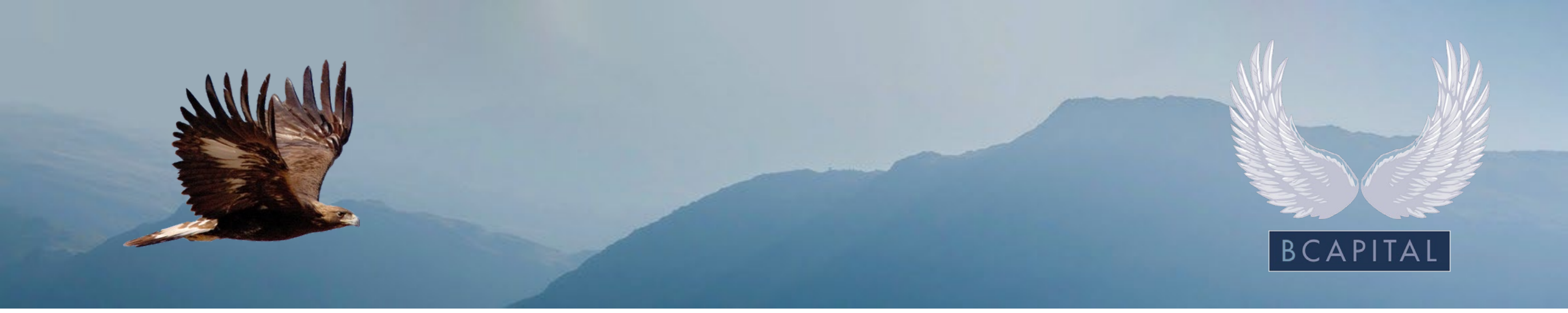

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2026 Investment Outlook: Positioning for Divergence in a Goldilocks Environment

"*Gold is money. Everything else is credit.*" J.P. Morgan (testimony to Congress, 1912)

Executive Summary

As we enter 2026, global financial markets face a fascinating paradox: robust headline growth projections masking significant underlying divergences across regions, asset classes, and policy frameworks. The global economy has demonstrated remarkable resilience through 2025, weathering tariff uncertainties and monetary policy transitions with unexpected strength. Yet this resilience has created pockets of overvaluation alongside compelling opportunities that demand active, discriminating portfolio management.

B Capital portfolios delivered exceptional performance in 2025, significantly outperforming benchmarks through our strategic overweight to precious metals and industrial commodities. Our thesis on dollar weakness, persistent inflation pressures, and the re-rating of commodity assets proved prescient. Looking ahead to 2026, we maintain conviction in these themes whilst introducing tactical hedging strategies to manage elevated equity valuations and implementing strategic shifts in emerging market exposure.

Our outlook for 2026 centres on three interconnected themes: continued dollar depreciation driven by evolving Federal Reserve leadership and accommodative monetary policy; persistent inflationary pressures that favour hard assets and select equities with pricing power; and geographic divergence that rewards active allocation away from expensive developed markets toward undervalued emerging opportunities. We have positioned portfolios accordingly, with material overweights to precious metals and industrial commodity miners, strategic emerging market equity exposure with reduced India allocation, and prudent downside protection on US equity holdings through options collar structures.

Global Economic Backdrop: Sturdy Growth Amid Structural Challenges

The consensus amongst major institutions points to continued global economic expansion in 2026, albeit at rates modestly below historical trends. Goldman Sachs Research projects global GDP growth of 2.8% for 2026, describing the outlook as "sturdy" despite persistent challenges. This forecast aligns closely with the IMF's October 2025 World Economic Outlook, which projects 3.1% global growth for 2026, and Citigroup's assessment of 2.7% expansion.

However, this headline stability masks significant divergences. Goldman Sachs expects US growth to accelerate to 2.6% in 2026, driven by tax cuts providing approximately $100 billion in additional disposable income during the first half, easier financial conditions, and reduced tariff drag. The firm notes it remains "most optimistic (relative to consensus) in the US" owing to these supportive factors. By contrast, China's growth is projected to moderate to 4.8% as robust manufacturing exports fail to offset continued domestic demand weakness, whilst the eurozone should post a "decent" 1.3% expansion supported by German fiscal stimulus and resilient Southern European economies, particularly Spain.

The IMF emphasises that whilst the global economy has demonstrated impressive resilience, "growth prospects remain dim, with risks tilted to the downside." Effective US tariff rates remain at approximately 19%—the highest since before World War II—creating persistent uncertainty that continues to weigh on business investment and trade flows. More fundamentally, the IMF warns of mounting challenges including China's unresolved property sector instability more than four years after the bubble burst, fiscal strains across advanced economies where elevated debt meets higher real rates, and increasing pressures on central bank independence that threaten decades of credibility gains.

Citigroup's Nathan Sheets captures the prevailing sentiment, noting that whilst expecting the global economy to expand 2.7% in 2026, "we have a candid admission: we've consistently underestimated the resilience of the global economy." This acknowledgment reflects the surprising flexibility and capacity of the supply side to respond to shocks, even sizable ones, combined with persistent labour market strength supporting consumer spending.

Key Investment Themes for 2026

Dollar Depreciation: The Central Macro Theme

Our most significant macro conviction for 2026 centres on continued US dollar weakness. Multiple factors support this view, with the most important being the evolving leadership at the Federal Reserve. President Trump's preference for a more accommodative Fed chairman when current Chair Powell's term expires in May 2026 signals a dovish turn in monetary policy despite sticky inflation running near 2.8% core. This political pressure towards easier policy, combined with the Fed's gradual rate-cutting cycle already underway, creates a powerful headwind for dollar strength.

Goldman Sachs projects the Federal Reserve will reduce rates by 50 basis points to 3-3.25% during 2026, noting that "the US inflation issue has been resolved, and there's potential for the Fed to cut rates more than expected." Citigroup maintains its bearish dollar stance through 2025-2026, whilst J.P. Morgan Research points to "an elevated risk of an era of dollar decline" extending through 2026. Morgan Stanley's FX strategists similarly project significant additional dollar depreciation by end-2026, citing labour market weakness and policy uncertainty as sources of downward pressure.

The dollar's 11% decline in the first half of 2025 marked its worst performance since 1973, and we believe structural pressures remain intact. The IMF notes that this dollar depreciation has "amplified the impact of tariff shocks on other countries' competitiveness," creating a feedback loop that encourages further diversification away from dollar assets. For investors, this macro backdrop strongly favours non-dollar assets, particularly precious metals, industrial commodities, and select emerging market equities.

Persistent Inflation: Structural Not Transitory

Contrary to consensus expectations for a smooth return to 2% inflation, we believe inflationary pressures will prove more persistent through 2026. Core inflation has remained stubbornly elevated near 2.8%, with services inflation showing particular stickiness. Goldman Sachs notes that whilst tariff pass-through has been slower than anticipated, "well under half of the tariffs have been passed through to consumers, with much of the burden absorbed by US firms." This suggests further inflation pressure lies ahead as companies seek to restore margins.

The IMF confirms that in the US, "growth projections have been revised down whilst inflation forecasts have been revised up"—the classic signature of a negative supply shock. Morgan Stanley expects "a rebound in late 2025 due to tariffrelated price increases and labour cost pressures before inflation resumes a downward trend in 2026 as growth slows," projecting core inflation remaining elevated near target levels throughout the forecast period.

This environment of persistent inflation combined with dovish monetary policy creates negative real interest rates—historically the most supportive backdrop for precious metals and hard assets. Our overweight positioning in gold, silver, and industrial commodity miners reflects this conviction.

Valuation Divergence: Expensive Developed Markets, Attractive Emerging Opportunities

Perhaps the most compelling opportunity set for 2026 emerges from the stark valuation divergence between developed and emerging equity markets. US equities, whilst supported by strong fundamentals and AI-driven earnings growth, have reached valuations that limit upside potential and create asymmetric risk. The S&P 500 currently trades at approximately 24x forward earnings - well above its 10-year average - with the technology sector weight approaching 35%, matching late-1990s Tech Bubble levels.

We expect S&P 500 companies to deliver approximately 12% earnings per share growth in 2026, driven largely by continued AI investment and productivity gains. However, with the index already pricing in much of this growth at 24x forward earnings, upside potential appears limited whilst downside risk from any disappointment has increased. The IMF draws explicit parallels between the current AI boom and the late-1990s dot-com bubble, warning that "should lofty profit expectations prove unmet - as often occurs with new general-purpose technologies - a significant market repricing could impact aggregate wealth and consumption, with spillovers to broader financial markets."

By contrast, emerging market equities trade at material discounts to developed markets despite superior growth prospects and improving policy frameworks. The MSCI EM index has outperformed developed markets through 2025, yet valuations remain attractive. The IMF emphasises that "emerging market and developing economies have benefited from easier financial conditions following dollar depreciation" and have "continued to demonstrate significant resilience, in part because of strong and improving policy frameworks."

Strategic Portfolio Positioning

Emerging Markets: Adding Exposure Whilst Reducing India

During the fourth quarter, we materially increased our emerging market equity allocation, reflecting conviction that these markets offer superior risk-adjusted returns in 2026. However, this addition was accompanied by a significant reduction in India exposure, representing an important tactical shift within our EM strategy.

India has been amongst the strongest-performing emerging markets over the past several years, attracting substantial capital flows and commanding premium valuations. However, we believe the risk-reward has shifted unfavourably for three reasons. First, Indian equities now trade at stretched valuations relative to both their own history and regional peers, with the MSCI India Index trading at premium multiples that price in continued exceptional growth. Second, we expect meaningful depreciation in the Indian rupee through 2026 as the Reserve Bank of India faces pressure from a widening current account deficit and capital flow normalisation. Third, whilst India's long-term structural growth story remains intact, near-term momentum appears to be moderating as evidenced by softening industrial production and consumption indicators.

The capital freed from our India reduction has been redeployed to other Asian markets offering more attractive valuations, particularly in selective Chinese technology and consumer companies, South Korean technology leaders, and Southeast Asian economies benefiting from supply chain diversification. Goldman Sachs notes that despite being "the country hardest hit by US tariffs, China's growth is projected to decline only modestly, owing to sharp real effective exchange rate depreciation, front-loaded export surges toward Asian and European partners, and fiscal expansion." Whilst we share the IMF's concerns about China's structural challenges—including property sector instability and resource misallocation from manufacturing subsidies—we believe selective exposure to dominant platform companies and technology leaders offers compelling value at current prices.

Commodities and Precious Metals: Maintaining Conviction

Our overweight allocation to precious metals and industrial commodity miners delivered exceptional outperformance for B Capital portfolios in 2025 and remains our highest-conviction positioning for 2026. Gold gained 47% through 2025, whilst silver surged 64% before we tactically reduced positions following an excessive price spike near year-end. We have since rebuilt these positions and added further to both precious metals miners and industrial metals exposure, particularly copper and companies with diversified commodity production.

The fundamental case for this allocation strengthens as we enter 2026. Dollar weakness creates a powerful tailwind for dollar-denominated commodities, whilst persistent inflation erodes real returns on financial assets, directing capital toward hard assets. Supply constraints remain binding across most commodity markets—gold and silver face structural deficits as mine production struggles to keep pace with demand, whilst copper supply growth lags behind the exponential demand growth driven by energy transition and electrification trends.

Central bank gold accumulation continues at record levels, with official sector purchases providing a structural bid beneath prices. Silver benefits from its dual role as both a monetary metal and critical industrial input, with solar panel production and electronics manufacturing creating inelastic industrial demand. We have supplemented our physical precious metals positions with equity exposure to leading miners, which provide operating leverage to metal price appreciation whilst offering attractive dividend yields.

On industrial metals, we maintain particular conviction on copper, which Goldman Sachs describes as having "exposure to structural energy-transition and AI/data-centre demand trends" whilst being "leveraged to any pickup in global growth." Our copper exposure comes primarily through major diversified miners rather than pure-play producers, providing diversification across multiple commodities whilst maintaining meaningful copper leverage.

US Equities: Constructive but Hedged

Whilst we maintain meaningful US equity exposure given strong corporate fundamentals and the secular AI investment theme, the combination of elevated valuations and increasing macro uncertainty has prompted us to implement prudent risk management through options strategies. Specifically, we have introduced cashless collar structures on our S&P 500 index exposure, simultaneously purchasing put options providing 10% downside protection whilst selling call options capping our upside participation at 10% above current levels.

This collar strategy provides us with attractive characteristics for the year ahead. We capture the full benefit of S&P 500 appreciation up to approximately 10% (plus dividends), which we view as a satisfactory outcome given current valuation levels. Simultaneously, we have eliminated the risk of a material correction—should the index decline more than 10%, our put options provide full protection below that level. Importantly, this is a "cashless" collar structure where the premium received from selling upside calls approximately offsets the cost of purchasing downside puts, making the protection essentially free.

Continued…

This positioning reflects our view that whilst US corporate earnings should continue growing, the index's ~23x forward P/E ratio creates an asymmetric risk profile where disappointment carries greater consequences than in a normally valued market. The IMF's parallel between the current AI boom and the late-1990s bubble adds to our caution, even as we acknowledge the stronger fundamental backing for today's technology sector compared to the dot-com era.

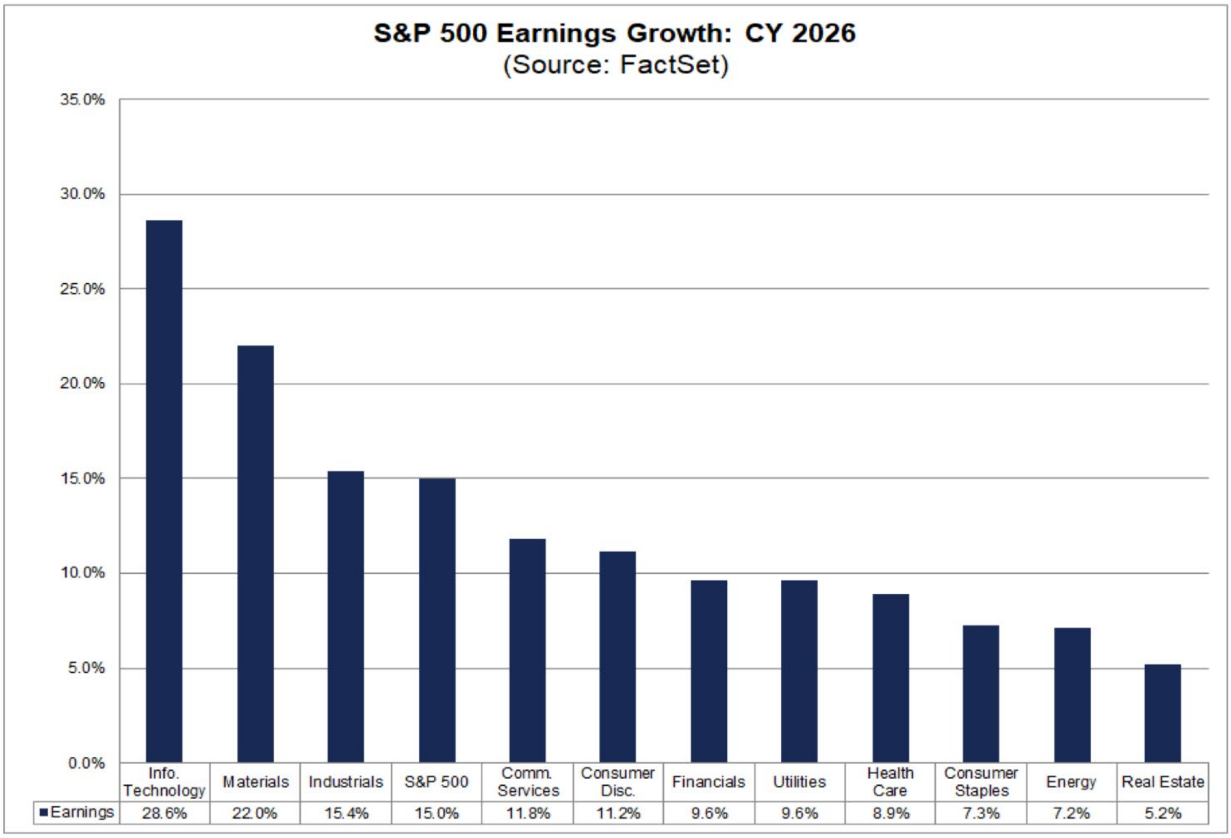


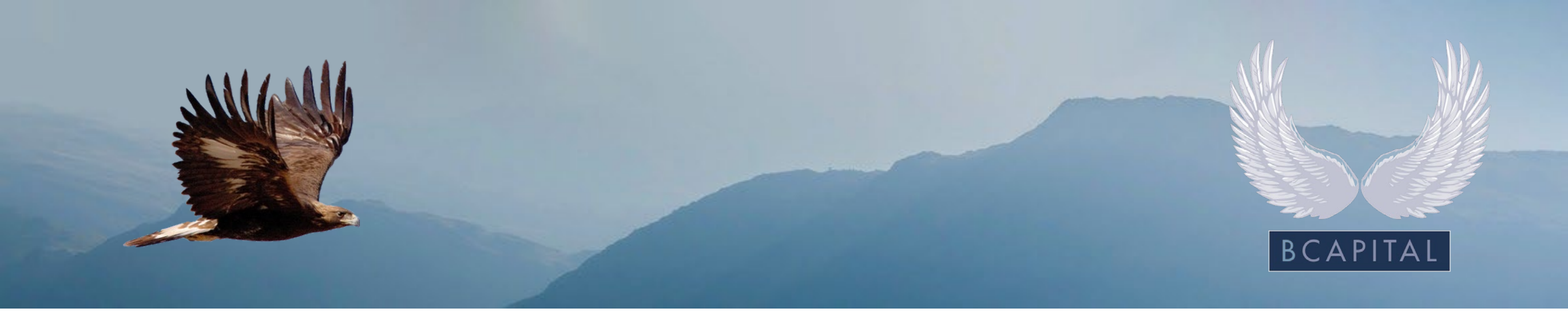
Fig 1 - Earnings Growth S&P500 Sectors, 2026.
Source: Factset

Within our US equity exposure, we maintain preference for companies demonstrating sustainable competitive advantages, strong free cash flow generation, and conservative balance sheets. We continue to favour select technology leaders, defensive consumer staples, and healthcare companies with pricing power that can navigate persistent inflation.

Risks and Considerations

Any investment outlook must acknowledge potential challenges to the base case. For 2026, we monitor several key risks that could alter our positioning.

First, inflation could prove more persistent than even our above-consensus forecast anticipates. Should core inflation remain near 3% through year-end 2026, the Federal Reserve might be forced to abandon rate cuts or even consider tightening, creating headwinds for risk assets and potentially supporting the dollar contrary to our base case. We judge this scenario as having perhaps 20% probability given political pressures for easier policy.



Second, China's structural challenges could manifest more acutely than anticipated. The IMF warns that more than four years after the property bubble burst, "China's real estate sector remains unstable" with "mounting evidence that large-scale subsidies to the manufacturing sector have reached their limit." A sharper slowdown in Chinese growth would reverberate through commodity markets and global trade, though we believe our selective rather than broad China exposure limits this risk.

Third, geopolitical developments could create market disruptions. Whilst not our base case, escalation of conflicts or unexpected policy shifts could trigger volatility that challenges our positioning, particularly in emerging markets.

Finally, the parallel between the current AI boom and the late-1990s bubble, emphasised by both the IMF and major investment banks, represents a tangible risk to US equity markets and by extension global risk appetite. Should profit expectations from AI investments prove unmet, Goldman Sachs warns of potential "significant market repricing" with spillovers to broader markets.

Conclusion: Confidence Tempered by Discipline

B Capital portfolios delivered exceptional performance through 2025 by maintaining conviction in undervalued assets whilst reducing exposure to expensive markets. Our strategic overweight to precious metals and industrial commodities, combined with selective equity exposure and prudent risk management, positioned portfolios to capitalise on the macro themes of dollar weakness and persistent inflation.

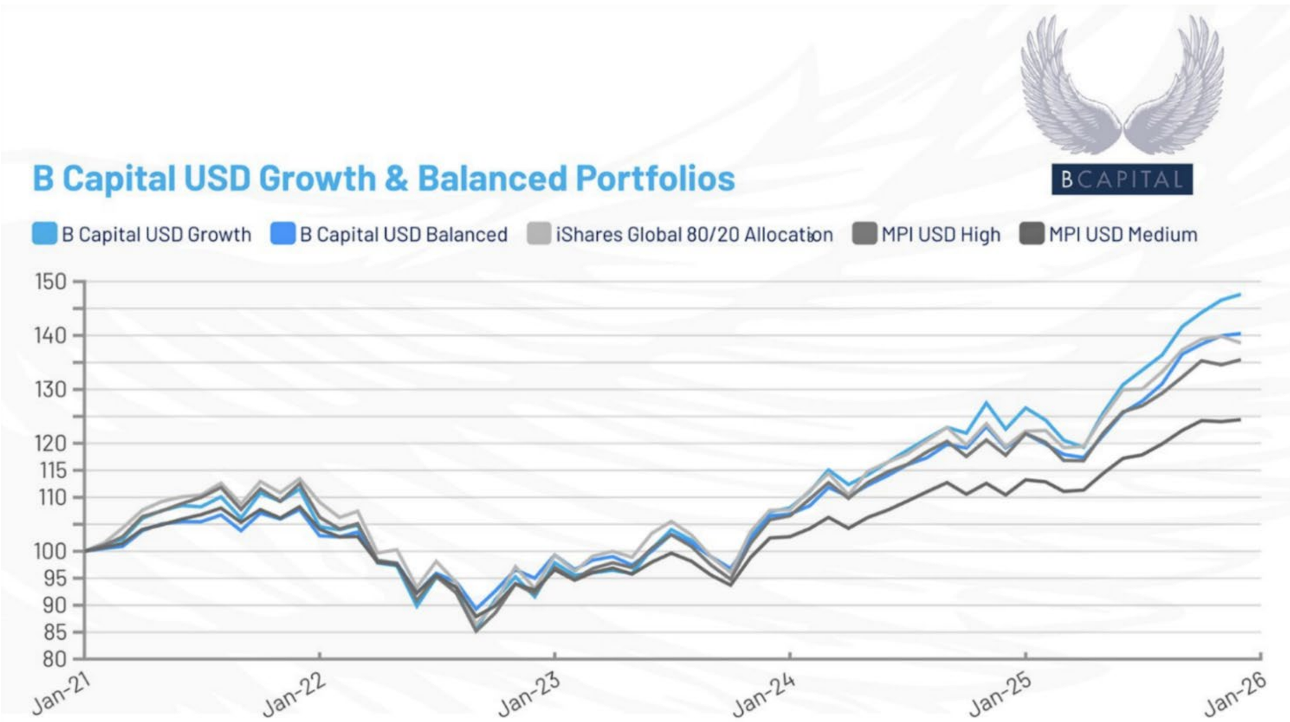
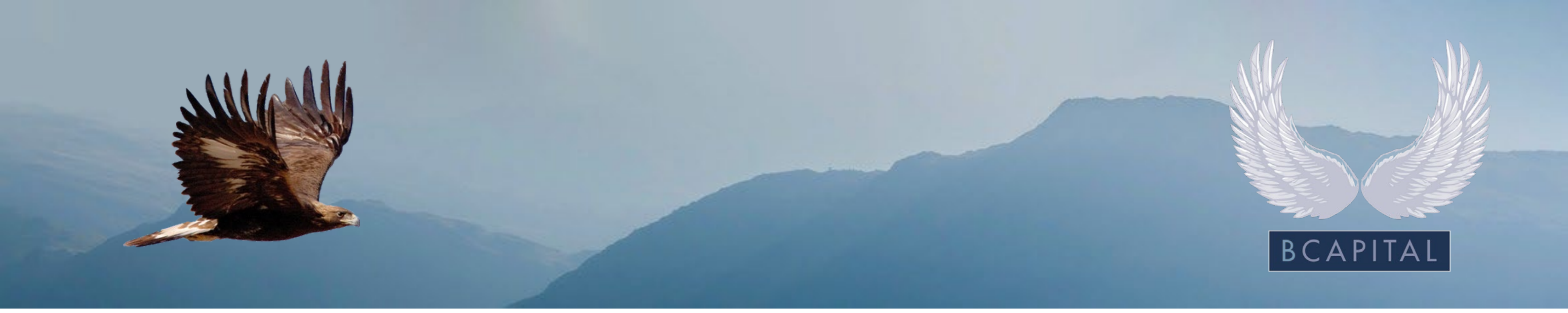


Fig 2 - B Capital USD Growth / USD Balanced Model Portfolio Performance vs Benchmarks, 2021 - 2026



As we enter 2026, we maintain these core convictions whilst adapting to evolving opportunities. Our increased emerging market exposure reflects attractive valuations and improving policy frameworks, whilst our reduction in India demonstrates willingness to take profits on extended positions. The introduction of collar strategies on US equity exposure balances our constructive medium-term view with appropriate caution given elevated valuations. Our continued overweight to commodities and precious metals reflects confidence that the dollar depreciation and inflation persistence themes have further to run.

The global economy enters 2026 on solid footing, with consensus growth near 2.8% representing respectable if unspectacular expansion. However, this headline stability masks significant divergences in growth trajectories, policy frameworks, and asset valuations that create opportunity for active management. We believe our positioning captures these opportunities whilst managing downside risks through diversification and tactical hedging.

After a stellar 2025, we remain confident in our ability to deliver attractive risk-adjusted returns in the year ahead. The investment landscape offers compelling opportunities for those willing to look beyond expensive developed market indices toward undervalued commodities and select emerging markets. Our disciplined approach—maintaining conviction where fundamentals support our views whilst taking profits when momentum becomes excessive—positions B Capital portfolios to navigate 2026's opportunities and challenges successfully.

Should you have any questions regarding our positioning, or the outlook presented in this report, please do not hesitate to contact me.

Best wishes,

Lorne Baring
Managing Director