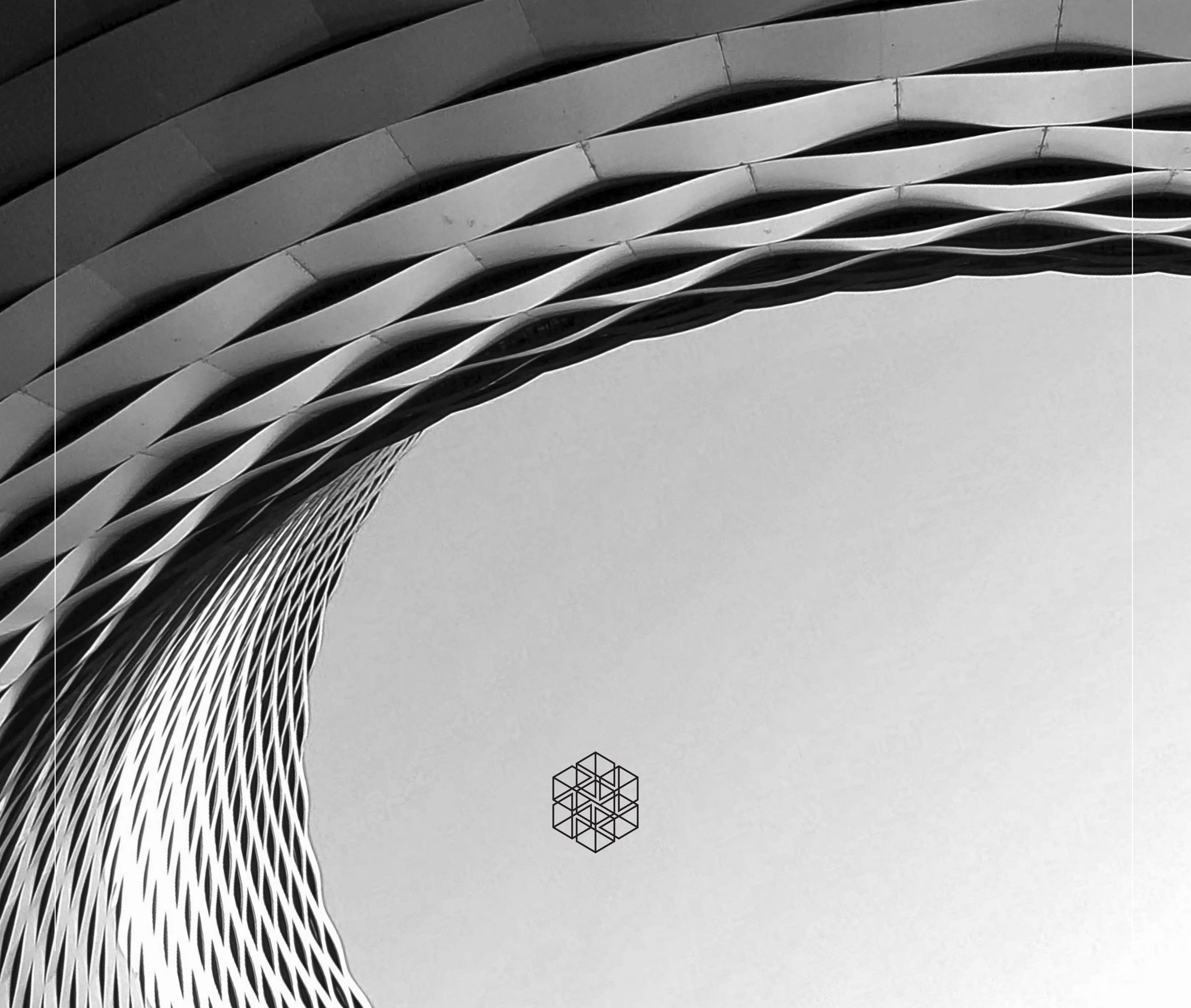
Agenda 2026

Escala Chief Investment Office



Welcome

Ben James
Chief Executive Officer

Welcome to the seventh edition of our annual investment publication, *Agenda 2026*. This document is produced by our Chief Investment Officer, Tracey McNaughton, with contributions from each of our asset class specialists. Together, we aim to provide clarity on the forces reshaping the investment landscape and the implications for portfolio construction in the year ahead.

For much of the first two decades of the 21st century, global markets and policymakers moved in sync. Economic cycles were broadly aligned, monetary conditions were anchored to the U.S. Federal Reserve, and the dollar acted as the primary conduit for risk. This gave rise to the maxim: "When the U.S. sneezes, the world catches a cold."

This logic is less true today. The defining feature of today's environment is not U.S. dominance, but a growing lack of global coordination. Policy responses are increasingly national; alliances are more transactional; and geopolitical actions less predictable. The Trump administration's unilateral military intervention in Venezuela recently was emblematic of this shift. Rather than galvanising global alignment, it highlighted a world in which U.S. actions generate divergence, not synchronisation.

The world has become unmistakably multipolar, shaped by diverging growth paths, unique policy settings, demographic contrasts, and distinct geopolitical priorities. What happens at the national level has become more important. The global economy no longer catches the same cold at the same time. Dispersion has replaced contagion.

For investors, this matters. Shocks now propagate unevenly across regions and asset classes, risk premia are increasingly local rather than global, and dispersion – not correlation – has become the defining market condition. Investors will need to be more finely tuned to the risks they want to take.

In short, this is the environment that suits active investors the most. As countries rebuild at home what was once sourced globally – from supply chains to energy and defence – investment and fiscal support will continue to underpin risk assets.

In this edition of the *Agenda*, we explore how destabilisation, disruption, and dispersion are shaping the next phase of the investment cycle, how investors should respond, and where the opportunities now lie.

We hope you enjoy *Agenda 2026* and look forward to engaging with you further as the themes it explores unfold over the weeks and months ahead.

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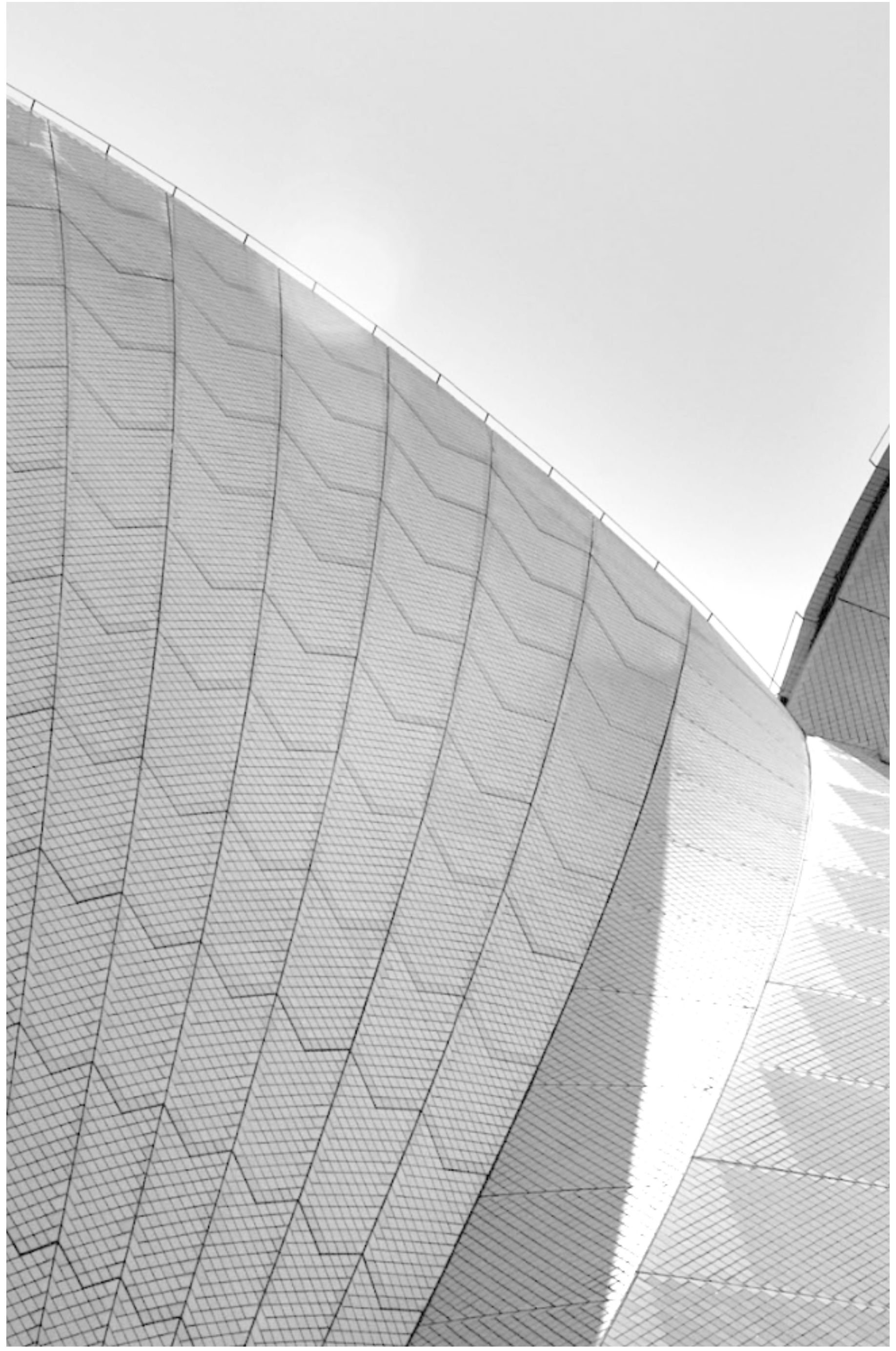


Contents

Our Views in Short

Global Growth

Global growth is expected to be modest, in the high-2% to low-3% range, weaker than the pre-COVID norm but not recessionary. Support will come from infrastructure spending and a resilient consumer. Emerging and developing economies are expected to grow faster than developed economies.

Inflation

Global inflation is projected to ease toward roughly mid-3% in 2026, down from the peaks in 2022 but still somewhat above central bank targets in several major economies. Modest easing in labour markets will allay pressure on wages.

Interest Rates

The global easing cycle is maturing as reflected in global bond yields being the highest since 2009. Overall, 2026 will see mildly accommodative global monetary policy with some divergence – the U.S. is expected to ease while Japan is expected to tighten. Australia is likely on hold.

Fiscal Policy

Structural demands (defence, demographics, energy) and a lack of political capital mean most developed market governments are neither willing nor able to tighten the fiscal purse strings. Fiscal policy is therefore likely to be mostly accommodative despite high debt levels.

Bond Yields

Acute geopolitical uncertainty and structural demands on the public purse mean bond yields will remain elevated. Bond investors will need to be more discerning as the notion that all developed markets offer comparable political stability or fiscal reliability is no longer viable.

Equities

Equities will outperform bonds over the next 12 months. Supporting the outlook is a resurgence in M&A and IPO activity, solid corporate fundamentals and easy financial conditions.

Currencies

Expect the U.S. dollar to weaken modestly over the next 1-2 years as global growth broadens, but not to lose its core dominance or collapse. Our base case is for a softer, more volatile dollar.

Alternatives

Long-term shifts toward increased geopolitical risk, supply chain adjustment, and rising government debt levels highlight the importance of extending portfolio allocations to real assets, private markets, and new alternative diversifiers.

Bonfire of the Vanities

Tracey McNaughton
Chief Investment Officer

The era of stability that defined much of the 21st century was built on a powerful illusion – the belief that the global economy could generate prosperity without sacrifice: governments could spend freely, companies could borrow cheaply, households could consume endlessly, and geopolitical stability could simply be assumed.

In truth, it was a "bonfire of the vanities": a collective conviction that abundance could be created and consumed without cost, even as inequality grew beneath it like kindling. The widening gap between winners and losers of globalisation created the ideal conditions for a political firestorm.

That illusion is gone. The fire now flickers across many countries, destabilising political systems, causing economic disruption and creating dispersion of returns for investors. Donald Trump's return to the White House wasn't the catalyst, but it has been an accelerant. His move on Venezuela is the most recent example of that.

23

The number of countries out of 27 that registered a decline in trust in the UN.

Source: Edelman Trust Barometer, 2024

When the kindling is lit, the bonfire becomes destabilised

The easy option to addressing inequality is entitlement-driven fiscal models. But with debt levels already elevated, the scope for painless solutions is narrow. Structural reform is harder to deliver in an environment of depleted political capital.

This was evident through the "super-election" year of 2024 and the elections that followed in 2025.

Across countries, leaders faced electorates that were polarised, distrustful, and unwilling to accept austerity or long-term reform. The rise of coalition governments and fragmented mandates has slowed decision-making and weakened policy consistency.

The resulting pattern that is now emerging is:
– declining trust in institutions
– shrinking political mandates
– persistent fiscal strain
– rising geopolitical insecurity, and
– growing voter discontent.

7

The number of French prime ministers under Macron's recent leadership.

Source: Foreign Affairs Review

When the structure is destabilised, trust wanes — disruption follows

Gold above US$5,000 per ounce is no longer about inflation protection. It is the market signalling a loss of trust in the political management of money and in the institutions that underpin it.

The erosion of trust generally has become a direct source of disruption. Post-pandemic scepticism toward China disrupted global supply chains. Distrust of expertise and institutions complicated the execution of climate and clean-energy policy. Suspicion of trading partners drove the sharpest escalation in tariffs since the 1930s. Distrust of immigration produced the most restrictive border policies since the 1950s. And waning trust between allies weakened multilateral agreements that once supported global coordination.

Gold (US$ per ounce)

Source: Bloomberg as at 28/01/26

20

The dispersion of equity returns last year was the widest in 20 years.

Source: Bloomberg

A destabilised, disrupted world is a world where the dispersion of outcomes rises.

Countries have responded very differently to these disruptions.

The U.S. has turned to tariffs and industrial subsidies, China to self-sufficiency and state control. Germany has favoured cautious de-risking, while France has pushed strategic autonomy. Japan has prioritised supply-chain security, Australia resource security.

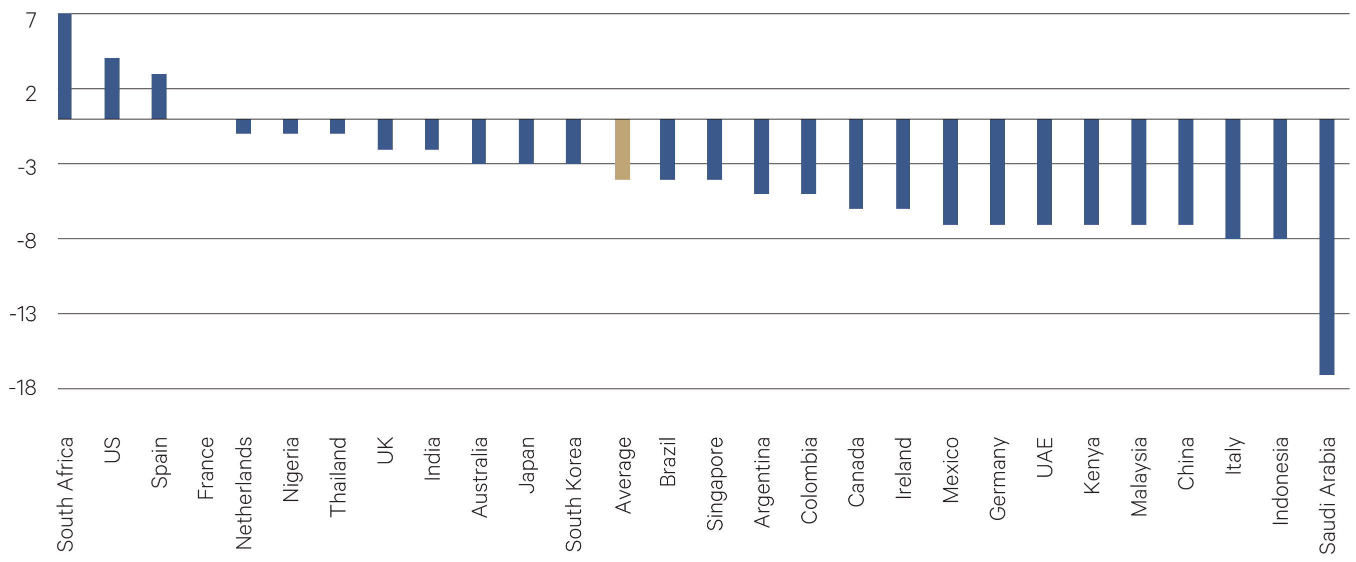
Defence policy dispersion is clear – Germany and Poland are accelerating, Japan is responding to immediate China-related risks, France is more measured given existing capability, and Italy and Spain remain constrained by fiscal limits, and for Spain, distance to the Russian threat.

Policy is now national – shaped by domestic politics, fiscal capacity, and strategic exposure rather than coordinated frameworks.

The result is a landscape in which outcomes differ sharply across countries, sectors, and asset classes. The best performing stock in the best performing market in 2025 was Dongyang Express. This is not an AI stock. It is not listed on the Nasdaq. It is a Korean logistics company that benefited from the policies of its government to re-industrialise and localise supply chains.

Bonfire of the Vanities (contd.)

Change in net trust in the UN, 2022-25 (%)



Source: Edelman Trust Barometer

Who benefits in 2026?

a. Investors who are more refined risk takers

The world of 2026 is meaningfully less U.S.-centric than the world of the past 30 years, but not because the United States has suddenly become irrelevant. Rather, the forces shaping the global economy – political destabilisation, economic disruption, and investment dispersion – are reducing the degree to which one country sets the rhythm for everyone else. Developed markets are no longer interchangeable. Sovereign risk now shapes returns, and geographic diversification matters more than regional allocation.

b. Investors who are more active

Where passive allocates capital by size, active allocates by merit – and merit matters more when the distance between winners and losers widens.

c. Investors who invest in private markets

Destabilisation also creates uncertain outcomes that can lead to heightened volatility. Private markets can provide an attractive safe harbour in that volatility storm.

d. Investors who follow the money

Developed market governments are showing little appetite for fiscal restraint. Despite rising debt levels, high interest burdens, and fading political consensus, fiscal support is the path of least resistance.

Capital will flow toward the countries, sectors, and companies positioned to benefit from persistent fiscal accommodation.

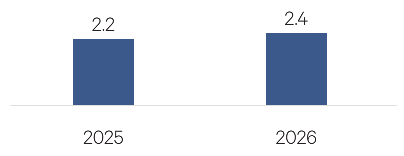
The investment message for 2026 is clear: differentiation and fragmentation now define the shifting landscape that was the bonfire of the vanities. Returns will be driven by recognising – and pricing – those differences.

Global Economy Breakdown

United States

There is potential for upside surprise to growth in the U.S. economy in this mid-term election year. The drag from trade policy uncertainty is fading, fiscal policy is expansionary, AI adoption is broadening, and a combination of productivity acceleration and softer hiring will keep monetary policy accommodative.

GDP (%)



Europe

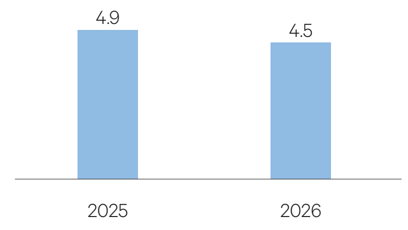
Eurozone growth is likely to remain weak despite increased defence spending in Germany. The potential for a stronger euro will be a headwind. Inflation will likely undershoot the 2% target, keeping rate cuts on the agenda.

GDP (%)

China

China is expected to deliver annual growth near the government's target of 5% in the near-term as it intensifies its efforts to open-up to foreign investment. The government vows fiscal policies will be more active, with a focus on expanding domestic demand and productivity.

GDP (%)



Japan

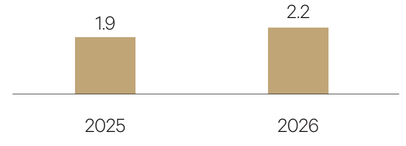
Growth in Japan may surprise to the upside as the new populist Prime Minister brings down the largest stimulus package since COVID and reboots defence spending and investment in nuclear energy generation. This will likely leave monetary policy biased toward tightening further.

GDP (%)

Australia

The Australian economy is on an improving trend, with consumer and business spending showing resilience. The labour market has softened over the last six months, with some spare capacity opening up, but hiring intentions remain robust. This means interest rates are likely on hold for much of 2026.

GDP (%)



United Kingdom

The UK economy continues to stagnate with activity and labour markets weakening. Growth drivers are likely to shift from fiscal to monetary policy during the year as higher taxes drag on growth. Expect interest rates to be cut.

GDP (%)

Source: Bloomberg, consensus data as at 31/12/25

Theme 1:
Space Technology

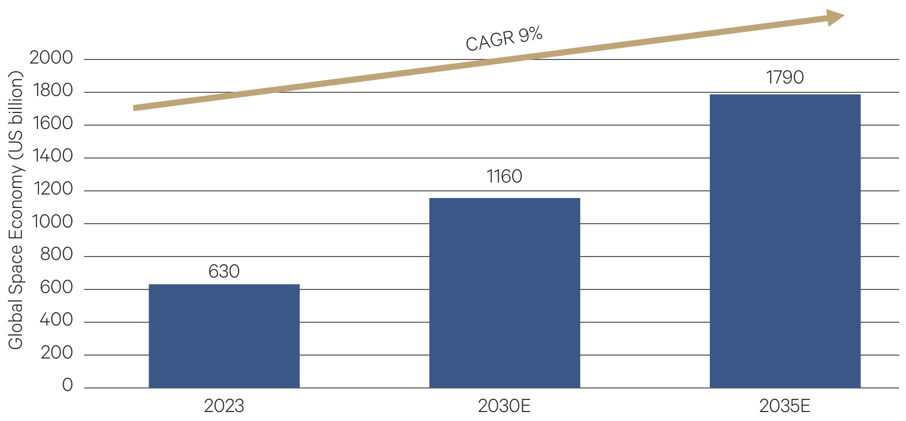
Stephen Dickinson
Investment Analyst

The space industry has transitioned from a once government-centric sector to a dynamic and commercially oriented field. The space economy comprises a wide array of activities, technologies, and services that integrate space-based capabilities with practical terrestrial applications, such as satellite communications, global positioning systems, earth observation, and new initiatives including space tourism and asteroid mining.

McKinsey & Company projects the global space economy will rise from US$630 billion in 2023 to almost US$1.8 trillion by 2035, with a yearly growth rate of 9%.

This figure covers both backbone applications like satellites, launchers, broadcast TV, and GPS, as well as reach applications where space technology helps businesses generate revenue. For instance, Uber uses satellite signals and smartphone chips to link drivers with riders and offer directions.

Expected growth of the global space economy



● Global Space Economy
Source: "Space: The $1.8t opportunity for economic growth", McKinsey & Company

US$1.8tr

forecast size of global space economy by 2035.

Source: McKinsey & Company

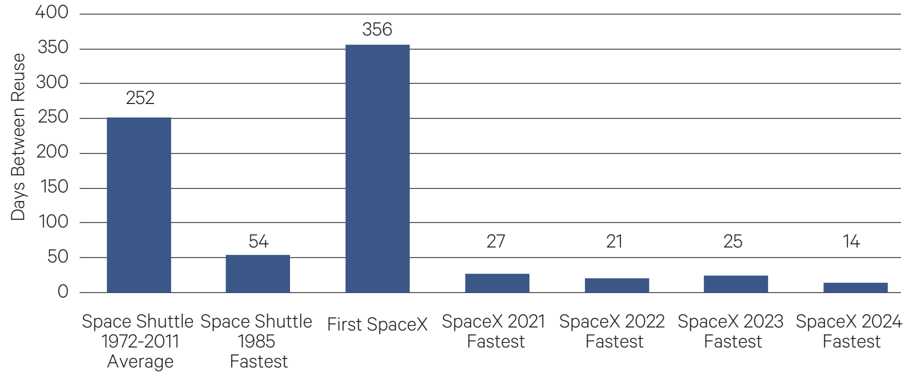
Several factors are driving the acceleration of the space economy which is built across multiple segments.

– Infrastructure and advanced technologies like AI, machine learning, sensors, and cloud computing are helping extract valuable insights from satellite data. When you use services such as Google Maps, satellite TV, or check the weather, you're relying on this technology. Examples of satellite data applications include climate risk modeling for insurance, shipment tracking in logistics, infrastructure monitoring for utilities, and precision farming in agriculture. For instance, U.S. corporation John Deere collaborates with SpaceX to provide satellite internet for advanced agricultural practices in remote areas.

– Within manufacturing and launch services, the cost of accessing space has been declining steadily over the past decade thanks to innovations in rocket and launch technologies. Notably, reusable rockets have drastically reduced launch costs. Founded in 2002 by Elon Musk, Space Exploration Technologies – better known as SpaceX – pioneered reusable rocket technology. Today, SpaceX is the world's second-most valuable startup after OpenAI and anticipated to pursue an IPO in 2026 with a possible valuation of up to US$1.5 trillion.

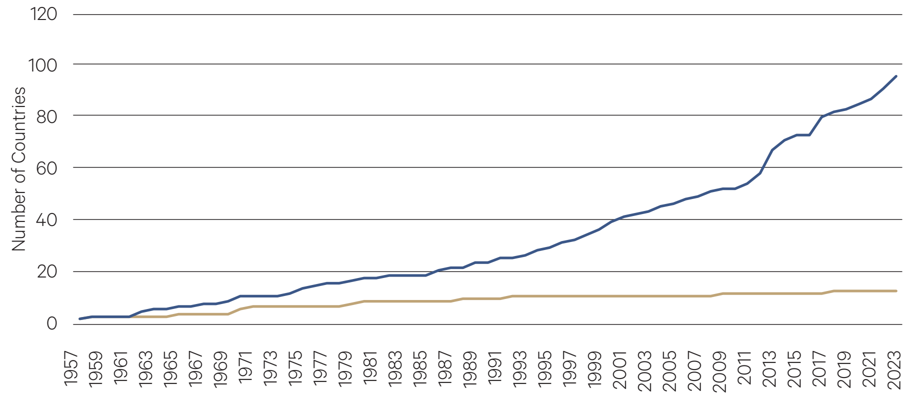
– The frontier segment covers ventures like space tourism and lunar missions, aiming to commercialize human spaceflight. Companies such as Blue Origin and Virgin Galactic are building experience to make space travel more accessible.

Rocket turnaround time



● Rocket Turnaround Time
Source: ARK Investment Management

Number of countries with satellites in orbit, 1957-2023



● First satellite in orbit ● First independent orbital launch
Source: Organisation for Economic Co-operation and Development (OECD), The Space Economy

US$47bn

private capital invested in space startups since 2015.

Source: Norton Rose Fulbright

The financing landscape for space technology is evolving, blending government investment, public-private partnerships, and private capital. Public spending still far exceeds private capital and is crucial for supporting new ideas and projects.

Government spending exceeds US$135 billion a year, with more than half going to defense. This funding supports early-stage research, national security, and major infrastructure. Recent policies like the U.S. Executive Order on space superiority and the EU Space Act highlight increased backing for commercial space and regulation. By late 2023, almost 100 countries on four continents had operated a satellite at some point in time, with a distinct jump after 2012.

Likewise, public-private partnerships, led by NASA and the European Space Agency (ESA), are accelerating adoption and reducing risk for early-stage ventures.

Investors can access the space sector through public or private markets. Public markets offer 'pure play' space stocks like AST and SpaceMobile, which derive most revenue from space activities, as well as 'indirect' options such as Boeing, Lockheed Martin, Northrop Grumman, and Raytheon Technologies, which have diversified portfolios but also invest in space.

Private markets, venture capital, private equity and infrastructure can all provide access to the space technology sector.

Since 2015, over US$47 billion of private capital consisting of equity, debt and acquisition finance has been invested in space startups and growth-stage companies, with venture capital accounting for the majority.

With costs declining, demand broadening, and applications multiplying, space technology is transitioning into a mainstream commercial platform. With a potential SpaceX IPO on the horizon and major governments increasing space and defense spending, the next decade is expected to be a defining period for the industry, offering significant opportunities for investors as space technology becomes increasingly embedded in everyday industries.

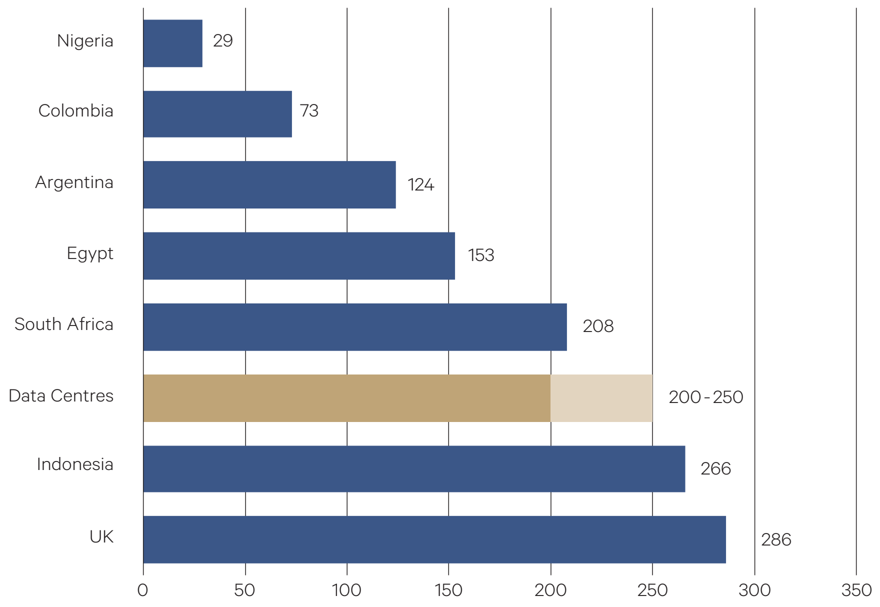
Theme 2:
Nuclear Power

Holly Brenchley
Investment Analyst

Artificial intelligence is set to define the investment landscape of the early 21st century, but this technological revolution requires substantial energy and infrastructure. Data centres – dedicated servers for AI and cloud storage – consume vast amounts of electricity to power and cool their systems, with a single hyperscale centre drawing up to 1,200MWh per day – enough to boil a kettle 12 million times.

Forecasts from the U.S. Department of Energy indicate that data centres will consume around 12% of annual electricity consumption in the U.S. by 2028. Meeting this demand has led to a revived interest in nuclear power, a technology that peaked in the late 20th century but has since been overshadowed by concerns around safety.

Data centre energy consumption in 2020 (TWh)



Source: World Bank, IEA

Building advanced AI systems will take city-sized amounts of power.

Source: White House brief

Data centres consumed around 415TWh in 2024 – about 1.5% of global consumption – a figure projected to more than double by 2030. Tech giants, such as Meta, Amazon and Alphabet, are signing long-term nuclear power purchase agreements to secure the energy needed for hyperscale AI operations. At COP29, 31 nations pledged to triple nuclear capacity by 2050, and in the U.S., executive orders aim to fast track licensing to 18 months and quadruple nuclear generation in the next 25 years.

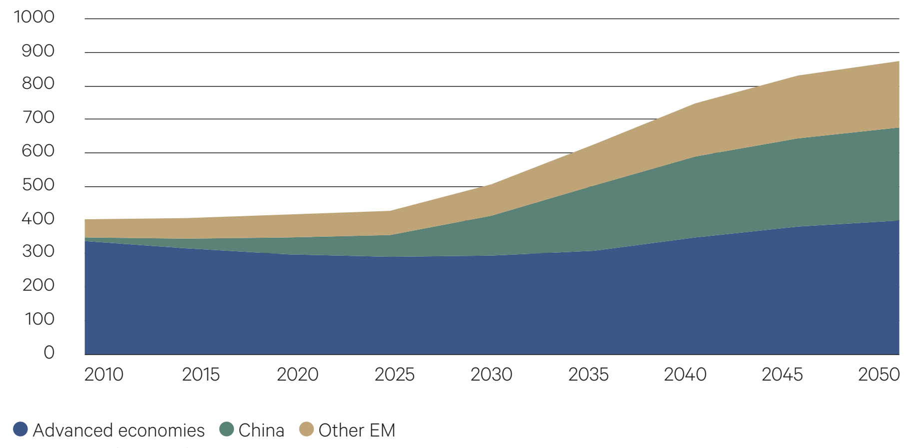
Globally, 61 reactors are currently under construction, representing more than 70GW of new capacity – enough to power the whole of France. Small Modular Reactors (SMRs) are at the heart of the nuclear renaissance representing 27% of all new investment in nuclear over the next 25 years. These factory-built units promise shorter construction times, enhanced safety and lower cost than traditional large reactors.

Currently, only two SMRs are licensed, approved and operating, while one reactor is in the testing phase. SMRs offer faster construction times, around 3-5 years versus around ten for traditional reactors. Power production is anticipated to be around half the cost. Once designs are standardised, components can be mass manufactured and shipped to site.

Reactors can be co-located with data centres, or on repurposed coal production sites, utilising existing grid connections. The modularised designs aim for improved safety with fewer failure points, and longer periods before refuelling, limiting the movement of radioactive components.

For investors, SMRs offer shorter investment timelines at around 20 years to breakeven on a conservative estimate, versus up to 30 years for traditional reactors.

Nuclear capacity by region (GW)

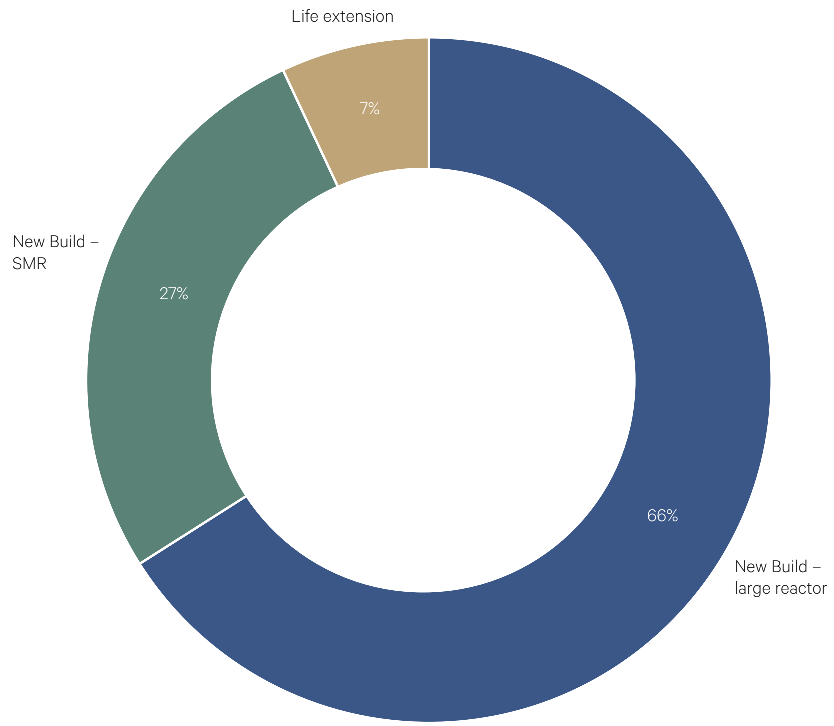


Source: IEA, forecast from 2024

31
Nations pledged to triple nuclear capacity by 2050

Source: IEA

How global investment in nuclear energy is expected to be allocated, 2024–2050



Source: IEA – Announced Pledges Scenario

There are multiple entry points for investment in nuclear energy. In equities, there are opportunities at all levels of the supply chain from uranium mining and enrichment, reactor design and construction, to utilities providers who own and operate plants. In fixed income, green bonds with nuclear exposure are an avenue for investors concerned about responsible investment, with nuclear classed as a clean energy with no direct carbon emissions.

In alternatives, investors can be exposed to the design and development of SMRs through venture capital investing, as well as the construction of reactors through infrastructure investing. With up to US$3 trillion forecast for investment in nuclear over the coming 25 years, the nuclear renaissance is an investment theme that will continue over the coming decades.

Theme 3:
When Wallets Replace Platforms

Tracey McNaughton
Chief Investment Officer

The way we invest is being revolutionised. Within the next three to five years, private wealth clients will have the option of investing in funds that sit inside their 'digital (that is, on the blockchain) wallet'. This brings significant benefits for investors – immediate settlement, lower cost, higher returns, and so much more.

The *ability* for investors to do this has been around for some time. Using the analogy of a railroad – the tracks had been laid in the form of blockchain. This has been around for the past 15 years or so. The train and its associated shipping containers have been around for around 10 years in the form of tokenisation. Even the currency to pay for the cargo in the form of stablecoins has been around for 6 years.

Despite all of this, the *willingness* of investors, particularly high net worth and institutional investors, has been absent. Tokenisation turned real world assets into investable products. Stablecoins gave investors the ability to transact in those funds 'on-chain' instead of using 'off-chain' cash. The missing piece was regulation to give confidence in the 'on-chain' way of investing.

That has now changed with the GENIUS Act.

U.S. law enacted in July 2025 created a federal regulatory framework for U.S.-dollar-pegged stablecoins. This legislation requires stablecoins to be backed 1:1 with cash or short-term high-quality assets.

T+0

The settlement time for 'on-chain' investing

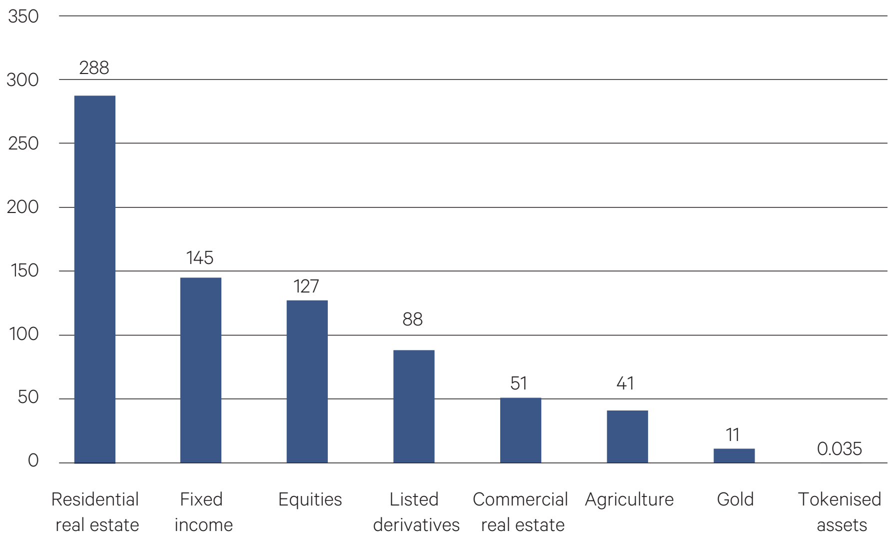
Source: SEC, December 2025

Specifically, the Act:
– makes stablecoins a regulated payment asset
– it allows regulated banks, credit unions and qualified non-banks to issue and handle stablecoins.

The legislation finally gives regulatory certainty for stablecoins in the U.S., something institutions have long awaited.

To borrow another analogy, the early invention of the internet only allowed bank customers to check their balances online. They couldn't transact because banks couldn't safely move money. That changed with the introduction of end-to-end encryption and methods of verifying identity online. Now we move money online every day.

Tokenised assets vs traditional markets ($UStr)



Source: Greyscale Investments

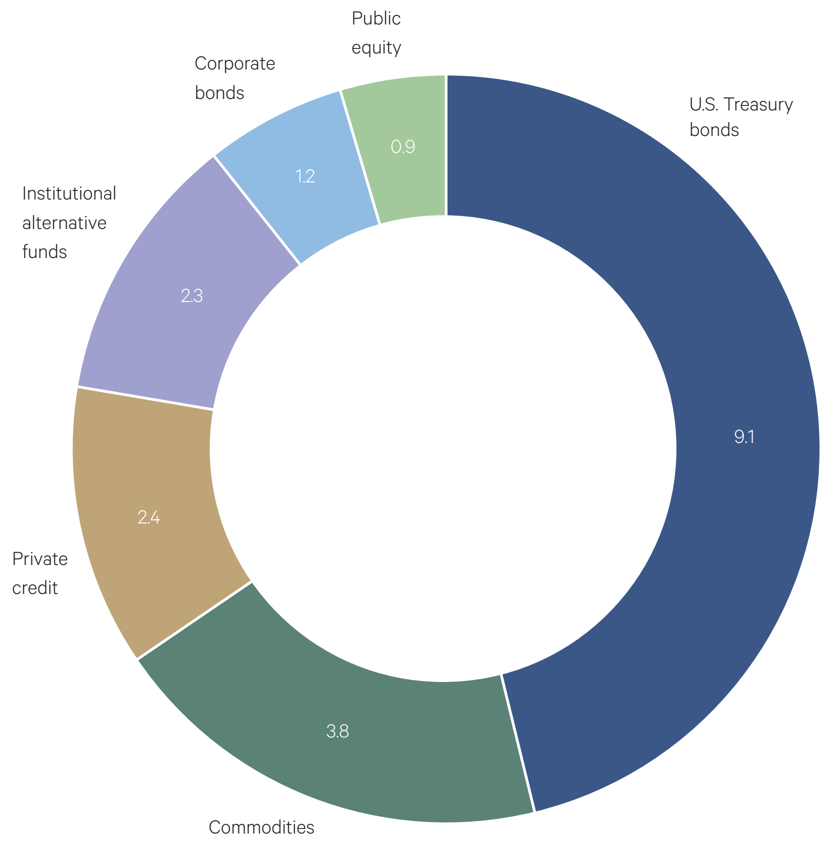
In the same way, the regulation of stablecoins gives confidence to transact 'on-chain'.

Stablecoin-specific legislation and regulatory frameworks are now being adopted or worked on in other jurisdictions including Australia.

Asset managers are responding with more and more funds being tokenised. In March 2024, BlackRock launched an Ethereum-based tokenised money market fund. Within a year of launch it had reached US$1 billion in size. Today it stands at almost US$2 billion. Blackrock's digital assets under management currently stands at US$80 billion.

J.P Morgan, Amundi, Franklin Templeton, Janus Henderson, Fidelity, Goldman Sachs and Bank of New York Mellon are also developing tokenised funds. Nasdaq has also sought approval to allow tokenised stock trading on its exchange in an attempt to address the inefficiency caused by T+1 settlement for public equities.

Tokenised real world assets ($USbn)



Source: RWA.xyz as at 17/01/2026

According to RWA.xyz the tokenised asset market was worth US$2.9 billion in 2022. By November 2025, it was worth US$36 billion. Most of that growth has been concentrated in private credit and U.S. Treasuries, which together account for nearly 90% of tokenised value. By 2030 it is expected to be in the trillions.

What does this mean in real life for investors?

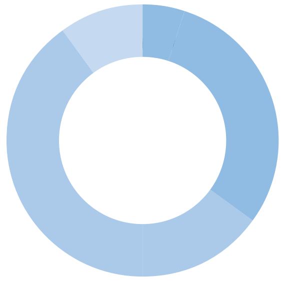
1. Less friction: Currently, managed funds come in different structures and sit on platforms – Australian Unit Trust, Cayman, UCITS, etc. Accessing some of these structures is difficult, time consuming and can be costly. Tokenisation simplifies operations and streamlines distribution. Funds will move from being platform based to being 'wallet' based.

2. Bigger universe of funds: It significantly opens up the universe of possible funds clients can invest in. For example, an Argentine fintech startup lets soccer clubs sell tokens to invest in the careers of individual footballers and earn a cut of any transfer fees.

3. Higher returns: Settlement period moves from T+3 for most funds to T+0. This means less cash drag and therefore higher returns.

4. Shift operational risk: Assets will be held by a digital custodian in 'wallets' controlled by 'keys'. Operational risk becomes more about technology and 'key' governance and less about people and process failure.

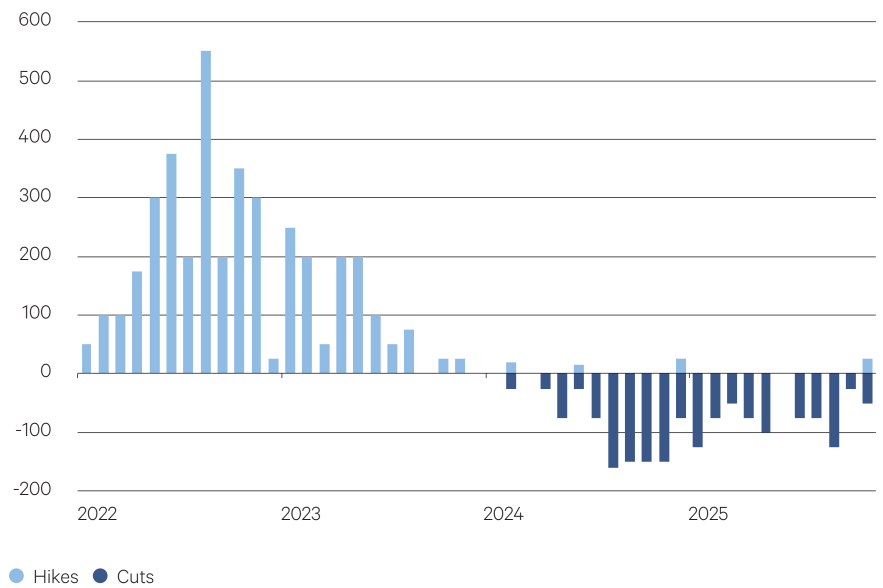
Fixed Income



Holly Brenchley
Investment Analyst

Fixed income in 2025 was characterised by shifting expectations. Liberation Day tariffs sparked volatility, with investors anticipating higher U.S. inflation and weaker global trade. Global rate cutting continued at the fastest pace and scale since the GFC, with 850bps of easing across the G10 in 2025. Weak U.S. labour markets forced the Fed to cut more aggressively despite above-target inflation. President Trump applied pressure to the Fed and chair Powell to lower rates. Powell's term as chair ends in May amid concerns over political influence on his successor. However, with 12 voting members and little scope for the President to replace members, these concerns are relatively unfounded.

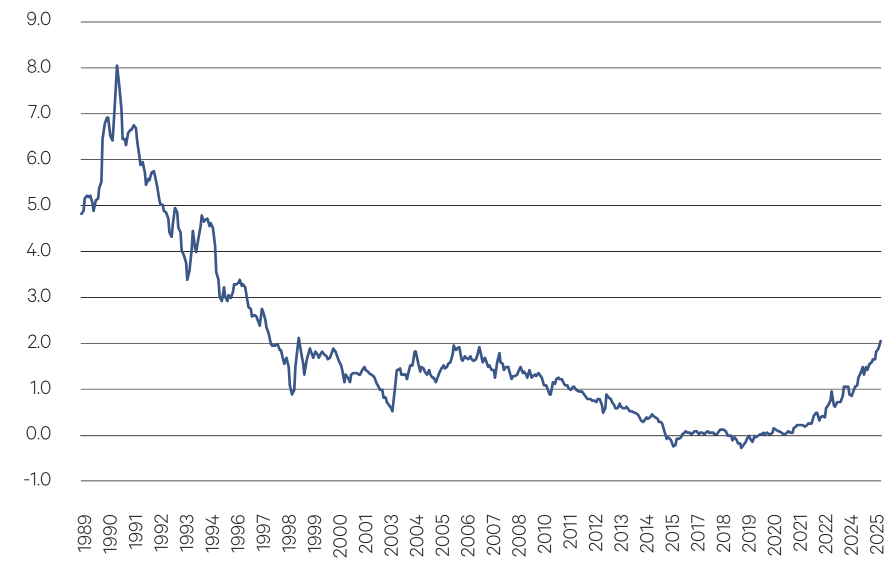
G10 hikes and cuts since 2022 (bps)



Source: Bloomberg

The Bank of Japan, however, is more politically influenced. In December, the BOJ lifted rates to 0.75%, a 30-year high, to curb persistent inflation. The announcement by Japan's new Prime Minister of fiscal stimulus funded by new bonds pushed 10-year yields above 2%, the highest since 1999. Rising Japanese yields threaten the carry trade, where investors borrow at low rates in Japan and invest in higher yielding securities, potentially triggering U.S. capital outflows.

Yield on 10yr Japanese Government Bonds (%)



Source: Bloomberg

2.1%

the peak of 10yr Japanese bonds in 2025, the highest since 1999

Source: Bloomberg

Australia's cutting cycle likely ended at 3.6% amid persistent inflation and low unemployment, with hikes priced for early 2026. New Zealand, Canada, and Europe may follow, though falling oil prices could promote disinflation and delay moves.

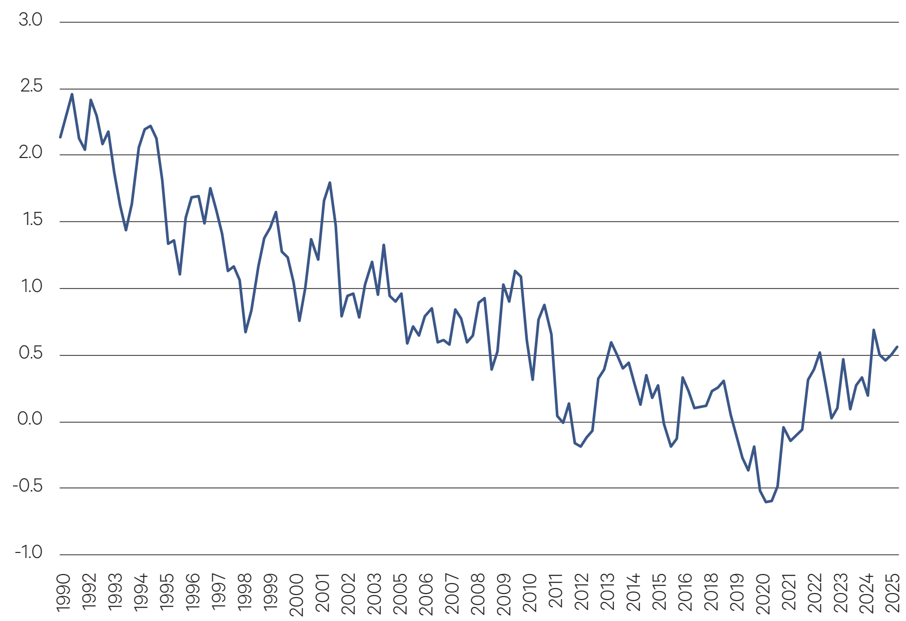
Europe faced sluggish growth prospects, allowing the European Central Bank (ECB) to cut rates to 2%. Political uncertainty drove French yields higher as the nation appointed its fifth Prime Minister in two years. The UK narrowly avoided a repeat of the 2022 bond crisis; however new and incoming taxes are weighing on already weak growth.

Term premia, the reward for holding longer dated bonds, has risen after decades near zero, steepening the long end of the yield curve as fiscal deficits grow and investors price in the risk of higher sovereign debts. Fiscal responsibility was a key discussion in 2025 amid the passing of the U.S.'s One Big Beautiful Bill Act. The act is forecast to cost over US$4 trillion in the next decade, as well as almost double the nation's debt to GDP ratio to 190% by 2054.

Credit spreads tightened despite brief periods of volatility. Australian credit offers better risk-adjusted value compared to the U.S. and Europe, though the prospect of higher yields in 2026 could attract further capital and compress spreads. Increased local and offshore issuance into the domestic market has helped absorb recent demand for AUD denominated debt.

U.S. auto-lending insolvencies briefly spiked volatility and spread widening but proved idiosyncratic. Defaults stayed low, though increased downgrades and rising arrears in some U.S. consumer credits signal mild stress. Limited 2026 high-yield maturities eases refinancing risk for lower quality borrowers.

Term premium on a 10yr zero coupon bond (%)



Source: Bloomberg

Despite no major risks on the horizon for 2026, high valuations and low risk premia skew risk to the downside. We continue to recommend shorter-dated, high-quality investments, with opportunistic addition of rewarded risk, to capture higher yields while minimising downside risk.

US$4tr

estimated 10yr cost of OBBBA

Source: CBO

Australian Equities

David Bruty
Investment Analyst

2025 was a year of significant dispersion in the Australian equity market. Resources rallied by 35%, led by extraordinary gains in gold producers, while small caps significantly outpaced large cap returns. IT and health care, two core sectors for growth-focused investors, both fell more than 20% on a mix of idiosyncratic and macro factors. The benchmark ASX 200's total return of 10% was quite modest given the resources tailwind.

-24%

Total return of the ASX health care sector in 2025, only the second time in the last 14 years the sector has delivered a negative return

Source: Bloomberg

Australian gold sector rallied in 2025 (ASX All Ordinaries Gold) (%)

Source: Bloomberg

Sustainable earnings growth remains elusive for the Australian market. Equity gains in recent years have been primarily driven by P/E rerating, though a normalisation from high prices in key commodities such as iron ore has been equally significant. The recent underperformance of the Australian market has reflected its limited exposure to some of the key themes driving global equities, particularly AI and defence.

However, after three years of earnings contraction for the market, all three key sectors of banks, resources and industrials are forecast to deliver growth in the year ahead. The breadth of earnings upgrades picked up towards the end of 2025, helped by a cyclical upswing in resources. Despite this positive development, growth for the Australian market is still forecast to be below that of global markets in 2026.

Resources will again be a key swing factor as the year unfolds and the risks here are to the upside. The gold sector was a constant driver through the last year and continues to have support from rising central bank purchases, geopolitical risks and broad concerns around the level of sovereign debt.

Other commodity producers bounced back in the second half, including base metals, lithium and iron ore. Iron ore has held up better than anticipated despite China's ongoing crisis in its property market, though may struggle to hold its level as significant new supply enters the seaborne market. Other commodities with a more favourable supply/demand balance, such as copper, have a smaller representation in the index.

Industrials had cautious optimism around August's reporting season, as domestic-focused companies talked up improving conditions. In recent months, however, upside surprises to inflation have raised concerns with the RBA, highlighting our poor productivity growth and the possibility that the easing cycle has come to an early conclusion. This in turn may temper the expectations for the recovery to continue in a meaningful way.

The major banks again have a benign outlook for earnings, though retain sound capital positions and have been supported by a renewed surge in residential property lending, aided by stimulatory government policy. With P/E ratios high and dividend yields low, they have held limited appeal for many income-seeking investors or those with an approach based on fundamentals.

We retain a preference of small caps over large on a more attractive mix of earnings growth, valuation and overall commodity exposure.

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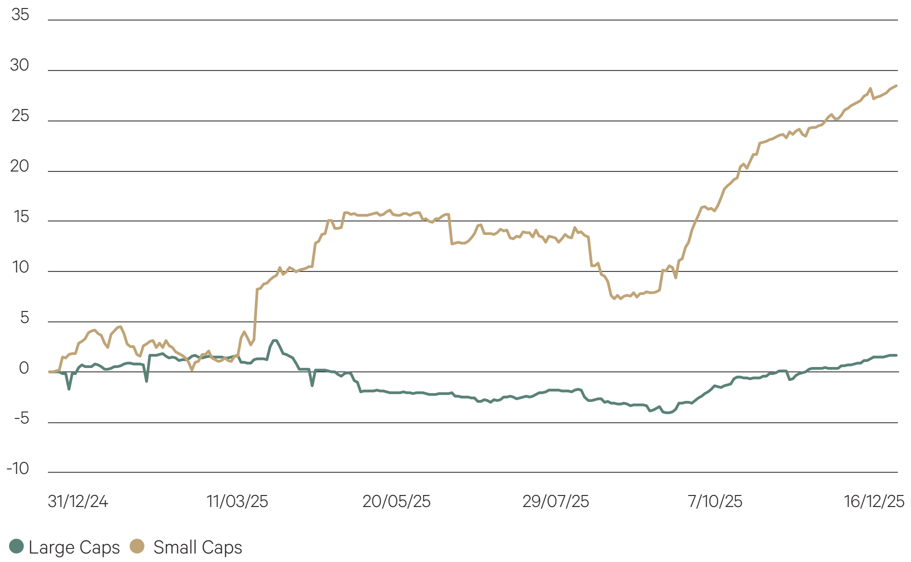
Eight of the top 10 ASX 200 performing stocks in 2025 were gold miners

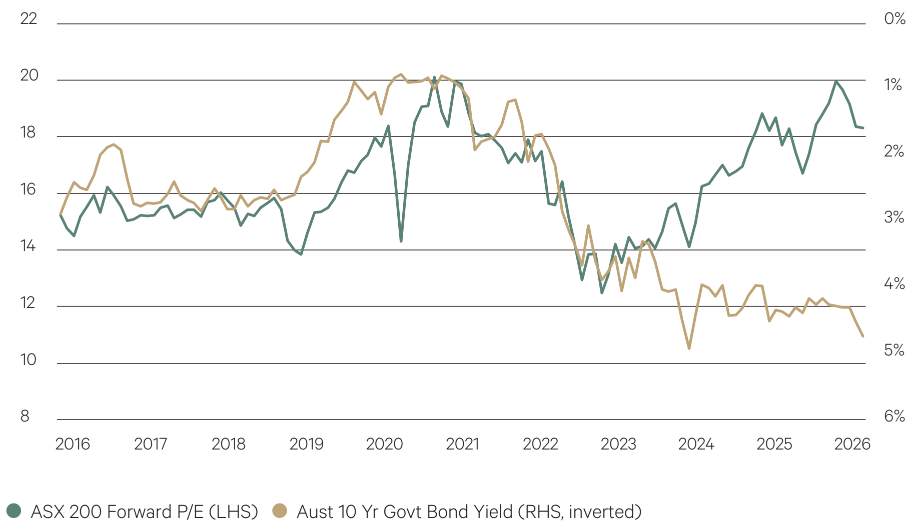
Source: Bloomberg

Forward earnings revisions:
Australian small caps outperformance driven by upgrades (%)



Source: Bloomberg

ASX P/E remains disconnected from higher yields



Source: Bloomberg

Despite a pullback in the market in November, the ASX still trades on a premium valuation which in our view is not justified by the outlook and better opportunities lie offshore. While not our base case, two factors could cause a swing back to Australian shares – a sharp correction in the AI trade, or a return of the global reflationary environment that would spur further gains in resources.

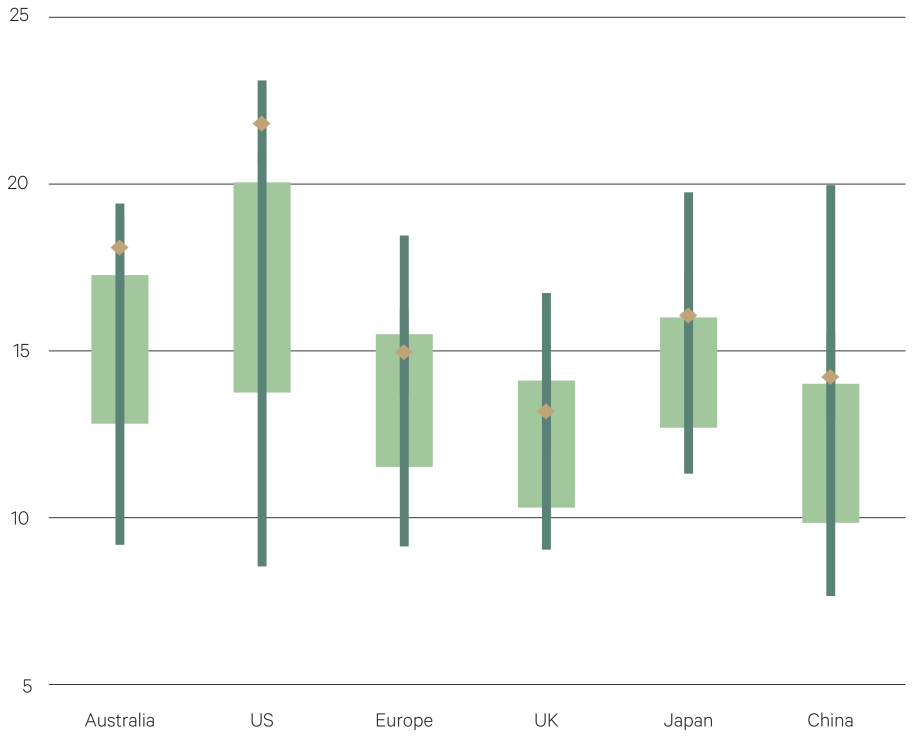
International Equities

David Bruty
Investment Analyst

Despite a rapidly changing macro and policy environment, international equities recorded a third successive year of stellar returns in 2025. Following a spike in volatility driven by unpredictable U.S. trade policy and a drawdown in early April, markets staged a remarkable recovery over the following months as the new environment become clearer. While market leadership evolved over the year, Japan and EM topped the tables, while the U.S. surprisingly lagged, particularly through an unhedged lens for Australian investors.

We have a constructive view on international equities into 2026, notwithstanding elevated valuations across much of the world. Underpinning our view is expected solid earnings growth and momentum, broad fiscal support and the additional lagged benefits of the last two years of monetary policy easing. Overall, the environment remains conducive for risk assets.

Valuations elevated, particularly in Australia and U.S. (Current P/E vs Long term average)



Source: Bloomberg

$527bn

Estimated hyperscaler capex in 2026, a 34% increase on 2025

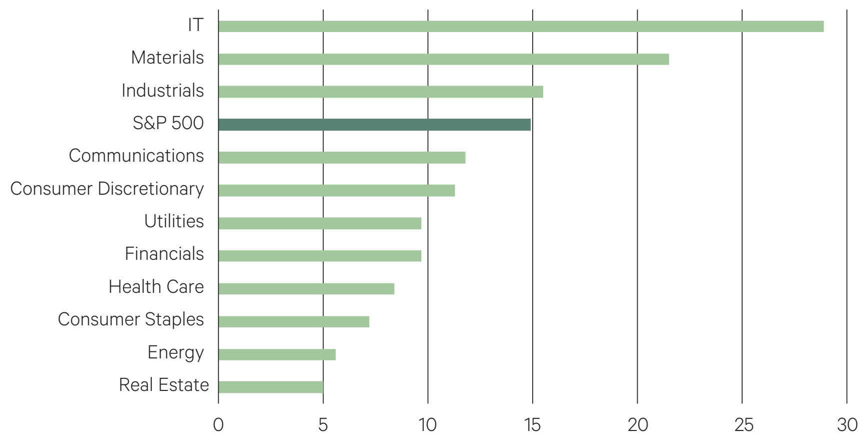
Source: Goldman Sachs

With sovereigns bearing an increasing proportion of debt since the pandemic, corporate balance sheets are comparably healthy. Multi-year capex investment themes continue to grow and remain positive for medium term growth, including decarbonisation, defence and the enormous infrastructure spend necessary to support artificial intelligence (AI). The boom in AI remains the primary investment theme in equities, particularly given the concentration of the central players in the U.S. market.

While hyperscaler capex growth is set to continue in 2026, the increasing use of debt funding by some participants requires close monitoring. Further, we are edging closer to the day that investors will demand to see increased evidence of monetisation of this spend. Active management should be critical in the next phase of AI as a greater spread of winners and losers emerges and broadens beyond the technology sector.

Having navigated well the sharpest hikes in tariffs in many decades, the U.S. market looks well placed with forecasts of 15% earnings growth. The fiscal backdrop is much more supportive this year as the benefits of the One Big Beautiful Bill are realised, including corporate and individual tax cuts and policy incentivising new investment. M&A activity has picked up, falling energy prices are positive for households and a deregulatory agenda provide additional support. Lastly, a new Fed chair in May is expected to be more sympathetic to the Trump administration's will for further easing.

U.S. earnings broadening, but IT leading the way (S&P 500: 2026 estimated sector earnings growth) (%)



Source: Factset, as at 9/1/26

In 2025, European markets pulled forward expected benefits from the release of Germany's debt brake and ramp up in spend on infrastructure and defence. While the outlook has improved, the region is constrained by a more fragile political environment, a strengthening euro and its export dependency as trade barriers rise.

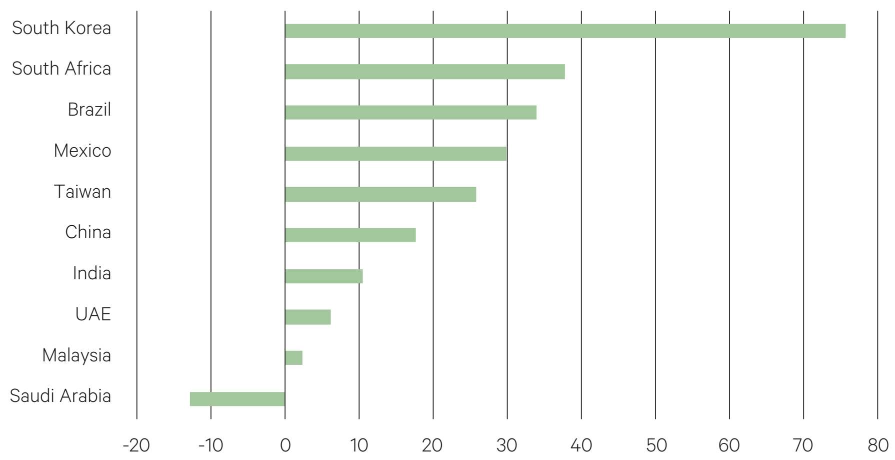
Japan has finally broken the shackles of its deflationary malaise, with improved wage growth and now a fiscal expansionary agenda of the new Takiaichi government adding to an optimistic outlook. Value continues to be unlocked by corporate governance reform, evidenced by rising shareholder returns and returns on equity.

€500bn

The size of Germany's infrastructure fund, established in March 2025

Source: Federal Ministry of Finance (Germany)

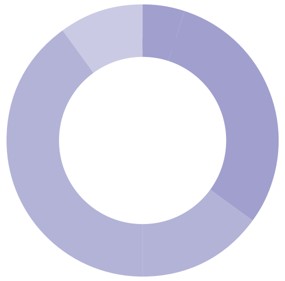
High dispersion in Emerging Markets – returns in 2025 (%)



Source: Bloomberg

In emerging markets, China adapted well amidst its trade war with the U.S. and technology is increasingly being viewed as an opportunity. While its structural challenges remain, government policy has become more supportive. More broadly, valuations are attractive in EM compared to developed markets and further U.S. dollar weakness has the potential to drive gains in the year ahead.

Alternatives



Stephen Dickinson
Investment Analyst

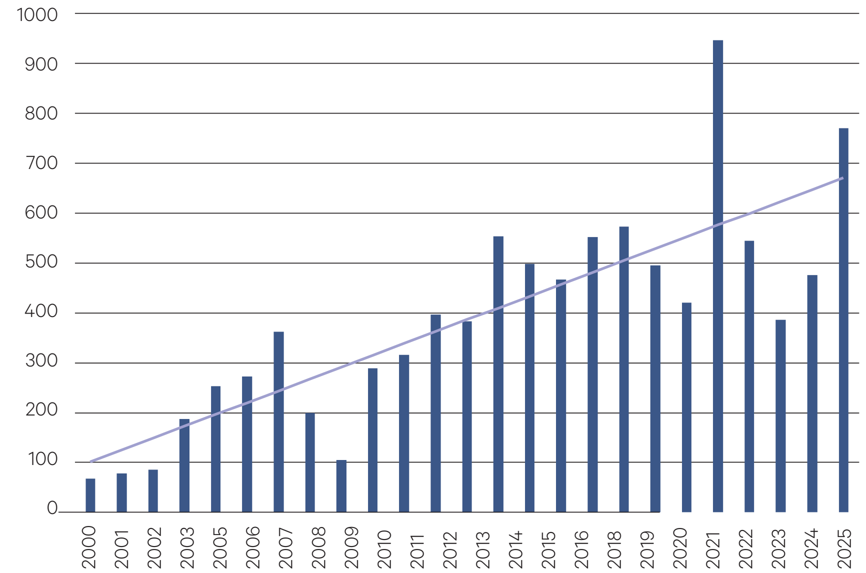
Alternative assets continue to play an increasingly important role in helping to diversify portfolios and gain access to different types of exposures not otherwise available through traditional investment markets. EY estimates that global alternatives will exceed US$23 trillion by 2026 (up from US$20 trillion in 2024).

Private equity

Private equity investment and exit volumes, after several years of slower activity, have picked up momentum globally. In 2025, there has been a significant rebound in both exits and values, surpassing previous trends. This positive trajectory is likely to persist into 2026, thanks to better conditions for mergers and acquisitions, lower interest rates, and growing interest from buyers. Investment hold periods have also shortened; the typical PE buyout now lasts six years, compared to 6.4 years in 2024 and seven years in 2023.

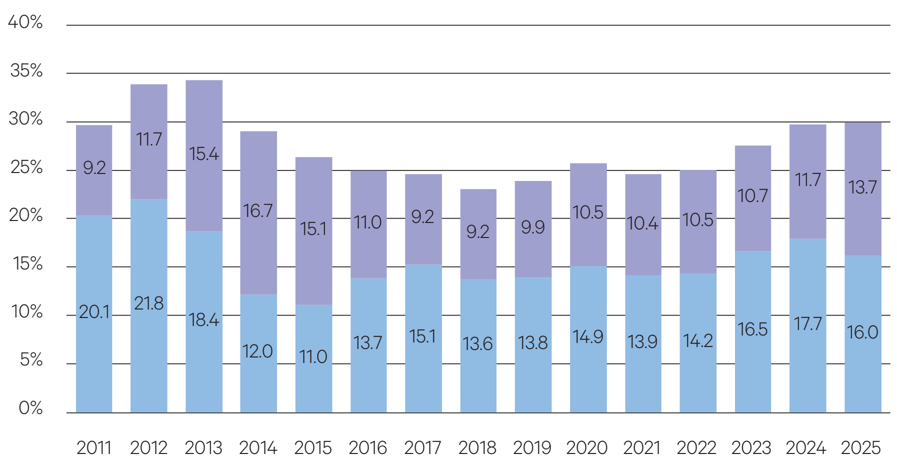
U.S. and European mid-markets are presenting attractive opportunities, as debt financing multiples have dropped compared to earlier years. Additionally, a revival in IPO activity and closer bid-ask spreads between sponsors are fuelling further growth. Private equity is expected to maintain its momentum in 2026, with opportunities across a range of sectors.

U.S. buyout exit value ($USbn)



Exit value ($B) Long Term Trend
Source: Pitchbook, 30/9/2025 (extrapolated to 31/12/2025)

Holding period of U.S. buyout backed companies (%)



5–7 years 7+ years
Source: Pitchbook, 22/10/2025

Infrastructure

Real assets such as infrastructure are increasingly attractive in the current macro environment. Many infrastructure investments are underpinned by long-term contractual cash flows that include inflation-adjustment mechanisms. This enables income streams to rise in tandem with inflation, preserving purchasing power and supporting real returns.

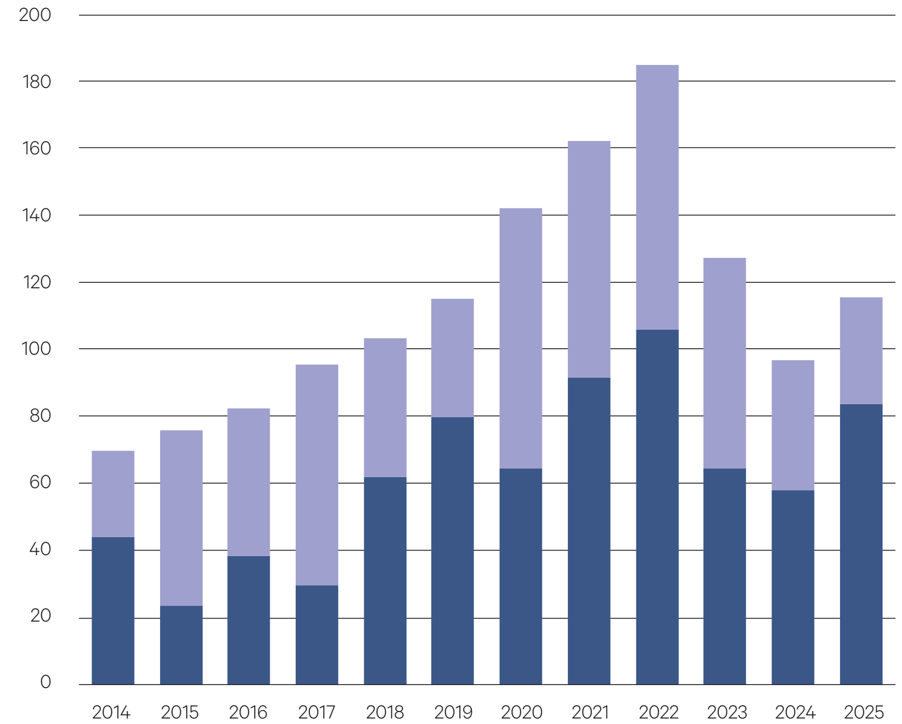
Secular trends including AI-driven data center demand, energy security, and power generation underscore the sector's long-term structural strengths. The increasing requirement for powering AI computing is reshaping projections for global electricity consumption. By 2030, worldwide electricity usage by data centers is anticipated to exceed Japan's total electricity consumption in 2024.

The demand for AI computing and associated data centres has also introduced an interesting new dynamic that includes non-IT areas and providing a range of investment opportunities across:

- Property (e.g. land, asset ownership, and facility leasing)
- Infrastructure (e.g. cooling systems, water supply, communications equipment, and backup power)
- Energy (e.g. grid interconnection, collocated power generation)

Accelerating adoption of AI and non-AI technological needs and the corresponding appetite for power will require both renewable and conventional energy. Datacenter global electricity demand is expected to more than double from 415 terawatt-hours (TWh) in 2024 to 945TWh by 2030, reaching 3% of total electricity consumption. This has wide-ranging implications for infrastructure and energy investments.

Infrastructure capital raised by investment type ($USbn)



Digital infrastructure Nondigital infrastructure
Source: Pitchbook, 22/10/2025

Electricity demand from global data centres is expected to more than double by 2030.

Source: Pitchbook Q3, 2025

Private credit

Private debt fundraising continues to see strong inflows, with steady deployment and repayments. Although returns have moderated as base rates normalize, market conditions remain favourable: leverage and default rates are low, and downgrades are moderate. We favour globally diversified sectors—software, healthcare, business services, education, and consumer staples—which offer many opportunities.

Despite rates declining, yields remain at attractive levels and private credit continues to present a compelling risk return profile.

Hedge funds

Hedge funds are well positioned to adapt in today's market environment. More normalised interest rates, higher stock volatility, and wider equity market dispersion, support a favourable setting for alpha generation, making the current environment attractive for hedge funds. Ongoing equity market volatility is providing stock-specific opportunities for both long and short investments across all market caps.

Asset Class Quilt of Market Returns

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
High	EM Eq 29.2%	EM Eq 36.5%	AFI 14.9%	EM Eq 74.5%	Gold 29.6%	AFI 11.4%	HY 19.6%	US Eq 29.6%	US Eq 11.4%	AE 3.8%
	AE 25.0%	Gold 30.9%	IFI 9.2%	HY 59.4%	EM Eq 16.4%	IFI 10.5%	AE 18.8%	IE 24.1%	IFI 10.4%	IFI 3.3%
	Gold 23.2%	AE 18.0%	Cash 7.6%	AE 39.6%	HY 14.8%	Gold 10.1%	EM Eq 15.1%	AE 19.7%	AFI 9.8%	AFI 2.6%
	IE 18.0%	IE 7.1%	Gold 5.8%	IE 27.0%	US Eq 12.8%	Cash 5.0%	US Eq 13.4%	HY 7.3%	AE 5.0%	Cash 2.3%
	HY 13.7%	Cash 6.7%	IG -8.6%	Gold 24.4%	IE 9.6%	IG 4.3%	IE 13.2%	Cash 2.9%	IG 3.1%	US Eq -0.7%
	US Eq 13.6%	IG 6.7%	HY -26.9%	US Eq 23.5	IFI 9.3%	HY 3.1%	IG 11.2%	IFI 2.3%	IE 2.9%	IE -2.7%
	IG 7.2%	IFI 6.6%	US Eq -38.5%	IG 19.2%	AFI 6.0%	US Eq 0.0%	IFI 9.7%	AFI 2.0%	Cash 2.7%	HY -2.7%
	Cash 6.0%	AFI 3.5%	AE -40.4%	IFI 8.0%	IG 5.8%	IE -7.6%	AFI 7.7%	IG 0.3%	HY 0.0%	IG -3.6%
	IFI 4.4%	US Eq 3.5%	IE -42.1%	Cash 3.5%	Cash 4.7%	AE -11.4%	Gold 7.1%	EM Eq -5.0%	Gold -1.4%	Gold -10.4%
Low	AFI 3.1%	HY 3.2%	EM Eq -54.5%	AFI 1.7%	AE 3.3%	EM Eq -20.4%	Cash 4.0%	Gold -28.3%	EM Eq -4.6%	EM Eq -17.0%

- **AE:** Australian Equities
- **HY:** High Yield Credit
- **Gold**
- **IFI:** International Fixed Income
- **EM Eq:** Emerging Market Equities
- **Cash**
- **AFI:** Australian Fixed Income
- **US Eq:** U.S. Equities
- **IG:** Investment Grade Credit
- **IE:** International Equities

2025 saw the third consecutive year of positive returns across all asset classes – a first for this century. Positive sentiment on AI and interest rate cuts helped drive returns higher, despite increased volatility and a short but sharp equity drawdown after Liberation Day.

Gold led returns for a second year, surging nearly 65% as investors sought safety amid U.S. policy concerns, persistent inflation, and heightened uncertainty. It was the strongest single-asset annual performance since 2009, more than doubling in price over two years.

Emerging market equities surprised, returning over 30% in their best year since 2017. A weaker U.S. dollar and Asia's improving outlook fuelled AI-driven investment in China, Korea, and Taiwan.

U.S. equities were more subdued than the past two years, returning 16% as tariff concerns weighed on sentiment. Surging gold prices drove Australian equities to a respectable double-digit return. High valuations are increasingly concerning across all asset classes as momentum drives markets to record highs.

The asset class quilt's appeal lies in its unpredictability – any class can lead in any year, regardless of past performance. This underscores the importance of diversification, where low or negative correlations between asset classes reduces portfolio volatility while preserving upside.

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
HY 14.3%	EM Eq 34.3%	AFI 4.5%	US Eq 28.9%	Gold 25.1%	US Eq 26.9%	Cash 1.3%	US Eq 24.2%	Gold 27.2%	Gold 64.6%
AE 11.6%	IE 20.1%	Cash 1.9%	IE 25.2%	US Eq 16.3%	IE 20.1%	Gold -0.3%	IE 21.8%	US Eq 23.3%	EM eq 30.6%
US Eq 9.5%	US Eq 19.4%	IFI 1.6%	AE 24.1%	EM Eq 15.8%	AE 17.7%	AE -3%	HY 14.0%	IE 17%	IE 19.5%
EM Eq 8.6%	Gold 13.5%	Gold -1.6%	Gold 18.3%	IE 14.1%	HY 0.9%	AFI -9.7%	Gold 13.1%	AE 11.4%	US Eq 16.4%
Gold 8.1%	AE 12.5%	AE -3.5%	EM Eq 15.4%	IG 10.4%	Cash 0.0%	IFI -12.3%	AE 13.0%	HY 9.2%	HY 12.1%
IE 5.3%	HY 10.4%	IG -3.6%	HY 12.6%	HY 7.0%	IFI -1.6%	HY -12.7%	IG 9.6%	EM eq 5.1%	AE 10.6%
IFI 5.2%	IG 9.1%	HY -4.1%	IG 11.5%	IFI 5.1%	AFI -2.9%	IG -16.7%	EM eq 7.0%	Cash 4.5%	IG 10.3%
IG 4.3%	AFI 3.7%	US Eq -6.2%	AFI 7.3%	AFI 4.5%	IG -3.2%	US Eq -19.4%	IFI 5.3%	AFI 2.9%	IFI 4.4%
AFI 2.9%	IFI 3.7%	IE -10.4%	IFI 7.2%	AE 3.6%	Gold -3.6%	IE -19.5%	AFI 5.1%	IFI 2.2%	Cash 4%
Cash 2.1%	Cash 1.7%	EM Eq -16.6%	Cash 1.5%	Cash 0.4%	EM Eq -4.6%	EM eq -22.4%	Cash 3.9%	IG 1.1%	AFI 3.2%

Source: Bloomberg

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