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Q4 2025 Recap & 2026 Outlook

Dear Friends and Investors,

We started the year on a strong note, with the portfolio up **3.28%** in the first two weeks of 2026.

Our flagship Global Macro Portfolio closed 2025 with a return of **27.2%,** significantly outperforming the S&P 500 total return of 17.9% (including dividends).

2026 Outlook & Key Themes

Market Concentration

The concentration of the S&P 500 has reached historical extremes last seen in the early 1970s and late 1990s. Notably, the average S&P 500 stock declined 27% in 2025, and the average Nasdaq stock fell nearly 50% at one point, yet the indices still posted double-digit gains.

This does not necessarily signal an imminent market reversal, but we do expect a broadening of market leadership as capital flows from hyperscalers into other sectors, driven by niche AI applications and continued AI infrastructure spending—much of which has yet to prove profitability.

We expect this transition to create higher volatility in the first half of 2026.

Leverage & Retail Positioning

Margin debt rose from 20% to nearly 40% by the end of 2025, a level that is historically unsustainable. In a volatile environment, deleveraging could amplify market moves.

Retail investors are now holding record equity exposure (approximately 70%), reflecting a prolonged absence of fear over the past 15 years. Historically, such positioning increases downside risk during prolonged corrections. While we do not expect this dynamic to culminate in 2026, it is a risk factor for 2027, which we will discuss in future updates.

IPO Supply

The IPO market is reopening, and increased supply will require substantial capital absorption—generally a headwind for equity markets. Potential mega-IPOs such as OpenAI and SpaceX could further strain liquidity.

Geopolitical & Currency Risks

The most unpredictable variable remains U.S. foreign policy under the Trump administration, which may continue to create volatility in currency markets, U.S. Treasury holdings, and foreign reserves.

Europe may contribute to currency debasement through policies involving foreign reserve confiscation (as seen with Russia), which could support non-monetary assets such as precious metals.

Macroeconomic Factors

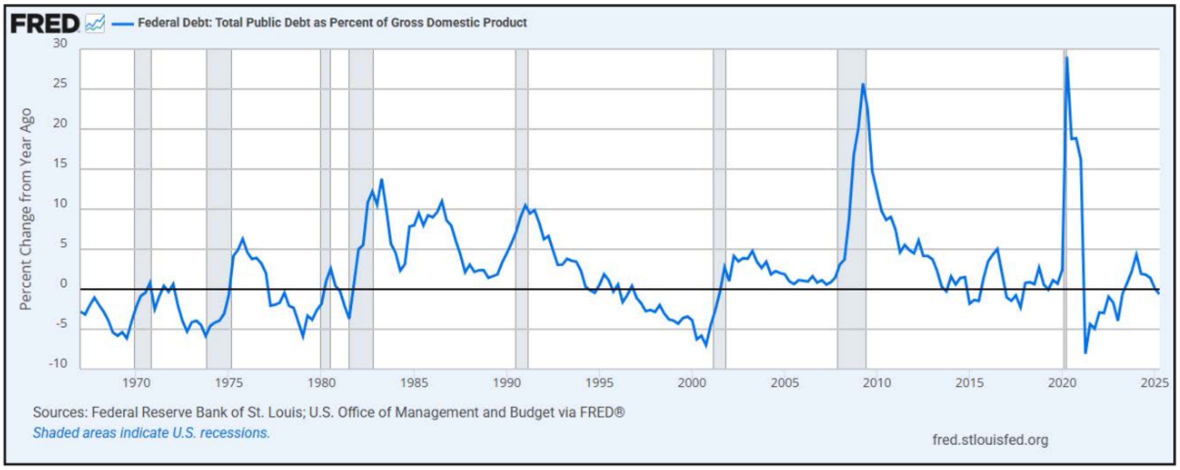
Inflation

Inflation has returned to the center of public discourse. Under Modern Monetary Theory (MMT), higher rates can be inflationary, while low rates do not necessarily drive inflation—Japan is a prime example.

Historically, equity market upswings lead inflation by approximately 15 months. We expect inflation to pick up in 2026, but at a moderate pace, which historically has been supportive for equities.

National Debt

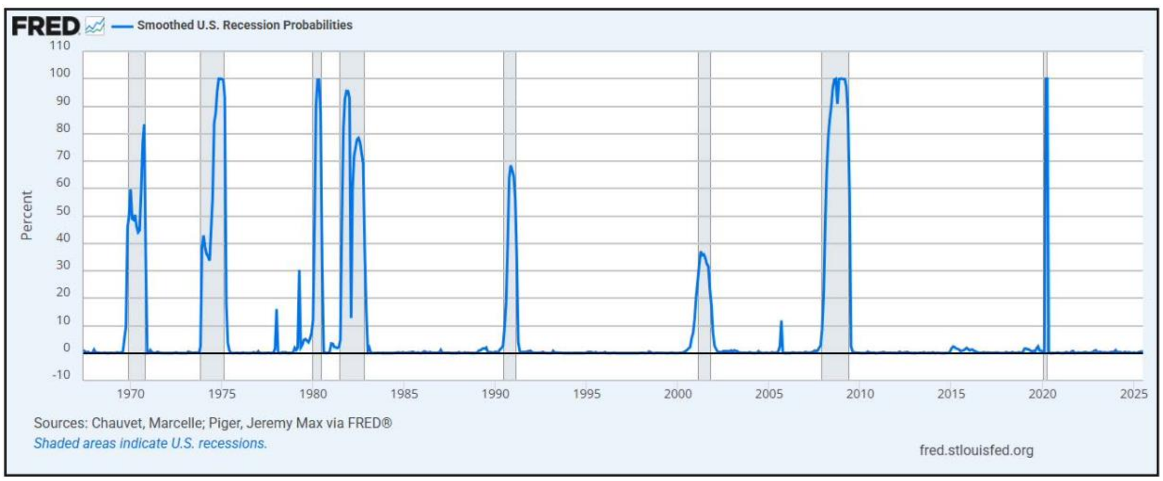
Concerns about U.S. national debt have been a recurring theme for over 30 years. However, Federal Reserve data shows that debt relative to GDP is currently declining, not rising, and remains well below historical stress levels. As shown in the chart below from Federal Reserve statistics, the current level remains low relative to GDP and is not elevated; moreover, it is on a declining trend.



Recession Outlook

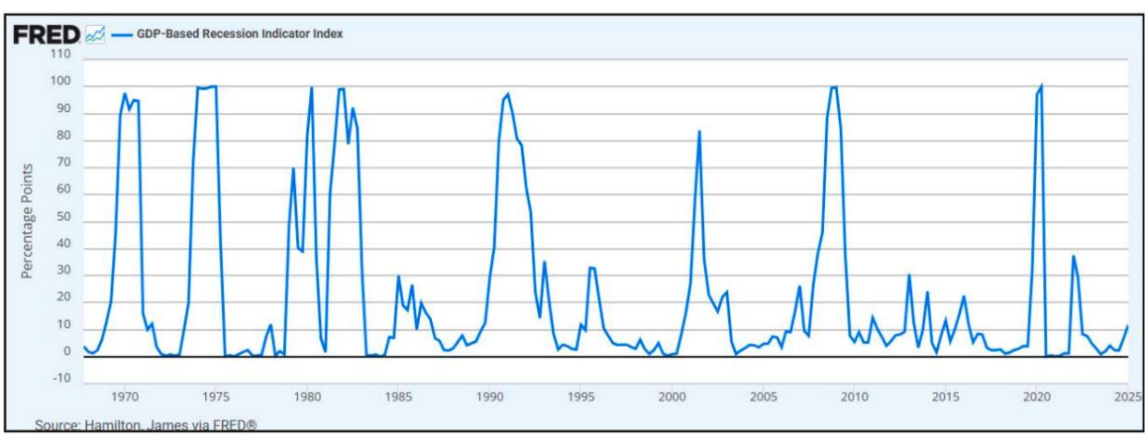
There has been considerable debate among Fed watchers suggesting that the Federal Reserve's slow pace of monetary easing could risk triggering a premature recession. Beyond the limited set of economic indicators typically cited, we rely on—and recommend—a framework that helps assess both the probability and the timing of a potential recession.

Smoothed Recession Probability (1965–2025)



The grey shaded areas indicate periods of recession, while the blue line represents the probability measure. As shown, the probability remains very low into 2026.

GDP-Based Recession Index



Historically, recessions follow when this index reaches 70+, usually accompanied by major market declines about six months later. We are currently well below that level.

Valuations & Expected Returns

We focus on Dow Jones Industrial Average valuations to gauge forward equity returns without sector distortion. One year ago, the DJIA P/E was 27, implying ~3.5% forward returns.

Today, the DJIA P/E stands at 23.15, implying ~7.5% expected returns for 2026, still below the long-term average of 10.46%.

Portfolio Positioning

We remain **conservatively** positioned, with approximately 70% exposure to equities at the start of 2026.

Since the second half of 2025, we have maintained reduced equity exposure, with minimal exposure to hyperscalers, AI infrastructure, and AI software companies.

Top Individual Holdings

WM
PFE
BA
DIS
PG
BABA
Sector Overweights
Biotech (trimmed recently)
Energy (trimmed)
Crypto-related assets
International equities: India, Brazil, Mexico, Japan

Our options and commodities strategy remain tactical and is expected to continue unchanged in the near term.

We wish you a productive and successful 2026!
Thank you for your continued trust.

Stay safe,

AXP Team
Alex Moiseev