

**2025 outlook**

Where are investment markets headed in 2026?



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## Where are investment markets headed in 2026?

The year 2025 was anything but ordinary. The US administration's introduction of tariffs sent shockwaves through global trade, sparking retaliation and upending decades of economic integration. Supply chains scrambled, markets swung wildly, and investors were left navigating a world of uncertainty.

Despite this turbulence and while tensions still linger, global markets are showing remarkable resilience and innovation is accelerating – from Artificial Intelligence (AI)-driven productivity to the global energy transition. Infrastructure investment and sustainability are creating new pathways for growth, even as trade and policy challenges persist.

Our 2026 outlook explores the trends driving progress and how First Sentier Group's asset class specialists are thinking about where they can unlock opportunity in a changing world.

### Fallout from Liberation Day likely to continue

Nigel Foo, Head of Asian Fixed Income at First Sentier Investors said that 2025 saw decades of globalisation and economic integration unravel as the US imposed punitive tariffs on 'Liberation Day' – or 2 April 2025, when the majority of tariffs were announced.

*"These announcements triggered a cascade of retaliatory measures, blocking global trade, and ultimately stalling growth."*

*"While we were well positioned to navigate volatility, what surprised us was how macroeconomic fundamental and markets diverged – swinging quickly from deep pessimism in April to extreme complacency, all amid a weakened growth backdrop,"* he said.

*"The challenge for us going into 2026 will be to navigate this increasingly bifurcated landscape – one where asset prices are buoyed by liquidity, but macro risks continue to mount beneath the surface,"* he added.

As for the impacts to equity markets, Dr David Walsh, Head of Investments at RQI Investors said that prior to Liberation Day, the market had been rewarding low risk, shorting high beta/high uncertainty stocks and broadly rotating towards higher quality.

*"Following the tariff announcements, we saw a clear shift towards risk, which created a medium term 'risk on' rally – rewarding high beta, more heavily shorted, riskier names. Quality as a factor continues to suffer as a result,"* he said.

While Dr Walsh said there are signs that this risk rally is abating, he concurred it's unclear what will prevail in 2026, *"While we have seen a strong reversal of this effect in the past, timing and size of that reversal remain uncertain."*

Commenting on investors trying to time the market, Michael Joukhador, Portfolio Manager of Australian Small and Mid-Cap Companies at First Sentier Investors, said, *"The lesson that remains salient into 2026 is that, whilst we may remain in a period of heightened volatility, sticking to a disciplined investment process with a long-term mindset can be more important than reacting to short-term noise"*.

### Will the AI bubble persist?

Dr Walsh said the ongoing growth of AI and technology stocks was an ongoing theme set to continue over 2026. However, with billions of US dollars of capital expenditure (capex) on the cards, he questioned *"whether they can deliver given supply chain, labour and energy/resource concerns."*

Commenting on the importance of AI investment and uptake over 2026, he said, *"Central issues for large tech firms include the likely move from free cash flow funding to debt funding, compressed margins and sharply increased depreciation over the next few years. However, firm management and the market seem to be looking through these issues."*

*"This may change if return on invested capital (ROIC) does not materialise to an extent which justifies this investment."*

Like many market participants, RQI Investors remained increasingly concerned that the market is in an AI driven bubble. *"Valuations are extremely high, earnings projections are rising to justify these valuations, yet economic growth and productivity improvements are uncertain. While this presents opportunities – improved returns to quality and potentially a growth sell-off strongly benefitting value – the signals remain mixed."*

Pointing to the future, Dr Walsh said, *"Over 2026, the ongoing obstacle of increasing market concentration will continue the headwind for fundamental stock-picking alpha generation. In addition, factor performance may be more difficult, and downside risks embedded in a tech sell-off will increase"*.

### Asian countries showing resilience

Commenting on the likelihood of interest rate cuts, Mr Foo said, *"Consumer sentiment is deteriorating rapidly, even as business confidence finds support from the AI-driven productivity boom"*.

*"Should unemployment rise sharply from here, we expect the Fed to respond with rate cuts to cushion growth. While the worst of the trade disruptions may be behind us, the damage to global supply chains and investor confidence has already been done."*

While he believes that China's recovery is gaining traction, he said the path remains uneven with subdued growth and persisting weak employment and deflationary pressures. *"As the trade war with the US drags on, markets are increasingly looking to Beijing for fiscal stimulus to stabilise the economy,"* he said.

As global alliances shift and the old-world order gives way to a more fragmented landscape, he suggested that ASEAN nations have shown resilience. *"Supported by benign inflation, accommodative monetary policy, and a young, growing workforce, the region has weathered tariff and geopolitical headwinds better than expected. While concerns around fiscal discipline in countries like Indonesia persist, others – notably Vietnam and Malaysia – are benefiting from the reconfiguration of global supply chains and rising foreign investment."*

Moving into 2026, Mr Foo sees elevated valuations across different asset classes as being increasingly vulnerable to sharp corrections. *"The Fed's lagging policy response could exacerbate volatility, especially if investors begin to question its ability to manage a deeper slowdown."*

*"The de-dollarisation narrative continues to gain traction, with non-USD currencies likely to benefit as the US economy weakens. Interest rates remain at historically attractive levels, offering compelling carry for fixed income investors."*

He concluded, *"As we enter 2026, it will be important to remain disciplined - selective, focused on quality, and cautious in stretched areas of the market."*

## Global listed infrastructure buoyed by Merger and Acquisition (M&A), rising demand for electricity

Over 2025, the global listed infrastructure asset class saw a marked uplift in M&A activity, driven by industry consolidation, the impetus to fund capex, and demand from private investors.

Peter Meany, Head of Global Listed Infrastructure at First Sentier Investors cited the proposed merger between major US freight rail operators Union Pacific and Norfolk Southern as an example of the opportunity provided by industry consolidation. *"If approved by regulators in 2026, this merger will create an industry-leading operator with a track network spanning the continental United States, improving efficiency and reducing transit times for goods – and the potential to deliver significant benefits for both customers and shareholders."*

He also noted the trend for companies to use M&A to fund capex commitments by selling non-core assets. *"This approach offers a lower cost of capital than issuing new debt or equity would have done, reflecting healthy demand for infrastructure assets."*

Commenting on the demand from private investors for global listed infrastructure companies, he noted the example of Canadian pension fund CDPQ acquiring Canadian renewables developer Innergex Renewable Energy at a 58%<sup>1</sup> premium to its undisturbed share price. *"This trend highlights the appealing value proposition within the global listed infrastructure space, as well as the valuation gap that currently exists between listed and unlisted infrastructure assets."*

Mr Meany said the M&A theme will likely continue into 2026 as investor appetite for long-life, cash-generative real assets remains strong.

He also noted that the growing demand for electricity was likely to provide a significant uplift to utility earnings growth through 2026 and beyond.

*"As a result of this demand, we believe that US utilities' earnings growth rate will rise materially, from around 4% per year to around 8% per year,"* said Mr Meany. He noted however, that US utilities would need to carefully balance electricity demand, which is already placing upward pressure on capex and operating expenditure, with customer affordability.

In addition, he said the need to replace or repair aging infrastructure and the lack of government funding would continue to drive growth for the sector in 2026.

*"Governments and regulators are likely to face increasing pressure to provide attractive investment frameworks in order to entice the capital needed to carry out work to fix roads and other infrastructure. This appears likely to provide global listed infrastructure companies with additional long-term growth opportunities."*

## Who could be the likely winners from the AI gold rush?

As a direct investor in infrastructure assets, Danny Latham, Head of Igneo Infrastructure Partners, Australia & NZ, is bullish on the infrastructure sector with material tailwinds from the macro trends of energy transition/reliability, digitalisation, deglobalisation and circular economy trends around waste and water.

*"In an environment of high capex spending amidst the fourth industrial revolution, the hottest topic is the impact of AI and the sheer investment need to support it. According to McKinsey research, a staggering \$5.2 trillion in data centre capacity expansion is required by 2030 to handle AI processing loads."*

He added, *"There are similarities to previous investment booms such as various gold rushes and the dot-com era. As a value investor, with a focus on the mid-market, we are more inclined to invest in the enablers or support infrastructure, which is comparable to the providers of picks and shovels to the gold miners."*

<sup>1</sup> Press release, Innergex as of February 2025

*“In AI parlance that translates to the renewable energy and recycled water that are critical inputs to data centre development.”*

Mr Latham said that energy demand was just one of the intersecting factors in the circular economy and cited data centres as leading the way, *“Data centres have huge energy demands, but are also at the forefront of innovation and sustainability. They want renewable power and recycled water, and seek to become more sustainable and efficient overall – and that’s an opportunity for investors like Igneo. Through investment, we can be a part of the circular economy around waste, water and energy while seeking long-term growth opportunities for investors.”*

*“Certainly, the views out of the US around energy transition have shifted – there is a greater focus on fossil fuels from a national perspective albeit many states are still on their Net Zero Emissions journey and still favour renewables. The energy transition vs reliability is playing out across different jurisdictions globally, including Australia,”* he said.

*“These different views are coming from an affordability perspective, but also in relation to reliability of energy supply, for example, in places such as Europe. Cost and the supply/demand thematic have become a pinch point in some markets and this will continue over 2026 and beyond as different markets move to other energy sources, to meet demand.”*

He continued, *“Over the last 20 years or so, electricity growth in markets like the US have been relatively flat but that’s changing. The general trend towards electrification, coupled with the growth of data centres, is expected to see the demand for electricity accelerating and pointing to a Compound Annual Growth Rate (CAGR) of 3–5% over the next 20 years. In Australia, Australian Energy Market Operator (AEMO) is forecasting that electricity consumption will double over the next 25 years.”*

*“That’s why we need significant structural change to supply electricity going forward and where investment can support the transition to renewable energy.”*

## **What will shape the responsible investment (RI) front in 2026?**

First Sentier Group's Global Head of Responsible Investment, Kate Turner, said there were two schools of thought which have been shaping the RI landscape in recent years. The first approach which applies a narrow lens, focuses solely on financial materiality of Environmental, Social, and Governance (ESG) issues, while the second embraces double materiality – the impact of ESG factors on the company as well as the company on the wider system.

Commenting on the first approach, Ms Turner said, *“The single materiality approach is aligned with International Financial Reporting Standards and offers clear benefits – strong ties to*

*financial materiality help address some of the criticisms of RI in the US and other markets, where questions around relevance and accountability have been prominent. However, the downside is that this perspective can miss the bigger picture.”*

*“By concentrating only on company-level impacts, it overlooks implications across the portfolio and broader systemic effects”*

Citing the example of a major agricultural company operating in a region with weak water governance, she said that from a narrow financial materiality perspective, the company may look strong with low water costs and high crop yields. *“However, its intensive water usage may contribute to regional water scarcity, which can destabilise local communities, increase regulatory intervention, and disrupt supply chains.”*

She said these systemic impacts ripple across other portfolio companies reliant on the same resources and may also impact the company itself, even though it appears financially secure in the short term.

*“The reality is that systemic risks, by nature, cannot be fully diversified away, making proactive engagement and system-level solutions critical for long-term value creation.”*

The second school of thought embraces double materiality, recognising that investors must account for both the impact of ESG issues on companies and the impact of companies on the wider system.

Ms Turner said that this perspective brings systemic risks, such as climate change, biodiversity loss and social inequality, into sharper focus. *“While these risks are widely acknowledged, practical implementation remains limited because systemic issues cannot always be tied neatly to individual companies.”*

*“This makes it challenging to integrate them into traditional investment analysis and decision-making frameworks.”*

Ms Turner went on to say that over 2026, the challenges and opportunities lie in bridging these perspectives to deliver resilient, sustainable outcomes and generate better returns on behalf of clients.

*“To date, these approaches have often been viewed as mutually exclusive. But what if we could combine the strengths of both? By applying rigorous company-level analysis alongside a broader understanding of systemic risks, investors can identify interventions at multiple levels – within portfolios and across the financial system and broader economy. This includes policy advocacy, industry collaboration and engagement strategies that mitigate risk and drive positive change.”*

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