

Mid-Year Outlook | 2026

Executive Summary

GENTRUST | JULY 2026

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H1 '26 Recap – The US economy grew 2.7% in Q1 2026, though inflation remains elevated (Core PCE 3.4%) and employment only modestly recovered. S&P 500 earnings impressed, with EPS of \$85 in Q1, growing 27.7% YoY. Equity markets surged in H1, led by Pacific-Asia (+27.1%), small caps (+22%), and value (+16.2%), while growth lagged. Commodities rallied strongly (DBC +18.8%, MLPs +25.1%), fixed income returned modestly (AGG +1.1%), and gold reversed sharply, falling 7% YTD after peaking in Q1.¹

The Big Picture – AI infrastructure spending is creating massive real economy and financial market impacts. Non-AI risks create the potential for sharp market declines which most often occur in the presence of combinations of tighter monetary policy, overleveraging, macro shocks, and regulatory change.

AI Impacts – AI infrastructure capex is projected to exceed \$800 billion in 2026, but the underlying revenue growth needed to justify these investments is likely unattainable, creating disappointing returns even as the spending reshapes labor markets (declining youth employment in AI-exposed roles), inflation (short-term price pressure from semiconductor/memory shortages), and murky productivity gains (individual task speedups that largely fail to reach the bottom line). The buildout is also distorting equity market supply/demand through a wave of major private-company IPOs (SpaceX, OpenAI, Anthropic, Stripe, Databricks), at the same time buybacks are slowing as cash flows are consumed by capex.

Market Risks – Despite the positive news from AI, significant market risks still remain, including geopolitical, inflation, and credit issues. We stress test our client portfolios regularly to aim to ensure they are resilient to such shocks.

Family Office Investing Trends – There are currently four main themes we are seeing in the family office space: 1) positioning for growth beyond obvious AI plays; 2) building modern alternatives platforms via pre-IPO access to elite private companies, liquid alternatives as a liquidity engine, and seed/GP stake structuring, 3) prioritizing tax and structural efficiency (options-based borrowing, next-gen tax-loss harvesting, Section 351 conversions, and Opportunity Zones), 4) focus on resilience/customization including inflation hedges, jurisdictional diversification, and fully bespoke solutions.

Positioning – We currently hold selective tilts in portfolios. Key exposures include equal-weight S&P allocations, international diversification, and a focus on real assets. Where appropriate, we are also deploying option hedges across the richer parts of the equity market and allocating to liquid alternatives.

¹ YTD return numbers are from yCharts as of 6/30/26. All forecasts are expressions of opinion 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.

H1 2026 Market Review

“... Broad market indices posted a strong Q2, after a slow start in Q1...”

The real economy rebounded to 2.7% in Q1 2026, while inflation is still well above the Fed's 2% target (3.4% US Core PCE in May). Employment stabilized in Q2 with Nonfarm Payrolls rebounding from a 6-month moving average close to zero in Q1 to just under 100k in May. On the earnings side, Q1 2026 earnings season proved to be better than expected, with S&P 500 EPS of \$85 and growing 27.7% YoY.²

Broad market indices posted a strong Q2, after a slow start in Q1. In H1, global equities (ACWI) were up 10.8% YTD. US large cap equities (SPY) are up 9.2%, but lagged US Small Cap (IWM) +22% YTD and Pacific-Asia (VPL) up 27.1% YTD. Growth (IWF, +3.3% YTD) has lagged as the Mag7 names have struggled, while value has outperformed (IWD, +16.2% YTD). Divergence across sectors was large with technology (XLK, +29.1% YTD) and industrials (XLI, +18.4% YTD) performing well, while consumer discretionary (XLY, -1.5%) and financials (XLF -1.1%) lagging.³

Fixed income returns were moderately positive with AGG +1.1% YTD. Longer-duration assets (TLT, +2.2% vs SHY, +0.7%) have outperformed slightly and credit has added modest extra return. Broad-based commodity indices are up +18.8% (DBC), while energy producers (XLE, +21.5%) and MLPs (MLPX, +25.1%) have performed well. After peaking early in 2026, Gold (GLD) has struggled and is now -7% YTD.³

Asset Class	Ticker	YTD 2026	2025	'08-'24 Ann	Asset Class	Ticker	YTD 2026	2025	'08-'24 Ann
Short Municipal Bonds	SHM	1.07%	3.95%	1.92%	MSCI All Country All World	ACWI	10.83%	22.41%	7.86%
Long Municipal Bonds	MUB	1.90%	3.78%	3.41%	US Large Cap (S&P 500)	SPY	9.24%	17.72%	10.84%
US Aggregate Fixed Income	AGG	1.14%	7.19%	3.13%	US Small Cap (Russell 2000)	IWM	21.96%	12.66%	7.88%
Short US Treasury Bonds (1-3y)	SHY	0.68%	4.95%	1.64%	US Value Equities (R1000 Value)	IWD	16.21%	15.68%	7.57%
Intermediate US Treasury Bonds (7-10y)	IEF	0.47%	8.03%	3.40%	US Growth Equities (R1000 Growth)	IWF	3.27%	18.33%	13.74%
Long US Treasury Bonds (20y+)	TLT	2.23%	4.25%	3.88%	Canadian Equities	EWC	7.10%	35.92%	4.21%
US Investment Grade Bonds	LQD	1.46%	7.90%	4.78%	European Equities (FTSE Europe)	VGK	7.28%	35.85%	3.33%
US Treasury Inflation Linked Bonds	TIP	1.66%	6.77%	3.63%	Pacific Equities (FTSE Pacific)	VPL	27.12%	32.64%	2.98%
US High Yield Bonds	HYG	1.74%	8.60%	5.16%	Emerging Market Equities (MSCI EM)	VWO	10.21%	25.58%	1.88%
Convertible Bonds	CWB	20.86%	16.61%	14.72%	Consumer Discretionary	XLY	-1.53%	7.36%	14.17%
USD EM Bonds (JPM)	EMB	2.78%	13.85%	4.55%	Consumer Staples	XLP	9.98%	1.52%	9.84%
Alerian MLP Index	MLPX	25.08%	4.93%	9.34%	Financials	XLF	-1.07%	14.89%	5.18%
US REITs (MSCI REITs)	VNQ	13.10%	3.26%	6.38%	Health Care	XLV	4.72%	14.50%	11.67%
Commodities	DBC	18.78%	8.06%	-0.72%	Industrials	XLI	18.43%	19.33%	9.75%
Gold	GLD	-7.00%	63.68%	8.37%	Materials	XLB	12.62%	9.92%	6.86%
Energy	XLE	21.47%	7.88%	4.07%	Technology	XLK	29.09%	24.60%	15.65%
Agriculture	DBA	3.88%	-0.58%	0.61%	Utilities	XLU	9.24%	16.00%	7.31%

Source: yCharts.com.

For illustrative and informational purposes only. ²yCharts Data as of 6/30/2026 ³All YTD return numbers are from yCharts as of 6/30/2026. Equities are proxied by the ACWI ETF. US Equities are proxied by the SPY ETF. Europe equities are proxied by the VGK ETF. Asia equities are proxied by the VPL ETF. Growth stocks are proxied by the IWF ETF. Value stocks are proxied by the IWD ETF. Small cap stocks are proxied by the IWM ETF. Financial stocks are proxied by the XLF ETF. Utilities stocks are proxied by the XLU ETF. Health care stocks are proxied by the XLV ETF. Fixed income is proxied by the AGG ETF. Credit is proxied by the HYG ETF. Duration is proxied by the TLT ETF. EM bonds are proxied by the EMB ETF. Commodities are proxied by the DBC ETF. MLPs are proxied by the MLPX ETF. Gold is proxied by the GLD ETF. All forecasts are expressions of opinion and subject to change without notice and are not intended to be 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 the management of an investment portfolio. As a result, the 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.

Big Picture

“...Studies show that the deepest market declines occur in environments which have common characteristics including tighter monetary policy, overleverage, confidence or macro shocks, and regulatory changes...”

The major players in AI are on track to spend over \$800 billion (2.5% of US GDP) in 2026 alone, and estimates imply more than \$3 trillion over the next five years on AI infrastructure.⁴ Much of this spending is committed through “circular” arrangements in which one company invests in another, and the proceeds are then used to purchase the first company’s products. This deepens interdependence among firms and amplifies the risks created by already elevated market concentration. The sheer size of the spending is having massive impacts across the real economy and financial markets.

Within the real economy, AI is changing how companies organize work and make hiring decisions, which could create longer-term pressure points in labor markets.⁵ The massive buildout is creating price distortions in inputs such as semiconductors and memory, which in turn are creating short-term upward inflationary pressures. The flip side of weak labor markets and higher inflation is, in theory, greater productivity. Several studies have been conducted to verify this and the data is mixed. AI demonstrably helps individuals complete isolated tasks faster. This is the most robust finding. However, those gains largely fail to reach the organizational bottom line due to bottlenecks, implementation failures, and system-level constraints. Macro data is improving, but economists disagree sharply on how much AI is the cause.

Within financial markets, the spending surge is transforming formerly capital-light businesses into more capital-intensive ones at a time when the returns on AI capex remain uncertain. By our estimates, we believe AI-related revenue would need to grow 85% annually over the next 5 years just to justify the investment at reasonable margins. A wave of major IPOs (SpaceX, OpenAI, Anthropic, Stripe, Databricks) combined with slowing buybacks creates a deteriorating equity supply/demand dynamic.

Outside of AI, market risks remain. “Liberation Day” in April 2025, continued threats of tariffs, and the Iran War, which began in February 2026, all mark a shift in U.S. policy towards a more unilateral and isolationist regime. Studies show that the deepest market declines occur in environments which have common characteristics including tighter monetary policy (from AI driven inflation), overleverage (private credit), confidence or macro shocks (geopolitics), and regulatory changes (mid-terms coming soon).⁶

In our view, the key to investing in times of increased volatility is sticking to core principles. We believe that having a risk framework which considers not only historical portfolio moves but also stress tests those portfolios to potential future volatility is paramount to endure the appropriate level of risk.

⁴ Source: <https://www.goldmansachs.com/insights/articles/why-ai-companies-may-invest-more-than-500-billion-in-2026>

⁵ Source: https://www.ey.com/en_us/newsroom/2025/12/ai-driven-productivity-is-fueling-reinvestment-over-workforce-reductions

⁶ Source: <https://www.nytimes.com/2026/01/05/us/politics/trump-venezuela-monroe-doctrine.html>

AI Impacts

Introduction

Recent developments in AI have produced models⁷ capable of acting as agents, performing multi-step reasoning, and working on local hardware. These exciting developments have strengthened the desire to continue large scale AI capex. This capex in our view is having or will have wide sweeping consequences across both the real economy in areas such as labor markets, inflation and productivity; as well as in financial markets through equity supply/demand, and the potential for bubbles. We examine each in the following sections.

AI Capex

Estimates of AI infrastructure spending exceed \$800bn in 2026 including \$700bn from just Amazon, Google, Microsoft and Meta alone.⁸ Goldman estimates a cumulative \$7.6 trillion for the next 5 years by all players and all forms including compute, data centers and power.⁹

Does massive spending mean good returns on those investments and the companies undertaking them? In our view, 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% return on invested capital (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 2026, the total revenue of all AI related services are estimated to be \$175 billion.

To further put this required revenue growth number in context, revenue would need to grow by 85% per annum for the next 5 years to reach \$3.8 trillion, and that would represent 10% of estimated US GDP of \$38 trillion in 2030.

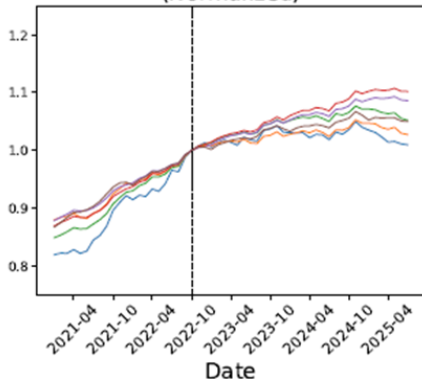
Labor Markets

AI is already having a large impact on labor markets. 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.¹⁰ 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.

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 already underway.

“... To further put this required revenue growth number in context, AI related revenue would need to grow by 85% per annum for the next 5 years to reach \$3.8 trillion, and if it did, that would represent 10% of estimated US GDP of \$38 trillion in 2030....”

Headcount Over Time by Age Group (Normalized)



Source 10: For illustrative and informational purposes only. Data shown is subject to revision and may not be indicative of future economic or market conditions.

⁷ Source: <https://www.anthropic.com/news/claude-opus-4-6>

⁸ Source: Q1 2026 earnings calls; Financial Times compilation; Statista, Apr 30, 2026

⁹ Sources: Goldman Sachs Global Institute May 2026; CNBC May 21, 2026; Allianz Research Mar 2026

¹⁰ Source: https://digitaleconomy.stanford.edu/wp-content/uploads/2025/08/Canaries_BrynjolfssonChandarChen.pdf

Inflation

Consensus views a few years ago were that AI was supposed to be a deflationary force. While that may be true in the long run, in the short run it is having the opposite impact. Prices of semiconductors and memory have spiked as a result of AI demand. These increased prices have forced companies to increase the price of electronics, such as we saw recently with Apple increasing the prices of MacBooks and iPads.

While we believe the long-term impact is still a bias towards lower inflation, it is unclear how long the near-term inflation risks will persist, a genuine risk to higher rates and weaker financial markets.

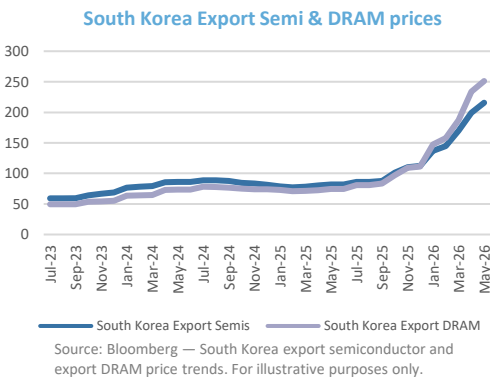
Productivity

The flip side of weak labor markets related to AI should be an increase in productivity. What does the data show?

- AI demonstrably helps individuals complete isolated tasks faster. Benefits are largest for less experienced workers on well-defined, isolated tasks. Across writing, legal, customer support, coding, accounting, translation, a 15-50%+ reduction in task time completion was realized according to ICLE, "AI, Productivity, and Labor Markets: A Review of the Empirical Evidence."¹¹
- However, those gains largely fail to reach the organizational bottom line due to bottlenecks, implementation failures, and system-level constraints. A February 2026 NBER study surveying 6,000 US executives (mostly CEOs and CFOs) found 89% of managers reported no measurable change in productivity (sales per employee) over the prior 3 years despite AI adoption rising from 61% to 71%.¹²
- Macro data is improving but economists disagree sharply on how much AI is the cause. US labor productivity growth was 2.7% in 2025, nearly double the prior decade's 1.4% found the AEI analysis "When Will AI Affect US Productivity Growth?"¹³ AI-attributed labor productivity growth among US firms was 0.6% in 2025 and is expected to be 1.8% in 2026 found CEPR VoxEU, "AI, Productivity and Work: Evidence from US Firms."¹⁴

Equity Supply/Demand

AI impacts go beyond just the real economy and impact financial markets. From 2006 to 2025, total net US equity issuance was approximately negative \$430 billion – companies collectively removed more shares from the market than they created, largely through aggressive buyback programs.¹⁵ 2026 changes things as several marquee IPOs are set to hit the market (SpaceX, OpenAI, Anthropic, Stripe, Databricks, etc). For context, the combined market cap of just the first three would be over 4% of the US total market capitalization. We believe 2027 will be worse as lock-ups expire and more stock from these companies hits the market. At the same time, buybacks are slowing because they were mostly done by large technology companies which are now either preserving cash or issuing shares to fund the aforementioned AI capex spend. With capital expenditures now expected to consume close to 100% of operating cash flows for the hyperscalers over the next two years, there is little left over for increased shareholder returns via buybacks. Technology companies are increasingly turning to bond markets as means of raising capital. In our view, this is a bad supply/demand set-up for equity markets and bond markets alike.



Company	Est Valuation
SpaceX	\$1.7t
OpenAI	\$1.0t
Anthropic	\$1.0t
Databricks	\$200bn
Stripe	\$170bn

Source Bloomberg. For informational purposes only. Valuations are based on most recently reported third-party estimates and may not reflect current value.

¹¹ Source: ICLE, "AI, Productivity, and Labor Markets: A Review of the Empirical Evidence," Feb 5, 2026 — laweconcenter.org

¹² Source: Fortune, "Thousands of CEOs admit AI had no impact," Feb 17, 2026 — fortune.com; WebProNews, Feb 19, 2026 — webpronews.com

¹³ Source: AEI, "When Will AI Affect US Productivity Growth?", Feb 25, 2026 — aeio.org

¹⁴ Source: CEPR VoxEU, "AI, Productivity and Work: Evidence from US Firms," Jun 26, 2026 — cepr.org

¹⁵ Source: <https://www.valuethemarkets.com/cryptocurrency/news/us-equity-issuance-looks-to-surge-what-it-means-for-investors>

GT's AI framework tiers assets into Tier 1 assets you want to own that provide real assets and human experiences, Tier 2 which you want to be opportunistic with as AI will create large disparity between winners and loser, and Tier 3 assets which are prone to disruption and investors should avoid.

Investment Frameworks

The sheer size of the AI capex numbers make high aggregate returns to those investments very unlikely. This isn't stopping some of the best investment allocators in the world from plunging billions of dollars into the space. The below reviews several AI Investment Frameworks put forward by such firms.

- Sequoia frames AI as a "cognitive revolution," arguing AI will industrialize knowledge work, much like factories industrialized manual labor. GPUs and frontier models are like steam engines, while the bulk of value creation lies ahead as startups specialize them for concrete vertical use cases (e.g., legal, healthcare, industrial operations) and integrate them into production workflows. Disruption will happen in traditional professional services such as legal, accounting, and consulting, as well as in software development and IT.¹⁶
- a16z argues AI will massively augment human intelligence, accelerate scientific discovery, and drive productivity growth. AI won't just advise but will act, turning workflows into AI-native software.¹⁷ Accel's AI thesis highlights three big buckets: infrastructure (automation, orchestration, low-code/no-code), horizontal transformation tools, and verticalized AI applications that embody domain expertise with a specific focus on AI in financial advice and healthcare.¹⁸
- Benchmark has been making concentrated bets on AI infrastructure such as frontier AI/agent companies globally, suggesting a belief that next-gen compute and core models will remain very valuable.¹⁹

GenTrust's Framework

- Tier 1 (Core/Own): Real Assets & Human Experience. Low disruption or enablers. Production of physical essentials where AI is an efficiency lever, not a product replacement. Energy (oil, gas, uranium), utilities, industrials (chemicals, steel, mining), consumer staples (restaurants, household products, beverages).
- Tier 2 (Opportunistic): Scientific & Complex Manufacturing. Industries where AI is a "super-tool" that accelerates R&D and design but does not replace the physical end-product so idiosyncratic company volatility is likely to be high although sector performance may be unaffected. Semiconductors, Biotechnology, Drug Manufacturers, Medical Devices, electronics, defense/aerospace, autos, retail, transportation, and machinery.
- Tier 3 (Avoid): Prone to Disruption. Industries where the core product can be created or heavily automated by AI, forcing a fundamental business model overhaul. Software, professional services, legal, accounting, consulting, content generation, asset management, insurance, banks.

¹⁶ Source: <https://sequoiacap.com/article/ai-in-2025/>, <https://sequoiacap.com/article/generative-ai-act-two/>

¹⁷ Source: <https://a16z.com/who-owns-the-generative-ai-platform/>

¹⁸ Source: <https://www.accel.com/noteworthy/accel-2025-globalscape-race-for-compute>

¹⁹ Source: <https://www.theinformation.com/articles/benchmarks-ai-pressure-test-high-prices-smaller-stakes-poached-star>

AI Bubble

Should investors move all their investments to Tier 1 assets or has the market priced this outcome already? 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.

"... market bubbles tend to burst when one or more of the following conditions are present: tighter monetary policy, overleverage, confidence or macro shocks, or regulatory changes.... Current conditions have small signs of each of these, although none rising to the level of changing investor sentiment..."

A bubble is a situation where an asset's market price rises well above the level justified by fundamentals (discounted future cash flows, rents, etc.). Bubbles are typically characterized by rapid price increases, widespread speculative behavior, and eventual sharp corrections once expectations or funding conditions shift. The current AI boom exhibits many classic bubble ingredients—compelling narrative, outsized recent performance, reflexive flows, and difficulty in separating winners from hype—raising vulnerability if earnings fail to catch up or rates stay elevated.

Experts are split on whether we are in bubble. Ray Dalio's bubble gauge is ~80% likely, comparable to 1929 and 2000,²⁰ based on valuations, multiples, leverage, money supply, and wealth concentration. Goldman Sachs' equity strategy view is that while the market is "excessively optimistic," valuations are high but "not yet at bubble levels," with AI benefits largely priced but not wildly beyond what their macro constraints would allow. The areas analysts believe are most likely in a bubble include a) Segments of tech - Growth/momentum stocks, unprofitable IPOs, and software names, b) Crypto - They combine features that make bubbles likely: difficult-to-anchor intrinsic value, highly speculative participation, leverage, and strong social proof dynamics.

What causes bubbles to burst and are any of those conditions currently present?

- Tighter monetary policy - An IMF survey of historical crashes finds that "most of the crashes absent recessions were triggered by monetary policy tightening" often after a period of credit expansion and speculative excess.²²
- Overleverage - Bubbles are especially fragile when they are "leveraged"—funded heavily with borrowed money rather than equity. The current massive AI spending that is in the early stages we believe will create massive leverage amongst the largest companies. Nascent markets such as private credit also create leverage which is harder to measure.
- Confidence or macro shocks - Bubbles are sustained by narratives ("this time is different," new technologies, permanent high growth); they often burst when those stories are punctured, such as returns to AI disappointing. The IMF's historical analysis shows many equity crashes and recessions occurred in conjunction with external shocks such as oil price spikes, exchange-rate regime changes, or geopolitical events, which interacted with pre-existing financial vulnerabilities.²¹ With the Iran war, this may have already happened. Add in increasing risk in Taiwan.
- Regulatory changes - Changes in rules, taxes, or guarantees can abruptly alter the economics of a bubbly asset class. These shocks matter because they change the constraints investors face. The growing political backlash against data center buildouts is an example of the type of regulatory shifts which could have impacts on broader markets.

²⁰ Source: CNBC/Investopedia Nov 2025; Stocktwits Mar 2026

²¹ Source: <https://www.nber.org/papers/w8966>

²² Source: <https://www.elibrary.imf.org/display/book/9781589062122/ch02.xml?utm>

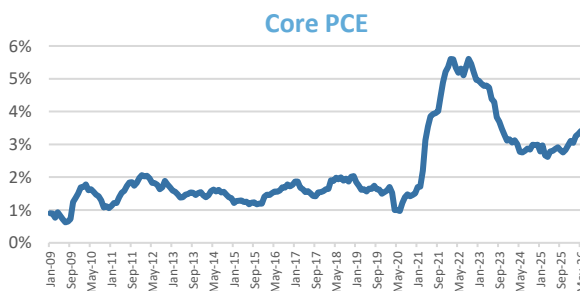
Risks: Iran, Inflation, Private Credit

Iran

On February 28th, the U.S. and Israel launched coordinated strikes against Iran. Forty-seven years of rule came to an abrupt end when Iran's Supreme Leader, Ayatollah Ali Khamenei, along with several other senior political and military leaders, was killed in the attack. Energy flows through the Strait of Hormuz (SoH) were disrupted, and Brent crude rose from \$71 to almost \$140 at its peak. Levels have since returned back to \$76 although the risk of reigniting conflicts are real. How much damage this temporary increase in oil had on inflation is yet to be seen, although if the \$70 levels are maintained, the damage should be controlled. However, nothing is preventing the conflict from re-emerging, especially with the US in a weaker position as we approach mid-term elections.

Inflation

From 2009 until 2021, core PCE ranged from 1-2%, below the Fed's target of 2%. Since the inflation spike in 2022, core PCE returned to 3% but has recently started to increase again. Since core metrics of inflation remove the impact of energy prices, this recent increase cannot be explained by the oil price spikes from the Iran war. Locally, demand from AI is likely to continue to push up prices for related electronics.



Source: FRED, Federal Reserve Bank of St. Louis (PCEPILFE), monthly data, Jan. 2009–May 2026. Data is subject to change.

Private Credit

Private credit became a major lender to software companies over the past decade, attracted by strong cash flows, high margins, and recurring revenue. AI-driven disruption now threatens those fundamentals. UBS warned that in a severe disruption scenario, private credit default rates could spike toward 15%, versus mid-single-digit historical norms.²³ Compounding this, software companies have limited real assets to support recovery upon default. Managers point to low actual defaults, but realized defaults are a lagging indicator. "Shadow defaults"—amendments, PIK interest, covenant waivers, and maturity extensions—have been rising, masking underlying distress that accumulated during the 2020-2023 boom. A more systemic issue is the liquidity mismatch between illiquid private loans and the semi-liquid vehicles marketed to RIAs and high-net-worth investors—BDCs and interval funds—sold as yield solutions and 60/40 replacements. When everyone exits at once, liquidity disappears. Retail outflows can create credit problems that otherwise wouldn't occur, accelerated by leverage; systemic risk to the broader economy is unlikely, though banking interconnectedness bears watching; and current BDC pricing appears to already reflect roughly 50% software loan defaults with limited recovery.

We stress-test client portfolios regularly against a range of scenarios, including a commodity shock, an inflation scare, and a credit crisis, as part of our effort to keep allocations well balanced across different market environments. Our core allocation includes positions in inflation-linked bonds and real assets, such as energy producers and MLPs, which are intended to help address commodity and inflation-driven stress. Diversification and scenario analysis are key to how we manage risk.

“... We stress test our client portfolios regularly to make sure they are resilient to shocks such as an oil spike, an inflation scare, and a credit crisis....”

²³ Source: <https://www.bloomberg.com/news/articles/2026-02-24/ubs-now-sees-private-credit-defaults-reaching-15-in-worst-case>

“... family offices are currently more entrepreneurial, more tax-aware, and more demanding than at any point in recent memory...”

Family Office Trends

Our family office clients represent some of the most sophisticated private capital in the market. Four major themes define how these families are deploying capital today.

Positioning for Growth

Families are moving beyond obvious AI platform plays toward the broader ecosystem: enabling technologies like photonics and advanced semiconductors, beneficiary industries like biotech and defense, and "picks and shovels" infrastructure including power generation and data center buildout. Return stacking—using capital-efficient instruments to layer exposures such as trend-following on top of core equity—is gaining traction as a way to pursue efficient diversification without sacrificing core market exposure.

Building a Modern Alternatives Platform

Access to elite private companies (SpaceX, OpenAI, Anthropic, Anduril) has become a key objective, as the bulk of value creation now occurs before IPO. Liquid alternatives—managed futures, market neutral, global macro, reinsurance—serve as the liquidity engine that keeps capital productively deployed while private funds draw down. A growing number of families are also structuring seed deals and GP stakes, so they share not only in investment returns but in the management economics of the firms they back.

Tax and Structural Efficiency

After-tax outcomes dominate decision-making. Innovations include options-based borrowing (box spreads, variable prepaid forwards) to access liquidity without triggering gains; second-generation tax loss harvesting using long/short overlays that cure the "ossification" problem of earlier strategies; Section 351 conversions that roll low-basis portfolios into modern ETF wrappers tax-free; and the newly restructured Opportunity Zone program (OZ 2.0), made permanent under the OBBBA, which introduces rolling five-year deferrals, enhanced rural incentives with a 30% basis step-up, and a decennial redesignation cycle beginning January 2027.

Resilience and Customization

The 2022 experience—stocks and bonds falling together—has prompted families to build more deliberate inflation defenses combining commodity futures and duration-hedged inflation-linked bonds. Jurisdictional diversification, including multi-jurisdiction entities, trusts, and residency optionality, is increasingly pursued not for avoidance but for resilience and flexibility. Across all themes, the defining expectation is full customization: families no longer accept model portfolios and demand bespoke solutions built around their specific circumstances, businesses, and tax positions.

Taken together, these trends describe a family office that is more entrepreneurial, more tax-aware, and more demanding than at any point in recent memory—and a clear mandate for advisors who can deliver genuine access, precision structuring, and truly customized execution.

Positioning

From an overall positioning perspective, we are neutral across asset classes. 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 opportunities 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.

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