RBC BlueBay Asset Management

Market views: fixed income and equities

A review of the year and an outlook for 2026

For Professional Investors Only | Marketing Communication

RBC BlueBay

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At RBC BlueBay, our investment experts operate across dynamic market environments, sub-asset classes, geographical regions, and opportunity sets. Here we reflect on the key events in 2025 and share our views on what could lie ahead in 2026.

Our fixed income strategies

Global Fixed Income

Mark Dowding, BlueBay CIO

- Overall, 2025 was a volatile year for global markets, highlighted by turbulent tariff politics, resilience in the US economy, shifting monetary policies, and evolving credit market dynamics. This led to a shift in Fed policy, with a prolonged hold on interest rates rather than aggressive cuts. Credit markets outperformed, driven by low recession risks. The Bank of Japan's decision to stop purchasing government bonds and the new government's commitment to ease monetary policy have contributed to the weakness of the Japanese yen.
- Overall, 2026 is expected to be a year of continued economic growth, stable interest rates, and opportunities in credit markets.
- The US economy is expected to continue its robust growth trajectory, potentially accelerating above 3% supported by tax cuts, AI spending, and deregulation.
- Risks to inflation are seen as more on the upside than the downside, with the Fed likely to maintain a 'hold' stance on interest rates after a possible final cut in December 2025. Longer-dated bond yields are expected to trade in a range, reflecting what are considered normal levels of interest rates. Global credit markets are expected to continue outperforming, driven by a focus on carry (yield) rather than capital gains. Corporate bonds are likely to outperform government bonds and cash.
- The US deficit is projected to decrease slightly in 2026, thanks to increased tariff revenue. However, concerns about long-term debt sustainability remain, particularly in countries like the UK and France, where high deficits and low growth pose significant challenges.
- High-quality credit is expected to remain relatively safe, while private markets may face higher default risks due to higher leverage. Active credit selection will remain crucial to navigating these risks and identifying opportunities, particularly in areas like subordinated financials and high-quality CLO tranches. Increased market dispersion is expected to create opportunities for alpha generation through active management.

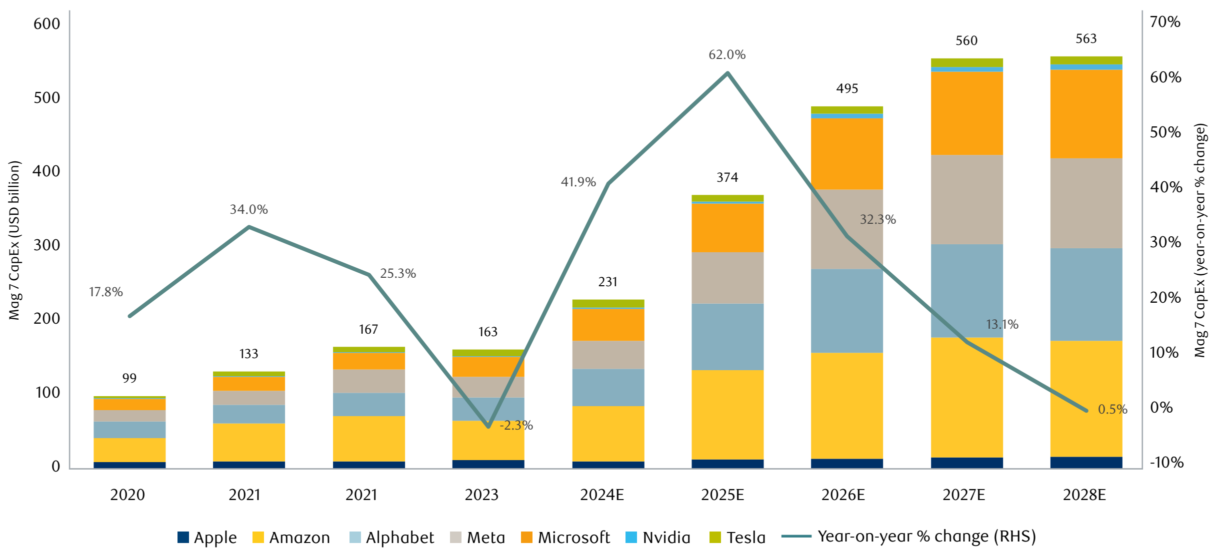
US Fixed Income

Andrzej Skiba, Head of US Fixed Income

- 2025 was a rollercoaster of a year within markets, characterised by AI-induced market mania, the tariffs/trade war, Fed rate cuts, and historically tight spreads. In September, the Fed took a dovish stance on monetary policy, cutting rates for the first time since 2024, citing greater downside risks to the employment side of its mandate. December is likely to be a toss-up with regards to rate cuts.
- Both US investment grade and HY fixed income posted solid returns in 2025, fueled by the Fed's dovish pivot, attractive carry across most asset classes, a favourable technical and fundamental backdrop, and spreads that continued to grind tighter. Despite elevated supply, there is an unrelenting bid for yield.
- Looking ahead into 2026, we see a positive growth outlook for the US. We expect 2-3 further potential cuts in 2026 as new leadership takes over at the Fed. Despite a softening labour market, the consumer remains resilient. Rate cuts should be supportive, as will the continued AI CapEx boom. This supported the US economy in 2025, with "Magnificent 7" capital expenditures up roughly 61% year-over-year (as per the chart below), which provided an approximate +0.5% boost to GDP. CapEx is forecasted to rise even higher in 2026.
- We also see growth catalysts in deregulation driven by the Trump administration, as this has the potential to stimulate the US economy and will likely foster an increase in M&A within US companies over the coming months.
- The increase in M&A creates opportunity through increased supply and credit differentiation. We see a lot of this coming from the consumer, healthcare and TMT sectors, which can elevate dispersion in issuance and spread valuations, creating potential value for active managers.
- Despite tight spreads, we see pockets of value within the technology, insurance, and utilities sectors. We also find corporate hybrids attractive due to their higher yields and wider spreads.

> **"We also see growth catalysts in deregulation driven by the Trump administration as this has the potential to stimulate the US economy."**

Magnificent 7 capital expenditure



Source: Bloomberg, as at 20 November 2025.

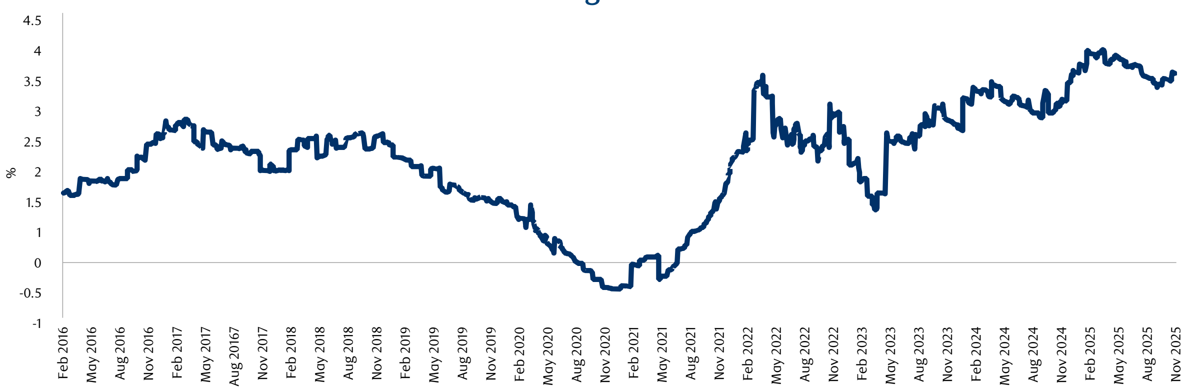
Emerging Market Debt

Polina Kurdyavko, Head of Emerging Market Debt

- 2025 was a year marked by policy volatility and shifting global narratives, from Trump's 'friend or foe' approach to trade and economic alliances to persistent uncertainty around the Fed's policy path. Yet, emerging market debt (EMD) demonstrated remarkable resilience, posting double-digit gains across both hard and local currency markets. The hard currency credit index surged by nearly 13%, while local markets delivered returns of approximately 17% year-to-date[1]. This performance was underpinned by high carry, resilient fundamentals, and renewed investor engagement.
- As we step into 2026, the global economic landscape presents a constructive yet complex outlook for EMD. Despite a modest slowdown in global growth, EM economies are poised to outpace developed markets (DM), driven by robust domestic demand, policy credibility, and improving fiscal discipline. Inflation in EM remains largely contained, allowing central banks to maintain a measured easing bias. Uncertainty surrounding the US fiscal trajectory and the Fed's reaction function keeps the dollar's direction ambiguous, with markets questioning whether this is a cyclical flashpoint or the start of a structural shift towards long-run outperformance – we think it is the latter.
- Geopolitics remain front and centre, with traditional alliances at risk and new strategic relations emerging. Countries are navigating US-China rivalry, seeking strategic autonomy while benefiting from investment from both powers. In Latin America, elections in Peru, Colombia, and Brazil could bring political shifts, while the region's minerals attract interest from both the US and China. Sub-Saharan Africa faces challenges, with shifting US policy and the need for more sustainable debt solutions.
- The EM corporate landscape is also evolving with a rising default environment globally. While headline defaults in EM are expected to rise, the majority are concentrated in a small number of large credits where stress levels are already well-known and priced in. Overall, the EM HY corporate market remains healthy, with robust fundamentals and low leverage levels.
- In the context of positive technicals, the supply-demand dynamics in EM debt will likely remain constructive in the coming year. Following several years of outflows from the asset class, 2025 saw net inflows from external and local investors alike. In addition to the improving fundamental outlook in EM, we believe the technical tailwinds will remain in play in 2026, as investors seek to diversify their portfolios away from core markets, and global investors, who remain under allocated to the asset class, search for diversification and yield pick-up.

"We believe the technical tailwinds will remain in play in 2026, as investors seek to diversify their portfolios away from core markets."

Real rates differential with DM at decades high



Source: Bloomberg, as at November 2025.

[1] Bloomberg, November 2025.

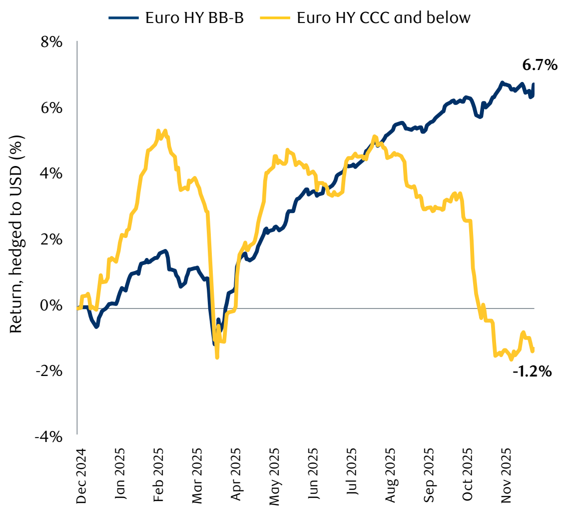
High Yield

Sid Chhabra, Head of Securitised Credit, CLO Management and European High Yield

- After years of nearly double-digit returns in High Yield (HY), 2025 marked a return to a more normalised environment as the beta trade of previous years subsided. HY is on track to deliver a coupon-like return of 7-8% (USD hedged), with most of the positive returns stemming from income gains. Despite significant tariff policy changes, the spread widening and volatility following Liberation Day were short-lived. As the year progressed, increased macroeconomic certainty for corporates and robust technical support for the asset class brought spreads back toward the tighter end of historical ranges.
- While 2025 appeared uneventful on the surface, it offered ample alpha opportunities that will extend into 2026. The failures of Tricolor and First Brands sparked fears of broader credit cycle deterioration, though these concerns were overblown, particularly given the HY asset class's higher proportion of BB-rated bonds and fewer CCC-rated names. However, these events underscored the importance of rigorous underwriting standards and thorough due diligence.
- The HY market is increasingly bifurcated, with performing issuers trading strongly while lower-rated entities struggle. This is especially the case in European HY and to a lesser extent in US HY. This dispersion across sectors and individual names presents enhanced opportunities for alpha generation. We favour sectors and issuers with pricing power, benefiting from increased M&A activity and potential mergers of equals that strengthen balance sheets.
- AI remains a key theme, both as a source of capital expenditure funding and as a driver of opportunities and challenges across industries. The best of private credit will continue to transition into public markets as companies seek to diversify their lender base. Overall, both macro and micro factors are aligned to provide abundant opportunities, positioning HY for another solid year of mid to high single-digit returns in 2026.

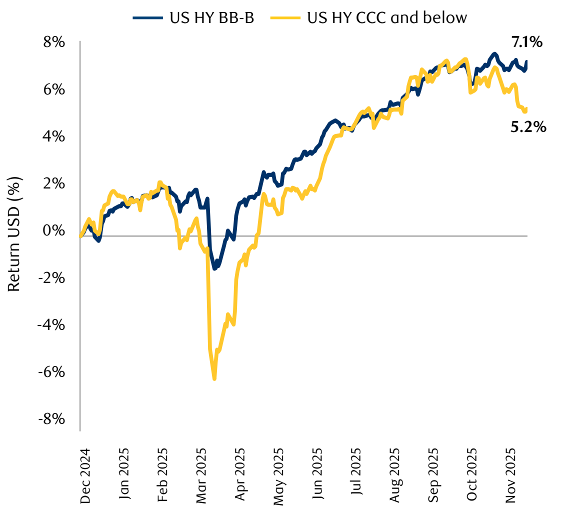
"We favour sectors and issuers with pricing power, benefiting from increased M&A activity and potential mergers of equals."

Performance of Euro HY BB-B and CCC & below rated indices



Source: RBC GAM, Bloomberg, as at 20 November 2025.
Notes: Euro HY BB-B = ICE BofA BB-B Euro High Yield Index (hedged to USD); Euro HY CCC & Below Bonds = ICE BofA CCC & Lower Euro High Yield Index (hedged to USD).

Performance of US HY BB-B and CCC & below rated indices



Source: RBC GAM, Bloomberg, as at 20 November 2025.
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Securitised Credit

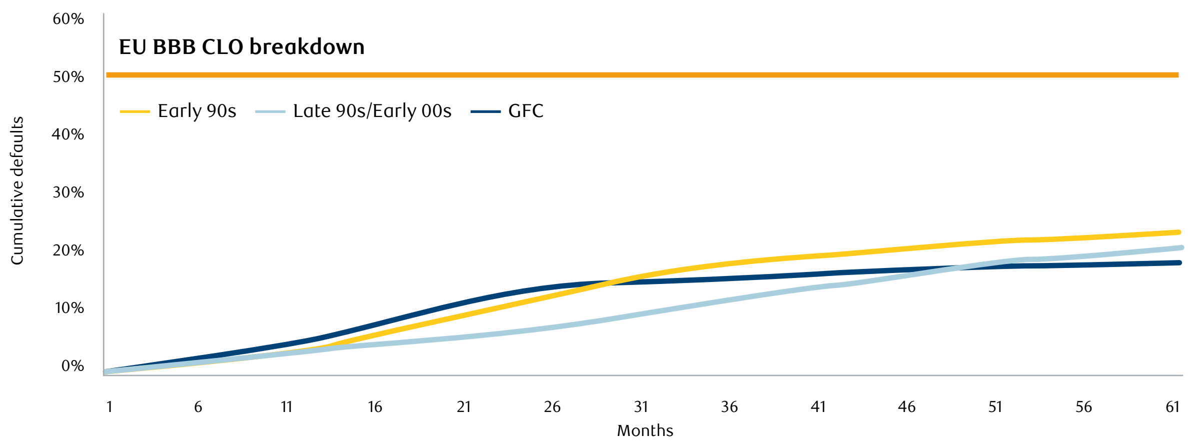
Tom Mowl, Portfolio Manager

- In 2025, securitised credit once again demonstrated its strengths, delivering strong risk-adjusted performance and attractive excess returns compared to corporate bonds – a trend that goes back over a long period now. The asset class continues to thrive, underpinned by robust fundamentals and steady investor demand.
- Throughout the year, periods of elevated primary market supply, particularly in European CLOs and ABS, presented active managers with attractive entry points. This allowed active managers to add value through security selection and asset allocation rotation.
- Despite pockets of weakness in a few select areas, such as increased delinquencies in non-prime consumer-focused sectors and single-name events in corporate credit, securitised credit has proven extremely resilient. The high-quality, diverse underlying collateral and strong structures have effectively shielded investments, showcasing the inherent strength of the asset class.

"The asset class continues to thrive, underpinned by robust fundamentals and steady investor demand."

- Looking ahead, the benefits of securitised credit remain as compelling as ever. High credit quality and significant protection from defaults, even under stressed scenarios, provide a solid foundation. Attractive spreads, both in absolute terms and relative to corporates, further enhance the appeal. Additionally, the asset class has low correlations to traditional fixed income and equities, predominantly floating rate nature, and flexibility to focus on shorter spread durations.
- Beyond these inherent advantages, we believe active securitised credit managers can generate alpha in both benign and volatile market environments due to the ability to rotate between asset classes, ratings, and spread durations. Actively managed portfolios can capitalise on market opportunities and navigate challenges effectively, something that we believe we have done very successfully in 2025 and over the long term.
- As we move forward, securitised credit stands out as a resilient asset class, offering protection from idiosyncratic events, attractive excess returns, and alpha opportunities for active investors

Diversification and strong structures remove idiosyncratic default risk: CLO BBB breakeven versus previous default cycles



Source: RBC GAM, Intex. Assumptions for chart: 15% CPR, 60% recovery, 9-month recovery lag, reinvestment assumptions of 4% spread, 72-month maturity and 98 loan price. The data is provided for the limited purpose to demonstrate the depth of information and detail available to the investment team in assessing potential investments. It is not and should not be viewed as a recommendation to buy or sell any specific security.

Investment Grade Financials

Marc Stacey, Senior Portfolio Manager

- The last quarter of the year has seen most of the sector report earnings with trends continuing in line with our bullish view of fundamentals. Pre-provision operating profit beat on aggregate by 4%. This is the 27th quarter in a row of outperformance, an incredible statistic given it is against increasingly lofty market expectations. On aggregate, net interest income appears to remain strong, with particularly strong numbers from UK banks. They are strongly benefitting from the structural interest rate hedge which they systematically have in place.
- As we look into 2026, we see nothing at this stage that would lead us to change our bullish view on fundamentals. Loan growth continues to pick up, deposit growth is robust, and deal flow is strong. For now, analysts have upped their numbers for Q4 by a small margin but these trends show no signs of slowing and we would be surprised not see further upgrades as analysts kick the tyres on their models to ensure these positive underlying trends are reflected.

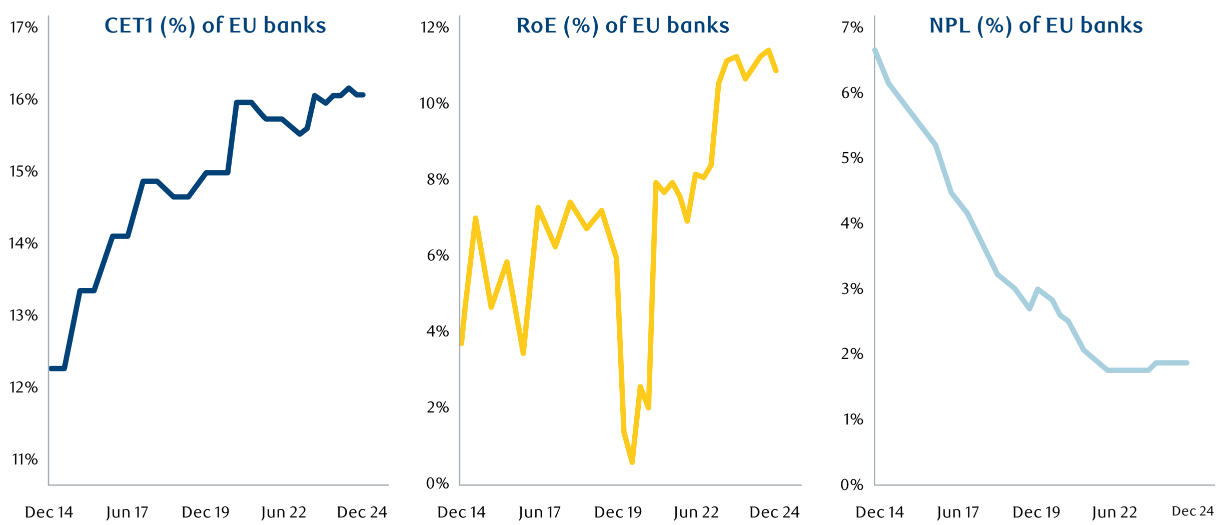
As its becomes increasingly obvious to management teams that targets for the year will be exceeded, we wouldn't be surprised to see actions to bring forward costs, increase investments and beef up provisions to carry into 2026. However, this makes us all the more confident that these trends of very strong numbers will continue unabated for some time to come and should reinforce the trend tighter for credit spreads.

- While we acknowledge that spreads are tight across credit markets, the relative value in European banks is still significant in terms of achieving what we think is safe and attractive carry.
- Both the top-down macro environment of steeper government bond curves and positive growth, together with bottom-up fundamentals of higher capital levels and increased profitability, mean that European financials should continue to deliver strong risk-adjusted total returns.
- We remain convinced that AT1 remains a mispriced opportunity within the bank capital structure, which investors can take advantage of.

"As we look into 2026, we see nothing at this stage that would lead us to change our bullish view on fundamentals."

Fundamentals - as robust as they have ever been

This should permit banks to perform in a weak growth environment



Source: EBA, as at 31 December 2024.

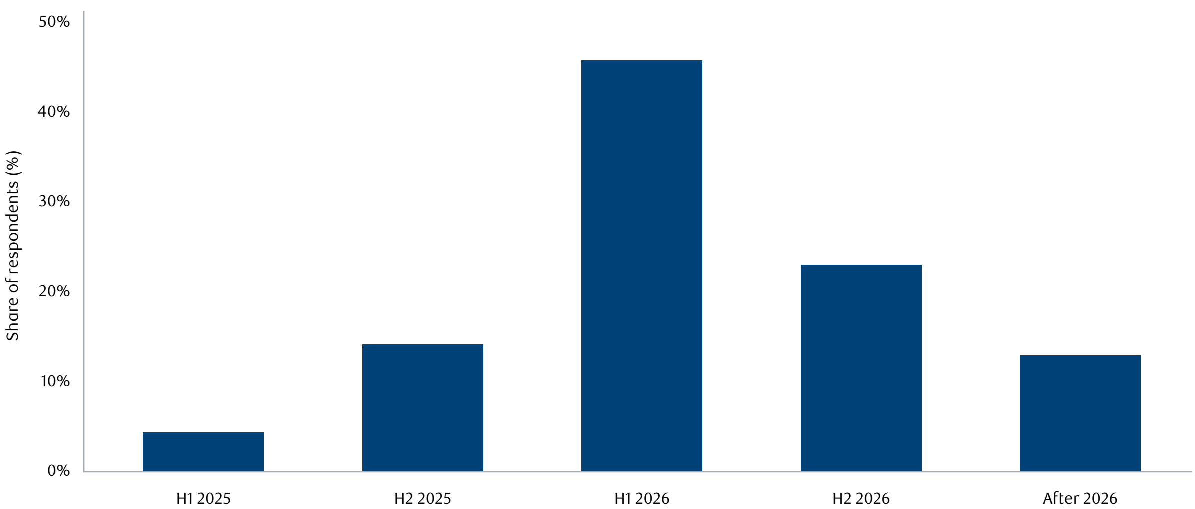
Special Situations

Adam Phillips, Head of Developed Market Special Situations

- In 2025, European firms faced persistent headwinds - excessive debt, high interest rates, energy cost surges, and US tariff pressures - which severely impacted mid-sized companies. Restricted access to bank financing and capital markets amplified distress, particularly in the year's second half, as dwindling liquidity and looming debt maturities fueled a surge in stressed and distressed opportunities. Restructuring activity escalated, blending conventional tools like amend-and-extend deals with aggressive tactics such as liability management exercises (LMEs) and creditor disputes, largely in larger enterprises.
- For 2026, restructuring advisors forecast accelerated activity as fiscal austerity and weak growth force firms to address unsustainable capital structures. While 2025's temporary fixes delayed crises, they failed to resolve core debt issues, paving the way for deeper overhauls. Opportunities will span diverse sectors, notably chemicals, paper/packaging, and autoparts, with the UK, France, and Germany remaining hotspots. The German mid-market remains a long-term focus, given its early-stage restructuring cycle and sluggish economic revival, notwithstanding anticipated infrastructure investments.
- Yet risks abound. Geopolitical tensions involving China, Russia, and the US require close monitoring, as do inflated equity/credit markets showing signs of strain, including private equity's struggles with continuation funds. Energy-heavy industries face existential risks without policy shifts, though long-term investors see potential for cyclical turnarounds. Overall, 2026 is poised to be an interesting year for European Special Situations, balancing immediate distress with strategic opportunities amid enduring macroeconomic uncertainty.

"Opportunities will span diverse sectors, notably chemicals, paper/packaging, and autoparts, with the UK, France, and Germany remaining hotspots."

Restructuring activity expected to peak in H1 2026



Source: Bloomberg, as at November 2025. Share of respondents according to EY - Parthenon.

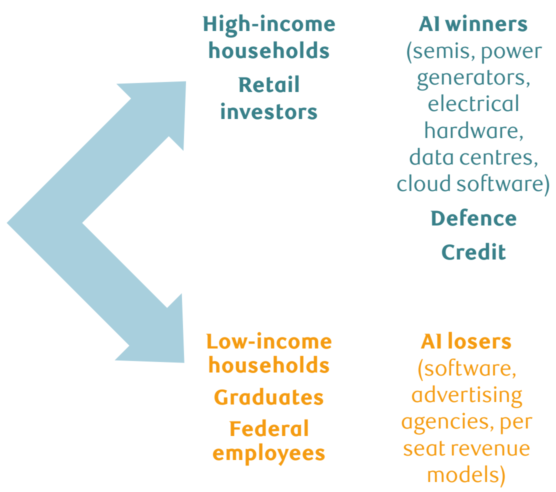
Our equities strategies

Global Equities

Jeremy Richardson, Senior Portfolio Manager

- One of the main characteristics of 2025 has been the importance of exchange rates on investors' returns. Investors in the happy situation of investing in US dollars, would have had a third year in a row of nearly 20% returns. However, those returns in euros or Swedish krona would have looked significantly different due to the weakness of the dollar.
- The other characteristic of the year is the importance of policy; firstly, the tariff policy, with the US changing its position towards global trade, creating uncertainty and inflationary conditions, while secondly, underwriting European defence has led to a shift in spending priorities in Europe.
- The dominance of the AI trade has expressed itself differently to last year, which was all about the Magnificent 7. Although we're seeing concentrated equity markets, as per the end of last year, the mix of AI winners versus losers is different now.
- There are reasons to be optimistic about the outlook for 2026. Earnings estimates are forecasting another year of double-digit EPS growth, and if multiples stay where they are, this should lead to satisfactory returns for equity investors. One thing that investors may be underappreciating, though, is the possibility of positive news emerging for the beleaguered US consumer.
- In 2025, we've been thinking about the so-called 'K-shaped economy', where those with money are doing well, and those without have struggled. That's not good for policymakers, particularly those facing the electorate in mid-term elections in November 2026. Therefore, if some of the tariff revenues that have been coming into the US Treasury are redirected, in terms of tax cuts and stimulus spending, that could lead to a nice recovery and strength for the US consumer next year.

K-shaped economy, K-shaped market



Source: RBC GAM, as at 31 October 2025.

> "In 2025, we've been thinking about the so-called 'K-shaped economy', where those with money are doing well, and those without have struggled."

Emerging Markets Equities

Laurence Bensafi, Deputy Head of Emerging Markets Equities

- Can EM equities outperformance continue in 2026? We say 'yes' due to the record high valuation discount to DM, a weaker USD tailwind, and reforms in China, India, and South Korea. However, we need to see earnings growth materialise.
- The turning point for the asset class this year came from Liberation Day in April 2025, which counterintuitively highlighted the strength of many EM countries, notably in terms of limited exports to the US and the interdependence created by decades of globalisation.
- If EM countries perform well in the next decade, we believe the key theme will be their economic decoupling from the developed world and the rise of intra-EM trade. This shift is already evident, with intra-EM trade rising to nearly 50% of total EM exports today, double the level of 2000[2].
- Beyond geopolitics, growing domestic demand, supported by favourable demographics, rapid urbanisation, and accelerating technological and financial inclusion, is another key factor. With over 80% of the global population residing in EMs and the region expected to contribute 65% of global economic growth by 2035, focusing on domestic demand makes strategic sense[3].
- EM equities are also giving exposure to the AI theme at a fraction of the valuation. Asia is home to world-class companies and the theme has been driving returns for several years now.

"With over 80% of the global population residing in EMs and the region expected to contribute 65% of global economic growth by 2035."

EM supercycle phases: a regime change

EM versus DM equities relative performance since 1989

Source: MSCI, Bloomberg, as at September 2025.

[2] IMF, Haver Analytics.
[3] [Emerging markets: a decisive decade | S&P Global](#).

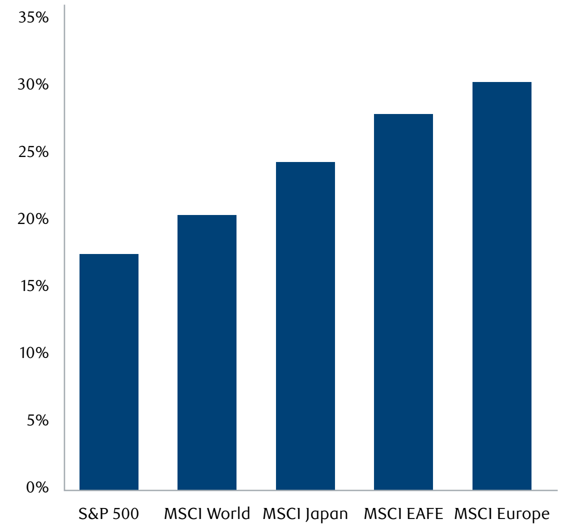
European Equities

Dave Lambert, Head of European Equities

- 2025 was a standout year for European equities, outperforming most other regions in euros and dollars. Much of this outperformance came from Q1, although the last few months also saw strong returns. Periphery countries such as Spain and Italy performed particularly well.
- This outperformance was driven by a number of elements: a desire to diversify equity exposure away from US tech – especially those areas with attractive valuations such as Europe – as well as the structure of European equity markets having strong cyclical industries, such as banks and aerospace & defence. These two in particular have experienced repeated earnings upgrades throughout the last 12 months and have re-rated accordingly.
- Perhaps the standout event however was the release of the German debt brake and the corresponding shift towards significantly enlarged spending on defence and infrastructure. For Germany to have agreed to such a seismic philosophical shift is demonstrable of the changes taking place from a geopolitical perspective.
- While some of the enthusiasm following the initial spending announcement has waned, it should be noted that actual deployment of funds into the economy is unlikely to take place until 2026, and the economic benefits until the second half of the year. We believe that the substantial nature of this fiscal easing will be felt not just in Germany, but across Europe, both in terms of GDP figures, but also business sentiment.
- Politics and global trade remain omnipresent threats and should not be dismissed. Despite these, the aforementioned fiscal tailwind in 2026, in conjunction with a concerted deregulatory push from policymakers in an attempt to make the bloc more competitive, as well as interest rates sitting at a significantly lower level than recent years, should make for a very accommodating backdrop for equities in the region.

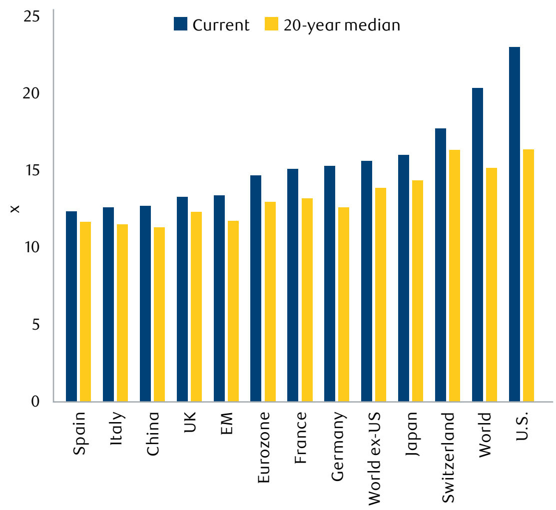
“Perhaps the standout event however was the release of the German debt brake.”

Regional returns 2025 year-to-date



Source: Bloomberg, MSCI, as at November 2025.

12-month forward P/E ratio versus 20-year median



Source: Bloomberg, as at November 2025.

China Equities

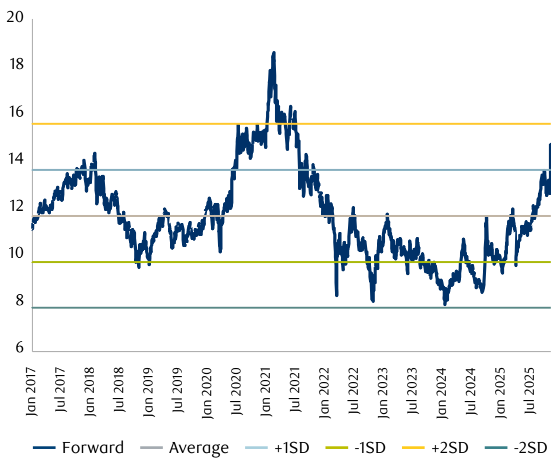
Siguo Chen, Portfolio Manager

- Similar to other global major markets, Chinese equities reached multi-year highs in 2025, backed by solid earnings across certain sectors, increased domestic and foreign capital allocation, and improving market sentiment. Rapid AI advances, normalised trade tensions with the US, and policy turning more supportive helped sentiment to turn a corner, encouraging renewed interest in the market.
- It was a big year in particular for Chinese tech with the fast adoption of AI-related technology, alongside a bid to become more self-reliant in this space. We've seen an impressive run for tech/AI names as a result, and whilst valuations have headed northwards, we continue to see select opportunities in this area, namely well-run businesses that are yet to explore their full potential in AI.
- Looking ahead to 2026, we remain constructive on the market and anticipate a change in key drivers as the market rotates away from the more expensive tech names. Materials (primarily gold, copper and aluminium) is one area that should benefit here, along with some of the more unloved areas of the economy; 2026 or early 2027 could herald a bottom to China's property market, and whilst we wouldn't anticipate a v-shaped recovery, we may see a rally amongst some property-related names.
- Whilst we may see the economy bottoming over the course of the next year, there are continuing areas of concern, namely China's deflationary environment, as well as ongoing geopolitical tensions (although investors are seemingly more comfortable with the economic reality of these). That said, and despite the market's recent rally, broader valuations remain unstretched and we expect to see continued market strength going into 2026 with drivers such as a shift in household savings (out of cash deposits and property, and into equities) further bolstering improved investor sentiment.

"Looking ahead to 2026, we remain constructive on the market and anticipate a change in key drivers as the market rotates away from the more expensive tech names."

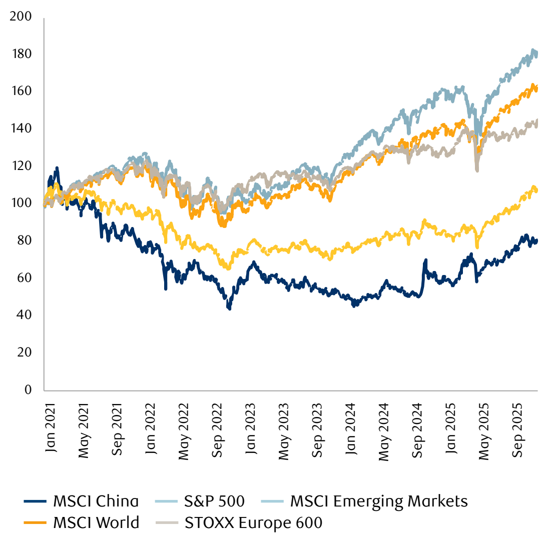
Chinese stocks have rerated but remain compelling

MSCI China Index: 1-year forward P/E



Source: Bloomberg, as at 12 November 2025.

China versus major global markets



Source: Bloomberg, as at 12 November 2025.

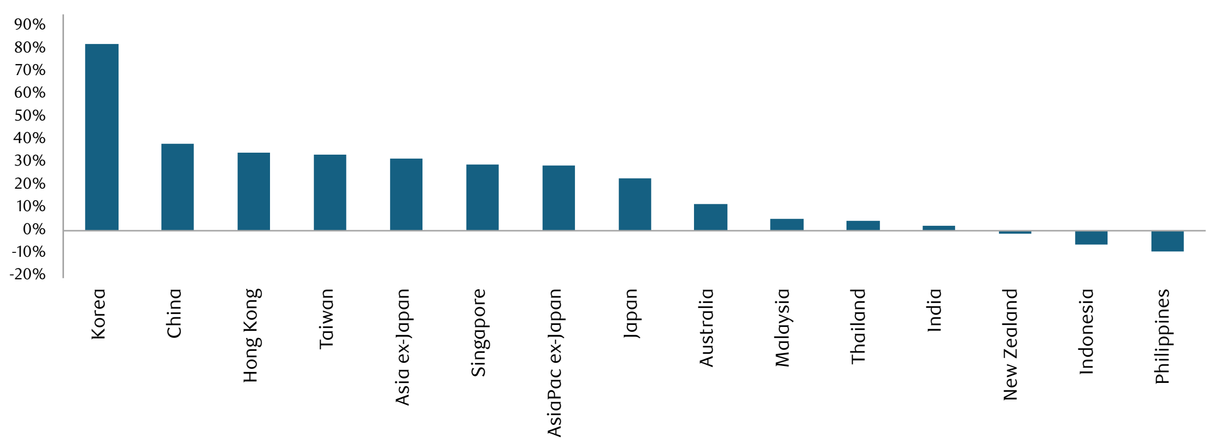
Asia ex-Japan Equities

Derek Au, Portfolio Manager

- Index heavyweights, China (~33% of the MSCI AC Asia ex-Japan Index), Taiwan (~23%) and South Korea (~15%), were standout performers in 2025, with India (~17%) continuing its pullback and lagging the benchmark[4].
- Tech and AI-related names helped drive the rallies in China and Taiwan, as well as other markets like South Korea. China's tech sector saw renewed interest on the back of supportive measures from Beijing, whilst Taiwan and South Korea benefited from their exposure to the semiconductor supply chain, with strong global demand for AI-related infrastructure. A rebound in export momentum, as well as domestic policy support such as Korea's "Value-up" programme (focused on corporate governance reform), drove further interest in these markets.
- India underperformed the region with sluggish private investment and consumer demand contributing to a weak macro environment. Geopolitical tensions manifested in increased tariffs, with the US causing further headwinds for the country. Valuations remain elevated, although we have seen them come off slightly in more recent months. Despite these ongoing areas of concern, we see strong potential for this market looking ahead; the country's GDP continues to grow at the fastest rate globally, and favourable demographics add to its long-term growth potential.
- As we move into 2026, we remain constructive on the Asia ex-Japan region. In key markets such as China, we anticipate some rotation following its recent tech rally, but a possible bottoming of the economy should pave the way for strength across other industries. Elsewhere, markets with strong exposure to the tech sector, Taiwan and South Korea in particular, should continue to benefit from global chip demand. While we remain cognisant of AI cycle peak concerns, we believe the region's AI tier-1 enablers will continue to outperform if CapEx investments in semiconductors start to materialise in the latter part of 2026, propelling strong EPS upgrades. Valuations across the broader region are slightly elevated versus their history, particularly in the tech-heavy markets, but they remain reasonable and are backed by strong EPS growth.

"China's tech sector saw renewed interest on the back of supportive measures from Beijing, whilst Taiwan and South Korea benefited from their exposure to the semiconductor supply chain."

MSCI Asia country performance in US dollar terms (year-to-date 2025)



Source: Bloomberg, as at 10 November 2025.

[4] Bloomberg, November 2025.

Japan Equities

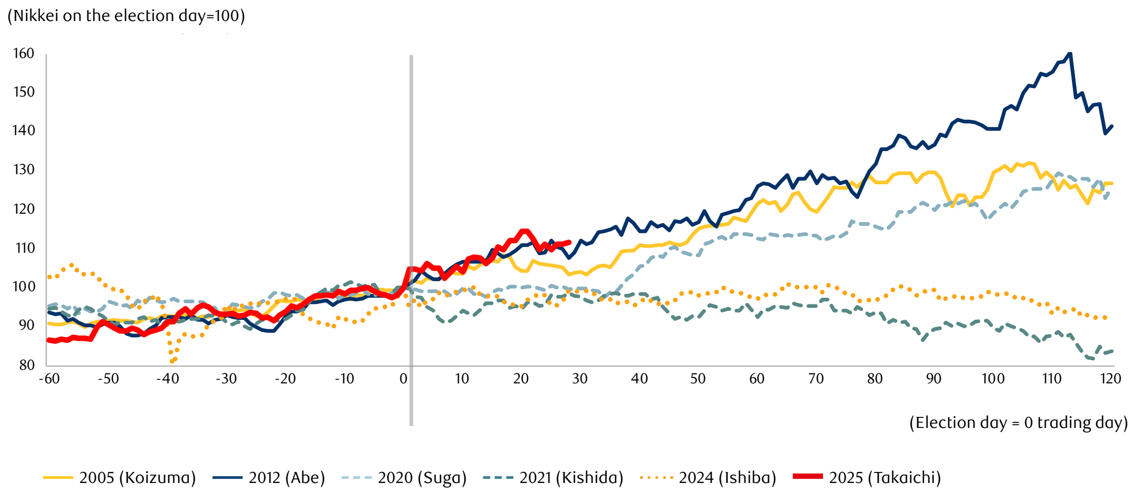
Maya Funaki, Portfolio Manager

- 2025 was another strong year for Japan equities with the MSCI Japan Index far surpassing its 1989 record in the second half of the year. We saw a continuation of the themes that helped to drive market turnaround over the last couple of years with the success of Tokyo's corporate governance reforms helping to maintain investor interest in the region. Other developments such as the negotiation of a 15% tariff with the US and a weak yen have been further positive catalysts.
- In September, Shigeru Ishiba resigned as leader of the ruling Liberal Democratic Party (LDP) after the party lost its majority in the Upper House in July. Sanae Takaichi won the leadership vote for the LDP, and subsequently became Japan's first female prime minister, a development that was received favourably by the market on the back of her pro-growth, pro-investment stance.

"A strong relationship with the US and other strategic partners, as well as a weaker yen, should help to drive foreign investment."

- Takaichi's approach marks as a significant inflection point for Japan's policy outlook, coined "Abenomics 2.0", favouring modest expansionary fiscal policy, gentle monetary normalisation, and structural reform. A key focus for the new prime minister will be to carefully navigate an economy with inflation at multi-decade highs; real wages are yet to keep pace with this new environment, but we would anticipate these to follow suit in late 2025/ early 2026. Whilst rate hikes were delayed following Takaichi's election, we would expect to see one in early 2026.
- Moving into 2026, we believe the market rally will continue; a strong relationship with the US and other strategic partners, as well as a weaker yen, should help to drive foreign investment. Improving corporate fundamentals are another pull, with valuations showing plenty of room for upside. Global investors remain underexposed to the world's third-largest economy, and we see strong tailwinds ahead as investor sentiment continues to strengthen.

Japan equities perform well under policy framework changes – Nikkei 225 before and after LDP leadership changes and Lower House Elections



Source: BofA Global Research, LSEG, INDB, as at 12 November 2025. Note: we compare Nikkei 225 before and after the LDP leadership elections since 2020 and the Lower House elections in 2005 and 2012, when policy frameworks changed.

Geopolitics

Graham Stock, Senior EM Sovereign Strategist
Timothy Ash, Senior EM Sovereign Strategist

- Markets are still growing accustomed to heightened uncertainty across a range of issues as the US adopts a more muscular, unilateral, and transactional approach to trade, international conflicts, and its own alliances. As always in active management, we see identifying the winners and losers from these shifting patterns as an attractive source of alpha for our portfolios.

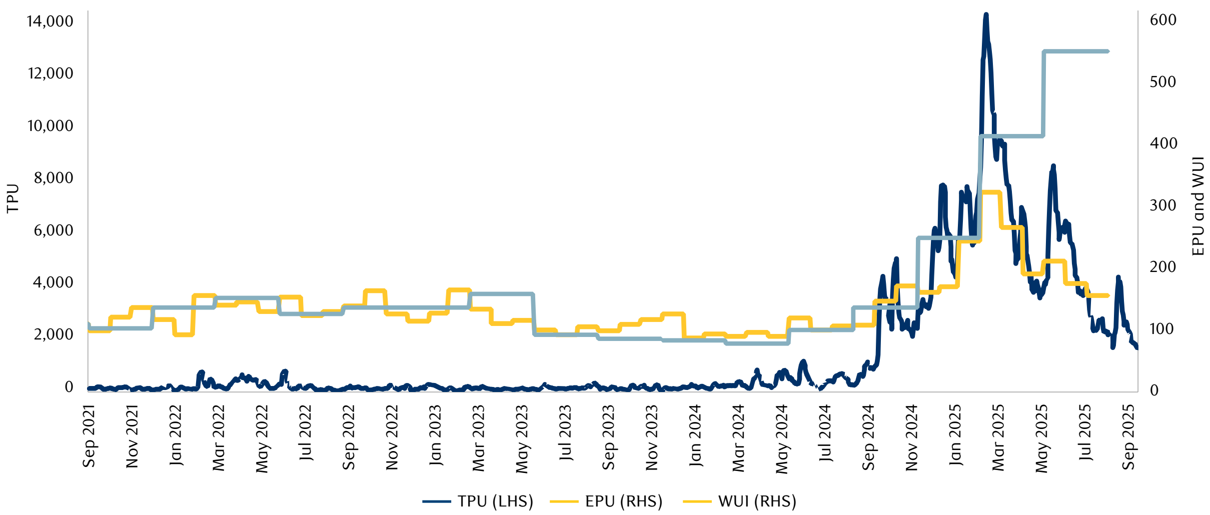
Here we look at some key talking points that are likely to persist into 2026:

- **Existing hotspots and new flashpoints:** we expect the war in Ukraine to drag on. Peace in the Middle East will still be a work-in-progress. China will covet Taiwan. Cross-border tensions could erupt elsewhere, giving President Trump further opportunities to push the US along the line from global policeman to global peacemaker, swelling the Nobel committee's postbag in the process. We also see scope for new episodes of unrest. These could be triggered by election cycles, prompting the US to take sides as it did in Argentina around the mid-terms. In Latin America alone, elections will be held in Peru, Colombia, and Brazil in 2026 with voters showing increased signs of polarisation. National elections in Hungary and state elections in India offer similar potential for high-stakes showdowns.

- **US – Friend or Foe:** aligning with the White House on geopolitics and other key issues is generally a winning strategy, though it's important to recognise that such alignments can evolve over time. Whereas the Gulf states, Egypt, Turkey, and Pakistan struggled to meet the high bar set by the Biden administration on values, they have quickly learned that they can play the interests card well with the new administration. There are wins for countries who offer transactional solutions to Trump – for example, Qatar and Saudi Arabia helped with the Gaza deal and appear to have been rewarded with new security arrangements with the US. On the other hand, countries such as South Africa that have struggled to kiss the ring – largely for domestic political reasons – have been penalised.

- **The outlook for 2026**: traditional alliances are at risk, and new strategic relations up for grabs. There are risks and opportunities for many countries, and many are still playing a waiting game or playing the big global powers – the US, China, Europe and Russia – off against each other.

Uncertainty indices have spiked over the last year



Source: Bloomberg, as at 16 October 2025.
TPU = Bloomberg Global Trade Policy Uncertainty Index; EPU = Global Economic Policy Uncertainty Index, GDP-weighted; WUI = World Uncertainty Index, GDP-weighted.

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