
# 2026 OUTLOOK:
## The more things change, the more they remain the same

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**Uncertainty lingers for global equity investors as resilience in growth masks deep risks—from soaring deficits to the AI investment boom. In this shifting landscape, selectivity, discipline, and a fresh look beyond mega-cap tech are more important than ever.**

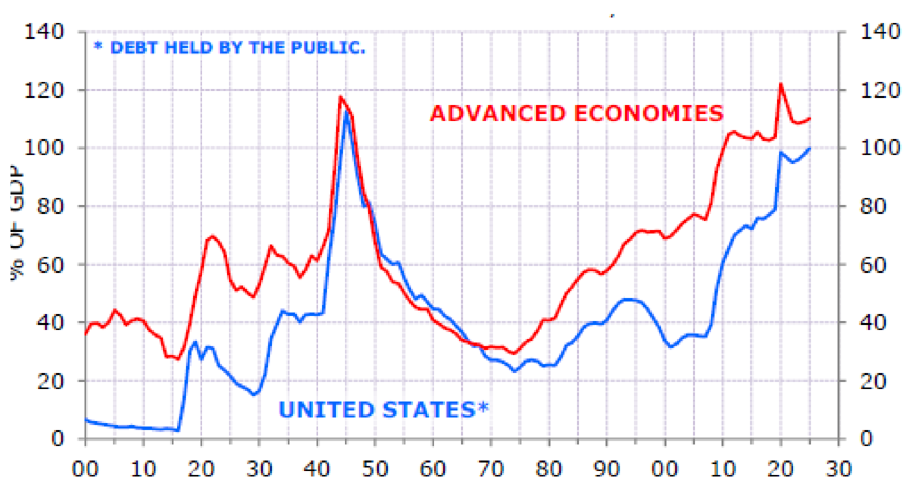
A lot has happened this year but not much has changed. Global equity investors still face high levels of uncertainty, be it from geopolitics, macro or the future of disruptive technology.

Despite numerous (trade) shocks, global economic growth has been moderate and surprisingly resilient, supported by cooling inflation and no broad financial stress.

However, risks remain; tensions around global trade rumble on, and with policy-driven trade frictions still in play it remains unclear where US tariffs will settle.

Tariff-impacted firms are passing on costs to consumers, but it's not clear how that will impact inflation, especially if growth is hindered. Speaking of growth, we also have the One Big Beautiful Bill which signals greater fiscal expansion but adds an estimated $3trn to US deficits. In the near term it will likely boost investment and growth, but beyond that, the larger deficit risks higher rates, and reduced public investment if spending starts to bite. The US however isn't the only economy with a deficit worry – today's global developed economies' public sector debt to GDP is at levels only previously associated with major crises: wars, recessions, pandemics.

**Figure 1 – Gross public sector debt/GDP**




Source: CBO. IMF. Minack Advisors

Questions over fiscal sustainability continue to increase in significance as electorates and leaders in these countries seem unwilling to tolerate the changes required to bring debt levels under control.

When this will really matter is hard to determine, but the consequences are being seen in the rise of hedges such as gold, and jittery bond markets. The combination of high debt and large fiscal deficits mean central banks may need to step in and keep real interest rates under control.

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## Stick to your knitting

As stock pickers, we focus on how these shifts affect individual companies. Macro and geopolitics matter, but history hasn't favoured those who build portfolios on top-down bets - the complexity of the economic system and its impact on markets is commonly underestimated.

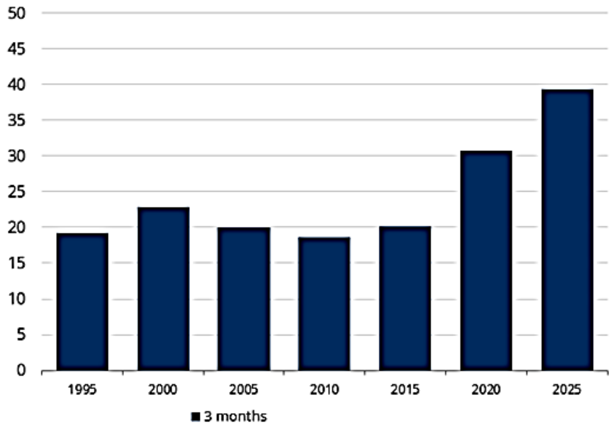
We believe that a selective approach is becoming increasingly important in this environment, particularly as investors turn their attention more toward underlying company fundamentals.

At the company level, US EPS forecasts were slashed following Liberation Day, but have beaten expectations both year-to-date and in Q3, showing no sign of weakness on aggregate.

A weaker dollar also acts as a tailwind for US corporate earnings, with technology companies benefitting more than all other sectors given their costs are more domestic and revenues more international.

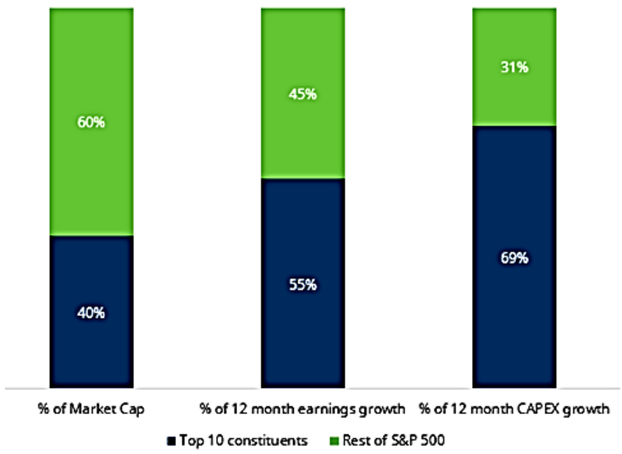
There are no prizes for guessing where the earnings growth is coming from in the US – mega-cap technology firms continue to outearn the rest of the world by a significant margin. Nonetheless, concentration risk remains in benchmarks and the passive indices that track them. The top 10 constituents of the S&P 500 account for 40% of its market cap, but 55% of its earnings growth and a whopping 70% of its CAPEX growth, and will be materially higher in 2026

**Figure 2 – Market Cap of top 10 companies as % of S&P 500**




Source: Schroders, FactSet as at 30 September 2025. Past performance is not a guide to future performance and may not be repeated.

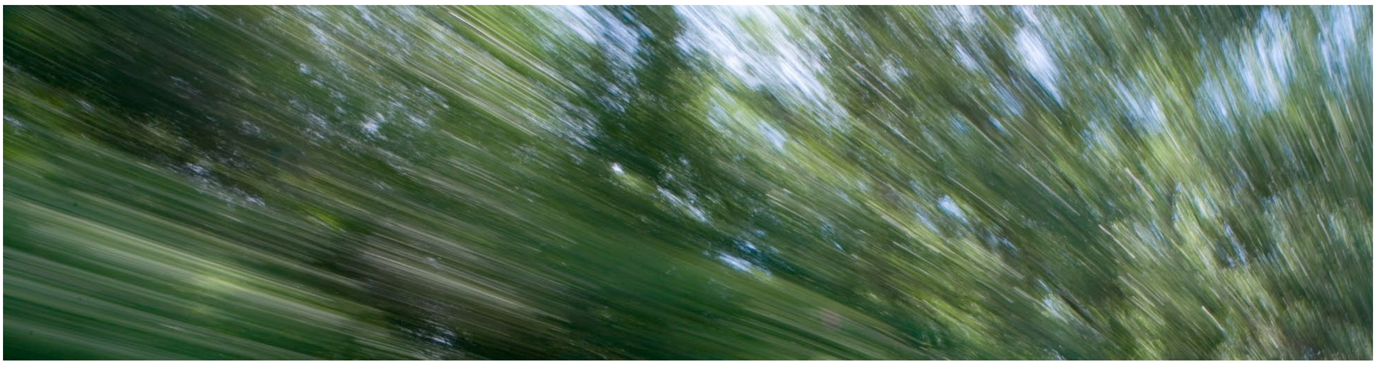
**Figure 3 – Top 10 constituents* S&P 500 contribution**




Source: Schroders, FactSet as at 30 September 2025. Past performance is not a guide to future performance and may not be repeated. *Top 10 constituents: NVIDIA, Microsoft, Apple, Amazon, Alphabet, Meta, Broadcom, Berkshire Hathaway, Tesla, JP Morgan Chase.

Leadership continues to be dominated by those companies most closely tied to artificial intelligence. The ultimate question is whether all this heavy spending on AI infrastructure and models will translate into meaningful returns to keep earnings growing, or if it's an earnings bubble built on over-optimism.

An acceleration of recent deal announcements has raised concerns about the degree with which interconnected businesses are propping up the AI boom.



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## Watch your step

The bull case is around an AI driven take-off in productivity. That AI becomes a general-purpose technology that lifts efficiencies in all industries, creating large network effects which technology companies can monetise with even higher margins as adoption grows. This then justifies the enormous capex being spent on data centres, chips and power, enforcing an almighty barrier to entry and acts as a deep moat to reenforce dominance from these incumbents.

Cynics argue it is unclear whether the promised productivity gains will materialise, rendering the bumper capex spending unjustified. When evidence of lower-than-expected productivity crops up, (MIT : The GenAI Divide), the bubble chorus gets a little louder.

We are dealing with this in two ways.

First, for companies we own with significant AI exposure, we must have solid conviction and a concrete understanding of where our expectations differ from the market's. Those expectations must then be tracked with data. Should companies' operational performance falter, we must have discipline in assessing whether this is a short-term blip, or a complete compromise in the investment thesis.

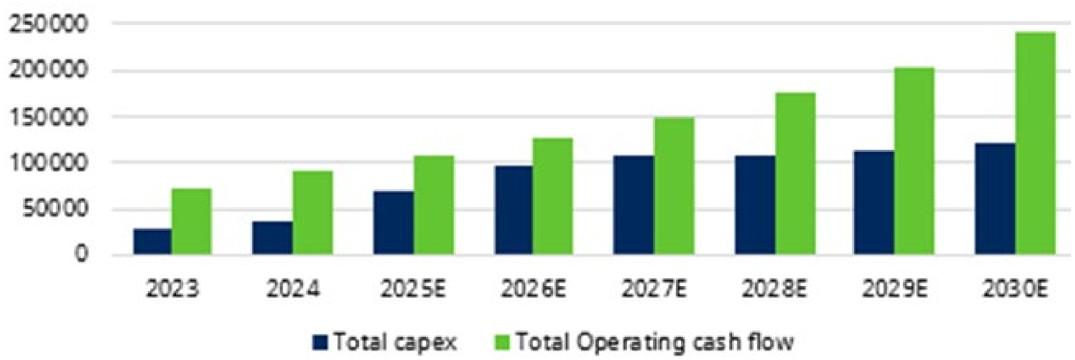
Secondly, we want a diversified portfolio of companies whose investment cases are as idiosyncratic and as uncorrelated as possible. If we get it wrong and a risk does materialise - which will happen from time to time - the impact should be isolated and not systemic to overall performance. And this thinking extends to our AI exposure.

## Watch for canaries in the AI coalmine

For those companies closely tied to AI, we are tracking several "canaries" given the visibility of capex spends and returns beyond the next 12-24 months is limited. On the demand side we look at real-world usage of AI – ultimately if these tools aren't delivering returns to users, people will stop paying for them. On the supply side, lead times and backlogs for the components supporting the infrastructure build-out can help us understand if increased demand can be met.

Both aspects help us better understand the return on invested capital across the AI value chain – from end user benefits all the way back up to the infrastructure spend, to see where profits can justify the investment. For now, these businesses are generating vast sums of free cashflow to fund this spending. Meta is a good example, shown below. Despite the market's reaction to its increased AI capex spend at its latest earnings update, we believe the business is one of the best use cases globally in getting strong returns from its AI budget. So far, the money spent has provided stronger creative content, higher quality search optimisation and better ad targeting, and given advertisers (its customers) better returns on their marketing spend, leading to a positive feedback loop on earnings.

### Figure 4 – Meta – Total capex vs Total operating cash flow




Source: Schroders, Bloomberg as at 31 July 2025. Figures are annualised, forward estimates are based on consensus estimates. The securities shown were holding in the strategy but the timing of purchases, size of position and the return may vary amongst portfolios within the same strategy.

So far, most of the big AI spending has been funded by the cash these businesses have generated, rather than wholesale reliance on debt. Microsoft and Alphabet are net cash flow positive for instance. Nonetheless, we are starting to see more off-balance sheet financing vehicles being used; Meta's BlueOwl join venture and Microsoft's Stargate project with OpenAI.

In some cases, these vehicles can be justified via the operational flexibility they bring. Should we see AI investment being propped up by leverage (such as the telecom companies in the early 2000s), the canaries will stop singing.

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Note to the reader: This investment outlook paper was written in November 2026.

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