ASPECT PARTNERS
Advice to Wealth

Market Perspective

2026

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Late on a Sunday evening in February, the research firm Citrini posted a piece of speculative fiction through Substack. Framed as a macro memo written from the year 2028, it described a world in which artificial intelligence had hollowed out the white-collar workforce, pushed unemployment above ten percent, and cratered the global equity markets. The authors called it “a scenario, not a prediction.” A senior White House economist, asked about the piece the next day, called it “science fiction.”

The economist was not wrong. Yet by the end of the following trading session, the fiction had moved the markets. IBM fell thirteen percent, its worst single day in twenty-five years. Uber, DoorDash, Mastercard, and Visa, each named in the post, also tumbled. Bloomberg and the rest of the financial press ascribed the selloff directly to the piece.

We open this year's letter with that small anecdote not as a reflection of our opinions about where the world, the economy, or the markets are headed, but for what it reveals about the current internal functioning of the financial markets. There is a widening gap between what the market is reacting to on any given day and what actually matters for long-term investment returns. In the short-term, the financial markets – and in particular, the US stock market - has become a noisier, more manipulable, more narrative-driven place than it was five or ten years ago, moved by social media influencer posts, and amplified by algorithms.

Our belief, meanwhile, is still that over the longer term, markets continue to operate under the laws they always have. The fundamental value of investments is still a function of cash flows, earnings, valuations, interest rates, economics, etc. And those fundamental metrics continue to say more or less what they have been saying for several years running: US equities remain historically expensive, the dollar faces structural pressure, and a broader geographic and risk-based diversification is likely to reward the patient investor over the arc ahead.

These ‘two markets’ are not separate. They interact. The short-term noise produces the volatility that draws investors’ attention and pulls them into expensive mistakes; the long-term perspective rewards those who manage to resist. Our work, as always, is to help you stay focused on the second while the first is shouting.

What follows is a synopsis of the analysis that informs our current market perspective, the conclusions we draw, and the adjustments we are making in portfolio construction in response. We hope you find it interesting and useful in understanding the rationale behind our investment recommendations.

As always, we greatly appreciate your interest and the trust and confidence you place in us.

Sincerely,

Bard Malovany, CFP®

Principal

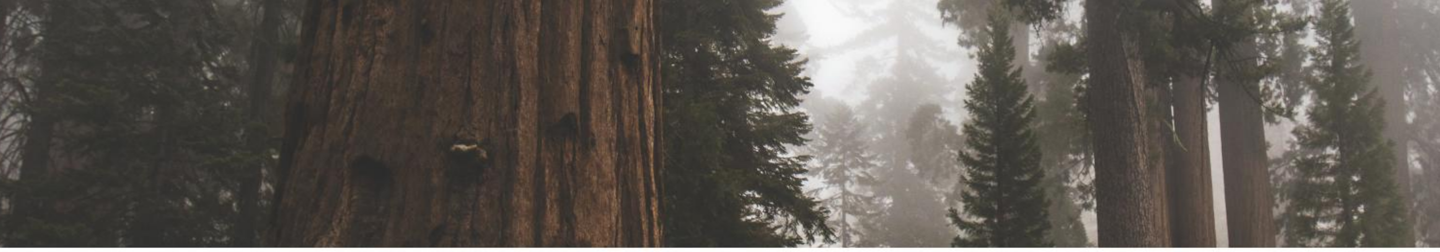
The Anatomy of a Move

In the hours after the Citrini piece was published, traders began selling. They first sold the companies named in the piece — Uber, DoorDash, Mastercard, Visa — and then they sold the broader set of names that would, in the scenario, be exposed to an AI-driven collapse in white-collar demand. Software and payments companies led the decline. IBM — whose legacy-code-modernization business had just that day been recast as vulnerable by an announcement from a competitor — fell by thirteen percent, its largest single-day drop in twenty-five years. The reaction didn't require the scenario described in the piece to be likely — nor even possible. It only required enough market participants to believe that other market participants would sell. That expectation, circulated through algorithms and feedback loops, became self-fulfilling.

The piece itself was serious work. Citrini is a thoughtful research firm, and its writing has an audience for a reason. The piece was explicitly not a prediction. It was labeled a scenario, framed as a thought experiment, and written as a memo from a hypothetical future. The authors themselves appeared surprised, in the days that followed, that it had been read as actionable research.

The episode was not a one-off. It is one instance of a pattern several years in the making: meme-stock dynamics that have become recurrent rather than anomalous; research notes — some generated with the help of large language models — that appear daily and move stocks before their claims are checked; large positions promoted on social media in ways that, a decade ago, would have drawn reliable enforcement attention; and pump-and-dump activity that has migrated from the penny-stock tape into names most investors would recognize.

The demand side of those trades deserves consideration. A generation of younger investors has concluded that the traditional path to financial security — a steady job, a mortgage, a retirement plan, a thirty-year span for compounding — has been quietly foreclosed by the cost of housing, education, and raising a family.



The Anatomy of a Move

And at the same time, narratives of conspicuous wealth and consumption have permeated the social (media) consciousness. For someone without significant resources, an asymmetric bet on a small stock, a crypto token, or a short-dated options contract begins to look less like gambling and more like the only plausible route to a life that resembles their parents'. That calculation is not irrational, even where the individual bets often are. It is relevant as it produces a durable audience for exactly the kind of short-term, narrative-driven trade the current market is increasingly rewarding.

It is worth acknowledging the counter-argument directly, because it is a serious one. Every generation of investors has believed its own era of manipulation to be uniquely bad. The boiler rooms of the 1980s, the analyst conflicts of the late 1990s, the structured-product era of the mid-2000s, and the meme-stock frenzy of 2021 were each, in their day, described as the end of price discovery. In each case, markets eventually re-anchored to fundamentals, and capital eventually flowed toward earnings. Our response is not that manipulation is new. It is that the cost of producing a market-moving narrative has fallen by an order of magnitude in the past five years, the tools to amplify it have scaled by considerably more, and the population with a rational interest in consuming it has grown.

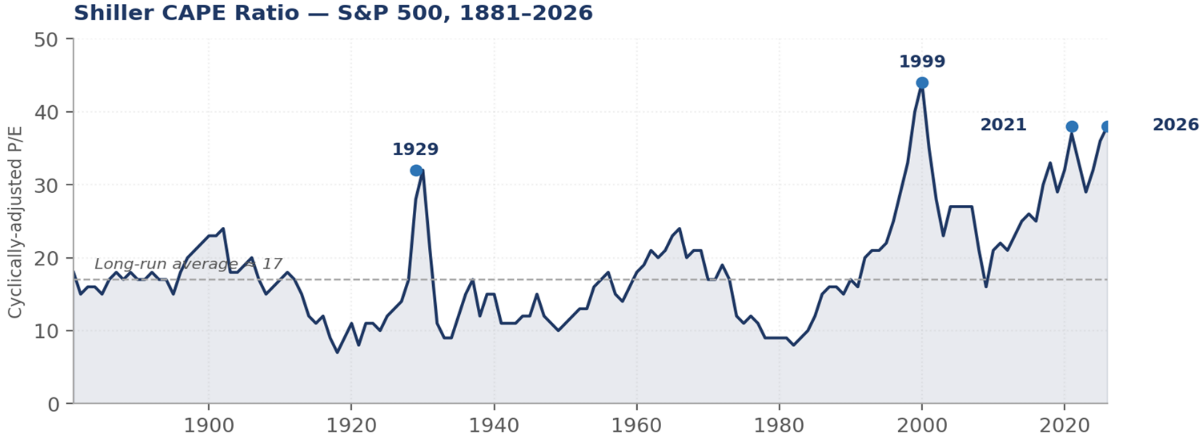
Whatever share of daily price action was noise a decade ago, that share is larger today. The long-term signal is not wrong. It is harder to hear.

For those investing across a full market cycle, the implication is straightforward. Daily and weekly market news is a less reliable guide to action than it has been. The temptation to react to short-term moves in ways that damage long-term returns, always present in some form, is greater now. The rest of this letter is organized around the long-term signal - valuations, dollar dynamics, and global positioning - because that is what the available evidence still rewards paying attention to.

Valuation, Still

We have written some version of this section every year for as long as we have been writing this letter, and we are aware that for some of our clients it has begun to read like the chapter to skim. We ask your patience; the argument has not changed. What has changed, year by year, is the size of the gap between price and value, and the number of independent measures pointing in the same direction.

The Shiller cyclically adjusted price-to-earnings ratio (aka CAPE Ratio) for the S&P 500 ended 2025 in the high thirties — a level surpassed only by the late 1990s and, very briefly, by the 2021 peak. The ratio of total US equity market capitalization to gross domestic product, the indicator Warren Buffett once described as "probably the best single measure of where valuations stand at any given moment," sits above two hundred percent. The share of household financial assets held in equities is at the highest level in seventy-five years of recorded data. None of these measures is a timing tool. Each, however, has historically been a reasonably accurate guide to what an investor might earn from US equities over the subsequent decade. At present, all three point to nominal returns somewhere in the low-to-mid single digits, and arguably less once inflation is accounted for.



Illustrative reconstruction. Source: Robert Shiller, Yale School of Management; Aspect Partners.

Valuation, Still

These are averages, and the average, in this market, conceals more than it reveals. The largest ten companies in the S&P 500 now account for roughly forty percent of the index, a concentration without modern precedent. The performance of the index over the past two years, and a meaningful share of its earnings growth, has come from a small handful of names whose valuations are tied to a single capital-spending thesis around artificial intelligence. The rest of the index, taken as its own portfolio, looks merely expensive rather than dangerously so. The composite reading is dragged upward by the concentration. There is, in a real sense, more than one market stacked on top of itself.

Beyond the headline measures, the qualitative markers we associate with cyclical peaks are present in unusual concentration. Corporate behavior in 2025 looked the way corporate behavior has tended to look at the top of cycles: aggressive share buybacks struck at record prices, mergers and acquisitions executed at premium multiples, capital expenditure programs leaning increasingly on hopeful future demand to justify present spending, executive compensation packages indexed to share-price targets that quietly assumed the continuation of a multi-year tailwind. Each of these in isolation is unremarkable. Their convergence is harder to dismiss. We have seen versions of the combination in 1929, in 1999, and, briefly, in 2021. Bubbles, we would observe, are almost always identifiable in real time and almost always ignored in real time, because the cost of being early is real and the cost of being wrong is, for the average investor, deferred until after the fact. We do not claim here that we are looking at a bubble. We do claim that the markers one would use to identify one are present in greater number today than at any point since 2021, and before that, since 1999.

Unfortunately, valuation does not tell us when. It does, however, give us a degree of inflation and a measure of how much we are likely to be compensated for waiting. At current readings, the answer to the second question is: not very much.

On Fear and Enthusiasm

Thought of differently, perhaps, while valuation may not be a signal of short-term returns, it is the noise of risk, and that noise seems to be getting louder and closer. The rest of this letter is organized around what we are doing about it.

There are two fears at work in markets at any given moment, not symmetric. The first is the fear of loss: the conviction that the dollars one has are worth defending, and that the act of investing them is to put them at risk. The second is the fear of missing out: other participants are making money one is not, and that standing aside is itself a form of loss. Most of the behavioral mistakes in investing come from one of these two fears overwhelming the other at exactly the wrong moment.

The asymmetry matters because investors do not, in practice, calibrate decisions to volatility, drawdown, or any of the other formal risk statistics that fill the vernacular. They bend, however unconsciously, to whichever fear exerts more gravity at the moment of decision. In a market that has run up for several years, the operative fear tends to be fear of missing out, and the prudent investor is the one who has been wrong, in terms of foregone gains, for longer than is comfortable. In a market that has fallen sharply, the operative fear becomes the fear of further loss, and the prudent investor is the one willing to step in while others are stepping out. Returns, in our experience, accrue disproportionately to the investor who can ignore or hold the unfashionable fear long enough to be paid for it.

The current market is, in our estimation, unusually good at producing fear of missing out. Narratives are loud and travel quickly. Trading screens are colorful. Accounts on social media that publish the loudest performance numbers are, almost by selection effect, the accounts taking the most concentrated short-term bets, and those numbers look excellent… until they do not. The fear of loss, by contrast, is muted. It has been almost three years since US equities had a meaningful drawdown, and a generation of investors, including many professional ones, is operating on the working assumption that markets recover quickly because that is what they have observed.

On Fear and Enthusiasm

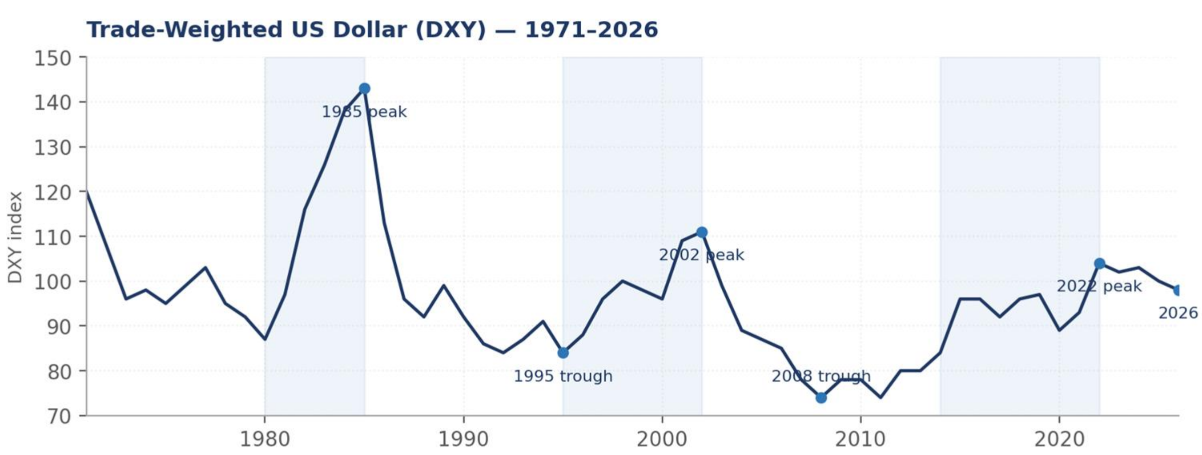
Our preference, year in and year out, is to construct portfolios for the investor who has the patience and fortitude to miss out on some of the spectacle – to insulate against the risk of catastrophic loss.

In our philosophy, that stance has the potential to lead to exceptional returns, but it requires a long view. That preference has costs. It had costs in the early 2020s as US large-company concentration outperformed nearly every other asset class. We continue to believe those costs are the price of admission to a portfolio that holds together when the operative dynamic changes. That structural change may now be slowly taking shape, as we have seen in evolving market patterns beginning in 2025, which has provided vindication to some of our views and strategies.

Where the Slow Signal Points

The structural piece of our argument this year has less to do with US equities, which we have already addressed, than with where we believe the next decade of returns is more likely to come from. The case rests on two observations that have, in our view, become difficult to ignore: the dollar appears to be entering a multi-year period of diminishment, and emerging markets, after fifteen years of underperformance, are showing the early arithmetic of expansion.

On the dollar, the case is structural rather than tactical. Twin deficits are running near records. The federal debt trajectory, heightened by current policy, has the United States borrowing more than it produces in net new economic output every year for the foreseeable future. Foreign central banks, having watched the dollar weaponized in 2022, have been quietly diversifying their reserves into gold and into one another's currencies at the margin. None of these is, on its own, sufficient to break a reserve currency. Together over a long enough horizon, and in conjunction with factors we highlighted in our last year's Market Perspective, they apply the kind of pressure that has historically produced extended cycles of dollar weakness. We are, in our view, early in such a cycle. The dollar's recent weakness against the euro, the yen, and a basket of emerging-market currencies is consistent with that view.



Annual averages. Source: ICE / Federal Reserve; Aspect Partners. Shading marks prior strong-dollar cycles.

Where the Slow Signal Points

A weakening dollar matters for portfolios because it changes the arithmetic of owning anything that is not denominated in dollars. An asset priced in euros or yen or rupees, held by a dollar-based investor, earns the local return plus the change in the currency. In the dollar bull market of the 2010s, that currency leg was a headwind for non-US returns. In a dollar bear market, it becomes a tailwind. In several of the historical cycles where this has happened, the currency component has been worth a meaningful fraction of total return for non-US assets.

For emerging markets, the arithmetic is straightforward. EM equities, after fifteen years of being unloved, finished 2025 having outperformed US equities for the first stretch of consecutive quarters since the early 2010s. Their valuations remain meaningfully cheaper than large US stocks on every standard measure. Their corporate balance sheets are, in many cases, on stronger footing than in past cycles. Their demographics are heterogeneous (better in some places than in others) but, taken on the whole, are more favorable than those of the developed world. Whether the recent outperformance continues in any single year is unknowable. The combination, however - a weaker dollar, a wider relative-valuation gap, and a corporate-earnings cycle that has barely begun in many of these markets - is the combination that has, historically, produced extended runs.

The other side of this trade - the case against US large-cap leadership continuing - has been quietly accumulating its own evidence over the past year. GQG, a respected concentrated-equity manager, circulated a note in March arguing that there is, in their phrase, “not much alpha left in this bet” with respect to Alphabet specifically and the AI-leveraged mega-caps more broadly. We tend to take notice when a manager whose process we respect publishes a position of that kind on a name that constitutes one of the largest weights – and is in one of the fundamentally strongest positions - in nearly every US equity index.

Where the Slow Signal Points

The underlying argument is not that the businesses are bad. It is that the assumption set already priced into them is one in which everything goes right for a long time. The cumulative capital expenditure committed to AI infrastructure across the largest US companies, when measured against the equity valuations underwriting that spending, implies a return on capital that has historically been earned by very few investments at that scale. We do not claim to know whether AI capital expenditure will earn its keep.

We do claim that the price at which it is currently being underwritten leaves very little room for it to disappoint, and that "very little room to disappoint" is the kind of phrase that, in retrospect, tends to mark the top of capital-spending cycles.

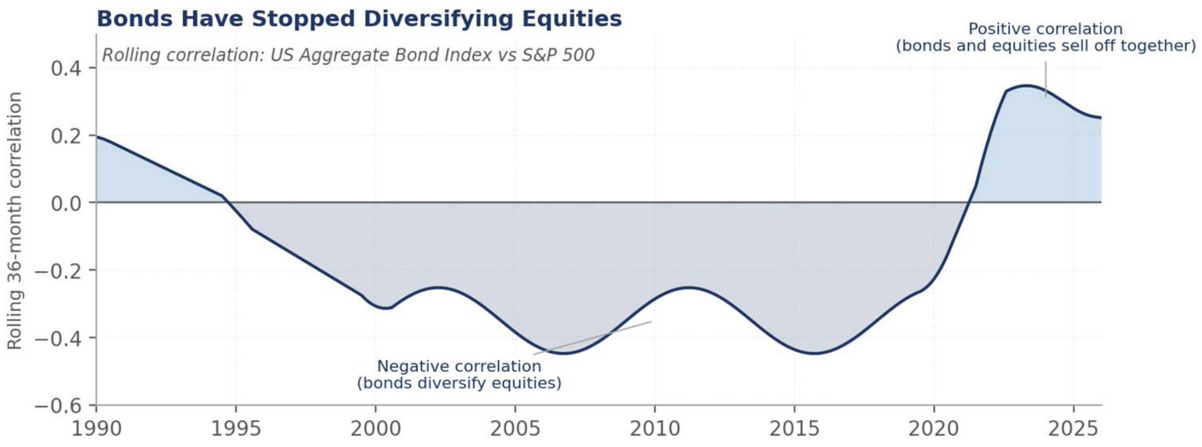
The conclusion is not that US equities should be avoided entirely. It is that the next decade of returns, on the weight of available evidence, is more likely to come from a broader geography and a broader factor mix than the last decade did. A dollar-weighted, market-cap-weighted, US-concentrated portfolio is a bet that the conditions of the past fifteen years will continue. The conditions of the past fifteen years have been, by historical standards, exceptional & unprecedented.

Light Hand on the Tiller

We organize portfolios, as we have for many years, along three lines we call Indexed, Traditional, and Strategic. The Indexed allocation captures broad market exposure at the lowest reasonable cost. The Traditional allocation employs active managers in segments where we believe the dispersion among securities is wide enough, and the information asymmetries available enough, to reward security selection. Our Strategic allocations hold the assets we expect to behave differently from the rest of the portfolio at exactly the moments when the rest of the portfolio is unhappy: liquid alternatives, real assets, gold, certain managed-futures and trend strategies, and specific fixed-income strategies whose return drivers are independent of equities and rates.

Our equity posture in 2026 is largely a continuation of where we have been. US large-cap remains modestly underweight — a posture we have held for several years and one that the analysis in the preceding sections continues to support. Within US equity, we maintain a tilt away from the most concentrated index exposures. We retain meaningful weights in international developed and emerging-market equities, where we believe the next decade's compounding is more likely to be earned. None of this is a market call. It is an attempt to keep portfolios aligned with what the long-term signal continues to say, and the long-term signal has not changed materially in the last twelve months, though market action has begun corroborating it.

The more substantive change this year is in the fixed-income sleeve, and it follows from a problem the markets have exacerbated the past several years: the diversification benefits a traditional bond allocation used to provide have eroded. The rolling correlation between the US Aggregate Bond Index and the S&P 500 (which spent two decades in firmly negative territory) has, since roughly 2022, flipped positive and continued to climb. In other words, on days equities have sold, bonds have, more often than not, been sold alongside them. The decades-long pattern of bonds rallying into equity drawdowns - the pattern that underwrites a great deal of conventional portfolio construction - has not held in this regime.



Illustrative reconstruction. Source: Bloomberg US Agg / S&P 500; Aspect Partners.

This is not, however, the first time this has happened, and we'd be silly to imply the diversification benefits of traditional bonds are forever broken. What we are saying is that, as of late, real diversification has gotten more difficult and expensive to obtain.

We have responded with two adjustments. First, we have removed our position in BOXX, which was a clean expression of high short-term rates and served us well while front-end yields were elevated; with rates lower than they were and the carry less attractive, the case for holding it has weakened. Second, we have redirected that capital, and added to existing positions, in two places. We have increased our weight in high-yield credit, where current yields more than compensate for the credit risk we believe the cycle warrants. And we have added a position in catastrophe bonds: insurance-linked securities whose return depends on the occurrence or non-occurrence of insured natural-disaster events rather than on any equity, rate, or macroeconomic factor. CAT bonds are unusual instruments, and we will not pretend they are without risk. They are, however, among the very few fixed-income holdings whose returns are genuinely uncorrelated with equities, which is precisely the property the rest of the bond market is currently failing to provide.

Light Hand on the Tiller

We are, deliberately, not holding large amounts of cash beyond what is operationally required. The temptation in a richly valued market is to sit out. The historical record on that strategy, however, is poor.

The investors who do well across a full cycle are, almost without exception, the investors who stay invested in something that is not the most overvalued thing. That is a different posture than going to cash. It is also a different posture than chasing what has recently worked.

There is something almost contrarian in the present environment about the discipline of owning what other investors have given up on, holding through the periods of being wrong, and trimming what other investors are most excited about. By the standards of the current market, that approach feels eccentric. By the standards of the long historical record of successful investing, it is the standard approach.

The metaphor in the title of this section is the one we tend to return to. A light hand on the tiller is not a passive hand. It is an attentive one, but a patient one. It does not over-correct in response to the chop. It makes small adjustments, with intention, with a destination in mind, and with the understanding that the wind will shift more than once before the journey is complete. We may be wrong about the direction or the magnitude or the timing of any of the changes we anticipate. We are unlikely to be wrong about the value of building portfolios that can hold their course across more than one of the regimes those changes might produce.

In Closing

We began this letter with a small story about a research firm's piece of speculative fiction moving real money. We will close with an observation about it. The episode was slightly absurd. It was also entirely consistent with the market we have been navigating – and believe we are likely to be navigating for the next several years: noisy in the short run, reactive to narrative, easily moved by participants who have figured out how to move it, and harder than it has been to distinguish signal from story. None of that changes the long-term verities. It does make perspective, behavior, and risk management more important.

The portfolios we build are designed for horizons measured in decades, not minutes. We do not promise we will be right about the regimes we anticipate, nor that, even if we are right, all our decisions will be correct or effective. We will continue to do the slow, evidence-based work of constructing portfolios that we believe can hold their value across a wide range of plausible futures, and that we will continue to talk with you, candidly and often, about what we are observing and how it is informing our thinking.

As always, we are deeply grateful for the trust you place in us. We welcome the opportunity to discuss any of what is here in more detail, and how it applies to your personal situation. Please do not hesitate to reach out to us with questions, and we look forward to seeing many of you over the course of the year.

Disclosures

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