GSFM FUNDS MANAGEMENT

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Artificial intelligence, geopolitics and inflation to dominate the investment landscape for 2026

Global markets will face a challenging year ahead with turbulence and uncertainty from some key areas dominating the investing landscape. Artificial intelligence, geopolitics and inflation will continue to influence market volatility in 2026, according to GSFM and its fund manager partners Auscap Asset Management, Man Group and CI Global Asset Management.

GSFM investment strategist, Stephen Miller, says the existing "stagflation-lite" scenario and current macro and geopolitical uncertainties may dampen market sentiment in 2026.

"Ongoing resilience in the macroeconomy and slowly declining inflation – should it eventuate – may see a broadening of stock performance. But with "stagflation-lite" not yet vanquished as a scenario, and with conventional valuation metrics showing equity markets in extremely "rich" valuation territory, it pays to be cognisant of a number of macro and geopolitical uncertainties that may yet derail equity market ebullience.

"A clear uncertainty on the investment horizon for 2026 are the tectonic shifts in the geopolitical arena.

"President Trump's "Donroe Doctrine" is perhaps the notable geopolitical development in 2026, along perhaps with the fracturing of the NATO alliance.

"By appearing to embrace a "spheres of influence" view of the world whereby the "Great powers" assert control over their respective regions, the Donroe Doctrine may well see the world divide into "Great power" blocks. That might encourage China to formally access Taiwan. It might empower Russia in the Baltics creating challenges for the European Alliance / European Union, itself a little fractured as politics in Europe becomes more polarised.

"Were those spheres of influence to also manifest themselves in an economic sense it might further damage global trading architecture through protectionist tariff measures and retaliation and prove a headwind for global economic activity," says Miller.

Auscap Asset Management's CIO, Tim Carleton says that the market may well continue to focus on inflation in 2026 given its potential to impact interest rates.

"We have persistent wage inflation, booming commodity markets and fiscal stimulation in Australia and the US, all leading to inflation levels above central bank targets. Should we see a dovish Federal Reserve chair appointed at the same time as we get a continued pickup in underlying inflation we are cognisant that there may be a reaction at the long end in the bond market. This could have the potential to impact equities markets."

“From an investment perspective, this may create some great opportunities. During 2025 we saw the unwinding of a bubble in many high-quality companies that has been in place for a number of years. The extremely low interest rate environment during the COVID period resulted in very strong performance and stretched valuations for many of the great listed businesses that were seen as having reliable growth that would be largely independent of the cycle and macroeconomic environment. Valuations for these businesses are now getting back to more normal historical levels. Should the derating continue, it will present some interesting and compelling investment opportunities in businesses we would be interested in owning at the right price,” says Carleton.

Given the year started in the midst of a commodity bull market, Carleton expects very strong earnings near term from companies exposed to commodities.

“Gold, precious metals, lithium and copper all kicked off this year very strongly, which should result in meaningful upgrades to earnings estimates. However, we are also wary that commodity strength is often typical of the late stages of a bull market.”

Carleton adds the big four domestic banks have started the year at near record multiples of earnings, despite the emergence of competitive pressures in the banking sector.

“We think caution is warranted in relation to the major domestic banks. They are likely to come under continued competitive pressure from Macquarie Group as it pushes further into housing lending, as well as from the Government in relation to the low interest rates that most customers are receiving in their savings accounts, despite advertised rates being significantly higher.”

Man Group’s head of Asia (ex-Japan) equities, Andrew Swan, says that Asian markets are in a renaissance, with the second-leg of growth expected as global growth strengthens.

“Having staged a quiet comeback and delivering its second best performance since 2010, Asian markets are on the path for further outperformance this year driven by the global demand for artificial intelligence (AI).

“We are seeing strong guidance from semiconductor companies in the region suggesting demand for AI remains strong. Earnings have also been on an upward trajectory over the years, and that is important for share prices.

A part of the next leg of growth in the region Swan says will come from the execution of China’s five-year plan, which starts this year in 2026.

“The Chinese economy needs to pivot away from just investment to more balanced growth, with a focus on consumption.

“However, the opportunity set is now broadening beyond China, with other markets in the region, like Indonesia, set to benefit from lower interest rates.

“Another opportunity we see is with India, which has been through a correction. Valuations have corrected along with earnings growth expectations. There are clear signs that the Indian economy is bottoming out now, and expectations are much more reasonable from an earnings point of view,” says Swan.

Geof Marshall, private markets lead at CI Global Asset Management, says just as the AI narrative has dominated public markets in 2025, it also impacted private equity and venture capital investment decisions last year, and he expects this will likely continue in 2026.

"Private markets continued to evolve in 2025, with private equity still challenged by a lack of monetisation impacting fundraising, and private credit continuing to disintermediate the banking channel."

"Blurring the line between private equity given their size, and venture capital given their negative cash flows, the private market answer to the Mag 7 - the 'Private Mag 7' (comprising of Anduril, Anthropic, Databricks, OpenAI, SpaceX, Stripe, and xAI) - now have an implied total valuation of more than US$1.4 trillion, or about the same size as the German stock market."

"This will have a marked impact on private equity and venture capital investment in 2026," he says.

Marshall adds that non-AI related activity is also likely to increase in 2026 despite a three-year period of muted returns.

"General partners (GP) – those that make the investment decisions for private market funds - are sitting on dry powder in excess of $1 trillion and credit markets are very accommodative, partly because the equity component of recent leveraged buyouts have been larger and the debt component smaller. This may auger a return to private equity roots of 'buy cheap and fix or build' over financial engineering.

"Over the past year generalist investors and the media have looked for problems in private credit. While it is true that rapid growth in an asset class can lead to poor underwriting and lower returns, as Apollo has pointed out, it is hard to reconcile equity markets at or near all-time highs with high default rates.

"In terms of asset classes, infrastructure has outperformed real estate on returns, volatility, and fundraising since 2022. This seems likely to continue in 2026 as real estate, while stabilised, continues to wrestle with secular changes. The infrastructure opportunity set grows, especially in power generation with the ongoing demand for AI.

"These asset classes are likely to outperform their public market equivalents in 2026, earning their illiquidity premium, and providing good opportunities for private market investors," says Marshall.

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