

GLOBAL EQUITY

Outlook for 2026

The global investment landscape entering 2026 is shaped by powerful structural forces and evolving policy dynamics. Advances in artificial intelligence are reshaping economic behaviour, enabling output to grow even as labour demand softens, while valuation dispersion across regions remains wide and reflective of differing growth and quality characteristics. Policy developments, including leadership transitions at the Federal Reserve and targeted stimulus efforts in China, introduce both uncertainty and opportunity as major economies adjust to slower global momentum. At the same time, shareholder-focused reforms across parts of emerging markets and a softer US dollar are beginning to create more supportive conditions outside the United States.

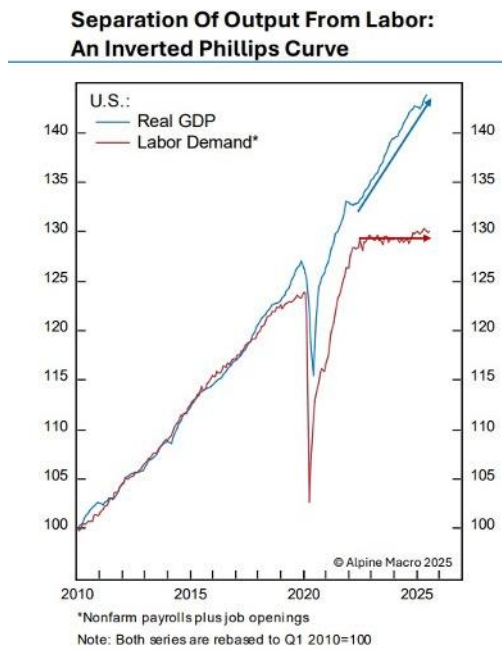
Against this backdrop, we outline six key macro themes shaping the year ahead before turning to how these trends influence portfolio positioning.

1. The US K-shaped economy and the role of AI

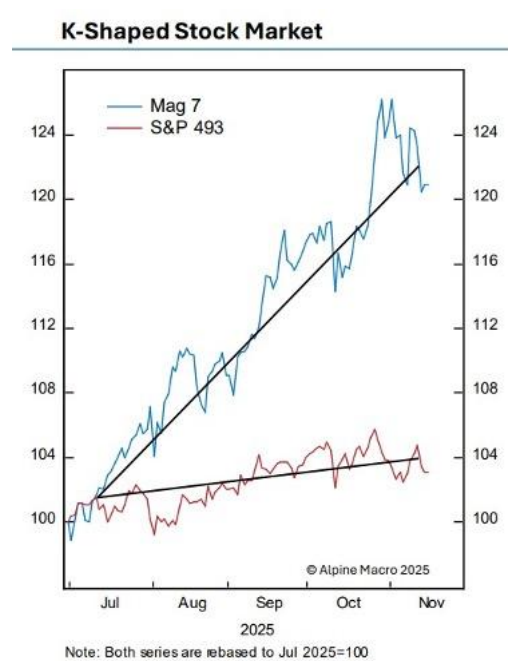
The US economy continues to display a pronounced K-shaped dynamic as we enter 2026. Economic output has remained resilient, with real GDP sitting well above its pre-pandemic trend, while labour demand, measured through payroll growth and job openings, has flattened. This divergence reflects the rapid acceleration in AI-driven productivity since the launch of ChatGPT in late 2022. Firms are increasingly able to scale activity without materially expanding headcount, a shift that marks a departure from the labour-intensive services economy of prior cycles. AI adoption has lowered the marginal cost of production by allowing companies to substitute or augment labour with digital tools, enabling growth to persist even as labour demand softens. This structural shift underpins the modern K-shaped economy, as shown in Graph 1.



Graph 1: Real GDP vs labour demand



Graph 2: Magnificent 7 vs S&P 493



Source for both graphs: Alpine Macro as at December 2025

This divergence is also evident in financial markets. The Magnificent 7 technology companies have continued to outperform the remaining constituents of the S&P 500 (the "S&P 493"), reflecting their central role in enabling AI-led productivity across the economy. These firms benefit directly from rising investment in cloud infrastructure, automation and generative AI tools. As businesses increasingly rely on these platforms to drive efficiency and reduce costs, economic value has become more concentrated among the companies providing these capabilities. The result is a distinctly K-shaped market, with technology leaders accelerating while the broader market moves more modestly, as shown in Graph 2.

2. US policy dynamics: Fed Chair transition and the US midterms

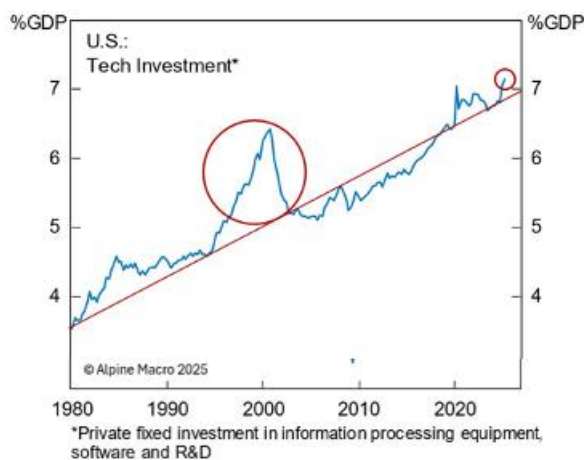
The policy backdrop in 2026 is shaped by the upcoming retirement of the Federal Reserve Chair and the US midterm elections. Both factors typically encourage policy stability rather than restraint. Leadership transitions at the Fed tend to discourage aggressive tightening, as outgoing Chairs avoid introducing volatility and incoming leadership prioritises continuity while establishing credibility. At the same time, midterm election years have historically favoured more supportive fiscal conditions, with policymakers reluctant to tighten financial conditions ahead of politically sensitive periods. Elevated fiscal deficits already in place further reinforce the likelihood that policy remains broadly accommodative through the year.



3. AI investment and the role of Big Tech

AI-related investment is rising as a share of GDP and is becoming an increasingly important contributor to US economic growth. This marks the early phase of a broader capital spending cycle built around data infrastructure, computing power and model development. Because the cycle remains in its early stages, long-term leadership is still uncertain, and the scale of AI adoption is likely to drive significant dispersion across companies. Clear winners and losers will emerge over time, underscoring the importance of maintaining flexibility and nimbleness in portfolio positioning.

Graph 3: US tech investment as % of GDP

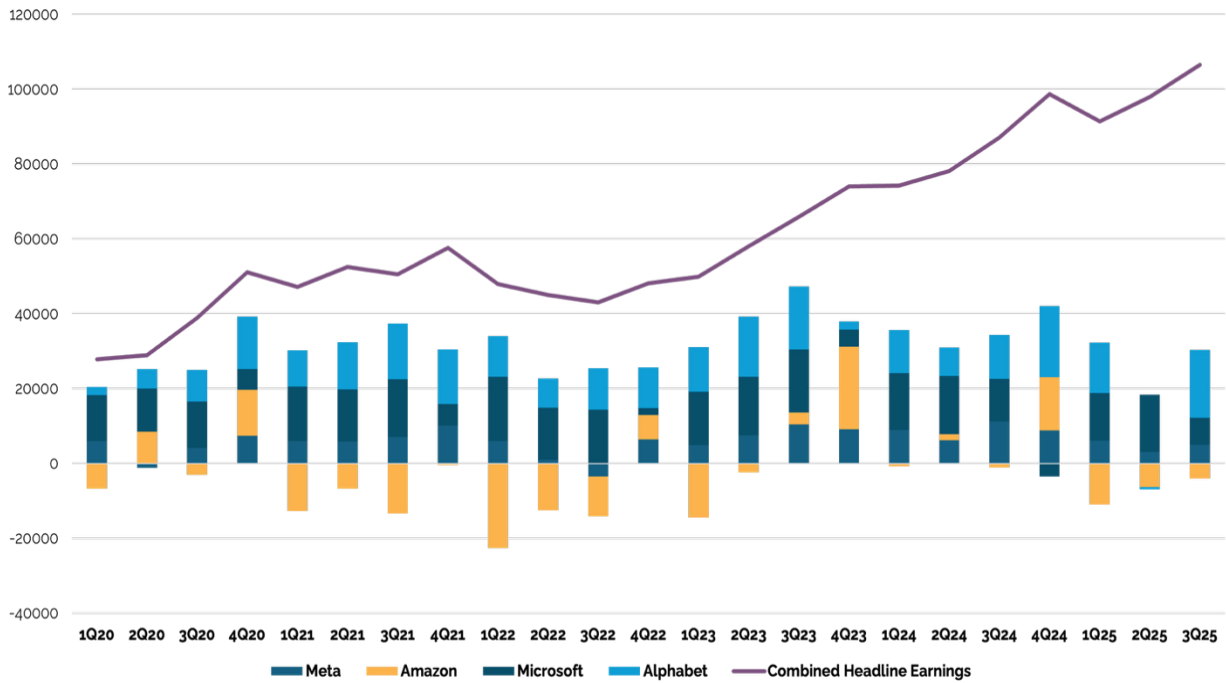


Source: Alpine Macro as at December 2025

Within this environment, we continue to favour select large technology platforms due to their ability to invest at scale and maintain a structural lead in AI capabilities. Their balance sheet strength allows them to sustain elevated capital expenditure on cloud infrastructure, chips and model training, even when this places pressure on near-term free cash flow. The earnings versus free cash flow relationship highlights the capital-intensive nature of this investment cycle. While free cash flow can fluctuate, this sustained reinvestment reinforces competitive advantage and positions these companies well as the AI economy matures.



Graph 4: Big Tech free cash flow post share-based compensation versus headline earnings



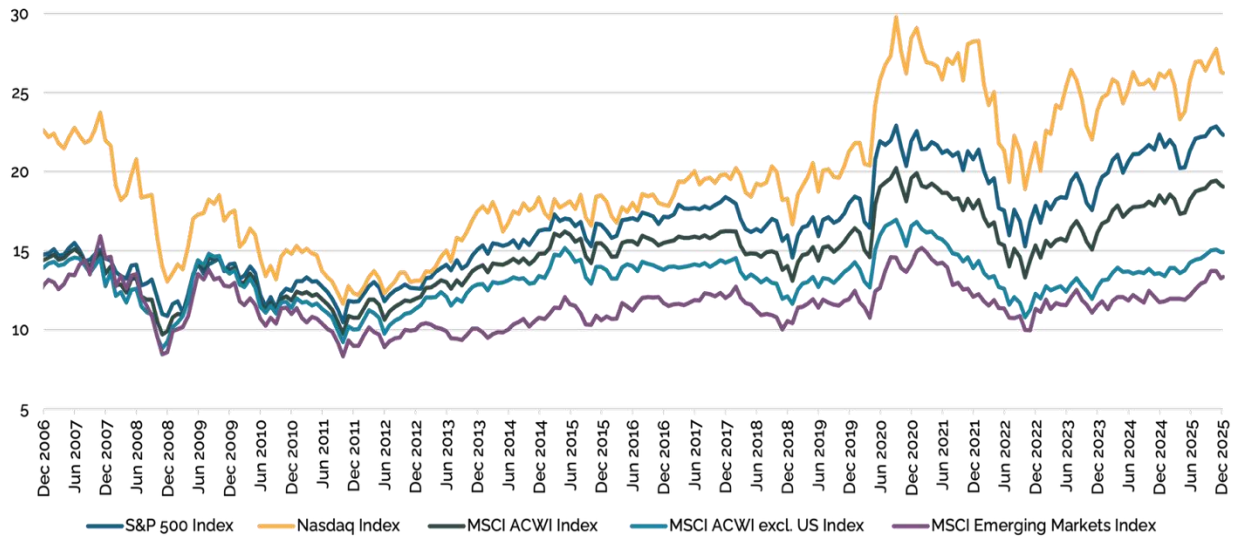
Source: Fairtree, Bloomberg as at November 2025

4. Elevated US Forward P/E multiples

US equity valuations continue to trade at a premium, with both the S&P 500 and the Nasdaq priced at higher Forward P/E multiples than peers. These indices are often viewed as expensive relative to the rest of the world, while emerging markets appear comparatively cheap. However, much of this valuation gap is supported by fundamentals. Leading US companies have delivered stronger earnings growth and consistently higher returns on equity over time, reflecting superior growth prospects, capital efficiency and business quality. These characteristics help explain why US equities continue to command higher valuations.



Graph 5: 12-month Blended Forward Price/Earnings multiples



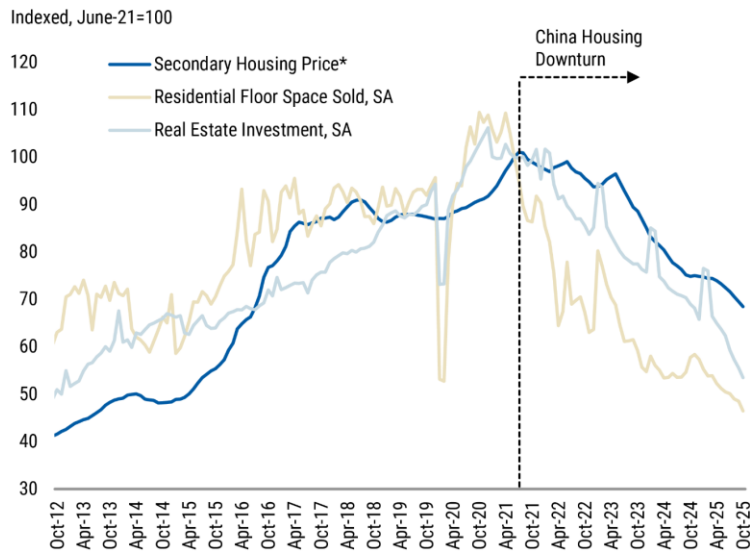
Source: Fairtree, Bloomberg as at December 2025

5. China's property market: Ongoing weakness and increasing policy support

China's property sector remains under pressure, with home sales and prices continuing to decline and showing limited signs of stabilisation. The persistence of this weakness has led authorities to signal a shift toward further targeted policy support. Measures under consideration include lower mortgage rates, selective liquidity support for developers and programmes in which state entities purchase unsold housing stock. While these interventions are more measured than previous broad-based stimulus cycles, they reflect a clear intention to stabilise the sector and reduce its drag on broader economic growth.



Graph 6: Housing prices continue to fall



Source: Morgan Stanley Research, Centaline Property, NBS

6. Emerging markets: Shareholder reforms and a supportive dollar backdrop

Corporate governance reforms are strengthening the outlook for several emerging markets, most notably China and South Korea. In Korea, the transition from the Value-Up Programme to the more stringent Boost-Up Programme represents a meaningful shift toward enforceable governance standards aimed at addressing the longstanding valuation discount. The framework introduces stronger board accountability, enhanced minority shareholder protections and tighter rules on related party transactions. In China, regulators continue to push for improved disclosure, better capital discipline among state-owned enterprises and clearer commitments to shareholder returns. Together, these reforms signal gradual, but important improvements in corporate behaviour. A weaker US dollar provides an additional tailwind, easing financial conditions, supporting capital flows and improving the relative attractiveness of emerging market equities.

Our investment philosophy

The cornerstone of our investment process is identifying companies with growing free cash flows at attractive valuations. Our philosophy is built on a style-agnostic approach, enabling us to perform consistently in the top quartile of global equity funds, regardless of market conditions.



We leverage a multi-factor model that enhances scalability, identifies opportunities across market cycles, and mitigates human bias. Our active trading strategy ensures that the portfolio responds quickly to evolving opportunities. It is very difficult to predict the future, but it is possible to adapt.

Our portfolio positioning across styles

Within this framework, our portfolios remain diversified across Value, Quality, Growth and Momentum. Because the benchmark is naturally tilted toward quality and growth stocks, this approach helps uncover opportunities that combine attractive valuations with strong fundamentals and growth potential. We currently maintain an active overweight to value, supported by favourable valuations and improving earnings resilience, while retaining exposure to quality and growth where structural themes such as AI provide durable tailwinds. This balanced approach allows the portfolio to adapt as market leadership shifts.

Our defensive tilt amid ongoing uncertainty

The investment landscape continues to be shaped by elevated macro and geopolitical uncertainty, including policy transitions, regional growth divergence and electoral cycles. In response, we have gradually increased our defensive positioning by allocating more to stable, cash-generative businesses and sectors that tend to be more resilient during periods of volatility. This measured shift reflects a focus on risk management while preserving flexibility to participate in upside as longer-term opportunities unfold.

Conclusion

As we look ahead to 2026, markets remain shaped by structural shifts, policy uncertainty and growing dispersion across regions and sectors. In this environment, successful investing depends less on forecasting a single outcome and more on maintaining a disciplined and adaptable process. Our style-agnostic investment philosophy, centred on identifying companies with growing free cash flows at attractive valuations, provides a robust framework for navigating these complexities. This is reinforced by a multi-factor quantitative model, rigorous fundamental research and a highly active trading approach that allows us to adjust exposures efficiently as conditions evolve.

We enter the year confident in our ability to respond swiftly to change, allocate capital to the most resilient opportunities and deliver strong outcomes for clients through a shifting and increasingly complex market environment.



Author



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Karena joined Fairtree in 2024 as a Global Investment Specialist in the Investment team. She began her investment career in 2019 as an investment professional at Investec Asset Management, followed by a role as an equity analyst at Denker Capital. In 2021, she joined PSG Asset Management as an equity analyst, gaining further experience in equity markets and financial modelling. Karena holds a Bachelor of Science degree in Mathematical Sciences from the University of Johannesburg.

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