KFH CAPITAL

Wealth Insights
Q4 2026

By KFH Capital Investment Company

INTRODUCTION

The final quarter of 2026 finds investors navigating a market environment characterised by elevated US treasury yields (the reference index for sukuk), persistent inflationary pressures, geopolitical uncertainty and continued debate around the sustainability of current equity market valuations. While these factors have contributed to periods of volatility, global markets have remained supported by resilient corporate earnings, ongoing investment in artificial intelligence and the continued strength of the global economy. Throughout this publication, we examine several of the most important themes shaping investment markets today and consider their implications for long-term investors.

I. **We begin by reviewing the macroeconomic backdrop**, where the key challenge remains the sharp rise in government bond yields across developed markets. Higher inflation expectations, fiscal concerns and a renewed "higher-for-longer" interest rate outlook have created tighter financial conditions globally.

   Our House View is that elevated yields are likely to remain a source of market volatility, but also create opportunities for investors to earn attractive income from high-quality fixed income assets while maintaining diversified portfolios.

II. **We then turn to the topic of portfolio rebalancing**. Although often overlooked, our analysis demonstrates that rebalancing remains one of the most effective risk-management tools available to long-term investors. The evidence suggests that its primary benefit is not return enhancement, but maintaining alignment between a portfolio's actual risk profile and an investor's intended objectives.

   Our House View remains that disciplined, systematic rebalancing should be a core component of long-term wealth management.

III. **The publication also revisits one of the dominant investment debates of recent years: whether current enthusiasm surrounding Artificial Intelligence represents a speculative bubble.** While some valuation measures appear elevated, our analysis suggests that comparisons with the technology bubble of 1999-2000 are often overstated. Today's market leaders are generally profitable, cash-generative businesses supported by strong earnings growth, while evidence points to AI adoption still being in its early stages.

   Our House View is that valuation risks should not be ignored, but the long-term investment case for AI-driven productivity and earnings growth remains compelling.

IV. **Finally, we revisit the role of private markets within diversified portfolios.** Despite recent periods of public market outperformance, the strategic rationale for private assets remains intact. Investors increasingly require access to a broader opportunity set as companies stay private for longer and private credit continues to play an expanding role in corporate financing.

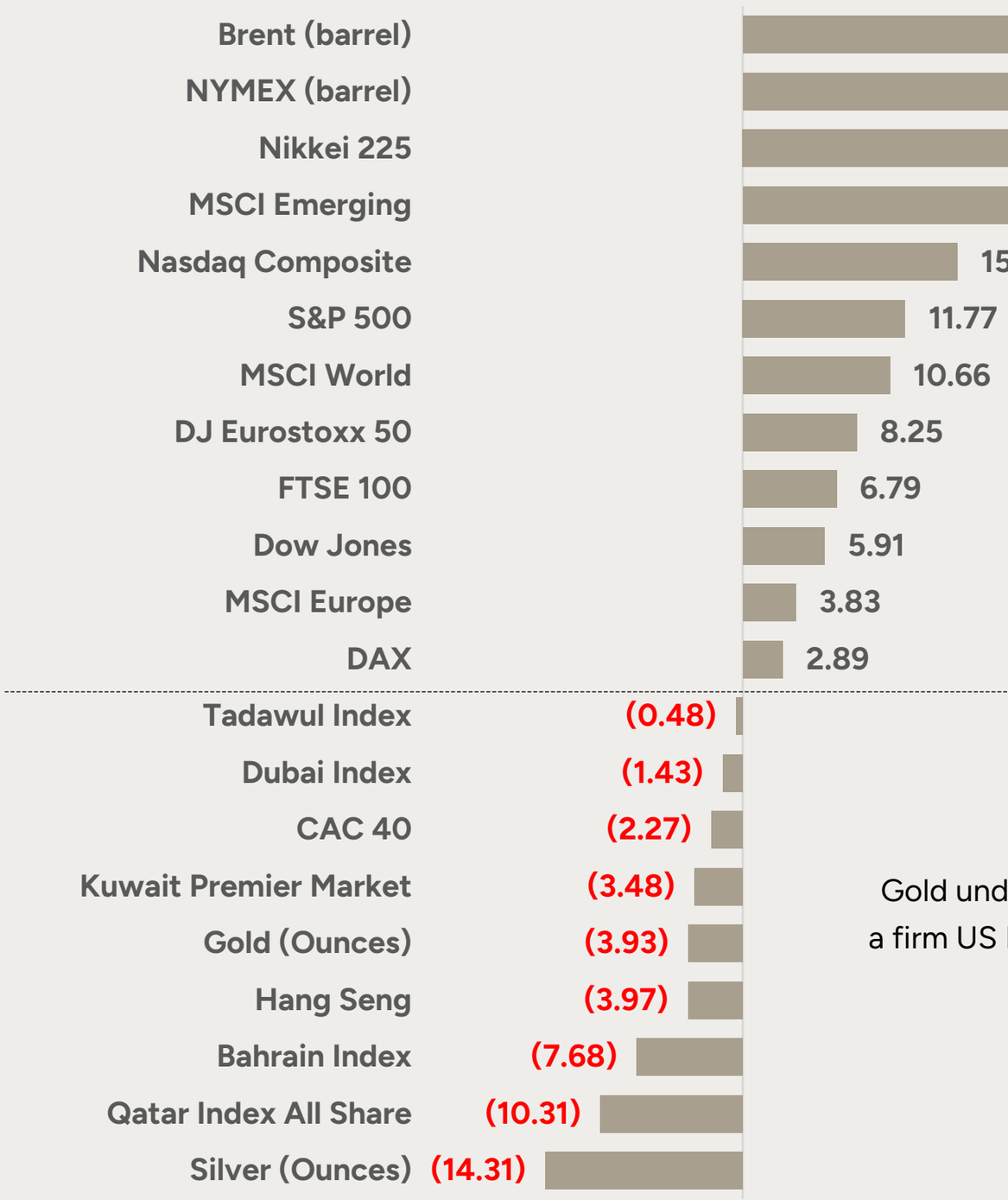
   Our House View is that carefully selected and appropriately sized allocations to private markets can enhance diversification and long-term portfolio outcomes, particularly when implemented through structures that balance access, transparency and liquidity considerations.

Taken together, these themes reinforce a common message. In an environment where short-term headlines remain uncertain and market narratives change rapidly, successful investing continues to be driven by diversification, discipline and a long-term perspective.

Consistent with the KFH House View, we believe investors should focus on constructing resilient portfolios that can participate in opportunities across market cycles while remaining robust against periods of volatility and uncertainty.

KEY MARKET THEMES: ELEVATED BOND YIELDS; INFLATION AND EARNINGS GROWTH

Exhibit 1: YTD performance of selected asset classes and indices



The average price for Brent on a YTD basis stood at USD 89.34 per barrel: a 27.8% increase over the average price same period last year.

Sustained supply side risks coupled with depleting inventories have driven energy prices higher.

Gold underperformed on a YTD basis driven by the rate hikes and a firm US Dollar. With the recent US Fed Outlook indicating higher for longer, prices are likely to remain under pressure.

Source: Refinitiv; YTD Change as of September 30; 2026

Markets have so far absorbed the US–Iran conflict, the interest rate hikes on the back of strong earnings growth and the sustained AI-related Capex cycle.

However, we expect equities to remain vulnerable, volatile and range bound as markets and the macro economy face multiple headwinds including geopolitics, elevated yields, higher inflation expectations, monetary policy direction and most recently, earnings growth during Q3 2026.

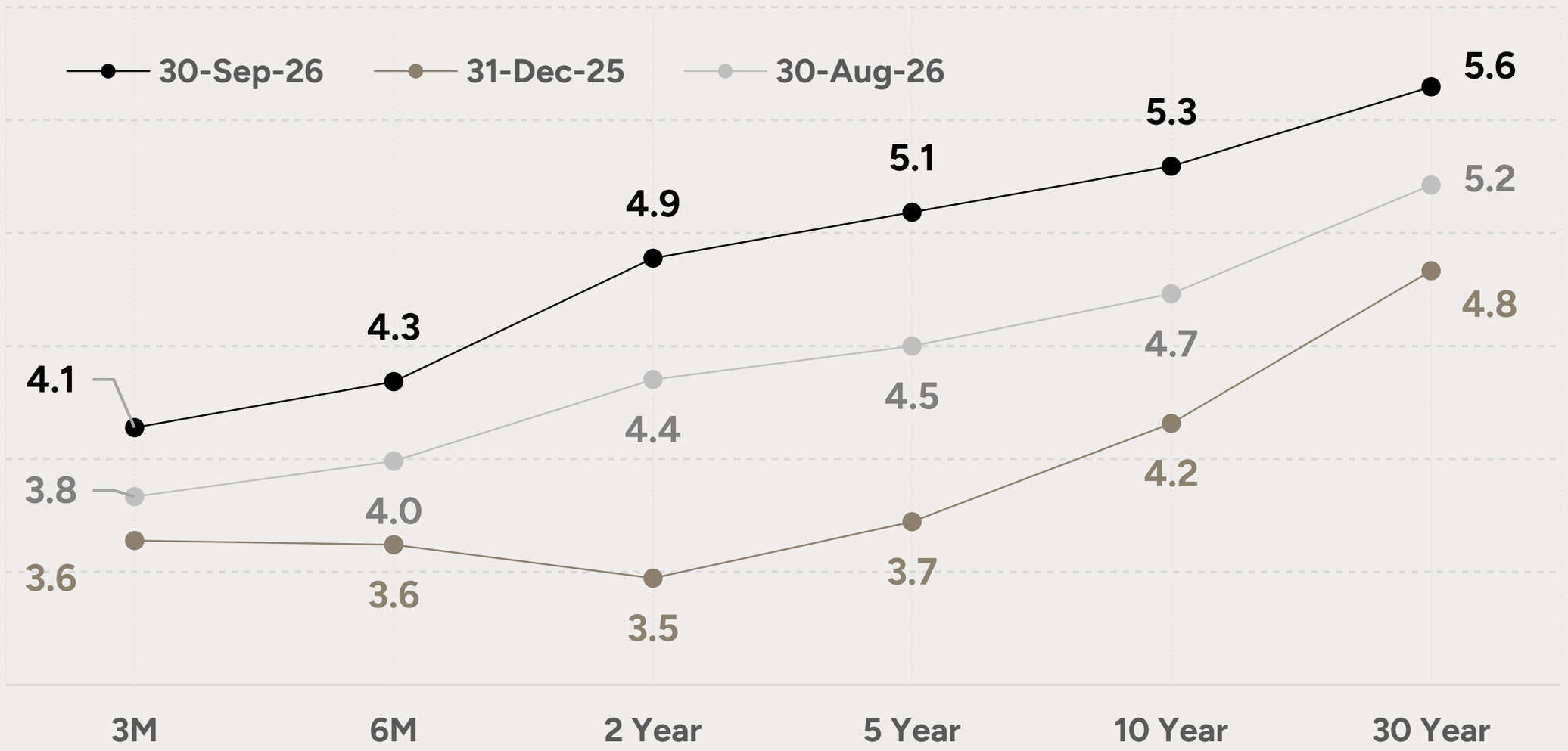
Whether markets continue to be resilient and hold their ground or whether they witness a significant correction in the short to medium term depends on how the above factors play out.

The macro-economic environment will be driven by the prospects of the US-Iran conflict: if it drags on for the remainder of the year (which is the consensus), we are likely to witness sticky inflation supported by oil supply shocks and a rise in agricultural prices. As a result, the outlook for headline global inflation has revised upwards to 4.2-4.3%, up from earlier estimates of 4.0% as per Fitch reports. Fitch also forecasts global GDP growth at 2.4% for 2026.

However, more recently, the sell-off in the Fixed Income markets has been the overriding theme.

Global government bond markets remained under pressure in September as investors adjusted expectations for interest rates and economic growth. In the United States, the Treasury yield curve experienced a bearish flattening, with yields across the 2 to 10-year maturities rising by approximately 50-60 basis points during the month. Year-to-date, yields across the same segment have increased by roughly 130 basis points on average. The flattening of the curve was driven by medium-term yields rising more rapidly than longer-dated yields, reflecting both the persistence of higher policy rates and evolving growth expectations. Similar moves were observed across other developed markets. In the UK, 10-year gilt yields rose above 5% for the first time since 2007, while 2-year gilt yields closed near 4.8%, levels not seen since the 2008-09 period.

Exhibit 2: Benchmark Yields continue to move upwards key driver being higher inflation expectations; fiscal concerns and the Middle East Conflict



Source: Refinitiv; Yields as of September 30; 2026

What's driving the yields? The rise in 2-year Treasury yields reflects market expectations that interest rates will remain higher for longer, given their sensitivity to monetary policy. Meanwhile, higher 5-year yields suggest investors are pricing in more persistent inflation. The increase in 10-year yields is particularly significant, as this benchmark influences corporate borrowing costs, project financing, and real estate valuations. As a result, higher long-term yields point to increasingly tighter financial conditions across the broader economy.

Impact of Rising Yields: Higher bond yields have implications for both the public and private sectors. For governments, rising yields increase the cost of borrowing and refinancing debt, placing additional pressure on fiscal budgets. Notably, recent estimates suggest that approximately 40% of US government debt is due to be refinanced between 2026 and 2027, increasing sensitivity to higher funding costs. In the private sector, elevated borrowing rates can weigh on corporate investment, capital expenditure plans, and discretionary consumer spending. As financial conditions tighten, economic activity typically faces greater headwinds across businesses and households.

CONSUMER PRICE INFLATION & CENTRAL BANK RATES

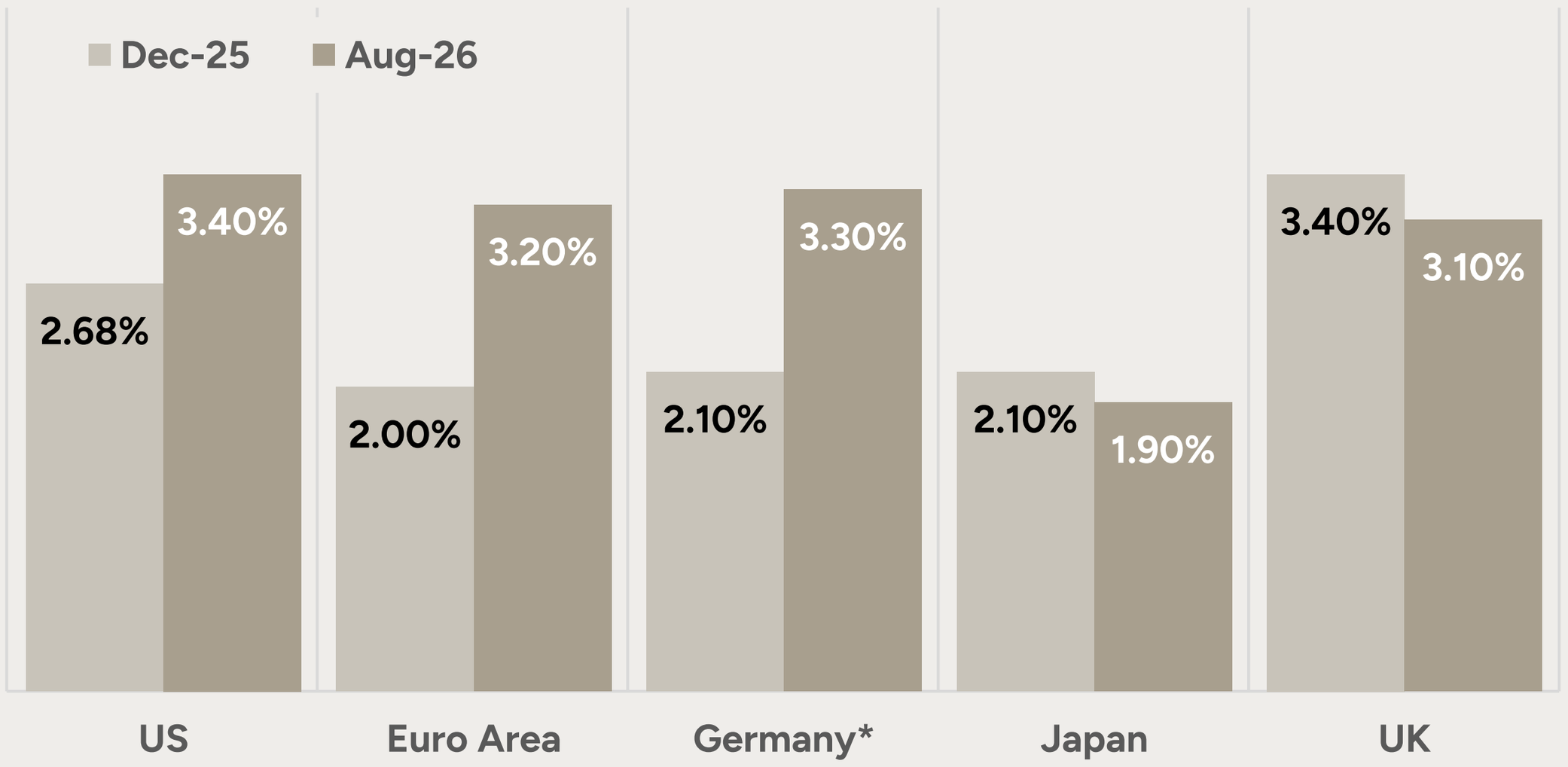
Inflation remained elevated in August, driven mainly by higher energy prices, while rising agricultural commodity prices also added to cost pressures. As a result, inflation is expected to remain above central bank targets in the near term.

In response, major central banks continued to raise interest rates. At its September 2026 meeting, the US Federal Reserve raised its policy rate by 25 basis points from 3.50%-3.75% to 3.75%-4.00%, citing persistent inflation and a resilient US economy. The move marked the first rate increase since 2023 and reinforced the 'higher-for-longer' interest-rate narrative.

The Federal Reserve's latest projections suggest that policymakers remain cautious on the inflation outlook. A clear majority of Federal Open Market Committee (FOMC) members expect policy rates to remain above 4.0% through 2026, with most forecasting rates in the 4.00%-4.25% range and a further 22% projecting rates between 4.25%-4.50%. This indicates that the Committee continues to see scope for an additional 25-50 basis points of tightening should inflation prove more persistent than anticipated.

For investors, the message remains clear: while inflation has eased meaningfully from its peak, the Federal Reserve is not yet prepared to declare victory. Policymakers appear willing to maintain a restrictive monetary policy stance until there is greater confidence that inflation is moving sustainably back towards its target.

Exhibit 3: Inflation prints for August 2026*



*Source: Refinitiv; *for the month of September 2026*

CONCLUSION

As we move through the final quarter of the year, investors continue to navigate an environment characterized by elevated bond yields, persistent inflationary pressures, geopolitical uncertainty and shifting monetary policy expectations. Although corporate earnings and the ongoing AI-driven investment cycle have supported market resilience, higher financing costs and tighter financial conditions are likely to remain important headwinds.

Against this backdrop, market outcomes will increasingly be determined by the evolution of inflation, central bank policy, corporate earnings and developments in the Middle East. Periods of volatility should be expected, but they can also create opportunities for disciplined, long-term investors.

Consistent with the KFH House View, we encourage investors to remain focused on maintaining well-diversified portfolios, balancing capital preservation with selective opportunities across asset classes, and positioning portfolios to navigate a higher-for-longer interest rate environment and to remain resilient across a range of market scenarios.

THE CASE FOR REBALANCING

Rebalancing is the single most reliable risk-management tool available to a long-term investor. Its simplicity is derived from the fact that it requires no forecast, no market view and no timing skill. And in doing so, it ensures that a client's portfolio consistently reconfigures itself to the portfolio they agreed to hold in the first place. Our own analysis of the twenty-five years up to 2025 confirms what Vanguard, Fidelity, J.P. Morgan and Schwab have each documented independently: rebalancing truly delivers its value through risk control.

THE BENEFITS, QUANTIFIED

Protection against unintended risk: A 50/50 portfolio left unrebalanced since 2001 would hold 79.1% equities as of 2025 end. In a 30% equity decline, it would lose 23.3% against 14.0% for the disciplined portfolio — a loss two-thirds larger than the client agreed to incur.

More consistent drawdown control: Across sixteen rolling ten-year windows, rebalancing produced a lower maximum drawdown in twelve windows - a 75% success rate, consistent across allocations.

Preservation of diversifiers: In a multi-asset portfolio, rebalancing held the commodity allocation at 16.7%. Left alone it fell to 4.3% - the hedge was eliminated before it was needed the most.

It is the industry standard for a reason: Vanguard, Fidelity, Schwab and J.P. Morgan Private Bank all identify risk alignment - not return enhancement - as the purpose, and all recommend a disciplined, mechanical policy.

WHAT THE EVIDENCE BASE SAYS

Major asset management companies and private banks agree on why and how to employ rebalancing – that makes it a rare commonality between the two intermediaries. That consensus is worth examining clearly, because it differs from how rebalancing is often positioned to investors.

Exhibit 4: Published guidance from leading asset managers and private banks

INSTITUTION	PUBLISHED FINDINGS OR GUIDANCE
Vanguard	The primary function of rebalancing is to keep portfolio risk aligned with the target risk exposure; without it, allocations drift as asset returns diverge. Annual rebalancing is optimal for many investors.
Fidelity	A 60/40 portfolio from 1987 to 2007 reached approximately the same value whether rebalanced quarterly or never — but through the 2008 crisis the rebalanced portfolio fell USD 29,200 less on a USD 100,000 investment.
J.P. Morgan Private Bank	In its annual wealth check it states that a 60/40 portfolio at the start of 2020 had become closer to 75/25, and clients are advised to rebalance and reduce concentration.
Charles Schwab	Recommends a ±5% tolerance band around each major asset class, and stresses that the trigger should be mechanical rather than emotional.

Sources: Vanguard, 'Rebalancing your portfolio' and 'The Rebalancing Edge' (December 2024); Fidelity, 'How rebalancing can help reduce volatility in your portfolio'; J.P. Morgan Private Bank, 'Building a resilient portfolio' (2025); Charles Schwab, 'When Portfolio Changes Do — and Don't — Make Sense'.

Two points stand out: firstly, no institution claims rebalancing reliably raises returns – each frames it as a risk management tool. Secondly, the return sacrifice is small, whilst the risk alleviation is consistent.

THE EVIDENCE: TWENTY-FIVE YEARS, FOUR ASSET CLASSES

Our analysis compares the returns of annually rebalanced portfolios against 'drift' portfolios from January 2001 to December 2025. We have used the S&P 500 Total Return Index for Equities, a global government and aggregate bond index for Fixed Income, the FTSE NAREIT All Equity REITs Index and the Bloomberg Commodity Index. Returns depicted are annualized, in US dollars, with no cash flows.

Exhibit 5: Rebalanced versus non-rebalanced portfolios, 2001–2025

ALLOCATION	POLICY	RETURN (CAGR %)	VOLATILITY (%)	CLOSING EQUITY WEIGHT (%)
50/50	Rebalanced	6.45	9.94	52.9
50/50	Left to drift	6.85	10.06	79.1
75/25	Rebalanced	7.76	13.74	77.1
75/25	Left to drift	7.94	13.60	91.9
90/10	Rebalanced	8.43	16.22	91.0
90/10	Left to drift	8.49	16.08	97.1

Past performance is not indicative of future results.

The 'Return' columns confirm the industry view: the gap is small, and it shrinks as the equity weight rises — 40 bps per year at 50/50, 18 bps at 75/25 and just 6 bps at 90/10. Growth-focused clients give up almost nothing by staying disciplined. The last column amply highlights the rebalancing case. An investor who chose a balanced 50/50 mix in 2001 and never rebalanced now holds 79.1% equities. The 75/25 investor holds 91.9%, and the 90/10 investor holds 97.1% - with almost no defensive allocation available. None of the investors opted for this outcome – they simply permitted twenty-five years of market movement to choose for them.

TWENTY-FIVE YEARS IN A SINGLE PORTFOLIO

The aggregate numbers above do not aptly illustrate how this impacts client experience. Consider two investors who each placed USD 1,000,000 into a balanced 50/50 mandate in January 2001. The first investor rebalanced annually without exception, whilst the second investor did not. There were no additions nor withdrawals in either portfolio.

Exhibit 6: USD 1,000,000 invested in a 50/50 mandate, January 2001

	REBALANCED		LEFT-TO-DRIFT	
POSITION AT	VALUE	EQUITY WEIGHT	VALUE	EQUITY WEIGHT
End 2008	USD 1,226,125	50.0%	USD 1,240,444	31.9%
End 2015	USD 2,201,622	50.0%	USD 2,035,328	51.1%
End 2021	USD 3,987,091	50.0%	USD 3,915,996	69.4%
End 2025	USD 4,768,035	50.0%	USD 5,237,926	79.1%

Illustrative; assumes no contributions, withdrawals, fees or taxes. Past performance is not indicative of future results.

Follow the second investor through the quarter century and a pattern emerges that no summary statistic captures.

2001-2008: The drifting portfolio gets lucky: By the end of 2008 the drifting portfolio was marginally ahead — USD 1,240,444 against USD 1,226,125. It had been accidentally protected: the dot-com collapse of 2001 and 2002 had already shrunk its equity component, hence, it entered the financial crisis holding 43.8% equities rather than 50% and lost 13.5% against the disciplined investor's 16.1%. The neglect ostensibly looked like prudence in hindsight.

2009-2015: The rebalanced portfolio captures the market opportunity: The drifting portfolio closed 2008 holding just 31.9% in Equities — eighteen points below its own mandate — at precisely the moment equities offered their most attractive entry point in a generation, i.e., immediately after the global financial crisis of 2008. Over the five years that followed, global equities grew 128% cumulatively. The disciplined investor capitalized on that recovery with a full 50% allocation to Equities, as rebalancing bought the investor an Equity allocation in the depths of 2008. At the same time, the drifting investor only had a 31.9% and never caught up on a risk-adjusted basis.

2015-2025: The drifting portfolio benefits from 2021-2025 equity performance: By the end of 2015, the disciplined portfolio was ahead by USD 166,294, and it stayed ahead through 2021. Only in the final four years — a period of exceptional equity market growth — did the drifting portfolio pull decisively in front, finishing with USD 5,237,926 against USD 4,768,035.

The moral of the story: The final figure is roughly ten percent larger, and it is tempting to stop the story there. The right question is what was paid for it. The drifting investor ends the period with 79.1% of their wealth in Equities, whereas the inception mandate specified 50%. They did not request that exposure, were never informed of it, and will discover it only in the next sustained decline. The disciplined investor ends with the portfolio they commissioned and with its defensive allocation intact.

This is the characteristic rhythm of a drifting portfolio: most cautious immediately after a fall, most aggressive immediately after a rise, arriving at every turning point holding the opposite of what the situation requires.

THE BENEFITS OF REBALANCING

It mitigates the risk a client never agreed to take. This is the central benefit and the one that compounds when neglected. At inception, a given portfolio had a defined asset allocation; rebalancing mitigates any risk arising from portfolio skew caused by extreme movements in any one asset class. The scale of that skew is quantified in **Exhibit 7** below.

Exhibit 7: A 30% equity decline applied to portfolios as they stand today

MANDATE	EQUITY WEIGHT IF REBALANCED	EQUITY WEIGHT IF LEFT TO DRIFT	LOSS IF REBALANCED (%)	LOSS IF DRIFTED (%)	ADDITIONAL LOSS OF DRIFTED (%)
50/50	50.0%	79.1%	-14.0	-23.3	9.3
75/25	75.0%	91.9%	-22.0	-27.4	5.4
90/10	90.0%	97.1%	-26.8	-29.1	2.3

For illustration only, assuming movement of Equities -30%, Fixed Income +2%, REITs -28%, Commodities +5%, applied to weights as at 31 December 2025.

It consistently controls drawdowns. A rebalanced portfolio exhibits a lower maximum drawdown, as no single asset class is left to dominate the overall result. Across sixteen overlapping ten-year windows within our study, the rebalanced portfolio produced the shallower maximum drawdown in twelve windows — a 75% success rate that held for every allocation tested. Fidelity corroborates this: over two decades, both rebalanced & drift portfolios arrived at broadly the same value, but the rebalanced version fell USD 29,200 less through the 2008 crisis on a USD 100,000 investment.

It preserves the diversifiers that the investor is paying for. This is the least appreciated benefit. When one investment rises sharply, it dominates the portfolio while the protective holdings impact is diminished — like an umbrella that folds itself away just as the storm clouds gather. Rebalancing prevents this from happening in the portfolio.

It removes emotion from the hardest decisions. From a behavioural perspective, 'Selling after Strength and Buying after Weakness' are arguably the two hardest actions in investing. Rebalancing automates these actions, as a pre-agreed principle. Schwab makes the same point in recommending that the trigger be mechanical rather than emotional. The discipline is most valuable precisely when judgement is least reliable.

It costs very little to implement. Most institutional intermediaries offer auto-rebalancing portfolios, generally included within the annual management charge. Cost is not a credible objection to the activity.

LIMITATIONS, AND HOW TO POSITION THEM

Three caveats are worth appreciating here:

- **Rebalancing does not increase returns:** Over 2001–2025 a drifting portfolio finished modestly ahead in every allocation, because equities outperformed bonds by more than five points a year. We position rebalancing as risk control, not as a returns amplifier.
- **It underperforms in sustained bull markets:** A drifting portfolio holding a strongly appreciating asset class will outperform a consistently rebalanced one. Investors will experience this in momentum-driven markets and should be prepared for it in advance.
- **It cannot repair a structurally impaired asset allocation:** Strategic weights must be reviewed in isolation and periodically. Rebalancing restores a set target by design, however, it does not suggest whether the target is still right or wrong.

CONCLUSION

The evidence from our own twenty-five-year analysis and from the published research of Vanguard, Fidelity, Schwab and J.P. Morgan converges on a single conclusion. Rebalancing does not make investors wealthier. It makes them the owners of the portfolios that they actually chose, whilst alleviating the volatility and down-side risk market movements generate.

The alternative is not a strategy but the absence of one. An investor who never rebalances is not expressing a view that momentum will persist; they are permitting the market to select their risk exposure on their behalf, always in the same direction and without notice. Over a quarter of a century, that process turned a Balanced portfolio into an Equity-skewed portfolio and reduced the in-built hedges that were deliberately designed through the original asset allocation.

Staying invested is prudent and we believe is the right strategy. However, staying invested is not the same as doing nothing. Rebalancing is simply the discipline of closing the gap between the portfolio you built and the portfolio you now hold.

WE ASK AGAIN - IS THIS AN AI BUBBLE?

We opened 2026 by examining this topic in depth in our Q1 Wealth Insights publication, and it is fitting that we return to it as we conclude the year in this Q4 edition. Our earlier analysis focused on market valuations, which today are heavily influenced by the dominance of technology-related companies. We also compared the current composition of major equity indices with previous market cycles, highlighting the markedly higher quality characteristics of today's largest global businesses. In particular, we assessed the parallels often drawn with the TMT bubble of the late 1990s. The updated example below revisits that comparison.

Exhibit 8: The Top 5 stocks in 1999 – 1999 Valuations vs 2026 Valuations

STOCK	VALUATION (P/E 2Y) IN 1999	VALUATION (P/E 1Y) 08/2026
Microsoft	53.2	24.9
Intel	42.1	57.6
Cisco	101.7	21.8
Oracle	84.6	18.0
IBM	23.5	19.0
AVERAGE	61.0	28.3

Source: Goldman Sachs / Bloomberg

As can be seen from the above, current market valuations remain materially below those witnessed during the peak of the 1999-2000 TMT bubble. Across most conventional valuation metrics, there is little evidence of the speculative excesses that ultimately led to a severe market correction, with the S&P 500 subsequently falling by more than 50% as valuations reverted to more sustainable levels.

Nevertheless, one valuation measure continues to feature prominently in bearish market narratives: the Cyclically Adjusted Price-to-Earnings (CAPE) ratio. Developed by Professor Robert Shiller, it compares current market prices with the average of inflation-adjusted corporate earnings over the previous ten years. By smoothing out economic cycles, it aims to provide a longer-term view of market valuation.

Elevated CAPE readings have been a cornerstone of the bearish investment case for much of the post-Global Financial Crisis period and are frequently cited as evidence that equity market valuations remain stretched by historical standards. As seen in **Exhibit 9**, the CAPE ratio today suggests that current valuations are approaching levels seen during the 1999-2000 technology bubble.

Exhibit 9: Shiller PE (CAPE) Ratio (Jan 1881 - August 2026)



Source: MacroRadar

"CAPE FEAR"

"The reason to believe that the US market is overvalued can be summed up in one four letter word – CAPE." (The FT, January 2018)

CAPE has been used to argue that US equities are overvalued for much of the post-Global Financial Crisis period. However, its track record as a predictor of shorter-term market returns has been mixed. Since the quote above was published in January 2018, the S&P 500 has risen from approximately 2,800 to around 7,700.

This reflects a broader challenge with valuation analysis: while valuations can provide insight into long-term return expectations, they have historically had limited predictive power over the next 12 months. As the Bank of America research in **Exhibit 10** demonstrates, most commonly used valuation metrics show only a weak relationship with subsequent one-year market performance.

Exhibit 10: Sell Side Indicator has a higher R-squared than most other single market timing models

Predictive Power of Selected Indicators Forecasting 12-Month S&P 500 Returns (Aug 1985 – July 2025)

Note: R^2 measures how effective an indicator has historically been at explaining future market returns. A higher figure indicates greater predictive power. As Exhibit 10 shows, most commonly cited valuation measures have exhibited very low R^2 values, implying that valuations alone have historically provided limited guidance on market performance over the following 12 months.

INDICATOR	R^2
Sell Side Indicator	25%
Sell Side Indicator at extremes (Buy or Sell)	34%
Proforma PE	9%
S&P 500 Dividend Yield	8%
M1 Growth	2%
Fed Model (RPS Yield – 10-Yr Treasury)	1%
3-Mo T-Bill Rate	1%
Yield Curve (10-Yr – 3-Mo)	0%
Adj. Fed Model (EPS Yld – Real 10-Yr Tsy Yld)	0%
10-Yr Treasury Yield	0%
M2 Growth	0%
GAAP PE	0%
BBB to Treasury Spread	0%

Source: BofA US Equity & Quant Strategy, BofA Global Research

There are also several well-documented limitations to the CAPE ratio, many of which have been acknowledged by Professor Shiller himself. Most notably, the measure is inherently backward-looking, placing significant weight on earnings generated many years ago. It also fails to account for changes in index composition, including the shift towards higher-quality, less cyclical businesses that now dominate major equity markets.

In addition, CAPE does not fully reflect the long-term growth trend in corporate earnings. Given the compounding nature of earnings growth, comparing today's market value with average earnings from five to ten years ago can distort the valuation picture. Nor does the measure consider the relative attractiveness of other asset classes, particularly prevailing interest rates.

To address some of these shortcomings, Professor Shiller introduced the Excess CAPE Yield in 2020, which compares the earnings yield implied by CAPE with government bond yields. While this enhancement provides a more useful relative valuation framework, it still does not fully capture the growth characteristics that underpin long-term equity returns.

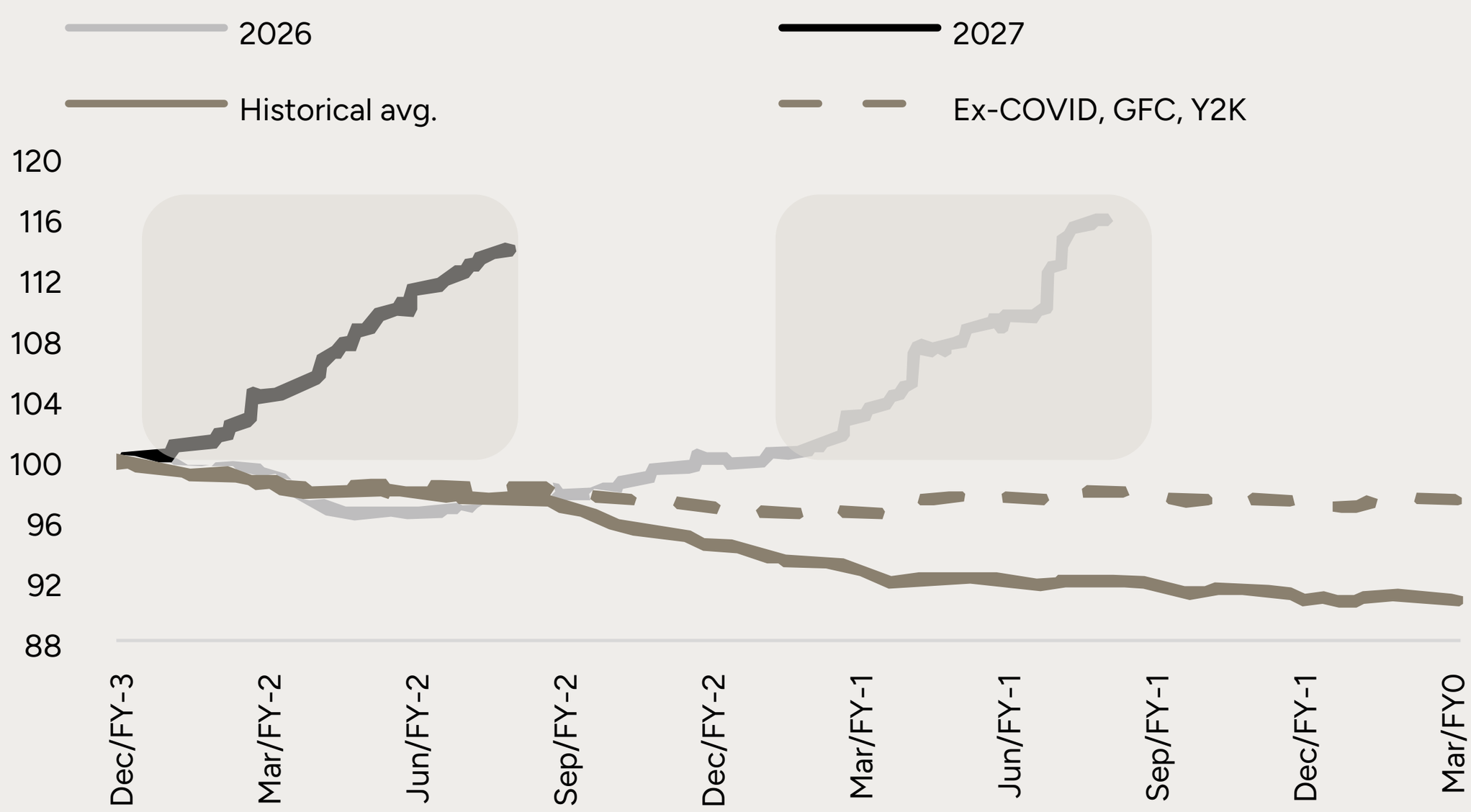
WHAT ABOUT OTHER ELEMENTS OF A POTENTIAL BUBBLE - NAMELY A PROFIT OR INVESTMENT-RELATED?

Are AI related profits in a bubble and does it matter?

Exhibits 11 and 12 show the extent of the overall US equity market earnings surprise in 2025 and 2026, with the shaded areas highlighting the excess earnings in 2026 and 2027 compared to initial expectations.

Exhibit 11: 2026E and 2027E estimates continue to climb higher

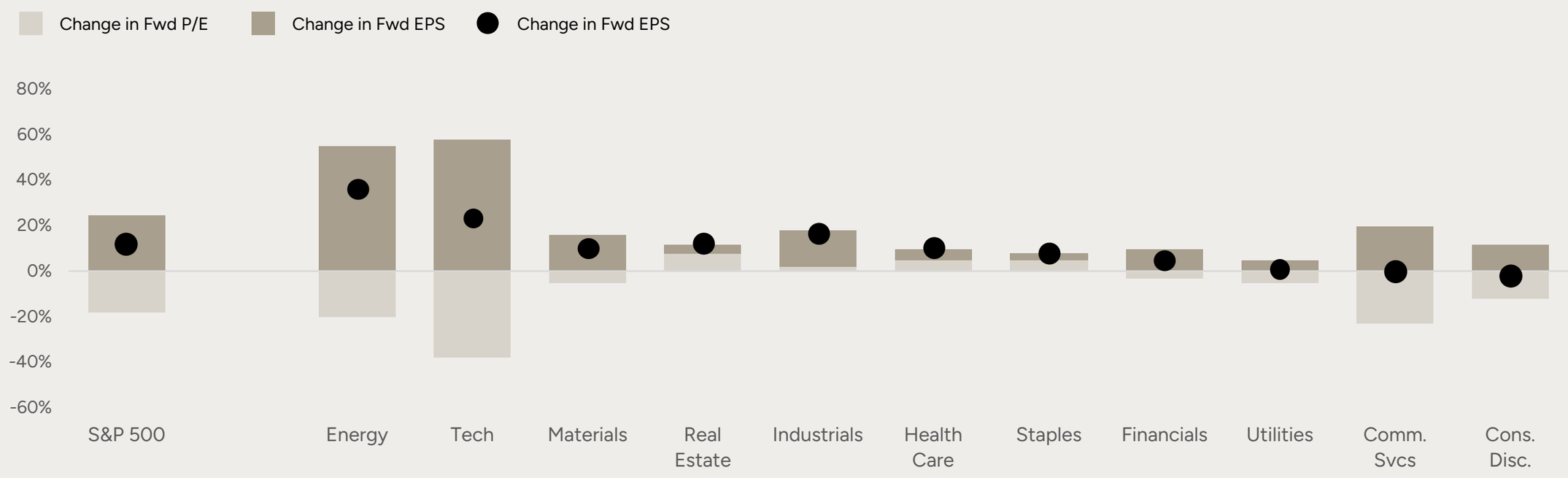
S&P 500 historical FY2 EPS revisions vs 2026-2027 consensus EPS (2026-27 as of 27/08/2026)



Source: BofA US Equity & Quant Strategy, FactSet, BofA Global Research. Note: Historical average based on 2001-2024

Exhibit 12: De-rating for a good reason: earnings strength

YTD price returns: Composition (forward P/E change vs forward EPS change) as of 27/08/2026



Source: FactSet, BofA US Equity & Quant Strategy, BofA Global Research

Exhibit 12 (with the darker shading representing earnings above initial expectations) illustrates the sectoral composition of forecast earnings upside for 2027. While technology remains a key driver of earnings growth, the chart also shows that most major sectors are generating earnings in excess of prior expectations. This points to a broader-based earnings expansion rather than one driven solely by technology-related companies.

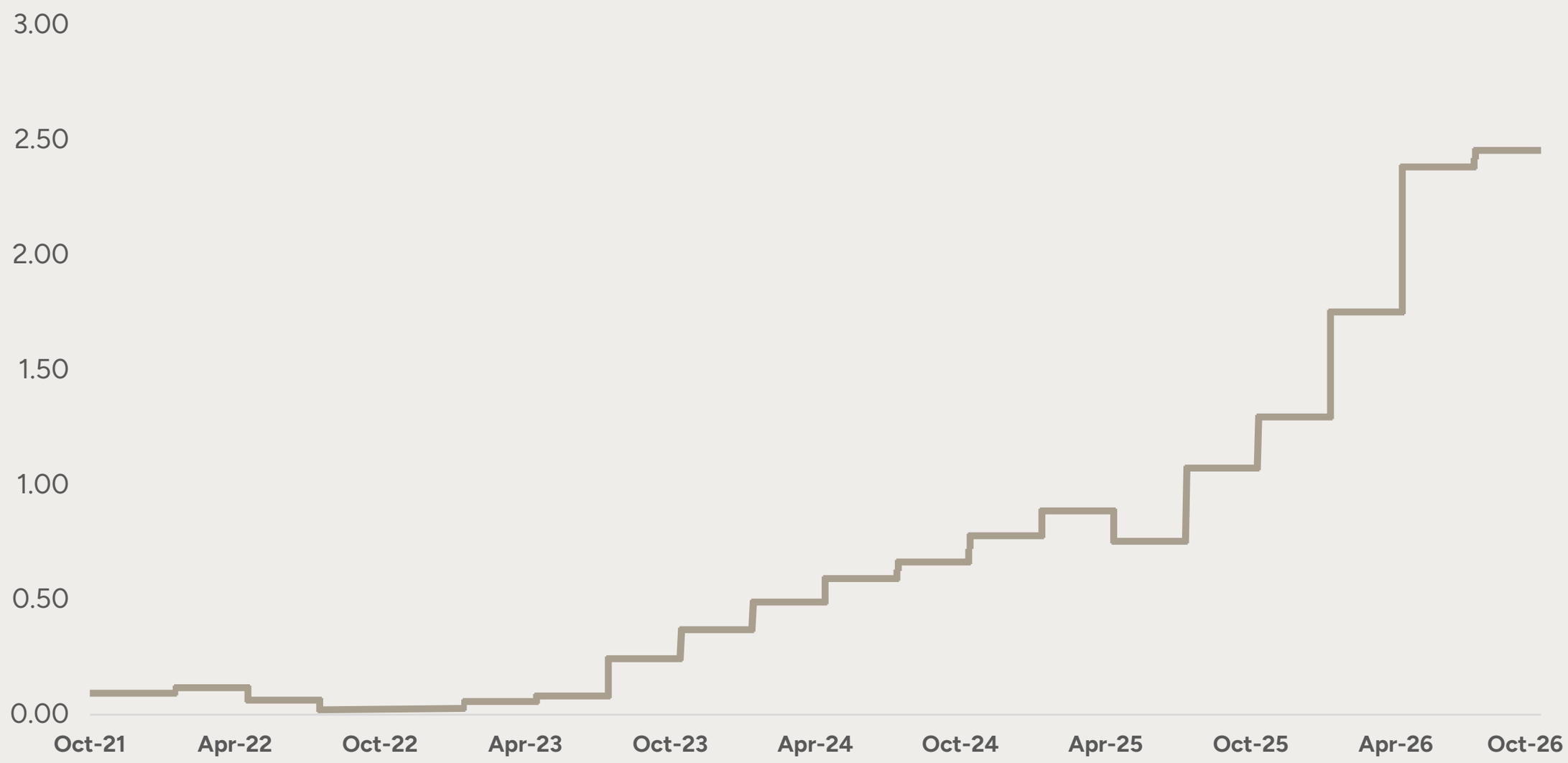
The company most frequently cited as emblematic of a potential AI-driven valuation bubble is Nvidia, currently the world's largest listed company and representing just over 5% of the global equity market at the time of writing. **Exhibit 13** shows the extent and rapid rise of earnings at Nvidia.

Predicting the long-term prospects of any company is inherently difficult, particularly one that has experienced such exceptional growth.

We are not specialist Nvidia analysts, but we take comfort from the fact that despite the historic growth in profits (and more recent 12-month guidance on a further acceleration in earnings), the current market valuation is 22x earnings, which is broadly in line with the overall US equity market. Furthermore, at the time of writing, there are 82 analysts that cover Nvidia, and 79 have buy ratings - it is likely that they know the company better than we do as multi-asset investment generalists.

A key distinction often overlooked is that any moderation in demand for AI infrastructure would create both winners and losers. While semiconductor producers would likely experience lower revenues and profitability, the companies consuming this technology would benefit from a sharply reduced cost base. The net effect would therefore be more consistent with a market rotation than a broad market collapse. Unlike the tech bubble of 2000-2003, today's leading technology companies are highly profitable, cash-generative businesses trading at valuation levels that are broadly consistent with their earnings growth prospects. In our view, this makes comparisons with the early-2000s technology collapse less compelling than headline valuations alone might suggest. As we set out above Nvidia (and other major technology stocks) valuations are relatively conservatively priced to reflect these risks.

Exhibit 13: Nvidia Earnings per Share (USD) (31st August 2020 – 26th July 2026)



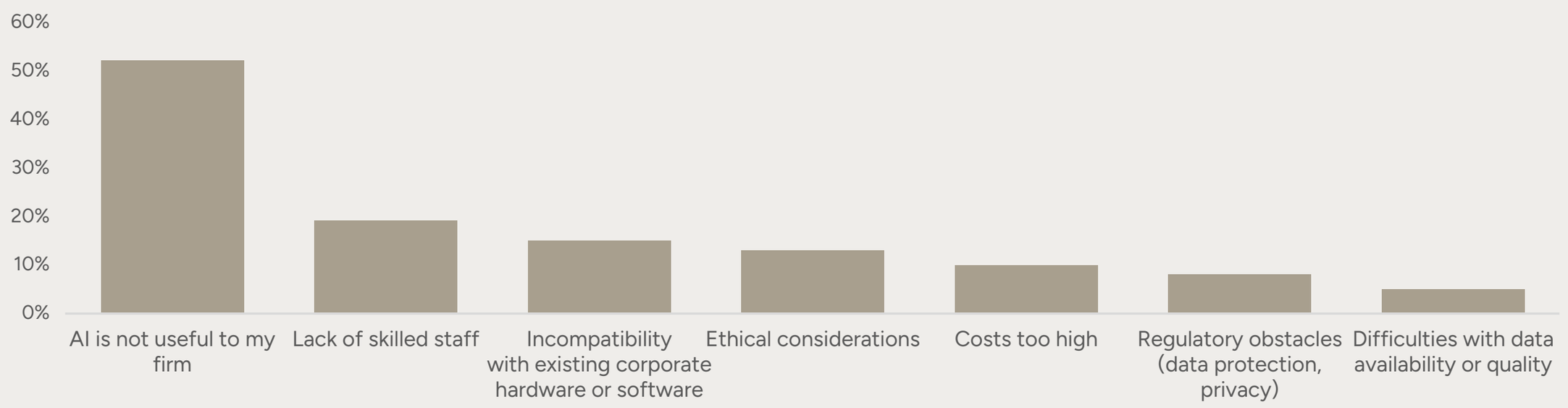
Source: Bloomberg

Although hard data on personal and business adoption is hard to source, there is evidence to suggests that we are still at the early stage of AI adoption. This is highlighted by the following charts focused on Canadian businesses and individuals.

Exhibit 14: Many firms in Canada are not adopting AI because of lack of relevance to operations

You said that your firm does not use or plan to use any of the mentioned AI technologies in the short term. What do you attribute this to? Select all that apply.

Share of firms not using / planning to use AI (%)

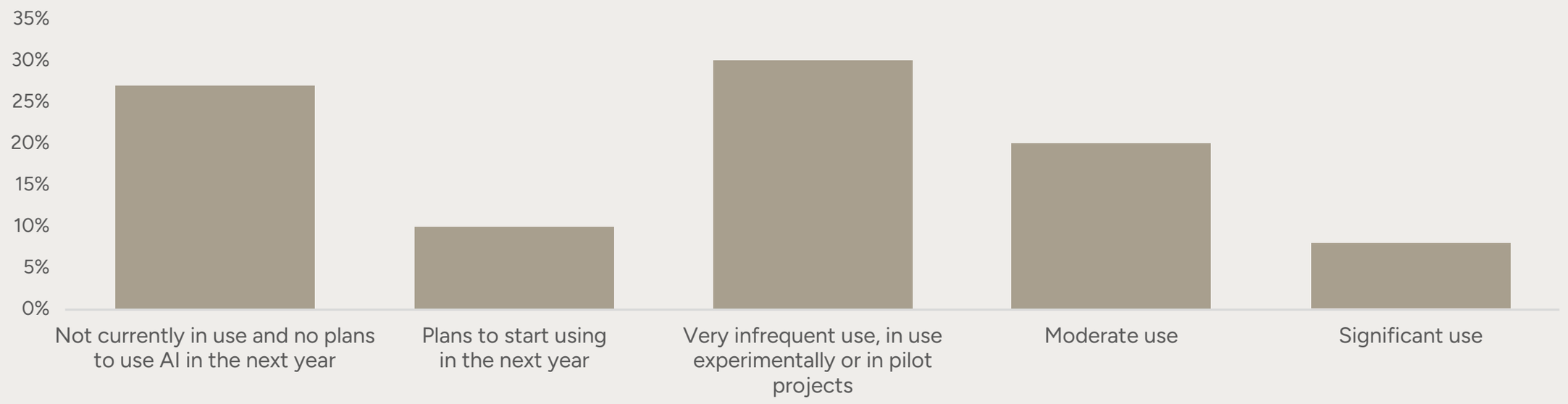


Source: Central Bank of Canada survey on AI adoption (June 2026)

Exhibit 15: Most firms in Canada report little to no current use of AI in their operations

To what extent does your firm use AI in producing goods or delivering services?

Share of firms (%)



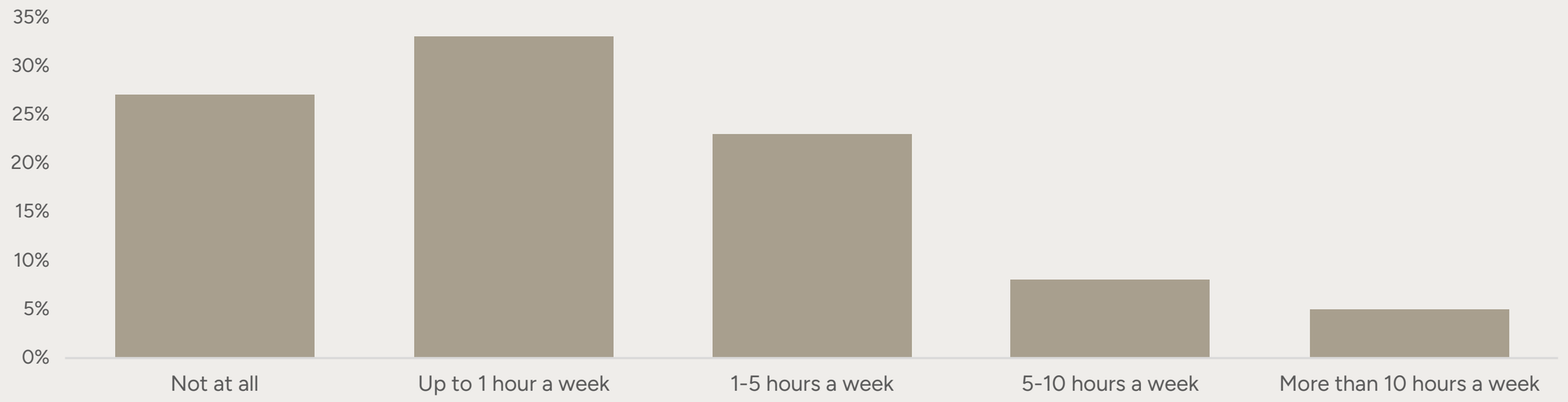
Source: Central Bank of Canada survey on AI adoption (June 2026). Note: The "I don't know" response category is not shown in this chart.

However, a 2025 report from McKinsey shows that individual use was becoming more widespread:

Exhibit 15.b: Majority of decision makers are using AI at an individual level

On average, how frequently do you personally use AI technologies in a typical working week?

Share of firms (%)

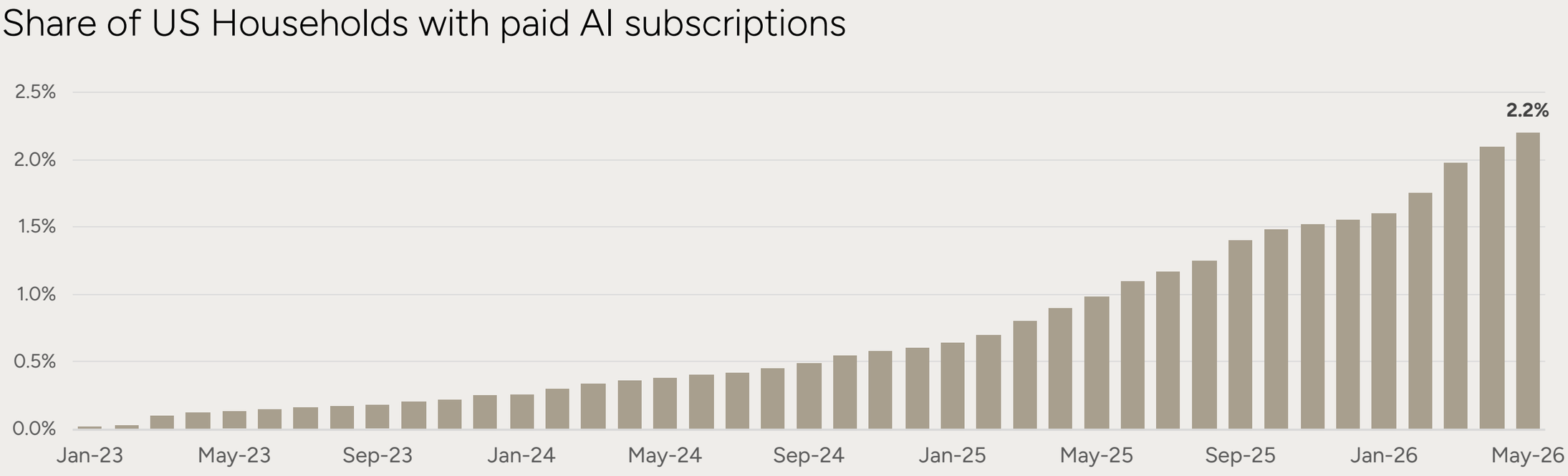


Source: McKinsey (2025)

Finally, research from Andreessen Horowitz (A16Z Growth) suggests that on the consumer side, we are still at the very early stages of adoption, as set out in exhibits 16-19 below.

Exhibit 16: More and more households are paying for AI

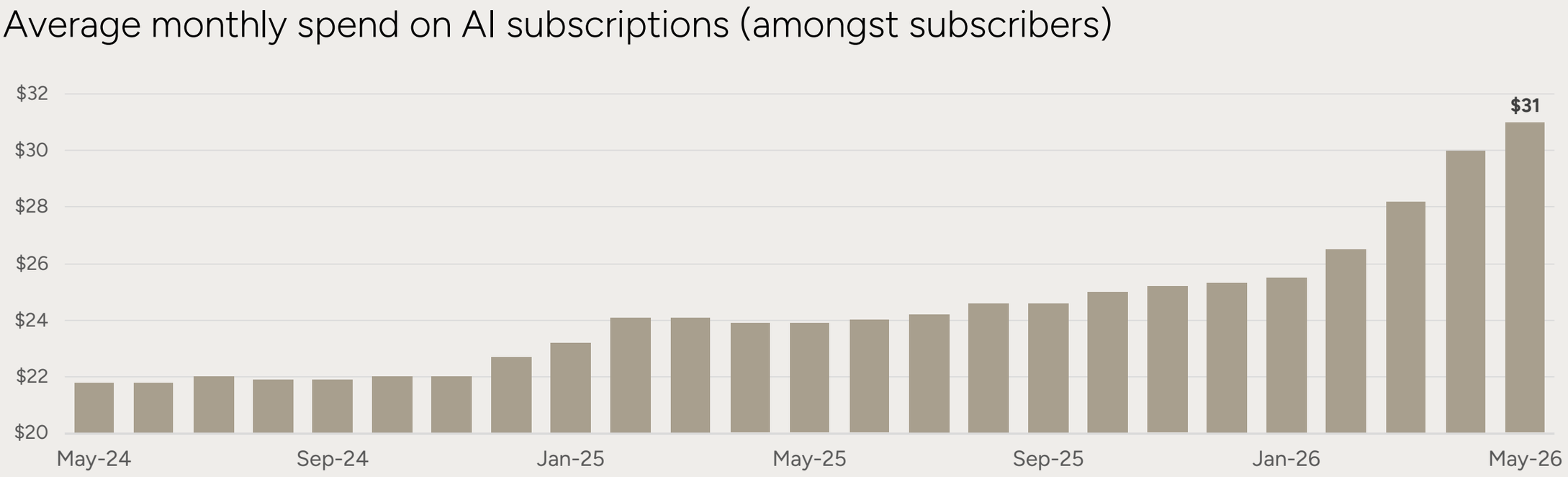
Share of US Households with paid AI subscriptions



Source: State of Markets, A16Z Growth (September, 2026)

Exhibit 17: Households are spending more on AI

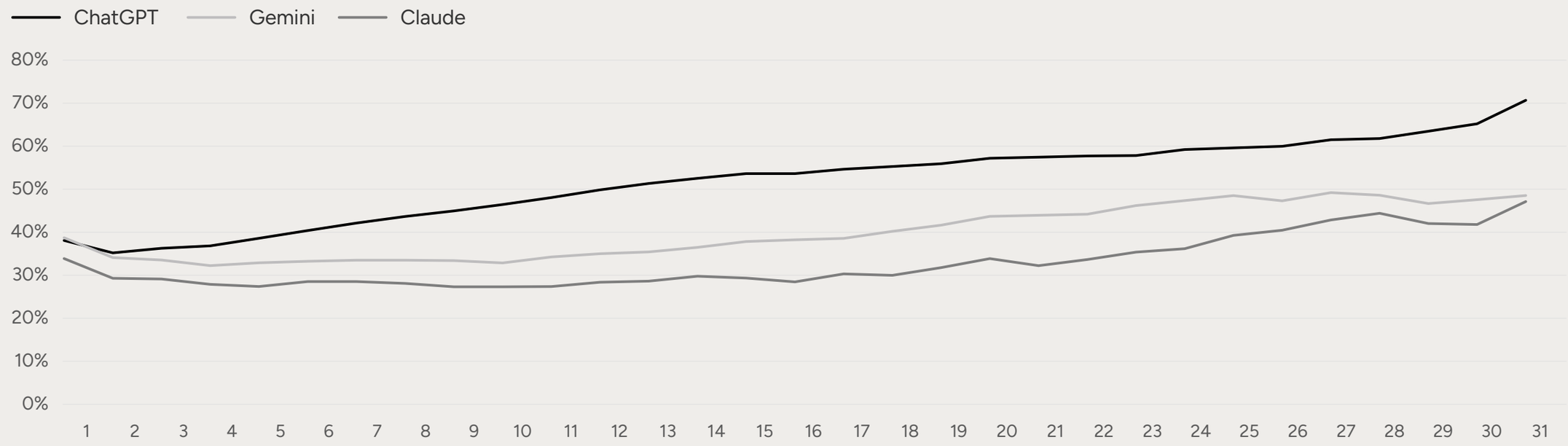
Average monthly spend on AI subscriptions (amongst subscribers)



Source: State of Markets, A16Z Growth (September, 2026)

Exhibit 18: Average retention by desktop provider across monthly cohorts

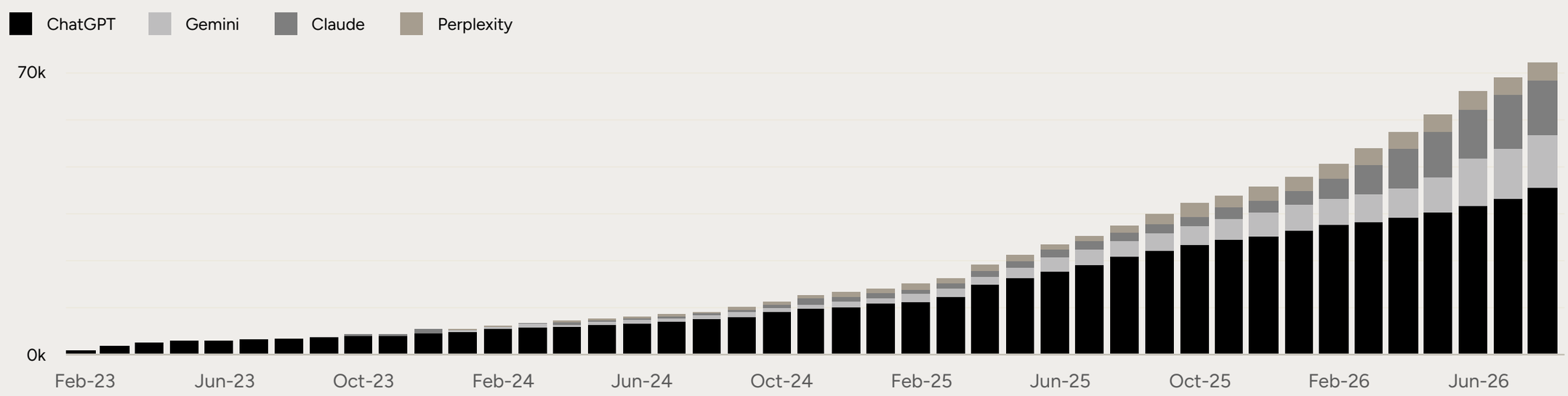
Average retention (%) vs Number of months since first use



Source: State of Markets, A16Z Growth (September, 2026)

Exhibit 19: Paid consumer subscriptions have increased by c. 5x since 2025

Total observable US active consumer subscriptions.



Source: State of Markets, A16Z Growth (September, 2026)

In summary, whilst data is scarce, the overall message is that it is reasonable to conclude that we are in the early stages of business adoption for AI. This is crucial of course because future revenues of the “hyperscalers” (the huge companies with large capital investment budgets in Ai Microsoft, Meta etc.) will most likely come from businesses.

CONCLUSION

While concerns over an AI-driven market bubble persist, the evidence today looks very different from previous speculative episodes. Valuations remain well below the extremes of 1999-2000, earnings growth continues to support market performance, and the leading beneficiaries of AI are highly profitable businesses rather than speculative ventures. Importantly, available data suggests that both business and consumer adoption of AI are still in their early stages, potentially leaving a significant runway for future growth.

Consistent with the KFH House View, we remain constructive on the long-term opportunity and do not believe current conditions resemble the technology bubble that preceded the market correction of the early 2000s.

PRIVATE ASSETS AS PART OF A DIVERSIFIED PORTFOLIO

Again we return to a topic that we have discussed previously (back in Q1 2025) – the role of Private Assets in a diversified portfolio. In our previous article, we highlighted the US endowment industry as early adopters of substantial private asset allocations and the superior returns that they delivered through this approach. In our previous publication, we shared the below table (**Exhibit 20** - based on then publicly available data to June 2023), which highlights their strong, long-term compounded returns.

Exhibit 20: Returns of US university endowment funds

	10 Year annualized returns	Size (USDbn)
Brown University	11.3%	6.6
Yale	10.9%	40.7
Princeton	10.8%	34.1
Dartmouth	10.7%	7.9
University of Virginia	9.8%	13.6
Duke	9.8%	11.6
University of Pennsylvania	9.7%	21.0

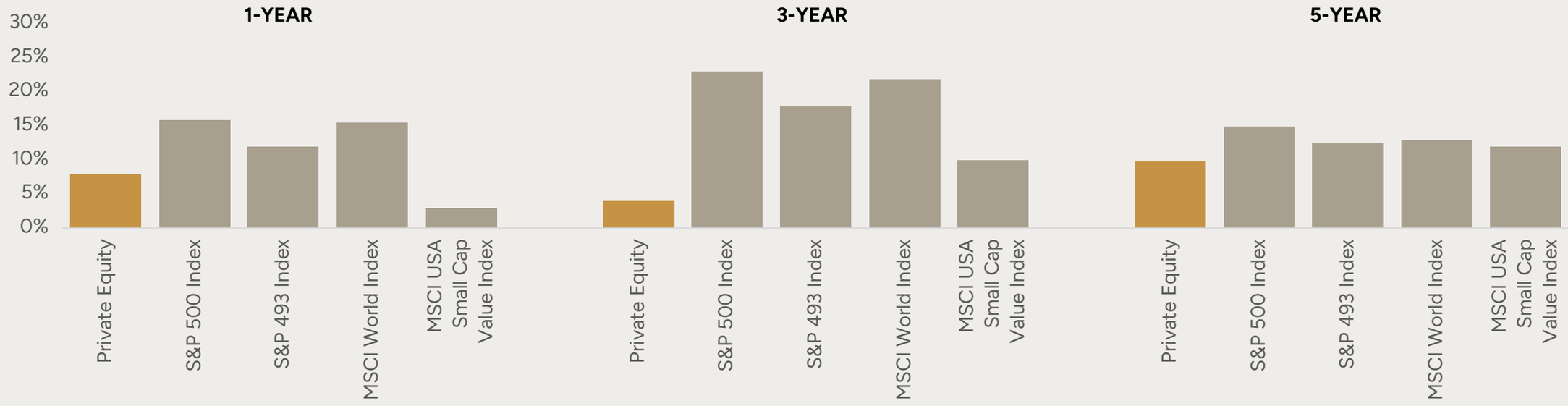
Source: KFH Capital Q1 2025 Wealth Insights, based on publicly available data to June 2023

These funds typically have a weighting of 40% towards private assets including venture, real estate, infrastructure and private equity. The historic long-term returns are absolute evidence that allocations to private assets can be additive to overall returns.

In recent years, publicly listed global equities have delivered exceptional returns, with US equities and the S&P 500 leading performance, as shown in **Exhibit 21**. As a result, private equity has, in relative terms, lagged listed markets over the period.

Exhibit 21: 1, 3 & 5-Year Private vs Public Equity performance

Annualized Time-Weighted Returns as of 30/09/2025



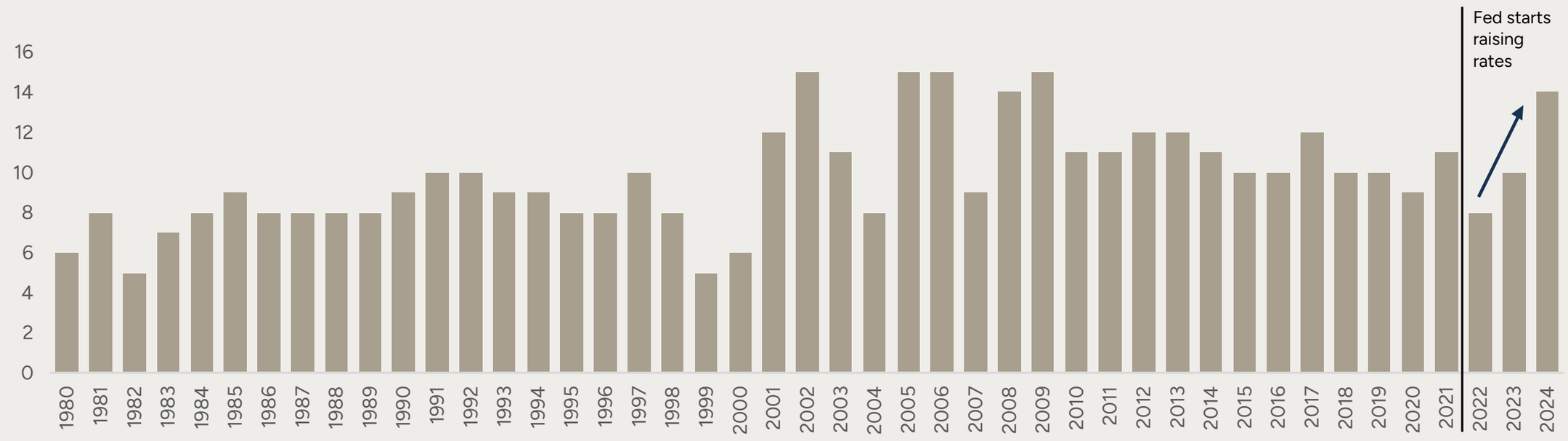
Source: Hamilton Lane Data via Cobalt & Bloomberg (January 2026)

However, the strategic rationale for private markets remains compelling. A significant proportion of the world's largest and fastest-growing companies now remain private for longer, creating investment opportunities that are inaccessible through public markets alone. This is particularly relevant in private equity and private credit, where investors can access a broader opportunity set beyond listed securities.

The expansion of private credit has been underpinned by regulatory reforms introduced after the Global Financial Crisis. Higher capital requirements and stricter lending standards have constrained bank lending activity, particularly to mid-sized and more complex borrowers. Private credit providers have increasingly filled this financing gap, becoming an important source of capital for businesses globally.

As mentioned, it's also important to recognise that private companies are increasingly holding back from listing on exchanges and staying private for longer (see **Exhibit 22**). Consequently, only investing in public markets would mean missing out on a large - a substantial majority by number - corporate sector.

Exhibit 22: The median age of companies going public: Currently 14 years



Source: Jay Ritter, University of Florida, Apolo Chief Economist

HOW TO IMPLEMENT PRIVATE MARKETS IN PRIVATE WEALTH ASSET ALLOCATION?

We are looking for higher returns to compensate clients for giving up liquidity but also, we need to assess the overall risk impact.

Firstly, despite the relative recent weakness of private equity, the combination of a strong return profile from private credit and infrastructure has helped a diversified private portfolio outperform as below:

Exhibit 23: Historically higher returns from private markets at equity levels of risk

An allocation to private markets can help enhance portfolio risk and return.

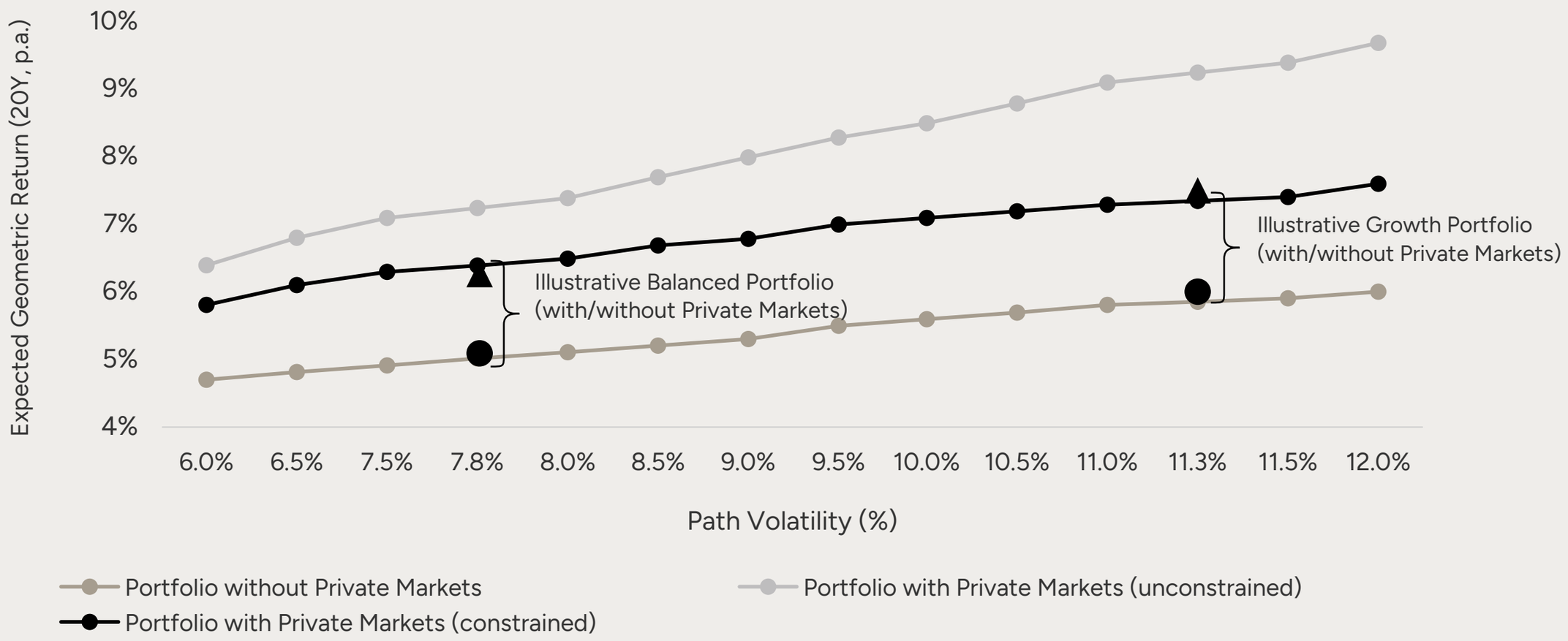


Source: BlackRock, as of December 2025. Note: For Balanced & Growth portfolios, circles represent portfolios with Private Markets.

Exhibit 24 taken from BlackRock research shows that compared to traditional public market portfolios (red), an allocation to private markets constrained (at a 15% allocation) or unconstrained performance is improved at all levels of risk.

Exhibit 24: Finding the optimal allocation

Return upside and liquidity requirements are key considerations in sizing private markets allocations



Source: BlackRock, as of December 2025

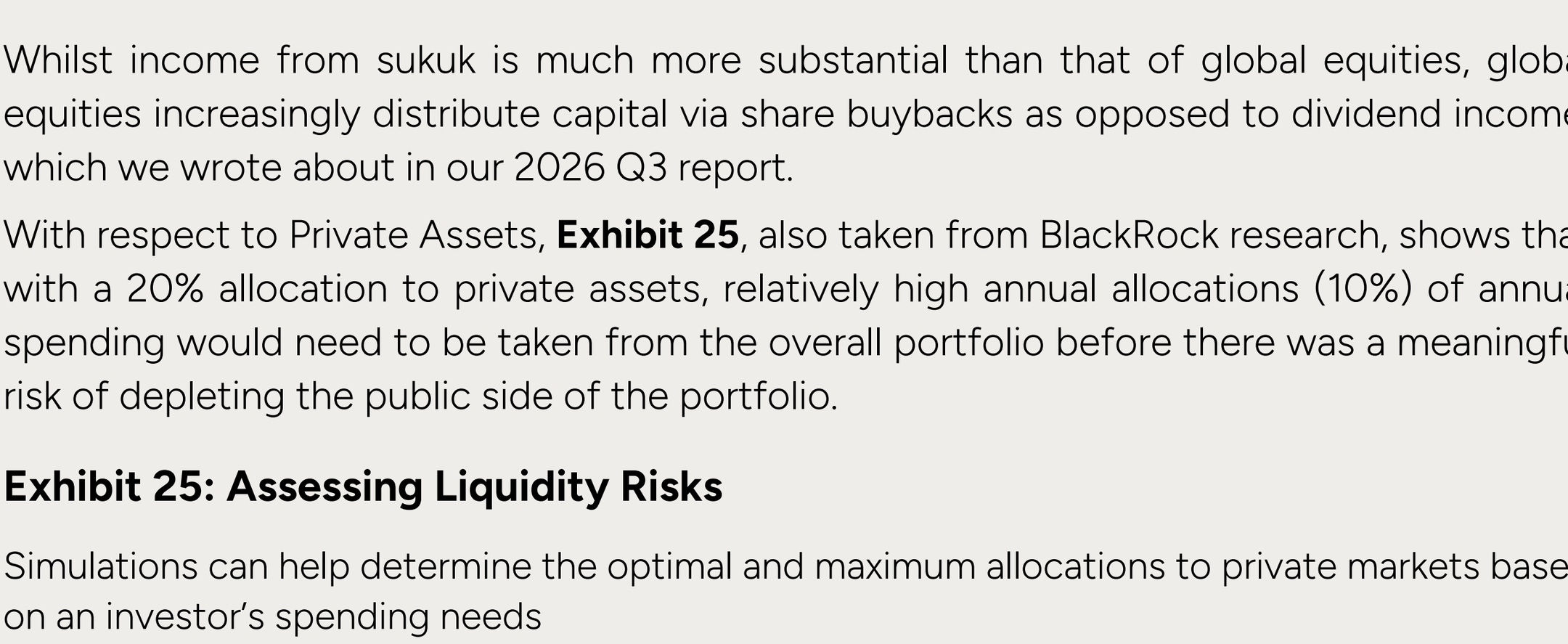
HOW MUCH SHOULD AN INVESTOR ALLOCATE TO PRIVATE MARKETS IF THEY NEED A REGULAR INCOME CONTRIBUTION FROM THE PUBLIC MARKETS (EG. IN RETIREMENT OR TO SUPPORT LIFESTYLE REQUIREMENTS)?

Whilst income from sukuk is much more substantial than that of global equities, global equities increasingly distribute capital via share buybacks as opposed to dividend income, which we wrote about in our 2026 Q3 report.

With respect to Private Assets, **Exhibit 25**, also taken from BlackRock research, shows that with a 20% allocation to private assets, relatively high annual allocations (10%) of annual spending would need to be taken from the overall portfolio before there was a meaningful risk of depleting the public side of the portfolio.

Exhibit 25: Assessing Liquidity Risks

Simulations can help determine the optimal and maximum allocations to private markets based on an investor's spending needs



Source: BlackRock

WHAT IS THE BEST VEHICLE FOR PRIVATE MARKETS ALLOCATIONS?

As private markets continue to grow as a strategic allocation within client portfolios, the choice of investment vehicle has become just as important as the underlying opportunity. The two dominant approaches, traditional closed-ended funds and newer evergreen structures, each provide distinct benefits and trade-offs that investors should carefully consider.

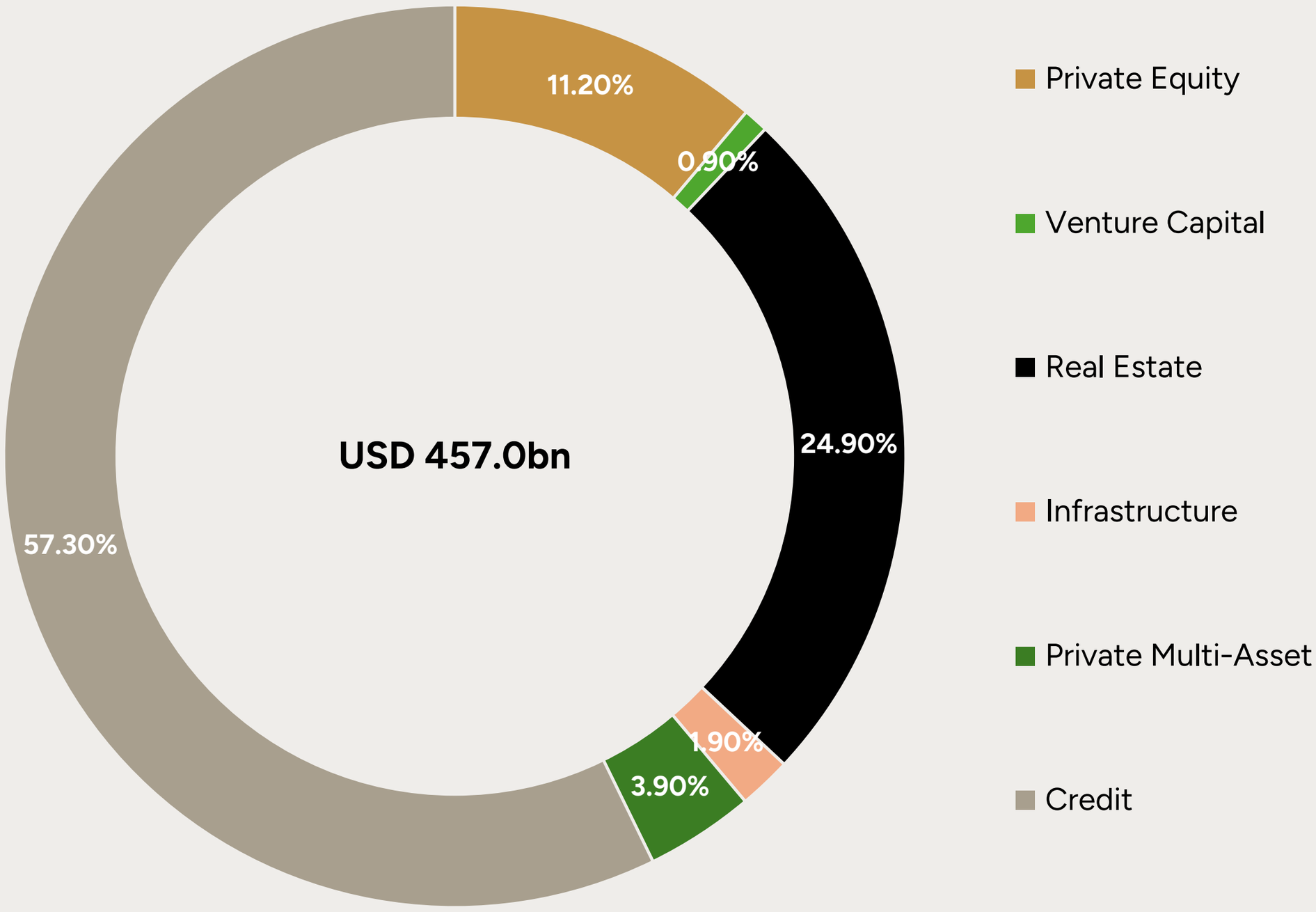
Exhibit 26: A side-by-side comparison: How do evergreen funds differ from traditional funds?

	Traditional Fund	**Evergreen Fund**
Fund Structure	Closed-ended, limited partnerships	Open-ended
Investment Strategy	More focused: Acquire and grow companies over a set period	More patient: hold companies for longer
Lifespan	Approx. 10 years, with option to extend 1-2 years: Fixed end date	Perpetual basis: No fixed end date
Capital Deployment	Multi-year commitment period	Immediate (fully deployed upon investment)
Liquidity	None: Typically 10 year lock-up	Periodic: Generally monthly or quaterly
Individual investor requirements	Qualified Purchaser: Min. USD 5m net worth	Accredited investor
Approx Individual Capital Contributions	Single, large capital commitment at the start of the fund's life: Minimums can start at USD 5m	Periodic contributions or withdrawals Minimums can start at USD 25k

Source: Hamilton Lane

Traditional closed-ended funds still outweigh evergreen funds within private markets – accounting for USD 10.5 trillion AUM vs USD 457bn held in evergreen structures. However, allocations to evergreen are increasing – the segment is currently dominated by private credit **(Exhibit 27)**, but infrastructure mandates are growing quickly.

Exhibit 27: Total Net Assets in Semi-Liquid Evergreen Funds



Source: Pitchbook. Note: Data was aggregated on December 4th 2025. The most recent dates of the disclosure documents range from June 30th to September 30th 2025. US only.

One of the most common criticisms of evergreen private markets funds is their limited liquidity, with redemptions often capped at 5% per quarter. While this has generated negative headlines, particularly in parts of the private credit market, we regard such provisions as an inherent feature of investing in illiquid assets rather than a structural weakness. For long-term investors, the key is ensuring that the liquidity profile is clearly understood and appropriately sized within the overall portfolio.

In the Evergreen segment, our preference would be to diversify across multiple evergreen strategies rather than rely on a single fund, allowing clients to benefit from the diversification and return potential of private markets while managing the associated risks. Overall, we believe these allocations can be additive to a well-constructed portfolio.

More broadly, our preference is not necessarily for evergreen funds or traditional closed-ended funds in isolation, but rather for a blend of both where appropriate. The optimal approach will depend on an investor's liquidity requirements, investment horizon and the role the allocation is intended to play within their broader portfolio and overall wealth plan. When implemented thoughtfully, both structures can make a valuable contribution to a well-diversified private markets allocation.

CONSIDERATIONS FOR SHARI'AH CONSCIOUS INVESTORS

For Shari'ah-conscious investors, the private markets universe presents both opportunities and challenges. Unlike public markets, where screening methodologies are well established and widely available, private market investments often require a more detailed assessment of underlying business activities, capital structures and financing arrangements. In recent years, however, the range of Shari'ah-compliant private market solutions has expanded considerably, particularly within private equity, private credit and infrastructure. The asset class is often well aligned with key Islamic investment principles, including investment in real economic activity, long-term value creation and asset-backed business models. Nevertheless, manager selection and Shari'ah governance remain critical, as standards and methodologies can vary across providers. We believe the emergence of dedicated Shari'ah-compliant private market strategies is an important development for Islamic investors, allowing them to access many of the diversification and return-enhancing characteristics of private markets while remaining aligned with their faith-based investment objectives.

CONCLUSION

Private markets have become an increasingly important component of portfolios, driven by their potential to enhance diversification, access a broader investment universe and improve long-term returns. While considerations such as liquidity, manager selection and implementation remain important, the continued evolution of evergreen fund structures has made the asset class more accessible to private wealth investors. For investors with an appropriate time horizon, we believe carefully selected and appropriately sized private market allocations can serve as a valuable complement to traditional public market exposures and contribute positively to long-term portfolio outcomes.

IN SUMMARY

The common thread running through this quarter's publication (and many of our previous publications) is the importance of focusing on long-term fundamentals rather than short-term market narratives. Investors continue to face an environment of elevated bond yields, persistent inflation, geopolitical uncertainty and ongoing debate around equity valuations. Yet beneath these headlines, corporate earnings remain resilient, AI adoption appears to be in its early stages rather than at its peak, and private markets continue to offer attractive opportunities for diversification and long-term capital growth.

At the portfolio level, the evidence consistently reinforces the value of discipline. Rebalancing remains one of the most effective tools for controlling risk and preserving alignment with an investor's objectives, while thoughtfully sized allocations to private markets can broaden opportunity sets and enhance long-term outcomes. Together, these themes support a simple conclusion: successful investing is less about predicting the next market move and more about maintaining a well-diversified portfolio, remaining disciplined through periods of uncertainty, and staying focused on long-term wealth creation. Consistent with the KFH House View, we believe investors should continue to balance resilience with opportunity, positioning portfolios to navigate a range of market environments while remaining committed to their long-term objectives.

KFH House View

Asset Allocation Guide

Q4 2026

▲ = Overweight | ■ = Neutral | ▼ = Underweight

	STRATEGIC VIEW	TACTICAL VIEW	COMMENTARY
Overall Risk Appetite	■	▲	Positive approach to risk assets – research highlights attractive returns post geopolitical events.
Equities - Overall	■	▲	We express a modest overweight risk stance via equities relative to credit.
US	■	■	Neutral
Europe	■	■	Neutral
Emerging Markets	■	■	Neutral
Japan	■	▲	Overweight based on the positive trend (and importance) of corporate governance and return on equity from a historically low base.
GCC	■	■	Neutral allocation – useful diversifier from technology-dominated global markets.
REITs	■	▲	Overweight based on attractive valuations, stabilized office and retail sector. An attractive diversifier vs global equities.
Sukuk	■	▼	Underweight both duration (maturity) risk and outright exposures. Favoring equities.
Trade Finance	■	▼	Underweight in our Global Discretionary Mandates reflecting current liquidity profile. Attractive offering as an income stream in a standalone closed-ended fund.
Gold	▲	■	Maintain robust strategic positions, seeking to ride out current short-term volatility.
Money Markets	■	▼	Underweight – focused on risk assets.

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