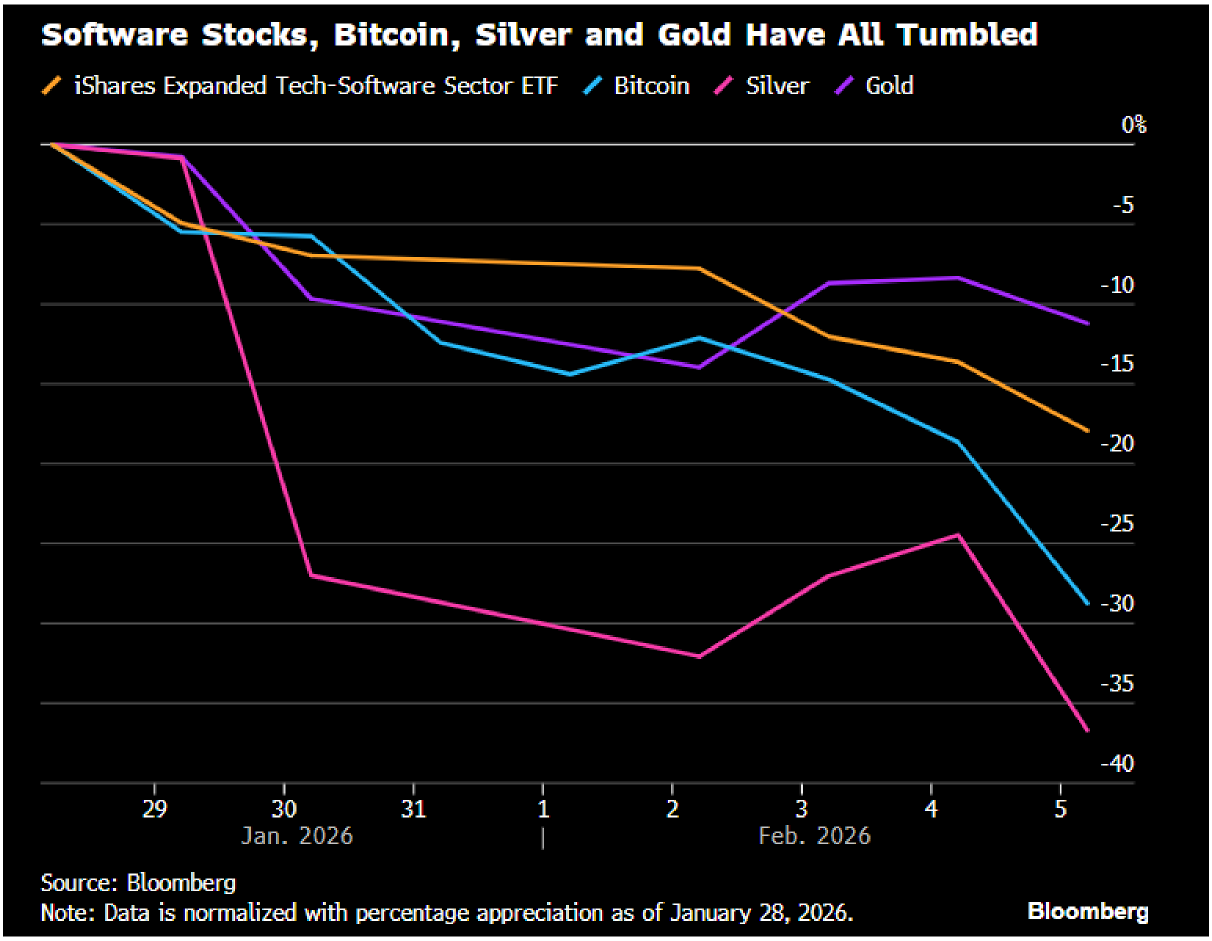
thenavigator

Winter 2026

Deja Vu

As I sit down to write this newsletter, it almost seems as if nothing at all has happened since last November! Following a modest recovery, Bitcoin has resumed its downtrend as momentum investors dump their holdings.

Source: "XBT/USD" chart: Bloomberg



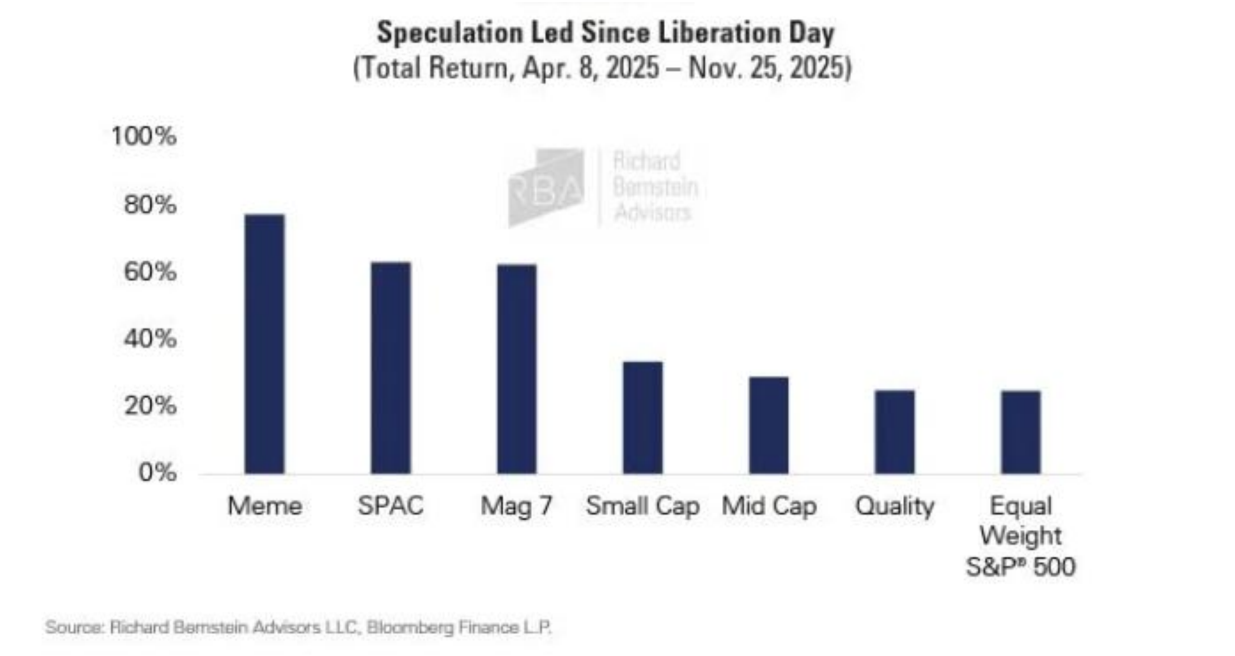
Source: "Software Stocks, Bitcoin, Silver and Gold have all tumbled" chart: Bloomberg

Retail traders' favorite trades continued to implode but precious metals such as gold and silver joined the party briefly before facing their own challenges along with software stocks.

The current obsession with momentum investing (buying what's hot on the basis that it will go higher) has been imploding in spectacular fashion. Yet, investors continue to pursue this strategy – perhaps because it has been profitable in the recent past, so they expect it to work again.

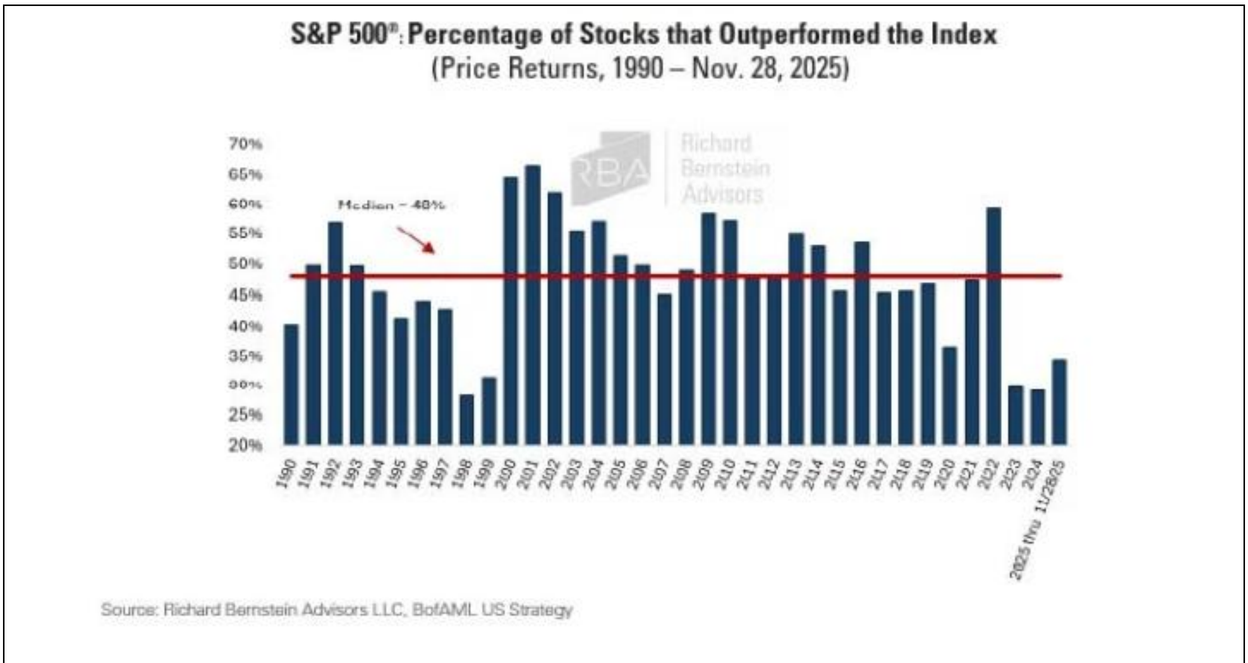
Momentum of course can work in both directions, and we worry that many investors are unprepared for a Wile E. Coyote moment, where the coyote obsessed with chasing the roadrunner in the popular cartoon jumps off the end of a cliff without realizing until it is too late.

2025 was a year where the most speculative of US assets performed extremely well, driven largely by expectations of additional liquidity through US interest rate cuts and perhaps of further fiscal stimulus, including from the One Big Beautiful Bill.



Source: "Speculation Led Since Liberation Day (Total Return, Apr. 8, 2025 – Nov. 25, 2025)" chart: Richard Bernstein Advisors LLC, Bloomberg Finance L.P.

Nonetheless, as we have mentioned many times before, we remain concerned about the narrowness of the US equity market.



Source: "S&P 500: Percentage of Stocks that Outperformed the Index (Price Returns, 1990 – Nov. 28, 2025)" chart: Richard Bernstein Advisors LLC, Bloomberg Finance L.P.

Having had the privilege to travel across the USA in the month of January, I came across many surprising things. There is no doubt that prices for many items have increased substantially, especially in areas like Florida, which seems to be going through its own independent boom. Yet, a careful observer would note that, compared to about six months ago, the express lanes of the freeway are now pretty empty.

Wandering into a department store just off 5th Avenue at peak times, it was also shocking to see all four floors pretty much deserted (perhaps due to the decline in tourism).

Beyond the major areas like California and Florida, we saw more subdued economic activity – far from a recession but definitely a K shaped economy by region.

Whilst we still foresee some rate cuts by the Fed this year, they may have already been priced into the broader equity index and will therefore provide little in the way of a further catalyst for index performance. We also harbor some concern in the back of our minds that adding fiscal and monetary stimulus to an economy that is far from recession could cause some pretty nasty inflation surprises further down the road.

With the US profit cycle likely to moderate, in our opinion, we believe there are interesting opportunities outside of the usual suspects in the US market but also completely beyond the US market.

Despite European stock markets having outperformed the US indices last year, global investors withdrew GBP 697 million (USD 953 million) from European and UK equity funds in January, thus marking the eighth consecutive month of net selling. The total amount withdrawn from European and UK equity funds since June last year therefore now stands at GBP 11.3 billion (15.46 billion).

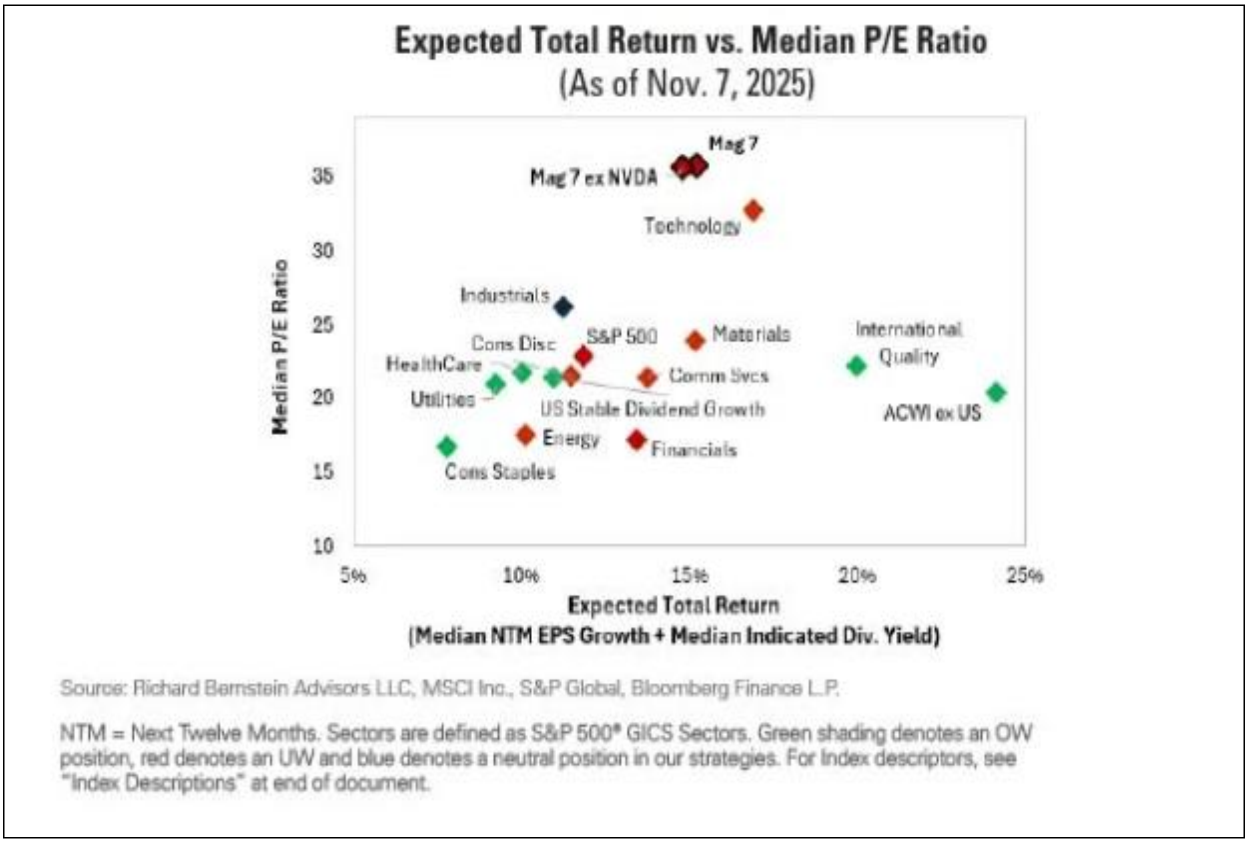
The recent kerfuffle over Greenland may have had something to do with it. However, despite the tariff threats that have meanwhile been withdrawn, we see the glass as being half full for European equities rather than half empty.

Europe undoubtedly received a much needed wake up call. We were genuinely pleasantly surprised to see such a consensus, not just by country but also by political parties from the far left to the far right.

One can only hope that these are the seeds of a more unified European Union that has the willpower to chart its own course and implement much needed reforms.

We believe 2026 will be an abnormally volatile and frustrating year for many investors who have become conditioned to repeatedly do the same thing and achieve great results.

We fully expect a market driven by fundamentals to reassert itself, as investors finally realize that valuations and dividends play an important part in overall returns.



Source: "Expected Total Return vs. Median P/E Ratio (as of Nov. 7, 2025)" chart: Richard Bernstein Advisors LLC, MSCI Inc., S&P Global, Bloomberg Finance L.P.

Our guess is that this will be a multi-year (if not a decade long) phenomenon, where many unpopular areas will outperform significantly.

Source: "Value Factor Leads Gains in Europe" chart: Bloomberg

We remain upbeat about the prospects for generating a decent return in 2026, by focusing on the micro and ignoring what we expect will be a year of rather exciting headlines.

Source: "The Value Trade Shows No Signs of Petering Out" chart: Bloomberg

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