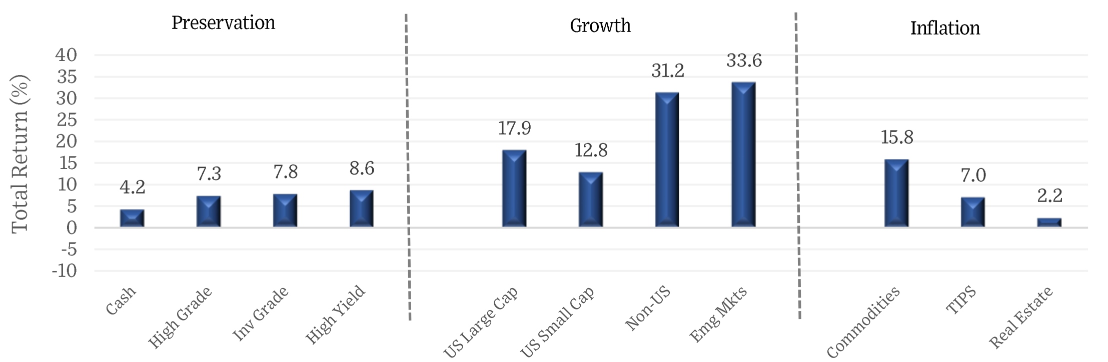
Summit Trail Advisors

Year 2026 Investment Strategy Outlook

2025 Summary

Despite upheaval from the Trump administration's tariff policies, 2025 brought another year of strong market returns. Corporate earnings and lower interest rates supported risk assets while investors diversified away from US markets. Attention will now turn to 2026 and whether strong earnings growth can continue with improving fiscal and monetary tailwinds.



2025 Calendar Year Market Index Performance
Source: Bloomberg, S&P, MSCI, NCREIF. Real Estate is as of 3q24.

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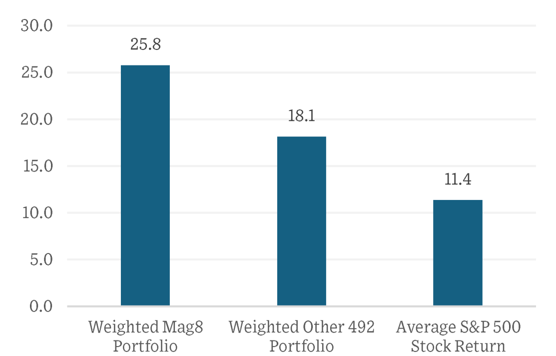
Year 2025 Market Recap

Equity markets delivered a third consecutive year of well above average performance as leadership shifted geographically outside of the US despite strong performance for the S&P 500 Index. The MSCI All Country World Index (ACWI) returned 22.3% in 2025 and has annualized the past three years above 20%. In the US, the S&P 500 Index continued to ride the "Magnificent 8" stocks and market exuberance over capital expenditures on artificial intelligence (AI) to deliver a 17.9% return to investors. What made 2025 unique to past years was a shift to non-US equity market leadership. Developed and Emerging markets outside the US returned 31.2% and 33.6% in US dollar terms, only the 2nd calendar year since 2007 that both major foreign equity indexes added value to the S&P 500 Index. Fixed income investors were not left

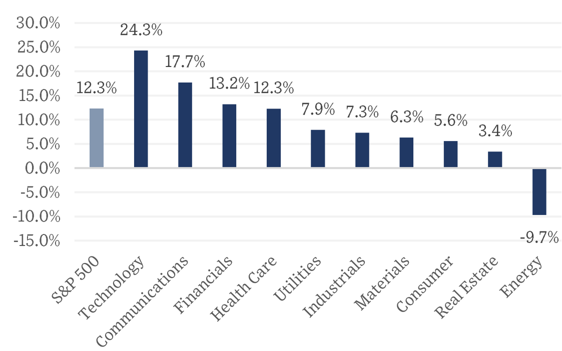


S&P 500 Returns by Segment
Source: FactSet, Total Return (%), Mag8 is NVDA, AAPL, MSFT, GOOG, AMZN, META, TSLA, and BCOM.

out of the 2025 rally as interest rates and credit spreads in the US were favorable. The Bloomberg US Aggregate Bond Index returned 7.3% while the 5 Year Municipal Bond Index added 5.0%. Higher yields to begin the year were supported by Fed rate cuts later in 2025 and enough uncertainty in economic data like job growth to keep a lid on longer-term interest rates. The 10-Year Treasury Yield declined from 4.57% to 4.16% over the course of 2025. No asset class was really left out in 2025, our investment team tracks 71 different indexes on a monthly basis, and only one was negative for the full year of 2025[1]. Areas like Commodities and Real Estate found bidders as well as all flavors of equity and fixed income investing. Within commodities, precious metals saw strong performance and were embraced by investors. Gold recorded its largest return since the early 1970s, and precious metals ETFs were the 2nd largest inflow among all ETF categories (well ahead of spot crypto ETFs). Year 2025 performance across asset classes appears to have been well received by investors as asset flows, ETF launches, and risk appetite remained strong throughout the year.

Year 2025 began with President Trump's second inauguration and optimistic outlooks for a return to many of the Trump economic policies like deregulation while bracing for an emboldened tariff policy. Rhetoric from the administration on tariffs escalated in early 2025 and pressured markets, with most major indexes producing modest losses in the 1st quarter. Losses amplified after "Liberation Day", President Trump's much publicized rollout of a universal US tariff policy on imports complete with color-coding and some questionable math. By April 8th, the S&P 500 Index was down over 15% in 2025, and the US dollar was reeling. "Sell America" was an active headline on CNBC as investors appeared to be fleeing the dominance of US asset performance and diversifying away from markets where they did not appear welcome. On April 9th, the Trump administration reversed course, delaying the April 1st tariffs by 90 days while the administration could negotiate bilateral trade agreements with various countries. Markets recovered dramatically, with the S&P 500 index going positive for 2025 on May 13th. Tariff policy remained a major headline for 2025, but markets began rationalizing Trump's trade policy as using tariffs to drive leverage on trade negotiations and that ultimate tariff levels on US imports would be closer to 10% than 20%.

Corporate earnings took over after the tariff headlines in the 2nd quarter. S&P 500 earnings dramatically outperformed expectations during the 2nd and 3rd quarter earnings reporting season in July and October. Uncertainty over tariff policy had generally caused analysts to bring down earnings estimates during the first half of 2025, and by July 1st, 2nd quarter earnings growth for the S&P 500 Index was estimated at just 5%. By the time the 2nd quarter earnings season was wrapping up in late August, actual earnings growth was



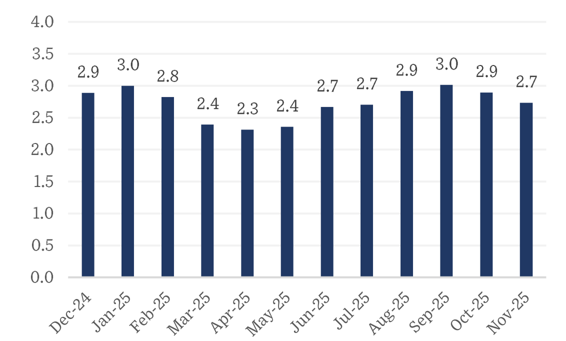
Calendar Year 2025 Earnings Growth by S&P 500 Sector
Source: FactSet as of 12/19. 4th quarter based on estimates.

[1] The one negative index is the "S&P 500 Iron Condor Index", which is an options index designed to capture the difference between realized and expected volatility on the S&P 500 Index that did not fully recover from April 2025 losses.

above 12%. 3rd quarter earnings were just as strong with expectations at 8% entering reporting season while actual earnings growth finished just under 14%. Strong corporate earnings helped allay investor fears of tariff policy tanking corporate activity, and while the most exceptional earnings growth continued to be concentrated in certain sectors, only the Energy sector will show negative earnings growth for 2025.

The timing of the turnaround in corporate earnings expectations coincided with a more positive dose of Trump economic policy. In his 1st term, President Trump had focused on the more market-friendly aspects of his agenda before focusing on tariff policy in 2018. Markets had been surprised to see tariff policy as the focal point of the administration in early 2025. July brought the passing of the One Big Beautiful Bill Act ("OBBB") which brought a permanent extension of income tax rates that were lowered as part of the 2017 Tax Cuts and Jobs Act. OBBB also provided numerous incentives for domestic production and capital investment including domestic research costs becoming fully deductible as opposed to being amortized over 15 years. At a time when companies in the Technology space are significantly increasing capital expenditure to fund the build out of AI, the bill will provide significant tax savings. While OBBB is projected to add to US deficits over the next 10 years, the Trump administration signaled their intention to pay for the bill's cost with tariff revenues and bond markets remained subdued about the deficit impact of OBBB.

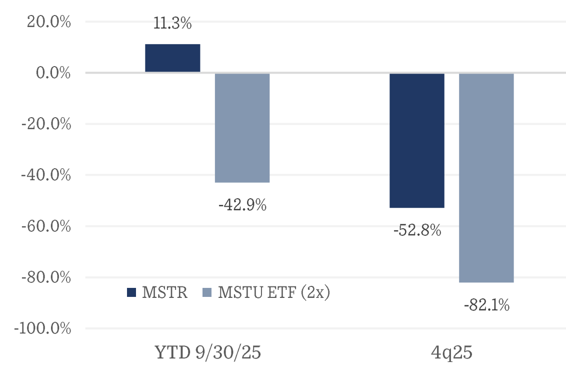
The Federal Reserve sat on the sidelines for most of 2025 as markets absorbed tariff upheaval and inflation data remained elevated. The Fed, like almost every economist, expected to see the significant elevation in tariffs on US imports increase prices for consumers. Given the lagged nature of monetary policy, Fed members including Chairman Powell were reticent to begin lowering rates while inflation could be accelerating. Headline 2nd quarter inflation data held in check more than expected, as energy prices and shelter declines offset increases in areas like groceries and consumer goods that were directly impacted. Job growth began showing weakness in mid-2025 which increased pressure on the Fed to cut rates to support employment. ADP private jobs data was negative in four of the six months ending with the November report. Average ADP job growth after April's "Liberation Day" was just 19k jobs, versus an average of 144k new jobs per month in 2024. Pressure on the Fed ramped up just as the federal government shut down for a prolonged period in the 4th quarter that removed official data releases like BLS jobs data (thus the reliance on ADP) and inflation. The Federal Reserve cut the Fed Funds rate by a quarter-point in their September, October and December meetings, leaving the target rate at 3.50 to 3.75 percent entering 2026, almost 200bps below the recent peak in 2023 and 2024. The combination of Fed rate cuts, stable inflation data, and weaker job growth kept a lid on longer-term interest rates although the yield curve did steepen dramatically given the fall in short-term rates versus the more stable back end. A steeper yield



Year/Year Percent Change in US Consumer Price Index
Source: Bureau of Labor Statistics

curve generally implies a more robust outlook for economic growth and raises questions about how much farther the Fed can go to reduce short-term interest rates.

We would be remiss to close out our 2025 review without mentioning the level of speculation and leverage that returned to markets this year. Year 2021 in the post-Covid landscape of meme stocks, crypto, altcoins, and non-fungible tokens (NFTs) still takes the cake as the most rampant speculation on record. Year 1999 was a close second with the dot-com boom but did not have the same infrastructure in place we have now for speculative behavior. That infrastructure is what concerns us about 2025 and beyond. Year 2025 saw almost 1,000 new ETF launches, the most ever on record with over half of those new ETFs in the "non-traditional" category which means crypto, leverage, options, or in some cases "all of the above". Almost all top S&P 500 companies and popular retail trading names now have leveraged ETF versions where you can get 2x exposure in either direction to a single company. To give you a sense of where we may be heading, during the government shutdown, ETF issuers tried to use the lack of federal oversight and a loophole in the Investment Company Act of 1940[2] to launch 5x levered single stock ETFs before the SEC stepped in to shut them down. Now we are seeing companies like Coinbase and Robinhood looking to get in on prediction markets rather than day-trading and crypto. "Prediction markets", better known as "gambling", are bets on a "zero/one" outcome around an event like "who will be the next Fed Chair?". While there are generally odds associated with the outcome, the wrong outcome means you have no money left. The most speculative form of investing can create similar outcomes, but historically the vast majority of traditional investing involves a loss of far less than 100% when one is wrong. Asset managers, exchanges, and investment platforms are probably right to assume regulatory oversight will be light in the coming year. That does not mean lack of oversight is a good thing for investors, despite our optimism on the investing backdrop for the coming year.



Total Return of Strategy Stock (MSTR) vs. 2x ETF (MSTU)
Source: Yahoo! Finance

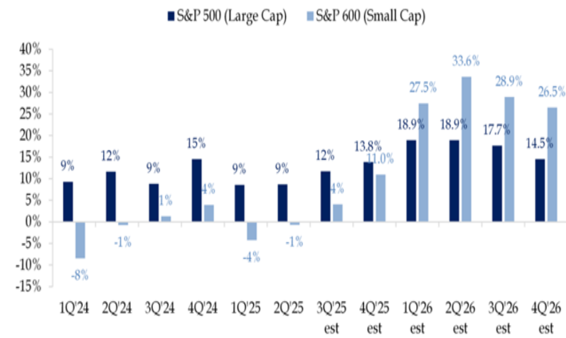
Year 2026 Market Outlook: Better Backdrop than 2025 but with More Risk

US Gross Domestic Output (GDP) grew over 4% in the 3rd quarter based on the delayed release by the Bureau of Economic Analysis in late December. Nominal GDP was closer to 8%, well above recent averages. S&P 500 earnings grew over 12% in 2025 and are projected to grow by 15% for calendar year 2026. Macroeconomic factors in 2026 at the surface appear more favorable than

[2] *ETF launches are under the Investment Company Act of 1940 and a provision in that act allows for certain launches to be immediately effective after 20 days if comment is not provided by the SEC. Certain firms, like Volatility Shares, submitted new 3 and 5x levered ETFs during the shutdown to see if the 20-day window would expire prior to an SEC response.*

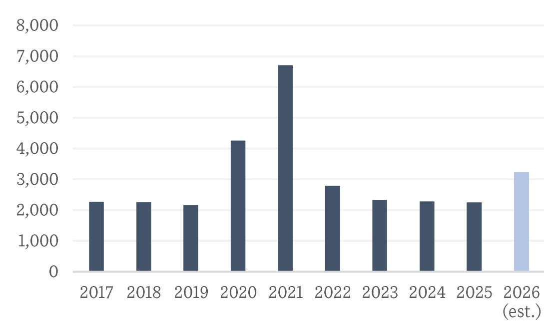
what we experienced in 2025. Fiscal and monetary policy will be more supportive than levels we saw in 2025 while the proverbial elephant in the room for 2025 (tariffs) should be less of an issue given the average tariff rate on imports for 2026 after the 1st quarter should be equal or lower.

S&P 500 earnings growth expectations were part of our optimism in 2025. Despite policy uncertainty from the Trump administration, tariff rhetoric, lingering inflation, and interest rate risk we felt earnings growth would win out. Earnings growth for the coming year looks similarly well positioned and broader than 2025 which still relied heavily on the Mag8, Technology, and Communications while getting some help from Financials. Year 2026 earnings will still see Mag8 exceptionalism assuming the AI capex train stays on track but should have more support levers. Every sector of the S&P 500 is projected by FactSet to see earnings growth and Technology, Materials, Industrials, Communications, Consumer, Financials, and Utilities are all expecting double-digit earnings growth. Small companies are also projected to join the party. Smaller companies have experienced the impact that economists felt most companies would suffer from given the size of the interest rate increases by the Fed in 2022 and 2023. Earnings growth for small companies found in the S&P 600 index has been flat or negative for the past three years and only recently began to show growth. Projections for 2026 look far better, benefiting from easier comparisons to prior quarters, lower interest rates, and depending on the industry, improved revenue growth. Small company stock performance has lagged significantly along with its earnings, with the Russell 2000 index annualizing at 14% from 2023 to 2025 versus the S&P 500's 23% annual return.



Year/Year Earnings Growth: Large Cap vs. Small Cap
Source: FactSet as of November 2025

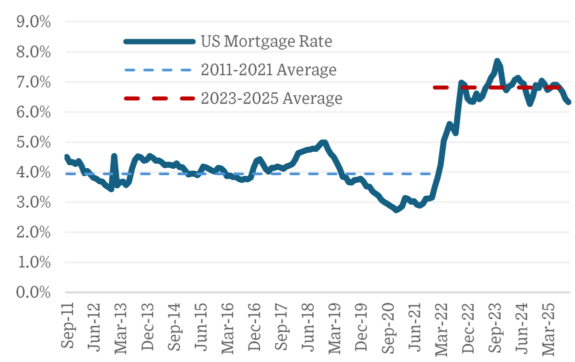
Year 2026 will also bring far better fiscal and monetary policy alignment than 2025. Fiscal policy in recent years has generally been an attempt to shed the excesses of the post-Covid fiscal response and massive deficit spending. Biden era spending like the Inflation Reduction Act was focused on areas like clean energy and infrastructure with longer impact cycles assuming the money is well spent. Year 2025 brought little fiscal benefit post-election as the Trump administration focused on tariff and trade policy. The coming year will see some of the fiscal benefits of OBBB, including much larger individual tax refunds than prior years. The increase in tax refunds should supply a jolt to consumer spending in the early part of the year as refunds are expected to increase by almost $1k per employed person over 2025. Tax refunds are



US Federal Tax Refunds per Non-Farm Payroll Job
Source: Strategas

typically "found money" for consumers that they spend quickly rather than save. OBBB has other corporate provisions as mentioned related to expensing of research and development and capital spending that appear to be impacting corporate behavior in terms of investments in US production. There's also the fact that the US will be hosting the 2026 World Cup along with Canada and Mexico this summer. Long-term economic benefits of hosting events like the Olympics or World Cup are debatable, we doubt our friends in Qatar will be conducting economic research studies on the benefits of their $200b spend to host the 2022 World Cup. However, the US has the existing stadium infrastructure, having spent just $5m the last time we hosted in 1994. The surge of tourism and spending from hosting the 4-week tournament, the first time with 48 teams instead of 32, should provide a summer boost across the eleven US cities hosting games.

After sitting on the sidelines for much of 2025 to observe inflation data given the significant change in US trade policy, the Fed cut the benchmark Fed Funds rate by 75bps in the 4th quarter. Markets are assuming the current target range of 350-375bps for Fed Funds will come down by another 50-75bps over the course of 2026. This means short-term benchmark rates that impact private lending for small companies are likely to be lower in 2026 than they have been in recent history. The Trump administration is also fixated on the mortgage market. Mortgages are long-term instruments, so the national mortgage rate moves with longer-term rates like the 10 and 30-year US Treasury Yield. Longer-term rates did decline slightly in 2025 but remain stubbornly high relative to the boom years for housing and mortgages that followed the Financial Crisis and Covid-19. Housing markets have held up in terms of pricing, but activity such as housing starts and sales is well below levels prior to the Fed increasing interest rates. President Trump will nominate a new Fed Chair early in 2026 who will take over in May. Markets are generally in approval of leading candidates like "the Kevins" (Hassett and Warsh) as a proper mix of credible candidates who are still likely to give markets more of what they (and Trump) want in lower interest rates. However, the new Fed Chair will walk a fine line not only between keeping the Fed's independence intact, but also making sure bond markets do not test the new Chair's resolve. If the Fed cuts too aggressively, bond markets may revolt sending longer-term rates higher and hurting housing markets and other activity. We would not be surprised to see the Fed get more creative under new leadership in trying to bring down interest rates. Investors may remember efforts of the Fed in 2011 under Operation Twist, where the Fed actively bought long-term bonds to try and suppress yields and flatten the yield curve. These tools are more likely under a new Fed Chair looking to show progress for President Trump.



US Monthly Mortgage Rate vs. Average Periods
Source: YCharts! National Association of Realtors

Stubborn inflation data has been a thorn in the side of the Fed and current administration's demands for lower interest rates. The inflation shock from the post-pandemic fiscal and monetary

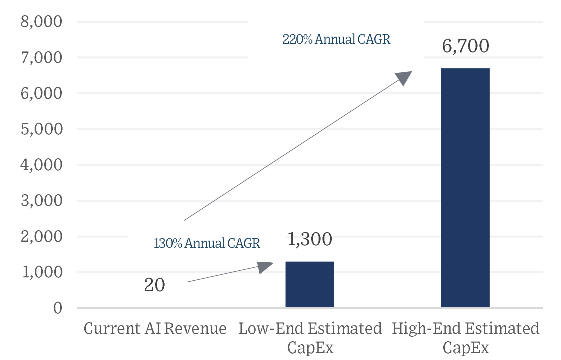
Summit Trail Advisors LLC ("STA") is a SEC registered investment advisor headquartered in New York, NY. Please see the Important Information section for additional disclosures policy response receded quickly in 2023 and 2024, but back to levels of 3% rather than the Fed's stated target of 2%. There has been some sense from investors that the Fed is secretly willing to accept higher inflation and focus on growth but without a formal change in policy that can impact bond markets. The Trump administration appears more focused on inflation data leading up to mid-term elections in 2026. Year 2025 elections brought a limited data set, but governor races in NJ and VA brought troubling data for Republicans along with weak voter approval ratings for President Trump. While tariff policy has not notably moved headline inflation, specific areas like food at home and other services were showing impact where those goods are typically imported like coffee, beef, sugar, and bananas. The Trump administration relieved tariffs on many of these items late in 2025 shortly after November elections and just recently delayed tariffs on furniture and cabinets for one year, after mid-term elections in November 2026. Headline inflation data should benefit from the same factors that subdued numbers in 2025, notably energy and shelter. Markets have long questioned the methodology of the Bureau of Labor Statistics around the "owner's equivalent rent" calculation that makes up the shelter component of the CPI index. The calculation historically has shown a lagged impact to rent pricing data in various markets that suggest shelter's contribution to CPI should continue to decline, but probably not as much as the recent BLS release in November after the government shutdown. The November release came after the government re-opened and as far as we can tell pretended October never happened rather than accounting for likely price increases during the month. With or without political influence, inflation data is less likely to cause trouble in the near-term given disinflationary impacts of energy and shelter with the administration taking a pause on many of their inflationary policies.

The combination of strong expected earnings growth with a supportive Fed and fiscal policy backdrop should support risk assets in 2026. Regardless of the fundamental backdrop, predicting that the S&P 500 will go up every calendar year would give one an 80% success rate going back to 1970. Mid-term election years are more of a mixed bag despite the assumption the party in power would be aligned in assuring they present the strongest possible case to voters. The last two mid-term election calendar years brought the only two negative calendar year S&P 500 returns (2022, 2018) since the Financial Crisis. We also enter 2026 with extended valuations on many of the companies driving S&P 500 performance. These higher valuations have been warranted (mostly) by strong earnings growth but do create risk if earning projections are wrong. Historically, valuations alone have not tipped over markets into meaningful declines unless they are combined with economic issues like the 9/11 recession in 2001 or the Fed aggressively hiking rates in 2022[3]. But if risks to the positive economic story do happen, the downside could be more severe as markets correct forward earnings projections *and* market multiples. Last year at this time, we felt the key risks to the economy were interest rates and tariff policy. For 2026, those risks remain but the main risk for markets is the concentrated nature of AI spending, its lack of profitability to date, and the impact of the technology if it is too successful on employment markets.

[3] We would note we are referring to broad indexes like the S&P 500 trading at 22-23x 2026 expected earnings, not a single company at some crazy valuation like Zoom in 2021 trading close to 100x sales. Trading at 100x sales can end badly anytime and for many reasons that do not require an economic downturn.

US, and now global, technology companies are spending obscene amounts of capital to develop large language models (LLMs) while seeking artificial intelligence and building the energy resources the models require. We have been skeptical around the hype with LLMs, not in terms of what they can do to date, which is notable, but in terms of what they are projected to be able to do in the future. Reliance on web-based data for learning is a limited data set and when more and more of that data is being created by LLMs it becomes a self-fulfilling feedback loop that seems less likely to spawn material advances in capability. Analysis is already showing diminishing returns of various model releases despite the cost of developing each model increasing. Whether LLMs like ChatGPT are revolutionary or just strong productivity enhancers in the future is unlikely to be determined in 2026. What we do know is that the business model of an LLM for now is not profitable and is unlikely to be profitable in the near-term. Fortunately, the vast majority of the capital needed for developing LLMs and AI is coming from wildly profitable companies like Google, Microsoft, Facebook, Amazon, and Apple. These companies have seen enough growth in their legacy businesses that profit margins and earnings growth have not been hampered enough to cause concerns for investors. Venture capital is also making substantial investments into AI-related companies like OpenAI and Anthropic. These companies do not have legacy profitable businesses to fund losses and will need to rely on capital markets for the foreseeable future.

Various studies conducted by UBS, Citigroup, and JPMorgan have analyzed just how much capital will need to be invested to build out AI infrastructure. Estimates in these reports range from 1.3 to 6.7 trillion dollars by 2030. During brief bouts of market volatility in 2025, there were concerns about the AI path to profitability. Oracle and CoreWeave saw their stock prices boom from AI excitement (+110%, +367% respectively) and then plummet on concerns of funding future growth assumptions with debt (-49%, -66% respectively) all in just the past 9 months. OpenAI, more than any other company, likely has the fate of AI spending and the market's perspective on future profitability in its hands. The company has publicly stated they do not expect to be profitable by 2030. They have raised capital six times in the past 3 years at progressively higher valuations. The Wall Street Journal reported in December that OpenAI is currently fundraising again to raise as much as $100 billion at a valuation of $830 billion. The successive fundraising rounds show that the company needs incredible amounts of capital while the size of the capital and valuation could mean they run out of traditional funding sources other than going public. Typically, when companies IPO they show prospective investors a path to profitability within a year of going public. OpenAI, as a public company, with all of the required disclosures and analyst coverage about the state of their business while being multiple years away from profitability will be an interesting dynamic for the market to value. In recent years other than



AI Revenue vs. Projected 2030 CapEx Spending ($m)
Source: UBS, JPMorgan, Citigroup

a very brief period in 2022 prior to ChatGPT's release, markets have been more than happy to fund companies with future growth prospects with optimistic valuations. If investors demand more tangible returns from the AI complex, funding could become more scarce, more expensive (or both) and create a reset on valuations similar to what investors experienced from 2000 to 2002.

Our primary risk for 2026 is the market becoming more skeptical on the risk-reward for the AI capex cycle and its ultimate profitability that could cast a shadow on market valuations, especially among the largest companies driving recent performance. An upside, more positive AI scenario could carry just as much risk given possible impact on employment. US job markets are stable, but not creating job growth at levels we experienced in the post-Covid 2022-2024 period. The unemployment rate is currently 4.6% as of the delayed November jobs report, up from 4.0% at the beginning of 2025, but still at a level that economists generally accept as full employment. Initial jobless claims in the low-200k range do not suggest unemployment is likely to move meaningfully higher as we enter 2026. But an economy that is not creating new jobs creates risk if there is a reason for job losses, even a "positive" reason like technological improvement. If there is concern about AI taking over human jobs it will impact consumer spending which could lead to an economic downturn. The AI story needs to remain solidly in a "goldilocks" range to keep the current cycle going. A negative development could upend the AI capex spending story or the market excitement it is driving. Or an overly positive scenario could threaten US employment before the economy's job makeup can adapt over time to areas that will be less impacted by AI.

Our **portfolio themes for 2026** revolve around expectations above that earnings growth will continue with a more supportive economic backdrop while acknowledging that as the market and economic expansion ages, the risks of a correction increase.

In **Preservation portfolios**, we believe it is important to maintain an emphasis on high-quality bonds with duration. We believe coordinated efforts by the Fed and Treasury department should keep interest rates from moving considerably higher. The Fed will likely reduce the Fed Funds rate in 2026 and may seek to purchase longer-term bonds while the Treasury continues to fund deficits via T-bill issuance ensuring they do not outstrip long-term Treasury demand, which can drive yields higher. Weaker job growth or increased risk that overall economic conditions deteriorate would mean meaningfully lower rates that benefit longer-duration fixed coupon bonds. We continue to believe public credit spreads look unattractive and have preferred to stay high-quality rather than capture the limited yield premium in investment grade or high yield corporate bonds. In April 2025, we added **non-USD bonds** to our Preservation portfolios for the first time since Summit Trail's inception in 2015. The US Dollar declined in 2025 on a trade-weighted basis by 9% but still trades at levels well above most of the 2010s. Precious metals like gold and silver hitting all-time highs shows investors and foreign central banks are looking for alternatives to the US Dollar. And if the Fed is aggressive in reducing rates while other major central banks are more stable or increasing rates (Bank of Japan) the USD decline could continue.

In **Growth portfolios**, with the risk of being a stopped clock, we would position portfolios modestly for an expansion beyond the concentrated nature of the market rally and leadership. The S&P 500 index remains as concentrated as any time in history which creates challenges for both overall risk if a small number of companies have issues, but also creates risks for investors on how to manage tracking error in differing from the index. FactSet is expecting 23% earnings growth in 2026 for the Mag7[4] companies, about the same level as 2025 and down from 30%+ earnings growth in 2023 and 2024. The "other 493" companies will grow earnings by over 12% in 2026, up from 9% in 2025, and virtually flat earnings growth in 2023 and 2024. All this to say Mag7 "exceptionalism" is running its course and appears to be coming back to the pack in terms of growth. However, those stocks trade at aggressive premiums to market multiples of earnings at roughly 30x versus less than 20x for the average S&P 500 company. **Equal-weight indexes, smaller company exposure, and non-concentrated sectors outside of Technology, Communications, and Consumer** can all serve to de-risk the concentration in the S&P 500.

We began adding to more **Cyclical areas like Small Cap stocks and Industrial sector companies in late 2025 while maintaining exposure to Large US Banks**. Lower interest rates should support capital intensive businesses like Industrials and companies that make up a greater proportion of small cap indexes. The S&P 500 Industrial sector is projected by FactSet to have the 3rd-highest earnings growth for 2026 behind Technology and Materials. Large US Banks saw strong earnings in 2025 and outperformed the S&P 500 (31.6% for the KBW Bank ETF vs. 17.9% for the S&P 500). Capital market activity was strong in 2025, including increases in IPOs and mergers and acquisitions that fund investment banking revenues. Steeper yield curves are also positive for net interest margin which represents the difference between bank funding sources (short-term deposits) and revenue opportunities (intermediate or long-term lending). Small cap stocks are poised to demonstrate meaningful earnings growth for the first time since 2021 and trade at far cheaper valuations than the S&P 500 index.

Equity markets outside the US outperformed US markets by meaningful amounts in 2025, ending multi-decade US market dominance that had left many US investors with substantial underweights to non-US equity markets. Foreign market performance was supported by USD depreciation in 2025 that may continue into 2026. While non-US equity markets remain cheaper than the S&P 500 index, earnings growth is much harder to find outside the US. Given less earnings momentum, we maintain modest underweights (3-5%) relative to the

10-Year Japanese Government Bond Yields
Source: YCharts!, Japan Ministry of Finance

[4] *The Mag7 is Nvidia, Microsoft, Apple, Amazon, Google, Tesla and Facebook. We also cite the "Mag8" which adds Broadcom given it is a larger weighting than Facebook and Tesla in the S&P 500 index at year-end.*

ACWI index in Developed and Emerging markets. Within Developed markets, **Japan** deserves more attention from investors. The country is emerging from a decade-long deflationary environment, first from former Prime Minister Abe's "three arrows" economic platform and more recently due to the realities of the post-Covid economy and deglobalization. Interest rates in Japan recently hit a 27-year high at over 2%, after spending a 6-year period from 2016 to 2021 hovering at 0% (or less). Inflation, and positive interest rates, will drive a significant change in Japanese consumer behavior. Japanese companies remain cheap relative to US stocks by a margin of 30% and Japanese stock indexes are heavily represented in areas like Industrials and Technology. Long-term demographic challenges remain, but we believe Japan should remain a standout performer for US investors.

Inflation portfolios continue to see opportunities in **precious metals, real assets, power generation, and carbon allowances**. Gold returned 65% in 2025 given continued US deficit spending and a more accommodative Fed despite above-target inflation. That environment continues and while we would be wary of some of momentum trading entering the precious metal space, the fundamental backdrop of central bank adoption remains. US power demand has been a focus given data center spending related to AI infrastructure. Given the increased demand for power from AI, data centers, onshoring of US manufacturing and other aspects of electrification we believe real assets in the energy sector as well as direct investments in power have attractive dynamics and can hedge some of the concentration risk from power-hungry Mag7 names in the S&P 500 index. We also continue to recommend **carbon allowances in specific markets like California.** These markets had early setbacks in 2025 on regulatory delays, weak auction demand, and Trump administration threats but recovered late in the year when the CA legislature extended the allowance program through 2045. California carbon allowances will see an inflexion point in 2026 and 2027 where aggregate demand will be larger per year than available supply, which could pressure regulated entities into more aggressive buying to ensure compliance.

Wishing everyone a healthy and prosperous 2026,

Summit Trail Investment Team

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