



# January 2026 CIO Letter

Discipline, diversification, and positioning for a wide range of plausible outcomes

## Quick takeaways

- At the portfolio-allocation level, nothing material has changed as we enter 2026.
- Restraint is not passivity: diversification and guardrails are features in a high-dispersion environment we believe to be in.
- No action is required unless your goals, cash needs, or tolerance for risk have changed.

*As of January 23, 2026 | Read time: ~12–15 minutes (full); ~1 minute (Executive Summary)*

## Contents

January 2026 CIO Letter .....	2
How This Letter Differs From Prior Updates .....	2
Why This Letter Exists .....	2
Executive Summary .....	2
Commentary: AI, Market Concentration, and the Difference Between Innovation and Investment Returns .....	3
Innovation Is Not the Same as Investment Opportunity .....	3
Hyperscalers, Capital Intensity, and Market Concentration .....	4
Physical Constraints and the Economics of Scaling AI .....	4
Implications for Portfolios .....	4
From Narrative to Expectations: Scenario-Based Thinking .....	5
U.S. Equities Across Scenarios .....	5
Direct Lending Across Scenarios .....	5
Portfolio Frameworks .....	6
Closing: Discipline, Guardrails, and Long-Term Outcomes .....	6
Selected Sources .....	7
Disclosures & Important Notes .....	7

---

## January 2026 CIO Letter

### How This Letter Differs From Prior Updates

---

Over the past several years, our client communications have largely taken the form of shorter market updates and topical commentary. Those communications were designed to keep clients informed about notable developments without implying frequent portfolio changes or requiring action.

This January 2026 CIO Letter represents a return to a more comprehensive, semi-annual format. Rather than focusing on recent market events, the letter is intended to provide a deeper explanation of how portfolios are constructed, how risks are evaluated, and how discipline is applied in environments where uncertainty and a wide range of plausible long-term outcomes are elevated.

### Why This Letter Exists

---

We don't make frequent changes to portfolios.

When we do make changes, they are intentional, appropriately sized, and driven by meaningful shifts in expected risks and returns — not headlines, forecasts, or short-term market narratives. Activity for its own sake is not a substitute for discipline.

This letter explains what has changed (if anything), what has not changed (equally important), and why your portfolio remains well aligned with its long-term purpose as we enter 2026.

Our goal is not to comment on every market development or emerging theme, but to provide clarity on how portfolios are positioned, how we think about risk and return, and what disciplined portfolio management looks like in practice — especially during periods of heightened uncertainty.

## Executive Summary

At the portfolio-allocation level, nothing material has changed as we enter 2026. Portfolios remain well positioned, diversified, and within established targets and guardrails, and no broad re-positioning was warranted heading into the new year.

While market narratives — particularly around artificial intelligence — have continued to evolve, the more important consideration is how expected risks and returns are distributed across a wide range of plausible scenarios. For growth-oriented assets, especially U.S. equities, long-term outcomes remain highly sensitive to assumptions about earnings growth, valuations, and investor behavior. As a result, expected returns span a broad range, with meaningful dispersion and volatility along the way.

At the same time, other areas of the portfolio offer reasonable compensation for stability and income. When considering both potential return and downside risk, this balance — rather than any single opportunity — continues to support diversified portfolios positioned to compound through uncertainty rather than optimized for a narrow set of outcomes.

---

Importantly, restraint should not be confused with passivity. The absence of major allocation changes reflects an environment where uncertainty remains elevated, concentration risk has increased in parts of the market, and no single scenario dominates the outlook. In such conditions, discipline and diversification are features, not shortcomings.

Your portfolio remains aligned with its long-term objectives and planning assumptions. No action is required unless your personal circumstances, goals, or tolerance for risk have changed.

## **Commentary: AI, Market Concentration, and the Difference Between Innovation and Investment Returns**

Artificial intelligence is understandably top of mind for many investors. It is widely discussed as a transformative technology, and in many respects that assessment is accurate. AI is already changing how businesses operate, how decisions are made, and how productivity is achieved across a wide range of industries.

Where investors often struggle, however, is translating technological transformation into investment expectations. History suggests that the relationship between innovation and investment returns is neither linear nor guaranteed. Some technologies create extraordinary wealth for investors. Others create enormous value for society while producing far more modest — and uneven — investment outcomes.

Understanding this distinction is critical when evaluating how AI fits into a long-term portfolio.

### **Innovation Is Not the Same as Investment Opportunity**

---

One of the most common investing mistakes during periods of rapid technological change is assuming that a technology's importance automatically implies exceptional investment returns. In reality, value creation and value capture are very different things.

Many innovations dramatically improve efficiency, reduce costs, or expand access. In doing so, they often transfer value rather than concentrate it. Productivity gains may accrue to customers through lower prices, to employees through higher wages, or to competitors through faster diffusion of best practices — leaving relatively little excess profit to be captured by investors.

Other innovations — particularly those that enabled durable platforms or ecosystems, such as operating systems, dominant software platforms, or network-driven marketplaces — aligned value creation more closely with value capture. In those cases, scale, switching costs, and network effects allowed a smaller number of firms to retain a disproportionate share of the economic surplus.

At the outset of any technological wave, however, it is rarely obvious which pattern will dominate. For investors, this uncertainty argues less for precision and more for balance.

---

## Hyperscalers, Capital Intensity, and Market Concentration

---

To date, much of the investable return associated with AI has accrued to a relatively small group of very large U.S. technology companies. These firms provide the computing infrastructure, platforms, and specialized hardware that underpin AI development and deployment.

As a result, U.S. equity markets have become increasingly concentrated. A narrow group of companies now accounts for a disproportionate share of overall market capitalization, earnings growth, profits, and capital spending. Estimates suggest that approximately 42 AI-linked companies have driven 65–75% of S&P 500 earnings, profits, and capital expenditures since the launch of ChatGPT.

This level of concentration introduces two important considerations. First, it increases portfolio-level risk, even for broadly diversified equity investors. When a small subset of companies drives market outcomes, diversification within equities becomes less effective, and results become more sensitive to how those companies perform.

Second, it raises the burden of expectations. When capital deployment is aggressive and valuations reflect optimistic assumptions, future equity returns depend not just on continued success, but on success that exceeds what prices already imply.

## Physical Constraints and the Economics of Scaling AI

---

Another underappreciated aspect of the current AI investment cycle is that, unlike many prior software-driven innovations, large-scale AI deployment is constrained by physical infrastructure.

Training and operating advanced AI models requires enormous amounts of computing power, electricity, cooling, and specialized equipment. As a result, AI adoption is shaped not only by demand for intelligence, but by the availability of power generation, grid capacity, and data-center infrastructure.

In many regions, data centers face long lead times for grid interconnection, while power generation and transmission struggle to keep pace with projected demand. Efforts to accelerate deployment — including on-site generation or alternative energy solutions — introduce additional cost, complexity, and execution risk.

From an investment perspective, this matters for two reasons. First, rising infrastructure intensity can compress margins, even when revenue growth remains strong. Second, physical constraints introduce non-linear risks, where delays or cost overruns cause outcomes to diverge meaningfully from expectations.

None of this diminishes the long-term potential of AI. But it reinforces the idea that technological progress does not eliminate economic constraints — it reshapes them.

## Implications for Portfolios

---

Taken together, AI's promise, market concentration, and physical constraints expand — rather than narrow — the range of plausible outcomes for growth assets.

This does not argue against innovation, nor does it imply that leading companies will fail. It reinforces a central theme of this letter: the challenge today is not identifying compelling narratives, but managing portfolios in a way that acknowledges wide outcome dispersion, concentration risk, and the difference between economic transformation and investable returns.

In such environments, diversification is not a hedge against progress. It is a discipline designed to ensure portfolios remain resilient when reality unfolds differently than expected.

## From Narrative to Expectations: Scenario-Based Thinking

Rather than anchoring on narratives, our focus remains on expected risks and returns across a range of plausible scenarios. Many institutional asset managers publish scenario-based capital market assumptions to illustrate how assets may behave under different economic paths. True Wealth uses multiple independent sources as inputs into our investing process. The common takeaway from these sources is not precision, but dispersion.

To make this concrete, consider two asset classes: U.S. equities and direct lending.

### U.S. Equities Across Scenarios

In stronger growth scenarios, U.S. equities may deliver robust earnings growth and attractive long-term returns. In more moderate environments, returns may be driven by dividends and earnings rather than expanding valuations. In weaker or stress scenarios, earnings may decline and what investors are willing to pay for those earnings can revert sharply toward historical norms.

Across scenarios, and reflecting today's elevated valuations, increased market concentration, and the potential for AI-driven productivity gains, median expected 10-year annualized returns for U.S. equities can plausibly range from approximately 1% to 15%, with meaningful volatility along the way and a distribution of outcomes wide enough that no single expectation dominates.

### Direct Lending Across Scenarios

Direct lending refers to privately negotiated loans made to companies by non-bank lenders, typically outside of public bond markets. These loans are generally senior in a company's capital structure, carry floating interest rates, and generate returns primarily through contractual income.

Across scenarios, long-term expected returns for direct lending tend to cluster within a much narrower range, often in the high single-digit area (approximately 9%–10%), with outcomes driven more by credit fundamentals than by valuation dynamics.

The practical implication of this narrower range is that, on a risk-weighted basis, direct lending can appear comparatively attractive relative to U.S. equities in certain environments. When implemented properly, it can offer return expectations comparable to growth assets but with materially less downside risk.

---

In portfolio construction, direct lending is generally used within the Preservation or Diversifying portions of portfolios depending on structure, liquidity, and risk characteristics, with sizing determined by its role alongside growth-oriented assets.

## Portfolio Frameworks

Rather than attempting to predict what markets will do next, our focus remains on how expected risks and returns are reflected in the portfolio today and how assets may behave under various economic and market scenarios.

Portfolios continue to be organized around three outcomes-focused categories:

- Preservation — assets intended to collectively provide stability, resilience, and income
- Diversifying — assets or strategies intended to provide differentiated sources of return beyond traditional stocks and bonds
- Appreciation — assets intended to drive long-term growth

A helpful way to think about this framework is to separate how portfolios are explained from how they are managed. The structure you see — Preservation, Diversifying, and Appreciation — is designed to be clear and intuitive. Behind the scenes, portfolio construction, monitoring, and risk oversight are necessarily more complex and continue to evolve as markets do. Maintaining this separation allows us to improve discipline, visibility, and governance without adding complexity to your experience.

These categories remain how we explain results and align portfolios with your financial plan. Internally, however, portfolio construction and oversight have evolved as strategies themselves have become more sophisticated.

While individual strategies may contribute to more than one objective, each is assigned to a specific portfolio category based on its primary role, ensuring the overall framework remains clear and intact.

This is not about being more active. It is about being more intentional — ensuring each component of the portfolio is serving its intended role. In addition, improved access to certain private equity growth opportunities has modestly expanded the investable universe within the Appreciation category, allowing for more flexible implementation where appropriate.

## Closing: Discipline, Guardrails, and Long-Term Outcomes

We do not manage portfolios reactively, and it is important to be clear about what would actually cause us to change allocations. Allocation decisions are driven by meaningful shifts in expected risks and returns — such as valuation extremes, changes in compensation for risk, periods when assets that usually diversify each other stop doing so, or structural market dislocations — rather than short-term market movements or headlines.

Absent these conditions, discipline means staying the course. Portfolios are not built to avoid short-term discomfort. They are built to be owned through it.

Over time, staying invested, rebalancing with discipline, and avoiding reaction to headlines have proven far more important to long-term outcomes than attempting to outguess markets or chase compelling narratives.

If your circumstances, goals, or tolerance for risk have changed, that is the right time for a conversation. Otherwise, our focus remains exactly where it should be: managing your portfolio with care, patience, and perspective.

With discipline and perspective,

**True Wealth Design Investment Committee**

Kevin Kroskey, CFP® — Co-Chief Investment Officer

Aaron Seil, CFA — Co-Chief Investment Officer

Tyler Emrick, CFA, CFP® — Investment Committee Member, Director of Wealth Advisory

## Selected Sources

Cembalest, Michael. [Smothering Heights](#). J.P. Morgan Asset Management, January 2026.

Colossus Research. [AI Will Not Make You Rich](#). Colossus, September 2025.

MIT Energy Initiative. [The Multi-Faceted Challenge of Powering AI](#). Massachusetts Institute of Technology, January 2025.

BlackRock. [Capital Market Assumptions](#) (long-term return projections and scenario analyses).

## Disclosures & Important Notes

This material is provided for informational purposes only and does not constitute investment advice or a recommendation to buy or sell any security. All investing involves risk, including the potential loss of principal. Past performance is not indicative of future results.

Forward-looking statements are based on assumptions and expectations that may not be realized. Actual outcomes may differ materially due to market conditions, economic developments, and other factors.

Portfolios are customized based on individual circumstances, objectives, risk tolerance, and tax considerations. Not all strategies discussed are appropriate for every investor.