



Brian Gift, CFA
Chief Investment
Officer
704-335-4518

Investment Strategy Outlook 2026

The New World Order

As we enter 2026, markets sit at a crossroads: strong macro momentum and corporate profitability are colliding with elevated valuations, concentrated leadership, and unprecedented structural change. Robust Real GDP readings coupled with the secular AI theme have pushed recession fears to the lowest levels in recent memory. Yet price and positioning metrics could mean a more volatile path forward than what the consensus expects.

Two major forces will define the remainder this decade for investors: the industrialization of AI and “The New World Order.” The AI buildout is morphing from a software story into a multi-year capex and infrastructure cycle (compute, power, semiconductors, data centers) that will create various winners and losers, while we await more details regarding the eventual ROI on this endless spending. Simultaneously, “trust” is breaking down everywhere one looks, both regarding long existing economic alliances and the global monetary system (fiat currencies) in general.

In this year’s Investment Strategy Outlook, we will elaborate on various topics including investor sentiment, the potential for broadening out of fundamentals, bubble fears, “The New World Order,” and the durability of this multi decade AI capex cycle.

2026 S&P 500 Targets

We often find it useful to gauge where the consensus lies as we evaluate investment prospects for the months ahead. Wall Street forecasts for 2026 are familiar: on average, strategists expect an 8% - 10% gain for the S&P 500. Bespoke Investment Group reported that since 2000, the average annual Wall Street strategist S&P 500 price target implied positive returns of 8.9%: yet these forecasts missed by an average of 14.1% per year. In addition, Blackrock recently observed that the S&P 500 has only achieved calendar year returns in the 8% - 12% range on six occasions over the past century. The extreme difficulty in forecasting returns is largely due to an underrated statistic that we have written about in the past: the trailing twelve-month PE Ratio on the S&P 500 has changed by at least 10% in nearly 70% of calendar years since 1989 (*Source: MBL Advisors & Charlie Bilello*).

Unlike forecasting S&P 500 price targets, Wall Street is remarkably good at forecasting earnings, aside from at large turning points in the economy. FactSet found that since 2000 (excluding 2001, 2008, 2009 & 2020) the average difference between initial EPS estimates to start the year and reported EPS were an amazingly accurate 0.9%. Taken together, these observations reinforce Warren Buffet’s long held belief that predicting “Mr. Market’s” mood (PE Ratio) on a shorter-term basis is nearly impossible, time and time again.

Adam Parker, founder of TriVector Research, had a great reminder for investors in his 2026 outlook: “The consensus is generally bullish, and doing the opposite of consensus has been fruitful the last three years. Only 3x in the last 100 years has the market rallied double digits for four or more years, so history dictates less appreciation is likely.”

2026 S&P 500 Price Targets

HOW MARKET EXPERTS SEE S&P 500 ENDING IN 2026

FIRM OR ANALYST	S&P 500 YEAREND 2026 VALUE	CHNG FROM 2025*
Oppenheimer	8,100	17.76%
Deutsche Bank	8,000	16.30%
Morgan Stanley	7,800	13.40%
Wells Fargo	7,800	13.40%
RBC Capital Markets	7,750	12.67%
UBS Global Wealth Management	7,700	11.94%
Tom Lee, Fundstrat	7,700	11.94%
Ed Yardeni	7,700	11.94%
Citigroup	7,700	11.94%
Goldman Sachs	7,600	10.49%
LPL Financial	7,540	9.62%
FactSet	7,501	9.05%
HSBC	7,500	9.04%
J.P. Morgan	7,500	9.04%
Stiffel Financial	7,500	9.04%
CFRA	7,400	7.58%
BMO Private Wealth	7,400	7.58%
Societe General	7,300	6.13%
BCA Research	7,200	4.67%
Bank of America	7,100	3.22%
Ned Davis Research	7,100	3.22%
Average	7,577	10.15%

* As of 12/22/2025 close of 6,878.49 in 2025.
Source: S&P 500 closing predictions, staff research

TheStreet

Source: <https://www.thestreet.com/investing/stocks/every-major-wall-street-analysts-sp-500-forecast-for-2026>

S&P 500 Fair Value Estimate

We never like to put too much weight into a single strategist's forecasts or framework. Having said this, Dennis DeBusschere of 22V Research frequently produces a 'fair value target' for the S&P 500, which has been incredibly accurate over the last few years. Said another way, DeBusschere's model seems to be more quantitatively driven and less "narrative based" than many of his counterparts. We find this approach especially timely given that there is no shortage of storylines in the current environment.

When DeBusschere publishes his fair value model he always states "We estimate S&P 500 fair value using an implied cash-return methodology based on the work of Aswath Damodaran, valuation guru at NYU. It values the S&P 500 like a single stock, relying on expected earnings growth and cash return (dividends + buybacks as a % of net income).

The punchline from DeBusschere's work is that 22V believes the S&P 500 will achieve \$315 of earnings per share, based on revenue growth of +6% and margins of 15%. Which puts their S&P 500 fair value estimate around 7700 for the end of 2026.

Nonetheless, DeBusschere acknowledges that his fair value framework has especially wide tails in the current backdrop due to AI investment and index composition.

“AI investment complicates the implied cash-return fair value framework. The investment cycle is mostly being funded with earnings, with cash return declining as a result. That implies a lower fair value all things equal. BUT the potential Return On Investment (ROI) opens up right and left tail risks to forward earnings. Given the uncertain ROI on AI capex, the modal path of earnings and cash return is highly unlikely to be hit.”

“There’s risk to index-level price returns from the idiosyncratic risk within Mega cap tech. Dispersion within the Mag 7 is already developing as investors distinguish between AI winners and losers. Were that trend to continue, it could imply lower index-level returns because of the market caps of the companies involved. Our focus is more on market internals in 2026 and a broadening out of the index.”

Year 4 of a Bull Market & Mid Term Election Year

On average, the S&P 500 is positive 73% of rolling one-year periods (*source: Charlie Bilello*). Thus, it can be advantageous for investors when they find scenarios which present meaningfully different probabilities in the forward return outcomes versus historical averages. However, investors will not be provided with this luxury in 2026. We have presented several statistics (in appendix A), the majority of which lean bullish, but on average (excluding seasonality data) produce average returns and hit rates which mirror long term averages for the S&P 500 (*Source: MBL Advisors*).

The great Art Cashion was famous for reminding investors that “Bull markets don’t die from old age. They die because the Fed kills them”. This is a timely reminder for investors as we begin 2026. There will assuredly be plenty of noise as we move through the calendar. But most major global equity markets are in well-defined uptrends, and the Fed should refrain from being a headwind for investors throughout 2026.

Conversely, seasonality and market cycles present a less constructive outlook. Year 2 of the presidential election cycle is statistically by far the worst year of the 4-year presidential cycle. According to Paul Ciana and BofA Global Research, since 1940 the average return in year 2 of the US Presidential cycle is 4.22%. Since 1970, average returns for year 2 drop to 0.58%. For both periods, 57% of years produced positive returns (*Source: BofA Global Research & Paul Ciana*).

Mark Newton of FSInsight has been a consummate bull for most of the last decade. He may also have been the only strategist who correctly forecasted the 2022 bear market and flipped to an aggressively bullish posturing in 2023 – 2025. Newton believes that global equity markets could have a solid start to this year but could ultimately face a 15% - 20% correction at some point, before a strong fourth quarter rally that brings the S&P 500 back into positive territory for the year.

A large input into Newton’s thesis is the “Long-term stock market cycles based on the 41-month cycle, made popular by Edward Dewey, show SPX weakening in 2026 before bottoming out.” He also believes that US equity markets could show technical exhaustion signals by the end of February, if markets continue their upward bias between now and then.

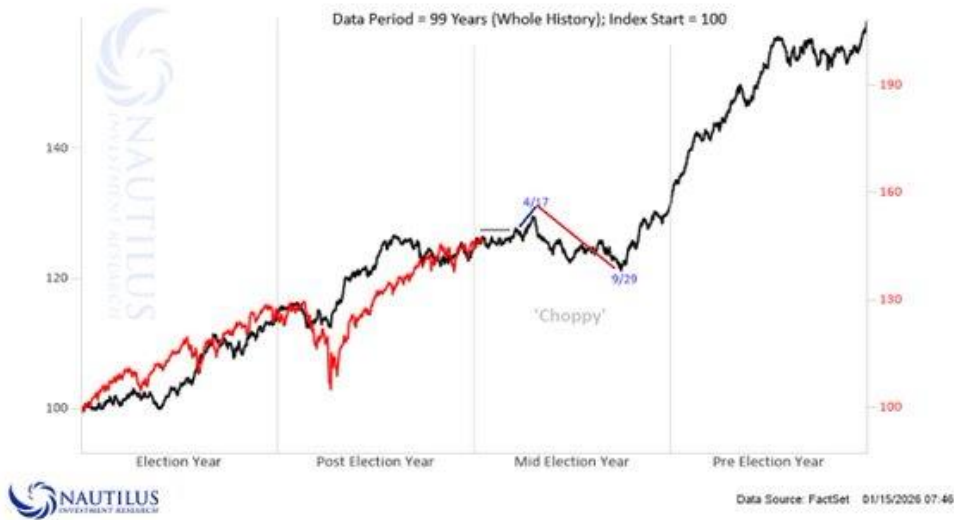
Newton’s forecast for a possible 15%-20% market correction sometime in 2026 is precisely in line with the average drawdown for a midterm election year. According to Ryan Detrick and Carson Investment Research, the average decline in a midterm election year is -17.5%. However, the news improves as time horizons

extend, as the average 1-year forward return from the midterm election year low is +31.7% since 1950 (Source Ryan Detrick & Carson Investment Research). Dan Clifton of Strategas Research Partners has often pointed out that going back to 1946, the S&P 500 has never been lower 12 months after the midterm elections take place in November.

S&P 500 4 Year Presidential Cycle

SPX Seasonal Composite 4 Year Election Cycle

The seasonal path remains somewhat unattractive, pointing to choppy conditions and standing out as the only major volatility-adjusted decline in the four-year cycle. We continue to give this template weight, as the SPX has followed it with notable consistency.



Source: Nautilus Research

Investor Positioning is Increasingly Aggressive

Like Wall Street strategists, investors are also growing more optimistic about future equity returns, a natural feature of a maturing bull market. Still, price, valuation and sentiment have moved meaningfully over the last three years. Numerous statistics help to depict this narrative:

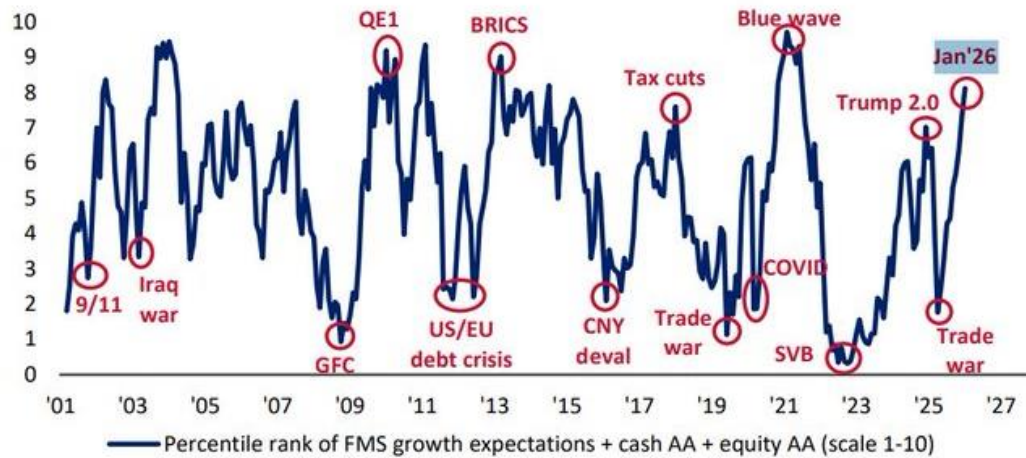
BofA Global Research & Micheal Hartnett - January 2026 Global Fund Manager Survey (FMS) highlights:

- Fund Managers are the most bullish since July 2021.
- Exposure to Stocks & Commodities vs Cash & Bonds is at a four-year high.
- Global Growth Expectations are the highest since July 2021.
- Profit expectations are the most bullish since July 2021.
- Only 9% of Fund Managers expect a recession in the next 12 months - the lowest level since January 2022 and near the survey's all-time lows (August 2007, February 2011 & May 2021).
- The percentage of Fund Managers buying protection (hedges) against an equity market correction is the lowest since January 2018.
- Cash levels among fund managers fell to a record low of 3.2% (in contrast to 20-year high cash levels at the October 2022 bear market bottom).

BofA Global FMS Investor Sentiment

Chart 2: BofA Global FMS investor sentiment highest since Jul'21

Percentile rank of FMS growth expectations, cash level, and equity allocation



Source: BofA Global Fund Manager Survey

BofA GLOBAL RESEARCH

Source: BofA Global Research & Michael Hartnett; BofA Global FMS December 2025

As of year-end, 52% of respondents in the Consumer Confidence Survey said they expected higher stock prices over the next twelve months. Going back to its inception in 1987, this is the second highest reading in the history of the survey, only surpassed in November 2024 (Source: MBL Advisors & FactSet). Not all previous peaks in this survey were ominous signals; in fact, many were not. Nonetheless, the sharp rebound in this survey from the April lows reminds us that sentiment follows price, as Chris Verrone of Strategas Research Partners often quotes.

Laurent Laskowski and Strategas Research Partners noted a similar dynamic with Vol Control Funds (CTA's), which currently have a top quintile exposure to S&P 500 futures on a two-year lookback. If / when implied volatility picks up, these funds will be forced sellers of their historically lofty levels of equity exposure.

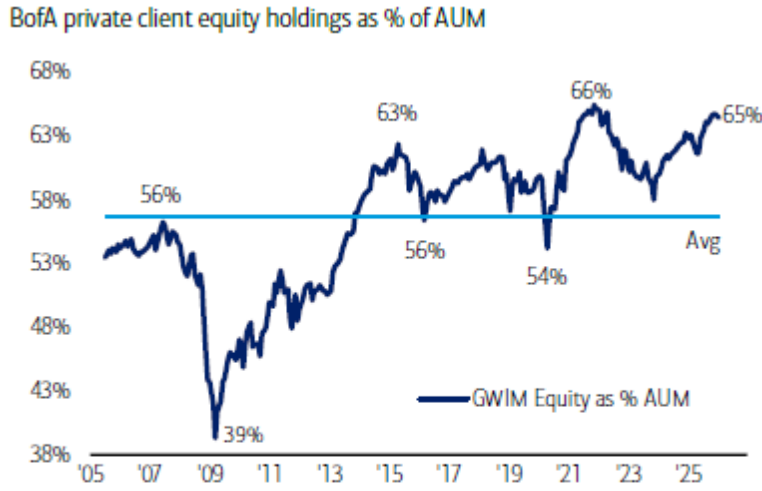
The Daily Chartbook noted that “Goldman’s Marquee client poll shows bullishness at levels seen only three other times in the past decade – in late 2017, late 2020 and late 2024. In two of those three instances, markets experienced a correction within three months” (source: Goldman Sachs & Daily Chartbook).

In addition to his monthly Global Fund Manager Survey, Michael Hartnett also produces a weekly report called The Flow Show which contains a plethora of great, often contrarian data. On 12/18/25, the BofA Bull & Bear Indicator produced its 16th contrarian “sell signal” dating back to 2002. Although a few of these sell signals have led to large drawdowns (April 2002, October 2007, January 2020), more often they are a better signal of short-term greed, which the market needs time to digest.

Contrary to claims of “lots of cash on the sidelines,” non-bank investors hold less cash than at any time since at least 1999, potentially making markets increasingly vulnerable to volatility shocks (Source: IsabelNet).

On average, BofA Private Bank & Merrill clients have 64.6% of their portfolios allocated to global equity markets (vs. a record high of 66% in late 2021 and a record low of 39% in early 2009). Aggregate private-client allocations therefore sit near cycle highs (Source: BofA Global Research & Michael Hartnett).

BofA Private Client Equity Allocation



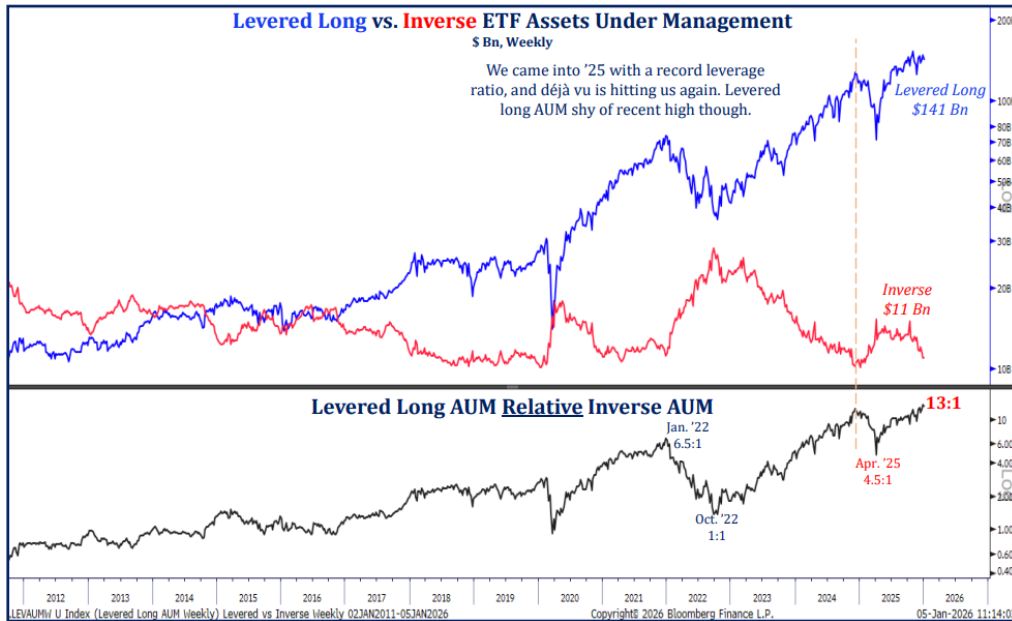
Source: BofA Global Investment Strategy

BofA GLOBAL RESEARCH

Source: BofA Global Research & Michael Hartnett; The Flow Show

According to Todd Sohn and Strategas Research Partners, assets held in levered long equity ETF's relative to inverse ETFs sit at a record high of 13:1 (vs. 6.5:1 at the 2021 top and 1:1 at the 2020/2022 bottoms). The levered long ETF statistics also need to be taken into context with the fact that FINRA margin debt is up 36% YoY as of December 2025 (source: MBL Advisors & finra.org). Sohn also notes that thus far, equity ETF Flows are averaging \$5.6B / day YTD (vs. \$3.66B / day in 2025, a record year). In Sohn's opinion, the setup entering 2026 closely resembles that of 2025, from a flows and leverage perspective. 2025 was a great year for equity investors, but a reset was necessary, both to sentiment and positioning, for the continuation of the bull market.

Levered Long ETF Assets (blue) vs. Inverse ETF Assets (red)

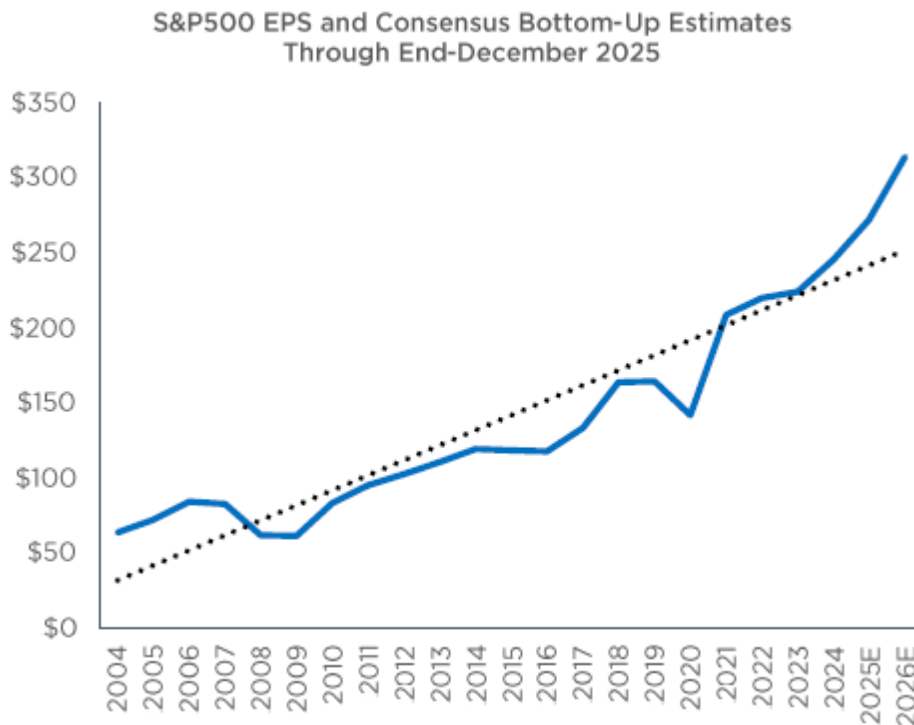


Source: Strategas Research Partners & Todd Sohn, CMT

Adam Parker and TriVector Research remain constructive on their prospects for longer-term upside (S&P 500 to 10,000 by decade end) but cautions that: “we believe the probability the price-to-forward earnings for the S&P 500 contracts is higher than the probability the multiple expands in 2026. Bottom-up consensus earnings expectations of 15% for 2026 are overly optimistic, and stocks that have missed expectations have been harshly punished.”

Historically, S&P 500 earnings have compounded around 7% annually (*MBL Advisors & FactSet*). However, bottom-up analysts are increasingly assuming a higher, potentially structural, growth rate, which may require expectations to be re-anchored to historical trend growth at some point. According to FactSet, analysts expect the S&P 500 to grow earnings at 12.95% in 2025, 14.25% in 2026 and 15.55% in 2027 (*source: MBL Advisors & FactSet*). While this is certainly possible, markets have a tall bar to chin moving forward.

S&P 500 Earnings (blue) vs S&P 500 Earnings Long Term Trend (black)



Source: TriVector Research & Adam Parker

AI “Bubble” or Not

Savita Subramanian from BofA Global Research recently published a note which stated, “No way to sugar coat it: the S&P 500 is expensive. Of 20 valuation metrics we regularly track, the S&P 500’s Market Cap to GDP, Price to Book, Price to Operating Cash Flow and Enterprise Value to Sales are near new records and are higher than March 2000 on nine others. But historical comparisons are problematic, as today’s S&P is higher quality, more asset light, less levered, etc.”

This quote perfectly captures the central tension of the post-COVID era. Corporate fundamentals have been extremely solid (excluding 2022). Yet valuations are high and investors remain aware that starting valuations are historically one of the best predictors of 7-10 year forward returns.

Point: Howard Marks, the famed distressed investor and founder of Oaktree Capital recently noted that “when you buy the S&P 500 at a 23x P/E, your 10-year annualized return has always fallen between +2% and -2%, IN EVERY CASE, EVERY CASE” (source: Connor Bates).

Counterpoint: As Subramanian stated, the market today is materially different. Goldman’s Shreeti Kapa notes GS’s baseline estimate that the present value of capital income created by AI over the next 10-15 is \$8T. At a 20% profit margin, this implies \$1.6T of profits; at 22x that profit (\$35T), the theoretical uplift to market valuation is large – suggesting current multiples may be justified if the productivity case is realized (source: Neil Sethi).

Point: The State Street Technology Sector ETF (XLK) hit post tech bubble highs of 43x trailing earnings 30x forward earnings in October 2025 (source: MBL Advisors & FactSet).

Counterpoint: Relative valuation tells a more nuanced story. According to BofA Global Research, the technology sector is trading at a forward PE of 1.3x vs. the S&P 500 compared to its long-term historical average of 1.1x. This ratio peaked at over 2x during the tech bubble (source: BofA Global Research). According to Ritholtz Wealth Management and The Compound, the tech sector forward PE Ratio increased by an astounding 43 multiple points in the five years leading into the tech bubble peak. In contrast, there has been no change in the forward PE for the technology sector over the last five years.

Point: Market returns and index composition have been extremely concentrated relative to the last 60+ years of market history. Aside from 2007, 2023 & 2024 produced the most concentrated, top heavy returns the S&P 500 has experienced going back to 1990. In each of those years, the top ten names in the S&P 500 (basically all tech) were responsible for over 68% of the index’s gains in those given years (source: Strategas Research Partners). The top ten names now account for nearly 41% of the S&P 500, making active management extremely challenging – only 29.7% of active managers beat the S&P 500 in 2025, and excluding 2022, this was their most successful year since going back to 2017 (source: Strategas Research Partners).

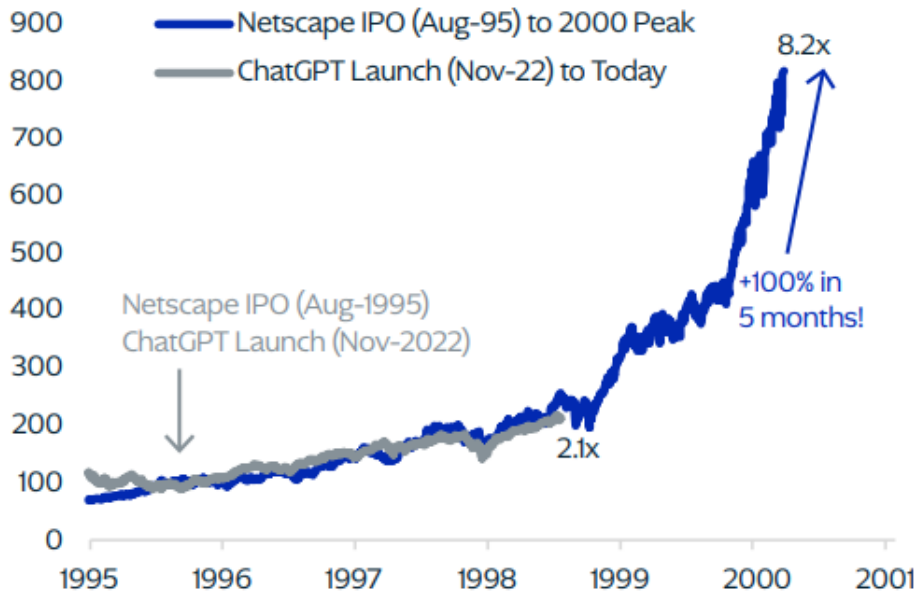
Counterpoint: Market concentration and technology leadership could very well be ahead of themselves. P/E’s have expanded in an aggressive fashion amongst the market “winners” to be sure. At the same time, since 2021 Mag 7 earnings are up a cumulative 138% vs. 65% for the S&P 493 (source: JP Morgan Guide to the Markets). The technology sector is expected to produce nearly half of the EPS growth for the S&P 500 in 2026 (source: Strategas Research Partners) and many of the mega cap tech stocks appear less expensive on a growth adjusted basis (PEG Ratio) potentially making them less overvalued than simple PE ratios imply. On a global basis, the S&P 500 remains one of the least concentrated major indices in the world (source: Strategas Research Partners).

Point: Savita Subramanian is warning investors of a potential AI “air pocket” in 2026. Business models have quickly flipped from capital light to capital intensive, debt issuance is increasing, free cash flow is declining, power bottlenecks potentially disrupting demand and high uncertainty around ROI are all valid reasons why investors may want to express some caution around this theme.

Counterpoint: Subramanian also concedes “this isn’t 2000.” KKR recently published a stunning chart to remind investors how extreme the gains in the NASDAQ in the late 1990’s.

NASDAQ 100 Performance 1995 - 2000 (blue) vs. November 2022- Today (grey)

Nasdaq 100 Performance, (Indexed to 100 at Netscape IPO and ChatGPT Launch)



Data as at December 10, 2025. Source: Bloomberg, KKR Global Macro & Asset Allocation analysis.

Source: KKR

James E. Thorne added some great perspective which helps to strategically frame the AI landscape:

“AI capex is being misframed as a bubble when, in reality it is a prisoners’ dilemma arms race in which firms and nations either spend or accept strategic decline, with AI capacity now inseparable from control over compute, energy, and critical inputs.

In a classic prisoners’ dilemma, each player would prefer mutual restraint, but once one defects, everyone must follow or be dominated; that is exactly what is happening as hyperscalers, chipmakers, and platform companies commit to AI at industrial scale. Calling this a bubble confuses forced strategic investment with optional speculative excess.

This is not just a corporate contest; it is increasingly a question of national security, as governments now view AI leadership, domestic compute and secure supply of energy and critical minerals as essential to economic resilience, information control, and defense capabilities.”

Beyond the Mag 7

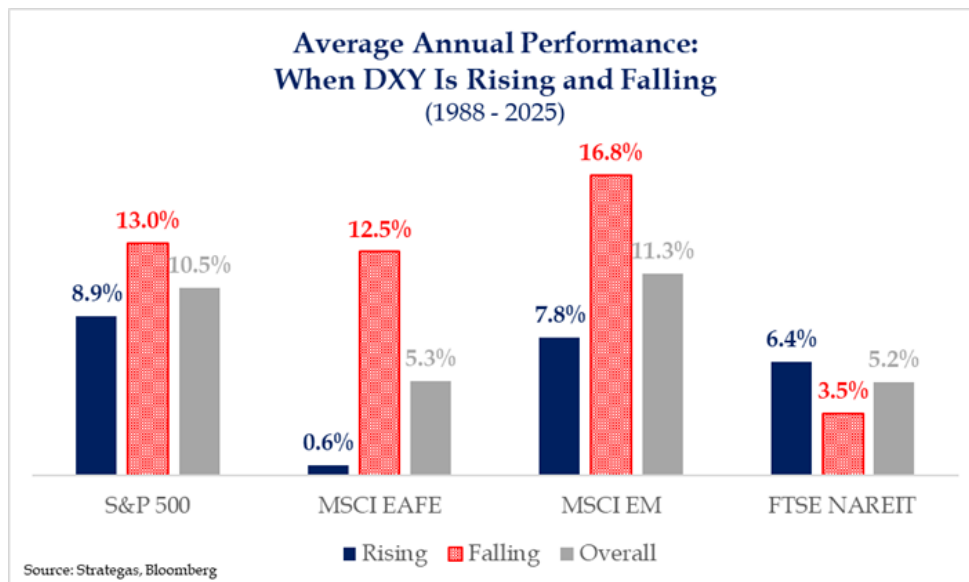
Led by Nvidia and the AI trade, 2023 and 2024 produced exceptional years for US Large Cap growth investors. However, despite respectable performance from most other asset classes, these years are not considered among the historically great bull markets for most diversified investors, given the concentrated nature of

returns. Fortunately, participation broadened in 2025 as numerous non-US markets outperformed US equities – a dynamic few expected entering the year and one the consensus may continue to view as transitory.

There are several reasons which could potentially support further robust performance from non-US equities:

- European and Japanese equities have outperformed the S&P 500 ex NVDA since the October 2022 bear-market low (*source: JP Morgan Guide to the Markets*).
- John Roque of 22V research notes that since 1970, there have been four major cycles of relative out / underperformance for US equities relative to MSCI World Ex US. If 2025 was not a head fake, we could be in the beginning stages of a new longer-term cycle for non-US equity outperformance.
 - o 1971 – 1988 MSCI World Ex US outperformed the S&P 500.
 - o 1989 – 2001 S&P 500 outperformed the MSCI World Ex US.
 - o 2001 - 2007 MSCI World Ex US outperformed the S&P 500.
 - o 2008 - 2024 S&P 500 outperformed the MSCI World Ex US.
- The US Dollar peaked in the fall of 2022 and has weakened materially over the last year, aiding returns for US investors allocating capital abroad. Since 1985, prior secular regimes of US Dollar Index strength / weakness have lasted for an average of 9 years, the shortest of which was around 6 years and the longest of which lasted roughly 14 years (*source: MBL Advisors & FactSet*). Currency trends are a high-leverage input for non-US equity returns. Non-US equities perform significantly better during weak dollar regimes, as can be seen in the chart below.

Average Performance when the US Dollar is Rising (blue) vs Falling (red)

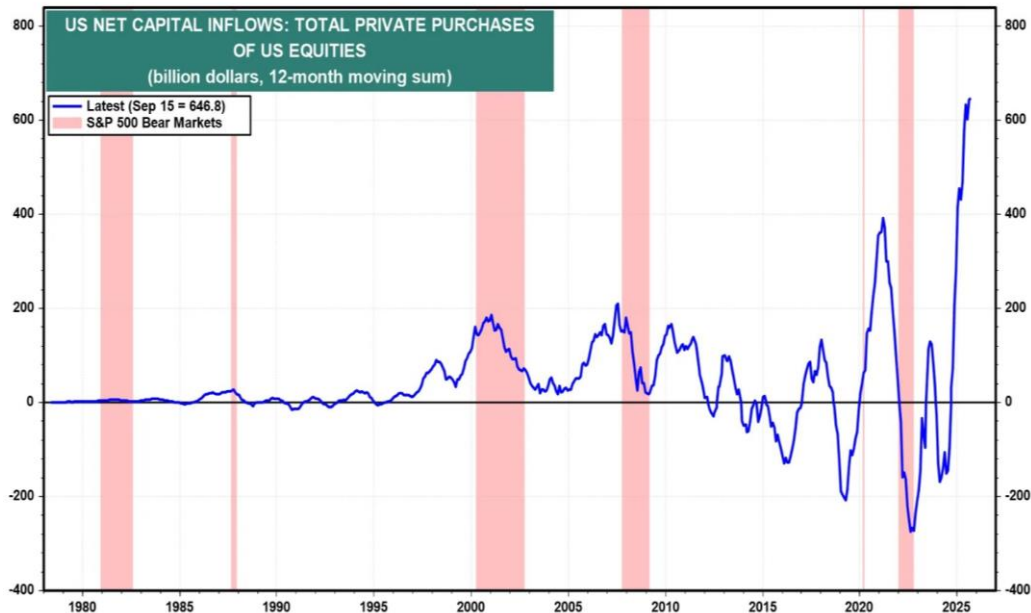


Source: Strategas Research Partners & Ryan Grabinski

- The Trump administration is open about its desire to shrink the Current Account deficit, and a weaker US dollar is a key variable in this strategy. In this regard, the rebalancing of global trade likely continues to be underappreciated by many market participants. Foreigners have shown a decreasing willingness to own US treasury debt compared to a decade ago, however foreign demand for US equities remains extremely robust, as non-US investors now own 25% of the US equity market, up

from 18% a decade ago (*source: Samantha LaDuc*). US policy intent could imply less structural foreign demand for US assets over time (shrinking current account deficit = lower financial account surplus) – a dynamic especially supportive of commodities, gold, and emerging markets assets.

Foreign Demand for US Equities Remains Extremely Robust



Source: Ed Yardeni & Yardeni Research

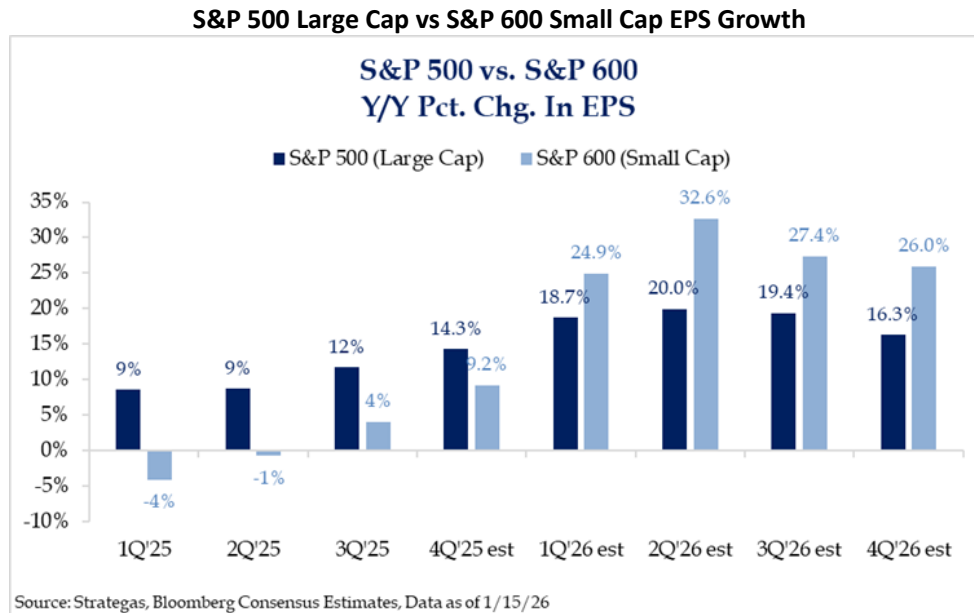
Jordi Visser of 22V Research believes that the US market dominance which has occurred since 2008 ending. In his opinion, a lot of the supremacy in US asset prices can be attributed to the invention of the iPhone and the digital economy that ensued as a result. US software businesses became the overriding force in global equity markets and a key driver in the post GFC economy.

Visser believes that we are witnessing the real time demolition (by AI) of the previously massive moats that software businesses built over the last twenty years. US Technology related business has been the clear leader since the release of Chat GPT in November 2022. But things are beginning to change beneath the surface, as performance is becoming massively bifurcated within the technology sector (semiconductors vs software). While many of the biggest “winners” continue to have ties to the AI trade, this is no longer an environment where “a rising tide lifts all boats” for technology stocks.

Within US markets, relative performance for the average stock versus the index heavyweights has been extremely fleeting. Many investors who have been expecting the broadening trade to occur may have finally given up, just when there seems to be some durable evidence for a potential intermediate-term trend change to emerge.

- Since the local peak for the NASDAQ on 10/29/25, some signs consistent with the early stages of a trend change have been developing. JC Parets recently highlighted a few of these:
 - o Russell 2000 relative to NASDAQ 100 = 9-month highs
 - o S&P 500 relative to MAG7 = 4-month highs
 - o MSCI All Country World Index relative to S&P 500 = 6-month highs
 - o Russell 1000 Value relative to Russell 1000 Growth = 6-month highs

- Relative valuation differentials (US Mid Cap, US Small Cap & Equal Weight S&P 500 vs. cap-weighted S&P 500) were sitting near the lowest levels since the turn of the century last fall (*Source: MBL Advisors & FactSet*). A meaningful catch-up trade could materialize if fundamentals improve for the average stock.
- Differentials in earnings growth justified Large Cap outperformance for the last couple of years. But consensus forecasts for Small / Mid EPS growth are elevated for the foreseeable future (Russell 2000 EPS growth is expected to be +66% in 2026 according to Goldman Sachs). If earnings growth broadens out, the average stock could sustain the recent outperformance moving forward, unless multiples continue to expand from already elevated levels for the Mega Cap complex.

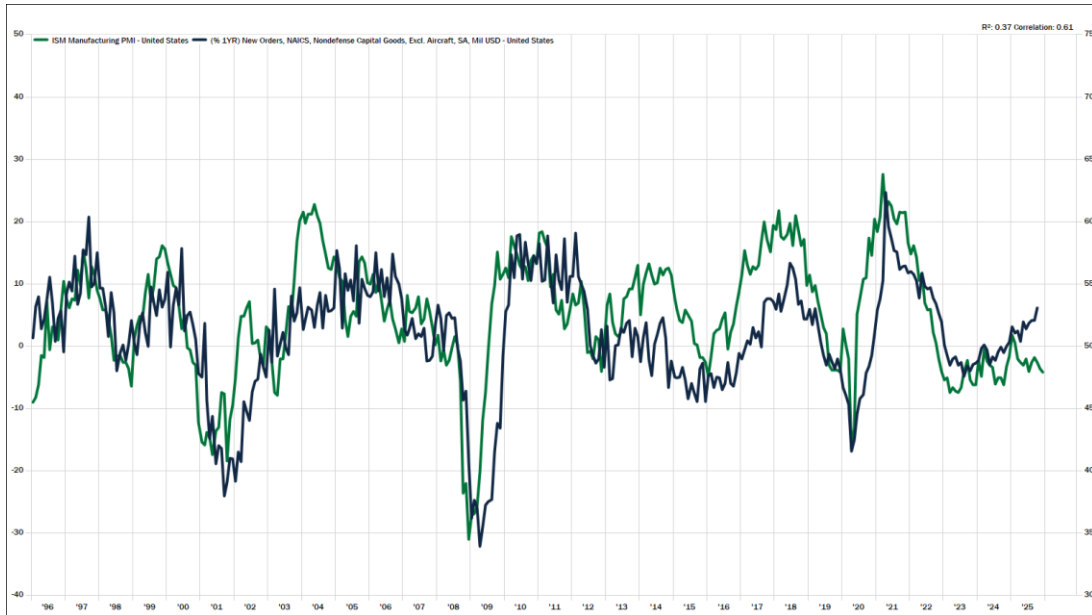


Source: Strategas Research Partners

Like his views on non-US equities, Visser is even more highly convinced of the broadening trade within US markets for the next few years. Visser’s thesis is that we are at the beginning stages of tangible benefits accruing to the “users” of AI. He specifically notes that bloated businesses, many of which reside in the Health Care and Financial sectors, could be some of the largest beneficiaries in the near term. We would add that profit margins for Small / Mid cap companies are nowhere near the levels of large cap businesses so any efficiency gains could be magnified if / when they happen for the average business.

Visser believes that an even more underappreciated tailwind for US Small and Mid-Cap companies will be the long-awaited reacceleration in the manufacturing cycle. Tom Lee of FSInsight has often pointed out that the ISM Manufacturing PMI’s have remained below 50 (contraction territory) for 35 out of the last 38 months, a record period going back to 1950 by our work (*Source: MBL Advisors & FactSet*). At the same time, Visser has noted that Nondefense Capital Goods spending excluding Aircraft has been trending higher since the summer months and is highly correlated with PMI’s over the last thirty years. Peter Thiel also agrees with this narrative and believes that we have neglected the physical world for decades in favor of software, and now AI is forcing that gap to close.

ISM Manufacturing PMI (green) vs. Nondefense Capital Goods ex Aircraft (blue)

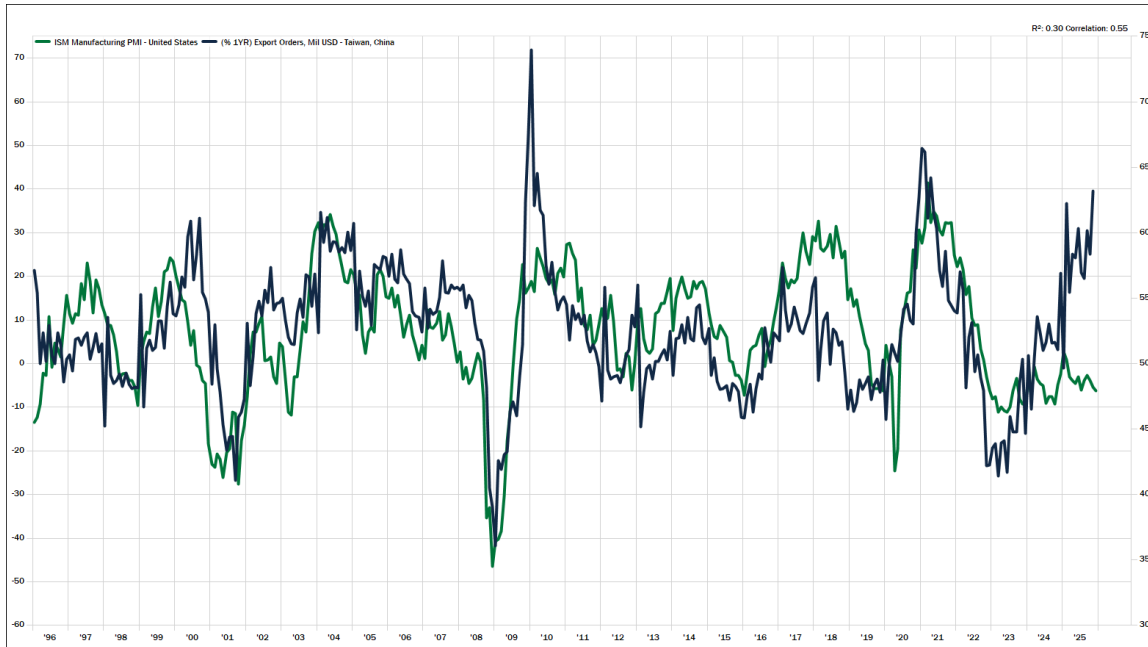


Visser continues to argue that we have not had a true manufacturing cycle since 2008, but rather transient moves higher, often driven by central bank monetary policy. He believes the coming move in PMI's will be more representative of the commodity booms we saw in the 1990's and 2003 – 2007; and recent movements in commodity prices seem to be congruent with this viewpoint. Part of the reason that this is noteworthy is because rising PMI's have historically correlated with broader market participation, led by small caps and cyclical sectors. Lower short-term interest rates and tax cuts (100% depreciation) could be additional supportive factors to this narrative.

Julien Bittel, Head of Macro Research at Global Macro Investor expanded on Visser's narrative by pointing out that Taiwan exports are also clearly sending a signal of higher US Manufacturing PMI's soon. He notes:

“at its core, this is the story of the AI and robotics boom. Taiwan exports move first because Taiwan sits at the very front of the global production chain, at the center of the global semiconductor supply chain. Last year marked the first phase of the AI and robotics cycle. When AI demand forces real-world infrastructure investment, not just chips but everything around them, the broader business cycle follows. Semiconductor sales were the ignition. The next leg is second-order capex and real-world infrastructure buildout. As that capital makes its way through the system, the broader cycle re-accelerates.”

ISM Manufacturing PMI (green) vs. Tiawan Exports (blue)



Source: MBL Advisors & FactSet

We believe the current investment environment warrants maximum diversification within portfolios, for both risk management reasons and potential for upside fundamental catalysts outside of the Mag 7. We are not shedding exposure to Mega Cap names, as they will remain centric to the AI buildout in the years to come. Rather, we are pointing out that signals are increasing for the potential of more broad performance within US equity markets. Having said this, we will close with a couple of points of caution.

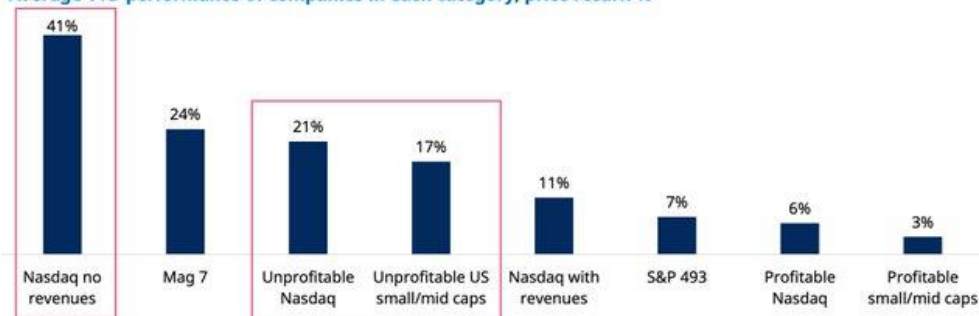
- Durable leadership shifts often occur during or after recessionary bear markets. Thus, absent a recession, a structural change could prove harder to sustain.
- BlackRock's Rick Rieder recently titled a paper "The Odds Are Changing: 2026 is a Market for Investors, Not Gamblers." We could not agree more. More extensive participation from the average stock should not be conflated with a low-quality rally. Rather, it should be supported by improving fundamentals, not just increased risk appetite.
- Dennis DeBusschere from 22V Research noted the rarity of the low-quality rally in 2025: "The economy exited 2025 in a "Normal" economic expansion. Typically, a "Normal" economic expansion supports the factors and sectors with the best fundamentals. In 2025 speculative / risk exposure was rewarded at a much greater rate than typical for a "Normal" economic regime. The central macro reason for speculative asset outperformance was the sharp easing in financial conditions even as the economy expanded at a 2.5% +/- pace and core inflation remained close to 3%. That set of conditions is very unusual."

Low Quality Businesses Dramatically Outperformed Profitable Companies in 2025

These figures are though 10/31/25 – but not much changed in the final two months of the year

A divided US market: tech companies with no revenues or profits are flying, as are the Mag-7. The rest are left in the shade

Average YTD performance of companies in each category, price return %



Past performance is not a guide to future performance and may not be repeated. Performance covers 31 December 2024 to 31 October 2025. Constituents are classed as profitable (unprofitable) if trailing earnings per share were positive (negative) on 31 December 2024 and are still positive (negative) on 31 October 2025. Constituents are classed as having revenues (no revenues) if trailing sales per share were positive (negative) on 31 December 2024 and on latest available date. Portfolios are equal-weighted i.e. an average of all constituents' performance is shown. Smallmid cap is based on MSCI US SMD index, Mag 7 are Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, Tesla. S&P 493 is S&P 500 excluding Mag 7. Source: LSEG Datastream, MSCI, Nasdaq, S&P, and Schroders. Please see relevant disclaimers on page 57.

9

Schroders

Source: Schroders

US Economy

Wall Street has recognized the surprising strength of the US economy over recent quarters. Real GDP growth was 3.8% in Q2 2025 and 4.4% in Q3 2025 (source: Google Gemini). Jordi Visser of 22V Research pointed out that this is only the fourth occurrence this century in which the US economy has posted at least two quarters in a row of real GDP growth in excess of 3.8% (2003 / 2004, 2014, 2020 / 2021). Currently, there are no signs of things slowing down, as the Atlanta Fed GDPNow tracker is estimating Q4 2025 Real GDP growth of 5.4% (Source: [Atlantafed.org](https://www.fedreserve.org)).

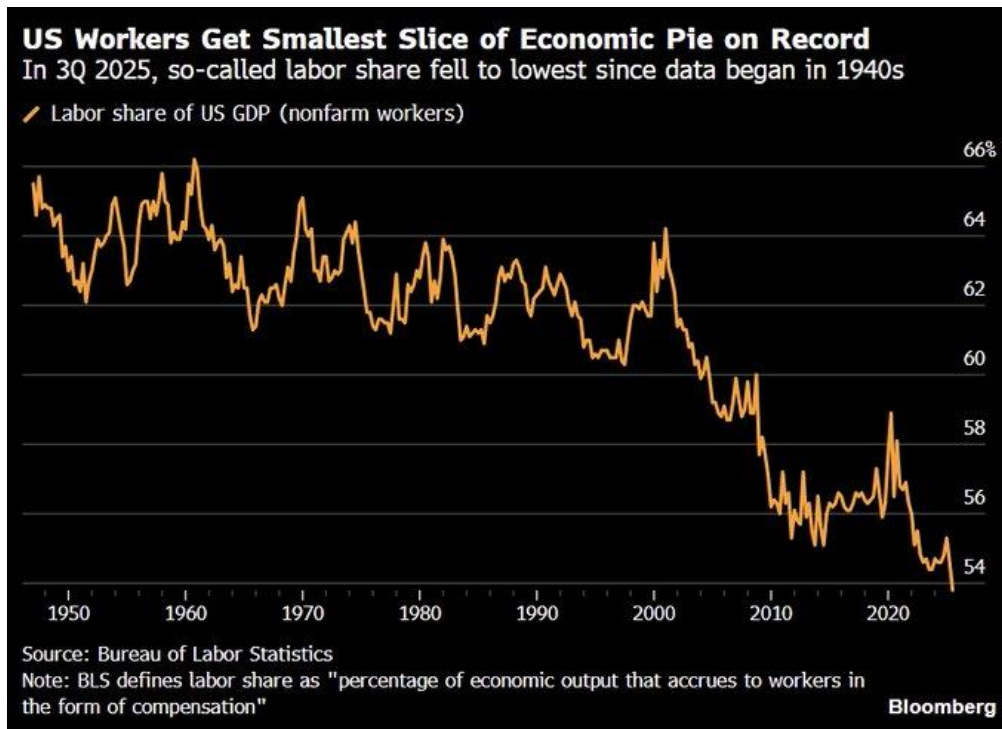
Economists have been ratcheting their growth forecasts higher on a consistent basis after recession fears peaked when tariffs were imposed last April. Betting markets mirror this shift: Polymarket prices the odds of a US recession by the end of 2026 around 20%, a notable decline from a few months ago (Source: [Polymarket.com](https://www.polymarket.com)). Anecdotally, we cannot remember a year in the post GFC era where calls for an economic recession / weak economy have been so nonexistent.

Significant fiscal and corporate stimulus is slated to be unleashed into the US economy during the first half of 2026 (0.9% boost to GDP according to Google Gemini), and some economists now cite overheating, rather than a recession, as the principal near term risk. Torsten Slok, Chief Economist at Apollo, described this outlook bluntly in a recent noted titled "Stagflation in 2025. Overheating in 2026." He lists 10 tailwinds which he labeled as "significant upside catalyst to growth and inflation over the coming quarters" including strong AI and data center spending; the wealth effect; Falling US Dollar and oil; OBBB eliminates federal income taxes on overtime pay and tips; OBBB extends 100% expensing for equipment and factories to encourage capex and hiring; Large tax refund season. And Slok didn't even mention deregulation and less wasteful government spending in his list.

Of course, nothing is ever straight forward when it comes to something as complex as the US economy. The K-shaped economy is incredibly real and will likely persist for the foreseeable future. Asset owners have

benefited disproportionately in the post 2008 era, where monetary policy has supported asset prices more than the real economy itself. Having said this, this dynamic has been slowly emerging for decades, and the harsh reality is that it has not affected corporate profitability in the slightest. In fact, the record profits generated by corporate America are a direct function of “doing more with less.”

US Labor Share of GDP is at Record Low Levels



Source: Bloomberg

The Kobeissi Letter did an excellent job in summarizing the K-Shaped economy: “The top 10% of US earners now reflect a record 49% of all consumer spending. At the same time, the bottom 80% of earners represent just 37% of total consumer expenditures, down -11% since 1995. This means the top 10% account for a record 33% of US GDP. Meanwhile, the bottom 80% account for just 25% of the US economy.

The labor market is undoubtedly cooling, most easily observed through the headline non-farm payrolls data. Looking back at 2025, new hiring began to slow dramatically in May, as tariffs raised the level of uncertainty for businesses around the world. From January – April, 491,000 jobs were added at a headline level versus 93,000 jobs during May – December. However, while directionally accurate, this does not tell the entire story. 274,000 Federal government jobs were cut throughout the course of 2025. Private sector payrolls increased by 433,000 from January – April and by another 300,000 from May – December. All government jobs increased by 58,000 from January – April, while they declined by -207,000 from May – December (Source: MBL Advisors & FactSet).

In addition, Forbes.com recently observed that “The Bureau of Labor Statistics household survey shows a decline of 881,000 foreign-born workers since the start of the Trump administration in January 2025, and a drop of 1.3 million since a peak in March 2025” (source: Forbes.com & National Foundation for American Policy analysis). These clearly observable trends within the labor market have led most economists to estimate that the US economy may require less than 50,000 jobs (22V Research estimates that this could be 0 jobs) to be

added per month in order to keep the unemployment rate steady, given the shrinking labor force due to demographics and immigration policies.

The most real time and high frequency data point in the labor market also happens to be the strongest one, the four-week moving average of weekly jobless claims. Which currently sits in line with multi-decade lows at 205,000 (*source: MBL Advisors & FactSet*). Thus, the “no hiring, no firing” economy continues to be confirmed. Nonetheless, deterioration beneath the surface is evident, as job openings and quit rates have plummeted from their elevated levels in 2022 / 2023 (*source: RenMac & Neil Dutta*). In addition, the youth unemployment rate is up to 10.4%, three percentage points higher than two years ago (*source: MBL Advisors & FactSet*).

As an offset to the softening labor market, productivity surged in Q3 to +4.9% Q/Q on an annualized rate (*source: MBL Advisors & FactSet*). Optimists interpret this as a clear sign of an AI-driven productivity boom. While skeptics note the evidence is still preliminary. Regardless, productivity could be the primary input for economic growth moving forward, as job growth stagnates.

A large part of the reason the economy seems so confusing right now is because we are living through something which we have never experienced before – an economic boom, with little job growth. More jobs are always a good thing, but the lack of hiring is allowing inflation to fall, as wage growth decelerates when jobs are not plentiful. Core CPI came in at 2.6% for December 2025, the lowest reading since March 2021 (*source: Trading Economics*). In addition, Truflation.com attempts to publish a “real time” inflation forecast which registered a reading of 1.18% on 1/27/26, down from nearly 2.7% in December 2025 (*source: Truflation.com*). Five-year Breakeven Inflation Rates (the bond markets forecast of inflation) have remained extremely steady in the 2% - 2.5% range for the last three years and remain so today (*source: MBL Advisors & FactSet*). If this trend continues, further rate cuts from the Fed could become justified. However, these rate cuts could come at a time when the weaker parts of the economy (housing, manufacturing, etc.) begin to reemerge from their multiyear slump, potentially reasserting upward pressure on inflation, and leading to the “overheating” scenario outlined by Torsten Slok. Regardless, the first half of 2026 may very well be “as good as it gets” for the US economy.

The New World Order

A year ago, we wrote that President Trump was the “ultimate disruptor.” He has exceeded that billing. Rather than catalogue every policy shift, this section focuses on what this administration’s policies could mean for investors moving forward.

Dan Clifton of Strategas Research Partners published a report titled The Changing Global Order. His opening paragraph was noteworthy:

“We often highlight the falling of the Berlin Wall as a seismic event in world history: the moment of accelerating globalization, which drove down inflation, interest rates and geopolitical volatility. Price to earnings on stocks adjusted higher. Abundance in goods and lower interest costs allowed for leaders to redirect policies towards social spending and climate change at the expense of national defense. Over time, the unipolar, US-led world shifted to a multipolar world with China on the rise and Russia reasserting itself after decades of being in the shadows. The Western world was caught flatfooted and is now trying to catch up. Disagreements this week look like the disagreements of the 1980s between President Reagan and European leaders. But today’s arguments are different. No world leader today experienced the shared bond and trust stemming from the US-European alliance in World War II. Trump views European countries as free riders, imposing a cost greater than benefit. Europe (and others) view the US as a bully who continues to hold their countries back with excess

demands. In the era following WWII, these disagreements could persist because there was TRUST. Trust is disappearing. As everyone in the investment business understands, when trust erodes, money flows away from it, and once that trust disappears, it takes a long time to come back. Not surprisingly, gold is about to exceed Treasury holdings at foreign central banks and Western leaders are heading to China to look for different investment possibilities.”

It is important to recall that eroding trust in the US is not a new phenomenon nor is it entirely specific to President Trump. The freezing of Russian assets under the Biden Administration in 2022 was a precedent shift. Agree or disagree, this was the beginning of significant actions outside prior global norms. And the consequences of this erosion of trust can be seen if one looks close enough. Since 2022, there have been several occasions in which equities, bonds and the US Dollar sold off in tandem – behavior more typical in emerging markets than the world’s reserve currency.

An increasing wariness of fiat-backed currencies can be observed throughout the entire developed world where longer-dated bond yields are steadily rising again, even without broad inflationary pressure. In fact, in two of the most important bond markets outside the United States (Japan & Germany), 30-year bond yields are hitting multi decade highs, well surpassing their levels during the global inflation scare a couple of years ago.

Despite our growing differences, developed countries are running the same economic playbook – “fiscal dominance.” This is to say, central bank policies are increasingly becoming a function of the mathematical reality of servicing the massive debt loads which the developed world has amassed. For the first time in history, the US is spending more on interest payments than on defense spending (*Source: Peter Mallouk*).

Although there is strong denial from the Federal Reserve, in our opinion QE 5 began in December 2025 as the Fed began purchasing roughly \$40B of short-term treasuries per month. Fed policy makers are labeling this as “reserve management.” But whether you call it QE5 or reserve management, the result is the same: tighter linkage between Treasury financing and central-bank policy. And it should be noted that this bond buying program came at the direction of Fed Chairman Powell, not President Trump. The not-so-subtle, unofficial, merger of the Federal Reserve and the US Treasury Department has everything to do with fiscal dominance, and little to do with politics, aside from the fact that neither party seems capable of fiscal prudence. QE5 exemplifies another “emergency” government program which has turned into a permanent fixture.

The administration has delivered several positive outcomes for Americans over the last year: a stronger economy than many expected (despite tariffs), a narrower trade deficit, DOGE, lower average gasoline prices, and significantly diminishing the presence of China, Iran and Russia in the Western Hemisphere. At the same time, a clear tilt from “invisible hand to visible fist” (credit: Michael Hartnett) is more concerning. Michael Hartnett of BofA Global Research stated “‘drill baby, drill’ to reduce the price of energy, tariffs to reduce price of healthcare, prodding banks to reduce credit card rates, stopping private equity from buying homes, making tech pay for data center power generation; government intervention to reduce price of energy, healthcare, credit, housing electricity, all via profit margins of “big” corporations.” Note: Hartnett didn’t even mention the \$200B of MBS purchases which President Trump has directed Fannie Mae & Freddie Mac to make – striving to directly impact mortgage rates.

Around the world, the trend in elections over the last ten years is clear: populists, on both sides of the aisle, are winning, and like all politicians, they ramp up their (populist) policies into election seasons. “Affordability” is the top issue on Main Street and that can be observed by the dreadful consumer confidence surveys. Bob Elliott noted “It is impossible to be both populist and business friendly. Ultimately it comes down to the tradeoff between the labor income needed to keep the economy growing and the profits of corporations need to keep equities at highs.”

Precious metals have been a massive beneficiary from this “New World Order.” Globally, central banks have become price insensitive buyers of gold, as they move to reduce their holdings in dollar denominated assets. “For the first time since 1996, the value of gold held by central banks exceeds the value of US Treasuries they hold” (*Source: Special Situations Research*). Michelle Makori added “Gold is reasserting itself as a neutral reserve asset in a bifurcating global monetary system. Gold is increasingly being treated as the reference point for monetary credibility precisely because it sits outside politics, sanctions, and counterparty risk.”

Charts of precious metals now look like they are AI stocks or cryptocurrencies during a speculation phase. Nonetheless, “stomers of value” become imperative in a world where trust is breaking down and debt figures increase by the day. John Roque of 22V Research reminds us that “in 1929 \$1 bought 0.05 oz. of gold. In 2025, \$1 buys 0.0002 oz. of gold. Translation: the \$ has been devalued by 99.5% versus gold.”

Last May, Jordi Visser of 22V Research published an outstanding report titled “The Buffett Family Bookend to America’s Monetary Era.” Visser notes there is an irony in that Buffett’s ten-year as Chairman of Berkshire Hathaway began shortly before the US abandoned the gold standard and has now ended just as the current global monetary system may be breaking down.

Remarkably, Visser pointed out is that Warren’s father, Howard Buffett, penned an essay in 1948 titled “Human Freedom Rests on Gold Redeemable Money.” According to Visser, Howard Buffett wrote “the true foundation of individual liberty lies in a monetary system backed by something tangible – namely gold. He warned that if money were no longer redeemable, it would open the door to fiscal recklessness, inflation, and ultimately, social, and political chaos. Without a redeemable currency, the financial restraints on government disappear.” It is nothing short of prophetic to read this today.

Visser is an expert in all things related to AI, including cryptocurrencies. Most of his bullishness on cryptocurrencies is due to his viewpoint that they will be the medium of exchange in the new digital world. Visser notes:

“What looks like crypto experimentation through a human lens becomes basic infrastructure through a machine one. In 2025, stablecoin transaction volume reached roughly \$33 Trillion, rivaling the combined throughput of Visa and Mastercard. Most investors still file this under crypto speculation. That is a category error. The convergence of autonomous AI agents and programmable digital dollars is not a crypto story or an AI story. It is an infrastructure story about which financial rails will carry the next decade of commerce. The banking industry estimates suggest trillions of dollars in traditional deposits could migrate into stablecoin based ecosystems as this infrastructure matures. Understanding why requires grasping a fundamental architectural incompatibility that no amount of incremental bank modernization can resolve.”

Separately, Visser stated the following: “AI doesn’t just automate tasks, it severs capital’s dependence on labor. Capital still uses workers, but it no longer needs them to grow. That shift changes everything: jobs, wages, savings, politics, and what actually stores value in a post-labor economy. This moment is a fracture point and Bitcoin emerges not as a rebellion, but as architecture of the future where AI competes.”

Numerous “old systems” are breaking down in favor of new ways of doing things, both for technological and geopolitical reasons. Most humans are hardwired to dislike change. Staying disciplined while also continuously learning and adapting will be imperative for investors moving forward.

The Fourth Industrial Revolution

One short year ago some investors still compared AI to overhyped themes such as the Metaverse, Cannabis stocks, and SPACs. That debate is largely settled as AI is a transformative, multi-decade structural shift. The AI buildout is moving at a speed which is nearly impossible to fully comprehend, although one clear takeaway is the story moving beyond bigger / faster LLM's, to a multi-year industrial capex cycle, with countless beneficiaries beyond Nvidia. The upgrade cycle which stands in front of us will be massive as AI will be implemented into everyday hardware and workflows in the form of AI agents, humanoid robots, autonomous driving, and edge devices.

Key Framing Points

- At the World Economic Forum, Jensen Huang noted that AI will be the largest infrastructure buildout in human history, estimating as much as \$85 Trillion of investment over the next 15 years. In a separate interview Huang noted that global GDP could eventually double to \$200 Trillion because of AI (*source: Google Gemini*).
- At the World Economic Forum, Elon Musk announced that Tesla Optimus robots will be available to the public as soon as 2027, signaling the move from prototypes to consumer / professional deployment (*source: Bloomberg*).
- Executives at Blackstone recently declared that “investment in developing artificial intelligence is the biggest driver of economic growth in the United States today” (Source: Reuters).

Energy and Infrastructure Constraints

- The former CEO of Google Eric Schidt reinforced a big theme “AI’s natural limit is electricity, not chips. The US is currently expected to need another 92 GW of power to support the AI revolution. For reference, one gigawatt is roughly the equivalent to one nuclear power station. In the last 30 years, only two have been constructed” (Source: Moonshots & Fortune.com).
- The Kobeissi Letter estimates that US data centers will consume nearly 10% of the entire US power grid by 2030. Morgan Stanley notes that “between 2025 and 2028, US data centers are projected to require 69 GW of power, but only 10 GW from dedicated projects and 15 GW from spare capacity are expected to be available, leading to the 44 GW shortage. Addressing this shortage is expected to require massive investment, with estimates for new power generation and grid upgrades in the range of \$2.6 Trillion” (Source: Morgan Stanley & Google Gemini).
- Elon Musk mentioned the following within his SpaceX & xAI merger announcement: “Global electricity demand for AI simply cannot be met with terrestrial solutions. In the long term, space-based AI is obviously the only way to scale” (Source: Sawyer Merritt).

Data Centers Could Consume Almost 10% of the US Power Grid by 2030

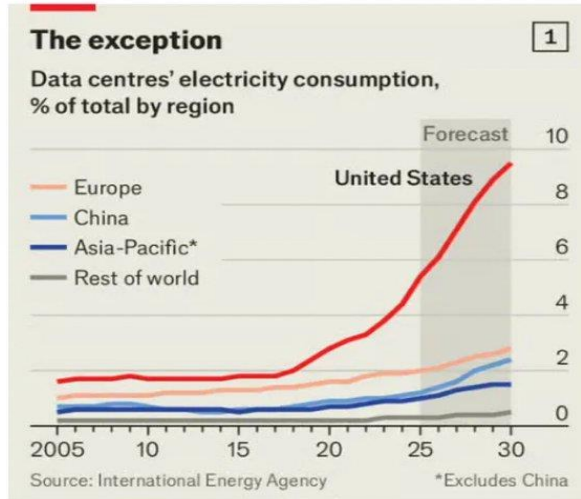


CHART: THE ECONOMIST

Source: *The Economist & The Kobeissi Letter*

Constructive Evidence from Companies

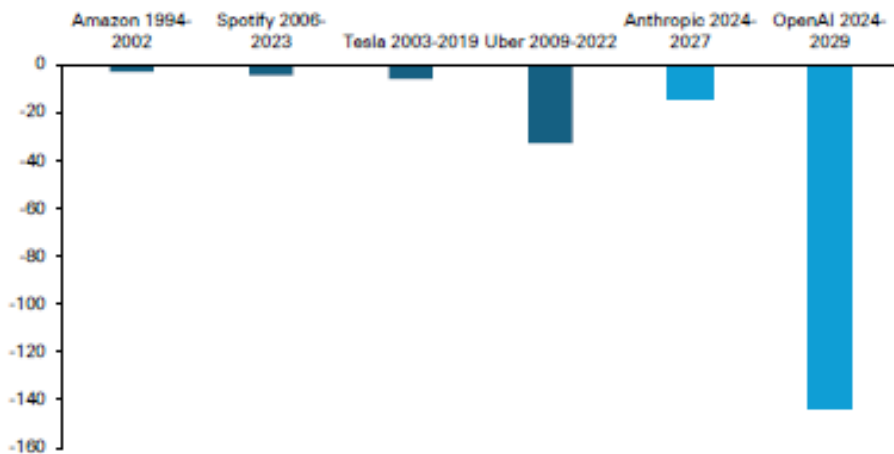
- Technology companies up and down the AI supply chain continue to cite strong demand and guide their capex budgets higher. On their recent earnings call Taiwan Semiconductor guided their 2026 capex forecast higher and emphasized building capacity based on long-term committed demand from their customers rather than speculative, optimistic forecasts (source: *Google Gemini*). Tesla plans to more than double its capex in 2026, to over \$20B. Meta is increasing capex expectations to \$115B - \$135B in 2026, from \$72B in 2025 (source *James E. Thorne*). On Friday 1/30/26, SanDisk reported EPS of \$6.20 vs estimates of \$3.62. They raised 2026 EPS guidance to \$12 - \$14 up from \$4.21 (Source: *ChatGPT*). To say these numbers are off the charts is an understatement.
- Anthropic developed Claude Cowork in ten days with automated tooling, and no humans involved. Microsoft has been cultivating Copilot for roughly three years without any notable traction or widespread user adoption. Microsoft was founded in 1975 and currently has well over 200,000 employees. Anthropic was founded in 2021 and currently has less than 3,000 employees (source *Google Gemini*). 10 days. No humans. This is the new pace of disruption with AI becoming the driving force of innovation.
- According to ChatGPT, Anthropic continues to project future revenue growth which is truly astounding:
 - o 2022 = \$10M
 - o 2023 = \$100M
 - o 2024 = \$1B ARR by YE
 - o 2025 = \$9B ARR by YE
 - o 2026 = \$18B - \$26B
 - o 2027 = \$34 - \$55B
 - o 2028 = \$70B in the most bullish scenario
 - o 2029 = \$148B in the most bullish scenario
- BofA Global Research estimates that there is a \$1 Trillion plus incremental revenue opportunity over the next five years for the Hyperscalers.

Notable Concerns Regarding the AI Buildout

- BofA Global Research noted that capital intensity is picking up; “historically (2021 – 2024) each dollar of capex helped generate an average of \$0.90 incremental revenue and \$0.42 of incremental EBITDA in the follower year. Looking forward (2025 – 2028), street estimates suggest that each dollar of capex will generate \$0.50 of incremental revenue and \$0.27 of incremental EBITDA in the following year.”
- Prior to six months ago, increasing capex was uniformly rewarded with higher stock prices. Thankfully, the thought process around large amounts of capital expenditures has become more sophisticated. Increasing capex coupled with accelerating revenue growth continues to be rewarded (META). Higher capex with decelerating revenue growth is being punished (MSFT). And stocks with large capex budgets and negative free cash flow are being obliterated (ORCL).
- According to a PwC survey “More than half of CEOs report seeing no benefits from AI deployment so far – only 12% of business leaders hit the jackpot of higher revenues and reduced costs” (source: Yahoo Finance).
- Michael Burry’s critique is that generative AI / LLMs are expensive to run (unlike search) and durable profit models are unclear (source: Ajay Bagga).
- OpenAI is at the epicenter of concerns regarding both the future ROI from these investments as well as the circular financing which has become increasingly apparent across the AI ecosystem. The Wall Street Journal published an article titled: “OpenAI Made a \$12B Loss Last Quarter, Microsoft Results Indicate.” Deutsche Bank estimates \$143B in cumulative negative cash flow before the company becomes profitable. Deutsche Bank bluntly stated “No startup in history has operated with losses on anything approaching this scale. We are firmly in uncharted territory” (source: Deutsche Bank Research Institute).

Cumulative Losses Before a Start-Up Becomes Profitable

Figure 1: The largest cumulative losses before young/start-up companies turned a profit compared with cash burn for OpenAI and Anthropic based on media reports (USDbn)



Source: Amazon, Spotify, Tesla and Uber data provided by ChatGPT, broadly in line with Bloomberg data; Anthropic and OpenAI estimates reported in the WSJ, citing company projections provided to investors

Source: Deutsche Bank Research Institute

Long Term Perspective

We do not view AI as a bubble, but the late 1990's Tech bubble may offer some useful parallels. Many of today's dominant firms trace their rise to that era; and they are worth more than ever despite several severe drawdowns over the last 25 years. Equally important, numerous high-profile businesses from the late 1990's no longer exist today. Even Sam Altman agrees that a similar dynamic will unfold in the AI era. Last August, Altman quoted "someone is going to lose a phenomenal amount of money. We don't know who, and a lot of people are going to make a phenomenal amount of money" (*Source: Yahoo finance*).

Then, as now, investors anticipated a structural shift: as the internet permanently changed behavior and business models. There is plenty of irony in the prevalent thesis of the late 1990's that "the internet would change the world" as it was entirely correct and even underestimated. However, excessively optimistic expectations which fundamentals could not justify, produced a massive bubble, even as the underlying technology continued to reshape the economy.

Just as all companies in existence now use the internet, we believe it is becoming increasingly appropriate for investors to think about all companies becoming technology / AI related businesses in the not-too-distant future, as AI embeds across products and workflows.

McKinsey Global Institute shared some insightful perspective in a recent research report: "At current levels of capability, AI agents could perform tasks that occupy 44% of US work hours today, and robots 13%. That means half of current work hours could be automated with today's technologies. But work that draws on social and emotional skills remains largely beyond AI's reach. People provide the real-time awareness oversight and human presence that machines cannot match."

Jordi Visser of 22V Research recently stated "in an AI driven cycle, valuation risk comes in timing mismatches. Demand is real, but revenues are delayed. Markets punish delay. This isn't the end of AI. It's the stress test phase." We strongly agree that AI should be treated as a durable and structural theme. However, heavy capex, long revenue lags and aggressive scaling aspirations will create both massive winners and losers as this cycle unfolds.

Conclusion

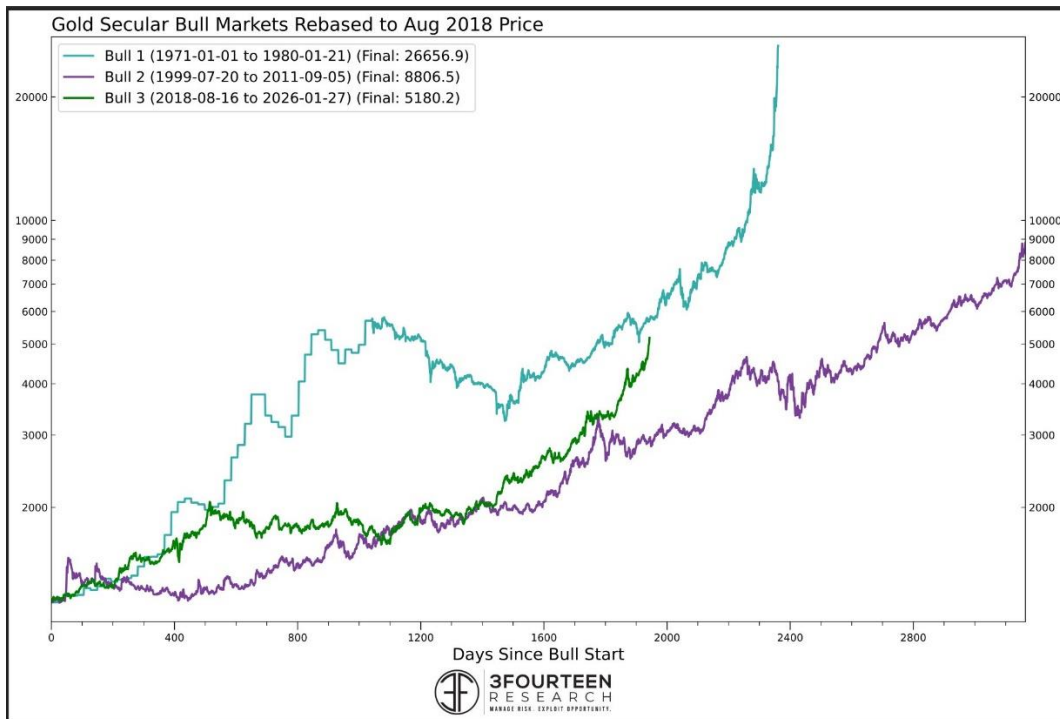
Simply as a statement of reflection rather than any implied forecast, it has been truly astounding to observe the change in investor sentiment over the last twenty years. We literally heard the words "I don't care about upside; I just can't lose any more money" in early 2009, within weeks of that generational bottom. Today downside risks seem unimportant to some investors, as upside FOMO around the latest "hot" asset class has become increasingly noticeable. Over the last four years we have seen frenzied behavior shift from one asset class to another: Meme stocks, to SPAC's / ARK, to crypto, to AI stocks, and now to gold / silver. All of this with good reason as the narratives around many of these themes have been undeniable in the moment. AI and precious metals have more durable tailwinds than some of these former fads. Nonetheless, ARK is a notable example of the potentially dire consequences for investors chasing a narrative ("disruptive innovation") with little fundamental support (ARKK is still down 50% +/- from its 2021 highs despite a 100% +/- rally (*source: MBL Advisors & FactSet*)).

Meme stock traders have moved on from the likes of GME and AMC. But according to 22V Research, academic studies show that their influence on the market has only grown, and silver might be their new favorite asset. Recent price action in silver exemplifies speculation; the iShares Silver ETF has a market cap of \$52B (*source: iShares.com 1/30/26*) and according to Chris Verrone of Strategas Research Partners there was \$39B in volume

on this ETF on 1/26/26 (previous record was \$14.7B on 1/14/26 (source: Strategas Research Partners)). In our experience, fundamentals rarely have much to do with an asset that regularly moves 10%+ on a daily basis. Although most fiscally conservative Americans may agree with the “narrative” around the asset (ourselves included), the recent movements have us recalling another age-old lesson which we learned early in our careers – “don’t confuse brains and a bull market.”

Maintaining conviction in long term secular trends is a highly valuable input to successful investing. In the August 2025 BofA Global Fund Manager Survey (FMS), Michael Hartnett noted that only “48% of investors have exposure to gold: adjusting for those with no gold total FMS portfolio exposure to gold is 2.2%.” In addition, Hartnett noted in the BofA Global Research Flow Show report from 1/15/26, that the average allocation to gold is “currently 0.6% for BofA private clients.” Thus, being long-term owners of gold across client portfolios in addition to having roughly double the exposure of the average institutional investor feels good in the moment. And to be clear, we believe the secular “top” in gold could be meaningfully higher from today’s levels, as “The New World Order” unfolds and underexposed investors begin to grab for additional exposure. Warren Pies of 3Fourteen Research has a terrific chart which overlays the current secular bull market in gold against the prior two.

Secular Bull Markets for Gold



Source: Warren Pies & 3Fourteen Research

However, we also believe it is imperative to maintain humility and recognize that this is an extremely “narrative driven” market. “Everyone” did not become AI and precious metals experts overnight – as neither of these themes were on many investors’ radars a few short years ago. Once again, Chris Verrone’s golden rule of investing remains on full display – “narrative follows price.”

In this regard, we believe maximum discipline, high levels of portfolio diversification, and selective exposure to secular change is warranted moving forward. Regularly rebalancing portfolios, especially after noticeable bouts of (upside or downside) volatility will remain one of the most simple and important actions to adhere to.

In several recent interviews, Ed Clissold, Chief Strategist at Ned Davis Research (NDR), has pointed out that the stock market “often experiences a 15% correction within the first six months of a new Federal Reserve Chair’s term” (*Source: Google Gemini*) – which will begin in May of this year. Thus, the environment could be ripe for volatility moving forward.

At the same time, Don Rissmiller of Strategas Research Partners constantly reminds investors that “the economy doesn’t get into big trouble until profits fade.” Although it could become difficult for corporations to meet the increasingly demanding expectations, sturdy levels of earnings growth are expected for the foreseeable future. While numerous signposts of elevated sentiment and positioning are clear, we do not believe the current environment is emblematic of the widespread euphoria which is often seen during the final phase of secular bull market. Within the AI complex, Microsoft has made no progress relative to the S&P 500 since July 2021, and Oracle is down over 50% since September 2025 (*Source: MBL Advisors & FactSet*). At the same time, there is no shortage of stocks within Financials, REIT’s, Consumer Discretionary, Consumer Staples, Energy, or Materials which have traded sideways for periods ranging from 5-20 years. US Small Cap indices are notching a fresh breakout above their early 2021 peaks. Last spring, MSCI EAFE finally broke through its previous all-time highs registered in 2007. And the MSCI Emerging Index just accomplished this same feat within the last month. Broader market participation is no longer something that diversified investors are hoping for, it is happening now, in real time.

When downside volatility inevitably presents itself, we encourage investors to recall the endless quotes of optimism Warren Buffett has articulated over the last fifty years. Elon Musk’s closing words in his interview at the World Economic Forum, could have been conflated for Buffett: “I would encourage everyone to be optimistic and excited about the future. For quality of life, it’s better to err on the side of being an optimist and wrong rather than a pessimist and right” (*Source: Sawyer Merritt*).

Jordi Visser of 22V Research wrote a paper in which he compared and contrasted Buffett and Musk. The punchline was that most people take anything Buffett says to be gospel, and with good reason. Conversely, Musk often sounds a bit crazy and is easily dismissed. Nonetheless, very few people have been more correct about what the future entails than Elon Musk over the last twenty years. Even if he is “talking his own book,” when the “smartest man in the room” says “AI and robotics will drive an explosive expansion in the global economy” (*Source: Shay Boloor*), it is prudent for investors to take note.

It is easy to maintain conviction in one’s beliefs when things are going well, conversely it becomes extremely difficult when the tides turn. 2026 could be a year that requires patience, but irrespective of market narratives or behavior, we will maintain our profile as disciplined, pragmatic, long-term optimists.

Sincerely,



Brian Gift, CFA
Chief Investment Officer
MBL Advisors

Appendix A

Signal	Date Triggered	Average 1 Year Forward Returns	% Positive Returns 1 Year Forward	Source
Midterm Election Year	1/2/2026	4.22% Since 1940: 0.58% Since 1970	57%: 12/21 Since 1940: 8/14 Since 1970	BofA Global Research & Paul Ciana
S&P 500 Return in Years ending in 6	1/2/2026	9.55%	80%: 12/15 Since 1866	BofA Global Research & Paul Ciana
S&P 500 Down More than 15% during calendar year and finished the year with gains of more than 15%	1/2/2026	19.00%	100%; 4/4 Since 1950	Ryan Detrick & Carson Investment Research
S&P 500 Return after 1 down year (2022) then 3 up years	1/2/2026	2.98%	50%; 8/16 Since 1881	BofA Global Research & Paul Ciana
Dow Jones Industrial Average up 8 Months in a Row	1/2/2026	12.90%	88%; 7/8 Since 1922	The Kobeissi Letter
S&P 500 has monthly closes within 1% of each other for 3 months	12/31/2025	13.14%	83%: 15/18 Since 1950	Subu Trade
Dow Industrials & Dow Transports at all time high, for first time in more than a year	1/6/2026	12.59%	85%; 11/13 Since 1927	Subu Trade
Margin Debt Increased by 42% in the past 7 months.	12/1/2025	-6.93%	0%: 0/6 Since 1959	Subu Trade
S&P 500 Positive after the first five trading days of the year	1/8/2026	14.20%	81.6% Since 1950	Ryan Detrick & Carson Investment Research
S&P 500 gained more than 3% during Turn of Year (TOY) Nov. 20 - Jan 19.	1/19/2026	15.80%	95%: 36/38 Since 1950	Wayne Whaley & Subu Trade
Positive January	1/30/2026	12.20%	87% 40/46 Since 1950 (11 month return)	Ryan Detrick & Carson Investment Research
Averages excluding Market Cycle Data (the first two data points)		10.65%	74.40%	

Bob Farrell's 10 Investing Rules

Bob Farrell is a legendary Merrill Lynch strategist who published his timeless list of 10 investing rules several decades ago, a version of which can be found here

<https://www.investopedia.com/articles/fundamental-analysis/09/market-investor-axioms.asp>.

It seemed some investors believed these rules were no longer as relevant as they once were when they didn't hold true to form during the extremely abnormal bear market and subsequent recovery in 2020 and 2021. However, all of these rules seem especially pertinent today as we proceed through this more traditional bear market. We have written about Bob Farrell's rules on multiple occasions in the past. But their timelessness and truth always amaze us each time we observe them.

- *Rule #1. Markets tend to return to the mean over time.*
- *Rule #2. Excesses in one direction will lead to opposite excesses in the other direction.*
- *Rule #3. There are not new eras – excesses are never permanent.*
- *Rule #4. Exponential rapidly rising or falling markets usually go further than you think, but they do not correct by going sideways.*
- *Rule #5. The public buys the most at the top and the least at the bottom.*
- *Rule #6. Fear and greed are stronger than long-term resolve.*
- *Rule #7. Markets are strongest when they are broad and weakest when they narrow to a handful of blue-chip names.*
- *Rule #8. Bear markets have three stages – sharp down, reflexive rebound and a drawn out fundamental downtrend.*
- *Rule #9. When all of the experts and forecasts agree – something else is going to happen.*
- *Rule #10. Bull markets are more fun than bear markets.*

Disclosures:

This material is intended for information purposes only and should not be construed as legal or tax advice and is not intended to replace the advice of a qualified attorney, tax advisor, or plan provider. Investments in securities involve risks, including the possible loss of principal. When redeemed, shares may be worth more or less than their original value.

The Standard & Poor's 500 Index (S&P 500 TR) is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

This information has been taken from sources we believe to be reliable but there is no guarantee as to its accuracy. This material is not intended to present an opinion on legal or tax matters. Please consult with your attorney or tax advisor as applicable. 5187208