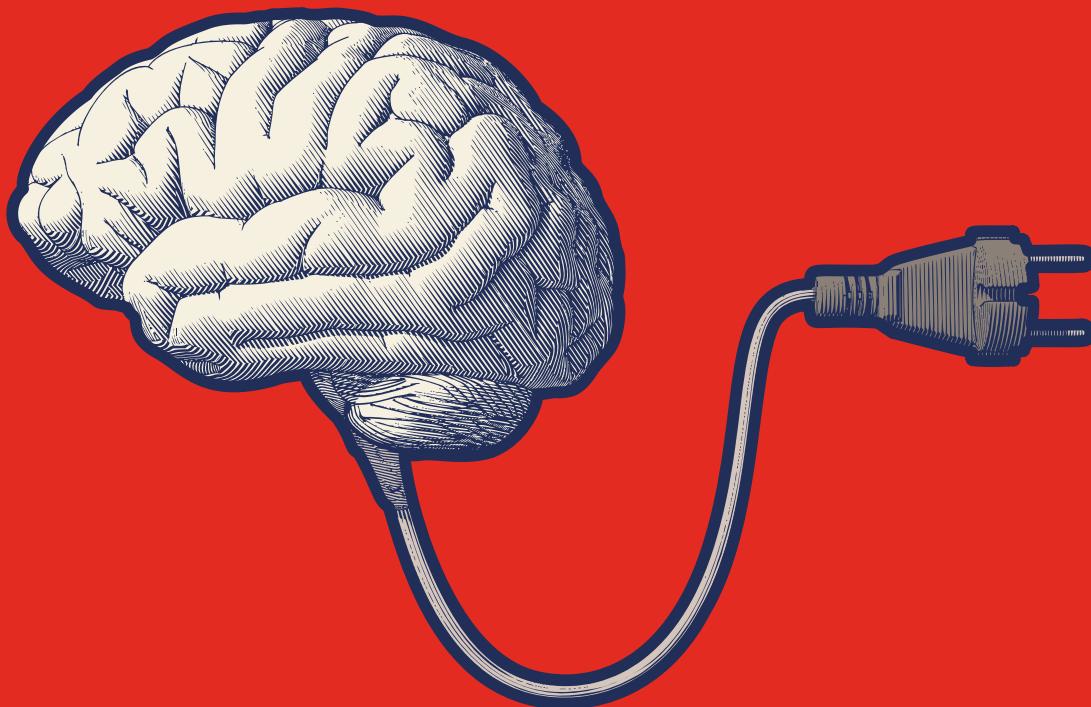


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Investors and AI

BUY BRITISH

The case for UK assets

A YEAR OF NUANCE

Seven investor trends in 2026

A CHANGING WORLD

Opportunities among the ruins



DIGITAL ASSETS

Shaping the future of investment

Our latest Digital Assets and Emerging Technology Study highlights a significant trend in the UK investment landscape: 60% of UK asset owners expect digital assets and their supporting technology to become a mainstream part of investment infrastructure within the next 5 years, up from 25% in last year's survey.

A composite image featuring two women in an office environment. On the left, a woman is blurred, appearing to be in motion, while a second woman on the right is in sharp focus, looking towards the left. A vertical orange line runs down the center of the image, partially obscuring the second woman. The background consists of vertical window blinds.

Read the full story



AI, investors and reaching the end

If you ask AI if AI is a big issue for investors, it gives an interesting response. “Yes, AI is a major investment issue,” it says. Then it notes: “It is a foundational theme across virtually every sector of the economy driving trillions of dollars in capital expenditure, though high valuations and uncertainty over the realisation of future earnings present notable concerns.”

As a summary, that is pretty good.

Providing an even better insight for investors is Richard Tomlinson, CIO at LPPI, who, on page 10 highlights how AI was the theme of 2025. He also considers the portfolio exposure AI can bring and why this needs careful thought.

On the same theme, Raphael Olszyna-Marzys assesses the hype versus the reality of AI, pondering how much optimism about AI is baked into US stock prices (page 12), unearthing some interesting nuances along the way.

When it comes to nuances, John Wyn-Evans and Oliver Jones, set out seven market nuances to look out for in 2026. Inevitably, AI is one of those. To find out what the other six are turn to page 14.

Change is a key theme for investors when it comes to everything from geopolitics to technological development. Border to Coast’s Anthony Petalas assesses what these changes mean when seeking out opportunities, observing investors need a positive mindset (page 16).

His Border to Coast colleague Simon Cunningham also identifies three investor trends that investors can exploit as the government pushes policies on a number of investment-related fronts (page 8).

Indeed, there is a case for investors to invest in UK assets. This is presented by Morningstar’s Monika Calay on page 6, as she takes a deep dive into the opportunities and challenges of UK assets.

In a highly amusing, but also thought provoking Last Word, Con Keating tracks the many significant changes that have shaped our world since the publication of the first *portfolio institutional* in 2010. His observations can be read on page 22.

And these are my last words as editor of *portfolio institutional*. As this is, after 16 years and 147 issues, the final issue. Although I have been responsible for only a fraction of those.

My predecessor Mark Dunne must take much credit for helping to establish the *portfolio institutional* brand, strongly supported by the events and commercial teams.

It has been a pleasure writing for you. Thank you to so many of you for your support.

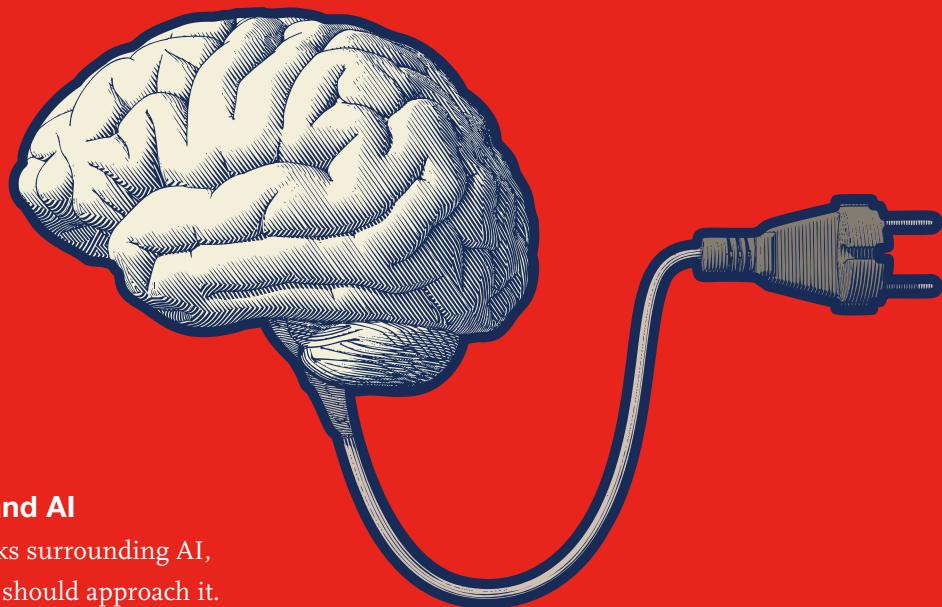
Adieu.

Andrew Holt

Editor

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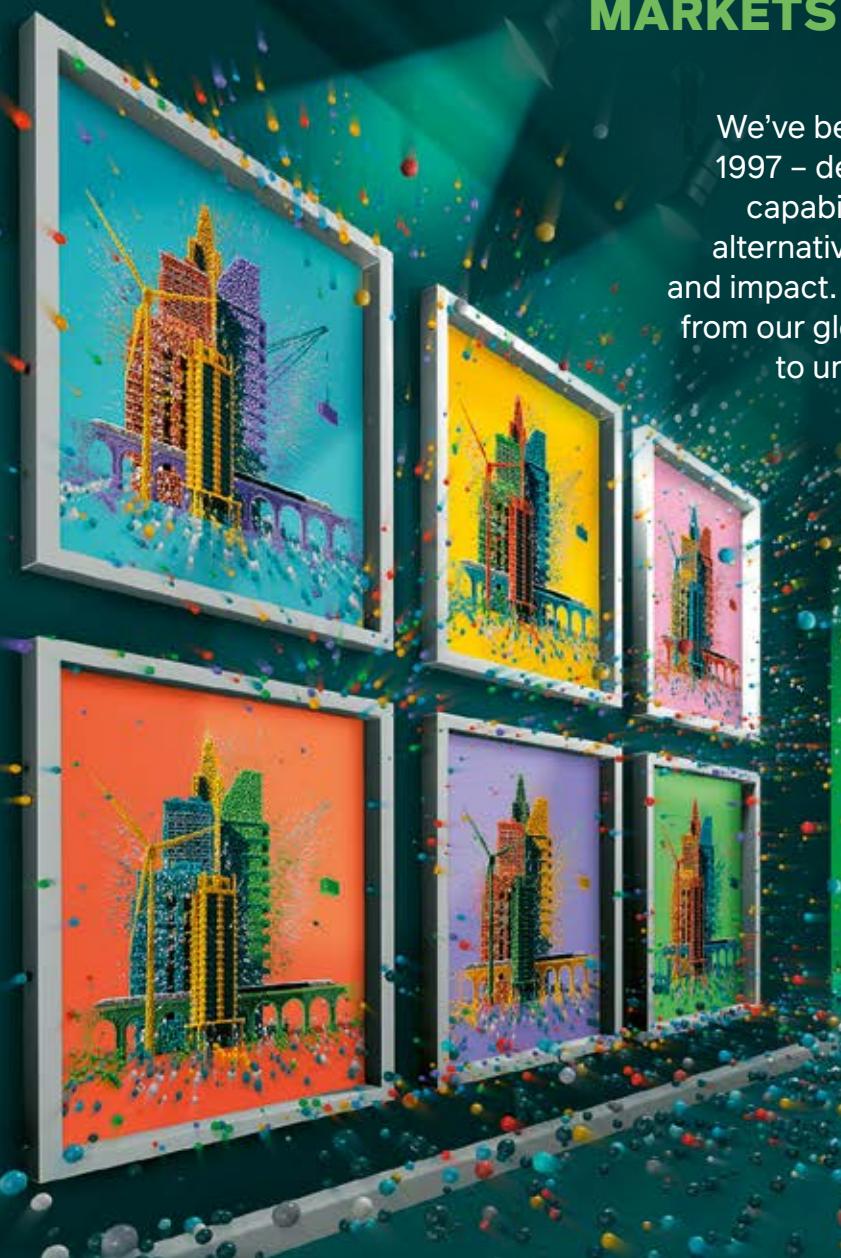
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Investing in UK assets: Beyond the budget, black holes and Brexit

UK equities have outperformed many global markets in 2025, despite persistent negative sentiment. In 2026 there is a case for the UK to be an attractive destination of capital, argues Monika Calay.

Britain's financial markets, long mired in negativity, are rebounding. Economic growth is returning, inflation, easing, and with UK equities and bonds looking to be excellent values, the outlook is bright.

Owners of UK stocks gain access to a stream of international earnings from some of the world's leading multinationals. Domestic bond yields are the highest of all other leading industrialized nations of the G7 and are ripe for a rebound.

Yet the negative headlines that dominate the media are holding back investors from taking meaningful positions in UK assets, and fund flow data corroborates this.

Those investors have missed out on 20% gains from UK equities in 2025 that are among the best in the world.

Economic challenges

Challenges remain for the UK economy. The new Labour leadership continues to face pressure to control rising government debt levels, but again some perspective must be taken. Among the G7 countries, Britain has the second-lowest government debt to gross domestic product, behind only Germany and ahead of the United States, Japan, France, Canada, and Italy.

Inflation is another key risk, which remains above the Bank of England's target. Labour market conditions have remained decidedly tight as many older workers left the UK workforce post-pandemic, while Brexit added further complication to labour supply.

The result? Upward pressure on wage growth, which has made the Bank of England's job of maintaining price stability more difficult.

However, changes are afoot, with labour conditions finally beginning to cool in response to interest rates, which remain high. With the degree of economic slack gradually widening, the Bank of England now has greater scope to lower interest rates – and we expect meaningful monetary easing throughout 2026 and beyond.

With easier monetary conditions on the way, the UK's economic outlook is brightening. Growth is expected to return to its trend pace of around 1.7% in coming years. Perhaps the doom and gloom surrounding the UK is overdone.

International diversification

A more positive picture also emerges when looking at the UK equity and bond markets. The key attraction for UK stocks lies in their access to an attractively valued global earnings stream paired with dividend yields that eclipse those of other G7 markets. The valuation argument is compelling as well: The UK market trades at a price/earnings ratio of 14 times – about half that of the United States.





Monika Calay is director of UK manager research at Morningstar.

The UK market is also far more diversified than many realise. Roughly 80% of the revenues generated by companies in the Morningstar UK Index come from outside the country, spread relatively evenly across the US, continental Europe, Asia-Pacific, and the emerging markets.

While the index is concentrated – the top 10 stocks make up about 43% of total market cap – these are globally diversified leaders spanning energy, pharmaceuticals, industrials, financials, and consumer defensive sectors.

Unilever, for example, operates in more than 190 countries, with a product portfolio that covers almost every aspect of daily life – deodorants, haircare, laundry care, and cooking aids. Over half its revenue comes from emerging markets, meaning long-term growth depends more on developing-world consumers rather than those in the UK.

Similarly, pharmaceutical giant GlaxoSmithKline is another firm with a deep footprint in emerging markets and a strong lineup of patent-protected drugs as well as an innovative product lineup, making it well-placed to grow earnings.

Both companies trade well below Morningstar's estimate of fair value, offering attractive long-term potential.

Domestic opportunities

Dipping further down the market-cap spectrum, UK small caps remain one of the most undervalued segments.

Recent examples include Britvic – the soft-drinks maker – being acquired by Carlsberg, and leading artificial intelligence cybersecurity firm Darktrace, which was taken private by US private equity giant Thoma Bravo.

UK companies are also aggressively buying back shares, signaling strong confidence in their business outlooks.

This trend spans the market: from large caps like Shell, HSBC, and Centrica to smaller companies like Foresight Group Holdings, a specialist asset manager, and leisure travel operator Jet2.

We'd also highlight the UK housing sector as another pocket of value. Builders such as Persimmon, Barratt Developments, and Taylor Wimpey are all trading at attractive levels, and any reduction in interest rates should act as a meaningful tailwind.

UK government bonds have borne the brunt of fears over scale stability. Yet much of the weakness appears to stem from liquidity and supply/demand dynamics rather than policy risk alone.

The gilt market stands out for its unusually long maturity profile – roughly twice that of other G7 economies – driven by strong structural demand from defined-benefit pension buyers. However, this demand has fallen by around 50% in recent years, creating a roughly 40-basis points premium in the 10-year gilt yields relative to fair value.

For long-term investors, that likely presents opportunity: Locking in this yield could prove rewarding as markets reprice to reflect normalised conditions.

This combination of improving fundamentals and compelling valuations makes the UK an attractive destination of capital. For those able to look past the short-term noise, the future looks bright.





Simon Cunningham is UK opportunities portfolio manager at Border to Coast.

From policy to investment

Simon Cunningham identifies three areas of government policy that fit the bill for institutional investors.

In the same way that no one pays much attention to a fire extinguisher until the toaster catches fire, institutional pension investment had, until recently, flown a bit under the government's radar.

Now, the debate over whether pension investment can, or should, be the way to boost UK economic growth, and has been the hot topic at conferences, committees and newspaper columns on an almost daily basis.

However, our job as investors is to move past the noise and focus on the key facts.

So, what are they? Firstly, it's likely that the Mansion House Accord, which pledges signatory schemes to invest at least 5% into UK private assets, will increase the demand for UK investment opportunities.

Could this make finding good opportunities tougher? Not necessarily, if policies enacted in parallel, for example, planning reform help to increase the supply side of the equation. We also know the government is keen to encourage more investment, particularly into sectors highlighted in its new industrial and infrastructure strategies.

To drive these strategies forward it is utilising a raft of 'Public Financial Institutions' – or PuFins – such as the National Wealth Fund and the British Business Bank. While the way these PuFins will interact with investors, and each other, is still to be finalised, at least the direction of travel is clear.

Given the above, there are three areas that stand out.

Firstly is life sciences. Its billing as a 'strategic priority sector' in the Government's Industrial Strategy does little justice to the depth of opportunity and true innovation that exists within UK life sciences.

The UK boasts four of the world's top 10 life sciences universities. It is home to the 'golden triangle' of world renowned facilities, healthcare providers, and pharmaceutical companies between Oxford, Cambridge, and London. It contributes £100bn to the UK economy and employs 300,000 people.

Couple this strong ecosystem with the demographic pressures of an ageing population, ever more complex treatments, and a distinct lack of past funding, and life sciences is flashing up green as an opportunity.

Especially when it comes to the 'growth gap' in funding required for scaling innovative companies from early-stage success to global competitiveness. There is also the associated real estate and infrastructure required to support both research and development and manufacturing.

The second is housing and commercial logistics. One of the government's headline policies is to build 1.5 million new homes in England in this parliament.

Key to this is Homes England's National Housing Bank (another PuFin), which was launched in June 2025 with the remit to drive 500,000 of these new builds. A key concept for most PuFins – including this new bank – is that they 'crowd in' private sector investment.

This involves getting projects off the ground and developing them to the point where the private sector can step in at greater scale. In this example, £22bn of public funding should create the opportunity for £53bn of private investment.

Underpinning this is a huge industrial logistics system, that will need to grow and decarbonise. In fact, British Property Federation research estimates that for every additional household in the UK, another 69 square feet of retail logistics space is needed.

Finally there is energy infrastructure. The common thread of the two sectors mentioned above – and shared with nearly every other sector – is the evergrowing need for energy. This is likely to be met with greater renewable generation, both for energy security and long-term sustainability aims. It is another of the government's priorities, highlighted by its almost immediate focus on removing planning blocks for onshore wind and solar projects and its Clean Power 2030 action plan (CP30) on clean electricity. Investment in energy storage and grid capacity goes hand-in-hand with greater generation.

There are clear investment opportunities in the UK, and these three themes will continue to feature heavily in Border to Coast's UK opportunities strategy in 2026.



Gary Mallon is senior DC investment consultant at Hymans Robertson.

Thinking differently about de-risking

There are better alternatives to the current de-risking of defined contribution schemes, argues Gary Mallon.

The traditional model of de-risking defined contribution (DC) pension schemes into default investment strategies is increasingly out of step with how today's members retire. With many members choosing a more flexible retirement journey, alongside enhanced options from pension freedom and choice, now is the time to question whether the traditional pace and depth of de-risking remains appropriate. Historically, DC schemes have had de-risking embedded into their design: the closer a member got to retirement the more likely the scheme was to move members into lower-risk assets protecting members from pre-retirement market volatility.

With a decline in the use of annuities and members increasingly remaining invested for many years post-retirement, a more growth-oriented approach may be a better solution for both members and scheme.

It's therefore imperative that schemes evolve their offering to reflect the current pension landscape.

Our paper: *Building resilience in de-risking strategies for UK DC members* explores the changing needs and wants of members. It considers the options for designing a DC scheme that accounts for member needs, as well as reviewing behavioural trends that are taking place in wider society. Looking back, de-risking was the logical solution for retirement options available at the time, as it sought to remove risk by moving members to annuities.

The radical changes that the advent of pensions freedom brought a decade ago combined with an increasingly greater proportion of people retiring with DC only provision has

challenged that option and the wider pensions landscape, for the majority of retirees.

Taking a more flexible approach towards DC retirement strategies should become the default. Such an approach will help schemes to avoid a potential misalignment between a de-risking pathway and member behaviour.

Changes in lifestyle, a more phased retirement journey as well as a move towards drawdown and later life employment are some of the key factors which must be considered.

Restrictive life-styling models, particularly those that aggressively reduce growth asset exposure close to retirement may no longer suit. While these models protect against volatility, providing stability for those close to retirement, they also typically reduce returns in this final stage.

Set against a population who are living longer, with a diversified range of income sources, and the problem is clear: investment strategies of old no longer meet the needs of a modern member.

If we look globally, we see the Australian model of superannuation schemes as a viable alternative to the UK approach. This model enables Australian default strategies to maintain a significant allocation to growth assets, as well as equity exposure far higher to retirement than UK schemes typically offer. This allows members to remain invested and draw income flexibly over time.

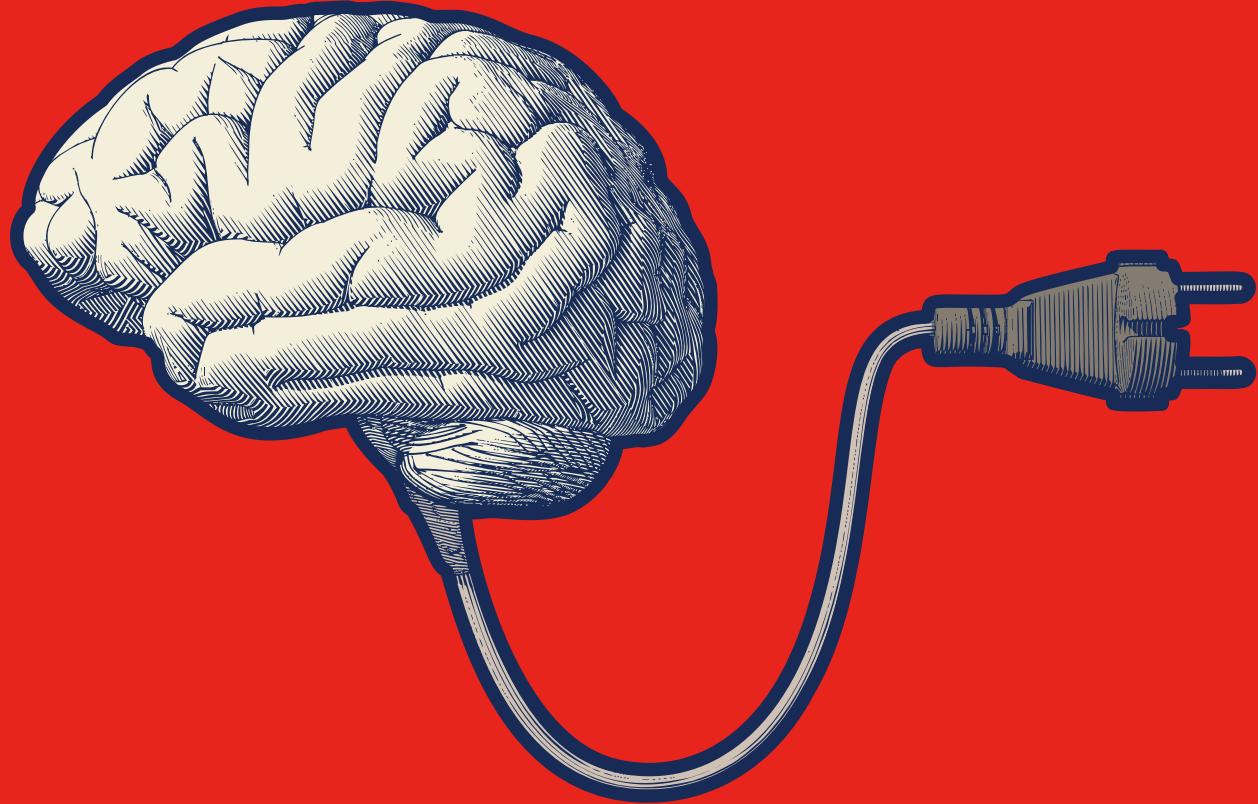
Where de-risking does take place, it's a much more gradual process often delayed until much closer to retirement and is viewed as one of many investment strategy options rather than the default choice.

Reducing short-term volatility, and financial market impacts, as members approached retirement was traditionally seen as the focus for DC schemes. For today's DC members the likelihood of an insufficient pension pot which meets their retirement needs is now deemed to be a bigger threat than market fluctuations.

Reducing the length of de-risking until closer to retirement and instead taking advantage of growth exposure by challenging scheme design would help to solve this problem.

Implementing a growth orientated, flexible investment approach, set alongside a DC scheme design which protects and considers all members is a delicate balancing act.

However, by putting member outcomes at the very centre of a de-risking strategy and ensuring that this truly reflects – and matches – current member behaviour is key. Default strategies must be robust but also responsive with a clear understanding of risk, time and most importantly member needs.



Richard Tomlinson looks at the risks surrounding AI, its importance, and how investors should approach it.

Artificial intelligence (AI) has been much discussed in 2025, usually centered on its overall economic impact. I would, from the outset, make one key point about AI from an investor perspective: it has not just been a major theme in portfolios in 2025 it has been *the* theme. There are many ways portfolios are exposed to this and this needs really careful thought.

The obvious exposures are the first-order things such as NVidia, whose stock rose 39% in 2025, and the company has a staggering \$4.5trn in market capitalisation. But exposures are likely material in most parts of a diversified portfolio. We have, it should be said, seen this movie before many times when a large thematic is in play.

It's likely in most portfolios active positioning is long/over-weight perceived AI-winners and short/under-weight, the losers. And many investors will have, like in the gold rush,

the “picks and shovels” exposures, that is, the things that provide the components to deliver an AI future such as software for chip design and lithography machine suppliers. Adding all this up, it's likely a significant pull-back in the AI theme will have a big impact on diversified portfolios. Then further added to this is the issue of index concentration. That is, US and now global indices are concentrated in AI thematic exposure.

A bubble set to burst?

This inevitably leads us to the issue of an AI bubble. The AI bubble is about to burst, we are told by some. If we think this is a bubble, and that's a big if, what should we do about it? I think calling tops and bottoms in the market can be very difficult indeed. I'd reference two greats in this regard. The first JP Morgan is alleged to have said: “I made most of my money selling too soon,” a reminder that it is better to accept a good return rather than just holding out, and George Soros essentially said: “when I see a bubble forming I pile in,” highlighting that investors can profit from bubbles, but only before they inevitably burst.



Richard Tomlinson is chief investment officer at Local Pensions Partnership Investments.

Investors and AI

It is therefore important to stick to the basics. The most reliable thing I would point to is the exposure within your risk appetite and, equally important is do some serious scenario analysis on AI as an investment.

Initially, ask: is the pure exposure too big? If you assume you have index exposure and you have a 50% target weight to global equities you now have 2.5% to 3.0% exposure at the total fund level to a single highly volatile name, say NVidia. Is this within your risk appetite? It may be, it may not be?

Total exposure

Therefore, look at the total exposure to the AI theme and think how it could play out and look at the downside cases – how bad does it get? Is this within your risk appetite? Will you hit any portfolio triggers, such as drawdown or stop-losses?

Think how you might want to play this as a multi-year theme: NVidia, and those similar, are a “high beta” way of playing this. There are many others. Many are looking at how AI and automation will diffuse through the economy in the coming years and positioning for how this might play out. I would

also point to the geopolitics of AI.

There is a great power struggle playing out between China and the USA. AI is at the centre of this. US policy is clear – to maintain global supremacy – the US feels it needs to win the AI race. This is leading to a huge investment push driven by vast capital and policy support.

AI and automation are also core to the re-industrialisation of the West. You could lean against this, but you run the risk of being demolished by a wall of dollars and policy support. Moreover, if we learnt anything since the great financial crisis it is investing in line with government policy is often a winner.

Economic impact

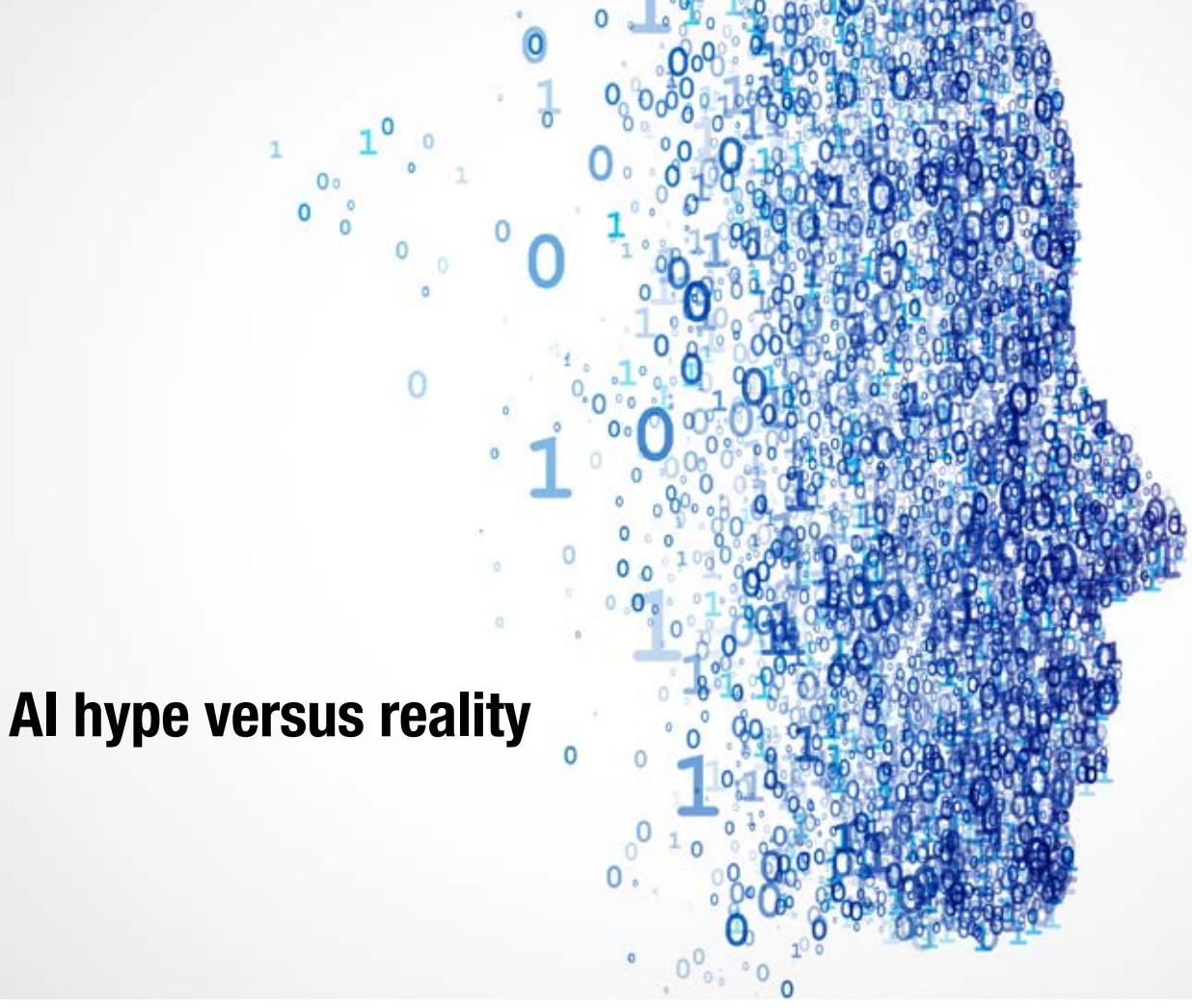
Ultimately, we, at LPPI, view AI as a General Purpose Technology (GPT), a foundational innovation that will permeate through economies and societies through time and have very significant transformational effects. This will be similar to the development and deployment of electricity or the internal combustion engine in the past.

Amara’s Law – the observation made by futurologist Roy Amara – suggests that we tend to overestimate the impact of new technology in the short-term and underestimate it in the long-term. Serving as something of a reminder the need to consider the broader context and timelines when predicting technology advancements.

It is also very fashionable to not like some things about the USA currently. While it is understandable why some feel this way, as investors, we need to ensure we aren’t allowing any personal views bleed into professional analysis.

To sum up: when it comes to AI there are no easy answers. Yes, it could be a bit bubbly, but it could also run for a good while yet. And AI feels like it is a GPT that will have a significant impact long-term.

But it is also very possible that the eventual winners don’t even exist yet. Caution is warranted. But it’s a big call to bet against American exceptionalism.



AI hype versus reality

Raphael Olszyna-Marzys questions how much optimism about AI is baked into US stock prices.

Concerns about an artificial intelligence-driven bubble are top of mind for investors. Capital spending has surged, with a lot more expected over the coming years. While AI-generated revenues remain modest, the expectation is that they'll grow as companies embed AI into operations – boosting productivity and profits across sectors.

But how much of this optimism is already baked into stock prices? Our analysis suggests the S&P 500 is pricing in around 1.7 percentage points of annual US productivity gains from AI – which would be an optimistic outcome. The macro analysis suggests a more realistic baseline of 0.6% percentage points. That does not imply an equity correction, but it does signal more limited returns ahead, with annual index gains set to trail earnings growth.

Investment in AI was a major driver of global growth in 2025, especially in America and Asia. Capital spending by the big five “hyperscalers” – Microsoft, Meta, Amazon, Oracle and Alphabet, has been so large that it shows up in macroeconomic aggregates.

AI investment alone seems to have added roughly one percentage point to US investment growth in 2025, though a lot of the associated infrastructure – chips and servers in particular – was imported. The build-out will continue to prop up growth in 2026, though probably to a lesser degree.

AI adoption

The next step is the built-in phase, which will likely prove even more transformative and generate even larger revenue and earnings gains. Widespread AI adoption across sectors is set to have a substantial and lasting impact on companies' earnings profiles.

Broad-based valuation gains in US equities since the launch of ChatGPT three years ago are a precursor of what is yet to come. The S&P 500 is trading close to the highest price-to-earnings ratio (PE) in more than 20 years and has added an estimated \$10trn in market capitalisation, a reflection of higher expected future earnings due to AI.

So how much optimism is baked in US stock prices? This raises a central question: how does the re-pricing in equities and the implied AI benefit to future earnings stack against the economy-wide productivity growth assumptions this

technology is expected to deliver? First, valuations appear stretched, limiting the scope for the kind of rapid equity gains seen in recent years. Second, investors are likely to become more selective in allocating capital. Even so, productivity gains from AI should become more evident over time. Sectors and firms best able to integrate the technology are likely to capture a larger share of the rewards.

Well-founded hype

The hype around AI, and in particular generative AI (GenAI), is well-founded and claims of a new industrial revolution are not unreasonable. Like earlier general-purpose technologies – from steam and railways to electricity, computers and the internet – its widespread adoption could lift productivity.

But how large will the gains be, and when will they appear in the data? Predicting either is difficult. Research from the OECD, the IMF, and other economists provides a solid framework for estimating AI's productivity gains and for evaluating the assumptions behind them.

 **The hype around AI, and in particular generative AI, is well-founded and claims of a new industrial revolution not unreasonable.**

In brief, overall productivity gains rise with AI exposure, adoption, and how broadly benefits are shared across sectors. Our central scenario – largely based on OECD modeling – assumes 40% workplace adoption within ten years, comparable to internet-era diffusion and 35% of economic activity exposed to AI on average, with significant sectoral differences. Applying the OECD's general equilibrium model, direct effects and supply-chain spillovers could lift productivity by 0.9% percentage points.

The US equity market has risen by about 70% since the launch of ChatGPT in November 2022, adding about \$25trn in market capitalisation. Roughly half of the gain comes from higher earnings, the other half is the result of rising valuations.

While some companies took the lead, the multiple expansion in the S&P 500 has by no means been limited to just a few names. In particular in the US, the re-rating happened quite broadly across sectors. In our view, this is a reflection of the market's implicit assumption that not only a narrow set of companies will reap the direct benefit from AI sales, but that the entire growth trajectory of the economy will shift upwards as a result of AI adoption.

Naturally, this begs the question: how much of an earnings and GDP growth acceleration is priced into equity markets? And how does this compare to economists' estimates discussed above?

Moderate returns

Our calculations illustrate that the equity market appears to factor in a highly disruptive AI scenario. The implied GDP growth impact of around 1.7% percentage points is on par with the most optimistic macro views from forecasters. This suggests that equity market gains in 2026 are likely to be more moderate than the returns we have seen over the past three years.

It does not necessarily imply, however, a substantial re-pricing of the market. If we were to see a seamless transition of build-out-driven growth to adoption and hence productivity-driven growth, the market can easily grow into current valuations. While gains will likely be more moderate, we still expect positive returns, though slightly below the pace of earnings growth.

AI's transformative potential is undeniable, but our analysis suggests US equity markets are overestimating its economic impact. Indeed, while AI adoption is rising, real-world productivity and profit gains remain mixed.

Most credible studies project AI-driven US productivity gains of 0.4–0.9% percentage points annually: we forecast 0.6% percentage points. Gains of 1% percentage points or more would require widespread AI-powered robotics – plausible, but not our base case. Current S&P 500 valuations appear to be pricing this optimistic scenario.

This doesn't necessarily signal an equity market correction, but it does suggest more muted returns ahead. Within equities, we prefer companies and sectors that are effectively adopting AI, rather than those that merely supply the infrastructure, with upside potential extending well beyond US tech stocks.

Raphael Olszyna-Marzys is international economist at J. Safra Sarasin Sustainable Asset Management.

Investors face a year of nuance following the tech-driven returns of 2025, argue John Wyn-Evans and Oliver Jones, with geopolitics, AI and government policy all likely to shape markets over the coming 12 months.

There are seven key nuance themes to watch in 2026.

One is artificial intelligence (AI) investment, which will enter a new phase.

The debate over whether AI is in a bubble is understandable, but today's backdrop differs markedly from the dotcom boom. Unlike the late 1990s, this cycle is highly concentrated among a handful of hyperscalers funding investments primarily from strong cash flows rather than debt.

Investors should remain vigilant for signs of a bubble which are absent now starting to emerge – especially any marked increase in reliance on debt funding, or surges in private equity activity and IPOs like the ones which have preceded previous speculative peaks.

Moreover, markets have reached an inflection point where investors want to see more revenue and profits stemming from AI adoption before committing further. This signals a year where capital discipline, cashflow resilience, and commercial progress will matter far more than grand narratives.

We also anticipate some broadening of returns this year as companies experience productivity gains from the implementation of genAI in their processes. A recent upturn in the fortunes of the healthcare sector, for example, provides some clues as to where investors might look next.

Two, is that hyperscaler signals will become critical.

The AI sector's reliance on the investment decisions of a few key firms introduces its own vulnerabilities and that investors must monitor what's happening to the hyperscalers' cash flows – and how they plan to fund their investment, alongside new orders and backlogs among suppliers.

Grand announcements of increased capital expenditure are not being received with the sort of enthusiastic response that prevailed even just a few months ago. With annual datacentre spending running into the hundreds of billions of dollars, scrutiny will intensify.



Seven market nuances for 2026

Three, is that geopolitics will be a major source of volatility.

A year already shaped by the removal from office by the US of Venezuela's President Maduro, signalling that unconventional and potentially disruptive geopolitical events will continue.

Trade tensions remain a significant threat: President Trump's renewed willingness to deploy tariffs has already triggered sharp market reactions, while China controls around 90% of global refining capacity for key rare earth minerals, giving it outsized leverage. Markets should expect more activity on this front in 2026.

Four is that the overall economic conditions are supportive, but inflation is still a structural risk.

The economic conditions are generally favourable globally, with consumers and corporates in decent shape and interest rates falling across most major economies. Recession risk remains low. However, inflation continues to complicate the picture, with core inflation slow to return to the 2% target and likely to stay higher and more volatile than in the pre-Covid era.

Political preferences for more deficit spending and less glo-



balisation reinforce this backdrop, shaping bond markets and asset allocation decisions.

Five, equity market leadership is set to broaden.

After years dominated by mega cap technology names, there are tentative signs of a broadening out of returns, with healthcare making up a lot of lost ground, and Europe and parts of emerging markets benefiting from fiscal stimulus, industrial spending and AI related capex.

The shift reflects investor appetite for areas where valuations remain attractive and policy support is strengthening. The move away from narrow market leadership opens the door to more regionally and sector diversified sources of return in 2026.

Six: investors should take a cautious approach to fixed income, with gold a useful diversifier.

If there's one lesson bond investors have learned in recent years, it's that the 'safe haven' status of government bonds is not to be taken for granted. 2025 saw steady, if unspectacular, returns – most investors simply clipped their coupons, with little in the way of capital gains.

Yield curves steepened as longer-dated bonds failed to keep pace with falling short-term rates, reflecting persistent worries about government deficits and the potential for inflation to stay above target.

Looking ahead, we remain cautious. Our preference is to keep bond portfolios on a short leash – minimal duration exposure allows us to benefit from still-attractive yields and any further reductions in policy rates, without taking on undue risk from deficits or inflation surprises.

While the dramatic repricing of 2022 is unlikely to repeat, longer-dated bonds remain vulnerable. Precious metals, particularly gold, have proven to be more reliable diversifiers of late, and we continue to see a role for them in balanced portfolios.

Seven, investment opportunities exist across different regions.

Firstly, US equities remain the anchor of global portfolios, but after a year of relative underperformance, the focus now shifts to whether economic growth and earnings can justify current valuations.

The outlook is for moderate gains, but much depends on the economy avoiding both recession and overheating. Investors should expect a more discerning market, with leadership likely to broaden beyond the tech giants.

When it comes to the UK, the FTSE 100's strong run in 2025 sets a high bar, but the UK's hallmark diversification and resilient financial sector provide a solid foundation for the year ahead. While domestic challenges persist, international exposure and ongoing corporate activity could help sustain momentum, especially if global conditions remain supportive. From a European perspective, Europe enters 2026 with renewed confidence, buoyed by fiscal stimulus and increased defence spending. Financials and industrials are well-placed to benefit from these trends. While political risks linger, the region's improved economic backdrop and capital investment should underpin further progress.

And finally, emerging markets offer a mixed but promising outlook. Technology and industrials – especially in South Korea and China – are likely to remain key drivers. Attractive valuations and a shift in global supply chains could draw more investor interest, but selectivity will be crucial as regional dynamics diverge.

John Wyn-Evans is head of market analysis and **Oliver Jones** is head of asset allocation at Rathbones.

Investment opportunities



in a changing world

Deep, structural changes are underway, and as the world fragments, seeking out opportunity requires a positive mindset, says Anthony Petalas.

The old certainties of investing have evolved. Rivalry, geopolitical fragmentation, and technological disruption are reshaping what many thought they knew about the investment landscape.

Today, globalisation no longer guarantees synchronised growth or cheap capital – but it's not a trend to abandon either. In fact, we can see how this shift cracks open new avenues for innovation and opportunities. In this new world, resilience matters more than precision forecasting.

The question is not just where growth will occur, but under what conditions and how investors can capture it.

Risks and opportunities

The geopolitical backdrop for 2026 reflects structural shifts rather than isolated events. After the trade tit-for-tat of the past year, rivalry between major powers, most notably the US and China, has stepped up a notch. It is now a contest for technological leadership, supply chain security, and influence.

Export controls on semiconductors, tariffs on strategic goods, and competing industrial policies are fragmenting what was once a deeply integrated global economy.

Yet within that fragmentation there is a more forward-looking story of new growth opportunities. If we dull the noise of political posturing, the outlook is one of companies choosing resilience over pure efficiency.

Supply chain reorganisation, for example, is spurring investment in nearshoring, advanced manufacturing, and logistics infrastructure. Security and energy independence have become central priorities, accelerating investment in domestic energy systems and renewables.

While this introduces inflationary pressures, it also unlocks long-term growth opportunities in clean energy, defence technology, and critical infrastructure.

The next frontier

The next frontier of geopolitics is digital. Asserting dominance and control over data flows, AI capabilities, and semiconductor technology will no longer be a 'nice to have', but a strategic imperative for countries and respective governments.

For companies operating in artificial intelligence (AI) and digital infrastructure, this is both a blessing and a curse. Demand for secure, sovereign technology solutions is rising, even as regulatory hurdles and cyber threats intensify. Investors who can identify firms delivering trusted, scalable solutions stand to benefit from this structural trend.

Navigating headwinds

If resilience is the foundation for navigating a changing

world, innovation is the engine that drives progress through uncertainty. The same forces reshaping global markets – fragmentation, demographic shifts, and technological disruption – are also redefining the macroeconomic backdrop. High debt levels and persistent fiscal deficits are acting as a straitjacket on policymakers' ability to flex and adapt.

While markets price in a productivity surge to sustain growth, an ageing population that reduces the labour force participation points to greater headwinds. It is technology-driven efficiency gains that offer a counterbalance.

Adding to the level of uncertainty is inflation. It is proving stubbornly sticky, but central banks are navigating a path toward stability. This environment favours investors positioned in companies with strong pricing power and innovation-led growth – where AI and automation are emerging as key drivers. Capital expenditure among technology companies is rising, partially offsetting weaker consumer demand.

Adoption may be concentrated among leading firms for now, but the potential for broad-based productivity gains remains one of the more significant opportunities on the horizon.

While the macroeconomic outlook does remain uncertain, investors could opt to focus on companies enabling AI and automation integration across industries, those positioned to deliver tangible efficiency improvements rather than speculative hype.

Private markets: Capturing growth

The same forces driving fragmentation and macroeconomic uncertainty are reinforcing the role of private markets as a structural pillar of global capital allocation. Private equity stands to benefit, but the approach is shifting.

Higher financing costs mean managers must be more selective, targeting businesses where operational improvements, digital transformation, and strategic growth can create lasting value rather than relying on easy capital.

Opportunities are sector-specific and closely tied to structural change. Defence, energy infrastructure, and cybersecurity are attracting record levels of private capital as governments prioritise security and resilience.

Technology continues to dominate, but beyond AI, areas such as data centres, renewable energy, healthcare, and supply-chain resilience offer compelling prospects. These themes align with the broader investment landscape: innovation and resilience are not just public market narratives; they are central to private capital deployment.



Anthony Petalas is a portfolio manager at Border to Coast.

Even though private markets remain a key allocation in investor portfolios, rising financing costs and tighter liquidity demand greater selectivity. Private credit adds complexity as leverage and opaque structures can amplify stress during downturns.

Recent defaults in sectors such as real estate and auto parts underscore the risks of loose covenants and aggressive financing practices. While these blowouts have not triggered systemic contagion, partnering with experienced private credit managers and maintaining diversification across sectors and strategies is critical to reducing concentration risk while preserving exposure to an asset class that has historically delivered strong returns.

This disciplined approach supports transparency and resilience in an environment where higher financing costs and structural vulnerabilities require careful navigation.

The top three investment takeaways

1. Resilience over precision

In a fragmented and volatile world, resilience, not perfect forecasting, will define successful investment strategies. Diversification remains critical to withstand shocks and capture long-term structural trends.

2. Structural shifts create opportunity

Geopolitical rivalry, supply chain reorganisation, and energy security are reshaping global markets. These changes unlock growth in areas like clean energy, advanced manufacturing, defence technology, and digital infrastructure.

3. Innovation as a growth engine

Technology-driven efficiency, AI, and automation are central to navigating macroeconomic headwinds. Both public and private markets will benefit from disciplined, selective investment in sectors enabling transformation and resilience.

Fiscal power, AI investment, and the politics of national sovereignty are shaping the investment landscape, says **Kevin Thozet**.

The world's four largest economies are actively supporting growth just as the macroeconomic cycle appears to be entering late-stage territory. The cycle is ageing, but it is also accelerating. Asset valuations increasingly reflect late-cycle pricing, yet the very drivers of the cycle are extending it. A combination of real GDP expansion and persistent inflation feeds directly into corporate revenues and earnings. This is a supportive environment for equities, credit and, more broadly, risk assets but calls for a more cautious stance on government bonds.

Three themes dominate global markets: AI-driven capex, ongoing fiscal largesse, and national security and industrial sovereignty. All three create actionable opportunities across fixed income, equities, and FX markets.

Yet valuations have soared over the past year, compressing the margin of safety. Globalisation of capital markets means assets prices are more interconnected. And narrow growth engines translate into higher correlations across and within asset classes. Today, thinking out of the box is a necessity to achieve diversification.

AI and technology: The bull case

AI adoption rates have tripled – from 5% to 15% – in just three years, unleashing a massive investment wave and supporting strong earnings growth among AI companies.

Expected productivity gains of 1.5% per year, generating a present value of more than \$20trn over 10 years are relativising concerns over overspending. If half that stays in the technology sector, then the Nasdaq 100 could see an additional +50% in value.

The concern is exuberance for this popular market theme. But fixed income markets are now being tapped to fund AI investment, and credit risk imposes discipline and acts as a built-in speed limit for exuberance in price action.

Frothiness in the market's most beloved themes and valuation risk has a simple answer: when valuations are high don't buy the index, select carefully

Taiwanese and Korean technology companies are integral to the AI supply chain, yet trade at far more attractive multiples than US peers. China is building its own AI ecosystem, creating differentiated opportunities. Any new entrant salivating at Nvidia's 75% gross margins becomes a catalyst for

cheaper compute and higher software adoption. This would benefit software companies.

Healthcare and consumer staples display a relative low correlation to the technology sector and thus, are worth considering. Future fiscal policies are increasingly expected to target households and election countdowns have a way of making fiscal restraint evaporate. Large technology monopolies are both part of the solution and the problem.

On the one hand their capex cycle has become a stabilising force in the global economy. But on the other, their dominance contributes to widening wealth gaps – as they channel wage/jobs and capital gains to a narrow segment of the population.



We see two consumption realities in a two-tier economy. The wealthy continue to spend, while lower-income households face stagnant real wages, pushing them toward buy-now-pay-later schemes and deep discounts. For investors, the implication is clear: seek exposure to both ends of this two-tier economy.

National sovereignty and the New Industrial Order

The end of the Pax Americana has thrust national sovereignty back to the centre of industrial policy, unleashing strategic investment across defence, infrastructure, and electrification.

In defence, investors must look past the obvious market darlings. Parabolic price moves and stretched valuations signal a crowded trade driven by momentum rather than fundamentals. A smarter approach is to tap the credit market, where fast-growing European defence groups offer IG-rated debt with 4%–5.5% yields and revenue profiles that have doubled in recent years – exposure to national-security spending without equity froth.

Fixed income and FX: Navigating inflation

As central banks ease while inflation lingers and as deficits swell and government bond supply increases, long-

sively – 2x over the past 10 years – but public credit markets have barely expanded keeping debt levels contained.

Public credit markets are benefiting from the strengthening of fundamentals, with improving credit quality: higher-quality issuers dominate high-yield segments, secured bonds proliferate, and EBITDA growth buffers larger firms.

As the cycle matures and selectivity becomes essential we advocate a defensive carry strategy with a focus on quality issuers and syndicated issues, given that much of today's leverage has accumulated in the shadows, public markets are inherently more defensive.

Thanks to a wide dispersion across issuers, ratings and sectors, investors can construct credit portfolios yielding 5% with an investment grade average credit rating balancing risk and return effectively.

Currencies of countries benefiting from improved trade terms and fiscal consolidation also stand out. The Chilean Peso is boosted by copper exports and should benefit from more market-friendly policies. The South African Rand benefits from a 7% carry, and is supported by gold and transition-metal exports while being an oil importer.

The Australian Dollar combines the benefits of a resilient economy, a relatively hawkish Reserve Bank of Australia, exposure to the potential Chinese fiscal plan and world-leading production in sought after commodities and critical materials.

Financial paradox

We are living through a financial paradox: a late cycle that refuses to slow down. Fiscal power, AI investment, and the politics of national sovereignty are shaping the investment landscape. Fiscal expansion is not dead, nor is inflation.

In such a world, traditional risk-free assets face inflation risk. Risk assets hedge inflation and capture nominal growth. With supply-chain tensions and fiscal shocks keeping equity-bond correlations unstable, cross-asset agility becomes critical. The most attractively priced hedges can be found in credit default swaps, the Japanese yen and gold.

Valuations demand selectivity, not retreat. The investment playbook must evolve. Passive exposure to indices or regions is no longer enough. The winners will be selective, global, valuation-aware, and agile across asset classes. This is not a 'Goldilocks' moment. It is a forward race, one where the most responsive, not the most cautious, will come out ahead.

Kevin Thozet is a member of the investment committee at Carmignac.

Thinking outside of the investment box

term yields rise. Thirty-year debt from fiscal offenders – the US, UK, Japan, France – provides inadequate compensation for the risks involved. We avoid, or short, government bonds.

Conversely, real rates remain too high for the current debt burden, while market-expected inflation remains too low relative to structural forces. This creates a favourable backdrop for inflation-linked bonds (ILBs). If real rates fall, ILBs appreciate. If inflation surprises on the upside – as it often does – inflation break evens widen. Either way, ILBs provide carry, protection, and convexity. With index spreads tight and debt rising, caution seems warranted. This cycle saw private credit and government bonds markets grow mas-



Defined benefit pension schemes: Is investing like an insurer easier said than done?

The UK government recently published its highly anticipated Pension Schemes Bill, opening the door to more flexible treatment of defined benefit (DB) pension scheme surpluses. While buy-out remains the gold standard for member security, many trustees and finance teams are now exploring if – and how running-on their scheme could work for the benefit of its members and the sponsor.

If insurance companies can secure member benefits while also generating attractive investment returns on their capital, why can't pension schemes – especially as, unlike insurance companies, pension schemes do not have to adhere to the strict matching requirements of Solvency II?

However, some pension schemes are finding it challenging to implement an insurance-like investment strategy in practice. We explore the reasons why – but more importantly, how trustees can overcome these challenges.

Investing like an insurance company

Insurance companies follow an approach like the one below, which is typically known as Cashflow Driven Investing (CDI).

Step 1: Buy and hold onto a portfolio of high-quality corporate bonds that will deliver payments in line with the insurer's pension obligations. When credit spreads are tight (as is currently the case) insurers will also often find other ways to match cashflows that still capture value, and then look to switch these into corporate bonds when spreads widen (more detail on this later).

Step 2: Invest in additional cashflow generating assets, like private credit to boost returns further.

Step 3: Use Liability Driven Investing (LDI) derivatives, like swaps, to top-up the interest rate and inflation hedge. The LDI strategy will consider the hedging already provided by the assets bought in Steps 1 and 2.

This insurance-like approach can also be beneficial for pension schemes because it gives trustees greater comfort that they will be able to meet their ongoing payment obliga-

tions, without having to sell assets at the wrong time. Investing in high-quality, contractual assets like investment grade (IG) corporate bonds can also reduce the chance of the pension scheme failing to achieve its long-term return objectives. Adding in LDI also protects the day-to-day funding position of the scheme from fluctuations in interest rates and inflation.

While the building blocks of CDI will be familiar to many trustees, they face several challenges when seeking to mirror this strategy in their pension scheme.

Challenge 1: Delivering high enough returns at the same time as matching

When implementing a CDI approach, pension schemes need to put aside enough assets to meet the collateralisation requirements of the derivatives in their LDI strategy, as well as to match their pension cashflow obligations.

Most pension schemes are only able to post cash or gilts as LDI collateral, which means they need to tie up a considerable proportion of their assets in these low yielding assets. Additionally, the credit spreads available on cashflow matching assets like corporate bonds are at historic low levels. These two factors mean that some pension schemes will struggle to generate high enough returns from their CDI strategy to make running-on worthwhile.

To offset the low yields available on their CDI portfolio, some schemes have retained a small proportion of their assets in growth strategies – such as equities – that they hope will earn much higher returns – a so-called bar-bell approach. However, as relatively few asset classes are able to deliver



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these returns, this can lead to a very concentrated growth portfolio, with significant downside risk.

A more flexible approach

To overcome these challenges, insurers will usually implement LDI more flexibly than pension schemes. For example, they can typically post corporate bonds as LDI collateral, as well as cash and gilts, on attractive terms. This means that they can invest more of their assets in credit and less in gilts and cash to earn a higher yield on their CDI portfolio. This is particularly important for inflation hedging, for which there are fewer physical matching assets available that also deliver an attractive yield.

Insurers may also be able to use their balance sheet as a source of last-resort liquidity. Again, this can reduce the amount of cash they need to commit up front to support their LDI strategy.

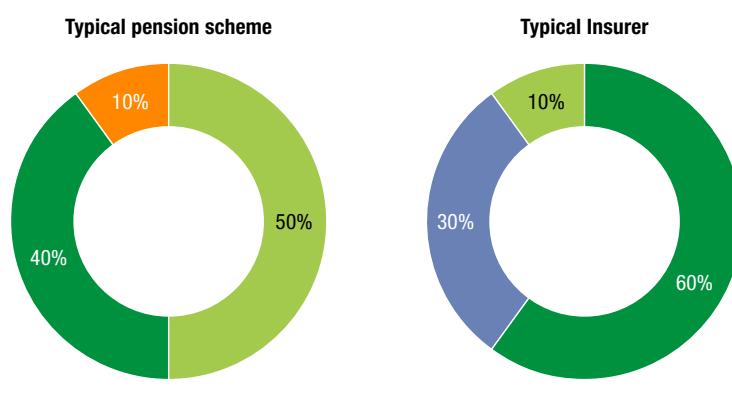
An example pension scheme asset allocation and an example insurance company asset allocation are shown in the charts below. The insurance company can allocate more of its assets to corporate bonds and private credit than the pension

scheme, which needs to hold more in gilts and cash to support its LDI strategy. The pension scheme has also retained a 10% allocation to a concentrated growth asset strategy to enable it to achieve its long-term return objective. The insurance company has more assets available to achieve additional returns, so can construct a more balanced portfolio overall. Insurers will also use their expertise, scale, and the strength of their bank counterparty relationships to access yield enhancing LDI strategies that may not be available to a typical pension scheme. For example, in the current tight spread environment insurance companies are using a combination of short-dated credit and leveraged gilt trades and/or par-par asset swaps to capture yield. Insurers may use these trades with the intention of switching into long-dated corporate bonds later on, when credit is priced more attractively¹.

Challenge 2: Accessing high quality private assets

Pension schemes can invest in a growing number of private assets; however, they are often at a competitive disadvantage when allocating to the highest quality investments.

Typical pension scheme and insurer asset allocation



¹ With CDI we hope to hold corporate bonds until they mature, so it can make sense to delay buying longer dated bonds until credit spreads are more attractive. The values of longer dated corporate bonds are also more sensitive to widening spreads than shorter dated bonds. This can be an extra consideration for pension schemes who are concerned about the day-to-day volatility of their assets compared to their liabilities (particularly if their liabilities are discounted on a gilts rather than corporate bond basis).

Source: M&G Investments, October 2025

In an increasingly crowded buy-out market, insurance companies must source attractive assets to price new business competitively, and ensure they resource their teams accordingly. This is especially true when spreads on public credit are tight.

When a new private asset comes to market, often only the very largest and most established investors, such as insurance companies, can participate. This means that pension schemes, which are usually making much smaller allocations, are unable to access these new opportunities.

Challenge 3: Bringing everything together in both normal and stressed markets

A CDI strategy needs to be able to fulfil a range of complex operational objectives at the same time: the timely delivery of cashflows to pay pensions, executing sophisticated derivative overlays, posting collateral and managing liquidity. These processes need to be robust in normal market conditions and during fast-moving crises like the 2022 gilts crisis.

Insurance companies have a long track-record of successfully managing these processes and experienced far fewer challenges than pension schemes during the gilts crisis. Most pension schemes with a CDI strategy will rightly seek to delegate some or all these functions to a third party.

A CDI Plus solution that seeks to overcome challenges

To successfully invest like an insurer, trustees can appoint a CDI partner that has an insurance heritage. This can enable them to access the flexible LDI strategies, private markets expertise and scale, and operational resources of an insur-

ance company, whilst retaining the benefits of a run-on solution.

M&G Investments' CDI Plus solution provides all the building blocks of an insurer-like CDI strategy, in a fully integrated solution.

M&G Investments works with trustees and their advisors to build a bespoke credit solution to match their pension scheme's cashflow profile. This can include corporate bonds and private credit if desired, and triggers can be used to add longer-dated corporate bonds when spreads are more attractive.

Schemes are able to access the same highly flexible and efficient LDI strategies as our insurance company due to our wrapper that allows access to our balance sheet. The wrapper gives schemes the ability to use corporate bonds as LDI collateral and to 'borrow' liquidity from the insurance balance sheet in times of market stress.

With CDI Plus, M&G can also help pension schemes access many of the same private market strategies as our insurance company and, as these strategies are aligned with the Solvency II requirements of insurance companies, the solution can also act as a natural bridge to buy-out.

If or when the pension scheme is ready to buy-out, there is no obligation to transact with M&G Investments – CDI Plus is flexible and there are no additional costs for exiting the solution².

However, M&G Investments will provide pricing for any CDI Plus client that wishes to consider buying out with us.

If you would like to discuss any of the topics in this paper or learn more about CDI Plus please contact our DB Solutions team.

www.mandg.com/investments



²) Selling the underlying assets may incur transaction costs; however, M&G does not charge any additional fees for exiting the CDI plus Liquidity solution and there is no minimum investment period.

The value of investments will fluctuate, which will cause prices to fall as well as rise and investors may not get back the original amount they invested. Past performance is not a guide to future performance. The views expressed in this webpage should not be taken as a recommendation, advice or forecast.

Industry reflections

On Sunday afternoon, I spent an hour watching and re-watching eight short, pornographic video clips. I failed the challenge set to me, correctly identifying just one of the four AI generated video clips, and misidentifying three.

When *portfolio institutional* was first published in 2010, the technological change being most talked about was cloud computing, not AI. Indeed, the predominant terminology was of neural networks, not AI. Even Bitcoin was a novelty, having been first released in 2009.

However, by then, the internet had already had profound negative consequences for many existing business models, with cable TV and DVD sales obvious victims. Journalism has not escaped these pressures, with social media eating its advertising revenues.

The cost of entry for new publications has plummeted and competition for eyeballs proliferated. The result has been all too much slop (Merriam Webster's word of the year 2025) and misinformation. It is tempting to attribute Trump's second presidency to the possibilities opened by technology and the technocracy.

Not all change has been adverse. The quality of news, opinion and information from a small group of publications has improved. The *FT*, *Guardian* and *Economist* come to mind here, as well as the publications of a few trade and professional associations.

By contrast, technological change in the pensions and asset management sectors has been glacial. The prime example of this has been the seemingly never-ending progress (or lack of) of the Pensions Dashboard.

No consultant presentation to pension scheme trustees on bulk annuity pension risk transfer is complete without a lecture on the importance of data quality. Regulatory developments such as the value for money initiative may be destined to suffer a similar fate, though existing specialists, such as AgeWage and ClearGlass, offer a blueprint.

In the UK much regulatory change has been enacted in the lifespan of *portfolio institutional*. 2010 was the first year in which the deleterious effects of liability driven investment became evident, though the Pensions Regulator continued to press this approach until the recent government policy of

productive growth investment was introduced. Of course, the folly of this investment strategy did not come to the fore and parliamentary attention until the disastrous Kwarteng/Truss budget of 2022.

The period has seen some notable legislative changes for UK pension landscape. The 2011 introduction of the 'Triple Lock' for state pensions and the removal of the requirement to buy annuities with the retirement proceeds of DC schemes are early examples. Drawdown has been a highly popular success; in 2024/5 some 350,000 savers opted for

this form of pension. More recently, the introduction of CDC schemes, a work in progress to this day, which provides savers with retirement incomes. The recent Stagecoach-Aberdeen transaction also deserves a mention, though for the lack of regulatory intervention.

The government emphasis on productive growth investment, evidenced by the Mansion House Accord and Compact, is welcome, though there appears to be a touch of EMPANADA (Everyone Makes Promises And Never Actually Does Anything) about those agreements.

This has been accompanied by much soul-searching and breast-beating over the decline of the UK stock market in

capital market significance, which has been accompanied by rapid growth in private equity and private credit – with the latter now raising concerns over systemic stability.

There is a nascent technological change, which looks likely to blur and perhaps eliminate the boundary between public and private securities, tokenisation based on distributed ledgers. The attractions of this go well beyond the elementary transaction cost savings and include access to the liquidity available from an extremely wide investor base. The threat for traditional exchanges is existential. Hardly a day now goes by, without yet another article or blog discussing the market valuation of AI companies: a bubble or not. I am firmly in the bubble camp, as I simply cannot see the levels of revenues being generated, now or in the near future, by agentic AI as being anywhere near sufficient to support the trillions invested, let alone these valuations.

Con Keating is head of research at Brighton Rock Group.



Con Keating looks back on the many changes the industry has seen since the first *portfolio institutional* was published in 2010.

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