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ASPIRIANT INSIGHTS

FIRST QUARTER 2026 INSIGHT

Investing Outlook

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In this Issue

Investment Strategy & Research Highlights

- Powerful global forces, including technology, energy, fiscal constraints and **geopolitics**, are reshaping economic outcomes and market leadership in ways that are likely to persist.
- Artificial intelligence (AI) is accelerating investment and productivity, while also widening economic and market gaps and intensifying competition for power, capital and critical resources.
- The U.S. economy enters 2026 from a position of resilience, but pressures on labor markets, federal finances and broader social dynamics are building beneath the surface.
- Market gains remain concentrated in a narrow set of AI-related leaders, reinforcing the importance of diversification, discipline and flexibility in portfolio design.

Intro

Entering 2026, the global economy reflects a mix of resilience and strain. Growth has remained firm in key regions, but underlying pressures related to technology, energy, labor dynamics, fiscal constraints and geopolitics continue to shape how that growth is experienced. For investors, understanding not just the pace of expansion, but its distribution, is increasingly important. These dynamics help explain why maintaining a globally diversified investment portfolio continues to play a critical role.

Growth & the K-Shaped Economy

One of the most important questions in this cycle is not only how fast the economy grows, but how the gains are distributed. A K-shaped economy describes widening divergence across stakeholders. As shown in **Figure 1**, asset prices have continued to rise even as consumer sentiment has weakened, particularly since 2020. Because public equity ownership is highly concentrated, rising markets support spending and confidence for some households far more than others.

From a market's standpoint, this divergence can persist for extended periods. From a policy standpoint, it tends to raise questions about fairness and the role of government. In the transition years ahead, political pressure is more likely to target the perceived winners from globalization and technology. That could include large companies, asset owners and the most profitable sectors.

For investors, the message is not to anchor on a single narrative about the consumer. Instead, it is to recognize that outcomes depend on which cohort is driving demand. When spending is led by higher-income households, the economy can look stable even as conditions weaken for the bottom half. That can delay traditional recession signals, but it can also lead to sharper changes when the top cohort eventually slows.

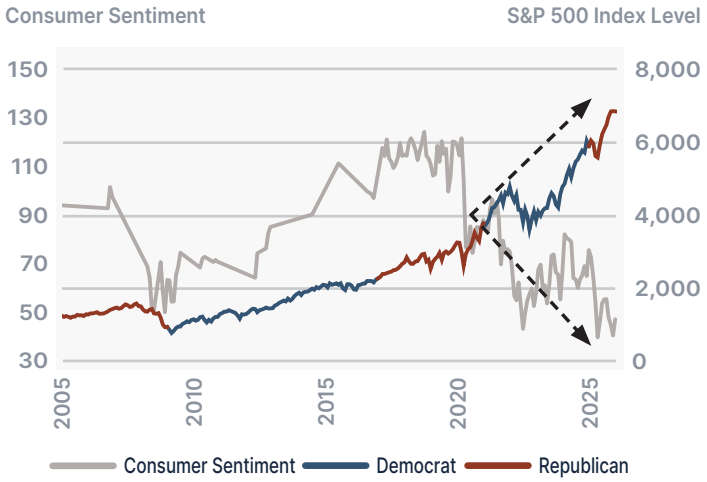
Divergence & Sustainability

K-shaped economic outcomes can also signal conditions that become difficult to sustain. One long-run indicator is the split of output between labor and capital. Over decades, labor captured a larger share of economic output relative to capital, as shown in **Figure 2**. In recent years, that balance has shifted, with labor share declining and capital share rising.

The drivers behind this shift are familiar, including globalization, automation and changes in bargaining power. What feels different now is the potential for AI and robotics to accelerate the shift. If productivity gains accrue primarily to capital owners, distributional tensions can rise even as aggregate output improves.

FIGURE 1

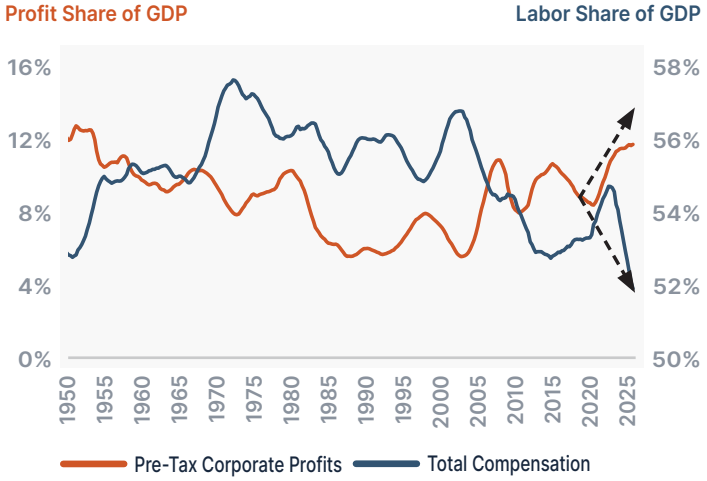
S&P 500 Growth by Presidential Party



Data as of 12/31/25. Source: Aspiriant analysis. Data from University of Michigan, Bloomberg.

FIGURE 2

U.S. Labor and Profit Share of GDP Rolling 3-Year Average

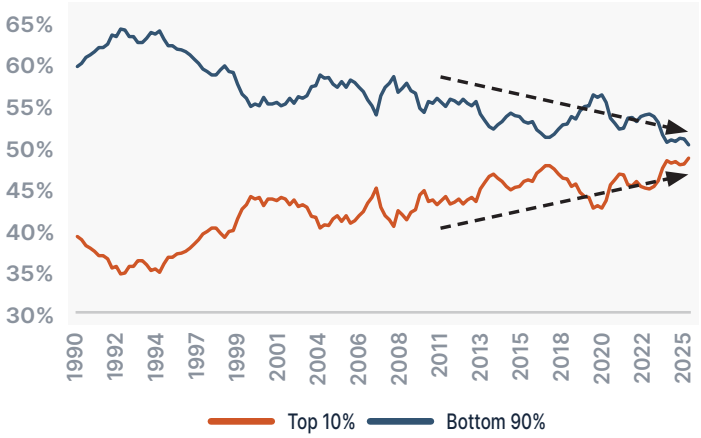


Data as of 12/31/25. Source: Aspiriant analysis. Data from Bloomberg, Federal Reserve Bank of St. Louis, FRED.

As shown in **Figure 3**, a related pattern is emerging in consumer spending: higher-income households are accounting for a growing share of total demand, while the share driven by lower- and middle-income households has declined over time. If spending becomes increasingly dependent on this group, the economy can become more sensitive to asset-price cycles, bonus income and tax policy. This is one reason we focus on balance and diversification. Concentration is not only a market risk. It can become a macro risk.

FIGURE 3

Percent of Spending by Consumers Income Distribution



Data as of 6/30/25. Source: Aspiriant analysis. Data from Bloomberg, Federal Reserve, Moody's Analytics.

Credit & Labor Markets: Redefining Vulnerability

Credit conditions provide another window into the growing divergence. As shown in **Figure 4**, recent delinquency data show a widening split between prime and subprime borrowers. Prime borrowers have largely maintained stronger payment behavior across categories, while delinquency rates among subprime borrowers remain elevated across loan categories, including after student loan payments resumed.

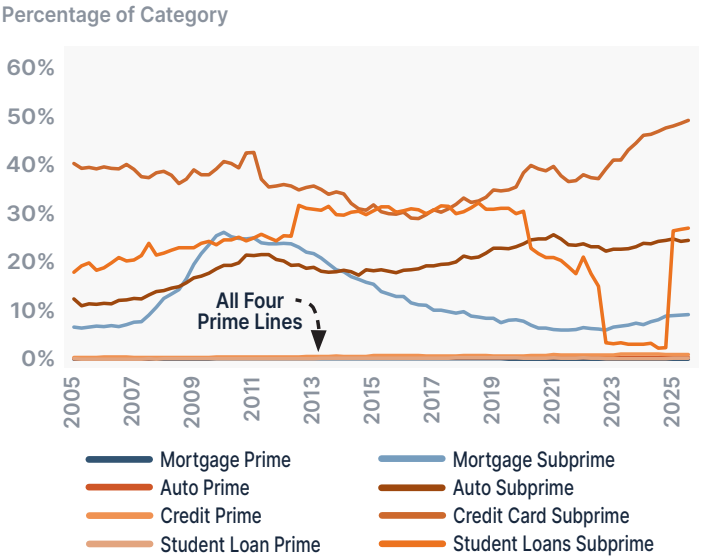
This matters because credit stress tends to show up first with subprime borrowers, who represent 25% of American adults, or nearly 60 million people, and if the stress is sustained, it can feed back into consumption and employment. It also shapes the political conversation, particularly when higher prices and higher rates are felt most acutely by those with the least capacity to adjust.

Labor market dynamics add another layer of vulnerability. As shown in **Figure 5**, layoff announcements have risen from pre-pandemic norms, with increases concentrated in government office-based and early-career roles. We view this as a transition signal rather than a deterministic forecast, but it underscores the importance of monitoring whether productivity gains translate into job displacement, slower wage growth or weaker hiring.

A potential inflection point is whether skilled trades become relatively more employable than certain categories of college-educated, early-career workers. If that inversion emerges, it could alter wage dynamics, perceptions of the return on education and longer-term patterns of household formation and consumption.

FIGURE 4

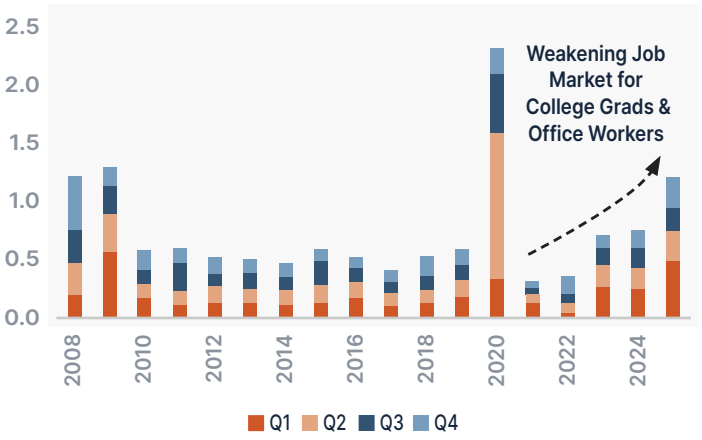
Percent of Borrowers Severely Delinquent



Data as of 9/30/25. Source: Aspiriant analysis. Data from the Federal Reserve. Severely Delinquent defined as balances 90+ days past due. Dollar amounts estimated by applying delinquency rates to outstanding balances by category. Subprime borrowers defined as those with a credit score less than 620, prime borrowers defined as those with a credit score of greater than or equal to 620.

FIGURE 5

Challenger U.S. Job Cut Announcements



Data as of 12/31/25. Source: Aspiriant analysis. Data from Bloomberg, Challenger, Gray & Christmas, Inc. Reflects publicly announced U.S. job cut plans as tracked by Challenger. Figures represent announced layoffs and do not necessarily correspond to actual job losses.

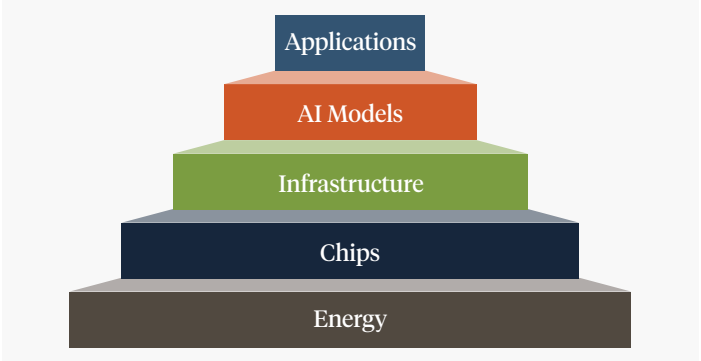
Technological Advances & the AI Stack

AI progress has been rapid across a range of benchmarks, and the time required to reach human-level performance has shortened. Benchmarks are not the same as real-world autonomy, but they help illustrate the direction and speed of capability development.

The key investment implication is second-order effects. As AI becomes more capable, incentives to automate increase. Hyperscalers, which are large-cloud technology companies that operate global data center networks, have stronger incentives to build infrastructure, and governments face stronger incentives to secure chips, power and critical inputs. These feedback loops are why AI is increasingly a macro topic, not only a technology topic.

At a Dec. 3, 2025 event at the Center for Strategic and International Studies, Nvidia Chief Executive Officer Jensen Huang described the **AI technology platform in a five-layer stack**: Energy, chips, infrastructure, models and applications.

The framework is useful because it emphasizes that AI development increasingly depends on capital-intensive physical systems, not only software. It also highlights how competitive advantages can shift. A lead in model design can be undermined if the underlying infrastructure cannot scale, including data centers, transmission and access to low-cost power. **Figure 6** applies this framework to a comparison of U.S. and China capabilities across each layer of the AI Stack.



Source: Aspiriant analysis. Based on remarks by Nvidia CEO Jensen Huang at the Center for Strategic and International Studies, Dec. 3, 2025.

FIGURE 6

The AI Stack - A Framework for Comparing U.S. and China Capabilities

		
Applications	**~20%** of Americans would likely say that AI will do more good than harm	**~80%** of Chinese would likely say that AI will do more good than harm
Models	**World Class** U.S. models likely ~6 months ahead of competitors	**Open Source Advantage** "way ahead" on Open Source with developers responsible for most of the 1.4 million models
Data Centers/ Infrastructure	**Slower Infrastructure Development** Build time ~3 years	**Infrastructure Development Advantage** Build time is ~3 months
Chips	**Semiconductor Lead** Several generations ahead of Chinese competitors	**Manufacturing Advantage** Semiconductors are a manufacturing business and the Chinese are very good at manufacturing
Electricity Production	**Power Capacity Constraints** >4.5K TWh/year capacity growing at ~2.5%/year	**Power Capacity Advantage** >10K TWh/year capacity growing at ~5%/year

Source: Aspiriant analysis. Data from Bloomberg, YahooFinance! Interview with Jensen Huang, CEO Nvidia at a Center for Strategic and International Studies. Event held 12/03/25.

Energy Availability & Infrastructure: Binding Constraints

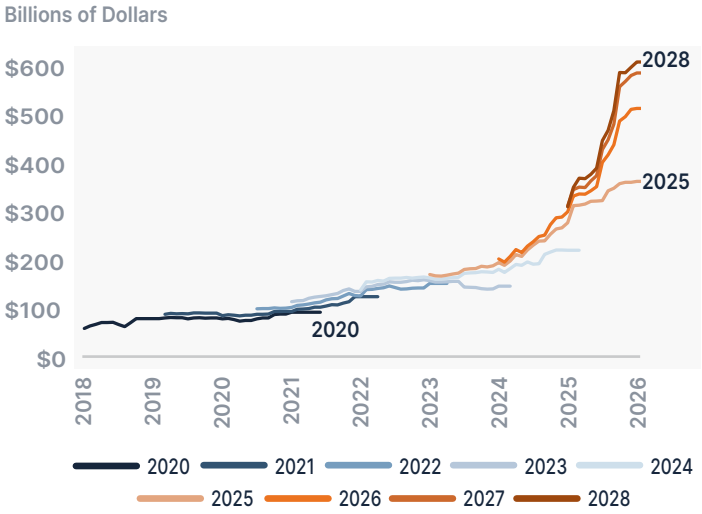
Energy availability sits at the base of the AI stack. Data center build-outs raise practical constraints, including electrical grid interconnection queues, transmission build-out and local permitting. These frictions can slow deployment and increase costs, and they connect directly to the question of who pays for incremental power demand.

In the U.S., long lead times can create a velocity gap relative to countries that can permit and build faster. Over time, that can influence where computing capacity is deployed and which regions capture the associated jobs and tax base. It can also raise the risk of policy intervention. When electricity becomes scarce or expensive, regulators may prioritize household and industrial needs over data center growth.

For investors, the energy dimension creates both opportunity and risk. Opportunity spans generation, transmission, grid services, cooling systems and efficiency. Risk includes delays, cost overruns and political exposure, particularly if data centers are perceived to strain local resources. These dynamics are why we view AI as an ecosystem investment cycle rather than a single-sector story.

FIGURE 7

Hyperscaler Capital Expenditure Estimates by Calendar Year



Data as of 12/31/25. Source: Aspiriant analysis. Data from Bloomberg. Hyperscaler defined as a large technology company that operates massive, globally scalable data center infrastructure to deliver cloud, AI and data-intensive services. Hyperscaler capital expenditure (CapEx) estimates are derived from Bloomberg forward consensus capital expenditure forecasts for Amazon.com Inc. (AMZN), Microsoft Corp. (MSFT), Alphabet Inc. (GOOGL), Meta Platforms Inc. (META) and Oracle Corp. (ORCL). Estimates reflect company-level capital expenditures, aggregated across constituents for each forecast year. Data reflects analyst consensus expectations at the time of observation and are subject to revision.

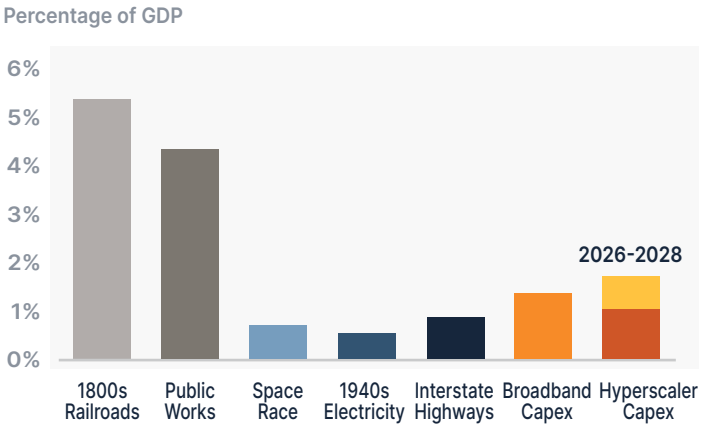
AI Investment Scale & Market Concentration

Capital expenditures among leading hyperscalers have risen sharply, reflecting competitive dynamics. As shown in **Figure 7**, capital spending plans have accelerated over a short period, underscoring the scale and speed of the AI build-out. If AI proves to be a general-purpose technology, long-term returns could be significant. If adoption is slower or economics disappoint, capital intensity can pressure free cash flow and valuations. The market's willingness to fund the cycle will likely be tested through periods of disappointment, as is common in major technology transitions.

History suggests that when a technology is perceived as strategically important, spending tends to persist through cycles. Many past transformations involved large public investment. In this cycle, a greater share of the build-out is financed by private firms. As illustrated in **Figure 8**, projected AI-related investment approaches levels seen only during rare periods of large-scale economic transformation. This can accelerate innovation, but it can also concentrate the benefits and amplify scrutiny when outcomes are uneven.

FIGURE 8

Peak Annual Investment



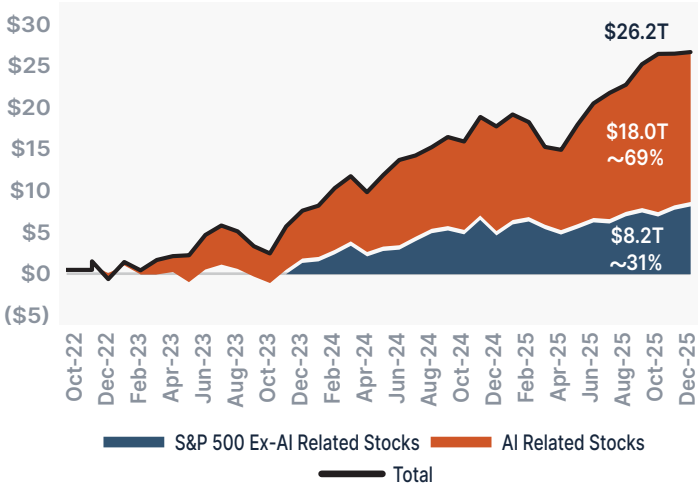
Source: Aspiriant analysis. Data from Bloomberg, Brookings Institute, FRED, National Bureau of Economic Research, U.S. Department of Transportation, White House Office of Management and Budget.

Since the launch of ChatGPT, markets have rewarded AI-linked leaders disproportionately. **Figure 9** highlights how market capitalization gains since late 2022 have been concentrated among AI-related stocks. Early-wave concentration is common in major transitions, but it can heighten fragility. Investor outcomes become more dependent on a narrow set of assumptions staying intact, including regulation, energy costs, supply chain constraints and competitive positioning.

FIGURE 9

S&P 500 Market Capitalization Change Since the Introduction of ChatGPT

in Trillions of Dollars



Data as of 12/31/25. Source: Aspiriant analysis. Data from Bloomberg, JPMorgan. AI stands for artificial intelligence. The S&P 500 is a market-capitalization weighted index that includes the 500 most widely held companies chosen with respect to market size, liquidity and industry. Magnificent 7 (Mag 7) refers to the seven largest U.S. technology-oriented companies by market capitalization: Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Meta Platforms (META), Tesla (TSLA) and Nvidia (NVDA).

Fiscal Constraints & Policy Trade-Offs

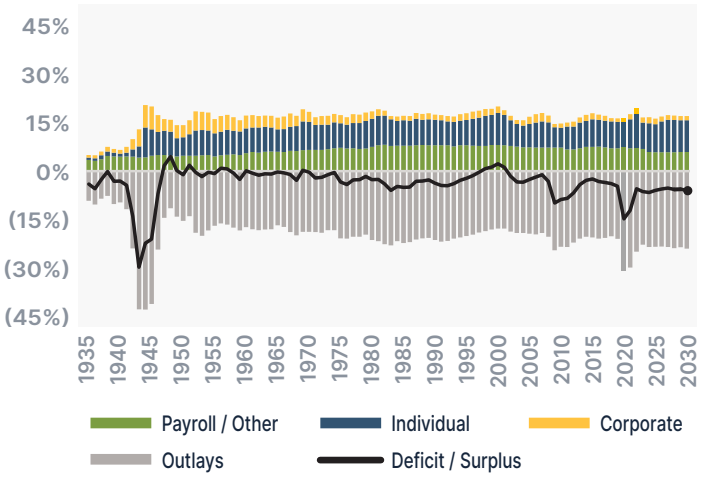
Fiscal sustainability remains a central issue over the coming years. The federal budget deficit at current levels is difficult to sustain indefinitely without consequences for inflation, growth or currency confidence. Even if the deficit stabilizes around roughly 5.5% of GDP, it leaves less room for policy response in a downturn and can intensify distributional debates, as illustrated in **Figure 10**.

What complicates this period is the interaction between technology and the tax base. Payroll and individual income taxes represent a large share of federal revenue. If automation pressures employment, wage growth or hours worked, policymakers may face stronger incentives to raise revenue elsewhere, including through corporate taxes or other targeted mechanisms around hyperscalers and other AI companies.

FIGURE 10

Federal Budget Revenues and Outlays

Percentage of GDP



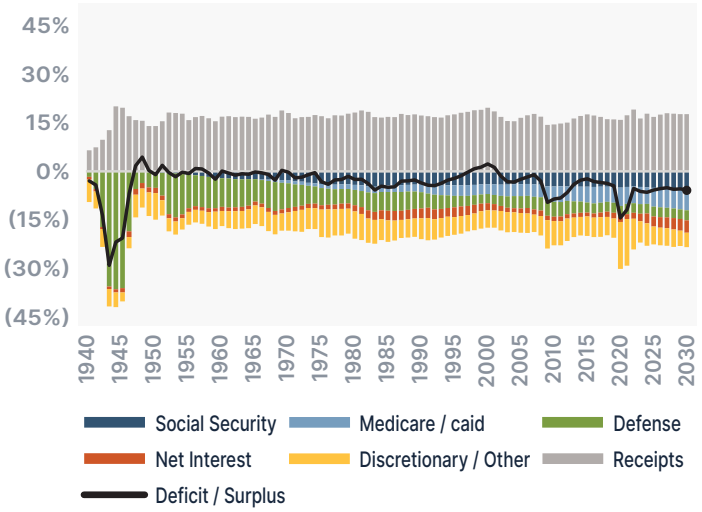
Data as of 12/31/25. Source: Aspiriant analysis. Data from Office of Management and Budget (OMB), Congressional Budget Office (CBO). Estimates from CBO January 2025 Report.

On the spending side, Social Security and health care programs represent 51% of outlays and are politically difficult to reduce. Net interest costs are rising, and defense spending may face upward pressure, as illustrated in **Figure 11**. This fiscal arithmetic, which is the combination of rising mandatory spending, higher interest costs and limited revenue growth, raises the odds that future adjustments come from a mix of revenue changes and incremental reforms rather than large discretionary cuts.

FIGURE 11

Federal Budget Revenues and Outlays

Percentage of GDP



Data as of 12/31/25. Source: Aspiriant analysis. Data from Office of Management and Budget (OMB), Congressional Budget Office (CBO). Estimates from CBO January 2025 Report.

A specific flashpoint is the expected depletion of the Social Security trust fund in the early 2030s, after which benefits would likely be reduced absent legislative changes. We do not know the policy response, but the timing underscores why fiscal debates may become more contentious. For investors, the key point is that fiscal and political outcomes are increasingly intertwined.

Resources & Geopolitics

Resource security is increasingly treated as a national security variable. Recent U.S. actions involving Venezuela and Greenland underscore the strategic role of energy, minerals and geography. Regardless of political interpretation, these developments signal that resource competition is likely to remain an important driver of foreign policy.

For markets, resource competition can influence inflation dynamics, capital flows and geopolitical alliance structures. It can also create episodic volatility as investors reprice geopolitical risk. We do not view this as a reason to abandon risk assets. Rather, it reinforces the case for portfolios that are not dependent on a single geopolitical pathway.

Final Thoughts & Portfolio Considerations

The U.S. economy and markets remain resilient, but the distribution of gains is uneven and the risks facing investors is evolving. Strong growth in 2025 is likely to carry into 2026, while lower-income households continue to face affordability pressures and higher default rates. Labor markets appear to have settled into a low-hire, low-fire equilibrium.

AI introduces a multi-year transition. In the near term, the build-out can be inflationary as it intensifies demand for power and infrastructure. Over time, broader productivity gains may prove disinflationary. The path between those endpoints is unlikely to be smooth, and policy responses may lag behind the pace of technological change.

Against this backdrop, we think investors should emphasize three principles. First, maintain diversification across asset classes, sizes, styles, geographies and currencies so the portfolio is not dependent on a single factor. Second, remain disciplined through volatility and avoid anchoring on short-term narratives. Third, maintain flexibility to rebalance as opportunities emerge, particularly during market drawdowns when prospective returns tend to improve.

In an era defined by powerful global forces, long-term stewardship of capital requires both patience and preparedness. We remain optimistic about the opportunities ahead, but we expect markets to remain sensitive to policy, energy constraints and geopolitical pathways. A well-diversified portfolio remains the most reliable way to navigate that uncertainty.

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Glossary of terms used in this issue

Artificial Intelligence (AI): Computer systems and software that perform tasks typically requiring human intelligence, such as pattern recognition, learning and decision-making. In this report, AI refers primarily to large-scale model development and deployment, data center and infrastructure build-out, automation, and the associated impacts on energy demand, labor markets, capital investment and economic concentration.

Data Centers: Facilities used to house computer systems and related components, including telecommunications and storage systems. In this report, data center expansion is discussed in the context of AI-driven computing needs and energy demand.

Electrical Grid Interconnection Queues: The backlog of projects awaiting approval to connect to the electrical grid. Long interconnection queues can delay new power generation, infrastructure investment and data center development.

Fiscal Arithmetic: The underlying budget math that shapes government policy choices, reflecting the relationship between revenues, mandatory spending and interest costs. In this report, fiscal arithmetic refers to structural constraints that limit fiscal flexibility over time.

Gross Domestic Product (GDP): The total value of goods and services produced within a country's borders over a specific period, used as a key measure of economic activity.

Hyperscalers: Large technology companies that operate data centers and cloud infrastructure on a global scale, enabling AI deployment and other data-intensive services.

K-Shaped Economy: A pattern of economic growth in which different groups experience sharply divergent outcomes following a shock or transition. In a K-shaped economy, some sectors, households or asset owners benefit from rising incomes or asset values, while others face stagnation or decline. In this report, the term is used to describe widening differences across income groups, labor markets and asset ownership.

Market Concentration: A condition in which a small number of companies account for a disproportionate share of market activity or returns. In this issue, market concentration refers to the narrow group of AI-related companies driving a large share of equity market gains.

Model Design: The development and architecture of AI models, including how systems are structured and trained. In this issue, model design is discussed as distinct from the physical infrastructure required to deploy and scale AI.

S&P 500: A market-capitalization-weighted index of 500 large U.S. companies used as a benchmark for U.S. equity market performance.