January 27, 2026

SKBA Economic Update

How is Your Portfolio Positioned?

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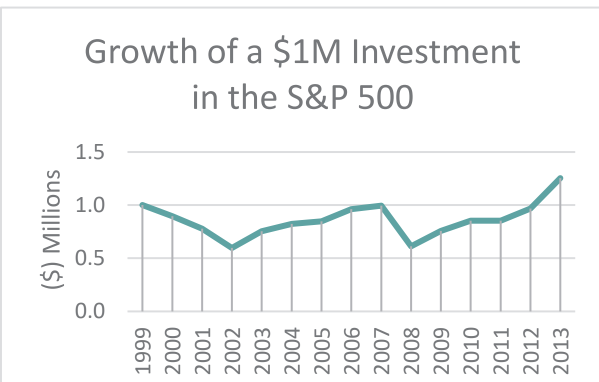
Is This Time Really Different?

As the S&P 500 Index marches towards new heights, the concentration of highly valued and very large market capitalization companies that constitute the indices has also grown to an all time high. The dot-com bust used to strike fear in investors, "never again" we shouted when it came to paying nosebleed valuations for companies with narrow paths to profitability. Time must heal all wounds, because here we are again, with valuations and index concentrations in some cases well beyond what they were before the dot-com bust.



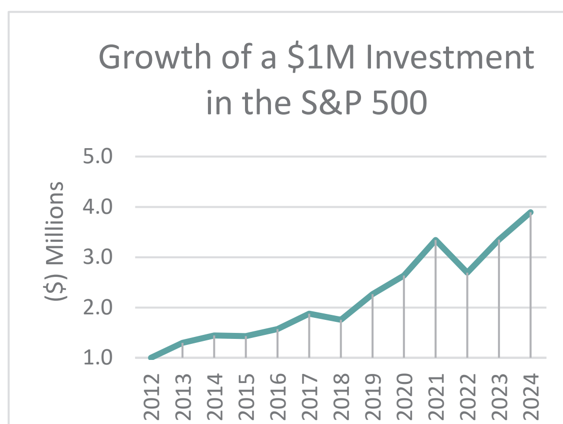
Source: FactSet. Time period 1/1/1999 to 12/31/2013. Stated as gross of fees and does not reflect fees and expenses investors would expect to pay. Investing directly in the S&P 500 is not permissible.

During the dot-com bust, which lasted nearly three years from March 2000 through December 2002, the S&P 500 declined an average of 16.5% per year. Not scary enough? If you had invested $1,000,000 in the S&P 500 in March 2000, by the end of 2002, your $1,000,000 would have been roughly $597K, a loss of roughly 40%!

In fact, if you left your money invested in the S&P 500 for the entire decade and then some, you wouldn't have broken even until sometime in 2013.

A Lost Decade!

Investors today seem to have forgotten how poor returns were during this "lost decade," and who wouldn't? Returns since then have been nothing short of phenomenal. From 2012 until the end of 2024, the S&P 500 reported only two years of declines (2016 and 2022), compared with four down years in the prior 12 year period. An investor who placed $1M in the S&P 500 at the beginning of 2012 would have close to $4M in the twelve years ended in 2024! By contrast, investing the same $1M from 2000 to 2012 resulted in a practically net 0% return.



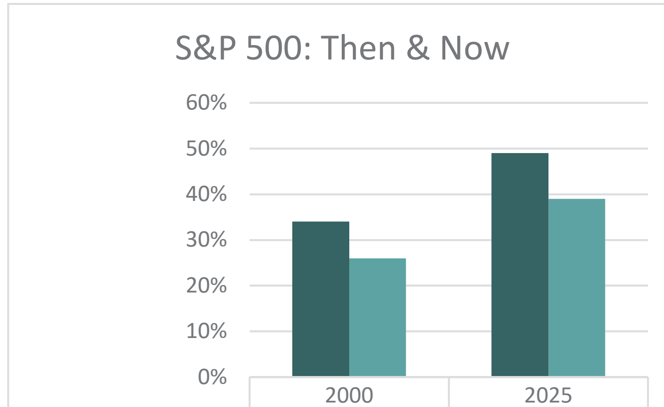
Source: FactSet. Time period 1/1/2013 to 12/31/2024. Stated as gross of fees and does not reflect fees and expenses investors would expect to pay. Investing directly in the S&P 500 is not permissible.

No wonder so many seem to be whistling by the graveyard! Success often breeds complacency, and if we had one word to describe the current state of the markets, it would be complacent.

Index Methodologies May Lead Us Astray

Consider that in 2000, at the peak, the top ten stocks in the S&P 500 represented roughly 26% of the overall index, which proved to be too risky. At the end of 2025, the top 10 stocks in the S&P 500 represented roughly 40%! Today's market is just as risky as before the dot-com bust, likely even more so.

In 2000, Information technology represented roughly 34% of the S&P 500 index. The same concerning level was reached again in 2025. But wait! Due to sector reclassifications, the 34% is misleading. Amazon joined Tesla as consumer discretionary, and Google and Meta's fall under communication services. Adding these stocks back into the IT sector would make the total weight in IT related stocks nearly 50%! When we ask ourselves if this time is any different, we think not. What investors often fail to recognize is that benchmarks can be risky, which is exactly how we would characterize today's largest indices.

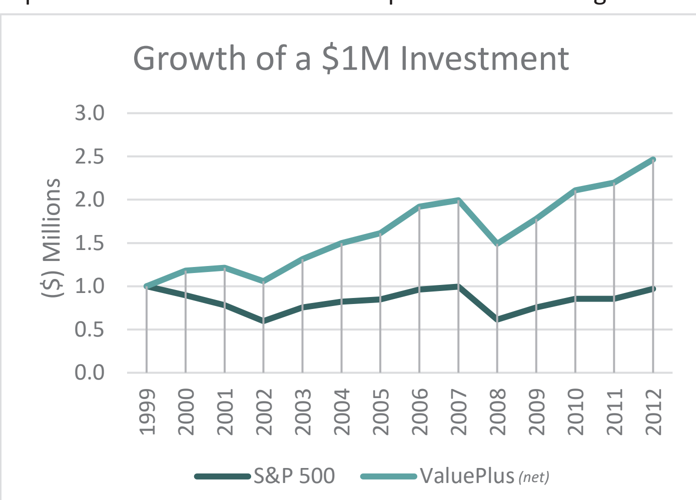


	2000	2025
IT Sector Weight	34%	49%
Top 10 Weight	26%	39%

Source: FactSet.
Sector weighting timeframe: 2000 as of 12/31/1999. 2025 as of 12/31/2025.

Value*Plus* – A Time-Tested Strategy

At SKBA Capital Management, as disciplined value investors for over 35 years, we believe it's our duty to help clients and investors understand how an active value strategy, like our flagship Value*Plus* strategy, performed during the same time periods discussed above. Perhaps with a little tongue-in-cheek, but still worth a look.



Source: FactSet and SKBA performance calculations. Time period 1/1/1999 to 12/31/2012. Growth of a $1m investment for ValuePlus stated net-of-fees. Past performance is not indicative of future results. Returns are cumulative and include the reinvestment of dividends and income.

The Value*Plus* portfolio is a value-oriented investment strategy which seeks to achieve long-term capital appreciation by investing in undervalued equity securities. The portfolio also seeks to provide meaningful current income by investing in equities with dividend yields in excess of the market. The strategy is designed for clients who desire the potential long-term real economic returns of the stock market alongside of current income which is designed to dampen portfolio volatility.

Going back to the original example of how the S&P 500 performed during the dot-com bust, **Value*Plus* gained roughly 2% per year** *(net of fees)* **compared to the S&P 500 loss of 16.5% per year.** Hypothetical growth on a $1M investment

ValuePlus standard net-of-fee performance as of 12/31/2025: 1yr 11.4%; 5yr 12.6%; 10yr 11.1%

in Value*Plus* would have been $1.06M over the three-year period ending in December of 2003 versus $600K if invested in S&P 500.

Using the other prior sample period spanning 2000 to2012, an investment in the S&P 500 yielded roughly $1M (the lost decade). Yet, it wasn't so "lost" from an active value perspective! Investing **$1M in the Value*Plus* strategy over this time period would have yielded roughly $2.5M** *(net of fees).* SKBA Capital Management wasn't the only active value manager that outperformed the S&P 500 during this time, but by 1999, there weren't many of us left!

While history may not repeat itself exactly, we believe it often rhymes. Today, with the concentration of stocks within the indices even higher now than the dot-com era, we believe the current market is every bit as risky, if not more. Diversification should be the main tenet of portfolio management, but in today's market, broad indices don't appear to be providing it. With more than 35 years of experience delivering downside protection though active value management, Value*Plus* provides one solution for navigating today's concentrated markets.

For more information about SKBA Capital Management and the Value*Plus* strategy, please contact our team at info@skba.com.

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Mr. Segura is the President, Chief Investment Officer & Director of Institutional Portfolio Management. He is a member of the Investment Strategy Team and is also a securities analyst. Mr. Segura joined SKBA in 2007 as a member of our research internship program and rejoined SKBA in 2011. Previously Mr. Segura worked at Charles Schwab & Co performing several roles: A Cash Management team member in the Treasury, and a Manager in Financial Planning and Analysis for Schwab's largest retail divisions. Mr. Segura also served five years Active Duty in the United States Marine Corps. Mr. Segura received a BS in business administration from Haas School of Business at UC Berkeley and is a member of the CFA Society of San Francisco and the CFA Institute. Mr. Segura is an equity owner of the firm.

Time-tested period defined as ValuePlus strategy inception date of October 1, 1989. ValuePlus performance and hypothetical growth of $1m stated net-of-fees. Past performance is not indicative of future results. Performance for periods greater than one year is annualized. Returns are calculated using a time-weighted return and include the reinvestment of all income. Gross of fee performance is reduced by any transaction costs. Net-of-fee performance is further reduced by actual management fees. The securities identified are not a recommendation to buy or sell and do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. The analysis and opinion expressed in this report are subject to change without notice.