

# 4Q2025 – Review and 2026 Outlook

*Sierra Capital Quarterly Newsletter*

January 2026

## Markets Take a Victory Lap While 2026 Lurks

2025 is sealed and closed and we are starting 2026 with continued uncertainty around policy both domestically and internationally. It is unlikely that 2026 will be much different than 2025. 2025 performance was strong with, the S&P 500 up ~17%, the Nasdaq up 21%, the Dow up 14%, Europe up 38%, Emerging Markets up 34%, and the Global and US Aggregate bond indexes up 8% and 7%, respectively, in dollar terms.

Currency played a role in the outperformance of global equities with the Euro appreciating 13% in the year and the dollar depreciating ~13% against the Mexican peso and Swiss Franc. Commodities were up 7% in the year while Gold and Silver ended the year up 65% and 149%, respectively. Oil fell 20% and recent news with Venezuela is likely to add continued pressure on the commodity.

As we enter 2026, global markets reflect what Bank of America characterizes as investors positioned for a "run-it-hot" scenario, with the convergence of rate cuts, potential tariff reductions, and anticipated tax relief driving bullish sentiment. The ISM Manufacturing PMI stands poised for acceleration after three years below 50, supporting expectations for 9% global EPS growth and S&P 500 targets ranging from 7,200 to 7,800. Yet this optimism confronts significant headwinds: rising unemployment, bond vigilantes constraining AI capital expenditure, and valuations at historically elevated levels. The year presents a paradox where risk assets remain primed for strength despite stretched multiples, successful tariff mitigation strategies have defied initial fears, and a K shaped consumer economy that depends on wealthy households driving nearly half of all spending. (Table 1)

## Investment Committee:

Rafa de la Sierra – Founding Partner

Carlos Pedroso – Partner

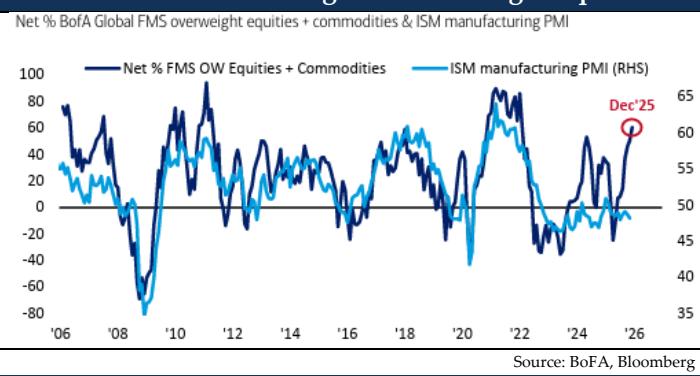
Zev Zaretsky – Director of Investments



## Market Performance:

Fixed Income	Return QTD	Return 2025
Barclays US Aggregate	1.1%	7.3%
Barclays Global Agg	0.2%	8.2%
Unhedged		
Barclays Global High Yield	2.2%	12.1%
Barclays US HY Corporate	1.3%	8.6%
Barclays EM USD Agg	2.4%	11.1%
Equity Markets	Return QTD	Return 2025
DIJA	3.9%	14.3%
S&P 500	2.6%	17.4%
NASDAQ	2.7%	21.1%
Russell 2000	2.1%	12.4%
MSCI AC World	3.3%	22.3%
Nikkei 225	5.9%	28.9%
Euro Stoxx 50	5.0%	37.5%
MSCI AC Europe	6.2%	35.7%
MSCI Emerging Markets	4.7%	33.6%
Mexico IPC	5.5%	56.3%
Hedge Funds	Return QTD	Return 2025
CS Hedge Fund Index	2.5%	9.4%
Commodities	Return QTD	Return 2025
S&P GS Commodity	1.0%	7.1%
Gold Spot	12.0%	64.7%
Silver Spot	55.9%	149.1%
WTI Crude\$/Barrel	-7.9%	-19.9%
Currencies	Return QTD	Return 2025
EUR/USD	0.0%	13.4%
USD/JPY	6.1%	-0.3%
GBP/USD	-0.1%	7.4%
USD/CHF	-0.4%	-12.6%
USD/MXN	-1.9%	-13.5%
Bitcoin	-23.6%	-6.6%
Ethereum	-28.7%	-11.2%

Table 1: Investors Entering 2026 Overweight Equities



## Tariffs

Since “liberation day”, the tariff discussion has continued to be a focal point on inflation and it has been interesting to watch mitigation efforts being generally successful across most US corporations, defying initial fears of widespread margin compression. The effective tariff rate rose to approximately 18%, the highest level since the 1930s, but companies have managed through multiple channels including pricing power, FX hedging, redirecting products to markets without tariffs, stockpiling inventory early, and diversifying supply chains. Some companies then fully mitigated tariff impacts through cost reductions and then beat expectations when tariff rates came in lower than initially anticipated. The rate of change impact from tariffs is now well behind us, and early signs suggest meaningful tariff revenues are being collected with limited impact on the overall economy so far which has been a de-risking for one of 2025's primary concerns. What occurs from here forward is still an open discussion (Table 2)

**Table 2: US Effective Tariff Rate**



If we peek into corporate guidance in the recent quarter, most companies have successfully navigated the tariff environment through supply chain adjustments and pricing strategies, with the cost being shared between exporters, importers, and end consumers where pricing power is available. Multiple companies reported successful tariff mitigation including Burlington Stores (offsetting through vendor negotiations and faster inventory turn), Stanley Black & Decker (targeting below 10% China exposure by year-end and below 5% by end of 2026), Crocs (mitigating through input cost negotiations), and Kimberly-Clark (reducing gross tariff impact from \$170 million to \$100 million). In all, the consensus view has shifted toward seeing tariffs as manageable rather than catastrophic, which helped create opportunities in companies previously discounted for tariff exposure. (Table 3)

**Table 3: Sample Tariff Mitigation Strategies in Earnings**

Company	Date	Industry Group	Commentary
Burlington Stores	11/25	Consumer Discretionary Distribution	• Tariffs had a negative impact on markup, but we were able to offset this impact through numerous actions such as negotiating with our vendors, adjusting the mix and driving a faster turn. The net impact of all this was much more favorable than we originally guided back in August. This was really driven by our tariff mitigation strategies.
Williams Sonoma	11/19	Consumer Discretionary Distribution	• There's only 70 basis points in Q3, with the difference, of course, being the impact of the tariffs. So I'm not sure I understand your question, but there was a greater impact of the tariffs in Q3. And while certainly, we have our mitigation efforts, the tariff impact will increase sequentially quarter-over-quarter every year this year. And as we said on the call, it will have an impact on us in Q4 in a much more substantial way than it did in prior quarters this year.
Stanley Black & Decker	11/4	Capital Goods	• We're going to be working on a mitigation path of getting \$200 million to \$300 million of tariff expense out of the system vs – whether that's shifting product out of China and/or increasing USMCA compliance... We remain on pace to be below 10% by the end of the year and below – at or below 5% by the end of 2026. We're making great progress there.
Crocs	10/30	Consumer Durables & Apparel	• Specific to Q3, roughly, we had about 230 basis points of tariff headwinds in the quarter. Obviously, we have several mitigating actions, whether it relates to negotiating with our vendors with our input costs, et cetera, in our supply chain. So we're able to mitigate a good portion of that.
Kimberly-Clark Corporation	10/30	Household & Personal Products	• Based off of the current tariffs enacted as of October, we articulated it's about a \$270 million annualized impact. And we're tracking that on a number of fronts. From a mitigation standpoint, First and foremost, from a sourcing footprint standpoint, particularly sourcing out of China, where our largest exposure exists to other markets after reducing costs and sharing that tariff impact with our suppliers. And third, is pricing, as you alluded to, those are levers that we continue to pull in. Our objective is to not only offset the dollar cost of the tariffs, but ultimately the margin implications over time.
Masco Corporation	10/29	Capital Goods	• On the gross element of tariffs, are down and improved about \$70 million. So we were about \$170 million. We're down to about \$100 million gross tariffs. On the mitigating actions, we're still mitigating around \$50 million because of the timing of that, and we do expect to be able to largely mitigate them all as we get through last year.
Carter's	10/27	Consumer Durables & Apparel	• The tariff rates now in effect bring our effective duty rate into the high 30% range versus about 13% historically. On a gross pre-mitigation basis, we've updated our estimate of the annualized incremental impact of the higher tariffs and now estimate that to be in the range of \$200 million to \$250 million. For 2025, we've estimated the net impact of the additional tariffs on operating income to be in the range of \$25 million to \$35 million.

Source: MS, FactSet

An interesting risk on the horizon we are watching is the US Supreme Court ruling on the Trump Administrations use of IEEPA (International Emergency Economic Powers Act) for tariffs, which could potentially affect around 70% of tariff revenue. If current tariffs are overturned, the administration is expected to cobble together alternative tariffs under different laws, but these could raise less revenue and necessitate substantial refunds that have already been paid. While a negative for the Trump administration, this would likely trigger stronger economic growth in 2026 with lower inflation, but increase policy risk in the near term.

## Inflation

Inflation dynamics in 2026 present a nuanced picture of moderating pressures with lingering upside risks. Across major strategists, divergent views emerged but UBS expects US inflation to peak in the second quarter of 2026 at just over 3%, with global core inflation falling to 2.2% by year-end as tariff, shelter, and wage pressures ease. This creates a favorable growth/inflation mix that should support risk appetite and allow central banks to continue their easing cycles. More sobering is Morgan Stanley's projection of core PCE at 3.4% in 2025 and 3.9% in 2026, with CPI peaking in 2Q 2026 at close to 4%. This dispersion in forecasts of nearly a full percentage point signals uncertainty that sophisticated investors need to navigate in 2026. (Table 5)

Table 5: Inflation Forecast by UBS

	2025E	2026E	2027E	2028E
US	2.8	3.0	2.4	2.2
Canada	2.0	2.1	2.0	2.0
Japan	3.1	1.6	2.2	2.1
Eurozone	2.1	1.8	2.0	2.0
UK	3.4	2.2	2.0	2.0
Switzerland	0.2	0.6	0.9	0.9
Australia	2.8	3.1	2.7	2.6
China	0.0	0.4	0.8	1.0
India	2.4	4.3	4.0	4.0
EM	3.9	3.5	3.1	3.0
World	3.3	3.0	2.7	2.6

Source: UBS, Haver, CEIC, National Statistic, Bloomberg as of Nov 12<sup>th</sup> 2025

A key risk for 2026 is that second-round effects, specifically US companies raising prices or profit-driven inflation, could make inflation more persistent and harder for the Fed to ignore. Fed regional surveys show prices paid and received are both building, suggesting margins could still be pressured by tariffs even as the rate of change slows. The NFIB (National Federation of Independent Businesses) Prices Paid survey has historically led CPI by approximately three months, and current readings suggest continued upward pressure. ISM manufacturing and services prices paid index remain elevated, indicating that supply chain pricing pressures have not fully dissipated despite improvements in logistics and inventory management. These leading indicators warrant close monitoring as they could signal a shift in the Fed's reaction. (Table 6)

Table 6: CPI and PPI Both Increasing



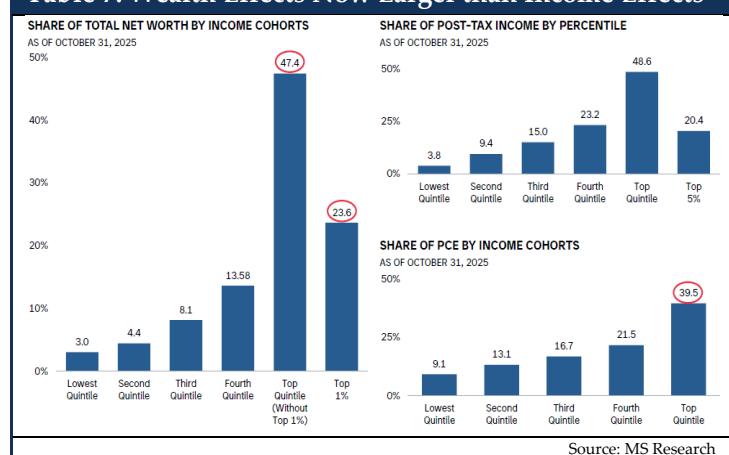
The post Covid structural shift may persist for more years to come, but the picture from the Federal Reserve's future and framework around monetary policy remains a mystery. We believe inflation will remain above the Fed's 2% target throughout 2026, requiring careful

positioning in assets that can preserve purchasing power. For family offices and multi-generational portfolios, this environment reinforces the importance of diversification across real assets, including real estate, infrastructure, commodities, and inflation-protected securities.

## Consumer

Consumer spending has become heavily concentrated among the wealthy, creating both resilience and vulnerability in the economic outlook, which is a dynamic particularly relevant for UHNW individuals whose spending patterns now drive economic growth. The top quintile (without top 1%) accounts for 47.4% of total net worth, while the top 1% alone holds 23.6% of spending. Similarly, the top quintile accounts for 48.6% of personal consumption expenditure, with the top 5% representing 20.4%. This concentration means the overall economy now depends more on whether the wealthy feel confident about spending, rather than on broad wage growth across all income levels. Since wealthy households are more influenced by stock market performance and asset values, their spending can change quickly when markets swing, adding a reflexive element to the growth outlook that investors should factor into their market timing considerations. (Table 7)

Table 7: Wealth Effects Now Larger than Income Effects

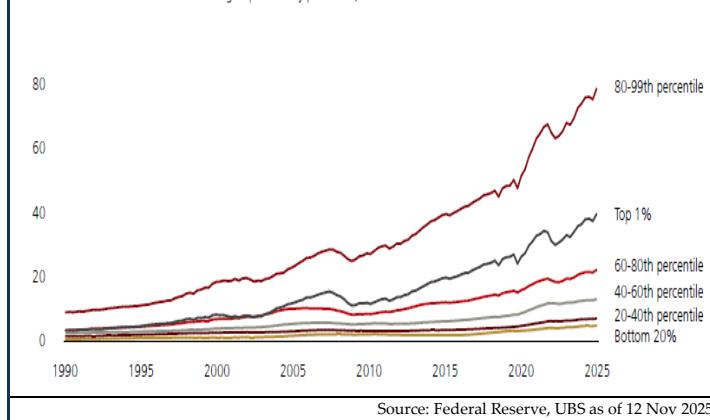


More on that theme, household finances remain solid, especially among middle- and upper-income groups, with total net worth having risen dramatically over the past several years driven by corporate equities and real estate appreciation. UBS data shows the 80-99th percentile household net worth has increased substantially since 2020, providing a wealth cushion that supports consumption even as labor market conditions soften. We expect consumer demand to be underpinned by solid wage growth and healthy household balance sheets among middle and upper-income groups, with net worth to disposable income remaining high, debt to disposable income remaining low, and excess savings stock still elevated relative to pre-pandemic levels. This wealth effect is a double-edged sword: it supports current consumption but also

creates vulnerability to equity market corrections. (Table 8)

**Table 8: Middle-Upper Income Net Worth Strong**

Total net worth across different income groups in US by percentile, in USD trillions

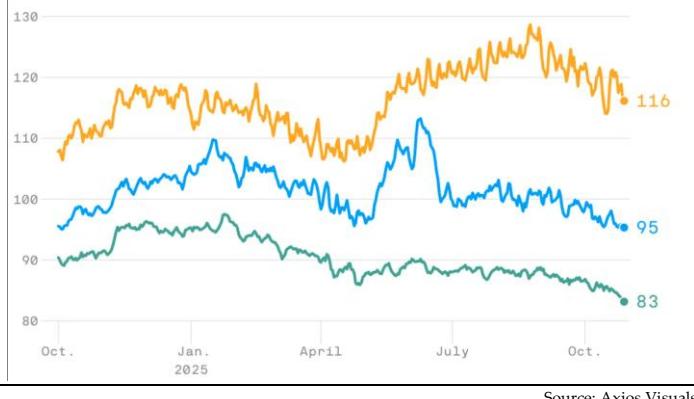


The "K-economy" phenomenon, where wealthy consumers thrive while lower-income households struggle, has spread to the corporate world as well, with the largest companies doing well while many smaller businesses have been crowded out by government spending, elevated interest rates, and regulations that disproportionately affect smaller enterprises. Consumer confidence among youth and lower-income cohorts remains depressed, and holiday shopping surveys suggest this year's season may be more subdued than last year, with only 24% of consumers saying they will proceed with gift purchases if discounts are not offered. The divergence between high-end strength and low-end weakness suggests selective opportunities in consumer discretionary, particularly in luxury goods, experiential services, and premium brands that cater to affluent demographics over mass-market retailers dependent on promotional activity. (Table 9)

**Table 9: Consumer Sentiment by Income**

Daily: Oct. 1, 2024, to Oct. 28, 2025

— Income over \$100k+ — Income between \$50k-100k — Income under \$50k

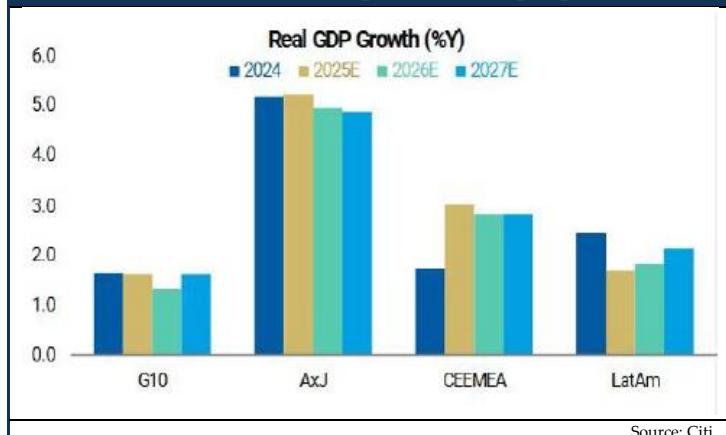


## GDP

US GDP expectations are also somewhat divergent between strategists, but a general theme persists. GDP is expected to fall in

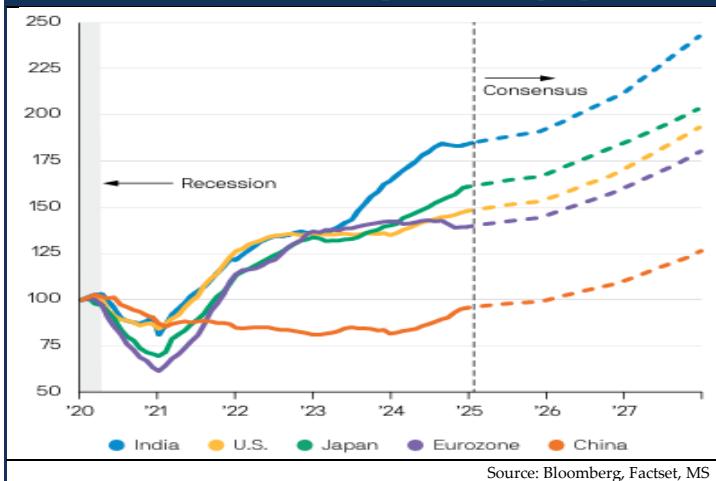
1H26 and reaccelerate in the 2<sup>nd</sup> half of the year. UBS, for example, expects real US GDP growth of close to 2% for FY2026, like 2025, though annual growth figures obscure the underlying acceleration through the year. Looking globally, growth in 2026 should prove moderate, with disinflation continuing across most economies before growth re-accelerates in 2027. The US remains the swing factor with resilient consumption and AI-driven capital expenditure providing upside potential. Policy missteps, however, represent the primary downside risk. Outside the US, Europe appears poised to gain momentum as energy concerns fade with potential Ukraine resolutions, China remains subdued but shows signs of gradual reflation, Japan continues to benefit from reform tailwinds, and India stands out with robust growth from manufacturing moving out of China. Across developed markets, central banks are converging toward neutral policy rates—a backdrop that should support risk appetite without reigniting inflation concerns. (Table 10)

**Table 10: Global Growth Expected to Step Up in 2027**



Morgan Stanley characterizes 2026 as a transition from rolling recession to rolling recovery, an early cycle backdrop emerging from the economic malaise of 2022-2025. The good news is that most elements of a classic early-cycle environment are now with us: compressed cost structures that set the stage for positive operating leverage to resume, pent-up demand, a historic rebound in EPS revisions breadth, and a Fed that is cutting rates. Early supporting evidence of an earnings recovery can be found in 3Q results, with a S&P 500 revenue beat and 8% EPS growth for the median stock in the Russell 3000, the strongest growth in four years. This early-cycle dynamic is important for portfolio construction as it historically favors cyclical over defensive and small caps over large caps and continued earnings growth internationally in regions like India, Japan, and Eurozone. (Table 11)

Table 11: Earnings Growth Expected to Step Up in 2027



### Monetary Policy

While growth rates look supportive, central banks play an important role in maintaining this growth. In the US, the market is pricing in approximately 50 basis points of additional rate cuts through December 2026, bringing the Fed Funds rate toward 3.0-3.25. The Fed faces its familiar conundrum of softening labor markets versus solid spending, with the baseline assuming cuts to neutral as unemployment rises, followed by a recovery in the second half which we mentioned earlier. Citi expects the Federal Reserve to implement two additional rate cuts by the end of the first quarter 2026, moving toward a neutral policy stance while the appointment of a new Fed chair in 2026 introduces some uncertainty. In the near term, monetary policy is expected to remain data dependent. (Table 12)

Table 12: Fed Rate Market Probability for YE 2026

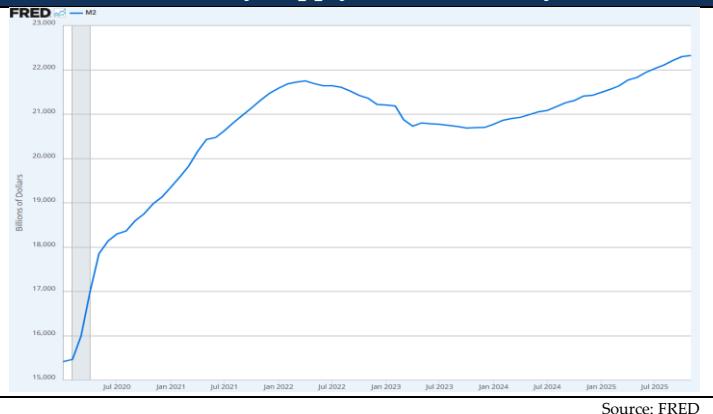
Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate
01/28/2026	-0.172	-17.2%	-0.043	3.592
03/18/2026	-0.535	-36.3%	-0.134	3.502
04/29/2026	-0.782	-24.7%	-0.195	3.440
06/17/2026	-1.345	-56.4%	-0.336	3.299
07/29/2026	-1.632	-28.6%	-0.408	3.227
09/16/2026	-1.974	-34.3%	-0.494	3.142
10/28/2026	-2.152	-17.7%	-0.538	3.097
12/09/2026	-2.317	-16.5%	-0.579	3.056
01/27/2027	-2.302	+1.5%	-0.575	3.060

Source: Bloomberg as of 1/1/2026

The trajectory of M2 money supply growth adds another dimension to the monetary policy puzzle, as the broad money measures continued to expand despite quantitative tightening. Now, the Federal Reserve has stopped quantitative tightening and will be buying US T-Bills to manage market liquidity levels to ensure that the central bank retains control of its interest rate target system. The Fed's balance sheet surged +\$24.4 billion in the week ending December 24th, posting the biggest jump since the March 2023

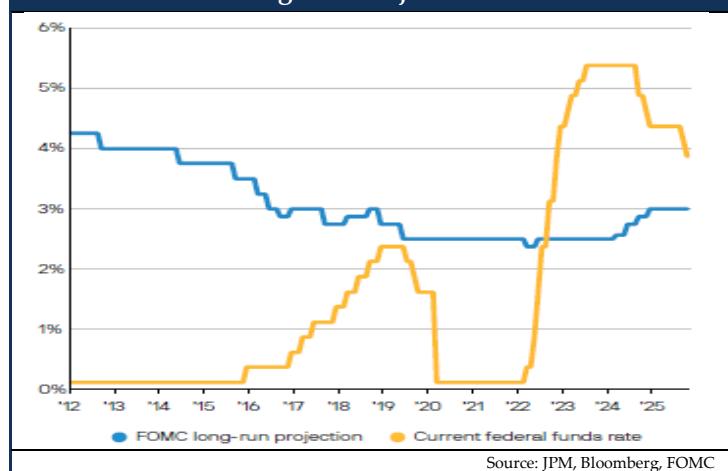
Banking Crisis. This marks the 3rd-consecutive weekly increase for a total of +\$45.5 billion. As a result, the Fed's total assets are up to \$6.58 trillion, the highest since the end of October. The Fed is projected to buy \$35-\$55 billion in Treasury bills each month in 2026. That would make ~\$550 billion in total purchases this year, bringing the Fed's balance sheet back above \$7.0 trillion, the highest since October 2024. In our view, this is either due to oversupply of T-Bills or lack of purchasers in the market for US Government debt. (Table 13)

Table 13: M2 Money Supply (1/2020 to Today)



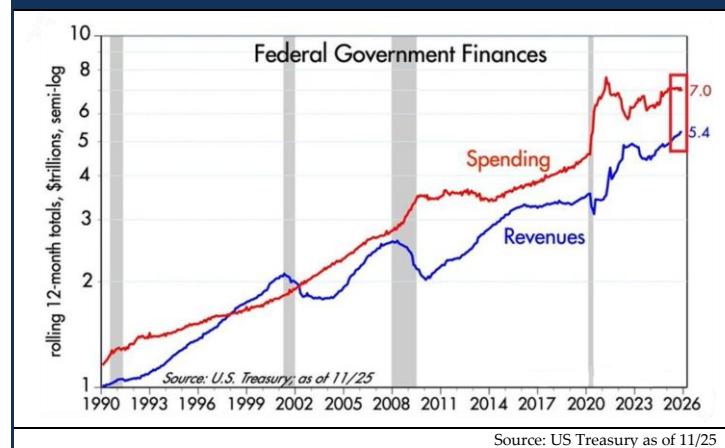
More rate cuts than expected are the missing ingredient for the typical broadening in stock performance that happens early in a new business cycle. While there's uncertainty around this dynamic in the short term, over the next 6-12 months, moderate weakness in lagging labor data and the administration's desire to "run it hot" will lead to an accommodative monetary policy backdrop involving both rates and the balance sheet. Many fixed income strategists see government bond yields staying range-bound with a story of two halves: a front-loaded rally as the Fed cuts, pushing 10-year yields lower by mid-year before drifting higher into 4Q. The "cycle-neutral" rate is estimated at approximately 3.625%, suggesting we are in a new rates regime driven by structural changes and higher debts/deficits. (Table 14)

Table 14: FOMC Long Run Projection of Fed Funds



On the budgetary front, the federal government is facing a massive spending problem. Government spending is up to \$7.0 trillion over the last 12 months, nearly the highest in history. This is only below the ~\$7.8 trillion on a 12-month rolling period seen during the 2020 Pandemic and 2021 recovery. By comparison, before 2020, federal spending was running between \$3.5 trillion and \$4.5 trillion for 10 years. Meanwhile, government revenue is up to a record \$5.4 trillion over the last 12 months, rising nearly +\$1.0 trillion since 2023. Overall, the gap between federal spending and revenue has persisted for 23 consecutive years. From an interest expense perspective, the incentive for either lower rates or cheaper dollar has never been stronger. (Table 15)

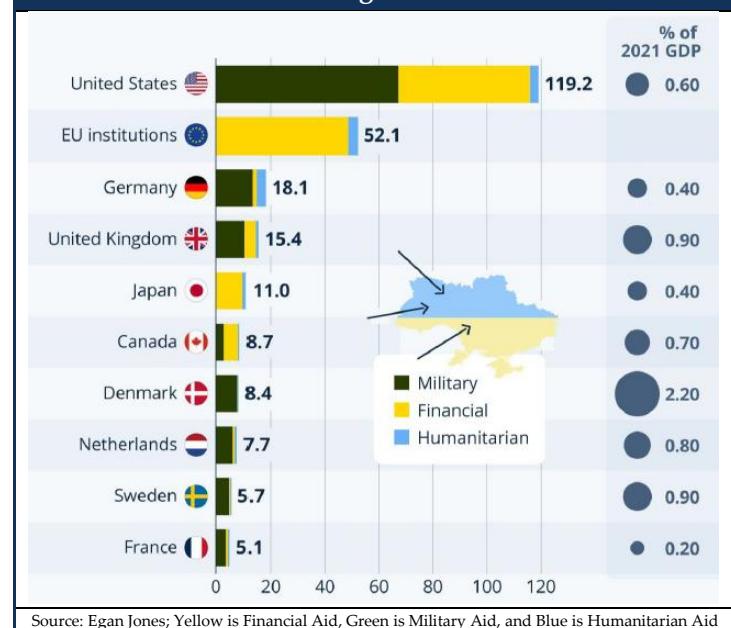
**Table 15: Federal Government Finances**



## Foreign Policy

The war in Ukraine remains the key variable for European economic prospects discussed earlier in this commentary. The conflict has reshaped security architecture with NATO gaining Sweden and Finland while defense spending accelerated. But it has also weighed heavily on European growth through elevated energy costs and business uncertainty. The US has provided roughly \$120 billion in support of Ukraine, dwarfing EU contributions, and any shift in American commitment would alter both the military and economic calculus. A ceasefire, while likely to defer harder questions about territory and security guarantees, could meaningfully improve the European growth trajectory we outlined: reduced energy uncertainty, reconstruction demand, and restored business confidence would all support the momentum we expect in the second half of 2026. Conversely, escalation or prolonged stalemate would reinforce the structural headwinds that have left European equities trading at a 20%+ discount to global peers. (Table 16)

**Table 16: Countries Sending Most Aid to Ukraine**



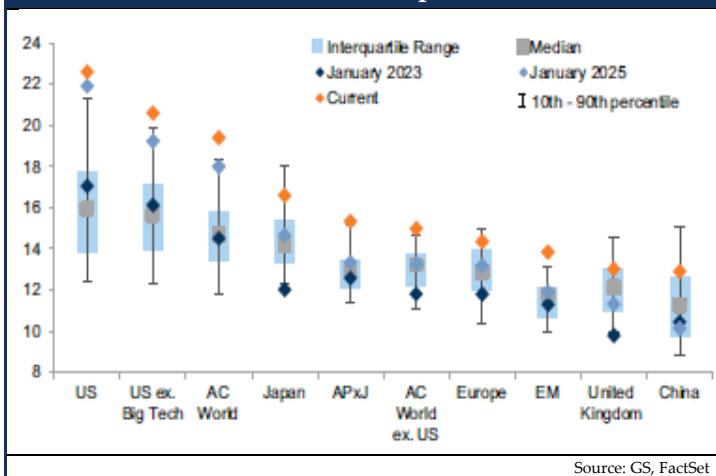
Source: Egan Jones; Yellow is Financial Aid, Green is Military Aid, and Blue is Humanitarian Aid

Venezuela adds another layer to the energy and minerals outlook, with the administration pursuing regime change in a nation holding some of the world's largest oil reserves. Success would be transformative for the supply picture, potentially adding production capacity to a market we already expect to remain in surplus. The challenges are formidable given mountainous terrain and a resistant regime, but failure would carry limited costs beyond credibility. Combined with Ukraine's influence on European gas markets, geopolitical developments in 2026 skew toward energy price downside rather than the supply shocks that dominated earlier in the decade.

## Equities

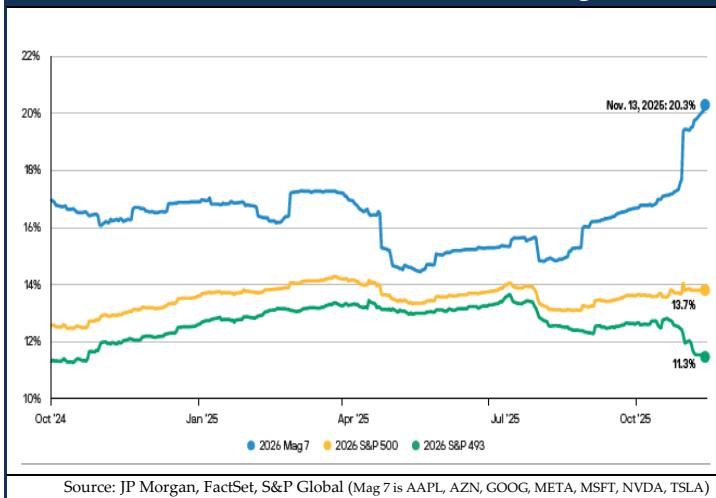
Major strategists maintain overweight positions on equities for 2026, with constructive views driven by earnings growth rather than multiple expansion, yet this is not surprising given multiples entering 2026 are at "expensive" levels. **UBS** expects global equities to rise by around 15% by year-end 2026, forecasting the S&P 500 to reach 7,700 with EPS of \$305 (implied P/E of 22.5x). **Goldman Sachs** targets S&P 500 at 7,200 over 12 months with 2026 EPS of \$280, taking a more conservative view on earnings growth. **Morgan Stanley** has raised their 12-month S&P 500 price target to 7,800 (22x forward EPS of \$356), expecting 2025 EPS of \$272 (12% growth), 2026 EPS of \$317 (17% growth), and 2027 EPS of \$356 (12% growth). The foundation of these targets are premised on maintained multiples and strong earnings growth, and it is expected that earnings will grow across market capitalization. However, multiples are stretched across regions. (Table 17)

Table 17: 12m Forward P/E Multiples Since 2003



JP Morgan forecasts 13% EPS growth in 2026 as the average company sees meaningful earnings growth for the first time in four years. Their expectation is that Mag 7 earnings will decelerate slightly to ~20%, contributing 65% of the earnings growth. However, mentions of "raise guidance" in corporate transcripts have spiked while mentions of "cautious" have fallen, indicating improving management confidence across sectors, particularly some of the largest technology companies. While the market performance of non-Mag 7 companies accelerated into the end of the year, it is still interesting to see the dominance of earnings from the top 7 companies and how the SP500 was and will likely be driven by the AI / Tech narrative into 2026. (Table 18)

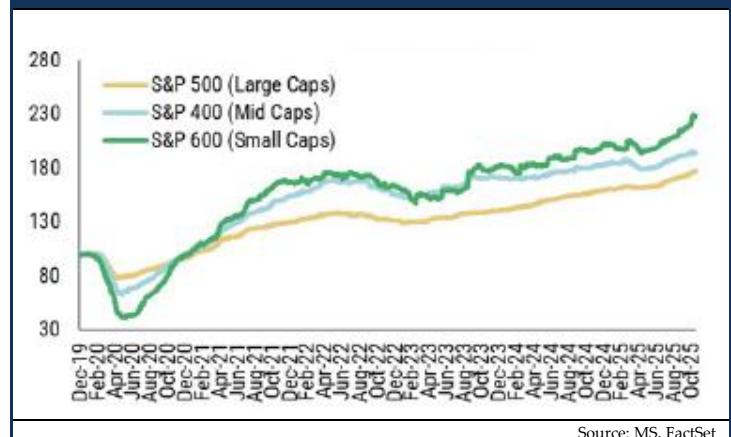
Table 18: Global Next 12 Month Price / Earnings Growth



Across bank strategists, many groups forecast small caps outperforming large caps and cyclicals outperforming defensives. This is due to small caps being classic early cycle outperformers, and relative earnings revisions are now turning higher against large caps for the first time in years. Small caps also trade at a significant valuation discount to large caps (S&P 600 at ~14x NTM P/E vs. S&P 500 at ~21x), suggesting the positive tailwinds are not priced. Historical patterns show small cap earnings growth tends to outpace

even strong large cap EPS growth in these early-cycle environments, as small caps are sensitive to positive operating leverage dynamics and lower rates. For investors comfortable with higher volatility, tactical small cap exposure merits some consideration. (Table 19)

Table 19: Indexed Next 12 Months Net Income



international markets continue to offer catch up potential after years of underperformance. Europe trades at a +20% discount to global peers, and with investor enthusiasm fading and the outlook improving, UBS sees this as an opportune entry point. Within Europe, they favor industrials, technology, and utilities, as well as "European leaders" positioned to benefit from both policy support and structural growth. Japan benefits from accommodative policies under the new government, an earlier-than-expected recovery in corporate earnings, improvements in returns on equity, and valuations lower than in other regions. Japanese corporate efforts to improve capital efficiency and shareholder returns also help sustain upward momentum in 2026. APAC ex-Japan growth is expected to stay robust with China setting a growth target of 4.5-5.0% for 2026. For US-based investors, non-US equities provide both diversification at both a regional company level but also in currencies as domestic policies may weaken the US Dollar (Table 20)

Table 20: UBS CIO Market Forecasts

	Spot	Target	2026 P/E	2026 EPS growth	2026 dividend yield (consensus)
S&P 500	6,851	7,700	22.5x	10%	1.2%
Euro Stoxx 50	5,787	6,200	17.0x	7%	3.0%
Topix	3,359	3,600	16.6x	7%	2.3%
MSCI China	88	102	12.4x	14%	2.1%
FTSE 100	9,911	10,000	14.5x	5%	3.5%
SMI	12,794	13,600	17.2x	5%	3.2%

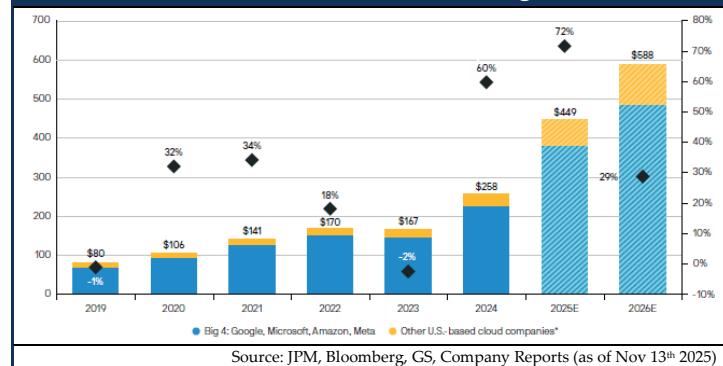
Source: Bloomberg, JPM

### Equities – AI Supercycle

We can't discuss 2026 without a section on AI. Robust AI capex has powered market performance, with the Nasdaq Composite up 107% in three years and semiconductors (SOX index) even better at 157%.

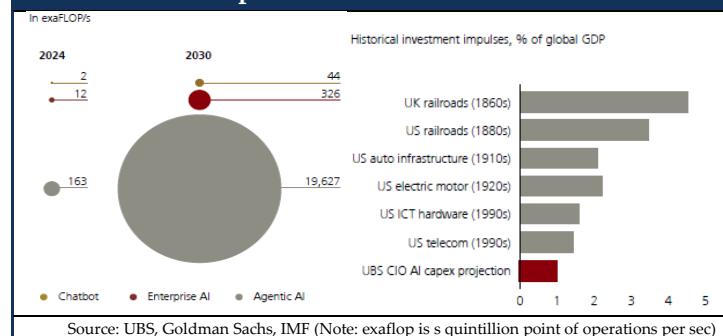
Estimates are astounding with many like UBS estimating cumulative global AI capex of \$4.7 trillion between 2026 and 2030, with \$571 billion expected in 2026 alone (versus an estimated \$423 billion in 2025), representing a 25% CAGR through 2030. The Big 4 hyperscalers (Google, Microsoft, Amazon, Meta) are expected to spend \$588 billion in 2026, up from \$449 billion in 2025, with capex growth of 72% year-over-year. Importantly, AI capex remains low in GDP terms compared to historical investment impulses like railroads (1.5-4.5% of GDP), automotive infrastructure, and telecom buildouts, suggesting the current cycle has room to expand significantly before reaching historical peak investment levels. (Table 21)

**Table 21: US AI Investment (\$ Left, % Right)**



The revenue potential from AI underpins the continued investment. If we assume that labor accounts for around 50% of the world economy, that AI can automate a third of tasks, and that vendors capture a 10% share of the resulting value, longer-term annual AI revenues from end-users could reach around \$2 trillion. US Census Bureau data show that around 10% of businesses are already using AI to produce goods or services, a level expected to rise to 14% within the next six months. UBS analysis suggests adoption typically accelerates further after this threshold, with early adopters reporting tangible value creation including average daily time savings of one hour per day according to Adecco research. The next wave of development from specialized agents, robotics, video, etc. will likely drive continued capex growth. The theme is vast, and so is the compute demand and investment to get us to that level. (Table 22)

**Table 22: AI Compute Estimate / Investment to GDP**



A Hedge Fund manager focused on technology projects return on

GenAI investment to inflect positively in 2026, with contribution margins improving from (-86%) in 2024 to +21% in 2025 and reaching +51% by 2026. This inflection point is significant because it addresses the key bear case concern that AI spending may not generate adequate returns. Penetration levels for AI revenues are expected to remain reasonable by 2030 on both consumer and enterprise sides, suggesting the market opportunity remains largely untapped and has significant runway for growth. The improving unit economics supports maintaining or increasing AI exposure across technology, utilities (power), and infrastructure. (Table 23)

**Table 23: GenAI Investment Return Forecast**



## Fixed Income

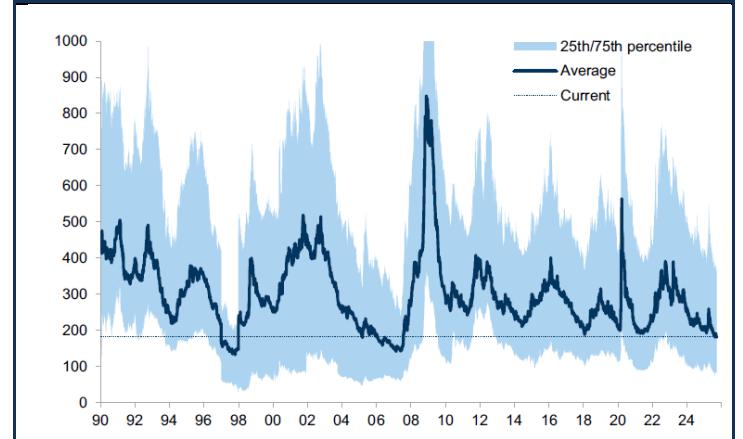
Shifting to fixed income, credit spreads have reached historically tight levels that may constrain future returns, with high yield bond spreads near multi-decade lows. Goldman Sachs is underweight credit, preferring equity to move up the risk curve given the tight spreads while equities can still deliver attractive returns driven by earnings growth. Many strategists, including HSBC note that AI-related financing has been dominated by investment grade issuance, which points to the slow but noticeable widening we have seen as supply increases. For income oriented investors, maintaining fixed income positions argues for maintaining some credit exposure while being highly selective on quality and duration. (Table 24)

**Table 24: US A Rated Corporate Bond Spreads**



Quality bonds, specifically investment grade government and investment grade corporate bonds, have an important role as a source of yield and diversification in 2026. We expect medium duration quality bonds (four to seven years) to deliver mid-single digit returns from a mix of yield and capital appreciation as the Fed cuts rates (of course absent of excessive risk and spread widening). In UBS's base case, for example, US 10-year yields are expected to reach 3.75% by December 2026, falling to 2.50% in a bear scenario where recession risks materialize. Long-term rates are expected to remain in a range with modest curve steepening, which is somewhat consensus across the street. For portfolios structured around long-term capital preservation and legacy planning, quality bonds play an essential role. (Table 25)

**Table 26: Average Carry Spreads Across Fixed Income**



NOTE: Carry include 30Y MBS ABS AT1 spread, Italy Spain 10 year, US and EUR HY Spread and IG Spread, EM credit, EM FX Carry, EM HY FX Carry, BBB-AAA spread vs G10 Treasury-  
Source: Bloomberg, GS

**Table 25: UBS 2026 Targets**

Targets (December 2026)	Bull	Base	Bear
MSCI AC World	1,450	1,350	830
S&P 500	8,400	7,700	4,500
EuroStoxx 50	6,800	6,200	4,400
SMI	14,600	13,600	10,500
MSCI EM	1,640	1,560	1,070
Fed funds rate (upper bound)	4	3.5	1.5
US 10y Treasury yield (%)	4.75	3.75	2.5
EURUSD	1.14	1.2	1.26
EURCHF	0.98	0.95	0.9
Gold*	USD 3,700/oz	USD 4,300/oz	USD 4,900/oz

Source: UBS

Within spread products, Morgan Stanley favors carry driven segments that are more insulated from AI related supply such as US High Yield, agency MBS, and non-agency CMBS/RMBS over Investment Grade credit. The rationale is that IG issuance has been heavy to finance AI infrastructure buildouts, creating supply headwinds, while high yield issuers have generally been less active in the AI space to date. Active security selection across credit, securitized assets, global bonds, and municipals is the path for strong performance in 2026 in fixed income. Strategic asset allocation with adequate allocations to government bonds, which tend to rally during periods of lower growth, provides important diversification against equity risk. For tax-sensitive investors, municipal bonds continue to remain attractive given current spreads relative to taxable alternatives. (Table 26)

### Alternatives

As markets are likely to remain volatile and risk premium erodes with higher valuations, alternative investments remain poised to reduce volatility through diversification. 2025 was an incredible year for the precious metals market and gold remains a valuable hedge, supported by central bank buying, large fiscal deficits, and ongoing geopolitical risks. Gold performed even stronger than projected in 2025, reaching an all-time high of \$4,550/oz. Goldman Sachs is bullish with a December 2026 forecast of \$4,900/oz, noting that after the recent correction, central bank buying has accelerated and there is scope for more investor allocations. Silver has also done incredibly well with prices up over 150% in 2025. Both gold and silver have added +\$16tn in market cap in 2025. The precious metals remain structurally under owned in both private client and institutional portfolios, with UBS recommending up to 5% allocation for diversification and protection against systemic risks. (Table 27)

**Table 27: Silver Prices Surge in 2025**

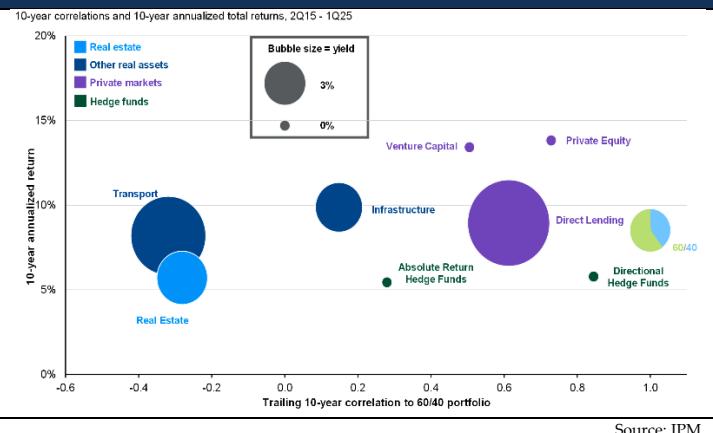


In commodities more broadly, copper and aluminum are projected to encounter supply shortages that may push prices higher, driven

by the global transition to clean energy and electrification. Goldman Sachs expects copper to consolidate in 2026 due to a modest surplus market in the near term but sees a strong metals uptrend in the coming decade, making copper their favorite industrial metal with a recommendation to go long copper and short aluminum. For energy, Morgan Stanley expects Brent crude oil to remain anchored around \$60/bbl given soft supply/demand balance, with Goldman Sachs forecasting Brent/WTI to decline to 2026 averages of \$56/52 as the last big supply wave keeps the market in surplus. Strategists are then expecting an increase to \$80 Brent from late 2028 as non-OPEC+ supply growth stalls. The energy complex offers tactical opportunities but requires active management given the uncertain demand outlook.

For less liquid alternative investments, the environment of low correlation and high return dispersion should support hedge fund performance, particularly equity market neutral strategies and global macro funds which are considerations for endowment style portfolios. Firms like HSBC recommend a 20-40% allocation to alternatives in endowment-style portfolios, including hedge funds, private markets, and infrastructure to enhance diversification and risk-adjusted returns. Within private equity, the focus should be on lower and middle-market, value-based buyouts, complex carve outs, and secondary funds, with a preference for regional diversification in Europe and Asia to mitigate local risks. The supportive macro backdrop and favorable liquidity conditions should help private equity managers navigate elevated valuations. Private credit spreads have tightened but senior, sponsor-backed loans to both small and larger, less cyclical companies remain resilient. Infrastructure tied to AI (data centers, power, grid) represents a secular growth opportunity with defensive characteristics. (Table 28)

**Table 28: 10 Year Correlation / Return**



Source: JPM

2026 shapes up as a year where micro fundamentals drive markets more than macro shocks, marking a return to "normal" investing after years dominated by pandemic recovery, inflation fears, and policy uncertainty. The combination of resilient growth, moderating inflation, accommodative monetary policy, and robust AI-driven investment creates a favorable backdrop for risk assets. We maintain a constructive stance on equities (particularly US), with a preference for cyclical over defensive and small caps/equal weight over large cap indexes as the early cycle dynamics play out. Quality bonds serve an important role for diversification and income, while selective opportunities exist in alternatives including gold, private equity, and AI-related infrastructure.

For our clients, this environment rewards patient capital, strategic discipline, and the ability to access opportunities across public and private markets. The concentration of wealth and spending power among affluent households creates both resilience and reflexivity that sophisticated investors can navigate through diversification and active risk management. We remain committed to helping our clients build portfolios that serve their objectives, and we look forward to discussing how these themes apply to your specific circumstances. If you have any questions regarding this commentary or would like to discuss portfolio implications, please reach out to your Sierra Capital relationship manager.

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**Disclaimers:**

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The simulated historical performance, if any, assumes that the asset allocations were in place and remained fixed over the periods indicated. Simulated historical performances are calculated by assigning a relevant index to each asset class in the allocation, blending the performance of those indices according to the allocation percentages, and assuming quarterly balancing over the time period shown. The performance shown reflects realized and unrealized appreciation and the re-investment of capital gains, dividends, and interest income. The performance shown is based on index returns and thus does not reflect the deduction of transactions costs, taxes, custodian costs or management fees that would lower the performance of an actual account. It also does not reflect factors that would affect the management of actual accounts, such as the timing of trades, liquidity constraints, cash balances, the timing of depositing and withdrawals, and other factors that impact decision making. The performance does not represent the performance of any actual accounts. Although certain of your accounts as of a specified date may have been used to construct the percentages for a current allocation, if shown, the performance was constructed using the performance of representative indices, not using the actual performance of your accounts for any time period. In addition, your asset allocation likely varied over the time period shown, unlike the simulated historical performance which assumes a fixed asset allocation, rebalanced quarterly. Because the asset allocations and the time periods used were selected with the benefit of hindsight, the performance does not reflect the results of recommendations that Sierra Capital made to clients during the time periods shown. The recommendations made by Sierra Capital and the performance of our clients over the time periods shown deviated, sometimes substantially, from the simulated historical performance. In reviewing this material, please understand that all references to expected return are not promises, or even estimates, of actual returns one may achieve. The assumptions are not based on specific products and do not reflect fees, such as investment management fees, oversight fees, transaction costs or other expenses that could reduce return. Investors cannot invest directly in an index. Unmanaged indexes do not reflect management fees and transaction costs that are associated with some investments. Non-U.S. markets entail different risks than those typically associated with U.S. markets, including currency fluctuations, political and economic instability, accounting changes, and foreign taxation. Securities may be less liquid and more volatile. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems which can be expected to have less stability than those of more developed countries. Securities may be less liquid and more volatile than U.S. and longer-established non-U.S. markets. Bond investors should consider risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage-backed securities, especially mortgage-backed securities with exposure to sub-prime mortgages. Investment in non-U.S. and emerging market securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries. Small capitalization (small cap) investments involve stocks of companies with smaller levels of market capitalization (generally less than \$2 billion). Small cap investments are subject to considerable price fluctuations and are more volatile than large company stocks. Investors should consider the additional risks involved in small cap investments. Large capitalization (large cap) investments involve stocks of companies generally having a market capitalization between \$10 billion and \$200 billion. The value of securities will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions.

#### Disclaimers - Definitions:

**Dow Jones Industrial Average (DJIA):** is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities. The DJIA was designed to serve as a proxy for the health of the broader U.S. economy.

**EURO STOXX 50:** Index composed of 50 stocks from countries in the Eurozone. EURO STOXX 50 represents Eurozone blue-chip companies considered as leaders in their respective sectors. The index represents the performance of the 50 largest companies among 20 sectors in terms of free-float market cap in Eurozone countries. The index captures about 60% of the free-float market cap of the EURO STOXX Total Market Index (TMI).

**MSCI (Morgan Stanley Capital International) Europe (USD):** Index captures large and mid-cap representation across 15 Developed Markets countries in Europe: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the UK. The index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

**MSCI AC (All Country) Europe:** Index that captures large and mid-cap representation across 15 Developed Markets countries and 5 Emerging Markets countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI AC Asia ex Japan:** Index that captures large and mid-cap representation across Developed Markets (Hong Kong and Singapore) countries (excluding Japan) and Emerging Markets (China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan, and Thailand) countries in Asia. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI AC World:** Broad global equity index that represents large and mid-cap equity performance across 23 developed and 24 emerging markets. The index covers approximately 85% of the global investable equity opportunity set.

**MSCI Emerging Markets (USD):** Index designed to track the financial performance of key companies in fast-growing nations. The index tracks mid-cap and large-cap stocks in Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI Emerging Markets:** Index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI Japan (USD):** Index designed to measure the performance of the large and mid-cap segments of the Japanese market. The index covers approximately 85% of the free float-adjusted market capitalization in Japan.

**MSCI World:** Cap-weighted stock market index of companies throughout the world. It is used as a common benchmark for 'world' or 'global' stock funds intended to represent a broad cross-section of global markets. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**NASDAQ (National Association of Securities Dealers Automated Quotations):** Index of more than 3,700 stocks listed on the Nasdaq stock exchange, weighted by market capitalization. The technology sector accounts for just over half the index, more than three times the index weight of any other market sector.

**Nikkei 225:** a price-weighted equity index for the Tokyo Stock Exchange. The Nikkei measures the performance of 225 large, publicly owned companies in Japan from a wide array of industry sectors.

**Russell 2000 Growth:** index composed of small-capitalization U.S. equities of the Russell 2000 Growth Index that exhibit growth characteristics.

**Russell 2000 Value:** index composed of small-capitalization U.S. equities of the Russell 2000 Growth Index that exhibit value characteristics.

**Russell 2000:** Small-cap stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index, a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S stock market. The Russell 2000 is commonly used as a small-cap proxy.

**S&P 500 Growth:** is a market-cap-weighted index comprised of growth stocks within the S&P 500 Index based on three factors: sales growth, the ratio of earnings change to price, and momentum.

**S&P 500 Index:** The S&P 500 is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States. It is market-capitalization weighted and is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 U.S. leading companies and captures approximately 80% coverage of available market capitalization.

**S&P 500 Value:** is a market-cap-weighted index comprised of value stocks within the S&P 500 Index based on three factors: book/price ratio, earnings/price ratio, and sales/price ratio.

**S&P/BMV Indice de Precios y Cotizaciones (Mexico IPC):** Index seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores (BMV). The constituents are weighted by modified market cap subject to diversification requirements.

**Shanghai Composite:** Market capitalization-weighted index that reflects the performance of the whole Shanghai securities market, including all listed A shares and B shares stocks on the Shanghai Stock Exchange (SSE).

**Bloomberg Emerging Markets USD Aggregate - High Yield:** Index that measures the USD-denominated, high yield, fixed-rate corporate bond market of key companies in fast-growing nations (EM issuers).

**Bloomberg Emerging Markets USD Aggregate:** Flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers.

**Bloomberg Global Aggregate Index:** The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt in local currency. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

**Bloomberg Global High Yield:** Multi-currency flagship measure of the global high-yield debt market. The index represents the union of the US High Yield, the Pan-European High Yield, and Emerging Markets (EM) Hard Currency High Yield Indices.

**Bloomberg US Aggregate Bond Index:** The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market in the United States. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency)

**Bloomberg US High Yield - Corporate:** Index that measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

**Bloomberg US Treasury Bills 1-3 Month Index:** The Bloomberg US Treasury Bills 1-3 Month Index is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months.

**JPM EMBI Global Diversified:** Unmanaged, market-capitalization weighted, total-return index tracking the traded market for U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities.

**S&P U.S. TIPS (TIPS):** Treasury Inflation-Protected Securities (TIPS) Index seeks to measure the performance of the U.S. TIPS Market. TIPS are treasury bonds that are indexed to an inflationary gauge to protect investors from the decline in the purchasing power of their money.

**Credit Suisse Hedge Fund Index – Event Driven:** Asset-weighted index composed of hedge funds with an event-driven strategy. Event-driven is a hedge fund investment strategy that seeks to exploit pricing inefficiencies that may occur before or after a corporate event, such as an earnings call, bankruptcy, merger, acquisition, or spinoff.

**Credit Suisse Hedge Fund Index – Global Macro:** Asset-weighted index composed of hedge funds with global macro strategy. A global macro strategy is a hedge fund strategy that bases its holdings primarily on the overall economic and political views of various countries or their macroeconomic principles. Holdings may include long and short positions in various equity, fixed-income, currency, commodities, and futures markets.

**Credit Suisse Hedge Fund Index – Long/Short Equity:** Asset-weighted index composed of hedge funds with a long/short strategy. Long/short funds use an investment strategy that seeks to take a long position in underpriced stocks while selling short, overpriced shares. Long/short seeks to augment traditional long-only investing by taking advantage of profit opportunities from securities identified as both under-valued and over-valued.

**Credit Suisse Hedge Fund Index – Multi/ Strategy:** Asset-weighted index composed of hedge funds with a multi-strategy. Multi-strategy hedge funds are the most diverse portfolios in the hedge fund universe. Multi-strategies combine different single hedge fund strategies in one portfolio and differentiate considerably from each other. Most often, such portfolios include a variety of long-short, relative value, and event-driven strategies.

**Credit Suisse Hedge Fund Index:** Asset-weighted hedge fund index that includes open and closed funds. Seeks to measure hedge fund performance and provide the most accurate representation of the hedge fund universe.

**HFRI Fund of Funds Composite:** The Hedge Fund Research Indices Fund of Funds is an index comprised of funds that invest with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. The Fund of Funds manager has discretion in choosing which strategies to invest in for the portfolio.

**S&P Goldman Sachs Commodity Index:** Commodities index that tracks the performance of the global commodities market. It is made up of exchange-traded futures contracts that cover physical commodities spanning five sectors: energy products, industrial metals, agricultural products, livestock products and precious metals.

**West Texas Intermediate (WTI) Crude Oil NYMEX Near Term (\$/bbl) (WTI Crude):** Price of light, sweet, landlocked crude oil that serves as one of the main global oil benchmarks. It is sourced primarily from inland Texas and is useful for pricing any oil produce in the United States, primarily from the Permian Basin.

**Crude Oil Brent Global Spot ICE (\$/bbl) (Brent Crude):** Price of waterborne crude oil based on a basket of North Sea crudes. The brent crude oil blend extracted from the North Sea, comprises Brent Blend, Forties Blend, Oseberg, Ekofisk, and Troll crudes, commonly referred to as BFOET.

**Gold Spot:** The purchase price of a single troy ounce of the metal (gold) for immediate delivery, as opposed to a date in the future.

**Silver Spot:** The purchase price of a single troy ounce of the metal (silver) for immediate delivery, as opposed to a date in the future.

**British pound (GBP) /Dollar (USD):** Current exchange rate of the British Pound (GBP) to US Dollar (USD)

**Dollar (USD)/ Mexican Pesos (MXN):** Current exchange rate of US Dollar (USD) to Mexican Pesos

**Dollar (USD)/Japanese Yen (JPY):** Current exchange rate of Dollar (USD) to Japanese Yen (JPY)

**Dollar (USD)/Swiss Franc (CHF):** Current exchange rate Dollar (USD) to Swiss Franc (CHF)

**Euro (EUR)/Dollar (USD):** Current exchange rate of Euro (EUR) to US Dollar (USD)

**Earnings per share (EPS):** Monetary value of earnings per outstanding share of common stock for a company. It is a key measure of corporate profitability and is commonly used to price stocks.