

Global equity outlook 2026

"The real problem of humanity is the following: we have Palaeolithic emotions, medieval institutions, and god-like technology". - E. O. Wilson

By the Global Equity Team

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- AI infrastructure spending surged in 2025, with hyperscaler capex projected to reach USD 600 billion by 2026, driving gains across tech, industrials and utilities.
- Market leadership narrowed sharply as speculative growth names soared while quality stocks suffered their steepest underperformance in two decades.
- With valuations for quality on discount, history suggests a rebound is likely—creating compelling opportunities for long-term investors.

"The Brahan Seer", Scotland's most prolific prophet—also know as *Coinneach Odhar* ("Dark Kenneth")—is believed to have lived in the 17th century and earned fame for his uncanny ability to foresee events. Folklore claims he gained his "second sight" through a mystical stone with a hole in the centre known as a ***Hagstone***, which allowed him to glimpse into the future. Well ahead of these events, he predicted the Battle of Culloden in 1746[1], the Highland Clearances[2] between the mid-18th and mid-19th centuries and, interestingly, the coming of railways through the glens in the 19th century. The railway mania of the 1840s that gripped Scotland and other parts of the world is often cited in comparison to today's AI infrastructure frenzy. We don't have a ***Hagstone***—and don't pretend to know when the AI bubble will burst or the impact of Trump's next policy change. But we can highlight the trends that have impacted 2025 and those that will impact investors over the coming months.

2025 in review

2025 has been another strong year for global equities, but market leadership has narrowed significantly, and geopolitical uncertainty continues to weigh on investor sentiment. The defining theme has been the AI infrastructure boom, which has broadened beyond technology providers to include industrials and utilities, as the scale of investment expands.

Technology remains dominant, providing over two-thirds of all S&P 500 returns. Hyperscalers, with exceptional operational leverage, have converted every additional dollar of revenue into roughly 50 cents of profit—far outpacing the broader US market, which averages US dollar (USD) 0.12. Capex forecasts from hyperscalers have surged 50% in 2025 and are projected to reach USD 600 billion into 2026, fuelling growth across their supply chain. This spending spree has created

[1] A battle fought near Inverness between a predominantly Scottish force of Jacobites under Charles Edward Stuart, who attempted to reclaim the British throne for the exiled House of Stuart, and a British government army. The defeat of the former ended a series of risings, and the battle is considered as one of the most significant moments in Scottish history.

[2] A period when people of the Scottish Highlands were evicted by landowners to make room for sheep grazing. The evictions uprooted communities and caused social upheaval, resulting in emigration from Scotland.

boom conditions for industrials involved in construction and electrical build out, and utilities providing the massive energy requirements for AI data centres.

Beyond sector leadership, structural shifts in the economy are evident. Wealth-to-income ratios continue to rise as the "K-shaped economy" enters the investor lexicon. US consumption remains highly concentrated among the top 10%, particularly the top 1%, while AI-driven equity wealth has offset headwinds from chaotic trade and immigration policies—without which growth would likely have stalled.

Market fundamentals took a back seat in 2025 as speculative and high-beta names surged, while quality stocks suffered their sharpest relative underperformance in decades. Declining interest rates and enthusiasm for growth themes—AI, defence, and new energy—shifted US investor focus toward future potential rather than current fundamentals. Among major styles, quality compounders were the weakest, trailing value, growth, and even lossmakers. The latter's strength underscores the market's "risk-on" regime, though history suggests such companies have poor long-term track records.

Market breadth has also collapsed to a 20-year low, with gains concentrated in a handful of large-cap tech stocks. This raises sustainability concerns, as narrow leadership often signals vulnerability to reversals. Driven by AI, growth sectors dominated in North America, emerging markets and parts of Asia ex-Japan, while value led in Europe, Japan and Australia—though the AI infrastructure boom remained the primary driver globally.

Quality stocks entered 2025 with elevated valuation premiums after years of strong performance. Since June 2024, quality has significantly lagged the broader market, marking one of the steepest drawdowns in two decades—second only to the 2003–2006 period when value dominated amid a commodity super-cycle and credit expansion.

Chart 1: MSCI World Quality - 20-year record drawdown relative to market



Source: Macquarie Quantitative Research, Bloomberg

History suggests such underperformance often precedes a rebound rather than signalling structural decline. With current valuations now hovering near market averages—down from their historical premium of 12%—opportunities for quality-focused investors are emerging.

Outlook: 2026 and beyond

Rather than reacting to short-term headlines, we prefer to weigh the likely impact of current policy, economic, and industrial developments intersected with long-term market trends to determine the most probable outcomes—and which investments are positioned to thrive. With the Federal Reserve continuing to cut rates and hyperscalers generating extraordinary cash flows, liquidity remains abundant. Yet, the scale of funding required over coming years is so large, even the hyperscalers need alternative capital.

Private credit has grown substantially since the Global Financial Crisis (GFC), filling gaps left by traditional banks. While lending to hyperscalers isn't currently problematic, the private credit model often involves opacity, highly leveraged borrowers and covenant-lite structures. Recent failures like First Brands and Tricolor highlight these vulnerabilities, making Jamie Dimon's "cockroach" analogy—where one problem signals more to come—feel particularly apt.

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Although there is, as yet, no reason to assume the AI infrastructure boom will come to an end in 2026, two areas of excess are now intersecting: private credit and AI capex. With retail investors also heavily involved in the area, we will continue to treat our AI winners as a source of more appealing Future Quality ideas.

While the probability of a dot-com-style correction has increased, widespread destruction would be intolerable and would likely trigger strong government responses. Such policy responses would mean a continuation of the trend of privatising profits while socialising losses. Consequently, asset price deflation would likely be short-lived—and could potentially stoke inflation. One thing for certain is that volatility will continue to be elevated.

Investment implications

The next 15 years will differ from the last. Real rates are likely to remain structurally higher than post-GFC lows, driven by surging government debt issuance to fund fiscal deficits, geopolitical trade frictions and inflationary pressures from AI's insatiable hunger for energy.

With risk appetites elevated and pockets of euphoria emerging, markets are vulnerable to sentiment shifts. Potential catalysts include fatigue in the AI theme, geopolitical flare-ups, trade disruptions, credit stress and labour market weakness. Historically, such shocks prompt rotations into high-quality stocks—companies with resilient cash flows, strong balance sheets and durable competitive advantages. We see no reason for this to change.

Finding winners insulated from these macro trends is critical for generating idiosyncratic alpha. If real rates rise, immediate profits will matter more than distant promises. In a low-growth world, differentiated revenue streams, margin resilience and cash flow strength are paramount. Our diversified portfolio of Future Quality ideas spans market share gainers across a wide range of sectors and regions, positioning us to navigate complexity and seize opportunities when they arise.

If you have any questions on this report, please contact:

Amova Asset Management team in Europe
Email: EMEAenquiries@amova-am.com

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