



Market Outlook

Everything Everywhere All at Once

1Q 2026

Market standouts and laggards

US Related

ETF	Description	Q4	2025
SPY	S&P 500	2.67%	17.72%
DIA	Dow Jones Ind	4.02%	14.71%
QQQ	Nasdaq 100	2.45%	20.77%
IJH	S&P Midcap 400	1.63%	7.42%
RSP	S&P 500 Eq Weight	1.38%	11.21%
QQQE	Nasdaq 100 Eq Weight	0.69%	14.38%
IWB	Russell 1000	2.48%	17.18%
IWM	Russell 2000	2.08%	12.66%
IWV	Russell 3000	2.37%	16.96%

Factors

ETF	Description	Q4	2025
IVW	Russell Growth	2.21%	21.95%
IVE	Russell Value	3.17%	13.02%
IJK	Midcap 400 Growth	1.25%	7.28%
IJJ	Midcap 400 Value	2.06%	7.27%
IJT	Smallcap 600 Growth	0.05%	5.26%
IJS	Smallcap 600 Value	3.31%	6.54%
DVY	DJ Dividend	0.45%	11.60%
MTUM	Momentum	-2.13%	22.15%
USMV	Low Volatility	-0.62%	7.65%
SIZE	Size	0.96%	10.51%
QUAL	Quality	2.43%	12.65%

Global

ETF	Description	Q4	2025
EWA	Australia	-1.34%	13.35%
EWZ	Brazil	6.07%	48.81%
EWC	Canada	7.64%	35.92%
MCHI	China	-7.66%	31.04%
EWQ	France	2.93%	28.90%
EWG	Germany	2.14%	35.79%
EWK	Hong Kong	1.78%	34.50%
INDA	India	3.82%	2.68%
EWI	Italy	5.95%	55.72%
EWJ	Japan	4.43%	25.84%
EWX	Mexico	3.59%	53.65%
EIDO	Indonesia	7.58%	4.90%
EWP	Spain	10.42%	78.03%
EIS	Israel	10.80%	45.11%
EWU	UK	6.81%	34.95%

EFA	EAFE	4.71%	31.55%
EEM	Emerging Mkts	3.92%	33.98%
IOO	Global 100	5.93%	27.02%
VT	All World	3.19%	22.43%
CWI	All World ex US	4.72%	32.75%

Sectors

ETF	Description	Q4	2025
XLY	Cons Disc	-0.14%	7.37%
XLP	Cons Stap	-0.09%	1.52%
XLE	Energy	0.94%	7.88%
XLF	Financials	2.03%	14.90%
XLV	Health Care	11.70%	14.50%
XLI	Industrials	0.92%	19.35%
XLB	Materials	1.73%	9.94%
XLRE	Real Estate	-3.18%	2.63%
XLK	Technology	2.31%	24.61%
XLC	Comm Services	-0.23%	23.08%
XLU	Utilities	-1.36%	16.03%
SMH	Semis	10.69%	49.17%

Currencies

ETF	Description	Q4	2025
FXB	British Pound	0.81%	10.37%
FXE	Euro	0.26%	14.52%
FXJ	Yen	-5.69%	0.09%
FXI	Dollar	0.52%	-9.40%

Fixed Income

ETF	Description	Q4	2025
SHY	1-3 Yr Treasuries	1.07%	4.95%
IEI	3-7 Yr Treasuries	1.07%	6.96%
IEF	7-10 Yr Treasuries	0.93%	8.03%
TLH	10-20 Yr Treasuries	0.12%	6.47%
TLT	20+ Yr Treasuries	-1.04%	4.25%
AGG	Aggregate Bond	0.94%	7.19%
TIP	T.I.P.S.	-0.08%	6.77%
JNK	High Yield	1.36%	8.76%
MBB	Mortgage-Backed	1.51%	8.38%
LQD	IG Corporate	0.34%	7.90%

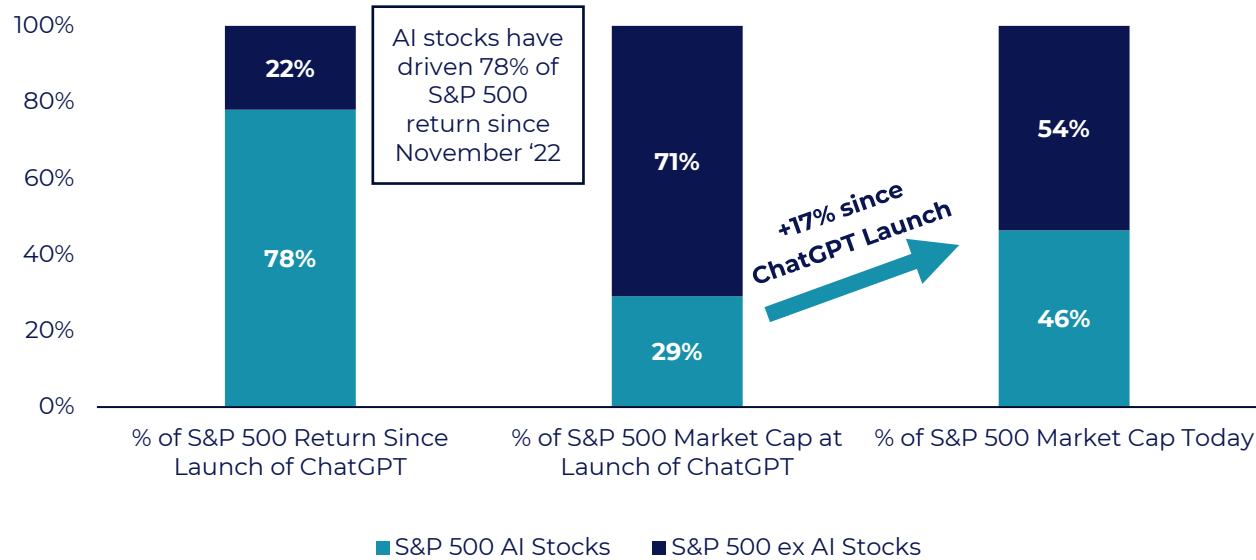
Commodities

ETF	Description	Q4	2025
DBC	Commodities	2.59%	8.10%
DBA	Agric Commod.	-1.19%	-0.56%
USO	Oil	-6.22%	-8.46%
UNG	Nat. Gas	-6.20%	-27.07%
GLD	Gold	11.49%	63.68%
SLV	Silver	52.04%	144.66%

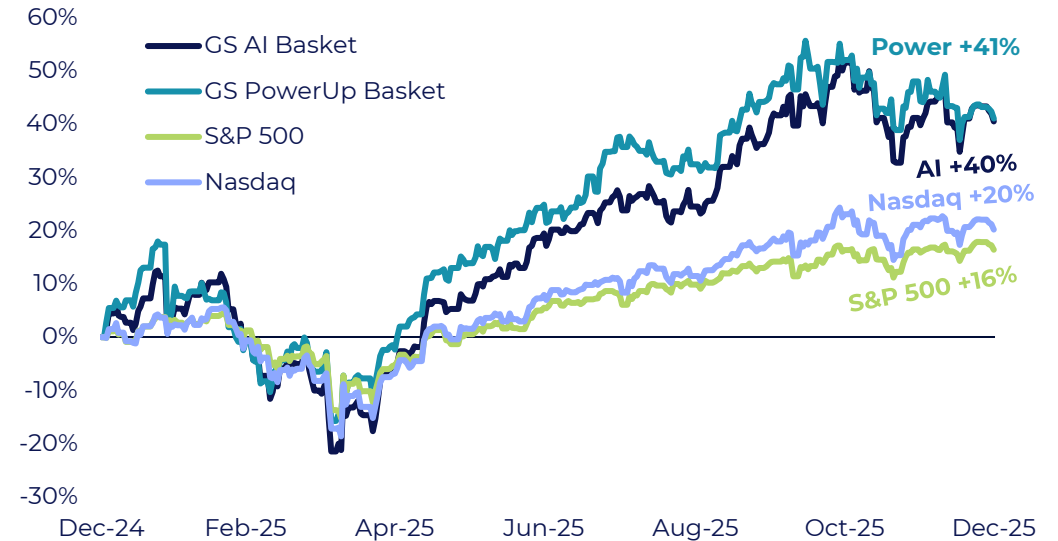
2025 – Year in Review

AI was a dominant theme in '25

Effect of AI Stocks on S&P 500 Returns & Market Cap



The AI and Power themes outperformed the broader market



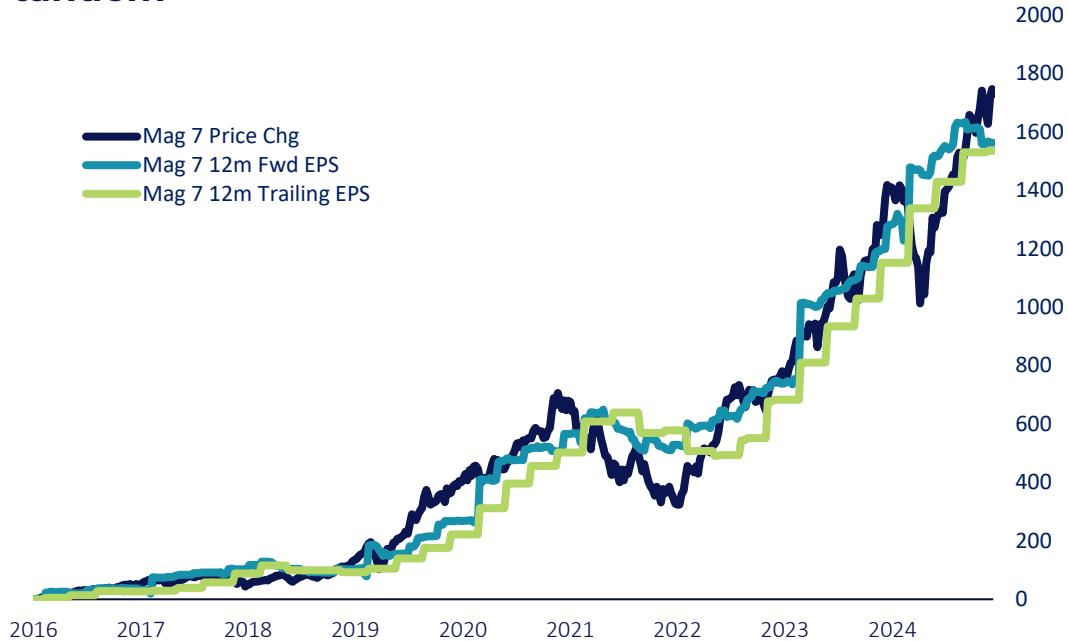
Market performance was driven by performance of companies engrained in or adjacent to AI

Semis, AI, and power lead the way higher through most of last year as optimism surrounding the future of AI provided robust support to the market.

Breadth widened across the market as the AI trade was challenged in November, but generally the theme persisted the entire year.

Hyperscalers spent big – and still delivered the goods

Mag 7 price and EPS growth have moved in tandem

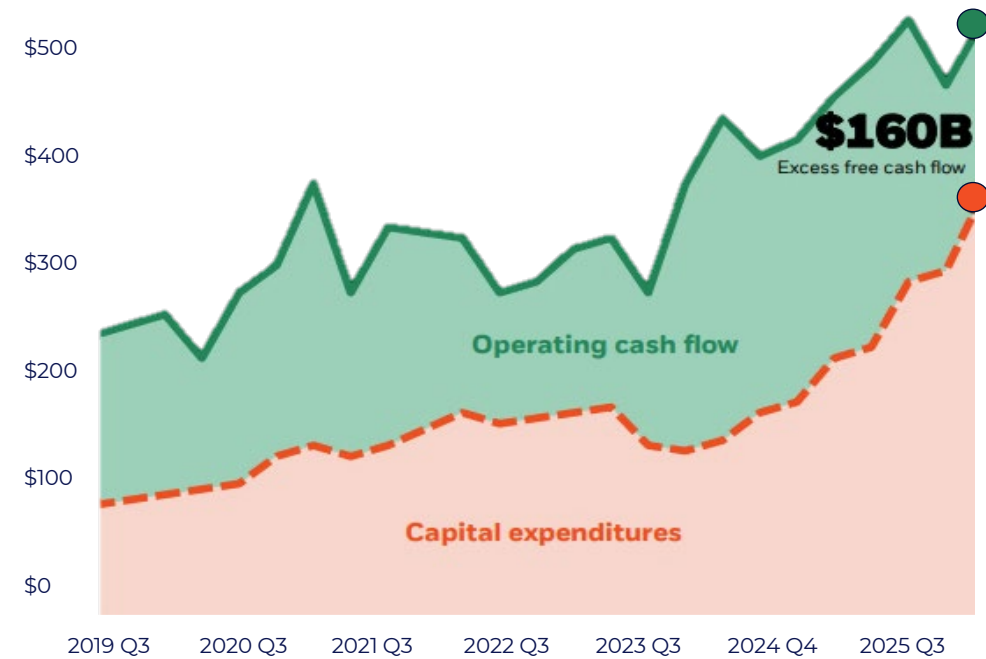


AI growth and spending is earnings-backed so far

Unlike past tech bubbles, mega-cap leaders delivered real fundamentals, with Mag 7 earnings growing nearly 16x since 2017, supporting a 20x price appreciation.

Hyperscaler Cash Generation vs Capex

(Google, Amazon, Meta, Microsoft, Oracle)



Capex was funded by cash flow, not just debt

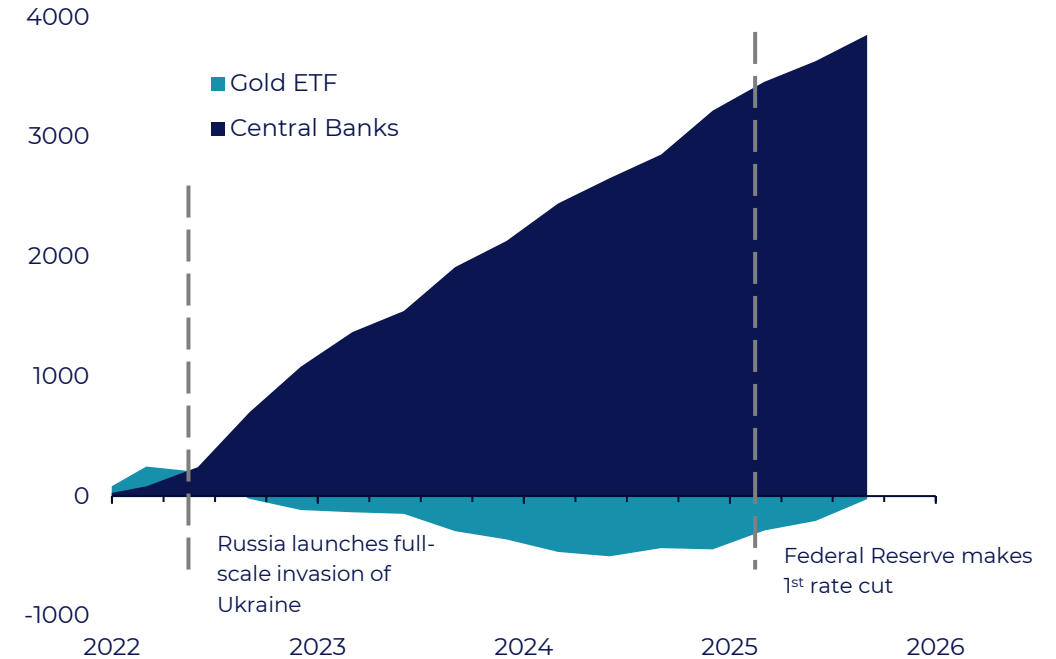
Hyperscalers are financing record AI investments internally, with over \$600B in operating cash flow vs. \$500B in annual AI capex, maintaining net debt-to-EBITDA near zero. By the end of the year, the hyperscalers began to access the debt markets, but cash flows still lead the spend.

All that glitters: Precious metals rally

Gold, Silver, and S&P 500 2025 Performance (Normalized)



Cumulative Gold Demand Since 2022 (Tonnes)



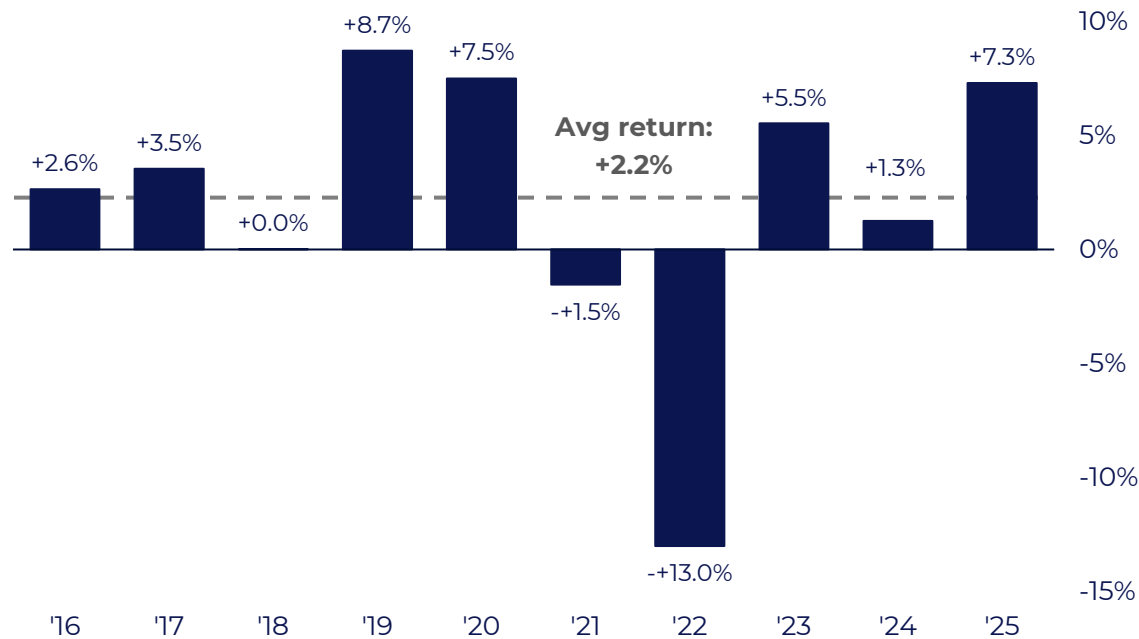
Precious metals caught fire from industrial demand, continued central bank purchases, and more retail participation

The gold rally accelerated in 2025 (+65%), dragging silver along with it, which emerged as the absolute top performer of the year (+148%). Falling US interest rates led ETF investors, who were net gold sellers in 2022-2024, to re-enter the space while Central Banks continued their gold purchasing program.

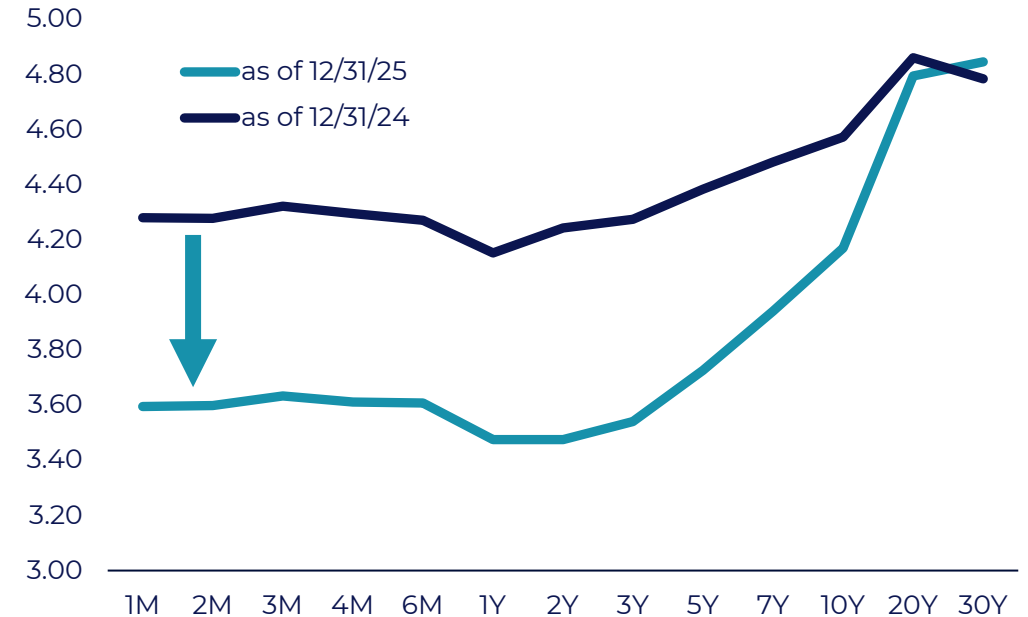
Silver benefitted from the uptrend of gold but with a lag, further supported by fears of new tariffs and energy transition/AI demand.

Bonds were cool again in 2025

Annual fixed income returns 2016-2025



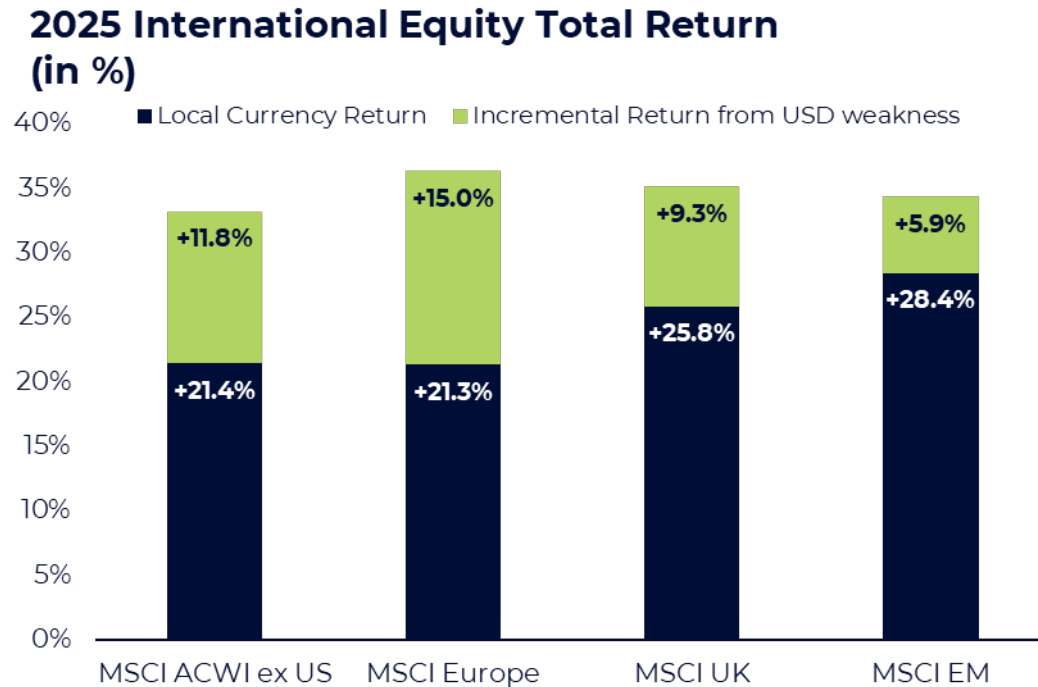
US yield curve bull steepened



Bonds returned over 7% spurred by rate cuts and significant demand for income

US fixed income, as measured by the BBG US Aggregate Index, generated 7.3% of total returns during 2025. This was the best year since 2020 and provided a solid ballast in the portfolio. Interestingly, Investment Grade Credit (+7.8%), High Yield Credit (+8.6%), and Mortgage-Backed Securities (+8.6%) outperformed on the year, whereas Treasuries (+6.3%) and Leveraged Loans (+5.51%) underperformed.

Dollar weakness = International developed dominance



International markets had a stellar year in 2025, but a lot of the outperformance in developed markets was due to weakness in the US Dollar

The international rally was impressive, especially at the start of 2025, as dollar weakness and Trump trade war fears peaked. While it is true there was some marginal earnings growth across the globe, according to GS, most of the performance across international developed markets was driven by US dollar weakness as well as multiple expansion. When looking at the DAX (German Stock Index) as a proxy for Europe, over 80% of the performance was a result of US dollar weakness and multiple expansion, not earnings growth.

“Four Prices” signal risk on – Don’t Fight Trump

Oil +



US 10yr +



USD +



HY Spreads +



The Trump administration is actively pushing three of the four key prices we monitor – oil, the US dollar, and interest rates – lower, creating a constructive backdrop for risk assets. We remain responsibly bullish and are closely monitoring these indicators, as any reversal could signal a broader need to reassess our risk posture.

House View

Market Outlook

Current Market Setup:

1. AI and semiconductors powered market leadership in 2025
2. Precious metals and bonds rallied as rates fell and demand surged
3. International equities outperformed as a weak dollar boosted returns

Our View:

1. Valuations are high, creating the potential for a wide distribution of outcomes this year, discipline is key
2. Recession risk is elevated, but productivity gains, margin expansion, and a dovish Fed should bolster growth even if labor is challenged
3. Earnings growth in Europe may be too optimistic, but Japan and EM are the bright spots in international
4. Equities should outperform bonds, but it's an earnings driven story given valuations are high
5. 2026 will see more volatility and more market breadth
6. Key sector themes: AI not a bubble, Power remains the bottleneck, and Financials should continue to benefit from deregulation

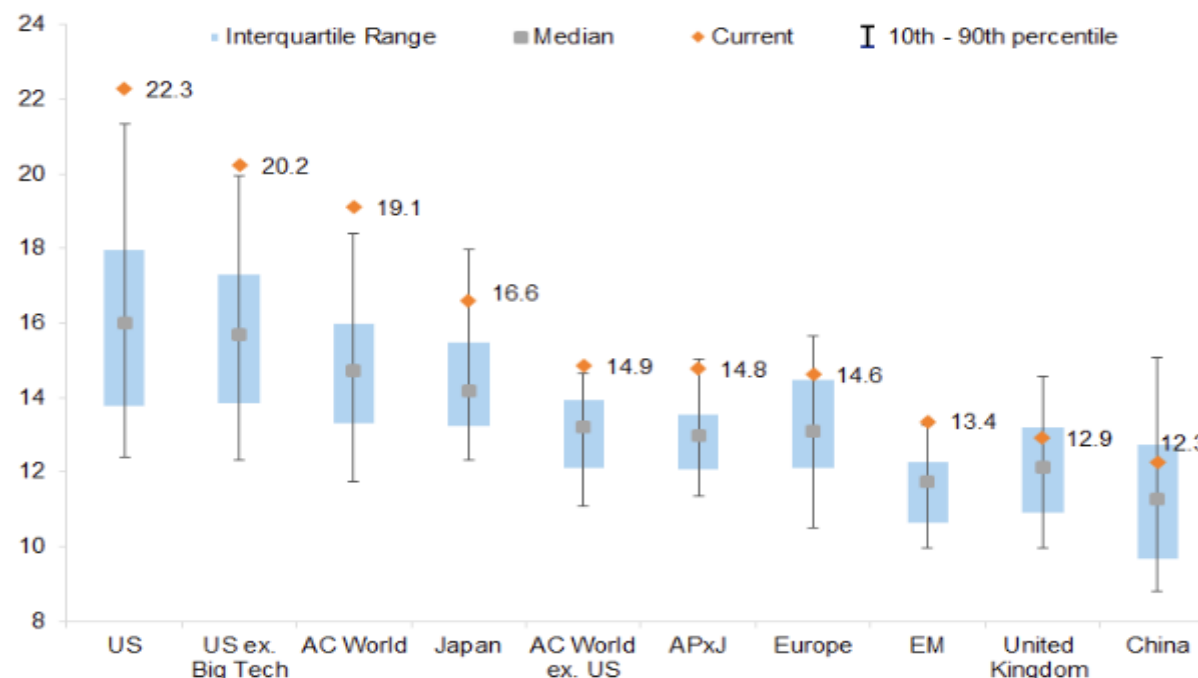
Key Risks:

1. Capex spend is draining stock buybacks, reducing a key support for equities
2. Labor market weakens faster than headline growth suggests
3. Second year of presidential cycle brings policy uncertainty
4. Lofty earnings growth expectations set a low bar for disappointment

Overall, we are responsibly bullish into 2026, but laser focused on what could go wrong

Rich valuations widen the cone of uncertainty

Equity P/E Multiples Across Regions

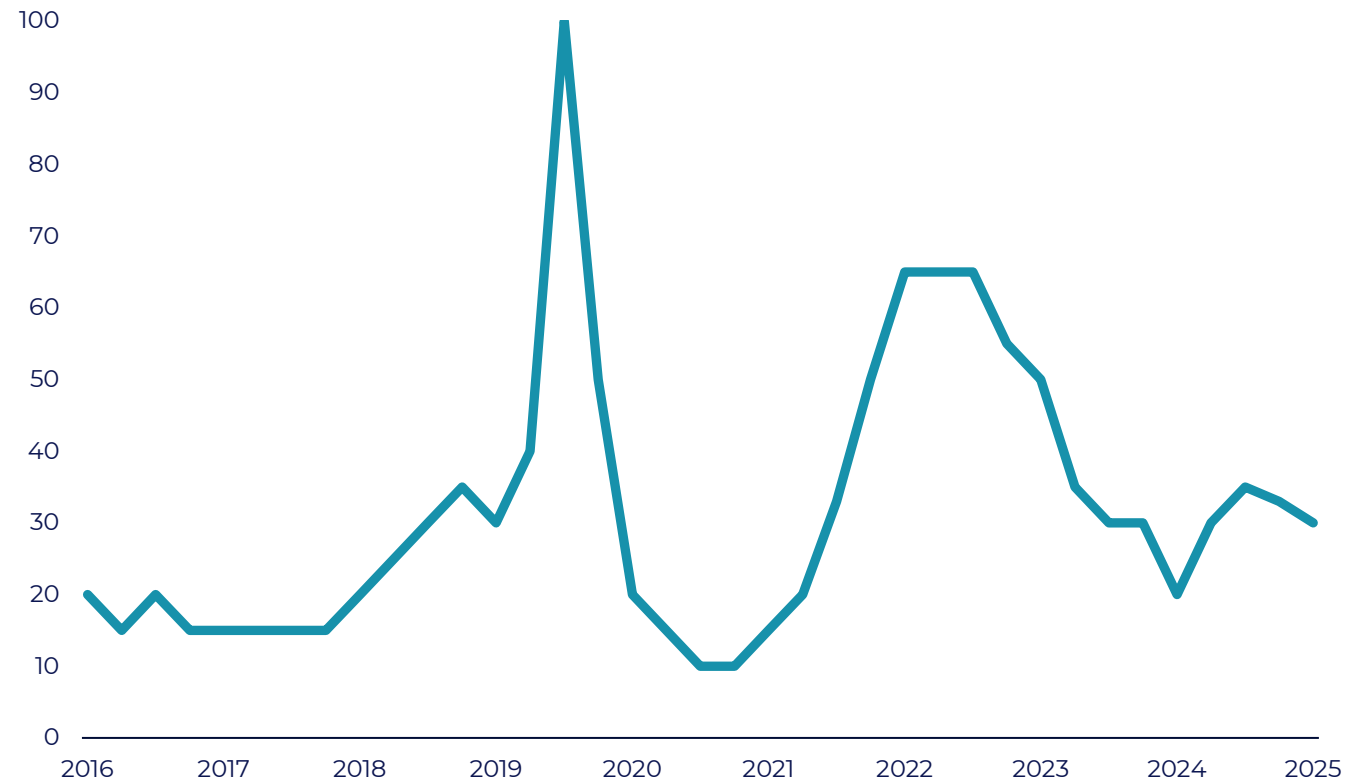


Equity valuations across regions are at historical highs, keeping us responsible in our bullishness

Overall, valuations remain stretched across equity markets. While long term forward returns typically aren't rosy when valuations are near the highs, valuations alone aren't a reason for us to dislike markets. We like the economic backdrop and earnings setup going into 2026 – but are cognizant that we are priced close to perfection and want to capitalize on themes we think will persist over time.

US recession risk: Elevated but not extreme

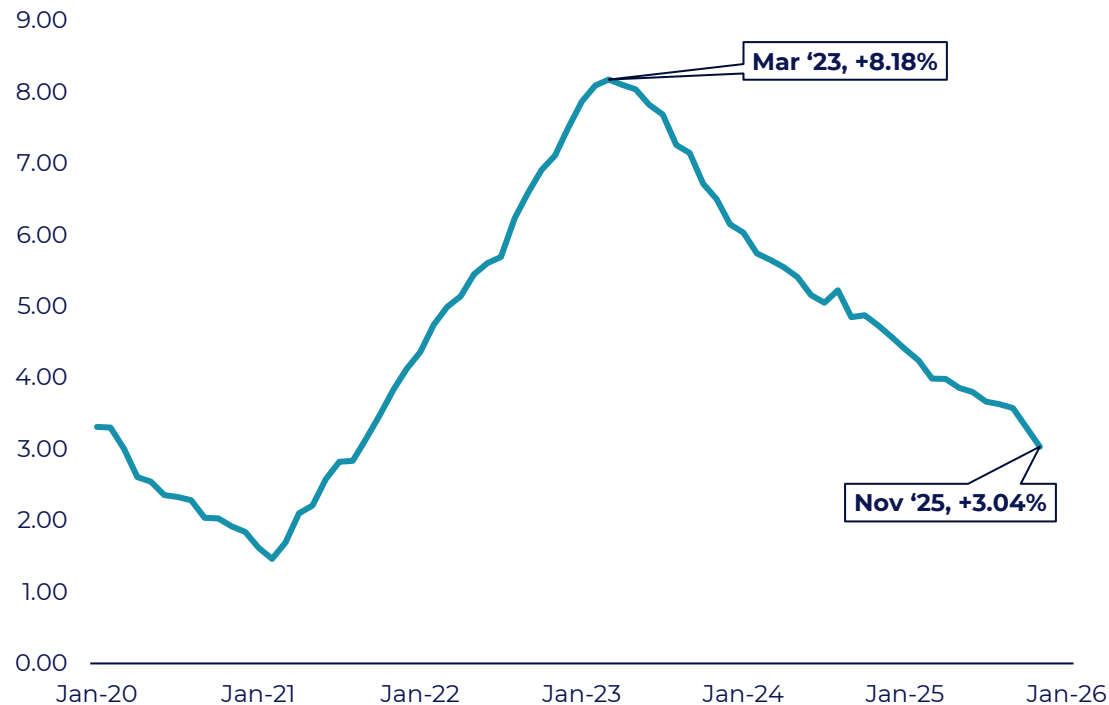
US 1yr recession probability forecast (in %)



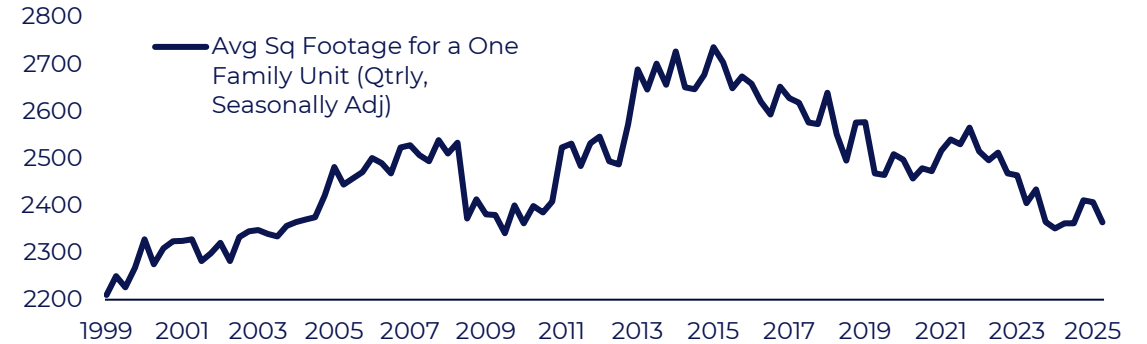
We think growth will be resilient, due to benefits from AI, fiscal stimulus from the “One Big Beautiful Bill”, and the Fed continuing its easing path

New focus: Labor markets replace inflation worries

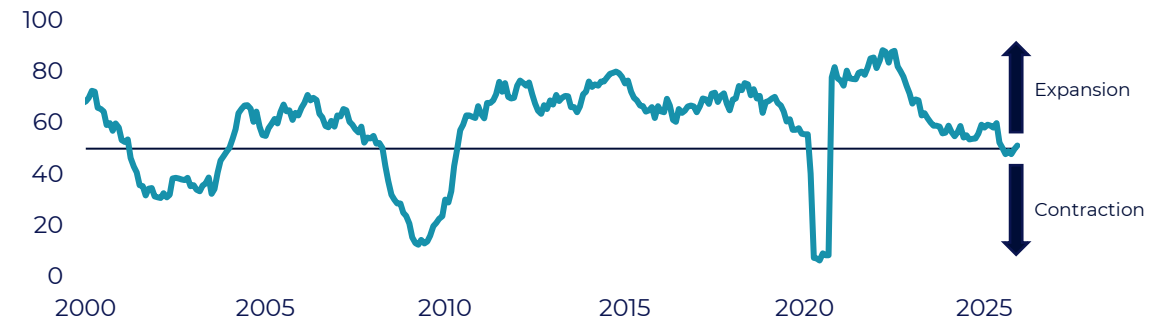
US Shelter Inflation continues to march lower



Home sales climb but floor plans shrink



Diffusion Index: % of Industries Hiring (Last 6m)

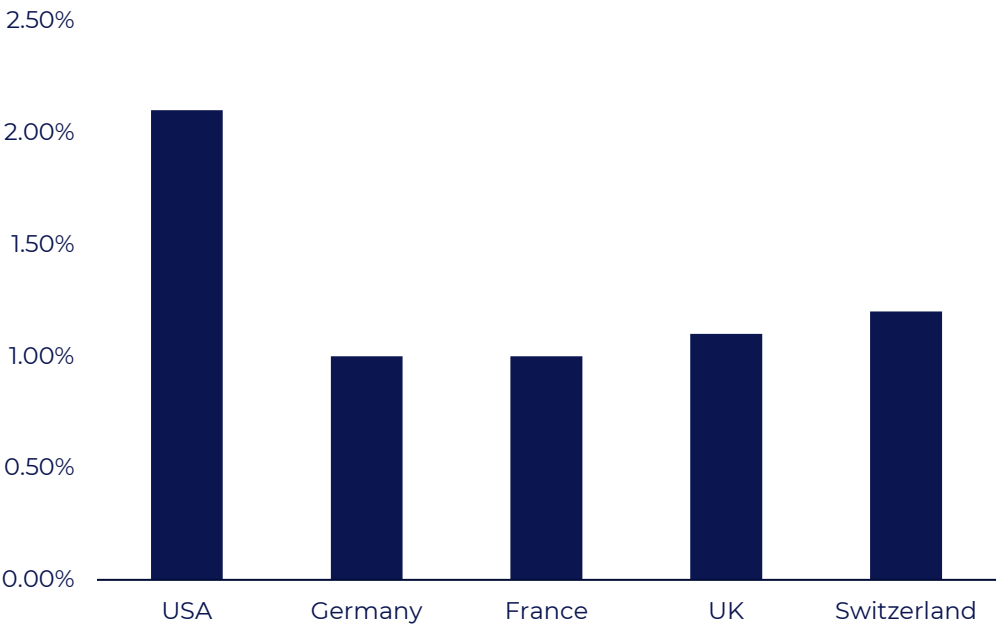


But importantly, we think growth can remain resilient even as labor softens

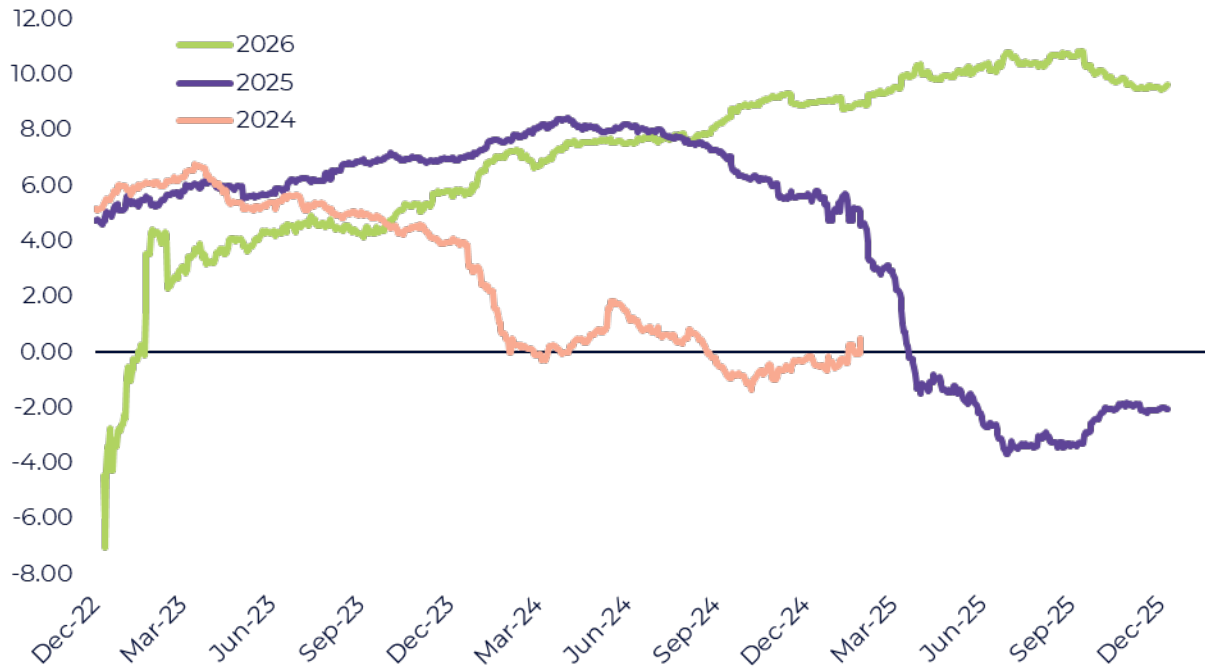
Real private domestic final purchases continue to point to an economy growing about 2% in real terms, boosted by robust investment in intellectual property, software, and the AI-related build-out of data centers and power infrastructure. Fiscal deficits remain large, liquidity is not scarce, and the Fed should continue moving the rate to neutral, all of which provide a meaningful cushion against a classic demand-side recession.

Caution warranted abroad – Europe struggles, Japan shines

2026 Consensus GDP Estimates



Europe earnings growth estimates outsized? (in % Yoy)

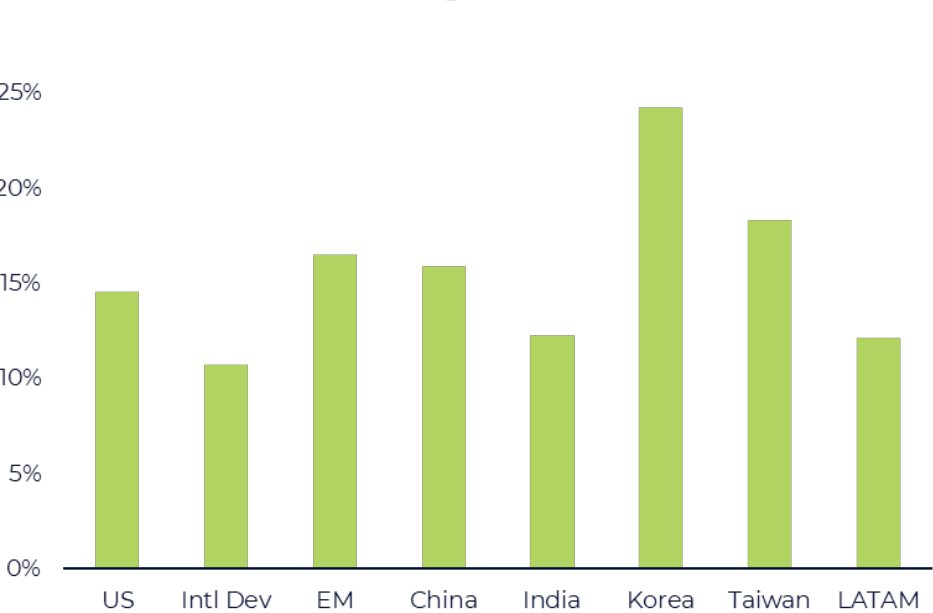


Japan the bright spot in an otherwise challenged world

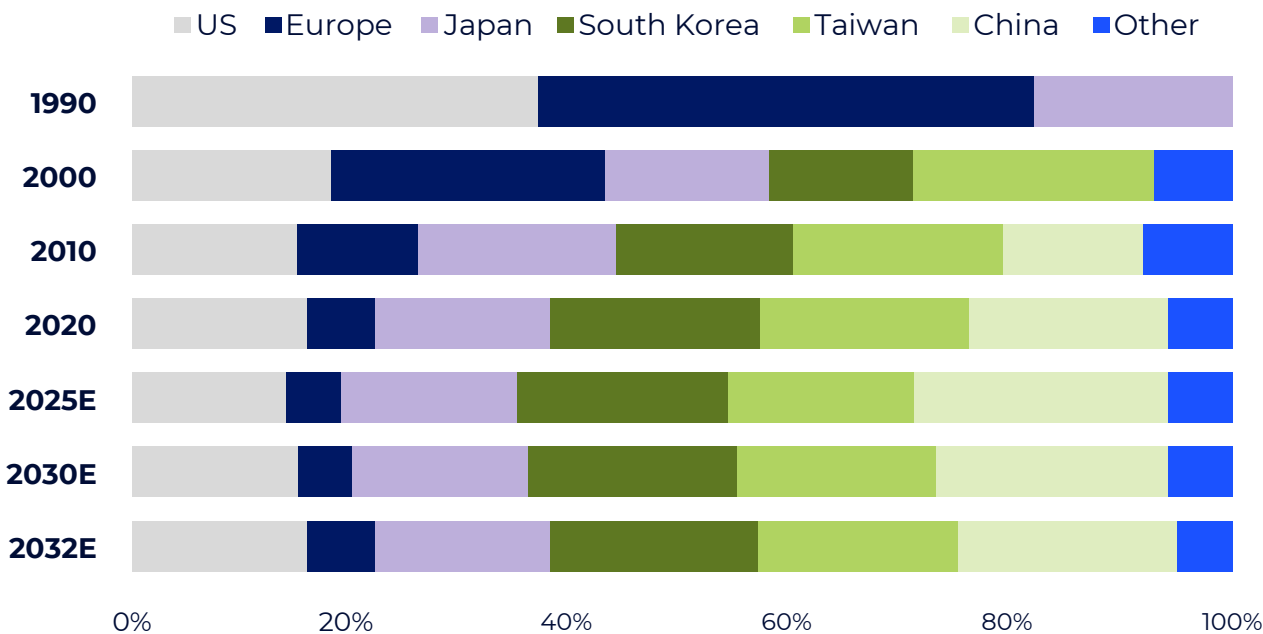
Developed markets outside the U.S. face structural challenges, particularly in Europe, where growth is expected to be weaker than the US. While Japan may be a bright spot given its reflationary rally amid policy support, Europe’s weaker macro picture as well as extremely high bar for earnings growth expectations could create challenges for the broader international developed market.

Asia's AI supply chain drives EM earnings surge

2026 Consensus Earnings Estimates



Semiconductor production by origin

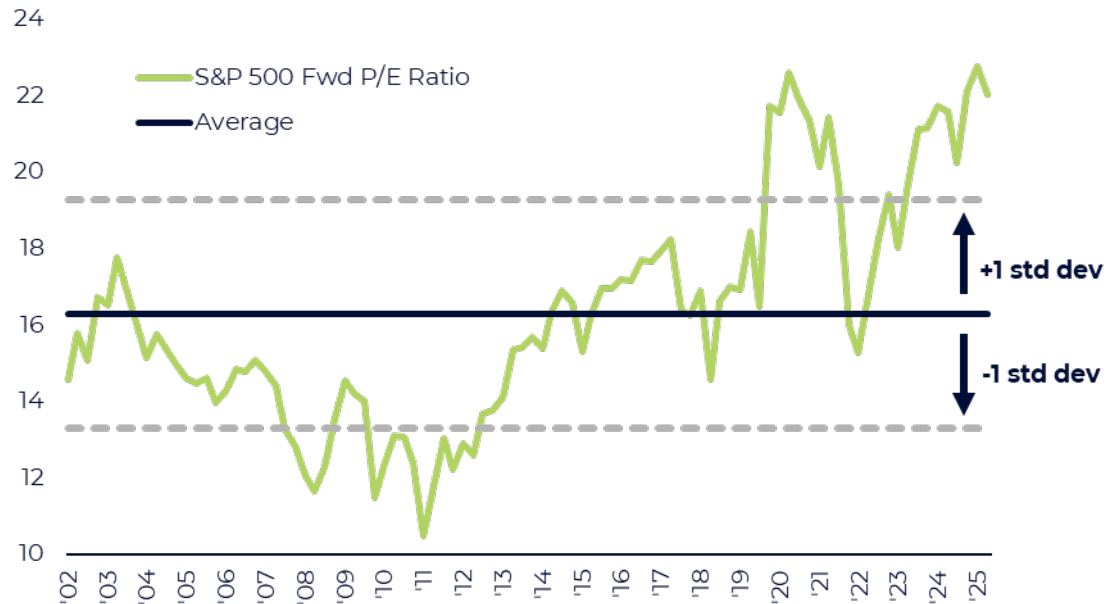


EM earnings continue to be driven by AI, as Korea, Taiwan, and China are expected to outpace earnings in the US

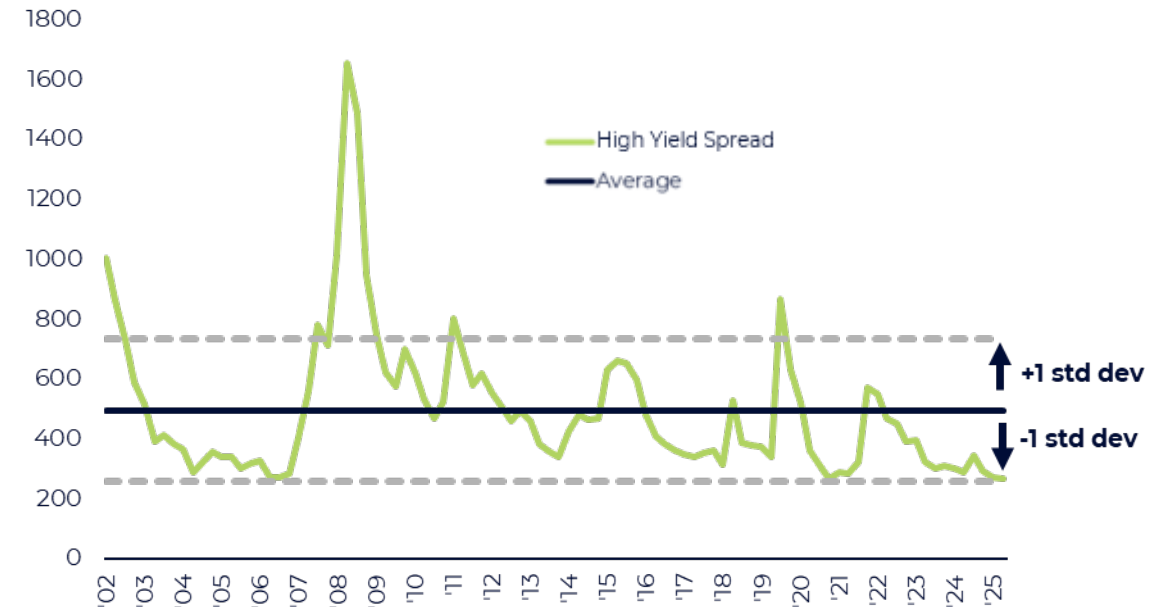
Nearly 60% of global semiconductor production is anchored in China, South Korea, and Taiwan – with China scaling datacenters and robotics, Taiwan leading high-end chips and packaging, and South Korea dominating memory. This AI-centric depth has supported EM earnings growth forecasts to continue to move higher.

Stocks look expensive – until you do the math

S&P 500 PE ratio is high but earnings are expected to grow at nearly +14%



HY spreads are at the tight end leaving little room for significant performance

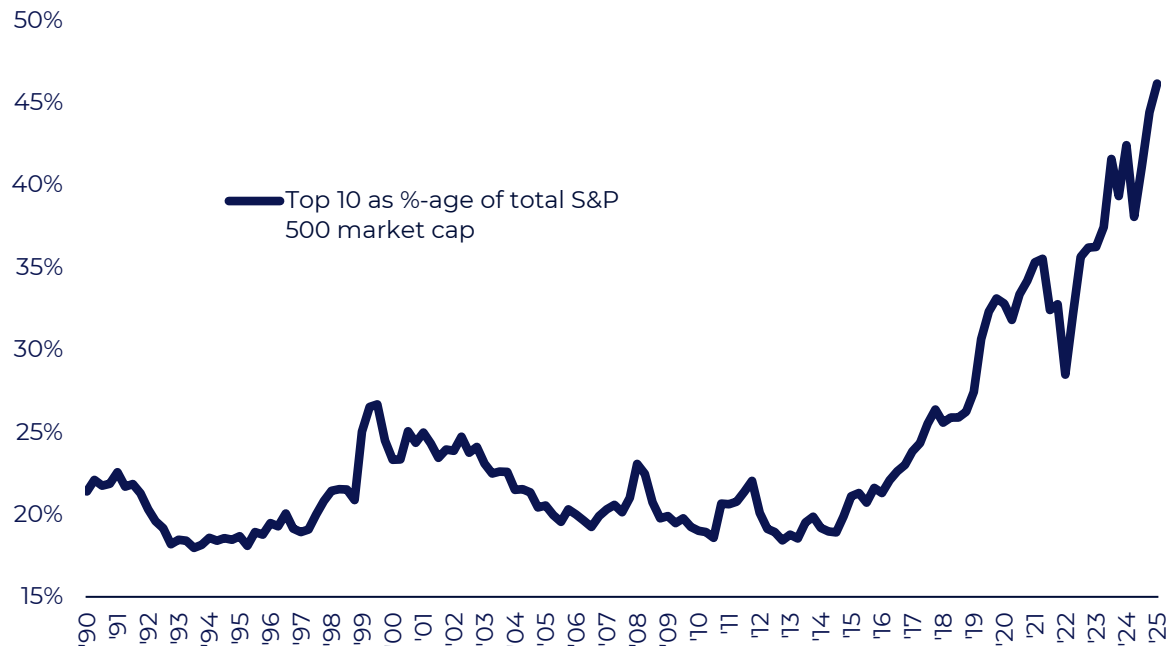


Valuations for equities are elevated but still provide a solid entry point when considering earnings growth

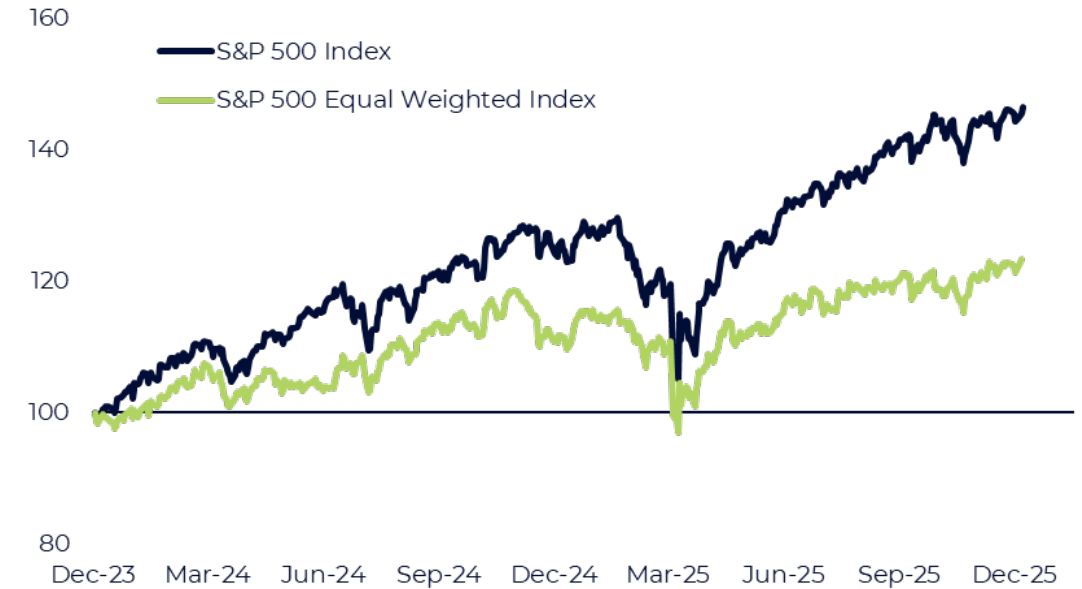
We think equities remain the preferred asset class for 2026, with Goldman projecting global equity price returns of +13% and total returns near +15%. In contrast, fixed income could offer mid-single-digit returns with modest rate cuts and curve steepening throughout the year. We think earnings growth, especially in the US which is forecasted to see nearly +14% growth will continue to drive markets higher.

Market breadth improves as AI benefits spread

The top 10 names account for over 46% of the total market cap of the S&P 500



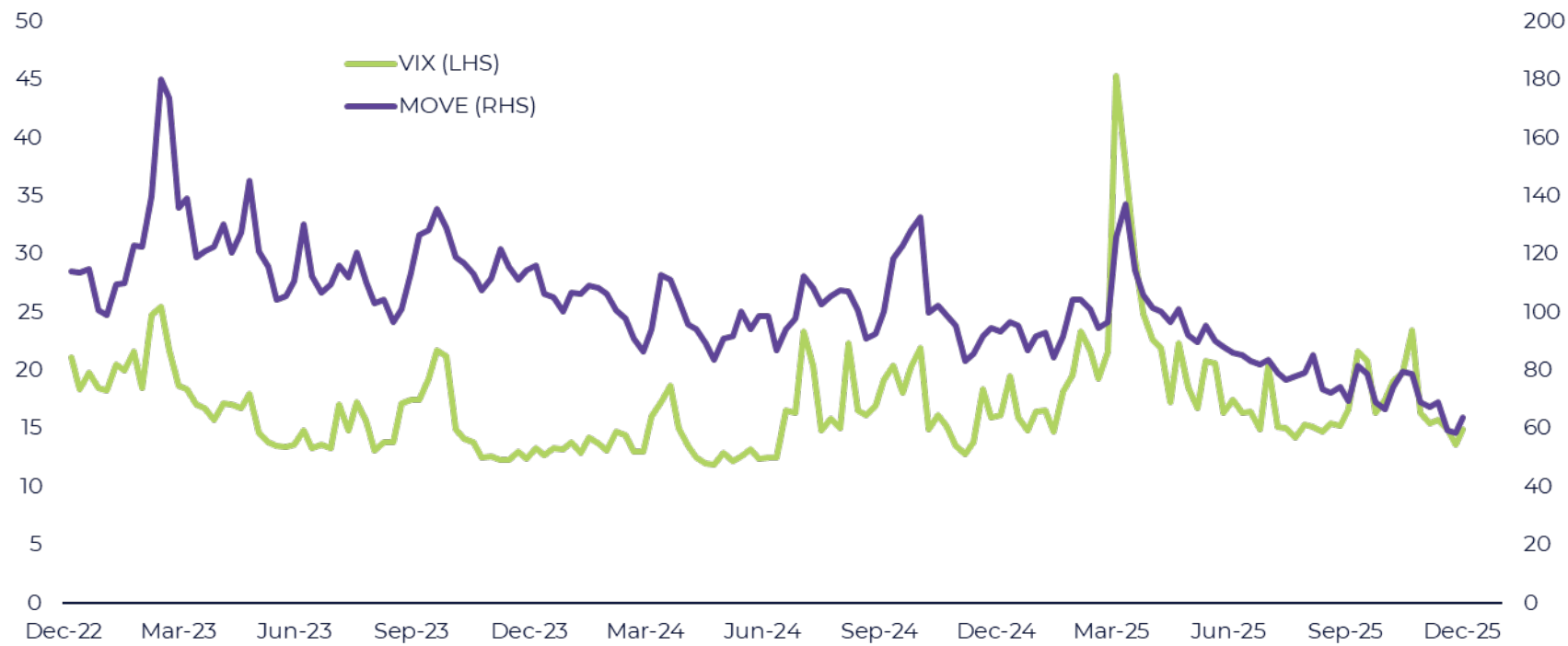
S&P 500 Index vs S&P 500 Equal Weighted Index



2025 was the year of the AI trade, with the Mag7 leading the way. While we think that the AI trade will continue to pay dividends into 2026, we also believe that performance will broaden out from the Mag7 to the broader 493, as more companies – particularly those that are in the supply chain to AI – generate gains. Real bottlenecks are physical ones, not software ones – power and compute. Data centers can't be built without electricity and the demand for processing power isn't slowing.

And volatility should increase

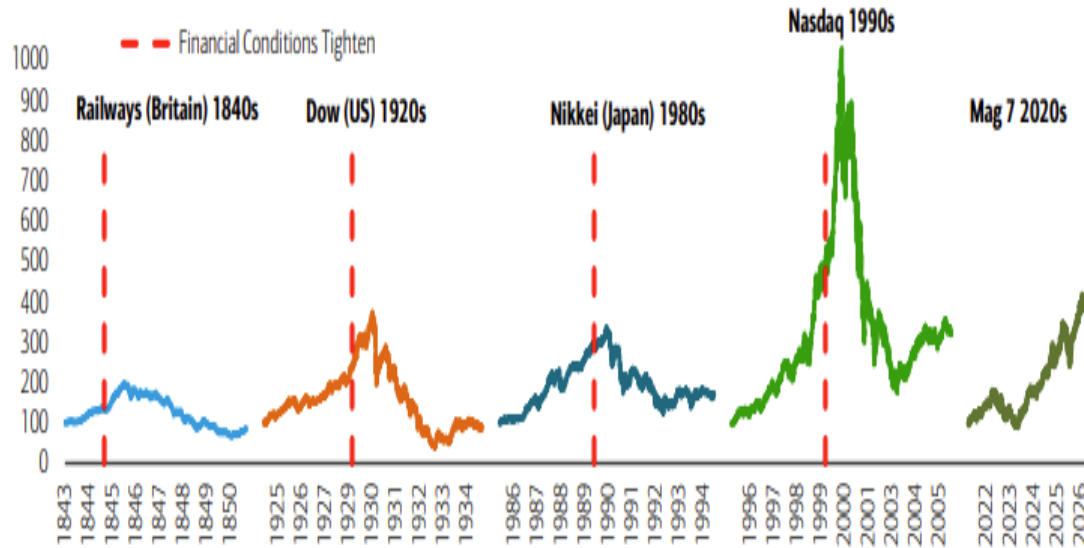
VIX Index and MOVE Index near the local lows



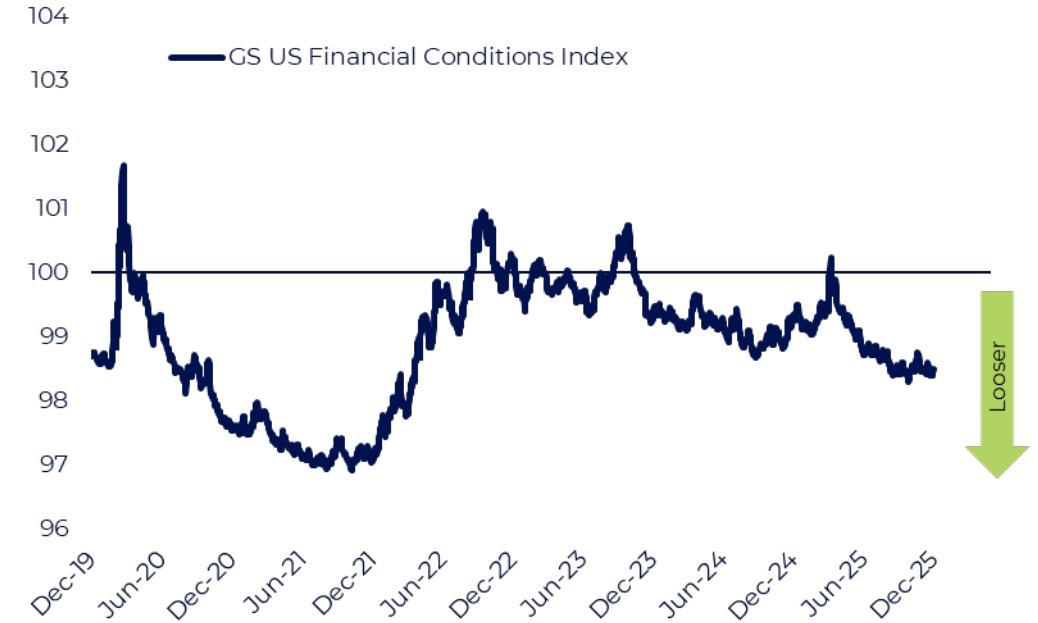
Market measures of volatility (VIX for equities and MOVE for bonds) marched lower into the end of 2025. That typically coincides with markets reaching all time highs. While we don't think a material correction is in store, we think markets are underpricing volatility given the broader crosscurrents at hand and believe 2026 will see an increase in volatility.

Bubble paranoia requires tightening – check back later

Previous bubbles popped post tightening of financial conditions, but not before



US Financial Conditions



Bubbles popping coincide with tightening of financial conditions, which remain loose in the US

According to a recent report by Bank of America, major asset bubbles in global equities in the last ~180 years have all seen financial conditions tighten before the end. In five historic equity bubbles, each start with key financial condition tightening events (such as the Fed rate hike in 1999 for the Dotcom bubble), as shown in the chart on the left. However, financial conditions within the US remain loose, with the Fed in a cutting cycle and the US in a broader fiscal expansion.

AI valuations are elevated but not extreme

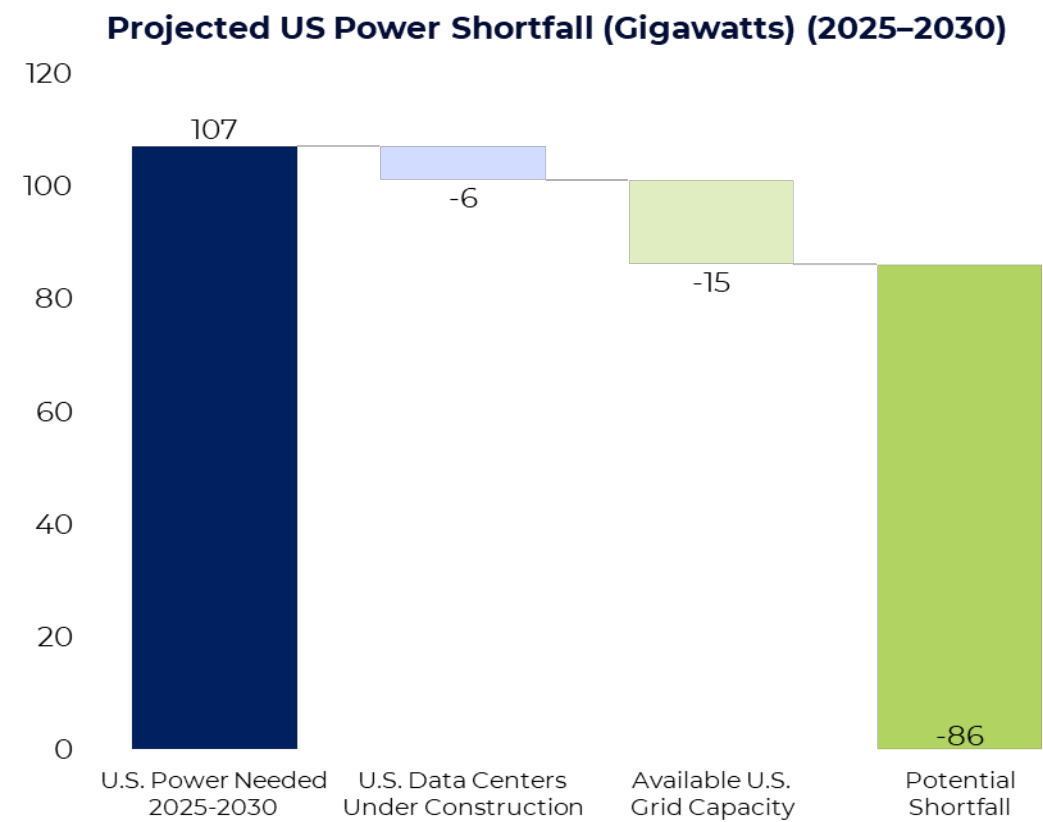
12m Forward PE ratios since launch of ChatGPT



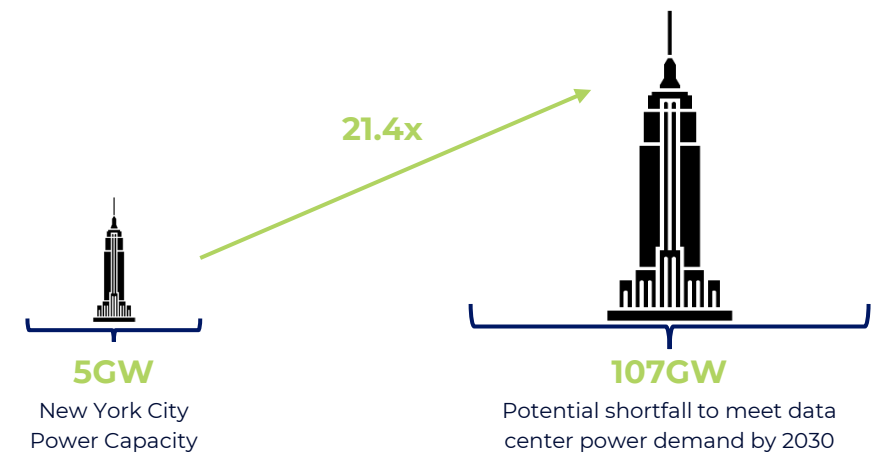
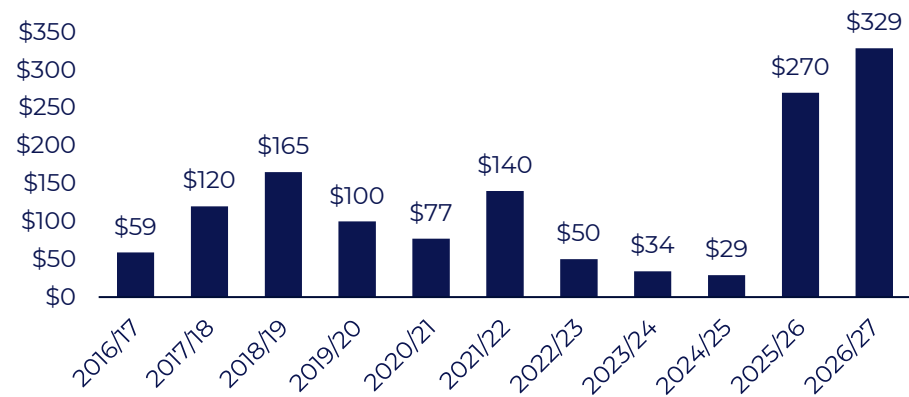
AI valuations are certainly elevated but only slightly above the average since the launch of ChatGPT

AI multiples are only slightly above post-ChatGPT averages. Spending is driven by profitable hyperscalers upgrading mission-critical infrastructure and defending core businesses, while private AI players are scaling fast, pressuring public software and cloud vendors to keep investing.

America's grid: Built for the 20th century, needed for the 21st

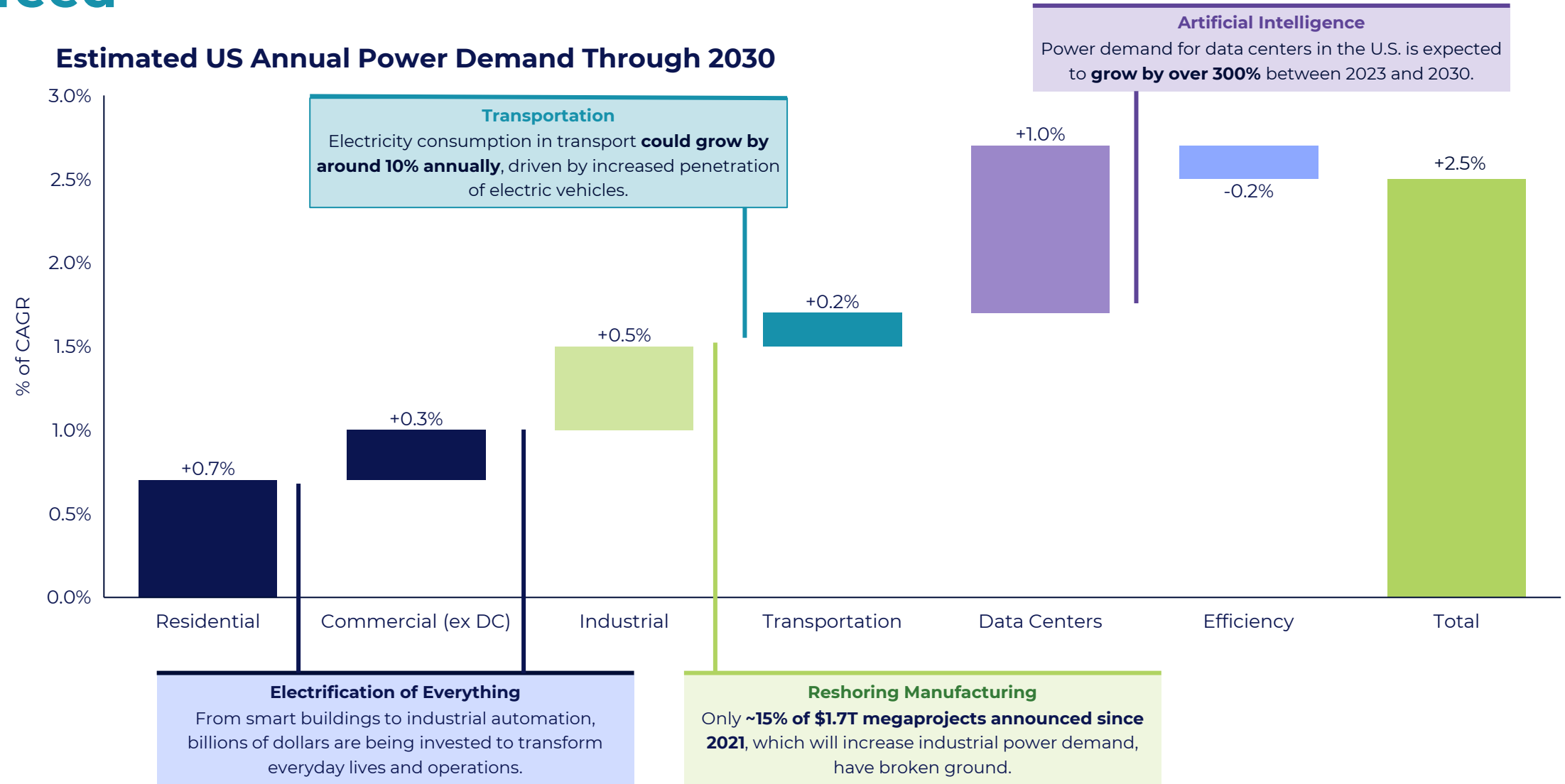


PJM Capacity Auction Clearing Price

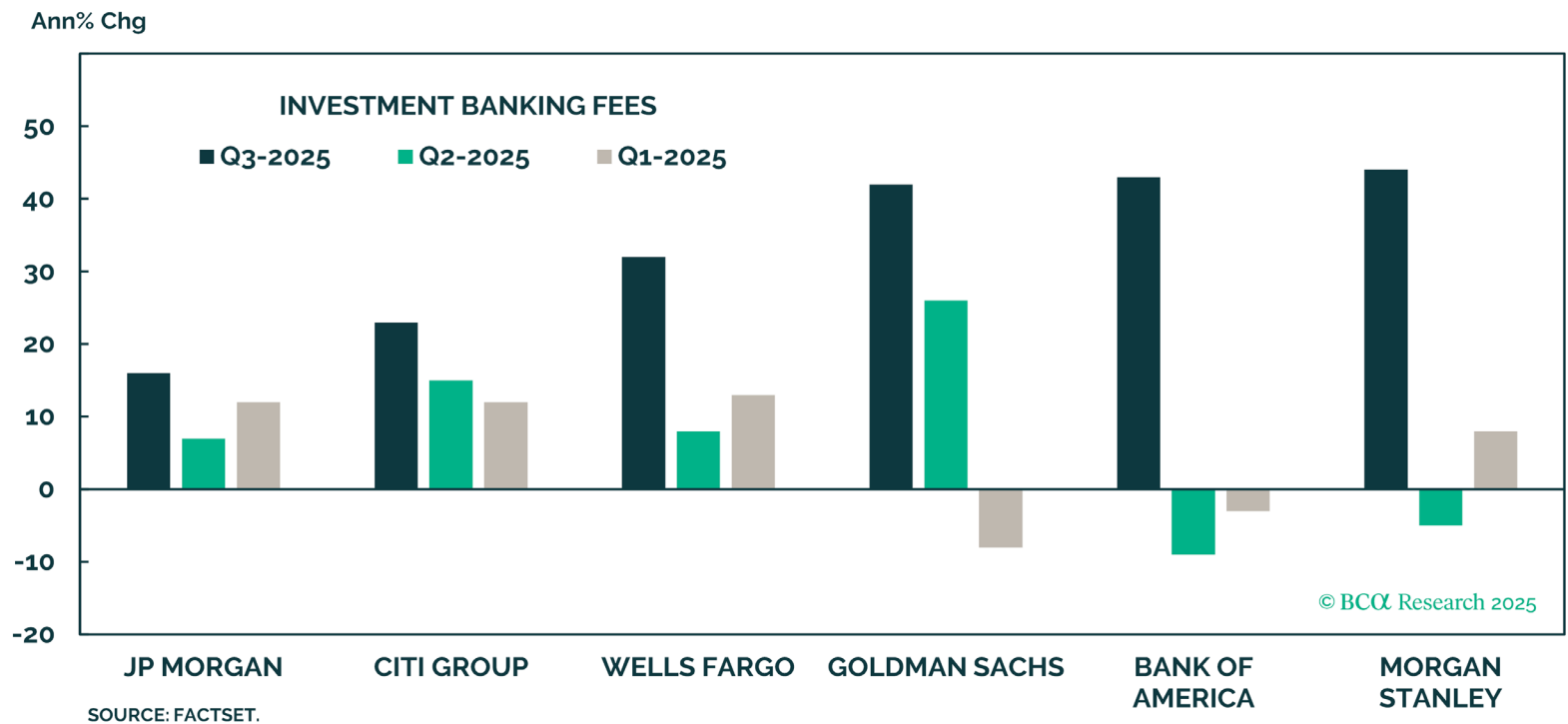


The US remains critically underdeveloped to provide for the growing power generation demands of the AI supercycle, as well as everyday consumption. We continue to see significant capital investment directed toward expanding generation capacity, including initiatives supported by the US government. We believe this theme offers considerable upside potential, and we are leveraging active managers to capture these opportunities.

Electrification everywhere: AI is just one hungry mouth to feed



US banks: Riding capital markets and regulatory tailwinds



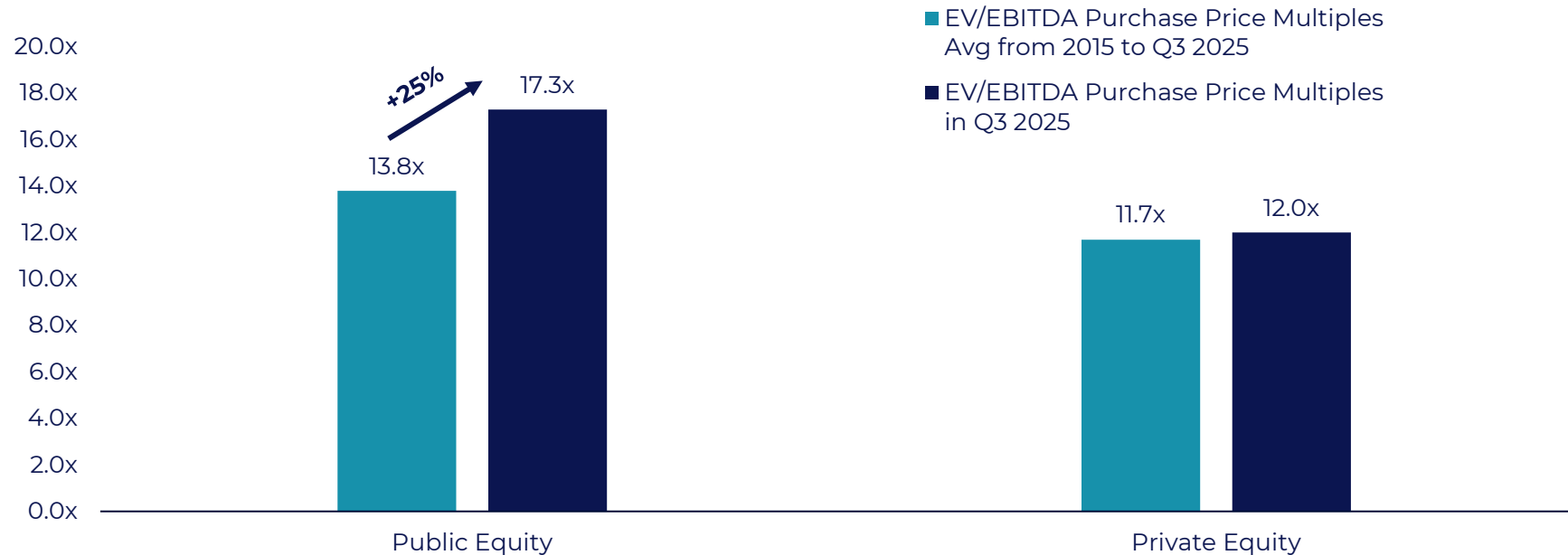
Banks delivered standout Q3 results and look strong going into Q4, especially from capital markets and deregulation

US banks led with standout Q3 earnings (average EPS +28% Yoy) and guided for continued momentum, supported by strong capital markets and record investment banking pipelines. Banks have the clearest exposure to capital market recovery and policy tailwinds, price multiples remain reasonable, and much of the expected deregulation is still ahead.

Private Markets

Public Equity FOMO vs Private Equity discipline

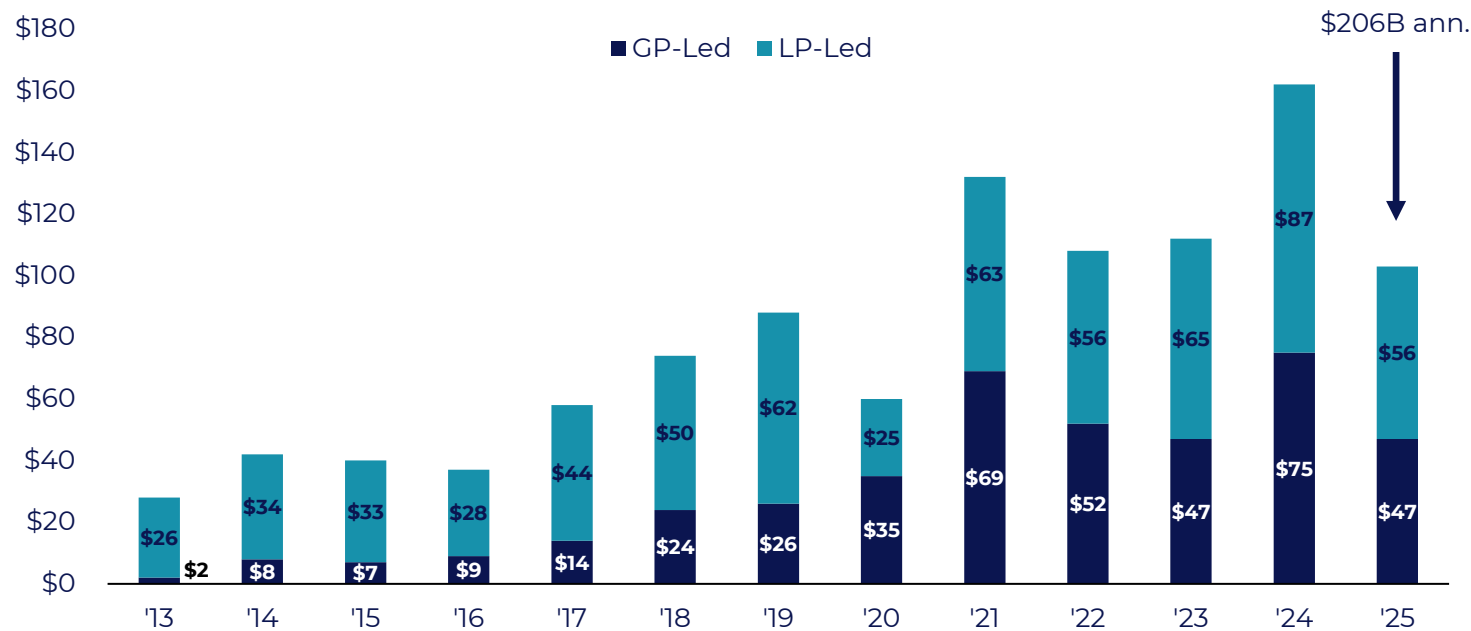
Purchase price matters



Public equity multiples have risen meaningfully over the past decade, while private equity multiples have remained relatively flat, which highlights one of the ways private markets can complement public market exposure. A key element of private equity's value proposition is its patient capital, allowing managers to deploy funds in a measured and deliberate manner. Because some strategies and managers are more disciplined on price than others, it is important to focus on those that maintain strict attention to entry valuations.

Secondaries: Liquidity when the front door is locked

Secondary Deal Flow Since 2013

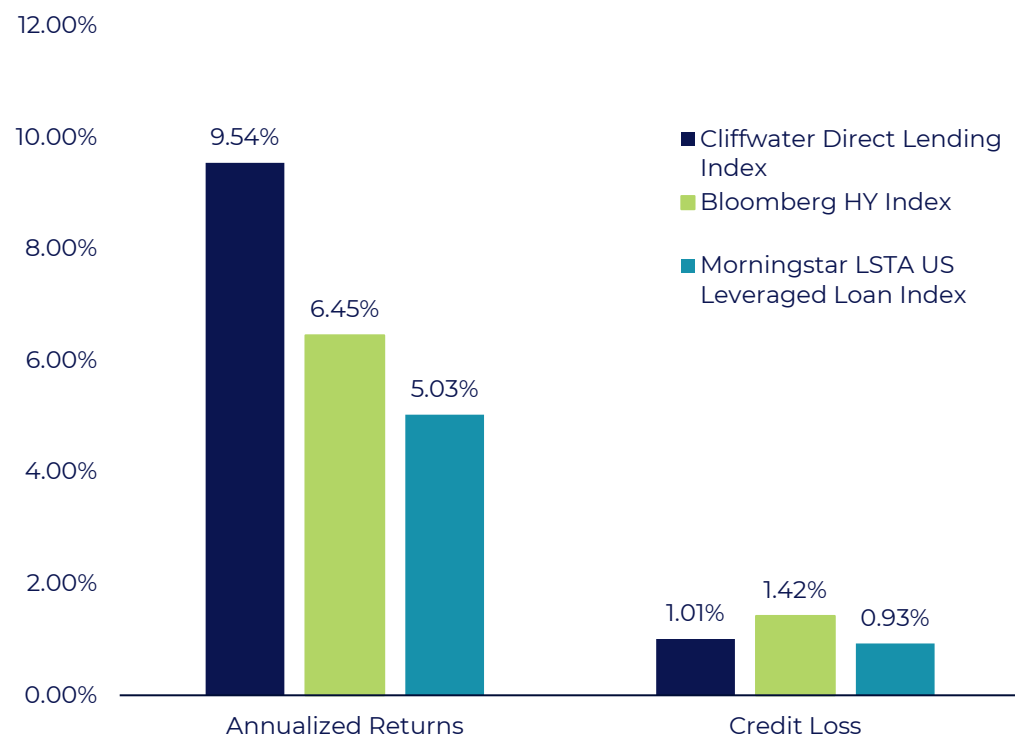


The secondaries market grew at an annualized rate of approximately 30% between 2020 and 2024 and is projected to expand another 27% in 2025. A backlog of private companies is expected to take several years to clear, creating additional opportunities for secondaries across both LP-led and GP-led transactions. Moreover, the secondaries opportunity set tends to increase during periods of market dislocation, making it somewhat countercyclical. Strategies with the flexibility to provide capital solutions in both GP-led and LP-led markets are preferred.

Not all direct lending is created equal (and 2026 may prove it)

“Never forget about the 6-foot-tall man that drowned in the river that was 5 feet high, on average”

Returns vs. Loss Rates (2005-2024)



Direct lending has historically delivered significantly higher returns than high-yield bonds and leveraged loans, while maintaining similar or even lower loss rates. These figures represent averages, and there are additional levers within direct lending that can influence outcomes, creating potential winners and losers during periods of market stress.

For example, leverage levels vary widely, from around 25% for certain interval funds to more than 100% for publicly traded BDCs, and PIK interest is notably elevated in some strategies.

We anticipate meaningful dispersion across strategies in a stressed environment and would favor those with strong workout capabilities, disciplined underwriting, prudent use of leverage in the face of uncertainty, and the flexibility to toggle between sponsor-backed and non-sponsor deals.

What's next?



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