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NEWSLETTER | Q4 2025

IN THIS ISSUE

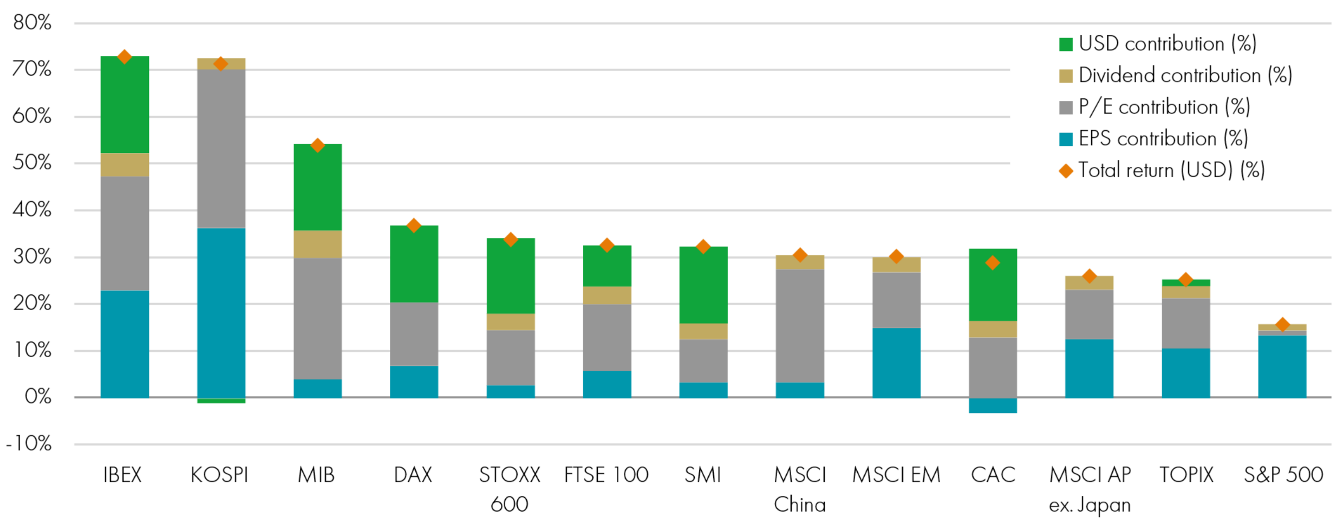
Q4 2025 COMMENT:
Is it the end of American exceptionalism?

MARK HAWTIN, HEAD OF THE GLOBAL EQUITIES TEAM

Equity markets enjoyed a third successive year of strong returns in 2025, with the MSCI World ACWI Index rising 21%; this followed positive returns of +15.7% and +20.6% in 2023 and 2024. However, the marked difference in 2025 was the broadening out of returns across geographies and the impact of a 10% decline in the US dollar on dollar-adjusted returns. In fact, the dollar-adjusted returns from almost all major markets globally were stronger than the S&P 500 as the chart from Goldman Sachs below shows.

Nearly all major equity markets have outperformed the US in 2025 in local and in USD terms

Decomposition of YTD return in USD



Source: Datastream, STOXX, Goldman Sachs Global Investment Research, as of January 2026. YTD = Year to date, P/E = Price-to-Earnings, EPS = Earnings per share. Past performance does not predict future returns.

Emerging markets were a standout in 2025. Total returns of +34% were more than 16% ahead of the S&P 500, the strongest relative performance since 2009. A reversal in the fortunes of the US dollar – a considerable headwind for emerging markets over the past 15 years – offered support. Dollar weakness has given emerging markets' central banks licence to cut interest rates across the board, supporting economies and markets alike. The strong overall performance was also driven by several idiosyncratic factors. For example, North Asian markets benefited from the global AI capex boom, with Korean equities also supported by the government's value-up program; the rally in precious metals was a key driver for South Africa; and Eastern European markets saw continued reforms as well as looser fiscal policy across the continent as governments boost defence spending.

Latin America is in the early stages of transitioning back to the political right while helped by the ongoing recovery in commodity prices, especially those closely tied to the energy transition such as copper, silver and lithium. Brazil, in particular, stands out given its historically high real interest rates and the prospect of significant monetary policy easing in the coming year.

India – a significant outperformer in recent years – took something of a backseat. On the domestic side, an incremental slowdown in growth saw softer corporate earnings growth, while the re-acceleration in growth and lower valuations elsewhere drew foreign capital out of the market.

One might be forgiven for thinking this backdrop would allow active investors to start reversing the passive dominance of the past decade. However, that has not really happened. In fact, given that most passive equity assets are linked to the S&P 500 and the Magnificent 7 continued to outperform the index, active managers struggled. The Magnificent 7 index rose 25% in 2025, well ahead of the 17% S&P 500 returns. According to Fortune, 75% of the S&P 500 returns since October 2022 (the trough of that year's sell-down) have come from the Magnificent 7. It has been easy but also dead right to remain heavily exposed to those names.

Looking for possible cracks does reveal not only the geographic change of dominance shown above but also a much more diverse set of returns within Magnificent 7. Google led the pack in 2025 with a stellar 66% return after having been discarded by many as a huge AI loser – some have even called for its early demise! Five of the seven names underperformed the S&P 500 – Amazon +5.5%, Apple +8.7%, Tesla +12.6, Meta +13.2% and Microsoft +15.1%. Only Nvidia joined Google as a significant winner, up 41% as demand continued to run red hot for AI chipsets.

The point here is that maybe the diverse fortunes of the biggest companies are also signalling a change of trend and a more discerning approach to identifying winners and losers. We believe the monumental capex cycle is a key catalyst for possibly the best opportunity to become more selective at the top of the market cap table and cover this in our first article below.

Looking back over the full 2025 year, it is notable that many of the World Index top 10 winners are Chinese tech manufacturers as China ramps up its own capability in the balkanisation of technology sufficiency driven by the US/China tensions. Victory Giant Technology was the +630% index winner for the year, while five Chinese tech companies were up +230% or more.

Turning to sectors, IT continues to generate substantial returns for the overall index but again we have started to see a change in dominance. The contribution from technology to the MSCI World ACWI Index was 30% of total returns in 2025, the lowest level for five years, again suggesting that diversification has started to pay off.

Financials and Industrials were the next two highest contributing sectors and reflect the stronger contributions from outside the US on a geographical basis.

The pieces of the jigsaw seem to be in place for 2025 to have been a pivot year. Overall market returns are likely to remain robust in 2026 given economic growth has remained strong but the best returns look likely to emerge from other parts of the market both from a sector and geographical standpoint.

Fundamentals finally flip – the case for mega cap underperformance is here…

MARK HAWTIN, HEAD OF THE GLOBAL EQUITIES TEAM

In 2022, Meta's shares fell 65%, underperforming indices by a significant amount. Over the last 10 years, Meta shares have only recorded a down year twice – 2018 being the other one. What did these two years have in common? In both cases, free cash flow (FCF) for the company, calculated as operating cash flows less fixed asset investment, fell. FCF fell by about 50% from $39.1 billion in 2021 to $19.3 billion in 2022. In 2018, shares declined 26%, with FCF falling 12%. FCF was set to decline in 2025 and to fall away more sharply in 2026 – which should be of concern.

OpenAI has become the poster child of optimism ever since it launched ChatGPT on the world in late 2022. At that time, the company was reported to have a market value of about $20 billion and minimal revenues. In just three years, revenues have accelerated from about $1 billion in 2023 to $13 billion in 2025, exiting the year at an annualised rate of $20 billion according to various press reports. At the same time, the company is reported to be trying to raise $100 billion of additional funding at a valuation of $830 billion. In just three years, the market has created a near $1 trillion company that has fast growing revenues but is losing an increasing amount of money year by year.

The Economist, using press sources and Pitchbook, estimates that OpenAI will lose about $10 billion in 2025, with losses increasing every year through 2029 before becoming profitable in 2030. The peak loss year will be 2028 at over $40 billion, and cumulative losses in the period will exceed $100 billion.

Both these examples represent investment opportunities in the biggest theme we have possibly ever seen – AI. It has been the biggest thematic driver for equities over the last two years – substantial amounts of freely available capital from the biggest companies in the world together with flows of abundant cash from many other sources have fuelled a faster growing fire of optimism about what AI will do for the world as well as the returns available for those companies that can harness it.

The problem is that fundamental investing is grounded in the value of the future cash flows a company can generate. Speculators and commentators have poured over the AI battlefield with views abounding but little in terms of a fundamental roadmap for valuation. We believe this changes in 2026.

Why did Meta fall so much in 2022? It was because cash flows dropped off sharply, thus changing the profile of expected returns and, more importantly, the timing of those returns. This matters. No one knows exactly how revenues will be generated from AI in the future or to which companies the cash flow and value will accrue – everyone has a view and it feels like a big game of Chinese Whispers. What we do know with certainty now is that the investment extravaganza is depressing current cash flows which is a red flag for valuation.

We believe those companies that compromise their cash flows for the nirvana of artificial general intelligence and future cash flow potential will be penalised. In simple terms, $100 earned in five years is worth only $60 today using a 10% discount rate. Giving up significant cash flow today to invest in an uncertain future must carry a valuation discount.

The table below highlights just how much is being invested in 'the future'. It shows the biggest investors in AI infrastructure and the impact on cash flows and cash flow multiples that is having.

Company	FCF $bn (2026E)	FCF Multiple 2021 Actual	FCF Multiple (2026E)
Microsoft	$83bn	35.7x	42x
Alphabet	$73bn	28.3x	53x
Meta	$24bn	23.6x	70x
amazon	$34bn	n.a.	72x
NEBIUS	-$7bn	n.a.	-3x
ORACLE	-$14bn	16.1x	-40x
CoreWeave	-$18bn	n.a.	-2x

Source: Liontrust and Bloomberg, as at January 2026. FCF = Free Cash Flow defined as operating profit minus capital expenditure. Past performance does not predict future returns.

Most striking from this list is Oracle, which is investing so heavily in AI infrastructure that its market capitalisation to free cash flow ratio has moved from a healthy 16.1x in 2021 to negative 40x expected for next year. It has consistently generated strong cash flows for years but has chosen to compromise cash flow today for the hope of greater returns in the future. Why, as an investor, should I pay up for that?

Among mega caps, the multiples of free cash flow that investors are expected to pay is also rising steeply as capex spending accelerates. The biggest shift comes from Meta rising from 23.6x free cash flow in 2021 to a nosebleed 70x forecast for 2026.

We believe the sacrifice of cash flows today for the hope of more in the future will define 2026. Whatever the view on AI, an investor should pay less for the higher degree of uncertainty. For the first time, the market has a fundamental marker for valuation and this will likely lead to another year of significant polarisation of returns among the largest companies in the world and, quite possibly, a clear fundamental reason for them to lag the broader market too.

How money predicts reality – the rise of prediction markets as an alternative data source

PIERAN MARU, FUND MANAGER, GLOBAL EQUITIES TEAM

Prediction markets have rapidly gained prominence in 2025, generating around $40 billion in global trading volume and beginning to reshape how the world processes information and makes decisions. At their core, prediction markets aggregate the beliefs of large groups of individuals who are incentivised to be right, turning these contracts into real-time forecasts of future events that are often more accurate than traditional polls.

Underpinned by CFTC (Commodities Future Trading Commission) regulated derivative 'event contracts', prediction markets let participants trade on binary outcomes across a vast array of interests such as finance, sports, politics and media. What makes prediction markets powerful? It is information density, real-time signals and simplicity. In a world overloaded with narratives, prediction markets cut through the noise with one simple output: price.

Why are prediction markets taking off?

Why are prediction market platforms such as Kalshi and Polymarket suddenly taking off? This can be attributed to three key forces converging: Regulatory clarity, Distribution unlock and Sports.

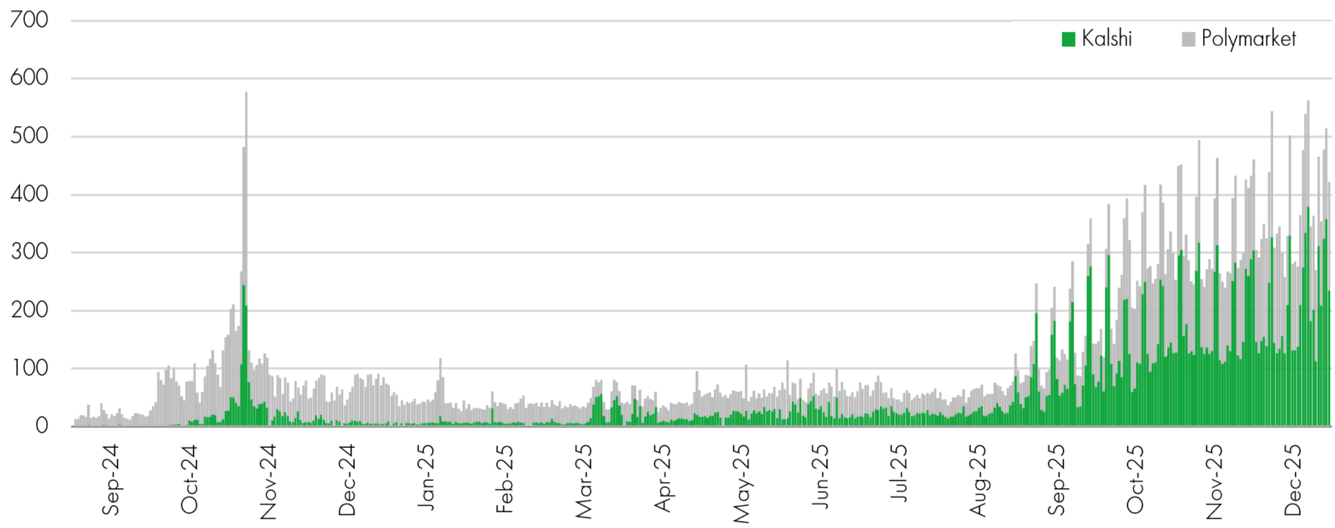
1. Regulatory clarity

For years, prediction markets had operated in a legal grey zone area just like crypto; the turning point, however, came in 2024 when a US federal court allowed Kalshi to offer 'event contracts'. These contracts were financial swaps subject to CFTC regulation, not gambling products subject to state regulation, and reshaped the entire landscape. The impact has been profound, with Kalshi successfully defending political contracts in court, while Polymarket re-entered the US market.

2. Distribution unlock

Distribution unlock has also been a key accelerant for prediction markets. Today, mainstream apps such as Robinhood, Coinbase and FanDuel have removed friction in unlocking demand. In December 2025 alone, Kalshi and Polymarket processed roughly $11.4 billion in notional volume, up double digits month-over-month, with weekly records driven largely by sports contracts. While for Robinhood, prediction markets have become its fastest-growing product line by revenue just a year after launch, with over 9 billion contracts traded by more than 1 million customers. Industry projections now forecast that prediction markets will reach $100 billion within the decade, with annual growth rates approaching 47% – the market is only just getting started.

Kalshi and Polymarket daily notional volume ($m)



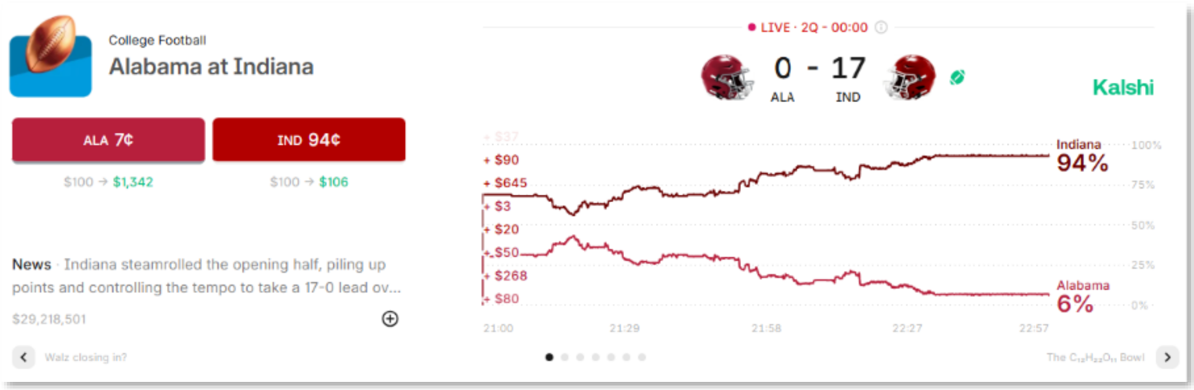
Source: Piper Sandler, January 2026.

3. Sports

Third, sports are providing a major on-ramp for prediction markets through high-frequency and habit-forming trading behaviour. This can be visible in December's numbers, where the average volume per NCAA American football game rose 367% month-over-month, even as the number of games declined.

Onchain rails

Prediction markets have become a positive catalyst for blockchain adoption. Polymarket operates natively on Polygon (a Layer 2 Ethereum blockchain), settling trades in USD Coin (USDC), while Kalshi has steadily been expanding its onchain connectivity through integrations, including Solana via Jupiter and DFlow. These moves have strengthened support for major blockchain networks and unlocked fresh liquidity for prediction markets.



Source: www.kalshi.com (Intuitive platform prediction example).

We have also seen Coinbase recently leaning in too. It has now partnered with Kalshi to launch prediction markets on its own platform and entered an agreement to acquire The Clearing Company, a prediction market clearing firm, helping Coinbase to gain both operational expertise and the technical capability to scale prediction markets for institutional participants. This hybrid model of a regulated core and onchain liquidity rails signals where the industry is heading – regulated markets with crypto native interoperability.

Funding supercycle: printing billionaires

The rate of capital invested into prediction market platforms in 2025 was impressive, contributing to the emergence of a new cohort of billionaires under 30. Kalshi and Polymarket, the two leading platforms, completed a number of funding rounds. Kalshi raised $185 million in the summer, followed by $300 million at a $5 billion valuation in October. Less than two months later, it secured another $1 billion at an $11 billion valuation, propelling both co-founders into the 'three-comma club'.

Polymarket made headlines in October when the New York Stock Exchange's parent company Intercontinental Exchange (ICE) announced a strategic investment of up to $2 billion at an $8 billion valuation in the Polymarket platform, also turning its 27-year-old founder and CEO into a billionaire.

Risks and outlook

As with many other markets, structural risks still exist. These include the potential manipulation of low-liquidity events, conflicts of interest around contracts, and the blurred line between prediction forecasting and gambling. Recently, during Coinbase's third-quarter earnings call, CEO and co-founder Brian Armstrong had some spontaneous fun after learning that prediction markets were offering contracts on the specific words he might use on the call. He proceeded to rattle off a handful of crypto-related buzzwords to ensure they made it in the call.

There are also concerns about how material non-public information could be exploited on these platforms. For example, in October, there was a surge in contracts for Venezuelan opposition leader María Corina Machado to win the Nobel Peace Prize just hours before she was officially announced as the winner.

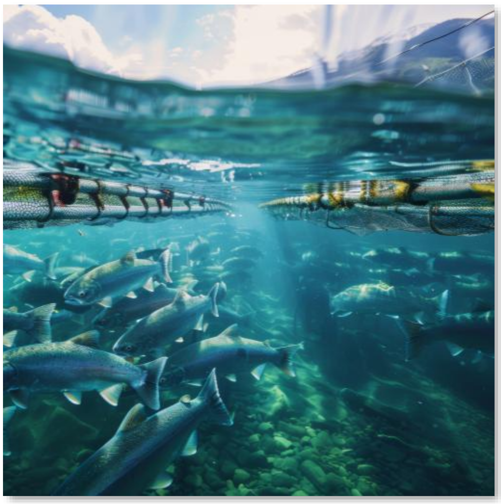
Prediction markets are helping to bring the world onchain. In the years ahead, we could see these markets become key data products, integral to risk modelling, macroeconomic forecasting and political polling. The data generated by these markets is becoming a valuable commodity in their own right. For those who can interpret the data, prediction markets are providing a new signal – what is priced into Polymarket and Kalshi today, may well shape how we make decisions tomorrow.

Smart salmon: the digital transformation of aquaculture

KEVIN KRUCZYNSKI, FUND MANAGER, GLOBAL EQUITIES TEAM

Salmon farming is an often overlooked corner of the consumer staples sector. The industry dynamics are attractive, with supply growth constrained by biological challenges and regulatory barriers, and demand predicted to grow twice as fast over the next few years. With this in mind, we explore how Mowi, one of the world's largest salmon farmers, is embracing technology to outgrow the broader industry.

Mowi 4.0: how technology is revolutionising salmon farming



Picture a future where salmon farming relies less on guesswork and manual labour and more on accuracy, data-driven decisions and advanced technology. At Mowi, one of the leading salmon producers, this vision is coming to life through its ambitious 'Mowi 4.0' digital transformation. By integrating AI, robotics and cloud analytics, Mowi is raising the bar for efficiency, environmental responsibility and fish health – with Google playing a significant role in this innovation.

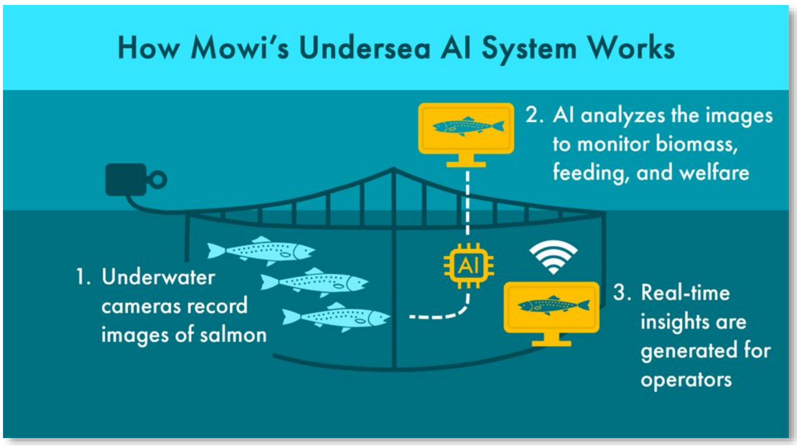
From buckets to bytes: the old versus the new

Not long ago, salmon farming was a hands-on, almost old-fashioned job. Workers would throw feed into pens by hand, relying on experience to decide when the fish had eaten enough. Monitoring fish health meant leaning over nets or rowing out in boats, hoping to spot problems before they became serious. Overfeeding polluted the seabed, underfeeding slowed growth and everything depended on human judgment. It was labour intensive, imprecise and risky.

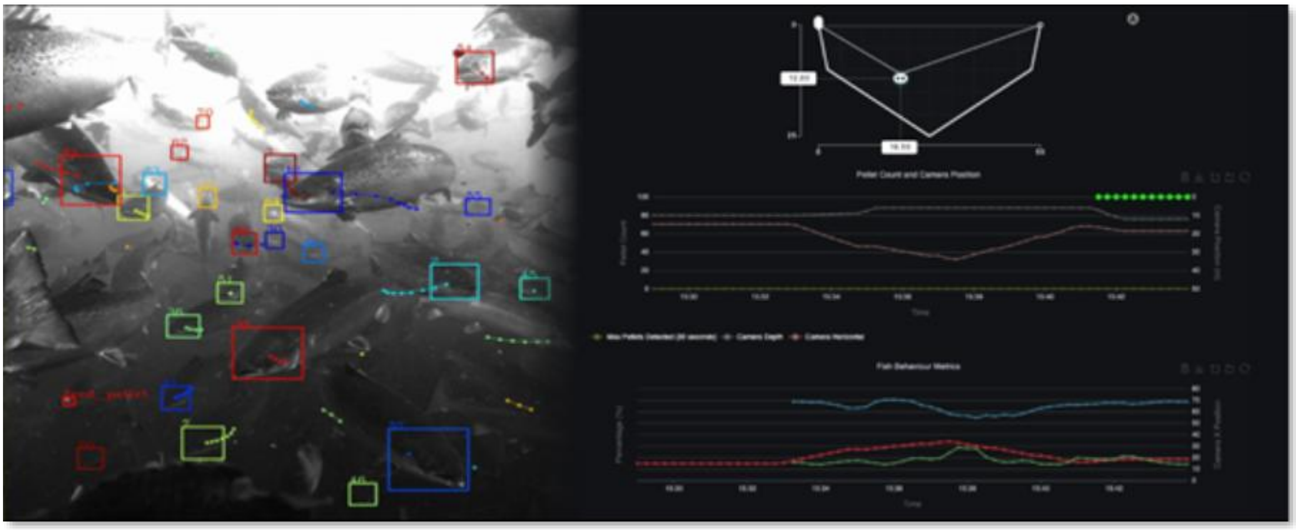
Today, that has all changed. Many of Mowi's farms are now powered by smart technology. Underwater cameras and AI-driven sensors monitor the salmon, day and night. Feeding is automated and precise, pellets drop only when fish are hungry, reducing waste and boosting growth. Remote Operations Centres (ROCs) oversee dozens of farms from screens hundreds of miles away. What used to be guesswork is now data-driven science.

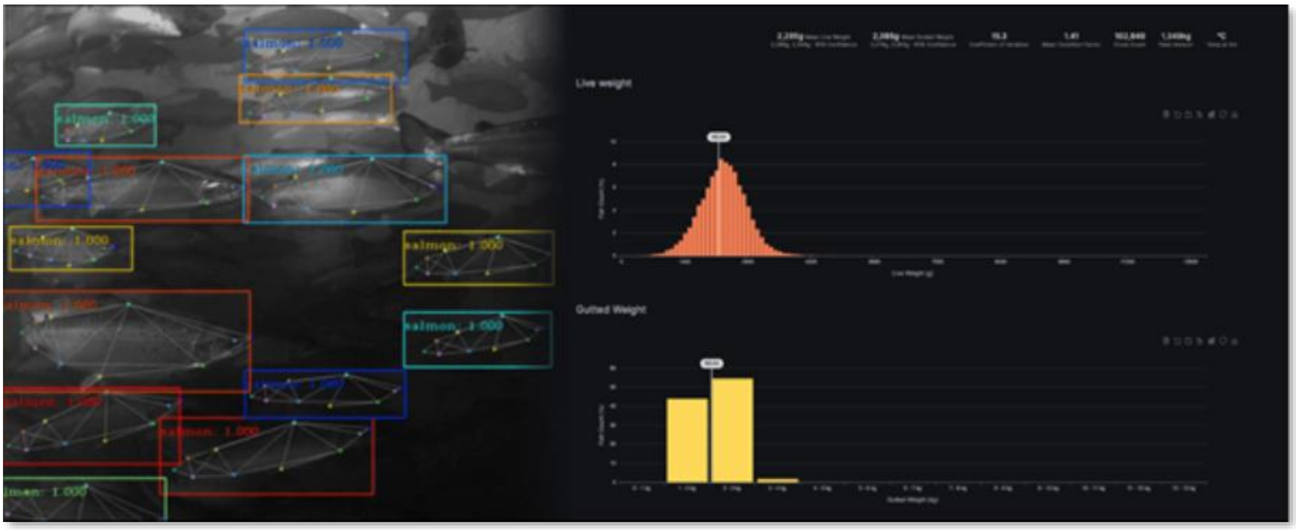
Google's tidal AI: eyes underwater

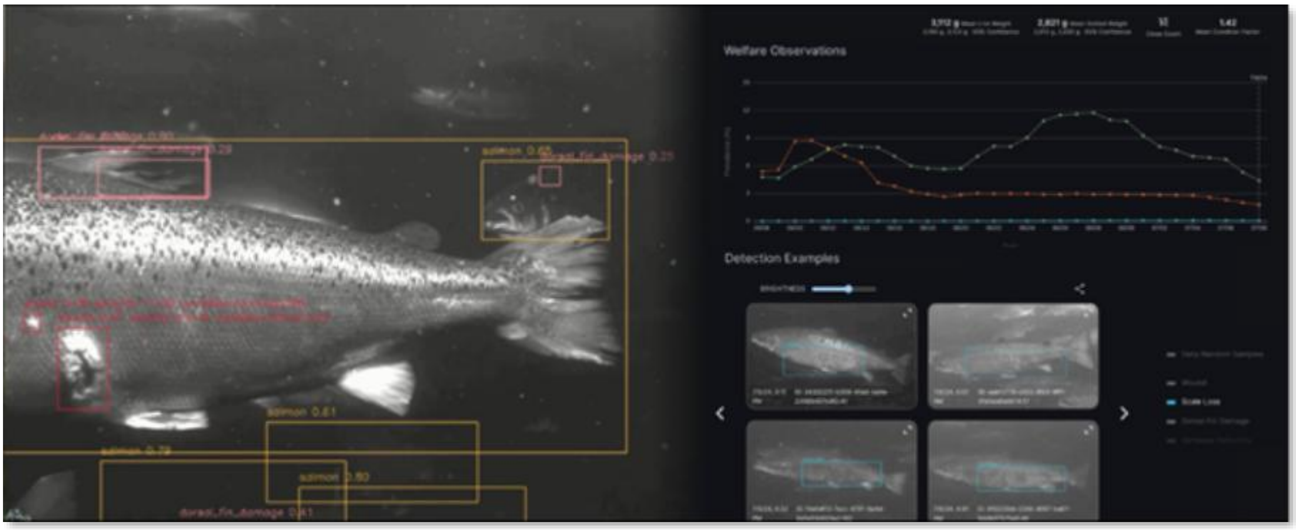
A standout in Mowi's tech arsenal is its partnership with the Tidal AI platform. Tidal, originally part of Google's famous Moonshot Factory, brings AI-powered underwater cameras and sensors to many of Mowi's Norwegian sites. These systems provide real-time insights into fish growth, weight, feeding activity, lice counts and environmental conditions. The Tidal platform, now in over 230 pens, combines machine learning with underwater imaging to monitor everything from biomass to fish welfare, gathering rich behavioural and environmental data that helps Mowi make smarter decisions every day.



Source: Liontrust, January 2026.







Source of images: www.tidalx.ai/en/product, as of January 2026.

Smarter feeding, healthier fish

Automated feeding systems, powered by image recognition and intelligent sensors, have replaced manual feeding. These systems continuously monitor the fish and optimise feeding schedules, ensuring each salmon gets the right amount of food at the right time. This not only maximizes growth but also reduces overfeeding, minimising waste and environmental impact.

AI also helps count sea lice and track fish welfare. If there is a problem, staff can act quickly to keep the fish healthy. Many farms are now managed remotely from central control rooms so fewer people need to be on site.

Robots and remote vehicles: the new farmhands

Robotics play a crucial role in Mowi's operations. Remotely operated vehicles (ROVs), like the 'Foover' systems, handle net inspections and remove dead fish, improving fish welfare and reducing the need for human intervention. This approach boosts efficiency and ensures consistent fish welfare standards across geographically dispersed sites.

Data-driven decisions, from egg to plate

Mowi's cloud platform connects data from breeding, feeding, farming, processing and logistics. Machine learning analyses everything from lighting and water temperature to feed variants, refining growth, health and yield outcomes. By raising young salmon in land-based tanks before moving them to sea pens, in certain areas Mowi projects that it can increase survival rates by about 50% and reduce lice treatments by 40%.

Automation extends beyond farming into processing plants, where repetitive tasks are handled by machines to boost efficiency and product consistency. Mowi's digital traceability platform, developed with partners like Digimarc, lets consumers scan QR codes to trace each salmon's journey from hatchery to plate, building trust and transparency.

Big benefits: for business, fish and the planet

The results are impressive. Mowi expects technology to deliver €300–€400 million in cost savings and helps support harvest growth from 500,000 tonnes in 2024 to over 650,000 tonnes by 2029. Key gains include:

- Improved feed conversion and biomass tracking
- Higher survival rates and better health management
- Reduced manual labour and increased uptime via ROVs and sensors
- Enhanced traceability and consumer confidence

Most importantly, Mowi's holistic integration of AI, robotics, sensing and data analytics is lowering environmental impact, reducing chemical use and strengthening its ESG (Environmental, Social, and Governance) credentials. This attracts premium pricing and investor confidence, helping Mowi maintain strong margins even as industry costs rise.

Why it matters

Mowi's tech-driven approach means more salmon can be produced with less waste and better care for the fish. It is good for the environment, good for business and gives consumers more confidence in the food they buy.

The market can ignore your thesis for longer than you can ignore the market

DAVID GOODMAN, FUND MANAGER, GLOBAL EQUITIES TEAM

All seasoned investors will be familiar with the following illogical and exasperating scenario: company A beats earnings expectations but its shares fall, while company B fails to meet predictions and yet rallies. This paradox – an occurrence that is as old as trading itself – is becoming increasingly common in modern markets and reflects a simple truth. This is that fundamentals alone do not move prices; instead, they move on positioning, flows and expectations, often long before valuation models catch up.

The assumption that fundamentals anchor markets in the short term has weakened. Passive funds now account for a majority of US mutual fund assets, buying on index weight rather than valuation. Exchange traded products (ETPs) channel capital into the largest stocks regardless of price. Momentum has become a driver of flows in its own right. What trades higher attracts more capital. What falls is abandoned, cheap or not.

For fundamental investors, this presents a professional hazard. Stocks can remain expensive for years. They can also remain cheap for longer than portfolios and careers can tolerate. Waiting for intrinsic value to reassert itself is no longer a neutral stance, it is an active decision to accept underperformance while markets move on.

Managing losers

The deeper problem is not that investors miss the occasional winner, but that they mismanage losers. The distribution of stock returns is brutally skewed. Research by Hendrik Bessembinder shows that since 1926, most US-listed stocks have delivered lifetime returns below those of Treasury bills, while just 4% account for all net wealth creation. In a market where a handful of giants now dominate index performance, clinging to losers is an expensive way to search for the next big winner.

Price is an unforgiving judge. Markets compress competing views, models and timeframes into a single observable outcome: price. It reveals when the market is voting against a thesis, regardless of how compelling the research appears on paper. Ignoring that signal invites familiar errors. Averaging down feels rational when a stock looks cheap; in practice, it often compounds losses. Being early is frequently as costly as being wrong.

This is where discipline matters more than insight. Predicting tops and bottoms is far harder than recognising when a trend is in place. In time, either the price moves to validate a thesis or the thesis is revised to reflect the price. Extended dislocations between the thesis and market can last for years, quietly eroding returns and exposing the central risk of undisciplined active strategies.

Stay disciplined – analyse the stock

Technical analysis is often dismissed as speculation. In reality, it answers a different question from fundamentals. Fundamentals analyse the company. Technicals analyse the stock. As already noted, the gap between a company's valuation and its share price can persist for long periods. Technicals focus on market conditions, measuring trend, momentum and participation in much the same way that weather forecasts describe conditions rather than causes. Used alongside fundamental analysis, they help investors navigate periods of dislocation rather than wait for them to resolve.

Such a framework does not ask investors to abandon valuation. Fundamentals explain what a business is worth over time. Price reveals when the market agrees and when it does not. When both point in the same direction, confidence is justified. When they diverge, risk rises and discipline matters most. Combining technicals with fundamental investing is analogous to having guard rails that keep an investor on track when valuation diverges from the market action.

The current market cycle offers a clear illustration. US equities trade at valuation extremes relative to other regions, while index concentration sits near historic highs. Investors who relied on valuation alone have missed the rally so far. Those who chase returns without discipline will struggle when momentum turns.

The implication is not surrender to momentum, but disciplined participation. Markets overshoot and trends persist longer than expected to. Staying invested while price supports a thesis and reducing exposure when momentum breaks is less about precision than avoiding prolonged misalignment.

In modern markets, conviction requires confirmation and prediction needs safeguards. The market can ignore your thesis for longer than you can ignore the market.

India's low correlations: idiosyncratic structural growth delivering diversification

EWAN THOMPSON, FUND MANAGER, GLOBAL EQUITIES TEAM

Given India's standout performance over the past five years, 2025 in some ways proved a disappointing year for both the economy and the market. Real GDP (Gross Domestic Product) still grew 8.2% – the fastest of any major economy – but the first half was held back by the overhang from 2024's General Election and a run of extreme weather (both heat and unseasonal rains). Foreign investors, drawn into the global AI boom, aggressively cut Indian exposure: net FII (foreign institutional investor) selling hit about $18 billion, roughly 50% more than in 2008. Yet despite hostile flows and heavy rotation out of India, the equity market still delivered 9.5% in local currency (4.2% in dollars given rupee weakness in the second half).

Globally, 2025 was of course dominated by the tech sector and the AI investment cycle. Market crowding into a narrow group of US and Asian hardware names became increasingly extreme by the end of the year, and investor anxiety around valuations and concentration risk grew accordingly. In this context, India stands out as the major market with the lowest correlation to global equities, offering diversification precisely when it is most needed.

India's beta to MSCI World ACWI Index

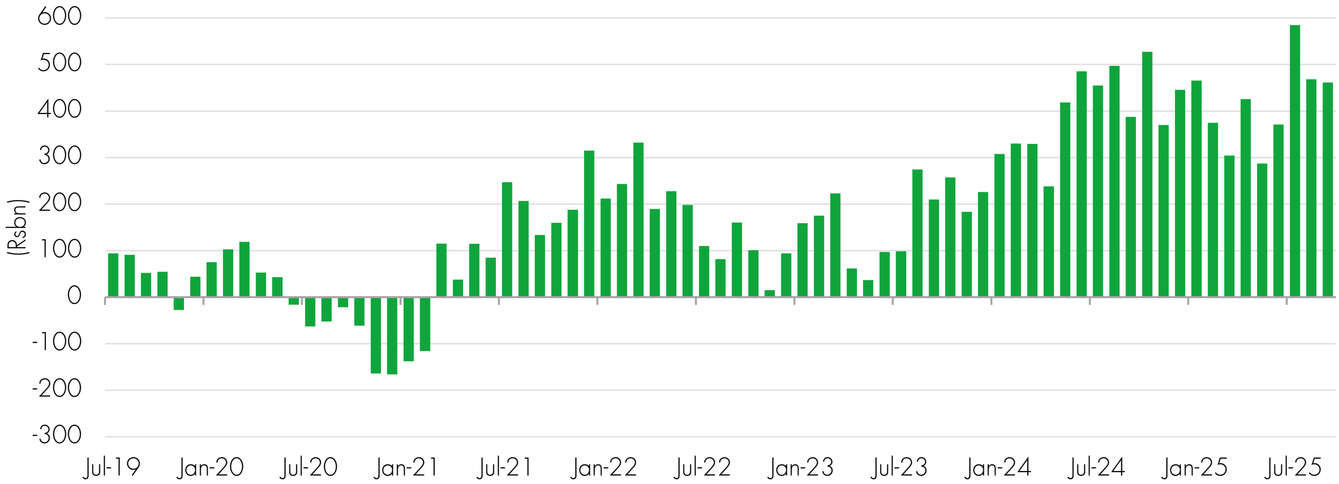
Source: Bloomberg, 30 November 2007 to 31 October 2025. Past performance does not predict future returns.

One of the least-recognised developments in India's market has been the steady reduction in beta over the past two decades. Previous cycles were dominated by foreign investors on both the way up and the way down, with swings in global liquidity driving a large share of returns. That regime has changed. The key driver has been the emergence of a powerful domestic investment base, supported by rising incomes, captive liquidity and an emerging equity culture.

Over the past decade, domestic institutional ownership has risen steadily, with domestic investors now owning more of the market than foreign investors. Systematic Investment Plans (SIPs) alone have compounded at around

27% a year, with tens of millions of new accounts, creating a structural monthly bid for equities. Consequently, India's beta to the MSCI World ACWI Index reduced from 1.0 a decade ago to 0.4 in the final quarter of 2025, compared with 1.1 for South Korea and 0.9 for Taiwan.

Trend in monthly flows in domestic mutual funds

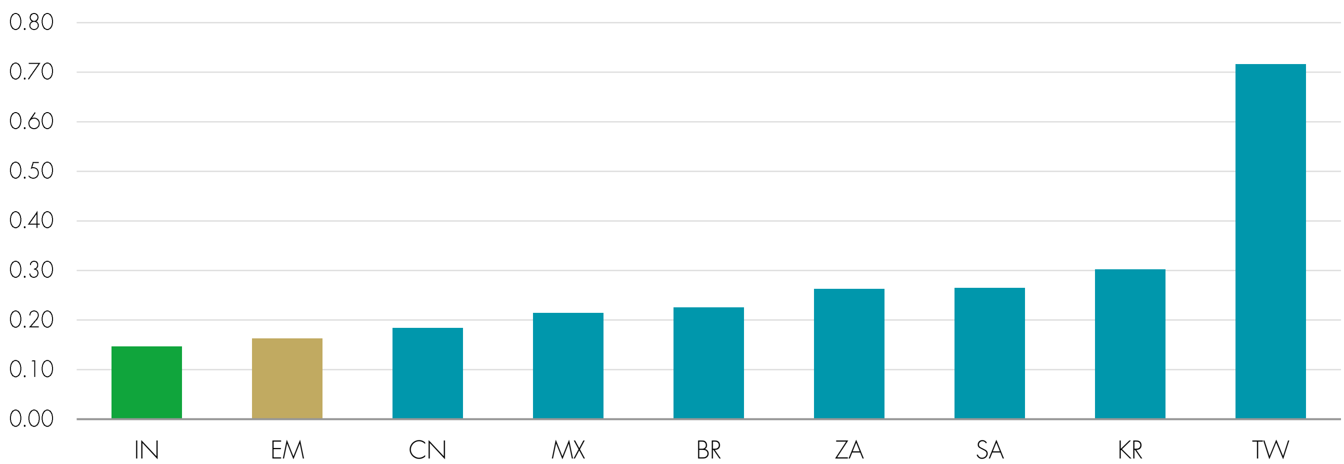


Source: AMFI, CLSA, Net inflows in equity funds excluding arbitrage funds, September 2025. Past performance does not predict future returns.

Economically, India also displays a high degree of self-determination, with one of the highest shares of domestic demand in GDP among major economies. Goods exports to the US are about 2% of GDP, versus 8-15% for Taiwan and South Korea, which helped India weather the imposition of US tariffs in 2025. The policy response – tax cuts and lower interest rates – was explicitly aimed at supporting household consumption. Importantly, India's equity market shows the tightest linkage anywhere in emerging markets between domestic GDP growth and corporate earnings growth and has delivered consistently high earnings quality across cycles.

Sectorally, India remains unusual within emerging markets. It has the lowest sector concentration of any major emerging market index: while MSCI Taiwan has around 85% in tech, India has a negligible index weight in tech hardware. Whilst this has led some investors to label India the 'anti-AI trade', this description is only half-right. India's low correlation to the global tech cycle is real, but it also masks the fact that the country is rapidly deploying technology horizontally across sectors – as a user rather than a hardware producer, with companies deploying AI at scale but without the index-level concentration risk North Asian markets exhibit.

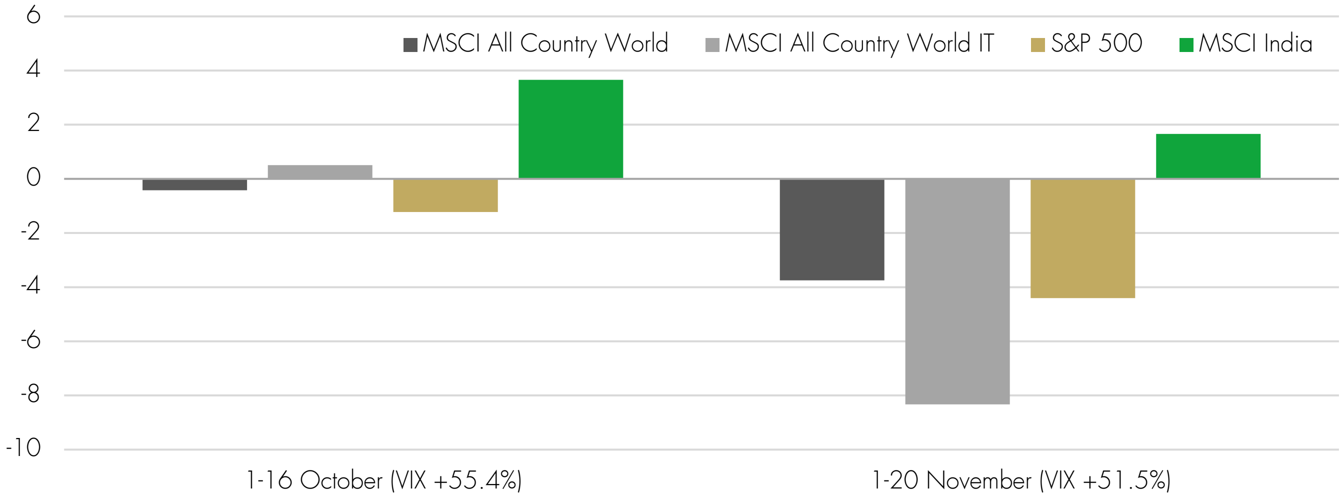
Herfindahl-Hirschman index of sector consolidation in emerging markets



Source: Bloomberg, 6 November 2025. Past performance does not predict future returns.

Given the domestic nature of the economy and the growing role of local investors, India is therefore increasingly more insulated from global sentiment swings than any other large market. The country underperformed global equities in 2025, but during bouts of volatility (VIX index +50%) in the final quarter, it demonstrated notably low correlations, relative strength and positive absolute performance. Late in the year, foreign allocations to India sat at record lows relative to benchmarks, and futures positioning reached historic extremes: in September; FIIs positioning in index futures was only 7% long positions against 93% shorts. That bearish stance began to unwind in the final quarter, with outflows slowing and short positions being covered as concerns over stretched global tech valuations grew and investors started to search for alternatives.

Q4 2025 episodes of market volatility



Source: Bloomberg, January 2026. Past performance does not predict future returns.

For investors looking to diversify portfolios in an increasingly concentrated market, India still offers a rare combination: world-leading growth, consistent earnings delivery, ample liquidity and the lowest correlations to global markets. Valuations, after the 2024/25 correction, now sit broadly in line with India's long-run premium of around 60–70% versus emerging markets on forward PE (Price-to-Earnings ratio) rather than at the extremes of recent years. With earnings growth accelerating again and India's long-term ROE (Return on Equity) premium to peers intact, India offers a compelling and idiosyncratic structural growth story to investors looking for alternatives to current market concentration risks.

2026 GLOBAL EQUITIES OUTLOOK

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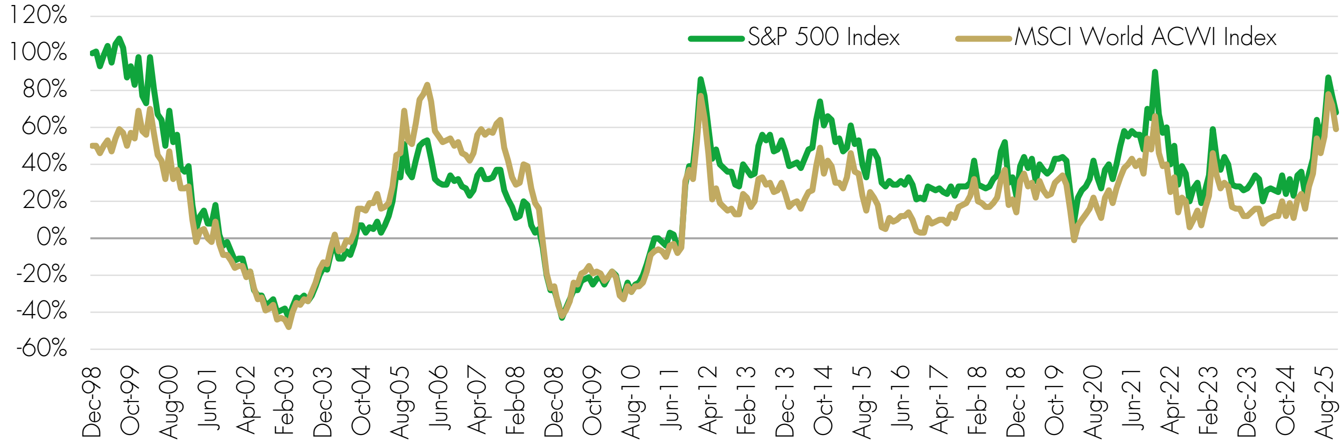
We see great opportunities for global equity markets in 2026 as growth remains robust and interest rates fall around the world, led by a dovish Fed (The Federal Reserve). However, the price of staying fully invested must be diversification as the key mantra for success. The narrow focused performance drivers of recent years will start to give way to a much broader set of returns across geographies and sectors while the most obvious trades in the technology arena carry, in our opinion, too much risk relative to the reward on offer currently.

To frame the overall return profile, see the chart on the next page showing rolling three-year returns for the MSCI World ACWI Index together with the S&P 500. Three-year returns are a key benchmark for allocators and investors and it is worth noting that we currently sit at the higher end of historic return levels for that metric and so it seems likely that headline, index-level returns are likely to be more muted in 2026. If true, then the best returns will be found outside the very largest cap names in the market.

Three-year rolling equity returns close to all-time high



Source: Bloomberg and Liontrust, January 2026. Past performance does not predict future returns.

Drivers for 2026 equity returns

We believe there are two primary drivers for the equity return outcomes in 2026 – uncertainty around economic growth, inflation and the path of interest rates and uncertainty around the path of AI investment and returns.

We see a high probability of a policy mis-step in the US led by a dovish Fed Chair appointment and a path of lower interest rates. This is likely to lead to a further US dollar decline – a back-to-back event not seen since 2006/07 or, before that, 2002/04 – both periods of more muted equity returns.

At the same time as US economic outcomes and policy are in focus, the AI story will also continue to carry disproportionate weight both in terms of its contribution to US GDP growth (estimated by Barclays to be as much as 50% of 2025 growth) and the intense capital cycle running well ahead of return on investment certainty. This will mean that news flow around AI, its development and its investment will impact equity market returns and, more importantly, levels of volatility.

We are persuaded by the argument that we are at the end of the beginning for AI. That is to say, phase one of huge investment levels leading to a highly competitive landscape for large language models (LLMs), and, like all disruptive spending booms, there is a point where the spend runs way ahead of the returns. We are there now and so the uncertainty about outcomes is both difficult to forecast and also creates an environment where price action gets more volatile; think Oracle, up 40% on the day it reported results in September 2025 because of its huge AI order book only to find the shares trading well below the pre-results level three months later as investors fear the implied debt mountain required to realise these investments.

How to position for 2026 in equities

On the basis of the above points and key drivers for 2026, we believe the US dollar will continue to come under pressure, the AI narrative will be volatile and unpredictable, and diversification away from the very biggest names in the market will offer the best risk/reward profile.

Our broadest positioning conviction is to diversify both geographically and within the US equity market. US equities now represent almost two-thirds of the MSCI World ACWI Index (up from 47% in 2010), yet US GDP as a proportion of world GDP has remained flat at around 23%. We believe the market is still too bearish on Europe, where we find plenty of strong investment ideas, and the prospect of a weak US dollar is supportive of emerging market equities.

Europe is constantly under fire for being backward thinking on structural reform and investment, but this is changing. While a stronger euro is not ideal for many of the quality names in the market, we believe that 25 years of underinvestment is reversing, led by defence spending and power infrastructure investment. US consumer Covid stimulus has generally been spent while in Europe it has been saved, creating a consumer balance sheet fortress. Valuations are reasonable and the reverse of the Magnificent 7 effect is in play in Europe, with the largest cap names having underperformed for some time – a relative turning point in August could herald a more lasting recovery.

Emerging markets look well set to extend 2025's outperformance, as domestic liquidity improves, driving a return of emerging markets' earnings growth premium to developed markets supported by the 15-year underperformance cycle. In spite of recent strong performance, emerging markets trade on just 13x forward earnings, a 35% discount to developed market peers (on 20x). This is despite expected earnings growth that will be stronger for emerging markets in both 2026 and 2027, a marked turnaround from the weaker growth witnessed in recent years and a return to the growth premium enjoyed in previous bull markets for emerging markets.

India and Latin America offer two of the most compelling opportunities – albeit with very different drivers and characteristics. For India, a rare year of underperformance has left the market on much more attractive valuations than 12 months ago, with record low foreign allocations. A clear earnings recovery is now unfolding. Latin America's opportunity is more clearly driven by heavily discounted valuations at a time when economic growth accelerates as inflation normalises and interest rates fall further.

We are unsurprised by the advance in hard assets, with gold and silver delivering a stellar 2025. It is hard to see prices pushing on aggressively but equities linked to commodities have lagged and offer compelling opportunities. Positive action for commodities prices will also further support the emerging markets trade, particularly in Latin America. A clear structural supply/demand problem for copper also makes that a prime choice.

Within the US market, we would diversify away from the largest cap names because of concentration risk both in terms of the proportion of the S&P 500 represented by the top 10 as well as those same names having a high degree of exposure to AI spend. The outlook for the return on this extreme spend is just too uncertain and so it is impossible to make a reliable analysis of risk – anyone who tells you otherwise is too focused on bullish news flow with little regard for careful analysis.

We do, however, believe that AI is a huge long-term creator of both productivity and innovation and so those companies that use it effectively across all sectors will be long-term winners. Using this factor as a navigation tool for sectors like healthcare and financials is likely to create significant alpha-generating opportunities.

Summary

The outlook for equities in 2026 is a positive one with careful and thoughtful analysis being rewarded through holding a more diversified portfolio than in recent years. The price of remaining fully invested has to be diversification away from concentrated positions, themes and therefore also passive-dominated pools of capital (the S&P 500 for example). The primary intersect of these three risk pools is the Magnificent 7, where we would remain structurally underweight. However, we predict much larger levels of relative performance within the Magnificent 7, and so picking the right names to avoid will be crucial. The opportunity set more broadly is increasingly powerful and we believe will generate strong alpha in the next few years.

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For a comprehensive list of common financial words and terms, see our glossary at:
www.liontrust.com/learning/our-guide-to-financial-words-and-terms

Key risks

Past performance does not predict future returns. You may get back less than you originally invested.

We recommend any fund is held long term (minimum period of 5 years). We recommend that you hold funds as part of a diversified portfolio of investments.

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