

Investment Views February 2026

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The machines are on the march

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Global monetary policy divergence

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A good start to the year for global equities

The machines are on the march

- AI will disrupt some established businesses
- This is the case with every new technology
- But there will also be winners

It has been a relatively calm start to the year for global equities, but there has been a lot of volatility under the surface. Much of this is linked to the theme of Artificial Intelligence (AI). It has become increasingly clear that AI will have a profound long-term impact on all sectors of the economy, but also disrupt some industries as new competition enters their markets. Predicting how any new technological revolution will unfold, and which companies will benefit and which will be disrupted, has always been difficult. As new models with new capabilities and technological specifications are released, markets adjust to the new information.

When thinking about how a new technological revolution might evolve, it is worth considering how past innovations have impacted markets and economies. Reading some of the recent industry commentary, one may think that AI is the first technological



STRATEGY

revolution that we have ever seen. This is of course not the case. However, what is striking is just how quickly the news flow around AI continues to evolve. Unlike the internet, which required buying a computer and a dial-up subscription, AI is immediately available to anyone with a smartphone. The ChatGPT application managed to reach 100 million monthly active users only 60 days after launch; in comparison, Instagram took more than two years.

One of the key focusses with AI is defining what the technology is actually capable of doing and what it is not. This is different to some past revolutions. For example, it was relatively clear that railroads were going to replace canals in the movement of goods, or that the power loom would disrupt the jobs market for human weavers. AI is very good at mathematical tasks, such as writing computer code, with the jobs market for software developers already being disrupted as fewer people are required to write the same amount of code. However, lots of jobs are more varied.

Many jobs have both a repetitive and administrative aspect to them, and a more varied part of the job in which no two days are quite the same. Some jobs have a high degree of human interaction, such as sales or relationship management. While others have a high degree of trust, such as childcare services. AI is very good at repetitive tasks, but the extent to which the other parts of jobs can be automated is vigorously debated. Whether AI will replace workers or be used as a tool by workers to be more productive will vary and will depend on individual roles.

In late January, AI company Anthropic launched Cework. This is an AI assistant tool designed for non-technical professionals in sectors such as law, finance, sales, and marketing. This release led to significant weakness in the share prices for many Professional Services and Software companies. The market concern is that established businesses, for example those selling software to the legal industry or managing human resources, will be disrupted by new entrants.

100m

Active ChatGPT users,
60 days after launch



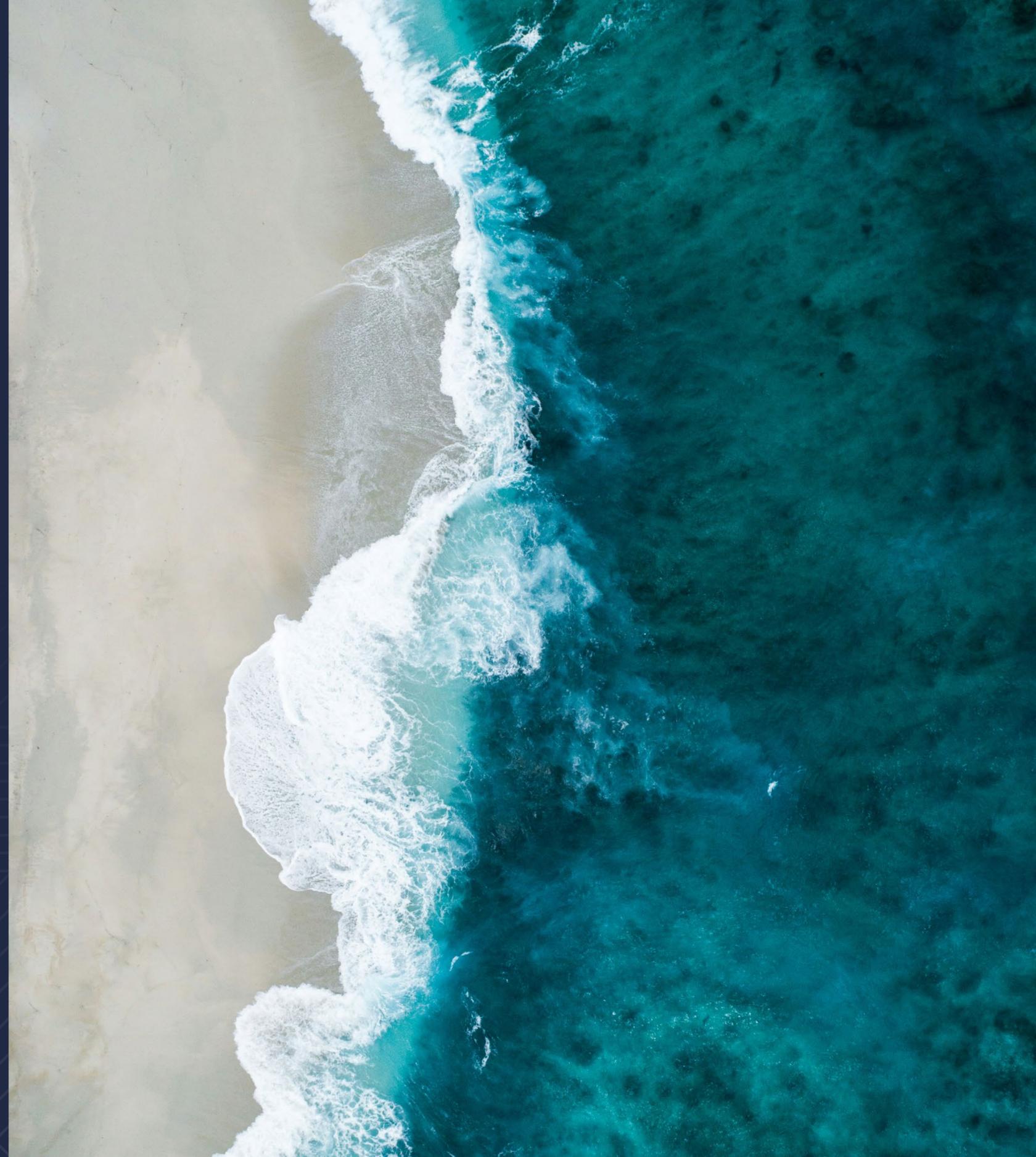
An interesting aspect to the sell-off in many of the Software and Professional Services names, is that their expected profits in the next year or two have not been reduced by analysts. The sell-off is therefore more of a worry about how the future will unfold, rather than a risk right now. Furthermore, some of these companies are actually able to benefit from AI, rather than be disrupted by it. For established businesses embedded in large companies, it is going to be difficult for new firms to dislodge them. Operation familiarity, inertia, risk management, and compliance, will all make it difficult for smaller AI companies to dislodge incumbents. Companies with proprietary data should be more insulated from new competition, but the market has marked down the share price of many companies indiscriminately. AI will no doubt disrupt some businesses, but other companies will benefit and there will always be opportunities.



Global monetary policy divergence

- Volatility remains compressed but risks quietly building
- Credit market calm despite equity volatility
- Resilient US growth momentum risks higher yields

January was a month of stable headline bond yields, but both geopolitics and volatility in equity markets dominated the news flow. US Treasury yields finished largely unchanged, with the 10-year yield ending around 4.24%, and US real (after inflation) interest rates broadly stable near 2.3%. Credit spreads (the premium that corporates pay to borrow) remained calm, despite the volatility in equities. Interest rate volatility continued to decline, falling to its lowest level in five years, supporting corporate bonds and mortgage-backed securities. This relatively calm start to the year in fixed income markets is unlikely to be sustained and risks are building as several headwinds, most notably the end of the global monetary policy easing cycle, that were largely absent last year, become driving factors in 2026.



Japan was the worst-performing G10 government bond market in January, with the 10-year yield rising by 19bps. The move reflects both the ongoing interest rate normalisation process and an increasing fiscal and political risk premium. European government bonds were more stable, and Italian and Spanish yields continued to tighten versus Germany, as risk conditions stayed constructive and investors digested the prospect of higher German issuance. The Federal Reserve held rates steady at 3.50%–3.75% in January and maintained a cautious, data-dependent stance.

We are now seeing dispersion in the outlook for global base rates, as business cycles diverge. Currently, the UK and US are priced for around 50bps of cuts this year, with the Bank of England expected to lower rates as early as March. At the other end of the spectrum, Australia and Japan are expected to tighten policy. Australia hiked rates by 25bps in early February, just six months after cutting rates, due to inflationary pressures. The practical implication is that broad, global duration exposure is now less attractive.

The economic growth impulse in Japan and the US remains the strongest in the developed world. Recent US data has been buoyant and better than expected, which reduces the urgency for more rate cuts and it is likely that the next move will come after Jerome Powell's term ends in May. The combination of solid growth, sticky inflation and political pressure to cut rates has, for now, been offset by hawkish Fed talk limiting the pressure for further steepening of the yield curve. US inflation expectations increased in January, consistent with higher energy prices and upgrades to nominal growth expectations, but longer-term expectations still appear broadly anchored.

In terms of seasonality, broad macro risk historically turns less favourable over the coming weeks, which normally reinforces US dollar strength. The complication this year is that the dollar has not been a reliable safe haven. With US policy uncertainty and geopolitical risk elevated, gold and the Swiss franc are now taking

25bps

Australian rate increase
in early February

over the role as credible alternatives and both saw substantial inflows over the past month.

A key policy development in January was the Trump administration's housing affordability initiative. The proposal involves using the balance sheets of Fannie Mae and Freddie Mac to purchase around \$200bn of agency mortgage-backed securities to help lower mortgage rates. In terms of market mechanics, the impact should be modest. Agency MBS spreads are already tight, so there is limited room for further meaningful spread compression. The more likely effect is that this demand simply offsets the Fed's ongoing balance sheet run-off of MBS. In short, it improves the technical picture at the margin, but it is unlikely to deliver a large, sustained decline in mortgage rates unless Treasury yields themselves fall.

The geopolitical backdrop remained a persistent source of risk premium. Greenland tensions briefly unsettled markets before being stabilised by a cooperation framework later in the month. Developments in Venezuela increased oil market volatility. Iran remains a tail risk, with the ongoing US military build-up in the region and domestic pressure on the regime in Tehran. These are not daily drivers of fixed income markets, but they have influenced the demand for safe assets including US Treasuries.

With the next Fed chair nominee now announced as Kevin Warsh, markets are likely to view potential policy differently through the second half of 2026. Warsh is seen as aligned with the Trump administration and, as a result, investors will assume a greater willingness to ease policy if growth moderates or financial conditions tighten. At the same time, he is widely perceived to be hawkish on balance sheet policy, making him a balanced choice politically and a credible advocate of continued balance sheet discipline. The combination matters: rate cuts later in 2026 are possible, but balance sheet hawkishness can keep term premium from rising as easily as it might under a more dovish Chair.

A good start to the year for global equities

- Cyclical stocks perform well
- But a lot of volatility under the surface
- Emerging Markets leading the way

Equities performed well in January, with US equities returning 1.3%. Equities outside the US performed even better. European equities returned 4.1% in US dollar terms, while UK equities returned 5.1%. Japanese and Emerging Market equities were stronger still, returning 6.5% and 8.9% respectively. At a sector level, Energy was the top performing sector globally, returning 12.6%. Other cyclical sectors such as Materials and Industrials also performed well. It was an unusual month, as defensive sectors such as Consumer Staples and Utilities also performed well. Technology was the weakest sector falling 1.1%, but with a lot of dispersion within the sector.

Strong performance in Emerging Market equities was a feature of 2025, and has continued into this year. There was dispersion within the region, with South Korea leading the way returning 26.3% in



fell 4.7%. Taiwan also performed well, returning 7.4%. South Korea and Taiwan both benefitted from their exposure to technology. A number of leading technology companies in Asia are benefitting from trends in AI, where the focus has shifted from buying cutting edge semiconductors, to more traditional semiconductors.

Until last year, Emerging Markets had been out of favour for many years, with US equities outperforming consistently. However, the composition of Emerging Markets has changed over the last decade, with Technology now a larger share of the index. Companies such as Taiwan Semiconductor Manufacturing Company (TSMC) are crucial to the buildout of AI infrastructure, as they are the leading manufacturer of the most advanced chips. It has recently become apparent that AI will not just require cutting edge chips, but also more traditional technology hardware. This allows AI to store and “remember” data, which allows it to be more useful to specific companies and individuals. For example, if one tells ChatGPT that they are vegetarian, then in future when the user asks about recipes, it will remember that and show vegetarian recipes.

The US dollar has also been a factor that has supported the relative performance of Emerging Market equities. The dollar depreciated last year, and given that much of the world’s trade is invoiced in US dollars, this helped to support global growth. Emerging markets tend to perform well in that environment. Trade tariffs did not reduce global trade as much as feared, with multiple exemptions and trade re-routing softening the blow.

Chinese equities have had a challenging period over the last decade. The economy struggled during the pandemic and Chinese equities languished even as global equities recovered. The property market in China has been undergoing a painful but necessary adjustment process, so consumer confidence has remained weak. In late 2024, the Chinese authorities looked to provide support to the economy and financial markets, so Chinese

4.7%

The amount Indian equities fell

equities have benefited from this.

There has been a debate around how far China is behind the US in AI. The US is leading when it comes to cutting-edge model technology, but China is leading when it comes to actually deploying AI in real-world companies; particularly manufacturing. This provides support to the Chinese equity market, but there is still the challenge of profitability. Chinese equities look attractive based on many valuation metrics, but a decisive turnaround in corporate profitability is required for a sustainable upturn in the Chinese market. We are overweight Emerging Markets excluding China, a helpful allocation in portfolios over the last year.



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Global Asset Allocation

The chart below details our 6-12 month tactical investment strategy

	UNDERWEIGHT -	+ OVERWEIGHT
Asset Allocation	<p>FIXED INCOME (MODEST UNDERWEIGHT) \$</p>	<p>ALTERNATIVES (MODEST OVERWEIGHT) </p>
Fixed Income		<p> EMERGING MARKET DEBT INFLATION PROTECTION SHORT DURATION HIGH YIELD</p>
Equities Regional		<p> JAPAN EMERGING MARKETS EX CHINA</p>
Equities Sector	<p>CONSUMER DISCRETIONARY REAL ESTATE </p>	<p> UTILITIES</p>

