2026 outlook

Never before have we received so many questions from our charity clients about the risks of US equity and the US dollar concentration as we did in 2025. With US policies dominating headlines throughout the year, many trustees were keen to understand their exposure to US-specific risks and explore cost-effective ways to diversify.

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It's no surprise that the events across the Atlantic dominated macro discussions with clients. The UK budget, the European fiscal boost and the new leadership in Japan were overshadowed by developments in the world's biggest economy, given the impact that the current US administration is having on global markets and politics. To determine the potential impact on markets and, more importantly, our clients' investments, we follow our tried and tested approach of combining the analysis of macro fundamentals, risks on the horizon, valuations and sentiment.

Sources: All end October 2025
1Yale Budget Lab
2 AtlantaFed GDPNow
3 Bloomberg and L&G.
4 Bureau of Economic Analysis

Macro fundamentals

President Trump's tariffs remain a central theme, alongside an increasingly active foreign policy, whether that's in the Middle East or more recently in Asia. Tariffs remain at the highest since the 1930s at 17-18%,[1] however the true effect of that on the US is likely to be lower as companies could find ways to avoid tariffs or find new substitutes.

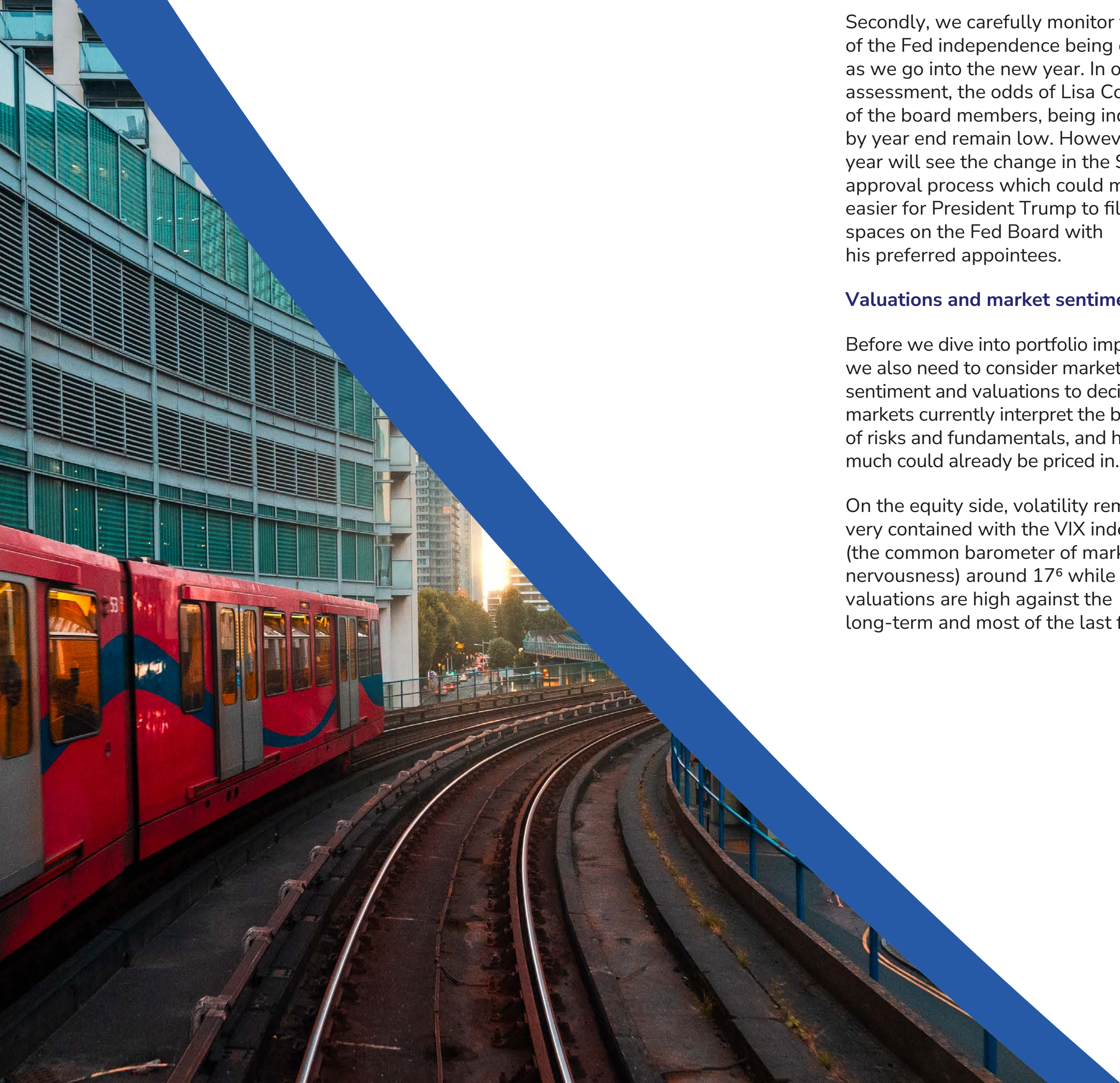
It's still unclear whether tariffs are good or bad for the US given limited retaliation from others and the potential to spend all that new tariff revenue. US growth still appears to be solid, with a surprisingly strong Q3 GDP growth at around 4% [2] (annualised), even if some slowdown is expected. The main driver of that strength has been AI-related spending, which has been a really large contributor. For example, in the second quarter of 2025, it was over 1.5% of annualised GDP growth[3].

Alongside the AI spending, US consumers remain resilient, the savings rate remains around 5% and unemployment remains low at around 4%, still around the lowest since the 1960s[4]. Investors also take comfort in the fact that the Federal Reserve (or Fed) still has plenty of space to cut interest rates should they need to. With the tariffs effect appearing to be gradual, with limited shock impact on spending or wage demands, investors expect a couple more cuts by the mid-2026, which could support consumption.

Key risk

Assumptions, opinions, and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

> Prediction is very difficult, especially if it's about the future
>
> Niels Bohr



What about the risks?

Despite the positive backdrop, we remain laser-focused on risk management. With so much good news around, we as a team always challenge ourselves to map out alternative scenarios to stress test our portfolios against, so that we do not lose sight of potential risks.

One of these risks could arise in company earnings. Some were disproportionally impacted by both the One Big Beautiful Bill and, on top of that, real incomes did not grow very fast despite lower net migration into the US. There was an expectation that lower immigration would reduce the availability of lower income workers, which could benefit current US workers. However, for now we are seeing evidence of rising stress. Auto delinquencies are up to about 5%, similar to the peaks in 2008 and 2009, and student loan delinquencies are at the highest on record, at around 13%[5].

Secondly, we carefully monitor for signs of the Fed independence being eroded as we go into the new year. In our assessment, the odds of Lisa Cook, one of the board members, being indicted by year end remain low. However, next year will see the change in the Senate approval process which could make it easier for President Trump to fill new spaces on the Fed Board with his preferred appointees.

Valuations and market sentiment

Before we dive into portfolio implications, we also need to consider market sentiment and valuations to decipher how markets currently interpret the balance of risks and fundamentals, and how much could already be priced in.

On the equity side, volatility remains very contained with the VIX index (the common barometer of market nervousness) around 17[6] while valuations are high against the long-term and most of the last five years.

Similarly, investment grade credit spreads are very low – some of the lowest for the last 25 years[7]. Finally, when we look at the sentiment towards equities, we do see it elevated but not in any way extreme. Hence, it would probably be premature to claim that there is excessively high optimism among investors at the moment.

Putting it all together

What does this mean for portfolios? After a strong year for markets, we currently hold a neutral stance on equities, seeing risks and opportunities as broadly balanced. While AI-related companies have looked expensive in recent years, they have largely delivered on expectations, with robust earnings in 2025 supporting optimism.

On credit, tight valuations suggest limited upside versus government bonds, even if the positive economic backdrop persists. In downturns, corporate bonds could suffer significant sell-offs, creating an asymmetric return profile—another reason for our cautious positioning.

To offset this, we seek value in alternatives and have added UK infrastructure investment trusts. UK prospects mirror those in Europe, yet these assets trade at attractive valuations—partly due to negative sentiment towards UK assets and partly due to technical factors, such as forced selling by maturing defined benefit schemes.

Are we out of the inflationary woods?

Inflation remains a key topic for charities and endowments seeking real returns. Surprisingly, it attracted little attention in 2025, despite low unemployment and some wage pressure. US wage inflation and services inflation remain around 4% and 3.5%, respectively.[8]

Subdued oil prices—the lowest since 2020—and AI-driven cost efficiencies have helped keep inflation in check. However, it wouldn't take much for inflation to re-emerge as a theme. For multi-asset investors, this matters because when inflation rises, equities and bonds often move together, reducing diversification benefits.

In our portfolios, inflation-linked exposure is focused mainly in the US, where we see the greatest risks from tariffs and low immigration, with border encounters down over 90%[9] from their peak. In our view, ten-year real yields of 1.5–2.0%[10] look attractive. In the UK, pension scheme demand keeps inflation pricing higher than in comparable markets. We also maintain globally diversified bond exposure, with more Japanese and Australian bonds than usual to reduce reliance on the US, Eurozone, and UK.

5 New York Fed Household Debt and Credit Report
6 Bloomberg
7 Bloomberg
8 Bureau of Labor Statistics
9 US Customs and Border Protection
10 Bloomberg

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"Prediction is very difficult, especially if it's about the future"
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At the turn of the year, it is tempting to engage in all kinds of fortune telling. Fun fact for you: in Poland we do it on the eve of my name day, in late November, when every Andrzej is gifted with special clairvoyance powers just for that one special night (or so the custom says…).

Yet experience teaches us that when it comes to financial markets, making short-term macro predictions is challenging to say the least. Our preferred approach is to balance a number of different factors together, from fundamentals to risks, and stick to our mantra of 'prepare rather than predict'. Rather than spending all day fine-tuning our predictions, we aim to make sure our clients' investments can seek to withstand a number of possible scenarios ahead and embrace regional diversification in portfolios.

Key risks

Assumptions, opinions, and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

It should be noted that diversification is no guarantee against a loss in a declining market.

Contact us:

For further information about the Asset Management business of L&G, please visit **am.landg.com** or contact your usual L&G representative.

Key risk

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.