

## 2026 Outlook

Targeting resilient opportunities from economic transformation



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# Introduction

Irreversible transformations are incrementally reshaping the global economy in a more sustainable mould.

The emergence of new technologies, evolving consumer demand and policy changes are combining to fuel a period of intense creative disruption. No sector or company is immune.

More resilient business models will be those that can capture the vast opportunities arising from these transformations. Companies that fail to anticipate or adapt to rising risks – which range from new technologies to the impacts of climate change – look set to be stranded by the economic tide.

## Our perspective on economic transformation

As investors focused on understanding the transition to a more sustainable economy, we place great emphasis on interpreting the structural trends driving it. This includes in-depth analysis of evolving sustainability-related risks and opportunities facing companies and investors.

We believe that asset owner interest in research into sustainability-related opportunities and tackling systemic risks – large-scale challenges that threaten market stability and portfolio resilience – will continue to rise. In 2026, themes including climate adaptation solutions, nature-related risks and dependencies, corporate culture and the governance of artificial intelligence (AI) will come into closer focus, and increasingly shape investment outcomes.

We continue to track four overarching drivers of real-economy change: technological innovation, evolving consumer preferences, societal changes, and policy and regulation. Indicators of progress range from the rapidly declining costs of clean technologies, like battery storage systems, to more accurate pricing of climate-related disaster risks by insurers.



## Our focus on resilience

As we enter 2026, our investment teams are focused on identifying companies and issuers that demonstrate resilience as these transformations continue – and in the current market context.

At a moment when investor optimism – not least about unproven business models focused on AI – has detached some asset valuations from reality, we think it is as important as ever to focus on corporate fundamentals.

2026 is no doomsday scenario: several factors look supportive of risk assets, including global equities. Expansionary fiscal policy and falling interest rates – not least in the US – combined with relatively benign macroeconomic conditions, should provide a constructive backdrop for both equities and credit.

Despite this, we do not expect 2026 to be a year when all owners of risk assets prevail as winners.

Within equities, we anticipate those companies whose potential has been overlooked in the past few years – as reflected in their relative valuations – could thrive in an environment of economic growth and rising mergers and acquisitions (M&A) activity. We believe technological leaders that dominate expanding niches in the global economy should weather any period of short-term market volatility.

Within fixed income, we believe that tight spreads make rigorous credit selection critical. Investors should be cautious in the current context about low quality credits and taking on too much duration. Yet relative valuation opportunities exist in abundance, not least within securitised products, at a time when corporate bond yields remain relatively elevated.

## Our unwavering conviction

We firmly believe that the opportunities and risks arising from the transition to a more sustainable economy are not well understood and so are widely mispriced by the market. Capitalising on these disconnects is a key component of our pursuit of long-term, risk-adjusted returns. We believe the integration of fundamental and sustainability research creates a more holistic view for investors, driving better decisions and outcomes over the long term.

2026 may or may not prove the year when investors regain their focus on the long-term financial implications of challenges facing global society. We see several reasons why it should be, though, and so are focused on targeting resilient opportunities from economic transformation.

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# Macroeconomic perspective



## Fiscal expansion, easing monetary policy and a relatively stable macroeconomic environment should underpin economic growth and risk assets into 2026. Significant risks lurk in the background, however.

Since 2026 may or may not be the year that cracks in the global economy open up into deep crevasses, we approach markets with cautious optimism and a focus on resilience.

In the near term, we are encouraged by the efforts of many major governments, including the US (see below), to reflate their economies. China, the world's second largest economy, is running a record fiscal deficit of around 4% of GDP in its pursuit of accelerated economic growth.<sup>1</sup> The new Japanese government, meanwhile, approved a US\$135bn stimulus this November.<sup>2</sup> More government spending should, of course, support short-term economic growth and corporate activity.

However, sustained fiscal deficits raise structural concerns for bond markets and, by extension, equities (see page 6). We are also mindful of imbalances within the global economy, not least in the US.

### US economy: a fragile strength

Having held up well in 2025, digesting inflationary pressures from elevated import tariffs, the world's largest economy is broadly expected to sustain growth of around 2% in 2026.<sup>3</sup>

Both monetary and fiscal policy are supportive. The Federal Reserve (Fed) is expected to deliver two or three additional interest rate cuts in 2026, encouraging household and corporate borrowing and dampening the cost of debt.

US fiscal policy meanwhile remains expansionary – the federal deficit remains close to 6% of GDP – with the potential for further stimulus ahead of midterm elections in late 2026.<sup>4</sup> President Trump has mooted the idea of US\$2,000 'tariff rebate' cheques to taxpayers, for example.

An additional, unconventional boost for the US economy could follow a Supreme Court ruling on the legality of tariffs imposed under the International Emergency Economic Powers Act since April 2025. Should they be invalidated, and the US government forced to repay tariffs, it would support aggregate demand within the US economy at-large.

A key component of the US economy's resilience in 2025 has been investment connected with the AI build-out. 'Hyperscale' data centre operators were expected to invest US\$342bn in capital expenditure (capex) in 2025, up 62% year-on-year. Based on estimates by JP Morgan, AI-related capital expenditures contributed 1.1 percentage points of US GDP growth in the first half of 2025 – more than consumer spending.<sup>5</sup>

Overreliance on this single driver of growth is our first concern for the US economy in 2026, should heroic levels of AI-related investment not be sustained. The recent shift in AI build-out financing, from balance sheets to debt, is significant: the 'hyperscalers' have issued more than US\$100bn in bonds in 2025, up from US\$20bn in 2024.<sup>6</sup> While not an immediate concern, it brings into sharper focus questions around the financial sustainability of the AI-related investment cycle.

Our second concern relates to the softening US labour market and the state of middle and low-income consumers. The latest US employment data disappointed investors and unemployment has crept up to a four-year high.<sup>7</sup> Meanwhile, real income growth is at near-decade lows and car loan delinquencies have surged – a sign of rising financial distress, particularly among low-income households.<sup>8,9</sup>

1 Reuters, 3 December 2025: China likely to chase 5% GDP growth in bid to end deflation

2 Lewis, L., 21 November 2025: Sanae Takaichi unveils \$135bn stimulus to spur Japan growth. *Financial Times*

3 Schneider, H., 24 November 2025: Economists see slightly faster US growth, sticky inflation in 2026. *Reuters*

4 Federal Reserve Bank of St. Louis, November 2025

5 JP Morgan, September 2025: Is AI already driving U.S. growth?

6 Bloomberg Intelligence, November 2025. The 'hyperscalers' are Alphabet, Amazon, Meta, Microsoft and Oracle. Note that Microsoft was not a net issuer of debt in 2025.

7 Reuters, 5 September 2025: US unemployment rate near 4-year high as labor market hits stall speed

8 JP Morgan, October 2025: Real income growth shifts down, especially for the young

9 Reuters, 12 November 2025: Record number of subprime borrowers miss car loan payments, October data shows



## Does a fiscal reckoning await?

2026 may not be the year but, at some point eventually, markets will hold major developed market governments to account unless their sustained fiscal deficits and growing national debts are addressed.

Fiscal trajectories are clearly unsustainable in the context of resource constraints, ageing populations (and so declining tax bases) and the high costs of servicing accumulated debts in the post-zero interest rate era.

The UK government, for instance, hasn't balanced its budget in 25 years; the French government has failed to do so in 50 years.<sup>10</sup> The two run deficits of around 5% of GDP and pay interest on national debts worth approximately 100% of respective GDPs. Neither is exceptional in this regard among high-income countries. At the extreme, Japan's government debts exceed 200% of national GDP.

Yields on all three countries' longer-dated bonds have crept up in 2025, indicating that investors'

tolerance of fiscal indiscipline is potentially waning.<sup>11</sup> The yield on Japanese 10-year bonds was 0.8 percentage points higher at the start of December than when 2025 commenced.<sup>12</sup>

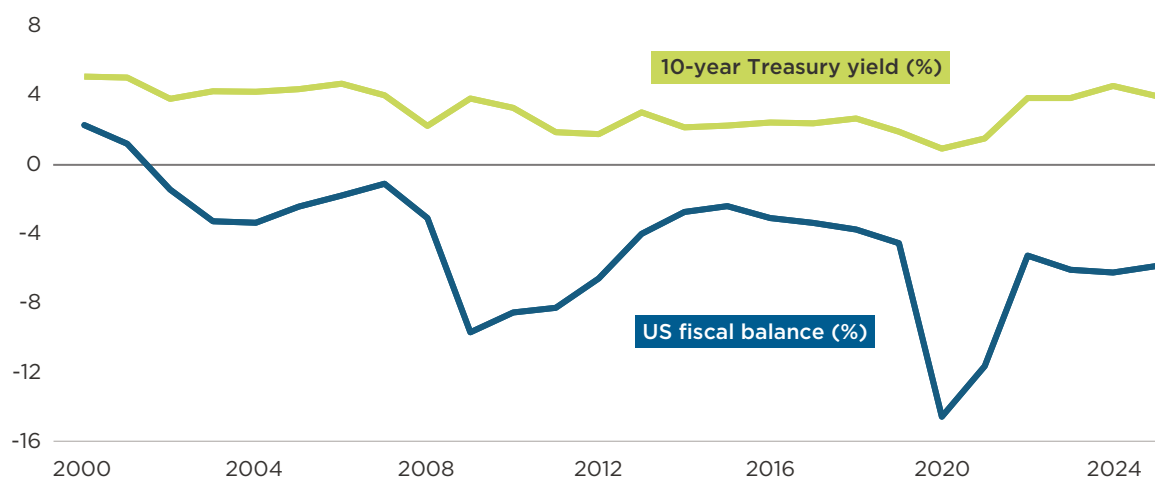
In this context, it is perhaps surprising that US government bond yields have fallen in 2025, despite a large structural fiscal deficit (almost 6% of GDP) and federal debt (roughly 120% of GDP).<sup>13</sup> Among the reasons for this resilience is US Treasuries' ongoing status as a 'safe-haven' asset – for the time being at least.

Proposed government spending and tax cuts may test investors' resolve, however, in a year when the US government needs to roll over US\$3.9tn in maturing debt.<sup>14</sup> Investor appetite for this 'wall of debt' will determine the US government's cost of borrowing and, by virtue of Treasuries being a global reference point for valuations, shape the direction of risk assets more broadly.

### Past performance is not indicative of future returns.

#### Rising US deficit, rising Treasury yields

US federal fiscal balance (% GDP) vs market yield on 10-year US Treasuries (% end year)



Source: Federal Reserve Bank of St. Louis, June 2025. 2025 data is forecast.

<sup>10</sup> UK Parliament, January 2025: The budget deficit: a short guide / Economist, October 2024: France stares into a "colossal" budgetary abyss

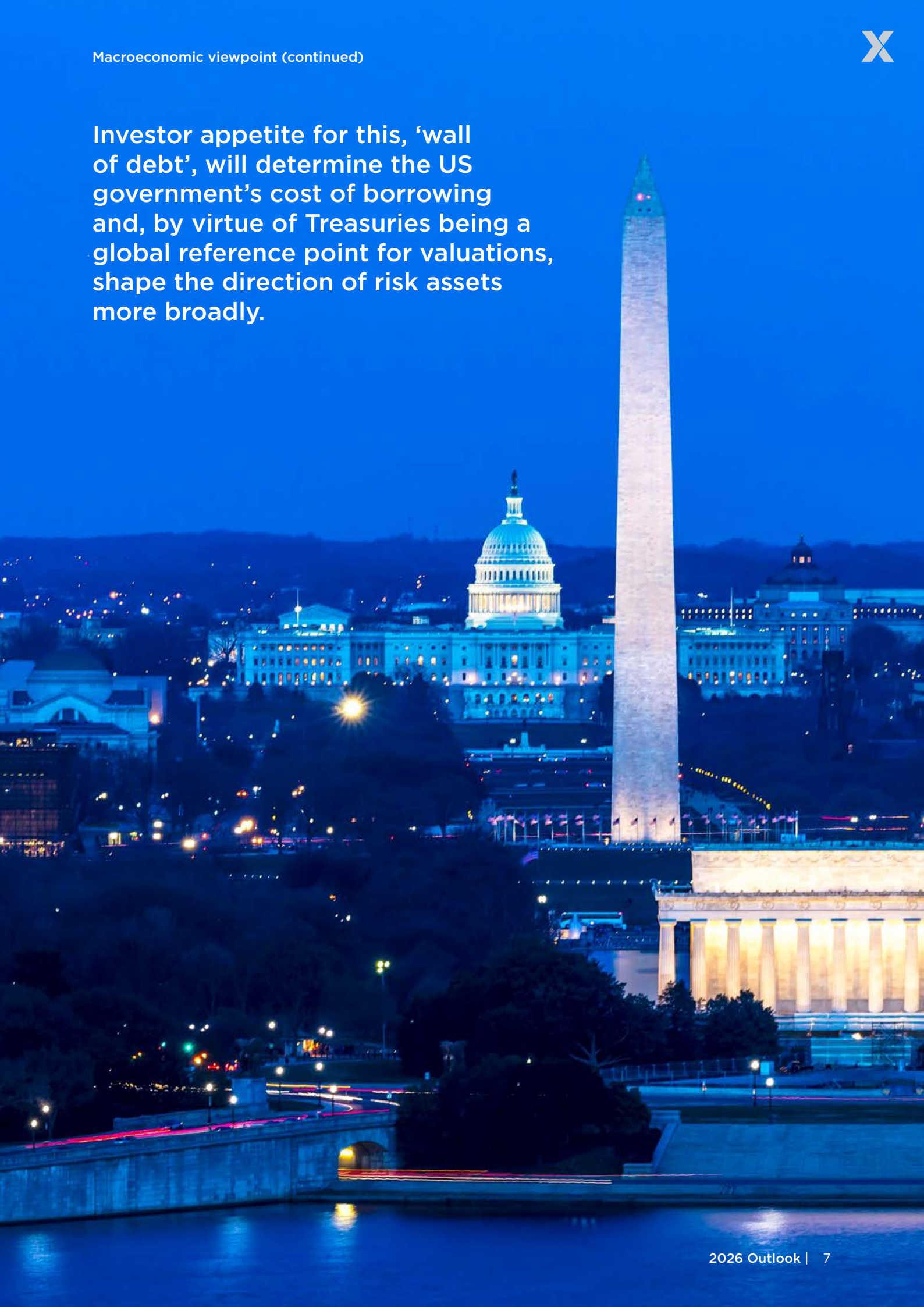
<sup>11</sup> El-Arian, M., 7 October 2025: What is happening in France may not stay in France. *Financial Times*

<sup>12</sup> Duguid, K., et al, 1 December 2025: Global bonds slide after hawkish Bank of Japan comments. *Financial Times*

<sup>13</sup> Federal Reserve Bank of St. Louis, November 2025

<sup>14</sup> Bloomberg, November 2025

Investor appetite for this, ‘wall of debt’, will determine the US government’s cost of borrowing and, by virtue of Treasuries being a global reference point for valuations, shape the direction of risk assets more broadly.







# Sustainability perspective



As a specialist investor focused on the transition to a more sustainable economy, we believe that sustainability-related opportunities and risks can have a material impact on financial performance, especially over the long term.

Partly in response to the ‘ESG backlash’, defining themes of our discussions with asset owners have been the need to evidence the financial relevance of sustainability and how to respond to systemic risks. The latter are large-scale challenges such as climate change, nature and biodiversity loss, AI, geopolitics and trade wars that threaten market stability and long-term portfolio resilience.

By their nature, systemic risks cannot be addressed by portfolio diversification or the actions of individual companies. The emerging consensus is that effective responses demand cross-industry approaches – such as collaborative engagement and policy advocacy – with asset owners taking a leading role due to their long-term investment horizons.<sup>15</sup>

**We believe that attention on evidencing the financial relevance of sustainability and tackling systemic risks will further increase during 2026 with a particular focus on the following elements:**

## 1 Climate adaptation

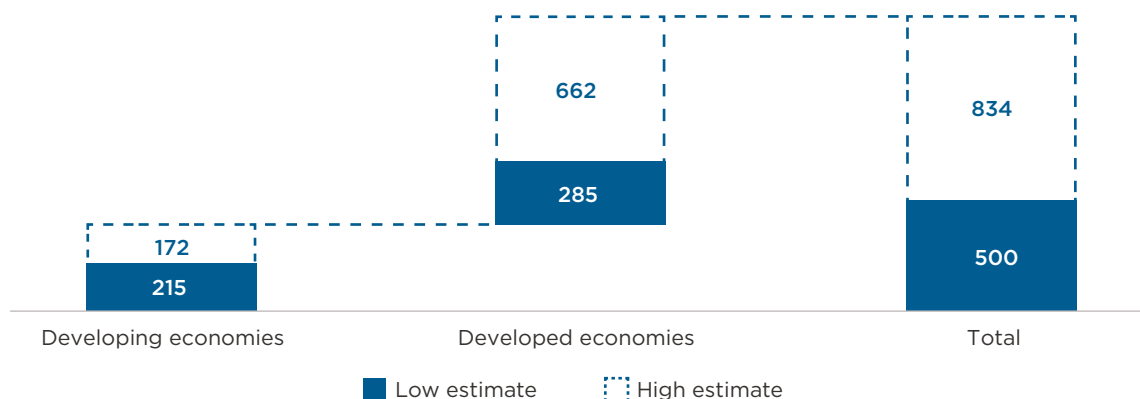
The magnitude and frequency of catastrophic financial losses from extreme weather events is on an upward trajectory.<sup>16</sup> Recent discussions at New York Climate Week and PRI in Person highlighted the urgency of integrating these risks into investment processes – not only to manage direct damages but also second-order effects, such as supply chain disruption and migration.

Take water, for instance. Rising physical climate risks and technological demands, such as data centre cooling, will further sharpen focus on the urgent need for better water risk management – a focus area of our research and stewardship in 2026 – with water solutions representing a significant investment opportunity.

As investors embed physical risk into decision-making, attention is shifting toward solutions that enhance resilience. Yet ‘climate adaptation’-focused investment products remain scarce: a

### The adaptation and resilience opportunity set

Projected investments in climate adaptation and resilience solutions, 2025-2030 (US\$bn)



Source: BCG, May 2025

**Forecasts are based on assumptions and are not guaranteed. Actual outcomes may differ.**

<sup>15</sup> See UKSIF, 2025: Systemic risks: A framework for portfolio resilience and Church of England & Wespath, 2025: What does it look like for Asset Owners to lead right now?

<sup>16</sup> Swiss Re Institute, April 2025: Natural catastrophes: insured losses on trend to USD 145 billion in 2025



concern raised by asset owners through the likes of the Sustainable Markets Initiative. We expect demand for adaptation solutions to continue to accelerate in 2026 as investors seek opportunities to minimise risk and maximise returns on the basis of these structural forces.

## 2 Nature impacts and dependencies

From agriculture and forestry to pharmaceuticals and consumer goods, sectors across the global economy face material exposure to biodiversity loss and ecosystem degradation. The spotlight placed on nature by COP30 hosts Brazil helped underscore the urgency of addressing deforestation and nature loss, highlighting their systemic implications for supply chains, commodities and long-term portfolio resilience.

This momentum will grow as early adopters of the Taskforce on Nature-related Financial Disclosures (TNFD) – Impax included – disclose assessments of their nature-related dependencies, impacts and risks. In 2025, we engaged our highest-priority companies across the utilities, industrials, materials and consumer sectors, discovering that while many have advanced their understanding of material nature-related dependencies, impacts and risks, others remain at an early stage.

Using our proprietary classification system, we have mapped portfolio companies' revenues to activities which tackle the drivers of biodiversity loss.<sup>17</sup> We expect this investment theme to accelerate in 2026 as investors' awareness of risks continues to grow and more seek to align with TNFD recommendations and respond to stakeholder pressure.

## 3 Corporate culture

Corporate culture is emerging as a powerful source of investment insight as it influences companies' capacity to execute strategy, attract and retain talent, and sustain their competitive advantages.

[Our research](#) has shown that firms with resilient, inclusive and forward-looking corporate cultures are more likely to generate consistent innovation and operational excellence: both characteristics that the market often undervalues and that can support alpha generation.<sup>18</sup> As part of our evidence-based approach, we focus on measurable indicators of corporate cultural strength, including leadership and diversity profiles, workforce turnover dynamics and human-capital policies. We also use natural language processing methods to [analyse employees' experience](#) and capture dimensions of corporate culture not visible within traditional disclosures.<sup>19</sup>

In 2026, as we further expand our analytical framework to incorporate compensation-related metrics and governance signals associated with cultures of misconduct, among other metrics, we believe more investors will seek a deeper understanding of how corporate culture contributes to long-term financial performance.

<sup>17</sup> The Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES) has defined five direct drivers of biodiversity loss: changes in land and sea use; direct exploitation of organisms; climate change; pollution; and invasive non-native species

<sup>18</sup> Impax, 2024: Untangling the intangible asset of workplace culture

<sup>19</sup> Impax, 2025: Capturing employee sentiment as an investment signal





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AI governance

As adoption of AI technology soars, there is growing scrutiny of how companies ensure its responsible, transparent and accountable deployment. Just as sustainability frameworks demand oversight of its environmental impacts, robust governance is essential to manage the societal and operational risks of AI, maintain stakeholder trust and scale AI responsibly.

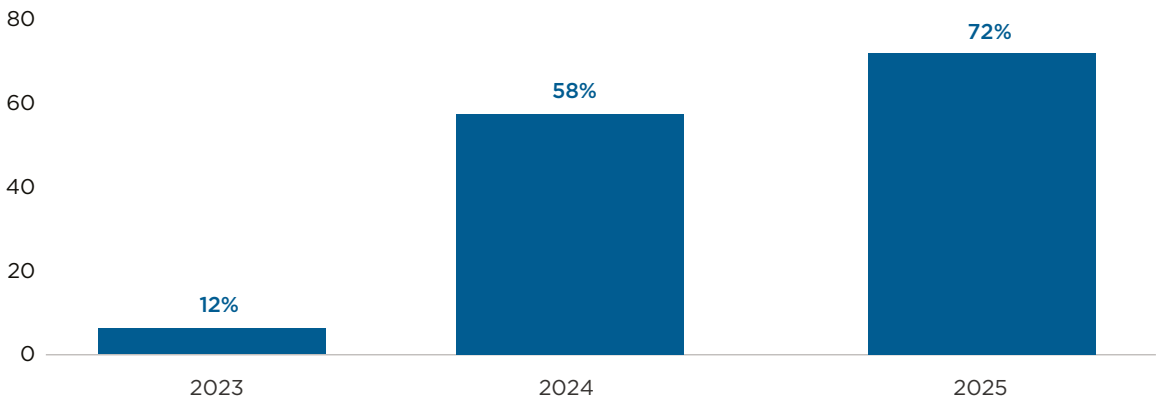
In 2025, we launched a stewardship project focused on AI governance, starting with a systematic assessment of AI risk exposure across all GICs sub-industries. Our first phase prioritised companies with higher risks of algorithmic bias

and product liability risk, including software, design/engineering, HR services, consulting, telecoms and healthcare. Engagements explored how companies are addressing AI-related risks through board oversight, policies, risk frameworks and reporting. As expected, we found significant variation in governance approaches.

In 2026, as we seek to formalise best practices into a set of stewardship goals and broaden our engagement across sectors, we expect investors' focus on AI oversight to only heighten.

Rising recognition of AI risks

S&P 500 companies disclosing one or more AI-related risks in 10-K annual reports (%)



Source: The Conference Board / ESGAUGE, 2025. 2025 data as at 15 August



# Global equities outlook



**Past performance is not indicative of future returns.**

## Despite the dawn of a new era of tariffs, ongoing geopolitical concerns and spasms of investor anxiety, global stockmarkets reached near all-time highs in 2025.

Market leadership remains highly concentrated, as it has since 2023, driven primarily by many investors' focus on the potential applications of AI. In the US – which accounts for 65% of the MSCI ACWI index of global shares – the 10 largest stocks account for 35% of the market, by value, up from 18% a decade ago.<sup>20</sup>

As we look towards 2026, we continue to take a critical view of certain valuations and expect more investors will rediscover a focus on fundamentals.

We expect that this, combined with a potential resurgence in mergers and acquisitions (M&A) and decent economic growth, will provide a constructive environment for less highly-rated parts of the market where valuations are closer to historic norms. This includes stocks that are well positioned to capture structural opportunities arising from the transition to a more sustainable economy, whose potential has in many cases been overlooked.

## Is the 'AI bubble' going to burst?

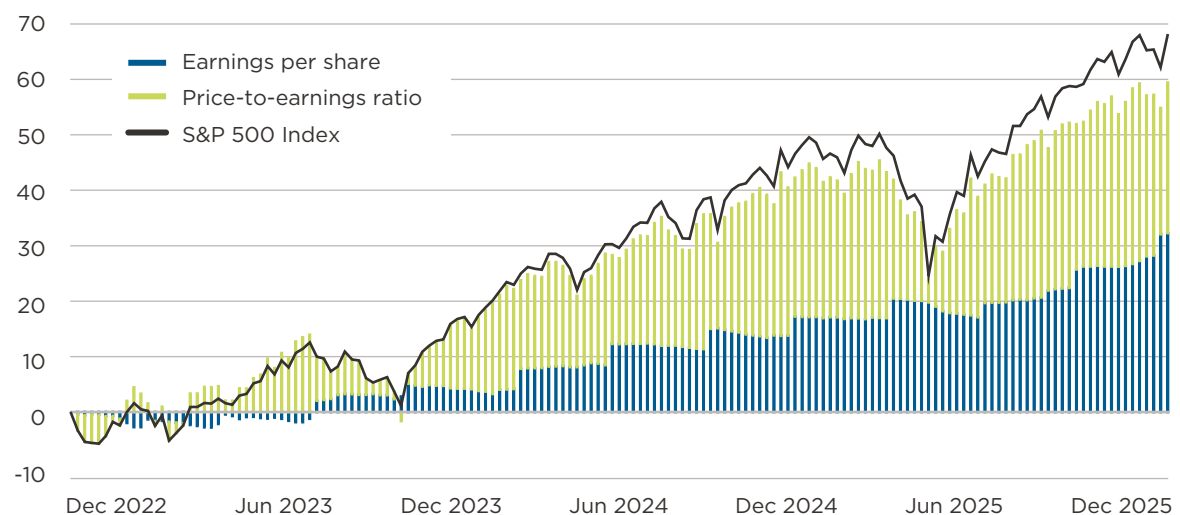
In October 2025, chipmaker Nvidia became the world's first company to surpass US\$5tn in market value.<sup>21</sup> Only three months earlier, the US-listed company had become the first to breach the threshold of US\$4tn.

Nvidia's ascendance has been indicative of the 'AI boom' which has dominated global equities – especially the US – since the pandemic. AI-related optimism about future earnings has been a key driver of expanding price-to-earnings multiples in the tech sector and, by extension, the US stockmarket at-large (see chart below). Overall, the S&P 500 Index of US shares trades on a forward price-to-earnings ratio of 22 times, versus a 30-year average of 17 times.<sup>22</sup>

### Optimism – not fundamentals – has driven much of recent gains

Contributions to S&P 500 returns: earnings versus price-to-earnings ratios (%)

**Figures refer to the past. Past performance does not guarantee future results.**



Source: Bloomberg, 2 December 2025. One-year forward earnings estimates (Bloomberg)

**The securities mentioned in this document should not be considered a recommendation to purchase or sell any particular security.**

<sup>20</sup> Morningstar, 2 December 2025: Beyond the Magnificent Seven: Unlocking Value in a Concentrated Stock Market

<sup>21</sup> Acton, M., Rogers, A. & Bradshaw, T., 29 October 2025: Nvidia becomes world's first \$5tn company. *Financial Times*

<sup>22</sup> Bloomberg data, as at 30 November 2025



**Past performance is not indicative of future returns.**

It is beyond doubt that the advent of AI ushers in an era of potentially radical innovation and disruption across the global economy, but has reason given way to hype?

Soaring interest in the possibilities of AI has led to a spike in AI-related investment, from all sectors, supporting demand for the products and services that enable the AI revolution. Nvidia's chips are as critical as any: it's cutting-edge graphics processing units (GPUs) are the most powerful in undertaking the parallel repetitive calculations that underpin AI models. Excitement about what is now the world's most valuable listed company is therefore understandable.

Investor hype about many other businesses perceived to be at the vanguard of the AI revolution looks bombastic, however. Where valuations become unmoored from fundamentals and are not supported by high earnings growth and balance sheet strength, stocks look vulnerable to correction. For instance, shares in data analytics company Palantir – which had traded at roughly 230 times forward earnings – fell back 20% in November on short-selling news.<sup>23</sup>

November also saw sharp declines among mega-cap technology stocks whose reported earnings growth fell short of market expectations. Shares in Amazon and Oracle, which are among the 'hyperscale' cloud computing providers that are

positioned to power the AI boom, both fell double-digits on cooling momentum.<sup>24</sup>

Not all large technology companies are equally vulnerable to any AI-related market correction in 2026. Microsoft, Alphabet and Apple, for example, are all exceptionally profitable businesses with strong balance sheets that dominate critical global markets. Although each has significant exposure to the AI theme, their fortunes are not wedded to the trajectory of AI adoption.

Nonetheless, there is clearly little room for disappointment among highly-rated technology stocks, which account for 31% of the S&P 500 index's total value but only 21% of earnings.<sup>25</sup> Unless projections of rapid AI-related earnings growth are realised, some reallocation of capital looks rational and probable.

In this context, we anticipate at least some rotation within equities into less highly-rated sectors and companies over the course of 2026. We expect investors to take a more critical view of companies' abilities to generate returns and so favour businesses' that are currently generating healthy returns on invested capital. As part of this, we believe there are opportunities among companies that are successfully implementing AI to improve their products and services (see page 22).



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<sup>23</sup> Rosner-Uddin, R., 3 November 2025: Palantir shares slide after Michael Burry reveals bet against stock. *Financial Times*

<sup>24</sup> Bloomberg, November 2025

<sup>25</sup> Murugaboopathy, P., 25 November 2025: US tech valuations stretched further as earnings contribute less. *Reuters*



## Will 2026 see an M&A boom?

Having peaked in 2021 – the *fin de siècle* of the ultra-low interest rate climate across developed markets – global M&A activity has since remained relatively subdued. The value of deals in 2023, when US interest rates breached the 5% mark, was less than half that in 2021, when base rates were essentially zero.<sup>26</sup>

Momentum is now building again, supported by falling interest rates and a relaxation in regulatory restrictions on M&A in the US. Global deal value was 10% higher in the first nine months of 2025 than in the same period in 2024 (see chart below).

High-value M&A activity has notably rebounded. During the first nine months of 2025, there were a total of 27 megadeals – those valued at US\$10bn or more – up from 21 over the first nine months of 2024.<sup>27</sup>

Leading indicators of future deal activity, such as BCG's M&A Sentiment Index, point towards an acceleration in M&A, particularly in the technology and energy industries. The former saw two of 2025's largest acquisitions by cybersecurity provider Palo Alto Networks (US\$25bn) and Alphabet (US\$32bn). Within energy, meanwhile, we

have observed a flurry of [private equity takeovers of listed renewable independent power producers](#) (IPPs) following their de-rating in recent years.<sup>28</sup>

Private equity firms continue to hold substantial dry powder that needs to be invested before long. Though down slightly from its peak, roughly US\$2tn is estimated to be waiting to be deployed.<sup>29</sup> Should this cash balance be drawn down in 2026, as interest rates continue their downward trajectory and tariff uncertainty eases, it would be expected to boost M&A activity and support global equities.

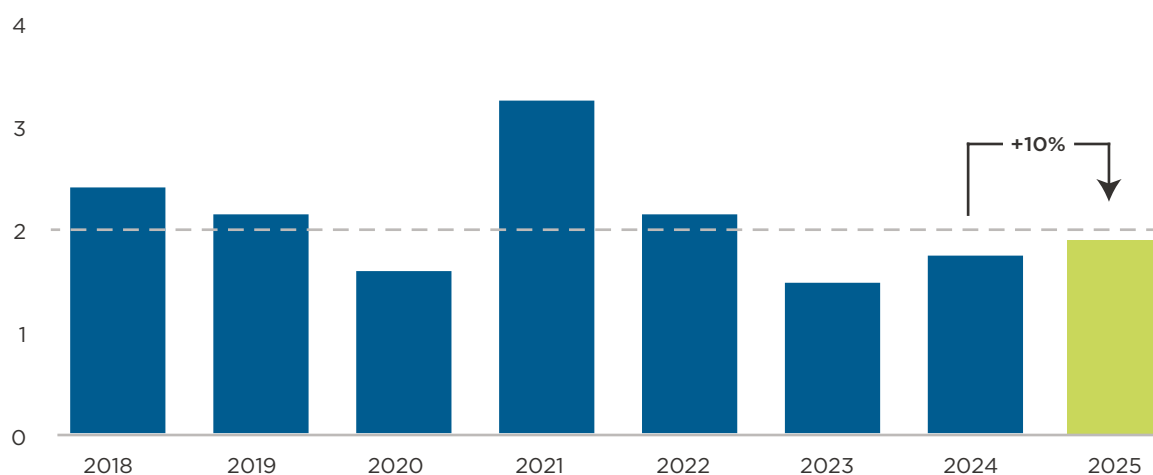
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It is smaller and mid-sized companies, whose share prices are more often out of step with the intrinsic value of a business, that would stand to disproportionately benefit from an uptick in M&A, in our view.

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### M&A is slowly ticking up again

Global deal value, Q1 to Q3, by year (US\$tn)



Source: BCG, October 2025. The data period covers Q1, Q2 and Q3 of each year.

<sup>26</sup> BCG, October 2025: The 2025 M&A Report

<sup>27</sup> BCG, October 2025: The 2025 M&A Report

<sup>28</sup> Impax, May 2025: Takeover opportunities in the renewables market

<sup>29</sup> Finalis, November 2025: Dry Powder in 2025: Private Markets Poised for Deployment



**Past performance is not indicative of future returns.**

## Can emerging markets continue to outperform?

Emerging market stocks have enjoyed a stellar 2025, outperforming global equities for the first time since 2020.<sup>30</sup> The MSCI Emerging Markets Index delivered returns of 30% in the first 11 months of 2025, in US dollars, outperforming both US and European equities by more than 10 percentage points.

Recent outperformance, which has been supported by the relative weakening of the US dollar, has four key drivers. First, macroeconomic conditions have been supportive with stable policies and moderate inflation, as well as falling interest rates, in core emerging market economies including India and South Korea. Second, and related, US-China trade tensions have eased since earlier in 2025, benefiting emerging market exporters to the US. Third, relative valuations at the start of the year primed emerging market equities for outperformance: they ended 2024 at near 20-year lows relative to US equities. Fourth, several leading emerging market companies play a key role within the AI supply chain and global data centre build-out – a major theme for 2025, of course.

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In our view, each of these factors looks set to remain supportive for emerging market equities into 2026.

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Even after a strong 2025, relative valuations are less stretched than US, Japanese or European stocks: the MSCI Emerging Markets Index trades of a forward price-to-earnings ratio of roughly 13 times, versus around 20 times for the MSCI World Index of developed market equities.<sup>31</sup> Emerging market company earnings have been strong, overall, and estimates of 16% growth in 2026 are supported by domestic economic growth outlooks.<sup>32</sup> To take one example, [companies enabling Asia's rapid electrification](#) are benefitting from a structural need to invest roughly US\$1.5tn in the region's power grid infrastructure by 2030.<sup>33</sup>

Crucially, too, the prospects for emerging market equities into 2026 and beyond are supported by Asian companies' technological leadership in fast-growing niches within the new economy.

It is true that, after exceptionally strong share price gains in 2025, the valuations of certain Asian AI-related stocks (as elsewhere) look stretched, in our view. However, opportunities are arising in other technologies where emerging market companies are world leading. These include established technologies that are being rapidly adopted – like EVs and batteries, where China's BYD and CATL boast dominate global positions – as well as earlier-stage technologies like robotics, which is expected to grow rapidly to equal the global passenger vehicle market by value by 2050.<sup>34</sup>

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<sup>30</sup> MSCI, December 2025: MSCI Emerging Markets Index (USD)

<sup>31</sup> Bloomberg data, 5 December 2025

<sup>32</sup> Bloomberg data, based on the MSCI Emerging Market Index as at 5 December 2025

<sup>33</sup> Rystad Energy, 2024: Enable or inhibit: Power grids, key to the energy transition, require \$3.1 trillion in investments by 2030

<sup>34</sup> Morgan Stanley, May 2025: Humanoids: A \$5 Trillion Market



Prospects for emerging market equities into 2026 and beyond are supported by Asian companies' technological leadership in fast-growing niches within the new economy.



# Indicators of real-economy change

We continue to observe four overarching drivers of the transition to a more sustainable economy: **evolving technology, consumer preferences, societal changes, and policy and regulation.**

Here, we present selected indicators of the pace and scale of multi-decade transformations underway in the real economy.

a Source: International Renewable Energy Agency (IRENA): Renewable Power Generation Costs in 2024.

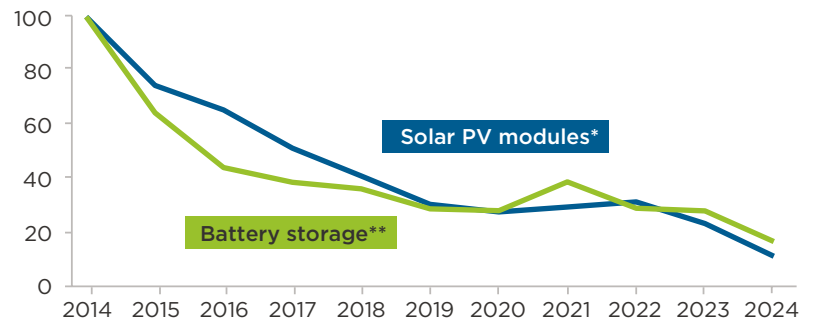
\* Average solar PV module prices sold in Europe. Figures for 2014 to 2016 have been extrapolated using IRENA levelised cost of electricity generation factors (2024).

\*\* Behind-the-meter lithium-ion battery storage costs for residential systems in Germany. 2024 figures derived from analysis of IRENA data.

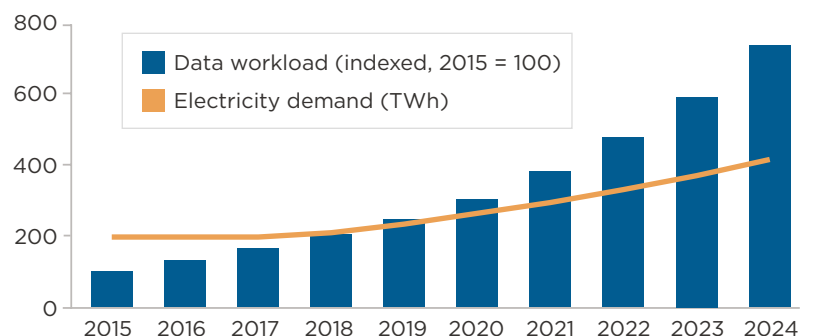
b Source: Impax analysis based on data from IEA, April 2025; Goldman Sachs, May 2024; and Alvarez & Marsal, November 2024. Data centre workload data for 2024 is estimated. Data centre workload is the computing, storage, memory and network resources required to undertake computational tasks or processes.

c Source: C40 Cities / Arup / University of Exeter, October 2025. Based on latest available data.

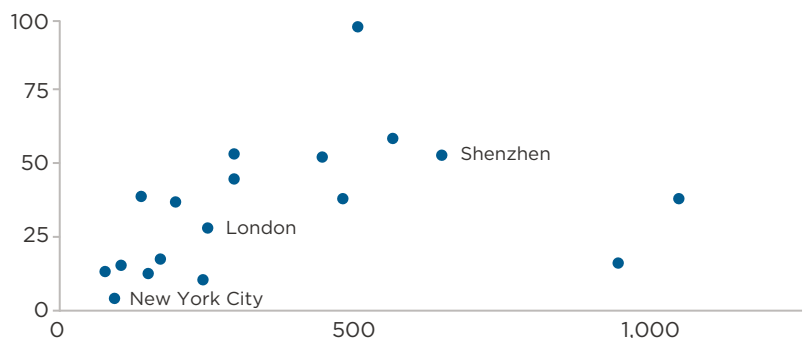
**Solar and battery system costs have fallen dramatically<sup>a</sup>**  
Rebased prices (2014 = 100)



**AI data surge offset by dramatic rise in energy efficiency<sup>b</sup>**  
Data centre workload up 7x since 2015; power demand up 2x

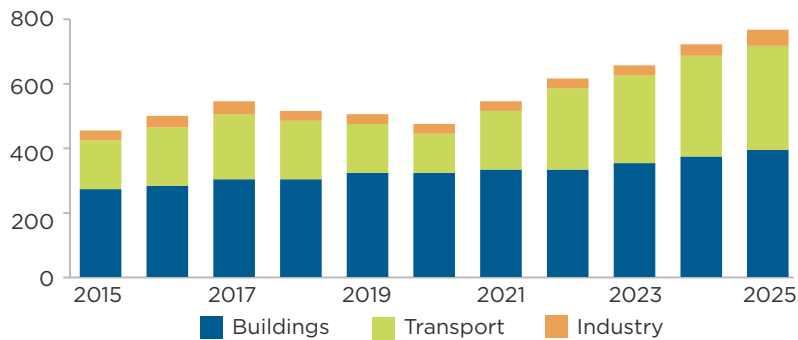


**More EV charging infrastructure = higher EV adoption<sup>c</sup>**  
New EV sales (% total) vs chargers per 100,000 population, 2025



### Rising investments in energy efficiency<sup>d</sup>

Global spending on energy-efficient equipment (US\$bn, 2024)

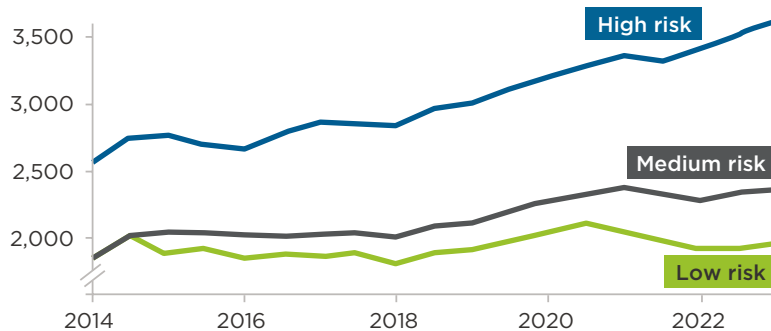


Structural changes in the global economy are disrupting business models and reshaping whole industries. A changing world creates opportunities for innovative companies whose products and services can address the challenges facing global society and meet evolving demand. As long-term equities investors, we are interested in where these opportunities are being mispriced.

The metrics highlighted here are by no means exhaustive – there are abundant measures that paint a broader picture of progress – but we believe that they illustrate the breadth of disruptive change across end markets driven by technology, consumers and society, and government intervention.

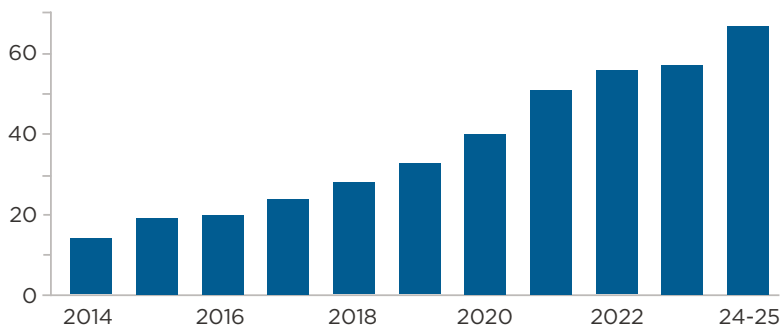
### Insurance costs are rising with disaster risks<sup>e</sup>

Average US home insurance premium (US\$, 2023 prices)



### The tightening ratchet of climate policy<sup>f</sup>

Cumulative total number of framework climate laws



<sup>d</sup> Source: IEA, 2025: World Energy Investment 2025. 2025 figures are estimated

<sup>e</sup> Keys, B.J. & Mulder, P., 2024: Property Insurance and Disaster Risk: New Evidence from Mortgage Escrow Data

<sup>f</sup> Grantham Research Institute, 2025: Climate Change Laws of the World. Only one framework is counted per jurisdiction



## Themes in focus for 2026

As we look into 2026 and beyond, we are focused on compelling multi-year investment opportunities created by secular drivers of growth arising from the transition to a more sustainable economy.

These drivers are diverse, as environmental and societal challenges influence every part of the global economic value chain. Below, we highlight four areas of thematic opportunity where the Listed Equities team has high conviction.



Healthcare innovation



Implementation of AI



Water security



Shifting consumer habits



## 1 Healthcare innovation

Ageing populations, persistent cost inflation and practitioner shortages are combining to place healthcare systems under rising strain across developed markets. Across the OECD, healthcare spending growth outpaced broader economic growth by an average of 2.2 percentage points a year between 2007 and 2021.<sup>35</sup> This is clearly unsustainable.

In this context, we perceive compelling opportunities in the US\$10tn global healthcare industry for innovative companies whose products and services can reduce the cost of healthcare delivery while improving patient outcomes.<sup>36</sup>

Paradigm-changing advances in medical technologies like robotics are enabling quicker recoveries from surgery and delivering efficiencies for healthcare providers. Intuitive Surgical is a leader in developing robotic products for minimally invasive soft tissue surgery. Its products have been shown to result in shorter hospital stays (and fewer complications) than manual keyhole surgery and open surgery, thereby lowering system costs.<sup>37</sup>

It is not only healthcare systems battling costs: the pharmaceutical industry has increasingly struggled to translate research and development (R&D) spending into new products. R&D costs now exceed US\$3.5bn for each approved novel drug.<sup>38</sup> Emerging biotechnology companies today dominate early drug development, accounting for 85% of new novel drug trial launches in 2024.<sup>39</sup>

**Case studies are provided for illustrative purposes only. The securities mentioned in this document should not be considered a recommendation to purchase or sell any particular security and there can be no assurance that any of the securities were or will be profitable.**

35 OECD, 2023: Health care financing in times of high inflation

36 World Economic Forum, 2024: Is this how healthcare will be optimized in the future?

37 Cleveland Clinic, 2024: Robotic Surgery. Intuitive Surgical is the world's largest company focused on soft tissue robotics by revenues, as at January 2025

38 Fernald, K.D.S., et al, 2024: The pharmaceutical productivity gap – Incremental decline in R&D efficiency despite transient improvements. Drug Discovery Today

39 IQVIA Institute, 2025: Global Trends in R&D 2025

40 OECD, 2025: Government at a Glance 2025

41 OECD, 2025: Health Statistics 2025

42 Federal Reserve Bank of St. Louis, 2025

43 American Hospital Association, 2024: Cost of Caring Report

44 Evaluate data in Kuchler, H. & Temple-West, P., 9 July 2025: The looming 'patent cliff' facing Big Pharma. Financial Times

45 AlphaSense, October 2025: Biotech M&A: Trends and 2026 Outlook

46 BofA Global Research, October 2025

### Why now?

Looking into 2026, we see two overarching factors that should support the prospects for innovative healthcare solutions providers:

- 1. Fiscal pressures** – OECD governments run an annual fiscal deficit of 4.6% of GDP.<sup>40</sup> In the US, where healthcare system costs account for almost 17% of GDP (almost twice the OECD average), the federal deficit exceeds 6%.<sup>41, 42</sup> Given that labour accounts for roughly 60% of US hospital costs, solutions that reduce the labour-intensity of delivering treatment should benefit from strong underlying demand growth.<sup>43</sup> The UK's NHS public healthcare system is accelerating its adoption of robotic surgery to cost-effectively reduce patient waiting times.
- 2. Return of M&A activity** – Drugs with combined global sales exceeding US\$100bn are due to lose protection from generic competition, including biosimilars, in 2027 and 2028. In the face of this looming 'patent cliff', there is pressure for 'Big Pharma' to bolster product pipelines by purchasing promising drugs in late-stage trials.<sup>44</sup> M&A activity has been picking up: the value of biotech deals in the first nine months of 2025 exceeded that of 2024 as a whole.<sup>45</sup> With interest rates expected to continue declining, we expect US M&A activity – of which the healthcare sector accounted for 30% in 2025, by deal count – to continue rising, supporting valuations in biotech and other innovative parts of the industry.<sup>46</sup>

## 2 Implementation of AI

The global data centre build-out has been a defining theme for equities investors in 2024 and 2025. Understandably so: it is estimated that US\$6.7tn needs to be invested in data centres worldwide by 2030 to keep pace with rising demand for compute power, primarily driven by AI.<sup>47</sup>

This clearly supports prospects for technologies enabling the boom, from suppliers of critical components, including chips, to cloud computing operators. We continue to see enormous long-term opportunities for companies developing increasingly advanced semiconductors and in solutions that make physical AI infrastructure utilised at data centres more energy efficient.

Nonetheless, our focus is increasingly turning to stocks that are already harnessing the potential of AI, either to improve their services or to realise financial savings in their operations. We see particular opportunities within two overarching areas.

First, **software companies**. Many have been cast as potential victims of technological disruption, including from agentic AI tools that can independently perform tasks and take decisions. Rather than being eaten by AI, however, we believe leading software companies can harness its potential of AI where they command competitive advantages within their verticals. Valuable and durable economic moats exist in the form of brand, credibility and regulation. This is especially important in areas like tax software, where leading players like Intuit – which commands a 60% market share in the US – benefit from customer trust and the regulatory environment.<sup>48</sup>

Vast proprietary datasets, built up over decades in many cases, can meanwhile be leveraged to train AI models and further enhance leading software companies' competitive advantages. Take computer-assisted design software company Autodesk, for example, which is using AI to optimise building designs and materials, and enhance the energy efficiency of its clients' projects.

# 7%

Mileage and emissions savings through AI optimisation of routes and asset management

Source: World Economic Forum, January 2025



<sup>47</sup> McKinsey, April 2025: The cost of compute: A \$7 trillion race to scale data centers

<sup>48</sup> Citi, 2025: Consumer Tax Survey

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Second, **industrial companies** are applying AI-powered tools to drive operational efficiencies. McKinsey has estimated that up to US\$2.1tn in economic value could be added by AI in factory automation.<sup>49</sup> Predictive maintenance, which can be enhanced by the analytical power of AI, has been found to reduce equipment breakdowns by 70% and lower maintenance costs by 25%.<sup>50</sup>

Meanwhile, AI-powered software can unlock immense financial savings for industrial groups that have large transport fleets. By leveraging real-time data and predictive analysis, mileage – and so greenhouse gas emissions – can be cut by up to 7% through route optimisation and more efficient asset management.<sup>51</sup> The likes of industrial gases group Linde, whose fleet of trucks cover 665mn miles annually, could therefore theoretically cut its annual fuel bill by upwards of US \$15mn.<sup>52</sup>

**Vast proprietary datasets can be leveraged to train AI models and further enhance leading software companies' competitive advantages.**

### Why now?

Looking into 2026, we see two overarching reasons why software and industrial companies that are implementing AI effectively look well-placed for resilient growth.

- 1. Questions over the AI build-out** – The prospective returns on investment from AI-related capex are increasingly under scrutiny at a time when the data centre build-out is increasingly being financed by debt, not from balance sheets. Hyperscale cloud operators have issued US\$108bn in bonds in 2025, more than three times the average over the previous nine years.<sup>53</sup> Irrespective of these concerns, software and industrial companies can continue to leverage the growing power of AI to improve their services and operations. As well as not being exposed to the build-out risks, any overcapacity in computing power would be to their commercial advantage.
- 2. Robust earnings growth** – Reported profits continue to rise among leading software providers that are leveraging AI within their services, such as electronic design automation software company Cadence and US public sector software provider Tyler Technologies. In our view, valuations among these types of companies often look more compelling looking into 2026 than those of businesses more directly involved in the build out of AI infrastructure.

49 McKinsey, 2023: The economic potential of generative AI: The next productivity frontier

50 Deloitte Analytics Institute, 2024: Predictive Maintenance

51 World Economic Forum, January 2025: Intelligent Transport, Greener Future: AI as a Catalyst to Decarbonize Global Logistics

52 Linde, 2025. Impax calculation based on assumptions of truck fuel efficiency (10 miles per gallon) and a price of US\$3.80 a gallon of diesel

53 Vlastelica, R., 21 November 2025: Big Tech's Debt Binge Raises Risk in Race to Create an AI World. Bloomberg

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## 3 Water security

Water is vital to all aspects of the economy and society, yet global water resources are under strain. Stress on water systems is being exacerbated by population changes and economic growth, as well as the impacts of climate change: droughts and floods are becoming more frequent and intense as global temperatures rise.<sup>54</sup>

Certain industries critical to the modern economy – not least the data centres powering the AI boom – also intensify local water scarcity challenges. A 100MW hyperscale data centre can directly consume around 2.5bn litres of water each year to cool servers that generate a lot of heat, equivalent to the needs of about 80,000 people.<sup>55</sup>

Water recycling solutions – which use media filtration, ion exchange and membrane filtration to return pure water for re-use – provided by the likes of US-listed Xylem can [reduce data centre water consumption](#) by as much as 70%.<sup>56</sup> Innovative closed-loop liquid cooling systems, like those developed by French-listed Schneider Electric, go further: by continually circulating water between servers and chillers to dissipate heat, they can even remove the need for a fresh water supply.<sup>57</sup>

Water quality issues meanwhile intensify local environmental challenges around water availability. In addition to lead pollution, there is rising consumer awareness of emerging pollutants, including ‘forever chemicals’ (or PFAS).<sup>58</sup> Investment by utilities to reduce PFAS levels in drinking water is driving demand for water filtration equipment at both system and household levels. The market for domestic point-of-use filtration systems – developed by the likes of AO Smith and Zurn Elkay – is particularly large in the US, where 23mn households rely on private wells.<sup>59</sup>

**Case studies are provided for illustrative purposes only. The securities mentioned in this document should not be considered a recommendation to purchase or sell any particular security and there can be no assurance that any of the securities were or will be profitable.**

### Why now?

Looking into 2026, we see three reasons why the opportunity set for solutions to the challenges of water scarcity and quality looks set to continue expanding:

- 1. Data centre / AI demand** – Based on projected demand growth, it is estimated that AI tools could indirectly lead to global water withdrawals equivalent to roughly half of the UK’s water consumption by 2027.<sup>60</sup> With data workloads rising by around 20% a year, local water scarcity risks and financial considerations are incentivising data centre operators to invest in technological solutions that reduce water consumption.<sup>61</sup>
- 2. Water availability concerns** – Widespread droughts in 2025 highlighted the economic risks posed by increasingly volatile rainfall patterns. Added to changing precipitation patterns, freshwater resources are being depleted: three-quarters of the global population lives in countries that have lost freshwater since 2002.<sup>62</sup> As the price of clean water continues to better reflect its economic value, we expect investment in water management solutions to rise.
- 3. Regulation** – The regulatory ratchet continues to tighten on drinking water quality within the EU, where 20 types of PFAS and other micropollutants will become part of mandatory routine testing from January 2026.<sup>63</sup> Utilities typically partner with laboratory service providers like Australian-listed ALS to test samples and ensure drinking water meets local regulations.

54 European Environment Agency, June 2025: Climate change impacts, risks and adaptation

55 Impax analysis, based on figures from World Economic Forum, November 2024: Why circular water solutions are key to sustainable data centres

56 Guardian Water & Air, March 2025: Keeping data centres cool and efficient

57 Schneider Electric, 2024: Navigating Liquid Cooling Architectures for Data Centers with AI Workloads

58 Aquasana 2023: 2023 Water Quality Survey

59 Pentair, March 2025

60 Li, P. et al, 2023: Making AI Less “Thirsty”: Uncovering and Addressing the Secret Water Footprint of AI Models

61 McKinsey, 2024: AI power: Expanding data center capacity to meet growing demand

62 Chandanpurkar, H.A., et al., July 2025: Unprecedented continental drying, shrinking freshwater availability, and increasing land contributions to sea level rise. *Science Advances*

63 European Commission, 2025: Drinking Water Directive (Directive 2020/2184)

## 4 Shifting consumer habits

Consumer behaviour is undergoing profound structural change. Lifestyles are becoming more digitally integrated, and spending is gradually shifting towards more services and experiences.

In this context, we believe platforms that leverage technology to efficiently offer tailored, high-value experiences, subscriptions and marketplaces should be well-placed to grow faster than the overall economy.

Spending on digital goods and services has grown to 2.7% of total consumer spending, almost as much as electronics (3.5%). Digital content captures roughly half of this spending.<sup>64</sup> Within streaming, Netflix stands out as a market leader in the distribution and creation of high-quality entertainment, boasting more than 300mn paying subscribers globally.<sup>65</sup>

Online booking platforms also stand out amid a post-pandemic surge in spending on travel, entertainment and live events. The likes of Hong Kong-listed Trip.com Group, the largest online travel agency in China, are set to participate in the projected tripling of the global leisure travel market by 2040, to US\$15tn a year, driven by domestic trips and emerging markets.<sup>66</sup>

### Why now?

Looking into 2026, we see three reasons why the opportunity set for digital service providers looks well positioned for resilient growth, irrespective of macroeconomic conditions:

- 1. Rise of younger consumers** – Younger ‘digital natives’ spend most on digital services and their incomes are rising.<sup>67</sup> The purchasing power of Generation Z is growing at twice the rate of previous generations’ at the same age and is on track to eclipse baby boomers’ globally by 2029.<sup>68</sup> We expect this to turbocharge the shift online, and towards services and experiences.
- 2. AI-driven opportunities** – Incumbent digital platforms can leverage rich datasets on consumer preferences to improve user experiences. Successfully leveraging the potential of AI tools should lead to a self-reinforcing loop between customer data, quality of service and sales conversion. For example, by learning individuals’ behaviour, eBay’s algorithms can suggest increasingly relevant items for users to consider buying, leading to higher sales conversions and so revenues.
- 3. Resilient business models** – Unlike manufactured goods, which have been subject to a recent wave of protectionism, capital-light digital platforms can generally sell their services globally without obstructive trade restrictions. This clearly makes them less vulnerable to policy disruption in the tariff era.

**Case studies are provided for illustrative purposes only. The securities mentioned in this document should not be considered a recommendation to purchase or sell any particular security and there can be no assurance that any of the securities were or will be profitable.**

<sup>64</sup> Deloitte, 2023: An evolving world of digital goods and services

<sup>65</sup> Netflix, November 2025

<sup>66</sup> BCG, June 2025: Unpacking the \$15 Trillion Opportunity in Leisure Travel

<sup>67</sup> Deloitte, 2023: An evolving world of digital goods and services. Based on a 2023 survey of more than 100,000 adults in mostly high-income countries

<sup>68</sup> McKinsey, June 2025: State of the Consumer 2025: When disruption becomes permanent. Generation Z generally refers to those born between 1997 and 2012



# Fixed income outlook



**Past performance is not indicative of future returns.**

## The resilience that global fixed income markets exhibited in 2025 looks set to continue into 2026.

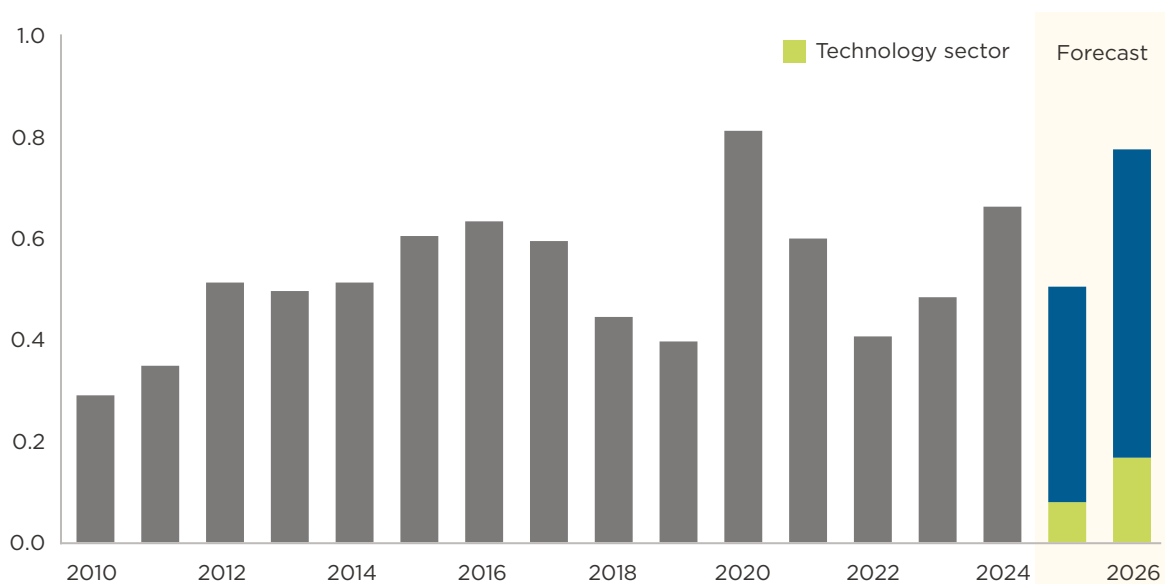
A relatively stable macroeconomic environment should help underpin risk assets. The US economy enters 2026 with above-trend growth expectations, supported by expansionary fiscal policy, continued investment in AI-related infrastructure and the prospect of two or three additional interest rate cuts, bringing the policy rate towards 3.25% by mid-year and concluding the final phase of the easing cycle that began in late 2025. Lower mortgage rates should underpin the real estate market while corporate earnings are expected to remain robust. Against this, slowing labour markets and sticky inflation will continue to weigh on the US consumer. Meanwhile companies will look closely at potential efficiency savings through the use of AI, which further clouds the employment outlook.

European growth meanwhile should remain stable in 2026, with Germany's push for additional infrastructure and defence spending offsetting the ongoing challenges facing its automotive industry. The Eurozone benefits from the lower interest rate environment, but the need for budgetary consolidation in many countries (including the UK, too) limits potential for fiscal expansion.

Large fiscal deficits in countries such as the US, UK, France and Japan, together with high debt-to-GDP ratios and worsening demographics, will increasingly be factored into long-term government bond yields. This is one of the drivers behind negative interest rate swap spreads. We [recently made the case](#) that swaps now represent the risk-free rate as illustrated by selected high-quality corporates accessing the market through government bond yields.<sup>69</sup>

### Tech is driving up net US investment grade issuance

US investment grade credit net issuance, by year (US\$tn)



Source: Impax analysis of JP Morgan/Dealogic data, November 2025.

<sup>69</sup> Impax, October 2025: Five reasons why swaps should be the benchmark for US credit spreads – not Treasuries





Recent defaults in private credit appear to be idiosyncratic in nature but also serve to highlight the need for stronger underwriting. Credit investors would do well to listen carefully to the warning and focus on the fundamentals.



## Cautious optimism for credit

We think credit markets will likely prove resilient in 2026, overall. We expect credit spreads to remain rangebound, albeit with modest widening pressure in the near term due to rising issuance by the technology sector to finance capex and an anticipated increase in M&A-related borrowing.<sup>70,71</sup> Given our views on the yield curve, we prefer shorter to intermediate credit duration.

Increased supply of debt is likely to be seen not only in investment grade credit (see chart on page 27), but also across high yield and leveraged loans. Against this backdrop, we generally favour more highly-rated credits, particularly in high yield where single-name selection remains critical to generating competitive risk-adjusted returns.

Recent defaults in private credit appear to be idiosyncratic in nature but also serve to highlight the need for stronger underwriting of credit risk. Notwithstanding the strength of the high yield market, [the risk of contagion](#) cannot be entirely dismissed.

The failures of First Brands and Tricolor reflect strain in the plumbing of private credit: in monitoring, collateral validation and accountability. The extent of their fallout depends on what follows: rising defaults, tighter liquidity and shaken investor confidence will, given the scale of private credit and its de facto role as the marginal source of corporate finance, likely leach into public markets.

For now, they do mark a turning point. The era of easy money, hubris and opaque lending is giving way to one of scrutiny, discipline and recalibration. Credit investors – public and private alike – would do well to listen carefully to the warning and focus on the fundamentals.

## Key convictions for credit in 2026

### Short to intermediate duration:

- Lock in elevated corporate bond yields before further interest rate cuts

### Quality over beta:

- Be rigorous in credit selection, especially in high yield, given tight spreads
- Keep duration and risk modest in technology on expected surge in supply
- Position in sectors that will benefit from a lower interest rate environment: financials (larger diversified banks), telecommunications and property
- Favour securitised assets: collateralised loan obligations (CLOs), collateralised mortgage obligations (CMOs) and collateralised mortgage-backed securities (CMBS)

### Diversify globally:

- Look to exploit policy divergence and relative value across regions
- Assess relative value versus swaps and government bonds on a currency neutral basis

### Sustainability matters:

- Sustain focus on issuer resilience and sustainability factors, which remain central to credit risk assessment and opportunity identification

70 Barbuscia, D., 21 November 2025: Jitters over AI spending set to grow as US tech giants flood bond market. *Reuters*

71 KPMG, 8 December 2025: M&A market expects clear upward trend in 2026



**Past performance is not indicative of future returns.**

Below, we share our perspectives on each of the main sub-asset classes that we focus on within fixed income.

## 1 US investment grade

Resilient economic growth, decent earnings and strong technical factors buoyed US investment grade credit in 2025. This was despite historically stretched valuations.

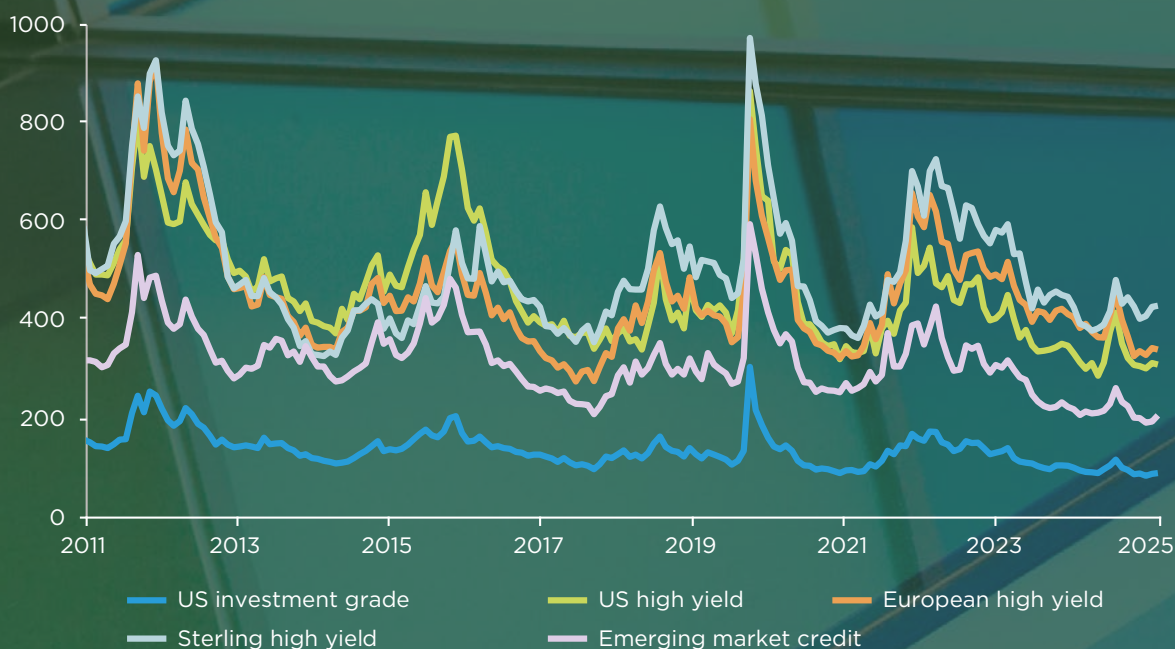
We expect similar dynamics to prevail in 2026 amid falling interest rates, resilient US economic growth and fiscal stimulus. We do not anticipate that investment grade spreads will tighten materially in 2026. Instead, we believe that it will be a 'carry' environment in which current yield is all-important.

Credit quality continues to remain strong within investment grade. Corporate balance sheets are healthy, overall, but there is dispersion between strong companies and those struggling with higher interest costs.<sup>72</sup> While some industry sectors are peaking in terms of the credit cycle, we believe underlying credit fundamentals remain favourable. Our preference is for higher quality corporate bonds, with a focus on strong company cashflow generation and robust business models, in this context.

However, we remain vigilant to the risks posed by potential re-leveraging of corporate balance sheets. With higher issuance, technical factors could present a rising headwind in 2026.

### Credit spreads continue to trade at historically tight levels...

Spread to worst by asset class (basis points)



Source: Bloomberg data, 30 November 2025. 'US High Yield' = ICE BofA US High Yield Index. 'Euro High Yield' = ICE BofA Euro High Yield Constrained Index. 'Sterling High Yield' = ICE BofA Sterling High Yield Index. 'Emerging Market Corporate' = JPMorgan Corporate Emerging Market Bond Index Broad Diversified. 'US Corporates' = ICE BofA US Corporate Index. Indexes are unmanaged and not available for direct investment.

**Past performance is not indicative of future returns.**

## 2 Securitised products

It is our view that there are compelling relative value opportunities within securitised products as we look into 2026.

The asset class remains resilient, supported by strong credit fundamentals, robust structural protections and tailwinds from anticipated Fed interest rate cuts. Consumer credit performance is broadly stable, with loan delinquencies levelling off despite a 'K-shaped' recovery – characterised by divergent outcomes and prospects for high and low-income workers – and weakness within the sub-prime segment.

Employment trends remain benign. Mortgage credit benefits from resilient home prices and tightened underwriting standards, while CMBS fundamentals are stabilising. Agency MBS should benefit from renewed demand from banks and government-sponsored enterprises (namely Fannie Mae and Freddie Mac in the US) as policy uncertainty declines.

Although issuance is expected to rise in 2026, we believe that strong investor demand, driven by wide spreads and attractive all-in yields, should offset supply pressures. Overall, we favour adding exposure to residential credit and non-agency CMBS while maintaining high-quality duration exposure in agency MBS.

### ... but yields continue to remain elevated

Yield to worst by asset class



Source: Bloomberg data, 30 November 2025. 'US High Yield' = ICE BofA US High Yield Index. 'Euro High Yield' = ICE BofA Euro High Yield Constrained Index. 'Sterling High Yield' = ICE BofA Sterling High Yield Index. 'Emerging Market Corporate' = JPMorgan Corporate Emerging Market Bond Index Broad Diversified. 'US Corporates' = ICE BofA US Corporate Index. Indexes are unmanaged and not available for direct investment.



**Past performance is not indicative of future returns.**

### 3 US high yield

After a volatile but strong year for US high yield, low spreads continue to be offset by relatively high absolute yields.

Despite uncertainty around tariffs and the direction of US economic policy, the vast majority of US high yield issuers are proving resilient with management teams that continue to focus on improving credit metrics. The recent increase in M&A activity has generally been favourable for high yield issuers, too. On the technical side, net new supply has been limited and global demand for the asset class appears to be strong. Finally, the loosening regulatory environment is also improving prospects for several large sectors like telecommunications and media.

Looking into 2026, we remain on high alert for potential weakness emanating from private credit markets. Further failures and indications of rising stress could reduce risk appetites broadly across the leveraged finance ecosystem, with potential knock-on effects for more-lowly rated segments within high yield. This notwithstanding, we remain comfortable with the larger, higher quality companies that the US high yield universe offers, accompanied by greater transparency and liquidity.

### 4 European high yield

Positive economic growth, accommodative monetary and fiscal policy, and limited inflation all point to a constructive macroeconomic outlook for European bond issuers in 2026.

In terms of company fundamentals, European high yield issuers do not face imminent refinancing needs: the majority of maturities are not due until 2028 and beyond, which is a supportive dynamic for the market.<sup>73</sup> Companies have largely adjusted to a structurally higher rate environment, with much of the coupon resetting process complete. As such, coverage ratios look set to stabilise. We do not expect a significant uptick in defaults, and higher recovery rates are limiting credit losses.

Although spreads are tight, we think this can persist in a higher-quality market. Besides, all-in yields remain elevated, providing investors with the prospect of reasonable returns from carry.



73 JPMorgan, November 2025: European Credit Outlook & Strategy 2026



**Past performance is not indicative of future returns.**

## 5 Emerging market credit

2025 was a volatile year for emerging market credit, primarily driven by uncertainties concerning trade tariffs. We expect this to subside in 2026 as trade relations between the world's two largest economies, China and the US, show signs of de-escalation.

Growth dynamics still appear favourable, particularly outside of China, which is forecast to slow in 2026.<sup>74</sup> There is strong domestic demand across many emerging markets with supportive monetary and fiscal policy. We expect emerging market interest rates to continue to fall, which should be supportive for risk assets.

Company fundamentals also continue to look robust: defaults are low and expected to stay below their long-term historical average.<sup>75</sup> Corporate leverage is also low relative to previous periods – and is lower than in developed markets.<sup>76</sup>

These strong fundamentals are reflected in tight spreads, which show limited room for further compression. Indeed, there could be modest spread widening at some point in 2026. However, given the strong fundamental case for emerging market corporate bonds, and the fact that all-in yields continue to be elevated, we believe that the carry component of returns should substantially offset any losses from wider spreads.

## 6 Labelled bonds

We expect issuance of labelled bonds to be flat globally in 2026, having fallen in the first three quarters of 2025 after years on an upward trajectory.<sup>77</sup>

The reversal stems from the US, where corporate issuance of labelled bonds has roughly halved in 2025.<sup>78</sup> There are few catalysts for this trend to reverse in the near term, given the current US political environment and heightened regulatory scrutiny surrounding labelled issuance.

In terms of label type, green bonds remain dominant globally, with issuance continuing to outpace that of social bonds.<sup>79</sup> We have observed increased interest around certain thematic categories, such as blue bonds – where issuance proceeds are directed to projects surrounding ocean conservation – and nature-related financing, which supports conservation and restoration of biodiversity, ecosystems and species. We believe that these areas could present selective opportunities going into 2026, and we remain highly active in the use-of-proceeds bond market.

74 Fitch Ratings, 8 December 2025: Asia-Pacific Sovereigns Outlook 'Neutral' for 2026, Reflecting Resilience

75 JPMorgan, November 2025: Emerging Market Credit Outlook & Strategy 2026

76 JPMorgan, November 2025: Emerging Market Credit Outlook & Strategy 2026

77 Sustainable Fitch, October 2025: Labelled Bond Issuance Slows Further, Transition and Nature Themes Gain

78 Barclays, November 2025: Global Outlook

79 Barclays, November 2025: Global Outlook



# Private markets outlook





Europe's energy transition remains one of the largest infrastructure investment programmes in modern history, underpinned by binding decarbonisation targets and reinforced by policy frameworks such as REPowerEU.

At least €750bn of investment is required by 2030 to deliver more than 600GW of new renewable capacity, grid upgrades and flexibility solutions as the electrification of transport, heating and industry accelerates electricity demand growth.<sup>80</sup>

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**Investments have evolved beyond single-technology projects to encompass integrated solutions that address system-wide challenges.**

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As electrification accelerates and grid constraints intensify, our Private Markets team is focused on two key themes: integrated multi-technology solutions and renewable energy power plants.

The first centres on creating resilient business models with significant cross-selling potential and diversified solutions across decentralised generation (DG) and electric vehicle (EV) charging infrastructure.

The second involves building 'baseload-like' sites that combine technologies such as solar, wind and battery storage to optimise grid utilisation and enhance value through flexibility. These themes underpin the next phase of growth within the energy transition, with DG and hybrid projects serving as prime examples of how investors can aim to capture upside in an evolving energy system.



While the EU's EV fleet expanded 18-fold between 2017 and 2023, the number of public chargers grew only six-fold.<sup>81</sup>

<sup>80</sup> McKinsey, 2024

<sup>81</sup> European Automobile Manufacturers' Association, 2024: Charging ahead – accelerating the roll-out of EU electric vehicle charging infrastructure



Looking into 2026, we are focused on identifying opportunities within integrated multi-technology solutions and renewable energy power plants. Here we outline sub-themes within each.

## 1 Integrated multi-technology solutions: decentralised generation

Decentralised generation – characterised by a combination of rooftop solar PV, battery storage, EV chargers and heat pumps, for business and residential consumers – is emerging as an essential part of a future energy system. Crucially, by generating and storing power closer to users, DG can help electricity systems sidestep grid constraints.

The rising cost-competitiveness of DG technologies is sustaining their expansion across Europe. The combination of falling technology costs and elevated electricity prices means that consumers installing DG assets – which can last up to 25 to 30 years – can typically expect a payback period of between seven and nine years.<sup>82</sup> Supported by legislation to encourage the adoption of DG solutions, rooftop solar PV generation capacity in the EU is forecast to expand at an annual rate of 15% until 2028.<sup>83</sup>

Electricity market characteristics vary between economies, meaning investors need to carefully select markets to maximise prospective risk-adjusted returns. We see four criteria that determine the appeal of DG in individual markets: local grid electricity prices, national regulatory deadlines, government subsidies or incentives, and the availability of third-party capital and bank lending solutions.

Product design is also imperative to maximise prospective returns from DG projects. Competitive packages have to satisfy consumer demand, in terms of contract length and monthly payments, and cover multiple technologies.

## 2 Renewable energy power plants: hybrid solutions

Hybrid projects that combine renewable generation assets with battery energy storage systems (BESS) are increasingly essential to address intermittent solar and wind and to optimise grid utilisation as renewables play an expanding role in energy systems.

Regulatory frameworks across Europe are mandating flexibility solutions, while falling battery costs and the potential to capture higher prices or secure better priced off-take agreements enhance project economics. Co-located assets can significantly increase revenue potential by enabling operators to store energy during periods of low prices and sell it when electricity prices peak, as well as capture ancillary service revenues.

We think investors who focus on integrated, multi-technology platforms that deliver ‘baseload-like’ renewable generation can benefit from this accelerating trend.

As ever, finding the right partners is critical. With 20 years’ experience as a private markets manager focused on clean energy investments, we understand how partner expertise and deep market knowledge can be valuable to help minimise risks specific to local markets, as well as to gain access to diversified project pipelines.

<sup>82</sup> Impax analysis, 2025

<sup>83</sup> SolarPower Europe, December 2024: EU Market Outlook for Solar Power 2024-2028









## Conclusion

We approach 2026 with cautious optimism. Falling interest rates and rising government spending should support risk assets. However, narrow drivers of economic growth and unsustainable fiscal trajectories raise alarm bells.

Within equities, we continue to take a critical view of certain stock valuations and expect investors to rediscover a focus on fundamentals – and so on stocks whose potential has been overlooked.

Within fixed income, we perceive compelling relative value opportunities, but rigorous credit selection will be critical for investors given spreads remain at historically tight levels.

In this context, and as the long-term financial implications of challenges facing global society come into closer focus, we are focused on investing in companies and issuers that we believe demonstrate resilience as irreversible transformations continue across the global economy.



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## 2026 Outlook

Targeting resilient opportunities  
from economic transformation

**IMPAX ASSET MANAGEMENT**

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