



The Year Ahead: Economic Update & 2026 Outlook

February 5, 2026

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The Year Ahead: Economic Update & 2026 Outlook

Your Presenters



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Recap of 2025

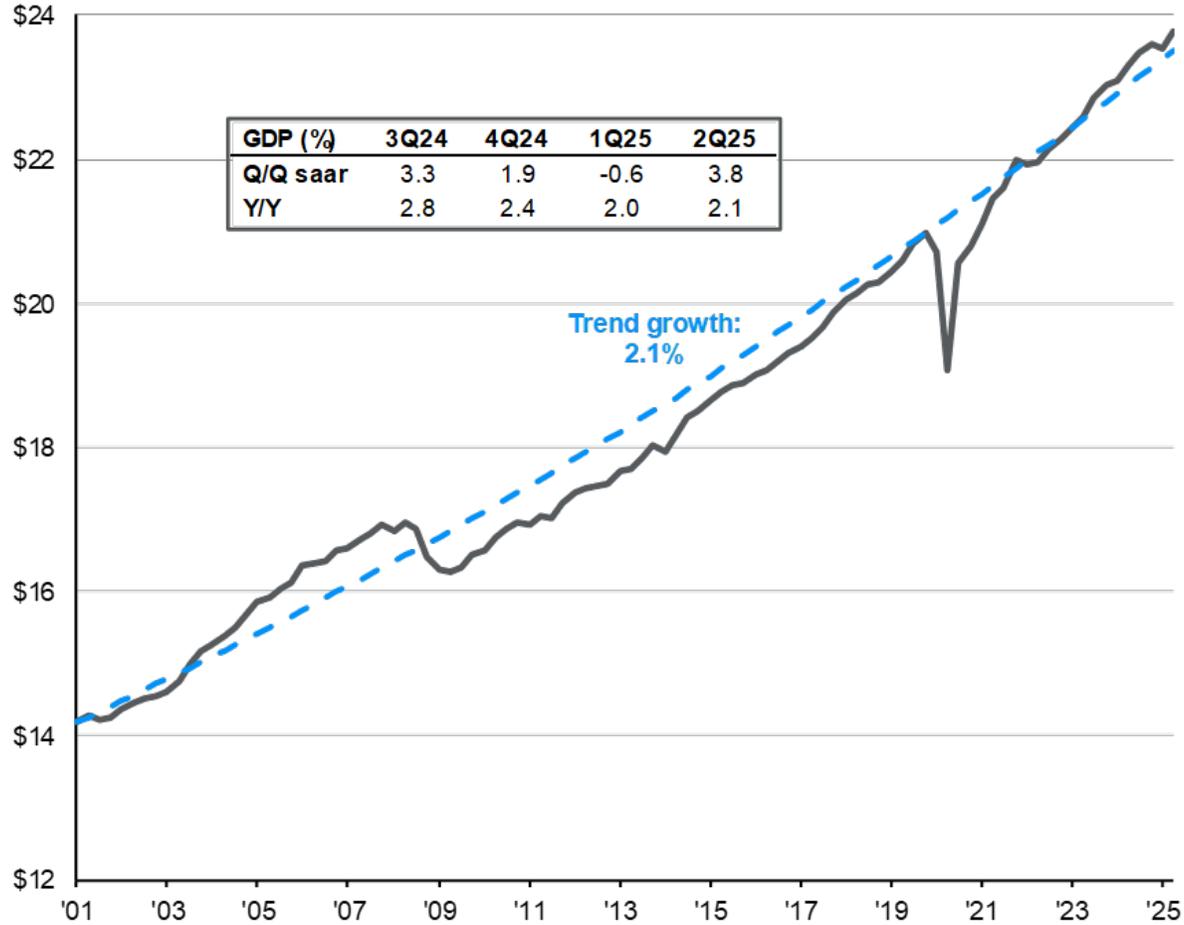
How Did the Economy Perform Last Year?



Economic Growth & the Composition of GDP

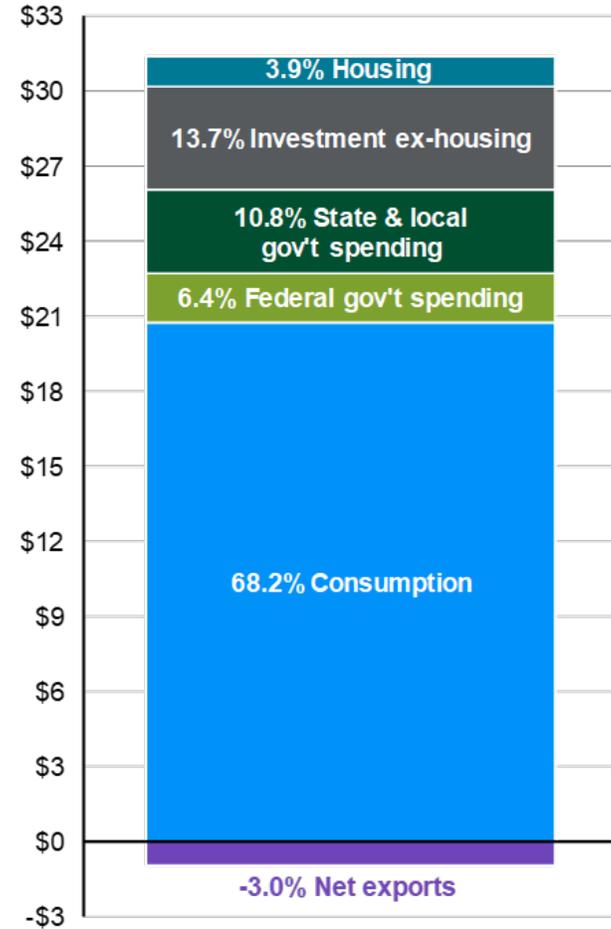
Real GDP

Trillions of chained (2017) dollars, seasonally adjusted at annual rates



Components of GDP

2Q25 nominal GDP, USD trillions

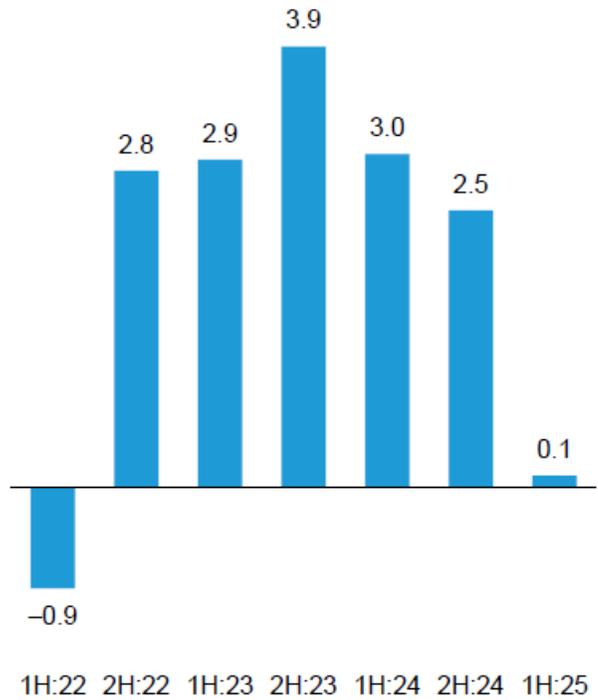


Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Trend growth is measured as the average annual growth rate from business cycle peak 1Q01 to business cycle peak 4Q19. Data as of November 30, 2025.

What Is Driving Growth

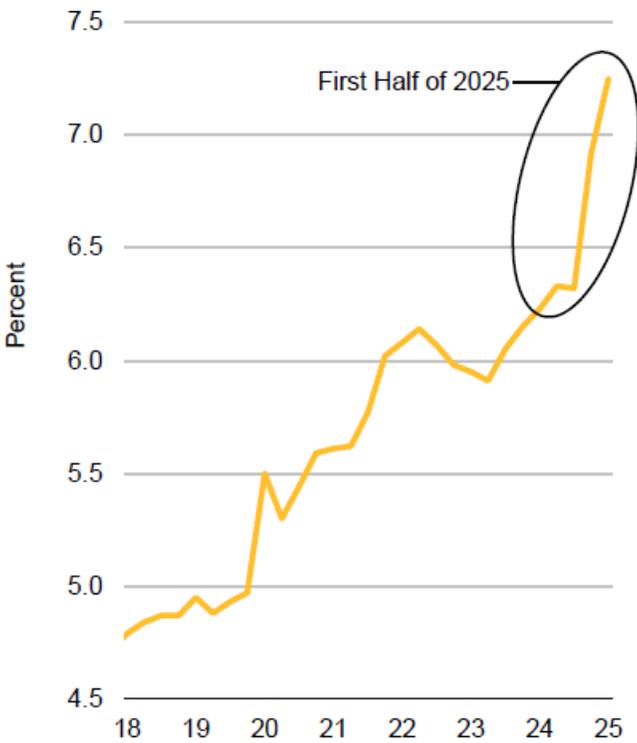
Business Spending

Real GDP *excluding* information-processing equipment and software investment (percent)



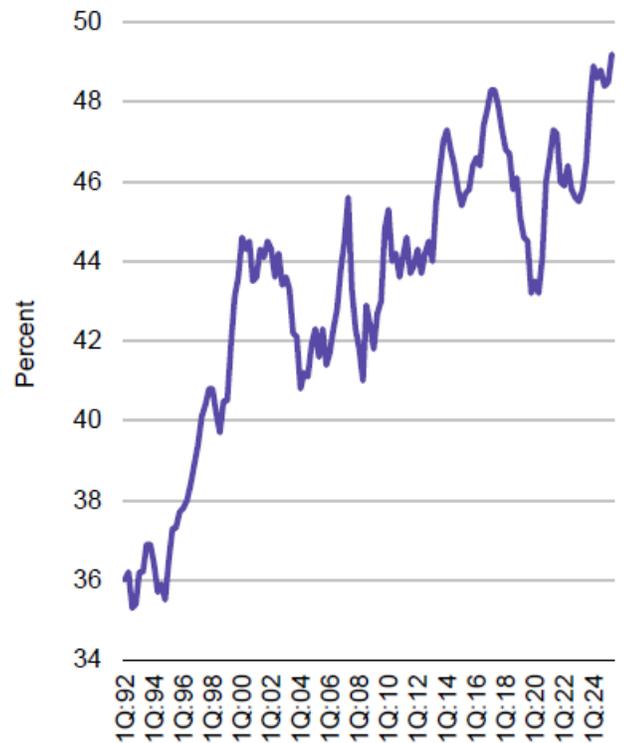
Business Spending

Real private fixed investment: tech related



Consumer Spending

Top 10% of earners make up nearly half of all consumer spending in the US

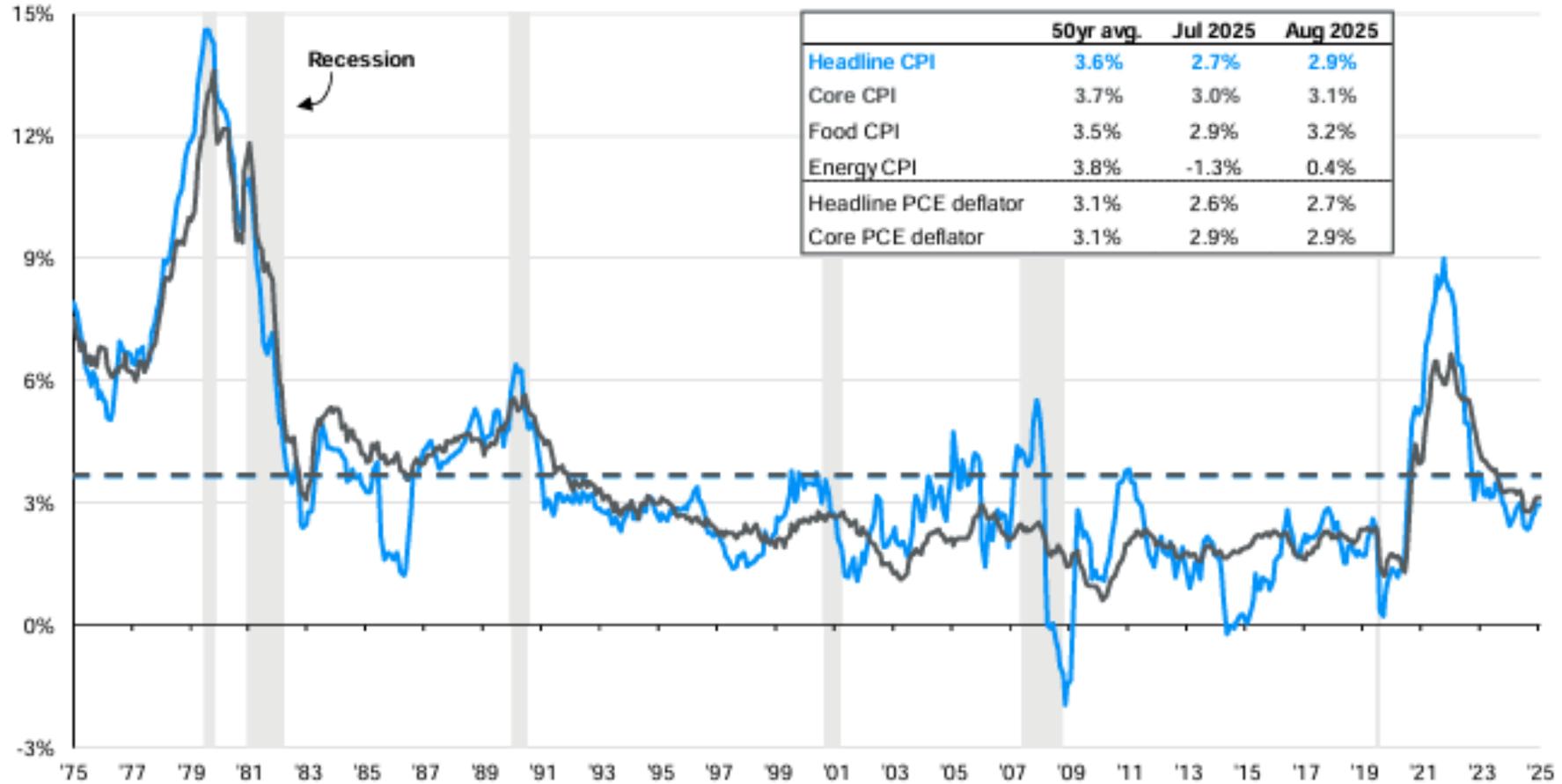


Source: AllianceBernstein; Bloomberg, Bureau of Economic Analysis, Jason Furman, LSEG Data & Analytics, Moody's Analytics and AB. 1H: first half; 2H: second half. As of December 31, 2025

Inflation

CPI and core CPI

% change vs. prior year, seasonally adjusted

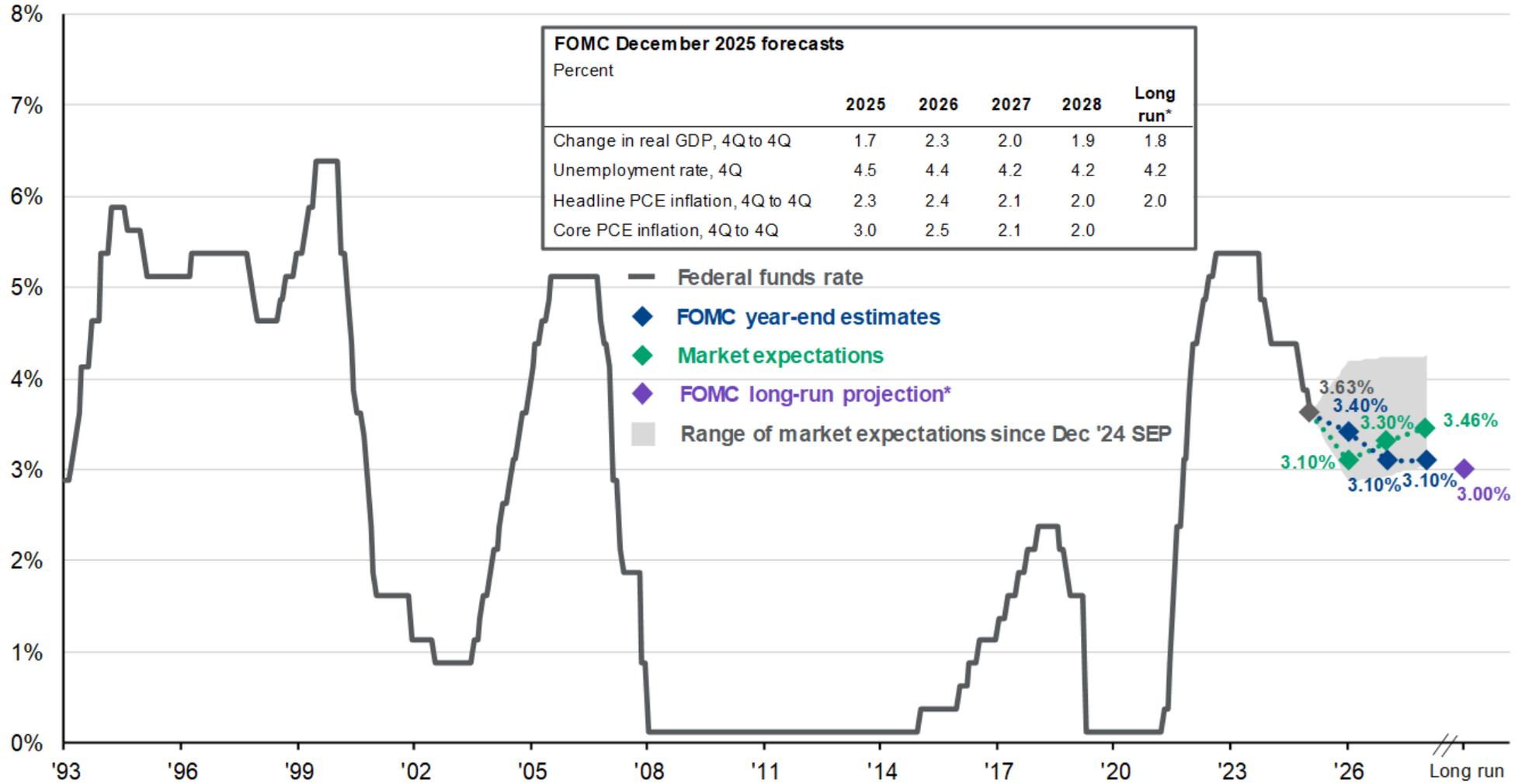


Source: BLS, FactSet, J.P. Morgan Asset Management. CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations. Data as of September 30, 2025.

The Fed & Interest Rates

Federal funds rate expectations

FOMC and market expectations for the federal funds rate

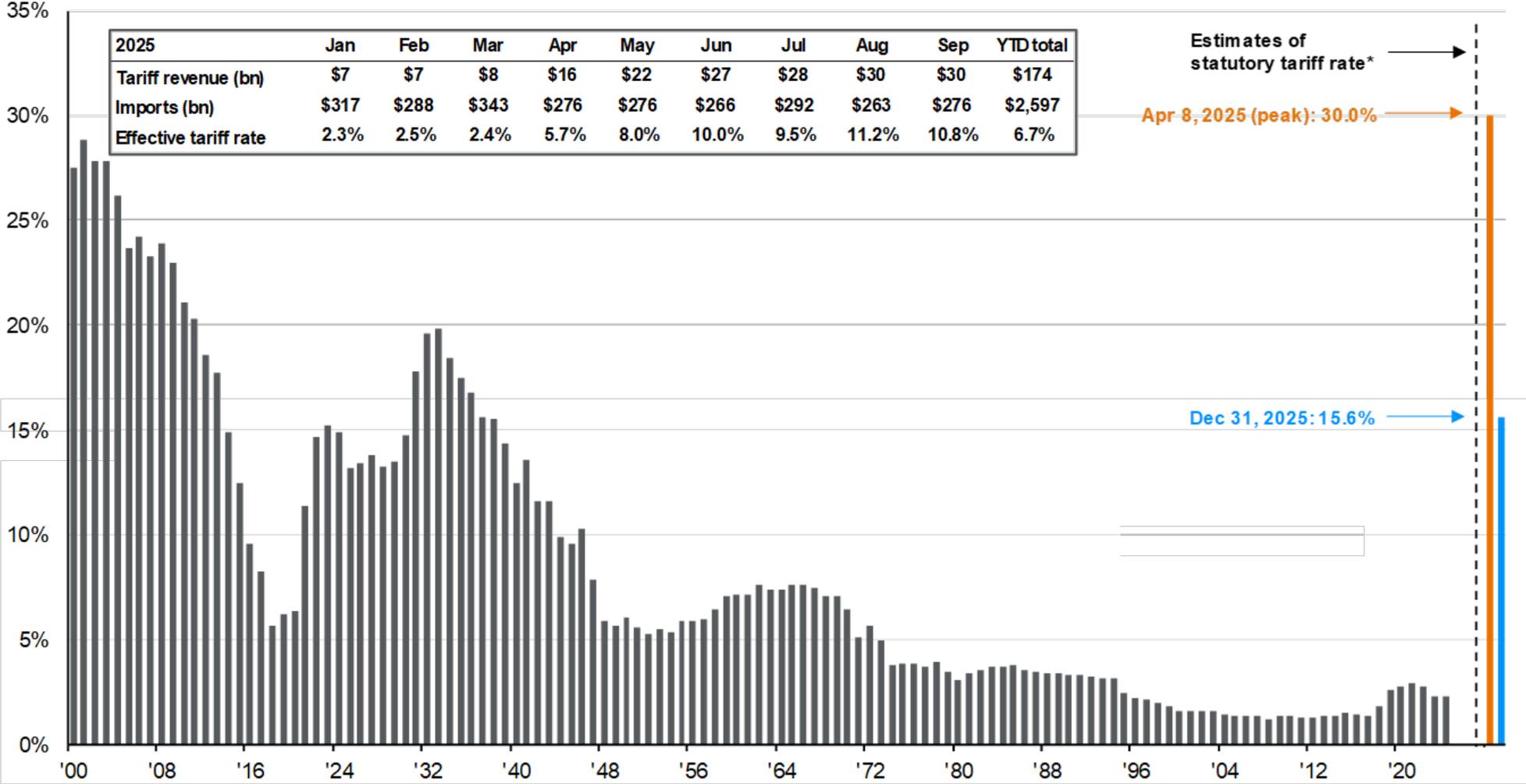


Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management. Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Data as of December 31, 2025.

Tariffs on U.S. Imports

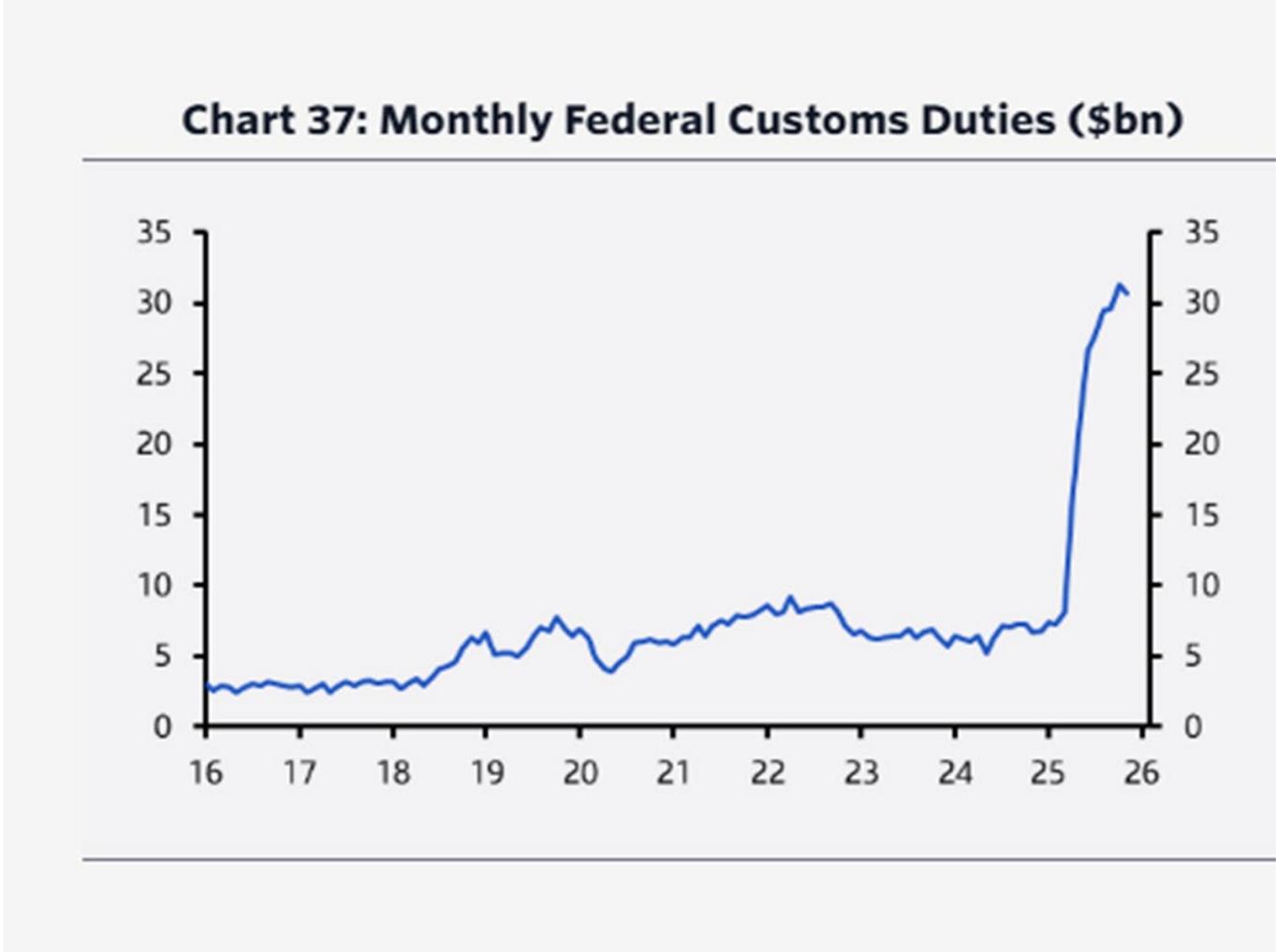
Average tariff rate on U.S. goods imports for consumption

Duties collected / value of total goods imports for consumption, 1900 - 2024



Source: U.S. Census Bureau, U.S. Department of Treasury, U.S. International Trade Commission, J.P. Morgan Asset Management. For illustrative purposes only. The estimated weighted average statutory U.S. tariff rate includes all tariffs that are currently in effect, not announced. Imports for consumption: goods brought into a country for direct use or sale in the domestic market. *Figures are based on 2024 import levels and assume no change in demand due to tariff increases. Tariff revenue shown are figures from the Monthly Treasury Statement. Import figures included in the table are from the U.S. Census Bureau. Estimates, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Data are as of December 31, 2025.

U.S. Customs Duties: Monthly Trends



Source: LSEG, Capital Economics. Data as of December 18, 2025.

Recap of 2025

What Changes Did We See in Tax Policy Last Year?



The Act

Individual & Trust Provisions

Topic	State Prior Act	Act
Section 199A – QBI	<ul style="list-style-type: none"> ○ 20% Deduction 	<ul style="list-style-type: none"> ○ Deduction made permanent with changes to phase in amounts
Estate & Gift Tax Exemption	<ul style="list-style-type: none"> ○ \$13.99M per individual, \$27.98M per couple 	<ul style="list-style-type: none"> ○ Increased to \$15 million per individual for 2026, indexed for inflation, and made permanent
Tax Rate Changes	<ul style="list-style-type: none"> ○ Individual & Trust Top Rate: 37% 	<ul style="list-style-type: none"> ○ TCJA rate changes made permanent
Excess Business Loss	<ul style="list-style-type: none"> ○ Total business losses may not exceed business income and business gains by more than limit in current year with excess carried forward as NOL – 2025 limit is \$313K (\$626K MFJ) 	<ul style="list-style-type: none"> ○ Made permanent with reduced thresholds – \$256K (\$512K MFJ)

The Act

Individual & Trust Provisions

**Trust deductions such as fiduciary, administrative, and investment expenses were not changed by the Act.

Topic	State Prior to Act	Act
Personal Exemptions, Deductions, & Limitations	<ul style="list-style-type: none"> ○ \$30,000 standard deduction (MFJ) ○ \$0 Personal exemptions ○ \$2,000 Child Tax Credit 	<ul style="list-style-type: none"> ○ Standard Deduction increased to \$31,500 for married individuals filing joint, \$23,625 for head of household, and \$15,750 for all others beginning in 2025 ○ Personal exemptions permanently eliminated ○ Child Tax Credit increased to \$2,200 from 2025 through 2028 ○ \$6,000 additional standard deduction for 65 & older, phases out starting at \$150,000 MFJ beginning in 2025 ○ Benefit of itemized deductions capped at 35% beginning in 2026 ○ New 0.5% floor on charitable contributions beginning in 2026
Mortgage Interest Deductibility	<ul style="list-style-type: none"> ○ \$750,000 threshold (\$375,000 MFS) ○ No deduction for home equity interest 	<ul style="list-style-type: none"> ○ \$750,000 threshold and elimination of home equity interest deduction made permanent
Miscellaneous Itemized Deductions	<ul style="list-style-type: none"> ○ Nondeductible 	<ul style="list-style-type: none"> ○ Permanently eliminated

The Act

ADDITIONAL TEMPORARY PROVISIONS

SALT Cap & PTET – 2025–2029

- Temporarily raises the SALT cap to \$40K in 2025, with 1% increase from 2026–2029
- Phaseouts for those with modified adjusted gross income above \$500,000 in 2025, with 1% increase from 2026–2029

No Tax on Qualified Tips – 2025–2028

- Maximum deduction of \$25K with phase out starting at \$150K (\$300K MFJ)

No Tax on Overtime – 2025–2028

- Maximum deduction of \$12,500 (\$25K MFJ) with phase out starting at \$150K (\$300K MFJ)

Senior Deduction – 2025–2028

- Individuals 65 and older will get federal income tax deduction for 2025 through 2028
- Maximum deduction of \$6,000 (\$12,000 for MFJ) with phase out starting at \$75K (\$150K MFJ)

No Tax on Car Loan Interest – 2025–2028

- Must be a new car acquired after December 31, 2024 with final assembly in U.S.
- Maximum deduction of \$10K with phase our starting at \$100K (\$200K MFJ)

Recap of 2025

How Did Markets Perform Last Year?



Market Scorecard as of December 31, 2025

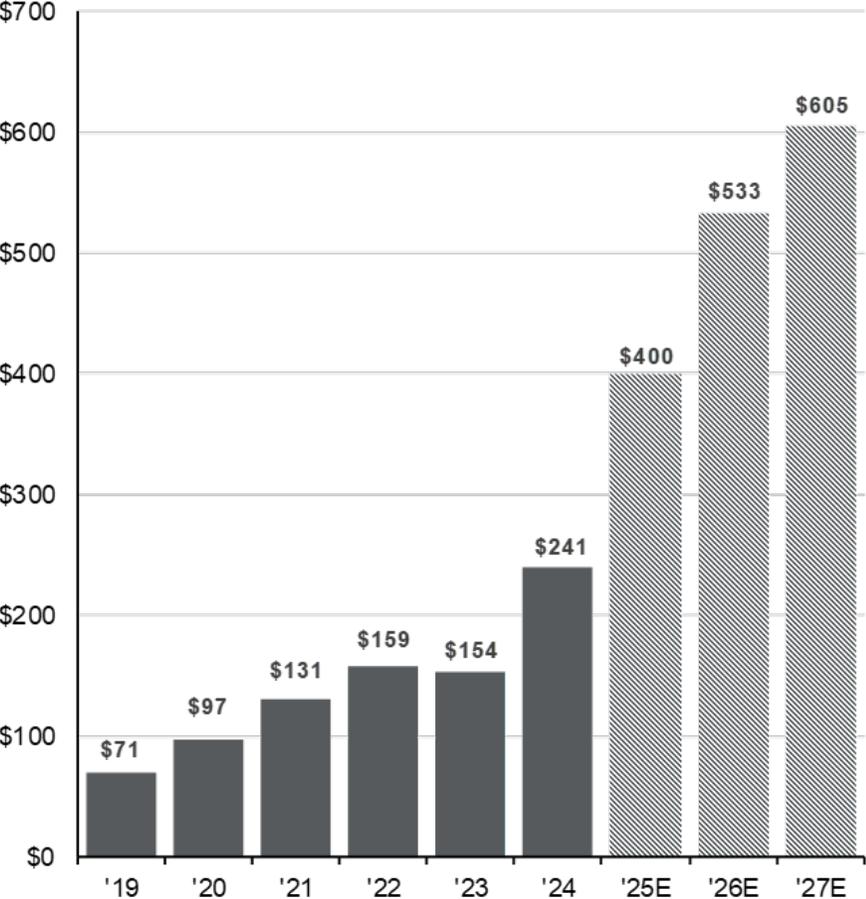
<u>Index</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>
S&P 500	17.88%	25.02%	26.29%
Russell 2000	12.81%	11.54%	16.93%
MSCI EAFE	31.22%	3.82%	18.24%
MSCI Emerging Markets	33.57%	7.50%	9.83%
Bloomberg US Aggregate	7.30%	1.25%	5.53%
Bloomberg Municipal Bond	4.25%	1.05%	6.40%

Time Period: 1/1/2025 to 12/31/2025

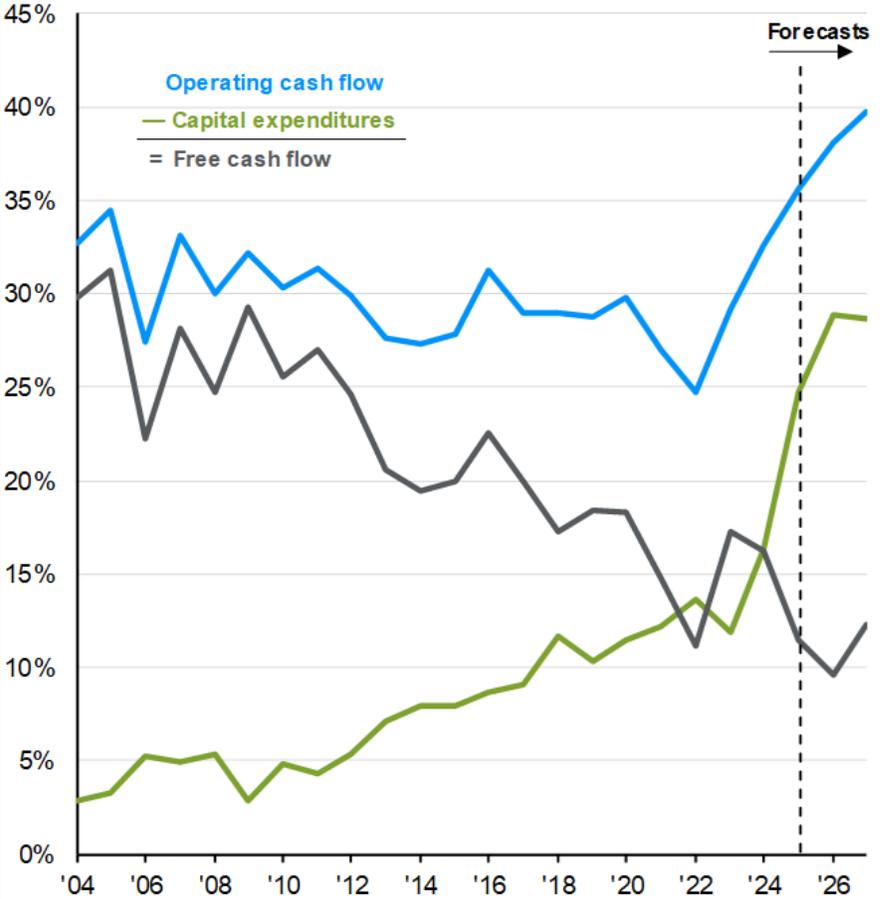
Source Data: Morningstar Direct Advisory Suite.

Artificial Intelligence: Hyperscaler Investment

Capex from the major AI hyperscalers*
 USD billions; Alphabet, Amazon, Meta, Microsoft, Oracle



Hyperscalers' cash flow and capex
 % of sales

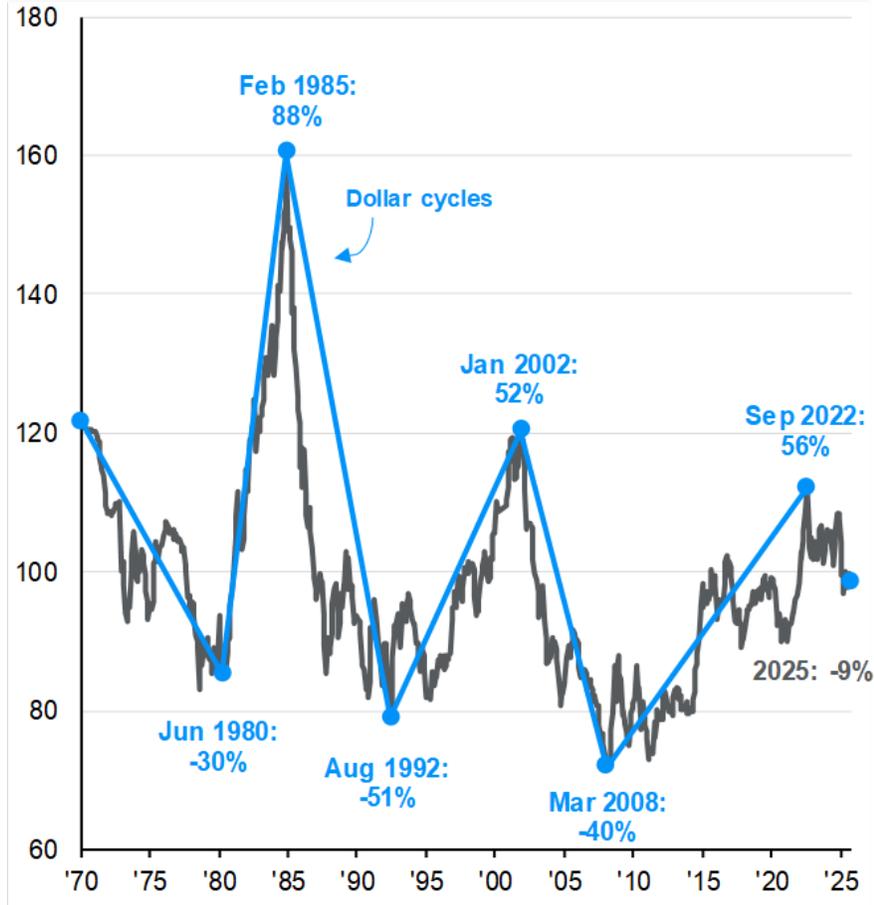


Source: Bloomberg, J.P. Morgan Asset Management. Data for 2025, 2026 and 2027 reflect consensus estimates. Capex shown is company total. *Hyperscalers are the large cloud computing companies that own and operate data centers with horizontally linked servers that, along with cooling and data storage capabilities, enable them to house and operate AI workloads. Data as of December 31, 2025.

Dollar Drivers

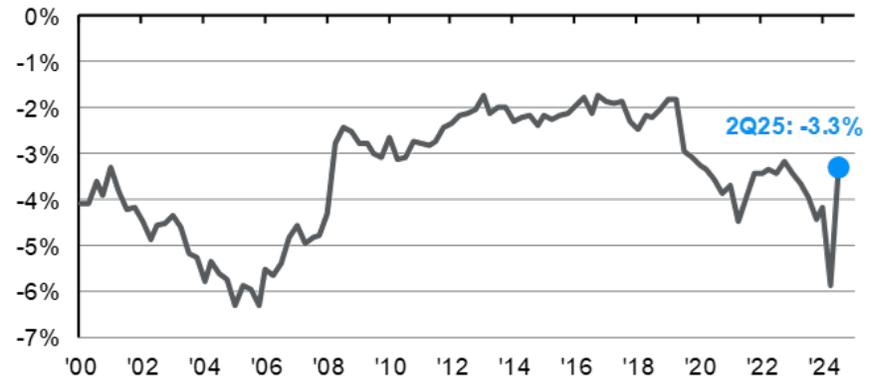
The U.S. dollar

DEX Index, level



The U.S. trade balance

Current account balance, % of GDP



Developed markets interest rate differentials

Difference between U.S. and international 2-year yields*



Source: Bloomberg, FactSet, J.P. Morgan Asset Management; (Left) ICE; (Top right) BEA; (Bottom right) BIS. Currencies in the DXY Index are: British pound, Canadian dollar, euro, Japanese yen, Swedish krona and Swiss franc. *Interest rate differential is the difference between the 10-year U.S. Treasury yield and a basket of the 10-year yields of each major trading partner (Australia, Canada, eurozone, Japan, Sweden, Switzerland and UK). Weights in the basket are calculated using the 10-year average of total government bonds outstanding in each region. Data are as of December 31, 2025.

Recap of 2025

What Changes Did Families Make Last Year?



Outlook for 2026

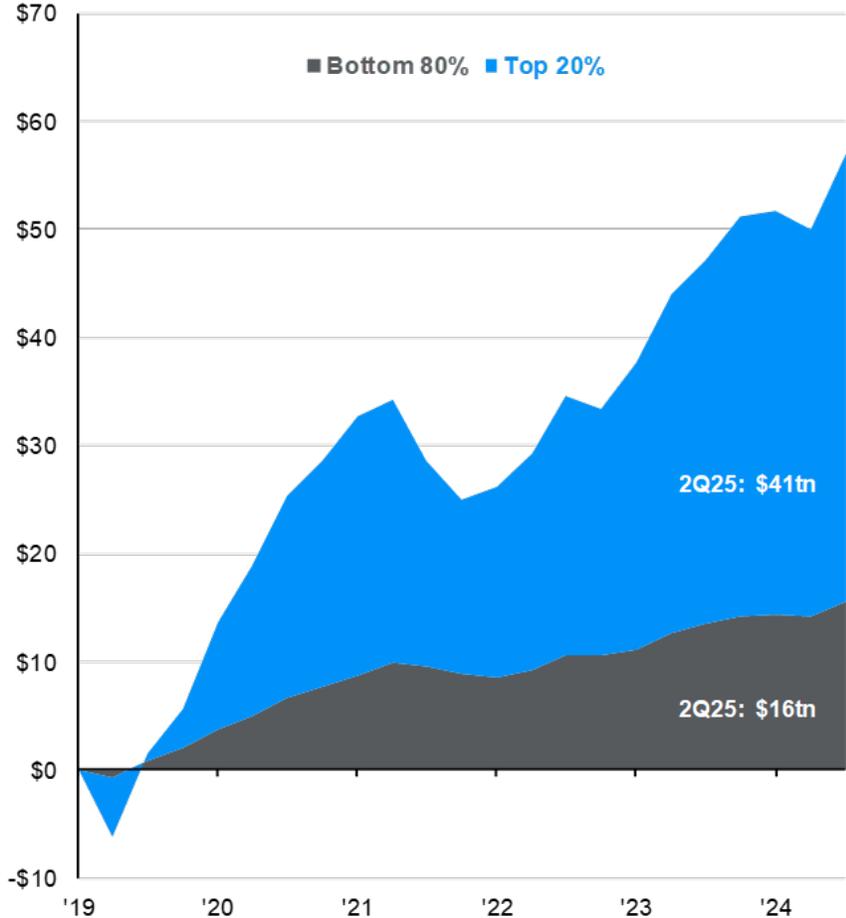
What Will Drive the Economy in 2026?



Drivers of Consumer Spending

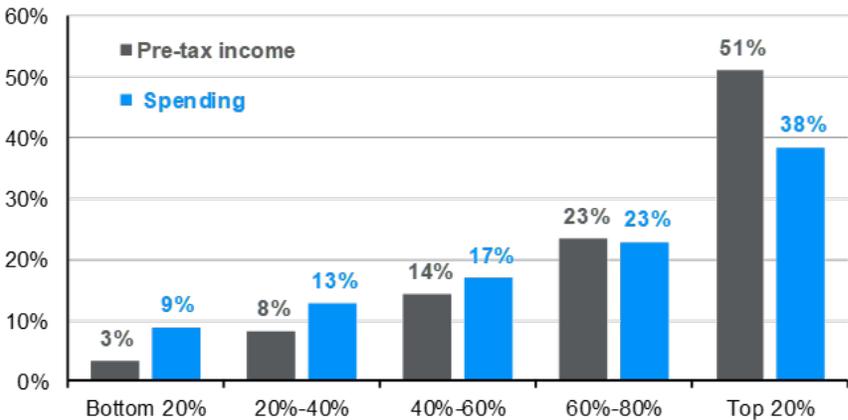
Net worth growth by income cohort

Cumulative growth from 4Q19, by pre-tax income cohort, USD trillions



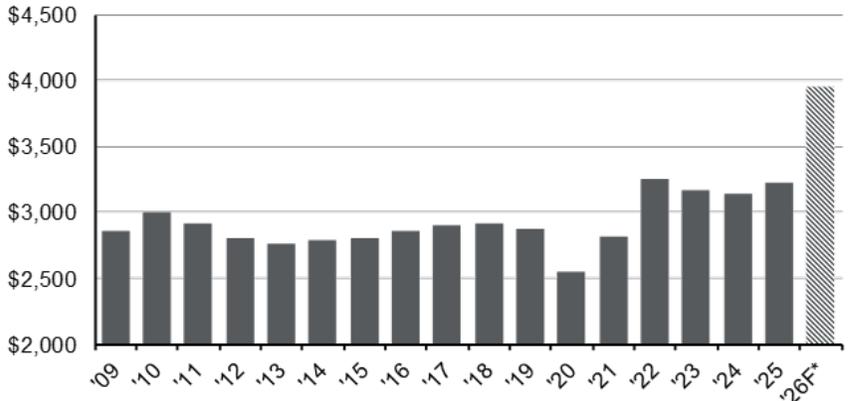
Consumer share of total pre-tax income and spending

By pre-tax income cohort, 2024



Average income tax refund by filing year

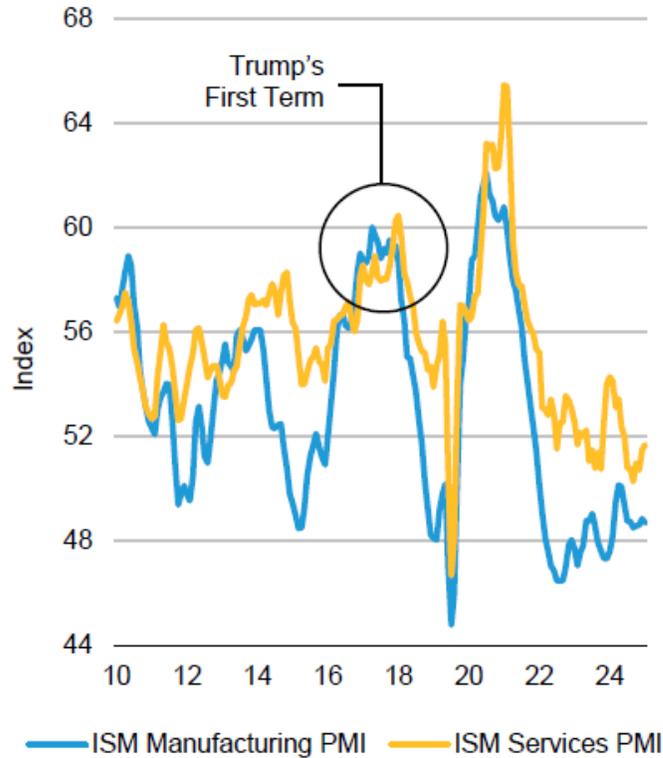
2009 - 2026F*



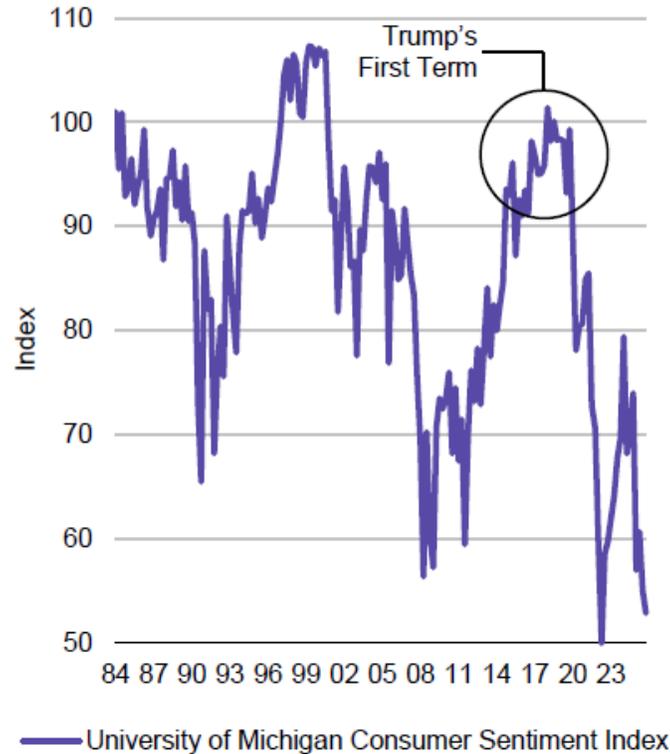
Source: J.P. Morgan Asset Management; (Left) Federal Reserve; (Top right) BLS; (Bottom right) IRS. (Left) Data sourced from the 2024 Consumer Expenditure Survey. (Top right) Data sourced from the Federal Reserve's Distributional Financial Accounts report. (Bottom right) *2026 figure is a J.P. Morgan Asset Management forecast. Data as of December 31, 2025.

Economic Confidence

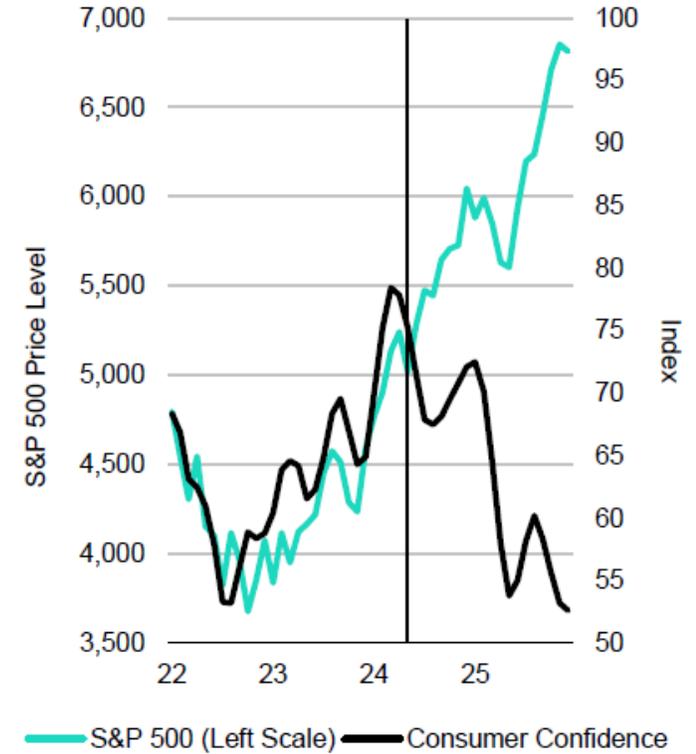
Business Confidence* Remains Persistently Low



Consumer Confidence Remains Persistently Low

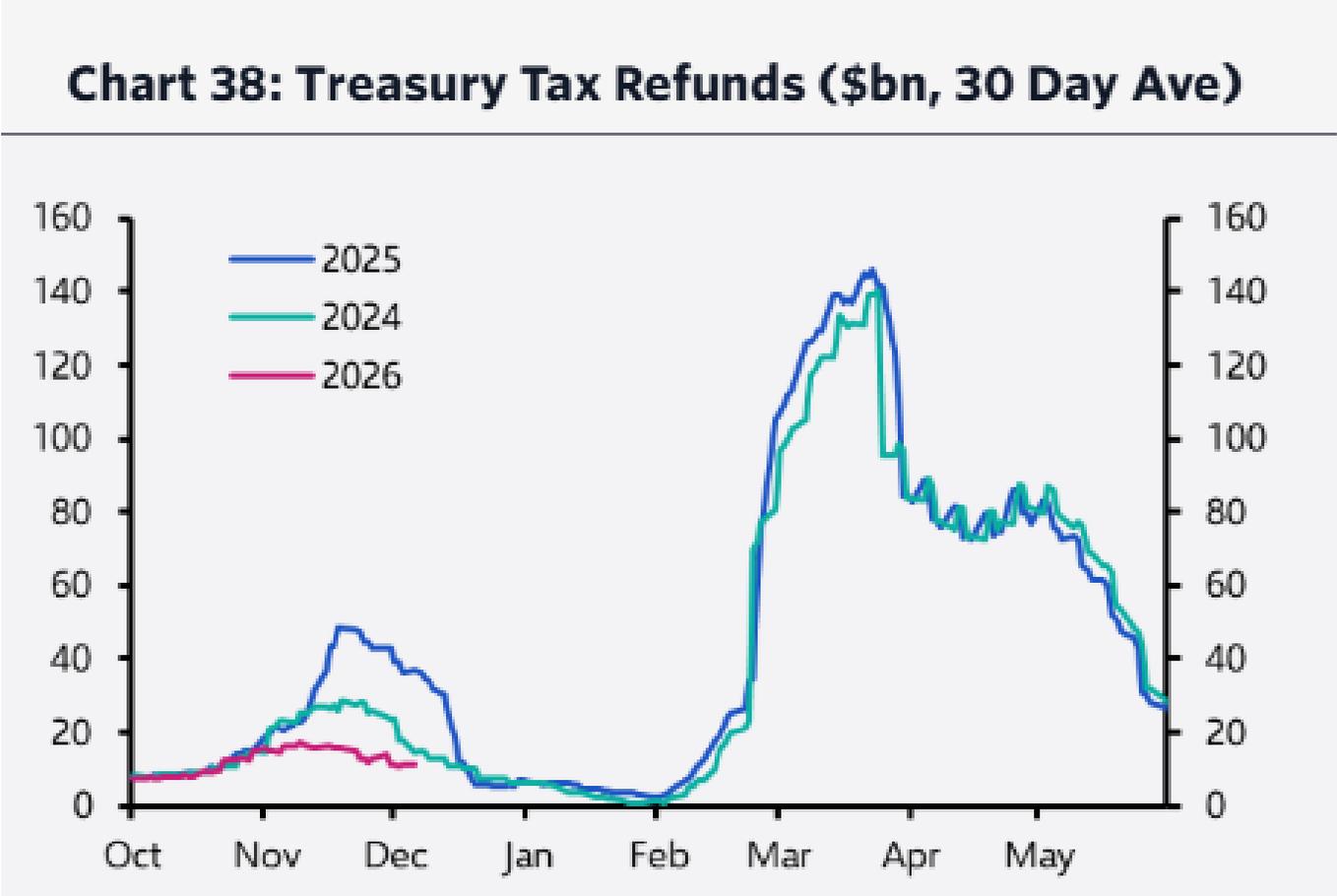


The “K-Shaped” Economy The gap is wide and getting wider



Source: Alliance Bernstein; Bloomberg, Institute for Supply Management, LSEG Data & Analytics, S&P, University of Michigan and AB. As of December 31, 2025
*Rolling three-month average

Seasonal Patterns in Treasury Tax Refunds

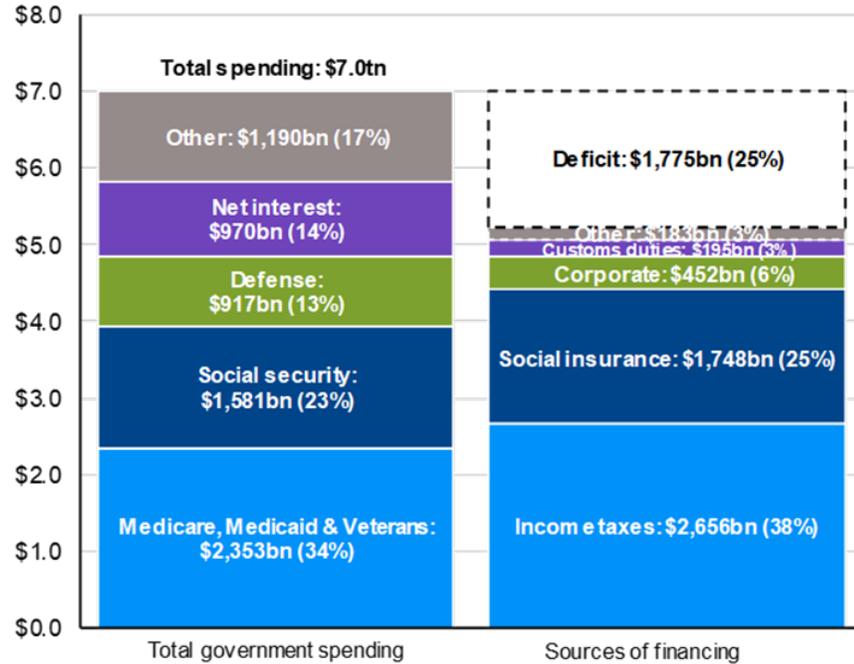


Source: LSEG, CBO, NY Fed, Federal Reserve, Capital Economics. Data as of December 18, 2025.

Federal Finances

The 2025 federal budget

USD trillions

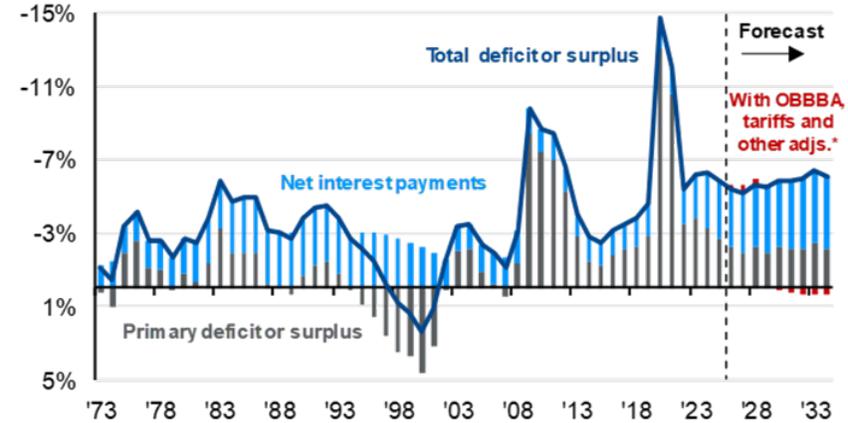


CBO's Baseline economic assumptions

	2025	'26-'27	'28-'29	'30-'35
Real GDP growth	2.2%	1.8%	1.8%	1.8%
10-year Treasury	4.1%	3.9%	3.9%	3.8%
Headline inflation (CPI)	2.3%	2.4%	2.3%	2.2%
Unemployment	4.2%	4.4%	4.4%	4.4%

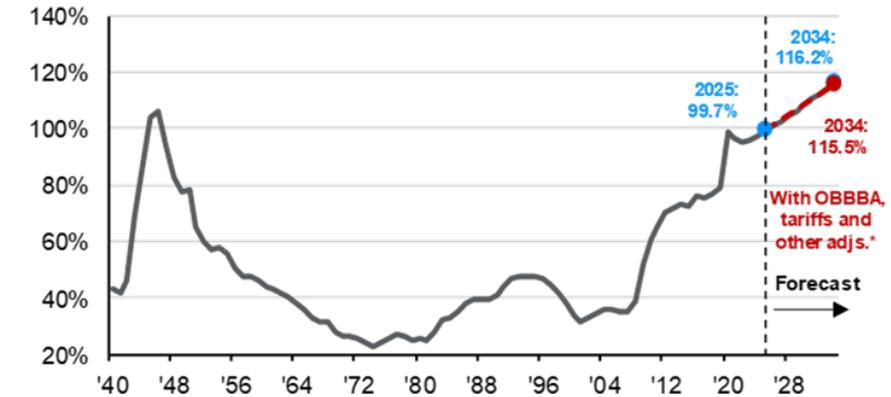
Federal deficit and net interest payments

% of GDP, 1973 - 2034, CBO Baseline Forecast



Federal net debt (accumulated deficits)

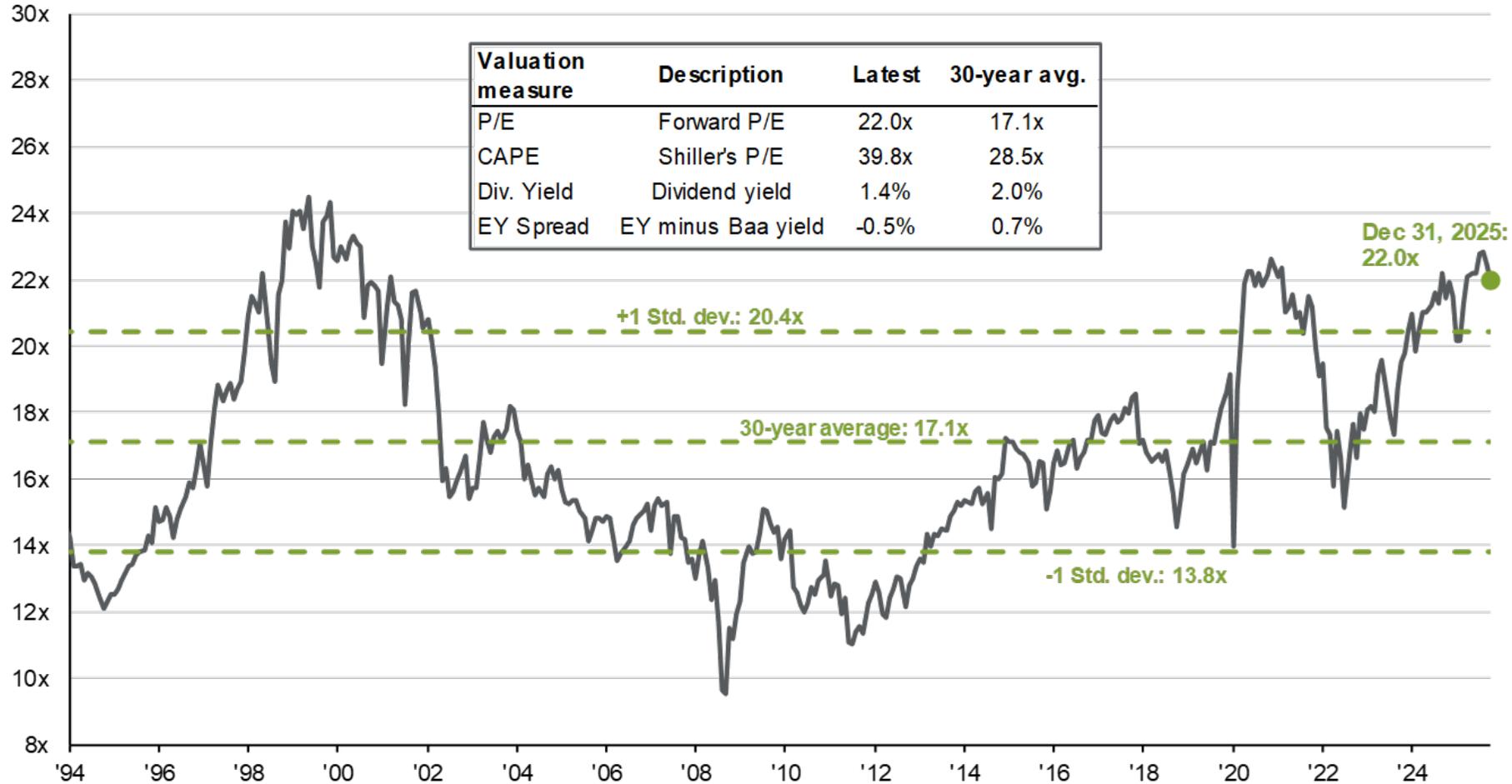
% of GDP, 1940 - 2034, CBO Baseline Forecast, end of fiscal year



Source: CBO, Treasury Department, J.P. Morgan Asset Management; (Left) Reflects actual FY 2025 government receipts and outlays based on data sourced from the Treasury Department. Numbers may not sum to 100% due to rounding; (Top and bottom right) BEA. Estimates are from the Congressional Budget Office (CBO) January 2025 An Update to the Budget Outlook: 2025 to 2035. "Other" spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Years shown are fiscal years. OBBBA refers to the "One Big Beautiful Bill Act." *Adjusted by JPMAM to include estimates from the CBO July 2025 report "Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline." Figures are also adjusted to include JPMAM estimates of tariff revenues and the estimated cost of extending expiring tax cuts beyond 2028, based on CBO August 2025 report "Effects on Deficits and the Debt of Public Law 119-21 and of Making Certain Tax Policies in the Act Permanent." Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Data as of December 31, 2025.

S&P 500 Valuation Measures

S&P 500 index: Forward P/E ratio

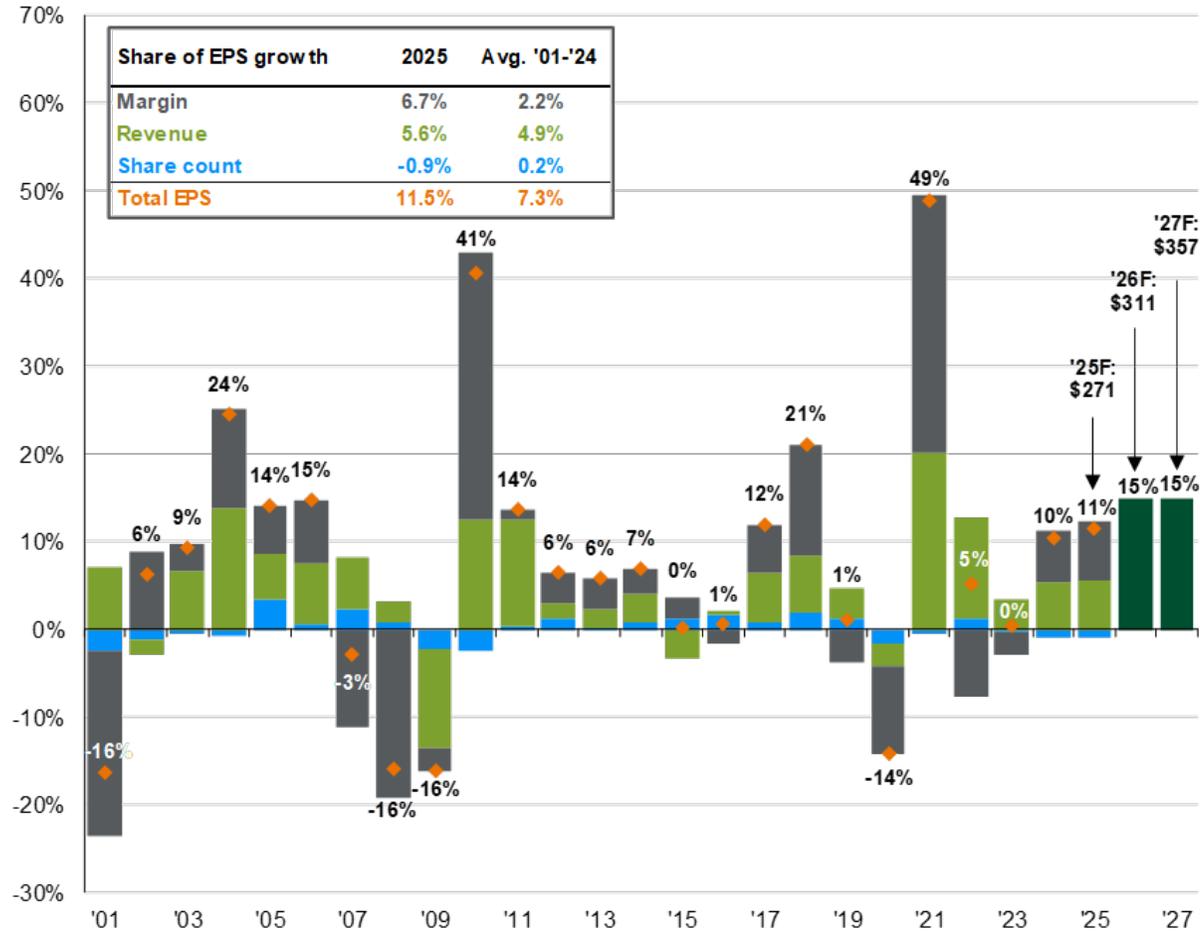


Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since March 1994 and by FactSet since January 2022. Average P/E and standard deviations are calculated using 30 years of history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Bloomberg US corporate Baa yield since December 2008 and interpolated using the Moody's Baa seasoned corporate bond yield for values beforehand. Std. dev. over-/under-valued is calculated using the average and standard deviation over 30 years for each measure. *Averages and standard deviations for dividend yield and P/CF are since November 1995 due to data availability. Data as of December 31, 2025.

Sources of Earnings Growth & Profit Margins

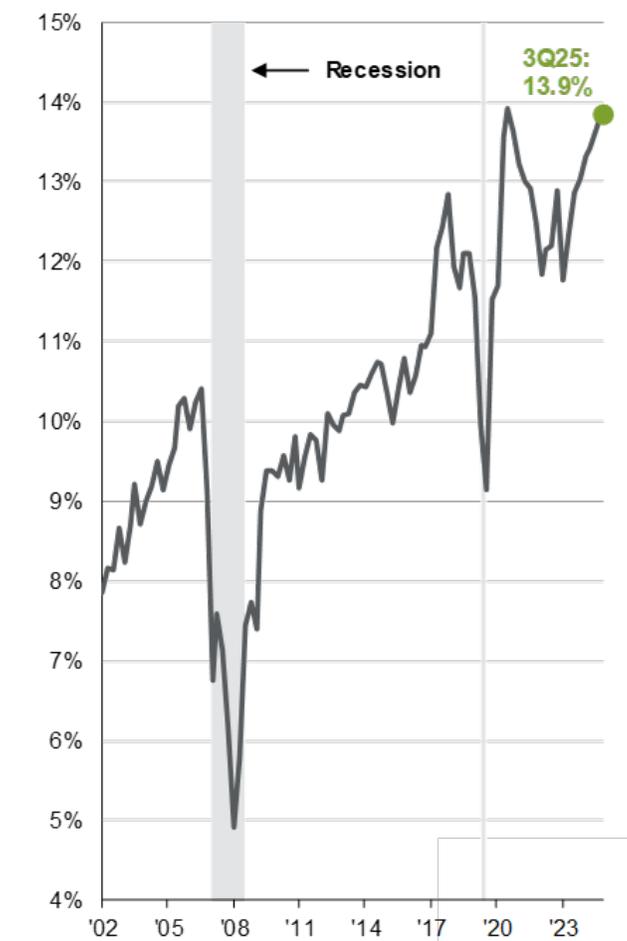
S&P 500 EPS growth

Year-over-year growth broken into changes in revenue, profit margin and share count



S&P 500 profit margins

Quarterly earnings/sales

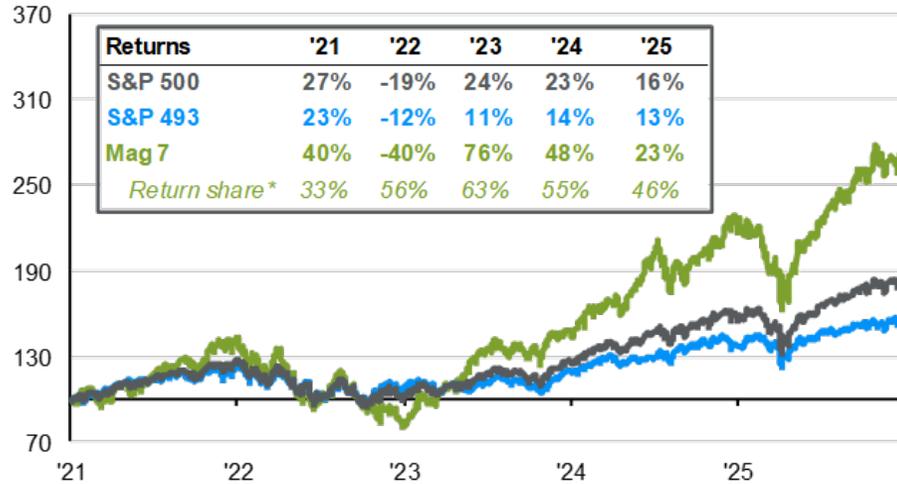


Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management. Historical EPS levels are based on annual pro-forma earnings per share. *2025, 2026 and 2027 EPS growth are based on consensus analyst estimates for each calendar year. Past performance is not indicative of future returns. Data as of December 31, 2025.

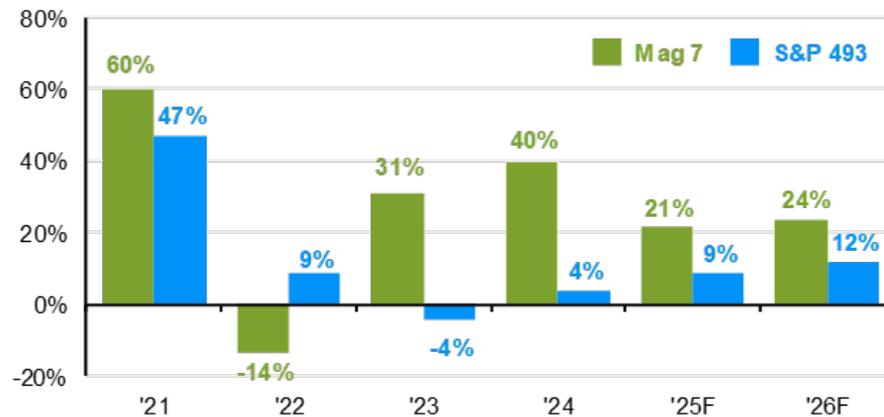
Magnificent 7 Performance & Earnings Dynamics

Magnificent 7 performance in the S&P 500

Indexed to 100 on 1/1/2021, price return

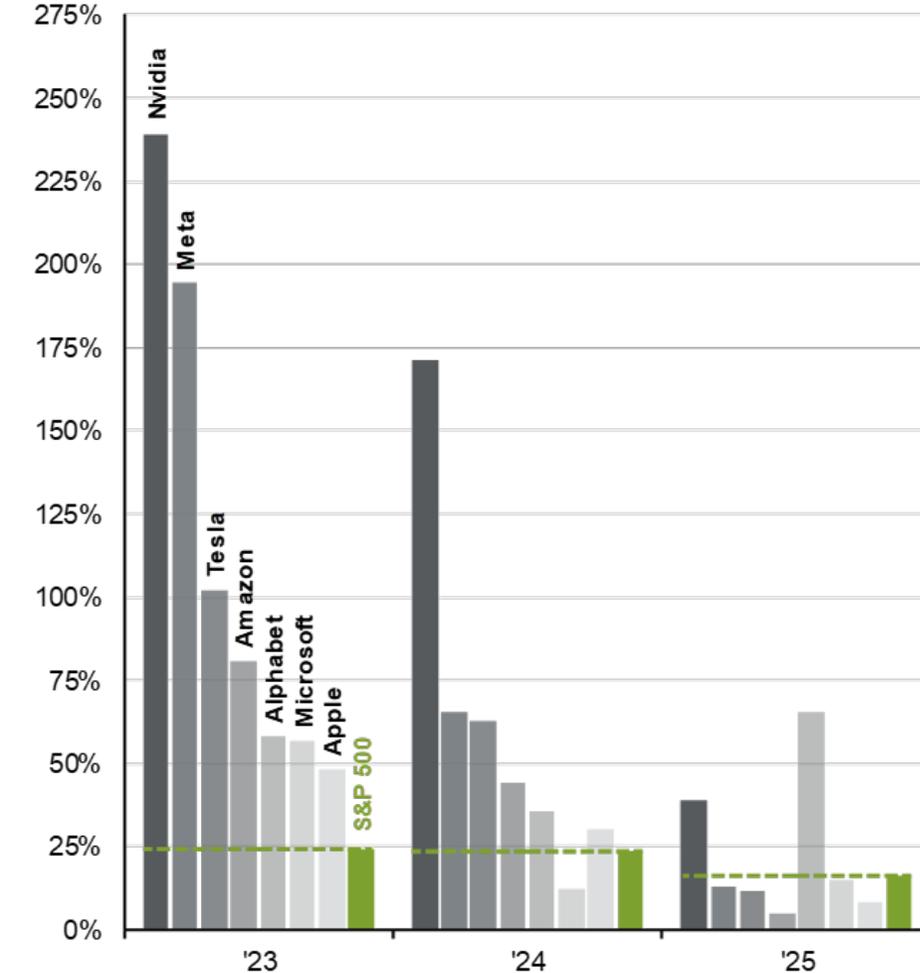


Year-over-year earnings growth



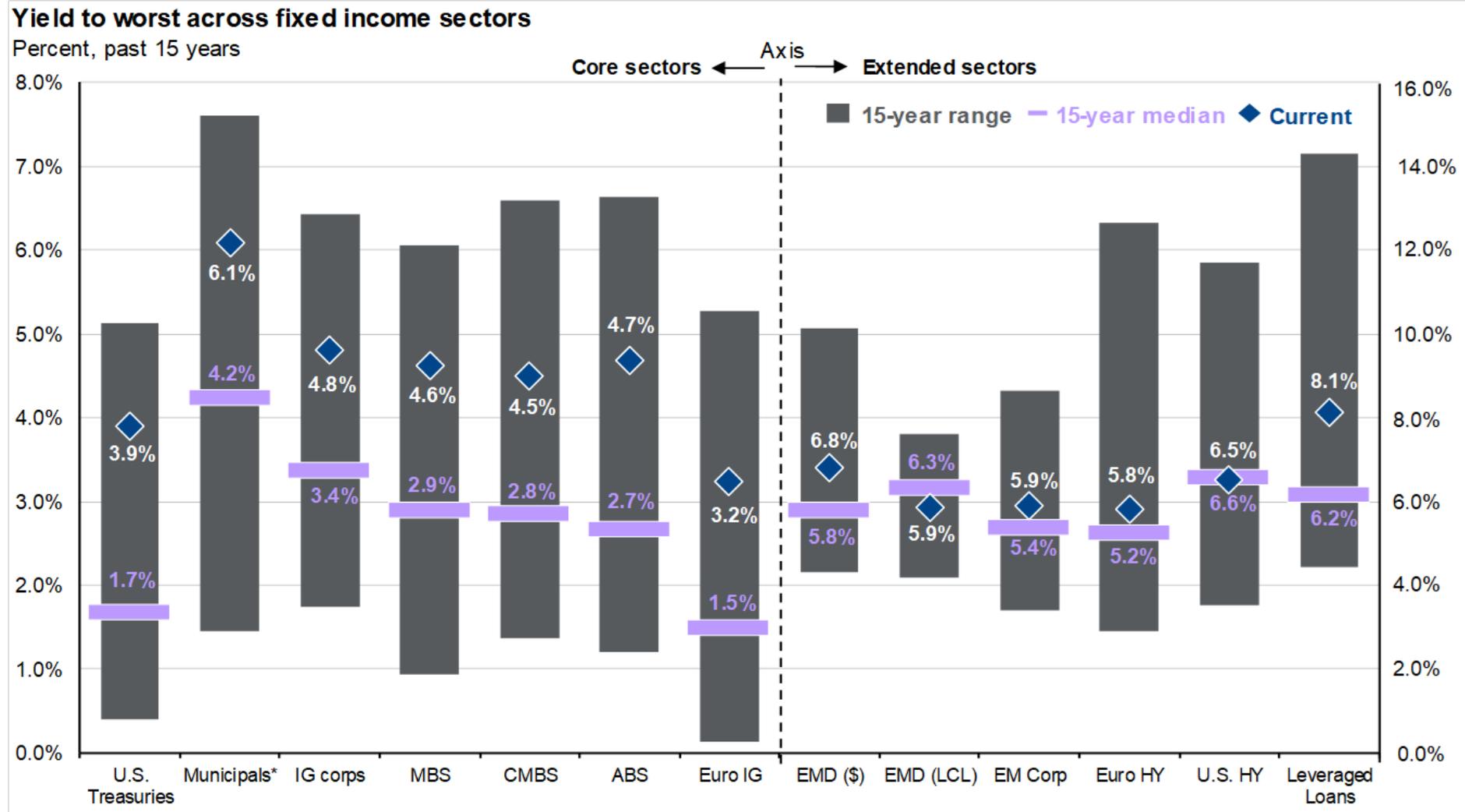
Magnificent 7 performance dispersion

Price return



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. *Magnificent 7 includes AAPL, AMZN, GOOG, GOOGL, META, MSFT, NVDA and TSLA. Earnings estimates for 2025 are forecasts based on consensus analyst expectations. **Share of returns represent how much each group contributed to the overall return. Numbers are always positive despite negative performance in 2022. Data as of December 31, 2025

Fixed Income Yields



Source: Bloomberg, FactSet, J.P. Morgan Credit Research, J.P. Morgan Asset Management. Indices used are Bloomberg except for ABS, emerging market debt and leveraged loans: ABS: J.P. Morgan ABS Index; CMBS: Bloomberg Investment Grade CMBS Index; EMD (USD): J.P. Morgan EMIGLOBAL Diversified Index; EMD (LCL): J.P. Morgan GBI-EM Global Diversified Index; EM Corp.: J.P. Morgan CEMBI Broad Diversified; Leveraged Loans: JPM Leveraged Loan Index; Euro IG: Bloomberg Euro Aggregate Corporate Index; Euro HY: Bloomberg Pan-European High Yield Index. Yield-to-worst is the lowest possible yield that can be received on a bond apart from the company defaulting and considers factors like call provisions, prepayments and other features that may affect the bonds' cash flows. *All sectors shown are yield-to-worst except for Municipals, which is based on the tax-equivalent yield-to-worst assuming a top-income tax bracket rate of 37% plus a Medicare tax rate of 3.8%. **Sectors shown may not exactly match all sectors represented in the Bloomberg U.S. Aggregate Index. Sector level weights are shown, and index constituents may not match. Data as of December 31, 2025.

Outlook for 2026

What Planning Opportunities Should Families Consider in 2026?



Planning Points Considerations Going Into 2026 ...



While many planning points exist, key impact items to consider for 2026 are:

- Estate and gift planning
- Charitable contribution “floor” and itemized deduction planning
- Section 1202, succession, and exit strategies
- 100% Bonus Depreciation & Qualified Production Property deduction
- Opportunity Zones
- State income tax planning
- State conformity considerations
- Business activity impacts
- The new year– trends, guidance changes, and more

Planning Points

The New Year— Trends, Guidance Changes, and More

Planning for the future – second tax bill? Possible provisions could include ...

Relief Provisions

- Enhanced ACA premium tax credit
- 23% Section 199A QBI deduction
- Additional HSA expansions
- Expanded child tax credit
- Digital asset taxation
- Capital gain exclusion for home sales
- Retirement savings incentives (Secure 3.0)

OB3 Provisions – Revisit

- 90% limitation on deduction of wagering losses
- Individual and corporate charitable contribution deduction floors
- Extension of temporary OBBBA provisions such as No Tax on Tips
- Technical corrections

Outlook for 2026

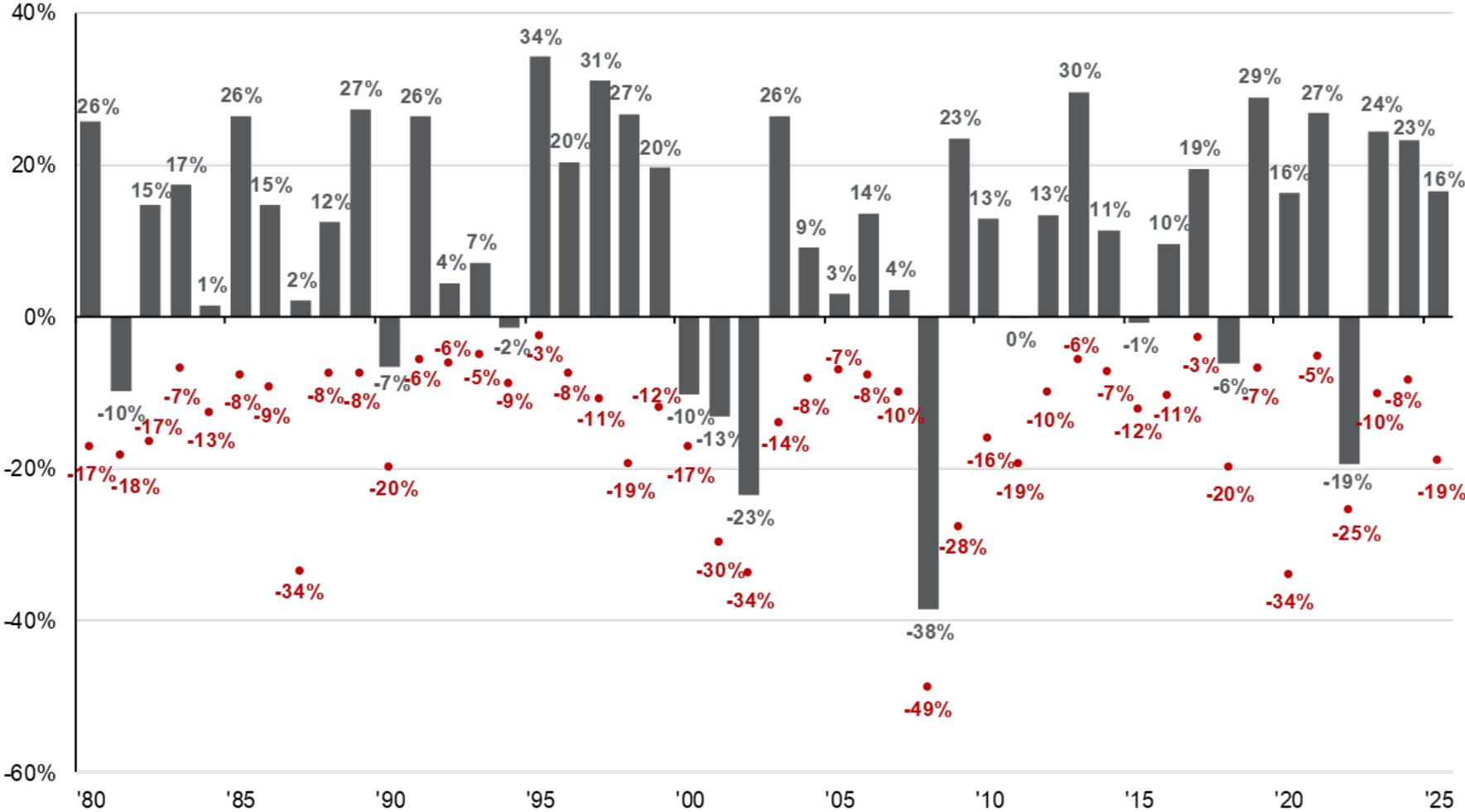
What Should Investors Be Doing in 2026?



Annual Returns & Intra-Year Declines

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 35 of 46 years

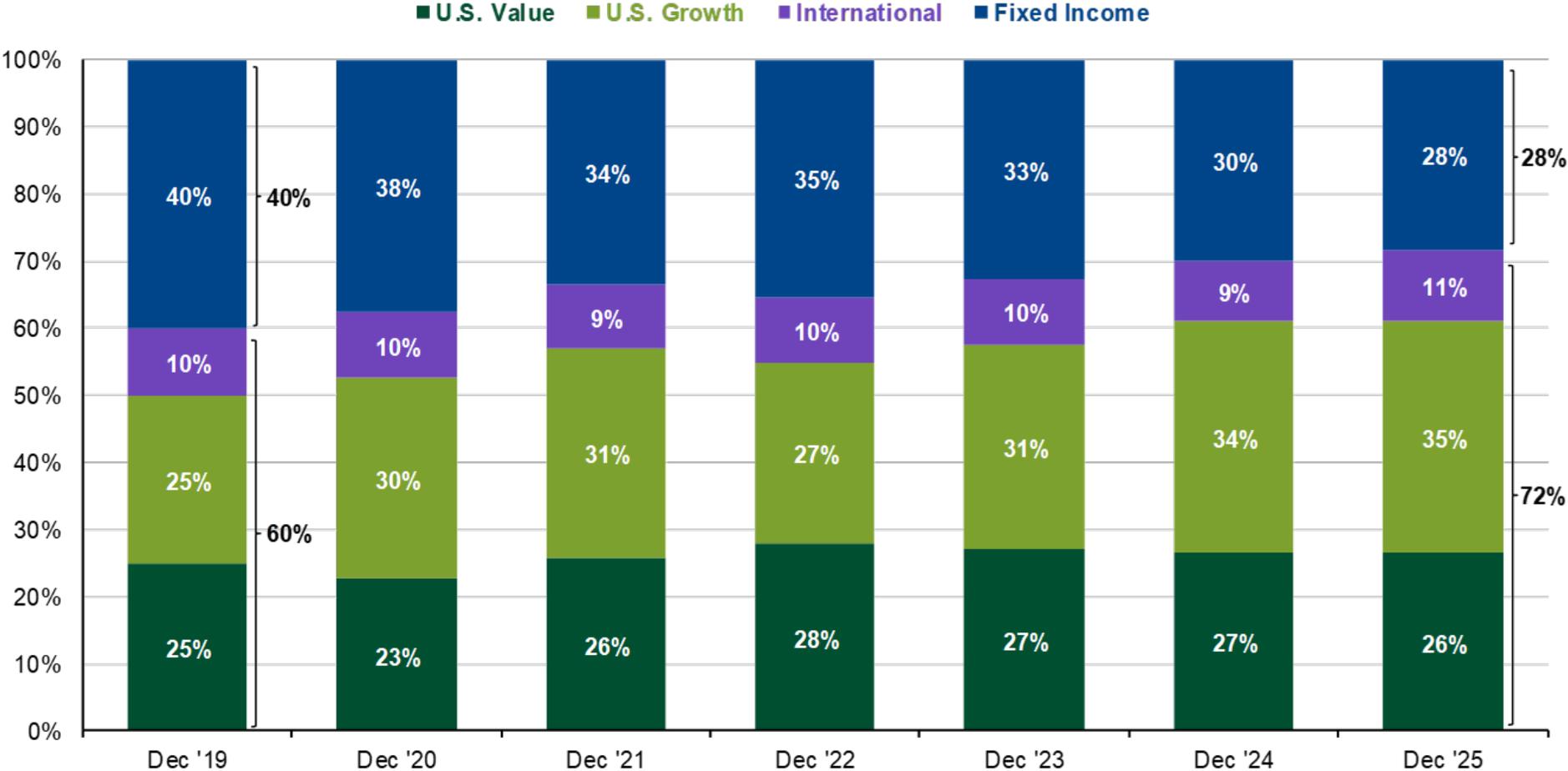


Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2024, over which time period the average annual return was 10.6%. Data as of December 31, 2025.

60/40 Portfolio Drift

60/40 portfolio composition by asset class

December 31, 2019 - present, no rebalancing

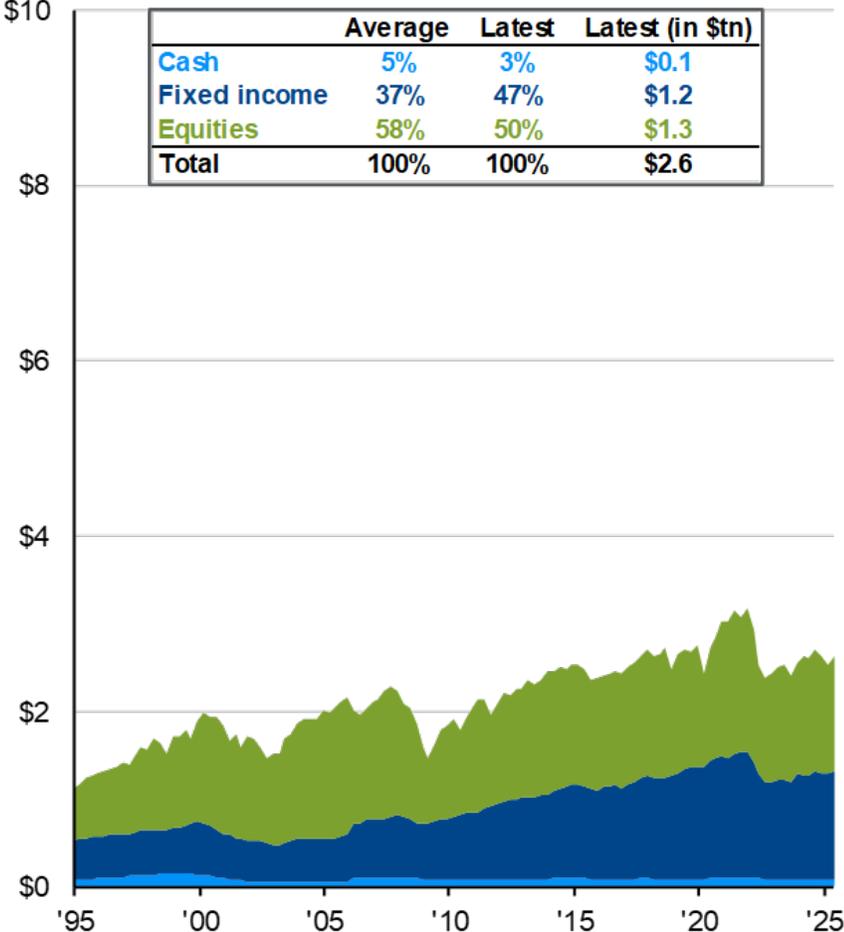


Source: Bloomberg, FactSet, MSCI, Russell, Standard & Poor's, J.P. Morgan Asset Management. Standard asset allocation at the end of 2019 assumes 60% weight to global equities and 40% to U.S. fixed income. U.S. Value: Equal-weighted Russell 1000 Value and Russell 2000 Value, U.S. Growth: Equal-weighted Russell 1000 Growth and Russell 2000 Growth, International: MSCI ACWI ex-US, Fixed Income: 10% Bloomberg Global HY Index and 30% Bloomberg U.S. Aggregate. Past performance is no guarantee of future results. Data as of December 31, 2025.

Asset Allocation in Retirement Funds

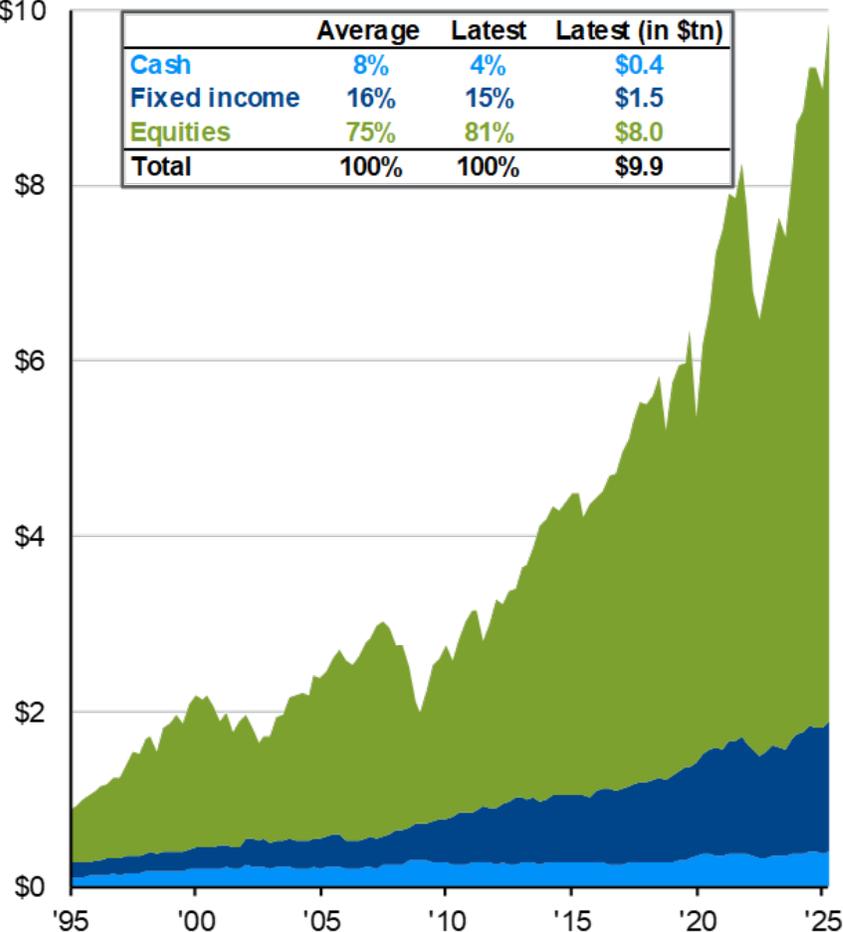
Private defined benefit plans

Portfolio weights and values (USD trillions), 1Q95 - 2Q25



Private defined contribution plans

Portfolio weights and values (USD trillions), 1Q95 - 2Q25



Source: Federal Reserve, Investment Company Institute, J.P. Morgan Asset Management. Data represent only investible assets sourced from the L.118 table of the Z.1 Financial Accounts of the United States. Miscellaneous assets are excluded, as they primarily represent accounting entries for unfunded liabilities and contributions receivable rather than investible holdings. For private defined benefit (DB) plans, mutual fund assets have limited allocation data and are a relatively small share of total assets. As a result, these mutual fund assets are assumed to have the same allocation as the broader portfolios. For private defined contribution (DC) plans, where mutual fund shares constitute a majority of total assets, allocation across broad asset classes is based on data tracked by the Investment Company Institute. Data as of December 31, 2025.

Contact

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Thank You!

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