2026 Outlook: Managing Wealth in an Age of Massive Disruption and Profound Change

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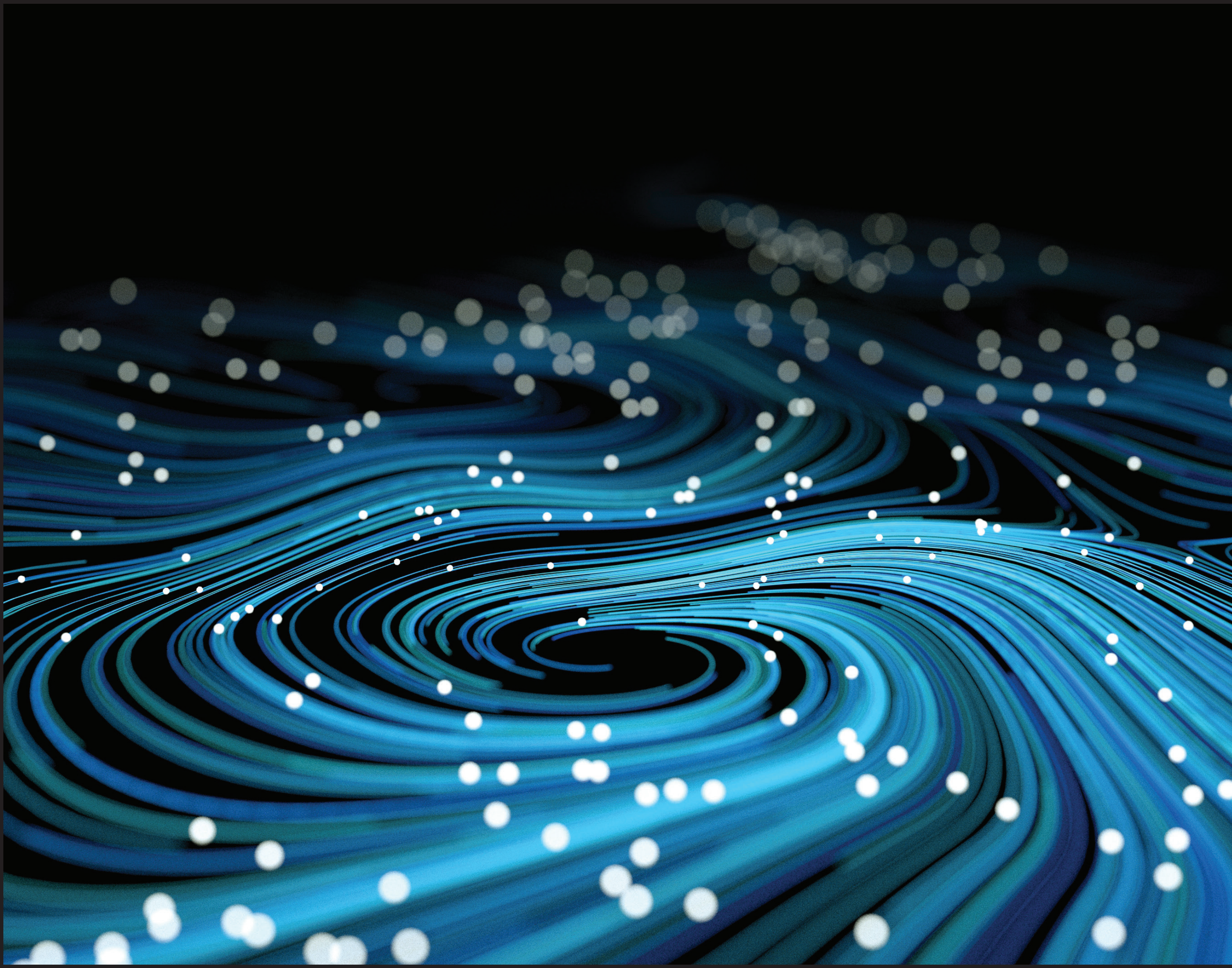


Key Wealth

Introduction

As we prepare for a new year and for the commemoration of our nation's 250th anniversary, we observe numerous areas of massive disruption, coupled with persistent and profound change, and heightened uncertainty.

In the following pages, we will discuss three of the most significant disruptive forces, each with important implications for society, the economy, and markets:

- The rise of nationalism and state capitalism, and the related retreat from globalization
- Advancements in artificial intelligence (AI): the potential, the challenges and the unknowns
- The democratization of the private markets and changes, in market structure

In 2026, we anticipate sustained economic momentum. While low-income consumers continue to face challenges, steady wage growth and supportive fiscal policies should offer relief as higher-income consumers continue to benefit from strong household balance sheets. Corporate spending, especially on AI-related initiatives, should also persist. And although it would not be surprising to see the pace of AI spending moderate, particularly as investors become more discerning and focus increasingly on monetization, we expect other sectors to contribute to growth as tariff uncertainty diminishes, even though tariff rates will likely remain elevated.

Provided these trends persist, labor market conditions should remain stable, though emerging signs of deceleration require attentive monitoring. Inflation is also likely to be relatively steady. However, new leadership at the Federal Reserve (the Fed) could stimulate the economy through lower interest rates and possibly reignite inflation, reversing recent progress (more on that later).

Within this context, the prospects for financial assets are generally favorable. Nonetheless, widening economic disparities, elevated valuations, and fragile geopolitical dynamics present both structural and tactical risks. Given these headwinds, investors should be prepared for a non-linear path to success. Notably, however, periods of disruption can also generate opportunities.

For instance, if our outlook materializes, we see relative gains beyond the Magnificent 7. Furthermore, we advise investors who may be overexposed to cash to recognize that fixed income assets offer attractive yields and to consider lengthening portfolio durations. Finally, by adopting innovative investment tools, portfolio diversification can be enhanced and the likelihood of achieving one's financial objectives may potentially improve.

As we navigate this period of transformation together, our commitment remains steadfast: to provide guidance that anticipates challenges, identifies opportunities, and supports you in making informed decisions amid a continuously shifting investment landscape. With our integrity and adaptability as our compass, we look forward to partnering with you in seizing the possibilities that the future holds while prudently managing risks to help ensure your financial well-being.

Rise of Nationalism and State Capitalism and the Retreat from Globalization

This time a year ago, in considering what the first year of a second Trump presidency might entail, we thought the new administration would focus on a package of policies comprised of the following:

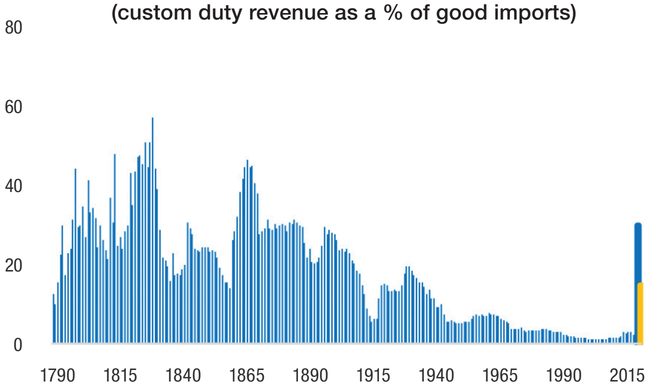
1. Levy tariffs to rebalance trade and raise revenue
2. Impose stricter immigration policies to protect domestic jobs
3. Use tariff-generated revenue to lower (or at least maintain) domestic tax rates
4. Loosen regulations to boost economic growth[1]

A few short months later, much of that strategy quickly unfolded: tariffs were raised, immigration was tightened, and a torrent of executive orders were issued on a wide array of issues (at last count, more than 200 have been issued this year). In the words of several political observers, the new administration seemed intent to "move fast and break things."

Tariffs were announced, implemented, and, in some cases, modified, removed, or reinstated again at a dizzying pace, punctuated by President Trump's Liberation Day in early April. We will not rehash each trade action here, but the accompanying charts illustrate that the average tariff rate rose rapidly from slightly above 2% at the beginning of the year to 30%, a threshold that many economists considered likely to trigger a recession.

Approximately six weeks later, however, the average tariff rate was lowered to roughly 17%, where it remains. Whether these increases have produced their intended effect is still unclear, but uncertainty has endured. This has moderated somewhat, as also depicted below.

U.S. Avg. Effective Tariff Rate: 1790-2025 (%)
(custom duty revenue as a % of good imports)



U.S. Avg. Effective Tariff Rate: 2025 (%)
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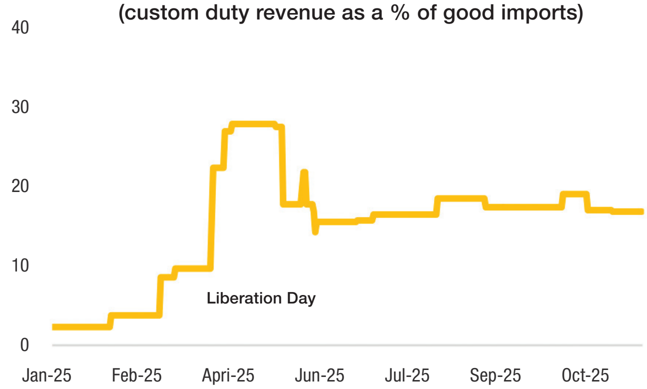
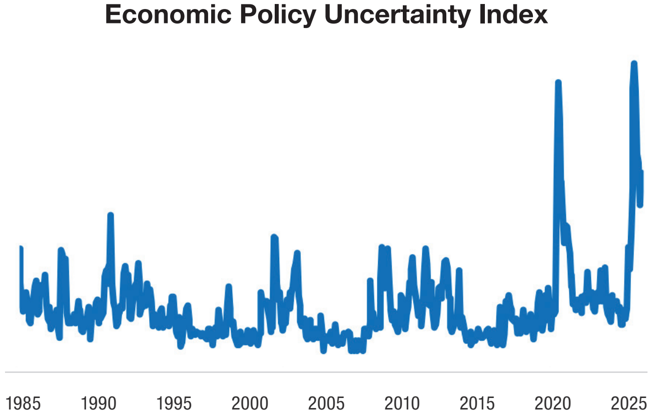
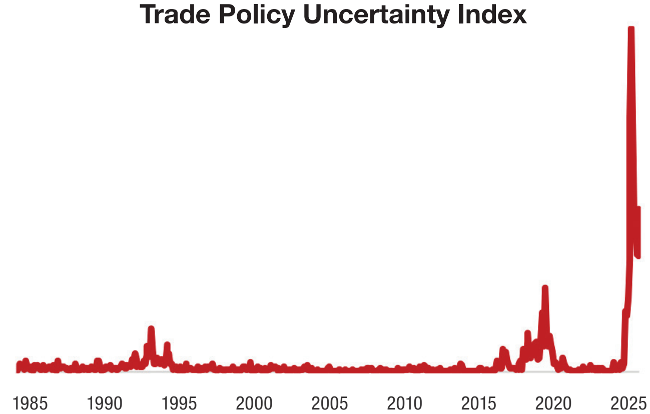


Source: Yale Budget Lab

Economic Policy Uncertainty Index



Trade Policy Uncertainty Index



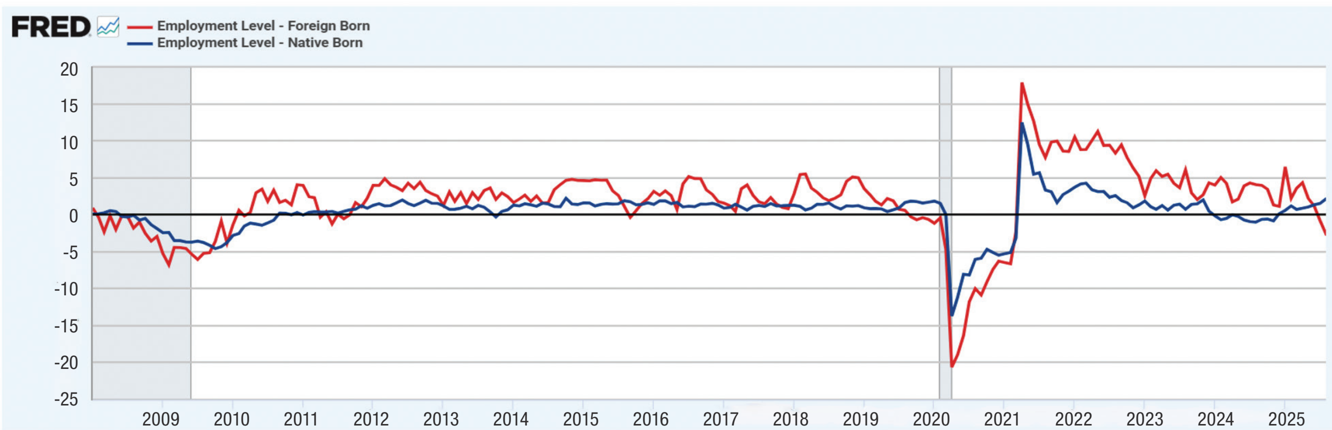
Source: Baker, Bloom and Davis at www.PolicyUncertainty.com

Regarding other actions taken by the administration, one thing is clear: tax rates will not be going up. For many individuals, tax rates will be lower, providing an important level of support. At the same time, new tax measures should create an incentive for businesses to increase capital spending, offering an added boost to the economy. In short, these two areas — trade and tax policy — have largely played out as expected, though admittedly at a much faster pace.

Conversely, one of the bigger surprises stems from the Trump administration's immigration policies. While we foresaw greater immigration curbs being applied, the magnitude of these restrictions has been larger than anticipated, and their economic impact may be measurably larger than initially imagined. In fact, when measured over time, changes to immigration policy may have a larger impact than trade policy.

As we noted in last year's Outlook, in 2024, the rate of immigrants entering our country grew at the fastest rate in more than a generation, far eclipsing the growth rate of the U.S. population as a whole. In 2025, the number of foreign-born citizens will contract for the first time outside of a recession, and so will the number of foreign-born workers as seen in the chart below.

Year/Year Percent Change of Employment



Source: U.S. Bureau of Labor Statistics; Federal Reserve Bank of St. Louis

This comes at a time when our country's total population growth is set to slow. And because labor growth is a key determinant of economic growth, the U.S. must find a new source of labor or realize substantial and positive productivity benefits to maintain its growth. Neither can be assumed.

Another unanticipated outcome to occur in the last 12 months has been the response to President Trump's tariffs from the international community. While reactions differed amongst the various countries, instead of retaliating, several foreign leaders opted to forcefully focus on fortifying their own domestic economic strength and reducing their dependencies on the U.S.

Examples of these actions include the following:

- Increased domestic defense spending
- Increased government investment, particularly domestic infrastructure
- Acknowledgement and confronting of longstanding barriers to productivity

Said another way, changes in trade policy have accelerated an observable tectonic shift away from globalization and towards nationalism where one country places its own self-interest first, mostly at the exclusion of — or even the detriment to — other countries. And though this trend may have accelerated in the past several months, it has been ongoing and is expected to persist in our assessment, even if the U.S. Supreme Court determines that tariffs enacted under the International Emergency Economic Powers Act (IEEPA) are unconstitutional.

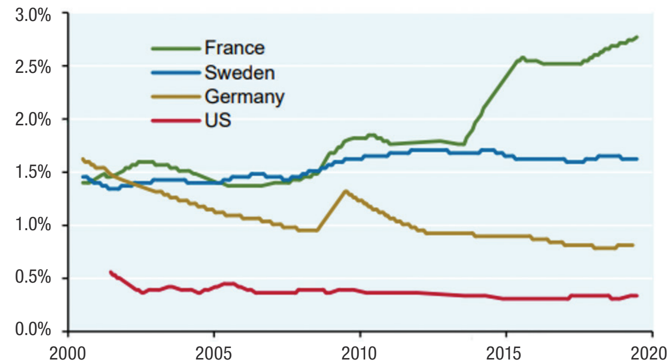
The terms “state capitalism” and “industrial policy” are another manifestation of this pivot to nationalism. This has also been on full display for quite some time, especially overseas, and especially in China. See the chart on the right.

But relatively recently, nationalism has become a component of the Trump administration’s economic policy as well, as evidenced by the government’s direct investment in Intel for a 10% stake in the company and the U.S. Department of Defense taking a 15% stake in MP Materials earlier this year. Other such investments will assuredly follow, and we will also likely hear increasingly more about the term “national champions” in the years ahead (and not just as it relates to football).

It is important to note that this transition from globalization toward nationalism presents considerable implications for investors. One consequence is that inflation and real interest rates are expected to remain structurally higher, as companies prioritize resilience over efficiency. Furthermore, elevated costs are often accompanied by increased fiscal stimulus and monetary accommodation, especially in contexts where nationalism prevails — sometimes even at the expense of central bank independence. This is a topic we have addressed several times in 2025 and will likely do so again in 2026.

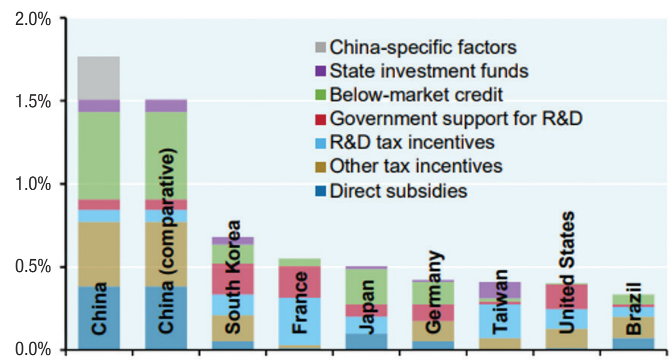
A further implication of rising nationalism is the possibility that U.S. dollar-denominated assets encounter headwinds, such as reduced demand from international investors. Additionally, geopolitical risks — which are inherently difficult to forecast — are likely to be sustained at higher levels, for when countries are less aligned and less connected, the propensity for mistrust and misunderstandings can increase, which can be observed in the current state of U.S.-China relations.

Government Expenditures on Subsidies
Share of GDP



Source: Sweden Board of Trade, 2019

Industrial Policy Spending in Key Economies
Percent of GDP



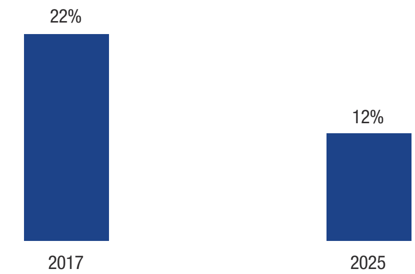
Source: CSIS, 2022

The U.S. and China relationship began decoupling during President Trump's first term, but some statistics make this point even clearer (see graphics to the right). In 2017, the share of U.S. imports from China stood at 22%. Since then, it has collapsed to 12%. In other words, 88% of Chinese exports go to countries other than the U.S. Similarly, China's share of U.S. debt has been on a steady decline over the last 10-plus years, and it also owns fewer U.S. dollars.

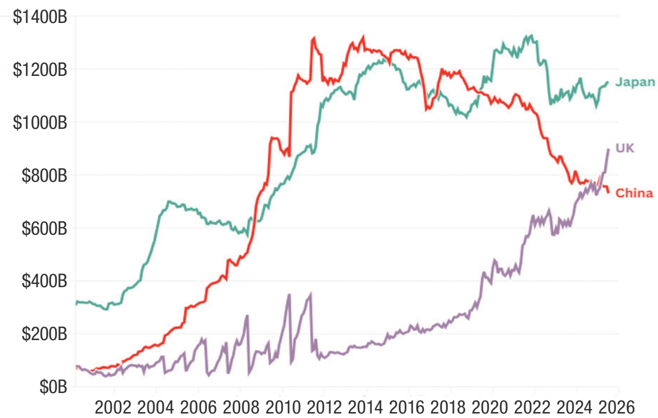
Perhaps it is not surprising, therefore, to see little progress at the recent trade discussions between President Trump and President Xi (though they did not escalate either, notably). It is also not surprising, in our view, to see both leaders place such high importance on semiconductors and precious natural resources. These tensions will likely remain, in our view.

In conclusion, sustained higher tariff rates, vigorous responses from many of our country's most significant trading partners (who increasingly are taking aggressive measures to increase their own independence and/or establish new alliances without the U.S.), and the rise of state capitalism reflect a rise of nationalism. The implications, we believe, are structurally higher levels of inflation and interest rates, possible headwinds for U.S.-based assets, and greater geopolitical instability. As a result, building resilient portfolios is increasingly important in this environment.

U.S. Imports from China
(percent of China's total exports)



Top Foreign Holders of U.S. Debt: China v. Japan v. UK
Billions of U.S. $



Sources: General Administration of Customs; U.S. Dept. of Treasury; CSIS China Power Project

Artificial Intelligence: "The Biggest Innovation Cycle the World Has Ever Known"

While profound geopolitical change is occurring, we are also in the midst of quite possibly one of, if not the biggest, innovation cycles the world has ever known brought on by major advances and the rapid adoption of AI. When launched in November 2022, ChatGPT (perhaps the most recognizable and widely used AI platform) reported more than one million users within its first five days and 100 million users within its first 100 days.

For sake of comparison, it would take more than four years for YouTube and Facebook to realize 100 million users, and Netflix failed to see this level of adoption in its first 10 years of existence. Fast-forward three years and today, ChatGPT reports more than 800 million weekly users with over 2.5 billion queries — or prompts — posed daily.[2]

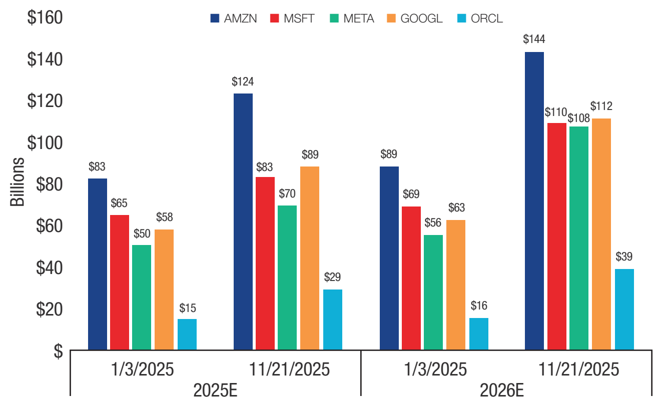
Though these mind-blowing numbers may be difficult to comprehend, what is even more difficult to know is the impact AI will have on our economy, our financial system, and society writ large.

On one hand, AI could be a positive catalyst for unlocking massive improvements in productivity, particularly in areas such as customer service, data processing, synthesizing research, and solving complex problems. Alternatively, AI could lead to considerable job displacement, particularly in roles that are routine or highly automatable, such as coding, customer service, document search and summarization, language translation, and copywriting. Still others worry over the sheer electricity needed to power the development of these models, and others express concern over the information produced by them.

But is it a bubble?

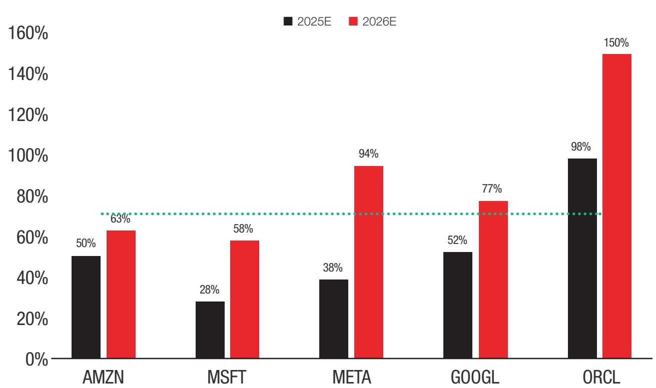
The buildout of AI is not a low-cost endeavor. Analysts estimate that deep learning models used in natural language processing (e.g., Siri, Alexa, or Google Translate) can cost between $50,000 and $500,000, while large language models such as ChatGPT can potentially cost $1 million to more than than $100 million due to immense data and computing needs.[3] As a result, AI-infrastructure spending has soared to stratospheric levels.

Hyperscaler CapEx Estimates



Source: Harbor Capital Advisors. FactSet. Data as of 11/21/2025.

Year-to-date CapEx Estimate Revisions



Source: Harbor Capital Advisors. FactSet. Data as of 11/21/2025.

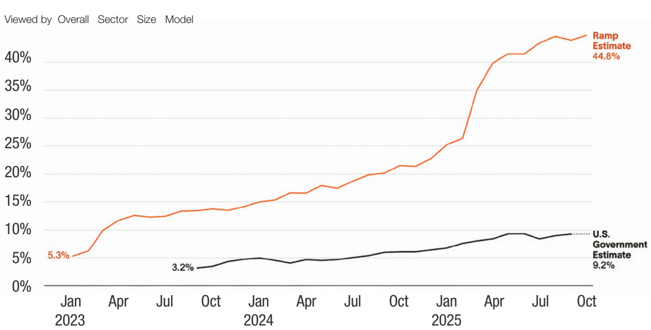
As suggested in the charts above, spending on AI infrastructure has been dominated by a handful of companies known as the "AI hyperscalers." In 2025, these five companies were collectively expected to spend $270 billion (billion with a "b") along with $290 billion 2026 on AI infrastructure.

As we approach 2026, these estimates have increased materially: spending this year is projected to be approximately $395 billion (46% higher than earlier estimates) and then is project to surge even further to $515 billion in 2026 (78% higher). In attempting to put this into perspective, if these estimates come to fruition, AI spending next year (just one year), if these estimates come to fruition, by five companies alone will equate to the entire size of the economy of Israel. What's more, according to Morgan Stanley Research, spending on data centers developing AI applications is expected to surge to nearly $3 trillion between 2025 and 2028, which would approximate the size of France's economy. Astounding!

Questions that naturally follow are: where will these companies get the money and will they generate sufficient profit to earn a positive return on their investment (ROI)? In other words, will people and businesses pay to use the AI tools being developed?

Ramp AI Index: Overall Adoption Rate

Share of U.S. businesses with paid subscriptions to AI models, platforms, and tools



Sources: Ramp AI Index, business spend data from Ramp; U.S. Census Business Trends and Outlook Survey

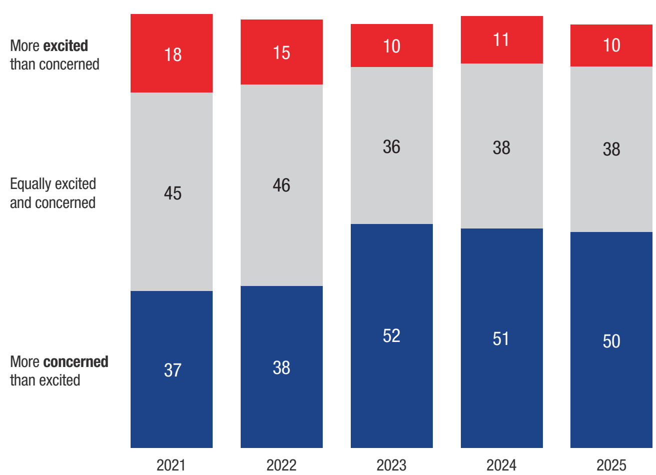
On the question of ROI, it is too early to tell, but investors have recently become focused on this question – and for good reason. We think this scrutiny will increase, and investors' reaction may not be uniformly positive.

More specifically, according to Census Bureau data, operational use of AI is still modest, but paid subscriptions are substantially higher according to the Ramp AI Index.[4] In other words, companies are exploring AI tools even if they're not integrated into their business processes yet.

Conversely, in a recent Pew Research survey, 50% of Americans said they are more concerned than excited about the increased use of AI, while only 10% say they are more excited than concerned (as shown in the chart below). This sentiment appears to have deteriorated in 2023, which follows the launch of ChatGPT in 2022, and may need to improve to spur broader adoption and thus justify continued AI infrastructure spending.

50% of American are more concerned than excited about the increased use of AI in daily life

% of U.S. adults who say the increased use of artificial intelligence (AI) in daily life makes them feel…



Note: Respondents who did not give an answer are not shown.
Source: Survey of U.S. adults conducted June 9 –15, 2025. "How Americans View AI and its Impact on People and Society" PEW Research Center

Regarding the question about sources of funds, while these numbers are amazingly large, to date, a considerable amount of the spending has been funded by each company's cash flow. That dynamic, however, has recently begun to change: as cap-ex spending estimates have expanded, an increasing amount of this spending will likely come from debt. This is an important development and further underscores the need for investors to be discerning given the consequences if the debt taken out today cannot later be repaid.

So again, is it a bubble?

The short answer: maybe, and at the very least, there is an ebullient set of expectations about the future that is buoying the current AI trade. But this might not be the biggest risk to investors.

There is no standard definition of a bubble, but history is replete with examples of innovation cycles that predictably caused boom/bust dynamics. Here's what usually happens in the typical innovation cycle[5]:

One

A new technology emerges and ultimately reaches commercial scale

Two

Companies are formed and capital is raised in hopes of capitalizing on the new technology

Three

As more capital comes in, speculation builds and valuations rise; once valuations become "excessive." a bubble is formed and malinvestment (i.e., bad decisions) usually results

Four

Ultimately the bubble bursts, but the technology remains and commonly becomes both a key driver of economic activity and ubiquitous within society

Five

Secondary innovations are spawned, frequently disrupting the initial technology; new companies are created; new jobs are formed; broader economic benefits ensue

In summary, even if the technology ends up having a massive impact, the first movers may not turn out to be good investments. Moreover, while innovation cycles are fairly well understood and tend to follow a typical pattern, no one knows the level at which "excessive" valuations become truly excessive, and no one knows how long the cycle will last.

To illustrate this point, former Federal Reserve Chairman Alan Greenspan, an avid student of business cycles, famously stated that the stock market was displaying signs of "irrational exuberance." These comments were made in December 1996, and he was justified in thinking that stocks might be expensive, for in the two years prior to his remarks, stocks had risen by more than 70%, as measured by the S&P 500 Index. Technology stocks, represented by the Nasdaq-100 Index gained even more, rising over 100%.

But with the benefit of hindsight, Greenspan's warning was premature as the S&P 500 Index go on to more than double, rising 115%, and technology stocks, would surge by more than 450% from the time of his remarks until their peak.

In short, no one knows. Still, there are some risks that need to be acknowledged, and there are some actions that investors should consider taking more than three years later.

Already, AI Is having a major impact on our financial markets. To wit, one market strategist noted that roughly 40 companies in the S&P 500 Index could be directly associated with the enablement of AI. Still, the number of companies that are or will be the adopters and beneficiaries of AI will almost assuredly be larger, but combined, these 40 companies represent 8% of the number of companies in the index. Yet given the size and the prominence of these 40 companies, they make up nearly 50% of the value of index's total market capitalization, with 460 companies making up the balance.

In other words, AI commands a sizable presence in investors' portfolios (consciously or not), and it is well on its way of being another disruptive force for society, for our economy, and for our financial markets. But as noted earlier, often times, despite the tremendous and long-lasting societal benefits that accrue from new innovations, those benefits do not guarantee positive investment returns. Given this, we believe it is paramount that investors know what they own, why they own it, how much they may be exposed to a certain market theme or narrative, and recognize their own limitations when it comes to thinking about the future.
To quote Albert Einstein: "The only thing more dangerous than ignorance is arrogance."

The Democratization of Private Markets: "Alternatives Go Mainstream"

Finally, within the financial markets and their underlying structure, another massive disruption is apparent – the ascent of private markets and the broadening investor base to whom such products are increasingly being marketed.

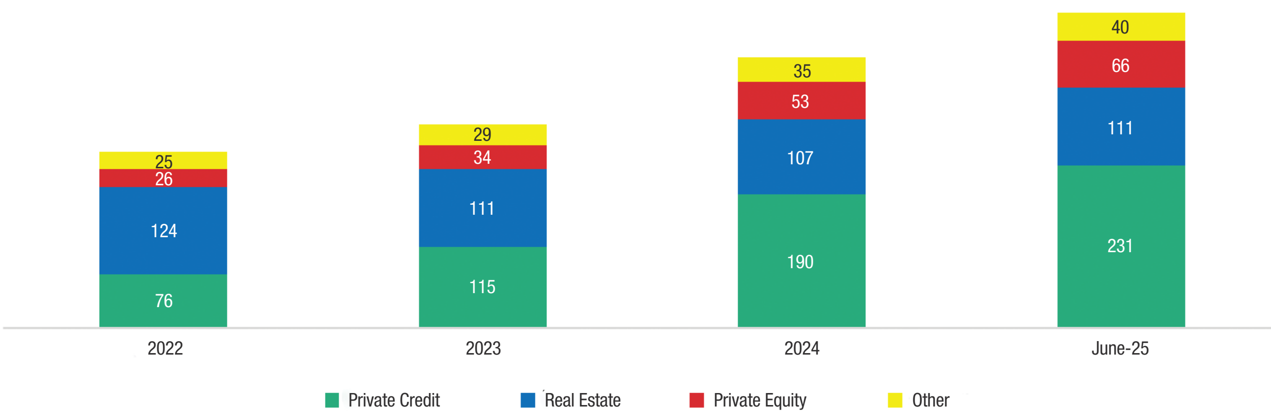
At the beginning of this century, there were more than 11,000 publicly listed companies and roughly 2,000 private equity-backed companies. In the intervening 24 years, the number of private equity-backed companies more than tripled to over 6,500, while the number of publicly traded companies shrunk to approximately 3,500. Even more astounding is the growth in assets that reside in "alternative" investments: in 2000, this investment category amounted to $1.3 trillion. Today, alternative assets exceed $20 trillion.[6]

There are myriad reasons for these trends, but the implications for investors are possibly even more significant: the investable universe of publicly traded companies has collapsed and, so with it, the investment universe has also collapsed, shirking the opportunity set and possibly reducing investors' earning potential.

Notably, such opportunities are not without risks, and in some cases, alternative investments carry considerable risks. Nevertheless, the rise of the private markets has altered the investment structure requiring investors to rethink their approach to portfolio construction, liquidity management, and risk/reward optimization.

At the same time, barriers to access alternative investments have been lowered meaningfully, fueling an oft-cited "democratization" of private markets that is further reshaping the investment landscape and causing disruption in its wake. It is imperative that investors remain informed and cognizant of this development, as not all strategies will yield favorable outcomes, and the selection of managers plays a critical role in achieving success.

Growth in Retail Alternative Investment Strategies
($ billions)



Sources: Morningstar and Pitchbook

In the following sections, we delve into two subcategories of private capital investments: private equity and private credit. Both have attracted considerable capital, and both have proven to be disruptive in their own way.

1 Please refer to our Key Wealth Economic and Investment Outlook published December 2024 for additional details.
2 Exploding Topics: Number of ChatGPT users (November 2025)
3 AI pricing: how much does Artificial Intelligence cost. https://www.future-processing.com/blog/ai-pricing-is-ai-expensive/
4 https://ramp.com/data/ai-index
5 To build this list, we leveraged a summary created by Goldman Sachs combined with as our own history and work by renowned economic Joseph Schumpeter who first categorized six waves of innovation. What is unique about this innovation cycle is the breathtaking pace at which the waves of change are occurring.
6 Alternative investments referenced here include private equity, hedge funds, private credit, private real estate and infrastructure, and natural resources. Source: JP Morgan Asset Management as of August 31, 2025.

2026 Private Equity Outlook

Private Equity's Growth Story — and Its New Frontier, Sean Poe, Director

As noted above, the private equity industry has been one of the driving forces in the shrinking of the publicly traded investment universe (and the corresponding growth in the number of private companies). What was once a cottage industry has become a cornerstone of institutional portfolios. Private equity assets under management (AUM) have grown at an 11% compounded annualized growth rate over the past 20 years, reaching more than $7 trillion.[1]

For many years, this growth made good sense. Private equity consistently generated returns above public equity markets due to a repeatable playbook: buy an underachieving business at below-market valuation using leverage, clean up the operations, and sell to the next buyer. Institutions such as pensions and endowments broadly grew allocations to private equity to take advantage of the "illiquidity premium" generated by private equity (i.e., a return of several percentage points higher than public markets).

Today, despite the growth (or perhaps, because of it), questions about the future of the industry are beginning to emerge. For one, distributions from private equity funds have run below expectations for several years, resulting in a growing balance of "dry powder" (capital that has been committed but not yet deployed). This capital overhang reflects both fundraising success and deployment challenges, as deal activity slowed amid rising interest rates, valuation mismatches, and geopolitical uncertainty.

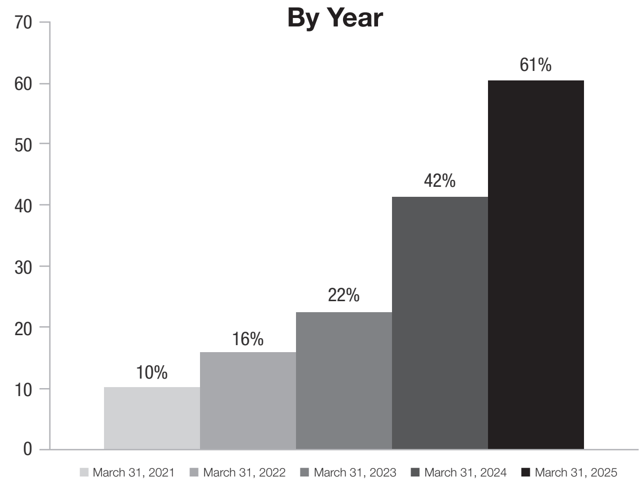
In turn, this has led to something of a logjam: institutional investors allocated heavily to private equity, distributions slowed, and they now have less cash available to reinvest in the new class of private equity funds. Faced with a difficult fundraising environment, the private equity industry has turned to the new frontier: individual investors.

Private equity goes populist

Individual investors had long been effectively blocked from allocating to private equity by regulatory hurdles and high minimum investment requirements. This began to change in June 2020 when the Department of Labor issued an information letter clarifying that private equity could be included in target-date funds (TDFs) within defined-contribution plans, provided it was part of a diversified, professionally managed portfolio. While cautious in tone, the letter signaled that PE was no longer off limits for retirement savers.

Following this, AUM growth from the individual investor base accelerated dramatically, particularly through evergreen private equity vehicles, which attempt to remove many of the pain points of investing in private equity through offering diversified exposure with lower investment minimums and a smoother subscription process in a semiliquid vehicle. As seen below, this innovation has taken hold rather quickly, with the evergreen PE space collecting $61 billion AUM as of March 2025 with significant continued growth expected in the coming years.[2]

Net Assets (U.S. $ Billions) for 16 Largest SEC Registered PE Focused Evergreen Funds By Year



Source: "Evergreens: The Tree That Never Sheds", EDHEC. https://edhecinfraprivateassets.com/wp-content/uploads/2025/10/2025_private_equity_evergreens.pdf

The drivers of this growth are worth considering. First, simple availability of new products, compounded with the guidance from the Department of Labor, attracted new assets. Beyond that, there was surely an element of FOMO ("fear of missing out") — investors who had never been able to invest in mysterious private equity suddenly found that they had access. As companies generally stay private for longer, the potential to invest in private equity presents an opportunity to diversify into a large and growing part of the overall economy.

The latest wave of creative destruction arrived in August 2025, when a presidential executive order reaffirmed the guidance in the aforementioned 2020 Department of Labor letter and directed the Department of Labor, Treasury, and SEC to actively support private investments in retirement plans. Asset managers have moved quickly to develop partnerships and offer private equity exposure in target date funds, and for good reason: the defined contribution market in the United States holds $13 trillion of assets.[3] Even a 5% allocation to private equity would represent $650 billion, a number roughly equivalent to the $602 billion allocated to global buyout private equity deals in 2024.[4] Clearly, the opportunity set is massive.

From PE to me

For individual investors, the arrival of private equity in retirement accounts may feel like a long-awaited invitation to the exclusive club. But with access comes responsibility. Unlike public equities, private equity strategies are illiquid, opaque, and expensive, and investment returns are highly manager-dependent. The dispersion between top- and bottom-quartile funds is vast — and in a democratized landscape, the burden of selection shifts closer to the investor.

That's why prudence matters more than participation. Investors should approach private equity not as a silver bullet, but as a long-term allocation that requires patience, diligence, and trust in the underlying manager. Investors must look beyond the shiny new object and ask whether a private equity allocation aligns with their goals, liquidity needs, and risk tolerance. In a world where private equity is no longer gated, the new gatekeeper is you.

1 bain-report_global-private-equity-report-2025.pdf
2 https://edhecinfraprivateassets.com/wp-content/uploads/2025/10/2025_private_equity_evergreens.pdf
3 Release: Quarterly Retirement Market Data, Second Quarter 2025 | Investment Company Institute
4 bain-report_global-private-equity-report-2025.pdf

2026 Private Credit Outlook

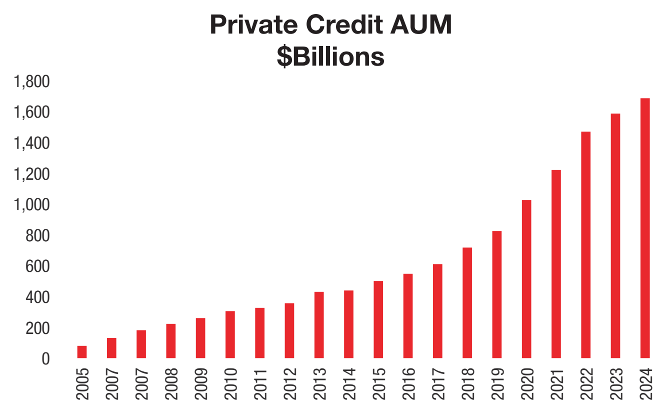
Private Credit at an Inflection Point, Ather Bajwa, Managing Director

Private credit has emerged as one of the most transformative developments in modern fixed income investing, growing rapidly over the past decade as investors seek enhanced yield, diversification, and alternatives to traditional public markets. Broadly defined as debt extended by nonbank lenders to corporate borrowers on a bilateral or small-group basis, private credit differs from public bonds and syndicated loans in that it does not trade on public markets and allows lenders to negotiate bespoke terms and maintain closer borrower relationships.

Historically, the asset class filled a niche for companies unable to access syndicated loans due to smaller financing needs, higher perceived risk, or limited market visibility. Following the global financial crisis, regulatory constraints reduced banks' capacity to lend to small — and medium-sized enterprises, creating an opening for nonbank lenders to step in with more flexible structures and fewer constraints. As the asset class matures, its evolution is reshaping how capital flows between borrowers and investors, shifting the landscape from one of aggressive growth to a more disciplined, selective, and risk-aware environment.

The rise of private credit

Over the past decade, private credit markets have experienced an extraordinary influx of capital.[1] This surge has enabled direct lenders to scale their platforms and participate in larger transactions, positioning private credit not just as a complement to public financing, but as a formidable competitor. Borrowers increasingly view private credit as a viable alternative, especially during volatile periods when execution certainty, speed, and structuring flexibility matter more than absolute cost.



Source: Financial Times, Preqin, The Wall Street Journal, cioninvestments, Key Wealth Estimates

While some issuers continue to prefer public markets for lower all-in yields, those with complex capital structures or unique financing needs turn to private lenders for bespoke solutions. In recent years, companies facing liquidity constraints or refinancing pressures have leaned on private credit to roll over maturing public debt, reinforcing the asset class's role as a critical funding source for highly leveraged or non-traditional borrowers.

The end of easy credit

Despite its impressive expansion, private credit is entering a new, more challenging phase, one marked by a recalibration of risk. Recent failures, such as those at First Brands and Tricolor, highlight vulnerabilities in monitoring, collateral validation, and accountability. These events serve as early warning signs: rising defaults, tighter liquidity conditions, and shaken investor confidence have the potential to affect both private and public credit markets, given private credit's growing scale and importance as marginal financing.

These failures signal a turning point. The era of easy money, characterized by aggressive underwriting and limited transparency, is giving way to an era defined by discipline. Credit investors, public and private alike, must refocus on fundamentals and strengthen their approach to risk management.

Emerging risks in the private credit ecosystem

- **Intense competition and spread compression**
  Private credit markets remain flush with capital, creating intense competition for deals. This dynamic has compressed spreads, weakened lender protections, and encouraged more aggressive underwriting. In a downturn, these trends could magnify credit losses and amplify systemic stress.
- **Growing use of payment-in-kind (PIK) features**
  Payment-in-kind provisions, which allow borrowers to pay interest in additional debt rather than cash, can provide short-term liquidity relief but increase leverage over time. PIK features often mask underlying financial stress and can create significant refinancing risk if economic conditions deteriorate.
- **Valuation practices**
  Private credit investments are inherently illiquid, making fair valuation complex and often subjective. Despite the use of third-party valuation firms, discrepancies in methodology can result in inconsistent pricing of similar assets. Opaque or inconsistent valuation practices undermine reported performance, hinder liquidity planning, and erode credibility. Robust, transparent, and regularly reviewed valuation policies are essential as the asset class grows.

Together, these structural risks underscore the importance of covenant discipline, consistent underwriting standards, and prudent capital deployment.

Retail investors — A new frontier

A notable recent development is the growing participation of retail investors in private credit. Asset managers have launched semiliquid vehicles such as interval funds and perpetual non-tradedbusiness development companies (BDCs) that provide periodic redemption windows to attract retail capital. These structures offer broader access and flexibility but introduce new challenges.

- **Liquidity risk**
  Unlike traditional closed-end funds, semiliquid vehicles permit ongoing redemptions, which create a potential mismatch between the liquidity of underlying assets and investor withdrawal demands.
- **Procyclicality**
  Retail flows can be more sentiment-driven, potentially amplifying cycles. In periods of market stress, redemptions may spike just as liquidity in private markets deteriorates.

To mitigate these risks, managers increasingly maintain leverage below regulatory limits and hold larger allocations to marketable securities. However, these buffers may prove insufficient during systemic stress. Effective asset-liability management, liquidity stress testing, and contingency planning will be essential as retail participation grows.

Why fundamentals matter more than ever

As private credit transitions from expansion to maturity, fundamentals must take center stage. Investors should prioritize:

Rigorous manager selection

Managers with established underwriting disciplines, consistent sourcing advantages, and proven workout capabilities will be best positioned to navigate a more volatile environment.

Disciplined underwriting

Maintaining covenants, structural protections, and reasonable leverage levels will help preserve investor capital.

Thoughtful portfolio construction

Diversification across borrower size, sector exposures, and deal structures can mitigate idiosyncratic risk in a still-developing asset class.

Private credit remains an attractive opportunity supported by strong structural demand, limited traditional bank lending, and favorable risk-adjusted return characteristics. Yet success will hinge less on rapid capital deployment and more on disciplined, selective investment practices.

20-Year Returns and Credit Loss Comparison[2]

	Annualized Returns			Annualized Credit Loss		
	5 years	10 years	20 years	5 years	10 years	20 years
Private Credit	9.55%	9.01%	9.54%	0.94%	1.04%	1.01%
High-Yield Bonds	4.21%	4.86%	6.45%	1.40%	1.45%	1.49%
Leveraged Loans	5.85%	5.06%	5.03%	0.97%	0.85%	1.02%
Aggregate Index	-0.32%	2.25%	3.47%	—	—	—

Looking ahead: From expansion to endurance

The evolution of private credit is far from complete. As the asset class continues to mature, it is poised to play an even more prominent role in global capital markets. But its future will not be defined solely by further growth. The next chapter will be about endurance anchored in transparency, quality, and long-term value creation.

For investors, the message is clear: fundamentals matter. In an environment where liquidity can tighten and defaults may rise, disciplined strategies will distinguish resilient portfolios from vulnerable ones. Private credit remains a powerful tool for yield generation and diversification, but its long-term promise will be realized only through prudent oversight, careful risk management, and a commitment to sustainable practices.

1 Financial Times, Preqin, The Wall Street Journal, cioninvestments, Key Wealth Estimates
2 Cliffwater CDLI, Key Wealth

2026 Equity Market Outlook

Steve Hoedt, Head of Equities

What will the U.S. stock market do for an encore?

After returning more than 25% during both 2023 and 2024, the S&P 500 Index looks on track to finish 2025 with an annual return near +15%, posting a third year in a row of above average returns. Many investors are asking what the U.S. stock market will do for an encore after such a good run. We think this is a fair question. While we are not huge fans of historical analogs, we continue to see the late 1990s as a good template for what investors might expect.

The late 1990s saw an accommodative Fed for a host of reasons. There were financial crises in Asia and Russia that threatened to spill over into global markets, overleveraged hedge funds such as LTCM that posed systemic risks, and who can forget the technology-driven Y2K situation. All these factors came together to produce an accommodative Fed in an economic environment in which the Fed normally would be thinking about tightening instead of loosening.

In the late 1990s, the U.S. stock market strung together five consecutive years with returns greater than 20%. We are not saying that this will happen this time; however, we do believe that it is entirely possible that the current bull market is just getting started and we see 2026 shaping up yet another solid year. Why? It comes down to both a favorable near-term macro backdrop combined with our view that the economic cycle post-pandemic has been asynchronous.

Will we see a "melt up" in 2026?

As we approach 2026, the near-term economic backdrop is a bullish one for stocks:

Monetary easing

We see 2026 as a year of change at the Fed, with an incoming new chair who will likely embrace easier monetary policy.

Fiscal pump priming

While we do not think the actual outcome of the 2026 midterm elections will materially impact the market, history tells us that the party in power will do everything in its grasp to get as much money as possible into the hands of the voters.

Regulatory relief

The administration ran on its desire to provide regulatory relief for the U.S. economy; however, its first year in office was focused on tariffs. We see banks as a prime beneficiary of a pivot toward regulatory relief, with reduced capital charges likely aimed at boosting credit availability.

Infrastructure development

Whether it is AI datacenters, factory reshoring, domestic production of critical minerals, power generation capacity, or energy transmission and distribution, we see 2026 as a year when fast tracking of these investments gets serious.

Combining all these macro factors, it is entirely possible that we could see GDP running hot by the time we get to the middle of 2026, as all of these factors are positive for economic growth. This should then equate to corporate earnings growth exceeding expectations again. We believe that this is a non-consensus view, as many are focused on the current labor market situation and "K-shaped" economy, which suggests elevated recession risks. We simply do not see it that way. In fact, if AI adoption manages to increase profit margins, then we have a material upside scenario in play, with both earnings and the PE multiple investors are willing to pay for those earnings expanding at the same time.

What happens after the change in Fed chair?

We believe that while the near-term macro scenario is bullish, it is also likely to be front-loaded in 2026. In fact, if these macro factors combine to cause inflation to run materially higher than the Fed's 2% target, then we could see the monetary policy tighten unexpectedly in the second half of 2026, even if the new chair is unabashedly dovish.

This suggests to us that the opposite of our 2025 forecast needs to be considered. In 2025, we thought that policy changes would likely drive a "down then up" market. While we may have been off on the order of magnitude, this forecast ultimately proved directionally prescient. In 2026, we think it is highly likely that the market rallies significantly in the first half of the year, followed by either a back-and-forth consolidation or pullback in the second half of the year, as the market digests tighter than expected policy.

What do you mean by an asynchronous economic cycle?

Prior to the pandemic, economic cycles followed a familiar pattern. Economic expansions would grow and mature, before rolling over into recession, which would trigger stimulus, starting the cycle over again. This led both economists and market participants to rely on time-tested rules of thumb that suggested a recession was near. Yield curve inversion, ISM survey readings below 50 and others would trigger calls for an imminent downturn. However, a recession never came. Why didn't a recession occur? We believe the answer lies directly in the response to the pandemic.

The government almost literally dropped money out of helicopters in response to the complete shutdown of the U.S. economy post-COVID. Nobody disputes that this was a necessary response to a truly unprecedented situation. What few realized was that this completely disrupted the traditional synchronization of the U.S. economy. What we saw post-pandemic was that whichever area was targeted for stimulus would see an outsized response, followed by a collapse once the stimulus was removed, and then a recovery. As the government moved from industry to industry with targeted stimulus, this led to different areas of the economy rolling over and then recovering at different times. The end result is an economy that appears steady in terms of top-line economic activity, but that suffers from constant pockets of economic weakness at the same time.

We believe that understanding this is key to figuring out how to position for 2026. Many are saying that the current economic cycle is maturing and are looking for a downturn. Our opinion is the exact opposite of this. We think that in the post-pandemic economy, this is what early cycle looks like, and we expect that the expansion has room to run. This means that any policy-driven pullback or consolidation in the second half of 2026 should be viewed as a healthy one for the market. A pause to refresh, not a nefarious bear market, is what we see.

Will the market finally broaden out?

We called for a broadening out of leadership in 2025; however, once again returns have been dominated by a handful of technology and technology-adjacent stocks. We believe that the strong near-term macro backdrop outlined earlier should lead directly to healthy earnings growth across the board, not only for technology stocks, but also everything else up and down the market cap spectrum. In our view, given how woeful the relative performance of "everything else" has been when compared to mega cap technology, we think that 2026 is finally going to see a broadening in leadership.

We see the case for cyclicals as being straightforward once again. With the Fed continuing to cut rates and deregulation moving to center stage, no sector is set to benefit more from this than Financials. Additional upside could come in the form of merger and acquisition activity. We see Industrials and Materials stocks as set to shine as well. In a world where tariffs persist and strategically secure supply chains become ever more important, there should continue to be clear winners amongst domestic manufacturers and producers across the board. We also see Energy as a winner in 2026, although we acknowledge this is a non-consensus view. While oil prices are languishing near $60, we think that fundamentals underlying global energy markets are unmistakably tightening below the surface, suggesting a much firmer price environment lies ahead. We see long-tailed value here and believe that downside is limited.

Where could we be wrong?

We have long said that accuracy in these forecasts is not our forte. This is more an exercise in understanding how wide the range of outcomes potentially might be and then assigning probabilities on those outcomes. Given this, the emphasis is not on being right, but on the process we use to arrive at our forecasts.

That said, once again we see an unexpected resurgence of inflation as the biggest threat to our relatively rosy outlook for 2026. Inflation on a global basis has remained sticky above most central bank's targets, and core inflation remains further above targets in countries where the surge in inflation during the pandemic was the largest. While 3% may be the new 2% here in the U.S., if inflation were to run materially higher than 3% in 2026, this would be cause for concern. There is a difference between allowing things to run hot and allowing things to overheat. In 2026, we might learn where this difference lies.

2026 Fixed-Income Outlook

Rajeev Sharma, Head of Fixed Income

Signals in the noise

As we look ahead to 2026, the fixed income market is at a pivotal juncture. After two years of aggressive monetary tightening followed by a pivot toward easing, investors now face a market environment characterized by moderating interest rates, stubborn inflation, evolving credit conditions, and policy uncertainty. While yields remain attractive, the challenge for market participants lies in deciphering which signals are most important amid the noise of political pressures on the U.S. Federal Reserve, structural shifts in credit markets, and macroeconomic headwinds.

Macroeconomic backdrop: Growth, inflation, and labor

Economic growth is expected to remain steady but moderate, with consensus forecasts pointing to GDP expansion of approximately 1.5% – 2.0%, reflecting tighter financial conditions and reduced fiscal stimulus. Inflation, though materially cooler than post-pandemic highs, remains a key wild card. Core measures of inflation remain sticky (and above pre-pandemic norms), particularly in services and housing, where price pressures are more difficult to dislodge. If inflation reaccelerates, the upside for yields and duration risk come back into play. Meanwhile, the labor market continues to cool, though wage pressures persist in certain sectors. This has all supported the Fed's cautious stance on monetary policy.

Fed policy and concerns on Fed independence

We expect the Fed to deliver three rate cuts in 2026, bringing the Fed Funds rate to the range of 3.0% – 3.25% by the end of 2026. However, questions around the Fed's independence and credibility have become more pronounced. Fed member turnover and political pressure have raised concerns about how monetary policy will take shape in 2026. While regional Fed presidents are insulated from direct presidential appointment, the chairman of the Fed will be appointed by the president of the United States, who has repeatedly called for faster monetary easing. For investors, this dynamic underscores concerns whether monetary policy decisions will be driven by economic data or short-term political goals. Any erosion in Fed autonomy could amplify volatility in Treasury yields and credit spreads.

Treasury markets

The U.S. yield curve has been inverted for years; however, we do expect the yield curve to normalize gradually in 2026. Long-end Treasury note yields should stabilize near 4%, while front-end yields, which are very sensitive to monetary policy, should move directly in step with Fed easing. We anticipate that elevated fiscal deficits and increased Treasury supply will continue to keep upward pressure on long-end yields. Net Treasury issuance is projected to exceed $1.5 trillion, a staggering figure that puts fiscal sustainability into question. For investors, Treasuries will continue to offer compelling income opportunities, particularly in the intermediate part of the Treasury curve, where duration risk is less punitive than in the tightening cycle of 2022 and 2023.

Credit markets

Credit markets present a more nuanced picture as credit spreads enter 2026 at multi-decade tight levels. Investors continue to find value in investment grade corporate bonds, specifically high-quality issuers that continue to benefit from resilient balance sheets. Sector differentiation will be critical in 2026, which will be a “credit-pickers” market. Defensive sectors, such as utilities and healthcare, are well positioned and offer attractive yields, while cyclical sectors may face margin compression as growth slows.

We expect investment grade corporate bond issuance in 2026 to be very strong, with overall volumes projected close to $2 trillion. Roughly one-third of outstanding investment grade bonds mature between 2026 and 2028, which will lead to active refinancing. The technology sector will likely be the largest single contributor to investment grade supply. Specifically, AI hyperscalers will be major drivers, expected to issue tens of billions in bonds to finance unprecedented AI infrastructure. These projected bond offerings should receive increased investor demand based on the high-quality nature of the issuers in the AI space.

In high yield, risks will be more pronounced as issuers face increased financing costs to manage operating expenses. Default risk is expected to rise among lower-rated issuers that are exposed to consumer credit stress, including subprime auto lenders and retail companies. Refinancing risk will be significant as rolling debt at higher coupons could strain the balance sheets of the lowest-rated issuers. BB-rated issuers, in contrast, may offer attractive yield without pronounced default risk. Active management and sector rotation will be essential to capture opportunities.

Municipal bond markets

Municipal bonds will remain a stable component of the fixed income markets. State and local governments should continue to benefit from strong tax receipts and federal support, though pension liabilities will continue to pose long-term challenges. The tax advantages of tax-exempt municipal bonds provide compelling valuations for high-net-worth investors. In addition, credit quality has remained broadly stable, and default risk remains very low. Defensive positioning remains prudent as investors can find selective opportunities in sectors tied to resilient revenues.

Global influences

For 2026, global influences will likely add another layer of complexity for the markets. Rising tensions between the U.S. and China, along with potential trade decoupling, could disrupt capital flows.

Foreign demand, particularly from Japanese and European investors, for U.S. Treasuries is expected to remain mixed due to currency hedging costs. Private-sector investors are likely to continue buying Treasuries for their liquidity and yield advantages, while global central bank demand may weaken due to diversification into other asset classes. Tariffs and immigration policies could add inflationary pressure, further discouraging some inflows into U.S. Treasuries. Any reduction in foreign demand would mean that the U.S. would need to rely more on domestic buyers and private foreign investors, which would lead to a steepening of the yield curve. Investors may need to anticipate greater volatility in Treasury yields and consider hedging strategies against foreign demand variability.

Key risks to monitor

Several defining risks stand out for the 2026 outlook. The most pressing is the potential erosion of the Fed's independence, which could undermine and destabilize markets. The Fed will face continued political pressures, board appointments, and shifting policy priorities. If the Fed is drawn closer to partisan agendas, it could face concerns about its credibility and long-term effectiveness. The loss of Fed independence could steepen the yield curve as inflation expectations would rise. For fixed income investors, it will be important to monitor Fed appointments, congressional narrative, and Fed Chair Powell's policy signals.

Fiscal stability remains a central risk, with persistent deficits and rising debt-to-GDP ratios threatening long-term sustainability. Federal deficits remain elevated due to tax cuts and spending programs. The Treasury Borrowing Advisory Committee ("TBAC") has noted that net Treasury issuance will remain heavy, which could push long-term yields higher. As yields rise, debt servicing costs increase, crowding out fiscal flexibility.

Credit stress, particularly in consumer lending and leveraged loans, could lead to widening dispersion across sectors, refinancing challenges, and stress in commercial real estate exposures. Credit risk in 2026 will be shaped less by business cycle and more by structural shifts, such as political polarization, non-bank finance growth, and technology disruption. This will make sector and issuer selection of paramount importance in the new year. Monitoring credit spreads, stress test outcomes, and liquidity signals will be critical to maintain portfolio resilience.

Conclusion

As the phrase goes: the only constant in life is change. Today, nothing could be truer, and in our view, we are currently experiencing massive disruption with three major forces impacting investors concurrently: 1) the rise of nationalism accompanied by a retreat from globalization; 2) advances in artificial intelligence; and 3) the democratization of private markets.

Moreover, these forces are closely interconnected: As artificial intelligence continues to advance and garner attention, countries are increasingly adopting nationalistic approaches to AI development, often operating independently rather than collaboratively. This has led to direct competition among countries for essential resources, including human/intellectual and physical capital. Concurrently, as investments in AI expand, participants in private markets are expected to supply the requisite capital, presenting both opportunities and risks.

The interplay of these forces is likely to result in structurally higher inflation and interest rates, potential challenges for U.S.-based assets, and increased geopolitical volatility. In this context, building resilient portfolios becomes even more critical, and we stand at the ready to support you in developing an investment strategy tailored to your needs. Please do not hesitate to let us know how we might be able to assist.

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