

# Portfolio Management Overview

January, 2026 – Perspective from all of our team for 2026

The Columbia Shores Group at Morgan Stanley -- Portland, Oregon and Vancouver, Washington

January 23, 2026

Written by members of the Columbia Shores Group as we begin 2026.

We offer perspective from all four of our team members. Each chose his own topic, related to their role on the team. We encourage you to review in full to gain additional perspective on what we focus on each and every day.

Edited by Rick Grimshaw, CPM® CIMA®, Executive Director, Senior Portfolio Management Director, Financial Advisor

## Ready...Shoot...Aim [From Rick]

When I reflect on the investment year just passed, a phrase I've mentioned to clients during all of 2025 comes to mind. It's "Ready, Shoot, Aim!".

Seems to me to be an accurate description of a year full of headlines, political uncertainty and a series of initiatives undertaken by the U.S. Executive Branch that, in full, didn't have a lot of impact to detract what ended up as a third good year running for the U.S. Standard and Poors' 500 stock index, which posted a total return of 16.4% for the calendar year. <sup>1 3</sup>

Indeed, the various headlines, tweets and social media posts thru the year bring me back to our four investment principles, mentioned below...paying special attention to the third.

Here are our team's Four Investment Principles. We adhere to these over a full market cycle.

- **Respect the Primary Trend**
- **Price Ultimately Follows Earnings**
- **Separate News from Noise**
- **Remain Tactical**

So what are our thoughts and matters to pay attention to as we enter 2026?

First, corporate profit expectations. Michael Wilson, Morgan Stanley Chief Equity Strategist, broke down the anticipated earnings per share growth in 2026 by the various sectors of the economy, below. <sup>2</sup>

**Exhibit 6:** Forward 12-Month Growth Expected to be Driven by a Broad Range of Sectors

S&P 600 (Small Cap) Sector	Fwd. 12M EPS Growth
Consumer Discretionary	38%
Materials	30%
Communication Services	19%
Health Care	17%
Financials	15%
Industrials	10%
Information Technology	9%
Real Estate	7%
Energy	5%
Utilities	-3%
Consumer Staples	-8%

Source: FactSet, Morgan Stanley Research.

This ties in with our 2<sup>nd</sup> principal, “Price Ultimately Follows Earnings.”

Another Morgan Stanley Strategist, Lisa Shalett, Chief Investment Officer, Morgan Stanley Wealth Management, speaks to what she calls “Deconcentrating” in a commentary on January 12<sup>th</sup>, a portion quoted below. <sup>3</sup>

*“No one can claim that 2025 delivered unimpressive results for investors, with the S&P 500 Index’s 16.4% price return marking the third consecutive year of double-digit gains. The most impressive aspect of US equity performance was the historic, 40%-plus post-Liberation Day rally, driven by the generative AI (GenAI) capex boom and consumer resilience despite tariffs and a weaker job market. With all that to marvel at, expected prospects for 2026, featuring a stimulus triumvirate—Federal Reserve easing, fiscal transfers from tax reform and deregulation for financial and energy companies—have produced a near-unanimous consensus for another good year, with economic growth improving and returns broadening beyond the megacap tech leaders.”*

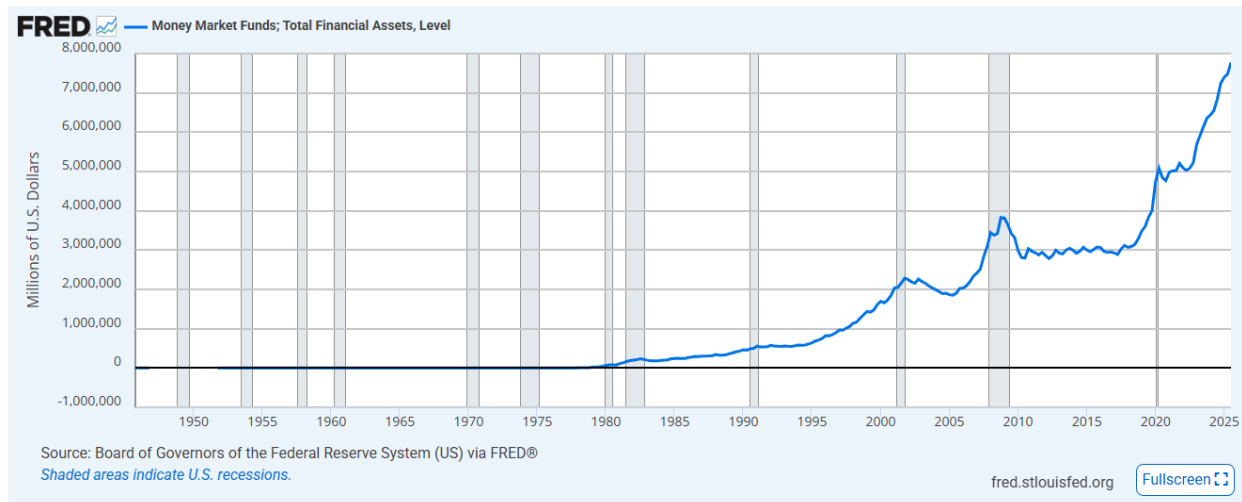
*-The GIC Weekly, January 12, 2026*

This ties into our team’s first principal, “Respect the Primary Trend’. We believe a new Bull Market for US Stocks began in 2023, after 2022’s results when both US stocks and bonds suffered double digit declines due, in part, to the Federal Reserve’s rapid increase in interest rates. <sup>4</sup>

One factor that I believe could contribute, over time, to equity returns is the amount of Money Market Funds in total, which now exceeds \$7.7 Trillion Dollars.<sup>5</sup> In my view, the Federal Reserve’s continued easing of interest rates may well cause the savings rate return to drop correspondingly. We have seen this over the past couple of years. Certainly, savers had an opportunity to earn higher returns on savings and money market investments post-2022, likely, for many, the first time in more than ten years where savings offered returns in excess of inflation.

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At what point, as returns on savings potentially decline, does the savings return currently available force investors to make reallocation decisions to investments, they believe, could produce higher returns? And where might those funds go when reallocated? For perspective, total assets in money markets have more than doubled since the \$3 Trillion reported 1Q 2018.<sup>5</sup>



-Federal Reserve Bank of St. Louis, January, 2026

In short, I believe 2026 could be another good year for the investment markets. Rising corporate profits, falling interest rates, potential transfer of savings assets into longer term investments, deregulation and continued consumer confidence would be my major factors to monitor.

In my 40+ years in the investment profession, nothing is certain, of course, and short term corrections can occur at any time. We remain disciplined and diligent and stay true to our four investment principles, informed also by the financial planning work that my colleague Jack prepares with clients, which helps support ongoing decision-making over time.

Coming next are comments from Jack, Sam and Will, framing each of their team responsibilities for you.

**Rick Grimshaw CPM CIMA, Executive Director, Senior Portfolio Management Director**

## Financial Planning Update [from Jack]

We strive to offer comprehensive wealth management services designed to help address a broad range of your financial needs. One of the most critical components of those offerings is financial planning. But for many of our clients, financial planning is more than the plan document- it can include ongoing conversations and support throughout one's long-term investing journey.

Multiple studies have looked at the investment advice space to try and quantify the potential value investors may receive from working with a wealth management team. In Morningstar's "Alpha, Beta, and Now... Gamma" study, the authors quantified the additional value achieved by

making informed financial planning decisions. They concluded that an advisor could add up to 22.6% more retirement income in their base case.<sup>7</sup> This is achieved through four key areas where individuals and families can benefit from working with a wealth management advisory team. In a study by Russell Investments, they define these areas as asset allocation, behavioral coaching, customized family wealth planning, and tax-smart planning and investing.<sup>8</sup>

Asset allocation is the mix of your investments between various asset classes, such as stocks, bonds, cash and alternatives. According to the American Association of Individual investors, a self-directed investor is likely to keep about 20% of a balanced portfolio in cash. Over long periods of time, holding elevated cash allocations may reduce long-term potential compared to staying invested depending on market conditions. By reviewing and adjusting asset allocation based on a financial plan, our Team aims to help position portfolios for potential market opportunities while aligning the asset allocation to the individual or family risk tolerance and financial goals.

Behavioral coaching can be an important role financial advisors play for clients. In being a rational third party, advisors can help clients make more disciplined decisions aligned to their long-term financial goals. For instance, missing the US Standard and Poors' S&P 500 index returns on the best 15 best days in the past 46 years would have reduced your return 3.1% per year. And research shows the best days tend to happen during the worst and most volatile times in the market. Looking back to 2025, the best day in the market was April 9<sup>th</sup>, which saw the S&P 500 Index rise 9.5% in a single day.<sup>9</sup> This was the third best day in the Index's history, going back to 1957.<sup>9</sup> In the five trading days prior to April 9<sup>th</sup>, the SP500 dropped ~13%. This highlights how volatile periods can influence long term performance. It is our Team's opinion that behavioral coaching is one of the most meaningful parts of how we support clients.

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## Market Timing Can Be a Costly Strategy

Market timing is difficult for any investor. What's more, it runs the risk of missing out on the market's best days, which are crucial for long-run returns

### THE BEST DAYS OFTEN HAPPEN DURING THE WORST TIMES<sup>1</sup>

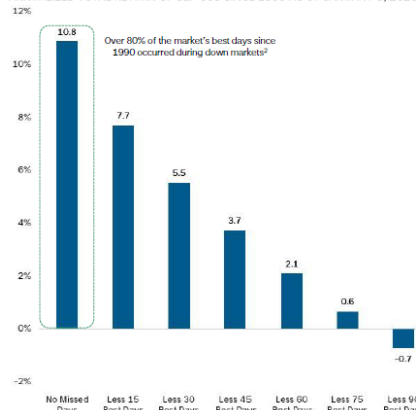
S&P 500 TOTAL RETURNS IN 2020



Source: Morgan Stanley Wealth Management GIO, Bloomberg, FactSet. (1) Best days are defined as the days with the highest single-day returns in the S&P 500. (2) Down markets defined as a 10% or greater decline from trailing one year peak in S&P 500. Past performance is no guarantee of future results. Estimates of future performance are based on assumptions that may not be realized. This material is not a solicitation of any offer to buy or sell any security or other financial instrument or to participate in any trading strategy. Please refer to important information, disclosures and qualifications at the end of this material.

### STAY INVESTED TO ENSURE YOU DON'T MISS BEST DAYS<sup>2</sup>

ANNUALIZED TOTAL RETURN OF S&P 500 SINCE 1990 AS OF JANUARY 9, 2026



Customized family wealth management services cover a whole host of additional factors that extend beyond investment management. These services include financial planning, wealth education, retirement income planning, philanthropy and charitable giving, cash management, and trust services. Our clients have needs that extend beyond stocks and bonds, and by working with the Columbia Shores Group, you have access to a wider breadth of services that can help support your financial goals that go beyond the numbers.

Tax-aware investing is becoming a key component of what we do. Our team focuses on finding ways to evaluate portfolio construction with the goal of seeking to help manage the impact of taxes on net returns. This may include where appropriate tax loss harvesting, asset location of investments, efficient investment vehicles, and looking for tax advantaged income in the form of tax-exempt interest and qualified dividends. According to Morgan Stanley's Global Investment Office, these benefits can result in up to 1.6% in added after-tax return per year over a 20-year time horizon.<sup>10</sup> These strategies differ in their effectiveness and appropriateness depending on the client, however we strongly believe they should be included in the conversation of every investment decision for suitable clients.

In conclusion, we aim to support clients through both the investment process and their broader planning objectives. We believe that by educating our clients, our team equips them to make informed financial planning decisions while providing customized portfolio strategies aligned with their goals and needs.

**Jack Jagla CFP, First Vice President, Financial Planning Specialist**

## **Fixed Income Strategy [From Sam]**

2025 saw the fixed income markets return to normalized yield curves and the Bloomberg US Aggregate Bond Index finish with a 7.19% total return<sup>1</sup>. In December 2025, the US Federal Reserve Board announced the 3<sup>rd</sup> 25 basis point reduction [1/4 of one percent lower] to the Federal Funds Rate in the year. With rates coming down over the year this often-provided fixed income total return [yield plus appreciation], what we call "total return".

The first Fed meeting of 2026 was the last week of January. The Fed's voting Governors held the Fed Funds rate as is. Morgan Stanley has projected a potential two additional rate cuts for 2026)<sup>11</sup>.

Our Team is becoming more comfortable with duration exposure than we have in the past. In our managed accounts we look to slowly extend duration in 2026. [Note: Duration is the measurement of how sensitive a bond's price is to changes in interest rates.] With interest rate projections expected to come down, in our view, adding duration may increase sensitivity to interest rate changes, which can affect total return..

One area still of concern for us is credit exposure. The returns we now see in Corporates versus Treasuries [additional income or interest rate return for corporate bonds compared to treasuries of similar maturities] has not been attractive enough, in our opinion, to merit additional exposure. We have seen that in times of potential stress, a bond's market price goes

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down faster for the high yield, so called “junk bond” and other lower credit quality paper vs. investment grade bonds.

While our team continues to monitor these potential fixed income strategies, we believe a slow and gradual approach makes sense for those who may want to add exposure to corporates, high yield and preferred securities—looking for higher potential returns than Treasuries or Bank CDs while recognizing the additional risks involved. We believe adding exposure here may be rewarding if an investor is both opportunistic and patient.

Municipal bonds are one subset of the bond market that we are focusing on. Munis typically have tax benefits versus other parts of fixed income. We do like the return profile for municipals going forward and would be happy to discuss how potentially allocating here may be prudent. Of course, each client’s tax situation and income need may differ. This deserves conversation.

**Sam Watry CFA, Investment Consultant [and our team member focused on fixed income]**

## **The Importance of a Trusted Contact [From Will]**

Trusted contacts help in safeguarding clients' financial well-being, particularly against financial scams and exploitation. A trusted contact is a person designated by the client who can be contacted if Morgan Stanley cannot reach the client due to concerns about their well-being, suspected unusual account activity, or potential financial exploitation. Unlike a Power of Attorney, a trusted contact does not have the authority to make financial decisions or access account details. Instead, they serve as an emergency contact to confirm the client's health status and well-being. This additional layer of security is especially important for elderly clients who are more vulnerable to fraud.

By having a trusted contact, Morgan Stanley can promptly address any suspicious activity and ensure the client's well-being is prioritized in cases of potential risk. We encourage all clients to contact our team and add a Trusted Contact to their accounts with Morgan Stanley. We have had occasion to rely on a Trusted Contact for a senior client in the past year. In doing so, our team and the Market’s risk team stopped a potential financial scam.

**Will Williams, Portfolio Associate, and our team member dedicated to client servicing**

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## **The Columbia Shores Group at Morgan Stanley**

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## Endnotes:

<sup>1</sup> Morgan Stanley Performance Measurement

<sup>2</sup> Michael Wilson, Morgan Stanley, “The Broadening Is Underway”, January 12, 2026. Available on request.

<sup>3</sup> Lisa Shalett, Morgan Stanley, The GIC Weekly, January 12, 2026. Available on request.

<sup>4</sup> [2022 stock market decline - Wikipedia](#)

<sup>5</sup> Board of Governors of the Federal Reserve System (US), Money Market Funds; Total Financial Assets, Level [MMMFFAQ027S], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MMMFFAQ027S>, January 23, 2026.

<sup>6</sup> Morgan Stanley, US Economics Weekly, January 9, 2026. Available on request.

<sup>7</sup> <https://www.morningstar.com/content/dam/marketing/shared/research/foundational/677796-AlphaBetaGamma.pdf>

<sup>8</sup> <https://russellinvestments.com/content/dam/ri/files/us/en/financial-professional/insights/value-of-an-advisor-study.pdf>

<sup>9</sup> <https://www.fool.com/investing/2025/04/14/the-stock-market-just-had-one-of-its-best-days-eve/>

<sup>10</sup> [https://wmrsi.webfarm.ms.com/pub/content/wmrsi/reports/marketing/gic/s24\\_gic/EDA47C33-F045-4D71-A0F3-B1CBEF5D7F03.html](https://wmrsi.webfarm.ms.com/pub/content/wmrsi/reports/marketing/gic/s24_gic/EDA47C33-F045-4D71-A0F3-B1CBEF5D7F03.html)

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Interest on municipal bonds is generally exempt from federal income tax. However, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one’s state of residence and, local tax-exemption typically applies if securities are issued within one’s city of residence. The tax exempt status of municipal securities may be changed by legislative process, which could affect their value and marketability.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made. NOTE: High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

Duration, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates. Generally, if interest rates rise, bond prices fall and vice versa. Longer-term bonds carry a longer or higher duration than shorter-term bonds; as such, they would be affected by changing interest rates for a greater period of time if interest rates were to increase. Consequently, the price of a long-term bond would drop significantly as compared to the price of a short-term bond.

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