



Mt Fort Advisers *- Investment Strategy Update -*

December 18th, 2025

Dear All,

We are pleased to share our latest investment strategy update for the first half of 2026, incorporating insights from our independent macro strategist, Prof. Michel Girardin from the University of Geneva. The full report is available via the following link: [Link](#).

Following the shock of “**Liberation Day**” on April 2nd, 2025—when the US administration announced broad discriminatory tariffs that triggered a **sharp market correction** (S&P500 down -21% peak-to-trough)—financial markets gradually stabilized. **Volatility declined** during H2 2025 as the US refrained from further across-the-board tariffs, favoring bilateral negotiations instead. Partial trade agreements with key partners, including the EU and Japan, helped stabilize trade flows, while China moved toward a pragmatic détente, not without flexing its muscle about rare earths exports. By the second half of the year, the **trade war** had evolved from an acute shock into a **managed structural constraint**, increasingly priced by markets as a contained headwind rather than a systemic risk.

With trade tensions receding, **Artificial Intelligence** returned to center stage and became a major contributor to US economic growth. In 2025, AI-related corporate **capex** is estimated at circa. \$400bn, driven by hyperscalers expanding data centers and compute capacity (Amazon >\$100bn, Alphabet ~\$90bn, Microsoft ~\$80bn, Meta ~\$70bn). These investments accounted for a meaningful share of total private investment and are estimated to have contributed around **1.2% to US GDP growth**.

Aside from a brief -6% correction on the S&P500, markets enjoyed a steady H2, supported by easing trade risks, resilient earnings and accommodative monetary policies in the US and Europe. **Gold** was the standout performer, rising another +29% in H2 and around +60% YTD, confirming its role as a **strategic hedge** against fiscal risks, currency debasement and geopolitical uncertainty. Central banks remained heavy buyers, purchasing close to 1,000 tons in 2025—nearly 30% of annual global production. **Equities** delivered strong returns, with the MSCI World up +11.1% in H2 and +21% for the year. Earnings momentum remained robust, with S&P 500 EPS growing at around 14% YoY in Q3. **Japan** led global equity performance in H2 (+25%), driven by a weak yen,

earnings upgrades and governance reforms, followed by **Spain** (+21%) and **emerging markets** (+14%). Spanish equities topped the 2025 leaderboard (+45%), supported by banks, attractive valuations and solid domestic demand.

Technology remained the best-performing sector (+18% H2, +29% YTD), fueled by AI-driven **earnings growth** exceeding 20% in Q3, compared to around 10% for the rest of the index. NVIDIA gained 32% in 2025, lifting its market capitalization to roughly \$4.5tr (more than the entire Japanese economy), underpinned by exceptional earnings growth (compound annual rate of circa. 90% over the past five years). However, signs of **rotation** emerged, with health care (+13%), consumer discretionary (+10%) and energy (+9%) performing well in H2, alongside growing **differentiation** within the Magnificent 7.

Monetary policy remained supportive. The Fed cut rates three times in 2025, lowering the policy rate to 3.75%, while the ECB delivered four cuts, bringing its refinancing rate to 2.15%. **US labour market** momentum slowed, with average payroll growth of 109k and unemployment rising to 4.4%. **Inflation** remained sticky around 3%, above the Fed's target.

Despite **fiscal concerns** and the loss of the US AAA rating, long-term yields stayed contained, with the US 10-year around 4.15% and the 30-year near 4.85%. The bond complex performed well overall, led by EM debt (+13.5% YTD). The **US fiscal deficit** narrowed slightly to about \$1.78tr (5.9% of GDP), but **public debt** rose sharply to approximately \$38tr, exceeding 120% of GDP, with annual net interest costs above \$1tr. The **USD** stabilised in H2 but still declined about 9% over the year. The Japanese yen weakened again in H2, while **cryptocurrencies** underperformed, failing to act as effective alternatives to fiat currencies.

Ongoing **geopolitical** tensions (Ukraine conflict, Gaza, Taiwan, Iran-Israel) did not affect much financial markets during the second half of the year.

Looking ahead to H1 2026, developments in **AI** and their impact on productivity and growth are likely to remain the key drivers of financial market dynamics. The effects of AI are becoming increasingly visible across economic, social, and political dimensions. Economically, AI **boosts productivity** but also increases capital intensity and earnings concentration. Socially, it risks widening **inequality** and **disrupting labour markets** unless accompanied by effective education and policy adaptation. Politically, AI has emerged as a strategic asset, reshaping geopolitical competition and democratic resilience. AI inherently produces a **K-shaped** economic outcome, creating clear **winners** and **losers** across firms, workers, and regions. Ultimately, its impact will depend less on the technology itself than on how societies choose to **govern** it and distribute its gains. The growing **concentration** of wealth and power among hyperscalers and a limited number of individuals underscores these imbalances. Historically, such extreme concentration has led to periods of **instability**. While **societal change** will take time to fully materialise, the **economic effects** are already evident. **US GDP growth** has remained **robust** over the past two years, supported by massive **AI investments**, even as overall labour demand has stagnated. Since the launch of ChatGPT at the end of 2022, the service sector has absorbed most **job losses**, with the US technology sector alone shedding more than 5% of its workforce. Those structural changes might accelerate over time. This raises critical questions: can AI's **deflationary** pressures help keep inflation in check? Can growth driven by AI investments persist amid rising unemployment and potentially weaker consumption, which still accounts for roughly 70% of US GDP? Much

will depend on whether any increase in unemployment remains **sector-specific** or becomes **broad-based**.

With **US midterm elections** on the horizon in November 2026, Mr. Trump might push for radical **pro-growth policies**, implying tariff moderation, greater deregulation, and additional fiscal loosening. He might also try to influence the Fed's **monetary policy** to **lower rates** more aggressively with the replacement of Chair Powell in May. For now, the markets are pricing only **two more interest rate cuts** for 2026, bringing the base rate to 3.25% by the end of 2026. Historically, midterm years tend to be volatile ahead of the vote, followed by a post-election rally. Consensus expectations point to political gridlock, which has historically been supportive for markets.

After three consecutive years of strong equity returns, **valuations** appear **demanding**, particularly among some parts of the technology sector and AI-related stocks. The S&P 500 has delivered an annualized return above 22% over the past three years. Can **AI benefits** percolate more **broadly** through the economy and fuel a broader rally, while the hyperscalers and large growth caps can continue to deliver superior earnings? FactSet analysts' consensus forecasts point to roughly **15 % EPS growth** for the S&P 500 in 2026, supporting this outlook. But the margin for error is narrowing, and recent earnings disappointments highlighted growing market **discrimination**.

Against this backdrop, we maintain a **neutral to slightly underweight equity** stance for H1 2026, reflecting elevated valuations and extreme concentration risk—the Magnificent 7 now represents roughly half the market capitalisation of the remaining S&P500 constituents. We favour **equally weighted** indices, **defensive** sectors such as health care and utilities, and **diversification** towards Europe, Japan, emerging markets and China. We expect higher volatility and would use **optionality** tactically to protect portfolios. In **fixed income**, we anticipate long-term US yields to remain broadly stable, supporting a **neutral duration** stance across Treasuries, investment grade, high yield and EM debt. We are adding TIPS as an inflation hedge. While we do not foresee a near-term US debt crisis, we recommend greater **diversification**, including emerging market debt. Alternatives to US Treasuries remain limited though given their unmatched liquidity and scale (circa \$30tr, of which about \$10tr are held by foreign investors). As a comparison, the total gold available amounts to circa \$30tr, while the cryptocurrency market cap stands at a modest \$3tr.

Talking about **gold**, we retain a diversified exposure to precious metals and commodities as hedges against USD weakness, inflation surprises and geopolitical risk. Central bank demand for gold is likely to remain supportive.

On the currency front, the **USD** may keep weakening depending on the Fed's stance and if foreign fund repatriation accelerates. However, alternatives to the USD are limited. We are considering long-term **JPY exposure** as a diversified cash reserve, given the yen's **undervaluation**, recently returning to lows of 159 against the USD despite attempts to break 140. While PM Sanae Takaichi likely supports a weak yen, rising inflation (3%) and fiscal expansion are pushing yields and financing costs higher (the 10y is approaching 2%). With an estimated \$1.5 trillion in short JPY positions, even a modest unwind could lead to a sharp yen appreciation, as seen in the 10% move in August 2024.

The global environment remains in flux, with elevated **geopolitical risks**. While a potential resolution of the conflict in Ukraine in 2026 cannot be ruled out, and the situation in Palestine, Israel, and Iran appears to be stabilising, risks elsewhere may

intensify. Could China begin tightening its grip more aggressively on **Taiwan** as part of preparations for a possible invasion? While this is not our base-case scenario, it is a risk that warrants careful monitoring and preparedness.

Our base-case scenario broadly mirrors the environment observed this year, although we would expect higher volatility and **choppier markets** in 2026. A less favourable outcome cannot be ruled out, in which large growth stocks correct more sharply and drag the broader market lower. Such moves are inherently difficult to time, which is why we strongly encourage investors to review—and, if necessary, adjust—their market exposure in line with their current risk appetite and tolerance. At present, **technical** indicators are not signalling elevated stress, while **sentiment** measures remain in the extreme fear zone, historically associated with a lower probability of a market crash. We will continue to advocate robust portfolio diversification, favouring more evenly weighted exposures and avoiding excessive concentration in large growth names.

For a deeper analysis and insights from Prof. Girardin, please refer to the full report via the [Link](#).

We thank you for your continued trust and wish you a joyful festive season and a successful year ahead.

Kind regards,

Your Research Team



MT FORT ADVISERS SA
Rue de la Cité 1
CH - 1204 Geneva

+41 22 568 10 01

www.mtfortadvisers.com



Regulated by FINMA &
Member of ASG:



Please consider the environment before printing this email

This e-mail and any attachments are confidential and may be legally privileged. They are intended only for the use of the named. If you are not the named or intended recipient, please notify us immediately. In such an event, you should not disclose the contents of this e-mail or any attachments to any other person, nor copy, print, store or use them in any manner whatsoever. Internet communications cannot be guaranteed to be timely, secure, error or virus-free. The sender does not accept liability for any errors or omissions. Thank you for your cooperation.