BULL MARKET LONGEVITY

GOV POLICIES | ECONOMY | STOCK MARKET

EXECUTIVE SUMMARY

Supportive Policy

- The bull market reflects sustained policy support, productivity gains, and easing financial conditions.
- Affordable energy, declining rates, and fiscal stimulus continue extending economic and market momentum.
- Expanding federal leverage increases short-run support but reduces long-term economic flexibility.

Economy & Consumer

- Economic growth remains resilient, though cooling labor trends warrant continued monitoring.
- Inflation has moderated, but everyday cost pressures continue straining consumer sentiment.
- Household balance sheets remain healthy overall, masking stress among lower-income consumers.

Stock Market

- Earnings growth is broadening, yet market performance remains concentrated among mega-cap leaders.
- Elevated valuations persist, but ample liquidity, productivity gains, and strong corporate profits support the "average stock."

The current bull market has shown few signs of acute distress. Instead, it increasingly resembles a cycle that has been extended by a steady infusion of growth-supporting inputs rather than fueled by rampant speculation.

While stock market valuations remain high, earnings growth is broadening. Supportive policy dynamics, low-cost energy, declining short-term interest rates, and higher productivity continue to be the macronutrients supporting economic momentum.

Longer-term considerations, however, remain a part of the broader assessment. The labor market has cooled, consumer credit usage is strained, and fiscal imbalances continue to expand beneath the surface. These dynamics do not represent immediate threats, but they will ultimately determine the bull's longevity.

POLICIES MATTER

Domestic Net Migration by State – Cumulative Change (4/1/20-7/1/25)

Top 10 Winners				Top 10 Losers			
Rank	As a Share of 2025 State Pop.	Change	2025 State Tax Burden Rank	Rank	As a Share of 2025 State Pop.	Change	2025 State Tax Burden Rank
1 Idaho	6.9%	139,784	11	1 New York	-5.5%	-1,106,013	50
2 S. Carolina	6.8%	379,062	33	2 D.C.	-4.9%	-33,903	48
3 Montana	5.2%	59,510	5	3 California	-4.3%	-1,691,867	48
4 Delaware	5.0%	53,212	18	4 Hawaii	-4.1%	-59,402	42
5 N. Carolina	4.3%	476,921	12	5 Illinois	-3.6%	-456,378	37
6 Maine	4.0%	56,775	29	6 Alaska	-3.3%	-24,270	3
7 Tennessee	4.0%	292,727	8	7 Louisiana	-3.1%	-143,806	40
8 Florida	3.8%	890,348	4	8 Massachusetts	-2.5%	-182,145	41
9 Arizona	3.7%	282,626	15	9 New Jersey	-2.3%	-222,194	49
10 Nevada	2.9%	96,046	17	10 Maryland	-2.2%	-134,770	46

Source: U.S. Census Bureau, Tax Foundation, First Trust Advisors.

One-Way U-Haul Rental

	Cost	Ratio
Los Angeles, CA to Charlotte, NC	$7,228.00	5.44
Charlotte, NC to Los Angeles, CA	$1,329.00	
New York, NY to Naples, FL	$4,552.00	4.64
Naples, FL to New York, NY	$982.00	
San Francisco, CA to Boise, ID	$2,526.00	3.95
Boise, ID to San Francisco, CA	$640.00	
Chicago, IL to Charleston, SC	$2,759.00	3.53
Charleston, SC to Chicago, IL	$781.00	

Source: U-Haul, First Trust Advisors. 26' truck for 2/27/26 pick-up date.

- It is clear that Americans have moved away from high-tax, high-cost states and toward lower-tax, lower-cost states in recent years. Similarly, businesses have also gravitated to lower-tax and lower regulatory states.
- Census data shows that South Carolina and Idaho have gained the most residents relative to their population, and Florida has seen the largest absolute influx. New York and California effectively lost the most residents in absolute and relative terms.
- Recent one-way U-Haul rental prices are several times higher when moving out of high-cost states than when moving into them. This implies a continued trend of far more people leaving places like California and New York than moving to them.

INFLATION & THE CONSUMER

Cumulative Inflation Effect

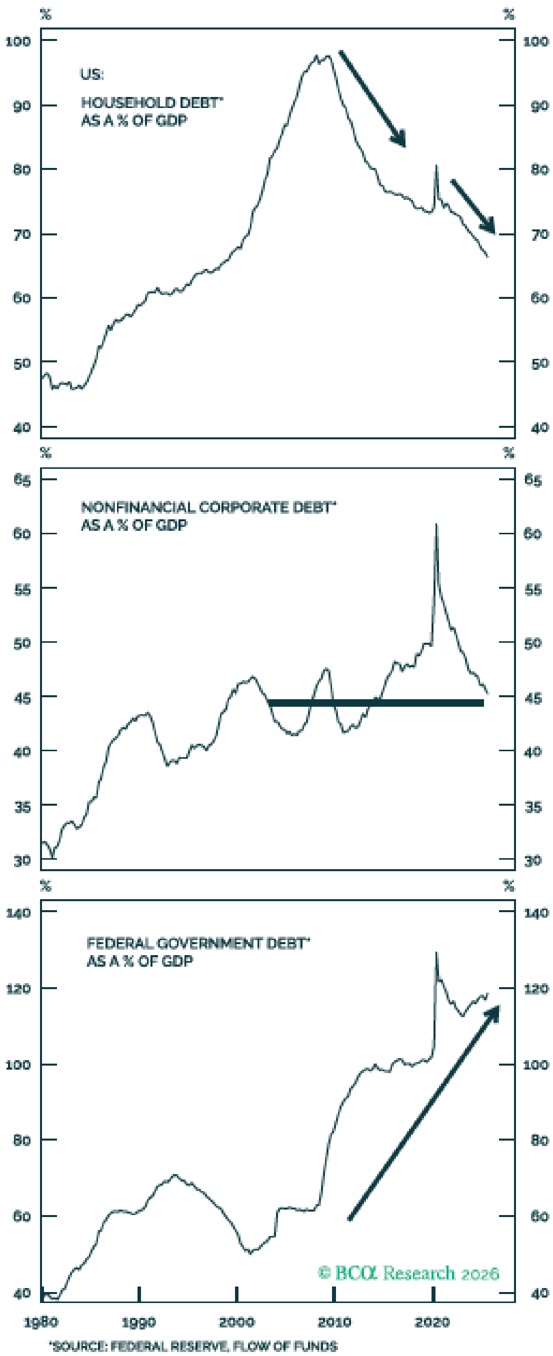
Item	Last 5 Years (2021-current)	10 Years Prior (2011-2020)
Motor Vehicle Insurance	63%	42%
Gasoline	42	-24
Electricity	38	14
Transportation	34	3
Food Away from Home	29	31
Shelter	28	32
Food at Home	25	16
Used Cars &Trucks	24	6
New Vehicles	20	8
Apparel	13	-3
Average Annual Inflation Rate	**4%**	**2%**

Data: Consumer Price Index

U.S. Bureau of Labor Statistics

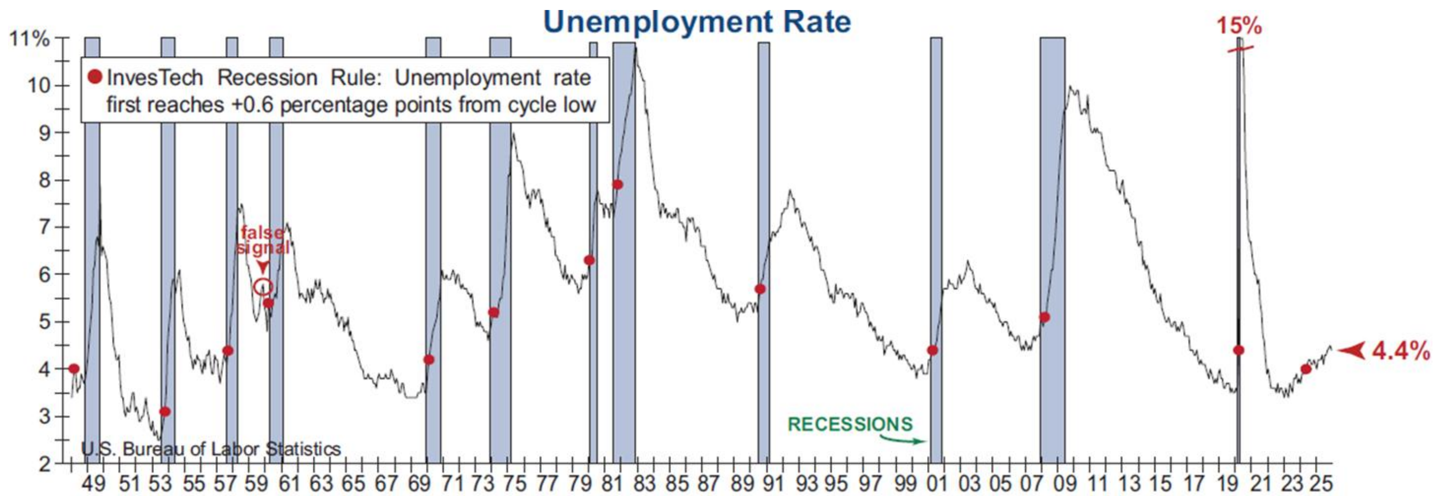
- Inflation has cooled meaningfully from its 2022 peak, but the consumer's cost of living remains more challenging than headline numbers suggest. While reported inflation has settled closer to the 2.8% level, key everyday expenses such as insurance, energy, and household utilities have risen much faster over the past five years. This gap between official data and real-world costs helps explain why consumer sentiment remains fragile even as macro indicators improve.
- The US consumer continues to operate in a "K-shaped" economy, with inflation amplifying the divide. Asset-owning households have been insulated by rising home values and equity markets, allowing spending to remain resilient. In contrast, lower-income consumers have not participated in asset appreciation and are increasingly reliant on expensive forms of credit, including buy-now-pay-later programs. There is an increasing strain beneath the surface of aggregate consumption data.
- A potential positive for both consumers and businesses is energy prices. Since peaking near $120 per barrel in 2022, oil prices have declined by nearly 50% and have settled closer to pre-pandemic levels. Energy remains one of the economy's foundational inputs, impacting the cost structure of goods and services across virtually every sector. For consumers, lower energy costs also provide meaningful relief on everyday expenses.

US DEBT COMPOSITION



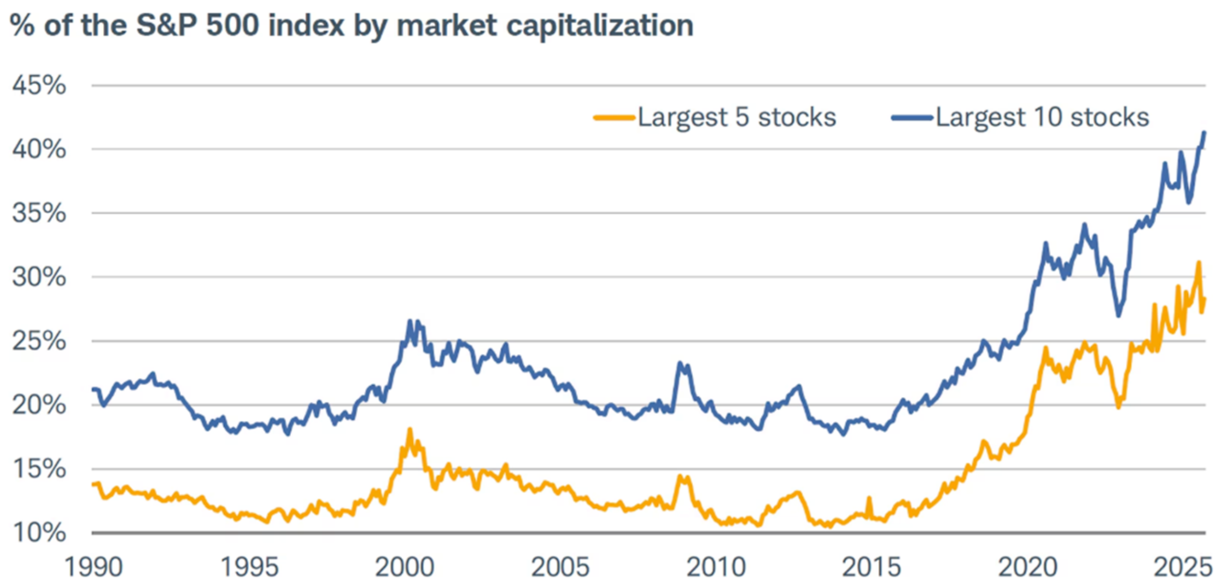
- US households have materially reduced leverage since the Global Financial Crisis, improving balance-sheet strength. After steadily increasing debt through the 1990s and early 2000s, consumers deleveraged meaningfully following 2008 and have largely maintained that discipline. While pockets of stress exist, particularly among lower-income households, the aggregate consumer balance sheet is relatively healthy and continues to improve.
- Corporate America has largely stabilized its use of debt. Nonfinancial corporate debt has moved sideways as a share of GDP rather than accelerating higher, reflecting a combination of strong earnings, refinancing at low rates during the prior cycle, and greater capital discipline. This has allowed corporate balance sheets to absorb recent higher rates without widespread stress.
- The primary expansion of US debt has shifted to the federal government, accelerating meaningfully since 2008. As households and corporations have moderated debt growth, US fiscal borrowing has ballooned. Rising federal debt increases policy sensitivity and reduces long-term flexibility, even if near-term stress has been muted. With the government carrying a growing share of total leverage, future economic outcomes become more dependent on interest-rate policy, inflation management, and the cost of servicing that debt.

US LABOR MARKET



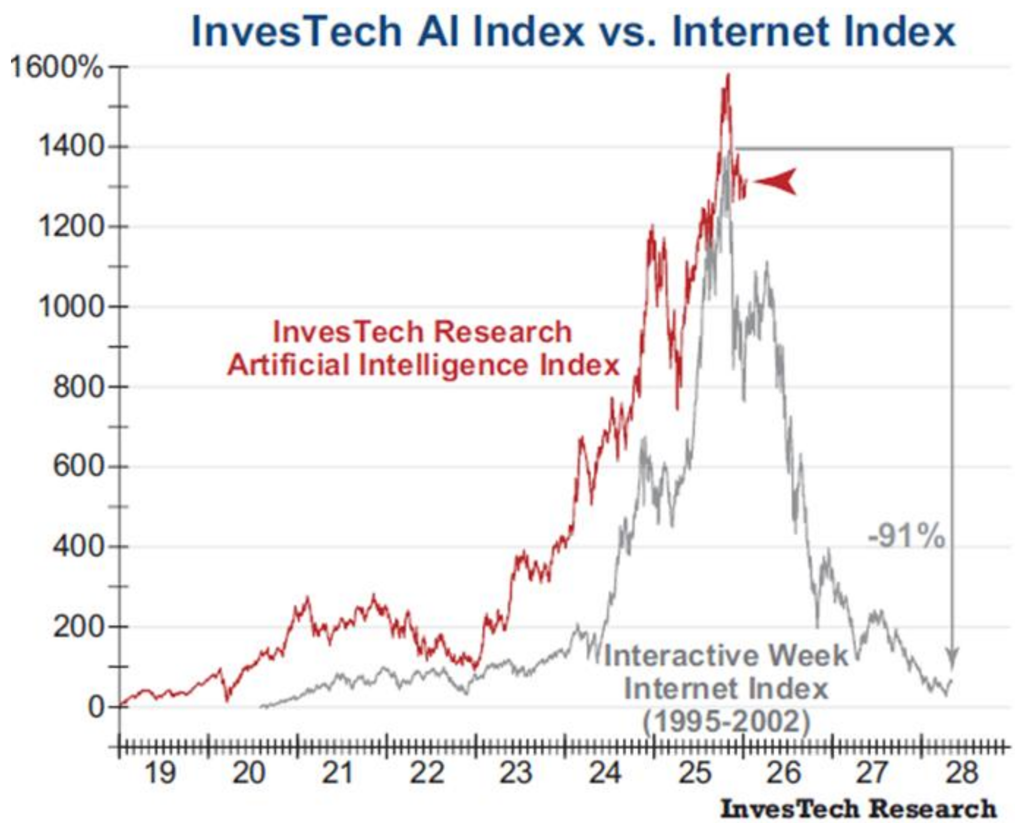
- Despite slowing job growth, the labor market remains relatively tight. At roughly 4.4%, the unemployment rate remains well below long-term averages, and traditional signals that once preceded sharp labor deterioration have not yet materialized. This resilience is challenging typical "late-cycle" expectations as economic growth has been robust while the softening labor market has been orderly.
- Over the past 70 years, every recession has been preceded by a sharp increase in the unemployment rate. Typically, a rise in unemployment of at least 0.6% from the cycle low leads to such an increase—with only one false signal in the late 1950s. Today's unemployment rate is now a full point above the cycle low of 3.4%, which warrants continuous monitoring.
- Until unemployment rises meaningfully, labor is unlikely to become a primary source of economic stress or disinflation. While headlines increasingly focus on layoffs and slowing employment gains, the underlying shortage of workers has muted the downside risks typically associated with late-cycle labor softening. As a result, wage and employment dynamics could likely continue to gradually cool rather than break sharply.

STOCK MARKET DRIVERS



- Despite a broadening of corporate profitability, the S&P 500 Index remains historically concentrated, with a small number of mega-cap stocks driving a disproportionate share of market value. Roughly 27% of the S&P 500 is now represented by just five stocks, and more than 40% by the top ten. At the global level, the US accounts for nearly two-thirds of total equity market value, with a significant portion of that concentrated in the same handful of names. This degree of concentration increases sensitivity risks to short-term earnings and sentiment shifts within a very narrow segment of the market.
- Market breadth remains narrow, even as aggregate performance appears healthy. Much of the market's strength continues to be driven by large technology and AI-related companies, echoing the late 1990s period where innovation-led leadership dominated returns.
- US equity valuations remain elevated relative to history, supported by liquidity and strong corporate profits. Total market value relative to GDP (Buffett Indicator) sits well above historical norms, which bears watching. However, an expanded money supply, rising earnings, and all-time high profit margins have sustained investor confidence.

ENTHUSIASM IS NOT NOVEL



- Today's AI leadership exhibits clear similarities with the late 1990s innovation cycle, marked by rapid price appreciation and rising investor enthusiasm. The AI-focused index has tracked a steep ascent reminiscent of the internet buildout period, underscoring how transformational technologies can drive powerful but volatile market leadership in relatively short periods of time.
- For now, Big Tech and AI remain dominant forces, driving both performance and concentration. History doesn't necessarily repeat itself, but it tends to rhyme. Historical analogs comparing today’s market to the 1996–2000 period suggest there may still be room for further gains. However, past episodes also remind us that leadership concentration can create fragility.
- Should leadership rotate away from mega-cap technology stocks, improving corporate profitability across broad sectors of the economy is creating opportunity in the average S&P 500 stock. While large technology names remain fundamentally strong, their size and valuations make them more susceptible to pullbacks. Meanwhile, improving productivity and profitability has increased the attractiveness and return potential of lower-weighted index constituents.

CONCLUSION

As this cycle progresses, the market's resilience appears increasingly structural rather than euphoric. The bull market is not being sustained by any single catalyst, but by a steady combination of earnings growth, productivity gains, supportive policy dynamics, declining interest rates, and favorable energy conditions. These forces have extended the expansion even as traditional late-cycle signals have begun to emerge.

At the same time, underlying pressures warrant continued attention. Inflation has cooled but remains sensitive to policy and liquidity trends. Consumers continue to experience a "K-shaped" reality, and fiscal imbalances have shifted the burden of leverage toward the federal government. The labor market is easing in an atypical fashion, shaped by demographic constraints rather than outright weakness. In equity markets, strong corporate profitability coexists with elevated valuations and historically narrow leadership.

None of these dynamics represent immediate threats, but together they define the longevity of the current bull market environment. Our role is not to eliminate volatility or predict the future, but to help clients navigate a landscape where growth and risk coexist. By emphasizing fundamentals, diversification, and disciplined risk management, we remain focused on adapting portfolios as conditions evolve.

If you would like to review your risk exposure and how it aligns with your long-term financial plan, we are happy to discuss your situation, the markets, or anything else you would like to talk about.

We are here to guide you and provide clarity along the way.

Sincerely,

Spectrum Asset Management, Inc.
Newport Beach, CA