There May Come a Day... But It is Not This Day : 2025 Year In Review & 2026 Outlook

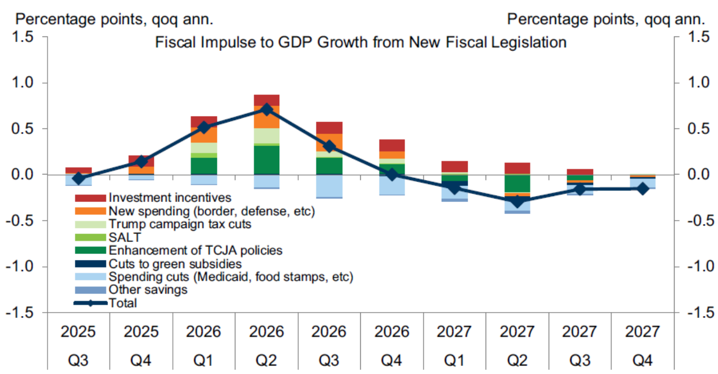
2025 will be remembered as one of the most consequential years in modern history, as the Trump administration began the most significant rejigging of the global economic order since the end of WW2. Many of the same core themes from 2024 were top of mind in 2025: record levels of market concentration, continued monetary policy easing, and the deepening of the AI infrastructure investment cycle. However, 2025 also saw new themes re-emerge including: the extension of the Trump tax cuts, skepticism for the monetization of AI investments, tariff negotiations, a weakening dollar, the escalation of China-US economic decoupling, and rising tensions between the US and its NATO allies, paired with more decisive action with respect to the US's primary geopolitical adversaries.

Despite significant sources of uncertainty, our outlook for 2026 remains optimistic. As is always the case, there are plenty of things to worry about – among them the domestic unrest with Trump immigration policy, as well as the unpredictable nature of Trump policy positions. And yet, over the last year we have learned that the Trump administration does in fact remain sensitive to negative market reactions to its more extreme proposals, such that the dominant structural themes are likely to remain firmly in place: AI infrastructure investment, and supply-side tax & regulatory policy aimed at reinvigorating domestic industry. Additionally, mid-term elections in November are likely to serve as an important check on the policy agenda. On the consumption side, though consumers continue to experience a K-shaped economy, average consumers remain in a healthy position, with the US's 250th year anniversary, and the FIFA World Cup as added tailwinds. Though growing adoption of enterprise AI in place of human workers is certainly a longer-term threat to unemployment, for now we believe AI-enabled labor force productivity will remain the more relevant short-term theme.

U.S. Economy 2025 In Review and Outlook:

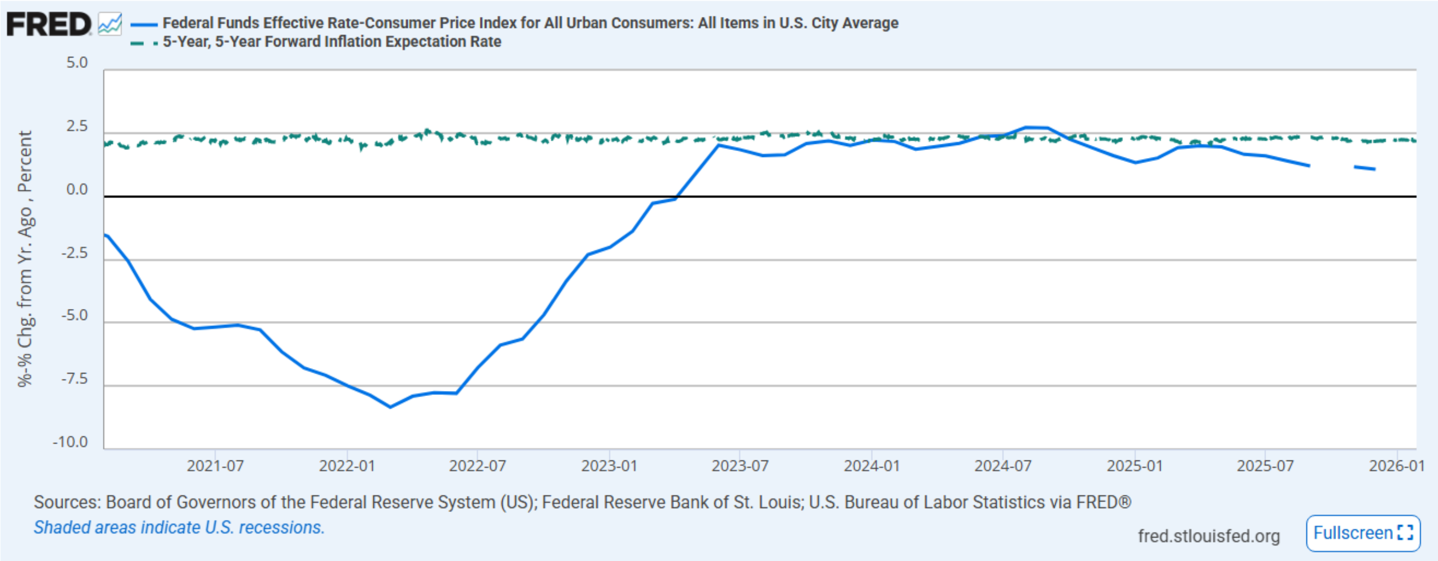
2025 proved to be yet another year of resilient economic growth, stable unemployment, and continued disinflation. US real GDP will end up growing at ~2.5%, a deceleration from the prior three years, but impressive growth nonetheless (especially given all the tariff-related uncertainty earlier in the year). Q3 2025 annualized quarterly GDP growth was 4.4%, and the latest Atlanta Fed GDPNow estimate points to real GDP growth of 5.4% in Q4. Inflation has continued to decelerate towards the Fed's target of 2%, which allowed the Fed to cut interest rate three times, bringing its policy rate to just 50-75bps above its terminal rate forecast of 3.0%. In December, the Fed also concluded its quantitative tightening (QT) program, effectively resuming its role as a source of liquidity. Most surprising is how well inflation expectations have stayed anchored despite higher tariffs and dollar weakening, as overseas exporters and domestic producers have borne the bulk of tariff costs, not consumers.

In 2025 the federal government continued running budget deficits on the order of 5-7%, as any hope for austerity in federal spending quickly faded. However, given strong nominal GDP growth, US debt levels held by the public have remained stable at around 100%. As we have noted in prior editions, we do not expect concerns around US creditworthiness to become a sustained issue, especially since falling short-term interest rates will make interest expense a smaller burden on the federal budget.



Source: Goldman Sachs Global Investment Research

We believe 2026 will be another year of above trend economic growth, moderate inflation, and stable unemployment. With supportive fiscal policy, more accommodative monetary policy, and a pro-business regulatory and tax environment, we think there are strong economic tailwinds. We do not discount the possibility of delayed inflationary effects from the policy firestorm of the last year, but on balance we continue to believe that the opportunities outweigh the risks.

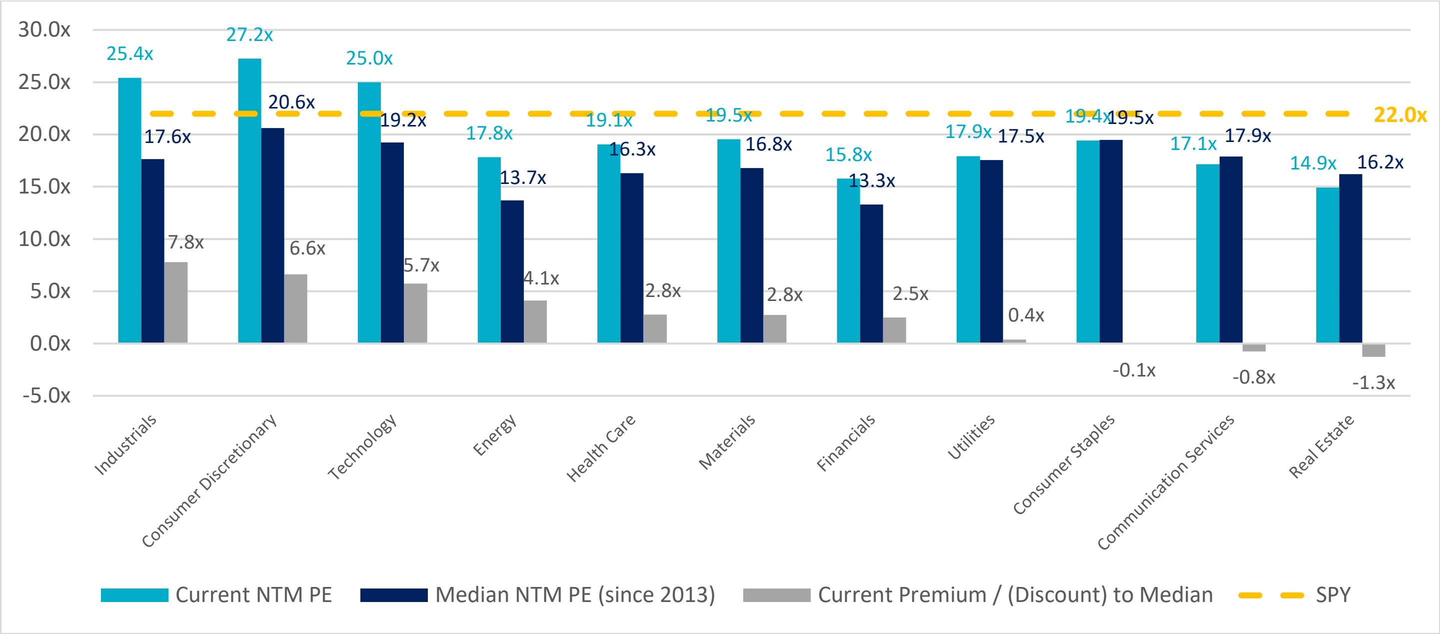


US Equities 2025 in Review and Outlook:

The dominant US equity themes of 2025 were: the continued outperformance of AI but also of domestic industrial companies, the continued underperformance of industries that may be disrupted by AI (software), and the relative underperformance of the US relative to global benchmarks like the All Country World Index (ACWI), as both currency effects and domestic concerns took hold. Nonetheless, the S&P 500 delivered another strong year of double-digit earnings growth (~14% yoy) and operating margin expansion (from 17% to 18%) which allowed for historically elevated valuation levels and tight risk premiums to persist.

Security Name	Ticker	2025 Total Return	NTM PE	'26E EPS Growth	2026 PEG
iShares Russell 2000 ETF	IWM	12.6%	24.3x	60.3%	0.4x
iShares MSCI Emerging Markets ETF	EEM	33.7%	13.5x	24.2%	0.6x
iShares MSCI China ETF	MCHI	30.9%	13.1x	11.5%	1.1x
Invesco QQQ Trust Series I	QQQ	20.7%	26.1x	21.6%	1.2x
Vanguard FTSE Europe ETF	VGK	35.5%	14.8x	11.8%	1.3x
iShares MSCI ACWI ETF	ACWI	22.3%	19.0x	14.7%	1.3x
iShares MSCI India ETF	INDA	2.7%	21.7x	16.0%	1.4x
Roundhill Magnificent Seven ETF	MAGS	23.0%	30.8x	22.2%	1.4x
State Street SPDR S&P 500 ETF	SPY	17.6%	22.2x	14.3%	1.6x
JPMorgan BetaBuilders Japan ETF	BBJP	26.5%	16.3x	10.3%	1.6x
Invesco S&P 500 Equal Weight ETF	RSP	11.1%	17.2x	9.8%	1.8x

In 2026 we continue to believe in many of the same themes from 2025, but with slightly more refined views with respect to sub-sectors and themes. Overall, we believe that earnings contribution from small and mid-cap companies will grow as growth expectations for the Mag 7 moderate, which should help propel SMID cap and equal weight indices like the S&P 600 and RSP. We consider this to be a healthy broadening out which represents the more distributed effects of supply-side tax, regulatory, and monetary policy. Some of the specific US sub-sectors we favor: pharmaceuticals, AI infrastructure, energy equipment & services, manufacturing, aerospace & defense, and basic materials. Despite our optimism, we believe that we will continue experiencing recurring bouts of volatility, but that supportive economic and monetary conditions will ultimately promote sustained dip-buying. This volatility may result from the unpredictability of Trump policy communications, exogenous geopolitical events, as well as more technical international factors like the Japanese carry trade unwinding episodes of summer 2024, which have shown how interconnected global markets remain.



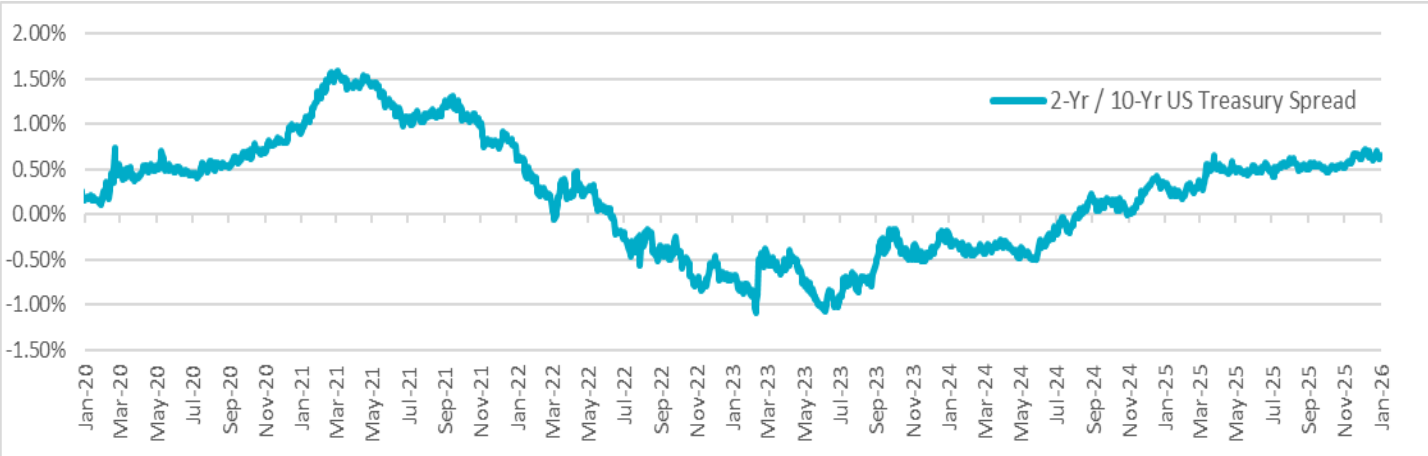
Interest Rates 2025 in Review and Outlook:

After several years of persistent interest rate volatility, 2025 proved to be a year of relative calm, as the 10-year US Treasury yield remained range-bound between 4.0-4.5%. Coming from already tight levels, credit spreads in investment grade corporate bonds were essentially flat, while high yield credits continued tightening some 20bps, reflecting the operational strength of even lower quality credits. The more interesting story was the continued steepening of the yield curve, with the spread between 2 year and 10 year Treasury bonds increasing some 50 bps, mostly as a result of falling short-term interest rates. We viewed this as a healthy development after years of having an inverted yield curve. In spite of headlines suggesting the end of dollar hegemony, and declining appetite for US Treasuries from international investors, long-term US interest rates have demonstrated surprising resilience.

Benchmark	'25 % Price Change	'25 Δ Spread (bps)	'25 Yield Change	% YTW
Bloomberg US Corporate IG	3.6%	-2 bps	-0.5%	4.8%
Bloomberg US Corporate HY	2.7%	-20 bps	-0.6%	7.1%
Bloomberg USD Corporate (1-5 Yrs)	2.0%	+0.0 bps	-0.7%	4.2%
Bloomberg USD Corporate (10+ Yrs)	2.9%	+0 bps	-0.2%	5.6%

Source: Factset

After being buyers of US corporates over the last three years, we now maintain a more cautious posture given near all-time tight credit spreads, and lingering concerns about pressure to long-yields. This may come in the form of a modest reacceleration in inflation and/or recurring concerns about the sustainability of the US fiscal outlook. As we have noted in the past, we would expect these concerns over US creditworthiness to remain relatively short-lived given that ultimately the US still remains among the least ugly of the contestants in the beauty pageant of international economies – fiscal excess, deficit spending, and debt accumulation are features of virtually every economy in the world. Additionally, we do not place too much emphasis on concerns about Japanese and Chinese selling of US Treasuries, as on a combined basis Chinese/Japanese investors hold less than $2 trillion of the $30 trillion in UT Treasury bonds that are not owned by the Federal Reserve.

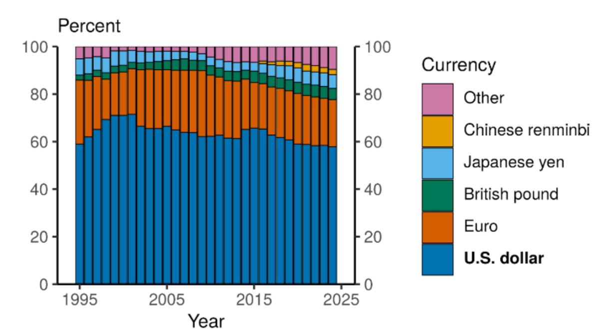


A Note on Dollar Weakness

Recently, we have also been fielding many questions about dollar weakness and concerns about dollar debasement. This comes on the back of a year where DXY (the trade weighted US dollar index) fell ~10%, even though on a five year basis DXY is actually stronger by ~7%. Nonetheless, the narrative of dollar devaluation / debasement has recently regained steam given (1) central bank diversification into gold, (2) Trump statements suggesting a preference for a weaker dollar to promote exports, (3) increasing bilateral trade done in Euros or Yuan, and (4) the rise of Bitcoin/Ethereum as alternatives to state-sponsored fiat currency.

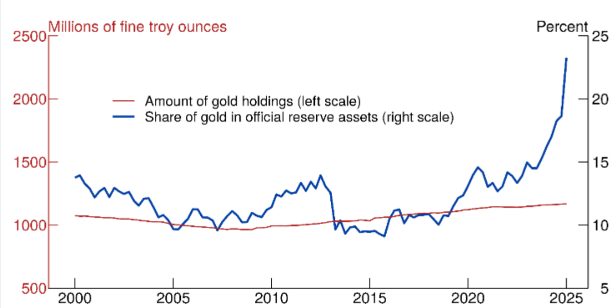
Given our constructive view of the US economy, it should come as no surprise that we are not overly concerned about debasement fears. Certainly, on the margin, the role of the US dollar in international trade and central bank reserves is decreasing. However, the structural bid for US dollars created by the demand for US financial assets, international commodity trading (in particular oil and precious metals), and about half of global trade, has not changed. To be sure, we believe that precious metals (gold and silver) along with crypto (BTC and ETH) should be a part of any balanced portfolio, but we should note that by far the best devaluation hedge is in the ownership of high quality corporate earnings from companies that have pricing power and strong competitive positions. In the case of US equities, we would also note that ~40% of S&P 500 revenues, and ~30% of S&P 500 earnings are generated overseas, such that a weaker dollar increases the value of international earnings/revenues. As such, we believe there is an implicit dollar hedge that exists just from the fact that US companies are highly international.

Figure 2. Foreign exchange reserves



Note: Share of globally disclosed foreign exchange reserves. Data are annual and extend from 1995 through 2024. Legend entries appear in graph order from top to bottom. Chinese renminbi is 0 until 2015-Q2.
Source: IMF COFER.
Accessible version

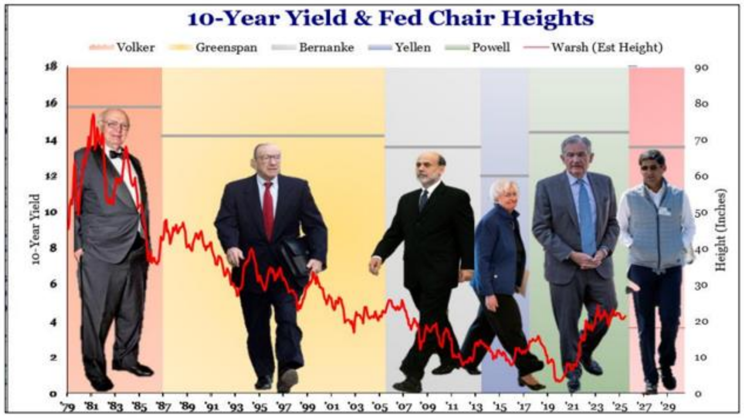
Figure 3. Gold reserves



Note: The share of gold in official reserves is the gold reserves at market value as a percent of total reserves.
Source: IMF International Financial Statistics.
Accessible version

A Note on the Nomination of Kevin Warsh as Fed Chair

After much anticipation, President Trump has officially nominated Kevin Warsh to serve as the next Chairman of the Federal Reserve. We view this as an important development which will help preserve Fed credibility, independence, and quality in monetary policy transmission. We see Warsh as a relatively balanced pick given that he has both advocated for lower rates (dovish), while also preferring a smaller Fed balance sheet (hawkish). Where he would likely differ most from Powell, is with the belief that the current banking regulatory framework that emerged out of Dodd Frank is overly clunky and has advocated for simpler regulations that allow smaller banks to better compete. Warsh has also been vocal about AI and tech driven productivity as disinflationary and is likely to build those explicitly into the Fed's thinking on potential output, r*, and the inflation outlook. We expect Warsh to fully observe the Fed's dual mandate, while simultaneously encouraging a more pro-banking environment. His nomination reduces uncertainty about the post Powell regime and is generally seen as a "cautious relief" outcome: more reformist than status quo, but not a radical monetarist-style dove. The key unknown that remains is whether Powell will stay on as part of the Fed Board even after his term ends. Though it would be unusual for a Fed Chair to stay on after the end of his term, these are unprecedented times in many respects.

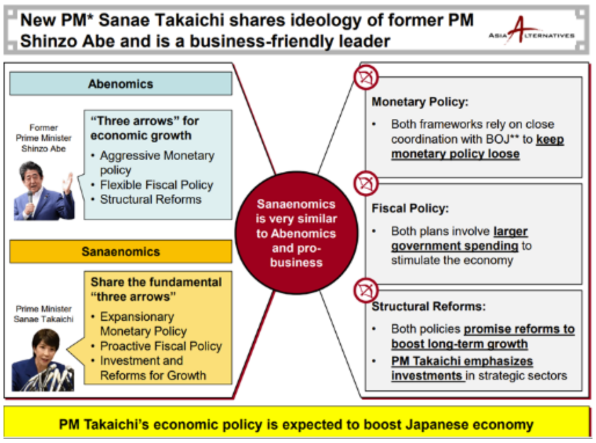


Source: Strategas

International Equities 2025 in Review and Outlook:

Europe: 2025 was a strong year for European equities as the straining of US / EU relations pushed European countries to take greater financial responsibility for their own infrastructure and defense spending. The recent boom in US tech has also pushed Europe to consider more innovative ways to bolster innovation. Longer term we believe that Europe will be a beneficiary of AI more than an innovator. This isn't necessarily a negative, however, given Europe's sectoral focus in pharmaceuticals and financials. With 12% in expected earnings growth at 15x earnings, European equities offer attractive relative value, with the caveat that turbocharged productivity and investment growth is likely to be slower moving in Europe than it is in the US.

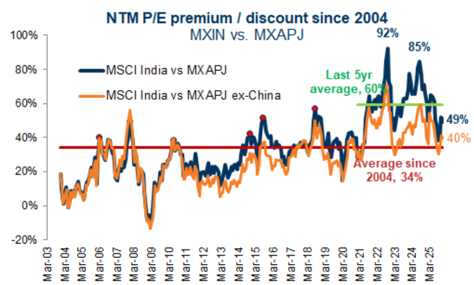
Japan: we continue to have a bullish outlook for Japanese equities as we see continued momentum behind a virtuous wage/price cycle, in addition to the significant capital market/corporate reforms which are continuing to push companies to better allocate their capital. We would also expect to see eventual yen strengthening (which will benefit unhedged Japanese equity investments) as the Bank of Japan continues to normalize policy. The new Prime Minister Sanae Takaichi represents an important continuation of Abenomics, though she admittedly seems to be placing a greater emphasis on fiscal stimulus measures to increase spending, while reducing taxes. Overall, we see the long-term bull-thesis in Japan as being firmly in place.



China: though there are highly compelling relative value trades in Chinese technology stocks , for the time being we remain on the sidelines given two non-negotiable risks to the Chinese economy: (1) penstroke policy risks which places decision making in the hands of relatively few leaders within the Chinese Communist Party and (2) the effects of continued U.S./China decoupling. We see China as market to trade tactically but would need for clarity on the ultimate path of US/China relations to make more significant strategic allocations.

India: we continue to be believers in the longer-term bull case for the Indian economy and equities, which we see as having all of the important characteristics of a well-positioned emerging economy: (1) a growing middle class with increasing buying power, (2) a large and well-educated population of young people (3) digital and financial infrastructure to facilitate transactions and investment and (4) democratic values and institutions which make it an attractive alternative to other autocratic or politically unstable Asian economies. In a strongly positive year for most Emerging Markets, India was a notable laggard, mostly as a result of elevated valuation multiples and tension between Trump and Modi on proposed trade agreements. We believe 2026 could be a year of inflection for Indian equities.

Exhibit 29: NTM P/E premium/discount of MSCI India vs. MXAPJ



Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Global Investment Research

India's Macro forecasts (GSe)				
Calendar year (% yoy)	CY24	CY25E	CY26E	CY27E
Real GDP	6.7	7.6	6.7	6.8
CPI inflation (average)	4.9	2.2	3.9	4.2
Current account balance (% of GDP)	-0.6	-0.7	-1.0	-1.2
Repo rate (%, eop)	6.50	5.25	5.25	5.25
Fiscal balance (% of GDP)	-4.7	-4.4	-4.0	-4.0

Note: Numbers highlighted in blue are GS forecasts

Real Assets 2025 in Review and Outlook:

Gold & Silver: one of the most impressive performances of 2025 was in precious metals. This outperformance was the result of concerns about dollar devaluation, as well as central bank diversification away from dollar reserves. The performance in silver was particularly astonishing, at times resembling the meme-stock mania of prior years. Worth noting is that the bid for silver is attributable to the fact that silver is an important industrial metal, with more than 30% of silver demand coming from electronics, hardware, solar equipment, and EVs. We continue to believe precious metals should be part of balanced portfolios but are naturally more cautious when assets trade erratically or with maximum enthusiasm.

Copper: since 2022 we have maintained a bull thesis in copper based on a basic supply/demand mismatch: while the sector had underinvested in new mining capacity, demand was skyrocketing on the back of both the AI / data theme, but also the renewables/EV theme, with demand expected to increase by more than 8x over the next 10 years. We are continued believers in the long-term bull case for copper but are conscious of the unpredictability of commodities markets. We continue to believe that some of the best ways for investing behind copper is through copper miners.

Cryptocurrency: after being up almost 50% from its April 2025 lows, Bitcoin gave up the entirety of its 2025 gains towards the end of the year. Similarly, Ether also experienced one its worst peak to trough declines on record, down close to 50% from its August highs. This most recent drawdown has demonstrated that though improved regulatory frameworks (CLEAR & GENIUS Acts) and broader institutionalization have allowed the asset class to mature, significant volatility and speculation remain. Long-term we continue to be believers in the use of BTC as a digital gold, and of ETH as the backbone of a whole host of tokenized services but are sensitive to the need for careful risk management. We believe that in as much as the rally in precious metals is extended, that crypto will be an important catch-up trade in 2026.

Balance of Risks & Opportunities for 2026

	Opportunities		Risks	Implications
Fiscal Policy	**O3B:** tax cuts, capital investment, and financial loosening	>	**Bond Vigilantism:** runaway spending presents threat to long yields	**Equities:** equity exposure in reflationary assets in industrials, tech infra, energy, and materials; exposure in international markets with strong economic trends and currency tailwinds/stability
Monetary Policy	**Dovish Shift:** balancing of employment risks, appointments of dovish Governors, end of QT	>	**Credibility:** concerns over politicization of monetary policy	
Trade/ Migratory Policy	**Reshoring:** resurgence of domestic manufacturing and supply chain integrity	<	**Dormant Inflation:** supply chain disruption and shifting to higher cost production	**Fixed Income:** preference for below-index duration in investment grade assets
Technology	**AI:** increase in productivity and operating margins from increased efficiency	>	**Unemployment:** added friction to labor market	**Real Assets:** exposure to safe haven assets and inflationary hedges
Geopolitics	**Safer World:** resolution of int'l conflict via economic policy tools	>	**Unknown Unkown's:** extremist activity & social unrest	

Contributors:

Rene Negron

Analyst

Important Disclosures and Disclaimers

This material is distributed for informational purposes only and intended solely for BigSur Wealth Management, LLC ("BigSur" or the "Adviser") clientele and or other parties to whom BigSur chooses to share such information. The discussions and opinions in this document (or "report") are intended for general informational purposes only, and are not intended to provide investment advice and there is no guarantee that the opinions expressed herein will be valid beyond the date of this document. While taken from sources deemed to be accurate, BigSur makes no representations regarding the accuracy of the information in this document and certain information is based on third-party sources (e.g. Bloomberg, Factset, Wall Street Journal) believed to be reliable, but has not been independently verified and its accuracy or completeness cannot be guaranteed. Any asset allocation proposals described herein are based on proprietary ratings and categorizations which involve varying levels of subjective analysis and interpretation. The asset allocation breakdown is intended to be a summary of BigSur's view on each asset class and its risk components which includes various factors including, but not limited to: market conditions and trends, correlation of securities, volatility, interest rate and issuer risk.

This article is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation, and the particular needs of any specific investor. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor. Any strategies referenced BigSur believes may present opportunities for appreciation over the subsequent time periods. BigSur closely monitors securities discussed and client portfolios and may make changes when warranted as a result of evolving market conditions. There can be no assurance that any investment strategies and/or performance included or referenced in the article will remain the same and investment strategies, philosophies, and allocation are subject to change without prior notice.

Any specific securities or companies identified and described may or may not be held in portfolios managed by the Adviser and do not represent all of the securities purchased, sold, or recommended for advisory clients. The reader should not assume that any investments in securities and/or sectors identified and discussed were or will be profitable. BigSur may change its views on these securities at any time. There is no guarantee that, should market conditions repeat, these securities will perform in the same way in the future. Any performance illustrations shown herein have not been audited and may reflect the reinvestment of dividends, interest and other earnings. Any performance and return illustrations have not been independently verified or audited by BigSur. Returns may be estimated and may not reflect actual performance. Further, past performance and returns may be subject to revision. BigSur does not undertake to update this information, and the results discussed may change without notice.

There are many factors that an investor should be aware of when trading options which can impact their overall performance such as market volatility, interest rates, and time horizon. Investors should only engage in options trading that is best suited to their financial condition and option experience. There is the potential to lose your entire investment in options as well as suffer unlimited downside loss. The options strategy outlined in this commentary only reflects BigSur's opinion and is subject to change at any time. Before trading options, you should understand these risks and carefully review and read the booklet entitled "Characteristics and Risks of Standardized Options" which is available at www.theocc.com. BigSur can provide you a copy of this booklet as well.

Please also note that this commentary is not investment research or considered a research recommendation for regulatory purposes as it does not constitute substantive research or analysis. In discussion of any strategy, results and risks are based solely on assumptions and hypothetical examples. Actual results, performance and risks will vary depending on specific circumstances. You are urged to consider carefully whether such services in general, as well as the products or strategies discussed in this material, are suitable to your needs.

Certain public offerings of Alternative Investment products (e.g. interests in real estate, private equity and hedge funds) are generally offered in reliance upon an exemption and do not require registration under the Securities Act of 1933.

Alternative Investments, therefore, pose additional risks which are different from those inherent in traditional investments. Investments in Alternative Investments may also involve the use of leverage which involves a high degree

of risk factors including substantial loss of initial investment. Alternative Investments are not required to provide periodic pricing or valuation information to investors. As such, Alternative Investments are highly illiquid and are generally not transferrable without the consent of the sponsor/issuer.

This report may include forward-looking statements and all statements other than statements of historical fact are to be considered forward-looking and subjective (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can provide no assurance that such expectations will prove to be correct. Many factors including changing market conditions and global political and economic events could cause actual outcomes, results or performance to differ materially from those discussed in such forward-looking statements. BigSur shall not be responsible for the consequences of reliance upon any opinion or statements contained herein, and expressly disclaims any liability, including incidental or consequential damages, arising from any errors, omissions or misuse.

This information is highly confidential and intended for review by the recipient only. The information should not be disseminated or be made available for public use or to any other source without the express written authorization of BigSur. Distribution of this document is prohibited in any jurisdiction where dissemination of such documents may be unlawful. Please contact your investment adviser, accountant, and/or attorney for advice appropriate to your specific situation.

BigSur Wealth Management, LLC
1441 Brickell Avenue, Suite 1410
Miami, FL 33131
Office (Main): 305-740-6777
Fax: 305-350-9998
http://www.bigsurpartners.com