on the month, largely driven by weakness in autos, while travel -related categories boosted core services inflation. Rent and owners' equivalent rent, categories that will remain distorted until April 2026, both rose 0.3% m/m, consistent with their pre-shutdown pace. This report did little to change the outlook for monetary policy, and fiscal stimulus and delayed tariff pass-through could cause inflation to reaccelerate in 1H26.



Rates

At its first meeting of 2026, the Federal Reserve voted to leave the federal funds rate unchanged at a target range of 3.50%–3.75%, although Governors Miran and Waller voted in favor of a 25bp cut. New statement language leaned hawkish, with economic activity described as "solid" and the unemployment rate "showing signs of stabilization." During the press conference, Powell noted that the most likely next move remains a cut, but only after it becomes clear the inflationary effects of tariffs will be temporary. The Fed is well positioned to remain on hold through 1H26 at least, and will likely maintain its current policy stance until the balance of risks, as evidenced by incoming data, decisively favors action on one side of its dual mandate.



Risks

- Delayed tariff pass-through and fiscal stimulus could put upward pressure on inflation.
- A divided Federal Reserve could deliver fewer rate cuts than markets currently expect.
- Elevated geopolitical tensions could spark bouts of volatility.



Investment Themes

- Solid fundamentals should allow U.S. markets to continue to grind higher.
- Fiscal stimulus, dollar weakness and regional catalysts should support strong international performance.
- Private markets can offer investors more ways to access the AI theme.

● Denotes updated information



Data are as of February 2, 2026

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