

Shikiar

January 21, 2026

Dear Client,

Happy New Year, and greetings from Team Shikiar. We hope you and your family enjoyed the holiday season and are looking ahead to 2026 with enthusiasm, as we are. Please find attached your investment performance and portfolio report for the fourth quarter of 2025, as well as annual returns. The report provides the market value of your portfolio as of December 31st, 2025, along with asset allocation, security positions, cost basis, and an annual capital gain/loss report.

2025 was the third consecutive year of solid gains for the U.S. stock and bond markets. While returns moderated somewhat versus the prior two years, the results were nevertheless highly satisfactory. All three key indices, the Standard & Poor's 500 (S&P 500), Dow Jones Industrial Average, and NASDAQ, recorded all-time highs with double digit returns. While these advances were indeed impressive, they were still meaningfully influenced by the ten largest stocks in the S&P 500, which collectively accounted for a whopping 41% of market cap and 32% of earnings. The equally weighted S&P 500 (stock returns are calculated equally without market cap weightings) was up 7 percentage points **less** than the index, and one-third of stocks within the index recorded losses for 2025.

In hindsight, the year generated more headlines than we could reasonably enumerate. First and foremost was the unexpected April 2nd "Liberation Day" announcement, which introduced sweeping 10% baseline tariffs and threatened reciprocal rates as high as 50% on more than 60 countries. The abrupt nature of the announcement triggered a sharp market sell-off and spiked volatility to multi-year highs. Just one week later, however, the administration paused most of the measures for a 90-day negotiation window, prompting a swift and powerful rebound. This headline-driven whipsaw persisted throughout 2025, fueling repeated flights to safety that pushed

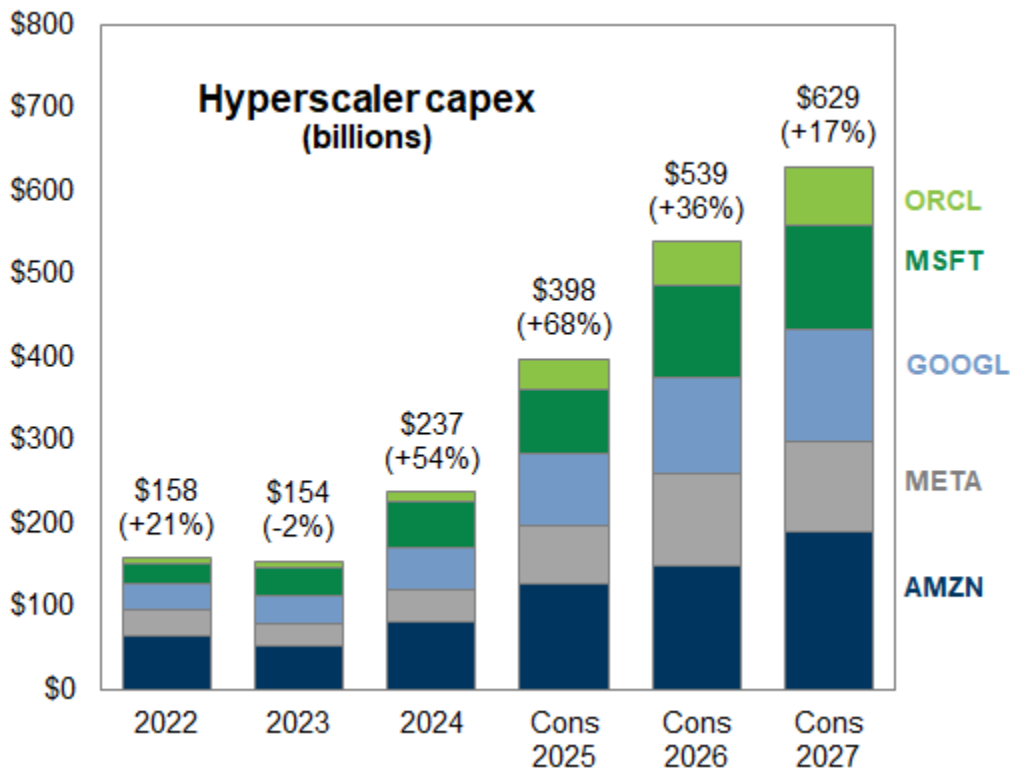
Shikiar Asset Management Inc.
1350 Avenue of the Americas, Suite 1608
New York, NY 10019
212 888 6565

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gold, silver and copper to new highs at various points, while also driving sharp, sentiment-driven moves in the U.S. dollar as investors toggled between risk-off positioning and relief rallies.

Despite the noise, the equity market's focus ultimately stayed anchored on fundamentals and long-duration growth, and nowhere was that more evident than in artificial intelligence (AI). Virtually all S&P 500 companies are using AI in some form, though for many, implementation is still in the early innings and expanding in scope and scale. Over the past three years, the market's attention and capital have been concentrated on the buildout phase: chips, data centers, networking, and power. That phase is not ending, but it is maturing. The largest hyperscalers (Amazon, Meta, Google, Microsoft and Oracle) capital investments surged to roughly \$400 billion in 2025, up nearly 70% year over year, and consensus expectations point to another step up in 2026, as shown in figure 1 below.

Figure 1: Projected FY26 Capital Spending by Major Technology Platforms Totals \$540 Billion



Source: Goldman Sachs Investment Research

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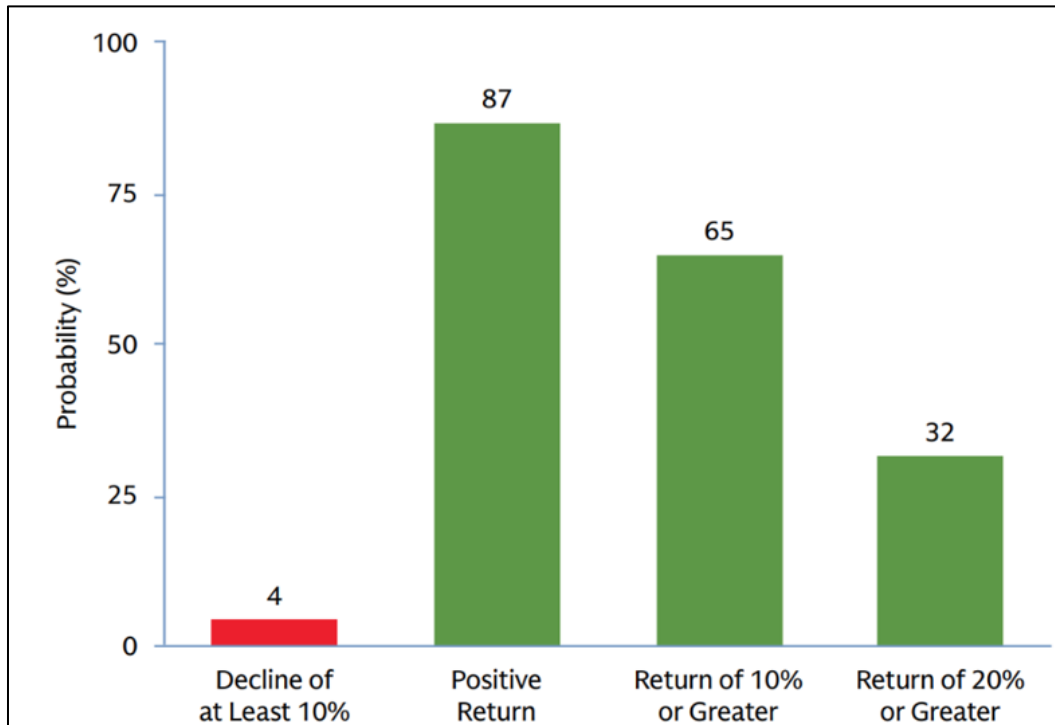
As the buildout scales, however, the focus is increasingly shifting away from the magnitude of spending and toward the productivity and monetization that spending ultimately enables. In 2026, we expect more firms to move from test pilots to workflow integration, particularly in software development, customer service, logistics, marketing, and compliance. We believe the market will increasingly reward companies that can quantify AI's impact on costs, throughput, or revenue, rather than simply referencing it.

Even as investors increasingly focus on AI-driven productivity and margin opportunity, the foundational question for markets remains the same: how durable is U.S. economic growth? The U.S. economy remained more resilient through 2025 than most anticipated. Growth re-accelerated into the second half of the year, with real GDP rising at a 4.3% annualized pace for Q3 2025, reflecting a combination of steady consumer demand and continued strength in services activity. Bank of America CFO Alastair Borthwick framed it simply on their fourth quarter earnings call dated January 14th, 2026: "All of the metrics that we can see tell us the consumer remains resilient and in great shape." We expect this resilience to persist into 2026, with the U.S. economy remaining in expansion and real GDP growth likely to settle in a more normalized 2.0%–3.0% range. Current indicators suggest the probability of a recession over the next year is less than 30% according to Goldman Sachs. We concur.

Interestingly, when the economy remains in expansion, equity outcomes have been favorable, with markets posting positive returns roughly 87% of the time since 1945, as illustrated in figure 2 below.

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Figure 2: One-Year Total Returns During U.S. Economic Expansions Since 1945



Source: Bloomberg Data and Goldman Sachs Investment Research

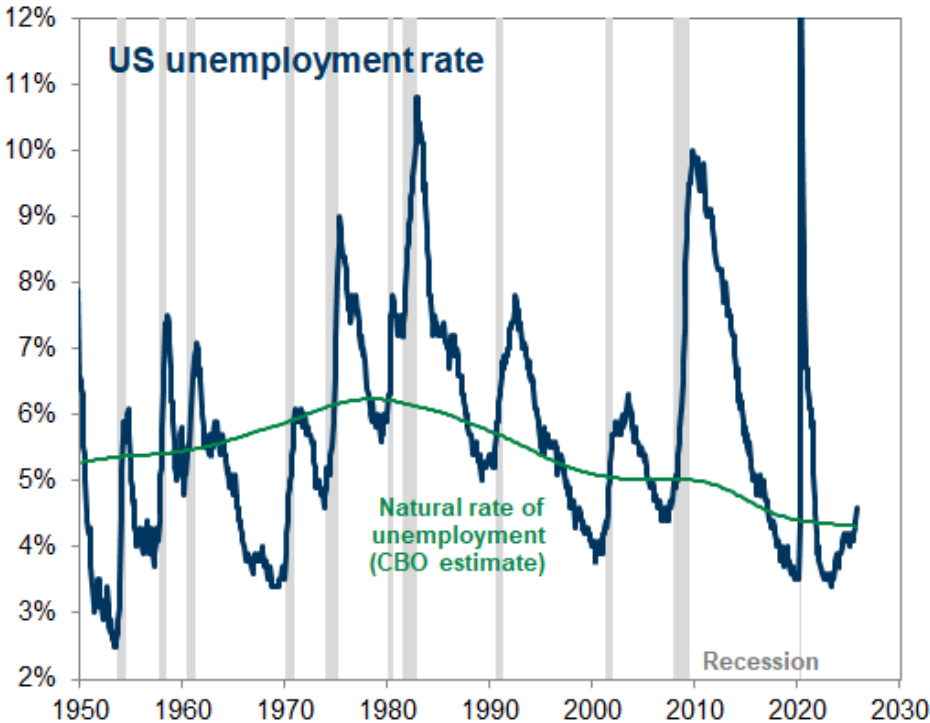
One of the consistent themes and dual concerns in consumer surveys is that of inflation and affordability. Inflation has continued to moderate from the 9.1% peak in mid-2022, **but** progress to the Fed's 2.0% target remains elusive. Core CPI was 2.6% year-over-year in December 2025, only modestly improved from earlier in the year, underscoring that inflation remains stubborn and difficult to forecast.

The labor market has cooled following the post-pandemic boom, but the adjustment thus far has been orderly rather than recessionary in nature. Total nonfarm payroll growth slowed in 2025, rising by just 584,000 jobs for the year (roughly 49,000 per month on average) versus 2.0 million jobs added in 2024, reinforcing a “low hire, low fire” dynamic where companies are adding fewer workers but remain reluctant to reduce headcount. While labor market slack is rising at the margin, it has not nearly translated into the kind of unemployment spike

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typically associated with recessionary conditions. The current U.S. unemployment rate of 4.4% as of December 2025 remains below the historic average, which has run around 5% for many decades, as figure 3 shows below.

Figure 3: U.S. Unemployment Rate 1950 – Present



Source: BLS Labor Data/CBO Estimates

These labor market and inflation dynamics create a challenging setup for the Federal Reserve. After holding rates steady through much of the year, the Fed ultimately delivered 75 basis points of rate cuts, lowering the federal funds rate to 3.50%–3.75% by year-end. Looking ahead to 2026, monetary policy enters an even more uncertain phase. Chairman Jay Powell’s term is scheduled to end in May, and at the time of this writing, the administration has not named a successor. Whoever is nominated will face a nuanced challenge given the Fed’s dual mandate is increasingly in tension, and divisions within the FOMC have become more visible. On one side, policymakers advocating for additional easing point to a cooling labor market. On the opposite side, officials urging caution and advocating to keep policy unchanged argue that inflation progress has stalled. While market pricing reflects an

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expectation for approximately two rate cuts in 2026, the realized path of policy is likely to hinge on whether economic momentum remains resilient or softens meaningfully. Our base case is a limited easing cycle in 2026, with anything from zero to two cuts depending on whether growth stays firm or the labor market softens more meaningfully.

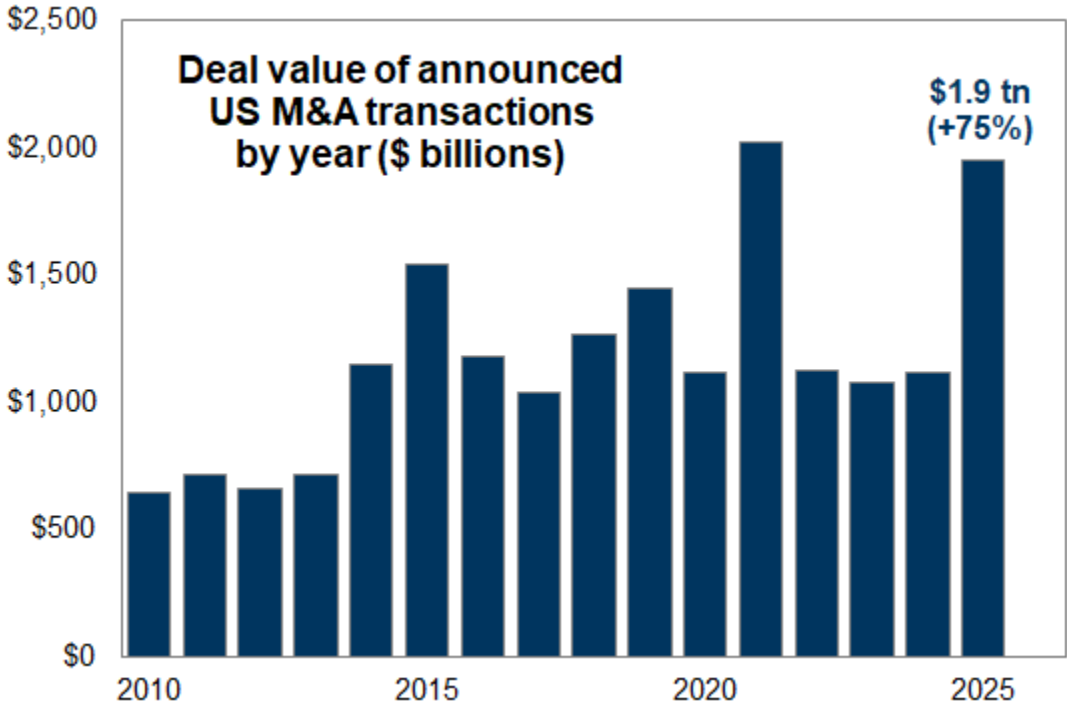
Against that backdrop of greater rate uncertainty and market dispersion, the underlying resilience of corporate fundamentals has been a critical stabilizer. Corporations have demonstrated a notable degree of agility through an unusually dense sequence of the unexpected, including the pandemic, the inflation surge, the fastest rate-hiking cycle in decades, regional bank failures, and abrupt shifts in trade policy. Despite these disruptions, corporate fundamentals have remained durable, with management teams adjusting cost structures, capital allocation, and investment priorities quickly enough to preserve earnings power and cash flow. That trend was again evident in 2025. S&P 500 earnings grew by roughly 12% year-over-year, marking the second consecutive year of double-digit profit growth and extending a multi-year earnings expansion that has exceeded long-term averages.

Encouragingly, our own view as well as consensus is for another year of 10% plus gains in 2026. At the time of this letter, corporations are reporting their fourth quarter 2025 earnings results, and we are listening to a score of hour-long plus update calls over the next several weeks paying close attention to management commentary on present conditions and forward guidance.

As a result of solid earnings growth, capital return activity has also remained robust. S&P 500 companies returned over **\$1 trillion** to shareholders through share repurchases in 2025, alongside a growing dividend stream. U.S. IPOs raised about \$34 billion, the best year since 2021, while global M&A climbed to roughly \$4.3 trillion, \$1.9 trillion of those deals being announced in the U.S as figure 4 shows below.

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Figure 4: Announced US M&A transactions surged in 2025



Source: Goldman Sachs Investment Research

Risks, of course, remain ever present. Trade policy continues to be a source of uncertainty, particularly with respect to U.S.–China relations and the direction of global supply chains. Rare earth materials, semiconductors, and agricultural products remain sensitivities in this relationship, with both sides posturing to gain leverage. Recent U.S. actions abroad, including Operation Midnight Hammer in Iran and Operation Full Resolution in Venezuela, are illustrative of a broader shift in the geopolitical regime. Russia–Ukraine remains an open wound, the Middle East continues to generate recurring security shocks, while the competitive pressure points are expanding across strategic theaters like Greenland and Taiwan. Domestically, the administration’s growing willingness to intervene in private-sector behavior has become a live market input, with recent steps spanning proposed limits on institutional ownership of single-family housing, renewed pressure around credit card interest-rate caps, scrutiny of capital return practices in select industries, including defense, negotiating set pharmaceutical drug prices, and taking stakes in companies and industries deemed key to national security and prosperity. At the

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same time, the U.S. debt burden and structural deficit remain substantial. Our national net interest expense has already eclipsed national defense spending. As liquidity conditions have remained supportive, pockets of speculation have re-emerged at the margin, from prediction markets and leveraged retail positioning to more “story-driven” assets. Separately, private credit has accelerated meaningfully and now represents an approximately \$3 trillion market. While the industry includes several deeply experienced managers, it has also attracted newer entrants that have yet to be tested through a full economic cycle, which bears watching. Finally, as AI becomes more embedded across the economy, it is also raising the stakes on cybersecurity, as both the sophistication and scale of attacks evolve, creating a more dynamic risk landscape for corporations and critical infrastructure. Looking ahead, the 2026 midterm elections represent an additional source of uncertainty. Shifting legislative expectations could drive changes across taxes, regulation, defense, healthcare, and trade policy that could create a more headline-driven market environment.

All these crosscurrents reinforce the need for discipline in portfolio positioning. In the closing weeks of 2025, we again acted very selectively, adding positions in companies with strong balance sheets, valuation support, and credible management execution, while trimming exposures that had largely realized near-term upside. As always, but of utmost importance into year end, decisions were made in the most tax efficient manner. As we enter the new year, we believe it is important to maintain exposure to key structural themes such as artificial intelligence and critical commodities, while being highly selective on entry points, and position sizing. Within fixed income, we have begun to pivot portions of floating-rate exposure into longer-duration securities to capture attractive yields and reflect the evolving interest rate environment. As outlined in prior letters, we organize portfolios into three core silos: high-quality blue-chip growth companies with strong balance sheets and long-term secular tailwinds; companies trading at reasonable valuations with stable earnings power in more defensive sectors such as healthcare, industrials, and insurance; and a carefully curated set of income-generating securities, including preferred equities, corporate bonds, and municipal bonds, where appropriate. As always, asset allocation and position sizing reflect the specific goals and risk profile of each client.

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As we share in each of our quarterly letters, the senior team at the firm “eats its own cooking” and is meaningfully invested in many of the same securities we hold in your portfolios. Further, we seek portfolio companies that manifest attractive, sustainable long-term fundamentals that encompass the following: leading market share, strong balance sheets, free cash flow, revenue and earnings growth, cash dividends, periodic share repurchases, and well-respected management. While the current environment presents challenges, we remain optimistic about the path forward and confident in our disciplined, research-driven approach. We continue to maintain a steady hand on the tiller, guided by long-term conviction and an unwavering commitment to protecting and growing your capital.

As always, we welcome your questions and comments and look forward to 2026. As with 2025, it will be anything but dull and uneventful! Thank you for your confidence, it is greatly appreciated.

Very Truly Yours,

Team Shikiar

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