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Investing for a
world of change



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Maintain a laser focus on stock selection in a broadening market

What were the key events and surprises for global equities in 2025?

The key surprise of the year was April's tariff shock, which raised fears of stagflation and a global recession. However, this was short-lived, with a 90-day pause on reciprocal tariffs for US trade partners, other than China, breathing life back into equities. Markets repriced from expectations of a hard landing toward a mid-cycle outlook as trade policy was recalibrated throughout the year. Monetary settings shifted, with the US Federal Reserve moving from a firmly restrictive stance to gradual easing, with two cuts coming in the latter months of 2025, supporting risk assets.

Leadership remained concentrated. The gap between mega-cap tech and the rest of the market persisted rather than converging as some expected in early 2025. The powerful AI capex cycle dominated equity narratives, with semiconductor and AI infrastructure names driving returns. Outside the US, momentum improved in Europe as fiscal expansion and easing energy costs supported a nascent cyclical recovery. The UK market, still attractively valued and rich in global cyclicals, continued to offer differentiated opportunities, particularly in materials and financials. Japan maintained steady progress, benefiting from real wage gains, governance reforms, and a supportive currency environment.

How will the AI trend evolve in 2026?

The durability of the AI capex boom is set to define the landscape. We believe hardware and infrastructure remain the clearest beneficiaries, including chip producers, manufacturing tools and power suppliers that enable larger models and denser data centres. Software outcomes are more nuanced. There are credible threats from model-driven disintermediation, one of the hottest topics within global investing today, yet also a longer-term case for an expansion of the software market.

We see the risks from increased competition currently outweighing the potentially larger total addressable market, a net negative for the software sector. Given various overhangs and pockets of negative momentum in parts of software, a selective stance is warranted, focusing on the very best companies in the space. Our research around the broader topic of AI disruption has led us to reduce some positions within professional services, which we see as more exposed. The growing use of AI tools within software and professional services is highly supportive of companies involved in AI manufacturing, where we maintain a significant overweight exposure.

Do you expect market leadership to continue to broaden?

Some broadening looks likely across regions as valuation dispersion stays elevated and policy support outside the US persists. Europe's fiscal stance, UK valuations, and Japan's reform tailwinds point to more balanced contributions to returns, while the dollar's maturing super-cycle could redirect capital toward non-US assets. Asia's supply chain in the AI space remains pivotal. Japan and Asia ex-Japan are positioned to benefit as the cycle broadens across components, tools and adjacent industrials that feed the data centre stack.

Within sectors, leadership may remain anchored in AI infrastructure, but the opportunity set is expanding into industrials and financials that benefit from the same capital cycle and easing policy. We can see the markets accelerating to the upside with just as high a likelihood as we can see them moving to the downside. However, we expect the kind of sharp divergence across winners and losers that we've seen between sectors over the last 12 months to continue. What does that mean for 4Factor? This translates into a disciplined approach to portfolio construction, aimed at providing a balanced, core, style-agnostic portfolio, driven by a laser focus on stock selection.

What are the main opportunities and headwinds facing global equity markets in 2026?

We believe high-quality technology leaders leveraged to AI infrastructure and data centre demand remain attractive on a fundamental basis. Non-US equities offer improving setups. Europe is benefitting from fiscal expansion and lower energy costs. The UK provides access to global cyclicals and defensives at compelling valuations. Japan combines a supportive currency backdrop, real wage gains and governance reform. Select Asia ex-Japan markets, including India, show cyclical tailwinds in housing and infrastructure, while targeted opportunities are emerging in China's industrials as margins stabilise. Looking at sectors beyond pure tech, industrials tied to AI capex, defence in a rearmament cycle and financials supported by better nominal growth are fertile hunting grounds.

Turning to challenges, policy and macro uncertainty remain elevated. Trade policy twists could add some fragility to the backdrop. Markets are sensitive to earnings disappointments and policy shifts. With valuations already full in many benchmarks, they are likely to move quickly to punish any perceived missteps. There is also persistent concentration risk. Despite some broadening, a handful of AI winners still carry outsized influence. Therefore, managing exposure to mega caps while staying invested in the cycle is essential. Investors should be careful of software disruption risk. Model-driven changes to software economics create forecasting uncertainty. Selectivity and a bias toward operational momentum are important until the profit pool reshapes more clearly.

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