ANZ Private

2026 Global Market Outlook

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This document is interactive

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Reckoning, resilience and recalibration: preparing for a new regime

2026 shapes as a year of reckoning, resilience, and recalibration. Reckoning, in the sense that many of the structural forces that have shaped markets in recent years are approaching a pivotal moment. Resilience, in that well-constructed portfolios should be better positioned to withstand – or even benefit from – these shifts. And recalibration, as the environment is likely to present meaningful opportunities to adjust portfolios in response to changing conditions.

Global market outlooks are a curious exercise. In many respects, the forecast horizon and its outcomes are neither here nor there. As long-term investors, we build portfolios that take a long-term view of markets and that are structured to remain invested through multiple market regimes – not just one cycle, much less one year.

Although we make dynamic adjustments to portfolios around this structural construct, these are typically guided by a view of what the next three- to six-months may bring for investors, and how to re-optimise allocations to invest in a risk-controlled manner rather than trading directionally toward any point-in-time return expectation.

So, what purpose does this outlook serve? Particularly now, in a world where change is constant, forecast horizons are shorter and exogenous shocks more frequent. Rather than a prognostication on where markets will end the year, it should serve as an opportunity to pause, consider the factors likely to have the greatest bearing on markets in the year ahead, reassess whether existing assumptions require reconsideration, and judge whether your current investment framework will not only see you through the next 12 months, but whether it is prepared for the regime beyond.

An extraordinary period

Before looking ahead, it is worthwhile reflecting on the starting point from which further gains may be added. 2025 was another extraordinary year for risk assets; despite a roughly 20% drawdown following Liberation Day, the S&P 500 returned 18% for the year, and the MSCI World returned 20%.

Looking further in the rear-view mirror, 2025 was the third consecutive year of 20%+ gains for the MSCI World and 15%+ returns for the S&P 500. Such a strong, prolonged return environment is rare. Over the past 100 years, there have been only four instances where the US market delivered more than 15% for three consecutive years. While logic would suggest such a run is unlikely to continue, in three of the four preceding occasions (1945, 1952, and 1998) a fourth year of 15%+ returns was ultimately delivered, with 2022 the outlier.

As 2026 commences, we are not at this stage expecting such a banner year for US equities, but equally we would not consider high single-digit returns to be an outrageous outcome, particularly given many of the conditions that would underpin such an environment remain intact. US corporate profits are still showing double-digit growth, operating margins have climbed to 19% for the first time, credit spreads appear contained, and the jobs market – while softer – remains solid.

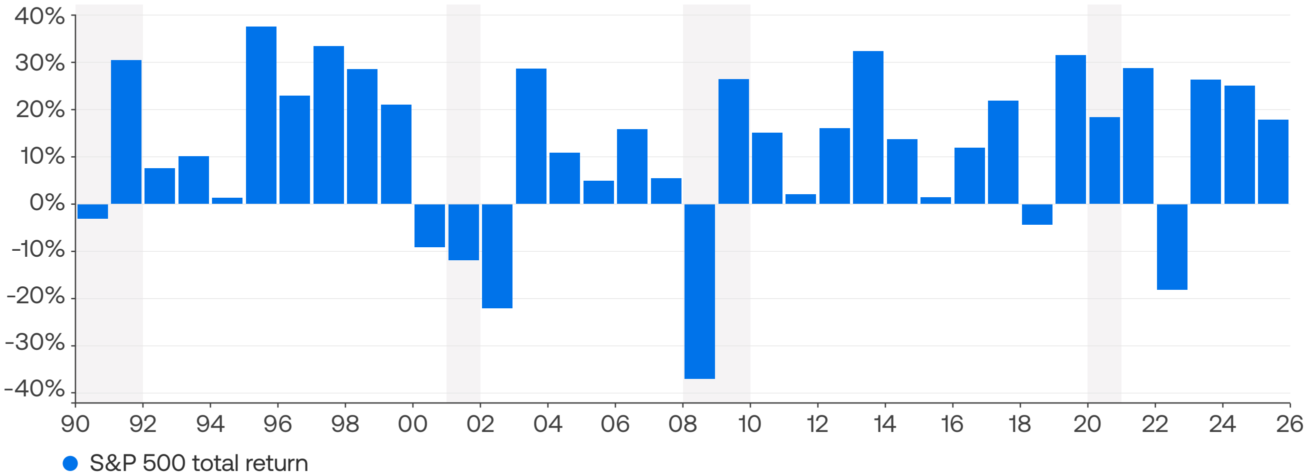
Rather than asking whether the market can deliver another year of strong returns, the more pertinent question – and the first point of reckoning – is whether US exceptionalism is truly at an end.

Indeed, it was the outperformance of global peers relative to the US market that was perhaps the more exceptional story from last year.

American exceptionalism: secular rotation underway

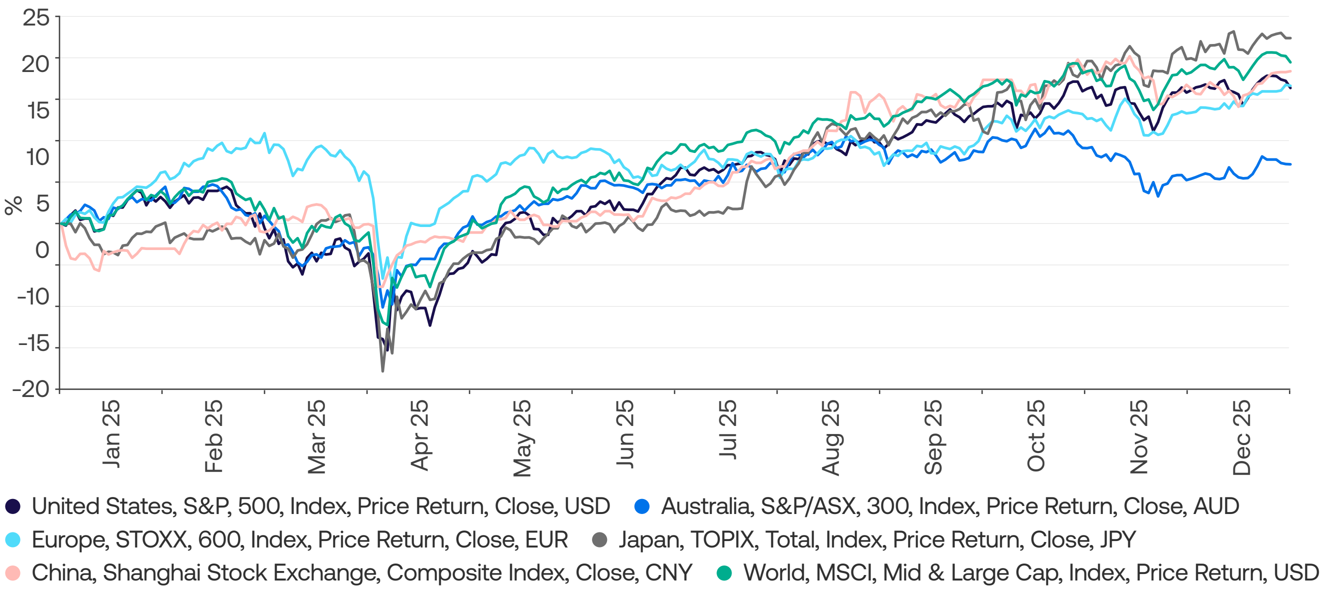
For the first time in nearly a decade, the S&P 500 underperformed the MSCI World Index in 2025 – beating only the Australian share market in local currency terms. While some may dismiss this as an anomaly, the tailwinds that have long powered US dominance – tech supremacy, dollar strength and superior profit margins – are showing clear signs of fatigue.

Figure 1: The S&P 500 has had a stellar run



Source: S&P Global, CBOE, Bloomberg, Macrobond, ANZ CIO

Figure 2: The US underperformed global share markets in 2025



Source: S&P Global, STOXX, Tokyo Stock Exchange, SSE, MSCI, Bloomberg, Macrobond, ANZ CIO

Valuations underscore this imbalance, with US equities trading at roughly 23x forward earnings versus 13x to 15x for emerging markets and developed markets ex-US. This premium has persisted even as non-US regions harness the same secular forces that once favoured America. China is aggressively scaling AI, electric vehicles and robotics; Europe is pursuing industrial and defence revitalisation; and emerging markets are leveraging demographic and commodity advantages.

The catalysts reversing US preference are structural, with persistent fiscal deficits and tariff risks threatening relative growth. Moreover, they appear to be accelerating under the second Trump administration, as heightened policy uncertainty and a marked step back from the rules-based system the US once championed lead to greater global fragmentation and an acceleration in multipolarity.

It is worth remembering that the unipolar moment that followed the end of the Cold War was an anomaly, rather than the norm. Indeed, prior to the end of WWII, the globe was largely defined by periods of multipolarity. We are now emerging from a brief period of bipolarity and unipolarity into a multipolar environment once more.

For investors, this matters. Prior periods of multipolarity were often defined by increased kinetic conflict; already we are seeing the need for diversified supply chains and, if the first weeks of 2026 are any indication, a heightened potential for resource conflicts. Indeed, while it appears Trump is intent on controlling the Western hemisphere, we are not convinced he will allow rivals to command similar spheres of influence.

The world has long relied on American hegemony and the safe assumptions it brought. But the US dollar cycle appears to be peaking alongside a structural shift in the US's exorbitant privilege. 2025 brought periods where the dollar and US equities declined in tandem, and US Treasuries failed to provide the expected hedge. For investors, this may present a potentially generational opportunity to reallocate from US to international and emerging market equities should mean reversion play out over the coming years; it also argues for reconsidering currency hedging.

This outlook informs our decision to start the year with overweights to both Japanese and European equities across developed markets, while we remain overweight emerging markets on valuation grounds, a supportive backdrop for commodities, and an expectation of further dollar weakness.

Europe appears to be emerging from a prolonged period of stagnation, enabling increased spending on defence and infrastructure and improving earnings visibility across cyclical sectors. Here, valuations remain attractive both relative to history and peers.

Japan continues to stand out despite its strong run in recent years. Balance sheets are healthy, cash flows are resilient, and structural reforms are steadily improving capital discipline, supported by a policy environment that remains accommodative.

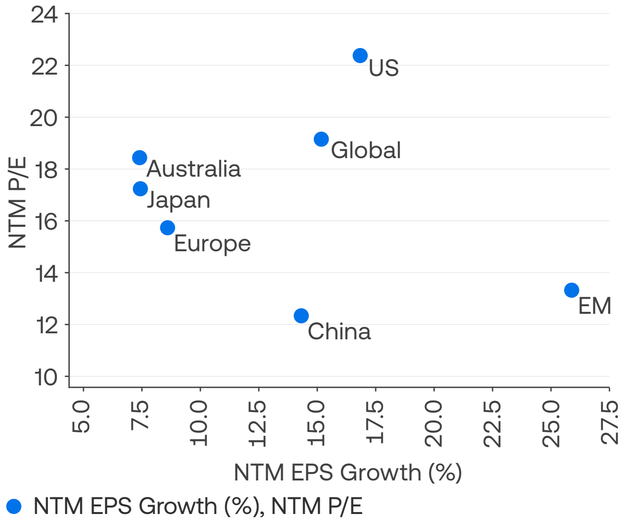
Australia, however, offers fewer positive catalysts in the near term. Economic conditions are stable, but elevated equity valuations, subdued earnings growth, and relatively tight monetary settings limit upside. With financial conditions likely to remain restrictive compared with global peers, we retain an underweight stance toward Australian equities as the year commences.

From a currency perspective, we are currently reviewing our strategic hedge ratio. Having increased emerging market equities during our last strategic asset allocation review, we continue to assess the appropriate regional equity construct to navigate the new world we are entering.

Elsewhere in portfolios, gold is likely to continue benefiting from the erosion of US exceptionalism, the fragmented geopolitical order, and weaker safe-haven dynamics across other assets. Having introduced a strategic position in portfolios several years ago, we maintain an overweight as the year commences and currently see little reason for this to be cut materially in the period ahead.

Figure 3: The earnings outlook and valuations are mixed

Regional P/E vs NTM EPS Growth



Source: Bloomberg, Macrobond, ANZ CIO

AI – a changing of the guard?

In 2026, it is unlikely to be just a story of the US versus the world. The other major reckoning is likely to centre on AI and whether the next phase of adoption can accelerate, whether tech can continue to lead, or whether the rally can broaden to other sectors.

The pace of advancement in the AI sector since the launch of ChatGPT in late 2022 has been staggering. From GPT-4 in early 2023 to reasoning systems in 2025 that achieve better than 90% on PhD-level benchmarks, compute scaled 10–20x annually while cost per token fell ~90% per year. AI has shifted from a narrow tool to a general-purpose reasoning engine, already delivering measurable productivity gains in software engineering and scientific discovery such as AlphaFold by DeepMind.

Over this time, the market has been dominated by infrastructure 'enablers' – semiconductors, hyperscalers, and data centre build-outs. The next phase, however, is likely to emphasise 'adopters': enterprises deploying AI at scale to drive productivity and revenue. This is already occurring, but according to data from Stanford's AI Index Report, the cost and revenue benefits have so far been small, with the most common level of revenue increases less than 5%.

Still, there are promising signs that the transition from enablers to adopters can occur. Hyperscaler capital expenditure (capex), which supported a large share of US GDP growth in 2025, is normalising as power constraints and GPU lead times ease. Earlier this month, Nvidia announced its next-generation chip, Rubin, reported to be able to train AI models with one-quarter as many chips as its predecessor, while providing information for chatbots and other AI solutions at roughly 10% of the cost. Meanwhile, enterprise software and industrial firms are reporting pilots converting into multi-year contracts.

Nonetheless, the capex to date has been eye-watering. Since Q4 2022, the four hyperscalers have spent more than a trillion dollars on capital, and research and development, much of it related to generative AI.

This year, we will likely need to see greater return on investment and broader productivity benefits for technology stocks to continue leading, or we risk an 'AI winter' – similar to the dotcom overhang or the Metaverse moment of 2022 – with the potential for valuations to compress 30–50% across enabler cohorts.

While there are signs the contribution of AI investment to GDP growth appears to be slowing, it is unlikely to disappear overnight. Given the strategic sovereign importance of AI technology and the fortress balance sheets of hyperscalers, it would be premature to call an end to this cycle after only 18 months. The internet build-out lasted more than a decade, and the race for AI supremacy has taken on Manhattan Project-like characteristics. Sovereign investment from the US into corporations such as Intel and chip start-up xLight signal the urgency and priority placed on this technology.

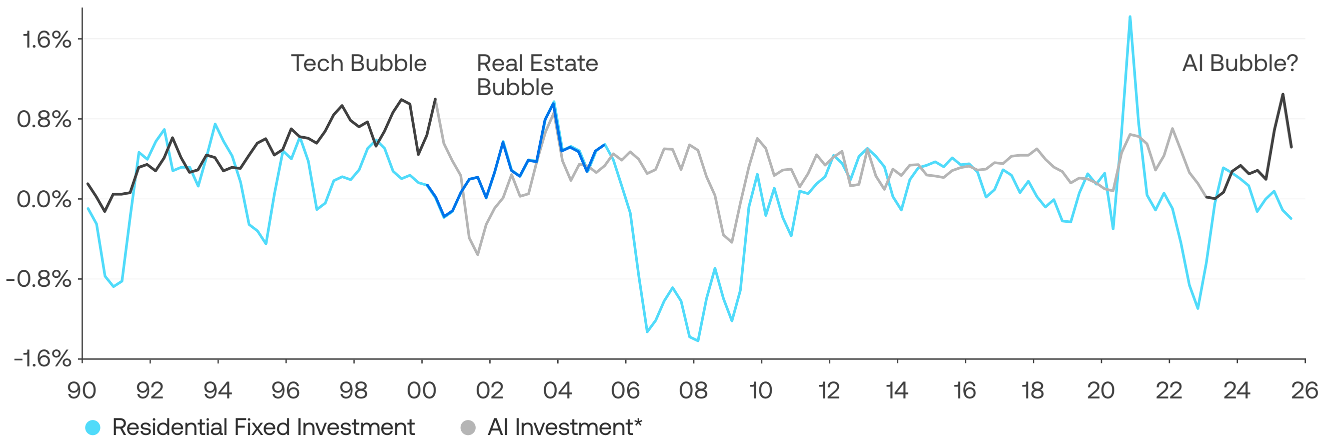
Consensus is currently for US market breadth to broaden in 2026, with strong fiscal tailwinds in the US through the first half of the year as the One Big Beautiful Bill (OBBB) delivers $150bn of tax refunds to consumers and the Fed continues its easing cycle. While we see scope for such a move to materialise, we are not yet convinced of its sustainability. In December last year, market expectations were for the EPS growth rate of the Magnificent Seven to be overtaken by the remainder of the index in Q2; a month later, this has now been pushed to Q4.

Figure 4: Magnificent 7 stocks fell by 50% in 2022

Source: S&P Global, Bloomberg, Macrobond, ANZ CIO

Figure 5: The AI capex story is unlikely to end after just 18 months

US: Contributions to QoQ percent change in real GDP



Source: BEA, BCA Research, Bloomberg, Macrobond, ANZ CIO

*Includes software and information processing equipment. Both series shown as a 2- quarter moving average.

Indeed, Technology is forecast to again deliver the strongest earnings growth – nearly 30% this year – while accounting for almost half of total earnings growth in dollar terms. While this leaves the index vulnerable to downgrades, we start the year overweight mega-cap tech (a position we have held for several years) and underweight the broader US market index, maintaining conviction that AI tailwinds can propel the sector higher in 2026 as adopters take the baton from enablers.

Looking further ahead, technology – like emerging markets and gold more recently – may soon warrant a strategic allocation in investor portfolios given the structural dynamics that will define the regime ahead.

Elsewhere within portfolios, we position overweight to infrastructure, given positive tailwinds stemming from the AI build-out and the multipolar geopolitical environment, including large fiscal programs across the US and Europe. In a similar vein, we have recently implemented an off-benchmark exposure to China tech, given relative valuations compared with US tech and the aforementioned 'Manhattan Project'.

Resilience through reckoning

While we commence the year with a constructive outlook for risk assets, we acknowledge there will be increasing periods of volatility and the potential for significant drawdowns that may be met with even sharper rebounds.

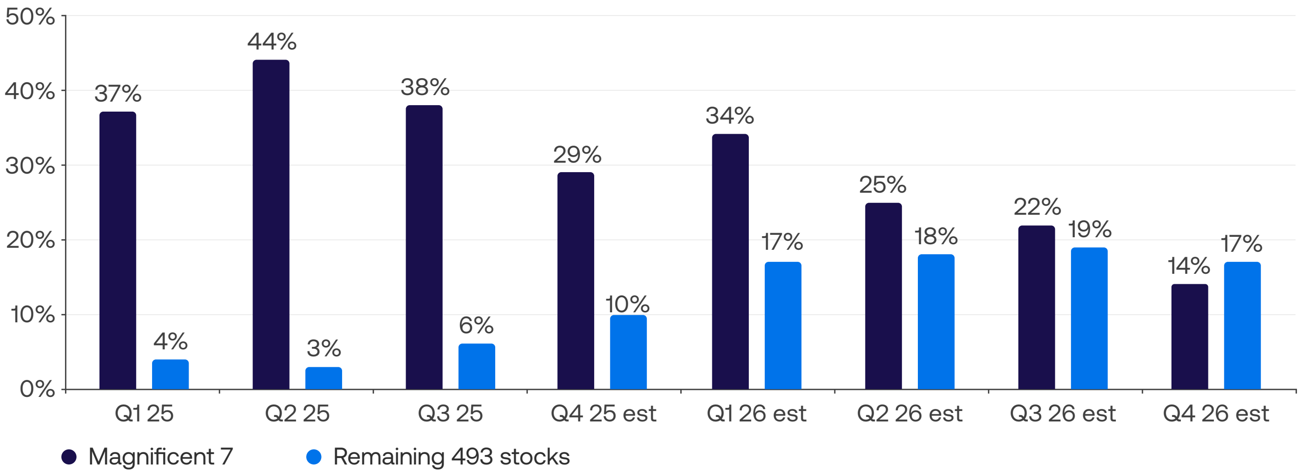
For investors, there are obvious risks on the horizon – the AI story faces a possible reckoning, inflation could re-emerge as a Trump-influenced Fed cuts into an economy running hot ahead of the mid-terms, and of course the potential for geopolitical risks to spike further. These are just some of the risks that are visible over the period ahead.

Accordingly, we position overweight to duration. Yields remain attractive, providing strong carry to portfolios, and – assuming correlations remain in check – the position should provide protection if global growth stalls.

Of course, as in prior years when pandemics, war and banking crises unexpectedly upended markets, we must assume some risks are simply unforeseeable.

Figure 6: EPS estimates favour continued tech leadership

S&P 500: Mag 7 vs. Remaining 493 stocks y/y % change in EPS



Source: Strategas, Bloomberg Consensus Estimates, ANZ CIO as at 5 January 2026

Indeed, we are operating in a world undergoing rapid change across multiple fronts, with the pace of disruption itself accelerating. Recent US actions in Venezuela – and the prospect of further unilateral interventions – are emblematic of a broader shift towards a more volatile, fragmented global order. Geopolitical, economic, and policy regimes that once evolved gradually are now changing abruptly, often with limited warning.

Against this backdrop, our focus remains firmly on building resilience into portfolios. The objective is not only to prepare for the changes we can already identify, but to withstand – and ideally benefit from – the volatility generated by shocks that are not yet visible but increasingly inevitable. In a world where uncertainty is structural rather than cyclical, resilience is not a defensive posture; it is a prerequisite for compounding returns through disruption.

On behalf of ANZ, I'd like to take this opportunity to thank you for your ongoing investment. If you are currently invested with us, we trust this publication provides you with an understanding of how we intend to steer client portfolios in the period ahead. If you are not, we hope it provides an opportunity for you to consider whether your investment strategy remains fit for purpose in what is becoming an increasingly complex market to navigate.

In 2026, as always, the team and I will be watching markets with interest.

Lakshman Anantakrishnan

Chief Investment Officer, ANZ Private

Figure 7: Asset class returns

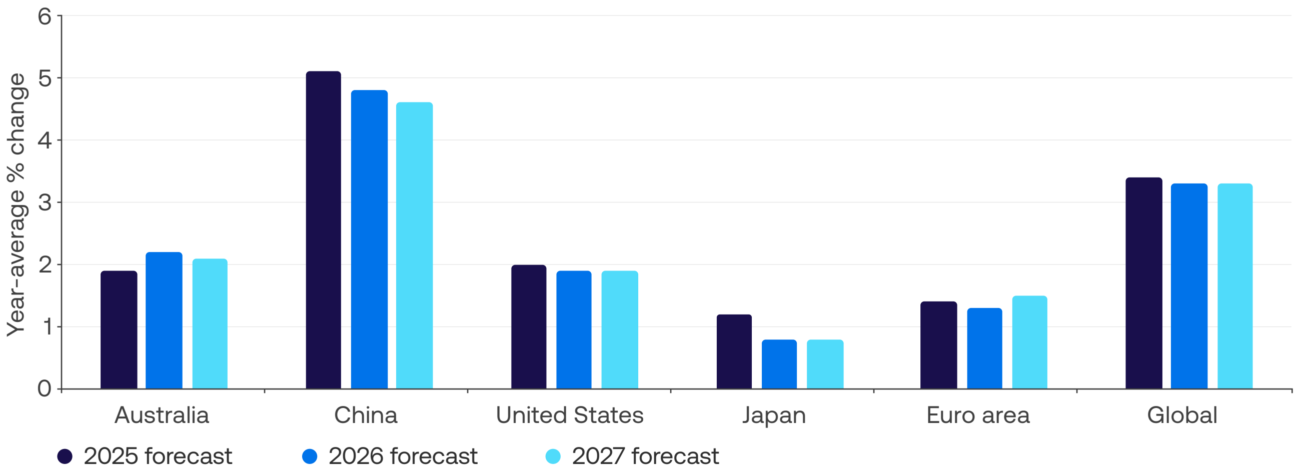
Asset class	2016-2025 annualised returns	2025 returns	2026-2035 forecast annualised returns*
Australian shares	9.3%	10.7%	6.9%
International shares (unhedged)	13.2%	12.5%	8.6%
International shares (hedged)	11.7%	18.6%	8.7%
Emerging market shares	9.4%	24.0%	8.8%
International property (hedged)	2.6%	5.0%	7.0%
Infrastructure (hedged)	7.3%	11.6%	6.9%
Gold	16.2%	55.5%	3.2%
High Yield (hedged)	5.6%	7.7%	4.4%
Short Duration Fixed Income	2.1%	3.6%	4.7%
Long Duration Fixed Income	1.7%	1.7%	4.2%

Index information: To 31 December 2025. Australian Shares - S&P/ASX 300 Accumulation| International shares unhedged - MSCI World ex Australia (Net)| International shares hedged - MSCI World ex Australia Net Index (hedged to AUD)| Emerging market shares - MSCI Emerging Markets (Net) in AUD| International property - FTSE EPRA/NAREIT Developed Rental Index ex Australia (hedged)| Infrastructure - FTSE Developed Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index | Gold - LBMA Gold Price PM AUD| High Yield - Bloomberg Global High Yield Corporate| Short Duration Fixed Income - Bloomberg AusBond Composite (0+Y)/Bloomberg AusBond Bank Bill| Long Duration Fixed Income - Bloomberg AusBond Treasury 7+Y/Bloomberg AusBond Inflation Govt 0+. Source: Bloomberg, ANZ PB CIO. * Annualised returns are forecast through to September 2035 using Willis Towers Watson (WTW) capital market assumptions (CMA) from September 2025. CMAs are gross of fees and taxes unless otherwise stated.

Economic Outlook: resilient growth amid diverging policy paths

Much like markets, in 2026, structural trends rather than cyclical drivers are likely to shape the global economy.

Figure 8: Global GDP growth forecasts



Source: ANZ Research, ANZ CIO, December 2025

Global growth is expected to hold steady at 3.3% in 2026, matching 2025's outcome and marking a fifth consecutive year of growth in the 3% range. This resilience is notable given the backdrop of pandemic aftershocks, the 2022 global tightening cycle, geopolitical tensions, and tariff disruptions. Recession risks remain low.

According to ANZ Research, two key judgments underpin this outlook. First, private-sector balance sheets outside China remain strong, with the post-GFC tightening of financial sector regulations reducing contagion risk, even despite recent regulatory easing in the US and UK. While this easing may raise vulnerabilities over time, near-term it should support growth. Second, decorrelation has become the dominant monetary policy theme. Many economies are operating near potential with inflation close to target. Given this, cyclical forces are only modest, allowing structural trends and other idiosyncratic drivers to come to the fore.

We expect the Fed to cut rates by 50bp in early 2026 – prioritising employment amid moderating growth. The ECB will likely deliver 50bp of easing, maintaining a stimulatory stance. In contrast, the BoJ is expected to tighten further, lifting its policy rate to 1%. At home, our base case is for the RBA to remain on hold, though if there is a move, risks appear more skewed to a hike than cut. China's PBoC should remain cautious, favouring structural reforms over aggressive easing.

Inflation trends broadly support this divergence. US inflation is easing, Euro area inflation is expected to fall to 1.7%, and Japan faces upward risks from wage negotiations and yen weakness. China's inflation remains subdued despite easing deflationary pressures.

Beyond cyclical forces, structural trends will dominate. Globally, tariffs are expected to continue reallocating trade rather than suppressing demand, and although tighter migration and industrial policies reduce US potential growth – this is unlikely to be a story for this year. Rather, while US potential growth has outperformed the OECD average for 15 years, it should not be assumed a given. Indeed, ANZ Research expects the current policy mix to gradually erode this edge over time.

Recent tariff actions have been driven by geopolitical tensions and deteriorating global imbalances. The IMF reports that global imbalances widened in 2024, breaking a long-standing post-GFC trend. Current account data for the US and China in 2025 suggests this divergence has persisted.

To maintain elevated foreign investment inflows, the US must preserve a strong investment narrative. Yet that narrative has become increasingly focused on artificial intelligence, magnifying the risk that a shift in the AI story could lead to a global correction.

Similarly, Asia's tech-driven export surge underscores this structural shift and has partly been reflected in strong outperformance across tech-heavy equity markets in South Korea, Hong Kong and Japan.

In China, GDP growth is projected at 4.8%, slightly below 2025, with further easing likely required to meet this outcome. Here, growth is expected to be supported by tech-driven sectors and energy transition investments. This contrasts with traditional sectors such as real estate and construction. These imbalances will keep manufactured exports central to China's growth, fuelling trade tensions.

In 2026, fiscal sustainability concerns are likely to remain a consistent theme. The IMF forecasts net government debt in Japan, the US and UK to be 130%, 117% and 96% of GDP respectively in 2030. Accordingly, even with an expectation of further interest rate cuts in the US this year, we expect US bond yields to rise reflecting a higher term premium as concerns about fiscal sustainability grow.

The continuation of easier policy, alongside steady global growth and moderating inflation, should provide a supportive backdrop for risk assets early in 2026. However, fiscal sustainability, doubts surrounding the sustainability of the AI narrative and geopolitical uncertainty remain key risks underscoring the need for a diversified, long-term and tactical approach to investing.

Disclaimer: Components of the 'Economic Outlook' section, associated charts and content relating to the Australian dollar on page 41 have been derived from the ANZ Research Quarterly, December 2025.

Australia

The Australian economy grew 2.1% y/y to Q3 2025 and is expected to maintain a similar pace through 2026–27, supported by solid consumer spending, business investment, and public demand, with net exports a modest drag. This positions Australia uniquely, with GDP growth near potential, the cash rate around neutral, and the labour market broadly balanced, ANZ Research expect the RBA to hold the cash rate at 3.60% over the forecast horizon.

Consumer spending lifted modestly in 2025, underpinned by robust real income growth from tax cuts, a solid labour market, and easing interest rates. Household balance sheets remain healthy, and consumption gains appear sustainable. A small tax cut in July 2026 should provide marginal support.

Across housing, market momentum is moderating, with auction clearance rates trending lower and dwelling approvals flat, pointing to only a modest upswing in construction this year.

Across the business sector, conditions and forward orders have improved, reflected in the ABS capex survey showing investment expectations up 7.6% y/y. That suggests solid growth in business investment in 2026.

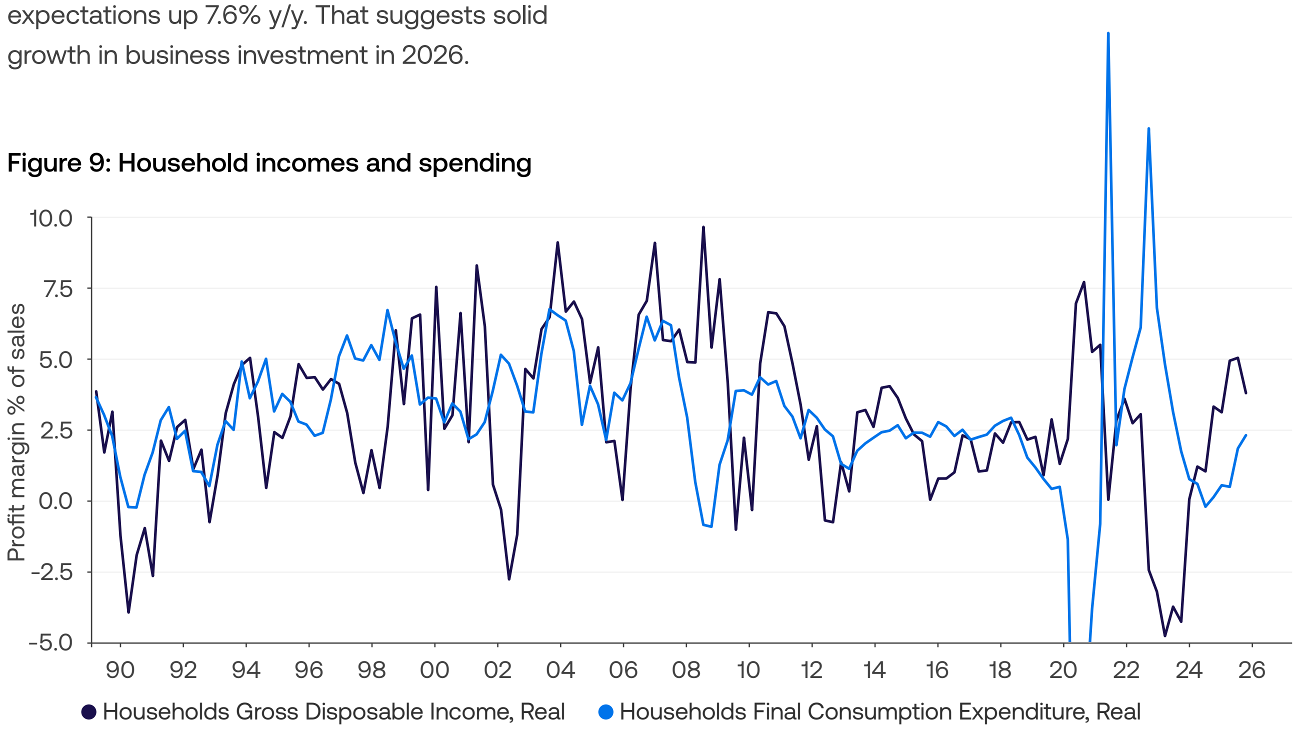
A moderate offset will likely come from public demand growth slowing to ~3% y/y, down from ~5% over the decade to 2024 as major states move past infrastructure peaks. Fiscal policy remains supportive though, with national deficits larger than pre-pandemic levels.

With respect to the labour market, the unemployment rate edged higher in 2025 but remains near full employment. ANZ Research expect it to move sideways in 2026.

Trimmed mean inflation surged in Q3 but should moderate, aided by softer labour conditions, AUD appreciation, and lower oil prices. Headline inflation is likely to be more volatile as energy subsidies end early in 2026.

With rates around neutral, growth around potential and the labour market around full employment, it makes the next direction for policy uncertain. According to ANZ Research, the RBA is likely to remain on hold through 2026, though if there is to be a change, a hike is more likely than a cut.

Figure 9: Household incomes and spending



Source: ABS, Macrobond, ANZ Research

United States

Consumption growth is slowing amid falling confidence, cooling wages, and tariff-related price pressures, with an expectation that personal consumption expenditure growth will slow further in the coming quarters. Spending patterns are increasingly K-shaped – lower-income households are restraining consumption, while strength is concentrated among wealthier households.

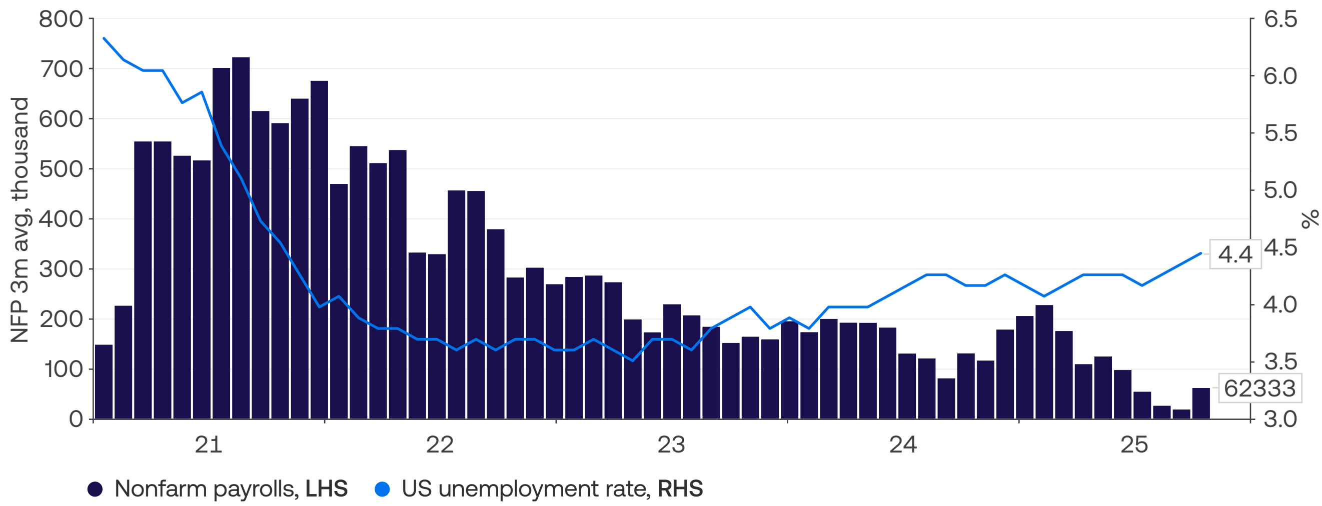
Despite this, ANZ Research expect US GDP growth to rise 1.9% in 2026, close to potential and non-inflationary. Disinflation should resume as labour market softness persists and tariff-driven price rises prove transitory. Against this backdrop, ANZ Research expect the FOMC will cut rates by 50bp in 2026 – 25bp in each of Q1 and Q2 – bringing the fed funds target range to 3.00–3.25%.

Across the labour market, hiring momentum is weak. Private payrolls declined in three of the last four months of 2025, with job creation concentrated in healthcare, education, and leisure sectors. Manufacturing employment has not grown since April's tariff announcements. Hiring freezes and restrictive immigration policies add downside risk. The median FOMC forecast for the unemployment rate for the end of 2026 is 4.4%, which assuming a modest uptick in the participation rate requires close to 150k jobs to be created monthly. ANZ's assessment is that ongoing risks to the labour market warrant further gradual easing this year

This weakness underpins the expectation that inflation should continue to moderate toward target. Slowing wage growth and moderating consumption will likely weigh on services inflation, and recent moderate producer price reports and ISM price readings below 50 show firms are struggling to pass higher prices to end users. Shelter inflation is easing, and tariff-driven price increases also appear one-off. ANZ Research forecast CPI inflation will average 2.6% in 2026, down from 2.9% in 2025, and fall further to 2.2% in 2027.

With inflation expectations well anchored and growth moderating, the FOMC is expected to prioritise the employment side of its dual mandate. Two 25bp cuts in early 2026 should prove modestly stimulative.

Figure 10: Soft hiring, rising unemployment in 2026



Source: BLS, Macrobond, ANZ Research

Japan

Japan's economy contracted by 2.3% saar in Q3 2025, its first decline in six quarters, following unsustainably strong 2.1% growth in Q2. The downturn reflects payback after front-loaded exports ahead of reciprocal tariffs introduced in August, compounded by a 9.4% plunge in housing investment, the sharpest since the GFC.

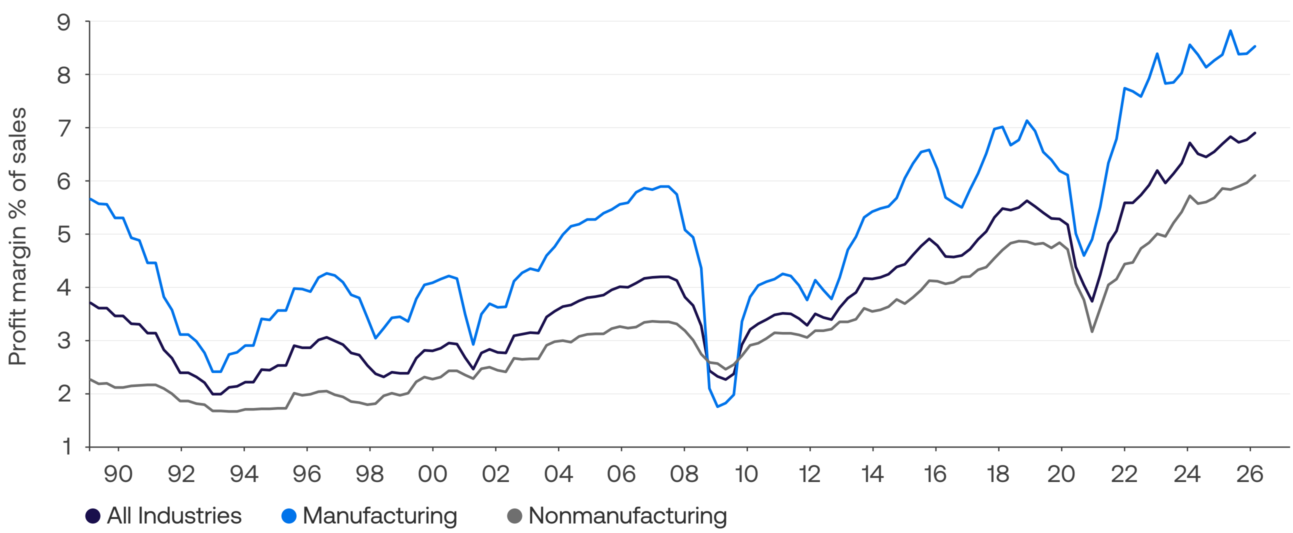
Despite trade headwinds, corporate profits remain elevated, cushioning the impact of higher US tariffs. The latest Tankan survey signals robust capital expenditure, with firms prioritising R&D in growth sectors and labour-saving technologies.

Consumer spending is mixed. Nondurable goods consumption is under pressure from rising food prices and yen weakness, yet overall spending remains resilient amid improving employment, higher incomes, and stronger sentiment, supported by summer bonuses and equity gains.

In late November, the Takaichi administration unveiled a JPY21.3trn stimulus package, including JPY17.7trn in spending – the largest since the early pandemic period. Key allocations include JPY11.7trn for household price relief, JPY7.2trn for strategic sectors (energy transition, digital infrastructure, AI, semiconductors), and JPY1.7trn for defence. The package is expected to add 0.3–0.4ppt to GDP growth with minimal inflation impact. ANZ forecasts real GDP growth of 0.8% in both 2026 and 2027.

Monetary policy is normalising. BoJ Governor Ueda struck a hawkish tone ahead of the December meeting, noting FY26 wage negotiations targeting ≥5% pay increases overall and concerns over yen weakness spilling over to higher domestic prices and inflation expectations. Accordingly, ANZ Research expect one hike in April 2026 in addition to the December 2025 increase, taking the policy rate to 1%.

Figure 11: Corporate profit margins



Source: BOJ, Macrobond, ANZ Research

Europe

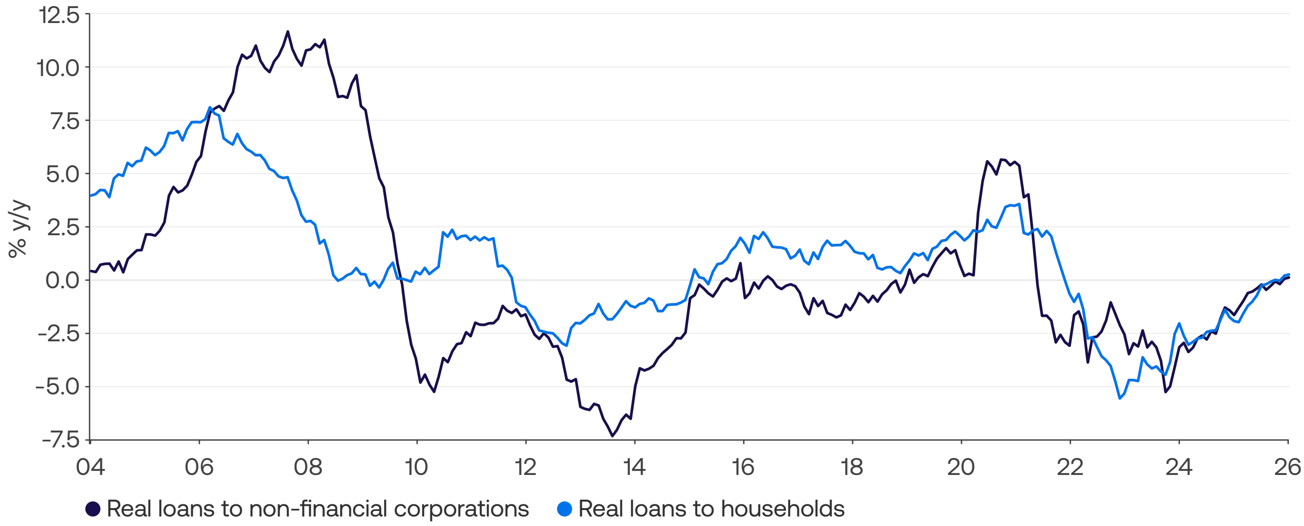
Stripping out tariff-related export frontloading in 2025, the euro area's growth backdrop remains fragile. The region's export-led model faces structural challenges with geopolitical shifts, overcapacity in China's manufacturing sector, higher US tariffs, and real exchange rate appreciation eroding competitiveness. Future growth will need to rely more on domestic drivers.

Despite 200bp of ECB easing, policy transmission appears to be peaking. Households remain cautious, with the savings rate at 15.5%, its highest outside the pandemic. Labour market buoyancy is fading as hiring slows and wage growth cools. Credit dynamics are weak, with real lending growth barely positive and nominal lending to non-financial corporations flattening.

ANZ Research has revised down its GDP forecasts to 1.3% in 2026 and 1.5% in 2027. Weaker growth, combined with underlying inflation dynamics points to a risk of inflation persistently undershooting the ECB's 2% target. ANZ Research expects inflation to ease from 2.1% in 2025 to 1.7% in 2026 and 1.9% in 2027.

Against this backdrop, ANZ expect the ECB to deliver 50bp of cuts in 2026, taking the policy rate to 1.50%. With domestic demand weak and inflation fundamentals soft, a stimulatory stance will likely be necessary.

Figure 12: The euro area credit recovery is stalling



Source: ECB, Eurostat, Bloomberg, Macrobond, ANZ CIO

China

China's growth remained weak into year-end, with November PMIs signalling contraction. Manufacturing edged up to 49.2, with non-manufacturing at 49.5 – the first decline since January 2023.

2025 may also mark the first decline in China's infrastructure investment. Fixed asset investment fell 2.6% y/y in November. Manufacturing investment slowed sharply to 1.9% from 7.5% in H1, as the government's 'anti-involution' campaign curbed over-investment. Corporate capex remains subdued.

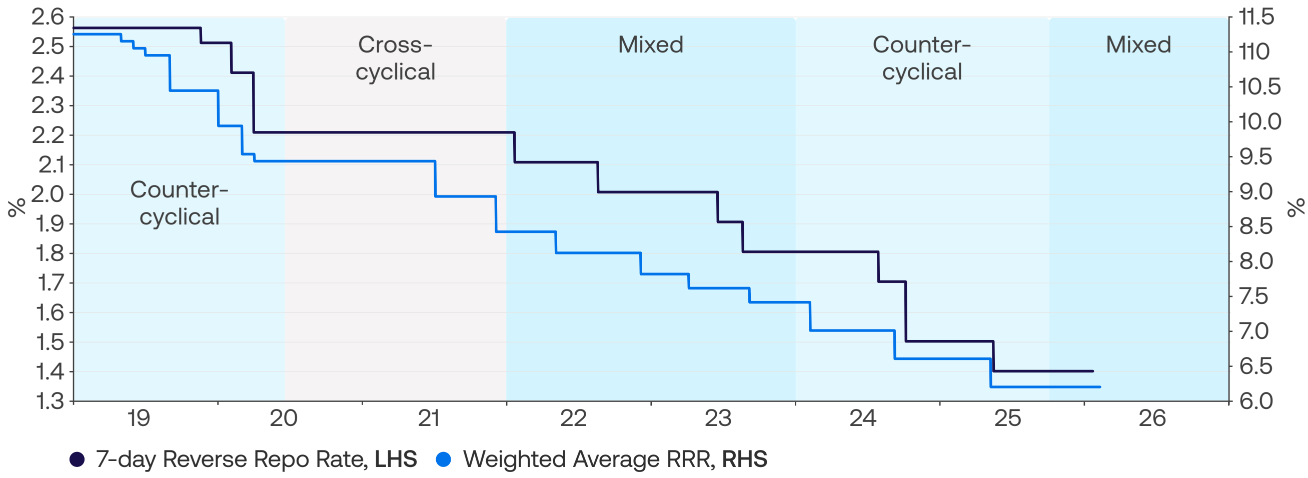
Labour market conditions are soft, with urban youth unemployment at 17.3% and rising automation and digitalisation reducing private-sector demand. Meanwhile China's property downturn will remain a drag on consumer sentiment because of its influence on personal wealth. On this front, the real estate outlook for 2026 is weak with oversupply likely to result in another double-digit contraction in property investment.

More broadly, deflationary pressures look to be easing due to commodity price gains and base effects, but inflation remains subdued. ANZ Research forecasts 2026 CPI at 0.9% and PPI at -0.3% in 2026, with a potential temporary CPI spike near 2% in February from the late Spring Festival and pork cycle. A sustained 2–3% inflation scenario remains remote.

China's GDP is projected to grow 4.8% in 2026, supported by tech-driven sectors and energy transition investments under the 15th Five-Year Plan (2026–30). This contrasts with traditional growth sectors such as real estate and construction. Indeed, The IT sector has achieved notable double-digit growth (11.7%), significantly outperforming the national average of 5%.
Its share of total GDP is likely to surpass that of real estate services by 2028.

Policy is likely to remain prudent, with a headline deficit budget of 4% expected at the National People's Congress in 2026. China's monetary policy is expected to be more measured in 2026, as the latest policy communication indicated a more hawkish stance by reintroducing a mixed setting of 'counter-cyclical and cross-cyclical adjustments' last seen in 2022–23. ANZ Research expect two 25bp required reserve ratio cuts and an interest rate cut of 10bp in 2026 as the PBoC focuses on policy framework reform.

Figure 13: Shifts in China's monetary policy stance away from counter-cyclical



Source: CFETS, PBoC, NBS, Bloomberg, Macrobond, ANZ Research

Key Themes: what we are watching in 2026

In 2026, the stories we expect to define markets appear more secular than cyclical. For investors, this means a more nuanced approach to portfolio construction and a reconsideration of portfolio management.

Investing amid a shifting policy paradigm

Governments and central banks are altering their policy approach; investors must adjust too.

Investing throughout the first twenty years of this century was a relative cinch. Structural tailwinds anchored inflation, compressed borrowing costs – often at artificially low rates – and kept asset correlations in check, allowing for a relatively unsophisticated approach to investing.

That world has faded. Even as the US Federal Reserve continues its easing cycle, the low inflation, low interest rate regime investors grew accustomed to appears extinct. The tailwinds that previously assisted financial markets – abundant global labour, frictionless trade, and monetary dominance – are now reversing. In their place are regime-changing forces: a capital intensive green transition, deglobalisation, rising populism and diminishing trust, and demographic shifts that will shrink working age populations across developed economies while tilting political priorities toward redistribution.

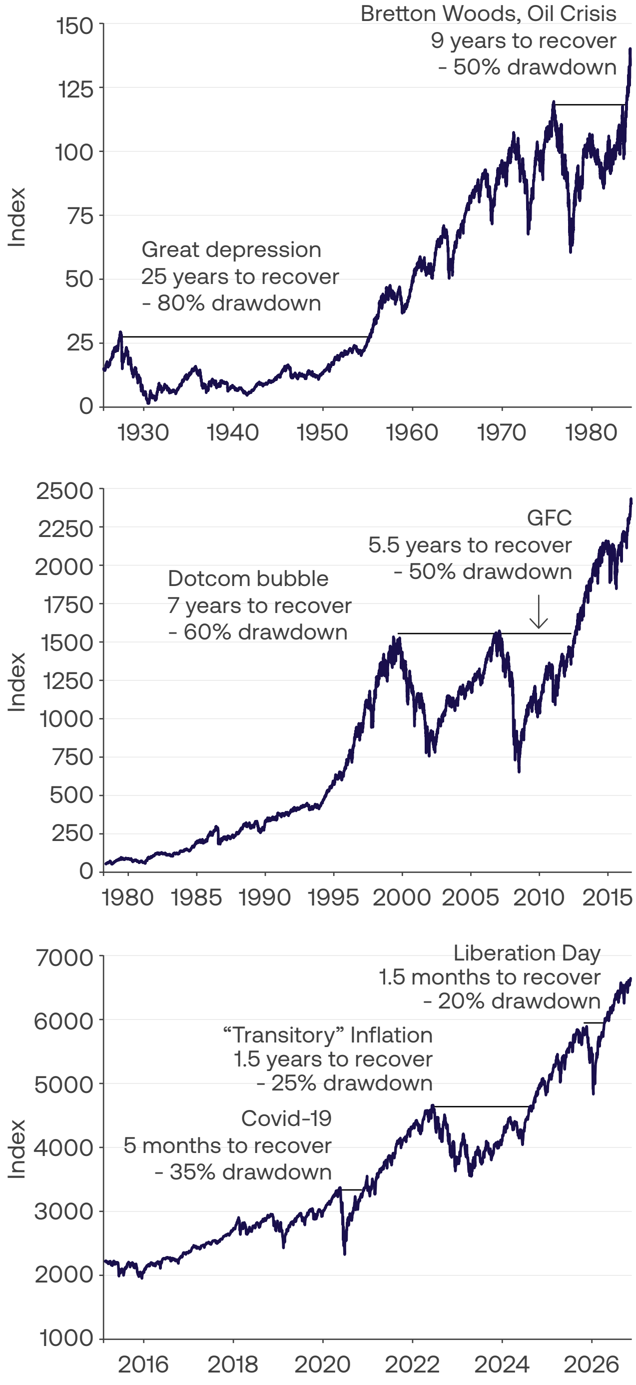
The policy response is changing

Zooming out though, the past few years have hardly felt like a paradigm shift for investors.

The S&P 500 has delivered more than 15% per annum over the past three years – with similar returns over 2019–2021. But beneath the surface, market dynamics have changed. Drawdowns are steeper, rebounds sharper, leadership rotates more frequently, and performance is increasingly driven by rapid policy recalibration rather than the earnings cycle.

The pandemic crash saw a 35% decline in the S&P 500, followed by a full recovery in just five months – the fastest in 150 years. Last year, the market recovered in under two months from a 20% drawdown following Liberation Day.

Figure 14: Market recoveries once resembled a misshapen U



Source: S&P Global, Bloomberg, Macrobond, ANZ CIO

These are not isolated events. Central banks and governments have shown a willingness to act aggressively, often using non-traditional policy measures to avert potential GFC-style meltdowns. Ironically, since the GFC, it could be argued that the newest and most consequential leg of the Fed's mandate has been to clear the system of excess. Yet, despite repeated shocks – the pandemic, hot wars, the 2022 tightening cycle, bank failures, and tariff regimes – leverage has expanded, not contracted.

The bailout of Silicon Valley Bank prevented broader contagion. The Credit Suisse-UBS merger stabilised European banking. The UK gilt crisis was contained through emergency bond buying; and the Bank of Japan looks to have repeatedly intervened in currency markets this decade. Even tariffs, while disruptive, haven't triggered a global recession.

This may understandably lead investors – perhaps reasonably so – to conclude policy intervention has raised the bar for systemic risk. But when the financial system absorbs shocks without deleveraging, the eventual fallout is likely to be asymmetric.

Demographics and fiscal dominance

Globally, governments unleashed colossal fiscal programs during the pandemic and have shown limited appetite for rectitude since. But this fiscal turn is not solely a crisis response; it is colliding with political reprioritisation, driven by demographic change.

Younger cohorts – Millennials, Gen Z and beyond – will increasingly dominate electorates. For the most part, these generations were unable to participate meaningfully in the multi-decade period of asset price inflation, fuelled by low inflation and low rates.

Accordingly, these demographics are likely to press for fiscally demanding policies that tilt power back to workers through wage floors, bargaining rights, and redistributive taxation. We're already seeing policy drift. Changes to superannuation tax in Australia, mansion taxes in the UK, renewed debate over death taxes and negative gearing, and the spread of protectionist industrial policy. Together, these trends suggest we are entering a world where fiscal activism plays a larger role and monetary policy does less of the heavy lifting.

Fiscal dominance is likely to result in higher debt levels, greater market sensitivity to political decisions and perhaps most consequentially – more frequent inflation spikes.

Monetary policy, in turn, may be deployed less in response to growth imbalances and rather in response to managing inflation through the cycle. That task becomes increasingly difficult as rising debt levels potentially constrain how long interest rates can remain elevated.

Correlation conundrum

For investors, this environment requires acknowledgment that traditional hedges may not consistently behave.

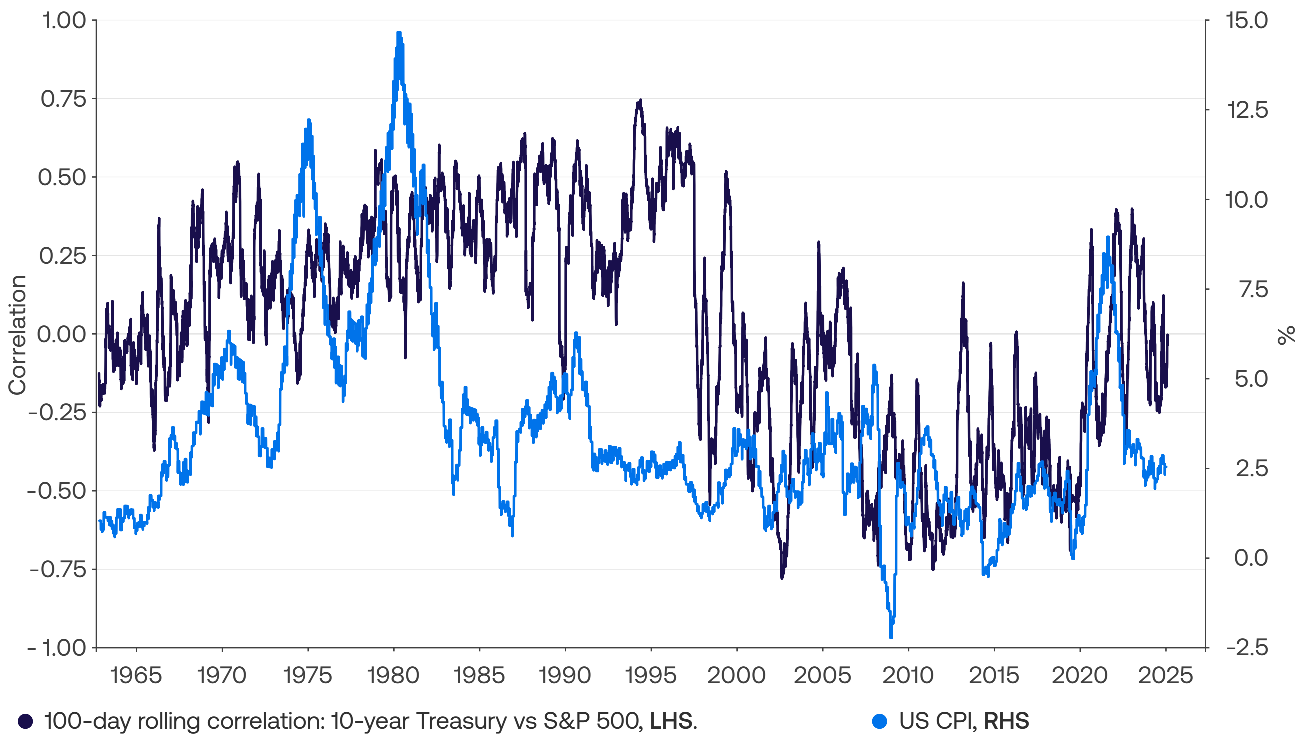
In periods of low and stable inflation, if growth surprises to the downside, it indicates potential economic weakness, possibly leading to lower expected earnings for companies, therefore weighing on equity prices. However, it also raises expectations of monetary policy easing, which subsequently boosts bond prices due to lower discount rates.

Conversely, during periods of higher inflation, positive inflation surprises generally impact negatively on existing bonds given that principal and coupons are typically priced in nominal terms. Moreover, upside inflation prints also point to rate hikes, typically weighing on expected future earnings and equity prices by extension.

The result is positive equity-bond correlations more often than not. Since early 2021, the 100-day rolling correlation between the S&P 500 and the 10-year US Treasury yield has been positive for significant periods, echoing the dynamics of the "Great Inflation" era. Historical correlations that once underpinned diversification are proving less dependable.

These correlation breakdowns extend beyond bonds and equities. The world has moved rapidly from its unipolar moment, through a relatively brief period of bipolarity into an emerging era of multipolarity. Outside the post-WWII period through to the pandemic, multipolarity has been the dominant state of the international system for most of history. Such an environment has traditionally harboured increased conflict and heightened demand for strategic resources.

Figure 15: Historical correlations are proving less reliable for investors



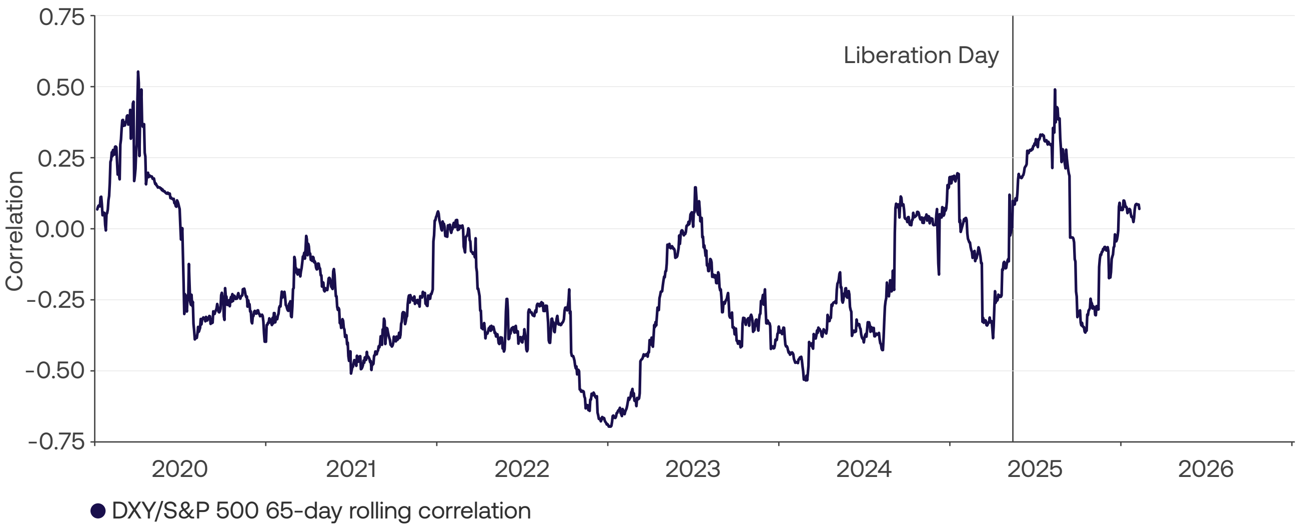
Source: S&P Global, U.S. Treasury, BLS. Macrobond, ANZ CIO

Now, investors must consider whether the US has moved from a behind closed doors controller to an outright bully. Increasing US unilateralism, most recently exemplified by the Venezuela attack, suggests the rules-based order on which global markets have long relied may be permanently fractured. This means a reconsideration of long-held assumptions about trust in the system.

Already, nations are pursuing resilience strategies: alternative trade routes, energy security, and industrial capacity. Consider President Trump's assertion that the US "needs" Greenland – a territory belonging to Denmark, a long-time ally. Greenland's commodities are already accessible to the US, yet the rhetoric underscores a deeper reality: in a multipolar world, control – not just access – becomes paramount.

The world has relied on American hegemony and the stability it implied. Yet the past year saw episodes where US equities and the US dollar declined together during growth scares, and Treasuries failed to deliver the usual hedge. Historically, sharp equity selloffs were buffered by falling yields; recently, that buffer has been muted, yields have rebounded quickly, hinting at an exodus from US assets rather than a flight to safety. Meanwhile, gold has risen sharply despite higher real yields as governments look to diversify US reliance.

Figure 16: What does a potential end to exceptionalism mean for investors?



Source: S&P Global, ICE, Macrobond, ANZ CIO

Adjusting the portfolio approach

These developments are not anomalies; they are signatures of regime change. In the high inflation era of the 1970s and early 1980s, equity bond correlations were often positive: inflation shocks hurt bonds and, by tightening financial conditions, hurt equities too. If we are re entering a world where correlations frequently flip, the approach to asset allocation must also change. The correlation between the USD and equities is case in point: if the dollar no longer attracts safe haven flows during equity stress, currency hedging and global equity positioning need to reflect that structural shift, not assume reversion to the pre-2020 norm.

The definition of 'safe' also changes. Gold may hedge geopolitical and financial regime risk even when real yields are elevated. Cash regains optionality value when it can be deployed into dislocations. Currency hedging should reflect the possibility that the USD and equities move together during stress.

Structural return drivers are also changing. Dependency ratios are rising across developed markets, shrinking labour supply and pressuring potential growth. Emerging markets – outside China – retain favourable workforce dynamics, offering a longer runway for consumption-led growth. Strategically, this argues for lower structural allocations to developed-market equities over time, and higher exposure to regions with better demographic tailwinds, complemented by exposure to alternatives and private markets to diversify return premia and dampen public market volatility.

Where does this leave investors? First the comfort of static allocations and mean reversion assumptions should be abandoned. In an asymmetric world defined by fiscal dominance, multipolar geopolitics, and demographic inversion, portfolios must be constructed across three horizons –near-term, cyclical and secular – to capture opportunities while protecting against correlation shocks.

This requires a whole of portfolio approach to strategic and tactical asset allocation. Every asset in a portfolio should have a clearly defined role. Not all positions exist to maximise returns; some are held to protect the portfolio when scenarios diverge from expectations. That protection is not a concession – it is an enabler.

This is not to suggest diversification is no longer important, quite the contrary, it becomes more important than ever. But it's not just about spreading bets; it's about dynamic allocation to mitigate tail risks.

Specific assets should be considered through the lens of various scenarios: What protects if an equity bubble bursts? What if a commodity slump hits? What if fiscal sustainability is questioned? What if inflation proves stubborn and growth slows i.e. stagflation?

In this sense, strategic asset allocation, often associated with long run returns, should be considered strategic risk allocation: that is design a portfolio that keeps you invested through adversity by distributing risk intelligently and adding hedges where historical correlations might betray you.

Tactical asset allocation should then be a re-optimisation process inside this risk budget, not a bet on one outcome. Adjust weights to increase the likelihood of risk adjusted returns under the next plausible path, while preserving the integrity of the overall risk profile.

None of this requires a complete abandonment of traditional portfolio construction, but for some will require a rethink of approach – one centred on risk optimising rather than return maximising.

The tailwinds that made the first twenty years of this century comfortable have reversed; the tools that succeed in the next twenty will be different. Build portfolios for the world we're entering, and for the transition that gets us there.

Can the consumer strike back?

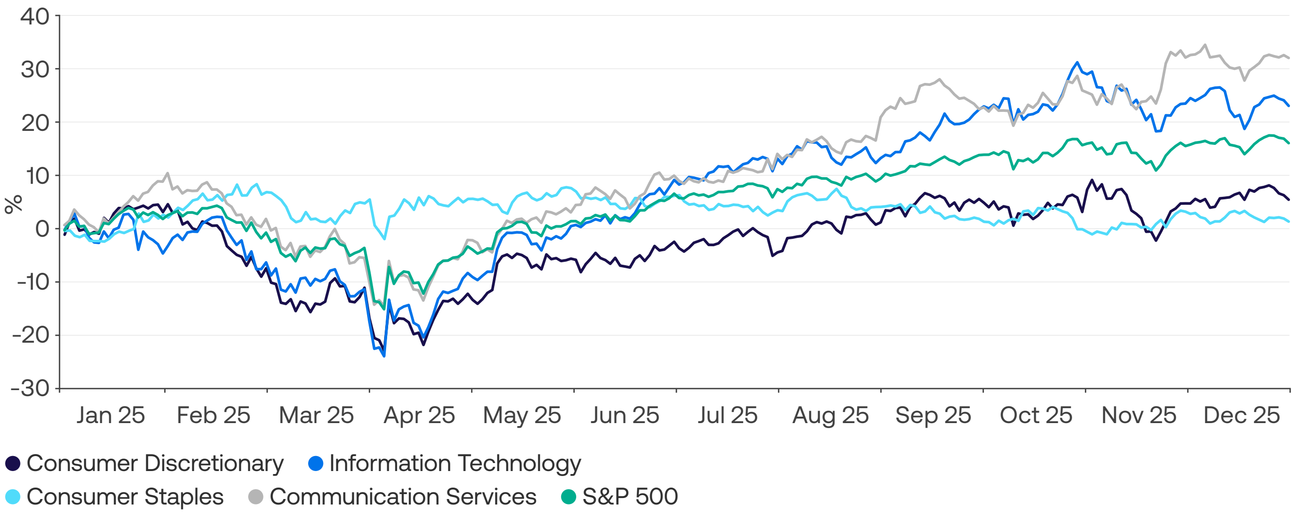
2025 was another extraordinary year for markets—though not all sectors shared in the success.

Putting aside the Liberation Day spectacle, gold's parabolic rise and the reemergence of Japan, a defining feature of the year, once again, was the rise of mega-cap tech – albeit via a narrower segment of that market. In a year when some analysts expected the hyperscalers to take a pause or at least drift back toward the pack, AI-related capex instead drove the market to fresh highs.

While the market is not the economy, it's hard to suggest that AI capex did not punch above its weight in 2025. By one measure, investments in computer equipment and software account for roughly 5% of the US economy, yet accounted for more than 70% of GDP growth in the first half of the year. By comparison, the US consumer, long the lifeblood of the US economy, and typically responsible for close to 70% of GDP – looks to have contributed only a fraction of that growth over the first half.

Given the spectre of tariffs, uncertainty surrounding tax cut extensions, a deteriorating labour market and the Fed tilting hawkish for much of the year, it's not hard to see why US Consumer Confidence consistently plumbed the depths of the pandemic lows. Perhaps then, it should not be surprising that Consumer Discretionary and Consumer Staples were among the biggest laggards in equity markets last year, particularly relative to the home of mega-cap behemoths – Communication Services and Information Technology.

Figure 17: Consumer stocks lagged in 2025



Source: S&P Global, Bloomberg, Macrobond, ANZ CIO

As we enter 2026 though, a key question is whether the consumer can strike back?

The One Big Beautiful Bill (OBBB) is expected to deliver $150bn of tax refunds this year, with stimulus measures including the extension of the 2017 tax cut, increased deductions for state and local taxes, and the elimination of taxes on overtime and tip income. Historically, the propensity for taxpayers to spend their tax refunds is high and Strategas estimates refunds in 2026 should boost retail sales growth by roughly 8% y/y to July.

Add to this America's hosting of the soccer World Cup and the celebration of the 250th anniversary of the Declaration of Independence and there will be ample opportunity for consumers to flex their discretionary spending muscle. Moreover, entering mid-term elections, we expect Trump to run the economy hot, with attention turning to housing, energy, and health care to address affordability issues – providing a boost to consumer confidence.

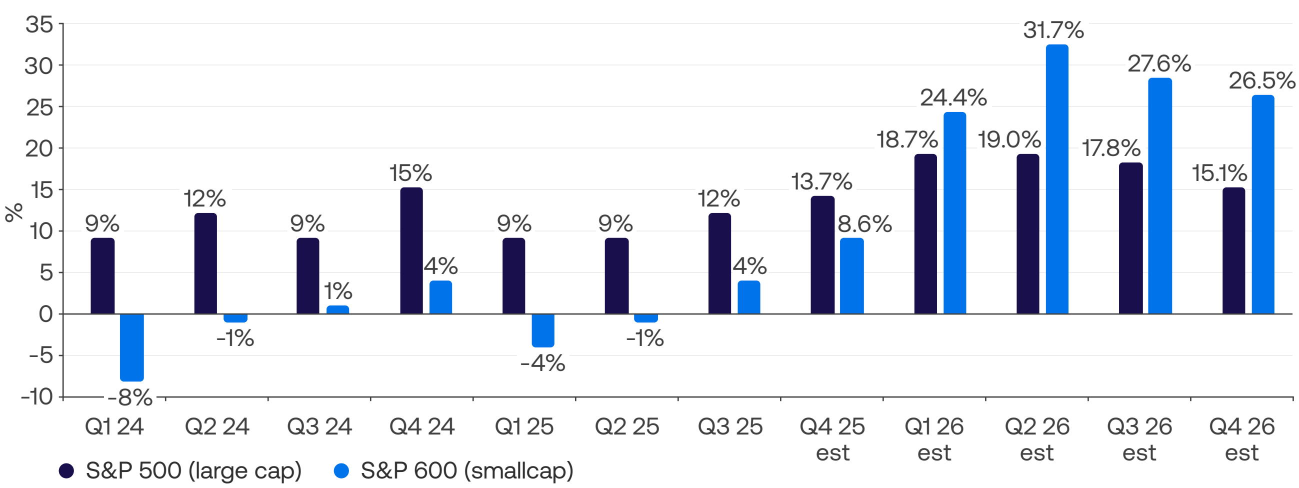
Fed in focus

The other key factor will be rates. Here, we expect the Fed to focus more on the full employment side of its mandate rather than inflation.
Fed independence was a major talking point for most of last year. In 2026, change will likely come to pass. Former Fed Governor, Kevin Warsh or Director of the National Economic Council, Kevin Hasset are currently favoured to take the mantle – the latter a particularly strong advocate for lower rates. If Trump can successfully oust current Governor Lisa Cook, we are likely to see a 7-person Board of Governors that consists of 5 Trump appointees.

Household debt as a percentage of disposable income is currently low and if borrowing rates can be reduced – as Trump has repeatedly called for – there is an opportunity, pending labour dynamics, for households to re-lever and the economy to reflate. This lower rate environment could also prove beneficial for small caps where EPS growth is expected to lift in 2026 and interest expense as a share of total debt sits at roughly 7% for the Russell 2000, versus 4 percent for the S&P 500.

Indeed, earnings growth is expected to converge between the Magnificent 7 and the remainder of the index in H2 and similarly small cap earnings growth is expected to surge past large caps.

Figure 18: Small cap EPS growth expected to accelerate past large caps this year



Source: Strategas, Bloomberg, Consensus Estimates, Data as of 8 December 2025

Contrarian call

As such, implications are clear – there is obvious room for market leadership to rotate. Consumer sectors could recover from their 2025 underperformance, and small caps – burdened by high interest expense – stand to benefit disproportionately from lower rates.

But in many respects this call is almost consensus. While we see scope for this trade to eventuate it is worthwhile remembering we have been here before. Indeed, this story is not dissimilar to the start of last year when many expected the rally to broaden following sustained outperformance from mega-cap tech. However, those same forecasters also failed to foresee the scale of AI-related capex that dominated 2025.

While there will be a fiscal tailwind at the start of the year, we are not convinced a rotation will be sustained once this support tapers and the initial sugar-high from tax refunds dissipates. After-all, refunds are not considered permanent income by households like higher after-tax income and not everyone stands to receive them. Moreover, the US is displaying characteristics of a K-shaped economy – low-to-middle income households are restraining spending, while strength in consumer spending growth is increasingly concentrated among the wealthiest households.

As noted in the opening stanza of this document, the AI-capex cycle may still be in its infancy and those companies that currently dominate the index are structurally very different to those during the dotcom bubble.

Indeed, we currently see more room for non-US stocks to advance as the pivot toward expansionary policies outside the US – particularly in countries like Germany and Japan – has been more abrupt.

For now, we hold greater conviction across mega-cap US equities and non-US assets in 2026 but recognise there may be opportunity to tactically trade this segment of the market in the year ahead.

Private Markets

Building resilience using a conventional approach to unconventional assets.

As the investment landscape evolves, private markets are moving from the margins to the centre of private wealth portfolio construction. They are no longer an 'alternatives' sidebar; increasingly, they represent a core allocation choice – not because they are fashionable, but because the opportunity set has broadened, the financing ecosystem has deepened, and more of the value-creation journey is occurring away from public markets.

Looking into 2026, the focus is less on macro calls and more on a handful of structural trends that shape how private markets can be used in portfolio design:

- an AI-led capital-expenditure cycle spilling into private infrastructure, enabling services and supply chains beyond listed mega-caps
- a gradual thaw in liquidity that remains uneven but is supportive of capital recycling and redeployment; and
- a credit environment where income has returned, but outcomes are likely to be shaped by underwriting discipline, structure, and manager selectivity.

At the same time, access is widening. Technology, evolving regulation, and evergreen or semi-liquid fund structures are making private assets more practical for high-net-worth investors – while still demanding clear-eyed engagement with complexity, transparency, and realistic liquidity expectations.

The shift to private markets: from 'alternative' to 'allocation'

The numbers tell a compelling story. Over the past 25 years, the investable universe has materially changed. The number of listed US companies has roughly halved, while according to Morningstar, global private market assets have expanded beyond US$15 trillion. Companies are staying private for longer, accessing deep pools of private capital to fund growth, innovation, and expansion outside the public eye.

The implication for investors is structural rather than cyclical. A rising share of economic value is now created before companies even reach public markets – if they list at all. Portfolios anchored solely to public equities risk capturing only the later, more mature phase of the growth cycle, while missing much of the compounding that occurs earlier in private ownership.

Public market concentration has weakened 'headline' diversification

At the same time, public markets have become more concentrated. The top 10 US stocks now account for almost 40% of the S&P 500 market capitalisation – more than twice the level only a decade ago.

This concentration matters. It raises portfolio fragility and reduces the diversification benefits investors historically expected from equity benchmarks. In this context, private markets are no longer simply a return enhancer – they play a growing role as a diversifying allocation, offering exposure to different sectors, capital structures, and return drivers that sit outside increasingly top-heavy public indices.

Private equity activity reflects where capital is being deployed

Deal activity reinforces this shift. According to KPMG, by the end of Q3 2025, global private equity deal volume had reached approximately US$1.5 trillion, putting the year on track for a four-year high. Since 2022, take-private transactions have outpaced IPOs by roughly 3.5 times, underscoring the relative attractiveness of private ownership versus public listing.

Sectorally, capital continues to flow toward long-duration structural themes. Technology, media, and telecommunications (TMT) attracted the largest share of private equity investment globally in the first three quarters of 2025 (approximately US$469 billion). Infrastructure and transportation investment has also accelerated, with around US$126 billion deployed by Q3 2025 – already exceeding full-year totals recorded in both 2023 and 2024.

These patterns highlight private markets' role in financing assets and businesses that require scale, patience, and long-term capital – conditions often ill-suited to public markets.

Figure 19: Public markets are increasingly concentrated

S&P 500 – market cap of top 10 stocks as % of total index

Source: S&P Global, Bloomberg, Macrobond, ANZ CIO

AI: an infrastructure build-out hiding in plain sight

Artificial intelligence is often framed as a software or productivity story, but its economic footprint is far broader. The AI cycle is increasingly an infrastructure build-out, with hyperscalers collectively deploying capital expenditures measured in the hundreds of billions of dollars each year. According to Morningstar, combined 2026 capex is estimated at approximately US$450 billion, more than four times the projected spend of the entire S&P 500 energy sector.

Most investors already have meaningful exposure to AI through public equities. The incremental opportunity in private markets lies elsewhere – in the second-order effects. These include data centres, power generation, cooling systems, connectivity, and specialised service providers: the 'picks and shovels' that enable AI adoption but sit behind the listed winners.

This is also a classic capital-cycle setup. Adoption is still early, monetisation pathways remain uncertain, and execution risk is real. Not all capital will earn excess returns. This places a premium on manager selection, sector expertise, and disciplined underwriting. In private markets, the AI opportunity is less about chasing momentum and more about accessing critical infrastructure and enablers with durable cash-flow characteristics and strong downside protection.

Credit is not new – discipline is

Private credit may feel new, but credit itself is not. Since the GFC, non-bank lending has expanded steadily to fill the gap left by bank retrenchment, spanning direct lending, asset-based finance, specialty, and opportunistic credit. What has changed is scale. Capital has crowded into the asset class; spreads are tight and return dispersion has widened – leaving little room for error.

As public and private credit markets converge, the distinction between them has blurred, attracting managers without the sourcing depth, workout experience, or cycle-tested discipline required for late-cycle credit. Few teams have managed capital through a full credit cycle.

In this environment, outcomes hinge less on 'private' versus 'public' labels and more on manager skill, access, and portfolio construction. Similarly, astute investors may benefit from targeting less crowded areas where complexity is still being rewarded. As such, diversification across borrowers, sectors, structures, and vintages – supported by scale and disciplined risk management – is critical.

The thawing of liquidity – and why structure still matters

A gradual reopening of capital markets means exit channels are improving but remain uneven. Global IPO activity picked up in 2024–25 from post-2022 lows, while private-market secondaries reached record volumes – improving exit optionality for select assets.

However, liquidity remains the binding constraint in private markets. Distributions to paid-in capital have been under pressure, extending holding periods and driving the rise of continuation vehicles – where mature assets are transferred into new structures to defer exits rather than crystallise value at sub-optimal prices. Apparent liquidity improvements do not equate to stress-tested liquidity for investors.

Even structures marketed as 'semi-liquid' or evergreen are not true liquidity substitutes. Redemption windows are limited and frequently constrained during periods of market stress. According to Hamilton Lane, by the start of last year, evergreen private market vehicles had grown to approximately US$700 billion globally or around 5% of private markets and are projected to expand further as wealth channels adopt them. Still, structural and liquidity challenges remain.

Private markets reward patient capital. Liquidity is improving in increments, but investors must respect the realities of long-dated assets. This underscores the importance of intentional portfolio design – balancing private allocations with liquid ballast, aligning holding horizons with cash-flow needs, and understanding how liquidity is delivered (and when it may evaporate).

The private market playbook: program beats opportunism

The most common mistake in private markets is to treat them as a one-off trade. Deal flow is lumpy, valuation regimes change, and manager opportunity sets are not stable. The more robust approach is a program: paced commitments, vintage diversification, explicit liquidity budgets, and clear role definition across private equity, credit, and real assets.

Research consistently shows that investors who commit capital through diversified, multi-vintage programs achieve more predictable cash flows and better capital management outcomes. The 'secret sauce' of private market investing lies in programmatic consistency – not timing.

This also requires honesty about manager breadth. Not every GP is good at everything, and brand is not a substitute for repeatable edge. An open-architecture approach – using large, well-resourced managers where scale and risk systems matter, complemented by specialists where sourcing and structuring skill matters – is increasingly the sensible path.

Always read the label before proceeding

In private markets, rigorous operational and investment due diligence is non-negotiable. Information asymmetry, non-continuous price discovery, and structural complexity place a premium on experienced teams and governance frameworks. Unlike public markets, private investing demands deeper engagement to assess risks, incentives, and alignment.

Private markets represent a durable frontier for high-net-worth investors seeking diversification and resilient long-term outcomes. This is not about chasing returns, but about capturing a broader opportunity set as public markets shrink and concentrate.

For high-net-worth portfolios, success in private markets comes from patience, structure, and discipline – partnering with experienced advisors, committing to long-term programs, and integrating private assets thoughtfully within a total-portfolio framework.

Investment Strategy: cyclical momentum amid structural transformation

As 2026 commences, it is difficult to become too bearish on stocks. The US Federal Reserve is expected to maintain its easing bias; fiscal stimulus should be plentiful, and the Trump administration's prioritisation of deregulation and its policy agenda ahead of US mid-term elections are likely to keep the economy humming. Elsewhere, noise from tariffs is expected to fade, and expansionary policy outside the US – particularly in Europe and Japan – bodes well for market breadth.

Before charting the path forward, it is worthwhile reflecting on the starting point from which future performance may be delivered. Global share markets have been on a tear for the better part of three years. The MSCI World Index has notched three consecutive years of +20% returns, for a cumulative 80% gain over the period. That the gains came against a backdrop of global wars, trade tariffs, multiple bank crises, and the sharpest tightening cycle in decades, makes the figure both impressive and arguably perplexing.

However, we may now be entering a period where those forces that the market was previously beholden to matter less for future returns.

Still, we cannot completely ignore the implications of monetary policy and valuations for stock performance. And with valuations now extended across most markets, we cannot turn outright bullish just yet.

Rather, we expect 2026 – much like 2025 – to be a year where multi-asset investors may be handsomely rewarded for tactical positioning, provided it is done in a risk-controlled manner.

Market breadth should improve, creating room for rotation trades and relative value across regions, sectors, and styles. We start the year constructive but selective, with a mild overweight to developed market equities and conviction in exposures that aided returns last year: US mega-cap technology on delivered earnings and durable moats, alongside non-US equities where policy and valuation support appear stronger.

While AI-driven investment dominated 2025, the question for 2026 is whether this can continue, whether leadership will shift from the hyperscalers to adopters, or whether the US consumer can reclaim some of that spotlight.

Last year growth was disproportionately powered by technology capex. By contrast, consumption was muted, constrained by tariff uncertainty, a softening labour market and a hawkish Fed stance. Confidence languished, and consumer sectors underperformed relative to the mega-cap technology names that drove index gains.

This year, however, the backdrop for the broader market looks more supportive thanks to the fiscal impulse – some US$300 to US$400 billion is expected to hit consumers and businesses through a combination of tax refunds and tax cuts. Whether any broadening proves durable will hinge on the rate path and labour-market stability. We expect the Fed to lean more heavily on the full-employment side of its mandate, with 50bp of rate cuts likely to be delivered over H1.

The potential consumer counterpunch sits alongside a possible inflection point for the technology sector itself. The primary challenge as we head into 2026 is the sustainability of the capex cycle that propelled mega-cap tech higher in 2025. In 2026, we will likely need to see a shift in spending from hyperscalers to those adopters that can demonstrate tangible use cases. Questions have already surfaced about how these growing capex obligations can be financed, and with a likelihood that debt will play an increasing role, investors may be hesitant to pay the same multiples for tech moving forward. If multiples do expand from here, softer rates rather than accelerating growth are likely to be the cause.

Still, the fundamental outlook for tech remains strong. Earnings growth is expected to exceed the overall S&P 500 for at least the next four quarters, with technology expected to contribute nearly 50% of total index earnings growth this year. But that strength sets a high bar: expectations are already priced in, and any shortfall could trigger disappointment.

Our base case is that any consumer-led broadening proves temporary. Mid-term election dynamics add a further layer to the case for tactical positioning: historically, the S&P 500 experiences deeper intra-year drawdowns during mid-term years (average 19% decline vs. 12% fall outside). However, this also provides opportunity – since 1938 the S&P 500 has not declined over the 12 months following a mid-term election.

Meanwhile, the case for broadening outside the US is more compelling both tactically and structurally. We favour regions where policy tailwinds, improving earnings quality, and valuation support are strongest.

Europe is quietly entering an expansion phase and valuations remain attractive. Germany's suspension of the debt brake unlocks fiscal capacity for defence and infrastructure, improving medium-term investment visibility and supporting sectors including banks and industrials. Similarly, despite strong gains, Japanese equities appear to remain attractive due to robust cash generation and structural governance reform, alongside supportive policy settings under its new leadership.

Closer to home, Australia's setup is more constrained. The macro backdrop is stable – GDP momentum has lifted, housing is firm, and business investment is strong. Yet equity valuations are elevated, earnings growth weak, and the RBA's expected extended hold is likely to keep conditions tighter relative to peers. Accordingly, we start the year underweight Australian equities.

Beyond equities, we see a structurally favourable outlook for listed infrastructure owing to secular demand and policy tailwinds. Global REITs, by contrast, face a tricky policy setup.

Gold remains an overweight in portfolios: we see further upside this year given fiscal expansion, monetary easing, and a softer USD. Despite an easing in trade tensions, elevated geopolitical risk, central bank buying, and sticky inflation provide a strong base even after its powerful rally.

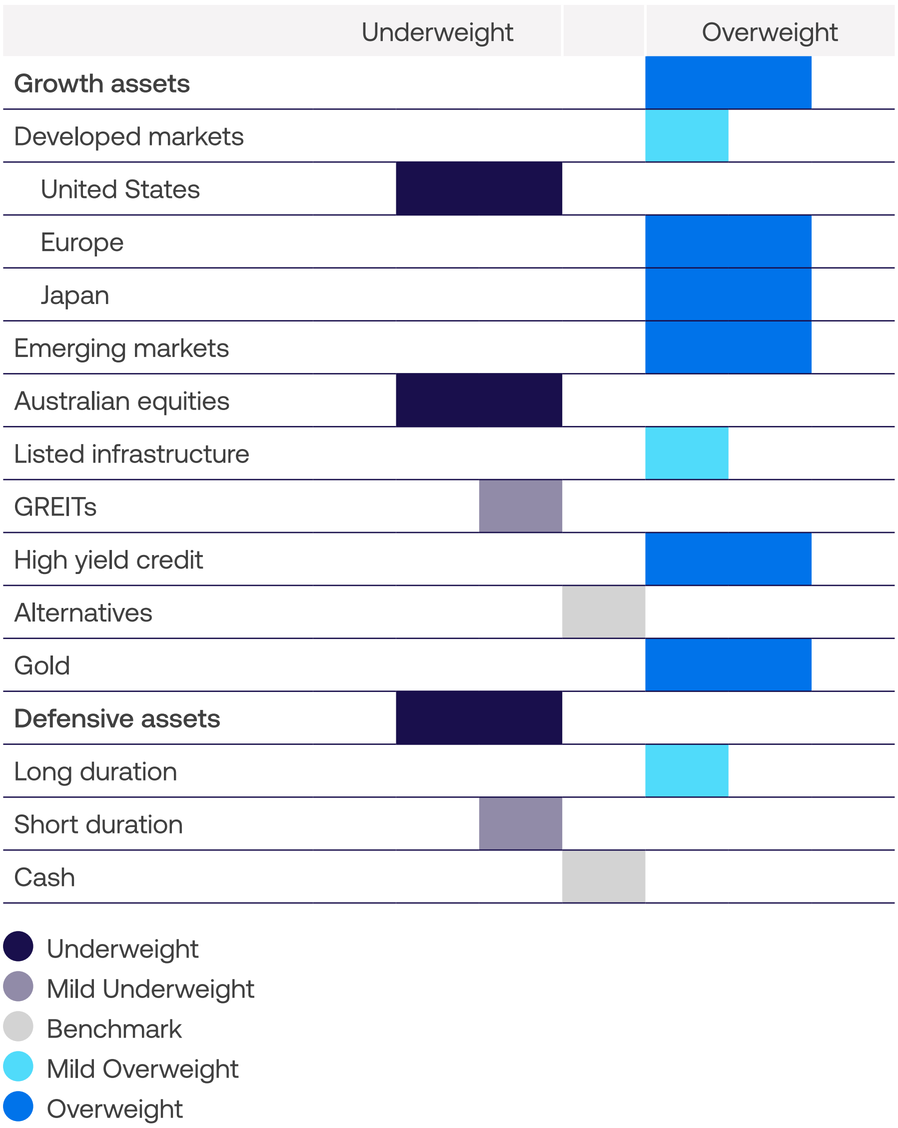
Across fixed income, we position overweight to high yield. Despite tight spreads, total yields are attractive and remain supported by solid fundamentals – issuer balance sheets are healthy, market access is robust, and defaults are expected to remain below long-term averages.

On the defensive side, duration was an integral part of portfolios last year, providing an important hedge as equity risk was gradually increased across the year. In 2026, its role will be equally as important, providing confidence to trade tactically and increase growth exposures in a risk-considered manner.

This year, we expect the Australian curve to flatten, with long-end yields declining as growth risks build and front-end yields remain anchored by the RBA's hawkish tone and repriced hike expectations. Short duration bonds and cash offer limited price upside and currently serve as funding sources for higher-conviction growth exposures.

2025 was dominated by the AI capex story. Yet global market returns were not confined to this segment. Rather investors were rewarded for looking beyond the traditional drivers of portfolio returns and embracing diversification across regions and sectors. In 2026, we believe investors with a core portfolio, positioned to benefit from secular themes, but with the flexibility to navigate cyclical turns will be best placed to outperform.

Figure 20: Current asset class preferences



ANZ CIO, as at 1 January 2026

Australian equities

Our current preference is to be **underweight** Australian equities.

The Australian economy is expected to continue a modest recovery in 2026, supported by solid consumer spending, business investment, public demand and improving global conditions.

However, the hawkish stance of the Reserve Bank of Australia (RBA) and stretched valuations against weak earnings growth, pose challenges for the domestic equity market this year.

Australia's domestic backdrop remains stable so far. Specifically, real GDP in Q2 rebounded 0.6% q/q, and y/y rose to 1.8%, the fastest since Q3 2023. Housing prices are expected to continue the rising trend in 2026 and business investment is likely to remain solid on the back of the Brisbane Olympics build-out, defence-related infrastructure, data centre construction, mining maintenance spending and the energy transition. Household spending remains resilient supported by robust real income growth from tax cuts and strong household balance sheets.

Nevertheless, we expect Australian equities to underperform global markets in 2026, as a prolonged RBA hold and elevated valuations weigh on returns. Recent inflation data supports our view of an extended RBA pause. The RBA Governor noted at the November meeting that while the economic outlook was "balanced", the Board was "cautious" and thought that policy was "in the right spot".

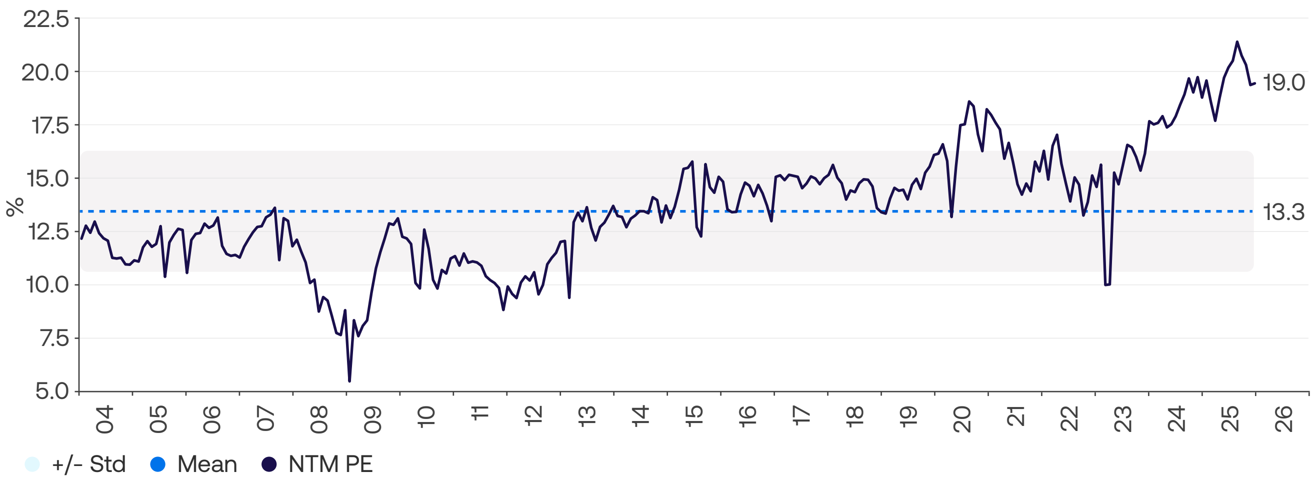
The extended hold after the 75bps rate cut in 2025 could make financial conditions in Australia less accommodative compared to the rest of the world. This puts further pressure on the already elevated equity valuations that have been inflated by the cyclical recovery and flows from offshore and superannuation funds.

The valuation looks even more fragile versus other equity markets when we plot the forward PE ratio against forward 12-month EPS growth. Any earnings disappointment or negative forward guidance adjustments could lead to underperformance.

On the other hand, a resilient and improving domestic economy could lead to modest positive earnings growth on a y/y basis. Furthermore, we have recently started to see early signs of economic growth acceleration in several leading indicators, including the DeepMacro Growth Indicator, Melbourne Institute Leading Index and Citi Economic Surprise Index. Still, we need to see further evidence of an acceleration in earnings to justify the elevated valuations and reduce our underweight in Australian equities.

Figure 21: The Australian market is not cheap relative to history

ASX NTM PE



Source: FactSet, Bloomberg, Macrobond, ANZ CIO

Developed market equities

Our current preference is to position with a **mild overweight** to developed market equities.

While the transformative impact of AI continues to be a defining force, the contours of equity market leadership are shifting. In 2026, we believe there is scope for further broadening of market performance and for the spectrum of opportunities to widen – both within AI-related sectors and across a diverse range of industries and regions.

In the US, we have entered a period of 'existential AI investment' – a phase in which major technology companies, or hyperscalers, must invest heavily to safeguard their long-term value. While leading AI firms should continue to perform strongly, 2026 will likely need to provide further evidence of real-world application for technology stocks to retain leadership. Indeed, in 2026 there is scope for the leadership baton to be passed from hyperscalers to adopters that can demonstrate tangible use cases.

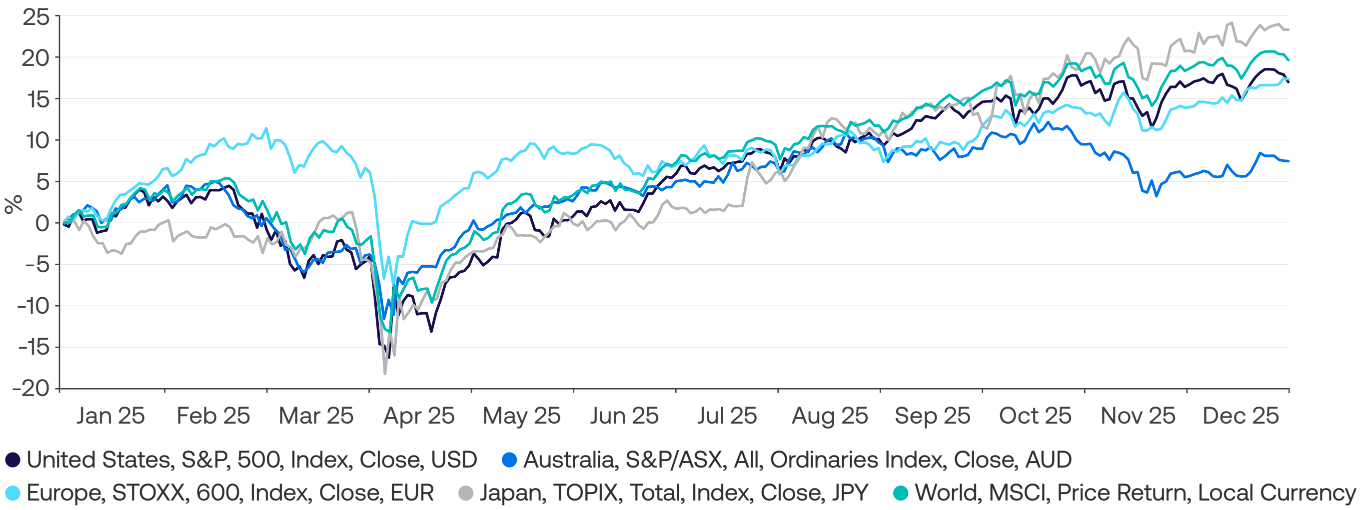
Elevated valuations and upside risk to interest rates present the biggest risks to AI-related stocks. Concurrently, there is the potential for greater market breadth beyond AI. The enactment of the One Big Beautiful Bill Act (OBBBA) is expected to add upwards of US$300 billion in stimulus in 2026. This fiscal thrust should provide a front-loaded boost to consumers, industrials, materials, and energy sectors. Elsewhere, deregulation under the Trump administration and rising mergers and acquisitions activity have been lifting US banks' returns on equity.

Outside the US, Europe is quietly entering a new expansion phase. The suspension of Germany's debt brake allows fiscal flexibility for defence and infrastructure, which is expected to bring significant GDP growth over the next decade. European banks are already benefiting from higher rates and capital returns as economic activity picks up and bank regulations peak. European industrial and automation franchises appear to be particularly well positioned to participate in the buildout of 'physical AI' such as robots, autonomous systems, and drones.

Japan meanwhile stands out for attractive valuations, robust cash flows and structural improvements in corporate governance. Both trade policy and political uncertainty have decreased lately, leading to a fragile but improving economic outlook. Moreover, Takaichi-san, the newly elected Prime Minister in Japan, is expected to put forward accommodative monetary and fiscal policies to extend the cyclical growth in Japan.

Across developed market equities we position with overweights to Japan, Europe and US mega-cap technology stocks. We position underweight to the broader US market but acknowledge there is room for the rally to broaden and expect to trade tactically throughout 2026.

Figure 22: Regional market performance



Source: S&P Global, STOXX, Tokyo Stock Exchange, SSE, MSCI, Bloomberg, Macrobond, ANZ CIO

Emerging market equities

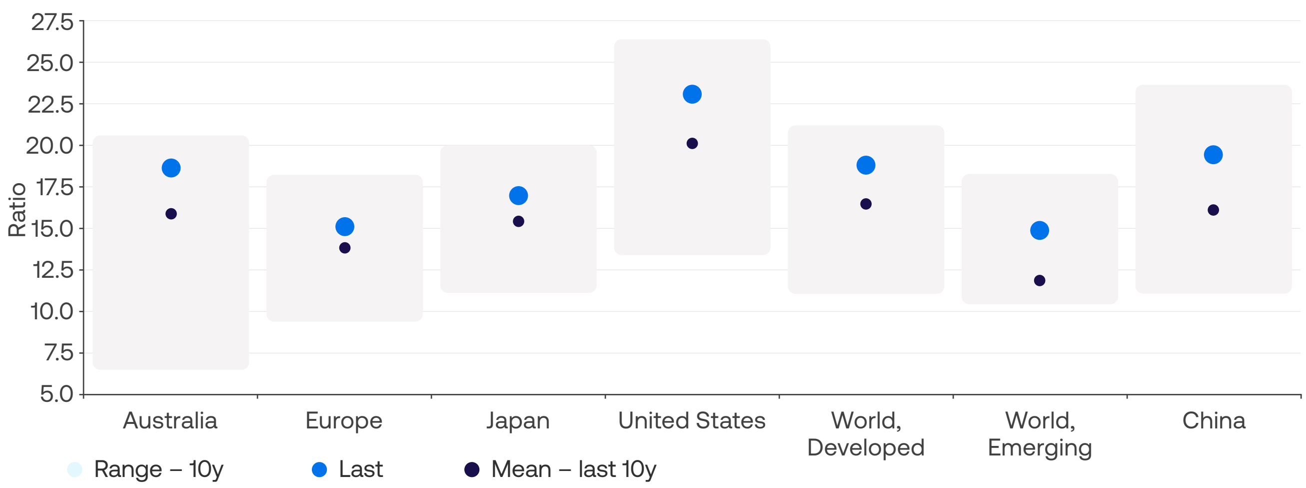
Our current preference is to be **overweight** emerging markets equities.

Emerging markets equities have benefited recently from the shifting of capital out of the US, easing trade tensions, rising fiscal stimulus, a weaker US dollar and more attractive valuations.

As the largest component of the MSCI EM Index, China remains a tactical opportunity. In 2025, China became one of the best-performing equity markets on the back of AI expectations, export frontloading, government domestic consumption support, private sector deregulation and corporate earnings improvements.
The Chinese government's continued focus on technological innovation, consumption stimulus, and anti-involution should provide support to the economy. However, structural headwinds including the struggling property market, deflation, reduced valuation re-rating upside, and geopolitical uncertainty suggest that selectivity remains key.

The outlook for emerging markets ex-China also looks broadly positive. Increased global supply chain diversification amid ongoing trade tensions benefits Latin America and ASEAN countries. Macro tailwinds, such as the corporate governance reform in South Korea, recovering credit growth and GST cuts in India, as well as the presidential election in Brazil, could improve the growth trajectory of these key markets. Commodity exporters in the Middle East and Latin America may gain if global growth is sustainable. Valuations are generally less stretched than in developed markets, which could attract further incremental capital if the sector rotation broadens market leadership.

Figure 23: Global valuations



Source: FactSet, Bloomberg, Macrobond, ANZ CIO

Listed real assets – GREITs & Infrastructure

Our current preference is to be **at benchmark** to listed real assets.

From an asset allocation perspective, we favour listed infrastructure given its potential to benefit from AI-related power demand and ongoing fiscal stimulus programs in the US, Japan and Europe. Conversely, we remain cautious on global real estate investment trusts (GREITs) as it still faces a tricky policy set-up and an elevated yield environment. Nevertheless, both infrastructure and property offer defensive characteristics that are valuable should the market shift into a risk-off regime.

Listed infrastructure broadly tracked global equities last year, and we see scope for outperformance in the year-ahead. Within the sub-sectors, utilities' performance has been driven by double digit-earnings growth, leaving valuations compelling on a relative basis. Utilities are integral to energy-hungry AI growth and should benefit from sustained AI CAPEX investments.

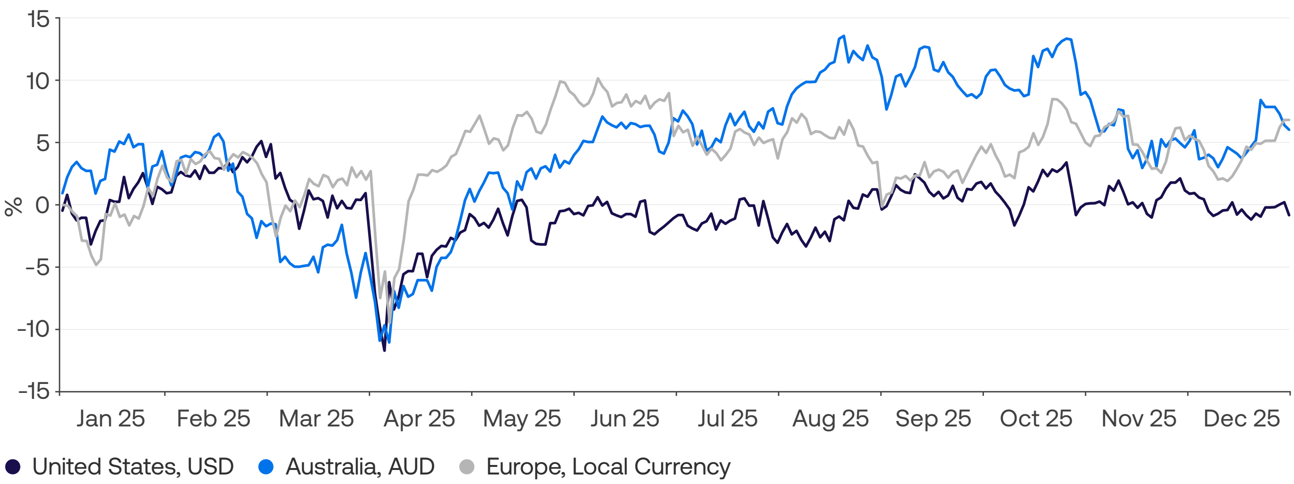
Energy infrastructure has lagged alongside lower oil prices. However, since its earnings are more volume-driven and typically less sensitive to oil price movements, there is room for the sector to catch up. Additionally, fiscal stimulus in the US and Germany, which is expected to take effect in 2026, could provide more tailwinds to infrastructure.

GREITs experienced modest returns last year despite abating global interest rates. US REITs, roughly 70% of the global index, were the main performance drag. Key headwinds include the potential for fewer Fed rate cuts, a limited yield pick-up vs. Treasuries and investment-grade bonds, and weaker corporate earnings growth versus the S&P 500 index. Nevertheless, should the Fed accelerate rate cuts in response to a negative growth shock, global property could benefit as a rate-sensitive, defensive sector.

We position with a mild overweight to listed infrastructure and mild underweight to GREITs.

Figure 24: Investors may need to be selective again in 2025

GREITs Indices



Source: FTSE Russell, Bloomberg, Macrobond, ANZ CIO

High Yield

Our current preference is to be **overweight** high yield.

While credit spreads near-record narrow levels received much of the attention in 2025, we think there will still be credit market opportunities in 2026. However, elevated valuations will make strong credit selection essential.

Despite the tight spreads, high yield bonds and bank loans are on track to provide total yields that remain attractive versus long-term equity returns.

From a credit quality perspective, we don't see many particularly concerning trends in fundamentals – issuer balance sheets are still solid, capital markets access remains robust, and we anticipate that default rates will stay below long-term averages.

The credit quality of high yield indices has changed over the past 10 years, and BB rated bonds now represent more than 50% of those indices. Moreover, US fiscal stimulus is just beginning to spread through the economy, with the bulk of the impact likely to reach issuers in the first half of 2026. Additionally, merger and acquisition activity has also accelerated as the US administration has eased regulatory scrutiny of deals, which is generally supportive of high yield bonds and loans.

Despite the supportive backdrop, there have been some 'later cycle' credit behaviours that heighten the value of disciplined credit selection.

Figure 25: Global High Yield – Option Adjusted Spread to Treasury

Source: St.Louis FRED, ANZ CIO

Gold

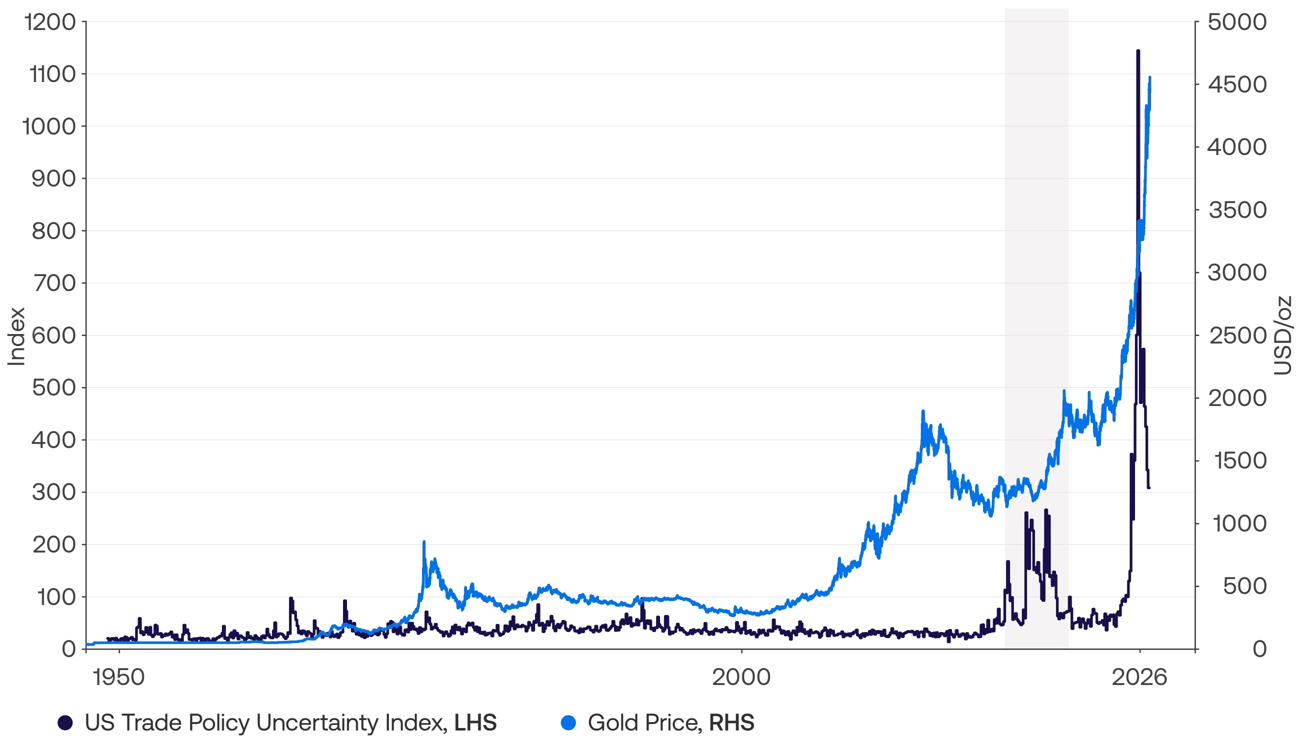
Our current preference is to be **overweight** gold.

Gold has enjoyed an enduring appeal as a store of value, and a hedge against currency debasement and uncertainty. In recent years, mounting government deficits, persistent inflationary pressures, and escalating geopolitical tensions have helped spur gold demand, pushing prices to record highs. With global markets confronting an array of risks, we believe the rally in gold prices has not come to an end.

Following Russia's invasion of Ukraine, the seizure of Russia's foreign exchange assets and the restriction of its access to the dollar-based financial system led some central banks to reduce dependency on developed market sovereign assets. While gold's share of central bank reserves has quickly climbed to 20%, making it the world's second largest reserve asset, it's still notably behind the US dollar, which accounts for 46% of central bank reserves. With geopolitical tension likely to remain an enduring force, this shift in structural demand is unlikely to reverse soon, providing a potential tailwind for gold prices amid limited new supply.

In various empirical studies, gold has proven to provide downside mitigation from inflation shocks, as it famously did in the 1970s and in the aftermath of the pandemic. Looking ahead, US fiscal policy remains expansionary, Japan is experiencing wage pressures after decades of deflation and Europe is boosting both defence and infrastructure spending. These developments, alongside a move toward deglobalisation, supply chain reshoring, and challenging demographics suggest inflation is likely to be upward sloping over the long-term.

Figure 26: Gold surged alongside US trade uncertainty in early 2025



Source: Matteo Iacoviello, Macrobond, ANZ CIO

Duration

Our current preference is to be **mildly overweight** to duration.

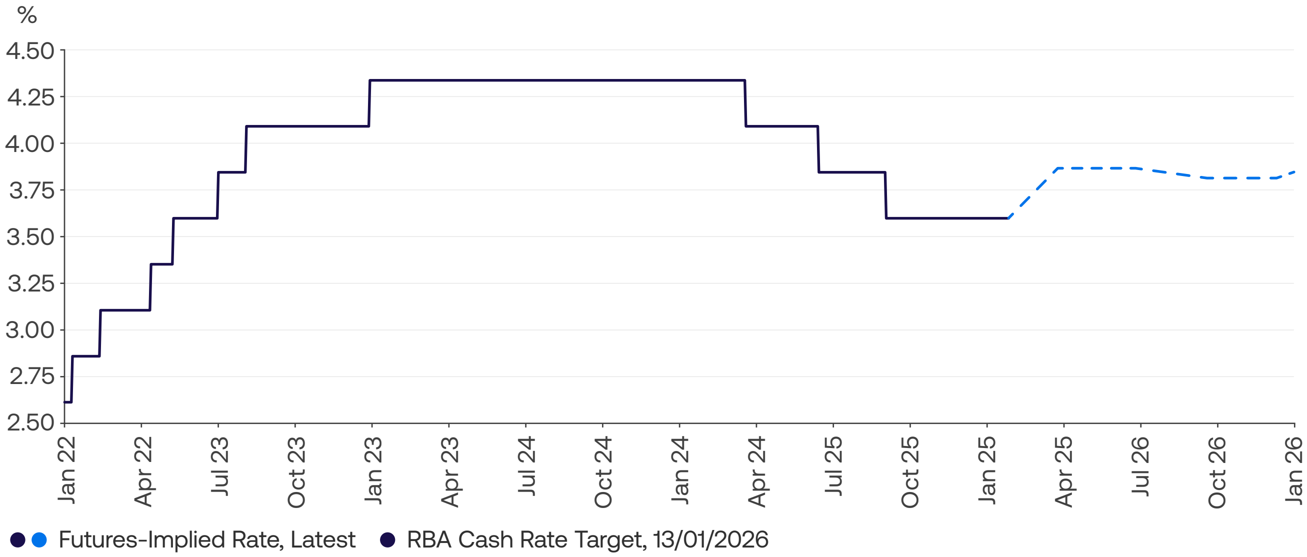
Our base case is for a flattening of the Australian government bond curve in 2026, with long-end yields declining while the front end remains largely unchanged. The upside surprise to recent inflation data is likely to keep the RBA on hold and the front end of the curve elevated for an extended period. Indeed, markets have sharply repriced the front end, with hikes now priced in over the year ahead. As such, we expect short-dated yields to remain elevated, if not moving higher, and will monitor upcoming inflation prints closely.

While most updated data point to a rebound in economic activity, we are waiting for more data to validate the re-acceleration narrative.

Moreover, inflation data and the RBA's hawkish tone implies higher funding costs for businesses and households. If negative surprises start to show in hard data, long-end yields may decline as the growth outlook deteriorates.

Therefore, we maintain an overweight position in Australian long duration as a hedge against a negative growth shock and position underweight short duration. At current yields, long duration provides strong carry to portfolios and provides greater comfort increasing risk elsewhere in portfolios. Taking a whole-of-portfolio approach, if we are wrong on the duration call (i.e., growth proves more robust than expected), then we should be more than adequately compensated on the equity side – and vice versa.

Figure 27: Markets have moved to price a higher cash rate in 2026



Source: RBA, ASX, Macrobond, ANZ CIO

Australian Dollar

Our current preference is to be **benchmark** the Australian dollar (AUD).

We expect the AUD to appreciate gradually in 2026, with ANZ Research forecasting the AUD/USD at 0.69 by year-end. These expectations are driven by a weaker USD and some support from risk sentiment. A hawkish RBA in future meetings may also help.

In 2025, the pair traded mostly within a narrow range of 0.64 to 0.66, following volatility around the April tariff announcements. We expect the AUD/USD to move within a higher but narrower range in the year ahead, noting that FX volatility has eased in this cycle.

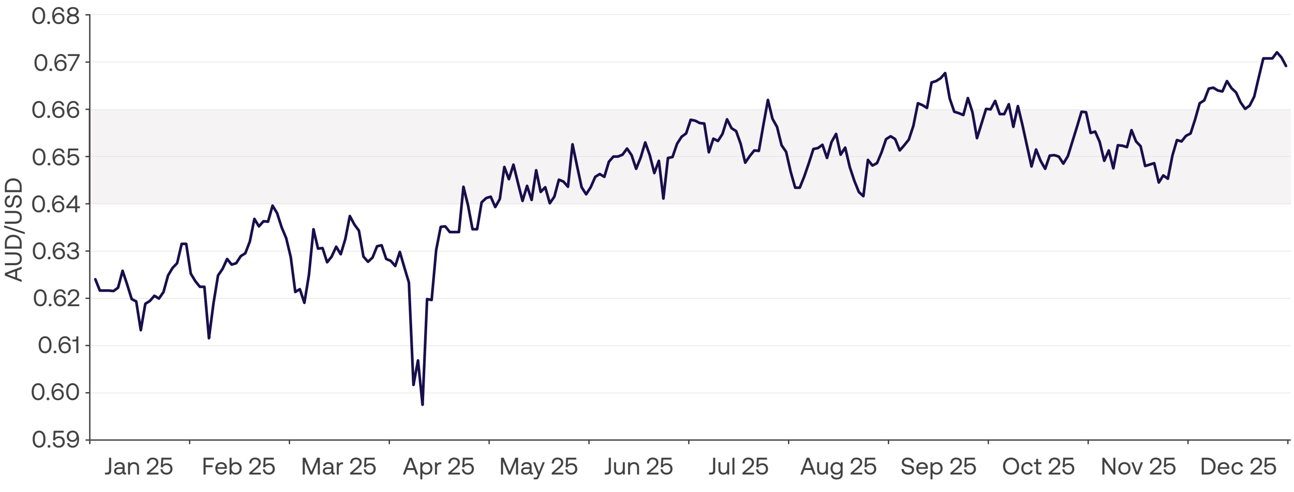
The main driver for AUD/USD will be broader USD trends and global risk sentiment. Fed rate cuts are expected to support cyclical currencies, including the AUD, although the AUD's sensitivity to risk assets is now much lower than in previous years.

We expect the cash rate to remain on hold for an extended period. However, Q3 national accounts and recent inflation data suggest there are upside risks to a rate hike in the first half of 2026. Market expectations are also reflecting at least a full rate hike in 2026 which should at the margin support the AUD against the USD and other economies that maintain an easing bias.

China also remains a key factor for the AUD. Although the correlation between the AUD and Chinese economic developments have weakened, a sustained improvement in China's Producer Price Index (PPI) could provide some upside for the currency.

Looking further ahead, there are structural questions surrounding the USD including fiscal rectitude, global trading imbalances and a complex mix of geopolitical events. For investors that may mean a need to reconsider strategic hedge ratios.

Figure 28: Despite significant swings, the AUD traded in a narrow range through most of 2025



Source: RBA, Macrobond, ANZ CIO

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