GENTRUST

GenTrust Outlook 2026

GENTRUST | DECEMBER 2025

Executive Summary

'25 Recap – Since "Liberation Day" in April, global equities (ACWI) are up just under 40% and 21.9% year-to-date, driven by expectations of massive artificial intelligence (AI) spending and the potential for an Industrial-Revolution-scale boom, while the real economy looks more mixed with rebounding GDP, but stubbornly high inflation and soft labor markets. Fixed income has returned roughly 7.0% year-to-date and select commodities, notably gold and uranium, have posted standout gains.[1] 2025 calendar-year earnings through Q3 are up 11.9% versus 2024.[2]

Key Questions in '26 – Will the massive AI capex continue or will issues surface? Does the concentration of investor portfolios in a handful of AI-related names prove problematic? Does AI continue to put downward pressure on labor markets? Does a newly elected Federal Reserve chairperson remain independent and allow economic conditions (namely stubbornly high inflation) to dictate monetary policy or bow to political pressure to lower rates more than justified? Will increasing US indebtedness or geopolitical issues cause more weakening for the US dollar?

AI – High market concentration has historically been associated with increased volatility and lower forward returns. AI platforms face a Prisoner's-Dilemma choice between sustaining massive infrastructure spend or risking irrelevance, with proposed AI capex so large that close to 10% of all global investment would need to flow to AI by 2030 to rationalize it. We believe the biggest risk may be that ever-larger models deliver diminishing incremental benefits. AI adoption appears to be contributing to a sharp fall in youth employment and pressure on the real economy.

Monetary policy and Dollar Cycles – A new Federal Reserve chair will soon be nominated by President Trump, and the apparent audition process emphasizes willingness to cut rates more aggressively than current inflation data alone might justify. This dynamic could push long-term yields higher and extend the recent 8% decline in the U.S. dollar seen over 2025.

Market Trends – Recent years have seen rapid innovation in private-wealth structures, including advanced tax-loss harvesting, Section 351 exchanges, non-distributing ETFs, options-based borrowing, and broader access to private markets. Some of these tools are attractive, but others introduce complexity and leverage that suggest a measured, selective approach.

Positioning – We are mostly neutral with selective tilts in portfolios, including an underweight to credit, equal-weight S&P allocations, international diversification, and selective protection on Mag 7 names.

[1] YTD return numbers are from yCharts as of 12/7/25 and net of any fees. All forecasts are expressions of opinion should not be taken as a recommendation and subject to change without notice and are not intended to be a guarantee of future events. Past results do not guarantee future results. Real results may vary. [2] https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_121225.pdf?utm_source

2025 Market Review

"… Since "Liberation Day," equity markets (ACWI) are up just under 40%, fueled by promises of massive AI spending and an Industrial Revolution sized economic boom..."

Since a slow first quarter and 15% correction immediately following "Liberation Day," equity markets (ACWI) are up just under 40%, fueled by promises of massive AI spending and an Industrial Revolution-sized economic boom. The real economy paints a more mixed picture as GDP bounced off a small negative print for Q1 to 3.8% in Q2 and is tracking for a similar number in Q3, according to the Atlanta Fed's GDPNow.[3] Inflation has remained stubbornly high for years above the 2% target and broad measures of employment have weakened noticeably. On the earnings side, 2025 calendar year earnings through Q3 have grown 11.9% vs 2024, with S&P 500 EPS of approximately $270.8.[2]

As of 7-Dec-25, global equities (ACWI) are up 21.9% YTD. US large cap equities (SPY) are up 18.0% while Europe (VGK) is up 32.0%, in part as a result of an almost 9% decline in the US Dollar (DXY). Growth (IWF, +19.6% YTD) has outpaced value YTD (IWD, +15.2% YTD). Small cap stocks (IWM, +14.4% YTD) had a good second half of year on the back of lower rates. Divergence across sectors was large with consumer staples (XLP, +1.7% YTD) struggling while industrials (XLI, +18.5%) and technology (XLK +26.7%) fared well.[1]

Fixed income generated positive returns amid concerns around slowing growth, with bonds up +7.0% (AGG) YTD. Credit has performed well as spreads are now near all-time low levels. Inflation-linked bonds (TIP) have also performed well +7.0%. Broad-based commodity indices are up +9.1% (DBC) on the year although gold (GLD) has been a standout +59.6% YTD, which is also a reflection of the weakness of the US dollar.[2]

Asset Class	Ticker	YTD 2025	2024	'08-'23 Ann
Short Municipal Bonds	SHM	3.59%	1.22%	1.96%
Long Municipal Bonds	MUB	3.31%	1.26%	3.54%
US Aggregate Fixed Income	AGG	7.00%	1.31%	3.24%
Short US Treasury Bonds (1-3y)	SHY	4.56%	3.92%	1.50%
Intermediate US Treasury Bonds (7-10y)	IEF	8.03%	-0.64%	3.66%
Long US Treasury Bonds (20y+)	TLT	5.04%	-8.06%	4.67%
US Investment Grade Bonds	LQD	8.12%	0.86%	5.03%
US Treasury Inflation Linked Bonds	TIP	6.96%	1.65%	3.76%
US High Yield Bonds	HYG	8.25%	7.97%	4.98%
Convertible Bonds	CWB	18.28%	10.06%	15.01%
USD EM Bonds (JPM)	EMB	13.46%	5.54%	4.48%
Alerian MLP Index	MLPX	6.52%	42.87%	7.53%
US REITs (MSCI REITs)	VNQ	3.94%	4.81%	6.48%
Commodities	DBC	9.12%	2.18%	-0.90%
Gold	GLD	59.60%	26.66%	7.32%
Energy	XLE	9.87%	5.52%	3.98%
Agriculture	DBA	-0.26%	33.47%	-1.15%

Asset Class	Ticker	YTD 2025	2024	'08-'23 Ann
MSCI All Country All World	ACWI	21.86%	17.46%	7.29%
US Large Cap (S&P 500)	SPY	18.02%	24.89%	10.02%
US Small Cap (Russell 2000)	IWM	14.38%	11.39%	7.67%
US Value Equities (R1000 Value)	IWD	15.19%	14.18%	7.17%
US Growth Equities (R1000 Growth)	IWF	19.58%	33.12%	12.62%
Canadian Equities	EWC	33.12%	12.40%	3.72%
European Equities (FTSE Europe)	VGK	32.02%	1.89%	3.42%
Pacific Equities (FTSE Pacific)	VPL	31.04%	1.68%	3.06%
Emerging Market Equities (MSCI EM)	VWO	24.65%	10.58%	1.36%
Consumer Discretionary	XLY	7.43%	26.51%	13.44%
Consumer Staples	XLP	1.72%	12.19%	9.70%
Financials	XLF	12.21%	30.55%	3.77%
Health Care	XLV	12.88%	2.47%	12.27%
Industrials	XLI	18.51%	17.31%	9.29%
Materials	XLB	6.33%	0.14%	7.30%
Technology	XLK	26.68%	21.63%	15.29%
Utilities	XLU	16.79%	23.28%	6.38%

For illustrative and informational purposes only. All YTD return numbers are from yCharts as of 12/7/2025. All forecasts are expressions of opinion, subject to change without notice, and are not intended as a guarantee of future events. The market returns presented herein are gross of fees and do not account for any management fees, advisory fees, trading costs, or other expenses that may be incurred in managing an investment portfolio. ETF tickers represent proxies for the respective asset classes. Indexes are unmanaged, do not reflect fees or expenses, and it is not possible to invest directly in an index. The volatility and composition of an index may differ materially from that of a client portfolio, and index returns should not be considered a proxy for actual performance. Consequently, actual returns experienced by an investor will be lower than the gross returns presented. Investors should consider the impact of fees and expenses on their investment returns and consult with their financial advisor. Past performance is not indicative of future results. This information should not be considered investment advice, and investors are advised to consult with a financial advisor before making any investment decisions.

[3] https://www.atlantafed.org/cqer/research/gdpnow/archives4-

2025 Predictions

In our 2025 Outlook written in December 2024, we thought the key questions (and our answers and **if we were right**) for 2025 would be:

- *What impact will the Republican sweep have on policies such as tariffs, deficits, and deregulation?* Our view was that future tariff policy would likely consist of strong rhetoric followed by more subdued policy action. "**Liberation Day" certainly challenged our view on tariff policy but we ultimately turned out to be correct, at least for now.**
- *Will the AI boom continue or will cracks in the promise of the technology be shown?* We thought much was priced into AI stocks and the market was becoming overly concentrated, and continued diversification was necessary. **Of the large AI stocks, only GOOG (+69.7% YTD) and NVDA (+35.9%) have outperformed the broad market (SPY +18%) while MSFT (+15.5%), META (+15.3%) and AMZN (+4.6%) underperformed. Also, non-US stocks have performed better than US stocks and bonds have had a strong year, supporting the value of diversification.**
- *Will the geopolitical hotspots across the globe ignite further conflict?* Our view was that things appeared to be moving toward stability. **The jury is likely still out on this prediction.**
- *What impacts will the growing alternatives universe of private equity and private debt have on investors?* Our view was that with the shrinking supply of public equities, investors would continue to turn to private markets, and that this might cause some issues especially in private credit. **These issues have just now started to surface.**

Our key questions for 2026 include: Will the massive AI capex continue or will issues surface? Does AI put downward pressure on labor markets? Does a new Fed chairperson remain independent? Will increasing US indebtedness or geopolitical issues cause more weakening for the US dollar?

Key Questions for 2026

Looking forward, we believe the following will be the key questions for 2026:

- *Will the massive AI capex continue or will issues surface? Does the concentration of investor portfolios in a handful of AI-related names prove problematic?*
- *Does AI continue to put downward pressure on labor markets?*
- *Does a newly elected Federal Reserve chairperson remain independent and allow economic conditions (namely stubbornly high inflation) to dictate monetary policy or fall to political pressure to lower rates more than justified?*
- *Will increasing US indebtedness or geopolitical issues cause more weakening for the US dollar?*

We will address each of these in the following pages.

Big Picture

In our view, the major themes for 2026 are the evolution of the AI capex super-cycle, monetary policy independence and uncertainty, and the potential end of the USD bull run:

AI Concentration, Capex, and Consequences

- Markets are super concentrated in a small number of AI-focused companies, creating a very polarized market structure that is more susceptible to volatility.
- These AI-focused companies are forced to spend massively to build out infrastructure, because the cost of not doing so could be existential. The major players in the AI space are collectively set to spend more than $3 trillion over the next 5 years on AI infrastructure. These types of "circular" deals where one company invests in another in exchange for having the money used to purchase it products further increase the interdependency of the firms. These levels of market concentration have historically been unsustainable and have signaled increased risks for investors.
- The return on these AI capex investments is, in our view, likely to disappoint based on the sheer size of investments being proposed. The need for spending is also transforming formerly capital-light businesses into capital-intensive ones. Further, the accounting of these investments has raised questions as to the actual profitability of these companies. In our view, all of these factors argue for lower valuations in the most popular AI names.
- AI is currently making once-in-a-generation changes to the workforce and will have large impacts on employment for the foreseeable future in our view. These impacts are accelerating wealth inequality.

Monetary Policy Independence and Uncertainty

- A new Federal Reserve chair will be installed in 2026 with potentially large monetary policy ramifications. Inflation is currently running near 3%, much higher than the long-term Federal Reserve mandate of 2%. The pressure to ease rates further will face that obstacle and additional Fed Funds cuts might cause long-end rates to go substantially higher.
- "Liberation Day" marked a sea change in US trade policy. While the proposed trade policy has shifted violently over the last couple of months, current estimates show the effective tariff rate over 17%, which is the highest in almost 90 years.

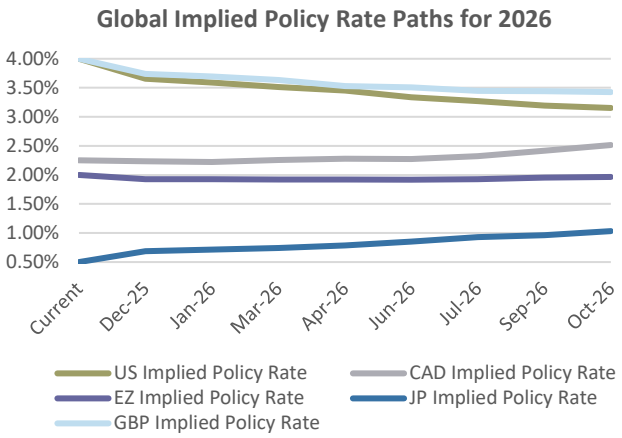
Fiscal Discipline, Geopolitics, and the Potential End to USD Bull Run

- The One Big Beautiful Bill Act (OBBBA) was signed into law on July 4th, 2025, providing sweeping tax reform including making permanent the income tax cuts from 2017, as well as providing additional deductions and making permanent higher gift and estate tax exemptions. The Congressional Budget Office projects a deficit increase of $2.8 trillion by 2034, adding further stress to the US fiscal position. This weakening fiscal position has created a floor on long-end interest rates.[4]
- Geopolitical stress remained under control for most of 2025 but has the potential to resurface. Both geopolitical stress and the decreasing fiscal position of the US caused a sharp decline in the US Dollar in 2025, potentially ending an 18-year bull run.

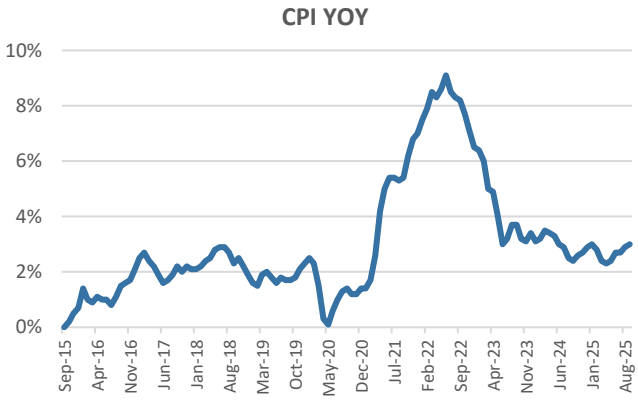
The major themes for 2026 which dominate the current macro landscape are: 1) AI concentration and capex super-cycle, 2) monetary policy independence and uncertainty, and 3) fiscal discipline and the potential end of the USD bull run.

[4] https://www.congress.gov/bill/119th-congress/house-bill/1/text

Market Pricing



Source: Bloomberg Data is for illustrative purposes only; actual results may differ.



Source Bloomberg: Past performance is not indicative of future results.

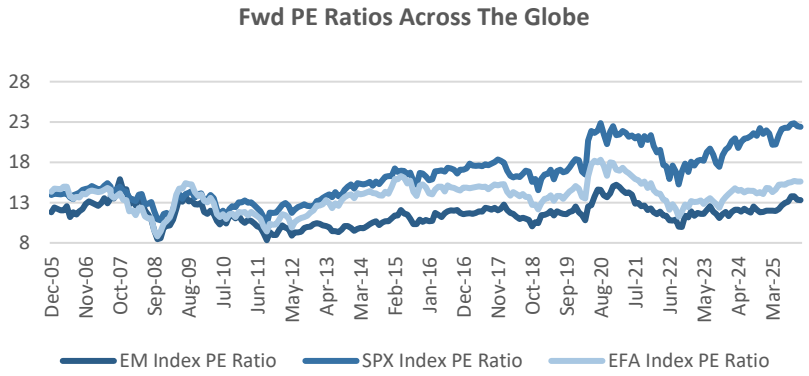
Company	% of SPX	26 Expected Revenue Growth	26 Expected EPS Growth	Fwd PE
NVDA	7.6%	52%	64%	26.4
AAPL	7.0%	9%	11%	33.8
MSFT	6.1%	16%	17%	28.7
GOOG	5.7%	14%	8%	27.7
AMZN	3.8%	11%	9%	24.6
AVGO	3.3%	38%	39%	48.7
META	2.4%	18%	16%	19.4
TSLA	2.2%	14%	35%	225.1
Wtd Avg		*23.0%*	*26.0%*	*40.8*
Equal Weight SPX		*4.6%*	*12.8%*	*16.5*

Source: The information shown is based on third-party analyst consensus estimates for 2026 revenue growth, earnings growth, and forward price-to-earnings (P/E) ratios. These figures are forward-looking in nature, are subject to change, and may not materialize. "% of SPX" reflects each company's approximate weight in the S&P 500 Index as of December 7, 2025. Forward-looking estimates involve uncertainties, including changes in market conditions, company performance, and economic factors. ***This material is provided for informational and illustrative purposes only*** *and does not constitute a recommendation to buy or sell any security.*

We always start our analysis of markets by looking at current pricing. Expected central bank policy diverges across various countries with the US and UK expected to ease policy rates from 4% to 3.25%, while Canada and Japan are expected to hike 0.25-0.5% and the Euro Zone is expected to hold steady over the course of 2026.[5]

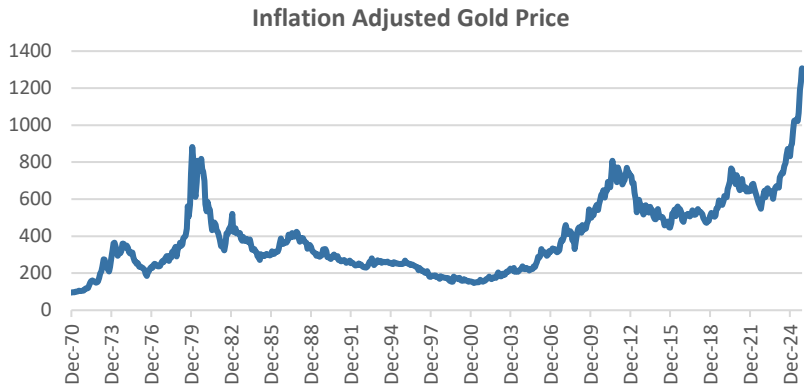
Breakeven inflation expectations in the US are 2.5% for 2 years, 2.3% for 5 years and 2.3% for 10 years, reflecting the market's fear of stubbornly high inflation readings, above the Fed's 2% target.

2026 estimates for S&P 500 earnings are $308, compared to $272 in 2025, a 13.2% expected growth rate. This puts the current S&P 500 P/E ratio at 25.4 and 2026 forward P/E at 22.2 vs long-term averages closer to 15. The elevated levels of the P/Es are reflective of the expected growth rates for the largest companies in the S&P 500. Looking at the 8 largest companies (38% of S&P 500), the expected revenue growth rate in 2026 is 23% and the expected EPS growth rate is 26%, extremely large numbers for such massive companies. The average forward P/E of those 8 companies is 40.8 vs 16.5 for the equal weight S&P 500, in large part reflective of the AI capex buildout we will discuss in the next section. Outside the US, PEs of developed markets are 15.6 and emerging markets (EM) are 13.3, only slightly higher than 20-year averages.



Source: Bloomberg

On the commodity front, the spot price of Crude is 57.7 and the Dec '26 forward price is 57.5 and '27 is 58.6, so very little movement in Oil is expected over the next few years. In gold, a common valuation metric is to look at the inflation adjusted price of gold. Current levels are well above all time highs from the 1970s.



Source: Bloomberg

[5] https://global.morningstar.com/en-eu/economy/us-fed-lowers-rates-future-cuts-will-require-more-evidence-weakness

AI: Concentration, Capex, and Consequences

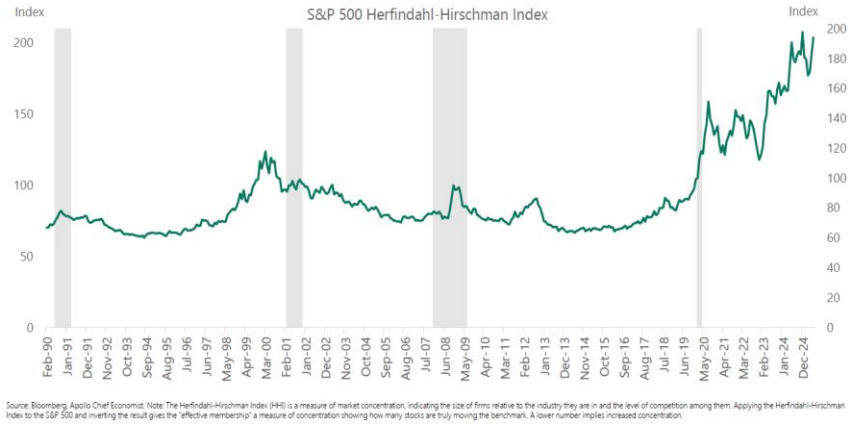
Company	% of SPX	Return Since 1-Jan-20	Annualized Return
NVDA	7.6%	3010%	78.5%
AAPL	7.0%	293%	26.0%
MSFT	6.1%	223%	21.9%
GOOG	5.7%	385%	30.5%
AMZN	3.8%	148%	16.5%
AVGO	3.3%	1330%	56.6%
META	2.4%	230%	22.3%
TSLA	2.2%	1530%	60.1%
Wtd Avg		981%	49.4%
Equal Weight SPX		83%	10.7%

Source: Bloomberg. For Informational and illustrative only. Returns shown are gross of fees and do not reflect advisory, trading, or other costs. Past performance is not indicative of future results. "% of SPX" reflects index weights as of 12/7/25. Data are based on publicly available sources and may change. This material does not constitute investment advice or a recommendation to buy or sell any security.

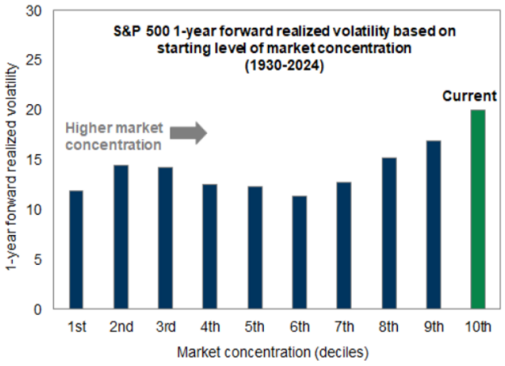
Since the start of the decade, the 8 largest S&P 500 companies have outperformed the broad market +49.4%/yr vs 10.7%/yr. This has created record levels of concentration, which have historically signaled difficult equity markets ahead…

AI Concentration

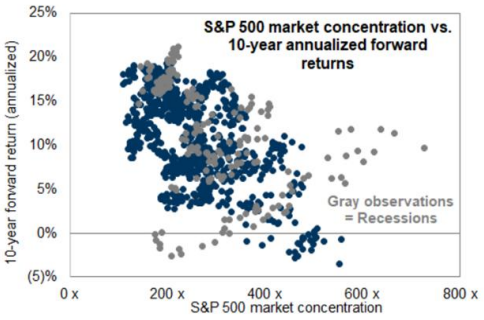
Since the start of the decade, the 8 largest S&P 500 companies have outperformed the broad market +49.4%/yr vs 10.7%/yr. This has created record levels of concentration in markets. One measure of concentration is the Herfinadahl-Hirschman Index which is near all-time highs.[6]



Historically, high levels of market concentration have signaled difficult equity markets ahead, with increased volatility and lower subsequent returns.



Source: Goldman Sachs Global Investment Research



Source: Goldman Sachs Global Investment Research. Market concentration defined as the market cap of the largest stock relative to 75% percentile stock

Concentration has also rarely lasted long-term. Below is a grid of the largest companies in each decade. The companies in dark grey represent companies that appeared in only one decade so one can see how difficult it is to remain a powerhouse long-term.

	1970s	1980s	1990s	2000s	2010s	2020s
1	IBM	Exxon	IBM	Microsoft	Exxon Mobil	Apple
2	AT&T	IBM	Exxon	General Electric	Apple	Microsoft
3	Exxon	AT&T	General Electric	Cisco	Microsoft	Amazon
4	General Motors	Mobil	Philip Morris	Walmart	Walmart	Alphabet
5	Eastman Kodak	General Electric	AT&T	Intel	Procter & Gamble	Facebook
6	General Electric	Texaco	Merck	Exxon Mobil	Johnson & Johnson	Tesla
7	Texaco	Standard Oil	Coca-Cola	Pfizer	IBM	Berkshire Hathaway
8	Mobil	Schlumberger	Walmart	Citigroup	JPMorgan Chase	Johnson & Johnson
9	DuPont	DuPont	Bristol-Myers	AIG	General Electric	JPMorgan Chase
10	Sears	Shell	Procter & Gamble	Merck	AT&T	Visa

Source: https://www.visualcapitalist.com/ranked-the-largest-sp-500-companies-over-time-1985-2024/

[6] The Herfindahl–Hirschman Index (HHI) is a common measure of market concentration used in economics, finance, and antitrust regulation.

AI Capex

In our view, much of the increase in market value of the largest companies of the S&P500 is due to anticipated capital expenditures on AI infrastructure buildout. These companies today face a classic Prisoner's Dilemma around infrastructure spending: individually, they would all be better off not overspending, but each firm's dominant strategy is to invest aggressively or risk being left behind. As an example, consider two leading AI platforms, A and B.

Each has two choices to spend a lot ($$$) or a moderate amount ($):

	B spends $$$	B spends $
A spends $$$	Huge capex, Margins compress	A dominates
A spends $	B dominates	Margins stay high

For illustrative purposes only, based on certain assumptions and estimates as of 12/7/25. They are not intended to represent actual or guaranteed future investment outcomes. Actual results may vary materially from those presented.

If both spend moderately ($), margins stay high, and neither is massively ahead. If one spends high ($$$) while the other $, the $$$-spender grabs model quality, scale, and ecosystem dominance and wins while the $ spender risks irrelevance. If both spend $$$, capex is huge, margins compress, but at least neither cedes the future to the other. Crucially, if B chooses $ spending then A is better off spending $$$; and if A chooses $ then B is better off spending $$$. The dominant strategy (called the "Nash Equilibrium") is for both firms to overspend $$$.

Estimates of AI infrastructure spending range from $3 to $7 trillion over the next 5 years.[7]

Does massive spending mean good returns on those investments and the companies undertaking them? Definitely not. In fact, we would argue the return on these AI capex investments is likely to disappoint based on the sheer size of investments being proposed. Consider the following:

- Taking the lower end of estimates at $3 trillion invested in AI spending by 2030
- If these investments target a 15% ROIC = $450bn in annual profit
- If the investments operate on a 30% net margin = $1.5 trillion in annual revenue to data centers (30% is Google's current margin)
- Assume compute is roughly 40% of revenue = $3.8 trillion in annual revenue needs to be generated by AI investments by 2030. In 2025 the total revenue of all AI related services totaled roughly $60 billion.
- To further put this required revenue number in context, US GDP is currently (2024) $30 trillion and if it grew 5% per annum then it would be roughly $38 trillion in 2030

Under these assumptions, this would imply 10% of all spending by 2030 would need to go to AI to justify these investments.

McKinsey estimates that AI-ready data centers alone will require about 7 trillion dollars of capital expenditure globally by 2030.

Morgan Stanley, Nvidia cite 3–4 trillion dollars of AI-driven data-center capex by 2030.

"Big Tech's AI Capex for 2025 Jumps to $405 Billion, Up from $250 Billion Earlier Estimates."

"Stargate Project: OpenAI, Nvidia, and Oracle Announce $500 Billion AI Data Center Buildout Over Four Years."

"Amazon Raises Capital Spending Forecast to $125 Billion as AI Data Center Capacity Set to Double by 2027."

"Nvidia Sees $4 Trillion-Plus Data Center Opportunity as Hyperscalers Ramp AI Capex."

"Meta Plans $600 Billion US spend as AI data centers expand, Including Campus Larger Than Central Park."

"Alphabet Lifts 2025 Capex Outlook to Over $90 Billion on AI Infrastructure Spend."

"Microsoft to Invest About $80 Billion in AI-Enabled Data Centers in 2025."

Sources: https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/the-cost-of-compute-a-7-trillion-dollar-race-to-scale-data-centers
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For illustrative and informational purposes only; actual investments may vary materially.

[7] https://www.aicerts.ai/news/ai-infrastructure-investment-sparks-3t-global-data-center-surge/

"… One of the hallmarks of the Magnificent 7 during their meteoric run recently is that they were capital-light businesses deserving of high valuations. The AI revolution is changing this fact…"

Another way to challenge the current numbers being proposed is to look at the sheer size of what is being proposed. Below is a summary of the main players.

Company	Market Cap	Net Working Capital	Free Cashflow	Long-term Liabilities	Investments	5y CDS	5y CDS 6m ago	Announcements
NVDA	4,253	109	34	16	100+	46		$100b in OpenAI
GOOG	3,739	75	14	54	100/yr	39	29	$90b+ for 2025
MSFT	3,556	63	7	133	140/yr	35	20	$140b last quarter annualized
AMZN	2,418	14	20	164	125/yr	36	24	$125b+ for 2025
META	1,624	43	13	73	70/yr	60		$70b+ in 2025 capex
ORCL	545	(3)	(10)	137	50/yr	148	37	$50b+ in 2025 capex

Source: Bloomberg Informational and illustrative only. Financial metrics, CDS levels, and investment announcements are based on third-party data sources and may change without notice. Figures shown do not reflect the impact of advisory fees or expenses. Past performance and historical financial results are not indicative of future outcomes. This material is not a recommendation to buy or sell any security and should not be relied upon for investment decisions.

Take META as an example. The company has a market cap of $1.624tn, net working capital (current assets minus current liabilities) of $43bn, is generating $13bn per year of free cashflow, and has long-term liabilities of $73bn. The company spent $70bn in 2025 on AI capex and is proposing spending similar amounts going forward.[8] In our view, the market is already punishing the companies that have proposed investments out of proportion to their current business. Oracle (ORCL) spent $50bn in 2025 despite having negative working capital, negative free cashflow, and $137bn of long-term liabilities. The 5y credit default swap pricing of ORCL has gone from 37bps 6 months ago to 148bps recently [Bloomberg]. One of the hallmarks of the Magnificent 7 during their meteoric run recently is that they were capital-light businesses deserving of high valuations. The AI revolution is changing this fact.

Another concern raised recently is that the profitability of hyperscalers is overstated because they are amortizing the life of their chips over a longer than practical useful life. Below is a grid that shows 5 hyperscalers, what lifespan they depreciated their compute power over in 2020 vs 2025, and how much their earnings and assets would be overstated if the actual useful life is 3 years. Given NVDAs upgrade cycle is well less than 3 years, it seems very reasonable to think there's validity in this analysis.

Company	Depreciation in 2020 (yrs)	Depreciation in 2025 (yrs)	Earnings Overstatement if useful life = 3yrs	Asset Overstatement 2026-28 (bn)
MSFT	3.0	6.0	10%	37.5
META	3.0	5.5	17%	37.1
AMZN	4.0	5.0	15%	41.6
GOOG	3.0	6.0	14%	55.6
ORCL	5.0	6.0	34%	15.3

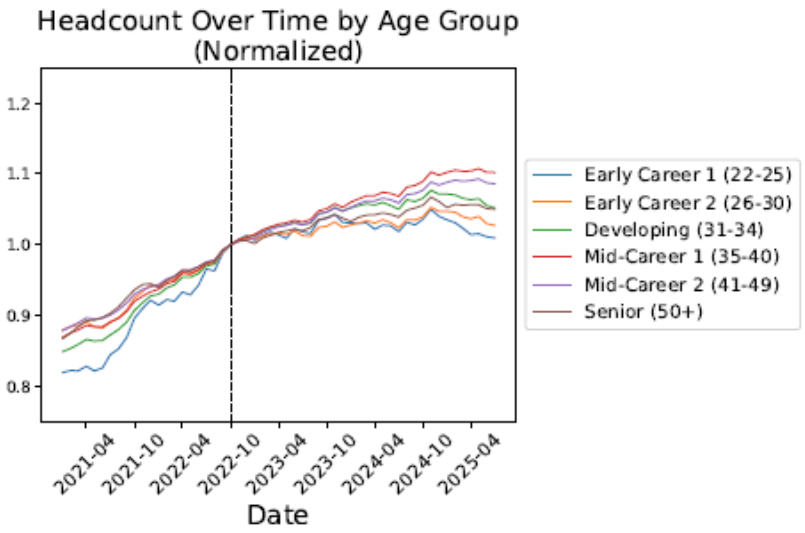
Source: https://michaeljburry.substack.com/p/unicorns-and-cockroaches-blessed

The last potential concern (and likely the largest in our opinion) around the massive AI spend is the evidence of a breakdown in pre-training scaling laws. Said more simply, bigger models may not necessarily be that much better. AI progress is often described as being a race between hardware (materials), algorithms (mathematics) and data/social factors. If the world develops smarter algorithms, the need for all this level of compute we are building will diminish. Smarter algorithms would also lay the foundation for firms providing models for free, a strategy already being discussed by several Chinese companies.

[8] Source: Bloomberg

Other AI Consequences

Beyond all the headlines and potential issues, AI is having a large impact on the real economy as well. An August 2025 paper by Stanford researchers Brynjolfsson, Chandar and Chen examined the change in labor markets for occupations exposed to generative AI using high-frequency ADP payroll data.[9] The paper's key conclusion was that employment for young workers (ages 22-25) had declined markedly in the most AI-exposed occupations. Further, employment declines are concentrated in occupations where AI is more likely to automate, rather than augment, human labor.



Source: https://digitaleconomy.stanford.edu/wp-content/uploads/2025/08/Canaries_BrynjolfssonChandarChen.pdf

"… Our preference is to stay diversified by holding broader public equity market exposures and invest in the growth potential of AI through niche AI venture funds… Given the pricing in options markets, we have found protection in many of the AI related companies to be attractive for investors who share our view…"

Since the use of AI accelerated in 2022 with the release of ChatGPT, the above trends may be in their early stages. The obvious question is how does this evolve over time? While we don't believe the AI revolution will lead to mass unemployment, we do anticipate a challenging transition period. Many workers will need to be retrained for new roles—an adjustment that is likely already underway.

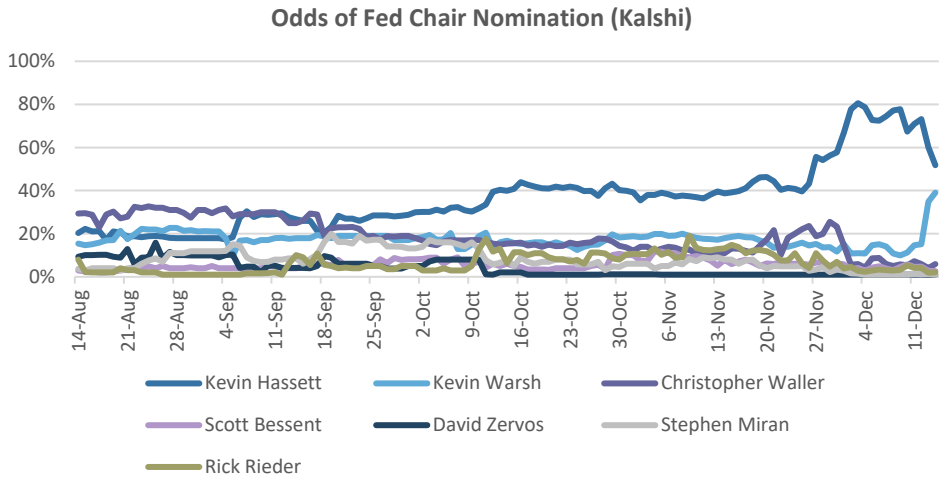
Investment Implications

Most portfolios are already extremely exposed to the AI trade with holdings concentrated in the big tech names. Our preference is to stay diversified by holding broader public equity market exposures (equal weight, mid cap, non-us equities) and invest in the growth potential of AI through niche AI venture funds where we see the potential for more upside in providing clients with a diversified way to play this generational shift. Given the sheer size of the large public AI companies, their recent >100%/yr returns are unlikely to repeat whereas the next great AI company is likely not even known yet. Further, given the pricing in options markets, we have found hedges in many of the AI-related companies to be attractive for investors who share our view.

[9] Source: https://digitaleconomy.stanford.edu/wp-content/uploads/2025/08/Canaries_BrynjolfssonChandarChen.pdf

Monetary Policy Uncertainty

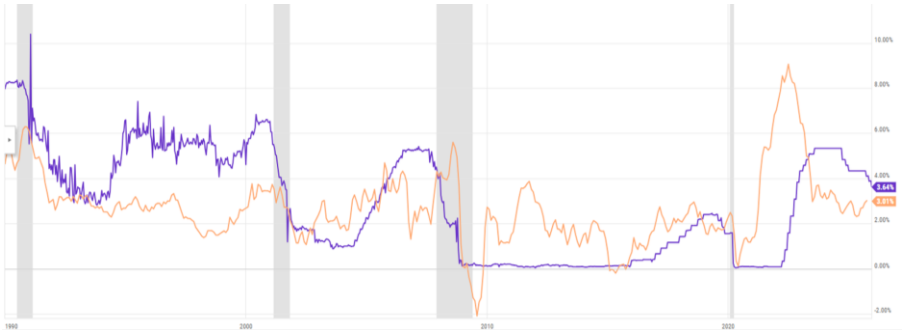
There will be a new chairperson of the Federal Reserve on May 15, 2026. President Trump has mentioned he will make his nomination soon, which will then need to be confirmed by the Senate. The current front runners are Kevin Hassett (Director of the National Economic Council of the United States) and Kevin Warsh (Former Member of the Federal Reserve Board of Governors).



Source: Kalshi.com For illustrative purposes only

"… Interest rate cuts beyond what is sensible for the economy will likely put upward pressure on long-end interest rates…"

Part of President Trump's focus seems to be on selecting a Chair that will listen to his advice on where interest rates should be (lower). This has the market nervous because it views the independence of the Federal Reserve as important. The Federal Reserve is expected to cut rates 50-75bps in 2026 from 3.75% to 3-3.25%. Interest rate cuts beyond what is sensible for the economy will likely put upward pressure on long-end interest rates, creating an opposite effect than desired by President Trump. It is also highly unusual for the Federal Reserve to ease policy rates outside of a recession.



Source: yCharts.com, Purple line = Effective Fed Funds Rate, Orange line = US CPI YOY, Grey bars = official US recessions. Data is historical. For illustrative purposes only.

Outside the US, expected central bank policy diverges across various countries with the UK expected to ease policy rates from 4% to 3.25%, while Canada and Japan are expected to hike 0.25-0.5% and the Euro Zone is expected to hold steady over the course of 2026.

Investment Implications

We have reduced duration on our fixed income portfolios, specifically limiting the exposure to long-end rates. The only place we have exposure to long dated rates is in Municipal Bonds which currently offer very good value versus other fixed income markets.

Dollar Cycles

A key shift in 2025 has been the decline in the US Dollar of roughly 8% (DXY). This is a sizable move in a short time and reflects several forces acting simultaneously. Historically, currency cycles have lasted around 15-20 years, as opposed to 10-12 years for credit cycles, 5-7 years for equity and commodity cycles and 4-6 years for business cycles.[10] The current US Dollar bull cycle started in 2011. The longer nature of currency cycles reflects the fact that currencies are driven by four long-term forces:

1. Geopolitics – the USD accounts for 90% of FX transactions and 50% of global trade and currency reserves.[11] This status as the reserve currency creates a consistent demand for USD. Given the recent bout of tariffs, many are questioning the long-term viability of reserve status.

2. Interest rate differentials – US interest rates have consistently exceeded those of its European and Asian counterparties for much of the last 18 years, attracting more capital flows. Rates in Europe are already below those in the US, but the White House is pressuring the Federal Reserve to lower rates more aggressively, which would potentially push money out of USD on the margin.

3. Investment flows – Large cross-border flows into foreign investments creates demand for the currencies of the country that receive the investment flows. The US has been a large beneficiary of this as the globe has been investing in technology mainly through US markets, although the very high valuation of US markets brings into question if this is sustainable long-term.

4. Deficits – Budget deficits within a country make the country's currency less desirable to hold from an investment perspective. With the recent passage of the OBBBA, concerns have increased about growing budget deficits within the US, although the administration is claiming tariff revenue will offset much of the deficit.

"…Historically, currency cycles have lasted around 15-20 years…and are driven by geopolitics, interest rate differentials, investment flows, and deficits…many of these factors favor a continued decline in the USD…."

Both reserve currency status and deficit concerns are centered around the future of tariff policy. Since taking office, President Trump has aggressively raised US tariffs—first by invoking reciprocal tariffs under the International Emergency Economic Powers Act (IEEPA), and later by moving to impose sectoral tariffs under other statutory authorities. These actions have lifted the average tariff rate from 2.2% to 17.4% and increased government tariff collections to a projected $600 billion per annum if the current regime persists.[12] However, multiple courts have ruled that IEEPA does not empower the president to impose sweeping tariffs absent clear Congressional authorization, with the Supreme Court set to decide the issue in January 2026. An adverse ruling could require the administration to refund over $195 billion in recently collected IEEPA tariffs and immediately halt future collections under that law. In our view, the uncertainty around the Supreme Court ruling injects both fiscal and market risk, as any delay or reversal in tariff collections would impair government revenues and disrupt the revamped trade arrangements negotiated in 2025.

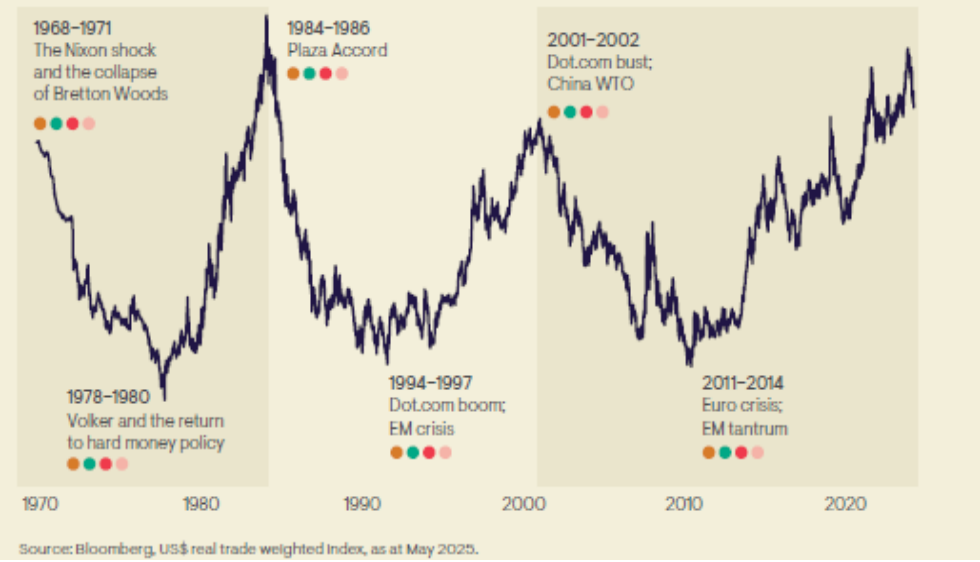
Several factors currently influencing global currencies appear to be putting downward pressure on the US dollar. Given the length of the current bullish cycle relative to historical patterns, investors should consider the potential for further U.S. dollar depreciation.

[10] Source: https://ninetyone.com/en/united-states/insights/multi-asset-strategy-quarterly-june-2025
[11] Source: https://www.bis.org/statistics/rpfx25_fx.htm As of April 2025
[12] Source: https://budgetlab.yale.edu/research/state-us-tariffs-september-4-2025

"Past US Dollar cycles generally have seen declines of 30–40% from peaks, so the current 8% drop is acknowledging some risk of all the ingredients coalescing around a much larger depreciation…."

Historically, prolonged dollar downcycles only materialize when all four structural supports for the dollar shift: trade/geopolitical position, growth and rate differentials, capital flows, and currency policy alignment. Past US Dollar cycles generally have seen declines of 30–40% from peaks, so the current 8% drop is acknowledging some risk of all the ingredients coalescing around a much larger depreciation. Importantly, signs of de-dollarization are not limited to central bank reserve diversification; private capital flows, settlement of commodities in alternative currencies, and falling hedge ratios on U.S. assets all signal a more sustained shift.

For dollar-based investors, this new regime argues for increasing exposure not only to non-US equities but also to non-dollar bonds and in our view, a diversified global asset allocation is likely to be a defense against a secular dollar downcycle. We often get asked the question of how much non-USD exposure a client should have. The long-run expected return to currencies we believe should be close to zero if you just buy and hold them. If the long-run expected return is zero, and investors are not compensated for taking currency risk, then, in our experience, the best approach is to hold your assets proportionally in currencies which reflect the proportion of currencies of your liabilities. In this context, liabilities are not just loans but also reflect all future spending. While each person's individual consumption basket varies, most contain at least 15-20% non-US dollar currency exposure (ex. electronics from Asia, clothing from Europe, etc).



Source: Ninety-One. For illustrative purposes only. Past results are not indicative of future performance.

Investment implications

GenTrust client portfolios are exposed to non-USD currencies through the portion of our equity positioning which is outside the US.

Market Trends

"The last few years have seen several developments such as advanced tax loss harvesting strategies, 351 exchanges, non-distributing ETFs, options-based borrowing, and the growth of private market vehicles. We are very excited about some of these developments, while we view others with more caution…."

The last few years have seen several developments in private wealth management such as advanced tax loss harvesting strategies, 351 exchanges, non-distributing ETFs, options-based borrowing, and the growth of private market vehicles. We are very excited about some of these developments, while we view others with more caution.

Tax Loss Harvesting ("TLH")

Although TLH strategies have been around for decades, several firms started offering long/short versions in the last few years. Our view on traditional long only TLH strategies was mixed – the strategies made sense if a client had consistent short-term gains that could be recharacterized as long-term, or the client was expecting losses in the future or was willing to add cash or gift appreciated securities. Long/short TLH has a few key advantages over traditional TLH which make it more attractive in our view:

- The ability to use existing positions as collateral instead of needing new cash.
- Due to the short side, the portfolio can potentially generate more losses faster and continues to generate losses several years into the program instead of becoming "stuck" or ossified.

351 Exchanges

A 351 exchange is a strategy where an investor transfers assets into a newly launched ETF. When certain diversification conditions are met, this exchange may allow the investor to reduce concentrated stock, clean-up large numbers of small line items, defer capital gains and achieve greater diversification. To qualify, the investor's portfolio must be diversified, with no single asset exceeding 25% of the total value and the top five assets not exceeding 50% of the total value. This process may allow investors to reallocate their holdings tax-efficiently, delaying the taxable event until the ETF shares are sold. Asset management firms have been using this strategy for years to convert separately managed accounts and mutual funds into ETFs, but the process has also recently gained traction among family offices and individual investors, especially given the historic run of technology stocks over the past decade. We believe both TLH and 351s are important tools and may be appropriate for some investors.

Non-distributing ETFs

Fixed income investments play an important role in most portfolios because they are commonly used to add stability and help reduce overall portfolio volatility. While we are very active in the tax-exempt space for our clients, we also find diversifying into taxable fixed income to be attractive in most circumstances. The main drawback of taxable fixed income is that you pay taxes every year on the income it generates at ordinary income rates, which for many investors, approaches 50% with state taxes. Cutting a potential return down by 50% with taxes makes the allocation decision more difficult. Various techniques are being explored on how to provide this same return in a way that carries similar risk but with the benefit of better taxation such as trading around coupon dates or using options as a source of risk. We are very interested in this line of product and the potential saving in taxes for our clients.

	Tax Rate	Pre-tax Return	Post-tax Return	Hypothetical Extra Post-tax Return with LTCG Taxation
Barclays Agg	46.8%	3.24%	1.73%	0.43%
Nat Munis	8.5%	3.49%	3.20%	
State Munis	0.0%	3.59%	3.59%	
HY Munis	8.5%	4.64%	4.25%	
UST Short	40.8%	2.16%	1.28%	0.15%
UST Int	40.8%	3.38%	2.00%	0.24%
UST Long	40.8%	3.39%	2.01%	0.24%
MBS	50.8%	3.06%	1.50%	0.52%
US IG Short	50.8%	3.59%	1.77%	0.61%
US IG Long	50.8%	4.67%	2.30%	0.79%
TIPs	40.8%	3.54%	2.09%	0.25%
HY	50.8%	6.73%	3.31%	1.14%
EM Bonds	50.8%	5.46%	2.69%	0.93%

Source: Bloomberg, returns from Oct '05 to Oct '25, assumes 10% state tax rate, 37% federal tax rate, 20% long-term capital gains rate, 3.8% NIIT rate. For informational and illustrative purposes only. Returns shown are based on index data and assumed tax rates and do not reflect advisory fees, trading costs, or an investor's specific tax circumstances. Tax treatment varies and may change. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results. This material does not constitute investment, tax, or legal advice, nor is it a recommendation to buy or sell any security.

"…Options-based borrowing offers an alternative to traditional borrowing through the use of options, which is attractive for various reasons including: 1) lower rates, 2) flexible loan terms, and 3) tax deductibility of interest…"

Options-based Borrowing

Many clients borrow money for various reasons: real estate, debt consolidation, bridge loans for tax liabilities or capital calls. Options-based borrowing offers an alternative to traditional borrowing through the use of options, which is attractive for various reasons including: 1) lower rates (rates can be close to treasury rates + 20bps, which can be significantly less than margin loans), 2) flexible loan terms (option structures allow the borrower to fix the rate on their loan for up to 5 years or roll shorter-dated loans over time), and 3) tax deductibility of interest (the "interest" cost on options can be characterized as a capital loss, allowing investors to use the cost to offset other capital gains). We have used this type of borrowing for several of our clients and expect it to pick-up in 2026.

Private Markets

In 2000, the total global equity market was $22tn and 99% of that was publicly traded companies. Today, the total global equity market is $100tn but only 91% of that are public companies, with the other $9tn in private markets.[13] Large private companies have become household names such as SpaceX, OpenAI, xAI, Stripe, and Anthropic. As a result, we are seeing growing interest to invest in these private companies from investors. Unfortunately, many firms offering direct access to these firms may use structures that involve higher fees or varying levels of disclosure. Investors should carefully review the costs, risks, and terms of any access vehicle before considering an investment.

Another troubling trend is the growing number of private markets being put into semi-liquid vehicles such as interval funds. Although these structures look like they are here to stay, history has taught us that mismatching liquidity creates a very bad outcome in down markets. Although we are overall very cautious about how quickly private markets have grown and are being pushed through the retail channels, we have invested in a few interval funds when we felt comfortable the assets being held had liquidity which could reasonably match the terms being offered to investors.

Lofty private equity valuations from companies bought in 2020-2022 are still hampering exits. In fact, 20% of LP distributions in 2026 are slated to come from secondaries transactions (Cambridge 2026 outlook).

[13] Source: https://indexes.morningstar.com/insights/analysis/blt6f59cc3327974375/when-public-meets-private-rethinking-the-modern-market

Positioning

From a positioning perspective, we were neutral across asset classes for most of the year and enter 2026 in a similar fashion. We had various tilts during the course of the year but our positioning entering 2026 includes an underweight to credit, an overweight to long-dated municipal bonds through closed-end funds, emerging market (EM) bond exposure, international equity diversification, and a trimmed (vs 2025) Uranium/Gold focus in our real asset bucket after a successful 2025. We are also reducing our reliance on the largest AI companies through holding some of our US large cap exposure in equal weight form, as well as holding asymmetric options structures against those names.

Summary

2025 was a great year for financial assets as the markets climbed the "wall of worry" relating to trade and deficit challenges on the back of strong earnings and large promises of AI infrastructure spending. Looking into 2026, the key questions center on whether AI capex can continue at its current pace, whether extreme index concentration will lead to increased volatility and lower returns, and whether a President Trump-nominated Fed chair will succumb to political pressure to cut interest rates with still-elevated inflation. AI is changing the nature of financial markets and the real economy. What has happened in the recent past may not continue to work going forward.

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