



Hitting the Ground Running in 2026

Report for the Week Ending Jan 03, 2026

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Monologue

Welcome back. In case you missed it, we published our 2026 Outlook Report just before the holiday break. In it, we highlighted five important things we think won't happen this year. We also emphasized our views on the major global economies and updated our (probability-weighted) three-year outlook scenarios.

You can access the report here if you haven't read it yet. Read fast; we're hitting the ground running in 2026. The 2026 calendar happens to be stacked in such a way that we'll already know the outcomes, or at least the direction of travel, of several of the major open macro questions by the end of the first quarter. If you thought you could ease into the year, think again.

The immediate global economic impact of Nicolas Maduro's capture by the U.S.

will be limited. The first major surprise of the year came on the very first weekend, with the Trump administration's capture of Venezuelan autocrat Nicolas Maduro. At this stage there are more unanswered questions than solid information, not least who will step into the power vacuum. What we can say is that implications for markets and the global economy appear limited. It will take time for sanctions to be lifted and Venezuelan oil to flow to the formal economy again. Even then, this would only be adding to an already serious supply glut. We may see somewhat weaker oil prices down the pike, but the overall picture is little changed.

Nor do we believe immigration policy in the U.S. will be much affected (unlike Venezuela's neighbors, which are bracing for another influx, adding to the ~8 million Venezuelans who have left under Maduro). As of 2023 (U.S. census data is stale), there were ~770,000 Venezuelans in the United States (up from 184,000 in 2010). But since Trump took office, the UN International Organization for Migration reports that the number of Venezuelans entering Mexico – a proxy for U.S. asylum applications – has slowed to less than a trickle.

If there is one major takeaway, it's this: We can't write off the recent U.S. National Security Strategy as jingoistic blather. Trump is serious about a renewed "Monroe Doctrine" of American hegemony in the Western Hemisphere. This only strengthens our belief that self-directed European rearmament will remain a major investment theme over the next 5-10 years.

America's actions against a Russian ally could slow progress on peace

negotiations in Ukraine. Before Maduro's capture, this section was going to speculate on the near-term prospects for peace in Ukraine, with a major American diplomatic push underway and the Coalition of the Willing (Ukraine and its European allies, with support from Canada, Japan, Turkey, and Australia) meeting in Paris this week. However, an already fragile process has now been made less predictable. Russia is now likely to stall, and Ukraine has indicated it is readying for a military push come spring. From a macro standpoint, the main victim is the European energy sector, which is anticipating easing gas costs as a major peace dividend. Note too that the New START nuclear arms reduction treaty will expire in February. With China adding to its nuclear stockpile and the U.S./Russia relationship fragile, it's far from clear that even a temporary arms reduction extension is on the cards.

The degree of Fed independence under its new Chair will take shape: When the Supreme Court sits in January, much of the attention will be on their decision regarding the legality of President Trump's unilateral imposition of tariffs (without congressional approval). Because the Administration has several workarounds to keep their tariff regime in place, we're much more focused on a different legality assessment, that of Trump's removal from office of Federal Reserve Governor Lisa Cook "for cause." Should the courts side with the President, we expect (i) another dove to be added to the Board in her place, (ii) the possibility of further firings and a more timid FOMC that is more susceptible to suasion by the President, and (iii) *de facto* Federal Reserve Independence will take a serious knock, resulting in higher long-term risk premia. See the recent [Monologue](#) on Fed independence for further detail.

Meanwhile, the President continues to tease his decision on the next Fed Chair without making an announcement, stating that he's "leaning" toward one of the two "Kevins" — Kevin Hassett, a Trump loyalist, or Kevin Warsh, Wall Street's preferred pick. Powell's term as Chair expires in May, so a formal decision is likely this quarter. If Trump does opt for Hassett, expect markets to immediately price at least an extra 50 basis points of easing and a steeper yield curve.

The stimulative effect of Trump's tax breaks will be measurable: We'll only see the official impact of the stimulative tax measures kicking in from the "One Big Beautiful Bill" legislation in the GDP numbers released in May (and the more robust Gross Output months later), but higher frequency survey data and sentiment

indicators will enable us to scale the impact on aggregate demand soon after they take effect.

Fresh inflationary pressures will start to emerge: There are two direct sources of higher inflation we expect to see this quarter. First, firms that held off on tariff-related price increases while they ran down old inventory or discounted through the holidays will re-set prices higher. This will enable us to (finally) gauge the true extent of the pass-through to consumer prices. Second, healthcare premiums will rise as COVID-19-era subsidies expire. Unless, that is, Congress decides to extend them (another shutdown has not been ruled out). The quirks of insurance price measurement mean that it will take several months or even quarters for the impact to filter through, but we'll be able to see the impact in sentiment measures before then. Finally, by paying close attention to core inflation dynamics, we'll also get a sense of how indirect pressures from higher demand and slower immigration are feeding in, although these will likely take longer to materialize, and may be offset by AI or other disinflationary forces.

Reads of the Week

- **Apollo cuts risk and stockpiles cash in preparation for market turmoil:** A report from just before our holiday break. Apollo's actions are very similar to the recommendations we made in two of the three scenarios in our outlook. Perhaps it's no coincidence that they're one of the few private market funds with an in-house economist.
- **Estimating Aggregate Data Center Investment with Project-level Data:** "... mean forecast indicating that investment will increase to \$370 billion annualized by 2026:Q2."
- **How Venezuelan Oil Factored Into US Seizure of Maduro:** "The US president emphasized that his decision to depose Maduro was driven by his conviction that Venezuelan leaders had "stolen" US investment in the country's energy sector."

Market Monitor

Our Memo this week puts cross-asset performance in 2025 in perspective, so our major market commentary this week comes at the end of this note. With most markets trading thinly the final few days of 2025, and largely moving sideways or round-tripping, there was no change to the overall narrative.

Santa Claus Ain't Coming to Town

One constant and frustrating feature of year-end market commentary centers on the "Santa Rally" – the tendency of stock prices in the S&P 500 to rise in the seven days between December 25th and January 2nd, when liquidity is thin, year-end rebalancing complete, and eggnog inspired optimism (supposedly) high.

There is always a tension between well-known price seasonality and the notion of efficient markets. If everyone knows prices are going to rise in a given period, arbitrageurs should bet on this phenomenon, raising demand and prices ahead of the known effect, and thereby negating the phenomenon itself.

It looks like efficient markets may finally have won out over the Christmas period. For three straight years, the Santa Rally period has produced negative returns, and since 2010 there have been as many "Santa Rallies" as "Santa Dips."

Time to park the sleigh on this one.

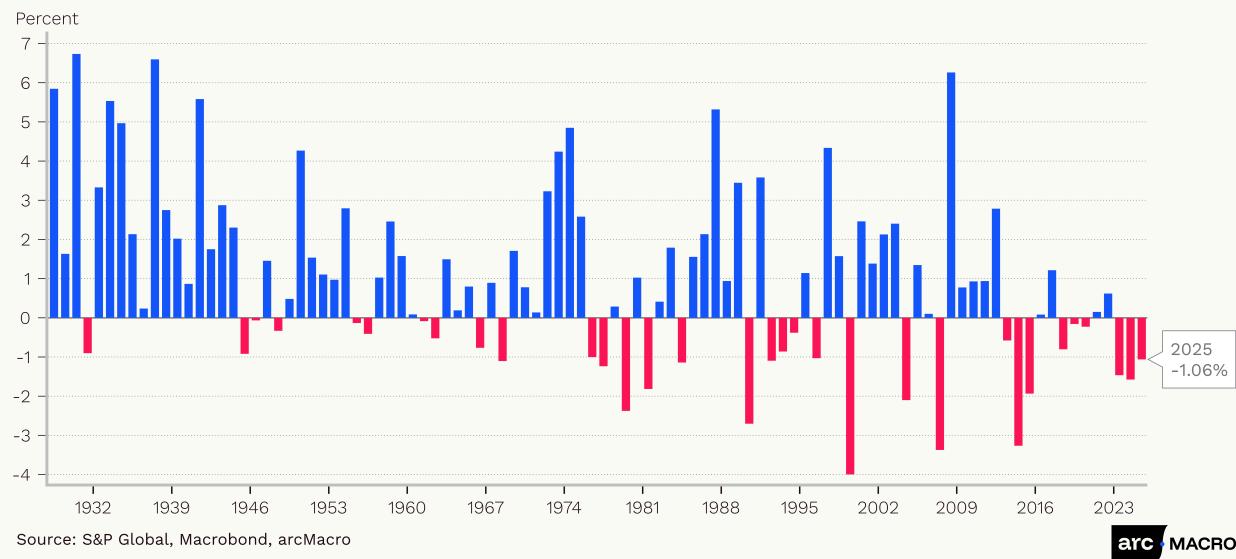
Santa Claus Aint Coming to Town

United States, S&P 500, Performance between December 25 and Jan 2

Average since 1928 = +1.08%

Average over the past 10 years = +-0.32%

% of times with positive returns = 67.3%



The Week in Markets

| | Latest* | Change since last week (units) | Change since last week (%) | 3-month change (units) | 3-month change (%) | Year-to-date change (units) | Year-to-date change (%) |
|-------------------------------|---------|--------------------------------|----------------------------|------------------------|--------------------|-----------------------------|-------------------------|
| Equity | | | | | | | |
| S&P 500 | 6858 | -71.5 | -1.1 | 147 | 2.2 | 13 | 0.2 |
| Information Technology | | | -1.3 | | 0.6 | | 0.0 |
| Financials | | | -1.5 | | 2.8 | | 0.2 |
| Consumer Discretionary | | | -3.6 | | -1.3 | | -1.1 |
| Communication Services | | | -0.8 | | 7.5 | | -0.4 |
| Health Care | | | -0.2 | | 8.4 | | 0.4 |
| Industrials | | | 0.3 | | 2.8 | | 1.9 |
| Consumer Staples | | | -0.9 | | -0.6 | | -0.2 |
| Energy | | | 3.0 | | 2.8 | | 2.1 |
| Utilities | | | 0.8 | | -1.9 | | 1.2 |
| Real Estate | | | -0.4 | | -3.6 | | 0.1 |
| Materials | | | 0.3 | | 3.4 | | 1.5 |
| Nasdaq Composite | 23236 | -357 | -1.6 | 480 | 2.1 | -6.36 | 0.0 |
| Dow Jones Industrial Average | 48382 | -329 | -0.7 | 1941 | 4.2 | 319 | 0.7 |
| Russell 2000 | 6234 | -64.9 | -1.6 | 164 | 2.7 | 65.4 | 1.1 |
| Sovereign Fixed Income | | | | | | | |
| US: 2-year Treasury Note | 3.47 | 0.01 | | -0.080 | | 0 | |
| US: 5-year Treasury Note | 3.74 | 0.06 | | 0.060 | | 0.010 | |
| US: 10-year Treasury Note | 4.19 | 0.05 | | 0.070 | | 0.010 | |
| FRA: 10-year OAT benchmark | 3.61 | 0.04 | | 0.090 | | 0.050 | |
| GER: 10-year Bund benchmark | 2.87 | 0.00 | | 0.14 | | 0.020 | |
| CHN: 10-year CGB benchmark | 1.85 | 0.01 | | -0.040 | | 0 | |
| CAN: 10-year GoC benchmark | 3.42 | 0.02 | | 0.25 | | 0 | |
| Corporate Bond Spreads | | | | | | | |
| US: A-rated | 69.3 | -2.0 | | -2.7 | | -0.5 | |
| US: BBB-rated | 104 | -1.6 | | 1.0 | | -0.4 | |
| Leveraged Loan Spreads | | | | | | | |
| US: B-rated | 391 | -0.26 | | 0.58 | | -0.64 | |
| US: BB rated | 255 | -0.98 | | -3.84 | | -0.9 | |
| US: CCC-rated | 1565 | 10.1 | | 184 | | 1.69 | |
| Foreign Exchange Rates | | | | | | | |
| DXY US Dollar Index | 98.4 | | 0.5 | | 0.7 | | 0.1 |
| EUR/USD | 1.17 | | -0.3 | | 0.1 | | 0.0 |
| USD/CAD | 1.37 | | 0.2 | | -1.5 | | 0.0 |
| USD/CNY | 6.99 | | -0.3 | | -1.8 | | 0.0 |
| USD/JPY | 156 | | 0.2 | | 5.1 | | 0.0 |
| GBP/USD | 1.35 | | -0.4 | | 0.1 | | 0.0 |
| USD/CHF | 0.793 | | 0.8 | | -0.6 | | 0.0 |
| Commodities | | | | | | | |
| WTI Crude | 57.2 | 0.34 | -2.1 | -4.44 | -7.2 | -0.12 | -0.2 |
| Gold | 4353 | -96.4 | -2.2 | 481 | 12.4 | -14.9 | -0.3 |
| S&P GSCI Commodities | | | -1.2 | | -0.2 | | -0.1 |
| S&P GSCI Industrial Metals | | | 2.3 | | 14.4 | | 0.5 |
| S&P GSCI Agriculture | | | -2.2 | | -1.8 | | -0.4 |

* Weekly closing value. Color indicates positive (green) or negative (red) change since prior week.

Source: S&P Global, Russell Investment Group, Nasdaq, U.S. Department of Treasury, Macrobond Financial AB, Central Bank of Germany (Deutsche Bundesbank), Bank of Canada, Intercontinental Exchange (ICE), International Monetary Fund (IMF), LBMA (London Bullion Market Association), Robert Shiller, Chicago Board Options Exchange (CBOE), U.S. Department of Labor, Pitchbook | LCD, arcMacro



Macro Monitor

The only major data point to come out since our last report on December 20th was third quarter U.S. GDP, which was even stronger than anticipated at +4.2% (quarter-on-quarter, annualized), and an improvement on +3.8% in Q2. Robust consumer spending accounted for half the growth, and the signature of the AI boom was evident in strong non-residential construction, equipment and IP investment. A rebound in net exports helped inflate the growth rate as businesses restocked after

pausing imports and running down inventories in the first half of the year after tariffs were announced.

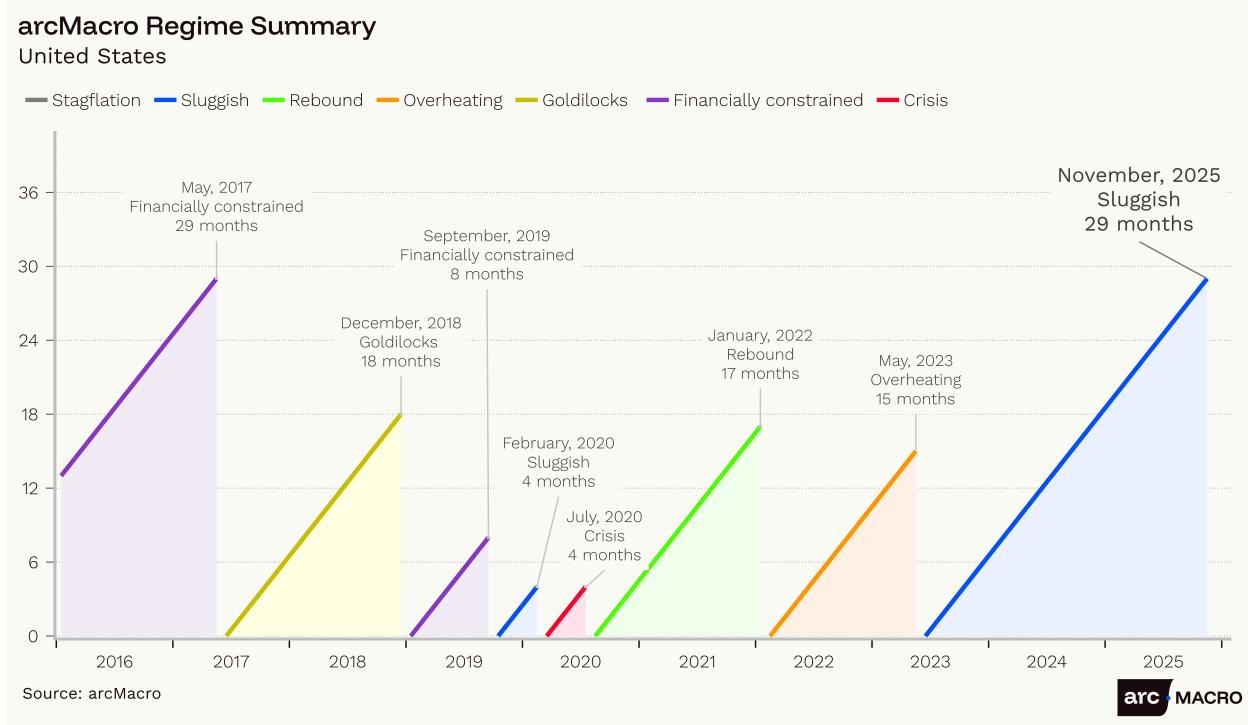
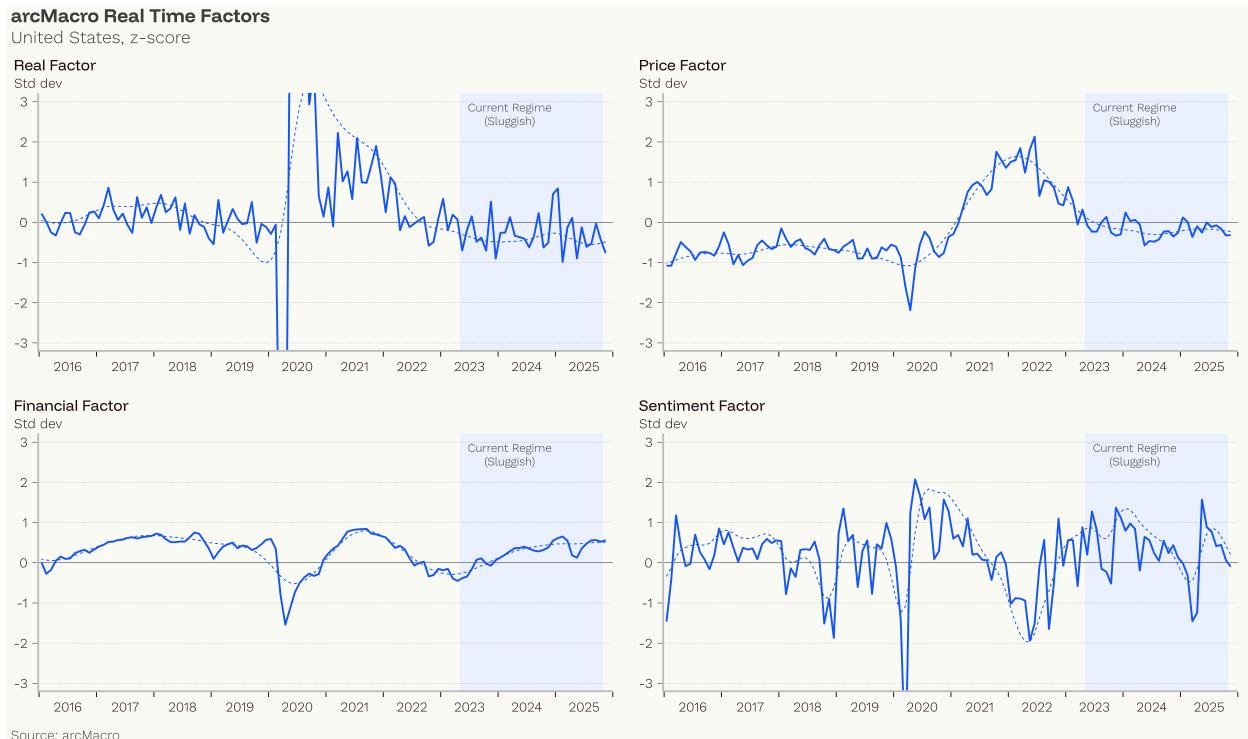
With that final U.S. data point for the year in the ledger, it's worth looking at what our fundamental macro Factors are telling us. Strong GDP numbers notwithstanding, our broader gauge of growth momentum suggests that we're still in a below-trend growth regime. This is consistent with a "two tier" interpretation of the U.S. economy, where any industry touching AI is in a full-blown boom, while the rest of the economy lingers close to recessionary conditions. Economic growth is always uneven, but the synthesized information in our Real Factor indicates that there is meaningful Fragility underlying U.S. growth.

The Price Factor has recently shifted from meaningfully above trend to just below trend, but the most recent data were compromised by the poor quality of the shutdown-impacted October and November CPI and PCE data, so we're not paying much attention to any of the inflation signals until January.

One clear fact about the current U.S. economy is that financial conditions are unambiguously easy. In 2025, this was helped by interest rate cuts, a weaker U.S. dollar, rising stock prices, easier bank lending standards and plentiful credit availability from non-bank lenders. There is no reason to believe conditions will tighten in the near future, unless AI is indeed a bubble poised to crash, and we see this as providing important growth support, particularly as regards consumption spending.

Overall economic sentiment has moved to Neutral territory as stretched valuations trim bullishness on markets even as underlying macro uncertainty eases.

Put together, the U.S. economy remains in a "sluggish" regime: it could be performing better, but it's not quite in crisis mode.



See the appendix for Key Macroeconomic Indicators tracking chart.

What we'll be watching next week

- *December Nonfarm Payrolls and Unemployment Rate (U.S.):* Shutdown-related dirtiness in the October and November data should be scrubbed out, so we'll get a cleaner read on the state of the labor market. Consensus is for the unemployment rate to drop to 4.5% and payrolls to post a +57k gain (a touch above breakeven, in our view).
- *December ISM PMIs (U.S.):* This will give us a complete picture of business activity in the final quarter of 2025.

Memo

2025 in Review: A Cross-Asset Perspective

Bottom line: Ranking the performance of major asset classes in 2025 and comparing the list to the past decade reveals the unique contours of a stellar year. Don't automatically bet on a reversion.

Annual Performance Ranking of Major Asset Classes

Blues: Public Equities | Reds: Private Markets | Greens: FX & Rates | Other: Commodities

| 2025 | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 |
|----------------------------------|-----------------------------------|----------------------------------|------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|
| Gold 67.41% | Gold 25.53% | S&P 500 26.29% | Crude Oil 8.74% | Venture Capital* 54.14% | Venture Capital* 40.35% | S&P 500 31.49% | Venture Capital* 20.60% | MSCI EMs 37.75% | Crude Oil 51.32% |
| MSCI Europe 36.25% | S&P 500 25.02% | MSCI Japan 25.89% | US Dollar 7.84% | Crude Oil 52.88% | Private Equity* 25.98% | MSCI Europe 24.59% | Private Equity* 10.97% | MSCI Europe 26.24% | Russell 2000 19.48% |
| MSCI EMs 34.36% | MSCI Japan 18.49% | MSCI Europe 20.66% | Private Credit* 3.94% | Private Equity* 38.92% | Gold 24.61% | Russell 2000 23.72% | Private Credit* 5.60% | S&P 500 21.83% | Private Equity* 12.43% |
| MSCI Japan 21.79% | Russell 2000 10.02% | Russell 2000 15.09% | Gold 0.44% | S&P 500 28.71% | MSCI EMs 18.69% | Crude Oil 21.90% | US Dollar 4.40% | Private Equity* 19.23% | S&P 500 11.96% |
| S&P 500 17.88% | Private Equity* 8.09% | Gold 14.59% | Private Equity* -1.27% | MSCI Europe 16.97% | S&P 500 18.40% | Venture Capital* 19.13% | US Treasuries (10yr) -0.14% | MSCI Japan 17.61% | MSCI EMs 11.60% |
| Russell 2000 11.29% | MSCI EMs 8.05% | Private Credit* 12.40% | MSCI Japan -6.62% | Private Credit* 14.69% | Russell 2000 18.36% | MSCI EMs 18.88% | Gold -0.93% | Crude Oil 17.15% | Private Credit* 9.42% |
| US Treasuries (10yr) 8.32% | US Dollar 7.01% | MSCI EMs 10.27% | MSCI Europe -14.53% | Russell 2000 13.70% | US Treasuries (10yr) 10.98% | Gold 18.43% | S&P 500 -4.38% | Russell 2000 13.14% | Gold 8.10% |
| Venture Capital* 8.06% | Private Credit* 6.23% | Private Equity* 9.73% | S&P 500 -18.11% | MSCI Japan 11.43% | MSCI Japan 6.55% | Private Equity* 17.59% | Russell 2000 -12.18% | Gold 12.66% | US Dollar 3.63% |
| Private Credit* 7.28% | Venture Capital* 4.78% | US Treasuries (10yr) 3.32% | Venture Capital* -18.34% | US Dollar 6.70% | MSCI Europe 5.93% | MSCI Japan 15.97% | MSCI EMs -14.24% | Private Credit* 10.85% | MSCI Europe 0.22% |
| Private Equity* 5.63% | MSCI Europe 2.43% | US Dollar -2.04% | US Treasuries (10yr) -19.28% | MSCI EMs -2.22% | Private Credit* 5.14% | US Treasuries (10yr) 10.08% | MSCI Europe -14.32% | Venture Capital* 10.56% | US Treasuries (10yr) -0.20% |
| US Dollar -9.37% | Crude Oil -2.93% | Venture Capital* -3.39% | MSCI EMs -19.74% | Gold -4.33% | US Dollar -6.69% | Private Credit* 8.01% | MSCI Japan -16.76% | US Treasuries (10yr) 2.71% | Venture Capital* -0.89% |
| Crude Oil -18.60% | US Treasuries (10yr) -3.15% | Crude Oil -10.37% | Russell 2000 -21.56% | US Treasuries (10yr) -4.58% | Crude Oil -21.67% | US Dollar 0.23% | Crude Oil -18.71% | US Dollar -9.87% | MSCI Japan -2.60% |

* Average of first 3 quarters of 2025, based on Pitchbook indices using quarterly fund NAV

Source: S&P Global, LBMA, Macrobond, MSCI, Nasdaq, ICE, U.S. Treasury, Russell Investment Group, Pitchbook, Macrobond, arcMacro



The chart above ranks major global asset classes by annual returns. With the data for 2025 now complete, we can assess the year's cross-asset performance in the context of rankings over the past decade. It was a remarkable year in markets in many respects. Here are a few of the observations that stand out.

It was a strong year overall. Only two major asset classes were down this year: Crude oil (not a bad thing for the global economy), and the U.S. dollar. Even there, our metric – the DXY index – is heavily weighted to the Euro, which had a strong year for its own reasons. The U.S. dollar was flat to stronger against emerging market currencies.

"Barbarous Relic" no more: Gold was the year's uncontested star performer, outshining its solid 2024 gain of +25.5% by nearly 3x, ending the year up a further +67.4%. The yellow metal has no fundamental value (it yields no interest, generates no revenue and is costly to carry), so its rise reflects a shift in perceptions regarding other asset classes and economic fundamentals. In 2025, a perfect alignment of diversification away from the U.S. dollar by global central banks and capital pools,

the lack of an alternative currency to act as a stable store of value, lower U.S. interest rates, strong speculative and retail demand in Asia, and (as the price rose), soaring ETF demand, combined to lock in massive gains.

Public beats private. Pick the stock index of your choice and the chances are it outperformed a stake in private equity. Even bog-standard U.S. Treasuries look on track to outperform private credit this year. Caveats abound here: private market returns are based on reported fund Net Asset Value (NAV) changes as recorded by PitchBook. There is no data for Q4 2025, and incomplete data for the year as a whole. These are our own estimates calculated using the average for the first three quarters of the year. Of course, private market returns are evaluated over decade-long horizons, so while interesting, annual comparisons are not particularly enlightening.

U.S. Exceptionalism reversed: After two years of trailing U.S. markets, European and Japanese benchmarks played catch-up in 2025. Aside from Gold, European equities were the star asset class, and EMs posted strong returns too.

Long-end beats cash: Although the yield on a 10-year U.S. Treasury Note failed to sustainably break below 4% in 2025, a combination of yield and modest price appreciation helped the benchmark bond post a +8.3% return – its second-best year of the past decade (after 2020). By comparison, cash yields suffered under the Fed's 75 basis points of easing, and were negative in dollar terms when measured against major currencies.

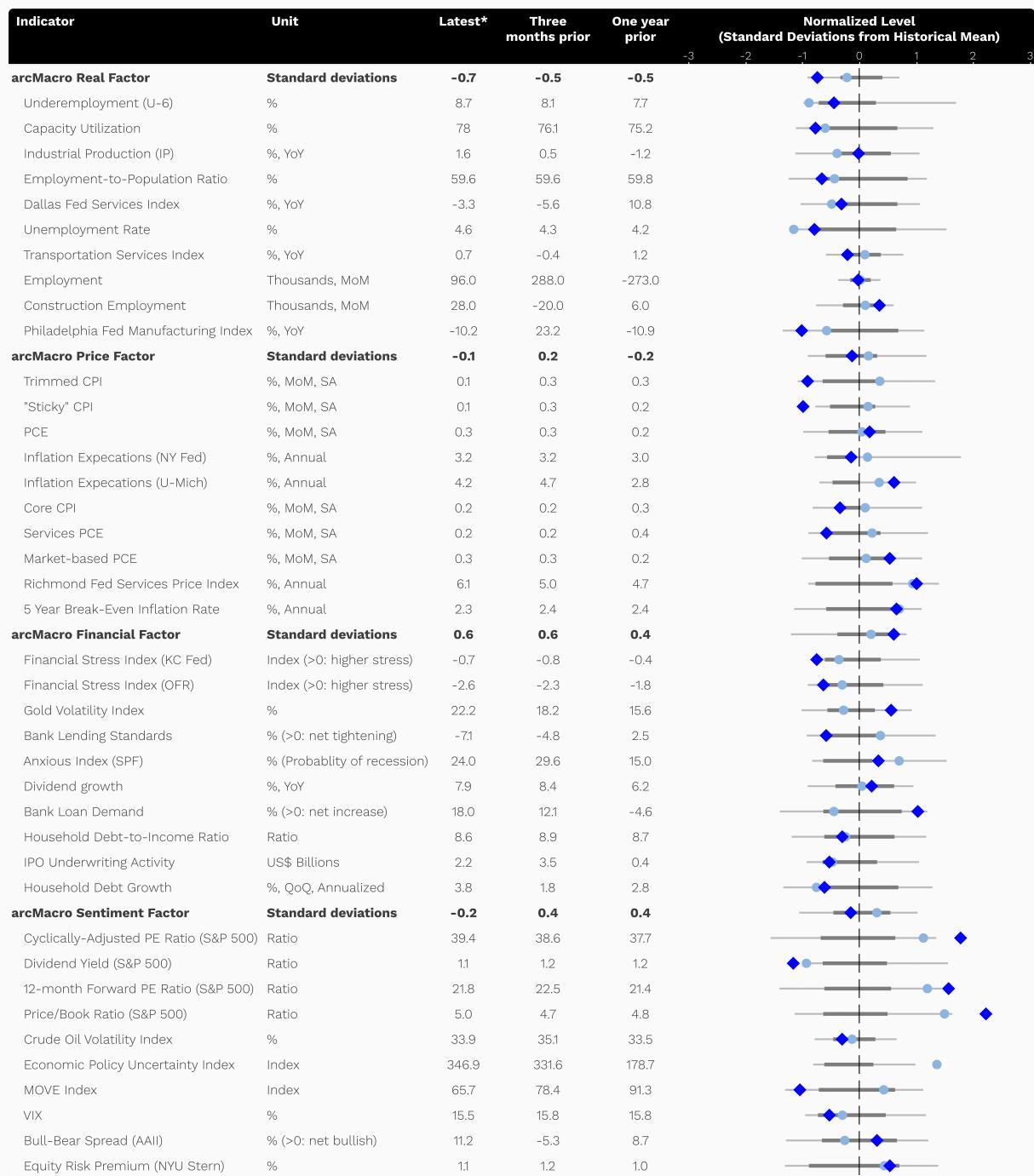
Don't bet on immediate mean reversion: Multi-year persistence is a notable feature of the chart. Above-average performance, both relative to other asset classes and in absolute terms, can last several years.

Appendix

Proprietary Factor and Regime Model and Key Macro Indicators

arcMacro Factor Input Monitor

Top 10 inputs by factor loading



■ 10th-90th Percentile ■ 25th to 75th Percentile ● Mean of past 5 years ♦ Latest Value

Source: arcMacro, BLS, Fed, Dallas Fed, DOT, Philadelphia Fed, Cleveland Fed, Atlanta Fed, BEA, New York Fed, University of Michigan, Richmond Fed, Macrobond, Kansas City Fed, The Office of Financial Research (OFR), CBOE, S&P Global, SIFMA, Robert Shiller, Economic Policy Uncertainty, ICE BofAML, LJKmfa, AAII

*Most recent published data point. Time period and frequency do not necessarily align.