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The Smithfield Forecast

A quarterly publication by Smithfield Trust Company on the latest wealth management trends. Our goal is to empower our valued friends and customers with essential information that directly impacts their financial well-being and enduring legacy.

A Message From Our President & CEO

Happy New Year on behalf of Smithfield Trust Company.

There are lots of exciting things scheduled to take place in 2026 and the year has just begun. It is the year of birthdays with America's 250th birthday and Smithfield's 30th, although I'm not sure our celebration will be as gilded – stay tuned. It is definitely the year of sports with the Winter Olympics in Milan, the FIFA World Cup in North America (final at Met Life Stadium), and of course, the NFL Draft in our own backyard of Pittsburgh.

As to the world or domestic events, politics, the economy or markets, who knows what 2026 will produce. That said, I suppose we never do. We may not know what the new year will bear, or even the new day before us, but staying true to our values, including investment objectives, will see us through whatever may come our way.

May 2026 bring reason to celebrate, regardless of the sport or birthday, and most of all, health and happiness.

—Betsy Poggi

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Economic Insights

By Michael Drury

In investing, politics, and comedy, timing is important. Our outlook for 2026 is for continued solid expansion, largely because the Trump 2.0 administration put all the pain up front, and saved the candy for this year—when they are facing traditionally brutal midterm elections, particularly in the House of Representatives. The risks to the economy from high inflation due to tariffs and slow growth due to immigration control will fade as the year progresses. Meanwhile, last year's passage of the One Big Beautiful Bill and the three quarter-point interest rate cuts from the Federal Reserve will provide stimulus—with political promises of more to come likely, as the Republicans work to maintain control of the lower chamber of Congress.

With data finally clarifying what went on in late 2025, we see little change from the economy that existed prior to the long government shutdown. Writing just before Christmas, we have learned that private sector hiring continued at roughly 60,000 jobs a month, the same pace as over the prior four months. Meanwhile government, mostly federal, was laying off about 10,000 a month, with a huge 152,000 drop in October reflecting the DOGE cutbacks and buyouts from March officially taking effect. The slowdown to 50,000 new jobs each month, from 160,000 earlier, is largely due to the closing of the border—which can't happen again. However, it could be partially reopened with policies on legal immigration or a reduction in the new $100,000 fee on H1-B visas.

Similarly, we do not expect tariffs will be raised in 2026, but, providing relief in particular sectors to moderate price pressure probably will continue. Unlike many others, we do not see tariffs as having a one-off effect on inflation—because we expect Congress will gain an appetite for levies that can be marketed as falling on foreigners. Unless tariffs are blamed for a recession in the near future—which is unlikely—another round may be coming in 2027. Trump raised tariffs on China in 2018, and again in 2025—and they will remain a primary target as long as they run a big trade surplus with the US. Rising US agricultural and energy sales to China may close that deficit, reducing the need for new tariffs, but that would boost GDP in 2026 as well. The Supreme Court has not yet ruled on tariffs, but Trump still has other options—and Congress—if they are reversed.

Though fear about growth with a K-shaped economy dominates, we read the lower inflation in October and November as a consequence of consumers, squeezed by high goods prices, trading down on services—but, they were still earning income and spending. We estimate that fourth quarter inflation may post just a 1-handle, meaning real growth may surprise to the upside.

Consumer spending and heavy outlays for equipment, as part of the AI boom, supported strong growth in the third quarter, estimated at 3.5% by the Atlanta Fed's GDPNow (official data should confirm that just before Christmas). That exceeds the gain in the first half of the year (-0.6% in Q1, followed by 3.8%). We anticipate at least 2.0% growth in the fourth quarter, as 2025 mirrors 2024, with strong summer growth bookended by softer quarters at the start and end of the year. So, 2025 growth should exceed 2.1%—still above our rough estimate of 1.4% for potential GDP growth after immigration reform. That continues the performance of the economy over the last ten quarters of the Biden Administration, when growth averaged 2.8%, compared to a potential growth rate of 1.9%. The fact that the US economy has sustained above trend growth ever since Covid under very different policy regimes is testament to the flexibility of its private sector.

This all reinforces our view that the US is the suburbs of the world, with less dependence on volatile sectors, like construction and manufacturing, and substantial wealth to act as a shock absorber when the unexpected occurs. As the pinnacle of the global economy, economic caution here translates into even greater strife on the world's factory floors—like China, Germany, and Japan. They react with local stimulus—which is happening, and should aid global growth in 2026.

The real risk for the US economy is a financial crisis like 2008, when falling home values undermined banks' capital—and they stopped new lending. Yet, even a bursting of the AI stock bubble may not lead to US recession. The 25% plunge on Black Monday in 1987 did not cause a recession. Nor did the 25% slump in both stocks and bonds in 2022. Even the 50% drop in equities when the NASDAQ bubble popped caused only a mild pause in real GDP growth. Unlike regulated banks, private investors typically don't freeze, but pivot to new opportunities created by shifting prices—buying up the best assets at a discount and starting a new upcycle. The tricky part is timing. Bottom line, the US economy is safe for workers—because investors can absorb the risks.

While the AI boom is based on the hope that this new technology will increase productivity, we note that productivity growth since the onset of Covid has already outperformed expectations—without help from still nascent AI. Due to tighter labor markets since 2019, firms have shifted to the use of more capital and more efficient use of existing capital to increase growth. For years after the Great Financial Crisis, banks restricted lending and credit demand was weak even at low rates. However, business cash flow benefited directly from the Covid money drops, as well as from increased demand from subsidized customers. More entrepreneurial risk taking has been reflected in both the financial markets and small business creations. In 2025, those investments produced results that offset the drag from tariffs and immigration reform—and in 2026, they should continue to add to growth, with the advantage of a policy tailwind.

Any upside from AI adoption will be a bonus. However, history tells us that technology shows up in equity values long before it impacts the real economy. So far, the trillions of dollars in asset appreciation from the technology sector has generated a relatively small footprint in actual GDP. Our ongoing optimism about solid real economic growth in 2026 has much more to do with the policy mix shifting from a drag to boost, than a reliance on accelerating innovation. Ebbing inflation should allow interest rates to move lower. We expect no taxes to appear in an election year, and maybe more cuts. Foreign tariffs have been cut for exporters. Deregulation is unwinding red tape and lowering costs for business. Even without AI, the future looks bright.

Investment Commentary

A Reflection on 2025 Markets

The arrival of a new year naturally invites reflection—an opportunity many embrace to consider the progress made, challenges faced, and changes experienced over the past twelve months. For investors, this same pause is equally important, offering a moment to step back and consider the events that shaped financial markets over the prior year.

On the surface, 2025 proved to be an exceptional period across global equities, fixed income, and commodity markets. The S&P 500 advanced to thirty-nine new all-time highs, international equities outpaced their U.S. counterparts by more than 15%, and precious metals regained investor favor, with gold and silver rising 65% and 142%, respectively. By most measures, it was a successful year for investors, though not without meaningful moments of uncertainty.

Challenges emerged in many forms as 2025 unfolded. Investors contended with elevated valuations, ongoing geopolitical tensions, and the near-term economic effects of the longest government shutdown in U.S. history. Still, the most significant market disruption came in early April, when a presidential executive action introduced new tariff policies on America's trading partners. In the immediate aftermath of "Liberation Day," all three major U.S. equity markets declined sharply, with both the S&P 500 and Nasdaq falling more than 20% from their February peaks.

Yet, as is often the case in investing, patience and perspective proved invaluable. Just days after the tariff announcement, markets staged the third-largest single-day rally in U.S. stocks since 1957. By month-end, equities had effectively completed a round trip, with many stocks finishing the month of April higher than where they began.

As we look to the year ahead, today's environment resembles other transitional periods in market history. Late-cycle policy shifts, valuation debates, and questions surrounding economic resilience are familiar challenges. History suggests, however, that markets tend to reward investors who resist the short-term impulses and emotions stirred by volatile markets. The challenge—and opportunity—in 2026 remains an investor's ability to navigate the ever-evolving landscape of financial markets with discipline, flexibility, and a continued commitment to one's long-term financial goals.

Tax & Estate Planning Insights

A Tax Look at 2026

Electronic Payments Update

The IRS has published limited guidance around the electronic payments mandate. Starting in October of 2025, all payments to and from the IRS should be made electronically unless an exception applies. They have not published the list of exceptions as of the writing of this article. It is recommended that all taxpayers attempt to comply with this mandate to avoid any potential processing errors or penalties. An overview of the IRS payment options can be found at **www.irs.gov/payments.**

401(k) Catch-up Contribution Changes

Beginning in 2026, 401(k) catch-up contributions for workers who earned more than $150,000 in wages the prior year (indexed for inflation going forward) at the same employer will need to be made as Roth contributions (employer plans need to be setup to receive Roth contributions, or no catch-ups will be allowed). Some impacts from this change include:

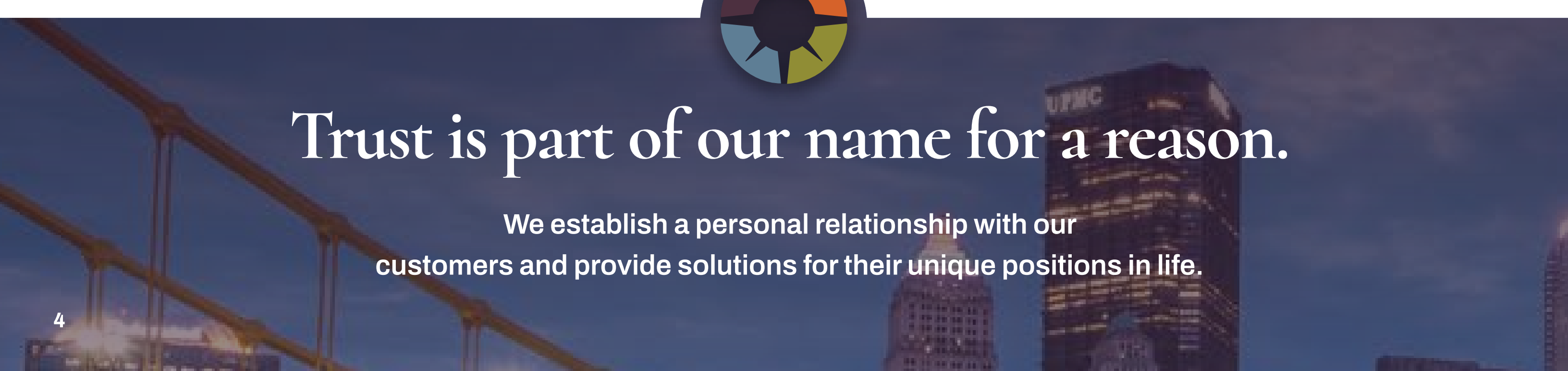
- Workers making catch-up contributions will not reduce Federal taxable wages
- The increased taxable income could push some people into higher tax brackets and increase phased out portions of other tax benefits
- People in states that base their taxable income on the Federal taxable income will have to pay more in state taxes as well.

Some of the more nuanced rules around the contributions include:

- The mandate will not apply to self-employed individuals who do not have earnings from another employer
- New employees will be eligible to make pretax contributions regardless of prior year earnings at their previous employer
- Special rules apply for workers with multiple employers

2026 Key Limits at a Glance

Category	2026 Limit
401(k), 403(b), 457 Deferral	$24,500 per individual
Catch-up Contributions (Age 50-59)	+$8,000 (total up to $32,500)
Super Catch-up Contributions (Age 60-63)	+$11,250 (total up to $35,750)
Traditional or Roth IRA Contributions	$7,500 (Phase-outs apply)
IRA Catch-up (Age 50+)	+$1,100 (total up to $8,600)
HSA Contribution Limits	Self-only: $4,400; Family: $8,750; +$1,000 catch-up (Age 55+)
Annual Gift Tax Exclusion	$19,000 per recipient
Estate & Gift Tax Exemption	$15 million per individual ($30M for married cou-ples)
Standard Deduction	Single/MFS: $16,100; Married Filing Jointly: $32,200 Head of Household: $24,150



Cybersecurity Awareness

Phone Scams – What They Are & How to Protect Yourself

Unwanted phone calls are a nuisance and invade your privacy. But even worse, phone scams could cost you anywhere from a few dollars to your life savings.

Common Types of Phone Scams:

Impersonation Scams: Posing as the IRS, Social Security, Medicare, or law enforcement threatening arrest or fines.

Tech Support Scams: Claiming your computer has a virus and demanding remote access or payment for fixes.

Lottery/Prize Scams: Saying you've won a prize but must pay fees (shipping, taxes) to claim it.

Emergency/Grandparent Scams: Pretending to be a relative in trouble needing urgent money.

Auto Warranty Scams: Automated calls about your car's expiring warranty.

Charity Scams: Soliciting donations for fake charities, especially after disasters

Increasingly, some phone scams rely on smartphones' capabilities to access the internet and install malware. These phone-related scams include:

Robocalls: Robocalls have people's phones ringing nonstop with increasingly natural-sounding recorded voices. Some robocalls can even respond to your questions using AI-generated messages.

QR codes: These convenient codes have gained popularity to do things like read a restaurant menu or make a payment. However, scammers place their QR codes in inconspicuous spots, and scanning the code could prompt you to make a small purchase or enter your credentials on a lookalike website.

SIM swapping: This technique is used by a thief to reassign your number to a SIM card in a phone they control.

The best thing you can do to protect yourself is to not answer telephone calls from numbers you don't recognize. If you do answer but don't know the caller, just hang up.

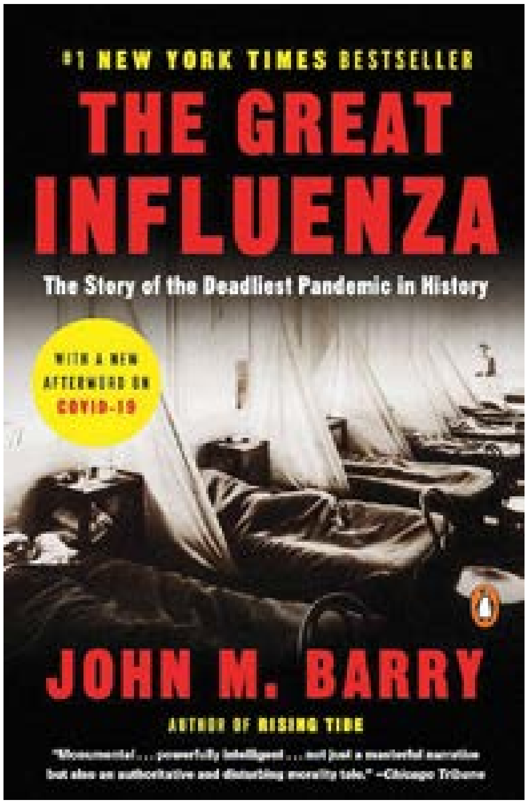
Enroll in the Do-Not-Call List

To reduce calls from telemarketers and scammers, you can enroll your residential and cell phone numbers with the state and federal do-not-call lists.

Enroll for free in the federal do-not-call list at:

www.donotcall.gov.

Book Reviews



The Great Influenza,
by John M. Barry

★★★☆☆

Review by: Henry Haller, III

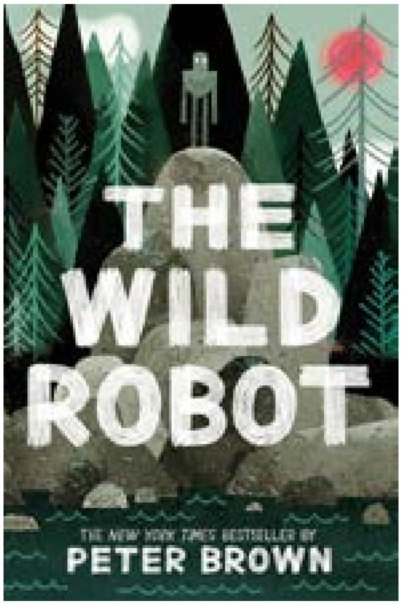
This is the story of the 1918 flu pandemic which, as the subtitle tells us, was the deadliest pandemic in history. It is estimated to have killed over 600,000 people in the United States and 50 million worldwide. Having recently experienced the Covid pandemic, the comparisons are very interesting. Some of the measures taken to prevent the spread were similar to what was done to limit Covid—wearing masks and wherever possible avoiding contact with other people. The most significant difference was that there was no readily available vaccine developed to deter the virus. Thus the medical authorities were mostly helpless against this flu. One might think "it was only influenza," but this influenza was far deadlier than the strains that we have experienced in recent years. Making matters worse, it was deadliest in people in the prime of life (ages 20 to 40), whereas more recent strains tend have been most deadly in the elderly.

The author provides a lot of background material on the state of medical science and the researchers who fought to develop a cure, perhaps in too much depth as it was beyond my ability to comprehend it all. I also felt that he gave too many gory details from all the various cities and military encampments; fewer such examples would have sufficed.

Apparently the pandemic originated in a remote county in Kansas, and might have been contained there if the United States had not entered World War I. Unfortunately, enlistees reporting to a nearby Army base carried the bug there. Subsequent deployments to Europe resulted in its spread worldwide. This bit of history alone made this book worthwhile for me.

Submit a Review!

To submit a review to future publications, email your review to **forecast@smithfieldtrustco.com** by the 15th of each March, June, September, and December. Reviews should be between 200-275 words and include a rating out of 5 stars.

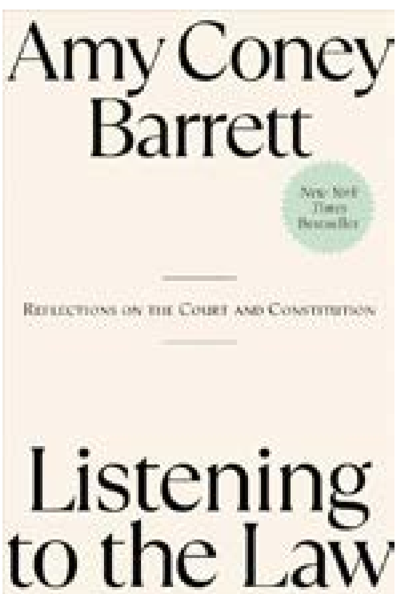


The Wild Robot,
by Peter Brown

★★★☆☆

Review by: Silas Kopf (Age: 10)

The Wild Robot is a book I read while in 4th grade. It is a story about a robot named Roz who makes friends with animals while stranded on a remote island. Roz is very different from all of the animals because she doesn't need food or water to survive. At the start, the animals think Roz is a monster but she is really just a kind robot. During a storm, Roz accidentally kills a bunch of goose eggs except for one. Roz feels bad so she makes it her responsibility to take care of the lone gosling and names her Brightbill. Roz and Brightbill form a strong bond but later Roz figures out that Brightbill will have to migrate South for the Winter. While Roz is without Brightbill she feels sorry for the other animals who are freezing outside, so she decides to invite all of the animals to her lodge so they can stay warm. Now Winter is over and Brightbill comes back, and they are having a great time until Roz's owners (RECOS) come to retrieve Roz to take her back to the factory where she was made. Roz doesn't want to go but the island would be attacked unless she surrenders. Roz doesn't want the other animals on the island to get wounded. It's not over yet though because while she is getting transferred back to the factory, Roz plots an escape! Stay tuned for my review of the next book in the series ... The Wild Robot Escapes.



Listening to the Law,
by Amy Coney Barrett

★★★☆☆

Review by: Henry Haller, III

Appointed by Donald Trump in 2020, Ms. Barrett is a relatively new justice on the Supreme Court. With four full years of experience on that bench, plus three on the U.S. Court of Appeals for the Seventh Circuit, she has written this book to explain some of the inner workings of our legal system.

After a brief description of her personal journey, she divides the rest of the book into three parts. The first is about the nuts and bolts of how the court operates. This includes the role of law clerks, how the justices work together, how they decide what cases to take, etc. I found this section the most interesting. The second is about the Constitution, which seemed to me a rather "plain vanilla" discussion. She does not get into the fundamental purpose of the Constitution, nor any of the more controversial aspects of it. The Ninth and Tenth Amendments get no mention. Finally, the third section is about how she approaches each case and her path to a decision. Here she discusses issues like interpreting text (including originalism), the importance of past precedent, and the differences between decisions based on legislation rather than based directly on the Constitution. She defends her vote in the "Dobbs" case which overturned Roe v Wade and returned abortion law to the states.

Overall, I was disappointed in the lack of in depth discussion of many current legal controversies. However, for someone who just wants to learn more about the workings of the Supreme Court this book would be a good introduction.

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