



Quarterly **REPORT**

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a3wm@alpha3wealth.com | (208) 665.5894

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Broad Economic Backdrop

Solid Prospects for 2026



Slower Job Growth Reflects Labor Constraints, Not Weakness

Slower job growth in 2025 reflects limits on labor supply rather than economic weakness, with employment gains broadly aligned with the growth of the domestic workforce. Strong new business formation suggests underlying economic momentum that may not be fully captured in headline job data.



AI Productivity Gains May Contain Inflation and Interest Rates

Productivity gains from AI are helping offset wage pressures from a tight labor market, reducing the inflationary impact of higher wages. This dynamic supports relatively stable inflation and limits volatility in interest rates.



Strong Profits and Stable Rates Support Equity Markets

Corporate profits have remained strong and have been revised higher despite slower job growth, while interest rates continue to fluctuate within a narrow range. Together, these conditions create a favorable environment for equities heading into 2026.

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Geopolitical Developments: Regional Implications

Evolving U.S. Economic Posture in the Western Hemisphere

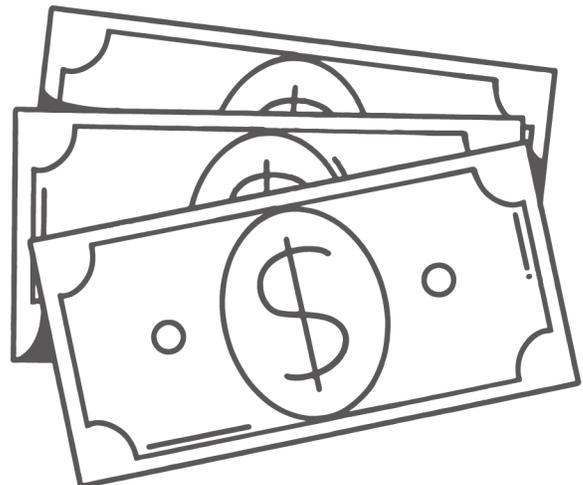
Policy developments in the Western Hemisphere could signal a more assertive U.S. economic posture toward regional trade, energy production, and supply chain security. These shifts may influence capital flows, commodity markets, and international investment dynamics.

Energy Dependence as a Strategic Pressure Point

Energy dependence has emerged as a critical vulnerability for Cuba, Iran, and China, reshaping geopolitical leverage across multiple regions. As Venezuela's role as an energy supplier potentially realigns toward the U.S., these nations could face heightened economic and strategic pressure that could constrain their economic and geopolitical flexibility.

Venezuela's Political Shift and Global Economic Implications

Potential leadership or policy changes in Venezuela could unlock investment, restore energy production, and bring meaningful new supply to global oil markets. Lower oil prices would support global growth, reduce inflation pressures, and improve real household incomes, while weakening the financial position of other oil-dependent adversaries.



Three Years On

Assessing the Risks Ahead

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



AI-Driven Spending Remains Powerful, but Concentration Raises Risk

AI continues to be the dominant force behind capital spending and earnings growth, having driven much of the market's outperformance over the past three years. However, with the top 10 companies now accounting for more than 40% of the S&P 500's market capitalization, market leadership has become increasingly concentrated, heightening the importance of diversification across different parts of the AI ecosystem and beyond.



Structural and Financial Support Make a Sharp AI Slowdown Unlikely

While periods of digestion or investment pauses are possible, strong customer demand, improving infrastructure solutions, and lessons learned from prior technology cycles reduce the risk of a meaningful slowdown. The largest AI investors are supported by strong balance sheets, well-documented demand drivers, and accommodating credit markets, creating a durable foundation for continued investment.



Investor Rotation Reflects Maturation, Not Abandonment, of the AI Theme

After several years of outsized gains among AI leaders, investors are increasingly rotating toward broader market opportunities to reduce concentration risk and enhance portfolio resilience. This shift reflects recognition of attractive valuations elsewhere in the market rather than waning confidence in AI, which remains a key driver of growth heading into 2026.

Global Policy Shifts: Energy, Trade & Alliance Considerations



Potential Policy Changes in Venezuela and Energy Market Implications

If Venezuela were to experience a political transition, it would likely support energy producers and oilfield service companies by enabling investment to restore and expand oil production, which could help keep global oil prices lower for longer. This appears to be a targeted policy action rather than the start of a broader U.S. intervention strategy, as similar moves elsewhere in the region would likely face strong international resistance and lack local support.

China's Structural Advantage in Regional Trade and Infrastructure

China's extensive infrastructure investment and position as the region's primary trading partner give it significant influence across South and Central America. Its control over critical-mineral refining and rare earths constrains how aggressively the U.S. can attempt to reshape regional trade dynamics without risking broader economic or geopolitical fallout.

Latin America's Trade Shift Toward Europe

Heightened uncertainty around U.S. trade policy and tariffs is prompting Latin American firms to remain cautious about expanding reliance on the U.S. market. Instead, many are deepening trade relationships with Europe, viewing potential Mercosur agreements as a more stable and attractive long-term pathway for market access.

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®

Inflation & Positioning



Inflation Has Moderated and Is Expected to Ease Further

Inflation has declined meaningfully from its 2022 peak, falling to 2.7% overall and 3.3% on a core basis, though it remains above the Fed's 2% target. Moderating consumer goods and energy costs, along with fading tariff effects, suggest inflation pressures should continue to ease into 2026 despite persistent shelter costs.



The Federal Reserve Faces a Complex Policy Tradeoff

The Federal Reserve must balance the desire to lower interest rates against inflation risks driven by fiscal deficits and continued consumer spending. This dynamic may keep borrowing costs elevated even as upcoming fiscal stimulus supports economic growth and employment.



Diversification Remains Essential for Preserving Purchasing Power

In an inflation-sensitive environment, diversified portfolios with exposure to sectors that can pass along rising costs are critical to protecting real purchasing power. Investments in areas such as energy, real estate, consumer staples, financials, and dividend-growing companies help position portfolios to remain resilient across shifting inflation and growth conditions.



Positioning Matters

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



Positioning Fixed Income for

2026

Maintaining Moderate Duration Balances Reinvestment and Inflation Risks

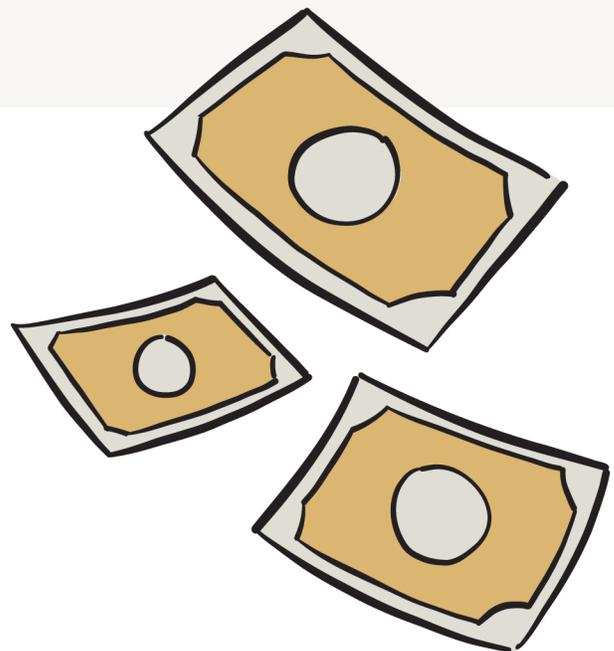
Maintaining a moderate duration helps avoid reinvestment risk associated with very short-term securities while limiting exposure to inflation and rising long-term rates. With the likelihood of a more dovish Fed and continued growth in government debt, a 3–7-year maturity profile offers a more balanced and durable approach to interest-rate risk.

Tight Credit Spreads Reinforce the Need for Discipline and Quality

Credit spreads remain well below historical averages, reducing compensation for taking additional credit risk and reinforcing the importance of disciplined bond selection. In this environment, focusing on high-quality, intermediate investment-grade bonds allows investors to capture attractive yields without chasing incremental risk.

Intermediate, High-Quality Portfolios Provide Yield and Downside Protection

A higher-quality fixed-income portfolio concentrated in the 3–7-year range offers compelling income today while providing better downside protection if rates fall or credit spreads widen. This positioning is particularly effective in periods of policy uncertainty, where preserving capital and maintaining flexibility are essential.



Constructing Durable Municipal Portfolios for 2026

Municipal Opportunities Require Selectivity, Not Broad Exposure

Municipal bond opportunities are improving as higher issuance has increased yield and security availability, but success in 2026 will depend on careful selection rather than broad market exposure. While state and local balance sheets remain generally healthy, wider dispersion among issuers makes rigorous credit analysis increasingly important.

Policy and Liquidity Risks Reinforce a Disciplined Approach

Policy uncertainty, market volatility, and shifting liquidity conditions heighten the risks of yield-driven strategies. Diversification, strong credit research, and avoidance of historically higher-risk sectors are essential to preserving capital and maintaining consistent tax-exempt income in 2026.

Quality, Structure, and Intermediate Duration Support Income Stability

High-quality, intermediate-duration municipal bonds with strong structures and longer call protection offer more reliable income and reduced reinvestment risk. Simpler bond structures help lock in yields while avoiding refinancing and extension risks that tend to rise in volatile rate environments.

Success in 2026 will depend on **careful selection** rather than **broad market exposure**.



S&P 500 vs. S&P 500 Equal Weight:

When Are the Big Too Big?

For many investors, “the market” is synonymous with the S&P 500, yet the index is not a balanced reflection of corporate America. As a market-cap-weighted benchmark, it increasingly reflects the performance of a small group of mega-cap companies rather than the broader universe of 500 stocks. By the end of 2025, this concentration has become extreme, with a handful of AI-driven giants dominating returns and shaping investor perceptions of overall market health. This growing divergence raises important questions about market breadth, the sustainability of leadership at the top, and where future returns may come from.

In the traditional S&P 500, companies are weighted by size, giving outsized influence to firms such as Apple, Microsoft, Nvidia, Amazon, Meta, and Alphabet. The top 10 stocks now account for roughly 40% of the index, well above historical norms closer to 20–25%. As a result, investors seeking broad exposure through the index are effectively holding a highly concentrated portfolio tied to growth and AI themes, with the remaining hundreds of companies playing a far smaller role in overall performance.

By contrast, the S&P 500 Equal Weight Index assigns the same weight to every constituent, making it a better gauge of broad market participation. This structure allows smaller and mid-sized companies to meaningfully influence returns, but it also means the index tends to lag when market leadership is narrowly concentrated in mega-caps. Over recent years, intense enthusiasm for AI has funneled capital toward the largest companies, leaving the equal-weight index trailing—yet positioning it to potentially benefit if leadership broadens or the market rotates away from today’s dominant names.



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 extremely profitable, generating free cash flow that rivals the GDP of many countries, but the law of large numbers makes sustained rapid growth increasingly difficult as markets saturate and expansion opportunities narrow. With the top 10 companies now representing over 40% of the S&P 500, their ability to continue compounding at historic rates will largely determine the index's future returns.

Breadth Expansion Could Come at the Expense of the Megacaps

Market breadth—how many stocks participate in a rally—has remained narrow in the current bull market, with a small group of tech giants driving returns while most small and mid-cap stocks lag. If conditions shift and leadership broadens, the equal-weight index could outperform as capital rotates into long-overlooked areas of the market.

Valuation gaps are the widest in decades

Regulatory actions are more heavily directed at the largest technology companies

Reindustrialization and onshoring trends favor smaller firms

AI adoption may benefit the broader economy, not just the megacaps

If AI drives exponential productivity gains, these firms could sustain double-digit earnings growth even at massive scale, allowing the cap-weighted S&P 500 to continue outperforming on the strength of mega-cap dominance.

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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Protecting With Purpose

We help you safeguard your family, your future, and your legacy. That way, you can move forward with confidence that **everything important to you is secure.**

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