



STRATEGY UPDATE • JANUARY 2026

Setting the Tone for 2026

KEY TAKEAWAYS

- Broadening earnings growth and easing monetary policy support a continued pro-equity stance into 2026.
- The AI cycle is evolving from momentum to fundamentals, favouring balance-sheet quality and diversified beneficiaries over pure hyperscaler exposure.
- Europe is entering a delayed earnings recovery phase, with defence, industrials and high-dividend quality stocks offering attractive risk-adjusted profiles.
- Geopolitical realignment – from Eastern Europe to Latin America and the Arctic – reinforces the strategic role of gold and energy as portfolio hedges.
- With traditional bonds offering limited return potential, market-neutral and absolute-return strategies remain core building blocks for portfolio resilience.

MARKET REVIEW

Markets closed December on a constructive note after a volatile year, with global equities extending their recovery into year-end. Over the final month, the S&P 500 gained approximately 0.8% in total return terms, while European equities advanced by around 2.9% and emerging markets by close to 2.9%, all measured in local currency. Mid-December was marked by a temporary pullback rather than a single event-driven shock: profit-taking after a strong 2025 rally, lingering uncertainty around the precise timing and magnitude of Federal Reserve rate cuts, and thin year-end trading conditions combined to weigh on sentiment. Rotation out of some richly valued technology leaders also contributed to the softness, but markets recovered toward year-end as **investors looked through the noise**. Geopolitical headlines added to the uncertainty during this period, including renewed debate in Washington around trade policy and early signals of a more assertive US foreign policy posture heading into 2026, particularly toward Latin America and Eastern Europe.

Looking back at 2025 as a whole, the recovery that started in spring proved remarkably resilient. In local currency terms, the S&P 500 delivered a total return of roughly 17%, Europe close to 19%, emerging markets more than 33% and Japan approximately 27%. After the sharp

correction in March and April, driven by concerns over tariffs, sticky inflation, restrictive monetary policy and slowing Chinese growth, equities rebounded steadily as disinflation took hold, labor markets remained resilient and earnings – particularly in technology and industrials – surprised positively in the second half of the year. Despite recurring political and policy uncertainty, including elevated tariffs throughout the year, markets consistently refocused on the **durability of corporate profits** and the prospect of **easier monetary policy in 2026**. The persistence of geopolitical friction – from unresolved tensions in Eastern Europe to growing US involvement in Venezuela – has reinforced the perception that **political risk is no longer episodic but structural**.

Winning year for stock markets worldwide

Year-end world stock index performance, as of Dec. 29, 2025



Note: Rebased to Dec 31, 2024

Source: LSEG Datastream | By Pasit Kongkunakornkul • Dec. 30, 2025 | REUTERS

MACRO OUTLOOK

Entering 2026, **markets appear better positioned than a year ago**, as the macro environment has shifted from one dominated by inflation fears and restrictive policy to a backdrop characterized by stabilizing prices, improving earnings quality and gradually easing financial conditions. Compared with early 2025, when valuation concerns and policy uncertainty constrained risk-taking, investors are now operating in a regime where the direction of travel on rates is clearer, corporate fundamentals are broadening beyond a narrow group of leaders, and liquidity conditions are becoming less restrictive. This creates a more constructive starting point for the year ahead, even as volatility and geopolitical risks remain part of the landscape. The simplistic distinction between so-called “smart” and “dumb” money has become less relevant as retail participation and algorithm-driven trading continue to dominate market microstructure. Retail investors now account for a substantial share of equity volumes, while quantitative strategies amplify short-term trends and momentum. Rather than dismissing this regime, professional investors must recognize that price formation increasingly reflects behavioral and technical dynamics alongside fundamentals. In this context, **2026 starts with a solid macro foundation, but one in which selectivity and discipline will be critical**. This behavioral market structure also explains why geopolitical narratives – even when not tied to immediate economic data – can rapidly influence flows and volatility.

At the top-down level, the macro backdrop is turning gradually more supportive. **Inflation across developed markets has stabilized** closer to central-bank targets, allowing monetary authorities to pivot from restriction toward accommodation. The Federal Reserve is expected to continue on a cautious easing cycle in the first half of the year, while the ECB is likely to follow later in 2026 as European growth stabilizes. **Fiscal policy remains expansionary** in the US and increasingly supportive in parts of Europe, with Germany's stimulus plans set to filter through in the second half of the year. **Growth is moderating but remains resilient**, underpinned by still-robust consumption and a continued capital-expenditure cycle linked to digitalization, automation and artificial intelligence. The geopolitical dimension adds a further layer: the US administration's actions in Venezuela, including the reopening of energy export channels after the military removal of President Maduro, mark a potential turning point for Latin American geopolitics and global energy flows.

PORTFOLIO POSITIONING

From an asset-allocation perspective, this environment argues for maintaining a clear pro-risk bias. We remain **overweight equities and alternatives, underweight traditional fixed income**. Liquidity conditions are improving and institutional positioning remains far from euphoric, leaving room for further upside. That said, **volatility is likely to remain an integral part of the landscape**, particularly as political risk, trade tensions and the uneven distribution of AI investment continue to generate dispersion across sectors and regions. Strategic interest in Greenland and the Arctic region – driven by US concerns over Russian and Chinese influence – underlines how **geopolitical competition is increasingly tied to natural resources**, trade routes and energy security, themes that can materially affect asset prices.

EQUITIES & REGIONS

Within equities, the **US remains the global compounding engine**, but the nature of leadership is evolving. **AI continues to drive** a disproportionate share of earnings growth, **yet the cycle is transitioning from an asset-light to a capital-intensive phase**. Balance-sheet strength, funding structures and free-cash-flow generation are becoming increasingly important differentiators. While Big Tech is still expected to outgrow the broader market in 2026, the margin of outperformance is narrowing as AI begins to permeate industrials, construction, utilities and selected consumer segments. This broadening participation supports a more diversified allocation and favors a pairing of **S&P 100 exposure with market-neutral equity strategies** to capture upside while reducing drawdown risk, as the S&P 100 concentrates on the most profitable, cash-generative US leaders – many of them core beneficiaries of the AI and digitalization cycle – offering higher earnings quality than the broader S&P 500 while avoiding excessive exposure to lower-quality, highly leveraged segments of the market.

Europe stands at the beginning of an earnings recovery phase. After a flat 2025, profits are expected to accelerate in 2026, supported by fading currency headwinds, better macro momentum and the delayed effects of fiscal stimulus. **Industrials and defense** remain at the core of this thesis, reflecting multi-year order backlogs and structural rearmament dynamics. **High-dividend quality stocks** continue to offer an attractive blend of income, resilience and valuation support, particularly for EUR-based investors seeking to stabilize portfolio volatility. The ongoing Russia-Ukraine conflict, while largely absorbed by markets, continues to support **defense spending** across Europe and reinforces the structural nature of this investment theme.

Emerging markets warrant renewed attention, albeit through diversified exposures. Asia ex-China remains the preferred axis, benefiting from domestic demand, favorable demographics and reform momentum. India's structural growth story remains intact even after periods of underperformance, while Latin America offers selective opportunities tied to re-industrialization and resource investment. A softer USD would further support EM returns through improved

capital flows and earnings translation. The political reset in Venezuela could, over time, reshape parts of the EM energy landscape, introducing both opportunities and transitional volatility for regional markets.

Japan has matured into a strategic allocation rather than a tactical trade. Corporate governance reform, rising dividends and share buybacks, and a cultural shift toward shareholder value continue to attract international capital. Capex in automation and robotics underpins the structural narrative, while valuations remain reasonable relative to other developed markets.

FIXED INCOME & ALTERNATIVES

In fixed income, the outlook is less compelling. Lower policy rates compress carry and reduce the return potential of traditional bond portfolios. Government bonds retain their role as shock absorbers, but not as return drivers. Credit spreads remain tight and offer limited compensation for default risk, reinforcing the need for selectivity.

This is where alternatives become increasingly central. **Market-neutral and absolute-return strategies provide mid-single-digit return potential with bond-like volatility** and low correlation to both equities and rates. These strategies play a critical role in smoothing portfolio returns, especially in a regime characterized by episodic volatility and rapid rotations.

GOLD & OUTLOOK

Finally, gold and energy remain important strategic holdings. Gold continues to benefit from lower real yields, persistent central-bank buying and a structurally softer USD. Geopolitical fragmentation – from the Arctic to Eastern Europe and Latin America – further enhances gold’s role as a portfolio hedge. Energy, after years of underinvestment, offers asymmetric upside in a world where geopolitical fragmentation and resilient global demand continue to constrain spare capacity.

In conclusion, 2026 begins with a more balanced and constructive backdrop than many had anticipated a year ago. Earnings growth is broadening, monetary policy is turning supportive, and liquidity conditions are improving. While risks remain – from geopolitics to the evolving nature of AI investment – the overall setup remains favorable for diversified, pro-risk portfolios anchored in quality equities, liquid alternatives and real-asset hedges, with traditional bonds playing a secondary stabilizing role rather than acting as the core return engine.

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