



LASALLE ST.  
CAPITAL MANAGEMENT

Global Transformation:

# A New Era of Opportunity



# Global Transformation: A New Era of Opportunity

Investment outlooks can be an essential guide for navigating what's ahead. They provide context for recent market trends, highlight emerging structural shifts, and are intended to help investors position portfolios for resilience and growth. In a world where economic regimes evolve, policies shift, and global drivers realign, an outlook isn't about predicting the future - it's about preparing for a range of possibilities. As we move from 2025 into 2026, understanding these dynamics is key to building forward-looking strategies. This report offers a clear analysis of macroeconomic trends, demographic changes, and geopolitical developments to help investors align portfolios with long-term objectives and capture opportunities in a changing global landscape.

From 2000 to 2020, global markets operated under an extraordinary set of conditions - marked by historically low interest rates, subdued inflation, and modest economic growth. These dynamics created an environment where disinflationary assets such as growth equities and long-duration bonds significantly outperformed, while diversified portfolios often lagged behind.

Today, those tailwinds are reversing. We are entering a new regime where key market variables - bond yields, interest rates, and inflation - are more likely to trend higher over coming cycles. This shift introduces a broader range of potential outcomes, reinforcing the importance of diversification as a strategic imperative in navigating uncertainty.

Looking back, the peak of globalization saw nearly 900 million new workers enter the global labor force, contributing to disinflationary pressures and supply chain efficiency. However, the tide has turned. The free flow of goods, capital, and labor is increasingly challenged. While some key trade relationships may recover, elevated barriers are likely to persist, encouraging trends like on shoring and "friend shoring." These shifts, while enhancing resilience, come with front-loaded inflationary costs.

Overlaying this is a powerful demographic transformation. Declining birth rates and an aging population are pushing dependency ratios higher. Since economic output is fundamentally a function of people and productivity, a rising dependency ratio implies slower growth and structurally higher inflation as aging populations drive up healthcare and social costs.

In this evolving landscape, investors must prepare for a world that looks markedly different from the past two decades. Strategic flexibility, global diversification, and a keen eye on structural shifts will be essential to navigating what lies ahead.

2025 reinforced the importance of maintaining a disciplined, long-term investment framework while remaining flexible to address disruptions such as tariffs, geopolitical developments, and the ongoing tension between fiscal and monetary policy. Current market pricing does not, in our view, fully reflect the uncertainty and broader range of potential outcomes for 2026.

Global markets are transitioning from a U.S.-centric structure toward a more regionally driven framework. This shift has material implications for capital allocation and risk management. Investors should consider adjusting portfolios to reflect these evolving dynamics.

We believe we are in the early stages of a significant period of transition, one that will redefine global growth drivers and investment opportunities. The following pages aim to explore these themes and outline strategies to position portfolios for resilience and long-term success in this changing world order. Don't worry – we have been here before...

*Michael Drozd*

LaSalle St. - Chief Investment Officer

## The Saeculum – 80 years in the making

Today's geopolitical and economic turbulence is not an anomaly, but as part of a well-documented historical cycle. The radical policy shifts we're seeing, both domestically and globally, may appear abrupt in the context of recent decades, but from a broader historical lens, they are right on schedule.

Recent shifts in U.S. policy under the new administration have raised fundamental questions about America's future role in the global economy. While these changes may seem abrupt by recent historical standards, they align with a deeper, long-term cyclical pattern—one that has profound implications for capital markets, global stability, and institutional resilience.

According to generational theorists William Strauss and Neil Howe, history moves in cycles roughly every 80 to 100 years, culminating in a period of radical reform and systemic reset—what they call the Fourth Turning\*. These moments are not anomalies; they are historically consistent inflection points where unresolved structural issues—economic, social, and geopolitical—demand resolution.

### Generational Cycles and Market Behavior

Each cycle is shaped by generational archetypes whose values and behaviors are molded by the conditions of their formative years. For example:

- **The Greatest Generation**, forged in the Great Depression and WWII, built enduring institutions and a global order.
- **Baby Boomers**, raised in post-war prosperity, emphasized individualism and deregulation.
- **Millennials and Gen Z**, coming of age during institutional decline and economic bifurcation, are driving demand for systemic change.

This altruistic architecture of the post-war era also included trade and currency agreements that favored global development, often at the expense of U.S. trade balances. Tariff structures allowed foreign nations to export more freely to the U.S., helping them industrialize and grow. This model worked for decades, but it also laid the groundwork for massive trade imbalances, first with Japan in the 1980s and more recently with China, whose rise was facilitated by favorable trade status and policy concessions.

These generational shifts influence everything from consumer preferences and labor dynamics to policy direction and risk tolerance—all critical inputs for long-term investment strategy.

## Fourth Turnings and Global Realignment

Historically, Fourth Turnings have coincided with major geopolitical upheavals:

- **Revolutionary War** – Birth of the republic.
- **Civil War** – Redefinition of national identity.
- **Great Depression & WWII** – Creation of the modern global order.

Each was marked by institutional breakdown, intense polarization, and eventual renewal. The leaders who navigated these crises, Washington, Lincoln, Roosevelt, are remembered not just for their leadership, but for presiding over systemic transformation.

Today's Fourth Turning is similarly global in scope. The post-WWII international framework, built on Bretton Woods, NATO, and U.S. hegemony, is under pressure. Trade alliances, reserve currency status, and geopolitical influence are being redefined. The breakdown of trust in legacy institutions is mirrored by rising populism, protectionism, and fiscal experimentation.

Today, the U.S. remains the global demand center, running a trillion-dollar trade deficit that sustains the world's mercantilist policies. But the political and economic consensus that supported this model is fracturing. As with previous periods of transition, many people are questioning the status quo, expressing concerns about fiscal sustainability, income disparities, and pressures on living standards.

While some interpret this shift as a turn toward isolationism or protectionism, that view likely misses the mark. What we're witnessing is not a retreat from Globalization, but a redefinition of it, one that is less altruistic and more reciprocal. The U.S. is beginning to leverage its strategic advantages more assertively, seeking fairer trade terms and greater returns on capital.

## Capital Flows and Shifting Investing Paradigms

A key signal of this shift is the transition from government-led to private investment-led growth. The Passing of the OBBBA bill reflects this pivot, aiming to stimulate domestic productivity through private capital deployment rather than public spending alone.

This has profound implications for capital markets and global trade:

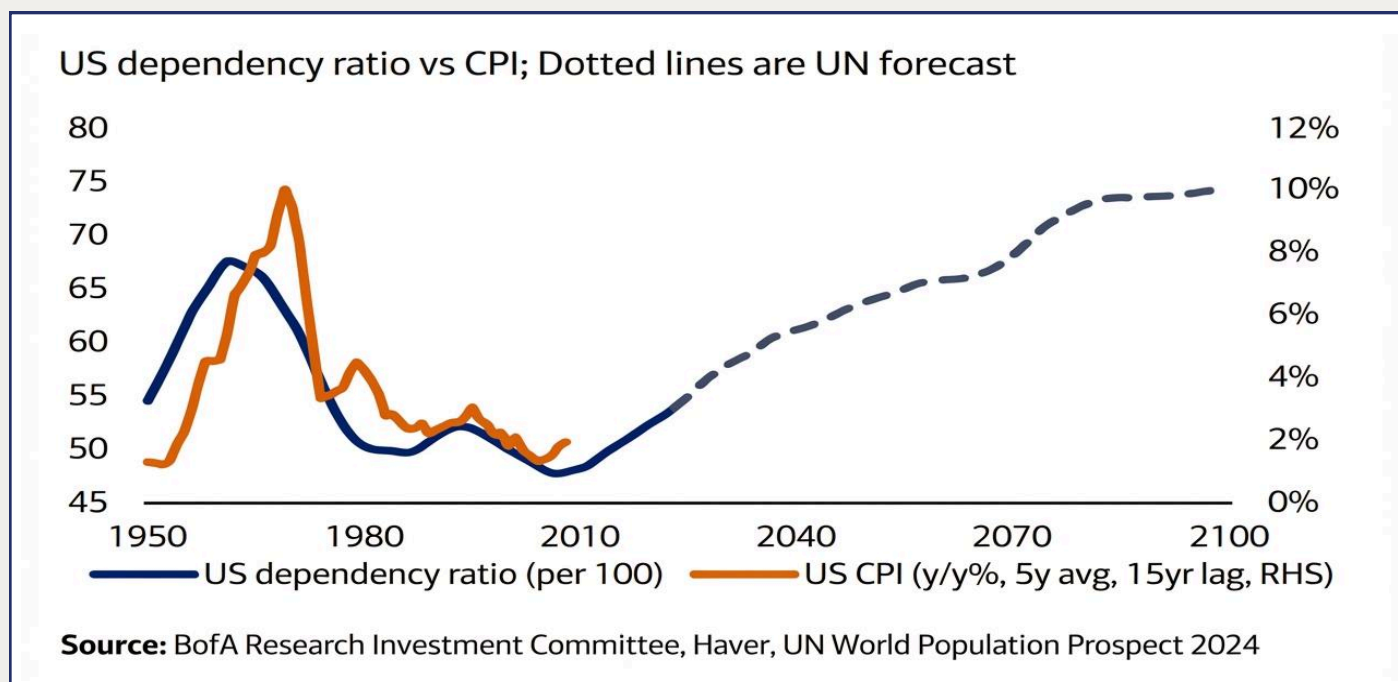
- **Foreign capital is rotating** away from U.S. Treasuries and into direct equity investment in U.S.-based businesses.
- **Trillions in private investment** have already been announced during 2025, echoing the 1980s solution to Japan's trade surplus, which involved shifting auto production to U.S. soil.
- **This new wave of globalization** is capital-intensive, tech-driven, and strategically aligned with national interests.

- Eurozone increased public investment, with the goal of increasing productivity and strengthening of the EU single market by harmonizing regulation, reducing administrative barriers, and streamlining trade.
- China and Southeast Asia fiscal policy shift toward strengthening social protection to reduce high household savings and rebalance toward private consumption. Increase reliance on market forces to improve resource allocation.

## Technology, Human Nature, and the Generational Constraint

While AI and automation are accelerating toward a world of potential superabundance, human nature remains the limiting factor. Generational cycles reflect this tension: each new cohort inherits not just technological tools, but also the unresolved social and institutional challenges of the past. Since economic output is fundamentally a function of people and productivity, a rising dependency ratio implies slower growth and structurally higher inflation as aging populations drive up healthcare and social costs. (see chart 1)

Chart 1: Aging demographics may lead to higher inflation and muted economic growth



Yet, Fourth Turnings are historically the moments when societies recalibrate, overcome inertia, and lay the groundwork for a new era. The Greatest Generation did it in the 1940s. We may be witnessing a similar inflection point now.

# Navigating the New Market Reality:

## Why Active Management and Maximum Diversification Are Non-Negotiable

If the macroeconomic environment ahead begins to resemble the more volatile and cyclical conditions of the 20th century, rather than the relatively stable, disinflationary regime of the early 21st, investors should prepare for a much wider dispersion of market outcomes. Yet many portfolios may be less prepared for this shift than investors realize.

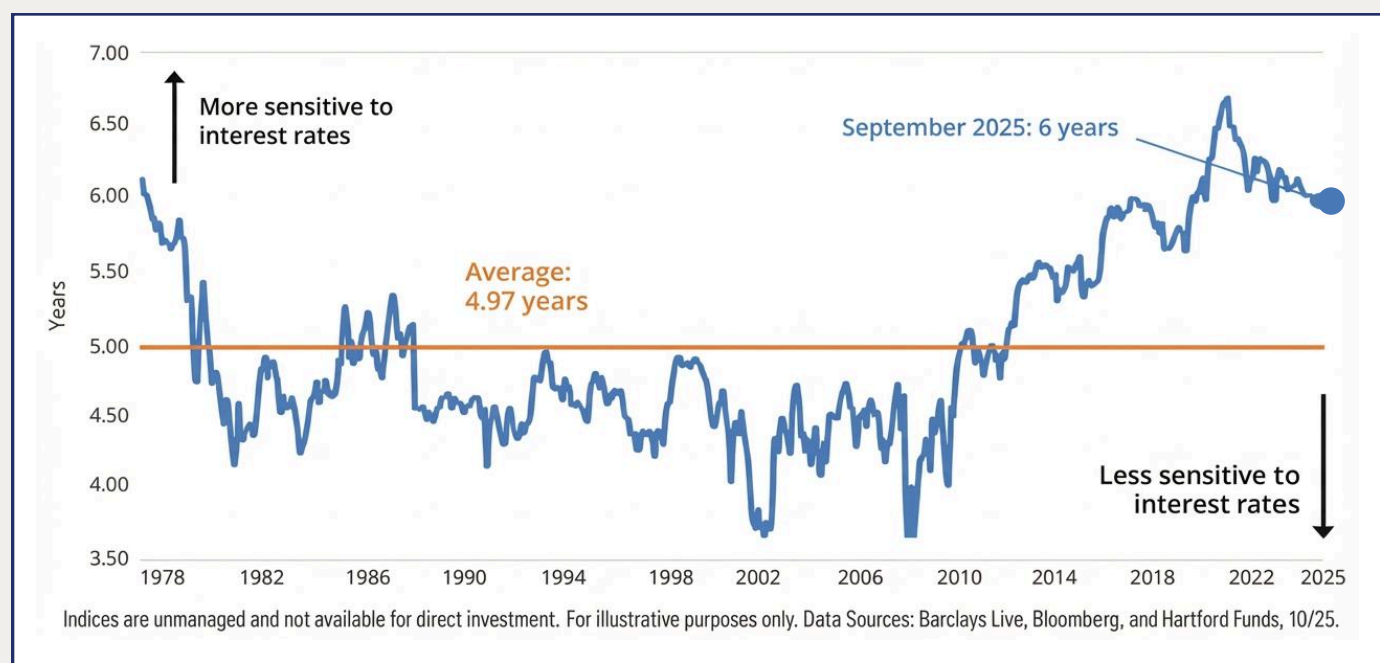
Two decades ago, equity and fixed income benchmarks offered genuine diversification. Today, they are increasingly concentrated in the sectors and styles that have outperformed in the recent past—namely, growth equities and rate-sensitive assets. For example, the S&P 500’s allocation to “pure value” stocks has declined sharply, from a more balanced 25% in 2005 to just 9% today. This creates a compelling opportunity: pure value now offers more diversification relative to the broader index than at any point in the past 20 years. However, accessing that diversification often requires a more deliberate, hands-on approach.

The story is similar in fixed income. The duration, or interest rate sensitivity, of the U.S. Aggregate Bond Index is near record highs its exposure to high-duration sectors has climbed to 65%, nearly 20 percentage points higher than in 2005. This means many bond portfolios are more vulnerable to rising rates than investors might assume (See Chart 1).

Compounding these structural shifts, investor behavior has further reinforced index drift. Over the past two years, U.S. ETF flows show a pronounced preference for what has recently worked: \$80 billion more has flowed into Treasuries than into corporate bonds (a 54% tilt), and \$60 billion more into growth equities than value (an 85% tilt). These flows amplify existing imbalances and may leave portfolios overexposed to a narrow set of risks.

In this ever-evolving environment, investors must look beyond traditional benchmarks and consider a more intentional approach to diversification, one that reflects the realities of a changing macro regime and the evolving structure of markets.

Chart 1: Duration of the Bloomberg US Aggregate Bond Index (1/1/78–9/30/25)



Source: Barclays Live, Bloomberg and Hartford Funds

## US Equities:

US equities posted strong gains in 2025, driven primarily by momentum in artificial intelligence (AI). Optimism around productivity improvements, easing inflation, and resilient economic growth supported sentiment, while expectations for rate cuts increased risk appetite. However, market leadership narrowed significantly, and valuations became elevated. By year-end, a small group of AI-related mega-cap companies represented a record share of global market capitalization, creating concentrated portfolios and heightened index-level risk.

As we look to 2026, the AI theme remains influential, but its dominance introduces fragility. We expect a shift from momentum-driven performance toward a more balanced environment where fundamentals and diversification play a greater role. Technology and communication services led returns in 2025, up 31% and 29% respectively, with global equities gaining approximately 20%. The “Magnificent 7” accounted for more than 20% of global equity gains and over 40% of S&P 500 returns (see chart 2). Despite record highs for major indices, half of their constituents remain at least 20% below prior peaks, underscoring the narrowness of the rally.

Chart 2: Performance of “Magnificent 7” Stocks in S&P 500

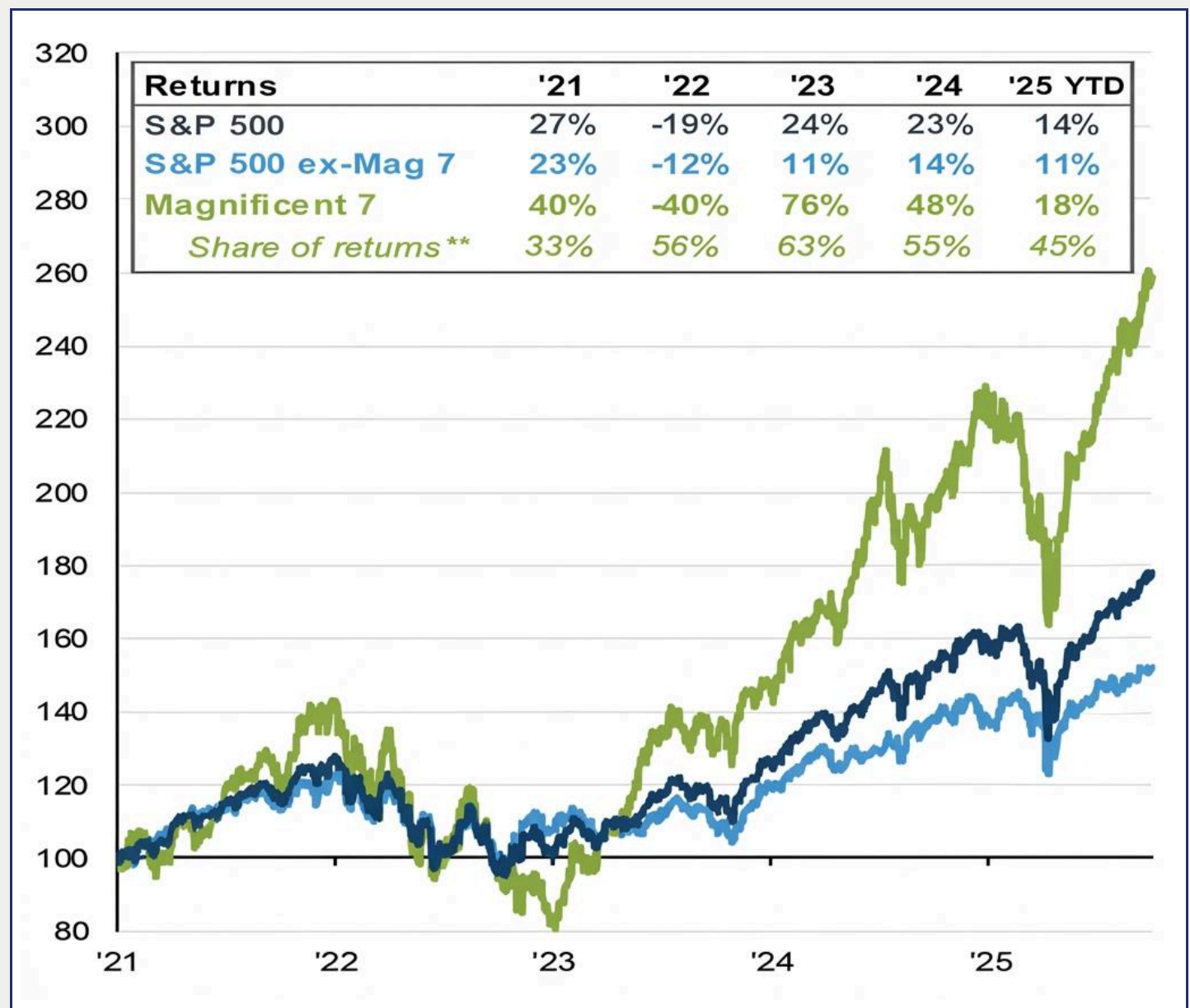


Chart Source: J.P. Morgan Asset Management

This concentration dynamic is unlikely to persist. Equity indices have become unusually dependent on a few large companies, amplifying sensitivity to stock-specific developments and increasing volatility risk if these leaders re-rate. Broader regional, sector, and style diversification should help mitigate these risks.

Debate around an AI bubble centers on whether current valuations and investment spending outpace monetization. Risks include cyclical capital spending, interdependent revenue streams, supply constraints, and AI driven Global economic growth dependency.

Unlike the late-1990s technology cycle, today's AI leaders are profitable, generate significant cash flow, and are deeply integrated into enterprise and consumer infrastructure. While valuation risk remains, potential vulnerabilities are more likely to stem from slower adoption and liquidity constraints rather than structural business failure. In highly leveraged systems, however, tightening financial conditions and reduced liquidity often lead even the most elevated companies to recalibrate.

At the mega-cap level, corporate earnings will depend heavily on data center demand, and the broader economy will test whether AI adoption delivers meaningful productivity gains at a macro scale. This means risk management, selectivity and diversification will be critical as investors navigate an environment marked by greater dispersion in returns across sectors, styles, and regions. Structural shifts, such as uneven AI adoption, divergent monetary policies, and geopolitical fragmentation are likely to amplify performance gaps. While momentum in AI-related equities may persist, it will not be uniform, and concentration risk remains elevated. The top 10 S&P 500 stocks now represent nearly 40% of the index, with technology-heavy sectors accounting for roughly half of market capitalization.

Rotating away from overvalued sectors and selectively adding exposure to value-oriented areas can help mitigate volatility in the most liquidity-sensitive names. While there are still strong fundamental reasons to maintain exposure to leading AI technology companies given their profitability, cash generation, and integration into enterprise infrastructure, portfolio construction should prioritize resilience against uncertainty and stretched valuations.

For U.S.-based investors, this environment presents a compelling case for expanding exposure to non-U.S. markets. Many international equities are trading at valuations that suggest superior risk-adjusted return potential compared to their U.S. counterparts. Additionally, foreign-currency exposure offers an important secondary benefit: the potential for appreciation against a U.S. dollar that faces structural headwinds from fiscal imbalances and evolving global capital flows.

A measured reallocation from U.S. to non-U.S. assets along with rebalancing styles within US equities can serve two objectives: reducing concentration risk at the portfolio level while increasing portfolio diversification and providing a natural hedge against dollar weakness. This approach is particularly relevant as global growth driver's shift toward a more regionally distributed framework, creating opportunities in markets that have been underrepresented in U.S.-centric portfolios.

## International Equities:

International equities have delivered approximately 30% year-to-date, outperforming U.S. benchmarks. This rotation is supported by both currency tailwinds and fundamental valuation advantages, signaling a compelling case for global diversification. For U.S.-based investors, the current environment offers an opportunity.

The U.S. dollar has declined by approximately 9–10% against major currencies in 2025, contributing to stronger returns on foreign assets. Historically, periods of dollar weakness have coincided with improved performance in international equities, particularly in emerging markets and export-oriented economies. While a prolonged decline remains possible, U.S. long-term yields are currently higher than those in other developed markets, which could attract capital inflows during periods of economic stress. At present, currency markets are increasingly influenced by balance-of-payments dynamics rather than short-term interest rate differentials.

Currency exposure is no longer a passive risk, it is an active source of potential return. Allocating to non-U.S. assets introduces a natural hedge against further dollar weakness, which may persist given U.S. fiscal imbalances and evolving global capital flows.

Despite similar earnings growth expectations, U.S. markets trade at a premium that reflects concentration risk in mega-cap technology names. In contrast, international markets offer more balanced sector exposure and attractive entry points. European equities trade at ~16x forward earnings, compared to ~25x for U.S. equities, despite similar earnings growth expectations. (See chart 3)

Chart 3: Forward PE Ratios by Region/Country

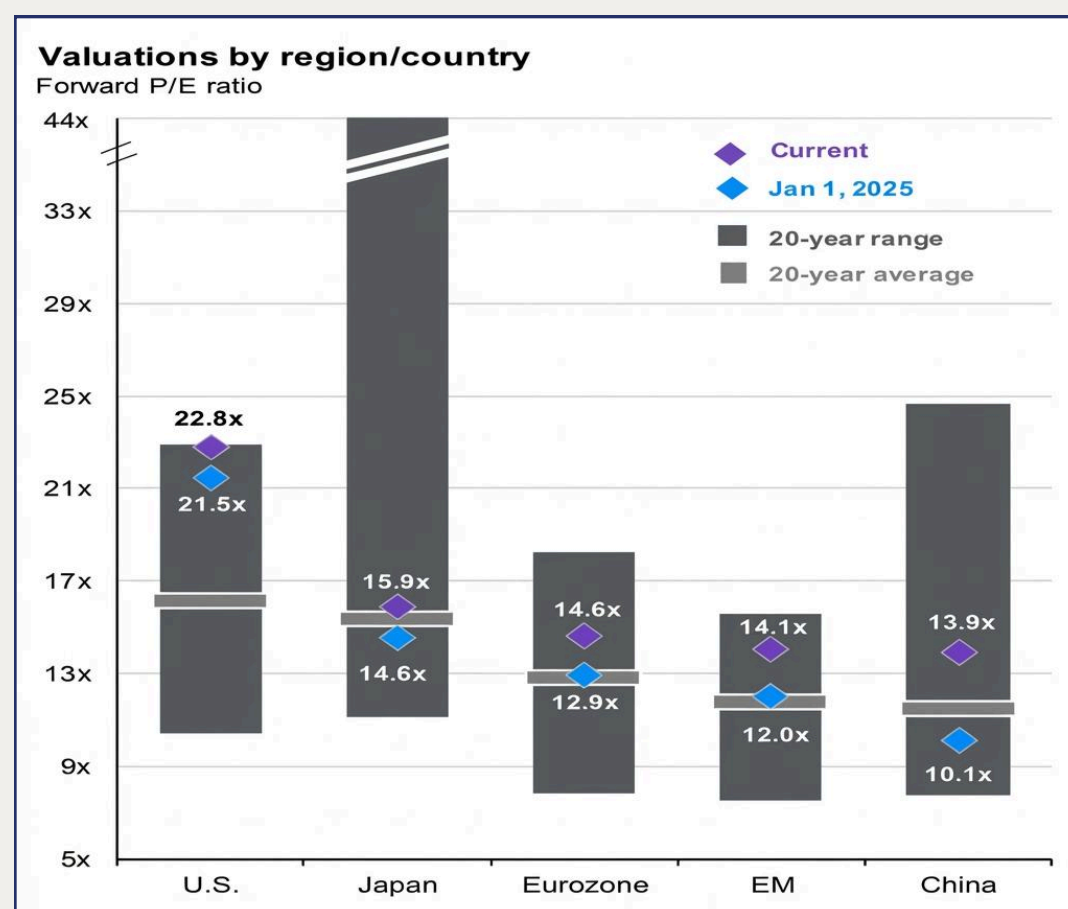


Chart Sources: J.P. Morgan Asset Management

Global payout ratios have converged with U.S. levels at approximately 75%, reflecting improved capital discipline and stronger alignment with shareholder interests. This trend enhances the appeal of international equities for income-oriented investors and signals a structural shift toward more shareholder-friendly practices globally.

While, European corporates have faced headwinds from U.S. tariffs, a stronger euro, and rising Chinese imports. The disruption to the global political and economic order triggered by the new U.S. administration has accelerated Europe's efforts to reduce reliance on the U.S., most notably through its Strategic Autonomy initiative, which emphasizes building domestic defense capabilities.

Investors are increasingly focused on fiscal stimulus aimed at infrastructure and defense as a potential driver of corporate profitability. Notably, earnings for the MSCI Europe Aerospace & Defense Index are projected to grow by more than 25% next year. In our view, this initiative could help offset the drag from U.S. tariffs and support Europe's transition toward a less export-dependent economic model.

Europe's Strategic Autonomy initiative is on track to become a defining structural trend by 2030. Defense spending alone is projected to reach approximately 3.5% of regional GDP, excluding the additional 1.5% of GDP tied to NATO commitments. Even if full NATO engagement is not achieved, the trajectory toward higher defense investment appears durable and reflects a fundamental shift in Europe's economic priorities.

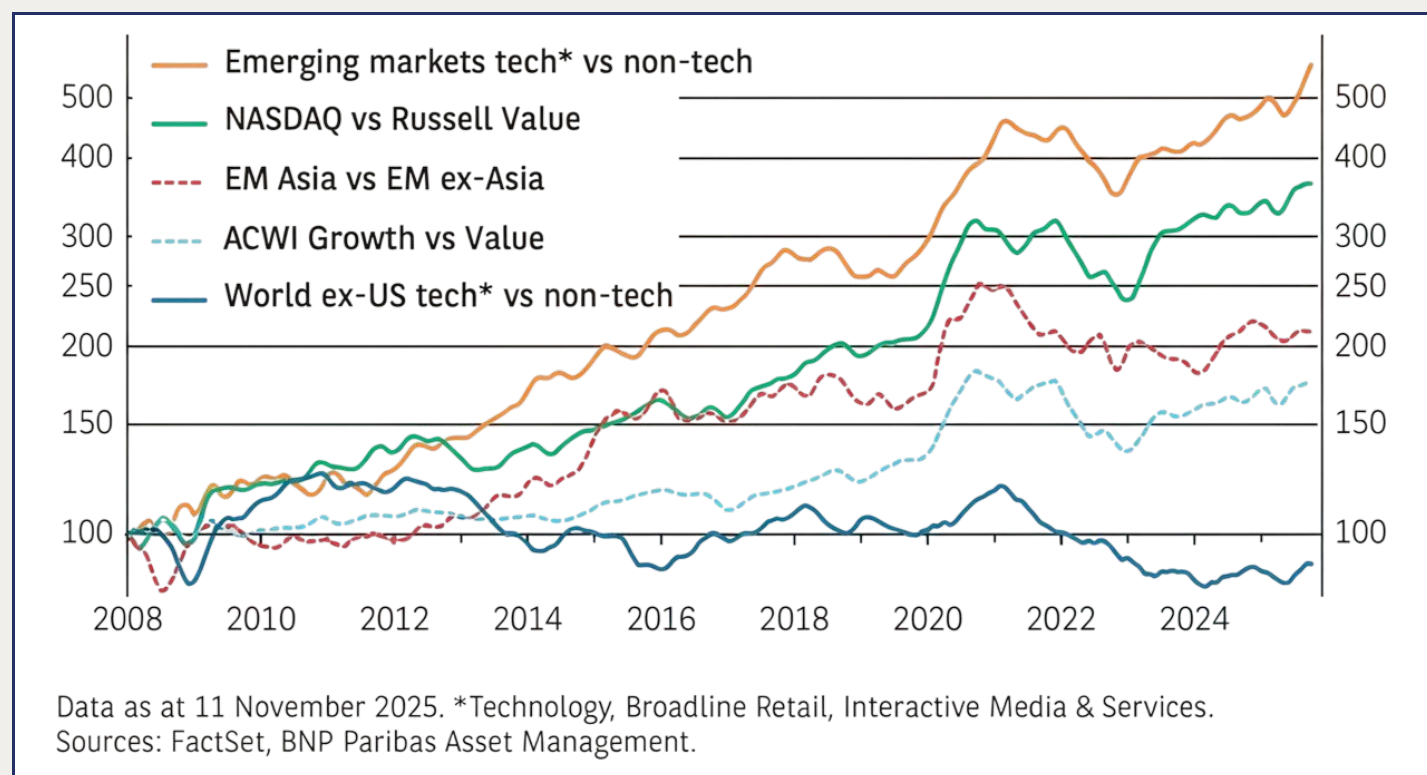
Defense currently dominates Europe's capital allocation, but industrial and technological resilience -while smaller components -are expanding rapidly. These efforts aim to reduce dependency on external supply chains and strengthen Europe's competitive position in critical sectors such as aerospace, cybersecurity, and advanced manufacturing.

For investors, this structural trend improves visibility for European corporates and creates long-term opportunities across defense, infrastructure, and technology. Sustained fiscal support and policy alignment will be essential to reinforce Europe's strategic autonomy, positioning the region for a more balanced and resilient economic model. The case for global diversification is stronger than it has been in over a decade. With international equities outperforming U.S. benchmarks, supported by currency tailwinds, valuation advantages, and improved shareholder alignment, a measured reallocation toward non-U.S. markets may enhance portfolio resilience and return potential. As global growth drivers shift toward a more regionally distributed framework.

## Emerging Market Equities:

Technology continues to be the dominant source of outperformance within emerging markets, mirroring trends seen in the U.S. The sector's relative strength has exceeded even the NASDAQ's outperformance versus the Russell Value Index, underscoring its importance as a structural growth engine. (see chart 4)

Chart 4: Synchronized Momentum - Global Technology Sectors have Lead Markets



Among the three countries with the largest technology sectors - South Korea, Taiwan, and China - China offers the most diversified exposure. While Taiwan and South Korea remain heavily concentrated in semiconductors, China's technology ecosystem spans hardware, software, and services, providing broader participation in digital transformation trends.

China's technology sector benefits from partial insulation against U.S.-China trade tensions. Unlike goods producers, many Chinese technology firms derive a significant share of revenue from services, reducing tariff exposure. This structural advantage is complemented by:

- **Domestic Market Scale:** China's consumer base and enterprise demand create a robust foundation for technology adoption.
- **Engineering Talent:** Innovations such as DeepSeek highlight China's depth in AI and software development.
- **Policy Commitment:** The government's strategic push to develop an independent technology ecosystem positions the sector for sustained growth.

Despite these strengths, challenges remain. The economy faces property market corrections, deflationary pressures, and weak domestic demand. While fiscal policy may shift in 2026, growth sustainability will depend on the People's Bank of China's stance on additional stimulus and its ability to stabilize liquidity conditions.

The primary risk for emerging markets remains their dependence on trade and exports. Following a period of front-loaded activity in 2025, questions about sustainability have emerged, particularly as tariff policy continues to create uncertainty. While ongoing negotiations may eventually provide clarity, unresolved issues - especially between India and China - warrant a cautious stance. Tariff-related volatility could act as both a headwind and a potential catalyst, depending on policy outcomes.

In response to these challenges, policymakers across emerging markets have emphasized self-sufficiency in technology and advanced manufacturing as a strategic priority. The goal is to reduce vulnerability to external shocks and achieve greater independence in critical supply chains. Over the next five years, this refocus is expected to accelerate investment in semiconductors, AI, and industrial automation, positioning emerging markets for long-term competitiveness.

China exemplifies this trend. The country has committed ¥3.6 trillion (≈\$497 billion) to R&D in 2024, equivalent to 2.68% of GDP, and earmarked \$55 billion in 2025 for semiconductor and AI development under its Science and Technology Innovation 2030 program. These initiatives aim to move China up the value chain and foster sustainable growth amid tariff headwinds and domestic economic challenges.

## Fixed Income:

The bond market is approaching a pivotal point as central banks weigh whether the rate-cutting cycle is nearing its end, while rising government debt supply remains a dominant theme. Yields are still at historically attractive levels, creating opportunities for investors. A more dovish Federal Reserve stance combined with fiscal stimulus could bias the curve toward further steepening, provided economic growth concerns do not intensify. Against this backdrop, total return prospects and income generation appear healthy, supporting selective additions to fixed income portfolios. Any resurgence of credit stress could present opportunities to add high yield exposure at favorable valuations.

Historically, declining policy rates have supported bond returns. However, the current cycle is more complex. Economic data remains distorted by post-pandemic adjustments and geopolitical developments, while progress on disinflation has been slow. Tariffs and the absence of meaningful debt consolidation add further uncertainty. Success in 2026 will depend on timely interpretation of incoming data and careful selection across duration and credit segments.

Persistent growth in government debt is a central concern, particularly for long-dated bonds that are highly sensitive to supply pressures. In the U.S., the funding gap is projected to reach \$5.5 trillion over the next five years. For 2026, the Treasury expects net privately-held coupon issuance to remain near \$1.5 trillion, but issuance is likely to rise thereafter. This supply dynamic could weigh on long-term yields, especially if the Fed prioritizes its inflation mandate and adopts a more hawkish stance. The recent decision to end balance sheet runoff provides some relief, but structural pressures remain.

Currently, the yield curve remains unusually flat. Historically, the 10-year Treasury yield exceeds the Fed Funds Rate by 100–200 basis points, with an average spread of 1.3–1.5% (1962–2025). As of November 2025, the spread is just +0.18%, reflecting fiscal policy’s preference for T-bill issuance over longer-dated coupons—a strategy deployed under Treasury Secretaries Janet Yellen and Scott Bessent. This raises a critical question: if the historical spread is 1.3–1.5%, should the 10-year yield be closer to 5.00–5.25% or 2.25–2.50%? Given current economic conditions, a 5% yield appears unsustainable, reinforcing the case for moderate duration extension. (See chart 4)

Chart 4: Historical Spread Between the 10 Year Treasury Note versus Fed Funds Rate

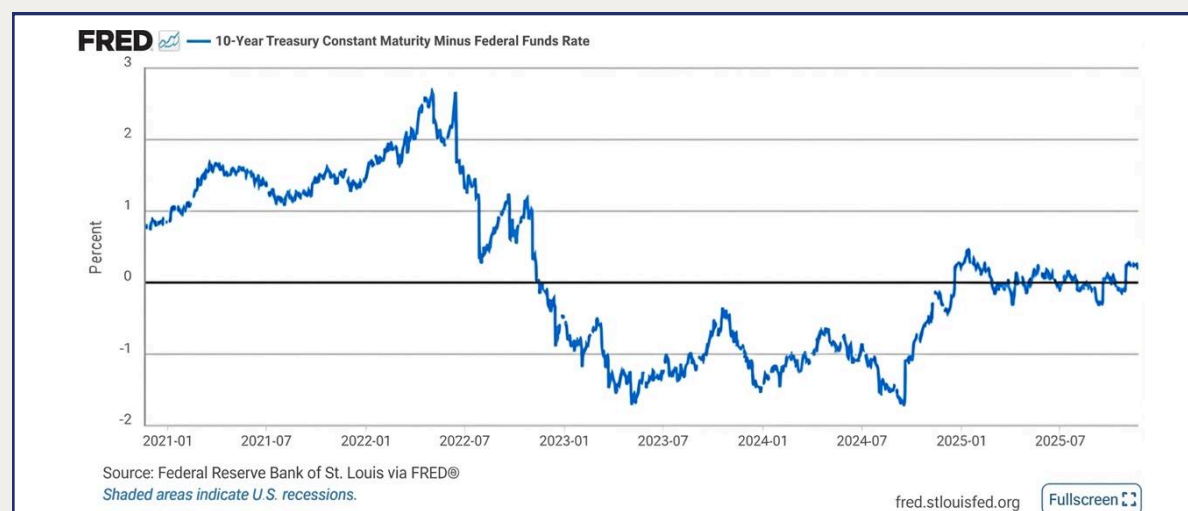


Chart Source: St. Louis Fed

Repo markets also remain critical to financial stability. Tightening liquidity conditions pose a growing risk that could evolve into a major policy challenge if not addressed proactively. The Fed's unofficial "third mandate" is ensuring smooth monetary plumbing and balance sheet management -has become indispensable since the Global Financial Crisis. Interventions in repo markets are now structural, not merely reactive, underscoring the vulnerability of risk assets when liquidity is squeezed.

The collapse of First Brands in September and credit markets' reaction may be an early warning of what is to come. An economic downturn inevitably affects corporate fundamentals, and steering clear of defaults will be critical to preserving total returns. Investment grade spreads are extremely tight, which is a concern – but they are tight with some justification. Rates are high and demand for credit from high quality issuers has been strong.

Next year offers another one of yield opportunities, but selectivity and data-driven decision-making will be crucial. The interplay between policy rates, sovereign supply and credit dynamics will shape outcomes. By focusing on quality, medium duration and central bank signals, investors can position portfolios to capture solid yields while not being too exposed to duration or credit risk. A selective, actively-managed approach can help investors to navigate most effectively the upcoming juncture in the bond markets.

Fixed income performance in 2026 will hinge on the interplay between fiscal and monetary policy. With unemployment trending higher and the Fed acknowledging labor market risks, policy flexibility may increase. Attractive yields, combined with selective positioning, offer investors an opportunity to capture income while managing duration and credit risk in an environment shaped by fiscal dominance and evolving liquidity conditions.

## Liquid Alts and Precious Metals

The investment landscape has shifted meaningfully. Rising correlations between equities and fixed income, historically viewed as complementary risk mitigators, have reduced the effectiveness of traditional diversification. In the first quarter of 2025 and in 2022, both asset classes experienced simultaneous drawdowns during periods of market stress, challenging the conventional 60/40 portfolio model. This dynamic highlights the need for alternative strategies that can withstand both growth shocks and inflationary pressures.

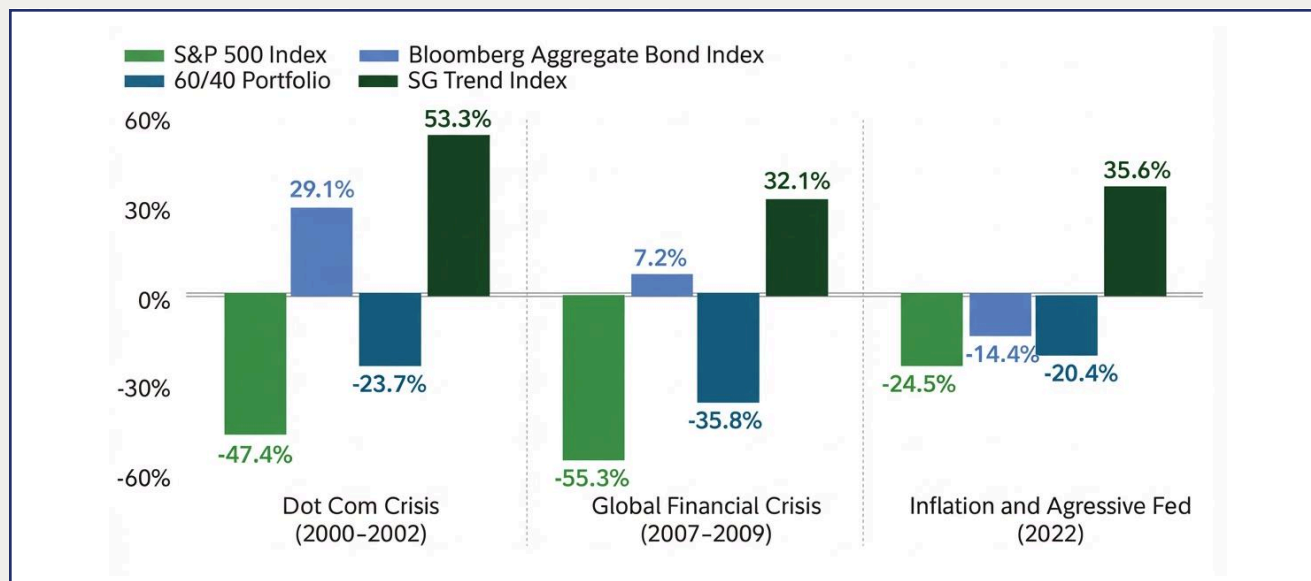
Hedge fund-like liquid alternatives, such as managed futures, market-neutral strategies, and absolute return vehicles, offer compelling diversification benefits. These strategies are designed to generate returns that are uncorrelated with traditional equity and bond markets, making them valuable in environments where systemic risks dominate.

- **Managed Futures:** Historically, these strategies have delivered positive returns during equity market sell-offs by exploiting trends across asset classes, including commodities and currencies.
- **Market Neutral:** By focusing on relative value rather than directional exposure, these strategies aim to reduce beta risk and dampen volatility.
- **Absolute Return:** Unconstrained by benchmarks or geographic allocations, these vehicles seek alpha through bottom-up research and flexible positioning.

If 2025 taught investors anything, it is the importance of active risk management in an era of global fragmentation and heightened volatility. The old rules—such as relying on U.S. Treasuries as a safe haven - have been challenged. During April's "Liberation Day" sell-off, global equities fell nearly 20%, and the S&P 500 declined sharply, leaving portfolios heavily exposed due to concentration in U.S. equities. Traditional fixed income offered little protection as yields rose, compounding losses.

In contrast, absolute return strategies demonstrated resilience, often delivering flat or positive performance during the same period. These strategies operate independently of index weightings, geography, or style, providing broader diversification. Managed futures, for example, can take both long and short positions across asset classes, enabling them to capture trends during equity or bond market stress and offset losses elsewhere in the portfolio. Managed futures has historically demonstrated positive convexity in risk-off environments delivering strong returns when traditional asset classes were under pressure. Chart 4 illustrates the performance of the SG Trend Index during three major crisis periods: the dot com bust, the global financial crisis, and the inflation driven bear market of 2022. During these episodes, the U.S. equity market declined by 47%, 55%, and 25%, respectively. In each case, managed futures meaningfully outperformed a traditional 60/40 portfolio. (See chart 5)

Chart 5: Managed futures has historically demonstrated positive performance during market stress periods.



Source: Fidelity Investments, Data source: Bloomberg Finance LP.

The efficient frontier illustrates the trade-off between risk and return. Historically, combining equities and fixed income provided diversification benefits, but rising correlations have reduced these advantages. Adding strategies with low or negative correlation to traditional assets—such as managed futures or other absolute return approaches—introduces independent return streams. This can shift the efficient frontier outward, enhancing risk-adjusted returns and potentially improving portfolio resilience. (See Chart 6)

Chart 6: Impact of Adding Managed Futures on the Efficient Frontier

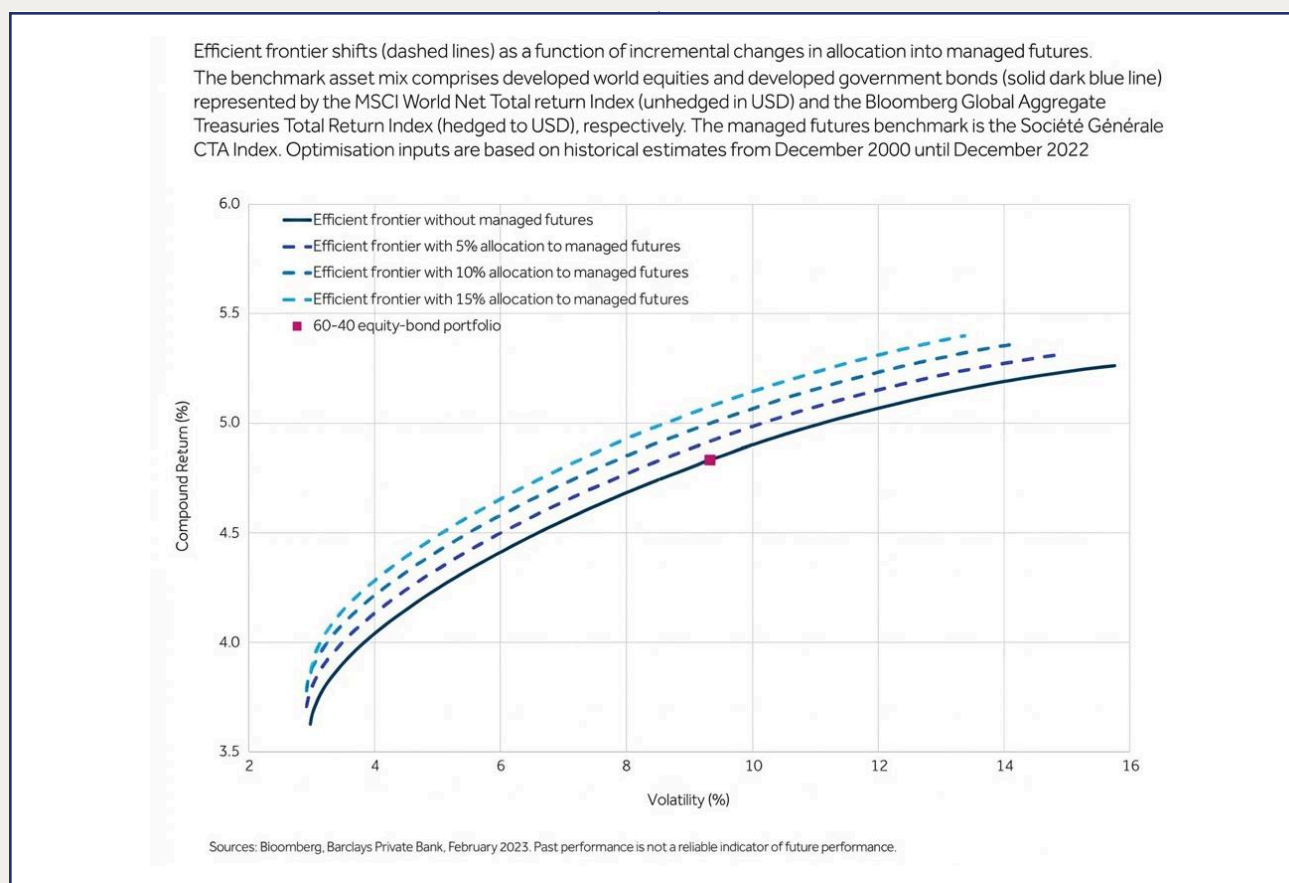


Chart Source: Barclays Private Bank, Bloomberg

## Gold and Precious Metals:

Gold extended its historic rally through 2025, breaking the \$4,000/oz barrier for the first time in October and peaking near \$4,380/oz before stabilizing around \$4,150/oz in late November. This surge reflects heightened market volatility amid shifting U.S. trade policy, persistent inflation, and geopolitical uncertainty.

Economic and political instability also tend to support gold’s safe-haven role as a reliable store of value. With its low correlation to other asset classes, gold continues to act as a hedge during market stress and periods of global uncertainty.

In today’s environment, gold serves a dual purpose: as a debasement hedge against inflation and currency erosion, and as a non-yielding alternative to U.S. Treasuries and money market instruments. These dynamics, combined with strong central bank buying and investor demand, may reinforce gold’s strategic role in diversified portfolios.

## Central Bank Demand and Structural Trends

Consistently high levels of central bank purchases are expected to continue, supported by macro uncertainty and expanding investor holdings, particularly from ETFs and China. Even after three consecutive years of more than 1,000 tonnes of central bank buying.

Diversification away from U.S. dollar reserves, while still moderate, has accelerated in recent years. IMF COFER data shows the USD share of global reserves ended 2024 at 57.8%, down 0.62 percentage points from the prior year. Combined with unpredictable trade policy and shifting geopolitical alliances, these factors point to sustained central bank demand for gold.

Global official gold holdings now total 36,200 tonnes, accounting for nearly 20% of official reserves, up from 15% at the end of 2023. The U.S., Germany, France, and Italy collectively hold around 16,400 tonnes, representing nearly half of reported global reserves, with the U.S. alone holding almost a quarter.

Chart 7: Gold as a percentage of total reserve holdings across central banks



Chart Source: World Gold Council, IMF, and J.P. Morgan Commodities Research

## Bio:

Michael Drozd serves as an Executive Committee member, Chief Investment Officer, and Chair of the Investment Committee at LaSalle St. In these roles, he is responsible for shaping the firm's long-term market outlook, driving strategic asset allocation decisions, and overseeing the development and execution of multi-asset investment strategies.

Michael also serves as Senior Portfolio Manager for LaSalle St. Capital Management, leading the firm's flagship OCIO and multi-asset investment platform. He oversees the development and execution of comprehensive portfolio solutions designed to deliver performance, manage risk, and adapt to a wide range of market environments.

Before joining LaSalle St., Michael held senior roles at some of the world's most respected financial institutions. As Vice President at Merrill Lynch - Bank of America, he served as a Senior Investment Manager, advising investment professionals nationwide. His career also includes key positions at Citi Private Bank, J.P. Morgan Private Bank, J.P. Morgan Securities, and Calamos Investments, where he specialized in developing sophisticated portfolio strategies for institutions and high-net-worth clients.

Throughout his career, Michael has sought to design thoughtful, client-focused investment solutions that adapt to evolving global market conditions.

Michael holds a Bachelor of Science degree in Business Administration, Marketing, and Management from Drake University. He holds the Certified Investment Management Analyst® certification, administered by the Investments & Wealth Institute taught in conjunction with Yale University. He is licensed with Series 7, 31, and 66 certifications.

Check the background of this investment professional on [FINRA BrokerCheck](#)

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\*William Strauss and Neil Howe, *The Fourth Turning: An American Prophecy: What the Cycles of History Tell Us About America's Next Rendezvous with Destiny*, Crown Publishing, 1997. Neil Howe, *The Fourth Turning Is Here: What the Seasons of History Tell Us About How and When This Crisis Will End*, Simon & Schuster, 2022