



# *Mid-Year*” *Outlook*

2026



# Mid-Year Outlook

## 2026

Our Mid-Year Outlook revisits our top 10 themes in light of developments in the first half of the year and sets out how we are positioned for the remainder of 2026. We focus on how each theme has evolved and where we see the most compelling opportunities for investors in the second half.

So far, 2026 has been defined by the geopolitical aftershocks of the US-Israeli military campaign against Iran, which began in late February. The effective closure of the Strait of Hormuz has disrupted energy markets, pushed up inflation expectations and forced markets to reassess the policy path for major central banks. Alongside the geopolitical developments, artificial intelligence demand and the associated bottle-necks have been the key driver for equity market returns.

With this backdrop, we update our core views and translate them into concrete portfolio actions for H2 2026.

### *Action for investors – at a glance (H2 2026)*

- **Stay overweight US growth assets; adopt a more selective stance to Europe and the UK**, where the energy shock and weaker growth backdrop argue for more caution.
- **Tilt towards quality and resilience** – companies with strong balance sheets, pricing power and energy efficiency will navigate higher-for-longer input costs and policy uncertainty.
- **Favour active over passive exposure**, especially in IPO-heavy (initial public offering) and geopolitically exposed areas, where dispersion and headline risk are elevated.



As we reach the mid-point of 2026, investors find themselves navigating a world that feels both unfamiliar and uncomfortably familiar. The shock from the effective closure of the Strait of Hormuz has revived memories of past energy crises, yet it is unfolding against a backdrop of powerful structural forces: the continued leadership of the US economy, the rapid development of artificial intelligence, and a more fragmented but intensely interconnected geopolitical order.

The immediate consequences of the “Hormuz shock” have included higher energy prices, renewed inflation concerns and a reassessment of the path of interest rates. Markets that had been positioned for a gentle monetary policy easing cycle are now contemplating the risk of policy tightening. This has weighed most heavily on energy-importing regions such as Asia, Europe and the UK, where weaker growth and political uncertainty have compounded the impact of higher input costs.

By contrast, the US has once again demonstrated its resilience. Fiscal stimulus, strong AI-related (artificial intelligence) investment and its position as a net energy exporter have allowed it to absorb the shock more effectively than many peers. We continue to see the US as the primary growth engine among advanced economies in the second half of the year, even as the policy backdrop becomes more complex.

At the same time, the AI investment cycle is reshaping capital markets. Record hyperscaler capex, persistent bottlenecks in semiconductors and a pipeline of high-profile IPOs remind us that AI remains the most powerful secular growth driver in global equities. Yet here too, the regime is shifting from “growth at any price” towards a more discriminating environment, where the ability to convert investment into durable cash flows will separate winners from losers.

In this context, our message is clear. First, stay invested, but be selective: we favour US growth assets, quality companies with strong balance sheets and pricing power, and active approaches in policy-sensitive and IPO-heavy areas. Second, embrace diversification across regions, sectors and asset classes, including private markets and infrastructure, which can offer resilience and differentiated return drivers.

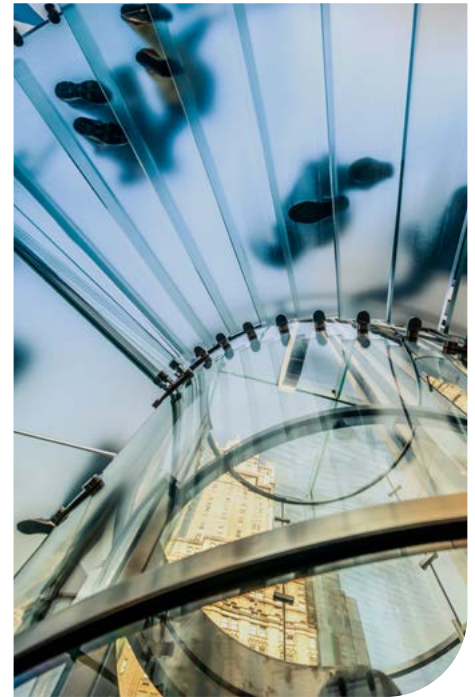
Uncertainty is unlikely to fade quickly. But for patient investors willing to look through the noise, the second half of 2026 offers not just risks to manage, but meaningful opportunities to capture.

Moz Afzal, Chief Investment Officer



Visit our Mid-Year Outlook 2026 hub here

# Reminder of our *top 10 themes for 2026*



## Global *economic and policy* trends

p. 5–15

- 1 US set to lead **economic growth**
- 2 Trough interest rates in advanced economies; **opportunities in emerging markets**
- 3 **Bond markets:** Beware of shark-infested waters
- 4 **Geopolitics:** New alliances, state capitalism and a diverging electorate

## *Innovation and change*

p. 16–22

- 5 **Trump's 3 D's:** DOGE, Deregulation, and Drugs
- 6 Opportunities abound in the **AI race**

## *Market opportunities*

p. 23–36

- 7 **An EU revival:** Restructuring and reform
- 8 **Emerging markets** have the wind in their sails
- 9 **Private markets:** Unlocking liquidity and diversification opportunities
- 10 **IPOs and M&A activity:** Multiple sectors set to benefit



# Global *economic and policy* trends

US growth leadership, a complicated rate trough, stressed sovereign bond markets and elevated but shifting geopolitical risks define the macro backdrop for H2 2026, demanding selective, quality-focused and geopolitically aware positioning.

- 1 US set to lead ***economic growth***
- 2 Trough interest rates in advanced economies; ***opportunities in emerging markets***
- 3 ***Bond markets:*** Beware of shark-infested waters
- 4 ***Geopolitics:*** New alliances, state capitalism and a diverging electorate

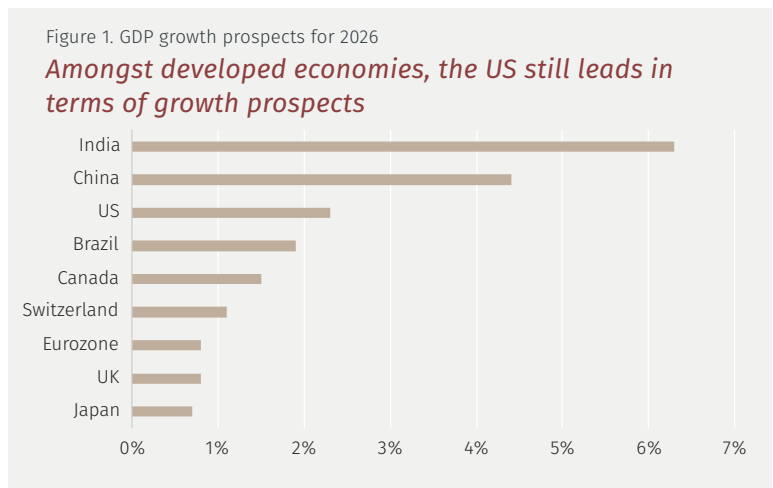
# 1 US set to lead economic growth

## What we said

We identified the US as the fastest-growing developed economy, underpinned by three **structural** strengths – economic resilience, a coherent growth plan and IT leadership – and three **cyclical** tailwinds – lower rates, lower energy prices and fiscal stimulus.

## How it has played out

The **structural thesis remains firmly intact**. The US economy has proved remarkably robust despite uncertainty from the Middle East war, a change at the helm of the Federal Reserve and the lagged impact of tariffs. In its April 2026 World Economic Outlook, the IMF forecast US growth of **2.3% in 2026**, versus **1.1%** in the eurozone, **0.8%** in the UK and **0.7%** in Japan. While this figure still lags the expected growth rates of China and India of 4.4% and 6.3% respectively, US growth is nonetheless elevated in the context of other developed market economies.



Source: IMF World Economic Outlook, April 2026.

”The three structural drivers we highlighted are still in place and continue to differentiate the US from other advanced economies”.

Although the structural tailwinds to US growth are solid, two of the three cyclical factors – **lower rates and lower energy prices** – have been challenged by the war in the Middle East. From less than **USD 60** at the start of 2026, West Texas Intermediate (WTI) oil has risen to around **USD 90 per barrel<sup>1</sup>**, reflecting the effective closure of the Strait of Hormuz, through which roughly **20% of global oil supply** transits.

The disruption extends beyond oil to commodities such as natural gas, helium, urea, sulphur and phosphates, many of which are critical inputs for fertiliser and the global food supply chain. This has pushed up both realised and expected inflation and triggered a **re-pricing of interest rate expectations**. Where futures had been pricing up to three US rate cuts in 2026 immediately before the war, markets are now entertaining the possibility of a **rate hike**, with similar shifts in expectations for other major central banks (see Theme 2).

The third cyclical factor – **fiscal stimulus** – remains in place and continues to provide powerful support to the US economy, reinforced by strong AI-related investment. The impact of higher commodity prices is also cushioned by the fact that the US is a **net oil exporter**. The same is not true for Europe, which imports a significant share of its energy needs. This helps explain why the European growth outlook remains sluggish, even though higher defence spending offers a potential – but uncertain – catalyst to reignite growth (see Theme 7).

### Outlook for H2 2026

We expect the **US to remain the primary growth engine of the global economy in H2 2026**. The three structural drivers we highlighted are still in place and continue to differentiate the US from other advanced economies. Fiscal stimulus and strong AI-related investment should keep US growth above that of most peers, even as the policy backdrop becomes more complex.

The **key swing factor is the evolution of the Middle East conflict** and its impact on energy prices and inflation. Our central case is that the Strait of Hormuz gradually reopens, allowing oil prices to retreat from current levels, though an elevated risk premium is likely to keep them above pre-war averages. This would ease pressure on inflation and give the Federal Reserve some room to support growth if needed.

<sup>1</sup> Source: LSEG Data & Analytics. As at 31 May 2026.

“Taiwan remains at the heart of the AI boom, while India offers a potential value opportunity”.

The main risks to this benign scenario are:

1. A **renewed escalation of military conflict in the Middle East**, leading to a more persistent energy price shock.
2. **Supply constraints resulting in a slower build-out of IT-related capital expenditure**, particularly around AI.
3. A **rapid rise in unemployment**, potentially linked to AI-driven labour-market disruption.

On balance, we still see the most likely outcome as a resilient global economy with particular strength in the US, and a more challenging environment for energy-importing regions such as Europe and the UK. This underpins our preference for US growth assets over other developed markets in H2 2026.

### Action for investors

- Within developed markets, **keep growth exposure centred on the US**, where structural drivers remain intact as fiscal policy and AI investment continue to support activity.
- In emerging markets, continue to **favour economies with solid domestic demand**, notably **Taiwan and India**. Taiwan remains at the heart of the AI boom, while India offers a potential value opportunity. We see a lack of near-term catalysts in China.
- Within emerging market (EM) fixed income, **prioritise local-currency exposure**, as hard-currency EM debt looks fully valued in our view.
- Be **more cautious on UK and European equities**, given a more challenged growth backdrop and greater sensitivity to the energy shock and recent rate hikes.
- **Avoid a purely passive approach**, especially in a year with several high-profile IPOs (see Theme 10), where index mechanics and flows can amplify both upside hype and downside risk.

## 2 Trough interest rates in advanced economies; *opportunities in emerging markets*

### What we said

We expected **policy rates in advanced economies to trough in the first half of 2026**, with limited room for cuts given that rates were already close to neutral – the level that neither stimulates nor restrains growth. At the same time, **high real interest rates in select emerging markets**, notably Brazil and Mexico, were expected to create attractive bond opportunities.

### How it has played out

The trough in advanced-economy policy rates has materialised broadly as anticipated. However, the Middle East conflict has significantly complicated the monetary policy environment.

- **United States:**

**Markets are currently pricing a small probability of a rate hike in 2026**, despite new Fed Chair Kevin Warsh signalling a preference for lower rates. This is due to the energy and commodity price shock associated with hostilities in the Middle East, something that has reignited inflation concerns and led to a repricing of rate expectations (Figure 2). **Signs of dissent within the Federal Open Market Committee (FOMC)** provide a salutary reminder that the Fed is not a dictatorship over which the Chair has ultimate control – **Warsh will need to form a consensus and bring other FOMC members with him if he wants to ease the policy rate**. That will be harder to achieve against the backdrop of the war.

- **United Kingdom:**

The Bank of England had been expected to cut further, given a loosening labour market and subdued GDP growth. That trajectory is now on hold, with a **high bar for cuts in the face of energy-driven inflation pressures**.

- **Switzerland:**

The Swiss National Bank is **expected to remain on hold** throughout 2026, broadly in line with our earlier expectations.

- **Eurozone:**

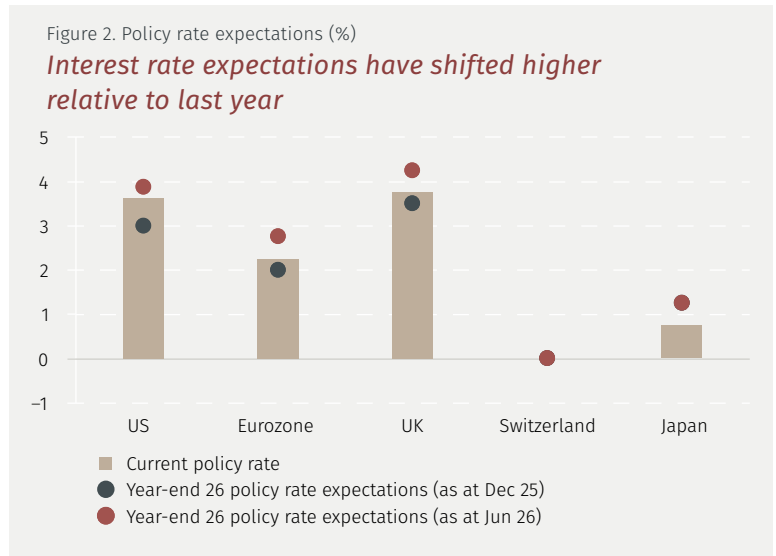
Higher energy prices have raised the **prospect of rate increases** by the European Central Bank, reversing earlier expectations of cuts.

- **Japan:**

The Bank of Japan remains an outlier. With real rates still significantly negative, **it is on course to raise rates by more than 1% over the next two years**, keeping policy within its estimated neutral range.



“On emerging markets, our call on high real rates in economies such as Brazil and Mexico was initially correct”.



Source: LSEG Data & Analytics and EFG calculations. Data as at 11 June 2026. Policy rate expectations implied by Overnight Indexed Swaps.

On emerging markets, our call on high real rates in economies such as Brazil and Mexico was initially correct. However, repricing of global rates and higher inflation expectations following the outbreak of war in the Middle East have made the near-term outlook for EM bonds more challenging. **Over the longer term, we still expect strong fundamentals to support these markets.**

### Outlook for H2 2026

The path of rates in the second half of 2026 will be heavily shaped by **developments in the Middle East**. Our core view is that the Strait of Hormuz will reopen in the third quarter, allowing oil and other commodity prices to retreat, though an elevated risk premium is likely to those prices above pre-war levels. The key risk is that the energy shock proves more persistent and feeds through more broadly into prices, forcing central banks to tighten policy rather than ease.

#### Action for investors

- **Dial back EM bond exposure near term:** Emerging market bonds look less attractive relative to when we made our original call, given greater uncertainty around rate policy amid inflation shocks.
- **Pivot towards developed market government bonds:** We see better risk-reward in developed market sovereigns, where markets appear to have overshot and overpriced the number of potential rate hikes.

### 3 Bond markets: Beware of shark-infested waters



#### What we said

We warned that **sovereign bond markets in certain developed economies were vulnerable**. The UK and France were highlighted as particularly exposed given questions over fiscal sustainability against a backdrop of rising government debt.

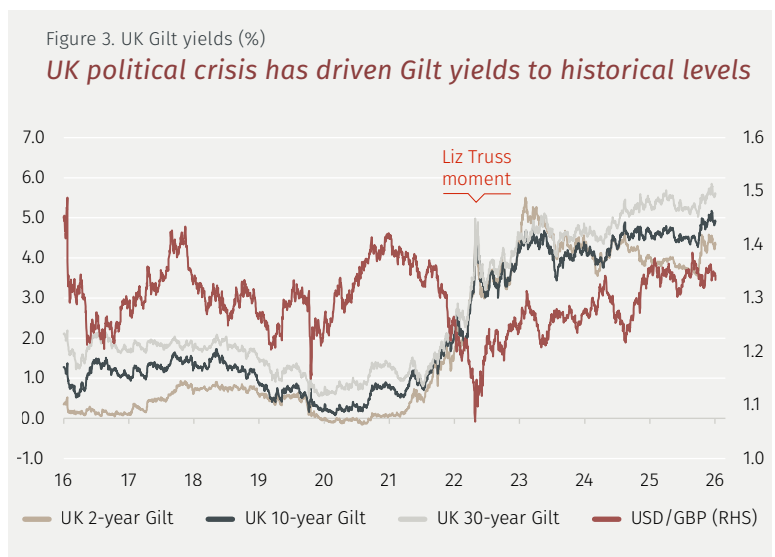
#### How it has played out

Fixed income performance has been mixed so far in 2026, with sovereign bonds delivering flat-to-negative returns across most developed markets. **UK Gilts have posted year-to-date losses of around 1.2%**, underperforming the Global Aggregate index, which has been broadly flat.<sup>2</sup>

#### Sharks are circling the UK

Gilt yields have spiked as markets question the sustainability of UK fiscal policy in the context of weak activity and the negative impact of the Middle East war. **Higher energy costs are squeezing consumers and may force the Bank of England to tighten policy later in the year to contain inflation.**

Domestic politics have added to the pressure. Support for Prime Minister Keir Starmer has faded after poor local election results in early May, compounding a decline in approval ratings driven by low growth, persistent inflation and rising unemployment.



Source: LSEG Data & Analytics and EFG. Data as of 31 May 2026.  
**Past performance is not indicative of future results.**

<sup>2</sup> Source: LSEG Data & Analytics and EFG. Data as of 31 May 2026.

“Gilt yields have spiked as markets question the sustainability of UK fiscal policy”.

The 30-year Gilt yield surged to 5.8% on 12 May 2026, the highest level in more than 25 years, as a political crisis threatened Starmer’s position and cast doubt on Chancellor Reeves’s fiscal plans. Yields across the curve now stand above those seen during the Liz Truss mini-budget crisis in 2022 (Figure 3). This time, however, the external backdrop – notably the war in the Middle East – risks amplifying the UK’s economic and financial vulnerabilities.

**3-3-3 objective not yet reached**

In the US, the **conflict with Iran has triggered a repricing of short-term rate expectations and a flattening of the yield curve**. The 2-year Treasury yield has risen 48 bps year-to-date, while the long end has moved up by 14 bps. Bessent’s 3-3-3 objective – 3% real GDP growth, a 3% budget deficit and a 3 million barrels-per-day increase in oil production – is likely to take longer to achieve than initially planned.

The IMF now expects US GDP growth of 2.3% in 2026, while the fiscal deficit is projected to exceed 7% of GDP. The US Energy Information Administration forecasts oil production at around 13.6 million barrels per day in 2026, unchanged from 2025 production, short of the 3-3-3 target.

**Outlook for H2 2026**

Investors should continue to **tread carefully in sovereign bond markets**. While gross debt in economies such as the UK is expected to stabilise over the next five years, short-term domestic challenges and a difficult external environment could derail fiscal plans and trigger leadership changes.

In the US, **efforts to stabilise the debt trajectory are unlikely to materialise** against the backdrop of external conflict and mid-term elections later in the year. Overall, the environment favours countries with stronger fiscal positions and clearer capacity to service their debt.

**Action for investors**

- **Prioritise sovereigns and strong balance sheets:** Focus on countries with robust public finances and credible debt-repayment capacity. Net foreign assets can provide a useful guide to long-term debt sustainability.
- **Be selective in higher-risk issuers:** Treat UK Gilts and other fiscally stretched sovereigns as trading rather than core holdings, given elevated political and policy risk.
- **Consider resilient credits in stressed regions:** Saudi bonds, for example, have continued to perform despite the war on their doorstep, underlining the importance of balance-sheet strength and policy credibility.

## 4 Geopolitics: New alliances, state capitalism and a diverging electorate

### What we said

We highlighted **several dimensions of geopolitical risk for 2026**: persistent US-China rivalry, the forging of new alliances, the rise of state capitalism, and a continued erosion of trust in political leadership.

### How it has played out

#### Geopolitics front and centre

Geopolitics has dominated 2026, with the US at the core of many developments. These include the dramatic capture of Venezuelan leader Nicolás Maduro and his wife, renewed speculation about a US bid to purchase Greenland, and, most importantly, the escalation of hostilities in the Middle East following the joint US-Israeli bombing campaign of Iran that began in late February.

The **effective closure of the Strait of Hormuz has had far-reaching consequences**. Several countries, particularly in Asia, have begun rationing fuel. Notably, the US blockade has selectively allowed some shipments bound for China to pass, underlining the strategic nature of US policy.

#### A cordial US-China relationship

Despite well-publicised tensions over semiconductors, rare earths and Taiwan, the US-China relationship has remained more pragmatic than confrontational. A May meeting between Presidents Trump and Xi produced few concrete outcomes beyond an order for 200 Boeing aircraft, but the agreement to meet again in Washington in September signals that both sides see value in maintaining at least a superficially cordial relationship. Leaders from France, Germany and Canada have also visited Beijing, suggesting that **“being friends with China” may be becoming acceptable again** in Western capitals.

US reciprocal tariffs on China and others were ruled illegal by the US Supreme Court, an encouraging sign of judicial independence. However, it is likely that tariffs will be reinstated under alternative trade legislation. Tariffs themselves did not appear to be a major point of contention at the Trump-Xi summit; the Middle East situation featured more prominently.

#### A rise in more extreme political parties

Political polarisation has intensified across several democracies. In the UK, the Reform Party’s strong performance in local elections has triggered a leadership challenge within the Labour Party. In Germany, the AfD has gained momentum and is well placed to win state elections in Saxony-Anhalt later this year. In France, the right-wing National Rally remains firmly ahead in polls ahead of the 2027 presidential election.



“...the US-China relationship has remained more pragmatic than confrontational”.

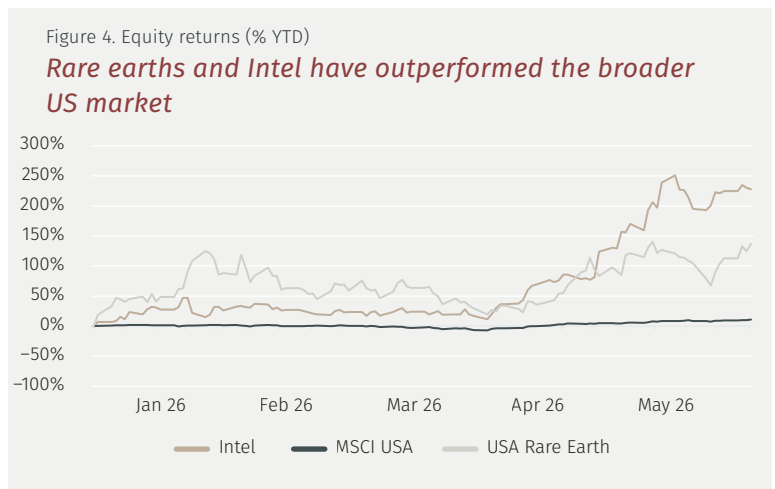
Against this backdrop, Hungary’s decision to vote out Viktor Orbán after 16 years in power and replace him with a more moderate leader is a rare counter-trend, offering a tentative sign that electorates can move back towards the centre.

The UAE’s decision to exit OPEC is another important development. It underscores the fragility of the region and signals that, once the Strait of Hormuz reopens, the **UAE is likely to increase oil production significantly above previous OPEC quotas**, which should help ease oil price pressures over time.

**An invested interest**

The US government has continued to expand its direct role in strategic sectors such as technology and critical minerals. It has built sizeable stakes in companies including Intel, which has outperformed the broader US market year-to-date, while rare earth-related assets have also been strong. On 21 May, President Trump announced that the Commerce Department will invest further in technology companies, with a particular focus on quantum computing.

This **deepening state involvement in key industries is a clear expression of state capitalism**. The market impact remains nuanced: government backing can be supportive for selected companies, but it also raises questions about capital allocation, political risk and long-term competitiveness. This is an area warranting close attention.



Source: LSEG Data & Analytics. Data as at 31 May 2026.  
**Past performance is not indicative of future results.** Any securities referenced are for information only and should not be deemed as a recommendation to buy or sell.

**Outlook for H2 2026**

Our central view is that **geopolitical intensity is close to a peak in H2 2026**, but the path to **de-escalation is unlikely to be smooth**. Progress in US-Iran talks and credible reports that President Putin wishes to conclude the Ukraine conflict by year-end point to a gradual reduction in headline risk. President Trump also has two strong domestic incentives to dial down tensions: the 250th anniversary of US independence on 4 July, which he will not want overshadowed by war, and the mid-term elections later in the year, where a prolonged conflict could carry political costs for Republicans.

”The US is deepening its direct role in strategic sectors, reinforcing the trend towards state capitalism”.

At the same time, the **underlying geopolitical regime remains more fragmented and state-driven than in the previous decade**. The US is deepening its direct role in strategic sectors, reinforcing the trend towards state capitalism and industrial policy as key market drivers.

**New alliances and shifting energy dynamics will also shape the landscape.**

The UAE’s decision to exit OPEC and its likely move to ramp up production once the Strait of Hormuz reopens underline both the fragility of the current energy setup and the potential for non-OPEC producers to gain market share over time, which could help ease oil price pressures if conflicts de-escalate.

**Political polarisation is set to remain elevated across major democracies**, with stronger showings by more extreme parties in the UK, Germany and France, even as Hungary’s shift towards a more moderate government offers a rare counter-trend. This mix of high but potentially peaking geopolitical tension, rising state involvement in markets and a diverging electorate suggests that **risk premia are unlikely to return quickly to pre-2020 levels**, even in a more benign conflict scenario.

Overall, we expect H2 2026 to bring some relief on acute geopolitical flashpoints, but within a structurally more interventionist and politically fragmented world. For investors, this argues for treating any de-escalation-driven rally as an opportunity to reassess exposures to state-backed sectors, energy and politically sensitive markets rather than assuming a simple return to the old geopolitical normal.

**Action for investors**

- **Target beneficiaries of state support, but stay valuation-disciplined.** Companies receiving direct US government investment in strategic sectors such as semiconductors, quantum computing and critical minerals can offer attractive upside where fundamentals and policy support align.
- **Treat fossil fuel exposure as tactical, not structural.** Elevated geopolitical risk and supply constraints should keep fossil fuel assets supported in the near term, but the UAE’s exit from OPEC and its likely production ramp-up once the Strait of Hormuz reopens argue against structurally increasing long-term allocations at this stage.
- **Use any de-escalation-driven rally to reassess risk premia.** If progress in US-Iran talks and Ukraine peace efforts triggers a relief rally, we would use it to review exposures to energy-sensitive assets, state-backed sectors and politically fragile markets.
- **Be selective in politically polarised markets.** Elevated support for more extreme parties in the UK, Germany and France increases policy and regulatory uncertainty. We would treat these markets as areas for active, bottom-up stock selection rather than broad, passive exposure.
- **Maintain diversification across geopolitical blocs.** The combination of a more pragmatic US-China relationship and deepening US state capitalism argues for diversified exposure across regions and supply chains, avoiding over-concentration in any single geopolitical bloc.

## *Innovation and change*

Innovation and change are reshaping markets in H2 2026, with US policy and AI at the core. Trump's "Three Ds" – DOGE, deregulation and drugs – are tilting the landscape towards credit creation, real estate and innovative healthcare, while rapid advances in AI infrastructure and agentic applications are driving powerful growth opportunities.

- 5 **Trump's 3 D's:** DOGE, Deregulation, and Drugs
- 6 Opportunities abound in the **AI race**

# 5 Trump's 3 D's: DOGE, Deregulation, and Drugs

## What we said

We expected President Trump's reform agenda to remain a key market driver in 2026, with three initiatives standing out:

- **DOGE** (Department of Government Efficiency)
- **Deregulation**
- **Drug pricing reform**

## How it has played out

### DOGE: fading impact

The Department of Government Efficiency (DOGE) was created to cut wasteful government spending, with Elon Musk leading the initiative until his departure in May 2025. Since then, DOGE has largely dropped out of the headlines.

When we wrote our **Outlook 2026**, total estimated savings from DOGE stood at **USD 214bn**. As of mid-2026, that figure is **USD 215bn**,<sup>3</sup> implying almost no incremental progress.

### Deregulation: significant and structural

While DOGE has stalled, Trump's broader reform agenda has accelerated. In February 2026, the US government enacted the **single largest deregulation measure in history**: the Environmental Protection Agency rescinded the 2009 Greenhouse Gas Endangerment Finding, an action estimated to save Americans over **USD 1.3tn**.<sup>4</sup>

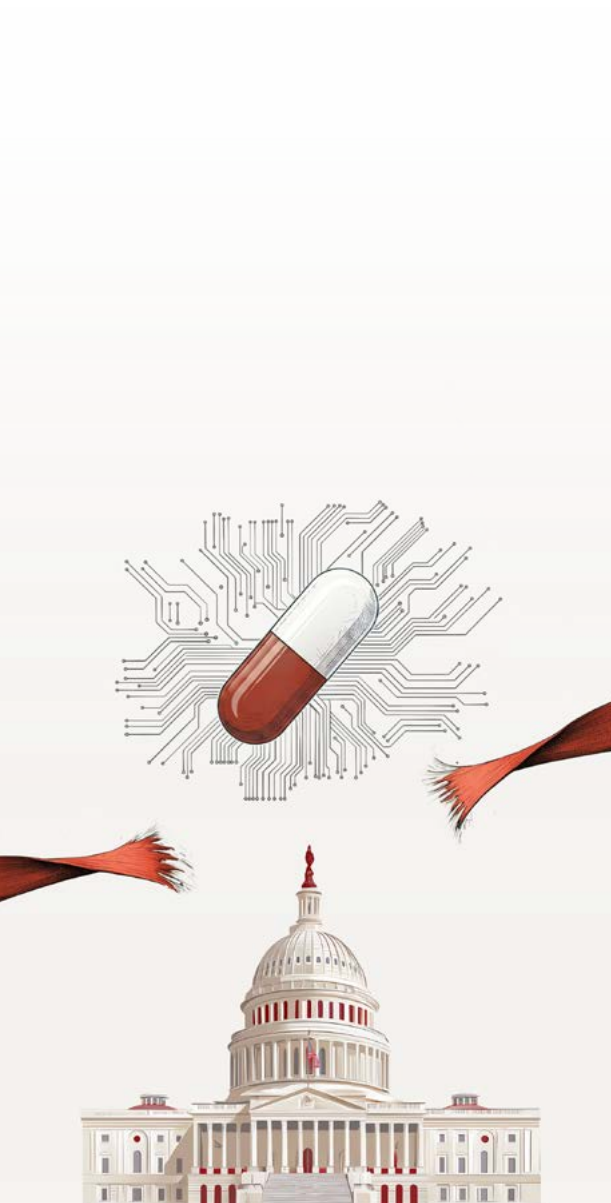
The most consequential changes, however, relate to bank capital rules. A revision to the **Supplementary Leverage Ratio** that took effect in January 2026 is estimated to free up **USD 219bn**, or **14.3%**, of banks' capital, with a further three measures expected later this year that could release an additional **4.8%**.<sup>5</sup> In total, capital requirements could fall by around **19.1%**.

A key beneficiary is the **real estate sector**: banks can now deduct mortgages and mortgage-servicing assets from their capital, making these exposures more attractive and potentially providing a meaningful boost to US mortgage lending.

<sup>3</sup> <https://doge.gov/savings>

<sup>4</sup> <https://www.epa.gov/newsreleases/president-trump-and-administrator-zeldin-deliver-single-largest-deregulatory-action-us>

<sup>5</sup> Federal Reserve, Supplementary Leverage Ratio update, March 2026.



”The most consequential changes, however, relate to bank capital rules”.

Figure 5. Estimated bank capital freed up by deregulation

Regulation change	Estimated capital change
Supplementary Leverage Ratio	-14.3%
Basel III	1.4%
Globally systemically important bank surcharge	-3.8%
Stress test changes	-2.4%
<b>Total</b>	<b>-19.1%</b>

Source: Federal Reserve, US Bank Locations, Strategas and EFG calculations. Data as at 20 May 2026.

**Drug pricing: FDA innovation more important than TrumpRx**

The **TrumpRx** plan, launched in February 2026 to allow consumers to buy drugs directly from pharmaceutical companies, has had limited impact. Many prescription drugs are not available through the scheme, and those that are can often be purchased more cheaply elsewhere.<sup>6</sup>

By contrast, the more important development has been at the **US Food and Drug Administration (FDA)**. The FDA has shifted towards a more open, research- and data-driven approach, coupled with an **accelerated approval programme** that lowers bureaucratic barriers and strengthens the pipeline of new drugs.

Trump has argued that high drug prices are needed to incentivise research and development (R&D). The FDA is attacking the cost side instead. It has met its one-year goal of **eliminating unnecessary animal testing**, using **AI-powered models** in drug development. Over **90%** of drugs that passed animal studies previously failed to receive FDA approval,<sup>7</sup> highlighting the inefficiency of the old system. Reducing R&D costs via AI could be **transformational** for the healthcare sector.

6 <https://www.ajmc.com/view/two-months-later-success-of-trump-rx-is-mixed-are-lower-prices-really-available->

7 <https://www.fda.gov/news-events/press-announcements/fda-achieves-year-1-goals-reducing-animal-testing-drug-development>

” Overall, the “Three Ds” are set to remain a net positive for US risk assets in H2 2026”.

## Outlook for H2 2026

Trump’s “**Three Ds**” will continue to matter for markets in H2 2026, but their **relative importance has shifted**. DOGE has largely run out of steam, with only marginal additional savings since mid-2025, so we do not expect further meaningful macro impact from government-efficiency measures.

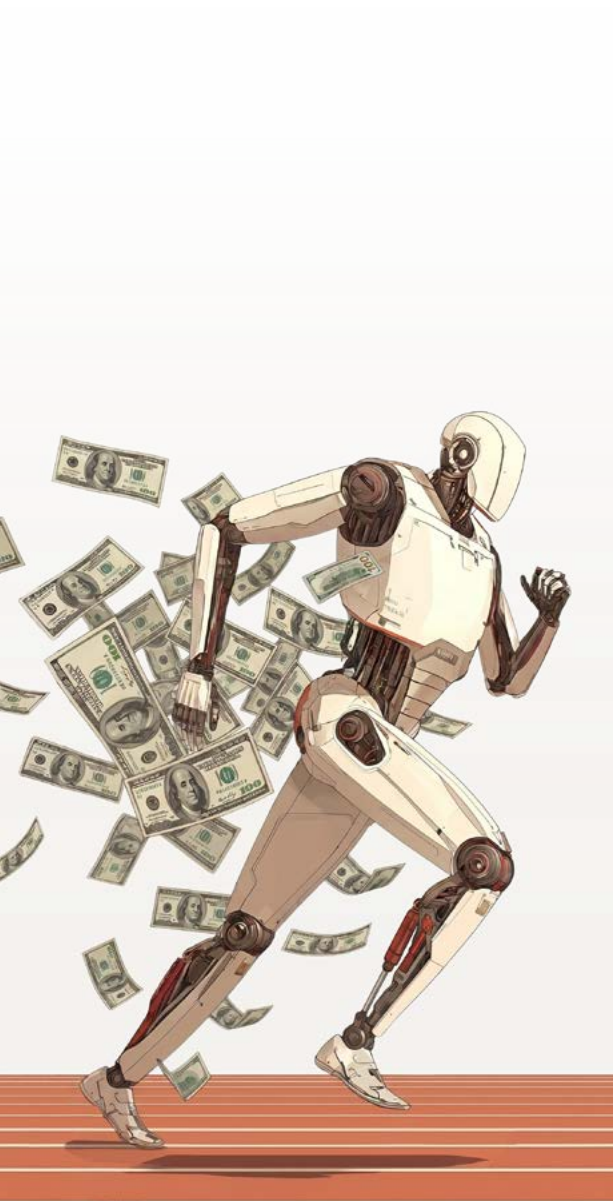
By contrast, **deregulation is a powerful and ongoing driver**. The rollback of environmental rules and the substantial easing of bank capital requirements are structural changes that will keep supporting credit creation and risk appetite, particularly in real estate and other rate-sensitive sectors, even if the macro backdrop becomes more volatile.

In healthcare, we see the **FDA’s pro-innovation stance as more consequential than the TrumpRx pricing initiative**. The combination of AI-enabled drug discovery, lower R&D costs and a faster approval pipeline should gradually improve the sector’s growth and profitability profile, even if headline drug-pricing reform remains politically contentious. Overall, the “Three Ds” are set to remain a net positive for US risk assets in H2 2026, with deregulation and FDA-driven innovation outweighing the fading impact of DOGE and the limited reach of TrumpRx.

### Action for investors

- **Treat DOGE as largely priced in.** We do not expect further meaningful macro impact from DOGE and would avoid positioning portfolios around additional “efficiency dividend” upside.
- **Lean into deregulation beneficiaries, especially in credit-sensitive sectors.** The rollback of environmental rules and lower bank capital requirements are structural and should continue to support credit creation, risk appetite and real estate-related activity. Focus on high-quality US financials and select real estate names with solid balance sheets and prudent underwriting standards.
- **Be selective in US real estate.** Easier capital rules are a tailwind for mortgage lending, but higher-for-longer rates and weak consumer confidence still weigh on the sector. We would be cautious on homebuilders until there is clearer improvement in rates and demand, while seeing relatively better risk-reward in income-oriented REITs that can benefit earlier from easier financial conditions.
- **Increase strategic exposure to innovative healthcare.** Focus on companies best placed to benefit from:
  - an accelerated FDA approval process, and
  - lower R&D costs – particularly mid-cap biotech with late-stage pipelines.
- **Re-engage selectively with GLP-1 / weight loss leaders.** As legal overhangs ease, visibility is improving for leading franchises. We see scope for a gradual re-rating where earnings power is underappreciated and balance sheets are strong.
- **Favour active over passive in policy-sensitive areas.** The uneven impact of deregulation and FDA reform will create winners and losers within financials, real estate and healthcare.

# 6 Opportunities abound in the *AI race*



## What we said

We identified **artificial intelligence as a key structural growth theme for 2026**, with a focus on the commercialisation of AI infrastructure and the opportunities this creates across semiconductors, hyperscalers and capital markets.

## How it has played out

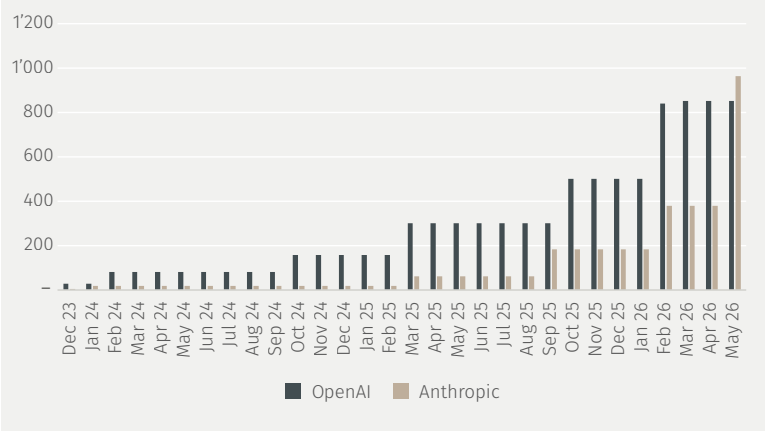
### The rise of Agentic AI

2026 has marked an inflection point for **Agentic AI** in enterprise settings. Unlike single-prompt, single-output interactions, agentic systems deploy multiple AI model instances to plan, execute and adapt to achieve a defined goal – akin to a manager breaking down a task, delegating, reviewing and iterating, but now done by AI within “agentic systems” such as ChatGPT Codex, Claude Code or Claude CoWork.

The commercial impact is already visible in the rapid revenue growth of Anthropic and OpenAI. Anthropic’s focus on coding and enterprise AI has paid off, with expectations that its next funding round will show a significant step-up in valuation (Figure 6). This has likely prompted OpenAI to pivot more resources towards agentic enterprise applications, given the clear demand signal.

Figure 6. Funding round valuations (USD bn)

**Valuations are showing a significant step-up**



Source: Company statements. Data as at May 2026.

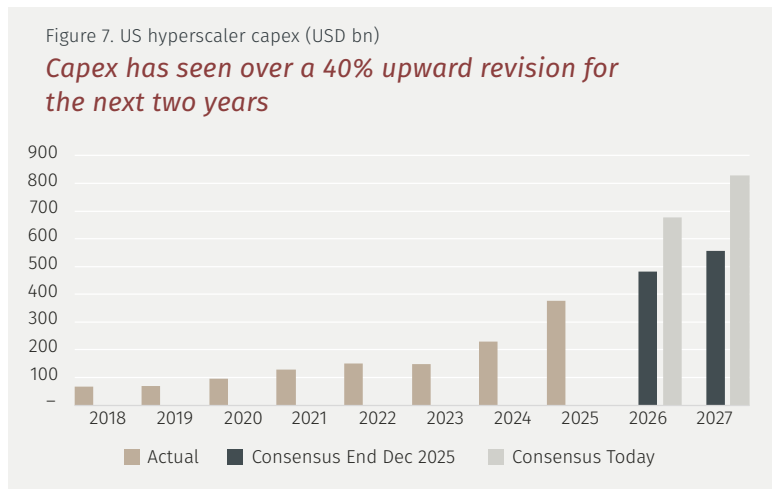
**Past performance is not indicative of future results.** Any securities referenced are for information only and should not be deemed as a recommendation to buy or sell.

“We expect AI to remain the most powerful secular growth driver in equity markets in H2 2026”.

**Capex continues to climb**

In public markets, the AI theme is still expressed primarily through **elevated capex** by the four largest US hyperscalers, which are collectively expected to spend around **USD 700bn** on AI data centres in 2026.<sup>8</sup>

The semiconductor industry is struggling to keep pace. Capacity constraints reflect years of underinvestment after the post-Covid down-cycle, and it may take considerable time for supply to catch up. Forward price-to-earnings multiples for the Semiconductor Index (SOX) are broadly unchanged year-to-date despite share price gains of more than 60%, indicating that returns have been driven by earnings upgrades rather than multiple expansion. Those earnings, however, depend on continued demand and pricing power amid acute shortages.



Source: FactSet. Data as at 31 May 2026. The above data is based on projections. Certain assumptions have been made regarding the above information and such information is provided by way of illustration only. Any changes to these assumptions may have a material impact on the assessment presented.

**The IPO pipeline**

Funding for AI infrastructure is shifting from venture capital and hyperscaler cashflows towards debt and equity markets. **Data-centre operators are increasingly tapping bond markets**, leading to a rise in AI-related issuance across investment-grade, high-yield and convertible bonds.

In equity markets, IPOs of OpenAI and Anthropic are expected soon, following on from SpaceX (now parent of SpaceXAI).

**Outlook for H2 2026**

We expect AI to remain the most powerful secular growth driver in equity markets in H2 2026. Agentic AI adoption in enterprises is still in its early innings, with strong revenue momentum at leading foundation-model providers and a growing ecosystem of agentic applications. This should continue to support elevated capex by hyperscalers and robust demand for advanced semiconductors.

<sup>8</sup> Source: FactSet, as at 31 May 2026.

”  
...we remain constructive on the AI theme for H2 2026 but see a gradual shift from a pure “growth at any price” narrative towards a more discriminating environment...”

At the same time, the **risk profile of the AI infrastructure build-out is evolving**. Public opposition to new data centres, concerns over energy use and grid constraints are becoming more visible, raising the prospect of tighter regulation, higher permitting hurdles and potential delays for some projects. This could reinforce pricing power for scarce compute and power but also increase execution risk for highly leveraged infrastructure plays.

Looking ahead, we see three key dynamics shaping H2 2026:

- **Sustained hyperscaler capex**, but with greater scrutiny. The capex plans of the largest US hyperscalers remain very ambitious, yet investors are increasingly focused on the path from spend to monetisation, especially in enterprise agentic AI.
- **Persistent bottlenecks in semiconductors**. Capacity constraints and long lead times mean supply will take time to catch up, keeping earnings sensitive to any slowdown in AI demand or policy-driven delays to data-centre projects.
- **Early exploration of “off-grid” solutions**, including orbital data centres. While still speculative, the interest in orbital data centres underlines the scale of the infrastructure challenge and the potential for new business models at the intersection of AI, energy and space.

Overall, we remain constructive on the AI theme for H2 2026 but see a gradual shift from a pure “growth at any price” narrative towards a more discriminating environment, where the ability to convert AI investment into durable cash flows – and to navigate regulatory and infrastructure constraints – becomes the key differentiator.

### Action for investors

- **Maintain core exposure to the AI theme**. AI remains the most powerful secular growth driver in equity markets; we see H2 2026 as a phase of selection, not exit.
- **Stay invested in semiconductors and hyperscalers, but be price- and cycle-aware**. Elevated valuations and very high earnings expectations call for disciplined entry points and position sizing. Focus on leaders with clear visibility on AI-related demand and strong balance sheets.
- **Tilt towards agentic enterprise applications**. Prioritise software and platform companies with demonstrable revenue traction from agentic AI use cases, where adoption is still in the early innings but already visible in top-line growth.
- **Differentiate between infrastructure winners and over-levered plays**. Data centre and digital-infrastructure assets should continue to benefit from AI-driven demand, but public opposition, grid constraints and permitting risk increase execution risk for highly leveraged operators.
- **Treat “orbital data centres” as a long-dated option, not a core allocation**. Interest in orbital solutions highlights the scale of the infrastructure challenge, but technological and economic uncertainties remain high. For now, we see this as a speculative theme best accessed, if at all, via broader space- and communications-related exposure rather than single-name bets.



## Market opportunities

Europe's restructuring push, resilient emerging markets, and the depth of private markets are creating rich opportunity sets, while a robust IPO and M&A pipeline concentrates value in high-quality, strategically important assets.

- 7 **An EU revival:** Restructuring and reform
- 8 **Emerging markets** have the wind in their sails
- 9 **Private markets:** Unlocking liquidity and diversification opportunities
- 10 **IPOs and M&A activity:** Multiple sectors set to benefit

## 7 An EU revival: Restructuring and reform

### What we said

We were cautiously optimistic on an EU revival based on three pillars:

1. a **sustained step-up in defence spending**,
2. the **energy transition shifting from regulatory burden to industrial opportunity**, and
3. **innovation** as the key driver of future growth.

### How it has played out

#### Defence and security: commitments turning into cash

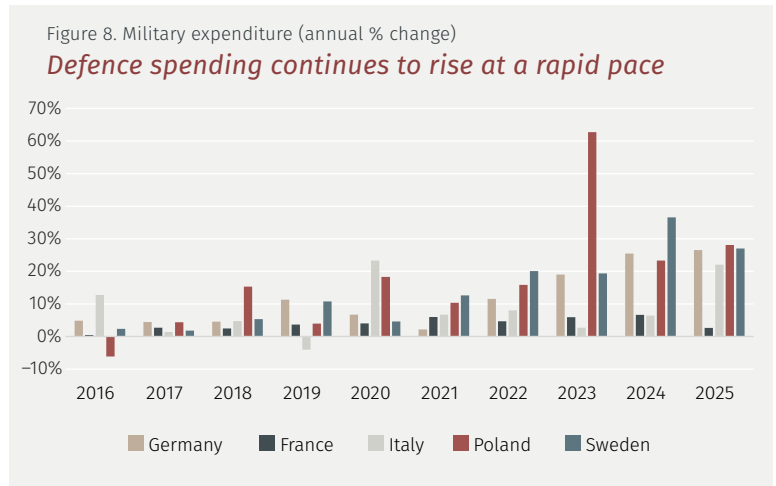
Defence spending has continued to rise at a **sustained and rapid pace**, despite additional pressure on public finances from the energy shock. Several European countries recorded defence spending growth above 20% in 2025, and this trend has extended into 2026. In the first three months of 2026, Germany spent almost 20% more on defence than in the same period of 2025, confirming that the Merz government’s multi-year investment plan is being implemented.

The EU has also released **€90bn in financing for Ukraine** following the change of government in Hungary. The new Hungarian administration has pledged to align with Brussels on civil liberties and judicial independence, opening the door for EU funds – including defence-related spending – to flow to Budapest.

In parallel, the EU is discussing **accelerated accession for Ukraine**, which has developed cutting-edge capabilities in modern warfare, particularly drones. This underscores the strategic dimension of Europe’s defence push.



”  
In a world where innovation is central to growth, Europe – and especially Switzerland – is structurally well positioned”.



Source: SIPRI and EFG calculations. Data as of 29 May 2026.

**Energy transition: the shock as an accelerant**

The energy pillar of the theme has played out **more positively than expected**, helped by an accelerant we did not fully anticipate: the Middle East energy shock. The effective closure of the Strait of Hormuz has sharply reduced tanker traffic, disrupted oil supply and reinforced the case for Europe to accelerate domestic clean-energy deployment, electrification, grid upgrades and energy efficiency.

The European Commission’s **AccelerateEU** initiative now explicitly frames the clean-energy transition as an economic, competitiveness and security imperative. The Commission estimates that since March 2026 the EU has incurred **€24bn of additional fossil fuel spending**, while **57%** of EU energy consumption still comes from imported fossil fuels. Higher oil prices therefore strengthen the case for green investment that reduces import dependence and improves resilience.<sup>9</sup>

After a softer patch, Europe’s **electric vehicle (EV) market is re-accelerating**. The IEA reports that European EV sales rose by more than 30% in 2025 and expects Europe to deliver the strongest growth among major EV markets in 2026.<sup>10</sup> ACEA data show EU battery-electric vehicles reaching a **19.7% market share** in the first four months of 2026.<sup>11</sup> The outlook is constructive, but the pace of adoption remains sensitive to policy stability, affordability, charging infrastructure and intensifying competition, particularly from Chinese manufacturers.

9 [https://energy.ec.europa.eu/strategy/accelerateeu-strengthen-eu-energy-resilience\\_en](https://energy.ec.europa.eu/strategy/accelerateeu-strengthen-eu-energy-resilience_en)

10 <https://www.iea.org/reports/global-ev-outlook-2026/executive-summary>

11 <https://www.acea.auto/pc-registrations/new-car-registrations-4-2-in-april-2026-year-to-date-battery-electric-19-7-market-share/>

### **Innovation and Swiss competitiveness**

The energy and supply-chain disruptions of 2026 reinforce a broader principle: in an environment of elevated input-cost volatility and macro uncertainty, innovation-driven pricing power becomes a defining competitive advantage.

Switzerland is a clear example. It has been ranked **first globally in innovation for 15 consecutive years** by the World Intellectual Property Organization and **first in AI researchers and developers per capita** in the 2026 Stanford AI Index Report. A structurally appreciating Swiss franc forces Swiss companies to compete on deep technical differentiation rather than price, leaving them well placed in a world where innovation is the key to future growth.

### *Outlook for H2 2026*

#### **All three pillars of the EU revival theme remain supportive for H2 2026.**

Defence spending commitments are multi-year and largely insulated from short-term budget pressures. The energy transition retains strong policy backing through AccelerateEU, though selectivity is essential after strong performance in parts of the clean-energy universe. In a world where innovation is central to growth, Europe – and especially Switzerland – is structurally well positioned.

#### *Action for investors*

- **Stay invested in the green transition** as a medium-term opportunity across industrials, utilities and companies linked to electrification and energy efficiency. Focus on beneficiaries of AccelerateEU-related spending, particularly those exposed to grid upgrades, clean power, storage and efficiency solutions.
- **Look for upside in European and Swiss small & mid-caps**, which stand to benefit disproportionately from increased defence and green-capex activity, as well as from Europe's innovation strengths.

# 8 Emerging markets have the wind in their sails



## What we said

We expressed a **constructive view on emerging markets**, expecting them to benefit from a stable-to-weaker US dollar, fiscal discipline and solid underlying growth.

## How it has played out

### Strong equity performance despite headwinds

The thesis has played out strongly, even against the backdrop of the Iran conflict and its impact on commodity markets. The MSCI EM Index is up around **27% in local-currency terms year-to-date**, outperforming developed markets by roughly 16 percentage points.<sup>12</sup>

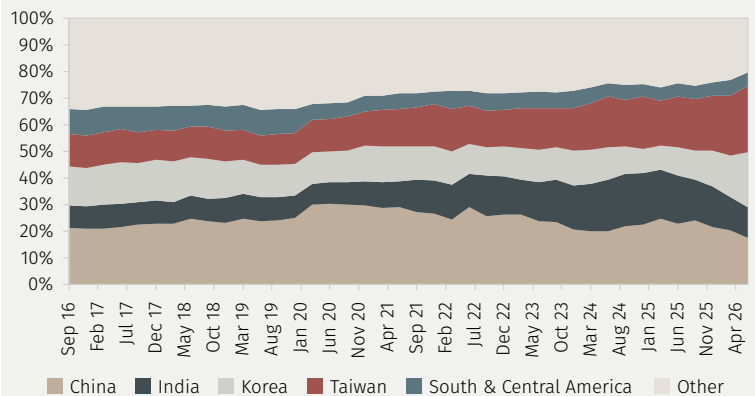
This outperformance also reflects **EM currency appreciation versus the US dollar**, as investors have sought diversification away from increasingly concentrated developed-market indices.

Despite this strong run, the **valuation gap** between emerging and developed markets – particularly the US – remains wide, which should continue to attract capital flows.

A key feature of the rally is its **concentration in AI-related names**. Taiwan and South Korea have overtaken China as the largest markets in the MSCI EM Index, following gains of about **55%** and **103%** respectively since the start of the year.

Figure 9. Weight in MSCI Emerging Market Index (%)

### South Korea and Taiwan have grown their share



Source: LSEG Data & Analytics. Data as at 31 May 2026.

<sup>12</sup> Source: LSEG Data & Analytics. Data as at 31 May 2026.

”  
Despite this strong run,  
the valuation gap between  
emerging and developed  
markets – particularly  
the US – remains wide”.

### Solid fundamentals

Macro fundamentals remain a powerful support. The IMF’s Spring 2026 World Economic Outlook projects **EM GDP growth in 2026–27 at roughly double that of advanced economies**, despite the negative impact of the Persian Gulf crisis on countries most exposed to the Strait of Hormuz, including parts of Southeast Asia and India. Stronger growth underpins **healthier public-finance profiles** than in many industrialised economies. In markets, this has supported the resilience of EM bond spreads versus US Treasuries and contributed to **higher total returns for EM bonds**, helped by favourable carry.

### Commodities and geopolitical risks

High commodity prices are usually a tailwind for EM, and at first glance H1 2026 appears to confirm this. However, the current cycle is more nuanced. Prices across energy and industrial metals have risen largely because of supply disruption from the closure of the Strait of Hormuz.

This potential scarcity is a **double-edged sword**:

- On the positive side, demand has shifted towards **alternative suppliers**, particularly in South America, supporting export revenues.
- On the negative side, higher input costs – especially for fertilisers – risk driving **a sharp rise in inflation** in lower-income economies, where food prices carry a larger weight in consumption baskets

## Outlook for H2 2026

H2 2026 could mark the beginning of a structural re-rating of emerging markets. Stronger growth fundamentals, improving governance in several key countries and the diversification benefits EMs offer relative to increasingly concentrated developed-market indices should continue to attract capital. Furthermore valuations remain supportive, as well as EM currency appreciation underpins the case for further inflows.

The main risk to this constructive outlook is commodity-driven inflation. The current energy and metals price shock is driven more by supply disruption from the closure of the Strait of Hormuz than by demand. While this supports export revenues for some EM commodity producers, higher input costs – especially for fertilisers – could trigger a sharp rise in inflation in lower-income economies, where food carries a larger weight in consumption baskets.

**A prolonged Middle East conflict and more persistent supply disruptions would increase this risk.**

Overall, we remain positive on EM for H2 2026, but see a more differentiated environment ahead, where country- and sector-level selection – particularly around AI-linked markets such as Taiwan and Korea, and more vulnerable lower-income economies – becomes increasingly important.

### Action for investors

- **Maintain a constructive stance on EM equities**, with a focus on markets where fundamentals are strongest. As in Theme 1, **Taiwan and India** as a value diversifier remain core exposures.
- **Keep exposure to commodity-related equities**, which can benefit from elevated prices and supply re-routing, while monitoring inflation risks in more vulnerable EMs.
- **Manage concentration risk actively**: the EM index is increasingly dominated by a handful of AI-linked markets and stocks. An active approach is preferable to purely passive exposure.

# 9 Private markets: Unlocking liquidity and diversification opportunities

## What we said

We anticipated that private markets would continue to offer attractive risk-adjusted returns in 2026, with **opportunities across mid-cap buyouts, secondaries, private credit and infrastructure**, emphasising that success increasingly relies on selecting top quartile managers.

## How it has played out

### Mid-market buyouts: specialisation and diversification in an increasingly concentrated market

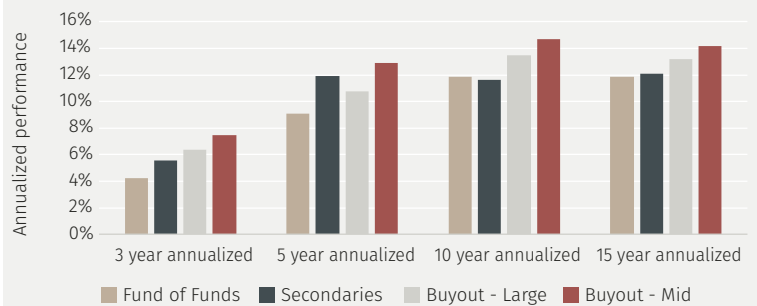
Large buyout transactions have become increasingly difficult environments for generating excess returns. Competition for mega-cap assets is intense, purchase multiples are elevated, and value creation has become increasingly dependent on financial engineering and multiple expansion – both harder to sustain in a higher-rate environment.<sup>13</sup> The mid-market, by contrast, offers managers greater scope to drive returns through operational improvement and earnings growth. Smaller and mid-sized businesses are typically less efficiently priced and more influenced by company-specific execution than by broader market dynamics.

The evidence is compelling: over the past 15 years, specialist private equity managers have consistently outperformed generalists,<sup>14</sup> underlining the **growing importance of manager selection**. Diversified fund-of-funds strategies represent an efficient route to this opportunity set for investors seeking to reduce single-manager concentration risk.



Figure 10: Mid and long-term performance dispersion between private equity strategies

### A more challenging environment to generate excess returns for large buyouts



Source: Preqin.

<sup>13</sup> McKinsey & Company, Private equity: Clearer view, tougher terrain, Global Private Markets Report 2026 (February 2026).

<sup>14</sup> McKinsey & Company, Private equity: Clearer view, tougher terrain, Global Private Markets Report 2026 (February 2026).

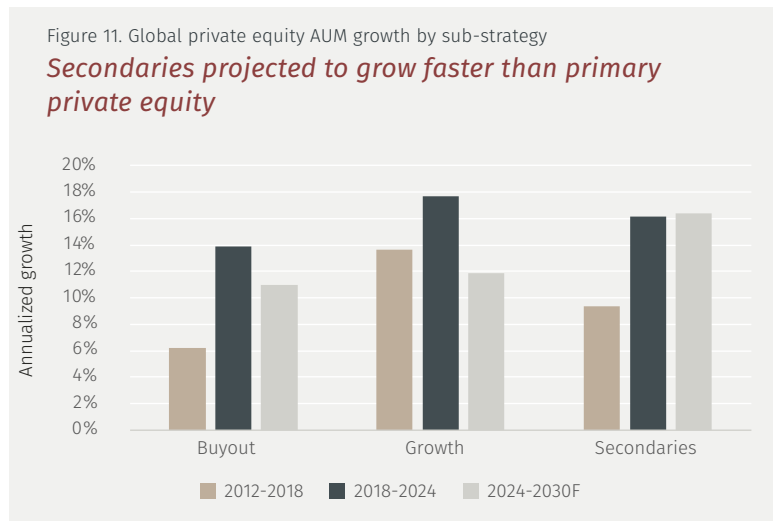
“...over the past 15 years, specialist private equity managers have consistently outperformed generalists”.

**Secondaries: liquidity-driven dislocation creates a compelling entry point**

The secondaries market has evolved from a niche liquidity tool into one of the **most attractive areas of private equity in our view**. Historically dominated by LP-led sales of existing fund interests at discounts, it now also includes GP-led continuation vehicles, where managers roll portfolio companies into new funds and investors can either cash out or stay invested.

Several forces have accelerated growth:

- A **prolonged slowdown in exits** has sharply reduced liquidity, with distributions-to-NAV falling from an average of 29% (2014–17) to just 11% in 2024.<sup>15</sup>
- Many institutional investors are now **over-allocated to private markets** and are using secondaries to rebalance.
- Continuation funds have become mainstream among leading buyout firms, helping retain ownership of high-quality assets with further value-creation potential.



Source: Preqin. **Past performance is not indicative of future results.**

For buyers, secondaries offer structural advantages: stakes are typically acquired at **discounts to NAV (around 85–95 cents on the dollar for buyout secondaries)**, underlying assets are more mature so **cash distributions arrive sooner**, blind-pool risk is lower, and a single allocation can provide diversification across companies, managers, vintages and sectors, often with lower fees than primaries.

The opportunity has sharpened in 2026 as several large US universities and endowments, including **Yale (up to USD 6bn marketed)<sup>16</sup> and Harvard**, have explored secondary sales of private equity portfolios,<sup>17</sup> creating access to high-quality assets at discounted valuations.

<sup>15</sup> Bain & Company, Global Private Equity Report 2026.

<sup>16</sup> Hannah Zhang, “Yale sells up to \$6bn of its PE portfolio amid federal funding challenge,” *Secondaries Investor*, 17 April 2025.

<sup>17</sup> Mary McDougall, Sun Yu and Antoine Gara, “Ivy League endowments sell private equity stakes amid buyout downturn,” *Financial Times*, 19 May 2025.

” Private infrastructure has re-emerged as one of the strongest areas of private markets in 2026”.

**Private credit: manager selection is everything**

Private credit has attracted negative headlines, first as a ‘bubble’ and more recently over higher-than-expected default rates and the gating of semi-liquid vehicles at certain large managers. The gating discussion deserves reframing: in an illiquid asset class, **gates are a structural safeguard** that protects investors from forced sales at distressed valuations, not an indicator of portfolio deterioration. The fundamental case remains intact. **Attractive yields, floating-rate structures and senior secured positioning** offer a compelling risk-adjusted profile relative to public fixed income, which the asset class has consistently outperformed through cycles.<sup>18</sup> Direct lending also has **one of the lowest correlations to global fixed income** of any private credit strategy.<sup>19</sup>

Competition is compressing spreads and widening dispersion between managers. The “right” manager combines:

- Scale to originate **proprietary deal flow**,
- A robust platform for **rigorous underwriting**, and
- The discipline to **walk away from marginal credits**.

**Private infrastructure: essential assets, renewed momentum**

Private infrastructure has re-emerged as one of the **strongest areas of private markets in 2026**. After two years of slower deal activity and higher rates, fundraising rebounded in 2025 and infrastructure AUM has reached around **USD 1.6 trillion**.<sup>20</sup>

Momentum reflects both the **defensive characteristics** of the asset class and the **scale of global infrastructure needs**. McKinsey estimates **USD 106** trillion of investment will be required globally through 2040, spanning traditional assets (utilities, transport) and newer segments such as **digital infrastructure, data centres and power generation**. AI-driven demand for compute and electrification is further boosting interest in digital and energy infrastructure. Infrastructure continues to offer **resilient, inflation-linked cash flows** and **lower volatility** than traditional private equity, reinforcing its role as a **strategic long-term diversifier**.

**Outlook for H2 2026**

We expect private markets to remain an important source of return, diversification and liquidity solutions in H2 2026, but with a **much stronger premium on manager selection and strategy mix** than in the previous cycle. The combination of slower exits, higher financing costs and more volatile public markets is reinforcing the advantages of mid-market buyouts, secondaries, private credit and infrastructure over large, highly levered buyouts.

<sup>18</sup> McKinsey & Company, The next era of private credit-

<sup>19</sup> Preqin, Private Credit – Correlation Analysis.

<sup>20</sup> Boston Consulting Group, Infrastructure Strategy 2026: A Year of Increasing Scale and Diversification.

“Overall, we see H2 2026 as a favourable environment for investors who can be selective...”

In **buyouts**, we see the opportunity set continuing to favour specialised mid-market managers that can drive operational improvement and earnings growth, rather than relying on multiple expansion. **Performance dispersion between strategies and managers is likely to stay wide**, making access to top-quartile specialists – often via diversified fund-of-funds – a key driver of outcomes.

The backdrop for **secondaries** remains particularly attractive in our view. Liquidity needs among over-allocated institutional investors, combined with a still-muted exit environment, should keep deal flow high and discounts to NAV available on quality assets. **We expect secondaries to continue growing faster than primary private equity**, offering investors a way to deploy capital into more mature portfolios with lower blind-pool risk and earlier distributions.

In **private credit**, we anticipate continued growth but also further polarisation between platforms. **Higher-for-longer rates and tighter financial conditions will test underwriting standards**, rewarding managers with scale, robust credit processes and the discipline to avoid marginal deals.

**Private infrastructure** should remain a core beneficiary of structural trends. The need for investment in energy transition, digital infrastructure and AI-related power and data-centre capacity supports a strong multi-year pipeline, while the **asset class's inflation-linked cash flows and lower volatility versus traditional private equity underpin its role as a long-term portfolio stabiliser**.

Overall, we see H2 2026 as a favourable environment for investors who can be selective: leaning into secondaries, high-quality private credit and infrastructure, and accessing specialised mid-market buyout managers rather than chasing scale in mega-buyouts.

### Action for investors

- **Prioritise secondaries as the most attractive near-term entry point** in private markets, accessing high-quality assets at discounts during a period of elevated liquidity demand.
- In **private credit**, make **manager selection the central decision**: favour platforms with scale, strong underwriting and disciplined risk management.
- **Maintain a strategic allocation to infrastructure**, with a focus on **digital and clean-energy infrastructure** where secular demand is strongest and cash flows are inflation-linked.

# 10 IPO and M&A activity: Multiple sectors to benefit

## What we said

We **anticipated a normalisation in initial public offerings** (IPOs) and mergers and acquisitions (M&A) in 2026, driven by sector-specific opportunities, pent-up demand and strategic repositioning.

## How it has played out

### IPOs: fewer deals, larger proceeds

The IPO market has evolved broadly as expected, but with a clear quality bias. In Q1 2026, the **number of IPOs fell versus a year earlier, yet total proceeds were significantly higher** (Figure 12). This reflects a more selective environment, where heightened geopolitical uncertainty favours fewer listings by companies with stronger fundamentals.

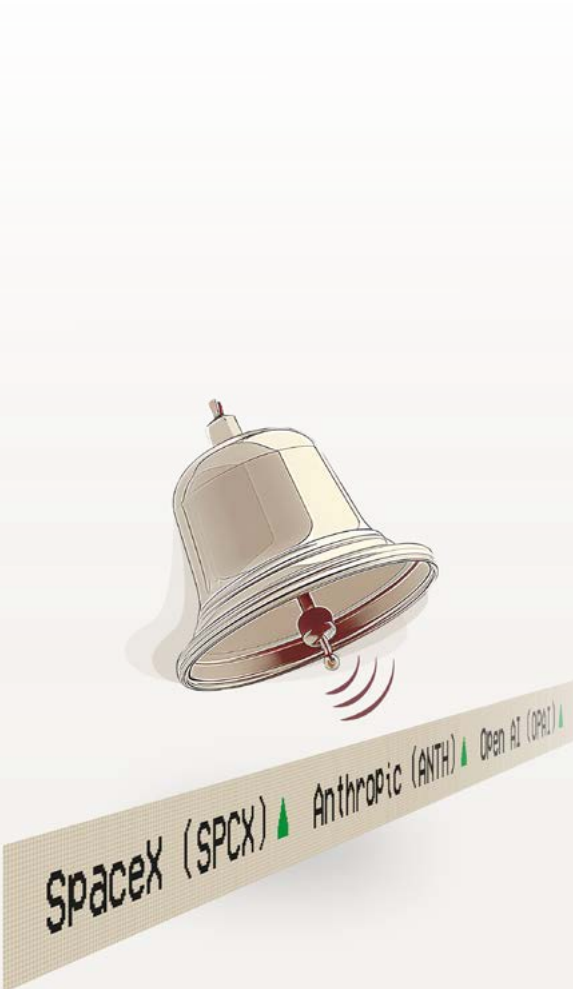
The standout transaction is the **SpaceX IPO**. While the company has a powerful growth narrative, its listing structure introduces important risks for investors.

Under the previous rules, a stock needed several months of trading history and at least **10% free float** before becoming eligible for Nasdaq index inclusion. Nasdaq has now amended its rules: a stock can be **fast-tracked into the Nasdaq-100 after just 15 trading days** if its market capitalisation places it among the top 40 holdings.<sup>21</sup>

Given SpaceX's **low free float**, this creates a dynamic where:

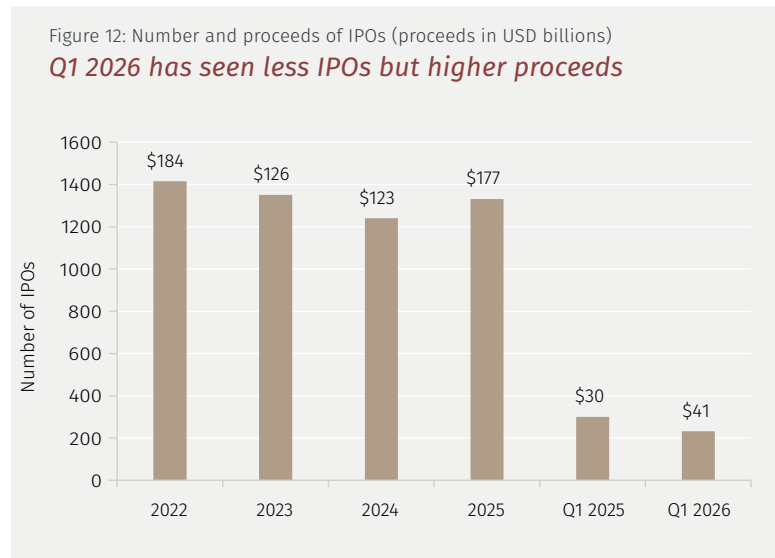
- **Supply is constrained** (few shares available),
- **Demand is amplified** by media hype and index-tracking flows, and
- Once the **lock-up period ends**, insiders and early investors can sell into a market where **ETFs are effectively forced buyers** due to index inclusion.

The result is that **private investors and insiders can monetise at peak hype**, while **passive investors bear the downside risk** if valuations correct.



<sup>21</sup> [https://indexes.nasdaqomx.com/docs/2026\\_May\\_NDX\\_Changes\\_FAQ.pdf](https://indexes.nasdaqomx.com/docs/2026_May_NDX_Changes_FAQ.pdf)

”M&A has followed a similar pattern: fewer deals, but higher aggregate value”.



Source: EY and Dealogic. Data as at 08 April 2026.

**M&A: highest-value start since 2021**

M&A has followed a similar pattern: **fewer deals, but higher aggregate value.** As expected, geopolitical tensions and still-elevated financing costs have constrained highly leveraged transactions and encouraged dealmakers to prioritise quality over volume.

In Q1 2026, the **number of deals declined year-on-year**, but **deal value rose 9.7%**, marking the **strongest start to a year since 2021**.<sup>22</sup>

**Outlook for H2 2026**

We **expect IPO and M&A activity to remain robust in H2 2026, but with a continued emphasis on quality over volume.** The pattern seen in H1 – fewer deals but higher aggregate proceeds and deal values – is likely to persist as geopolitical uncertainty and elevated financing costs keep the bar high for new listings and large, highly levered transactions.

On the **IPO** side, the **pipeline is dominated by large technology and AI-related names**, including Anthropic, Databricks and OpenAI, extending the theme beyond SpaceX and reinforcing the link between AI, capital markets and index dynamics. The combination of low free float, fast-track index inclusion and intense media attention creates a fertile environment for hype-driven price action, particularly in the early trading days.

In **M&A**, CEO intentions point to a constructive backdrop: 62% of CEOs globally expect to increase deal activity over the next 12 months.<sup>23</sup> If geopolitical tensions ease and the energy shock moderates, **we see scope for a gradual normalisation of financing conditions, supporting a broader range of strategic transactions across sectors.**

22 <https://www.spglobal.com/market-intelligence/en/news-insights/research/2026/04/global-m-and-a-by-the-numbers-q1-2026>

23 [https://www.ey.com/en\\_uk/ceo/ceo-outlook-global-report](https://www.ey.com/en_uk/ceo/ceo-outlook-global-report)

“ Overall, we see H2 2026 as an attractive but selective environment for investors around IPOs and M&A...”

Overall, we see H2 2026 as an attractive but selective environment for investors around IPOs and M&A: **opportunities are concentrated in high-quality, strategically important assets**, while index mechanics and low-float structures increase the risks for passive investors in headline deals.

**Action for investors**

- **Do not be purely passive around high-profile IPOs:** Low-float, mega-cap listings (e.g. SpaceX) can be added rapidly to major indices, forcing ETF buying at peak-hype valuations and leaving passive investors exposed when lock-ups expire.
- **Favour active strategies to navigate IPOs and M&A:** Use active stock selection to distinguish between structurally attractive new listings and those primarily driven by narrative and index mechanics.
- **Look for second-order beneficiaries:** Investment banks and advisory firms have outperformed traditional banks year-to-date, reflecting higher fee income from IPO and M&A activity. These can offer a more diversified way to benefit from the deal cycle.

# Our top 10 themes for 2026

## Mid-Year review

Our 2026 themes have largely been validated by events so far. US growth leadership, an EU revival, the strength of emerging and private markets, and robust IPO/M&A activity have all played out broadly as expected, while the Hormuz shock has complicated our interest-rate and bond-market calls.

**Overall score\* for our 2026 predictions:**

# 9 / 10

\* Scoring as at 31 May 2026.

1 **Correct**

### US set to lead economic growth

The US remains the fastest-growing major advanced economy in 2026 (IMF 2.3% vs 1.1% eurozone, 0.8% UK, 0.7% Japan), with structural drivers (resilience, growth plan, IT leadership) intact despite the energy shock.

2 **Partially Correct**

### Trough interest rates in advanced economies; opportunities in emerging markets

Policy rates did broadly trough as expected, but the Hormuz/energy shock has pushed expectations back up and even raised the risk of renewed tightening; EM high real-rate opportunities were initially attractive but have become more challenging after the global repricing of rates.

3 **Correct**

### Bond markets: Beware of shark-infested waters

Developed-market sovereigns, especially the UK, have indeed come under pressure: Gilts have negative YTD returns, yields have spiked to multi-decade highs and fiscal/political concerns are front and centre, validating the warning on vulnerable sovereigns.

4 **Correct**

### **Geopolitics:** New alliances, state capitalism and a diverging electorate

2026 has been dominated by geopolitics (US-Iran conflict, Hormuz closure, UAE leaving OPEC), a more pragmatic but strategic US-China stance, deeper US state involvement in strategic sectors, and rising support for more extreme parties in Europe.

5 **Partially Correct**

### **Trump's 3 D's:** DOGE, Deregulation, and Drugs

Trump's agenda is clearly market-relevant, but with a twist: DOGE has largely stalled (savings barely moved from USD 214bn to 215bn), while deregulation and a pro-innovation FDA stance on drug development are the real ongoing drivers for credit creation and healthcare innovation.

6 **Correct**

### **Opportunities abound in the AI race**

AI has played out as a major secular growth engine: agentic AI is scaling in enterprises, hyperscaler capex has been revised sharply higher, semiconductors face capacity bottlenecks, and a strong IPO/funding pipeline (OpenAI, Anthropic, SpaceXAI) is emerging.

7 **Correct**

### **An EU revival:** Restructuring and reform

All three pillars are visible: defence spending is rising rapidly, the energy shock is accelerating the green transition under AccelerateEU, and Europe/Switzerland are leaning into innovation, with Switzerland a clear high-innovation outlier.

8 **Correct**

### **Emerging markets** have the wind in their sails

EMs have outperformed strongly (MSCI EM up ~27% YTD in local terms, ~16pp over DMs), supported by stronger growth, currency appreciation and AI-linked markets (Taiwan, Korea), even as the Hormuz shock creates a more nuanced commodity backdrop.

9 **Correct**

### **Private markets:** Unlocking liquidity and diversification opportunities

The opportunity set has evolved as expected: mid-market specialist buyouts and secondaries are outperforming large buyouts, liquidity-driven secondary deal flow is strong, and private credit/infrastructure remain key diversifiers in a higher-for-longer, more volatile environment.

10 **Correct**

### **IPOs and M&A activity:** Multiple sectors set to benefit

Activity has normalised with a clear quality bias: fewer IPOs but higher proceeds (SpaceX as the flagship deal), and fewer M&A transactions but the highest Q1 deal value since 2021, consistent with a selective but active deal environment.

\* Scoring as at 31 May 2026.

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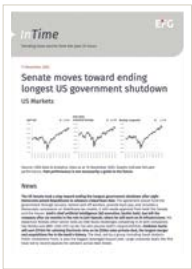


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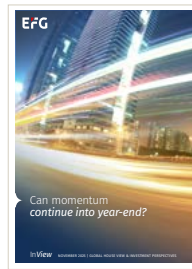
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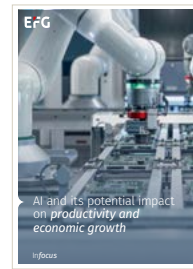
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