



“Time, Wealth, & What Matters Most”



John E. Chapman

Chief Executive Officer

Chief Investment Strategist

Chairman of Investment Policy

Committee



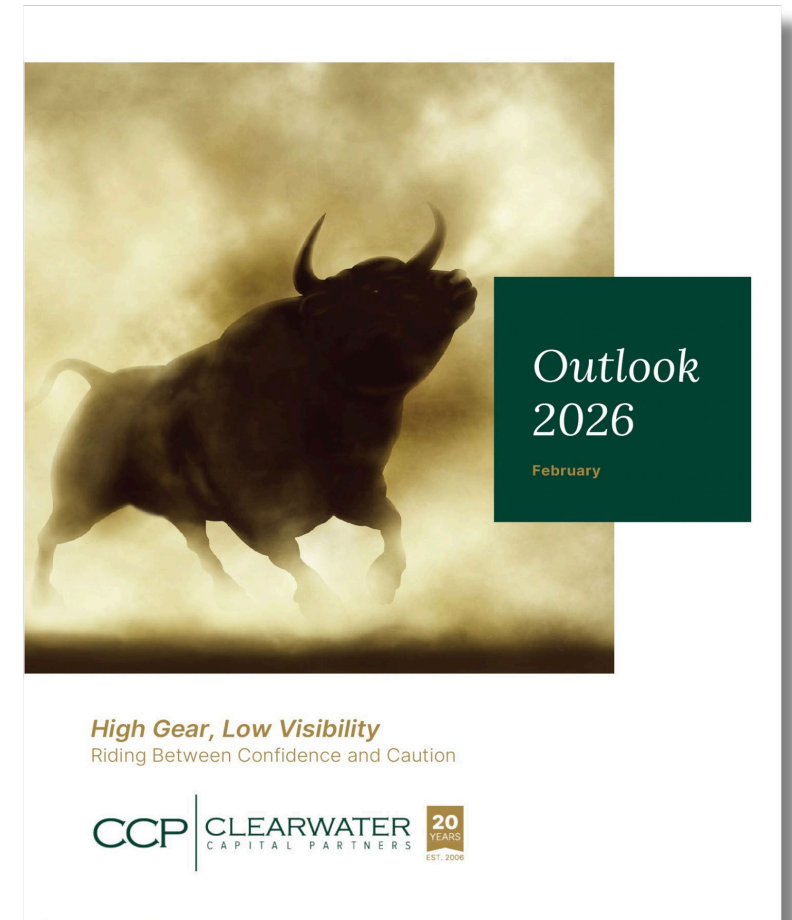
Tailwinds and Turbulence

*“The Upside is Real,
The Tolerance for Error is Not”*

Outlook 2026

Quotes from Our Annual Strategy Report

- Wall Street's 2026 forecasts reflect a market at an inflection point - betting on AI productivity to sustain the bull run while acknowledging valuations leave minimal margin for error.
- 2026 is not an average mid-term election year, it coincides with looming fiscal deadlines, unsettled trade policy, and a late-cycle expansion that is already marked by uneven gains across households.
- **We expect the expansion to continue, supported by business investment, a still resilient consumer, and a more business friendly policy environment, but with less room for policy error than in prior years.**



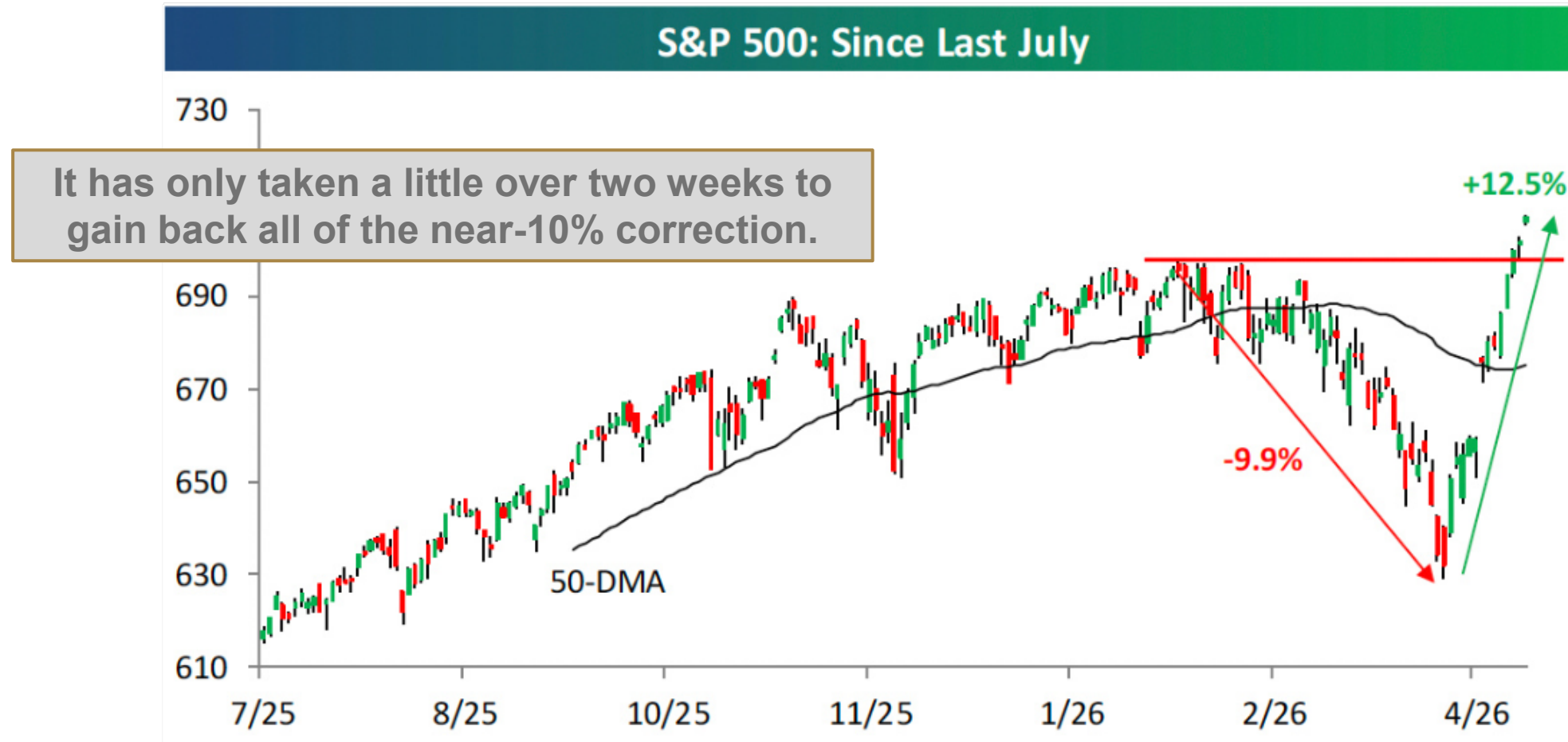
Outlook 2026

Quote from Our Annual Strategy Report

“Recent record highs in equities would suggest that **investors are behaving as though capturing the next wave of growth matters far more than the near-term uncertainties** swirling around them.”

S&P 500 Since Last July

The Global Spike in Oil Prices Triggered a Selloff in Risk Assets



S&P 500 Since 2023

The Margin Between "V" and "W" Recoveries Has Rarely Been Thinner

S&P 500 (SPY): Since 2023

750

Every W-shaped recovery in history shared the same DNA: sticky inflation, a constrained Fed, and a second shock arriving before the first cleared.

600

550

500

450

400

350

Jan-23

Mar-23

May-23

Jul-23

Sep-23

Nov-23

Jan-24

Mar-24

May-24

Jul-24

Sep-24

Nov-24

Jan-25

Mar-25

May-25

Jul-25

Sep-25

Nov-25

Jan-26

Mar-26

Symposium 2026

Four Crosscurrents for Today's Presentation

- 1) Tailwinds**
- 2) Turbulence**
- 3) The Upside is Real**
- 4) No Tolerance for Error**

Tailwinds

*Growth Drivers Remain
Stronger than the Noise*

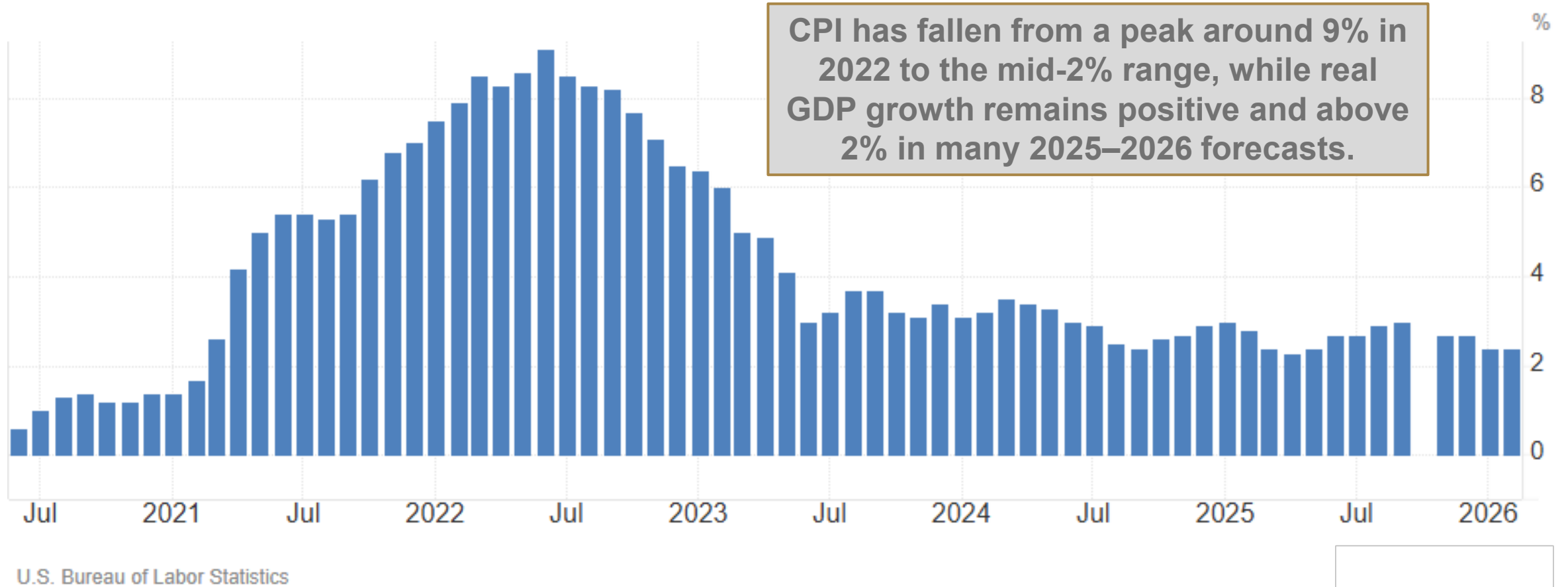
Economic Tailwinds are Compelling

The U.S. Economy Enjoys an Unusually Broad Base of Support

- ❑ Critical economic data has normalized from COVID distortions**
- ❑ The U.S. consumer is currently on solid ground**
- ❑ The Fed is on a measured path to 3.0-3.25% (consensus)**
- ❑ Fiscal policy is expansionary and front-loaded**
- ❑ Corporate America positioned for profit with high margins and manageable leverage**
- ❑ Productivity is the true macro driver of growth and prosperity**

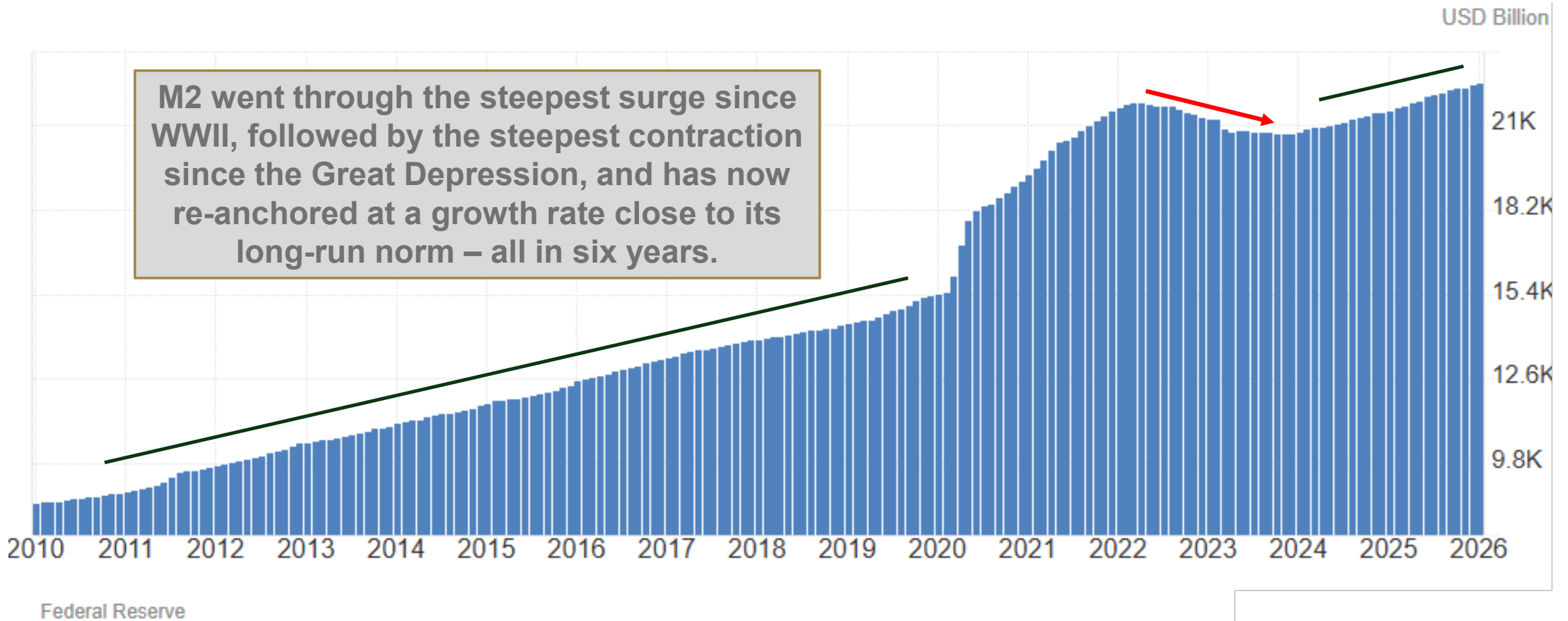
U.S. Inflation Has Normalized

Largely Under Control Without Killing Growth



U.S. M-2 Money Supply Has Normalized

Monetary Backdrop is No Longer "Tight" / Now Showing Ample Liquidity



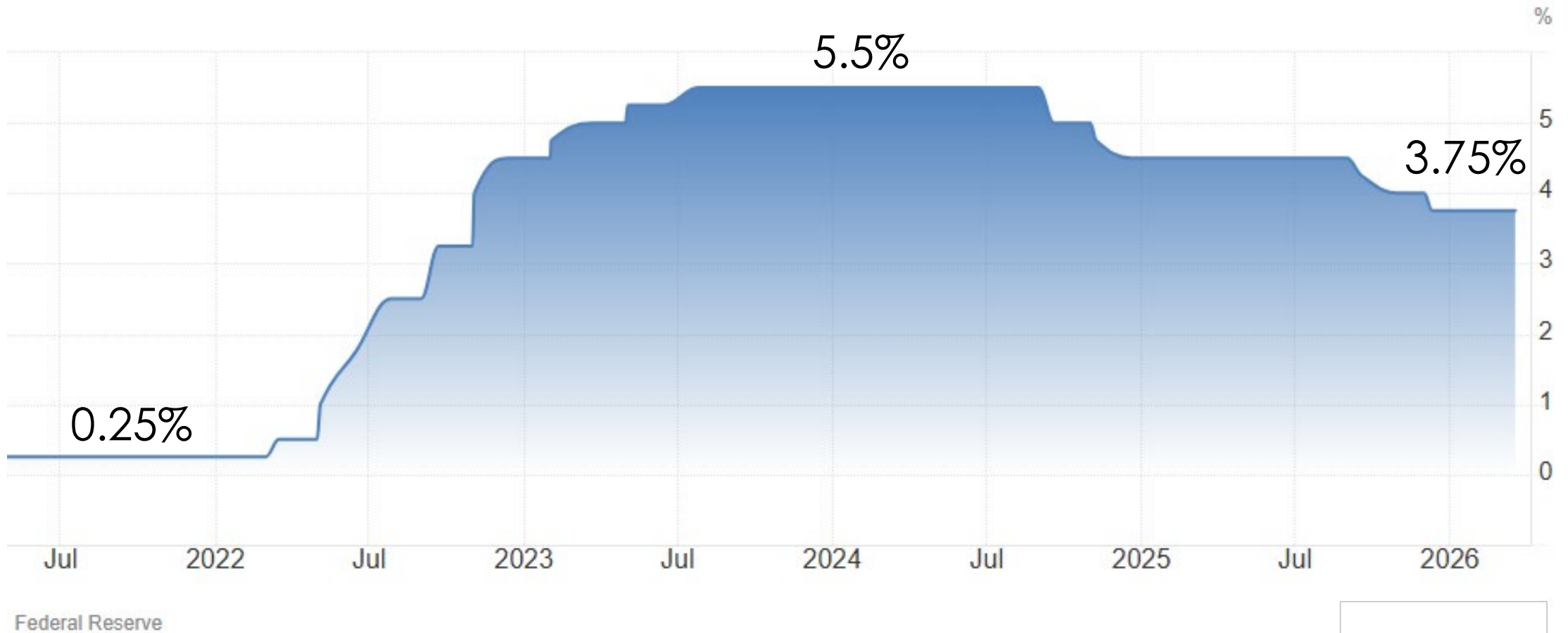
U.S. Consumer is on Solid Ground

Positioned to Remain a Powerful Engine of Growth

- ❑ Households currently enjoy unusually healthy balance sheets, indicating capacity to keep spending and absorbing shocks
- ❑ Wage growth remains above 3 - 4%, outpacing or roughly matching inflation and sustaining real income growth (U.S. Bureau of Labor Statistics)
- ❑ Real net worth has risen across income cohorts, not just at the top, supporting the broad-based consumption narrative
- ❑ Labor markets are cooling - not collapsing and unemployment hovers at what the Fed considers “full employment”
- ❑ Delinquencies are normalizing and remain well below crisis-era peaks

The Fed is on a Measured Path to 3.0-3.25%

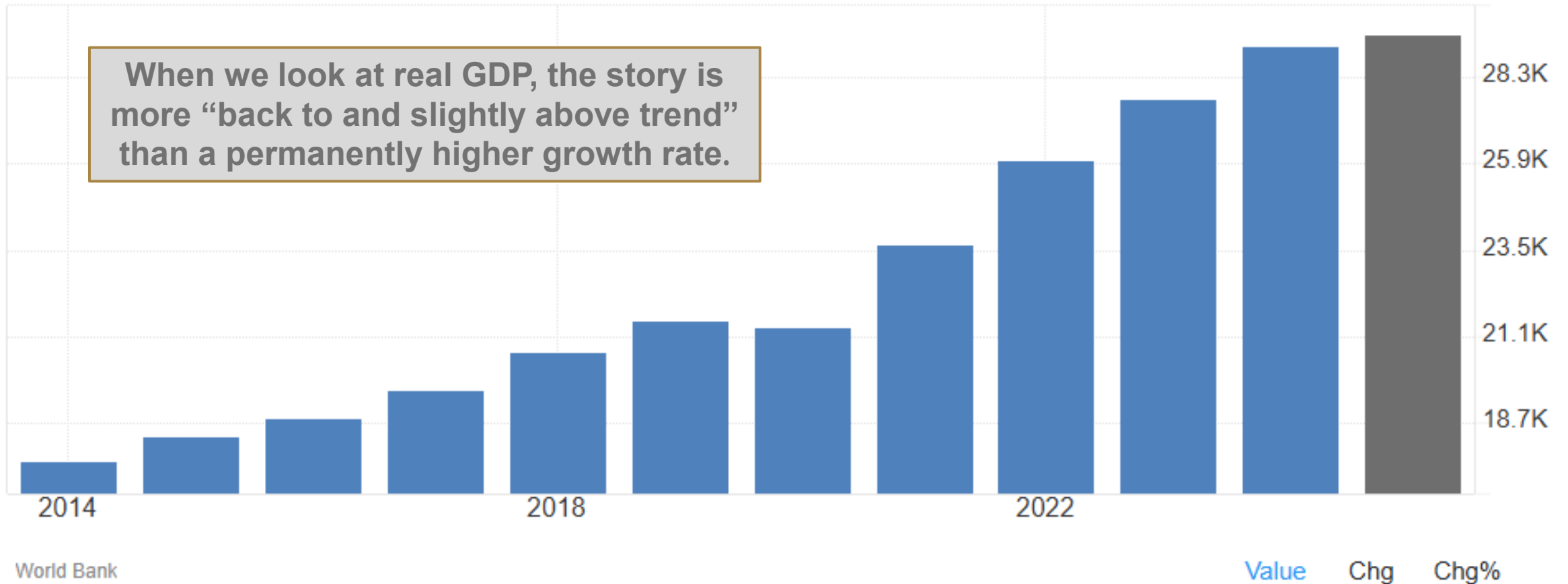
Markets are Expecting Two Rate Cuts in 2026



United States GDP

Inflation in 2021-22 Permanently Lifted the Dollar Value of Output

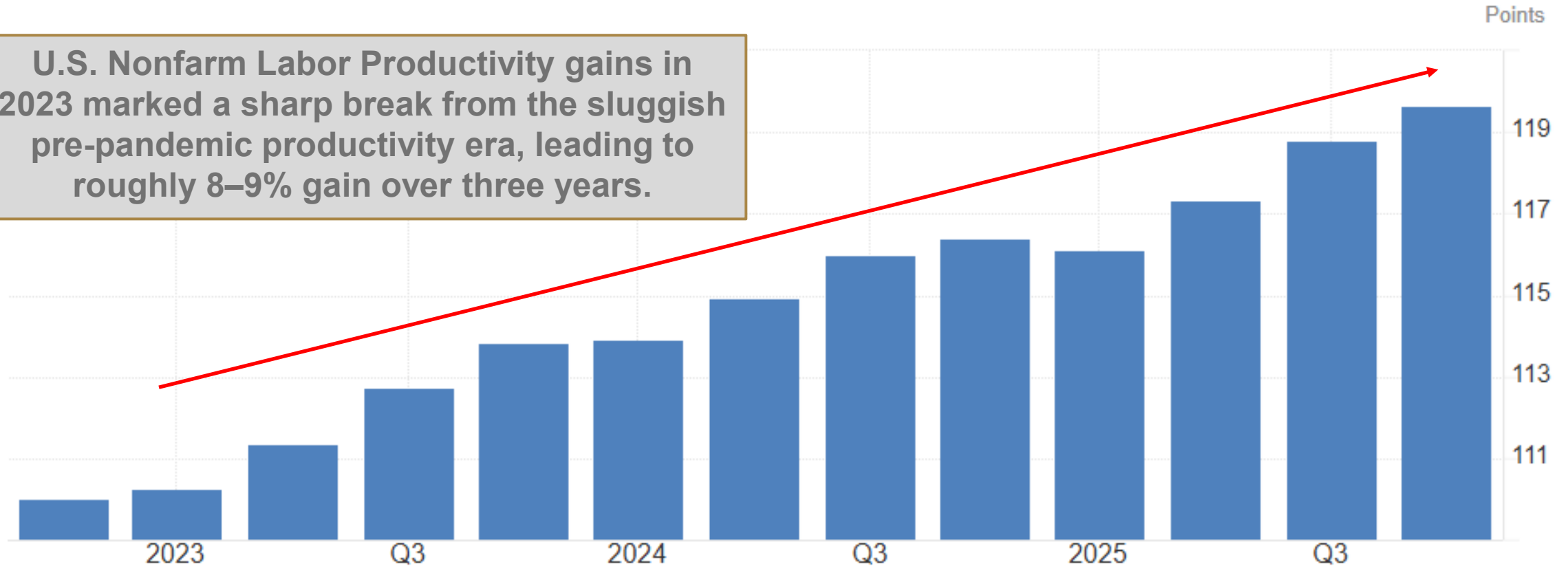
USD Billion



Productivity is the True Macro Driver of Growth

An Economic Renaissance Driven by CAPEX and AI

U.S. Nonfarm Labor Productivity gains in 2023 marked a sharp break from the sluggish pre-pandemic productivity era, leading to roughly 8–9% gain over three years.



U.S. Bureau of Labor Statistics

Turbulence

*Where High Expectations
Meet Real-World Risk*

Elements of Turbulence are Not Theoretical

The U.S. Economy Faces an Unusually Broad Base of Stress Points

- ❑ Geopolitics and Global Fragmentation
- ❑ Domestic Politics, Polarization, and Policy Uncertainty (inflation)
- ❑ Active conflicts and flashpoints now affect key energy and trade routes producing one of the most significant oil supply disruptions in decades
- ❑ Market Polarization, Concentration, and Valuation Risk

Geopolitics and Global Fragmentation

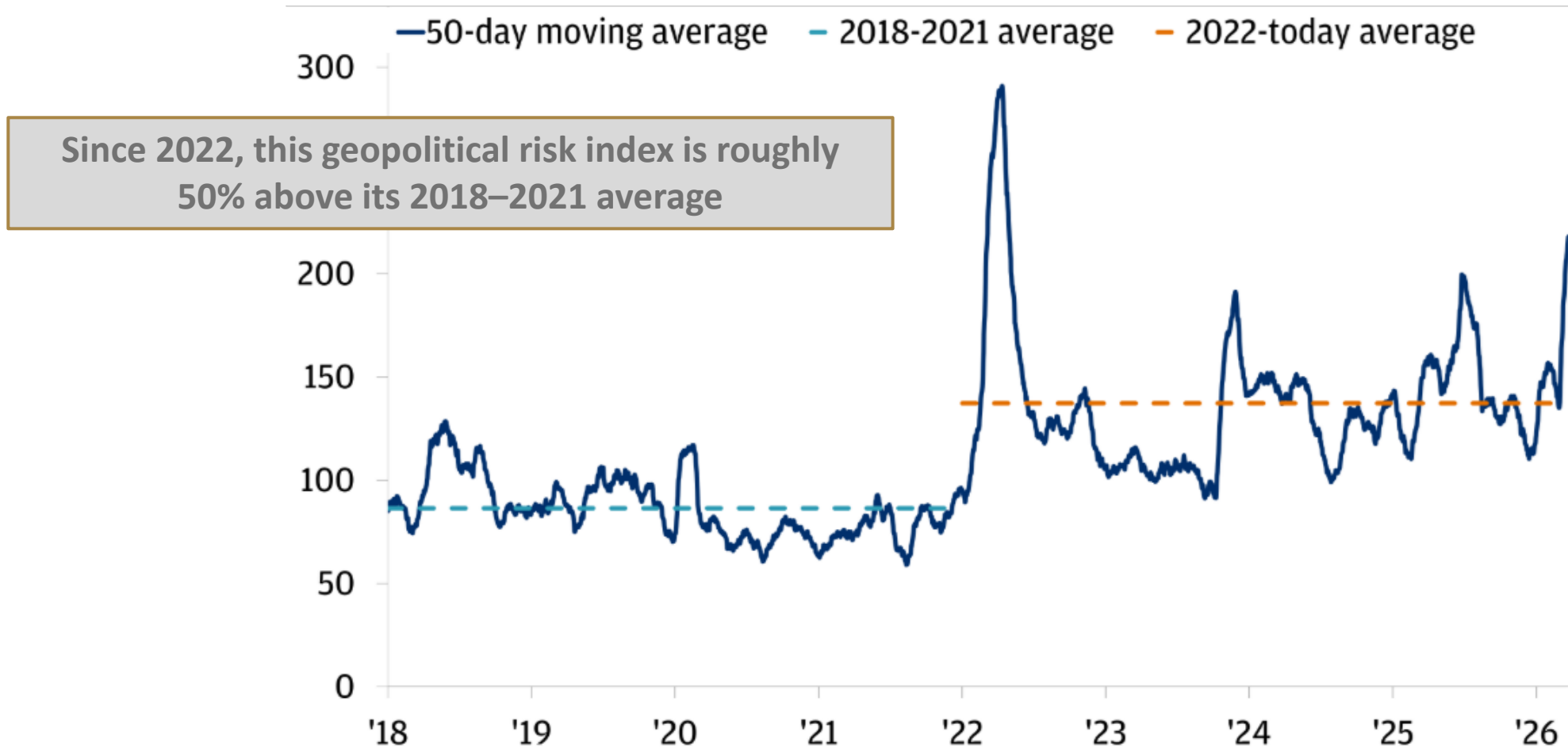
An Era of Elevated and Persistent Global Tensions

- ❑ **Structurally higher risk:** The Caldara–Iacoviello Geopolitical Risk Index has averaged ~135 since 2022, roughly 50% above its 2018 – 2021 baseline near 90 - reflecting elevated and persistent global tensions.
- ❑ **Conflict on the chokepoints:** Recent escalation in Iran and the broader Middle East has produced one of the most significant oil supply disruptions in decades; energy prices surged before only partially retracing.
- ❑ **The age of fragmentation:** J.P. Morgan’s 2026 outlook highlights an “age of fragmentation” - regional blocs, industrial policy, and reshoring/near-shoring are reshaping global supply chains and capital flows.
- ❑ **Markets feel it directly:** Scenario analysis: oil toward \$150/bbl could shave ~0.4 ppt from global growth, keep inflation higher for longer, and pressure risk assets.

BOTTOM LINE: Geopolitics is no longer a tail risk - it is a persistent input into growth, inflation, and asset pricing.

Geopolitical Risk Has Moved Structurally Higher

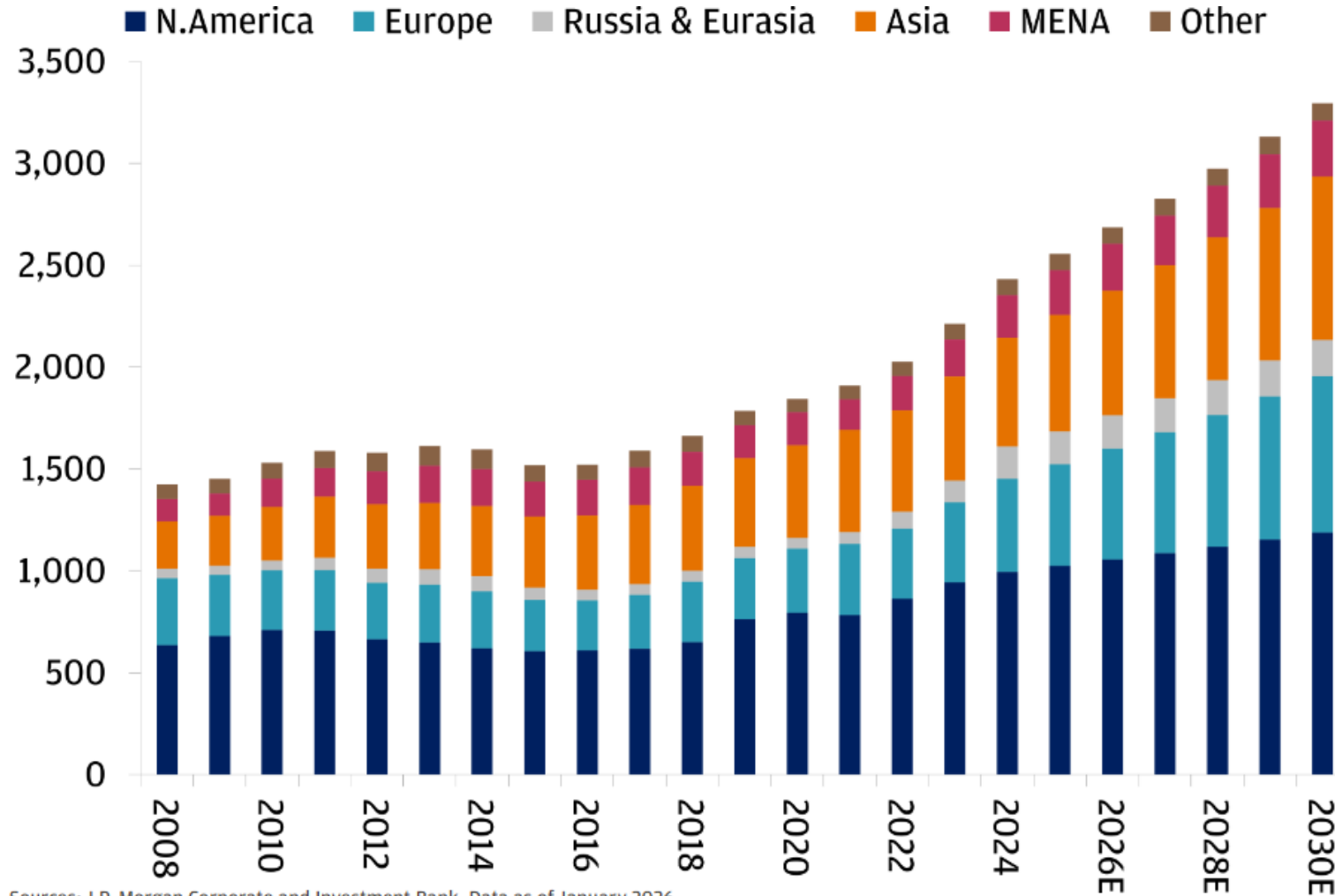
Geopolitical Concerns are Not Merely Spiking Episodically



Sources: Dario Caldara and Matteo Iacoviello, Bloomberg Finance L.P. Data as of March 2026.

Soaring Defense Spending Globally

World Defense Spending, 2008-2030E* (current \$ billions)



Sources: J.P. Morgan Corporate and Investment Bank. Data as of January 2026.

*E = Estimated

Domestic Politics, Polarization, and Policy Uncertainty

A Noisier, Harder-to-Navigate Backdrop for Investors

- ❑ **The U.S. fiscal trajectory is the elephant in the room:** the CBO (Congressional Budget Office) projects federal debt rising steadily over the next decade while interest costs consume a growing share of the budget
- ❑ **Political noise is drowning out the economic signal:** headlines on elections, investigations, and policy brinkmanship can move markets sharply even when fundamentals remain intact
- ❑ **Policy swings now create regime-change risk at the sector level:** shifting regulations, tariffs, industrial policies, and tax treatments complicate capital allocation and long-term planning
- ❑ **The mid-term election cycle amplifies every one of these pressures:** history shows above-average volatility as campaign rhetoric hardens into policy posturing, with markets forced to discount a widening range of post-election outcomes well before November

Market Polarization and Concentration Risk

Equity Markets Becoming More Fragile Underneath the Surface

- ❑ **A “winner-takes-most” market amplifies both optimism and vulnerability:** The top 20 stocks now command 50.8% of the S&P 500's total market capitalization, the most top-heavy in over 50 years
- ❑ **This concentration risk is the quiet complication** behind an otherwise constructive macro-outlook, creating a less diversified market that is more exposed to narrative risks
- ❑ **Approximately 42% of S&P 500 members are already down 20%** or more from their 52-week highs, meaning 200+ companies are already in private bear markets, even as the index itself is not

The Upside is Real

*Innovation, Investment, and
Earnings Have Room to Run*

Innovation on Steroids: Artificial Intelligence

We have never before seen an innovative technology diffuse this quickly, this broadly, at this scale, and generate this much measurable productivity - all at the same time.

AI is doing all four simultaneously, which is precisely why corporate earnings, CAPEX, and productivity data are all accelerating in 2026.

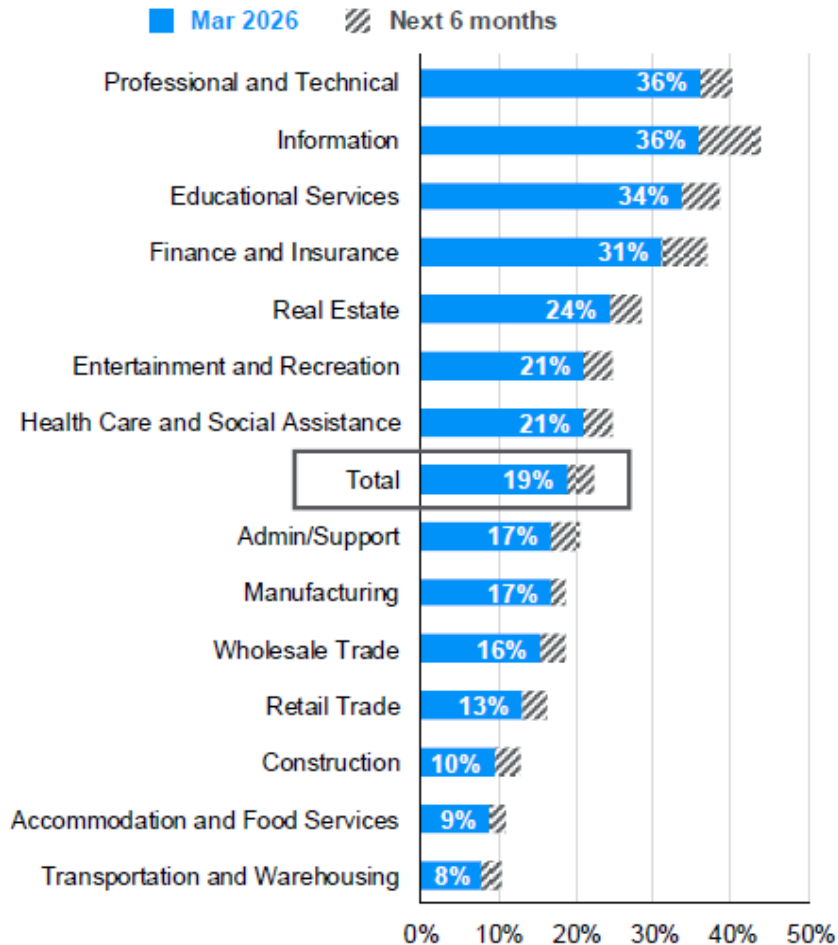
Perhaps the most consequential disruptive innovation EVER.

Artificial Intelligence

Adoption Rates are Accelerating With NO Historical Equivalent

Businesses using AI in any business function

% of all firms reporting use of AI applications



McKinsey & Company

- ❑ 78% of organizations now use AI in at least one business function, up from 55% in 2023 and just 20% in 2017 (Stanford)
- ❑ Corporate AI spending has reached levels normally seen only in national infrastructure buildouts
- ❑ ChatGPT is the fastest-growing consumer product in history, hitting 100 million monthly users in two months (Business Insider)
- ❑ ChatGPT now processes more than 2.5 billion messages per day - more daily queries than Google handled in all of 1999 (1 billion), achieved in roughly one-tenth the time (Business Insider)
- ❑ Electricity took 40 years to reach 50% U.S. household penetration, smartphones took 10 years, and generative AI is on track to do it in roughly 3 years (Forbes)

Full Expensing: The Structural CAPEX Catalyst

100% Bonus Depreciation – NO EXPIRATION

- ❑ **Permanence changes behavior** more than any temporary bonus ever did.
- ❑ **CFOs can now underwrite 5-10 year capital plans** - extending the cycle, not just accelerating it
- ❑ **Dramatically shifts the after-tax IRR** (internal rate of return) of every qualifying project
- ❑ U.S. manufacturing investment committed to date: **\$1.6T** (Federal Reserve)

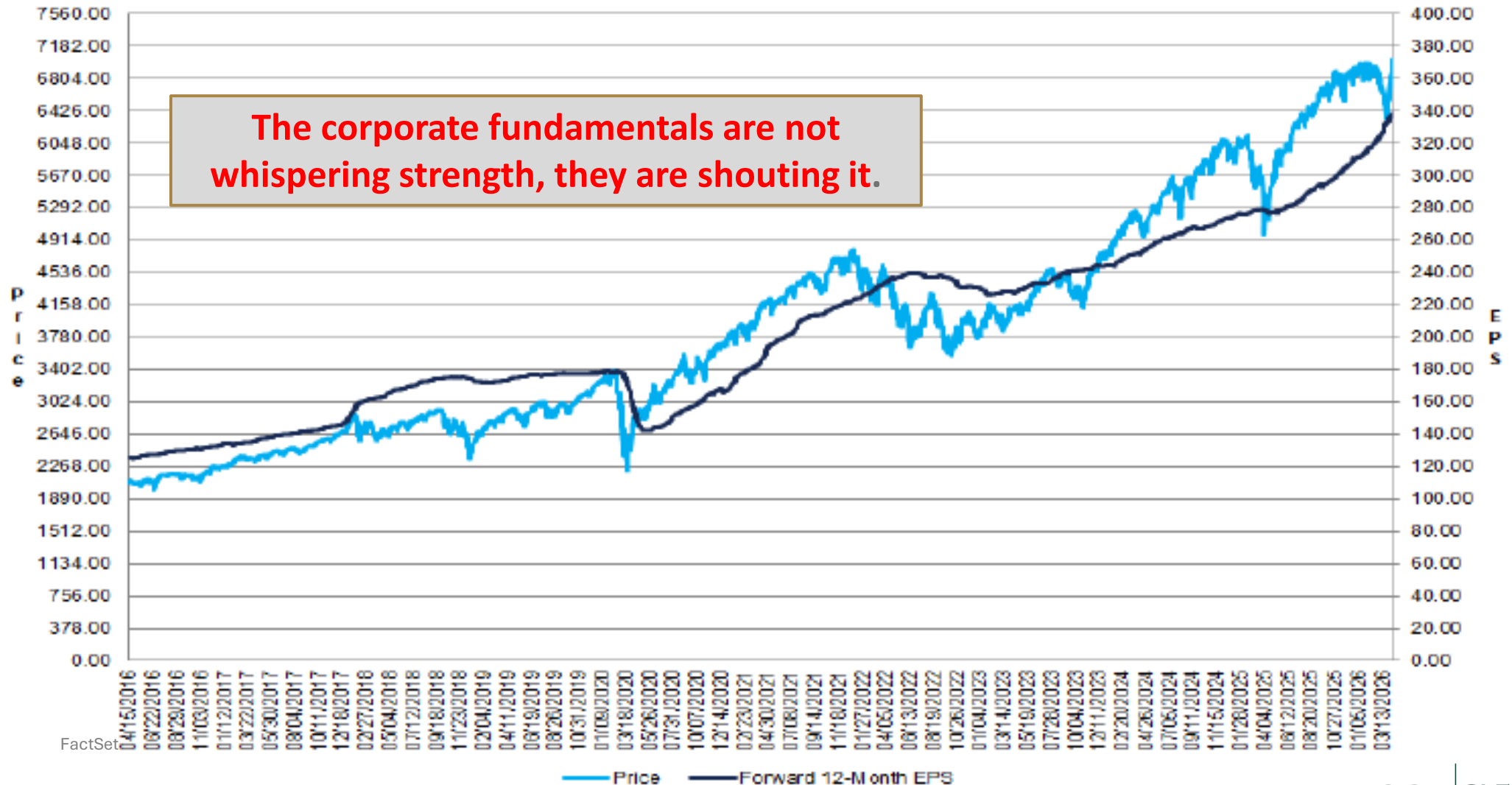
Real GDP Growth and Fading Recession Odds

Higher Revenues, Less Credit Stress, and a Resilient Bull Market

- ❑ **Real GDP growth has re-accelerated off the Q4 2025 soft patch**, with 2026 tracking forecasts clustering around **2.0–2.5%** as business investment and consumer spending hold firm (BEA)
- ❑ **Prediction markets have slashed recession odds by roughly one-third in six weeks**: Polymarket down to **26%** from a late-March peak near **37%**, and J.P. Morgan cutting its probability **from 60% to 40%** (Forbes)
- ❑ **Credit markets are confirming the "no recession" signal**: investment-grade and high-yield spreads remain well inside long-term averages, bank loan delinquencies are normalizing (not spiking)
- ❑ **The bull market absorbed a textbook stress test and recovered in weeks, not quarters**: the S&P 500's **~10%** March drawdown was fully retraced by mid-April, extending the "V-shaped recovery" pattern
- ❑ **Corporate revenues are grinding higher, not rolling over**: S&P 500 sales-per-share continues to set new highs alongside record profit margins, validating the productivity-driven earnings story

S&P 500 Price and Forward 12-Month Earnings Forecast

Q1 Double-Digit Earnings Growth for the 6th Straight Quarter



FactSet

Q1 2026 Earnings Are Off to a Strong Start

Beat Rates, Breadth, and Growth Are All Running Above Historical Norms

- ❑ **Beat rates and surprise magnitude are well above historical norms:** **88%** of reporters are beating EPS estimates and **84%** are beating on revenue, with an aggregate EPS surprise of **+10.8%**
- ❑ **Blended earnings growth of 13.2%** marks the sixth straight quarter of double-digit growth: revenue growth of 9.9% is on pace to be the highest since Q3 2022, and all 11 sectors are posting positive revenue growth
- ❑ **The forward setup is aggressive and priced that way:** analysts project Q2 **+20.1%**, Q3 **+22.2%**, and full-year 2026 earnings growth of **+18.0%**

BOTTOM LINE: Valuation is the pressure point: forward P/E of 20.9 sits well above the 5-year (19.9), the 10-year (18.9), and 30-year (17.2) averages

Climbing the Wall of Worry

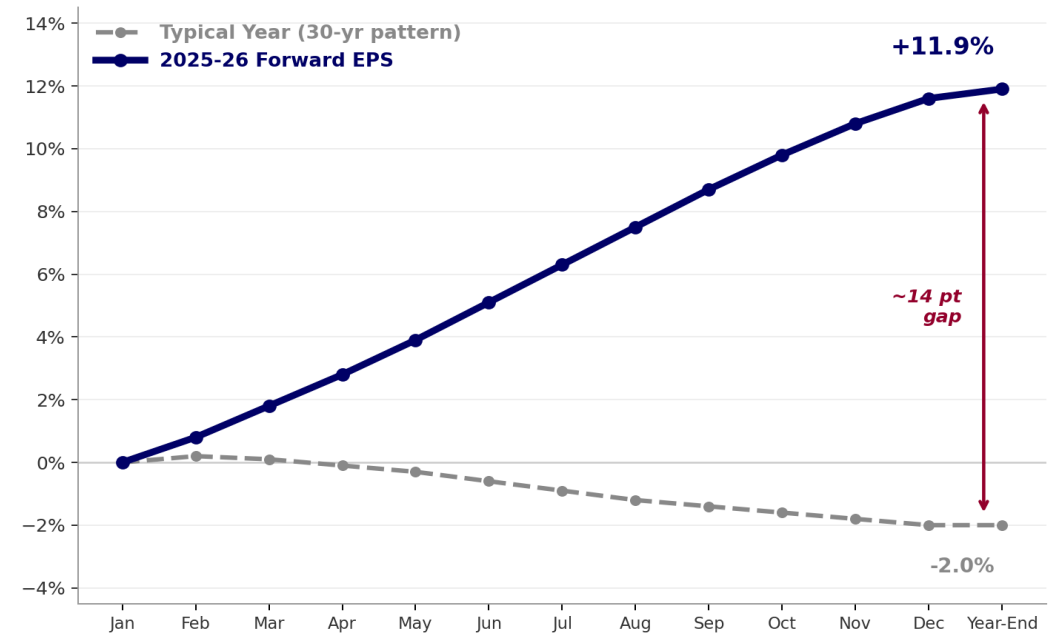
Upside Accelerates When Fears Prove Overdone

❑ **Repeated macro scares:** inflation, banking stress, geopolitics, election risk - have kept positioning conservative, valuations ex-mega-cap less stretched, and companies running leaner.

❑ **Estimates grinding higher, not lower:** forward revenues are up ~5-6% YTD and forward EPS nearly +12%, versus a typical 1-2% decline by this point in the calendar. That is an unusual late-cycle signal.

Forward EPS Revisions: 2025-26 vs. the Typical Year

YTD % change in S&P 500 forward earnings estimates



Source: Yardeni Research (Dec 2025); I/B/E/S consensus via Refinitiv

BOTTOM LINE: Rising forward earnings on top of cautious sentiment = the setup for multiple expansion and earnings growth - the classic combination that fuels bull-market extensions.

No Tolerance for Error

*High Expectations Demand Strong
Execution*



“Asset prices remain elevated, and credit spreads are extraordinarily low...

Combined with high fiscal deficits, sticky inflation, and heightened geopolitical risk, there is little room for error.”

-- Jamie Dimon,

2026 JPMorgan Annual Letter

Markets Are Paying For Perfection

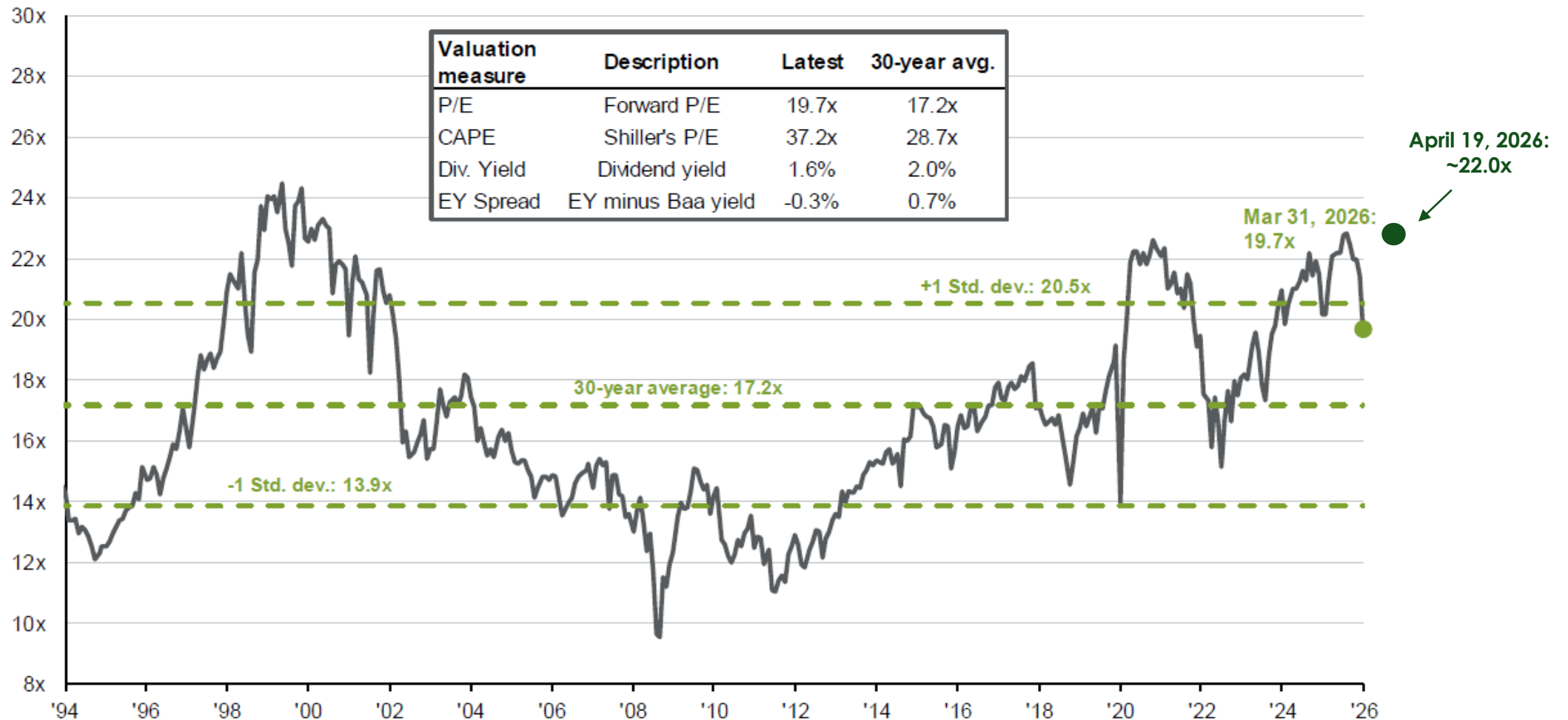
Flawless Earnings, Margin Expansion, and Policy Cooperation

- ❑ Tariff policy, Middle East supply shocks, and Strait of Hormuz risk all create exogenous shocks the market is not pricing in
- ❑ The Shiller CAPE Ratio is near 39 - a level only exceeded during the dot-com peak
- ❑ Berkshire's \$382B cash pile now exceeds its equity portfolio for the first time ever
- ❑ Prior cycles had a Fed put, a fiscal put, or a valuation cushion. In 2026, all three nets have been pulled.

BOTTOM LINE: When the entry price assumes excellence, even "good" becomes a disappointment.

S&P 500 Valuation Measures

Equity Markets Becoming More Fragile Underneath the Surface



Behavioral Risk

Solving the Wrong Problem Perfectly

- ❑ **Regime change rewrites the questions:** When regime change occurs, the greatest risk for any investor is to get all the right answers to all the wrong questions.
- ❑ **The behavior gap is the biggest tax of all:** DALBAR's 2025 study showed the average equity investor trailed the S&P 500 by 848 bps in 2024 (the fourth-largest gap on record).
- ❑ **Fear and greed optimize the wrong variables:** In a high-risk bull market, optimizing around the wrong benchmark, time horizon, or risk metric typically does more damage than picking the “wrong” stock.
- ❑ **Process is the antidote to prediction:** Define the right questions first before choosing instruments or strategies. That discipline, not forecasting skill, is where the edge can live.

Putting It All Together

Staying Grounded in Turbulent Times

Discipline Is the Edge

Navigating an Economy of Real Upside and No Tolerance for Error

The next twelve months will test conviction. The next ten years will reward it.

01

Anchor to Your Horizon

Match every dollar to a timeline. Volatility is the toll paid for equity returns - not a signal to exit. The investor who confuses a twelve-month scare with a ten-year plan forfeits the compounding that makes the plan work.

02

Separate Signal from Noise

Headlines and geopolitical shocks are features of this cycle, not anomalies. Positioning for every scare is how investors underperform. Stay invested in the thesis, not in the headline of the week.

03

Rebalance, Don't Forecast

Forward earnings are rising, valuations are full, and dispersion is widening. That is a market that rewards discipline. It is not a market that rewards bold macro calls or heroic timing.

BOTTOM LINE: *The upside is real. The tolerance for error is not. In markets like these, the disciplined investor with clear objectives, an honest time horizon, and unshaken by headlines is likely to succeed.*

Thank You

If you are not currently a client of Clearwater Capital Partners and would like to continue the dialog, please give us a call. We welcome the opportunity to explore how we might add value to your wealth management strategies.

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