Capicura Partners – Outlook 1st Quarter 2026

December 18, 2025

«Sweetly Ring the Interest Bells»

- ***AI stocks put quality names into hibernation – but for how long?***
- ***Generous financial conditions support stock markets***
- ***USD yield curve has normalized***
- ***Donald Trump: the inflation «Grinch»***
- ***Asset allocation: stay invested with partial hedging***

If you're feeling overwhelmed by the stress of Christmas, just read the summary from AI Santa Claus:

When rate bells softly chime,
Risky assets start to climb
🔔🔔🔔
Prices dance, the basket grins,
Santa sighs: «Tonight's no wins!»
🔔🔔🔔
Silver shines like tinsel bright,
Locking gains feels just right
🔔🔔🔔
The FED gifts cuts beneath the tree,
Yet caution is the safest key
🔔🔔🔔
So pack your portfolio with care,
Hedges too — for 2026, beware!

In 2025 the stock markets were characterized by increased concentration. Artificial intelligence (AI) dominated investor interest, capital flows, and headlines. Roughly half of the S&P 500 Index's market capitalization is currently considered directly or indirectly AI-related. Driven by high investments in data centers and optimistic earnings expectations, the stock markets reached new highs (in local currency). Simultaneously, quality stocks have been in hibernation for quite some time. Companies with stable cash flows, solid balance sheets, and attractive dividends are lagging overall market performance. Swiss quality companies, despite robust fundamentals, could not benefit from the general stock market upswing either. This divergence is less a sign of structural weaknesses but more the result of an extreme focus on growth and momentum. However, the AI narrative is now showing its first cracks. Investors are questioning the high investments and some highly optimistic accounting practices much more critically today than they did a year ago. In an environment of low interest rates, increased uncertainty, and growing volatility, quality, pricing power, and stable dividends are regaining importance. Particularly for CHF investors, this segment remains highly attractive.

Loose monetary conditions – support with side effects

One key driver of aggressive investor positioning is the persistently loose monetary environment. The Goldman Sachs World Financial Conditions Index illustrates how expansionary global financial conditions remain. The lower this index, the looser the global monetary environment (Fig. 1). In December, the US Federal Reserve (FED) cut interest rates for the third time this year. This development is having a stabilizing effect on the markets in the short-term and explains a large part of the persistent risk appetite. At the same time, there is a danger that this easing will mask real economic weaknesses and further encourage misallocations. The Swiss National Bank (SNB) has remained at 0% for several months, a level we expect to persist in 2026.

Fig. 1) Goldman Sachs World Financial Conditions Index
Data: Bloomberg / Chart: Capicura Partners

USD yield curve normalizes

A look at the US bond market reveals a mixed picture. While interest rates at the short end are managed by the central bank, the long end of the yield curve is determined by the market and simultaneously reflects inflation expectations. Comparing the current yield curve with the one from the end of 2024, it becomes evident that short-term interest rates are lower due to the FED's cuts, but long-term yields (20 years) remain unchanged (Fig. 2). At its last meeting, the FED cut the interest rate by 0.25%-points and additionally announced the monthly purchase of US Treasury Bills worth USD 40 billion. Declared as «Reserve Management Purchases (RMP)», the US central bank is pumping additional liquidity into the market and thus returning to quantitative easing!

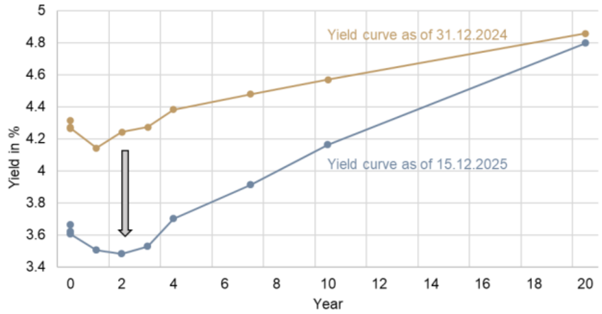

Fig. 2) USD yield curve
Data: Bloomberg / Chart: Capicura Partners

Inflation: a US problem with global relevance

More liquidity, higher tariffs, increased government spending, and further interest rate cuts. These are all inflationary measures born in the USA. While inflation in Europe and Switzerland has largely normalized, price pressure in the US remains stubborn and has the potential to further increase. If not in the next quarter, then most likely later in the year. In this environment, the risk of stagflation remains present: weaker economic growth coupled with higher inflation. These expectations proved to be fertile ground for real assets in 2025. Among others, precious metals such as gold, silver, and palladium, as well as mining stocks, had a noticeable positive impact on our performance. Due to ongoing inflation concerns, robust industrial demand, and the weakness of the US dollar, we feel confirmed in our increased allocation to precious metals (Fig. 3).

Fig. 3) Cartoon by HEDGEYE

Expectation management: back to normal

Finally, realistic expectation management is crucial for us. After 2024, 2025 was another positive year. Our balanced investment strategy gained between 9% and 12% in Swiss francs. However, caution is called for, as double-digit annual returns remain the exception and not the rule. For CHF-investors, average annual target returns with this risk profile are more likely to be in the range of 3 to 5%. That is why we are starting the new year with an unchanged equity allocation, but have implemented partial portfolio hedging via S&P 500 put warrants to guard against rising volatility.

Asset Allocation	Q1 26	Q4 25	Q3 25
Cash	*8%*	*9%*	*8%*
Fixed Income	*14%*	*14%*	*20%*
Equities	*53%*	*52%*	*48%*
Alternatives	*25%*	*25%*	*24%*

Fig. 4) *Suggested asset allocation for a Balanced Portfolio in Q1 2026*

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We wish you and your loved ones a joyful festive season and a successful and healthy New Year!

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