BREAKOUT CAPITAL
in strategic partnership with Rockefeller Capital Management

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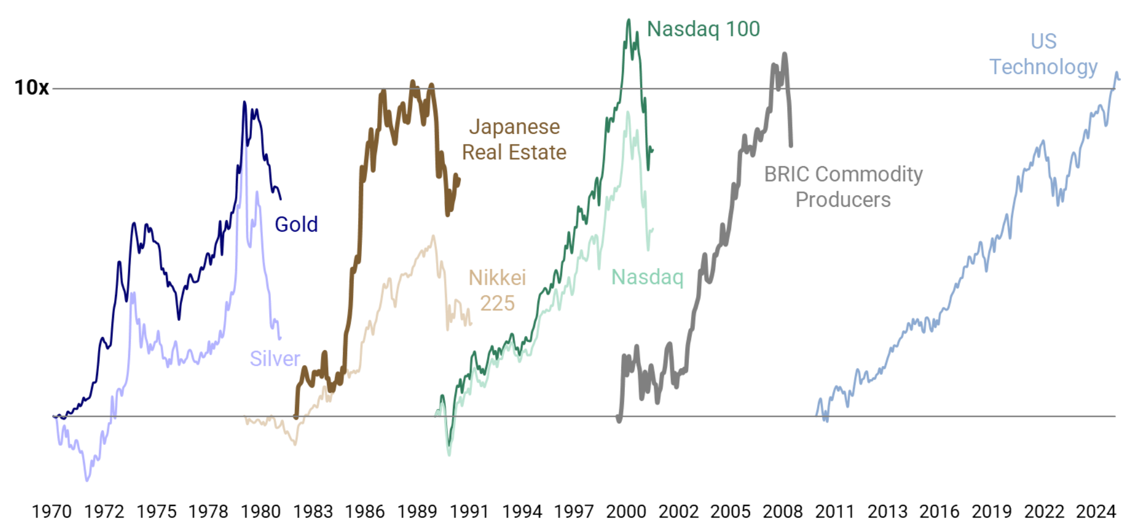
# Breakout Capital Quarterly Q4 2025

## Outlook

At the start of last year, investors were almost unanimously focused on the US, but by year-end international markets had sharply outperformed, delivering roughly double the returns and eroding the sense of US exceptionalism. The US economy and asset prices were sustained not by broad strength, but by a powerful surge of capital into artificial intelligence. We focus below on five themes that we believe will drive global returns across asset classes, in our view.

**The AI bubble inflates until money tightens:** The AI-driven US equity boom now shows classic bubble traits: valuations, investment, leverage and retail ownership are all stretched, with US households holding more wealth in stocks than housing. Historically, major bubbles have burst when prices increase by 10x in inflation adjusted terms (Chart 1) and US tech sector has now crossed that threshold.

Chart 1: Prices in Real US dollars, Indexed to 1.0 at the Beginning of the Cycle



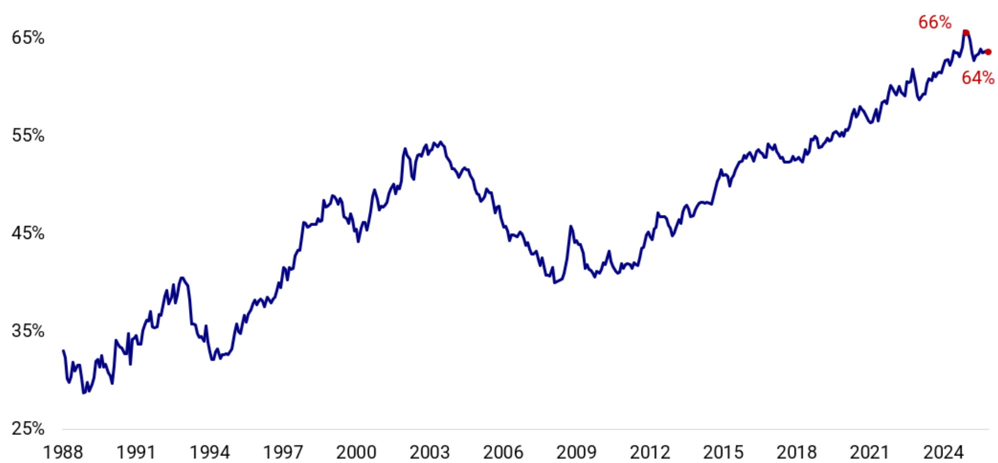

Source: BCA Research, Bloomberg, Breakout Capital calculations, as of December 18, 2025. Log scale

Typically, these bubbles have burst following central bank rate hikes, often accompanied by other forms of tightening in the markets. The AI bubble too could deflate if inflation forces the Fed to raise rates, or if the Fed just loses credibility, leading to weaker capital inflows and higher long-term market rates. Already, inflation pressures are rising, housing is less attainable for younger buyers, essentials such as food and electricity cost far more than a few years ago. Many low-income households spend virtually all their income on necessities.

Those pressures could mount further next year, with the US administration implementing fresh tax cuts and proposing new rounds of relief checks to mitigate the "affordability crisis." The US deficit, after a brief drop helped by tariff revenues, appears to be headed back above 6% of GDP. The bond markets have lately punished advanced economies from Europe to Japan for excessive deficit spending, and there is a growing risk that investors eventually demand higher yields from the US as well. That is a serious threat for an economy as highly financialized as the US, where portfolio inflows last year were large enough to finance the entire current account deficit.

**International outperforms:** International stock markets generated double the returns as compared to the US in 2025, with outperformance ranging across regions. Despite this performance, international and especially emerging markets continue to trade at a steep discount to the US even as their earnings and per capita growth increasingly outpaces America's. This is also reflected in America's outsized weight in the global equity indices, which remains close to a historical high, despite the decline last year from 66% to 64% (Chart 2). We think international markets are likely to continue outperforming, as skepticism of "American exceptionalism" continues to grow. And if confidence in the US ebbs further and money reverses, a weaker dollar would likely boost returns in the rest of the world.

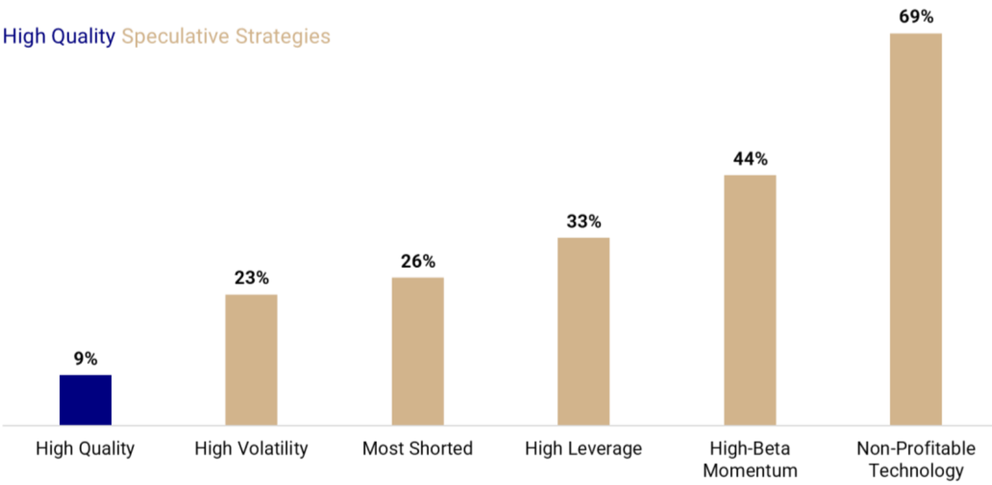
Chart 2: Weight of US in MSCI World All Country Index




Source: Bloomberg, Morgan Stanely, MSCI, Breakout Capital Calculations

**Quality shines:** Over the last 30 years, quality has outperformed global indices by about 2.5pp a year, translating to cumulative returns of about 2,600%, compared to 1,200% for the global headline indices. However, 2025 was a departure. Quality stocks saw one of their worst ever relative declines in developed markets, and the worst ever in emerging markets. This drop was the result in part of the liquidity driven AI mania, which generated superlative returns for relatively low-quality strategies such as unprofitable tech (Chart 3).

Chart 3: 2025 Performance of Different Strategies




Returns are those of baskets maintained by Goldman Sachs Research. Source: Goldman Sachs Research, Breakout Capital Research, Bloomberg. Returns are year-to-date as of November 6, 2025. Based on US stocks, which account for more than 70 percent of both MSCI World Quality and MSCI World. Performance bars represent returns for the following Goldman Sachs equity baskets: High Quality (Ticker GSXUMFQL); High Volatility (GSXUWFWL); Most Shorted (GSX1MSAL); High Leverage (GSX1DEBT); High-Beta Momentum (GSCBHMOM); Non-Profitable Technology (GSX1NPTC).

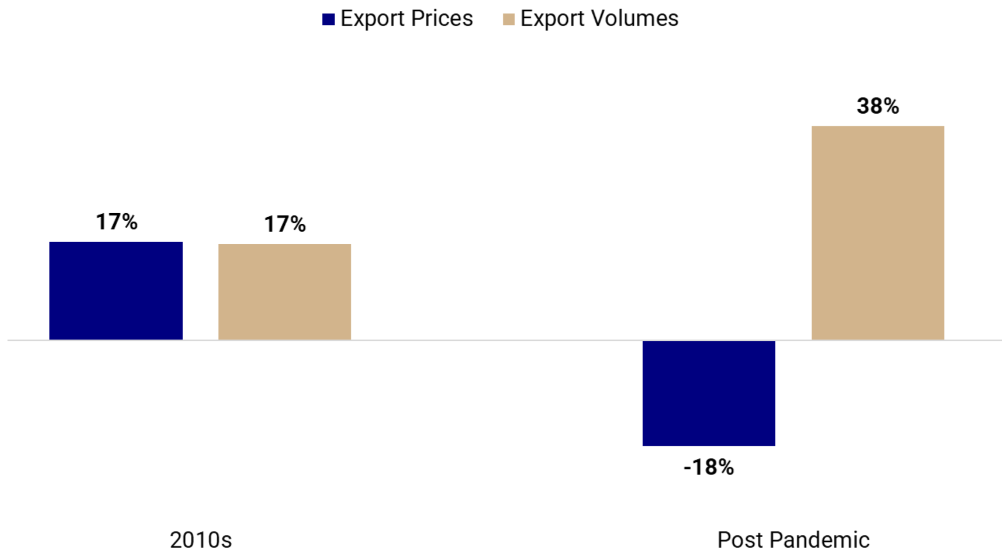
One byproduct of this shift to speculative strategies is that there is now a large set of quality stocks which are trading at or close to their cheapest levels in the last 30 years. We call this group "undervalued quality," and believe 2026 could be a comeback year for this class. From similar past periods of underperformance, and from such low valuations, these stocks have delivered double-digit returns.

**China becomes a target for export dumping:** China's domestic economy has remained under extreme pressure over the past few years, weighed down by a declining population, a mass of unproductive debt, and a busted real estate sector. However, exports have emerged as a source of key strength, bailing out the overall economy. Net exports, which were making a negligible contribution before the pandemic, accounted for almost a third of the overall growth in 2025.

China engineered this surge by slashing export prices (Chart 4) and holding down the currency. It has gained share at the expense of rival export powers including Germany, France, Japan, and many emerging markets. Signs of a backlash are emerging. The number of investigations into Chinese dumping, and retaliatory duties leveled against China, are rising from Europe to Mexico and Thailand.

With the Trump administration facing pressure to slow its tariff offensive, this year could see "China dumping" come to the fore as a target, with negative implications for the export pillar of its economic growth.

Chart 4: Change in China Export Prices and Volumes, Relative to the Rest of the World




Source: UBS, As of Sept 2025

**South America gets a lift from the right:** By 2022, a "pink tide" had brought leftwing populists to power in the six major democracies of South America. But amid rising concerns over gangs, crime and inflation, voters turned against their leaders, and the tide washed out. A reversal started with Javier Milei's 2024 win in Argentina, followed by victories for rightwing leaders last year in Ecuador and Chile. We expect the turn right to continue this year, with polls showing right wingers leading ahead of national contests in Peru and Colombia. The wild card is Brazil, where the front-runner is the leftwing President Luiz Inácio da Silva.

Our research shows that the return of the right bodes well for economic orthodoxy and stock market returns in South America. We looked at the region's major markets (including Argentina, Brazil, Chile, Colombia, Mexico and Peru) going back to 2000, and found dollar returns in the first two years of a new government averaged roughly 40% under a leader from the right, and half that under a leader from the left. This preference was also clear in 2025 when, amid its rightward shift, South America was one of the world's top performing regions. The more the right wins, the more we think the region is likely to continue this run.

Chart 5: South America – and Political Leanings


Source: Source: National Sources, Breakout Capital Research. Note: the "turned right" category is based on national election results; the "likely to turn" and "wildcard" categories are based on national polls as of December 2025

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