



Comerica Investment Quarterly | Q1 2026

Office of the CIO

Comerica Wealth Management

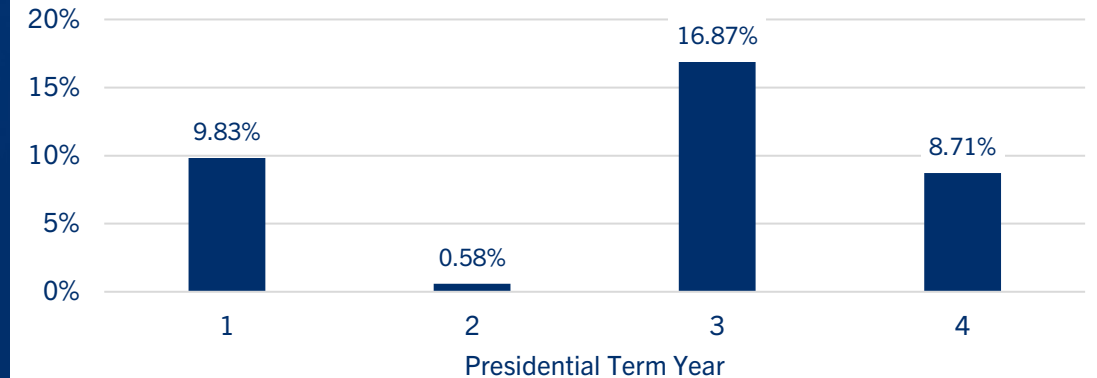
Policy

Populist Shift

Presidents tend to become more populist leading into midterm elections.

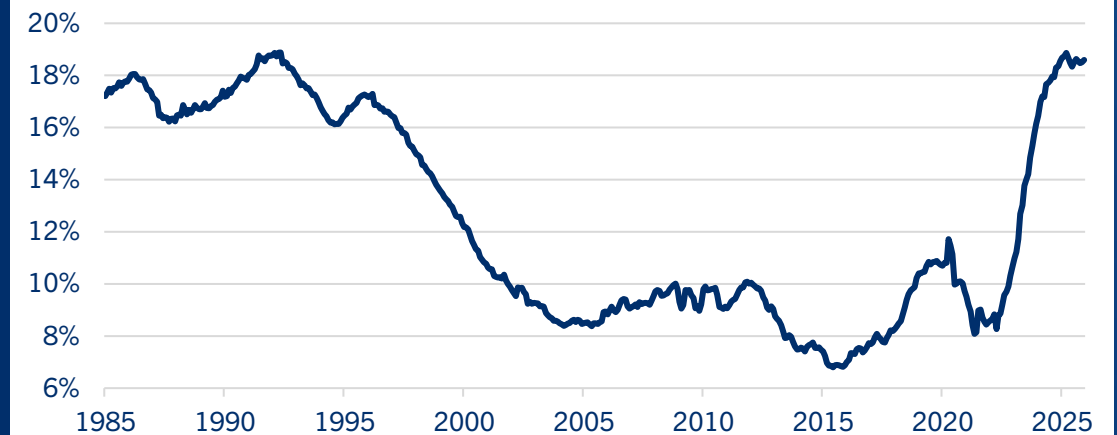
- Historically, the second year of a presidential term is the most challenging for equity markets. Since 1969, the S&P 500 index has returned an average of just 0.6% in year two of a president's term compared to an average of 11.8% in all other years. Nevertheless, there are several reasons for equity investors to be hopeful 2026 will be different. The U.S. economy is expected to benefit from a trifecta of growth drivers: infrastructure spending and fiscal stimulus from OBBBA tax cuts and deductions, accelerated adoption of artificial intelligence technologies, and resilient consumer demand.
- Part of the reason equity markets underperform in the second year of presidential terms is that presidents tend to become more populist leading into the midterm elections. The second Trump administration appears to be following this playbook as recent announcements have pivoted toward direct consumer intervention, including proposed 10% caps on credit card interest rates.
- In a departure from traditional monetary policy, the executive branch recently directed Fannie Mae and Freddie Mac to execute a \$200 billion mortgage-backed securities (MBS) purchase program. According to U.S. Treasury Secretary Scott Bessent, the goal of the program is to roughly match the amount of MBS rolling off the Fed's balance sheet.
- Federal interest costs on the national debt now exceed 18% of tax revenues for the first time since the early-1990s, a level where fiscal austerity usually kicks in. One of the administration's goals with the pressure campaign on the Fed is to reduce debt servicing costs by lowering interest rates.

Average S&P 500 Index Return by Presidential Term Year
(Since 1969)



Source: Bloomberg L.P.

Federal Interest Costs as Percentage of Federal Revenues



Source: Bloomberg L.P.

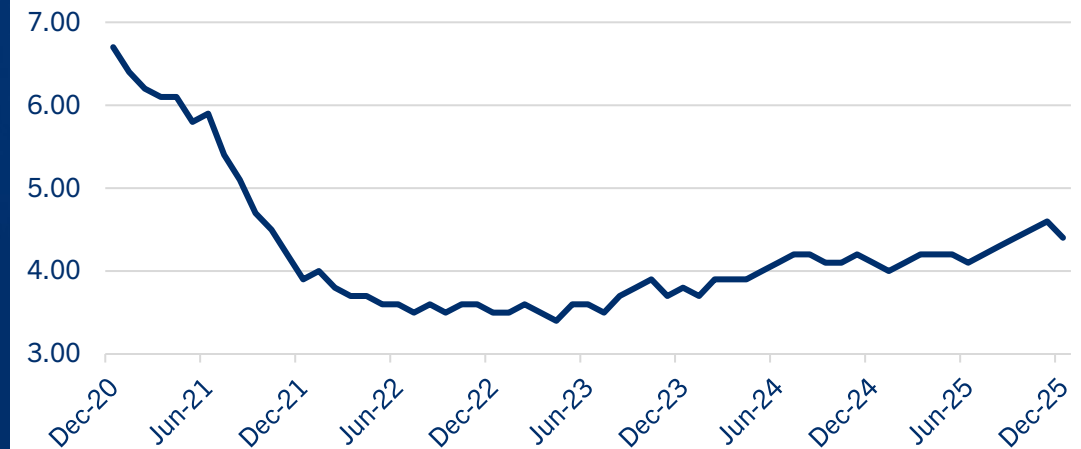
Economy

Solid GDP Growth in 2026

Delayed data shows good, though uneven growth

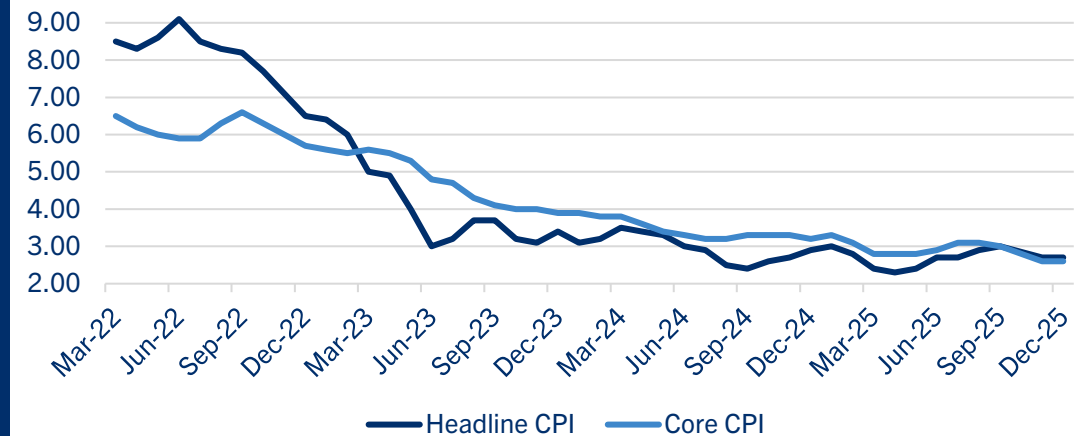
- The U.S. economy looks to have registered a good, albeit uneven, year in 2025, though there is less data available this December than usual to judge since the government shutdown delayed many economic statistics. 2025 saw solid real GDP growth as spending surged on AI-related software, equipment, and data centers. The roaring stock market fueled wealth gains by affluent households, supporting consumer spending. However, job growth was sluggish and inflation held above the Fed's target, pressuring the finances of lower- and middle-income households.
- Inflation is forecast to hold above the Fed's target in 2026 as tariff costs gradually work their way to checkout prices. Next year will likely mark the sixth consecutive year of inflation above the Fed's target. Even so, consumers are finding relief from prices less affected by trade: In particular, shelter inflation is finally cooling off as house prices and advertised rents hold little changed, and as more housing supply comes to market. Inflation from tariffs is forecast to dissipate in the second half of 2026, moving overall inflation closer to the Fed's target.
- After three quarters of a percent in rate cuts between September and December, the Fed looks likely to continue to reduce rates in 2026. The Fed will want to arrest the downward momentum visible in recent employment data. That momentum will probably be even clearer in early 2026 as delayed job market data are published. Comerica forecasts for the Fed to reduce the federal funds target rate by three quarters of a percent by September, to a range of 2.75% to 3.00%. The ten-year Treasury yield is forecast to average between 4.00% and 4.25% in 2026.

U.S. Unemployment Rate



Source: Bloomberg L.P.

Consumer Price Index (CPI)



Source: Bloomberg L.P.

Fixed Income

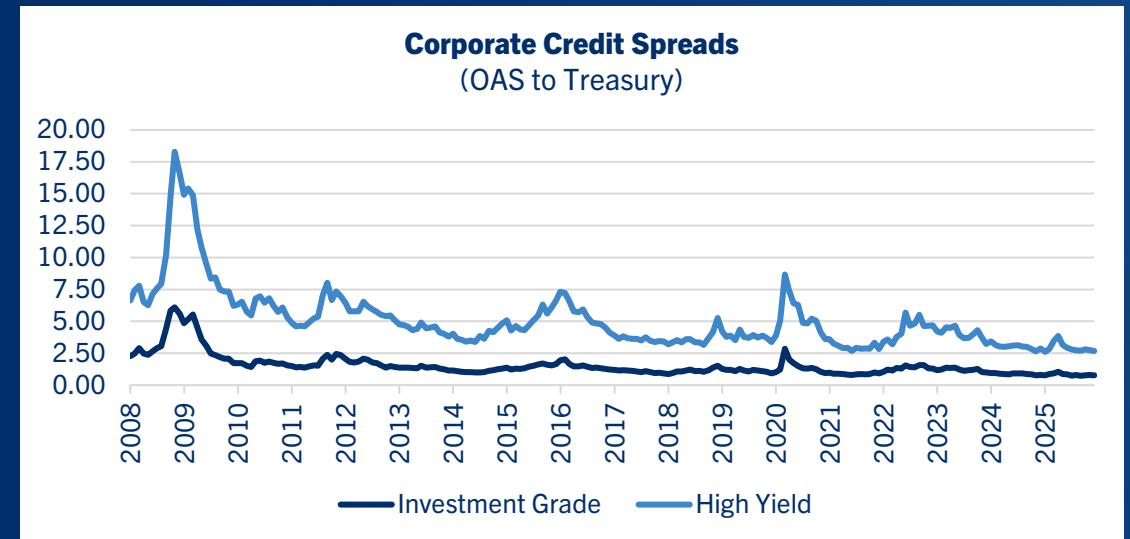
Corporate Spreads Tighten

Market Returns as of 12/31/2025

- The FOMC lowered the federal funds target rate to 3.50%-3.75% in December, marking the central bank's third rate cut of the year and sixth of this easing cycle. The U.S. Treasury yield curve steepened in 2025, with the 2-year/10-year Treasury spread currently standing at 70 basis points—an increase of 37 basis points from the end of last year.
- Fixed income markets delivered positive total returns across major indexes in the fourth quarter. The Bloomberg U.S. Aggregate Index rose 1.1%, while mortgage-backed securities (+1.7%) and municipal bonds (+1.6%) led performance among domestic sectors. Over the full calendar year, domestic fixed income produced their strongest total returns since the COVID-19 pandemic.
- High yield spreads tightened slightly in the fourth quarter, despite an uptick in high yield default rates. While some private credit and leveraged loan defaults captured headlines, corporate balance sheets remain generally robust. Corporate credit rallied in 2025, with investment grade bonds (+7.8%) and high yield (+8.6%) among the top performers.
- Indeed, spread compression boosted corporate credit over the last year. Investment grade spreads are just 77 basis points and high yield spreads are 268 basis points, both near a multi-decade lows.

Fixed Income Indexes	Yield	Q4	1YR	3YR
Bloomberg U.S. Aggregate	4.32	1.10	7.30	4.66
Bloomberg U.S. Treasury	3.89	0.90	6.32	3.62
Bloomberg U.S. Corporate (IG)	4.81	0.84	7.77	6.10
Bloomberg U.S. High Yield	6.53	1.31	8.62	10.06
Bloomberg U.S. MBS	4.63	1.71	8.58	4.90
Bloomberg U.S. Municipals	3.60	1.56	4.25	3.88

Source: Bloomberg L.P.



Source: Bloomberg L.P.

Equities

High Valuations & High Momentum

Market Performance as of 12/31/2025

- Domestic equity markets demonstrated resilience throughout 2025 with major indices posting high-teens gains for the year led by AI-themes and high momentum. The S&P 500 remained at record high concentration levels and closed Q4 up nearly 18% for the calendar year, supported by high cash flow generation among the technology sector, and strong earnings growth. Although the market remains led by AI and the hyperscalers trading at lofty valuations, we expect value-oriented sectors to gain further appeal as the market broadens out and relative valuations become more attractive.
- The Russell 2000 gained nearly 13% and the Microcap index led all market indices during the year rising nearly 23% reflecting a broader and healthier market that is set to benefit from lower interest rates and consumer spending resilience. Additionally, the increase in mergers and acquisition activity that commenced in the third quarter continued into the fourth quarter benefiting small and microcap companies.
- Sector and industry rotation was a defining feature of 2025. Technology and communication services remained a top-performing sector, supported by advances in big data and artificial intelligence and semiconductor innovation. Healthcare stocks rallied during the fourth quarter due to attractive valuations and less exposure to trade policy. Financial earnings improved again from more favorable net interest margins and benefits from improved asset quality and consolidation. Consumer discretionary stocks remained mixed, with luxury brands outperforming mass-market retailers as the holiday sales remained robust. As we enter 2026, we expect an increase in volatility and further sector rotation into value-oriented and smaller cap investments that have lagged over the past several years but offer more potential investment opportunity.

U.S Equity Indexes	Price	Q4	1YR	3YR
DJIA	48,063	4.03	14.92	15.36
S&P 500®	6,846	2.65	17.86	22.98
S&P 500® Eq. Wght.	7,764	1.38	11.40	12.73
Nasdaq Composite®	23,242	2.72	21.17	31.47
Russell 1000® Growth	4,765	1.12	18.55	31.14
Russell 1000® Value	2,072	3.80	15.88	13.87
Russell Mid Cap®	3,845	0.15	10.59	14.35
Russell 2000®	2,482	2.19	12.79	13.71
Russell Micro Cap®	996	6.24	22.94	15.16
S&P 500® Sectors	Price	Q4	1YR	3YR
Comm Svcs	452	7.26	33.56	42.90
Cons Disc.	1,928	0.71	6.04	25.23
Cons Staples	865	0.01	3.90	6.26
Energy	687	1.53	8.68	4.24
Financial	912	2.01	14.97	18.92
Health Care	1,806	11.68	14.60	6.26
Industrials	1,313	0.86	19.27	18.21
Info Tech	5,684	1.42	24.04	38.81
Materials	574	1.12	10.54	7.54
Real Estate	255	-2.87	3.15	6.84
Utilities	434	-1.40	16.04	10.00

Performance Reflects Total Returns. Source: Bloomberg L.P.

Global

Tariff Respite

Market Performance as of 12/31/2025

- The US equity market's strong 18% return in 2025 was eclipsed by Eurozone, Canada, Japan and Emerging Markets (EM). Both EM and EAFE earnings revisions have been trending higher supporting 4Q outperformance. Eurozone growth is expected to accelerate in 2026, with the tariff drag diminishing, a resilient consumer and increased spending on defense. Easing financial conditions are combining with shifting global trade activity and lower oil prices to boost growth across EM.
- In mid-December Japan's central bank raised its short-term rates by 25 basis points to a three-decade high, driving the yield on 10-year and 20-year Japanese government bonds to their highest level since 1995. This policy decision acknowledges persistent inflation and aims to support economic growth by encouraging domestic and global investment in Yen-denominated assets. The move prompted a rally in the Yen and the TOPIX, which rose 8.78% in the quarter.
- China: In the face of weakness in domestic demand and the property market, the government is focusing on export-led growth to hit its 5-Year Plan growth targets. This hinges on a US-China trade truce, with this expectation propelling equity prices.
- South Korea's KOSPI index surged 79% in 2025; its best performance in 25 years. Structural reforms and positive investor sentiment fostered \$36 billion in net foreign direct investment. The market's strong gains were driven by AI infrastructure, memory chips and arms exports.

International Equity Indexes	Price	Q4	1YR	3YR
MSCI ACWI ex. US®	421	5.11	33.18	18.03
MSCI EAFE®	2,893	4.91	32.03	17.97
MSCI Emerging Markets®	1,404	4.76	34.29	16.93
MSCI Frontier Markets®	754	6.59	47.37	21.82
Developed Country/Region (Index)	Price	Q4	1YR	3YR
Eurozone (EURO STOXX 50)	5,791	5.16	22.14	18.97
Japan (TOPIX)	3,409	8.78	25.46	24.68
United Kingdom (FTSE 100)	9,931	6.86	25.74	14.06
Canada (TSX Composite)	31,711	6.26	31.71	21.46
Germany (DAX 40)	24,490	2.55	23.01	20.71
France (CAC 40)	8,150	3.62	14.28	11.47
Emerging Country/Region (Index)	Price	Q4	1YR	3YR
China (Shanghai Comp)	3,969	2.68	21.72	11.85
India (NSE Nifty 50)	26,130	6.37	12.03	14.60
Hong Kong (Hang Seng)	25,631	-4.11	32.50	13.39
Taiwan (Taiwan Stock Ex.)	28,964	12.34	29.43	30.80
South Korea (KOSPI)	4,214	23.18	78.67	25.59
Mexico (S&P/BMV IPC)	64,308	3.46	35.10	13.73
Global Fixed Income Indexes	Yield	Q4	1YR	3YR
Bloomberg Global Aggregate	3.52	0.24	8.17	3.98
Bloomberg Emerging Mkts USD	5.71	2.40	11.11	8.91
Bloomberg Global High Yield	6.48	2.24	12.06	11.75

Currencies

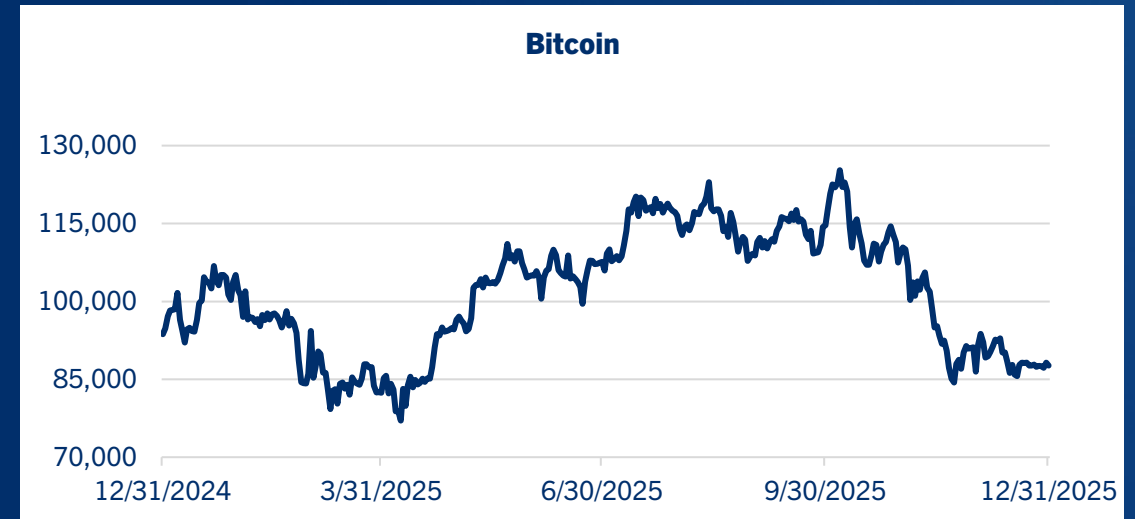
Bitcoin Jitters

Price Levels as of 12/31/2025

- US Dollar has been under pressure for the year due to uncertainty, initially centered around trade policy, and then shifting to focus on Federal Reserve independence, and most recently, international affairs. Despite an uptick in the US Dollar in the 4Q, continued shifts in the political landscape coupled with the lack of fiscal discipline, could bode for an extended period of dollar weakness.
- Bitcoin fell nearly 30% in 4Q after hitting a record high above \$126,000, with long-time holders selling coins at some of the fastest rates in recent memory. An estimated \$300 billion of dormant bitcoin reentered circulation in 2025. For much of the past year, that selling was absorbed by a surge of demand from newly launched exchange-traded funds and crypto investment firms. That demand has faded with ETF flows turning negative, derivatives volumes dropping and thinning retail participation. The same supply is now landing on a weaker market with fewer buyers.
- Selling pressure intensified after Oct. 10, when approximately \$19 billion in liquidations were recorded following MSCI's publication titled "Digital Asset Treasury Companies" (DATCOs), which outlined a proposal to potentially reclassify companies whose primary business is holding bitcoin or other digital assets as fund-like vehicles rather than operating companies. Under the proposal, firms with digital asset holdings representing 50% or more of total assets could have been excluded from MSCI's core equity indexes, raising concerns about forced selling by passive index-tracking strategies. However, in its Jan. 15, 2026 decision, MSCI did not adopt the proposed reclassification, electing instead to maintain existing index treatment for affected companies while deferring broader methodological changes for further study.

Currencies	Q4 '25	Q3 '25	Q2 '25	Q1 '25	Q4 '24	1 Yr %
U.S. Dollar Index	98.32	97.78	96.88	104.21	108.49	-9.4%
Euro	1.17	1.17	1.18	1.08	1.04	13.4%
Japanese Yen	158.11	147.90	144.03	149.96	157.20	-0.6%
British Pound	1.35	1.34	1.37	1.29	1.25	7.5%
Canadian Dollar	1.39	1.39	1.36	1.44	1.44	3.6%
China Renminbi	6.97	7.12	7.16	7.26	7.30	4.7%
Mexican Peso	17.91	18.31	18.75	20.47	20.83	16.3%
Cryptocurrencies	Q4 '25	Q3 '25	Q2 '25	Q1 '25	Q4 '24	1 Yr %
Bitcoin	91.58 k	114.64 k	107.61 k	82.42 k	93.71 k	-2.3%
Ethereum	3,101	4,196	2,504	1,820	3,346	-7.3%
XRP	2.06	2.87	2.30	2.09	2.10	-1.5%

Source: Bloomberg L.P.



Source: Bloomberg L.P.

Commodities

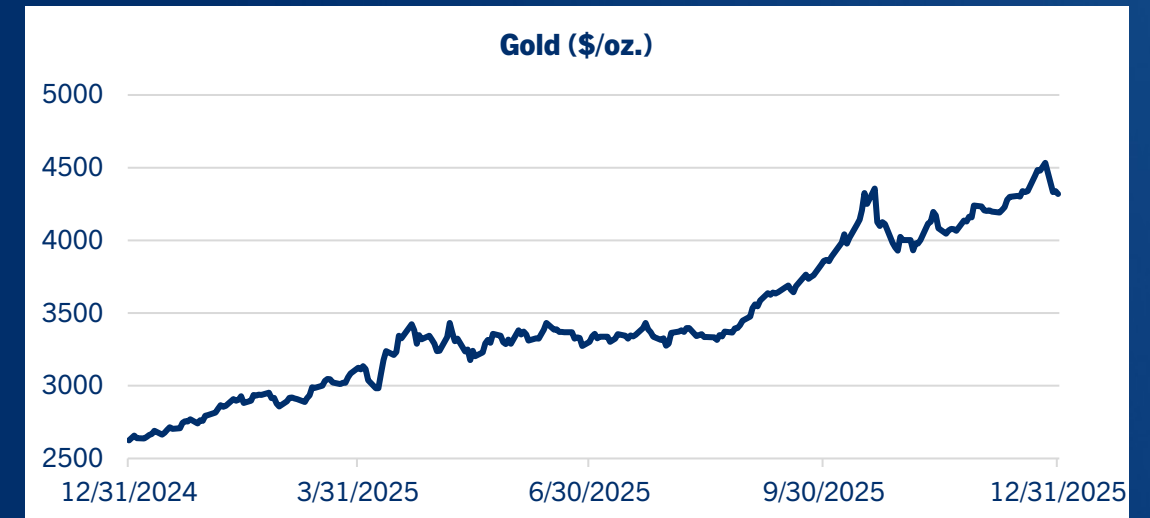
Commodities Shine

Price Levels as of 12/31/2025

- Commodities appear to be in a long-term secular uptrend propelled by deglobalization, commodity hoarding and a weak USD. Historically, long-term uptrends have spanned a decade with pullbacks to be expected. In the long run, capital investment from AI and power demand, support the positive outlook.
- Gold extended its impressive rally into the 4Q ending the year at \$4,319, up 65% for the year. Gold has benefited from strong demand from central bank purchases, speculative interest, and the role of bullion as an asset and currency diversifier amid an uncertain global political landscape.
- Silver appreciated 148% in 2025 reaching an all-time high of \$72 oz. The recent 4Q advance has been buoyed by speculative inflows and lingering supply dislocations after a short squeeze in October. As an industrial metal, Silver is indispensable for solar, electronics, defense, and advanced manufacturing.
- Copper's stellar 42% rally this year to an all-time high, has been driven by resource constraints and structural demand growth from electricity grids, EVs and data centers. U.S. Fed rate cuts and further US dollar depreciation further bolster pricing in the face of constrained mine supply growth.
- Crude oil prices generally declined in 2025 in the face of excess supply. The average monthly price of Brent crude oil declined from a high of \$79/b in January to a low of \$63/b in December, the lowest level since early 2021. In October, OPEC increased crude oil production targets for the group by around 2.9 million barrels per day, equal to almost 3% of world oil demand, to regain market share. This added to an already oversupplied market.

Metals	Q4 '25	Q3 '25	Q2 '25	Q1 '25	Q4 '24	1 Yr %
Gold	4,319	3,859	3,303	3,124	2,625	64.6%
Silver	71.66	46.65	36.11	34.09	28.90	148.0%
LME Aluminum	2,996	2,681	2,598	2,533	2,552	17.4%
LME Copper	12,423	10,269	9,869	9,710	8,768	41.7%
LME Nickel	16,646	15,235	15,215	15,918	15,328	8.6%
Energy	Q4 '25	Q3 '25	Q2 '25	Q1 '25	Q4 '24	1 Yr %
WTI Crude	57.42	61.48	61.35	66.68	67.60	-15.1%
Brent Crude	60.85	65.14	64.70	70.16	71.09	-14.4%
NYM Gasoline	171.50	185.50	180.82	192.77	186.33	-8.0%
NYM Natural Gas	3.69	3.98	4.56	5.07	4.34	-15.1%

Source: Bloomberg L.P.



Source: Bloomberg L.P.

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