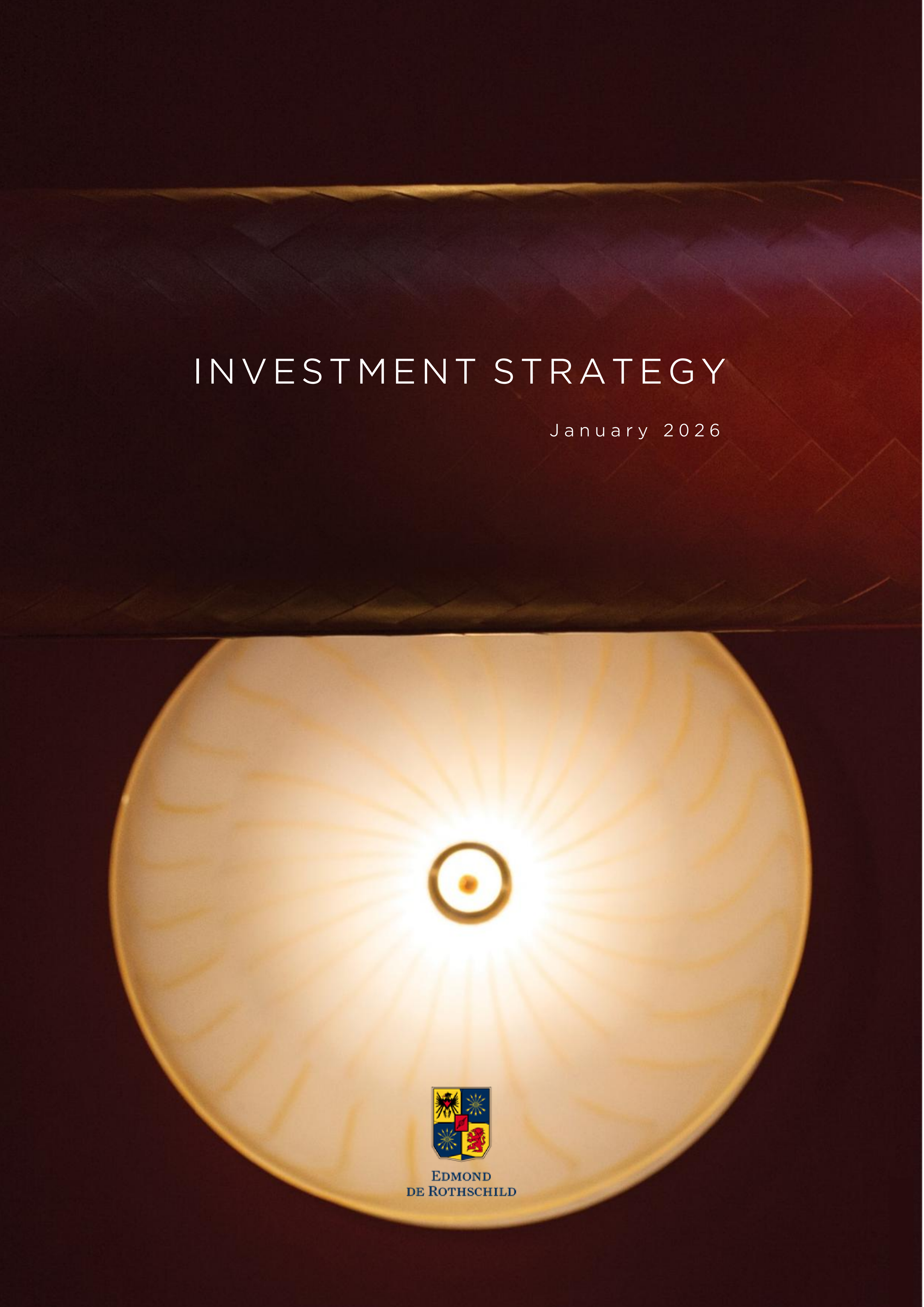
INVESTMENT STRATEGY

January 2026



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THE HIGGS FIELD

2025 is drawing to a close on yet another broadly positive note for almost all asset classes. Equities delivered strong gains and, this time, performance was not confined to the United States. European and emerging market equities also enjoyed an impressive run. The US dollar stands out as the main drag on performance. Market records, however, were once again set by gold, now trading nearly 70% above its end-2024 level, following what had already been a very strong year in 2024.

More recently, the entire precious metals complex has accelerated. Silver and platinum prices have doubled, and this momentum now appears to be spreading to industrial metals. Copper rose by 40% in 2025, with nearly two-thirds of that increase occurring in the final quarter of the year.

A rapid rise in commodity prices is often a signal of an accelerating investment cycle—and all indications suggest that 2026 will be no exception. Rearmament, reindustrialisation, automation, power infrastructure and, of course, the boom in artificial intelligence are converging into a large-scale CAPEX [1] cycle across developed economies and China alike.

TURNING MONEY INTO MATTER…

The Higgs field theory was conceived in 1964 to explain the very existence of the physical world.

If the universe was originally composed solely of energy—heat, light—nothing explained how physical matter could exist. A missing element was required to justify why particles that should be massless actually possess mass—and, by extension, why planets, living beings and everything we define as physically real truly exist. It was not until 2012 that CERN researchers in Geneva proved the Higgs field theory to be correct. Their discovery revealed the existence of an invisible yet omnipresent field, capable of transforming energy into matter. Particles entering this field slow down, acquire structure and allow reality to take form.

[1] Capex : Capital Expenditure – investment spending

We refer to this major scientific breakthrough because it offers a remarkably accurate metaphor for what lies ahead in financial markets in 2026.

A vast amount of liquidity that has so far circulated primarily within the financial sphere—pure energy—is about to pass through a Higgs field and take tangible form in the real economy.

In particular, the massive cash reserves held by large technology companies will be deployed to create very real, large-scale industrial structures: hyperscalers—the data centres underpinning the computing infrastructure required for artificial intelligence to expand far beyond today's language models such as ChatGPT.

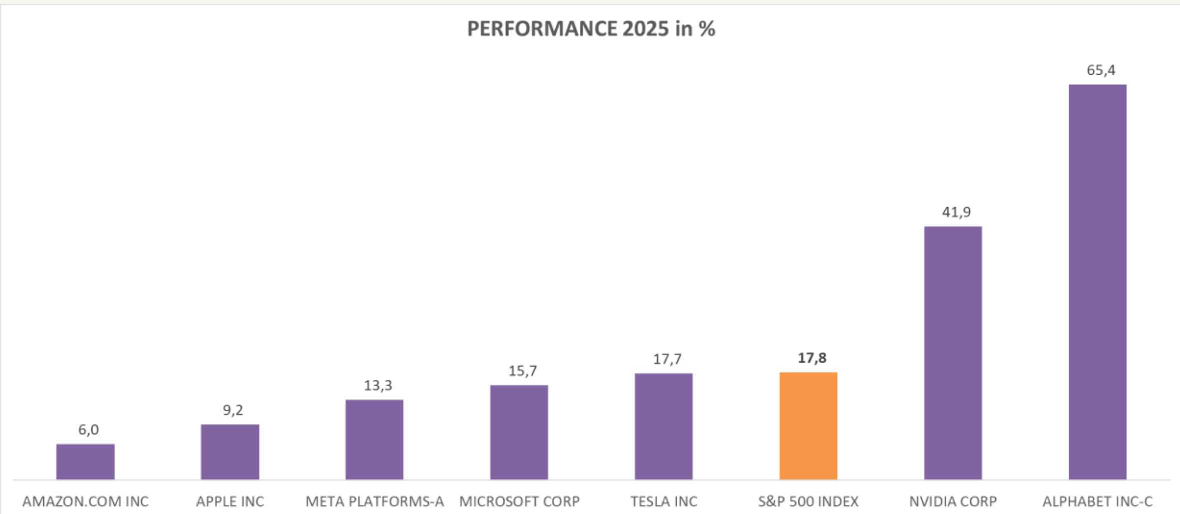
The ultimate objective is to give concrete reality to ideas long confined to imagination: autonomous vehicles, robotics, missile-defence systems, autonomous combat drones, automated audio and video content generation, chatbots, and accelerated medical and scientific discovery. These decisions are far from neutral for market pricing dynamics.

In recent months, US technology giants—the so-called Magnificent 7[2]—along with several software companies, have announced AI infrastructure projects amounting to tens of billions of dollars. Financing such undertakings will require enormous monetary resources and funding channels commensurate with the often pharaonic scale of these projects.

While the profitability of these investments remains the subject of intense debate, one point is becoming increasingly clear: the quality of these companies' balance sheets will deteriorate. Rising debt levels, declining cash positions and a mechanical reduction in return on capital are unavoidable. Share buyback programmes—long a key driver of shareholder returns—are also likely to be curtailed. It is therefore reasonable to anticipate a deterioration in valuation multiples. The era of unchallenged dominance by Big Tech in US equity markets, and their overwhelming outperformance versus other listed assets, appears to be drawing to a close.

Should we speak of an "AI bubble"? We do not believe the question is relevant at this stage, as earnings growth continues to support price appreciation. However, the concentration risk represented by the Magnificent 7 within equity indices is very much a current issue, and in our view, index concentration has reached its peak. Notably, only two of the seven companies outperformed the S&P 500 this year.

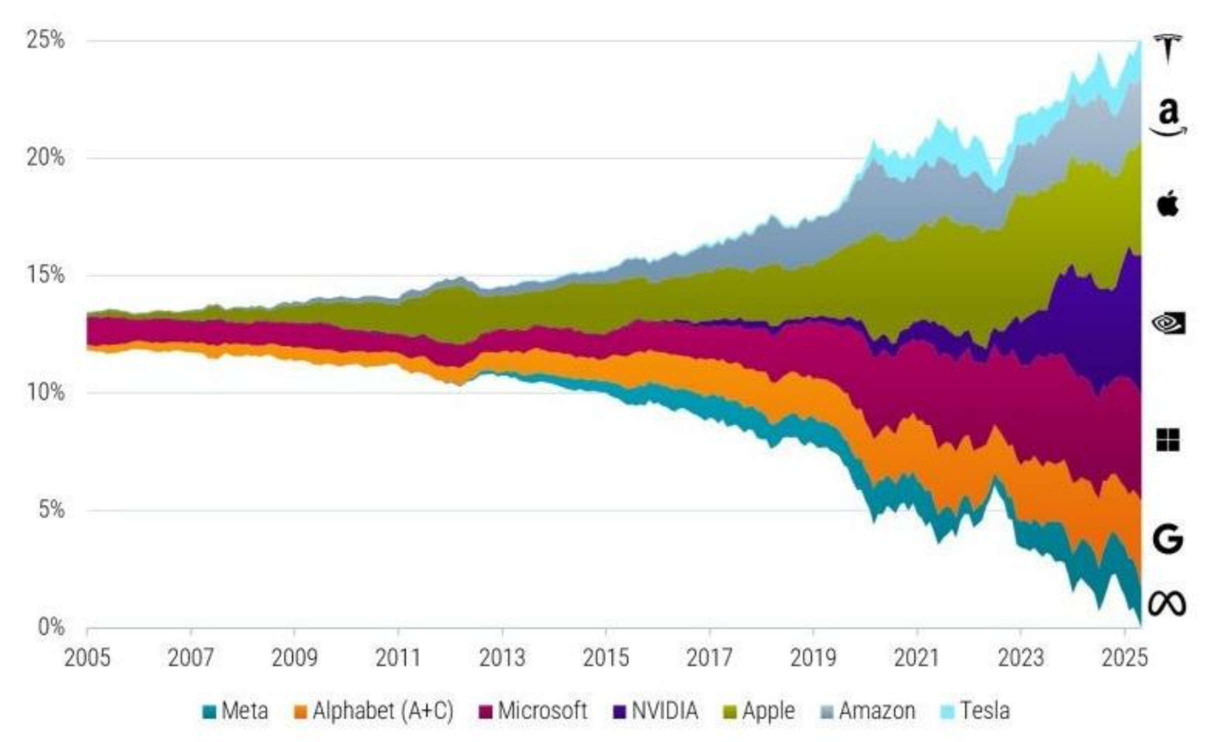
This trend is likely to persist. To generate performance next year, we are therefore shifting our focus away from the Magnificent 7 themselves and toward the beneficiaries of their capital expenditure



Only 2 of the 7 Magnificent 7 are outperforming the S&P 500 index this year (as of 26/12/2025). Source: Bloomberg, Edmond de Rothschild Monaco

[2] Magnificent 7: the 7 "Magnificent" companies that dominate the U.S. stock market: Amazon, Apple, Alphabet, Meta, Microsoft, Nvidia, Tesla.

Evolution of the Magnificent7's share in the MSCI World Index



The Magnificent 7 alone now account for 25% of global market capitalisation. We believe 2026 should mark a turning point, leading to a more diluted market structure. Source: Bloomberg, Edmond de Rothschild Monaco

As liquidity flows out of financial markets and into the real economy—combined with a heavy investment cycle of still-uncertain profitability—we are moving away from the giants and following the trail of their spending. Cybersecurity, electrical equipment and grids, and semiconductor manufacturers are the primary beneficiaries of the CAPEX cycle and, in our view, among the most likely market winners. These are the sectors we favour as part of our diversification away from the MAG7.

A MATTER OF STATE—AND BANKS…

Investment and independence in artificial intelligence are now strategic priorities for both the United States and China. No other country appears capable of competing with these two superpowers, and the rest of the world will likely be forced to choose between their respective technological ecosystems.

This ambition is accompanied by a reshoring of factories and investment onto US soil. By shortening depreciation periods for equipment, the government is incentivising corporate investment while implicitly forgoing certain tax revenues.

Governments are entering this investment cycle burdened by already high levels of public debt—typically exceeding 100% of GDP. Meanwhile, commitments related to pensions, healthcare, security and now national defence increase the likelihood that developed economies and China will continue to run budget deficits above 5% of GDP for several more years. In all likelihood, these expenditures will be financed primarily through an increase in the money supply rather than higher taxation of the private sector.

THE BANKING SECTOR: THE HIGGS FIELD OF THE ECONOMY

To ensure that government financing proceeds smoothly, policymakers have recognised that commercial banks will play a central role. In the United States, several measures are expected to be implemented from early next year:

- Banking reforms aimed at reducing reserve requirements for financing short-term government bonds
- A Treasury strategy focused on issuing predominantly short-dated debt to attract banks, which favour such assets
- Increased interbank liquidity via a broad reserve expansion programme by the Federal Reserve

These factors lead us to believe that bank earnings will be well supported in 2026, with equity prices likely to follow suit. The outstanding performance of European banks (+90%) and Japanese banks (+45%) in 2025 illustrates what can occur when conditions align favourably for the sector. Yield curve steepening is typically the engine of such rallies. The Federal Reserve's shift toward rate cuts is, in our view, a very positive signal in this respect.

INVESTMENT STRATEGY

The equity market rally that began in September 2022 has now lasted nearly 40 months, driven by exceptionally favourable liquidity conditions and an unfolding technological revolution. While the cycle is relatively mature, unlike previous cycles, its longevity does not prompt us to rotate from equities into bonds. Instead, we favour reallocation within the equity segment of portfolios. While we are not particularly concerned about the Magnificent 7, they no longer appear best positioned to outperform indices. The recent resurgence of metals, banking stocks and smaller companies reinforces this view.

Markets often say that "prices are set at the margin." While governments will continue to borrow, the pace should slow compared to last year, mainly due to lower short-term interest rates easing debt-servicing costs. Governments will remain the primary source of financing demand. However, after years of disciplined balance-sheet management, corporates will return to higher leverage in 2026, marginally weakening their financial profiles—and it is this marginal shift that ultimately drives prices. Liquidity is therefore moving from financial markets into the real economy. It is passing through the Higgs field and giving rise to massive industrial projects, with the private sector contributing heavily to financing. As more money flows into the real economy, less liquidity remains to support financial asset valuations. The fuel stored in markets—monetary liquidity—is being injected into a productive engine, and banks are the Higgs field through which this transformation occurs. We therefore favour banks across both equity and fixed-income allocations.

In credit markets, extremely tight spreads—previously reflecting corporate financial discipline—are likely to widen. This leads us to maintain short duration, increase credit quality and take advantage of still-attractive carry. Overall, we expect another positive year, but one in which performance is driven more by earnings growth than by multiple expansion or risk-premium compression.

One thing, however, remains certain: even as money flows into the real economy, monetary inflation will remain a central theme in 2026 and beyond. Rare assets such as gold are indifferent to the source of liquidity growth—whether public or private. What matters is the pace of expansion. For this reason, we continue to hold gold positions within portfolios.

"*The Higgs field is the reason why something exists rather than nothing*."— Brian Cox (British physicist.)

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