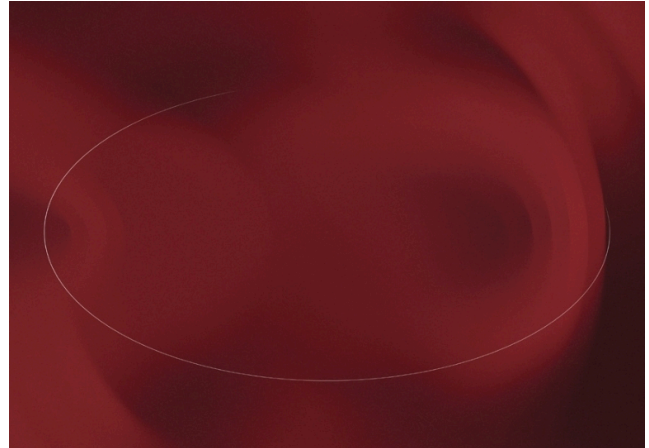


Year Ahead 2026 revisited - Escape velocity?

Investment strategy insights

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- In this Year Ahead 2026 revisited presentation, we review the developments since our publication last November and offer our latest views.
- Some key developments since last November include a further slowdown in the US labor market, while consumer spending remains resilient. Tech earnings continue to highlight strong demand for AI chips, but investors are now looking beyond capex stories and favoring tech firms showing clear monetization. Last, both the Fed and Bank of England delivered rate cuts, in line with our expectations.
- We remain positive on AI and equities, but are increasingly shifting our focus from the enabling layer to the application layer within AI. We also maintain a constructive view on quality bonds and a negative outlook on the US dollar. Finally, we favor a tactical allocation to commodities, including gold, copper, aluminum, and agricultural commodities.
- While risks remain, including the recent ousting of President Maduro in Venezuela, our commitment is to provide invaluable insights to help investors move forward with confidence. We look forward to navigating the year ahead together with confidence and purpose, seizing opportunities to meet your financial goals.



In November 2025, we published our [Year Ahead publication](#) titled "Escape velocity?"

Below we provide a brief update on what has changed since then, how our views have evolved, and how we believe investors should position in 2026.

Economic outlook

What we said: We expected global growth rates to start 2026 with some imbalances but to improve as fiscal stimulus, improved confidence, and reduced tariff overhangs took hold. US GDP was forecast near 2%, with labor market trends remaining weak but consumer spending staying resilient, and acceleration expected in the second half. We forecast US inflation to peak above 3% by the second quarter. We foresaw Eurozone growth of just over

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1%, aided by German stimulus and robust labor markets. We looked for Asia-ex-Japan growth to hold firm at just under 5%, with China targeting 4.5–5%.

What's happened since: US consumption and labor data releases since we published have corroborated our view of a gradually slowing labor market but still-solid consumer activity. Initial jobless claims rose by 44,000 to 236,000 in early December, the largest weekly increase since March 2020, and nonfarm payrolls data for October and November showed a cumulative 41,000 jobs lost (partly due to departing government workers). Core retail sales for October (excluding automobiles, gasoline, building materials and food services) climbed 0.8%. November's headline consumer price index (CPI) inflation climbed 2.7% annualized, below consensus expectations of 3.1%, while core CPI, which excludes volatile food and energy prices, increased 2.6% over the past year, compared to forecasts of 3%. We note the underlying data may not fully reflect actual price trends given statistical adjustments to address missing data during the government shutdown.

In the Eurozone, hard data like industrial production demonstrates the Eurozone's economic resilience. China's retail sales data was disappointing (the 1.3% pace of growth was the weakest pace since December 2022) but the annual Central Economic Work Conference concluded with promises of more government spending, support for private investment, and steps to boost domestic consumption.

Overall, we believe the economic outlook remains consistent with that described in the Year Ahead.

Interest rates outlook

What we said: We said we expected the Fed to cut rates twice before the end of the first quarter of 2026, moving policy toward 3–3.5%. In Europe, we said we expected the European Central Bank to hold rates near 2%, the Swiss National Bank at 0%, and the Bank of England to cut rates twice to 3.25%. We anticipated a gradual tightening cycle from the Bank of Japan toward 1%.

What's happened since: At its December meeting, the Fed delivered one of the two rate cuts we anticipated in our Year Ahead. The Fed's updated "dot plot" showed a wide dispersion of views, with no clear consensus on the path for rates in 2026, although the median dot shows one further rate cut in 2026.

The Bank of Japan raised interest rates to a three-decade high of 0.75%, the first increase since January 2025, citing a modest recovery in Japan's economy, a tight labor market, and high levels of corporate profits, despite the impact of tariffs. Given that real interest rates remain negative, the Japanese central bank added that it will continue to raise the policy interest rate if the economy continues to progress

in line with its projections.

In Europe, the Swiss National Bank left its policy rate unchanged at 0%, and signaled again that despite the low level of inflation, which fell to an annual rate of zero in November, the hurdle was high to moving rates into negative territory. The Bank of England cut rates by 25bps but struck a more hawkish tone and signaled a more gradual pace for further cuts. Meanwhile, commentary from European Central Bank policymaker Schnabel that the ECB's next rate move may be a hike (albeit not for some time) has led markets to take a balanced outlook, in line with our own.

Overall, the central bank outlook remains broadly unchanged. We expect the Fed to cut rates once more by the end of the first quarter, the Bank of England to cut twice, in February and April (albeit with risks the April cut is delayed if inflation expectations do not moderate as quickly), and the Bank of Japan to hike rates next in the fourth quarter of 2026, as we expect inflation to soften below 2% in the first half due to policy measures aimed to check energy and food inflation. We see some risk for an earlier rate hike if yen depreciation deepens further or inflation remains well above 2%. We continue to expect the ECB and SNB to remain on hold.

Messages in Focus: Invest in transformational innovation

What we said: We said we expected AI to continue to power the rally in global stocks, and within AI said we favored a balanced approach across the enabling (infrastructure and chips), intelligence (software and platforms), and application (end-user products) layers. We said the power and resources sector should be a beneficiary of rising electricity demand. We also highlighted the long-term opportunity in longevity, where we said we saw the best opportunities in obesity drugs, oncology, and medical devices.

What happened: Tech sector results since the publication of our Year Ahead have demonstrated that markets are becoming more discerning about the potential returns on AI capex (especially for companies borrowing to invest), while also rewarding those companies demonstrating concrete signs of AI monetization.

In power and resources, company guidance and midterm outlooks continue to underscore robust demand for the sector. Leaders reported exceptionally strong and sustained demand for power generation, electrification equipment, and related infrastructure, with solid backlogs and extended order visibility.

In longevity, several company-specific drugs trial releases led to some volatility in the sector, but there were also some signs of investor reallocations into the health care sector thanks to Most Favored Nation pricing deals and waning

policy risks.

What do we think now: We retain conviction in AI, Power & resources, and Longevity but have made some adjustments to reflect evolving dynamics.

We expect our AI selection to deliver 25% potential earnings growth in 2026 and 20% in 2027. Diversification beyond the enabling layer and into applications is becoming more essential, particularly to vertical integrators, gaming, internet platforms, agentic commerce/payments, cybersecurity, robotaxi, AdTech and select enterprise AI proxies. Within the enabling layer, we also see diversification opportunities across “agnostic” supply chain beneficiaries, in networking, memory, foundry, backend processes, equipment, packaging, and cooling.

In Power & resources, we like opportunities beyond data-center-linked electrical equipment, such as companies involved in grid modernization and those supplying critical raw minerals. In Longevity, we continue to expect good performance as oral GLP-1 launches expand the obesity market, policy risks recede, and sector valuations remain attractive relative to history.

Add to equities

What we said: We said we forecast global equities (MSCI AC World) to rise by around 15% by the end of 2026 and recommended that underallocated investors add to equities. We identified the US as the likely main driver of returns, with anticipated strong earnings growth, high profitability, and the accelerating impact of AI, Power & resources, and Longevity themes.

Elsewhere, we also said we find European equities attractive, likely to be buoyed by accelerating profit growth at reasonable valuations. We highlighted the “European leaders” as beneficiaries of both near-term and structural trends. We also said we favored Japanese stocks due to improving earnings and capital efficiency.

What happened: Most major equity markets made gains since we published our Year Ahead until 2 January, with advances of roughly 3-7% on average. Shifting expectations around a more aggressive Bank of Japan rate-hiking cycle led to some sharper swings in Japanese stocks. Shifts in AI leadership also drove some volatility.

What do we think now: We reiterate our call that investors underexposed to equities should add to their positions in anticipation of further gains, and our regional and sector preferences remain unchanged. Our S&P 500 earnings per share forecast remains at USD 305 in 2026, and our index forecast remains at 7,700 by year-end.

Seek opportunities in China

What we said: We emphasized our conviction in Chinese tech stocks, which we said would benefit from strong AI-driven growth with earnings expected to rise nearly 40% in 2026. Valuations appeared well below global peers and historical highs, suggesting room for rerating. We also highlighted broader Chinese equities as beneficiaries of healthy domestic liquidity, robust earnings, and rising retail flows.

What happened: China equity markets started 2026 robustly on 2 January, with the Hang Seng Index up 2.8% and the Hang Seng Tech sub-index rising 4% on the first day of trading. This extends a strong 2025, when the Hang Seng gained nearly 30% and onshore indices posted their best results in years. Renewed optimism in technology and AI, along with a wave of tech and innovation IPOs, is boosting sentiment and encouraging inflows. We also note that third-quarter results (on a cap-weighted basis) were broadly in line with expectations, and consensus earnings for 2026 were revised slightly higher.

What do we think now: We believe the China tech, China, and the wider Asia region’s fundamentally attractive story remains intact. For tech specifically, we believe a combination of factors—including a reacceleration in capex, advancements in self-sufficiency, and effective AI monetization—will drive earnings growth of over 25% annually for the next two years. These favorable trends, combined with a stable macroeconomic environment, robust liquidity from household savings, and increased equity allocations by insurance companies should support the market more generally. We are expecting mid-teens earnings growth for Asia ex-Japan equities over the next two years. This reinforces our Attractive stance on the region, with expectations of double-digit returns for Asia ex-Japan equities by December 2026. Our preferred markets remain mainland China, China’s tech sector, India, Singapore, Japan, Indonesia, and Hong Kong.

Favor commodities

What we said: We said that we expected supply-demand imbalances, geopolitical risks, and the global energy transition would likely make commodities a more prominent, albeit tactical part of portfolios in 2026. We stressed particular opportunities in copper, aluminum, and agricultural commodities, with gold set to remain a key diversifier and geopolitical hedge, supported by central bank buying and fiscal deficits.

What happened: Gold responded favorably to the Fed delivering its third interest rate cut of the year in December and to rising tensions in Venezuela that led to the ousting of President Maduro. Gold ended 2025 63% higher—its strongest annual performance since 1979. Base

metals integral to data center construction and broader electrification generally moved higher, with three-month copper traded in London hitting a record high in early December. Volatility rose in the oil market, amid Russia-Ukraine peace negotiations and the multi-year possibility of Venezuelan oil returning to global markets. Brent crude oil prices stand around 4% lower than our Year Ahead publication (20 November 2025). Lingering investor concerns around oversupply, investors digesting the decision of the eight OPEC+ member states with additional voluntary production cuts to pause production increases for the first quarter, and uncertainty about the outlook for Venezuelan oil all contributed to oil price swings. Meanwhile, industrial metals were not immune to worries about the sustainability of AI capital expenditure and did give up some ground from these peaks.

What do we think now: We continue to favor tactical exposure to commodities. We especially like copper, aluminum, and agricultural commodities, while gold remains a valuable diversifier. We now forecast gold to reach USD 5,000/oz by March, supported by central bank buying and lower real yields. Copper should benefit from supply tightness and electrification trends. We keep a Neutral rating on oil, and expect it to recover from the second quarter onward. We see Brent trading at USD 67/bbl by year-end.

Seek diversified income

What we said: We said we favored a diversified approach to income generation in 2026, combining high grade government and investment grade corporate bonds, equity income strategies, yield-generating structured investments, and select private credit exposure. We foresaw mid-single-digit returns and outperformance versus cash for medium-duration quality bonds (four to seven years). While we held a more circumspect view on high yield credit due to tight spreads, we noted how blending investment grade, select high yield, and emerging market debt may help enhance yield. We said that private credit offered long-term potential, but we noted the need for selectivity and a preference for high-quality, sponsor-backed and senior loans to larger, less cyclical companies.

What happened: High-quality, medium-duration government bond indexes have delivered mixed results since we published our Year Ahead, as markets balance central bank decisions with lingering concerns about inflation and government debt sustainability. High yield credit markets in Europe and the US delivered positive total returns over December.

What do we think now: We continue to favor high grade government and investment grade corporate bonds, and focus on medium-duration bonds. We expect the US 10-year yield to fall to 3.75% by June and trade near there until year-end as the Fed cuts rates and US inflation falls. We

would expect the Fed and the Treasury to adjust policy in the event of an unhealthy increase in longer-term yields. We believe tight spreads continue to make riskier credit relatively less appealing, although we think it can continue to play a role in the context of a well-diversified portfolio.

Hedge market risks

What we said: We noted four key risks for 2026, including 1) a potential disappointment in AI progress or adoption, 2) a resurgence or persistence of inflation, 3) a more entrenched phase of US-China strategic rivalry, and 4) the (re)emergence of sovereign or private sector debt concerns. We said that holding sufficient liquidity, quality bonds, an allocation to gold, and considering capital preservation strategies were potential means of hedging against these risks.

What happened: Volatility has generally remained low. Investors grappled with minor AI disappointments after several companies in the enabling layer reported underwhelming results. Delayed US inflation data undershot expectations, but potential distortions due to missing prices in the government shutdown mean investors may want more evidence that the recent moderation in inflation is both sustained and sustainable. US-China tensions eased modestly as the US loosened some restrictions on selling top-end chips to Chinese businesses.

What do we think now: We retain a positive base case outlook, while also remaining mindful of potential risks. Building a core, diversified portfolio remains the surest way to hedge against market risks in our view, but we also see roles for gold, capital preservation approaches, and less correlated alternatives like global macro hedge funds as means to help insulate portfolios.

Diversify with alternatives

What we said: We noted that a 20-40% allocation to hedge funds and private markets in endowment-style portfolios may provide fresh sources of diversified returns, income, and exposure to structural trends. We said select hedge fund strategies would benefit from low stock correlation and high return dispersion (equity market neutral), the ability to navigate shifting FX and rate conditions (global macro), and help manage portfolio risks (multi-strategy funds). In private equity, we favored middle-market buyouts, carveouts, and secondaries, emphasizing regional diversification in Europe and Asia. We suggested select direct lending, especially senior, sponsor-backed loans to larger companies, for income and resilience.

What happened: The private credit market garnered further, significant media attention. Exceptional growth in assets under management and a series of high-profile defaults have prompted concerns about asset quality.

What do we think now: We continue to see alternatives as important sources of return and portfolio diversification. Policy uncertainty and shifts in rates and FX markets tend to be favorable for nimble, unconstrained global macro managers. We remain positive on private equity. We continue to favor managers with a proven track record in value creation with a special eye on complex transactions such as carve-outs and divestitures. We also still like secondaries, which could see a renewed supply of discounts as investors seek liquidity. Long-term, patient investors can still consider exposure to private credit, but we favor reviewing liquidity requirements, increasing portfolio quality, being more selective with chosen managers and, if overallocated, diversifying into other income-bearing alternatives like infrastructure.

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Most attractive – We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.

Attractive – We consider this asset class to be attractive. Consider opportunities in this asset class.

Neutral – We do not expect outsized returns or losses. Hold longer-term exposure.

Unattractive – We consider this asset class to be unattractive. Consider alternative opportunities.

Least attractive – We consider this asset class to be among the least attractive. Seek more favorable alternative opportunities.

Appendix

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