

# Investment Outlook 2026



# INVESTMENT OUTLOOK 2026

## KEY TAKEAWAYS

- Continued momentum in both developed and emerging markets likely for 2026 though moderating from the broad double-digit returns observed in 2025.
- Focusing on the US economy, VestGen projects a 25% overall probability of an economic contraction at some point during 2026.
- Global central banks will support expansionary policies for at least the first half of 2026 but will face continued limitations on their ability to affect longer term rates given longer-term economic uncertainty.
- Localized politics will increasingly drive policies shaping currency valuation. In the US, this key driver leads to a bearish outlook on the dollar, but bullish support for JPY.

## OVERALL OUTLOOK FOR GLOBAL MARKETS

Numerous unconventional factors were introduced into the global economy in 2025, including global tariffs, unorthodox fiscal supports in the US, and moderate attempts for pension austerity in developed markets (e.g. UK). Determining which of these factors are important and which are noise was the primary activity of macro economists and investors.

The most significant trend of 2025 which is expected to continue into 2026 is the increasing role of governments and political figures in shaping their desired economic outcomes. The old adage of “don’t fight the Fed” has now been broadened to include all elected officials as normal free market boundaries have been usurped in order to accomplish specific political goals. At VestGen, this has reshaped the way we think about our forecasts to borrow more heavily from the disciplines of game theory analysis than on traditional economic indicators. In other words, we are increasingly focused on the hands that move the puppets, and less on the measurement of the strings.

With all this considered, VestGen sees continued global growth momentum across all asset classes thanks primarily to (1) the global expectation of exponentially transformative growth due to AI and (2) political will to ensure economic success that can be measured in time for all important election cycles. Market participants, while not blind to these factors, consider them to be an expansion of their safety net, which they have enjoyed from central bankers since the Global Financial Crisis.

This creates a more fragile environment for economic growth which could be threatened at any time not only by bottom-up drivers of economic production but also by curated policies designed to accomplish specific outcomes. This introduces the independent risk of a policy “error” and resulting shift in global markets as we saw with Liberation Day in the first half of 2025.

The increased influence of political leaders in economic policies will make it difficult for central bankers to independently optimize for a dual mandate of full employment and inflation management with the inevitable result being increased weighing of the former at the expense of the latter. Historical analysis of the Phillips Curve relationship shows that the trade-off between unemployment and inflation becomes particularly unstable during periods of heightened political intervention.<sup>2</sup>

# INVESTMENT OUTLOOK 2026

## SCENARIO MODELING FOR THE GLOBAL ECONOMY

We see the following scenarios for 2026:

Scenario	Probability	Description
<b>EXPANSIONARY</b>		
<b>AI Delivers Ahead of Schedule</b>	15%	Further amplification of the AI trend with meaningful proof points of both the magnitude and the certainty of schedule by which GDP may be lifted through these technologies.
<b>Broadening of Growth</b>	25%	AI continues to deliver enough to be seen as real but not so much as to suggest that its growth continues to accelerate faster than the ability of future customers to consume it. An expected future emerges where competition within AI results in reduction of economic rents. As with all innovation, pricing premiums collapse with adoption and traditional sectors begin to catch up. More of the economic value is expected to be captured by established sectors with an expectation of competition in AI and industry-specific knowledge being seen as key to productivity application as technology becomes more commoditized.
<b>Painkillers and Stimulants</b>	35%	As AI growth story loses steam, central bankers step in to medicate the economy with a mix of cocktails that proves effective (at least in 2026). In the US, this is a pull-out-all-the-stops effort to post stock market and GDP gains in advance of the November election but sets up a hangover in 2027+
<b>CONTRACTIONARY</b>		
<b>Pushing on a Rope</b>	15%	Similar to the prior scenario, but in this one, fiscal dominance overrides monetary policy and central bankers and politicians find that the words 'Whatever it takes' are no longer persuasive. Global growth limps into a mild recession in 2H 2026.
<b>Deleveraging in DM</b>	10%	The concentration of growth due to AI unwinds quickly and central bankers in Developed Markets either respond too slowly or are powerless to avoid the correction. Their efforts expose the underbelly of overleveraging in both corporate and national balance sheets, triggering debt monetization and capital flight.

## ECONOMIC OUTLOOK



The US enters 2026 looking surprisingly stable, at least on the headline numbers. After a 0.5% contraction in GDP in Q1 of 2025, US growth rebounded with 3.8% and 4.3% readings in the second and third quarters, respectively, and will likely clock in at 2.5% or better in Q4. 2.25%-2.5% GDP growth in 2026 is a reasonable expectation for the US economy as AI investment acts as a counterweight to stagflationary pressures driven by tariffs, immigration restrictions, and the aging domestic labor force. While it appears likely that the US will avoid a 2026 recession, the stakes are rising for the Fed and government policymakers to balance the dual mandate of inflation and employment to prevent larger headaches from emerging thereafter.

On the inflation front, 2025 was an eventful journey to nowhere, with the Core Personal Consumption Expenditure (PCE) starting the year at 2.8% and ending at the same spot as of September 2025. While the shutdown-delayed data may show further easing, the validity of that data has come under scrutiny, making the Fed's mandate of price stability more difficult than ever. Anecdotally, prices are noticeably higher across most components for consumers, with groceries and healthcare costs commonly cited as impacting household budgets.

If inflation data does cool during the final quarter of 2025 and into 2026, the likely cause will be a deceleration in the shelter component. The Bureau of Labor Statistics received a healthy dose of skepticism for reporting a 0% rate of inflation for shelter in its October Consumer Price Index calculation, citing missing survey data during the government shutdown. Yet, flat shelter inflation is more consistent with the real-time price indices from private sources such as Zillow and Apartmentlist, which track current month asking rents on new leases signed. The BLS, on the other hand, relies on surveys of housing units conducted every six months, which results in considerable lag since most leases are for at least a year. The true rate of shelter inflation likely lies somewhere in between the new-lease rate of -1.1% and the BLS reading of +3.0%.

While the Fed has repeatedly pushed back on the suggestion that perhaps 2% inflation is an unattainable target, it has shown an increased acceptance of sticky inflation and clearly views labor market weakness as the greater present evil. That stance enabled three 2025 rate cuts despite the lack of progress in bringing down prices. Unemployment accelerated in 2025 from 4.0% in January to 4.6% in November as hiring has cooled significantly. Thus far, manufacturing has not shown any signs of a reshoring renaissance from tariffs; rather, the manufacturing sector has contracted by 76,000 jobs year-over-year through November 2025.

A shortage of skilled labor, higher inputs costs due to tariffs, and a shift away from human capital and towards automation and robotics are all variables weighing on the jobs market heading into 2026. Fed officials have only penciled in one 25 basis point cut as the median projection in their "dot plot" forecast, but we view that as unlikely given the priority being placed on unemployment over inflation. In addition, the rotation of voting members should skew the Fed more dovish, and President Trump has openly stated his intention of appointing a loyalist to the Fed Chair seat. Market expectations call for two cuts, but we believe three to four could be on the table for 2026 if markets sputter before mid-term elections.

# INVESTMENT OUTLOOK 2026

## ASSET CLASS, REGIONAL, AND SECTOR OUTLOOKS

### EQUITIES

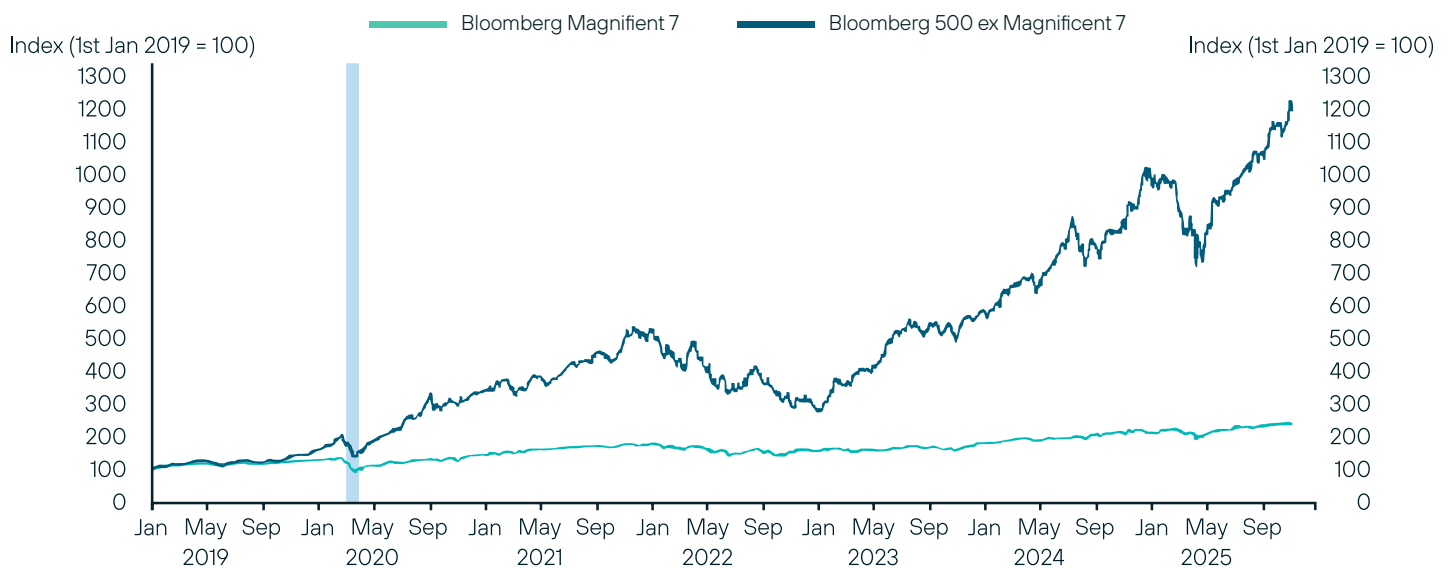
Our outlook remains positive for equities generally with a blended forecast of double-digit growth. Ironically, the decoupling of global economic collaboration which was accelerated by Liberation Day has been driven by increasing competition between nations, amplifying policies for growth as the stakes for winning the war for AI and in other industries creates a dynamic of weaponizing their local economies in an escalating economic cold war.

Historical analysis reveals that during previous periods of heightened trade tensions (1930s, 1970s, 2018-2019), equity markets initially rallied on domestic stimulus but faced subsequent corrections averaging 15-20% when trade disruptions impacted earnings.<sup>3</sup>

In the longer term, these dynamics are likely to slow global growth, but in the near term the stimulus associated with winning at all costs is constructive to economic growth and resulting global equity prices.

### US Equities

US stocks are coming off three consecutive years of double-digit returns, a rarity that has only occurred six times since the 1940s. VestGen believes that the AI momentum which has carried markets in 2025 will broaden in 2026 with a greater number of market participants being able to benefit in the growth coming from AI. The Russell 1000 concentration ratio (top 10 holdings as percentage of total market cap) reached 32.4% in 2025, exceeding the 2000 Technology Bubble peak of 29.8%.<sup>4</sup> This extreme concentration suggests mean reversion opportunities as growth broadens.



Sources: Bloomberg, Macrobond, Apollo Chief Economist

# INVESTMENT OUTLOOK 2026

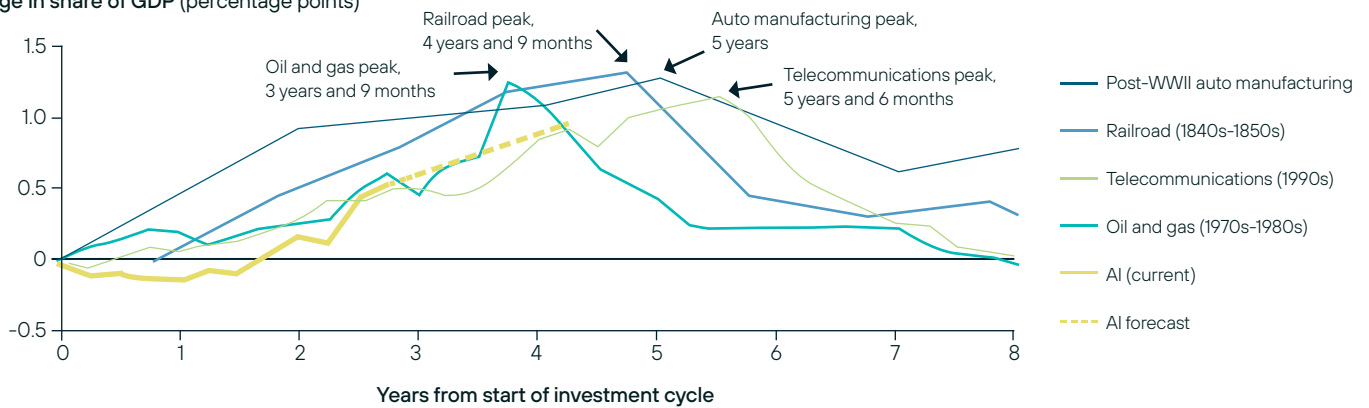
Ultimately this should further drive a narrowing of the divide between growth rates of AI and traditional companies as either (a) the promise of AI begins to deliver and additional industries participate or (b) the journey promised by AI turns out to be slower than anticipated.

Historical analysis of technology adoption cycles shows that the gap between early adopter returns and broader market returns typically compresses 24-36 months after peak concentration. During the Internet adoption phase (1998-2003), the spread between technology sector returns and S&P 500 returns compressed from +87% to -12% over a 30-month period.<sup>5</sup>

Vanguard did a nice job recently overlaying GDP growth resulting from capital investments from various innovation booms with the GDP growth observed from AI. Notably the AI boom is below the growth from other cycles so far, suggesting either that productivity gains have yet to materialize or that measurement challenges obscure the full impact.<sup>6</sup>

## The investment cycle is tracking historic capital buildouts

Change in share of GDP (percentage points)



Notes: This chart shows the change in the total size of different investment cycles as a share of real GDP. The period starting points are: Q1 1850 for railroad, Q1 1946 for post-WWII auto manufacturing, Q1 1980 for oil and gas, Q2 1995 for telecommunications, and Q3 2022 for AI (current).  
Sources: Vanguard calculations, based on data from the Bureau of Economic Analysis, as of October 31, 2025. Railroad data are sourced from Pereira et al. (2014).

The AI revolution narrative still appears to be in play, however as the first wave, market-leading mega-caps which were primarily the semiconductors and hyperscalers were the initial beneficiaries, followed by the utilities powering the datacenters, and now logistics-focused firms that are putting the new tools to use in innovative ways. Getting AI costs down will be crucial to mass adoption and a broadening out to other sectors and smaller market cap stocks, otherwise AI will become a "winner-takes-all" scenario in which the largest, most well-capitalized firms further widen their competitive advantages.

Major Wall Street firm year-end price targets for the S&P 500 range from 7,100 (Bank of America) to 8,100 (Oppenheimer), with the consensus forecast calling for a 10% gain. With so many variables at play, the dispersion among forecasts is higher than in recent years, but we believe the political environment represents a "Trump card" (pun intended) that puts the higher end of forecasts within attainability.

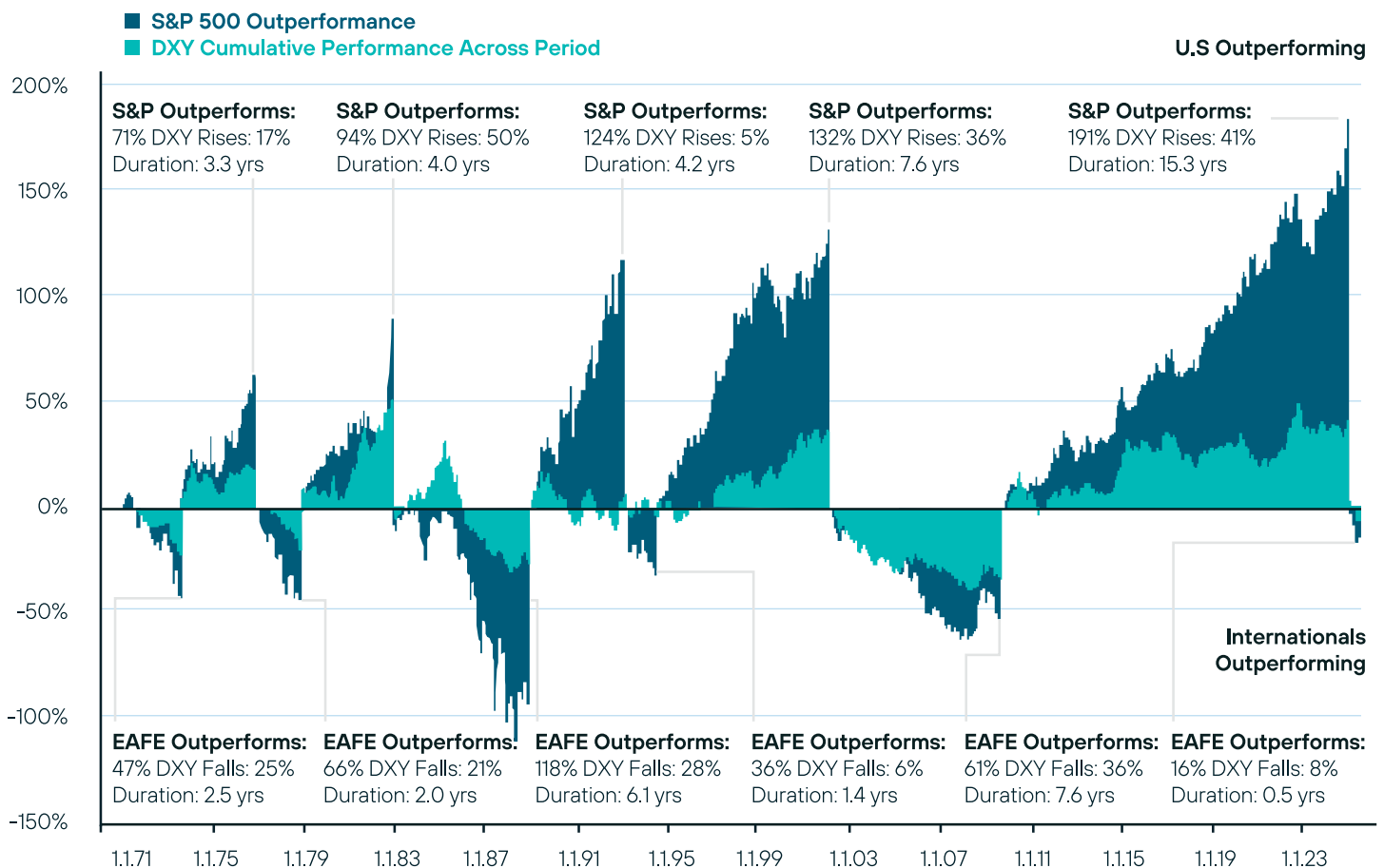
# INVESTMENT OUTLOOK 2026

## International Equities

The surprise of Liberation Day was felt around the world in April 2025. In the near term, this has brought a new source of revenue for the US, though the beneficiaries have (ironically) really been in other developed markets. In Europe in particular, the Offense of Trump has led to a mobilization of sentiment that may reshape the way countries operate.

Historical currency analysis demonstrates that periods of US dollar weakness (1985-1987, 2002-2008) corresponded with International Developed Markets outperformance of 4.2% and 6.8% annualized respectively.<sup>7</sup> The Dollar Index (DXY) trade-weighted basket suggests continued weakness with technical support levels broken at 98.5.

S&P 500 vs MSCI EAFE Outperformance and DXY Index



Source: Johnson Financial Group, Bloomberg, Data as of June 6, 2025

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VestGen believes there are several forces at work that are likely to lead to greater growth in international markets. First, a continued weakening of the US dollar is expected to have a direct positive effect on the price of international equities for US investors. Currency translation effects typically account for 30-40% of total international equity returns for US-based investors.<sup>8</sup>

Second, the delegation of authority to the EU has reversed and individual countries are beginning to step forward to take control of their own situations and begin to look at countries like Italy as an example. Germany's 500-billion-euro infrastructure modernization project is designed to attract private sector investment as well, particularly in the energy sector.

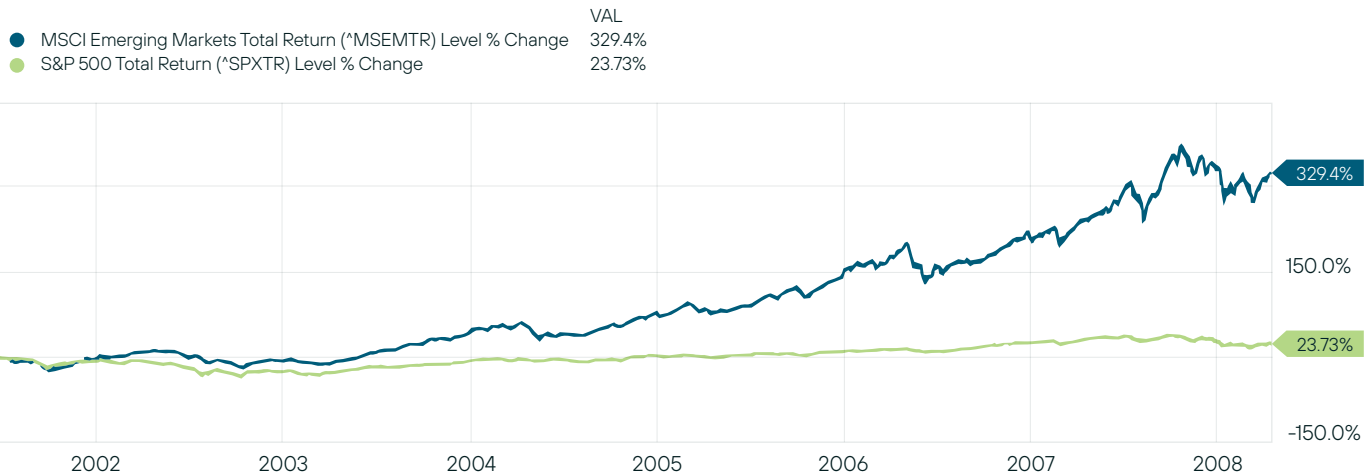
Nonetheless, a number of weaknesses need to be navigated. The fiscal challenges that exist in the US are also present throughout developed markets. Pension reform and other forms of austerity will have selective effects on specific economies. Debt-to-GDP ratios in major European economies average 98%, compared to 123% for the US.<sup>9</sup>

Looking beyond Europe, Japanese reforms triggered a wave of investor excitement in 2025 which should carry forward as corporate reforms accelerate share buybacks, dividend hikes, and other initiatives to boost return on equity. Even after the impressive 29% run up of the Nikkei 225 last year, Japanese stocks trade at a forward multiple of just 16.1x earnings. As the BOJ continues its path towards monetary normalization, Japanese financial sector stocks are well positioned to collect higher net interest margins, while the broader market should also benefit from repatriation and the unwind of the carry trade.

## EMERGING MARKETS

Even more than International equities, Emerging Markets have been largely excluded in the growth in equities over the past decade. The MSCI Emerging Markets Index has underperformed the S&P 500 by 182 percentage points cumulatively over the 2015-2025 period, marking the second-longest period of sustained underperformance in the 35-year history of the index.<sup>10</sup>

However, one needs only to look back to the 2003-2008 period to see the potential of growth in this asset class during the last environment of secular decline in USD. During this period, Emerging Markets outperformed US equities by 13.2% annualized, driven by commodity price appreciation (+215% for CRB Index) and dollar depreciation (-25% for DXY Index).<sup>11</sup>



Fiscal challenges that are not yet fully priced in for developed markets are more directly embedded in the valuation of equities in most of these markets. The forward P/E ratio for MSCI Emerging Markets currently stands at 12.3x versus 20.8x for the S&P 500, representing a 41% discount that exceeds the 10-year average discount of 35%.<sup>12</sup>

Moreover, with global commodity prices near decade lows, other emerging markets may be able to participate in global economic growth if we experience an expansion in these prices as well. The Bloomberg Commodity Index trades at a 28% discount to its 20-year inflation-adjusted average.<sup>13</sup>

The early-2026 US incursion into Venezuela could be the catalyst for a global race to hoard commodities as nations view critical

minerals and energy sources as vital to their survival. We anticipate that developing nations will begin physically holding resources (Oil, Grain, Copper) within domestic borders to withstand potential naval blockades or trade embargoes, effectively removing supply from the global open market. For commodity-rich EM nations, inviting foreign corporations in may prove more appealing than waiting for the destroyers to show up on the shore.

However, even without more global de-coupling, a hiccup in the US equities markets will likely reverberate even more loudly in EM. While the changing global trade landscape is tending to reduce this correlation, markets will be cautious until proven otherwise.

The 90-day rolling correlation between S&P 500 and MSCI EM has declined from 0.89 (2020) to 0.67 (current) but remains elevated by historical standards.<sup>14</sup>

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## RATES

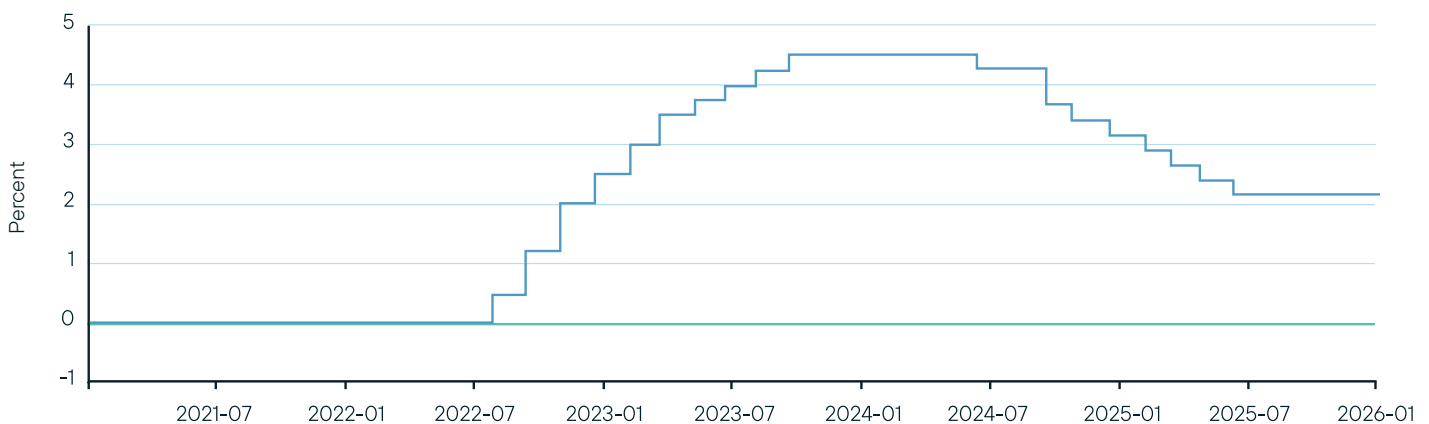
After a decade of earning negative real returns from 2013-2022, US Treasuries are now finally priced to generate a nominal return in excess of inflation. The 10-year US Treasury yield of 4.2% compares favorably to core CPI inflation of 3.2%, providing a positive real yield of approximately 100 basis points, the first sustained positive real yield environment since 2018.<sup>15</sup>

Recent rate cuts in 4Q 2025 have done little to move long-term bonds lower, suggesting that a mix of upcoming debt refinancings and persistent inflation concerns continue to pressure yields.

The Federal Reserve has cut the Fed Funds rate by 75 basis points since September 2025, yet 10-year yields have risen 22 basis points over the same period.<sup>16</sup>

The ECB pattern of rate cuts is instructive regarding what the Fed might do. The European Central Bank has cut rates by 150 basis points over the past 18 months, yet the German 10-year Bund has traded in a narrow 2.15-2.45% range, suggesting limited transmission to long-term rates<sup>17</sup>

— ECB Main Refinancing Operations Rate: Fixed Rate Tenders for Euro Area



Data Source: European Central Bank via FRED®

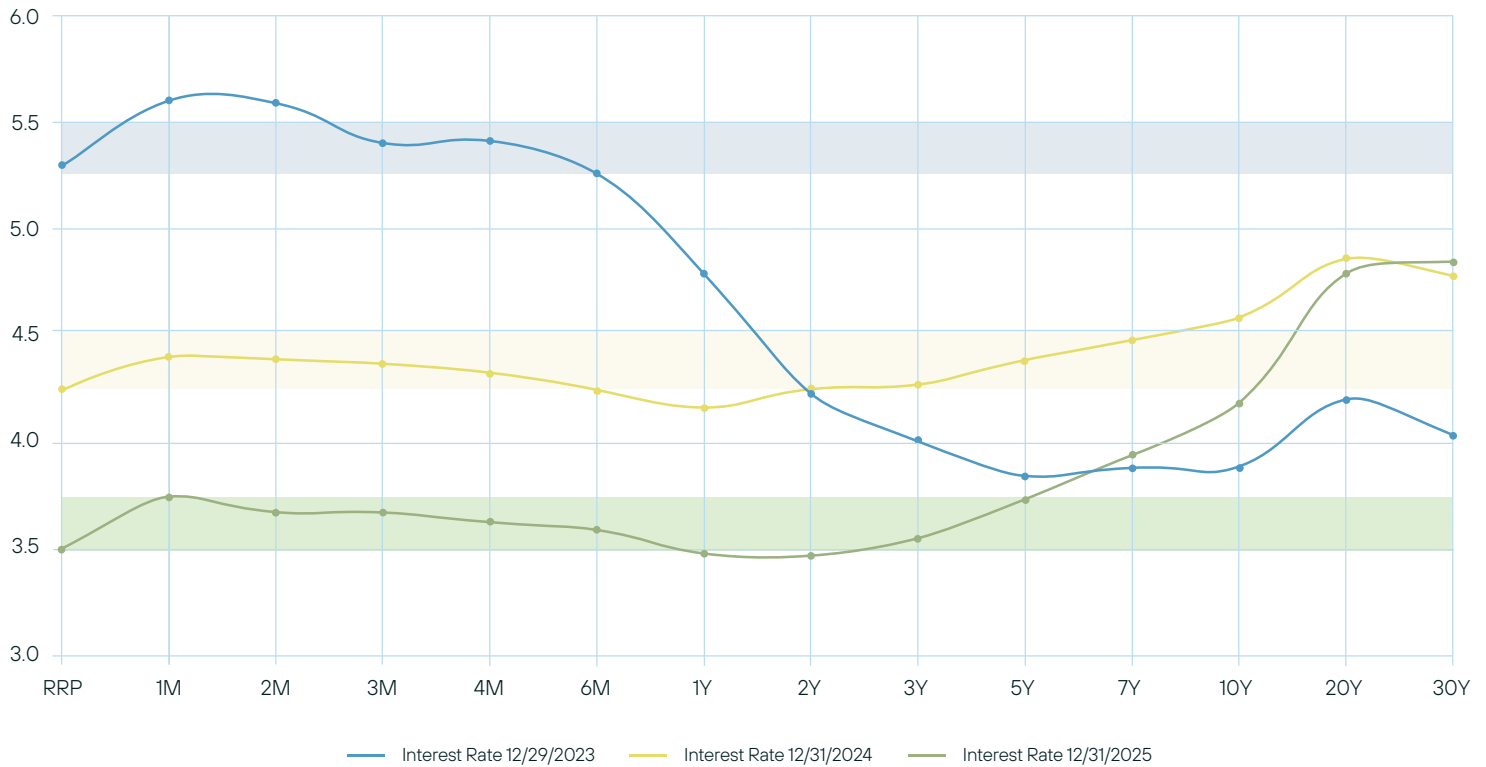
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However, the Fed's current rate cuts have resulted more in shifting the rate curve than in lowering the all-important 10-year borrowing costs. The 2-year/10-year Treasury spread has steepened from -85 basis points in July 2025 to +35 basis points currently, representing a 120-basis point shift in curve morphology.<sup>18</sup> New and existing homeowners hoping for a return to 3% mortgages will be disappointed as rates will more likely settle around the 6% level, which is consistent with historical norms. Given that approximately 80% of US mortgage holders have interest rates below 5%, a "lock-in effect" has created a disincentive to relocating or refinancing. This dynamic removes the prepayment risk from deep-discount, legacy mortgage-backed securities (MBS), as even a 1% decline in interest rates would not trigger refinancing, thus making them a relatively attractive alternative to Treasury bonds. Although future Fed rate cuts are likely to fail to reduce mortgage rates, we cannot rule out quantitative easing, in the form of MBS purchases, as the Trump administration desperately seeks a remedy to the housing affordability issue.

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The steepening of the yield curve will likely force bond investors who have enjoyed near 5% rates on money-market funds further down the yield curve, with the “belly” of the curve (5-7 years) offering the opportunity to lock in yields of roughly 4%. The appeal of longer-term maturity Treasury bonds remains limited by political dysfunction and spending, with another government funding deadline looming January 30<sup>th</sup>.

## US Treasury Yield Curve Evolution: Steepening Trend



Data Source: US Treasury Department

Japan’s move to raise its interest rates in an effort to support its own currency may complicate US efforts to drive economic stimulation, while at the same time seeking to remain attractive to purchasers of longer dated US debt. The Bank of Japan has raised rates from -0.1% to 0.5%, marking the first tightening cycle in 17 years and potentially reducing Japanese institutional demand for US Treasuries.<sup>19</sup>



## F/X AND STORE OF VALUE ASSETS

VestGen Investments launched its Real Return strategies in 2025 in response to the need to navigate a market environment that is both bearish on the dollar and one in which inflation is more of a factor in evaluating true gains in the context of purchasing power. Over the longer term, these forces are critical in understanding returns and planning for expenses over multiple generations.

Since developed markets face broadly similar considerations regarding their need to support their debt levels, we believe it is prudent to hold a store of value asset as a tactical hedge against some of these developments. In 2025 our hedge of Gold was effective, with gold appreciating 27.3% in USD terms while providing negative correlation (-0.31) to the S&P 500 during drawdown periods.<sup>20</sup>



## Digital Assets

We also see Bitcoin as a less in favor alternative store of value that also tends to participate in growth rallies as well. Bitcoin's 365-day correlation to gold has increased from 0.08 to 0.42 over the past 24 months, suggesting increasing acceptance as a macro hedge.<sup>21</sup> However, Bitcoin's volatility (80% annualized) remains substantially higher than gold (15% annualized), making position sizing critical.

Analyst predictions for Bitcoin were severely overly optimistic. With BTC ending 2025 below 90k, the predictions for 2025 YE pricing were significantly "off":

- JP Morgan: \$165,000
- FundStrat: \$200,000-\$250,000
- Standard Charter \$200,000
- Sanford Bernstein \$200,000

These forecasts were based on the continuing institutional and ETF adoption of Bitcoin and a general view of momentum regarding ongoing price appreciation and the technical analysis associated with price momentum following halving (or the time that the dividend paid to miners for producing a Bitcoin went in half).

The forecasts above were consistent with an expectation that Bitcoin would enjoy the same technical price appreciation as in the past. This did not happen in 2H 2025, leading some of the early owners of BTC to sell their holdings.

However, this change in BTC behavior is consistent with what we perceive as a metamorphosis in the value proposition of BTC from a speculative investment to a store of value in a pro-inflationary cycle. We see this stabilization as largely being worked out in 2025 and anticipate a more "commodity-like" return pattern in 2026 while still maintaining some of its pro-growth correlation, particularly for more aggressive allocations.

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## Gold

Gold posted its strongest annual performance since 1979 in 2025, surging over 64% to close near \$4,467 per ounce amid a confluence of structural and cyclical drivers. Central banks accumulated approximately 700-800 tonnes in 2025, extending the post-2022 elevated purchasing regime as emerging markets accelerated de-dollarization. The Federal Reserve's easing cycle compressed real yields and supported safe-haven demand against a backdrop of heightened geopolitical tensions, including conflicts in Ukraine, the Middle East, and recent developments in Venezuela. Private investment flows also accelerated, with substantial ETF inflows underscoring gold's repricing as a core component of the global monetary architecture. As of January 7, 2026, spot gold trades around \$4,467 per ounce, consolidating below the December record high of \$4,550, with the 10-year US Treasury yield at approximately 4.15%.

Looking ahead to 2026, VestGen retains an Overweight stance with a year-end price target of \$4,800-\$5,200 per ounce (base case: \$5,000), implying 7-16% upside from current levels. Structural pillars—including sustained central bank purchases (~70-80 tonnes monthly, ~900 tonnes annually), potential acceleration in ETF and retail inflows, persistent fiscal deficits, sticky inflation at 2.5-2.8%, and elevated equity valuations—remain firmly in place and are likely to be amplified by modestly declining real yields amid expected Fed easing of 38-63 basis points through year-end. Gold's 149% rally from \$1,800 in early 2022 represents a fundamental repricing of the metal's role in the global monetary system, positioning gold as an attractive hedge in a high-uncertainty environment. Near-term pullbacks toward \$4,300-\$4,400 should be viewed as buying opportunities, with VestGen's structural support floor reset above \$4,000 per ounce.



## CREDIT (PUBLIC)

Spreads have continued to narrow in 2025 as the risk-on environment has included a re-allocation from sovereign to corporate credit risk in fixed income markets. As we enter 2026, initial yields are 35 bps lower than at the start of 2025 and 130 bps below the cycle highs observed in October 2023.<sup>22</sup> This will continue to drive demand for credit from a broad spectrum of companies but suggests that returns available to investors in this space may be moderating.

The ICE BofA US Corporate Index Option-Adjusted Spread currently stands at 92 basis points, compared to the 25-year median of 135 basis points, placing current spreads at the 23rd percentile of the historical distribution.<sup>23</sup> Default rates for US high yield bonds remain subdued at 1.8%, well below the long-term average of 3.2%.<sup>24</sup>

US corporations enjoyed cheap debt coming off the pandemic but now face a refinancing reckoning as a maturity wall of \$880 billion in investment grade bonds, \$250 billion in high yield bonds, and \$300 billion in leveraged loans come due in 2026. Interest coverage ratios will likely be strained, particularly for the weaker, "zombie" high yield borrowers, as net interest expenses nearly double on debt refinancing.



## PRIVATE CREDIT

Spreads in Private Credit relative to Public counterparts remain relatively flat compared to historical standards. The spread premium for private credit over comparable public instruments currently averages 180-220 basis points, compared to a 10-year average of 250 basis points.<sup>25</sup>

Evidence shows that covenant defaults are increasing across all size categories of investments. Covenant-lite loan issuance reached 89% of the leveraged loan market in 2025, up from 75% in 2023, reducing investor protections.<sup>26</sup> Payment-in-kind (PIK) toggle incidence has increased from 12% to 18% of private credit deals, signaling potential cash flow stress among borrowers.

This may affect possible opportunities for re-entry and spread widening. Historical analysis shows that covenant deterioration periods historically preceded spread widening by 12-18 months as the market reprices credit risk.<sup>27</sup>

## REAL ESTATE AND INFRASTRUCTURE

Opportunities in Real Estate and Infrastructure continue to face headwinds from higher than recent borrowing costs as capital projects (not related to data centers) struggle to gain access to capital. Commercial real estate property values have declined 15% from 2022 peaks, with office properties down 28% while industrial and multifamily show relative resilience (-8% and -5% respectively).<sup>28</sup>

Real Estate has seen further challenges for retail adoption due to the overhang of office vacancy and difficulty for individual investors to isolate investment opportunities by sector. Office vacancy rates in major US markets averaged 19.6% in Q4 2025, the highest level since 1991.<sup>29</sup> Some of this is being solved through product innovation, including sector-specific REITs and interval funds providing more targeted exposure.

Cap rate spreads over 10-year Treasuries have widened to 245 basis points (current) from 185 basis points (2021 average), suggesting improved relative value despite absolute yield challenges.<sup>30</sup>

## FINAL THOUGHTS

Market outperformance in 2025 was significant but most highly concentrated in the few hyperscaler names tied directly to the AI trade. Our base case continues to be bullish for 2026 but with the expectation that the diminishment of uncertainty in global tariffs will favor broader participation in growth.

Dollar devaluation is likely to continue as President Trump focuses on his dream of re-establishing growth from manufacturing in the United States. Dollar devaluation will more than mitigate capital flight due to geopolitical tensions. Historical precedent from the Plaza Accord period (1985-1987) demonstrates that coordinated dollar weakening can support manufacturing competitiveness while maintaining investor confidence if executed gradually.<sup>31</sup>

Global tensions and possibilities for shocks to the market abound. Conflicts and rumors of conflicts that used to rattle markets are now quickly absorbed and discounted by battle-hardened investors. The VIX Index has averaged just 15.2 in 2025 compared to 19.4 over the past 30 years, suggesting complacency despite elevated geopolitical risks.<sup>32</sup>

Perhaps of more concern, however, are brewing domestic tensions fueled by the K-shaped recovery as prices of capital have appreciated significantly but labor rates have not. This has led to increased wealth concentration in the US and other developed markets creating room for more distributive economic policies and new sources of taxes in support of distributive wealth policies that are generally negative for asset prices. Tariffs have functioned as a regressive form of taxation on the lower- and middle-classes, as the cost of necessities occupies an ever-increasing proportion of household spending.

The wealth share of the top 1% in the US has increased from 23% (2000) to 32% (2025), while median real wage growth has lagged asset price appreciation by 180 percentage points over this period.<sup>33</sup> Historical analysis of similar wealth concentration periods (1920s, late 19th century) suggests elevated risk of policy shifts toward wealth redistribution mechanisms including higher marginal tax rates, wealth taxes, or enhanced estate taxation.

Despite these challenges, the escalating political stakes of the mid-term elections suggest that the Trump administration will pull out all stops to propel markets higher, possibly sacrificing long-term stability for a short-term win. While dissent at the Fed has increased, the central bank will likely fall in line and deliver multiple rate cuts as the market expects. The impact of tax cuts will also provide more fuel for markets, along with further disbursement of funds from the CHIPS Act, and over \$1 trillion flowing to military contractors. The path higher may not be entirely smooth, but markets look poised for one more run.

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