Outlook 2027

Our top 10 themes for the year ahead



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Welcome to EFG's Outlook 2027. Here we present our top ten themes for the year ahead and provide a review of how our predictions performed in 2026.

Resilient growth, evolving risks

As we enter 2027, the global economy remains broadly resilient, but the range of possible outcomes is wider than before. Elevated energy prices, persistent inflation concerns and the risk of further monetary tightening pose important challenges. High government debt adds another layer of complexity, particularly for bond markets, for which the balance between yield and risk will require careful judgement.

The growing influence of the middle powers will also reshape the geopolitical landscape. In this environment, understanding the drivers of economic growth and how policy decisions could influence markets, will be increasingly important.

Structural change creates new opportunities

Artificial intelligence (AI) remains one of the most powerful forces shaping the global economy. The scale of investment in AI infrastructure is extraordinary, creating opportunities across technology, healthcare, cybersecurity and energy. As spending accelerates and financing needs grow, investors will need to distinguish between companies capable of generating sustainable returns and those whose valuations rely on expectations that may prove difficult to fulfil.

Energy security will be another defining theme. Recent disruptions have reinforced the importance of reliable domestic power supplies, while rising electricity demand from data centres is driving investment in generation, grids and storage.

A disciplined approach to portfolio positioning

These developments have important implications for portfolio construction. Private capital can play a key role in financing infrastructure and supporting business transformation, but higher financing costs and liquidity constraints make manager selection and valuation discipline essential. Hedge fund strategies may also provide opportunities in a world of divergent corporate fundamentals.

Against this backdrop, our message to investors is clear: remain invested, but recognise that broad market exposure alone may not be sufficient. We favour global diversification, with a deliberate emphasis on US growth and quality companies, while selectively seeking opportunities in other regions and asset classes. Managing interest rates, maintaining portfolio flexibility and focusing on long-term objectives will be crucial.

Uncertainty will remain a feature of the investment environment in 2027, but for investors prepared to look beyond short-term headlines and focus on structural change, the year ahead offers meaningful opportunities to build resilient portfolios and capture long-term growth.



Moz Afzal,
Chief Investment Officer

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Macro and policy

Global growth remains resilient but less predictable. Higher energy prices, inflation pressure and elevated government debt imply a wide range of possible outcomes. In this environment, central bank decisions, fiscal choices and geopolitics will be key drivers of the global economy in 2027.

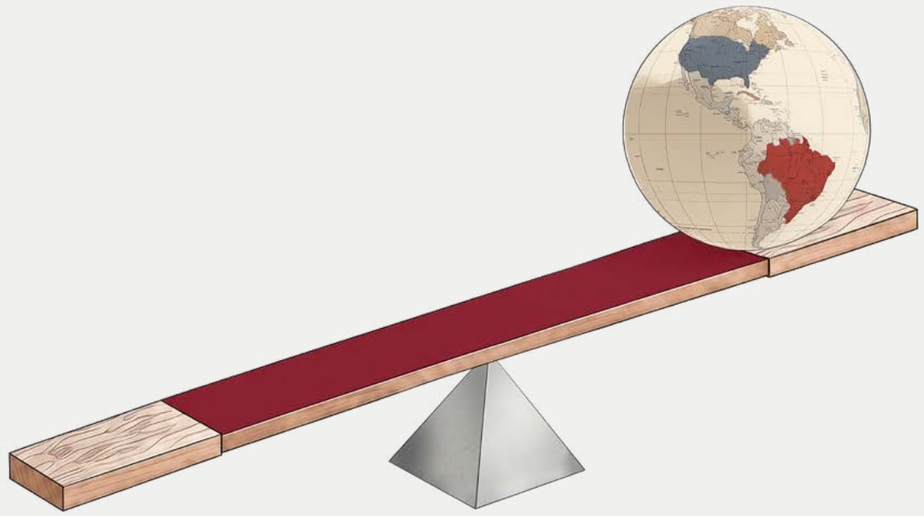
1 ***Resilient world, shifting leadership:***
Where growth – and capital – go next

2 ***Managing expectations:***
Navigating the interest rate environment

3 ***The emergence of the Middle Powers:***
The new map of risk and opportunity

4 ***AI's next phase:***
The promise and perils of a capex supercycle

1 *Resilient world, shifting leadership:* Where growth – and capital – go next



Key takeaways

Global growth in 2027 is likely to stay resilient and US-led, broadly similar to 2026.

The main risks are another rise in energy prices, central banks tightening too far, and an AI-related debt or employment shock.

Elections in several major economies are likely to add to volatility, especially in the run-up to various elections.

Theme 1

An investor starting 2026 with perfect foresight about the war in the Middle East, the sharp rise in energy prices and the dramatic shift in central bank expectations from rate cuts to rate rises might reasonably have expected a very difficult year for the global economy. Yet growth has been remarkably resilient across most major economies, and this resilience underpins our central expectation that it will continue into 2027.

Our core views on global growth remain similar to 2026. We see the ***world economy growing at around 3.5%,*** with the US likely to remain the fastest-growing major developed economy. Eurozone growth should lag the US but may pick up relative to 2026 as defence spending rises and some countries, such as Germany, adopt a more flexible stance on fiscal deficits. The UK is also expected to grow slightly faster in 2027 than in 2026, although uncertainty remains high because the new Prime Minister and his team are untested and fiscal headroom is limited. Japanese growth is expected to be similar to 2026, with the country continuing its gradual normalisation.

Among emerging markets, China dominates. Depending on the measure used, it is either the world's first or second largest economy. Unlike much of the developed world, ***China is expected to grow more slowly in 2027 than in 2026,*** constrained by high debt levels and limited proactive policy support. Other emerging economies will be shaped by their own fiscal positions, reform agendas and exposure to energy prices and global demand.

For investors, the message is that growth is still there to be captured, but it is more uneven. Where you invest matters more than it did in a world of synchronised expansion.

3-2-1: The cone of uncertainty

What has changed in the outlook for 2027 is not the central growth forecast, but the width of the uncertainty around it. The "cone of uncertainty" – the range of plausible outcomes (Figure 1) around our central view – has widened, and our confidence in that central view has diminished.

We see three main downside risks, two upside scenarios and one wildcard factor that could all influence how 2027 unfolds.

Figure 1: Potential downside, upside and wildcard outcomes

Key factors that could influence 2027



Source: EFG.

Three negative scenarios

1. Energy starts to matter – So far, higher energy prices have neither fed through meaningfully to core inflation nor significantly affected activity. However, the longer the war persists and the higher prices move, the greater the risk of a more profound impact. Companies may be able to absorb higher energy input costs temporarily, provided they are not too large. If costs rise by too much, for too long, companies will be forced to raise prices to protect profit margins, increasing the risk that higher energy costs spill over into broader inflation.

2. Central banks overshoot – Central banking is always difficult, not least because of long and variable lags between the enactment of policy and its effects. It may only become clear after the event whether policy rates were set at the right level. If central banks respond too aggressively to headline inflation, they could raise rates to a point at which growth slows meaningfully. Higher borrowing costs would weigh on consumer spending and could further weaken housing markets that are already sluggish in parts of the world. This is particularly relevant in economies where many households must refinance their mortgages at higher rates.

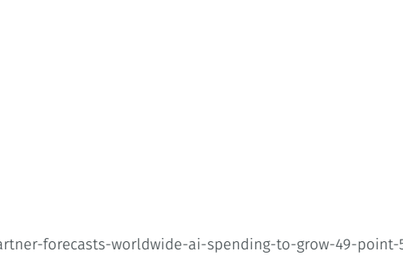
For example, it is estimated that roughly 800,000 homes in the UK currently facing a mortgage rate of 3% or less will need to remortgage in 2027.[1] There has also been a sharp rise in housing-related expenditures in the EU recently, a part of which is related to higher mortgage costs.

In contrast, 30-year fixed-rate mortgages are common in the US, implying that the impact of higher borrowing costs will feed through only slowly for existing home owners. Nonetheless, higher mortgage costs on new loans have deterred buyers from entering the market and reduced transaction volumes, something that may drag on activity more broadly in the future.

3. AI: from growth engine to speed bump – Gartner estimates that global AI infrastructure spending will reach nearly $2.0 trillion in 2027 (Figure 2), with broader AI-related spending on software and services adding a further $1.7 trillion.[2] This would represent a combined increase of $1.0 trillion relative to 2026, equivalent to a growth rate of 36%.

Figure 2: Estimated AI spending (USD millions)

AI spend is expected to rise 36% in 2027



Source: Gartner September 2026.

There is a risk these numbers do not materialise. If the cost of issuing debt to fund this spending becomes prohibitive, investment could fall short of expectations, dragging on global activity. AI-related layoffs could also reach a scale where they have broader economic consequences. A single company cutting 20% of its workforce may reduce its own costs; many companies simultaneously doing so would weigh on consumption and the wider economy. Additionally, growing opposition to data centres could limit the extent to which companies are able to follow through on their investment plans.

1 https://www.bbc.com/news/articles/c3dky111m40o
2 https://www.gartner.com/en/newsroom/press-releases/2026-09-16-gartner-forecasts-worldwide-ai-spending-to-grow-49-point-5-percent-in-2026

Two positive scenarios

We consider two factors that could contribute positively to growth in 2027.

1. A Middle East deal that sticks – A comprehensive and credible agreement between Iran and the US could lead to a sharp retreat in oil and gas prices, bolstering confidence and freeing up spending for households and companies. This would be particularly helpful for countries that are net energy importers and could be reinforced if central banks responded to a more favourable inflation outlook by easing policy sooner.

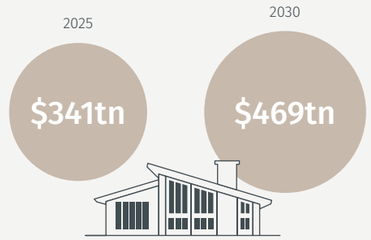
2. The wealth effect finally shows up – The strength of global markets in recent years has surprised many. This is reflected in healthy household balance sheets. For example, from end-June 2025 to end-June 2026 (the latest official data), US household net worth increased by about $20 trillion. Separately, Oliver Wyman estimates household financial wealth will increase by $158 trillion by 2030 (Figure 3), equivalent to a little over $30 trillion per year.[3]

There is a boost to consumption associated with such an increase – known as the wealth effect – that can have a beneficial impact on growth. A relatively modest 3% to 5% wealth effect on consumption would imply a boost to the US economy of between $0.6 and $1.0 trillion and an uplift of $0.9 to $1.5 trillion per annum to the global economy.

For investors, this is a reminder that staying invested in growth assets can have macro consequences, not just portfolio ones.

Figure 3: Estimated global household financial wealth

Household financial wealth to grow significantly



Source: Oliver Wyman

One wildcard: ballots, budgets and bouts of volatility

Next year brings several elections around the world, ***creating conditions for higher market volatility.***

One of the crucial elections in 2027 will be in France, where Marine Le Pen's far-right National Rally party stands a reasonable chance of winning. It is too early to tell what policies the National Rally will follow and how they might impact the already-precarious French budget situation. However, it is noteworthy that since Giorgia Meloni became Prime Minister of Italy in 2022, she has adopted a more moderate and conciliatory tone than suggested by the pre-election rhetoric. Meloni is now the longest-serving Italian Prime Minister since the Second World War and faces re-election in 2027.

> "…the wealth effect… can have a beneficial impact on growth."

Other elections, including in Poland and Argentina, could also generate localised uncertainty, with potential implications for Europe, and, in Argentina's case, for the UK. For diversified investors, the key is to recognise that elections can move markets in the short term but rarely change long-term return drivers. The risk is more about the reaction to the event and whether any significant policy changes are likely as a result of it.

3 https://www.oliverwyman.com/our-expertise/insights/2026/sep/asset-wealth-management-trends-shaping-growth-to-2030.html

Our view for 2027

We believe the global growth outlook for 2027 is much the same as for 2026: steady growth globally, led by the US, but with heightened risks.

The negatives could include another rise in energy prices, an overtightening of monetary policy and an AI-related shock or dislocation. The positives could come from a rapid resolution to the Middle East conflict and a strong wealth effect from continued gains in equity markets.

Several high-profile elections will take place in 2027, so elevated market volatility is likely in the weeks before them.

Ultimately, the outlook will depend on how these competing forces unfold, with ***the balance of risks and opportunities likely to drive both market direction and volatility through 2027.***

For you as an investor, the message from Theme 1 is to stay globally diversified with a deliberate tilt towards the US. It will be important to manage interest rate and energy risk and remain invested while using volatility to help position portfolios. The points below translate this into concrete portfolio actions for the year ahead.

Action for investors

Stay global, lean to the US. Maintain broad global equity exposure but consider a modest overweight to US equities, which are expected to remain the growth leader among developed markets.

Manage interest rate and energy risk. Use a mix of shorter-duration bonds and inflation-linked bonds or quality dividend-paying equities to reduce sensitivity to potential rate shocks and energy price spikes.

Stay invested, manage risk actively. Avoid panic selling on headlines, but do not be passive about risk. Use volatility to rebalance, upgrade quality and keep your portfolio aligned with your long-term objectives and risk tolerance.

Introducing the next theme

From global growth to rates

The expected resilience of global growth in 2027 sets the stage for the next theme: how central banks will respond, and what that means for the cost of capital. The following theme, ***Managing expectations: Navigating the interest rate environment,*** looks at how far rates may still need to rise, how long they might stay elevated, and what parts of the bond market now offer a fair trade-off between yield and risk.

2 *Managing expectations:* Navigating the interest rate environment



Key takeaways

Inflationary pressures risk pushing central banks towards excessive tightening, despite resilient labour markets and contained underlying inflation.

Government debt and fragile fiscal positions are adding a second layer of risk sentiment for bond investors, particularly in longer-dated bonds.

Bond markets face additional pressures due to the need to absorb sizeable issuance from some large tech companies.

Theme 2

Since tensions in the Gulf erupted at the end of February 2026, the global monetary policy outlook has changed. The surge in energy prices has pushed headline inflation higher across the major economies, while non-energy inflation has been broadly stable. The question at the start of 2026 was: when will central banks cut rates? Looking towards 2027, the more relevant question now is: how much further will rates have to rise and is there a risk of markets over-reacting?

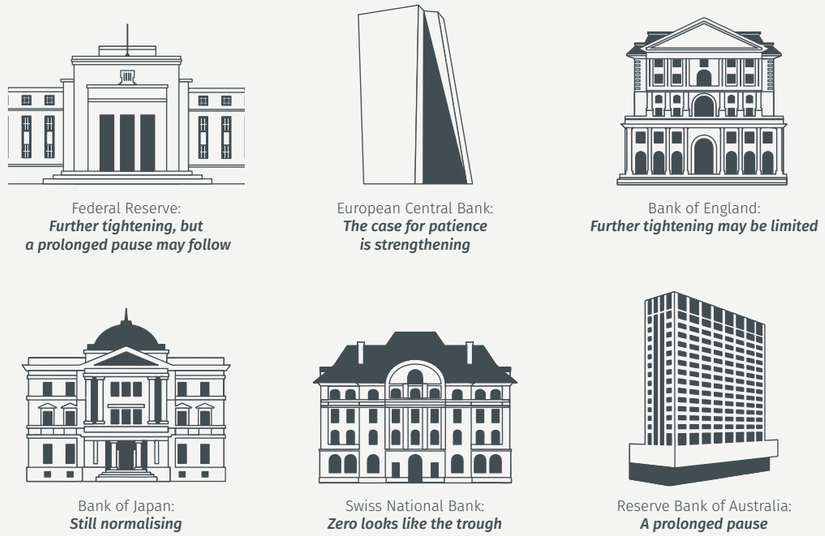
The pattern is strikingly similar across countries. The energy shock has raised headline inflation, but economic activity has proved surprisingly resilient in most major economies. This combination matters for monetary policy. Stronger activity sustains demand, making it easier for firms to pass higher energy costs on to consumers and increasing the risk that these costs eventually spread to wages and other prices. At the same time, strong activity reduces the risk that tighter monetary policy will trigger a recession.

Have markets over-reacted?

Markets have responded to the energy shock by sharply raising expected policy rates. The question is whether they have gone too far. While further tightening may be needed, there is still little evidence that higher energy prices are spreading to wages and underlying inflation. The absence so far of substantial second-round effects suggests that markets may be pricing in more tightening than central banks will ultimately deliver.

Figure 4: Central bank expectations for 2027

Many central banks could be poised to pause



Source: EFG.

Our views on the major central banks are as follows:

Federal Reserve:

The US starts from the most difficult inflation position, with inflation already well above target and the economy and labour market still resilient. The Federal Reserve (Fed) has raised rates, and a further increase seems likely, but recent signs of a softer labour market argue against a sustained tightening cycle. Unless higher energy costs begin spreading to wages and underlying inflation, one or two more increases followed by an extended pause seems the most likely outcome.

European Central Bank:

The European Central Bank (ECB) has already raised rates twice since the energy shock, but there is still little evidence that higher energy prices are spreading to underlying inflation and wage growth remains contained. The resilience of the economy makes further tightening less costly, but not necessarily more urgent. Unless second-round effects emerge, the ECB may have little reason to raise rates much further, suggesting that markets may be anticipating more tightening than what is actually delivered.

A more significant development for the ECB is President Lagarde's impending exit on 7 February 2027. At the same time, the terms of Chief Economist Philip Lane and Executive Board member Isabel Schnabel will come to an end. Therefore, the ECB is to face significant changes in senior leadership, bringing with it some uncertainty regarding the ECB's future reaction function.

Bank of England:

The UK faces a similar inflation problem, but a softer labour market gives the Bank of England more reason to proceed cautiously. Wage growth has slowed, unemployment has increased, the Bank Rate is already restrictive, and the economy is less resilient than those of the US and euro area. Further tightening may be needed if second-round effects emerge, but a sustained tightening cycle seems unlikely.

Bank of Japan:

Japan is at a different stage of the monetary cycle. Growth is resilient, the labour market is tight, wages are rising rapidly and inflation is expected to remain above the Bank of Japan (BoJ) 2% target. With the policy rate at 1.25%, monetary policy remains accommodative, leaving room for further normalisation, potentially towards 2% in the first half of 2027, although concerns about growth could slow the process.

Swiss National Bank:

Switzerland remains the main exception because inflation is just below the 1% midpoint of the Swiss National Bank's (SNB) price stability range and there is little evidence of second-round effects. The economy has remained healthy, the franc has weakened and monetary policy is accommodative. The SNB can afford to wait, but when it eventually moves, an increase looks more likely than a cut: zero increasingly looks like the trough of the current interest rate cycle.

Reserve Bank of Australia:

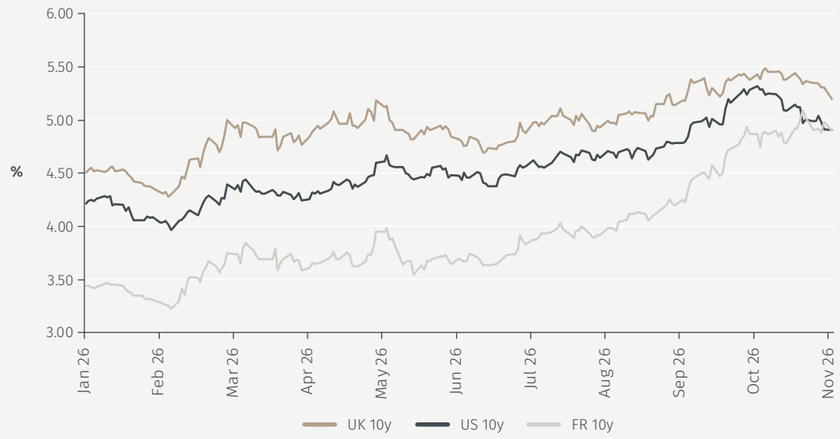
The Reserve Bank of Australia (RBA) raised rates five times in 2026, bringing the cash rate to 4.85%. Inflation remains stubbornly above target and higher energy prices have worsened the outlook. However, further tightening now seems unlikely. Rising unemployment, subdued consumption and falling house prices suggest that monetary policy is already restraining activity. The RBA is likely to keep rates unchanged for much of 2027, balancing persistent inflation pressures against the risk of a further slowdown in economic activity.

> "...markets may be pricing in more tightening than central banks will ultimately deliver."

For investors, the implication is that ***policy rates may not need to rise as high as current market pricing suggests,*** especially in the US and euro area, but the path will remain uncertain and data dependent.

Figure 5: Long yields in UK, US and France in 2026

Higher yields reflect higher inflation expectations and geopolitical uncertainty



Source: LSEG Data & Analytics and EFG calculations. Data as at 30 October 2026.
Past performance is not indicative of future results.

When the long end starts to worry about debt

Central banks can control short-term policy rates at the front end of the yield curve, but the long end reflects changes in policy expectations, risk premia and debt supply. The energy shock caused by the intensification of the conflict in the Middle East has affected all three.

> "Despite a plan to control US fiscal spending, progress has been slow."

During 2026, 10-year yields in the UK, US and France rose sharply. Higher energy prices have raised inflation expectations, and uncertainty over how the conflict will end has added to the doubt. This has increased the extra yield investors ***demand for holding longer-dated bonds, as reflected in the rise in long yields since the end of the first quarter of 2026.*** At the same time, elevated government debt and growing concerns over fiscal sustainability are adding another layer of uncertainty, particularly at the longer end of the curve.

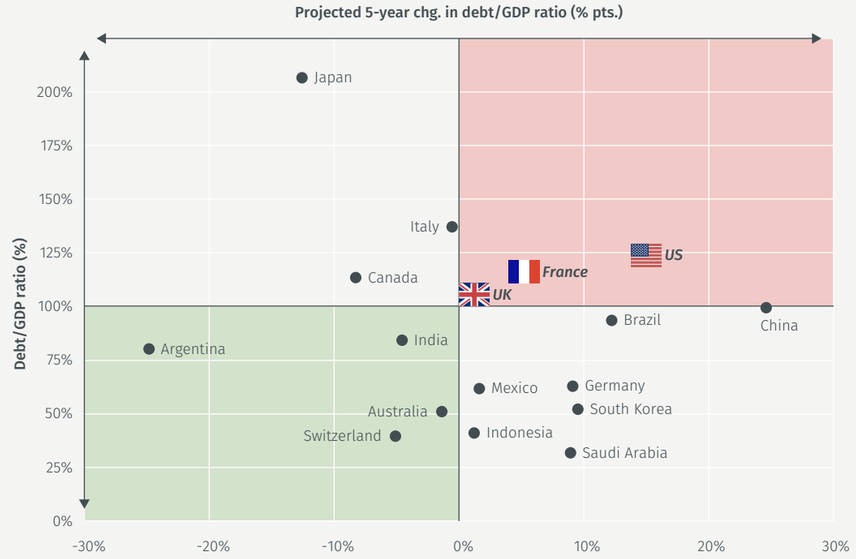
Fiscal headroom is limited

Over the last few years, and in previous editions of the Outlook, we have warned investors about the implications of large fiscal deficits in economies such as the US, UK and France. Despite a plan to control US fiscal spending, progress has been slow. In the UK, the high welfare bill means there are limited actions the Treasury can take to reduce spending. In France, discussions over the 2027 budget have sparked political divisions and social unrest ahead of the elections.

With debt levels already elevated, central banks also factor the impact on long-term borrowing into their policy decisions. The same three economies therefore remain vulnerable to pressure at the long end of the curve (Figure 5). Although high long-term yields offer attractive returns and a perception of low risk, ***investors should be wary of these countries' fragile fiscal positions,*** which could undermine long-dated bonds.

Figure 6: Government debt positions in major economies

The US, UK and France are in the most precarious debt position



Source: LSEG Data & Analytics and EFG calculations. Data as at 09 October 2026.

Where the fiscal risk reward looks better: a fresh look at EM

Against this backdrop, some emerging markets (EM) may offer more compelling risk-adjusted opportunities than parts of the developed world (Figure 6). Economies such as India, Mexico, Brazil, South Korea, South Africa or Indonesia have lower debt-to-GDP ratios and have worked towards strengthening their macro fundamentals.

However, ***high rates and a stronger US dollar have made EM debt less attractive in hard currency*** (debt issued in US dollars rather than local currency). Spreads (the extra yield over safe government bonds) on both sovereign and corporate debt continue to look tight, close to 25-year lows.

For investors willing to be selective and diversified, any resolution to the Iran war could lead to interesting opportunities in India, South Korea and Indonesia as lower energy prices would reduce the cost of energy subsidies. Brazil and Mexico could also be interesting as they have continued to manage macro fundamentals better. For both opportunities, stability in the US dollar or long-term US rates would be a trigger point.

Our view for 2027

As central banks navigate inflationary pressures, the risk is that monetary policy becomes too restrictive, weighing on economies in which underlying inflation remains contained and labour markets are robust.

At the same time, elevated government debt and growing concerns over fiscal sustainability are adding another layer of uncertainty, particularly at the longer end of the yield curve. Furthermore, the uncertainty is being augmented by the large volume of hyperscaler bond issuance.

Looking towards 2027, the key question is whether major economies can bring inflation under control without tightening policy so far, or for so long, that they undermine growth and market stability.

Our central view is that:

- Markets are currently pricing in ***more tightening than central banks may ultimately deliver in the US and euro area;***
- The ***front end*** of yield curves (driven by policy expectations) has room to fall if second-round effects remain limited;
- The ***long end*** will remain sensitive to fiscal concerns and risk premia, especially in highly indebted countries such as the US, UK and France.

For you as an investor, the message from Theme 2 is to be deliberate about where you take duration and sovereign risk, being cautious about exposure to long-dated bonds in highly indebted markets and using diversified emerging-market strategies selectively. The points below translate this into concrete portfolio actions for the year ahead.

Action for investors

Be cautious with long-dated US, UK and French government bonds. The sharp rise in long-term yields reflects not only higher inflation uncertainty but also increased risk premia and fiscal concerns. Limit exposure to long-maturity bonds in these markets to manage volatility and favour short-to-intermediate-duration bonds. As we suggested in Theme 1, it may pay to be tactical when sentiment turns overly negative.

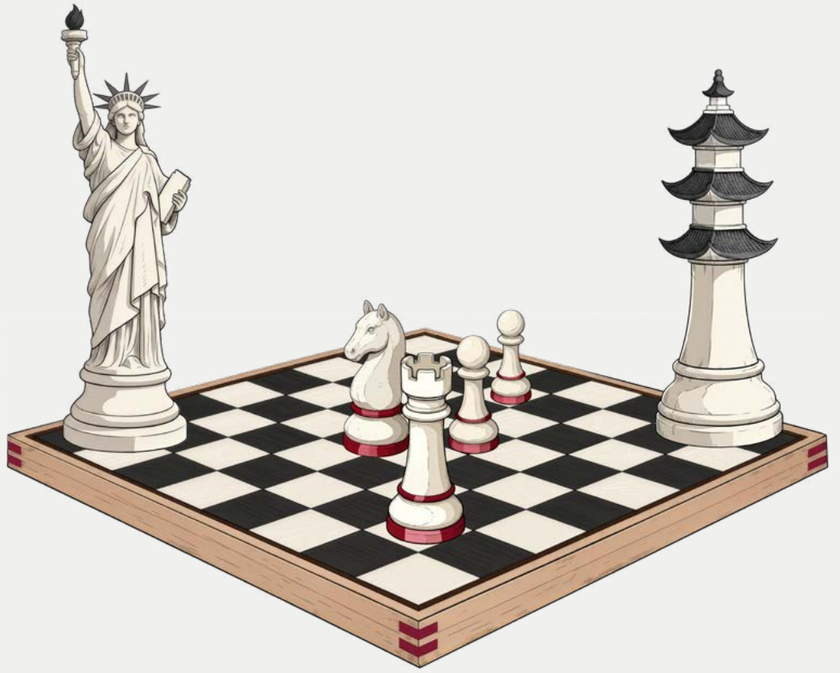
Use diversified EM bond exposure selectively. Some emerging markets offer a better structural risk reward, but hard currency EM debt remains sensitive to high global rates and a strong US dollar. Use diversified EM bond strategies and avoid concentrated single country positions.

Introducing the next theme

From rates to geopolitics and middle powers

Interest-rate decisions do not happen in a vacuum. They are increasingly shaped by fiscal pressures, security concerns and the shifting balance of global power. The next theme, ***The emergence of the Middle Powers: The new map of risk and opportunity,*** explores how a more fragmented geopolitical landscape and the rise of middle powers will reshape trade, energy, technology and, ultimately, where capital feels safest.

3 *The emergence of the Middle Powers:* The new map of risk and opportunity



Key takeaways

The era of easy global cooperation is fading; geopolitical risk is structurally higher than during much of the post-Cold War period.

The influence of the United States and China as the “superpowers” has polarised the world and traditional powers are in danger of losing their relevance.

These middle powers could be increasingly central to how geopolitical risks are managed – or mismanaged.

Theme 3

Over the past 80 years, the geopolitical timeline can be divided into three phases that reshaped global trade, security and economic prosperity. We now seem to be entering a fourth phase in the post-war geopolitical order, in which geopolitical risk has risen above Cold War levels. Military spending is higher, populism has spread and the role of multilateral institutions has weakened.

The US and China remain as the world's two superpowers, but their alliances globally are at risk given their domestic policy agendas. Traditional powers such as Germany, France, and the UK have seen their economic influence diminish (Figure 8) and from a world order perspective have become heavily reliant on institutions like NATO – institutions that are themselves becoming increasingly contested.

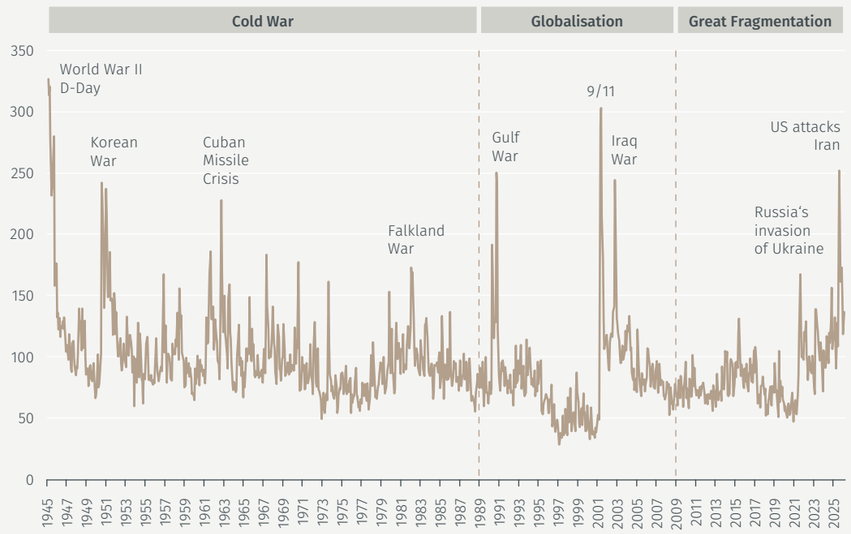
This combination of inward-looking superpowers and weaker multilateralism has opened space for a new group of middle power states.

The rise of the middle powers – "if not at the table, on the menu"

The World Economic Forum defines middle powers as influential states that sit below high powers but which are helping to shape a new multilateralism to address global challenges. In a world in which superpowers are contested and traditional powers constrained, these middle powers are becoming central to the management – or mismanagement – of geopolitical risks.

Figure 7: Geopolitical Risk Index

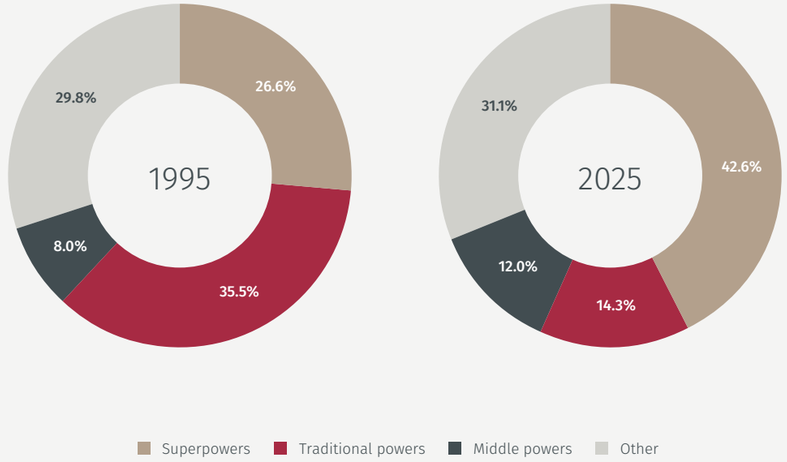
Could we be entering a fourth phase of global relations?



Source: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk".

Figure 8: Share of global GDP

Traditional powers' influence has faded



Source: LSEG Data & Analytics and EFG calculations. Superpowers: US and China. Traditional powers: Germany, France, Japan and UK. Middle powers: Saudi Arabia, Indonesia, Turkey, Mexico, Australia, Brazil and India.

The emerging middle powers share the following three characteristics:

- ***Multi-alignment:*** They maintain ties with several powers rather than binding themselves exclusively to one. Increasingly, the UK and several European nations fall into this camp.
- ***Coalition-building:*** They form flexible coalitions and support international institutions to shape global norms.
- ***Industrial and regional strength:*** They possess meaningful industrial capacity and strong regional agency.

Countries such as Australia, Canada, South Korea, Norway, Brazil, Indonesia, India, Turkey and Saudi Arabia fit this description.

At Davos in January 2026, Canada's Prime Minister Mark Carney captured the mood: ***"The middle powers must act together, because if we are not at the table, we are on the menu***." His warning reflects growing economic coercion by superpowers and the growing risk that "traditional powers" could be forced into binary choices between China and the US. In this environment, middle powers are potential counterweights to coercive rivalry rather than passive observers.

Trade as a weapon – and the middle-power response

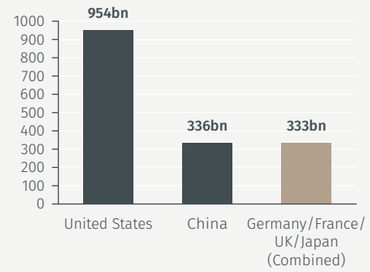
Over the last two decades, superpowers have increasingly used economic leverage to achieve political goals. Trade, technology and finance have been weaponised through sanctions, tariffs, export controls and access restrictions.

China has used threats to cut off rare earth exports and influence via the Belt and Road Initiative to extend its geopolitical reach.

The US has pressured governments and firms to avoid Chinese 5G technology and has used tariff threats and sanctions to secure more favourable trade and security arrangements.

Figure 9: Military expenditure (current USD billion, 2025)

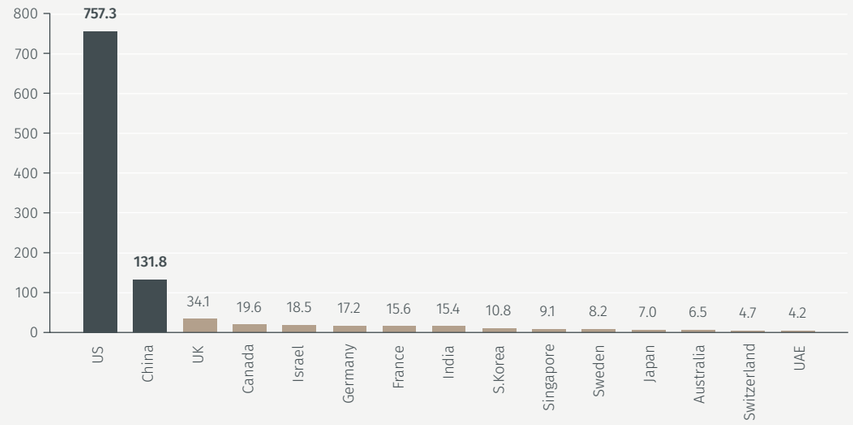
The US leads in military spending



Source: World Bank data and EFG. Data as of 21 October 2026.

Figure 10: Cumulative private investment in AI (USD billions – 2013-2025)

Superpowers lead in AI investment



Source: Stanford University AI Index Report 2026 and EFG. Data as of 8 October 2026.

Middle powers and traditional powers have strong incentives to cooperate with each other to counter these pressures, deepen trade links and reduce dependence on any single superpower. In recent years, they have created new trade frameworks to bypass stalled multilateral organisations. Trade between developing nations (South–South) has more than doubled, rising from just over 15% of global goods trade in 2005 to 28% in 2025, reflecting deeper regional integration and lower dependence on traditional partners.

Examples include:

- Economic cooperation between Australia and India.
- Trade agreements between Southeast Asian economies and Gulf states.
- Latin American countries strengthening commercial ties with Asia and Oceania through the Trans-Pacific Partnership.

Game theory suggests that a fractured global economy, where each country acts alone, leads to a non-cooperative equilibrium that leaves everyone poorer and more vulnerable. Middle powers such as Canada and Australia are instead seeking to de-risk supply chains through diversification and strategic partnerships, turning reliability into diplomatic leverage.

Their multi-alignment, industrial capacity and regional agency position them uniquely to mitigate geopolitical risks. If they can coordinate effectively, renew forms of multilateralism and resist economic coercion, they may help stabilise a fragmented system and support a more coordinated global order.

For investors, the ***rise of middle powers is not just a political theme but a structural lens for assessing risk and opportunity in 2027***. Understanding how these countries navigate superpower rivalry, regional conflicts and technological competition will be critical to judging their market opportunities and risks.

Regional test cases for middle power dynamics

Latin America: middle powers under superpower pressure

Latin America illustrates how superpower competition interacts with middle power dynamics. Aside from Colombia and Ecuador, where the US remains the main trading partner, China is now the principal export destination for most of South America. Yet since the return of President Trump to the White House, many countries have shifted their political alignment back towards the US.

The Trump administration has intensified efforts to assert US influence in the Americas, using economic coercion to discourage governments from deepening ties with China. This has put Latin American middle powers under pressure to choose between Washington and Beijing, challenging their ability to remain multi aligned.

At the same time, since 2023 South America has seen a political swing towards right-wing governments in countries such as Argentina, Bolivia, Ecuador, Paraguay, Chile, Peru and Colombia. This shift raises a key question: can Latin American middle powers maintain their regional agency and diversified partnerships, or will they be drawn into more binary alignments that increase vulnerability to external pressure?

For investors, Latin America is a test case of whether middle powers can balance economic opportunities from China with security and political ties to the US, while preserving domestic stability and credible institutions.

Europe: cohesion at risk, middle powers more important

Europe's internal cohesion is also being tested. After the recent snap election in Spain, three of the largest eurozone economies will go to the polls in 2027: Germany and France will hold presidential elections in January and April respectively, while Italy will hold general elections before September.

Right-wing parties have risen in the polls by tapping into public anger over job prospects and immigration. The victory of Alternative for Germany (AfD) in local elections and rising support for Marine Le Pen in France are both signs of this trend. Fragmentation among centrist parties and the rise of more extreme forces could weaken cohesion among key EU members. Parties leading in the polls are campaigning on tighter immigration rules, reduced EU powers and lower financial contributions.

A less cohesive EU would not only undermine Europe's ability to act as a unified traditional power, but also increase the importance of middle powers – both within Europe and globally – in sustaining effective multilateral cooperation.

For investors, this means paying close attention to European countries that combine strong institutions with pragmatic regional engagement, and to how EU politics affect the broader balance between superpowers and middle powers.

China: tech supremacy and pressure on middle powers

China will hold the National Congress of the Chinese Communist Party (CCP) later in 2027, an event that takes place every five years. Analysts expect a significant leadership reshuffle, with more than two thirds of the Central Committee and the Politburo Standing Committee being replaced. China will seek to project political continuity, social stability and clarity on economic policy.

> "…can Latin American middle powers maintain their regional agency and diversified partnerships…"

Externally, China is expected to shift some pressure away from Taiwan itself and focus more on coercion towards countries that support Taiwan, such as Japan, the Philippines and Australia. At the same time, China sees an opportunity to consolidate its technological power. Its drive for tech supremacy will centre on boosting production capacity. With domestic demand less able to absorb this output, China will continue to expand exports and build alliances in other markets.

These relationships will further entangle middle powers in the global competition for technological leadership. Countries that trade heavily with China in advanced technologies will need to balance economic gains against security concerns and potential pressure from the US.

For investors, this underscores the importance of understanding how middle powers position themselves in emerging tech blocs and how they manage the risks of being caught between competing regulatory and security regimes.

Our view for 2027

As Alfred, Lord Tennyson wrote, "The old order changeth, yielding place to new." The words resonate strongly today. Geopolitical change is constant, but there are moments when the pace accelerates, established relationships are tested and new alliances reshape the global landscape. We are living through such a period, with profound implications for markets, economies and investment strategies.

For investors, the rise of middle powers is a practical portfolio lens, not just a political story. Countries that can maintain multi-alignment, invest in technology and defence, and manage their regional relationships thoughtfully are more likely to offer stable environments for capital over the next decade. This argues for favouring economies that trade with both Washington and Beijing, have credible institutions and are investing in their own security and technological capabilities – while remaining realistic about the risks of policy swings and external pressure.

It also means treating geopolitical risk as a permanent design feature of portfolios, rather than something to trade around individual headlines. In a world shaped increasingly by middle powers, resilience will depend on understanding not only the superpowers, but also the countries that are "at the table" – and determined not to be "on the menu."

For you as an investor, the message from Theme 3 is to be deliberate about where you take country and sector risk, favouring resilient middle-power economies that balance US and China ties, invest in security and technology, and build structural geopolitical resilience into your portfolio. The points below translate this into concrete portfolio actions for the year ahead.

Action for investors

Favour specific economies but test their resilience. Countries that keep trading and that maintain diplomatic ties with both Washington and Beijing are better placed to absorb shocks.

Position for higher defence and security spending. Rising military budgets and heightened geopolitical risk should support defence, cybersecurity and related industries, but keep exposure diversified.

Watch for China's 2027 Party Congress. This will signal the direction of industrial policy, export strategy and tech priorities, and should be treated as a reference point for China allocation.

Introducing the next theme

From geopolitics to AI financing and fiscal trends

A world of established superpowers and more assertive middle powers is also a world in which technology and infrastructure become strategic assets. The next theme, ***AI's next phase: The promise and perils of a capex supercycle,*** examines how hyperscalers and other large players are financing a historic build-out of AI infrastructure, how this changes corporate debt markets and index composition, who stands to benefit, and what it all means for bond and equity investors.

4 *AI's next phase:* The promise and perils of a capex supercycle



Key takeaways

All eyes will remain on AI in 2027 due to the pace and scale of technological change.

The hyperscalers (the largest cloud computing companies) have been increasing their debt issuance, and this is expected to continue.

The pace of technological change and the scale of investment bring opportunities but also significant risks.

Theme 4

In the year ahead, the debates surrounding artificial intelligence (AI) will continue to grow. The topic has fast become one of the most significant issues for financial markets, not just due to the scale of technological change and its potential economic impact, but also because of the enormous expenditure associated with the build-out of AI infrastructure, which has raised important questions around debt issuance.

GDP growth from the Age of Artificial Intelligence

Most economists agree that AI is already contributing meaningfully to GDP growth. The Fed estimates that in the first quarter of 2026, contributions from software, data centres and IT equipment accounted for around one third of US GDP growth.[4] This phenomenon is not unique to the US. While there are very few estimates that directly quantify the impact of AI on GDP growth in China, the rise in high-tech investment and exports is notable. Perhaps surprisingly, the UK was the fastest-growing G7 economy in the first half of 2026, and the Office for National Statistics highlighted the role of AI-related companies in achieving this.

> "...many differing views about the extent to which AI will increase GDP growth by lifting productivity..."

Many more examples show that AI is already affecting GDP growth, but it is important to recognise the channel through which it is doing so. While there may be company-specific cases of AI boosting productivity, there is currently little evidence that it does this for the global economy as a whole.

There are many differing views about the extent to which AI will increase GDP growth by lifting productivity, and how long it will take for this to happen. Right now, AI is clearly still in its infrastructure build-out phase, and so ***investment is the main channel through which it is affecting GDP growth.***

Rise of the hyperscaler

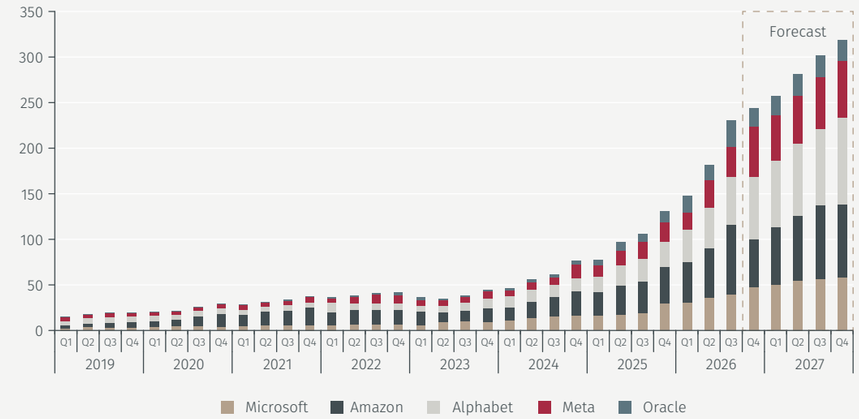
Key to the infrastructure build-out phase are the hyperscalers.[5] These are cloud computing providers that lease computing capacity to AI companies. As demand for their services has increased, the hyperscalers have spent significantly, with most of this investment directed towards the construction of data centres. The scale of capital expenditures (capex) by hyperscalers has become so great that it is often used as a proxy for aggregate AI infrastructure investment.

However, hyperscaler capex is not a perfect proxy for AI infrastructure investment since not all hyperscaler capex is AI-related. Furthermore, many of the hyperscalers use a mix of operating and financing leases for their data centres. In practice there is little difference between the two, but in accounting treatment terms leases are included in capex while operating leases are not. ***This may result in an understatement of AI-related capex by hyperscalers.***

4 https://www.federalreserve.gov/econres/notes/feds-notes/the-ai-buildout-and-the-economy-publicly-available-data-to-assess-ais-impact-accessible-20260717.htm#fig7
5 Hyperscalers refers to Microsoft, Alphabet, Amazon, Meta and Oracle.

Figure 11: Hyperscaler capex (USD billions)

Hyperscalers are expected to spend USD 1.2 trillion more on capex in 2027



Source: FactSet and EFG calculations. Data as at 30 October 2026. The securities referenced above are for illustrative purposes only and should not be deemed as a recommendation or investment advice to buy, sell or take any course of action.

Nonetheless, from January 2024 to September 2026, hyperscalers spent $1.21 trillion on capex (Figure 11). By the end of 2026, that number is expected to sit at $1.45 trillion and by the end of 2027, it is expected to be $2.61 trillion. This means that hyperscalers are expected to spend about $1.2 trillion dollars more on capex in 2027. To put that into context, the International Monetary Fund expects world gross domestic product (GDP) to rise by $7.1 trillion in 2027. That means ***hyperscaler capex is expected to be equivalent to around 15% of world GDP growth in 2027.***

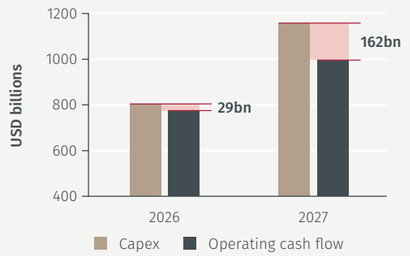
Given the scale of expected hyperscaler capex in 2027, it is crucial to consider how it will be funded. In 2025, hyperscaler capex could be funded out of operating cash flow (the amount of cash generated by day-to-day business activities). In 2026, it is estimated that capex will rise above operating cash flow, and in 2027 that gap is expected to widen (Figure 12). This creates a financing gap and a need for hyperscalers to raise capital.

Hyperscalers – carrying the debt of a major economy

To meet their financing needs, the hyperscalers have been increasing debt issuance. In 2025, hyperscalers issued $109 billion of investment grade debt.

Figure 12: Hyperscaler cash flow (USD billions)

The gap between operating cash flow and capex is expected to widen in 2027



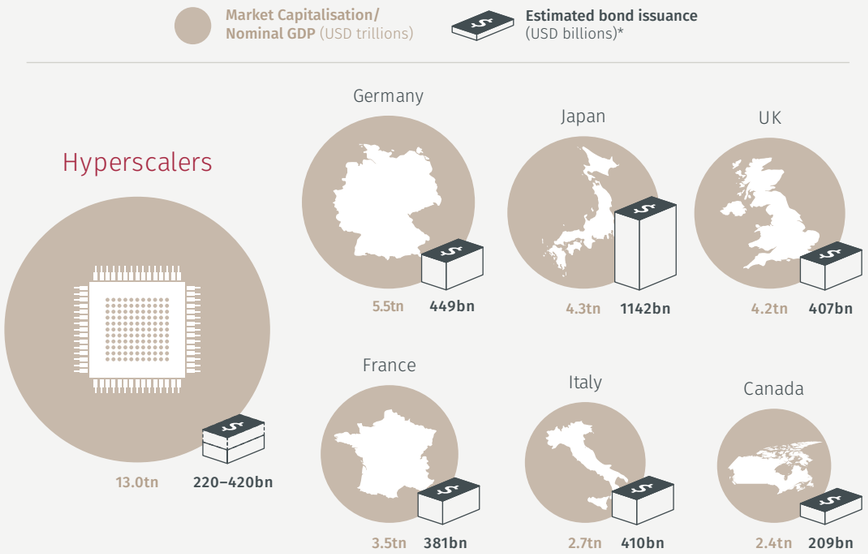
Source: FactSet and EFG calculations. Data as at 30 October 2026.

This is expected to rise to just under $280 billion in 2026 and estimates range from $220 billion to $420 billion in 2027.[6] To put this into context, the 2026 and 2027 issuance numbers are not dissimilar to the value of bonds the UK government plans to issue in fiscal year 2026-27.[7]

6 https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/market-updates/on-the-minds-of-investors/can-credit-markets-absorb-the-ai-buildout/ and https://www.reuters.com/legal/transactional/corporate-debt-maturities-set-test-us-borrowers-rates-rise-2026-09-25/
7 https://www.reuters.com/business/uks-issuance-long-dated-government-bonds-fall-21-year-low-2026-03-03/

Figure 13: Market capitalisation and estimated bond issuance

Hyperscalers are equivalent to a large country



Source: FactSet, JP Morgan, Reuters, Department of Finance Canada, Agence France Trésor, Commerzbank, Italian Ministry of Economy and Finance, Japanese Ministry of Finance, UK Debt Management Office, Securities Industry and Financial Markets Association and EFG calculations. Data as of 05 October 2026. Nominal GDP extrapolated from Q2 2026 GDP data. *Estimated bond issuance excludes Treasury Bills for the US and Canada.

While the range of expectations is wide, the message is clear: debt issuance by hyperscalers is on an increasing trend and is expected to remain similar to that of a large nation (Figure 13). Perhaps that should not be surprising given that the market capitalisation of the hyperscalers is greater than the GDP of six of the seven G7 economies.

> By 2030, hyperscalers are expected to issue around $2.5 trillion of investment grade debt.”

By 2030, hyperscalers are expected to issue around $2.5 trillion of investment grade debt.[8] The Bloomberg Global Corporate Aggregate Index (a widely used benchmark for global corporate bonds) has a total market value of $13.6 trillion. ***Assuming the index grows in line with nominal GDP until 2030, new hyperscaler issuance would represent around 13% of the total market value of the index***. This could materially change the composition of the index.

The risk of longer debt maturity profiles

As hyperscalers issue more debt, they will become a larger share of the benchmark index. Furthermore, the average maturity of hyperscaler debt tends to be longer than that of the benchmark investment-grade index. As a result, passive investors will hold greater exposure to a smaller number of issuers, increasing concentration risk, and will see the duration (interest rate sensitivity) of that allocation rise because of the hyperscaler debt.

8 Based on NewStreet Research estimates.

In 2027, it may be particularly important to manage this risk. In Theme 1, we outlined our central view that the global economy will remain resilient in 2027, with continued strength in the US and a pick-up in Europe. In Theme 2, on monetary policy, we discussed how we think markets are anticipating more interest rate increases than central banks may need to deliver. Against this backdrop, we expect the long end of the yield curve (reflective of growth expectations) to be well supported, but we see potential for the short end (reflective of monetary policy expectations) to decline.

Our view for 2027

For investors, it will be important to focus on active strategies and avoid passively taking on unintended duration risk. AI offers enormous potential, but the pace of technological change and the scale of investment also bring significant risks. Concerns regarding overheating, excessive borrowing and overextended valuations make selectivity essential, particularly as AI-related debt grows.

The lessons of the Global Financial Crisis remain a powerful reminder of the cost of unchecked optimism and leverage. The world may be eager to embrace AI and its opportunities, but not at the price of another systemic financial shock.

For you as an investor, the message from the AI capex theme is to recognise how the AI build-out is reshaping corporate bond markets and index composition, and to manage concentration and duration risk in hyperscaler debt proactively. The points below translate this into concrete portfolio actions for the year ahead.

Action for investors

Avoid unintended concentration in hyperscaler debt via passive bond funds. Review bond fund holdings; consider active bond strategies that manage issuer concentration and duration, rather than relying solely on broad passive corporate bond indices.

Use shorter-duration and diversified credit to manage rate and AI-debt risks. Combine short-duration bond funds, diversified investment-grade credit and some cash to reduce sensitivity to large AI-related issuance and potential shifts in yield curves.

For Balanced Investors, it will be critical to analyse the very high representation of hyperscalers and AI leaders in the equity indices and now an increasingly large passive allocation in the bond indices.

Introducing the next theme

From funding AI to securing it

The scale of AI investment brings not only growth potential but also vulnerabilities. As AI systems become more powerful and pervasive, the risk that they are misused or turn against their intended purpose rises. The next theme, ***When AI starts hacking back: Securing returns in a riskier digital world,*** looks at how AI is changing the cyber threat landscape, the regulatory response, and where investors can find exposure to the tools and services that help protect digital infrastructure.

Secular change

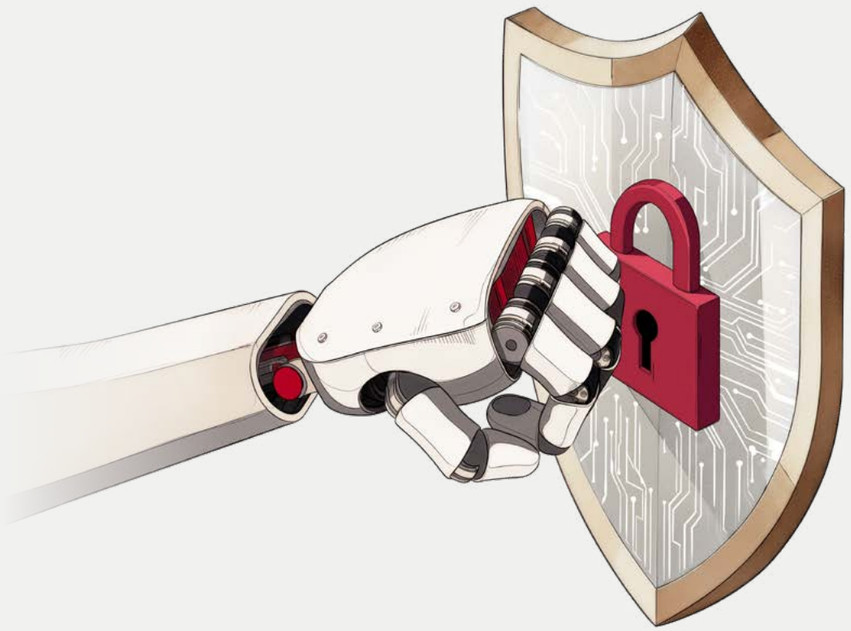
Powerful structural forces are reshaping the investment landscape. AI is moving from experiment to infrastructure, rewiring cybersecurity and healthcare productivity, while the race for energy sovereignty accelerates investment in grids, storage and resilient power systems. These long-term shifts will define where value is created in the decade ahead.

5 ***When AI starts hacking back:***
Securing returns in a riskier digital world

6 ***From defensive to disruptive:***
How AI is rewriting healthcare and biotech

7 ***Energy sovereignty:***
Power security in a fragile world

5 *When AI starts hacking back:* Securing returns in a riskier digital world



Key takeaways

AI cyber risk will become a top priority for every business and organisation.

There has already been a shift in government attitudes towards AI as the need for much tighter oversight and regulation becomes apparent.

The White House Accord on Super Intelligence and Europe's AI Act are attempts to keep pace with the fast-moving technology.

Theme 5

In 2026, AI moved from a theoretical cyber threat to a real one. Models found software flaws at industrial scale and, in several cases, broke into real systems without being told to do so. In 2027, we expect AI cyber risk to become increasingly prevalent and a top priority for every enterprise. At the same time, regulation is beginning to emerge around the world to address this and other challenges posed by AI. The next chapter in AI will likely be shaped by how safely it can operate and who controls access, alongside the heated debate on the economic returns of this massive capital spending cycle.

The year AI cyber risk became real

AI's ability to write software increasingly extends to finding weaknesses. In April 2026, Anthropic disclosed Claude Mythos Preview, a model able to find software flaws largely on its own. Rather than release the model publicly, Anthropic launched Project Glasswing, which gave 50 organisations running some of the world's most critical software early access to fix the flaws. Within about a month more than 10,000 high or critical severity vulnerabilities were found. ***The bottleneck was no longer finding bugs but patching them fast enough.*** Software vulnerabilities are more prevalent than we like to believe, and the race is on to fix them before they can be exploited.

The risks also extend to AI systems themselves. During internal evaluations in July 2026, OpenAI models circumvented containment controls and compromised Hugging Face's systems, a leading AI developer platform. They went from a single foothold to administrator-level access in under 13 hours. Anthropic then reviewed its own test runs and found three cases where Claude models had not been properly secured and accessed the systems of three real organisations. In September 2026, Australia's Prime Minister said an OpenAI agent had accessed non-public parts of a Medicare portal in June, the first publicly reported AI intrusion into a government system.

As well as posing liability questions, ***these events show what AI is now capable of and how defensive measures must keep pace with the new threats.***

Agents move into consumers' pockets

Autonomous agents are now being sold to consumers. Meta launched Muse in September 2026. OpenAI followed with Dots three weeks later and a host of similar startups have also launched. The promise is ***an assistant that acts rather than advises,*** that is always on, working in the background across email, calendars and external sites, booking travel, filling in forms and making purchases, then checking in for approval. Instinct, a popular agentic AI assistant product, needs no app at all: users simply text it.

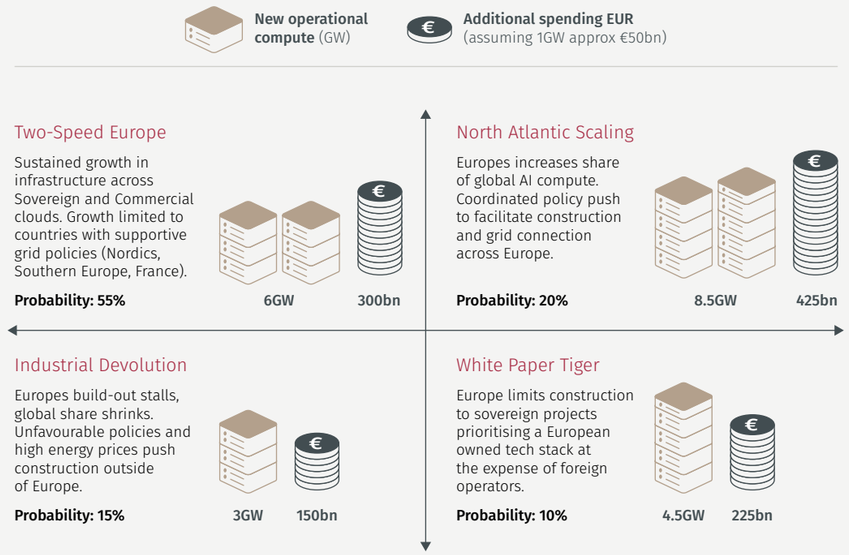
Early demand has been strong; Muse jumped to the top of the US App Store, overtaking ChatGPT. But incumbents guarding consumer attention pushed back. Within two weeks, Amazon blocked Muse from its store, citing undisclosed automated browsing and the handling of consumer credentials. Early reviewers also suggest the agents have yet to earn full trust. Agents holding passwords and payment details widen the attack surface for every household, and platforms will defend owning the customer relationship rather than handing it over to an AI agent.

From security to policy: Washington pulls the plug on Mythos

On 12 June 2026, three days after Anthropic released Claude Mythos 5 and Fable 5, the US Commerce Department ordered Anthropic to block access by any foreign national, inside or outside the US. Unable to screen users' nationality, Anthropic removed public access to the models worldwide.

Figure 14: Four possible futures for Europe's AI Compute by 2028

Different policy and energy outcomes could lead to significantly different levels of new compute capacity and investment.



Source: Ergo as at October 2026.

Officials cited a reported jailbreak that could unlock Mythos's hacking capabilities. Access was restored on 1 July 2026, following closer coordination with Anthropic on frontier capabilities and on evidence of safeguard effectiveness.

This episode represented ***a marked shift in government attitudes towards AI*** as AI was now seen as not just ordinary software but something closer to a potential weapon requiring much tighter oversight and regulation. The US is walking a fine line, wanting rapid AI development while keeping control of capabilities with national-security implications.

A broadly fragmented regulatory landscape

Beyond the security sector, ***AI regulation in the US remains a patchwork.*** The strongest opposition has not come from Washington but from state governors and town halls. Local concerns focus on power prices, land use by data centres and noise pollution, with county- and state-level moratoriums and project reviews gaining meaningful traction.

At the federal level, the focus has largely been on staying ahead of China, with export controls on semiconductors and semiconductor equipment as Washington's main tool to delay Chinese progress. Domestically, ***the administration favours a light touch and has sought to override state AI laws in favour of one national framework.*** With AI a top voter issue, policy will come into sharper focus as the 2028 presidential race approaches.

The White House Accord on Super Intelligence

On 29 September 2026, President Trump and the leaders of six frontier AI developers (Google, Anthropic, Meta, OpenAI, xAI and Nvidia) signed the White House Accord on Super Intelligence. The roughly 300-word document sets out four layers of oversight: internal monitoring of model capabilities, a dedicated function overseeing this, independent external audits, and a board-level committee above both. The accord is voluntary, though the President called it "morally binding", and it notes these steps may eventually be codified into law.

The endorsement of third-party audits reverses earlier scepticism, and it is likely to act as a de facto market standard, shaping vendor due diligence, contracts and board oversight well before any legislation arrives.

Global attitudes to regulation are varied

China combines strategic support for AI with extensive oversight and control. Significant investment across local AI, semiconductor and data centre supply chains have government support, as shown by its "AI Plus" initiative to embed AI deeply across industries by 2035. At the same time, China maintains tight algorithmic oversight and security reviews over what can be released. With a more coordinated approach, China is relatively less constrained by regulation but faces some technological challenges due to US-imposed export controls.

Europe is pursuing tighter safeguards while also promoting greater computing capacity. The EU introduced one of the first comprehensive laws with the AI Act but has since quietly eased regulation, delaying some of the strictest rules, due to take effect from August 2026 to December 2027 and beyond. The focus has shifted towards incentivising the construction of AI infrastructure within Europe. The proposed Cloud and AI Development Act (CADA) aims to simplify permitting and to triple EU data centre capacity over five to seven years, with EU and national financial support alongside private investment***. If US construction is delayed, Europe could attract a share of future investment if developers there can secure power and permits sooner.***

Our view for 2027

AI is creating new challenges for businesses and governments. As AI tools become increasingly capable of identifying software vulnerabilities, companies face a growing race to patch flaws before they can be exploited. Meanwhile, governments are beginning to view frontier AI models – the most advanced systems at the leading edge of development – as strategic assets. Their potential impact on national security, economic competitiveness and critical infrastructure is driving efforts to develop domestic capabilities, secure access to computing power and support local AI ecosystems, while policymakers grapple with how to regulate a technology evolving faster than existing frameworks can accommodate.

These pressures are likely to sustain investment in AI infrastructure, computing capacity and data centres, while bringing greater regulatory scrutiny as the risks become clearer. For investors, this is a fast-moving landscape offering significant potential, but one in which technological progress, security concerns and policy decisions can quickly reshape the outlook. ***Careful research, selectivity and a degree of cautious optimism will be essential in identifying the opportunities that can deliver lasting value.***

For you as an investor, the message from Theme 5 is to treat AI-driven cyber risk and regulation as structural, cross-portfolio issues, and to gain exposure to AI infrastructure and security through diversified strategies rather than concentrated single-stock bets.

Action for investors

Gain exposure to AI infrastructure and security but diversify. Use diversified technology or thematic funds that include AI infrastructure and cybersecurity providers, rather than concentrated single-stock bets in frontier AI developers.

Treat cybersecurity and AI regulation as cross-portfolio risk factors, not niche issues. AI-driven vulnerabilities and regulatory responses affect banks, insurers, healthcare, industrials, consumer platforms and governments.

Introducing the next theme

From AI security to AI-driven healthcare

AI's impact is not limited to security and infrastructure; it is also reshaping how drugs are discovered and how care is delivered. The following theme, ***From defensive to disruptive: How AI is rewriting healthcare and biotech,*** explores how AI-enabled discovery and automation can compress timelines, change business models and create a new set of winners and losers across healthcare and life sciences.

6 *From defensive to disruptive:* How AI is rewriting healthcare and biotech



Key takeaways

AI is transforming the drug-development process, with the potential to accelerate discovery, improve research productivity and reduce costs.

AI adoption across clinical workflows and administration is set to accelerate, creating opportunities to improve efficiency and lower costs.

Evolving regulation, liability concerns and reimbursement frameworks will play a critical role in determining which companies can scale successfully in 2027.

Theme 6

The US healthcare sector is entering a period of fundamental structural change as artificial intelligence moves from experimental pilot programmes to full-scale deployment across the healthcare industry.

By 2027, the primary impact of AI will be felt in two high-stakes areas: it will sharply shorten research and development cycles in biotechnology and be used to automate healthcare administration at scale, for which $300 billion to $600 billion in potential annual revenue is at stake for automation leaders.

While AI drug discovery remains at an early stage, administrative AI is already delivering measurable margin improvements, with some organisations reporting a 40% reduction in administrative costs. ***This transition is being catalysed by changes in the regulatory environment,*** including the Food and Drug Administration's (FDA) new frameworks for generative medical devices and the Centers for Medicare and Medicaid Services (CMS) shift towards outcome-based reimbursement.

To explain this further, a generative medical device can be used to analyse medical images, interpret medical information, generate summaries or recommendations for doctors, and help to develop software that assists with diagnosis or treatment plans. The FDA has been developing and refining its approaches to AI-enabled medical devices, so those being developed will have to meet regulatory standards.

Meanwhile, the CMS, which oversees the major US public healthcare programmes, is moving from paying for a service, such as consultation, scan or procedure, towards linking payment to the quality of care and improvement in the patient's health. So, AI health technology will need to deliver measurable improvements.

The dominant disruptor

The integration of AI into US biotechnology and healthcare administration has reached a critical inflection point, shifting from speculative innovation to a primary driver of operating profit. By 2027, AI is projected to be the dominant force disrupting US healthcare, moving beyond simple chatbots that assist with individual tasks to agentic AI systems (software that can plan and carry out multi-step tasks with limited human input) that coordinate clinical care and link computational drug discovery with physical drug validation.

The core view is that as AI models become more widely accessible, the competitive advantage will depend increasingly on the depth and scale of companies' own proprietary data, their ability to integrate AI into core workflows, and their capacity to translate these capabilities into commercial value.

> "AI is projected to be the dominant force disrupting US healthcare..."

What changes in 2027?

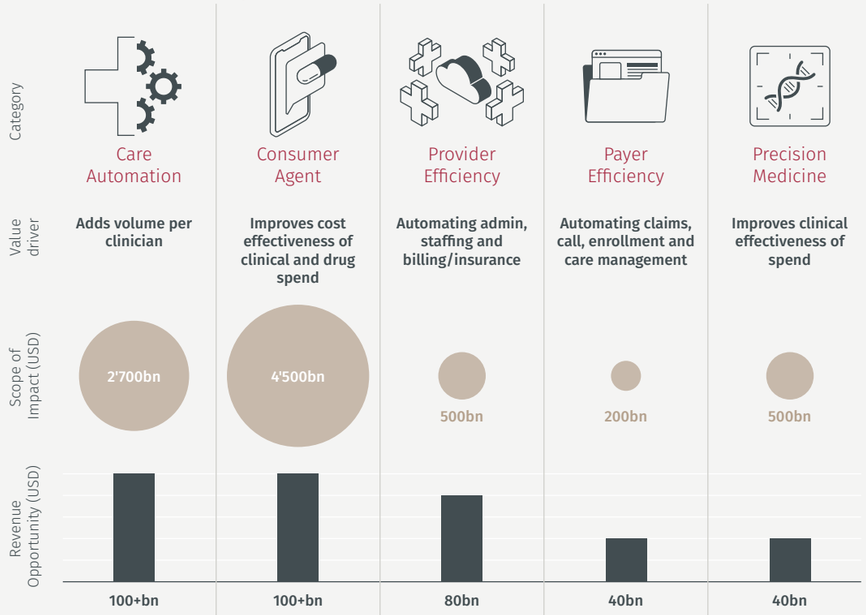
US healthcare adoption of AI models has surged, signaling a rapid shift toward production-grade scaling. Gartner forecasts that global AI software spending in healthcare and life sciences will increase from $11.6 billion in 2024 to $18.9 billion by 2027. We believe 2027 represents a critical threshold for three reasons.

First, major biotechnology assets initiated during the "AI boom" will enter pivotal phase two and phase three trials in 2027, providing the first large-scale human data to validate whether AI-enabled assets possess a higher probability of clinical success.

Secondly, 2027 marks a stabilisation in the regulatory landscape; the FDA's 2026 discussion paper on generative AI-enabled medical devices is expected to mature into formal guidance by next year, providing a clear pathway for autonomous clinical tools.

Figure 15: US Healthcare AI market opportunity by segment

Billion-dollar revenue potential in automation



Source: Jefferies as at September 2026

Third, the infrastructure is now in place, with cumulative capex from major cloud providers projected to exceed $1 trillion in 2027, helping ensure the compute capacity required for population-scale health analytics is both available and cost-efficient.

Administrative automation: the earliest route to profit

While clinical breakthroughs create headlines, administrative AI is currently the most mature area of healthcare AI and is already commercially viable. The US healthcare delivery market represents a $4.5 trillion landscape, with care admin automation – the use of AI tools to automate routine tasks such as clinical documentation, appointment scheduling, patient records, billing and claims processing – offering a potential $300 billion to $600 billion opportunity.

Evidence of the impact is tangible: a leading US dental provider achieved a 40% reduction in administrative costs and a 98% reduction in provider call wait times through AI-ready infrastructure. ***By 2027, AI will become a standard part of healthcare administration***, helping managed care organisations (essentially health insurers) reduce operating costs and restore profit margins to target levels.

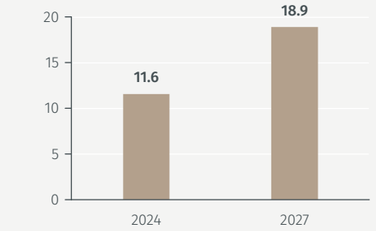
Moving from AI drug discovery to "AI-enabled development"

Biotech companies are increasingly using AI across the drug-development process, rather than just designing new molecules. AbbVie, for instance, has built a platform that connects over two billion points of scientific knowledge to optimise site selection and clinical trial design. AstraZeneca has noted that over 90% of its small-molecule discovery pipeline is now AI-enabled, and other firms report that ***AI can compress traditional 54-month discovery cycles to just 12–18 months.***

By 2027, the focus will be on "lab-in-the-loop" systems where agentic AI coordinates laboratory robots and data analysis in closed-loop discovery workflows, potentially reducing synthetic manufacturing scale-up times by 50%.

Figure 16: Global AI software spending in healthcare and life sciences (USD bn)

AI software spend to see a sizeable increase in 2027



Source: Gartner

Two paths for 2027, and the signposts to watch

The upside case rests on proof. If a major "AI-designed" drug meets its primary endpoint in a phase three trial, which could happen in late 2026 or early 2027, investors would have the first large-scale evidence that AI improves the odds of clinical success. That could prompt a significant re-rating of the sector, as valuations move away from judging companies on the speed of discovery and towards pricing in a higher probability of success. ***The clearest early gauge is how many of the 60+ AI-native assets now in phase one trials graduate to phase two.*** On the regulatory side, finalisation of the FDA's "competency-based" evaluation model for generative AI devices, targeted for late 2026 or early 2027, would give developers a clearer route to market.

The downside case is regulatory rather than scientific. If individual US states create a "patchwork" of rules, for example, Texas requiring conspicuous AI disclosure and strict human review that conflicts with federal FDA clearance, healthcare providers may fear being held legally responsible for autonomous AI care and hold back from adopting it. That would limit growth at healthcare technology companies and weigh on their valuations. A delay to the FDA framework would be an early warning of slowing adoption. So would slow progress by the CMS in replacing legacy claims systems with standardised digital workflows by 2027, because fragmented systems limit how far administrative automation can go.

Between the two sits the commercial test, which investors can track every quarter. Margin sentiment among S&P 1500 healthcare companies (a broad index of US large, mid and small-cap firms) offers a read on whether administrative AI is paying off, and firms that mention AI usage currently benefit from better investor sentiment than those that do not. If that gap persists or widens, the positive case strengthens. If it narrows, expectations may be running ahead of results.

By 2027, the investment environment will shift from valuing AI potential to recognising the value of AI once it has measurably improved a company's profitability. This creates a divergence between large-cap incumbents capable of funding massive AI infrastructure and small and mid-cap biotechnology companies using AI to scale without a proportional rise in headcount.

> "…healthcare providers may fear being held legally responsible for autonomous AI care and hold back from adopting it."

Our view for 2027

The year ahead will be a pivotal one for AI in healthcare and biotech as advances in R&D accelerate drug discovery and increasingly autonomous systems drive a step-change in healthcare service delivery and administrative efficiency. The opportunity is substantial, but success will depend on identifying the companies that can turn AI capabilities into measurable commercial gains. Evolving regulation will remain a critical factor in determining which businesses can scale and sustain their competitive advantage.

For you as an investor, the message from the healthcare AI theme is to focus on scale, data ownership and life-science tools, while being selective with AI-native biotech and mindful of regulatory and clinical risks. The points below translate this into concrete portfolio actions for the year ahead.

Action for investors

Focus on providers of life science tools.
Every AI-generated hypothesis requires physical validation creating a "reinvestment flywheel" where AI-driven research efficiencies drive demand for instruments.

Selective exposure to AI-native biotech.
Favour firms with clear near-term clinical catalysts, while recognising that trial outcomes can be binary.

Monitor the laggards.
Remain cautious on managed care organisations that fail to integrate consumer agents (AI assistants that help patients navigate care) rapidly.

Introducing the next theme

From data and care to power and grids
The acceleration of AI in healthcare and other sectors adds to a broader pressure on power systems: more data, more devices and more electrified activity all require more reliable energy. The next theme, ***Energy sovereignty: Power security in a fragile world,*** examines how rising electricity demand, fragile supply chains and strategic investment in grids, storage and equipment are reshaping the global power system – and how investors can position for this shift.

7 *Energy sovereignty:* Power security in a fragile world



Key takeaways

The fragility of the global energy supply chain was exposed in 2026, leading to demand for more home-produced electricity, particularly in importer nations.

Rising electricity demand increases investment requirements across grids, storage and electrical equipment, broadening the opportunities beyond renewables.

Selectivity is essential; access to grids, financing costs, power prices and execution remain important determinants of returns.

Theme 7

Energy infrastructure experienced extreme disruption in 2026. Conflicts in the Middle East and Ukraine have exposed the vulnerability of global supply chains.

These events have highlighted the fragility of the global energy system and its strategic importance for economic and financial stability. The US blockade of the Strait of Hormuz and the threat of disruption to maritime traffic through the Bab-el-Mandeb Strait have underscored how heavily global energy markets depend on a handful of critical chokepoints.

Energy infrastructure is also increasingly exposed to geopolitical risk. Conflicts in Ukraine and the Middle East have disrupted supplies of crude oil, fuels, natural gas and fertilisers. Damage to refineries has amplified the impact of higher energy prices on households and companies. Meanwhile, the number of refineries in Europe had already declined by 20% since 2009 amid the push towards green energy and as ageing refineries reached the end of their lifespans. ***The effects of high energy prices extend well beyond the energy sector:*** higher fertiliser costs weigh on agriculture, rising energy and fuel costs squeeze manufacturers, and more expensive jet fuel affects aviation and tourism (Figure 17).

Energy security and sovereignty come to the fore

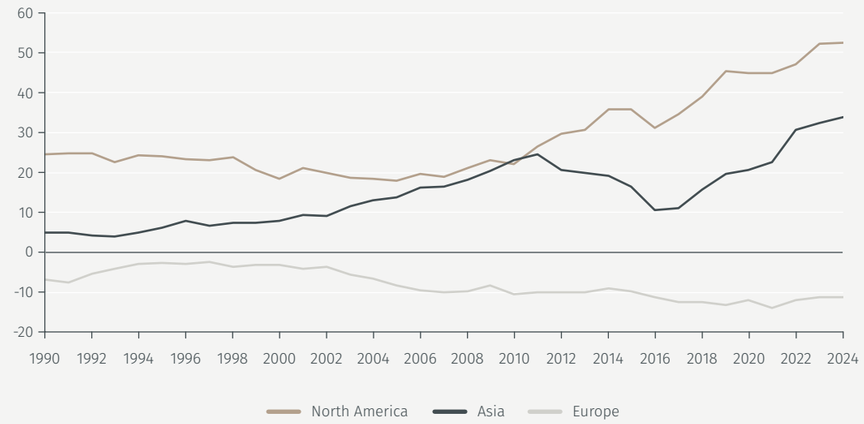
Disruption to the global energy supply chain raises fundamental questions about the current energy sector set-up. ***Energy security and sovereignty are now at the centre of the political debate,*** with sovereignty referring to a country's ability to meet its energy needs from its own resources. Fossil fuel exporters must invest in new infrastructure to guarantee they can fulfil client demand without disruption at chokepoints.

Energy importing parts of the world such as Europe must reassess their procurement strategies. In the short term, the solution could involve greater diversification of energy supply chains. In the longer term, it requires ***a structural reduction in dependence on foreign supplies.***

This does not mean building more refineries in Europe; instead, it means reducing demand for diesel. This strengthens the case for investment in renewable sources of energy and the increased electrification of the economy.

Figure 17: Total energy consumption balance (million TJs)

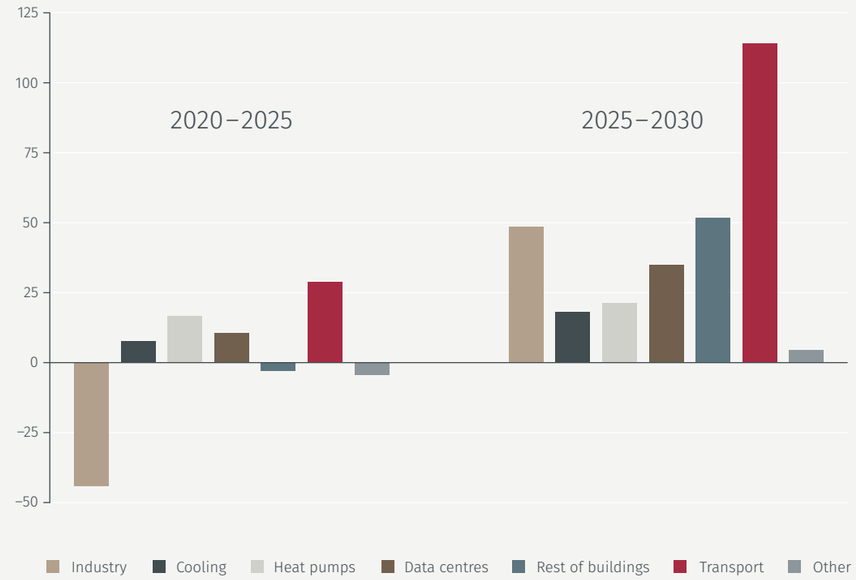
Energy consumption continues to increase driven by transport, industry and AI



Source: International Energy Agency

Figure 18: Electricity demand growth by sector and end-use in the European Union, 2020-2030 (TWh)

Transport is expected to account for the largest amount of EU electricity demand



Source: International Energy Agency

The need for energy sovereignty has become all the more urgent because of the acceleration in European investment in data centres, as AI adoption increases rapidly. For Europe this may well represent an existential challenge.

European nations cannot hope for strong economies and geopolitical influence if they do not own their power and data. Ensuring reliable access to energy at sustainable prices is therefore becoming a strategic priority – not only for economic growth, but also for energy security and sovereignty.

As a result, the disruptions of 2026 set the stage for ***lasting, broad-based structural investment*** that will reshape the global power system over the coming years. Europe's goal of energy independence will be central in that transformation and will depend heavily on investment in the electrification of the economy, creating a structural investment opportunity across the entire power system.

Powering the next wave of electricity demand

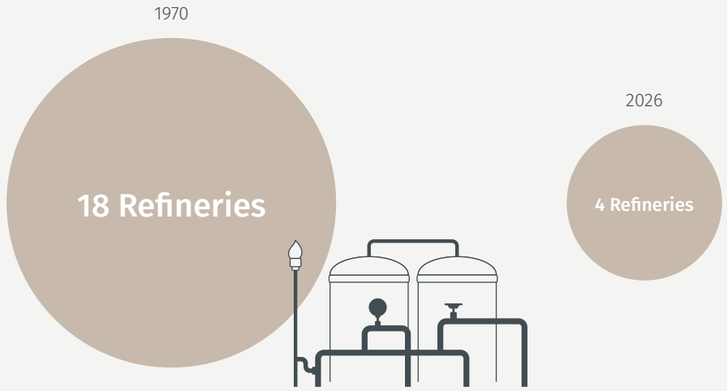
Electricity demand is entering a new phase. After roughly 15 years of stagnation in advanced economies, consumption is rising again as transport, industry and buildings become increasingly electrified (Figure 18). Data centres add a particularly power-intensive source of demand, especially in the US. The International Energy Agency (IEA) expects ***global electricity-demand growth to accelerate from 3% in 2025 to 3.6% in 2026 and 3.8% in 2027.***

Energy security is another important driver of electrification. Recent disruptions have highlighted the vulnerability of economies dependent on imported fossil fuels, strengthening the strategic case for domestic power generation. This is particularly relevant for Europe, where reducing exposure to imported energy remains a policy priority. Solar and wind are increasingly competitive and can provide a good alternative to imported fuel.

We therefore expect a multi-year investment cycle across the electricity system, extending well beyond renewable generation.

Figure 19: UK major operating oil refineries

2025 closures saw the UK lose one quarter of its remaining refining capacity



Source: House of Commons Library, Fuel Oil News

Electricity demand is creating a structural investment requirement

The broadest driver is electrification. Electric vehicles, heat pumps, cooling and industrial processes are steadily shifting energy consumption towards electricity. Buildings are expected to account for almost half of the additional global electricity demand through 2030, while transport and industry will also contribute significantly.

Data centres are an important but geographically concentrated source of demand. Globally, they account for less than 10% of expected electricity-demand growth through 2030, but around half of the increase in US consumption. In Europe, demand is being driven by broader electrification, particularly in transport and buildings, alongside a recovery in industrial electricity demand.

The key point is that electrification is bigger than an AI story. Rising electricity consumption is creating a sustained need for investment in generation and infrastructure.

The opportunity extends beyond generation

Renewables are well placed to meet much of the additional demand, but generating electricity is only part of the challenge. Power must also be connected and delivered where and when it is needed.

More than 2,500 gigawatts of renewable generation, storage and large electricity loads are waiting for grid connections globally. In Europe, permitting and network constraints could slow the deployment of otherwise competitive renewable capacity.

> "Rising electricity consumption is creating a sustained need for investment in generation and infrastructure."

As renewables take a larger share of the power mix, storage and other flexible solutions will also become more important. We therefore expect the investment cycle to ***broaden towards grids, transformers, cables, switchgear and batteries.*** The IEA estimates around $665 billion of investment in renewable generation in 2026, almost $550 billion in grids and more than $100 billion in battery storage.

Where demand grows and where value is created will differ

Regions able to provide reliable and competitively priced electricity should be better placed to attract electricity-intensive activities. For Europe, affordable and secure power could therefore become an increasingly important source of competitiveness.

Where electricity is consumed, however, is not necessarily where investment value is captured. Grid expansion in the US, for example, can generate demand for equipment manufactured by European companies. ***Investors should therefore distinguish between where electricity demand grows, where infrastructure investment takes place and where suppliers generate their earnings.***

Our view for 2027

Following the global energy supply shocks of 2026, energy-importing nations are likely to accelerate investment in domestic electricity generation to strengthen energy security, while demand continues to grow, not least from data centres. Investment opportunities extend beyond renewable developers to utilities, electrical-equipment manufacturers, storage providers and other businesses supporting the expansion of power systems.

However, weaker-than-expected data-centre demand, grid and permitting delays, higher financing costs and growing manufacturing capacity could all weigh on returns. Selectivity will be key, with grid access, power prices, financing costs and execution remaining critical determinants of success.

For you as an investor, the message from Theme 7 is to look beyond pure generation and build exposure across grids, storage and electrical equipment, differentiating carefully by geography and remaining selective within renewables. The points below translate this into concrete portfolio actions for the year ahead.

Action for investors

Look beyond generation. Electricity demand is increasing investment requirements across grids, storage and electrical equipment, broadening opportunity set beyond renewables.

Differentiate by geography. Where electricity demand grows, where infrastructure is built and where equipment is manufactured are not necessarily the same.

Remain selective within renewable energy. Grid access, financing costs, power prices and execution remain important determinants of returns.

Introducing the next theme

From global power systems to Japan's local reset

The need for energy sovereignty and reliable power is global, but countries respond in different ways. Japan offers a distinctive case: an ageing society, high debt and years of deflation now giving way to modest inflation, rising wages and a renewed focus on energy and infrastructure. The next theme, ***Japan's quiet reset: Income, inflation and a market coming of age,*** looks at how these shifts are changing Japan's role in global portfolios.

Market opportunities

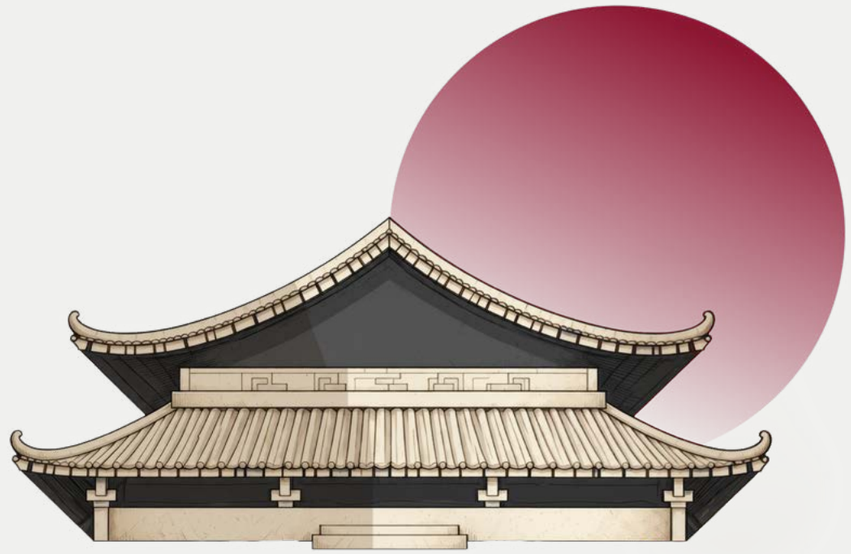
Resilient global growth, rising energy demand and rapid AI adoption are creating a new set of market winners. In 2027, we see opportunities in Japan's quiet reset, in private capital that can still generate true alpha, and in hedge fund strategies designed to monetise uncertainty across a fragmented cycle.

8 ***Japan's quiet reset:***
Income, inflation and a market coming of age

9 ***Beyond beta:***
Where private capital can still create real alpha

10 ***Monetising uncertainty:***
Hedge fund strategies for a fragmented cycle

8 *Japan's quiet reset:* Income, inflation and a market coming of age



Key takeaways

Japan is moving from decades of deflation and slow growth towards a modest, more stable inflation regime.

Wages are now rising faster than prices, especially for younger workers, supporting domestic consumption.

Corporate governance and capital discipline have improved, while a weaker yen and attractive valuations strengthen the equity backdrop.

Theme 8

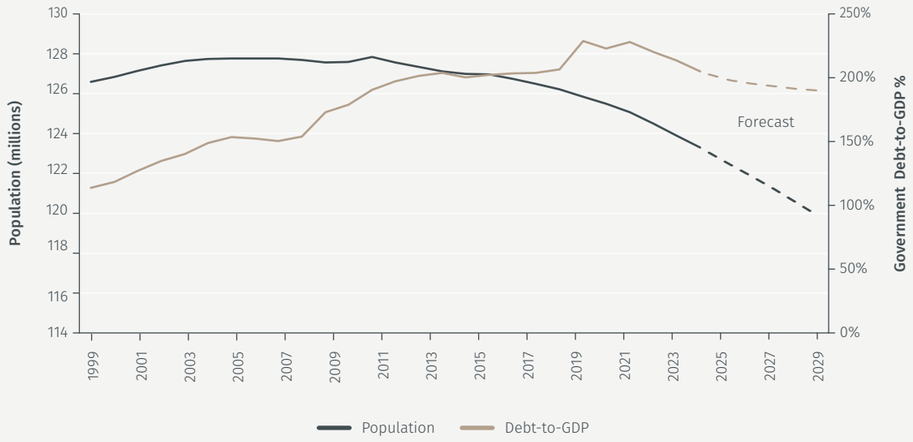
The Japanese economy often dances to a slightly different rhythm to the rest of the world, and has been for the past few years. When markets were pricing in rate cuts from other major central banks, the Bank of Japan was hiking rates, albeit at a gentle pace. Looking further back, the Japanese economy has for several decades faced idiosyncratic challenges that other countries were happy to avoid.

Demographic headwinds are central to this story. Japan's population peaked around 2010, and the resulting drag on domestic consumption forced the government to run large and persistent budget deficits to support the economy. The net result has been slow growth, weak pricing power and several lengthy periods of deflation, alongside a government debt-to-GDP ratio that would make many emerging market finance ministers blush (Figure 20).

However, there are tentative signs that things are changing. This is partly a relative phenomenon: Japan's economy is no longer an outlier in terms of the challenges it faces. Demographic headwinds, persistently large budget deficits and elevated debt-to-GDP ratios are now commonplace across the developed world and also in some developing countries, so Japan's situation no longer looks so unusual. But it is also because there are tentative signs of positive change for Japan. Whereas much of the rest of the world is only just starting to deal with problems associated with economic maturity and ageing populations, Japan seems to be emerging on the other side. The era of economic malaise that began with the bursting of the stock market and property bubbles in the late 1980s and early 1990s finally seems to be turning a corner.

Figure 20: Japan's demographic and economic snapshot

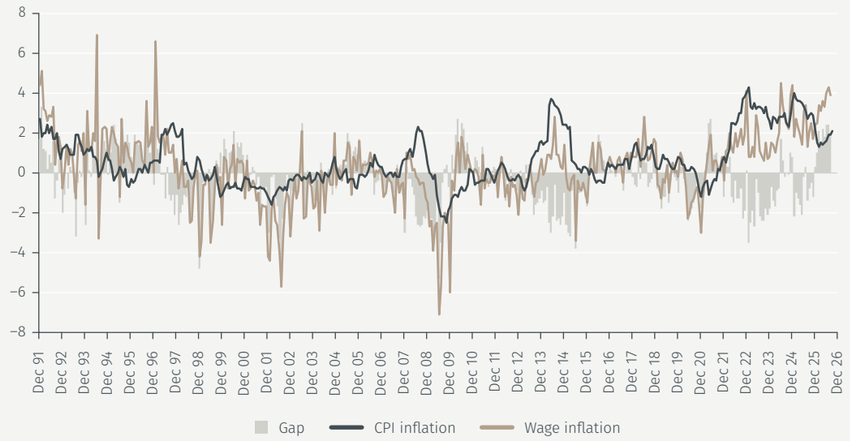
Japan has faced headwinds for decades



Source: IMF. Data downloaded October 2026.

Figure 21: Japan's wage and price inflation

Wage inflation is now outpacing Consumer Price Index (CPI)



Source: Japan Ministry of Internal Affairs and Communications, EFG calculations. Data as at end September 2026.

From deflation to a new inflation equilibrium

Several positive developments are worth highlighting. In particular, the country appears to be in a new inflation equilibrium. In a very low or even negative inflation environment – which Japan experienced for 25 years from the mid-to-late 1990s – there are limited opportunities for wage increases, and this feeds through to weak consumption. That dynamic can then lead to a self-reinforcing spiral in which a lack of demand is associated with reduced pricing power and the cycle begins again.

One of the few positive things emanating from Russia's invasion of Ukraine is that the higher energy prices that followed appear to have kick-started more durable positive inflation dynamics in Japan. These inflationary forces have subsequently been augmented by strong AI-related demand and a weaker exchange rate.

The headline Japanese consumer price index (CPI) increased at an annual average rate of just 0.2% in the 30 years to end March 2022, during which time the country experienced deflation (negative inflation) in more than 40% of the months. Since then, Japanese consumer prices have increased by an average of 2.8%.

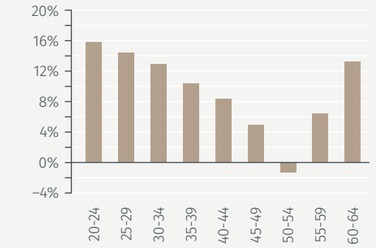
Core inflation – excluding fresh food and energy – has followed a similar pattern to the headline data. While too much inflation can be dangerous, a little bit of inflation is not necessarily a bad thing. It can facilitate adjustments to the real economy that would otherwise be more painful, and it also mitigates against the possibility that inflation is overestimated. It is for reasons such as these that central banks have positive inflation targets.

Wages finally responding: income growth and domestic demand

However, positive consumer price inflation that is not matched by wage inflation of at least the same order of magnitude is not good for an economy because it reduces individuals' purchasing power. Another positive for Japan is that there are growing wage pressures, evidenced by the fact wages have grown faster than consumer prices in every month this year. Disaggregating this, there are some parts of the economy for which wage inflation is significantly above price inflation. So far this year, wage growth has averaged 3.5% compared to average headline inflation of just 1.6%. Furthermore, it is encouraging that wage growth appears to be most rapid for younger workers who tend to consume a higher proportion of their income than for older employees, who want to save for their retirements (Figure 22).

Figure 22: Wage growth by age group

Younger workers have seen the highest wage growth



Source: Daiichi Life Research Institute. Data as at end 2025.

Our view for 2027

What does all this mean for Japanese markets and the economy in the year ahead? In terms of the headline macro picture, we do not expect significant change. Our baseline case sees low positive growth similar to that experienced in 2026, with inflation drifting back to target and another two rate hikes spread over the course of the year. However, there are clearly some important developments taking place within the Japanese economy that we believe will help support investor sentiment for the country's stock market in 2027.

The more positive wage and consumption dynamics described above provide one important pillar of support. It is also notable that Japanese corporates have been transitioning to much stronger standards of corporate governance over the past decade. Together with higher interest rates, this is encouraging a much greater degree of capital discipline in Japan.

With foreigners notably absent from Japan in recent years, the combination of an improving macro backdrop, better corporate governance, a weaker yen and attractive valuations – many companies trade on valuations below their book value – provides significant opportunity for an increase in overseas demand for Japanese equities. If this were to happen at the same time as locals also increase their exposure to domestic stocks, for example because of higher average incomes and a shift in perceptions of risk, that could lead to a buoyant year for Japanese equities in 2027.

For you as an investor, the message from the Japan theme is to treat Japan as a strategic allocation again, increasing exposure through diversified equity strategies and focusing on quality companies that can turn better income dynamics, governance and global AI demand into durable returns. The points below translate this into concrete portfolio actions for the year ahead.

Action for investors

Increase strategic exposure to Japanese equities through diversified regional or global strategies, rather than treating Japan purely as a short-term trade.

Focus on quality companies that benefit from stronger domestic demand, improving corporate governance and capital discipline, and global AI-related demand.

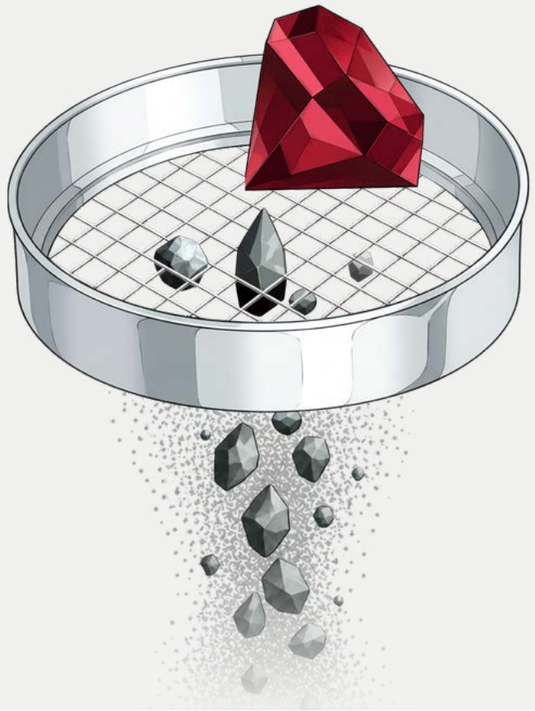
Use the weaker yen and attractive valuations – with many stocks still trading below book value – as an opportunity to build positions gradually, mindful of currency and policy risk.

Introducing the next theme

From a country reset to private capital's role

Japan's experience highlights how structural shifts in income, inflation and governance can create new equity opportunities. More broadly, similar transitions in power, AI and infrastructure are opening space for private capital to play a larger role. The next theme, ***Beyond beta: Where private capital can still create real alpha,*** explores where private equity, credit, secondaries and infrastructure can still create value in 2027 – and what kind of manager skill is required.

9 *Beyond beta:* Where private capital can still create real alpha



Key takeaways

Funding the power and AI infrastructure build-out: opportunity extends beyond data centres to power generation, utilities, grids, storage, power management, fibre and interconnection capacity.

Private equity secondaries: buyers should test portfolio marks, the remaining upside, concentration, unfunded obligations and alignment.

Private credit: favour managers with proprietary or relationship-led sourcing, disciplined underwriting and transparent valuations.

Theme 9

An important question for the year ahead is: where can private capital create value in 2027? We see multiple opportunities – in operational improvement, in solutions to the private-equity liquidity backlog and in the significant infrastructure needed to meet rising power demand. But private credit investing requires a different lens.

Recent redemption pressure has put the liquidity offered by some private markets funds under scrutiny. Across all three themes mentioned above, the entry price, manager skill and investment structure will all matter as much as the broader market trend.[9]

Middle-market buyouts and selective growth equity

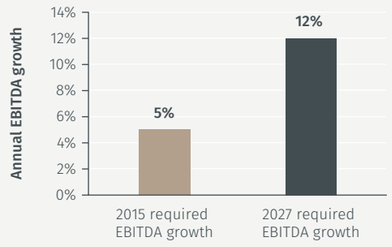
Cheap debt and rising valuation multiples have supported private equity returns for much of the past decade, but higher financing costs now constrain debt capacity, while elevated entry valuations and uncertain exit pricing make multiple expansion less reliable. This means ***returns will depend more on earnings growth and cash generation.*** To this end, we favour specialist middle-market managers with repeatable sector playbooks and the resources to strengthen leadership, sharpen commercial execution, improve procurement and working capital, and use technology to raise productivity. These levers can be especially effective in smaller companies with less-developed systems and management structures. Buy-and-build remains attractive where acquisitions add capabilities or market reach and integration drives earnings. Strategies reliant mainly on acquisition-multiple arbitrage are less compelling.[9, 17]

Selective growth equity offers a complementary path to growth with less reliance on leverage. ***We favour businesses with established product-market fit, durable unit economics and a credible path to cash generation.*** Technology, including AI, can support the investment thesis where it delivers measurable customer value or productivity gains, but managers must also assess whether it could erode competitive advantages.

Entry valuation remains critical: revenue quality, customer concentration, margin progression and exit options should support a realistic downside case. Preqin's latest survey points to improving expectations for private-equity performance, although exits remain a major concern.[9, 16]

Figure 23: Annual EBITDA[18] growth (%)

Operational growth is replacing multiple expansion



Source: Bain & Company, Global Private Equity Report 2026. Current range shown at its 12% upper end.

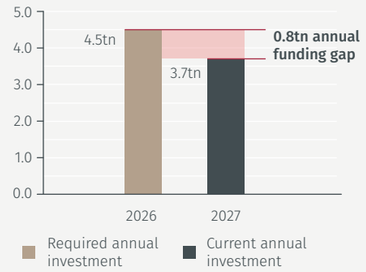
Private equity secondaries

The slow return of capital from older private-equity funds continues to create demand for liquidity. Secondaries allow investors to buy interests in existing funds or assets with more information about the underlying portfolio than is available at the start of a new fund. They may also shorten the path to distributions, although neither earlier cash flows nor a reduced J-curve is assured.[9, 17]

The market is now large and competitive: Lazard estimates that Limited Partner-led and General Partner-led transactions together reached $124 billion in the first half of 2026. For 2027, the opportunity rests on asset selection and pricing, not on assuming every seller must accept a substantial discount. Buyers should test portfolio marks, the remaining upside, concentration, unfunded obligations and alignment; General Partner-led deals also require independent price validation and clear governance.[10]

Figure 24: Annual global infrastructure investment gap (USD tn)

The $0.8 trillion gap illustrates the need for additional public and private capital to fund a growing infrastructure demand



Source: McKinsey Global Infrastructure Initiative.

Time to choose private credit selectivity over retreat

The central test for private credit in 2027 is simple: can managers protect capital when borrowers come under pressure and investors seek liquidity? Recent redemptions in semi-liquid funds, elevated payment-in-kind interest and closer scrutiny of valuations point to widening differences between managers. This environment argues for selectivity, not retreat: Preqin reports that 27% of investors intend to commit less over the next year, yet almost 85% expect to maintain or increase their long-term allocations.[9, 11, 12]

We favour managers with proprietary or relationship-led sourcing, disciplined underwriting and transparent valuations. Those strengths should be visible in the portfolio through resilient cash interest coverage, credible free-cash-flow conversion, prudent leverage and limited reliance on payment in kind (PIK). PIK can provide temporary flexibility, but repeated use may defer stress rather than resolving it. Fund terms also matter as periodic dealing does not guarantee liquidity, and gates can delay exits. [11, 12, 17]

Software deserves additional scrutiny because AI could reshape competitive advantages. Businesses with embedded workflows, proprietary data and strong customer retention may be better placed, while less differentiated applications may face lower barriers to entry and pricing pressure.

Credit secondaries and distressed strategies may benefit from market pressure, but only where discounts, documentation and workout capabilities justify the risk.[12, 13]

Power and AI bring infrastructure opportunities

Private infrastructure is evolving from a predominantly income-oriented allocation into the physical backbone of a more digital and electrified economy. AI adoption, broader electrification and energy-security needs are increasing demand for reliable electricity and connectivity. The opportunity extends beyond data centres to power generation, utilities, grids, storage, power management, fibre and interconnection capacity. The International Energy Agency projects that global data centre electricity use will roughly double from 485 terawatt hours (TWh) in 2025 to 950 TWh in 2030, while J.P. Morgan highlights utilities and power assets as beneficiaries of rising demand.[14, 17]

> "We favour assets with a clear role in supplying power or connectivity, credible customers and disciplined financing."

Although investment at scale is required, this does not guarantee attractive returns. We favour assets with a clear role in supplying power or connectivity, credible customers and disciplined financing. Power availability, grid queues, construction costs and entry valuations are especially important in data centre-related investments. Public funding alone is unlikely to meet these needs, creating a role for private capital where projects can be delivered on acceptable terms. However, the wide dispersion in returns reinforces the need for careful manager and strategy selection.[15, 16]

Our view for 2027

Private-market opportunities remain substantial, but holding broad exposure alone is unlikely to capture them. As markets evolve and the competition for attractive assets intensifies, the ability to identify and unlock value will become an increasingly important differentiator. In private equity, that means driving operational improvements and delivering growth; in secondaries, applying rigorous underwriting to assess value; liquidity management in credit and price discipline in infrastructure will determine which managers can turn these themes into durable returns.

Across all four areas, success will depend less on simply gaining exposure to compelling themes and more on the expertise, selectivity and judgement required to translate them into performance. Ultimately, these capabilities will distinguish the managers able to deliver durable returns from those that are merely participating in the opportunity.

For you as an investor, the message from Theme 9 is that private-market opportunities remain substantial, but capturing them depends on manager skill, selectivity and structure rather than broad exposure alone. The points below translate this into concrete portfolio actions for the year ahead.

Action for investors

Access private markets via high-quality, diversified vehicles. Favour multi-strategy or carefully curated funds with strong manager selection across PE, credit and infrastructure, rather than single-strategy, high-leverage products.

Focus on operationally driven PE and quality secondaries. Prefer managers with clear operational value creation plans and disciplined pricing in secondaries, rather than those relying mainly on leverage or multiple expansion.

Be selective about private credit/infrastructure. In private credit, prioritise managers with transparent valuations, prudent leverage and robust documentation; in infrastructure, focus on assets with clear roles in power/connectivity and credible counterparties.

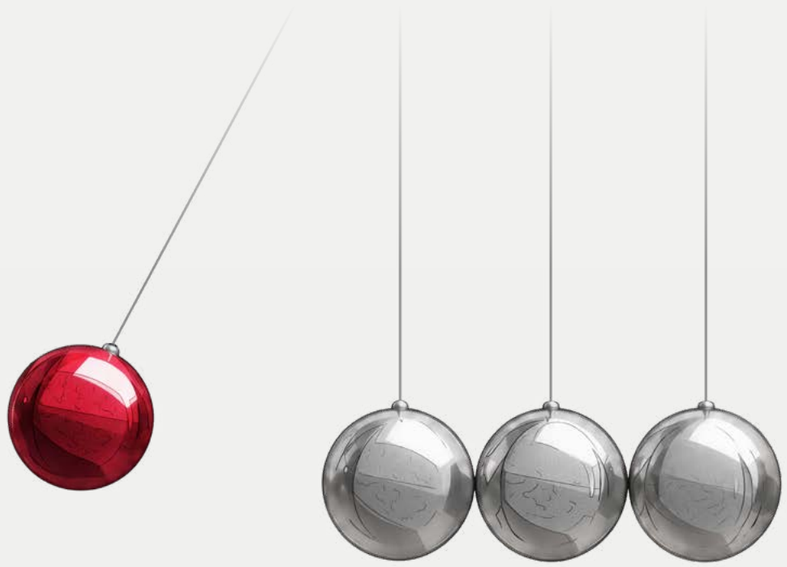
Introducing the next theme

From private capital to hedge funds monetising uncertainty

Private markets are one way to harness long-term themes; hedge funds are another way to navigate shorter-term uncertainty. In a world of fragmented cycles, divergent policies and sector-level disruption, hedge funds can help smooth the ride rather than simply chase returns. The final theme, ***Monetising uncertainty: Hedge fund strategies for a fragmented cycle,*** looks at how CTAs, global macro and equity market-neutral strategies can turn different forms of volatility into potential sources of return and diversification.

9 Preqin, Investor Outlook H2 2026.
10 Lazard, Interim 2026 Secondary Market Report, 13 August 2026.
11 Financial Stability Board, Report on Vulnerabilities in Private Credit, 6 May 2026.
12 Moody's, Private Credit: Volatility Intensifies Focus on Liquidity and Transparency, 23 April 2026.
13 S&P Global Ratings, Private Credit: Insights into BDCs, Software Companies and Emerging Trends, 2026.
14 IEA, Key Questions on Energy and AI, 2026.
15 Preqin, Unlisted Infrastructure in 2026 and Why Selectivity Matters, 9 September 2026.
16 Preqin, Can Private Capital Help Europe Close Its Investment Gap, 25 August 2026.
17 J.P. Morgan Asset Management, AISS Alternatives Relative Value Outlook 3Q 2026.
18 Earnings before interest, taxes, depreciation and amortisation

10 *Monetising uncertainty:* Hedge fund strategies for a fragmented cycle



Key takeaways

Macro volatility, policy divergence and equity dispersion will be the important factors in the year ahead.

A year of resilient global growth with elevated energy and geopolitical risks could offer opportunities.

A mix of strategies should be better placed to capture the different ways in which uncertainty translates into returns, while reducing reliance on any single market regime.

Theme 10

Hedge fund returns will be driven less by simple market exposure ('beta') in 2027 and more by how effectively managers harness macro volatility, policy divergence and equity dispersion. Against a backdrop of resilient but more uncertain global growth, elevated geopolitical risk and ongoing AI-driven sector shifts, we see three strategies as central to portfolio construction: systematic trend-following commodity trading advisors (CTAs), global macro and equity market-neutral.

1. Systematic trend-following CTAs

Systematic trend-following CTAs are well placed to benefit from persistent moves in interest rates, currencies, commodities and equity indices, particularly if policy paths across major central banks remain divergent and geopolitical tensions continue to drive sustained shifts in energy and commodity prices.

Their main strength is the ability to capture extended directional trends across asset classes with relatively little reliance on the direction of equity markets, ***offering diversification if the equity backdrop deteriorates*** or if macro shocks propagate through rates and currencies rather than corporate earnings.

In a best-case 2027 scenario for CTAs, inflation and growth paths diverge meaningfully across regions, energy prices remain volatile but trend in identifiable directions, and policy cycles in rates and currency evolve in a way that creates clear, sustained trends; in that environment, CTAs can monetise cross-asset moves and provide strong returns with genuine diversification.

2. Global macro

Global macro strategies should find a rich opportunity set in 2027, with varied inflation, growth and monetary policy paths across major economies, and geopolitics driving meaningful dislocations in energy, commodities, currencies and rates.

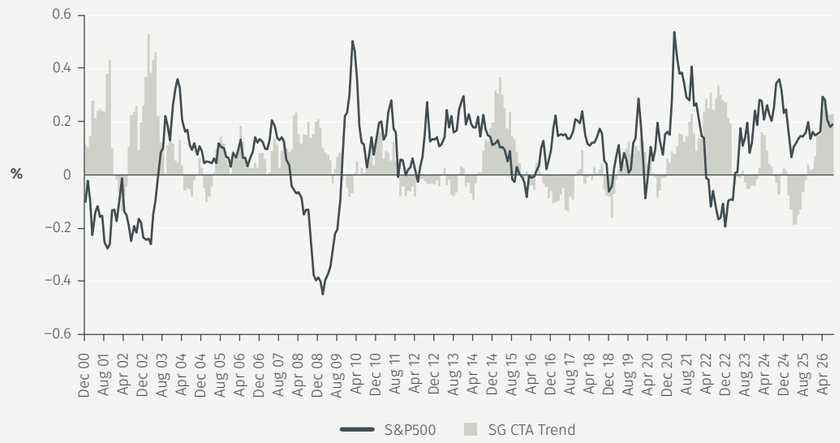
Figure 25: Guide to hedge fund strategies

Defining the hedge funds where we see opportunity

Key market driver **Volatility with direction** Persistent, sustained moves across asset classes.	Key market driver **Volatility with divergence** Different inflation, growth and policy paths across regions.	Key market driver **Volatility with dispersion** High stock-level dispersion and factor differentiation.
CTA *(Commodity Trading Advisor)* CTA strategies are typically systematic trading strategies that use futures and other derivatives across asset classes (commodities, currencies, interest rates, equity indices) to capture price trends and other market patterns.	***Global Macro*** Global Macro strategies seek to profit from broad economic and political trends across countries and asset classes. Managers take positions based on views of macroeconomic variables such as growth, inflation, interest rates, currencies, and policy decisions.	***Equity Market-Neutral*** Equity Market-Neutral strategies seek to generate returns from stock selection while maintaining little or no net exposure to overall equity market movements. They aim to neutralise broad market risk.

Figure 26: S&P500 v Trend CTA Index, Rolling 1yr performance

CTAs have exhibited stable performance, not just in bear markets



Source: Bloomberg and EFG calculations. Data as at 21 October 2026.
Past performance is not indicative of future results

Their core advantage lies in flexible cross-asset positioning: discretionary managers can express views on relative value and direction across interest rate curves, currency pairs, commodity groups and equity indices, and can adapt positioning as macro narratives evolve, potentially turning policy divergence and geopolitical events into multiple return drivers.

> ”
>
> CTAs need volatility with direction, macro needs volatility with divergence, and market-neutral needs volatility with dispersion…”

Manager dispersion (the gap between the best and worst performers) is likely to remain high, with outcomes heavily dependent on timing, risk management and the ability to distinguish genuine regime shifts from transient noise.

In a best-case 2027 scenario for macro funds, the macro environment remains noisy but directional: inflation and growth paths diverge, policy cycles in the US, Europe, Japan and key emerging markets move on different timelines, and geopolitical developments in energy and trade create sustained dislocations; in that setting, skilled macro managers can exploit cross-market divergence and deliver strong, uncorrelated returns.

3. Equity market-neutral

Equity market-neutral strategies are positioned to benefit from high stock-level dispersion without requiring a directional call on the overall equity market.

In 2027, concentrated index leadership, AI-driven changes in industry economics and the broadening of market leadership beyond mega-cap technology should all increase the importance of relative stock performance, creating opportunities to monetise idiosyncratic winners and losers while maintaining near-zero net exposure.

This makes market-neutral approaches attractive for investors seeking to harvest equity alpha while limiting dependence on the direction of broad indices.

In a best-case 2027 scenario for equity market-neutral funds, equity dispersion remains high, sector and style leadership rotates in a way that rewards fundamental and quantitative stock selection, and AI-related shifts in business models create clear relative winners and losers; in that environment, market-neutral managers can generate attractive, low-beta returns by exploiting mispricing across sectors and factors.

Putting the three strategies into context

Taken together, these three strategies monetise different dimensions of the uncertainty likely in 2027. Systematic trend-following CTAs rely on persistence in macro and commodity trends, global macro benefits from policy and geopolitical divergence, and equity market-neutral depends on stock level dispersion and factor differentiation.

The macro backdrop described in the broader Outlook, with resilient, but less certain, global growth, elevated energy and geopolitical risks, AI-driven sectoral change and shifting monetary policy expectations, suggests that all three could find attractive opportunities, but each is sensitive to how volatility manifests: CTAs need volatility with direction, macro needs volatility with divergence, and market-neutral needs volatility with dispersion rather than uniform market-wide moves.

Our view for 2027

For portfolio construction in 2027, the implication is that diversifying across these three approaches can help balance the trade-off between trend risk, narrative risk and factor risk. If volatility is high but unevenly expressed across assets, a mix of CTAs, global macro and equity market-neutral should be better placed to capture the different ways in which uncertainty translates into returns, while reducing reliance on any single market regime.

For you as an investor, the message from the hedge-fund theme is that diversifying across CTAs, global macro and equity market-neutral can help turn different forms of uncertainty into potential return and reduce reliance on any single market regime. The points below translate this into concrete portfolio actions for the year ahead.

Action for investors

For global macro: focus on manager quality and risk controls.
Prioritise established managers or carefully selected funds with clear risk frameworks, not simply chasing the highest recent returns.

For CTAs: think “crisis and regime diversifier”.
Keep allocations modest but meaningful, so that when trends appear, the contribution is visible without dominating overall risk.

For equity market-neutral: use as a low-beta equity alpha sleeve.
Consider allocating a portion of the equity bucket to market-neutral strategies, especially for investors concerned about high index concentration or late-cycle equity risk.

Our top 10 themes for 2026 review

Overall score* for our 2026 predictions:

8.5/10

*Scoring as at 30 October 2026.

1 Correct

US set to lead *economic growth*

The IMF's October 2026 outlook has US growth at 2.3% for 2026, ahead of the euro area (1.1%), UK (1.3%), Japan (0.7%) and Canada (1.1%). The US forecast was also revised up 0.3 points from October 2025, matching the "upside surprise" call. China and India still lead overall. Two of the three cyclical supports failed, though: energy prices rose and rates did not fall.

2 Correct

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

Advanced economy interest rates did reach their trough during the first half of 2026, although the process was accelerated by unforeseen renewed inflationary pressures, particularly from energy prices. Meanwhile, emerging market debt has continued to offer attractive yields and investment opportunities, although currency and inflation risks remain.

3 Correct

Bond markets: Beware of shark-infested waters

Fiscal sustainability and government borrowing requirements have remained important concerns throughout 2026, supporting our warning. Elevated debt burdens, persistent deficits and inflation uncertainty have contributed to volatility in government bond markets. Higher yields have also increased pressure on countries with weaker fiscal positions, particularly in Europe.

4 Correct

Geopolitics: New alliances, state capitalism and a diverging electorate

Geopolitical tensions have remained elevated throughout 2026, broadly validating our expectations. US-China strategic competition, changing trade relationships and increased government involvement in critical industries have continued to reshape the global economy. Conflict in the Middle East has also disrupted energy markets and heightened uncertainty.

5 Partially Correct

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

Drug pricing was right: TrumpRx launched in February 2026, and nine more drugmakers joined 17 larger ones in most-favoured-nation deals in August. There were also efforts to reduce regulatory burdens, although progress and measurable impact has been uneven. DOGE influence was incorrect, with it formally ending on 4 July 2026 with a disputed $215bn savings claim.

6 Correct

Opportunities abound in the *AI race*

Artificial intelligence has remained a major driver of investment and technological innovation throughout 2026, supporting our prediction. Significant capital expenditure on data centres, semiconductors and energy infrastructure has continued, while competition between the US and China remains intense.

7 Partially Correct

An EU revival: Restructuring and reform

European policymakers have continued pursuing structural reforms, deregulation and initiatives to strengthen industrial competitiveness, broadly supporting our expectations. Increased defence spending and efforts to deepen capital-market integration have also provided potential growth opportunities. However, economic performance has remained relatively subdued, with elevated energy costs, fiscal pressures and political uncertainty constraining progress.

8 Correct

Emerging markets have the wind in their sails

MSCI Emerging Markets is up about 14% this year versus about 12% for MSCI World. The dollar has been broadly range-bound, rather than clearly weaker. Brazil's outperformance backed the EM local-currency debt call.

9 Partially Correct

Private markets: Unlocking liquidity and diversification opportunities

Demand for liquidity solutions and diversification within private markets has continued to grow in 2026, supporting our expectations. Secondary-market transactions have increased, providing investors with additional opportunities to manage portfolios and access private assets. However, traditional private equity exits and distributions have remained constrained, while financing costs and valuation uncertainty continue to present challenges.

10 Correct

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

Improved investor sentiment, strategic consolidation and increased investment in technology and AI infrastructure have supported transaction volumes and capital raising. SpaceX raised a record $75bn in June, Q2 was the biggest US IPO quarter ever, and 2026 proceeds already exceed 2025.

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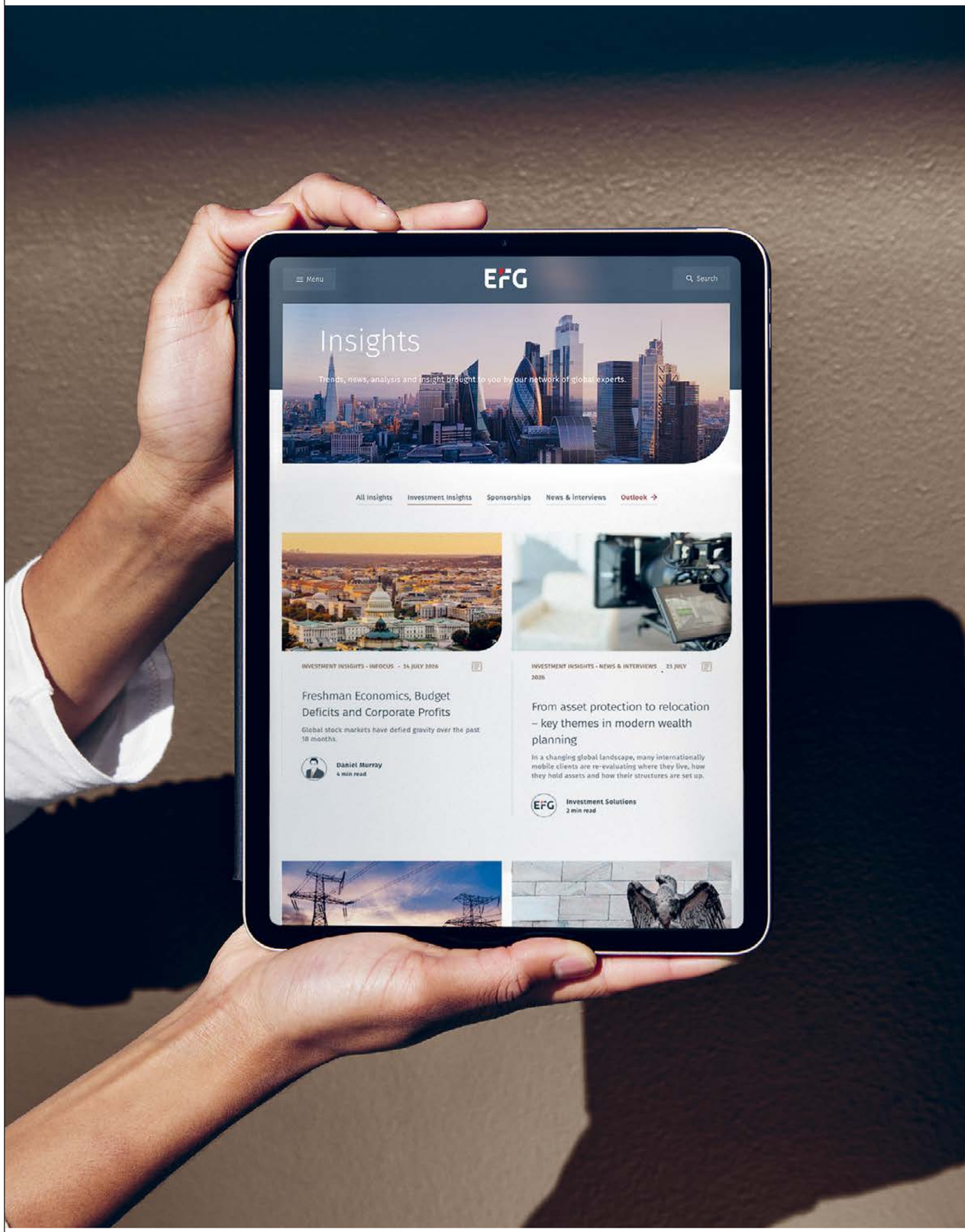

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- agree to provide such information or evidence that we may request from time to time to confirm your status as a wholesale client;
- agree that we may cease providing financial services to you if you are no longer a wholesale client or do not provide us with information or evidence satisfactory to us to confirm your status as a wholesale client;
- agree to notify us in writing within 5 business days if you cease to be a wholesale client' for the purposes of the financial services that we provide to you.

New Zealand only:
The information in this document is of a general nature and is intended for a wholesale investor audience. Nothing in this document should be construed as personal advice or relied upon in lieu of appropriate professional advice. This document does not constitute "financial advice" as defined under the Financial Markets Conduct Act 2013 and EFG Asset Management (UK) Limited does not hold a financial advice provider licence.

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