

# Mid-Quarter Update

We have been struck by the number of seemingly contrasting signals within the economy and financial markets today. Ultimately, the outcomes of these competing elements will dictate the path of future economic growth, interest rates, and opportunities in capital markets. We refer to this as the Dichotomy Economy.

One component of this “Dichotomy Economy” is the K-Shaped economy, which illustrates the broad range of circumstances amongst Americans. On the upward-sloping portion of the letter K, high-end consumers are doing well and becoming wealthier through market participation. The downward part of the letter represents everyone else, most of whom are having trouble making ends meet. This characterization highlights the disparity between those who own assets and are prospering and the other ~90% of the populace struggling with affordability, sticky inflation, and low consumer confidence.

Job growth has been sluggish, especially for high-paying jobs. The employment picture and the lack of job creation over the past several quarters have led the Federal Reserve (Fed) to reduce interest rates. Here we have two more seemingly conflicting indicators: inflation above its target, yet the Fed is cutting rates, and employment is full, yet very few jobs are being created. Unfortunately, the job openings we are seeing offer less economic leverage for generating income and growth.

Another disconnect has surfaced, the Fed has been reducing short-term interest rates meaningfully over the past 18 months, and more cuts are expected. While short-term rates are down and expected to go lower, long-term rates are essentially unchanged over this period, meaning borrowing costs and mortgage rates are not providing much relief to the interest rate-sensitive sectors of our economy, such as housing and autos.

Artificial Intelligence (AI) continues to be a significant, if not one of the few drivers of capital expenditures within our economy. These investments are accelerating as we receive 2026 guidance from the major players, many of whom are spending heavily. We have seen the stock market punish companies for fears of AI displacement and punish those who are spending heavily on AI investments, who would seemingly be the beneficiaries of displacement. Again, these are contrasting signals that are forcing investors to reconcile how all this will play out against a backdrop of stocks that are not cheap from a valuation standpoint and expectations that remain elevated.

## February 2026

In our view, the stock market is now displaying a healthy shift. Within the financial markets we have seen speculative areas experience big gains, but more recently in the early days of 2026, they have experienced severe losses. Bitcoin, gold, and other precious metals, along with other risky areas of the stock market have experienced pullbacks of late. The stock market is now experiencing increased volatility but upside participation by a broader number of stocks. This shift represents a potentially healthy development as excesses are unwound, hopefully without broader contagion. This could provide another leg up for the bull market in stocks, but with less concentrated leadership. So far, it appears investors are exhibiting a preference for higher quality and smaller capitalization stocks, as opposed to the small number of AI beneficiaries driving the popular averages to new highs. A continuation of this trend would certainly bode well for Crawford's quality-oriented approach.

As usual, the picture is not entirely clear, and we have attempted to identify the polar conditions we observe today. It is the reality of uncertainty and a wide range of potential outcomes that reinforces our conviction around investing in high-quality securities with reasonable valuation profiles. Investing in companies of this nature increases the likelihood of success and reduces the probability of an adverse outcome. We look forward to seeing how some of the above-referenced conditions resolve, and we believe our high-quality bias will serve us well.

Crawford Investment Counsel ("Crawford") is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. Registration does not imply a certain level of skill or training. More information about Crawford, including our investment strategies, fees, and objectives, can be found in our Form ADV Part 2 and/or Form CRS, which is available upon request.

The opinions expressed are those of Crawford. The opinions referenced are as of the date of the commentary and are subject to change. Crawford reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs.

Material presented has been derived from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. CRA-2602-2