

Quarterly Investment Update:

2026 Market Outlook

What We're Seeing as We Head Into 2026

2025 marked another strong year for global markets, with equities delivering a third consecutive year of double-digit gains and fixed income returning to favor as yields normalized. Looking ahead to 2026, we expect continued economic growth and resilient corporate earnings, alongside rising dispersion across asset classes, regions, and sectors. This environment favors discipline, diversification, and a renewed focus on quality.

Economic Outlook

We expect U.S. economic growth to remain solid, particularly early in the year. Fiscal stimulus and supportive policy dynamics continue to provide meaningful tailwinds for corporate profitability. Unlike prior late-cycle periods, fiscal and monetary policy today remain structurally different, supporting earnings momentum even amid elevated valuations.

Market Conditions

While the fundamental backdrop for earnings remains constructive, signs of market exuberance are building. Investor sentiment is elevated, leverage is rising, and risk measures sit near historically low levels. As a result, we believe solid returns are still achievable, but portfolio construction should emphasize balance and risk management particularly among equities.

What Matters Most This Year

- **More muted equity returns ahead** – Long-term return expectations for large-cap equities have moderated following several years of strong returns
- **Fixed income opportunities have improved** – With real and nominal yields solidly positive, bonds now offer solid return potential along with improved diversification properties
- **Quality and defense matter more** – Recent underperformance in higher-quality equity segments may present selective opportunities to rotate exposures within stock portfolios to add ballast
- **Diversification remains essential** – Geographic, sector, and asset-class diversification can help manage volatility and uncertainty

How We're Thinking About Portfolios

- Favor **quality-oriented equity exposure**, with select opportunities in defensive sectors that can protect portfolios if market sentiment turns
- Lean into **select fixed income sectors**, where starting yields support forward returns. We especially favor agency and non-agency mortgages today.
- Remain thoughtful and selective within **alternatives**, as precious metals prices have increased dramatically and appear to be in a bubble

Bottom Line

In summary, we anticipate strong economic growth and corporate profitability in 2026. However, the current environment favors a defensive, quality-oriented approach, with selective opportunities across equities, fixed income, and alternatives. Portfolio construction should emphasize risk management, diversification, and flexibility to rotate exposures as market conditions evolve.

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