FIG TREE CAPITAL

2026 MARKET OUTLOOK

THE PERILS & THE PROMISE OF A NEW YEAR

written by
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PREFACE & DISCLOSURES

Happy 2026! In an age of Chat GPT, I'm happy to say that I, Joseph B. Lora, wrote this 2026 Market Outlook in its entirety so that my clients and friends can read my most honest, transparent assessment of how I view the state of the markets. My intent is to give you an idea of my market optimism - and also my deep concerns. Hopefully, I also give you a laugh or two. I describe several favored sectors and stocks so that you can understand how I am managing your portfolios - and why I choose to invest in certain companies. I also write a timeline of how I think the market may play out this coming year. I could be wrong eventually on some of my market predictions, but it's how I see things right now, based on my readings and research.

For guests, associates and other readers, the ideas herein are my own. Several stocks mentioned here are high-risk AND every stock is allocated within a diversified portfolio that is constructed based on the risk tolerance, time horizon and investment objectives of each of my individual clients. Nothing I write is intended as specific investment advice. Thank you for reading and always free to reach out to me for a deeper discussion. Thank you!

A SUMMARY OF KEY POINTS

1. I see a 2026 return on the S&P 500 of **4.15%**.
2. However, I feel less confident in my 2026 forecast, because any number of events – both positive and negative, both seen and unforeseen - could occur that causes a drastic market move, higher or lower. I will discuss these possible events in the report. For example, read my analysis of the Greenland problem, possibly the biggest risk of 2026, on page 30.
3. Which are my favored sectors and stocks? I'm going to sound like a 'broken record player' from 2025. I still like the A.I. trade because we're still in the mid-innings of that revolution. I like nuclear energy, I like metals and mining – including Gold and Silver. I still like quantum and space stocks. And I like robotics and an emerging new market that is fascinating - and a little scary - on page 14. Oh, yes, I still love those "ugly ducklings" which I wrote about on October 18, 2025.
4. MARKET FRAMEWORK FOR 2026: I see an up & down, back & forth market for 2026.

- I feel **good** about the markets from today until around <u>mid-April</u> for three reasons I will explain.
- I feel **cautious** about the markets for the months of <u>May & June</u>, as I will explain.
- I actually feel **good** about the month of <u>July</u> and, maybe August.
- I feel very **cautious** about the Fall months of <u>September & October.</u>
- But I believe the markets may end the year strong because of #5 below....

5. On the political front, the Democrats may narrowly take back the House of Representatives, which may cause a year-end rally because MARKETS LOVE DIVIDED GOVERNMENT.
6. I remain VERY concerned about 2028 - 2032. I think the likelihood of a prolonged economic & market malaise is quite high for many reasons, which I will briefly - very briefly - discuss.
7. But by the mid-2030's and beyond, we may be in an entirely new kind of - potentially amazing - world. Yes, we'll be ok.

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PART ONE: MARKET PREDICTION = 4.15%

Since the market slump of 2022, the S&P 500 has enjoyed 3 consecutive years of double-digit gains. Stocks gained 26.29% in 2023, 25.02% in 2024 and 17.88% in 2025, much of these gains powered by the Artificial Intelligence revolution which will change our lives forever.

Can the S&P 500 gain double digits for the 4th year in a row? The last time the market had 4 or more years of 10%+ gains was in the 1990's during the Internet/DotCom bubble of the Clinton years. But the last time the S&P 500 scored 10%+ for 4 straight years - with a Republican President - was…never. (See the chart on the next page.) So what's it going to be in 2026?

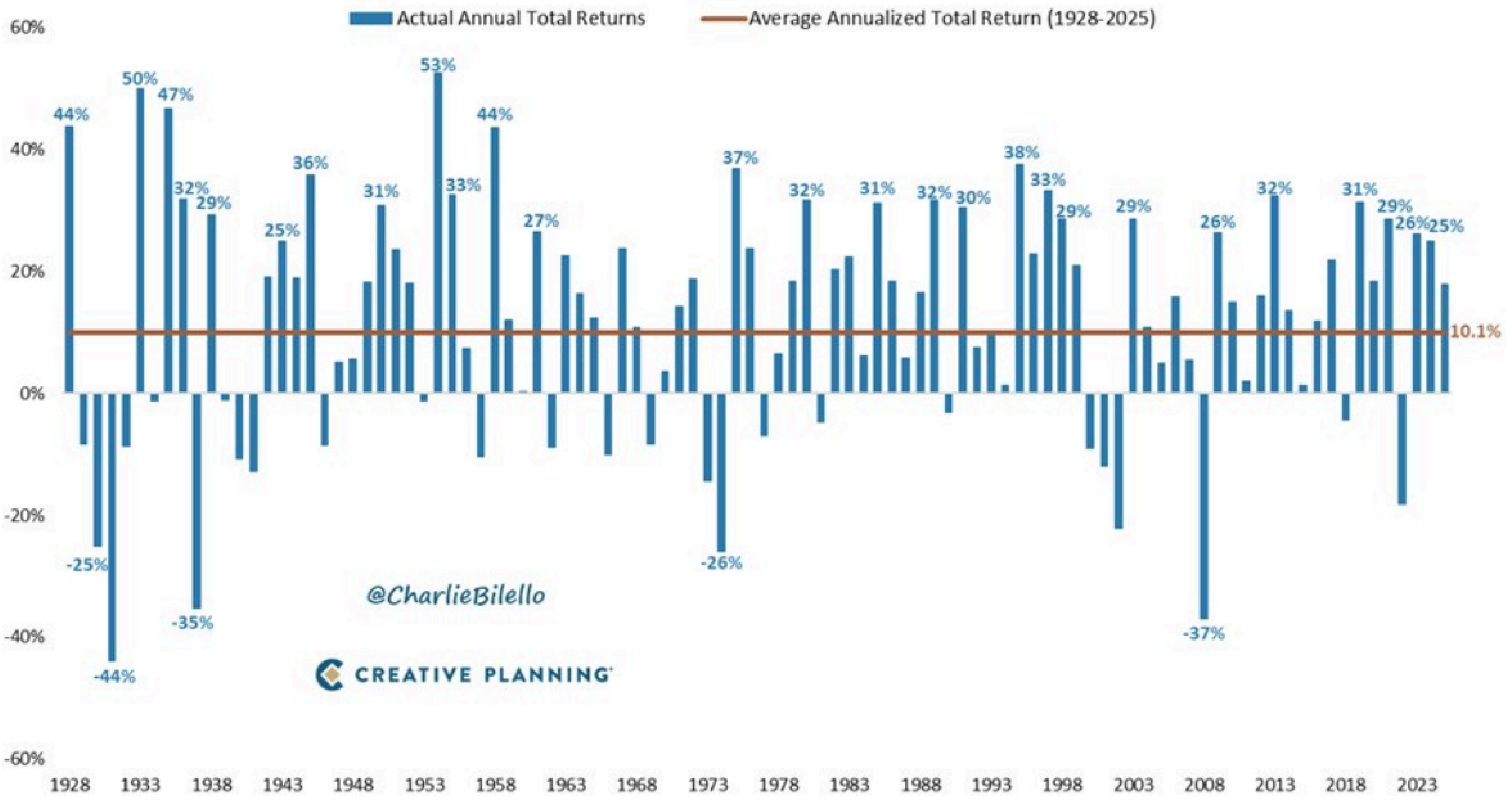
With a Republican in the White House, I think history repeats itself: no double-digit gain. Wall Street analysts, on average, predict a 9% S&P 500 return. I'm predicting a **4.15%** return for the S&P 500 in 2026, with a little less for the Nasdaq.

But now I must be transparent: I am not as confident with my 2026 prediction as I was last year. There are many reasons why the markets could soar in 2026, and just as many why markets could plunge. To be sure, this divergence wouldn't be the first time - see the chart on page 8. But last year, when I predicted a 10.65 return on the S&P 500, I felt confident that I would be more or less correct. (Ok, the market finished much higher, but I was directionally correct.)

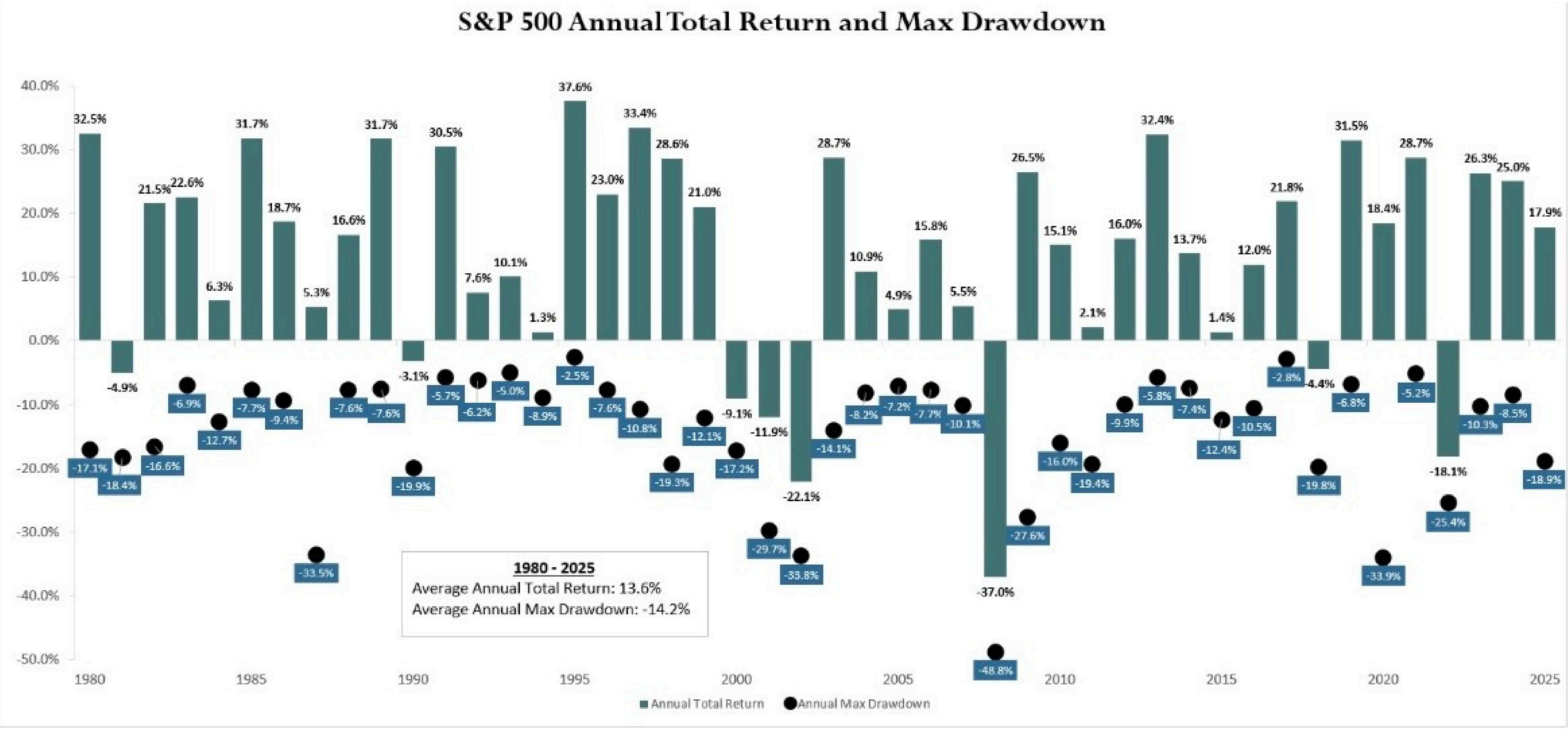
Last January, I viewed a 9% annual return as a worst-case scenario, which is why I stayed bullish during April's scary bear market. But today, January 2026, I feel that the market outlook is quite hazy. For example, it's possible that America unexpectedly bombs a foreign nation and elects to "run" that country for a while. Oh, wait, we're seeing this unexpected event now in Venezuela, a sudden development which is likely to upend the oil markets.

You get the point. Anything could happen this year. I'll have more to say about this in Part 3.

S&P 500 Total Returns (1928 - 2025)



Since 1980, the average return for the S&P 500 is 13.6%, but the average drawdown is HIGHER at (-14.2%) - according to the chart below. I believe 2026 will be one of those ‘wide dispersion’ years with big gains and big drops. **Let’s just make sure we’re prepared NOT to sell on the big drops that may happen in 2026, and perhaps even to buy (See, for example, the big risk I explain on page 30.)**



Source: Cetera Investment Management, FactSet, YCharts. The annual total return includes dividends. The annual max decline is the largest price decline in each calendar year. Return and max drawdown data based on closing prices. Investors cannot invest directly in indexes. Data as of 12/31/2025.

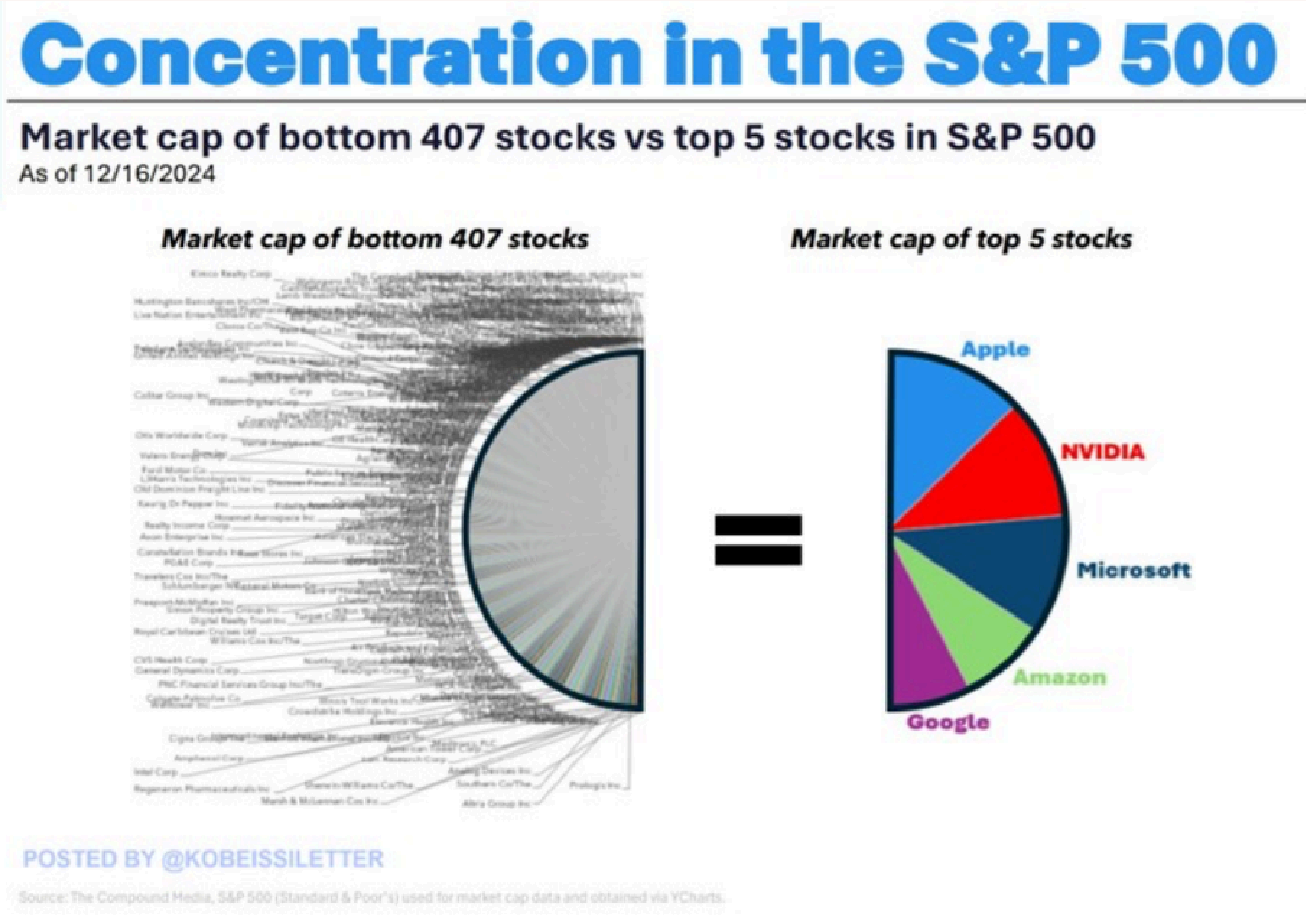
PART II: FAVORED STOCKS & SECTORS: A.I., YET AGAIN

First, let's discuss my preferred sectors of the market. It will come as no surprise that I still like many of the same companies that I liked last year and the year before that. Yes, my favored sectors are getting expensive, but these are the areas with all the hype and it only makes sense to stay invested:

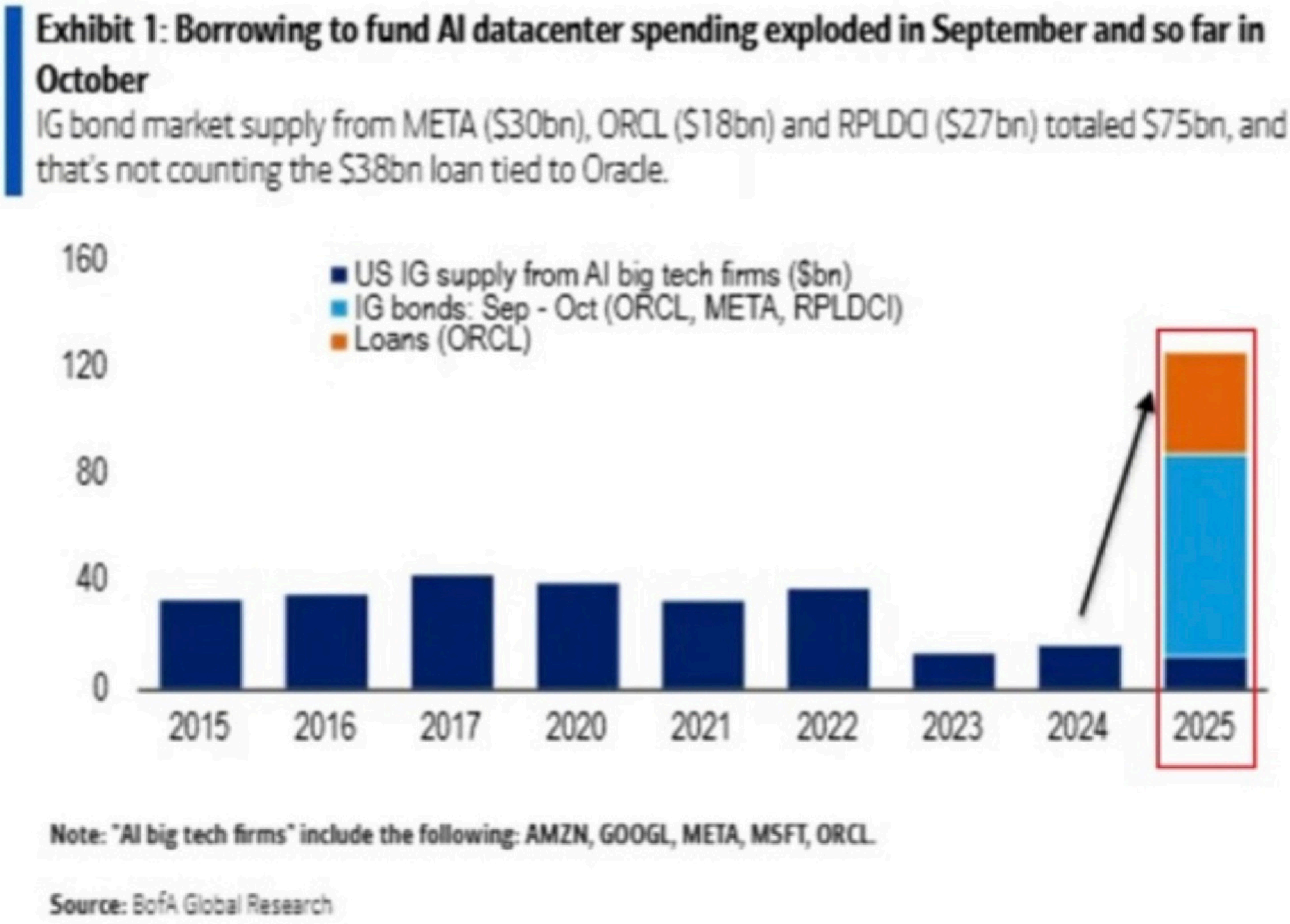
A. ARTIFICIAL INTELLIGENCE: this sector is still the big Bull of the market. You know all the companies because they're all over your portfolios: Nvidia, Broadcom, AMD, Google, Microsoft, etc. These stocks have carried your portfolios higher, but they are getting a little stretched. Several A.I. names could have a negative year in 2026. **NVIDIA** will likely rally about 10% by July and reclaim a $5 trillion market capitalization - which it briefly touched in October '25 - but many competitors are fighting to take market share away from Nvidia's dominance. In 2026, don't be surprised if Nvidia has the occasional scary plunge of 20%+. But that may be a time to buy more shares because Nvidia has many market opportunities. ***Read page 14 for a wild -and kind of scary - example***.

I predict ALPHABET (GOOG) will end 2026 as the world's most valuable company because, like an octopus, it has its tentacles in everything: it has a huge A.I. business with its Gemini app, it's in Quantum computing, it's an autonomous driving with Waymo, it's in social media with YouTube, its Cloud business is massive. And it still has a legacy search business that will remain a Cash Cow - albeit aging - for years to come.

The bottom line is we can't ignore the Big A.I. stocks. Just 5 A.I. stocks are as big as the bottom 407 in the S&P 500 - as this chart shows. A.I. stocks have the money & the momentum: we need to stay invested.



But I don't like all A.I. stocks. Oracle and to a lesser extent, META (Facebook) are particularly worrisome. As of September 2025, ORACLE's stock price was flying high but it has since plunged 38% because Oracle took on too much debt - to fund A.I. expansion - and investors became worried. The chart below shows that IG Bonds (investment grade bonds from blue chip companies) were steady from 2015 - 2024 until borrowing exploded during September and October of 2025, with Oracle and META gorging on about $86 billion in debt. I don't currently own META in client portfolios. I own a little Oracle for my clients, but with a total debt load of over $100 billion, I may liquidate Oracle on any sign of trouble.



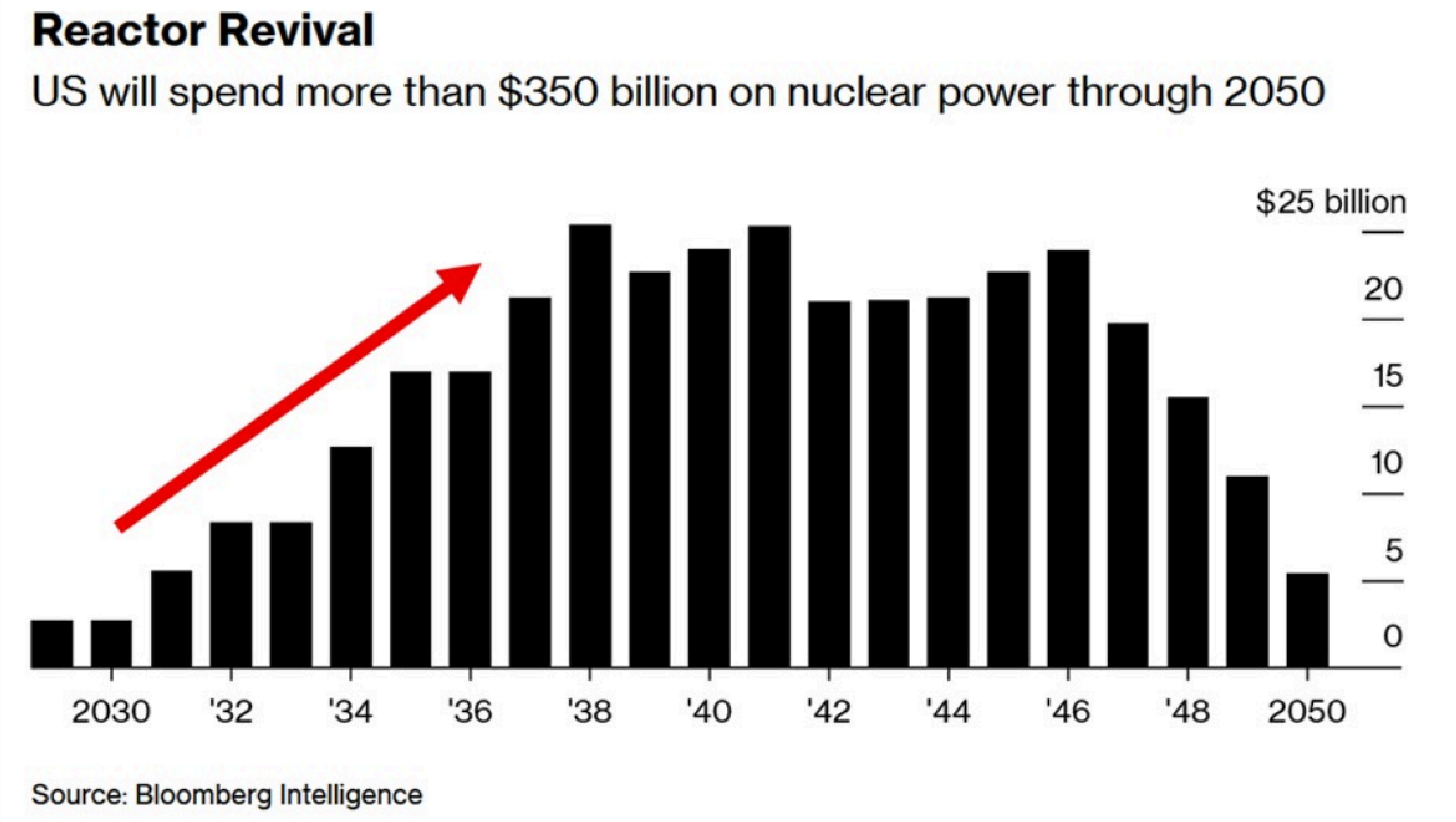
Ultimately, **the greatest and most compelling reason to own A.I. stocks** is because they have the greatest cheerleaders since JP Morgan funded railroads and the building of the Titanic. Elon Musk, Jensen Huang, Sam Altman, Satya Nadella, David Sachs and, ultimately, President Trump have grabbed their pom-poms, practiced their flips and donned their team uniforms - and their cheering on the A.I revolution like teenagers at a Friday night high-school football game. With so much money and power backing A.I., it only makes sense to stay invested. For now.

PART II: FAVORED STOCKS & SECTORS: NUCLEAR

B. NUCLEAR ENERGY: If President Trump could wave a magic wand, America would have nuclear energy from sea to shining sea. Trump's entire vision for making America great relies on energy generation from Oil & Natural Gas as well as lots of Nuclear. For some reason, Trump hates Solar Power - despite the fact that Solar energy is itself derived from a giant nuclear fusion reactor. And he despises wind power. He looks to be going all-in on nuclear as evidenced by the chart below: $350 billion is the expected spend on nuclear until 2050. I think it could be much higher. Why?
Because the A.I. revolution is thirsting for more power and Trump wants to give it to them.

Look for major U.S. generators such as **Quanta**, PWR, **GE Vernova**, GEV, **Vistra**, VST, & **Eaton**, ETN to benefit as the big A.I. companies negotiate power deals to secure energy for the future.

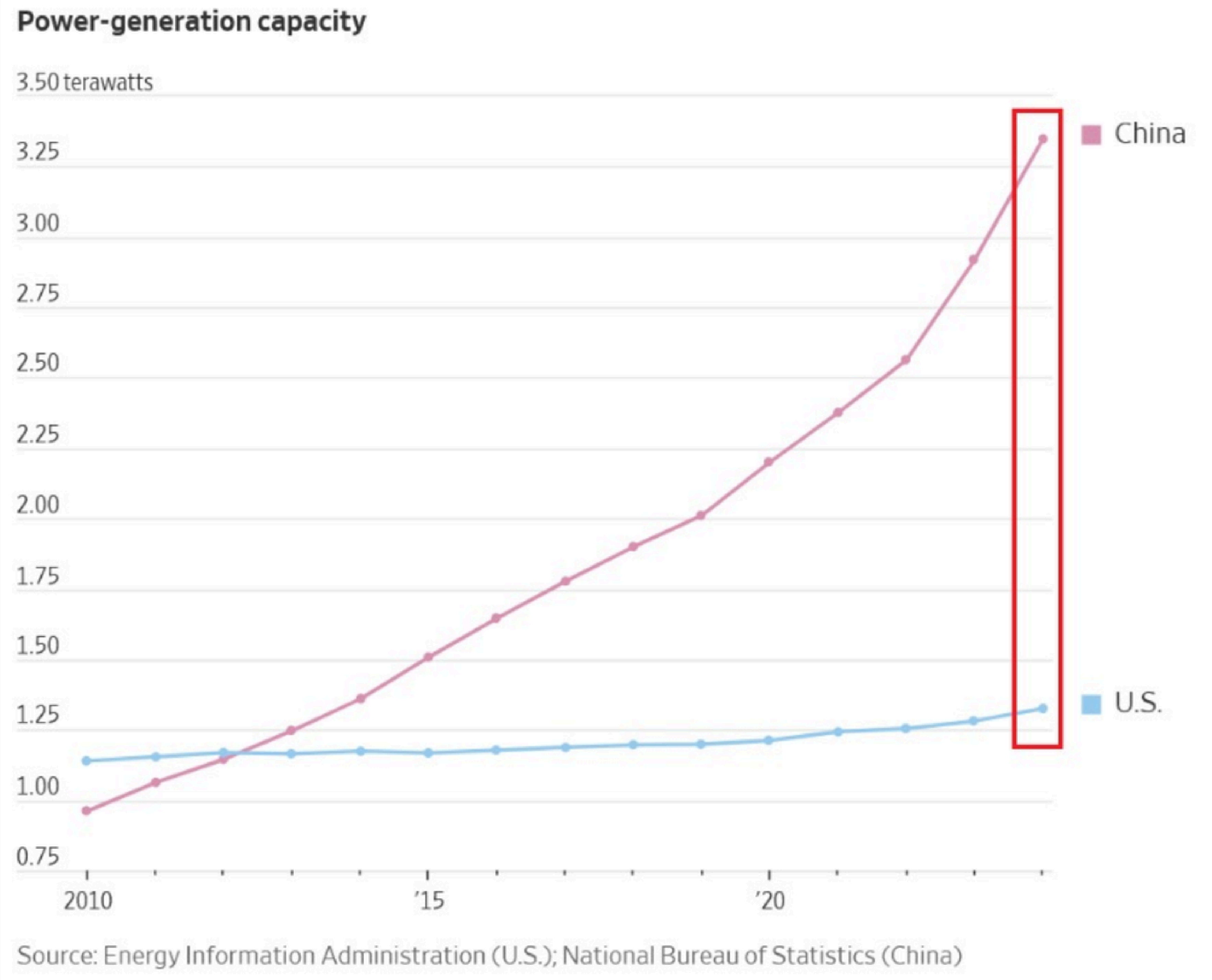
Alas, building a power plant takes forever! That's why *Small Modular Reactors (SMR)* are critical. These are small-scale nuclear generators that can power a factory rather than power an entire region. In 2025, I made money for clients with SMR companies such as **OKLO** and **NuScale (SMR)**. I believe 2026 could see a repeat, but then again, SMR tech is still in prototype stage and the risk of failure is high. (Note: OKLO is already up 35% in 2026.)



PART II: FAVORED STOCKS & SECTORS: MINING

C. MINING COMPANIES & GOLD/SILVER In order to power the A.I. revolution, America needs power, including nuclear. And in order to generate power, we need critical minerals. As you can see, each of my top-three favored sectors are mutually-dependent on one another, which makes for an interconnected web of return and risk. But there's a reason to be bullish.

America and China are in an undisputed race for A.I. supremacy. But China generates far more power than America - by a mile. The chart on the right shows the colossal advantage that China enjoys in total power generation. America has a long road to catch up to China and critical minerals will play a vital role.



This is why I'm cautiously buying mining companies like USAR, uranium suppliers such as Centrus Energy (LEU) and Nano Nuclear (NNE). And I remain bullish on SILVER, which is a key component for nuclear & solar power. Silver is off to the races in 2026, up 20% at $85/troy ounce. How high can it go? I won't offer a prediction but when (not if) it breaks $100/ounce, I may take some profits in client accounts, which own a lot of Silver. After a 170% rally in 2025, silver can't defy gravity forever.

And, oh yeah, what about GOLD? I think it breaks $5,000/ounce from a current price of $4415. This is mostly because inflation may rear up later in the year. More on that on Page 22.

PART II: FAVORED STOCKS & SECTORS: THE FRONTIER

D. SPACE STOCKS: Please forgive me for the obvious pun, but space stocks definitely rocketed higher in 2025 and - when they're not plunging back down to Earth- they'll probably rocket higher in 2026. The big news of 2026 is the expected IPO of SpaceX, which may become the largest IPO in history - and may fuel the entire sector (more puns). Look for me to buy some exposure to stocks such as ROCKET LAB (RKLB), AST SPACE MOBILE (ASTS) and a few others - but these stocks are so volatile that they make a yo-yo look like a snail!

Despite the volatility, the entire space sector will benefit from Pres. Trump's new appointee for director of NASA, the widely-respected Jared Isaacman, who is Elon Musk-approved for his technical knowledge. The combination of Mr. Isaacman's technical prowess and Trump's desire to make America Great on Earth and beyond the Earth is bullish for the entire sector. *I may load up on space stocks on any selloff*. Children will one day visit space like it's Disneyland.

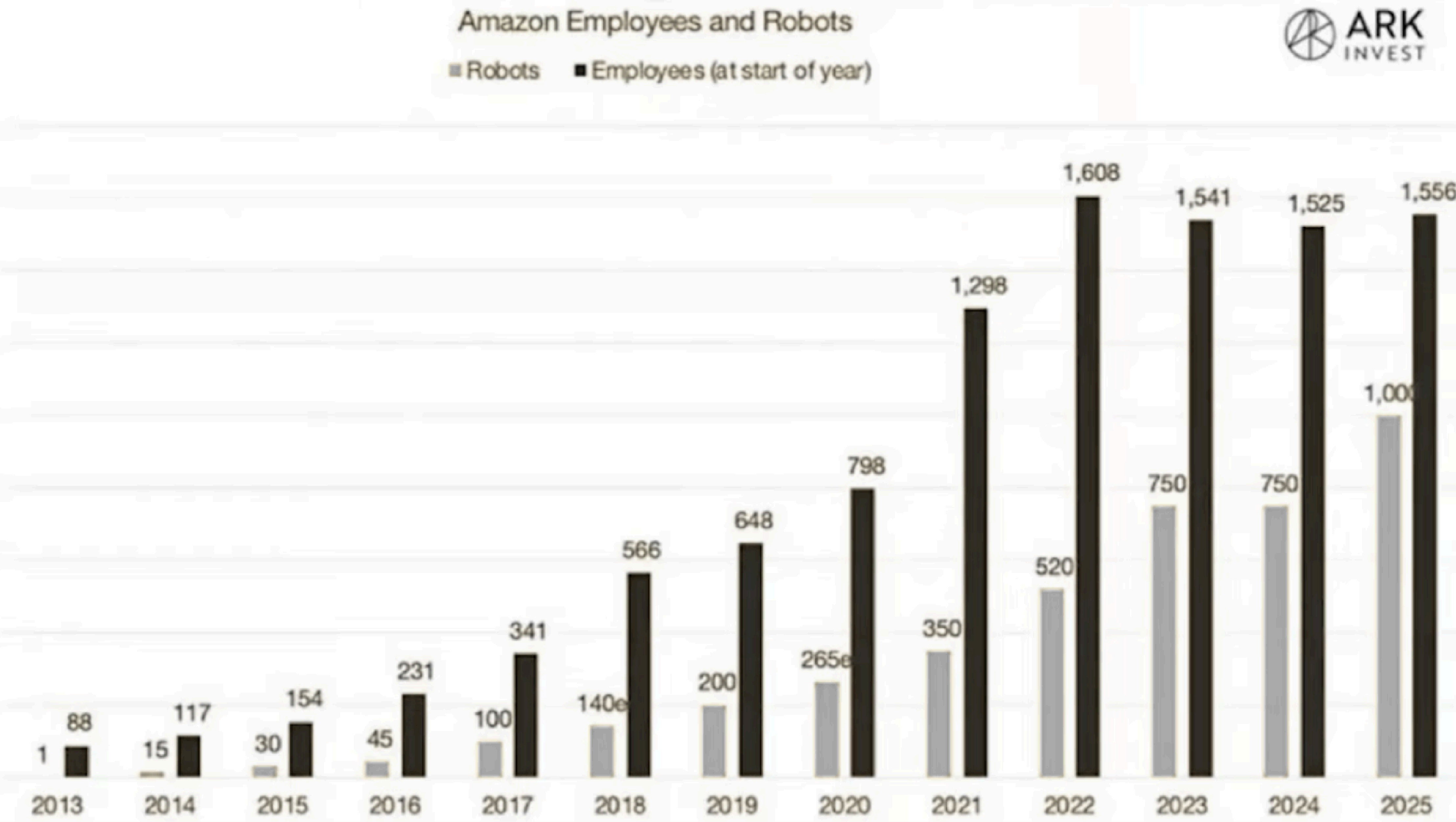
E. QUANTUM COMPUTING! Quantum is all the rage right now: Quantum is in our movies (the Marvel series), it's in our science, it's in our personal lifestyles and it's in our books: Dan Brown's newest novel, The Secret of Secrets, mentions D-Wave Quantum, QBTS, as a secret venture capital project funded by the CIA! And, yes, QBTS is in a few client portfolios! It's no surprise then that speculative companies such as IONQ, Rigetti Computing, RGTI, Quantum Computing, QUBT, and D-Wave Quantum gained nicely for my clients in 2025 - not on fundamentals, but on hype. These companies don't yet make money and they will be as volatile in 2026 as they were last year. But it makes sense to have some quantum exposure because, as Dan Brown writes, "the future comes at us faster every day." By 2040, our iPhones will be quantum-powered by the "Cloud." Actually, that day may come much sooner.

Google and IBM are also producing quantum chips and they're a much safer bet for quantum exposure. This is one reason why Google is one of my favorite stocks of 2026.

PART II: FAVORED STOCKS & SECTORS: THE MYSTERY

F. ROBOTICS This sector is also volatile but worthy of some investment because this sector will surge into next decade. According to the chart below, companies like AMAZON will improve their bottom line by installing more robots (the rising gray line in the bar chart) instead of human workers. TESLA will inevitably build A.I. powered Optimus robots at scale and transform industrial production in the process. You have probably seen those cute food-delivery robots rolling down our Los Angeles sidewalks: those toys come courtesy of SERV ROBOTICS, SERV, which is a speculative start-up that carries the blessing of Nvidia CEO, Jensen Huang, whose chip architecture is giving SERV its "brain." Speaking of brain, there is something more mysterious at work in the 'mad scientist' minds of Silicon Valley: ***combining consciousness & compute***....

G. THE MYSTERY OF CONSCIOUSNESS Building A.I. powered robots is inevitable: it's "merely" a question of figuring out the science. But the real challenge is building A.I. enhanced human brains. Into next decade, **Nvidia** chips will power our autonomous cars and our robots. But into the year 2040, they may power our brains with an augmented-reality chip, allowing us to "see" infared lights or "hear" high-pitched sonar: it's a "SuperAgentic" approach to A.I. that is cool - and a little scary. But it's inevitable.



I plan to invest in a few speculative "neuro-stocks" for a few clients in 2026.

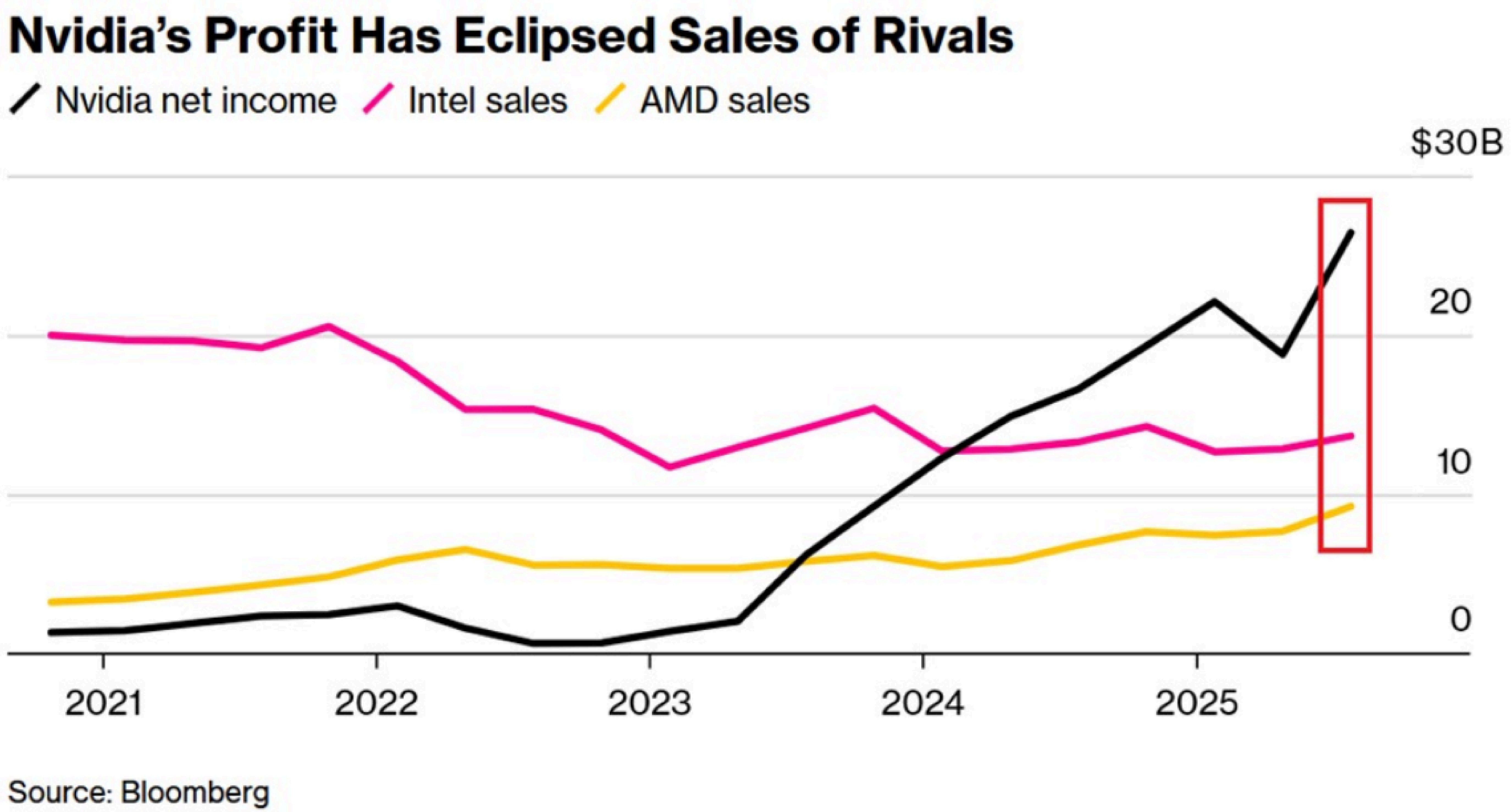
PART II: FAVORED STOCKS & SECTORS: THE UGLIES

H. DEEP VALUE STOCKS - THE 'UGLY DUCKLINGS' OF TRUMPONOMICS: This sector is the opposite of the high-flying stocks that I've favored thus far. These stocks are 'beaten-down' and trade at good valuations and strong dividends. Think of high-quality companies such as CLOROX, (CLX), PROCTOR & GAMBLE, (PG), DOMINO'S PIZZA, (DPZ), COLGATE-PALMOLIVE, (CL), COSTCO (COST) and a few others which may have declined in 2025, but are ready to rally if the "high-fliers" (ie. A.I. stocks, quantum, nuclear, space) slump lower. I wrote favorably about these "ugly" stocks in my Oct. 18. 2025 newsletter and I recommend patience with these stocks: I won't be surprised if the uglies are sitting pretty by December 31, 2026.

As an example, check out the chart on this page. In late November, 2025, Nvidia dropped 4.94% during which the S&P 500 squeaked out a gain. Throughout 2023, 2024 and much of 2025, Nvidia was the horse that propelled the market higher, courtesy of its historic earnings growth (please see the next page.) As Nvidia went, so went the market. However, this chart to your right is one instance were that logic didn't work. In fact, during November 2025, several A.I. stocks such as Oracle, META, AMD, Tesla, & Palantir had 20% bear market selloffs and quantum stocks fell by 50%. But the "ugly duckling" stocks held firm - as did the broad market. We will need them in 2026.

Because NVIDIA has been so good to client portfolios, it deserves its own page. Here's a chart showing Nvidia's magnificent earnings growth since 2022 - courtesy of the Artificial Intelligence Revolution. For years, Intel was the King of chips and Nvidia was a small player making chips for video games. But then Chat GPT came along in November of 2022 and everything changed, as this chart shows. And it's still ongoing.

This chart shows why Nvidia is currently the most highly-valued company - and asset - on the planet, higher than gold, higher than silver. But the competition is swirling - and it's a good idea to stay diversified with high-quality, dividend-paying stocks such as the "ugly ducklings."



PART III: RISKS & REWARDS IN 2026: MARKET TIMELINE

What could go wrong in 2026? So many things! What could go right in 2026? So many things! I could write pages upon pages of the promise and the peril of 2026, but I will try to keep it brief. First, I'll start with a timeline of how I believe the market in 2026 ***may*** proceed. *The next several pages are the most predictive of the entire report*.

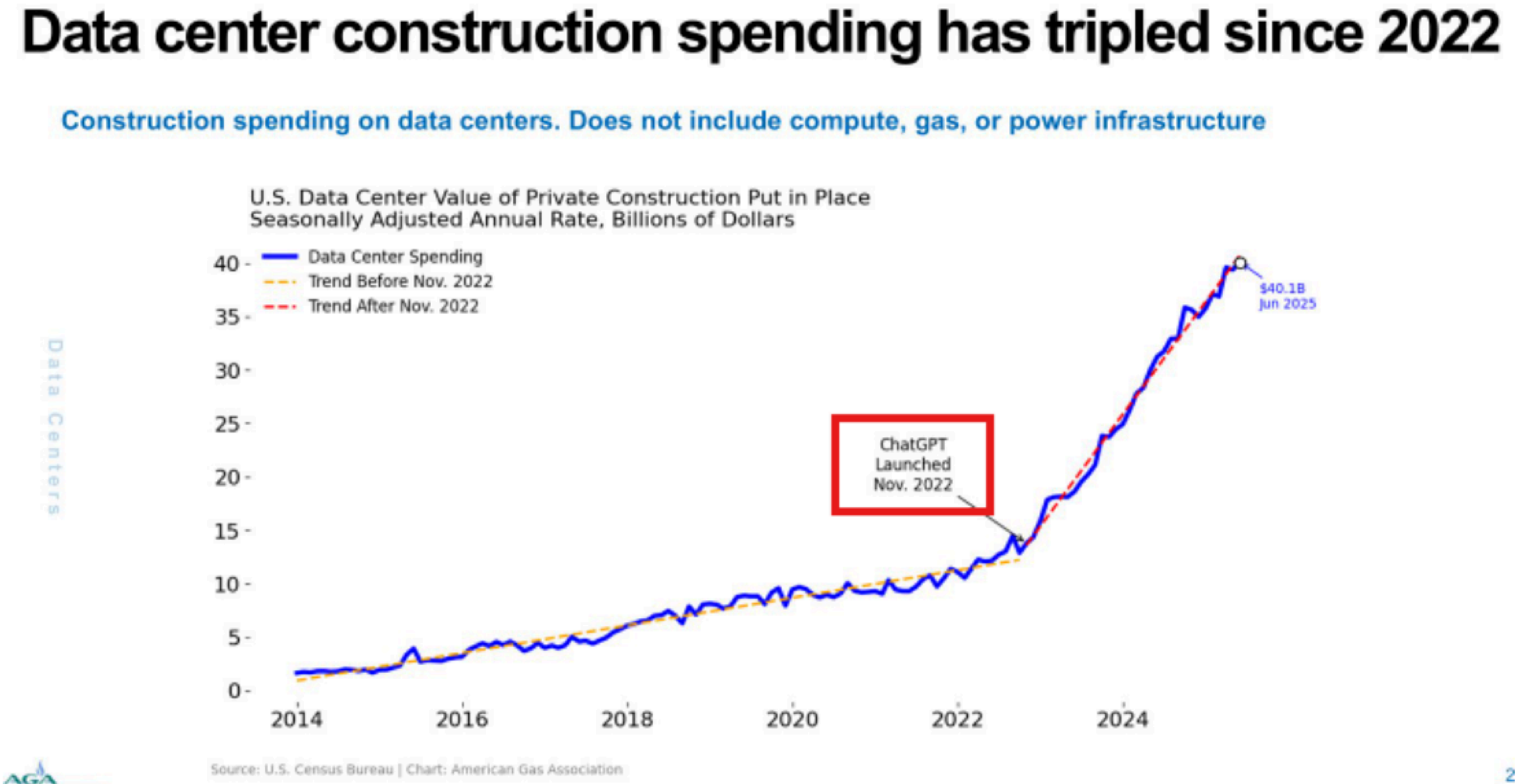
From January until late April - mid May I believe the markets will pick up the momentum of 2025 and move higher into the Spring. Heading into Tax Day, April 15, the market will likely benefit from three major tailwinds:

1. TAX CUTS. Throughout my many client newsletters as well as one-on-one conversations, I have said time and again that Trump loves to cut taxes, *federal debt be darned*. In 2026, we'll have brand new tax cuts on tips and on overtime. Courtesy of the OBBB, the big beautiful bill of 2025, we will also have an extra $6,000 standard deduction for tax filers over the age of 65 and a universal $1,000 tax deduction for charitable gifts. You get the idea: Trump is the *Tax Cut Santa Claus*, singing 'ho, ho, ho!' to all Americans, companies and charities across the land. Stocks will benefit.

1. INTEREST RATE CUTS - THE FUEL FOR STOCKS. Just as Newton discovered the fundamental laws of the Universe, investors have discovered one of the Fundamental Laws of Stock Market Investing: FEDERAL RESERVE RATE CUTS ARE BULLISH FOR STOCKS! FED RATE CUTS ARE BULLISH FOR STOCKS!! President Trump has made it overwhelmingly clear that he wants to impose the Newtonian law of gravity on interest rates - and push them down to 1% which **may be dangerously too low**. In May, Fed Chairman, Jay Powell, steps down and Trump will absolutely, definitely and with certainty appoint a loyalist puppet as Chair, who will likely do his bidding. I believe stock prices will rise *in anticipation of* a massive drop in rates. (But therein lies a problem, as I explain on page 31.)

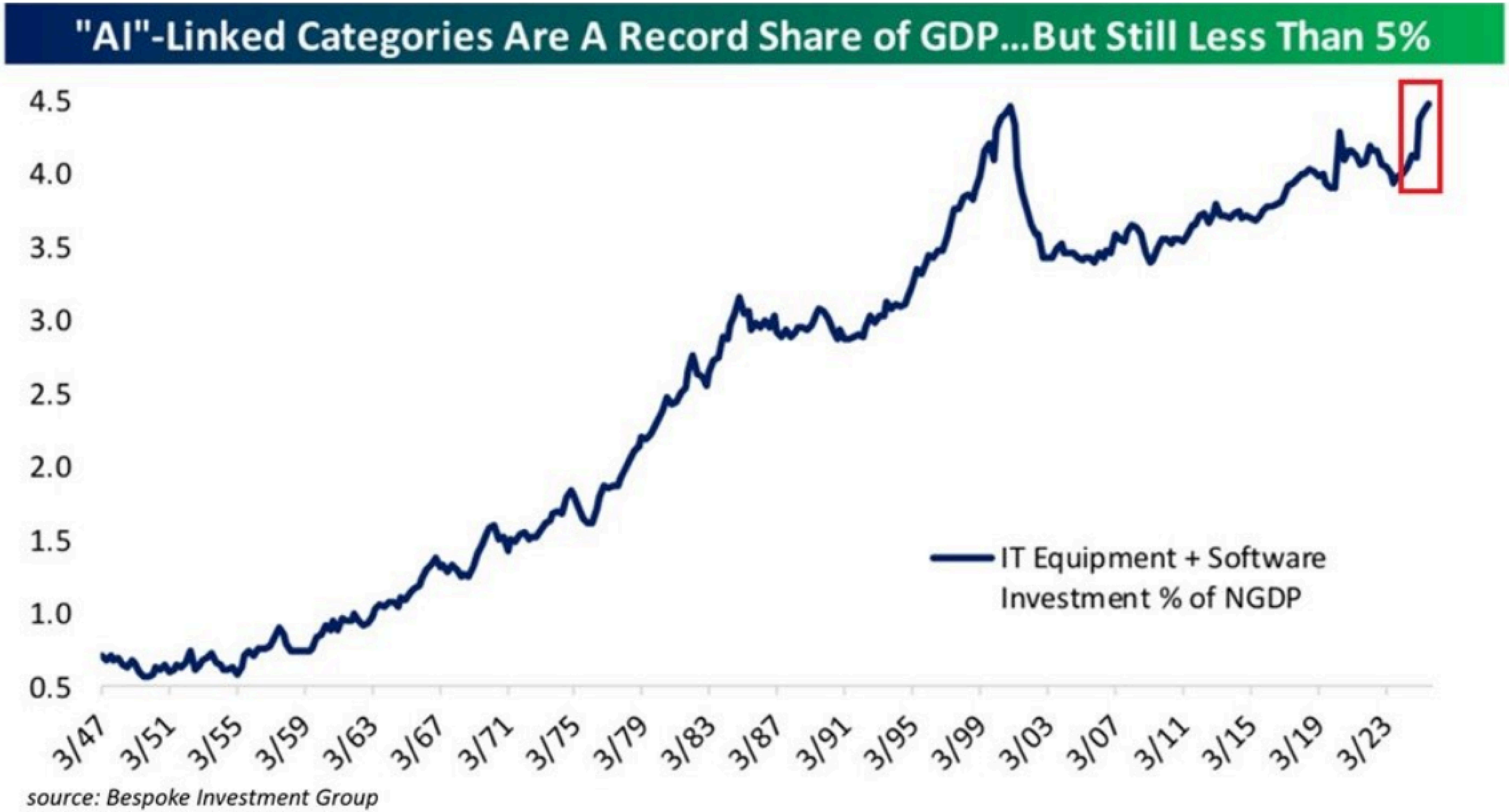
PART III: RISKS & REWARDS IN 2026, cont'd

3. ECONOMIC MOMENTUM Thanks to the Artificial Intelligence boom, America's economy is strong right now. And it doesn't look to slow down anytime too soon. The stock market is benefiting from the fierce activity of America's "hyper-scalers" particularly Microsoft, Amazon, Google, Oracle and META that are furiously spending on data centers and other infrastructure in order to meet expected massive demand. The chart on this page - from the Census Bureau - shows the explosion in data center construction since the launch of Chat GPT in November, 2022. The chart on the next page tells a similar story of explosive growth. The market momentum is real!



ECONOMIC MOMENTUM, cont'd. CHART 2

Spending on IT Equipment & Software - as a percentage of GDP - is as high today as it was during the DotCom boom of 1999-2000, which gave us the ubiquity of the Internet. The I.T. spending in this chart doesn't include spending on energy generation - building new power plants, transmission, etc. Nor does it include new spending on mining and refining. Nor does it include consumer retail spending from the 'wealth effect' of higher stock prices. But eventually, all of this spending may cause the economy to overheat. Which brings us to the risks of 2026......



PART III: RISKS & REWARDS IN 2026: A SCARY SPRING?

<u>FROM APRIL/MAY THROUGHOUT JUNE</u> If I am correct - and the market is higher by Tax Day, April 15 - then I may start to turn cautious with client portfolios. Here's three major reasons why I may become very concerned if the market trailblazes into mid-Spring, and the risks are all fundamental: interest rates, valuations, and inflation.

1. <u>THE END OF FED INDEPENDENCE: MAY 15!</u> Fed Chair, Jay Powell, steps down on May 15, 2026. This day is one where we all may want to be a little ***<u>cautious</u>*** because Trump will install a captive "yes man." *I can't stress enough how the loss of Fed Independence is a big market risk*. President Trump has openly demanded the Fed to slash rates to 1%. And, although I wrote on page 15 that a universal law of finance is that Federal Reserve rate cuts are fuel for stocks, there is a problem: t*oo much rate cut "fuel" risks a fire.* If Trump pushes a subservient Fed Chairman to cut rates from the current 3.5% - 3.75% down to, say, sub-2% in one fell swoop, then I believe the markets will panic. A little fuel (ie. modest rate cut) fans a flame; too much fuel (ie. a massive cut) risks an explosion.

2. <u>THE STOCK MARKETS ARE EXPENSIVE, ACCORDING TO SEVERAL VALUATION METRICS</u> The markets can only run so high before they pound hard against *the ceiling of valuation*. Stocks are already historically pricey according to various popular metrics. The chart on the next page shows the Schiller P/E Ratio, which was developed by the widely-respected Yale academic, Robert Schiller, who famously called the top of DotCom bubble in March 2000 when I was still a young scholar. The Schiller P/E metric is unique in that it shows the price of the S&P 500 Index relative to its inflation-adjusted 10-year average earnings. Basically, that's just an academic's geeky way of saying that this ratio is a very accurate measure of valuation. As the next page will show, stocks are almost as pricey as they were during the Dot.Com mania of 2000. In other words, markets can only rally so much - before they hit the ceiling.

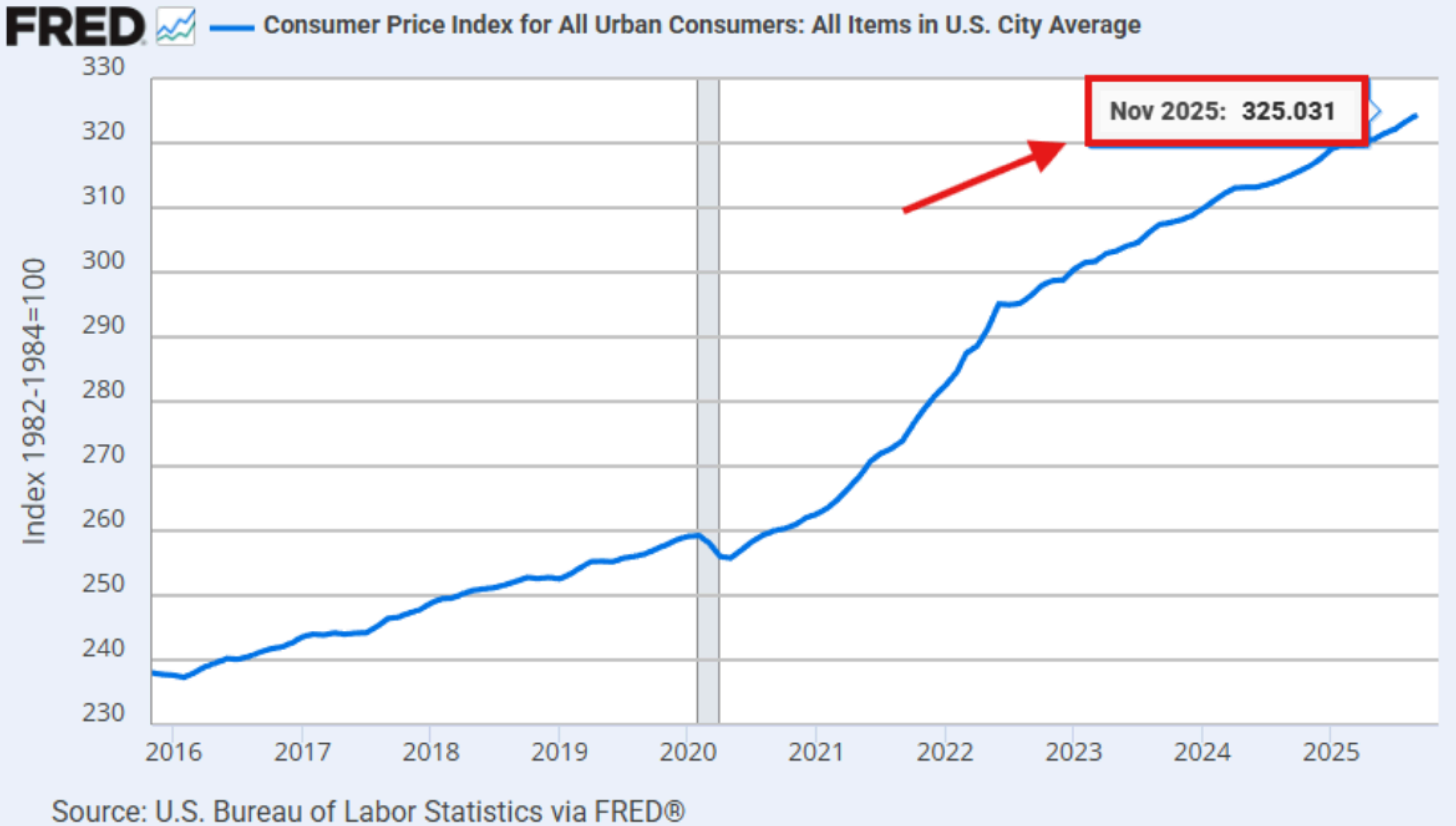
According to this chart, the Valuation of the Dot-Com Schiller P/E Ratio peaked at 44. The current bubble isn't far behind at around 40.04. Even the Roaring 1920's valuation peak was modest by comparison. This metric is concerning.

Data as of 12/25

3. <u>INFLATION, UGH, INFLATION</u> In 2022, inflation soared up to 9%, the highest since the 1970's, effectively costing Joe Biden the Presidency. The pace of inflation has since slowed, but prices are not deflating - ie. moving lower. Inflation creeps higher at a sub-3% pace, but for many Americans, affordability is a big problem. Check out the chart on this page with data from the Bureau of Labor Statistics, showing that prices are still trudging higher. Trump tariffs may possibly raise inflation later in the year - if they're not struck down by the Supreme Court. But the biggest upside risk to inflation is the aforementioned problem of Fed Independence on page 20. **If Jay Powell's successor cuts rates too low, too drastically, that flood of liquidity *may* cause an inflation resurgence**. Trump wants the Fed Funds Rate slashed to a rock-bottom 1% - he should be careful what he wishes for.

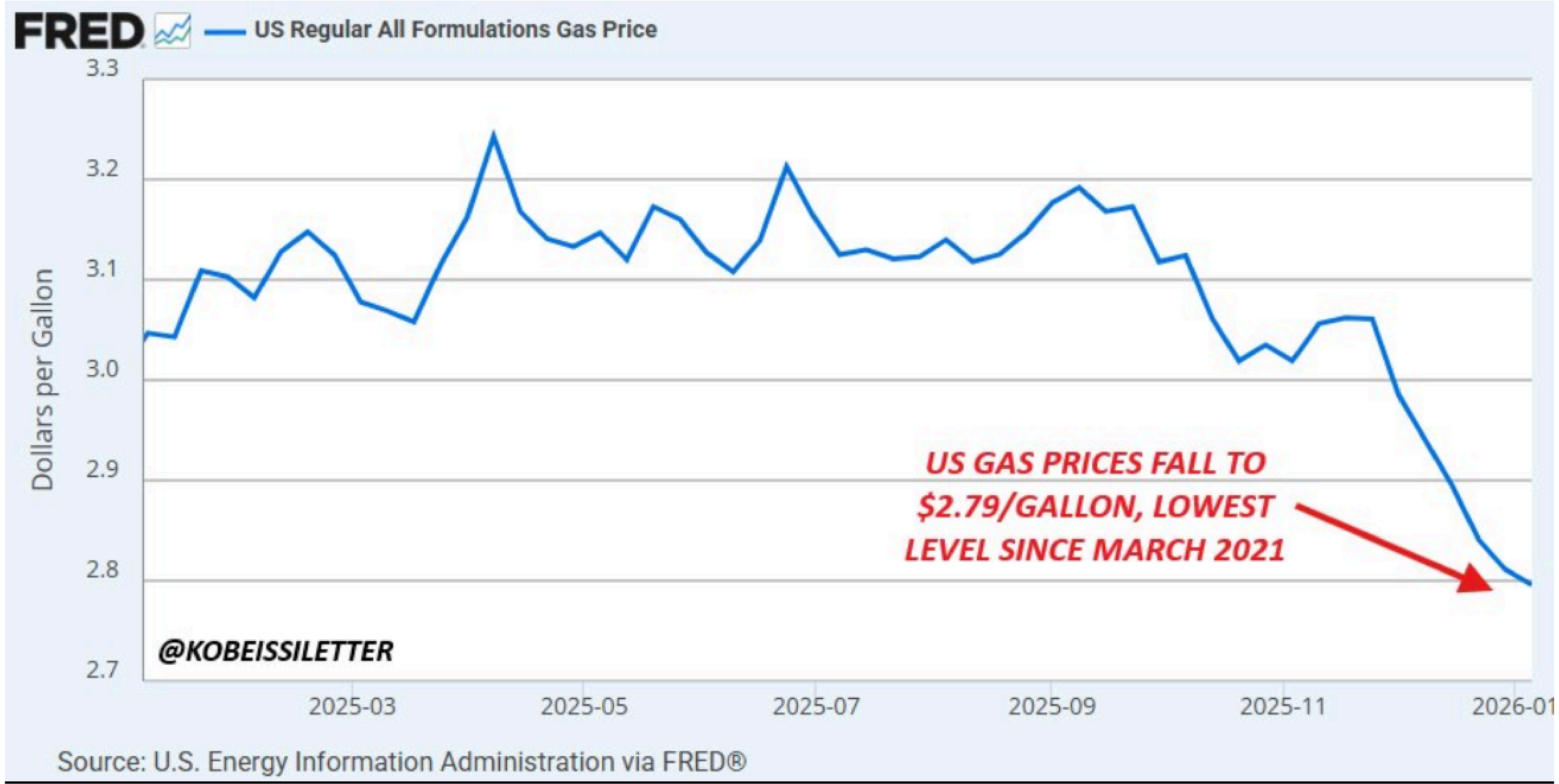
I should add that Trump's seizure of **Venezuelan oil** is a headwind to higher inflation because Venezuela has the highest oil reserves in the world. More oil supply lowers gas prices, which puts more money in our pockets and improves affordability (see the chart on the next page).

But extracting all that Venezuelan oil will take years and $billions in investment. There are a lot of variables at play here, but I believe there remains a big risk that it may be the 1970's all over again. (See page 24.)



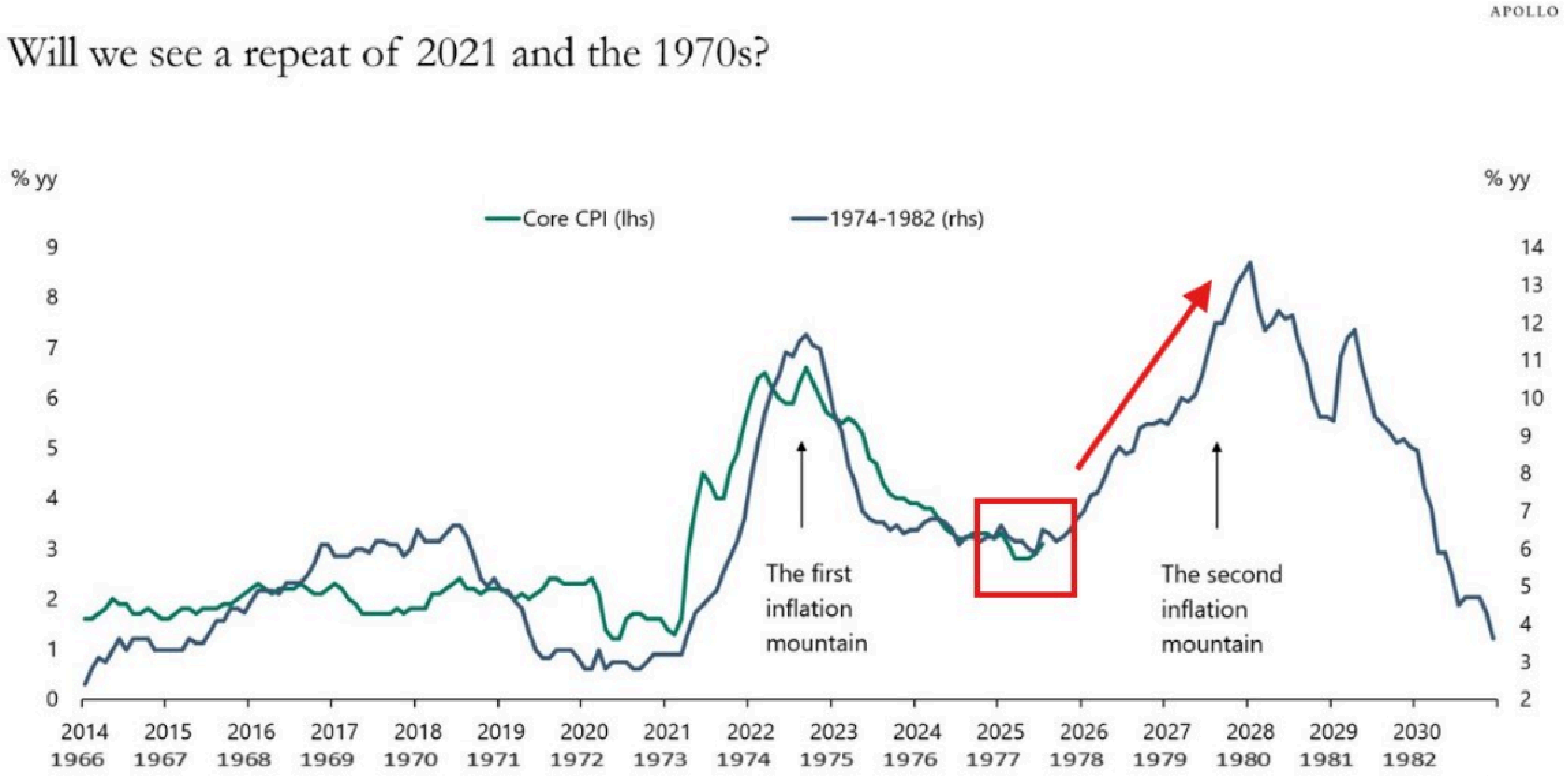
VENEZUELAN OIL & INFLATION (cont'd)

As of January 2026, gas prices are moving lower, which will save $billions for American consumers at the pump - another reason why I'm bullish on stock prices in the first few months of 2026. However, if oil& gas prices drop too low, then the economic law of supply & demand tells us that supply will be cut (say, by the Saudis) causing prices to move higher. Without getting too thick into the economic weeds, there's no assurance that oil prices can stay low. And if U.S. energy behemoths such as **Chevron (CVX)** invest $100Billion into Venezuela (which is about how much it would take to extract its oil) and fail to get the job done, then we could see a repeat of the 1970's dual-inflation spike. (see next page)



As of right now, America's Consumer Price Index (CPI) is trending similarly to that of the late 1960's into the 1970's - according to this chart from The Apollo Group. If gas prices turn higher, or if tariffs prove to be inflationary, or if excessively cheap money (from a Fed that is coerced by Trump) works its way into the economic system, then inflation will move higher. Even worse, if countries around the world team up against America and form their own trade blocs - in retaliation to American tariffs and neo-imperialism - then the 1970's will make inflation look tame.

(I won't write more about this particular big risk for now, but it's not an impossibility.)



PART III: RISKS & REWARDS IN 2026: A TIMELINE, cont'd

JULY: HAPPY BIRTHDAY, AMERICA throughout history, July has been a great month with a 60% win ratio over time. I believe this July, the 250th birthday of America, repeats the pattern. The last time the S&P 500 had a negative month of July was in 2014. *The first 2 weeks of July are two of the strongest weeks in market history with a 70% win ratio over time*. Even the year 2022, which saw the S&P 500 down 18.1% for the year, had a strong July with stocks rallying a whopping 9.1% in that one month. There's something about patriotism that makes stocks rally.

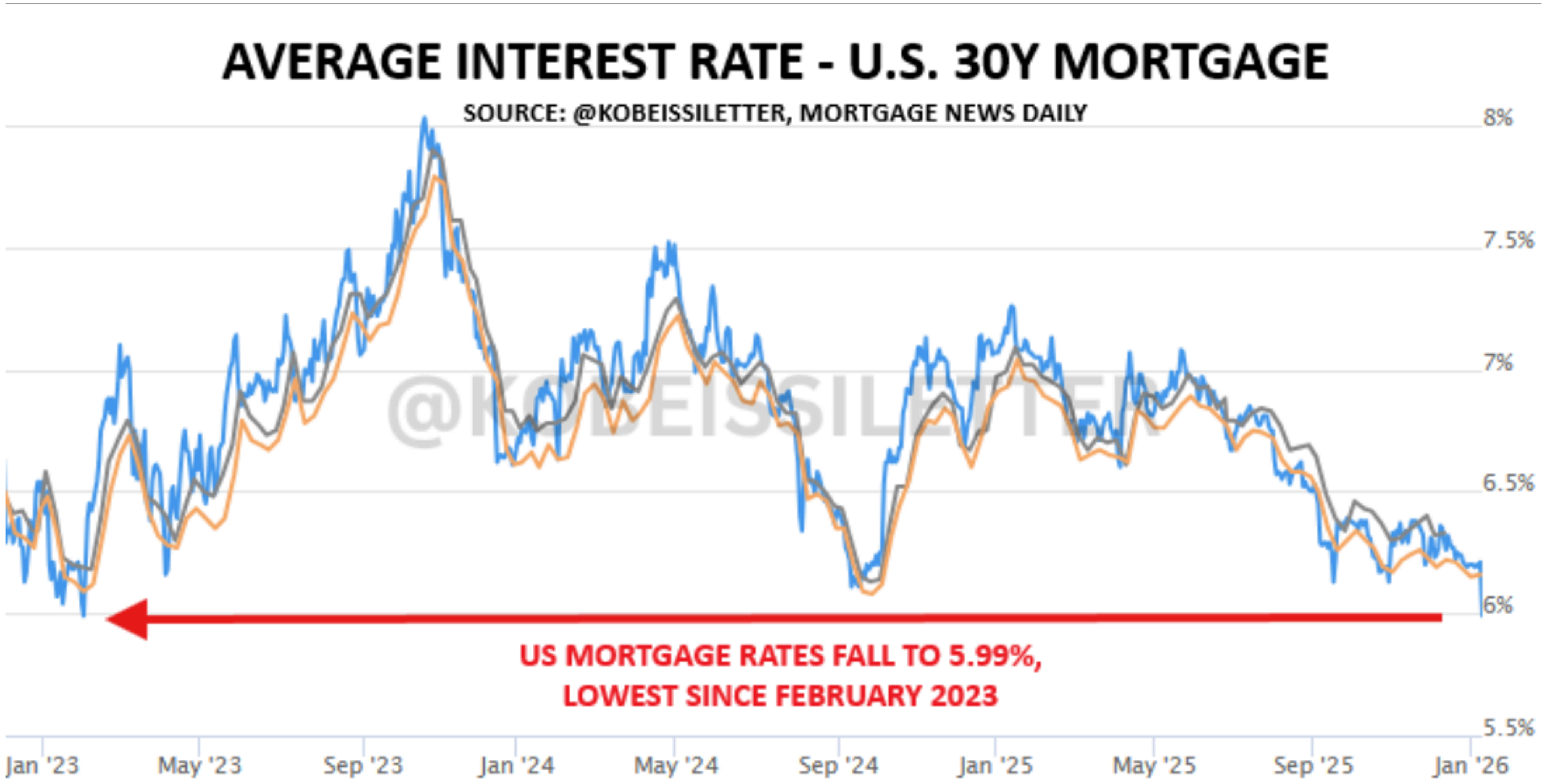
Depending on where the market is on June 30, it is very likely that I will call each of my clients and encourage them to increase their risk tolerance for July. After all, President Trump will throw a big party on Independence Day - and drive us deeper into debt (see page 33). Trump will boast as world leaders arrive to "kiss the Ring" and pledge $billions and $trillions of investments in America - pledges that may or may not be fulfilled.

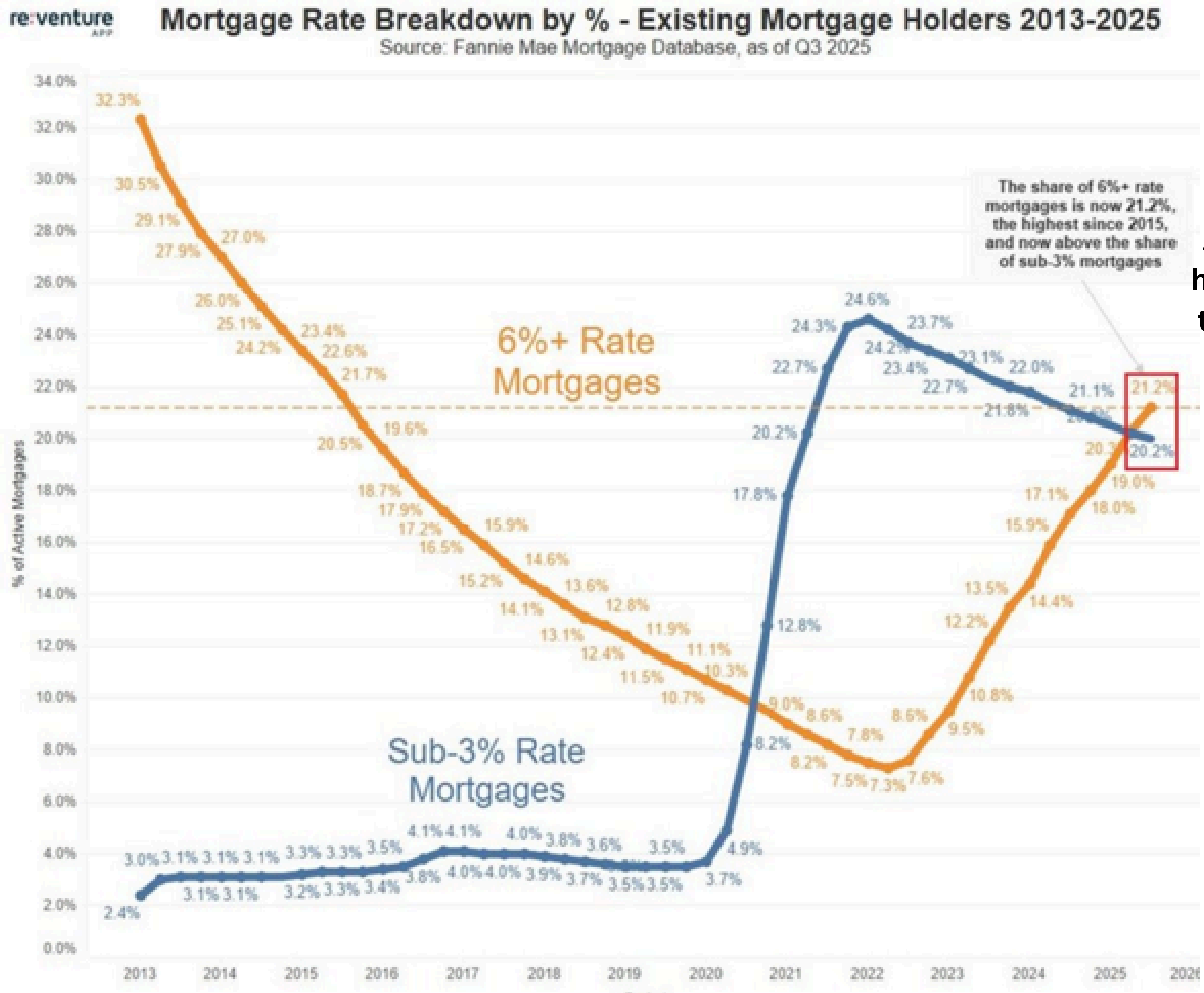
LATE-AUGUST THROUGH OCTOBER: ANYTHING CAN HAPPEN This period of time is seasonally one of the most challenging of the year, especially September & October. I'm going to go out on a limb and predict that Trump makes a huge gamble and attempts - or threatens to attempt - another land grab: a Cuba strike is likely - but inconsequential. The Panama Canal is riskier, but a **move on Greenland would plunge stocks 30%**. Trump will see the writing on the Wall - the Democrats take over the House - and he may go big. I think these months entail significant unpredictable risks and political uncertainty heading into Midterm elections. I may be cautious with client accounts during this time.

POST MID-TERM ELECTIONS: A STRONG END TO THE YEAR As of now, the Democrats are expected to take the House. Historically, the markets love divided government and perform well when one party controls the White House and the other party controls the House or Senate or both. In addition, November and December are historically strong months of the year. I believe the markets rally into year end, finishing 4.15% in the green.

PART IV: OPPORTUNITIES IN 2026: REAL ESTATE

1. REAL ESTATE: GET READY TO REFI! In order to improve housing affordability, President Trump is mandating the purchase of $200 Billion of mortgage-backed bonds - to drive mortgage rates lower. The bad news is that it's market manipulation; the good news is that rates are indeed going lower: see the chart below. If you're carrying a high-rate mortgage from 2022 or after, you will likely have a great window of opportunity to refi. Remember: Trump wants rates lower and he's going to impose on the markets to make it happen. According to the chart on the next page, America will likely see a TIDAL WAVE of refi's this year because 6%+ mortgage rates in this country are plentiful. (This is also why I'm bullish on stocks into April, because Trump - not the free market - is pushing down rates.)





The share of 6%+ rate mortgages in America is now 21.2% of the total, the highest amount since 2015 - and higher than sub-3% mortgages. The refinance boom - and more money to spend - is coming.

PART IV: OPPORTUNITIES IN 2026: TAXES & FINANCIAL PLANNING

2. TAX GIFTS APLENTY Trump has thrown his name onto buildings, golf clubs, casinos, silk ties, fragrances, steaks, wine, media - even the Holy Bible! It's only fitting that Trump would throw his name onto your tax cuts and child investment accounts. If you're over the age of 65, make sure you take advantage of your official "Trump tax cut", which is an extra $6,000 to your standard deduction (subject to phase-outs), only available for the next 3 years while Trump is in office. You can also deduct $1,000/$2,000 on any charitable contribution - even if you don't itemize!

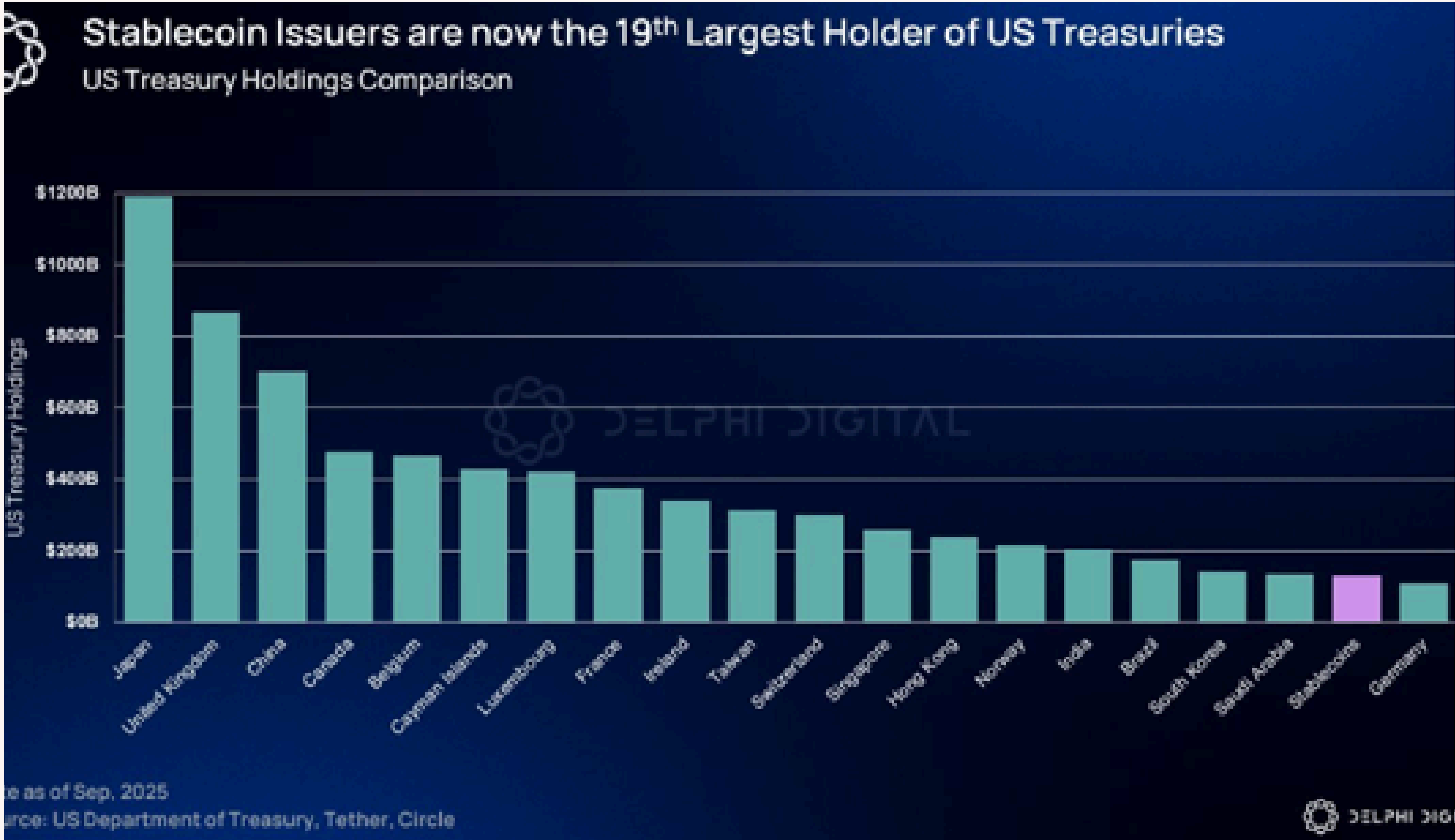
   "TRUMP ACCOUNTS' FOR CHILDREN: Later this year, you will be able to open a tax-advantaged investment account for every child below the age of 18. If your child is born during Trump's time in the White House, 2025 - 2028, then the Federal government will chip-in $1,000. You can open the account by filing **IRS Form 4547** and *participating* employers can make a non-taxable contribution up to $2,500 - ***it's free money***! Try to utilize these tax gifts now - because there's a real chance that taxes go higher into the next decade in order to alleviate our mammoth federal debts and deficits - which brings me to my next point.

3. FINANCIAL & TAX PLANNING: The next few years will be volatile in the stock market, which is why I believe financial & tax planning will be critical to optimize your wealth. For clients who are approaching retirement, complementary strategies such as 'Backdoor Roth Contributions' and 'Roth IRA Conversions' will keep money in your pocket over the long term. If you're approaching 65 and on Medicare, watch out for IRMAA taxes, which I can help you plan for. Let's have a conversation this year about how to **PLAN** to reduce taxes and make your assets work for you.

PART IV. OPPORTUNITIES IN 2026: CRYPTOCURRENCIES

CAN STABLECOINS ALLEVIATE U.S. DEBT? I won’t make any Bitcoin predictions in 2026 after my “wall of shame” prediction of 2025, in which I wrongly stated Bitcoin would hit $165,000. After a wimpy end to 2025, I have a minimal exposure to Bitcoin for a few riskier clients and I’m happy with that. I prefer Ethereum and I have a small exposure for a few clients. I may increase exposure if there’s a significant catalyst in 2026. For now, I’m waiting for a better time to buy in. Stay tuned.

The most important thing to know about stablecoins is that they’re becoming a major buyer of U.S. debt - **which helps to keep interest rates lower**. Stablecoins are digital dollars and to confer real value, they are backed 1:1 by U.S. Treasuries. Without getting into the details, this means stablecoins hold almost $200 billion of US debt and that amount is likely to grow. Stablecoins are built on the Ethereum platform which is why I remain bullish long-term on ETH. However, all this stablecoin purchasing of US debt comes with major risk (see page 31 for more details.)



PART V: RISKS IN 2026: GREENLAND

A. GREENLAND! After a quick operation in Venezuela, Trump got bold and is now threatening to take Greenland 'one way or another.' This threat may be the greatest market risk of 2026, with downside market potential of 30%+, in my opinion. A legitimate purchase of Greenland is inconsequential - and a big U.S. victory. But a U.S. military maneuver on Greenland would be a colossal foreign policy disaster and make the invasion of Iraq look savvy, mostly because it may signify - for the time being - the end of NATO, perhaps the most successful geo-political alliance in human history.

Trump says Greenland is vital for national security, from the threat of China and Russia. But Russia is a pit bull that acts like a bear and China's Navy can't sail past Taiwan. Russia can't even take next-door neighbor, Ukraine, and, ***logistically***, China would be hard-pressed to seize neighboring Taiwan, much less faraway Greenland. Thus, if Trump invades and NATO dissolves, Putin would dance in the streets and China may have a window of opportunity to threaten Taiwan, which - if that also happens (unlikely) - could easily cause a market plunge of 40%+. Greenland represents a risk I cannot ignore in 2026!

According to this chart, betting odds on Polymarket estimate a 15% chance that Trump acquires Greenland by force or negotiation before 2027. However, the Polymarket odds of a Trump *invasion* on Greenland stand at 10%. *I personally believe the odds of a Trumpian military move on Greenland are about 50% in 2026.* Trump has made the threat - we should take him at his word.

The only way Trump acquires Greenland is by negotiation or purchase. The market won't let him use military force because it will plunge too quickly and sharply - and Trump will back off.

PART IV: RISKS IN 2026: THE DARK SIDE OF LOW RATES

President Trump views low interest rates as a sort-of universal good. He has gone as far as to prosecute Fed Chairman, Jay Powell, for his reluctance to slash rates lower. It is a foregone conclusion that the next Fed Chair will be a pawn on Trump's chessboard to lower rates, stimulate growth and make America great, as he understands it.

But there is a dark side to low interest rates. And I'm surprised that no one in Trump's inner circle is telling him that. For example, we know in hindsight that the low rates - and cheap mortgages - that came out of the 2000 DotCom Bubble and the 9/11 terrorist attacks spawned a real estate bubble, and a 2008 Great Recession. What could come next?

Well, do you recall what I wrote on page 29 about ***stablecoins***? These digital coins buy U.S. Treasuries to the tune of about $200 billion and counting - in order to provide real value to their digital existence. Currently, U.S. rates are relatively high, meaning stablecoin companies such as **CIRCLE, CRCL** make billions in risk-free revenue to provide 'backing' for their coins. What happens if Fed funds rates are suddenly slashed to, say, 1%, and Treasury yields plunge? In that case, CIRCLE's revenue plunges, and the entire stablecoin industry could, in theory, wobble. (This is a very simplistic analysis of some complicated economics - but it's a legitimate concern.)

A greater risk with ultra-low U.S. rates is Japan. An estimated $20 trillion in assets exists from low rates that prevailed in Japan against higher rates in America; the so-called **'yen carry trade.'** Traders borrowed yen currency at rock-bottom rates in order to convert yen into dollars with which to buy stocks, real estate, bitcoin or any number of high-yielding assets. It was free money! But, like a virus, Japanese interest rates have recently sprung to life and surged higher (see the chart on the next page.) If U.S. rates move lower, that may suddenly wipe out the carry trade - and $20 trillion could theoretically be unwound.

JAPAN: “THE LAND OF THE RISING RISK”, cont’d

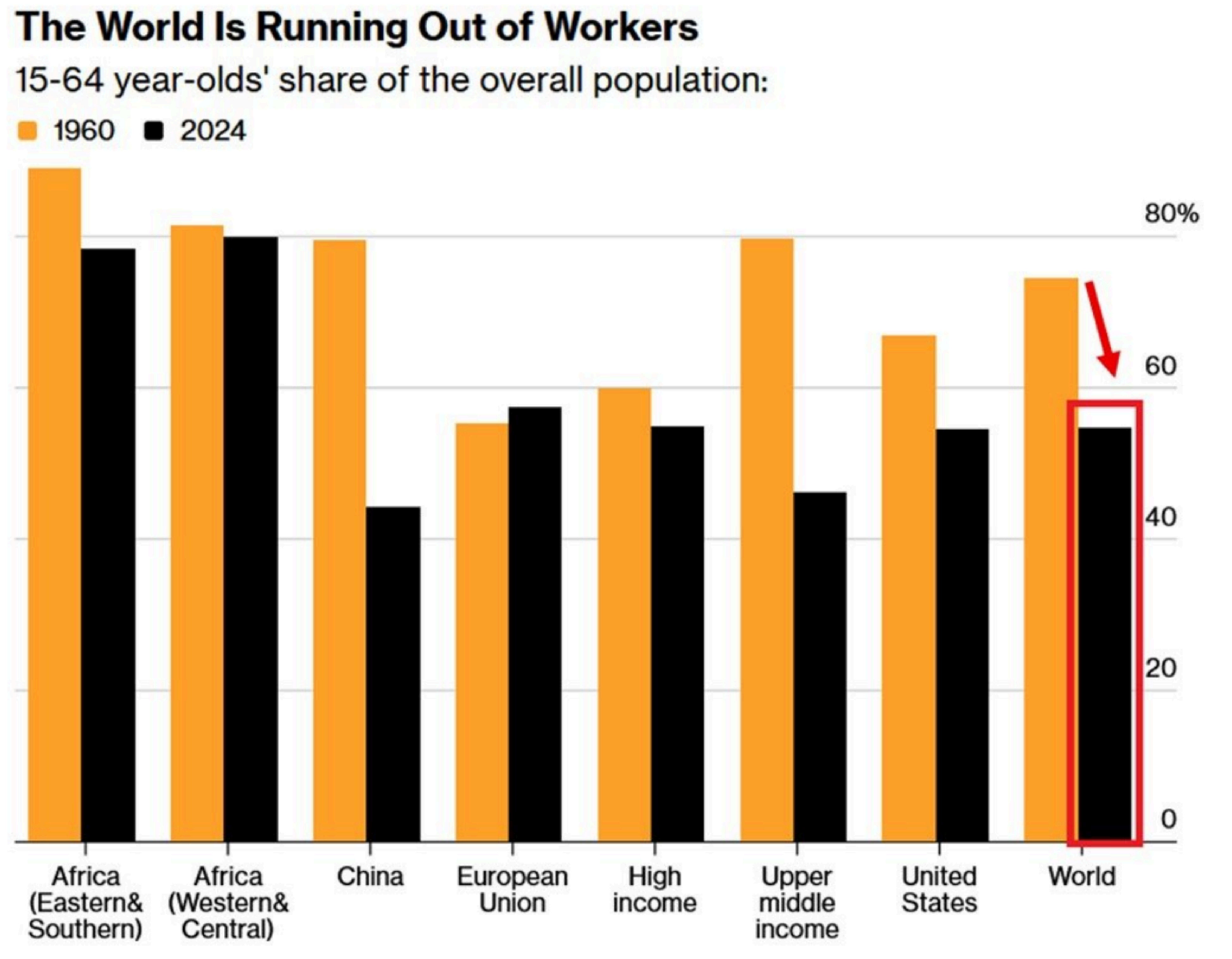
After WWII, Japan converted its mighty military machine into an industrial machine. By the 1980's, their economy was thriving and the NIKKEI (Japan’s market index) was near 40,000. But by 1990, Japan’s bubble burst, the economy slumped for decades during which the Japanese central bank aggressively cut interest rates to jump-start the economy. By the year 2000, 10-year Japanese bond yields were below 2%. Borrowing in Japan was cheap! Smelling an opportunity, Western investors borrowed in cheap yen in order to invest in high-return assets like stocks. They made out like bandits!! Alas, after 25 years, Japan’s borrowing costs are now rising, reaching levels last seen in 1998 - as this chart shows. If the U.S. cuts rates too low, too fast, then the ‘spread’ advantage between Japanese/U.S. borrowing narrows and investors may have to “force-sell” U.S. assets to pay back Japanese banks.

This may all sound complicated but the bottom line is this: the more this chart - of Japanese 10-year interest rates - moves higher, the more problematic things become in the U.S. marketplace, especially if the Fed slashes rates in the Spring. Stay tuned.

PART IV: RISKS IN 2026: DEBT & DEMOGRAPHICS

C. **HIGH DEBT, BAD DEMOGRAPHICS** We all know the story: America - and the world - has too much debt at the worst possible time: in an age of worsening demographics. With some $320 trillion in total global debt, the world needs more young people, not fewer. This will be a worry in 2026 - ***and especially into the next decade***. Places like China - which for decades has been the workforce for the world - are seeing brutal population pressures - as the chart below shows. China is ramping up its robotics workforce to keep their factories humming, but will the Chinese build robots at scale to offset population decline? Elon Musk says “yes.” After his ill-fated DOGE calamity, Musk now says government policy can’t fix the debt crisis, but that a productivity boom - inspired by the “quasi-infinite labor” of A.I. powered robots - may do the job. Elon may be right, but then again, he promised MAGA voters that he’d slash federal deficits by $2 trillion. Meanwhile, U.S. debt surges to $38 trillion and counting.

The bottom line is that the mathematical reality of the debt spiral upward/demographic spiral downward will one day outweigh the innovation potential of A.I. We may see tremors of this fear in 2026 - but I believe the years 2028 - 2032 is when it really gets scary. With Santa Trump giving away tax cuts and proposing to increase defense spending to $1.5 trillion, the math only gets worse. I will have a lot to write about this major problem over the next few years.



FINAL THOUGHTS: THE WORLD AFTER 2026

This 2026 report has been longer than I expected, so I will keep this last topic short - just two pages. I have tried to layout the many risks of 2026 - and how many of these risks may spill over into the 2030's. I'm concerned about U.S. debt and demographics. I'm concerned about the loss of Fed Independence and about geopolitical risks in Greenland and Taiwan.

And I'm very concerned about inequality in America. As this chart shows, US workers receive the smallest slice of the American economic pie since the BLS began collecting data after World War II, a time when soldiers returned from the war - and the middle class thrived for a few decades. It's likely that A.I. innovations exacerbate this inequality in the near term. I'm not here to propose any policy solutions but this chart is an unsustainable path forward for America - and it will harm our economic health.

It is for the many reasons I've explained in these pages that I believe we will see an extended, multi-year period of economic malaise, particularly around 1928 - 1932. But it's not all bad news.... (please see the next page.)

FINAL THOUGHTS, cont'd

The Great Depression of 1929 - 1934 was a time of furious innovation and cultural change. Advancements in the automobile, in aerodynamics, in medicine and antibiotics and in radio helped changed America and the world. Let's not forget that the neutron was discovered in 1932, from which was spawned the atomic bombs that we dropped on Japan.

On the political front, Congress came together to pass numerous pieces of legislation that curbed the speculative excesses of "the Roaring 1920's," introduce Social Security and help pave the way for a stronger middle class (to be sure, many of these laws from the 1930's have spawned their own problems today, but that's a different matter.)

My point is that I believe the pace of innovation will continue - even if there is some kind of prolonged Great Recession. If done properly, the advancements in tech and A.I. may give us better healthcare, better solutions to climate change, clean, abundant energy and, by 2040, a lower cost of labor that benefits more of the workforce. The days of long commutes in which we drive to work, working 9 to 5 in stressful jobs, living paycheck to paycheck may possibly - just possibly - be a thing that is mostly in the past. Mostly in the past, but not entirely. But still, progress.

If Americans can find a way to come together, put aside a few ideological differences and find common ground to build a better country for more Americans - which may include measures such as sensibly raising taxes on mega-profitable corporations like Nvidia - then I believe this kind of world is possible.

People who know me should know that I have always been more of a realist, not an optimist. I'm realistic that, later this decade, the economy may turn ugly; but I believe - with a healthy serving of hope - that we all come out stronger. By 2040, America and much of the world can embrace our common humanity and make the planet great. Again.

THANK YOU FOR READING AND FOR YOUR SUPPORT

Thank you for reading and for all your support and friendship. I'm grateful and blessed to have my business and to 'be my own boss' so that I can publish this report under my name, with my own genuine, heartfelt thoughts and concerns, written directly for you, my clients, friends, family and associates.

You are always welcome to call me with any questions, concerns, clarifications, grammatical corrections, agreements, disagreements or anything else that is discussed in this report.

Quick Announcements:

1. I will be travelling to Miami for my father's 83rd birthday and also to Costa Rica for a business trip/vacation. Thus, my next newsletter won't arrive until the week of February 8 - and mercifully, it will be much shorter. :-)
2. My client surveys will arrive on April 1, from which I look forward to hearing from my clients on what I'm doing well and what I could be doing better.
3. My next CLIENT DINNER at True Food Kitchen, Pasadena is scheduled for Tuesday, May 26, 2026.

Thank you and have a wonderful New Year ahead.

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