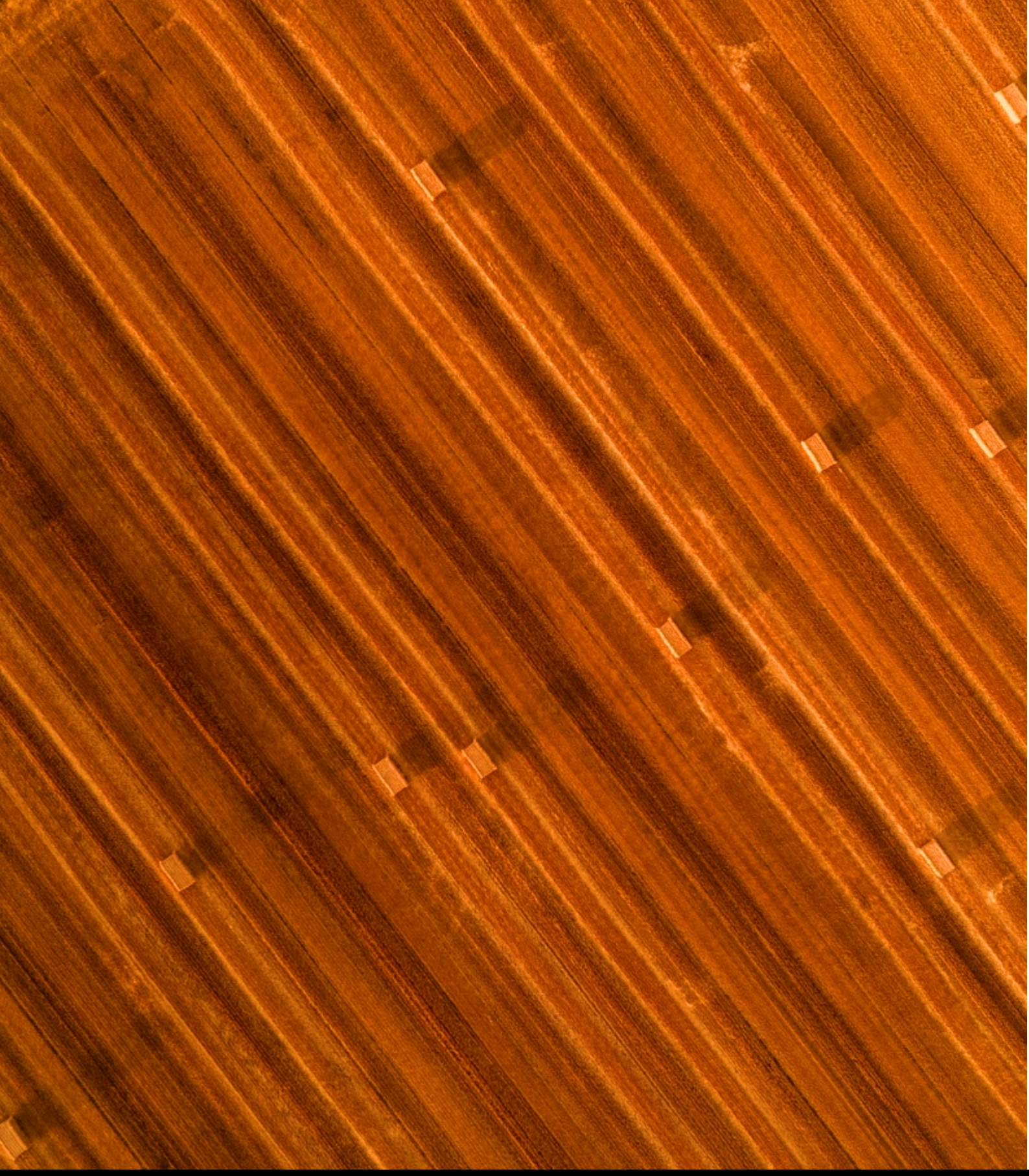


Optimism requires discipline

Mid-year outlook 2026

Introduction:
Optimism requires discipline

9 July 2026

Dear reader

The first half of 2026 reminded investors that markets and headlines often tell very different stories.

Trade disputes intensified, conflict in the Middle East disrupted energy markets, fiscal concerns resurfaced and geopolitical uncertainty remained elevated. Yet despite this backdrop, many equity markets reached new highs, corporate earnings generally exceeded expectations and artificial intelligence became an even more significant driver of investment and productivity.

The disconnect is instructive. Markets ultimately respond to changes in long-term cash flows, earnings and capital allocation rather than the volume of daily news. **Distinguishing between events that dominate headlines and those that genuinely alter long-term investment outcomes remains one of the most valuable disciplines in investing.**

This mid-year outlook examines the themes we believe will shape portfolios during the remainder of 2026 and beyond. Artificial intelligence is evolving from a technology theme into a broad industrial investment cycle. Geopolitical fragmentation is reshaping government spending, corporate investment and global supply chains. Fiscal policy, infrastructure investment and energy security are becoming increasingly important drivers of asset prices alongside monetary policy.

The report also reflects another important conclusion. **Investment success depends not only on selecting attractive assets, but on constructing resilient portfolios.** Higher interest rates have restored the attractiveness of fixed income, while hedge funds, infrastructure, private markets and structured products provide investors with additional tools to improve diversification, manage risk and generate returns across a wider range of market environments.

No report can predict every market movement or geopolitical development. **Our objective is simpler: to identify the structural forces most likely to influence long-term investment returns and to position portfolios accordingly.**

We hope you find this report both informative and thought-provoking.



Aditya Sarin
Chief Executive Officer



Nick Perryman
Vice Chairman
Chairman, Investment Committee





Five observations from the first half

1. Investors have been rewarded for ignoring the news

The first half of 2026 provided no shortage of reasons for caution. Trade disputes intensified, conflicts escalated in the Middle East, fiscal concerns resurfaced, and volatility periodically returned to markets. **Yet despite a near-constant stream of alarming headlines, risk assets continued to advance.**

This does not mean markets have become indifferent to risk. Rather, investors have become increasingly selective about which risks matter. Earnings growth, economic resilience and structural investment trends proved more important than daily news flow.

The lesson is not that news is irrelevant. It is that successful investing requires distinguishing between events that dominate headlines and those that genuinely alter long-term cash flows and valuations.

Why important: Investors who reacted to every headline often struggled to keep pace with markets. Those who remained focused on fundamentals were generally rewarded.

2. AI is becoming an industrial revolution, not a technology trend

Much of the early excitement around AI centred on software, semiconductors and a handful of technology companies. During the first half of 2026, however, the scale of investment required to support AI became increasingly apparent.

The beneficiaries now extend well beyond the technology sector. Data centres, power generation, transmission networks, cooling systems, fibre infrastructure and specialised industrial equipment have all become part of the AI investment ecosystem.

Increasingly, AI resembles previous industrial revolutions. It requires vast amounts of capital, physical infrastructure and energy. The implications are likely to be felt across multiple sectors and asset classes for years to come.

Why important: The AI opportunity is no longer confined to technology. It is becoming a broader economic and investment cycle.

3. Geopolitics is reshaping capital allocation

For many years, geopolitical events were often viewed as temporary market disruptions. Today, they are increasingly influencing where companies invest, how governments spend and how global supply chains are organised.

Defence spending is rising. Energy security has become a strategic priority. Supply chains are being redesigned for resilience rather than maximum efficiency. Industrial policy has returned to the centre of economic decision-making.

These developments are changing the flow of capital across industries, regions and asset classes.

Why important: Geopolitics is no longer simply a source of market volatility. It is becoming a driver of long-term investment outcomes.

4. The US economy remains the world's most important asset

The most remarkable feature of the global economy in the first half of 2026 was not the strength of equity markets. It was the **continued resilience of the US.**

Despite elevated interest rates, political uncertainty and widespread expectations of slower growth, the US economy continued to expand. Consumer spending remained resilient, corporate earnings generally exceeded expectations and labour market conditions softened only gradually.

Given the dominant role of the US in global equity markets, private markets and innovation, this resilience has been one of the most important drivers of investment returns.

Why important: Most global portfolios are ultimately dependent on the continued strength of the US economy, whether investors realise it or not.

5. Diversification is no longer optional

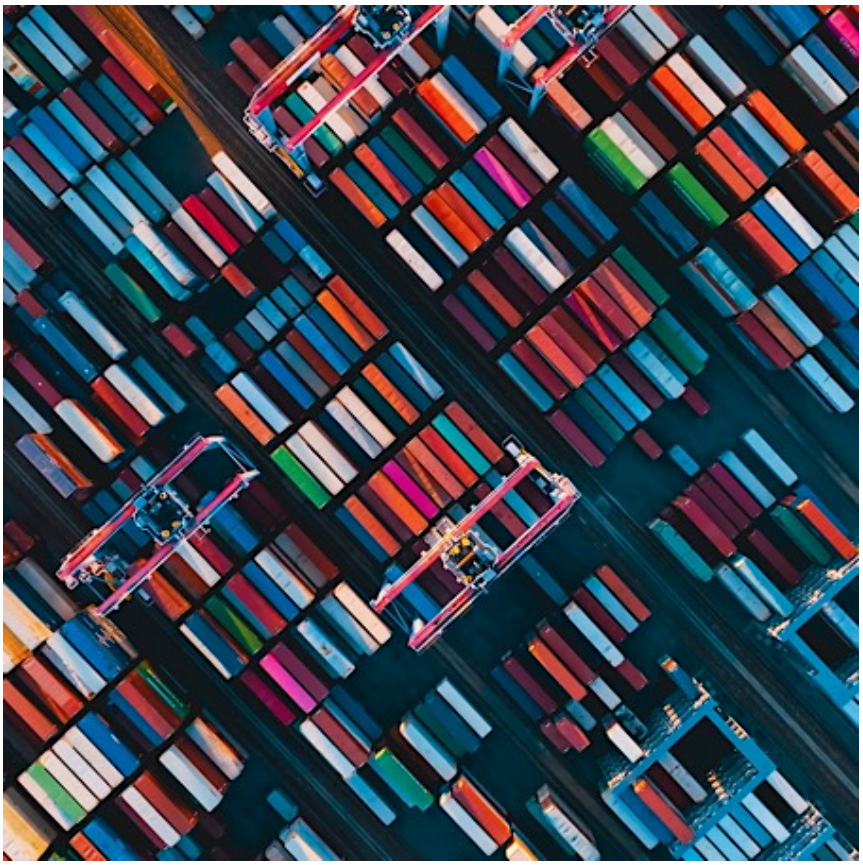
For much of the past decade, concentration was rewarded. A relatively small number of exceptional businesses generated a disproportionate share of market returns, and many investors benefited from allowing those positions to grow.

While these companies remain fundamentally strong, concentration risk has increased.

Portfolios have become increasingly dependent on a narrow set of assumptions surrounding technology adoption, earnings growth and market leadership.

At the same time, higher interest rates have improved the attractiveness of fixed income, while infrastructure, private markets, gold and selective international exposures once again offer meaningful diversification benefits.

Why important: The challenge is no longer deciding whether concentration has worked. The challenge is ensuring portfolios remain resilient if leadership broadens or market conditions change.



Five themes for the second half

1. The monetisation test for AI

The first phase of the AI investment cycle was characterised by infrastructure spending. Capital flowed into semiconductors, hyperscale data centres, networking equipment, cloud infrastructure and the power systems required to support rapidly growing computational demand. Markets rewarded those businesses that enabled the AI revolution.

The second half of 2026 may mark the beginning of a more demanding phase. **Investors will increasingly focus on whether this extraordinary investment can generate sustainable economic returns.** The key question is shifting from capability to commercialisation.

The ultimate winners may not necessarily be those building the infrastructure, but those successfully deploying AI to improve productivity, enhance customer experiences, reduce costs and create new sources of revenue. As a result, leadership may gradually broaden beyond the initial beneficiaries. The debate is no longer whether AI will transform the economy. The debate is who captures the value.

2. The price of American exceptionalism

The US remains the world's most dynamic major economy. It continues to lead in innovation, capital formation, technological development and corporate profitability. Much of the resilience observed in global markets during the first half of the year can ultimately be traced back to the strength of the US economy and US businesses.

The challenge for investors is that exceptional assets often command exceptional valuations. US equities represent a historically large proportion of global market capitalisation, while many of the world's most valuable companies remain concentrated within a relatively small group of businesses. This concentration has been supported by strong fundamentals, but it also raises the bar for future performance.

The key question for the second half of 2026 is not whether America remains exceptional. It is whether future earnings growth can continue to justify current expectations.

3. The US debt question

For much of the past decade, rising government debt attracted considerable attention but had limited impact on financial markets. Investors were willing to focus on economic growth, corporate earnings and central bank policy while largely overlooking fiscal trends. That may become more difficult.

Persistent deficits, elevated refinancing needs and increasing Treasury issuance are beginning to attract greater scrutiny. **While there is little evidence of an imminent fiscal crisis, the trajectory of US government debt is becoming harder to ignore.**

The implications extend well beyond politics. Government borrowing influences bond yields, financing costs, liquidity conditions and ultimately equity valuations. The issue is not whether the US can service its obligations. Rather, it is whether investors continue to demand higher compensation for funding them.

Fiscal policy is becoming an increasingly important investment variable.

4. Energy, infrastructure and security

Three of the most important investment themes of the decade increasingly converge around a common requirement: physical infrastructure.

AI requires vast amounts of power. Geopolitical fragmentation has increased the importance of energy security. Meanwhile, governments across developed markets continue to

invest in strategic infrastructure, domestic manufacturing capabilities and supply-chain resilience.

As a result, sectors once viewed as mature or cyclical are taking on renewed strategic significance. Energy generation, transmission networks, industrial infrastructure, logistics systems, defence capabilities and critical resources are becoming increasingly important foundations of economic growth.

This trend extends beyond a single market cycle. It reflects a broader shift towards resilience, security and long-term capital investment.

5. Resilience over prediction

The first half of 2026 provided another reminder that markets rarely move in line with consensus expectations. Investors faced geopolitical tensions, trade disputes, fiscal concerns and renewed energy market volatility, yet many risk assets continued to perform strongly.

Forecasting remains valuable, but resilience may be more important.

Rather than attempting to predict every economic or political development, investors should focus on building portfolios capable of performing across a range of potential outcomes. Diversification, liquidity, quality, risk management and disciplined asset allocation remain powerful tools in uncertain environments.

The objective is not to eliminate uncertainty. It is to ensure portfolios can withstand it.

In a world characterised by rapid technological change, geopolitical complexity and evolving policy regimes, resilience may prove more valuable than precision.



Summary of our views

Overall

Asset class	Position	Conviction	Summary
Equities	Neutral	High	We remain positive on long-term earnings, but elevated valuations and market concentration justify a balanced overall stance.
Fixed income	Positive	High	Higher yields have restored fixed income as an attractive source of income and portfolio resilience, particularly in higher-quality segments.
Cash	Negative	High	Cash remains appropriate for liquidity needs, but we believe excessive cash holdings carry increasing opportunity cost over the medium term.
Alternatives	Positive	Medium	Infrastructure and selected hedge fund strategies continue to benefit from structural investment themes and diversification benefits.

Equities

Region	Position	Conviction	Summary
United States	Positive	High	Superior earnings growth, AI leadership and resilient economic fundamentals continue to justify a valuation premium.
Europe	Neutral	Medium	Attractive valuations are balanced by weaker long-term growth, making selectivity more important than broad regional exposure.
United Kingdom	Neutral	Medium	Offers compelling value and income characteristics, but relatively few catalysts for sustained earnings acceleration.
Japan	Positive	High	Corporate governance reform, improving shareholder returns and stronger domestic fundamentals continue to strengthen the investment case.
China	Neutral	Medium	Attractive valuations are offset by ongoing geopolitical, regulatory and domestic growth uncertainties.
India	Positive	Medium	Long-term structural fundamentals remain encouraging, although elevated valuations reduce the margin for disappointment.

Summary of our views

US fixed income

Sector	Position	Conviction	Summary
Treasuries	Positive	High	Short-to-intermediate maturities offer attractive income while limiting exposure to higher long-term yields.
Duration	Negative	High	We remain cautious on long-duration exposure given persistent fiscal deficits, elevated Treasury issuance and upward pressure on term premia.
Investment grade	Positive	High	Attractive carry and resilient corporate fundamentals continue to support higher-quality credit.
High Yield	Neutral	Medium	Tight spreads limit the additional compensation available for assuming greater credit risk.

Alternatives

Asset	Position	Conviction	Summary
Infrastructure	Very positive	High	AI, electrification and energy security continue to drive long-term demand for essential infrastructure assets.
Hedge funds	Positive	High	Increasingly attractive as greater macroeconomic uncertainty and market dispersion create a broader opportunity set for skilled active managers. We favour global macro, CTAs, relative value and market neutral equity strategies that can generate returns with lower dependence on overall market direction.
Private credit	Negative	Medium	Attractive income opportunities remain, but compressed spreads make manager selection and underwriting discipline increasingly important.
Real estate	Neutral	Medium	We favour logistics, residential and digital infrastructure while remaining cautious on lower-quality office assets.
Gold	Neutral	Medium	A valuable strategic diversifier, although recent performance limits the tactical case for increasing allocations.
Bitcoin	Neutral	Low	Institutional adoption continues to improve, but high volatility supports only modest exposure for appropriate investors.

United States: Resilient growth meets demanding valuations

US economy: Resilience continues, but the margin for error is narrowing

The US economy enters the second half of 2026 in a stronger position than most investors expected at the start of the year. Despite elevated interest rates, persistent fiscal deficits and geopolitical uncertainty, economic activity has remained resilient. Consumer spending continues to support growth, labour market conditions have softened only gradually, and corporate earnings have generally exceeded expectations. **AI is also making an increasingly meaningful contribution to the economy, with analysis suggesting AI-related investment accounted for almost 40% of US economic growth during the first nine months of 2025.** Consensus expectations remain for US GDP growth of around 2% in 2026, while inflation is expected to continue easing, albeit remaining above the Federal Reserve's 2% target, limiting the scope for rapid monetary easing.

The central investment question is no longer whether the US economy can avoid recession. It is whether continued economic resilience can justify increasingly demanding expectations.

The US remains the world's leading centre for innovation, capital formation and technological development. Investment associated with AI continues to support growth across technology, infrastructure, energy and industrial sectors. The next phase of the cycle will depend less on AI infrastructure spending and more on the extent to which productivity gains and commercial applications emerge across the broader economy.

At the same time, fiscal policy is becoming increasingly important. Rising government debt and ongoing Treasury issuance have yet to disrupt markets materially, but they are contributing to upward pressure on longer-term bond yields and increasing scrutiny of the US fiscal trajectory.

Our base case remains positive. We expect growth to moderate rather than contract, inflation to continue easing gradually and the Federal Reserve to remain cautious in its approach to policy easing.

The principal risks to this outlook are a reacceleration of inflation, a sharp deterioration in labour market conditions, or a material increase in longer-term yields driven by fiscal concerns.

US equities: Earnings delivery becomes the test of US market leadership

US equities continue to benefit from a combination of resilient economic growth, strong corporate profitability and sustained investment in AI. While valuations remain elevated relative to most developed markets, they are supported by superior earnings growth, deeper capital markets and continued leadership in innovation.

Market concentration remains an important consideration. A relatively small group of companies continues to account for a disproportionate share of market returns. While these businesses remain fundamentally strong, increasingly demanding valuations leave less room for disappointment. Nevertheless, **corporate fundamentals remain robust, with approximately 84% of S&P 500 companies exceeding earnings expectations during the latest Q1 reporting season.** We expect earnings growth to remain the primary driver of future returns.

Encouragingly, market leadership has shown signs of broadening. Industrials, infrastructure-related businesses, selected financials and companies exposed to capital expenditure cycles may increasingly participate in market gains. Such broadening would be a healthy development and could support a more durable advance.



Figure 1: Forward P/E ratio for S&P 500
Source: Bloomberg

We remain positive on US equities but recognise that future returns are likely to be more dependent on earnings delivery than valuation expansion. In our view, high-quality businesses with durable competitive advantages, strong balance sheets and clear exposure to long-term structural growth remain best positioned.

The principal risks are a meaningful slowdown in economic activity, a reacceleration of inflation leading to higher interest rates, or a failure of AI-driven investment to translate into sustainable earnings growth across the broader market.

US fixed income: Income remains attractive, but quality and duration discipline matter

Fixed income has re-emerged as a meaningful source of portfolio income, but opportunities vary significantly across sectors. While yields remain attractive in absolute terms, investors must balance income generation against inflation, fiscal and interest-rate risks.

We remain constructive on US **government** bonds, particularly in the short-to-intermediate part of the yield curve. Current yields provide attractive income while preserving liquidity and portfolio resilience. However, we remain cautious on excessive **duration** exposure. Persistent fiscal deficits, elevated Treasury issuance and uncertainty around the long-term path of inflation could continue to place upward pressure on longer-dated yields.

Within corporate credit, **investment grade** bonds remain attractive. Corporate balance sheets are generally healthy, default risk remains low and yields continue to offer reasonable compensation relative to cash. We believe investment grade credit remains one of the more compelling areas of fixed income for long-term investors.

By contrast, we are more selective within **high yield** markets. Credit spreads remain relatively compressed, with US investment grade spreads of around 0.7% p.a. and high yield spreads of approximately 2.7% p.a., limiting the additional compensation available for assuming greater credit risk. Economic conditions remain supportive and default rates are contained, but with credit spreads relatively tight by historical standards, investors are receiving less compensation for assuming additional credit risk than in previous periods.

Our expectation remains that the Federal Reserve will ease policy only gradually. As a result, carry is likely to remain a significant component of fixed income returns.

Overall, we favour a balanced approach centred on high-quality **government** and **investment grade** bonds, while maintaining a disciplined approach to **duration** risk and a selective stance towards **high yield** credit.

Europe: Stability returns, but structural challenges remain

European Union: Germany leads recovery, but Europe's outlook remains uneven

Economy

Europe enters the second half of 2026 on a firmer footing. Inflation has moderated, monetary policy is becoming less restrictive, and recession risks have receded. However, growth remains modest by historical standards and continues to lag the US.

The most important development is occurring in **Germany**. Increased defence spending, infrastructure investment and industrial policy initiatives represent a significant shift in fiscal policy and could provide a meaningful boost to activity after several years of stagnation. Germany's €500 billion infrastructure programme and increased defence spending represent the largest fiscal expansion in decades and should provide meaningful support to investment and industrial activity. Whether this translates into a broader revival of European competitiveness remains an open question.

By contrast, **France** faces a different challenge. Rising fiscal pressures and concerns around public finances limit policy flexibility and highlight the growing divergence within the eurozone's largest economies.

Europe's outlook is therefore becoming increasingly dependent on structural reform and investment rather than monetary policy alone. **We expect modest growth and gradually improving business confidence but remain cautious on the region's longer-term growth potential.**

Equities

European equities continue to trade at a substantial discount to US markets – approximately 15 times forward earnings, compared to 21 for the S&P 500. While part of this reflects weaker growth prospects and lower exposure to technology, it also means expectations are considerably less demanding.

The investment case for Europe increasingly rests on earnings rather than valuation expansion. Defence spending, infrastructure investment and industrial modernisation may provide support for selected sectors, particularly German industrials and capital goods companies. Meanwhile, many European businesses derive a significant proportion of revenues outside Europe, reducing dependence on domestic growth.

We remain selectively positive, but continue to favour US equities where innovation, profitability and structural growth remain stronger. Europe offers value, whilst the US offers growth.

United Kingdom: Valuations remain attractive, but stronger growth remains elusive

Economy

The UK economy enters the second half of 2026 in a more stable position than it occupied during the inflation shock of recent years. Inflation has moderated, monetary policy is becoming less restrictive and financial conditions are gradually improving. However, growth remains subdued and continues to lag the US.

The Bank of England has greater scope to ease policy than it did a year ago, which should provide some support to economic activity. Nevertheless, the UK continues to face longer-term challenges around productivity, investment and competitiveness.

We expect modest growth and a gradual improvement in economic conditions, but do not currently see a catalyst for a significant acceleration in activity.

Equities

UK equities remain one of the cheapest major equity markets globally. While this discount partly reflects slower domestic growth and limited exposure to high-growth technology sectors, it also creates opportunities for long-term investors.

Many leading UK-listed companies derive the majority of their revenues internationally, providing exposure to global growth rather than purely domestic economic conditions. The market also offers attractive exposure to sectors such as financials, energy, healthcare and consumer staples.

We remain selectively positive. **The UK market lacks many of the structural growth characteristics that continue to support US equities, but attractive valuations and strong dividend yields continue to support the investment case.**



Asia: Transformation creates diverse investment opportunities

Japan: Corporate reform and wage growth are reshaping the investment case

Economy

Japan remains one of the more distinctive developed-market opportunities because several long-running trends are shifting at the same time. The most important is the move away from deflation. In 2026, preliminary Shunto wage negotiations delivered average pay increases of 5.26%, following a final 5.25% increase in 2025 - the strongest wage momentum in more than three decades. That matters because sustained wage growth is central to turning inflation from a temporary price shock into a more durable domestic demand cycle.

Policy is also at a different stage from the US and Europe. The Bank of Japan is only gradually normalising after years of ultra-loose policy, meaning financial conditions remain relatively supportive. At the same time, Japan's latest growth strategy targets around ¥370 trillion, or $2.3 trillion, of public and private investment by 2040 across sectors including AI, semiconductors and space.

Equities

The equity story is no longer simply that Japan is cheap. It is that corporate behaviour is changing. The Tokyo Stock Exchange's pressure on companies trading below book value has made capital efficiency a board-level issue, encouraging higher dividends, larger buybacks and a greater focus on return on equity.

Examples are becoming visible. Mitsubishi Corporation announced a ¥1 trillion share buyback programme alongside a three-year ¥4 trillion investment plan, while Mizuho expanded its buyback programme from ¥200 billion to ¥300 billion. Toyota sold ¥325.9 billion of cross-held listed shares in FY2023/24, reducing its cross-shareholdings from 141 stakes to 124.

Japan also has strategic relevance. It is exposed to automation, precision manufacturing, semiconductors and supply-chain diversification.

We remain positive: Japan combines wage growth, policy normalisation, corporate reform and industrial relevance in a way few other developed markets currently do.

China: Technology and manufacturing remain competitive strengths

Economy

China's economy continues to adjust to a more moderate pace of growth as policymakers balance short-term stimulus with longer-term structural reforms. Ongoing challenges in the property sector, subdued consumer confidence and demographic pressures continue to weigh on domestic demand, while trade tensions and geopolitical fragmentation add further uncertainty.

Against this backdrop, policymakers retain considerable capacity to support activity through targeted fiscal and monetary measures. Rather than pursuing broad-based stimulus, the emphasis remains on strategic sectors including advanced manufacturing, semiconductors, electric vehicles and AI.

While China's era of double-digit growth is firmly behind it, its role within global manufacturing, technology supply chains and industrial production remains significant. We expect growth to remain below historical norms but sufficient to support continued investment in strategically important industries.

Equities

The investment case for China has become increasingly selective. Valuations remain attractive relative to developed markets, but regulatory uncertainty, geopolitical tensions and weaker domestic demand continue to justify a valuation discount.

The strongest opportunities are increasingly concentrated in advanced manufacturing, semiconductors, automation, electric vehicles and physical AI rather than consumer- or property-related sectors. China's competitive advantage lies in its manufacturing capability, engineering expertise and ability to deploy technology at scale. Open-source AI developments may further accelerate adoption across the economy, although lower barriers to entry are unlikely to translate into higher profitability across the sector.

We remain neutral on broad Chinese equities but see selective opportunities in companies aligned with industrial modernisation, technology leadership and supply-chain resilience.

India: Favourable long-term prospects meet demanding current valuations

Economy

India remains one of the strongest structural growth stories globally and is expected to remain the world's fastest-growing major economy, with GDP growth forecast at around 6–7%. Unlike many export-dependent economies, growth is increasingly supported by domestic consumption, rising household incomes and sustained public investment.

The government's continued focus on infrastructure, manufacturing and digital transformation is strengthening the country's long-term productive capacity. India's Production Linked Incentive schemes continue to attract investment into sectors such as electronics, semiconductors and advanced manufacturing, while global supply-chain diversification has positioned India as a key beneficiary of the "China+1" strategy. Equally important is India's digital public infrastructure. Platforms such as Aadhaar and the Unified Payments Interface have transformed financial inclusion and digital commerce, supporting productivity and formalising larger parts of the economy.

While near-term growth may moderate from exceptionally strong levels, we believe India's structural outlook remains among the strongest of any major economy.

Equities

Indian equities continue to command a significant valuation premium to most emerging markets, reflecting superior earnings growth, improving corporate governance and confidence in the country's long-term economic prospects. MSCI India currently trades at approximately 20 forward earnings, compared with 12 for the broader MSCI Emerging Markets Index.

This premium inevitably reduces the margin for disappointment, particularly following several years of strong market performance.

However, the structural investment case remains compelling. Corporate earnings continue to benefit from formalisation of the economy, expanding financial services, infrastructure investment and rising domestic consumption. Unlike many emerging markets, India is also increasingly supported by a deep and growing domestic investor base, reducing dependence on foreign capital flows.

We remain optimistic on Indian equities as a strategic long-term allocation rather than necessarily a tactical opportunity. While elevated valuations may lead to periods of increased volatility, India's favourable demographics, policy reforms and expanding manufacturing base continue to provide a strong foundation for long-term earnings growth.

Currencies: Interest rate differences continue to drive currency markets

The dramatic US dollar weakness that many investors anticipated at the start of 2026 has largely failed to materialise. Sticky inflation has delayed expectations for monetary easing, with markets now pricing a more restrictive Federal Reserve and even the possibility of further policy tightening. This has provided important support for the **US Dollar**, offsetting concerns surrounding fiscal deficits and elevated government debt.

Over the next 6–12 months, we expect the dollar to remain broadly range-bound. While higher US interest rates continue to provide support, much of this hawkish repricing is now reflected in market expectations. At the same time, other major central banks are also gradually tightening policy. The **European Central Bank** is expected to continue normalising rates, the **Bank of Japan** is likely to tighten policy further as inflation becomes more firmly established, and the **Bank of England** has maintained a relatively hawkish stance. As a result, interest-rate differentials are unlikely to widen materially from current levels.

Over the medium term, however, we believe the balance of risks shifts. As inflation gradually moderates, we expect the Federal Reserve to resume its easing cycle, reducing one of the dollar's principal sources of support. Combined with persistent US fiscal deficits and narrowing policy differentials, this should lead to a gradual depreciation of the dollar against major developed-market currencies.

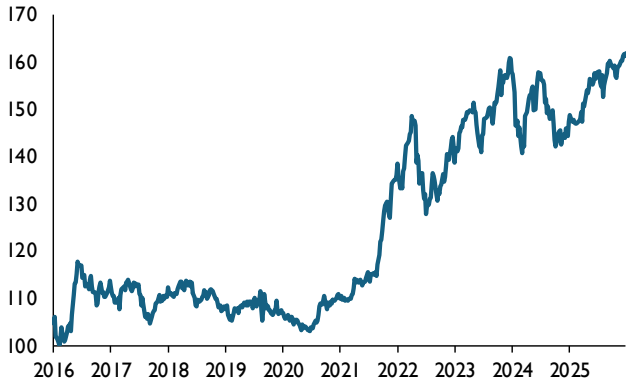


Figure 3: The Japanese yen has weakened significantly against the US dollar
Source: Bloomberg

Accordingly, we expect the **Euro**, **Pound Sterling** and **Japanese Yen** to strengthen modestly over the medium term, although we do not anticipate a disorderly decline in the dollar. Its role as the world's primary reserve currency, together with the depth and liquidity of US capital markets, should continue to provide an important structural anchor.

Alternative investments: Diversification remains valuable, but discipline is essential

Infrastructure: Benefiting from powerful long-term investment trends

Infrastructure has become one of the clearest beneficiaries of today's structural investment themes. AI, electrification, energy security and supply-chain resilience all require significant investment in physical assets, creating a multi-year demand backdrop that extends well beyond the economic cycle.

Global electricity demand from data centres is expected to increase substantially over the coming decade as AI adoption accelerates, requiring significant investment in power generation, transmission networks and grid modernisation. At the same time, governments are increasing spending on energy security, transport infrastructure and defence-related assets as geopolitical fragmentation reshapes capital allocation.

Infrastructure also offers attractive portfolio characteristics. Many assets benefit from regulated or contracted cash flows, inflation-linked revenues and long-duration income streams, providing a degree of resilience during periods of economic uncertainty.

Private infrastructure investment has accelerated meaningfully. According to BlackRock, **global private infrastructure data-centre transactions have increased from less than US$20 billion annually in 2020 to almost US$100 billion by 2025, illustrating the scale of capital now being deployed into AI-enabling infrastructure.**

We remain optimistic on infrastructure, particularly assets exposed to electricity generation, transmission, digital infrastructure and transport. In our view, these sectors represent not only attractive long-term investments, but increasingly essential components of the global economy.

Hedge funds: Exploiting dispersion through active strategies

Hedge funds should play a more prominent role in portfolios as macroeconomic uncertainty, policy divergence and elevated cross-asset dispersion create a richer opportunity set than the low-volatility environment that prevailed for much of the previous decade.

We favour strategies capable of exploiting market dislocations while maintaining limited dependence on broad market direction

Within **equity hedge**, we prefer market neutral and low net long/short managers focused on stock selection rather than market beta, allowing them to exploit the widening dispersion between winners and losers, particularly within AI-related sectors.

Global macro managers appear well positioned, benefiting from divergence in interest rates, currencies, commodities and geopolitical developments, while systematic trend-following strategies should perform well if these themes develop into sustained market trends. We also favour **liquid relative value strategies**, particularly sovereign fixed income relative value, volatility arbitrage and convertible arbitrage, where pricing anomalies and changing yield curves provide attractive opportunities.

We are more selective towards **event-driven** strategies, where opportunities exist but remain dependent on financing conditions, corporate activity and regulatory certainty.

Private credit: Manager selection critical

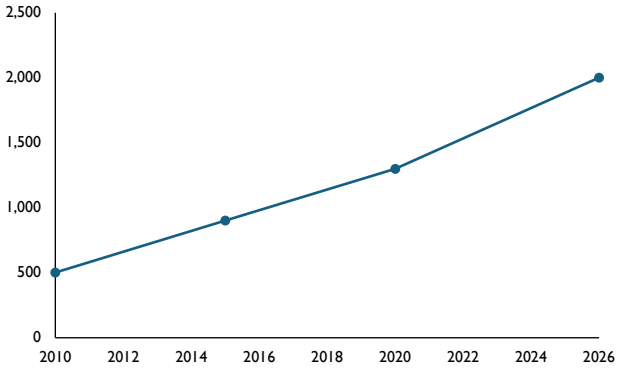


Figure 4: Size of private credit market
Source: Industry reports

Private credit has become one of the fastest-growing areas of global capital markets as banks have retreated from traditional lending following tighter post-financial crisis regulation. **The global private credit market now exceeds US$2 trillion, having more than doubled over the past decade,** and continues to expand as borrowers seek flexible sources of capital.

Higher base interest rates have significantly improved prospective returns. Floating-rate structures have enabled investors to benefit from higher policy rates while maintaining relatively low interest-rate sensitivity. At the same time, tighter bank lending standards have increased opportunities for private lenders to negotiate stronger covenant protection and more attractive lending terms.

However, we believe manager selection is becoming increasingly important. Credit spreads have compressed, reducing the margin for underwriting mistakes, while refinancing risks remain elevated for weaker borrowers. We therefore favour senior secured lending supported by predictable cash flows, robust collateral and strong lender protections rather than pursuing higher yields further down the capital structure.

Private credit remains an attractive long-term source of portfolio income, but **future returns are likely to depend more on credit selection and underwriting discipline than simply exposure to the asset class.**

Real estate: Quality and sector selection drive opportunities

Commercial real estate has entered a period of significant differentiation. Higher financing costs have reduced valuations across many markets, but the adjustment has created increasingly attractive opportunities in sectors supported by long-term structural demand rather than purely cyclical recovery.

In the **US**, the market remains highly bifurcated. Office values in several major central business districts remain approximately **30–40% below their peak**, while vacancy rates exceed **20%** in some cities as hybrid working continues to reshape demand. In contrast, logistics, multifamily residential and data centres continue to benefit from favourable fundamentals. Data-centre demand is expected to grow at double-digit rates over the coming decade as AI drives investment in digital infrastructure, with private capital deployment into data centres increasing from less than **US$20 billion in 2020** to almost **US$100 billion by 2025**.

In **Europe**, constrained development pipelines and relatively limited new supply have supported prime logistics and high-quality office assets despite subdued economic growth. Prime assets in major financial centres continue to outperform secondary properties, reflecting a growing "flight to quality" among occupiers.

In **Asia**, demand remains strongest in logistics, advanced manufacturing and technology-related real estate. Continued investment in semiconductor manufacturing, industrial automation and digital infrastructure provides structural support for selected commercial property sectors.

We remain selective rather than broadly constructive. We favour high-quality assets supported by durable tenant demand, long lease structures and inflation-linked income streams. In our view, the most attractive opportunities lie in logistics, residential and digital infrastructure, while secondary office assets continue to face structural rather than cyclical challenges.

Gold: strategic hedge rather than a tactical opportunity



Figure 5: Gold price in $ since start 2025
Source: Bloomberg

Gold delivered strong gains earlier in 2026 as investors sought protection from geopolitical tensions, elevated fiscal deficits and continued central bank demand. Although it did not perform as strongly as many expected during the Middle East conflict and has since retraced from recent highs, the longer term investment case remains sound.

We have maintained a neutral view on gold throughout much of 2026. While gold continues to provide valuable diversification benefits and remains an effective hedge against geopolitical shocks and long-term currency debasement, we have not believed its elevated valuation justified increasing portfolio allocations following such a strong period of outperformance.

The long-term investment case remains intact. Central banks purchased **more than 850 tonnes of gold for the third consecutive year in 2025**, highlighting continued reserve diversification away from traditional reserve assets and providing an important source of structural demand. Persistent fiscal deficits and rising government debt across developed economies also continue to support the strategic case for holding gold.

However, gold generates no income, and its returns remain heavily influenced by investor sentiment, real interest rates and US dollar movements. We therefore continue to view gold as a **strategic portfolio diversifier rather than a tactical return opportunity, maintaining a neutral allocation while recognising its role in improving long-term portfolio resilience.**

Bitcoin: Growing recognition does not diminish investment risk

Bitcoin has continued its transition from a speculative asset towards broader institutional adoption. The launch and continued growth of spot Bitcoin ETFs, together with increasing participation from institutional investors, has improved market accessibility and liquidity**. Bitcoin's market capitalisation is approximately $1.5 trillion**, making it one of the world's largest financial assets.

Despite this maturation, Bitcoin remains highly volatile and does not generate cash flows or intrinsic income. Valuation is therefore driven primarily by adoption, liquidity and investor sentiment rather than traditional fundamental metrics.

We view Bitcoin as a high-risk alternative asset rather than a core portfolio holding. For investors with appropriate risk tolerance, a modest allocation may provide diversification and asymmetric return potential. However, position sizing remains critical, given Bitcoin's historically high volatility and sensitivity to changes in market liquidity, regulation and investor confidence.

Portfolio implications: Discipline and diversification remain the foundations of long-term returns

The first half of 2026 reinforced an important lesson: markets continued to reward disciplined capital allocation over reactive decision-making. Despite geopolitical conflict, tariff uncertainty and persistent fiscal concerns, US equities reached new highs, supported by resilient earnings and continued investment in artificial intelligence. Investors who remained focused on long-term fundamentals rather than short-term headlines were generally rewarded.

Our strategic positioning therefore remains broadly unchanged. **We continue to favour high-quality US equities, recognising that the US now represents more than 60% of global developed market capitalisation** and remains the world's leading centre for innovation, capital formation and corporate profitability. While valuations are elevated, earnings growth continues to differentiate the US from most other developed markets.

Outside the US, Japan remains our preferred developed market allocation. Corporate governance reforms, record share buyback activity, improving return on equity and the strongest wage settlements in more than three decades provide evidence that Japan's investment case is increasingly structural rather than cyclical. Europe and the UK continue to offer attractive valuations, but we believe their investment case is primarily one of selective value rather than long-term growth.

Within fixed income, the return of income has transformed the opportunity set. Higher rates mean investors no longer need to extend significantly along the yield curve to generate attractive returns. We continue to favour high-quality government and investment grade credit while remaining selective within high yield and private credit, where compressed spreads leave less room for underwriting mistakes.

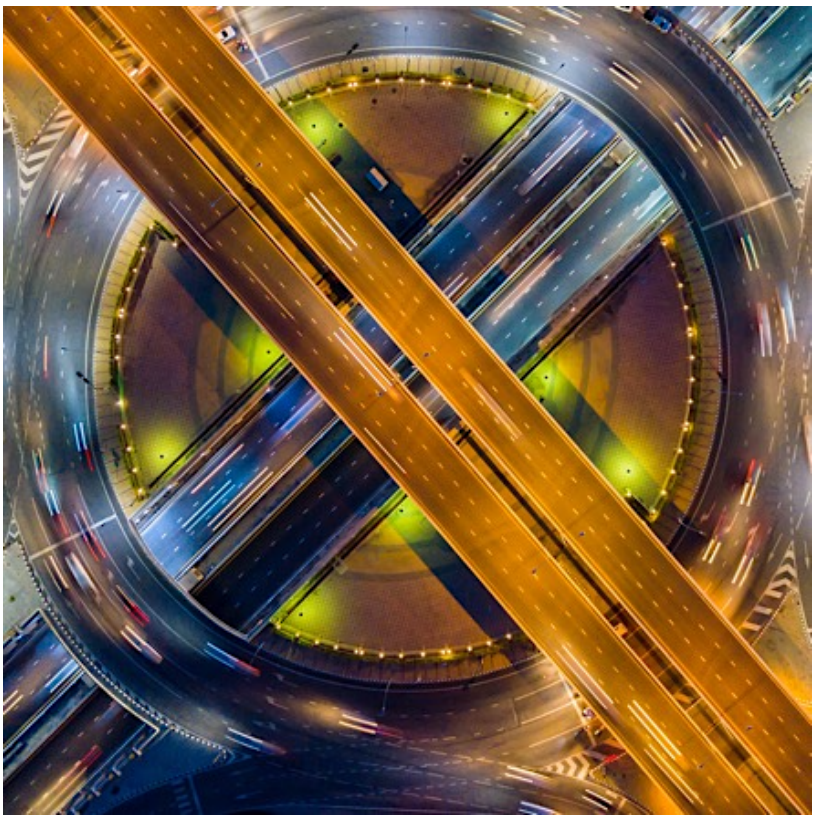
We also believe the most compelling opportunities increasingly sit outside traditional asset-class labels. Infrastructure, digital infrastructure, electricity networks, logistics and selected real estate continue to benefit from powerful structural themes including artificial intelligence, electrification, energy security and supply-chain resilience. Global private investment into data centres has increased from under US$20 billion in 2020 to almost US$100 billion by 2025, illustrating both the scale of capital being deployed and the long-term nature of these themes.

We believe hedge funds should play a more prominent role in portfolios than they have during much of the past decade. Higher macroeconomic uncertainty, greater dispersion between sectors, regions and individual securities, and more divergent monetary policy create a richer opportunity set for active managers capable of generating returns independent of broad market direction. We particularly favour global macro, systematic trend-following, relative value and market-neutral equity strategies, where returns are driven by manager skill rather than market beta. In our view, hedge funds are no longer simply a source of diversification; they are becoming an increasingly important source of return in an environment where traditional asset classes are likely to experience greater volatility and lower diversification benefits.

Higher interest rates have also significantly improved the attractiveness of structured products. Today's market conditions allow investors to access defined return profiles, enhanced income and varying degrees of downside protection on substantially more attractive terms than were available during the ultra-low interest-rate environment of the previous decade. Used selectively, structured products can improve portfolio efficiency by allowing investors to participate in equity market returns while reducing downside risk or enhancing income, making them a valuable complement to both traditional investments and alternative strategies.

Ultimately, we believe portfolio construction deserves as much attention as asset selection. The traditional diversification benefits between equities and bonds cannot be assumed to be as reliable as they were during the previous decade. Rather than attempting to forecast every macroeconomic outcome, investors should focus on constructing portfolios capable of performing across multiple scenarios.

In our view, combining high-quality public markets with carefully selected hedge funds, private markets, structured solutions and disciplined diversification provides the strongest foundation for preserving and compounding wealth over the long term.



What would cause us to change our mind?

Our central case remains constructive. We believe the global economy continues to demonstrate resilience, supported by strong corporate balance sheets, continued AI investment and moderating inflation. However, investment views should evolve as evidence changes. We would reassess our outlook if one or more of the following developments were to occur.

1. AI investment fails to translate into earnings

Much of the current market leadership reflects expectations that unprecedented investment in AI infrastructure will ultimately generate stronger productivity and earnings growth. If capital expenditure continues to rise but corporate profitability fails to follow, current valuations - particularly within US technology - would become more difficult to justify.

2. Inflation reaccelerates

Our base case assumes inflation continues to moderate gradually. A renewed inflation shock - driven by energy prices, tariffs, supply-chain disruption or labour markets - would likely delay monetary easing and place renewed pressure on both bond and equity markets.

3. Fiscal concerns become a funding crisis

We believe markets can continue to absorb elevated government borrowing. However, a sustained rise in government bond yields driven by concerns over fiscal sustainability, rather than stronger growth, would tighten financial conditions and challenge both equity and fixed income valuations.

4. US economic exceptionalism weakens

Our positive outlook remains heavily dependent on continued US economic resilience. A material deterioration in labour markets, consumer spending or corporate earnings would weaken the investment case for US assets and increase the attractiveness of more defensive portfolio positioning.

5. Geopolitical fragmentation disrupts growth

Markets have become increasingly resilient to geopolitical headlines. However, a sustained disruption to global energy supplies, critical shipping routes or semiconductor supply chains would materially alter the outlook for inflation, corporate earnings and global growth.

Successful investing is not about holding the right view indefinitely. It is about recognising when the evidence has changed - and having the discipline to change with it.

Concluding thoughts

The first half of 2026 has demonstrated that markets remain remarkably resilient despite an increasingly complex geopolitical and macroeconomic backdrop. Trade disputes, military conflict, elevated government debt and policy uncertainty have all created periods of volatility, yet global markets have continued to reward innovation, earnings growth and disciplined capital allocation.

For investors, the lesson is clear. **Long-term returns are rarely determined by correctly predicting the next economic data release or geopolitical headline. They are driven by owning high-quality assets, maintaining appropriate diversification and remaining invested through periods of uncertainty.**

We believe the investment landscape is increasingly shaped by structural forces rather than short-term economic cycles. Artificial intelligence, demographic change, energy security, infrastructure investment and geopolitical fragmentation will continue to influence capital allocation for many years. These themes will create both opportunities and challenges, requiring greater selectivity than during the era of abundant liquidity and exceptionally low interest rates.

While we remain broadly positive on the outlook for risk assets, we also recognise that uncertainty is no longer an occasional disruption - it has become a permanent feature of investing. That is why the central message of this report is simple: **optimism requires discipline**. Confidence in long-term investment opportunities should not lead to complacency. Rather, it should encourage thoughtful portfolio construction, prudent risk management and a willingness to diversify across a broader range of return drivers.

Markets will continue to surprise. Our objective is not to predict every surprise, but to ensure our clients' portfolios are resilient enough to benefit from long-term opportunities while withstanding the inevitable periods of uncertainty that accompany them.



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