

The Ancora Advisory

An Investment Publication for Clients and Friends

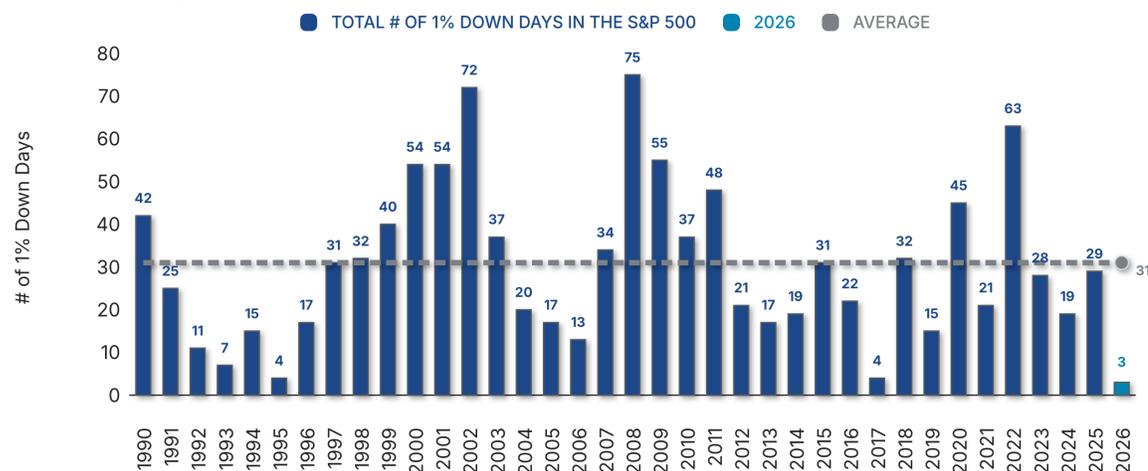
Ancora is a private wealth advisor and institutional asset manager focused on building distinctive investment strategies and robust wealth and risk management solutions that help you achieve more

Volatility & Midterms: It's That Time Again

John Micklitsch, CFA, CAIA
President

Periods of market volatility, while uncomfortable, are a normal and expected part of long-term investing. This is especially true in midterm election years, which have historically introduced an additional layer of uncertainty. For some investors focused on specific asset classes and sectors, such as digital assets (Bitcoin) and software companies, recent market activity may have felt more volatile than usual. The overall market data, however, reminds us that from a diversified portfolio perspective, what we've experienced at the start of 2026 is quite normal, if not mild. The following chart highlights that, on average, there are 31 days in a given calendar year where the market falls by more than 1%. As of February 16th, we have experienced only three.

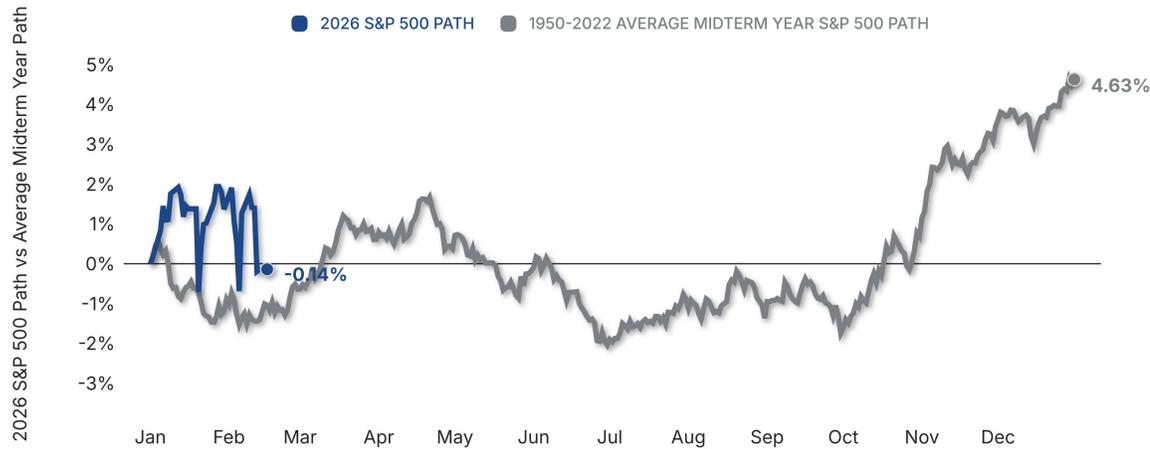
Total # of S&P 500 1% Down Days



Source: © Exhibit A, FactSet Research Systems Inc., Standard & Poor's, 2026 YTD as of 2/16/2026

In terms of midterm election years, volatility tends to rise and is often accompanied by range-bound market levels in the first half of the year. In fact, research shows that the S&P 500 can experience notable pullbacks—often 10% or more—during the months leading up to midterms. With future policy direction at stake, the lack of clarity on various initiatives can lead to a temporary pullback in risk-taking. But the key is the word temporary.

Average Midterm Year Path of S&P 500



Source: © Exhibit A, FactSet Research Systems Inc., Standard & Poor's, 2026 YTD as of 2/16/2026

While these swings and periods of sideways results can test our collective patience, they are far from a reason to abandon a long-term strategy. In fact, the same historical data shows that midterm-year volatility has often led to strong recoveries. Capital Group's research highlights that since 1950, the average one-year return on the S&P 500 following a midterm election has been 15.4%, nearly double the long-term return of stocks.

What does this mean for you?

It underscores the importance of perspective. Volatility is rarely permanent; markets typically recover from periods of uncertainty, often more quickly than expected once clarity returns. While headline noise and short-term pullbacks can rattle any investor, they do not typically require changes to a well-constructed financial plan. This is where disciplined investing matters most. A sound portfolio is built to weather turbulence, not avoid it. Diversification, thoughtful asset allocation and alignment with your goals remain your strongest defenses. Evidence shows that attempting to time the market around political events is not reliable, as fundamentals, not elections, ultimately drive returns. There is a saying that to be a successful investor, you must be able to separate what's merely interesting from what is truly important. Midterms are interesting; staying invested for the long-term is truly important.

We work together to make sure you are continually aware of both the interesting and the important to ensure your investment strategy remains aligned with your long-term objectives, not short-term market noise. Staying invested, maintaining composure and trusting the process have historically rewarded disciplined investors. Periods of volatility are reminders that patience is not merely a virtue — it is a large contributing factor to long-term financial success. ◇

A New Playbook for Capital Gains Management

Vanessa Mavec King, CFP®
 Director, Financial Planning

Tax planning is a key element of our Estate & Wealth Planning offerings at Ancora. We know that sophisticated tax strategies can offer significant value to our clients, and we continue to seek new and effective tools to address these needs. One of the most persistent topics is the mitigation of capital gains taxes. Whether it's a significant liquidity event or dealing with appreciated or concentrated positions in a portfolio, many clients seek ideas to improve tax efficiency.

Recently, we have seen a lot of interest and have successfully been deploying two specific tax-efficient strategies that can function within a client's portfolio. Each of them utilizes tax-loss harvesting, which, as a reminder, is a practice used in taxable accounts of selling investments that have declined in value and realizing a capital loss. Those losses can then be used to offset realized capital gains, thereby lowering an investor's overall tax bill. This practice does not mean that a portfolio's growth will be stunted in return. The proceeds generated from the loss sale can be redeployed into a new holding, maintaining the proper allocation and risk levels of the overall portfolio strategy.

The first solution we've been utilizing is best for scenarios where there is fresh capital (cash) to be deployed. In this case, we partner with a third party to utilize their long-only direct-indexing approach. These accounts are designed to help taxable investors systematically reduce their tax bill while staying closely aligned to a chosen market benchmark. Instead of owning a single ETF or mutual fund, investors own most of the individual stocks that make up an index in a separately managed account. This structure allows for continuous monitoring of each security and harvesting losses at the individual stock level when prices decline, even when the overall market is up.

When a loss is realized, the proceeds are reinvested into similar securities to maintain market exposure while avoiding wash sales. (A wash sale occurs when an investor sells a security at a loss and, within 30 days before or after that sale, buys the same or "substantially identical" security. The IRS restricts this to prevent investors from claiming tax losses while maintaining their market position.) Over time, this process intends to generate a steady stream of capital losses that may be used to offset realized capital gains or income, with the goal of improving after-tax returns. The strategy is highly customizable; investors can tailor benchmarks, exclude specific stocks or sectors, incorporate ESG preferences and coordinate with existing holdings, allowing for greater tax efficiency without materially changing an investment risk profile.

The second solution is best for scenarios where investors have existing investments that are either highly appreciated or concentrated. In these cases, we partner with a third-party to structure a separately managed account that is designed to generate tax benefits (or tax alpha; excess return) while maintaining the core equity exposure by utilizing the existing portfolio assets as collateral for a long/short portfolio extension. This eliminates the need for additional cash while enabling tax-loss harvesting to be generated in both rising and falling markets.

There are three long/short solutions: 1) combines core equity exposure with tax alpha for investors with or without existing tax-loss harvesting strategies, 2) enhances the tax efficiency of highly appreciated legacy holdings and 3) helps investors transition out of concentrated stock positions in a diversified, tax-efficient manner. These solutions represent one of the industry's earliest and most comprehensive long/short tax-loss harvesting solutions built specifically to improve after-tax wealth for sophisticated investors. While we feel this solution has great application for certain clients, it is complex and not without associated risk.

Ancora's Estate & Wealth Planning team seeks and evaluates various tools, strategies and opportunities to add value for our clients. While no tax strategy is universally appropriate, portfolio construction and tax planning can work together powerfully with thoughtful implementation. As always, our team would be happy to discuss these and other solutions in more detail. ◇

What's up (Or Down) with Software Stocks

Michael Santelli, CFA
Co-Chief Investment Officer

"Software is eating the world," wrote Marc Andreessen in an article originally published in The Wall Street Journal in 2011.¹ For 20-plus years, he was basically spot on. Software companies became dominant; the business models seemed impregnable, multiples expanded and the companies grew like weeds. Fast forward to 2026; a recent Business Insider article quoted Marc Andreessen's

¹ Read More: <https://www.wsj.com/articles/SB1000142405311903480904576512250915629460>

declaration and added that “Today, AI is beginning to devour software. Instead of helping the industry improve, new AI tools and agents could end up replacing some software products entirely.”²

What a 180! And the market seems to be a believer in this new narrative. For example, I was surprised to learn that, due to the recent drop in the stock price in January and February 2026, Microsoft, the most exposed to software of the Magnificent 7, has actually underperformed the S&P 500 Index since the introduction of ChatGPT in November of 2022. Many dominant software companies now trade at steep discounts to market multiples, including Adobe, Salesforce and Intuit. These three were all at 30x price-to-earnings or better at the end of 2023, i.e., steep premiums to the market multiple. They are currently in the mid/low-teens multiples, i.e., about half what they once were.

But hold on. “AI changes what we build and who builds it, but not how much needs to be built. We need vastly more software, not less,” wrote Steven Sinofsky in a recent blog post. Further, he continued, “Wall Street is filled with investors of all types. There’s also a community, and they tend to run in herds. The past couple of weeks have definitely seen the herd collectively conclude that somehow software is dead. That the idea of a software pure play will just vanish into some language model. **Nonsense.**”³

Do we know what the future holds? Nope. Perhaps AI does eat software, and software earnings get crushed, making those current “cheap” P/E multiples irrelevant. But maybe those software companies adapt and use AI to their advantage somehow and get back in the saddle. Both scenarios seem possible.

How do we navigate this market? Diversification: We do not over-allocate to any one company or sector. Diversification is a great risk management tool that helps to improve the resiliency of portfolios, making them better positioned to adapt as conditions continue to evolve. ◇

The Battle Over Interest Rates and the Future of the Fed

Kevin Gale

Co-Chief Investment Officer

Since President Trump took office in January 2025, he has not been shy about insisting the Federal Reserve should be lowering interest rates by a significant amount. With Trump recently nominating Kevin Warsh as the next Chair of the Federal Reserve Board of Governors, commonly referred to as the “Fed” or the “Central Bank”, it’s a good time to revisit the purpose of the Fed, how the Federal Reserve System works and how the Chair is put in place.

What is The Federal Reserve System?

Established in 1913, The Federal Reserve System is the central bank of the United States and is one of the most influential economic institutions in the world. The Fed was established to provide a safe, flexible and stable monetary and financial system. It is responsible for conducting monetary policy, supervising the banking system and safeguarding the stability of the U.S. financial system. Monetary policy refers to actions the Fed may take to manage the money supply, interest rates and credit availability to achieve economic goals. Sometimes referred to as its “dual mandate”, the two main goals of the Federal Reserve are maintaining stable prices (i.e., keeping inflation in check) and promoting maximum employment.

How Does the Federal Reserve System Work?

The Fed is made up of three main components: The Board of Governors, the twelve Regional Federal Reserve Banks and the Federal Open Market Committee (commonly referred to as the FOMC).

1. The Board of Governors: Headquartered in Washington D.C., the Board consists of seven members or “governors” who serve

² Read More: <https://www.businessinsider.com/software-ate-world-now-ai-eating-software-saas-anthropic-2026-2/>
³ Read More: <https://www.a16z.news/p/death-of-software-nah>

staggered 14-year terms. The governors are nominated by the President of the United States and confirmed in their positions by the Senate. The Board has broad oversight of the entire Federal Reserve System, including setting regulations, determining the discount rate (more on this later) and supervising reserve requirements for banks.

2. **The Regional Federal Reserve Banks:** Located in twelve different cities across the United States (including Cleveland), the twelve regional Federal Reserve Banks function as the “government’s bank”, by supporting the nation’s financial infrastructure. They are responsible for supervising and examining banks and other financial institutions, enforcing compliance with the federal consumer protection and fair lending laws and lending to depository institutions to ensure liquidity in the financial system. The regional banks provide significant amounts of information on financial conditions across their specific region, which is vital to formulating monetary policy decisions.
3. **The Federal Open Market Committee:** The FOMC is a 12-person group of the Federal Reserve System that sets crucial U.S. monetary policy at meetings held at least eight times per year. The committee includes all seven members of the Board of Governors and five rotating regional Federal Reserve Bank presidents, including the President of the New York Fed, who has a permanent seat. The FOMC makes all decisions regarding the appropriate position or “stance” on monetary policy to help promote its dual mandate. It’s led by the Chair of the Federal Reserve, who is the chief executive of the Central Bank. As leader of the FOMC, the Chair influences interest rates and acts as a public voice on economic policy.

How is the Federal Reserve Chair Selected?

Because of the Fed’s pivotal role in the economy, the process for selecting the Chair is heavily scrutinized and can take months. The Chair is also nominated by the President of the United States and must be confirmed by the Senate. The Senate Banking Committee holds extensive hearings to vet the nominee, which are then followed by a full Senate vote. The Chair serves a four-year term that can be renewed through the same process, although the renewal process typically is not as lengthy. There is no limit to the number of terms the Chair can serve, provided they are renominated and reconfirmed. The Chair’s term is designed to be independent of the presidential election cycle.

Who is the Current Fed Chair and who will be the next Fed Chair?

Jerome Powell is the current Chair, with his term ending in May 2026. Powell was initially nominated to the Federal Reserve Board by President Obama in 2012. In 2018, President Trump nominated Powell as Chair, succeeding Janet Yellen, who served as Chair from 2014-2018. President Biden reappointed Powell for a second term in 2022. On January 30, 2026, President Trump nominated Kevin Warsh to succeed Jerome Powell, if confirmed by the Senate. Warsh served on the Federal Reserve Board from 2006 to 2011.

What Interest Rate does the FOMC control?

The Federal Reserve primarily controls the Federal Funds Rate. This is the target interest rate at which commercial banks borrow and lend their excess reserves to each other overnight. The rate is currently set with a target range of 3.50%-3.75%. The Fed will raise this interest rate to try to slow the economy, and it will cut the rate in efforts to stimulate economic growth. Higher inflation typically will lead to the Fed raising this rate, while lower inflation can lead the Fed to lower the rate.

It is important to note that the Fed does not directly set consumer interest rates. Rates on mortgages and student loans are more closely tied to long-term interest rates, such as the 10-year Treasury yield. However, the Fed Funds rate will directly impact money market, savings account and CD rates. A lower Fed fund rate leads to lower earnings on these products, negatively impacting “savers”.

How does the FOMC Change interest rates?

The process of raising and lowering the Fed Funds rates is not solely left to the Fed Chair. The 12-member FOMC committee votes to raise or lower the target range at each of its meetings. A majority vote rules, meaning at least seven members must vote in favor of the rate decision. Typically, these decisions are unanimous or near-unanimous. This voting system ensures the Fed Chair does not solely control interest rates.

Is The Federal Reserve's Independence in Question?

The Fed did cut interest rates by 50 basis points in 2025, though President Trump has said rates should be as low as 1%. Lowering rates too quickly can stoke inflation, which goes against the dual mandate of the Federal Reserve. So far, Jerome Powell has resisted President Trump's repeated push for lower interest rates as solid economic data makes it difficult to justify lower rates.

Now that President Trump has nominated a new Fed Chair in Kevin Warsh, questions over the long-term independence of the Fed have emerged. With Trump insisting on lower interest rates in the very near-term, speculation has arisen that one of the conditions of the next Fed Chair is that they would be expected to immediately lower interest rates. During Kevin Warsh's term as a Fed governor from 2006 to 2011, he was more hawkish, favoring higher interest rates to fight inflation. However, more recently, Warsh has indicated that he favors lower interest rates to encourage economic growth, which aligns with President Trump's views. How much Warsh would like to lower rates is not known.

The independence of the Federal Reserve is crucial for insulating monetary policy from short-term political pressures to ensure decisions focus on long-term economic stability rather than politicians winning elections in the short-term. As former Fed Chair Ben Bernanke in a 2010 speech so eloquently put it:

"Policymakers in a central bank subject to short-term political influence may face pressures to overstimulate the economy to achieve short-term output and employment gains that exceed the economy's underlying potential. Such gains may be popular at first, and thus helpful in an election campaign, but they are not sustainable and soon evaporate, leaving behind only inflationary pressures that worsen the economy's longer-term prospects. Thus, political interference in monetary policy can generate undesirable boom-bust cycles that ultimately lead to both a less stable economy and higher inflation."⁴

The bottom line is that, if confirmed, Kevin Warsh will certainly face political pressures to lower interest rates. While the Chair certainly can influence the direction and magnitude of interest rates, the system is designed so that no single individual can control the rate by themselves. From the staggered nominations for the board members to the rotating voting members, unless Congress changes the structure of the Fed, it is unlikely that full independence of the Federal Reserve will disappear, despite the immense political pressure that may be placed on it by political leaders. ◇

As always, don't hesitate to contact your Ancora advisor or relationship team if you have any questions or would like to learn more about these topics. Visit our website at www.ancora.net to find other news and insights from the investment professionals at Ancora.

4 Read More: <https://www.federalreserve.gov/newsevents/speech/bernanke20100525a.htm>

Market Data Center

As of 1/31/2026

Stocks	1 month	3 months	6 months	YTD	1 year	3 years	Dividend Yield	NTM P/E	P/B
S&P 500	1.5%	1.8%	10.1%	1.5%	16.3%	77.7%	1.05%	22.2x	5.3x
Dow Jones	1.8%	3.2%	11.7%	1.8%	11.7%	51.9%	1.41%	20.6x	5.5x
Russell 2000	5.4%	5.7%	18.9%	5.4%	15.8%	41.2%	0.98%	23.9x	2.2x
Russell 1000 Growth	-1.5%	-3.9%	6.1%	-1.5%	14.5%	105.1%	0.36%	27.6x	13.1x
Russell 1000 Value	4.6%	8.1%	13.7%	4.6%	15.8%	46.9%	1.61%	17.6x	3.1x
MSCI EAFE	5.2%	9.1%	17.4%	5.2%	31.8%	59.2%	3.22%	15.8x	2.2x
MSCI EM	8.9%	9.5%	24.1%	8.9%	43.7%	61.5%	2.06%	13.2x	2.3x
NASDAQ 100	1.2%	-1.0%	10.4%	1.2%	19.8%	116.2%	0.45%	25.7x	8.4x

Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years	Commodities	Level	1 month	YTD
U.S. Aggregate	4.36%	0.1%	0.6%	0.1%	6.8%	11.3%	Oil (WTI)	65.74	14.5%	14.5%
U.S. Corporates	4.82%	0.4%	0.7%	0.4%	7.5%	16.0%	Gasoline	2.08	19.7%	19.7%
Municipal Bonds	3.42%	0.7%	1.1%	0.7%	4.6%	9.8%	Natural Gas	4.42	41.1%	41.1%
High Yield Bonds	6.54%	0.5%	1.6%	0.5%	7.5%	28.8%	Propane	0.63	-0.5%	-0.5%
							Ethanol	1.52	-8.2%	-8.2%
							Gold	4,909	13.1%	13.1%
							Silver	85.25	20.7%	20.7%
							Copper	5.90	4.7%	4.7%
							Steel	972	1.8%	1.8%
							Corn	4.28	-2.7%	-2.7%
							Soybeans	10.54	3.3%	3.3%

Key Rates	1/31/2026	12/31/2025	10/31/2025	7/31/2025	1/31/2025	1/31/2023
2 yr Treasury	3.53%	3.48%	3.60%	3.94%	4.20%	4.21%
10 yr Treasury	4.26%	4.17%	4.09%	4.36%	4.55%	3.53%
30 yr Treasury	4.89%	4.84%	4.66%	4.89%	4.80%	3.66%
30 yr Mortgage	6.21%	6.25%	6.26%	6.78%	7.01%	6.21%
Prime Rate	6.75%	6.75%	7.00%	7.50%	7.50%	7.50%

Data Reflects Most Recently Available As of 1/31/2026

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