

ATLAS MERDIAN INVESTMENT OUTLOOK

2026 Market Outlook

Balanced Optimism in an Era of Transformation

December 2025

For Institutional Use Only



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Executive Summary

OUR BASE CASE

We anticipate continued economic expansion with U.S. GDP growth around 2%, supported by fiscal stimulus, Fed easing, and sustained AI investment. While valuations remain elevated, earnings breadth is improving.

KEY CONVICTION

"The AI-driven rally has room to run, but 2026 rewards diversification as earnings growth broadens beyond mega-cap tech."

2026 FORECASTS

~2%

U.S. GDP Growth

2.5-3%

CPI Inflation

3-3.5%

Fed Funds Target

4-4.5%

10-Yr Treasury

~14%

S&P 500 EPS Growth

OW

Equities vs Bonds

POSITIONING: Maintain growth tilt with diversified exposure across U.S. large & mid-cap, international developed markets, and select emerging markets. Favor quality across all allocations.

Source: Atlas Research. Forecasts are not guaranteed.



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Five Defining Themes for 2026



AI Drives Growth

Continued hyperscaler CapEx sustains economic momentum. 92% of H1 2025 GDP growth tied to AI spending—the show must go on.



Earnings Breadth

Double-digit growth expected across 8 of 11 S&P sectors. Materials, Industrials, and Financials emerge as growth contributors.



Policy Divergence

Fed continues easing while ECB holds and BoJ tightens. Fiscal stimulus varies: EU defense spending, U.S. tax cuts, Japan's "Sanaeconomics."



Dollar Softness

Narrowing yield advantage and policy shifts drive flat-to-weaker dollar. Tailwind for international equities and EM assets.



Fiscal Stress Rising

U.S. debt service exceeds defense budget. Moody's downgrade signals risks. Bond vigilantes remain a threat across developed markets.

ATLAS VIEW: These themes create an environment that rewards diversification and nimbleness. While AI remains the primary growth engine, we see opportunities broadening across sectors and geographies. Quality and selectivity matter more than ever.

Source: Atlas Research



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U.S. Economic Outlook

Goldilocks growth persists amid crosscurrents

GDP COMPOSITION & OUTLOOK

Moderate growth expected. Tax refunds (\$150B) boost Q1. K-shaped bifurcation persists with top 10% driving 49% of spending.

AI CapEx continues to drive investment. Tax incentives from OBBBA support R&D and property investment. Critical for productivity.

Mixed impact. Estate tax cuts have lower multiplier effects. Reduced infrastructure spending a modest headwind.

~2%

2026 GDP Forecast

4.5%

Unemployment Est.

TAILWINDS

Tax cuts boosting household refunds and business investment incentives
Fed rate cuts easing financial conditions and supporting housing
Deregulation across energy, banking, and competition policy

HEADWINDS

Tariffs creating inefficiencies; immigration policy constraining labor
Sticky inflation limiting Fed flexibility; affordability pressures persist
AI dependence creates single-point risk if CapEx slows

Source: BEA, CBO, Federal Reserve, Atlas Research estimates



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Inflation & Fed Policy

Sticky but stable—easing cycle continues cautiously

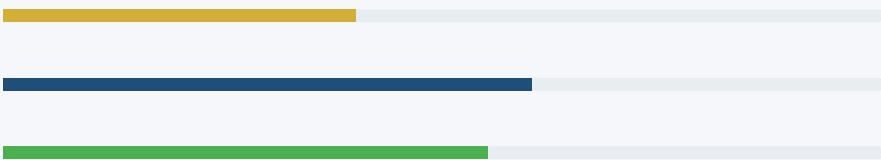
INFLATION OUTLOOK

2.5-3% ~2.5%

Headline CPI

Core PCE

INFLATION DYNAMICS



Key Insight: Mixed pressures leave inflation steady—still above the 2% target but no worse than 2025. AI productivity gains could be disinflationary long-term.

FED FUNDS PATH

Current

YE 2026

3.75% → 3.0-3.5%

FED BALANCE SHEET

- QT concluded in 2025; Fed resumed \$40B/month purchases through April to maintain ample reserves
- Balance sheet expansion expected to continue through 2026 to support liquidity
- Treasury bill purchases anchoring short-end of yield curve

SCENARIO ANALYSIS

BASE CASE

2-3 additional 25bp cuts

UPSIDE RISK

Entrenched inflation stalls cuts

DOWNSIDE

Labor shock prompts faster easing

Source: Federal Reserve, BLS, Atlas Research estimates



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The AI Investment Thesis

AI'S ECONOMIC FOOTPRINT

\$400B 92% 46%

Hyperscaler CapEx 2025 H1 GDP Growth from AI Top 10 S&P Weight

WHY WE REMAIN CONSTRUCTIVE

- ✓ **Strong fundamentals:** Big 11 debt/EBITDA low; \$449B FCF in 2025
- ✓ **Earnings delivery:** Multiples limited as earnings caught up to prices
- ✓ **Productivity potential:** Early AI productivity gains support margins

RISKS TO MONITOR

- Revenue monetization lag—CapEx must translate to profits
- Winner consolidation—clear leaders emerging in AI/semiconductors
- Labor displacement could trigger political/social instability

BIG 11 VS DOT-COM

ATLAS POSITIONING

- **Maintain:** Large-cap tech via quality names
- **Diversify:** Add beneficiaries (utilities, industrials)
- **Watch:** Secondary AI players for consolidation

"Befriend the bubble—but diversify within it"

Valuations elevated but not unsustainable given fundamentals

Source: Company filings, Bloomberg, Atlas Research



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Global Economic Landscape

Policy divergence creates regional opportunities

Eurozone

Defense-led stimulus transforms outlook. Germany's 5% GDP defense commitment by 2035 drives manufacturing revival.

Japan

"Sanaeconomics" brings fiscal stimulus; \$135B package—largest since pandemic. Corporate governance reforms bearing fruit.

China

4.7-5% growth expected. Xi vows domestic demand as "stabilizing anchor." \$138B national VC fund targets emerging tech.

UK

Resilient despite headwinds. Chancellor threaded fiscal needle; BoE has room to ease as labor softens.

EMERGING MARKETS

Asia remains our preferred EM exposure. India and Southeast Asia benefit from supply chain diversification, growing middle class, and supportive monetary policy. Weaker USD provides tailwind across EM.

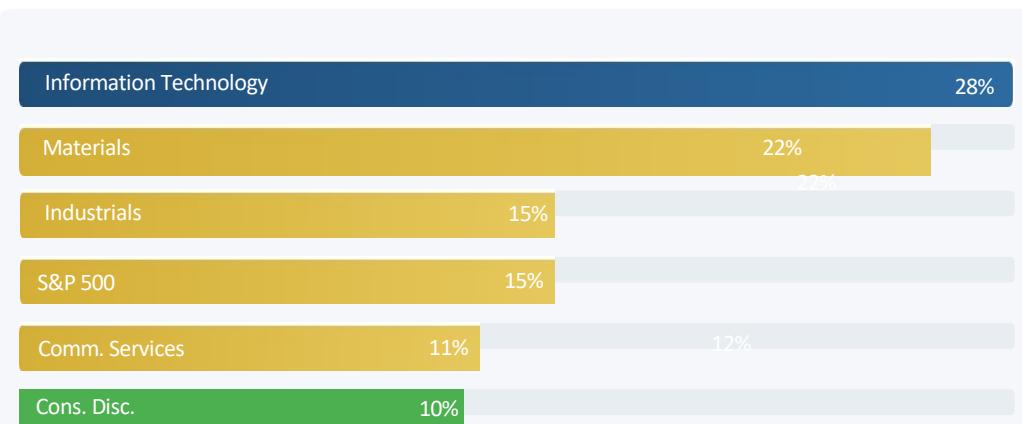
Source: IMF, OECD, national statistics offices, Atlas Research estimates



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Equity Market Outlook

2026 S&P 500 EARNINGS GROWTH BY SECTOR



Key Insight: All 11 sectors expected to deliver positive earnings growth. Tech leads but Materials and Industrials emerge as notable contributors.

ATLAS EQUITY POSITIONING



VALUATION CONTEXT

22.4x

S&P 500 Fwd P/E

18.5x

25-Yr Average

Elevated but supported by earnings growth.

International value: MSCI EAFE forward P/E at ~14x offers valuation cushion vs U.S.

Source: Bloomberg consensus, FactSet, Atlas Research. OW = Overweight, EW = Equal Weight



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Fixed Income & Currency

Attractive yields persist; dollar softness supports international

TREASURY YIELD OUTLOOK

4.0-4.5%

10-Yr Treasury Range

Range-bound environment. Fed purchases anchor short end while deficits and growth support long end. Near high end of post-2008 range—yields remain attractive.

CREDIT MARKET VIEW

Investment Grade

Spreads tight but stable backdrop. Income from elevated yields drives returns. Limited price appreciation potential.

High Yield

Spreads near historical lows. More susceptible to widening if credit conditions weaken. Select carefully.

BONDS VS CASH

With Fed cuts widening yield advantage over cash, bonds positioned to outperform—as they have in 32 of past 45 years. Since 1981, U.S. IG bonds returned 6.1% annualized vs 4.1% for cash. Reduce excess cash allocations.

Source: Federal Reserve, IMF, Bloomberg, Atlas Research

U.S. DOLLAR OUTLOOK

FLAT TO WEAKER

Narrowing yield advantage vs Japan, Germany

Fiscal uncertainty and political volatility

Increased currency hedging by foreign investors

RESERVE STATUS INTACT

53%

Global FX Reserves

~50%

Global Payments (2024)

Dollar's role in global finance unlikely to change. Softness reflects cyclical factors, not structural shift.

IMPLICATION FOR INVESTORS

Weaker dollar is a tailwind for international equity returns and EM assets. 2025's dollar decline contributed meaningfully to ex-US returns. Maintain unhedged international exposure.



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Key Risks to Monitor

Tail risks that could test our constructive outlook



AI Disappointment

If AI adoption fails to meet expectations or growth rates slow faster than forecast, tech leadership could fade, weighing on broader valuations.

WATCH FOR:

- Slower CapEx guidance from hyperscalers
- Revenue monetization missing targets
- Winner consolidation pressuring secondary players

Probability: Low-Medium
Impact: High (given concentration)



Inflation Reacceleration

Unexpected acceleration beyond 3% could halt Fed's easing cycle, pressure real wages, and reset rate expectations higher.

POTENTIAL DRIVERS:

- Tariffs passed through to consumers
- Tight labor markets driving wages
- Additional fiscal stimulus (tariff rebate checks)

Probability: Medium
Impact: Medium-High



Credit Market Stress

Sharp spread widening in public or private credit could amplify volatility and tighten financial conditions unexpectedly.

VULNERABILITY POINTS:

- HY spreads near historical lows
- Private credit defaults if rates stay higher
- AI-sector specific defaults

Probability: Low
Impact: High



Labor Market Deterioration

Slower job growth and immigration restrictions creating labor shortages in key sectors; cost-cutting layoffs increasing.

WARNING SIGNS:

- Monthly payrolls down to 50-60K
- Challenger layoffs spiking (175% y/y Oct)
- AI-attributed layoffs rising (1 in 20)

Probability: Medium
Impact: Medium

Source: Atlas Research risk assessment. Diversification remains the primary defense against tail risks.



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Sector Opportunities

MAINTAIN

Large-Cap Tech

Quality names with AI exposure and cash flow

Gold

Central bank demand; fiscal hedge

China Tech

Consumer stimulus; AI investment

ADD

Health Care

AI productivity; diversification benefit

Materials

#2 earnings growth; economic nationalism

Cash Flow Leaders

Quality value at attractive valuations

CAUTIOUS

High Yield Credit

Spreads near lows; asymmetric risk

Real Estate

Rate-sensitive; office challenged

Secondary AI Plays

Winner consolidation risk

Source: Atlas Research. Not investment recommendations.



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THE ATLAS VIEW

2026: Balanced Optimism

"The AI-driven growth story remains intact, but 2026 rewards investors who diversify within the theme while maintaining quality discipline."

1

Stay Invested

Maintain equity overweight. Rally has room to run—earnings growth is broadening.

2

Diversify

Add international and cyclicals as new growth contributors.

3

Quality Focus

Strong balance sheets and cash flow. Fundamentals matter more.

4

Stay Nimble

Monitor tail risks. Be prepared to rotate if narrative breaks.

For more information, please contact your Atlas advisor.



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Important Disclosures

General: This material is for informational purposes only and does not constitute investment advice. Views expressed are as of December 2025 and subject to change. Past performance is not indicative of future results.

Forward-Looking Statements: Contains forward-looking statements based on current expectations. Actual results may differ materially.

Risk: Investing involves risk including possible loss of principal. Asset allocation does not ensure profit or protect against loss. International investments involve additional risks.

Sources: Bloomberg, FactSet, Federal Reserve, BLS, BEA, IMF, company filings. ETF references are illustrative only.

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