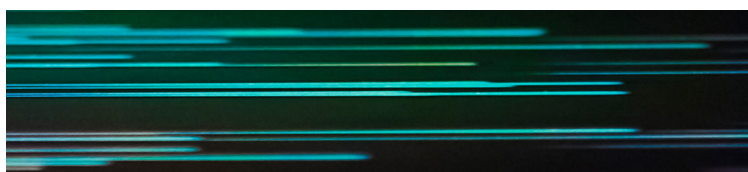
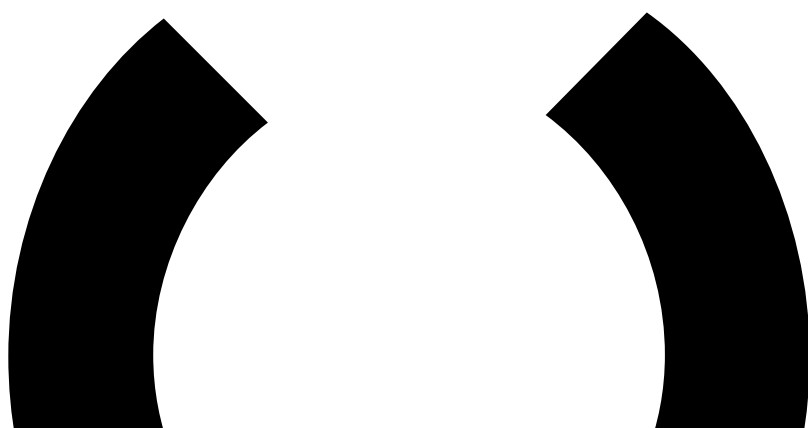
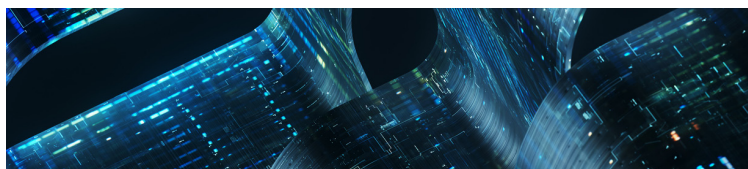


THE CHIEF INVESTMENT OFFICE PERSPECTIVE



THE **SHORT** AND LONG

2026 Q4 Macro Investment View





THE **SHORT** AND LONG

2026 Q4 Macro Investment View

INVESTMENT PRODUCTS: NOT FDIC INSURED • NOT CDIC INSURED
NOT GOVERNMENT INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

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FROM THE CIO

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¹³ YEAR
IN REVIEW

¹⁴ RISKS ON
OUR RADAR

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CONSTRUCTION

INTRODUCTION FROM THE CIO

As I sit down to write at the end of September, I'm struck by how much noise investors navigated since we published our first *Short & Long Quarterly Macro Investment View* in January. Geopolitical conflict, policy uncertainty, and swarms of rogue AI agents have repeatedly shifted the market narrative.

But not every headline changes the investment outlook, and not every risk deserves a portfolio response.

The CIO team focuses on identifying the developments that genuinely change the investment landscape and finding opportunities that volatility and uncertainty may create. **Our job is to separate signals from noise and seek resilient portfolios grounded in fundamentals.**

The fourth quarter will test that discipline again. The U.S. midterm elections and two live Fed meetings before year-end will generate plenty of noise on their own. Central bank decisions in Europe and Japan, the ongoing wars in Iran and Ukraine, trade agreements and tariffs, and Brazil's October election will add to it.

But here are the three major questions I will be focused on that matter for markets and portfolios:

-
- | | |
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| 01 | Will higher sustained energy costs translate into broader inflation even as central banks tighten policy? |
|----|---|
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- | | |
|----|--|
| 02 | Can earnings continue to outrun the multiple drag from higher rates? |
|----|--|
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- | | |
|----|---|
| 03 | Can companies demonstrate measurable returns on AI investments and prove the capital expenditures (capex) skeptics wrong? |
|----|---|
-

Our baseline: strong growth, high rates

We remain firmly pro-growth and pro-risk into year-end, even as we expect volatility to stay high. We are bullish, but not complacent. Growth and earnings remain resilient, but inflation, higher rates, and geopolitical risks reinforce the need to seek resilience in portfolios.

Corporate fundamentals remain sound. In the second quarter, the S&P 500 reported record margins and 32% adjusted earnings per share (EPS) growth, the strongest earnings season on record outside of post-recessionary recoveries. While Consumers, particularly in the U.S., continue to spend despite persistently weak confidence surveys. We expect earnings growth, not expanding valuations, to drive equity returns as they have throughout 2026. Higher rates will continue to pressure multiples, so companies will need to deliver.

We also remain firmly on the higher-for-longer side of the rates debate. We have consistently argued inflation remains above levels the Fed can comfortably tolerate, and the path for policy rates points *higher*. Bond yields have moved dramatically this year, validating our underweight to duration. We see little reason to reverse that call or add to bonds even at current yields. That makes the search for other sources of portfolio resilience even more important.

We continue to hold gold as a portfolio ballast, particularly while long-term bonds offer less reliable diversification. But our commodities exposure is not simply defensive. We also see diversified natural resources as a source of inflation resilience and a way to participate in the physical investment required to support economic growth, infrastructure, and the AI buildout, which we discussed previously in our [Q3 Macro Investment View](#).

Building portfolios for what comes next

On September 24, we reinforced our preference for equity risk. We added to U.S. large caps, where we see a robust combination of macro and fundamental support, as well as to Japan and our cybersecurity theme. We funded these additions by reducing our overweight to U.S. securitized fixed income, where tight spreads offer limited compensation for rate volatility.

See our latest portfolio positioning [here](#).

In the [Q3 Macro Investment View](#), I highlighted our 3 D's: discipline, diversification, and dynamism of modern portfolio construction. 2026 has been a case study in why we believe this approach matters and we return to them deliberately this quarter, because they will guide the next phase of our asset allocation work:

Discipline: Economic and policy regimes change, but the need for a structured framework does not. We anchor portfolios in fundamentals rather than headlines.

Diversification: True diversification requires breadth across distinct sources of return, not simply a long list of assets that move together. A different label does not necessarily mean a different risk.

Dynamism: Markets evolve, and portfolios need to evolve with them. In the months ahead, we will roll out more dynamic asset allocation guidance, with dynamism at its center.

The diversification point deserves particular emphasis this quarter. Investors need to understand what their portfolios actually own. Adding more funds, strategies, or securities does not automatically create diversification. Different investments can ultimately express the same underlying risks.

Nor should investors diversify simply for diversification's sake. We are comfortable with concentration when it reflects a deliberate investment decision. What we want to avoid is unintended concentration that only becomes apparent after a shock. When we take more risk in a theme, geography, factor, or asset class, we want to understand that exposure, size it appropriately, and know how it interacts with the rest of the portfolio.

When concentration is deliberate

AI is today's ultimate example. Clients often ask how they should diversify away from AI. But concentration in a powerful secular growth theme is not inherently a problem if appropriately sized.

Imagine asking a management team how it plans to use technology to innovate, improve productivity, and drive future growth. If the answer were "we don't," would you consider that company a good diversifier, or question its competitiveness? Across industries, a credible plan to leverage AI has become table stakes.

At the same time, the opportunity increasingly extends beyond the most obvious AI winners. The AI trade is becoming an AI economy. The investment cycle reaches companies that supply technology, power, infrastructure, and capital, as well as businesses across industries that use AI to improve productivity, margins, and growth. That broadening creates potential opportunities, but it also requires investors to distinguish between spending and returns, hype, and earnings.

Technology now gives investors far greater visibility into these underlying exposures. That makes portfolio look-through more powerful and more practical. Good diversification starts with knowing what you own, understanding the risks you are taking, and deciding deliberately which ones you want. When we construct portfolios, our objective is not to eliminate risk, but rather to take the right risks in the right size.

As we enter the final stretch of 2026, five core convictions guide our positioning:

01 Growth remains resilient and economic expansion should continue.

We expect continued growth, while inflation and labor-market conditions keep pressure on policymakers to tighten. Good growth does not guarantee easy markets, but it gives investors a reason to stay invested.

02 AI is broadening, not ending.

The next phase will increasingly focus on who monetizes AI and who benefits from the enormous investment required to build and deploy it. We will focus on companies that can convert investment into stronger businesses and higher earnings.

03 Higher rates change the portfolio math.

Bonds still have a role, but investors should not assume duration will automatically provide either strong returns or hedging from equity volatility. The investment environment has changed, and portfolios need to reflect it.

04 Diversification needs to diversify.

Owning more assets is not enough. We want exposures with genuinely different economic and market sensitivities, including commodities.

05 Static portfolios are increasingly inadequate.

Markets, policy, correlations and opportunities change. Portfolios should change with them.

A handwritten signature in dark ink that reads "Kate" in a cursive, elegant script.

Kate Moore
Chief Investment Officer,
Citi Wealth



**Conrad
DeQuadros**

Head of Economics,
Citi Wealth

KEY TAKEAWAYS

The last mile on inflation is proving the hardest

MACRO OVERVIEW & FOCUSES FOR Q4

- 01 Underlying inflation measures suggest progress toward central bank price stability objectives remains stalled in 2026.
- 02 The monetary policy backdrop completed the swing from expected rate cuts to actual rate hikes as the Fed and ECB raised rates for the first time in three years.
- 03 Elevated inflation, central bank rate hikes, and a stronger growth outlook pushed global sovereign bond yields higher.

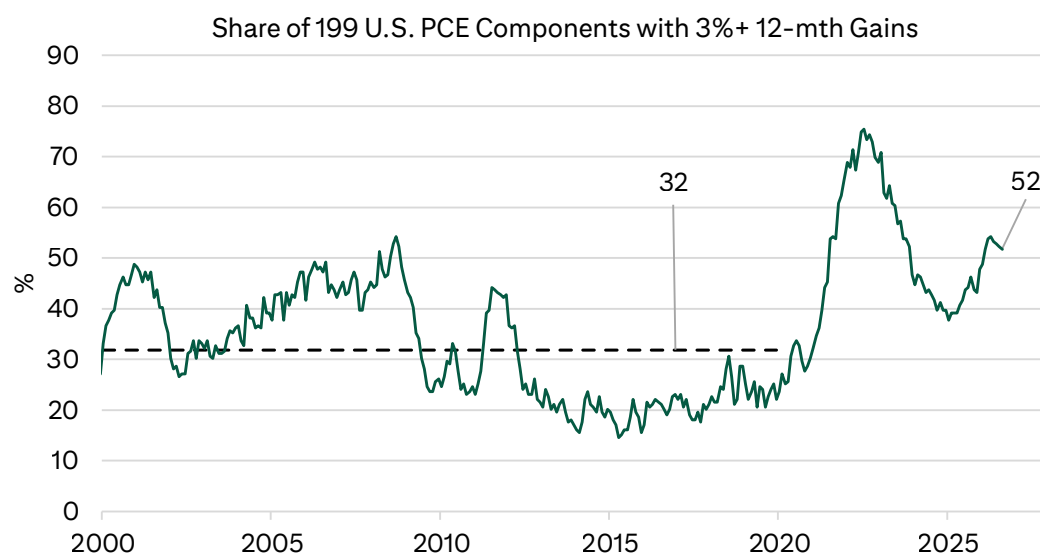
The inflation narrative shifted sharply during 2026. Investors began the year expecting inflation to moderate enough for most major central banks to cut rates. We disagreed and argued elevated underlying inflation could constrain central banks' ability to ease policy. The Iran war then produced an energy shock that pushed prices sharply higher and raised fears of a renewed inflationary surge.

We look beyond both headline and core inflation rates and assess the breadth, momentum, and distribution of price changes. The Fed uses a similar approach with Chairman Kevin Warsh stating in his Jackson Hole speech, "To try to gauge underlying inflation, I find it instructive to disaggregate the 199 individual components of the PCE price measure."

Using Warsh's version of this breadth indicator, 52% of goods and services in the Personal Consumption Expenditures (PCE) basket showed 12-month price increases above 3% in August (**Figure 1**). This is well above the average of 32% in the two decades that preceded the Covid pandemic¹. We constructed a similar metric for the Eurozone and observed that the share of Consumer Price Index (CPI) components with price increases above 3% in August 2026 was more than double the average share before the pandemic (**Figure 2**).

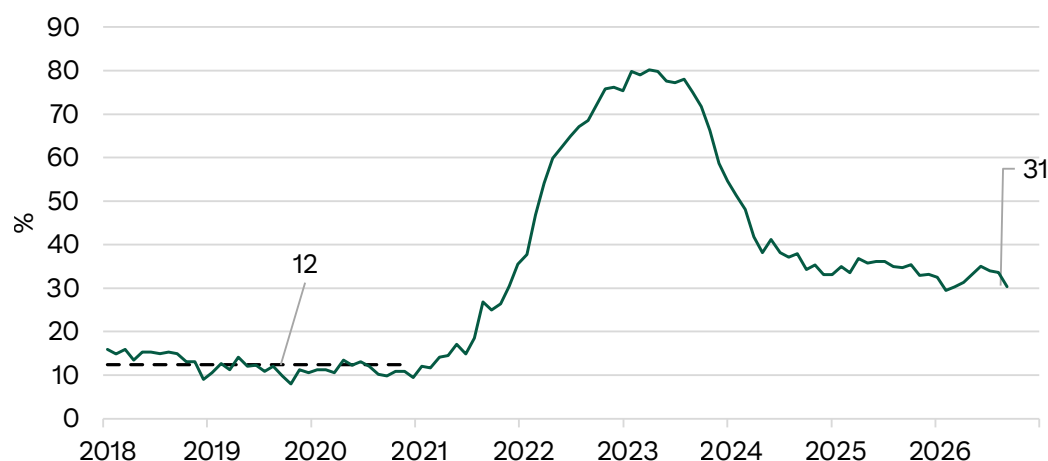
FIGURE 1 & 2

Inflation breadth has narrowed but is not back to normal



¹The Covid-19 pandemic started in January 2020 and was officially declared over by the World Health Organization in May 2023.

Share of 274 Eurozone CPI Components with 3%+ 12-mth Gains



Source: Haver Analytics as of September 30, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

Corporate pricing behavior also points to broad and more rapid price growth. In the five years before the pandemic, respondents to the CFO Survey² projected average year-ahead price growth of 1.9% compared to 4.5% expected price growth in the latest survey, conducted in August and early September. In the Eurozone, the ECB's 2Q Survey on the Access to Finance of Enterprises (SAFE) shows corporate selling price expectations of 3.2%, while expected year-ahead output prices in Japan's TANKAN September survey stand at 3.5% versus 0.6% between 2015 and 2019. These measures make it difficult to conclude that inflation will converge sustainably to 2% without greater restraint from monetary policy.

From expected cuts to actual hikes

Monetary policy expectations have followed these inflation developments. At the beginning of 2026, interest rate futures markets priced in a European Central Bank (ECB) on hold, but multiple rate cuts by the Fed and Bank of England (BoE) this year. We argued that labor market stability and inflation dynamics did not make a case for additional easing. By summer, our view had shifted further: we expected the Fed's next move to be a hike rather than a cut.

The data subsequently strengthened the case for tighter policy. The labor market remained solid, but inflation failed to show progress toward the Fed's price stability objective. Ahead of the September Federal Open Market Committee (FOMC) meeting, we argued monetary policy remained too easy relative to prevailing growth and inflation conditions and that the Fed should raise rates. On September 16, the FOMC voted unanimously to raise the federal funds target range by 25 basis points to 3.75%–4.00%. The Fed's own projections now signal higher-for-longer rates more clearly than they did three months ago.

The ECB and Bank of Japan (BoJ) also raised rates this year, but we would not extrapolate these actions into another 2022-style tightening cycle. The starting point differs as monetary policy is less accommodative (**Figure 3**), and inflation is less widespread than in 2022. Instead, we expect incremental tightening designed to finish the job of returning inflation to target. Stable labor markets allow central banks to focus on price stability, while persistently above-target inflation encourages policymakers to tighten.

Modest additional monetary policy tightening needs do not undermine equities if earnings and productivity continue to expand. A stronger productivity outlook also helps explain higher U.S. yields: real yields, not inflation breakevens, account for almost all of the rise in Treasury yields from this year's lows. Aside from periods of central bank yield repression via Quantitative Easing, real yields tend to track potential growth, and productivity is an important driver (**Figure 4**).

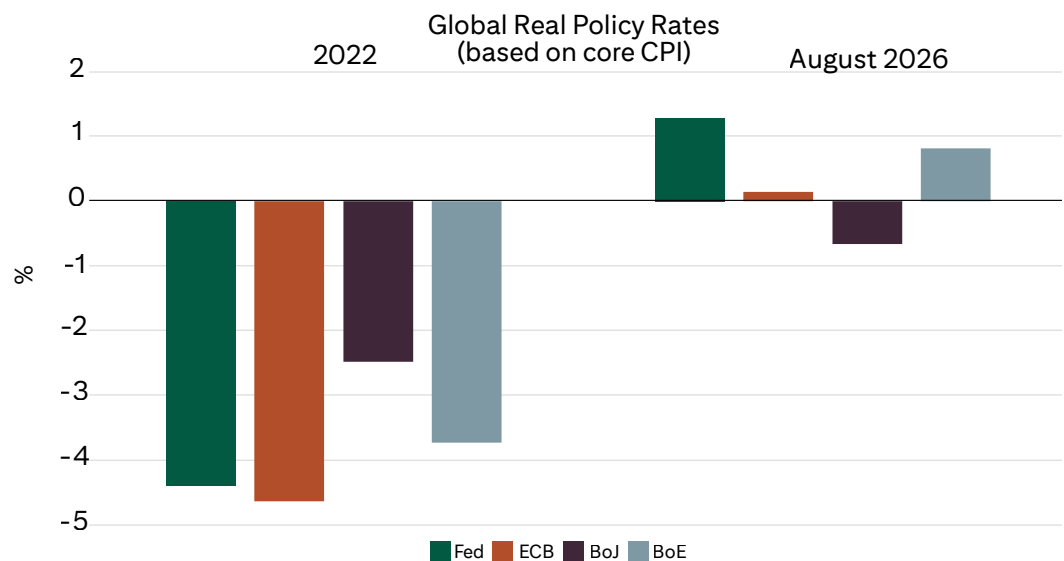
² Federal Reserve Bank of Richmond. (September 23, 2026). [The CFO survey](#).

Outside the U.S., higher inflation breakevens have played a larger role in lifting nominal bond yields. But we are not convinced that bond markets offer adequate compensation for inflation risk. That view, combined with resilient economies and an improved trend growth outlook, underpins our cautious view toward bond market duration.

The last mile toward central bank inflation targets is proving more difficult than policymakers and markets anticipated at the start of 2026. As a result, policy rates are likely to remain higher for longer. But moderately less accommodative monetary policy, alongside resilient growth, is different from the inflation and policy shock of 2022. That combination continues to favor shorter-duration fixed income, while strong fundamentals support selective exposures to risk assets. For investors, the question is not whether to stay invested but where returns may emerge as the cycle evolves.

FIGURE 3

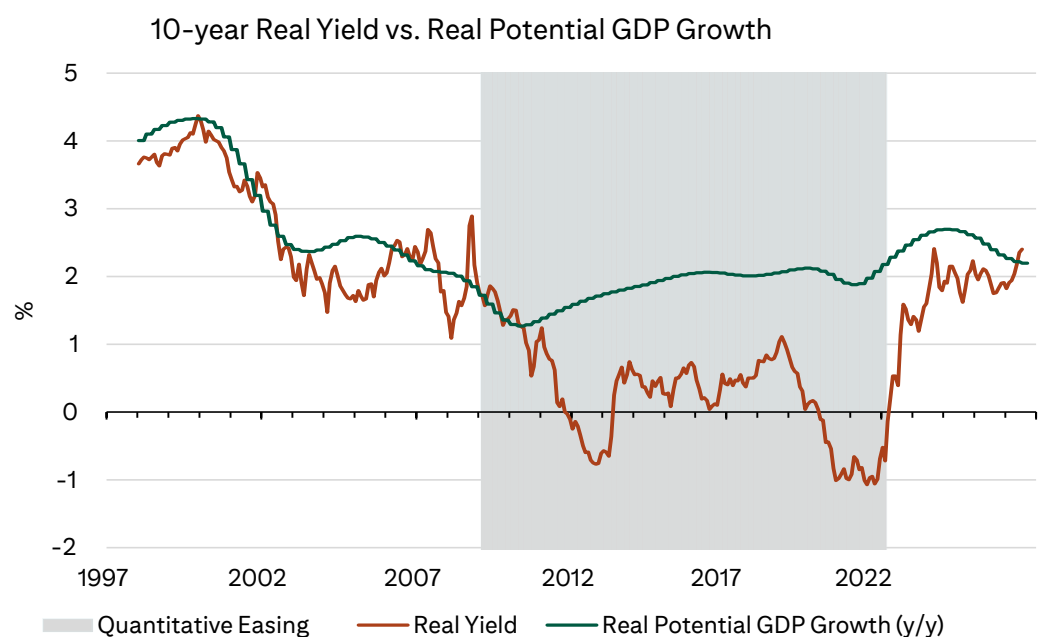
Central banks start from a less accommodative position than in 2022



Source: Haver Analytics as of October 1, 2026. Past performance is no guarantee of future results. Real results may vary.

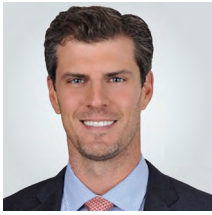
FIGURE 4

Real yields realign with potential growth since quantitative easing ended



Source: Haver Analytics as of September 30, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

SECTION 3



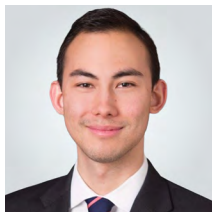
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Hobey Kuhn

Macro Portfolio
Strategist, Citi Wealth

INVESTMENT THEMES AND OPPORTUNITIES



KEY TAKEAWAYS

-
- 01 The AI investment cycle is evolving, and a higher cost of capital requires more scrutiny regarding the next dollar invested.
-
- 02 We stay invested in U.S. large caps for exposure to semiconductors and hyperscalers despite valuation volatility.
-
- 03 We complement core exposure with targeted AI themes: the Physical AI supply chain and cybersecurity.
-

CORE THEME:

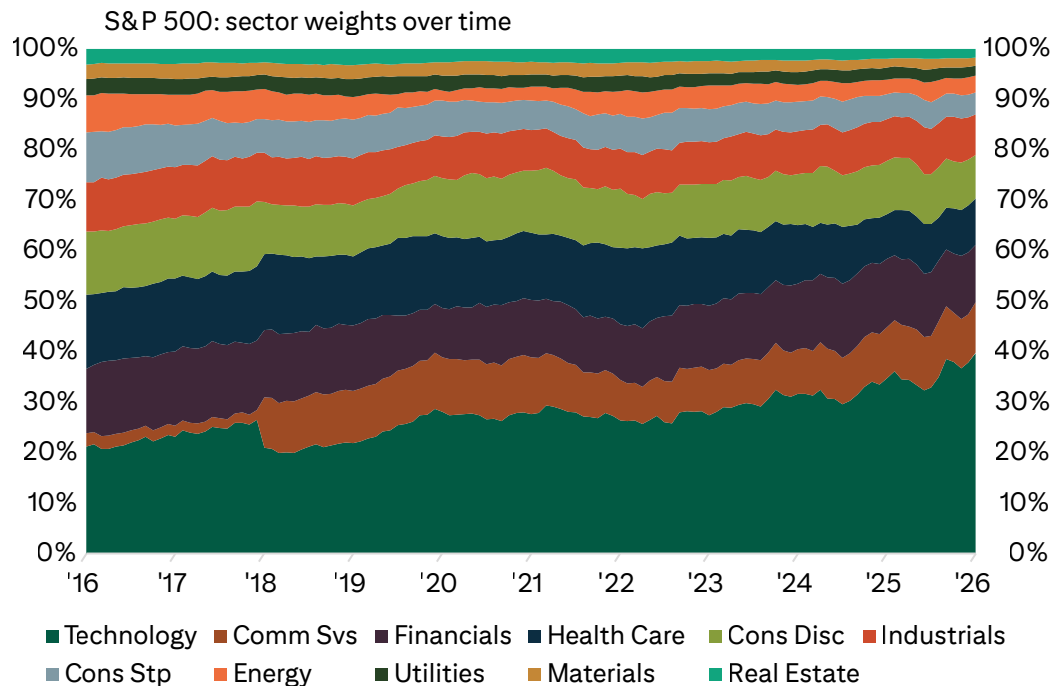
**The AI cycle is evolving
and so are the potential
investment opportunities**

The AI investment cycle continues to strengthen, but the return on each incremental dollar faces greater scrutiny. Higher interest rates raise the hurdle for long-duration projects, while capable open-weight models, regulatory pressure, and rising infrastructure costs intensify competition.

Market concentration has increased the AI exposure embedded in portfolios. Technology companies alone now represent roughly 40% of the S&P 500's market value, twice their 2022 share, and drive 53% of expected 2026 earnings growth (**Figure 5**). Many of these AI-related companies have also issued upwards of \$200bn in combined investment-grade debt to finance the next phase of AI investment.

FIGURE 5

Technology continues to grow in share and importance for U.S. equities



Source: Bloomberg as of September 30, 2026. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

Big Tech has also turned to roughly \$300bn in off-balance sheet Residual Value Guarantees (RVGs) and Special Purpose Vehicles (SPVs). These structures warrant scrutiny, but they do not necessarily signal late-cycle distress. As the cycle matures, borrowers naturally seek to lower their cost of capital and amplify return potential.

Despite growing noise around the AI buildout, the signals we track keep us constructive on this multiyear cycle, which we believe remains in its early-to-middle stages. Semiconductor demand continues to outpace near-term supply, U.S. core capital goods orders rose in the first half of 2026, and AI-related exports also continue to lift growth in countries like South Korea and Taiwan. The case for investing the next dollar in the theme, however, increasingly depends on earnings delivery and the ecosystem's ability to convert AI adoption into durable cash flow. So, where do we see that cash flow emerging?

THEME:

Staying invested in semiconductors and hyperscalers

Rising noise and regulatory scrutiny has prompted investors to ask whether they should rotate or diversify away from AI exposure. Our answer remains consistent with our [Q1 report](#): We do not rotate for rotation's sake or diversify simply to add diversification.

We continue to favor diversified semiconductor exposure as a core holding and a key pillar of our U.S. large cap overweight. We also favor hyperscalers, which enter the next phase from a position of strength. Their vertical integration across large language models (LLMs), compute infrastructure (data centers), and chips strengthen their competitive advantage.

Semiconductor demand remains strong and continues to outpace near-term supply, but markets have already rewarded many of the most visible beneficiaries. As a result, we expect the outsized returns of these AI-spending beneficiaries delivered in recent years to narrow from here.

From ChatGPT's launch on November 30, 2022³, through the semiconductor index's June peak, the broad semiconductor index delivered 57% annualized return⁴. Valuation expansion initially reflected the earnings opportunity, and earnings subsequently more than doubled over the same period to 4% as investors anticipate slower growth in future capital spending⁵.

³ November 30, 2022, OpenAI launched ChatGPT as a free "research preview" chatbot. The launch triggered a wave of competition and interest in LLMs.

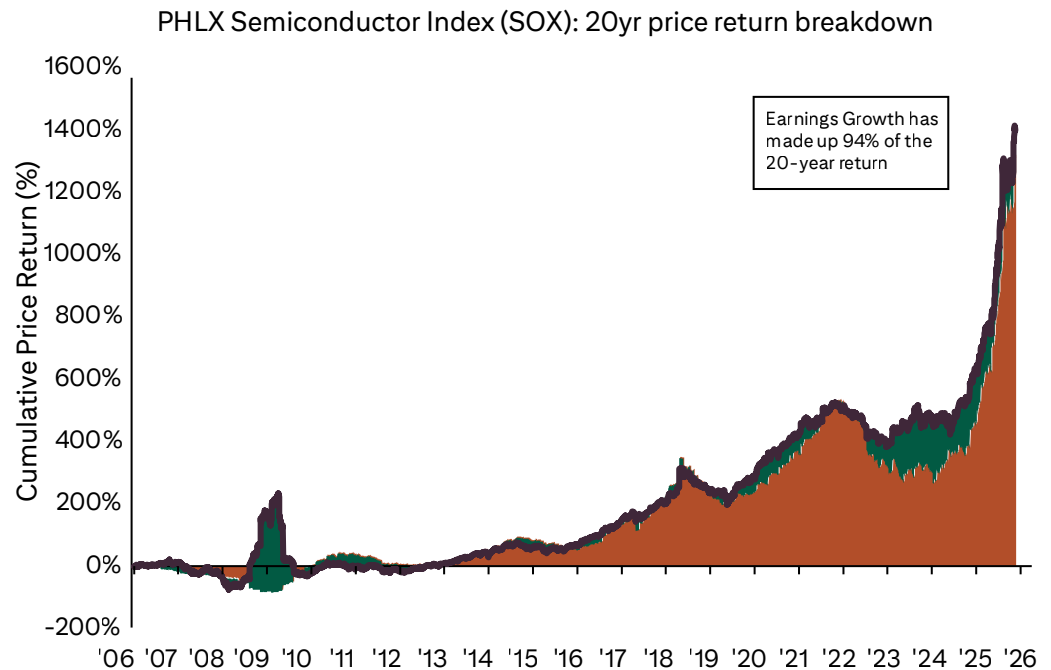
⁴ Factset as of September 30, 2026.

⁵ Bloomberg as of September 30, 2026.

We believe semiconductors across compute, memory, and networking remain core components and potential beneficiaries of the AI capex buildout for years to come. They will also likely remain at the center of future technological waves, as they have been for prior ones, which their long-term earnings growth reflects (**Figure 6**). However, investors have likely captured the “easy” gains from this infrastructure cycle. The next phase demands a more granular investment approach, a key tenet of our Physical AI supply chain theme we discuss below.

FIGURE 6

Semiconductors: A fundamental powerhouse for Tech advancement



Source: Factset as of September 30, 2026. Price return breakdown separates an index’s price change by the portion driven by earnings growth and the portion driven by changes in valuation multiples. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees, or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

Hyperscalers represent another key driver of U.S. equity performance and seek resilient exposure within the AI ecosystem. Their cloud infrastructure, customer relationships, software distribution, and growing silicon capabilities create multiple ways to capture value and optimize spending across the technology stack. Strong balance sheets also provide flexibility as they incorporate more debt into their financing mix. Still, scale alone cannot guarantee returns. AI revenue and productivity gains must ultimately justify rising capital investment.

Because hyperscalers focus on owning the compute infrastructure rather than frontier models, we believe they are well positioned to capture incoming revenue as agentic AI takes off. If frontier model development slows, they still are poised to benefit from owning most of the existing compute infrastructure on which legacy models run. If public opposition results in slowing data center development, they are still likely to benefit from owning the existing data centers.

Overall, our overweight to U.S. large cap equities provides exposure to what we view as a strong combination of macro and fundamental support, as laid out in the Macro Overview section above. Semiconductors and hyperscalers make up 39% of the index, making them essential components for any U.S. equity allocation.

We remain comfortable owning these companies as the AI cycle progresses. However, matching the returns of recent years will likely require greater selectivity, and we believe our existing themes explored in the next section target those more focused opportunities.

Potential risks:

- A slowdown in AI capital spending. If hyperscalers scale back spending plans, or AI revenue fails to keep pace with investment, semiconductor demand could fall and valuations could reset quickly. The index's decline since June shows how fast markets can reprice when capex expectations soften.
- Supply catching up with demand. New manufacturing capacity, inventory buildups, or more efficient AI models could erode semiconductor pricing power and margins. Rising debt and off-balance-sheet financing could also leave hyperscalers less flexible if returns take longer to arrive than investors expect.

THEME:**Re-underwriting
differentiated exposure
to AI**

As the AI investment cycle matures, we expect greater dispersion between winners and losers. Key vulnerabilities include software providers without proprietary data moats, hardware providers unable to defend margins as technologies and supplies evolve, and legacy businesses at risk of disintermediation by autonomous agents. We navigate this growing dispersion through high-conviction exposure to Physical AI and Cybersecurity.

We believe a compelling, relatively nascent area of opportunity within the AI cycle is its deployment into the physical economy. Companies operating across heavy physical industries, such as manufacturing, logistics, agriculture, and transportation, stand to benefit substantially from embedding AI into their operations, much in the same way the services sector is already seeing productivity gains from AI assistants. For instance, AI/autonomous systems remain a minority: 90% of tasks in manufacturing are still done by pre-programmed robots. This transition will require significant capital allocation toward industrial automation, autonomous robotics, edge sensors, industrial software, and advanced machinery, creating a durable tailwind to profit growth for the enablers of these technologies.

In parallel, we reaffirm our conviction in cybersecurity as a major beneficiary of the AI buildout. Generative and agentic AI amplify the threat landscape by allowing attackers to identify vulnerabilities, launch targeted campaigns, and operate at machine speed. In fact, AI-enabled attacks rose 89% year-on-year in 2025, the time it takes for an attacker to move from one compromised machine to another fell to just 29 minutes, and 82% of intrusions involved no malware. Governments and enterprises must therefore respond with equally sophisticated defenses, turning cybersecurity into an essential and sustained investment priority. Companies providing AI-native threat intelligence, identity protection, cloud security, and automated response capabilities should enjoy a stepwise uplift in demand, underpinned by mission-critical stickiness and resilient recurring revenue streams that remain insulated from broader IT budget fluctuations.

While these themes guide where we see opportunity today, we believe it is equally important to assess how our views have played out and the lessons they offer for positioning ahead.

Potential risks:

- Slower adoption than expected. Industrial customers may move more slowly from pilot programs to scaled deployment, given long equipment cycles, integration costs, and workforce constraints. Higher interest rates could also delay capital-intensive automation projects.
- Cyclical exposure. Many Physical AI enablers serve manufacturing, logistics, and transportation customers whose spending tracks the broader economy. A growth slowdown could weigh on orders, even if the long-term theme remains intact.

YEAR IN REVIEW

We launched The Short and Long to hold our views to a clear standard. After four quarters, we believe our core calls on rates, policy, U.S. leadership, and gold largely played out, while our small-cap caution proved too early.

As we look toward 2027, four themes remain central:

- Remaining underweight duration while inflation remains top of mind for investors,
- Keep gold as a ballast and strategic diversifier,
- Stay selective within AI, and
- Follow the AI buildout's bottleneck into power.

These themes continue to guide our positioning and frame the risks we are watching most closely heading into the year ahead.

MACRO AND MARKET VIEWS

View	What played out
Favoring U.S. equities over Europe	We argued Europe's 2025 gains came from multiples, not earnings, and cut European equities for U.S. large caps in Q2. Since we made the asset allocation change in April 2026, U.S. equities have outperformed.
Underweight duration	We argued for higher policy and long-term rates in December 2025, amid "recession risk" headlines. Resilient growth, sticky inflation, and fiscal deficits drove long-term yields higher. The 10-year U.S. Treasury yield has moved 1.25% higher since then and as of October 5, 2026. We plan to stay underweight until recession risk rises materially
Hawkish policy risk	Markets swung from pricing cuts to pricing hikes in Q2. The ECB hiked in June, and the Fed and BoJ followed suit in Q3.
Equity risk over credit risk	Tight spreads offered little compensation. Private credit later faced elevated redemptions and gates.
Gold as a strategic diversifier	From our June 2025 entry to April 6, 2026, gold outperformed global long-duration fixed income despite a tougher 2026 as real rates rose globally. Fiscal and geopolitical risks keep us confident.
Large caps over small caps	We expected higher rates to weigh on small caps. Rates rose, but strong growth supported small caps more than we expected.
Rotate EM debt into short U.S. Treasuries	We exited our theme in EM debt in mid-March as spreads failed to price growth risk. Since then, EM debt has modestly underperformed U.S. short-term treasuries. We may revisit EM debt as an idiosyncratic diversifier.

INVESTMENT THEMES

Theme	Launched	Where it stands
Natural resources	December 2025	Open. We tactically exited our view on copper miners before the start of the Iran war and exited our theme in energy equities into the geopolitical rally. We then reiterated the case for diversified natural resources and commodities exposure as a medium-term diversifier in Q3.
Energy security and infrastructure	Q2	Open. Capital spending strengthened, and we extend the theme into power constraints this quarter.
Physical AI	Q2	Open. We continue to watch for the shift from pilots to scaled deployment.
Cybersecurity	Q3	Open. We followed the launch with a standalone thematic piece.

RISKS ON OUR RADAR

We enter the final quarter of 2026 with a crowded risk calendar.

U.S. midterm elections. A new Congress could set different paths for fiscal, trade, and regulatory policy.

Geopolitics beyond the U.S. Energy infrastructure in the Middle East remains fragile, Brazil holds a closely contested general election, and a busy slate of European elections follows in 2027. Leadership changes may shift policy paths globally as well as in the U.S.

Long-term rates. We watch Treasury auction demand and the 10-year yield as it tests new thresholds. A disorderly move higher could pressure equity multiples and rate-sensitive assets.

Broadening inflation. Inflation that spreads beyond energy and food could force more aggressive tightening and a stagflationary environment, which challenges both equities and bonds.

AI financing and IPO supply. Circular financing, capital spending plans, and a heavy pipeline of large AI listings could test investor appetite and absorb capital from existing holdings.



**Olaolu Aganga**

Head of Portfolio
Construction &
Analytics, Citi Wealth

KEY TAKEAWAYS

PORTFOLIO CONSTRUCTION

-
- 01 Diversification should be measured by underlying risk exposures, not by investment structures.
-
- 02 In a portfolio context, a key AI question is not whether you have exposure, but whether you are being adequately compensated for it.
-
- 03 Liquidity and opportunity cost deserve renewed scrutiny.
-

One of the most common questions we've been getting recently is how to improve portfolio diversification. Sometimes the diversification question is about the market and sometimes it's about how to diversify exposure beyond the AI theme. The most common misconception is that changing the wrapper - moving an allocation from a drawdown fund into an evergreen vehicle - or from a single-strategy fund into a multi-strategy one or even changing asset classes inherently diversifies the portfolio. It does not, if the underlying asset class or company exposure and the return drivers behind it remain the same.

For example, AI is increasingly becoming a cross-asset theme rather than a single-sector investment opportunity. In public equities, AI exposure is often concentrated in semiconductor manufacturers, hyperscaler cloud providers, software firms, and companies enabling the compute infrastructure required to train and deploy AI models. In fixed income, AI is emerging through corporate issuers funding large-scale capital expenditures in data centers, networking infrastructure, and energy capacity, while credit investors are also assessing which companies can improve margins and cash flows through AI adoption. In private markets, venture capital and growth equity firms continue to fund AI-native businesses, while private infrastructure and real assets are benefiting from rising demand for digital infrastructure, power generation, and connectivity that underpin the AI ecosystem. As a result, many investors already have meaningful AI exposure embedded within their portfolios, whether intentionally or indirectly.



In our view, a key question for investors is not whether they have AI exposure, but whether they are maximizing expected returns per unit of that exposure. AI enthusiasm has driven significant capital toward a relatively narrow set of beneficiaries, creating valuation dispersion across markets.

Genuine diversification requires seeking out truly uncorrelated, idiosyncratic sources of return and strategies whose performance is driven by distinct, identifiable factors rather than a repackaged version of beta the portfolio already owns. Prudent risk management requires asking the question: “What is the actual driver of this return, and do I already own that driver somewhere else in the portfolio?”

Liquidity has also been incredibly valuable in today’s environment where public equities have delivered outsized returns, and cash and short-duration fixed income now yield levels unseen in over a decade. The reality is that combination has raised the opportunity cost of committing capital to illiquid strategies meaningfully, where every dollar locked away for over a decade is a dollar not compounding in a liquid, high-returning asset class. Private markets in particular have the additional headwind where distributions from prior private markets vintages slowed materially, as exit markets (IPOs, strategic sales, sponsor-to-sponsor) remain subdued relative to the deployment pace of 2020 – 2021. The result is a cash-flow mismatch: capital calls continue while Distributed to Paid-In Capital lags, leaving investors more exposed, more concentrated, and less liquid than their original underwriting assumed. Whilst this isn’t an argument against private markets, it is the reality for many clients and calls for re-underwriting the opportunity cost and liquidity assumptions embedded in every investment. For suitable and qualified investors, evergreen vehicles have made the space more accessible, with periodic redemption windows, but structural liquidity should not be mistaken for a substitute for underwriting discipline. Whether it’s equity, credit or real assets, discipline is required to look-through to the exposures before concluding that a portfolio is genuinely diversified, rather than merely diversified in name.

We believe investors should undertake a comprehensive review of underlying portfolio exposures to identify unintended concentrations and ensure capital is allocated according to their investment objectives, risk tolerance, and their highest-conviction investment themes and opportunities. Portfolios should also be strategically repositioned toward differentiated sources of return while maintaining an appropriate liquidity profile aligned with long-term objectives and future capital deployment needs.

GLOSSARY

Agentic AI	AI systems that plan and carry out multistep tasks on their own.
Big Tech	The largest technology companies by market value.
Capital Expenditures (Capex)	Funds a company or government spends to buy, build, or upgrade long-term physical assets such as equipment, facilities, and infrastructure.
Cloud Infrastructure	The hardware and software that deliver computing power, storage, and networking over the Internet.
Compute Infrastructure	The processors, servers, memory, and networking equipment that supply the processing power to train and run AI models.
Data Centers	Facilities that house the servers, storage, and networking equipment that power digital services, and that require large amounts of electricity and cooling.
Data Moat	A competitive advantage a company builds from proprietary data that rivals cannot easily copy or buy.
Disintermediation	The removal of intermediaries from a transaction, such as when borrowers raise money directly from investors instead of through banks.
Edge Sensors	Devices that collect and often process data at or near its source rather than in a central data center.
Frontier Models	The most advanced AI models available at a given time.
Hyperscalers	Cloud providers that operate massive data center networks and can rapidly scale computing, storage, and networking for millions of users.
Large Language Models (LLM)	An AI model trained on vast amounts of text to understand and generate human language.
Mega-cap	A company with an exceptionally large market value, typically \$200 billion or more.
Physical AI	AI that perceives and acts in the real world through machines.
Physical Economy	The parts of the economy that produce and move tangible goods and energy.
Residual Value Guarantees (RVGs)	Contractual promises that an asset, such as data center equipment or a leased property, will be worth at least a set amount at the end of its term. The guarantor covers any shortfall, which shifts the risk of a drop in value away from the owner or lender.
Social Engineering	A cyberattack method that manipulates people, often through deceptive emails, calls, or messages, into revealing sensitive information or granting access.
Special Purpose Vehicles (SPVs)	Separate legal entities that companies create to fund or hold specific assets or projects, which keeps the related debt and risk off the parent company's balance sheet.

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