

Risks and opportunities in the New Year 2026

What to expect from the unexpected?

As we look ahead to 2026, markets are entering a new phase defined by greater volatility, shifting policy landscapes and the end of the easy-money era. With interest rates normalising, inflation diverging across regions and geopolitical pressures reshaping global trade, investors can no longer rely on broad market momentum. Instead, opportunities will come from selectivity: quality companies, long-term structural themes such as AI and data, and regions benefiting from resilient fundamentals.

While uncertainty remains high, these shifts also create opportunities for active investors who can stay selective, focus on long-term growth, and avoid being distracted by short-term market noise.

Christopher Rossbach
CIO and Portfolio Manager,
J. Stern & Co.



For more than a decade, investors have been able to buy almost anything and see it go up – a rising tide that has floated all boats. **But those days have gone now – the era of low interest rates and low inflation is behind us.** The Trump administration's deliberately disruptive approach to domestic and foreign policy during 2025 has increased uncertainty and market volatility. Markets are fully priced and the contrarian trade is to move from passive to active. Stock selection and a focus on quality have never been more relevant.

While some stocks are overvalued, we do not think that Nvidia, the largest company in the world, is one of them. **We hold Nvidia in the J. Stern & Co. World Stars Global Equity Fund because we think that it is an exceptional business** and that we are only at the beginning of the digital transformation of the global economy, with much more to come.

Computing capacity will increase exponentially, offering many opportunities for companies that provide products and services to businesses and consumers. Companies like Nvidia and ASML, another stock we own, will be long-term beneficiaries of digital transformation, and **we expect them to remain the largest part of our portfolio in 2026.**

There are exciting investment opportunities away from the digital transformation story, too. **Many companies are still dealing with the overhang from the pandemic** – buoyed by increased spending by people forced to stay at home, they have since suffered as higher inflation and interest rates squeezed incomes. Spirits maker Diageo and luxury goods brand LVMH, for example, remain great businesses, but their share prices have fallen back. This has created opportunities to invest at attractive valuations because we think the consensus overestimates the overhang.

We have a very long-term horizon at J. Stern & Co., investing in up to 30 stocks with a view to holding them for five, ten or even 25 years. Savers and investors should also, if they can, take a long-term approach – particularly at times of uncertainty such as these. They should not seek to time markets but to choose quality companies that will deliver significant returns over time, through economic and investment cycles, and periods of uncertainty and adversity.

This is how we view the world and why we think that any volatility we may experience in 2026 will be an opportunity. Even if we have several of years of volatile stock market performance from here, history tells us that if our holding period is five years or more, then the chances that we won't make a positive return are almost none.

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Robert Marshall-Lee

CIO,
Cusana Capital

Quality growth opportunities beyond the US

The increasing concentration of US equities in global indices, driven by the dominance of the Magnificent Seven and the growing convergence of their AI-centric business strategies, raises structural concerns. What's more, persistent passive equity flows amplify these market concentration issues.

Against this backdrop, structural growth opportunities in EM equities outside the AI trades provide a meaningful source of diversification. Whether it's the growing monetisation of Bollywood music, the expansion of digital banking in Latin America, or the surge in Domino's pizza consumption in China, such trends are largely insulated from geopolitical shocks and are little affected by the AI frenzy.

We adopt a benchmark-agnostic approach and maintain a concentrated portfolio of the very best 25 to 35 EM stocks with a 5-year view, focusing on companies with strong governance and high returns on capital, which drive sustained, attractive returns over time through the power of compounding.

Less than 15% of our fund would be considered part of the AI capex value chain, as exposure has been reduced. **Our top 10 are littered with resilient growth companies that benefit from diversified structural drivers**, underpinning superior sales growth and outsized margin expansion. **This combination supports expected earnings growth (USD) more than double that of the Magnificent Seven.** Crucially, this is available at a significant valuation discount.

We are only interested in identifying the very best opportunities where our five-year cash earnings expectation presents a 15%+ prospective internal rate of return (IRR).

North Asian markets have materially outperformed South Asia markets such as India and ASEAN markets in 2025. North Asia is buoyed by AI and governance change narratives. By contrast, South Asia is buoyed by neither. Thus, **EM Index returns (USD) for South Korea, China, and Taiwan**



have been in the very high double digits, while India has delivered negative returns to end September. Yet, South Asia's superior demographic tailwinds and low credit penetration in consumer-driven economies are coupled with robust jurisdictional frameworks and shareholder-focused management teams that compound shareholder returns.

The Indian equity market has been out of favour following a strong 2024, despite impressive long-term performance. Short-term market participants have used it as a source of funding for their AI trades. Government actions have been highly pro-consumer, with income tax cuts in the budget, VAT (GST) cuts on consumer goods and stimulus from the central bank. Falling bond yields bode well for credit growth. **We see a high probability of an Indian consumer boom in the next 12-18 months**, favouring consumer-driven Indian equities that stand to benefit from this conducive environment.

The improving economic fundamentals are now coupled with a compelling market setup. Foreign investors have sold nearly \$30bn in Indian equities since the September 2024 peak, contributing to India's EM-relative underperformance being the worst in 30 years. For example, from the end of August 2024, **India had underperformed China by 71.5%. These extreme outlier levels of underperformance set the stage for a powerful rebound in markets** that are unencumbered by the demographic-driven fiscal time bombs of the West.

Jacques-Aurélien Marcireau

Co-Head of Equities,
Edmond de Rothschild Asset Management

Data: a strategic asset in 2026 that goes far beyond technology

Whether it is insurers assessing risk using vast data sets, semiconductor giants such as Nvidia, or players specializing in the cloud, data has become the cornerstone of modern business models. International equity fund manager, points out, **an artificial intelligence algorithm is only as good as the quality of the data fueling it.**

Over the past ten years, this conviction has become widely acknowledged: where its relevance had to be proven in 2015, everyone now recognizes the transformative nature of data and its central role in the economy. This dynamic is further enhanced by the recent emergence of generative AI.

The political context and changes in the US administration call for a cautious approach. Volatility, which does not spare high potential investment themes such as technology, requires stepping away from market noise and focusing on stocks whose growth relies on tangible fundamentals. **This philosophy favors a long-term view:** Nvidia, for example, has been in the portfolio since 2015 but has recently been underweighted to take into account more uncertain market conditions. **The goal is not to chase stock market fads, but to invest in stocks displaying a potential for intrinsic growth, regardless of market fluctuations.**

We have a strong bias towards services that generate recurring income via user subscriptions, meaning they are rather immune to the business cycle. We have therefore strengthened our positions in vertical specific software, particularly in the insurance and healthcare sectors. **The healthcare sector, where the integration of generative AI is still in its infancy, offers considerable potential.** Medical data remains compartmentalized for now, but its eventual unification could benefit the entire ecosystem, from patients to innovation providers. Currently, healthcare accounts for 10% of the portfolio, with players such as Illumina, a leader in genomic sequencing.



Strict discipline on valuations and a strong European focus

Valuation remains an essential compass. Investing in innovation means accepting a degree of risk, but Edmond de Rothschild Asset Management maintains strict discipline when it comes to valuations. This pragmatic approach is part of the firm's DNA: focusing on the long term rather than short-term performance.

Geographically, EdR Fund Big Data is currently overweight in Europe, where attractive opportunities remain. Technology stocks linked to digital sovereignty, cloud, cybersecurity, data infrastructure, benefit from a favorable valuation differential compared to US giants.

Solid resilience during periods of stress

During the panic phase early this year, Edmond de Rothschild AM's Big Data strategy proved resilient. On the other hand, it did not fully benefit from the gains recorded by technology indices during the market rebound phase. *"We fully accept this performance asymmetry, which stems from our conservative and balanced approach."*

Ten years after its launch, the Big Data strategy implemented across several funds represents more than €3.4 billion in assets under management. Edmond de Rothschild AM remains as convinced as ever that data will continue to be a key driver of structural transformation and central to value creation in the upcoming year.

Stéphane Levy

Strategist, Head of innovation,
IRIVEST IM

Since fall 2022, European stock indices have risen by around 60%, and after such a buoyant run, it seems legitimate to question the sustainability of this rally as 2026 approaches.

Economic momentum under pressure

The economic cycle is what drives stock market performance over the long term. The chart below illustrates this perfectly. It highlights the consistent correlation between our proprietary economic momentum indicator and market dynamics.

Our indicator has been in expansionary territory since March 2023 (displayed by the green bands on the graph), a record duration since its inception in 2003, and it would not be surprising to observe a shift in the first half of 2026 signaling a less favorable economic environment for the European equity asset class. Particularly as the economic momentum of the United States, the world's largest economy, has been showing serious signs of slowing down since last spring.

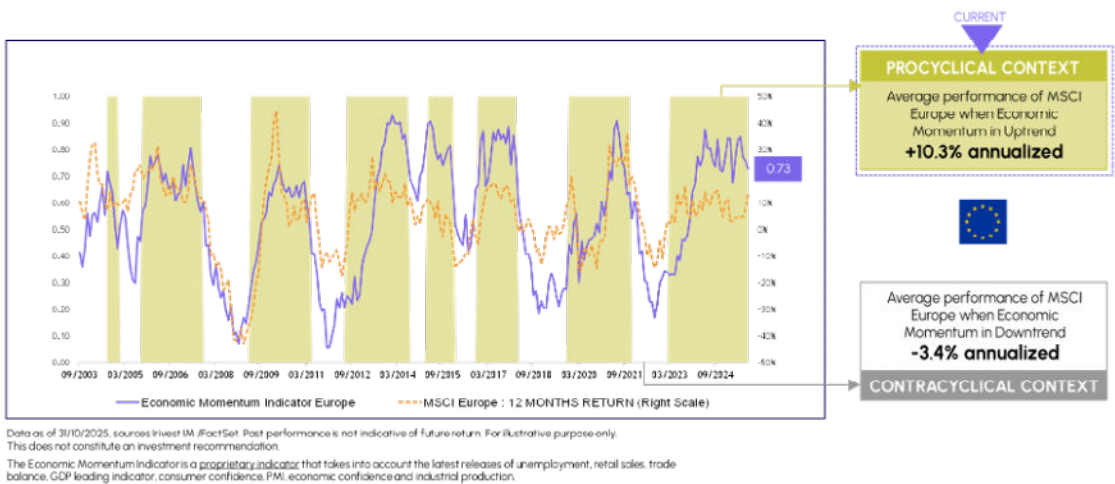
The ECB back in the spotlight

After taking a break for most of the year, central banks are back in the spotlight. The Fed reinitiated a cycle of rate cuts in September in response to the significant deterioration in US economic momentum. This deterioration was caused by Donald Trump's trade policy, which we believe was primarily aimed at forcing the Fed to cut rates.



In this context, the ECB could soon deliver a surprise. After bringing policy rates down to the level of inflation, it has been pausing since last June. If this pause persists, it could pose a major risk to the European economy in the form of a sharp appreciation of the euro.

We therefore believe that the ECB could surprise the market by coming out of the woodwork and cutting policy rates. This is a scenario that the bond market is not yet anticipating at this stage, and one that could give a fresh boost to European economic momentum and the equity market.



William Davies

Global Chief Investment Officer,
Columbia Threadneedle Investments



Markets in 2026 will be shaped by a delicate balance between resilient economic growth and rising structural risks. While inflation has moderated and equities have climbed, underlying tensions – particularly around trade, fiscal policy, and central bank independence – are intensifying. The key driver for markets will be how policymakers manage these pressures, especially in the face of persistent inflation and elevated government debt. Tariffs, now a central feature of global trade, are creating a new kind of supply shock, feeding inflation and disrupting corporate decision-making. Central banks, particularly the US Federal Reserve, face political scrutiny and limited room for error, with rate decisions increasingly influenced by fiscal and geopolitical constraints.

Amid this complex backdrop, opportunities remain. Selective exposure to Emerging Markets (EMs) appears attractive, especially in economies benefiting from supply chain realignments and competitive currencies. For example, China and India retain strong domestic growth potential due to lower GDP per capita, despite facing high tariffs. The energy transition also presents long-term investment opportunities, with global capital flows favouring renewables, electrification, and grid infrastructure – particularly in Europe and parts of Asia.

However, risks are mounting. The potential for policy missteps – such as cutting rates too aggressively – could destabilise bond markets and steepen yield curves. Government debt levels, especially in the US and France, are approaching critical thresholds, raising the risk of a funding scare with potential spillover effects across developed markets. Political interference in central banking, particularly in the US, may undermine inflation control and investor confidence. Additionally, the ongoing AI investment boom, while promising, carries echoes of the dot-com era, with concerns around circular financial exposures and speculative excess.

In 2026, we expect greater fragmentation of inflation and diverging monetary policy responses, as varying inflation rates across regions will prompt central banks to move in different directions – shaping distinct currency movements in the process. Meanwhile, de-globalisation and ongoing trade uncertainty, driven by tariffs and geopolitical tensions, are reshaping global supply chains and encouraging a shift toward domestic investment and “friend-shoring”.

Looking at dominant structural themes, we believe AI and energy transition will continue to stand out. Artificial intelligence is still in the early stages of widespread adoption, and investments in the energy transition remain robust despite policy roll-backs in the United States.

Moving on to regions, in the United States investors will watch closely for signs of political influence on the monetary policy and for the effects of sticky inflation. On the other hand, Europe appears to be benefiting from disinflationary forces and strong momentum in its energy transition efforts. Finally, some Emerging Markets are also showing promise, particularly those countries which are successfully adapting to the ever-evolving trade dynamics and demonstrating fiscal resilience.

Overall, 2026 presents a narrow but navigable path for investors – one that rewards disciplined diversification across asset classes, regions, and themes, and favours an active approach to identify where change creates opportunity and where exuberance may conceal fragility.

Flora Dishnica

Investment Manager,
Pictet Asset Management



Several key factors are expected to drive markets in 2026, with the US technology sector remaining at the forefront. Major tech companies such as **Microsoft, Alphabet, Meta, and Amazon** plan to invest over \$500 billion in artificial intelligence infrastructure by 2026. This unprecedented level of investment demonstrates confidence in the long-term growth of AI, setting the stage for further innovation and driving market performance and productivity gains across the broader economy. The sector's strong quarterly results, which consistently exceeded expectations, underline its robust contribution – currently over a quarter of overall earnings growth in the US.

Another significant driver will be the evolution of US monetary policy. The current uncertainty surrounding the future composition of the Federal Reserve and the appointment of the next Chair means that markets are keenly focused on the Fed's policy orientation post-Powell. Market consensus is currently pricing notable monetary easing in 2026, which could further support risk assets, especially if economic growth remains resilient. However, the credibility of future Fed leadership will be crucial: any appointments perceived as undermining its independence could prompt renewed volatility, particularly for the US dollar.

Inflation dynamics will also play a pivotal role. Although tariffs are expected to contribute to an uptick in inflation (between 0.4%–0.8% for 2025), improvements in other components, such as rents, are helping to keep overall inflation in check. The market will closely monitor the interplay between inflation trends and policy responses, as this relationship will directly affect asset valuations and investor sentiment.

Looking ahead, the technology sector still stands out as a core engine of growth, supported by substantial capital expenditure and strong earnings momentum, globally. Additionally, stabilising inflationary pressures and the prospect of monetary easing should support equities. Emerging markets continue to offer interesting opportunities within both equity and bond sectors.

However, risks remain, particularly around policy uncertainty. Delays in official macroeconomic data due to government shutdowns have already increased market volatility, as investors rely on alternative indicators that can give conflicting signals. Further political gridlock or contentious Fed appointments could undermine market confidence and lead to currency weakness. Elevated valuations in the US market (with a 12-month forward price/earnings ratio around 23x) also suggest that any disappointment in earnings or macro data could trigger corrections. Additionally, the delayed impact of tariffs cannot be ignored.

We believe several trends will shape the market landscape in 2026. The digital transformation of industries will remain a dominant force across multiple sectors (e.g. technology, healthcare, financial services, manufacturing). Companies that successfully integrate AI and automation into their operations will be better positioned to improve margins and capture market share.

Another key trend is the adjustment of monetary policy. Should the expected easing materialize, non-US developed markets and select emerging markets may become even more attractive, especially if the US dollar weakens due to shifts in Fed policy or leadership uncertainty. Currency-hedged strategies could help mitigate risks associated with dollar volatility.

In fixed income, we continue to see value in EU, Italian, and Spanish bonds in the 5–7 year range for carry trades, given curve steepness.

Thierry Crovetto

Consultant / Independant Fund Analyst,
TC Stratégie Financière (TCSF)



2026: Between Financial Bubbles and Alternative Strategies

As 2026 begins, global financial markets stand at a precarious crossroads. Equity valuations, particularly in the United States and within the technology sector driven by artificial intelligence, have reached levels rarely seen since the dot-com bubble of 2000. At the same time, credit spreads remain unusually tight, suggesting investors are underpricing risk. Private debt, which has expanded rapidly over the past decade, also shows signs of overheating. Cryptocurrencies add another layer of fragility: speculative fervor has driven digital asset prices to extremes, with valuations detached from fundamentals and leverage building across decentralized finance platforms. These excesses evoke both the imbalances of 2000 and those of 2008, raising fears of a simultaneous bursting of multiple bubbles.

Against this backdrop, the central question for investors is how to position portfolios. How can they protect capital while remaining exposed to growth opportunities? Several avenues stand out. The guiding principle is to ensure that a greater share of performance derives from Alpha – skill, strategy, and active positioning – rather than Beta, simple exposure to market direction. In an environment where bubbles threaten and systemic risks loom, relying on passive market returns is insufficient. The emphasis must shift toward active and alternative strategies.

Commodity Trading Advisors (CTAs) and systematic macro funds can capture directional trends across asset classes, providing diversification and resilience.

Absolute return strategies – long/short equity, relative value, and arbitrage – aim to generate returns independent of market cycles, reducing reliance on broad equity or credit beta.

Volatility as an asset class should also be considered. Volatility-buying funds and option-based strategies act as portfolio insurance. While they may erode returns in calm markets, they deliver convex payoffs when stress erupts, cushioning portfolios against sharp drawdowns.

Diversification into niche and overlooked markets offers another path. Frontier markets, Eastern Europe, and emerging market corporate debt present more reasonable valuations and structural growth drivers. These segments can provide uncorrelated sources of Alpha, especially when mainstream markets are distorted by excess liquidity.

Trend-following discipline remains essential. Systematic strategies across equities, credit, and commodities can reduce drawdowns by cutting losses early and riding downward momentum. Historically, such approaches have performed well during crises, turning volatility into opportunity.

Balancing real assets is equally important. Exposure to commodities, infrastructure, and energy transition projects provides inflation protection and long-term growth potential.

In 2026, portfolios must be built not on the assumption of ever-rising markets, but on the expectation of volatility, fragmentation, and potential bubble bursts. The challenge is to engineer resilience: combining Alpha-generating strategies, volatility hedges, and geographic diversification to offset the risks embedded in traditional Beta exposures. For sophisticated investors, the opportunity lies in turning uncertainty into a source of differentiated performance – proving that in turbulent times, Alpha is not just desirable, but essential.