



CLEAR HARBOR

ASSET MANAGEMENT

Aaron J. Kennon
Chief Executive Officer & Chief Investment Officer

December 19, 2025

Friend of Clear Harbor,

The year 2025 surprised even the optimists. Rarely have we observed simultaneous outsized returns across equities, fixed income, precious metals and key industrial commodities. Powerful secular forces—AI investment, geopolitical realignment, potent new industrial policy, and continued healing in global supply chains—overrode concerns that tighter trade policy and geopolitical fragmentation would stifle commerce. Indeed, while GDP statistics started 2025 on a negative note, U.S. growth is still expected to notch a healthy 2% for the full year.

Early estimates for 2026 suggest continued expansion, led by the United States and supported by improving conditions in Europe, Japan, and across emerging markets (EM). Yet the sustainability of these trends requires sober examination. Markets rarely deliver back-to-back years of such strength, and the structural forces at play—AI adoption, trade realignment, productivity dynamics, immigration shortfalls, and divergence between asset-owning and asset-poor households—carry as many uncertainties as opportunities.

In this Outlook, I explore the range of outcomes that these and other forces stand to produce, and share how the Clear Harbor team strives to incorporate these considerations within our disciplined broader framework for prudent long-term asset allocation.

2025 Equity Market Review: A Hard Act to Follow

Stock markets delivered robust returns in 2025. As of this writing, U.S. equities have gained approximately 15.7%; international equities are doing even better, significantly outpacing the U.S. for the first time in fifteen years led by Europe (+33.3%) and emerging markets (+32.8%).ⁱ International outperformance was supported by currency strength, lower rates, and commodity appreciation.

On a fundamental level, regional drivers included:

- The extraordinary rise in AI-related capital spending, now permeating virtually every major sector of the global economy;
- Europe's recognition that its post-Cold War defense posture is obsolete, catalyzing a multi-year, publicly funded rearmament and infrastructure modernization effort;

- Japan’s continued break from its 35-year deflationary regime, combined with regulatory pressure on corporates to improve governance and returns; and
- EM’s reprieve from U.S. dollar exceptionalism, new trade flows driven by China’s strategic pivot, and the surge in industrial metals—particularly copper—to record levels.

These returns are exceptional and may be hard to replicate in 2026. Indeed, long-term market history reminds us that this year’s strong performance may have come to some degree from “pulling forward” future returns. Markets typically deliver their gains unevenly, and high starting valuations only amplify the dispersion of outcomes. Since 1929, annual returns for the S&P 500 have averaged roughly 10%—yet the index has also experienced average peak-to-trough intra-year declines of 16%.

With that said, this market has been marked by solid earnings expansion, with the S&P 500 now expected to generate full-year earnings growth of approximately 12%. But with forward P/E’s at close to 23x versus a 10-year average at closer to 18.5x, the current multiple calls for healthy earnings growth to continue apace in the year ahead.

Earnings Multiples Separated Three Years Ago—S&P 500 Market-Cap Weight vs. S&P 500 Equal Weight



Source: Bloomberg LP

Other major indices, including Europe, Japan, EM and China, appear less aggressively valued at 16.3x, 18.0x, 15.8x, and 13.7x respectively. Clear Harbor’s longstanding preference has been to modestly overweight U.S. equities given their many structural advantages, including global revenue exposure, a stable regulatory environment, innovation intensity, and the U.S. dollar-centric nature of our clients’ liabilities. Yet I am increasingly convinced that a singular U.S.-only focus may be strategically incomplete in 2026. Given the anticipation of reasonably strong earnings growth internationally—with EM holding some of the greatest promise—we continue to believe that a global posture in the year ahead is warranted. Valuation asymmetries, policy divergence, and sectoral breadth outside the United States argue for a more diversified global equity stance, which we continue to reflect in most portfolios.

2026 Global Outlook: Shifting Economic and Geopolitical Plates

One defining characteristic of the current environment is the extent to which policy choices in Washington, Brussels, Tokyo, Beijing and beyond shape economic outcomes. The world is no longer integrated along the frictionless, efficiency-first model that dominated the 1990–2020 era. Instead, national security, supply-chain resiliency, industrial sovereignty, and demographic constraints increasingly drive public- and private-sector capital allocation.

In Europe, the war in Ukraine forced a profound strategic awakening. What began as a reluctant policy pivot has evolved into a structural reorientation marked by higher defense spending, energy infrastructure modernization, a shift away from Russian hydrocarbons, and accelerating investment in renewables. To fund all this, the fiscal stance across Europe has turned from austerity to investment—a pivot with consequences for economic growth, stock performance, and fixed income strategies.

Emerging markets are also seeing significant changes. China’s search for new consumers outside the United States and the likelihood of additional tariffs from Europe are accelerating intra-Asia trade. Countries across Asia, Latin America, and parts of Africa are benefiting from stronger currencies, declining interest rates, and improving trade balances. These trends augur a multi-year period of relative performance improvement for EM—a case further supported by inexpensive valuations and secular demand growth for industrial commodities.

The global economy is therefore entering 2026 with momentum, yet under a new regime. Portfolio strategists must anticipate a world of higher government spending, more explicit industrial policy, altered trade corridors, and geopolitical risk as a permanent variable rather than an episodic one.

U.S. Economic Dynamics: AI, Tariffs, Productivity, and Labor

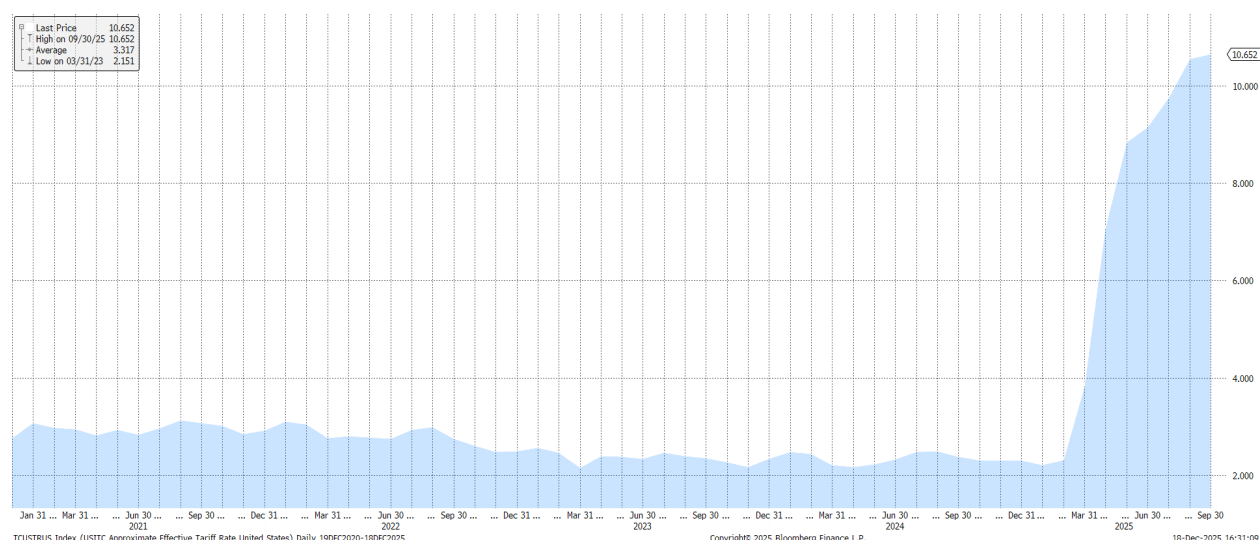
Two macro forces defined the U.S. economy in 2025: elevated and whipsawing tariff rates, and the most consequential wave of capital spending in modern economic history driven by the construction of AI data centers. Both have implications for productivity and labor markets, whose health is essential to rising American prosperity.

- **Tariff Policy**

Even before the Trump administration announced its tariffs, economists cautioned that they would introduce inefficiencies into global supply chains and stoke inflation. In practice, while tariffs may have added to the drag on activity—particularly among smaller companies, which were already struggling with economic deceleration and the end of Covid-era federal supports—they haven’t yet pushed us into the recession many feared. I am hopeful their impact may remain somewhat muted into next year.

There are pushes and pulls to the tariff debate that may take several years to clarify. Rates remain higher than ever before seen in our lifetime, yet they appear to be settling at much lower levels than those initially announced. The tariff regime could diminish further early in the new year if the Supreme Court deems these executive orders an unconstitutional encroachment on Congressional authority.

U.S. International Trade Commission Effective Tariff Rate Percentage (actual effective tariff on US imports)



Source: Bloomberg LP

Even if tariffs stay in place at stable levels, estimating the impact of any trade and manufacturing policy on GDP in real time is difficult. It may take time before we know how much manufacturing will be built back in the U.S. One can't build a factory in six months—or in many cases, even decide to do so. In fact, the most recent Bureau of Labor Statics data indicates that manufacturing jobs contracted again last month, continuing an unwelcome trend for those seeking green shoots in U.S. manufacturing.

- AI: Productivity and Labor Implications

At the aggregate level, the surge in AI investment has compensated handsomely for tariffs and other negatives for GDP. AI capex likely accounted for some 40% of real GDP growth in 2025, and is projected to contribute as much as 1.5 percentage points to GDP in 2026. Markets have responded accordingly: mega-cap technology names—many of which supply the infrastructure underpinning large language models, inference systems, robotics, and generative tools—have benefited disproportionately.

Still, the promise of AI has yet to fully translate into measurable productivity gains across the economy. Productivity growth slowed to roughly 1.5% over the past four quarters, down from more than 3% in 2024. Survey data suggests that while 88% of firms have begun deploying AI tools, only 7% describe their deployment as “mature.” The implication is straightforward: AI's productivity windfall remains ahead of us, not behind us, contingent on broader adoption and deeper integration.

Construction statistics illustrate the tensions of the AI transition. Even as data center buildouts surged 25% year-over-year, non-residential construction is flat, and wage growth in the sector has stagnated. In the longer term, AI capex cannot single-handedly offset any broad economic softness that may emerge.

Labor market dynamics will of course be a central focus. Despite robust GDP growth, the labor market cooled in 2025 and may soften further in the quarters ahead. While employment should find support next year from the fiscal provisions of the One Big Beautiful Bill Act and the recent sharp decline in

immigration, AI raises difficult questions for both blue- and white-collar jobs. Some roles will be augmented, others displaced. New categories of employment will emerge. But the political ramifications of uneven labor impacts—especially in a pivotal midterm election year—should not be underestimated.

From the standpoint of consumer spending and economic growth, declines in white collar employment would have outsize implications given the ever-increasing dominance of this consumer cohort in recent years. But from a societal standpoint, what is critical is the adaptability of individuals across the income spectrum. Government can play a role, but education in both the public and private spheres must also adapt to train workers for a rapidly evolving business landscape.

Doctors will learn to employ robotics in their practices. Bankers will use enterprise AI to help analyze opportunities; risk managers will use it to better understand their exposures. Educators can leverage technologies to better equip their students for the challenges they will face. The list goes on. In some areas, greater productivity will visibly improve the access that “customers”—including patients, students, and professional clients—have to scarce expert services. In others, the drop-off in entry-level job opportunities may feel more salient. In both cases, the time to prepare for this transition is now.

- The “K-Shaped” Recovery

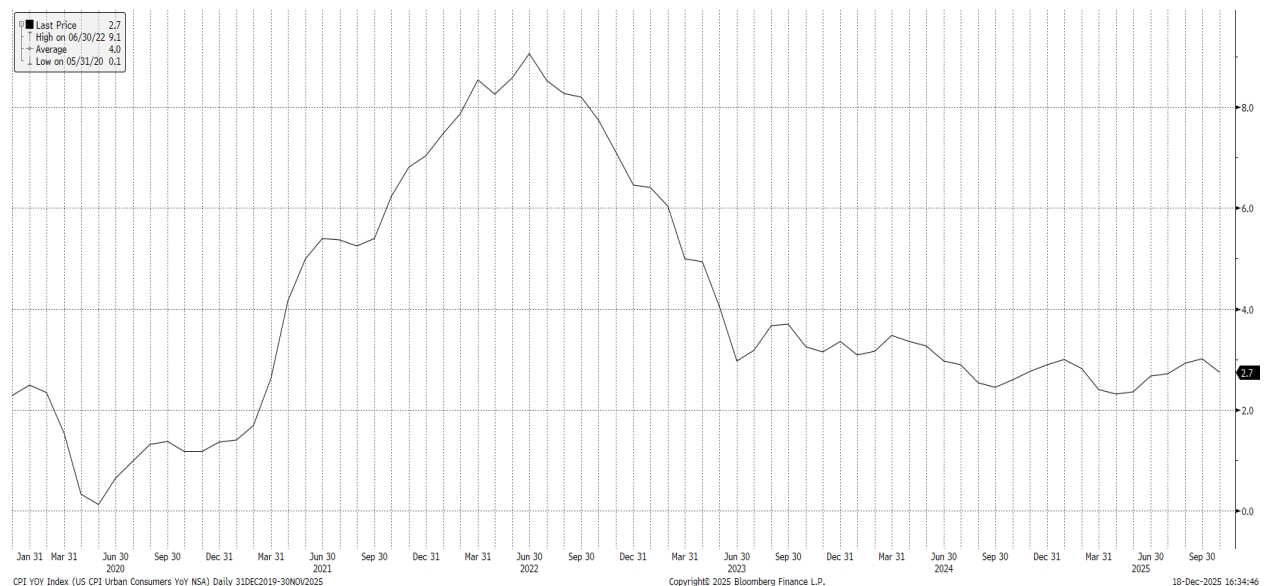
The bifurcation of the U.S. consumer persists. Asset-owning households have benefited from rising markets, higher home values and substantial money market yields, while lower-income households face record credit card balances and elevated auto loan delinquencies. This divide underscores the political and social complexity of the current expansion.

Inflation dynamics may soon offer a modest source of relief. Housing, which has contributed disproportionately to CPI and PCE inflation since 2021, is finally showing signs of moderation. Even as overall residential construction remains tepid, a wave of new rental supply should cool rent growth in 2026, easing a core component of inflation for those on the lower rungs of the economic ladder.

- Growth and Inflation

Healthy nominal growth can serve as a strong tailwind for equity and credit markets, even when some of that growth comes from inflation. This year nominal growth has trended at about 5%, approximately 3% of which is attributable to inflation. We see evidence that decelerating wages and, as noted above, residential rents could pull down inflation in 2026. In fact, this morning’s Consumer Price Index delivered a weaker reading than expected, bolstering hopes that disinflation will continue.

US Consumer Price Index Data (Percent Change Year-Over-Year)



Source: Bloomberg LP

If employment can stabilize and inflation remains subdued, it could set up positively for asset prices in the new year. But for nominal GDP to stay at the same robust 5% even as the contribution from inflation declines, real GDP will need to accelerate to fill the gap—most likely with a strong helping hand from productivity gains. While we are hopeful that AI will contribute substantially to such gains, it will take time for them to become embedded across the economy. This interplay between inflation, real growth, and productivity will be a crucial focus for equity strategists to ponder in 2026 and beyond.

U.S. Equity Outlook: Earnings and Sector Perspectives on the AI Theme

The first phase of the AI revolution was driven by hyperscaler capital expenditures, semiconductor intensity, and the buildout of foundational AI infrastructure. That phase has rewarded a narrow slice of the market; that slice seems unlikely to drive another outsized year of index-level appreciation by itself. Instead, we believe that a meaningful broadening of the equity-market advance is essential if stocks are to generate another year of substantial gains.

- Market Leadership Can Broaden Beyond AI...With Help From AI

This broadening need not come at the expense of AI. On the contrary, we see enormous opportunity as the AI transformation moves from the infrastructure buildout phase to a diffusion of use cases, and AI applications are integrated across a far wider cross-section of the global economy.

In fact, we expect 2026 to see the commercial impact of AI become more visible, not only on a cultural level but within the earnings power of companies deploying these tools. We look for share prices to respond as investors broaden their aperture to a wider array of AI participants, as well as to companies that are poised to apply AI in ways that could capture market share and even trigger paradigm shifts for their industries and customers. As AI-enabled workflows scale, we anticipate improvements in operating

efficiency, higher incremental margins, accelerated product-development cycles, and a measurable uplift in labor productivity—all traditional drivers of shareholder value.

- Earnings Impacts from AI

While the nature and promise of AI are unique, the diffusion of opportunities as transformative technologies proliferate across the economy is a well-established story. From the steam engine and the automobile to electrification and the Internet, periods of broad-based productivity acceleration have historically tended to expand the cohort of companies delivering above-trend earnings growth. As AI adoption grows in sectors such as health care, financial services, industrials, and business services, we see a credible path for firms outside the so-called “Magnificent Seven” to exhibit faster earnings momentum in 2026, narrowing the growth gap that has persisted over the last several years.

This would support healthier market breadth and reduce the S&P 500’s reliance on a small set of mega-cap growth engines. Indeed, expectations are already moving in this direction. As I write, “Mag 7” earnings are pegged to grow roughly 20% next year—an impressive figure, but a substantial deceleration from the 36.5% seen in 2024. While this group is still set to contribute half the total earnings of the S&P 500, the remaining 493 companies in the index are expected to begin closing the gap with growth of 9%. This sets the stage for total S&P 500 earnings growth to accelerate to a projected 13%ⁱⁱ in 2026—an increase from 9.5% in 2024 and approximately 11% in 2025, despite the deceleration in the Mag 7. This convergence in earnings growth rates augers well for an improvement in market breadth in the year ahead.

Clear Harbor continues to emphasize exposure to the drivers of long-term growth, particularly within technology. Perhaps counterintuitively, the scope of opportunity is broadening as investors also become more discerning. Yet this too has happened before. For example, in the mid-1990s, investors gravitated to just a few hot companies at the center of the Internet revolution (Netscape was an early poster child); they soon broadened and diversified their perspective and their investments, as virtually the entire economy found ways to leverage the Web in sector-specific ways.

We see AI investments evolving to a similar rhythm, and we consider 2026 a crucial year for AI diversification within technology and adjacent sectors. Below are some areas beyond tech where we perceive special promise for this theme in the year ahead.

- Recuperation in Healthcare

Valuations across healthcare—especially biotechnology, life sciences tools, and diagnostics—are at historically discounted levels. Despite market indifference in recent years, innovation across gene editing, mRNA platforms, oncology, and computational drug discovery is accelerating. We anticipate meaningful repricing in this sector as investors recognize the durability of the underlying science and the productivity gains embedded in AI-driven drug discovery.

- Materials, Industrial Metals and Energy

Copper's recent ascent to all-time highs underscores a persistent structural imbalance: demand tied to electrification, AI-related power expansion, and large-scale grid modernization is outpacing available supply. With the materials and energy sectors now comprising scarcely 4% of the S&P 500—their lowest combined weighting in twenty-five years—we believe they remain underrepresented relative to their strategic and economic importance. Indeed, a flurry of official announcements this year make clear that critical minerals, industrial metals, and rare earths are poised to benefit not only from commercial demand but also from governments seeking to secure supply chains essential to advanced manufacturing and defense technologies.

At the same time, we see natural gas emerging as a foundational resource in meeting the accelerating electricity requirements driven by AI and data-center proliferation. The scale, consistency, and immediacy of AI-related load demand—frequently growing at double-digit rates—require dispatchable baseload power that can be expanded rapidly and reliably. Natural gas remains the only fuel capable of providing this combination of flexibility, capacity, and relatively low carbon intensity at scale. As hyperscalers, utilities, and regional grid operators confront rising power deficits, we anticipate sustained investment in gas-fired generation, pipeline capacity, and LNG infrastructure to support global demand.

Nor is the renewable energy story over. While a flip in Congress in the midterm elections might force a reversal of some of the current administration's policies pertaining to renewables (such as offshore wind), I believe the more important story is the collapse in commercial solar production costs over the last several years. In fact, solar is now not just affordable, but the fastest way to onboard incremental electricity supply within many regional grids. This is a critical variable given the rapid pace of data center growth and associated electricity demand.

Taken together, the materials and energy complex appears to be entering a multi-year period in which capacity constraints, geopolitical dynamics, and AI-driven power needs are likely to reinforce pricing power and capital investment across the value chain. While the metals, mining, and natural gas rally has already proved strong this year, it could still be early innings for these trends.

- Industrials and the “Reshoring of America”

Data center construction, grid buildout, water infrastructure modernization, commercial solar expansion, and defense spending create a robust industrial backdrop. Moreover, while a mass reshoring of manufacturing to the United States will not happen overnight, it is no longer theoretical: the first stirrings are now observable in project-level investment data. We see opportunity in firms positioned to benefit from logistics modernization, back-up power systems, next-generation utilities, and the transportation networks—in particular, trucking and rail—that will support these shifts.

We also see evidence that efforts are under way to incorporate and apply AI into industrial workflows. These include predictive maintenance systems that reduce unplanned downtime, computer-vision tools used for quality control and defect detection on production lines, AI-driven optimization of energy usage

and logistics scheduling, and the deployment of so called “digital twins” to improve asset utilization and throughput across complex manufacturing environments.

- Index-Level Risks from a “Mag 7” Decline

While I believe that companies outside mega-cap tech could catch up to and perhaps even outperform the “Magnificent 7” in 2026, an absolute decline of the largest stocks could still weigh on returns for the entire S&P 500 index. I am not predicting such an outcome, but I highlight the possibility as a risk of any top-heavy, market-cap weighted index. True diversification demands that we seek exposures to the broader equity market, not just the megacap holdings that dominate the S&P 500. In other words, in “the S&P 493” and beyond, we see not only significant opportunity, but a measure of protection should sentiment reverse around the handful of names that have driven performance in the last few years.

Fixed Income Outlook

Fixed income delivered a notable performance in 2025, with broad-based gains exceeding 7%ⁱⁱⁱ across major sectors including U.S. Treasuries, investment-grade corporates, high-yield bonds, and agency mortgage-backed securities. The rally was propelled by a meaningful decline in interest rates following the U.S. Federal Reserve’s midyear policy pivot, alongside credit spreads that remained near the lower end of their historical ranges. Investment-grade spreads tightened to levels last seen in the mid-2010s, while high-yield spreads compressed toward the vicinity of 325–350 basis points, signaling a market increasingly priced for benign credit conditions.

Today’s strong pricing demands a more discriminating lens when evaluating fixed income securities as we enter 2026. While nominal yields remain attractive relative to much of the period since the Great Financial Crisis, the underlying risk premia in several credit segments have eroded. High-yield valuations in particular imply default and recovery assumptions that leave little margin for error at a time when the distribution of potential macro outcomes is widening. Historically, periods in which high-yield spreads sit in the tightest decile have been followed by below-median returns and heightened downside volatility when growth conditions soften.

In addition to such standalone risk factors, investors seeking ballast, diversification, and risk mitigation must also evaluate fixed income through the lens of correlation. When the going gets tough for the economy, equity markets and high-yield bonds tend to shudder at the same time. We are also mindful of duration exposure, credit quality, and the shape of the yield curve. Weaker labor conditions and disinflationary trends are pulling down short-maturity Treasury yields, while the long end of the curve has stayed virtually unchanged amid investor vigilance over an ever-expanding federal debt-to-GDP ratio. Similar considerations apply to developed markets from the UK to Japan, undermining arguments that the price improvement seen of late in short-dated bonds might soon extend further out the curve.

Alternatives

The alternatives segment of the broader capital markets universe has delivered generally reasonable and, in many cases, uncorrelated returns for our clients. In fact, many of these strategies exhibit low or

even negative correlation to traditional long-only equities and fixed income, thereby providing a meaningful source of diversification at a time when public-market beta has become more concentrated and more volatile.

We remain cautious and selective in our approach to this expanding segment of the market. As with public credit, we recognize that private credit is not a homogeneous asset class and requires careful underwriting to assess both its relative attractiveness and its suitability for individual clients. While we do not exclude private credit opportunities from our investment process, we are mindful that the return assumptions often embedded in this portion of fixed income must be rigorously evaluated at both the security and manager level. Importantly, we also emphasize that the illiquidity inherent in private credit should be compensated by a clear and durable return premium relative to comparable public credit instruments, controlling for duration, covenant quality, and default risk.

Instead, our focus has centered on areas within the alternatives landscape where we believe expected returns are less dependent on broad market direction. These include merger arbitrage strategies that seek to monetize deal spreads with well-defined catalysts; statistical arbitrage and market-neutral approaches that exploit dislocations in factor and flow dynamics; catastrophe bond strategies benefiting from structurally improved pricing and a decade-high insurance-linked securities spread environment; select long/short equity funds that demonstrate consistently high hit rates and disciplined net-exposure management; and targeted private equity opportunities where asymmetric return potential aligns with a manager's discernible edge.

While each client's objectives, liquidity needs, and risk parameters differ, we maintain a skeptical posture toward alternatives broadly. Our objective is not simply to "own alternatives," but to curate exposures that provide genuinely differentiated return streams—sources of alpha and risk mitigation that cannot be replicated in public markets. This philosophy guides our manager selection, emphasizes transparency and repeatability of process, and prioritizes strategies that enhance overall portfolio resiliency without introducing hidden leverage or undue complexity.

Gold

I maintain the view that gold remains a strategic component of a diversified portfolio despite its more than 65% year-to-date appreciation.^{iv} The fundamental backdrop continues to support the metal. Global central banks, led by China, Turkey, India, and several emerging-market reserve managers, have acquired more than 1,000 metric tons annually for two consecutive years, marking the strongest official-sector demand on record. This accumulation reflects a deliberate move to diversify reserve assets away from the dollar, euro, and other major currencies amid rising geopolitical risk and long-term concerns about fiscal sustainability across advanced economies.

Moreover, the macro context reinforces gold's portfolio relevance. Persistent deficit spending in the United States—running above 6% of GDP even at full employment—combined with the prospect of renewed central bank balance-sheet expansion should financial conditions tighten has increasingly prodded investors to seek assets that are uncorrelated with sovereign credit and currency regimes. Real

yields, while elevated relative to the post-GFC era, remain negative over long horizons when measured against expected nominal GDP growth, a relationship that historically has also supported gold prices.

Taken together, these dynamics strengthen gold's role as a diversifier. The asset continues to exhibit low correlation to equities and fixed income during periods of macro stress, and its sensitivity to real rates, fiscal trajectories, and geopolitical risk offers a distinct hedge that is difficult to replicate elsewhere in liquid markets. This includes crypto currencies, which in recent years have experienced major corrections that have not correlated with the price of gold as many suspect.

U.S. Federal Reserve Policy

I believe the Fed is on a path to lower rates further in 2026. This is predicated on evidence that the employment picture is softening and inflationary pressures are far less hot than just two years ago, as well as political pressure emanating from the White House in a year that will see both midterm elections and a new chairman at the central bank.

While the President hopes lower interest rates will provide some sense of relief to consumers and debt holders (and voters), market participants may prove less willing than the Fed itself to accept inflation above its longstanding 2% target. Such "bond vigilantes" might well keep longer-dated interest rates higher, even if a newly dovish Fed persists in lowering short-end rates. Such a scenario might prove the current parlor games around the next Fed chair moot: let's not forget that the 10-year Treasury yield drives prevailing mortgage rates far more than short-dated Treasuries do.

International Economic Outlook

- **Europe: A Continent Reorients**

Europe's transformation over the past two years is one of the least appreciated but most consequential macro developments in the world. A region long criticized for bureaucratic inertia, low growth, and structural rigidity is now deploying fiscal resources with greater flexibility and purpose. As noted above, at the center of the agenda are defense spending, infrastructure investment, and energy security. Germany's shift is particularly notable as the nation ends a decade of fiscal restraint and embraces a strategy that emphasizes capability and resilience.

Energy policy is perhaps the clearest evidence of Europe's newfound pragmatism. What was once an existential vulnerability—heavy dependence on Russian natural gas—has become a point of strategic redirection. LNG terminals have been built at unprecedented speed, renewable investment accelerated, and storage capacity expanded. Europe still faces structural challenges, but the degree of vulnerability that existed as recently as 2022 no longer defines and limits the investment case in the region.

European equities have already benefited dramatically from this reorientation. Whether 2026 offers a continuation or a pause will depend on the execution of fiscal programs, corporate responsiveness to incentives, progress toward resolving the conflict in Ukraine, and the Continent's ability to convert spending into productivity gains.

On balance, we remain constructive on Europe. Valuations remain attractive relative to the United States, and sector composition—rich in industrials, financials, defense, and materials—aligns with the contours of the new global economic regime. Europe’s more balanced sector profile also contrasts with the extreme concentration of U.S. indices in technology, offering diversification benefits at a moment when U.S. mega-cap multiples appear extended.

- Japan: Reflation and Reform

Japan enters 2026 navigating three major forces simultaneously: reflation after decades of deflation, corporate governance reform, and a generational shift in political leadership. Prime Minister Takaichi appears committed to maintaining fiscal support across strategic sectors while acknowledging the risks associated with excessive public borrowing.

Interest rates have risen to their highest level since 2007, reshaping portfolio preferences across Japanese households and institutions. The multidecade “yen carry trade,” in which savers bought higher-yielding foreign assets, is less appealing in a rising-rate environment. If domestic rates rise further—especially if tied to productivity-oriented fiscal expansion—the yen could appreciate meaningfully, reinforcing a preference for domestic assets. It would also boost returns for dollar-denominated investors in Japanese equities.

We remain constructive on corporate Japan, and believe that if the impetus to reform remains a prevailing wind there, the new year could reward investors once again. The policy mix remains supportive, corporate reforms are not yet fully priced into valuations, and earnings growth potential is better than in prior cycles. Yet the constraints are real: demographics, debt sustainability, and currency volatility could challenge policymakers in 2026 and beyond.

- China: Weak Cyclical Data, Strong Strategic Ambition

China’s cyclical indicators remain weak. Manufacturing PMI has contracted for eight consecutive months, and non-manufacturing activity recently slipped below 50 for the first time in nearly three years. Tariffs, weak external demand, and domestic consumer caution are all weighing on growth.

Exports are faltering as much of the world is currently shrinking from Chinese-made goods, which must either find new markets or flood existing markets with uneconomic products. Meanwhile, the nation’s efforts to turn the battleship of its economy from export-driven manufacturing to consumer-led domestic goods and services are simply not working. Domestic retail sales rose just 1.3% in November from a year ago—the lowest figure on record excluding the pandemic, and worse than every estimate in a Bloomberg survey of analysts, whose median forecast was for a second month of 2.9% growth. The government has stopped even reporting certain economic data, including youth unemployment.

But I also caution the most skeptical of western observers not to doubt that China is playing the long game. The communist nation remains eager to access western technologies, control the flow of critical rare earths, and impact emerging and developed countries near and far. Beneath the cyclical slowdown, China is accelerating investment in AI, advanced computing, and next-generation manufacturing.

Chinese firms are also deploying capital at a scale intended to ensure technological sovereignty irrespective of U.S. or European trade restrictions.

These factors have all left China's equity market among the cheapest on a global basis. In our view, policy unpredictability and sustained economic stress justify this discount, and warrant risk-controlled positioning for clients with an appetite to allocate there. Nevertheless, we see strategic areas—AI infrastructure, robotics, semiconductors, and industrial automation—continuing to attract substantial government and private investment, even if China's economic activity remains uneven in 2026.

*

The global economy enters 2026 stronger than many expected, yet shaped by a new set of structural forces: AI adoption, shifting geopolitical alignments and industrial policy, labor market transitions, and fiscal expansion across major economies. Asset markets have already priced in a portion of this transformation, especially in the United States. But opportunities remain across regions and sectors that have not yet fully participated—or that stand to benefit from enduring secular tailwinds.

For investors, 2026 is likely to be a year defined not by a repeat of 2025's outsized returns, but by dispersion, selectivity, and a renewed focus on valuation discipline. Clear Harbor remains committed to prudent, globally informed, risk-aware portfolio construction. We recognize both the extraordinary opportunities created by this new economic regime and the uncertainties inherent in a world undergoing rapid change. On behalf of the entire Clear Harbor team, I thank you for your continued trust at this fascinating moment, and wish you the very best for the holidays and the new year.

Sincerely,

A handwritten signature in dark ink, appearing to read "Aaron Kennon", with a long, sweeping horizontal line extending to the right.

Disclosure:

Clear Harbor Asset Management, LLC ("Clear Harbor") is an SEC registered investment adviser with its principal place of business in the State of Connecticut. Clear Harbor and its representatives are in compliance with the current notice filing requirements imposed upon registered investment advisers by those states in which Clear Harbor maintains clients. Clear Harbor may only transact business in those states in which it is notice filed, or qualifies for an exemption or exclusion from notice filing requirements.

The material contained herein is intended as a general market commentary. The commentary may contain general information and views that are not directly relevant to your particular account. Opinions expressed herein are those of Aaron Kennon and may differ from those of other employees and affiliates of Clear Harbor Asset Management

LLC. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security. Any comparison to an index, including the S&P 500 and Russell 2000, is for comparative purposes only. An investment cannot be made directly into an index, which are unmanaged and do not reflect the deduction of advisory fees. This brochure is limited to the dissemination of general information pertaining to its investment advisory services. The current account composition is intended for informational purposes and allocations are subject to change.

For information pertaining to the registration status of Clear Harbor, please contact Clear Harbor or refer to the Investment Adviser Public Disclosure web site (www.adviserinfo.sec.gov). For additional information about Clear Harbor, including fees and services, send for our disclosure statement as set forth on Form ADV from Clear Harbor using the contact information herein. Please read the disclosure statement carefully before you invest or send money.

ⁱ Returns are for the S&P 500 Index, MSCI All World Ex-U.S. Index, MSCI Europe Index, and MSCI Emerging Markets Index, respectively, as of December 17, 2025.

ⁱⁱ FactSet Data as of December 15, 2025.

ⁱⁱⁱ Bloomberg Aggregate Bond Index as of December 17, 2025.

^{iv} As of December 17, 2025.