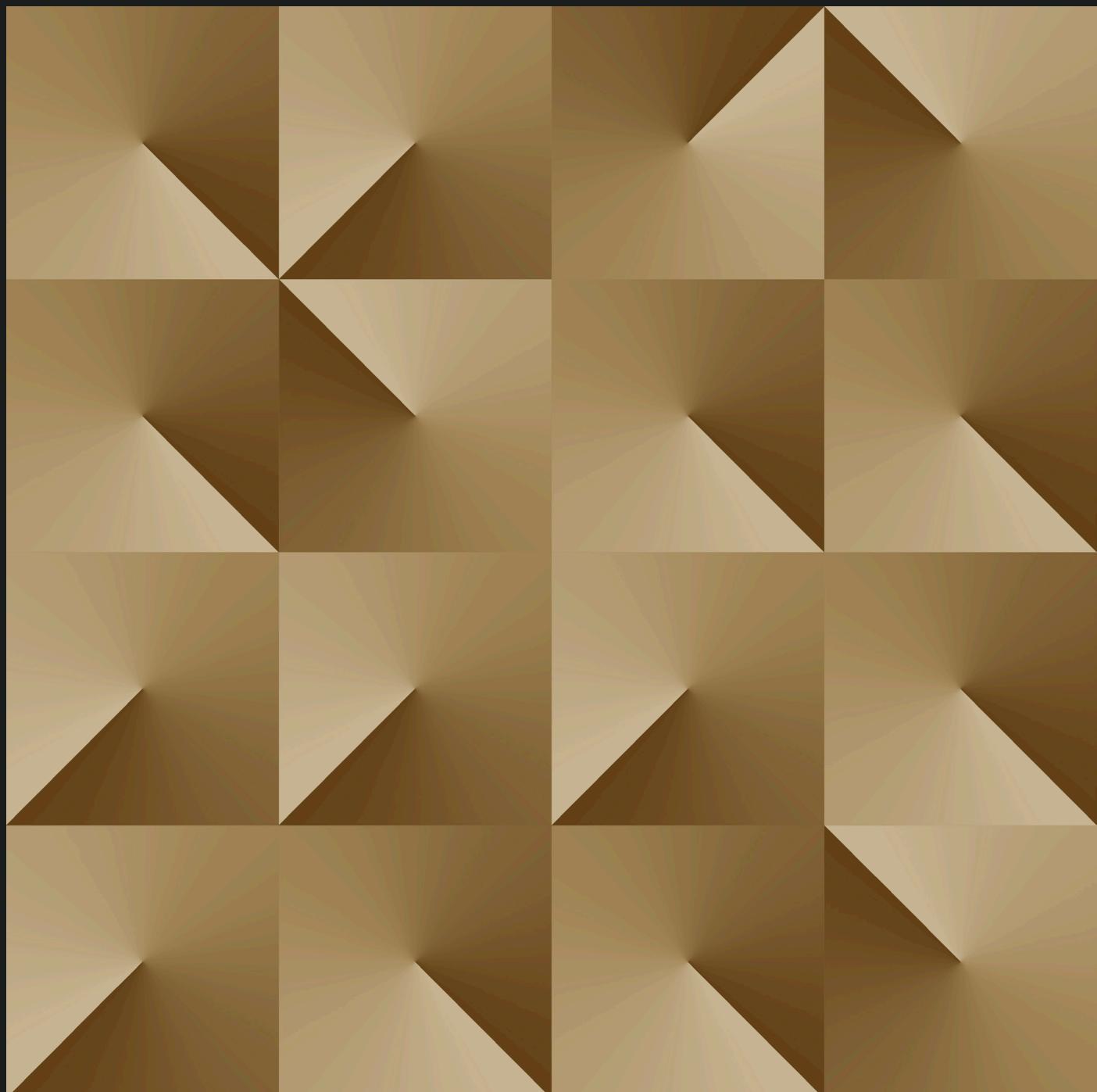


# *On Point*

## Market Outlook 2026

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Precision Positioning in  
a 'Run It Hot' Economy



# High Points

2025 saw our evidence-based investment approach realise a particularly strong year in both relative and absolute terms:

- Substantial European equity exposure for the year – a deeply contrarian position in early 2025 – which has recently become a more consensus trade
- Our reduced US exposure has been heavily biased to growth indices, which continued to deliver
- Our gold exposure, which averaged 10% in multi-asset portfolios, contributed positively throughout the year

Index	Q4 2025	2025
S&P 500	+2.7%	+17.9%
STOXX Europe 600	+6.3%	+20.2%
TOPIX Japan	+8.8%	+25.5%
MSCI Emerging Mkts	+2.5%	+33.7%
US Govt 10yr Bond	+1.0%	+8.8%
DE Govt 10yr Bond	-0.4%	-0.6%
UK Govt 10yr Bond	+2.8%	+6.1%
Gold (\$)	+11.9%	+64.6%
Oil Brent spot (\$)	-9.2%	-18.5%

**75%**  
of S&P 500 returns  
driven by AI-related stocks  
since ChatGPT launched  
in November 2022

**175bps**  
cut to interest rate  
by Fed – late 2024  
to Dec 2025

**64.6%**

gold price increase year-on-year  
showing the growing preference  
of real assets over liquidity  
and bonds

# Data Points

Our 2026 outlook is defined by a convergence of expansionary fiscal policy, AI-related capital expenditure, and emerging market valuations:

- Policy Stance:** We identify a 'Run it Hot' environment where a combination of persistent fiscal spending and a 'politicised' Fed provides a supportive, albeit high-volatility, backdrop for risk assets.
- The AI Concentration:** AI-related stocks now account for 75% of S&P 500 returns and 90% of capital spending growth; we maintain targeted exposure while monitoring models for signs of overinvestment imbalances.
- Emerging Market Pivot:** Our indicators turned bullish on EM in mid-2025, identifying current valuations and a weakening US Dollar as key drivers of the outright investment appeal of these markets.

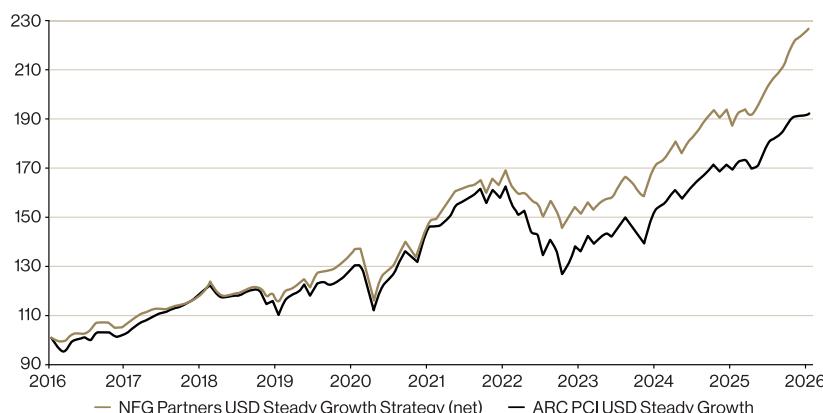
Asset Class	Outlook	Change
<b>Equities</b>	<b>Positive</b>	—
	Driven by US growth, AI productivity, and EM momentum	
<b>Sovereign Bonds</b>	<b>Neutral</b>	—
	Uninspiring prospects; yields are 'fair value'	
<b>Inflation Linked Bonds</b>	<b>Neutral</b>	▼
	Positioned for fiscal shifts as inflation concerns moderate	
<b>Corporate Bonds</b>	<b>Positive</b>	—
	Supported by US earnings quality and 'run it hot' policy	
<b>Gold</b>	<b>Positive</b>	—
	Multi-year bull market; favoured in falling real yield environment	
<b>Industrial Commodities</b>	<b>Neutral</b>	▼
	Attractive relative to bonds; driven by AI capital expenditure cycle	

# Portfolio Insights

In 2025, both the USD Balanced and USD Steady Growth portfolios, with consistently less volatility, significantly outperformed their respective ARC peer group, driven by strategic allocations in gold, real assets, and specific equity biases.

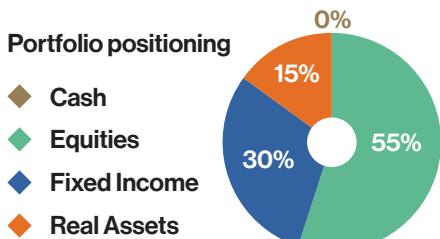
- USD Balanced:** **+18.7%** in 2025 versus **+11.7%** ARC USD Balanced Asset PCI ( $\approx 7.0\%$  ahead), with a volatility of **6.6%** compared to **7.6%** for the peer group.
- USD Steady Growth:** **+21.2%** in 2025 versus **+13.9%** ARC USD Steady Growth Asset PCI ( $7.3\%$  ahead), with a volatility of **8.8%** compared to **9.8%** for the peer group.
- Key performance drivers in 2025:
  - Defensively biased in the turbulence of H1
  - Overweight European equities versus US market
  - Growth and NASDAQ bias to US equity exposure
  - Gold and real assets added value

**USD Steady Growth Cumulative Return Since Inception (Jan 2016)**  
**+125.6%** versus **+89.6%** ARC USD Steady Growth Asset PCI (36% ahead)



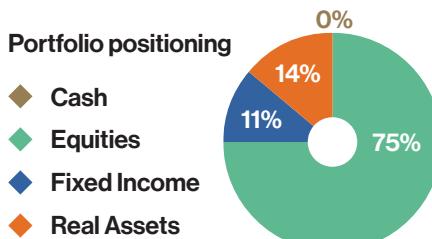
## NFG Partners Balanced

Asset Allocation	Min	Current	Max
<b>Equities</b>	20%	55%	70%
<b>Fixed Income</b>	20%	30%	80%
<b>Real Assets</b>	0%	15%	45%
<b>Cash</b>	0%	0%	60%



## NFG Partners Steady Growth

Asset Allocation	Min	Current	Max
<b>Equities</b>	45%	75%	80%
<b>Fixed Income</b>	10%	11%	60%
<b>Real Assets</b>	0%	14%	30%
<b>Cash</b>	0%	0%	45%



**+21.2%\***

**+13.9%**  
ARC US Dollar Steady Growth Asset PCI return

**+18.7%\***

calendar year return for the USD Balanced portfolio in 2025

**+11.7%**  
ARC US Dollar Balanced Asset PCI return

\* Performance net of all fees and expenses

## Data-Driven Excellence

Our core Investment Profiles Balanced, Steady Growth and Global Equity (USD, GBP) are all 'A' Rated, and have been since inception.

SUGGESTUS

**A** | ARC PRIVATE CLIENT INDICES US DOLLAR

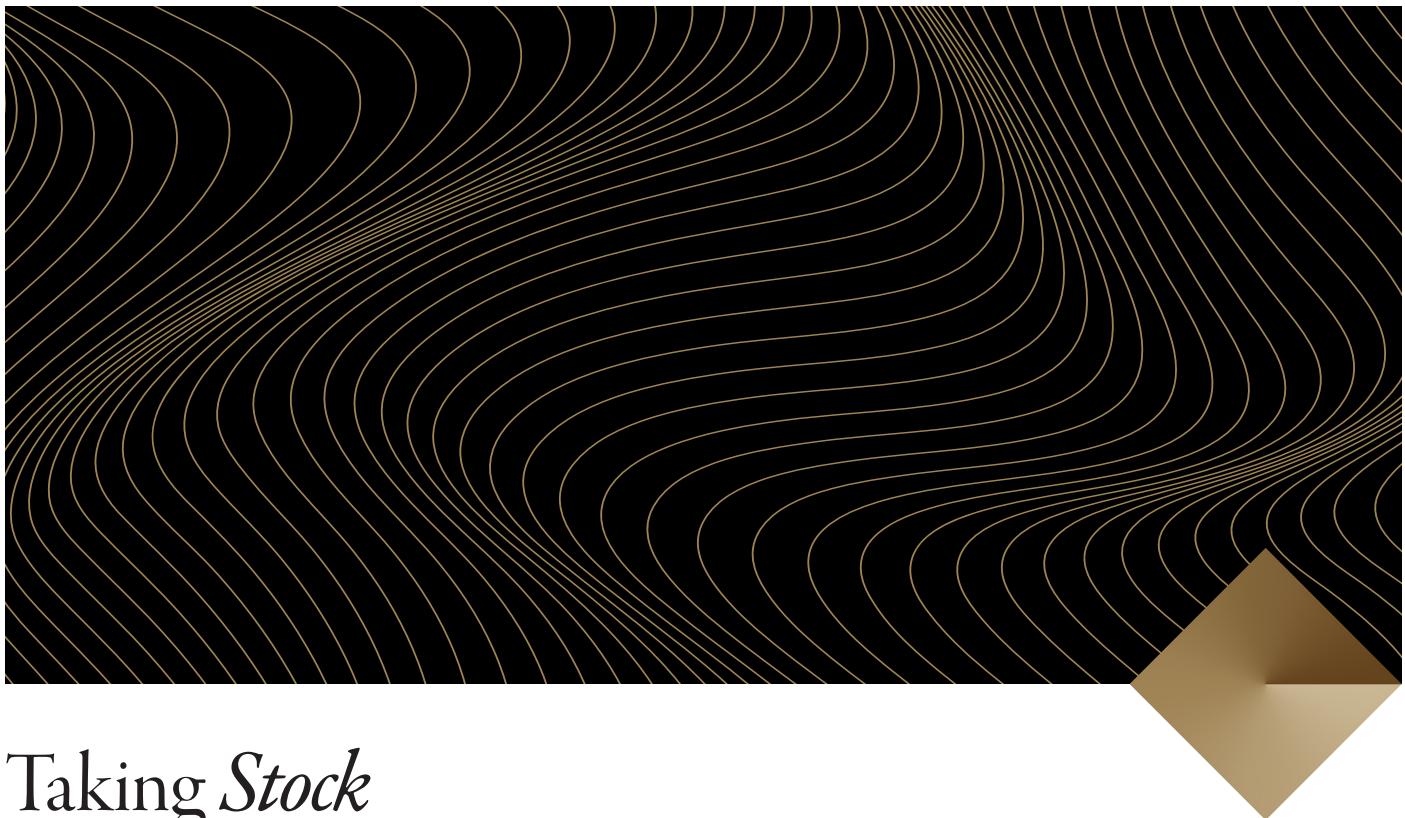
A | B | C | D | E | F  
Indicative grade due to data quality.

The Model's indicative performance over 117 months to Sep 25 is ranked in the top 10% of portfolios with a similar level of risk in the ARC Private Client Indices (PCI) universe.

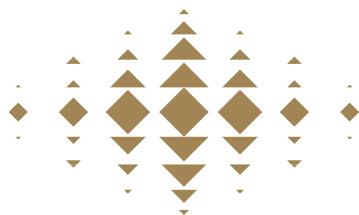
## Validated Transparency



AWARDED BY  
ARC  
FOR COMMITMENT TO TRANSPARENCY  
2025



# Taking Stock



2025 was a year when resilience emerged from uncertainty. Our positioning transitioned from a defensive stance early in the year to risk-on; embracing US growth, AI momentum, and maintaining our exposure to real assets like gold throughout.

~10%

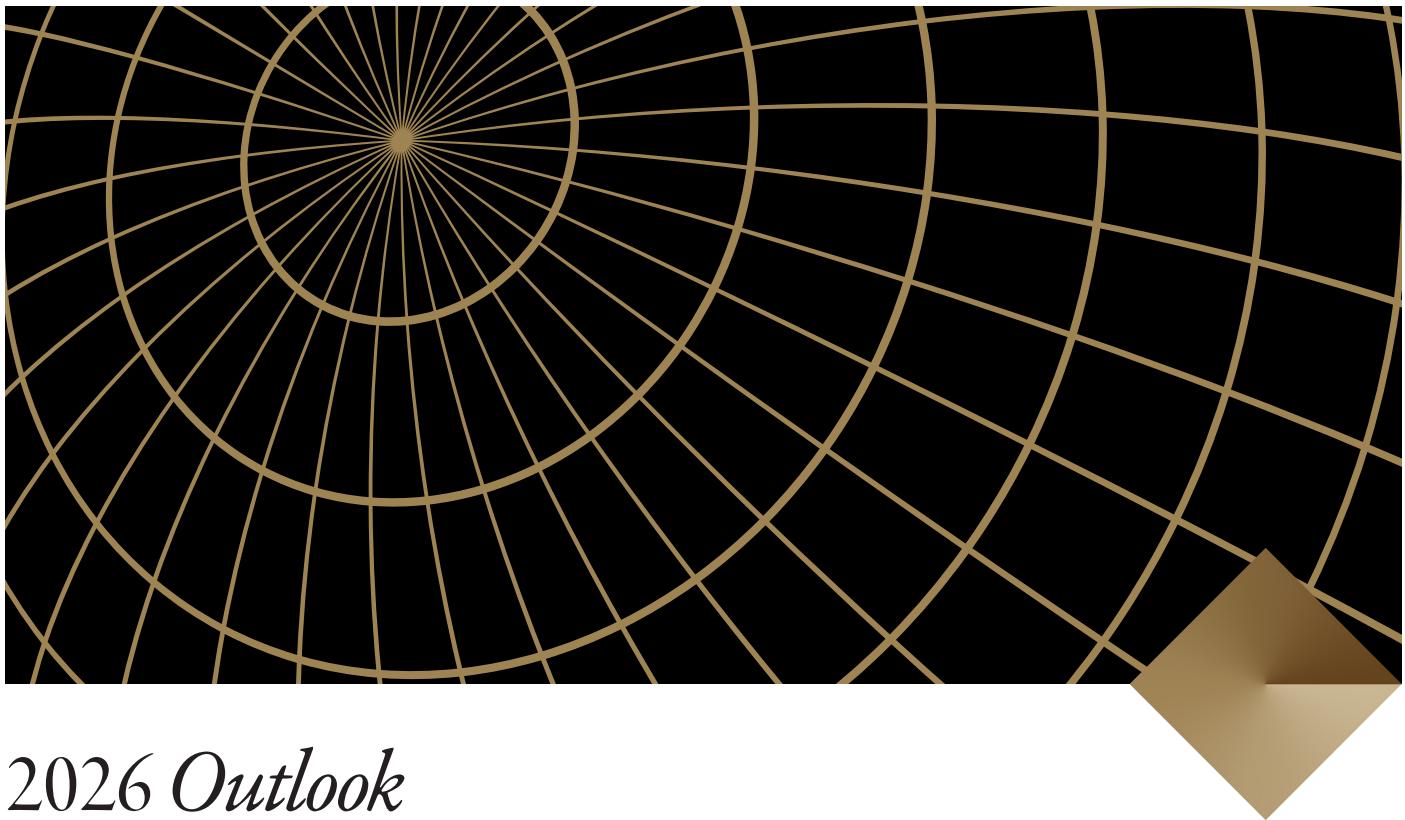
fall in US Dollar on a trade-weighted basis

## All that glitters

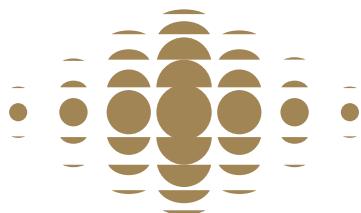
Early 2025 saw President Trump's 'reciprocal' tariffs rattle supply chains, while macro worries caused considerable volatility. As the year progressed, however, strong growth, falling interest rates and growing AI enthusiasm dominated sentiment, delivering solid equity returns, with Europe and US markets +17% each. On a trade-weighted basis the US Dollar fell ~10%, leading to a rare year of outperformance from Continental Europe.

Gold rose over 60%, reflecting growing preference for real assets over the traditional safe havens of liquidity and bonds. The big concern for 2025 – that tariffs would cause an inflationary shock and growth scare – never materialised, although we may still see some modest lag effects in 2026.

US inflation remains stubbornly above the Federal Reserve's target; however, from late 2024 onwards, this did not dissuade the Fed from cutting interest rates six times in a resilient economy and reasonably robust employment market. US rate cuts have now reached a total of 175bps in this cutting cycle.



## 2026 Outlook



Entering 2026, we maintain a risk-on stance within a 'Run it Hot' policy environment. We prioritise equities and real assets over fixed income, capitalizing on falling real yields, with focus shifting toward US growth and emerging markets.

# 100+

trillion dollars of  
global government  
debt

### Temperature gauge

A compelling mix of resilient economic growth, capital expenditure and productivity gains from AI, persistent fiscal spending, and a 'run it hot' policy at the Treasury and Federal Reserve suggests an attractive outlook for financial markets and risk assets in particular. The increased politicisation of the Federal Reserve, as President Trump seeks to sway rate decisions in favour of more cuts, and the upcoming end of Jerome Powell's term in May increase the risk of an overheating economy. However this is unlikely to be an issue for this year.

Our equity indicators remain broadly positive. We favour US growth sectors, including the NASDAQ, and geographically we are positive on the outlook for emerging market equities.

The prospects for fixed income are broadly uninspiring, in stark contrast to the relative attraction of real assets including industrial commodities, real estate, and in particular gold which is in the midst of a multi-year bull market. In a world of large and persistent fiscal deficits, Debt to GDP will continue to rise as politicians remain both unable and unwilling to reduce spending commitments. The easy way out will be a steady erosion of the debt pile with yields held below inflation, accelerating the erosion of the value of savings and the real cost of debt in tandem. This falling real yield environment favours equities and real assets while constraining the relative performance of fixed income securities.

## Portfolio implications

In practical terms, this environment continues to favour equities over fixed income, with bonds used primarily for diversification and capital preservation rather than as a core return driver. Real assets, including gold, remain a structural component of portfolios given falling real yields and elevated fiscal risk.

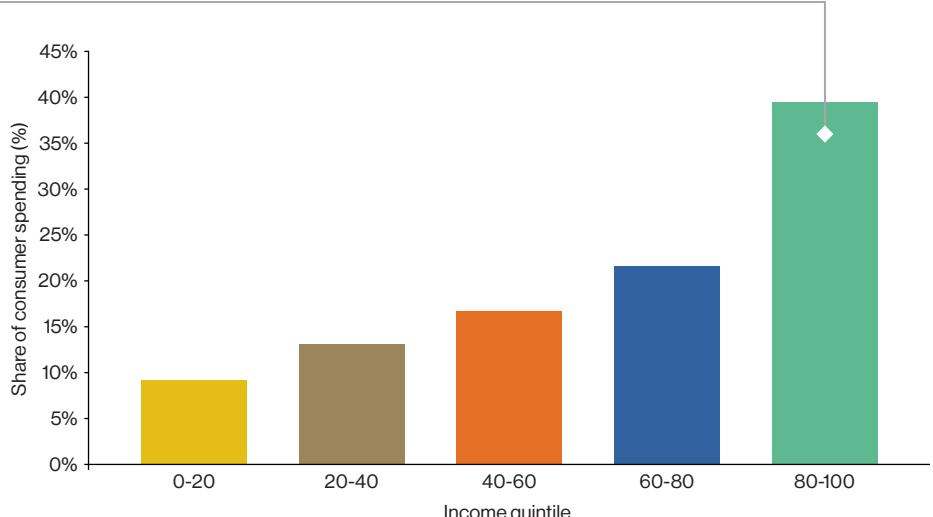
Within equities, portfolios are positioned with a preference for US earnings quality, a more tactical approach to Europe following strong relative performance (including a substantial rebalance away from European equities at year-end, taking profits after a strong run), and selective exposure to emerging markets where valuation and currency dynamics are supportive.

## Dual speed economy

Low real yields will further add to the divergence in wealth as asset owners will probably enjoy another year of increasing financial asset values with falling borrowing costs. In contrast, the US working class will see real wage growth moderating and continue to grapple with cost-of-living challenges.

**20%**  
of wealthiest US households  
account for 40% of total  
consumption

### US consumption is a tale of two spending realities



Source: Bureau of Labor Statistics, Macrobond. Data from 2023. Historical analysis indicates that the underlying shares of expenditure have remained relatively stable over time.

It is important to remember that the hyper financialisation of the economy means that increasing asset values support spending, increase the tax take (from capital gains and income taxes) and augment economic growth. This self-perpetuating relationship of rising asset prices supporting increased spending, GDP growth and higher tax revenue increases the sensitivity to a reversal in this interdependent relationship. The risk of a meaningful sell-off in equities (>20%) is currently low; however, the implications of a dramatic sell-off in equities having a knock-on effect on consumption, GDP and tax receipts mean that financial market volatility's impact on the real economy and the US fiscal position is higher than ever.

~15%

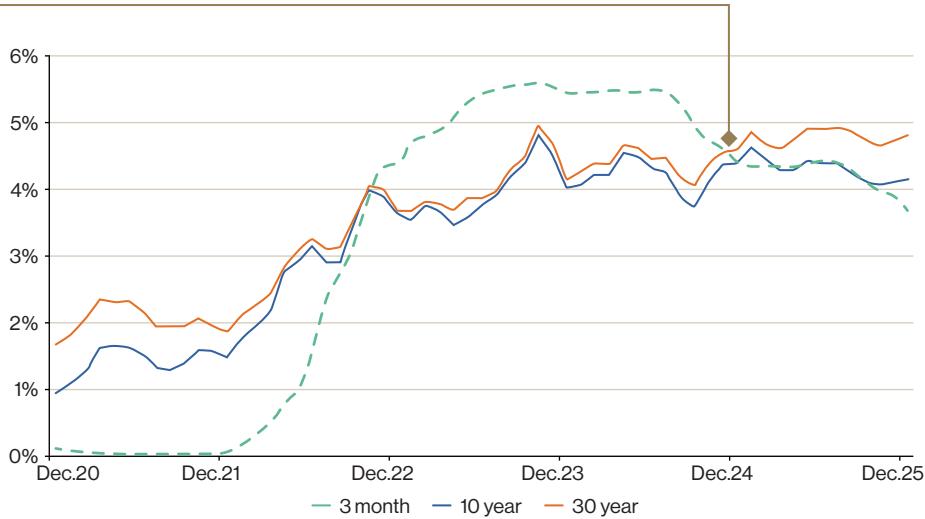
rise in 10-year yields despite  
175bps of Fed cuts  
since late 2024

## Politics and interest rates re-entwine

The US Federal Reserve is becoming increasingly politicised as President Trump seeks to influence Fed policy through rhetoric and the appointment of Jerome Powell's replacement in May.

The possibility of a misstep in policy and a loss of confidence in the Central Bank's inflation-fighting credentials, at a time when Treasury borrowing is growing at a rapid pace, should not be underestimated. In the last two years we have seen short-term interest rate cuts have little to no impact on 10- and 30-year treasury yields.

### US Treasury yields



The US Treasury has tilted bond issuance towards shorter-term maturities during 2025, and last month the Federal Reserve announced purchases of up to \$40 billion a month under a programme called Reserve Management Purchases. This is essentially short-dated QE as there appears insufficient demand to mop up the growing debt issuance. By injecting reserves and suppressing short-term yields, these actions ease financial conditions modestly, potentially encouraging bank lending, boosting asset prices, and supporting demand. Combined with ongoing rate cuts, these actions carry mild inflationary risks, particularly if prolonged amid strong growth or continued fiscal expansion.

In contrast to the US, the European Central Bank will steer a typically orthodox path, keeping rates near neutral unless surprised by disinflation or a growth slump. Political interference remains muted, with structural limits curbing aggressive moves. The Bank of England charts a prudent course prioritising credibility over bold stimulus as the fiscal and political climate remain deeply challenging.

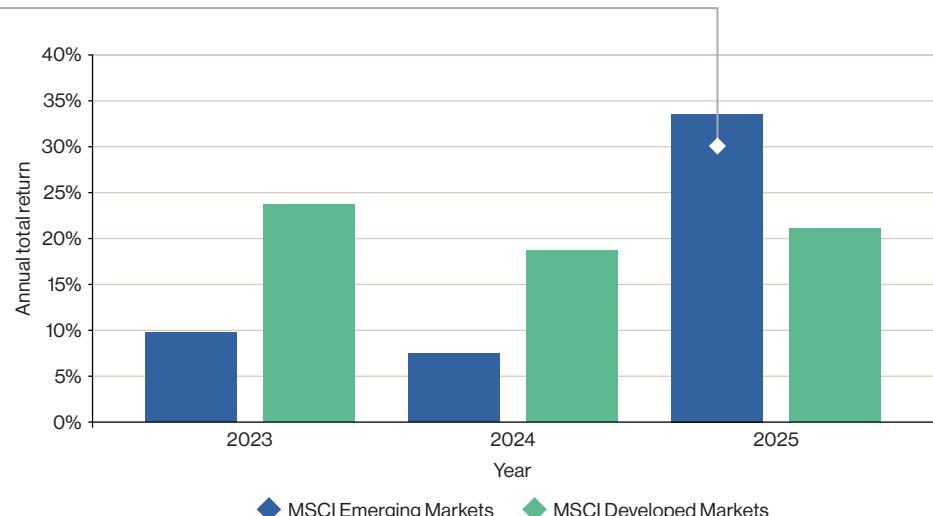
# 12.5%

outperformance of Emerging Market vs Developed Market peers

## Emerging from the shadows

Low real yields will further add to the divergence in wealth as asset owners will probably enjoy another year of increasing financial asset values with falling borrowing costs. In contrast, the US working class will see real wage growth moderating and continue to grapple with cost-of-living challenges.

### MSCI Emerging Markets vs Developed Markets



Our indicator suite has picked up on several improving macroeconomic metrics driving the improved outlook. A depreciating U.S. dollar reduces external debt burdens for many emerging economies and enhances returns for global investors. Coordinated interest rate reductions by central banks create room for accommodative policies, stimulating domestic activity. Additionally, subdued energy prices benefit net importers by curbing inflation and strengthening fiscal positions, fostering conditions for increased investment and consumer demand in nations such as India and Brazil.

Valuations will be an additional driver of relative performance. Emerging equities trade at discounted forward multiples that provide a meaningful buffer against uncertainty, reflecting prolonged periods of relative underperformance in areas like Asia and Latin America. This exposure complements our meaningful U.S. equity exposure where valuations are extended, especially in technology-driven segments.

Strategically, increasing our Emerging Markets exposure mitigates the concentration risk currently found in “top-heavy” Developed Market indices. By rotating from overextended US technology segments into diversified EM sectors we reduce portfolio correlation. This move provides a valuation-anchored hedge against Western volatility while capturing global growth at a significant discount to historical multiples.

Longer-term structural advantages reinforce this perspective. The demographic advantage of the developing markets has always been clear: youthful, growing populations underpin sustained economic expansion, while urbanization and infrastructure needs drive consumption.

### AI and Investment Cycles

AI remains a powerful structural growth driver behind US equity market returns, with momentum continuing despite some moderation in recent months. In a recent JP Morgan piece, an analyst identified 41 stocks in the S&P 500 directly related to the AI theme. This included the usual direct AI plays in hardware, software and services (Nvidia, Microsoft, Palantir etc.) as well as utilities and capital equipment stocks. These stocks account for just 8% of the names in the S&P 500 but ~50% of the market cap and have dominated returns.

“...just to reinforce the point: AI-related stocks have accounted for 75% of S&P 500 returns, 80% of earnings growth and 90% of capital spending growth since ChatGPT launched in November 2022.”

Michael Cembalest | JP Morgan  
Sept 2025

This concentration of an index's returns in a single theme is rare and draws historical parallels with past transformative technologies, such as the US railway boom of the early 20th century. For the foreseeable future, enthusiasm for AI and the performance of global equity markets remain closely intertwined.

History shows that investment cycles of this scale and intensity are rarely linear. The combination of strong structural tailwinds, widespread optimism, incentives to invest aggressively, and credit-fuelled capital expenditure can lead to periods of overinvestment and imbalances. While the long-term potential of AI remains compelling, these dynamics require careful monitoring, valuation discipline, and active management rather than binary positioning.

This measured approach allows portfolios to maintain meaningful exposure to high-quality technology and growth companies – capturing the structural upside of AI – while remaining alert to evolving risks in the cycle.

# Summary

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There is no doubt that US equity valuations are elevated and a multi asset approach will pay dividends. Against this backdrop a nimble approach will be essential. We are not buy and hold investors, instead we actively adjust our client portfolio mix to best suit the dominant environment.

We are in a risk-on environment and expect respectable returns from equities and real assets in 2026. There are, as always, a number of key risks that we will monitor closely.

## Right now:

- **Global growth will run hot due to a massive capital expenditure, low interest rates and competitiveness gains from AI implementation**
- **Government debt levels mean debt monetization is inevitable, this may boost demand in the near term**
- **Corporate earnings may see a steady productivity and margin boost from AI implementation**

## Key risks:

- **A policy error or loss of faith in the Federal Reserve's inflation focus could cause a bond rout given the ever growing financing needs of the US Government**
- **US labour shortages and some delayed knock-on effects from tariffs may still be felt**
- **A negative shift in sentiment around AI companies or an increasing demand for financial results beyond immense spending plans.**
- **Geopolitical risks are ever present**

After a strong 2025, we look forward to the opportunities 2026 will offer.



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**Glenn Coxon | Chief Investment Officer**  
8th January 2026



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