Yearly Outlook

2026

EUROZ HARTLEYS

Contents

Cautiously optimistic... again

2025 proved again to be a year of resilient global economic growth and strong returns for risk assets. However, it certainly didn't feel that way in early April as we all grappled with what President Trump's Liberation Day meant for economies and markets. As it turned out, however, the worst tariff scenarios were avoided as Trump walked back from initial tariff levels, and importantly there were strong tailwinds for the US and global economies. Interest rates continued to be cut as inflation stabilised, and record levels of capex were invested in AI and technology. Highly stimulatory fiscal US deficits were continued if not increased with the passing of the One Big Beautiful Bill (OBBB) by the US congress.

As we shift into 2026 one of the biggest challenges is thinking through where we are in the cycle, and how much risk and credence we should attach to the highly unconventional Trump administration.

On the positive side of things we have the tailwinds already discussed. Rate cuts look likely to be more limited this year and many central banks may already be done. Moreover, we have Japan, and possibly Australia in a rate hiking cycle. With that said we know that there is a lag to monetary policy, and as such the rate cuts of 2025 in the US, Eurozone, UK, and Australia likely still play a supportive role in 2026.

On the fiscal side in the US, expectations are that the OBBB will have a meaningful stimulatory impact through the first half of 2026, and then a significant, if more subdued impact thereafter as the US continues to run large budget deficits. Additionally, we are seeing greater fiscal support in the large economies of Germany and Japan.

Mag 7 capex and the future return on this invested capital, is the subject of much debate and one we discuss further in this document. In the short-medium term, however, it continues to be another leg of stimulus in both the US and globally.

One change in recent months has been a marked fall in the USD. This is the result of a number of factors including narrowing interest rate differentials and broad de-dollarisation driven by deficits and geopolitical considerations. This should be a positive for liquidity and growth globally.

Relatedly, but also separately, we are seeing something of small commodities boom. We will also discuss this further in the document, but it at least in part reflects a degree of economic strength in the global economy. Domestically here in Australia it remains a strong positive for growth.

These tailwinds are reflected in the numbers as we sit here today at the end of January 2026. The Atlanta Fed's GDPNow measure is running above 4%, US weekly initial jobless claims have consistently been running at very low levels, and consensus 1 year FW EPS for the S&P500 is at around 15-16%. All numbers that indicate a strong US economy with good earnings growth.

Australia is following the same trend, if in a more muted way, with improving growth, consensus EPS at 10%, and a strong labour market.

For all that positive data, that's not necessarily the way it feels, however, and that's because there are things to be concerned about. With the Presidency of Donald Trump, there are often a dizzying array of missives and policy changes to keep abreast of, but in reality most are not necessarily that consequential from a markets perspective. Perhaps the most potentially consequential and one we are watching closely are attacks on independence of Federal Reserve, albeit we still think this unlikely at this stage. The other is Trump's foreign policy adventurism as we've seen in Greenland, Venezuela, and Iran. We address in our Global Economy summary below how we are thinking through these risks.

Finally, equities look expensive based on any traditional valuation metric. We're of the belief that so long as earnings growth holds up, these high valuations can be sustained over the short-medium term, but they nevertheless pose a risk if growth and earnings disappoint.

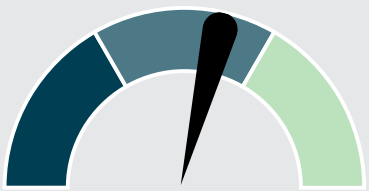
Key Views:

- A modest overweight to Growth Assets reflecting strong fundamentals tempered by elevated valuations and geopolitical risk
- Within Growth Assets, a modest OW to International Equities reflecting the strong and broadening earnings in the US into small and mid-caps as well as positive effects from a weak USD on Emerging Markets
- Keep Tech allocations broadly neutral but be increasingly active and selective – look for pockets of value in Australia and Asia
- Gold and Silver look overbought at present levels, but long-term structural drivers support a buy on dips strategy
- A modest UW to International Fixed Interest – in part reflecting rising bond yields in Japan, Germany and some other regions
- In other asset classes we are largely neutral. We think as the cycle matures, and with expensive valuations, it is a time to maintain diversification. While our base case remains constructive there are some increased tail risks which warrant benchmark allocations to asset classes such as Alternatives, Property and infrastructure

As we face into 2026, below are our four macroeconomic scenarios for developed markets that align to our belief that the direction of inflation and growth are key drivers for markets.

	Risk On		Risk On	
	Goldilocks	**Reflation**	**Inflation**	**Deflation**
	Growth ↑ Inflation ↓	Growth ↑ Inflation ↑	Growth ↓ Inflation ↑	Growth ↓ Inflation ↓
Probability	35%	32.5%	17.5%	15%
Drivers, monetary and fiscal environment	Growth tailwinds combined with productivity improvements see continued disinflation and strong GDP	Growth tailwinds, fiscal stimulus, and delayed effects of tariffs see inflation remain stubbornly high while growth remains robust	Delayed effect of tariffs stronger than expected, driving up inflation and weighing on growth	Delinquencies increase, Private Credit emerges as a broader issue, Tech earnings disappoint, resulting in weak growth and central bank easing

Mason Stevens OCIO Risk Barometer



Regime

Sentiment

Valuations

The Global Economy in 2026

After a turbulent 2025 – marked by tariff shocks, policy uncertainty, and a mid-year growth scare – global conditions into 2026 look more constructive. A maturing Fed easing cycle, incremental fiscal support (US, Germany, Japan), and a rebound in global industrial production and trade should lift growth toward a trend-like pace. Inflation is stubborn, albeit likely to drift lower globally despite tariff-related relative-price pressures, keeping long rates broadly range-bound. Two key risks to our constructive view standout, AI capex sustainability and the erratic policy of the Trump administration, but the base case is healthy global growth with supportive conditions for Multi-Asset portfolios.

The economic outlook for 2026 rests primarily on 3 pillars:

- **Easier financial conditions.** Late-2025 Fed cuts and prospective early-2026 easing lower funding costs and improve risk appetite. Additionally, we have seen improved liquidity in Repo markets courtesy of Fed support and a falling USD.

Figure 1 - US Financial Conditions Index

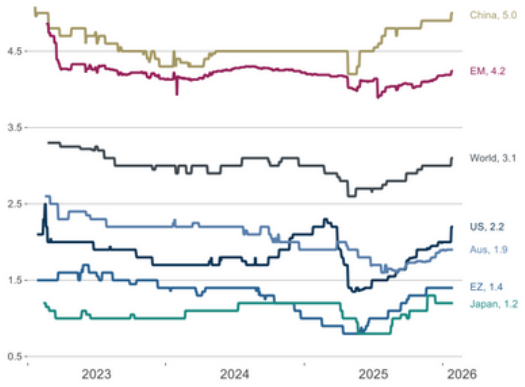
Source: Macrobond

- **Fiscal Support.** The US "One Big Beautiful Bill Act" (OBBBA) adds to **capex incentives** and tax refunds (March-April) that bolster disposable income. **Germany** and **Japan** are set to provide incremental support, while the UK consolidates from still-expansionary levels. Australia is currently running larger deficits than forecast. Globally, the fiscal impulse is **moderate but positive,** favouring durability over exuberance.

- **AI-driven investment cycle.** The **AI capex boom** raises non-residential investment without tightening the labour market meaningfully (data centres are capitalintensive and labour-light). This allows monetary easing to proceed even as growth firms, though it also raises questions about return-on-capital timing and competitive pressures.

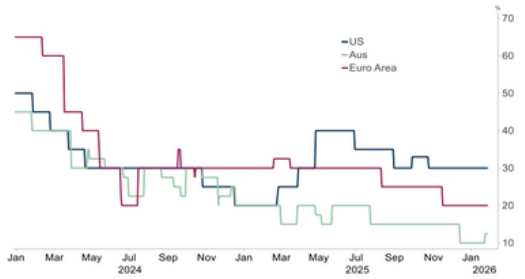
The factors have all contributed to higher consensus growth rates and lower expectations around recession risk.

Figure 2 - Consensus Real GDP Estimates



Source: Bloomberg, Mason Stevens OCIO

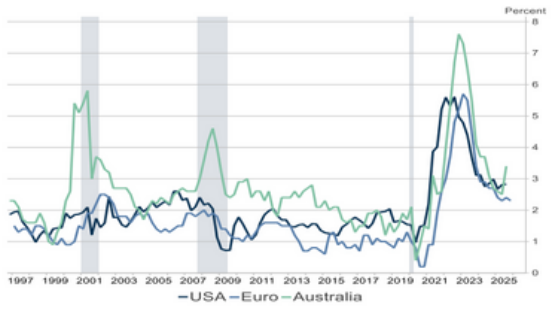
Figure 3 - Consensus Probability of Recession



Source: Goldman Sachs Global Investment Research, Mason Stevens OCIO

Inflation has remained sticky, with central banks struggling to bring inflation quite back to target. That said there appears little evidence to support the risk of an inflation break out, and any tariff related inflation should dissipate over the course of 2026.

Figure 4 - Core Inflation



Source: Macrobond, Federal Reserve Bank of San Francisco, Australian Bureau of Statistics, ECB (European Central Bank), Mason Stevens OCIO

United States: growth scare fades; AI capex and policy support lift 2026

After a soft H1 2025 – driven by tariff implementation and policy uncertainty – US growth accelerated into Q3, with momentum continuing in Q4. Entering 2026, we expect **above-consensus growth** with:

- **OBBBA** capex incentives strengthen the AI tailwind.
- **Tax refunds** in March-April provide a consumption boost.
- **Fed easing** (late-2025 cuts, with scope for further early-2026) lowers funding costs and improves sentiment.
- **Business investment** benefits from reduced trade uncertainty and ongoing AI-related spend.

Eurozone: soft undercurrents; ECB leaning more dovish

The Eurozone grew 1.4% y/y to Q3 2025, with nearly half concentrated in Q1 due to export front-loading. Beyond trade timing, momentum is **soft**: household consumption has slowed; wage growth is set to moderate; and housing investment remains weak. Confidence is soft but could **gradually** improve if global demand firms. **Germany's** sizable fiscal expansion is likely to push bund yields higher, tightening financial conditions, but also support growth. This backdrop – plus residual competitive pressure from China – argues for an **ECB neutral to dovish tilt.** Currency-driven cuts are a risk if EUR strength extends beyond ~1.20. Net-net, we anticipate **cautious easing.**

China: two-speed structure persists; détente lowers uncertainty premia

Despite US tariffs, **exports** remained resilient in 2025, allowing growth targets without forceful domestic stimulus. The **two-speed** structure persists into 2026: strong manufacturing/export performance against **weak consumption** and **property**. Deflation risks linger as domestic demand remains subdued. Policy is **incremental** – focused on quantity-based credit allocation to favoured sectors – with scope for a **rate cut** in early 2026. The **US-China détente** does not resolve strategic rivalry but reduces market anxiety and **normalises** cross-border business engagement. Near term, export-led growth supports Chinese risk assets.

Australia: stronger momentum, with overheating risk

Australia's 2025 momentum improved and should be **a little stronger** in 2026. **Household consumption** leads the recovery; **housing investment** has rebounded on lower rates; **business investment** is picking up after a weak H1; stronger commodity prices supporting growth. Government spending slowed in 2025, creating space for private demand. The risk: if public outlays re-accelerate alongside private demand, **inflation** could re-emerge. Base case: **RBA on hold around ~3.6%** through 2026, with risks skewed to a hike if capacity constraints bind and services/housing inflation firm further.

The Trump Administration wildcard

The above summary assumes that some of the Trump administrations more erratic and concerning words and actions, are ultimately not that impactful for markets over the course of the next 12 months. That's not to say, no impact, but to say rather that the key fiscal, monetary, and capex tailwinds ultimately carry more weight in terms of what drives economies and markets.

It would be too pollyannaish, however, not to acknowledge these risks and the impact they may have from an investment perspective. Perhaps the most obvious concern is the independence of the Federal Reserve. Trump has regularly criticised Fed Chair Powell, however, this has escalated with the launching of a criminal investigation into Powell ostensibly over cost overruns with renovations at the Fed. Powell has responded to this by stating in his view that this is clearly a politically motivated investigation. Central bank independence is a distinguishing difference between developed markets and emerging markets, and even more important from a global perspective given the US's reserve currency status. That this is occurring clearly raises the risk the Fed will either become or be perceived to be less than independent, especially when Trump appoints a new Fed Chair in the middle of this year. While our base case is that Fed retains credibility, if the Trump administrations attack on central bank independence ultimately has legs it would have a significant impact on US Bond yields and the USD. These are central pillars for global markets, and would have the potential to unravel the positive returns we expect from risk assets in 2026.

The other major risk is a major geopolitical miscalculation, caused at least in part by the Trump administration. A US president openly and repeatedly talked about attacking a NATO ally in Denmark as Trump did in early January, has created a previously unthinkable security scenario. While the risk around Greenland has been reduced for the time being, we don't have confidence that Trump's international policy actions will become more consistent from here.

Recent actions or rhetoric in Venezuela, Iran, and Greenland have for the time being come with no major market impacts, but the risks of a miscalculation, or an unintended consequence from military action are rising.

What both these things signify is that key economic and security assumptions that much of the world has built their economies and security architecture on are potentially at risk in a way they haven't been for decades. In combination they have driven a nascent ex US trade – a weaker USD, Gold, European defence, and Emerging Markets have all been beneficiaries in recent months. This trade may accelerate if Trump follows through on some or all of these threats.

Key themes for 2026

- **Policy normalisation & reduced uncertainty.** Tariff **headwinds** fade as deal-making gathers pace and the window for new measures narrows. The geopolitical climate challenging – but the relative **US-China détente** – lowers uncertainty premia in markets and trade planning.
- **AI capex: boom with a lag.** The capex cycle boosts growth without tightening labour markets, giving the Fed **cover** to ease. Returns may be uneven across hyperscalers and supply chains, with rising competition and leverage. Bubble risk is more **2027** than 2026.
- **EM resilience.** Inflation and debt levels in EM – particularly Asia – are **reasonably controlled** relative to history. The global trading system has adapted to tariffs thus far, but long-run effects, especially around China's "anti-involution" push to raise prices on commoditised exports, will take **years** to play out. Weaker USD further supporting

Growth & inflation: our base case and risks

Base case (12 months). Global growth **accelerates** toward trend; inflation is stubborn but with a bias to **drifting lower.** Long yields **range-bound** to slightly higher. Equities and EM assets benefit from improving demand, while the USD **slides** cyclically.

Upside risks. Stronger-than-expected US and China growth; more effective fiscal transmission (US, Germany, Japan); AI spillovers lift profits and risk appetite – akin to late-1990s episodes.

Downside risks. AI returns disappoint; geopolitical risks, idiosyncratic Private Credit defaults metastasize, labour market softens further; inflation proves sticky due to tariffs or services, forcing **later-2026** Fed hikes;

Asset allocation implications

- **Rates:** Neutral allocations to bonds and credit, with some consideration to an international Underweight given the ongoing back up in Japanese yields, and risks to high yield in the US, Europe and Australia.
- **Equities:** Maintain xposure to tech but become more active in your allocations (see Investment Themes section). Also consider **SMID, EM and Japan exposures as diversifiers.**
- **FX:** Structural **USD bearish** given broad dedollarisation drivers, hedge overweight to AUD
- **Commodities: Neutral cyclicals** where China's domestic demand may soften; but maintain exposures where structural demand is strong **e.g. Gold, Copper.**

Bottom line

2026 is set to be a year of **healthy global growth**, aided by **Fed easing**, **supportive fiscal policy,** and an **AI capex** cycle that boosts investment without overheating labour markets. While valuations are "hot" in places and the policy path is not riskless, the constructive cyclical backdrop should **dominate**, supporting risk assets. We'll watch two swing factors closely: **Trump Administration policy** and the **trajectory of AI returns.** For now, duration, quality, and balanced equity exposure remain the right stance, with hedges that can **oscillate** between left-tail (growth disappointment) and right-tail (overheating) risks.

Key Investment Themes

Technology and AI Exposures[i] – US, China, and Australia

Strategic Deep Dive: The 2026 AI & Hardware Landscape & Regional Opportunities

Maintain Tech exposures but rotate towards pockets of value in Asia and Australia. The consensus across both J.P. Morgan and Goldman Sachs is that while the "AI Capex Supercycle" is still accelerating (projected +50% growth in 2026), the market is shifting phases. We are moving from a rising tide that lifts all boats to a highly selective environment defined by unit economics, agentic workflows, and cyclical rotations.

The Custom Chip Threat

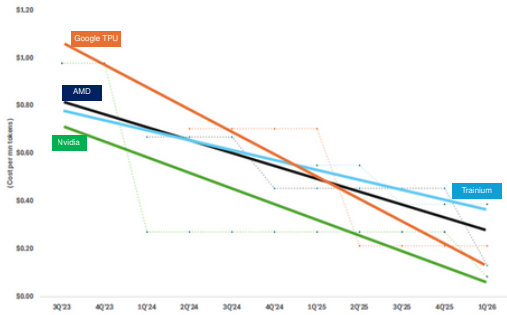
The most critical debate for 2026 is the durability of Nvidia's dominance against the rise of custom silicon (ASICs) from hyperscalers.

The Cost Curve Crossover: GS provides a pivotal analysis on AI Unit Economics, revealing that Google's TPU is rapidly closing the gap with Nvidia. Their analysis suggests a ~70% reduction in cost-per-token from TPU v6 to TPU v7, bringing it on par with or slightly better than Nvidia's GB200 NVL72 in absolute cost terms.

Nvidia's moat is shifting, while raw compute cost is converging, Nvidia's defence is no longer just hardware performance, it is time to market and the CUDA software moat. Nvidia is significantly outspending rivals on R&D to maintain this velocity.
In contrast to Google, Amazon's Trainium and AMD are currently lagging. GS estimates they have delivered only ~30% cost reductions and trail in absolute cost efficiency, though AMD's rack-level solutions in late 2026 could narrow this gap.

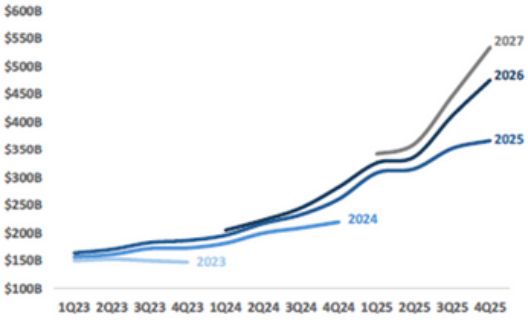
The 'easy' AI hardware trade is either over or at least waning. JPM advises focusing on the sustainable elements of AI capex, specifically Broadcom (AVGO) and Nvidia (NVDA), which are best positioned to leverage the next bottlenecks, in their view that is around networking and advanced packaging. However worth noting that the likes of Google offers even more than their TPU story, with many other technology catalyst exposures in their portfolio including Robotaxis, a better Cloud 'Connect' solution, Quantum Computing and an extraordinary database of information to leverage AI across their Advertising business.

Figure 5 - Inference Cost per Million Tokens ($)



Source: JP Morgan Research

Figure 6 - Top 4 US Hyperscalers Combined Capex Street Consensus



Source: JPM Research & Bloomberg LP

Hardware & Memory

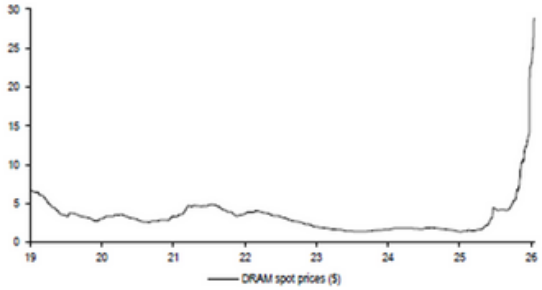
JPM's semiconductor research highlights a "stronger for longer" upcycle driven not just by logic, but by a massive scarcity in memory.

There is a structural shortage across the HBM (High Bandwidth Memory) & eSSD (Enterprise Solid State Drive) sectors. JPM notes that Micron's entire CY26 supply is already sold out, with HBM4 (Micron's latest next-generation memory product) pricing expected to carry a ~30% premium over HBM3E.

Within the Enterprise SSDs (eSSDs), AI inference is turning into a storage-heavy workload. AI servers now carry ~3x the SSD content of general-purpose servers. This is driving a 70% YoY expansion in the eSSD TAM (Total Addressable Market) for CY26, creating a major tailwind for NAND pricing.

Hyperscaler datacentre capex is forecast to grow ~65% in 2025 (subject to latest earnings in Q4) and another 50%+ in 2026, adding over $150B in absolute dollars this year. This supports a back-half loaded 2026 for semi-cap equipment makers like Lam Research (LRCX) and KLA Corp (KLAC) as logic nodes (2nm) and memory expansions ramp up.

Figure 7 - DRAM Spot Prices Reflect the Bottlenecks



Source: JPM Research

Software Evolution

JPM private company research on Anysphere (Cursor) and Cognition (Devin) signals a fundamental disruption in how software is created – moving from "Copilot" (assistance) to "Agentic" (autonomy). Anthropics (Claude Code) also has made waves in the agentic coding environment, which now has the ability to talk to Unix (base operating system), a fundamental shift that enables AI to control the full software stack down to the infrastructure layer of the server and desktop PC.

The industry is pivoting to asynchronous agents that act as junior developers. For instance, Cognition's Devin can now autonomously complete ~67% of software requests, up from 35% in early 2024.

While companies like Anysphere have reached $1bn ARR (annualised recurring revenue) faster than OpenAI or Dropbox, their moats are fragile. They rely heavily on developer taste and rapid iteration. There is a looming risk of commoditisation as hyperscalers release their own integrated tools (e.g., GitHub Copilot, Google Antigravity).

A core risk in these agentic AI business models is their "subsidised" structure: startups incur substantial API costs from frontier model providers (e.g., OpenAI and Anthropic) to drive rapid adoption and growth. This results in gross margins that are often negative or in the low-to-mid range – well below the 70-80%+ typical of traditional SaaS businesses.

This dynamic partly explains the pressure on incumbent software companies and their subdued stock performance in recent months, as commoditised AI capabilities have the potential to erode pricing power and force margin compression. That said, established businesses with loyal customer bases and defensible moats – such as proprietary data, domain expertise, or integrated workflows – remain relatively insulated from full commoditisation. These incumbents may even find opportunities to differentiate by layering agentic AI on top of their existing strengths, potentially capturing upside in the shift toward autonomous software creation. Finding these likely offers an opportunity to grab a rerating trade and outperformance through 2026.

Technology Opportunity in Asia

The valuation disconnect, priced for perfection vs. priced for recovery. The core macro thesis from JPM is that the global earnings engine is broadening. The 'US Exceptionalism' trade has left valuations stretched, while Asian and cyclical markets offer a "catch-up" opportunity supported by improving fundamentals.

The US market is arguably trading at a 'stretched' forward P/E of ~23x, significantly above its historical average. The 'AI Premium' is even higher, with AI-levered hardware names trading at a +79% premium to their historical averages. In the context of premium growth this isn't necessarily a problem.

However, the risk is that consensus expects the earnings gap between the 'Mag 7' and the rest of the market to widen again (from 4% to 15%). JPM views this as too aggressive. If the Mag 7 fail to deliver perfect execution, the valuation compression risk is high. Not that we interpret that as a must sell in the Mag 7 but more of a 'its time to hedge' away into other markets where it makes sense. It could be argued that the AI opportunity in Asia is just as impressive as it is in the US, however at a valuation that is much less demanding.

China & Asia (The "Value" Play):

In stark contrast to the US, China and broader Emerging Markets (EM) are rated Overweight by JPM, due to attractive valuations and under-ownership. After delivering little to no earnings growth last year, China is forecast to see a recovery phase. J.P. Morgan highlights a turn in policy and a strong wealth effect as key drivers that will support earnings growth in the region While the US technology sector wrestles with high expectations – priced for perfection at ~23x forward earnings and battling "Agentic AI" deflation fears – Asian technology markets offer a starkly different narrative. News headlines regarding China's policy pivot and the global memory supercycle are coalescing to create a tactical window. We are observing a value in growth opportunity where investors can access the same AI secular trends (compute & memory) at a ~50% valuation discount to US peers, with the added kicker of a cyclical economic recovery.

Figure 8 - Tech Valuations

Source: Macrobond, Mason Stevens OCIO

JPM recommend a tactical overweight on North Asian Tech (Taiwan/Korea) and Select China Internet, positioning this as the hardware backbone and deep value hedge to a US software correction.

The real supply chain is in Taiwan & Korea. US investors are crowding into Nvidia and Broadcom. However, the physical bottleneck for AI remains in Asia. You cannot run a 'Claude Code ' agent without High Bandwidth Memory (HBM) and advanced CoWoS packaging. Asia owns 90%+ of this capacity.

While US hyperscalers (Google, Amazon, Microsoft) fight over chip design (ASIC vs. GPU), TSMC manufactures all of them. They have a clear moat, the 2nm/3nm logic nodes are fully booked. Unlike Nvidia (trading at aggressive multiples), TSMC trades at a more defensive valuation despite being the sole enabler of the entire AI ecosystem. It is the safest way (from a valuation perspective) to play the capex super cycle without betting on a specific chip winner.

JPM's Semiconductor report explicitly states that HBM (High Bandwidth Memory) is sold o ut for all of CY2026. SK Hynix is arguably the most critical company in the AI supply chain right now (as the primary supplier to Nvidia). These stocks are historically cyclical. The market is currently pricing them as 'commodities ' (low P/E), b ut the AI super cycle has turned them into specialty infrastructure with structural pricing power. This multiple expansion has not yet been fully realised compared to Micron (MU) for example.

Technology Opportunity in Australia

The local technology sector ' ASX: ATEC ' has suffered a dramatic ~25% correction over the last few months, largely as collateral damage from the US 'Claude Code ' panic. Global algorithms have basket-sold 'high-growth software ' indiscriminately, fearing that Agentic AI will destroy seat-based pricing power.

However, local market commentary suggest this sell-off is a classic 'baby with the bathwater ' event. Australian technology leaders are fundamentally different from the vulnerable US productivity tools (like Asana or generic coding assistants) that are driving the bearish sentiment.

We are firmly placing Australian Software on our watchlist, viewing the current valuation compression as a rare entry point into systems of record ' that are trading at their most attractive relative valuations in three years.

US investors are dumping software because they fear AI Agents (like Claude 4.5) will reduce the headcount of junior employees, thereby killing 'per-seat ' revenue models.

The core ASX tech franchise – Xero (XERO), WiseTech (WTC), and TechnologyOne (TNE) – are not selling productivity tools to junior staff. They sell compliance and operating systems to enterprises and governments. Notwithstanding there are other issues to consider with some of these names.

But the reality is you cannot ask an AI agent to hallucinate a tax return or a customs filing. These require a rigid, trusted system of record. If anything, AI agents will increase usage of these platforms, cementing their stickiness.

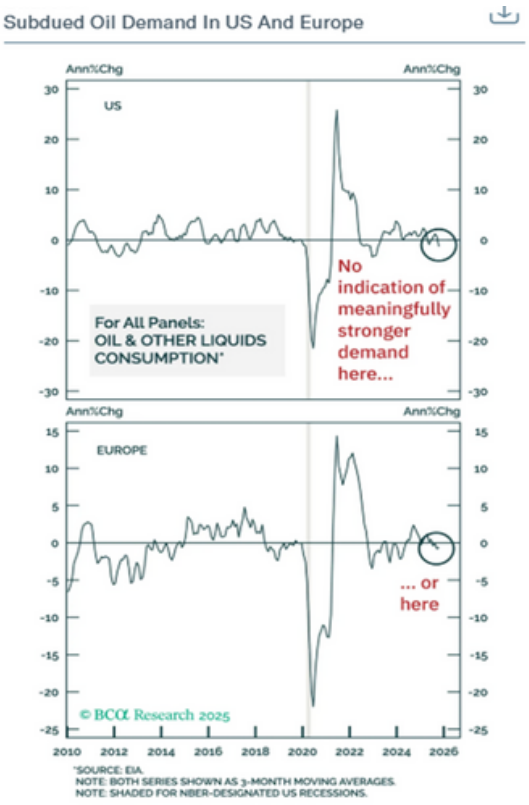
Key Investment Themes

Gold and Commodities

Gold - overbought in the short-term but an opportunity on pullbacks

Recent commodity strength has been driven partly by cyclical demand but perhaps more so by targeted structural and macro forces. Precious metals have benefited from safe-haven flows amid geopolitical risk, policy uncertainty, and a softer US dollar, while industrial metals have been supported by the energy-transition and infrastructure demand. At the same time, supply-side constraints – including underinvestment, geopolitical disruptions, and tighter environmental policy – have added risk premia to several markets. The result is a divergent commodity backdrop, where metals and gold have outperformed while parts of energy and agriculture remain more range bound. The outlook for oil in particular looks subdued with a lack of strong demand. This should be supportive for growth.

Figure 9 - Oil Demand



Source: BCA Research

Copper and Iron Ore both had strong runs through the second half of last year, but the outlook going forward is likely to depend on additional Chinese policy support, given growth in China is set to moderate. The areas we are focused on are those with medium-long term structural drivers – namely Gold (and derivatives such as Silver and Gold Miners), and Rare Earths.

Gold

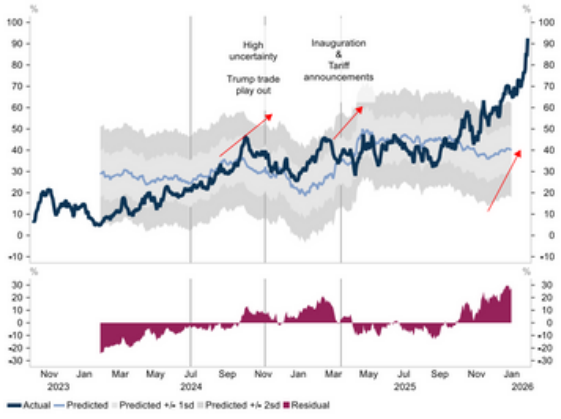
Gold's strong run began at the beginning of 2024 at $2,000 USD an ounce and is currently above $5,200 an ounce in late January of 2026. Silver, which often trades as a lagging, derivative of Gold, took off in 2025 and went from $30 an ounce to currently above $115. Gold Miner indices are up over 150% for the 12 months. They key question is can this continue.

Russia's invasion of Ukraine in 2022 – and the subsequent US decision to freeze Russia's foreign exchange reserves – has reinforced China's strategic imperative to reduce reliance on the US dollar. In this context, China's gold accumulation should be viewed as structurally different to its buying of cyclical commodities.

Against this backdrop, estimates suggest unreported purchases by China could be more than ten times the stated figures, which would better reconcile the scale of recent gold price gains with otherwise subdued headline data on reported central bank demand.

The actions and behaviour of President Trump in terms of tariffs, ongoing high deficits, concerns over central bank independence, and geopolitical concerns like Greenland, have pushed a de-dollarisation trend and been additionally positive for gold.

Figure 10 - Gold Valuations



Source: Macrobond, Mason Stevens OCIO

At current levels Gold and Silver look overbought in the short-term, but we would use any future pullbacks as buying opportunities given the underlying structural demand drivers, and we continue to see most of the longer-term risks to the upside. Similarly, the Gold Miners story continues to look positive, especially given energy costs remain muted, hence improving the operational leverage for these businesses.

Rare Earths

Rare Earths had a very strong 2025, and ETFs like REMX and XMET are up over 100% for the past 12 months. While maintaining or advocating an allocation to investments that have run so hard can be difficult, the conditions that drove last year's returns don't appear to be abating as we enter 2026. The US is treating critical minerals as a strategic security priority, reflecting China's growing willingness to use export controls across rare earths and downstream processing. While the Trump-era response focused on rebuilding domestic production, the reality is that this will take years, and greater resilience is more likely to come from partnering with countries that already mine and process these inputs at scale.

Resource diplomacy from the US and also Europe with allied, resource-rich jurisdictions such as Canada, Australia and Chile are set to continue and expand. Initiatives like the Quad Critical Minerals framework and the US-led Pax Silica coalition are designed to formalise non-China supply chains for minerals that underpin defence capability, advanced manufacturing and clean energy technologies. It is also potentially at least part of the rationale for President Trump's desire to acquire Greenland which is seen as having significant reserves.

Figure 11 - US Economic Dependency on Foreign Critical Minerals

US Economic Dependency on Access to Foreign Critical Minerals[1]

	Critical Mineral (Main Source Country)	Potential GDP Impact (USD mm)	Notable Industrial Use Case (Non-exhaustive)
1)	Samarium (China)	$4,498	High-strength magnets
2)	Rhodium (South Africa)	2,752	Catalytic converters;
3)	Lutetium (China)	2,059	Medical imaging (i.e., PET scans)
4)	Terbium (China)	1,809	High-temp permanent magnets
5)	Dysprosium (China)	1,624	High-temp permanent magnets
6)	Gallium (China)	1,419	Semiconductors; LEDs; solar cells
7)	Germanium (China)	814	Fiber/IR optics; semiconductors
8)	Gadolinium (China)	758	MRI contrast agents
9)	Tungsten (China)	544	Hard metals/carbides
10)	Niobium (Brazil)	394	High-strength low-alloy steels

Source: Lazard Geopolitical Advisory

The strategic rationale is straightforward: without a credible network of allied supply arrangements and demand signals that support investment in alternative refining capacity, China retains leverage at key processing chokepoints. Beijing is likely to continue testing coercive controls while selectively granting relief, keeping markets volatile. This will be one to be nimble and selective on entry points, but we believe the trend likely for prices to continue to push higher. We view sell-offs as buying opportunities.

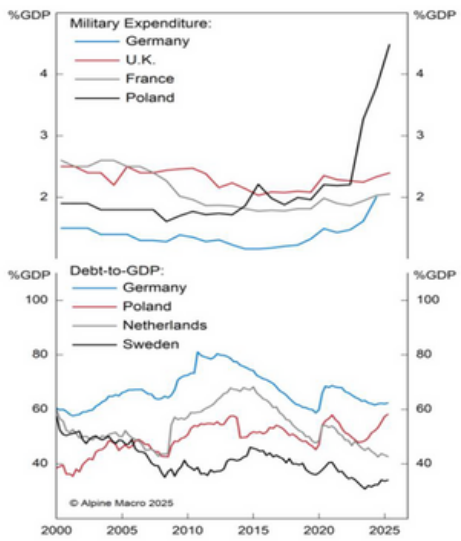
Key Investment Themes

European Defence

Opportunity on pullbacks in this long-term structural shift

EUAD – the Select STOXX Europe Aerospace and Defense ETF, and DFND the Vaneck Global Defence ETF have returned over 70% over the past 12 months. Below we explain why we still believe this is a worthwhile allocation in a portfolio, particularly if bought on pullbacks. Europe's post-Cold War security architecture is effectively breaking down, accelerating a shift toward greater defence autonomy as US strategic support becomes less certain. Ukraine has functioned as a real-time stress test for European capabilities – forcing rapid tactical and operational learning – but, more importantly, exposing the structural fragility created by decades of underinvestment. The latest development, in Trump threatening to annex Greenland from a NATO ally in Denmark, has put an exclamation point on this. The result is a clear pivot toward sustained rearmament across major European states, with defence spending increasingly treated as a multi-year strategic commitment rather than a cyclical budget item. The war in Ukraine highlighted Europe's vulnerabilities across energy security, defence readiness and critical supply chains. While the policy response remains uneven and gradual, the direction of travel is clear: structural reform and re-shoring efforts are now embedded in the political agenda. This creates a set of longer-duration opportunities, particularly in defence, industrials, infrastructure and select financials positioned to support the funding and delivery of large-scale investment programs. Ukraine's reconstruction effort is already underway, but meaningful scaling is constrained without a ceasefire. A cessation of hostilities is the key catalyst required to unlock insurance capacity, stabilise logistics and facilitate the mobilisation of private capital. The rebuilding program over a decade is estimated at ~USD $500-600bn.

Figure 12 - European Defence Expenditure



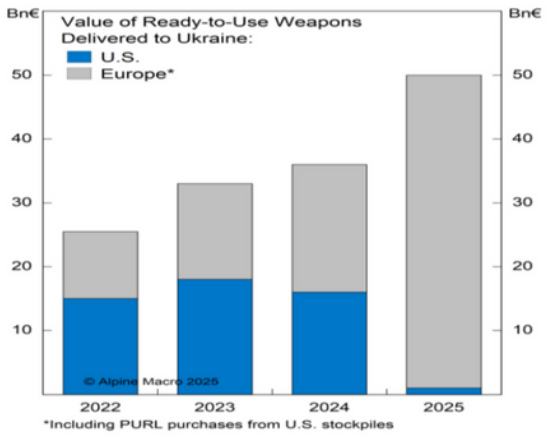
Source: AlpineMacro

For Europe, this represents a genuine inflection point. The post-Cold War model of relying on US security guarantees is no longer sufficient, requiring an accelerated push toward strategic sovereignty, credible hard-power capacity and the industrial base needed to defend European territory and political stability. In effect, Europe is being forced to rebuild military and strategic capability at speed, after decades of underinvestment. Most European nations as part of NATO are now targeting a 3.5% of GDP spend on Defence with an additional 1.5% of GDP on supporting infrastructure. To provide an idea of the magnitude European countries in NATO currently spend circa 2% of GDP on defence. An increase to 3.5% would mean an additional $250bn+ Euros every year in defence expenditure.

Ukraine is also buying Europe time – by both absorbing Russia's military focus and by serving as a live testing ground for 21st-century warfare. The conflict has provided Europe with an unambiguous signal on what "readiness" now means: stockpiles, production capacity, technological adaptation and the ability to sustain a prolonged warfighting effort.

The policy response is already shifting. The implications are significant: materially higher and sustained investment across defence, enabling technologies, industrial manufacturing capacity and strategic infrastructure. Notably, when the Trump Administration paused new Ukraine aid in early 2025, European governments – led by Germany – stepped in with substantially expanded support. This has reinforced a new operating model whereby NATO can provide "ready-to-use" weapons drawn from US stockpiles, funded by European member states.

Figure 13 - Source of Ukraine weapons supply



Source: AlpineMacro

Greenland only serves to highlight the need to expand Europe's own stockpiles and capabilities. Given current and potential future tensions, an ability to purchase from US stockpiles maybe limited.

The broader conclusion is clear: the era of chronically underfunded European militaries – and implicit reliance on external security backstops – in our view is ending.

As with other themes there may be pullbacks this year as strident Trump policy becomes vacillating policy at some point. We would view these as buying opportunities given we believe this is a structural change, which will last at least as long as Trump is president and potentially as a semipermanent feature.

Key Investment Themes

Japan[ii]

The investment case for Japanese Equities in 2026 is anchored by a "dual engine" of fiscal expansion ("Sanaenomics") and structural corporate reform, underpinned by a transition to a sustained inflationary environment.

With the ruling coalition expected to secure a majority in the February 8 snap election, the combination of aggressive fiscal policy and rising real wages creates a compelling entry point for both domestic and overseas-oriented sectors.

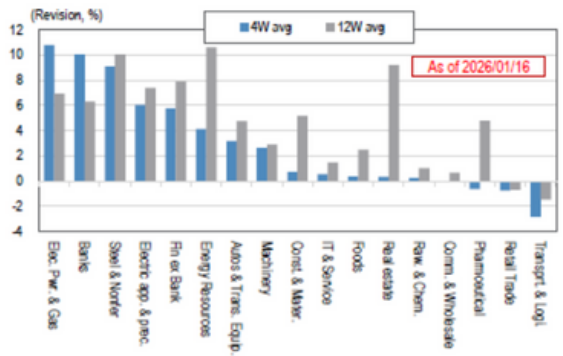
The Macro Catalyst: "Sanaenomics" & Fiscal Impulse the Takaichi administration's "Responsible and Proactive Fiscal Policy" is driving a regime shift characterised by crisis management investment and consumption stimulus. Fiscal spend proposals include a temporary 2-year consumption tax cut (potentially to 0% on food) and strategic investments in defence and crisis management infrastructure.

The election impact has seen a stable LDP majority and is projected to potentially drive the Nikkei 225 toward ~60,000 by year-end 2026, as political stability allows for the execution of growth strategies.

On the inflation & rates front, the economy is normalising with inflation swaps approaching 2% and current inflation around 3%. This structural shift supports nominal revenue growth for "Old Economy" sectors.

The fundamentals remain robust, with earnings revisions trending upward despite macro volatility. FY2025 consensus EPS forecasts have risen to +7% YoY, with FY2026 estimates projected at +10.2%. While auto sector buybacks paused due to tariff concerns, the broader market continues to see record shareholder returns, with total yields (dividends + buybacks) exceeding 3%. Strategic sector opportunities and investment flows should target a "barbell" of domestic reflation winners and global deep cyclicals.

Figure 14 - Japan Topix Latest EPS Revisions, Moving Higher



Source: JP Morgan Research

Firstly, in the context of domestic reflation (fiscal & rate beneficiaries), its Banks & Financials in top spot for the reflation theme. Rising long-term yields (JGBs moving toward 2.5-3.0%) directly boost net interest margins.

Construction & Real Estate are direct beneficiaries of "National Resilience" spending and inflation-linked asset appreciation. Construction firms are successfully passing through costs, protecting margins.

Power & Gas Utilities are re-rating due to energy security policies and restarting nuclear capacity, supported by government policy.

Moreover, global leaders (AI & Yen Beneficiaries) include Tech Hardware & Materials. Global AI capex is driving order books in electronics, precision instruments, and non-ferrous metals (e.g., copper/cables).

Despite tariff noise, the Autos sector benefits significantly from the weak yen (USDJPY ~150-155) and reduced US tariff risks compared to worst-case fears.

Key risks to watch include: the "Yield Shock" Threshold, where a rapid rise in 10-year JGB yields above 3.0% could trigger instability in regional bank capital ratios and force equity selling. The Currency "Pain Point", while a weak yen aids exporters, excessive depreciation beyond USDJPY 165 becomes net-negative by eroding real household income and import purchasing power, potentially forcing intervention. Repatriation Risk: while foreigners fear Japanese pension funds will repatriate assets (selling US Treasuries to buy JGBs), analysis suggests this risk is overstated; pension funds are unlikely to shift asset allocation aggressively solely to stabilise FX.

Figure 15 - Improving Earnings with reasonable valuations

Source: Macrobond, Mason Stevens OCIO

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