LOUDON
INVESTMENT MANAGEMENT

January 20, 2026

Dear Clients and Friends:

Once again, the Magnificent Seven and other related tech companies dominated market performance during 2025. As discussed in previous letters, these stocks in aggregate represent fewer than 2% of the names held in the S&P 500 stock index but well over 30% of the performance weighting as the index return is calculated using total stock market value as the weighting factor.

Benchmark Index Total Returns	Calendar Year Ending 12/31/2025	Quarter Ending 12/31/2025
Lipper Balanced Fund Index	13.40%	2.18%
S&P Dividend Aristocrats	7.28%	1.72%
S&P 500 Stock Index	17.88%	2.66%
Russell 1000 Value Index	15.91%	3.81%
3 month US Treas. Bill Index	4.30%	1.02%
S&P U.S. Aggregate Bond Index	7.07%	1.04%

The performance differential between the S&P 500 and the S&P Dividend Aristocrats composite of about 10 percentage points in 2025 illustrates how important stock selection and sector weightings are to portfolio performance. The fact that there are only two technology stocks within the Dividend Aristocrats is an illustration of how technology stocks can produce bursts of very high returns but over the long run are much less reliable.

Tariffs, the Big Beautiful Bill and what's next?

While the stock market has generally marched higher, the whirlwind of economic, political and foreign policy events over the past year leaves our heads spinning. There are any number of topics we could classify as major over the past twelve months, but we are going to limit our comments to those with a direct and major impact on the economy. We believe the most important economic events of 2025 were the implementation of tariffs on imported goods last spring and the so called "Big Beautiful Bill" passed by Congress last summer. Each will have a major impact on the Federal deficit.

Starting with tariffs, we understand all the economic theories on why tariffs are bad, but most of these relate to theoretical economics rather than the real world and they ignore social costs. The tariffs that preceded the Great Depression are often cited as a demonstration of why they are destructive. Yet practically speaking, those were very different times that bear virtually no resemblance to where we are today. We are neither pro nor con with respect to tariffs as we believe that their impact depends heavily on the circumstances under which they are used.

For instance, taking the moral high ground, should we do business with countries that pay their workers poverty or subsistence wages relative to the levels in the U.S. and western Europe? The economic advantage to the importer is clear – those products can be sold to us at much lower prices than goods produced in the U.S. where the average worker is much better off. If we are to be a world leader, shouldn't that bother us, and if it does, what can we do about it in the context of a free market economy? Tariffs are a fee that can be part of the solution by reducing the social cost of low wages.

Because the U.S. is the richest country in the world, it can act upon prerogatives that other countries cannot. Our abundant natural resources, relatively free capital markets, the world's wealthiest consumer market and a stable set of laws and political governance make the U.S. unmatched in economic, and therefore, political influence. As a result, we can apply and get away with tariffs others cannot, though we have often tolerated tariffs placed on us in the past. Because of European tariffs, autos produced in the U.S. cannot be sold in Europe at a profit. While there has been much hot air exchanged since current tariff policy was put in place, the fact is that the stock and bond markets have had very little reaction to tariff implementation, implying that they are not currently a major negative factor in the economic backdrop.

In some ways tariffs are like taxes in that they can raise large sums of money for the U.S. Treasury – something under $300 billion in 2025. However, they are also clearly political tools used to alter the behavior of our economic and pollical competitors overseas. Taxes are under the purview of Congress while foreign policy is under the control of the President. The Supreme Court is currently trying to determine what tariffs actually are. Which way the court leans will likely have a major influence on economic policy going forward.

The Big Beautiful Bill Act (yes, that is its official name though it is also referred to as H.R. 1) was indeed Big. While it started as being focused on making the tax cuts implemented in 2017 under the first Trump administration permanent, various items were subsequently added. These included exemptions, up to a limit, of taxes on tips and overtime as well as changes in child and education tax credits. It also increased the deductibility of state and local income taxes (SALT).

Beyond this in separate sections, it increased and codified work requirements for the able-bodied receiving Medicaid or SNAP (food stamps) benefits, repealed some Biden era tax credits for green energy projects, and placed some limits on graduate student loans. Finally, it also provided increased funding for Border & Immigration and Defense. Some of these items restrict expenditures while others increase spending.

So where do the combination of tariffs and lower tax rates leave us? The tariffs, if left in place, will be a major contributor to federal revenues but we don't know what the Supreme Court will decide. The current chatter suggests they may call for a distinction between focused tariffs for specific

purposes (foreign policy related) compared to universal tariffs that could be construed as taxes by another name.

The impact of the Big Beautiful Bill is even less certain. The so called "Supply Side" argument suggests that lower tax rates lead to more private spending driving the economy higher, leading ultimately to greater economic activity and more tax revenue. This contrasts with conventional thinking that higher taxes directly increase federal revenue. But conventional thinking does not consider behavioral changes that we all make when we have less money to spend. Having less money in hand (due to higher taxes or other reasons) reduces demand and slows economic activity, potentially leading to less tax revenue.

2026 will show us how this all works out. The aggregate Federal deficit continues to grow to unprecedented levels. Does this matter is one of the questions economists are wrestling with at the present time. Our belief is that it won't matter until it becomes a true crisis. That will happen when we are unable to refinance our debt at reasonable interest rates because of the rapid buildup in the aggregate U.S. debt. It was just announced that there will be a second "reconciliation" bill this year to hopefully alleviate the problem.

Despite all that has gone on in the past year, the stock market continues to move higher based on strong company fundamentals along with some selective speculation. Most of the statistics do not indicate economic stress in the overall economy. While the trend remains up, we are fully aware that substantive corrections can occur at any time. We plan to stay fully invested, though nervous, as has been the case for a number of years now.

12/31/2025 Top Holdings

ABBV	AbbVie Inc	JPM	JPMorgan Chase & Co
ACN	Accenture, Plc	LNC	Lincoln National Corp
CAT	Caterpillar Inc	LOW	Lowes Companies Inc
CSCO	Cisco Systems Inc	MSFT	Microsoft Corporation
DLR	Digital Realty Trust Inc	NEE	NextEra Energy, Inc
DPZ	Domino's Pizza, Inc	O	Realty Income Corp
EPD	Enterprise Products Partners LP	QCOM	Qualcomm Inc.
FAST	Fastenal Company	TFC	Truist Financial Corp
G	Genpact Limited	TSM	Taiwan Semiconductor
ITW	Illinois Tool Works Inc	XLK	SPDR Technology Sector ETF

This most recent quarter saw more turnover than usual in our top holdings as Abbott Labs, American Tower and T-Mobile were replaced by Accenture, Domino's Pizza and Realty Income.

The names that dropped off the list were sold or trimmed in taxable accounts where it made sense to offset taxable gains. We expect we will begin buying these names back after the required thirty days has passed, and we would not be surprised to see all three back on the list over the course of 2026.

Among the names that are new to portfolios, Accenture is our most recent purchase which we began buying in the fourth quarter. Accenture is a global services company based in Dublin, Ireland, and it is an industry leader when it comes to helping companies and governments incorporate Artificial Intelligence (AI) and cybersecurity into their operations. Accenture has been growing its cash flow, earnings and dividends at greater than 10% over the last five- and ten-year periods, and a similar rate of growth is expected over the next several years. Additionally, Accenture tends to be a long-term partner with its clients. It has partnered with 195 of its top 200 clients for at least ten years, an extremely high retention rate. Meanwhile the stock price is stuck around 2020 levels as investors fear that AI will cause companies and governments to cut back on consulting services, as it has seen reduced spending by U.S. federal agencies. Although Accenture's business does tend to be cyclical, we believe the fears are overdone, and the recent dip in price made the stock extremely attractive. This is a company that has been on and off our radar screens for several years, and it has finally reached a tipping point to become a buy.

Domino's Pizza is another company we began buying in 2025, and we continued adding shares over the last quarter. Primarily a franchise operation, Domino's derives its revenues from fees and the sale of materials to franchisees rather than operating restaurants itself. The Domino's formula is rather straightforward. It does not necessarily put forward the very best pizza you have ever tasted, but it does produce a consistent product that is widespread and popular with consumers across 80 countries, with a majority of sales coming from the U.S. As many U.S. consumers are cutting back on restaurant spending, Domino's is able to offer a rare value for consumers, and the company has done a reasonably good job of keeping costs and prices in line in order to maintain solid margins even as most restaurants have been forced to raise prices. The 1.7% dividend yield is a bit lower than our typical holding, but it is higher than the overall market and has been growing at around 18% annually over the last five years, which is what put it on our radar. With long-term growth estimated in the low double digits and trading at a historically low valuation, Domino's is the kind of slow and steady company we look for when making a new purchase.

Lastly, Realty Income, also known as "The Monthly Dividend Company," due to its payment of dividends monthly rather than quarterly, is a real estate investment trust (REIT) that owns single-tenant, stand-alone commercial properties such as 7-Eleven, Dollar General and Walgreens. Realty Income is a triple-net lease REIT. This is a simple model in which the tenant, not the landlord, is responsible for all major property expenses including taxes, insurance and maintenance, which makes cash flow and growth of existing properties extremely predictable. While not a very exciting company, Realty Income is known for stability and consistent growth, having now increased its dividend for over thirty consecutive years. With a greater than 98% occupancy rate from a diversified tenant base, this is a company from which we simply expect slow fundamental gains while we collect on the generous 5.6% dividend yield. Management is expanding in both the U.S. and Europe, though it has been concentrating more on the fragmented European markets in recent years. These fundamentals were supplemented by purchasing it at a very favorable price thanks to the rush to AI leaving most REITS behind. In an uncertain world, where it always seems like the next recession or crash could be right around the corner, it is comforting to hold a solid and stable company like Realty Income, and we will likely continue to add shares as opportunities arise.

Looking Ahead

Markets that have gone up a lot are not necessarily overvalued. Actual growth in earnings does

account for a substantive portion of the upward movement in the stock market, though rising valuations have played a role as well. As a result, we would characterize the current valuation as high but justified as we look ahead in 2026.

For one thing, there is very little sign of stress in the economy suggesting more room for further growth. Recent statistics support this:

1. Job growth has been slow but employment has remained stable. The unemployment rate was recently reported at only 4.4%.
2. New claims for unemployment remain subdued, meaning there is no visible deterioration in the labor market.

These two factors support continued declines in inflation and interest rates without recession.

Despite the Government shutdown, estimates of 4th quarter GDP growth are rising. This follows a strong report for the 3rd quarter. With little growth in employment, this means that there has been a surge in productivity, and this is always good for corporate profits. More products are being produced with little increase in cost.

In our view, there is no sign of a real bubble in the stock market. This suggests another year with good stock market performance, though the better performers may be the forgotten stocks that were left behind last year rather than those that are AI related.

We thank each of you for your continuing support and wish everyone a great 2026!

With kind regards,

Loudon Investment Management LLC

DML/ELS/JJS/LRO