Heligan
WEALTH
MANAGEMENT

Investment outlook 2026

As we enter 2026, the economic outlook appears a little more predictable than at this time last year. Trade tensions appear to have calmed somewhat and with Germany and Japan joining the US firmly in fiscal spending mode, growth seems to be well supported. Add to that the apparent boom in capex spending to support investments in artificial intelligence infrastructure and the fact that central banks are generally adopting an expansionary or neutral policy stance, it seems unlikely that it won't be a good year for global growth. Indeed, if anything, it suggests that inflationary pressures will probably build as the year progresses, unless labour markets take a dramatic lurch downwards or consumer confidence collapses.

However, though the economic outlook may appear a little more settled, there remain a number of risks, particularly stemming from politics, both domestic and international. Domestic politics remains a source of change in many developed markets, with a general election due soon in Japan; France's government still mired in budget squabbles, and the UK in the process of a significant deterioration in the hegemony of the two-party system which has prevailed for decades. Internationally, in addition to the long-running conflicts in Ukraine and Gaza, new areas of tension have surfaced over the past few weeks. President Trump has rattled his enemies and allies alike by his increasingly pugnacious actions and comments, most notably over Venezuela and Greenland, renewing concerns that the US will continue to threaten to weaponise trade in order to bully its partners into giving it what it wants. Added to all that, almost unnoticed, we saw a flashpoint between Saudi Arabia and the UAE over their activities in Yemen.

Perhaps, however the most significant of the domestic political drivers of uncertainty that will affect markets are the "Mid-term" elections in the US. Trump is desperate to do well in those hoping it will allow him to go unchecked in the remainder of his second term and force through more radical changes (possibly even to the US constitution). To do that he needs his supporters to see "victories" that they believe indicate progress. His actions in Venezuela are an example and came with the double advantage of distracting attention from the "Epstein Files", an issue on which he appears to feel both uncomfortable and weak.

There are clearly a lot of factors that could influence markets in 2026. In this piece, we focus on what we believe are the most important, including the new Federal Reserve Chair, artificial intelligence, company earnings and inflation.

US Federal Reserve Chair

Another area in which the president is seeking a victory is in gaining more control over the policy of the Federal Reserve. As we have remarked previously, this could have significant ramifications for confidence in the independence of the Fed and the anti-inflation element of US monetary policy. In the past few days, Trump has announced that he will nominate Kevin Warsh, who, in 2006, became the youngest governor ever appointed to the board of the Fed, as his nominee to take over as Chair when Jerome Powell's term ends in May. Warsh's nomination is both interesting and reassuring. Despite the many suggestions prior to this announcement that the next Chair would be more inclined to easier monetary policy and, worryingly, more susceptible to the influence of Trump, Warsh has a reputation of being a "hawk". That, therefore, suggests he might be less predisposed to lower interest rates, particularly if inflationary pressures persist, and is a reassuring sign for markets. However, it is also interesting in that during his time as a governor of the Fed, he was highly concerned with the nature and the scale of the central bank's balance sheet. He advocated strongly for reducing it far more quickly than other board members and also warned that dependence on it created misallocations

of capital that would distort the workings of the economy. While central bank balance sheet management is an arcane subject, it might be the clue to explaining why Trump has nominated him. While it would probably require changes to banking regulation, the reduction in the use of "Quantitative Easing" to provide liquidity to the US banking system would mean that policy was tighter. That could then open the way for both greater co-ordination between the Treasury and the Fed and allow for short-term interest rates to come down over time. There are, of course, risks to implementing a more strenuous approach to "Quantitative Squeezing", especially if there are bouts of liquidity stress in the banking system. But if it comes with reform to banking regulation, that might be mitigated.

If Warsh is confirmed by the Senate, it may underscore the significant level of influence Treasury Secretary, Scott Bessent has with President Trump. It also suggests that we should consider the possibility that while the US interest rate curve is likely to steepen, the extent to which it does might be less than previously thought. Finally, if banking reform is high on the Fed's agenda, one of the consequences might be more M&A activity among the smaller banks in the US.

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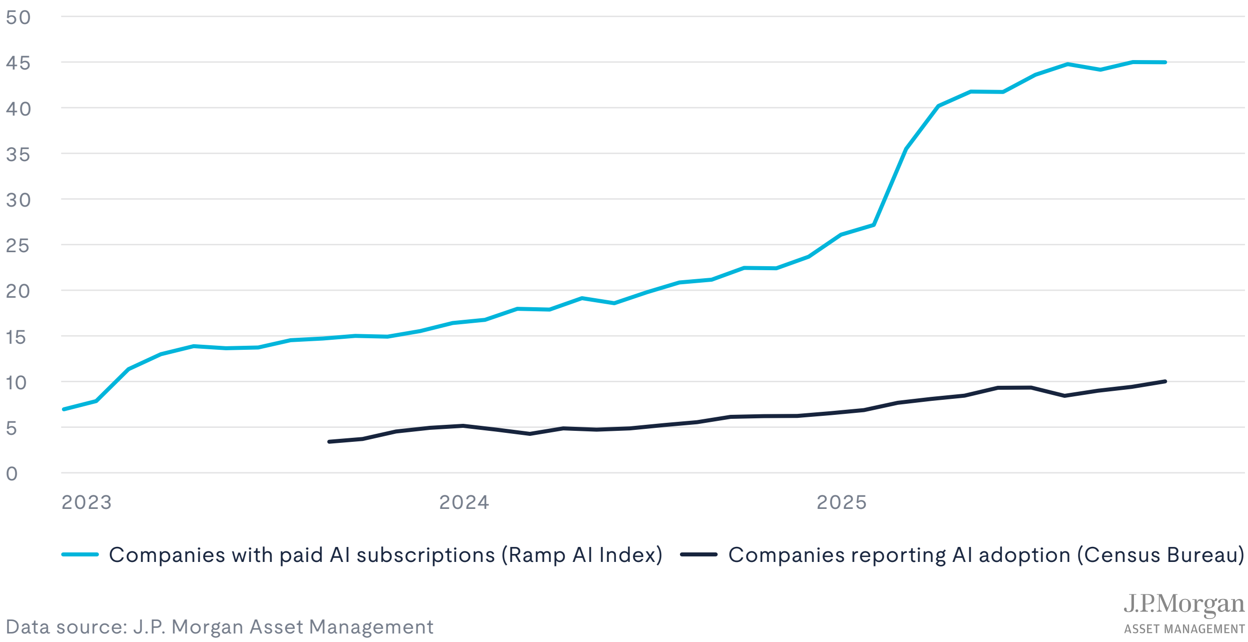
Artificial Intelligence

Given the growing awareness of artificial intelligence (AI) across the public, business, and the investment landscape, we believe it is important to share our perspective on the theme. While there are many moving parts to the AI story, the key question for investors is whether AI ultimately proves to be a durable growth driver or an investment bubble. In our view, this will depend on whether companies currently spending vast sums across the AI ecosystem can successfully monetise the technology. That monetisation will require demonstrable productivity gains and the meaningful integration of AI into core business models. The chart below from J.P. Morgan highlights the challenge: while just under 50% of surveyed companies report paying for AI-related subscriptions or trials, only around 10% have fully adopted and embedded the technology into their operations. For AI to justify current levels of investment, company adoption will need to increase sharply in the coming years; failure to do so would significantly raise the risk that AI proves to be a bubble.

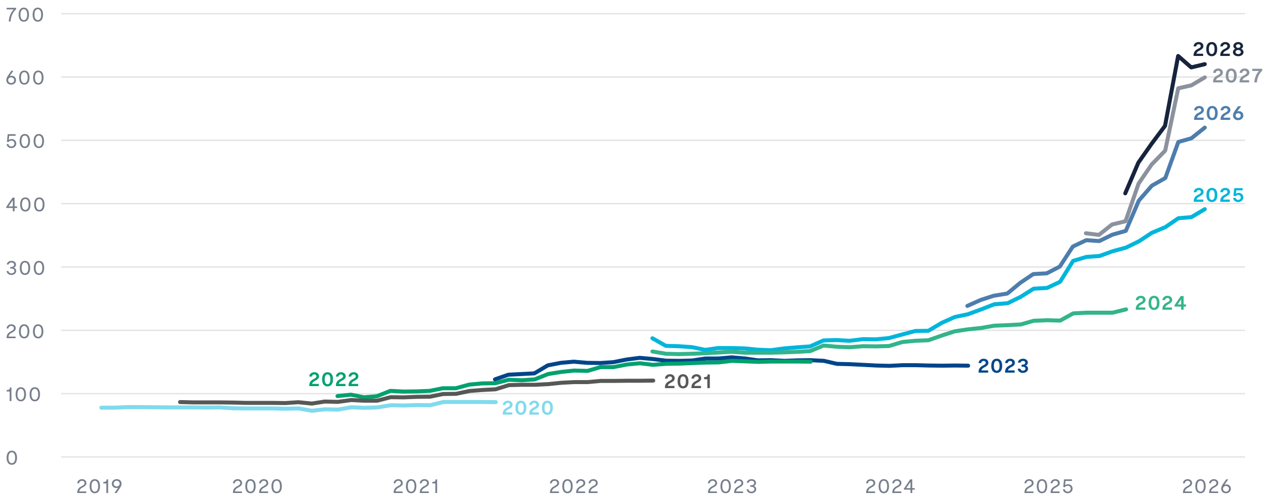
Measures of AI adoption: % share of businesses



Data source: J.P. Morgan Asset Management

While it will take time for productivity gains and widespread adoption of artificial intelligence to fully materialise, in the near term it is impossible to ignore the scale of capital expenditure being directed toward AI. Some estimates suggest that AI-related spending contributed around 1% to U.S. GDP in 2025, accounting for roughly half of total GDP growth that year. As shown in the chart below, this investment momentum is expected to persist into 2026, positioning AI as a continued driver of economic growth. However, while some companies are funding this expenditure through free cash flow, others are increasingly turning to debt markets, raising concerns among investors. Oracle provides a prominent example: in order to build data-centre capacity to meet projected AI demand, the company has issued significant amounts of debt, prompting worries that leverage is rising faster than AI-related revenues. These concerns have weighed on investor sentiment and contributed to a decline in Oracle's share price of approximately 50% from its all-time high in September last year. In the hyperscaler space, we prefer the names that use free cashflow for growth, rather than debt.

US hyperscaler capex estimates by year: USD billions



Data source: J.P. Morgan Asset Management

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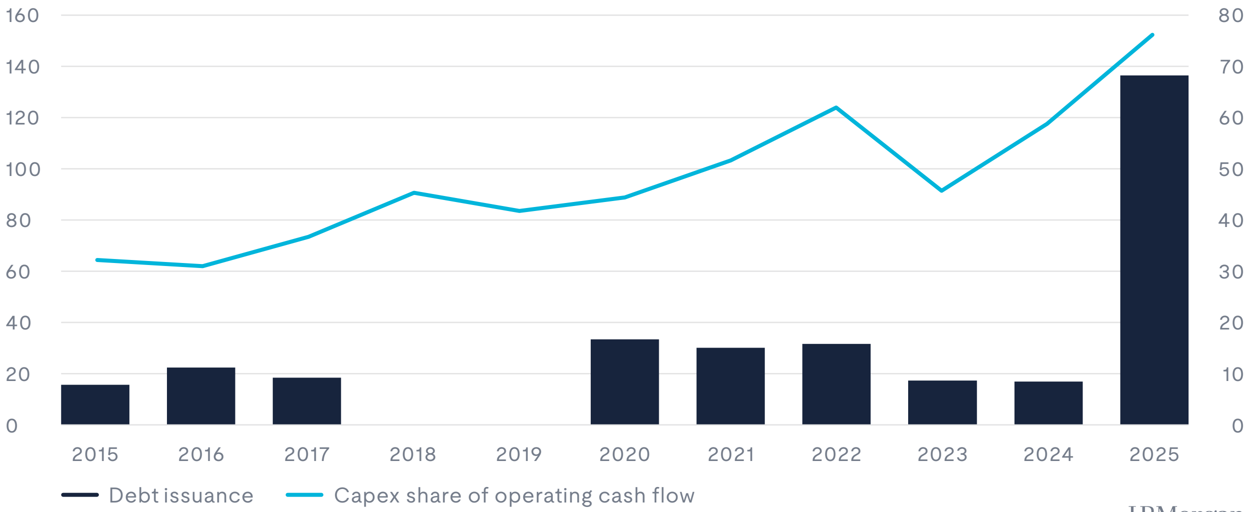
US hyperscaler net debt issuance and capex: USD billions (LHS); % operating cash flow (RHS)



Data source: J.P. Morgan Asset Management

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Company Earnings

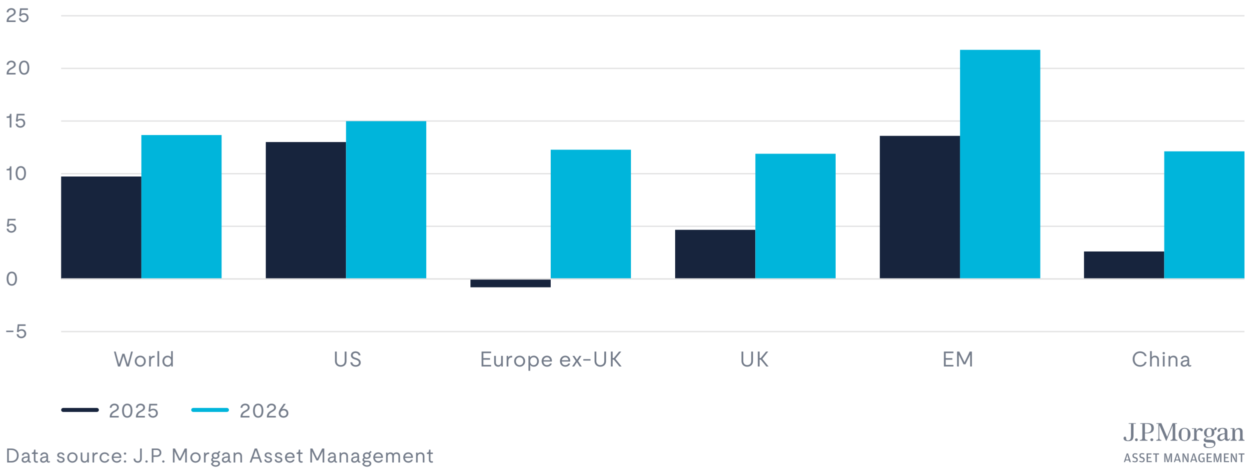
Company earnings in 2026 look set to continue a positive trend, despite all the apparent turbulence that companies face, e.g. changes to tariffs and global business supply-chain models. In each of the main regions, consensus earnings per share growth is forecast to be higher than in 2025 and, indeed, by double-digit percentages. Clearly, the drivers of this growth differ across the market regions, but generally higher nominal growth is the starting point. Technology spending is also a major factor behind that growth, particularly in the US and Asia. One slight note of caution in these cases, however, is that technology earnings have been helped significantly by the fact that margins have grown to historically high levels. This is encouraging but it is never particularly wise to place too much faith in this continuing particularly at a time when there is significant change going on and where companies are rushing to spend large amounts to participate in the artificial intelligence gold-rush.

Interestingly, though absolute earnings growth in Europe and the UK may not be quite as strong as in the US, profit margins have not been pushed to higher levels and therefore may have scope to be a positive influence from here. Also, with the domestic economy in Germany getting a big push from the planned increase in public investment expenditure and the Financials sector being more heavily represented in Europe than in the US, the growth in profits from the Industrials and Financials sectors will help close the gap on the more technology-heavy markets.

In Asia, earnings growth again appears robust, led by technology, notably in Korea, a market which is very sensitive to the semiconductor industry. Elsewhere, Chinese earnings are also expected to pick up as the government seeks to encourage growth in consumer spending and in technology related sectors as it tries to battle the US for supremacy in the AI space. Finally, Japanese corporate earnings are expected to grow but may at some point face the headwind from the combination of rising interest rates and a rise in the value of the Yen.

In summary, corporate profits, despite all the macro / political turbulence, appear set for a relatively robust year across the board. While US earnings are likely to remain strong, the fact that there remains a significant valuation discount between the US and other markets around the world, makes a strong case for overweighting non-US stocks in a global portfolio.

Consensus estimates for global earnings per share growth: % change year on year



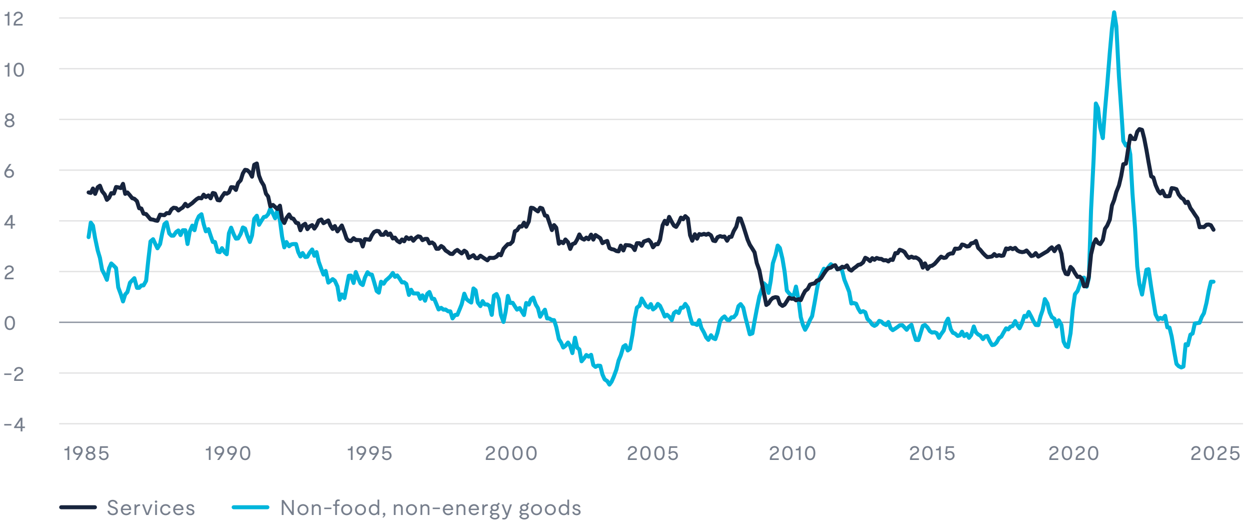
Data source: J.P. Morgan Asset Management

Inflation

It appears to several market participants that inflation is a story of the past and is no longer a risk. We are of the view that inflation is still a risk, most notably in the US, where we think that several factors are likely to keep upward pressure on prices. Focusing on the US, in no order of importance, we believe that tariffs, tax rebates from the Big Beautiful Bill (support consumer spending), a weaker dollar, fiscal spending, a sharp drop in migration and ongoing supply chain realignment are all inflationary.

As mentioned above, there are quite a few inflationary drivers, but in this piece, we will focus more on tariffs and the labour market as we think these are the biggest drivers. When Trump announced sweeping tariffs on 'Liberation Day' early last year, the consensus was that these would be inflationary as companies passed higher import costs on to consumers. Initially, this did not occur, as most companies absorbed the additional costs. However, as shown in the chart below, goods inflation is now rising, with firms increasingly passing through costs. Improved customs enforcement has also meant the full impact of tariffs is now being felt.

US goods and services inflation: % change year on year



Data source: J.P. Morgan Asset Management

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The labour market softened in 2025, albeit remaining in positive territory, with average monthly job gains of around 70k. Economists have typically argued that maintaining stable employment requires monthly job creation of around 200k to absorb new entrants into the labour force, whether from migration or school and college leavers. However, as Trump has cracked down on both illegal migration and new migrant inflows, the neutral rate of job creation required to absorb labour force entrants is likely lower, closer to 100k–150k.

Moreover, migrant labour has historically acted as a dampener on wage growth. By reducing the supply of lower-cost labour, upward pressure on wages is likely to build, which in turn tends to be inflationary.

An important counterweight to some of these inflationary forces has been the recent improvement in US productivity growth. After several weak years, labour productivity has rebounded, allowing firms to increase output without a commensurate rise in labour input. Part of this improvement appears to be linked to increased adoption of automation and artificial intelligence, particularly in information-intensive and service-oriented sectors. That said, the productivity uplift from AI should not be overstated. Adoption remains uneven across sectors, and the full productivity benefits are likely to accrue only gradually as firms adjust business models and workflows. Moreover, productivity gains may be insufficient to fully neutralise the combined inflationary pressures from tariffs, fiscal support, and structurally tighter labour markets. As such, while AI-driven productivity improvements can help dampen inflation at the margin, they are unlikely to eliminate it altogether.

To summarise, we are not forecasting a return to the rampant inflation seen in 2022. Rather, inflation is likely to prove higher and stickier than currently expected. With this background, despite the likelihood of further cuts by some central banks, including the Fed, it would seem that government bonds are likely to see yield curves steepen as investors reflect concerns about the outlook for inflation and the build-up of government debt.

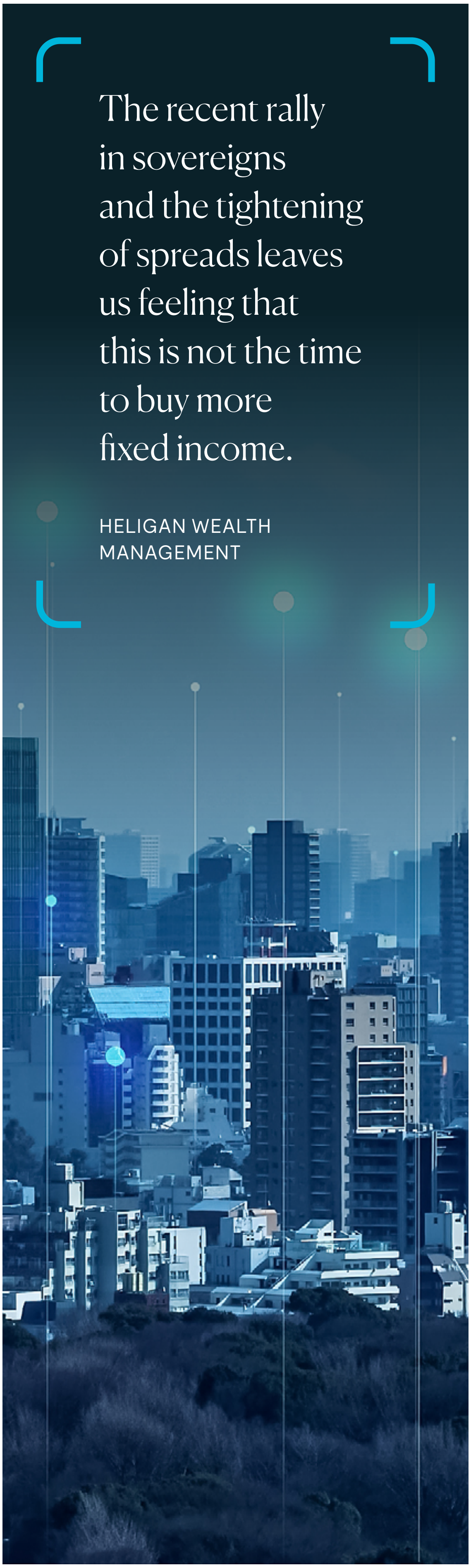
Strategy

Therefore, it remains our view that fixed income markets are unlikely to generate much capital growth but offer reasonable yields and diversification benefits justifying our increased weighting. We prefer shorter duration to longer and prefer credit risk to rate risk, albeit that within credit, our preference has been and remains for Investment Grade over high yield. However, the recent rally in sovereigns and the tightening of spreads leaves us feeling that this is not the time to buy more fixed income.

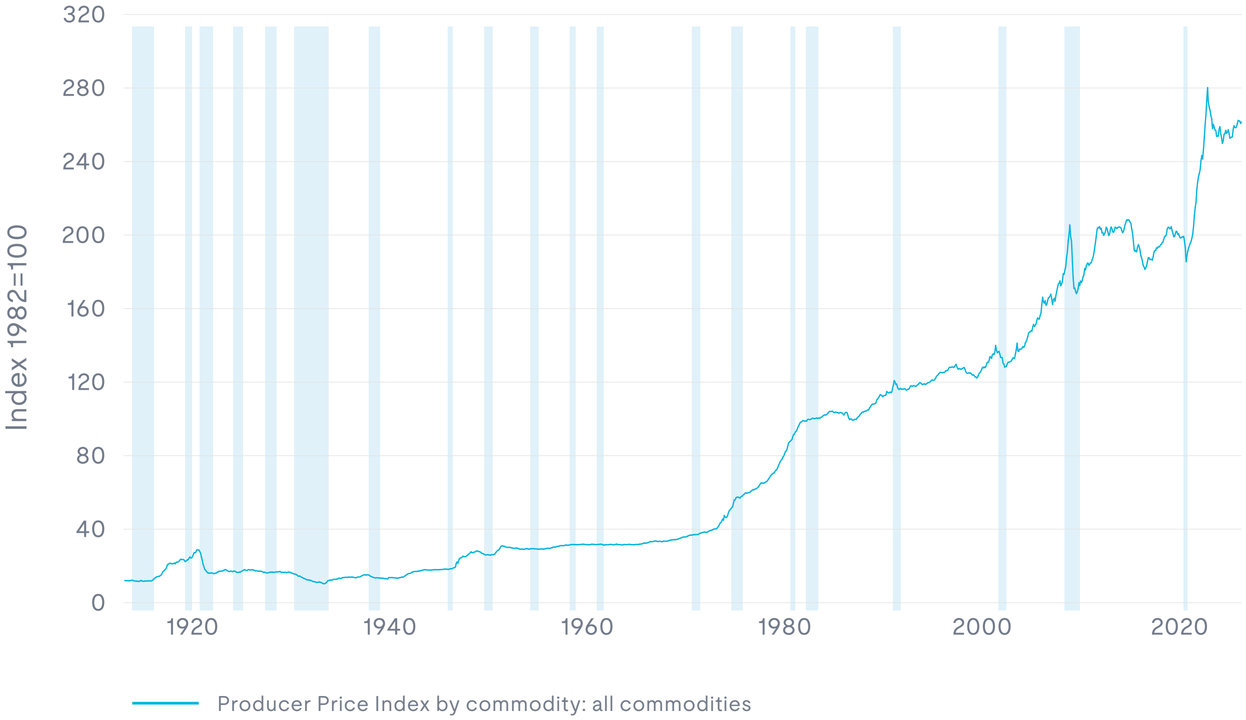
Though their sensitivity to tariff-related risks remains, a stronger growth background is generally helpful for equities, even if it is accompanied by sticky inflation. Consensus expectations for US corporate profits in 2026 are for another year of double-digit growth, though supported more by growth outside the technology sector. One should caution, however, that these forecasts imply a further rise in profit margins, thus, given that US tech margins are at record levels, it might be wise not to bank on that.

Elsewhere, earnings growth is also expected to be higher than in 2025 and given the lower levels of valuation on offer, along with more muted expectations and the opportunity for positive surprises in margins, non-US equities continue to look attractive relative to their US peers.

Finally, we believe that the Alternatives portion of a balanced portfolio will perform an important role in mitigating some of the risks that we may face in the coming year. Our approach remains one of emphasizing diversification benefits as well as seeking returns. We have for some time held a significant exposure to gold and other commodities and though we have taken profits along the way, this area continues to be one we favour. Elsewhere we hold several other strategies less correlated to the general movement in equities and bonds.



Commodity prices: all commodities



Data source: US Bureau of Labor Statistics via FRED®. Shaded areas indicate US recessions.

In summary, the outlook 2026 is one in which we expect the economic background to remain supportive. We expect equities, in particular, to navigate this background favourably and produce mid to high single-digit returns over the year. Nonetheless, markets may well have to suffer bouts of politically inspired disruption as the rise of less tolerant, more nationalistic, voters and politicians continues.

Commentary as at 01/02/26

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