

2026 North America Market Outlook

High valuations, higher stakes: Expecting a volatile 2026.

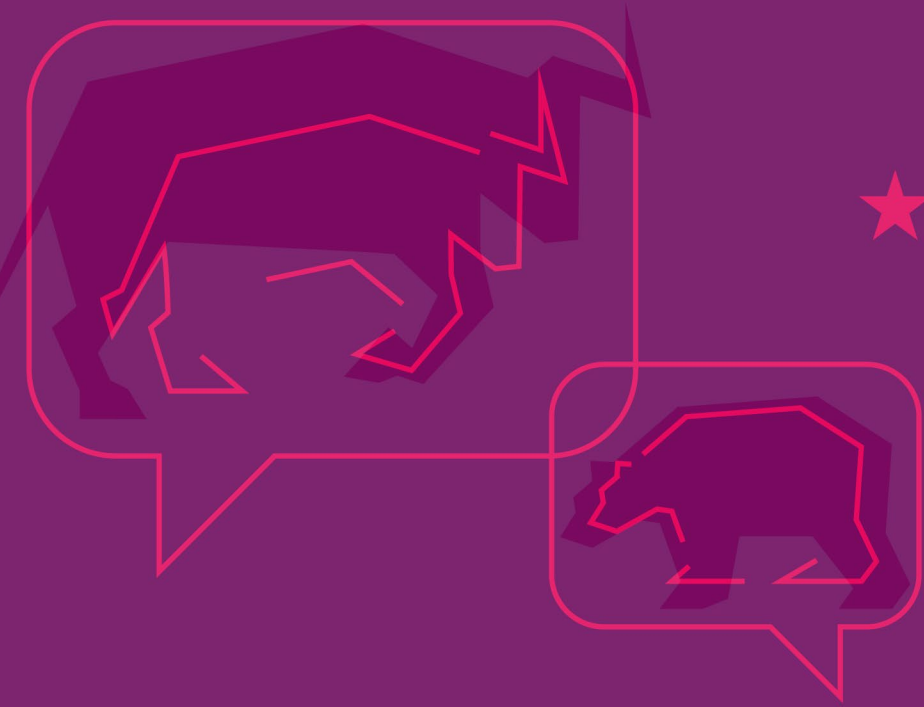


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US Equity Market Valuation Overview

US Equity Market Trading at a 4% Discount to a Composite of Our Fair Value Estimates

Based on a composite of our intrinsic valuations of the more than 700 stocks we cover that trade on US exchanges, as of Dec. 31, 2025, we calculated that the US equity market was trading at a price/fair value estimate of 0.96. This represents that the market is trading at a 4% discount to our fair value estimates.

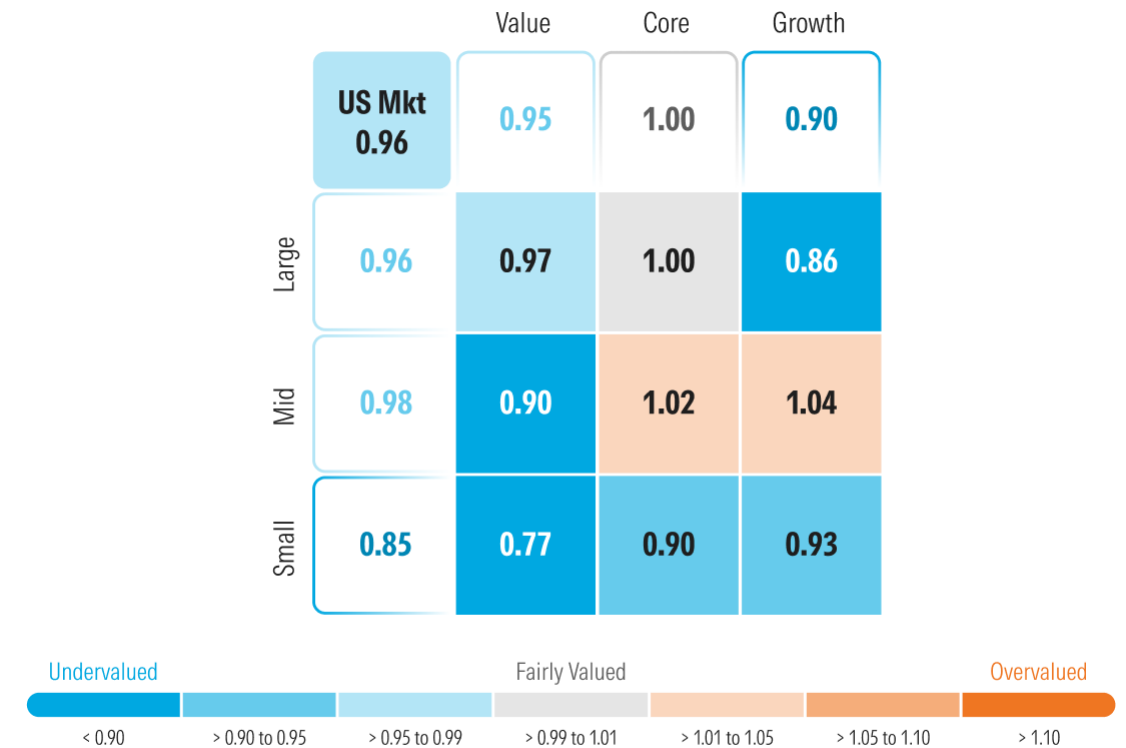
By capitalization, small-cap stocks remain very attractive, trading at a 15% discount to our fair value estimate. Mid-cap stocks trade just below our fair value estimates, while large-cap stocks trade at a 4% discount.

By style, following significant increases in our fair values on a number of growth stocks, that style is now at a 10% discount. Value stocks also remain attractive, trading at a 5% discount, whereas core stocks are trading at fair value.

As detailed in our [November](#) and [December](#) stock market outlooks, we made significant fair value increases on a number of mega-cap stocks under coverage. For example, during the fourth quarter, our intrinsic valuation for Alphabet rose by \$2.5 trillion, Nvidia by \$1.2 trillion, Broadcom by \$740 billion, and Apple by \$440 billion. In all, we increased valuations across our coverage by approximately \$7 trillion. This total increase represents approximately 8% of the total market capitalization of our coverage that trades on US exchanges.

US Stock Market Trading at Discount to Our Fair Value Estimates

Valuations of Morningstar's equity research coverage by equity style box.



Market At a Discount, but Discount Concentrated in Three AI Mega-Caps

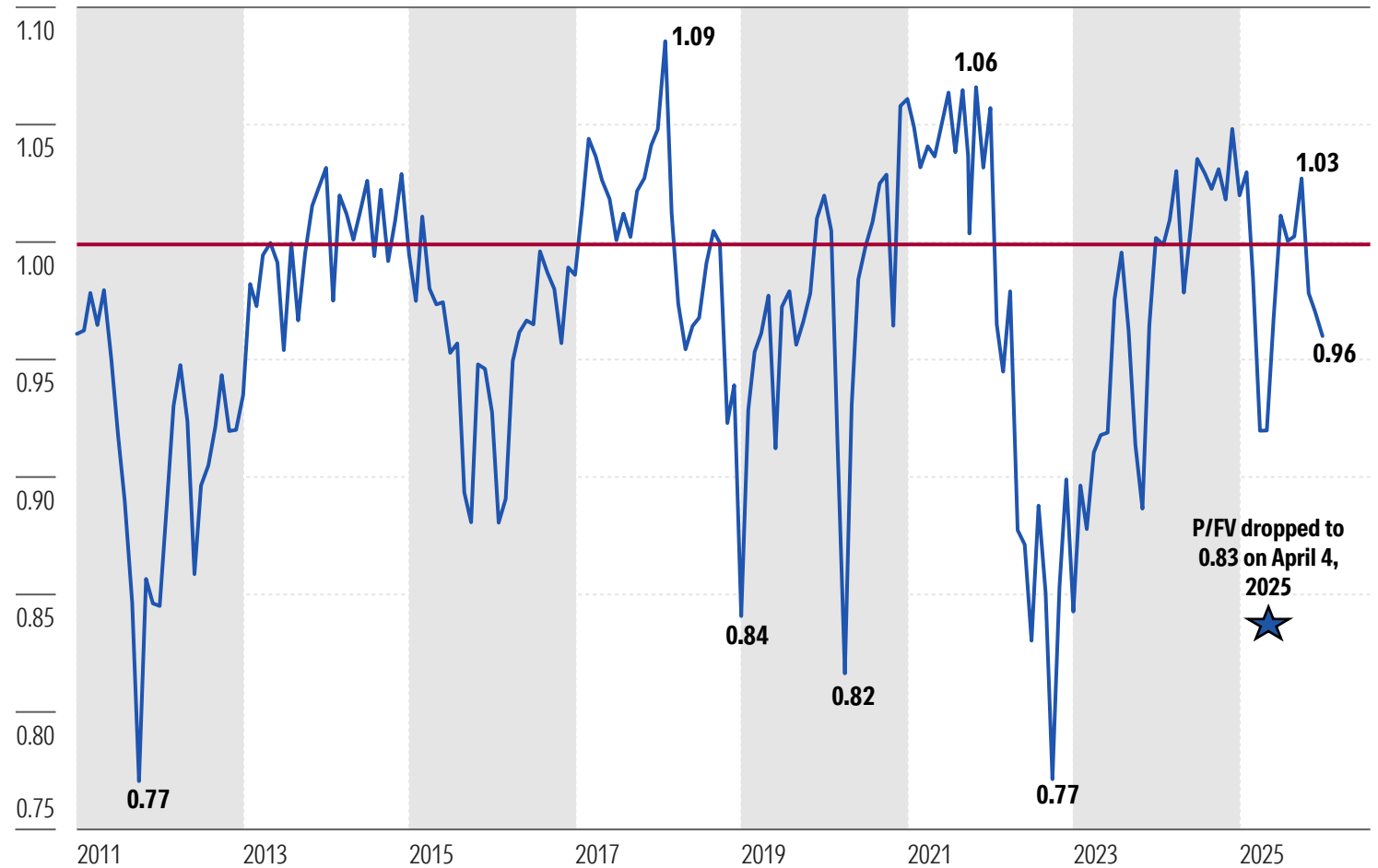
Early 2025 proved to be a volatile period for the markets. The emergence of DeepSeek battered overextended AI stocks before the broader market sold off even further following President Trump's Liberation Day tariffs. Yet, the market does what it often does and acted like a pendulum, in this case swinging too far to the downside. As such, we revised our [market outlook to overweight](#) on April 7, 2025, the day before the market bottomed out.

As mega-cap stocks continue to increase their share of the total market, their valuations increasingly skew market valuation. For example, excluding Nvidia from our market valuation would increase our price/fair value estimate metric to 0.98. In addition, excluding Alphabet and Broadcom would yield a price/fair value estimate metric of 1.00, equal to the composite of our fair values.

As we enter 2026, we anticipate further volatility. AI stocks require even stronger growth to support lofty valuations. A new chair will take the reins at the Fed. Trade negotiations are resuming. At the same time, slowing economic growth, higher-than-expected inflation, the upcoming midterm elections, and geopolitical risk will test investors' resolve.

Historical Morningstar US Equity Research Coverage Price/Fair Value Estimate at Month-End

Figures below 1 are undervalued, while those above 1 are overvalued.



Value Stocks Stage Comeback in Fourth Quarter

The Morningstar US Market Index rose 2.43% in the fourth quarter of 2025.

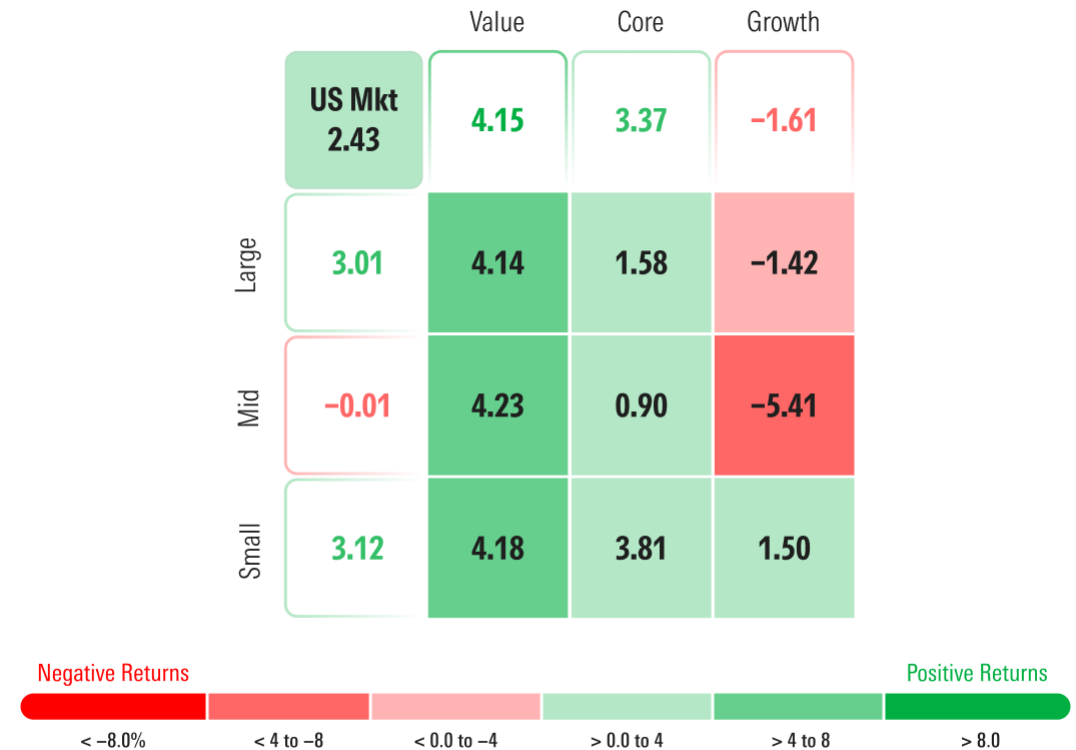
Value stocks led the way, as the Morningstar US Value Index rose 4.15%. Within the value category, the healthcare sector was the greatest contributor, including Johnson & Johnson, Merck, and Thermo Fisher Scientific. Value stocks in the technology sector, specifically Micron Technology, were the second-largest contributors.

Core stocks came in a close second, as the Morningstar US Core Index rose 3.37%. Four-star-rated Alphabet was, by far, the single most significant contributor to the index's quarterly return, accounting for 56%. Apple was the next largest contributor, accounting for only 19%. AI exhaustion took its toll on Oracle, the greatest detractor to the quarterly return.

After leading the way for much of the year, growth stocks retreated, and as a result, the Morningstar US Growth Index pulled back 1.61%. However, much of the pullback was very concentrated. Almost 80% of the loss can be attributed to declines in just three stocks: Microsoft, Meta Platforms, and Netflix. AI fatigue permeated the fourth quarter, as some of the most high-profile AI stocks were either unchanged (such as Nvidia) or declined (such as Palantir).

Morningstar US Market Index Rose 2.43% During the Fourth Quarter

After consistently lagging growth since 2022 sell-off, value finally outperforms



Value Finally Has Its Day

After lagging for several years, value stocks finally outperformed growth stocks in 2025 as Morningstar's US Value Index rose 17.24%. The financial services sector was, by far, the largest contributor, accounting for one-third of the index return. That outperformed the second largest contributor, technology, which accounted for 20% of the index return. The top three stocks, JPMorgan, Micron, and Johnson & Johnson, accounted for 20% of the index return. Laggards included losses among UnitedHealth, P&G, and Home Depot.

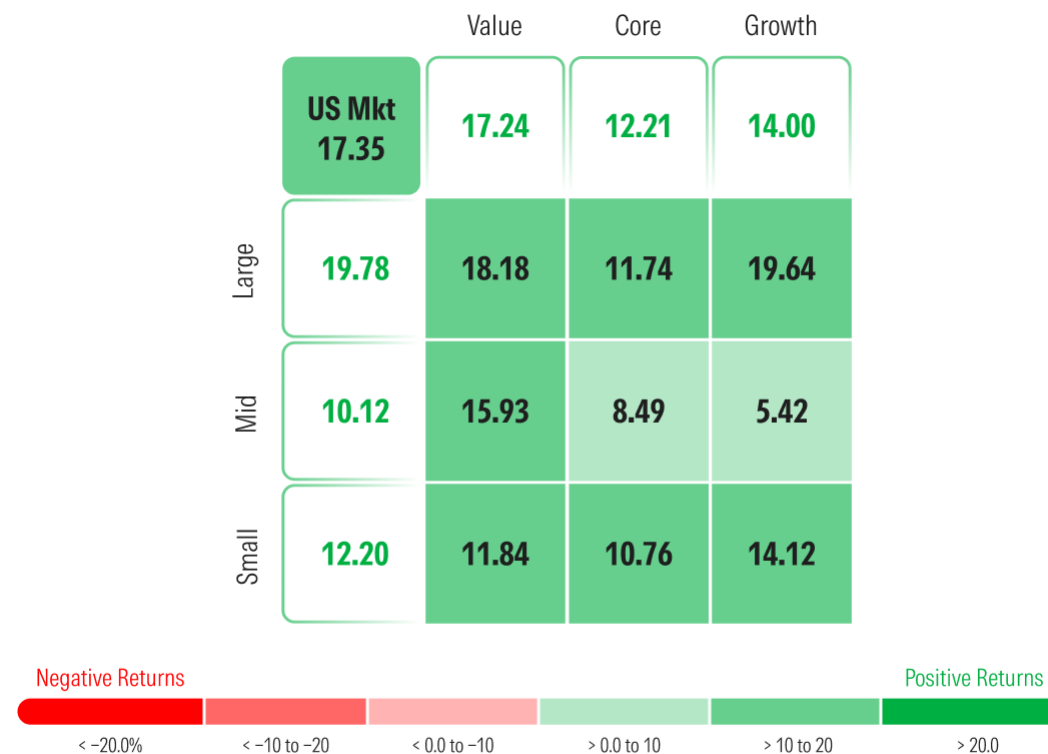
Morningstar's US Growth Index posted a 14% return in 2025, a strong return after posting over 23% and 38% returns in 2024 and 2023, respectively. Nvidia alone accounted for 24% of the index return; including Microsoft and Broadcom, it accounted for nearly 40%. The greatest detractors to the return included companies perceived by the market as at risk from AI, including ServiceNow, The Trade Desk, and Salesforce.

Morningstar's US Core Index rose 12.21%. Four-star-rated Alphabet accounted for 29% of the index return, almost five times greater than the next largest contributor, Broadcom, which accounted for 5% of the index return.

Investors should be aware that style indexes apply constituent weight limits when they are rebalanced, unlike the unconstrained broad market index. As a result, growth style performance understates the influence of mega-cap stocks relative to the broader market, as these companies are capped at a maximum allowable weight at rebalancing.

Morningstar US Market Index Rose 17.35% in 2025

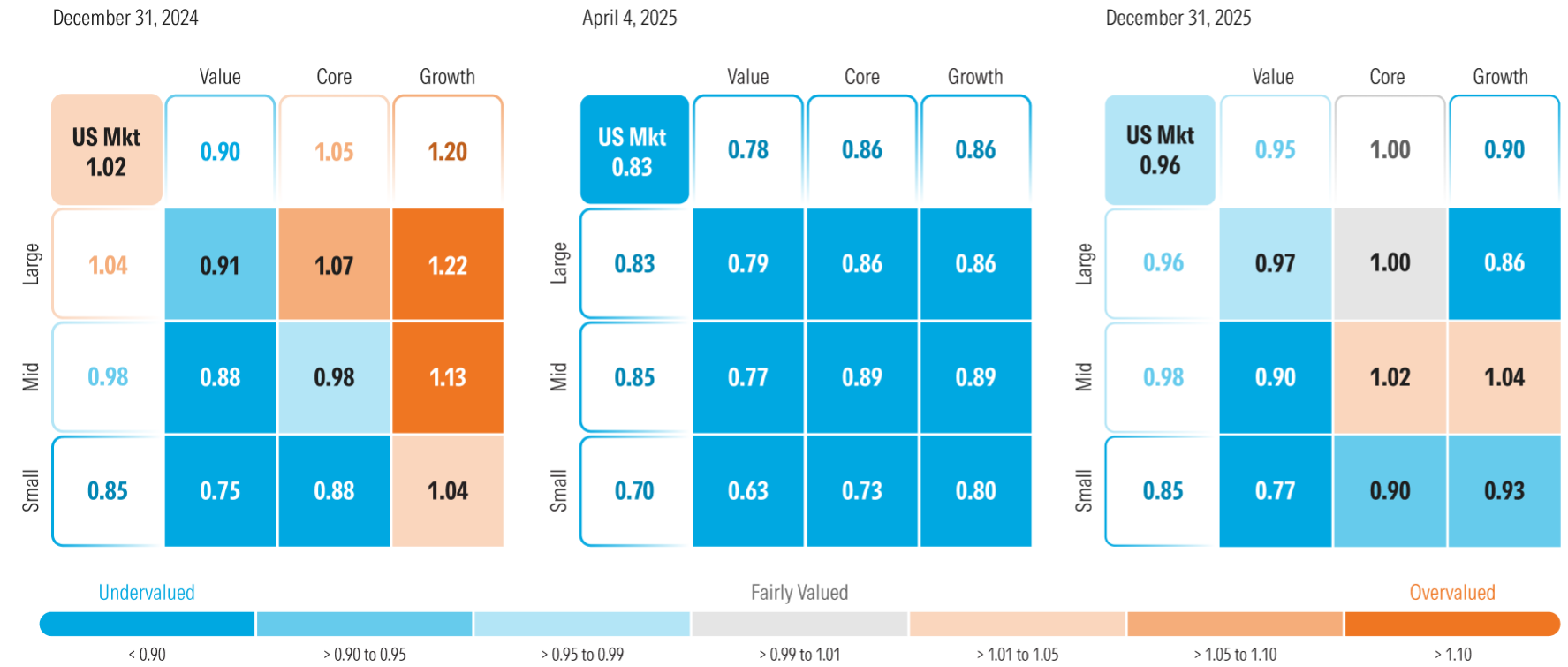
Value outperformed as index capitalization constraints tamped down growth return



Swift Selloff in Early 2025 Provided Opportunity to Overweight; Subsequent Rally Places Market Within FV Range

Stocks started the year at a slight premium to our fair value estimate, then plunged deep into undervalued territory, hitting a 17% discount to fair value estimate on April 4. Stocks bottomed out just after we moved to an overweight recommendation in our [special Market Outlook](#) update published on April 7, 2025, and on the April 7 episode of our weekly podcast, [The Morning Filter](#). Just as quickly, they rebounded to new all-time highs. Following significant increases in valuations for several AI names, growth stocks appear attractive.

Change in Morningstar Equity Research Coverage Price/Fair Value Estimates Over the Course of the Year



Source: Morningstar. Data as of Dec. 31, 2025.

See Important Disclosures at the end of this report.

A Laggard For Much of Year, Healthcare Surges in Fourth Quarter

Although we highlighted the healthcare sector as the third-most undervalued sector in the prior quarter, little did we expect it to rally as much as it did in the fourth quarter. Eli Lilly was by far the greatest contributor, accounting for 39% of the sector return. Otherwise, returns were broadly distributed.

Communication services sector returns were highly bifurcated. Alphabet surged higher however the sector index was weighed down by pullbacks in Meta Platforms, Netflix, and Roblox. Yet it wasn't just these; the breadth of communications index was negative.

Real estate struggled, with nearly twice as many stocks declining as advancing. The utility sector showed a similar pattern, with nearly twice as many negative performers.

Losses were more concentrated in consumer defensive, as Costco and P&G underperformed their sector index; these losses were largely offset by Walmart's approximately 10% gain.

Returns by Sector: Fourth-Quarter 2025 (%)

After underperforming for much of the year, healthcare surged in the fourth quarter



2025 Was, Once Again, All About AI

Returns were concentrated in sectors most closely linked to the artificial intelligence buildout boom.

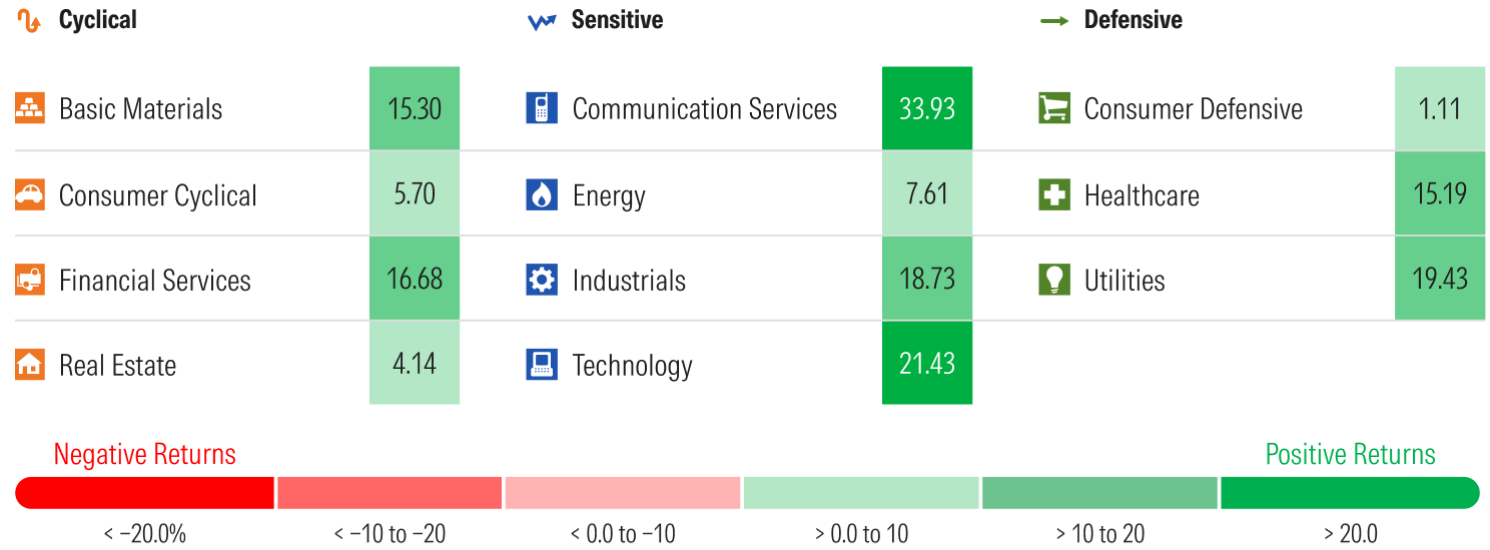
Communication services was the top-performing sector, yet returns for that sector were especially concentrated, as the 66% return on 4-star-rated Alphabet stock accounted for 82% of the sector's return.

The technology sector came in a distant second. Four-star-rated Nvidia led the way as its 39% return accounted for 28% of the index return. Including Broadcom, Microsoft, Apple, and Micron, the top five accounted for nearly two-thirds of the sector return.

Considered a second-derivative play on AI, utilities generally rose across the board. Industrials tied to either the AI buildout boom, such as Vertiv, or transportation accounted for the largest gains in the industrials sector.

The overvalued consumer defensive sector was the laggard in 2025, as losses in Costco and P&G hampered index returns. Real estate badly trailed, as data center stocks slumped after trading in 2-star territory in early 2025, and urban office space has yet to find a floor.

Returns by Sector: 2025 (%)



Attribution Analysis: Contributors

In 2025, the top 10 contributors to the broad market return accounted for 53% of the total return.

Even though concentration in single stocks declined over the year, returns were still primarily driven by artificial intelligence.

Of these top 10 contributors, seven are directly tied to the buildout boom in AI. JPMorgan was the lone value stock to make the top 10.

Heading into 2026, we have a very differentiated view on the valuations of these stocks. Four are rated 4 stars, one is 3 stars, and five are 2 stars.

Looking ahead to 2026, we expect returns will continue to broaden across the market and become less concentrated.

Contribution From Ten Stocks Accounted for 53% of Market Return

Name/Ticker	Index Weighting (%)	YTD Return (%)	YTD Contribution to Index Return (%)
Alphabet GOOGL	3.91	65.35	2.48
Nvidia NVDA	6.15	38.88	2.24
Broadcom AVGO	2.13	49.28	0.98
Microsoft MSFT	5.90	14.74	0.88
Apple AAPL	5.95	8.56	0.62
JP Morgan Chase JPM	1.33	34.42	0.45
Eli Lilly LLY	1.14	39.21	0.45
Micron Technology MU	0.25	239.13	0.41
Palantir PLTR	0.49	135.03	0.39
Meta Platforms META	2.50	12.74	0.30

Attribution Analysis: Contributors' Valuations

Of Top 10 Stocks With Largest Contribution to 2025 Market Returns, We Have a Very Differentiated View on Valuations

Name/Ticker	Rating 12/31/24	Rating 12/31/25	Price (\$) 12/31/24	Price (\$) 12/31/25	Change (%)	Fair Value 12/31/24	Fair Value 12/31/25	Change (%)	P/FV 12/31/24	P/FV 12/31/25
Alphabet GOOGL	★★★★★	★★★★	189	313	65.3%	220	340	54.5%	0.86	0.92
Nvidia NVDA	★★★★	★★★★★	134	187	38.9%	130	240	84.6%	1.03	0.78
Broadcom AVGO	★★	★★★★★	232	346	49.3%	190	480	152.6%	1.22	0.72
Microsoft MSFT	★★★★★	★★★★★	422	484	14.7%	490	600	22.4%	0.86	0.81
Apple AAPL	★★	★★	250	272	8.6%	200	240	20.0%	1.25	1.13
JP Morgan Chase JPM	★★	★★	240	322	34.4%	178	259	45.5%	1.35	1.24
Eli Lilly LLY	★★	★★	772	1,075	39.2%	580	770	32.8%	1.33	1.40
Micron Technology MU	★★★★	★★	84	285	239.1%	100	225	125.0%	0.84	1.27
Palantir Technologies PLTR	★	★★	76	178	135.0%	21	135	542.9%	3.60	1.32
Meta Platforms META	★★★★	★★★★★	586	660	12.7%	560	850	51.8%	1.05	0.78

Attribution Analysis: Detractors

No single stock was a significant detractor to the market return. The only common theme is stocks perceived as at risk of artificial-intelligence-driven disruption. The other detractors, like UnitedHealthcare, have idiosyncratic issues that have led to losses in 2025.

Seven of these stocks were rated 1- or 2-stars at the beginning of the year. Following these losses, none are still rated 1- or 2-stars. In many cases, we think the stocks have reached a trough and seven of the ten are now rated 4- or 5-stars.

No Single Stock a Significant Detractor to Market Performance

Name/Ticker	Index Weighting (%)	YTD Return (%)	YTD Contribution to Index Return (%)
UnitedHealth UNH	0.61	(34.74)	(0.28)
Fiserv FISV	0.15	(67.30)	(0.14)
Salesforce CRM	0.43	(20.76)	(0.11)
ServiceNow NOW	0.33	(27.75)	(0.11)
Accenture ACN	0.32	(23.73)	(0.09)
Procter & Gamble PG	0.64	(14.52)	(0.09)
Adobe ADBE	0.28	(21.29)	(0.07)
The Trade Desk TTD	0.05	(67.70)	(0.07)
The Home Depot HD	0.65	(11.54)	(0.06)
Chipotle CMG	0.11	(38.64)	(0.06)

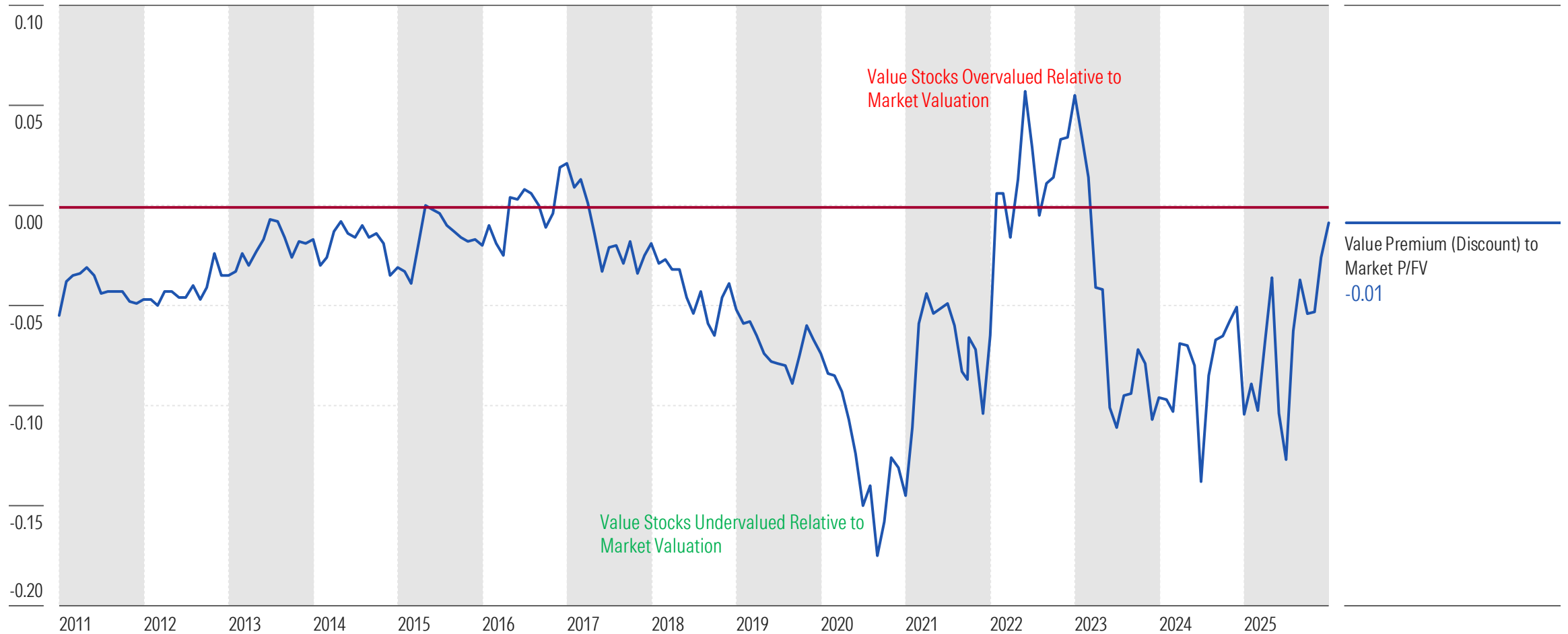
Attribution Analysis: Detractors' Valuations

Many of the Stocks That Detracted the Most From Market Performance Have Now Become Attractively Valued

Name/Ticker	Rating 12/31/24	Rating 12/31/25	Price (\$) 12/31/24	Price (\$) 12/31/25	Change (%)	Fair Value 12/31/24	Fair Value 12/31/25	Change (%)	P/FV 12/31/24	P/FV 12/31/25
UnitedHealth Group UNH	★★★★★	★★★★★	506	330	-34.7%	590	427	-27.6%	0.86	0.77
Fiserv FISV	★★	★★★★★★	205	67	-67.3%	168	126	-25.0%	1.22	0.53
Salesforce CRM	★★★	★★★★★	334	265	-20.8%	315	325	3.2%	1.06	0.82
ServiceNow NOW	★★	★★★★★	212	153	-27.7%	180	212	17.8%	1.18	0.72
Accenture ACN	★★	★★★	352	268	-23.7%	323	272	-15.8%	1.09	0.99
Procter & Gamble PG	★★	★★★	168	143	-14.5%	143	148	3.5%	1.17	0.97
Adobe ADBE	★★★★★	★★★★★	445	350	-21.3%	590	560	-5.1%	0.75	0.62
The Trade Desk TTD	★	★★★★★	118	38	-67.7%	60	60	0.0%	1.96	0.63
The Home Depot HD	★	★★★	389	344	-11.5%	292	325	11.3%	1.33	1.06
Chipotle Mexican Grill CMG	★	★★★★★	60	37	-38.6%	42	43	2.4%	1.44	0.86

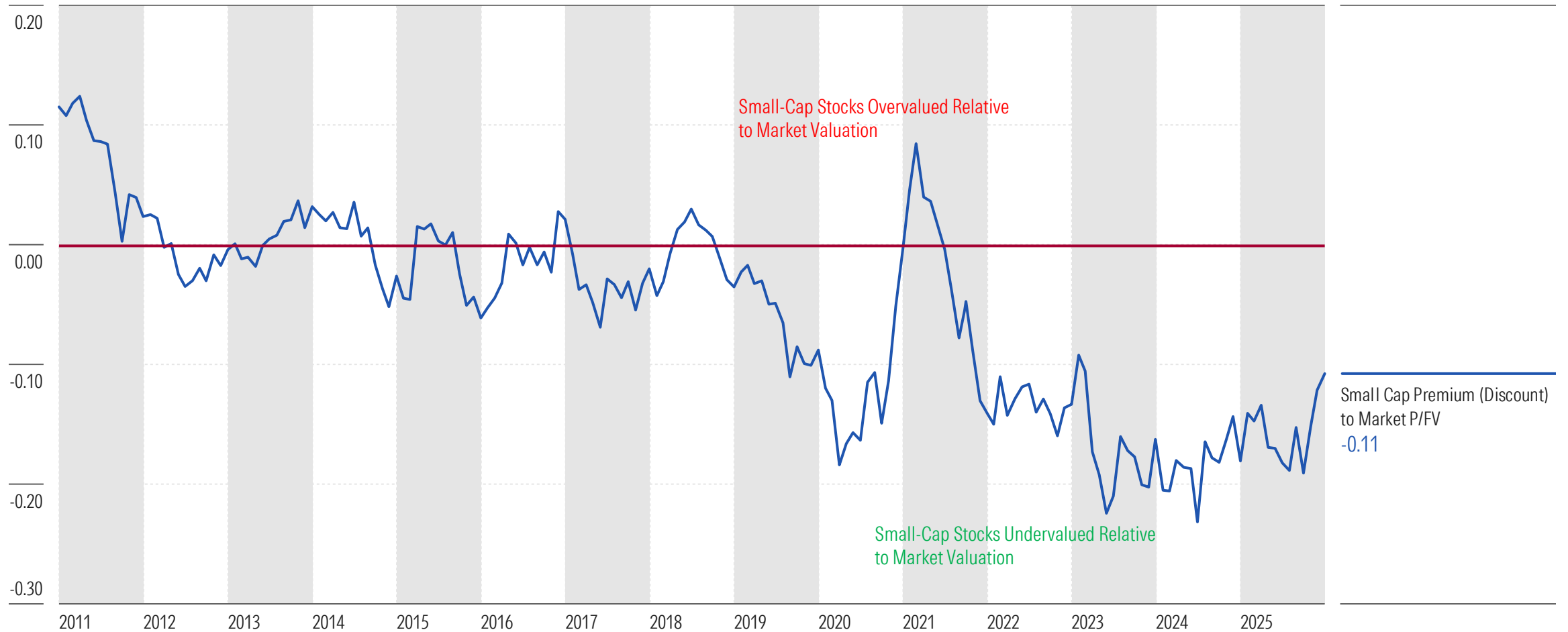
Value Stocks No Longer Trade at a Material Discount Relative to Broad Market Valuation

Valuations on Value Stocks No Longer as Attractive on Relative Value Basis



Small-Cap Stocks Continue to Trade at a Deep Discount Relative to Broad Market Valuation

Late Year Rally Reduces Some of Discount to Market Valuation, But Still Deep Valuation to be Had



2026: Brace Yourself, Even More Volatility Ahead

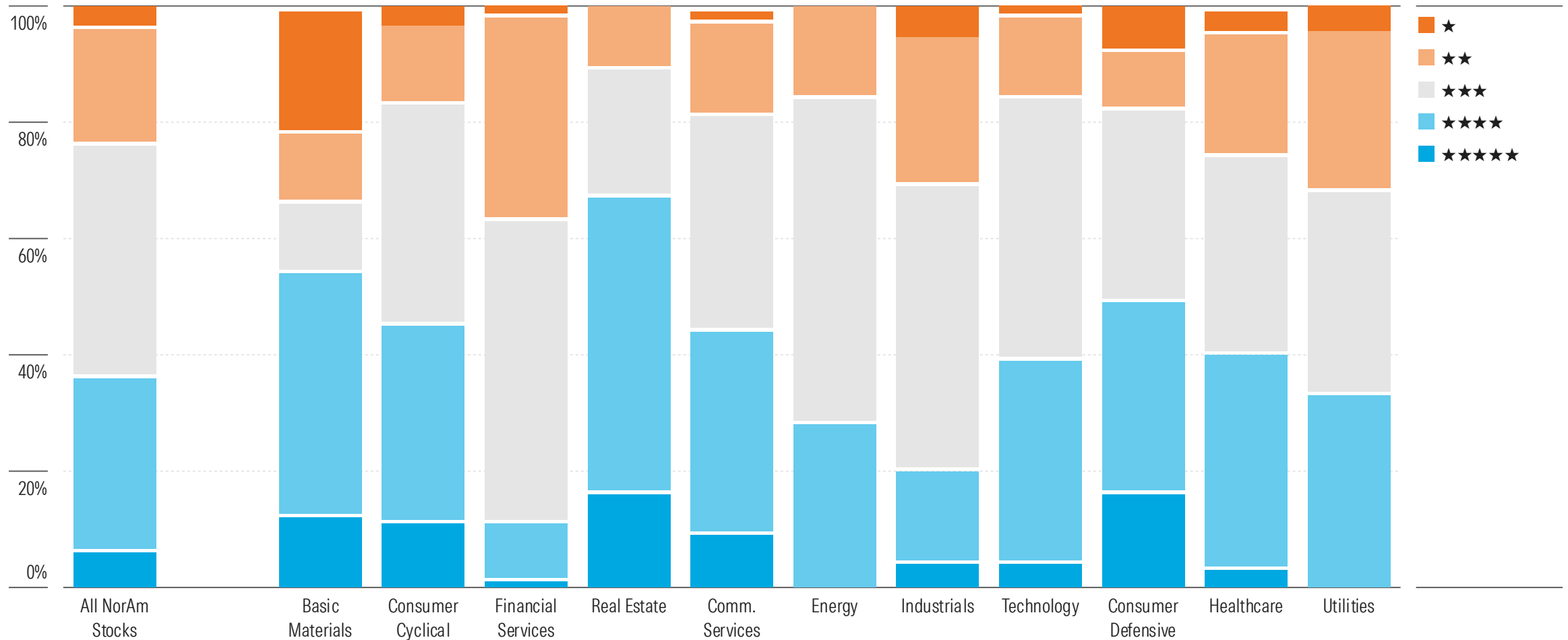
Key Risks in 2026

- AI stocks require even greater growth to support high valuations
- New chair to take the reins at the Fed
- Resumption of trade and tariff negotiations
- Slowing rate of economic growth
- Hotter-than-expected inflation
- Impending midterm elections
- Weakening fundamentals in private credit markets
- Chinese economy weaker than expected/deceleration accelerating
- Watch JGBs & JPY

Sector Valuations and Top Picks

Few 5-Star Opportunities Left Amid Modest Number of 4-Star Stocks

Morningstar Equity Star Ratings by Sector



Analysts' Expectations That AI Buildout Boom Will Last Longer Drive Valuations in Communications & Technology

The greatest valuation changes over the past quarter occurred in technology, bringing the sector to an 11% discount, from fairly valued last quarter. Similarly, fair value estimate increases in the communication sector raised our bar, resulting in a 9% discount for the sector.

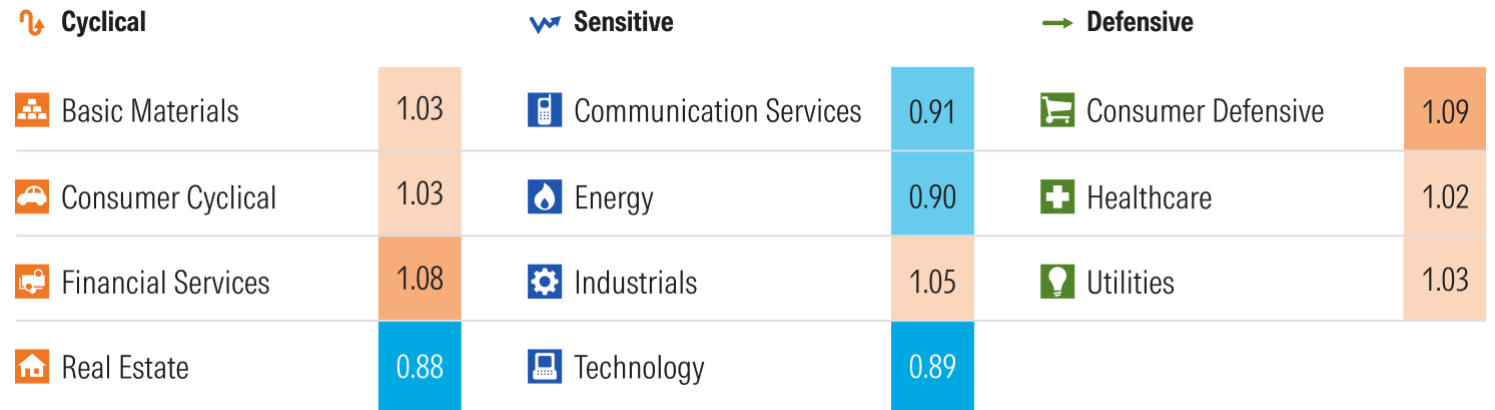
Real estate remains the most undervalued sector. While we prefer to avoid urban office space, real estate with defensive characteristics appears compelling. Energy continues to languish as oil prices drift lower, yet we think the market is overly pessimistic.

Following a late-year surge in healthcare, the sector has risen to a slight premium after trading at an attractive discount last quarter. Utilities is also now trading closer to the fair value estimate following a December pullback.

Consumer defensive stocks remain overvalued, though the excess is concentrated in a few names, leaving many others attractive. Banks benefit from a steep yield curve and low default rates as the economy avoids recession, but the market likely overstates their long-term growth prospects. As the economy slows, highly valued industrials tied to the AI buildout risk disappointing.

Morningstar Price/Fair Value Estimate Metric by Sector Weighted by Intrinsic Value













Figures below 1 are undervalued, while those above 1 are overvalued.



Cyclical Sectors: Best Picks

With lithium poised to rebound, low-cost producer Albemarle is our top pick. As Corteva launches new seed and crop protection products, we expect they will drive sales growth and margin expansion over time. Spin Master expects sequential improvement as tariff-disrupted shipments are replenished, and with capital expenditures and operating costs set to decline, we see a path back to profit growth. Growth from indexing should continue to underpin durable revenue growth for Broadridge.













Best Picks From Our Directors Across the Cyclical Sectors

Name/Ticker	Rating	Price (\$)	Fair Value (\$)	P/FV	Economic Moat	Uncertainty	Sector
Albemarle ALB	★★★★★	141	200	0.71	Narrow	Very High	 Basic Materials
Corteva CTVA	★★★★★	67	80	0.84	Wide	Medium	 Basic Materials
Eastman Chemical EMN	★★★★★	64	100	0.64	Narrow	High	 Basic Materials
Bath & Body Works BBWI	★★★★★	20	56	0.36	Narrow	High	 Consumer Cyclical
Spin Master TOY	★★★★★	19	36	0.53	None	Medium	 Consumer Cyclical
Under Armour UA	★★★★★	5	14	0.35	None	Very High	 Consumer Cyclical
Broadridge Financial Solutions BR	★★★★★	223	290	0.77	Wide	Low	 Technology
LPL Financial Holdings LPLA	★★★★★	357	504	0.71	Wide	High	 Financial Services
TransUnion TRU	★★★★★	86	114	0.75	Wide	High	 Financial Services
AmeriCold Logistics COLD	★★★★★	13	26	0.49	None	Medium	 Real Estate
Federal Realty Investment Trust FRT	★★★★★	101	137	0.74	None	Medium	 Real Estate
Healthpeak Properties DOC	★★★★★	16	28	0.58	None	Medium	 Real Estate

Economically Sensitive Sectors: Best Picks

The core of Omnicom's business revolves around omnichannel marketing planning and managing data assets, which we believe will play an increasingly important role in a complex and fragmented ad ecosystem. Broadcom has built a leadership position in AI chips via customized processors for large customers, and we see strong demand over the medium-term as existing customers raise orders and includes new customers like Anthropic and OpenAI.










Best Picks From Our Directors Across the Economically Sensitive Sectors

Name/Ticker	Rating	Price (\$)	Fair Value (\$)	P/FV	Economic Moat	Uncertainty	Sector
Comcast CMCSA	★★★★★	30	44	0.68	Narrow	Medium	 Communication Services
The Walt Disney DIS	★★★★	114	120	0.95	Wide	Medium	 Communication Services
Omnicom Group OMC	★★★★★	81	115	0.70	Narrow	High	 Communication Services
Baker Hughes BKR	★★★★★	46	53	0.86	None	Medium	 Energy
Devon Energy DVN	★★★★★	37	53	0.69	Narrow	High	 Energy
SLB SLB	★★★★★	38	50	0.77	Narrow	High	 Energy
CNH Industrial CNH	★★★★★	9	20	0.46	Narrow	Medium	 Industrials
CarMax KMX	★★★★★	39	99	0.39	Narrow	High	 Consumer Cyclical
IDEX IEX	★★★★★	178	212	0.84	Wide	Medium	 Industrials
Broadcom AVGO	★★★★★	346	480	0.72	Wide	High	 Technology
Microsoft MSFT	★★★★★	484	600	0.81	Wide	Medium	 Technology
NXP Semiconductors NXPI	★★★★★	217	280	0.78	Wide	High	 Technology

Defensive Sectors: Best Picks

We think the market fails to appreciate Mondelez's exposure to the growing emerging markets and its brand strength, which should drive long-term, profitable gains in market share. We assume annual earnings growth at the high end of Alliant's 5%-7% guidance through 2027 and project accelerating growth beyond 2027. We think investors are overestimating the impact of regulatory and policy uncertainties on Portland General, which has long operated in a challenging regulatory environment; however, recent regulatory reviews have been constructive, and electricity demand from the technology sector is growing rapidly.

Best Picks From Our Directors Across the Defensive Sectors

Name/Ticker	Rating	Price (\$)	Fair Value (\$)	P/FV	Economic Moat	Uncertainty		Sector
Campbell's CPB	★★★★★	28	60	0.46	Wide	Medium		Consumer Defensive
The Kraft Heinz KHC	★★★★★	24	51	0.48	Narrow	Medium		Consumer Defensive
Mondelez International MDLZ	★★★★★	54	73	0.74	Wide	Low		Consumer Defensive
Elevance Health ELV	★★★★★	351	507	0.69	Narrow	High		Healthcare
GE HealthCare Technologies GEHC	★★★★★	82	98	0.84	Wide	Medium		Healthcare
IQVIA IQV	★★★★★	225	268	0.84	Narrow	Medium		Healthcare
Alliant Energy LNT	★★★★★	65	71	0.92	Narrow	Low		Utilities
Edison International EIX	★★★★★	60	80	0.75	Narrow	Medium		Utilities
Portland General Electric POR	★★★★★	48	54	0.89	Narrow	Low		Utilities

Valuation by Economic Moat

Wide-Moat Stocks Attractive Especially Relative to Narrow- and No-Moat Stocks

Based on our valuations, the market appears to be overpaying for those stocks of companies that we rate as having no economic moat, or those that we do not believe have long-term, durable competitive advantages that will allow that company to generate excess returns over its cost of capital over the long term.

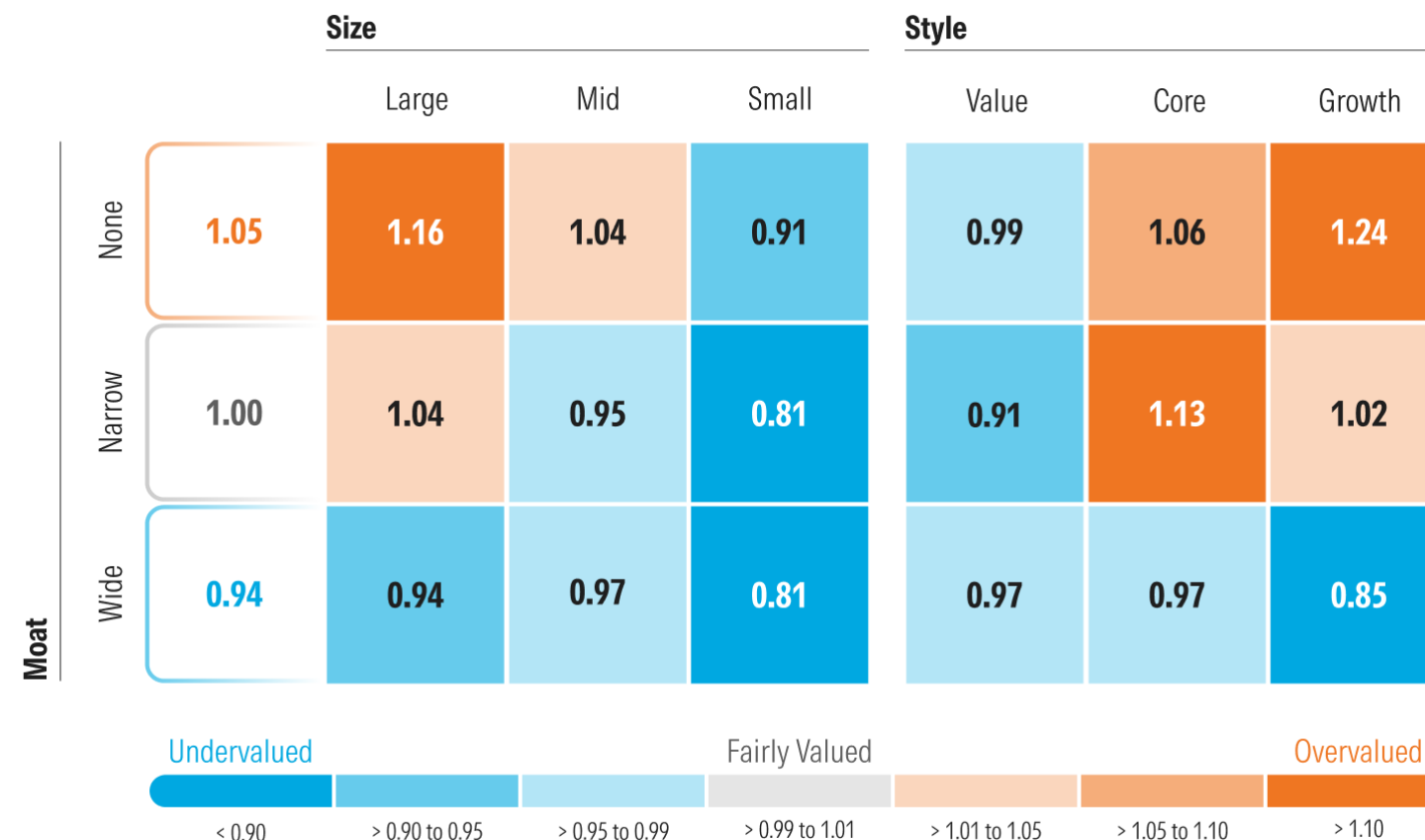
In an environment where we expect volatility to rise and wide-moat-rated stocks to be more attractively priced, now is an opportune time to reposition into higher-quality companies.

We expect companies with wide economic moats to be better positioned to weather the risks ahead and to outperform on the downside, while still positioning investors to capitalize on the current undervaluation relative to our intrinsic valuations.

Swap opportunities include selling overvalued large-cap, no-moat stocks such as Micron and Intel, and buying undervalued wide-moat stocks such as Microsoft or Pepsi.













Price/Fair Value Estimate by Economic Moat Rating Across Size and Style

Figures below 1 are undervalued, while those above 1 are overvalued.
















Undervalued Large-Cap Stocks With Wide Economic Moats and Low or Medium Uncertainty

Examples of Low- or Medium-Uncertainty-Rated Companies With Long-Term, Durable Competitive Advantages at Discounts to Our Estimate of Intrinsic Valuation

Name/Ticker	Rating	Price (\$)	Fair Value (\$)	P/FV	Economic Moat	Uncertainty		Sector
Microsoft MSFT	★★★★★	484	600	0.81	Wide	Medium		Technology
Bristol-Myers Squibb BMY	★★★★★	54	66	0.82	Wide	Medium		Healthcare
John Deere DE	★★★★★	466	550	0.85	Wide	Medium		Industrials
Danaher DHR	★★★★★	229	270	0.85	Wide	Medium		Healthcare
Pepsico PEP	★★★★★	144	166	0.86	Wide	Low		Consumer Defensive
Automatic Data Processing ADP	★★★★★	257	297	0.87	Wide	Medium		Technology
Altria Group MO	★★★★★	58	65	0.89	Wide	Medium		Consumer Defensive
Amazon.com AMZN	★★★★★	231	260	0.89	Wide	Medium		Consumer Cyclical
Lockheed Martin LMT	★★★★★	484	538	0.90	Wide	Medium		Industrials
Northrop Grumman NOC	★★★★★	570	630	0.91	Wide	Medium		Industrials
S&P Global SPGI	★★★★★	523	570	0.92	Wide	Low		Financial Services
Intercontinental Exchange ICE	★★★★★	162	170	0.95	Wide	Low		Financial Services














Undervalued Mid-Cap Stocks With Wide Economic Moats and Low or Medium Uncertainty

Examples of Low- or Medium-Uncertainty-Rated Companies With Long-Term, Durable Competitive Advantages at Discounts to Our Estimate of Intrinsic Valuation

Name/Ticker	Rating	Price (\$)	Fair Value (\$)	P/FV	Economic Moat	Uncertainty		Sector
Zoetis ZTS	★★★★★	126	171	0.74	Wide	Medium		Healthcare
Mondelez International MDLZ	★★★★★	54	73	0.74	Wide	Low		Consumer Defensive
Otis Worldwide OTIS	★★★★★	87	110	0.79	Wide	Low		Industrials
Cheniere Energy LNG	★★★★★	194	241	0.81	Wide	Medium		Energy
Air Products and Chemicals APD	★★★★★	247	304	0.81	Wide	Medium		Basic Materials
Motorola Solutions MSI	★★★★★	383	470	0.82	Wide	Medium		Technology
Copart CPRT	★★★★★	39	47	0.83	Wide	Medium		Industrials
GE HealthCare Technologies GEHC	★★★★★	82	98	0.84	Wide	Medium		Healthcare
Corteva CTVA	★★★★★	67	80	0.84	Wide	Medium		Basic Materials
Chipotle Mexican Grill CMG	★★★★★	37	43	0.86	Wide	Medium		Consumer Cyclical
The Hershey HSY	★★★★★	182	210	0.87	Wide	Low		Consumer Defensive
MSCI MSCI	★★★★★	574	650	0.88	Wide	Medium		Financial Services
Colgate-Palmolive CL	★★★★★	79	87	0.91	Wide	Low		Consumer Defensive

Undervalued Small-Cap Stocks With Wide or Narrow Economic Moats and Low or Medium Uncertainty

Examples of Low- or Medium-Uncertainty-Rated Companies With Long-Term, Durable Competitive Advantages at Discounts to Our Estimate of Intrinsic Valuation

Name/Ticker	Rating	Price (\$)	Fair Value (\$)	P/FV	Economic Moat	Uncertainty		Sector
CNH Industrial CNH	★★★★★	9	20	0.46	Narrow	Medium		Industrials
Campbell's CPB	★★★★★	28	60	0.46	Wide	Medium		Consumer Defensive
Gentex GNTX	★★★★★	23	42	0.55	Narrow	Medium		Consumer Cyclical
The Clorox Company CLX	★★★★★	101	163	0.62	Wide	Medium		Consumer Defensive
Akamai Technologies AKAM	★★★★★	87	130	0.67	Narrow	Medium		Technology
AptarGroup ATR	★★★★	122	164	0.74	Narrow	Medium		Healthcare
Vontier VNT	★★★★	37	47	0.79	Narrow	Medium		Technology
FactSet FDS	★★★★	290	360	0.81	Narrow	Medium		Financial Services
Wyndham Hotels & Resorts WH	★★★★	76	93	0.81	Narrow	Medium		Consumer Cyclical
IDEX IEX	★★★★	178	212	0.84	Wide	Medium		Industrials
Hormel Foods HRL	★★★★	24	28	0.85	Narrow	Medium		Consumer Defensive
Ingredion INGR	★★★★	110	130	0.85	Narrow	Medium		Consumer Defensive
Ball BALL	★★★★	53	61	0.87	Narrow	Medium		Consumer Cyclical

US Economic Outlook

Morningstar Investment Management LLC

Tariffs Still to Weigh on GDP Growth and Push Up Inflation

We Expect Growth to Trough in 2026 but Rebound Thereafter

GDP growth trended down in 2025, averaging 2.1% year over year through the third quarter, versus 2.8% in 2024. So far, this isn't due to tariffs but rather to slowing government spending, a fading factory-building boom, and the lingering effects of high interest rates on housing, commercial real estate, and elsewhere. The combined impact of these factors has managed to offset the uplift from AI-related spending.

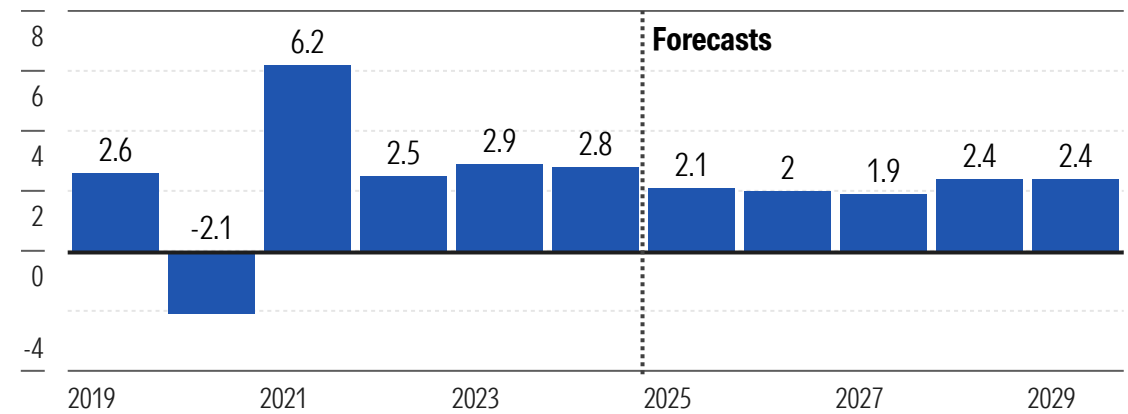
We expect GDP growth to trough in 2026-27, driven by tariffs and the aforementioned factors. Afterward, we expect growth to reaccelerate as the tariff impact fades and the economy responds to monetary loosening. See our latest [US Economic Outlook](#) for more details.

Inflation to Rise Again on Tariffs

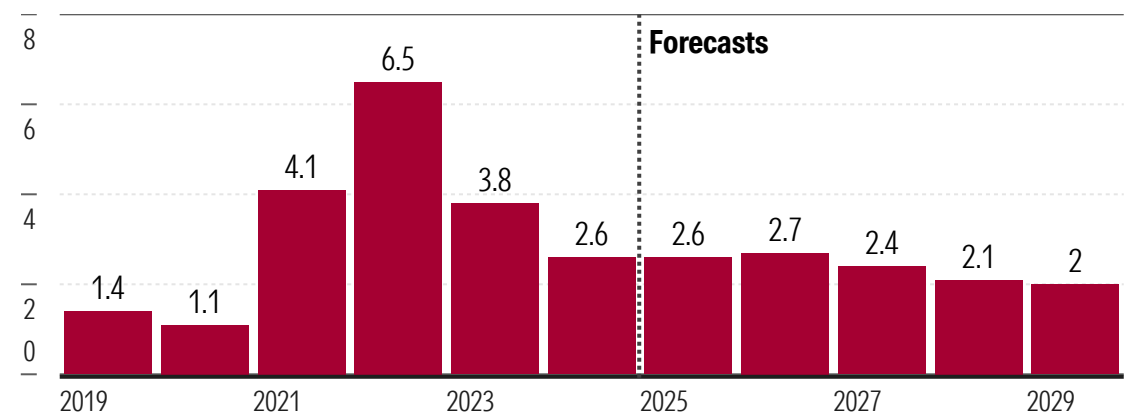
The US had nearly beaten back inflation, which dropped from 6.6% in 2022 to 2.6% in 2024. But tariffs are breathing new life into inflation. Businesses are not yet done passing tariff costs on to consumers. As such, we expect inflation to peak in 2026. After that, inflation is expected to drop off as the slack created by weak GDP growth generates disinflationary pressure. We have trimmed our inflation expectations slightly, as we expect businesses to retain more of the tariff cost than they did previously. This also reflects the downward inflation surprise in the November 2025 data.

¹Our inflation measure is the Personal Consumption Expenditures index, which has several advantages over the Consumer Price Index and is preferred by the Fed.

US Real GDP Growth



US Inflation (% PCE)



Further Fed-Rate Cuts Still to Come

By End of 2027, Our Projections Are 75 Basis Points Below Market Expectations

The federal-funds rate has been cut by 1.75 percentage points altogether since September 2024. Still, longer-run interest rates have barely fallen. The 10-year Treasury yield stands at 4.2% in December 2025, having averaged 4.3% in 2025 and 4.2% in 2024. Thirty-year mortgage rates have come down a bit more (6.2% as of December), but they're still much above prepandemic levels.

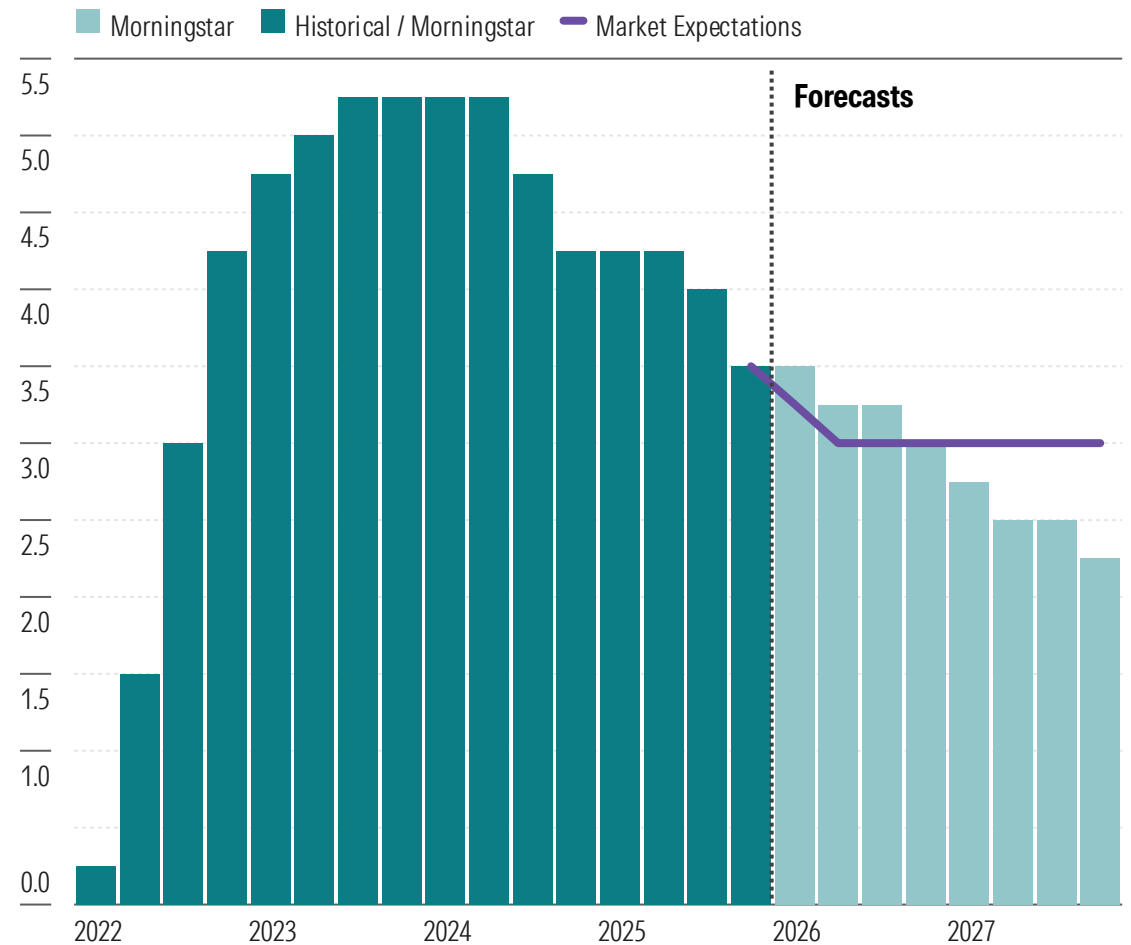
We expect another 1.25 percentage points in federal-funds rate cuts, with the target range hitting 2.25%-2.50% by the end of 2027. This should drive the 10-year yield to an average of 3.25% by 2028, which is our long-run expectation. In turn, this should drive the 30-year mortgage rate down from an average of 6.7% in 2024 and 6.6% in 2025 to 5.00% by 2028.

In our view, substantial further interest rate cuts will be needed to lower longer-run borrowing rates, thereby supporting continued robust economic growth. As such, we think the market is projecting a terminal rate that's a bit too high. Our federal-funds rate forecasts are 75 basis points below market expectations by the end of 2027.

(%) Annual Average	2024	2025	2026	2027	2028	2029
Fed-Funds Rate	5.14	4.22	3.39	2.79	2.35	2.35
10-Year Treasury	4.21	4.30	3.90	3.50	3.25	3.25
30-Year Mortgage	6.73	6.60	5.90	5.25	5.00	5.00

Federal-Funds Rate Expectations, %

Bottom of target range

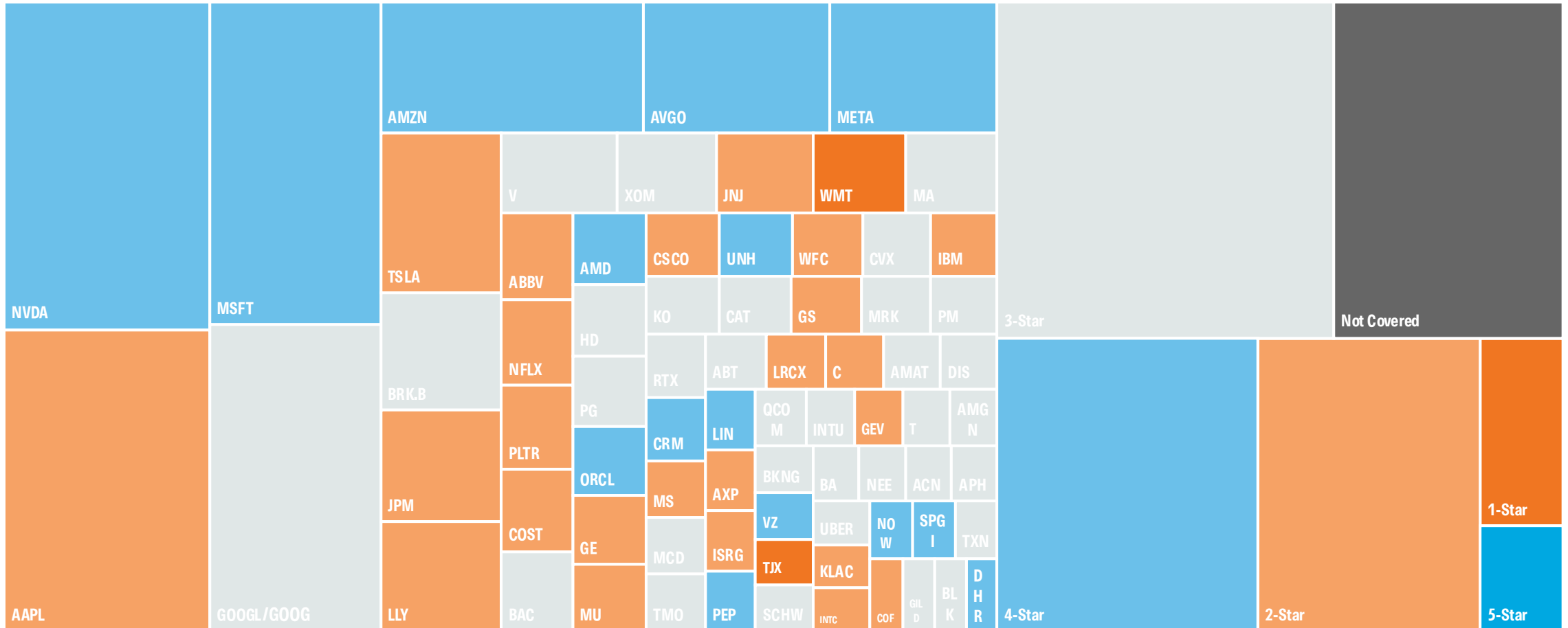


Spotlight | Mega-Cap Stocks

Star Ratings Across Morningstar US Market Index

NVDA, AMZN, AVGO, META Now Rated 4-Stars, Some Due to Valuation Increases, Others Due to Pullbacks

■ ★
 ■ ★★
 ■ ★★★
 ■ ★★★★
 ■ ★★★★★
 ■ Not Covered

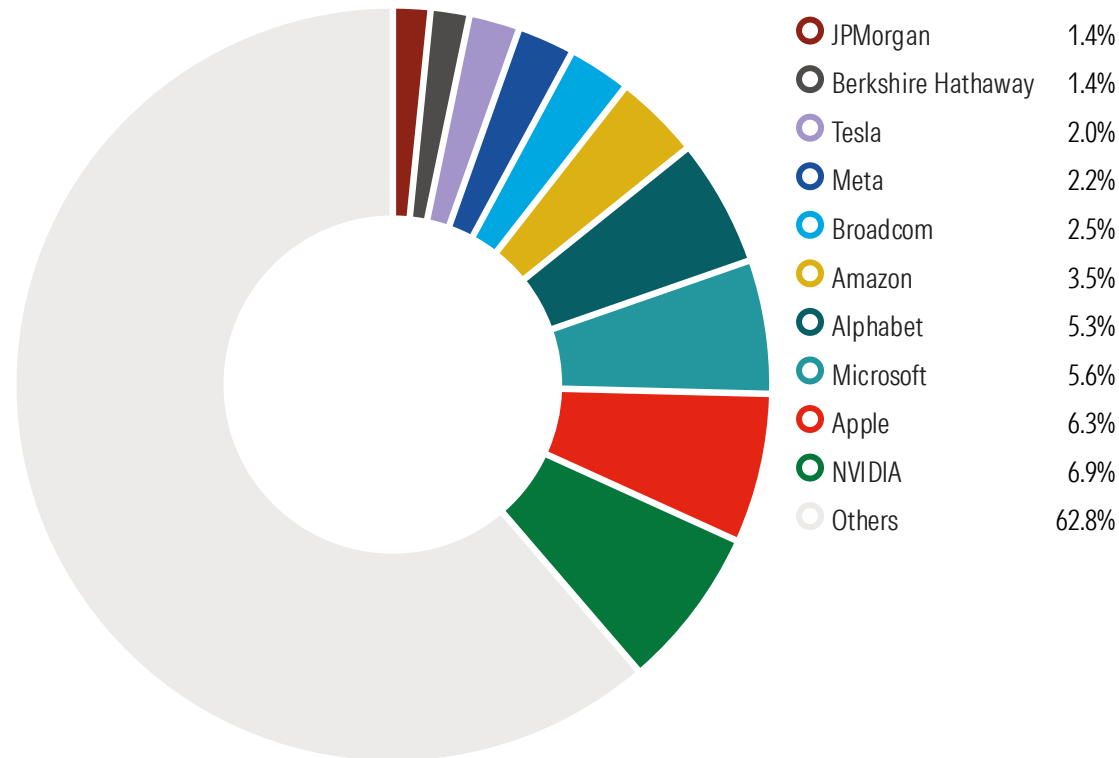


US Market Concentration Continues to Climb as the Biggest Get Bigger

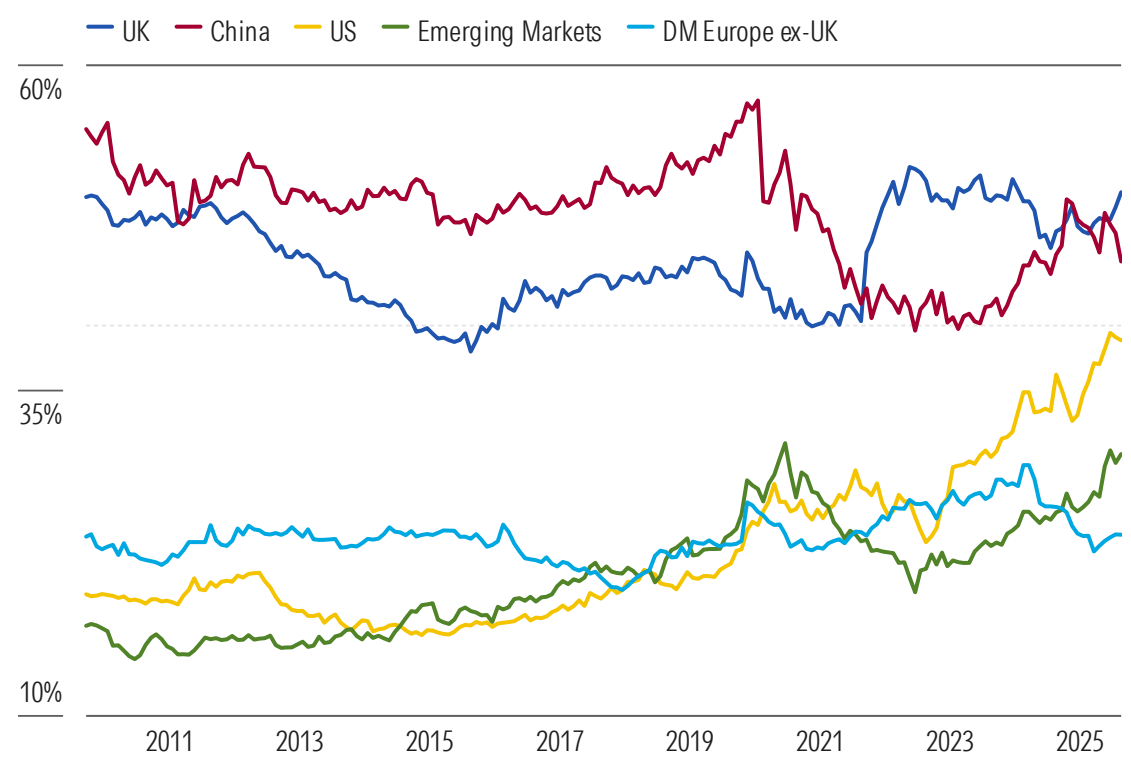
Concentration risk has increasingly grown as the market rewards those that are spending increasing greater amounts of capex on building out artificial intelligence. As such, even diversified index allocations have outsized risk exposure to just a few stocks.

Concentration in the US market has continued to climb to new heights, especially following over the past two years as the AI buildout boom sends AI-related stocks to new historical highs.

Morningstar US Market TR Index Portfolio Concentration

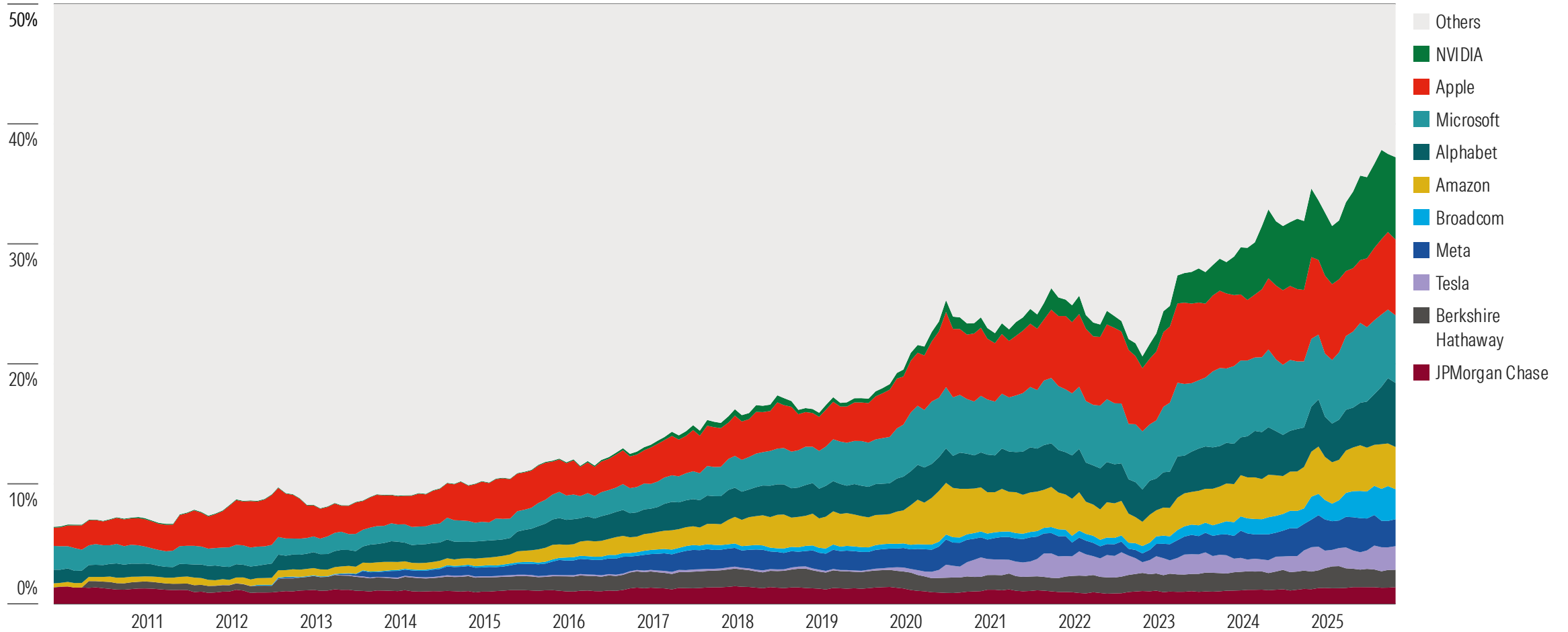


Concentration Compared With Peers



Mega-Cap Stocks Continue to Grow as a Percentage of Index

Current Top-10 Stock Weights in the Morningstar US Market Index Over Time



Source: Morningstar. Data as of Dec. 31, 2025. Chart is scaled to 50%, omits "Other" 50%. Share classes for Alphabet are combined.

See Important Disclosures at the end of this report.

Undervalued Mega-Cap Performance

Mega-Cap Stocks Rated 4- or 5-Stars Mostly Outperformed

Name/Ticker	Rating	Rating	Price (\$)	Price (\$)	Change (%)	Fair Value	Fair Value	Change (%)	P/FV	P/FV
	9/30/25	12/31/25	9/30/25	12/31/25		9/30/25	12/31/25		9/30/25	12/31/25
Microsoft MSFT	★★★★★	★★★★★	518	484	-6.6%	600	600	0.0%	0.86	0.81
Coca-Cola KO	★★★★★	★★★★	66	70	5.4%	72	74	2.8%	0.92	0.94
Salesforce CRM	★★★★★	★★★★★	237	265	11.8%	325	325	0.0%	0.73	0.82
Merck & Co. MRK	★★★★★	★★★★	84	105	25.4%	111	111	0.0%	0.76	0.95
Pepsico PEP	★★★★★	★★★★★	140	144	2.2%	164	166	1.2%	0.86	0.86











Overvalued Mega-Cap Performance

Performance of Mega-Cap Stocks Rated 1- or 2-Stars Since Last Quarter

Name/Ticker	Rating 9/30/25	Rating 12/31/25	Price (\$) 9/30/25	Price (\$) 12/31/25	Change (%)	Fair Value 9/30/25	Fair Value 12/31/25	Change (%)	P/FV 9/30/25	P/FV 12/31/25
Apple AAPL	★★	★★	255	272	6.8%	210	240	14.3%	1.21	1.13
Tesla TSLA	★★	★★	445	450	1.1%	250	300	20.0%	1.78	1.50
Walmart WMT	★	★	103	111	8.1%	64	62	-3.1%	1.61	1.80
JP Morgan Chase JPM	★★	★★	315	322	2.2%	235	259	10.2%	1.34	1.24
Visa V	★★	★★★★	341	351	2.7%	306	323	5.6%	1.12	1.09
MasterCard MA	★★	★★★★	569	571	0.4%	520	520	0.0%	1.09	1.10
Palantir Technologies PLTR	★★	★★	182	178	-2.6%	115	135	17.4%	1.59	1.32
Netflix NFLX	★	★★	120	94	-21.8%	75	77	2.7%	1.60	1.22
AbbVie ABBV	★★	★★	232	228	-1.3%	184	184	0.0%	1.26	1.24
Costco Wholesale COST	★	★★	926	862	-6.8%	620	650	4.8%	1.49	1.33
Bank of America BAC	★★	★★★★	52	55	6.6%	46	51	10.9%	1.12	1.08
The Home Depot HD	★★	★★★★	405	344	-15.1%	335	325	-3.0%	1.21	1.06
Procter & Gamble PG	★★	★★★★	154	143	-6.7%	147	148	0.7%	1.05	0.97
Cisco Systems CSCO	★★	★★	68	77	12.6%	61	67	9.8%	1.12	1.15
GE Aerospace GE	★★	★★	301	308	2.4%	266	279	4.9%	1.13	1.10














Updated List of Undervalued Mega-Cap Stocks

Several New Wide-Moat Stocks Added to List of Undervalued Mega-Caps

Name/Ticker	Rating	Price (\$)	Fair Value (\$)	P/FV	Economic Moat	Uncertainty		Sector
Nvidia NVDA	★★★★★	187	240	0.78	Wide	Very High		Technology
Microsoft MSFT	★★★★★	484	600	0.81	Wide	Medium		Technology
Amazon.com AMZN	★★★★★	231	260	0.89	Wide	Medium		Consumer Cyclical
Meta Platforms META	★★★★★	660	850	0.78	Wide	High		Communication Services
Broadcom AVGO	★★★★★	346	480	0.72	Wide	High		Technology
Oracle ORCL	★★★★★	195	277	0.70	Wide	Very High		Technology
Advanced Micro Devices AMD	★★★★★	214	270	0.79	Narrow	Very High		Technology
UnitedHealth Group UNH	★★★★★	330	427	0.77	Narrow	High		Healthcare
Salesforce CRM	★★★★★	265	325	0.82	Wide	High		Technology
T-Mobile US TMUS	★★★★★	203	235	0.86	Narrow	Medium		Communication Services








Updated List of Overvalued Mega-Cap Stocks

Updated List of Overvalued Mega-Cap Stocks

Name/Ticker	Rating	Price (\$)	Fair Value (\$)	P/FV	Economic Moat	Uncertainty		Sector
Apple AAPL	★★	272	240	1.13	Wide	Medium		Technology
Tesla TSLA	★★	450	300	1.50	Narrow	Very High		Consumer Cyclical
Eli Lilly LLY	★★	1,075	770	1.40	Wide	High		Healthcare
Walmart WMT	★	111	62	1.80	Wide	Medium		Consumer Defensive
JP Morgan Chase JPM	★★	322	259	1.24	Wide	Medium		Financial Services
Johnson & Johnson JNJ	★★	207	172	1.20	Wide	Low		Healthcare
Palantir Technologies PLTR	★★	178	135	1.32	Narrow	Very High		Technology
AbbVie ABBV	★★	228	184	1.24	Wide	High		Healthcare
Netflix NFLX	★★	94	77	1.22	Narrow	High		Communication Services
Costco Wholesale COST	★★	862	650	1.33	Wide	Medium		Consumer Defensive
GE Aerospace GE	★★	308	279	1.10	Wide	Medium		Industrials
Micron Technology MU	★★	285	225	1.27	None	High		Technology
Cisco Systems CSCO	★★	77	67	1.15	Wide	Medium		Technology
Morgan Stanley MS	★★	178	140	1.27	Wide	High		Financial Services

Updated List of Overvalued Mega-Cap Stocks

Updated List of Overvalued Mega-Cap Stocks (Continued)

Name/Ticker	Rating	Price (\$)	Fair Value (\$)	P/FV	Economic Moat	Uncertainty	Sector
IBM IBM	★★	296	264	1.12	Narrow	Medium	 Technology
The Goldman Sachs Group GS	★★	879	630	1.40	Wide	High	 Financial Services
American Express AXP	★★	370	289	1.28	Wide	Medium	 Financial Services
AppLovin APP	★★	674	500	1.35	Narrow	Very High	 Communication Services
Lam Research LRCX	★★	171	115	1.49	Wide	High	 Technology
Citigroup C	★★	117	90	1.30	None	Medium	 Financial Services
Intuitive Surgical ISRG	★★	566	378	1.50	Wide	High	 Healthcare

Fixed-Income Outlook

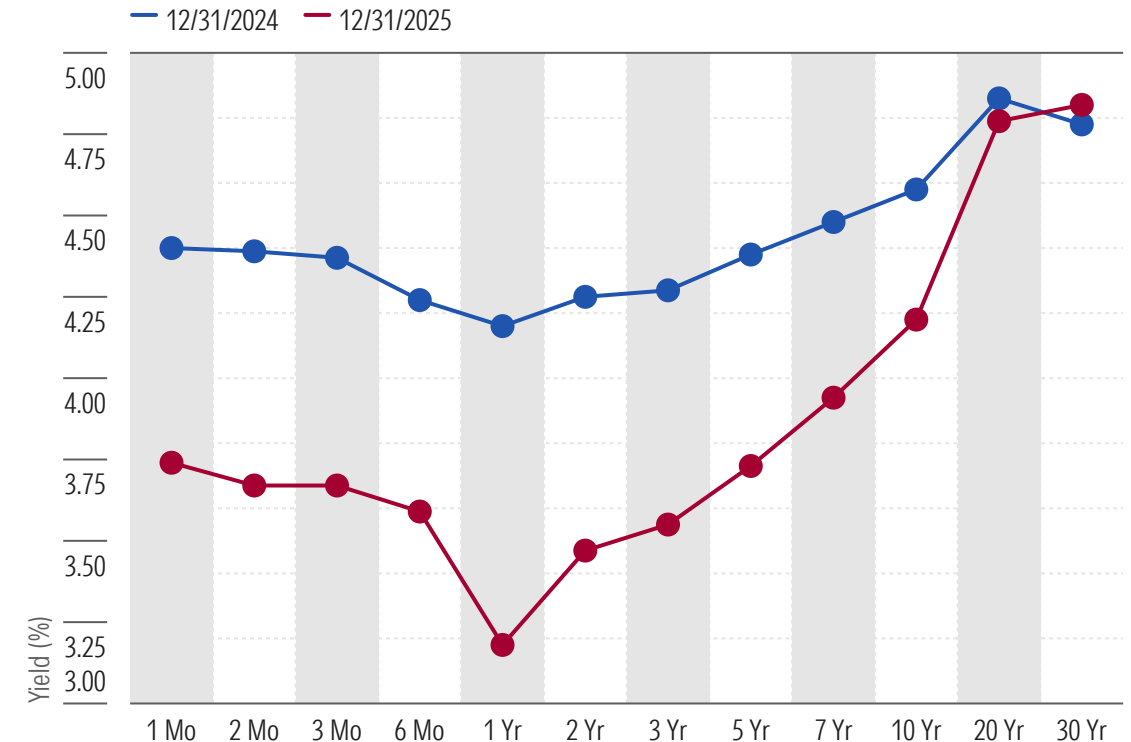
Declining Interest Rates and Yield Carry Deliver Solid Fixed Income Returns

The Morningstar US Core Bond Index, our proxy for the broad bond market, rose 7.12% in 2025. The return over underlying yield carry was bolstered by price appreciation as yields fell across nearly the entire yield curve. As the bond market prices in additional cuts to the federal-funds rate, yields in the short-to-middle part of the yield curve have tightened the most. For example, in 2025, yields on the one-year US Treasury bond declined by 98 basis points, whereas yields on the 10-year US Treasury declined by only 40 basis points.

Morningstar US Fixed-Income Index Returns (%)

Morningstar Index	Effective		2022	2023	2024	2025
	Yield	Duration				
ABS	4.48%	2.2	-4.42%	6.18%	5.87%	5.71%
CMBS	4.38%	3.7	-9.84%	5.17%	4.73%	7.49%
Core Bond	4.34%	5.9	-12.99%	5.31%	1.36%	7.12%
Corporate Bond	4.84%	7.0	-15.71%	8.41%	2.13%	7.56%
High-Yield Bond	6.48%	2.9	-11.09%	13.48%	8.20%	8.66%
MBS	6.48%	2.9	-11.94%	4.97%	1.34%	8.33%
TIPS	1.68%	4.8	-11.85%	3.68%	2.08%	6.89%
Treasury Bond	3.90%	5.8	-12.43%	3.88%	0.76%	6.17%

Yield Curve Steepens as Interest Rates Decline Across Most of Curve



Source: Morningstar. Data as of Dec. 31, 2025.

See Important Disclosures at the end of this report.

Interest-Rate Forecast

Morningstar's US economics team projects that the Fed will ease monetary policy through the end of 2026 and continue to ease it further in 2027. This projection is based on their forecast that economic growth will slow through the second quarter of 2026. Although tariffs will lead inflation higher in 2026, inflation is expected to moderate thereafter.

We continue to believe that investors are best served by continuing to hold longer-duration bonds, which capture the high-yield carry and potential future price appreciation. This is in line with our US economics team's forecast of a multiyear period of declining yields. In the longer end of the curve, they project the yield on the 10-year US Treasury will average 3.90% in 2026, 3.50% in 2027, and 3.25% thereafter.

Interest-Rate Forecast

Average interest rate per calendar year.

Interest Rate (%)	2026E	2027E	2028E	2029E
Federal-Funds	3.39	2.79	2.35	2.35
10-Year UST	3.90	3.50	3.25	3.25

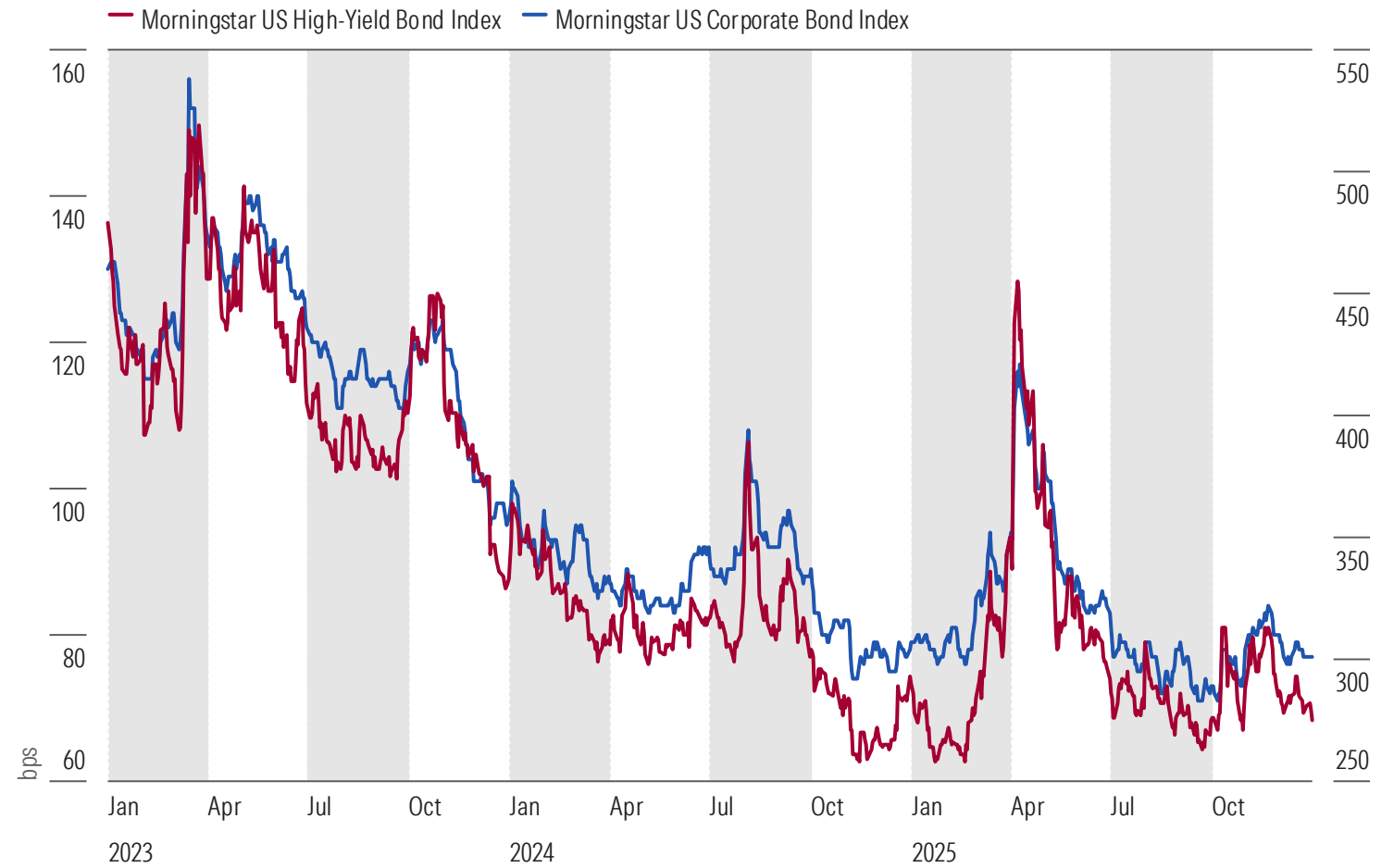
Corporate Bond Market: Picking Up Pennies

Corporate credit spreads tightened slightly over the course of 2025. In the investment-grade market, the average spread of the Morningstar US Corporate Bond Index tightened 2 basis points to +77 as of Dec. 31. Over the past 25 years, investment-grade bonds have only ever traded tighter 7% of the time. In fact, in September, the spread traded at +71, a new historically tight level.

The average spread of the Morningstar US High-Yield Bond Index tightened 15 basis points to +275. While this spread has yet to return to its historically tightest level, which was +258 on Feb. 18, 2025, only 5% of the time since 2000 have high-yield bonds traded at a tighter spread than now.

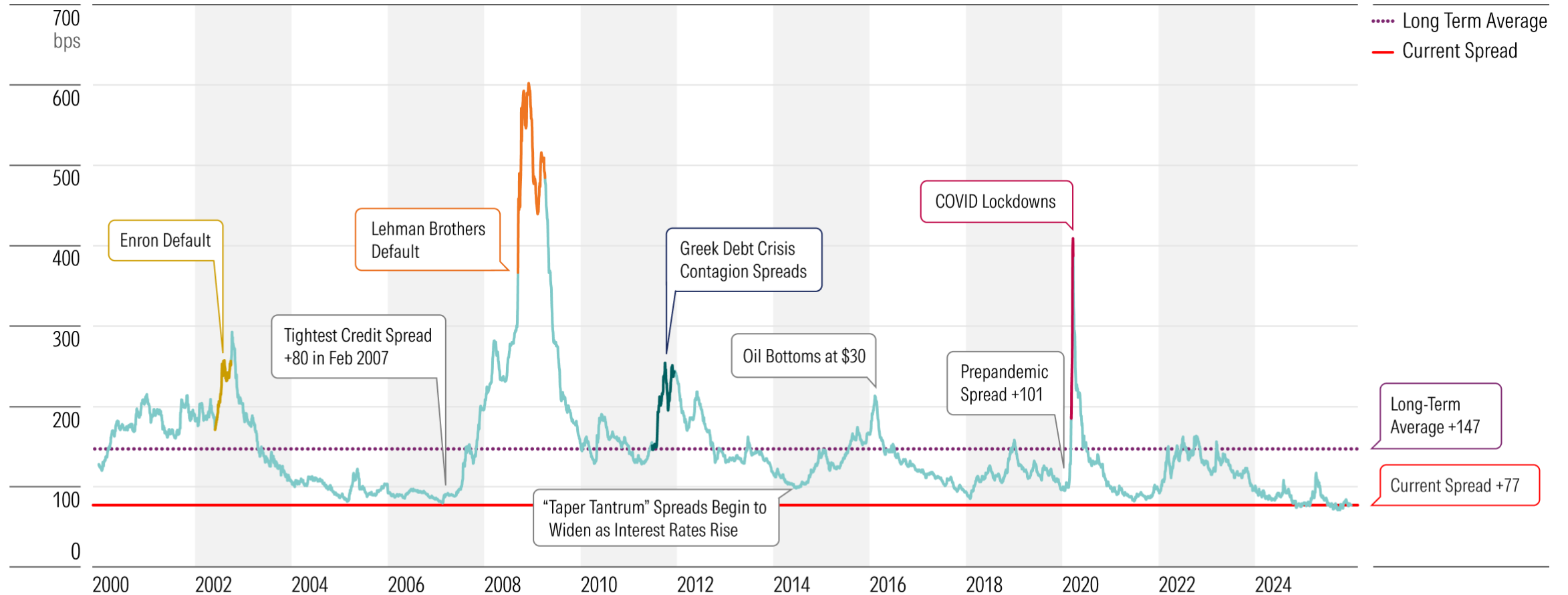
Looking ahead, default rates and rating downgrades are expected to remain near normal levels. Yet, we don't think investors are being adequately compensated. Morningstar [DBRS notes that, in the private credit market](#), it expects the weakening trend in credit quality to continue. Middle-market borrowers are experiencing margin compression, and leverage has increased. As such, this will lead to an increasing reliance on external capital and, likely, additional downgrades and defaults over the next six to 12 months.

Corporate Bond Market: Credit Spreads Remain Near Historically Tightest Levels Ever



Long-Term Average Credit Spread for Investment-Grade Corporate Bond Market

Long-Term Average Credit Spread for Investment-Grade Corporate Bond Index

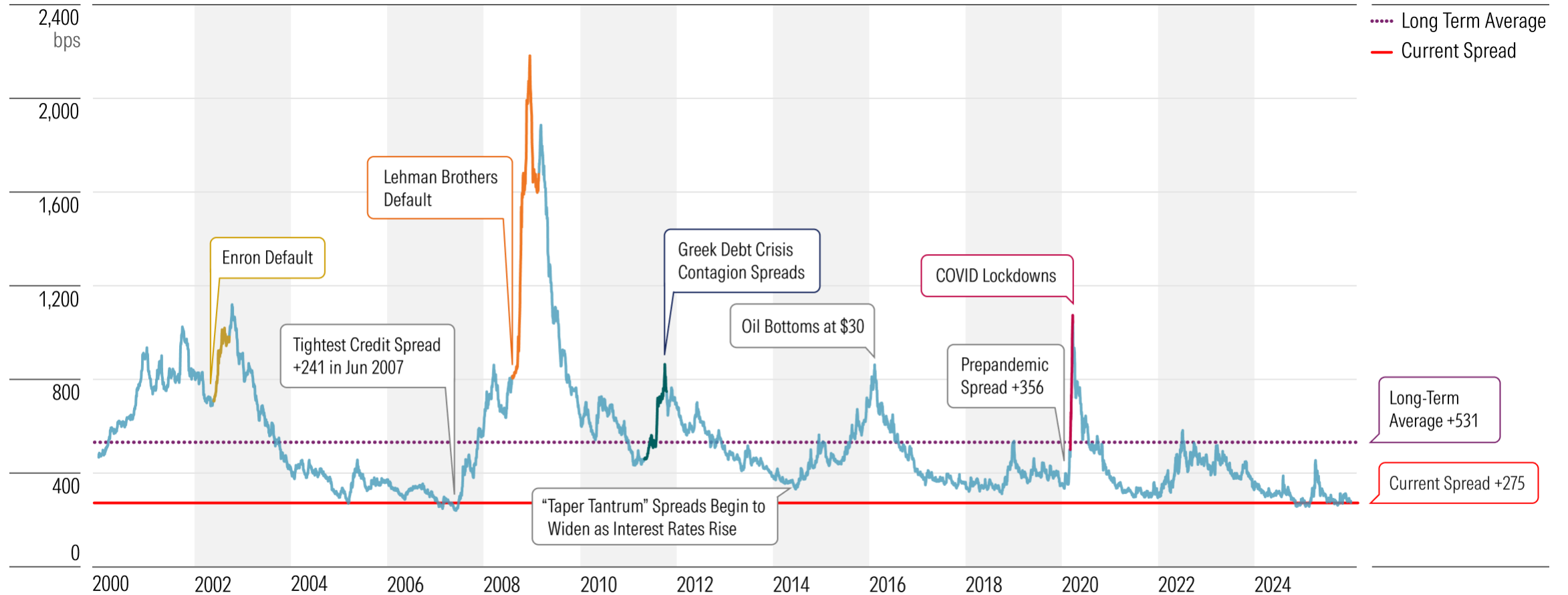


Source: Morningstar. Data as of Dec. 31, 2025.

See Important Disclosures at the end of this report.

Long-Term Average Credit Spread for High-Yield Corporate Bond Market

Long-Term Average Credit Spread for High-Yield Corporate Bond Index



Source: Morningstar. Data as of Dec. 31, 2025.

See Important Disclosures at the end of this report.

Sector Outlooks



Basic Materials

Seth Goldstein, CFA | seth.goldstein@morningstar.com

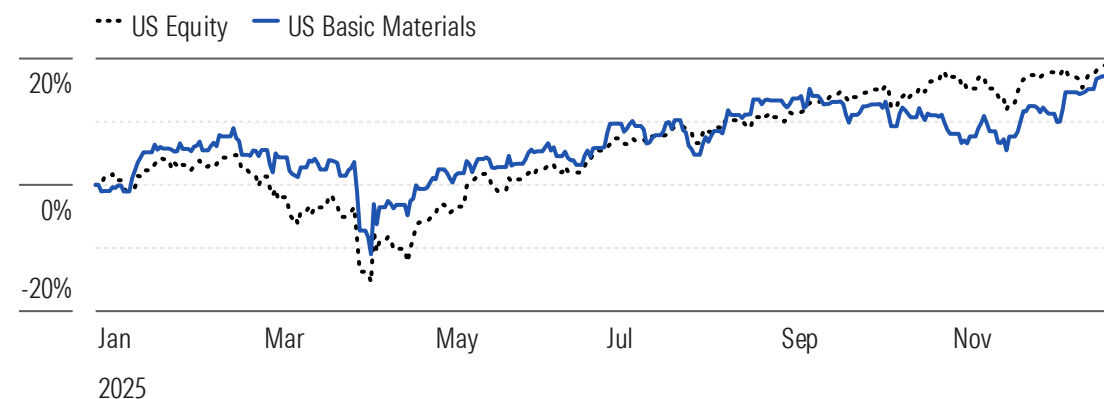
Basic Materials Sector Falls While Broader Market Rises, but We See Opportunities in Chemicals and Agriculture

The Morningstar US Basic Materials Index slightly outperformed the US market index during the fourth quarter. Yet we continue to see significant opportunities across the sector, with 55% of stocks trading in 5-star or 4-star territory. We see the most opportunities in chemicals and agriculture, where most stocks under our coverage trade in 5-star or 4-star territory. Weak demand leading to guidance below consensus estimates caused shares of multiple chemicals producers to sell off during the quarter, while US-China soybean trade uncertainty led to a fall in agriculture input stocks, as the market grew concerned about 2026 profits.

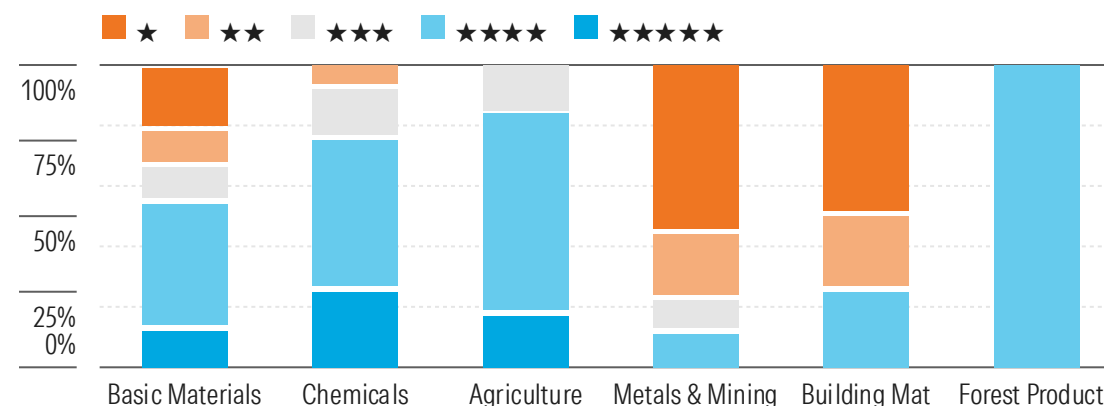
In chemicals, weak demand will likely weigh on profits during the fourth quarter when companies report earnings. The Institute for Supply Management's Purchasing Managers' Index is below 50, indicating a contraction. Due to continued uncertainty, we expect weak demand will persist through the first half of 2026. Yet, over the long term, we expect demand to normalize, leading to stronger profits in the coming years.

In agriculture, premium seeds producers should be poised for profit growth in 2026. Farmers need to buy seeds to plant crops and are generally willing to pay up for new seed technologies that help boost crop yields, regardless of crop prices. This makes seeds less cyclical than other ag inputs, such as fertilizer or crop chemicals, where farmers may reduce purchases when crop prices are low.

The Basic Materials Index Declined During Q4 on Weak Chemicals Demand



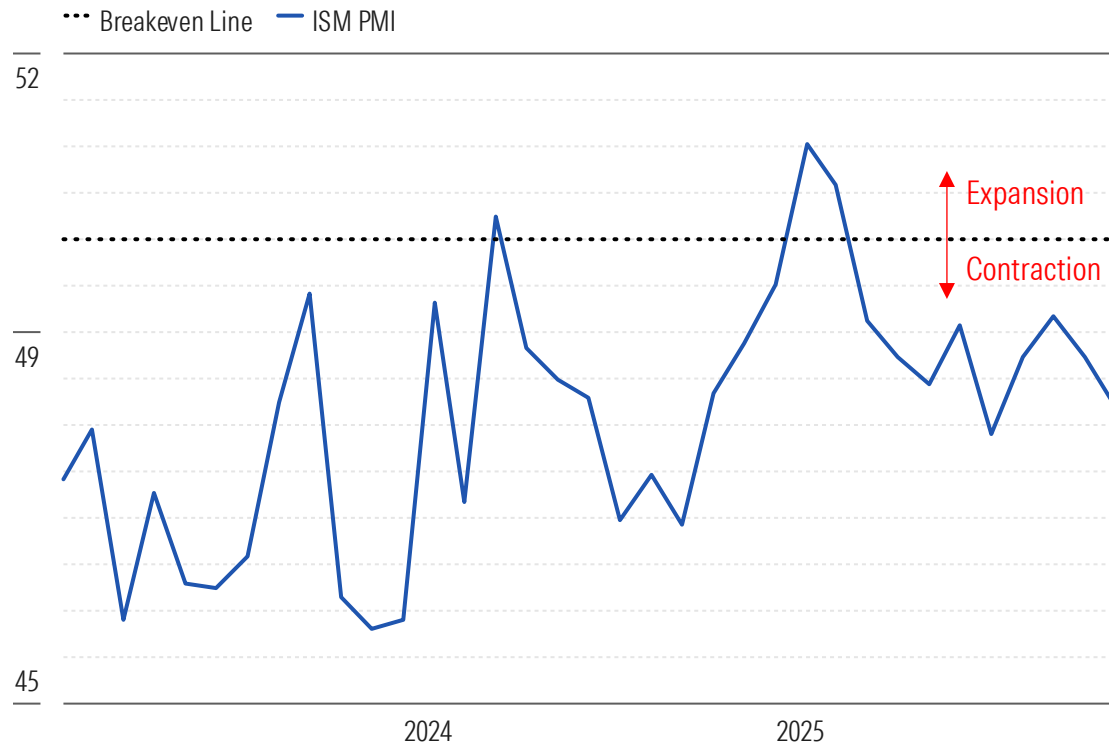
The Majority of Basic Materials Stocks Trade in 5-Star or 4-Star Territory



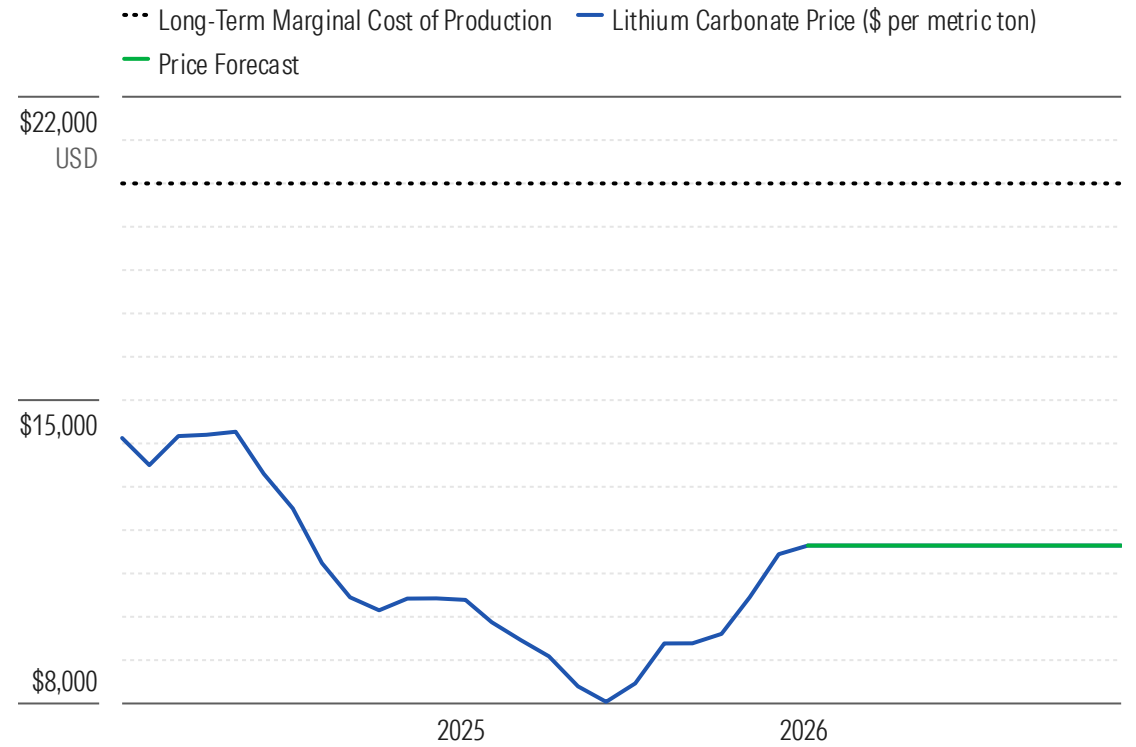
Rising Lithium Prices Should Boost Producer Profits in 2026

Due to oversupply, lithium prices hit a multiyear low in mid-2025 at roughly \$8,000 per metric ton. Thereafter, prices began to rise and are now around \$11,00 per metric ton. Current lithium futures, which inform our near-term forecast, indicate lithium prices will remain around \$11,000 per metric ton in 2026, well above the 2025 average. In the longer term, we see prices rising to \$20,000 per metric ton, in line with our marginal cost estimate , as demand, driven by battery growth, outpaces supply. This should boost producer profits.

The ISM's PMI Indicates Contraction, Driving Weak Near-Term Chemicals Demand



Lithium Prices Began to Rise in H2 2025, and We See Higher Average Levels in 2026



Source: Institute for Supply Management, Fastmarkets, LME, SMM.

See Important Disclosures at the end of this report.

Basic Materials Top Picks

Name/Ticker Eastman Chemical (EMN)		Rating ★★★★	Eastman is our top pick to invest in a medium-term rebound in chemicals demand. The stock trades more than 35% below our \$100 fair value estimate. Eastman's narrow-moat rating comes from its specialty chemicals, which are protected by patents and command premium pricing. This should allow the company to perform better than its commodity chemicals peers during a downturn and see a quick recovery when demand returns. Eastman should continue to generate free cash flow above dividends even in the downturn and maintains a healthy balance sheet, which should support shares.
Price (USD) 63.83	Fair Value (USD) 100.00	Uncertainty High	
Market Cap (USD B) 7.3	Economic Moat Narrow	Capital Allocation Standard	
Name/Ticker Corteva (CTVA)		Rating ★★★★	Corteva is our top pick to invest in premium seeds growth. The stock trades at nearly a 20% discount to our \$80 fair value estimate. Corteva's wide moat comes from its seeds business due to its patented, premium seeds that help farmers boost yields. Corteva invests roughly 8% of its sales in research and development, enabling it to develop new products. As Corteva launches new seed and crop protection products, we expect they will drive sales growth and margin expansion over time.
Price (USD) 67.03	Fair Value (USD) 80.00	Uncertainty Medium	
Market Cap (USD B) 45.3	Economic Moat Wide	Capital Allocation Exemplary	
Name/Ticker Albemarle (ALB)		Rating ★★★★	Albemarle is our top pick to invest in rising lithium prices. The stock trades around 35% below our \$200 fair value estimate. Albemarle's narrow moat rating stems from its cost-advantaged lithium production, which leverages two of the lowest-cost, highest-quality resources globally. In response to low lithium prices, Albemarle cut most of its capital expenditures and implemented an overhead-cost-reduction plan. This will allow the firm to generate positive free cash flow in 2025 even as lithium prices bottom out. As prices recover, the company is poised for strong profit growth in the coming years.
Price (USD) 141.44	Fair Value (USD) 200.00	Uncertainty Very High	
Market Cap (USD B) 16.6	Economic Moat Narrow	Capital Allocation Standard	

Communication Services

Michael Hodel, CFA | michael.hodel@morningstar.com

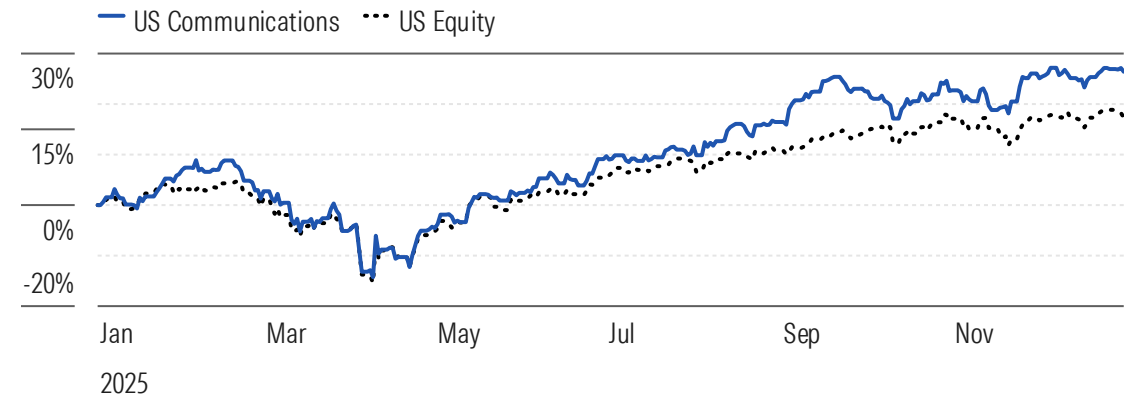
Alphabet's AI Strength Is Growing Across Multiple Dimensions

A flurry of good news has propelled Alphabet shares to new heights. The core ad business—which still accounts for more than 70% of revenue—remains red-hot, but the real action surrounds its AI efforts. Google Cloud's growth accelerated throughout 2025, while Gemini 3, the AI model launched in November, surged past ChatGPT in performance tests, and the firm's TPU chips are gaining attention as a potential alternative to Nvidia's chips. We believe Alphabet is extremely well-positioned heading into 2026. Each of its businesses supports the others in ways no other firm can match. Advertising will almost certainly be needed to generate sufficient revenue to justify AI investments. Alphabet is already moving to apply its ad expertise to Gemini. The cloud business also generates incremental revenue directly as Alphabet builds out new data center capacity. While the market has caught on, we would buy Alphabet shares on any weakness that pulls the stock meaningfully below our \$340 fair value estimate.

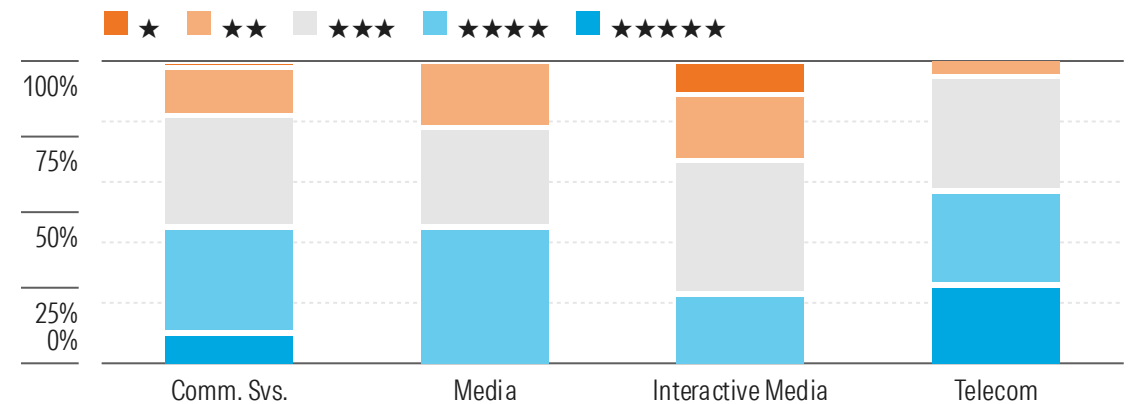
The battle over Warner Bros. Discovery highlights the value of core content franchises and high-quality studio capabilities when paired with strong distribution. Netflix has offered to pay \$83 billion for the Warner production studios and HBO, including their content libraries, far above WBD's \$60 billion enterprise value—including its cable networks—prior to merger rumors surfacing. We believe Netflix is paying an excessive price, but the combined streaming customer bases and content libraries of both firms would leave the rest of the industry in a much weaker position.

Paramount hasn't given up the fight for Warner, and it's easy to see why. Combining the two firms would create a streaming business nearly as large as Disney's, which itself is

Alphabet's Massive Rally Has Pushed It to 50% of the Sector's Market Cap



We Still See Opportunities in Telecom Stocks That Have Been Left Behind

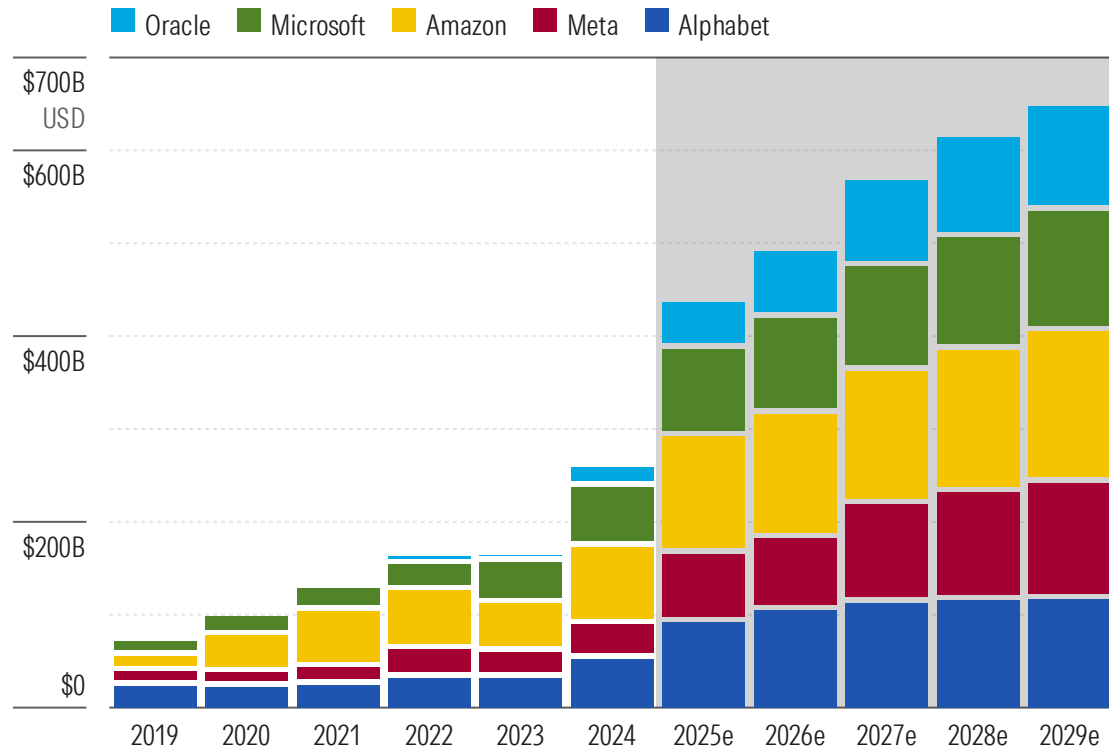


The Battle for Warner Bros. Discovery Promises to Reshape the Media Industry

half the size of Netflix. Absent a merger, Paramount would be left among the other media laggards seeking a way to achieve sufficient scale to compete. We suspect Paramount would turn to NBCUniversal as its next target, but both firms own broadcast networks, which could raise regulatory concerns. Comcast has moved forward with the spinoff of Versant, which holds NBC's cable networks, but with its total enterprise value well below \$200 billion, we believe it should welcome any offer for its remaining media assets.

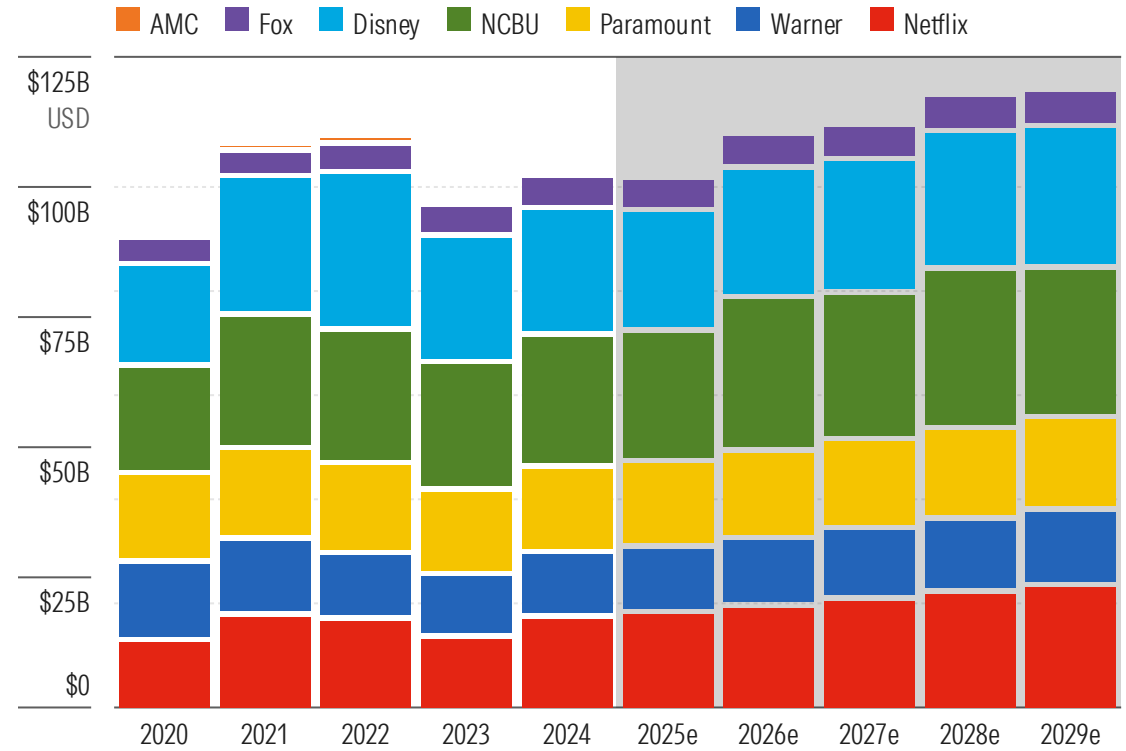
Capital Spending Tied to Cloud Computing and AI Shows Little Sign of Slowing

We expect each of the Big Five to invest as much in 2026 as the collective did in 2019.



Content Spending Will Increase as Sports Costs Continue to Rise

NBC Universal's nearly \$30 billion in annual spending needs a partner.



Communication Services Top Picks

Name/Ticker Comcast (CMCSA)			Rating ★★★★★	Comcast continues to shed broadband customers, pushing its share lower as investors fear this business is entering perpetual decline. We believe those fears are unwarranted. Unlike fixed-line phone service or traditional television offerings, demand for basic internet connectivity isn't going anywhere. The market is undergoing a shift in competitive balance, but we expect this shift to run its course as fiber network expansion matures and wireless network capacity is absorbed. Comcast's shares yield more than 4%, and the firm has been using excess cash flow to repurchase shares. A shift in media strategy around NBC Universal could also serve as a catalyst to push the stock higher.
Price (USD) 29.89	Fair Value (USD) 44.00	Uncertainty Medium		
Market Cap (USD B) 108.9	Economic Moat Narrow	Capital Allocation Standard		
Name/Ticker Disney (DIS)			Rating ★★★	We see Disney as modestly undervalued, but it is still easily the most attractive of its video media peers, considering quality, risk, and valuation. We see a runway to accelerate top- and bottom-line growth over the next several years and a likelihood that the firm will exceed our near-term projections, which already account for macroeconomic risk. With linear TV revenue becoming much less material to overall results and added experiences capacity coming online, sales growth should accelerate. Ongoing profit improvements in the maturing streaming business and the commencement of new experiences revenue to catch up with the investment of the past few years should drive margin expansion at the same time.
Price (USD) 113.77	Fair Value (USD) 120.00	Uncertainty Medium		
Market Cap (USD B) 203.1	Economic Moat Wide	Capital Allocation Standard		
Name/Ticker Omnicom (OMC)			Rating ★★★★★	Traditional ad agencies like Omnicom have been sapped by AI fears. AI-powered tools may hurt pricing power for creative and production services, but the core of the agency's business now revolves around omnichannel marketing planning and managing data assets, which we believe will play an increasingly important role in a complex and fragmented ad ecosystem. With the IPG merger closed, we expect Omnicom to join Publicis in outperforming other agencies thanks to its trainable data assets that can improve targeting and conversion efficiency.
Price (USD) 80.75	Fair Value (USD) 115.00	Uncertainty High		
Market Cap (USD B) 25.4	Economic Moat Narrow	Capital Allocation Exemplary		

 **Consumer Cyclical**

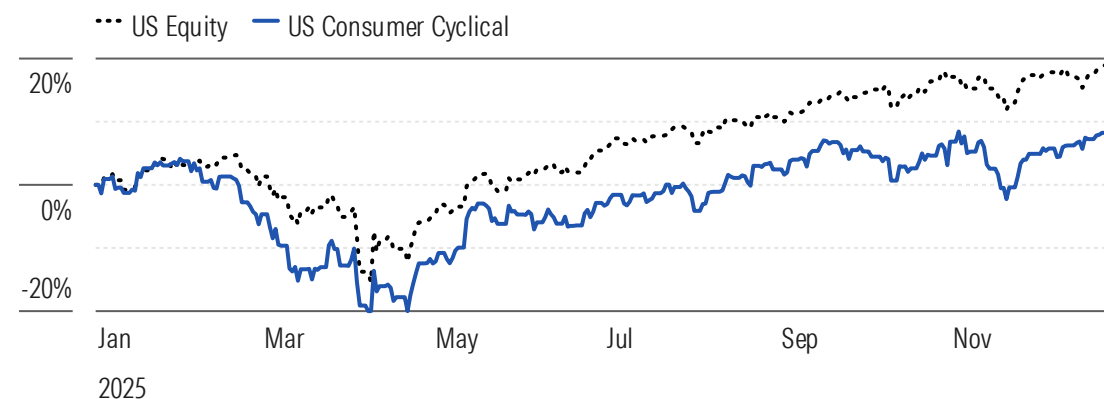
Erin Lash, CFA | erin.lash@morningstar.com

Firms Prioritizing Value Proposition Enhancements and Innovation Can Thrive Amid Economic Headwinds

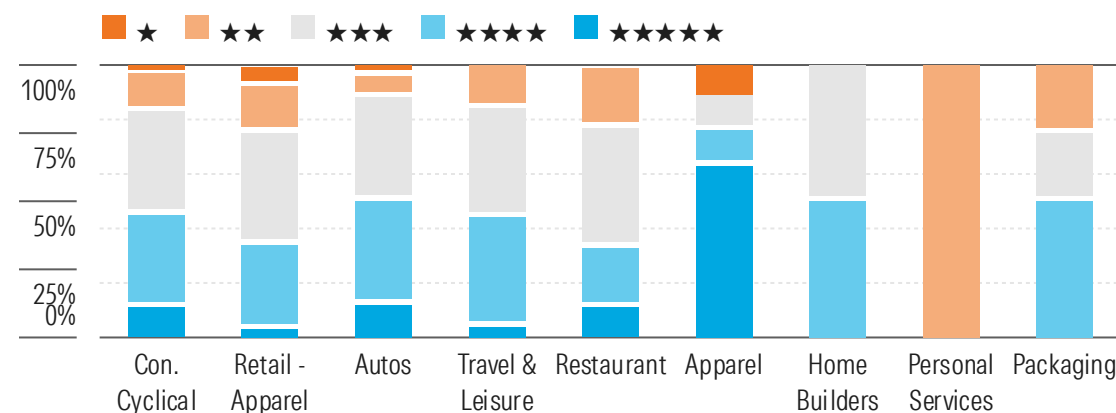
The Morningstar US Consumer Cyclical Index was barely in the green during the fourth quarter, lagging the broader market's rise. Across our coverage, roughly 45% of firms are in 4- or 5-star territory, indicating attractive investment opportunities. The deepest discounts lie in the apparel and travel and leisure sub-sectors, which trade at 35% and 17%, below our fair value estimates, respectively. Elevated economic uncertainty, fueled by inflation, a softer employment landscape, and shifting trade policies, continues to dampen consumer spending and confidence. Still, we expect firms that remain accessible across channels, innovate, and deliver strong value propositions to stand the test of this challenging environment and grow.

Amid persistent economic weakness, discretionary spending has tightened across income levels. Lower-income households are seeking value in air travel and lodging, dining out less, and reducing nonessential purchases, while even higher-income consumers are increasingly opting for value versus indulgence. According to the National Restaurant Association, which surveys operators on their customer traffic trends, October marked the ninth consecutive month in which restaurants saw a net decline in traffic. As such, many operators have been adjusting prices to retain customers. In the quick-service restaurant segment, price growth has slowed markedly—just 1.5% recently versus a 7% average over the past three years—signaling a deliberate effort to align pricing with consumers' willingness to pay for food away from home. In our view, operators that pair disciplined pricing with innovative, value-oriented menu offerings will be better equipped to navigate the current downturn.

Consumer Cyclical Firms Lag the Market's Low-Single-Digit Gain in Q4 ...



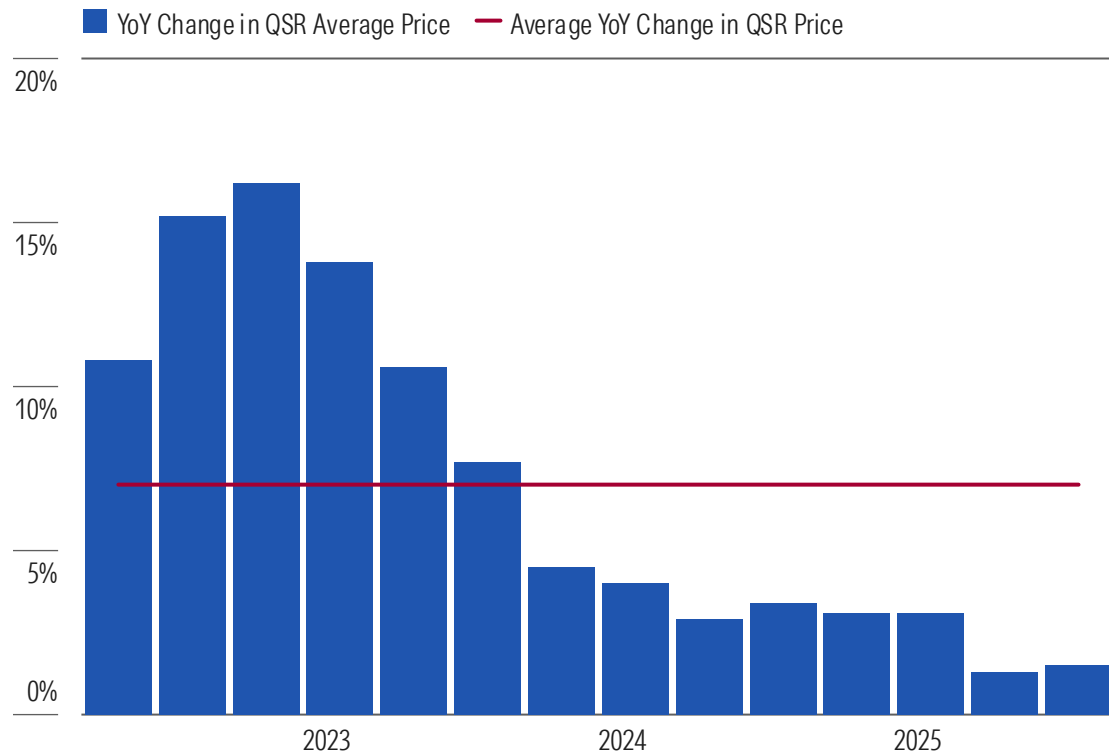
... Unlocking Attractive Investment Opportunities in Apparel and Travel and Leisure



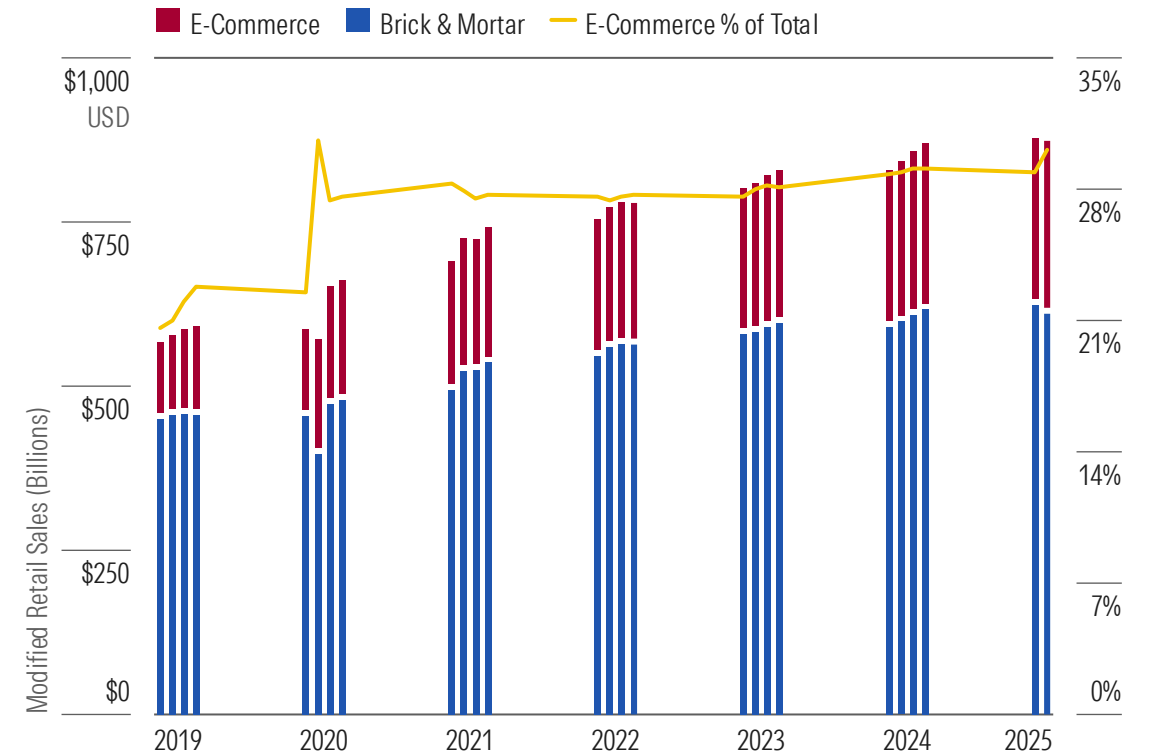
Firms Prioritizing Value Proposition Enhancements and Innovation Can Thrive Amid Economic Headwinds

This focus on value also shapes consumer engagement strategies. To capture demand, firms must strengthen consumer connections and ensure omnichannel accessibility. After a brief postpandemic slowdown, e-commerce has resumed a slow climb, now accounting for 30.1% of retail sales versus 28.9% a year ago. Given the critical role that digital channels play, we expect companies to leverage technology—particularly AI—to optimize operations, personalize shopping experiences, and stay competitive in a rapidly evolving retail landscape.

QSR Establishments Have Tempered Price Increases to Capture Value Customers



After a Dip Postpandemic, E-Commerce Retail Sales Slowly Rise Once Again



Source: Revenue Management Solutions (left). Data as of Dec. 12, 2025. US Census Bureau, Morningstar (right). Data as of Aug. 19, 2025. Note: Modified retail sales exclude categories that are more resistant to e-commerce penetration and warrant separate modeling assumptions. These categories include automobiles, building materials, fuel, and groceries.

See Important Disclosures at the end of this report.

Firms Prioritizing Value Proposition Enhancements and Innovation Can Thrive Amid Economic Headwinds

Name/Ticker Bath & Body Works (BBWI)	Rating ★★★★★	Narrow-moat Bath & Body Works trades at about a 65% discount to our \$56 fair value estimate. While weaker consumer demand has challenged consistent top-line growth since 2021, the firm has launched its Consumer First Formula to reignite sales and profits, emphasizing product newness, brand reinvigoration, broader reach, and cost savings. Management attributes sluggish sales to a lack of evolution in its offerings and believes this plan can transform the business. If executed well, we believe these efforts could bolster profitability and support our 16.9% average annual operating margin forecast, yielding an attractive opportunity.	
Price (USD) 20.08	Fair Value (USD) 56.00		Uncertainty High
Market Cap (USD B) 4.1	Economic Moat Narrow		Capital Allocation Standard
Name/Ticker Spin Master (TOY)	Rating ★★★★★	Trading at a 44% discount to our CAD 36 fair value estimate, no-moat Spin Master looks favorable. Tariffs have disrupted retailer ordering, but the firm's share has held up, with total point of sale down 1% versus a 2.5% industry decline in comparable categories. Management expects sequential improvement as delayed shipments are finally replenished, despite an unpredictable holiday season ahead. With capital expenditures and selling, general, and administrative costs set to come in lower than expected, we see a path back to profit growth, supporting 20% EBITDA margins over our forecast.	
Price (CAD) 19.05	Fair Value (CAD) 36.00		Uncertainty Medium
Market Cap (CAD B) 1.9	Economic Moat None		Capital Allocation Standard
Name/Ticker Under Armour (UA)	Rating ★★★★★	No-moat Under Armour trades at a 68% discount to our \$13.60 fair value estimate. We believe the company has strengths, including its popularity in performance sports apparel, youthful customer base, and wide distribution. Under Armour is pursuing a turnaround plan with major cuts to personnel and sponsorships, streamlined product offerings, and improvements in marketing, supply chain, and selling channels. In addition, it has a strong balance sheet with more cash than long-term debt. In 2024, to boost growth, Under Armour brought back co-founder Kevin Plank to serve as CEO.	
Price (USD) 4.80	Fair Value (USD) 13.60		Uncertainty Very High
Market Cap (USD B) 2.1	Economic Moat None		Capital Allocation Standard

Consumer Defensive

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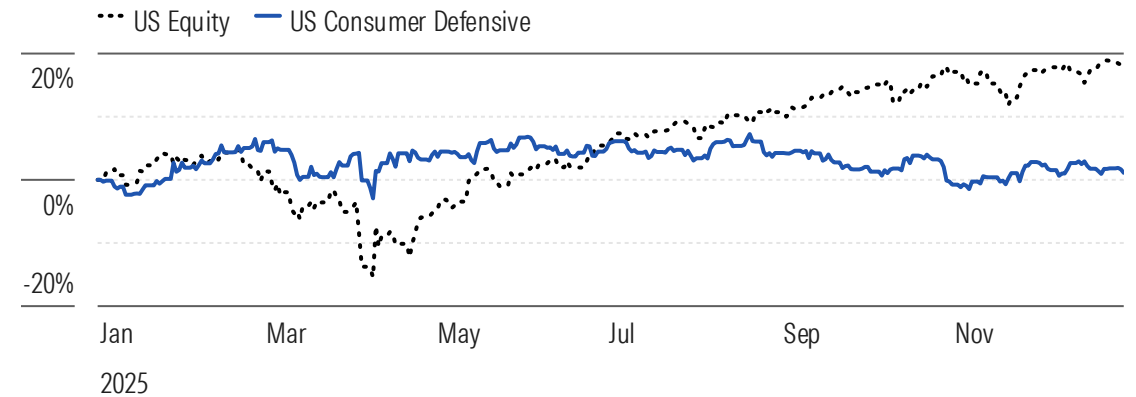
Consumer-Valued Innovation Is Crucial to Withstanding Unrelenting Inflation in the Consumer Defensive Realm

The Morningstar US Consumer Defensive Index (down 0.9%) underperformed the broader US Equity Index (which posted a 2.4% rise) during the fourth quarter. Nearly half (48%) of companies within our sector coverage universe trade in 4- or 5-star territory, signaling opportunities for investors. We view the alcoholic beverage and consumer packaged goods, or CPG, industries as particularly attractive, at 28% and 16% discounts to our fair value estimates, respectively. We surmise that the market's dulled sentiment is a byproduct of ongoing cost and pricing pressures in a strained consumer-spending environment. However, we believe that prioritizing innovation aligned with evolving consumer preferences will strengthen brands and support long-term growth.

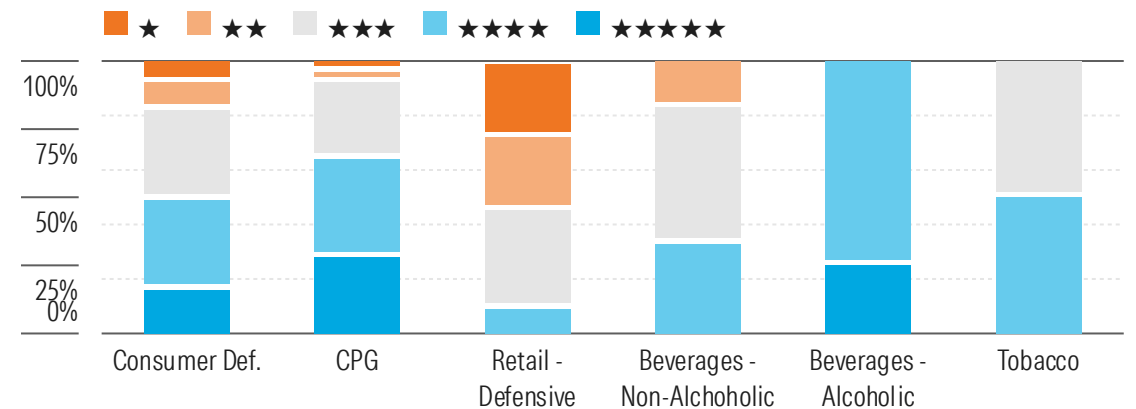
Input cost inflation (across raw materials, transportation, and labor) has encumbered profitability throughout the consumer defensive sector over the past several years. While pressures around some commodities, like plastic packaging, have tapered off, this retreat hasn't been broad-based and could reaccelerate due to unfavorable weather, supply disruptions, and tariffs (with pressure persisting across proteins and cocoa).

As such, we expect consumer product firms to pursue multiple avenues to blunt a lasting decline in profitability, including pursuing cost savings, surgically raising prices (often in conjunction with bringing new products to market that boast enhanced features), adjusting price packs, and reducing discretionary spending. However, we don't posit firms will ratchet back spending on research, development, and marketing, given the risk that doing so could impair their standing with retailers and consumers.

Shares of Consumer Defensive Companies Stagnated as the Market Rose in Q4 ...



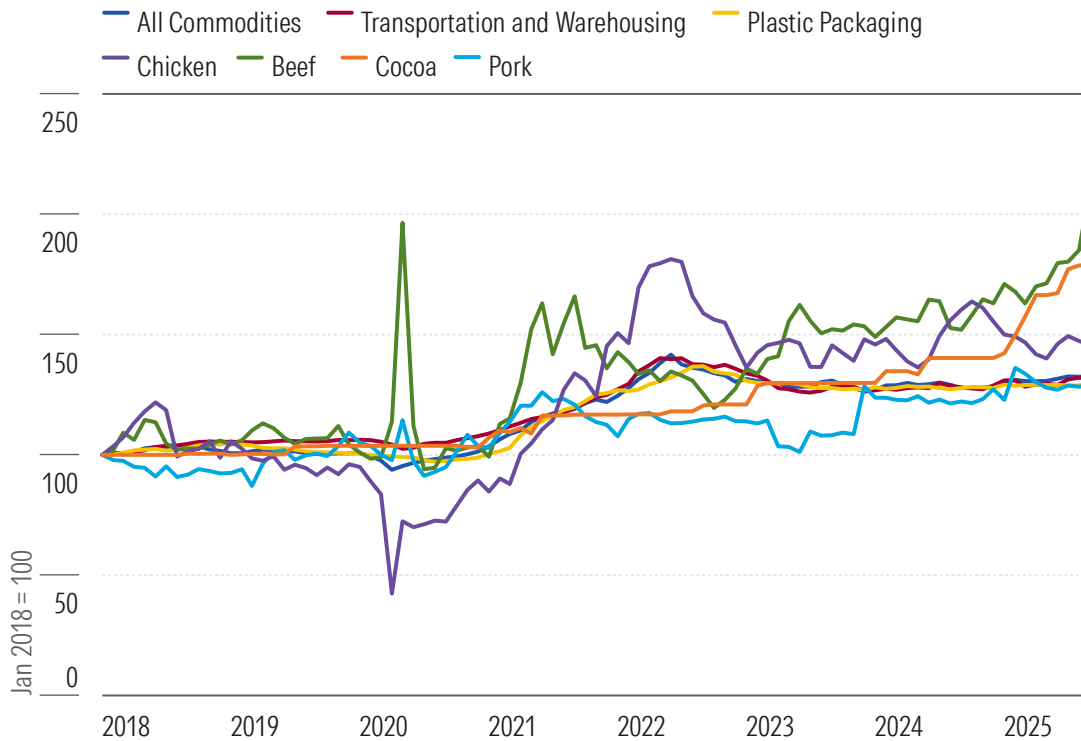
... Leaving Opportunities for Investors in Alcoholic Beverage and CPG Industries



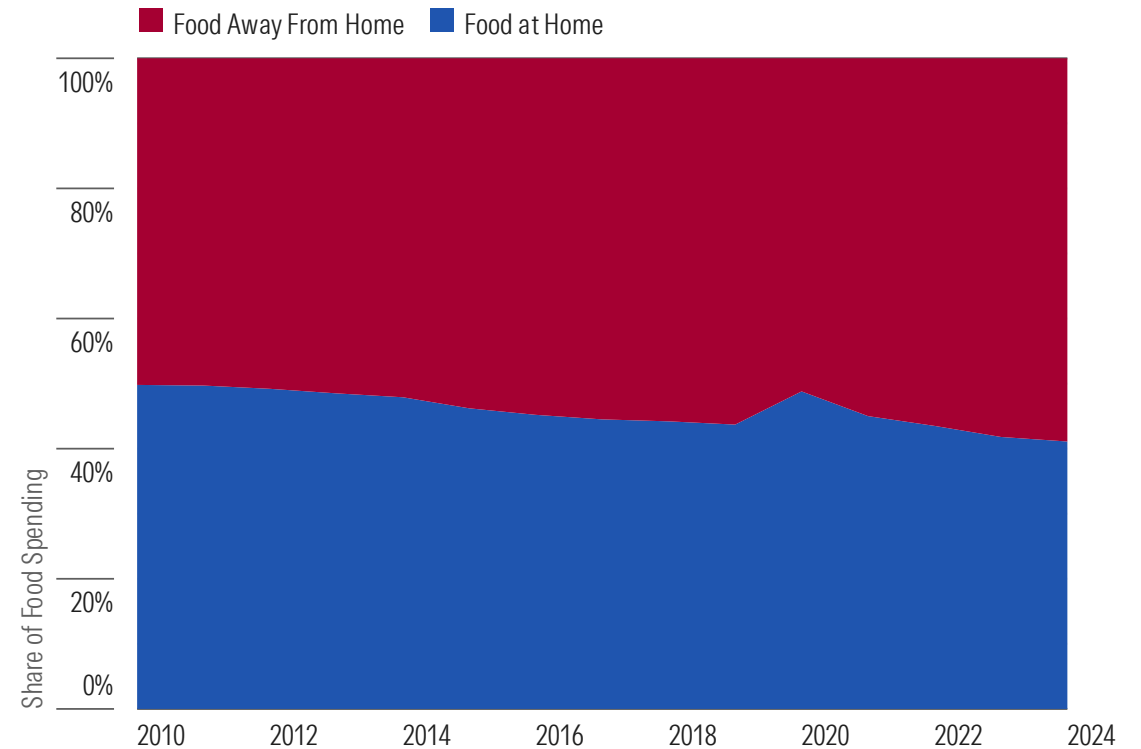
Consumer-Valued Innovation Is Crucial to Withstanding Unrelenting Inflation in the Consumer Defensive Realm

On top of navigating cost pressures, concerns about consumers' financial health persist. While value offerings are clearly a priority for cash-constrained consumers, demand for convenience hasn't abated, with food away from home sales taking share from at-home consumption. Against this backdrop, we surmise it is in packaged-food firms' best interests to cater to this growing channel. This should boost sales and drive trial of new products with an accelerated feedback loop before the firms commit to distribution in traditional retail.

Inflationary Headwinds Linger Even as Protein and Cocoa Costs Remain Elevated



Even as Consumers Pinch Pennies, Food-Away-From-Home Sales Gain Traction



Source: Federal Reserve Bank of St. Louis (FRED) (left) and US Department of Agriculture Economic Research Service (right). Data as of Dec. 17, 2025.

See Important Disclosures at the end of this report.

Consumer-Valued Innovation Is Crucial to Withstanding Unrelenting Inflation in the Consumer Defensive Realm

Name/Ticker Campbell's (CPB)		Rating ★★★★★	<p>Wide-moat Campbell's looks attractive, trading around a 50% discount to our \$60 fair value estimate. Consumers have become more deliberate in their purchasing decisions, and we believe the market underappreciates Campbell's efforts to align its products with evolving consumer trends while also unlocking \$375 million in savings by fiscal 2028—funds that can be reinvested in its brands. However, we surmise Campbell's aims to more effectively engage with consumers. In this vein, we forecast that continued brand investment (around 5% of sales long term) will be expended to support its competitive edge and reignite revenue growth to a low-single-digit pace.</p>
Price (USD) 27.87	Fair Value (USD) 60.00	Uncertainty Medium	
Market Cap (USD B) 8.3	Economic Moat Wide	Capital Allocation Standard	
Name/Ticker Kraft Heinz (KHC)		Rating ★★★★★	
Price (USD) 24.25	Fair Value (USD) 51.00	Uncertainty Medium	<p>We believe narrow-moat Kraft Heinz is a bargain, currently trading 50% below our \$51 fair value estimate and offering a 6% dividend yield. Despite expected dis-synergies from the planned separation of its sauce, spreads, and seasoning business from its North American grocery brands (slated to commence in the second half of calendar 2026), we anticipate both entities will prioritize pursuing cost efficiencies to fund brand investments. We see this as a prudent course and believe that these initiatives will drive 1%-3% top-line growth and 20%-21% operating margins over the next 10 years.</p>
Market Cap (USD B) 28.7	Economic Moat Narrow	Capital Allocation Standard	
Name/Ticker Mondelez International (MDLZ)		Rating ★★★★★	
Price (USD) 53.83	Fair Value (USD) 73.00	Uncertainty Low	<p>Trading at a 25% discount to our \$73 fair value estimate, wide-moat Mondelez presents a compelling investment opportunity. We think the market fails to appreciate Mondelez's brand strength, which should drive long-term, profitable gains in market share. The firm has worked to extend the distribution of its products, fund brand investments, and increase the speed by which it brings innovation to market. We expect the fruits of these efforts will manifest in 4% annual organic sales growth and operating margins that approach 18% by the end of our explicit forecast period, up from 16.5% on average the past five years.</p>
Market Cap (USD B) 69.5	Economic Moat Wide	Capital Allocation Standard	



Joshua Aguilar | joshua.aguilar@morningstar.com

Slowing Demand and Ample Supply Will Weigh on Oil Prices

Bearish oil signals permeate the 2026 outlook. OPEC+ production surveys showed it pumped roughly 29 million barrels per day in November, little changed from October.

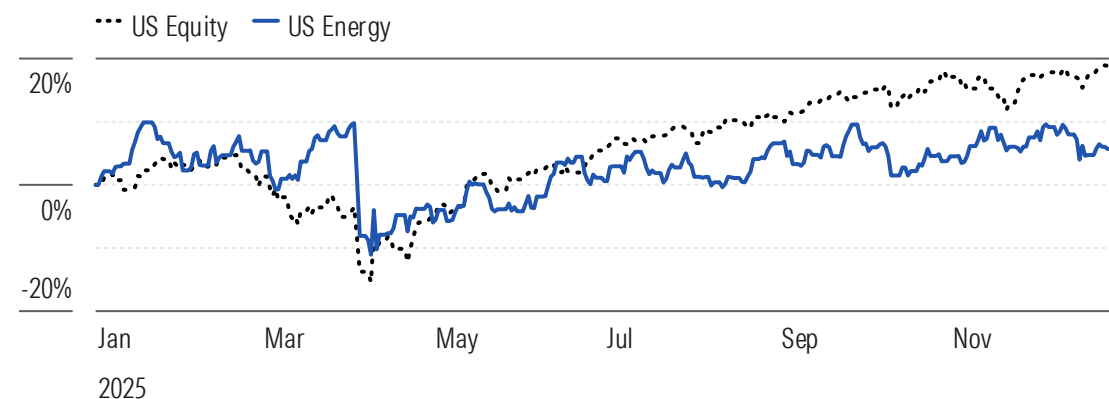
- The group confirmed that it's pausing the unwinding of production cuts next quarter, following production surges in prior quarters this year.
- The US imposed sanctions on Russian national oil companies and Venezuela. This factor, coupled with geopolitical premiums, helped support a price that hugged the \$60 WTI benchmark through most of the prior quarter.
- We think the market's priced in these and any supply losses from Maduro's ouster, and strong supply will meet slowing seasonal demand amid a real supply glut risk.

Excess supply means discounted oil stocks will likely get even cheaper next year.

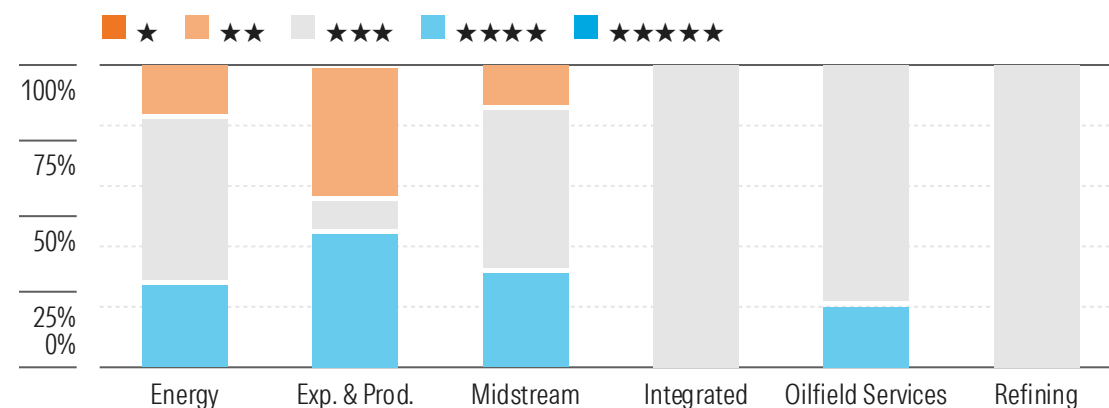
Rystad expects a crude surplus of 1 million barrels per day by the end of this year that may only widen by next quarter. So, oil prices will likely move lower into next year.

- Global capex should decline by a low-single-digit percentage, which will hurt oilfield services stocks. Even so, offshore investment should fall less than shale investment, which is why we like 4-star rated SLB relative to other names.
- In the longer term, the market will absorb the excess crude oil supply, and the long-term demand drivers underpinning our \$65/bbl Brent oil price forecast will prevail. So, we like 4-star-rated Diamondback for quality and Devon for price.

US Energy Underwhelms, as Oil Price Outlooks Are Resoundingly Negative for 2026



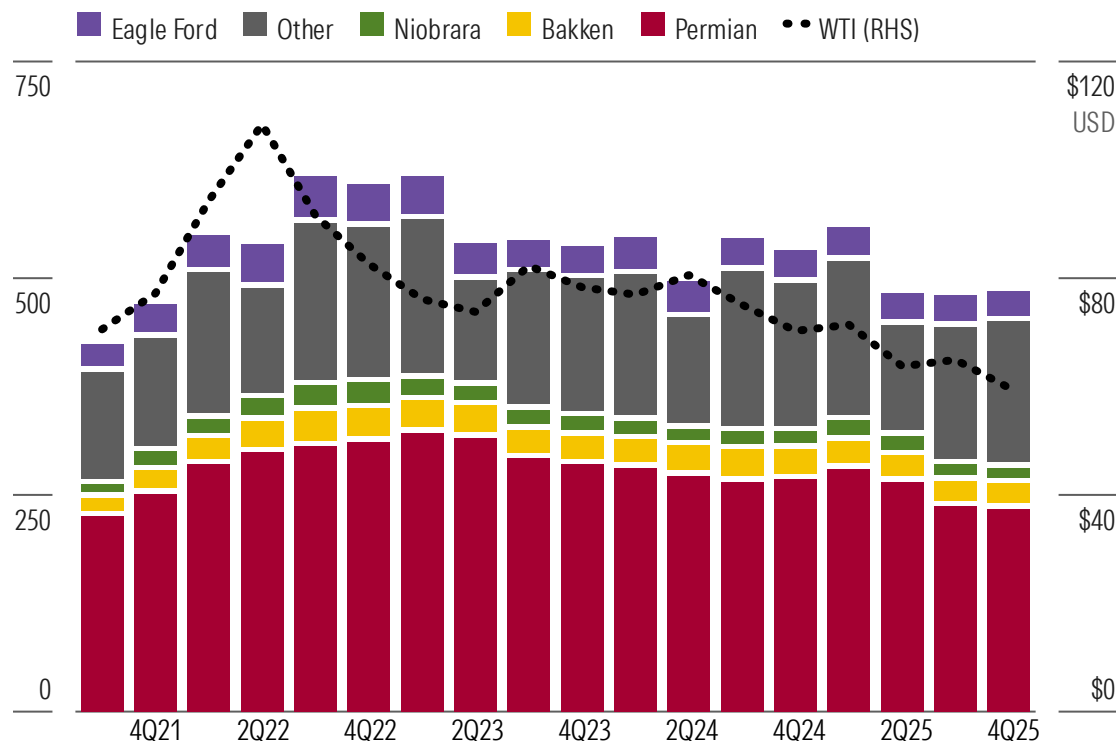
As Oil Price Sentiment Remains Negative, We Favor Cost-Advantaged E&Ps



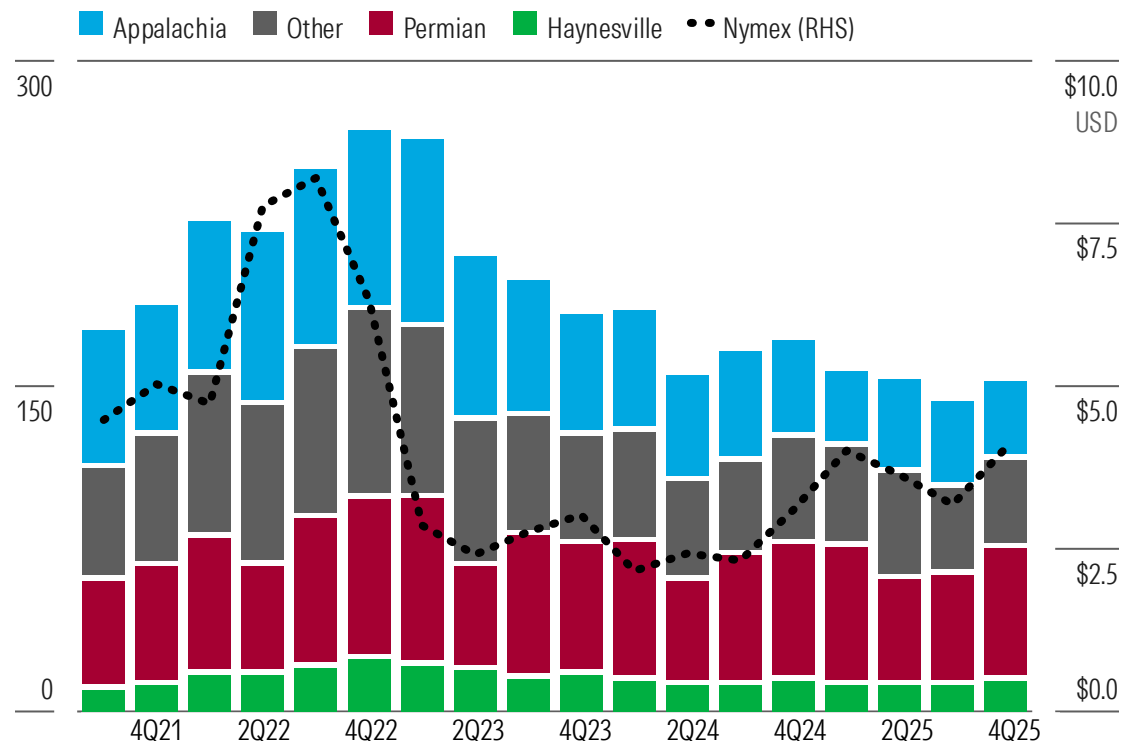
US Supply: Oil Drilling Still Faces Downward Pressure, Though Future Gas Activity Promising

US oil rig count continues its slide from last quarter; touches levels unseen in years. Accumulating crude production and slowing seasonal demand means the WTI benchmark could fall below the \$55/bbl watermark early next year. **A tightening gas supply picture is shifting sentiment.** While drilling levels remain rangebound, fundamentals may improve, which could help production and in turn, capital spending; companies like Expand have also cleared previously elevated drilled, but uncompleted or DUC well inventory now.

US Oil Rig Counts Move Even Lower Due to Supply Glut Fears



Higher Takeaway Capacity Prospects in the Permian Cause Gas Drilling to Rise



Source: Rystad, Morningstar. Chart data as of Dec. 8, 2025.

See Important Disclosures at the end of this report.

Energy Top Picks

Name/Ticker Devon Energy (DVN)		Rating ★★★★	Devon stands to materially benefit from its business optimization plan, capital recycling from divestitures, lower taxes from the One Big Beautiful Act, and continued low-cost production from its crown jewel Delaware asset. In turn, we believe Devon trades at a highly attractive 14% yield to 2025 free cash flow. Strong free cash flow generation, coupled with its strong balance sheet, should allow Devon to return well over 50% of its free cash flow to shareholders, including \$200 million-\$300 million in undervalued repurchases per quarter.
Price (USD) 36.63	Fair Value (USD) 53.00	Uncertainty High	
Market Cap (USD B) 23.0	Economic Moat Narrow	Capital Allocation Exemplary	
Name/Ticker Diamondback Energy (FANG)		Rating ★★★★	In an industry under heavy scrutiny for its use of billions of dollars of investor capital, Diamondback is one of the few US E&Ps to consistently allocate capital effectively. The firm has completed several exceptional acquisitions over the past few years, and all have followed a blueprint to add high-quality assets within a well-defined Permian Basin footprint. While we continue to see near-term oil price uncertainty as OPEC+ releases idle capacity into the market, we expect the market will absorb the incremental barrels over the long term. Diamondback stands to gain the most from an oil price recovery due to its commitment to low-cost production.
Price (USD) 150.33	Fair Value (USD) 193.00	Uncertainty High	
Market Cap (USD B) 57.3	Economic Moat Narrow	Capital Allocation Exemplary	
Name/Ticker SLB (SLB)		Rating ★★★★	SLB is among the cheapest stocks in our global energy coverage with a moat. Its multiple trades in line with peer services firms, but it deserves a premium given its scale, competitive position in services markets, and technology. These factors position SLB to outperform peers. SLB's offshore segment outside North America boasts a growing project opportunity set that could exceed \$100 billion annually over the medium term. SLB's digital-related revenue is also highly accretive and more resilient to cyclical headwinds. We expect digital revenue can more than double by the end of 2025 to \$3 billion and possibly climb to \$4 billion by the end of the decade.
Price (USD) 38.38	Fair Value (USD) 50.00	Uncertainty High	
Market Cap (USD B) 57.3	Economic Moat Narrow	Capital Allocation Exemplary	



Financial Services

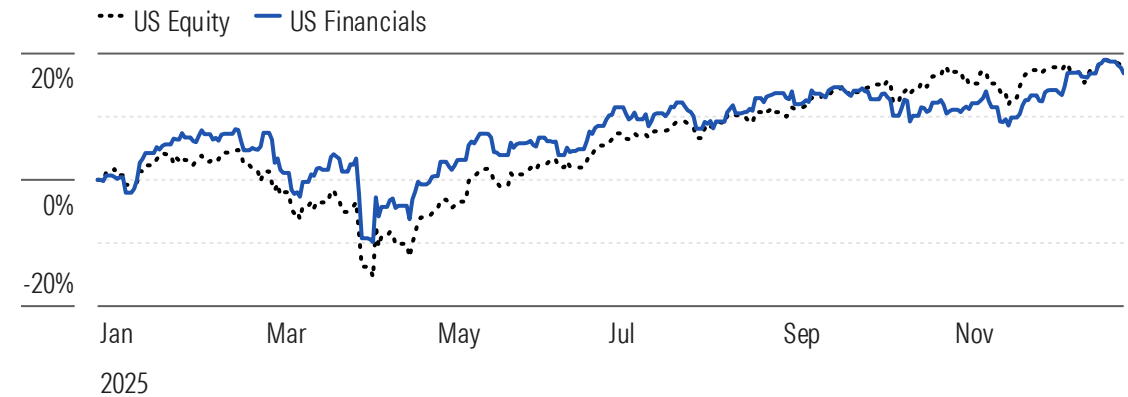
Sean Dunlop, CFA | sean.dunlop@morningstar.com

US Financial Services Performed Well in 2025, but Valuations are Starting to Look Stretched

The financial services sector performed well in absolute terms in 2025, with the index rising 16.68% on the back of a more constructive regulatory environment, strong performance in both asset-based and transaction-based businesses, and amid expectations for a steepening yield curve as federal-funds rate cuts start to take hold. Given only proximate exposure to prevailing AI trends, that mid-teens appreciation still fell slightly short of the broader US equity market index at 17.35%. If the US economy can avoid a recession—currently our base-case forecast—then this could underpin a favorable backdrop for M&A deals, IPOs, and investor risk appetite. Adding fuel to the fire is an estimated \$4.6 trillion in alternative asset manager capital and \$4 trillion in PE investments in play, which should eventually drive a long-anticipated M&A super cycle.

Still, we’re concerned with small fissures emerging in the labor market and expectations for slowing real GDP growth in the US, which rarely correspond with the record valuations we’ve seen in recent months. There’s plenty to be optimistic about in the real economy, from the prospect of tax cuts and growing business investment appetite to waning tariff-induced uncertainty, but it’s hard not to exhibit some concern with prevailing valuations, which look increasingly rich. Market-cap-weighted price/earnings multiples among banks are pushing into the mid-teens (15.3 times on Dec. 15) despite what appear to be peak-cycle earnings in large lines such as institutional trading and asset and wealth management, while bottom-up valuations suggest that the industry is 20% overvalued. Custody banks (28% overvalued), investment banks (22% overvalued), consumer finance companies (24% overvalued), and even payment companies (3% overpriced, albeit with heavy dispersion) all look expensive. What scant opportunities we see come from financial data companies and wealth managers.

Investors Wrap Up an Excellent Year for Equity Markets, Financial Services Sector



... But Good Times Rarely Last Forever in Competitive, Mean-Reverting Industry



Source: Morningstar. Data as of Dec. 31, 2025. PE is private equity.

See Important Disclosures at the end of this report.

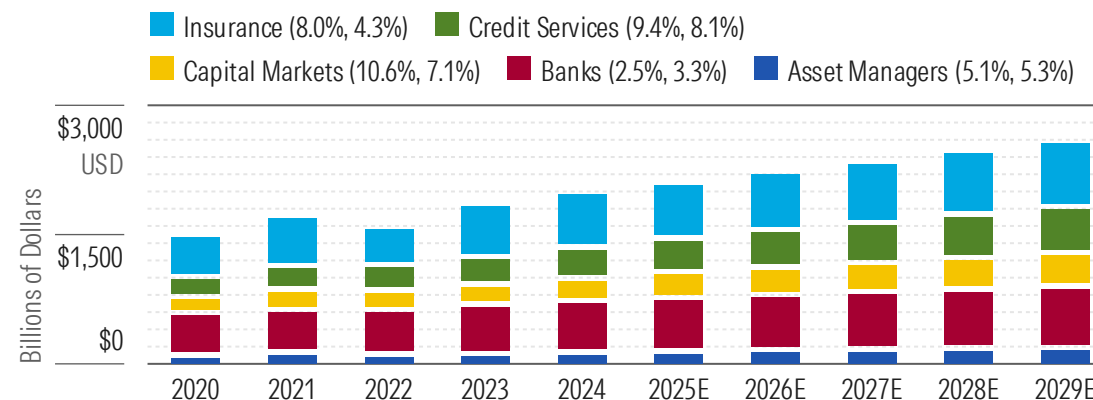
Sector Outlook Is Generally Constructive, With Alternative Asset Managers Looking Like Big Prospective Winners

We recently published our [financial services sector review](#), which outlined key themes in the industry, provided our thinking on economic moats at the industry level, fleshed out our view on sector-level cash flow uncertainty, and lent insight into our expectations for US financial services moving forward.

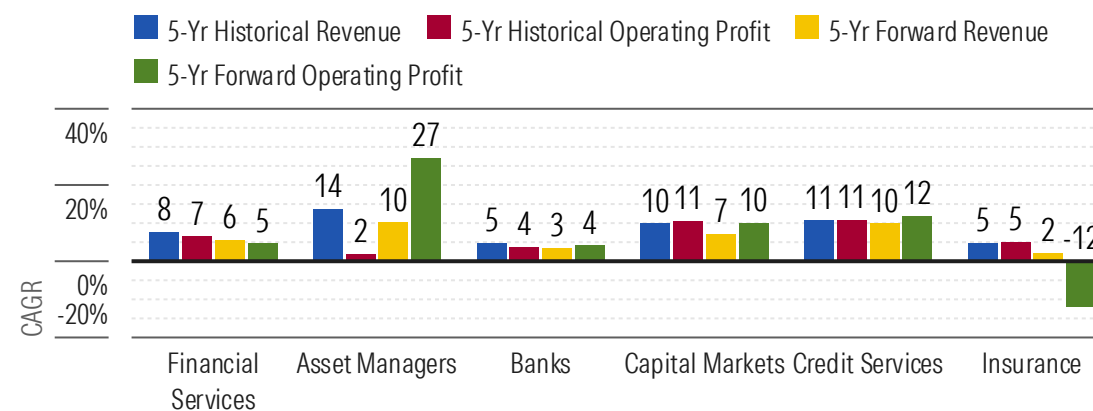
Summarizing our findings, we expect solid growth for the financial services sector, with our 5.4% median revenue growth forecast slightly nudging our expectation for 4.4% annual growth in nominal US GDP over the same period, driven largely by a skew toward higher-quality companies taking market share. In general, investors should expect financial services revenues to match or slightly lag broader nominal GDP growth and to move largely in tandem, with the two closely linked (after all, financial services companies are largely facilitators of capital flows and risk, the engines of economic growth). That's a small step down from 6.1% over the prior half-decade, although most of that is driven by differences in inflation.

At the industry level, we prefer asset manager prospects (market-cap weighted), with alternative asset managers' prospects looking strongest: higher deployments and higher realizations should drive a surge in incentive fees (think carried interest) that largely flow to the bottom line. Insurance companies look in the worst position, with returns on equity for property and casualty (P&C) insurers almost inevitably normalizing after a period of hard pricing, strong investment income, and outstanding results, including 24% 2024 ROEs. Industry results will be better than the chart indicates; we expect low-single-digit annual operating profit growth (2%) excluding Berkshire, which generated significant gains from sales of investments in 2024, skewing results.

We Expect 5.4% Median Growth Across Our Coverage Between 2025-29



Prospects Look Brightest for Asset Managers, Weakest for Insurers Looking Ahead



Source: Company filings, Morningstar estimates. Data as of Dec. 5, 2025.

See Important Disclosures at the end of this report.

Most of Our Top Picks Are Concentrated in the Capital Markets Industry

Name/Ticker LPL Financial (LPLA)		Rating ★★★★	LPL Financial has been weighed down by concerns about its exposure to falling short-term interest rates, with cash sweep income accounting for 30% of gross profit. We believe that the market overestimates the firm's sensitivity to declining short-term interest rates, with 50% to 75% of its ICA cash sweeps invested at fixed rates further out on the yield curve, where we expect significantly less pressure. The core business also looks extremely healthy, benefiting from secular tailwinds such as the transition to the independent advisory channel and from strong recruiting success among hybrid RIA and institutional advisors. We expect 10-year compound annual growth rates of 12.9% for revenue and 11.7% for gross profit.
Price (USD) 357.17	Fair Value (USD) 504.00	Uncertainty High	
Market Cap (USD B) 28.6	Economic Moat Wide	Capital Allocation Standard	
Name/Ticker Broadridge Financial Solutions (BR)		Rating ★★★★★	
Price (USD) 223.17	Fair Value (USD) 290.00	Uncertainty Low	Growth from indexing and fractional share trading should continue to underpin durable revenue growth for Broadridge, which the market tends to underappreciate. We continue to expect billable equity position growth of 10% per year over the 2025-29 period and strong mid-single-digit top-line growth overall, with the financial services infrastructure provider's wide moat looking intact to us. Recently, markets have exhibited concern regarding tokenization of public equities, but we continue to view the dominant-use case for that nascent technology as facilitating trading in illiquid assets. Strong public market liquidity seems to render tokenization a solution to a problem that doesn't really exist.
Market Cap (USD B) 26.8	Economic Moat Wide	Capital Allocation Standard	
Name/Ticker TransUnion (TRU)		Rating ★★★★	
Price (USD) 85.75	Fair Value (USD) 115.00	Uncertainty High	
Market Cap (USD B) 16.2	Economic Moat Wide	Capital Allocation Standard	TransUnion is one of the big three US consumer credit bureaus, along with Equifax and Experian. Its core business is selling credit reports to US lenders, although the firm has recently expanded into emerging applications in other financial services end markets and consumer-facing services. We believe that the market is overly harsh regarding mortgage origination volumes (in particular) and consumer credit in general, with high-single-digit annual growth looking achievable to us, at attractive high-30% adjusted EBITDA margins. Shares aren't priced accordingly, and the firm trades at a discount to lookalike peers.

Healthcare

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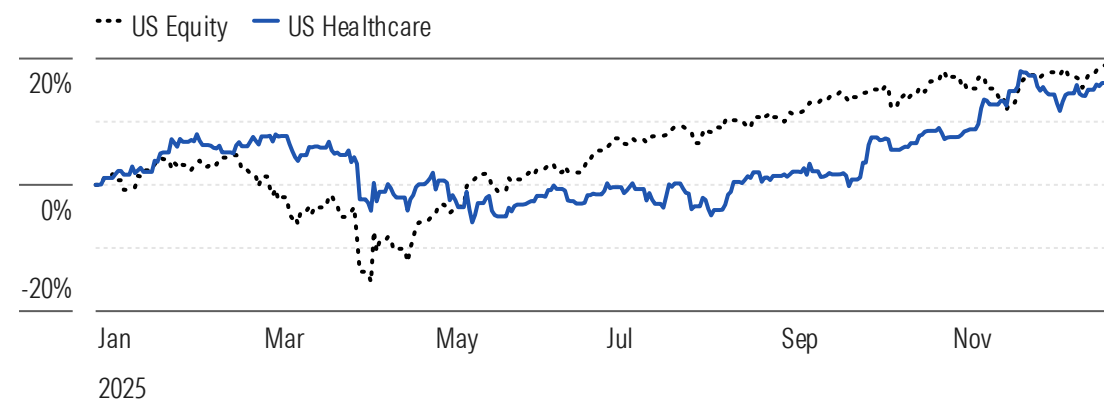
Increased Clarity on Drug Pricing and Tariffs Led to a Healthcare Rebound; Sector Looks Fairly Valued

The Morningstar Healthcare Index slightly lagged the Morningstar US Index, with a total return of 15.2% in 2025, compared with 17.4% for the Morningstar US Index. This follows significant underperformance in the first three quarters of the year and significant outperformance in the fourth quarter, tied to changing levels of uncertainty around potential US drug pricing policy and healthcare tariffs. In biopharma, clarity increased beginning with Pfizer’s Sept. 30 deal with the Trump Administration to lower Medicaid prices in exchange for a three-year tariff reprieve. We see potential for solid healthcare performance in 2026, driven by its defensive profile and innovation.

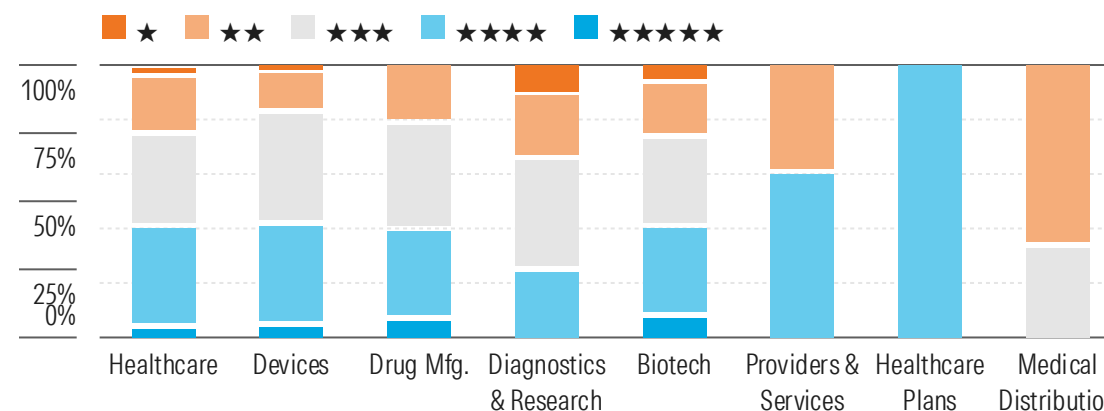
The sector appears fairly valued overall, with a 1.02 market-cap-weighted price/fair-value estimate ratio as of Dec. 31. Medical distribution stands out as the most overvalued industry, while healthcare plans and providers appear the most undervalued.

Volatility increased following the US election of Donald Trump as president and Robert F. Kennedy Jr.’s appointment to lead the Department of Health & Human Services. We still see high uncertainty around many stocks, particularly in biopharma and healthcare plans, although clarity on drug pricing headwinds is improving, and plans look poised to see a better match between rates and utilization beyond 2025. Within the obesity market, Novo Nordisk trades at a discount to its fair value estimate; we still see strong competitive advantages despite Eli Lilly’s growing market share.

Healthcare Nearly Closed the Gap With the Broader Market by the End of 2025



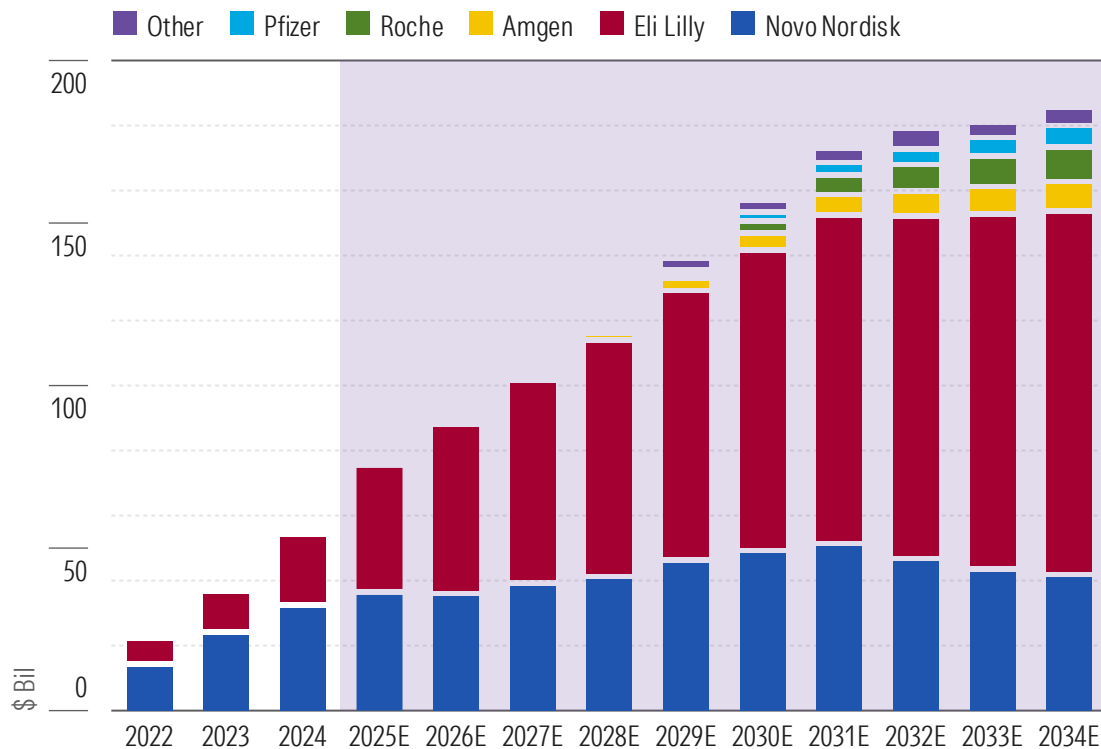
Apart From Overvalued Distributors, Most Healthcare Industries Look Fairly Valued



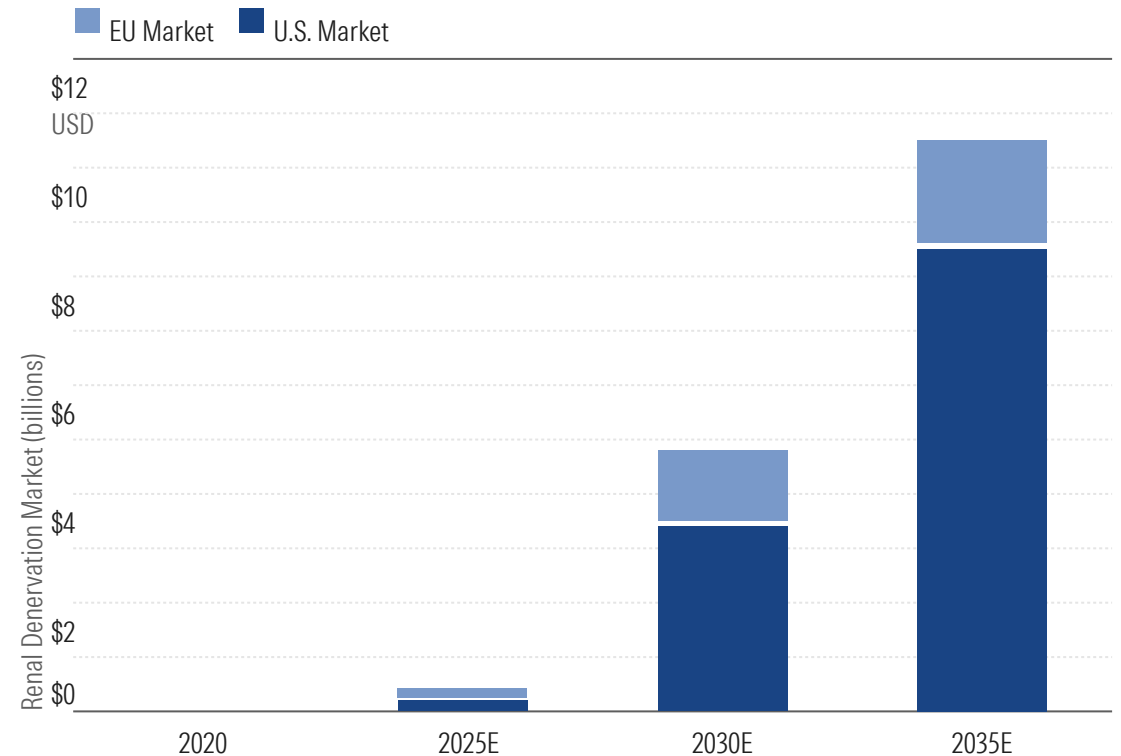
GLP-1s and Renal Denervation Emerge as Core Growth Engines

The GLP-1 and renal denervation markets represent two high-conviction growth opportunities heading into 2026. While we expect Eli Lilly to retain more than 50% share of the GLP-1 market over the medium term, we see underappreciated innovation potential from Novo Nordisk and emerging challengers including Pfizer, Roche, and Amgen. We expect the renal denervation market to exceed \$10 billion globally by 2035, driven by volume and pricing, with Medtronic best positioned to benefit in the medium term as the industry leader.

Global GLP-1 Market Looks Poised to Reach \$180 Billion by 2034



Global Growth in Renal Denervation



Healthcare Top Picks

Name/Ticker GE Healthcare (GEHC)		Rating ★★★★	<p>In April 2025, GE HealthCare's shares sold off sharply on the news of US tariffs. As a global enterprise with a complex supply chain, GEHC's business can be harmed by escalating tariffs between the US and its trading partners. Moreover, as an iconic US brand in a high-tech sector that employs artificial intelligence, it is also at risk of being caught in the US and China policy crossfire. We think the market has overcorrected for this risk, and we are encouraged by management's transparent guidance and firm grasp of the tariff impact. Over the long term, we think GEHC can grow revenue in low to mid-single digits and improve its operating profit by several hundred basis points, thanks to its ongoing investments in product development and optimization of its product mix and cost structure.</p>
Price (USD) 82.02	Fair Value (USD) 98.00	Uncertainty Medium	
Market Cap (USD B) 37.4	Economic Moat Wide	Capital Allocation Standard	
Name/Ticker Elevance (GEV)		Rating ★★★★	
Price (USD) 350.55	Fair Value (USD) 507.00	Uncertainty High	<p>For long-term investors, Elevance represents both a high-quality business and an attractive valuation in the managed care industry. First, Elevance is our favorite medical insurer, with deep local market share that helps solidify its cost advantage particularly in its employer plan stronghold. Second, the company's limited exposure to Medicare and its fast-growing non-insurance businesses have limited its earnings contraction in recent years, distinguishing Elevance versus most of its MCO peers. Finally, trading at only 12 times 2025 expected earnings with the potential to deliver double-digit earnings growth once it gets past growth headwinds in the individual exchanges (2026) and Medicaid (2027), we find Elevance shares attractive.</p>
Market Cap (USD B) 77.9	Economic Moat Narrow	Capital Allocation Standard	
Name/Ticker IQVIA (IQV)		Rating ★★★★	
Price (USD) 225.41	Fair Value (USD) 268.00	Uncertainty Medium	
Market Cap (USD B) 38.4	Economic Moat Narrow	Capital Allocation Standard	<p>IQVIA's shares have been pressured by macroeconomic concerns and reduced biotech funding, leading customers to delay decisions and reprioritize drug programs. However, we view these issues as near-term headwinds, and IQVIA remains a global leader in providing clinical trial services and healthcare analytics to a diverse customer base. IQVIA's backlog has expanded despite macroeconomic pressure, demonstrating its strength in booking new business. The firm's extensive and proprietary data analytics capabilities, along with re-investment in new technology, including artificial intelligence, support durable long-term growth.</p>

 **Industrials**

Suryansh Sharma | suryansh.sharma@Morningstar.com

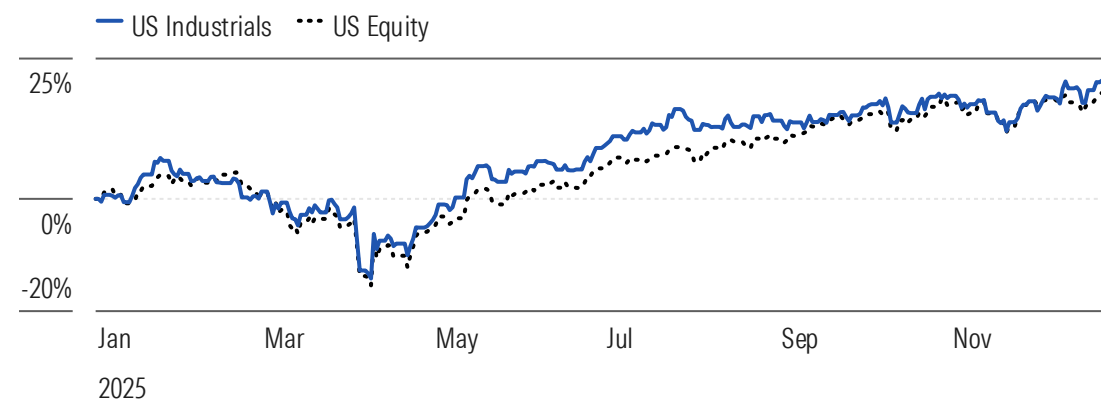
Industrials Remain Fully Valued, but Selective Investment Opportunities Still Exist Across the Sector

The Morningstar US Industrials Index's slightly outperformed the broad market in 2025 as the economic outlook improved during the fourth quarter and the Fed continued to ease monetary policy. While we view the sector as fully valued, there are compelling investment opportunities across most industry groups, particularly in the farm and heavy construction machinery industry. We see the opportunity for new technologies to transform the farming equipment industry, resulting in less cyclicality and higher margins over the business cycle. While agricultural data remains mixed, the US Department of Agriculture forecasts inflation-adjusted farm income will increase by 37% this year, which bodes well for farm equipment manufacturers.

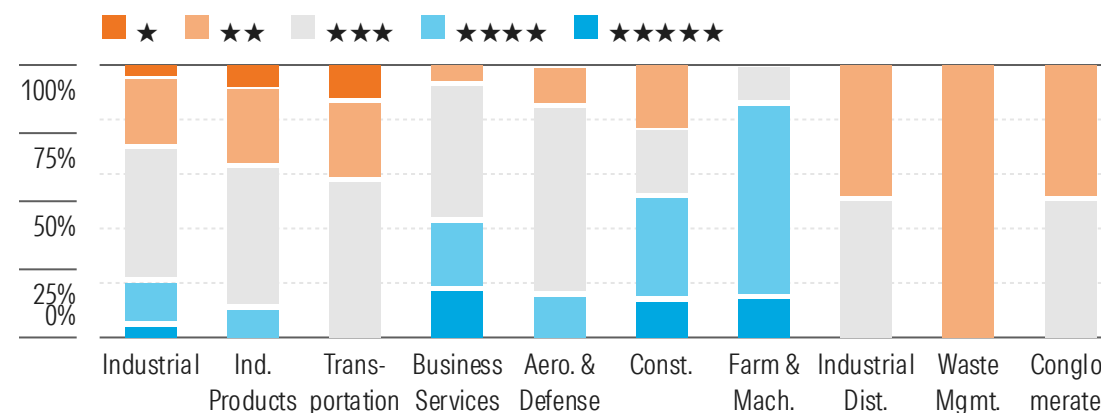
We expect fundamentals in the aerospace and defense industry to hold up relatively well, as healthy demand dynamics persist across both the commercial aerospace and defense markets. We maintain our view that the global commercial aircraft fleet will nearly double over the next two decades, driven by secular growth and the replacement of older, less efficient aircraft.

While some sectors, such as automobiles, remain highly exposed to tariffs, the industrial sector's profitability remains robust despite tariff-related uncertainty. Reshoring efforts are a tailwind for the sector, and an easing monetary cycle will further support fundamentals in 2026. In our view, firms with strong pricing power tied to intangible assets and/or customer switching costs have been successful at raising prices to mitigate tariff costs. Companies have also been actively reducing costs and reorganizing supply chains to minimize the impact of tariffs.

Industrials Has Performed in Line With the Broader US Market



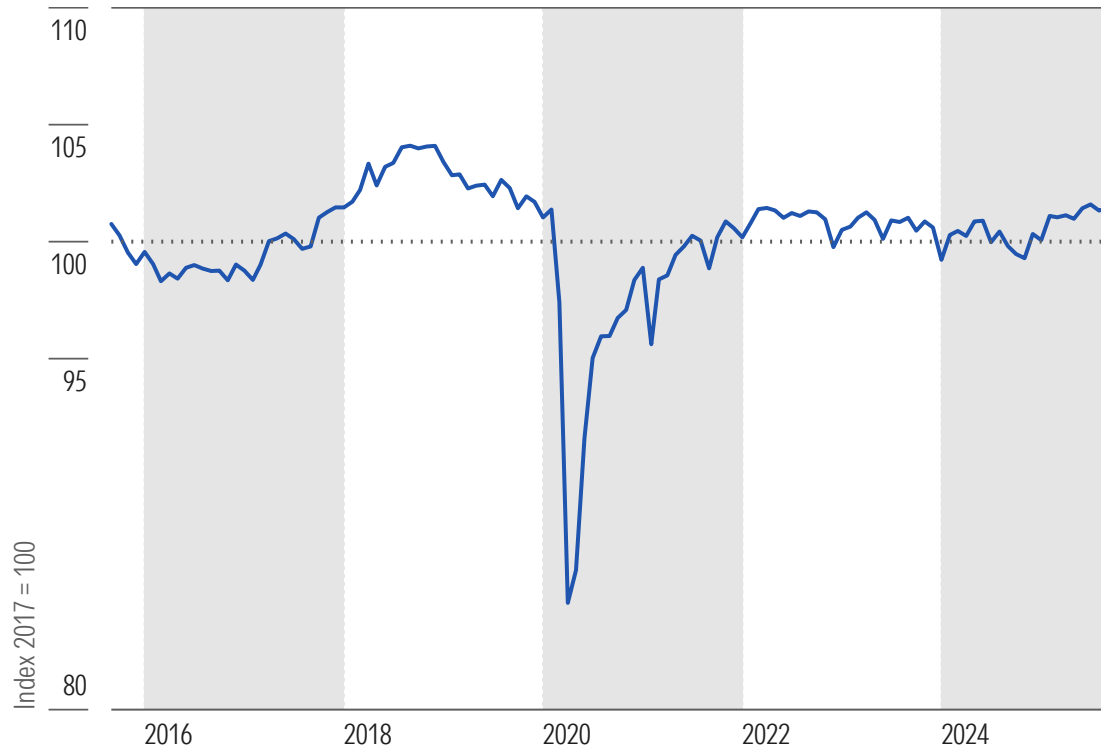
We Still See Selective Investment Opportunities Across Most Industry Groups



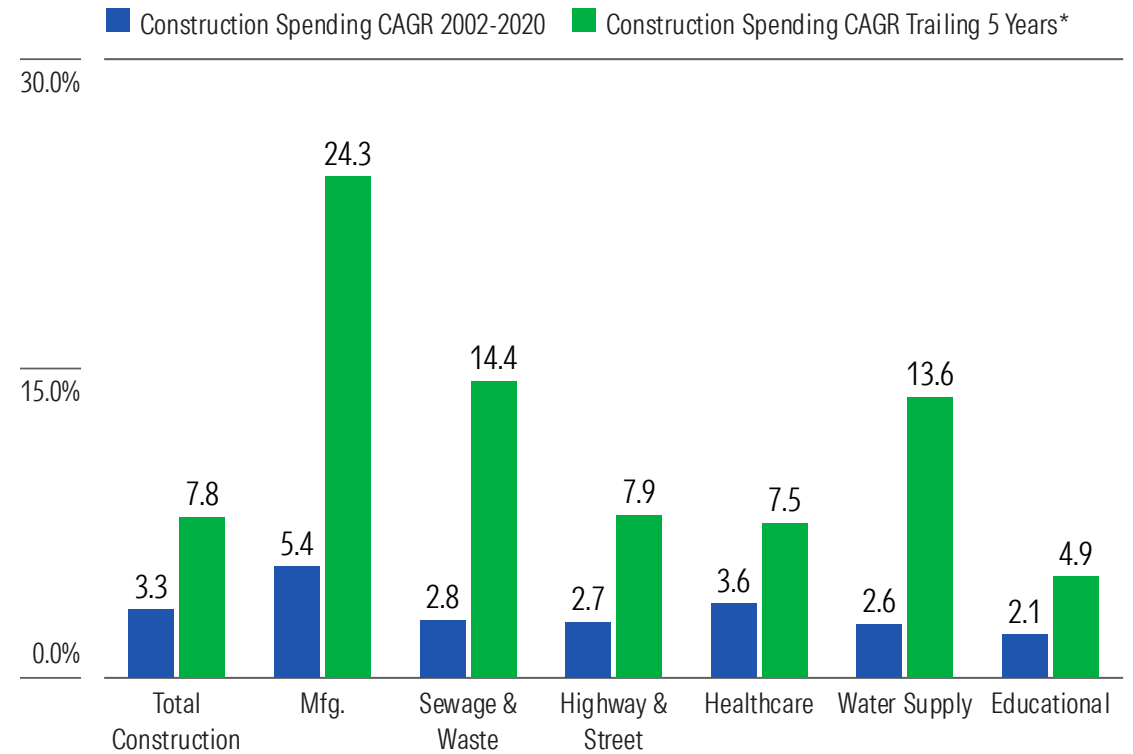
Industrial Spending Should Remain Elevated Given Multiple Tailwinds Affecting the Sector

Industrial production has recovered from the pandemic lows, and non-residential construction within the US has accelerated significantly. This upward inflection is closely tied to infrastructure bills and reshoring efforts. We expect policy-related tailwinds, elevated construction volume, easing monetary cycle, and robust capacity investments to support strong revenue growth for industrial companies over the next five years.

Industrial Production in the US Remains Resilient



US Construction Spending Has Surged Over the Past Five Years



Source: FRED, Board of Governors of the Federal Reserve System (US) (left). FRED, Morningstar (right). *Data as of Aug. 1, 2025.

See Important Disclosures at the end of this report.

Top Picks in Industrials

Name/Ticker CNH Industrial (CNH)		Rating ★★★★★	CNH Industrial is a global manufacturer of agricultural and construction equipment. In the long run, CNH will face steady, if not increasing, demand for its solutions to help feed a growing global population. Moreover, margin-rich technology add-ons to its product portfolio will continue improving CNH's returns and through-cycle financial profile. Though the performance gap versus Deere remains wide, CNH has earned its seat at the table and will benefit from favorable, long-term dynamics in global agriculture markets.
Price (USD) 9.22	Fair Value (USD) 20.00	Uncertainty Medium	
Market Cap (USD B) 11.5	Economic Moat Narrow	Capital Allocation Standard	
Name/Ticker CarMax (KMX)		Rating ★★★★★	With over 250 stores across the US, CarMax is the leading used-vehicle retailer. We don't expect a fast stock price recovery, given the question of who will be the next CEO, but we expect that person to be outside the auto industry and a veteran of digital commerce. We like CarMax still devouring its own stock while it looks for a new leader, and the share count is nearly 40% lower than in fiscal 2013. CarMax has not resisted the shift to online retailing, but we think it has not effectively communicated its robust omnichannel capabilities to consumers. Once it revamps its website and improves its messaging, we expect sales to rise.
Price (USD) 38.64	Fair Value (USD) 99.00	Uncertainty High	
Market Cap (USD B) 5.5	Economic Moat Narrow	Capital Allocation Standard	
Name/Ticker Ilex (IEX)		Rating ★★★★	Ilex manufactures a wide array of products, ranging from DNA-sequencing equipment to wastewater pumps to Jaws of Life hydraulic rescue tools. The firm differentiates itself by producing highly engineered products for a variety of niche markets, where it typically holds the number-one or number-two market share position. We believe that the long-term growth drivers in the semiconductor and life sciences end markets remain intact. Therefore, we believe that investors will be rewarded once the cyclical headwinds subside and Ilex returns to more normalized organic revenue growth.
Price (USD) 177.94	Fair Value (USD) 212.00	Uncertainty Medium	
Market Cap (USD B) 13.3	Economic Moat Wide	Capital Allocation Exemplary	



Real Estate

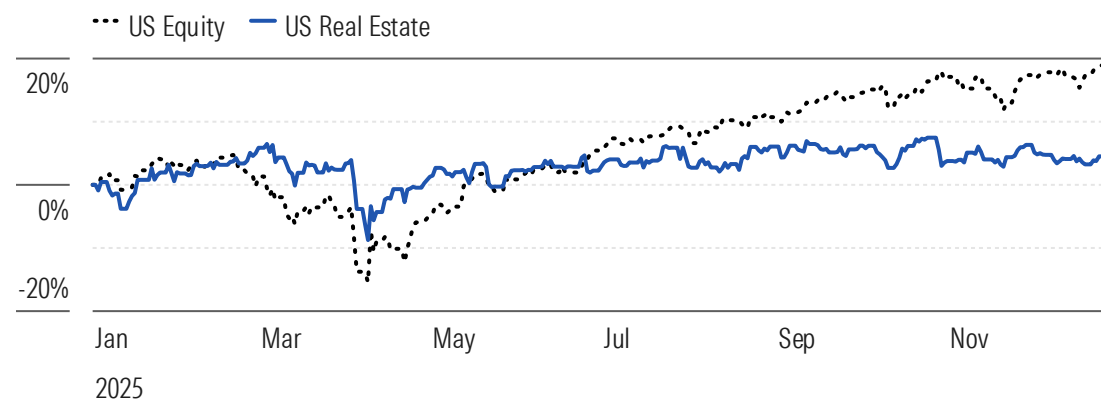
Kevin Brown, CFA | kevin.brown@morningstar.com

Real Estate Sector's Underperformance Continues in Fourth Quarter as Net Operating Income Growth Slows

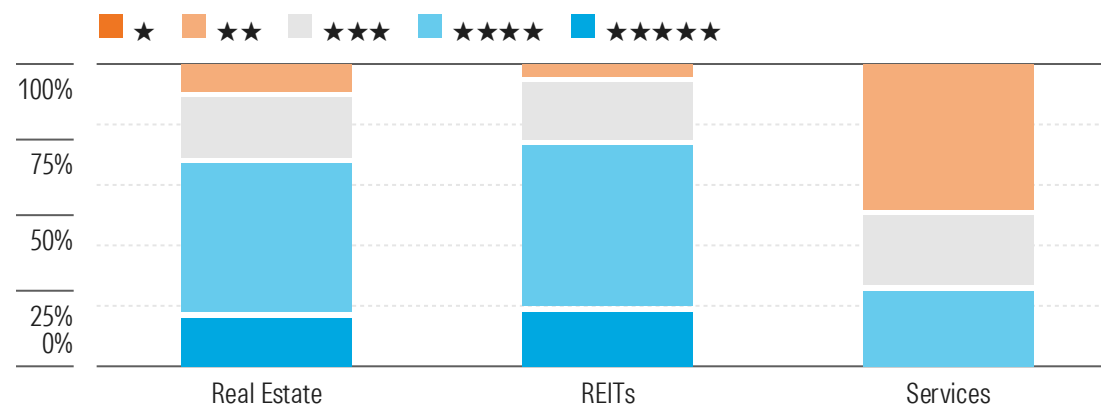
The Morningstar U.S. Real Estate Index rose 4.14% over the trailing 12 months, though that is significantly below the 17.35% gain seen by the broader U.S. equity market over the same period. The real estate sector also underperformed the broader market in the fourth quarter, as it declined 1.95% compared with a 2.43% gain by the broader US equities market in the quarter. The real estate sector's performance over the past few years has largely been driven by interest rate movements, as the sector's performance is negatively correlated with interest rate changes. However, the real estate sector declined in both the third and fourth quarters despite interest rates generally falling over that timeframe. Average same-store net operating income year-over-year growth was just 0.8% for REITs in the third quarter, as expense growth remains slightly ahead of revenue growth in most sectors, while a handful of sectors face demand headwinds. Most companies reported results that were generally in line with or slightly above our expectations on third quarter earnings calls, and our estimates for 2025 generally remain within management's guidance for the year.

The real estate sector is currently trading below our fair value estimates. Our real estate coverage currently trades at a 12% discount to our estimate of fair value, which is better than the North American average of an approximately 4% discount. Currently, 16% of the real estate sector is trading in the 5-star range, 54% is trading in the 4-star range, 19% is trading in the 3-star range, 11% is trading in the 2-star range, while no real estate companies in our coverage universe are trading in the 1-star range.

Real Estate Has Underperformed Broader Market Since June 2025



Approximately 70% of Real Estate Sector Trading at Material Discount to FVE

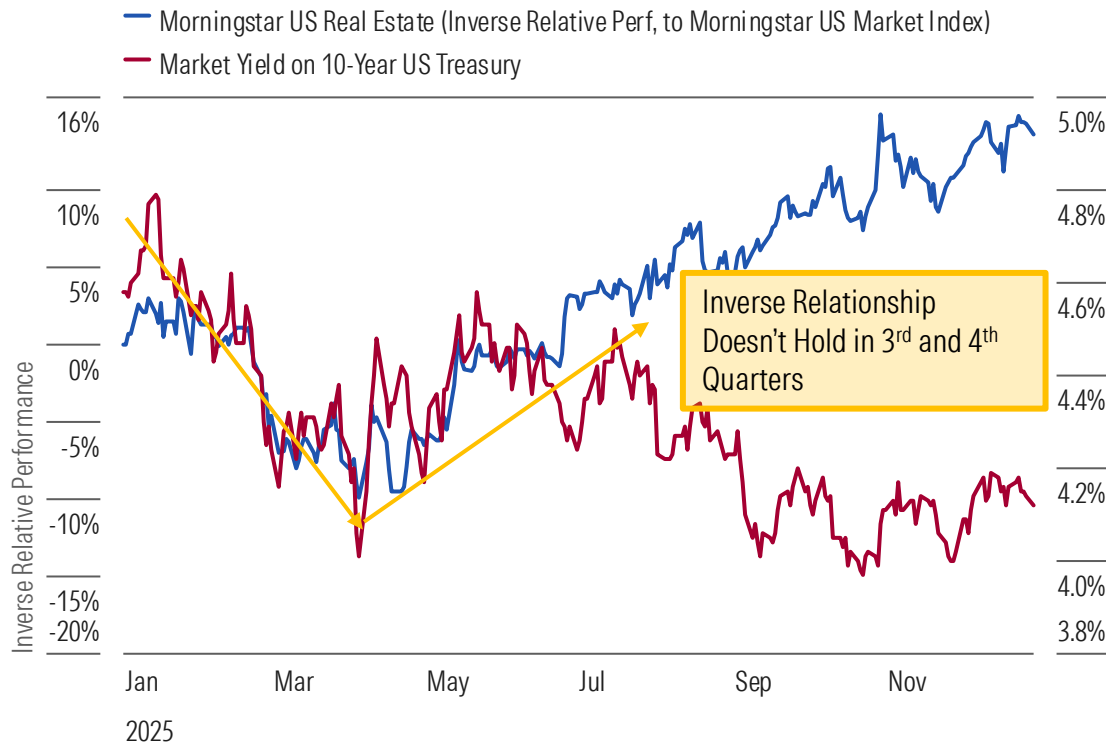


Sector Underperforms Over Past Two Quarters Due to Decelerating Net Operating Income Growth

While the Morningstar US Real Estate Index is up 4.14% in 2025, it has underperformed the Morningstar US Market Index by approximately 13%. Relative performance generally moves inversely to changes in interest rates, with falling interest rates driving real estate outperformance and rising rates driving underperformance. However, the sector underperformed in the third and fourth quarters despite falling rates. REITs on average reported same-store net operating income growth of just 0.8% during the third quarter, though performance was bifurcated between three strong sectors and three sectors with negative growth.

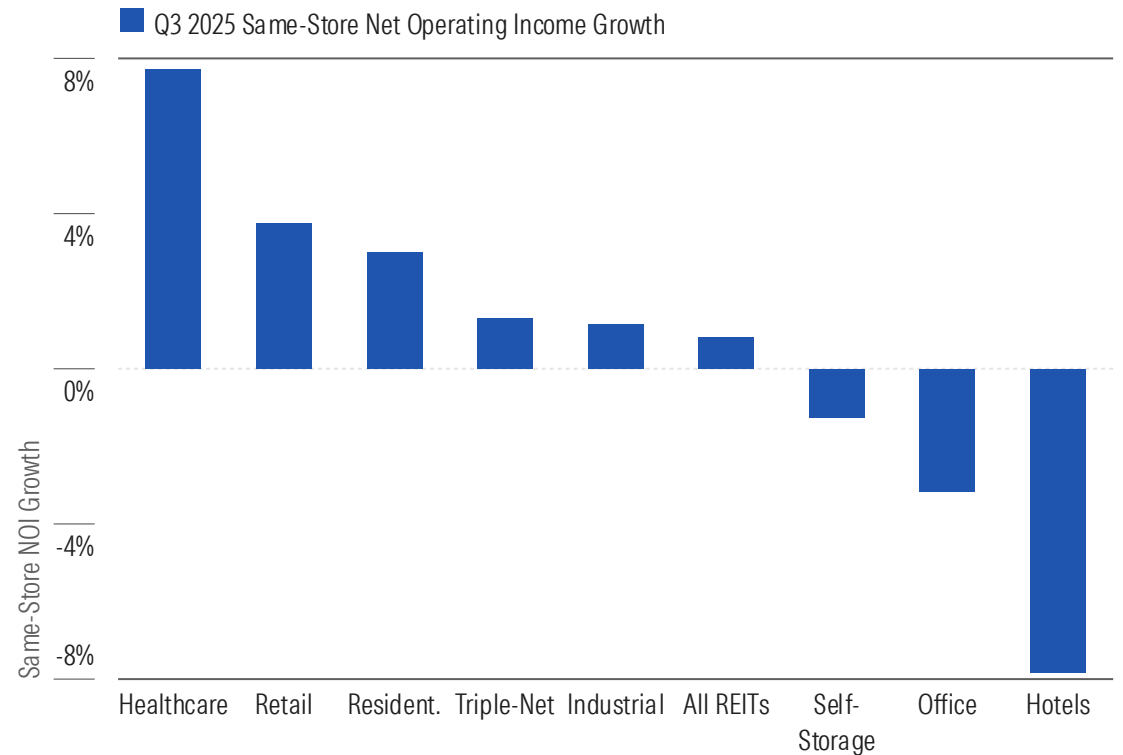
UST Rate Movements Have Been the Driving Factor Behind REIT Performance

Third quarter saw a disconnect due to the very strong performance of AI-related stocks.



Same-Store NOI Grew Just 0.8%, Though Significant Difference by Sector

Healthcare remains strong while hotels and office saw negative NOI growth.



Source: Federal Reserve Bank of St. Louis, Morningstar Direct, PitchBook, Data as of Dec. 29, 2025 (left chart).

Source: Company reports, Morningstar Direct. Data as of Sept. 30, 2025 (right chart).

See Important Disclosures at the end of this report.

Top Picks in Real Estate

Name/Ticker Americold Logistics (COLD)		Rating ★★★★★	Americold's stock price has corrected about 50% in the past year. Much of the correction can be attributed to concerns about a difficult near-term outlook, as occupancy rates have fallen and rents are under increasing pressure. The pressure on the core rental segment fundamentals is both a function of moderating demand and incremental supply-side additions in recent years. There are indications that speculative supply growth will be lower in the upcoming years, supporting occupancy recovery. We agree that the near-term outlook may be difficult, but the current valuation provides an attractive entry point for long-term oriented shareholders.
Price (USD) 12.86	Fair Value (USD) 26.00	Uncertainty Medium	
Market Cap (USD B) 3.7	Economic Moat None	Capital Allocation Standard	
Name/Ticker Federal Realty (FRT)		Rating ★★★★	
Price (USD) 100.8	Fair Value (USD) 137.00	Uncertainty Medium	Federal Realty's high-quality retail centers should produce higher retail sales growth than the brick-and-mortar average, keeping occupancies high and driving high re-leasing spreads. Federal Realty's portfolio has the highest average population density and per capita income among all shopping center REITs. The company's strong internal and external growth prospects should also enable Federal to maintain a high dividend yield. We believe the company has sold off due to 10% of rent coming from office tenants, but Federal's high-quality portfolio should trade at a multiple premium to the industry and its shopping center peers.
Market Cap (USD B) 8.7	Economic Moat None	Capital Allocation Exemplary	
Name/Ticker Healthpeak Properties (DOC)		Rating ★★★★★	
Price (USD) 16.08	Fair Value (USD) 27.50	Uncertainty Medium	
Market Cap (USD B) 11.2	Economic Moat None	Capital Allocation Standard	Healthpeak's management team strategically focused the company around the medical office and life science portfolios. These sectors should provide steady and recession-resistant revenue growth for the firm. Healthpeak's development pipeline should also deliver yields above the company's cost of capital, even in a higher-interest-rate environment, driving additional cash flow growth for shareholders. The company sold off due to rising interest rates, but we believe that the current market-implied cap rate undervalues Healthpeak's portfolio of stable assets.

Technology

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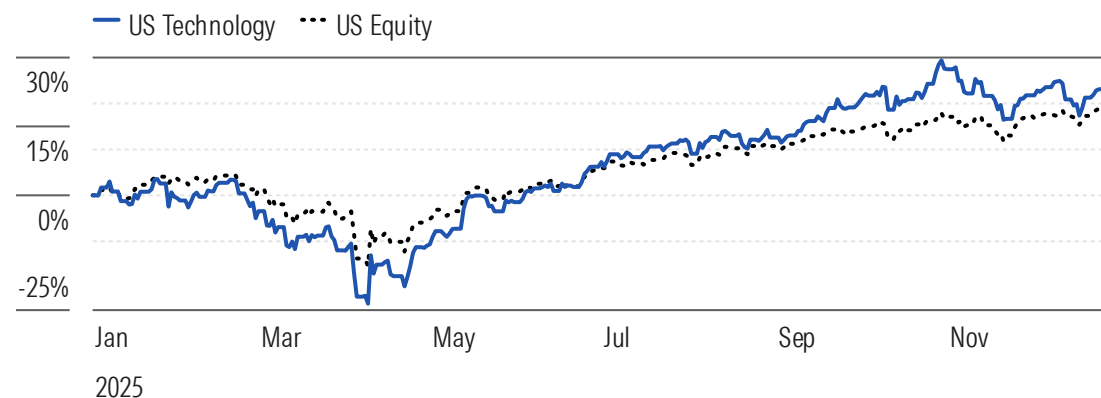
Technology Stocks Remain Strong in the Fourth Quarter

The technology sector collapsed in the first quarter and has been rebounding since early April. Technology stocks began to rebound after the Trump administration introduced sweeping trade policy changes, including the heavy use of tariffs. Hardware and semis stocks have been strong throughout the year, while software has lagged. Overall, technology was the second-strongest sector in the fourth quarter (to date), reflecting a continued rebound from a weak first quarter, when technology was the second-worst-performing sector. Over the past 12 months, technology's performance has been above average and the second-best-performing sector, outperforming the market by more than 800 basis points. Our confidence in secular tailwinds, such as cloud computing, artificial intelligence, and the long-term expansion of semiconductor demand, remains unchanged. Overall, we see software as offering the most upside.

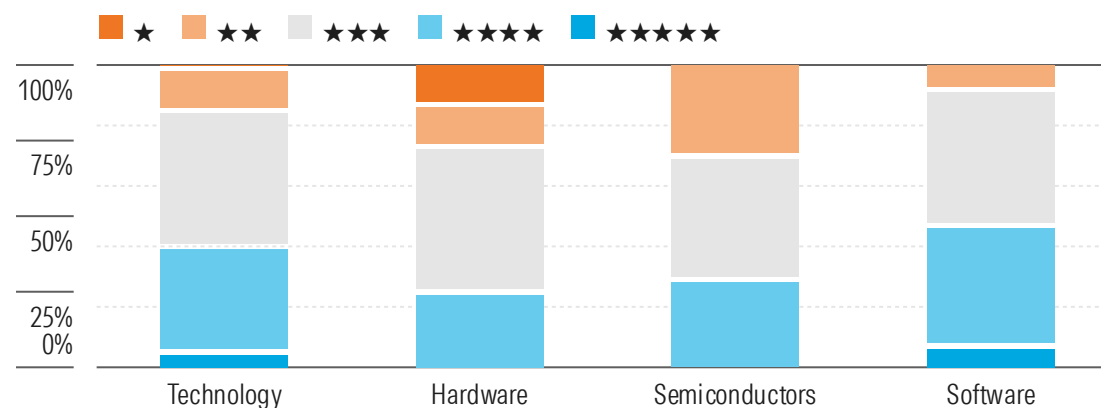
Generative AI remains the largest theme within the tech sector. Software firms are developing and incorporating next-generation AI capabilities into their solutions, while cloud providers are introducing new services and scaling capacity, and some semiconductor firms, such as Nvidia, are experiencing surging demand for AI and data center chip applications. We see attractive value within the AI theme as being hard to find. Indeed, many AI-themed stocks have oscillated wildly so far this year.

The Morningstar US Technology Index is up 21.43% on a trailing-12-month basis, compared with the US equity market up 17.35%, as shown in the top exhibit. Over the past quarter, the U.S. equity market was up 2.43%, while tech was close to unchanged at 0.73%. The median U.S. technology stock is undervalued, with an attractive margin of safety. We see hardware and semiconductors as fairly valued, and software as meaningfully undervalued, as shown in the bottom panel on the right.

Software Selloff Still Does Not Erase Good Tech Stock Performance



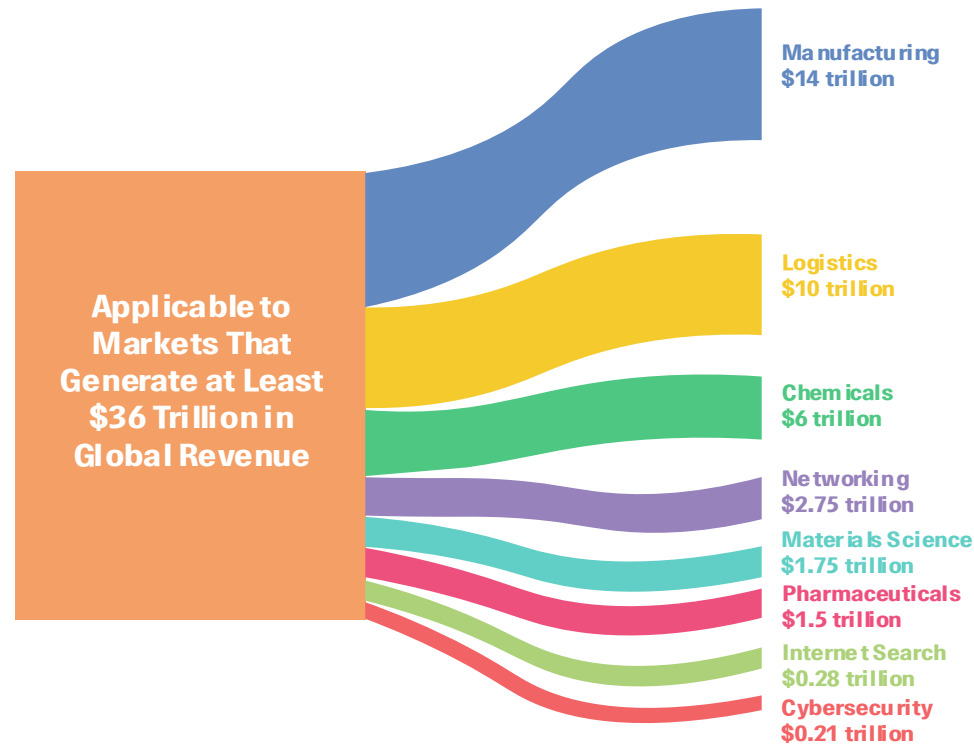
Investment Opportunities Abound In the Tech Sector, Notably Within Software



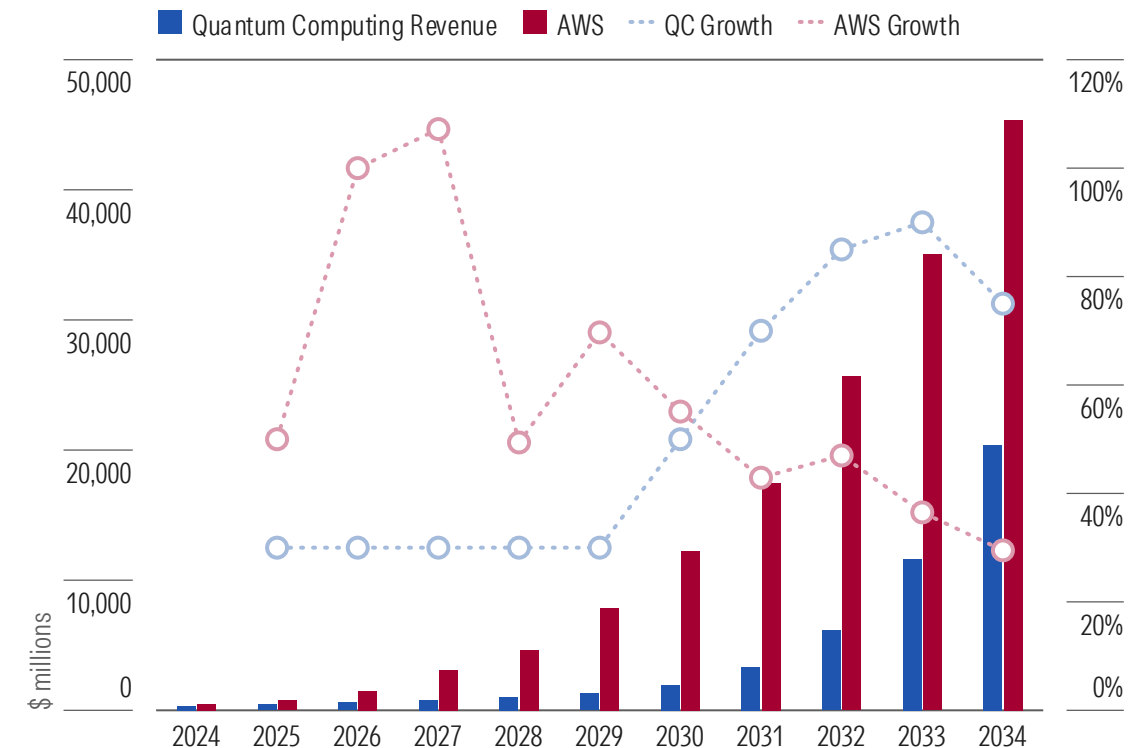
Quantum Computing Had a Breakout Year from a Headline Perspective, Even if the Technology Is Not Quite There

Quantum computing is an emerging area that is likely to have a profound impact on the compute function as it offers potential performance advantages over traditional computers. The market can be \$200 billion annually at maturity, which we believe could be up to 30 years from now, and will be driven by fundamental performance advantages, new use cases for problems that cannot be addressed by computers today, and mass-market adoption. We think quantum computers will ultimately be consolidated into existing cloud provider services.

Quantum Computing Can Meaningfully Affect Enormous Areas of the Economy



Quantum Computing Could Follow a Similar Trajectory to AWS Early On



Source: Morningstar. Data as of Dec. 12, 2025.

See Important Disclosures at the end of this report.

Technology Top Picks

Name/Ticker Broadcom (AVGO)		Rating ★★★★	Broadcom is one of our top picks in semis. The company has built a leadership position in AI chips through customized processors for large customers such as Google. We see strong demand over the medium term as Broadcom's existing customers increase orders and as Broadcom adds new customers such as Anthropic and OpenAI. We see AI revenue acceleration in 2026 and continued robust demand through 2027. Broadcom is also an excellent allocator of capital and a prolific generator of free cash flow across both semis and software.
Price (USD) 346.10	Fair Value (USD) 480.00	Uncertainty High	
Market Cap (USD B) 1,641.0	Economic Moat Wide	Capital Allocation Exemplary	
Name/Ticker Microsoft (MSFT)		Rating ★★★★	Wide-moat Microsoft is one of our top picks in software. The company dominates several of its served markets, such as Office in productivity software and Windows for PC operating systems, and has also established itself as one of two clear leaders in public cloud. We expect the proliferation of hybrid cloud environments to further strengthen Microsoft's position with Azure. Further, the firm's investment in OpenAI has propelled Microsoft to a leadership position in generative AI, accelerating Azure growth in recent quarters. Our growth estimates are centered around Azure, Microsoft 365 E5 migration, traction with the Power Platform for long-term value creation, and proliferation of AI.
Price (USD) 483.62	Fair Value (USD) 600.00	Uncertainty Medium	
Market Cap (USD B) 3,594.4	Economic Moat Wide	Capital Allocation Exemplary	
Name/Ticker NXP Semiconductors (NXPI)		Rating ★★★★	Wide-moat NXP Semiconductors is one of our top picks in semis. As automotive and industrial demand improve from cyclical and tariff softness, we anticipate that NXP will benefit from a recovery. We like NXP's outsize exposure to autos, where it obtains nearly 50% of its revenue. NXP is well diversified in autos with a broad portfolio of processors, microcontrollers, and analog parts. The firm should gain share in electrification and safety automotive products, too, such as radar and battery management systems. Overall, NXP's auto business is well tied to the secular tailwinds around rising chip content per vehicle.
Price (USD) 217.06	Fair Value (USD) 280.00	Uncertainty High	
Market Cap (USD B) 54.6	Economic Moat Wide	Capital Allocation Standard	

 **Utilities**

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With Utilities Stocks Down Since October, the Sector Must Prove It Can Deliver Growth

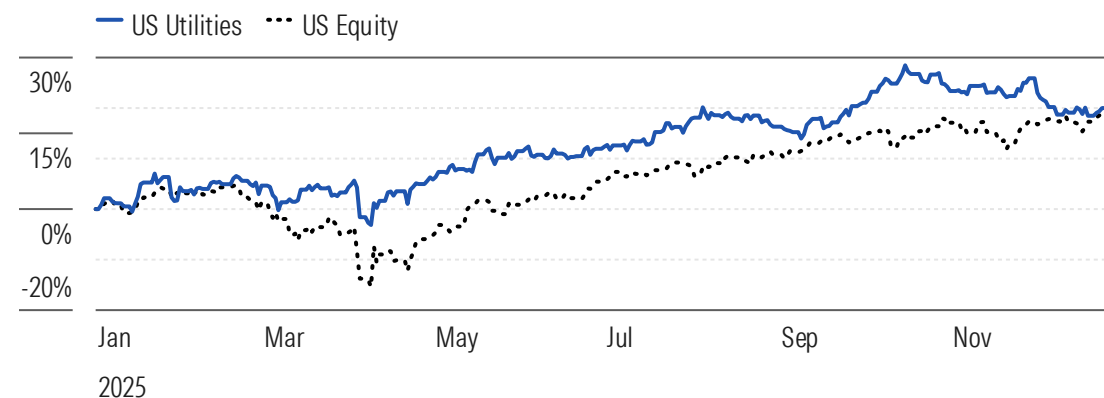
When utilities stocks began to retreat in October, the sector lost its chance to top technology as the best-performing sector in 2025. But US utilities still beat the market for the second consecutive year. The Morningstar US Utilities Index is up 70% from its low in October 2023, including dividends. Only the technology sector has performed better.

Valuations appear to be the biggest headwind for utilities going into 2026. Earnings growth remains strong, balance sheets are healthy, and dividends are secure. We think valuations climbed too high during the summer of 2025, but the late-year pullback has rightsized some of them.

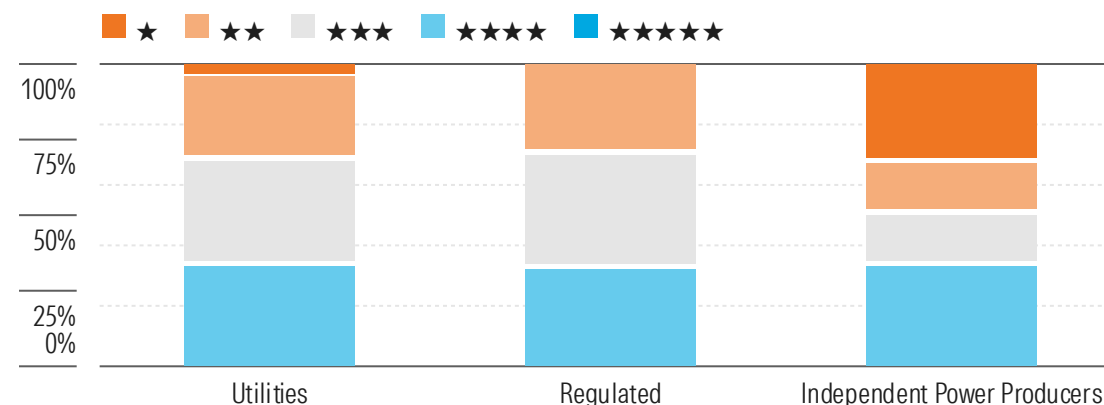
We consider the sector fairly valued as of late December. With utilities' average dividend near historic lows at 3% and P/E multiples above long-term averages, utilities will have to deliver the earnings growth that we and the market expect. Low dividend yields provide little protection for investors if utilities' growth prospects disappoint.

We expect 6.5% annual earnings growth for most utilities through 2030 based on secular trends such as clean energy growth, data center energy demand, manufacturing onshoring, and economy-wide electrification. Most utilities are planning for the most energy demand growth and capital investment over several generations. If this growth continues and utilities stocks pull back some more, investors should be ready to buy.

US Utilities Have Pulled Back Since October Peak



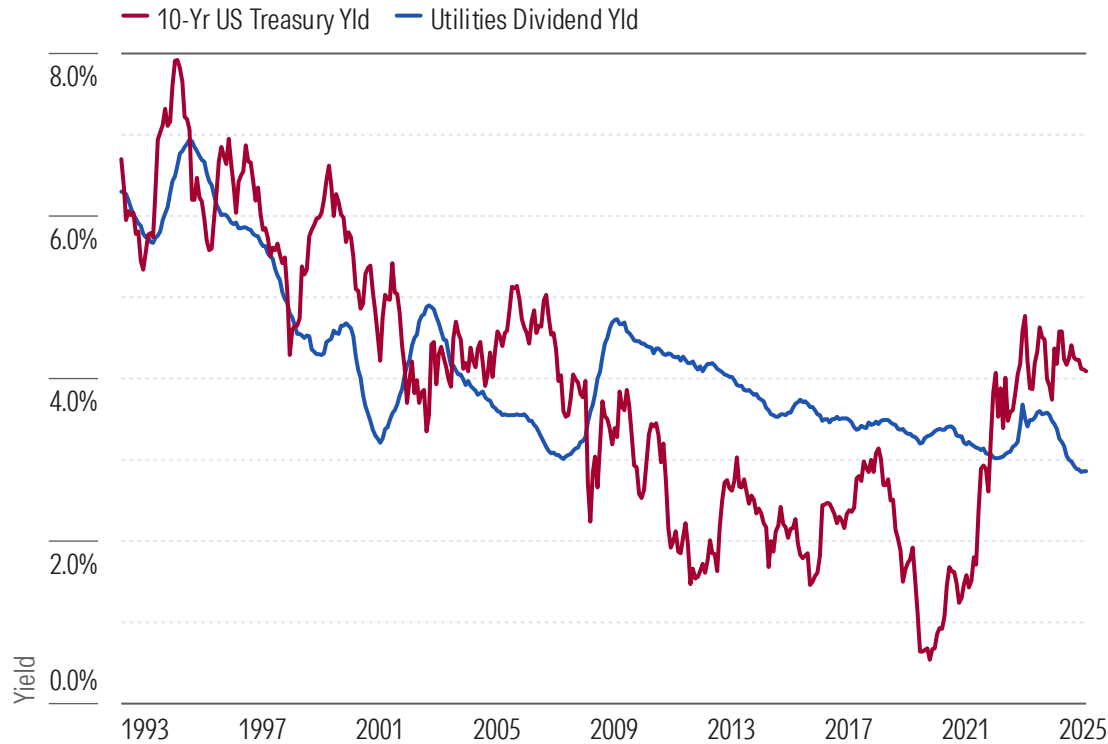
Valuations Appear More Reasonable Going Into 2026



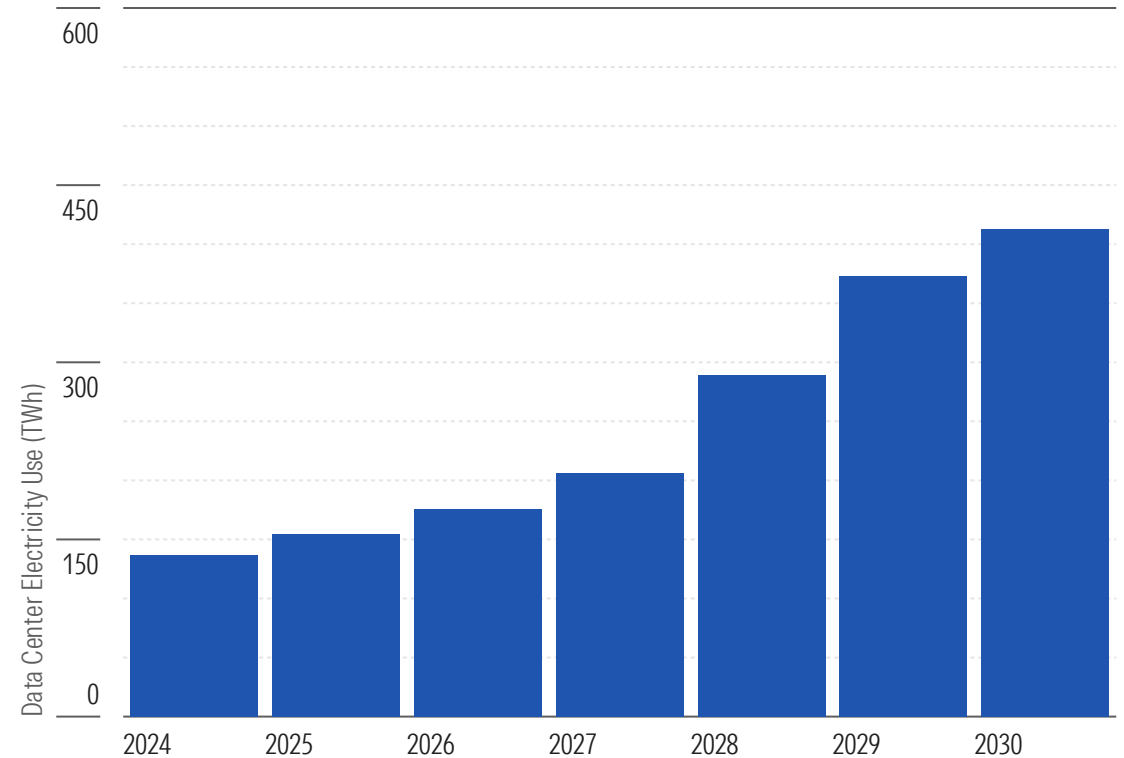
Low Dividend Yields Offer Little Downside Protection For Investors if Growth Disappoints

Our near-term projections and utilities' investment plans suggest unprecedented earnings growth for most utilities in the next few years. But that comes with greater risk for investors accustomed to locking in a large share of their returns from utilities' dividend yields. With dividend yields at historic lows and at a substantial discount to fixed-income alternatives, utilities must deliver on the market's growth expectations to sustain elevated valuations. Utilities that fall short on growth could face a sharp drop in their stock prices.

Utilities Dividend Discount To Interest Rates Shows Market's Growth Focus



Data Center Demand Expected to Increase Three-Fold by 2035



Source: Morningstar, U.S. Federal Reserve, US Energy Information Administration, Data as of Dec. 31, 2025.

See Important Disclosures at the end of this report.

US Utilities Top Picks

Name/Ticker Edison International (EIX)		Rating ★★★★	Investors' overwhelming concern remains Edison's potential liabilities associated with the January 2025 Eaton Fire. The stock is down 25% since the fire, while the utilities sector is up 16%. Management has acknowledged that shareholders could face material losses, but it could be well into 2026 or beyond before there are any realistic loss estimates. Edison should have access to California's \$21 billion AB 1054 Wildfire Fund and the \$18 billion expansion enacted in 2025 for future fire liabilities, resulting in minimal shareholder losses. Edison's plan to invest \$7 billion annually supports our 7% average annual earnings growth outlook. Management recently raised the dividend for the 22 nd consecutive year.
Price (USD) 60.02	Fair Value (USD) 80.00	Uncertainty Medium	
Market Cap (USD B) 23.1	Economic Moat Narrow	Capital Allocation Standard	
Name/Ticker Alliant Energy (LNT)		Rating ★★★★	
Price (USD) 65.01	Fair Value (USD) 71.00	Uncertainty Low	We assume annual earnings growth at the high end of management's 5%-7% guidance through 2027, accelerating growth beyond 2027. The company's four-year \$13.4 billion capital investment plan is up 24% from its last four-year plan. Three data centers under construction and a fourth with a signed agreement total 3 gigawatts of demand, driving 12% annual sales growth from 2025-30. An additional 2 GW-4 GW could materialize beyond 2028. This plan is supported by constructive regulation across its operating subsidiaries. We expect management to continue to update the market on the 2 GW-4 GW of additional data center backlog throughout 2026.
Market Cap (USD B) 16.7	Economic Moat Narrow	Capital Allocation Standard	
Name/Ticker Portland General Electric (POR)		Rating ★★★★	
Price (USD) 47.99	Fair Value (USD) 54.00	Uncertainty Low	
Market Cap (USD B) 5.4	Economic Moat Narrow	Capital Allocation Standard	We think investors are overestimating the impact of regulatory and policy uncertainties in Oregon, which has long been a challenging regulatory environment for utilities. However, recent regulatory reviews have been constructive, electricity demand from the technology sector is growing rapidly, and state renewable energy mandates offer plenty of growth investment. Management's \$6.4 billion investment plan for 2025-29 should drive annual earnings growth above 6%, with further upside if state regulators approve additional renewable energy projects in 2026.

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