



Investment Outlook 2026

Coutts

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Investment Outlook 2026: Resilience amidst turbulence

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The value of investments and the income from them can fall as well as rise and you may not get back what you put in. Past performance should not be taken as a guide to future performance. Eligibility criteria apply. Advice and product fees may apply.

Focused on the signals that matter

A foreword from our Chief Investment Officer Fahad Kamal

Markets have shown impressive resilience this year, shrugging off challenges from tariff uncertainty to geopolitical tensions. Time and again we've seen companies demonstrate their ability to adapt and thrive, even in turbulent waters.

Guided by our Anchor & Cycle investment process, we stayed firmly overweight equities, tuning out the noise and focusing on the signals that matter. That discipline has served our clients well.

Looking ahead to 2026, our base case is for continued economic resilience and steady corporate earnings growth – supporting not just the year ahead but the decade to come.

The US in particular remains a standout engine of growth, powered by strong consumers, robust corporate balance sheets and supportive policy.

Our positioning reflects both confidence and caution: ready to seize opportunity while maintaining thoughtful diversification. With equity-bond correlations still elevated, we remain constructive on non-traditional sources of return such as private equity, private debt and liquid alternatives.

2026 promises to be a fascinating year. Artificial intelligence will keep reshaping industries while governments work to stimulate growth. Through it all, we will stay vigilant, making decisions grounded in data and guided by our carefully constructed investment process – with our clients' long-term success at the heart of everything we do.



Fahad Kamal
Chief Investment Officer,
Coutts

Part one

Reflections on 2025



Part one

Looking back – reflections on 2025

Three words defined the investment landscape in 2025: tariffs, technology, tension. Yet for discerning investors one word stood above all – resilience.

Despite turbulence, global markets delivered positive returns supported by steady economic growth, accommodative fiscal policy and robust corporate earnings. A powerful tailwind from the accelerating artificial intelligence (AI) sector also played a dramatic role.

The difference a Liberation Day makes 'Liberation Day' in the US – 2 April – was a major disruptor to markets, marking the broadest US policy shift in decades. President Donald Trump announced sweeping tariffs on all imports into the US,

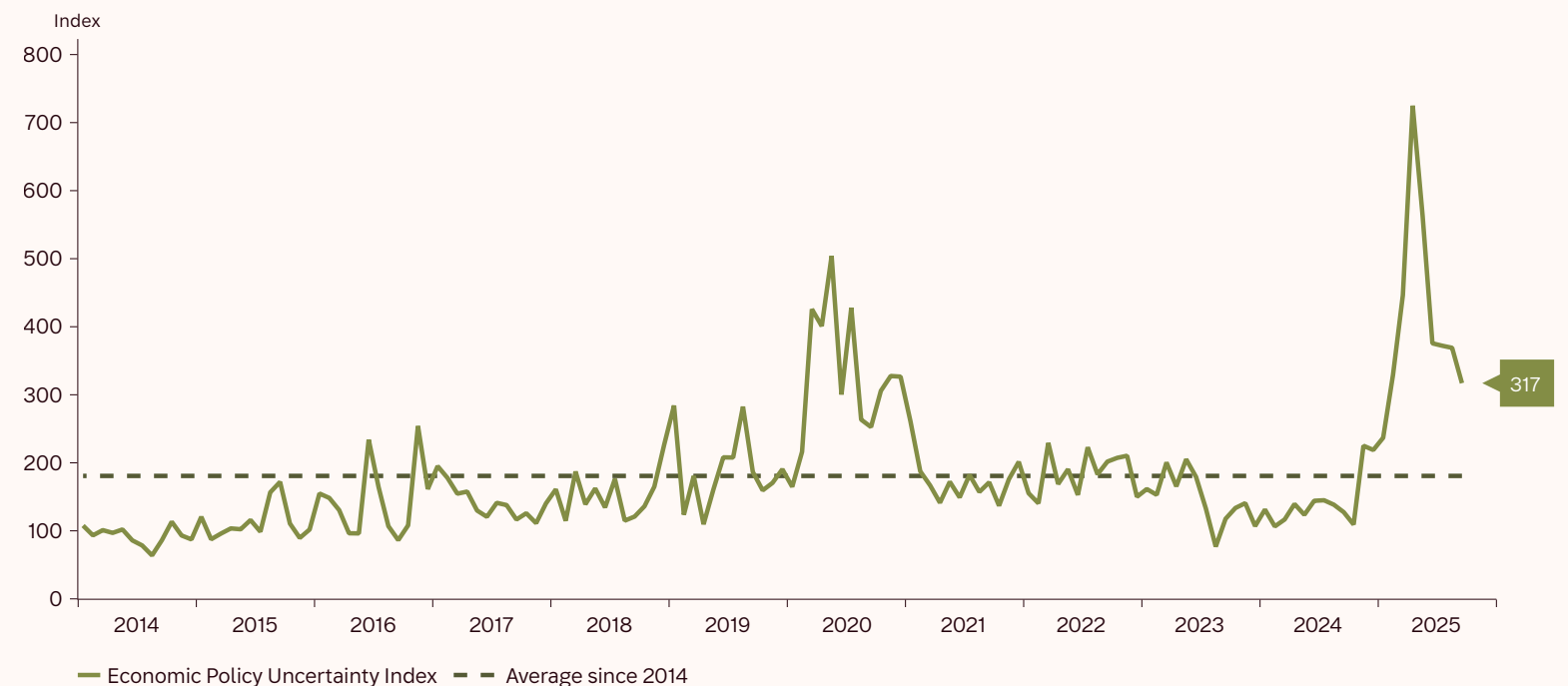
causing major economic uncertainty (see chart right) and immediate falls in stock markets that had peaked in mid-February.

Yet economies and companies worldwide, particularly in the US, demonstrated a remarkable propensity to adapt.

Aided by a number of deals between the US and its trading partners, stocks rebounded quickly. They then continued to perform well despite ongoing tariff uncertainty – testament to the steely resilience of corporate America. S&P 500 earnings per share grew 15% year-on-year in the third quarter of 2025.

Economic uncertainty peaked with Liberation Day but has fallen since

Economic Policy Uncertainty Index Since 2014



Source: Baker, Bloom, and Davis, Macrobond, Courtts.

Data accurate as of 01/10/2025. The Economic Policy Uncertainty Index quantifies newspaper coverage of policy-related economic uncertainty. It performs monthly searches of 10 leading papers for terms related to economic policy uncertainty. In particular, they search for articles containing the term 'uncertainty' or 'uncertain', the terms 'economic' or 'economy' and one or more of the following terms: 'congress', 'legislation', 'White House', 'regulation', 'Federal Reserve', or 'deficit'.

Part one

Looking back – reflections on 2025

Uncertainty did not just come from tariffs. There was significant geopolitical tension as well, with major conflicts in the Middle East and Ukraine. Despite the significant human impact of these conflicts, markets showed robustness and were largely unmoved.

Sincere support from artificial intelligence

Artificial intelligence was the defining growth engine of 2025. Share prices of leading AI firms surged as investors embraced the transformative potential of the technology. Landmark deals in data infrastructure and semiconductor manufacturing fuelled further optimism.

Remarkably, AI capital expenditure contributed as much to US GDP growth

in the first half of the year as US consumer spending – despite representing only 6% of GDP versus 70% for the consumer.

While concerns of an AI-driven valuation bubble emerged, they did little to dampen enthusiasm. For long-term investors, the sector's promise outweighed near-term volatility.

Strong earnings, solid economy – but at a price

Another factor front of mind for investors was price. Investors faced the quandary of robust company earnings and solid economic fundamentals, but historically expensive valuations.

We examined these factors through our 'Anchor & Cycle' investment process – which balances long-term structural fundamentals (Anchor) with current business cycle dynamics (Cycle).

Our analysis found that equities, while expensive, remained worth the premium.

While valuations are a critical long-term determinant of returns, over the short term they can be a red herring.

The two charts on the next page illustrate the 12-month and 10-year performance of S&P 500 companies across various price-to-earnings (P/E) ratios – a key valuation metric.

They show a much stronger relationship over the long term (the right-hand chart) with valuations clearly moderating returns.

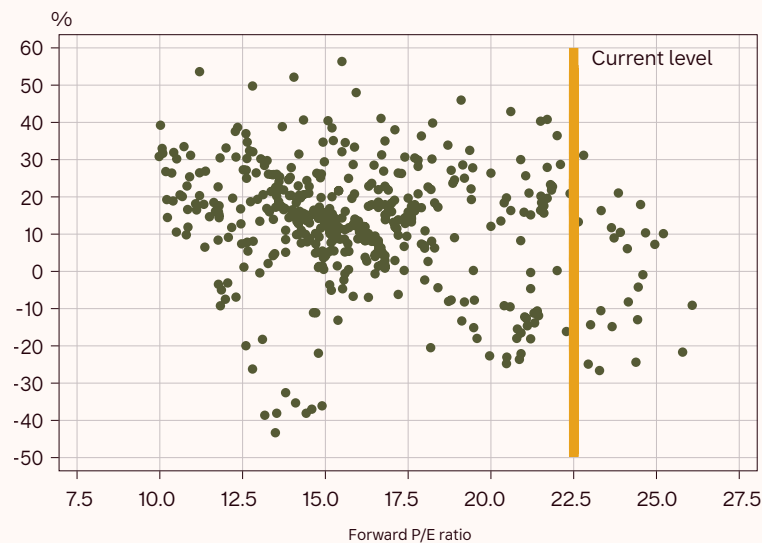
Part one

Looking back – reflections on 2025

Valuations have a much larger impact on returns over the long term

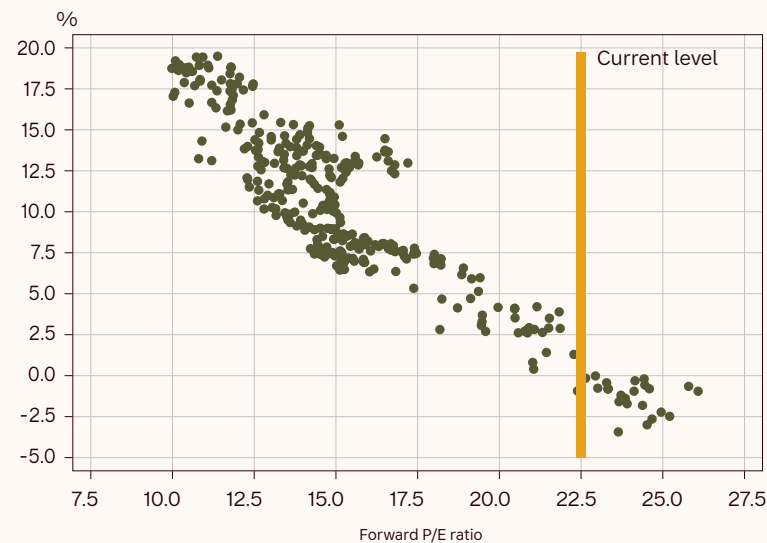
Over shorter time periods, earnings and the macroeconomic environment dominate.

S&P 500 forward P/E ratios and subsequent 12-month returns (% annualised total return)



Source: S&P Global, Macrobond, Coutts.

S&P 500 forward P/E ratios and subsequent 10-year returns (% annualised total return)



Source: S&P Global, Macrobond, Coutts.

The past year underscores this point. At the start of 2025, the S&P 500 was trading at a forward P/E ratio of around 22, above its average of 17. Despite this premium, the index still delivered returns of around 15% by the end of September, driven by exceptional earnings.

Our strategic perspective

The lessons of 2025 reaffirm a strong principle of ours: sound portfolio management requires a holistic view, not a fixation on a single metric.

We examine a wide range of factors when making investment decisions including economic growth, fiscal policy, jobs numbers and company performance. In 2025, all these elements continued

to paint a positive picture of stock market performance over the medium term and, as a result, we remained overweight equities throughout the year.

External turbulence and elevated valuations demand vigilance, but they do not preclude opportunity when fundamentals remain strong.

Part two

Our view on the big picture



Solid fundamentals point to continued growth

AI adoption by firms has accelerated since the start of 2025

The productivity impact of AI is likely to boost economic growth and earnings.

While we remain alert to potential shocks, the outlook for 2026 and beyond is broadly constructive. Economic resilience, supportive policy and structural innovation should underpin healthy corporate earnings – not just in the year ahead but over the coming decade.

Our analysis highlights three key drivers:

1. Economies continue to grow

Global growth is slowing but remains positive. The OECD projects 2.9% global GDP growth in 2026, down from 3.2% in 2025 and 3.3% in 2024. These figures may not dazzle, but they signal resilience – and importantly, we see no current signs of contraction.

2. Fiscal policy remains supportive

Governments continue to stimulate their economies. In the US, the 'Big Beautiful Bill' includes tax cuts that should boost growth next year, while Germany has shifted from decades of fiscal restraint to a new era of significant borrowing and investment.

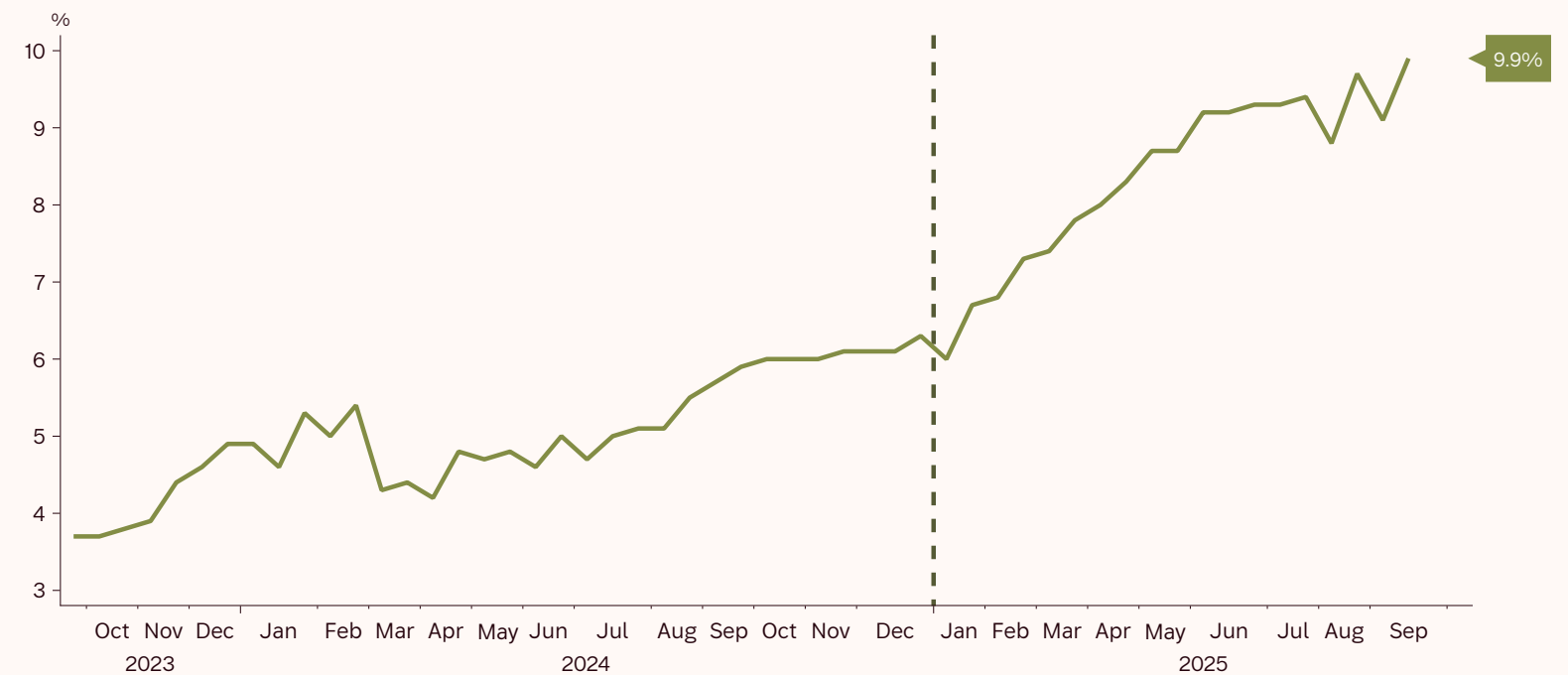
3. AI's growth story has only just begun

AI is a powerful engine of economic expansion, and capital expenditure within the sector is likely to continue. But adoption is still in its early stages. The chart on the right shows that, as of September 2025, only 9.9% of US firms surveyed had adopted it.

This leaves substantial room for growth, although we are likely to see some turbulence along the way.

AI adoption by US firms

% of businesses across the US surveyed by the US Census Bureau, since September 2023



Source: US Census Bureau, Macrobond, Coutts.

Data accurate as of 22/09/2025.

Part two

Solid fundamentals point to continued growth

Our key investment calls for 2026

1. Alternative diversifiers are essential

Traditional diversification is under pressure. Persistent inflation has increased the correlation between equities and bonds (see chart right), reducing bonds' defensive qualities. This could very well continue given tariff frictions and robust wage growth across developed markets.

One way to potentially address this in portfolios is to invest in so-called 'liquid alternatives'.

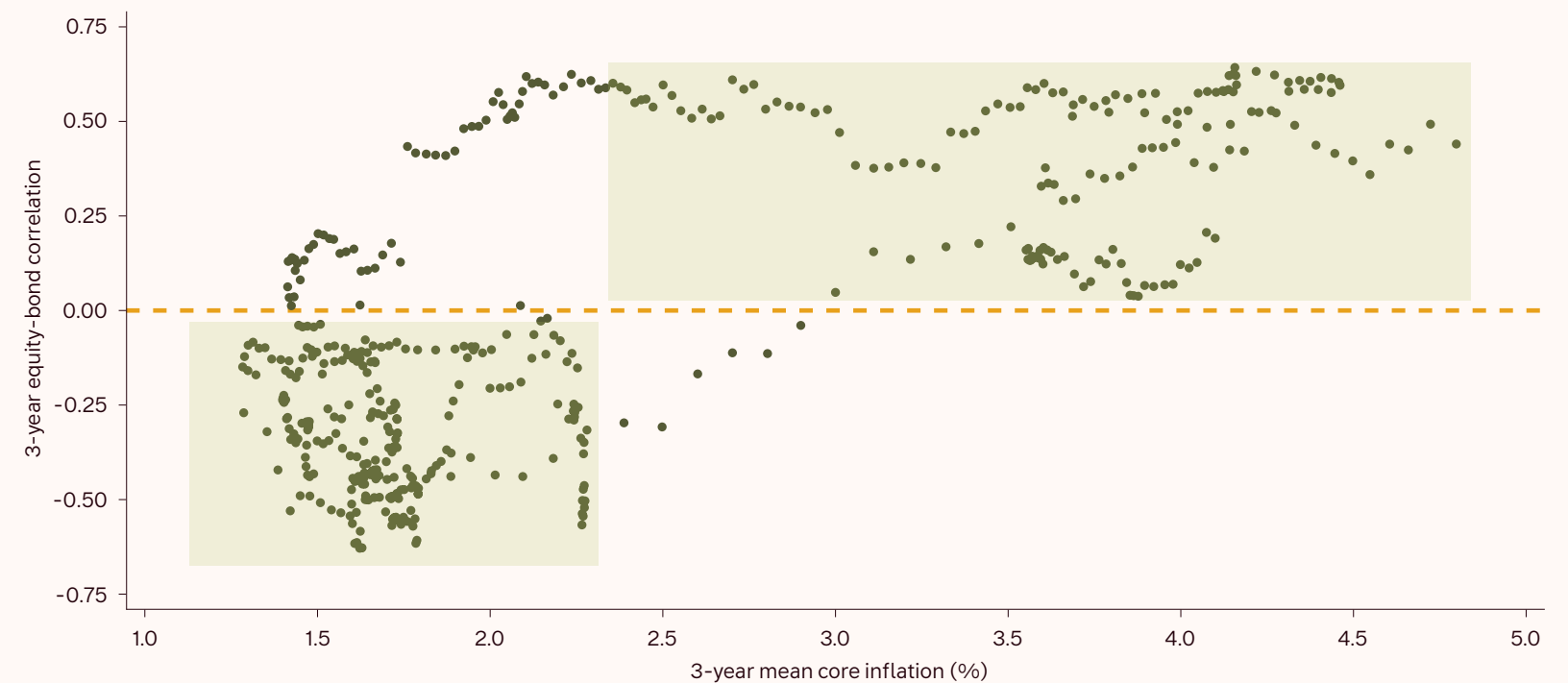
These strategies adopt a broader range of techniques than traditional financial assets, such as short-selling, which aims to benefit when an asset's price drops. They can also use methods with non-linear payoffs that may limit losses in exchange for giving up some potential gains.

Though not suitable for all clients, we feel liquid alternatives will remain an appropriate way to provide further diversification in 2026.

The equity-bond correlation rises with higher inflation

Higher levels of inflation support the use of diversifiers such as liquid alternatives.

Mean PCE core inflation versus the US equity-bond correlation
Monthly data points since July 1982



Source: U.S. Bureau of Economic Analysis, S&P Global, Macrobond, Coutts.

Data accurate as of 30/09/2025. Equity-bond correlation is based on S&P 500 closing monthly price returns versus 10-year US Treasury price returns, using a 3-year rolling-window. The time period covered is July 1982-September 2025. Core inflation is based on changes in the core Personal Consumption Expenditure Price Index.

Part two

Solid fundamentals point to continued growth

2. The US remains exceptional

Investors have been wrestling with the question of whether the US can remain 'exceptional', having outperformed global equities by 160% since 2015 (as at October 2025).

The weight of rising government debt, sizeable fiscal deficits, a weaker dollar and America First foreign policy have been cited as examples of waning US influence.

But for us, America's structural advantages endure, and we believe it will remain exceptional for the foreseeable future.

US still ahead of peers

Two of the most important factors that influence investment returns are economic growth, and how easily that growth translates into company earnings.

Economic expansion depends on demographics and productivity, while its influence on company earnings centres on institutional depth – the rule of law, enforcement of contracts, stable policymaking and corporate governance.

Looking at the US through this lens, its demographic outlook, productivity potential and institutional depth continue to outpace peers.

UN figures show the projected US age dependency ratio – the number of people below and above working age as a percentage of the working population – to be 75% by 2100 (the lower the percentage the better for the economy). That's compared to over 80% for Germany and 114% for China.

The OECD, meanwhile, found that US labour productivity (GDP per hour worked) increased by 1.6% in 2023, while the average across all its countries was 0.6%.

US productivity growth is also likely to accelerate faster than other developed markets because of the country's flexible labour markets and strong track record of adopting new technology.

Part two

Solid fundamentals point to continued growth

3. Private markets reach pivotal moment

Private market investing has undergone a remarkable transformation. At the end of last year, global assets under management had tripled in size over the previous decade to \$15.5 trillion, according to the Financial Conduct Authority.

This growth reflects strong demand from long-term investors seeking diversification beyond traditional public markets. Private market assets include private equity – ownership in non-public companies – and private credit, where asset managers or private funds provide direct loans to businesses outside public markets.

What sets private markets apart from traditional asset classes is their distinct underlying economic exposures, business models and economic sensitivities. As access improves, these opportunities could broaden the investible universe and enhance portfolio outcomes when combined with public market strategies.

The opportunities are striking, with far more private companies in the world than publicly traded enterprises. In the US alone, 99% of middle market businesses are privately owned, according to Ares Management.

Innovation paves the way

Historically, for individuals seeking to maintain and grow their wealth, private markets presented challenges. Extended capital deployment timelines, illiquidity and large minimum investments all presented barriers to entry.

But today, innovation is reshaping the landscape.

So-called evergreen funds, which ease some of the challenges, are increasing in popularity. They allow investors to access a fully diversified portfolio of private assets significantly faster than more traditional, 'closed-end' structures.

Under normal market conditions, an investor can withdraw part of their investment in a few months, and these funds tend to have lower minimum investment sizes than their traditional counterparts.

For eligible investors, the message is clear: private equity and private credit should not be viewed as replacements for traditional investing, but as complementary components of a well-constructed portfolio. They represent a strategic evolution in wealth management.

Part three

Outlook on the future



The good, the bad and the resilient

As we look ahead, three scenarios stand out: our base case of steady growth, an upside driven by AI-led productivity and a downside shaped by lingering risks. Here are our views on what wealthy investors should watch out for.

Base case: Resilience

Our base case for 2026 is reassuringly steady. We expect ongoing economic resilience and corporate earnings growth which should continue to underpin solid equity market performance.

Consumers remain healthy, corporate balance sheets strong, and the US Federal Reserve (Fed) has started cutting interest rates – markets currently expect three more US cuts by the end of 2026.

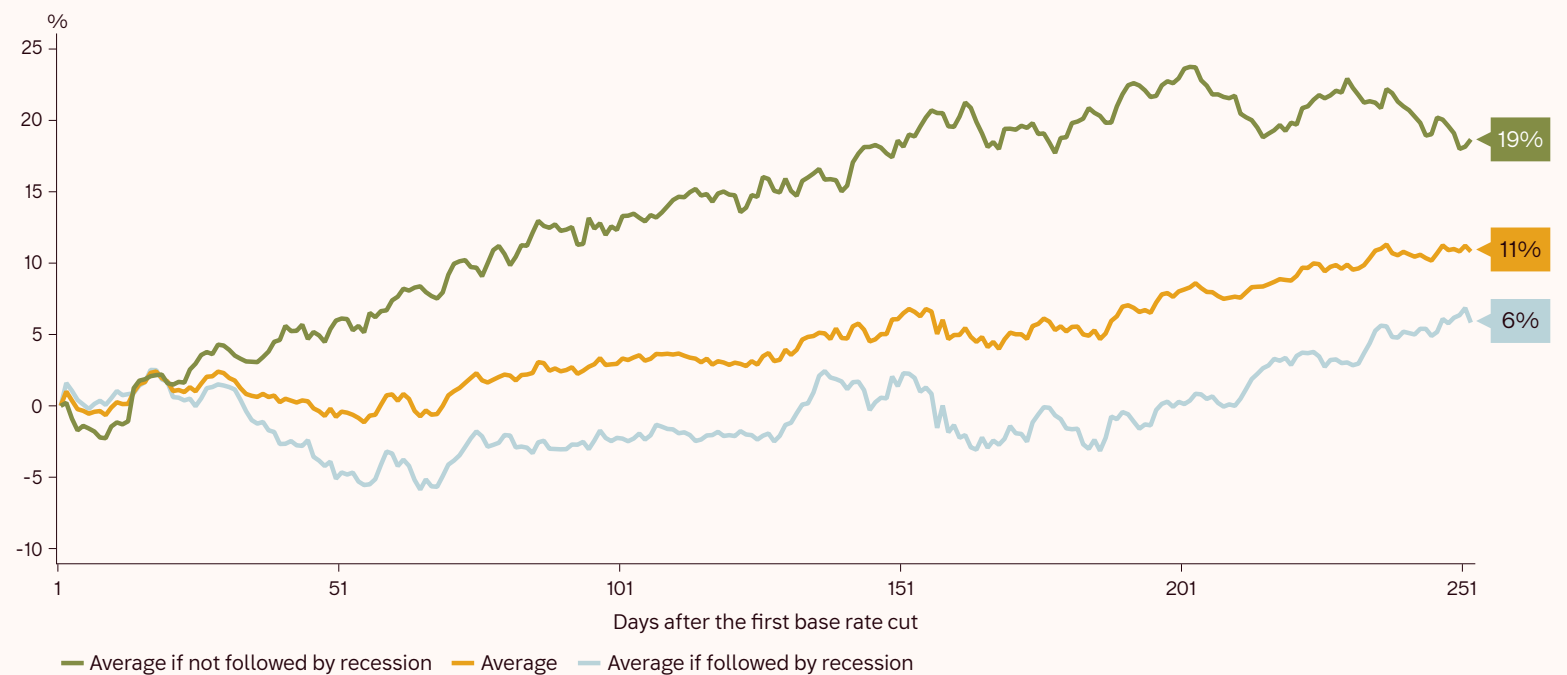
Data from the last 50 years shows that US equity returns are historically very strong during Fed rate cutting cycles that coincide with economic growth (see chart right). The last 12 months have been another example of this.

The outlook could change of course, with various risks hovering over markets, but current fundamentals show a reasonably firm foundation for growth.

Rate cuts can support equities when there is no recession

High equity valuations may limit gains in this rate-cutting cycle compared to previous cycles.

US equity returns following the first US Federal Reserve base rate cut
% change, every cutting cycle since 1974 (price return)



Source: S&P Global, Macrobond, Coutts.

Part three

The good, the bad and the resilient

AI could drive higher productivity growth over the long term

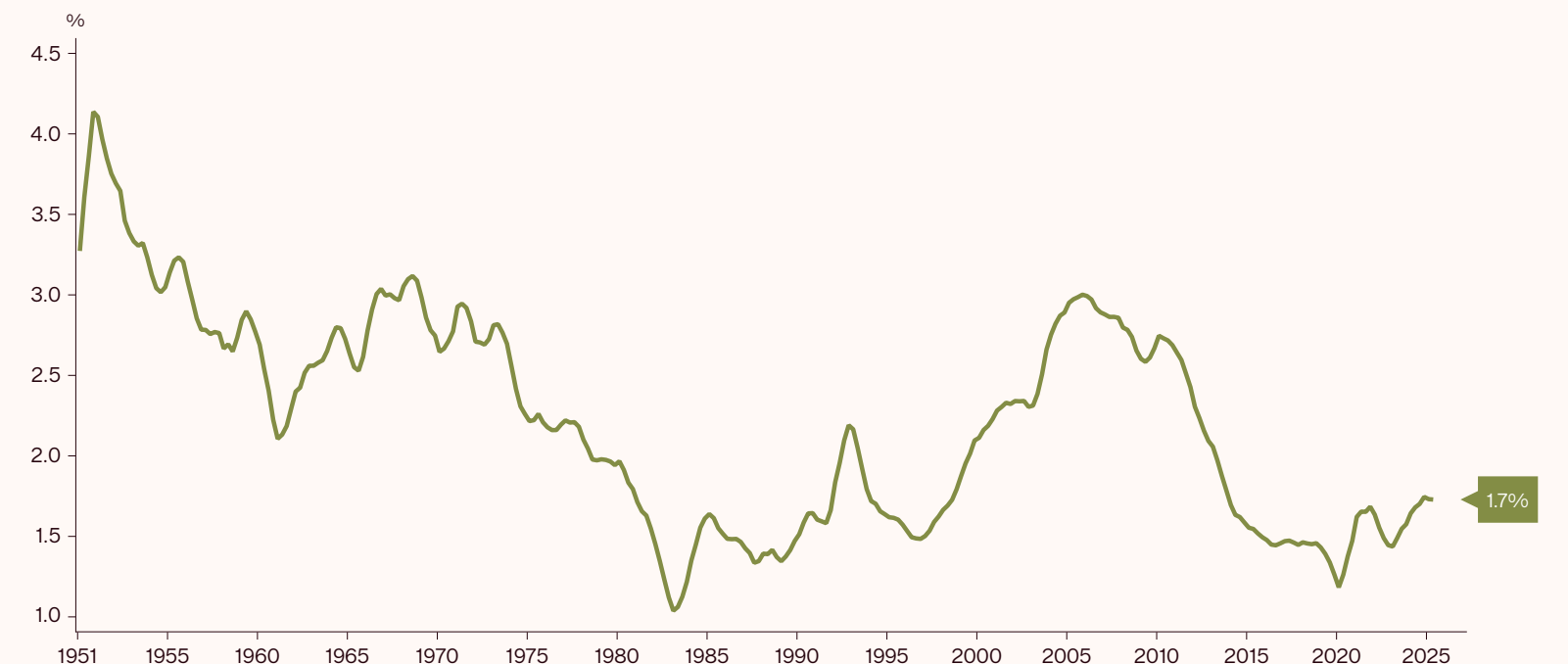
As AI adoption continues to increase, we would expect this to translate into a more productive US workforce.

Upside case: AI comes good

We may well be on the cusp of a defining moment for the global economy courtesy of AI – a monumental shift in productivity.

In 2025, AI excitement and infrastructure investment drove stellar returns. In 2026 and beyond, the real story could be AI-induced productivity gains as a key driver of economic growth, improved company performance and enhanced investment returns.

Annual US labour productivity growth, 10-year rolling average
Since 1950



Source: US Bureau of Labor Statistics, Macrobond, Courtts.

Data accurate as of 04/09/2025.

Part three

The good, the bad and the resilient

Will productivity save the day?

As mentioned earlier, productivity is one of two key components in the engine of economic expansion, the other being demographics.

Demographics offer little support. According to the OECD, fertility rates across developed countries average 1.5 children per woman, well below the 2.1 needed to keep a population stable (assuming no immigration). This means we are likely to see ageing populations and smaller workforces – and the impact of this on public finances and economic growth could be sizeable.

This makes productivity critical, and AI could be the key that unlocks its potential.

Estimates for the economic growth impact of AI are wide. But a 2024 OECD study estimated it would contribute between 0.4 and 0.9 percentage points to annual US labour productivity growth over the next decade.

PwC, meanwhile, predicts that AI could contribute \$15.7 trillion to the global economy in 2030, with \$6.6 trillion coming from productivity gains.



Part three

The good, the bad and the resilient

Short-term pain, long-term gain

Volatility in the short term is quite possible and concerns about an AI bubble persist. However, unlike previous tech-led change, today's AI leaders boast strong earnings and are funding expansion from vast cash reserves.

Like any paradigm-shifting development, AI comes with short-term pain, not least for workers displaced by new technologies. There has been some anecdotal evidence of this, with Fed studies showing slower job growth in recent years in AI-exposed sectors, as well as higher unemployment recently for young graduates.

Whilst job displacement is a risk, two things are worth noting.

Firstly, technological innovations have always changed job market composition. A typical UK worker today works around half as many hours as their counterparts in the mid-19th century.

And secondly, in the past, innovations have ultimately created new jobs to offset those made obsolete. Despite 200 years of innovation, we have not yet seen structural rises in automation. AI may be different, but that is not yet clear.

Despite the initial disruption of AI, we see huge potential for gains. And if the boost to productivity comes sooner rather than later there should be nothing artificial about the benefits – over the coming year and beyond.



Part three

The good, the bad and the resilient

Downside case: Potential bad omens

Turbulence in markets is always something investors have to navigate. But while they have experienced their fair share of late, we feel many current key concerns may be overstated. Here are some of those risks and our view on them.

1. Record highs – bubble or business as usual?

Several stock markets recently reached a succession of record highs, sparking concerns of a bubble which some feel could de-rail markets.

We disagree. Over the past decade (as at the end of August 2025), US equities returned 290%. More than three quarters of those returns came from growing corporate earnings and dividend payments,

with only the remainder attributable to rising valuations.

This underscores that fundamentals, not speculation, have been powering investment performance. And as long as that continues, we remain comfortable maintaining our exposure to equities.

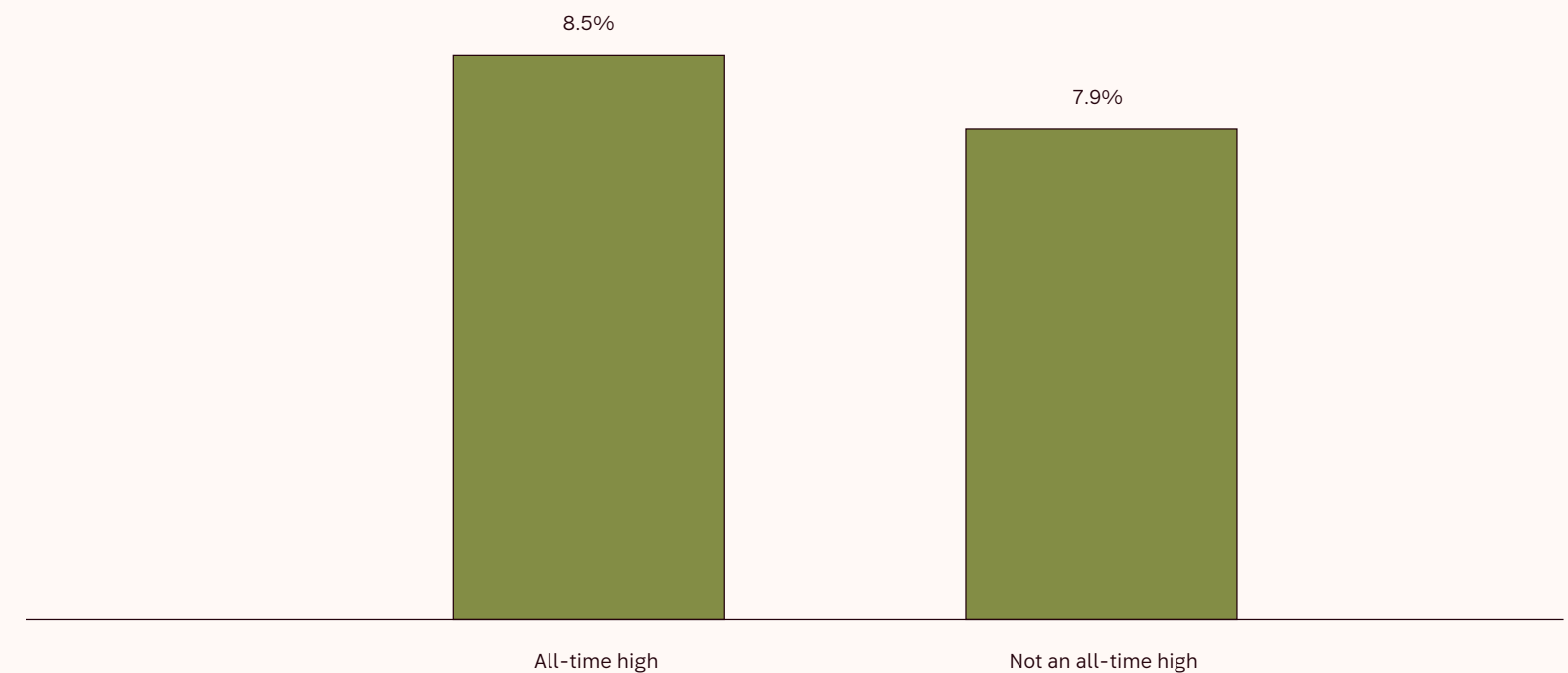
Our research spanning nearly a century shows markets have historically been at all-time highs about 20% of the time.

Counter-intuitively, investment returns following those highs are often better than when markets weren't breaking new ground (see chart right). This shows that all-time highs are typically indicative of strong underlying economies and positive earnings growth, not exuberance.

Returns have historically been better if investing at all-time highs

Since 1928, markets have been at all-time highs ~20% of the time.

12-month forward return for the S&P 500 1928-2025



All-time high definition based on if the S&P 500 finished the month at record levels. 12-month forward return represents subsequent 12-month returns from this point. Source: S&P Global, Macrobond, Coutts. Data accurate as at 01 October 2025.

Part three

The good, the bad and the resilient

2. Market concentration – magnificent or risky?

The so-called 'Magnificent 7' technology stocks in the US have a cumulative weight of around 35% of the S&P 500. Some commentators have speculated that these elevated levels of index concentration are a precursor to a market correction.

Again, we disagree.

Concentration risk matters if investors are over-exposed to a single source of revenue. But many of the 'Magnificent 7' are conglomerates, each housing a number of different revenue streams and subsidiaries. These include cloud services, online retail, social media apps, application stores and video streaming.

Conceptually, if each of these subsidiaries were independent, superficial index concentration would be materially lower as 20 or 30 companies, not seven, would comprise 35% of the S&P 500. However, an investor would still be exposed to the same underlying businesses.

Concentration risk is therefore less of a concern when supported by diverse sources of revenue.

3. Profitability under pressure

High valuations can necessitate strong profit margins. If those elevated margins revert to historical averages, earnings could shrink, making current equity prices harder to justify.

Companies have enjoyed decades of rising margins thanks to low interest rates, global supply chains and tech efficiencies. Some of those tailwinds are reversing – higher labour and energy costs, geopolitical tensions and elevated interest rates now pose challenges.

However, comparing today's profit margins to historical averages is a fraught exercise. Structural economic shifts have migrated value from tangible assets, such as railroads and commodities, to intangible assets such as technology.

Part three

The good, the bad and the resilient

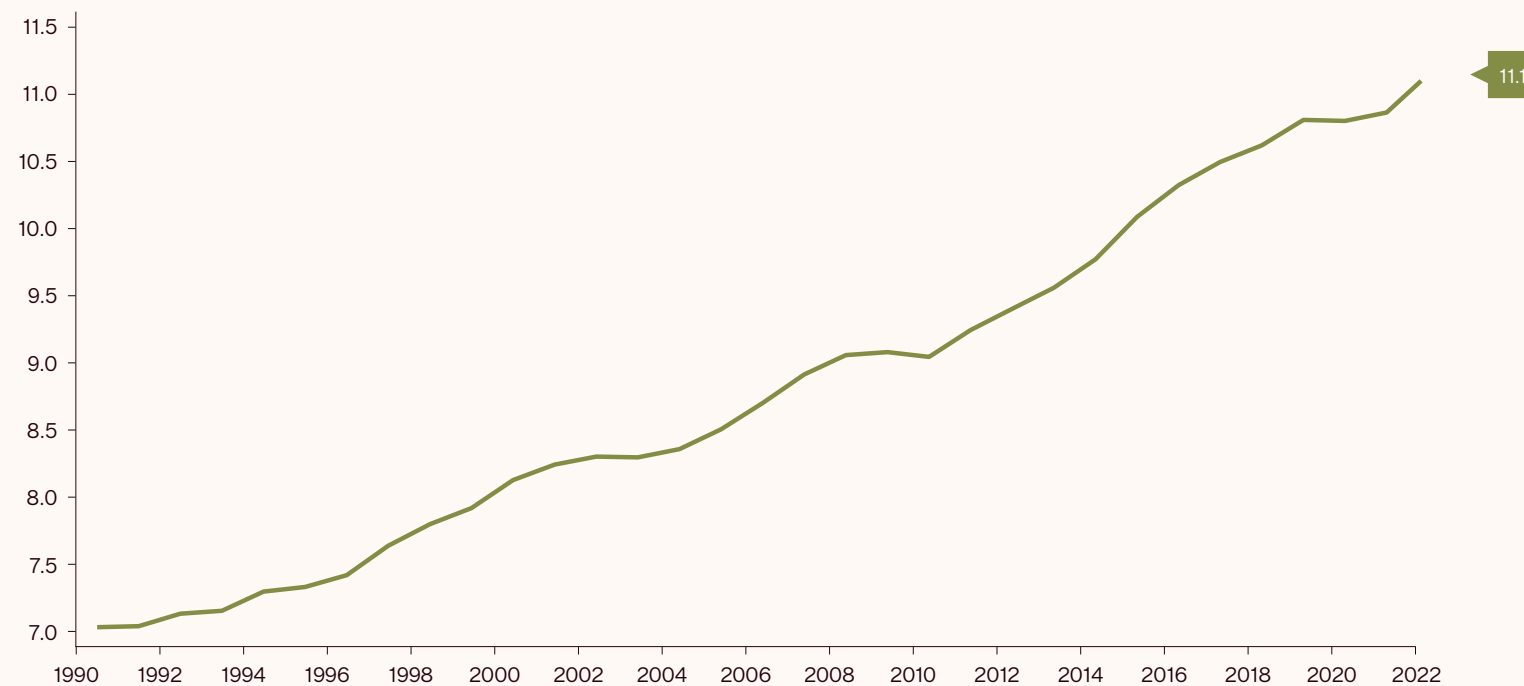
Economic growth has become less reliant on oil

Much more GDP is generated from a fixed quantity of energy inputs, including oil, compared to 30 years ago.

An example of the demise of tangible assets is oil, which was once the lifeblood of economic expansion but has seen its grip loosen dramatically over the past few decades. The chart to the right shows the steep rise of GDP generated over the years from the same, fixed quantity of energy produced.

Intangible assets, on the other hand, are the order of the day, and they can produce greater margin resilience because usually just a few firms dominate. For example, within social media, consumers typically value larger, active communities, which makes it likely that a small number of larger companies will prevail.

GDP in US dollars generated per unit of energy use, adjusted for inflation
From 1991 to 2022



Source: World Bank, Macrobond, Coutts.

Data accurate as of 25/03/2025.

Staying vigilant

Generally, while we believe these risks are unlikely to escalate into significant challenges, we remain highly attuned to the potential impact they could have on markets.

Our investment approach is built to navigate these scenarios, ensuring we can act decisively should any of these risks materialise.

Part four

Geopolitical perspective



Economy withstands global tensions

It's been a year of war, peace and tariffs.

We've seen global power struggles around trade, competition over new technologies, and changing populations all taking their toll.

These events typically create a challenging environment for the economy, and the ensuing uncertainty makes it difficult for investors and economists to gauge the future.

But despite all this, data shows that the economy and financial markets are holding firm.

This is likely because governments are now better at understanding their own strengths

and weaknesses – making them quicker to respond and react to international developments.

However, there are of course limits to how well countries and economies can respond to geopolitics. The more extreme an event, the bigger the potential strain.

Should international tensions escalate, or if infrastructure were disrupted – as we saw with this year's blackouts in Spain – we could eventually see an impact on the financial world.

It would seem from this year, though, that it would take something pretty significant to shift the economic dial.

Looking ahead

Conflict within the Middle East and Ukraine has showcased the evolution of modern-day war. Countries are now using cyberattacks, media influence and economic pressure to gain advantage.

Governments and global organisations are investing in better awareness, stronger defences and smarter planning.

We believe three key themes could emerge from current geopolitical tensions.

1. Alliances could change:

International relationships are likely to continue to form, end or evolve as countries try to deal with the unpredictability of others.

2. Defence spending could increase further:

Governments could spend more on military and security – Germany, for example, has allocated more funds to this after years of reduced spending.

3. Political challenges could deepen:

Ongoing conflicts are unlikely to be resolved overnight, which creates significant challenges for those involved around the funding needed and their political relationships with allies.

It's worth highlighting again that the global economy remained resilient in the face of many challenges throughout 2025. While we should stay alert to any potential geopolitical escalations in 2026, it's likely that we will see the same resilience throughout next year.



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