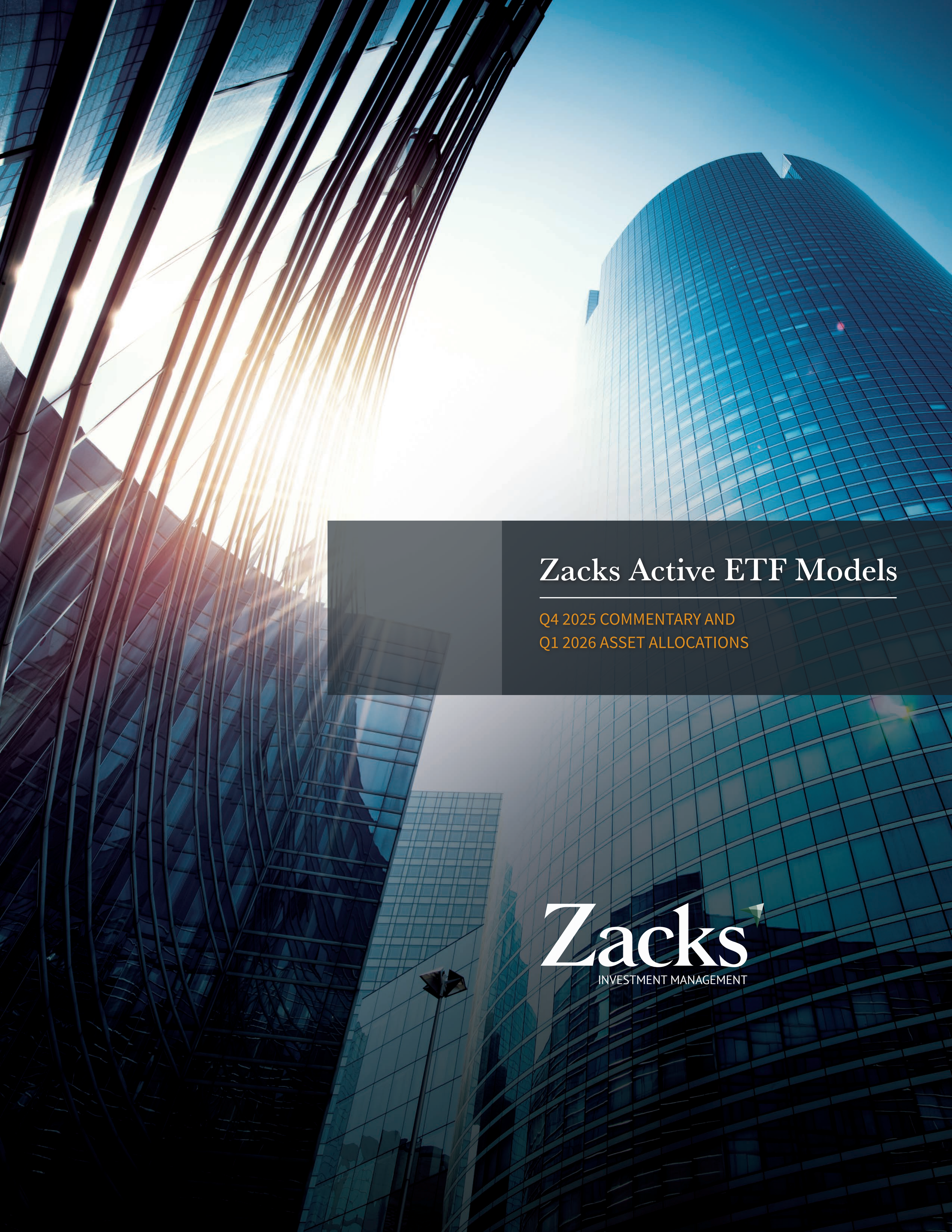


Zacks Active ETF Models

Q4 2025 COMMENTARY AND
Q1 2026 ASSET ALLOCATIONS

Zacks
INVESTMENT MANAGEMENT

Zacks ETF Model Commentary – December 31, 2025

Quarterly Market Recap

U.S. equities finished the year on strong footing, supported by resilient economic data and fading headline risks following the tariff-driven volatility from April. For Q4, large-cap U.S. equities outperformed global markets, while the weakness in the U.S. dollar provided an additional tailwind to commodities and precious metals. Technology continued to dominate index leadership, though we remain mindful of elevated valuations and concentration dynamics heading into 2026.

Real GDP growth held near 2.5%, reflecting an economy that continues to expand despite restrictive real policy rates. Inflation moderated but remained above the Federal Reserve's 2.0% target, with CPI settling around 2.6%-2.7%. Labor data remains a critical focus for policymakers, as wage trends continue to influence the inflation trajectory. The Fed delivered a pair of 25 bps rate cuts in October and December, resulting in a bull steepening of the yield curve as front-end rates fell more sharply than long-end yields.

Bond markets responded with modestly positive returns, though longer maturities remained range-bound given global rate pressures. The government shutdown during Q4 delayed the release of several economic indicators, temporarily complicating real-time analysis. Markets currently expect two Fed rate cuts in 2026, with a possibility of a third depending on data trends and the appointment of the next Federal Reserve Chair: An event that will likely shape rate expectations in early 2026.

Key Q4 Macro Markers:

- **Fed:** 25 bps cut each in October and December 2025; market pricing 2 cuts next year with uncertainty tied to new Chair appointment.
- **Inflation:** CPI at 2.7%, above target but no evidence of reacceleration.
- **Earnings:** Forward revisions remain positive, with S&P 500 Q4 2025 earnings projected to rise % 8.5%.
- **U.S. dollar:** Meaningful YoY decline, providing support to commodities and precious metals.

Portfolio Adjustments and Strategy

We made minimal allocation changes during Q4, maintaining our equity and fixed-income targets and remaining comfortable with current risk exposure. While valuations remain elevated, especially in segments of the technology sector, the underlying earnings backdrop continues to offset some valuation concerns.

U.S. vs. International Exposure: We maintained our overweight to U.S. equities versus international markets. U.S. earnings remain stronger and more consistent, and the economic backdrop continues to justify a relative preference for domestic exposure.

Developed vs. Emerging Markets: Within international equities, we shifted exposure away from emerging markets and further into developed markets. The mix adjusted from roughly 70/30 DM/EM to 80/20, driven by more attractive valuation metrics in developed markets and improved currency stability.

Fixed Income: We made no changes to fixed-income allocation during the quarter. Our duration positioning remains below the benchmark, which limits interest rate sensitivity and provides flexibility should long-term yields resume climbing. We remain comfortable with shorter duration as the Fed's easing path is likely to be gradual.

Next Quarter Considerations: Depending on market moves, we may reset exposures back to target weightings in early 2026, particularly if relative valuations shift or if Fed leadership changes alter market expectations.

Market and Economic Outlook

Looking ahead, we expect:

1. **Earnings Remain the Primary Driver.**
   Q4 earnings estimates for S&P 500 call for 8.5% growth, with revenues up 8.2%. Leadership continues to be top-heavy: Magnificent 7 companies are expected to post + 17.1% earnings growth, while the remaining S&P 493 sit at 5.1%, a noticeable deceleration from earlier in the year.
2. **Valuations Are Elevated, Led by Tech.**
   While earnings help justify some of the premium, we remain cautious about "AI circular financing" and the sustainability of extremely concentrated leadership.

3. **Dollar Weakness Provides Support to Real Assets.**
   Gold and silver posted strong gains in Q4, supported by the declining U.S. dollar. Commodities broadly benefited from the currency dynamic, and this trend may continue if rate differentials narrow in 2026.
4. **Growth Outlook Remains Stable, Not Spectacular.**
   GDP is expected to remain in the high-2% range in 2026. Mortgage rates have eased from peak levels, improving housing activity. Tariff concerns have become more muted as companies adapted their supply chains.
5. **Risks to Monitor Heading Into 2026.**
   - Stubborn inflation near 2.7%
   - Average, not strong, labor data
   - Rising long-term yields
   - Narrow earnings breadth
   - Uncertainty around the next Fed Chair
   - Political volatility tied to midterm elections in November

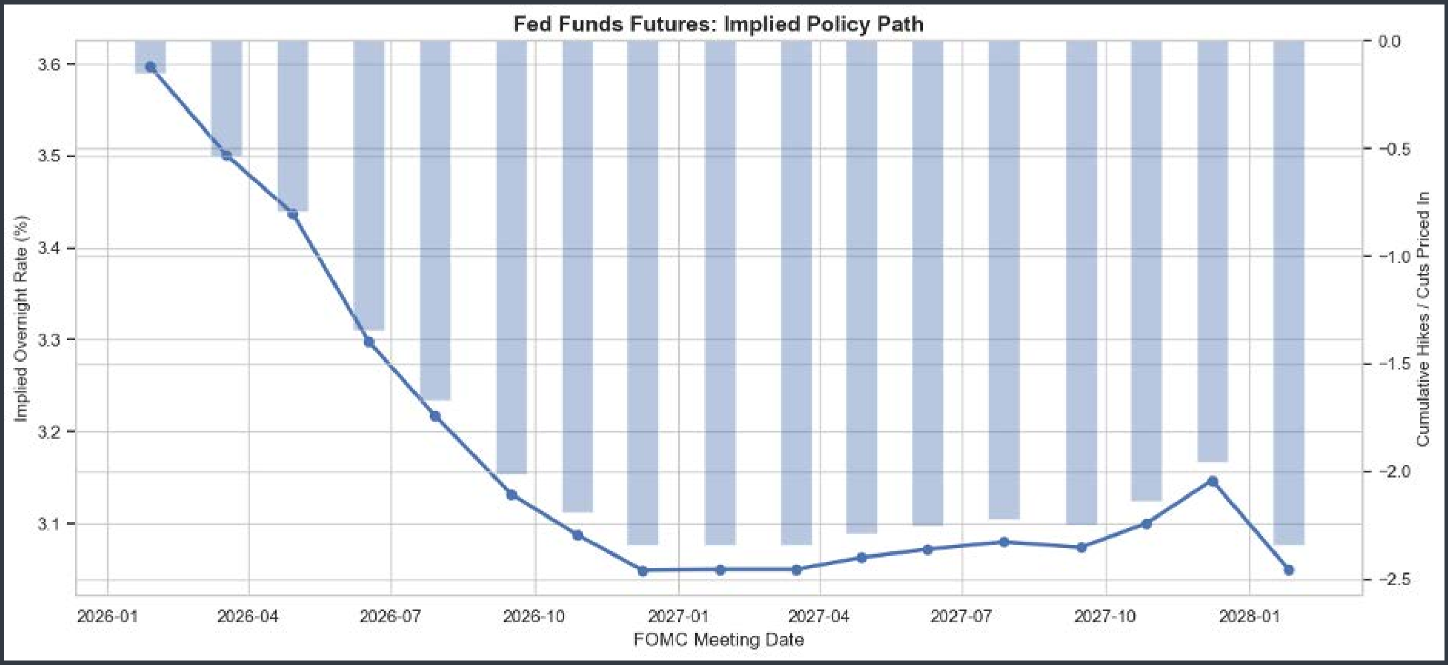
Conclusion: Q4 delivered broad-based gains across asset classes, supported by a resilient economic backdrop, improving earnings expectations, and currency-driven tailwinds in commodities. In this environment, we:

- Maintained equity exposure at current levels
- Increased developed-market exposure within international equities
- Reduced emerging-market allocation
- Made no changes to fixed income allocation
- Kept duration below benchmark to limit rate sensitivity

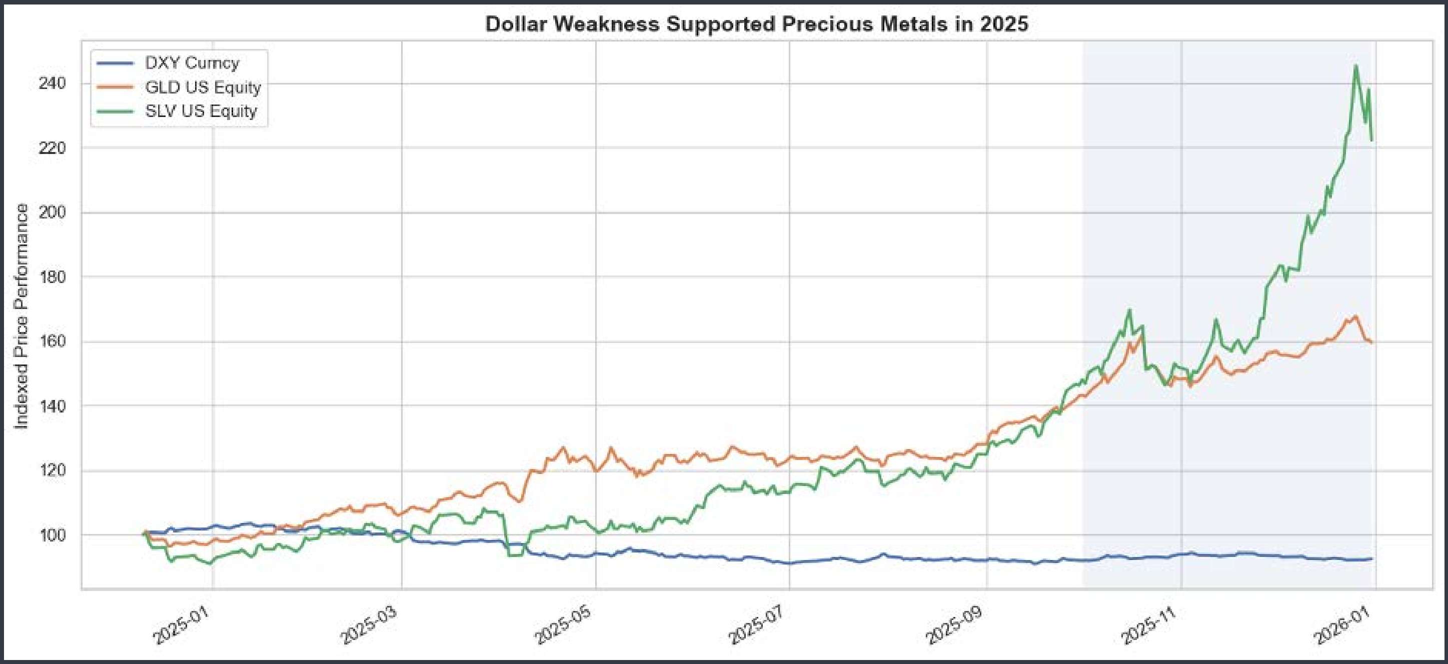
While valuations remain elevated and inflation persists above target, earnings momentum, GDP stability, and easing mortgage rates support a cautiously constructive view as we enter 2026. Key catalysts ahead include Federal Reserve leadership decisions, inflation trends, and corporate earnings strength.

We remain disciplined, valuation-aware, and diversified across asset classes as we position the ETF model for the year ahead.

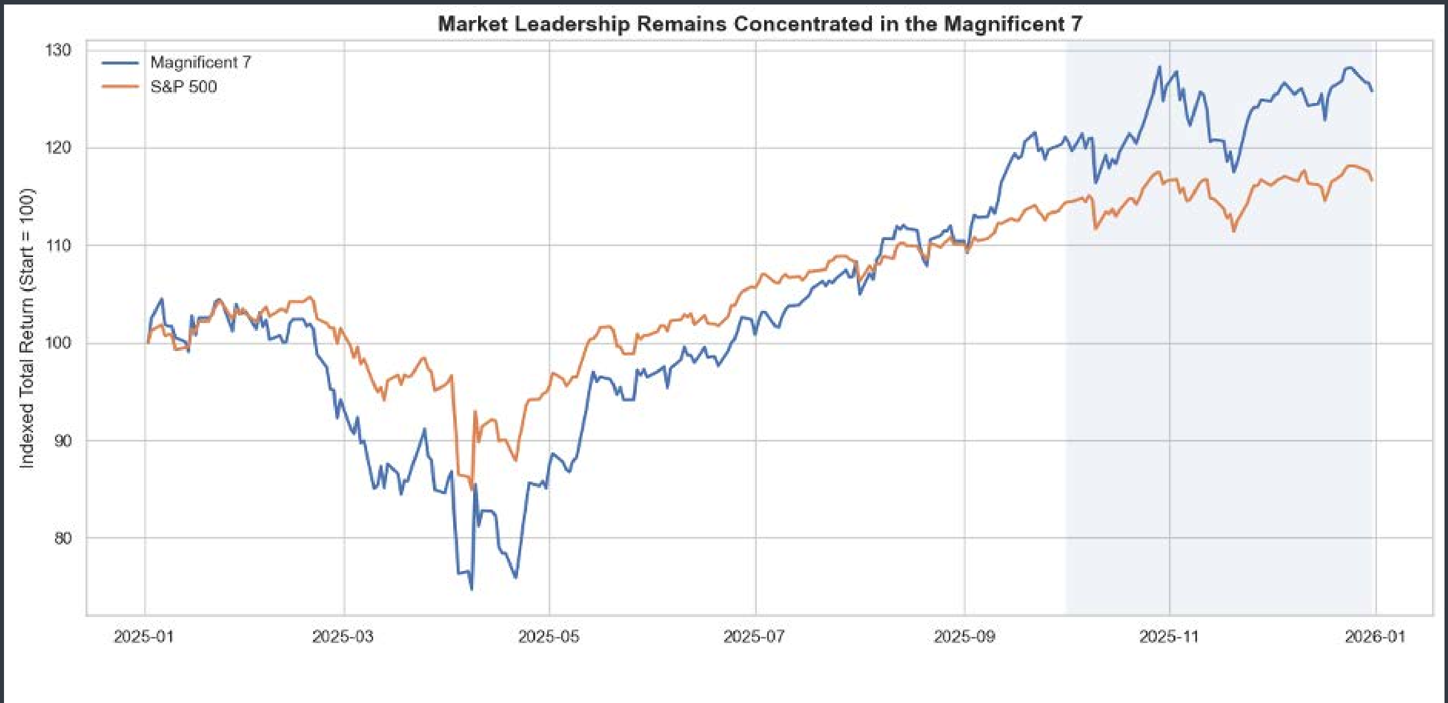
Market pricing reflects expectations for modest Fed easing beginning in late 2026:



Precious metals outperformed as the U.S. Dollar weakened, supporting the role of real assets as portfolio diversifiers:

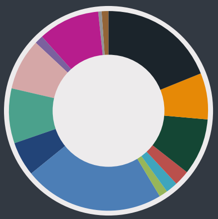
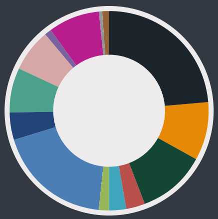
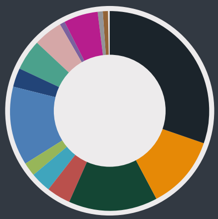
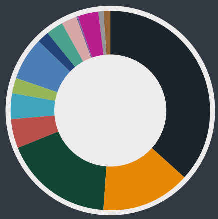
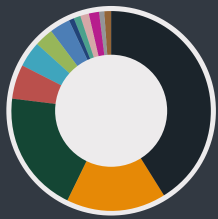
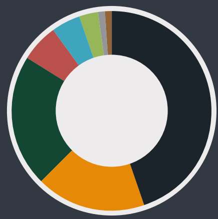


Equity market gains remain concentrated, with the Magnificent 7 continuing to drive a large share of total market performance relative to the broader index:



Source: Bloomberg. Index performance shown on a normalized basis. Magnificent 7 proxy: Bloomberg Magnificent 7 Total Return Index (equal-weighted).

Our Q1 2026 Asset Allocations

Asset Class	Ticker	Security Name	Conservative	Moderate Conservative	Moderate	Moderate Aggressive	Aggressive	Ultra Aggressive
US Lrg Comp Stock	ZECP	ZACKS EARNINGS CONSISTENT PORTFOLIO ETF	19.1	23.7	30.4	36.8	41.2	45.0
US Sml & Mid Comp Stock	SMIZ	ZACKS SMALL/MID CAP ETF	7.5	9.3	12.0	14.5	16.2	17.7
Intl Dev Lrg Comp Stock	QUIZ	ZACKS QUALITY INTERNATIONAL PORTFOLIO ETF	9.1	11.3	14.5	17.6	19.7	21.5
Intl Emrg Mkt Stock	SCHE	SCHWAB EMERGING MARKETS EQUITY ETF™	2.5	3.1	4.0	4.9	5.5	6.0
US Large Cap Value	VONV	VANGUARD RUSSELL 1000 VALUE ETF	2.0	2.5	3.3	3.9	4.4	4.8
US Large Cap Growth	GROZ	ZACKS FOCUS GROWTH ETF	1.3	1.7	2.1	2.6	2.9	3.1
US Aggregate Bond	AGG	ISHARES CORE US AGGREGATE BOND ETF	22.8	18.7	12.8	7.1	3.3	0.0
Short Term Corporates	VCSH	VANGUARD SHORT-TERM CORPORATE BOND ETF	5.5	4.5	3.1	1.7	0.8	0.0
Intermediate Term Corporate Bond	SPIB	SPDR® PORTFOLIO INTERM TERM CORP BD ETF	8.8	7.2	5.0	2.8	1.3	0.0
Short Term Treasuries	VGSH	VANGUARD SHORT-TERM TREASURY INDEX FUND ETF	8.3	6.8	4.7	2.6	1.2	0.0
Ultra Short Term Treasuries	BIL	STATE STREET SPDR BLOOMBERG 1-3 MONTH T-BILL ETF	1.4	1.1	0.8	0.4	0.2	0.0
Mortgage Backed Security	VMBS	VANGUARD MORTGAGE-BACKED SECS ETF	10.2	8.4	5.8	3.2	1.5	0.0
Base Metals	PDBC	INVESCO OPTM YD DVRS CDTY STRA NO K1 ETF	0.4	0.5	0.7	0.8	0.9	1.0
Cash	CASH	CASH	1.0	1.0	1.0	1.0	1.0	1.0
TOTAL			**100**	**100**	**100**	**100**	**100**	**100**

Source: Zacks Investment Management as of December 31, 2025.

Strategic allocations are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

All asset allocation scenarios are for simulation purposes only and are not intended to represent a specific asset allocation strategy or recommend a particular allocation.

Each investor's situation is unique and asset allocation decisions should be based on an investor's risk tolerance, time horizon and financial situation. Information above should not be construed as a recommendation to invest in a particular security.

About the Zacks Active ETF Models

Offered at no additional cost other than the underlying ETF expense ratios, the Zacks Active ETF Model Portfolios combine Zacks Proprietary ETFs with additional third-party ETFs to give advisors and their clients the opportunity to use actively managed ETFs in conjunction with actively managed asset allocation portfolios. The Zacks Active ETF Model portfolios are constructed entirely of exchange traded funds (ETFs), using our proprietary Zacks ETF Rank System. This time-tested approach gives us the opportunity to allocate to ETFs as the asset class gains momentum.

Sources and Citations

Zacks Investment Research, *Can Bank Stocks Sustain Recent Momentum?* Zacks Commentary, published January 2026. Zacks discusses recent tailwinds for bank stock performance, including loan growth and capital markets activity.

U.S. Dollar Index (DX-Y.NYB), Yahoo Finance, latest chart and data on the U.S. Dollar Index, including recent trading levels and historical movements relative to global indices.

NASDAQ Composite (^IXIC) Historical Prices, Yahoo Finance, historical price and performance data for the NASDAQ Composite index.

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The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs)and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The S&P 500 Index is a well-known, unmanaged index of the prices of 500 large company common stocks, mainly blue chip stocks, selected by Standard & Poor's. The S&P 500 Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materiallydifferent from the individual performance obtained by a specific investor.

The Dow Jones Industrial Average measures the daily stock market movements of 30 U.S. publicly-traded companies listed on the NASDAQ or the New York Stock Exchange (NYSE). The 30 publicly-owned companies are considered leaders in the United States economy. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The MSCI ACWI ex USA Index captures large and mid cap representation across Developed Markets (DM) countries (excluding the US) and Emerging Markets (EM) countries. The index covers approximately 85% of the global equity opportunity set outside the US. The MSCI ACWI ex USA Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell 2000 Index is a well-known, unmanaged index of the prices of 2000 small-cap company common stocks, selected by Russell. The Russell 2000 Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

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