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COLONIAL TRUST
COMPANY

1ST QUARTER | 2026

COLONIAL TRUST *Quarterly*

Review of Q4 2025

Welcome Joe Anderson

Expectations for 2026

REVIEW OF Q4 2025

THE 4TH QUARTER MARKED THREE CONSECUTIVE POSITIVE QUARTERS FOR STOCKS WITH 2025 MARKING THREE YEARS OF DOUBLE DIGIT RETURNS FOR THE S&P 500.

While positive, the quarter was muted, the S&P returning 2.7%. The Santa Claus rally did not materialize, and after reaching an all-time high on Christmas Eve, the S&P 500 fell four consecutive days to end the year. The DJIA's led all indices for the quarter with a 4.0% return.

International markets continued to outperform domestic markets, with the index of developed markets returning 4.9% for the quarter and 32.0% for the year. The MSCI Emerging Markets index returned 4.8% for the quarter and 34.3% for the year. Bonds posted positive returns, with the Bloomberg Aggregate Bond Index returning 1.1% for the quarter and 7.3% for the year.

Index	4Q25	2025
S&P 500	2.7%	17.9%
DJIA	4%	14.9%
Nasdaq	2.7%	21.2%
Russell 2000	2.2%	12.8%
MSCI EAFE	4.9%	32%
MSCI Emerging Markets	4.8%	34.3%
Bloomberg Agg Bond	1.1%	7.3%

Source: Bloomberg, LP

The tenor of the market has changed. While the AI build-out remained the primary topic driving markets, concern emerged about the financing of capital expenditures and when these investments will be monetized. The longest government shutdown in history, concerns about AI capex, uncertain Fed policy, and valuation concerns caused investors to be more cautious. Investor rotation followed in the S&P. From the April lows, the market has been led by tech and communication services, which posted the highest returns in 2Q and 3Q. In the fourth quarter, healthcare was the shining star, returning 11.7%, with drug stocks leading. Communication services posted a 7.3% return, thanks to Alphabet's 28.8% return. But this was the lone stand-out of the Mag-7 during the quarter, with Meta, Microsoft, and Nvidia in the red, while Apple, Amazon, and Tesla returned 6.8%, 5.1%, and 1.1%. There was also strength in financials and energy stocks, leaving the tech sector coming in fifth in the S&P 500's 4Q sector derby.

REVIEW OF OUR 2025 FORECAST

It is humbling to review where we were correct and where we were mistaken in our forecasts. We expected 2025 to be a positive year for the economy and the markets, but we underestimated the strength in both.

THERE WERE ASPECTS OF OUR OUTLOOK THAT WERE CORRECT.

We expected consumer spending to be led by the wealth effect and Boomers adopting the YOLO mentality. We forecasted little improvement in the fiscal situation and expressed skepticism about DOGE's ability to find massive spending cuts. We believed changes in regulation and pro-growth policies would be good for growth. We expressed optimism that productivity could shift to a higher gear due to technology. We expected manufacturing to remain moribund outside of companies leveraged to AI.

As is always the case, there were areas where we missed the mark. We expected the labor market to moderate from the torrid pace of 2024, but were too optimistic about the level of job growth. We thought inflation rates would moderate further in 2025, largely because we believed tariffs would be a negotiating tactic. This assessment proved wrong. We finish the

Belinda Gillespie and Libby Adamson are pictured on the front cover.

WELCOME JOE ANDERSON

We are excited to welcome Joe Anderson to Colonial Trust as a Financial Advisor and Family Office Strategist. He is a Certified Financial Planner™ (CFP®) and Certified Public Accountant (CPA) with more than a decade of experience in public accounting, having worked at both a Big Four firm and a large regional firm. In addition, Joe spent two years in a family office environment, further deepening his expertise in comprehensive planning. He graduated magna cum laude from Erskine College and went on to earn a Master of Professional Accountancy with a concentration in Taxation from Clemson University. Joe calls Spartanburg home, where he enjoys raising his new daughter, Belle, with his wife, Mary Katherine. Outside the office Joe enjoys spending time with his family, playing golf, and volunteering with the First Tee Upstate.

JOE P. ANDERSON III, CPA, CFP®
Financial Advisor and Family Office Strategist

year with an average 15% tariff on imported goods. We were too optimistic on geopolitics, expecting resolution on Ukraine/Russia and the Middle East. Finally, although we believed AI investment would be significant, our estimates for 2025 capital spending from hyperscalers were far too low. The actual number looks to be double what was expected only a year ago.

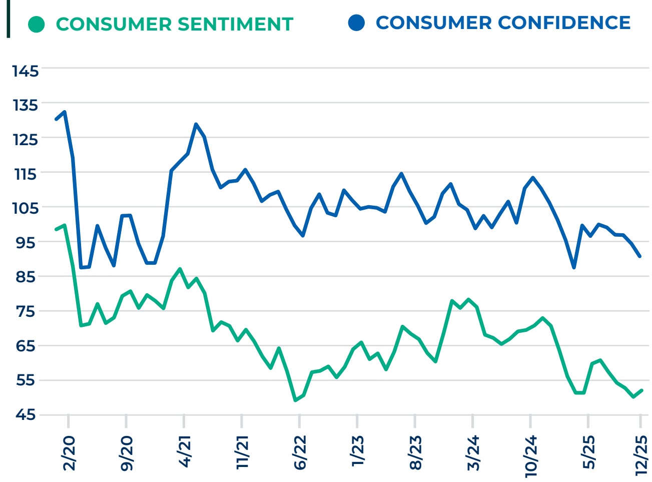
Overall, we were directionally correct on the economy and markets, albeit too pessimistic. We did not forecast the economy and markets to become even more reliant on AI spending and wealthy consumers. While this has been sufficient to propel GDP growth above trend levels, we are hopeful that the drivers of economic growth continue to broaden out in 2026 as they did in the 4th quarter of 2025.

2025 ECONOMIC PERFORMANCE

GDP GROWTH WAS ROBUST IN 2025, AFTER DECLINING IN THE FIRST QUARTER DUE TO A SURGE OF IMPORTS.

The second and third quarters saw 3.8% and 4.3% GDP growth with consumer spending growing quickly. Wall Street estimates for the fourth quarter are for 1.8% GDP growth; this against, the Atlanta Fed GDPNow forecast which is calling for 2.7% growth.

CONSUMER SURVEYS



THE CONSUMER WAS A PUZZLE IN 2025. STUBBORN INFLATION, POLICY UNCERTAINTY, AND A WEAK JOB MARKET DIMMED CONSUMER ATTITUDES.

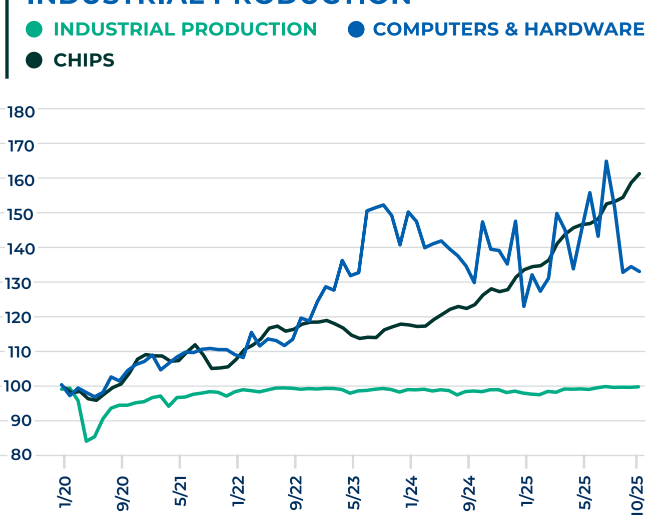
Indices for Consumer Sentiment and Consumer Confidence fell 29% and 19% during 2025. While the labor market softened, the unemployment rate was only 4.6% in November, and initial claims for unemployment insurance remain muted. While not signaling a recession, job growth has stalled. We added over 2 million jobs in 2024. In the first eleven months of 2025, the economy created 610 thousand jobs. We are in a no-hire-no-fire economy, where supply and demand for labor are stagnant. Yet, the consumer continues to spend. Monthly retail sales from the Census Bureau averaged 4.3%

year-on-year increase in the first ten months of 2025. More recent private sector data from Redbook and Mastercard show spending increasing nicely during the holiday season.

The consumer has been described as K-shaped, where folks with assets feel flush, while those without are struggling with affordability.

The top 20% of income earners have 51% of pre-tax income, and account for 38% of spending. The upper quintile has accrued 71% of the increase in net worth since 4Q19. This group includes Boomers, who have a net worth of $85.4 trillion – roughly half of the country's net worth. This group fueled consumption in 2025 on both goods and services – particularly healthcare, travel, and experiences. This group is also helping their heirs. Bank of America reported that 46% of Gen Z rely on financial assistance from parents and a Pew study reported similar findings on the 18 to 35 cohort, with 68% of those younger than 25 relying on parental support. This is "Great Wealth Transfer", where Cerulli Associates estimates there will be generational transfer of nearly $124 trillion between 2024 and 2048.

INDUSTRIAL PRODUCTION



The corporate sector was propelled by the continued buildout of artificial intelligence. We have discussed the capital spending by the hyperscalers before, but those five companies are not the only companies investing in AI. While they spent an estimated $400 billion in AI capital investment in 2025, JP Morgan estimates the entire tech sector capital investments accounted for 40%-45% of GDP growth since the advent of Ghat GPT. This compares to only 5% in the first three quarters of 2023. As a percentage of GDP in 2025, the tech sector's capital expenditures were 1.9%, which in orders of magnitude greater than electrification in 1949, the Manhattan Project in 1944, or the Highway system in 1966.

Industrial production rose slightly in 2025, from 100.3 to 101.8. The sub-index that measures production for semiconductors rose 18%, continuing the trend that began when Chat GPT was announced in November 2022. The positivity from AI spending has not translated to the rest of the manufacturing sector. The Institute of Supply Management's Purchasing Managers Index was in contraction territory for the last nine months.

THE CORPORATE SECTOR WAS ADDITIVE TO GDP IN 2025, BUT THE PRIMARY DRIVER WAS AI.

The IT property products and equipment sub-indices of the private investment results posted strong growth and offset continued weakness in investment in housing and structures.

The other large sector of the economy is government, which subtracted from GDP in the first half of the year and was additive to growth in the third quarter. Even with shutting down for over 40 days, Washington still managed to run a deficit of 5.3% of GDP for the year ending November.

To review, the US economy grew above trend in 2025, extending the narrative from 2024, with dual engines of high-income consumer spending and AI infrastructure investment powering economic growth.

EXPECTATIONS FOR 2026

THE BLOOMBERG ECONOMIC SURVEY OF 72 WALL STREET ECONOMISTS' FORECASTS MORE OF THE SAME FOR 2026.

The survey calls for 2.1% GDP growth, with consumer spending slowing to 2.0%. Private investment is projected to grow 2.3%, which will be fueled by continued AI investment. Growth is projected to be aided by a shrinking trade deficit due to tariff driven changes in supply chains. On the inflation front, consensus sees little improvement as higher goods prices from tariffs outweigh lower housing inflation. Survey respondents see the no-hire-no-fire labor market remaining in place, with the unemployment rate at 4.5% and job growth averaging 68 thousand per month.

We largely agree with the Wall Street consensus, although we are mildly optimistic that we could see improvement in some areas of the economy outside of AI and the high-income consumer. This could broaden economic growth and create a more balanced economy.

On the consumer front, we would like to see momentum in the labor market. We don't have sufficient data to determine if AI is replacing jobs at scale. Survey data suggests companies have responded to AI with hiring freezes and not backfilling attribution. Adoption and utilization of AI remains low across most enterprises but is increasing. Without question AI is going to change the employment landscape, just as PC's and spreadsheets did decades ago. We don't agree with Elon Musk that work will be optional in the future. We believe companies have paused hiring to evaluate how AI will change their workflow.

WE BELIEVE AI WILL CREATE NEW CAREER PATHS AND WILL INCREASE PRODUCTIVITY SIGNIFICANTLY FOR THE ECONOMY, PERHAPS BEGINNING IN 2026.

The consumer will feel some relief from the OBBBA when they file their tax returns. It is forecast that tax refunds will be the largest in history in early 2026 at $100 billion. The bill was passed mid-25 but was retroactive to January 1st. Most employees did not change their withholdings. This coupled with new deductions for qualified tips, overtime pay, interest on car loans, and a special $6,000 deduction for seniors will provide stimulus for US consumers. We expect to see a jump in consumption in the 1H26 resulting from fiscal stimulus.

We expect housing to no longer detract from growth in 2026. We have seen home prices moderate from 4.5% appreciation in December 2024 to 1.3% in October, according to S&P, with more than half of the cities examined having falling prices. Thirty-year mortgage rates fell from 7.5% to 6.3% during 2025. Affordability remains a problem but is improving. The share of mortgages below 3% has fallen from 25% to 20% according to the Dallas Fed. We believe these factors will cause an uptick in home sale volumes. While the Fed rate cuts don't directly impact mortgage rates, it does impact HELOC rates. The 1.75% reduction in the Fed Funds rate has lowered the cost of a HELOC financed renovation. We don't expect housing to be a primary growth engine in 2026, but we think it can move from negative to positive. A marginal improvement in housing can create knock-on effects on consumer spending, creating a multiplier effect.

The business sector will continue to add to growth. AI will be the primary driver, but there are aspects of OBBBA that could broaden the participation. The bill provides for 100% bonus depreciation expensing and 100% deduction for domestic R&D. Additionally, there are many large onshoring projects expected to break ground in 2026. Many of those are AI related but also include a $6bn Lilly plant in Alabama and a $5.5bn EV battery plant in Arizona. President Trump announced billions in onshoring investments as he came into office. In 2026, we will see construction of many of these projects and eventually manufacturing employment to operate these facilities.

Our greatest concern going into 2026 is the concentration of AI and high-income consumers driving the economy. Together, the AI infrastructure build out is only powering the economy, driving the equity markets higher, thus causing a wealth effect for those in the equity markets. Federal Reserve data shows the top 10% of households own 90% of the stock market. This means AI is by-in-large responsible for both the elevated business investment and consumer spending for the high-income consumer. If markets were to sour on the insatiable AI investment spending, this could cause a reduction in both capital spending growth and a negative wealth effect for high-income consumers as their statements reflect a decline.

WHAT MAY 2026 HOLD FOR CAPITAL MARKETS?

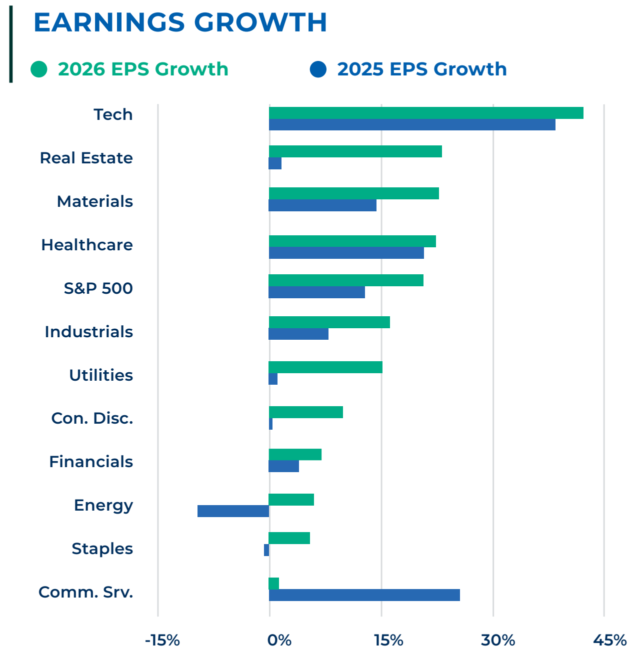
IN LAST YEAR'S MISSIVE, WE DID NOT EXPECT ANOTHER 20% PLUS RETURN YEAR FOR 2025 AFTER TWO SUCH YEARS IN 2023 AND 2024.

We were correct, but not by much, as the S&P 500 neared the 20% range. The market outperformed expectations in 2025.

The average year-end target from Wall Street calls for 11% return in the S&P 500 in 2026 and an 18% increase in earnings. While not unprecedented, it is unusual to have four consecutive years of double-digit returns, with the last occurrence in the late 1990s.

The last three years of strong returns have been driven by accelerating earnings growth and multiple expansion for the low multiples during the 2022 bear market. Earnings growth is projected to be 12.8% in 2025, according to S&P, which builds on the 9.3% and 8.4% growth in the prior years. Earnings growth is projected to continue to accelerate in 2026. Within the S&P sectors, only communication services are projected to see growth decelerate.

Technology is projected to again see the highest level of growth at 40.2%, thanks to AI. But real estate, materials, and healthcare are projected to have earnings growth outpace the broad market. Moreover, all eleven sectors of the S&P 500 are projected to see earnings growth in 2026.



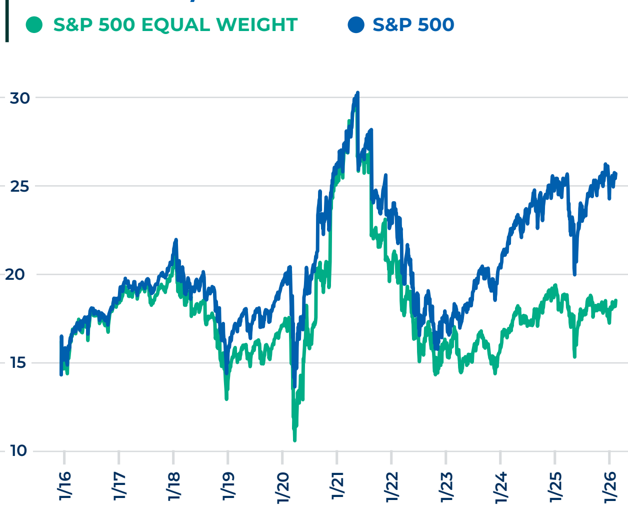
There are several specific drivers of earnings growth for companies in 2026. In the materials sector, higher commodity and metal prices trickle through the income statement to earnings. The healthcare space will continue to be powered by GLP-1s, which are now available in pill form. The industrial and utilities sectors are secondary beneficiaries from the AI buildout, which requires significant investments in power generation and transmission. The financial sector is forecast to see earning grow 7.9% according to S&P. Yet companies leveraged to capital market activity, like Goldman Sachs and Blackstone, are expected to post much higher growth.

WE BELIEVE THE BACKDROP FOR THE ECONOMY IS CONDUCIVE TO ELEVATED LEVELS OF EARNINGS GROWTH IN 2026.

We would be thrilled to see earnings grow 18% for the broad market, with returns trailing earnings growth. The S&P 500 ended 2025 trading 22.0x next year's earnings, which is up from 21.5x a year ago. Valuation multiples have risen steadily from around 16x to the current level over the last three years. This puts the market multiple at a large premium to its 30yr average of 17.1x.

Much of the premium valuation is in ten stocks atop the index. These companies account for 41% of the value of the S&P 500, yielding an outsize influence on returns and valuations. The forward P/E ratio of these stocks is 29x, with the remainder of the market trading at 19.3x.

TRAILING P/E RATIOS



WHEN VALUATION IS EXAMINED USING THE S&P 500 EQUAL WEIGHT INDEX, WHERE EACH COMPANY IS VALUED EQUALLY, VALUATIONS ARE MORE REASONABLE.

The valuations of the two indices began to diverge in 2023 as AI entered the lexicon. We believe there is value in the US equity market, but perhaps less so in the mega-cap AI only companies.

We expect international markets to offer attractive returns in 2026, after outperforming the US markets for the first time in many years. Their valuation discounts are less so than a year ago but remain inexpensive relative to US markets.

In the fixed income market, we believe the Fed will reduce short-term rates by 0.25%-0.5% in 2026. We don't expect long-term rates to fall as a result, causing a further steepening of the yield curve. We expect bonds will offer positive real returns for investors, with intermediate treasury and investment grade bonds yielding between 3.75% and 4.5%.

We ended 2025 pleasantly surprised at the performance of the economy and markets. We are hopeful to see continued economic expansion and positive market performance in 2026. We are sure there will be surprises ahead of us, but we marvel at the resilience of the US economy and capital markets to manage through the unexpected. That is the dynamism of our system and its ability to course correct. As always, we appreciate the confidence you place in our firm and value your friendship. We look forward to a prosperous 2026.

OUR LEADERSHIP

H. Walter Barre

Bert D. Barre, CFA

Barry D. Wynn

Camp R. Wynn, CFA

Joe P. Anderson III, CPA, CFP®

Lorie L. Barton

Henry E. Batts III, AWMA®

Brittany C. Bynum

Charles W. Clementson

James C. Fiske, CFP®

Jamison W. Hinds, JD

Thomas S. Ledbetter, Jr., CFA

Karen H. Longhurst, ATFA, CTFA

Pamela G. McCauley

Ansley J. Mitcham

Matt Van Name, CFP®, CRPS®, AIF®

Kathryn A. Smith, CPA/PFS, CFP®

Brittany E. Nethercutt

W. Charlton Wieters, CTFA

LOCATIONS

SPARTANBURG

233 S. Pine St.
Spartanburg, SC 29302

864.582.3356

GREENVILLE

101 E Washington St.,
Suite 200
Greenville, SC 29601

864.370.0737

COLUMBIA

6 Calendar Ct.,
Suite 1
Columbia, SC 29206

803.782.7646

CHARLESTON

578 East Bay St.,
Suite B
Charleston, SC 29403

843.577.0444

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