

# Throwing bad money after good

Global markets outlook 2026

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# Agenda

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With assets expensive but the world in turmoil

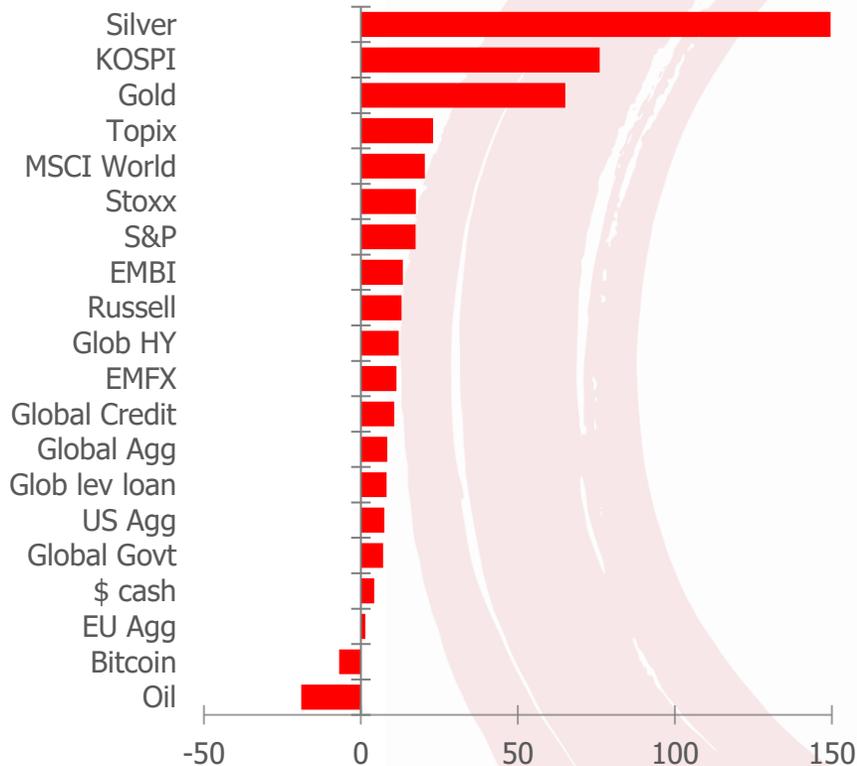
And money cheap and getting cheaper

Keep an eye on the exits

# Investor returns in 2025 were fantastic

## Happy returns almost all round

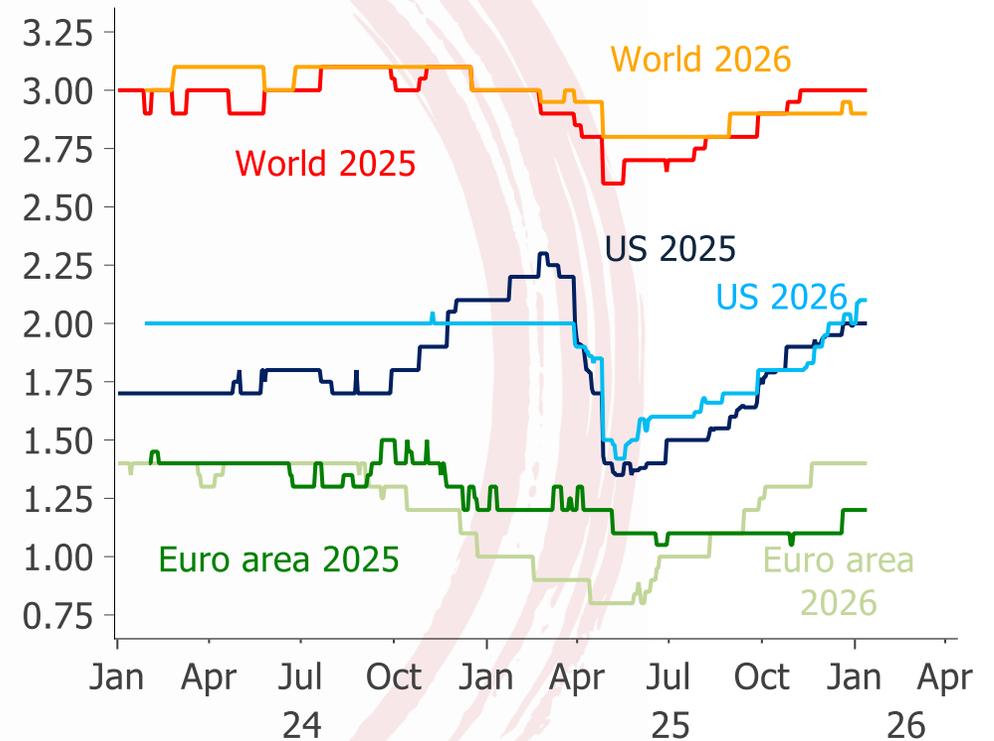
2025 returns, %, local currency



Source: Bloomberg, Satori Insights.

## Thanks in part to a resilient economy

Consensus GDP forecasts, % yoy



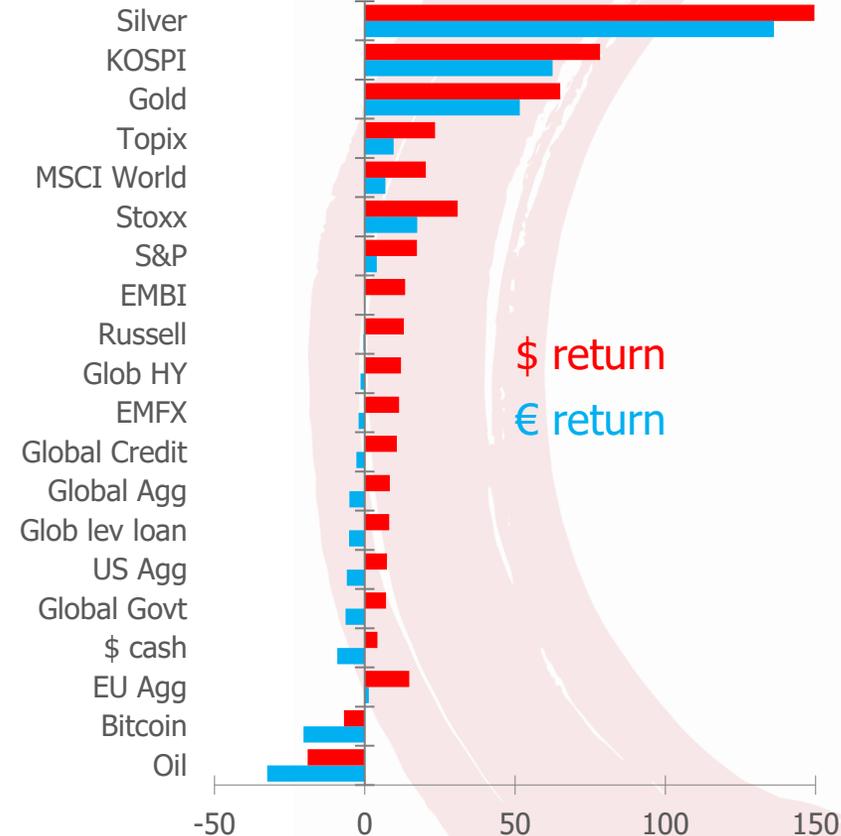
Source: Bloomberg, Satori Insights.

# Consensus says thanks to tech spending and tariff resilience

# There are three problems with this narrative (1)

## Much was due to \$ debasement

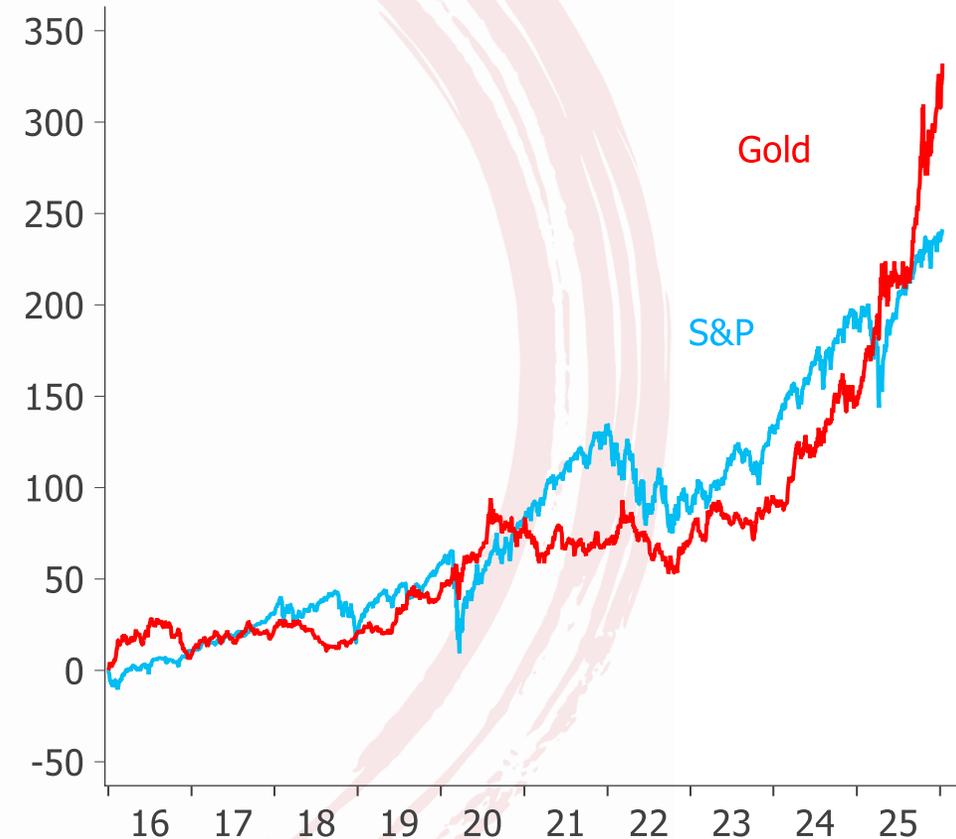
2025 returns in € vs \$



Source: Bloomberg, Satori Insights. Ray Dalio makes similar points [here](#).

## The real outperformer was gold

Performance since 2016, %



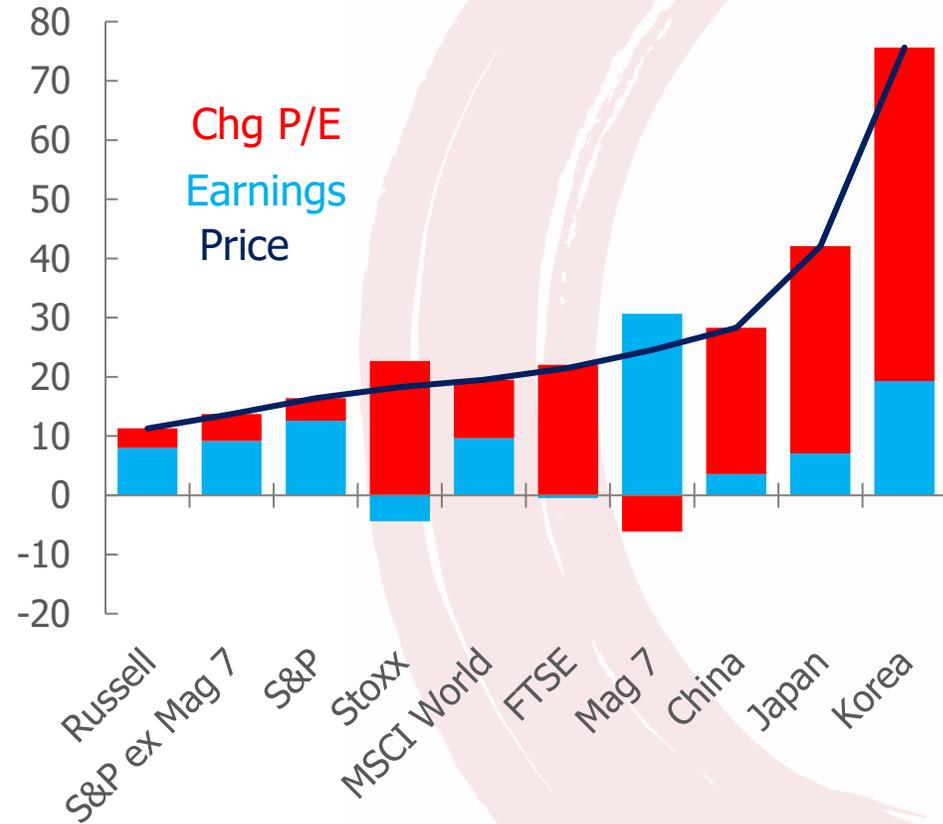
Source: Macrobond, S&P Global, Macrobond, Satori Insights.

**High absolute returns owe more to debasement than to growth**

# There are three problems with this narrative (2)

## Fundamentals outweighed by valuation chg

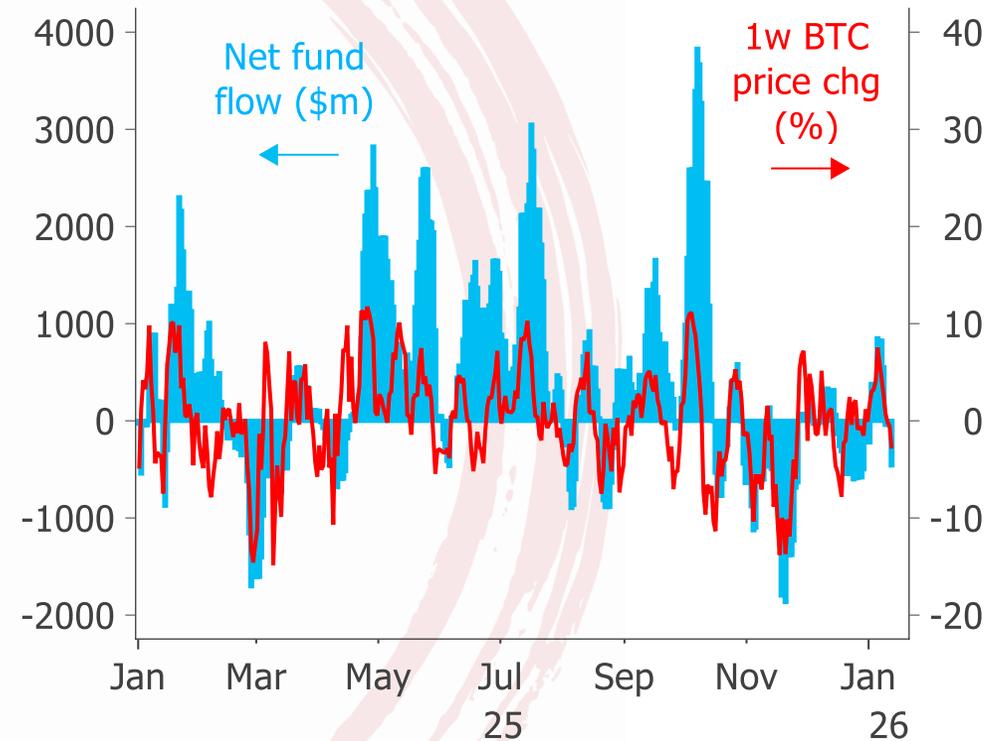
2025 equity return decomposition



Source: Bloomberg, Satori Insights.

## Great fundamentals, lousy return

Aggregate net bitcoin ETF flow (weekly, \$m) vs price chg



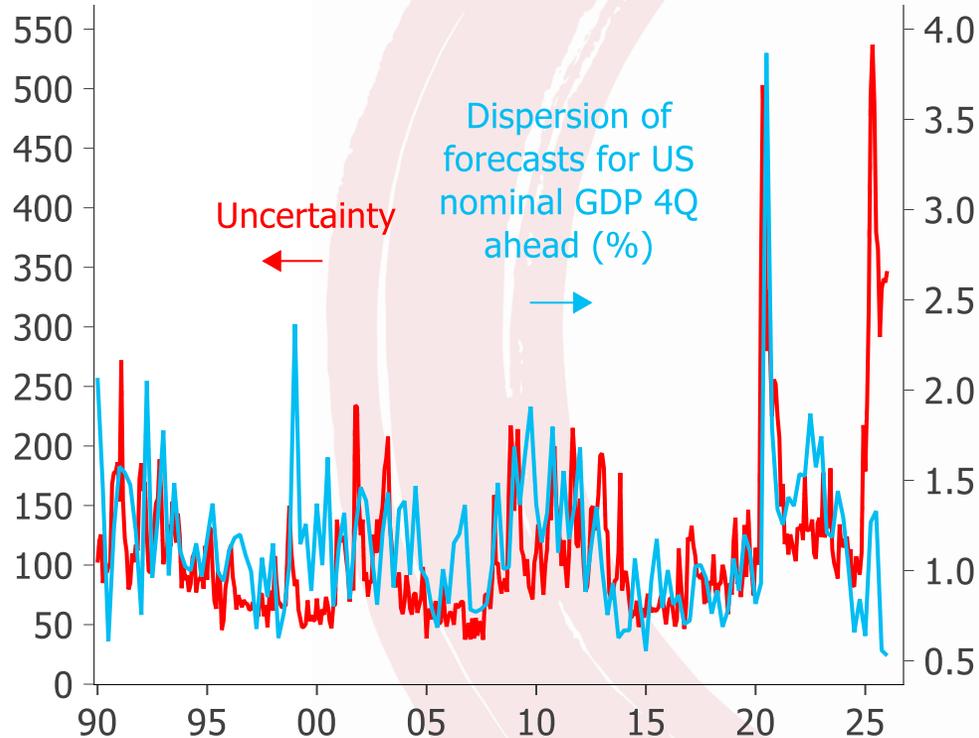
Source: Bloomberg, Satori Insights.

**Relative returns owe more to money flow than to fundamentals**

# There are three problems with this narrative (3)

## Remarkable certainty about growth

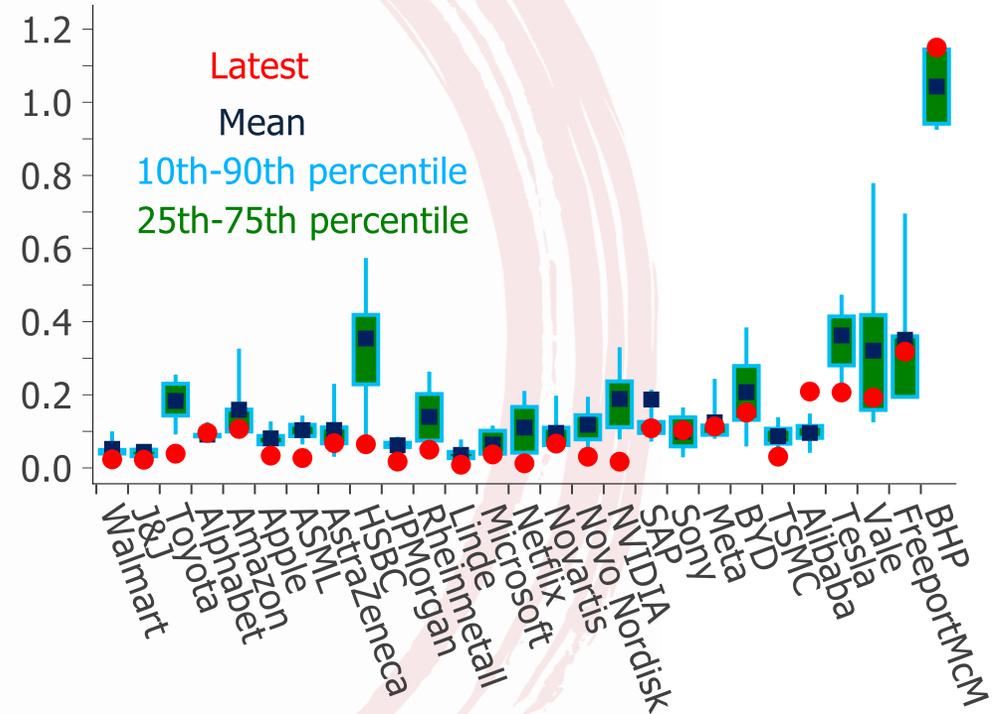
US Uncertainty vs Survey of Professional Forecasters



Source: Economic Policy Uncertainty, Philly Fed, Satori Insights.

## Remarkable certainty around earnings

Range of analyst earnings estimates vs 5y history, stdev\*



Source: Bloomberg, Satori Insights.

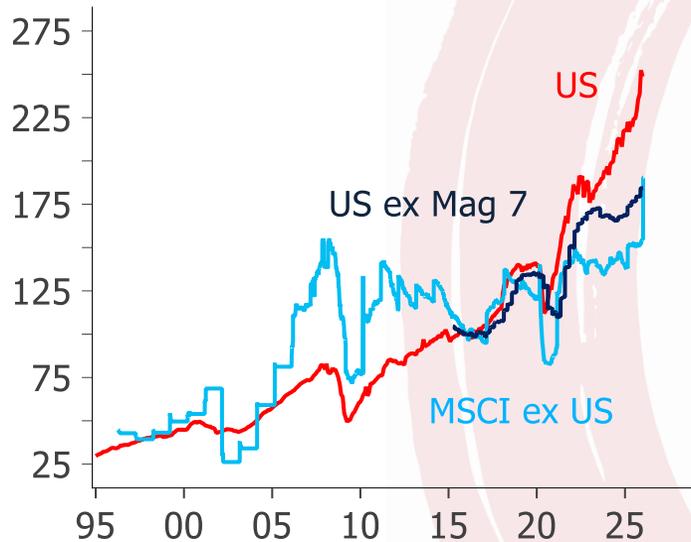
\*Uses Bloomberg BEST\_EPS\_STD\_DEV normalized by BEST\_EPS.

# It creates a misleading impression of robustness

# It's true that corporate profits are at record levels

## Profits at highs

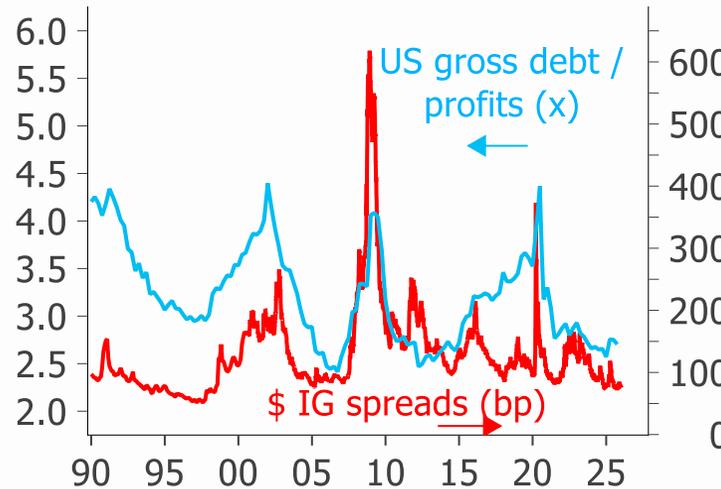
US vs RoW earnings, 2016=100



Source: Bloomberg, Macrobond, Satori Insights.

## Corp leverage at lows\*

US nonfin corp gross debt/profits

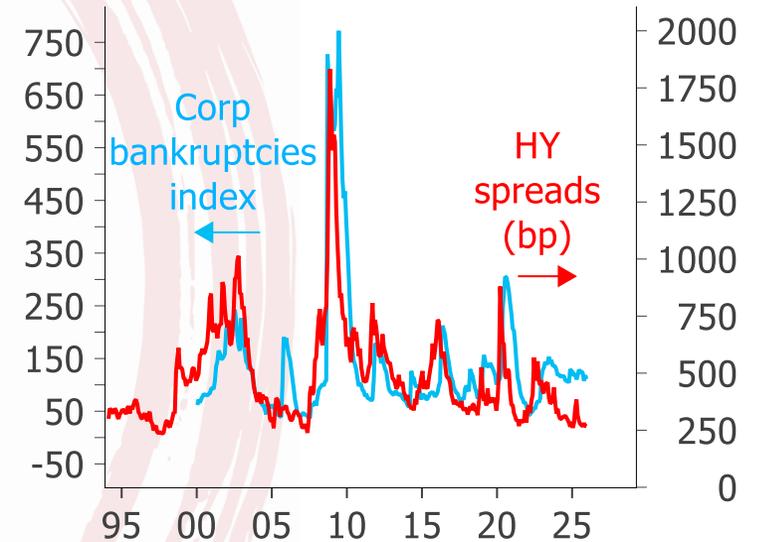


Source: Federal Reserve, Bloomberg, Satori Insights.

\*Flattered by tech profits but holds more broadly. PE-owned corp leverage a notable but minor exception.

## No surge in defaults

Bloomberg US bankruptcy index vs spreads



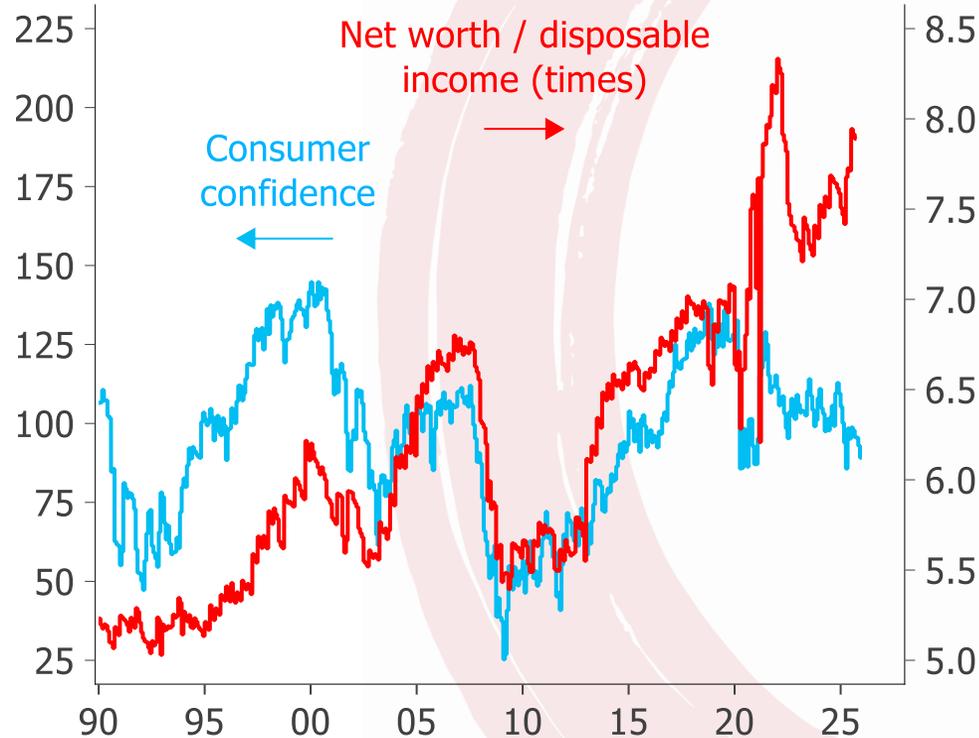
Source: Bloomberg, Satori Insights.

**But extraordinary profits reflect circular and nonlinear underlying dynamics**

# It's not just the fragility of a K-shaped economy

## When wealth is almost the sole driver...

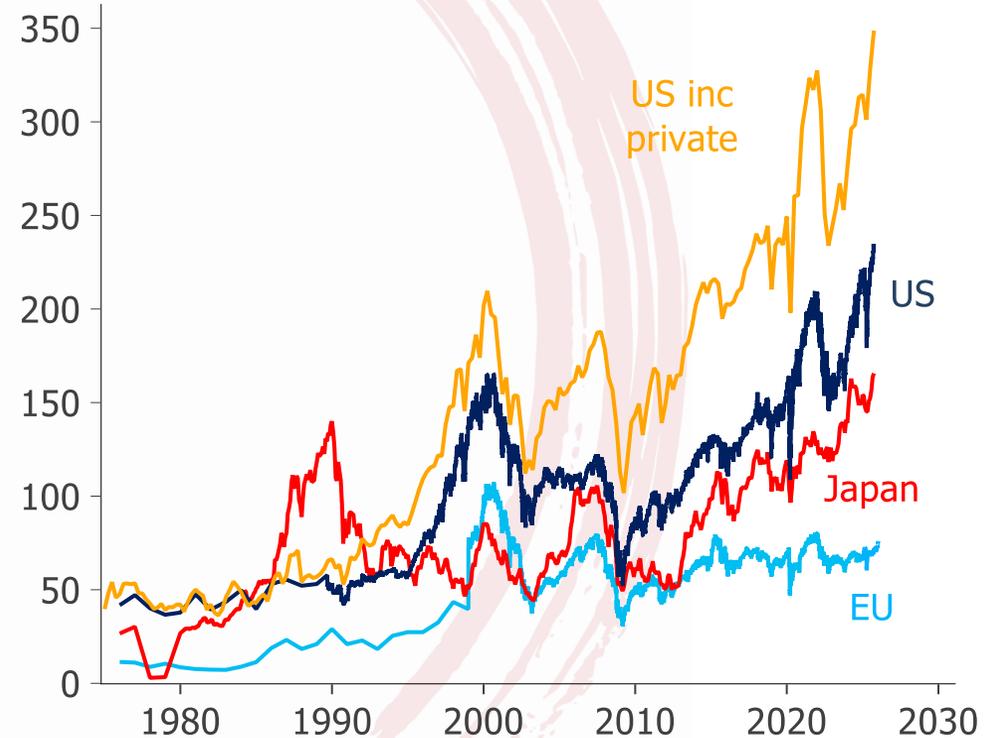
US consumer confidence vs household net worth



Source: Conference Board, Bloomberg, Macrobond, Satori Insights.

## You need to be sure it keeps going up

Equity capitalization, % GDP



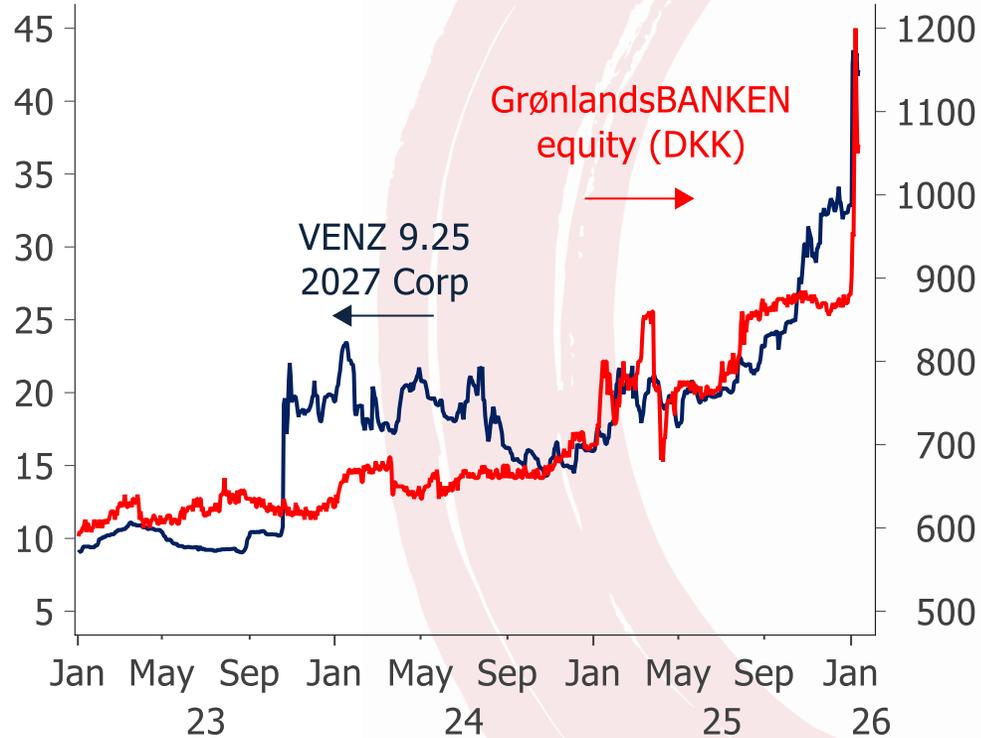
Source: JPX, MSCI, S&P, World Bank, Federal Reserve, Macrobond, Satori Insights.

# The outlook is unusually sensitive to asset prices

# The main risk in this environment is regime change (1)

## Regime change makes assets surge...

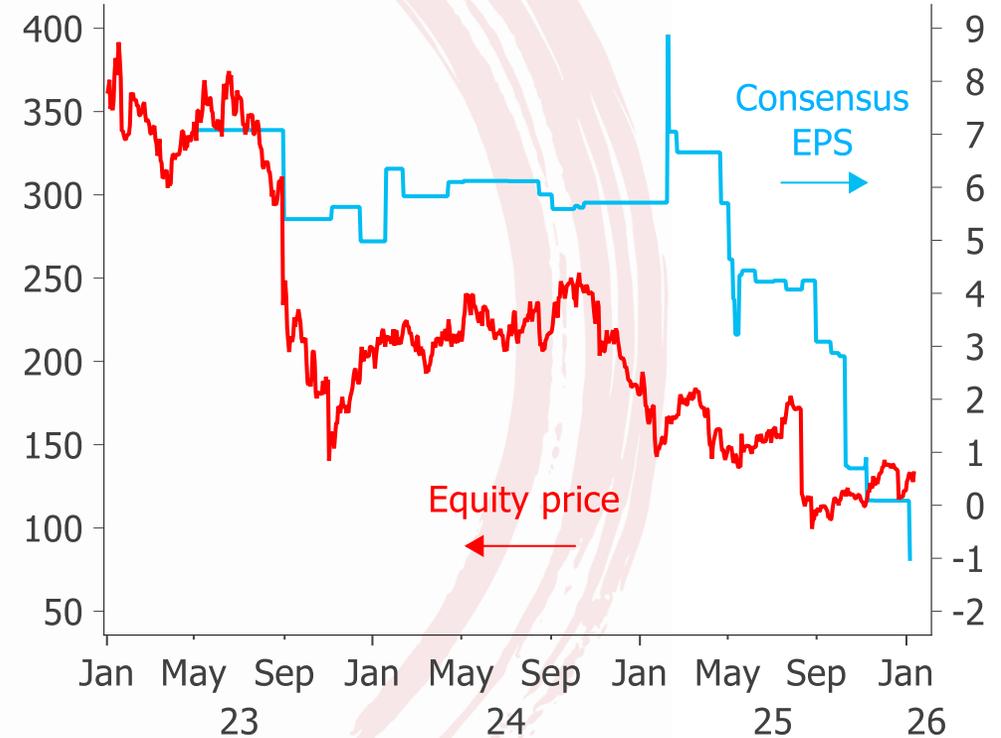
Venezuela bond and Greenland bank equity prices



Source: Bloomberg, Satori Insights.

## ...or plunge

Ørsted stock price and consensus earnings, DKK



Source: Bloomberg, Satori Insights.

**In some cases this is obvious**

# The main risk in this environment is regime change (2)

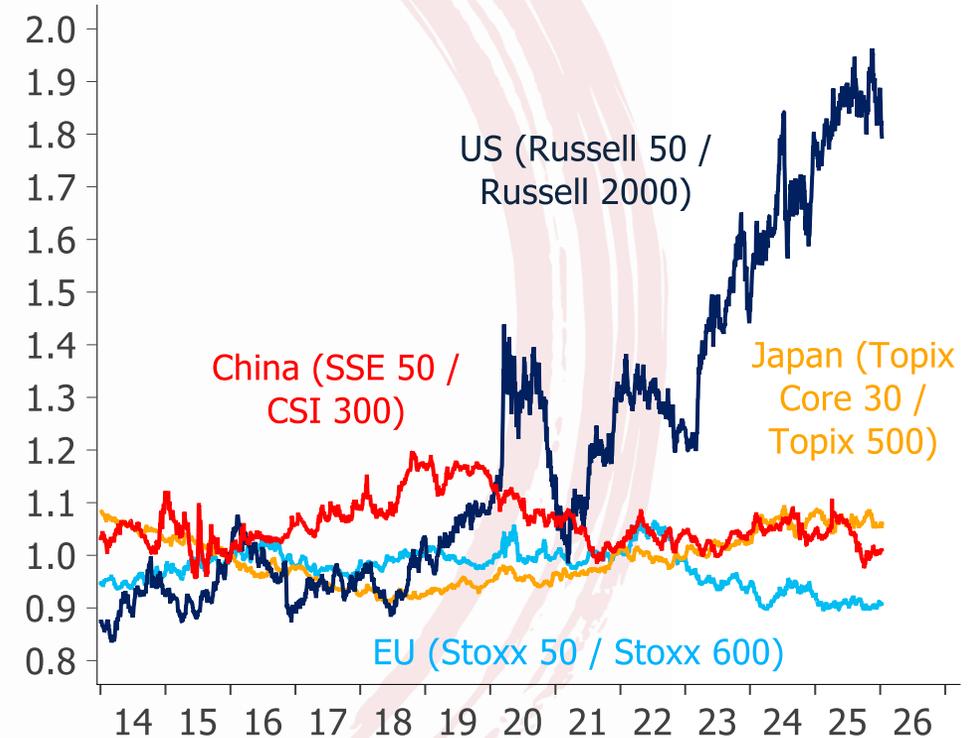
**There's a reason US megacaps outperform small**  
2025 US stock price chg decomposition, grouped by mkt cap size



Source: Bloomberg, Satori Insights. Uses trailing 12m earnings growth.

**It looks a lot like regulatory capture\***

Largecap vs smallcap stock indices, 2016=100



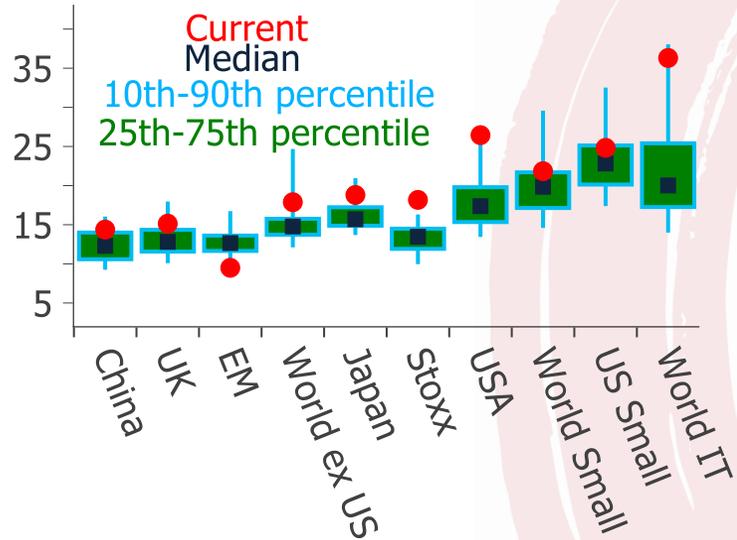
Source: Macrobond, Bloomberg, Satori Insights.  
\*See [The enshittification explanation](#), 19 Dec.

**But legal, political and technological risk is everywhere**

# The one place regime change risk is missing is in asset price levels

## Large cap equities expensive

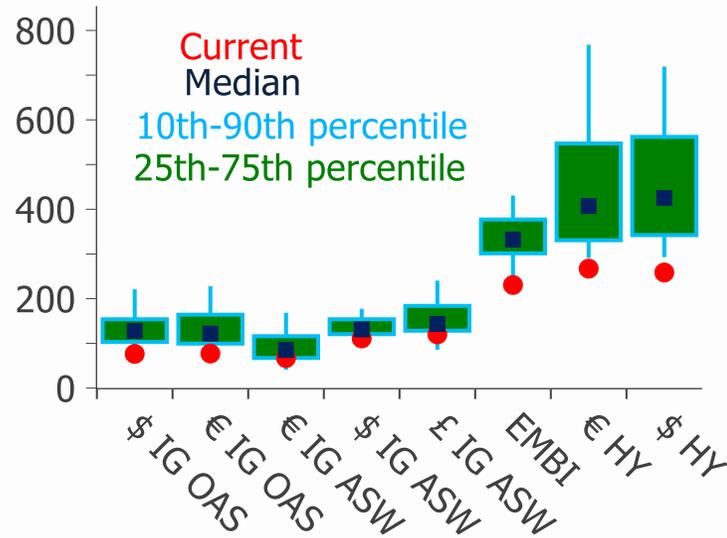
Forward P/E ratios vs 20y history



Source: Bloomberg, MSCI, Satori Insights.

## Credit expensive

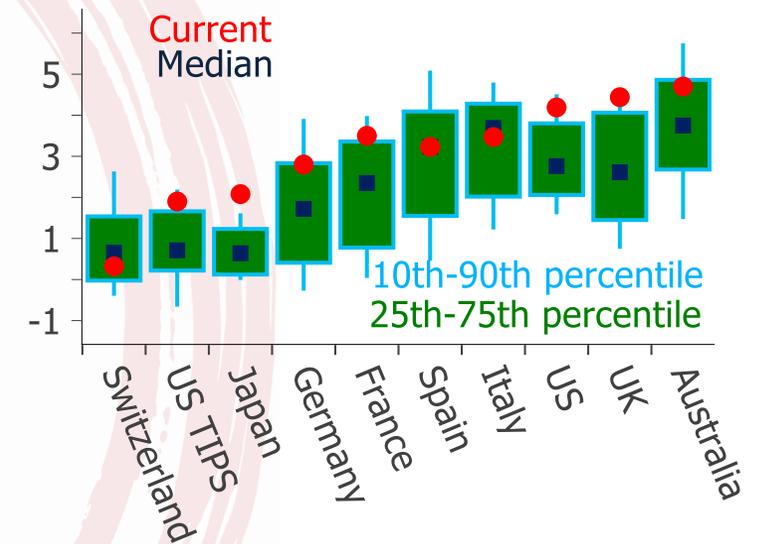
Credit spread percentiles vs 20y history, bp



Source: Bloomberg, Satori Insights.

## Only [some] govies cheap

Credit spread percentiles vs 20y history, bp



Source: Bloomberg, Satori Insights.

**Consensus around forecasts and valuations completely understates the risks**

# Agenda

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With assets expensive but the world in turmoil

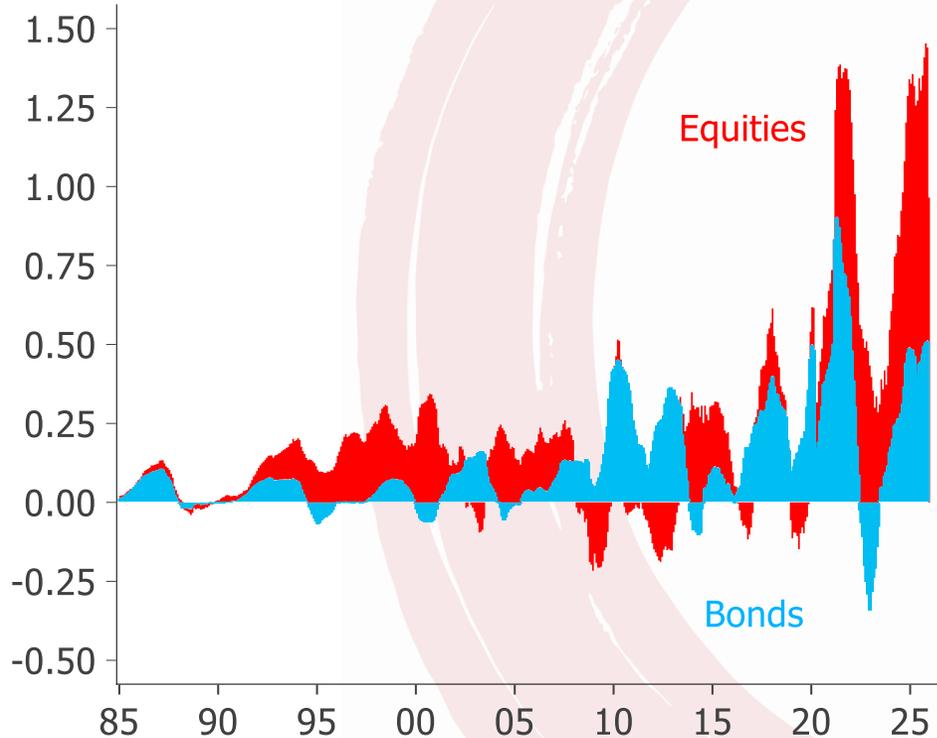
And money cheap and getting cheaper

Keep an eye on the exits

# What was really extraordinary in 2025 was the fund flows

## Nearly \$1.5tn in fund inflows

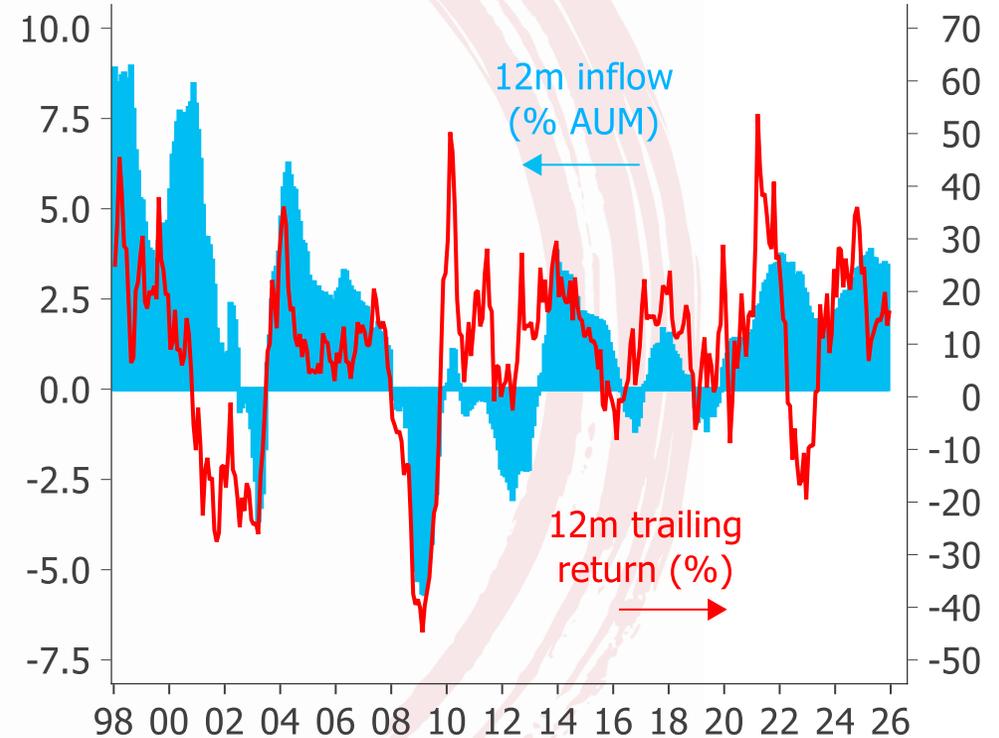
Mutual fund+ETF inflows, rolling 12m, \$tn



Source: ICI, Satori Insights.

## With equities abnormally strong

Equity mutual fund+ETF inflows vs returns, rolling 12m



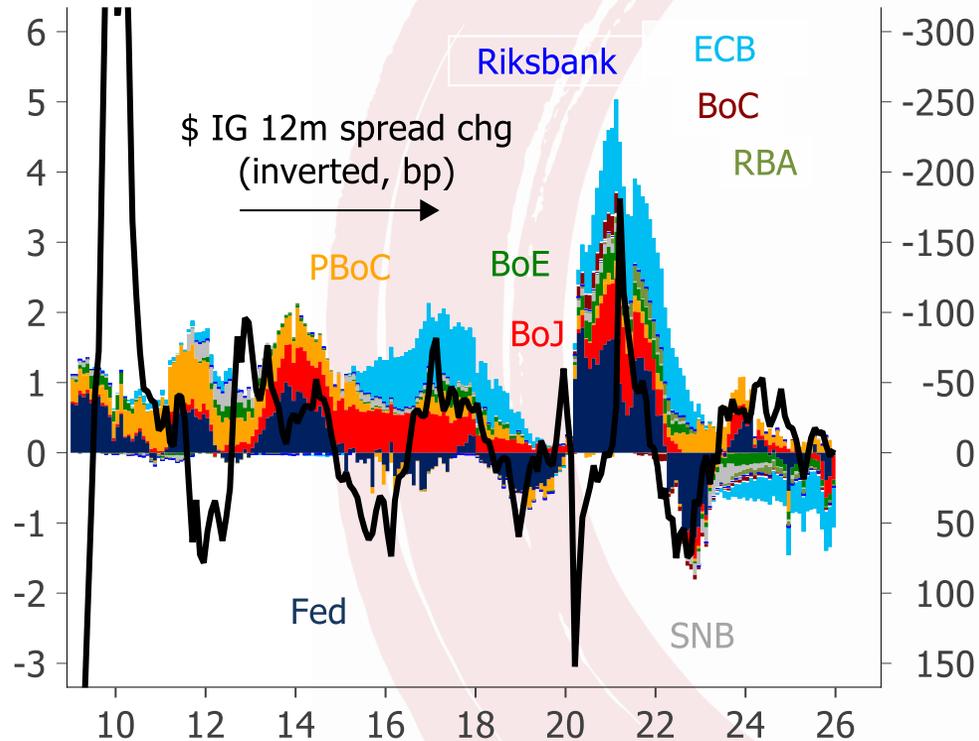
Source: ICI, S&P Global, Macrobond, Satori Insights.

# Risk assets enjoyed their largest inflows ever

# Unusually, this was not thanks to a surge in credit creation

## Fed and other CBs drained liquidity

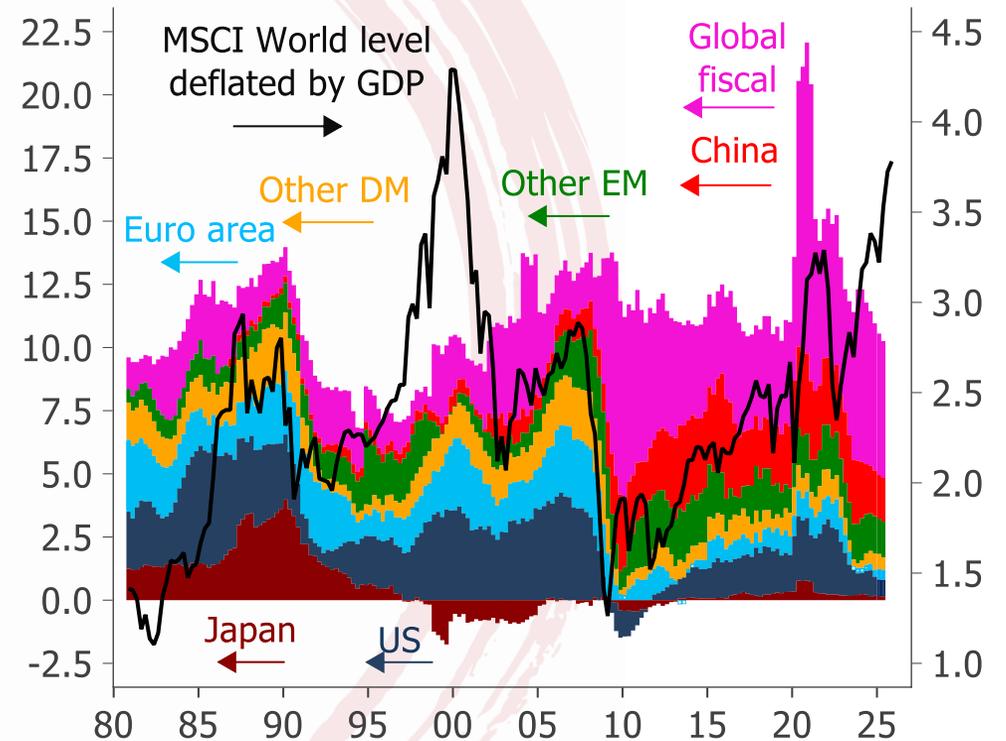
Global CB reserves (\$tn) vs credit, rolling 12m chg



Source: national central banks, Bloomberg, Macrobond, Satori Insights.

## Credit growth disappointed also

Global credit creation, private + fiscal, rolling 4q, % GDP



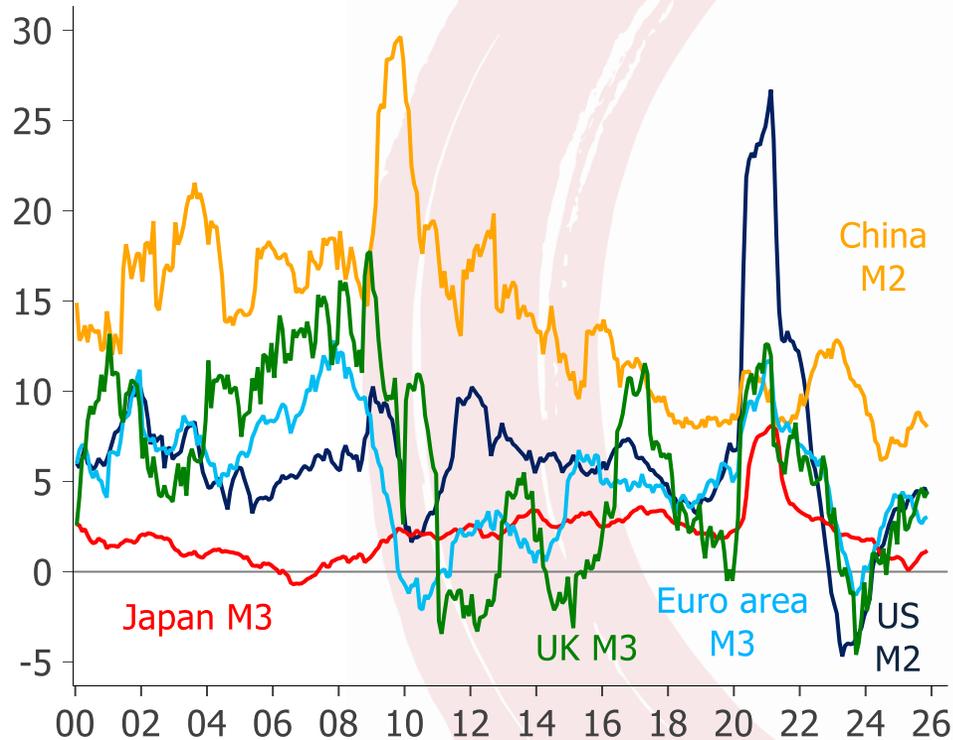
Source: BIS, MSCI, Satori Insights.

# Thirst for risk outstripped both money and credit growth

# The same conclusion applies however you cut the numbers

## Money growth positive but not surging

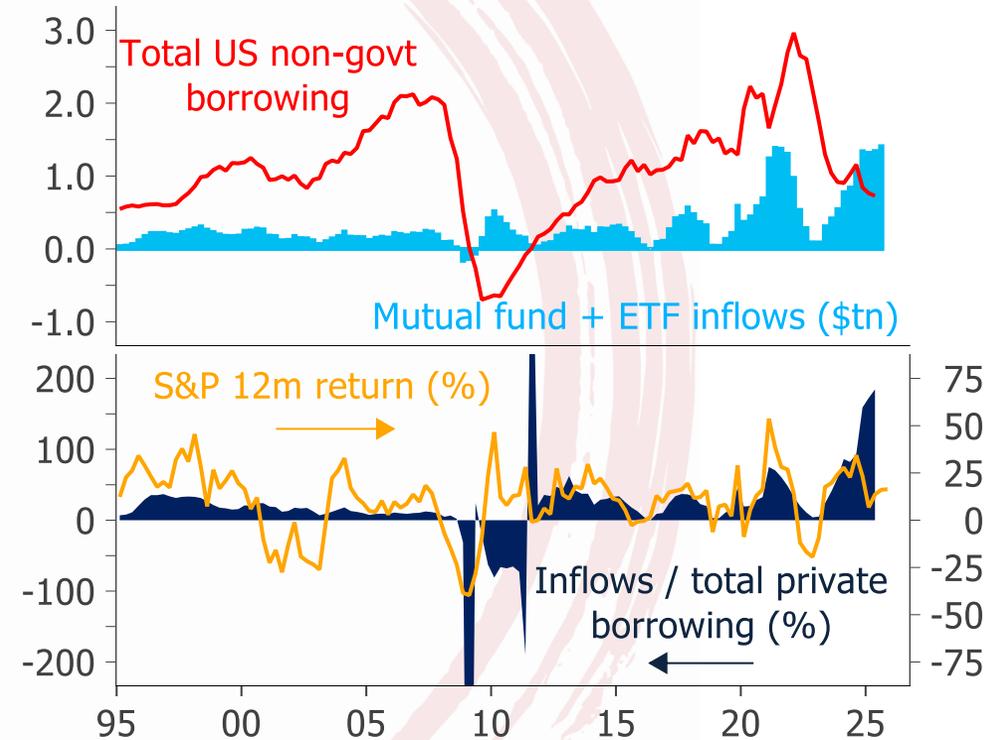
Monetary aggregates 12m chg %



Source: national central banks, Macrobond, Satori Insights.

## An unprecedented gamble on markets

Fund inflows vs private nonfin credit, rolling 12m, \$tn



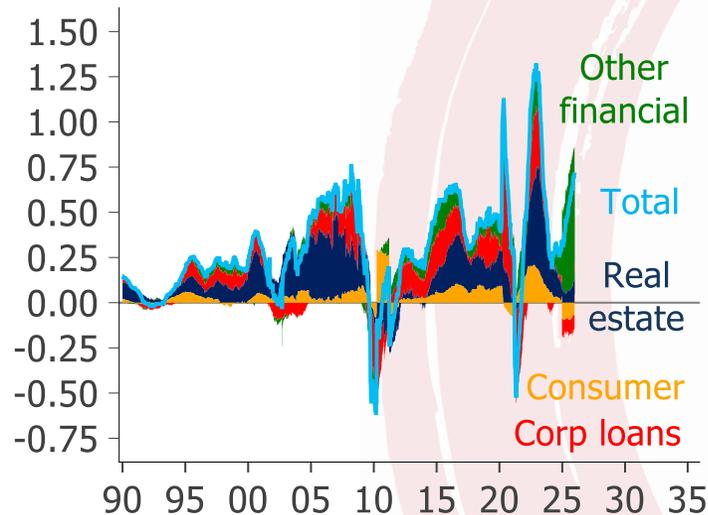
Source: ICI, Satori Insights.

**What's remarkable is not the money growth itself – it's the amounts going into equities**

# There are nevertheless three important sources of credit growth

## >\$500bn in loans to NBFIs

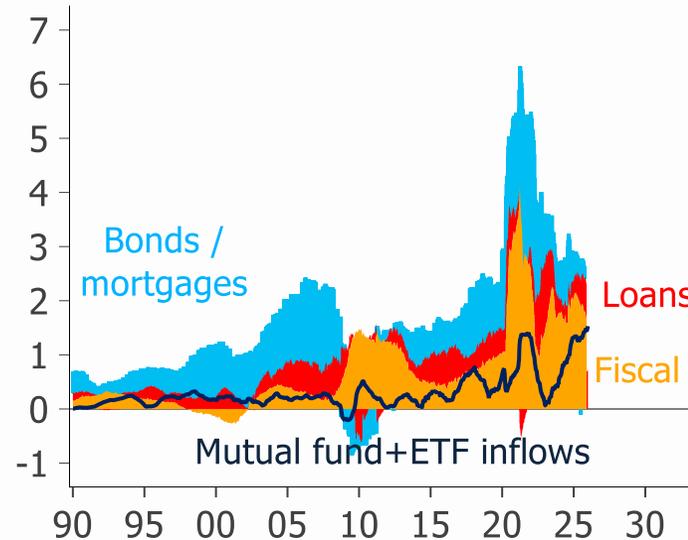
US annual loan growth, \$tn



Source: Federal Reserve, Satori Insights. 2025 skewed by reclassification of some loans as "other financial".

## c.\$2tn in US fiscal

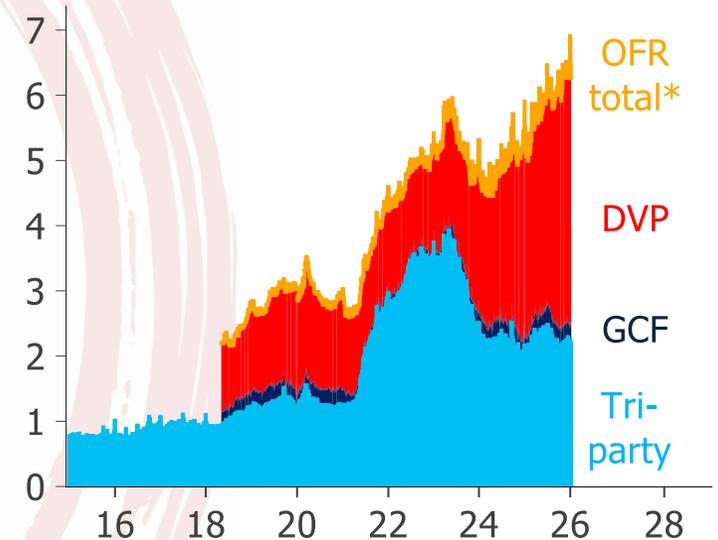
US credit sources, rolling 12m, \$tn



Source: Federal Reserve, Satori Insights. See [When froth turns to fear](#), 21 Nov.

## >\$1tn in repo growth

US repo outstanding by venue, \$tn



Source: OFR, Satori Insights.

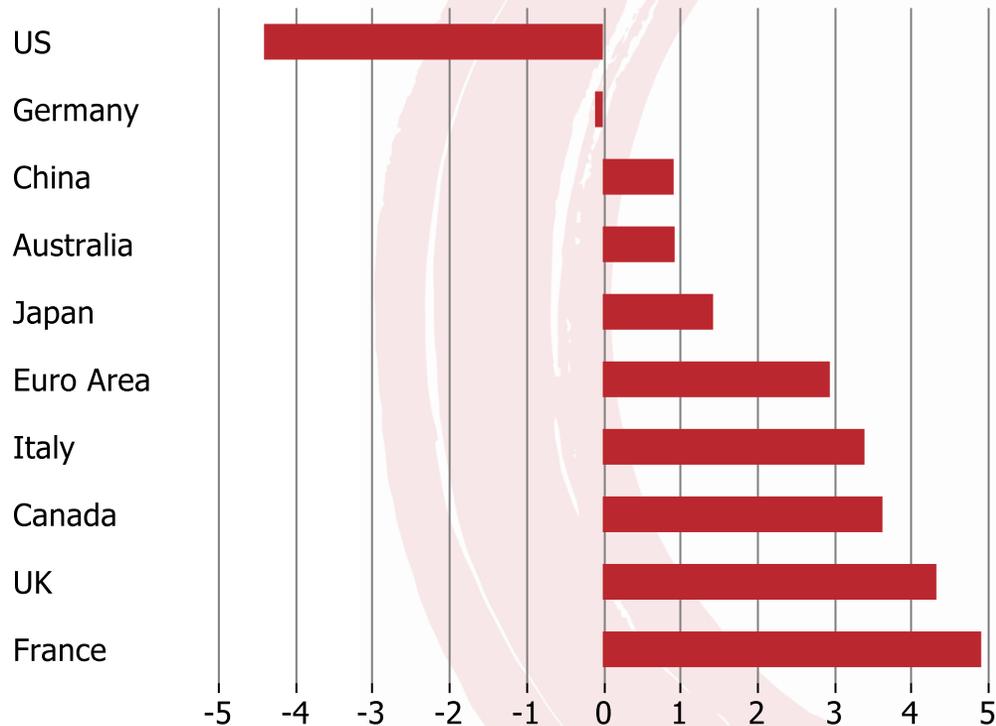
\*Excludes non-centrally cleared bilateral repo. See [Sizing the US repo market](#), OFR, 4 Dec.

**What's unusual is not so much the totals as how they seem directly to be fuelling risk**

# So what may feel like a Ponzi scheme is actually quite sustainable

## Dissaving exceptionally

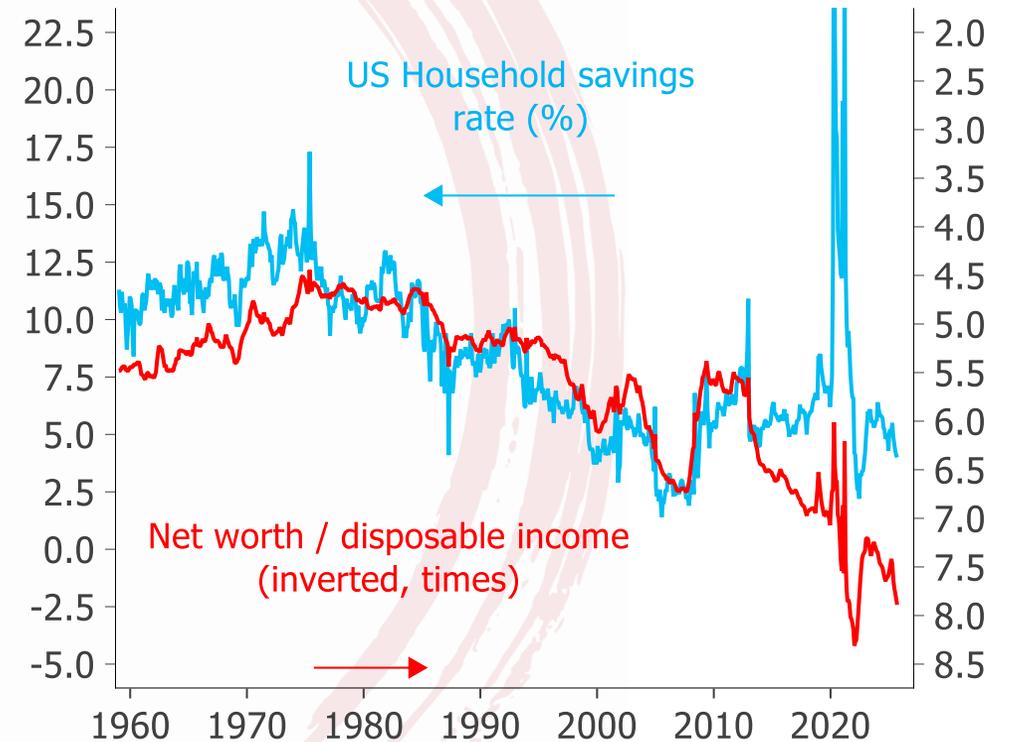
Chg in household savings rate since 2019, %



Source: BEA, Fed, StatCan, INSEE, CAO, Istat, DESTATIS, ONS, ABS, DG ECFIN, OECD, Satori Insights.

## With this wealth, why not spend?

US savings rates vs household net worth



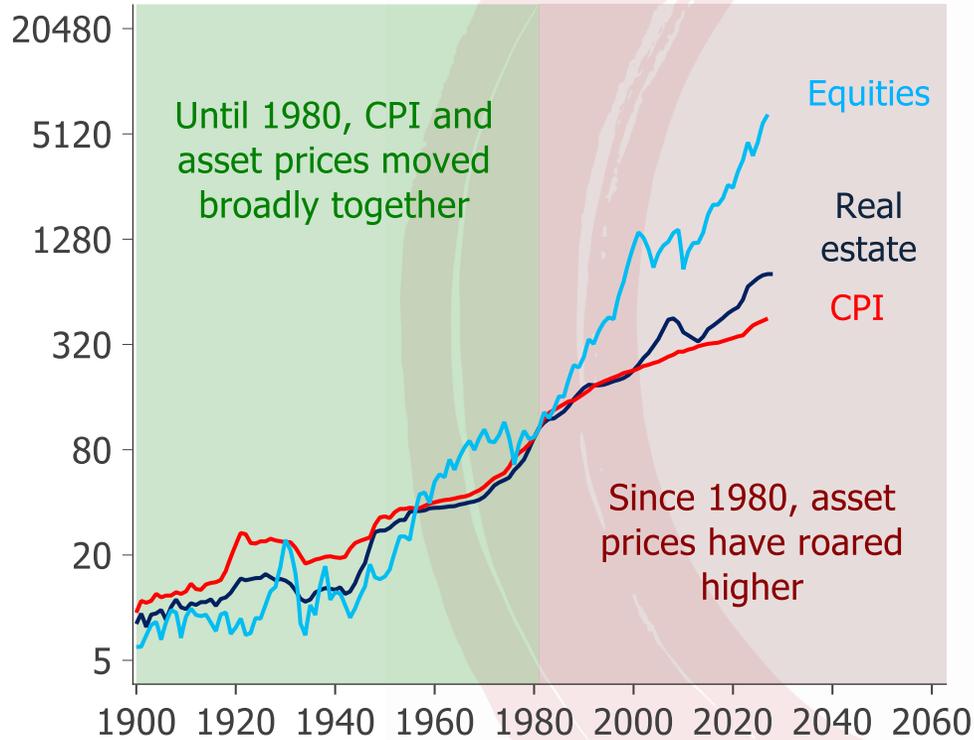
Source: Federal Reserve, BEA, Satori Insights.

# Provided asset prices keep going up

# In many respects this is bullish for risk assets

## Debasement vs asset prices, not CPI

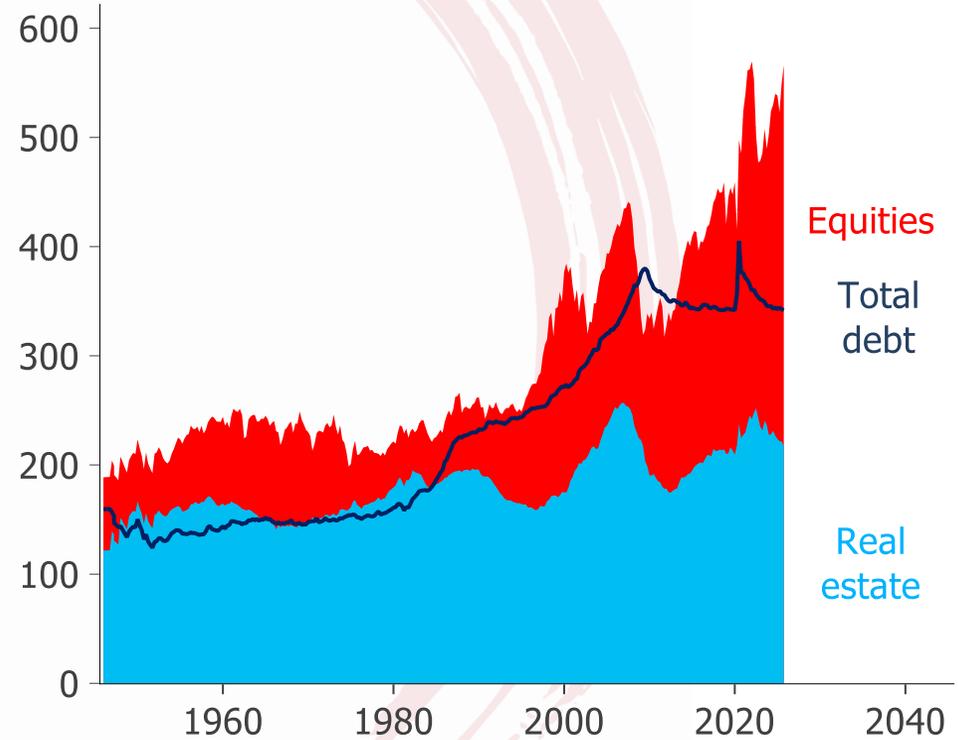
US CPI vs asset prices, log scale



Source: Robert Shiller, Satori Insights.

## Financialization at work

US asset prices vs debt (nonfin+financial), % GDP



Source: Federal Reserve, Satori Insights.

# CBs will continue to ignore asset price inflation

# The policy outlook is decidedly asymmetric

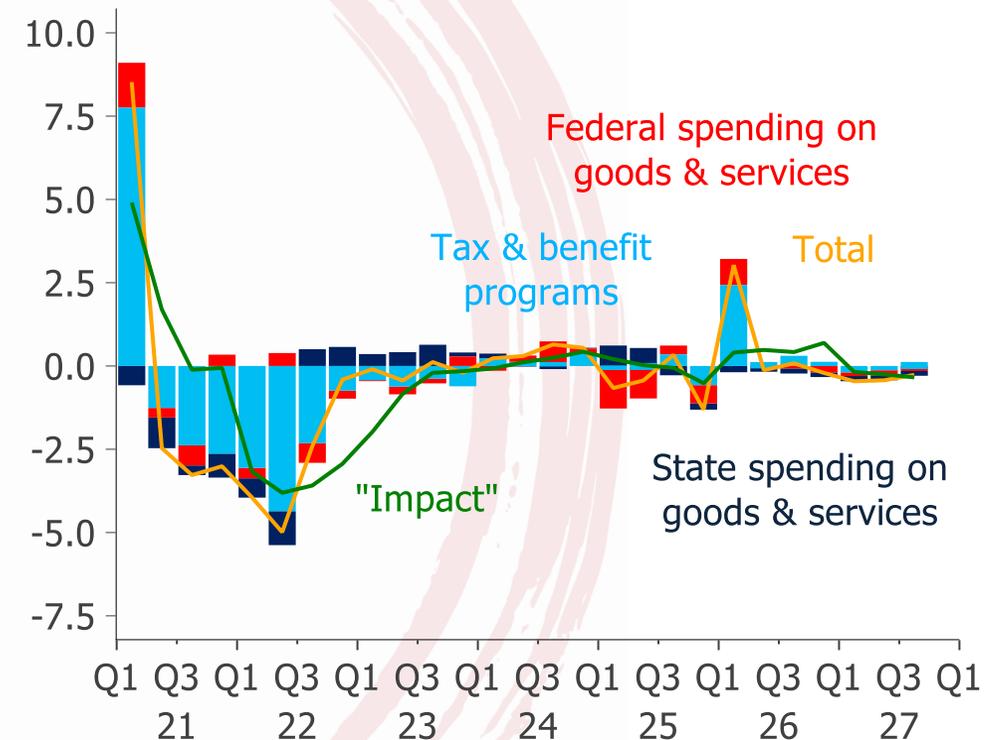
## Four routes to easier US policy

Easing type	Notes
Rate easing	1-2 cuts priced in, but skewed to more with new Chair and Trumpian interference
Balance sheet easing	Fed RMPs \$50bn/m until April, tapering thereafter but framework strongly asymmetric; \$200bn potential mortgage purchases by GSEs
Fiscal easing	OBBA providing >2% Q1 fiscal impulse; additional affordability-targeted stimulus possible pre-midterms
Regulatory easing	eSLR relaxation from 2% to 1% for GSIBs; M&A facilitation through lighter antitrust; 401(k) alt asset inclusion

Source: Satori Insights.

## Easing alert - with risk of more to come

Estimated impact of fiscal policy on US GDP growth, %



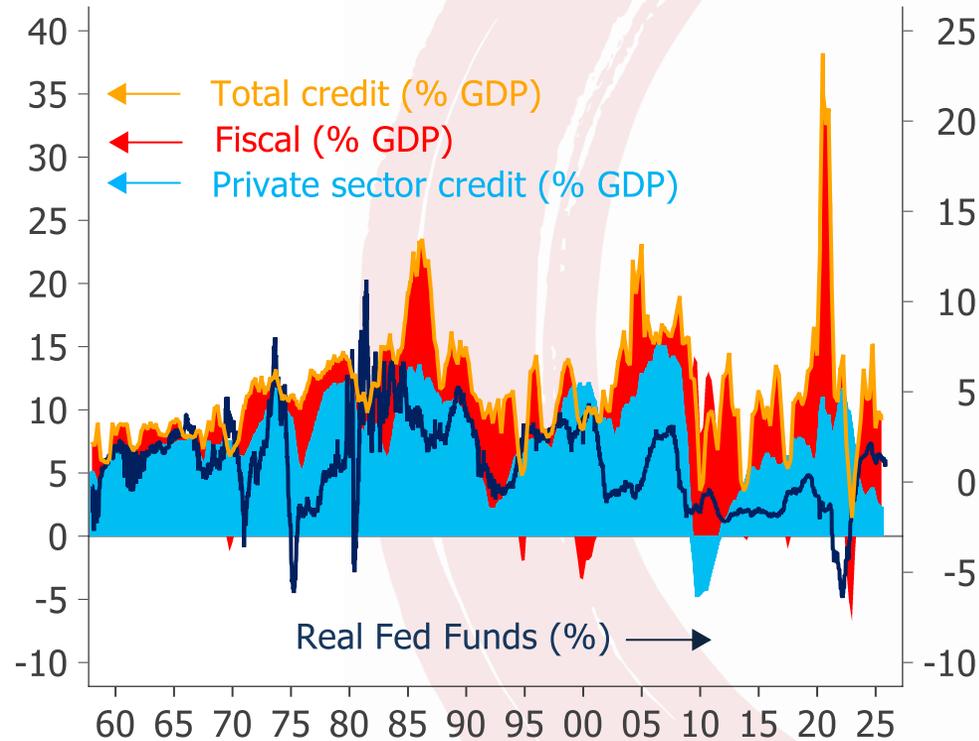
Source: Hutchins Center on Fiscal & Monetary Policy, Macrobond, Satori Insights.

**Question is less about amounts than about how much will continue flowing into risk assets**

# All that said, easing does not cure all ills

## Rates no longer drive credit growth

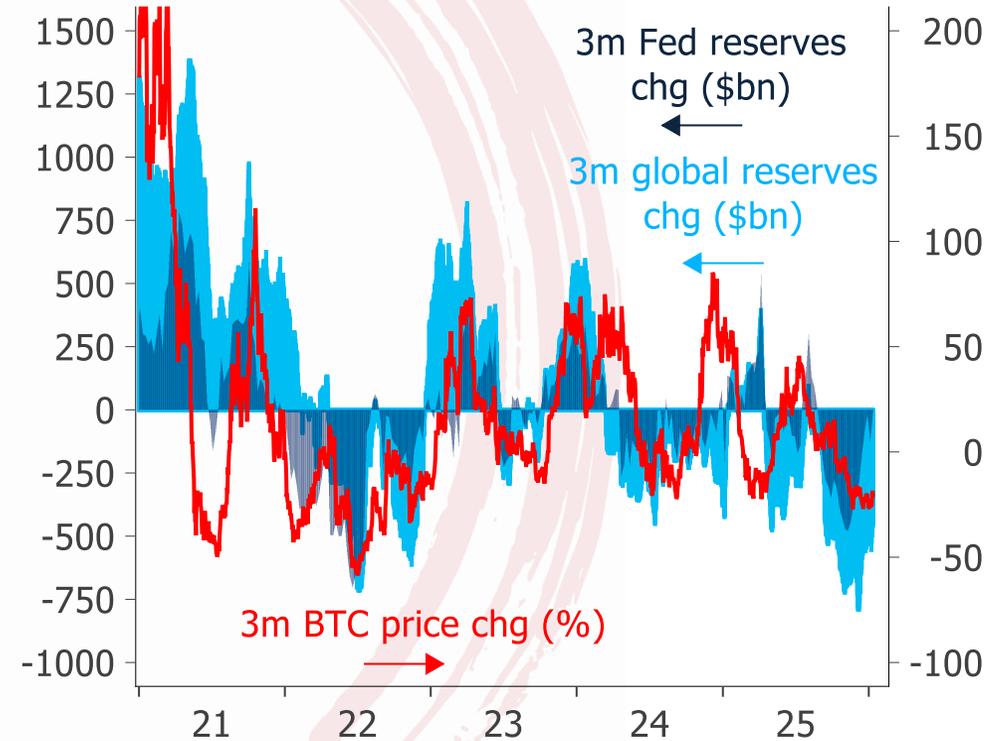
US annual credit growth, % GDP



Source: BIS, Federal Reserve, US Treasury, Macrobond, Satori Insights.

## Froth fades without ongoing liquidity

Fed reserves chg vs BTC



Source: national central banks, Fed, Macrobond, Satori Insights.

**Policymakers can pump money in,  
but they can't control where it goes**

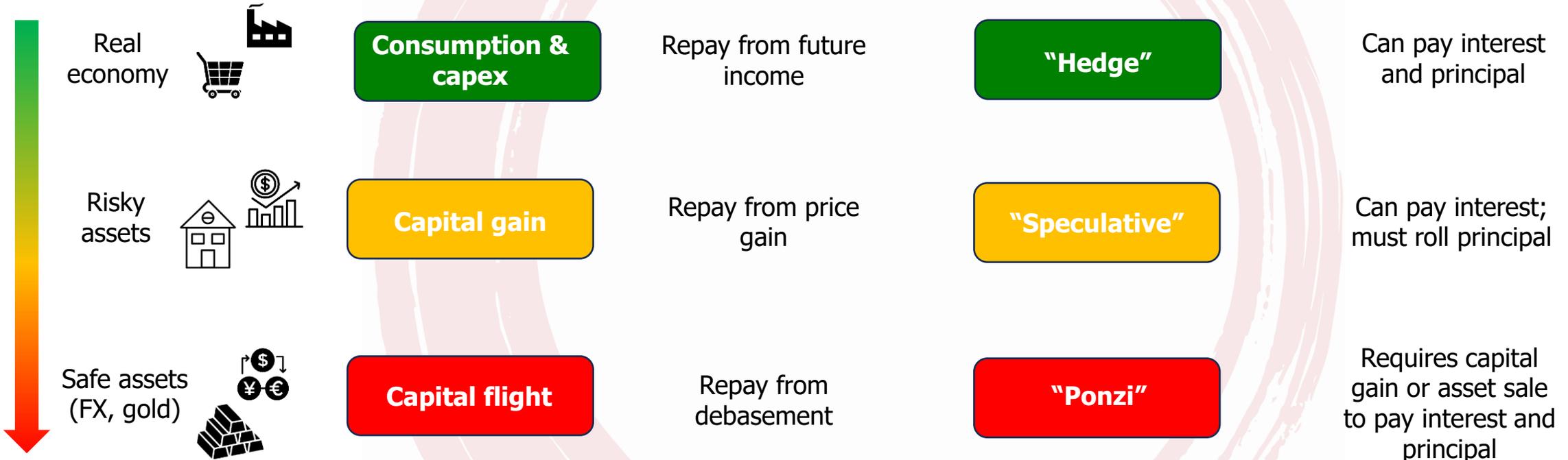
# So where are the true limits?

## What are we borrowing for?

Three reasons for borrowing

## How will we service it?

Minsky's three finance types



See [The limits of easy money](#), Oct25.

Source: *The Financial Instability Hypothesis*, H. Minsky, 1992, Satori Insights.

# The more money we throw at markets, the greater the likelihood capital gain turns to capital flight

# Agenda

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With assets expensive but the world in turmoil

And money cheap and getting cheaper

Keep an eye on the exits

# Today's tensions are set to worsen

## Principles of the populist playbook

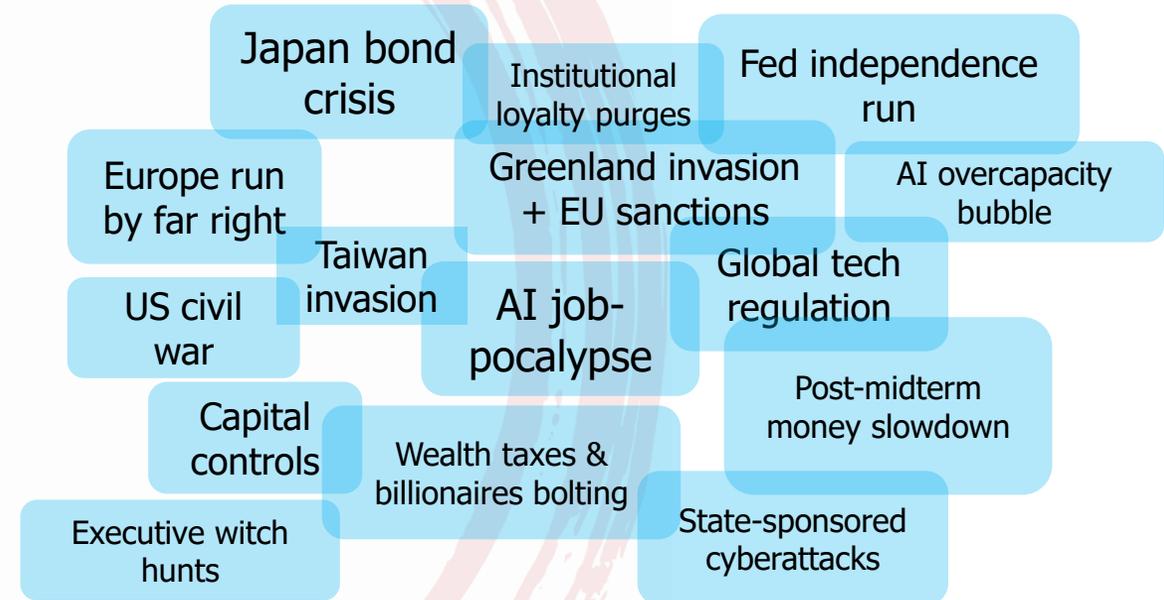
Projecting personal power requires keeping the headlines

Maximum	Minimum
Surprise	Cost
Spectacle	Regard for truth
Potential for short-term personal monetary enrichment	Regard for long-term consequences

Source: Satori Insights. See [There's a Strange, Depressing Logic to Trump's Foreign Policy](#), Y. Mounk; [The Hour of the Predator](#), G. da Empoli; [The Twilight before the Storm](#), V. Shvets; [Scale and scalability](#), Satori Insights.

## Regime change risks to consider

It's not what you believe; it's what can be positioned for cheaply



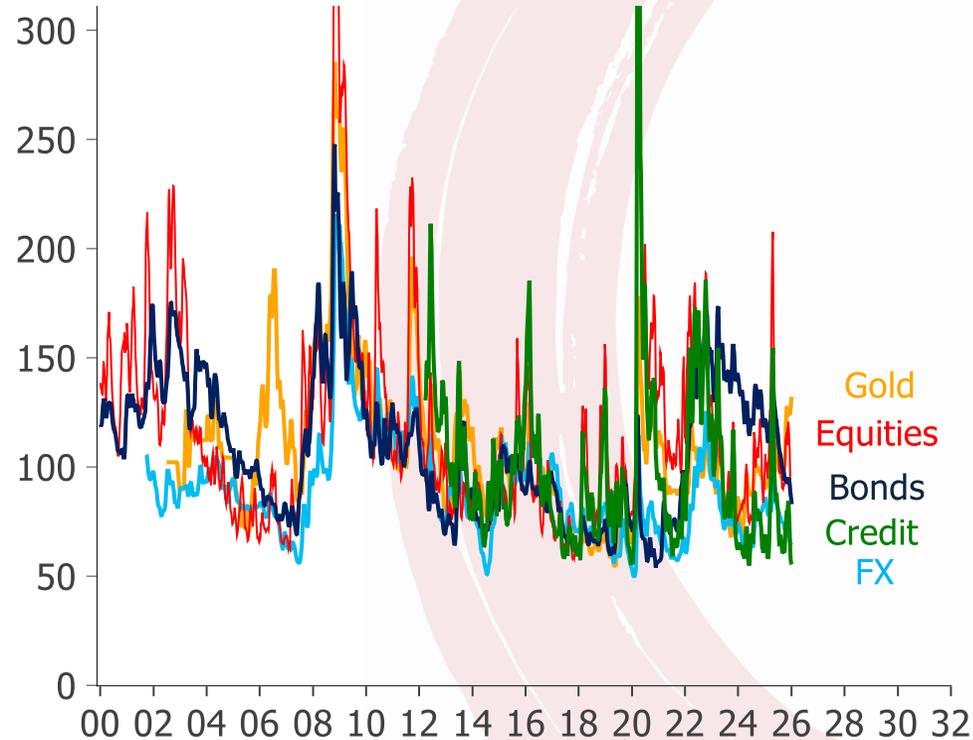
Source: Satori Insights.

# The trick is to make portfolios robust to regime change without simply dumping all risk

# What we want is cheap convexity

## Vols may look low (ex gold)

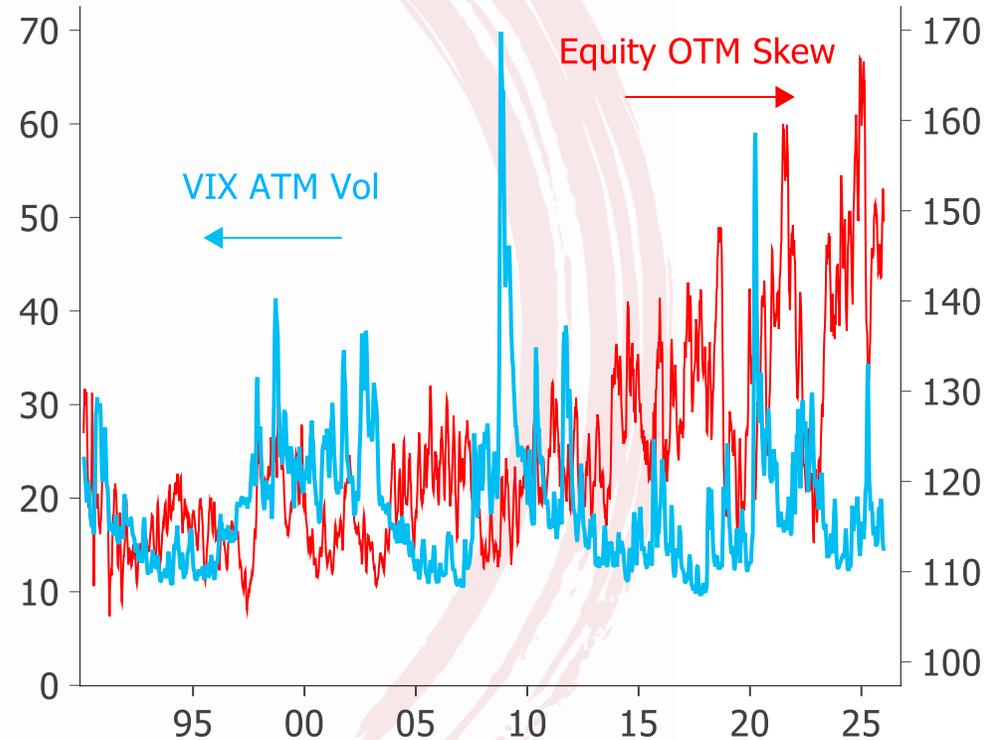
Implied volatility indices, US, 2015=100, 1m mov avg



Source: CBoE VIX, Deutsche Bank FX, BoA MOVE, Bloomberg, Satori Insights.

## But skew reflects rising tail risk

CBOE VIX vs SKEW (call+put skew) indices, 1m mov avg



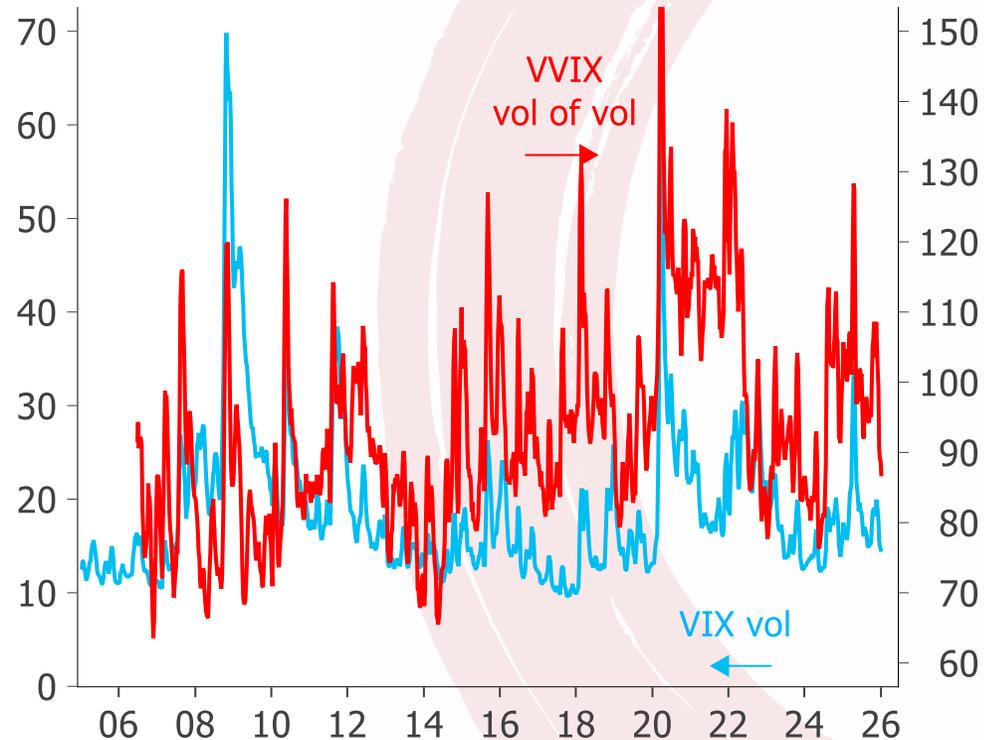
Source: CBOE, Macrobond, Satori Insights.

**The snag is that in vol markets it's often already priced**

# The likelihood is less of volatility than of vol of vol

## Vol of vol starting to look low again

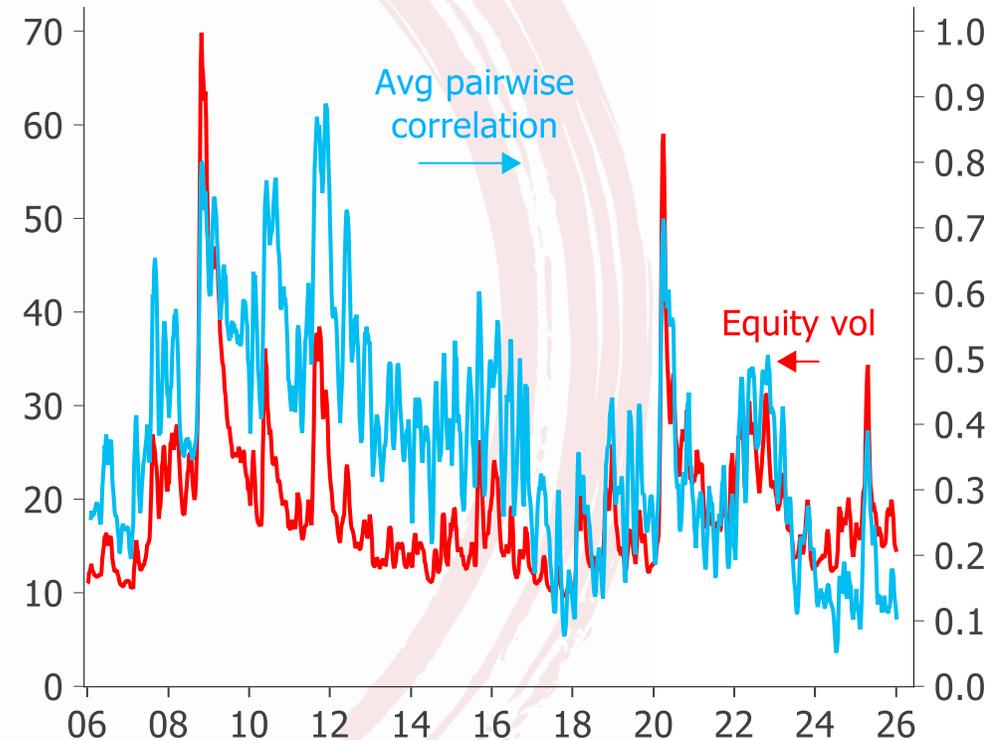
US equity volatility indices, 1m mov avg



Source: CBOE, Bloomberg, Satori Insights.

## For bears, correlation beats vol

CBOE correlation index vs Vix, 1m mov avg



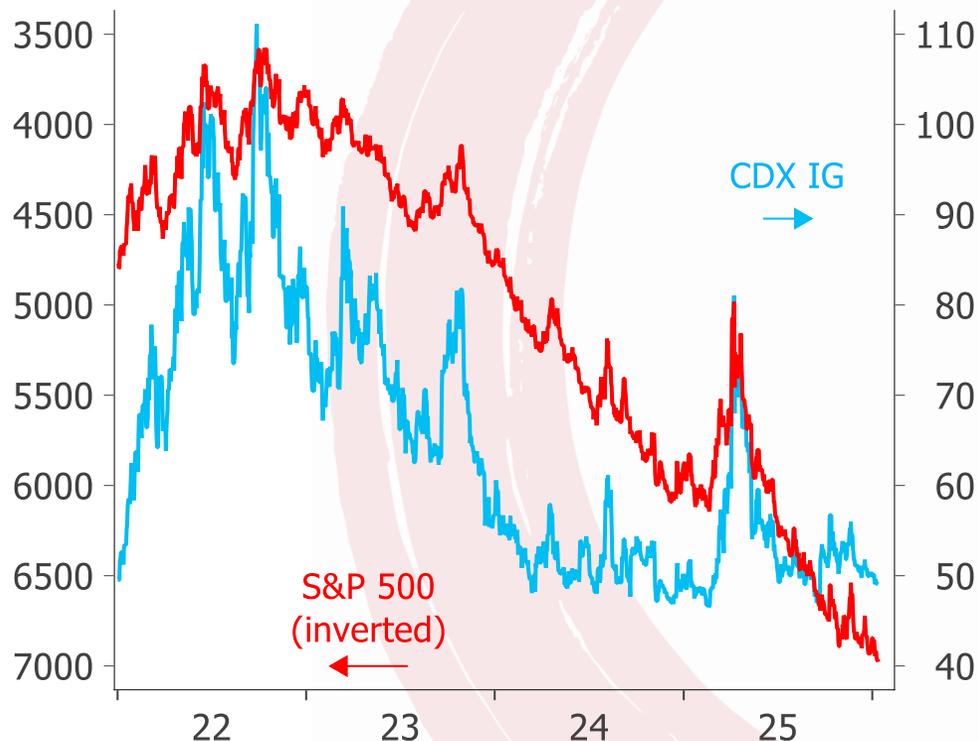
Source: CBOE, Satori Insights.

**The turmoil may feel continuous, but regime change implies sudden jumps**

# The classic convexity trade is debt-equity

## Releveraging partially priced

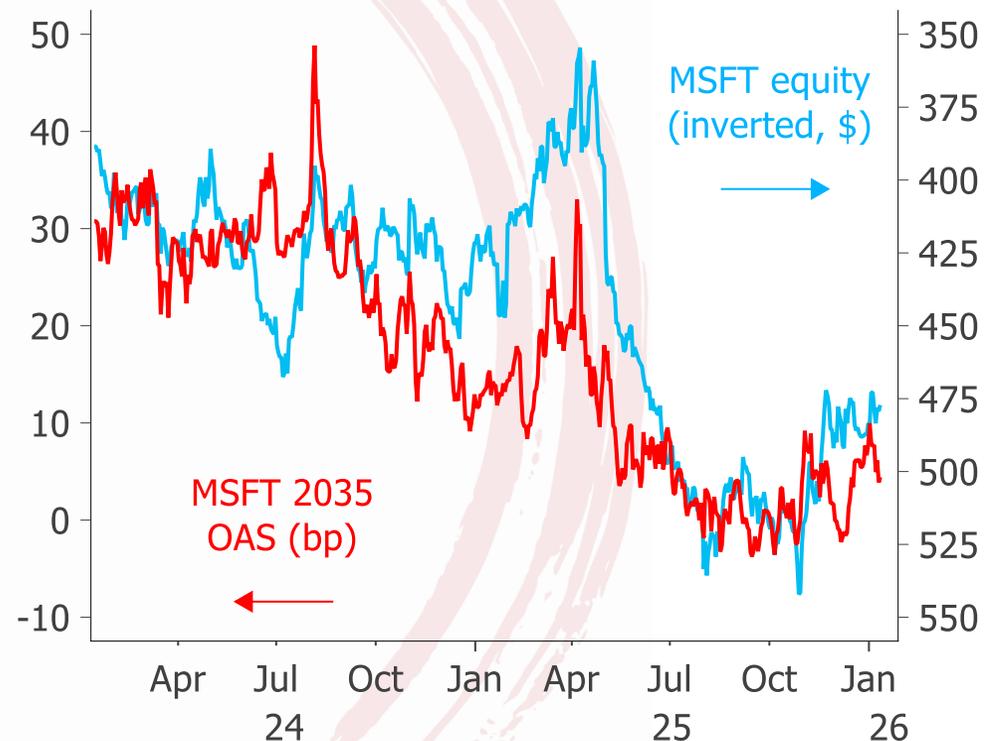
\$ IG credit (bp) vs equities



Source: Bloomberg, Satori Insights.

## Releveraging not priced

Microsoft credit vs equity



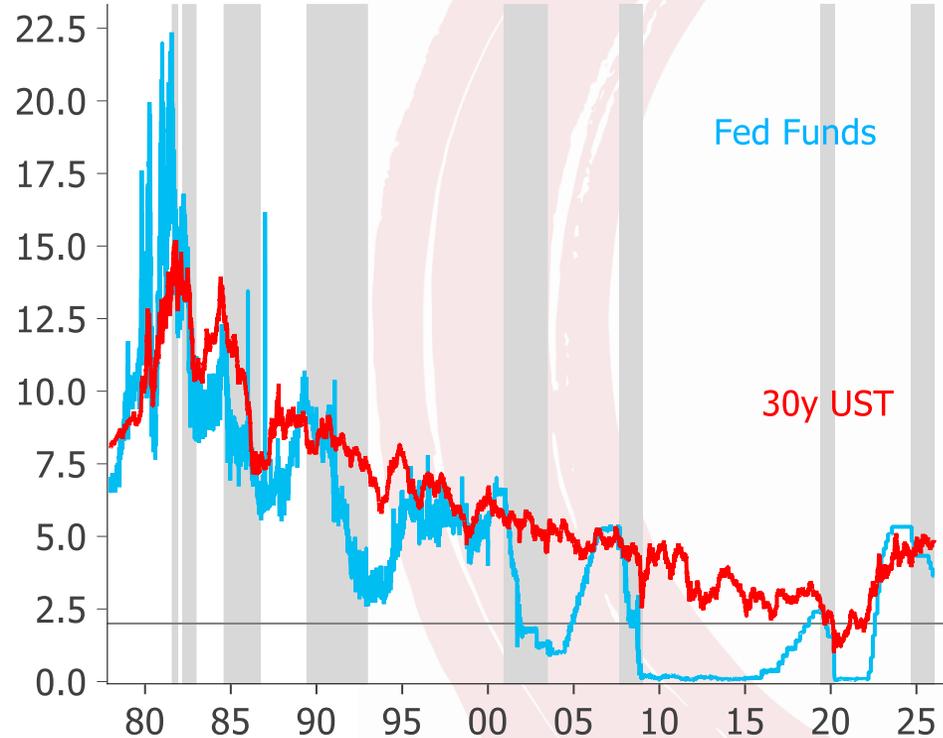
Source: Bloomberg, Macrobond, Satori Insights.

## Hedge equity longs with credit shorts

# The bigger risks revolve around rates

## Fed Funds down, yields... up?

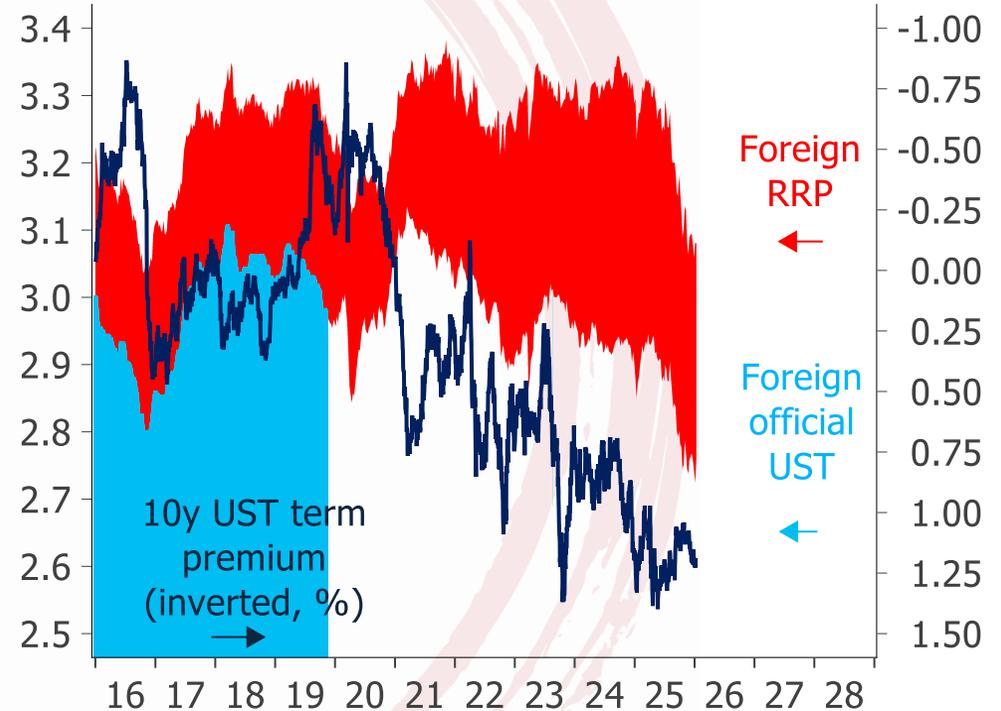
US interest rates, %, with cutting cycles shaded



Source: Macrobond, Bloomberg, Satori Insights.

## Foreigners are finding the exits

Foreign official UST holdings at Fed (\$tn) vs yields



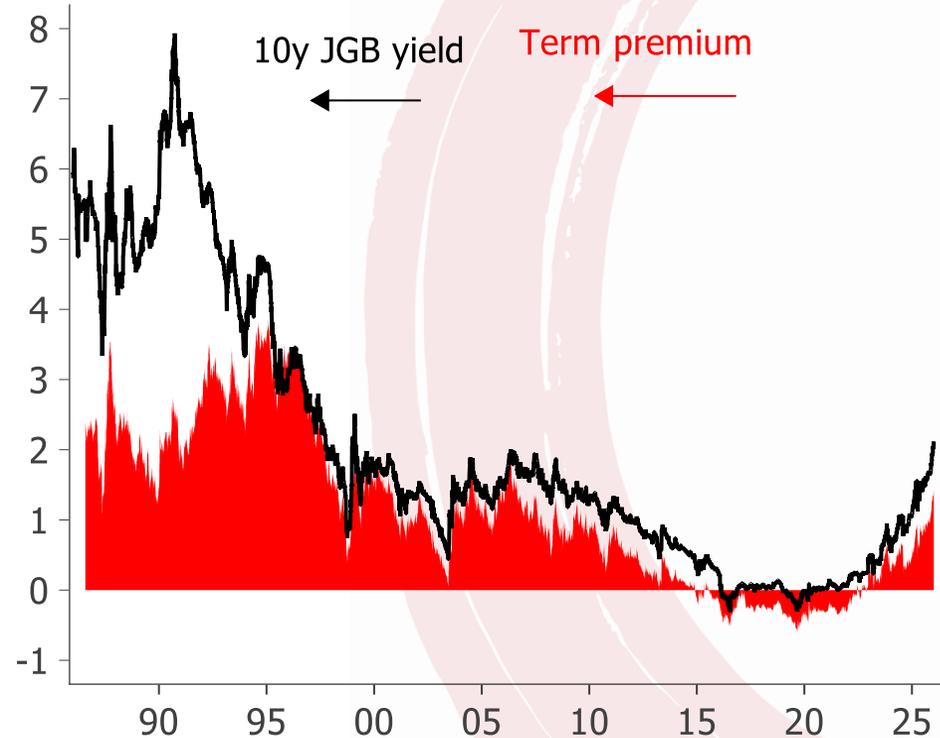
Source: Federal Reserve, NY Fed, Macrobond, Satori Insights.

**Expect excess easing to manifest in FX and curve steepness**

# Many advocate exiting long govies

## Japan: yield backup is all premium

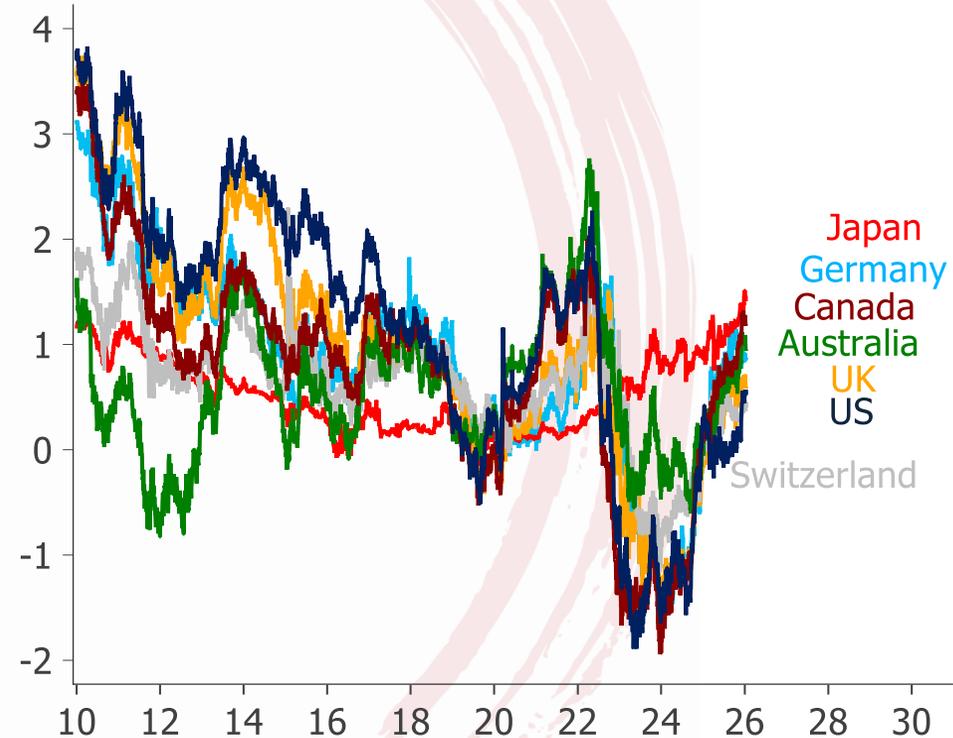
10y JGB yield vs Daiwa 10y term premium, %



Source: Bloomberg, Satori Insights.

## But it's US looks most expensive

10y-3m curve steepness (FX -hedged bond yield), %



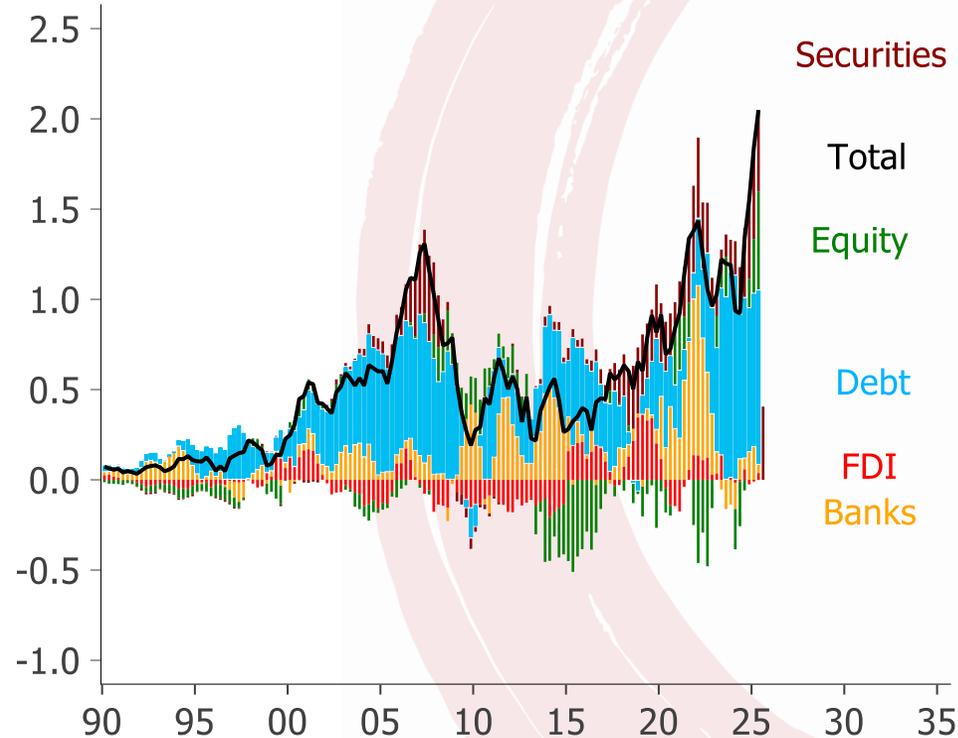
Source: Macrobond, Bloomberg, Satori Insights.

**But non-US curves are quite steep already, and duration remains a potentially valuable growth hedge**

# Exit philosophy favours non-US assets

## The kindness of strangers

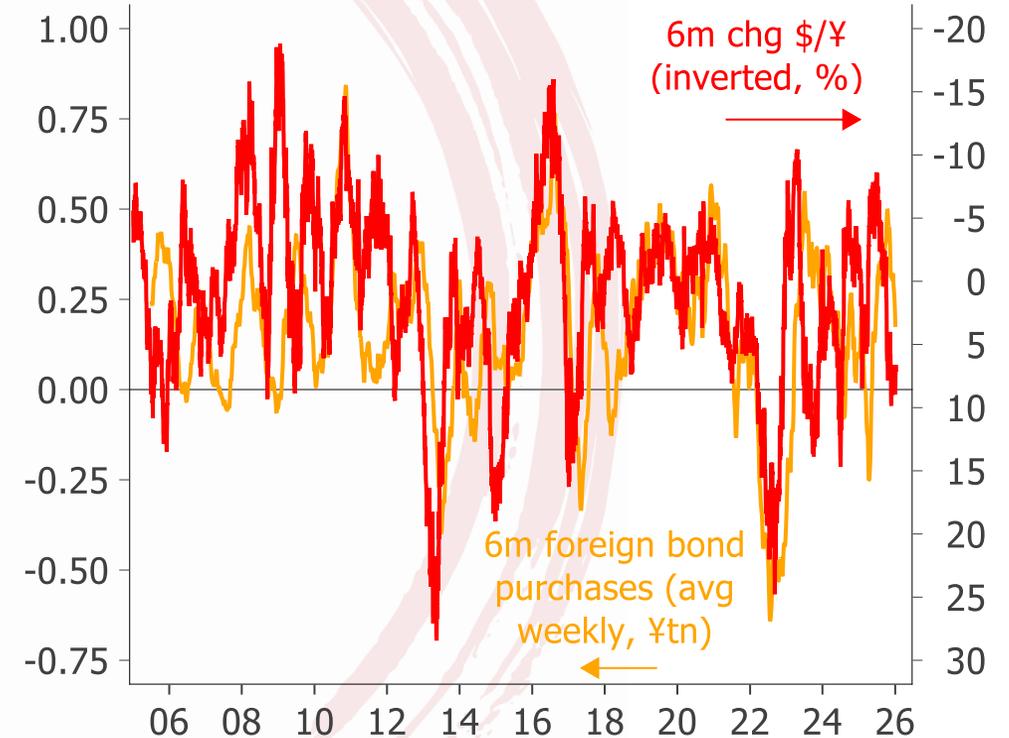
US financial acct, net flows \$tn, rolling 4Q



Source: IMF, BIS, Macrobond, Satori Insights.

## Some of whom may reconsider

Japan net foreign bond purchases vs FX, rolling 6m



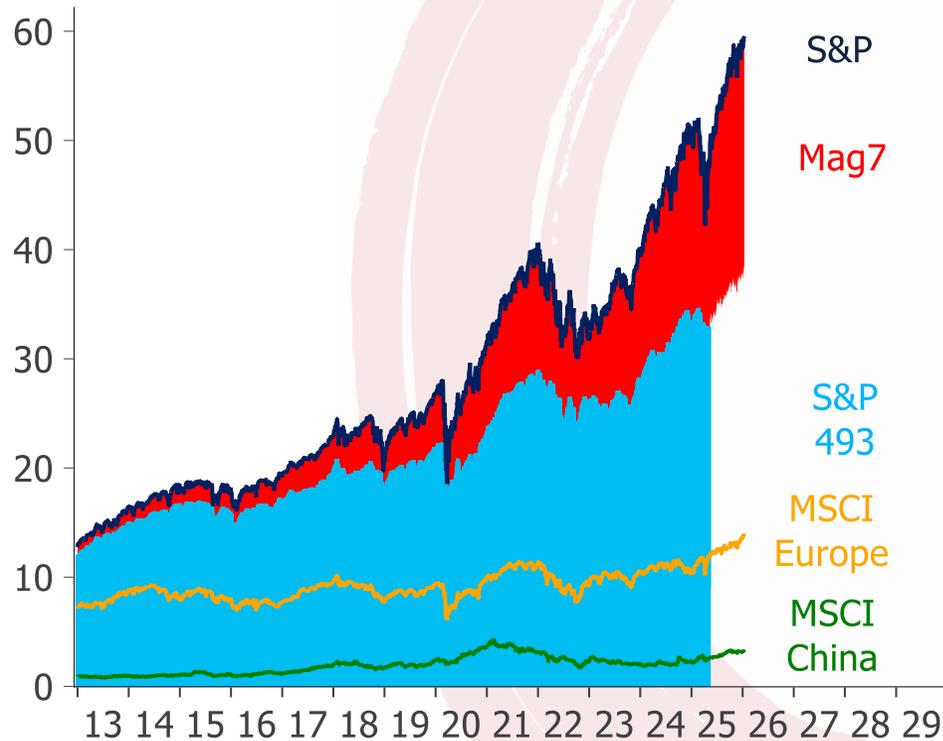
Source: MOF, U.S. Treasury, Macrobond, BOJ, Satori Insights.

# Foreigners' holdings of US assets are at all-time highs

# Exit philosophy also favours smaller asset classes

## Outside US, \$1tn still buys a lot

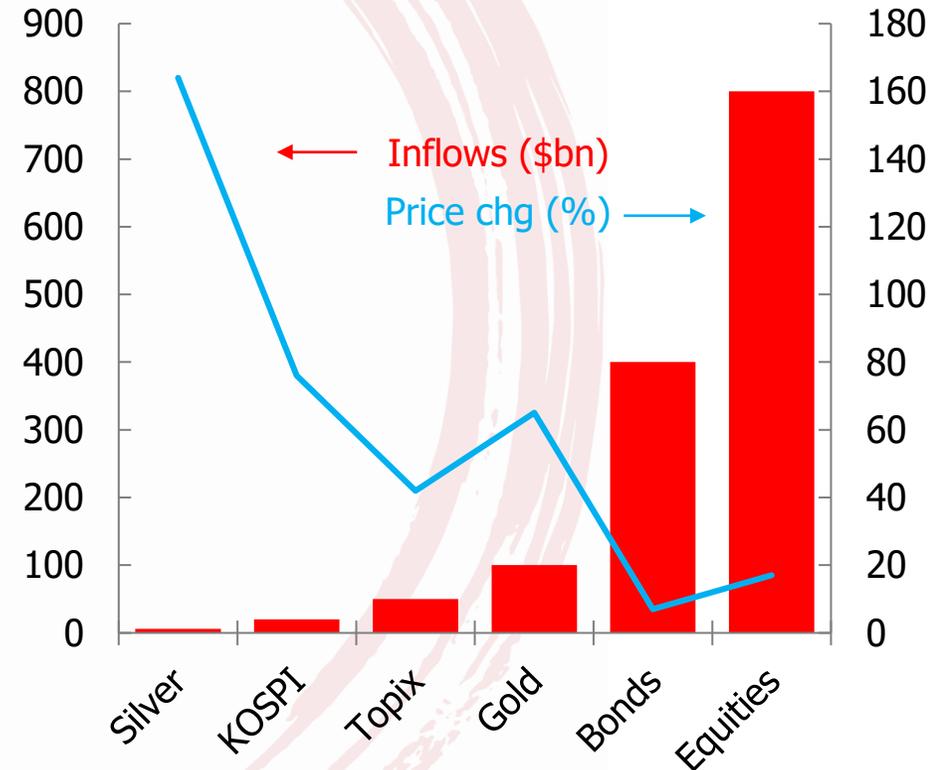
Equity market caps, \$tn



Source: Bloomberg, Macrobond, WFE, Satori Insights.

## Smaller exit = bigger crush

Approximate buying (fund) flows vs price chg, 2025



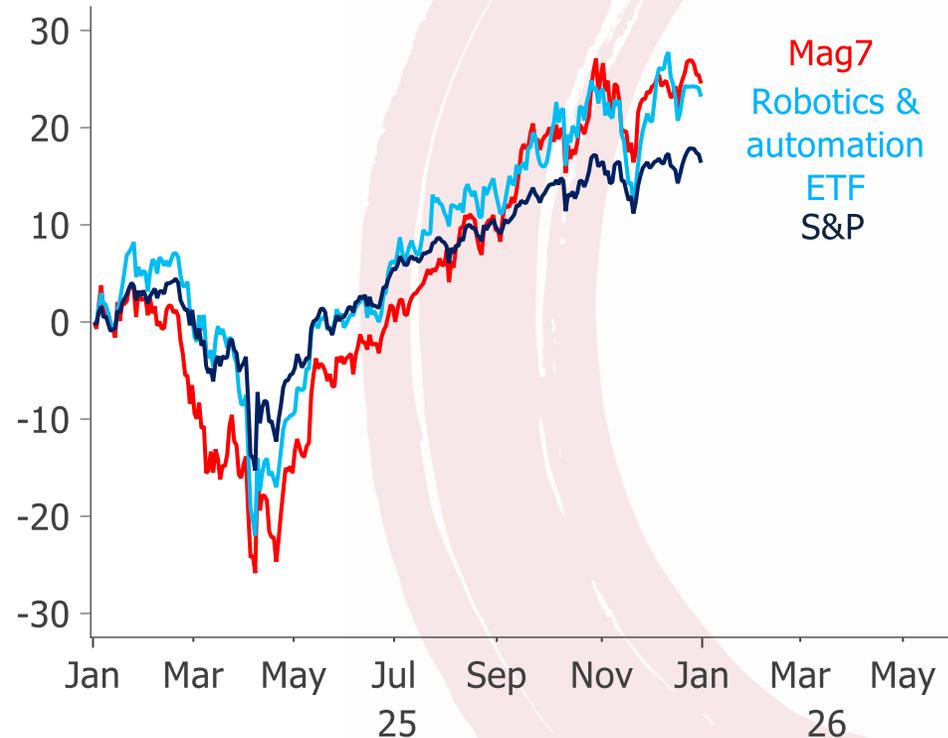
Source: Bloomberg, WGC, ICI, Satori Insights.

**The larger the bubble, the more money it takes to sustain it**

# This has implications for how to play AI

## AI-adjacent longs: LLMs to get physical

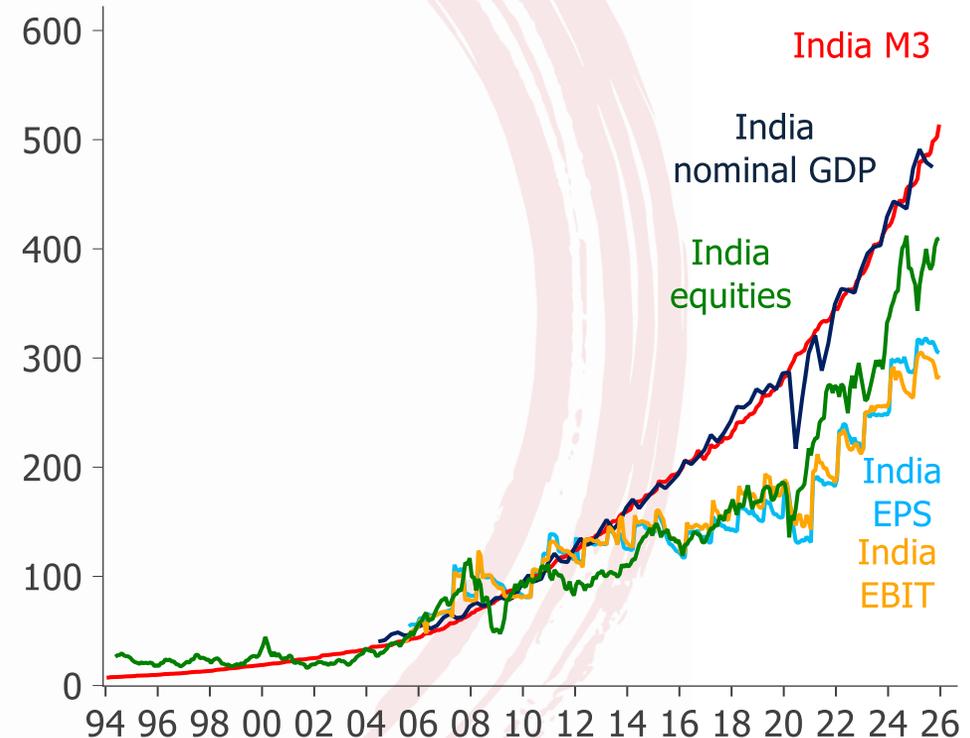
Performance since Jan25, %



Source: Bloomberg, Satori Insights.

## AI-adjacent shorts: services jobs at risk

Indices, 2010=100



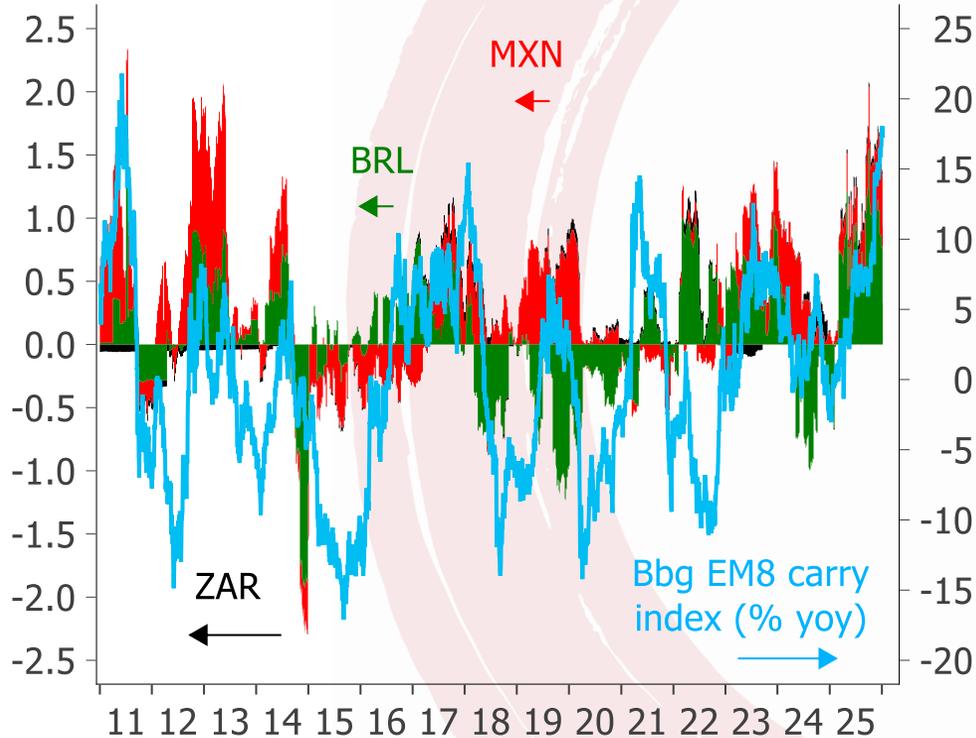
Source: RBI, MSCI, Bloomberg, Satori Insights.

**AI-adjacent themes have better convexity than the AI names themselves**

# Where might money try to flee to?

## EMFX longs already extended

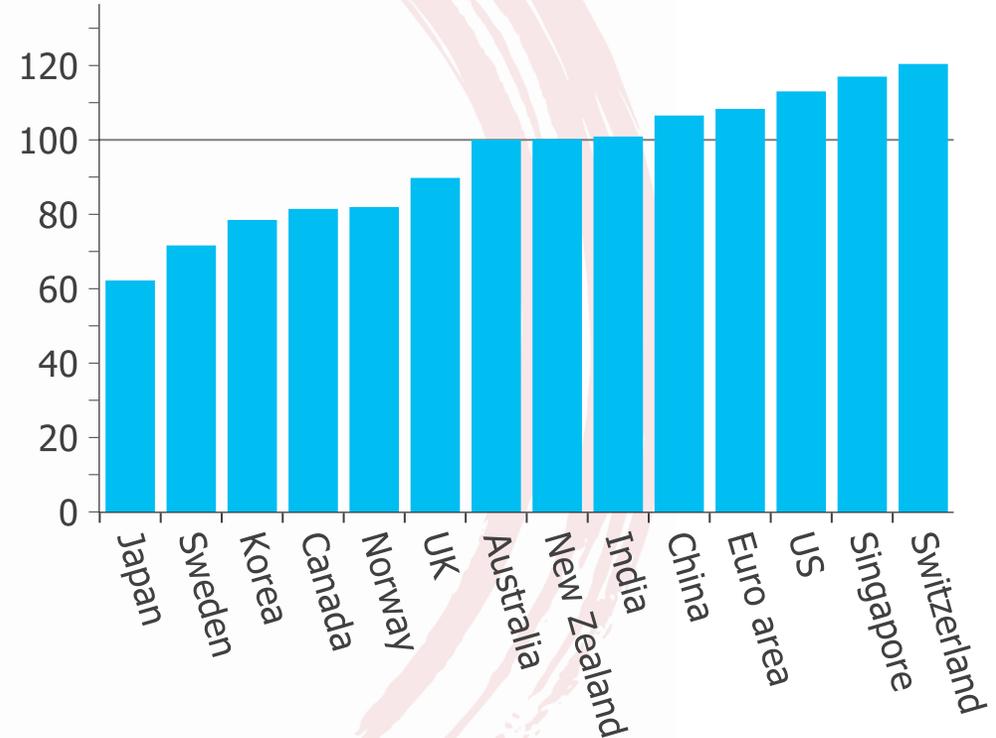
EMFX noncommercial futures & options positions (\$bn)



Source: CFTC, Bloomberg, Satori Insights.

## But some small havens are underpriced

Real effective exchange rates, 100=long-term average



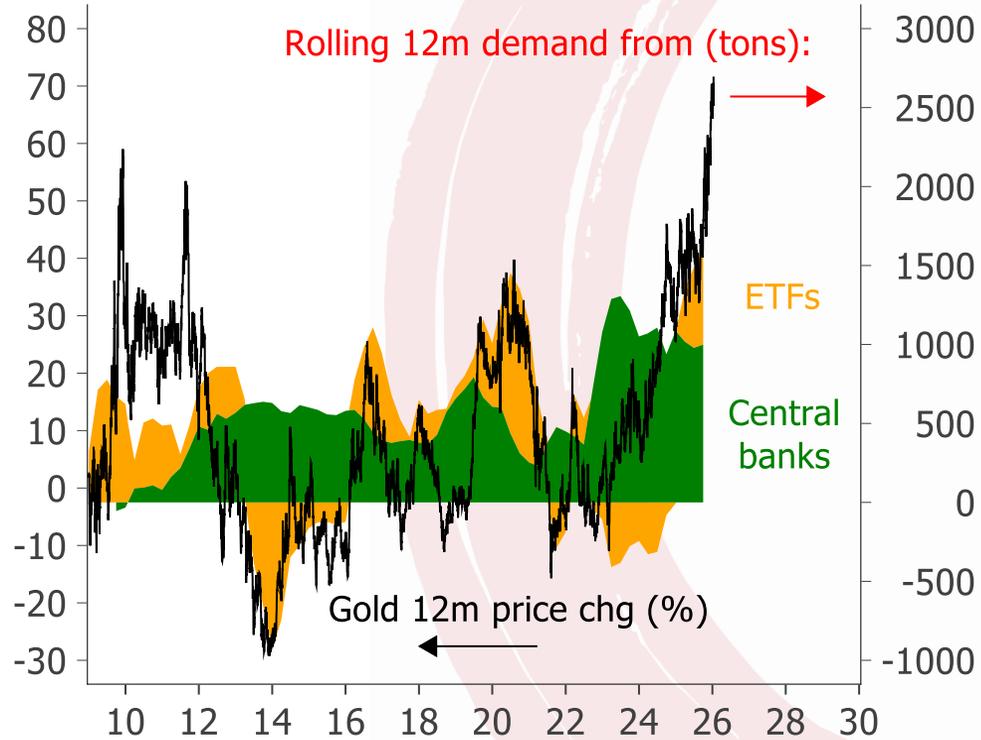
Source: BIS, Macrobond, Satori Insights.

**Traditional havens are fiscally sound and adept at playing great powers off against one another**

# Gold: crowded, but with potential to become much more so

## \$100bn in ETF buying drove gold higher

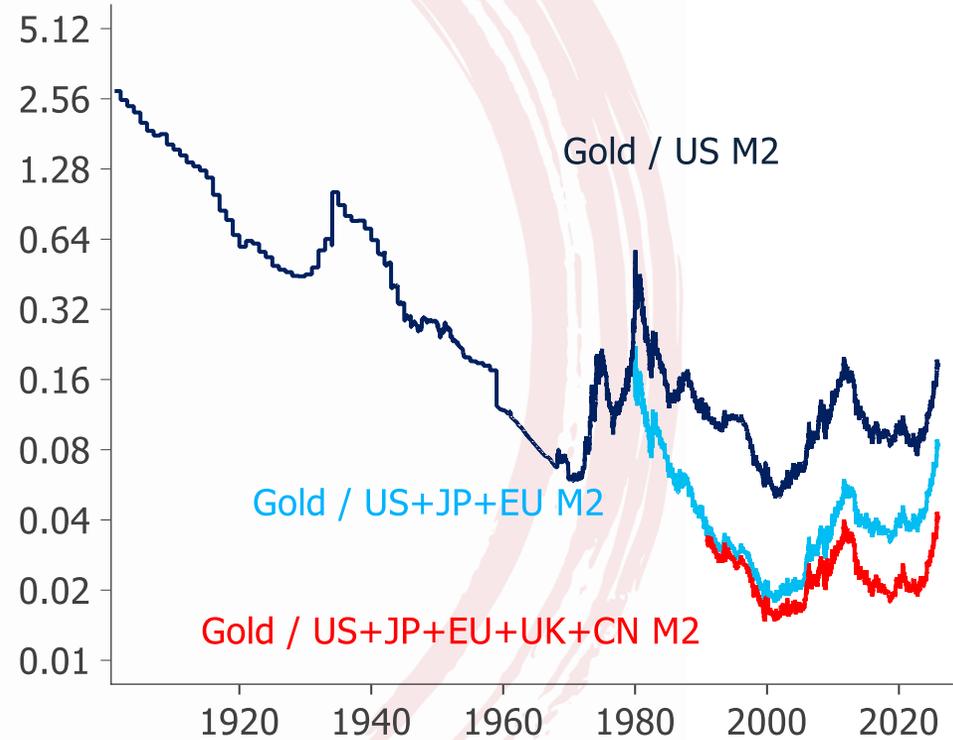
Selected sources of gold demand vs prices



Source: World Gold Council, LBMA, Macrobond, Satori Insights.

## What price debasement?

Gold / M2 metrics (USD ratios, log scale)

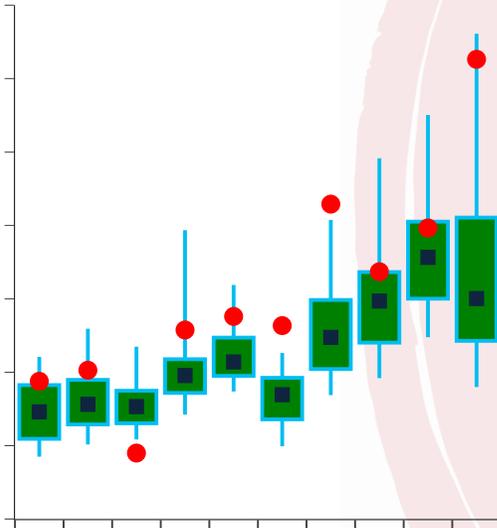


Source: national central banks, Macrobond, Satori Insights.

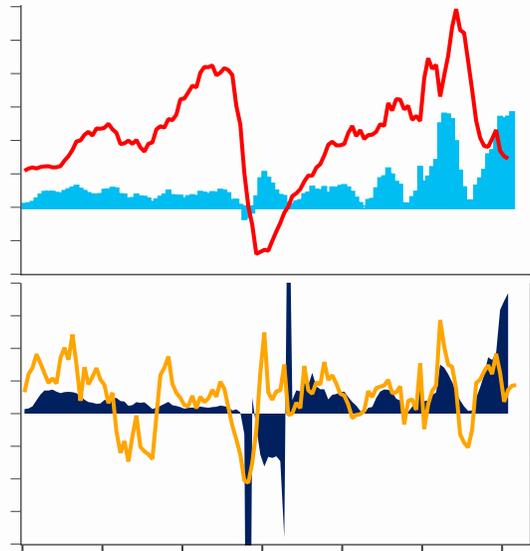
**Choose an allocation level and rebalance to it**

# Conclusion

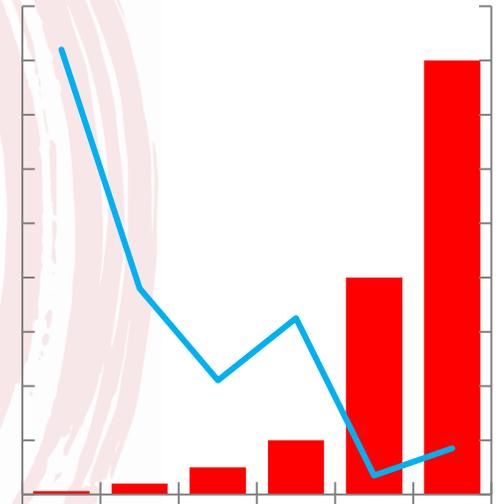
**Regime change risk everywhere except asset price levels**



**But debasement set to create still more money**



**Prefer exits with optionality**

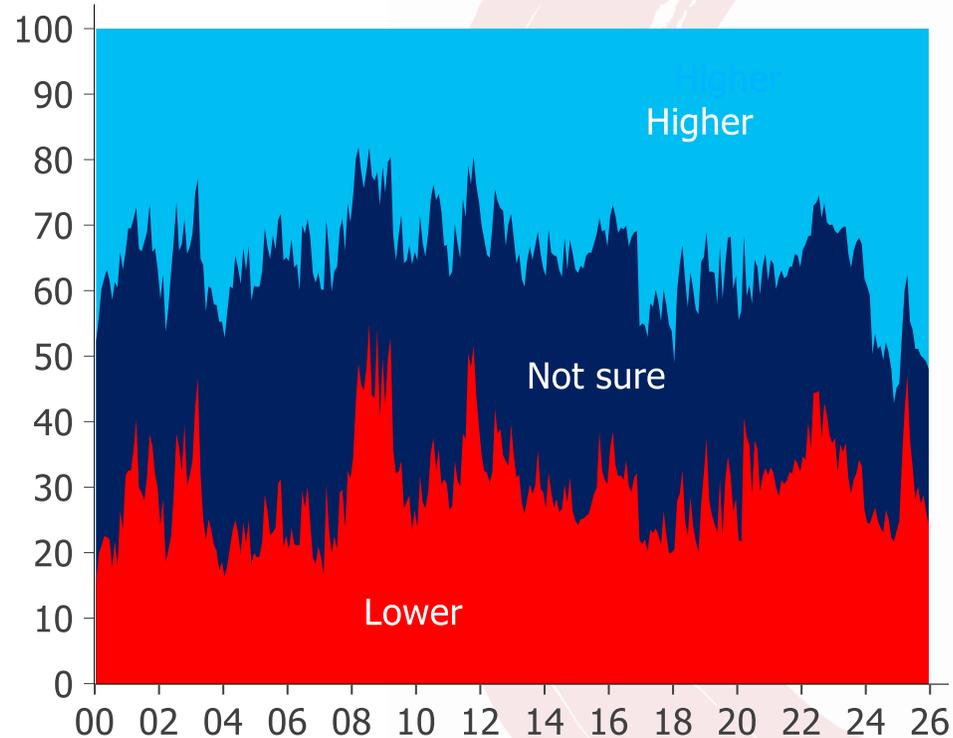


**You can't predict when the crush will occur –  
but you can be seated by the exit**

# Appendix: how crowded are equities?

## Bears in evidence but bulls rampant

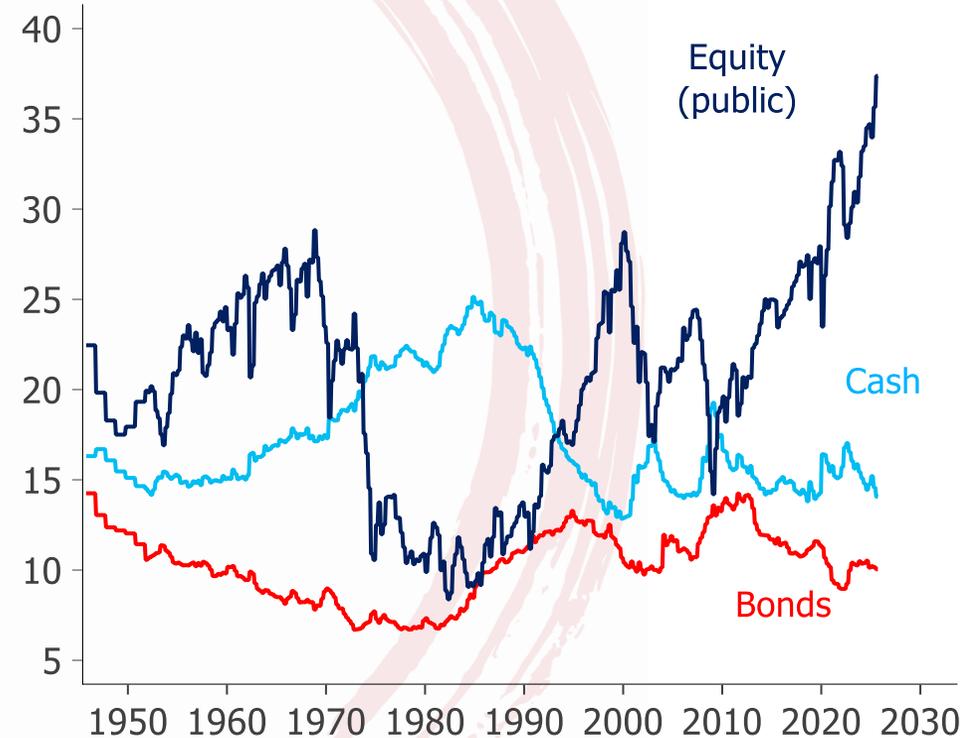
Stocks higher or lower in 12m? (%)



Source: Conference Board, Macrobond, Satori Insights.

## Boomers, you should rebalance!

US household asset holdings, % financial assets



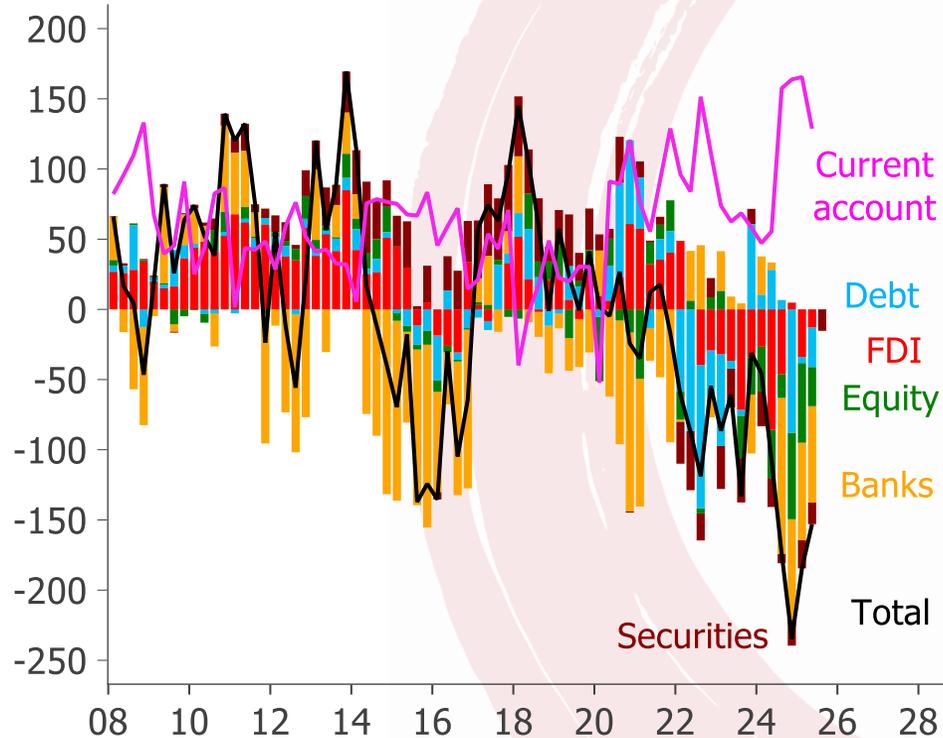
Source: Federal Reserve, Macrobond, Satori Insights.

**It's not the tactical long so much as the strategic overallocation**

# Appendix: China had been considered uninvestable

## Peak outflows passed?

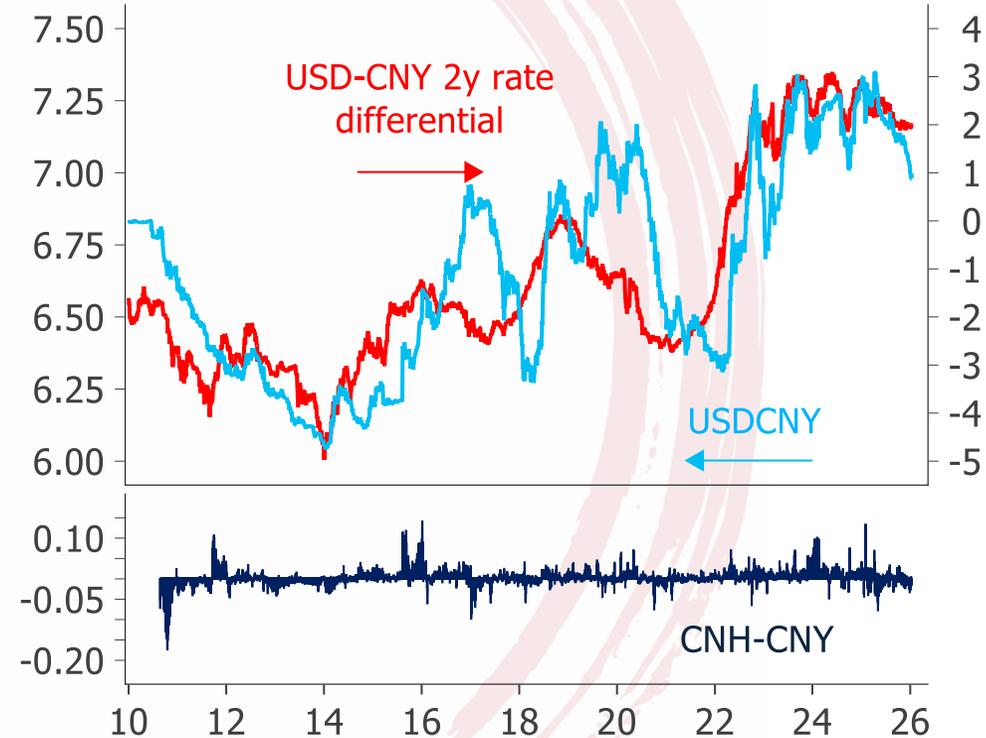
Net financial flows to China, quarterly, \$bn



Source: IMF, BIS, Macrobond, Satori Insights.

## Suddenly \$ require a rate premium

FX vs nominal rate differential and offshore yuan premium



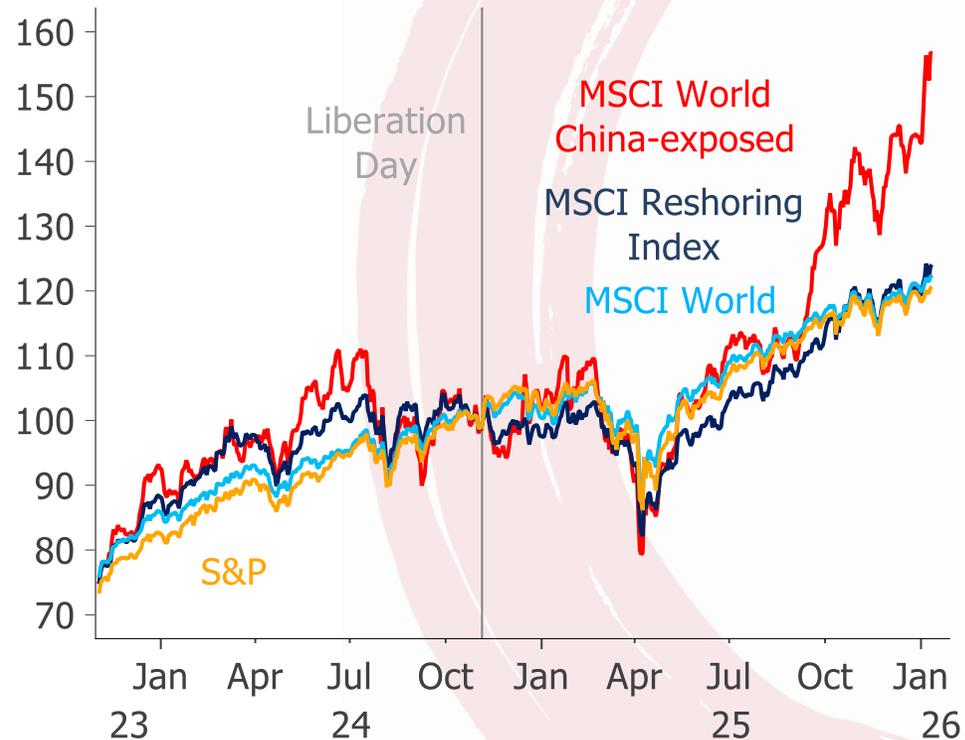
Source: Macrobond, Satori Insights.  
For more background, see [China's Currency is Now Facing Substantial Appreciation Pressure](#), B. Setser, 8 Jan.

# Expect it now to play the responsible partner

# Appendix: is China winning the trade wars?

## Self-sufficiency p[er]lays

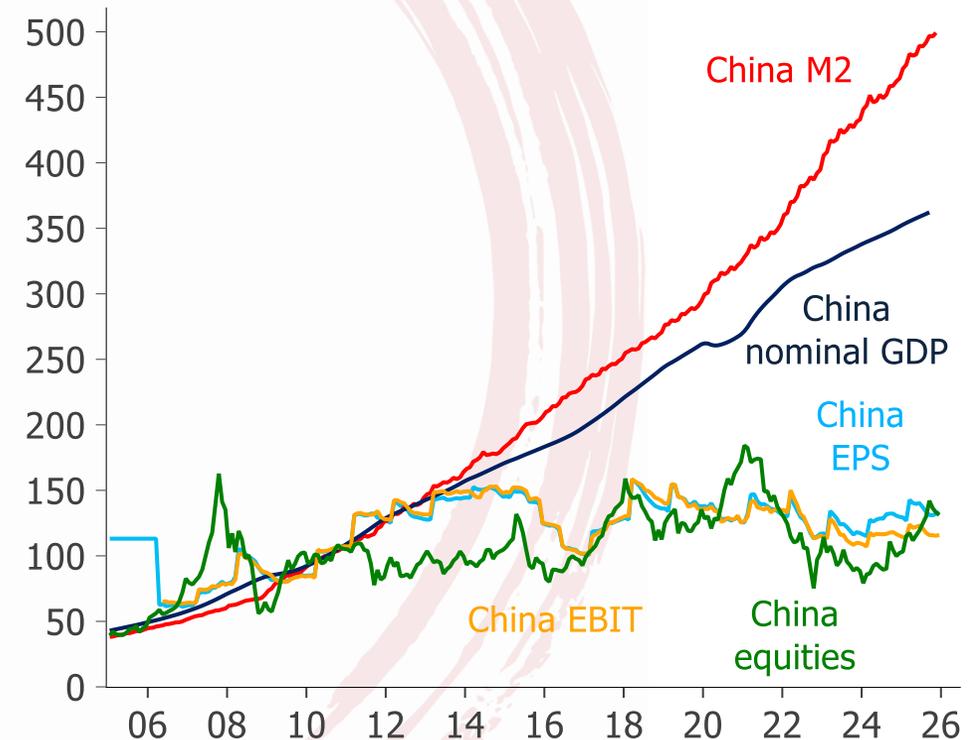
Global equity indices, Nov24=100



Source: MSCI, Bloomberg, Macrobond, Satori Insights.

## China equities impeded by lack of EPS

Indices, 2010=100



Source: PBoC, Bloomberg, MSCI, Satori Insights.

# Yes – but its companies still lack profitability