A glass half full

> "2026 should see a rebuilding of global demand, supported by fiscal spending, while the private sector has space on the balance sheet to support re-leveraging."
>
> FREYA BEAMISH, TS LOMBARD, DECEMBER 2025

As we enter 2026, Mutual Trust's investment outlook is constructively optimistic, underpinned by reaccelerating economic growth. Globally, substantial fiscal stimulus and recent monetary easing should spur economic expansion. Capital expenditure on artificial intelligence (AI) is also fuelling the economy and benefiting adjacent industries. U.S. corporate earnings continue to grow with improving market breadth. Australia's outlook has entered the early stages of a cyclical upswing. The glass is half full.

However, we are wary of the vulnerabilities. After three consecutive years of strong equity gains and low volatility, risks of a market pullback linger. While AI remains a defining theme of the decade, greater selectivity is emerging, with heightened focus on return on investment and financing obligations. Sentiment can shift quickly. Meanwhile, inflationary pressures continue, and U.S. employment trends have weakened. Geopolitical and policy risks persist globally, with peak uncertainty culminating ahead of the U.S. mid-term elections in November.

This Quarterly Outlook explores four tailwinds underpinning our constructive view. We recommend remaining predominantly invested in risk assets as part of a disciplined, long-term strategy, while strategically incorporating defensive assets into portfolios. We take a wider lens to AI, including exposure to related industries (e.g. industrial equipment, data centres, quantum computing, critical minerals and energy) and across major asset classes. As growth accelerates in 2026, opportunities will increasingly emerge across broader parts of the economy.

Refer to our asset class views for more detail.

AI – a defining theme, however selectivity is critical

Fiscal tailwinds globally

Reaccelerating global growth

Stabilising trade policy relative to 2025, subject to Supreme Court review

Prior monetary policy easing and a pivotal transition in Fed leadership

Reaccelerating economic growth in 2026

Global growth expectations are being revised higher as policy measures from 2025 take effect. The Federal Reserve (Fed) has upgraded its 2026 U.S. GDP growth forecast to 2.3%, above the long-term trend and up from the 1.7% forecast for 2025.

Europe should benefit from the delayed implementation of Germany's fiscal package and previous monetary easing, while Japan experiences a new policy regime under new Prime Minister Sanae Takaichi who has committed to fiscal expansion. Australia has turned the corner, with private sector demand driving a cyclical upswing. In contrast, China is focused on stabilising slowing growth through technology investment and domestic consumption.

AI - a defining theme, however selectivity is critical

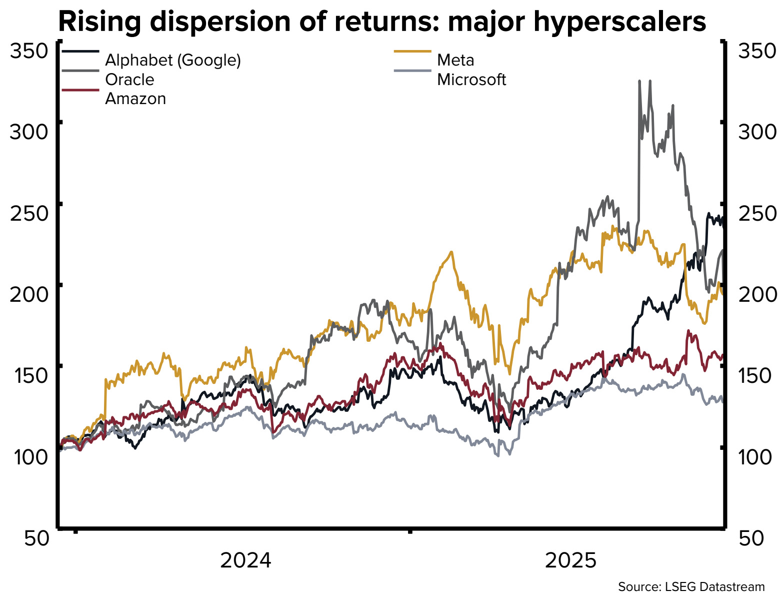
> "Resilient corporate investment in AI-related infrastructure is propping up U.S. activity, underscoring how mega forces are the new anchor of the economy and a key driver of returns."
>
> BLACKROCK, NOVEMBER 2025

AI is a defining theme of the decade. Historic levels of capital expenditure (capex) are fuelling economic growth, benefiting adjacent industries and flowing through to the real economy. Analysts estimate global AI capex to range from $5-8 trillion between 2025 and 2030 – one of the largest corporate investment cycles in history. This is a powerful driver of U.S. economic growth, with ripple effects across construction, energy, commodities and industrial sectors.

The top five U.S. hyperscalers (Microsoft, Meta, Amazon, Oracle, Alphabet) are projected to spend over US$500 billion in capex in 2026, a 35% increase from 2025. While most of this capex is being funded through strong operating cash flows, increased use of debt and off-balance sheet financing (Oracle and Meta) will be closely scrutinised. Earnings for the Magnificent 7 companies continue to largely beat expectations, with analysts forecasting earnings growth averaging 20% for the next four quarters, according to FactSet.

However, the market is becoming more selective. Correlations among mega-cap technology companies have fallen and the dispersion of returns has widened in recent months. Uncertainty remains around debt issuance and whether the return on investment will be commensurate with expectations – a dynamic likely to shape sentiment in 2026.

This reinforces our approach of having active diversification across the AI theme by looking to related industries and across major asset classes for exposure to industrial equipment, data centres, quantum computing, critical minerals and energy.

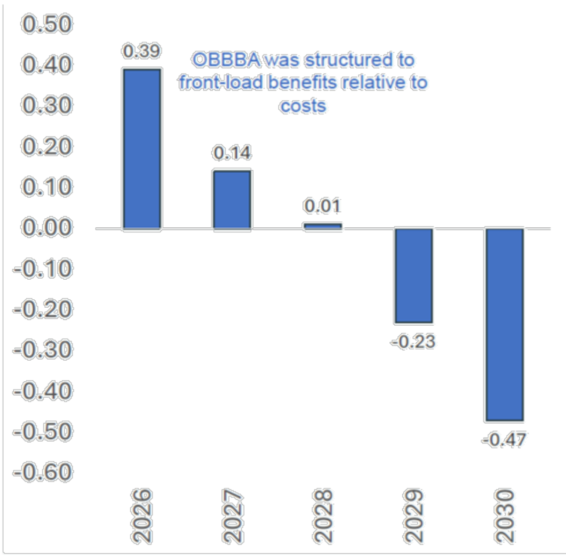


Fiscal tailwinds driving growth

Fiscal intervention under the Trump administration (supportive industrial and tax policies, fiscal spending and a wave of deregulation) are tailwinds for economic growth. The "One Big, Beautiful Bill Act" (OBBBA) delivers front-loaded stimulus, expected to add 0.4% to 0.5% to U.S. GDP in 2026, before tapering – the overall impact dependent upon policy cross currents.

Additional measures are possible as President Trump seeks to bolster his falling approval ratings ahead of the mid-term elections. For instance, the administration recently proposed a one-off $2000 "tariff dividend" payment to middle and lower-income households, funded by tariff revenues. While details on size, eligibility and timing remain uncertain, the measure would support weaker areas of the economy, expanding the fiscal impulse.

OBBBA: Fiscal impulse estimates (% GDP)



Source: Pinnacle

Europe benefits from Germany's delayed €500 billion infrastructure and climate package, alongside rising defence spending under the ReArm Europe Plan (€800 billion in public funding).

In Japan, the new Prime Minister Sanae Takaichi announced a stimulus package of ¥21.3 trillion yen ($137 billion), the largest since the COVID-19 pandemic, aimed at cushioning households from high inflation and spurring economic growth.

China's 15th Five-Year Plan (2026–2030), set for approval in March 2026, marks a decisive focus shift towards technology and domestic consumption growth. It focuses on AI, semiconductors, green energy, and social measures. The plan is aimed at stabilising growth rather than delivering a dramatic surge, with its impact strongest beyond 2027.

Trade policy stability, though tariffs are subject to Supreme Court review

The global trade environment has entered a more stable phase post Liberation Day. However, a second phase of uncertainty may arise from the Supreme Court's review of the use of the International Emergency Economic Powers Act (IEEPA) – a ruling expected by early 2026. This could inject short-term volatility as markets weigh the positive impact for export-sensitive industries versus lost tariff revenue.

If the Court determines the President exceeded his authority, the use of emergency powers for sweeping tariffs would be curtailed. Tariffs are unlikely to disappear entirely – the Trump administration indicated they could rebuild the tariff structure through statutory alternatives, although these come with procedural steps, narrower scope, or have a temporary duration.

So far, tariff-related inflation has largely been absorbed by supply chains. As economic growth reaccelerates, corporates will be more inclined to pass through price increases to consumers.

As the mid-term elections approach and cost of living pressures become front and centre for the Trump administration, easing select tariffs may be politically attractive. In November, the U.S. lowered tariffs on over 200 agricultural products – such as beef, coffee, bananas, nuts, tea, spices – largely to ease U.S. food inflation, benefiting exporters including India and Brazil.

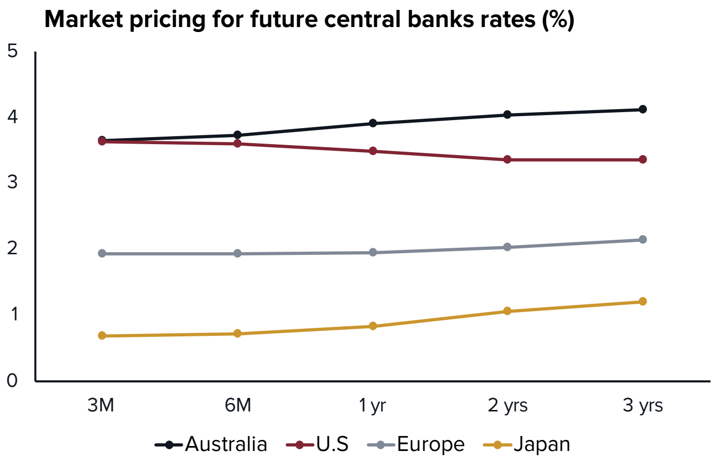
Direction of monetary policy with a pivotal transition in Fed leadership

Globally, the direction of monetary policy is diverging, but the effects of 2025 easing will filter through most economies next year.

In the U.S., three consecutive rate cuts by the Fed during late 2025 should encourage private sector re-leveraging – with business and household debt relative to GDP at 20-year lows – likely boosting spending and investment.

The Fed projects just one cut in 2026, although this may shift if resurgent growth reignites inflation. While the labour market has shown some signs of weakness, accelerating growth should support employment in 2026.

In contrast to the Fed, markets now anticipate the RBA will increase rates by approximately 33 basis points in 2026 (a material change from rate cut expectations last month), reflecting solid growth expectations and associated upside risks to inflation, with October headline CPI at 3.8%.



Source: LSEG, Datastream

Economic momentum in Australia is expected to extend into next year, with economists forecasting GDP growth of 2.2% in 2026 compared to 1.8% in 2025. This outlook follows a strong rebound in the second half of 2025 driven by robust private demand and supported by a resilient labour market. Households have benefited from a pronounced wealth effect from rising house prices and equity markets – both aided by the RBA's three rate cuts made in 2025.

Markets will soon turn their attention to the next phase of Federal Reserve leadership: who and how will they govern?

Current Chair Jerome Powell's term ends in May 2026, and President Trump is expected to announce a successor early next year.

Kevin Warsh, a former Fed governor and Kevin Hassett, Director of the National Economic Council, are widely viewed as the leading candidates, given their alignment with the administration's priorities and advocacy for aggressive rate cuts. A Warsh or Hassett-led Fed could pivot toward a more accommodative stance, emphasising growth and more rapid monetary easing – a clear departure from Powell's measured approach.

In the short term, markets may welcome faster cuts, with easier financial conditions supporting the economy. However, medium-term risks are more complex: higher inflation, potential USD weakness, and renewed concerns over the perception of Fed independence.

Portfolio positioning amid reaccelerating growth

As economic growth accelerates, we recommend remaining predominantly invested in risk assets as part of a disciplined, long-term strategy. While having a glass half full perspective, we are mindful of a broad range of risks.

Although equity market momentum has been strong, corrections are a recurring feature of long-term investing. Therefore, our portfolios include a blend of investments offering higher-risk, higher-returning opportunities (such as equities, venture capital, direct property) with those offering more defensive qualities and/or consistent, stable income (such as core infrastructure, fixed interest, private credit). Please refer our recent article, Strategic Defence for more information.

Elevated equity market valuations and greater dispersion of returns across mega-cap technology companies encourage selectivity and a wider lens. With accelerating economic growth and easier financial conditions, we include exposure to broader parts of the economy, including industrials, energy and materials (steel, copper) – potentially supporting portfolios amid a rotation away from technology.

We continue to allocate towards alternative asset classes – providing exposure to real assets amid a higher inflationary environment, structural growth themes and offering attractive relative value versus equities. Diverging monetary policies will influence currency volatility (potential Australian dollar upside), bond yields and capital flows – reinforcing the need for active management, diversification and flexibility.

Asset class views – December 2025

Equities

International equities are poised to benefit from reaccelerating global growth. We maintain our bias towards U.S. companies given the stimulatory policy tailwinds and expectations for double-digit earnings growth in 2026. We selectively include exposure to Japan and Europe.

Mega-cap technology companies continued to deliver robust earnings and healthy margins in third quarter results. Looking ahead, we expect the market to be sensitive to negative earnings surprises while also applying growing scrutiny around AI capex funding, debt issuance and eventual return on investment. This is already driving a divergence of returns across these companies, reinforcing our approach of being highly selective and looking to adjacent industries for leverage to the AI theme. We also retain a preference for those companies well positioned to benefit from other long-term structural trends, including onshoring and electrification/energy security.

The preferred sectors of Mutual Trust's International Equities team (based on valuation) include materials, energy, consumer staples and industrials – such as Nucor Corp, Freeport-McMoRan, Exxon Mobil, Colgate-Palmolive and Caterpillar Inc.

We remain focused on high-quality companies with strong balance sheets and prudent leverage that are better positioned to weather different market conditions.

For Australian equities, active management remains essential given the ASX200 Index is highly concentrated in low growth sectors. Many companies outside the Australian financials currently offer more appealing attributes, with superior earnings growth versus the ASX200 Index over the next two years.

Select quality industrial companies and real estate investment trusts are particularly attractive.

Resources are traditionally strong beneficiaries of accelerating global growth. Australia is home to two of the largest diversified miners in the world (BHP and Rio Tinto) with market leading, low-cost iron ore positions and growing exposure to future facing commodities such as copper and lithium.

We provide additional equity diversification by blending direct holdings with funds, such as Australian and International mid-to smaller-capitalisation company exposures, as they benefit from easier financial conditions and accelerating growth.

We remain cognisant of the risks for equities. Valuations are stretched by historical standards – the S&P 500's forward price to earnings (P/E) of 22.3x is above its long-term average. High valuations are predominantly driven by the Magnificent 7 (which trade at a premium at 30.5x, in contrast to the S&P 493 at closer to 20x). The ASX200 Index is also elevated at 18 times.

While valuation metrics are not precise timing tools (assets can stay cheap or expensive for a long time before correcting), they offer some insight into the long-term return potential of equities – future returns may be constrained given the higher starting point. Importantly, sentiment can shift quickly, and concerns around mega-cap technology may pose downside risks to broader global equity markets given their concentration within major indices.

Fixed Interest

We retain our preference for Australian Fixed Interest versus International, with a bias towards credit over government bonds. In an environment where inflation remains structurally elevated and volatile, we believe the traditional role of government bonds as an equity diversifier is diminishing.

The inflationary backdrop in Australia has led markets to price-in rate hikes by the RBA in 2026, creating a pronounced steepening of the yield curve. Consequently, while we remain underweight duration, the case for holding some domestic duration is now more compelling than a year ago when the yield curve was relatively flat.

In the U.S, markets may be overestimating the likelihood of further monetary easing by the Fed, given the upside risk to inflation. In this scenario, we expect the pricing of cuts to be scaled back – leading to higher long-end U.S. yields and a potentially steeper yield curve. In addition, any concerns that arise around Fed independence will exacerbate this dynamic. Accordingly, we remain less constructive on U.S. duration relative to Australia.

We maintain an overweight position in credit within our fixed interest allocation. We view the recent high-profile U.S. defaults as idiosyncratic, rather than indicative of systemic risk. Nonetheless, as credit spreads remain tight by historical standards, they are likely to be sensitive to any negative credit developments. Given the robust economic outlook, healthy corporate earnings and resilient balance sheets, we believe spreads can hold near current levels. In addition, all-in yields on credit continue to offer attractive risk-adjusted returns, reinforcing our constructive outlook on the asset class.

Direct Property

We maintain a constructive outlook for Australian commercial real estate, which continued its recovery in the third quarter. All major sectors delivered positive and improving returns, led by retail. The office sector continued to gather momentum, though the pace of improvement moving forward will likely vary by city and precinct, making asset selection crucial.

Transaction volumes declined year-on-year, however this was mainly due to fewer large-scale deals as well as vendors holding on to stock in anticipation of recovery. Assuming no major inflationary shocks and broadly supportive macroeconomic conditions, we expect activity to rise heading into 2026.

Our approach focuses on lower-risk assets in prime or central locations where structural trends (i.e. strong population growth, significant infrastructure investment, and elevated construction costs limiting new supply) should underpin demand for well-located space over the long-term. In addition, we prefer investments offering clear exit strategies within the current cycle.

Rigorous due diligence, disciplined acquisition pricing, and active management remain critical to managing risk and optimising returns.

Private Credit and Commercial Real Estate (CRE) Private Debt

We continue to allocate to private credit and CRE debt as sources of attractive, stable returns. The structural growth drivers for private credit – stemming from bank retrenchment due to regulatory changes, increasing borrower sophistication, and the ability of non-bank lenders to offer capital flexibility and execution certainty – remain firmly in place.

Our approach prioritises a combination of defensive, performing private credit and CRE debt exposures, complemented by selective opportunities in distressed debt.

With the RBA's rate-cutting cycle likely complete, returns in domestic private credit and CRE debt should remain relatively stable, given these loans are predominantly floating rate. However, this outlook must be balanced against the potential for higher default risk and losses should interest rates remain elevated for an extended period or potentially rise. Active management is critical to mitigate these risks.

We welcome ASIC's increased oversight of the asset class. The regulator's emphasis on best practices across managers supports a more sustainable growth trajectory for the sector. ASIC's recent findings highlighted gaps in industry practices, reinforcing our view that rigorous manager selection is essential.

Unlisted Infrastructure

Infrastructure remains well-positioned for 2026, supported by resilient demand and structural themes such as AI-driven data centre expansion and the energy transition. While rising development costs and geopolitical fragmentation may slow new projects, the sector's defensive cash flows, inflation-linked revenue models, and strategic importance should sustain investor interest.

We prefer exposure to infrastructure funds with a disciplined investment approach– targeting assets which offer inflation linkage (implicit or explicit), downside protection, high cash flow visibility, and exposure to structural tailwinds. We also favour strategies broadly diversified across sectors and geographies to deliver more consistent returns. By taking a diversified approach, we believe investors can achieve a more balanced and resilient portfolio through market cycles.

Private Markets Equity

We continue to favour early-stage venture capital opportunities focused on addressing global challenges (i.e. food security, decarbonisation, waste reduction), and secondary strategies providing liquidity solutions to investors. Furthermore, we see opportunities in the national security sector, especially dual-use technologies with large global target markets (refer to our article, Strategic Defence). While valuations among AI start-ups are commanding a significant premium, not all will succeed.

In private equity, secondary strategies remain attractive in an environment of delayed exits, historically low distributions and slower fundraising. Within this backdrop, we expect the return profile from secondaries to be elongated. In buyout, we maintain a preference for the small and middle-market segment, where deal dynamics are typically more favourable: competition is lower, financing structures are more conservative, public market correlations are reduced, and valuations are generally more compelling.

The proliferation of open-ended (semi-liquid) structures, especially within private equity, continues unabated. We expect a slow-down in late 2026 after most large, well-resourced asset managers have launched their funds. These vehicles are strategically important to help build diversified private markets programs. Given liquidity management complexities, we continue to strongly favour managers with established track records.

In 2026, key themes expected to influence deal pipelines and exit activity across venture capital and private equity include: the trajectory of U.S. interest rates; the sustainability of initial-public-offering momentum created throughout 2025; and ongoing geopolitical risks.

Hedge Funds

Through their employment of a wide range of strategies, hedge funds are positioned to generate reasonable risk-adjusted returns which are less correlated with traditional asset classes. This feature is well-suited to the current environment where equity and bond markets are increasingly positively correlated (reducing traditional diversification benefits). Furthermore, greater dispersion of company performance creates opportunities for active strategies.

Our approach is to blend hedge fund exposures through thoughtful construction with a single-strategy and/or multi-strategy approach.

A single-strategy hedge fund solution can offer targeted exposure to specific market inefficiencies or defensive characteristics. This requires a proactive approach to blending, rebalancing and oversight.

Alternatively, a multi-strategy hedge fund provides built-in diversification across several methods, often with dynamic allocation and risk management embedded within the structure. Together, these solutions offer flexibility and resilience when traditional diversification may not deliver.

Please reach out to your Mutual Trust Advisor with any questions.

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