

INVESTMENT OUTLOOK 2026

# From Disruption to Opportunity

Diverse Insights for a Dynamic World

FOR PROFESSIONAL INVESTORS ONLY  
DECEMBER 2025

more **INVESTED**



# Foreword



**Niall O'Leary**  
Managing Partner  
ILIM



As we enter 2026, the world around us is changing rapidly—geopolitics, technology, and economic fundamentals are all in flux, often in unpredictable ways. Yet, as ever, with disruption comes opportunity.

This year's Outlook draws on the depth and breadth of ILIM's expertise, complemented by our collaboration with colleagues at Setanta. Earlier this year, we brought our capabilities together under a single legal entity, enabling us to provide clients with the clarity and confidence needed to navigate the complexities of the new global order.

The themes we explore are not theoretical—they are the very questions our clients are asking as they seek to position portfolios for the year ahead. Our aim is not only to share our views, but also to offer practical guidance on how to capture the opportunities these shifts present. With this publication, we set out the big questions for 2026, providing a foundation for ongoing discussion and partnership.

What's next? In addition to our core outlook, we will be discussing themes such as the outlook for property in the New Year, as well as sharing perspectives on the evolving landscape for responsible investment in 2026.

We look forward to working with you as we chart a course through the challenges and opportunities of the year ahead.

## Our contributors explore the landscape from multiple vantage points:



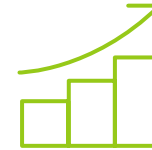
### MACRO OUTLOOK

Chief Investment Strategist, Lenny McLoughlin, sets the stage with a comprehensive analysis of global growth prospects. He highlights the resilience of the US economy, the evolving roles of fiscal and monetary policy, and the uneven nature of recovery across regions and income groups. He reminds us that while risks remain, there is cause for cautious optimism as policy, technology, and consumer dynamics continue to evolve.



### GEOPOLITICS AND SELF-SUFFICIENCY

Leonie MacCann, Head of Client Investment Solutions, and Alan Duffy, Head of Systematic Equity, reflect on the new era of multipolarity, where resilience and self-sufficiency are increasingly prioritised over efficiency. They examine the ripple effects in markets – from defence spending to gold and nuclear energy – and consider how investors can position for both the risks and opportunities of a more fragmented world.



### INFLATION AND DEBASEMENT

John Thornton, Head of Fixed Income, delves into the perennial challenge of inflation and government debt. He examines the temptation for policymakers to use currency debasement as a way out of fiscal dilemmas, drawing on historical parallels and the current debate around deficit sustainability. His perspective is a timely reminder of the importance of vigilance and adaptability in fixed income investing.



### THE AI INVESTMENT CYCLE

David Byrne, Senior Setanta Equity Fund Manager, and Lenny McLoughlin chart the rapid evolution of artificial intelligence (AI) as both a technological and investment theme. They assess the early winners, the scale of capital being deployed, and the potential for AI to transform productivity and corporate earnings. They also address the risks and uncertainties around adoption, valuation, and the broader impact on employment.

# A Year of Opportunity: Macro Drivers Shaping 2026



**Lenny McLoughlin**  
Chief Investment Strategist  
ILIM

Despite facing headwinds in 2025, both the US and global economies demonstrated resilience, performing significantly better than anticipated following Liberation Day-related tariff volatility in April. Looking ahead to 2026, growth is expected to remain robust as policy shocks subside. This outlook is supported by ongoing fiscal stimulus, stabilising inflation, easing monetary conditions, positive spillovers from AI-driven investment and an improving US labour market.

## THE US POWERS AHEAD: GLOBAL GROWTH'S DRIVING FORCE

The US continues to be a key driver of global growth. In the first quarter of 2026, growth could exceed 3% – partly due to the reversal of the negative impact from the US government shutdown in the previous quarter – which may add 0.1-0.2% to annual growth. Trade tensions appear to have peaked, as evidenced by the recent US-China agreement and a 12-month pause on tariffs. This reduction in policy uncertainty should boost corporate confidence and activity. Although the Supreme Court's decision on the legality of some US tariffs is pending, tariffs are expected to stay near current levels, with further negative surprises unlikely if Trump utilises alternative executive powers.



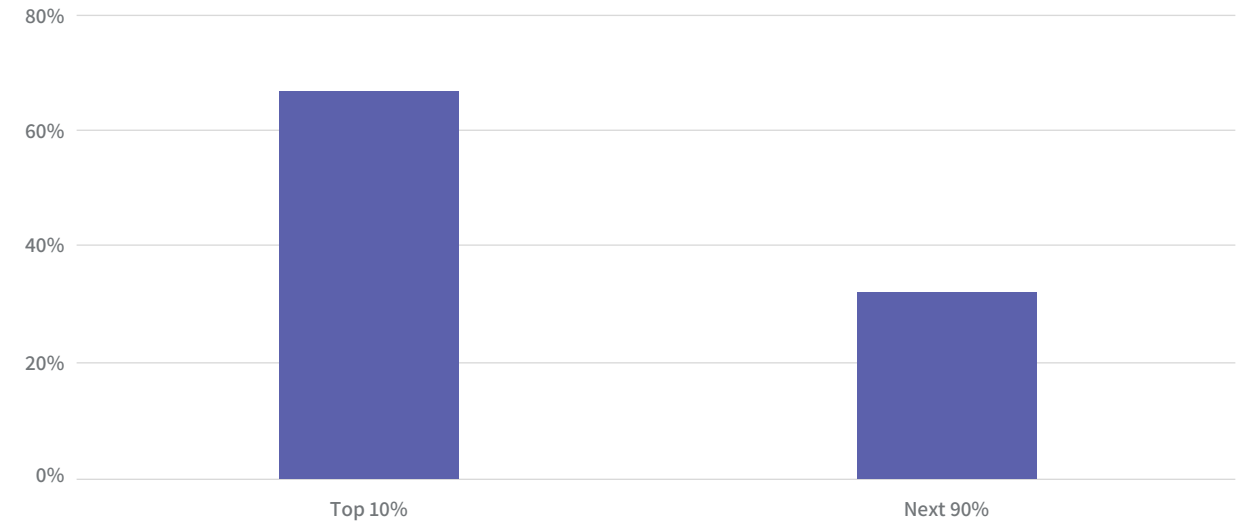
## STIMULUS IN ACTION: WILL THE OBBA SUPERCHARGE GROWTH?

The passage of the One Big Beautiful Bill (OBBA) in July introduced several stimulus measures that could increase growth by 0.3-0.4% in 2026. These include an approximate \$100 billion boost to disposable income, or 0.3% of GDP, with up to \$65 billion distributed as tax refunds in the first four months of the year. With midterm elections approaching in November, Trump and the Republicans are motivated to maintain a strong economy, especially after recent disappointing election results. The upcoming 250th anniversary of US independence provides further incentive for robust growth. Additional stimulus is possible, as Trump has proposed a \$2,000 payment to individuals to offset higher tariffs, though high earners would be excluded.

## SPENDING SPLITS: THE TALE OF TWO AMERICAS

Despite a more subdued labour market this year, US consumer spending has remained solid, growing at nearly 2% annualised through the first three quarters. While job growth has slowed, consumption has been supported by a sharp increase in household net wealth – up \$59 trillion since before Covid – primarily due to equity market gains and, to a lesser extent, housing. However, the US is experiencing a ‘K-shaped’ recovery, whereby there are significant differences in consumption patterns across income groups. Higher-income households, buoyed by asset rallies, are driving strong aggregate consumption, while lower-income groups continue to struggle. Spending among higher-income groups grew 2.7% year-on-year, compared to just 0.7% for lower-income households, with wage growth at 3.7% and 1.0% respectively. This divergence partly explains why consumer confidence remains relatively weak despite a firm economy and strong equity markets.

## Share of US Wealth by Wealth Percentile



Source: US Federal Reserve

## LABOUR MARKET DYNAMICS: SLOWDOWN OR STRATEGIC SHIFT?

Job growth has slowed from an average of 167,000 per month in 2024 to 62,000 in the last three months, raising concerns about a potential slowdown. However, these fears seem overstated to us, as the main reason for the softness is tighter immigration controls that have reduced labour supply. Accordingly, the equilibrium level of job growth needed to keep unemployment stable has fallen from around 175,000 per month 18 months ago to an estimated 60,000 now. Lower job growth is expected to continue and should not necessarily be interpreted as a sign of labour market weakness. Labour demand is likely to improve as tariff-related uncertainty diminishes and corporate profits and growth remain strong.



## INVESTMENT REVOLUTION: AI TAKES CENTRE STAGE

Investment played a key role in supporting US growth in 2025, with further gains expected from the OBBB, which includes improved provisions for equipment spending and R&D. AI investments are estimated to have contributed about 1.0% of the 1.6% US growth in the first half of the year, though this falls to 0.3% when accounting for imports. AI-related capital expenditure has been a major driver, growing 58% in 2025 and forecast to rise another 30% in 2026. While the pace of AI spending is expected to slow next year, we believe it will continue to underpin the US economy and support productivity gains.

## MONETARY POLICY: THE PACE OF RATE CUTS

The Federal Reserve (Fed) has recently resumed cutting rates. Although there is debate about the timing and extent of further cuts, falling inflation as the impact of tariffs peaks in early 2026 should allow the Fed to continue lowering rates, even if inflation remains above the 2% target. Rate-sensitive sectors in particular, such as housing, are likely to benefit.

## RISK RADAR: WHAT COULD DERAIL GROWTH?

While the outlook is positive, risks remain. Growth could be threatened by an unexpected escalation in trade tensions or if the Fed's ability to cut rates is constrained by persistent inflation. Continued weakness in the labour market, with rising layoffs, would endanger consumption. A collapse in confidence around AI and related investment would also harm growth. Recent defaults in private credit present a potential risk to financial stability, though in our view these events appear idiosyncratic and not indicative of broader systemic issues. Overall, the US economy is projected to grow by 2.25% next year, outpacing consensus forecasts of 1.9%.



## BEYOND THE US: EUROPE AND CHINA'S NEXT MOVES

In other regions, the eurozone is now expected to grow by 1.3% in 2026, compared to a consensus of 1.1%. Large fiscal stimulus in Germany and increased defence spending across Europe are supportive and any progress towards resolving the Ukraine–Russia conflict would be welcomed and beneficial. Excess savings accumulated since the pandemic should support consumption, while European Central Bank rate cuts since mid-2024 are also helpful. Risks to eurozone growth include cheap Chinese imports following US tariffs, weak demographics, burdensome regulation, and slower-than-expected fiscal policy implementation.

By contrast, China is forecast to grow by 4.4% in 2026. Although recent activity indicators have been soft and the property sector remains weak, authorities have shown a willingness to implement targeted stimulus when necessary. There is a growing focus on supporting private enterprises, particularly in high-tech and green sectors. The latest five-year plan aims to achieve income per capita equivalent to a moderately developed country by 2035, implying an annual growth target of about 4.5% to 2030.

## CURRENCY CROSSROADS: THE DOLLAR'S CHANGING FORTUNES

As we reach the end of the year, the US dollar has weakened significantly this year, with further weakness possible in 2026. Despite this decline, the dollar remains overvalued by many measures. The US administration is targeting a weaker dollar to boost manufacturing. Expected further Fed rate cuts in 2026 are negative for the dollar and reduce hedging costs for international investors, who still have lower-than-normal hedge ratios on US assets. Investors are also questioning US exceptionalism in light of recent policy developments and are reassessing their exposure to US assets, including the dollar. The potential threat to the Fed's independence under the current US administration also poses risks. While the dollar is expected to remain the world's primary reserve currency, diversification among foreign exchange managers continues, suggesting further downside risk for the dollar. Upside risks could arise from a more hawkish Fed, tighter global liquidity, or a sudden shift in risk sentiment.

## LOOKING FORWARD: REASONS FOR CAUTIOUS OPTIMISM

In summary, we believe that both the US and global economies are well-positioned for another year of resilient growth in 2026. In our view, this positive trajectory will be driven by a combination of ongoing fiscal stimulus, accelerating AI-driven productivity gains, stabilising inflation, further monetary easing, and a robust labour market. We expect the US to continue leading most advanced economies, even as growth remains uneven across income groups and sectors.

We also anticipate a further weakening of the US dollar in 2026 as global monetary policy converges, albeit retaining its status as the world's dominant reserve currency. While we remain alert to risks around inflation, labour market dynamics, and financial stability, we are cautiously optimistic about the opportunities ahead.

Despite the strong rally in equity markets from the April lows and valuations appearing full, we see room for further upside in 2026. Strong fundamentals in terms of a positive growth and earnings backdrop, fading policy shocks, fiscal stimulus, interest rate cuts and the AI theme all provide support. Volatility however is likely to remain a feature with risks and uncertainties still evident around geopolitics, growth, inflation and monetary policy.

Bond yields are expected to fall in 2026 as Eurozone inflation is set to run slightly below the ECB's target of 2% which keeps open the possibility of another interest rate cut. US bond yields are also anticipated to be lower as inflation falls with the tariff impact fading and the Fed continuing to cut rates.

# The Fractured World: Investing in an Age of Self-Sufficiency



**Leonie MacCann**  
Head of Multi-Asset Solutions  
ILIM



**Alan Duffy**  
Head of Systematic Investment  
ILIM



We are now entering a new era, characterised by multipolar systems and increased geopolitical conflict. Self-sufficiency and resilience have risen to the top of policymakers' agendas. The new normal is a world where risk management is beginning to take precedence over efficiency, as nations grapple with the possibility that today's allies could become tomorrow's adversaries. Whether this represents a structural shift or a cyclical adjustment remains to be seen, but the trajectory is clear.

## RIPPLE EFFECTS: HOW MARKETS ARE RESPONDING

While this creates political uncertainty, it also generates opportunities as new investment themes emerge. Markets are increasingly pricing in a world of reduced interdependence, higher security costs, and greater emphasis on self-sufficiency in critical sectors such as energy, technology and defence.

Much of this is driven by the accelerating US-China strategic rivalry, contested over advanced technology and supply chains and driven by a desire to assert global economic dominance.



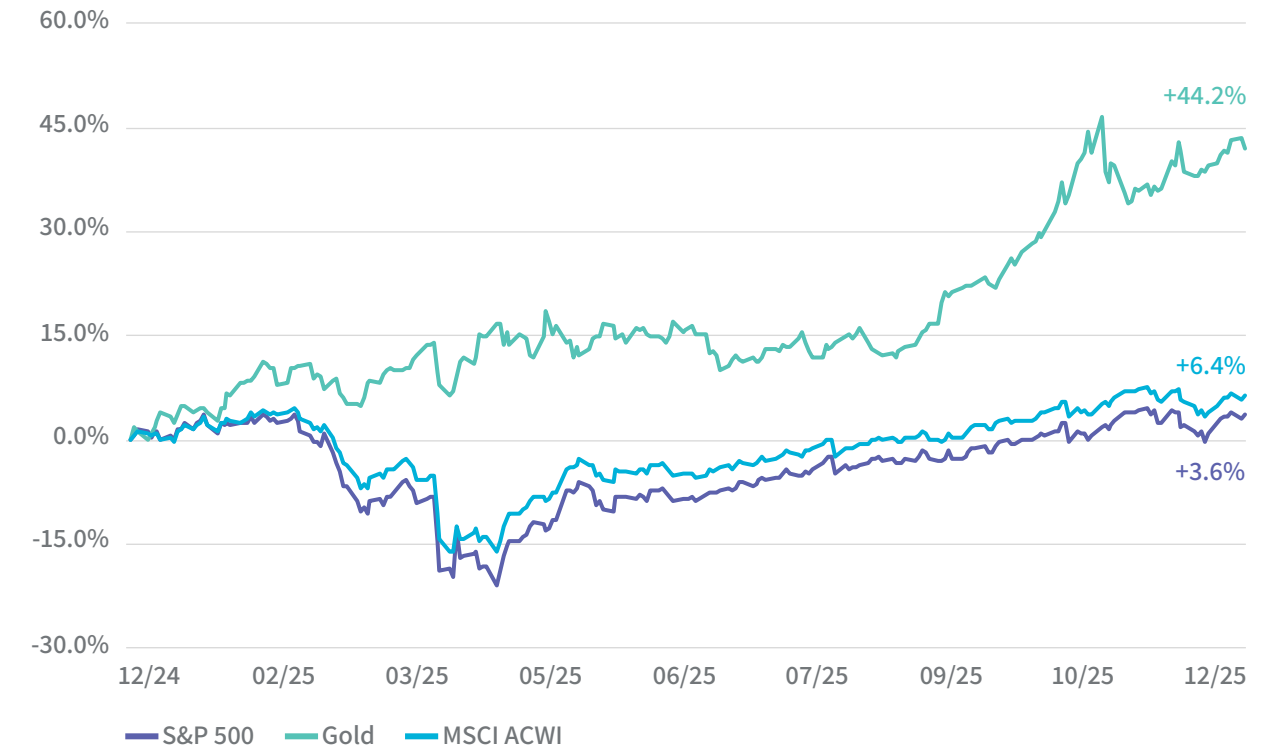
## EUROPE REARMS: DEFENCE SPENDING AS A NEW FACET OF SOCIAL RESILIENCE

Caught in the crossfire, Europe has initiated a rearmament push, anchored by an €800 billion German defence initiative, and in the process redefined defence spending as a pillar of social resilience. Decades of underinvestment have left defence expenditure in the euro area accounting for 1.8% of GDP in 2024, which is expected to rise meaningfully to 2.4% by 2027. The Stoxx European Aerospace & Defence index is up 61% year-to-date, far outpacing broader European market benchmarks such as the Stoxx 50, which advanced 21% over the same period. Away from just investment performance, we can see the theme manifest itself in product innovation, with over a dozen European defence ETFs launched since early 2024, including the WisdomTree Europe Defence ETF, which has attracted over €3 billion in capital since launch in early 2025. This is not just about investor sentiment, but a sustained structural change.

## GOLD'S RENAISSANCE: DIVERSIFICATION IN AN UNCERTAIN WORLD

Gold set a new all-time high in October and is on course for its strongest annual performance in more than three decades, returning c.55% year to date. Gold's record rally this year has been supported, in part, by the global central bank buying spree, underpinned by a clear strategy to diversify reserves, with gold seen as a liquid, non-dollar, non-sanctionable asset. Foreign central banks now hold more gold than US Treasuries for the first time since 1996.

## 2025 YTD Performance (as at 02/12)



Source: ILIM, Factset, returns are in Euro as at 02/12/2025.

## POWERING THE FUTURE: NUCLEAR ENERGY AND THE AI REVOLUTION

Meanwhile, in the techno-strategic arena, the race for AI dominance is dramatically accelerating demand for reliable, scalable electricity. Much maligned historically, nuclear power is experiencing a renaissance, with renewed focus on innovation and efficiency. Goldman Sachs has estimated that 85–90 gigawatts of new nuclear capacity would be needed to meet all the data centre power demand growth expected by 2030. Both governments and AI hyperscalers have begun to act. In October last year, Google announced a plan to collaborate with Kairos Power, creating a path to deploy a US fleet of advanced nuclear power projects totalling 500 MW by 2035. China has a total of 104 prospective reactors currently under development while the US has 30, with the effects of this playing out in the stock prices of nuclear related companies. Oklo, a designer of small modular reactors based in California, is up close to 400% this year despite having no revenue at this point.

## WINNERS AND LOSERS IN THE AGE OF SELF-SUFFICIENCY

This new era will undoubtedly create winners and losers as we see structural shifts in how capital gets allocated to take advantage of emerging themes. Investors, businesses and policymakers who acknowledge the fractious new normal may discover new sources of resilience and competitive edge. However, fragmentation comes at a time when challenges such as climate change, pandemic preparedness and technological advancement would benefit from international cooperation.

## THE ROAD AHEAD: ADAPTABILITY IN A FRAGMENTED WORLD

Looking ahead, the geopolitical backdrop is likely to remain uncertain and dynamic. While some degree of globalisation will persist, new alliances may form based on shared interests in technology, energy and security. The possibility of further shocks – whether from conflict, climate events, or technological disruption – means that adaptability and foresight will be essential for navigating the evolving landscape. Ultimately, those who can balance national resilience with selective international collaboration will be best positioned to thrive in the years to come.

# Is debasement the only way out?



**John Thornton**  
Head of Fixed Income  
ILIM



Sometimes it feels like inflation is the cause of and solution to all economic problems. Inflation is known to inflict serious economic pain on the average person but sometimes it feels to policymakers like the only way out of serious economic challenges. This leads governments to a strategy of debasement, where they look to increase inflation to materially lower the value of their currency and then they use the devalued currency to pay their obligations.

## DEFICITS, DEBT, AND POLITICAL PARALYSIS

Across the developed world, we see increasing structural challenges around governments controlling deficit spending. Whether it's France with its unstable government and high debts, the UK with inherently weak growth, or the US, where deficits are at recessionary-type levels, it appears that governments lack the political will to bring long-term credibility to their finances. Investors ignore these risks at their peril.

The fundamental problem for Western governments is that spending commitments have been made that look untenable when looked at from a societal perspective, based on current tax and spending plans. In theory, simple options exist to make the budgetary maths work, such as benefit reform or increased taxation. In the real world they look undeliverable from a basic political perspective, causing politicians to look to inflation as a possible way out of a political quandary.



## AMERICA'S DEBT DILEMMA

Focusing on the US economy, government debt is forecast to increase to 170% of GDP by 2055, with the budget deficit struggling to stay below 6% between now and then. As a reference point, this level of debt is more normally associated with wartime levels. Many market analysts suggest that the massive rally in the gold price to over \$4,000 in 2025 was partially driven by these debasement risks, as investors prepare by looking to shelter in hard assets.

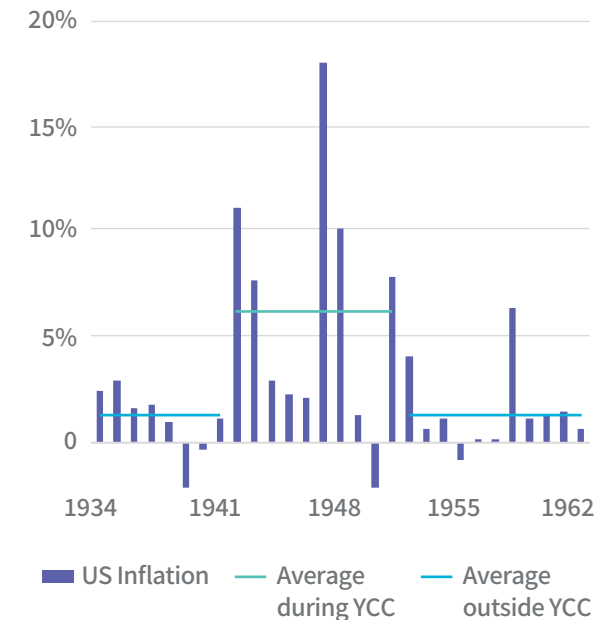
## THE COST-OF-LIVING CRISIS: LINGERING SCARS

As we all know, there was a huge societal impact from the cost-of-living crisis across the world in 2022 – the impacts are still being felt politically and economically today. It is difficult to overstate how much the typical person hates inflation. So why would we suggest that sometimes inflation is the chosen solution to any economic problem? Because in the past, for some governments, it has appeared the best way out of particular economic challenges.

## LESSONS FROM HISTORY

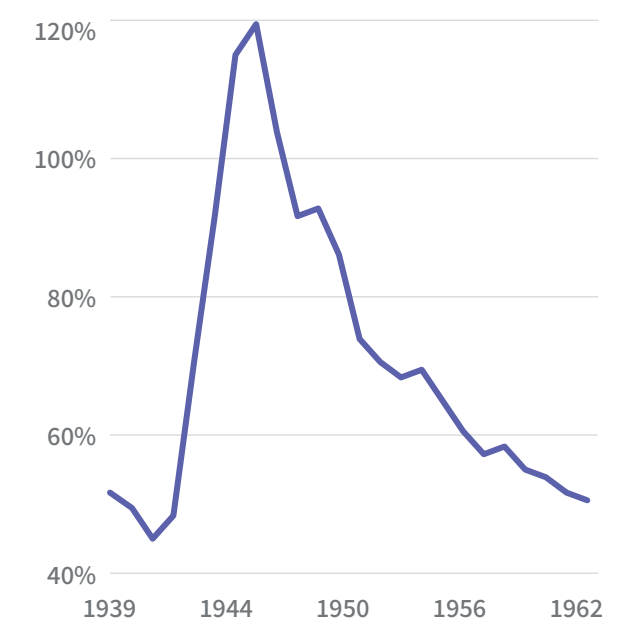
One reasonable parallel was with the US policy of 'yield curve control' (YCC) in the 1940s, where the central bank limited the interest rate on government bonds to 2.5% for a decade. The basic premise was that the government undertook huge levels of spending during the Second World War, and they had to have certainty to finance this. Government debt rose from under 50% to nearly 120% in six years. Changes like this remind us of the eurozone debt crisis. With these policy choices implemented, inflation averaged over 6% p.a. for the 10 years the 2.5% target was in place. Anyone lending to the government for the 10 years at the 2.5% policy rate lost around 30% of the value of their money after allowing for inflation. Given the circumstances, it was probably a price worth paying but it highlights what policymakers can do when faced with extraordinary challenges. Ultimately the policy worked, and government debt levels fell to a more reasonable 71% by the end of the policy in 1952.

## US Inflation and Yield Curve Control



Source: FRED database. Federal Reserve Bank of St. Louis

## US Federal Debt as Percentage of GDP



## COULD DEBASEMENT BECOME THE NEW NORMAL?

Debasement is not our base case, but when we combine the current economic position with the known massive structural challenges, it is a policy that may become more appealing over time to politicians of all hues. As a result, it is something that markets and investors will need to take seriously over the coming years and, similar to Brexit, it may turn out to be a policy some think worthwhile to pursue.

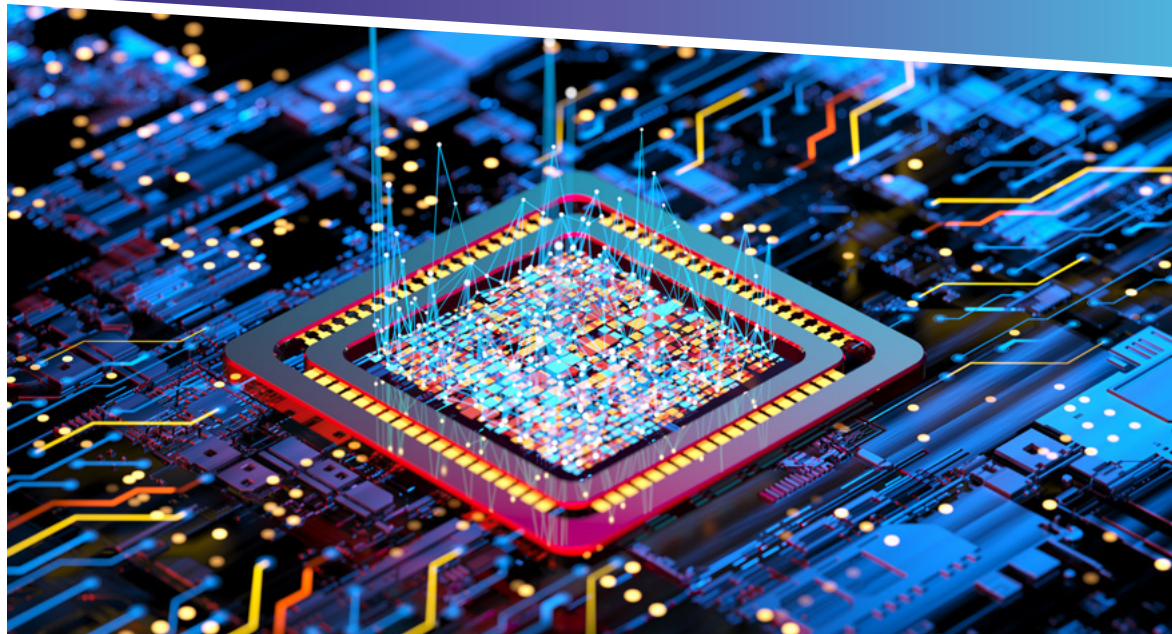
# The AI Investment Cycle: Boom, Build, and Beyond



**David Byrne**  
Senior Equity Fund Manager  
Setanta



**Lenny McLoughlin**  
Chief Investment Strategist  
ILIM



AI will ‘change everything’ – as predicted by prominent technology leaders from Satya Nadella to Larry Ellison. Ever since the release of ChatGPT in late 2022, the technology industry has been in a race to develop the next big thing in AI products. The investment buildout has for the most part been concentrated in the hyperscalers: those global data centre operators that can serve companies needing vast computing power, data storage and infrastructure. Consensus estimates this group will spend \$450bn in capex for 2025 – and \$600bn for 2026, which would account for more than 10% of all capex in the US economy.

A key consideration is what return these companies are getting from their spend. Meta revealed in its latest earnings call that its Reels product, powered by AI, has an annual revenue run rate of over \$50bn. Alphabet is seeing similar success in Google and YouTube, making it clear both companies are generating immediate quantifiable returns from their AI investments. Another area of AI success has been in computer coding, which is seeing efficiency improvements as large as 30% in coding time. We can think of many applications from mortgage applications to truck and trailer routing that are likely to see AI integration in the very near future.

## BEYOND THE EASY WINS: THE NEXT WAVE OF ADOPTION

These are the easy wins; the next stage is industrial and consumer adoption, which will likely take a bumpier route. The semiconductor ecosystem, driven by Nvidia and TSMC, is continuing its chip development at an exponential rate. The computational power is there to transform almost every industry from banking to healthcare to agriculture. Key considerations are what the AI products are going to look like, who is going to make the money and what level of return today's stock prices are indicating.

### VALUATIONS AND EXPECTATIONS: ARE AI STOCKS PRICED FOR PERFECTION?

Alphabet, Microsoft and Amazon currently trade on multiples of around 30 times next year's earnings. We don't believe these are egregious valuations for exceptional global businesses that are likely to grow in the double-digit percentages for the next couple of years. However, if the AI products take longer to roll out and monetise than anticipated, we could see the growth rates for these businesses slow, as well as multiple compression and short-term pullbacks in share prices.

The adoption of AI is anticipated to eventually deliver significant gains in productivity and broader corporate earnings, though it may also pose challenges for employment. The timing and magnitude of these effects remain uncertain, with the pace of adoption playing a crucial role in determining when the benefits are realised.

## THE TIPPING POINT: WHEN WILL AI'S BENEFITS GO MAINSTREAM?

Historically, substantial productivity improvements from new technologies have only become apparent once adoption rates exceed 50%. Current reports indicate that the US is approaching this threshold, with an AI adoption rate of over 45%, compared to just 25% in Europe. However, in many cases, adoption is not yet fully scaled. If these trends continue, productivity gains of 0.2-0.3% per annum could be achieved by the end of the decade, with improvements of 0.8-1.3% possible by the 2030s, providing a strong foundation for future growth.

While AI does present risks to employment – particularly in certain roles – evidence of widespread job losses remains limited. There has been some increase in unemployment among younger workers in the technology sector, but little impact has been observed in other sectors considered most vulnerable to AI. Research suggests that ultimately 6-7% of workers could be displaced by AI, though estimates vary widely. It is important to note that the introduction of new technologies often creates new types of jobs; for example, 60% of today's workforce is employed in roles that did not exist in 1940.

### BEYOND BIG TECH: AI'S BROADER EARNINGS IMPACT

As AI adoption becomes more widespread, its positive impact on earnings is expected to extend beyond the small group of companies currently benefiting from the AI megatrend. Although making precise estimates is challenging, some projections suggest that over the medium to long term increased AI usage could see corporate earnings rise by 19-28% per annum.



**The material is intended for the use of institutional and other professional investors only**

The material is for information only and does not constitute an offer or recommendation to buy or sell any investment or a solicitation or an offer to subscribe or buy, any securities or other financial instruments, nor does it constitute a financial promotion, investment advice or an inducement or incitement to participate in any product offering or investment.

The material has not been prepared based on the financial needs or objectives of any particular person. This information is intended solely for the information of the person to whom it has been delivered. Recipients may not reproduce or transmit this information, in whole or in part, to third parties. This document may not be distributed in countries where such distribution would constitute a violation of applicable laws or regulations.

**Past performance, forecasts and simulated performance are not a reliable indicator of future results. Prices of investments and the returns from them may fall as well as rise. Changes in currency exchange rates may have an adverse effect on the value, price or income of the investment. Financial products may use financial derivative instruments as part of the investment process and may therefore only be suitable for the more experienced investor.**

Keyridge Asset Management Limited, trading as Irish Life Investment Managers and trading as Setanta Asset Management, is authorised and regulated as an investment firm by the Central Bank of Ireland. Keyridge Asset Management Limited is registered in Ireland. Registered office is Beresford Court, Beresford Place, Dublin 1 (Company registration number: 116000). Keyridge Asset Management Limited is authorised and regulated by the Financial Conduct Authority to provide investment services in the UK through a UK branch.