

2026 Outlook- January 29, 2026

Executive Summary

- Bob Weir, who died earlier this month, once noted, “the blank page is the greatest challenge life has to offer.”ⁱ Just one month into the new year, 2026 is largely a blank page before us.
- To date, 2026 is coming in hot. In just the first month of the year, we’ve seen a host of both astonishing and familiar headlines. Despite heightened geopolitical risk, markets have also largely raced higher.
- We are reminded of a short excerpt from a Peter Lynchⁱⁱ speech that is worth watching. Paraphrasing a bit, he famously noted that fourteen minutes spent on macro each year, on predicting which way the market will go, is twelve minutes wasted. While we are proceeding with extra caution, we remain nearly fully invested and advise clients to confirm and stick to their targets.

2026- Coming in Hot

In the first month of the year, we’ve seen a dizzying stream of both astonishing and familiar headlines, leading many to question the entire world order. The year started with the US invading Venezuela and exfiltrating its president and first lady. The US then set its gaze on Greenland. At first, President Trump refused to rule out the use of military force. Europeans, including the Danish premier, warned this would lead to the end of NATO. The familiar use of tariffs and economic “bazookas” were threatened from both sides of the Atlantic. While cooler heads have prevailed on this issue, the US remains “locked and loaded”ⁱⁱⁱ on Iran and is contemplating regime change in Cuba by year end^{iv}.

The “Donroe Doctrine” and perhaps a return to the 19th century’s spheres of influence are gaining momentum. Following Trump’s speech in Davos, Canada’s Prime Minister, Mark Carney, noted that “the rules-based order is fading” and that “the middle powers must act together because if we’re not at the table, we’re on the menu.”^v While China continues to deal with corruption and security breaches in its military^{vi}, it sees Taiwan as its Greenland. And while many were hoping for peace in Ukraine, Russia’s Foreign Minister overtly compared Trump’s push for Greenland with its annexation of Crimea.

Within the US, we’re also seeing concerning headlines. Another potential government shutdown looms. Minnesota is reeling again from politically sensitive violence and a massive welfare fraud scandal. Tensions between state and local governments vis-à-vis the federal government are ricocheting across the media and within the courts. Trump administration policies are facing more than 600 lawsuits^{vii}. The Supreme Court is set to weigh in on both the legality of Trump’s tariffs and his move to replace the Federal Reserve’s Lisa Cook for alleged mortgage fraud. Meanwhile, the Justice Department is investigating Federal Reserve Chair Jerome Powell. Powell responded to the unprecedented investigation with an unprecedented speech of his own, claiming the investigation is simply political pressure from Trump to lower interest rates further.

Regardless of where this investigation ends, Trump is expected to announce his nominee to replace Powell in short order. Under the astonishing headlines, Republican Thom Tillis has stated he will block any of Trump’s nominees over the Powell investigation^{viii}. While Democrat Elizabeth Warren noted the nominee will be a “sock puppet” for Trump, she also is willing to work with Trump to cap credit card interest rates. JPMorgan Chase CEO Jamie Dimon called this idea “an economic disaster.” In the football world, on the familiar side, the Seahawks will face the Patriots in a repeat of Super Bowl XLIX. In the astonishing column, the Indiana Hoosiers are this year’s College Football Playoff Champion.

Cash and Bonds- The Cost of Money

This dizzying array of geopolitical uncertainty increases the volume of the siren’s song to hoard cash. While we are now more overweight cash than we have been in five years, we’d note a few points and contradictions here. First,

we are overweight cash by roughly 5% and are loathe to stray much further from our long-term targets. Next, this overweight is not due to any macro call or fear of another geopolitical domino to fall; it is due to the lack of compelling valuations elsewhere and detailed further below. We have noted several times in the past the difficulty of jointly predicting geopolitics and market reactions. As Lynch noted, fourteen minutes spent predicting what the market will do next year is twelve minutes wasted.^{ix} We are aware of the hero bets on macro outcomes^x that are made each year, but are unaware of any investor who has compounded capital for long time periods by making such calls.^{xi}

As Lynch noted in that speech, the Federal Reserve is pretty good at predicting what short-term interest rates will be over the next six months, but clueless about what long-term rates will be in a few years. Today, cash invested in Treasury bills is expected to earn 3.5% over the next year with relative certainty. This sounds okay until we consider that after taxes and inflation, we are left with a repressive, negative, real post-tax return. The Fed is expected to cut rates twice this year and Trump's odds-on favorite for Fed Chair, Rick Reider, favors additional cuts^{xii}. On top of this low and potentially declining yield on cash, the US dollar is coming off its worst year since 2017 and now stands at a four-month low.

Peter Lynch noted the importance of studying history in his speech. We agree with this premise, but just as many are noting an end to the "rules-based order", many rules and coefficients that worked in the past appear to be breaking. First on this list, the US dollar and US bonds typically rally during periods of stress and geopolitical risk. Yet we are seeing the opposite in both 2025 and 2026 to date. During the worst day of the year in both 2025 and 2026 to date, US stocks, bonds and the dollar all fell together. This is more reminiscent of how an emerging market behaves during periods of stress. It is also worth noting that cash and bonds can often be the worst hedge against certain stresses. For example, bachelors in Weimar Germany would buy diapers just to get out of the depreciating mark.

While we are not worried about such an extreme nor a small Danish pension fund selling its US Treasuries^{xiii}, we are cognizant that the rest of the world may be less inclined to fund our profligate government, especially as it heads toward another shutdown. Bond investors recently revolted against Japan's persistent debts and deficits, pushing its long-term bond yields to their highest levels on record. This follows similar episodes in France and the U.K. While the US remains the deepest, cleanest sheet in the bond market, we'd be wise to pay attention to these concerns.

Interestingly, and back to rules breaking down, despite some 175 basis points of Federal Reserve rate cuts in the last year and a half, long-term US bond yields have moved higher. This is the complete opposite behavior of nearly every Fed rate cutting cycle in the past. In history, we are reminded of a Ben Franklin quote from just under 250 years ago during the Revolutionary War. "Every nation in Europe wishes to see Britain humbled, having all in their turn been offended by her insolence."^{xiv} Substitute the US for Britain and Europe with the rest of the world and that may be where we are today. For all these reasons, we don't mind being underweight US bonds and overweight cash. For the first time in five years, we've added foreign bonds to our mix and are also considering some foreign cash.

Finally, on bonds, we will wrap up with some more contradictions. Despite the tensions we are seeing between state and local governments and the federal government, we still like municipal bonds. Less funding from the government likely means less supply. In fact, while the supply of federal debt has exploded in recent years, the supply of municipals has been quite muted. Similarly, corporate bonds are trading at some of their tightest spreads to government bonds in history. While this is often seen as a sign of complacency and risky, yield seeking behavior, it is also common in emerging markets where corporate balance sheets are often stronger than the underlying country's finances. While we are generally cautious on corporate bonds and particularly private credit, there may be something to this. The more the US behaves like an emerging market, the more attractive emerging markets become.

US Economy and Stocks

Continuing with the theme of contradictions, the US economy is also coming into 2026 hot. This is despite

heightened geopolitical uncertainty, which typically weighs on growth. Q3 US GDP was recently revised up to 4.4% and Q4 GDP is being estimated at a very hot 5.4% by the Atlanta Fed^{xv}. Oddly, this hot economic growth is coming at a time when US consumer confidence sits at its lowest level in more than a decade^{xvi}. In the excerpt of Lynch's speech, he notes that while he eschews economic predictions, he does believe in studying scrap prices, aluminum inventories, housing affordability and other economic indicators and that they are meaningful if they are negative for five months in a row. Many of these indicators are, in fact, combined into the US Index of Leading Indicators. Surprisingly, the index has been negative now for record breaking forty-one straight months. Historically, every other time these indicators have turned negative for more than six months, the US has entered a recession, but today we are in an apparent economic boom. Historical relationships are breaking. What gives?

One explanation is the stock market itself and the contradictions therein. While the US savings rate hovers near a historic low along with consumer sentiment, the share of household wealth invested in stocks is near a record high. Wealthy consumers that own stocks have benefited from three straight years of double-digit equity gains. For the first time in modern history, the top 10% of consumers drive nearly 50% of consumption. Whereas the economy used to drive the stock market, the stock market now seems to be driving the economy.

This is a bit of a double-edged sword in several ways. First, should the stock market falter, it may reinforce and build on the negative momentum elsewhere. Second, the reliance on the top 10% seems to be leading to rising populism, political tensions and what many are calling a K-shaped economy. Mark Carney quoted ancient historian Thucydides in his speech "the strong can do what they can, and the weak must suffer what they must." The K-shape economy is also seen in the stock market and capital spending. In 2025, seven stocks accounted for roughly 30% of the Russell 3000's market value and 44% of its returns. These firms also accounted for nearly a third of all capital expenditure and their spending on data centers added significantly to the economic growth noted above.

Just as the economy is reliant on the top 10% of consumers, the stock market is now more reliant on these "magnificent stocks." While these firms continue to deliver significant earnings growth averaging 27%/year over the past three years, this growth is reflected in their valuations, which average nearly 40X next year's expected earnings. While the S&P 500's price to expected earnings as a whole stands at a more reasonable 22X expected earnings, it has rarely traded at higher levels. The cyclically adjusted price to earnings, which looks back at the trailing ten years of earnings, in fact, stands near a record high of 40X. At these levels in the past, which, to be fair, only include 1929 and 1999, future returns for the S&P 500 have always been negative. Again, the rules of the past may not apply to what we are seeing today. AI may deliver an unprecedented boom, but at these valuation levels we don't mind being a bit more cautious than usual and leaning into more reasonably priced small and mid-cap shares.

One other factor worth noting that may be pushing the economy higher despite the dour consumer sentiment is the deficit. Outside of wars and recessions, our country has never run the kinds of deficits we have seen over the last five years. With all the talk of Greenland, Venezuela, Iran, Ukraine and Taiwan, it often feels like we are heading toward a war. Running "guns and butter" type deficits, bullying the Federal Reserve for lower rates^{xvii}, rounding up immigrants, securing resources, and onshoring manufacturing are all the things our country has done historically during war times. Thucydides himself famously noted that when two great powers, one ruling (like the US) and one rising (like China), collide, it generally ends in war. We hope that is not the case, but again we don't mind being a bit cautious.

International Markets and Alternative Assets

Again, despite the drumbeat of war, tariffs, the end of Atlanticism and the threat of the Thucydides trap, international markets turned in their best year since 2009 last year and are off to a hot start in 2026. While we remain skeptical that international markets can decouple from the US in a deep bear market, they do offer diversification against some of the US risks noted above. Their shares trade at relatively cheaper valuations at roughly 15X next year's expected earnings and are far less concentrated in a handful of AI darlings. They are generally held in local currencies and provide a hedge against the weakening dollar. Finally, many international countries like Germany

and Switzerland have managed their deficits and have room to spend to boost their own economies and defensive needs.

Turning to hedge funds and private capital, we continue to set a very high bar for new investments here and, in fact, made no new hedge fund investments in 2025. With the world changing rapidly, we value our liquidity. In hedge funds, we continue to rely on a handful of managers and place a high value on truly uncorrelated managers. We view the diversification benefits from uncorrelated strategies as extremely valuable in a world that has become more correlated and volatile. In private capital, managers making ten plus year bets in private companies will have to navigate unprecedented challenges and the rise of AI, while also returning liquidity to investors from their past bets. The IPO market last year was mixed with just 48 venture-backed IPOs that were met with mixed enthusiasm from investors. Many venture capitalists are optimistic about 2026 IPOs. They are optimists and have no discernable ability to predict good and bad markets in our experience. For now, the market appears open for anything space, AI or defense related, but some very large IPOs from SpaceX, Anthropic and OpenAI may give indigestion.

Finally, on the real assets front, historical relationships are again breaking down. Gold delivered its best year since 1979 in 2025, is already up another 25% in 2026, and is running away from its historical relationships with interest rates and the dollar. James Grant once noted that gold's price is the reciprocal of faith in central banks, and this may indeed explain its recent parabolic rise. Conversely, bitcoin and crypto related assets, created because of the 2008 banking collapse and money printing, were one of the worst performing assets in 2025 and are off to a tepid start in 2026. The stable coin, tether, is now accumulating gold^{xviii}. This comes despite the Trump administration's support for crypto.

Despite an initial knee-jerk decline following the Venezuelan exfiltration that irked some Texas Trump supporters here^{xix}, oil is up over 13% in 2026 and real asset stocks are leading the S&P 500. Before he died, Charlie Munger noted that we might want to keep whatever oil we have in the US in the ground because we might just need it badly at some point. Perhaps Trump is focused on midterms and lower gas prices; perhaps these machinations are much deeper. Either way, we continue to invest in oil and natural gas and think we will need it to power the AI boom. Real estate also has caught some life and has tethered its strong relationship with interest rates recently. We aren't pounding the table on real estate, but see its place in a diversified portfolio as a store of wealth in potentially volatile times ahead.

Conclusion

Most importantly, in the excerpt of the Peter Lynch speech we quoted, he notes that investors should study history. While we noted that many historical relationships are broken, history shows that stocks often do go down a lot. While stocks and most assets are off to the races again in 2026, we again urge clients to verify and stick close to their long-term targets. We have no crystal ball nor sheep guts^{xx} to see the future. We continue to think that a bit of caution on top of a broadly diversified global portfolio that is appropriately risked for each client is the best path forward.

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ⁱhttps://www.wsj.com/arts-culture/music/remembering-bob-weir-a-pioneering-member-of-the-grateful-dead-44f0acbe?mod=hp_listb_pos2

ⁱⁱhttps://www.reddit.com/r/jrmining/comments/1pwfzwd/if_you_spend_14_minutes_a_year_on_economics_you/

ⁱⁱⁱ<https://www.wsj.com/world/middle-east/trump-warns-iran-against-shooting-protesters-efd580ea?mod=Searchresults&pos=6&page=1>

^{iv}<https://www.wsj.com/world/americas/the-u-s-is-actively-seeking-regime-change-in-cuba-by-the-end-of-the-year-1d0f178a?mod=Searchresults&pos=1&page=1>

^v<https://www.nytimes.com/2026/01/20/world/canada/carney-speech-davos-trump.html>

^{vi}<https://www.wsj.com/world/china/chinas-top-general-accused-of-giving-nuclear-secrets-to-u-s-b8f59dae?mod=Searchresults&pos=1&page=1>

^{vii}<https://www.nytimes.com/interactive/2026/us/trump-administration-lawsuits.html>

^{viii}<https://www.cnbc.com/2026/01/12/republican-sen-thom-tillis-vows-to-block-trumps-fed-nominees-following-powell-probe.html>

^{ix}https://www.reddit.com/r/jrmining/comments/1pwfzwd/if_you_spend_14_minutes_a_year_on_economics_you/

^x<https://www.bloomberg.com/opinion/articles/2025-11-14/what-our-michael-burroughs-obsession-says-about-us>

^{xi}<https://nypost.com/2025/08/24/us-news/phil-falco-hedge-fund-billionaire-fallen-on-tough-times-reveals-which-of-his-assets-hurt-the-most-to-sell/>

^{xii}<https://www.ft.com/content/a9bad7cb-ff5f-41ca-abcd-be93e7e20cd1>

^{xiii}<https://www.cbsnews.com/news/danish-pension-fund-treasures-government-finances-trump-greenland/>

^{xiv}<https://founders.archives.gov/documents/Franklin/01-23-02-0305>

^{xv}<https://www.atlantafed.org/cqer/research/gdpnow>

^{xvi}<https://www.bloomberg.com/news/articles/2026-01-27/us-consumer-confidence-plummets-to-lowest-level-since-2014>

^{xvii}<https://www.nytimes.com/2017/06/13/business/economy/a-president-at-war-with-his-fed-chief-5-decades-before-trump.html>

^{xviii}<https://www.coindesk.com/business/2026/01/28/tether-is-buying-up-to-usd1-billion-of-gold-per-month-and-storing-it-in-a-james-bond-bunker>

^{xix}<https://www.ft.com/content/f498bdc-b5df-4b10-a390-7b61adb140e4>

^{xx}<https://www.instagram.com/reel/CfgI5udgyjc/>