

## 2026 GLOBAL ASSET ALLOCATION REVIEW

### INTRODUCTION

At the start of each year, we provide our clients with an update on the economic and market factors that will influence our asset allocation decisions in the year ahead. This document summarizes our 2026 asset allocation recommendations.

The analysis presented herein forms the foundation for our asset allocation recommendations across client portfolios. We evaluate a broad range of factors, including economic fundamentals, market valuations, risk dynamics, and geopolitical considerations, to determine appropriate asset-class positioning.

Our approach remains grounded in the belief that disciplined, diversified investing focused on long-term objectives provides the best framework for achieving sustainable wealth growth while managing downside risks.

### SUMMARY

Our 2026 Analysis framework examines factors within three broad categories: Economic Fundamentals, Valuation and Risk, and Geopolitical Considerations. The table below summarizes our current assessment:

Economic Fundamentals	Valuation & Risk	Geopolitical
US economy resilient (2.0-2.5% GDP growth expected)	US equities at elevated valuations (22x forward P/E)	Trade policy uncertainty persists
Europe mixed with Germany showing improvement	International equities at meaningful discount to US	US midterm elections November 2026 could shift policy priorities
Japan emerging from decades of deflation	Credit spreads remain tight historically	Regional conflicts (Ukraine, Middle East) ongoing
Emerging markets led by India; China challenges	Real estate showing signs of stabilization	Supply chain reshoring continues

Based on our analysis, we are making targeted adjustments to our 2026 asset allocation. The most significant changes involve reducing exposure to US equities and high-quality bonds while increasing allocations to international equities and moderate-risk alternatives. These shifts reflect our view that international markets offer more attractive return prospects due to lower valuations and a weakening dollar. At the same time, real estate and directional strategies present attractive yields as market conditions normalize, particularly within real estate.

## 2026 ASSET ALLOCATION SUMMARY

Asset Class	2026	Change	2025	2024	2023	2022	2021
<b>LOWER RISK</b>	<b>19%</b>	<b>↓3%</b>	22%	20%	23%	23%	23%
Cash	2%	–	2%	2%	3%	4%	4%
Absolute Return	10%	–	10%	8%	11%	16%	15%
High-Quality Bonds	7%	<b>-3%</b>	10%	10%	9%	2%	4%
<b>MODERATE RISK</b>	<b>16%</b>	<b>↑2%</b>	14%	11%	7%	9%	8%
Directional/Credit Alts	5%	<b>+1%</b>	4%	2%	3%	6%	8%
Real Estate	4%	<b>+1%</b>	3%	4%	–	–	–
Private Credit	7%	–	7%	5%	4%	3%	–
<b>HIGHER RISK</b>	<b>65%</b>	<b>↑1%</b>	64%	69%	70%	68%	69%
US Equities	46%	<b>-2%</b>	48%	50%	50%	45%	46%
Private Equity/VC	4%	–	4%	3%	–	–	–
Int'l Developed	9%	<b>+2%</b>	7%	8%	8%	12%	11%
Int'l Emerging	6%	<b>+1%</b>	5%	8%	12%	11%	12%
<b>TOTAL</b>	<b>100%</b>		<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Real Estate and Private Equity/VC were tracked as separate line items beginning in 2024. In prior years, moderate and higher-risk allocations included these exposures within Directional Strategies and US Equities, respectively.

## 2026 ASSET CLASS COMMENTARY

### LOWER RISK ALLOCATION: 19% (DOWN FROM 22%)

We are reducing our lower risk allocation by 3 percentage points, driven entirely by a reduction in high-quality bonds. This shift reflects our view that while bonds offer reasonable yields, lower interest rates have created better risk-adjusted opportunities in other asset classes, particularly international equities and real assets.

Cash (2%, unchanged): We maintain a modest cash allocation primarily for liquidity purposes and tactical flexibility. With short-term rates remaining elevated relative to recent history, cash provides reasonable returns while maintaining optionality for opportunistic investments. Treasury bills now yield 3.5-4.0%, offering less attractive returns than in recent years.

Absolute Return (10%, unchanged): Our allocation to absolute return strategies provides uncorrelated returns and portfolio diversification. These strategies employ a variety of approaches, including long/short equity and credit, relative value, and multi-strategy funds designed to generate positive returns regardless of market direction. We expect returns in the 5-8% range for 2026.

High-Quality Bonds (7%, down from 10%): We are reducing our fixed income allocation by 3 percentage points. While the Bloomberg Aggregate yields 4.4% and bonds continue to serve as portfolio ballast, we believe the risk/reward is less compelling relative to other opportunities. The reduction allows us to fund increased allocations to international equities and real estate. We anticipate bond returns in the 4-5.5% range.

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## **MODERATE RISK ALLOCATION: 16% (UP FROM 14%)**

We are increasing our moderate risk allocation by 2 percentage points, reflecting improved opportunities in real estate and directional strategies as market conditions normalize following the disruptions of recent years.

**Directional/Credit Alternatives (5%, up from 4%):** We are increasing this allocation by 1 percentage point, as greater market dispersion creates opportunities for skilled active managers. Current conditions favor tactical approaches, with widening performance gaps among sectors and securities enabling directional strategies to add meaningful value. We anticipate returns in the 5-8% range.

**Real Estate (4%, up from 3%):** We are increasing our real estate allocation by 1 percentage point as the sector shows signs of stabilization following the post-pandemic adjustment period. While office properties continue to face challenges, industrial and residential sectors demonstrate resilience, and valuations have reset to more attractive levels. We expect returns in the 7-9% range.

**Private Credit (7%, unchanged):** Private credit remains an attractive asset class, offering yield premiums over public markets while providing floating-rate exposure that benefits from elevated short-term rates. In particular, we believe asset-backed credit is appealing in the current market environment. Senior secured loans to middle-market companies continue to offer compelling risk-adjusted returns. We anticipate returns in the 7-9% range for 2026.

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## **HIGHER RISK ALLOCATION: 65% (UP FROM 64%)**

Our higher risk allocation increases modestly to 65%, driven by a rebalancing from US equities toward international markets. We are reducing US equity exposure by 2 percentage points while increasing international developed markets exposure by 2 percentage points and emerging markets exposure by 1 percentage point. This shift reflects more attractive valuations outside the US following strong international performance in 2025.

**US Equities (46%, down from 48%):** We are modestly reducing our US equity allocation while maintaining it as our largest position. The S&P 500 trades at approximately 22x forward earnings, above the 10-year average of 18.7x, with the top 10 stocks accounting for roughly 40% of the index at premium multiples. We continue to believe the backdrop for US equities remains constructive, but following multiple years of above-average returns, the overall risk/reward has become less compelling. We expect returns in the 6-10% range.

**Private Equity/Venture Capital (4%, unchanged):** For clients with appropriate liquidity, time horizons, and risk tolerance, private equity offers exposure to company value creation outside public markets. While exit activity has been challenged in recent years, deal activity has been improving, and conditions suggest a return to normalization. We expect long-term returns in the 7-12% range.

**International Developed (9%, up from 7%):** We are increasing the allocation to international developed equities, which trade at meaningful discounts to US markets. MSCI EAFE at approximately 15x forward earnings represents a 30% discount to the S&P 500. Europe benefits from potential fiscal stimulus in Germany and stabilizing energy costs, while Japan continues reforms aimed at improving capital efficiency. We expect returns in the 5-8% range.

**International Emerging (6%, up from 5%):** We are increasing emerging markets exposure as well, adding 1 percentage point. While 2025 delivered exceptional returns (MSCI EM +34%), valuations remain reasonable relative to growth potential. India continues to offer compelling long-term growth supported by favorable demographics. While China faces persistent headwinds, policy support provides asymmetric upside. We expect returns in the 6-10% range.

# MODEL FACTORS

## MODEL FACTOR 1: ECONOMIC FUNDAMENTALS

### UNITED STATES

#### *Economic Growth*

The US economy enters 2026 on solid footing, with GDP expected to grow 2.0-2.5%. This represents a continuation of above-trend growth following the economy's resilience through 2025. Consumer spending, which accounts for approximately 70% of GDP, remains the primary driver of economic activity. While moderating from the exceptional strength of recent years, consumption continues to be supported by healthy household balance sheets, real wage growth, and a stable labor market.

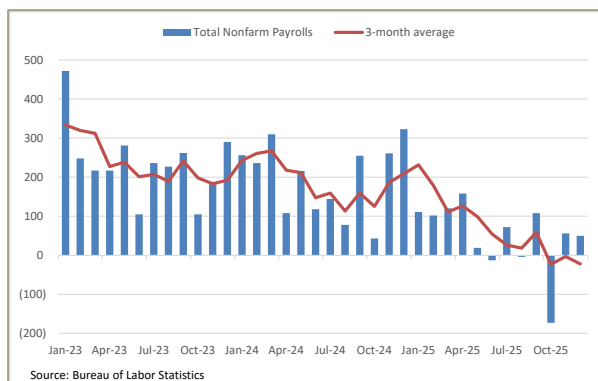
Corporate investment persists at healthy levels, particularly in technology infrastructure related to artificial intelligence and manufacturing reshoring initiatives. The significant capital expenditures in AI-related infrastructure represent a structural shift that should support productivity growth over the longer term. However, the full economic benefits may take several years to materialize.

#### *Inflation and Monetary Policy*

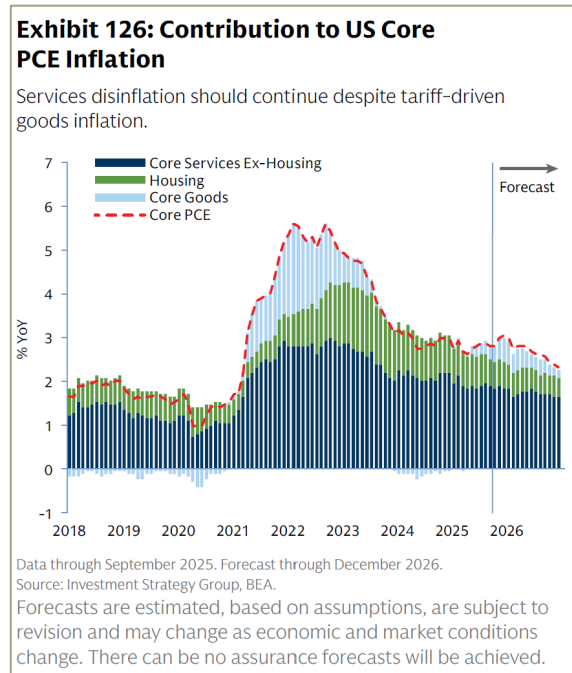
The path of inflation toward the Federal Reserve's 2% target remains a key focus for 2026. After rising in the latter half of 2025, core inflation is projected to moderate from approximately 2.9% at the start of the year to around 2.3% by year-end. This gradual disinflation reflects several factors: cooling wage pressures as the labor market normalizes, declining shelter inflation as rental rates adjust downward, and the fading of one-time tariff-related price increases absorbed in 2025.

Markets expect the Federal Reserve to deliver two additional 25 basis point rate cuts in 2026, likely in the first half of the year, bringing the federal funds rate to the 3.0-3.5% range. This policy path reflects the Fed's data-dependent approach, balancing the dual mandate of price stability and maximum employment. While inflation remains modestly above target, weak job growth and the ongoing disinflation trend support continued gradual policy easing.

#### *Labor Market*



The employment picture is mixed, with historically low payroll claims and a below historical average unemployment rate pointing to labor market strength. However, this is not supported by the virtual absence of net monthly payroll gains in the second half of 2025, elevated unemployment rates among recent college graduates, and declining quit rates. The flat monthly payroll gains are a material stepdown from the 170K monthly pace that prevailed for the 12 months before Liberation Day. Particularly, small-business job growth has been weak, and markets are debating whether Artificial Intelligence, tariffs, immigration policy, or weakness in the economy ex-Artificial Intelligence is to blame.



## The Consumer



In 2025, the health of the US Consumer was highly bifurcated by income cohort. Higher income consumers continue to spend freely and account for a disproportionate portion (~50%) of overall spending. Lower income consumers were financially stressed, and tariff driven inflation has made the issue of *affordability* a top priority for the current administration. In response, the One Big Beautiful Bill Act (“OBBBA”) introduced several fiscal measures aimed at low-to-moderate earners. These include a higher standard deduction, increased child tax credits and tax-free tips, and overtime. For the lowest income decile, these benefits will be largely offset by cuts to SNAP and Medicaid. For the consumer more broadly, the OBBBA should provide a fiscal tailwind to the economy, particularly in the

first half of the year when consumers are expected to receive larger tax refunds. Despite prospects of fiscal support, Consumer Confidence recently fell to its lowest level in over a decade, reflecting growing consumer concerns about job security and the present economic situation.

## Corporate Earnings

Corporate earnings are expected to grow by high single digits in 2026, supported by revenue growth, moderating input costs, and continued margin discipline. S&P 500 earnings per share are projected to reach record levels, though growth rates will vary considerably by sector. Technology and communication services companies, particularly those positioned to benefit from AI adoption, are expected to deliver above-average earnings growth.

Corporate balance sheets remain healthy, with many companies maintaining strong liquidity positions and manageable debt levels despite higher interest rates. This financial flexibility positions corporations to continue investing in growth initiatives while maintaining shareholder returns through dividends and buybacks.

## Fiscal Policy

Federal budget deficits remain a long-term concern, with a projected deficit of ~\$1.8 trillion for fiscal 2026. This elevated deficit is occurring despite healthy economic growth, raising questions about fiscal sustainability. The growing debt service burden – now exceeding defense spending – increasingly constrains budgetary flexibility. While this represents a gradual headwind rather than an immediate crisis, it contributes to higher term premiums in bond markets and limits the government's ability to respond to future economic challenges.

## EUROPE

The Eurozone presents a mixed picture entering 2026. The economy is projected to grow ~1.0%, with notable divergence across the region. Southern European economies show improving momentum, while Germany's manufacturing sector continues to face challenges from high energy costs, reduced Chinese demand, and structural competitiveness issues in key export industries.

A potentially significant positive development is Germany's policy shift toward fiscal stimulus, reversing years of strict budget discipline. This transition represents a critical regime change; the German government's commitment to increased infrastructure investment and defense spending likely marks the end of 'austerity-led' growth, providing a more durable floor for the broader Eurozone. This fiscal expansion, combined with the ECB's gradual monetary policy normalization, creates a more balanced policy mix than Europe has experienced in recent years.

The ECB has begun normalizing policy from its ultra-accommodative stance, with deposit rates declining toward 2%. This easing supports the financial sector and should help stimulate credit growth. However, the pace of easing remains measured given persistent inflation concerns in the service sector and tight labor markets in several member states.

## JAPAN

Japan continues its historic emergence from decades of deflation, with sustained inflation above 2% and meaningful wage growth finally taking hold. The 2026 spring wage negotiations are expected to deliver another year of solid gains, reinforcing the positive inflation-wage spiral that has been absent from the Japanese economy for a generation.

Corporate governance reforms are yielding tangible results, with record levels of share buybacks and increasing merger and acquisition activity. Japanese companies are demonstrating improved capital allocation and greater focus on shareholder returns, making the market increasingly attractive to global investors. The improving return on equity for Japanese corporations reflects both operational improvements and more disciplined capital management.

The Bank of Japan is gradually normalizing its ultra-loose monetary policy, with policy rates expected to rise to 1.0-1.25% by year-end. This represents a carefully calibrated approach to avoid disrupting the positive economic momentum while addressing concerns about yen weakness and imported inflation. This normalization represents a healthy 'repricing' of Japanese capital; it removes the distortions caused by negative rates and signals a transition toward a more standard, productivity-driven economic model.

## EMERGING MARKETS

Emerging markets present a diverse outlook, with significant differentiation based on domestic policy, external financing needs, and exposure to key themes such as manufacturing reshoring and commodity cycles.

India stands out as the most compelling growth story, with GDP expansion projected to exceed 6% in 2026. This momentum is underpinned by a significant easing of financial conditions, following 125 basis points in repo rate cuts during 2025. The country benefits from favorable demographics, ongoing infrastructure investment, manufacturing development supported by supply chain diversification, and improving ease of doing business. India's integration into global supply chains, as companies de-risk from China concentration, provides a structural tailwind for the economy.

China faces persistent headwinds as it enters 2026. The property sector downturn continues to weigh on consumer confidence and local government finances. Credit growth remains subdued despite policy support, and the demographic challenges of an aging and shrinking population are becoming increasingly apparent. Geopolitical tensions, particularly with the US, create additional uncertainty regarding trade and access to technology. However, policy support measures and deeply depressed valuations provide potential upside for investors with appropriate risk tolerance and time horizons. China's focus on technology self-sufficiency and manufacturing capabilities in strategic sectors represents a long-term structural shift with implications for global supply chains.

Other emerging markets show mixed prospects. Latin American economies face challenges from commodity price volatility and domestic political uncertainties. Asian economies outside China and India generally benefit from semiconductor demand and manufacturing diversification trends, but remain exposed to global trade dynamics and the US-China relationship. Eastern European markets must contend with proximity to the Ukraine conflict and energy security concerns.

## MODEL FACTOR 2: VALUATION & RISK ASSESSMENT

### EQUITIES

#### Global Equity Valuation Comparison

Equity valuations present a bifurcated picture across regions, with US markets trading at significant premiums to international counterparts while also showing meaningful dispersion within the US market itself.

10-Year P/E Ratio					10-Year Price/Book Ratio		
Country/Region	High	Low	Avg.	Jan. 2026	Country/Region	Avg.	Jan. 2026
US	24.8	14.7	18.7	22.0	US	3.0	3.7
Europe	18.3	10.7	14.2	13.5	Europe	1.6	1.8
Japan	18.9	11.7	14.5	15.2	Japan	1.2	1.4
Emerging Markets	18.3	11.6	14.5	14.0	Emerging Markets	1.9	2.0

Source: FactSet, MSCI, Bloomberg. Data as of January 2026. Forward P/E and P/B ratios.

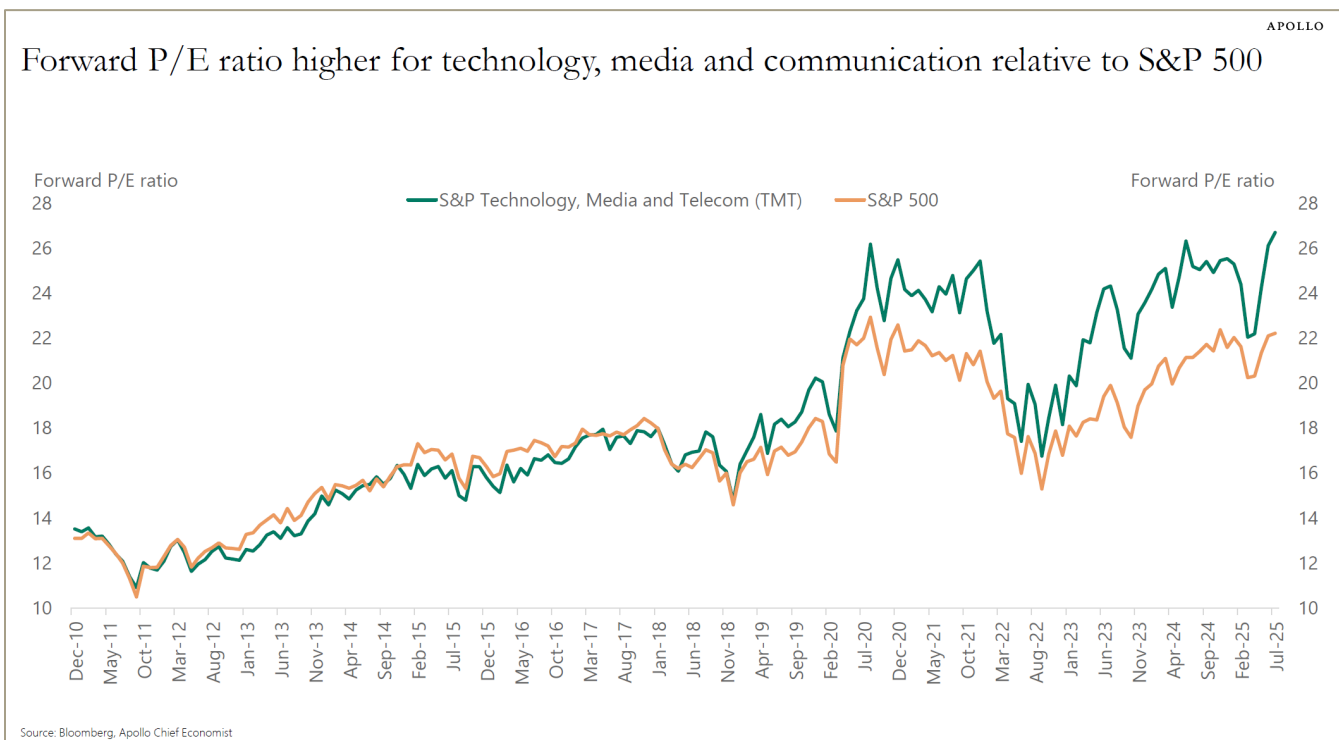
The US market trades at approximately 22x forward earnings, representing an 18% premium to its 10-year average of 18.7x. While this appears elevated, it's important to recognize that valuation multiples have shifted structurally higher since the early 1990s, reflecting changes in the economy's composition, corporate profitability, and shareholder return policies.

#### US Market Concentration and Technology Valuations

A critical aspect of US equity valuation is the extraordinary concentration in mega-cap technology stocks. The top 10 stocks in the S&P 500 – dominated by artificial intelligence infrastructure providers and digital platform companies – comprise approximately 40% of total index market capitalization. This concentration is historically extreme and carries important implications for portfolio construction and risk management.

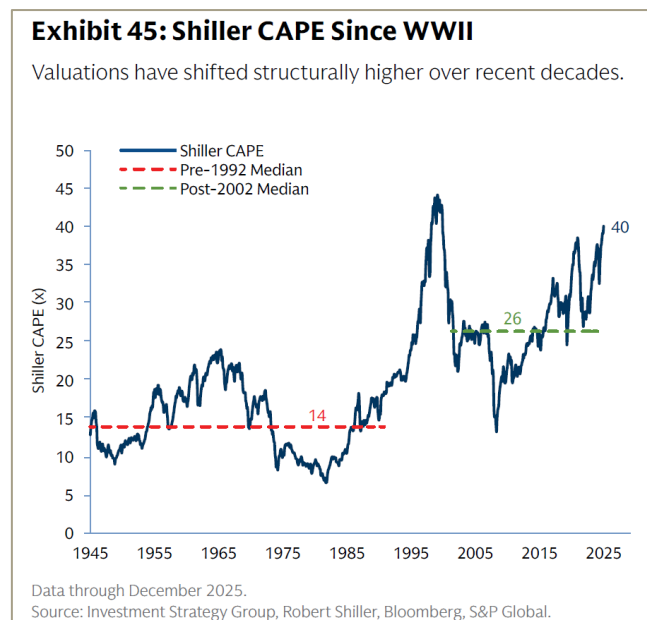


These mega-cap technology companies trade at substantial premiums to the broader market, with forward P/E ratios often exceeding 30-35x. While these valuations appear demanding, they reflect several factors: exceptional revenue growth rates of 15%+ annually, above average profit margins driven by operating leverage, dominant competitive positions with significant barriers to entry, and expectations for substantial value creation from artificial intelligence capabilities.



The remaining 90% of the S&P 500 by number of companies – representing 60% of market capitalization – trades at approximately 17-18x forward earnings, only modestly above historical averages. This more reasonable valuation for the broad market provides some support for our continued significant allocation to US equities, though we are reducing our exposure at the margin given the concentration risk and elevated overall market valuation.

## Historical Context on Valuations



While current US equity valuations appear elevated, historical analysis suggests caution in using valuation multiples as near-term market-timing signals. The Shiller Cyclically Adjusted Price-to-Earnings (CAPE) ratio currently stands at approximately 35-37x, well above its long-term average of 17x and in the ninth decile of historical observations.

However, equity valuations have remained in the ninth or tenth decile 96% of the time since 2013, yet returns have continued to surprise to the upside. This persistence challenges the common assumption that valuations revert to a fixed historical average. Several structural factors help explain higher sustainable valuation levels: the shift from cyclical manufacturing to a more stable service-based economy; increased corporate profitability, with S&P 500 net margins expanding from 4% in 1992 to approximately 12.5% today; and substantially higher capital return to shareholders through dividends and buybacks.

## International Equity Valuations

International equities continue to trade at meaningful discounts to US markets, with the MSCI EAFE index at approximately 15x forward earnings – a 32% discount to the S&P 500. Japan trades at 15.2x, Europe at 13.5x, and emerging markets at 14x forward earnings.

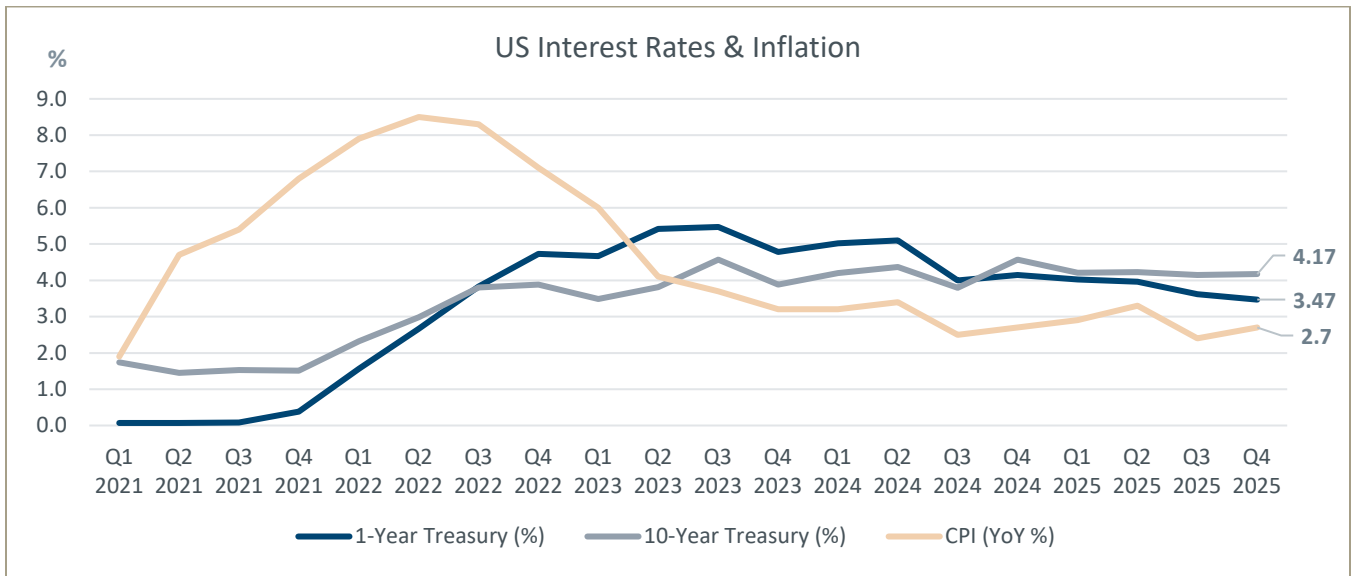
These discounts persist despite several positive developments, including potential fiscal stimulus in Germany, strong growth in India, and the historic emergence of inflation and wage growth in Japan. Historically, international markets have been discounted due to cyclical structures and lower technology exposure. However, we find the valuation gap particularly compelling, as these structural headwinds—specifically, weaker shareholder return frameworks—are being actively addressed through capital efficiency reforms. As global real interest rates begin to converge and the Federal Reserve completes its easing cycle, the narrowing yield differential should act as a natural catalyst for multiple expansion in these overlooked markets.

We also believe the US Dollar may continue to weaken in 2026, and a weaker dollar has historically been positive for US investors investing overseas. Despite a strong 2025 performance, with EAFE returning 32% and emerging markets 34%, international markets still offer compelling relative value. The combination of reasonable valuations, improving fundamentals, and diversification benefits supports our increased allocation to international equities.

## BONDS

### Interest Rate Environment

Interest rates are expected to remain elevated relative to the pre-pandemic period but range-bound through 2026. The 10-year US Treasury yield is currently projected to trade between 4.15-4.65%, with a midpoint of approximately 4.4%. Short-term rates should decline modestly as the Federal Reserve completes its easing cycle, bringing the federal funds rate down to 3.0-3.5% by mid-year.



Source: Federal Reserve Board H.15 Selected Interest Rates (for Treasury yields), Bureau of Labor Statistics Consumer Price Index (for CPI inflation), Quarterly averages through Q4 2025

The yield curve has normalized from its inverted state, returning to a modest positive slope. We expect this steepening trend to continue as Fed policy anchors shorter maturity yields at lower levels. In contrast, longer-term yields remain elevated due to several factors: term premium expansion driven by fiscal concerns and elevated debt issuance, markets pricing the possibility of future rate hikes should inflation prove persistent, and reduced foreign central bank demand for US Treasuries.

### Credit Markets

Credit spreads remain historically tight across investment-grade and high-yield sectors. Investment-grade corporate bonds trade at approximately 85-90 basis points over Treasuries, while high-yield spreads hover around 290-310 basis points. These narrow spreads reflect robust corporate fundamentals, strong demand for income-generating assets, limited near-term default concerns, and supportive technical factors, including steady inflows to credit funds.

While tight spreads offer less cushion against adverse developments, they do not preclude positive returns given the attractive all-in yields available. Investment-grade corporates yield approximately 5.0%, and high-yield bonds offer 6.5%, both providing attractive income in absolute terms despite compressed risk premiums. Our approach emphasizes quality within credit, favoring shorter-duration investment-grade exposures and being selective in high-yield given limited compensation for credit risk.

Municipal bonds present compelling value for high-tax-bracket investors, with tax-equivalent yields of nearly 6.0% at longer maturities. The combination of attractive yields and strong credit fundamentals across most State and local governments makes municipals a core holding for appropriate investors.

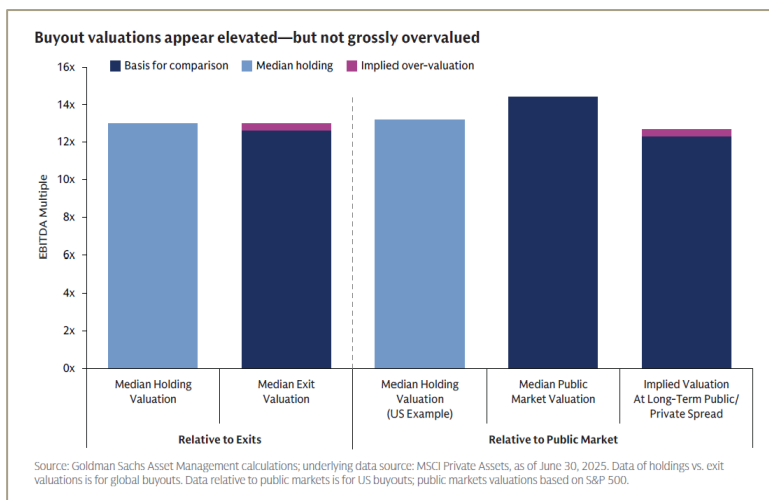
## PRIVATE MARKETS

### Private Equity Valuations

Private equity valuations appear elevated but not grossly overvalued when compared to both historical levels and public market multiples. Median buyout holding valuations have reached record highs at approximately 13x EBITDA, narrowing the discount to public markets. Recent transaction activity has been skewed toward higher-quality companies that command valuation premiums, suggesting that aggregate statistics are biased upward.

There is meaningful dispersion across individual holdings, with some assets requiring markdowns to sell, while others are fairly valued but illiquid. While headline valuations remain high, a "liquidity gap" has emerged: survey data indicate that general partners are willing to accept 11-20% discounts in approximately 25% of cases to facilitate exits for long-held assets. We view this as a strategic entry point for Private Equity secondaries funds to acquire quality assets at a significant margin of safety.

Despite elevated valuations, the outlook for private equity remains constructive. Lower interest rates in 2026 should support deal activity and improve exit opportunities by lowering acquisition financing costs. Companies in private equity portfolios generally have strong operational profiles and have benefited from improvements undertaken during the holding period. The structural advantages of private equity—longer investment horizons, ability to pursue operational improvements without quarterly earnings pressure, and access to proprietary deal flow—continue to support the asset class.



### Private Credit and Real Estate

Private credit continues to offer attractive risk-adjusted returns in the 8-10% range, with the added benefit of floating-rate structures that provide protection if interest rates were to rise unexpectedly. Senior secured lending to middle-market companies remains the core opportunity, as borrowers have largely navigated the higher-rate environment with solid fundamentals and manageable leverage levels. We also find asset-backed credit particularly appealing in the current environment, as it offers a yield premium over public markets while maintaining senior priority in the capital stack.

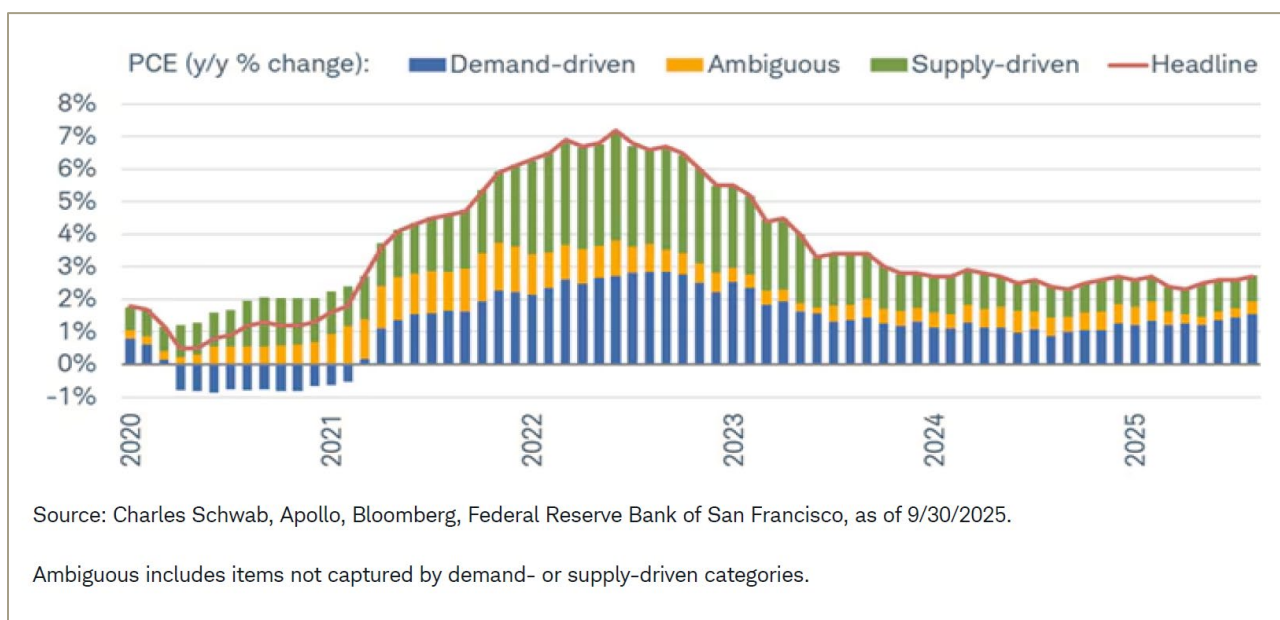
Real estate valuations have reset meaningfully lower following the sharp increase in interest rates from 2022–2024. This repricing creates opportunities in sectors with strong fundamentals, particularly in industrial properties benefiting from e-commerce growth and supply chain reshoring, and in multifamily residential, where housing shortages support occupancy and rental growth. As the sector shows signs of stabilization, we believe the current entry points reflect a necessary post-pandemic adjustment period, allowing for more attractive long-term yield profiles. Office properties remain challenged by work-from-home trends and continue to face valuation pressure in most markets.

## MODEL FACTOR 3: GEOPOLITICAL CONSIDERATIONS

### UNITED STATES

#### *Trade Policy and Tariffs*

Trade policy uncertainty remains a defining theme for 2026, with significant implications for corporate profit margins, supply chain decisions, and global growth. The effective US tariff rate reached approximately 18% in 2025 – the highest level that consumers have faced since 1934 – following the implementation of broad-based tariffs under the International Emergency Economic Powers Act (IEEPA).



While trade deals with the UK, EU, and Japan have provided some stabilization, and the US-China relationship has shown signs of de-escalation following diplomatic engagement, tariffs remain elevated, creating ongoing uncertainty. Companies have adapted through various mitigation strategies – supply chain diversification, selective price increases, and efficiency improvements – but elevated tariff levels represent a persistent headwind to margins and economic efficiency.

The impact of tariffs appears to be largely a one-time upward shift in price levels rather than a sustained inflation impulse. However, secondary effects remain uncertain, including potential retaliation from trading partners, disruption to established supply chains, and efficiency losses from less optimal sourcing decisions. Companies with domestic production capacity, pricing power, and geographic diversification are better positioned to navigate this environment.

#### *Midterm Elections and Political Landscape*

US midterm elections in November 2026 introduce meaningful political uncertainty with potential implications for fiscal policy, regulatory approaches, and market sentiment. Historical patterns suggest the party controlling the White House typically loses seats in midterm elections, which could lead to a divided government and gridlock on major policy initiatives.

Key policy areas affected by election outcomes include: fiscal policy direction and the trajectory of federal deficits, tax policy as provisions from previous legislation face expiration, regulatory approaches to technology, healthcare, and energy sectors, and trade policy stance, and international engagement. Markets generally adapt well to a divided government, as policy uncertainty is limited and major disruptive changes become less likely. However, the election cycle itself introduces volatility as polls shift and policy positions evolve.

## EUROPE

### *Political Uncertainty*

Europe faces internal political uncertainty that complicates economic policymaking. Germany approaches elections with questions about the future direction of fiscal policy and the coalition government structure. France contends with an unstable government and ongoing challenges in implementing structural reforms. These political dynamics create uncertainty about Europe's ability to address pressing challenges, including increases in defense spending, investments in the energy transition, and improvements in competitiveness. The critical risk is that domestic political fragmentation may delay the deployment of the fiscal stimulus needed to offset Germany's manufacturing challenges and support broader Eurozone momentum.

The Russia-Ukraine conflict continues into its fifth year with no clear resolution in sight. This ongoing conflict continues to exert pressure on European energy markets, defense budgets, and geopolitical alignment. While Europe has successfully adapted to reduced Russian energy dependence, the conflict remains a source of economic drag and geopolitical risk. From a portfolio perspective, the persistence of the conflict reinforces the structural necessity of increased defense outlays and energy-security infrastructure, which we expect to be a primary driver of European capital expenditure regardless of the immediate political outcome. Any escalation could have significant implications for energy prices and economic stability.

### *Fiscal Policy Evolution*

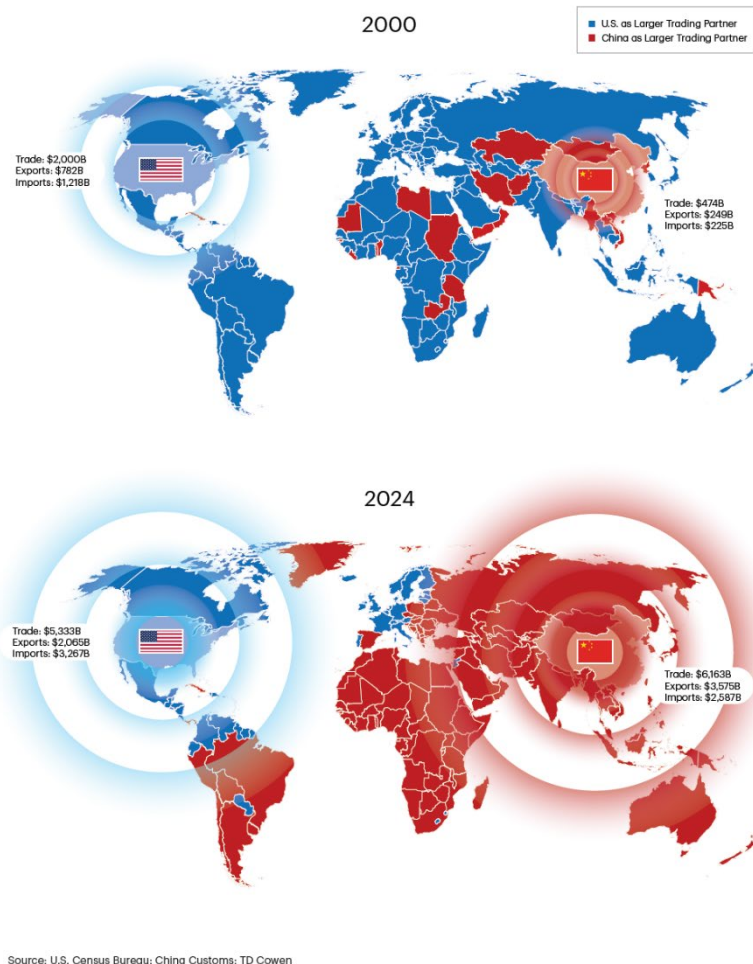
A potentially significant positive development is the shift in European fiscal policy, particularly in Germany. The historic German commitment to fiscal restraint is evolving toward greater acceptance of deficit spending for infrastructure, defense, and green transition investments. This fiscal expansion, if sustained, could provide meaningful economic support and help address Europe's competitiveness challenges.

However, execution risk remains high given political fragmentation, bureaucratic complexity, and the coordination challenge across multiple member states with different priorities and fiscal positions.

## ASIA AND EMERGING MARKETS

### China Dynamics

#### U.S. & China Global Trade Dynamics



The US-China relationship represents perhaps the most consequential geopolitical dynamic for global markets. While tensions have moderated somewhat from the 2025 peaks, the fundamental drivers of strategic competition remain: technology leadership rivalry (particularly in AI and semiconductors), Taiwan security concerns, trade imbalances and market access disputes, and competing visions for the international order and governance.

Progress on specific issues – rare earth controls, targeted tariff reductions, and diplomatic engagement – has eased immediate tensions. However, the long-term trajectory points toward continued economic decoupling and the formation of separate technological ecosystems. This creates both challenges and opportunities: challenges for companies with significant China exposure and complex global supply chains, and opportunities for countries positioned to benefit from supply chain diversification and nearshoring trends.

China's intensified focus on technology self-sufficiency represents a long-term structural shift in manufacturing capability designed to insulate domestic supply chains from further decoupling. While this transition weighs on short-term consumption, it creates potential upside in strategic sectors for investors with an appropriate risk tolerance and time horizon. However, these same pressures could also

increase the appeal of nationalistic posturing for domestic political purposes.

### Middle East

Ongoing conflicts in the Middle East, particularly tensions with Iran, continue to present tail risks for energy markets and global economic stability. While oil prices remain low due to a global supply/demand imbalance, the risk of escalation or supply disruptions remains a key concern. This price stability represents a fragile equilibrium; record production from non-OPEC+ nations is currently offsetting a significant geopolitical risk premium that has entered the market as regional tensions escalate.

Any significant widening of conflict or disruption to major energy infrastructure could rapidly impact energy prices, with cascading effects on inflation, consumer spending, and economic growth. The region's importance to global energy supplies means developments bear close monitoring despite current price stability.

## *Ukraine*

The Russia-Ukraine conflict continues to affect European economic conditions, energy security, and geopolitical alignment. While Europe has successfully reduced its dependence on Russian energy through diversification and increased LNG imports, the conflict continues to strain defense budgets and creates ongoing uncertainty about regional stability.

The duration and outcome of this conflict have important implications for European security architecture, NATO cohesion, and the broader relationship between Western democracies and authoritarian regimes. A negotiated settlement would be viewed positively by markets, removing uncertainty. However, a reallocation of defense spending toward productive economic uses is unlikely for the foreseeable future.

## **EMERGING MARKETS OUTSIDE CHINA**

### *Manufacturing Diversification*

Countries like India, Vietnam, Mexico, and parts of Eastern Europe benefit as corporations diversify supply chains away from China concentration. This "China plus one" strategy drives foreign direct investment and supports long-term growth prospects. However, benefits are unevenly distributed based on infrastructure quality, workforce skills, regulatory environment, and political stability. This manufacturing shift is particularly relevant for India, where the integration into global electronics and semiconductor supply chains provides a structural tailwind that offsets broader global trade volatility.

### *Trade Policy Exposure*

Emerging markets with significant export exposure to the US face ongoing uncertainty around tariff policy and trade relationships. The path of US trade policy will significantly impact growth prospects, particularly for manufacturing-oriented economies. Some countries have successfully negotiated trade accommodations, while others face continued pressure. This environment reinforces the value of "friend-shoring" initiatives, in which established trade agreements provide a primary competitive advantage in securing long-term foreign direct investment.

### *Regional Dynamics*

Latin American economies must navigate domestic political shifts, commodity price volatility, and relationships with both the US and China. Political developments in major economies such as Brazil and Mexico have implications for the business climate and investment attractiveness.

Asian economies benefit from strong regional growth dynamics and integration into global supply chains, but remain exposed to US-China tensions and the health of the Chinese economy. India's growth story stands out, supported by favorable demographics, policy reforms, and manufacturing development.

## EXPECTED RETURNS

The table below presents our expected return ranges for each asset class along with the portfolio-weighted contribution to total expected returns based on our 2026 allocations:

Asset Class	Weight	Expected Return	Contribution
Cash	2%	3.0% - 4.5%	0.1%
High-Quality Bonds	7%	4.0% - 5.5%	0.3% - 0.4%
Absolute Return	10%	5.0% - 8.0%	0.5% - 0.8%
Directional/Credit Alternatives	5%	5.0% - 8.0%	0.3% - 0.4%
Real Estate	4%	7.0% - 9.0%	0.3% - 0.4%
Private Credit	7%	7.0% - 9.0%	0.5% - 0.6%
US Equities	46%	6.0% - 10.0%	2.8% - 4.6%
Private Equity/Venture Capital	4%	7.0% - 12.0%	0.3% - 0.5%
International Developed	9%	5.0% - 8.0%	0.4% - 0.6%
International Emerging	6%	6.0% - 10.0%	0.4% - 0.7%
<b>TOTAL PORTFOLIO (Nominal)</b>	<b>100%</b>		<b>5.8% - 9.4%</b>
Less: Expected Inflation		2.5%	(2.5%)
<b>TOTAL PORTFOLIO (Real)</b>			<b>3.3% - 6.9%</b>

## CONCLUSION

Our 2026 asset allocation reflects a tactical repositioning toward international equities and real assets, funded by reduced exposure to US equities and high-quality bonds. While US markets remain our largest allocation, elevated valuations and strong 2025 international performance support a more balanced global approach.

The key themes driving our allocation changes are: (1) more attractive valuations in international developed and emerging markets following years of US outperformance, (2) improving conditions in real estate as the sector normalizes, (3) increased dispersion creating opportunities for active strategies, and (4) a recognition that US equity concentration has created portfolio risk that warrants diversification.

We remain committed to our disciplined investment approach, emphasizing diversification, quality, and long-term value creation. As always, we welcome the opportunity to discuss our views and your specific circumstances in greater detail.

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*For questions regarding sources or disclosures, please contact Aureus Asset Management.*

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