

# MARKET OUTLOOK

## AT A GLANCE

After another historic year for markets, returns remained concentrated in domestic equities, while international diversification and positioning for yield curve steepening were rewarded. Valuation discipline and long-duration risk lagged, as quality-oriented strategies fell out of favor. Looking ahead to 2026, we see opportunity broadening as rates stabilize and fundamentals regain influence. Public and private real estate offer a compelling entry point, supported by reset valuations, improved balance sheets and durable income tied to positive property-level fundamentals.

## ECONOMY

Markets shift from rate dominance to productivity, rewarding earnings breadth, efficiency gains, and fundamental dispersion.

## EQUITY

### FY 2025

S&P 500:	+17.9%
S&P 600:	+6.0%
Natural Resources (MGNR):	+50.5%

## PRIVATE MARKETS

Private real estate offers income, diversification, and potential for asymmetric upside as valuations reset and fundamentals strengthen.



“THROUGH AN INTEGRATED VIEW OF PUBLIC AND PRIVATE MARKETS, OUR TEAM HELPS CLIENTS NAVIGATE CHANGING ECONOMIC AND LIFE CIRCUMSTANCES BY IDENTIFYING AND IMPLEMENTING INVESTMENT OPPORTUNITIES TO BUILD RESILIENT PORTFOLIO SOLUTIONS.”

Hunter Bukowy  
Portfolio Implementation Analyst

# FROM FISCAL TO PRODUCTIVITY DOMINANCE

## SUMMARY:

In a departure from previous outlooks, we take this opportunity to evaluate major factors that had an outsized effect on investment performance in 2025, discuss what worked well and what ideas had lackluster performance, and provide an outlook on opportunities and risks in 2026.

## OUR PERSPECTIVE:

Coming out of 2025, the market is still negotiating the same three factors but is doing so with a different temperament. Trade policy remains a live variable, deficits continue to shape yield curves, and a shift back toward accommodative monetary policy, in light of a growing economy, will impact asset prices.

For 2026, the team believes the market's central question will shift. The last two years were dominated by the level of rates and concentration of returns. This year is increasingly about the distribution of earnings and who can credibly deliver productivity, margin durability, and improved returns on capital.

This is why we are focused on three themes: (1) fiscal thrust that supports demand, (2) an S&P 493 broadening that becomes fundamental rather than aspirational, and (3) artificial intelligence's move from infrastructure to application, particularly in productivity constrained sectors where valuation multiples can expand as fundamentals improve.



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## 2025 ECONOMIC AND POLICY REVIEW

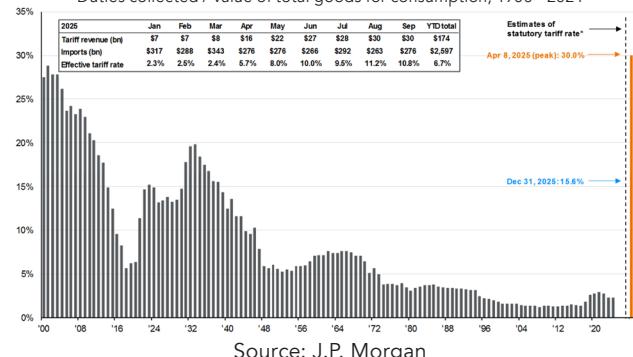
A tariff is a tax on imports. The reason this matters is not academic; it's mechanical. Higher prices initially affect purchasing power, then the economy moves through a decision tree: consumption, wages, productivity, and aggregate demand. That framing was helpful in 2025 because it forced us to look past the initial price effect and

focus on the second-order impacts that determine whether a shock becomes a slowdown.

By the third quarter, the average trade-weighted tariff rate was 16% (or about 9% excluding court-challenged tariffs), and the business impact wasn't just mathematical. It directly metastasized in planning risk, as stable input prices are a prerequisite for long-term capital investment. Uncertainty is its own kind of tax.

### Average Tariff Rate on U.S. Goods Imports for Consumption

Duties collected / value of total goods for consumption, 1900 - 2024



On the fiscal side, 2025 also made the "mortgaging the future" tradeoff more visible. A major omnibus proposal, dubbed the "One Big Beautiful Bill Act," was passed and is designed to stimulate short-term investment, but is estimated to add \$2.4–\$3 trillion to the federal budget over the next decade.

Meanwhile, the US debt-to-GDP ratio, currently around 120%, is expected to increase to 130% by 2030, against long-run growth expectations of 2%. This does not create an immediate crisis but does change the market's posture. In this regime, investors increasingly demand to be paid for long duration, thus the anchoring of long rates at or near the 5% mark.

### Yield Curve Steepens

U.S. Treasuries	Yield		Return			
	12/31/2025	12/31/2024	2025	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
<b>2-Year</b>	3.47%	4.25%	4.95%	2 years	0.74	0.02
<b>5-Year</b>	3.73%	4.38%	7.15%	5	0.94	0.02
<b>TIPS</b>	1.69%	2.13%	7.01%	7.1	0.75	0.37
<b>10-Year</b>	4.18%	4.58%	8.19%	10	1.00	<b>-0.01</b>
<b>30-Year</b>	4.84%	4.78%	3.73%	30	0.93	<b>-0.05</b>

Source: J.P. Morgan

The most important macro "feeling" from late 2025 was the loosening of policy alongside continued growth, but with tangible signs of labor cooling. In the first nine months

of the year, the economy grew at about 2.5% in inflation-adjusted terms, even as the number of jobs available to unemployed workers dipped below 1%. That tension is central to our 2026 framework because it helps explain why the Fed can ease monetary policy while long-term rates remain sticky. Short rates respond to labor and growth risks, while long rates increasingly care about supply, deficits, and credibility.

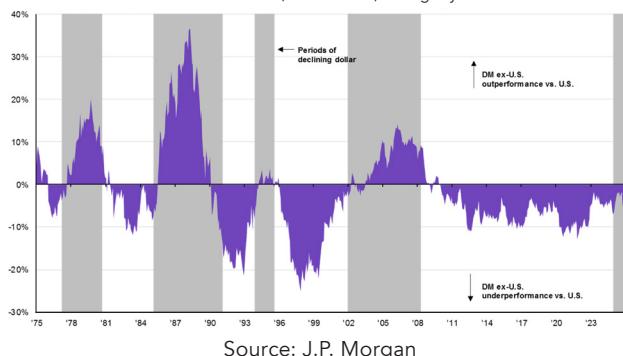
One of the clearest lessons of 2025 is that curve shape matters again. Issuance strategy, skewing supply toward the short end of the yield curve, can keep long rates stickier than expected even when the Fed cuts rates (which is why mortgage rates have not come down). The practical implication is simple: fixed income positioning should be built around liquidity, carry (borrowing at a lower rate and investing at a higher one), and the cost of taking on risk.

#### 2025 LOOKBACK: WHAT WORKED, WHAT DIDN'T

What worked in 2025 was owning portfolio features that benefit from dispersion. International diversification helped as currency outcomes became less unidirectional amid a slumping dollar.

#### Cycles of DM ex-U.S. Outperformance and USD

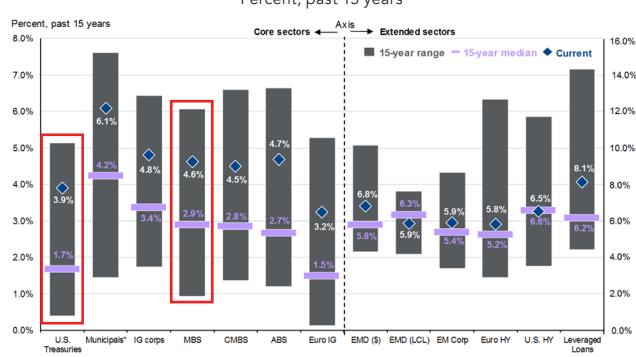
International developed out/underperformance vs. U.S. MSCI EAFE, MSCI USA DXY Index, total return, rolling 3-year ann.



In fixed income, structured carry mattered. Mortgage-backed securities were a clean way to earn income in a higher-for-longer environment, especially as the curve steepened (conditions discussed earlier).

#### Yield to Worst Across Fixed Income Sectors

Percent, past 15 years

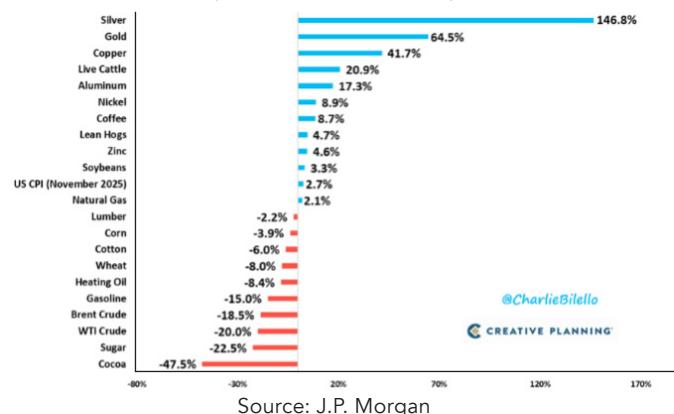


Commodities, particularly gold and silver, earned their keep as diversifiers, supported by central bank demand. Recall

that the team initiated a September position in a natural resources fund to take advantage of the cyclical nature of commodity price dislocations.

#### Commodities: 2025 % Change

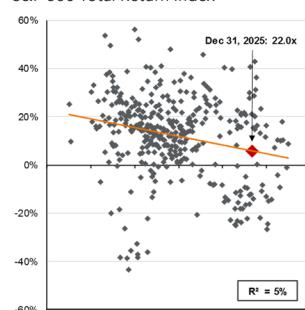
(Data via YCharts as of 12/31/25)



What didn't work was assuming "normal." The key theme driving these portfolio decisions was quality. Avoiding corporate credit (due to still tight spreads) and taking a more aggressive posture with respect to long rates yielded suboptimal results on the fixed income side. Our equity-quality overlay, initiated in late 2024, also underwhelmed as the market largely ignored valuation discipline. These risk factors remain heading into 2026.

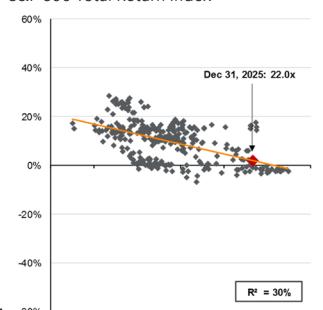
#### Forward P/E and Subsequent 1-Year Returns

S&P 500 Total Return Index



#### Forward P/E and Subsequent 5-Year Annualized Returns

S&P 500 Total Return Index



#### 2026 OUTLOOK: WHERE WE THINK THE MARKET OPENS UP

Our 2026 base case is not a "rates collapse" year, and we are fine with that. Fiscal thrust can support nominal growth while keeping risk premiums relevant. Equities do not require a perfect macro backdrop to broaden; they do, however, require an earnings backdrop that is supportive. That's the opportunity.

First, we expect the market to increasingly price breadth. We alluded to the "S&P 493" framing earlier. This is simply shorthand for a healthier distribution of earnings growth. We are watching for that to show up in relative performance, particularly across mid- and small-cap stocks, where we are seeing improvement.

### P/E of Top 10 and Remaining Companies in S&P 500

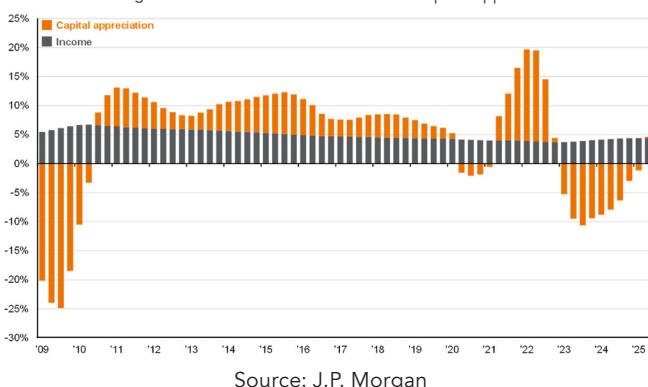
Next 12 Months



Second, AI is the mechanism that can make that breadth durable. The early phase rewarded the infrastructure layer. We expect the next phase of the AI buildout to reward adopters, those companies that can effectively embed AI into their workflows and convert it into measurable productivity. This is especially important in productivity-constrained sectors, where even modest efficiency gains can create meaningful operating leverage. When that shows up in margins and incremental returns on capital, multiples can expand for businesses historically priced as low-growth.

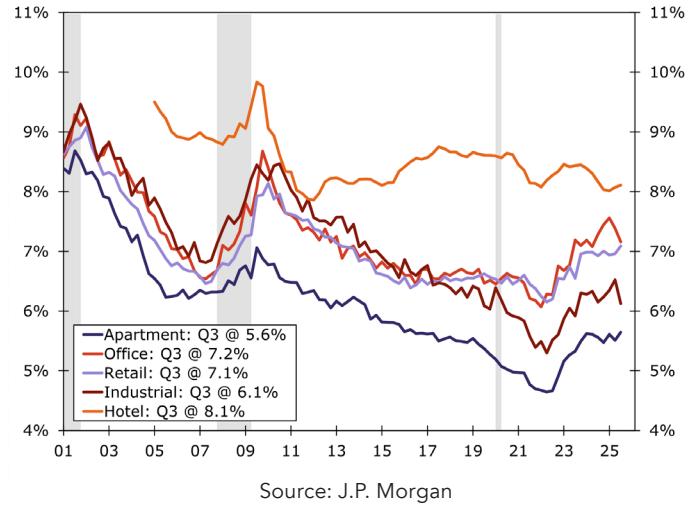
### Global Private Real Estate Returns

Rolling 4-Quarter Returns from Income and Capital Appreciation



Third, real estate reenters the conversation, but with specificity. Office, retail, and industrial are not in the same place in the cycle, and dispersion here will matter. Still, as the headwinds to higher rates abate, real assets like real estate equity should again regain relevance. We plan to spend some time evaluating an equity Real Estate Investment Trust (REIT) for inclusion in our strategies as a value-add. Our opinion in this space is predicated on the idea that we see evidence of softening in shelter inflation that should act as a relief valve to consumer prices.

### CRE Cap Rates by Property Type



### BOTTOM LINE CONCLUSIONS

The first quarter of 2026 is about moving from concentration to breadth and from narrative to proof. If 2025 was defined by fiscal dominance, 2026 has a reasonable path to being defined by productivity dominance, where the market starts paying for measurable efficiency gains, improving margins, and broader participation in earnings. This is the backdrop that sets up two follow-on stories we will develop this year: equity REITs as a strategic complement to equities and AI's permeation into productivity-constrained sectors as the catalyst for multiple expansion.

By Emil Suqi, CFA®

Portfolio Manager - Team Lead

# RATE HEADWINDS TURN TO VALUATION OPPORTUNITY

## SUMMARY:

After years of underperformance, public REITs enter 2026 with healthier balance sheets, cheap valuations, and stable cap rates, positioning the sector for potential recovery.

## OUR PERSPECTIVE:

Public REITs offer liquid, transparent access to real estate fundamentals with equity-like returns and income potential. Given the wide dispersion in valuations, we focus on security selection, prioritizing balance sheet strength and exposure to stabilizing sectors.

### WHAT ARE REITS?

Real Estate Investment Trusts (REITs) are publicly traded vehicles that own and operate income-producing real estate. These structures trade intraday, offer equity-like returns, daily liquidity, and contractual cash flows associated with owning physical property. REITs distribute most of their taxable income to shareholders, which leads to total returns being influenced by property fundamentals and valuations.

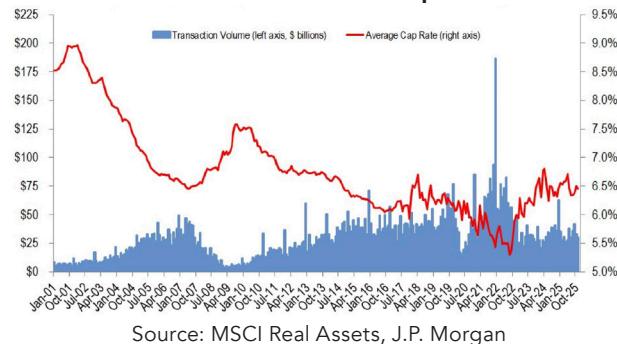
Historically, REITs represented a large portion of an investor's alternatives allocation. As access to private markets expanded, investors have diversified away from public REITs. This shift, and preference for growth-oriented equities, weighed on REIT performance in recent years. As measured by the FTSE Nareit Equity REITs Index (FNRE), the sector returned a cumulative 27.17% over the past three years, lagging the S&P 500's 86.01% gain over the same period. In 2025, FNRE returned just 2.86%. This period of underperformance reset valuations to attractive levels relative to both historical norms and private real estate markets.

As rates peaked in 2024 and credit conditions began to stabilize, REITs responded by slowing development activity and proactively managing their liabilities. As a result, public REITs enter 2026 with cleaner balance sheets and reduced refinancing risk, supported by lower borrowing costs and improved leverage. This marks a transition away from multiple compression and toward stabilization in rates and cash flows.

A key sign of this shift is the stabilization of capitalization (cap) rates, which reflect net operating income (NOI) relative to property value. The rise in interest rates in 2022–2023 drove cap rates higher, as the two move in tandem, pressuring real estate values and slowing activity. Cap rates have since largely stabilized across property types, a trend that historically precedes recoveries in transaction activity as valuation confidence improves.

Public REITs tend to respond to changes in cap rate expectations before private markets, as public pricing reflects forward-looking views versus completed transactions.

### Real Capital Analytics Monthly US Commercial R.E. Transaction Volume and Cap Rates



### PROPERTY TYPES

Sector dispersion is increasingly important as performance across property types remains uneven. Healthcare performed strongly, supported by the highest NOI growth among property types in 2025. This should continue as the population aged 80+ is projected to reach 20 million by 2030. Retail REITs, particularly mall/outlet types, improved late in 2025 due to higher occupancy and renewed physical store demand. While sensitive to consumer health, strong lease demand supports a constructive outlook. Office real estate may be near a bottom after extended valuation compression and post-COVID occupancy issues. Although a recovery path exists, headwinds persist due to labor market uncertainty and potential AI disruptions.

### CONCERNS FOR 2026

Competition for capital from private markets may lead to more REITs shifting from public to private. Lower expected earnings growth limits their ability to compete for capital where investor sentiment continues to favor higher-growth areas. A shift in sentiment away from this narrow set of higher-growth sectors could improve capital flows in public real estate, especially given current valuations.

Consensus forecasts show the 10-year Treasury yield remaining stable in 2026, with potential for modest increases. While small changes may have limited impact, larger shifts in rate expectations could materially affect performance. Current valuations and macro conditions appear supportive and may offer return potential in the coming quarters.

By Hunter Bukowy  
Portfolio Implementation Analyst

# WHY PRIVATE REAL ESTATE MATTERS TODAY

## SUMMARY:

After valuation resets, private real estate benefits from improving rate dynamics, constrained supply, and structural demand, particularly industrial, offering income, diversification, efficiency, and asymmetric upside for investors.

## OUR PERSPECTIVE:

From a portfolio construction standpoint, private real estate plays a complementary role alongside public markets, providing stable cash flows, lower volatility, and exposure to long-term property fundamentals that are less influenced by short-term market movements.

### PRIVATE REAL ESTATE 101

While prior discussions have focused in part on public REITs, several emerging tailwinds warrant a closer look at private real estate. Unlike public market counterparts, private real estate (PRE) is driven less by market sentiment and more by underlying property fundamentals and long-term income generation.

Because PRE is more closely tied to fundamentals, valuations tend to exhibit less short-term volatility than publicly traded REITs. Asset values are typically determined through periodic appraisals or transactions rather than daily market pricing, resulting in a smoother return profile over shorter time horizons.

From a macro perspective, PRE remains sensitive to interest rates, though often in a more balanced manner. Higher starting income levels can help cushion returns during periods of rising rates, while falling rates may support asset values through lower financing costs and modest cap rate compression.

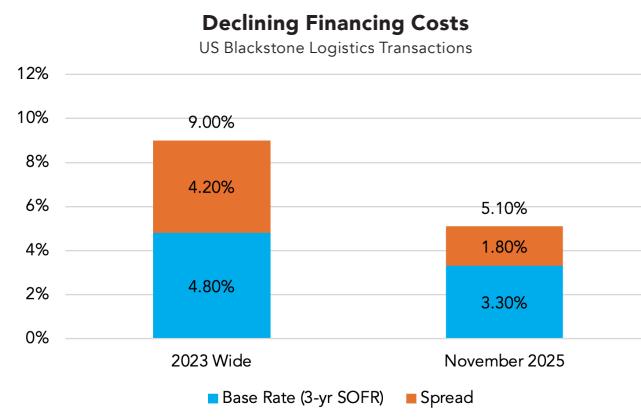
Like public REITs, PRE is characterized by an income-oriented return profile. A key distinction, however, is that REITs are required to distribute at least 90% of taxable income to maintain their status. While these dividends are not qualified, they are generally eligible for the 20% qualified business income (QBI) deduction. By contrast, income from PRE often benefits from a depreciation tax shield and is largely characterized as return of capital, effectively deferring taxes until the underlying assets are sold. As a result, PRE tends to be more tax-efficient over the long term relative to traditional REIT exposure.

For investors with longer time horizons and lower liquidity needs, PRE can play an important role in portfolios as a source of stable income, diversification, and a hedge against inflation.

## MACRO DYNAMICS SUPPORT PRIVATE REAL ESTATE

There is no single tailwind driving PRE. Rather, a combination of structural and cyclical forces is converging to support durable demand across the asset class. Following the post-pandemic rise in interest rates, PRE experienced a material valuation reset, with asset values declining approximately 22% from their 2022 peak as cap rates moved higher. This adjustment has left PRE trading at a relative valuation discount, with income yields meaningfully higher than just a few years ago.

Interest rates are increasingly viewed as a tailwind rather than a headwind for PRE. While a sharp decline in rates is unlikely, gradual easing has meaningful implications for PRE fundamentals. Since peaking in 2023, debt financing costs have declined from 9.0% to 5.1% in November of last year, supporting improved cash flows, modest cap rate compression, and increased transaction activity as bid-ask spreads narrow. With much of the rate-driven downside now captured, PRE presents a more favorable asymmetry, offering upside potential if rates fall, while income helps support returns, should rates remain elevated



Opportunities within PRE are not evenly distributed. A full return to in-office work has yet to materialize, which may continue to weigh on office valuations and reinforce sector polarization. Capital is increasingly gravitating toward property types supported by durable, structural demand.

Industrial and logistics assets sit at the intersection of several powerful trends, including supply-chain reconfiguration, domestic manufacturing investment, and infrastructure-related fiscal spending. At the same time, supply conditions have shifted decisively. Following a post-COVID surge, new industrial construction has declined sharply, with starts down more than 60% from recent peaks as higher construction costs, tighter financing conditions, zoning limitations, and power constraints render new development increasingly uneconomical.

Against this backdrop, demand has remained resilient. Rising e-commerce penetration, inventory restocking, and reshoring activity continue to drive space needs, with each 1% increase in e-commerce share estimated to require 50–70 million square feet of industrial space. Together, constrained supply and structurally driven demand support occupancy, rent growth, and pricing power for well-located industrial assets.

In our view, these dynamics strongly support a strategic allocation to private core and core-plus real estate within diversified portfolios. Following a meaningful valuation reset, the asset class now offers improved income yields, more favorable rate asymmetry, and exposure to property fundamentals supported by long-term structural demand. We believe the opportunity is most compelling in high-quality, meaningfully levered strategies with an emphasis on income durability, particularly those anchored by industrial and logistics assets.

By Jake Stapleton, MBA  
Team Lead - Research

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Please join us in welcoming:

- **Nelly Medina** – Financial Advisor
- **Leo Breault** – Director of Risk and Compliance
- **Jessica Matthews** – Client Services Associate
- **Christopher Indiveri** – Trust Administrator

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Chief Investment Officer

**Emil Suqi, CFA®**  
Portfolio Manager - Team Lead

**Jake Stapleton**  
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QUARTER 1

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Productivity Dominance

### EQUITY

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### PRIVATE MARKETS

Why Private Real Estate  
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