



FIDUCIA ADVISORS

LLC

2026 Market Outlook

Investment Themes & Portfolio Positioning

December 2025



Agenda

1

Economic Analysis

GDP growth, inflation outlook, market risk assessment

2

Market Review

Asset class performance, valuations, sector analysis

3

Investment Themes

Yield curve dynamics, credit markets, tactical positioning

01

Economic Analysis

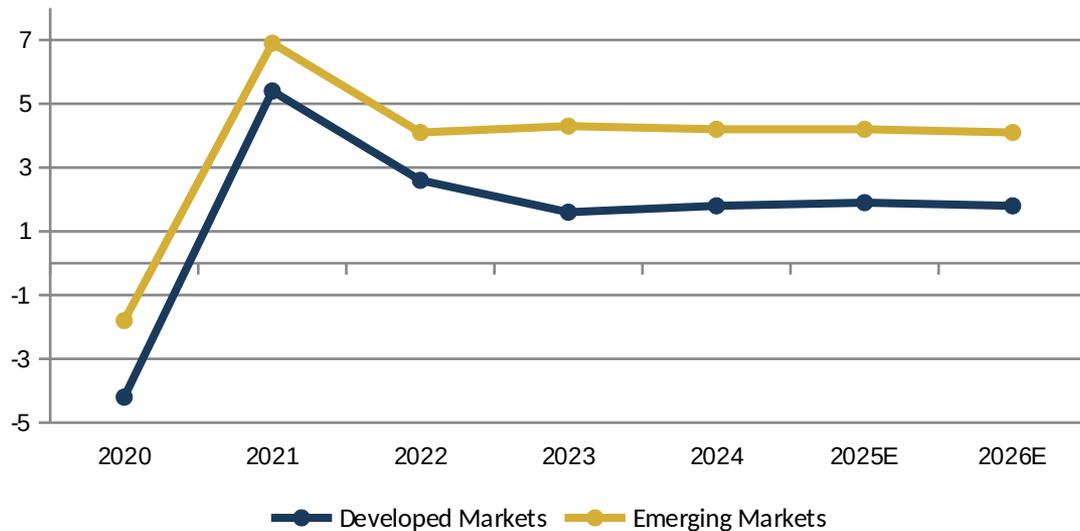
GDP Growth | Inflation Outlook | Market Risk



GLOBAL GROWTH

Below-Trend Growth Expected in 2026

Both developed and emerging markets project growth below long-term averages



DM 2026E

1.8%

60 bps below trend

EM 2026E

4.1%

100 bps below trend

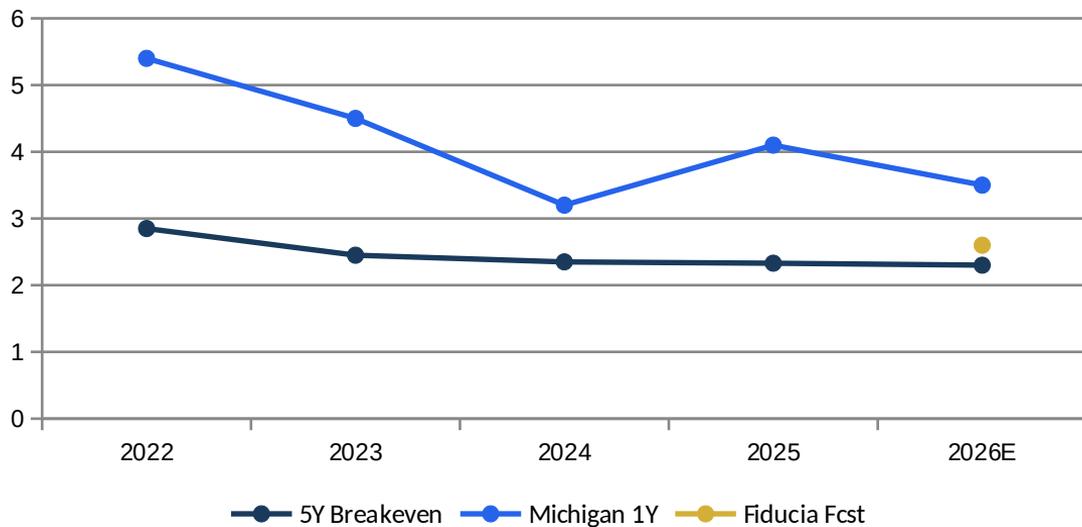
US 2026E

2.1%

Fiducia forecast

Inflation Expectations Converging Near Target

Consumer expectations remain elevated while market-based measures normalize



5Y Breakeven
2.33%
At target

Michigan 1Y
4.1%
Elevated

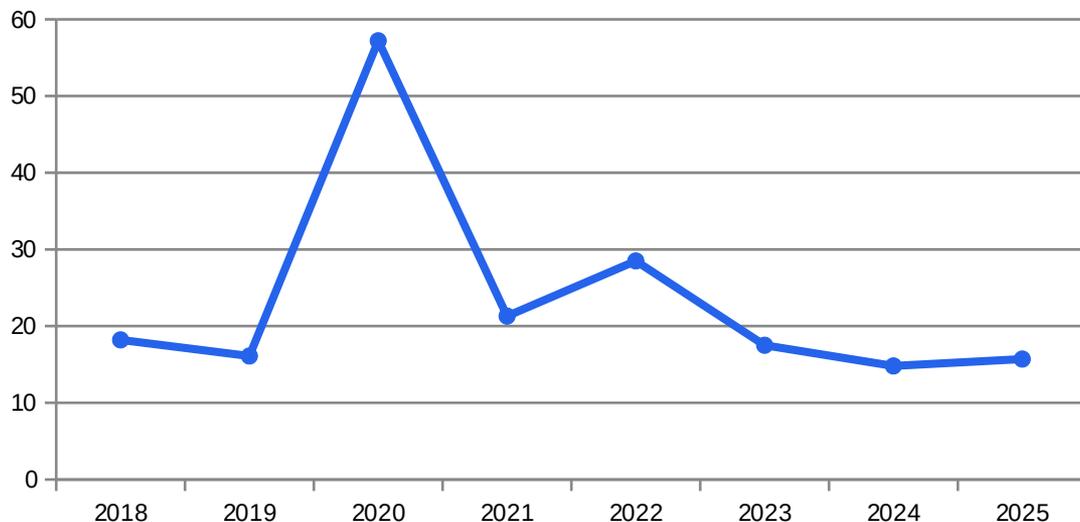
Fiducia 2026
2.6%
Above Fed

MARKET RISK



Volatility Subdued but Risks Remain

VIX below historical average; gold volatility signals hedging demand



VIX Current

15.7

Below Avg

VIX 20Y Avg

19.5

Reference

Gold Vol

Elevated

Above Avg

02

Market Review

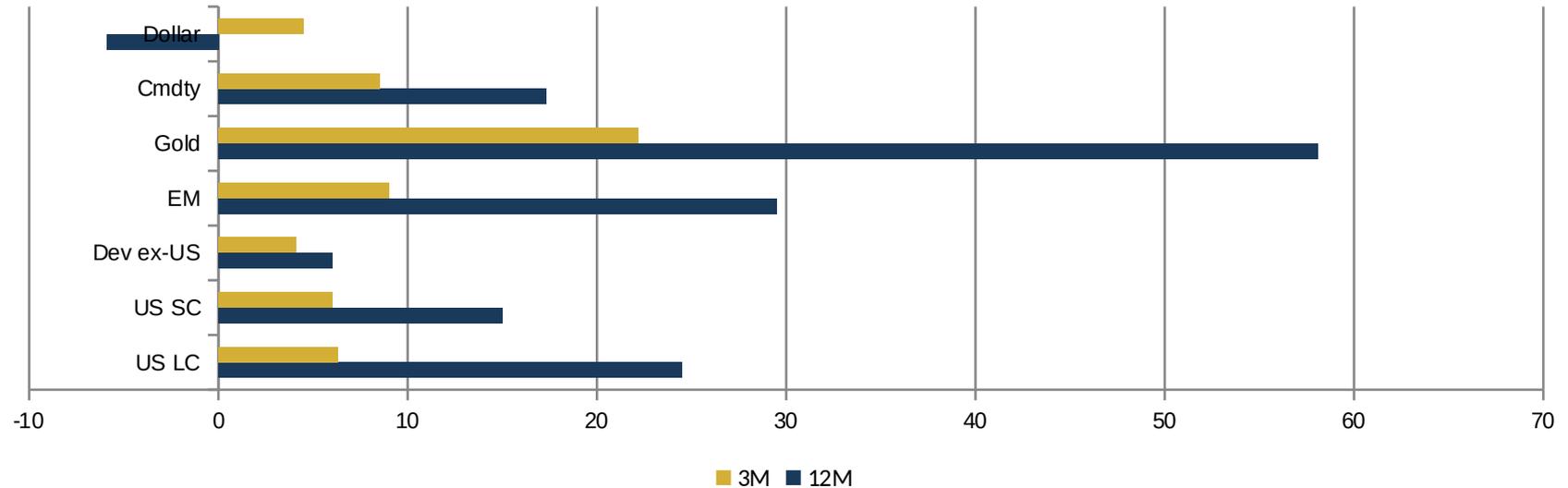
Asset Performance | Valuations | Sector Analysis

ASSET CLASS PERFORMANCE

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Gold Leads 2025 Returns at +58%

Major asset class trailing returns as of November 30, 2025



+58.1%

Gold | 12M

+29.5%

EM Equities

+24.5%

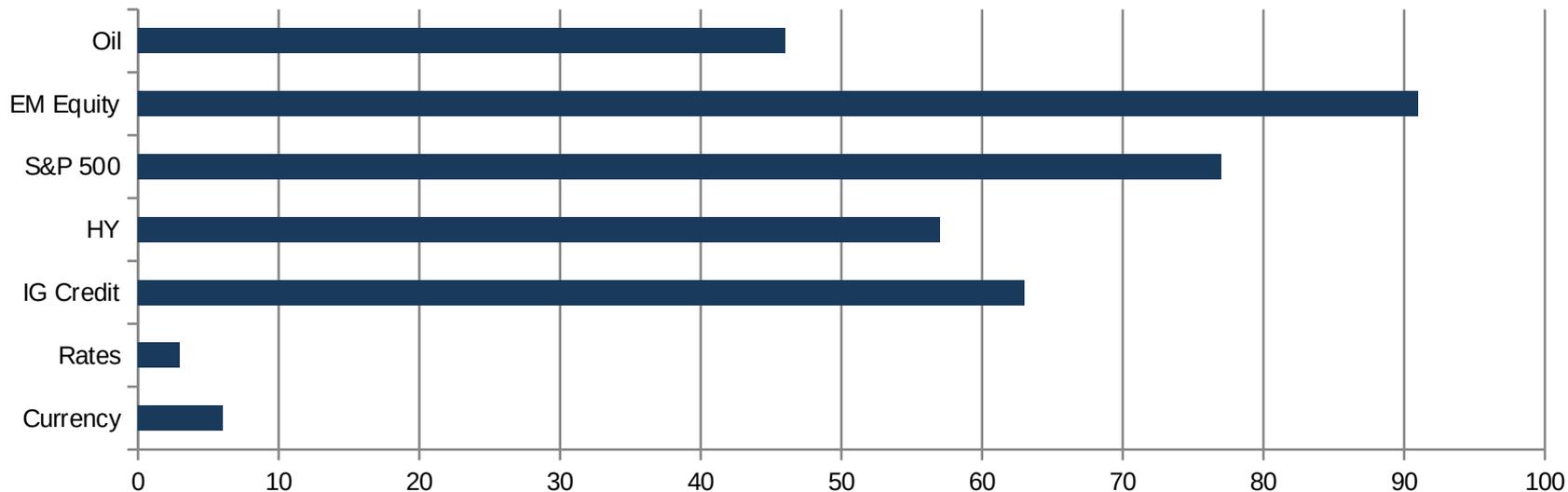
US Large Cap

-5.9%

US Dollar

Elevated Volatility Across Markets

Implied volatility percentile ranks (3-year) amid policy uncertainty



91%

EM Equity Vol

Elevated

77%

S&P 500 Vol

Elevated

63%

IG Credit Vol

Above Avg

6%

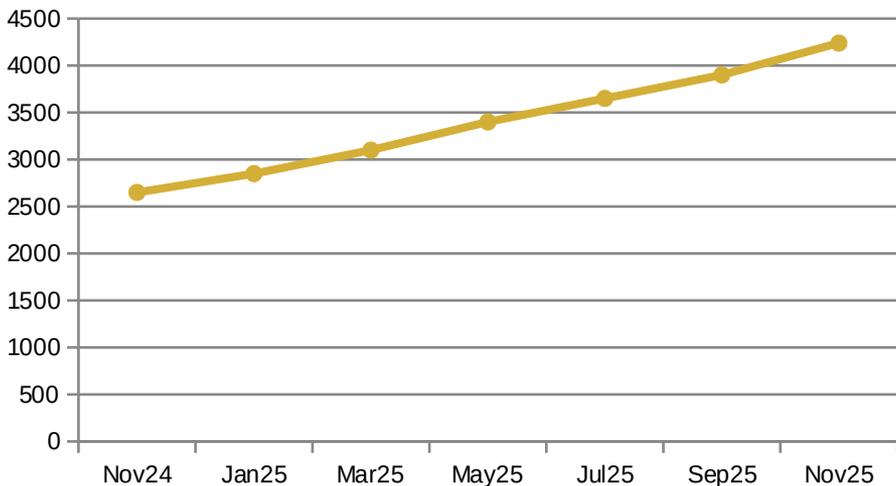
Currency Vol

Below Avg

GOLD SENTIMENT

Gold Near All-Time Highs

Fed easing and renewed ETF demand support gold leadership



Factor	Trend	Current
Gold Spot Price	Rising ↑	\$4,239
Gold ETF Holdings	Rising ↑	97.5 Moz
10Y TIPS Yield	Falling ↓	1.76%
Macro Risk Index	Falling ↓	0.21
US Dollar Index	Flat →	99.46



US Large Cap Valuations Near 15-Year Highs



Small Caps and Developed ex-US offer relative value opportunity

Region	P/E %ile	NTM P/E	P/B %ile	P/S %ile	View
S&P 500	93%	98%	99%	99%	Expensive
S&P SmallCap 600	42%	30%	38%	54%	Attractive
MSCI EAFE	75%	86%	98%	99%	Mixed
MSCI EM	91%	91%	95%	95%	Expensive
Russell 1000 Value	91%	94%	100%	96%	Expensive

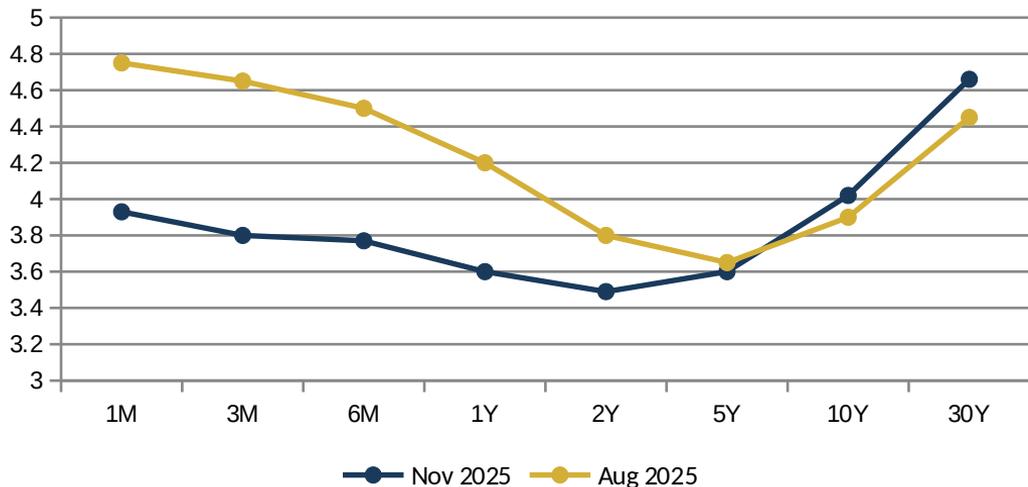
Fiducia View: US Small Caps offer relative value with P/E at 42nd percentile vs Large Cap at 93rd. Consider tactical reallocation.

YIELD CURVE

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Long-End Yields Elevated on Deficit Concerns

Curve steepening as rate cut expectations ease short-term yields



2-Year **3.49%**

-79 bps YTD

10-Year **4.02%**

-56 bps YTD

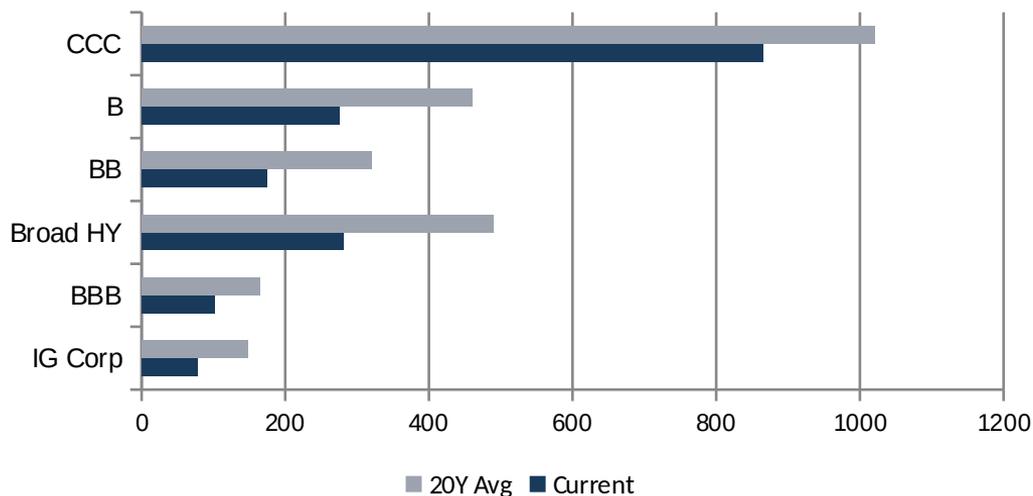
30-Year **4.66%**

-26 bps YTD

2s10s Spread: +53 bps
Curve normalized from inversion

Spreads Historically Tight Across Credit

Current spreads well below 20-year averages — limited cushion for widening



IG Corporate **78 bps**

-47% vs avg

Broad High Yield **281 bps**

-43% vs avg

CCC Rated **865 bps**

-15% vs avg

Fiducia View: Tight spreads offer limited cushion. Active management and credit selection become critical.

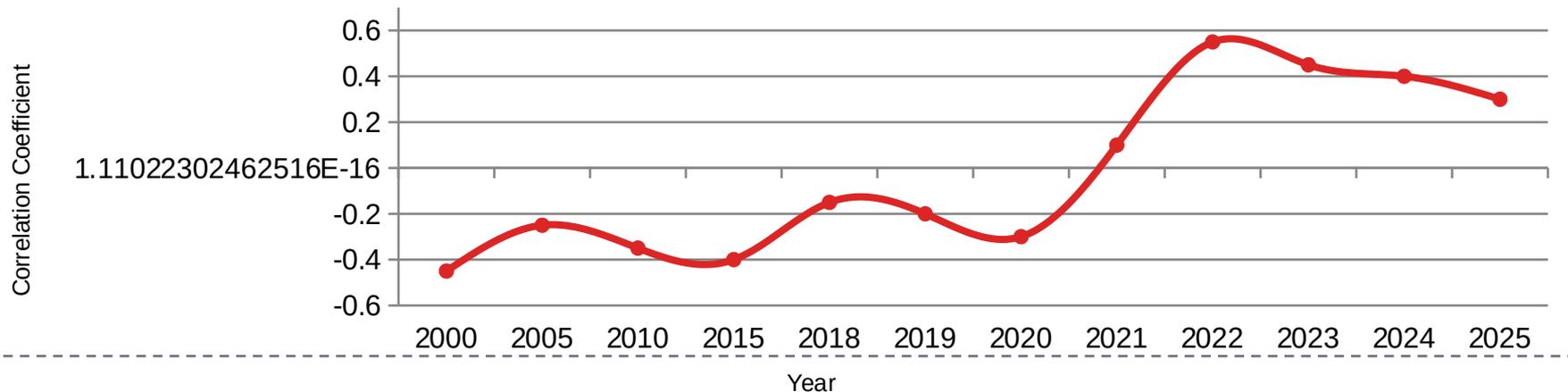
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Investment Themes

Yield Curve | Credit Markets | Tactical Positioning

Theme 1: Inflation Risk: The Broken Diversifier

When inflation rises, bonds fail as portfolio hedges



Our Inflation View

2.6% (YE26)

vs Fed 2.4%

Stock-Bond Corr

+0.30

Positive = Risk

Inflation Vol

Elevated

Policy uncertainty

60/40 Portfolio

Vulnerable

Need alternatives

Alternative Inflation Hedges

Beyond bonds: Building inflation-resilient portfolios

TIPS (Preferred)

5Y: 1.4% real yield

10Y: 2.15% real yield

Direct inflation protection with attractive real returns. Principal adjusts with CPI.

Silver (Opportunity)

\$30-35 spot price

Gold/Silver: 86:1 vs 65:1

Undervalued vs gold. Dual demand: monetary hedge + industrial (solar, EV).

Commodities Basket

Diversified exposure

Energy + Agriculture

Broad inflation hedge. Benefits from supply constraints and demand growth.

Infrastructure/REITs

Real assets

Pricing power

Revenue indexed to inflation. Tangible assets with contractual escalators.

Gold: Hold Current Positions

At \$2,700+ with strong YTD gains, gold valuations elevated. Maintain existing allocations but favor silver for new inflation hedges. Gold-silver ratio at 86:1 vs historical 65:1 suggests silver offers better risk/reward.

Recommended Inflation Hedge Allocation (5-10% of portfolio)

TIPS: 40-50% • Silver: 20-30% • Commodities/Real Assets: 20-30% • Gold: Maintain existing positions

Theme 2: US vs Europe: The Valuation Gap

Europe trades at historic discount despite improving fundamentals

Return Driver	US (S&P 500)	Europe (MSCI)	Verdict
NTM P/E	22.5x	15.0x	Europe 33% cheaper
Dividend Yield	1.1%	3.5%	+240 bps income
EPS Growth (NTM)	14.5%	11%	US leading growth
PEG Ratio	1.6x	1.4x	Better value
2025 YTD (Dec)	+18.2%	+28.4%	Europe outpacing

The Opportunity

Europe's 11% EPS growth includes +3% from fiscal stimulus. At 33% lower valuation with 240bps higher income, Europe offers compelling value. US premium reflects AI concentration risk (Tech 30% of S&P). Both markets posting strong 2025 returns, but Europe outpacing.

Europe: Catalysts for Re-Rating

Structural shifts justify lower P/E discount

Massive Fiscal Stimulus

Germany: €500B infrastructure fund + €108B defense (2026)

EU aggregate: 1.9% → 2.5% GDP defense spending by 2026

GDP Impact: +0.4pp growth 2027 | EPS: +2-3% annually

NATO Defense Surge

Target: 5% GDP by 2035 (3.5% core + 1.5% infrastructure)

Poland: 4.1% | Germany: 2.8% (2026) → 3.5% (2029)

Additional €254B annually needed vs 2024 baseline

Russia/Ukraine Resolution

Active peace talks: Geneva, Berlin, Abu Dhabi negotiations ongoing

Trump: "Deal closer than ever" | European peacekeeping force planned

EU Cohesion Strengthening

Breakup risk declining: Unified defense policy, joint fiscal response

Regulatory shift: Pro-growth reforms, capital markets integration

US vs Europe Divergence

US: AI concentration risk (Tech 30% of S&P), elevated valuations

Europe: Sector diversification, defensive + cyclical balance, fiscal tailwinds

Return of Capital Flows

2025 YTD: +2% AUM inflows as investors diversify from US overweight

European households: 20% equity allocation vs 40% US (room to grow)

Re-Rating Potential: 10-15% Index Upside

Base case: +3% EPS growth from fiscal stimulus → +1.5x P/E re-rating | Optimistic: Lower ERP from reduced geopolitical risk → +0.5x P/E | Combined: Europe P/E 14.4x → 16.4x = 14% valuation expansion + earnings growth

Theme 3: Private Markets: Long-term Drivers

Q3 2025 shows record deal activity amid persistent liquidity challenges

M&A Activity Surge

Q3 2025 Deal Value

\$310B

Record quarterly high

LBO Multiples (Q3)

11.1x

Down from 13.7x (2024)

YTD Exits (2025)

\$470B

+40% YoY

PE Fundraising

2024 Capital Raised

\$476B

-20% YoY, top GPs dominate

Elevated Dry Powder

Global PE Dry Powder

\$2.2T

Down from \$2.6T peak

Capital Held 4+ Years

24%

\$530B+ aging capital

Return of Capital Crisis

5-Year DPI (2018 funds)

0.6x

vs 0.8x historical

Avg Holding Period

6.4 yrs

vs 4.2 yrs (2010)

Private Credit Growth

Market Size (2025)

\$1.7T

→ \$2.6T by 2029

Middle Market Share

90%

of LBO financing

Historical Premium

200-250

bps over BSLs

Premium Sustainability

- ✓ Lower defaults + Bank retreat
- ✓ Illiquidity premium justified

⚠ Spread compression risk

Private Markets: Opportunities vs Risks

Balancing compelling return potential against structural challenges

SIGNIFICANT UPSIDE

Private Equity

1. Deployment Accelerating

Q3 2025 hit record \$310B quarterly deal value. \$2.2T dry powder deploying as valuation gaps narrow. LBO multiples compressed to 11.1x from 13.7x peak—more attractive entry points.

2. Exit Market Reopening

YTD exits \$470B (+40% YoY). PE-backed IPOs raised \$18B+ in Q3. Strategic buyers active. Secondaries \$165B (2024), projected \$300B by 2030.

3. Rate Environment Improving

Lower debt costs enhance LBO returns. Target 20% IRR now requires 4.2% EBITDA growth at 7-yr hold vs 2% at 3% rates. Europe offers 50-100 bps cheaper financing.

4. Historical Outperformance

Buyout funds outperform public markets across all regions for 10+ year horizons. 2.0x-2.5x MOIC targets remain achievable for top-quartile managers.

Private Credit

1. Attractive All-In Yields

Floating rate structure + spread premium = compelling cash yields. Senior secured risk delivering 8-10% all-in vs 5-6% for leveraged loans. Lower realized defaults than public credit.

2. Structural Market Share Gains

Banks retreat due to regulatory constraints. Private credit now 90% of middle-market LBO financing vs 36% a decade ago. \$1.7T → \$2.6T by 2029 as PE deploys \$2.5T dry powder.

SIGNIFICANT RISKS

Private Equity

1. Competition Intensifying

Despite multiple compression to 11.1x, mega-funds moving down-market as \$2.2T dry powder chases deals. Q3 saw 6 deals >\$10B. Risk of deployment pressure despite improved valuations.

2. Denominator Effect Persists

LPs overweight to PE (mark-to-model lag). Low DPI constrains new commitments. Fundraising remains challenging except for top-quartile managers. 5+ year "liquidity crisis" per Bain.

3. Holding Period Extensions

Average 6.4 years vs 4.2 historical. Extended holds compress IRR even with solid MOIC. Operational value creation timelines exceed fund lifecycle. Forced exits at suboptimal valuations.

4. Macro Recession Risk

Leveraged companies vulnerable to earnings declines. Higher debt service costs vs pre-2022 era. Portfolio companies need 4.2% annual growth to hit IRR targets—recession breaks the model.

Private Credit

1. Spread Compression

Competition from mega-funds eroding premiums. Spreads at "close to bottom" per Fitch. Large funds (>\$10B) diluting protections, weakening covenants. Approaching broadly syndicated loan terms.

2. Hidden Credit Risk

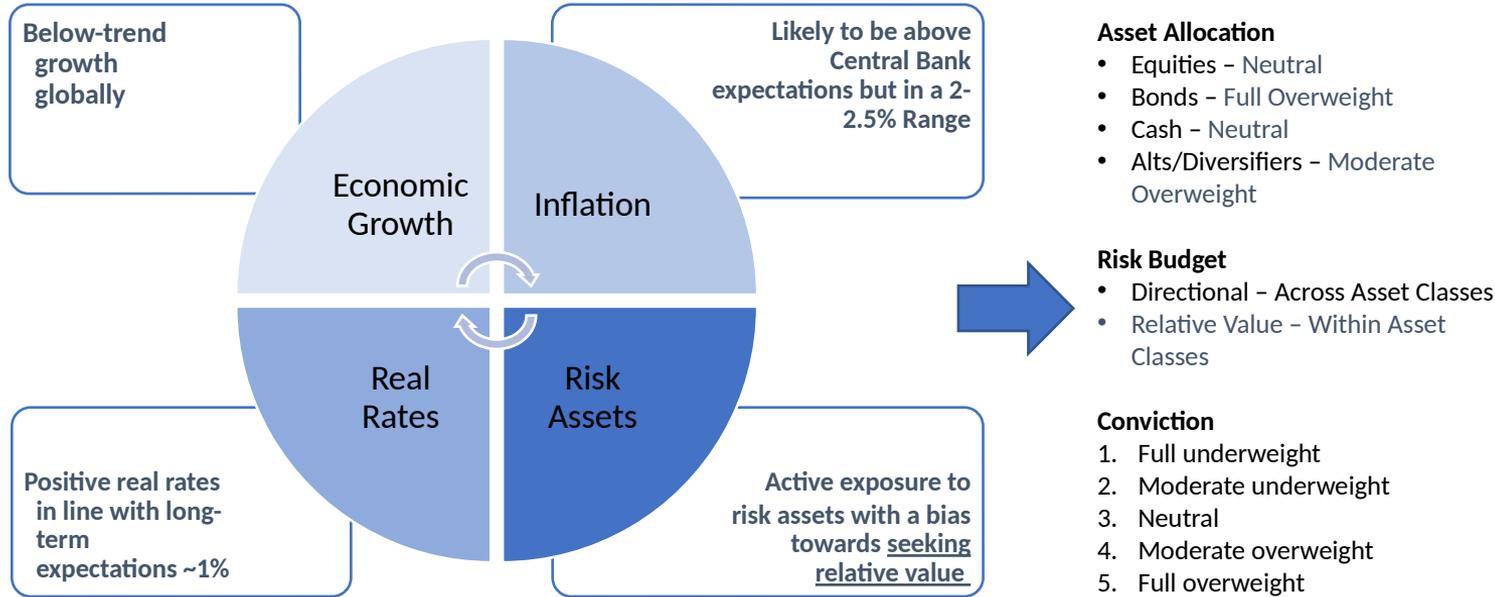
Mark-to-model masks losses. Sponsor support delays defaults. Higher leverage (6-7x). \$1.7T non-bank lending raises systemic concerns.

Appendix

Philosophy and Investment Framework

Philosophy and Structure Framework – 2026 Expectation

Tailored Views Based on Investment Objectives: • Liquidity • Growth • Income • Preservation





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Thank You

Questions? Let's discuss how these themes
apply to your portfolio.