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North Forty Two & Co. 2026 Investment Outlook:
Growing and Protecting Wealth Against a Volatile Policy Backdrop

It is not hyperbole to suggest that we are in one of the most critical periods for prudent capital management in our professional lifetimes, with new obstacles and opportunities emerging from a rapidly shifting landscape both abroad and at home.

Just in the first few weeks of 2026, we have seen a further escalation of geopolitical tensions, with a significant US military intervention in Venezuela, political unrest and the looming specter of US involvement in potential regime change in Iran, a ham-fisted attempt to acquire or occupy Greenland against allied pushback, and broad-based American diplomatic disengagement from numerous multilateral United Nations entities and organizations. Our country is in the throes of establishing a more aggressive beachhead within a precarious world where two superpowers — the US and China — and a destabilizing force in Russia are dominating the global landscape. This combativeness is putting the conventional international order, with its complex economic, security, and political dynamics, into some question.

Domestically, we are also experiencing disruptive political turns from the norm, particularly as the current administration has eliminated many of the guardrails and customs that typically restrained traditional executive branch overreach. Over recent weeks, Federal Reserve Chair Jerome Powell has faced clumsy pressure to resign prematurely for vigilantly refusing to ease monetary policy without an empirically data-driven need to do so. Immigration agencies are testing the constitutional limits of their authority to detain and deport suspected illegal aliens, fomenting backlash from civil libertarians concerned about whether the ends justify the means. And due to the widening chasm between the haves and the have nots, within our delicate social contract, an insecure and fatigued segment of the population is revisiting what ideological alternatives there are to the status quo, in search of greater security and in the hope for better outcomes.

This chaotic environment is fraught with the perils that we navigate to produce successful and durable investor outcomes. But while the sound and fury of the daily news is intense, many of the underlying longer-term systemic risks to markets remain the same, just at a different frequency. And while our mission requires us to look beyond our immediate horizon through a balanced and politically agnostic lens, in the short-term there is massive uncertainty around what Canadian Prime Minister Mark Carney referred to at the recent World Economic Forum in Davos as "the end of a nice story and the beginning of a brutal reality where geopolitics among the great powers is not subject to any constraints…we are in the midst of a rupture, not a transition." The times are indeed changing.

We will use this space to speak plainly about foreign and domestic policy and the implications on financial markets and the broader economy. This commentary may be less apolitical than is the custom, because the moment — particularly with respect to foreign and domestic issues unfolding over the next six to nine months — require a higher level of sober, honest reflection. As always, we remain steadfast in our analysis to separate the signal from the noise and avoid the landmines, both chronic and acute, both organic and artificial, that we face today.

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First, let us attempt to address briefly what is happening on the world stage. The second Trump administration has embraced a new hegemonic paradigm when it comes to exerting influence over other nations to reshape the international system. Particularly in the latter stages of the post-Cold War era, the US used its considerable standing as a world superpower with intention, discretion, and relative moderation, at least for the most part. But in 2025, the administration began escalating its forceful assertion of power over the Western Hemisphere through controversial military actions, hostile diplomacy, and severe economic sanctions, challenging the foreign influence architecture that developed in the postwar era with what is now known as the "Donroe Doctrine". Whether regarding Canada, Venezuela, Cuba, Argentina, or Mexico, America is no longer walking softly, and is willing to wield a very big and unilateral stick to achieve less-than-clear objectives. Key questions are: how effective will it be for the US to try to reassert its position as a single hegemon in a multipolar world? Is China well-positioned to take advantage of a changing order? And how much does a more fragmented, contentious world, with the US acting as the principal, unilateral coercive influence, risk even greater global instability?

But without question, our greatest adversaries in the current environment are nimbler and more economically threatening than in the postwar era. Russia, largely due to sanctions from their campaign in Ukraine, is now crucially dependent on a China within in their strengthening anti-Western coalition. And through China's economic liberalization, strategic science and technology investment, and access to rare earth materials, the nation has the potential to become the global leader in GDP in the very near future. While much of the strongarm activity of the US on the global stage is an attempt to reassert our unquestioned hegemonic power of the past, the result of late is that we have paradoxically pushed even some of our strongest historical allies toward greater partnership with a more multilateral and obliging China.

The important vacuum in the global landscape enabling US foreign policy to be more forceful is that European resolve is no longer a formidable buttress against hostile actors. The continent remains mired in an economic malaise with fiscally imprudent, unpopular establishment governments under attack from rising populism. The result is waning power within a less relevant European Union. In particular, the E3 — England, France, and Germany, the three largest western European economies — can no longer depend absolutely on the US, through NATO, to help fend off Russian aggression on their eastern flank as they have for nearly a century. Whether concerning Ukraine or Greenland, NATO itself is facing a potentially existential crisis with fragile support from the US that may lead ultimately to the demise of the nearly eighty year-old transatlantic partnership.

While the US, as evidenced by tariff policy, is less interested in globalization than a decade ago, foreign countries across the globe are recalibrating their trade partnerships, national security agreements, and access to critical raw materials and technologies to continue to function and compete within that frenzied tariff regime. But while the geopolitics are more chaotic and anarchic, both the US and the rest of the world still need each other. America is leading the way in technology, aerospace, and biotech, among other sectors. The international community relies on our intellectual property and products, and we rely on them to help finance our structural deficits. However, there is a greater risk premium, or cost, for us to attract that foreign investment given the greater uncertainty and volatility that has arisen from our actions on the world stage. That premium, reflected in higher interest rates and fiscal debt levels worldwide, has meaningful implications for financial markets and capital allocation.

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Turning to domestic matters, in many ways, we live in a thermostatic world in the United States. For instance, politically, one party champions an electoral mandate, however slim, to overreach in one direction. There is a subsequent adjustment, through the ballot box, followed by an overreach in the other direction. But this swing in the pendulum seems longer and far more intense than we have seen in the past, largely because we are seeing more direct presidential management of the administrative state through executive order with respect to oversight, regulation, and generally accepted historical norms — from both sides. The result over time is a wobbly environment for capital investment.

On the economic front, as we mention frequently, there are two critical governing influences that can stimulate economic activity and move asset prices or moderate economic conditions to stem inflationary pressure. The first are fiscal measures, or government spending authorized by Congress. The second is monetary policy, or the raising or lowering of interest rates and the money supply (ultimately affecting inflation and the availability of credit) under the guidance of the Federal Reserve. Typically, these two levers are asynchronized, providing a check and balance that throttles an overheated engine or injects fuel into a stalling economy. Again, this dynamic has been historically thermostatic and somewhat self-correcting, at least in principle. But now, Congress has largely abdicated its fiscal responsibility, and we may be close to crossing the Rubicon in terms of our debt levels at nearly $40 trillion, with $1 trillion annually in debt service costs. That figure exceeds our national defense budget and is on par with Medicare spending. Simply servicing our obligations crowds out the ability to fund other crucial programs and acts as a massive headwind for ultimately resolving our significant debt crisis.

Despite our dire debt position accumulated over decades, with midterms ahead, the Trump administration is determined to provide ample fiscal stimulus, deregulation of industry, and loose monetary policy to juice capital markets, inflate asset prices, and goose economic activity — ignoring the long-term consequences for short-term euphoria to maintain control of the legislative branch. By threatening the chairman of the Federal Reserve with his employment, the administration is calling into question the independence of this important institution that makes the difficult, apolitical, and sometimes austere decisions necessary to keep the economy, the job market, and the rate of inflation on solid footing. All in an effort to run the economy hot leading into election season. But as evidenced in the post-Global Financial Crisis era, these high-octane stimulative measures produce benefits that stubbornly accrue mostly to the wealthy, and that concentration of economic vitality has meaningful sociological impacts. As evidence, the top decile of wage earners now accounts for 50% of consumer spending (up thirteen percentage points from thirty years ago) and represents one-third of our national economic activity. While our economy can succeed with such concentration, it is considered unhealthy and leaves economic productivity in the aggregate on the sidelines.

For the remainder of our population, up through the upper-middle class strata, the name of the game is affordability. Many consumers are having difficulty adjusting to a world where the level of prices is outpacing income gains. Compounding the issue is a lackluster job market. Employment slowed to the weakest pace since 2020, and last year was the second-worst year for job gains since the global financial crisis in 2009. All while inflation remains elevated at around 3%, decidedly higher than the 2% benchmark historically targeted. Consumer confidence is at a level normally reserved for recessionary times, mostly due to the high level of prices in key non-discretionary areas such as housing, transportation, insurance, and basic services. It is unsurprising that with sticky inflation, slower hiring (exacerbated by gains in artificial intelligence that are disintermediate human capital), and moderating wage gains, there is unrest among those who cannot see a pathway to shared prosperity with their more well-heeled neighbors.

Part of our dizzying policy backdrop is that the administration is just now recognizing the political ramifications of a K-shaped economy that isn't working for most of its citizens. As such, we are now seeing, from the top, a strange brew of traditional free-enterprise positions on the one hand and measures on the other hand that involve potentially intrusive government invention — a form of "state capitalism". To wit, the US government has recently taken equity stakes in private corporations; intervened in corporate operations; promoted protectionist trade and market controls; and suggested capping credit card interest rates, sending "dividend" checks to the citizenry, and directly intervening to push mortgage rates lower. This is a kitchen-sink populist pivot on pocketbook issues to improve the odds of retaining control of a feckless Congress beyond November.

For much of our investing lifetimes, markets could predictably rely on the core, rules-based values of either party both dictating the general direction of capital flows and revealing opportunities for investment gains. Conservative administrations acted one way, and progressive administrations another. However, the day-to-day whiplash of current events and shifting priorities fly in the face of that historical model and require more nuanced thinking.

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Not only do the global and domestic scenes show instability; financial markets are anticipating increased volatility and a greater potential for a reversion to the historical mean for investment returns. We have experienced unprecedented levels of unnatural stimulus that artificially boosted asset prices and investment returns for over fifteen years, and that will not abate during the race toward the midterm elections. With deregulation and artificial catalysts, corporate profits are strong, and since stocks follow earnings, US markets can continue to move higher and climb a wall of worry, as often happens during periods of perceived stress. A politicized and accommodative Federal Reserve would also be bullish for stocks and bonds, albeit at the expense of our currency. So there are tailwinds for asset prices in the short-run, but they carry consequences.

The prudent long-term strategy is to continue adding to exposures to more diversified regions and sectors that have not participated fully in the wonderful gains seen by a narrower subset of domestic technology names. This is not to say that US growth stocks should not continue to perform, but rather that the odds are greater for capital flows to go to more reasonably priced asset classes that failed to fully participate in the excess returns enjoyed by large-cap technology names.

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We see increased risk in market-weight passive strategies, particularly in the large-cap space. When the top ten companies in the S&P 500 represent 41% of the market, that concentration can be quite painful in an unwind. We are more constructive on individual large-cap companies with specific pricing power and sustainable cash flows, defensive-oriented US equity sectors such as healthcare that are relatively attractive diversifiers to that crowded technology trade, and small- and mid-cap companies on dollar weakness.

We are also more favorable to overseas markets unloved for quite some time, especially with the prospects for new strategic trade alliances. Developed and emerging international markets currently trade at half the level of their US counterparts. Real assets, or tangible investments like commodities that have intrinsic value, can hedge against dollar devaluation stemming from excess money printing and government spending. Higher quality, intermediate-duration corporate fixed-income positions, when combined with shorter duration US Treasury holdings, provide ballast and reasonable income potential while avoiding undue credit risk and mitigate some of the interest rate risk presented by over issuance of and flagging international demand for longer-dated US bonds. If global interest rates continue to drift higher, these positions will produce better results than those plain vanilla long bonds.

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Given the frenetic and perhaps overwhelming news tape, it is easy for market participants to embrace one of two extremes. Some overreach in an unproductive and reactive knee-jerk fashion to the headline of the day. Speculators chase the noise and miss the signals. And on the flip side, while a more logical approach, it is also common to see investors bury their heads — to remain rigidly inert — with a static, overly passive strategy that fails to capitalize on market dislocations. Both of those perspectives produce suboptimal risk-adjusted results. We are centered on what news really matters and managing volatility accordingly; our calculated investment process has shown, over time and through market cycles, to produce better financial outcomes for our clients.

We certainly live in interesting times. Despite it all, we can all have confidence that we will improve the prospects of reaching our financial goals and fulfilling our greatest aspirations for accumulated wealth through intention, discipline, commitment, and open-mindedness. Let us all focus on the items that truly matter, rather than being caught up in the noise of the day. We hope to be that beaconing signal as a source of wisdom and comfort in stewardship of your hard-earned capital.

We continue to be honored by your trust.

Best,

William L Ross

Founder & Chief Investment Officer
North Forty Two & Co.

Whitney

President
North Forty Two & Co.

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(503) 417-2970 • NORTHFORTYTWO.COM