

Reflections on 2025 & Outlook for 2026

2025 began with markets walking a tightrope between optimism and anxiety. Investors were asked to believe in rapid technological progress while navigating geopolitical flashpoints, stubborn inflation, and historically high government debt. Against that backdrop, our investment themes leaned toward quality and earnings growth. As the year unfolded, markets delivered a clear verdict on our ideas, rewarding assets tied to real value, earnings power, and structural change rather than speculation or valuation excess.

Gold as a Core Portfolio Asset

One of our strongest convictions entering 2025 was owning gold. The rationale was straightforward: gold's low correlation to traditional assets, its role as a hedge during geopolitical stress, accelerating *de-dollarization*, sustained central-bank purchases, and the backdrop of historically high government debt.

Our thesis played out forcefully. Central banks in emerging and developed markets continued to add to gold reserves, reinforcing gold's role as a neutral store of value. Heightened geopolitical tensions and persistent concerns about fiscal sustainability in major economies further fueled demand. The result was a surge in investment flows, with **physical gold ETFs rising roughly 60% over the year, while gold mining equities climbed about 165%**, reflecting both higher bullion prices and operating leverage. Gold was not just a hedge; it was one of the defining winners of the year.

The Evolution of AI Leadership

Later in 2025, we suggested that leadership in artificial intelligence would begin to shift away from companies building large language models toward corporations effectively using AI to enhance productivity, margins, and competitive positioning.

That transition began, but more slowly than expected. While early signs emerged in industries such as logistics, manufacturing, and healthcare, markets continued to reward the infrastructure layer of AI. **Semiconductor companies once again outperformed software firms**, benefiting from relentless demand for compute, memory, and networking capacity. The broader adoption story remains intact, but 2025 showed that monetization still favors those selling the tools rather than those deploying them at scale.

Rethinking Bonds as a Hedge

We argued that bonds would no longer serve as the most reliable hedge against falling stock prices in an inflation-prone world. Instead, real assets such as gold and energy equities were positioned to offer better protection.

Our view was reinforced during the year. While bonds delivered modest returns, they failed to consistently offset equity drawdowns during tariff tantrums, inflation scares or increased supply of treasuries. In contrast, **gold and energy stocks respond more effectively to inflationary pressures**, benefiting from pricing power and tangible asset backing. Portfolio diversification increasingly means looking beyond traditional stock-bond frameworks.

China Becomes Investable Again

China was a controversial call. After years of regulatory crackdowns, weak consumer confidence, and capital outflows, valuations had reached levels that priced in prolonged stagnation. Entering 2025, incremental policy support, stabilization in the property sector, and a less confrontational regulatory tone suggested downside risks were diminishing.

Over the course of the year, those improvements translated into better market performance. **Chinese equities rebounded**, helped by targeted stimulus, improving earnings visibility, and renewed interest from global investors seeking diversification away from U.S. assets. While structural challenges remain, China re-entered the conversation as an investible market rather than a permanent 'avoid'.

U.S. Stocks Driven by Earnings, Not Valuations

Finally, we expected U.S. equities to rise primarily through earnings growth rather than multiple expansion, given already elevated valuations at the start of the year.

That expectation proved accurate. Corporate profits grew steadily, supported by productivity gains, cost discipline, and selective revenue growth. **Valuation multiples expanded only marginally**, as higher-for-longer rate assumptions capped enthusiasm. The market advanced, but it did so on fundamentals rather than optimism alone.

Outlook for 2026

The year 2026 opened with a familiar sense of unease. Tariff threats resurfaced, geopolitical tensions remained elevated, and markets were again forced to weigh political risk against economic resilience. Yet beneath the surface, the market setup looks different from prior years. As earnings growth from the Magnificent Seven begins to slow, leadership is likely to broaden, making **stock selection more critical than simple index exposure**. In that environment, regional and sector choices matter more than ever.

International Markets: Opportunities with Limits

International equities may continue to outperform U.S. markets, but leadership is unlikely to come from Europe. Instead, we see stronger prospects in **Asia-Pacific and select emerging markets**. Eurozone

equities appear particularly vulnerable to renewed trade uncertainty. Economic momentum in Europe is already fragile, earnings growth is weak, and domestic demand offers little offset. European exporters are steadily losing global market share to Chinese competitors, especially in industrials and consumer goods. These cyclical pressures are compounded by **structural challenges**, including declining populations, tight labor markets, and heavy regulatory burdens which constrain productivity and profitability. We prefer to allocate elsewhere.

Industrial Materials over Precious Metals

Expectations of persistent shortages in industrial materials will remain a powerful market driver in 2026. Years of underinvestment, long project lead times, and rising demand from electrification, infrastructure, and defense spending continue to tighten supply in key commodities. As a result, **industrial materials stocks appear well positioned**, offering exposure to real assets with cash flows tied directly to physical demand. Compared with precious metals, which performed exceptionally well in 2025, industrial materials may represent a safer and potentially higher-return opportunity this year, benefiting from both pricing power and volume growth rather than purely defensive demand.

Energy's Quiet Message

Energy stocks have begun to recover, despite widespread expectations of ample supply relative to demand. This divergence is notable. Historically, energy stocks tend to move ahead of macro data, and their recent strength may be signaling **rising inflation expectations** rather than a tightening supply-demand imbalance.

Ongoing capital discipline, geopolitical risks, and the strategic importance of energy security all limit the downside for prices. If inflation remains sticky or re-accelerates, energy stocks could once again play a dual role, offering both return potential and protection against rising costs.

Bonds: A More Challenging Landscape

Unlike 2025, we expect **long-term bond yields to end 2026 higher**, creating headwinds for longer-duration bond investments. When yields rise, bond prices fall, and that relationship becomes more painful the longer the maturity.

That pressure is being amplified by **extraordinary U.S. government debt issuance**. Persistent fiscal deficits and rising interest expenses are driving a steady increase in Treasury supply, particularly at the long end of the curve. At the same time, international buyers appear increasingly reluctant to absorb incremental long-dated issuance at current yield levels. This reduced foreign demand has pushed term premiums higher, placing upward pressure on long-term yields independent of near-term growth or inflation data.

Adding to these forces is elevated corporate bond issuance, especially from large technology firms financing massive data-center buildouts to support AI and cloud infrastructure. Together, heavy sovereign and corporate supply increase overall credit availability and raises the level of risk the market must absorb. In this environment, bonds may struggle to deliver either strong returns or effective diversification, reinforcing the case for caution in long-duration fixed income as structural supply dynamics continue to weigh on prices.

2026 is shaping up to be another year where thoughtful positioning, rather than passive exposure, makes the difference.

If you haven't had a chance to listen, check out our latest Nest Egg! podcast, "The AI Revolution – Lessons from History and A Potential Shakeout". [Listen here](#) or wherever you listen to podcasts.

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