

# Portfolio Perspectives

Q4 2025 | POSITIONING FOR 2026

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## Tactical Tilts for 2026

We analyzed the current market concerns and believe targeted exposure to beneficiaries of bottlenecks related to key structural themes remain critical, but believe a barbell approach to risk is warranted, focusing on portfolio diversification.

### ► OWN THE U.S. FOR GROWTH

Own the U.S. for growth while having global exposure for diversification and value. This ties into our positioning view of being overweight U.S. growth and underweight U.S. value while being balanced between U.S. and International equity while favoring equities over fixed income.

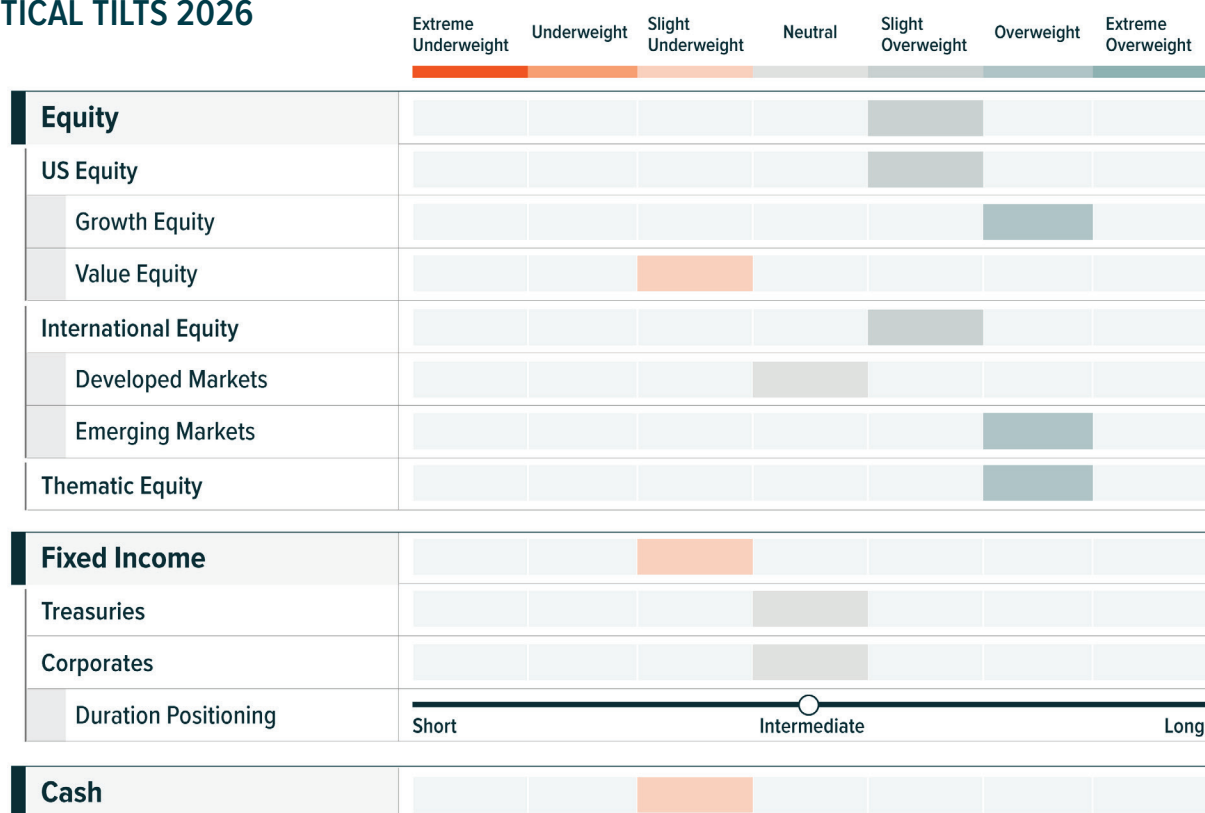
### ► THEMATIC REMAINS IMPORTANT

AI beneficiaries are expanding from infrastructural to applications. Physical AI is a key growth area for the year ahead.

### ► INTERMEDIATE 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.

## TACTICAL TILTS 2026



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

## The Importance of Optimism and Analysis

Following three years of robust U.S. equity performance, investors are again climbing a wall of worry. Questions abound about the economy's resilience, the sustainability of AI-driven growth, and the durability of elevated valuations. After evaluating these dynamics, we remain constructive on equities—favoring U.S. large-cap growth and maintaining a barbell approach to managing factor risk.

### KEY TAKEAWAYS

- Time in the market matters more than perfectly timing the market.
- Bottlenecks driven by the AI infrastructure buildout provide additional tailwinds for certain themes within the AI ecosystem.
- Portfolio diversification remains important, balancing targeted thematic exposures with select contrarian exposures as we navigate near-term volatility.

## Optimism Should be the Default

When investing, one's default should be optimism about the future. This message rings true regardless of the current market circumstances. There's always a reason to delay investing. While the risk factors taking center stage change over time, investors can always find rational concerns about the current investment environment. While delaying may seem logical in the short run, the benefit of hindsight may reveal plenty of missed opportunities.

## Climbing the Wall of Worry

### DETERIORATING MACRO BACKDROP

2025 has been the most unlikely market rally. The disconnect between weak soft macro data and strong hard data has transitioned to the current contradicting messages within the hard data. Deteriorating labor data contradicts with continued strength in retail sales despite deteriorating consumer confidence. While slowing economic growth certainly grabs headlines, we believe the scale is insufficient to impact the overall bull market.

Bull markets typically end when liquidity and leverage become a constraining factor, or unemployment rises sharply. Financial conditions remain accommodative, with the Federal Reserve (Fed) expected to reduce policy rates by around 50 bps during 2026.<sup>1</sup> Both household and corporate leverage remains favorable. Stalled labor market growth is a key concern for markets. While data availability remains constrained due to the government shutdown, we don't believe this stalled labor growth reflects the start of a recession. As such, we believe the equity asset class is likely to benefit more from a measured decline in policy interest rates undertaken by the Federal Reserve to provide incremental support to the labor market. Conversely long duration fixed income, which tends to outperform during periods in which growth declines sharply, may not stand to benefit as much, particularly in an environment where inflation remains above the Fed's target.

The U.S. economy is expected to grow around +2.1% in 2026<sup>2</sup>, similar to its level in 2025. The Big Beautiful Bill is anticipated to boost investment spending, which can help cushion economic growth should consumption slow significantly. The start of 2026 may be wobbly as the full tariff impact flows through to consumers and CPI data. However, by Q2 majority of the price increases are likely to be reflected and the impact of tax refunds and U.S. stimulus are expected to support U.S. economic activity. This could help improve market breadth into the rest of the year. However, at this stage we remain underweight U.S. value as we don't see a near-term catalyst to improved earnings and fundamentals for this market segment. However, we've recently added a small contrarian exposure to barbell our factor risk within the U.S. Equity exposure.

### DEEP DIVE ON THE AI CONCERNS

Skepticism is healthy for markets. It's encouraging to see markets questioning the shift in funding mix for large AI projects and reassessing leadership within this theme. While spreads have risen, they remain near historic lows and liquidity remains accessible for funding AI projects.<sup>3</sup> The recent wall of worry surrounding the AI trade has centered on a few key areas:

- The scale of capex spending
- The dramatic shift in the funding composition
- The extended time of buildout and the useful life of GPUs



Reinvestment of operating cash flow was the primary method of AI capex financing prior to 2025; but this has shifted to include a substantial level of debt and vendor financing as capex commitments rose. When considering the AI capex boom, it's good to keep it in context. While the committed capex numbers being thrown around are huge, as a percentage of U.S. GDP, they're still reasonably small relative to prior large tech investment cycles. Currently, AI investment as a share of U.S. GDP is less than 1%, relative to between 2-5% for prior large technology cycles.<sup>4</sup>

Given the importance of this foundational technology, high capex spending makes sense provided it's driving strong earnings. This is particularly important due to the fundamental shift from asset light to more capital-intensive business models. Currently the demand for GPUs seems insatiable, and with the speed of upgraded AI chip release cycles, this may raise concerns about a never-ending capex cycle. However, different AI use cases have different compute needs. While training LLMs on massive datasets may benefit from upgraded chip technology, inferencing and less intensive AI applications may not need the latest and the greatest chip tech. As the AI theme moves from model development to focusing on applications, we're likely to see the AI beneficiaries expand dramatically. At this point, exposure to themes that benefit from bottlenecks caused by AI expansion is a good way to target beneficial exposure while being more diversified. This includes Electrification, Data Centers & Digital Infrastructure, Infrastructure Development, as well as up and coming areas of Robotics and applications of physical AI.

Technological change happens slowly and then all at once. Self-driving taxis are no longer futuristic. The first iterations of physical AI are already in use. Similarly, agentic AI is already being deployed within companies. This technological wave is already impacting corporate earnings – and most encouragingly, the beneficiaries have expanded beyond the infrastructure buildout phase.

### ADDRESSING VALUATION CONCERNS

Following three years of strong returns, U.S. equity markets aren't cheap, but are they necessarily overvalued? Comparing current multiples against historic values, the U.S. looks expensive. However, the composition and nature of the market has shifted in favor of faster growing areas with stronger fundamentals. Margins and ROEs are higher and are on a rising trend. Decomposing the PE multiple on the S&P 500, we believe the market is fairly valued at current earnings growth and interest rates, with room to rise as earnings growth accelerates and interest rates decline.

It's good to remember, valuations matter the most when EPS is being downgraded. Given continued earnings strength and margin expansion, valuations on the S&P 500 are not currently alarming.

### Diversification Remains Important

As we look toward 2026, investors must balance optimism with analysis—recognizing both the opportunities within structural growth themes and the need for prudent diversification. The U.S. economy continues to demonstrate resilience despite mixed signals, while innovation-driven areas like AI and digital infrastructure offer meaningful avenues for long-term growth. While valuations and market sentiment may create short-term volatility, we believe the foundation of earnings strength, policy support, and continued technological progress can sustain the current bull market. 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 managing risk. In an environment shaped by rapid change, time in the market and disciplined optimism are powerful tools for building wealth.

<sup>1</sup> Bloomberg data as of 12/8/2025

<sup>2</sup> IMF, World Economic Outlook: Global Economy in Flux, Prospects Remain Dim, October 2025

<sup>3</sup> Bloomberg data as of 11/30/2025

<sup>4</sup> Goldman Sachs, AI: In a Bubble?, October 22, 2025

Information provided by Global X Management Company LLC.

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