CONGRESS ASSET MANAGEMENT COMPANY

Economic and Market Outlook

| 4Q25

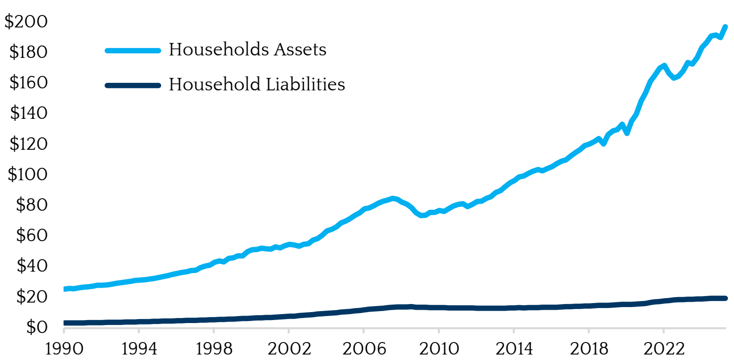
KEY TAKEAWAYS:

1. **Despite economic and political challenges, the US economy remains on solid fundamental footing.**
2. **We believe the current expansion is primed to continue, aided by a resilient consumer, a massive data center building cycle, and an interest rate environment that is conducive to investment.**
3. **While downside risks have grown, including a deteriorating labor market, continued weakness in housing and tariff uncertainty, none of these are likely to tip the economy into recession.**

The US economy remains on solid fundamental footing, despite tariff concerns, headline fights over Federal Reserve independence, and political squabbles. The economy grew at a 3.8% annualized rate in the second quarter and indicators of continued growth, including a resilient consumer and estimates for a hearty third quarter GDP, remain encouraging. Stock markets reacted positively to third quarter events with the S&P 500 rallying 8.1%. Bond market performance was more muted but positive with the Aggregate Index returning 2%, aided by falling Treasury yields and tighter corporate spreads.

Two key forces are driving the expansion: strong consumer finances and robust investment in data infrastructure. Personal income grew at 5% over the past year through August, supporting consumer spending. Household balance sheets, buoyed by rising stock and housing prices, now measure close to $200 trillion, far exceeding liabilities.

US Household Balance Sheets (1990 – 2025) in Trillions



Source: Board of Governors of the Federal Reserve System (US)

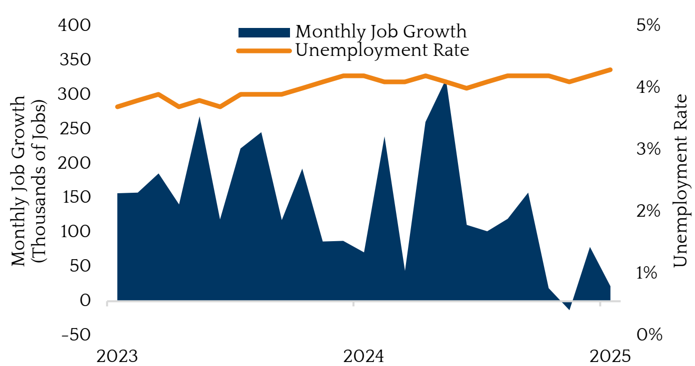
Second, we are in the midst of a massive data center building cycle to support cloud computing and artificial intelligence, with spending projected to approach $1 trillion over the next year, about 3% of GDP. The major technology companies (hyperscalers) appear to be competing to build the fastest and largest facilities, even as future demand remains uncertain.

The data center buildout is constructive for the broader stock market. Most hyperscalers have ample cash, strong current cash flows and solid balance sheets. As they spend, the companies that provide the "picks and shovels" stand to benefit. The beneficiaries of this largess include power suppliers, both natural gas and emerging nuclear, technology hardware, and construction firms to name a few. This spending reduces the attractiveness of the hyperscalers stocks relative to their providers, a trend that may accelerate next year and lead to broader market depth.

The new tax bill, the OBBB, could also help drive growth. It allows immediate depreciation of capital and research and development expenses, potentially boosting company cash flows by up to 10% over the next two years. Provisions for auto loans and other changes may also benefit lower-income taxpayers.

While these forces appear solid, economic cracks have widened, including the labor market. The monthly pace of job creation has deteriorated to almost stall speed and unemployment, currently at 4.3%, is trending higher. The U.S. government shutdown, which began on October 1, muddies the employment picture as government readings will be delayed until the shutdown is resolved.

Labor Situation (2022 – 2025)



Source: Bloomberg, US Bureau of Labor Statistics

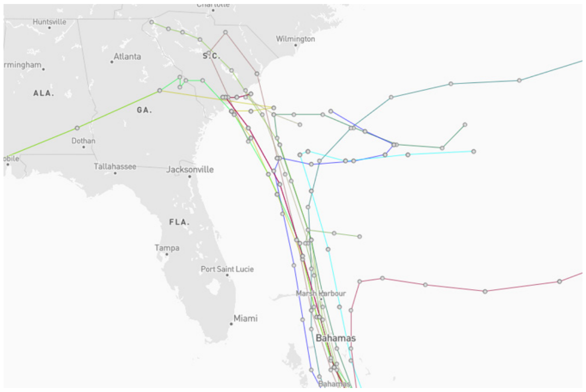
The housing market remains in a prolonged downturn. The cost of home ownership is restrictive for potential new buyers and many existing owners are "mortgage locked", making relocation financially challenging. Recognizing the risk to growth, the Federal Reserve lowered short term interest in September and suggested one or more may follow by year end. While lower short-term interest rates

Past performance is not indicative of future results. There is no guarantee the observations and trends described herein will continue.

should help reduce the cost of consumer loans, the impact to mortgage rates, which generally correlate to longer dated Treasuries, remains to be seen.

President Trump and his administration have instituted at least four political and economic policies that will meaningfully impact how our economy functions. When it comes to economics there is no such thing as "ceteris paribus" as each change impacts the others in unknown ways. A graph of potential outcomes would resemble the popular spaghetti models used by meteorologists to predict the path of hurricanes.

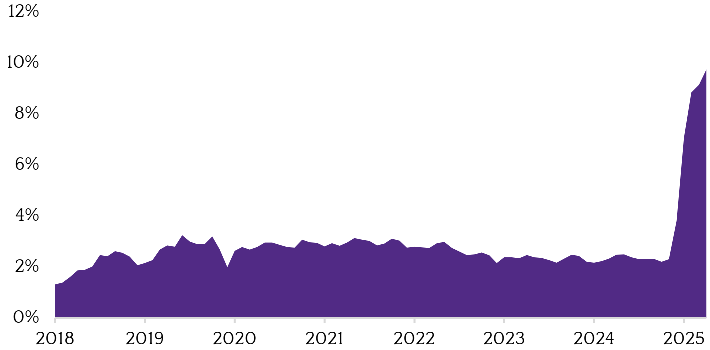
Tropical Storm or the US Economy?



Source: National Hurricane Center (NHC)

Tariffs continue to create uncertainty. Within months, our average realized tariff rate increased from 2% to 10%, and the effective rate is estimated to be 15% or more. Despite several legal challenges to the current tariff scheme, elevated tariffs are likely to stay as the President has several avenues to implement them. Economic theory struggles to capture what happens when the world's largest, freest economy reverses direction with such alacrity. While the direst predictions regarding inflation, growth, and company margins have yet come to fruition, consumers may experience price increases or product scarcity as companies and countries adapt to the changing tariff landscape.

Average US Effective Tariff Rates (2018 - 2025)



Source: Bloomberg

The cessation of immigration is a negative for the U.S., both short and long term. A legal, healthy level of immigration allows our economy to function as lower skilled jobs are easier to fill. Immigrants then become consumers, buying domestic products and services. Longer term, the U.S. faces demographic challenges with an aging workforce which proper immigration policy would help alleviate.

Potential state capitalism is also a concern. In August, the Trump Administration announced a 10% investment in chip manufacturer Intel. Intel was once the premier global chip company but has failed to keep up with its domestic and international competitors. For now, this appears to be a way to maintain U.S. chip capability to offset China. However, this is blatantly picking winners and making others losers. The long-term impact could be to limit technology advancements from other companies.

None of these issues are likely to swing the economy into recession. The current government shutdown could have more significant short-term impacts if it drags on. However, shutdowns tend to be measured in days, not weeks, and historically markets have been quick to recover. Our economic foundation remains solid and domestic companies are adapting to new policies. Interest rates are and will likely remain conducive to investment, supplying the fuel for growth next year.

Investment Oversight Committee
Daniel A. Lagan, CFA® | Chief Investment Officer

Important Disclosure

Not an Offer, Recommendation or Professional Advice: This document does not constitute advice or a recommendation or offer to sell or a solicitation to deal in any security or financial product. It is provided for information purposes only and on the understanding that the recipient has sufficient knowledge and experience to be able to understand and make their own evaluation of the proposals and services described herein, any risks associated therewith and any related legal, tax, accounting or other material considerations. To the extent that the reader has any questions regarding the applicability of any specific issue discussed above to their specific portfolio or situation, prospective investors are encouraged to contact Congress Asset Management or consult with the professional advisor of their choosing.

Use of Third-Party Information: Certain information contained herein has been obtained from third party sources and such information has not been independently verified by Congress Asset Management. No representation, warranty, or undertaking, expressed or implied, is given to the accuracy or completeness of such information by Congress Asset Management or any other person. While such sources are believed to be reliable, Congress Asset Management does not assume any responsibility for the accuracy or completeness of such information. Congress Asset Management does not undertake any obligation to update the information contained herein as of any future date.

Currentness: Except where otherwise indicated, the information contained in this presentation is based on matters as they exist as of the date of preparation of such material and not as of the date of distribution or any future date. Recipients should not rely on this material in making any future investment decision

Benchmarks: Any indices and other financial benchmarks shown are provided for illustrative purposes only, are unmanaged, reflect reinvestment of income and dividends and do not reflect the impact of advisory fees. Investors cannot invest directly in an index. Comparisons to indexes have limitations because indexes have volatility and other material characteristics that may differ from a particular fund or strategy. For example, a hedge fund may typically hold substantially fewer securities than are contained in an index.

Forward-Looking Statements: Certain information contained herein constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance or a representation as to the future.