

2026 Outlook

The Market's Reprise



Introduction

2025 was a year of tenuous analogies. Markets were constantly framed through the lens of prior cycles and revolutions: Was the surge in AI capital expenditure more like that of railroads of the 19th century, fiber of the 20th century, or shale of the 21st? Was the exuberance of technology equities closer to 1997 levels, with more room to run, or to 1999 levels, on the doorstep of calamity? Did tariffs, rising populism, and a return to Smoot-Hawley-era protectionism signal a breakdown of the global order? Was the visible (and now sharply escalating) tension between the Federal Reserve and the executive branch a modern replay of past challenges to central bank independence or something more worrisome?¹

These comparisons were useful, but incomplete. Every cycle begins from different initial conditions, twists around markets and through the economic zeitgeist, and leads to different outcomes. Despite our hunt for patterns, 2026 will be novel too.

We reviewed more than two dozen market outlooks from other investment firms for clues on how others think that novelty might unfold. Because the economy has continued to chug along, GDP growth remains robust, consumer spending has held up, and markets have been kind, most shared a common set of benign, extrapolated conclusions: (1) artificial intelligence is a big deal; (2) inflation and growth remain in some tension; (3) geopolitics could be a problem somehow, but; (4) stocks will continue to go up thanks to productivity gains and fiscal support practically everywhere.

Rather than attempting to forecast around that consensus, we have organized our 2026 Outlook to emphasize our work—how some core themes and dynamics are influencing our portfolio management and positioning:



AI's Ubiquity

Artificial intelligence's promise has triggered the broadest cross-asset phenomenon in memory, impacting equities, real estate, commodities, and credit. [Page: 6](#) ➔



Privates for the Public

The “democratization” of alternative investments is redefining liquidity and price discovery, forcing shifts in the strategy for accessing and managing private investments. [Page: 10](#) ➔



Biotech as an Exception

One of the few cohorts of small cap stocks with alpha potential for skilled active managers and little meddling from private equity, biotech has entered a period of renewed momentum. [Page: 13](#) ➔



Real Estate Healing

After a prolonged valuation reset and depressed deal activity, a supply glut in key real estate sectors is abating as financing conditions normalize, improving the forward return profile for the asset class.

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¹ GEM's Chief Market Strategist, Mike Smith, penned a deep dive on the history of Fed independence. You can find it [here](#).



The 2025 Coda

But before we get there, we'll review 2025. It was another strong year for global equities, with broad markets rising more than 20%. In isolation, that outcome was not extraordinary—global equities have delivered annual returns at that level or better roughly one-third of the time since 1970.ⁱ What is unusual is the persistence: we've never seen three consecutive years of global equity returns in excess of 18%.

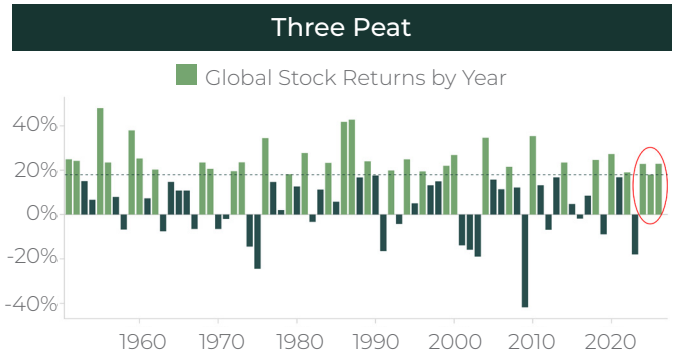
2025's equity market arc was distinctive in its shape:ⁱⁱ

- The 4th-worst start to a year (through April 8) in the past 75 years, dating back to 1950;
- The 12th-biggest 4-day percentage decline in history (-12.1%);
- The 3rd-largest VIX spike in history over a 4-day span (+143%), with a close above 50 for the first time since March 2020;
- And from there—driven by the AI boom—a fervent recovery, with 37 distinct all-time highs reached for the S&P 500, the 14th most in history.

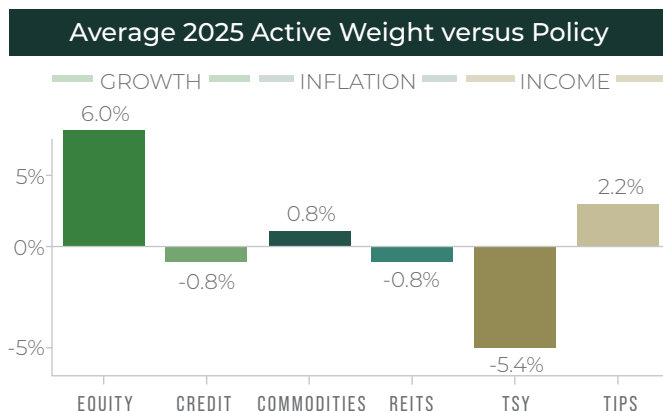
Among other market betas:

- Credit spreads fell to razor-thin levels, finishing the year in the 99th percentile of historical tightness;
- Commodities were led by a sharp upswing in gold, silver, and certain industrial metals;
- REITs, which surged in 2024 on the expectation of aggressive rate cuts, faded as those cuts slowed and rent growth stalled due to the delivery of new supply;
- And bonds delivered strong returns as yields declined, with TIPS outperforming nominal Treasuries on higher inflation than expected.

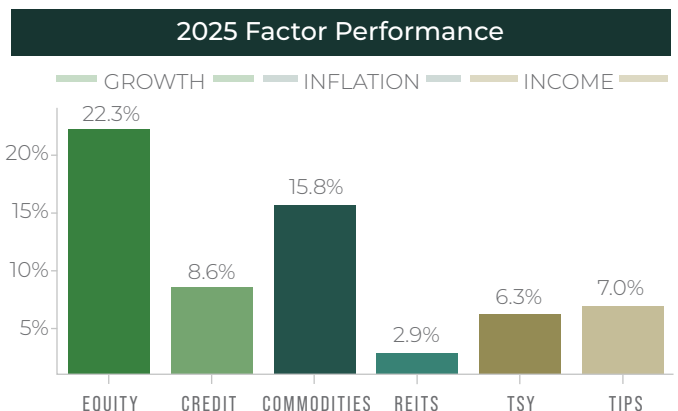
Our positioning throughout the year proved to be well aligned with this backdrop. Across our primary factor groupings—Growth, Inflation, and Income—we maintained a risk-on posture, and within those groupings, favored Equities over Credit, Commodities over Real Estate, and TIPS over Treasuries. Those allocations contributed positively to portfolio outcomes.



Source: Bloomberg.



Source: Bloomberg and GEM analysis.



Source: Bloomberg and GEM analysis.

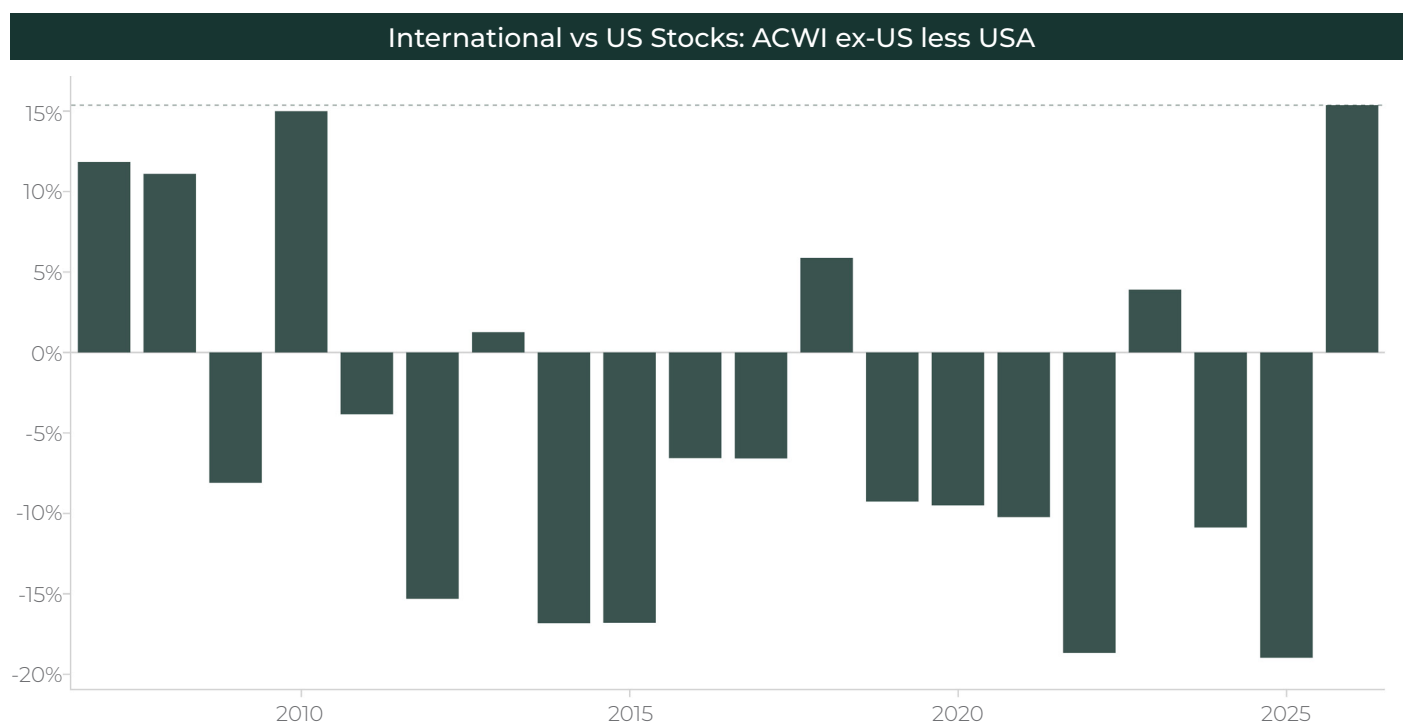
The 2025 Coda

Beneath the surface, several tactical tilts further supported returns. We maintained an overweight to gold within Commodities and an overweight to international equities relative to global benchmarks. Conversely, private equity and private real assets lagged during a year in which public equity markets delivered outsized returns—a familiar dynamic in such environments—although manager selection remained a meaningful source of differentiation.

Keeping score on last year's Outlook, we correctly anticipated the Trump administration's policy priorities: immigration, tariffs, deregulation, and fiscal support. We identified the sequencing risk among them as potentially disruptive to markets but underestimated the extent to which the policy disarray would drive foreign capital flows and weaken demand for the dollar.

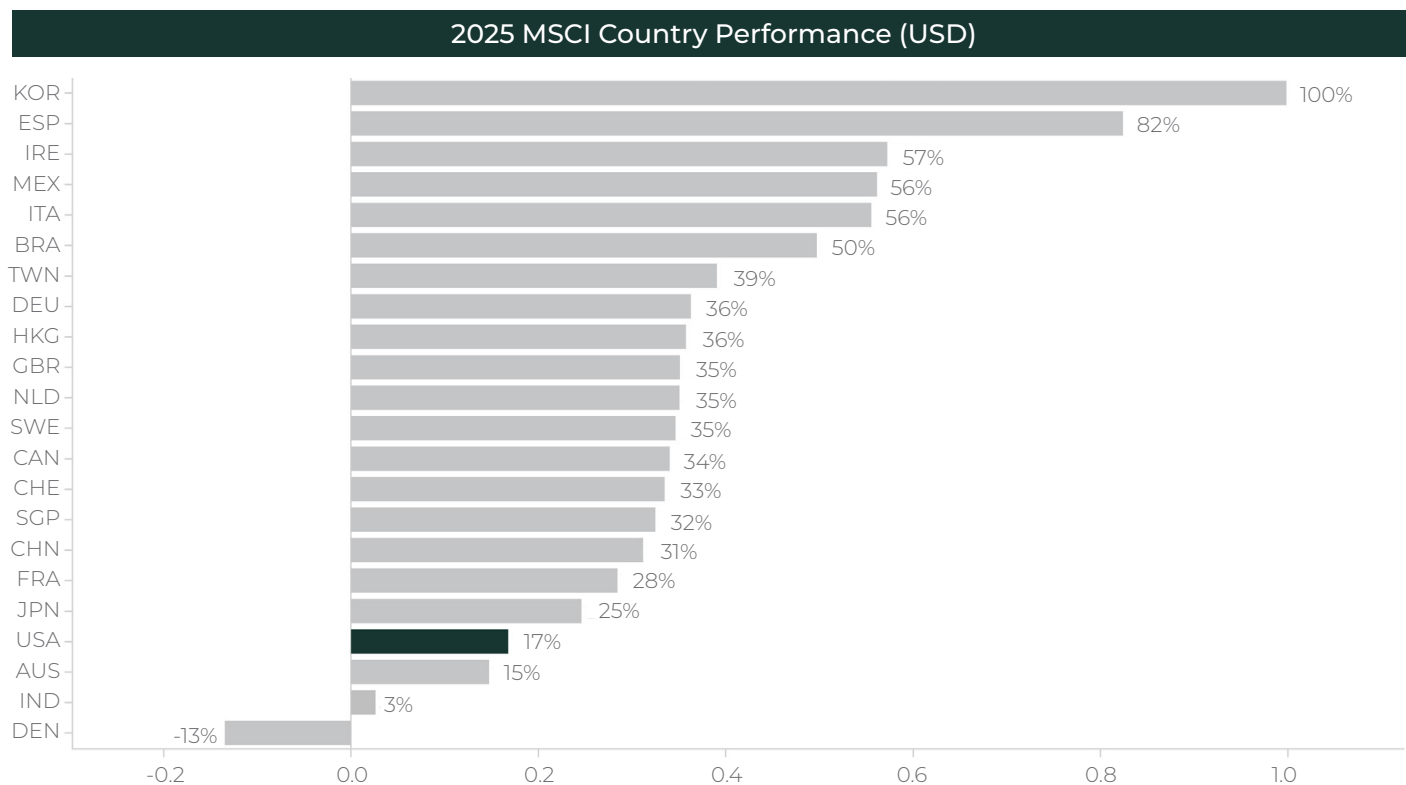
We recognized that central banks would prioritize labor market stability over wrestling inflation all the way down to the 2% target—a view the Fed confirmed in September and again in December with interest rate cuts. We did not, however, foresee a government shutdown or the associated delays in employment data leading to such confusion or FOMC dissension.

We also noted that US exceptionalism—the belief that US equity market outperformance is a structural birthright—was approaching valuation limits. And in fact, aided by dollar weakness, international markets did outperform the US by the largest margin in the last 20 years. Although the US finished in the bottom third of countries for the year, after April the valuation gaps between US and non-US markets widened again toward historical extremes on the US' AI leadership.



Source: MSCI and Bloomberg.

The 2025 Coda



Source: Bloomberg.

Even as the promise of German fiscal stimulus buoys the area's prospects, Europe remains politically ham-handed—focused more on levying fines against American tech companies than on nurturing the economic dynamism needed to build their own. Emerging markets outside of China produced mixed results based largely on sector composition, with cheaper, hard tech-oriented markets (Taiwan, Korea) outperforming more expensive, software-oriented markets (India).

Finally, we anticipated improving conditions in leveraged private markets, particularly private equity and real estate, supported by the continued expansion of private credit. While private equity activity rebounded in 2025, the recovery in real estate was uneven and deferred, so we've carried that theme into 2026.

Not every call was a bullseye, but it was a constructive read on what turned out to be a typically tumultuous year.

It bears repeating that forecasting is not our specialty. In fact, no investor has mastered the alchemy of foresight. Our objective, instead, is to try to understand the world we are in and to lean into our sources of potential long-term advantage. This Outlook is not carved in stone, but it is a temporary nudge—a framework for deploying resources and capital, and managing the manifold risks that could emerge.



AI's Ubiquity

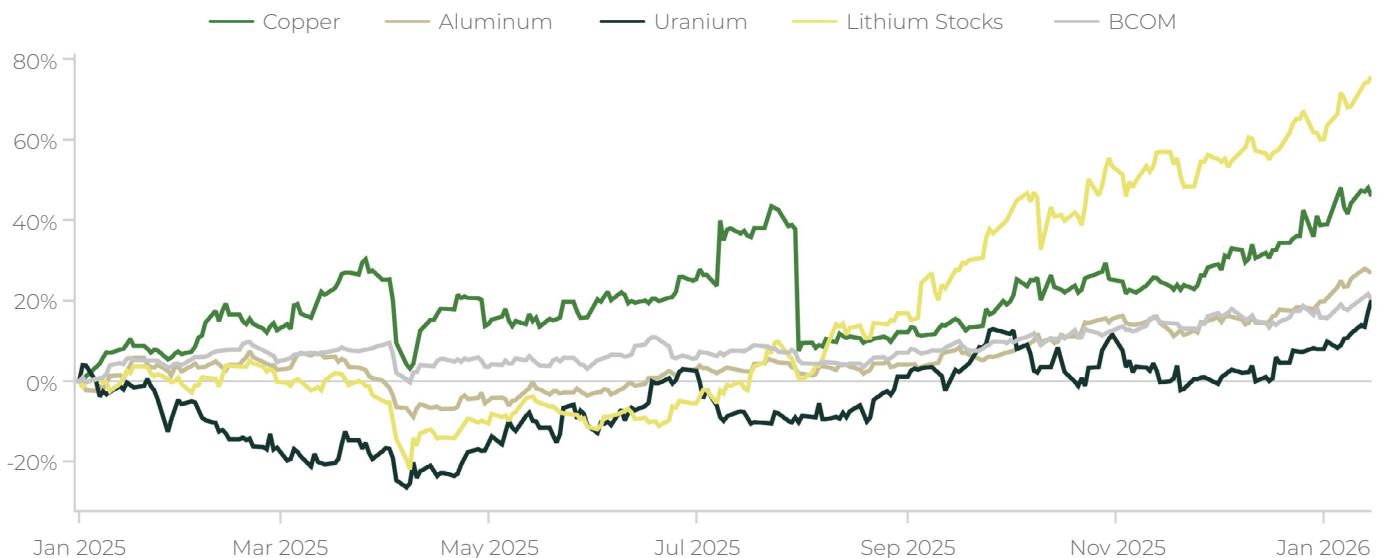
We tried our best to avoid this topic: what incremental perspective might we have given all the ink that's been spilled since ChatGPT's emergence? But it's unavoidable: artificial intelligence has become the broadest cross-asset investment phenomenon markets have experienced in decades. AI-driven capital formation now shapes real estate, credit markets, commodities, and ultimately the growth and inflation profile of the real economy itself.

Real Estate: Since the end of 2022, US office construction has declined more than 35% while spending on data centers has surged nearly 190%; the latter is now on track to exceed office investment entirely.ⁱⁱⁱ

Credit: Approximately 11% of the Bloomberg US Corporate Bond Index is now comprised of companies in Goldman's AI basket, and by some estimates, outstanding AI-related investment-grade issuance now exceeds that of the banking sector.^{iv} Convertible bond issuance in 2025 reached a two-decade high on AI-related deals.^v Oracle has been the poster child for leveraged capex, but even cash-rich Meta is using a sale-leaseback transaction to finance its Hyperion data center in Louisiana.

Commodities: AI has driven uneven but meaningful commodity demand. Natural gas has become the marginal fuel for incremental data center power generation, supporting strong equity performance for power producers like Constellation Energy despite weak commodity returns due to roll costs. Copper and aluminum benefited from grid and transmission buildouts. Uranium climbed in anticipation of nuclear restarts, though progress has lagged expectations. Lithium experienced a classic boom-bust cycle before rebounding sharply in 2025.

AI Everywhere: Commodities



Source: Bloomberg.



Bonds: The AI investment cycle could even impact the giant market for interest rates. The optimistic view is that productivity advances from AI will tame inflation and boost real growth, easing sovereign debt burdens. In this view, the US (and others) can grow their way out of their enormous debt load. A more ominous scenario suggests that the massive demand for investment could push risk-free rates higher. In the post-GFC era, one of the explanations for low interest rates was the existence of a global savings glut. If the AI story has flipped that relationship, real rates should naturally rise.

Together, these dynamics underscore that AI is not merely a software story: it is an industrial, energy, productivity, and capital intensity story.

Equities: The equity market, to be clear, remains the center of gravity for the AI narrative. The performance of AI-related stocks explains roughly a third of the S&P 500's 2025 return,^{vi} and those AI-linked equities expanded well beyond the “Magnificent Seven,” outperforming the gigacap companies themselves.

Markets have increasingly embraced AI hyperscalers' extraordinary capital expenditure as a positive signal, despite limited visibility into monetization, potential obsolescence, or the long-term economic life of today's infrastructure investments. Although there are few answers as to *how* AI will improve or disrupt our lives, certain “real economy” implications are slowly becoming more visible and, in some cases, controversial. Evidence of broad-based productivity gains remains limited—MIT famously reported that 95% of enterprise generative AI pilot projects failed^{vii}—but early signs of labor-market disruption are emerging. A Harvard event study found a 22% reduction in entry-level job postings at firms that were adopting AI, with no effect on senior roles. At the same time, electricity costs are rising sharply in regions with heavy data-center development, introducing political and regulatory risk around affordability, utility permitting, and grid expansion.

These pressures are likely to shape both labor markets and policy debates through the coming midterm election cycle.

Rate against the machine United States, change in employment, December 2022=100

Junior employees



Senior employees



Source: “Generative AI as seniority-biased technological change”, by S.M. Hosseini & G. Lichtinger, SSRN working paper, 2025

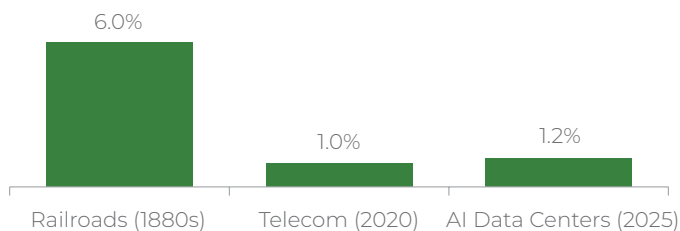


Middle Innings

Despite all that, we expect the AI capital cycle to continue through 2026. Hyperscalers remain highly profitable, development pipelines are full, utilization rates are high, and underinvestment is widely viewed as an existential risk. Capital continues to flow aggressively into compute, power, land, and infrastructure. Venture capital managers are leaning into and investing heavily in the application layer.

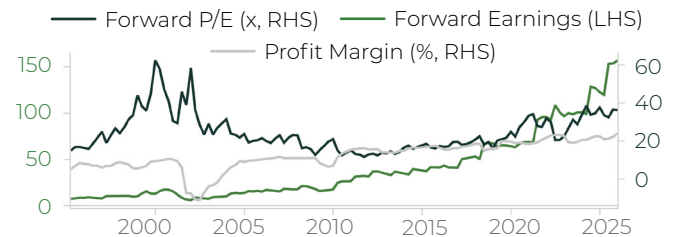
We anticipate progress in part because the factors that could derail the narrative are not flashing warning signs yet: capex as a percentage of GDP still has plenty of runway relative to prior investment cycles, valuations have not yet disconnected from fundamentals, hyperscalers still have free cash flow to finance growth, and sentiment towards the tech sector is nowhere near frothy yet.^{viii}

Capex as % of GDP



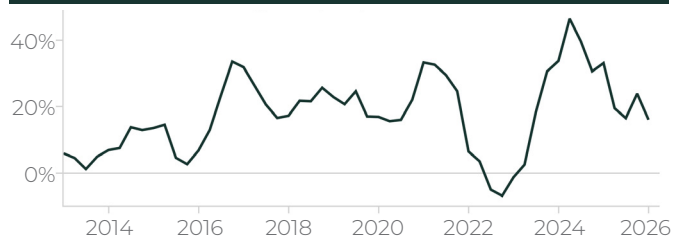
Source: Paul Kedrosky.

S&P Tech Sector Valuations Justified by Fundamentals



Source: Augur Labs and Bloomberg.

Hyperscaler Operating Cash Flow Growth Still Robust



Source: Company filings, Augur Labs.

Tech Sector Overweight Elevated But Not Extreme

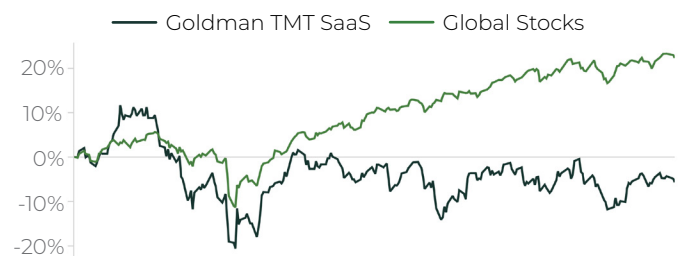


Source: SSGA.

One final abstract point that we consider critical is that tech titans and policymakers believe we are in an AI arms race with China. That wasn't part of the 1990s story: no one pushed to build the information superhighway to avoid getting crushed by an emerging rival superpower. China's latest five-year strategic plan includes artificial intelligence as a central pillar; after the DeepSeek surprise in January, everyone is taking the threat of their progress seriously.

Not everything is as it seems, though. AI's rise has shed a light on the flows in certain horizontal SaaS business models, profitability, and valuations. But we're skeptical that AI will kill all SaaS businesses, as many stock price declines in 2025 would suggest. At some point the narrative will shift focus from the infrastructure to the application, and history suggests that the winners up and down the tech stack may emerge from companies far afield from the incumbents today.

Perception that SaaS is Dead



Source: Goldman and Bloomberg.



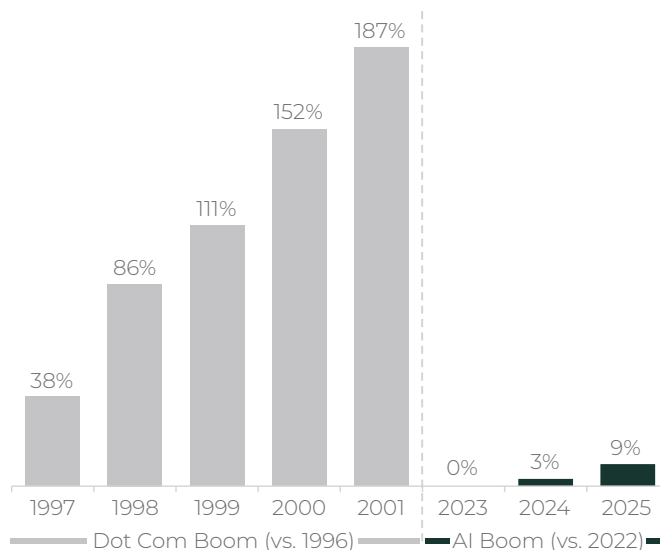
What to Watch

Historically, capital booms unwind along three fault lines: unproductive investment, technological obsolescence, or credit stress. The first two remain difficult to observe in real time, but the continued dearth of productive use cases is a helpful clue. In theory, LLMs are trained on all the knowledge compiled throughout human history, although TS Lombard jokes that it's more likely a version of "all Reddit posts from 2017-2019."^{ix}

Credit is the most visible—and potentially the most destabilizing—risk. We are closely monitoring three pressure points:

- Negative operating cash-flow growth:**
A sustained slowdown in operating cash-flow growth would indicate diminishing returns to incremental investment.
- Negative free cash flow:** Persistent negative free cash flow would suggest that *growth capex* is overwhelming *sustaining capex*—a classic late-cycle warning sign.
- Rising reliance on debt financing:** The rapid increase in investment-grade issuance by hyperscalers and creative project-finance structures bears close watching. Blue Owl recently balked at funding Oracle's one gigawatt OpenAI facility in Michigan—a deal said to need \$10 billion—suggesting that even the private lenders may be reaching the limits of their better judgment.

Cumulative Growth in TMT HY and IG Debt



Source: Goldman Sachs.

Portfolio Implications

The AI theme is central to global equity returns, and our posture remains overweight equities, which *ipso facto* implies some level of AI bullishness. At the same time, we recognize that measuring our total exposure to the theme is challenging because it's so broad and touches so many pockets of markets—both public and private—up and down an evolving value chain. To contend with the breakneck pace of change, with new categories forming, and with enthusiastic capital so abundant, we are increasingly focused on dynamic risk and exposure management, adding relative-risk managed constructs like active extension (which provide beta-1 exposure to equity markets with the prospect for long and short alpha on top) along with select hedges. We believe the next phase of the cycle will reward careful discipline more than blind exuberance, or, as Altimeter's Jamin Ball writes, "Knowing when you are paying for momentum versus when you are underwriting something structurally important that will matter a decade from now."^x There is no Digital God, but there are still capital cycles—and the discipline required to survive them.



Privates for the Public

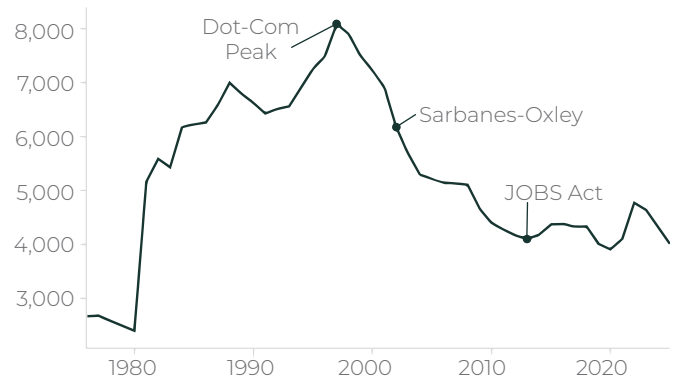
The democratization of private markets is often framed as a triumph of access. We view it more clinically (and cynically): it is a structural change in how capital is raised, priced, and traded, and it has material implications for institutional portfolio construction.

Two shifts matter most:

- First, illiquid markets are becoming increasingly liquid, necessitating a view on—and process for—buying and selling secondary interests.
- Second, an expanding cohort of high-quality companies may never enter public markets at all, requiring a different strategy for capital allocation.

Together, these changes are reshaping how institutional investors must manage pacing, private exposures, and liquidity.

US Domestic Listed Companies



Source: GEM Analysis.

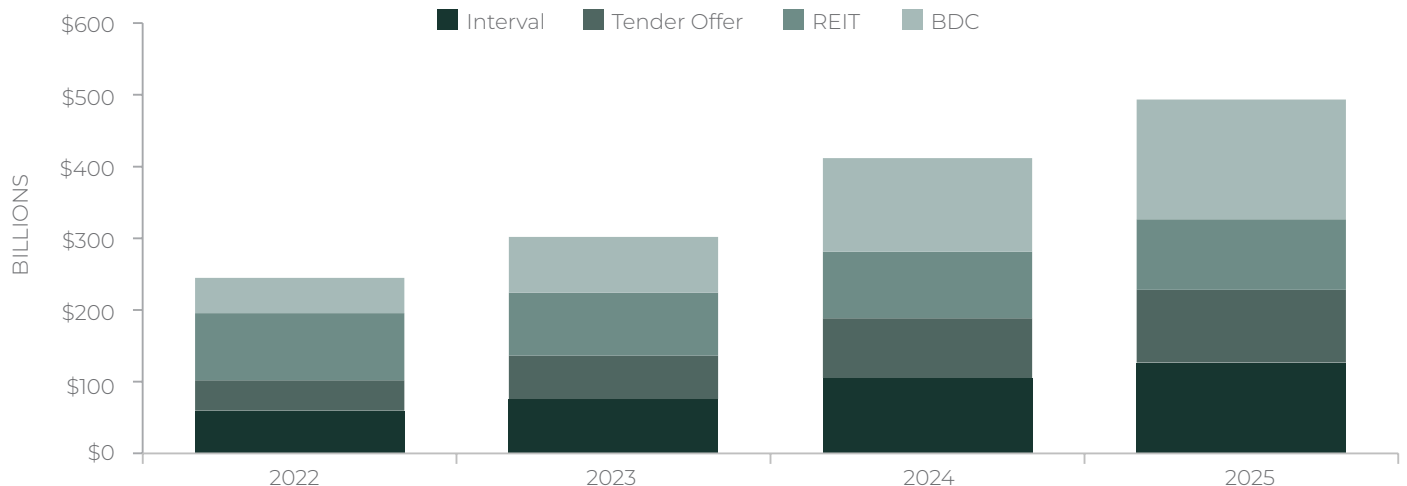
Illiquids as Tradable

Private markets are becoming more liquid—not through structural reform, but through secondary-market financialization.

Interval funds, evergreen vehicles, and semi-liquid strategies were the first step: attempts to transform fundamentally illiquid assets into retail-oriented products that offer periodic liquidity. While these structures remain imperfect—liquidity is typically available when it is least needed and constrained when it is most needed—they have significantly expanded market participation and accelerated asset turnover.

More important than product design, however, has been the explosive growth of private secondary markets.

Rise of the Evergreen Fund



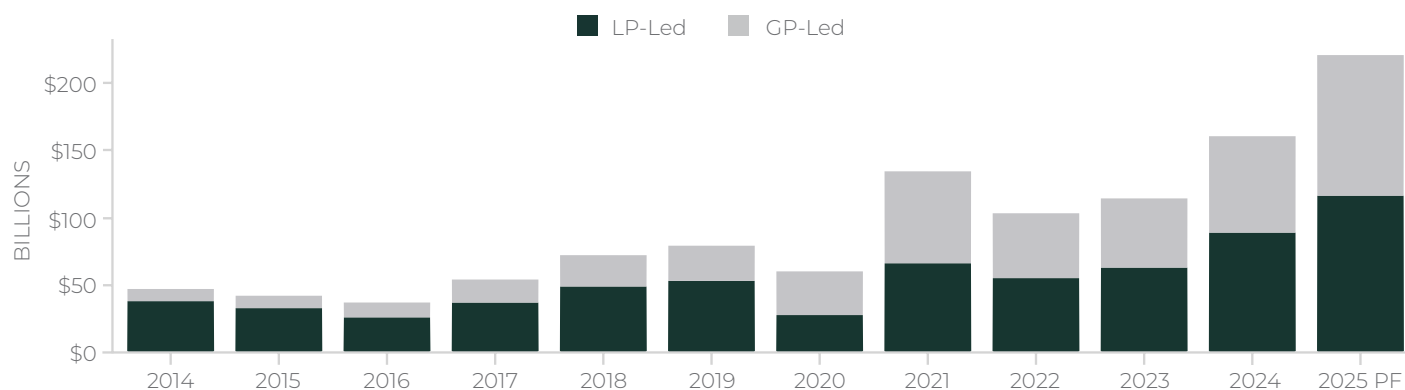
Source: Pitchbook. Q4 2025 US Evergreen Fund Landscape.



Today, buying and selling interests in private equity, venture capital, and real assets is increasingly routine. Dedicated secondary platforms, broker-dealer desks, and bespoke continuation vehicles have turned what was once a long-duration commitment into something closer to a tradable asset class. Pricing discounts are narrowing and transaction velocity is rising.

We've used secondary markets actively, both as a buyer and a seller: to deploy capital opportunistically and to manage exposures dynamically. In our view, the direction is clear: illiquidity is becoming increasingly financialized.

Secondary Transaction Value through Q3 2025



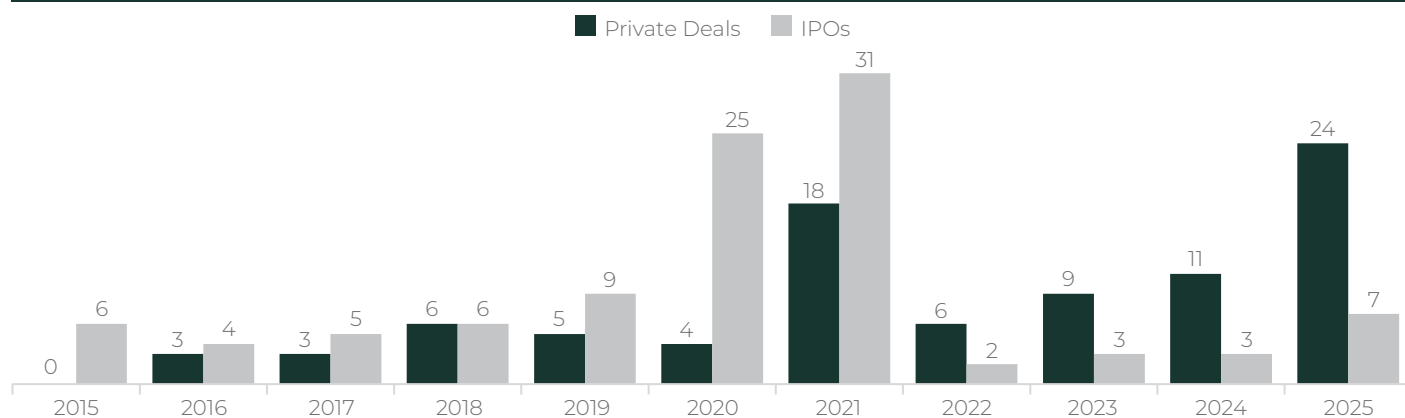
Source: Ropes and Gray. PF Figure based on actual data through Q3 2025.

Waiting for IPO

At the same time—partially to duck the nuisance of price discovery, and partially because the US has made it so unpleasant to be a public company—the universe of companies that may never meaningfully enter public markets continues to expand.

Companies such as Stripe, OpenAI, and Anthropic are not merely staying private longer: they are *potentially* permanent private enterprises. Unlike venture-stage companies of prior decades, many of these firms generate real operating cash flow and have no structural need to access public markets for growth capital, *so why would they?*

Deals Over \$1 Billion Have Moved From IPOs To Private Markets



Source: Apollo.



After 23 years as a private company, SpaceX may finally cross the breach in 2026 and list its shares. But, by doing so, it would be the exception rather than the rule.

The trend matters because historically, a large share of long-term equity value creation has occurred post-IPO. Amazon went public with a \$438 million market cap and is now valued at \$2.6 trillion; public market investors captured 99.98% of that value creation.^{xi} If SpaceX goes public at the rumored \$1.5 trillion and trades up to Amazon's current value of \$2.6 trillion, public market investors will have captured only 42% of the gains. Whether or not you believe SpaceX is really worth that, it is undeniable that much of the value of VC-backed companies is being captured over protracted time frames by closed ecosystems of private investors that are nearly impossible for the average market participant to access.

Well on the Way

Secondary-market trading, sell-side research coverage, and formal index construction are converging to create what increasingly resembles an "alternative stock market."

Major banks like JPMorgan and Morgan Stanley now publish research on private companies. Index providers have launched benchmarks for venture-backed private firms based on observed secondary-market pricing. Dedicated trading venues and data platforms are forming the infrastructure of a parallel equity market.

We're a long way from efficient markets, but the wheels are in motion.

Portfolio Implications

We believe the key consequences of democratization are: (1) a growing share of equity market value is becoming structurally inaccessible to traditional public equity portfolios; (2) a new class of investors is pouring money into flawed structures; and (3) pacing private commitments when the duration of the underlying investments is potentially infinity requires more vigilance. In this environment, we believe private market exposure can no longer be treated as a static sleeve; it has to be managed as a living, tradable, risk-controlled allocation. In the buyout space, we continue to focus on our primary sources of differentiation within—namely, independent sponsors and the richer opportunity set of the lower middle market, particularly those sponsors with proven playbooks for enhancing company earnings through wise operational change. In venture capital, we've cut our annual commitments as a percent of our target allocation with the expectation that the duration of those assets proves to be longer than historical industry cash flow curves. We're also continuing to tilt toward seed and micro opportunities because, in our view, they offer a degree of upside return potential that many of the modern / multi-stage VC mega funds lack, and we expect that they have the prospect of returning money sooner too.^{xii}

As ever, manager differentiation will become even more important as median industry returns compress under rising capital supply.



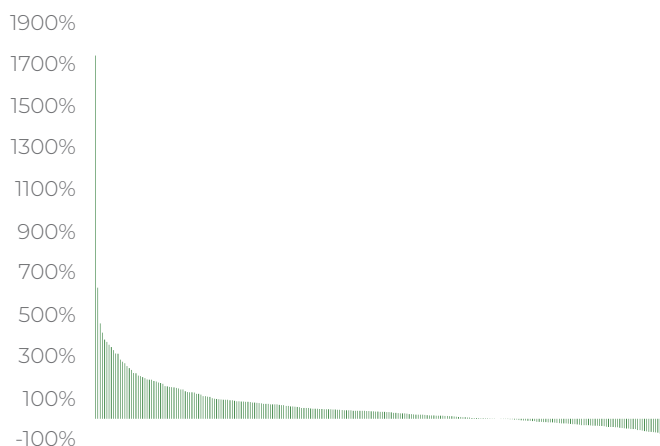
Biotech as an Exception

Much of the small cap equity market languished in the post-GFC regime, a beta headwind even great stock pickers couldn't outrun. Biotech equities have been a (volatile) exception, and they staged a powerful recovery in 2025. The Nasdaq Biotech Index rose more than 33%—its strongest performance since 2014—as renewed merger activity, improving regulatory clarity, and tangible clinical progress revived investor confidence. Actively managed portfolios benefited disproportionately: one data source's disclosed biotech manager universe is up more than 52% in 2025 with wide dispersion, underscoring the role of specialization and selection in the sector.^{xiii}

Biotech had been a pronounced laggard in the post-Covid period, weighed down by rising rates and an oversupply of low-quality IPOs from 2020–2021 that drove generalist capital out. That dynamic has now meaningfully shifted. Momentum turned sharply in 2025 as capital discipline returned and fundamental progress resumed.

Biotech matters to us not merely as a sector allocation, but as one of the largest sources of active risk in our public equity portfolios. Industry concentration, size exposure, residual volatility, and idiosyncratic risk together account for nearly half of forecasted public equity tracking error—a reflection of our confidence in our managers and the opportunity embedded in the sector.

Nasdaq Biotech Index: 2025 Constituent Returns



Source: Bloomberg.

Nasdaq Biotech Index



Source: Bloomberg and GEM analysis.



Why it's Different

Biotech is one of the few remaining equity sectors where outcomes are driven less by macro cycles than by the science. Binary outcomes, financing-driven public markets, and extreme dispersion render passive exposure structurally inefficient while simultaneously creating a highly attractive opportunity set for skilled active investors.

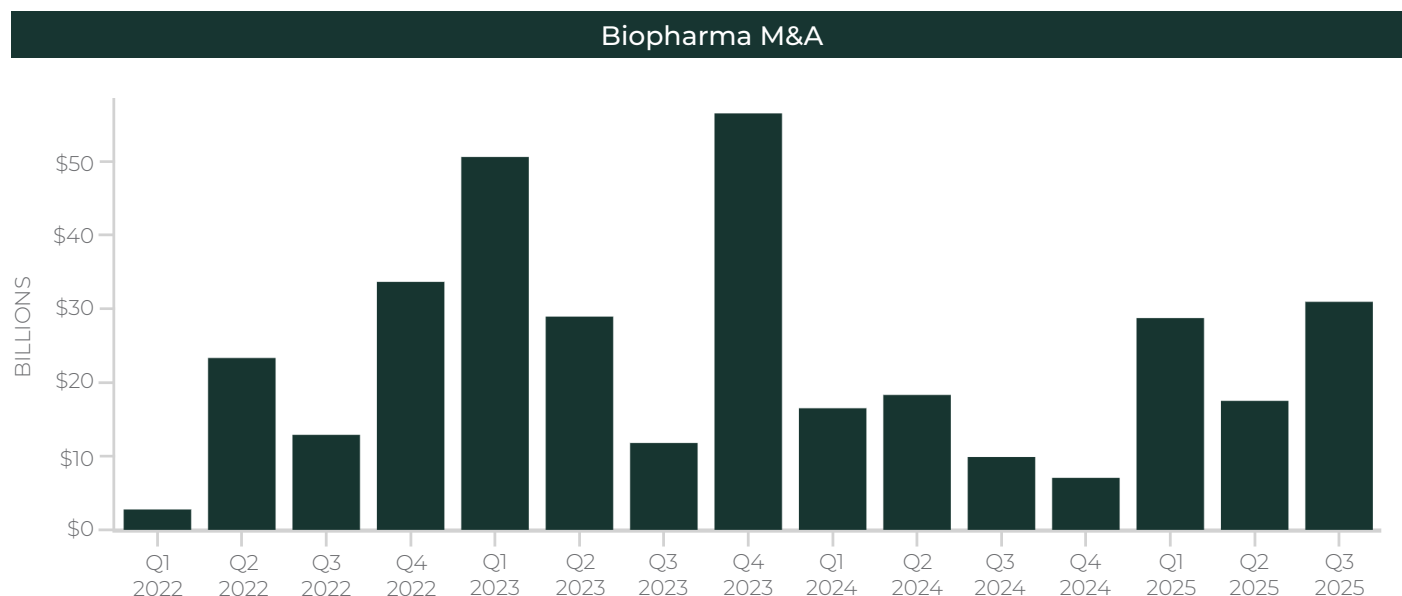
Fundamentals have improved meaningfully relative to prior years. As one of our managers observed, "following a multi-year capital drought through which the overall ecosystem was forced to tighten its belt, the weakest companies were eliminated, and the overall industry emerges healthier than it has been in a long time." Breakthrough clinical readouts in 2025—including successful Phase III trials for Abivax (ulcerative colitis), Celcuity (breast cancer), and Cogent Biosciences (GIST tumors)—have reaffirmed that innovation remains the engine of value creation. A tight funding environment has forced management teams to focus on capital discipline, while AI advances could enable enhancements to drug discovery, though we haven't seen evidence of that yet.

Patent Cliff as M&A Fuel

The structural driver for the next multi-year biotech cycle is the looming patent cliff. According to Morgan Stanley research, pharmaceutical companies face loss of exclusivity on products representing approximately \$184 billion in annual revenue through 2030.^{xiv} Venture funding has slowed materially while pharmaceutical M&A and in-licensing have surged—signaling that Big Pharma is increasingly substituting acquisition for internal R&D.

This dynamic is already visible in transaction activity. 2025 saw a material acceleration in biotech M&A, with multiple large-scale acquisitions by global pharmaceutical leaders and rising upfront payments even for early-stage clinical programs. Cross-border licensing activity—particularly with Chinese biopharma—has also increased.

Simply put: Big Pharma must buy growth, and biotech is the supply chain.



Source: Q3 2025 Biopharma Licensing and Venture Report (JP Morgan).



Risks and Regulation

Biotech remains volatile and politically sensitive, but several prior headwinds have abated. Bankruptcies and reverse mergers have reduced the post-Covid glut of zombie companies. Fears around tariffs and most-favored-nation drug pricing have been mitigated by bespoke pricing agreements. Concerns that the FDA would turn restrictive under new leadership have also eased, with early evidence of constructive engagement and fast-track approval mechanisms.

Our managers report no material deterioration in regulatory posture and characterize the FDA's tone as more industry-friendly than in recent years.

Portfolio Implications

We generally favor public over private exposure in biotech, as one of the sector's distinguishing features is that equity issuance remains primarily a financing event—preserving public markets as a critical channel for value creation. We express this view through a combination of dedicated public equity managers and long/short hedge funds, and we actively manage overall sector exposure through hedges and portfolio overlays as appropriate.

Biotech is one of the few remaining public-equity arenas where:

- Dispersion is structurally extreme
- Returns to specialization are high
- Security selection and portfolio management matter more than factor or beta exposure
- There exist many opportunities beyond stock selection to drive company and portfolio value—forms of activism, private or hybrid financing, balance sheet advice, clinical or scientific strategy, accessing talent networks, capital syndication, regulatory navigation, etc.

Though we all have to anticipate that the path of biotech returns will diverge meaningfully from conventional public equity benchmarks, for long-horizon portfolios with access to elite stock selection talent, we believe the sector offers an opportunity to generate meaningful alpha.^{xii}



Real Estate Healing

After two years of being the market's designated punching bag, real estate is quietly transitioning from a rate-shock unwind into something more investable. Valuations have reset, the post-pandemic construction glut is rolling over, and operating fundamentals are stabilizing across most major property types. This is not a call for a full re-risking of real assets—but it is increasingly a case for putting real estate back on the watchlist and beginning to *dip a toe* in 2026.

Valuation Reset

Public REITs have been among the worst-performing equity factors of the cycle. Returns have lagged not only equities but also cash, with cumulative underperformance of roughly twenty percentage points versus broad equity since the post-tariff rebound. The sector has already lived through a valuation washout that, in prior cycles, coincided with forward-looking opportunity.

One of the more reliable relative-value gauges—the Green Street relative equity signal, which compares three-year forward AFFO yields for REITs against the S&P 500's forward earnings yield—has reached levels only previously observed during the GFC and Covid troughs. While this signal is admittedly muddled by the S&P's increasing concentration and growth skew, the absolute level of dislocation is nevertheless notable. Importantly, private commercial real estate is now largely priced in line with public REITs, meaning that for the first time in several years, investors can access similar property-level economics without sacrificing liquidity or layering in structural leverage.

Said differently, the valuation reset has already happened. The question is no longer whether real estate is expensive—it is whether fundamentals are bottoming.

Green Street's 3-Year AFFO Yield less S&P 500 Earnings Yield



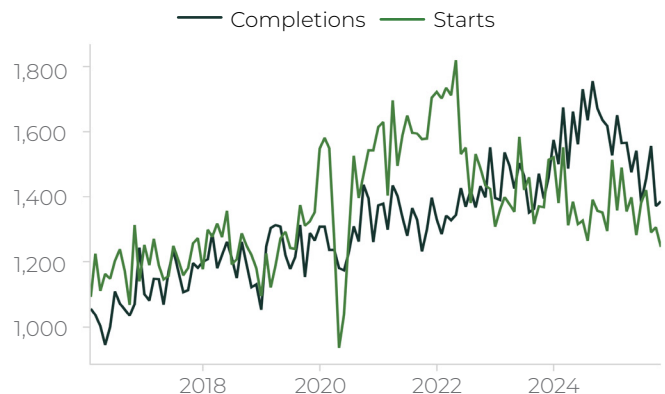
Source: Green Street

Supply Glut Waning

The most important fundamental development in US real estate today is not demand, it is supply.

Multifamily completions surged to multi-decade highs in 2023–2024, particularly in Sunbelt metros, creating localized oversupply and pushing rent growth into negative territory in several markets.^{xv} That cycle has now decisively turned. Starts have fallen sharply as financing costs, lender pullbacks, and declining developer economics have curtailed new projects. Because starts collapsed 2–3 years ago, the pipeline of new deliveries is shrinking into 2026, setting the stage for a re-tightening of rental markets once absorption normalizes.

US Housing Starts and Completions



Source: US Census Bureau and Bloomberg.



This is true across many key sectors. Office construction has effectively collapsed. Industrial supply is slowing. Retail has been structurally undersupplied for years. Across most property types, the “easy” new supply has already been built—and the next wave will be materially harder to finance.

This supply rollover is critical. It does not require rate cuts or heroic demand assumptions to support improving fundamentals—only time.

Stabilizing Fundamentals

Rent growth has slowed but remains positive in most segments outside of newly saturated multifamily corridors. Vacancy rates have stabilized. Delinquencies are elevated but not cascading. Importantly, cash-flow durability has held up better than prices.

The narrative surrounding real estate has focused on refinancing risk and asset-level distress, but the broader system has not experienced forced liquidations on a scale that would permanently impair long-term value. What we are seeing is a capital-cycle reset, not a solvency crisis.

As the construction cycle rolls over, even modest demand growth should begin to tighten markets again, particularly in rental housing, logistics, and necessity-based retail.

Portfolio Implications

The temptation in real estate cycles is to wait for the “all clear”—falling rates, rising rents, and expanding transaction volumes. Historically, that has been precisely the wrong time to build exposure. In our experience from prior real estate cycles, the strongest forward returns tended to emerge after inventory pressure began to abate, after an initial price drawdown had already occurred, and before sentiment had recovered.

We have added exposure, rebalancing to a neutral weight in portfolios.

Real estate is still unpopular. REITs are still under-owned. Transaction markets are still thin. But valuations have reset, new supply is falling, and operating fundamentals are stabilizing. In our opinion, the sector does not need heroics—it only needs normalization. Against this backdrop, 2026 appears to be an appropriate point to close our recent underweight to real estate, implementing with a bias toward liquid public vehicles and selective private exposures in areas offering durable capital structures and cash flows. Land lease, retail, life sciences, and single-family rental assets screen as relatively attractive on valuation grounds.

It may not be a boom, but we anticipate an end to the bust. And in real estate cycles, that distinction has historically been the most important one.



Conclusion

What Actually Matters in 2026

The defining feature of the post-pandemic cycle has not been inflation, elections, or central bank rhetoric. It has been the return of capital cycles—scarcity, physical bottlenecks, leverage, and dispersion—to a financial system that had spent more than a decade anesthetized by liquidity and zero-interest rates.

Artificial intelligence has become the dominant capital regime, reshaping real assets, credit, commodities, utilities, and equities simultaneously. Private markets are mutating into tradable markets, while a growing cohort of systemically important companies may never meaningfully enter public markets at all. Biotech is one of the few remaining equity arenas where specialization still offers durable alpha.^{xii} And real estate, after a valuation reset, is quietly entering the early stages of a new capital cycle and recovery.

Tactical Asset Allocation Implications

Each of our client portfolios is built in service to a specific and distinctive set of risk and return parameters and is assembled with managers from traditional asset categories. But all managers and portfolios are underpinned by a common collection of fundamental market betas, which we call “factors.” Exposure to those factors is aggregated from our managers’ look-through holdings, plus any overlays to beta that we might make to enhance the risk/return balance of the portfolio.

Our current positioning leans toward Equity. With favorable growth dynamics and fiscal easing around the world, equities tend to perform better than other growth assets, especially Credit, which lacks upside convexity. We’ve scaled back Commodity exposure by rebalancing gold, and reallocated inflation hedging to passive REITs for now given its favorable valuations. We are underweight fixed income in aggregate, with portfolio protection coming increasingly from allocations to absolute return hedge funds. This reflects our lingering concerns about positive stock-bond correlations and fiscal risks that may steepen the yield curve. For simplicity, these funds are benchmarked to a TIPS factor.

Factor	Positioning	Asset Categories and Priorities
EQUITIES	OVERWEIGHT (+)	Public Equity: Actively managing exposure to outperforming structural opportunities (e.g., biotech), maintaining international balance Private Equity: Reducing overall pacing, but leaning on demonstrated strengths in LMM buyout and early-stage VC Hedge Funds (Long/Short): Sourcing specialist talent in attractive sectors and regions
CREDIT	UNDERWEIGHT (-)	Public and Private Credit: Tight spreads, rising defaults, and pockets of stress argue for caution; less late-cycle upside than equity
COMMODITIES	NEUTRAL	Public and Private Natural Resources: Maintaining gold overweight with broad metals exposure given structural demand; constructive on natural gas but expect energy volatility
REAL ESTATE	NEUTRAL	Public and Private Real Estate: With valuation reset behind us, adding passive REITs and selective private
TREASURIES	UNDERWEIGHT (--)	Fixed Income: Term premium vulnerable to fiscal dynamics; expect steepening
TIPS	OVERWEIGHT (+)	Hedge Funds (Absolute Return): Uncorrelated, absolute return strategies (multi-managers and specialists) are key sources of return and portfolio ballast

Conclusion

Other Watch-Worthy Themes

Some of the most consequential developments sit just outside the scope of this paper—not because they are unimportant, but because we've asked too much of the reader already.

Nevertheless, they remain central to our ongoing research agenda:

- **Asia Activism:** Among Asian markets, Taiwan surged in 2025 on the strength of TSMC, but reformers Korea and Japan also delivered strong returns. We currently maintain active exposure to both through specialist managers and expect these markets to remain strategically important as global capital rebalances toward advanced manufacturing, semiconductors, and industrial policy. More importantly, the thesis is underpinned by the potential valuation re-rating of specific companies whose treatment of minority shareholders is improving.
- **Credit Cracks:** High-yield defaults have reached cycle highs outside of recession. Delinquencies are rising across consumer credit, CMBS special servicing has climbed to multi-year highs, and nearly half of consumer spending is now driven by the top income decile.^{xx} While we do not view this as an imminent systemic risk, it reinforces our underweight to credit and preference for equity-based risk.
- **King Dollar:** US fiscal deficits remain historically elevated, but debt dynamics are a “known-known” rather than an emerging catalyst. De-dollarization pressure would likely manifest through higher gold prices, rising inflation expectations, and a steeper yield curve—trends we continue to monitor closely while maintaining global diversification.
- **Inflation:** Despite persistent affordability concerns, inflation remains well-contained from a market perspective. In our view, tariffs are price shocks, not inflation accelerants. Absent new fiscal missteps, the mechanism for renewed inflation remains weak. We continue to favor real assets and equity exposure over duration-heavy bond hedges.
- **Monetary Policy's Waning Influence:** Fiscal dominance and financialization have weakened the traditional transmission mechanism between interest rates and the real economy. That has implications for “Fed watchers,” but at the extreme, also changes the relationships of stocks, bonds, and other asset types to economic variables like growth and inflation, and to each other—the correlation architecture of portfolio construction. We will lean on absolute return strategies as uncorrelated return streams and prioritize optionality in drawdowns.

Final Word

We're grateful for the opportunity afforded to us by our clients to be long-term investors—able to look past the shorter-term wobbles of markets in favor of deeper thinking about the broader trends that will shape economic activity for years. That said, we pay careful attention to the impacts of those wobbles on our exposures and returns and we'll endeavor, as always, to execute effectively regardless of what occurs in 2026. We wish our clients, managers, and partners a prosperous year.

Endnotes

ⁱ Augur Labs, GEM analysis

ⁱⁱ Charlie Bilello, Creative Planning "[The Year in Charts \(2025\)](#)."

ⁱⁱⁱ The Census Bureau, [August Construction Spending](#), August 2025.

^{iv} GEM analysis.

^v Bloomberg, "[AI Spending Boom Fuels 24-Year High for Convertible Bond Deals](#)," January 2026.

^{vi} Bloomberg and GEM analysis.

^{vii} MIT, "The GenAI Divide: State of AI in Business 2025," July 2025.

^{viii} Augur Labs, GEM analysis.

^{ix} TS Lombard.

^x Clouded Judgment, December 2025.

^{xi} Bloomberg.

^{xii} Returns are not guaranteed.

^{xiii} Old Well Labs.

^{xiv} Fierce Pharma, "[Amgen, BMS and Merck have the most exposure as Big Pharma eyes \\$183B patent cliff](#)," July 2024.

^{xv} Green Street "U.S. CRE Outlook: Get Your Kicks in '26," December 2025.

^{xx} New York Fed, Augur Labs. Trepp, "Special Servicing Rate Ticks Up Slightly Again in November 2025, Reaching New 12-Year High," December 2025. [Moody's](#).

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Endowment Fund Policy Portfolio Weights & Benchmarks

Return Factor	Target	Benchmark
Growth-Oriented	60%	
Equity	53%	MSCI ACWI
Credit	7%	Bloomberg High Yield Index
Inflation-Oriented	15%	
Commodities	3%	Bloomberg Commodity Index
REITs	12%	MSCI US REIT Index (gross)
Income-Oriented	25%	
Treasuries	15%	Bloomberg US Treasury Index
TIPs	10%	Bloomberg US Tsy Inflation Notes Index

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