

QUARTERLY COMMENTARIES

STRONG MARKETS, NARROW LEADERSHIP: STAYING DISCIPLINED IN AN AI-DRIVEN RALLY



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The global equity markets continued their advance in the fourth quarter of 2025, associated with several factors, including generally favorable conditions with respect to corporate profits and economic growth, dampened inflationary

pressures, monetary policy easing, and continued enthusiasm over the possibilities of Artificial Intelligence on future economic productivity. The broad domestic equity market, as measured by the S&P 500 index, increased by +2.7%, including dividends in the quarter, bringing its return for all of 2025 to +17.9%. The S&P 500 index is “cap-weighted,” meaning that the companies with largest market value have a greater effect on the index’s movement. On an “equal-weighted” basis, the 500 stocks that comprise the index increased by meaningfully less, rising +1.4% and +11.4%, respectively, in the fourth quarter and full-year 2025 including dividends. We will discuss this disparity and the challenges it has presented to us and other “active” investors below.

International equity markets rose as well, with the MSCI EAFE Index climbing by +4.9% in the quarter, and +31.9% for the year, including dividends. Small cap stocks (Russell 2000) returned +2.2% and +12.8%, although there was a wide disparity between leaders and laggards among the companies that make up that volatile index, as usual. Bond markets also saw gains for the quarter and year, with the Bloomberg Aggregate Bond index rising +1.1% and +7.3% during the most recent quarter and year, respectively. These gains were driven in part by a downward shift in the yield curve for both Treasury and corporate obligations, which we believe reflects investor expectations that inflation will remain contained, as well as an increased confidence that governments and corporate borrowers will be able to comfortably service their debts.

STRONG GAINS IN A CHALLENGING PERIOD

Throughout our 22-year history as a firm, we’ve experienced periods of outperformance and periods of underperformance for our Core Equity strategy relative to our primary chosen benchmark, the S&P 500. This deviation from

the benchmark is an expected short-term outcome of managing a relatively concentrated portfolio of stocks. We accept this fact while recognizing that it can cause discomfort. As your investment manager, we spend little time worrying about day-to-day changes in the market prices of our holdings relative to the market. Instead, we focus our attention on seeking to ensure that your capital is invested in high-quality businesses trading at reasonable prices. We maintain that markets move over the short term in reaction to many stimuli that can't be predicted, but that over the long term, there has historically been a relationship between wealth creation in a company's stock and its earnings growth. We trust that relationship. We believe that deep research can provide a good understanding of these future earnings, and that if we pay a reasonable price for these future earnings, our investments will generate an acceptable return. Our investment approach is to control the controllables, and not to blindly put money to work in the broad markets and leave it to complex market systems to determine our investment outcomes for us.

But of course, we're always aware of our relative performance, and there's no question the latter half of 2025 has been a challenging period for our Core Equity portfolios when measured against the broad equity market. While we've experienced plenty of gains overall during this period, we're trailing the index by a wider margin than we'd like to see. We think it's important to offer our perspective and discuss what we view as the best path forward, given that our job as a fiduciary, entrusted to grow and protect your investments, is to deliver both competitive returns that serve your long-term financial needs and peace of mind.

First, it's important to note that the "broad" market index, the S&P 500, is not broad at all. There are 500 stocks in the index, giving the appearance of

breadth, but the largest eight companies by market value (the so-called “Magnificent Seven” plus Broadcom) comprise over 34% of this group’s overall market capitalization at present. [1] Their stock price movements therefore disproportionately affect the overall index’s performance. In fact, for the calendar year 2025, these stocks accounted for approximately 48% of the S&P 500 Index’s total performance. These eight, ranked by weight in the index: Nvidia, Apple, Microsoft, Amazon, Alphabet, Meta Platforms, Broadcom, and Tesla, have something in common: They’re major players and innovators in cloud computing and artificial intelligence (“AI”) technologies.

A passive investment in the index means a heavy investment in these eight equities, which means a heavy investment in cloud computing and AI. Is this something that should concern us? Consider that this group’s 2025 earnings comprise roughly 25% of the composite earnings across the S&P 500 (meaningfully less than their 34% market value concentration). When investors pay a much higher price for a stream of future earnings, as it does for these eight equities, the implication is that the market anticipates dramatically faster earnings growth for these eight names than for the other 492 members of the S&P 500. This may be a reasonable assumption; however, we contend the visibility of these future earnings is less than clear, as the business models around AI are in extreme flux. For example, we are skeptical that investors fully anticipated the scale of the capital investment required for building out AI infrastructure, and we question whether Wall Street has a firm grasp on the investment returns that will result from this spending. It’s too soon to know the immediate, secondary and tertiary effects of this massive capital expenditure. Speculation is rampant.

Further, we question the quality of some of the revenue and earnings streams that are being reported and then valued with high multiples. As an example,

Nvidia signed an agreement with cloud service provider CoreWeave that obligates Nvidia to purchase \$6.3 billion in residual, unsold data center capacity if CoreWeave's own customers, like Microsoft and OpenAI, do not utilize it. This "guarantee" enabled CoreWeave to raise the capital necessary to invest in its datacenters, the most critical and costly component of which are Nvidia GPU chips. The transaction may make strategic sense, as it enables a large customer of Nvidia to invest and grow, but the accounting for this circular deal leaves us with a slightly bad taste. Assume Summity ran a lemonade stand. If we were to give you \$1,000, and you turned around and purchased \$1,000 worth of lemonade from us, should we conclude that we're building a successful lemonade enterprise? Of course not; we're effectively buying our own sales. There is nothing improper about Nvidia's accounting for the transaction, but we believe that the "quality" of the earnings Nvidia will generate from this arrangement is lower than would be a truly arms-length transaction. We worry Wall Street isn't making a similar distinction, and this concerns us because these kinds of circular arrangements are becoming commonplace across the AI ecosystem.

If the long history of technology-driven paradigm shifts across the global economy provides a guide (think printing press, cotton gin, steam engine, electricity, railroads, air travel, atomic energy, internet, to name a few), the outcomes for investors who fund the transition may span the entire range from boom to bust. As a team whose mission is to control the controllables AND act as a fiduciary for clients who give us their trust, we concluded that it is improper to overexpose clients to the AI and cloud computing investment theme, which is precisely what a passive investment in the index would do. In our Core Equity strategy, our most direct exposure to this technology is expressed in our holdings in Alphabet, META Platforms, Microsoft, Amazon and Taiwan Semiconductor Manufacturing Company. These equities were

selected by the team because of the quality of their businesses, the growth in their earnings, and a stock price that we concluded can be justified by our projections of their future earnings. In a composite of client accounts in the Core Equity strategy, the aggregate weighting of these five names is roughly 25%.^[2] This is substantial concentration, but meaningfully lower than the weighting of the Magnificent Seven plus Broadcom in the S&P 500. This accounts for a significant part of our underperformance in the back half of 2025.

It is reasonable to ask us if we should be doing something different to better align ourselves with the current environment. To this, we offer the following response, covering two important elements of Summity's offering: (1) investment principles; (2) the purpose we serve for each individual client.

(1) Investment principles: Since the founding of the firm, we've felt that the best way to manage money in equities is to own common stocks of high-quality companies with good earnings growth prospects. One key marker of a high-quality company is its ability to generate superior returns on invested capital over economic cycles. Other key markers include the visibility and the sustainability of a company's earnings into the future. These latter two "forward-looking" factors are, in the new era of capital-hungry AI deployments, getting harder to assess. We are not afraid of "paying up" for growth when we think it's warranted, but there is a limit to the price we're willing to pay and the exposures we're willing to have in a portfolio if we think future earnings expectations are clouded by uncertainty (visibility) or ahead of what we believe to be reasonable (sustainability).

By sticking with our investment principles, we've certainly left profits on the table in the past several months, but it reminds us of the experience in the US

capital markets earlier in our investment careers as the dot-com bubble expanded. Some of the world's most successful investors—people like Warren Buffett, John Templeton, Peter Lynch, Julian Robertson, Jeremy Grantham and Bill Ruane, to name a few—were similarly out of sync with Wall Street's consensus view of the internet infrastructure and services industries. These investors remained firm in their convictions, at great risk to their reputations and significant cost to their businesses as FOMO drove some clients to move their money elsewhere. These investors later experienced periods in which valuations realigned more closely with fundamentals as economic reality took hold and many of the era's business models were proven unsustainable and the (then popular) circular financial arrangements among core players in the dot-com ecosystem began to unravel. Of course, many of the companies survived and ultimately thrived, but their valuations were reset to levels that were more aligned with their fundamentals.

We note that this is not a story that's limited to that narrow period in the history of our public and private capital markets. Benjamin Graham's 1934 edition of *Security Analysis* included a chapter called "The New-Era Theory," which spoke about a shift in widespread investment practices during the period leading up to the 1929 stock market crash that "could not fail to be tragic." In the past 60 years, we can think of several other instances, such as the Nifty Fifty in the late 1960s and early 70s, the Savings & Loan Crisis in the late 1980s and early 90s and the binge buying of real estate ahead of the 2008-09 Global Financial Crisis. We are not necessarily predicting a replay of the market meltdowns that ensued, but we believe this is a time to reaffirm our longstanding investment principles, not change them. Carelessness in investing has severe consequences. As John Pierpont (J.P.) Morgan noted about undisciplined behavior in the markets, "Capital returns to its rightful owner."

(2) The purpose we serve for each individual client: We recognize that every family, individual or organization that Summity serves has their own unique objectives, and they trust that we'll serve them in a manner that enables them to achieve these objectives with the highest degree of certainty.

Comprehensive financial planning and investment policy setting are the steps we take to determine how the investment team will manage individual client accounts. Whether the mission is to make as much money as possible, preserve wealth with the highest degree of certainty, produce income to meet an ongoing need for cash flow, or anything in-between, we employ a range of asset allocations to serve these interests. The Core Equity strategy is our bellwether but is among several strategies that we use. Around this strategy, we build accounts around allocations involving taxable or tax-exempt fixed income, dividend-focused equities, concentrated "Select" equities and, where applicable, our Explore strategies that provide exposure to complementary and "alternative" asset classes. What mix is best for you depends on an analysis of your financial circumstances and an agreement between you and your Financial Advisor on which investment policy is the most likely to achieve your financial objectives.

Benchmarking to individual market indexes like the S&P 500 is useful, but it tells only part of the story. Over the past year, some of our strategies outperformed and some underperformed relative to their most closely aligned benchmark indexes, but this is not terribly important in our view. A more important question, we think, is how well your overall allocation is mapping to your financial planning journey. If this journey is toward a comfortable retirement, how certain are you that your finances will support it in the days after you give notice? If it is the acquisition of a portfolio of income-producing properties some years from now, how likely is it that you will have the necessary resources to make that investment? The markets for financial

assets like stocks, bonds, commodities and real estate may fall as well as rise, depending on the moment, so a fixation on a short period tends to lead one to lose track of a larger picture. As a fiduciary, the Financial Advisor's job is to encourage you to think in terms of long investment cycles, and as Investment Managers, our job is to similarly think in terms of client lifecycles rather than the short-term. We think that mapping investment performance to your financial plan and the investment return expectations built into your asset allocation policy will enable you to better stay the course through good times and bad and will deliver peace of mind. If we can help you maintain this mindset, we think we will have done our jobs and will be a blessing in your lives.

Q4 PORTFOLIO CHANGES

Please keep in mind, these commentaries should not be construed as a recommendation to buy or sell the securities discussed. Such decisions are made only within the context of the market environment as we perceive it at the time of the decisions and the structure of the diversified portfolio of which the securities are a component.

During the quarter we executed several transactions to change the weighting of stocks in the Core Equity portfolio, but we did not add any new names, nor eliminate any of the strategy's portfolio holdings.

The Role of Cash in Our Portfolios

From time to time our cash balance will increase, as it has in recent months. Cash offers a return, when invested in a government money market fund, of roughly 3.6% at present. This level of return is at, or above, the current rate of inflation, so it protects the purchasing power of our principal. Equity investing is not intended to merely protect against inflation, but rather to drive positive

“real” returns and to build wealth. Consequently, we try very hard to keep as much of our capital as possible working for us in stocks.

When we evaluate a stock, we seek an “expected return” in excess of 10%, not merely a return greater than what we can achieve in cash equivalents. Why the higher hurdle? Because investing in equities involves the acceptance of risk, including the systematic volatility of equity markets and the fundamental risks that are linked to economic cycles, corporate earnings growth, and company-specific business risks. By targeting double-digit returns for our equities, we build in a “margin of safety” against these risks.

The things that matter most when calculating the expected return of a stock are the estimates of future cash earnings, a valuation multiple that we believe a knowledgeable and willing buyer ought to pay for those future cash earnings, and the current stock price. Our research will derive the first two factors, but the third factor is set by the market. After three years of strong stock market returns, we’re finding it more difficult to find what we deem to be good values. Consequently, as we have trimmed or sold out of positions in recent months, we have not reinvested every dollar into new stocks or existing stocks in our portfolio. We note that this should not be seen as a prediction that the strong stock market of the recent past will reverse (we never claim to know which direction the stock market will go in the future), but as an affirmation of an investment discipline that has served us well through many market cycles. As in the past, we expect this larger cash buffer to be temporary, and that good values will present themselves.

OUR OUTLOOK

We make it a practice to not attempt to time the markets or predict the direction of the economy. We do not possess a crystal ball, nor do we think these to be useful exercises, as they do not aid in sound investment decision making. Peter Lynch commented on both practices. With respect to market timing: *“Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in the corrections themselves.”* And regarding the utility of predicting economic factors: *“If you spend 13 minutes a year on economics, you’ve wasted 10 minutes.”* Lynch believed, as we do, that if you invest in attractive businesses at reasonable prices, and exercise patience, the returns will follow.

Nevertheless, as previously noted, three years of strong gains in the broad equity markets make it more difficult today to satisfy our need to get “good value” for our dollars invested, while still maintaining a portfolio broadly diversified across industry sectors. We think it’s reasonable to assume that over these three strong years in the markets, we may have borrowed some gains from the future. Consequently, we’ve lowered our own expectations as to the rate of return that we can expect from the equity markets over the next few years. We suggest that when considering your financial plan over a similar time horizon, you dampen your expectations of equity market returns as well.

This commentary is provided for informational purposes only and reflects our views as of January 1, 2026. It is not a guarantee of future results. Any forward-looking statements are subject to uncertainty and actual outcomes

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[1] estimated, based on publicly available index data as of 12/31/25

[2] Weightings of these positions in individual client will vary, influenced by timing of purchases and sales, cash deposits and withdrawals from accounts, and other factors.