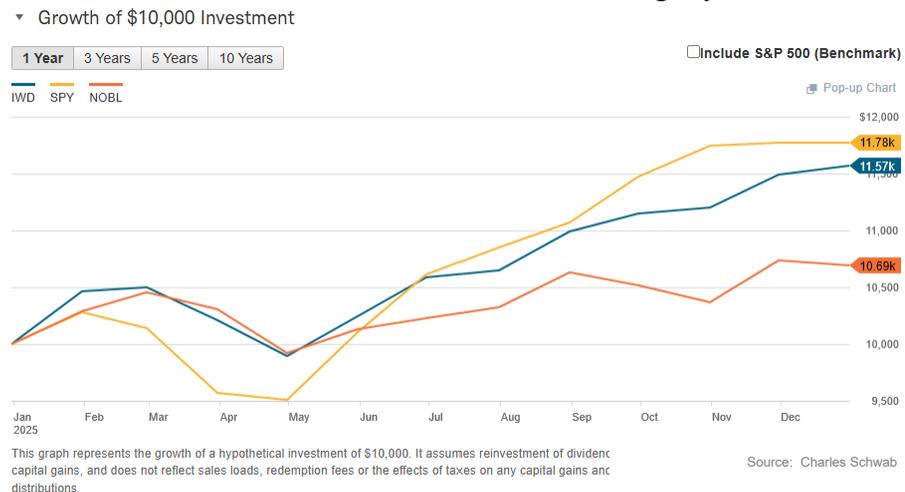


2025 a year of shrugging off uncertainty

In our published 2025 outlook we emphasized, “a macro backdrop that includes policy uncertainties, elevated interest rates, persistent inflation, combined with slowing consumer spending and increased geopolitical tension” and we were largely correct. However, we, along with the rest of the market, were caught off guard by the scope and magnitude of the tariffs announced on “Liberation Day”. The market quickly moved on from the tariff announcement, with the S&P 500 fully recovering from the more than 10% pullback in less than a month. The quick recovery in market valuations, along with significant earnings growth from AI beneficiaries, drove the S&P 500 to a 17.9% return. At the same time, the rapid recovery in risk appetite reduced the relative appeal of defensive cash-flow stability and dividend income, leading the S&P 500 Dividend Aristocrats Index to return only 7.28%.

The Russell 1000 Value Index – A Benchmark Dislocated

The Russell 1000 Value Index, long seen as a proxy for defensive, cash-generative, and intrinsically undervalued companies, has materially drifted from its characteristics. Since 2022, index reconstitution rules have reclassified some of the world’s largest high-growth companies as "value" stocks due to multiple compression and moderating growth rates due to scale, not because these businesses fit the investment profile typically sought by value investors. As a result, the recent strong performance of the benchmark largely reflects growing reliance on high-momentum AI winners, shifting away from traditional value principles. The graph below compares the 2025 performance of three ETFs: IWD, representing the Russell 1000 Value; SPY, as a proxy for the S&P 500; and NOBL, representing the Dividend Aristocrats. As you can see the performance relationship between the S&P 500 and Russell 1000 Value was much more tightly correlated than it is to the Dividend Aristocrats.



Against this backdrop, the S&P 500 Dividend Aristocrats Index offers a more direct and meaningful comparator for performance. The Dividend Growth Strategy and the Aristocrats Index operate within a more similar universe of

companies committed to returning capital to shareholders. Dividend Growth Strategy returned 7.77% in 2025, outperforming Dividend Aristocrats by 49 basis points through selection of high-quality companies and the successful avoidance of "yield traps". The outdated reclassification methodology has caused a shift in the characteristics of the Russell 1000 Value, limiting the index’s relevance for strategies focused on capital preservation and dividend growth.

Looking Ahead to 2026

Looking ahead, the U.S. economy continues to demonstrate notable resilience, supported by steady GDP growth, a constructive regulatory backdrop, resilient consumer spending, an ongoing Federal Reserve rate-cutting cycle, and a surge in capital spending. However, as this bull market enters its fourth year with elevated AI valuations, incremental broad market upside is likely to depend more on earnings growth than further multiple expansion. Our base expectation is for mid-to-high single-digit returns, driven by earnings growth that will outpace performance. Unlike the past few years, we expect index returns to broaden, becoming less concentrated in a few names, and favoring selective positioning over broad index exposure.

Broadening of Market Leadership and Pivot to Quality

Given this backdrop, the quality factor serves as an essential component for portfolio construction. When macro visibility is limited, balance sheet strength and execution discipline become the primary sources of resilience. A focus on business durability, balance sheet strength, and consistent strong execution results in investments that are capable of self-funding operations and growth, reducing reliance on external capital markets during periods of disruption. Structural demand for AI infrastructure and adoption remains intact, but following outsized gains in prior years and with lofty valuations setting a high bar, returns are likely to moderate from the extreme rates seen over the past few years. With expectations elevated, performance might be volatile and will increasingly depend on execution rather than narrative. This dynamic should allow capital to rotate toward quality stocks with tangible earnings growth, and lead to broadening of market leadership.

The growth-oriented, risk-on investor sentiment that prevailed in 2025 favored more speculative stocks, contributing to a period of pronounced underperformance for the quality factor. As a result, the valuation of quality stocks relative to the broader market is significantly below historical norms, creating an increasingly attractive entry point. Looking ahead to 2026, we expect high-quality stocks with strong

profitability, consistent cash flows, and resilient balance sheets to be better positioned as investors become more sensitive to AI-related bubble risk, execution risk, and earnings durability. As AI enthusiasm moderates, quality stocks could see renewed interest as investors seek more defensible exposure.



An illustration of AI perception vs reality: Accenture (ACN)

Accenture provides a clear example of the disconnect between AI narratives and underlying business fundamentals. The 2025 market environment has continued to bifurcate, rewarding perceived "AI winners" with valuations that have detached sharply from historical norms. This performance has largely concentrated around a narrow basket of momentum-driven names, creating a reflexive loop where price action begets further hype. We believe investors are overlooking the scale, durability, and monetization reality of the businesses required to actually deploy this technology, for example, our holding in Accenture (ACN). Despite generating nearly \$70 billion in annual revenue and over \$13 billion in EBITDA, Accenture trades at a forward P/E of ~19x, a steep discount to both the broader AI sector and its own historical average. This multiple compression resulted in a mid-year drawdown of roughly 42%, with the stock finishing the year with a -21.6% return. This sell-off ignores the company's execution success within AI: in its most recent quarter, Accenture delivered \$2.2 billion in new Generative AI bookings. By contrast, IBM—which reported only \$1.5 billion in GenAI bookings within its consulting segment—was richly rewarded, returning +84% in 2025 as its P/E expanded from roughly 20x to over 24x.

This valuation discrepancy highlights a fundamental misunderstanding of the "AI Integrator" role. The market is currently paying a premium for IBM's narrative of a legacy software turnaround, effectively treating it as a



high-margin platform play, while discounting Accenture under the assumption that AI will cannibalize service hours. This view ignores the "last mile" problem of the AI revolution. Enterprise AI is rarely plug-and-play; simply accessing a model is insufficient for driving productivity. Effective deployment requires integrating these tools into specific workflows in an intelligent manner—a task that demands a convergence of technical AI expertise and deep, industry-specific domain knowledge. Software vendors provide the engine, but they rarely possess the operational context required to successfully re-engineer core business processes across diverse sectors. As the world's largest independent technology services firm, Accenture bridges this gap, serving as the necessary utility for the transition. While the market chases software vendors, it fails to account for the fact that software cannot generate value without the scaled integration partners required to contextualize and weave it into complex corporate environments.

From “Peak Uncertainty” to Persistent Uncertainty

Many strategists entered the new year with the consensus view that 2025 represented "peak uncertainty"—a year defined by the immediate shocks of the tariff regime and the transition of power. However, the events of the last month have challenged that belief, suggesting that the landscape remains highly fluid. The geopolitical risk premium has risen with the US military’s capture of Nicolás Maduro on January 3rd, creating a power vacuum in Venezuela that complicates the global energy narrative. Simultaneously, the wave of anti-regime protests that erupted across Iran on December 28th, along with U.S. threats of intervention, has introduced new variables into the Middle East's stability. Domestically, the Department of Justice’s recent subpoena of Federal Reserve Chair Jerome Powell introduces further complexity. This move represents a significant escalation in tensions between the executive branch and the central bank, surpassing the political pressure and verbal threats observed over the past year, and escalating to actions that raise legitimate questions about the future of monetary policy independence. Compounding these risks, tariff uncertainty remains unresolved, with several trade deals still incomplete and renewed threats from Trump to impose substantial tariffs on countries trading with Iran or purchasing Russian oil, including China. These factors argue for a more cautious and selective approach to risk-taking.

Labor Market Rebalances Toward Equilibrium

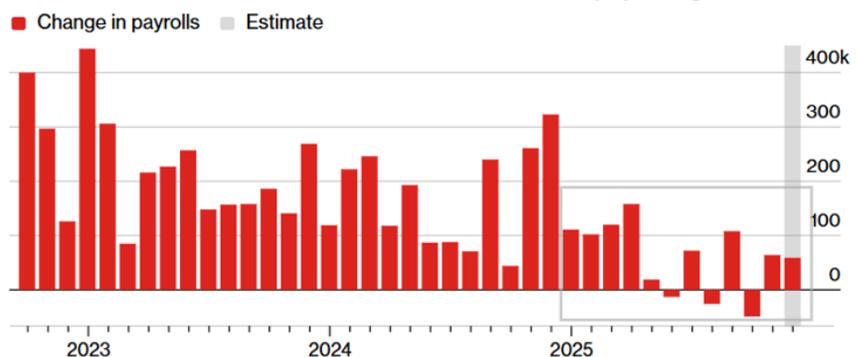
The labor market should continue to support consumer spending and economic momentum, though moderating wage pressures and a soft hiring environment suggest it is gradually cooling. Unemployed workers and job openings were also broadly in balance over the year, unlike the post-COVID period of excess tightness.

While labor demand softened in 2025, labor supply also declined, preserving overall balance. Net immigration has fallen roughly 85% from its 2023 peak, reducing labor supply. We expect headline numbers to remain firm, as reduced labor supply from lower immigration offsets softer labor demand.

We could see AI and automation gradually reshaping productivity and labor demand, with pressure on certain segments such as entry-level roles. Hiring may also remain cautious as companies reallocate resources toward AI investments and navigate prevailing macro uncertainties. We expect direct job cuts attributable to AI in 2026 to remain negligible.

US Hiring Appetite Diminished in 2025

Economists forecast modest advance in December payrolls growth



Source: Bureau of Labor Statistics, Bloomberg



Macro Backdrop: Drivers of GDP Growth

From a policy perspective, we expect the Federal Reserve's rate-cutting cycle to extend into 2026 at a subdued pace, with the easing cycle entering its later stages. Moreover, we believe the full economic impact of the 2025 rate cuts has yet to materialize, given the lag effect of monetary policy. This should benefit rate-sensitive areas such as housing, real estate, and consumer discretionary, as financing conditions ease. Banks should also benefit from potential improvements in demand for loans and credit quality.

At the same time, consumer spending remains robust, but the environment is bifurcated, reflecting a K-shaped economy that continues to favor premium and value-oriented offerings. This bifurcation is likely to shape revenue growth and margin outcomes across consumer-facing sectors, benefiting value-oriented businesses and higher-end offerings positioned at either end of the income spectrum.

On the investment side, corporate capex in 2025 was heavily concentrated in AI and automation. We continue to expect robust spending in these areas in 2026, but capex should also broaden into areas such as defense and healthcare, reinforced by tariffs and an increasing emphasis on domestic resilience by the Trump Administration. This backdrop should also favor sectors leveraged to domestic capex cycles, particularly Industrials and Materials, as they benefit from infrastructure-driven demand and ongoing reshoring efforts.

Taken together, the lagged benefits of monetary easing, a resilient albeit uneven consumer backdrop, and a broader capex cycle should provide support for modest but durable GDP growth in 2026.

Conclusion: Staying the Course on Quality

As we look into 2026, we remain convinced that the quality factor will reassert its leadership. As economic growth moderates and the speculative fervor in AI infrastructure normalizes, the market will likely refocus on the sanctity of cash flows and the reliability of income—the very attributes that define our investment philosophy.



Disclosures

This letter may contain "forward-looking statements" which are based on Brookmont's beliefs, as well as on a number of assumptions concerning future events, based on information currently available to Brookmont. Current and prospective clients are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of future performance, and are subject to a number of uncertainties and other factors, many of which are outside Brookmont's control, and which could cause actual results to differ materially from such statements. All expressions of opinions are subject to change without notice.

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The Brookmont Dividend Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. There is no representation that this index is an appropriate benchmark for such a comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of this index may be materially different from the performance of the strategy.

The Brookmont Core Dividend Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2015.

The Brookmont Core Dividend Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Core Dividend Strategy Composite is measured against the Russell 1000 Value Index. The Russell 1000 Value Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower than expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. There is no representation that this index is an appropriate benchmark for such a comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The Volatility of this index may be materially different from the performance of the strategy.

The Brookmont Quality Growth Strategy returns are based on an asset-weighted composite of discretionary accounts that include 100% of the recommended holdings. Individual accounts will have varying returns, including those invested in the Strategy. The reasons for this include, 1) the period of time in which the accounts are active, 2) the timing of contributions and withdrawals, 3) the account size, and 4) holding other securities that are not included in the Strategy. Dividends and capital gains are not reinvested. The Strategy does not utilize leverage or derivatives. Returns are based in U.S. dollars. The inception of the Strategy is January 1, 2015.

The Brookmont Quality Growth Strategy Composite contains fully discretionary accounts with similar value equity investment strategies and objectives. For comparison purposes, the Dividend Growth Strategy Composite is measured against the Russell 1000 Index. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower than expected growth values. The Russell 1000 Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment.

Brookmont's returns do include reinvestment of dividends and are shown gross-of-fees. All transaction costs are included. The Russell 1000 Value cumulative return includes reinvestment of dividends and capital gains. During a rising market, not reinvesting dividends could have a negative effect on cumulative returns.

Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net-of-fees performance was calculated using actual management fees. Additional information regarding the policies for calculating and reporting returns is available upon request.

Your account returns might vary from the composites returns if you own securities that are not included in the Strategy or if your portfolio dollar-cost averaged into the Strategy during the reporting period.

The firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The composite policy requires the temporary removal of any portfolio incurring a client-initiated significant cash inflow or outflow of at least 15% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite at the beginning of the month which follows the cash flow by at least 30 days. Additional information regarding the treatment of significant cash flows is available upon request.

Brookmont Capital Management claims compliance with the Global Investment Performance Standards (GIPS®). To receive a complete list and description of Brookmont's composites and a presentation that adheres to GIPS standards, please contact Suzie Begando at 214-953-0190 or write Brookmont Capital Management, 5950 Berkshire Lane, Suite 1420, Dallas, TX 75225.

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Past performance is not indicative of future returns