



# *Outlook 2026* ”

Our top 10 themes for the year ahead





# Outlook 2026

Our top 10 themes for the year ahead



Welcome to EFG's Outlook 2026. In this report, we present our top ten themes for the year ahead and provide a review of how our predictions for 2025 performed.

As we frame our outlook for 2026, it is clear that several new and rapidly evolving challenges are emerging alongside long-standing themes that have shaped the global landscape in recent years.

**First, geopolitics.** Geopolitical developments remain highly dynamic, with the potential for significant change at short notice. We anticipate that the flow of geopolitical news will continue to be volatile in 2026 – some events may be positively received, while others could lead to disappointment. Unpredictability will remain a defining characteristic. At the same time, the broader shift towards a multi-polar world, marked by increasing rivalry between major blocs, is a trend that has been underway for several years and is expected to persist.

**Second, US exceptionalism.** The notion that the United States distinguishes itself from other economies, particularly in terms of economic growth, will continue to be scrutinised in 2026. Policymakers and markets are expected to remain highly data-dependent. However, the US has consistently been a leader among advanced economies, and we believe this robust growth trend will continue into the coming year.

**Third, technological advancement.** The impact of new technologies – most notably artificial intelligence – and the significant investment required to develop the data infrastructure of the future will be central issues. Key questions will include: How will these investments be financed? Will the capital be deployed effectively? And what are the long-term benefits?

In addition to these themes, 2026 will also present challenges that tend to resurface periodically. Two issues remain highly relevant: Will emerging economies, often characterised by higher growth potential, deliver attractive returns for investors? And to what extent will bond markets exert pressure on countries with unsustainable fiscal policies to correct their course?



Moz Afzal, Chief Investment Officer

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# Global *economic and policy* trends

In 2026, the spotlight will be on growth leadership – particularly on whether US exceptionalism will persist. With inflation largely back under control, interest rates are expected to stabilise at more normal, neutral levels. Fixed income markets will continue to play a decisive role in assessing fiscal sustainability. Meanwhile, geopolitical developments are likely to remain unpredictable, contributing to ongoing volatility and leaving many voters feeling dissatisfied with their choices.

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# US set to lead *economic growth*

Theme №

1

## Key takeaways

- We expect the US to be the fastest growing advanced economy, supported by three structural and three cyclical factors.
- Despite structural headwinds, China is still set to be the dominant emerging economy.
- Other emerging economies are likely to be impeded by the impact of US tariffs and geopolitics.





# 1 US set to lead economic growth

”  
... a clear plan for delivering economic growth – “3-3-3”.

**In 2026 policymakers will continue to emphasise supporting economic growth over fighting inflation. We think the US will be the best-placed advanced economy in growth terms in 2026. However, while it is our core view that US growth will surprise to the upside, there are some potential pitfalls to be aware of.**

## US leadership

There are three structural and three cyclical reasons why we believe the US will be the fastest growing advanced economy in 2026.

The three structural factors are:

**1. Economic resilience.** Since the pandemic the US economy has demonstrated a high degree of economic resilience, performing better than other advanced economies. While some recession indicators have prompted concerns about a deterioration in the US economy, these have so far proved unfounded. This may be connected to the large amount of stimulus that was applied during the Covid period, coupled with the highly flexible, adaptable and innovative nature of the US corporate sector.

**2. A clear growth plan.** Scott Bessent, the US Treasury Secretary has set out a clear plan for delivering economic growth – “3-3-3”<sup>1</sup> – 3% real growth, 3% budget deficit (relative to GDP), and an increase in oil production of 3 million barrels per day. Key to the success of these three targets, respectively, are deregulation and pro-business reforms; spending cuts and revenue increases; and simplification of permits to increase oil supply and reduce costs (see Theme 5). Whether these objectives can be achieved by these measures alone is yet to be seen, but at least the US has a plan, in contrast with much of the rest of the world.

**3. IT leadership.** The US remains at the forefront of global IT innovation and development largely due to the considerable investment in research and development that has already taken place. In the first half of 2025, private sector investment in IT equipment contributed almost half the growth in GDP.<sup>2</sup> Already-announced plans by the largest IT companies strongly suggest this large contribution will continue to at least 2030. This will, most notably, include investment in data centres and energy provision which is set to continue to be a battle ground in the global race for IT supremacy (see Theme 6).

<sup>1</sup> Bloomberg: <https://www.bloomberg.com/news/features/2025-08-11/treasury-secretary-bessent-on-tariffs-deficits-trump-s-economic-plan?sref=dNFL42AE>

<sup>2</sup> Source: US Bureau of Economic Analysis, LSEG, and EFGAM calculations. Data as at 08 October 2025. The share from IT investment was 46%, and from consumer spending was 68% – other components detracted from GDP growth. In the three years 2022–2024, IT investment contributed just 2% and consumer spending as much as 79% to growth.

”

... One Big Beautiful Bill Act contains a number of measures that will be growth positive.

The three cyclical factors are:

**1. Lower rate environment.** We anticipate that we will reach trough rates in the first half of 2026 (see Theme 2). Given the lag between monetary policy and activity, lower rates will have an increasingly positive effect on economic growth as the year progresses, in particular supporting consumer spending.

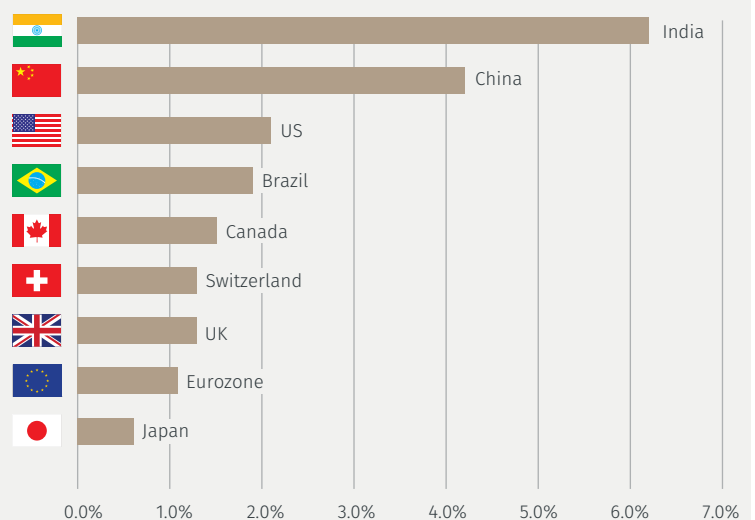
**2. Lower energy prices.** 2025 saw much talk about tariffs resulting in slower growth and higher inflation. However, that has not materialised. One reason is that energy prices have been in decline, something that works in exactly the opposite direction to tariffs, supporting growth and lowering inflation. Furthermore, lower energy prices are expected to continue to benefit the US economy at least in the first half of 2026 and potentially into the second half if they remain depressed.

**3. Fiscal stimulus.** President Trump's much touted One Big Beautiful Bill Act contains a number of measures that will be growth positive. Of note, growth will be well supported next year by accelerated depreciation, the ability of companies to fully expense research and development costs in the year in which they occur and an increase in individual tax deductions. The Tax Foundation estimates that this will increase US GDP by about 1% in 2026 relative to what it would otherwise have been.<sup>3</sup>

Of course, there are still potential risks to the US outlook as we enter 2026. It is possible, for example, that the impact of tariffs has been delayed and there are some tentative signs that the housing market is levelling off. We have also observed a recent increase in student loan delinquencies, some high-profile bankruptcy cases, while the rate of credit card delinquencies is at its highest in over 10 years – nothing to panic about but it is possible that these become greater problems in 2026.

Figure 1: GDP growth prospects for 2026

*Amongst G7 nations the US clearly leads in terms of growth prospects, but still lags China and India*



Source: IMF WEO October 2025. Data as at 14 October 2025.

<sup>3</sup> <https://taxfoundation.org/research/all/federal/big-beautiful-bill-senate-gop-tax-plan/>

**Action for investors:**

- Within developed markets, remain focused on the US in terms of growth prospects.
- Despite structural headwinds, China is still set to be the predominant emerging economy.
- Emerging markets with strong domestic demand should be favoured in terms of growth prospects.
- European luxury goods could benefit from recovering Chinese demand and improving global growth conditions.

A separate risk that is not often talked about relates to artificial intelligence (AI). Whilst there are lots of good things associated with AI, there is also a risk that widespread adoption results in severe dislocation in the US labour market, displacing current jobs and sparking an increase in unemployment. However, on balance, we believe that the US is set to be the strongest advanced economy in 2026 and indeed the latest IMF projections also reflect this view (Figure 1).

**Elsewhere: China set to lag the US but lead emerging market growth.  
The outlook for Europe is mixed.**

It is true that structural impediments to Chinese growth – high levels of debt, a weak property market and long-term demographic challenges – remain. But the dynamism and huge scale of Chinese industry and the rapid adoption of new technology (notably in green energy, artificial intelligence and electrification) remain important strengths. India is now in a stronger position to compete with China in key areas of manufacturing and also has a strong domestic market, making it less vulnerable to international trade tensions. Consumer spending accounted for 61% of GDP in India but just 40% in China in 2025.<sup>4</sup>

In Europe the growth outlook is mixed. The lagged impact of lower European Central Bank rates will provide a tailwind to regional growth in 2026 and it is expected that the German economy, Europe's largest, will receive a significant boost from the increase in fiscal spending that was agreed this year, notably with regard to defence spending. In addition, it will be interesting to see whether with an improvement in China, where a significant portion of European exports are destined for, improves prospects. Against this it is necessary to balance a worsening fiscal outlook and ongoing political uncertainty in parts of Europe, exemplified by the challenges facing the French establishment.

Of course, economic growth is just one factor to take into consideration when judging asset allocation. In equity markets, valuations are generally more attractive in emerging than in advanced economies, as discussed further in Theme 8.

<sup>4</sup> Source: Oxford Economics estimate, via LSEG



# Trough interest rates in advanced economies; *opportunities in emerging markets*

Theme №

2

## Key takeaways

- The scope for rate reductions in advanced economies is limited.
- Real interest rates and bond yields in some emerging and developing economies remain elevated and provide opportunities.



## 2 Trough interest rates in advanced economies; *opportunities in emerging markets*



... interest rates are likely to reach their lowest point (the “trough”) in the first half of 2026, after which further cuts are unlikely.

**Policy interest rates are unlikely to fall much further in the main advanced economies in 2026, with a trough in rates expected during the first half. Elevated rates in several emerging economies are set to provide opportunities.**

### What are trough interest rates?

In economics, a “trough” is the lowest point in a business or economic cycle, following a decline and before a recovery. Trough interest rates occur when central banks have reduced rates to their lowest levels, often in response to economic downturns or recessions. The aim is usually to stimulate borrowing, investment and spending to help the economy recover.

### Developed market rates

In all the major advanced economies, the scope for cutting interest rates in 2026 is limited. Policy rates are already close to what is considered the “neutral” rate – the level that neither stimulates nor restrains economic growth (Figure 2). Therefore, interest rates are likely to reach their lowest point (the “trough”) in the first half of 2026, after which further cuts are unlikely.

The Bank of Japan is expected to struggle to raise rates – at least until the middle of 2026. In Switzerland, rates are already at zero and Swiss National Bank President Schlegel has signalled the bar for reintroducing negative interest rates is higher than in the past. In the eurozone, interest rates are already close to neutral. The scope for UK rate cuts will be constrained by relatively sticky, above-target inflation, notably in the services sector. In the US, the range of estimated neutral rates remains hotly disputed but we doubt the Federal Reserve will reduce rates much below 3%, given strong real growth and inflation which is still sticky.

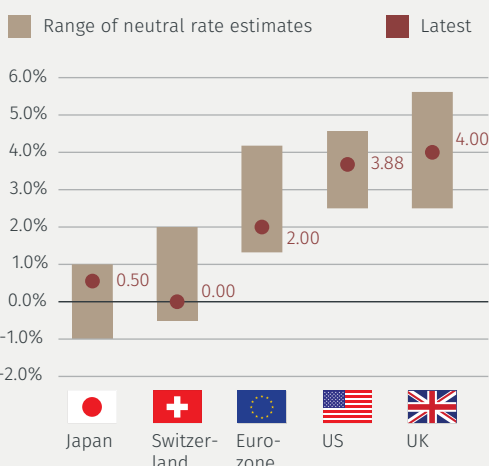
For those with memories of interest rates being at or close to zero in the recent past, such expectations will be disappointing. Very low interest rates would only make sense in the event of either a crisis situation, which hopefully is avoided in 2026, or one in which growth and the labour market are persistently weak, which we do not expect. On balance, we welcome the move to such neutral/trough rates as an indication that financial markets are behaving in a rational manner.

### Politicised rate cuts

There remains, of course, the big question surrounding whether US Federal Reserve decisions become more politicised, with pressure for a large cut even if inflation remains above target and growth and unemployment remain resilient. On balance, we see the risk of that as small. It is not reflected in current market pricing, such as inflation break-even rates, or the expectations of current Fed board members.

Figure 2: Neutral interest rates

**Central banks unlikely to lower rates much more as rates are already at or close to neutral.**



Sources: FRB Dallas, FRB New York, LSEG and EFGAM calculations. Data as at 03 November 2025.



### Action for investors:

- With interest rates expected to reach neutral, trough levels in the first half of 2026, there remains value in shorter- to mid-term duration exposure. This environment allows investors to borrow at the short end of the yield curve and invest further out to capture attractive carry opportunities.
- Real rates in some emerging and developing economies remain elevated and provide opportunities but investors need to be wary of the risk of currency depreciation.
- Look for opportunities in high-yielding emerging sovereign markets where there is the prospect of capital gains as long-term yields decline. Brazil, most notably, has high real yields in a slowing economic environment.
- Mexico is set to be a beneficiary of a stronger US economy, which should support the Mexican peso.

If it did happen the central bank could well fail to achieve the apparent political objective of lower borrowing costs for households and businesses. A politicised cut in rates would likely raise longer-term interest rates (reflecting a higher risk premium and higher long-term inflation expectations) therefore negating the impact.

### Opportunities in emerging economies

In several emerging and developing economies, real interest rates are particularly high when measured on the simple basis of comparing the policy interest rate to the latest inflation rate (Figure 3).

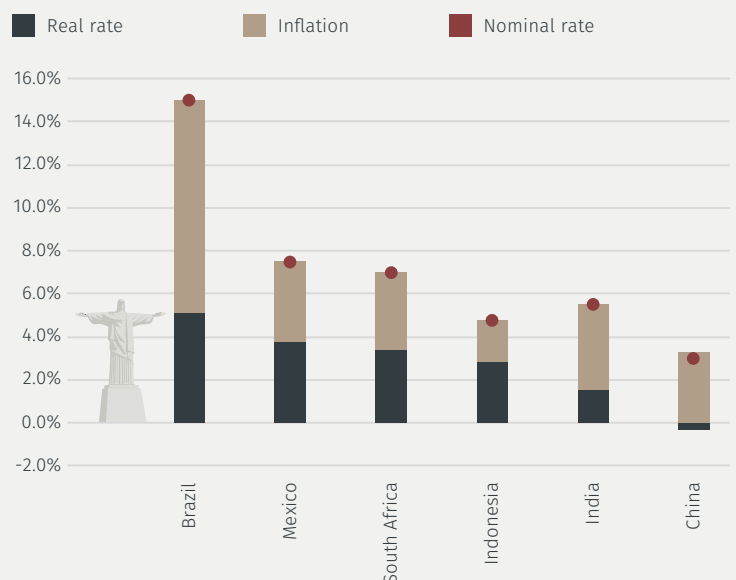
In these economies, it is important to consider two key factors. First, the risk that currency depreciation may offset the advantages of higher interest rates for investors. Second, the likelihood that inflation may not remain subdued could potentially affect real returns. In a general environment of a stable-to-weakening US dollar, the first risk seems contained for 2026. But the fact that the inflation-fighting credentials of many emerging economy central banks have yet to be fully established is a concern. On balance, we think these two risks are lowest in Brazil and favour money and bond market exposure in that market compared to other emerging market peers.

In Brazil, ten-year local currency bond yields are as high as 13.7%<sup>5</sup>, well in excess of the likely 4.0–4.5% inflation rate for 2026 and also above expected longer-run inflation trends. Brazil, however, may remain overshadowed by political tensions with the US.

In contrast, Mexico is likely to experience a greater boost to growth from a stronger US economy, which should also help support the peso. Additionally, since Mexico's interest rates are closely aligned with those of the US, they are expected to follow any rate reductions.

Figure 3: Emerging economies real rates

*Once the nominal rate has been adjusted for inflation, Brazil's real rate stands out as the strongest*



Sources: LSEG and EFGAM calculations. Data as at 03 November 2025.

<sup>5</sup> Source: LSEG as at 03 October 2025.

# Bond markets: Beware of shark-infested waters

Theme №

3

## Key takeaways

- In the US, debt stabilisation could be reached if Treasury Secretary Bessent manages to achieve his '3-3-3' objective, something that would calm investor concerns.
- Prospects of stabilising debt are worse in France and the UK.
- French developments are not expected to lead to a repeat of the eurozone crisis. Memories of the "Liz Truss moment", however, still stalk the UK gilt market.





### 3 *Bond markets:* Beware of shark-infested waters

“... the stabilisation of debt expected under the Bessent plan should be enough to alleviate fears about US debt sustainability.

**There are several markets – notably France and the UK – for which fiscal sustainability will be questioned in 2026. Pledges to bring government finances under control may pacify the sharks for a while but when confidence evaporates bond markets will look vulnerable once again. This may cause problems for government stability in some parts of the world.**

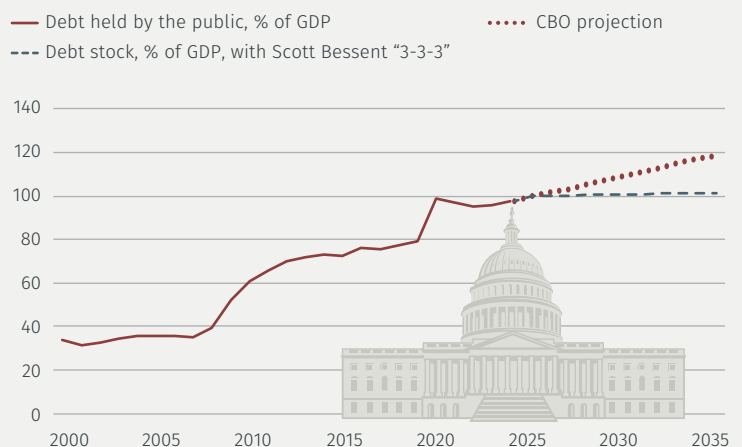
#### Can the US change its debt path?

In the US, concern about debt sustainability is demonstrated by the latest projections which show US government debt rising from 100% of GDP in 2025 to 119% by 2035 (Figure 4) and continuing upwards to 156% in 2055, although developments over such a long period are subject to a great deal of uncertainty. In 2026, the sharks may be dissuaded from attacking the US bond market if the revenues generated from tariffs are sufficient to alleviate fears about debt sustainability. Most estimates forecast such revenues to be in the order of USD400bn per year.

Over the long-term, the extent to which Scott Bessent’s “3-3-3” plan (Theme 1) is successful will be key. It could markedly change the debt path, preventing an upward trend. In the late 1990s and early 2000s, the debt level fell rapidly and unexpectedly to 31% of GDP, primarily due to the strength of tax revenues and improving productivity. There was active discussion at the time about abandoning 30-year government bond issuance, regarding such debt as no longer necessary to finance the deficit. Although possible, such an extreme outcome seems unlikely to us. The more realistic outlook for 2026 is that the stabilisation in the level of debt expected under the Bessent plan as well as improving productivity due to AI implementation should be enough to alleviate fears about US debt sustainability.

Figure 4: US government debt projections

***Under the Bessent plan debt could stabilise at around 100%***



Sources: CBO; EFGAM calculations. Data as at 03 November 2025.

Certain assumptions have been made regarding the above information is provided by way of illustration only. Any changes to these assumptions may have a material impact on the assessment presented.



Support for an individual bond market could come from the European Central Bank.

#### **Action for investors:**

- If bond yields have already discounted the worst, look to take advantage of high yields in the US, France and UK. This could be a risky strategy, especially for longer-duration bonds which have a high sensitivity to changing expectations of fiscal and interest rate trends.
- The absolute level of short-term US yields is still high and it provides a safer habitat for nervous investors as sharks circle.
- Focus should be on countries that have adequate finances to be able to pay off their debts. Net Foreign Assets (NFA) as a measure could provide a guide to long term debt sustainability.

#### **Europe – sharks are circling**

In Europe, concerns about fiscal sustainability will not be so easily quelled. “France could be the new Greece” is a concern held by some, but that comparison lacks credibility. France, unlike Greece in 2009–10, does not rely on foreign capital inflows to finance its current account deficit; economic growth remains positive; the European Central Bank has better procedures in place for averting a crisis; and the French bond market remains active and liquid. Yet President Macron has been through five prime ministers in the three years of his second term and none have been able to pass a budget to put fiscal policy on a sustainable track.

Support for an individual bond market could come from the European Central Bank, which has, in the past, modified its operating procedures to allow such action.<sup>6</sup>

Similarly, the credibility of the UK’s efforts to meet its self-imposed debt restrictions is low and could be tested in 2026. Parallels with the “Liz Truss moment” in 2022 are often drawn. That episode – when an unfunded reduction in taxation, which had not been assessed by the independent Office for Budget Responsibility was announced – led to a sharp fall in sterling and the gilt market. While the current UK government faces many challenges that will likely put pressure on sterling and gilts, for the time being we do not foresee a repeat of the sharp and sudden dislocation.

<sup>6</sup> In the past the European Central Bank has conducted various programs to support what they described as “disorderly market dynamics”. This was the case of the Transmission Protection Instrument (TPI) in 2022, the Asset Purchase Programme (APP) in 2015, and the Pandemic Emergency Purchase Programme (PEPP) in 2020.



# Geopolitics: New alliances, state capitalism and a diverging electorate

Theme №

4

## Key takeaways

- US-China rivalry will continue but a transactional relationship between the two great superpowers is the most likely outcome.
- The US is embracing some aspects of Chinese-style state capitalism. It is likely other countries will follow suit.
- Secondary sanctions on countries aligned with Russia could cause problems in some parts of the world.
- Trust in political leadership remains weak. A key test will be the US midterm elections that take place in November 2026.



## 4 *Geopolitics*: New alliances, state capitalism and a diverging electorate



This strategic decoupling will reshape and split the global economy, with countries tending to lean towards China or the US in terms of their economic loyalties.

**Continued rivalry between the US and China, the forging of new alliances, the growth of state capitalism, electorate dissatisfaction and bifurcation are the key geopolitical themes we see for 2026.**

### US-China rivalry

Rivalry between the US and China will remain a central issue in 2026. Washington's push to 'de-risk' from Chinese supply chains will continue, particularly with respect to semiconductors and rare earth metals. In practical terms, however, the reality is that the US, China and other economies in Asia are deeply interdependent. Global supply chains are highly complex with many economies involved in the production of the hardware needed to drive the development of AI.

It is ironic that the push by the US to be more autonomous involves an embrace of Chinese-style state interference, with the US taking strategic stakes in key industries with a focus on IT and rare earth metals. In a parody of a phrase famously used by Chinese authorities, some have called this "capitalism with American characteristics". In 2025 the US government acquired significant holdings in companies including Intel (chip making) and MP Materials (rare earth mining), as well as forcing Nvidia and AMD to hand over 15% of the revenues they receive from their chip sales to China, in exchange for export licences. And, of course, the US authorities have intervened to force a change in ownership of TikTok's US operations to a US company.

Beijing, meanwhile, will continue to develop its own sphere of influence through closer trade links and infrastructure projects with nations perceived as friendly. This was evident during China's 2025 Victory Day Parade, which saw leaders from a range of countries including Russia, Iran, North Korea, Indonesia, Belarus and Myanmar in attendance whilst there was a notable lack of representation from established Western nations.

This strategic decoupling will reshape and split the global economy, with countries tending to lean towards China or the US in terms of their economic loyalties. Nonetheless, it will be challenging for two countries that are so deeply entwined to decouple entirely or at speed. This suggests a reality in which a pragmatic, transactional arrangement between the world's two great superpowers results.

### New alliances

New alliances will be strengthened. The expansion of the BRICS is perhaps the clearest example of that as highlighted in last year's Outlook. The four founding members (Brazil, Russia, India, and China) were joined by South Africa in 2010, Egypt, Ethiopia, Iran, and the UAE in 2024 and Indonesia in 2025. Trade links between the members can be expected to strengthen but it is certainly not a homogeneous grouping.



Figure 5: Trust in governments

*Emerging economies have the highest levels of trust in government but for most other nations there is distrust*



Source: Edelman Trust Barometer, 2025.

### Action for investors:

- In 2026, geopolitics will be defined by US-China competition, concerns over new security threats, especially in Europe, technological rivalry and the response in the form of state capitalism. There will be no easy or quick solutions.
- Populist policies that reflect either far left or far right views will lead to concerns as to the sustainability of those governments.
- Maintaining portfolios that are adequately diversified between geographies continues to be important.

### European security and the Russia-Ukraine war

Russia is facing economic, manpower and fiscal strains in its war with Ukraine. These could push it either toward negotiation or escalation. Europe itself is undergoing its largest rearmament in decades but cyberattacks as well as Russian drone, aircraft and shipping incursions into European NATO member territories are likely to continue to pose challenging threats. The cyberattack on British carmaker Jaguar Land Rover is a key example of this. The auto manufacturer was unable to produce cars for over a month and required government loan guarantees to support its supply chain. However, there are encouraging signs of European leaders coming together under the catalysing influence of President Trump.

### Sanctions

Sanctions are set to continue, intensify and change in their nature. The US intends to impose higher tariffs or sanctions on countries that trade with Russia (especially those who import cheap Russian oil, as evidenced by increased tariffs on India) and encourage or pressure other countries to do likewise. Sanctions may well also, or alternatively, be on individual companies and their leaders rather than the countries themselves. While their effectiveness can be questioned, there is no doubt they can be harmful to the individuals involved, as they have been in the case of sanctioned Russian nationals.

### Regional flashpoints and institutional strain

Multiple regional tensions remain. The experience of recent years is that these can flare up with little warning. US involvement has been successful in defusing many of these, a role which is ever more important as global institutions – such as the United Nations, World Trade Organization and International Monetary Fund – struggle to enforce norms and manage global challenges.

### Trust and leadership

2026, we believe, will see a continued erosion in the trust that electorates have in their political leadership (Figure 5). A polarisation between increasingly far left and far right political options is evident in many countries, with the ‘middle ground’ often struggling. That tension is evident, for example, in France – with the result being a situation of virtual ungovernability. The electorate feel they are often choosing the ‘least bad’ option rather than a party or candidate they truly support. Too many leaders focus on reacting to crises without offering a coherent long-term direction.

Equally important is global awareness. Politicians who retreat into nationalistic policies and views ignore the reality of the deep interdependence in areas such as trade, technology and climate. A key watchpoint will be the US midterm elections which will be a test for Donald Trump as to whether his gamble on key policy initiatives such as tariffs and immigration have worked with the voting population. Recent political losses are a concern for the Trump administration and he may need to pivot to the domestic agenda.



## *Innovation and change*

The adoption and development of AI, sharing many of the characteristics of the superpower rivalries of the past, will be a key focus. In the build up to the US midterm elections, Trump will place greater focus on his deregulation agenda as part of his push for growth.

- 5 Trump's 3 D's: DOGE, Deregulation, and Drugs
- 6 Opportunities abound in the AI race

# Trump's 3 D's: DOGE, Deregulation, and Drugs

Theme №

5

## Key takeaways

- DOGE – ongoing effort to make cost savings.
- Deregulation – Trump looks to rip up the rule book, ranging from housing, finance and technology.
- Drug pricing – Trump will push to bring global drug prices in line with US levels.





## 5 *Trump's 3 D's: DOGE, Deregulation, and Drugs*



If all metropolitan areas adopted the lowest level of land use regulation (found in Texas), US GDP would increase by around 3%.

**We do not expect President Trump's reform agenda to slow down in his second year. We see 'three Ds' at the top of President Trump's programme: DOGE, deregulation, and drug pricing. It is anticipated that other countries will follow closely and may look to adopt similar approaches in their respective countries in due course.**

### DOGE

Trump had set up the Department of Government Efficiency (DOGE) to reduce wasteful government spending, with Elon Musk initially targeting USD2tn in savings. This was later scaled back to USD1tn and then USD150bn by the end of April. Although Musk departed in late May, taking some of the noise away from DOGE, its work continues. The estimated savings generated by the DOGE up until mid-October 2025 are put at USD214bn<sup>7</sup>. That represents a combination of asset sales, contract and lease cancellations and renegotiations, deletion of fraudulent and improper payments and workforce reductions. Broad deregulation remains an important theme of the Trump administration and is seen as central to achieving the objective of 3% real economic growth.

### Deregulation

One important aspect of the Trump administration's policies is deregulation (Figure 6). With a particular focus on housing and de-zoning/re-zoning land. De-zoning focuses on removing planning restrictions altogether and re-zoning focuses on changing zoning regulations. Zoning restrictions can often be a drag on the availability of housing and commercial space.

Deregulation in this area could involve a loosening of residential density limits, allowing more apartments/homes to be built, easing shortages and lowering housing costs. For businesses, an easing of zoning regulations can allow, for example, more rapid development of new businesses in key areas. One study finds that if all metropolitan areas adopted the lowest level of land use regulation (found in Texas), US GDP would increase by around 3% or around USD1tn per year.<sup>8</sup>

Another important piece of financial market legislation is the Genius Act (Guiding and Establishing National Innovation for US Stablecoins Act), which came into US law in July 2025. This allows the establishment of stablecoins typically backed by US Treasuries. This will lead to a significant increase in the number of transactions and hence reduction in costs for cross-border transfers and improved safety and regulation for consumers. It is expected that stablecoins will be able to disrupt the cross-border payment systems, especially in the US, where consumers pay a lot for transfers and often with large time delays. We see that with further enhancement this technology

<sup>7</sup> <https://doge.gov/savings>

<sup>8</sup> <https://www.hoover.org/research/reforming-us-commercial-land-use-regulations-could-increase-gdp-1-trillion-year>

Figure 6: Deregulation orders under the Trump Administration

### Deregulation focus on Healthcare, Finance, Housing, Energy and AI

Sector	Executive order or Rulemaking name	Status
Healthcare	Affordable Care Act marketplace rule	Partially effective
	Executive order on risky biological research	In effect
	Executive order establishing the “Make America Healthy Again Commission”	In effect
Finance	Establishing the US Digital Asset Stockpile and the Genius Act, which leads to the creation of regulated stablecoins	In effect
	Establishing a United States sovereign wealth fund which has invested in chips and rare earths companies	In effect
	Invest America Act – establishes a tax advantaged account for every American child at birth (with a \$1,000 deposit from the federal government)	In effect
Housing	Rescinding all Affirmative Fair Housing Marketing regulations	In rulemaking
Environment/ Energy	Ending the Greenhouse Gas Reporting program	In rulemaking
	Rescinding the greenhouse gas endangerment finding and vehicle emissions standards	In rulemaking
	Rescinding the definition of “harm” under the Endangered Species Act	In rulemaking
	“Unleashing American Energy”	In effect
	Withdrawing from the Paris Agreement	In effect
Technology/AI	Executive order on data center permitting	In effect
	Delaying the TikTok ban	In effect
	Advancing AI in education executive order	In effect
	Establishing the Strategic bitcoin Reserve and US Digital Asset Stockpile	In effect
	Removing barriers to US AI leadership	In effect

Sources: White House, Brookings Institution and EFGAM. Data as of 17 October 2025.

#### Action for investors:

- Look for opportunities in the 3D's: private sector provision of formerly government services; real estate development in selected residential and commercial areas as a result of de-zoning/re-zoning; and innovators in the healthcare industry.
- The Genius Act may be a threat to existing cross border payment companies and banks but will be an opportunity for companies in the stablecoin arena.
- Be wary of changes in the drug pricing landscape and the impact on investment and innovation.
- Other economies (such as the UK and some emerging economies) may look to copy DOGE-like initiatives, so look for opportunities there.

could lead to increased tokenisation of stocks, illiquid assets and eventually 24/7 trading of investment assets.

#### Drug pricing

Drug pricing has, for a long time, been a contentious issue not just in the US but globally. US drug prices are generally higher than those in the rest of the world, especially for relatively new, branded drugs. President Trump's view is that drug prices are too low in other markets around the world, especially in European markets, with tariffs (on Switzerland in particular) designed to offset that difference. The Trump administration believes that US drug prices need to remain high in order to incentivise greater investment in research and development. There is general support for that argument in other economies, notably the UK. However, there is a reluctance to see prices rise for the purchasers of drugs, whether they be the end consumer, healthcare providers or the state. In the US, the TrumpRX plan is designed to allow consumers to buy drugs directly from pharmaceutical companies, but it remains to be seen how effective this will be.

Furthermore, patent expirations (generic drug prices are lower in the US than branded drug prices) and the weak pipeline of new drug approvals puts pressure on drug company margins and may further stifle investment in new drugs. Issues relating to drug efficacy (of immunisations and generic widely used drugs such as paracetamol) means navigating developments in the healthcare industry will be no easy task in 2026. We favour exposure to smaller, innovative companies that are in a position to lead new drug development rather than larger, established healthcare companies.

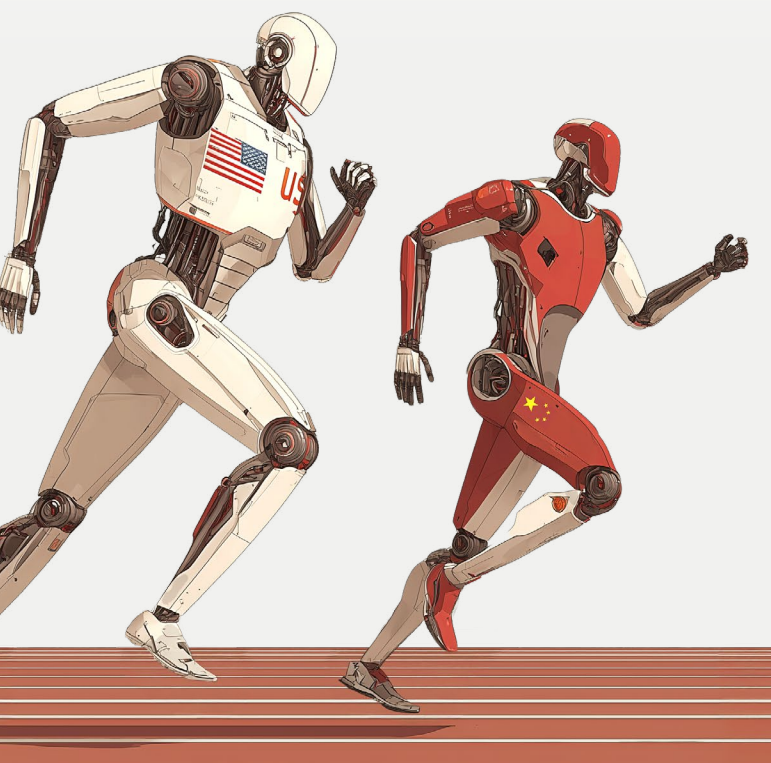
# Opportunities abound in the *AI race*

Theme №

6

## Key takeaways

- AI infrastructure plan will require significant energy investment.
- Sources of funding for these investments are evolving.
- The US and China will continue their battle to be the global leader in AI.
- Humanoid robots are a promising application.





## 6 Opportunities abound in the *AI race*

**The artificial intelligence (AI) race will be a defining phase of the 2020s. We will continue to witness intense competition between the US and China, huge capital investment and unprecedented technological innovation.**

### AI infrastructure and energy demand

Since the launch of ChatGPT in November 2022 the speed and scale of AI infrastructure investment has far exceeded forecasts. To date the majority of the funding has been driven by US Hyperscalers.

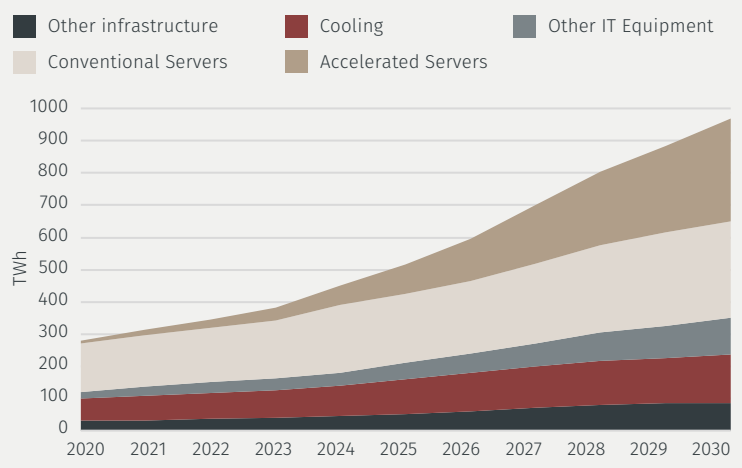
In the third quarter of 2025 alone, the top four spenders (Amazon, Microsoft, Google and Meta) spent a combined USD97bn on capital expenditures, a year-over-year increase of +66%, most of which goes towards AI<sup>9</sup>.

Aggregate global datacentre investment in 2025 may have exceeded USD500bn, with AI data centres representing the lion's share. Despite the eye watering figures spent, the largest investors still claim to have insufficient capacity to meet current demand.

One of the critical challenges in building capacity is securing enough energy to power the servers (Figure 7). AI data centres are uniquely power hungry, with the latest AI servers consuming ~10× more power than traditional servers. Data centres today are measured in gigawatts (GW) of capacity, for reference 1GW of power is enough to power approximately 750,000 US households.

Figure 7: Global data centre electricity consumption by equipment, base case

***Increasing pressure on electricity supplies spurred on by AI growth***

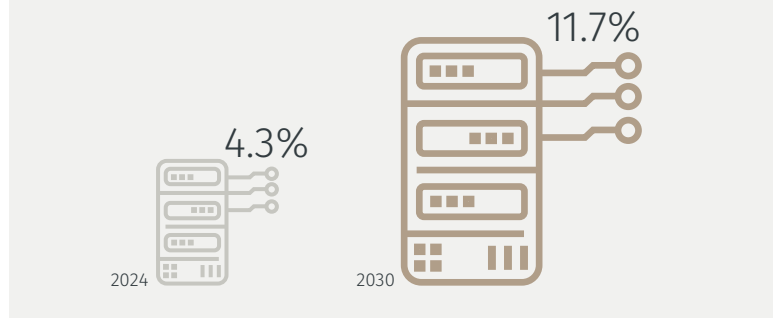


Source: IEA, <https://www.iea.org/reports/energy-and-ai/energy-demand-from-ai>

The International Energy Agency (IEA) estimates that in 2024 global datacentres consumed ~1.5% of global energy.<sup>10</sup> Within the US, McKinsey estimates that data centres' share of energy consumption will increase from 4.3% in 2024 to 11.7% in 2030 (Figure 8).<sup>11</sup>

Figure 8: Share of total US power demand

*Data centres will significantly increase share of US energy consumption*



Source: McKinsey, <https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/the-cost-of-compute-a-7-trillion-dollar-race-to-scale-data-centers>

If the ambitious AI investment plans are to be believed, an estimated additional 80–120GW of capacity needs to be constructed over 2025–2030.

However, at such scale over a relatively short period there are risks supply will not be able to match demand. The IEA forecasts in their base case scenario ~110GW of data centres capacity to be added between 2025–30, of this ~20GW may be at risk of being delayed due to grid constraints. Data centres operators are racing to bring as much renewable, nuclear and fossil fuel energy sources online as quickly as possible to meet future demand.

#### How will all this investment be funded?

To date the majority has been funded by the free cash flow of the world's most profitable companies. However, as these companies' free cash flows begin to approach zero and investments continue to rise, three alternative sources of financing are becoming more prevalent:

1. Debt financing – e.g. Oracle must raise debt to invest at a similar scale to the largest players. Hyperscalers have yet to meaningfully use debt financing.
2. Equity financing – e.g. OpenAI funding rounds being used to potentially self-build capacity.
3. Vendor financing – notably Nvidia has agreed to invest up to USD100bn into OpenAI to support the companies' ambitions.

The shift to debt and vendor financing indicates we have entered a new stage of this cycle, although how long it is before the eventual correction occurs depends ultimately on whether:

- the collective belief in continued technological advancement and monetary returns from investing in AI is maintained
- there is enough remaining capital to be deployed. For the time being, there is but that may not last.

<sup>10</sup> <https://www.iea.org/reports/energy-and-ai/energy-demand-from-ai>

<sup>11</sup> <https://www.mckinsey.com/industries/private-capital/our-insights/how-data-centers-and-the-energy-sector-can-sate-ais-hunger-for-power>



Whilst Chinese tech giants have increased their AI investments they are yet to match the scale of their US counterparts.



From factory floors to hospital hallways, humanoid robots are stepping into trials as a new age labour force.

#### **Action for investors:**

- Electricity demand will increase such that countries with the cheapest sources of new electricity will have a comparative advantage, in particular in locations with growing data centre needs.
- Humanoid robots will likely be utilised in more industries, such as: logistics & manufacturing, healthcare services and domestic services.

#### **US vs. China**

Both the US and China view AI as a strategic technology with implications for economic growth as well as national security. Whilst Chinese tech giants have increased their AI investments they are yet to match the scale of their US counterparts. Alibaba has been the biggest spender and most vocal to date, in September 2025 announcing their intention to invest “over RMB 380bn” (USD53bn) into AI over a 3-year period. China may well have the energy advantage as it mobilises its prowess in sales and nuclear energy. Outside of the US, China is likely to be the second largest spender when it comes to building AI infrastructure.

The US has targeted slowing down Chinese AI progress through semiconductor export restrictions and to a lesser extent tariffs. China in response has leveraged US industrial dependencies on rare earths.

As US Secretary of Commerce Howard Lutnick so bluntly put it: “We don’t sell them our best stuff, not our second best stuff, not even our third best. The fourth one down, we want to keep China using it. We want to keep having the Chinese use the American technology stack, because they still rely upon it”.<sup>12</sup>

In parallel to trade negotiations each country is following a path of trying to localise strategic resources: for China chip fabrication and design, for the US reshoring manufacturing and accessing critical materials.

#### **Humanoid robots – from sci-fi to the factory floor**

An emerging application of AI comes in the form of autonomous robotics. Humanoid robots, having once lived purely in the realm of science fiction, are increasingly showing promising signs of reaching technological maturity. From factory floors to hospital hallways, humanoid robots are stepping into trials as a new age labour force.

The promised benefits are ambitious, a tireless 24/7 worker that can slot into human-designed spaces opens an almost limitless set of applications: from factories, logistics warehouses, healthcare services, retail and beyond. For economies battling ageing demographics and frequent staffing shortages robotics are a compelling proposition to achieve productivity gains.

Today these autonomous robots are predominantly in pilot trials across sectors rather than seeing imminent mass adoption. Technological capability and cost must continue to make progress, but the trends so far are promising. Costs have come down from USD100k+ to USD35–60k in some leading models, with some Chinese firms suggesting they’ll be able to reach <USD15k per unit.

Robotics may be another sector the US and China battle over, with plausibly massive economic rewards from being able to automate many more manual labour tasks there are strong incentives to localise this industry.

<sup>12</sup> <https://www.cnbc.com/2025/07/15/howard-lutnick-says-china-is-only-getting-nvidias-4th-best-ai-chip.html>





## Market opportunities

Overlooked opportunities in previously favoured markets will be a theme in 2026. Two stand out – European equities and emerging market equities and bonds. Both areas have been popular in the past and can regain their allure. Meanwhile, new opportunities in private markets and M&A activity provide a fresh dimension.

- 7 An EU revival: Restructuring and reform
- 8 Emerging markets have the wind in their sails
- 9 Private markets: Unlocking liquidity and diversification opportunities
- 10 IPOs and M&A activity: Multiple sectors set to benefit

# *An EU revival:* Restructuring and reform

Theme №

7

## Key takeaways

- Europe is committed to increasing its defence spending, not just in 2026 but for many years.
- Europe is a leader in the green energy and carbon reduction process.
- Innovation is key to future growth, exemplified by Switzerland.





## 7 An EU revival: Restructuring and reform

**The EU will take further restructuring and reform steps in 2026. This is due to external threats (particularly from Russia) and pressure from the US to increase defence spending. Europe's strength in innovation and collaboration between member states will continue to be a critical factor here.**

We believe a renewed excitement for European and Swiss equities is likely. This positive view is driven by a range of potential catalysts, including: (1) More material German stimulus impact; (2) Increased defence spending; (3) Revived interest in green energy and carbon reduction spending; and (4) Levels of innovation. Furthermore, there is an improving eurozone credit impulse and lower interest rates.

### **German fiscal spending is a potential catalyst for improving economic activity**

The EUR500bn infrastructure package and the circa EUR1trn more on defence spending over the next decade are large by historical standards. While Germany has historically underspent, we see three reasons why this time could be different: (1) Merz's political willingness is indisputable; (2) There is no shortage in identifiable investment projects, and there are already specific plans on where the money is to be spent, from railways and bridges to contracts in the defence sector; (3) Substantial sums are being directed through federal states, which have considerable local investment needs. A fifth of the EUR500bn infrastructure fund will be spent by Länder, which will also have more flexibility for structural new borrowing.

Figure 9: EU NATO member's defence spending

**While seven EU member states did not meet the NATO defence spending target in 2024, all members are expected to meet this in 2025**

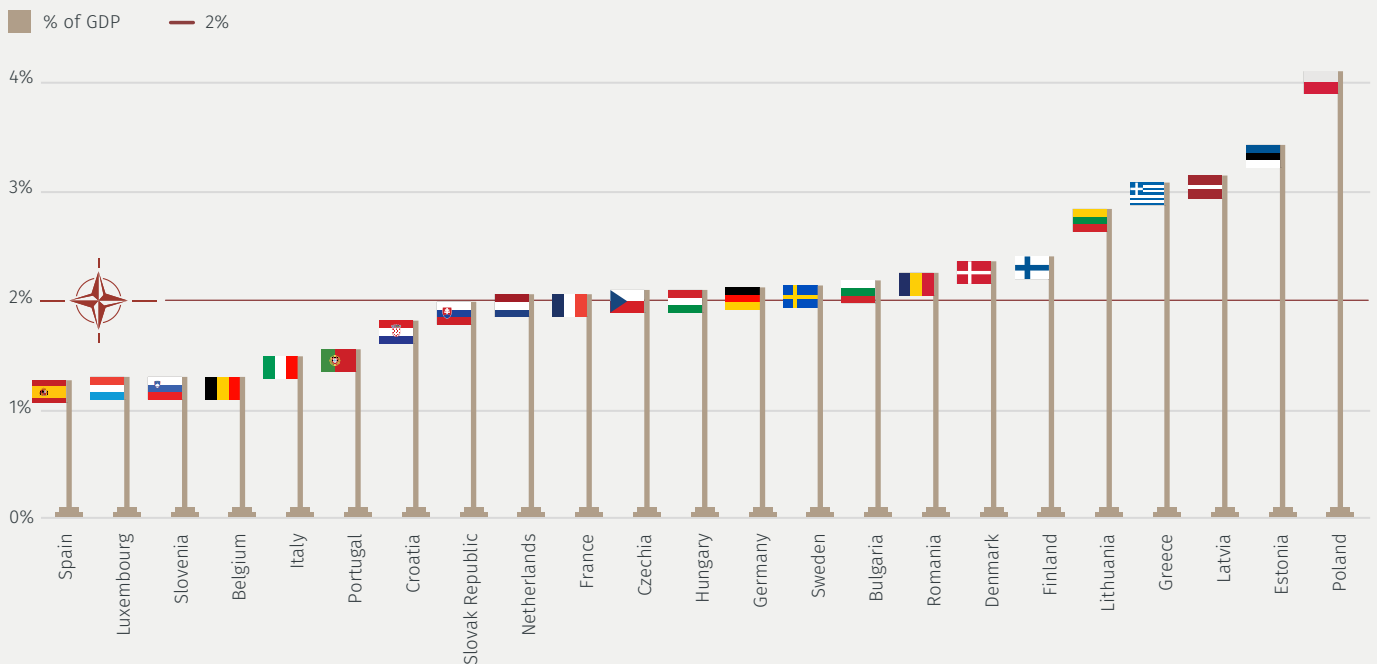


Figure 10: WIPO Global Innovation Index

*As innovation is key to future growth, Europe is well placed*

Country	World ranking
Switzerland	1
Sweden	2
USA	3
Singapore	4
United Kingdom	5
Korea	6
Finland	7
Netherlands	8
Germany	9
Denmark	10
China	11
France	12
Japan	13
Canada	14
Israel	15
Estonia	16
Austria	17
Hong Kong, China	18
Ireland	19
Luxembourg	20
Norway	21
Iceland	22
Australia	23
Belgium	24
New Zealand	25

Source: WIPO Global Innovation Index, 2025.

### Action for investors:

- The potential upside in economic and industrial activity could be particularly beneficial to Swiss and eurozone small & mid-caps.
- The green transition is creating opportunities across industrials, utilities, and companies linked to electrification and energy efficiency.
- Look for opportunities in defence and industrial companies.

### Defence security

Global geopolitical tensions have revived the issue of the extent to which Europe can be strategically autonomous. One aspect of that could be a truly unified military and defence capability but this remains politically sensitive and may take decades to achieve. However, there is clear progress on increasing European countries' defence spending. 23 of the 27 EU member states are in NATO and 16 of these had defence spending above 2% of GDP in 2024 (Figure 9). All members are expected to reach or exceed the 2% target in 2025 according to commitments made to NATO, with all members targeting a level of 5% by 2035. This extra spending is being tolerated, even with other pressures on government spending.

### Green transition

Another key catalyst for renewed optimism in European equities is the revival of green-energy and carbon-reduction spending. Policy momentum remains supportive: the EU's Clean Industrial Deal, introduced in early 2025, and its Affordable Energy Action Plan aim to lower energy costs, stimulate transition-related investment, and support demand for low-carbon products shifting the focus from regulation to industrial competitiveness. According to European Commission estimates, faster electrification and efficiency improvements could reduce the EU's fossil-fuel import bill by around EUR130bn per year by 2030, and up to EUR260bn by 2040, improving resilience and lowering long-term energy dependence.

Progress is already visible, with renewables providing close to half of EU electricity in 2024, while the Carbon Border Adjustment Mechanism (CBAM), to be fully implemented in 2026, reinforces incentives for cleaner production. In our view, these developments provide a constructive medium-term backdrop for Europe as it deepens its green transition creating opportunities across industrials, utilities and companies linked to electrification and energy efficiency.

### Innovation

In this knowledge-based economy we live in, intangible assets such as intellectual property – combined with inventions, patents and technological know-how – have become central sources of value creation on a country level and on a company level. One such example is Klarna, which was the first European company and the first fintech firm globally to launch a ChatGPT plugin. Klarna's AI assistant has had over 2.3 million conversations, accounting for two-thirds of Klarna's customer service chats, and is doing the equivalent work of 700 full-time agents while also leading to faster and more accurate errand resolutions.<sup>13</sup>

Of course, in an era increasingly shaped by artificial intelligence, where many forms of intellectual work risk being automated or displaced, the value of uniquely human capabilities – talent, creativity and adaptive thinking – become even more critical ingredients of innovation. According to the Global Innovation Index, 16 of the 25 top-ranked innovative economies are in Europe. Switzerland exemplifies this dynamic (Figure 10). As recent INSEAD research highlights, the country continues to lead in both talent competitiveness and in innovation, ranked number 1 globally for 15 years in a row. Having one of the most skilled labour forces underpins Switzerland's leadership across key industries, including finance, medical technology, pharmaceutical and precision manufacturing. In a world where innovation is the key to future growth, this means Europe is well placed.

<sup>13</sup> Source: <https://openai.com/index/klarna>



# Emerging markets have the wind in their sails

Theme №

8

## Key takeaways

- Emerging markets should benefit from a stable-to-lower dollar environment, fiscal discipline, robust demographics, good underlying growth and low developed world interest rates.
- Domestic demand remains resilient in many emerging economies and emerging market equities trade at a valuation discount to developed equities.



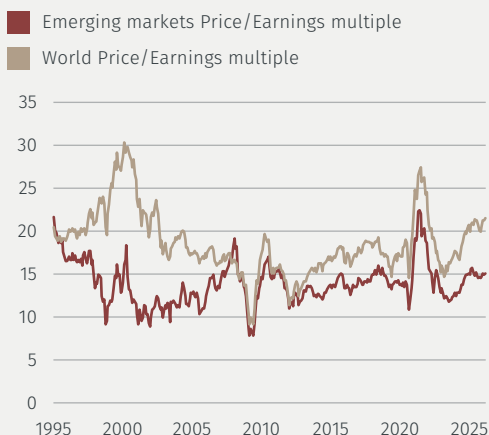
## 8 *Emerging markets* have the wind in their sails



Favourable global demand or supply constraints for key commodities (minerals, metals, energy) could improve export revenues and fiscal balances.

Figure 11: Emerging markets discount to the world

*The price/earnings multiple for emerging markets is generally lower than that of developed markets*



Source: Datastream Total market indices, LSEG.  
Data as at 03 November 2025.

**Past performance is not indicative of future results**

**It is fair to say that the attitudes of investors to emerging markets have waxed and waned over long periods. Enthusiasm over their long-run growth prospects has so often been quashed by the re-emergence of crisis. Cheap valuations have been revealed as a value trap. And structural reforms often fail to materialise. 2026, we think, will be a year in which a more favourable appraisal materialises.**

### **Strong valuations**

Emerging market equities are currently priced at a discount relative to developed markets (Figure 11). While such a discount is normally the case, it is wider than on average and we expect that it will attract capital inflows, especially in an environment of low global interest rates.

### **A weak US dollar**

In an environment of moderating inflation and trough interest rates, we expect the US dollar to be generally stable to lower in the year ahead. Historically, emerging market equities have fared well against a lower/stable dollar trend, as it reduces dollar-denominated debts and makes local assets relatively more attractive.

### **Fiscal discipline**

Emerging market economies are often incorrectly assumed to face higher debt burdens than advanced economies. In fact, many of these economies have become fiscally disciplined over the last few decades, learning lessons from previous debt crises such as the Tequila Crisis of 1994. Now, countries such as Mexico, Brazil and India face gross government debt levels as a percentage of their GDP lower than those of advanced economies such as the US, UK, France and Japan.

### **Emerging market domestic demand resilient**

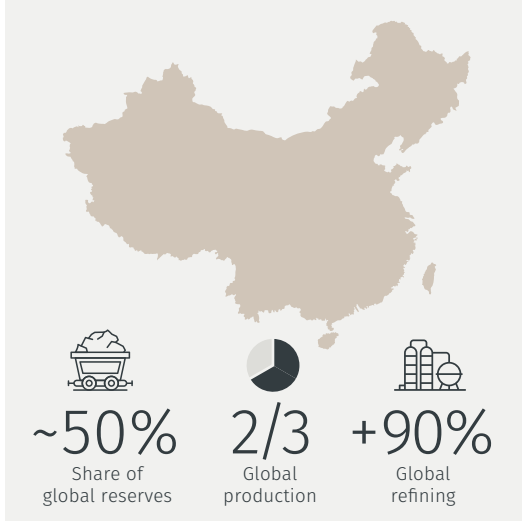
In emerging markets, domestic demand resilience and strong consumer spending remain important pillars of growth. This is most notably the case in India, whereas in China consumer demand is still restrained as a result of a debt overhang, a weak housing market and poor consumer confidence. Even so, China still remains key to overall emerging market developments. It has outsourced production to smaller economies (for example Vietnam) and has helped build infrastructure around the world under its Belt and Road Plan – even though that is now more constrained in its ambitions.

### **Commodities**

In addition to domestic demand forces, several emerging markets are commodity exporters. Favourable global demand or supply constraints for key commodities (minerals, metals, energy) could improve export revenues and fiscal balances.

Figure 12: China's rare earth production and refining

### *China dominates the rare earth commodities battleground*



Source: US Geological Survey and International Energy Agency, Global Critical Minerals Outlook 2025.

#### **Action for investors:**

- For 2026, we see a swing back in emerging markets favour supported by a generally benign global environment (low, but stable growth and inflation) and a stable to weaker dollar. Valuations are at a discount to developed markets.
- EM local currency debt favoured in addition to emerging market commodities.
- 'Picks and shovel' materials companies offer potential growth and opportunities.

A salient example is China's rare earths dominance. The world's second largest economy accounts for almost half of global reserves, two-thirds of global production and over 90% of global refining (Figure 12). China has been strategically building these capabilities over decades. A famous quote from former leader Deng Xiaoping in 1992 highlights this point: "The Middle East has oil and China has rare earths".

Rare earths are versatile, entering supply chains for products ranging from loudspeakers and X-ray machines to missile guidance systems. They are also used in the production of high-tech hardware that AI relies on and will benefit from the AI race. Additionally, the transition to clean energy may raise demand for critical minerals (lithium, cobalt, etc.), benefitting emerging economies that host these resources.

#### **Strong demographics**

Emerging economies that have typically received less attention – notably those in the Gulf region – should continue to do well even as the world pivots away from the use of oil and gas. In particular, they should benefit from their commitment to substantial infrastructure projects and favourable demographics of younger and growing populations (notably female participation in the Saudi workforce).

There have been outflows of funds from emerging market fixed income markets since 2002 (and broadly flat equity flows over the same period). We think the above points set the scene for fund flows into emerging markets to increase and for emerging market performance to recover relative to developed markets.

#### **Risks to recognise**

As with any theme, there are risks that one should be aware of. Geopolitical tensions have been elevated in recent years and this remains the case today. If these tensions were to spike, a flight to safety could pause the weaker dollar trend that benefits emerging markets. This trend could also be arrested by a more hawkish Fed which fails to deliver on market rate cut expectations if US labour market or inflation data is stronger than expected. In addition, the overhanging threat of US tariffs is a prominent risk for the commodity exporting emerging market economies, threatening to disrupt trade flows and lower economic growth.

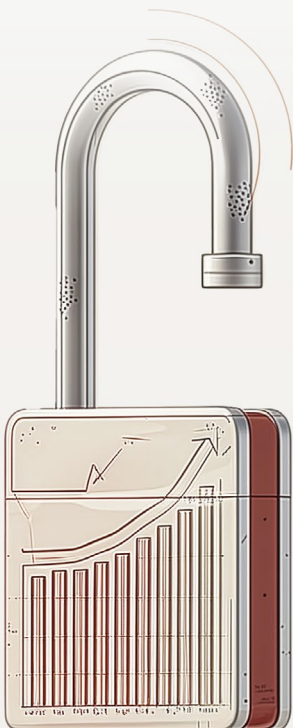
# *Private markets:* Unlocking liquidity and diversification opportunities

Theme №

9

## Key takeaways

- Mid-cap buyouts, secondaries and private debt each play a central role in building flexible and robust private market portfolios.
- Success in private markets increasingly relies on selecting top-performing managers and leveraging expert guidance.





## 9 *Private markets:* Unlocking liquidity and diversification opportunities

**Assets under management in private equity and private debt have experienced rapid growth in recent years and are forecast to reach approximately USD11.9tn and USD2.6tn, respectively (Figure 13).<sup>14</sup>**

However, the industry faces a persistent challenge: the slow return of capital to investors. This issue is driving a shift toward strategies that prioritise liquidity opportunities, diversification, and risk management. Diversified mid-cap private market portfolios, secondaries and private debt are emerging as key solutions, helping investors balance growth opportunities with the need for flexibility and resilience.

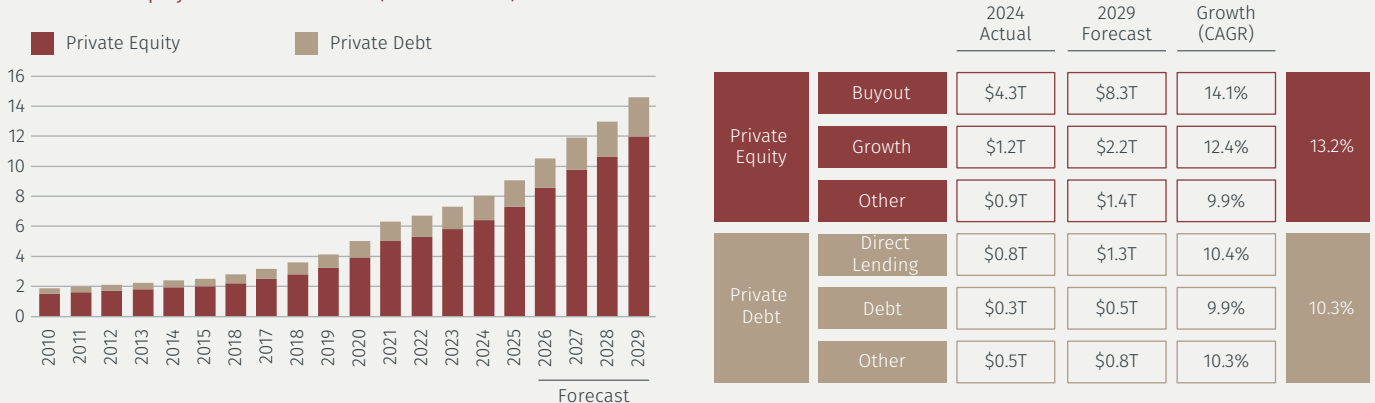
### **Mid-cap buyouts offer built-in diversification**

Mid-cap buyouts could continue to shine in 2026 as a source of diversification, stability and potential high returns. These investments focus on medium-sized companies, which tend to have more attractive entry valuations and offer a larger variety of exit routes than larger deals. Mid-cap managers often rely on trade sales and secondary buyouts rather than IPOs, reducing their dependence on volatile public markets and smoothing the timing of exits. According to Preqin, mid-cap buyouts have delivered stronger annualised returns over the long term, outperforming both large-cap buyouts and the S&P 500.<sup>15</sup>

Figure 13: Private markets are projected to grow significantly

*The private markets sector continues to grow and become democratised*

Global Private Equity and Private Debt AuM (in USD trillions)



Source: Preqin, as of 06 November 2025. **Past performance is not indicative of future results**

<sup>14</sup> Preqin 2025 Global Report. 2024, <https://pro.preqin.com/insights/global-reports/2025-private-equity?chapter=sample>

<sup>15</sup> Preqin Indices Benchmarks tool. 2025, <https://pro.preqin.com/benchmarks/indices/privateCapital>



Investors could increasingly use secondaries to unlock capital from aging assets, reinvest in new opportunities, and adapt to changing market conditions.

Diversification remains critical in private markets. By combining private equity, debt, infrastructure, and real estate, investors can spread risk and achieve more consistent returns. Mid-cap buyouts, in particular, offer a balanced approach, providing steady growth with lower volatility.

#### **Secondaries have historically delivered strong returns**

We believe the secondaries market is poised for significant growth continuation in 2026, driven by its ability to deliver strong returns while offering greater liquidity than traditional private equity. Secondaries provide diversification across vintages, strategies, and managers. This reduces concentration risk and enhances portfolio stability.

Over the past few years, secondaries have consistently outperformed primary private equity funds, potentially making them an attractive option for investors seeking both performance and reduced risk. Of course, past performance is no guarantee of future performance. For vintages from 2019 to 2022, Preqin data indicates that the secondary market achieved a higher median internal rate of return (IRR) by vintage compared to the primary market.<sup>16</sup> Also, the transparency of secondaries – where investors can review underlying assets – adds another layer of confidence, setting them apart from ‘blind pool’ primary funds.

Looking ahead, the secondaries market will likely become the primary mechanism for liquidity in private markets. Investors could increasingly use secondaries to unlock capital from aging assets, reinvest in new opportunities and adapt to changing market conditions.

#### **Private debt has demonstrated consistent and stable returns**

Private debt will remain a cornerstone of private market portfolios in 2026, thanks to its historical ability to provide stable, consistent returns. Additionally, private debt has generated annualised returns ranging from 7.5% to 10.8% over the past five years, outperforming the Morningstar LSTA US Leveraged Loan Index.<sup>17</sup> As an asset class, private debt spans a spectrum of risk and return profiles, from senior secured loans to opportunistic debt. This flexibility allows investors to tailor their exposure based on their risk tolerance and return objectives.

One of the key advantages of private debt is its defensive nature. Floating-rate structures and collateralised loans help protect against downside risk while maintaining attractive yields. Private debt has also proven to be one of the most stable asset classes across market cycles, making it ideal for resilient portfolio construction. Managers with cross-market expertise will be best positioned to deliver hybrid credit solutions, simplifying access to the full credit spectrum.

<sup>16</sup> Preqin 2025 Global Report. 2024

<sup>17</sup> Preqin Indices Benchmarks tool. 2025

**Action for investors:**

- Mid-cap buyouts, secondaries and private debt will play a central role in this transformation, offering investors the tools they need to navigate this high potential market.
- The key to success will be selectivity, focusing on selecting top managers and strategies that align with long-term objectives while managing risk.

Private markets will continue to evolve, driven by the need for liquidity, stability, and growth. Mid-cap buyouts, secondaries and private debt will play a central role in this transformation, offering investors the tools they need to navigate this high potential market. Success in private markets hinges on selectivity, focusing on strategies that align with long-term objectives while managing risk.

Crucially, the disparity of returns in private markets underscores the importance of selecting top quartile managers. Thus, leveraging the expertise of trusted advisors to identify and access these high-performing managers is essential to capturing the full potential of private markets. By embracing these trends and prioritising expert guidance, investors can position themselves for resilience and growth in the years ahead.

# *IPO and M&A activity:* Multiple sectors set to benefit

Theme №

10

## Key takeaways

- After a quiet period due to rising interest rates and market volatility, we expect to see the US IPO market continue its recovery.
- Special Purpose Acquisition Companies (SPACs) are expected to find a niche role in sectors where speed to market is crucial, such as biotech.
- Dealmakers in 2026 will likely prioritise quality over volume, focusing on strategic alignment rather than opportunistic expansion.





## 10 *IPO and M&A activity:* Multiple sectors to benefit

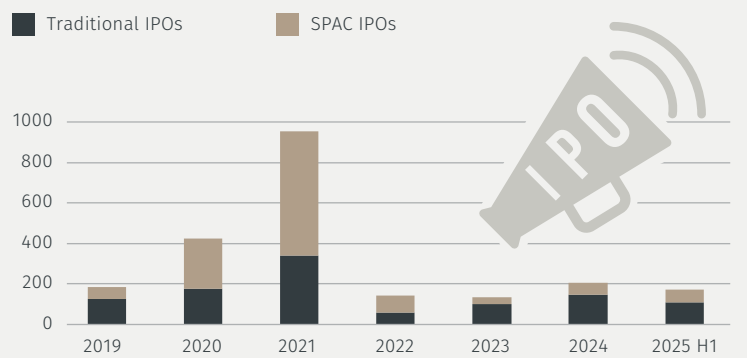
**The outlook for initial public offerings (IPOs) and mergers and acquisitions (M&A) in 2026 is for a normalisation after a drying-up of activity in recent years. A combination of sectoral opportunities, pent-up demand and strategic opportunities points to a more active year.**

### **IPO market: Recovery with discipline**

The US IPO market was subdued through much of 2022–24 amid inflation, rising rates and market volatility. It began to recover in 2025 (Figure 14) and we expect that momentum to carry into 2026. Companies in high-growth sectors – AI, biotech, clean energy and green infrastructure – are likely to drive issuance, as investor demand for innovation and thematic exposure remains strong. Private equity (PE) sponsors are also likely to see 2026 as an attractive exit window with interest rates expected to trough. Indeed, PE-backed IPO listings more than doubled in the first three quarters of 2025 compared to the same period in 2024.<sup>18</sup>

Figure 14: Number of US IPOs

*While IPO levels are still below their peak of 2021, 2025 has shown signs of recovery*



Sources: EY; SPAC Insider and Trout. Data as at 03 November 2025.

However, stricter regulatory requirements around disclosures, governance and ESG standards raise the bar for public listings. Companies are also tending to stay private for longer, preferring to reach greater scale before entering public markets. Valuation conditions matter: if equity multiples compress due to economic slowdown or policy tightening, issuance could pause. Overall, 2026 is best characterised as a year of IPO recovery – more active than 2025, but far from the exuberance of 2020–21.

Global growth in IPOs is set to remain a key phenomenon. In the first half of 2025, there were almost as many IPOs in India and China as in the US. This is despite the number of IPOs in these countries declining compared to the same period a year earlier. However, while IPO volumes declined in Asia, proceeds rose, bolstered by listings of chips and semiconductor

<sup>18</sup> EY Global IPO Trends Q3 2025

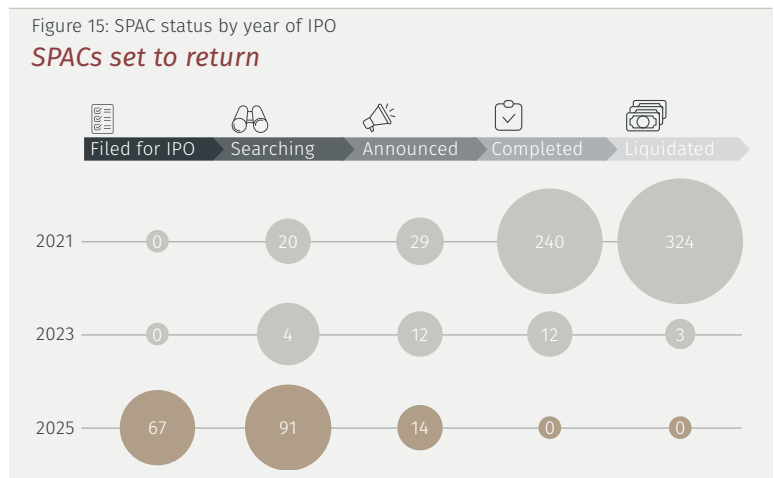


In the first half of 2025, there were almost as many IPOs in India and China as in the US.

manufacturing companies. This was evidenced by the fact the amount raised in China was higher than in the US.

### Return of the SPAC

Special Purpose Acquisition Companies (SPACs) are listed companies with high levels of liquidity or credit lines which can be quickly deployed to acquire other companies. They soared in popularity earlier in the decade before collapsing under poor performance and regulatory backlash but are showing signs of a comeback. In the first half of 2025, SPACs represented over 40% of IPO issuance in the US (Figure 15). This was supported by a favourable regulatory backdrop after the Securities and Exchange Commission implemented enhanced disclosure and investor protection rules in 2024.



Source: SPAC Insider. Data as at 22 October 2025.

Still, headwinds remain. Investor scepticism lingers after underwhelming post-merger performance in the last cycle. Quality deal flow is another challenge: sponsors must secure credible targets with sound financials, which will limit volume compared to the earlier boom. Thus, SPACs are unlikely to regain their past scale, but they will persist as one option within a diversified menu of listing routes.

### M&A: Strategic but constrained

M&A activity slowed in 2024–25, reflecting higher interest rates, market uncertainty and regulatory pushback. In 2026, conditions appear somewhat more supportive. Corporates face strategic imperatives to transform business models, secure supply chains, and invest in digital and green transitions. These pressures create demand for consolidation and bolt-on acquisitions. Private equity, holding substantial dry powder, is also poised to re-enter the market.

Cross-border M&A could regain momentum as companies reposition for supply-chain resilience and market access. However, geopolitical tensions, sanctions regimes and investment-screening frameworks will complicate global dealmaking. Regulatory scrutiny, particularly in technology, healthcare, and infrastructure, remains a significant headwind. Financing costs, while lower than the peak, will still constrain highly leveraged transactions. As a result, dealmakers in 2026 will likely prioritise quality over volume, focusing on strategic alignment rather than opportunistic expansion.

#### Action for investors:

- Look for opportunities in key sectors including biotech, IT and robotics.
- We favour investment banks who are set to benefit from the dealmaking activity.

# How *we* *did* in 2025

Each year we review the predictions made in the previous year.

Overall score\* for our 2025 predictions:

# 8 / 10

\* Scoring as at 31 October 2025.

1

**Correct**

## The global economy remains resilient despite headwinds

The three headwinds we saw to global growth – continued problems in China (the housing market, high private and public debt levels); high government debt and deficits in many advanced economies; and trade disruption were clearly evident. But growth in the main advanced economies was only slightly lower than in 2024 (1.6% compared with 1.8%); and the emerging economies grew at a similar rate to the previous year (4.2% compared to 4.3%).<sup>1</sup>

2

**Correct**

## BRICS grow in importance

Membership of the BRICS expanded, with Indonesia becoming the tenth member of the group in January 2025. This came after the 2024 additions of Egypt, Ethiopia, Iran, and the UAE. These 10 economies represent almost half of the world's population. Because of their generally faster rate of growth, they accounted for more than half of the world's GDP growth in 2025. Ten 'partner countries' also joined the group in 2025. In addition, Emerging market equities significantly outperformed developed markets in 2025.

3

**Correct**

## Focus of policy shifts from inflation to employment

Seven central banks (Australia, UK, US, Turkey, Canada, Mexico and Indonesia) cut interest rates as the employment situation showed signs of deterioration, even though underlying inflation remained sticky.

<sup>1</sup> Source: IMF World Economic Outlook; October 2025.

4

Correct

## Government deficits remain a problem

Concern about fiscal trends was seen in most advanced economies, notably France, the UK and the US. In the US, however, there was some optimism that high deficits could be tackled by faster growth and increased tariff revenue. IMF forecasts see budget deficits in France and the UK persisting – with a consequent rise in their debt stocks – in the coming five years.<sup>2</sup>

5

Correct

## AI goes mainstream

The number of weekly active users of ChatGPT more than doubled in 2025: from around 300m to 800m. Other AI assistants also saw increased use. For businesses, AI assistance has become more widespread. Use is not confined to big companies. A survey of US small businesses found that 40% use AI in the workplace.<sup>3</sup> It is clear that China is also making great progress in the use of AI.

6

Correct

## Nuclear power renaissance

In the US, four Executive orders set out plans to increase US nuclear power capacity from 100GW to 400GW by 2050. China, meanwhile, plans to add 100GW of capacity (the same as the US's current capacity) and surpass US capacity by 2030. Development of Small Modular Reactors (SMRs) has progressed quickly although how soon they can come online remains an issue. The need to add more nuclear electricity production is now widely recognised.

7

Correct

## Corporate earnings supported

In the US, aggregate corporate earnings per share were 11% higher in the first ten months of 2025 than in the equivalent period of 2024. Earnings growth was stronger in the US than the rest of the world: world corporate earnings were 6% higher than a year earlier.<sup>4</sup> Company earnings proved resilient in the face of the global uncertainties, particularly the impact of tariffs.

8

Incorrect

## Market concentration: a relative danger

Total returns from the largest US technology-related equities (the 'Magnificent 7') were 25.4% in the year to 31 October, higher than the 14.5% returns from the other 493 stocks in the S&P500 index during the same period. The result was an overall total return from the S&P500 index of 17.5%. Although that meant the largest tech stocks continued to produce higher returns (as they had done in 2024), they were much more volatile in their price return than the other 493 stocks.

9

Incorrect

## Consumer discretionary is our favoured sector

The consumer discretionary sector produced total returns of 7.8% in the year to 31 October 2025. That meant it ranked 6th of the 11 S&P500 sectors in the period. The main reasons for the relative weakness were disappointment about the slow pace of interest rate reductions and the uncertainty created by US tariff announcements and the impact on consumer sentiment.<sup>5</sup>

10

Correct

## Yield curve steepening

The US yield curve steepness (measured as the difference between 10-year yields and 3 month interest rates) was little changed during the year, with both falling by similar amounts. However, other parts of the curve did steepen – notably the 30 year-10 year spread and the 10 year-2 year spread. In the UK, France and Japan, yield curves steepened.

<sup>2</sup> Source: IMF World Economic Outlook; October 2025.

<sup>3</sup> <https://www.uschamber.com/assets/documents/Impact-of-Technology-on-Small-Business-Report-2024.pdf>

<sup>4</sup> Source: Datastream Total Market Indices via LSEG; data are totals for the year to 31 October compared with the equivalent period of 2024.

<sup>5</sup> Source: LSEG data for the year to 31 October 2025.



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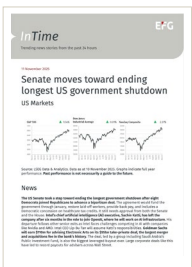


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Our top 10 themes  
for the year ahead

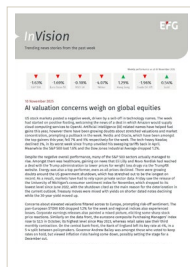


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A view on how we expect asset classes to  
behave over the next 7-10 years

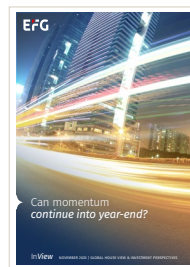
## Core publications



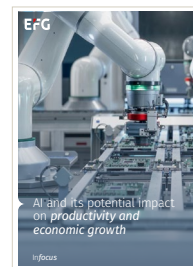
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