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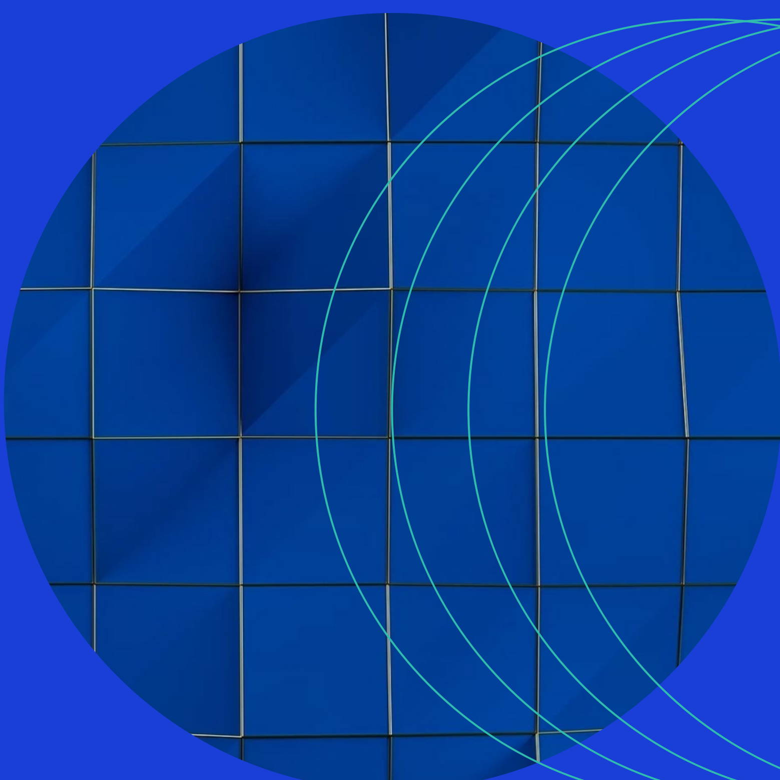
Investment Trends in Focus

Key Themes for 2026



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'And what rough beast, its hour come round at last, Slouches towards Bethlehem to be born?'
- (Yeats, The Second Coming, 1920)

At the end of 2025 it seems a safe bet that we are living through historic times. But the exact definition of the historic times remains profoundly uncertain. Is our historic moment defined by politics? Do we stand on the precipice of a new European war? Will we witness a rejuvenated American hegemony under a Trump-Monroe Doctrine? Or is the moment defined by technology? And if so, what exactly is the nature of the AI beast — is it bringing us towards Utopia or Armageddon?

The first half of 2025 was dominated by politics, specifically American politics. The April 2 tariff announcements reminded a complacent financial world that 80 years of progress toward global free trade underpinned by a (largely) rules-bound global hegemon were a rare historical anomaly, not an inevitability. The subsequent "Triple-Red" moment — simultaneous significant major drawdowns in the value of U.S. equities, Treasury bonds and the U.S. dollar — while short, was the first of this century. Institutional uncertainties continue on all fronts: In the U.S., as I write, the Supreme Court is yet to decide on the legality of the president's tariffs, and financial markets are yet to announce their verdict on the yet-to-be-named Federal Reserve chair. Meanwhile, Europe has its own problems: Just ask Emmanuel Macron (currently working with his seventh prime minister), Christian Merz or Keir Starmer.

However, markets largely shrugged off institutional concerns in the second half of the year, as continued development in AI swept all — or at least a few very valuable stocks — along before it. And here, again, the U.S. looms as the "indispensable nation." (Punch line: Around 80% of market capitalization tied to AI is located in the U.S., but there are risks to that dominance, too.)

In this year's Investment Trends in Focus, we investigate the mega-trends that dominated 2025 and that will shape 2026. In addition to the implications of geopolitics for markets and the investment implications of AI, we dig into the rapidly growing world of private credit and ask: Is it time for a market-clearing event?

1. Shifting geopolitics: a new hope or the empire strikes back

Last year's outlook highlighted American exceptionalism: an almost unbroken run of dominance by U.S. financial markets since the 2008 global financial crisis, culminating in a 67% weight in the MSCI ACWI Index by the end of 2024.

Given the dominance of American firms in the global race for AI, it would be bold indeed to call the end of this period. Yet despite the phenomenal performance of AI stocks this year, the U.S. stock market lagged almost all other major markets. Through the end of November, the MSCI USA Index was up nearly 18%. But (in U.S. dollar terms) emerging markets (EM) were up 30%, Europe 31% and Japan 24%. This was the largest annual reversal in U.S. markets against the rest of the world since the end of the tech bubble in 2000-2002.

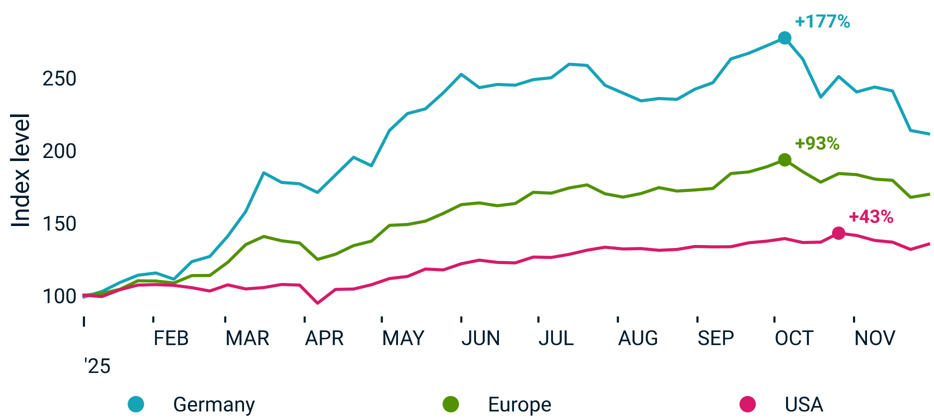
The key events that drove the underperformance virtually all occurred in the first half of the year: U.S. markets fell at the end of January when America's AI dominance was challenged by the revelation of

DeepSeek, the Chinese AI model; and relatively speaking fell further when Germany announced a more aggressive fiscal stance (releasing the “debt brake” in March); and of course during the tariff shock. In fact, from May through November the U.S. outpaced Europe by 10% and trailed EM by only 1%.

There is an important subtext to the story of U.S. returns relative to the rest of the world. In the first part of 2025, U.S. megacaps underperformed. This was partly because of the DeepSeek shock, but megacaps — presumably because they are more global than other companies — also suffered more than other U.S. companies through the events of April. In the second half of the year, U.S. megacaps massively outperformed other markets — returning over 32% between May and November (finishing November up 21% year-to-date). Other U.S. companies struggled less through April but tracked European returns (around 13%) between May and November.

Markets found other ways to signal that this was the end of a certain vision of America and the beginning of a new one. In February, U.S. Vice President JD Vance gave a speech at a security conference in Munich that was interpreted by many as signaling to Europeans the withdrawal of the American defense guarantee that had sheltered them since the end of World War II. Investors rushed to European defense stocks, which ended September up more than 90%. By the end of November, those same stocks led their U.S. counterparts by more than 30% and were still priced at a 16% forward-earnings discount.

Defense stocks surged as investors priced the new European security order



Returns are gross in USD from Dec. 31, 2024, through Nov. 30, 2025, for the MSCI Germany, MSCI Europe and MSCI USA Aerospace & Defense Indexes. Highlighted values are year-to-date peak returns.

European defense still priced at discount relative to U.S. counterparts

Metric	Europe	US	European discount
Trailing P/E	32x	44x	-28%
Forward P/E	27x	32x	-16%
Price/book	7.8x	8.9x	-12%
ROE	25%	20%	+22% higher

Data as of Nov. 30, 2025, and follows MSCI Fundamental Data Methodology for the MSCI Europe and MSCI USA Aerospace and Defense Indexes.

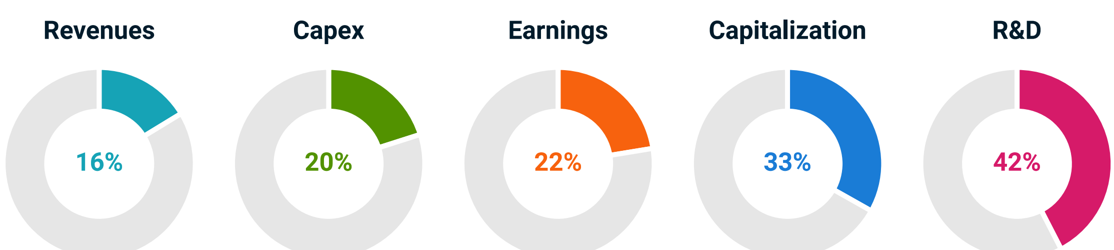
Entering 2026, therefore, the first-half break in U.S. exceptionalism driven by shifting perceptions of U.S. institutions and technological leadership looks more like an interregnum than a regime shift. The U.S. remains the main game for investors seeking earnings growth in their portfolios, albeit at a formidable price. On a forward-earnings basis, the U.S. is priced at nearly 23x, compared with about 15x for Europe and just 13x for EM.

2. AI investment at scale

America's underperformance, as we have noted, was concentrated in the first half of 2025. Its resurgence was dominated by its AI firms. Even as investors began to hedge their macro bets, one high-conviction story has remained firm: the AI build-out. We expect AI to remain the center of gravity in 2026, while the scope of investment and the companies that benefit continue to evolve. The winners in 2024 were chips and data centers. In 2025, power and grid operators joined center stage. As we'll see, renewable energy themes had a banner year, with several firms benefiting directly from data-center demand.

To understand the scope of investment, we used MSCI's Investment Strategy Explorer to build a basket of equities across the AI value chain, spanning nine layers, from adopters through hardware and energy providers. The portfolio includes roughly 230 companies, about 80% U.S. by market capitalization.

AI value chain commands 40% of global R&D

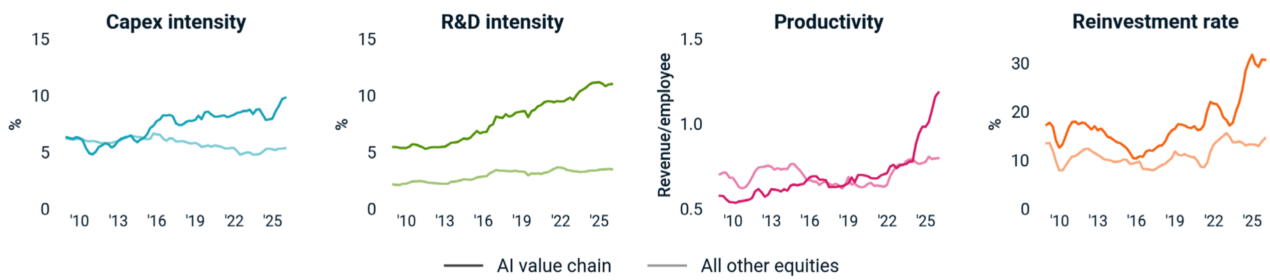


Holdings and MSCI Fundamental Data are as of Nov. 30, 2025. Values are the AI basket's share of the MSCI ACWI Index.

The physical spending is substantial, and rightly in the spotlight. Capex has grown 35% year over year to over USD 700 billion. Yet as the chart above shows, that now represents about 20% of global capex, which is roughly in line with these firms' share of earnings and revenues. Less discussed, but perhaps more durable, are the other investments these firms make. Their R&D spending alone nears USD 600 billion and accounts for over 40% of global outlays.

But the absolute figures only tell part of the story. As a percentage of revenues, AI firms today spend nearly four times more on R&D than all other firms. Capex intensity runs at twice the rate, and reinvestment rates and employee productivity tell the same story. The investment, productivity and research edge between AI firms and the rest of the world is wide. Data-center capex dominates the headlines, but these structural traits may prove their defining feature. Our fundamental data shows that earnings growth in 2026 is projected at over 20% for the stocks in our AI value chain basket, far outpacing all other equities.

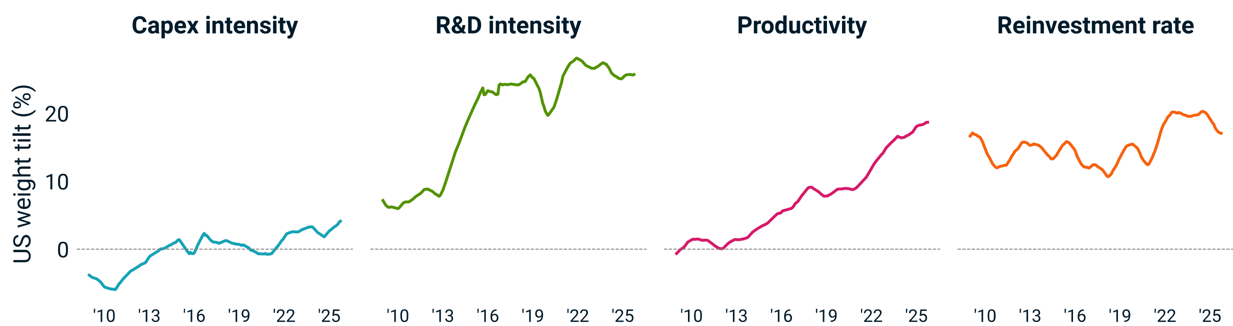
AI firms invest at multiples of global peers



AI basket holdings fixed as of Nov. 30, 2025, and applied backward. Fundamental data from January 2009 through November 2025. Values are capitalization-weighted averages; revenues in millions of USD.

Because the value chain is overwhelmingly U.S.-listed, these patterns reinforce broader U.S. structural advantages that we believe are likely to persist beyond 2026. U.S. firms are overrepresented in the top quintile for R&D intensity, earnings reinvestment and labor productivity, with the gap widening over the past 15 years. Capex is the exception. The AI build-out is heavily skewed toward the U.S. in absolute terms but concentrated in the AI-linked cohort. Excluding those names, U.S. firms spend about 4% of sales on capex, the lowest among major regions.

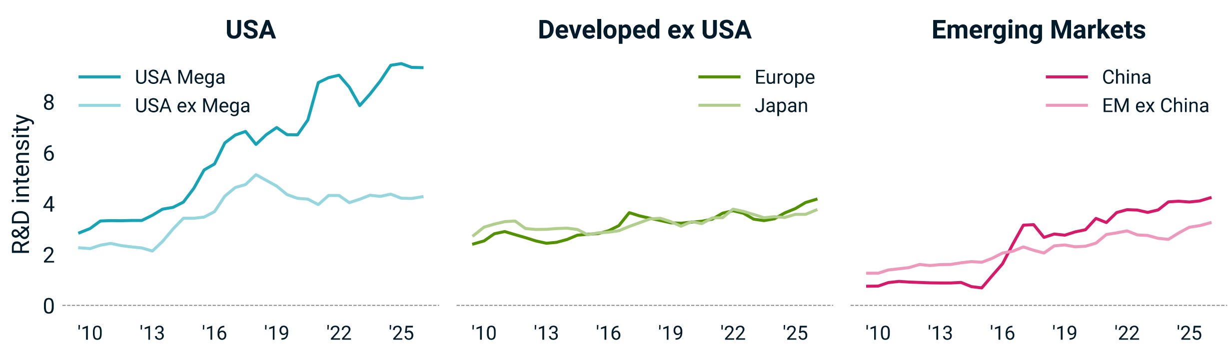
US firms crowd the top tier in research, productivity and reinvestment



Values show U.S. overweight in the top quintile of firms for each metric, calculated monthly. Intensities are as a fraction of sales, productivity is revenue per employee (millions of USD), and reinvestment is the share of earnings reinvested, all based on MSCI Fundamental Data Methodology.

The widest U.S. edge, however, is in R&D, and it may be the most enduring. U.S.-listed-company R&D outlays have grown at about twice the pace of Europe and Japan and, as of 2025, exceeded the rest of the world combined. Our own recent research suggests markets price this intangible investment as a driver of long-run growth. Much of that advantage since 2008 traces to the largest U.S. firms, which now allocate nearly 10% of sales to R&D, double that of smaller U.S. firms and peers abroad.

US megacaps spend twice as much on R&D as peers abroad



Index-level R&D per sales is calculated as weighted constituent average from Dec. 31, 2008, through Nov. 30, 2025. Quarterly mean values are plotted.

3. AI moves beyond NVIDIA to power and data centers

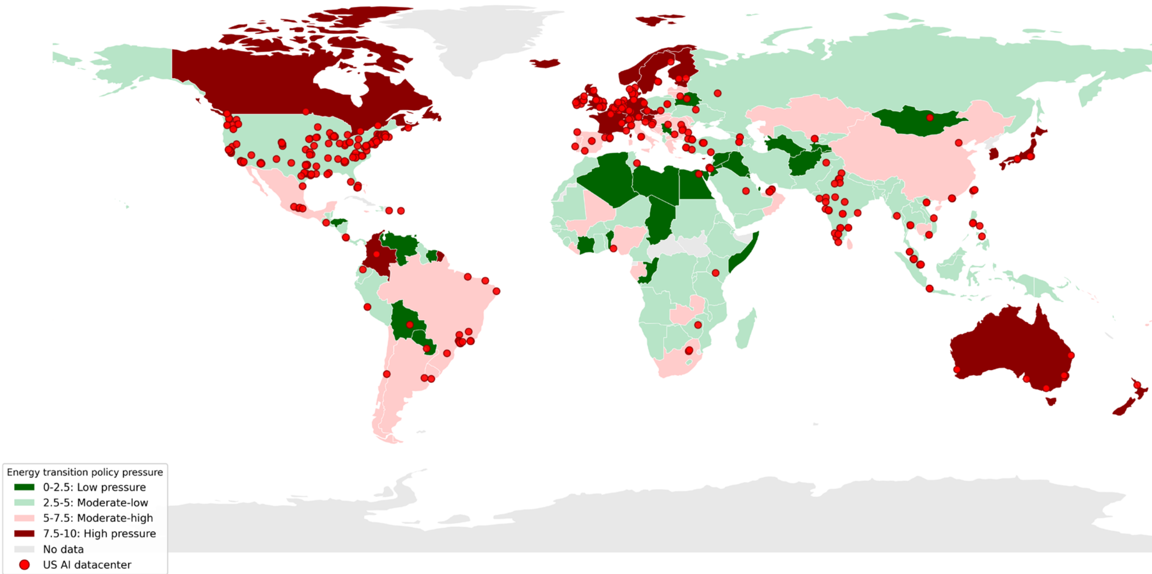
As the AI revolution has developed over the past couple of years, there has been increasing focus on the "picks and shovel" industries that support it. The greatest focus of many has been on data centers and energy. According to the International Energy Agency, global-data-center electricity consumption is set to grow at a 15% annual rate through 2030, compared with 4% growth for electricity overall. AIoptimized servers specifically are expected to grow at a 30% annual rate. Overall, data centers alone will account for nearly half of U.S. electricity demand growth through 2030.[1]

The story of energy companies in 2025 has been extraordinary and looks set to continue. The MSCI World Utilities Index was up 29% year-to-date. More remarkably, the MSCI ACWI IMI Clean Energy Infrastructure Index was up 34%. Meanwhile, the MSCI World IMI Oil and Gas Index was up just 12% for same period. This is a dramatic reversal of the 2021-2024 trend, when oil prices increased post-COVID-19 and the Russia-Ukraine war and renewables returns were depressed by the rising interest rate environment. The proximate driver is clear: demand for electric power for AI. By contrast, AI may not do enough to increase demand for oil and gas compared to offsetting demand shifts elsewhere, hence their lagging returns.

The build-out of AI data centers is already globally distributed. Countries with low and stable energy prices and predictable regulatory climates are at an advantage as AI continues its roll-out. An underappreciated risk to U.S. AI dominance may be China's lead in clean tech and electrification. AI development depends on stable, diversified energy supply. China has built commanding positions in solar, grid equipment and energy-efficiency systems. It is worth asking to what extent the U.S. is harming its future prospects in the AI revolution as it locks itself increasingly into an energy ecosystem that excludes low-cost solutions from China on the one hand and systematically discourages investments in low-cost renewable electrification on the other.

[1] International Energy Agency, "Energy and AI," April 2025, https://www.iea.org/reports/energy-and-ai.

Global footprint of US AI data centers

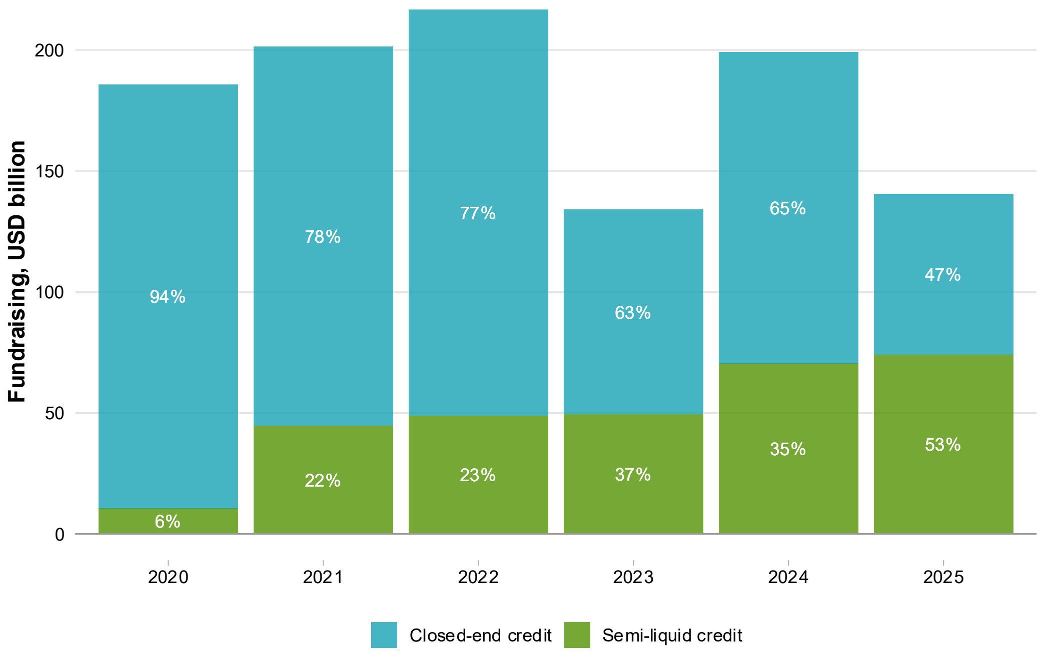


Each red dot represents a known data center or compute facility affiliated with U.S.-domiciled AI companies in the MSCI GeoSpatial Asset Intelligence dataset. The geographic spread underscores the sector's dependence on international infrastructure — a foundation of innovation and a channel of physical risk. Countries are shaded according to their energy-transition policy pressure scores; most U.S. AI data centers fall within jurisdictions with moderate-to-low policy pressure. Source: MSCI Sustainability & Climate. MSCI Sustainability & Climate products and services are provided by MSCI Solutions LLC in the United States and MSCI Solutions (UK) Limited in the United Kingdom and certain other related entities.

4. The growing — but untested — importance of private credit

A key source of funding for the AI build-out we have described is private credit, which has become a much larger part of the lending landscape since 2008. AI companies are increasingly turning to private credit for bespoke financing tied to hyperscale developments, adding momentum to an asset class already benefiting from higher yields and tighter bank lending standards.

Private credit migrates from drawdown to semi-liquid



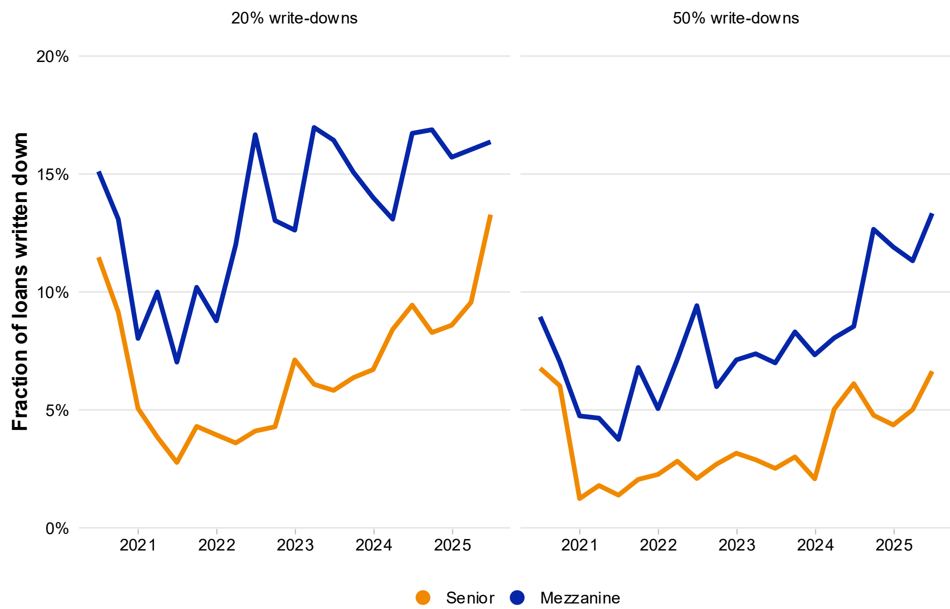
In addition, the rise of semi-liquid fund structures — often called evergreen or open-ended vehicles — has reshaped the private-credit fundraising landscape. Annual flows into semi-liquid private-credit funds have grown from USD 10 billion in 2020 to a projected USD 74 billion for 2025, even as closed-end fundraising has slowed. Asset managers are tapping wealth channels that value periodic subscriptions and redemptions over traditional multi-year commitments.

This flexibility, however, doesn't create true liquidity. Limited quarterly redemption windows and withdrawal gates mean investors still face constraints. When they do get access to their capital, it is at general partner (GP)-issued marks that are subjective and opaque — an important consideration as these products expand to investors with limited experience evaluating private-market valuations.

The return of maturity mismatch

A familiar tension is emerging: liquidity promises resting on fundamentally illiquid, multi-year loans. Managers rely on cash buffers, credit facilities or secondary sales to meet redemptions. So far, this model has worked, but it hasn't faced a true test. A spike in defaults, a freeze in secondaries or a surge in redemption requests could expose fault lines, recreating the maturity mismatch that amplified stress during the 2008 crisis: lending long and promising liquidity short.

Private credit write-downs on the rise



In the background, credit-quality concerns are quietly mounting. Two years of elevated base rates have tested borrowers' capacity to absorb higher interest costs. According to MSCI Private Capital Universe data through Q2 2025, write-downs of 20% have more than tripled among senior loans since 2022. About 13% of mezzanine loans have seen values cut in half. Managers have leaned on repricing and amendments to steady portfolios, but those measures may mask underlying stress. For now, performing loans are generating enough income to compensate for credit losses, but the widening trickle of bankruptcy is getting harder to ignore.

The question for 2026 is whether semi-liquid credit vehicles can withstand a more volatile backdrop in which AI-driven capital demand, challenges to credit quality and liquidity promises converge.

‘Life can only be understood backwards, but it must be lived forwards’

- (Soren Kierkegaard, Journal, 1843)

Investors in 2026 will continue to navigate a world in which growth, innovation and adaptation remain remarkably resilient, even as the institutions that support global markets show signs of fatigue. In 2025, we saw how quickly geopolitical shifts can reshape relative performance, how profoundly the scaling of AI investment is transforming corporate behavior and capital allocation, how the physical infrastructure behind that investment is becoming a central determinant of returns and how the rapid expansion of private credit introduces both opportunity and a new set of vulnerabilities.

As we look forward, the interplay among these trends will matter more than any one of them in isolation. The brief interruption challenging U.S. exceptionalism earlier this year — driven by changing perceptions of political stability and technological leadership — reminded us that markets remain sensitive to institutional cues. At the same time, the extraordinary momentum of “everything AI” reaffirmed the structural advantages of firms capable of reinvesting at scale, even as the energy and infrastructure demands of that reinvestment began to shift economic geography in subtle but important ways. Meanwhile, the rise of private credit, once a story of yield and flexibility, now stands at the intersection of liquidity promises, elevated borrowing costs and the financing needs of precisely the sectors driving global growth.

Taken together, these developments underscore that 2026 will be defined less by the emergence of new themes than by the evolution of those already in motion. The durability of institutional frameworks, the capacity of AI-related investment to maintain its pace, the ability of energy and data-center systems to keep up with that pace, and the resilience of private-credit structures will each influence the others, often in ways only visible in hindsight.

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