February 5, 2026

BILBoard February 2026 – Weathering Market Heights

Based on the Asset Allocation Committee of February 2 2026

This month, Emily Brontë's classic novel *Wuthering Heights* will hit the big screen, taking viewers into a world of tumultuous emotions and windswept grasslands. For market watchers the title is somewhat relatable, with "wuthering" referring to the blustery, windy conditions on an exposed hillside – an apt description of today's market landscape. After an impressive rally, equity indices hover near record highs: the S&P 500 crossed the 7,000 mark for the first time in late January, while safe havens like gold and silver retreated. At such great heights, stocks appear increasingly exposed to various crosswinds whether it be shifting policy signals from Washington, persistent geopolitical risks, growing discernment around the AI theme, or simply profit-taking. Against this backdrop, at our latest Investment Committee, we continued our measured rotation away from large-cap US equities toward a broader opportunity set.

More specifically, we chose to shift an additional portion of our US equity holdings into an equally-weighted basket, resulting in exposure to a wider swathe of US companies. This reflects our observation that earnings growth is beginning to broaden beyond the megacaps, supported by a resilient economic backdrop. The most recent earnings season has also highlighted the high expectations bar facing the largest US companies. Sharp reactions to what were decent results from several large technology firms underscore the growing scrutiny around the AI theme and the scale of capital expenditure required.

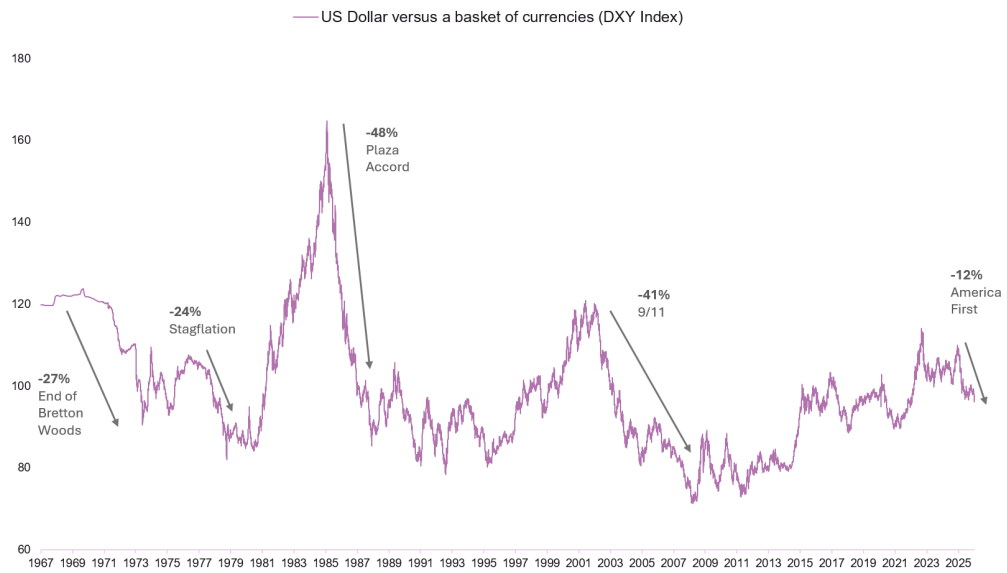
To be clear, we continue to view AI as a compelling structural growth theme. Ongoing technological advances have the potential to accelerate capital investment and, over time, translate into meaningful gains in productivity and economic growth. That said, we remain mindful of certain shorter-term risks. These include the circular nature of many AI ecoystsems – where suppliers, customers and investors overlap – as well as the challenge, further downstream, of achieving sufficient visibility on ROI before AI adoption can be scaled sustainably. As the initial hype fades, companies are grasping the reality of implementing AI technology, with a more sober focus on factors such as governance, data readiness, and execution. In the near-term, this suggests the theme could prove vulnerable to episodes of volatility, which might be amplified by the rise of passive investing. This reinforces our preference for diversification and our desire to avoid excessive concentration in megacap names.

We have also diversified part of our US equity exposure towards Emerging Market (EM) equities. Until 2025, EM had lagged developed markets for more than a decade, but that narrative has begun to shift. Our move toward greater diversification does not reflect pessimism: we remain overweight US equities overall. Rather, a modest rotation toward non-US markets and less correlated return streams reflects an acknowledgement that market climates can change. Indeed, EM equities are benefitting from a favourable environment, consisting of a weaker dollar, an improved fiscal standing and good economic growth prospects, supported by structural trends such as favourable demographics, rising consumption and investment flows. The IMF expects Emerging & Developing economies to grow 4.2% in 2026, vis-à-vis 1.8% for Advanced Economies. Moreover, some upstream and downstream winners of the AI theme are located in EM.

With regard to our currency allocation, we further reduced our USD exposure, sizing the opportunity to increase hedging during a recent moment of dollar strength. Since President Trump's inauguration, the US dollar has retreated from a decade of momentum, recently

touching a four-year low against a basket of currencies. Looking ahead, the currency remains vulnerable to Presidential pressure for lower interest rates, unorthodox policymaking from the White House, concerns about the fiscal deficit, and a global trend of greater diversification beyond US assets. Markets are also pricing in two further Fed rate cuts this year, which could present an additional headwind. While President Trump's nomination of Kevin Warsh to succeed Jerome Powell has raised speculation about a more dovish stance, markets are for now, still pricing a more pragmatic approach.

When the dollar moves lower, it tends to do so in structural way



Source: Bloomberg, *BIL*

Turning to fixed income, corporate investment grade credit remains the cornerstone of our bond allocation. European investment grade spreads have remained relatively stable, supported by what might be described as a "Goldilocks" environment: steady growth, low and stable inflation, robust demand and a supportive primary market. In the Sovereign space, we rotated into Italian government bonds, which offer attractive yields relative to core Europe and should continue to benefit from yield-hunting behaviour in the first half of the year. Political risk remains at bay, rating agencies note an improving outlook, and recent data point to stronger-than-expected growth into late 2025.

The central message of *Wuthering Heights* is that when passion is your sole focus, it comes at a cost. For investors, blue-chip market leadership in the US has been powerful, yet concentration brings risk. While abandoning the heights altogether would be excessive, remaining fully exposed to the gathering winds would be imprudent. Investors who endure over time are rarely those who chase the storm, but those who build shelter before the winds shift.

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