

# *2026 Investment Outlook*

December 2025





# Reflecting on 2025: From record highs to rising risks

2025 has been a remarkably resilient year for global equities with a number of indices reaching record highs, supported by resilient economic growth, strong earnings reports and lower-than-expected tariff impacts.

However, the year has also been marked by periods of heightened volatility, most notably the tariff-driven sell-off in April, and equity market gains have been achieved despite stretched valuations, rising geopolitical tensions, fracturing international trade and pressures on sovereign debt markets. Market momentum has been the force driving prices higher in the hottest growth areas of the market. Moving into 2026, the question is whether the market will continue to 'melt-up' against the risks that are prevalent in the market, or 'melt-down'.

Although US mega-cap technology stocks have once again been the main drivers of market direction during the year, the market has also broadened with non-US equities picking up strength, reflecting better earnings prospects and improved valuation.

## Market trends: Navigating opportunities beyond tech

- **2025:** The equity rally is no longer US centric; developed ex-U.S. markets and many emerging markets have contributed to global gains this year, offering diversification beyond US dominance.
- **2026:** Non-tech sectors, such as cyclicals and industrials are gaining attention, especially as investors look beyond purely growth-oriented sectors. Caution remains due to macroeconomic headwinds, largely from a potential increase in trade tensions and heightened global policy uncertainty, weakening manufacturing in some regions, energy costs remaining volatile and questions over the inflation outlook.

## Geopolitical landscape: Persistent risks in a fractured world

- **2025:** Geopolitical risks have remained high, with ongoing conflicts, strained US-China relations and trade protectionism.
- **2026:** Geopolitics will play a key role for the direction of markets in 2026 and pose persistent risk factors. A new trade relationship between the US and China is scheduled to be finalised later in the year and there is ongoing tension due to the situation in the Middle East and the war in Ukraine.

## Debt and fiscal policies: Higher debt, higher stakes

- **2025:** US national debt reached \$38 trillion for the first time in November and the US administration's fiscal policies played a significant role in shaping the global economic outlook.
- **2026:** Addressing debt challenges will be crucial for economic stability. The Fed could be key for the direction of equity markets in 2026 and has a fine line to walk with policy decisions as inflationary pressure could mount due to the reduction in immigration and the resultant impact on the labour supply and potential affects from President Trump's Tariff policies.

**Key takeaway:** The US and China have reached a trade deal (albeit temporary) and the Fed has cut rates with stocks at highs and credit spreads at lows. This has resulted in double digit gains in many equity indices. The market expects further Fed rate cuts in 2026, but this view may be overly dovish given the inflation and labour dynamic. If there is a resurgence of inflation in 2026, a key question will be how a politically charged Fed responds. The full impact of tariffs is yet to be seen.

	2025 highlights	2026 outlook
<b>Market trends</b>	Record highs in global equities, led by the US growth engine	Continued growth with regional disparities
<b>Geopolitical landscape</b>	Geopolitical risks and tensions have remained high, marked by trade protectionism and conflict	High geopolitical risks; ongoing conflicts and the impact of a US / China trade deal
<b>Debt and fiscal policies</b>	Growing government debt and high borrowing	Crucial to address debt challenges; new US fiscal policies expected to influence the economy

Inflation remains above central bank targets, especially in the US, driven by tariffs and fiscal expansion. Central banks will carefully adjust interest rates to balance inflation and economic growth.

US exceptionalism is set to continue, however it is priced for perfection in our view. Whilst Artificial Intelligence (AI) and Tech continue to drive earnings growth and innovation drives excitement, valuations can eventually revert.

- **Growth:** Global economic growth is resilient but uneven. What will be the impact of sustained high US tariffs? Will the AI boom continue and will tech investment as a share of GDP hit new highs, or will concerns over an AI bubble and downturn be warranted?
- **Inflation:** The Fed could be key for the direction of equity markets in 2026 and has a fine line to walk with policy decisions and inflationary pressure.
- **Regional variations:** Most regions are not as cheap as they were. While valuations continue to favour ex-US regions, they are not as cheap as a year ago with markets pricing in a brighter earnings picture for 2026 and beyond.

**Key takeaway:** While steady growth is anticipated, regional disparities, uncertainties, and risks will require a diversified approach.

## Investment strategies for 2026

### Equities: Balancing act

While mega-caps should continue to perform well, the rise of smaller and medium-sized stocks may broaden returns.

- **Diversification:** A balanced and diversified approach is likely to continue to be key for investors in 2026.
- **Sector focus:** While technology, particularly Gen-AI, has been a major driver of market performance, other sectors, such as healthcare, also present significant opportunities.
- **Market cap:** The US equity market has performed exceptionally well during 2025, led by ‘big tech’. However, opportunities exist across the broader market, with non-tech sectors, such as cyclicals and industrials gaining attention, especially as investors look beyond purely growth-oriented sectors.

**Key takeaway:** Diversification across sectors and geographies will be essential for a resilient equity portfolio.

## The 2026 outlook

### Global economy: Global growth in transition

Global economic growth is resilient but uneven and the global economy will be exposed to a combination of new underlying challenges, such as the restrictions on trade and migration.





## Bonds: Seeking stability and balance

Bonds remain an attractive option for steady income, especially with higher yields. Prioritising high-quality and shorter-dated bonds can help build a more resilient portfolio. Our approach has been to stick to the shorter end of the curve - where assets still generate a good yield but with less capital volatility than in long-dated bonds.

- **High-quality bonds:** High-quality corporate and government bonds currently provide attractive yields.
- **Shorter-dated bonds:** We prefer shorter-dated bonds (over longer-dated ones), because they are less affected by changes in interest rates, making them more stable.
- **Investment-grade bonds:** Investment-grade bonds are more reliable than high-yield bonds, which carry higher risks.

**Key takeaway:** Prioritising relatively safer and shorter-dated bonds can help to target steady income and build a more resilient portfolio.

## Looking ahead: Preparing for the future

As we move into 2026, investors have reasons to be optimistic.

Conditions are in place for further appreciation in equity markets in 2026 due to sound economic growth, decreasing interest rates and strong corporate earnings growth. However, it is crucial to remain vigilant about potential risks. Geopolitical tensions, economic uncertainties, and market volatility could all pose potential challenges.

- **Positive factors:** Sound economic growth, falling interest rates, and ongoing potential for corporate earnings growth.
- **Balanced approach:** Maintaining a balanced approach across asset classes, geographies, styles, and market capitalisation sizes will be essential.
- **Cautious optimism:** While we are positive on the economic and market outlook, we remain cautious, shaping our asset allocation to account for various possible outcomes.

Overall, we are well-positioned to navigate the changes and challenges of 2026. By balancing optimism with caution, we can better prepare for any uncertainties that may arise.

**Key takeaway:** This is a market that rewards patience and diversification. Maintaining a balanced and diversified portfolio but staying mindful of potential risks.

To navigate these dynamic market conditions effectively, consider speaking with our team. We are well positioned to help you understand the complexities of the market and tailor strategies to meet your investment goals. Let's discuss how we can support your financial journey in 2026 and beyond.

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