



February 2026

2026 ANNUAL INVESTMENT LETTER

The Sun Still Shines, Even When
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Seldom have times been this good but the overall sentiment so cloudy.

Equities across the globe are hovering around all-time highs, consumption and wealth are expanding, short-term interest rates are moving lower, and the gears of private equity are beginning to turn again. Yet we see some investors fretting as they grapple with geopolitical tensions, fiscal deficits, and the all-encompassing dominance within capital markets of technology heavyweights and big spenders of artificial intelligence. Welcome to the world of investing in 2026, where the general mood of investors tracks more in line with Eeyore, the despondent donkey from Winnie the Pooh!

In times of unease, it is comforting to seek familiarity, and double down on what's worked in the recent past. At NEPC, we believe learning from the past is more important than repeating it. We also believe comfort is overrated and we understand that opportunities appear when markets are knocked off balance. Grounded in this approach is our unwavering belief that diversification and leaning into volatility in periods of market stress are key to investment success over the long term.

As a result, we encourage investors to consider maintaining their focus on strategic objectives and financial goals when fear and volatility loom. We believe diversification, combined with rigorous processes focused on overcoming biases will be rewarded over time.

Like two repelling magnets forced together, there are opposing forces prevalent in markets today, creating discord within investors. On one hand, the S&P 500 Index has racked up annualized gains of 23% over the last three years but, on the other, a hefty portion of those profits stem from a handful of technology stocks, ratcheting up concentration risk. Dueling forces are ever present, with an economic expansion powered by outsized government deficits offset by flagging confidence in global currencies. Then, you have a Federal Reserve and its delicate dance of lowering interest rates while keeping inflationary pressures at bay.¹

At the same time, we believe some investors are caught between the pull to tilt portfolios more heavily to past successes and the push to maintain a diversified portfolio that may require discipline (and the regret of leaving gains on the table). While sustained investment growth can extend over multiple periods, often defying expectations, history tells us that these times do eventually end...often when least expected. With Eeyore's melancholy not isolated to his home in the Hundred Acre Woods, it is no wonder that the price of gold is scaling new heights.² The allure of gold is powerful with such a mindset and yes, we can assume Rabbit is storing more than carrots for a rainy day. While you can delegate an

^{1,2} As of 12/31/2025, Source: NEPC, FactSet, S&P 500

AI model to pair each Winnie the Pooh character to an asset class, we can all agree Tigger is a crypto investor!

As we view the current investment landscape through our 2026 market themes— *navigating the AI froth, look to the U.S. economy, labor market dynamics, and do not fear the U.S. dollar*— we acknowledge there are no easy answers. While our market themes are based on the key trends we are likely to see in 2026, our investment opportunities are shaped by market fundamentals, sentiment and risk. To this end, in a world of elevated valuations, we see a greater importance for alpha as the outlook for equity and credit beta takes a step back.

We do not see a bubble at this point in the broader public equities market despite the stellar multi-year gains from mega-cap names in the S&P 500³. However, the concentration risk of mega-cap stocks in global equity indexes cannot be overlooked as the massive spend on AI technology flows to a select number of companies. We believe being mindful of aggregate portfolio equity positions while monitoring outsized tracking error levels associated with the largest mega-cap names and their earnings power can benefit investors, especially those looking to balance exposure to these companies with value and quality stocks.

In addition, we see opportunities in active U.S. approaches with a range of smaller large-cap equities to larger small-cap stocks, which is in line with the factor exposures associated with a diversified U.S. exposure. Overall, we are biased to maintain equity exposures in line with strategic policy targets, and we see potential for investors to look for opportunities to rebalance across market segments should volatility arise.

Within public equities, active management has been challenging following a strong, concentrated run in recent years, but we remain optimistic of its potential as alpha is available across U.S. small/mid-cap stocks and non-U.S. markets. We see opportunities for strategy diversification and we believe investors will be rewarded over time with a focus on best-in-class investment strategies and lower investment fees achieved through scale.

Elsewhere, in public credit, we believe the outlook for U.S. investment-grade corporate debt remains supportive despite below median credit spreads, underscoring higher bond yields and the robust balance sheet of the corporate sector⁴. Amidst these tighter credit spreads, we are noticing a shift among lower-quality borrowers towards private transactions. As a result, public high-yield indexes are skewing to a moderately higher quality profile. These new entrants are driving a convergence of public and private lending that we believe could increase pressure to transact on both the buy and sell sides, potentially giving rise to new opportunities with a tailored focus on complexity and manager selection.

We remain wary of non-investment grade public debt as credit spreads sink to near cyclical lows. Our outlook for safe-haven and high-quality fixed income is reflective of the risk-return benefits offered to high Sharpe ratio or fixed-income-heavy portfolios. With interest rates near historical averages, we are biased to holding high-quality, liquid assets, and to maintain appropriate safe-haven fixed-income exposure for portfolio liquidity and downside protection.

^{3,4}As of 12/31/2025, Source: NEPC, FactSet, S&P 500, Bloomberg

Meanwhile, in private markets, we believe it will be beneficial to seek opportunities to be liquidity providers while maintaining consistent **pacing** across commitments. We are also in the midst of a major shift in market dynamics amid demand from a new wave of wealthy and retail investors: While fundraising by general partners and commitments from limited partners remain the primary tool for raising capital, we see new mainstays with the growth of co-investments and continuation vehicles, especially among buyout funds. We are incorporating these dynamics when underwriting and managing private markets portfolios, and we encourage you to reach out to learn more.

Within private equity, we observe that valuations have largely stabilized, with the major exception of the AI sector. We see exit and deal activity on the upswing, and we believe manager selection remains paramount. We are biased to the lower-middle market because it offers lower entry valuations and debt burdens with expanded exit opportunities compared to the large end of the market. In addition, we have observed secondaries become a primary investment tool and there is now greater pressure to transact across investor bases.

Meanwhile, we believe dynamics are shifting in **private credit** as general partners look to sell troubled, underperforming or long-held positions. Separately, we see opportunities globally for enhanced diversification in private real assets. With significant spending on digital infrastructure, we believe it to be prudent to exercise caution in crowded spaces like data centers. Overall, in light of the above, we believe consideration should be given to re-uping with proven managers in private markets.

Above all else, we believe it will be beneficial to remain disciplined and stay focused on long-term strategic objectives. We are steadfast in our belief that diversification will be rewarded over time. Looking ahead, 2026 may simply be a good year for investors to slow down, be patient, and take their time when reaching for that pot of honey.

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