KFH
Q1 2026
Wealth Insights

KFH CAPITAL

Through our quarterly Wealth Insights publications, we aim to answer some of the key questions that are on the minds of our clients with respect to the global economy and financial markets.

Our first publication of 2026 looks at the following:

I. **A Review of Global Asset Performances for 2025 and the Outlook for 2026** – In terms of 2025 asset class performance, Precious Metals outperformed, and Equities also delivered double digit gains. In our Q3 2025 Wealth Insights publication, we recommended a conservative yet meaningful 8% strategic allocation to Gold in our balanced portfolio, and in 2026, we retain this view.

   2026 Outlook: The momentum in precious metals is likely to continue, particularly in Q1, driven by the recent geopolitical uncertainties unfolding across the Middle East and US. However, reduced tariff uncertainty, a steady dollar (USD) and momentum in economic activity should act as headwinds for further gains in gold prices. Same is the case with Equities, with key drivers being strong Full-Year 2025 Corporate earnings, GDP growth supported by monetary and fiscal policy and reduced uncertainty on tariffs. Key headwinds for Equities include a change in the quality of the macro data i.e., a rise in inflation, which will impact the monetary policy momentum. Further, the corporate outlook for 2026 will set the tone of earnings growth expectations.

II. **Artificial Intelligence (AI): Are we in a Bubble?** – Evidence from historical data indicates that at current levels, we are not in Bubble territory. Though we have seen a rapid increase in asset prices, speculative buying and Herd Behavior (all features of market bubble cycles), valuations show that the aggregate P/Ex for the Magnificent 7 trades at 27x earnings, which can be termed as reasonable, when compared to the aggregate valuations of the 2000 Tech Bubble Leaders (52x).

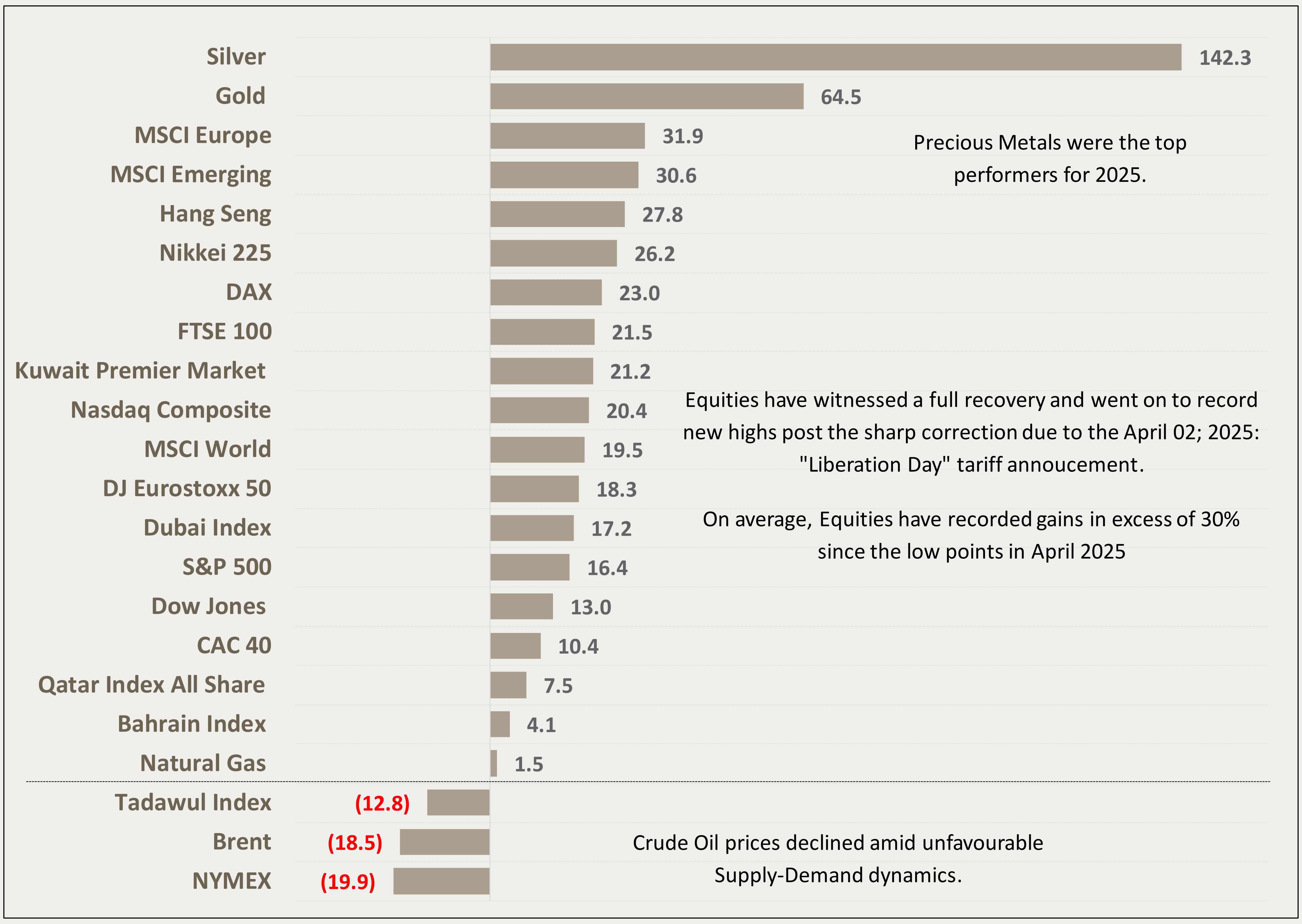
   On portfolio construction, exposure to value-orientated Equities and REITS can be considered useful to provide diversification in 2026.

III. **Navigating Markets at All Time Highs (ATHs)** – ATHs are normal and occur regularly in healthy and growing equity markets. Time-In-Market matters more than timing the market in the long term. Waiting for corrections typically costs more than it saves due to opportunity costs. Consistent investing through all market conditions builds long-term wealth.

If you would like to know more about any of the content in this article, please contact your KFH Private Relationship Manager.

As we start this new year, we ask God to bless you and your family with happiness and good health, and to make this a year of blessings and success.

A Review of Global Asset Performances for 2025 and Outlook for 2026



Global Asset Performances, as of December 31, 2025, *Source: Refinitiv*

Precious Metals

Precious Metals outperformed with Gold up 64.25%, while Silver witnessed a late surge in price as it recorded over 140% gains during 2025. The average price of Gold during 2025 was USD 3,440.1 per Ounce (a 44.64% increase versus 2024), whilst the average price of Silver in 2025 stood at USD 40.0 per Ounce (an increase of 42.3% compared to 2024).

KFH Private Wealth View: In our Q3 Wealth Insights we recommended a conservative, yet meaningful 8% strategic allocation to Gold in our balanced portfolio. Our belief was - and continues to be - that a strategic allocation to gold adds diversification and amplifies Portfolio Alpha.

KFH Capital Investment Research View: The momentum is likely to continue going into 2026, with the key driver being the geopolitical uncertainties that we are witnessing as we write. As of January 19, 2026, Gold closed at USD 4,588.4 per Ounce which is a 6.1% gain on a Year-to-Date (YTD) basis, while silver prices are nearing the USD 100 mark (up 32.3% during the same period). Key headwinds to the price include reduced tariff uncertainty, a steady dollar (USD) and momentum in economic activity.

Global Equities

In terms of performance, Precious Metals were followed by Equities, which recorded double digit gains for the same period despite volatility at the inception of 2025 due to tariffs. Key drivers for equities included supportive monetary policy such as interest rate cuts ranging from 75-100 bps, and favorable macroeconomic data resulting in economic momentum or resilience and strong corporate earnings.

Despite the volatility, Equities closed the year with double-digit gains:

- The MSCI World Index recorded 19.5% gains during 2025
- The MSCI Europe Index was up 31.9%
- The MSCI Emerging Index was up 30.6% during the same period

The average of the Volatility Index (VIX) was 19.0 during 2025 which is a 19% increase compared to the 2024 index average of 16.0. Investors who maintained an overweight position in equities generated double-digit gains in their portfolios.

KFH Capital Investment Research View: We believe that the momentum in equities will continue into 2026, driven by strong Full-Year 2025 Corporate earnings, GDP growth supported by monetary and fiscal policy and reduced uncertainty on tariffs. Key headwinds for equities include a change in the quality of the macro data i.e., a rise in inflation which will impact the monetary policy momentum. Further, the corporate outlook for 2026 will set the tone of earnings growth expectations.

GCC Equities

The Saudi Tadawul All Share Index (TASI) was the only regional market with losses during 2025, down 12.8%. However, Banking sector earnings were a bright spot as the regional banks reported growth in earnings for the first three quarters of 2025, driven by higher non-operating income and lower provisions, whilst lending margins remain under pressure. However, the Petrochemical sector has underperformed as oil prices have been muted. The regional heavyweight ARAMCO was down 15% during 2025 as earnings remained soft driven by declines in volume and price.

The GCC Outlook for 2026 remains positive: Key drivers - Strong macros as the region unwinds OPEC+ production quotas resulting in higher exports, strong non-oil activity, increased government spending as the regional diversification theme gains momentum. We also expect an uptick in corporate investments and consumption amid lower interest rates.

Oil

On crude, the average 2025 price for Brent Crude was USD 68.2 per barrel (down 14.62% vs 2024), and the US NYMEX average price was USD 64.8 per barrel (down 14.47%). Though the decline was predominantly supply driven, it was also coupled with weak demand, ultimately resulting in an unfavorable Demand–Supply equilibrium. Demand for 2025 closed at 104.6 million barrels per day (mbpd) while the Supply stood at 107.46 mbpd.

KFHC Investment Research View: The consensus outlook for Brent Crude for 2026 is USD 65-67 per barrel, with excess supply coupled with weak demand to act as a headwind. However, geopolitical events may impact prices to the upside. As we write, Brent prices are up 7.6% on a YTD basis on the back of the political events in Iran and the recent US – Venezuela event.

Themes for 2026:

Our key themes for 2026 are as follows, and remain broadly the same as 2025, but with the addition of geopolitics.

I. Macro-economic Data: Risk – Low to Moderate

II. Tariffs – Effective Tariff Rates (ETR): Risk – Low to Moderate

III. Monetary Policy: Risk – Low to Moderate

IV. Geopolitics: Risk - Moderate to High

I. Macro-economic Overview

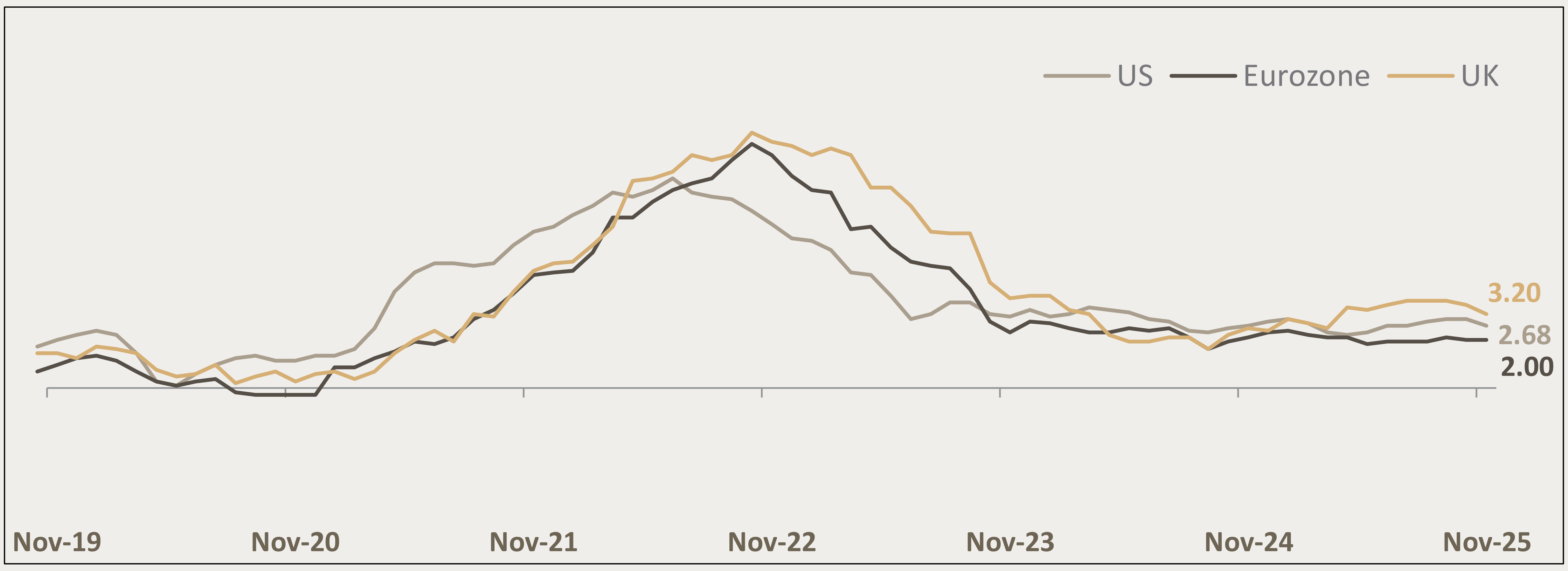
Fitch forecasts GDP growth of 2.7% for 2026 which is in line with 2025. However, a point to note is that the 2025 GDP forecast was revised upwards to 2.7% (from an earlier forecast of 2.2-2.4%) as economic activity remained resilient and surprised to the upside.

Fitch forecasts U.S. GDP growth of 2.0% in 2026, slightly below the Federal Reserve's projection of 2.3%. A key drag on global growth is the slowdown in China, where Fitch expects GDP to ease to 4.5%, down from 5.0% the previous year. This deceleration is generally negative for Commodity markets, given China's significant role as a major consumer.

Growth in the MENA region is expected to be higher at 3.9% for 2026, which is well above the global average. The key drivers for this are low tariff-related exposure, increased oil production, and government-led investment spending. However, the region will also face headwinds from ongoing geopolitical events in the region. Within MENA, Fitch expects GCC growth for 2026 to be 4.8% (up from 4.2% in 2025), with the key drivers being the diversification related investment, increase in carbon related exports and lower borrowing costs to drive private CAPEX.

Inflation: For 2025, although the general trend in inflation has been downwards, it has been sticky and continues to be above central bank target ranges, that notwithstanding, the disinflation process remained intact. Our House View of an unlikely resurgence in Inflation during 2025 has played out.

UK, Eurozone and UK Inflation (November 2019 – November 2025)



Source: Bloomberg

As we write, inflation prints for Eurozone for December 2025 are out and stand at 2.0%, which is in line with the European Central Bank (ECB) target range. Further, US Consumer Price Index (CPI) recorded a price increase of 2.68% for the same period. The UK, which awaits December 2025 numbers, recorded inflation at 3.2% for November 2025. As per Fitch, the global inflation average for 2025 is expected to be at 3.6%, which is a significant decline from 2024 levels of 5.2%, while the expectations for 2026 have been at 3.1%.

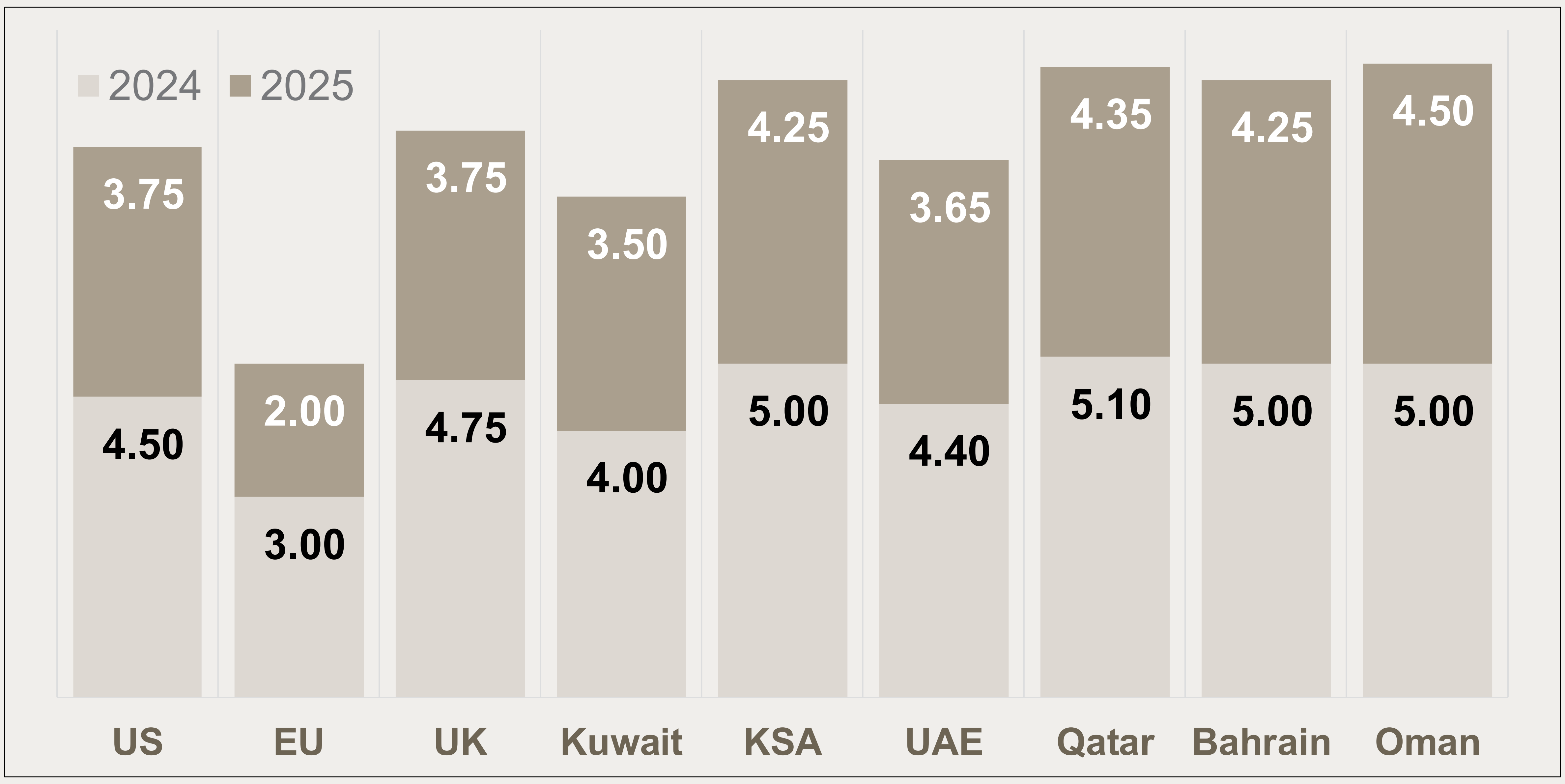
II. Tariffs – Effective Tariff Rates (ETR)

Effective Tariff Rates are likely to stabilize around the 15%-17% range. This is a significant increase from earlier rates of 2-3%, however, the uncertainty has peaked. Risks from Tariffs remain in the low to moderate range. Also, with many of the trade agreements currently in the negotiation stage, markets can expect positive surprises in terms of concessions.

III. Monetary Policy

For 2025, key central banks have been divergent over the speed of rate cuts but have more or less followed a similar path. The European Central Bank (ECB) ended the year with a 100bps cut to its deposit rates, while the US Fed and Bank of England (BOE) both recorded 75bps cuts during the same period.

Interest Rates for the US, EU, UK and GCC (2024 vs 2025)



As of December 31, 2025, *Source: Refinitiv*

Risks remain low-to-moderate as key central banks approach terminal rates. For instance, in the case of the Eurozone, recent inflation prints stand at 2.0%, which is in line with the European Central Bank (ECB) target range. Unemployment remains at 6.3%, which is close to historical average of 6.0%, and GDP growth for the Euro area is expected to be 1.5%. In the case of the US Fed and Bank of England (BOE), expectations are of 50bps rate cuts for 2026 driven by incoming macro data.

IV. Political Risks

Political risks remain on the moderate to high range and are likely to drive market volatility during 2026. Geopolitical risks such as the US-Venezuela crisis, the protests in Iran and the Saudi-Yemen situation can drive crude prices upwards.

There will also be a change of the guard at the US Fed, as the current chairman Jerome Powell ends his term by May 2026. The potential candidates that are currently under consideration are politically aligned with the existing administration which could result in politically driven ultra loose monetary policy and balance sheet expansion resulting in increased liquidity in the system. The outcome would be higher inflation and a weak US dollar.

Forecasts for 2026: The Summary:

Wall Street Firm	End of 2026 S&P500 Price Target	Implied Returns	Estimated Earnings Growth
Oppenheimer	8,100.0	18.3%	15% (EPS - USD 305)
Deutsche Bank	8,000.0	16.9%	14% (EPS - USD 320)
Capital Economics	8,000.0	16.9%	-
Morgan Stanley	7,800.0	13.9%	EPS - USD 317
Wells Fargo	7,800.0	13.9%	14% (EPS - USD 310)
Citigroup	7,700.0	12.5%	13% (EPS - USD 320)
Yardeni Research	7,700.0	12.5%	EPS - USD 310
Goldman Sachs	7,600.0	11.0%	12% (EPS - USD 305)
JPMorgan Chase	7,500.0	9.6%	13-15% (EPS - USD 315)
UBS	7,500.0	9.6%	14% (EPS - USD 309)
Barclays	7,400.0	8.1%	EPS - USD 305
BMO Capital	7,400.0	8.1%	-
CFRA Research	7,400.0	8.1%	-
Bank of America	7,100.0	3.7%	14% (EPS - USD 310)
Median Forecast	**7,650.0**	**11.8%**	**14.0%**

Wall Street Forecasts, Source: TheStreet.com

Artificial Intelligence (AI): Are we in a Bubble?

In this section, we address the number one question that is widespread in the financial markets – Is there an AI bubble, or (for some analysts) a more general US stock market bubble?

Firstly, what is our definition of a “Bubble”? There is no industry standard definition of an investment bubble.

However, a “Bubble” in financial markets refers to a situation where the price of an asset rises far above its intrinsic or fundamental value, driven mainly by speculation, excessive optimism, and herd behavior rather than underlying economic factors.

Therefore, key characteristics of a Bubble include a rapid price increase in asset prices, followed by speculative buying in the asset, which leads to overvaluation as valuations are at the extreme compared to historical standards. Then kicks in the herd behavior, many join in fearing they will miss out (FOMO). And finally, a collapse, eventually sense prevails, demand falls and prices crash at the same speed as they went up.

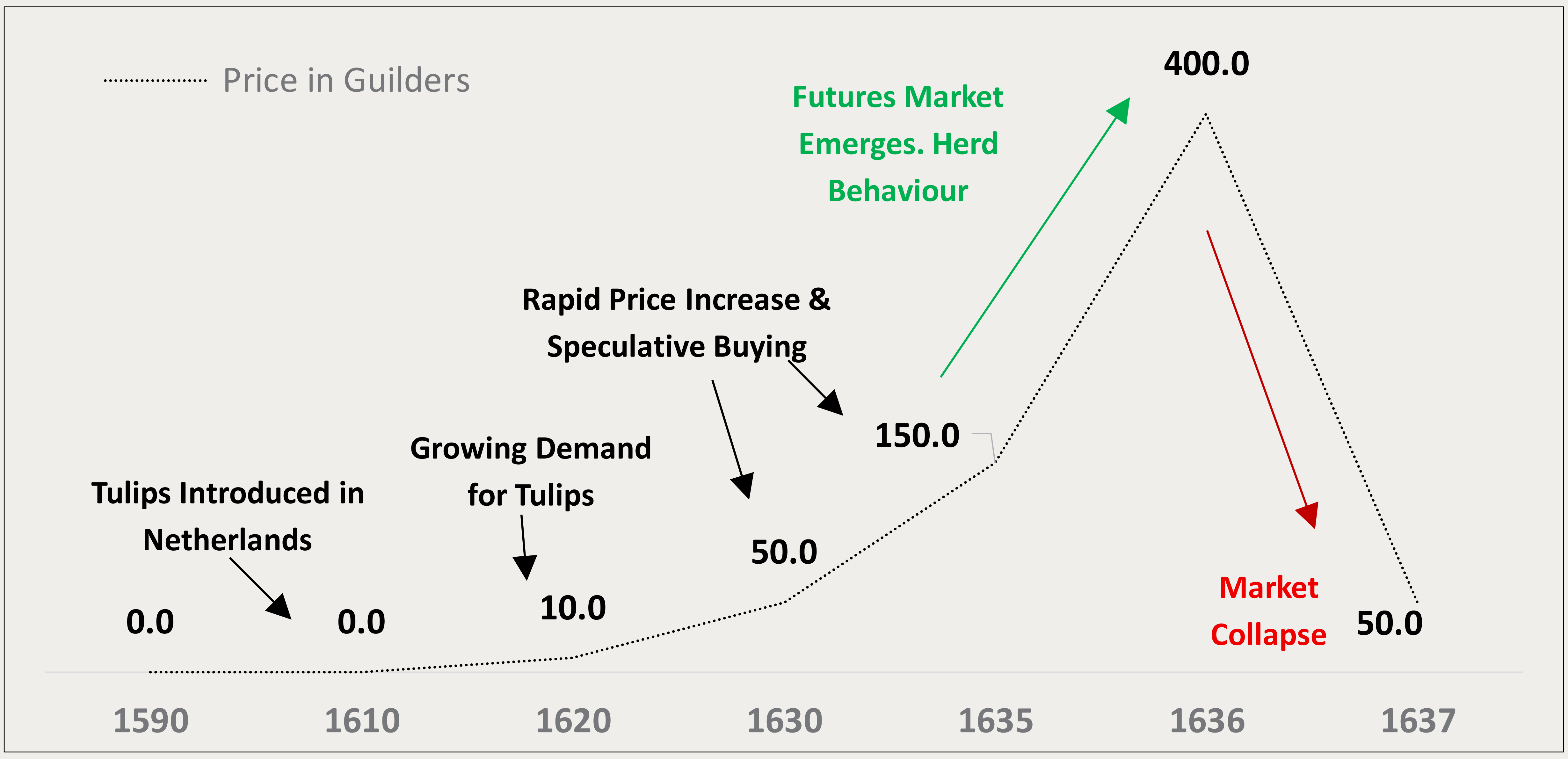
The best examples of this in recent financial history would be the Japanese equity market bubble during the 1980s and the “TMT”, “Nasdaq” or “Tech Bubble” of the 1990s.

We set out below some of the key historic bubbles and consider any analogies for today:

I. Tulip mania – Netherlands in the 17th century

This is well known for its absurdity but is also an early lesson in understanding human behavior and manias. The chart below sets out the futures market for Tulips in the 17th century and, as the chart sets out below, it took a surprisingly long time before the bubble started, ultimately resulting in a violent sell-off.

Futures Market for Tulips in the 17th Century

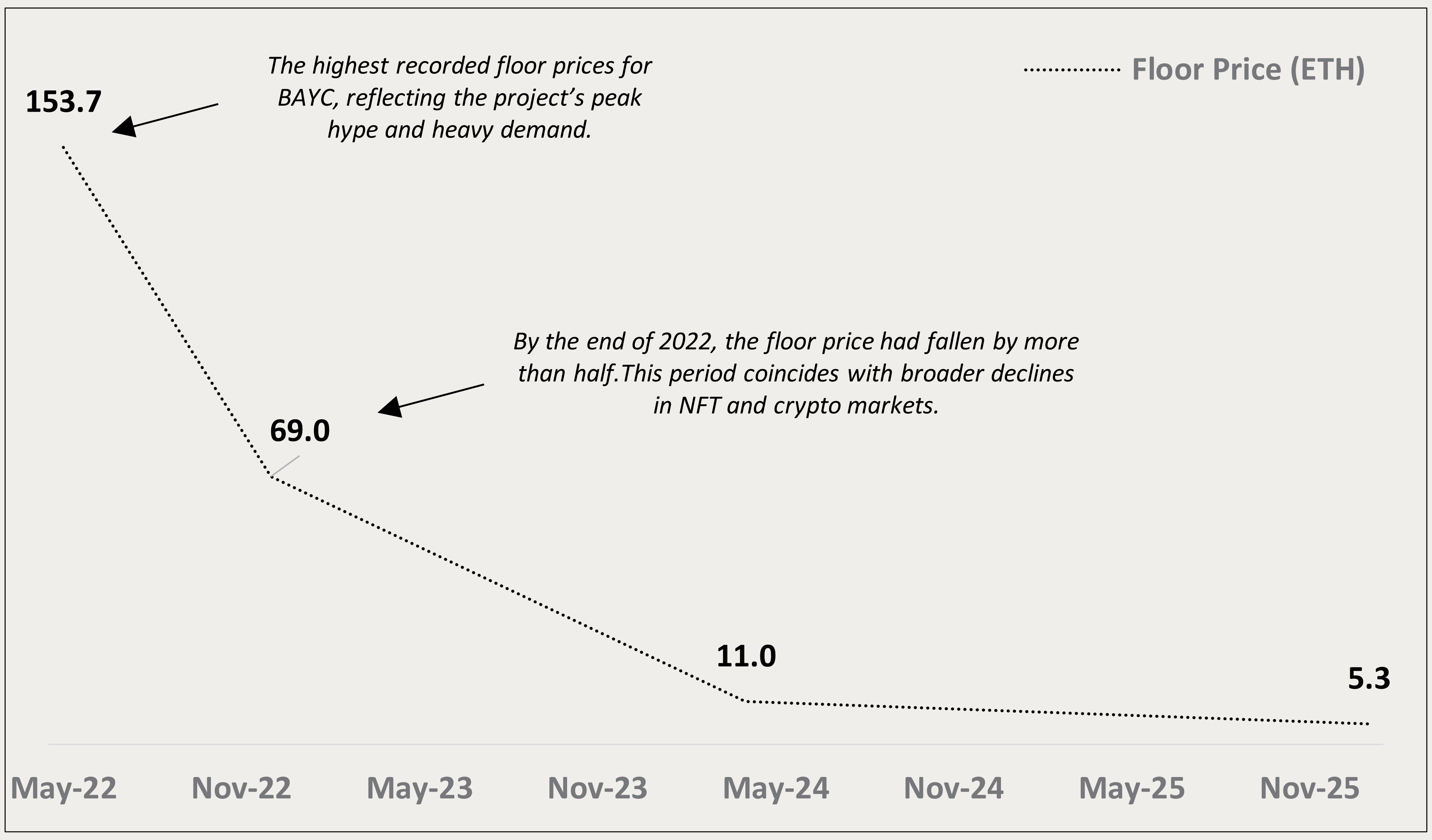


Source: “The Tulipmania: Fact or Artifact”, Earl A. Thompson (2007)

Another way of looking at this is what can happen when there is an absence of other sources of speculation. A modern-day version of this is Chinese residential property – given capital controls and limited interest in the domestic stock market.

A more current analogy of a collapse in “worthless” assets is the dramatic fall in Non-Fungible Tokens (NFTs). An NFT is a tradeable digital asset stored on the blockchain which is typically art-related. The market grew rapidly from 2020 to 2022 (with a trading volume of USD 17bn in 2021) until a complete collapse of prices. In 2023, a report from CoinMarketCap showed that 95% of NFT collections have a value of zero. The chart below shows the collapse in the so called "blue chip” NFT collection – the Bored Ape Yacht club, truly the Tulips of our generation.

Floor Prices for the Bored Ape Yacht Club (BAYC) (May 2022 – December 2025)



Note: *The Bored Ape Yacht Club (BAYC) is a famous collection of* ***10,000 unique non-fungible tokens (NFTs)****—digital cartoon apes—built on the* ***Ethereum blockchain.***

Floor Price: *The Lowest Price*

Source: Coin Gecko – Floor Price History; The Block – End-of-2022 Floor Price Data; Coin telegraph – April 2024 Floor Value

Analogies with current period: Some analysts have pointed to Bitcoin as “Digital Tulips” (for example Dr Michael Burry from The Big Short). However, Bitcoin has little to do with what is driving global and US stocks currently. For example, Strategy (formerly MicroStrategy) offers a leveraged US exchange listed exposure to Bitcoin. However, Strategy shares returned -54% in 2025 (Bitcoin -7%), clearly not contributing to Global stock returns.

II. The Japan stock market and land bubble of the 1980s

The land bubble was huge in Japan and certainly impacted the future profitability of the banks. For example, at one stage it was estimated that the value of land in central Tokyo was valued at more than the value of all the land in California. However, we will focus on the stock market bubble of the 1980s. In the 1980s Japanese stocks returned 527% or an annualized return of 20%, (in contrast, the last 10 years (to end 2025) the US stock market is up 298%, annualized 14%). This led to significant overvaluation as shown in the following table:

Company Name	Index Weight (%)	Market Capitalization (USD Billion)	24m Forward P/Ex
Nippon Telegraph and Telephone	6.9%	157	100.1
Industrial Bank of Japan	4.6%	105	154.2
Sumitomo Mitsui Banking	3.4%	77	49.2
Bank of Tokyo-Mitsubishi	3.3%	75	49.8
Fuji Bank	3.1%	71	52.8
Dai-Ichi Kangyo Bank	2.9%	65	44.0
Sakura Bank	2.8%	62	62.1
Japan Financial Bubble (1989) Aggregate	**27.0%**	**613**	**67.0**

Source: Bloomberg

Current Period: In contrast, we set out the equivalent data for the US magnificent 7 as below:

Company Name	Index Weight (%)	Market Capitalization (USD Billion)	24m Forward P/Ex
NVIDIA	7.8%	4509	26.1
Microsoft	6.8%	3929	27.2
Apple	6.6%	3809	29.1
Alphabet	4.9%	2822	20.8
Amazon	4.1%	2356	24.9
Meta Platform	2.7%	1552	21.2
Tesla	2.6%	1507	135.2
Magnificent 7 (2025) Aggregate	**35.6%**	**20485**	**26.8**

Source: Bloomberg

This significant overvaluation of Japanese equities, without the earnings to back it up for these large capitalization stocks led to a 30-year bear market. Even today, Nippon Telegraph and Telephone’s (NTT) market capitalization stands at only US$90bn compared to US$ 157bn 25 years ago, with a weighting at the time of nearly 7% of the Japanese stock market.

An often-underappreciated feature of this bear market is the clear outperformance of active management versus the index, highlighting that Japanese equities—excluding NTT and banks—were fairly valued and delivered earnings growth.

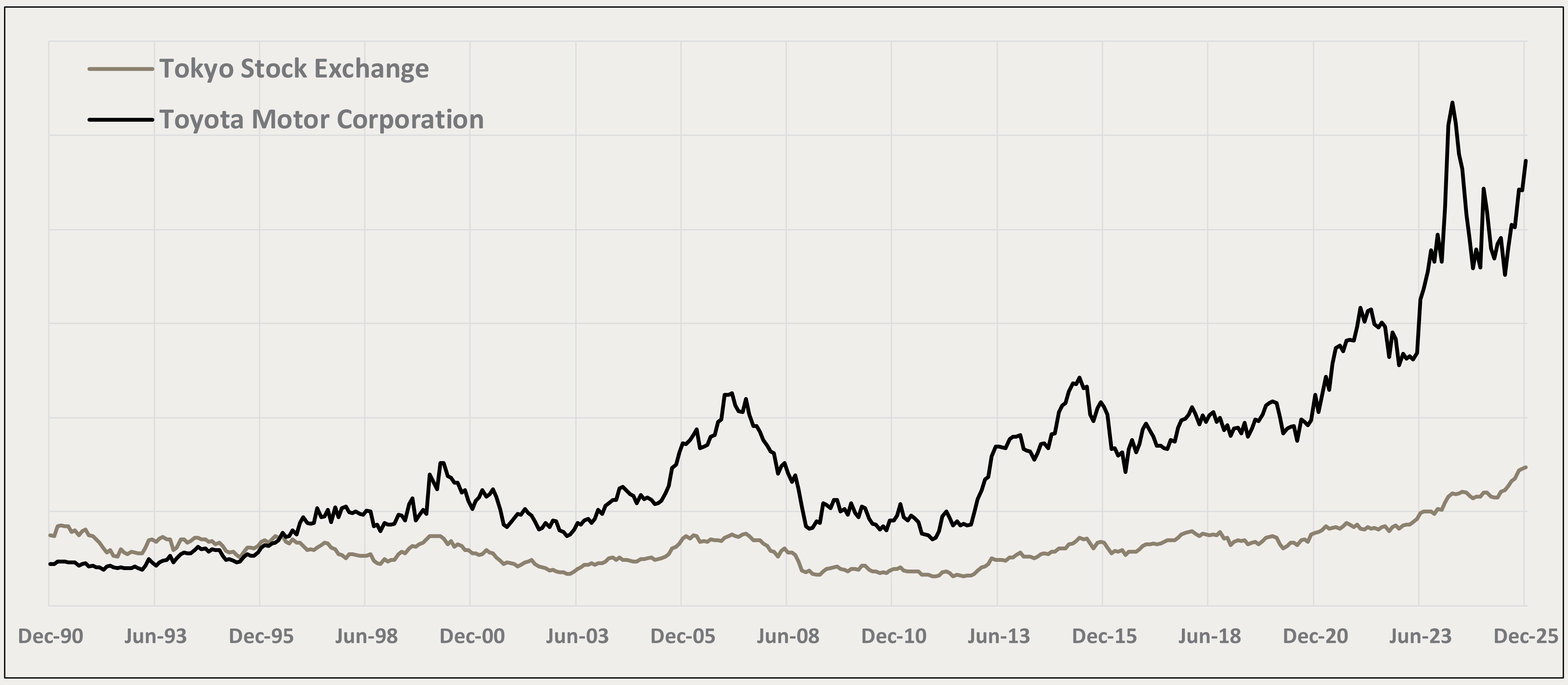
“Normal” stocks like Toyota were trading at a P/E of 15x, whilst NTT was trading at 250x and Japanese banks were trading at 60-80x.

Investing in Boring Stocks (Investing into stable, predictable, slow-growth companies)

Given that the overall Japanese equity index has only recently breached the 1989 highs, how did a "boring" stock like Toyota fair over the 25-year period?

Over that 25-year period, investors would have made 15x of their capital by investing in Toyota Motor Corporation compared to a relatively flat index. Further, the data in the graph also shows the benefit of re-investing dividends to augment the long-term compounded growth.

Tokyo Stock Exchange vs Toyota Motor Corporation (Total Return, 1990-2025)



Source: Bloomberg; Chart is Rebased

	Price Change	Total Return	Annualized Returns
Toyota Motor Corporation	699.4%	1458.7%	7.9%
Tokyo Stock Exchange	18.3%	102.0%	2.0%

Source: Bloomberg;

Analogies with current period: Both the US (currently) and Japan in the 1980s had strong investment returns, however, Japan was a classic case of significant misallocation of capital to relatively unprofitable companies with very high valuations. The solid profitable companies in Japan (like Toyota Motor Corp.) were left behind, whilst the companies with the highest weights in the US index currently have modest above-index valuations and are associated with high profitability.

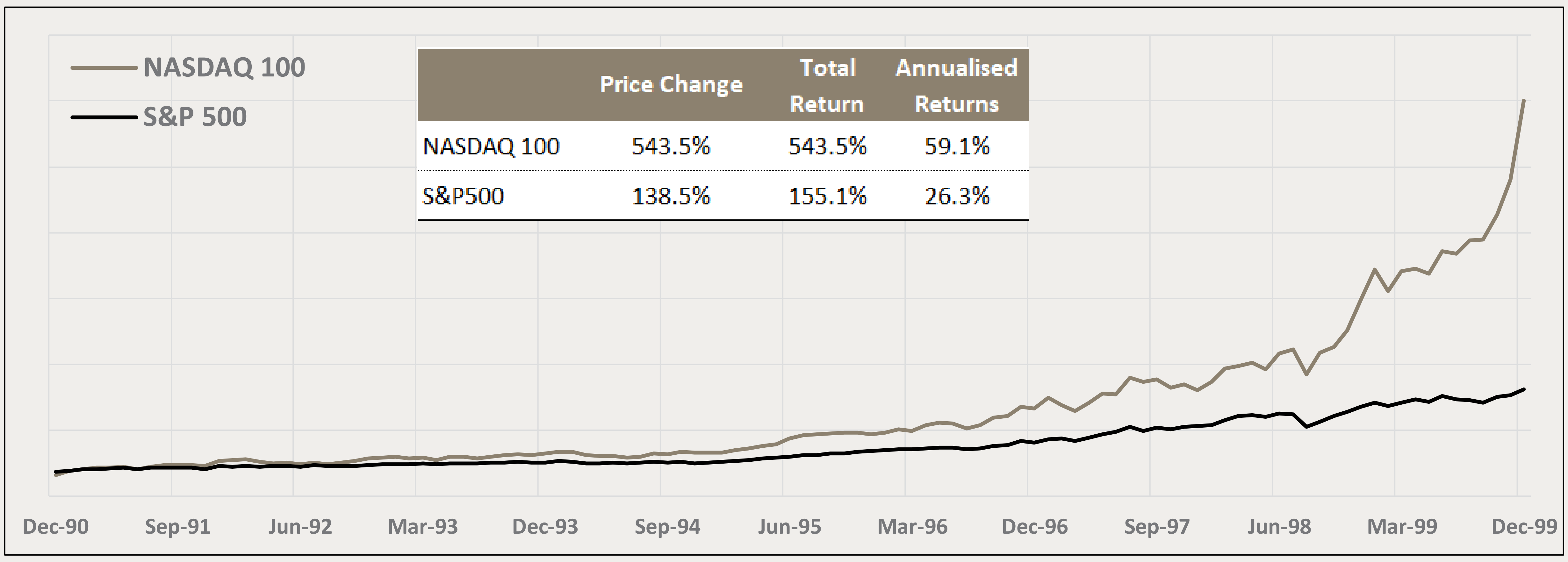
Data on active versus passive investing in the 1990s in Japan is hard to find, however, it was generally a period where sensible quality businesses e.g. Sony, Toyota etc. substantially outperformed the index. In this regard, Japan is also an example (see below on the TMT bubble) of where index / passive investing can go wrong.

III. The "Technology-Media-Telecommunications (TMT)" or Tech Bubble of the 1990s

This TMT bubble is our most recent example of a bubble, and is a period that some macro-orientated managers are comparing to the market exuberance that we see today. The two graphs below can help us to understand this better.

First, we look at the market conditions leading to the TMT crash i.e., a comparison of how the NASDAQ 100 and the S&P500 indices performed during 1996-1999 (the 5-year period leading up to the TMT correction).

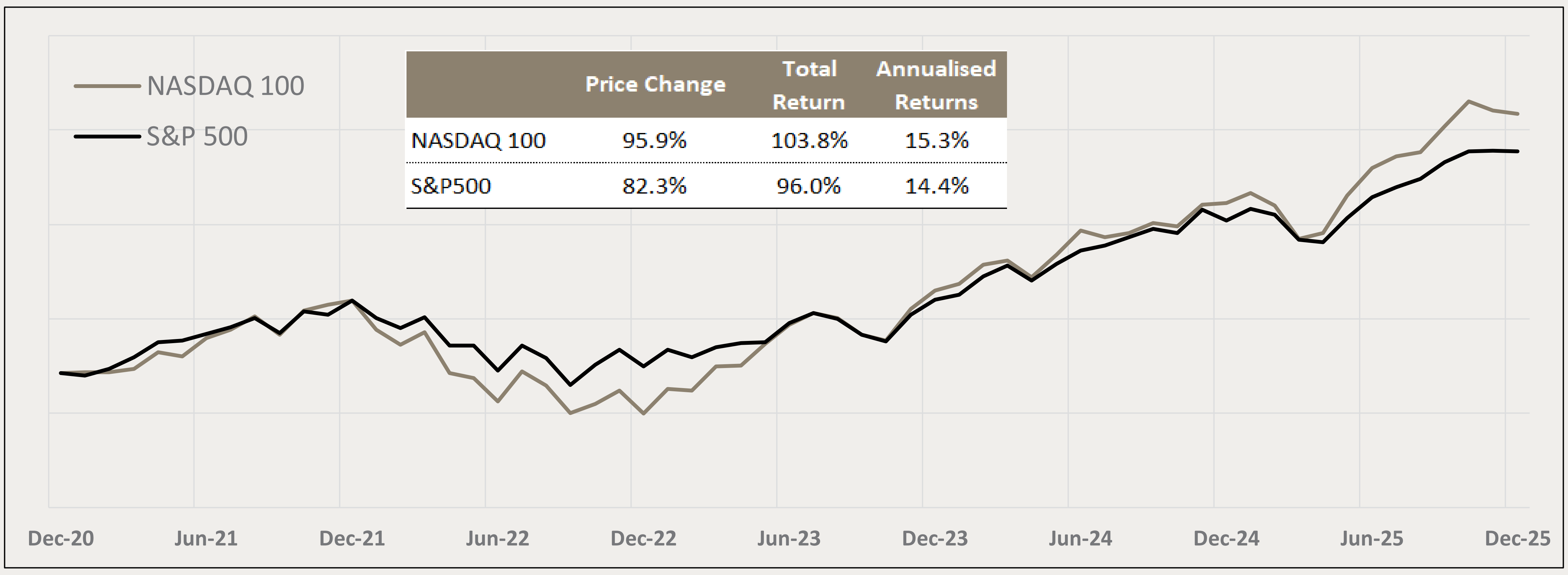
Five-year returns leading to the TMT correction (1996 to end 1999)



Period 1990-1999, *Source: Bloomberg; Charts are Rebased*

Comparing this to the current market surge, we have also looked at 5-year returns for the period 2020-2025.

Historic 5-year returns running up to end 2025



Period 2020-2025, *Source: Bloomberg; Charts are Rebased*

As can be observed from the two graphs, the extent of the TMT boom was far in excess of the current market valuations by a factor of 5X for the Nasdaq, whilst the historic price change of the S&P 500 index was also substantially higher in the late 1990s.

This resulted in substantially higher historic valuations, especially compared with today. Note in particular Microsoft, which features in both lists, is valued at circa 25X (24-month earnings) versus 53X in 1999. More generally, the market was twice as expensive compared to the current period.

Company Name	Index Weight (%)	Market Capitalization (USD Billion)	24m Forward P/Ex
NVIDIA	7.8%	4509	26.1
Microsoft	6.8%	3929	27.2
Apple	6.6%	3809	29.1
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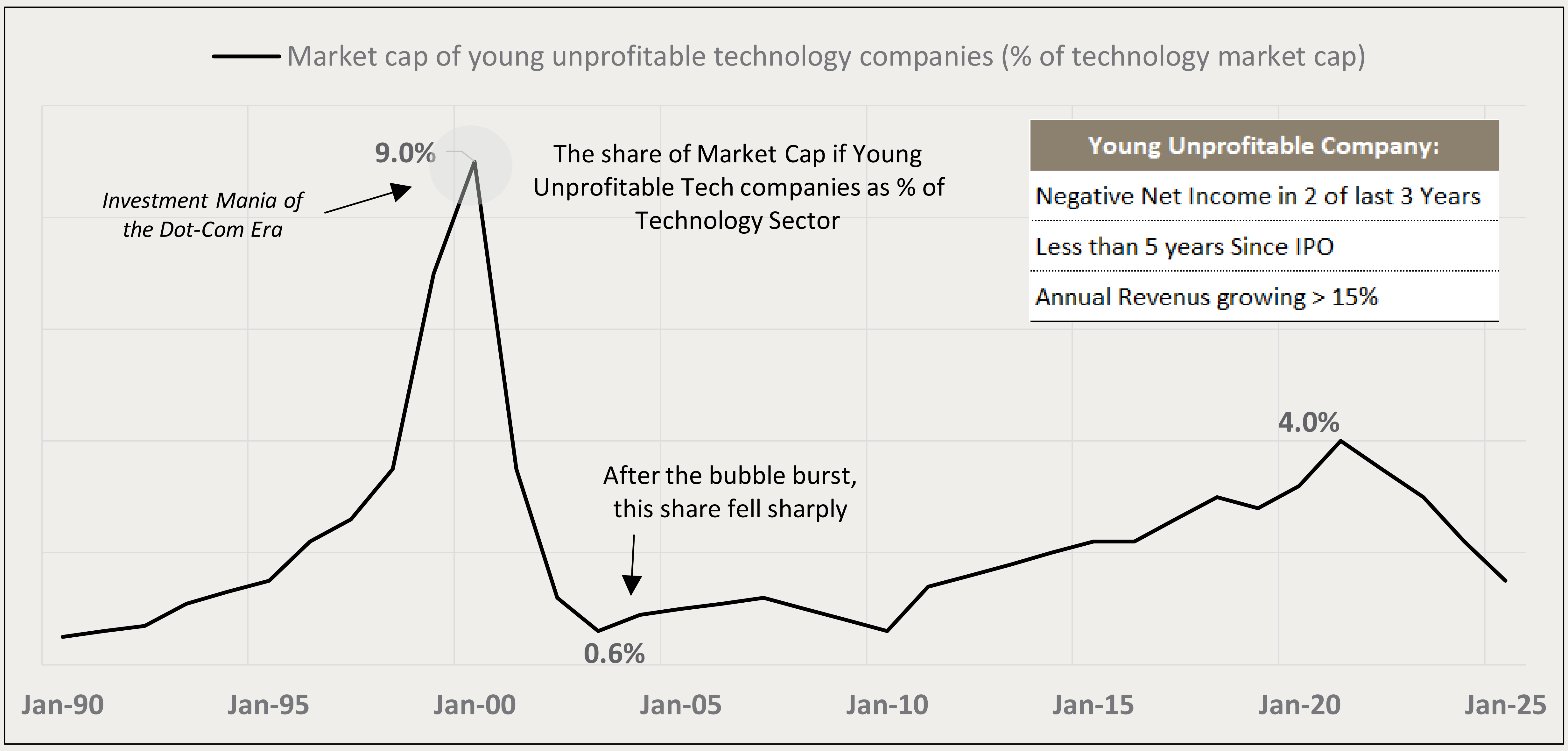
Meta Platform	2.7%	1552	21.2
Tesla	2.6%	1507	135.2
Magnificent 7 (2025) Aggregate	**35.6%**	**20485**	**26.8**
Microsoft	4.5%	581	53.2
Cisco Systems	4.2%	543	101.7
Intel	3.6%	465	42.1
Oracle	1.9%	245	84.6
IBM	1.7%	218	23.5
Lucent	1.6%	206	37.9
Nortel Networks	1.5%	199	86.4
Tech Bubble Leaders (2000) Aggregate	**19.0%**	**2457**	**52.0**

Source: Bloomberg

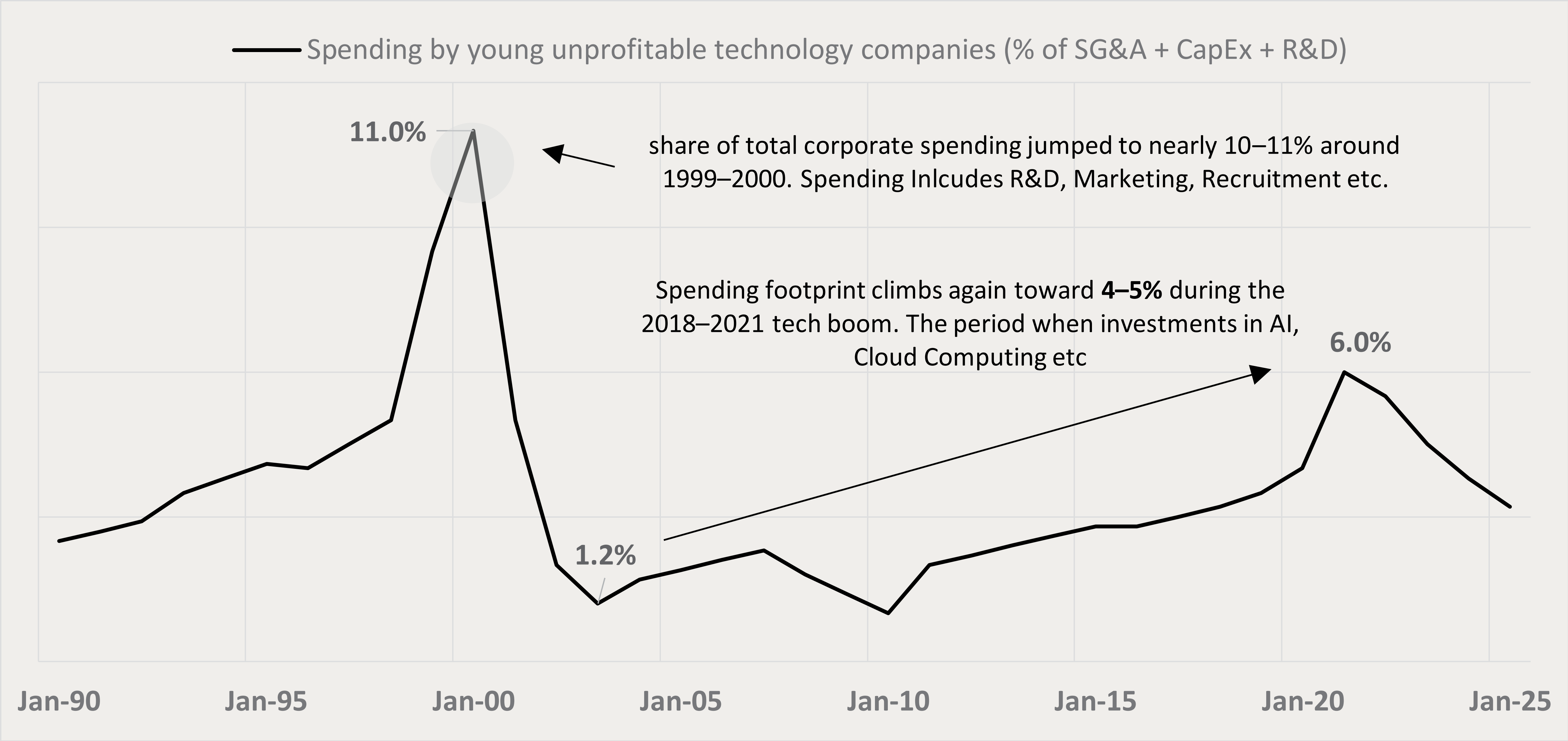
Another key difference between 1999 and today was the abundance of "Junky" unprofitable companies. The chart below shows the market cap and spending share of these companies – substantially higher than today.

Market Cap of Young Unprofitable Technology Companies: This chart tracks the size of young, unprofitable tech firms relative to the entire technology sector's total market value (1990-2025)



Source: FactSet; JPMorgan Asset Management (JPMAM), Q3 2025.

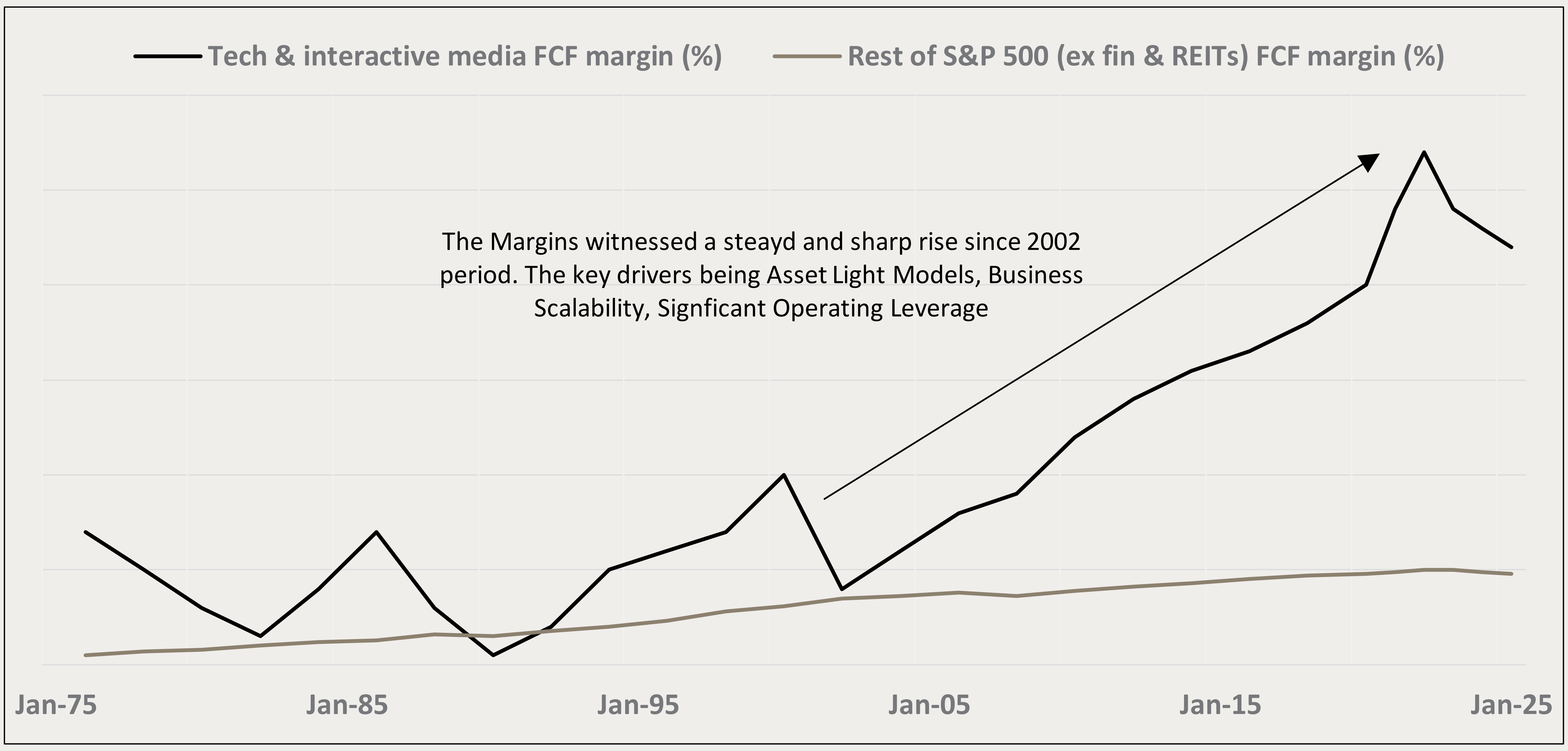
Spending by Young Unprofitable Technology Companies: This chart measures how much young, unprofitable tech firms are contributing to overall corporate spending.



Source: FactSet; JPMorgan Asset Management (JPMAM), Q3 2025.

In contrast, today's companies are backed by strong profit growth backed by high free cash flow. The chart below shows the profitability of tech and tech-related companies versus the rest of the market. In summary, whilst the US market valuations are ahead of averages, today's valuations are backed by cash flow and profits, unlike excessive valuations prevailing in 1999.

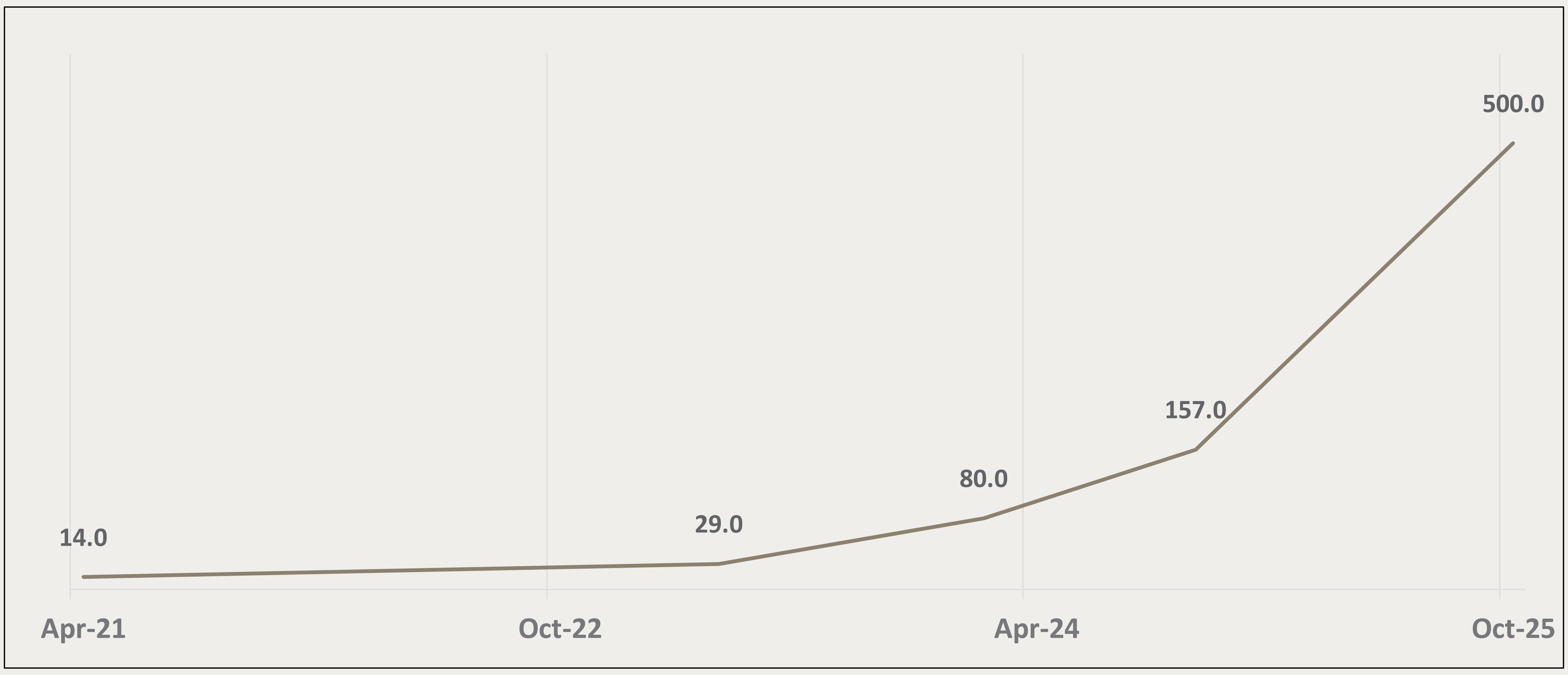
S&P500 Free Cash Flow Margins: This indicates how much actual cash a company keeps after paying operating expenses and capital expenditures.



Source: Empirical Research Partners, December 2025.

If there is a bubble, it is more likely to be associated with the private markets, for example the implied valuation of Open AI based on each funding round.

Open AI Valuation History (USD bn)



Source: Online News website: Economic Times; TechCrunch; Refinitiv; Round Led (CNBC)

We note this huge increase in private market valuations is at least backed up by very powerful growth as set out below:

OpenAI Forecasts	Forecasts 2027		
	Mid – 2025	31-Oct-25	Change
Revenue (USD Billion)	60.0	90.0	50.0%
Inference Computer Costs (USD Billion)	21.0	30.0	42.9%
Weekly Average Users (Billion)	1.4	1.8	28.6%
Free Users Average Revenue Per User (USD)	7.0	12.0	71.4%
Paid Subscriber (USD Million)	58.0	76.0	31.0%
Paid User Average Revenue Per User	750.0	880.0	17.3%
Billions of API Tokens/Minute	11.0	17.0	54.5%

Source: Barclays Research, November 2025

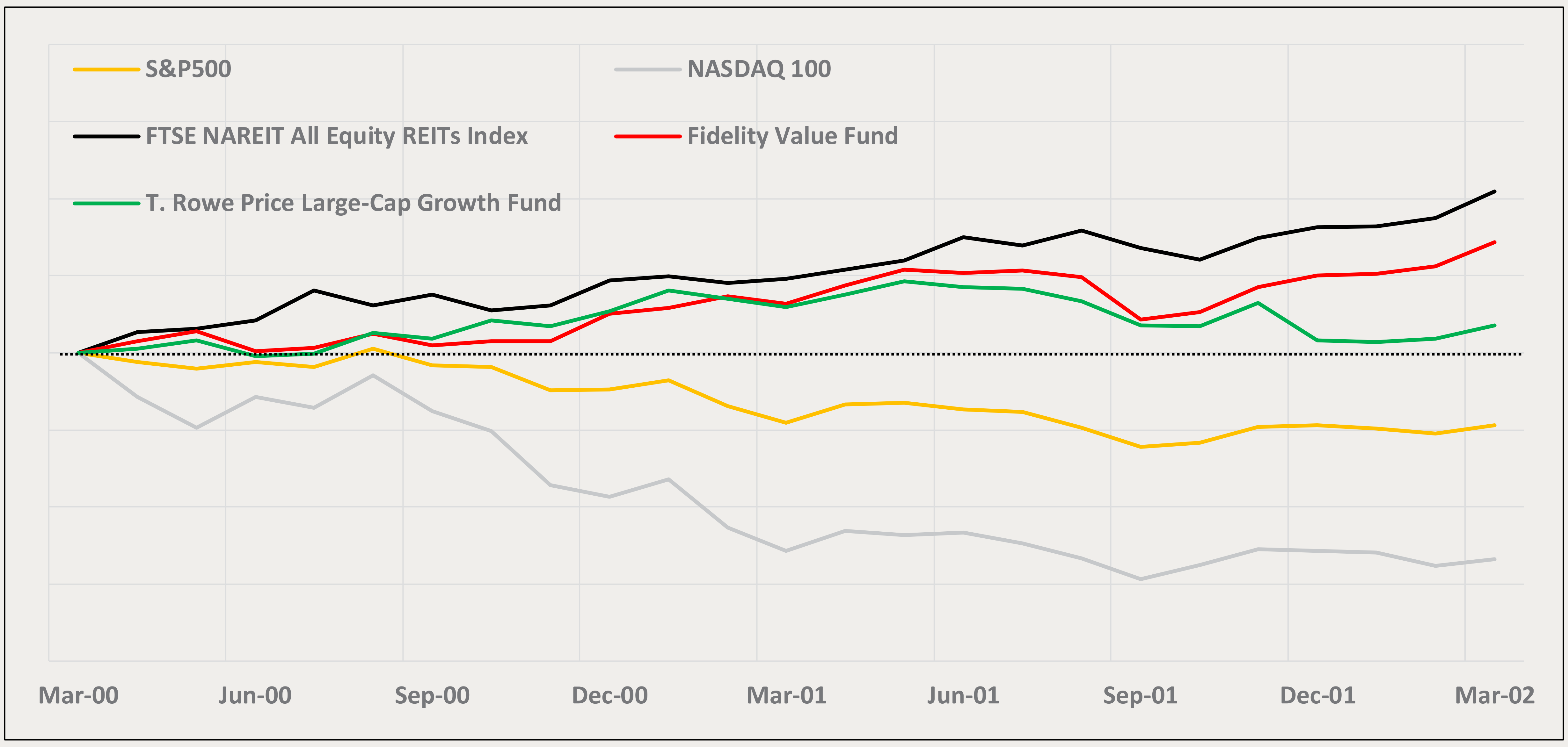
If we do have a substantial correction in private AI assets, this will mainly impact only the most sophisticated well-funded long term venture investors – the likes of Harvard and Yale endowment funds etc.

In conclusion, whilst there are some similarities between the current period and the TMT boom and bust, our analysis shows that the TMT bubble occurred based on valuations, profitability and small unprofitable tech stock mania.

However, when it comes to constructing portfolios, humility is important, in that we must be willing to accept the possibility that our analysis may prove incorrect. Consequently, what can we learn from the TMT crash – what worked in the crash of 2000 – 2003?

As demonstrated below, there was quite extraordinary performance from value managers (largely zero weightings in tech) and REITs. For this reason, within our global discretionary portfolios, we advocate exposure to both Islamic value managers and REITs to help mitigate against the possibility of downside or a repeat of 2000 to 2003.

S&P and Nasdaq Performance vs REIT and Value Manager Performance (March 2000 – March 2002)



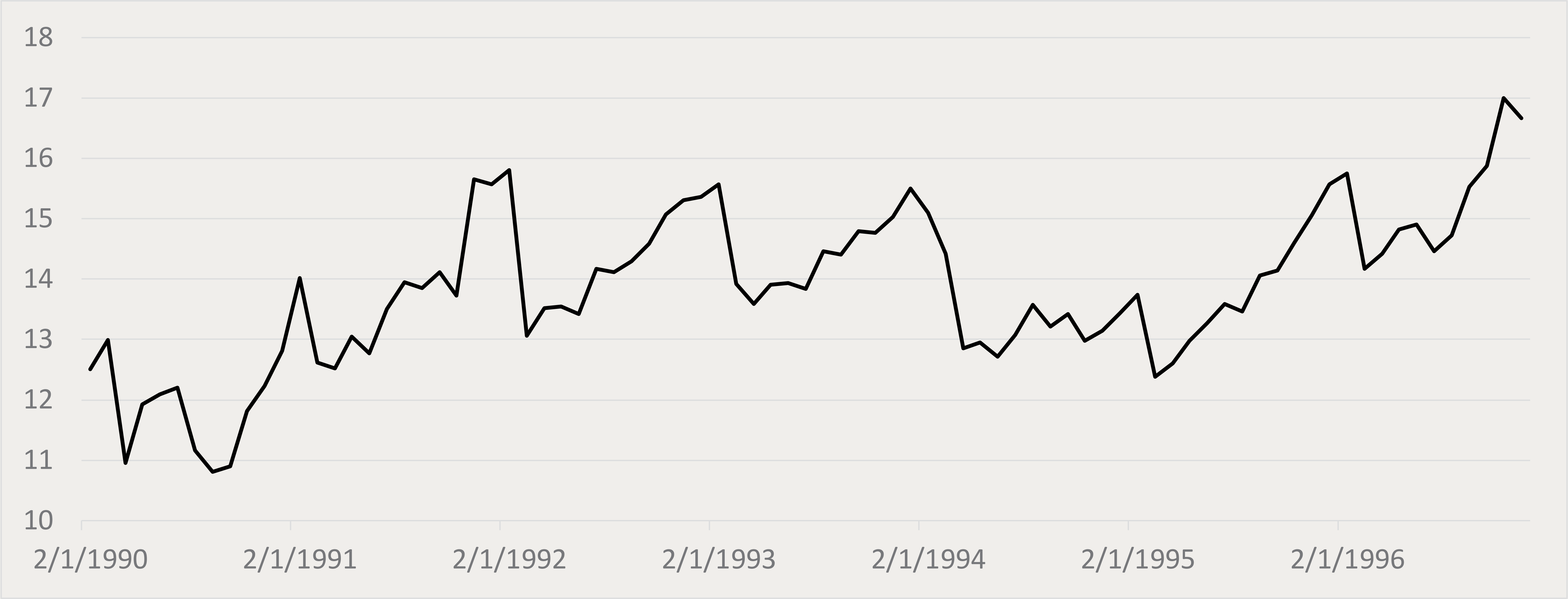
Source: Bloomberg

Timing Downturns in markets is hard – even for the best informed, and smartest investors

Finally, even if this is a bubble, market experts with vast information and resources struggle to time the exit from a market, as Alan Greenspan famously observed during his 1996 speech at the American Enterprise Institute, where he referred to the idea of "irrational exuberance" of markets.

In December 1996, Greenspan, then Chairman of the US Federal Reserve, spoke about this idea because he saw an apparent overvaluation of markets (based on the graph below).

US Equity Market Valuation (Price Earnings Ratio) (1990-1996)



Source: Bloomberg

However, not only was Greenspan terribly early in his thoughts, but the data below also shows that even after the eventual correction, investors would have made substantial returns by staying invested.

Period Post Irrational Exuberance Speech	US Stock Market Returns
1 Year	33.3%
3 Year	107.5%
5 Year	66.2%
10 Year	124.3%

Source: Bloomberg

This reflects the fact that equities are growth assets, and corporate earnings growth can undermine a pure valuation driven analysis.

Overall conclusions:

I. Considering data and analysis from previous bubbles, our view is that we are not currently in bubble territory – primarily for the following reasons: No excessive market growth (lack of exuberance) and whilst the US market is fully priced, it is not priced in the same way as previous excessive valuations,

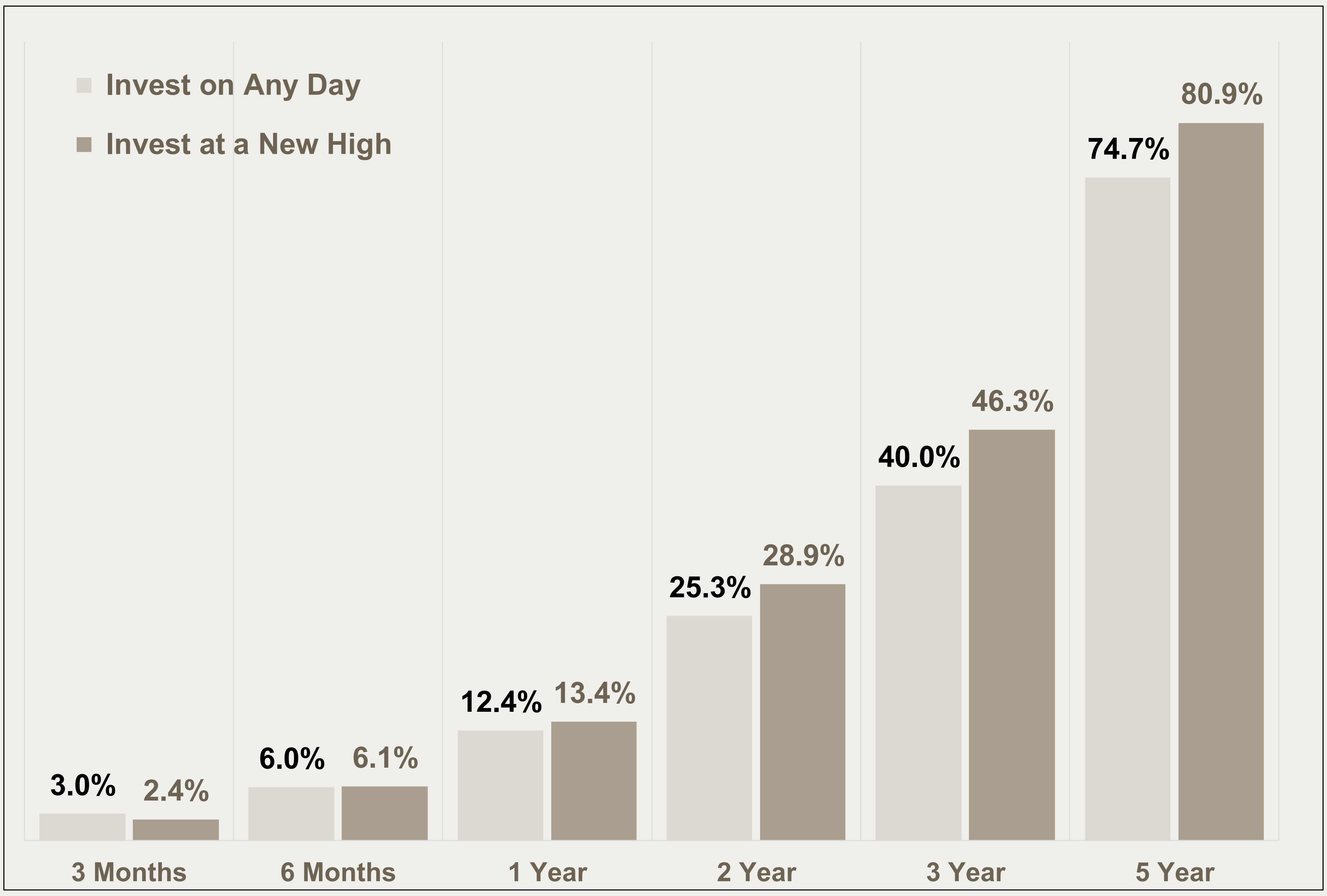
II. As per the Alan Greenspan example, it is extremely hard to time a market exit during a strong market (let alone a bubble). Investors who followed Alan Greenspan suffered from bad short-term timing and inferior long-term returns. In contrast, we recommend rebalancing after a downturn based on typically depressed sentiment indicators.

II. If we are in an AI bubble today, the TMT example of 2000-2002 is most likely the closest analogy. This period highlighted the advantage of exposure to value orientated equities and REITS, and we consider this a useful diversification strategy in 2026.

Navigating Markets at All Time Highs (ATHs) - A Disciplined Approach to Investing

As we write, the S&P500 continues to hover around the 7,000 level as it records an All Time High (ATH) of 6,985 at the inception of 2026. The common fear among investors at such junctures is "should one buy into the markets now or wait for a correction?" Historical data indicates that Investors are likely to make higher returns when entering markets at all-time highs.

Average Cumulative S&P 500 Total Returns – Period January 01; 1988 – December 31; 2024



Source: FactSet; Standard & Poor; J.P. Morgan Asset Management

The above graph compares the average cumulative returns of the S&P500 Total Return Index between 1988-2024. "Invest on Any Day" represents average returns on entering the markets on any random day, while "Invest at a New High" represents the average returns on entering the markets on days when the S&P500 Index closed at a new All Time High. The graph exhibits how the investments performed over 3M, 6M, 1 Year, 2 Year, 3 Year and 5 Year period.

Conclusion: Investments at ATHs have consistently outperformed over a 1–5 Year period. Key drivers being improved fundamentals like earnings, strong macro-economic conditions etc.

Common Fears when the markets record new highs include:

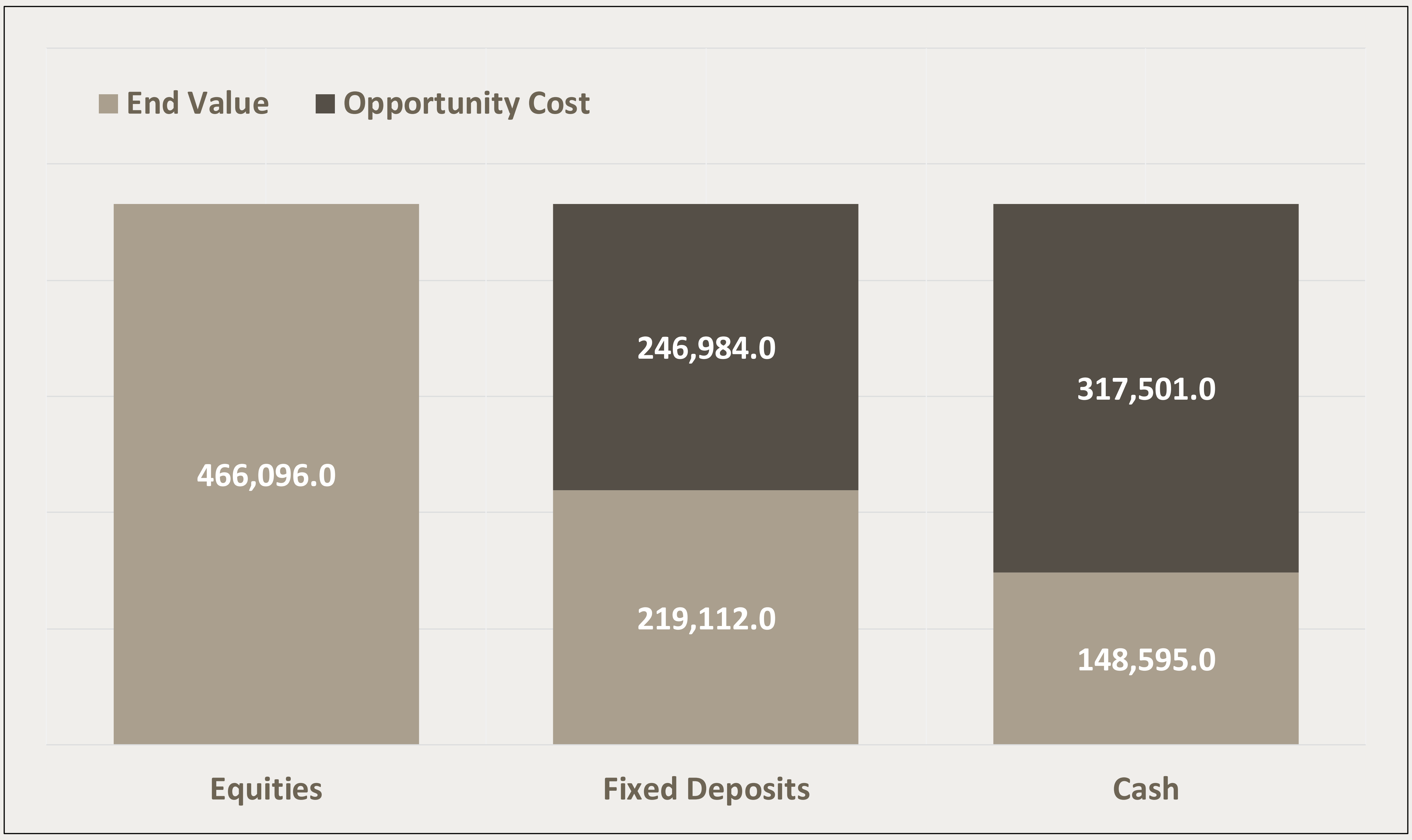
I. Markets are too expensive at current levels

II. A crash is round the corner / markets are in a bubble

III. Waiting for a correction / dip in the markets to take positions

Risk of loss causes investors to fear investing at ATHs more than the opportunity cost of parking funds in Fixed Deposits or staying in cash. However, this pause in investing in the markets comes at a cost.

Opportunity Cost: Financial impact of 20 years on USD 100,000 S&P500 vs. FD vs. Cash



Source :Bloomberg

Asset Class	End Value	Opp. Cost
Equities (8%)	466,096	-
Fixed Deposits (4%)	219,112	246,984
Cash (2%)	148,595	317,501

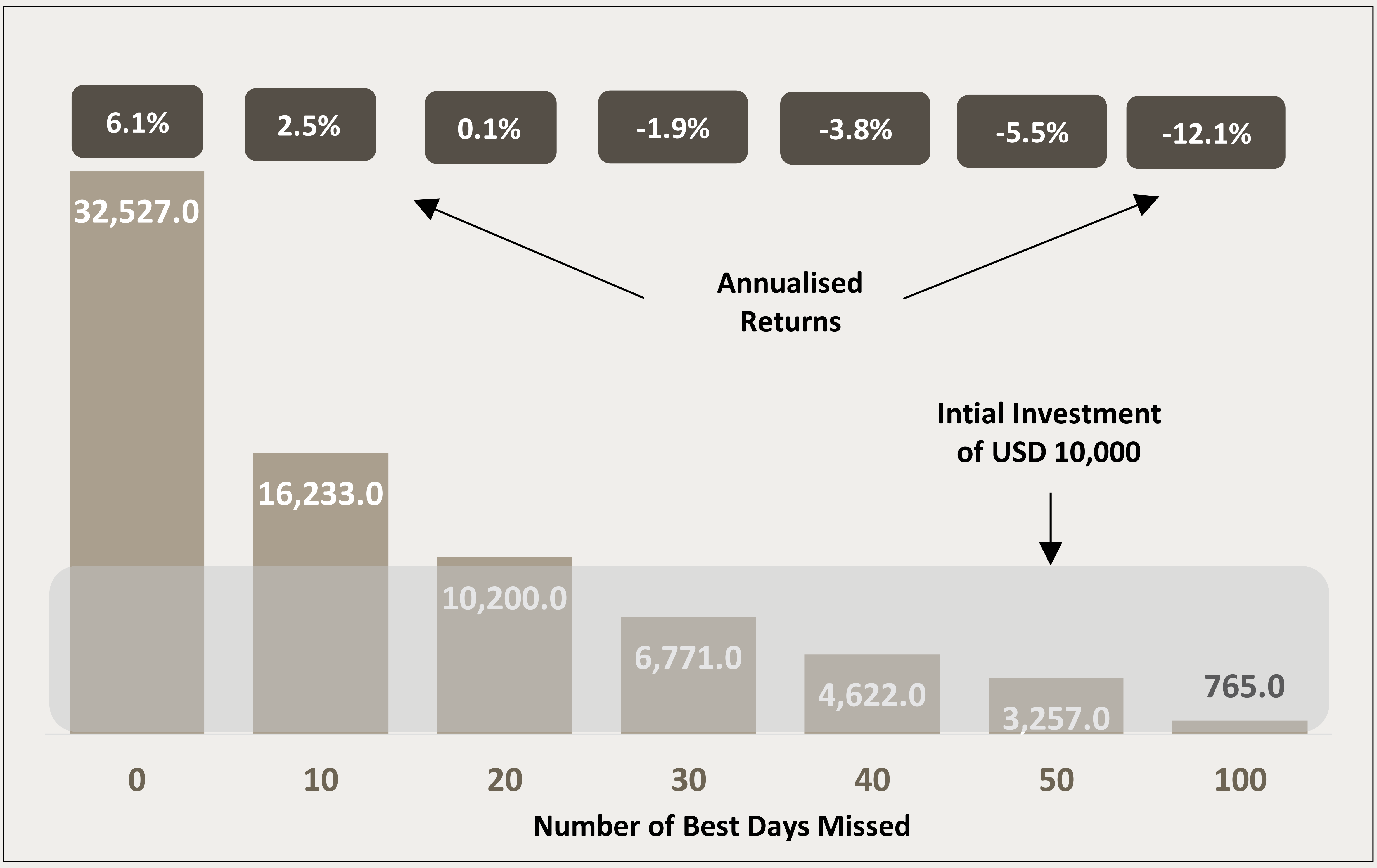
The table above illustrates the opportunity cost of not being invested into Equities. The comparison is made amongst three asset classes - Equities, Fixed Deposits & Cash over twenty years (Jan 2005 to Jan 2025).

Comparing their respective average returns:

- S&P 500 of 8.40% p.a., (rounded off to 8.00% for simplicity)
- Fixed Deposits placed with an institution in the GCC - assumed at 4% p.a.
- Cash – assuming a base return of 2% p.a.

Based on these returns, the table highlights the opportunity cost arising from retaining assets in Fixed Deposits and Cash, as opposed to investing into Equities to generate a higher return.

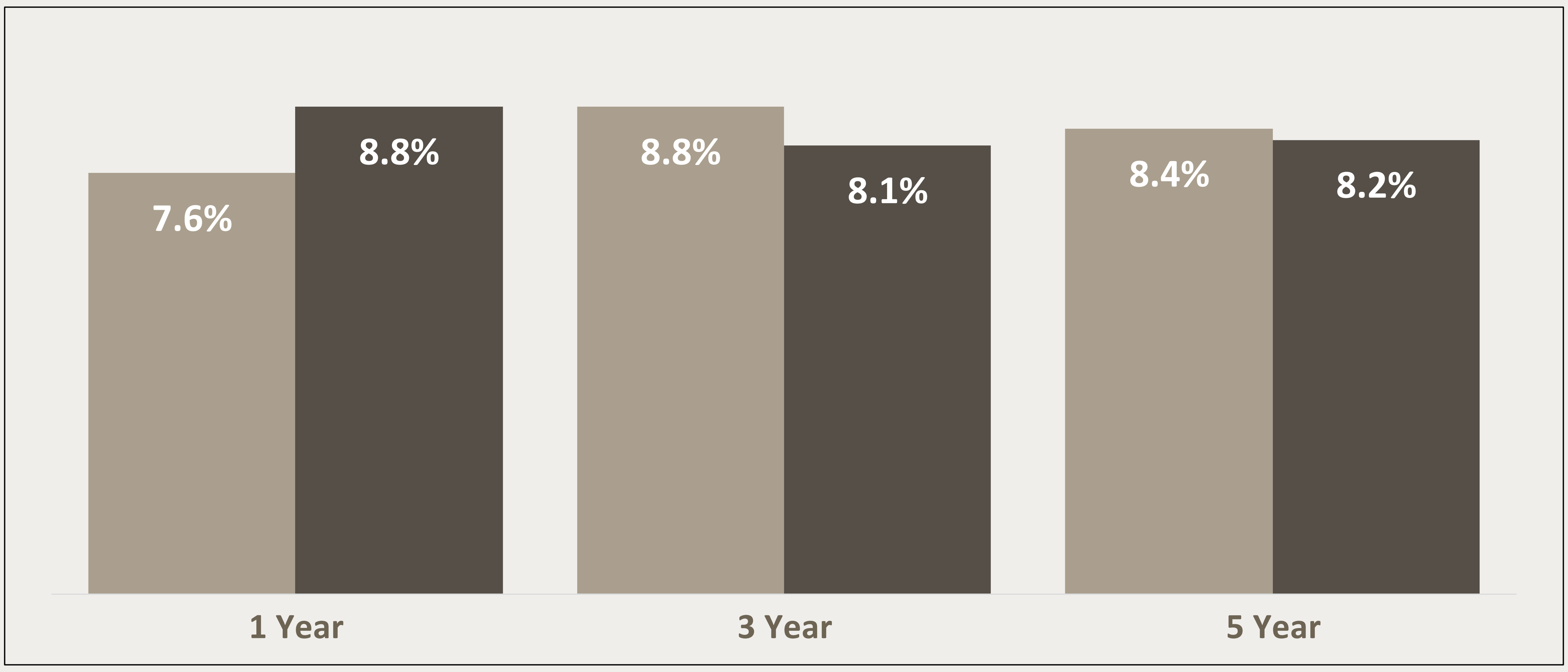
Impact of missing the best days: a 20-year study



Source: Franklin Templeton

The table above illustrates the impact of missing out the 'best' days over a period of 20 years (2000 – 2019). For a hypothetical investment of USD 10,000/- the X axis represents the portfolio value for different numbers of best days missed. For e.g. missing the best 10 days results in a drop in portfolio returns from 6.10% p.a. to 2.50% p.a.

Returns when investing at All Time Highs vs. on Any Other Dates



Source: Blackrock; Period 1957-2025 for the S&P 500

In the chart above, we compare the returns generated by investing at ATH vs investing on all other dates over 1, 3 & 5-year rolling periods. The light bars represent investing at ATHs, and the bars represent investing on all other dates. The inference we draw is that for longer periods (3-5 years) investing at ATHs results in higher portfolio returns as against investing on any other day.

Period	Timing of the Investment	3M	6M	1 Year	2 Year	3 Year	5 Year
2019-2020	Invest at All Time High	5.8%	14.4%	26.9%	2.2%	27.0%	82.3%
	Invest on Any Day	-20.0%	-4.0%	16.3%	47.5%	18.8%	82.0%
2018-2019	Invest at All Time High	-20.0%	-4.0%	16.3%	47.5%	18.8%	82.0%
	Invest on Any Day	13.1%	17.3%	28.9%	49.8%	90.1%	90.3%
2017-2018	Invest at All Time High	-14.0%	-2.7%	2.2%	15.4%	47.8%	47.2%
	Invest on Any Day	-1.2%	1.7%	-6.2%	20.8%	40.5%	43.6%
2016-2017	Invest at All Time High	-1.2%	1.7%	-6.2%	20.8%	40.5%	43.6%
	Invest on Any Day	5.5%	8.2%	19.4%	12.0%	44.3%	112.9%
2015-2016	Invest at All Time High	5.5%	8.2%	19.4%	12.0%	44.3%	112.9%
	Invest on Any Day	0.8%	2.7%	9.5%	30.8%	22.6%	83.8%

Source: KFH Capital Investment Research; Bloomberg

The above table compares the forward returns of the S&P 500 for different time periods from the All Time High and on Any Other Day are calculated. The High is based on the Highest Index Close, while the date for investment on any other date is taken as the inception of the corresponding year, which is entirely for time reference only.

Illustration: For the period 2019-2020, the S&P 500 recorded an All Time High of 3,756.1 which was on December 31; 2020. The corresponding returns are rolling forward returns for respective time period i.e. 3M; 6M, 1 Year etc. The Investment on Any Other Date is considered as December 31; 2019.

Conclusion

As we move through 2026, we expect markets to continue to balance solid economic momentum with some heightened geopolitical and policy uncertainty. Precious metals, Equities, and key GCC markets show ongoing strength, while political risks remain the most meaningful driver of near term volatility.

In this environment, our House View and discretionary portfolios emphasize the importance of diversification. Strategic allocations to Gold, REITs, and value focused managers provide balance and resilience, helping portfolios navigate inflation, rate shifts, and market dispersion. These exposures also complement long term equity holdings by smoothening returns and reducing reliance on any single market driver.

Above all, we continue to advocate for long term investing. Market highs are a normal feature of healthy markets, and history shows that staying invested consistently outperforms attempts to time market corrections. Through disciplined asset allocation, prudent diversification, and the compounding of returns over time, investors are best positioned to build and preserve wealth across cycles.

If you'd like to find out more about how you can introduce many of these investment themes into your portfolio, please contact us or contact your relationship manager directly.

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