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Dear Clients and Friends,

Once again, we will divide this annual outlook, **THE BIG PICTURE 2026**, into several sections: The Good, The Bad, and The Ugly, as well as add two additional sections: Gold and AI, before our brief Conclusion. This year I thought about seeing what **AI** might produce for us, such as college students writing term papers, or PhD candidates their thesis we understand might be doing these days. So, I asked our new AI buds Chat and Clod (C&C): "What's the Good, Bad, and Ugly for 2026, and what might be the Big Beautiful going forward?". We gave C&C our last three years Big Picture letters for format and content, and thus their personalization in their conclusion and then we offer *our* final 2026 Conclusion for going forward.

RATHER THAN INCLUDING ALL OF THE AI STATISTICS GENERATED, this will be an attempt to give you a brief summary of AI's (C&C's) thoughts. Following the **AI**, will be our usual annual collection of thoughts from **RI**…called "Real Intelligence" from some good friends who spend their workdays studying geopolitical events and market charts, and then writing their daily, weekly, monthly analysis to subscribers. So, let's get started, with AI (Artificial Intelligence) first, then RI (Real Intelligence), followed by both Conclusions.

THE GOOD (AI)

GLOBAL AND US INFLATION IS DOWN, and central banks are reducing interest rates. Economic growth is tenuously resilient, and earnings should grind higher. There will be big investment spending in data center infrastructure that will add support to GDP. AI will drive a significant productivity boom. The stock market will follow earning increases upwards. Added domestic oil production of 1 m barrels increasing to perhaps 2 or 3 will drive oil down under $50 a barrel. $10 Trillion now parked in money funds could partially reenter the stock market with wider equity participation beyond the Magnificent Seven AI related stocks.

THE BAD (AI)

INTEREST RATES WILL REMAIN HIGH and be a drag on home buying and consumer indebtedness. The US debt will exceed $40 trillion by year end. AI equity valuations may contract. Office vacancies will depress commercial real estate and the banking/lending industry. The China slowdown will impact global commerce. Tariffs could increase inflation while unemployment puts downward pressure on wages. Foreign sources may look to alternatives to the US dollar as a reserve currency. Holders of long-term treasury maturities experienced losses of 50% from 2020, hurting banks and bond holding retirement accounts. There is concentration in a handful of mega cap stocks that could impact the weighted indexes adversely when sold.

THE UGLY (AI)

RECIPROCAL TARIFFS COULD HARDEN INTO DURABLE COMPETITIVE TRADING BLOCKS, increasing our import costs and inflation. We consider significant: the cyber security threats, insufficient power for the grids, banking asset quality and the market value of bank holdings of long-term bonds (vs what is reported by banks as the costs of the bonds), youth unemployment, risks of a cyber currency collapse, a potential China – Taiwan conflict. A China, Russia, North Korea, Iran "access of an upheaval" combination helping Putin's war efforts that could quickly extend beyond Ukrainian Borders; and Central Banks digital currencies could be a massive threat to individual freedom with unprecedented government control over citizens lives. Continuing: the derivatives market is a potential quadrillion time bomb; flood and water scarcity issues, political extremism and polarization, potential EMP attacks (natural or man-made), and authoritarian surveillance systems add to the list.

THE BEAUTIFUL (AI)

ARTIFICIAL INTELLIGENCE CAN USHER IN A NEW GOLDEN AGE OF PROSPERITY. It could eliminate scarcity for human needs, solve climate change, cure diseases and extend human lifespan dramatically to 150 years and could produce breakthroughs for treatments of cancer Alzheimer's and aging; create energy abundance through fusion power making electricity free; cause space access to become routine and affordable; and decentralized technology could restore economic freedom and prosperity. AI tutors can unlock human potential as well as the knowledge gap between the rich and poor. Automation will free humans from mundane labor, provide travel with autonomous vehicles. Hunger and malnutrition can be eliminated through vertical farming, precision fermentation, and cellular agriculture. Quantum computing solves humanities' most complex challenges. Brain computers interface world knowledge and global interaction with shared prosperity, as nation's find cooperation is more profitable than conflict with a new era of global peace. Generational wealth creation through ownership of technology stocks could continue as investors see returns that dwarf the Internet boom and unleash unprecedented entrepreneurial opportunities and social interaction. Modular manufacturing could make physical scarcity obsolete when clothing, shelters and tools can be 3-D printed.

CONCLUSION (AI)

THE NEXT FIVE YEARS COULD BE REMEMBERED AS THE "TURNING POINT" when humanity transitioned from a species struggling with scarcity to one blessed with abundance. We may be witnessing the early stages of a transformation as significant as the dawn of agriculture or the industrial revolution.

THE ROAD AHEAD REMAINS BUMPY but the AI revolution provides genuine cause for optimism in the near term. We are comfortable with broad market exposure over the next 12 months. A combination of unsustainable debt levels, geopolitical tensions and technological disruptions are reasons of concern. We should have a defensive strategy in place. Geopolitical instability is a top threat to the global economy. We are at a critical turning point. Uncertainty around the course of current conflicts, and their aftermath, is likely to remain in place and possibly escalate. Our INVESTMENT PLANNING AND MANAGEMENT GROUP motto seems even more appropriate today. CAPITAL RISK IS NEVER AT REST. NEITHER ARE WE.

COMMENT (RI)

AS WE OFTEN HAVE SAID, "If you manage the downside of a portfolio, the upside will take care of itself ". Our clients have embraced the mantra of being …comfortably uncomfortable-putting capital to work despite varied potential outcomes. In these unprecedented times risk management becomes more important than ever. Having a planned defense in place is a preferred strategy for the times. A combination of artificial intelligence advancement and massive structural imbalances will create both the greatest opportunities and greatest challenges of our lifetime. THE OLD-WORLD ORDER IS RAPIDLY GIVING AWAY TO SOMETHING ENTIRELY NEW. Whether this transformation occurs through marketing, politics or force of arms remains to be seen. What is certain is that the next five years will likely determine the course of human civilization for decades to come.

EACH YEAR, I keep a file of comments from several investment newsletter sources and refer to this collection when putting together our annual Big Picture. I have personally known and followed some of these writers that I will reference for as long as 40 years and occasionally speak to them as well to get their current perspective and thoughts. We will refer to them as **"RI"** (for "Real Intelligence") and let's hope this collection of visions can help us improve our perspective for 2026 and beyond. We'll begin again with:

THE GOOD (RI)

HOW IS THE MARKET STILL GOING UP?

1. THERE IS A COMPLETE DISREGARD FOR RISK after multiple V – shaped bottoms over the past five years that have created the widespread assumption that any market drop will only be temporary and go straight back up to new highs within weeks or months.

2. A COLLAPSING US DOLLAR that is falling in value due to inflation as well as relative to other occurrences (thus a preference for liquid investments other than dollars).

3. AMPLE LIQUIDITY and was boosted further by a recent reduction in short-term rates.

4. THE IMPACT OF MASSIVE INSTITUTIONAL STRUCTURED PRODUCTS and dealer hedging that are constantly adding to the buying.

5. A BUBBLE LIKE-LIKE OPTIMISIM in technologies like artificial intelligence and quantum computing.

6. EARNINGS CONTINUE TO COME IN ABOVE ARTIFICIALLY LOW FORECASTS set by analysts.

7. AN ECONOMY, BUYOED BY DE-REGULATION and sufficient spending from the highest deciles of earners despite worsening conditions for the lower deciles.

8. SHORT-TERM RATES ONLY MARGINALLY ABOVE INFLATION LEVELS, offering little incentive not to take risks.

9. THE JOBS MARKET, supported by the general exit of the baby boomers from the workforce.

10. A STRONG TECHNICAL UPTREND OF THE MAJOR INDICES, with no notable breaking of support levels.

11. SWELLING INVESTOR OPTIMISM after the worst-case scenarios were avoided and the sky-high tariff levels were walked back.

12. SHORT SELLERS BETTING THE TREND WON'T LAST, being then forced to cover (buy back) their mistakes

REGARDLESS OF WHAT IS MAKING IT HAPPEN; the bottom line is the market is not being given sufficient cause to sell or even stop buying. Yes, evaluations are at historical extremes, the economy is softening, and it feels somewhat is "wrong" for the market to just go up with no meaningful pullback. However, until either some black swan-ish event occurs or enough of these above positive forces are removed from the board, the market appears to be content to ignore any and all headwinds. The trend can certainly continue.

WE NEED TO SEE EVIDENCE THAT THE STATUS QUO IS CHANGING before we can have real conviction for a different outcome. As of now, the market is giving no sign that we are there yet. The markets have remained strong or near all-time highs. I take it to mean either the largest companies at the top will continue to have a disproportion impact on performance, or *each day we're seeing enough rotation* into a different set of leaders to keep the market afloat. (Saut Strategy 10/20/25)

IT'S HARD TO ARGUE AGAINST THIS KIND OF BROADER STRENGTH. It's healthy textbook action more so than those times of the recent past when it was only a handful of mega stocks doing all the heavy lifting. As long as that's the cause and no support is broken, the current status quo can remain in place no matter the reasons underlying it.

PARTICULARLY FOR THOSE WITH A LONG-TERM TIME HORIZON, the market action itself has provided little reason to turn overly defensive. If the data is negative, the market can talk itself into viewing it as positive since it means more rate cuts, while good news would indicate the economy is improving. Until it does fall, it will leave everyone asking the same question: how is the market still going up? *Andrew Adams, Saut Strategy, 10/6/25*

THE SECULAR BULL MARKET REMAINS INTACT, AND STOCKS SHOULD BE HELD AS LONG AS THAT IS THE CASE. The S&P 500 has gone pretty much straight up since the low that occurred around 4900 on the S&P 500 in April 2025. I hope to be able to time the trading top when it finally arises, but it should be just that, a trading top. Long-term, I continued to believe this secular bull market has years left in it. And that's the view I have embraced for a very long time. To be sure, there will be short/medium – term tops, and bottoms, but you should keep your eye on the longer term. And the longer-term remains quite bullish. *Jeff Saut 9/29/25)*

THE BAD (RI)

MARKETS MAY CHANGE, BUT INVESTOR PSYCHOLOGY DOES NOT. After every prolonged rally with minimal downside, everyone begins to feel like a genius. I've noticed evidence of this all over the place recently. If anything, it seems most have either forgotten that the stock market can also go down or have come to the markets in the past few years when any pullbacks have almost immediately recovered within a relatively short amount of time. Other such periods of ebullient sentiment have not historically ended well, and I don't think this time will be any different, even though the current environment could well last for months and years.

CONFIDENCE AND CONVICTION TEND TO RISE ALONG WITH ASSET PRICES, which means investors are the most optimistic in their abilities to predict the future at the absolute worst possible time. There's a decent chance we're going to get a large correction in the coming years. I have no idea when it might happen, but it's something I think all investors must at least be prepared for if investing… "for the long-term".

MANY INVESTORS' GOAL IS TO MAKE THE MOST AMOUNT OF MONEY AT ANY COST. Other investors prefer to minimize the downside more than maximize the upside. It's more about achieving a reasonable rate of return relative to the amount of risk taken.

The market is just plain weird right now. Everywhere I go, people ask me what's next for the economy. My answer depends on what they mean by "next ". Anything can happen next month. I'm much more confident about what we will see over the next 5– 7–10 years: a painful debt crisis, a "Great Reset", and then a much brighter future as the economy normalizes and new technologies boost productivity and living standards. For now, consumers in the upper half of the economy have a completely different life experience than those in the lower half and that creates conflicting data which of course makes projections and forecasts more difficult. *John Mauldin, Thoughts From The Frontline, 11/8/25*

RISK MANAGEMENT BECOMES EVEN MORE IMPORTANT IN A MARKET ENVIRONMENT IN WHICH IT FEELS UNNECESSARY. During a straight up rally, the ones who take the most risk and hold through all the volatility will almost certainly come out on top while the rally lasts. There is absolutely nothing wrong with being aggressive during those periods, as long as someone understands that they do not last forever. The same bold approach and aggressive strategies that produce outsized rewards during a boom period can result in extraordinary drawdowns during even a normal market pullback, especially if holding the most volatile stocks and using leverage.

IT WILL LIKELY REQUIRE SOME SORT OF EXTREME NEGATIVE EVENT (à la COVID or Liberation Day) to push the S&P down more than around 5 to 10%. Risker stocks could fall more than that. *Saut 9/25/25*

On November 14, President Trump signed the Bill allowing the government to reopen…till the end of January 1926. Then the whole theater starts again. *Dohmen November 16, 25*

FOR NOW, LOWER INTEREST RATES ARE BULLISH FOR STOCKS. But if rates decline because of a deep recession, lower rates will send signals of distress. There are many cross currents, which depends on what the policy makers decide to do. And then we have wars in the Ukraine, the Middle East and probably Venezuela. (Wellington Letter 10/5/25)

THE DIFFICULT PART IS that every top begins there's just a "minor normal" dip. I would rather be wrong and initially make less money during a rally, then be wrong and lose a lot of money in a long-term bear market, given how historically extended and overvalued this market has become. *Saut 3/24/25*

THE EMAILS DISMISSING THE NEED FOR RISK MANAGEMENT, are a helpful reminder that risk is never higher than at the height of a roaring bull market. Everyone feels like a "market wizard "16 years into historically strong rally, so it's easy to confuse investing prowess with an environment that does not harshly punish mistakes. When stocks are at or near all-time highs, it's very difficult to argue against a buy and hold approach. But just like prices, risk tolerances can also become irrationally inflated by a sense of invulnerability. Those investors won't likely discover their actual risk tolerance until it's far too late. *Bert Dohmen, 8/4/25*

THE UGLY (RI)

WE HAVE MENTIONED THE OVER VALUATIONS IN THE CURRENT MARKET AND OTHER FACTORS which are at rare extreme levels. Retail investors right now are speculating as never before. They love stocks which are companies that don't even identify where they invest the money. They also love IPOs with no earnings (nor sales) and they love options that only have a lifetime of one day.

October 29, 1925, the S&P 500 and NASDAQ composites both reached record highs. This occurred at the time as the markets were the most leveraged and highly overvalued in at least the last 96 years. *Dohmen, November 2025*

AND WE HAVE CRYPTOCURRENCIES of zero intrinsic value. Well over 80% of total trading value now comes from HFT and Algo traders. They and their super-fast computers have enormous power to move stocks in any direction regardless of news or fundamentals. And the federal government is now even buying equity positions in certain stocks while the administration wants to choose a "benign fed chair "to keep liquidity plentiful.

FROM A MEETING IN PARIS, 26 governments have pledged to deploy troops to the Ukraine or to maintain land, sea or air forces there. The Ukraine war is increasingly looking like the early stages of World War III. *Epoch Times 10/7/25*

BUT THERE ARE OTHER MATTERS TOO. There is an emerging regional bank crisis. There are lingering issues concerning commercial real estate. No one knows for sure how firm or shaky the fiat financial system truly is. A serious financial crisis could in fact be around the corner. Housing is out of control. Financial markets have gone absolutely bonkers over artificial intelligence. The leverage in every sector is without precedent. It's all rooted in a belief that a fiat world is practical and possible. But is it really? There are ways to fix this problem, but it is going to require some very hard decisions. *Epoch times, Jeffery Tucker, 10/22/25*

I'VE BEEN SAYING FOR YEARS NOW THAT ALL OF OUR DEBT OPTIONS ARE BAD. We won't seriously address the problem until the crisis forces us to. The crisis hasn't come yet. It will. There's a connection between our pandemics, recessions and natural disasters, etc.. Do you think we'll get through the next 10 years without some such thing happening? Any of these could blow up the debt even more. In many ways, we've grown far too comfortable with uncertainty. *Mauldin, 7/12/25*

AT THE END OF WW1 (1914-1918), the Russian army stop fighting. The incompetent generals were squandering their troops in human wave attacks, so the troops finally threw down their arms and walked home and overthrew the government. Today Russian generals are using human wave attacks on Ukrainians. Putin could be blundering into a repeat of the 1918 Russian revolution, making a revolution into a victory for the socialist and launching today's war between the eastern power junkies, and the western power junkies. You have likely noticed that numerous governments have begun beefing up their ranks and armies since the world power junkies have again unleash the dogs of war. I think a new stampede into the precious metals is nearly a done deal. *Richard Maybury, Early Warning 7/25*

GOLD (RI)

GOLD IS SENDING A GRAVE SIGNAL THAT MARKETS ARE CONVINCED THAT THE FISCAL AND MONETARY SITUATION IS NOT UNDER CONTROL. The debt problem is getting worse, not better. The red ink continues to flow, regardless of whatever the Department of Government Efficiency has done, and regardless of all the cuts in bureaucracy and agency cost. Hence the root cause of the gold and silver boom. It represents a flight to safety in anticipation of possible crisis in the future.

THE BIS IN BASEL RULED THAT GOLD SHOULD BE TREATED AS A "ZERO RISK ASSET "UNDER BASIL III. Gold became a tier 1 asset for banking regulations on July 1, 2025. Being a tier one asset means that banks require no reserves to hold against it, because theoretically gold has zero risk. This makes gold a great asset for the banking system, much better than T -bonds. It is likely that the US treasury may value gold officially closer to its actual market value. Imagine the official price being closer to the current price, rather than $42.22 per troy ounce set by the government. It's possible that Washington could make an automatic adjustment in an official price every five or 10 years. *Wellington Letter, 10/5 /25*

GOLD HAS SURGED PAST $4000 AN OUNCE WITHOUT A RECESSION OR CRISIS IN PRIVATE EQUITY OR CREDIT, things that would spur the Fed to flood the financial system once again. *David Rosenberg Research*

<u>THE MESSAGE FROM GOLD IS THAT</u> if the US is still spewing red ink so profusely when the economy has full employment and inflation is still running above the feds 2% target, what will happen when times get tough? And especially if the central bank becomes an appendage of the administration? *Barrons, 10/13/25*

GOLD AND SILVER PRICES ARE ON A TEAR. Right now, they are rising because of rising money supply and expectations of new record deficits in the US and major EU countries. But gold and silver prices also rise at the time of extreme crisis, excessive growth in government debt globally, and when the central banks create unprecedented amounts of money to save the financial system. That will be a big propellant for precious metals.

IT IS POSSIBLE THAT THE BIG GOLD BUYING THE PAST SEVERAL YEARS is due to central banks diversifying out of the US dollar and into gold. Gold has been a “store of value” for thousands of years. Foreign central banks and large sovereign wealth funds of countries are starting to replace bonds in their portfolios with gold more aggressively. Now hedge funds and family offices are doing the same. Gold is an excellent asset for the very long term. There is a saying that there are two certainties: “death and taxes “. Our theory is there’s a third certainty: the erosion in the value and purchasing power of all currencies. All currencies are sinking, just at different rate versus the value of gold. *Dohmen, 7/6/25*

AI (RI)

WE BELIEVE THE SHARP DECLINE IN DEMAND FOR EMPLOYEES is due to AI and that it is just starting. As Powell said, “It’s just the beginning of the story”. Right now, most individuals just use AI for only “search”. But companies are using AI to do jobs in 5 to 10 minutes that would otherwise take people several days before to do. The dwindling jobs available is what will drive many economics statistics lower. But that means an expansion of profits as labor cost shrink. This produces a bifurcated stock market. Many companies will benefit from these trends while others that don’t adapt will be left behind. *Dohmen 11/25*

THEY’RE ALREADY SERIOUS QUESTIONS BEING ASKED about the potential return on investment of the trillions that have been spent and will be spent on artificial intelligence. The vast majority of pilot AI programs launched by companies so far have not been profitable and are increasingly being commoditized as more rollout. *To note*, AI infrastructure providers are investing in their customers, who then turn around and buy more of the infrastructure providers’ products. The nature of these transactions could make it seem like there’s greater demand for AI than it really is. This intertwines their fates, so that a hit to one company will be bad news for the entire ecosystem. *Adams, 10/27/25*

AI WILL CERTAINLY BE A GAME CHANGER, and in many ways already is. My main criticisms have been and remain, that the current hype and capital spending will likely exceed the near-term profit return on technology, and AI will likely have more disruptive effects for society than big supporters admit.

THERE WILL LIKELY COME A TIME IN THE NOT-TOO-DISTANT FUTURE when AI can do practically all jobs better and faster. No other technological paradigm shift has had such wide-reaching implications. AI has the potential to be like the automobile replacing the horse in every sector and industry and not even leaving humans to drive the automobile. The “horseless carriage” was progress, but it did not leave much for the horse to do.

AI WILL CREATE CHALLENGES I’m not sure we are ready to deal with as a society. On the positive side, productivity has a chance to sore similar to how it did with the PC and Internet revolutions. It risks making income inequality even more of an issue at a time when the bottom deciles of earners are already struggling and on edge. The most imminent risk of the “AI revolution” therefore might not be the machines rising up and taking over, but the working classes doing so. *Adams; 11/25*

AMERICA IS IN A CHALLENGING PERIOD; YOUNG AMERICANS ARE IN A CRISES. They look around and feel like the entire country is rigged against them and the life that their parents and grandparents lived is no longer available. Today the median home costs about six times the average income. In California, it's more than 10 times. The average college graduate has a huge amount of student loans while their prospects are rough, in part due to AI but also because America has been importing foreign replacements for all kinds of skilled work. The kids entering the workforce today spent high school trapped inside for COVID lockdowns. They are more anxious and depressed, have fewer friends and most of them are on track to never getting married. Whether they lean right or left, young Americans want big changes. And if one side can't give them those changes, they're happy to do a complete political 180 to get them. *Charlie Kirk*

CONCLUSION

EARNINGS CAN CONTINUE TO GROW in 2026. Interest rates can continue to decline. It's an election year, and the administration wants voter optimism with the stock market remaining as a positive. Putin's intentions are a big factor on the geopolitical front. He holds lots of cards…untraceable super-fast missiles with optional warheads, a potential alliance with China, North Korea, Iran, with the Russian economy in war production. Any settlement could be temporary, as part of his strategy for further western advancement. Wars or rumors of wars, pandemics, cyber interruptions, and natural disasters are all part of our current black swan watch. Your Investment Planning and Management Group remains prepared for both outcomes, as best it can…with an expected continued upside while monitoring as the year's events unfold. As we state on our website: Capital risk is never at rest. Neither are we.

AS ALWAYS, please feel free to call or email with any personal questions or thoughts. We will get back to you as soon as possible. Toward a hopeful beautiful 2026 and beyond…………..

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