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Quarterly Comment – Q1 2026

Those who believed 2025 might mark the peak period for US interventionist activities are no doubt recalibrating such views considering events so far this year. Even as the legality of last year's "Liberation Day" tariffs is hotly debated in the Senate and elsewhere, President Trump has further disrupted the global order by threatening a "takeover" of Greenland, attempting regime change in Venezuela and potentially Iran, and causing unrest on the streets of US cities by overseeing the aggressive tactics of the newly created ICE (Immigration and Customs Enforcement) body. Further, his efforts to reduce - or even eliminate - the independence of the all-important US central bank (the Federal Reserve), including the levying of criminal charges against its Chairman, Jerome Powell, are deeply unsettling on many levels.

President Trump's "renaming" of the 1828 Monroe Doctrine as his own ("Donroe") sends a clear message that, far from diminishing as many predicted, US resolve to pursue an active foreign policy agenda remains strong. The Monroe Doctrine was designed to assert US dominance in the Americas by pushing out rival powers (notably China and Russia) and demanding regional alignment, often through economic pressure or military threats. It treated the Western Hemisphere as a US sphere of influence for resource control and strategic advantage and emphasised US primacy in securing economic benefits such as Greenland's minerals and Venezuelan oil.

What this means for investors in the year ahead and beyond is difficult to know. Geopolitical - and indeed political - machinations and turbulence tend to create short-term asset-price volatility, but this often passes, allowing other market drivers to reassert themselves. 2025 was a clear example of this, with sharp equity price declines in the immediate aftermath of tariff announcements in April followed quickly by a subsequent rally in the ensuing months.

Historically, the key medium-to long-term drivers of equity markets are corporate earnings and interest rates. The former grew strongly again last year, and expectations are for further double-digit gains across much of the globe and across multiple industries this year. Such growth will be essential to support equity prices, as we believe valuations are near historic extremes, leaving little room for disappointment. Corporate productivity gains - increasingly derived from technological advances such as AI, and broadly accruing to corporate bottom lines, not the workforce - has, in our opinion, played a major role in these gains, as has fiscal stimulus provided by a host of government acts and initiatives, particularly in the US. The hope is that such stimulus will spread to Europe, where reductions in fiscal restrictions have already been announced, as well as to China, where the lingering effects of the real estate bust appear to continue to weigh on consumer behaviour and banking-system health.

Aside from the world's burgeoning cohort of savers (baby boomers in particular), most investors welcome lower interest rates, which benefit private, corporate and government borrowers alike. Following the post-COVID spike in inflation, both producer and consumer price growth has slowed markedly across most developed economies. This has allowed central banks to ease monetary policy, stimulating growth and boosting asset prices. While it is tempting to extrapolate recent inflation declines back to pre-COVID levels, we argue changes in supply-chain management, rising tariffs and the more nationalistic stance adopted by many countries suggest that further inflation reductions may require economic slowdowns and / or rising unemployment. Such a scenario would, unfortunately, undermine corporate earnings growth.

Two final themes are likely to dominate investor thinking this year. The first concerns the three-way tug-of-war between interest rates, economic growth and productivity, and the second relates to ever-expanding levels of government debt. On the former, while the structural changes already noted - including increasingly protectionist government policies - are likely to prove inflationary, we believe that AI and other technological advances should help offset these pressures and anchor inflation at relatively low levels. Over time, we expect productivity gains to continue broadening beyond the technology sector. Respective sector-level earnings expectations are starting to reflect this. Regarding fiscal recklessness and government debt, we retain our concerns. Debt expansion cannot continue indefinitely without consequences, and the debasement of currencies in countries pursuing such paths is clearly reflected in the soaring price of gold and other precious metals.

We continue to prioritise broad diversification (across currencies, regions and sectors) amidst heightened political and geopolitical volatility. Given the broadly supportive policy and macro backdrop (various concerns notwithstanding, not least political and geopolitical risk) we continue to prioritise broad diversification (across asset classes, currencies, regions and sectors) and are modestly overweight equities (amidst expectations for robust forward earnings growth, driven by the US, with improving earnings revisions, juxtaposed against historically elevated valuations). With asset prices elevated, we believe continued market gains are contingent upon robust earnings growth and policy accommodation. For bonds, we're focusing on quality with respect to credit (with below benchmark duration for our broader fixed income allocation, i.e. shorter dated than the benchmark and less rate sensitive) coupled with the diversification potential that our gold exposure and liquid hedge funds embody. We mindful of the potential for a disruption to expectations and alert to related opportunities.

As always, we encourage you to get in touch should you have any questions about either the markets or your portfolio. We look forward to speaking with you soon.

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