Portfolio Perspectives

Q1 2026 | UPDATE TO POSITIONING

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Tactical Tilts for 2026

The outbreak of military conflict in the Middle East has changed market dynamics – favoring safety and stability over global diversification. With energy independence back in the spotlight, we believe the U.S. economy is generally better positioned to weather the storm and uncertainty around energy markets. At least in the near-term, this shifts the dynamic back towards a “no alternative to U.S. markets” environment. We also maintain our underweight exposure to fixed income/duration due to upside inflation risks, but believe this is an opportunity to slightly extend duration following the move higher in rates. At the same time, we maintain conviction in the intermediate portion of the yield curve.

▶ WAR SHIFTS EMPHASIS BACK ON U.S. MARKETS

While war with Iran favors regions with energy independence, global diversification remains important.

Prioritize defensive diversifiers within U.S. exposure.

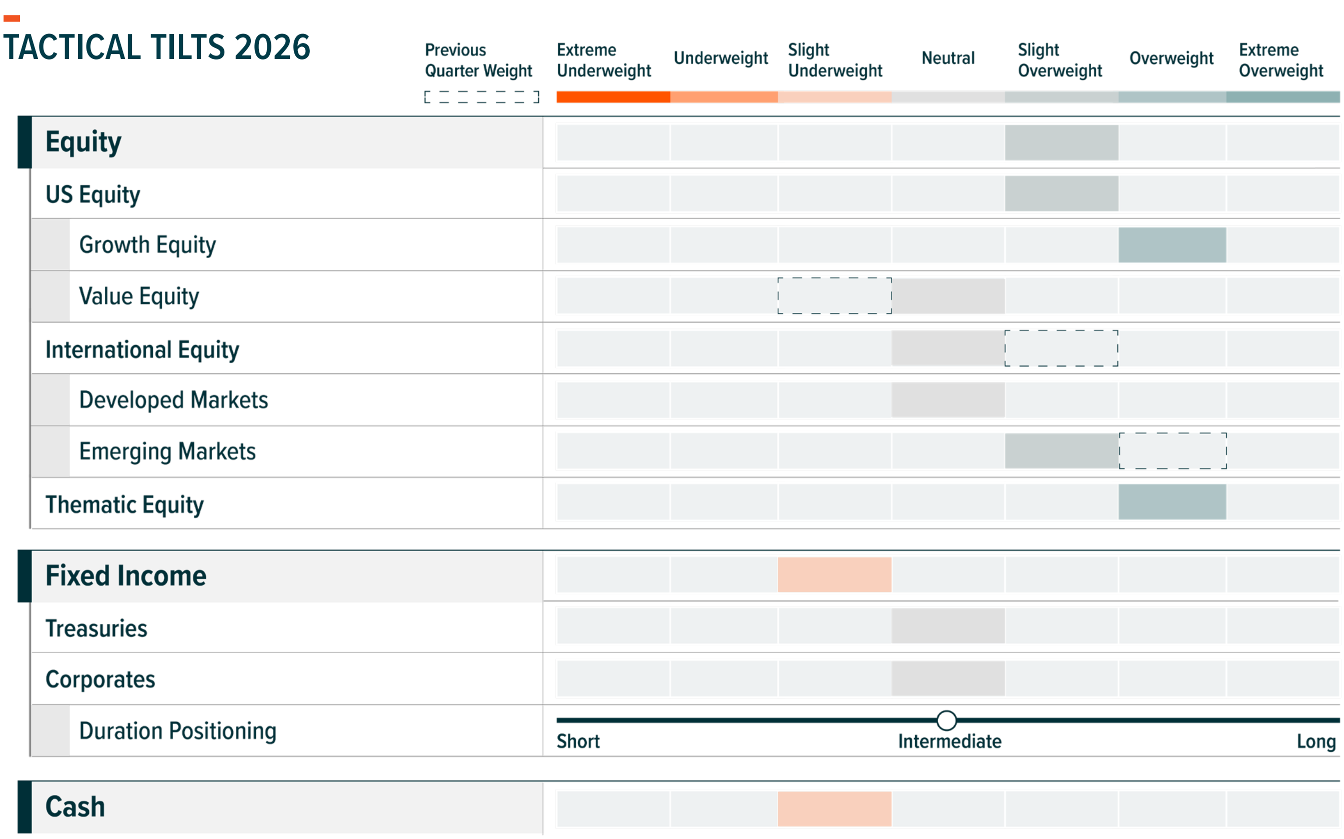
▶ THEMATIC REMAINS ESSENTIAL

Defense Tech is currently center stage, but there’s structural support across numerous themes.

▶ INTERMEDIATE DURATION FOCUS

We remain cognizant of tight spreads within credit markets and emphasize a risk managed approach.

We maintain our preference for intermediate duration positioning, as it offers participation in the ongoing interest-rate cutting cycle with less volatility than the long-end.



Note: Reflects views expressed in the Global X Core Series Portfolios.

International Equity to Neutral

Q1 has been a roller coaster for markets. Improved diversification both in the U.S. and globally has given way to a focus on safety as war rages in the Middle East. At least in the near-term, we believe the U.S. economy and market is better positioned to weather the potential increase in energy prices.

KEY TAKEAWAYS

- Portfolio diversification remains important, balancing targeted thematic exposures with select contrarian exposures as we navigate near-term volatility.
- Recent uptick in yields creates an opportunity to add to duration while remaining intermediate focused.
- Thematic equity remains essential, with several themes continuing to have strong tailwinds.

The Disruption of War - Typically a Short-Term Impact

U.S. financial conditions have tightened marginally in response to the start of the Iran war due to inflation concerns pushing the 10-year Treasury yield back to around 4.15% after dropping just below 4% during February's software selloff.[1] This puts yields at more attractive levels to add duration across the middle of the curve within our Core Series Portfolios. This extension should act as hedge should a prolonged conflict lead to an ongoing crisis in global energy markets and swiftly curb economic growth. Historically, U.S. financial conditions have been mixed in response to Middle East geopolitical risk, with this sensitivity declining as the U.S. became more energy independent.[2] However, inflation expectations may rise more easily this time around due to heighted consumer awareness of inflation risks. This in turn can give rise to higher inflation, as consumers attempt to circumvent higher prices by purchasing goods and services now.

Looking back at how markets typically react to an energy shock, the S&P 500 is relatively well positioned. While U.S. small caps have a high sensitivity to cost shocks, U.S. large caps are typically less sensitive. Improved energy independence puts the U.S. economy on a stronger footing in terms of expected impact on economic growth and inflation relative to regions that rely on imported energy. Historically, markets stabilize within 1-3 months provided energy prices stop rising.

While the European economy is susceptible to the inflation shock accompanying higher oil prices, its market benefits from higher exposure to energy companies. EM countries with weak currencies that rely heavily on energy imports are some of the most vulnerable. Prior to this shock, EM-ex China was the region we viewed as one of the most attractive for the year ahead given a promising mix of growth, valuations, and currency outlook. We've currently tapered this view and made the active decision to leave that sleeve unchanged given the degree of uncertainty we are currently facing.

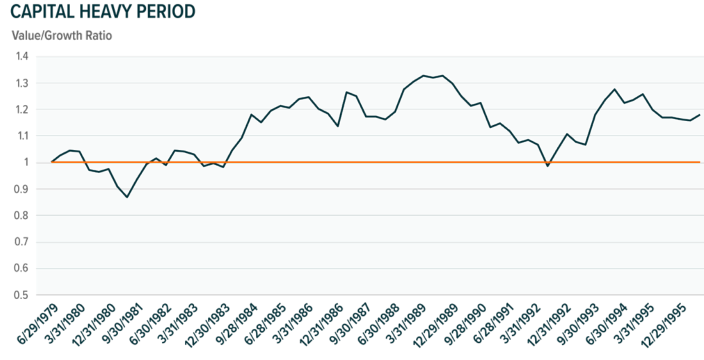
VALUE UNDERPERFORMED AS INVESTORS PRIORITIZED CAPITAL LIGHT BUSINESSES – BUT THIS COULD CHANGE

HALO, or Heavy Assets, Low Obsolescence Risk, was all the rage in the first 2 months of 2026. While the disruption of war called into question everything that did well at the beginning of the year – once the dust settles, we believe exposure to these more value-oriented sectors and industries is likely to grow in importance, but with a more U.S. oriented focus. This accordingly drove our decision to increase U.S. value to neutral within our tactical positioning.

The HALO trend talks to both AI disruption fears and the push to reshore manufacturing and improve U.S. infrastructure. It focuses on areas with high replacement costs and high barriers to entry that are not easily disrupted by new software or technology. If we take a walk down memory lane, we haven't seen this preference for capex heavy companies since the early 1990s. The charts below illustrate different periods of capital intensity preference via the performance of the Russell 1000 Growth Index relative to the Russell 1000 Value Index over the last few decades.

CHART SERIES
CAPITAL INTENSITY PREFERENCES THROUGH THE DECADES

CAPITAL HEAVY PERIOD

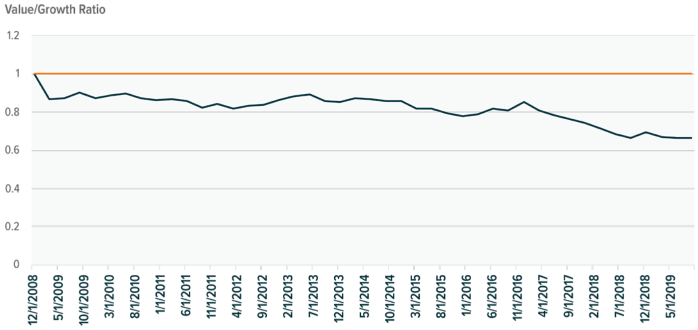


Sources: Bloomberg. Chart based on monthly performance on the Russell 1000 Value and Russell 1000 Growth Indexes between 12/31/1978 and 12/31/1995.

Generally, a preference for capital intensive businesses, with high levels of capex perceived as supporting the moat around a business.

Key focus: *How big is the asset base and how much does it cost to replicate.*

CAPITAL LIGHT PERIOD

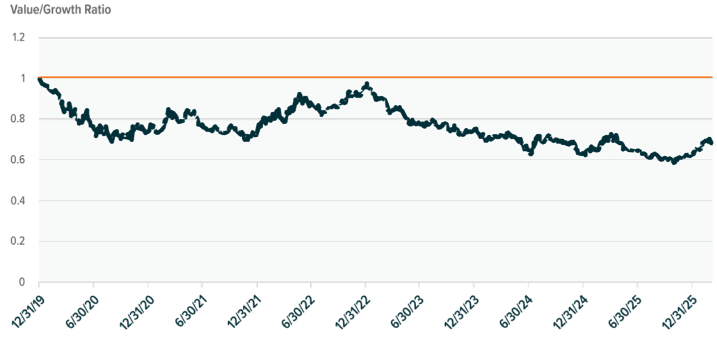


Sources: Bloomberg. Chart based on monthly performance on the Russell 1000 Value and Russell 1000 Growth Indexes between 12/31/2008 and 12/31/2019.

While the pivot to asset light and capital efficient business models starting in the late 1990s, this trend is most clearly reflected in investor preferences in the recovery from the Global Financial Crisis and the decade that followed.

Key focus: *How high is the return on incremental capital and how quickly can this scale without additional capital.*

2020s BIFURCATION



Sources: Bloomberg. Chart based on daily performance on the Russell 1000 Value and Russell 1000 Growth Indexes between 12/31/2019 and 3/9/2026.

Increased bifurcation in preferences between capital light and capital-intensive business models.

Key focus: *Increased prioritization of supply chain resilience, infrastructure development, reshoring manufacturing, and strategic capex related to AI buildout, with a focus on ensuring national security and economic resilience.*

THEMES FOR THE CURRENT ENVIRONMENT

The momentum in the thematic landscape shifted with the start of the war. While some of this shift is likely to continue, other elements could reverse as the dust settles.

- Defense Tech remains center stage, with heightened geopolitical tensions and greater demand for their products.
- Software related themes enjoyed a rebound off recent lows as the war shifted investor focus away from the risks of AI disruption. We believe the software selloff was overdone, as software remains critical and the war re-emphasized the importance of Cybersecurity and other software companies used in defense.
- Infrastructure is an excellent example of a HALO theme. While performance in this area has retraced since the start of the war, we believe this is an area that remains well positioned for future growth. Currently there's a large push to improve U.S. Infrastructure – this ranges from improving traditional infrastructure to support the reshoring of production, to upgrading digital infrastructure for the AI era, and enhancing the electrical grid to withstand growing power demand. In the event of a prolonged war, increasing local manufacturing and themes that are resilient to inflation will be critically important.

Diversification is Essential

A balanced portfolio—anchored in quality U.S. exposure, complemented by targeted thematic exposure, global diversification, and select contrarian and low volatility exposures—positions investors to participate in upside potential while prudently managing risk. These views and ideas are reflected across our Core Series ETF Model Portfolios.

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[1] Bloomberg data as of 3/6/2026
[2] Goldman Sachs, Global Economics Comment: Global Economic Impacts of the War in Iran, 3/5/2026