

Prism: 2026 Q4 Brief

Managing outsized returns

By the &Partners Investment Team

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Welcome to the September 2026 issue of *Prism Brief*. We publish *Brief* near the end of the first and third calendar quarters to supplement our flagship [Prism investment outlook](#).

This issue includes:

- A new recommendation: Manage risks related to extreme returns
- Our outlook for U.S. equities, international equities, fixed income, and private assets
- A review of the recommendations we made in the June issue of *Prism*
- Our thoughts on how international equities can help manage U.S. concentrations

New recommendation: Manage risks related to extreme returns

Semiconductors produced eye-popping returns in the first half of 2026. The Nasdaq Global Semiconductor Index more than doubled as many chip stocks posted triple-digit returns.

When one stock, industry, sector, or market posts outsized gains, it can outgrow its target allocation in your investment plan. For example, if your overall equity allocation matched the S&P 500, you would now hold about 18% of your equity investments in semiconductors — historically a highly volatile industry. To manage risk, you may need to reduce exposure to high-flying holdings.

You might be reluctant to trim a winning investment — maybe due to familiarity with the company, a fear of missing out on gains, concerns about the tax implications of selling, or just inertia. But bear in mind that leading stocks don't keep leading indefinitely, and big losses commonly follow big gains.

Some stocks suffer huge drawdowns and then rise from the ashes. We've seen this pattern with Amazon (-95% in 2000–2001), Apple (-80% multiple times), Microsoft (-65% from 2000 to 2009), and Nvidia (-85% in 2002 and -66% in 2022). Other companies never regain their past glory, including General Motors, Eastman Kodak, and Sears Holdings.

The chart below shows how leaders from one era have repeatedly given way for the next generation.

Market leadership doesn't last forever

The market's 10 largest stocks, 1995–2025

1995	2005	2015	2025
GE 2.55%	GE 3.26%	Apple 3.11%	Nvidia 7.44%
AT&T 2.18%	ExxonMobil 3.08%	Alphabet 2.53%	Apple 6.76%
ExxonMobil 2.10%	Microsoft 2.12%	Microsoft 2.40%	Microsoft 6.14%
Coca-Cola 1.99%	Citigroup 2.02%	ExxonMobil 1.82%	Alphabet 5.60%
Merck & Co. 1.71%	Bank of America 1.62%	GE 1.65%	Amazon.com 3.77%
Altria Group 1.60%	Johnson & Johnson 1.57%	Johnson & Johnson 1.59%	Broadcom 2.74%
Procter & Gamble 1.20%	Pfizer 1.51%	Amazon.com 1.46%	Meta 2.44%
Bank of America 1.18%	Altria Group 1.36%	Wells Fargo 1.41%	Tesla 2.23%
Johnson & Johnson 1.17%	AIG 1.31%	JPMorganChase 1.35%	Eli Lilly 1.56%
Microsoft 1.09%	Intel 1.27%	Meta 1.28%	JPMorganChase 1.49%

Source: Bloomberg. Stock weights are based on the Bloomberg 500 Index on the final trading day of the year.

Tax-efficient ways to get back in balance

Positions with outsized returns may have large unrealized gains. Simply selling those holdings may significantly increase your tax bill. Your advisor can use a diverse set of tools to help adjust positions that have grown too big while strategically managing tax impacts. The strategy for you might include one or more of the following:

- **Tax-aware rebalancing**, to trim oversized positions while managing taxes
- **Direct indexing**, to enhance tax-loss harvesting and potentially reduce taxable gains
- **Exchange funds**, which let investors swap concentrated stock holdings for a diversified portfolio without realizing taxable gains

- **Options overlays**, which may help reduce exposure to a holding's downside risk without selling it
- For appropriate investors, **alternative investments** such as certain hedge funds and 1031 exchanges



To manage risk, you may need to reduce exposure to high-flying holdings.

Asset class outlook

U.S. equities: **Neutral**

Fundamentals look strong — analysts forecast earnings growth of 35.8% in 2026 and 13.7% in 2027. But valuations are high, with forward price-to-earnings ratios in the top quarter of their 20-year range.

International equities: **Neutral**

International companies have been resilient to energy scarcity, helped by fiscal spending on defense and digitization. Profit margins in the MSCI EAFE Index are expected to rise from 10.3% in 2025 to 11.9% in 2027.

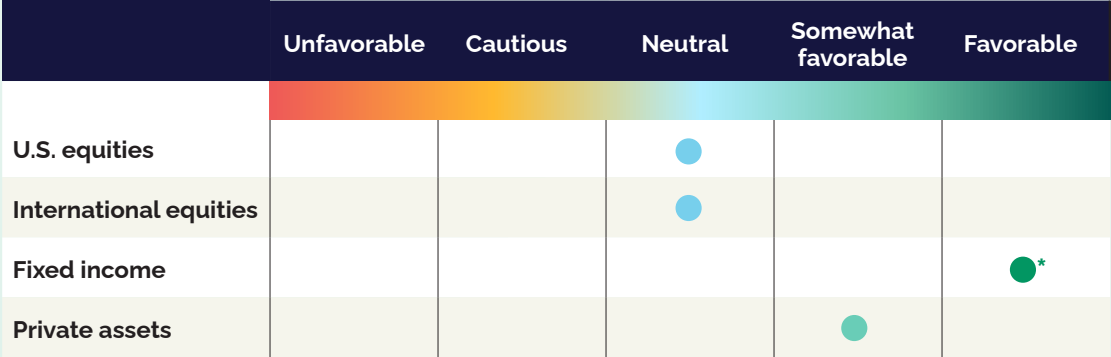
Fixed income: **Favorable** (upgraded from Somewhat favorable)

Real interest rates in September reached their highest point since 2008. High-yield credit spreads remained near 20-year lows, making low-quality bonds less appealing, in our view.

Private assets: **Somewhat favorable**

In the first half of 2026, M&A transaction volumes reached their highest point since 2021. Deal count was relatively low, however, as large deals dominated the market.

&Partners' investment outlook for major asset classes



*Upgraded from "Somewhat favorable"

Recommendations summary

Here are our current recommendations. They include the new suggestion described above as well as three we offered in the June issue of [Prism](#) for investing amid high inflation.

- **Manage risks related to extreme returns** — see page 1
- **Manage inflation with a holistic approach** — our research finds a diversified portfolio may provide more reliable inflation protection than any single asset class

- **Hold a global equity portfolio** — investing globally can help manage many risks, including inflation
- **Diversify across private markets** — a mix of private equity, private credit, and real assets may help you prepare for a variety of inflation scenarios

How international stocks can help manage U.S. concentrations

Technology stocks dominate the S&P 500. Technology's weight in the index recently approached 37% — larger than financials, consumer discretionary, health care, energy, and utilities combined. Thanks to its size and volatility, the sector accounts for more than half of overall market risk.

Those numbers actually understate tech's influence. Alphabet (Google), Meta, Amazon, and Tesla have four of the market's nine largest weights, and they act like tech stocks, but they're classified as communications services or consumer discretionary companies. The other five biggest stocks are all shares of tech firms. The market's largest stocks historically have been more diverse (see table on page 2).

The picture is different overseas, where technology makes up only about 10% of the MSCI EAFE Index of international stocks. We typically recommend holding 25% of an equity portfolio in international equities. A portfolio with 75% tracking the S&P 500 and 25% tracking the EAFE would have a 30% weight in technology, helping reduce exposure to tech sector risks. Tech stocks outside the U.S. also offer a different mix of companies and industry weights, potentially enhancing diversification.

Tech sector weights

S&P 500 **37%**

MSCI EAFE **10%**

Global diversified equity portfolio **30%**

Globally diversified portfolio: 75% S&P 500 / 25% MSCI EAFE Index

&Partners Investment Team

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In keeping with our mission to bring institutional-quality research, analysis, and strategies to financial advisors and their clients, we make ourselves readily available to &Partners' advisors. Our concierge orientation results in highly personalized investment advice that allows clients to better achieve their financial goals.

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It is not possible to invest directly in an index. Indexes are unmanaged and do not reflect the deduction of fees or expenses. All investments are subject to risks, including the risk of loss. Past performance is not indicative of future results.

Bloomberg 500 Index is a rules-based U.S. large-cap price return equity index tracking the 500 largest eligible companies weighted by float-adjusted market capitalization. It serves as a transparent alternative to traditional indexes like the S&P 500, removing committee-based subjective decision-making in favor of a purely systematic approach.

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

The Nasdaq Global Semiconductor Index tracks the performance of the 80 largest semiconductor companies worldwide. Launched on September 29, 2021, with a base value of 1,000, it monitors global trends and market shifts in the chip-making and broader semiconductor technology sector.

Morgan Stanley Capital International (MSCI) EAFE Index is a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. This international index has been in existence for more than 30 years.

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