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2025



QUARTERLY REPORT

ACM WEALTH

ADVISORS CAPITAL MANAGEMENT

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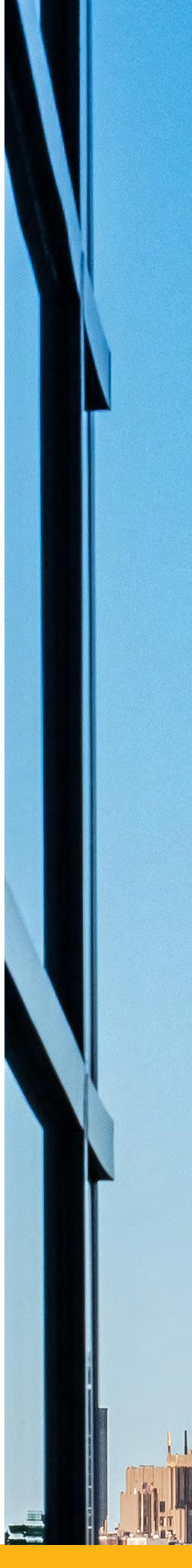


Investment Team

The Advisors Capital Investment Committee (IC) comprises Portfolio Managers (PMs), analysts, and members of the firm's trading department. The IC takes a collaborative approach to the due diligence process in approving any security added to an investment strategy. While Portfolio Managers are individually responsible for the day-to-day management of their portfolios, the IC provides oversight, rules and guidelines for each strategy.

Our Investment Committee is designed to maintain rigor, discipline and oversight of the investment process. The role of the IC is to consider, question and challenge the PM's recommendations before voting on whether to include or drop securities from a strategy's portfolio.



Dr. Charles Lieberman
Chief Investment Officer



Dr. JoAnne Feeney
Partner & Portfolio Manager



David Lieberman, M.B.A.
Partner & Director of Investment Research



Kevin Strauss, CFA®
Partner & Portfolio Manager



David L. Ruff, CFA®
Partner & Portfolio Manager



Paul Broughton, CFA®
Portfolio Manager



Kevin Kelly
Partner & Portfolio Manager



Randall T. Coleman, CFA®
Portfolio Manager



Gus Scacco, M.B.A.
Portfolio Manager

Macroeconomic Overview

Solid Prospects for 2026

By Dr. Charles Lieberman, Chief Investment Officer

Key Takeaways

- Slower job growth reflects labor supply constraints, not economic weakness, and remains consistent with steady GDP expansion.
- AI driven productivity gains may help offset wage pressures, keeping inflation and interest rates relatively contained.
- Strong corporate profits and stable rates create a favorable backdrop for equities heading into 2026.

A Stable but Unusual Economic Backdrop

Job growth decelerated sharply in 2025 compared to prior years, but it remains quite solid relative to growth in the labor force. Inflation remains a bit above the Federal Reserve's (the Fed's) 2% target, but productivity gains from Artificial Intelligence (AI) could potentially bring it down, even as the tight labor market threatens to push it higher. Thus, the outlook for inflation remains uncertain, and these competing forces could result in a stalemate. Nonetheless, it is clear that corporate profits are performing very well, while interest rates are fluctuating, but only narrowly. This is a very satisfactory combination, auguring more gains in the equity market, while bond investors could earn their coupons.

Job Growth in Context

It is common for critics to disparage the economy's performance by pointing out that job growth averaged a mere 49,000 monthly in 2025, after averaging 168,000 new jobs in 2024. However, 2024's performance is not a suitable basis for comparison. The borders were wide open for much of President Biden's term and millions of job-hungry immigrants came in to look for work. They readily found job opportunities, and domestic growth surged. Once the border closed and some immigrants were sent back home, domestic business was forced to rely largely on native job seekers. Demographically, our domestically sourced workforce is growing about 50,000 monthly, give or take as much as 25,000, so actual job growth in 2025 was in rough alignment with labor force growth. It is hard to be more precise, as yet, since estimates for growth of the population and labor force are distorted by the surge of illegal immigrants over several years. It may take more than a few years to get reliable numbers, potentially not until the next census in 2030. Until then, we may be dependent on indirect indications of labor market tightness, such as wage inflation. If wage inflation increases, it would be an indication that the labor market is tighter than estimated. Moreover, new business formation is running at nearly 12,000 weekly, more than double the pace of a decade ago. We may not be capturing all the new jobs associated with these new firms.



Macroeconomic Overview

AI Productivity and the Inflation Equation

Alas, wage inflation also may be less insightful right now because it is affected by other forces, notably AI. AI adoption is proceeding rapidly and it will take some time to figure out the many ways it is affecting the economy, along with all its consequences. We do know that many jobs are being displaced by AI. Anecdotally, I've had reason to call my bank, an airline, and my cable provider over assorted issues within the past two weeks, and to my absolute shock, every single issue was resolved quickly and satisfactorily by a computer, without the intervention of a human being. (I still hate my cable company.) Impressive? Absolutely. Scary? Very. The machines are making vast inroads into jobs previously handled by humans. And we are still in the early stages of what's possible, or so we are told by AI experts. We know that autonomous vehicles are already safer than human drivers, although we are still not ready to turn over the roads to them completely. The same appears to be true for computers over human pilots. But what is notable economically is that these technological strides reduce business costs, thereby offsetting labor expense, which contains inflation. So, those 4% wage gains could translate into less inflation than they have historically. This promises faster gains in real income and living standards. The same thing happened during the internet bubble, when rapid adoption of the internet also mitigated rising labor costs and boosted real incomes.

Implications for Federal Reserve Policy

Insofar as policy is concerned, the slower pace of job growth reflects the inability of firms to find domestically sourced labor. Labor scarcity precludes any moderation in wage inflation, which remains high. But productivity gains stemming from AI could prevent any rise in wage inflation and could also provide some offset that helps bring inflation down. It will be difficult for the Fed to process such unusual data, but the safest path for them is to take their time, waiting for more data to see how everything plays out.



> "We expect solid GDP growth, correspondingly strong profit growth, only modest changes in inflation, and therefore only modest changes in interest rates. This combination creates an almost ideal environment for stock prices."
>
> **Dr. Charles Lieberman**

Why the Setup Favors Markets in 2026

As for the markets, the economic environment described above is very positive for equities. Slow job growth will still translate into solid or strong economic growth, as productivity lifts gross domestic product (GDP). The latest Federal Reserve Bank of Atlanta (the Atlanta Fed) estimate for Q4 GDP growth exceeds 5%. While AI mitigated inflation, corporate profits performed very well, being revised higher multiple times over the course of 2025, despite the "slow" job growth. This trend appears set to continue in 2026. Thus, we expect solid GDP growth, correspondingly strong profit growth, only modest changes in inflation, and therefore only modest changes in interest rates. This combination creates an almost ideal environment for stock prices.

The Monroe-Trump Doctrine: Geopolitical Implications

By Dr. Charles Lieberman, Chief Investment Officer

Key Takeaways

- The removal of Maduro signals a more assertive U.S. approach to countering hostile regimes in the Western Hemisphere.
- Energy dependence creates strategic pressure points for Cuba, Iran, and China, reshaping global power dynamics.
- Political change in Venezuela could unlock investment opportunities, lower oil prices, and support global growth.

A Turning Point in U.S. Foreign Policy

The capture of Nicolás Maduro by U.S. military forces represents a dramatic change in our foreign policies. We have engaged in interventionist policies before, but this one feels different, and it has many geopolitical and economic consequences.

It is now evident that the U.S. under President Trump is no longer willing to passively allow avowed enemies of the U.S. to engage in activities that harm us. Venezuela was a dictatorship that financed itself from the sale of oil and drugs to promote terrorism and far-left movements across Latin America, aside from enriching its leaders. These activities were supported by other nations and movements wishing to harm us, including Russia, Cuba, China, Iran, and Islamists groups, who were actively collaborating with the Maduro regime. They thought they had a safe base of operations in Venezuela. It is too soon to reach a definitive conclusion, but it appears that base is gone, most certainly if Venezuela is able to hold real elections. The implications, however, go far beyond that one country.

Cuba as the Next Pressure Point

The next obvious domino is Cuba, which is utterly dependent on cheap Venezuelan crude oil to compensate for the domestic economic devastation caused by its brand of socialism. Cuba has been sponsoring or supporting left-wing and terrorist movements across Latin America, even as it impoverished itself. Food and electricity are scarce. Without cheap Venezuelan crude oil, and with limited support from Russia, which is bogged down by its war with Ukraine, the dictatorship in Cuba could also fall, either with or without U.S. intervention. Will China now step in to provide financial support to build its own “secure” base in Latin America? They might. Supporting Cuba now presents what would certainly be an enticing prospect for China: offering to trade Cuba for Taiwan. But without such support, the current regime in Cuba will be unable to stand economically on its own.

Iran and the Risk of Regional Unraveling

Another important focal point should be Iran. Unlike recent administrations, President Trump has stated publicly that we could intervene if the Mullahs in Iran kill protesters. It seems implausible to me that we would put boots on the ground in Iran, but such statements might provide considerable support for the public to challenge the highly unpopular religious dictatorship.

Will the military in Iran commit mass murder to suppress the demonstrations, as it has in the past? Iran is another “Axis of Evil” player that has supported terrorism and jihadism worldwide. It is the key financial and military supporter of Hamas, Hezbollah, and the Houthis at the expense of its own economy, where inflation is rampant and living standards are collapsing. Trump can tighten the financial screws on Iran even further by focusing on its oil exports.

The Monroe-Trump Doctrine: Geopolitical Implications

This Iranian government's behavior is simply unsustainable in the face of an educated, informed, and increasingly hostile and resentful population. It seems that its fall is inevitable, and might occur soon if the current spreading demonstrations gather steam. And a change in the regime in Iran has vast consequences across the Middle East.

> "Other nations in Latin America have recently tilted away from socialism toward more capitalist and democratic systems... Venezuela will now serve as a litmus test for continuing in this direction."
>
> Dr. Charles Lieberman

China's Strategic Energy Dilemma

The largest geopolitical questions arise with respect to China, which is heavily dependent on energy imports from Russia, Iran and Venezuela. Russia remains a highly reliable source for oil for China, since Russia is so highly dependent on military and other supplies from China. These erstwhile competitors are now highly interdependent. But if Venezuela establishes a closer relationship with the U.S., China becomes more energy dependent on what are becoming less reliable nations for energy. Would China risk a cutoff of oil from all nations other than Russia by attempting to take over Taiwan? That simply must be a consideration in their thinking about how to proceed with their quest to take Taiwan.

The investment implications are also widespread. If there is a quick transition to a new interim government headed by Maria Machado, exiled Venezuelans and capital investment will likely surge into the country.



But that is far from assured. Allies of Maduro will surely try to gain power to take his place.

How will the U.S. "run the country," as Trump mentioned in his press conference? Secretary of State Marco Rubio spoke to Maduro's Vice President, who seemingly agreed to work with the U.S. Will she follow through? How will the military, which was complicit with the Maduro regime, respond? If a Machado government emerges, Venezuela could become investable very quickly. The U.S. might be able to retake control over nationalized businesses, and energy companies could quickly invest billions in repairing Venezuela's energy infrastructure.

A Broader Shift Across Latin America

Oil prices are likely to decline further, with positive economic consequences globally, most notably boosting real household income, which should lead to more consumption spending. Lower oil prices will also help reduce inflation measures, at least temporarily, enabling the Fed to move a bit closer to its 2% target. Advocates for more policy rate reductions will use the decline in inflation to push harder for such an outcome. A decline in oil prices would also hurt Iran and Russia financially, perhaps forcing change in both countries, or perhaps just a reduction in hostilities.

Other nations in Latin America have recently tilted away from socialism toward more capitalist and democratic systems, notably Argentina and Bolivia. Venezuela will now serve as a litmus test for continuing in this direction. If successful, Venezuela can offer an alternative to more statist models of government. Welcome to the revival of the Monroe Doctrine on steroids.

Celebrating Three Years… What Could Go Wrong?

By Dr. JoAnne Feeney, Portfolio Manager

Key Takeaways

- AI-driven capital spending remains a powerful force, but rising market concentration increases the importance of diversification.
- Structural and financial support for AI investment remains strong, making a sharp slowdown unlikely in the near term.
- Investors are beginning to rotate toward broader opportunities to enhance resilience after several years of outsized gains.

Market Momentum After Three Strong Years

Three years of outperformance for stocks has left many investors wondering whether the trend can continue. Solid forces have propelled company valuations higher over these last three years, the most significant of which has been the emergence of artificial intelligence (AI) as a driver of capital spending and of potential productivity gains across the global economy. The S&P 500 has become increasingly dominated by a handful of stocks exposed to that AI opportunity, so the outlook may very well depend on whether capital expenditure (capex) trends persist and whether the hopes for AI's transformative impacts materialize. But even as large as AI's (and the Mag 7's) role in markets has become, let's not forget that the remainder of the market still represents the majority of the S&P's market capitalization. The prospects for the market, therefore, are likely also to depend on broader economic and policy developments in 2026.

Concentration at the Top of the Market

The largest 10 companies, by market capitalization, had reached 40.7% of the S&P 500 by the end of 2025, up from roughly 30% at the end of 2021. At the top of this list are Nvidia (NVDA), Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Broadcom (AVGO), Meta (META), and Tesla (TSLA). This group includes the Mag 7 plus AVGO (some have argued that we should now be talking about the Mag 8, but lacking a movie reference for such a meme, AVGO will likely continue to be left out). AI opportunities have dominated the sales and profit growth forecasts for all of these companies, perhaps with the exceptions of AAPL and TSLA. These companies are either investors in AI applications infrastructure or are the suppliers of the technology needed to build it. If those investments were to pause for any reason, or even slow down materially, the technology suppliers (e.g., NVDA) would suffer. Such a slowdown, on the other hand, could allow the builders (MSFT, etc.) to turn past investments into greater cash flow and profitability, so they would benefit. Note that owning some of both types of companies provides investors with diversification against this risk.

Celebrating Three Years… What Could Go Wrong?

What Could Slow AI Investment

Why might such a slowdown occur? It wouldn't be unprecedented for companies to make significant investments in data center upgrades and expansion and then need time to turn around and sell that new capacity to customers. In addition, adoption of new technology often requires reworking systems to optimize designs, lower costs, and enable broader diffusion of the technology. Finally, the providers of that AI infrastructure may face financial constraints on making further investments in those very expensive components, servers, and data centers.

> "After three strong years of value expansion for the leaders in AI, it is reasonable to conclude that there may be less upside in the future than we've enjoyed in the past. We still see those involved in the AI transformation likely to be among the fastest growing companies in the U.S. market in 2026."
>
> **Dr. JoAnne Feeney**

Why Demand and Infrastructure Risks Look Manageable

The first of those concerns appears limited. We are hearing of strong customer demand as companies experiment with AI's capabilities. Demand is so high that the leading providers (e.g., MSFT) are offloading excess demand to others (e.g., Oracle (ORCL)). Note that this makes the AI investment surge very different from the massive fiber-optic investments of the late 1990s when fiber was laid well ahead of even a glimmer of understanding about the business value of the internet. The second concern is sometimes referred to as a "period of digestion," as refinements are completed for new system implementation. Having learned from the past, technology providers are doing far more to ease the creation of AI data centers and applications. Both NVDA and Advanced Micro Devices (AMD) are now providing full system solutions, rather than just accelerator chips, to provide builders with turnkey solutions. In some cases, those solutions are proprietary while in others, they are open source, allowing data center builders to choose the most profitable option from a menu. These full solutions are also helping bring the costs of AI applications down. This doesn't eliminate the possibility of a "digestion" slowdown, but it makes it less likely because it reduces those barriers to continued investment.

Balance Sheets and Credit Markets Provide Support

The final risk also looks limited for now. The companies making the biggest investments are the ones (e.g., MSFT, AMZN, GOOGL) with among the largest balance sheets in the S&P 500. Those taking on debt or other obligations, such as ORCL and OpenAI, have well-documented demand drivers and the backing of those strong balance sheet companies. Credit markets, judging by current spreads, remain supportive of further investments.

Celebrating Three Years… What Could Go Wrong?

What If AI Disappoints

If a slowing of AI investments were to occur because AI applications fail to materialize, however, then both groups—applications providers and chip and hardware providers—would suffer. Based on our reviews of adoption examples across multiple sectors, from financial services to drug development, and on the current progress toward agentic AI (AI that can make independent decisions or act autonomously), we see this risk as minimal. Adoption and deployment may slow, because AI modeling is indeed complex, but we are seeing too many examples of its power to transform processes and products to expect widespread abandonment of this fundamental technological shift.



Looking Ahead to 2026 and Portfolio Positioning

After three strong years of value expansion for the leaders in AI, it is reasonable to conclude that there may be less upside in the future than we've enjoyed in the past. We still see those involved in the AI transformation likely to be among the fastest growing companies in the U.S. market in 2026. Investors, however, have already started to diversify toward other opportunities, a shift we observed late last year. Very attractive valuations are calling for attention. Investors are recognizing that being overly concentrated carries unnecessary risks. Provided the U.S. economy remains reasonably stable, we think such diversification could amplify portfolio resilience this year.

The Monroe-Trump Doctrine: Global Implications for Energy, Trade, and Alliances

By David Ruff, CFA®, Portfolio Manager

Key Takeaways

- Venezuela's leadership change may lower global oil prices and benefit energy and oilfield service companies without signaling a broader U.S. intervention strategy.
- Latin American firms are increasingly diversifying trade relationships toward Europe as U.S. tariffs raise uncertainty around long-term market access.
- China's deep infrastructure investment and control of critical minerals limit how aggressively the U.S. can reshape regional trade dynamics.



Venezuela as a Targeted Energy and Policy Shift

Venezuela's regime change should benefit energy companies operating in the country, as well as oilfield service providers such as SLB, which are likely to play a critical role in restoring and expanding Venezuela's oil production capacity. Upgrading the country's energy infrastructure and increasing oil supply could help keep global oil prices lower for longer, providing a modest but meaningful boost to the global economy. Some investors have questioned whether Washington's pledge to apply the Monroe Doctrine more vigorously has broader investment implications. We do not view this as a major investment theme at present. Instead, we see Venezuela as a special case in which both Washington and large segments of the local population supported a leadership change. The U.S. sought to curb narcotics flows and end Venezuela's support for hostile regimes, while many Venezuelans—as well as the Vatican—pushed for new leadership following the Maduro government's efforts to silence Catholic cardinals in the country. While the Venezuela event may lead to leadership change in Cuba, further actions of this kind for more meaningful economies in the region would likely provoke strong opposition from both Europe and China, a scenario we believe Washington will seek to avoid, particularly where local popular support is lacking and intervention could be viewed as a violation of international law.

The Monroe-Trump Doctrine: Global Implications for Energy, Trade, and Alliances

Trade Realignment Away From the United States

Importantly, South and Central American companies are likely to remain cautious about expanding trade with the United States, given the tariff-heavy posture of the current administration. Many firms in the region believe that long-term access to the U.S. market increasingly requires establishing manufacturing operations within the United States. As a result, regional companies are likely to prioritize deeper trade ties with Europe, where they see greater opportunity, particularly in anticipation of an eventual Mercosur (Southern Common Market) trade agreement. Mercosur would represent a positive structural development for the region, and while it is possible that U.S. actions could accelerate its approval, it remains too early to draw firm conclusions.

> "Some investors have questioned whether Washington's pledge to apply the Monroe Doctrine more vigorously has broader investment implications. While we do not view this as a major investment theme at present, U.S. actions may still influence South and Central America's trade relationships, supply chains, and exposure to China, creating considerations for investors looking for international opportunities."
>
> David Ruff, CFA®

China's Growing Role in Regional Infrastructure and Trade

Although not formally part of the Monroe Doctrine—which historically focused on European interference in the Western Hemisphere—U.S. actions may still influence South and Central America's relationship with China. China is now the region's primary trading partner, and trade continues to expand as Chinese state-owned enterprises have helped finance and build critical infrastructure, including Peru's Port of Chancay, as well as highways, railways, metro systems, dams, and digital networks across Argentina, Chile, Ecuador, and Colombia.



While the U.S. may increase pressure on regional governments to limit China's strategic influence, as it has done with respect to the Panama Canal, Washington may be cautious. China retains significant control over rare earths and critical-mineral refining, a factor that featured prominently in recent agreements between the two countries and complicates any aggressive containment strategy.

Inflation and Positioning

By Kevin Strauss, CFA®, Portfolio Manager &
Gus Scacco, M.B.A., Portfolio Manager

Key Takeaways

- Inflation has moderated meaningfully from its 2022 peak, and while it remains above the Fed's target, pressures are expected to ease further into 2026.
- The Federal Reserve faces a challenging policy balance that may keep interest rates elevated even as fiscal stimulus supports growth.
- Diversified portfolios with exposure to inflation resilient sectors remain critical to protecting real purchasing power.

Inflation Trends and the Path Ahead

Inflation remains a key economic focus, having significantly dropped since its 9% peak in 2022, though it stays above the Federal Reserve's 2.0% target. As of November 2025, annual inflation is 2.7% (core Consumer Price Index: 3.3%).

We anticipate it becoming less of a concern as we move through 2026, driven by moderating costs in consumer goods and energy, despite persistent shelter costs and the fading influence of past tariffs.



Federal Reserve Policy and Economic Tradeoffs

The Federal Reserve must delicately balance lowering rates to stimulate growth against potential inflationary pressures fueled by fiscal deficits and consumer spending. This may result in sustained high borrowing costs, potentially slowing the economy. While small business optimism is rising due to anticipated favorable tax and regulatory policies, the 2026 economic environment may still feature elevated rates. Upcoming Q1 2026 fiscal stimulus (lower taxes) should boost consumption and employment, potentially easing financial pressure on certain demographic groups that struggled over the past year.

Inflation and Positioning

Portfolio Positioning in an Inflation Sensitive Environment

As investors, we must be sensitive to inflation and positioned against persistent price pressures, as inflation can negatively impact investors' real purchasing power. Our investment strategy centers on diversification; we maintain portfolios that have exposure to various asset classes and companies with inherent inflation-hedging characteristics. As a firm, we are well-diversified into value and cyclical companies that have pricing power and can pass along costs. Exposures are in a number of industry groups, including energy, which sees revenues increase as prices rise, directly with inflation. Real estate exposure, which benefits from rental income, often increases during inflationary periods, making real estate a hedge. Consumer staples exposure benefits from retail demand and the ability to pass increases along to consumers. We also maintain companies that pay growing dividends, as these often see revenues and earnings rise with prices, preserving purchasing power, along with broader diversification into assets like financials that can profit from higher interest rates that often accompany inflationary periods. As we are in a period of economic change, our firm is well-positioned for either continued inflation or improving economic growth.

Positioning Matters

Persistent inflation rewards portfolios built for flexibility, pricing power, and diversification.



Positioning Fixed Income for 2026

By Kevin Kelly, Portfolio Manager

Key Takeaways

- Maintaining moderate duration avoids reinvestment risk on the short end and inflation risk on the long end.
- Tight credit spreads reinforce the importance of discipline and a focus on high-quality, intermediate investment-grade bonds.
- A 3–7-year, higher-quality fixed-income portfolio offers attractive yield today with better downside protection if rates or spreads move against investors.

Avoiding the Extremes on Duration

We expect the new Federal Reserve Chair, who takes over in May 2026, to be more dovish, so a portfolio exposed to very short-term rates does not make sense to us. Investors who own very low duration securities (or money market funds) may miss out on total return and are accepting reinvestment risk if very short-term Treasury yields decline.

On the other hand, we are reluctant to add very long-dated duration (15–30 years) bonds as the government debt continues to grow with no end in sight. Additionally, an overly dovish Fed could potentially be inflationary, and we think there is a risk long-term Treasury rates rise in this scenario. Therefore, ACM's fixed-income team continues to favor maintaining a moderate duration and higher-than-normal credit quality. We are currently focused on 3–7-year corporate bonds and maintaining a duration of approximately four years.

Staying Disciplined as Credit Spreads Tighten

Regarding credit spreads (risk premiums on bonds), they remain extremely tight versus the past. Investment-grade spreads are currently 0.70% versus a 10-year average of 0.97%, and high-yield spreads are currently 2.61% versus a 10-year average of 3.94%. Therefore, we think it is prudent to stay disciplined in the current environment and not chase yield. In conclusion, we think intermediate investment-grade corporate fixed-income yields are attractive, and we are ready to take advantage of opportunities as they arise.

Positioning for Downside Protection

While we are not predicting an economic downturn, as fixed-income investors, we naturally favor positions that offer downside protection. Given our view on credit spreads and Treasury rates, we like the downside protection a quality, corporate intermediate duration portfolio provides. In a downturn scenario, we think 3–7-year Treasury yields will decline more meaningfully than longer-dated Treasuries (10+ years). Also, credit spreads would likely widen in this scenario so less exposure to longer-dated corporate securities would be beneficial.

Building Durable Municipal Portfolios for 2026

By Kevin Strauss, CFA®, Portfolio Manager &
Zachary Smith, Associate Portfolio Manager

Key Takeaways

- Municipal bond opportunities are improving, but success in 2026 requires disciplined security selection rather than broad market exposure.
- High-quality, intermediate-duration bonds with strong structures offer more reliable income and reduced reinvestment risk.
- Policy uncertainty and liquidity conditions reinforce the importance of diversification, credit research, and avoiding yield-driven risk.

A Selective Approach in a Higher Supply Environment

Entering 2026, our approach to managing municipal bond portfolios remains anchored in selectivity and structure rather than simply owning the market. While higher issuance has created more opportunities, and absolute and relative yields remain attractive compared with recent years, we are prioritizing high-quality, intermediate-duration bonds where fundamentals remain resilient and refinancing risk is manageable. State and local balance sheets generally remain healthy after years of conservative budgeting, but dispersion has widened, especially among lower-rated issuers. Because of this, we prefer building portfolios with a strong, stable core and only adding extra yield where the risks are well understood and our client portfolios are appropriately compensated.



Emphasizing Quality, Structure, and Call Protection

We prefer bonds with longer call protection or simpler structures that help lock in income and reduce reinvestment risk. At the same time, we are cautious around issuers with ongoing budget challenges, heavy dependence on uncertain revenues, or limited flexibility to raise fees or taxes – these are the areas that struggled the most in 2025. We continue to avoid sectors with higher historical default rates, including airports, medical facilities, senior living/retirement communities, industrial development bonds, housing developments, and sports/convention centers.

From a risk perspective, the primary focus in 2026 is less about systemic credit stress and more about policy uncertainty, market volatility, and liquidity. Higher supply can periodically pressure secondary market pricing, particularly of longer duration securities, while any renewed rate volatility may challenge total returns. That is why we emphasize diversification, liquidity, and diligent credit analysis. In our view, tax-exempt municipal bonds remain an attractive income option, but success in this environment depends more on rigorous bond selection than simply reaching for the highest yield.

Featured Article – S&P 500 vs. S&P 500 Equal Weight: When Are the Big Too Big

By Advisors Capital Management

Key Takeaways

- The S&P 500's weight is tilted toward a limited number of companies with high market capitalizations.
- The equal-weight approach distributes weight evenly across all index constituents, which reduces concentration.
- When index performance is driven mainly by a narrow segment of companies, equal-weight results may diverge from the traditional index.

For many investors, "the market" is shorthand for one benchmark: the S&P 500. But what many forget is that the index isn't a balanced collection of 500 companies. It's actually a ranking, by size, of publicly traded corporate America. And as we end 2025, that distinction has never been more pronounced. The traditional market-cap-weighted S&P 500 has become increasingly dominated by a handful of mega-cap behemoths, while its lesser-known counterpart, the S&P 500 Equal Weight Index, offers a very different picture of U.S. equities.

Those two indices are now diverging in ways that tell a story about market concentration, growth limits at the top, investor psychology, and the future of market breadth. Whether the next decade belongs to the giants of the AI age or to the long-overlooked rest of the S&P 500 may define the path of portfolio returns.

Understanding Market-Cap Weighting

The traditional S&P 500 weights constituents by market capitalization, meaning larger companies, like Apple, Microsoft, Nvidia, Amazon, Meta, and Alphabet, carry disproportionate influence. Today, the top 10 holdings by weight account for roughly 40% of the entire index. Historically, that figure has hovered between 20% and 25%.

The result is an index increasingly driven by a small cohort of mega-caps, particularly those riding the artificial intelligence wave. Investors who think they're buying broad U.S. corporate exposure through the S&P 500 are, in effect, buying a concentrated growth-and-AI portfolio with hundreds of small components attached.

Equal Weight Offers a Different Market View

The S&P 500 Equal Weight Index, or RSP (an ETF that tracks it), gives every constituent the same 0.2% weighting, regardless of market cap. Apple and an industrial company effectively start on equal footing.

Because of this design, the equal-weight index is far more sensitive to broad market participation. When leadership is narrow, meaning when only the biggest names perform, the equal weight tends to lag. When smaller and mid-sized companies rally or when the market rotates away from mega-caps, equal weight should outperform. Over the past few years, AI enthusiasm has pulled capital into the largest, most profitable companies in human history, and the equal weight index has slumped relative to the cap-weighted benchmark.

S&P 500 vs. S&P 500 Equal Weight: When Are the Big Too Big

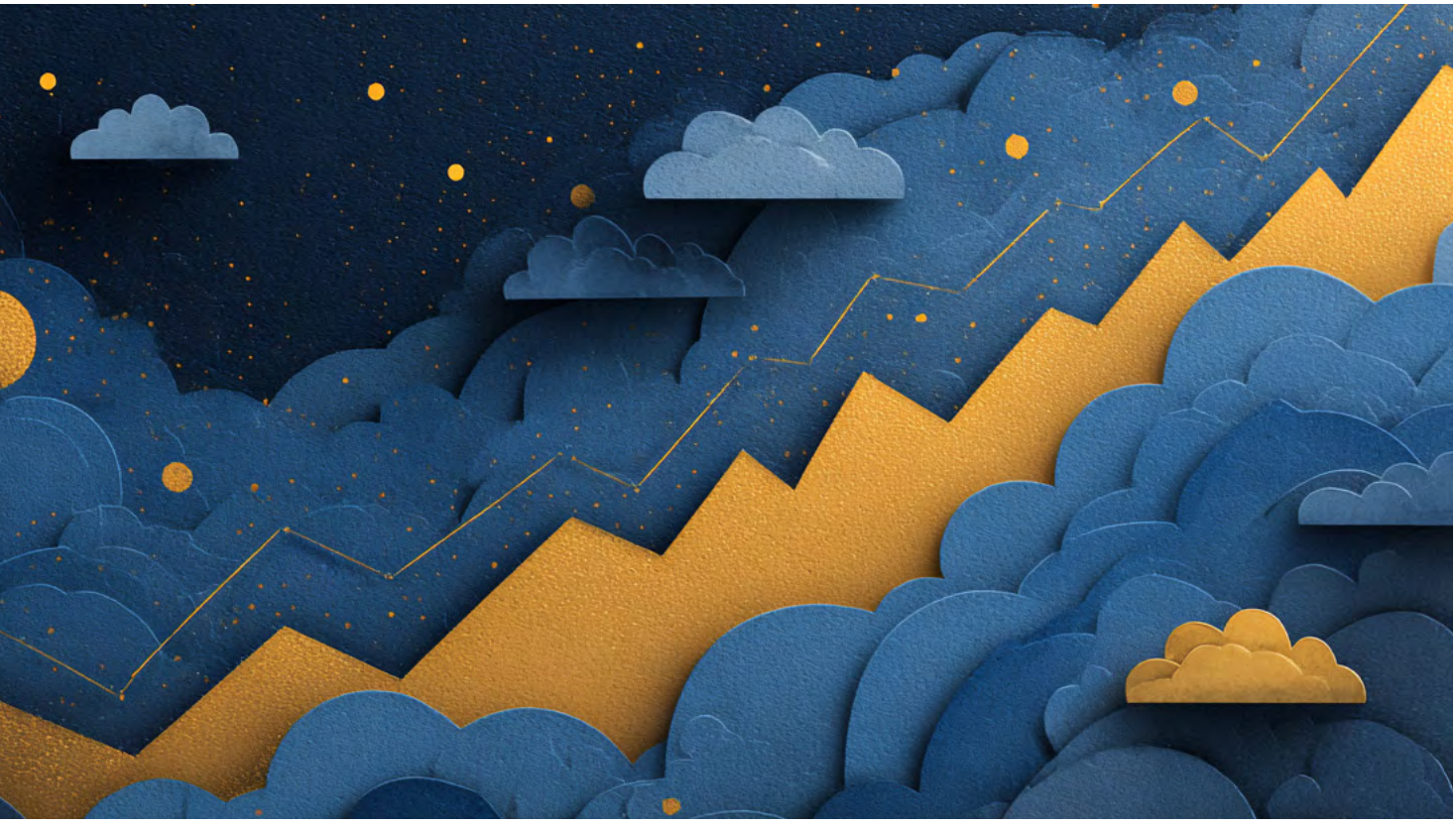
Why Concentration Occurs

Part of the appeal of equal weight today lies in simple arithmetic. The largest companies in the S&P 500 are now so large that doubling in value becomes exponentially more difficult.

- **Apple:** Market capitalization near $4 trillion. A double requires creating a company larger than the size of Walmart, JPMorgan, and Pfizer combined.
- **Microsoft:** Roughly $4 trillion as well. To double, it needs to add more than Meta's (Facebook) entire market cap.
- **Nvidia:** After explosive growth, it now must add more than $5 trillion in market cap to double. No company has ever reached the $5 trillion milestone.
- **Amazon and Alphabet:** With valuations north of $1.5 trillion, they face their own scaling constraints

These companies remain wildly profitable. They generate more free cash flow than most countries' GDP. But the law of large numbers is unforgiving. Growth potentially slows as companies saturate markets, face regulatory scrutiny, or simply run out of ways to expand.

This is the structural challenge the cap-weighted S&P 500 index faces: if the top 10 companies already represent more than 40% of the index, their ability to continue compounding at historic rates shapes the entire index's future returns.



S&P 500 vs. S&P 500 Equal Weight: When Are the Big Too Big

Breadth Expansion Could Come at the Expense of the Megacaps

One of the clearest indicators of market health is breadth: the percentage of stocks participating in a rally. In the current bull market, breadth has remained narrow. A handful of tech giants have carried the market, while most companies, especially small and mid-caps, have lagged.

But several forces could push toward broader participation:

If any of those forces take hold, the equal-weight index could outperform as capital rotates into parts of the market that have trailed for years.

1. Valuation gaps are the widest in decades.
While the mega-caps trade at 25–40x earnings, many equal-weight constituents trade at mid-teens or even single-digit multiples. If earnings stabilize and rates remain range-bound, investors may search for cheaper growth elsewhere in the index.

2. Reindustrialization and onshoring trends favor smaller firms.
Manufacturing, energy infrastructure, transportation, and industrial automation, many of which are underrepresented in the mega-cap group, are and will continue to see capital flows. Those dollars are spread across dozens of mid-sized companies, not just one or two giants.

3. Regulatory pressures disproportionately target the largest tech companies.
Antitrust actions, app-store rule changes, privacy constraints, and AI model regulation could all limit the giants' ability to expand as freely as they have in the past decade.

4. AI adoption may benefit the broader economy, not just the megacaps.
While Nvidia builds hardware and Microsoft and Alphabet own the cloud platforms, the real AI demand explosion in customer service, logistics, financial services, and manufacturing automation will be diffused across hundreds of companies.

If AI delivers exponential improvements in productivity, these firms could compound earnings at double-digit rates even at trillion-dollar scale. Under that scenario, the cap-weighted S&P could continue to outperform, powered further by the megacaps' domination.

The Bottom Line: Two Indices, Two Different Visions of the Future

The choice between the S&P 500 and the S&P 500 Equal Weight is really a bet on market structure:

- **Cap-weighted S&P 500:**
  A conviction that the AI-driven mega-caps will continue to carry markets.
- **Equal Weight:**
  A belief that market breadth will improve, valuations will normalize, and smaller companies will claim the leadership role.

For now, the market remains a two-tier system. But the tension between concentration and breadth is building, and whichever side breaks will determine which index leads from here.

In a market ruled by giants, the most important question may be whether the big get bigger, or whether the rest of the market finally begins to catch up.

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An Investment Advisory Firm

10 Wilsey Square, Suite 200 Ridgewood, NJ 07450 | 201-447-3400 | info@acmwealth.com
www.acmwealth.com