

Investment Perspectives 2026 Outlook: Searching for value amid the euphoria

December 2025

Contents

Introduction	3
Can the wave of optimism continue?	4
Valuation framework: Assessing valuation signals across a spectrum of asset classes	9
CIO Perspective: Are we in an AI bubble?	
That's the wrong question.	13
CIO Perspective: Income is back	18
CIO Perspective: Expansion, innovation and resilience	23
Recovery underway but uneven; reinvention wins	28

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Introduction

As 2025 draws to a close, investors are digesting the disruptive events they were forced to navigate. Extreme volatility was all too often the prevailing backdrop; the ‘Liberation Day’ tariffs crash, ongoing geopolitical conflict, a US credit rating downgrade and increasing questions about AI-led market momentum.

Most asset classes delivered stellar performance this year, but investor focus is now clearly on the year ahead. We believe many of last year’s drivers will remain primary catalysts for 2026. Markets are perhaps moving more into a ‘show-me’ mode regarding AI-led productivity assumptions embedded in some equity valuations. There is a clear expectation of further rate cuts in the US, but this is not inevitable with inflation remaining sticky. And who knows if and when the conflict in Ukraine will eventually come to a conclusion. Clarity on all these factors will undoubtedly impact markets over the next 12 months.

Valuations will also be a focus, certainly for equity markets, where there is an unmistakable feeling of nervousness given recent performance. However, while elevated, most equity markets are not presently at extreme or unprecedented levels. Within private markets, a favoured destination for investors in recent years, the factors driving support are not transitory, but multi-year and enduring.

The CIOs from our Equities, Fixed Income and Private Market teams discuss all these issues in this year-end edition of Investment Perspectives. Their conclusion? Now more than ever selectivity will be key to securing investment success in 2026. Pockets of opportunity always exist across asset classes for investors prepared to focus on the fundamentals rather than ride market momentum.

Can the wave of optimism continue?

Tristan Hanson,
Co-Manager, M&G Episode Macro Strategy

Key takeaways

- Most major asset classes performed well in 2025, despite repeated shocks. As we approach 2026, investor concerns have grown about elevated valuations, credit quality and sovereign debt levels.
- Unlike the 1999/2000 dotcom bubble, today's artificial intelligence (AI)-focused companies are profitable and showing strong growth. However, there is scope for disappointment if some of the planned expenditure on AI proves excessive or somewhat cyclical.
- Central bank policy and inflation will be pivotal in 2026; anticipated US rate cuts may be challenged if inflation remains above target, impacting both bonds and equities.
- There will be unforeseen events in the year ahead and success will depend on how investors react to surprises, rather than on predictions.

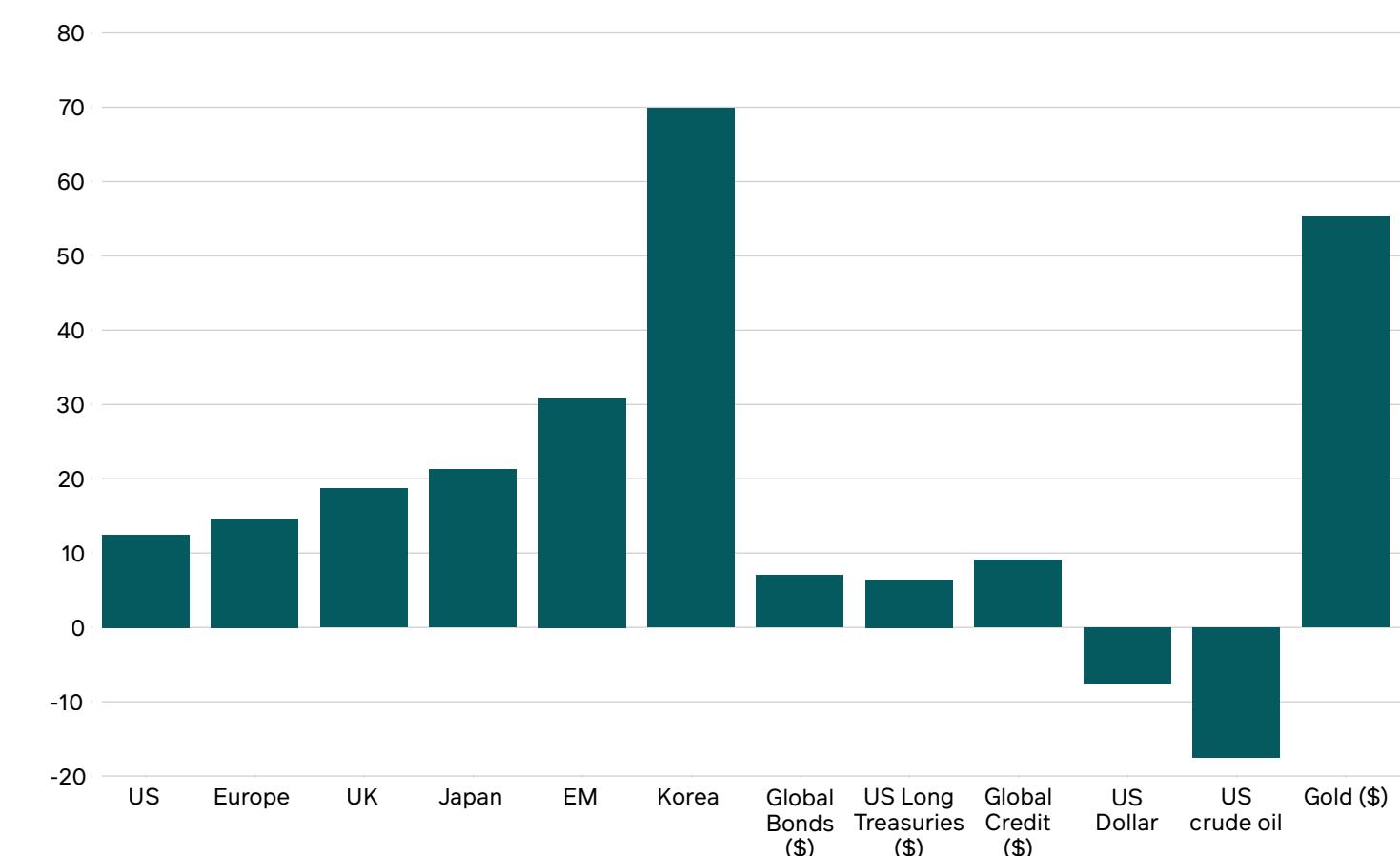
2025 has been a tremendous year for many investors. At the time of writing, most of the major asset classes have delivered very strong investment returns, with many stock markets reaching record highs.

Markets have been resilient through repeated shocks, not least Liberation Day in April. Some of the outcomes are surprising. Among equity markets, South Korea's c.70% rise stands out, especially as the market narrative at the start of the year was focused on US exceptionalism. The S&P 500 Index rose but lagged many other markets, including the UK, Japan and emerging markets.

Despite buoyant markets, towards year end, a sense of unease has grown among investors. Elevated equity valuations, abrupt volatility in precious metal prices and worries over credit quality have been added to a list of existing concerns that included policy unpredictability and sovereign debt levels.

So what are we to make of the current investment backdrop? With the caveat that we can't predict the future, what are the key issues that investors need to think about in 2026?

2025: A year of mostly positive returns



Source: LSEG Datastream, 20 November 2025. US: S&P 500; Europe: Stoxx 600; UK: FTSE All-Share; Japan: Topix; EM: MSCI EM; Korea: Kospi; Global Bonds: Bloomberg Global Aggregate; US Long Treasuries: Bloomberg US Long Treasury; Global Credit: Bloomberg Global Corporate; US Dollar: Dollar Spot Index (DXY); Crude Oil: West Texas Intermediate; Gold: LBM \$ per troy oz. Returns in local currencies unless stated. Past performance is not a guide to future performance.

Valuations – boom or bubble?

One of the big questions investors are asking is whether valuations have become too elevated. The S&P 500 Index is currently trading on a 12-month forward price-to-earnings ratio of around 23, significantly above its long-term average of 16 times¹. There are also concerns about valuations in the bond market, where credit spreads have narrowed near to their lowest levels in 20 years².

In particular, there are concerns that we might be in an AI bubble, inflated by soaring prices of AI-related technology and semiconductor stocks.

Whether we are in a boom or a bubble is hard to know. What is arguably more helpful is to try and assess the degree of optimism reflected in market prices and look for signs of emotionally driven behaviour: do we see fear of price declines or fear of missing out (FOMO)?

At present, investors appear focused on returns rather than worrying about the risk of loss. This suggests a degree of complacency.

This time is different

Today's situation is often compared to the 1999/2000 dotcom bubble. My investment career started at the very end of the 1990s. At the time, it felt like a gold rush for internet stocks, most of which were deeply unprofitable. In that sense, today's environment is definitely different: the companies at the centre of this AI story are reporting very strong revenue and earnings growth.

Recent commentary from a leading technology company suggests spending on AI will only increase in the years ahead, although as time passes investors will focus on whether such spending is generating a sufficient return on investment.

With considerable excitement about the potential of certain companies to make money from AI, there is scope for disappointment if some of the planned expenditure proves excessive or somewhat cyclical.

Although elevated asset price valuations do not necessarily signal a bubble, they could mean potentially lower future returns. There is also less compensation for risk if things do not turn out as expected.

In 2025, the best performing markets proved to be the ones that had low expectations at the start of the year. In 2026, could we see a similar pattern as investors seek to diversify beyond expensive AI stocks and consider more attractively valued stocks in the rest of the market or even look for value in regions such as Europe and emerging markets?

¹Source: John Butters, 'Highest Forward 12-Month P/E Ratio For the S&P 500 in More Than 5 Years', (insight.factset.com), November 2025.

²Duncan Lamont, 'Schroders Credit Lens October 2025: your go-to guide to global credit markets', (schroders.com), October 2025.

Central banks back in focus

AI has dominated investment discussions lately, but central bank policy is likely to become more important in 2026. Where inflation goes in the coming months will likely play a pivotal role for investment portfolios.

The market is expecting roughly 100 basis points of interest rate cuts in the US next year, despite a forecast that inflation will be closer to 3% than 2%³. If inflation data is problematic in 2026 then those rate cuts will come into question, which will pose a challenge both to bonds and equities.

If inflation remains persistently above the Federal Reserve's (Fed) 2% target in 2026, while the labour market continues to weaken, policymakers may find themselves with a difficult decision.

Debt and deficits

The appointment of a new Fed chair next year could also influence the direction of interest rates. President Trump has repeatedly called for lower interest rates and he may use this opportunity to select a candidate who is aligned with his thinking.

Given the scale of the US government debt – over US\$38 trillion⁴ – lower borrowing costs would make a significant difference to government finances. However, the US is not alone in facing budget pressures from deficits and ageing populations; France was in the headlines this year but most developed economies are grappling with rising debt levels.

This is arguably one of the reasons many investors are mindful of risk in government bonds. However, given that the real (inflation-adjusted) yields available on long-dated government bonds are more attractive than they have been in many years, might investors look more favourably on government bonds in 2026, especially if rates fall?

³S&P Global, 'Global Economic Outlook Q1 2026: AI Tailwinds Boost Otherwise Weak Growth', (<https://www.spglobal.com/ratings/en/regulatory/article/global-economic-outlook-q1-2026-ai-tailwinds-boost-otherwise-weak-growth-s101659149>), November 2025. U.S. Treasury Fiscal Data, 'What is the national debt?', (<https://fiscaldata.treasury.gov/americas-finance-guide/national-debt/#:~:text=What%20is%20the%20national%20debt,3>), November 2025.

⁴U.S. Treasury Fiscal Data, 'What is the national debt?', (<https://fiscaldata.treasury.gov/americas-finance-guide/national-debt/#:~:text=What%20is%20the%20national%20debt,3>), November 2025.

Resilience and diversification

There are plenty of challenges facing the world in 2026, but the global economy has shown resilience in recent years. The consensus among economists is for a year of moderate growth and inflation in 2026, although forecasts rarely play out as anticipated.

US economic growth is relatively solid, and the combination of lower interest rates and tax cuts from President Trump's One Big Beautiful Bill could provide tailwinds in the year ahead. However, inflation, consumer confidence and employment trends will be things to keep an eye on in 2026.

Beyond the US, the German fiscal stimulus and increased defence spending could start to have a positive impact on the German and European economies. In Asia, countries, including China, will have to negotiate Trump's trade policies, but unlike their developed counterparts they are not facing fiscal challenges.

Inevitably, there will be unforeseen events in the year ahead. However, there are reasons to believe markets can remain resilient but we may also discover if investors' optimism is justified. In this complex environment, adopting a disciplined, diversified approach could potentially help investors find long-term value in the year ahead.

Valuation framework: Assessing valuation signals across a spectrum of asset classes

Stuart Canning,
Global Macro Fund Manager

Key observations

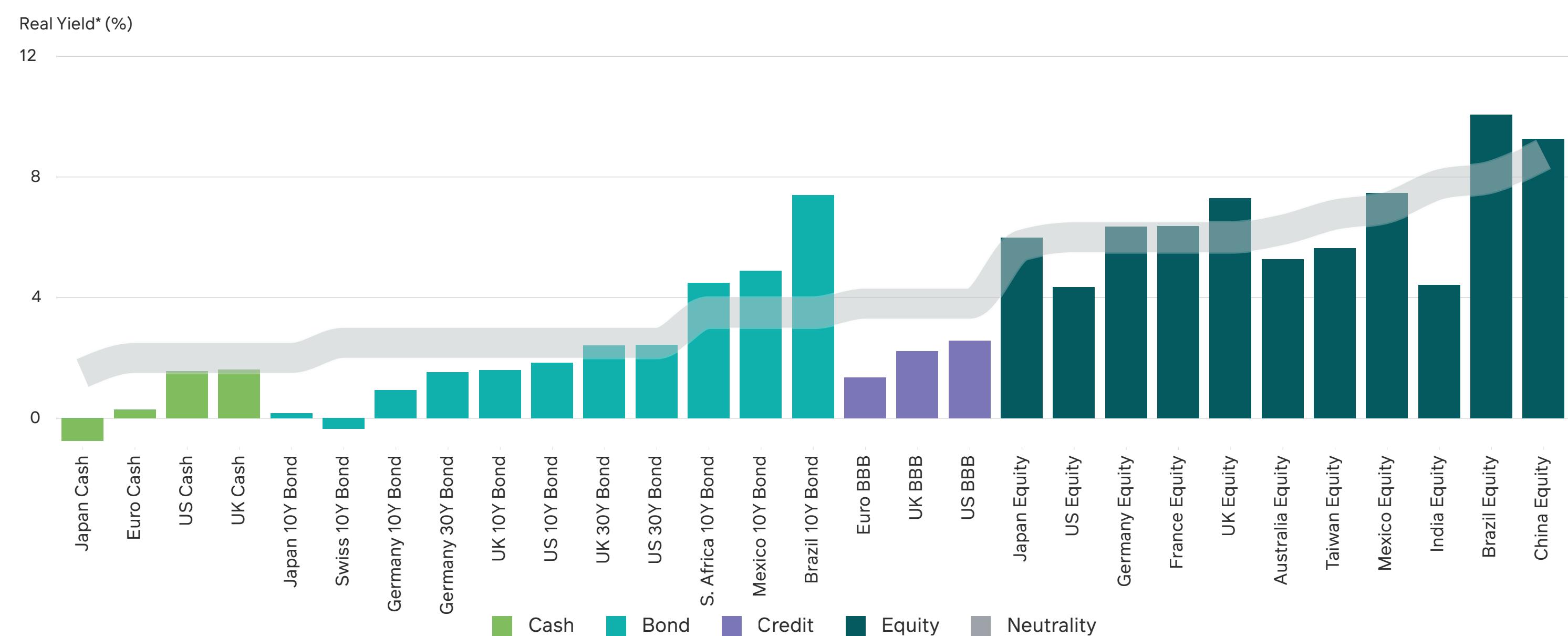
- The main story of 2025 has been strong performance of 'cheaper' equity markets (particularly those that had previously been unloved).
- Assets that had seemed less attractive, such as US and European credit (spreads) and equity markets in the US, Australia and India, remain at similar valuations.
- This has left most global assets looking relatively neutrally priced, with some pockets looking more stretched.
- Policy rate cuts have resulted in lower real rates on cash in the US, UK and Europe.
- However, government bond yield curves have steepened, most notably in Japan, Germany and France.

The valuation framework compares the real yields of a spectrum of global assets with an assessment of their 'fair value', which is calculated using the M&G Global Macro team's proprietary analysis.

When an asset's real yield is higher than the estimate of fair value, it is considered to be attractively valued; if lower, the asset's current valuation would be considered expensive. Such valuation signals typically have low predictive power over shorter time periods but can be a guide to prospective returns over the longer term.

Real yield against an assessment of fair value

Sample of assets, showing a real yield against an assessment of neutrality



*Real yields. Cash/bonds are nominal yields deflated by 10y breakeven inflation. Exceptions are Switzerland and India (no breakeven) and UK (breakeven is RPI) where 20y average CPI figure is used. • Equities use 12m forward EPS deflated by Bloomberg consensus 12m forward inflation expectation over price. The above data is a hypothetical representation for illustrative purposes only and is not representative of any M&G product or strategy. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown. Source: Bloomberg as at 14 November 2025.

Valuation overview

The following observations relate to the valuation framework.

The bigger picture

Fewer obviously ‘cheap’ assets today – Areas that had offered higher than normal compensation for risk have delivered very strong gains in 2025. Regions like China, Korea, Mexico and Brazil were standouts.

Less margin of safety for many assets – Credit spreads in the US and Europe remain tight and valuations in the US, Indian and Australian equity markets also look relatively unattractive versus history.

Real cash rates lower and curves steeper – Relatively material cuts to policy rates in 2025, coming as they did without major growth shocks, were supportive for the valuation of most assets. Longer duration bonds now offer a more attractive pick up versus cash.

Cash

Policy easing has reduced pressure on other assets – Cuts to policy rates have made cash a less compelling proposition versus other assets, particularly as inflation remains a concern. This has been a factor in the strong returns investors have enjoyed in most assets this year.

European real cash close to zero – Policy easing by the European Central Bank has taken prevailing cash rates to very low levels once again. Perhaps surprisingly given conventional wisdom at the start of the year, this has not been associated with euro weakness relative to the US dollar, which has faced its own ‘debasement’ narrative.

Japanese real cash rates relatively unchanged despite the noise – Much has been made of structural, political and policy changes in Japan though prevailing cash rates have changed little so far.

Bonds

Steeper yield curves – While policy rates have generally fallen, longer term government debt yields have risen slightly. Concerns about sovereign indebtedness have been one factor behind this steepening.

Many emerging market bonds and currencies have performed well – As investors have generally been happy to hold equity and credit markets at lower levels of yield, so emerging market bonds (and currencies) have performed well in the main.

Bouts of bond volatility – Developed market long-dated bonds have traded in a range, with bouts of sharp weakness from time to time. In Brazil, yields are slightly higher today than November 2024 but are much recovered from a sharp sell off in December, which set up investors for strong returns in 2025 were they prepared to step in.

Equities

Strong gains in previously unloved areas – There was a huge amount of negativity around markets like Mexico, China, Brazil, and Korea, at the start of 2025 given fears of tariff action from the US. Such fears can often provide the set up for strong returns, and there were blockbuster gains from each of these markets.

General comfort with equity risk today – Though most equity markets still look reasonably valued after the strong gains of 2025, many markets are at the least attractive they have been for some time. That investors have apparently become more comfortable with equity risk against a backdrop of Trump tariffs, geopolitical risks, government shutdowns and the like, gives the lie to the ‘markets hate uncertainty’ cliché.

Greater reliance on profits delivery – Markets like the US, Taiwan, and India that appeared less attractive were able to deliver strong returns in 2025 due to the strength of earnings delivery. With fewer markets trading at ‘cheap’ levels (with the possible exception of areas like global healthcare or more ‘defensive’ European stocks) even more markets are likely to be reliant on profits delivery from here.

CIO Perspective: Are we in an AI bubble? That's the wrong question

Fabiana Fedeli,
CIO Equities, Multi Asset and Sustainability

Key takeaways

- We are only at the very start of the widespread application of AI, yet 'AI bubble' has been a much-used expression of late.
- If there is an AI bubble, it is not in the technology but in the valuations of a specific group of companies.
- Where companies go from here will depend on supply bottlenecks and the displacement potential of new technologies.
- As the tide that lifted all boats starts to recede, we believe this is the time to let go of passive exposure to AI stocks and take a more active investment approach.
- There are still areas where we believe markets are not yet pricing AI's contribution to productivity transformation.
- As we enter 2026, the question for investors should not be 'Are we in an AI bubble?', but rather 'Can we identify the companies that are quietly taking advantage of what AI has to offer, and whose valuations allow for upside?'.

AI has become the biggest driver of markets since late 2022, when ChatGPT launched. Over that period, the S&P 500 has added roughly 24 trillion dollars in market value. Approximately 75% of that increase is linked to companies involved in AI infrastructure, semiconductors or hyper scaling⁵. More recently, many of our clients have been asking us if the AI bonanza is about to come to a sudden halt. Hence, looking at 2026, we thought it would make sense to tackle the growing headlines of an 'AI bubble' about to burst.

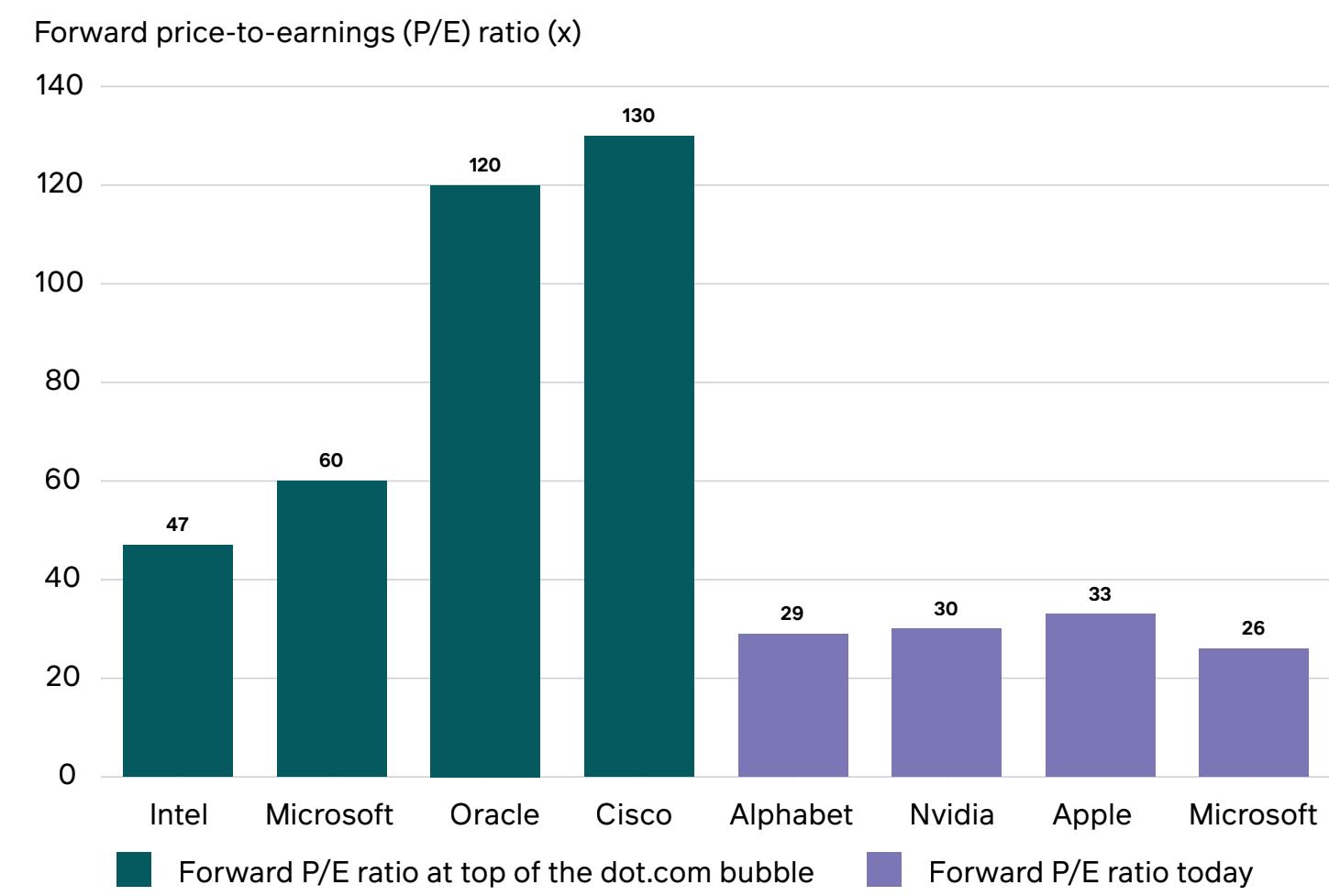
AI is not a bubble. Let's agree on that. AI is a technology that has developed into a powerful tool, generative AI, capable of bringing structural change to the way we live and work. AI's power is in its pervasiveness, its ability to be applied to so many of our daily processes, products and services. Whether it is in helping us manage our email inbox, improving the depth and breadth of healthcare research, raising the efficiency of cargo routes, or even replacing our better halves in creating itineraries for holidays. More timely, accurate and, for sure, less opinionated than my husband. And it doesn't leave bookings to the last minute.

We are only at the very start of broader application. And yet, 'AI bubble' has been a much-used expression of late. If there is a bubble, it is not in the technology but in the valuations of a specific group of companies – both private and listed. As is typical at the start of new structural developments, investors have flocked to the best known and most telegraphed names associated with AI.

Mind you, this doesn't feel like 2000. At 35x trailing 12m price to earnings (P/E), Nasdaq's valuations may feel high, but they are not as high as the c.100x trailing 12m P/E reached in 2000 (data from those days shows various levels up to 200x, depending on whether or not unprofitable companies were included).

For those of us who lived through the dotcom fiasco, investors appear more discerning now than at that time, as many of the top performing companies this year are actually profitable. Whether this time is different or not (in our experience it's never completely different), what are the likely market outcomes for those stocks that have seen significant rerating?

**Then and now: Today's valuations
are far from 2000 levels**



**“If there is a bubble,
it is not in the
technology but in the
valuations of a specific
group of companies.”**

**Where to now for stocks that have
seen a significant rerating?**

One possible outcome is that such companies continue to print ever better earnings, even in the near term – deeming current valuations, and related optimistic expectations, simply realistic. In this scenario, all the current doom and gloom would have been for nothing.

A second potential outcome – and we have seen this before – is that investors have overestimated the near-term growth opportunities of AI-derived earnings for the companies that make the essential hardware and build the critical infrastructure, from chips to data centres.

Perhaps bottlenecks in hardware production or power supply will drive a slowdown in development and adoption. This would imply a temporary fall in share prices followed by a rebound once fundamentals catch up.

The third possible outcome is that the current technology supporting AI is, at some point, displaced by a more powerful one and the winners of today will be replaced by the leaders of tomorrow. The bottlenecks that could slow the adoption of AI, mentioned in the second scenario, may trigger a shift in the technology supporting AI in the search for efficiency.

In a recent piece '**From Electrons to Photons**', our Co-Head of Asia Pacific Equities, Carl Vine, argues that one avenue to solve energy bottlenecks in AI development is by changing the compute medium from electrons to photons. Across academia and industry, there is accelerating development in photonic computing and optical interconnects.

All of this, however, will take time. In the short term, there is no choice but to continue optimising the existing architecture based on the GPU+HBM⁶ model as far as physics will allow. Also, a new technology will not necessarily displace the current incumbents, as they could adapt to new technology and maintain leadership even if and when a new, more efficient technological medium replaces the current one.

What does this all mean for investors?

While it is always interesting to ponder the future, in the end, our job as investors is to figure out how to make returns in the present, accounting for all possible scenarios. Any of the three outcomes discussed above have a decent chance of occurring. Of course, higher valuations make the first outcome more difficult to realise, albeit not impossible. And the likelihood of the third outcome is higher over the longer term.

As investors, we know that getting the timing right is just as crucial as investing in the right asset. The answer, for us, is to cast a wider investment net to capture AI-related opportunities. Importantly, as the tide that lifted all boats starts to recede, this is the time to let go of passive exposure to AI stocks, and take a more active investment approach.

⁶The GPU+HBM model refers to the integration of high-performance graphic processing units (GPUs) with High Bandwidth Memory (HBM) technology, which significantly enhances memory bandwidth and performance in AI and machine learning applications.

Potential AI winners

Besides the companies that we refer to as AI 'enablers' (companies supplying the key technology – manufacturing semiconductors, providing data collection, data management, communication services or cybersecurity), we believe there are two other sets of winners: those firms that deploy AI to reallocate economic resources more efficiently, and those firms that support such reallocation through their services.

These are companies that are not deploying enormous amounts of capital to build their AI, rather, they are utilising the AI infrastructure of other companies. Many of these firms have not seen the same valuation uplift as the enablers, as markets are not yet pricing AI's contribution to productivity transformation. Yet, we are already seeing AI productivity enhancements across different areas, such as call centres, software coding, predictive analytics, and advertising.

As AI solutions mature, we believe there will be a step function increase in the use of AI in corporate settings that will unleash growth acceleration and margin improvements. Companies across different sectors have already started this journey.

Separating hype from substance as a recipe for investment returns in 2026?

As investors, we have learnt that painting the whole market with the same broad brush is not the best recipe to deliver returns. The question we ask ourselves as we enter 2026 should not be whether we're in an AI bubble, but can we identify which companies are quietly taking advantage of what AI has to offer, and whose attractive valuations allow for upside. As always, the key is rigorous due diligence to separate hype from substance and identify the winners of tomorrow.

CIO Perspective: Income is back

Andrew Chorlton,
CIO, Fixed Income

Key takeaways

- From the low-interest rate doldrums of the 2010s, fixed income is delivering income once more. With attractive real yields, we believe government bonds can offer investors an attractive source of income, without taking on additional credit risk.
- Central bankers are still walking the delicate tightrope between growth and inflation. With increasing political pressure and the appointment of a new chair of the Federal Reserve, 2026 will likely be an important year for central bank independence, paving the path for the years ahead.
- As the developed world continues to face macroeconomic challenges, diversification will be more important than ever. Supported by generally lower debt levels, both in sovereigns and corporates, continued strong growth and decreasing dependency on the dollar and the US economic cycle, the emerging market debt universe appears an increasingly attractive alternative to US assets.

Paradigm shift

In a year marked by political, trade and economic uncertainty, fixed income markets have delivered robust returns. This reflects not only balanced fundamentals, but also a paradigm shift.

The decade following Global Financial Crisis was defined by low interest rates and quantitative easing (QE). During this period, fixed income was manipulated, as central banks bought bonds during QE to artificially force the yield curve lower and stimulate economies. As a result, risk was repriced to the point that there was very little compensation for buying bonds. By contrast, 2025 has seen yields on government bonds at a healthy starting place.

Given the attractive real yields (the yield after accounting for inflation) on offer across fixed income markets globally, bonds offer good value compared to equities, in our view. Given uniformly tight credit spreads across investment grade (IG) and high yield (HY), we see the

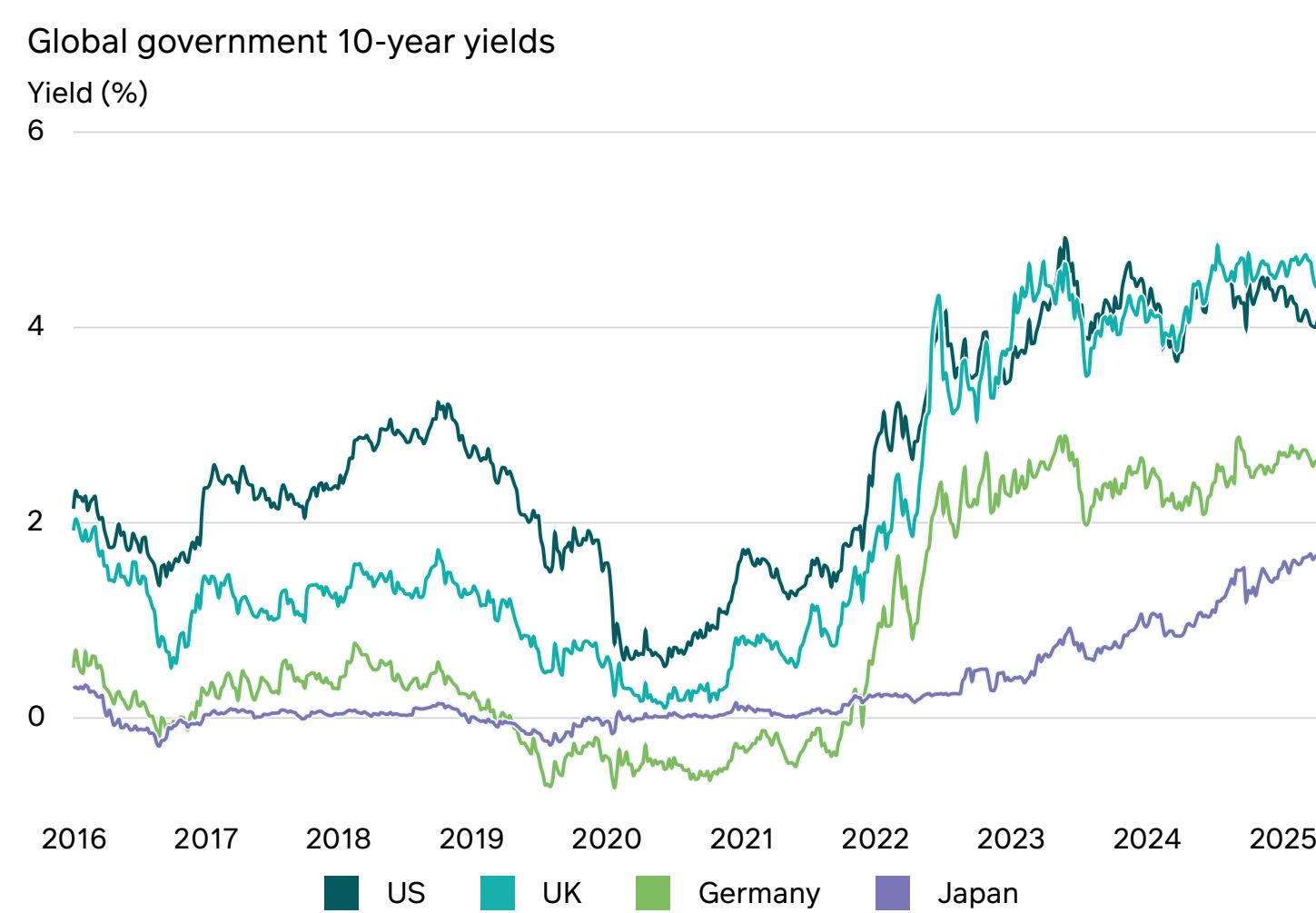
biggest opportunity in government bond yields, which currently make up about 80% of the all-in yield in IG credit. Furthermore, given the level of outstanding government debt and the issuance to come, it is truly a buyer's market for bond investors. These elevated yields could offer bond investors an attractive source of income without taking on additional credit risk, especially as rates fall and we wait for historically tight credit spreads to widen.

We believe that there is an asymmetric risk/return profile in duration at the moment. The general direction of rates is more likely to be downwards given the underwhelming level of growth in developed markets and weakness that we are seeing in the labour market. Given that the fiscal policy lever – which has been the weapon of choice when growth issues have been encountered over the last 25 years – is now exhausted, central banks will need to turn to monetary policy in order to stimulate the economy. This is supportive for duration, and for fixed income investors.

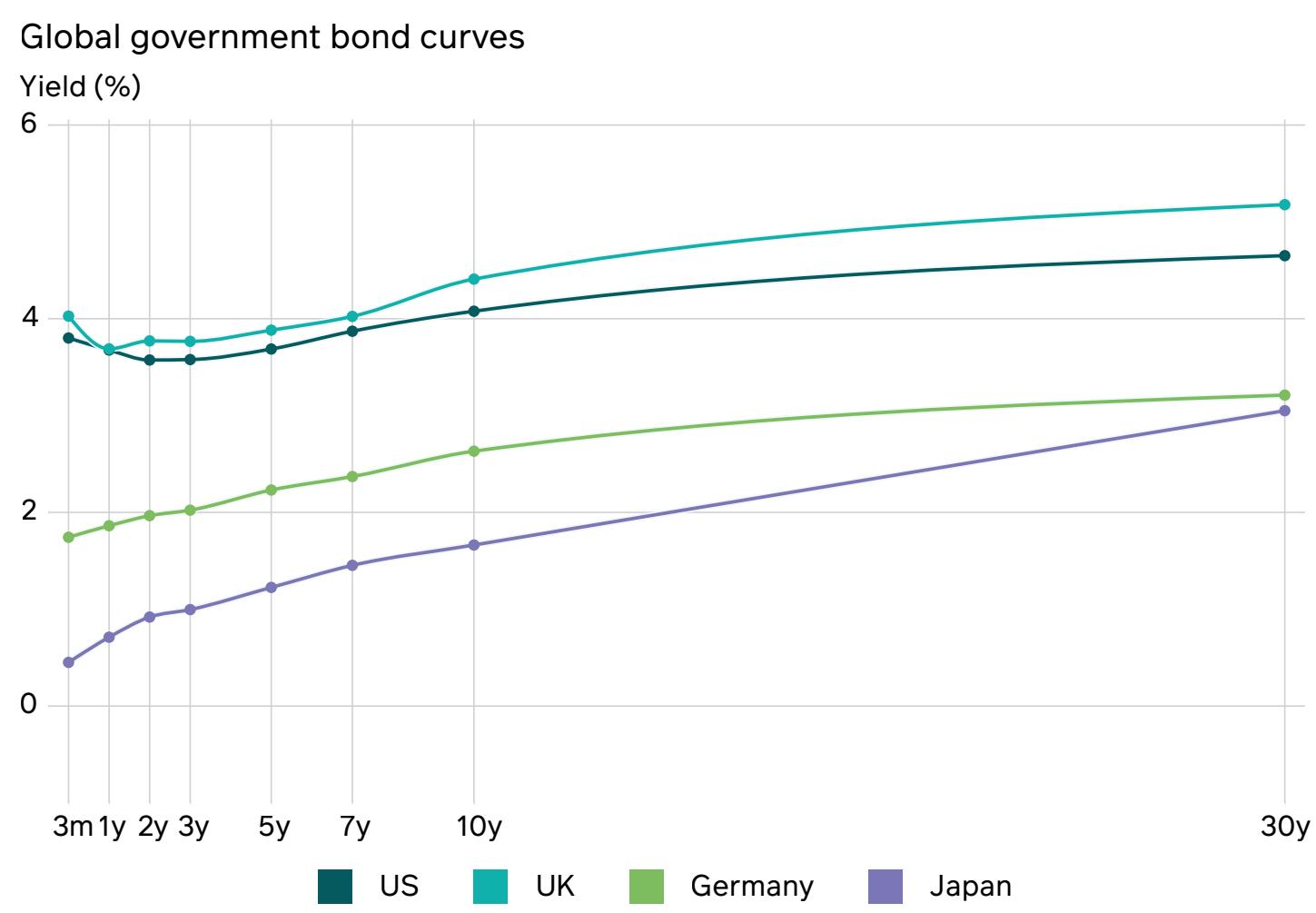
Government bond curves globally have steepened dramatically in the last 12 months, partly driven by fiscal sustainability concerns. This has revitalised a lever that has long been forgotten about by many active bond managers – curve trades. We feel that the combination of these factors means that we are in the midst of a fantastic opportunity for active management in global bond markets, which could offer performance-driving returns in portfolios; bonds are no longer just a boring 'need to have' allocation.

Global government bond yields

Yields remain attractive, curves steeper on back of fiscal concerns



Source: Bloomberg, October 2025.



A difficult balance

Despite the likely continuation of monetary easing in 2026, central bankers across the world are walking a difficult tightrope. That is, the balance between keeping inflation around their target rate and sluggish growth rates across the developed world. We can see visible signs of a softening in the economy, particularly a weakening labour market. However, mismanaged inflation remains a potentially corrosive force, one that central banks may not yet have control of and is front of mind given the recent battle scars of 2021-22. Central bankers are under a lot of pressure both from electorates and the governments – most notably in the US – to continue their rate cutting cycle. However, there is a risk that cutting rates before inflation is firmly under control could anchor inflation expectations higher; the longer term implications of which are much more serious.

This balancing act is made more complicated by the renewed political pressure the Fed has come under this year, ranging from open criticism from the President to attempts to oust members of the Board of Governors. 2026 will be an important year in maintaining the central bank's independence as Jerome Powell's term as Fed Chair comes to an end in May 2026. In the short-term, there is a concern that the President could use the process to extol the need for further interest rate cuts which would help him boost the economy. However, the long-term impact would be an undermining of credibility in arguably the most important central bank in the world.

As different regions grapple with the various economic moving parts, there is likely to be continued divergence in the pace and scale of central bank easing cycles, offering the opportunity for an active manager to take advantage of regional differences.

While the European Central Bank may have reached a pause in its cutting cycle, the region received a longer-term growth impetus in 2025. Germany decided to release its 'debt brake', a hard ceiling on deficit spending, as well as committing to government spending on defence and infrastructure. While this move should provide a boost to growth over the next decade, it also marks a first step to joining other EU countries in pursuing fiscal profligacy. It is yet to be seen whether the spending boost will counteract the negative impact on its debt-to-GDP ratio. This again presents an opportunity for active managers to generate alpha in global bond markets, in our view.

Diversifying into emerging markets

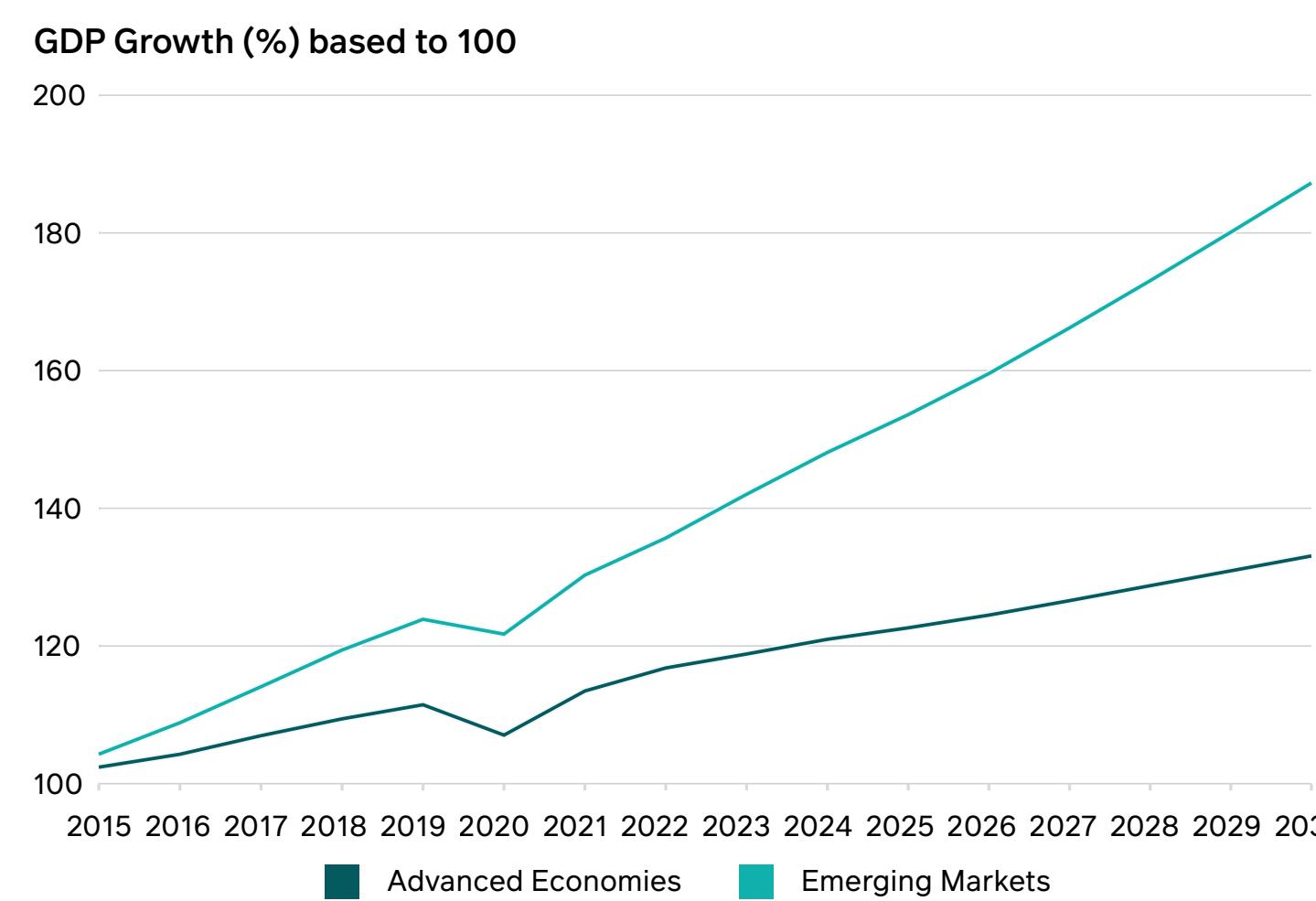
In a contrast to the macroeconomic uncertainty, fiscal deterioration, and volatility that has challenged developed markets, emerging markets (EM) have exhibited significant resilience over the last few years, proving a compelling alternative to DM.

Supported by generally lower debt levels, both in sovereigns and corporates, continued strong growth and decreasing dependency on the dollar and the US economic cycle, EM debt has emerged as an attractive space for fixed income investors, particularly for those seeking diversification.

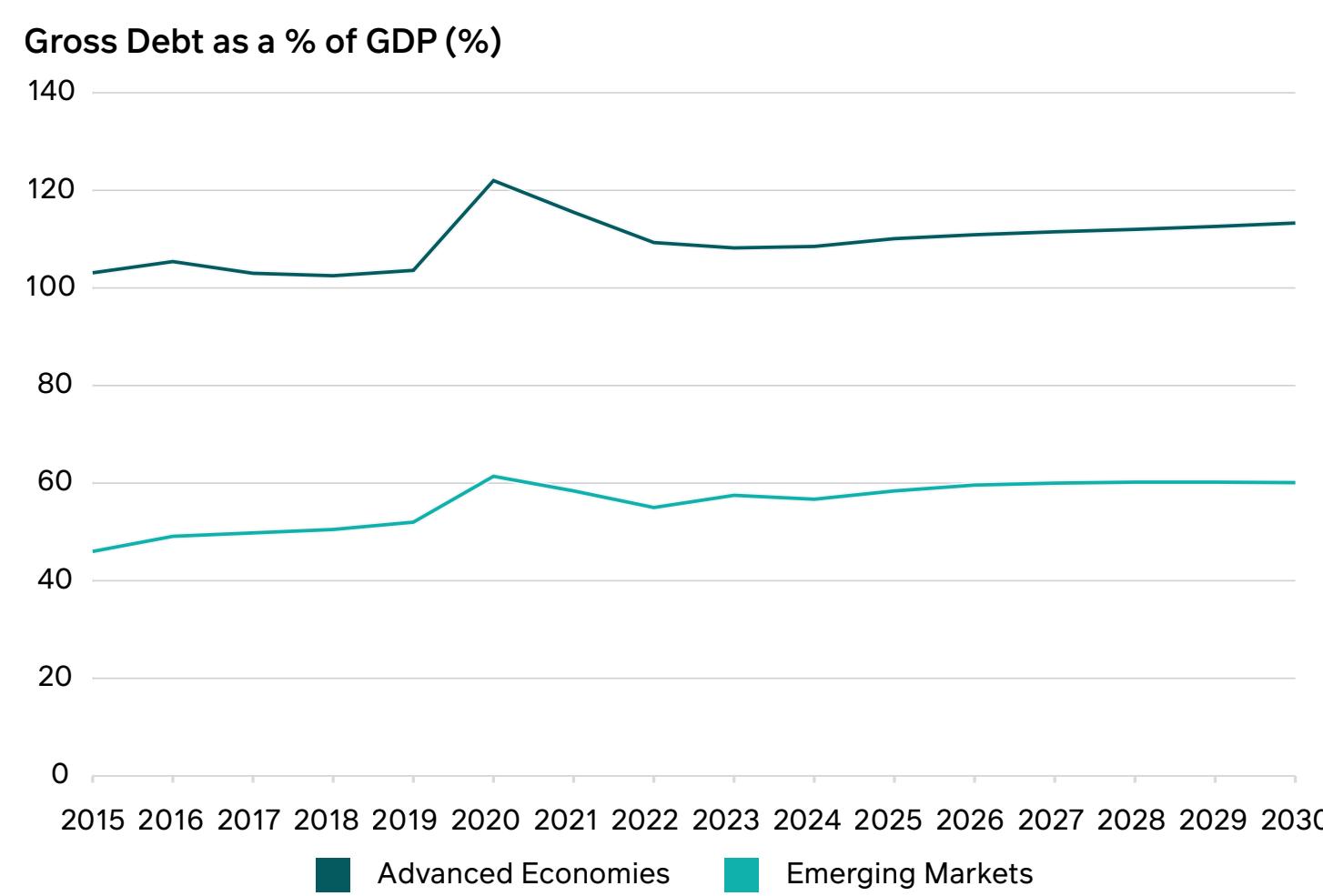
Credible monetary and fiscal frameworks are becoming more widespread, helping to build investor confidence. We recognise that EM is no longer as defined by broad regional themes but by country-specific stories, policy credibility, and differentiated growth paths. This is where we see the greatest opportunity, particularly for investors who take a bottom-up approach to country selection.

GDP growth and gross debt

Emerging markets robust economic growth supported by a lower debt burden relative to developed markets



Source: M&G, IMF, July 2025. Latest available data.



Looking to Asian bonds

Over the past decade, the Asian bond universe has grown significantly, both in terms of breadth and depth; growing from US\$10.5 trillion in 2014 to \$34.0 trillion in 2024. Today, Asia's local currency market alone has surpassed that of the EU in size, while its hard currency market is similar to the size of the US HY market.

For investors searching for positive risk-adjusted returns and diversification away from the US, Asian bond markets stand out. Strong economic fundamentals, supply chain flexibility, as well as resilient domestic consumption provide a stable growth backdrop. At the same time, accommodative monetary conditions will continue to support local currency bonds. Meanwhile, improved credit fundamentals and government support provide headroom for Asian credit issuers to ride through bouts of volatility. Because if there is one thing that is certain, it is that there is always more uncertainty on the horizon.

CIO Perspective: Expansion, innovation and resilience

Emmanuel Deblanc,
CIO, Private Markets

Key takeaways

- The recovery within private markets continues with fundamentals intact and market dynamics supporting its long-term appeal.
- European rather than US private credit may prove a more reassuring allocation for private credit investors in 2026.
- New fund structures and appreciation of the merits of the asset class is increasing the investor base for private markets.

The momentum continues

Over the last few years, private markets have certainly been on a journey. Propelled by a trough in interest rates post COVID in 2020, institutional investors enthusiastically embraced the asset class. This positive momentum was then sustained over the next 12-months driven by a surplus of capital chasing a limited number of deals. However, momentum then slowed, principally due to ongoing macroeconomic and geopolitical factors. While it is fair to say there has been a modest rebound throughout 2025, this recovery has been uneven: fundraising remains a challenge in some areas, distributions (in private equity) are lagging, and liquidity pressures persist.

Looking forward to 2026, however, I think there are grounds for optimism. The interest rate environment now appears more stable, the IPO market is beginning to re-open (facilitating a recycling of capital), and there is evidence of a renewed focus on operational value creation.

“Growth is being driven by enduring, long-term factors.”

Within private equity, underwriting has become more disciplined, and private credit continues to expand, continuing to blur the lines between public and private lending. There is also pent up demand across private markets to deploy dry powder and exit a backlog of mature assets, which may drive near term deal activity levels.

Private credit – momentum or reset?

Focusing on private credit, this continues to be one of the most dynamic segments within private markets and as we enter 2026, with momentum remaining strong with increasing investor interest. The underlying drivers for private credit are not disappearing – the desire for increased diversification, yield enhancement and its floating rate appeal – these are all enduring qualities which investors should continue wanting.

What is evident though is the increasing chatter about the potential for systemic risk to be emerging in private credit. Addressing this head-on, a sense of perspective is called for. Yes, this is an asset class which has grown rapidly over a relatively brief period of time, but not without reason. The retrenchment by banks from certain lending areas has created broader financing needs that private credit has been well placed and able to fill. But this dynamic has far further to go, particularly in Europe. Growth is being driven by enduring, long-term factors.

However, for those who remain cautious, as we head into 2026, it is important to recognise investors have options, both in the area of the market they choose to invest in, and in the kind of manager they want to work with. There are two principal markets for private credit, the US and Europe. Comparing both, Europe has historically offered superior risk-adjusted returns relative to the US. Not only are European returns higher, but credit quality is superior with Europe offering higher interest cover and lower default rates⁷.

Thoughtful selection of an investment partner remains key for investors with manager approach, resources and risk tolerance all being potential differentiators, to name a few factors. In our view, selectivity, credit vigilance and experience remain critical in ensuring delivery of the best client outcomes in private credit.

Loan returns – Europe versus US market



*Europe: Credit Suisse Western European Leveraged Loan Index (CS WELLI Index, annualised).

**US: Credit Suisse US Leveraged Loan Index (CS US LL Index, annualised).

Source: M&G Investments, 30 September 2025

⁷Interest cover: Pitchbook, LBO Interest Rate coverage Ratios, 10-year average as of 30 September 2025. Default rates: LCD ELLI and US LLI 10-year default rates by issuer count as of 30 September 2025.

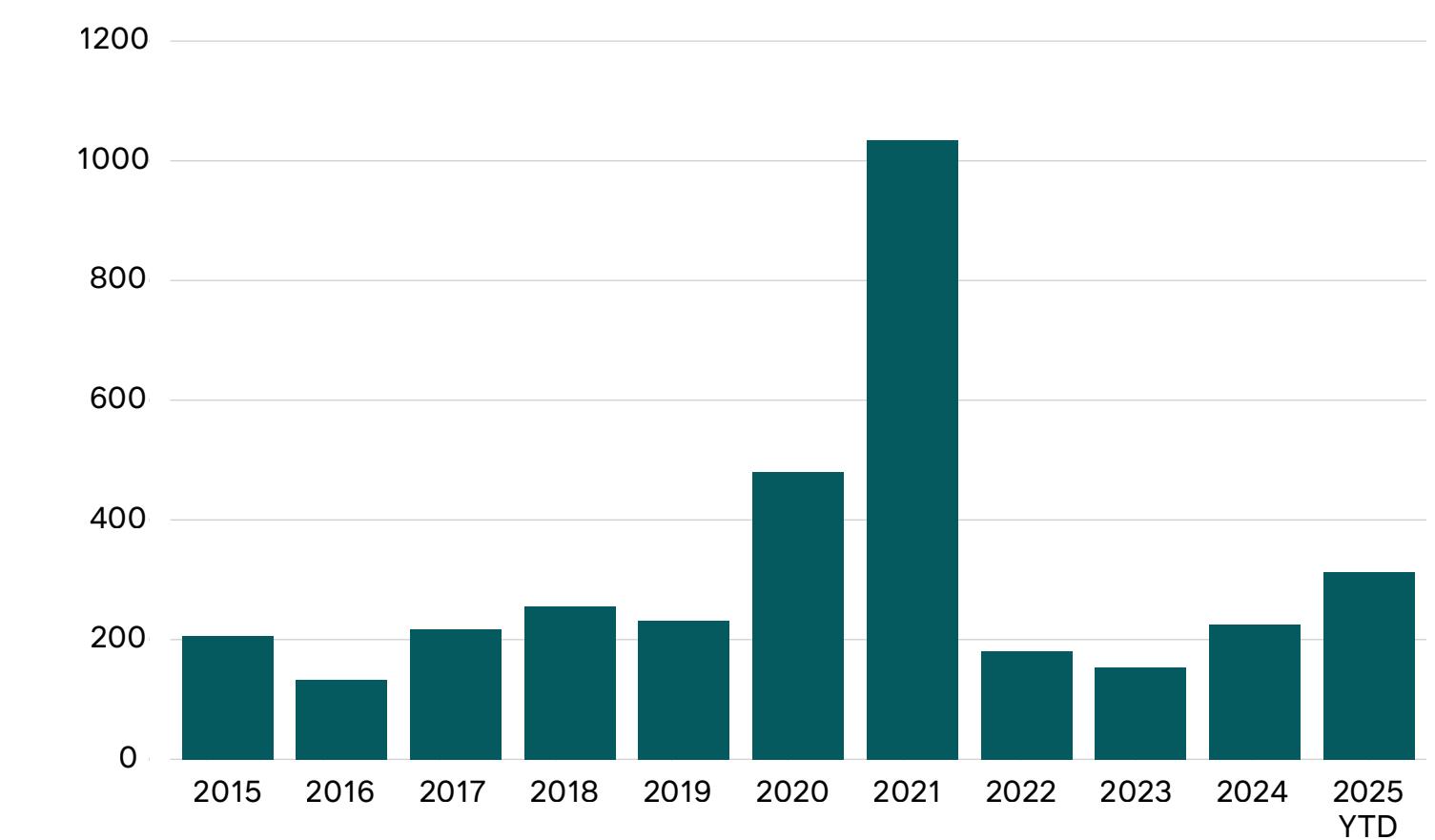
Diversification is driving opportunity

Other private market strategies present investors with differentiated sources of risk and return, an important attribute in the current macro and political environment. Within structured credit, asset-backed finance, for example, offers opportunities across a diverse array of credit pools – from consumer finance to equipment leasing – typically providing lower correlations to traditional credit markets. As with private credit, the trends driving structured credit are not transient, rather long-term factors which are being accelerated by innovation across the asset class.

Private equity – in transition

Private equity continues to reset post the 2021 peak with fundraising, deal activity and exits all firmly below 2021 levels (albeit in line with pre-2021 levels). Encouragingly, underlying operating performance remains healthy with high single digit annualised sales and EBITDA growth reported across private market indices. There are also signs the IPO market is mounting a partial rebound and demand is clearly there – evidence recent Circle Internet Group IPO 25X oversubscribed. What seems apparent is that there is a long tail of pent-up IPOs. If the rise in IPO activity continues into 2026, coupled with potentially some out-sized PE exits (top 5 VC backed companies are presently valued at c.US\$900billion⁸), top-line exit figures should improve and with it, investor confidence.

US IPOs



Source: StockAnalysis, as of 7 November 2025.

Considering the optimal private equity strategy heading into 2026, I see the most compelling opportunities sitting within truly transformative sectors. Tech-centric industries such as climate tech, fintech, cybersecurity and health tech, as well as those innovating within energy transition and leading environmental and societal change, are poised to deliver highly attractive returns. Further interest rate cuts will also likely prove a tailwind for private equity in 2026 supporting both transaction and exit activity. Lower borrowing costs reduce the cost of financing transactions as well as boost companies' bottom lines by supporting higher valuations.

"Further interest rate cuts will prove a tailwind for private equity in 2026."

2026: Transformation and opportunity

While uncertainty (as always) persists, I am confident the rapid growth witnessed over the last few years within private markets is set to continue. If anything, it may even accelerate as the 'democratisation of private markets' becomes far more of a reality. The launch of LTAFs and ELTIFs, together with the wider adoption of private market Evergreen funds, is certainly opening up this asset class to a far broader range of investors. This greater accessibility, coupled with improving market dynamics, should ensure private markets remain a core focus for investors in the year ahead.

Recovery underway but uneven; reinvention wins

Richard Gwilliam,
Head of Property Research

Key takeaways

- An uneven recovery, but structural forces, not short-term rebounds, will define next cycle.
- Capital is moving toward certainty and resilience, favouring assets that can withstand volatility and deliver sustainable growth.
- Outperformance will hinge on reinvention through ESG integration, technology adoption and strategies aligned with demographic and supply chain shifts.

Finding its footing

After a turbulent two-year stretch defined by falling valuations and frozen liquidity, global real estate is finding its footing. The sharp repricing which began in 2022, triggered by surging interest rates and geopolitical uncertainty, forced investors to rethink strategies, rebalance portfolios and confront structural shifts that were already reshaping the market. As 2025 draws to a close, the picture looks markedly different. Yields have rebased, sentiment is strengthening and recovery is in motion. While challenges remain, the conditions for a new cycle are beginning to take shape.

Capital finds new pathways beyond the US

Transaction activity is returning as refinancing pressures ease and pricing stabilises, signalling renewed confidence across key markets. In Europe, deal flow is recovering, with Q3

'Europe's structural reforms and APAC's pro-growth policies are reinforcing their appeal.'

volumes reaching €37 billion and full-year forecasts pointing to €210 billion – up 7% year-on-year. Prime yields have begun to compress; investors are increasingly drawn to assets with durable income and long-term growth drivers, even as overall volumes remain below historical norms.

Real estate markets in Asia Pacific (APAC) are also seeing improving conditions. Cross-border investment surged 88% in the first three quarters, as global capital reallocated toward markets offering policy support and lower financing costs. South Korea has emerged in recent years as a key hub alongside Japan and Australia, as institutional investors see its office and logistics markets growing in liquidity, transparency and scale.

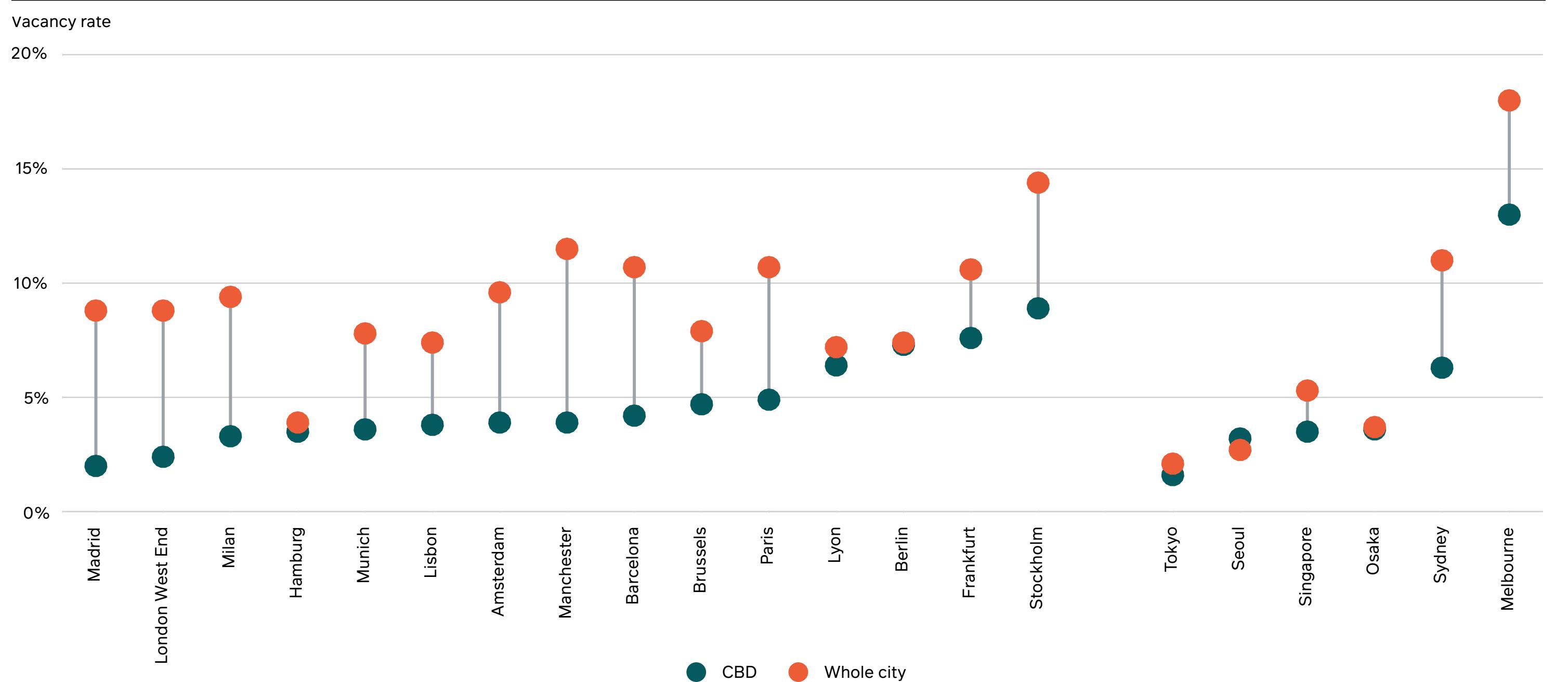
Meanwhile, sentiment toward US real estate has started to cool. Policy volatility, trade frictions and concentration risk have prompted some institutional investors to consider diversifying away from an overweight US allocation. Europe's structural reforms and APAC's pro-growth policies are reinforcing their appeal as regions combining stability with growth potential.

Sector outlooks reflect uneven recovery

The rebound is far from uniform. Offices exemplify the bifurcation now defining much of the market. In Europe, prime central business district (CBD) space dominates, accounting for the bulk of leasing activity, while demand for secondary locations continues to slide. Vacancy rates are stabilising for best-in-class assets, but weaker offices face mounting obsolescence risk amid hybrid work, ESG pressure and costly repositioning.

This divergence is also happening in APAC. For instance, in Sydney, net absorption in the last four years has focused mainly in the prime districts and the gap between prime and secondary rents has widened to a record 50% in 2025, up from 30% in 2022. The message is clear: quality, location and ESG compliance are non-negotiable in the new cycle.

Hybrid work reinforces gap between core CBD and peripheral locations



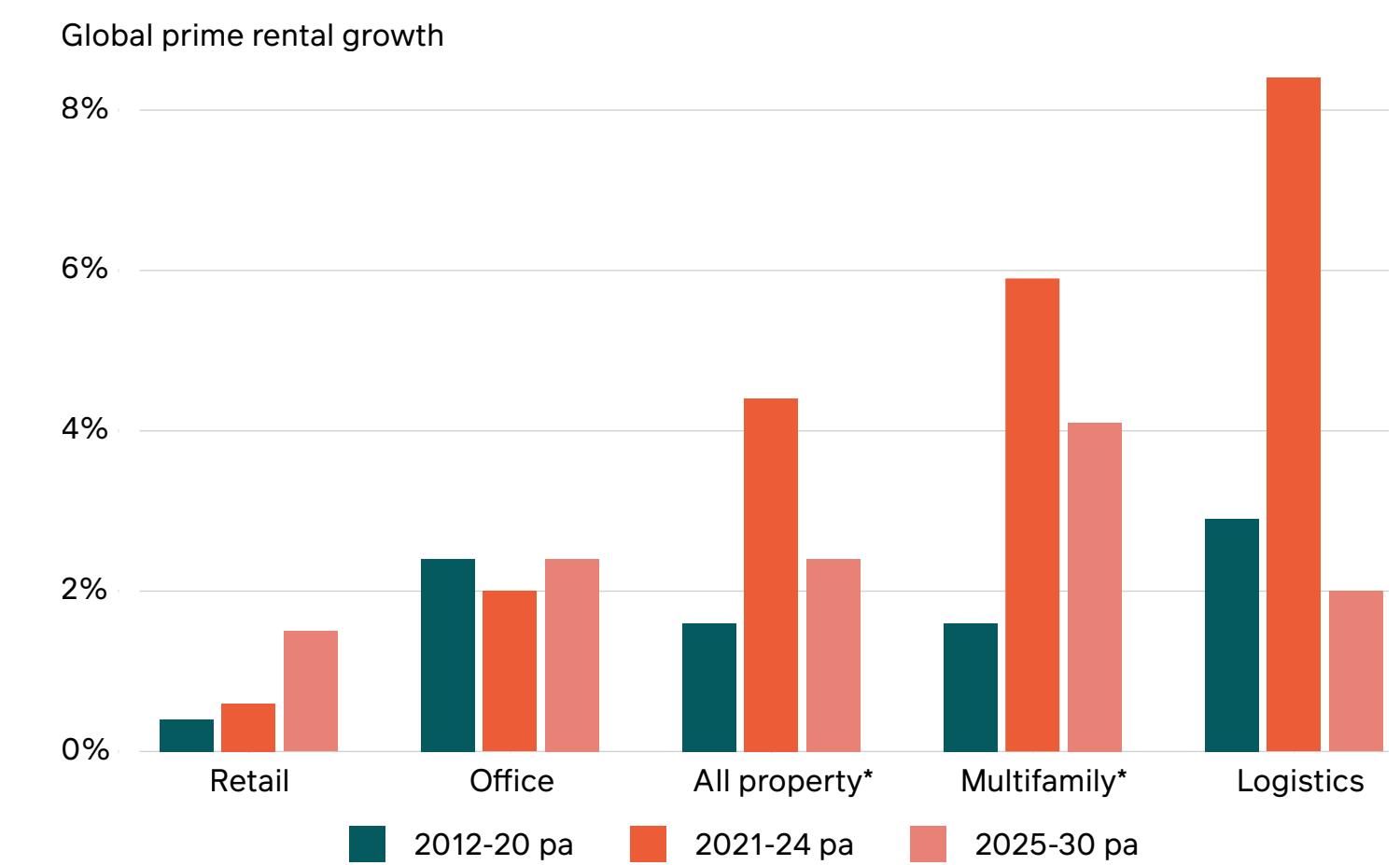
Source: M&G Real Estate based local broker reports, as of Q2 2025.

For investors, closing this gap calls for value-add strategies that transform secondary assets – especially through brown-to-green repositioning – into competitive, future-proof properties.

Logistics is shifting from broad-based growth to a more selective, resilience-driven phase. In Europe, occupier demand remains steady overall but uneven, with Germany accelerating while France and Italy lag. Annual rental growth has moderated following the very significant strength of recent years, yet tight prime vacancies and shrinking speculative supply pipelines should underpin pricing for core assets. In APAC, recovery is underway after a period of oversupply, with vacancy rates falling and rents turning positive in key hubs such as Seoul and Sydney. Structural drivers – e-commerce, nearshoring, supply chain modernisation – remain intact, but performance is polarising between core urban hubs and peripheral corridors. The ext cycle will favour ESG-compliant, well-located assets.

The living sector remains one of real estate's most resilient investment strategies, underpinned by chronic undersupply and demographic shifts. In Europe, private rented housing demand continues to outstrip supply, with permits still far below estimated need despite a modest rebound. This imbalance will likely sustain rental growth over the long-term. APAC reflects similar dynamics, driven by urbanisation, rising incomes and policy initiatives to attract international students and young professionals into cities. Multifamily and purpose-built student accommodation (PBSA) are gaining traction as core investment themes, while demographic trends point to growing opportunities in senior living.

Rental growth defies downturn with residential set to lead ahead



Source: PMA, Autumn 2025. *2016-onwards only.

Retail, often cast as a laggard, is showing pockets of recovery. In Europe, after a significant rebasing of rents and capital values, high streets are leading the recovery, supported by experiential formats as retailers pivot toward engagement and immersion. In APAC, structural population growth and urban vibrancy are supporting a retail recovery in Australia, particularly in dominant regional centres. While omni-channel pressures persist, assets positioned for experience-led consumption and last-mile fulfilment are best placed to capture demand going forward.

Structural themes shaping 2026

Looking ahead, several structural themes will shape performance. Artificial intelligence is redefining workplace dynamics, making collaboration and connectivity more valuable, and pushing demand toward prime CBD offices while leaving secondary stock increasingly vulnerable. Demographic trends will sustain pressure on housing markets globally, driving investment in multifamily, PBSA

and senior living. Logistics will continue to evolve as automation and reshoring rewrite supply chain strategies, potentially elevating the importance of mega-hubs and urban infill sites. Sustainability has become a defining filter for capital allocation, with compliant assets commanding premia and laggards facing a steep path to relevance.

Beyond recovery, driving the next cycle

Global real estate is entering a cycle where structural forces – rather than a rapid cyclical rebound – will dictate outcomes. The past two years have reset valuations and exposed vulnerabilities, but they have also clarified what matters most: resilience, adaptability and alignment with long-term trends. Capital is no longer focused on geography. It is now chasing certainty in assets that can withstand volatility and deliver sustainable growth.

This means the playbook is changing. Investors who rely on yesterday's assumptions – cheap leverage, indiscriminate yield compression – will struggle. Outperformance will come from strategies that anticipate transformation: embedding ESG as a value driver, leveraging technology to future-proof portfolios and targeting sectors where demographic and supply chain shifts create durable demand. In short, the winners of the next cycle will not be those who simply ride the recovery, but those who reinvent their approach to risk, return and relevance.



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