بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

Global Investment Outlook 2026

Shifting Currents

Positioning for a New Monetary Era

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Andrea Vigano - Executive Chairman, Asset Management

Foreword Message

A warm welcome to the 12th annual FAB Global Investment Outlook (GIO) 2026.

2025 was a challenging year for investors marked by sharp volatility along with heightened geopolitical risks. In 2026, we expect some excellent investment opportunities for investors. Our 2026 GIO is even more comprehensive than previous years, covering a wide range of topics.

Fixed income and equities, both regionally and globally, have been covered extensively in current year GIO. However, the focus remains on Artificial Intelligence (AI), a key driver of productivity and earnings growth for companies globally, as investors remain concerned over the real derived benefits from AI, given the massive capital inflows in this sector.

In addition, asset classes that provide diversification and which are popular regionally such as real estate are also included, as well as subjects such as outlook on crude oil. We have looked at new product offerings in the ESG investing space, along with private credit with its key challenges and opportunities for investors. We have covered the history and evolution of the asset management industry in GCC as these markets are garnering higher allocation in investor portfolios.

In 2026, further rate cuts in the US are expected to slow down compared to 2025. Higher inflation remains the key risk along with unsettled geopolitical risk. However, we expect global economic growth of 3.1% in 2026 compared to 3.2% in 2025. For regional markets, we are more optimistic that growth momentum will continue driven by robust growth in non-oil GDP and policy reforms. MENA markets provide some interesting investment opportunities and also offer diversification in global portfolios.

Some of our writers have been regular contributors over the years. In 2026 GIO, our focus area are AI, interest rate cycle, regional and global equities, fixed income, ESG investing, private credit, and key risks that investors should consider before investing. Indeed, the importance of diversification for any investor has been covered extensively.

Overall, 2026 GIO presents what we believe investors and our clients need to know to generate good total returns this year and in the future. The thoughts of our team of seasoned experts across the Bank have been brought together here, explaining how we see the world, macroeconomics, geopolitics, and key risks. We wish all investors a successful year in investing in 2026.

Featured Insights

Abhishek Shukla - Head of Investment Research
John Fairs - Executive Director, Investment Research
Pankaj Sharma - Director - Investment Research

The AI Investment Opportunity,

The Hype vs the Reality... The Investors Dilemma.

Artificial Intelligence investment has reached unprecedented heights. Yet beneath this surge lies a critical challenge faced by investors, that being distinguishing between truly transformative value opportunities from speculative fervour and market hype. In this article we offer insight to what the future may hold and what sectors are likely to benefit. To quote bill Gates "People often overestimate what will happen in the next two years and underestimate what will happen in ten."

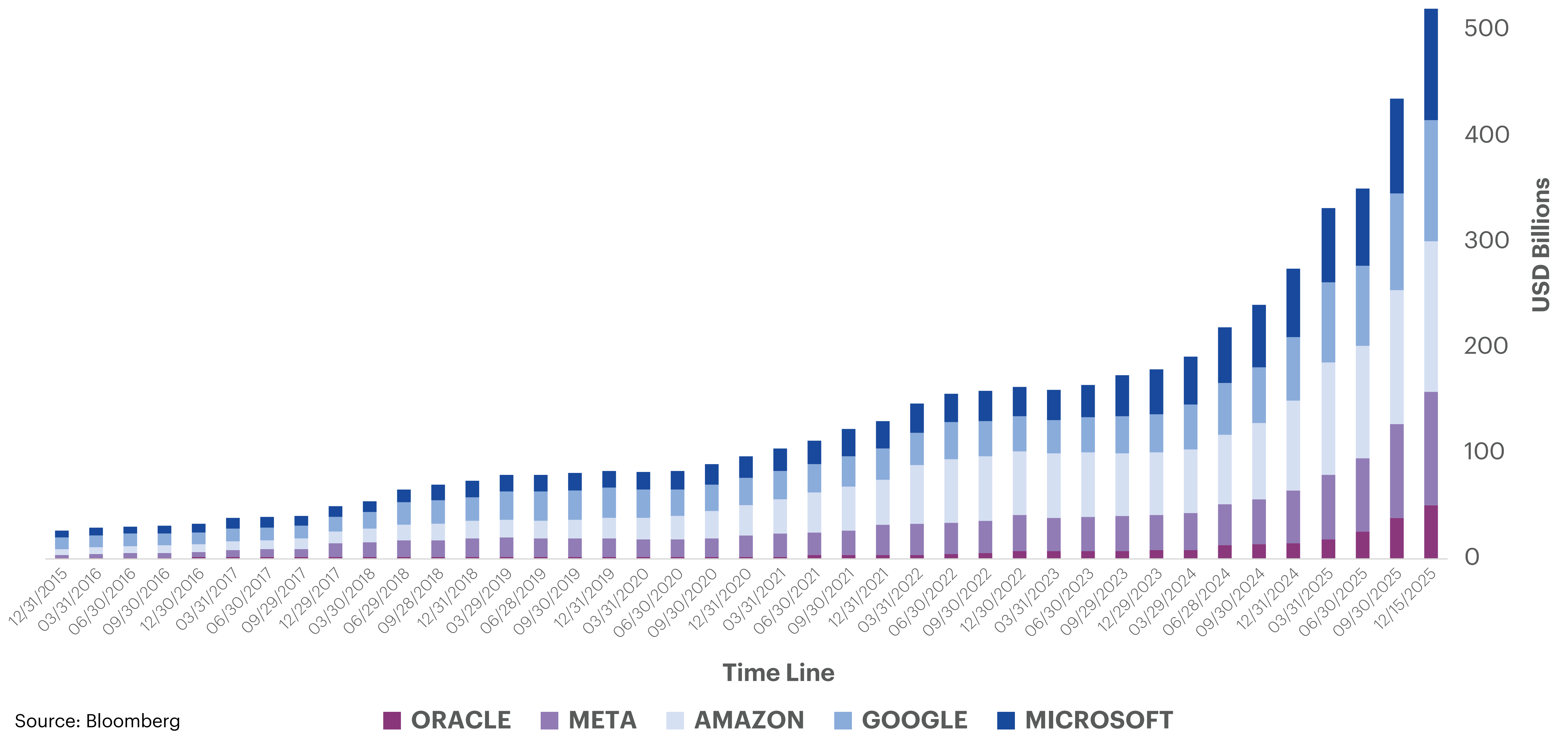
AI (Artificial Intelligence) is dominating and driving the current market performance globally. The current AI boom is being compared to dot-com era bubble, and if there is any similarity. In this article we have analysed the winners and losers from the AI investment cycle along with growing investor concern over valuations. We have discussed the broader implications of AI and the path ahead. AI is termed as fourth revolution which will enhance the productivity to the next level. However, the key for global investment community remains in balancing the AI optimism with the reality in the years to come.

The Fourth Revolution: AI and Intelligent Automation

Historically industrial revolutions have been characterised by highly disruptive technologies. Once these technologies were introduced, they were quickly adopted by society. The first revolution was in the 18th century - the industrial revolution, the second revolution was in the 19th century - electrification and the third revolution was in the 20th century - the digital revolution.

Many observers believe we are now entering the 4th revolution defined by "AI and intelligent automation". This 4th revolution is not only being encapsulated as a technological advancement phenomenon but also being defined by its speed of integration into the world's economy, creating seismic shifts in global investment strategy and market valuations.

HYPERSCALER CAPEX BOOM USD BILLIONS



Source: Bloomberg

Current Market Dominance: The AI Factor

Over the past few years, the AI investment cycle has matured, investment has moved from theoretical deliberation to a real tangible product development, where deployment and infrastructure expansion is proceeding.

As we enter 2026, the AI industry remains the dominant influencer and primary driver of global equity and debt markets. The so-called "Magnificent Seven" (MAG7 - Apple, Microsoft, Amazon, Meta, Google, Nvidia, Tesla) and other AI-driven companies currently comprise of over one-third of the S&P 500 total market capitalisation. It is estimated that since 2022, 80% of earnings growth and 90% of capex growth is attributed to MAG7. Such is the scale of investment into AI infrastructure that the phenomenon has been labelled as an "AI Gold Rush". These first movers benefit from scale, data, infrastructure, and talent, making it difficult for new entrants to disrupt their leadership quickly. Given the current scale of investment reaching over USD 500 bn in 2025 in AI infrastructure, data centres, and next-generation chips, could extend their competitive edge for several years.

The unequivocal winners to date in the "AI investment universe" are semiconductor manufacturers, particularly those specializing in AI specific hardware. Companies like Nvidia and AMD are maintaining rapid innovation cycles, releasing new architectures annually and partnering with cloud providers to deploy massive AI infrastructure in efforts to maintain their market leadership.

Beyond MAG7: The Second Wave of AI Adoption Beneficiaries

Investors should take note however that the market is now broadening, while the "Magnificent Seven" and other AI leaders have driven much of the recent market gains, there are signs that other sectors are starting to benefit from AI adoption such as Industrials, healthcare, energy, and financials who are increasingly deploying AI to improve productivity, reduce costs, and create new products and services.

Opportunities in "Second Wave" AI beneficiaries are becoming more evident. Companies that use

AI to transform their operations—rather than build the underlying technology—may become the next set of winners. This includes firms in logistics, manufacturing, pharmaceuticals, and more.

As AI tools become more accessible, the competitive advantage of pure tech infrastructure may diminish, and value may shift to those who can best apply AI in their core businesses. As market leadership broadens investors may benefit from diversifying beyond the largest AI names to capture growth in other sectors and reduce exposure to the risks of AI concentration.

Market observers note to date that whilst AI remains impactful, its adoption has not been a smooth process, and diversities are beginning to emerge across industries. The traditional institutions such as insurers, pension funds, IT services, and outsourcing companies which carry labor intensive models have struggled with AI adoption.

In some cases, management is not committing sufficient capital into modern technology, thus leaving companies to be vulnerable to potential future growth, and consequently making them less attractive when seeking fresh capital investment.

Some more prudent, forward-thinking leaders in industry have, however, determined how to reconfigure their organisations by seamlessly integrating AI adoption across business divisions, they see AI not as a sole product but as a general-purpose transformative technology that is reshaping industry, economies and daily life.

Key Areas of AI Impact Across Industry Include:

- **Productivity gains:** Automating routine tasks and augmenting human decision-making to unlock efficiency across sectors.
- **Infrastructure growth:** Surging demand for semiconductors, cloud platforms, and data centres is creating durable investment opportunities.
- **Sector breakthroughs:** Accelerated drug discovery in healthcare, strengthened fraud detection in finance, and optimised predictive maintenance in manufacturing.
- **Enterprise adoption:** AI integration into the workforce and workflow
- **Creativity and work:** AI augments human imagination, empowering writers, designers, and scientists.
- **Education and equity:** Personalised learning powered by AI could democratize access to knowledge.
- **Sustainability:** AI is optimising energy grids and modelling climate change, supporting planetary stewardship.

These benefits are not just distant possibilities, but they are unfolding now, often faster than we can fully process or adapt to them. AI is reshaping industries at the core.

Opportunity or Hype: Separating the Wheat from the Chaff

Artificial Intelligence has become the defining narrative of our era. Every week, headlines proclaim breakthroughs, valuations soar, and investors scramble to secure a piece of the future. Yet beneath the noise lies a more nuanced reality: AI is both overhyped and underappreciated, depending on where you look.

The challenge for leaders and investors is not to dismiss the hype, but to discern where genuine opportunity resides. The most significant risks for investors and business leaders alike is the conundrum being the ability to understand what distinguishes true Agentic AI (fully autonomous system) from more traditional automation. The ability to differentiate true innovation from inflated marketing jargon will be paramount, if leaders can attain and maintain their competitive edge in an expeditiously developing AI universe.

The Red Flags: Marketing Jargons

In today's AI landscape due diligence is paramount, investors should be weary of backing companies that lack a clearly defined and defensible long term value proposition, in effect one that can't generate revenue traction. An AI-powered startup that can't deliver meaningful differentiated value should also raise red flags.

Overhyped jargon where companies use buzzwords like "intelligent agents" and "autonomous systems" when marketing their products. Investors should be cautious as often these companies might be using automation tools which are already widely accessible. This rebranding to ride the AI hype is referred as "agent washing "where companies misrepresent their product as intelligent, autonomous AI systems, whereas it might be providing simple rule-based output. Such companies are unlikely to generate strong future returns and investors should avoid them.

The Bubble Scenario: The Hyperscalers

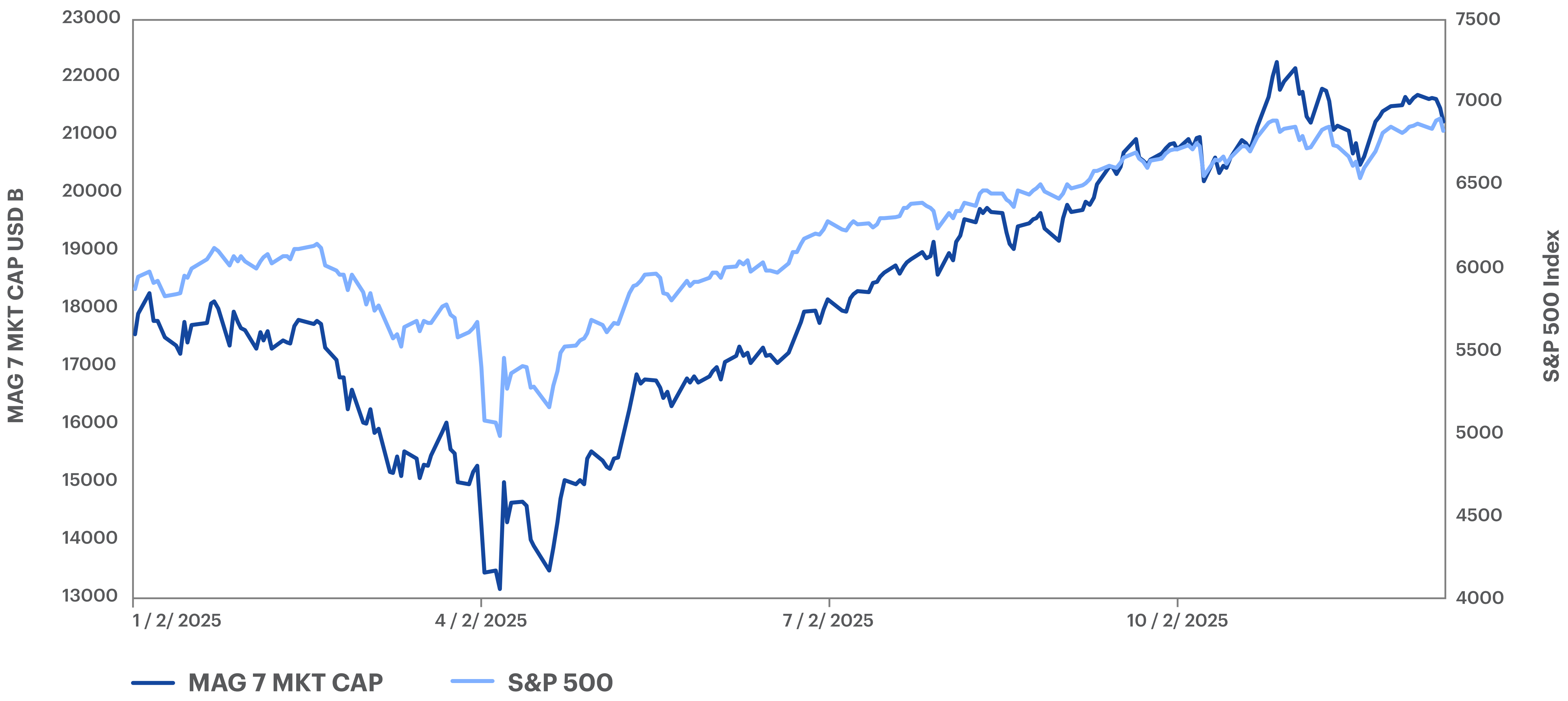
Current investor anxiety is perhaps understandable given market concentration risk and valuations, the so called MAG7 represent close to 38% of the S&P market capitalisation. The MAG7 was the major driver for index performance through 2025.

Some observers have compared the enthusiasm for all things on AI to the dot-com era of the late 1990s and early 2000s. The market soared over the past couple of years with valuation swelling as billions of dollars were invested in AI. However, unlike speculative mania of the past where valuations were based on future potential, the current wave of AI investment is more grounded. AI investment is primarily driven by essential tangible demand, offering real products that demand astronomical computing requirements. However, the key challenge is not so much about the long-term outlook for AI, but more about the inflated forecasts and expectations.

The mega deals are now being struck which require hundreds of billions of dollars in new infrastructure investment. Fundamentals remain positive, strong earnings so far have been the primary drivers of AI related industries. It is evident through the rise in earnings per share across the technology sector over the past ten years. Leading companies in the sector have strong balance sheets which was missing in previous bubbles.

Further technical comparisons to the dot-com era are market supportive, valuations appear stretched, but they are not yet at bubble level. The 24-month forward Price to Earnings (PE) multiple for the MAG7 companies is currently at 25x, nearly half the equivalent valuation for the largest companies during the dot-com bubble.

MAG 7 MKT CAP DRIVES S&P 500 Index



Source: Bloomberg

MAG7: Reasonable Valuation vs. Expected Earnings Growth in 2026

	2024	2025E	2026E
P/E (x)	38.71	33.92	28.22
EPS Growth (%)	41.54	35.28	20.18

The Next Phase of AI Investment: Debt

The recent investor concerns surrounding AI have been not so much about its hype, but rather its funding dynamics. The so-called spate of "circular deals" between the likes of Nvidia, OpenAI, AMD and Microsoft have put the spotlight further on the financial transparency of the sector. These mega deals understandably given their size have caught the headlines, simply put, circular deals involve large investment effectively flowing between a small group of companies that buy and sell each other's products. Thus, raising the possibility of inflating valuations and growth, not actually supported by true consumer demand.

Investors are concerned about the euphoria surrounding investment in data centres as the capex involves substantial capital commitment that might not translate into substantial revenue being a prime example. The companies involved, however, argue that the growth from the AI model itself will not only generate profits but also create vastly larger revenue streams through its AI compounding growth as its adoption increased across industries.

As we enter 2026, there also appears to be slowing free cash flow growth, and signs of market saturation among the largest cloud providers which could limit future upside. To date most of the capital deployed to fund inherent AI business expansion has come from hyperscalers utilizing their own cash flows from their core businesses, however now projects are 80% debt funded and 20% by equity.

Historically, the equity portion was backed by the sponsoring firms, however, with leverage now entering the system, it is going to put further pressure on firms to deliver future revenue targets, if investor concerns need to be alleviated. At the time of writing, Meta has just raised USD 30 billion, along with Amazon USD 15 billion in debt market. The AI phenomenon may not be a bubble, but bubbles perhaps exit within it, if revenues fall short of expectations.

What the Future Holds

The belief is that in the longer term, AI might mature like any other general-purpose technologies through history, contributing trillions of dollars to the global economy and increasing productivity across industries. AI is obviously the most powerful market catalyst of the current era, reshaping market dynamics, and global economies.

Over the coming years markets will demand greater scrutiny when considering AI investments as the initial phase that has been characterized by enthusiasm and speculative growth. However, the second phase will be primarily focusing on demonstrated profitability and scalable applications of AI. The practitioners will have to show clear and measurable returns from AI capex in order to continue and thrive.

As AI becomes more central to the global economy, regulatory scrutiny will noticeably increase. There will be new rules around data privacy, antitrust, and AI safety which could all impact the business models of current leaders. Therefore, investors should conduct regular portfolio reviews and stay informed about the market and regulatory changes. This will be key to managing risk and capturing future growth.

The AI Investment Landscape: Positioning

Through 2026 we opine AI first movers are most likely to remain influential and continue to outperform the market. As earlier eluded, primarily thanks to their scale, innovation, and investment capabilities. However, risks from high valuation, capex saturation, and market broadening mean their dominance may gradually diminish as AI adoption spreads across sectors.

We think that investors should not solely concentrate their portfolios towards leading AI or technology stocks. Instead, they should diversify across sectors that are likely to benefit from AI adoption, such as, industrials, healthcare, energy, and financials. This action is not only going to reduce their exposure to sector-specific risks but also captures potential growth opportunities as AI spreads to new industries.

We think one should seek a balance between high-growth AI leaders and well-established companies with solid fundamentals which remain beneficiary of AI adoption and productivity gains. Indeed, investors having such stocks in their portfolios, will not only add stability to returns, but also an upside as AI adoption drives productivity gains across traditional industries.

Simon Ballard - Chief Economist

Global Macro Outlook 2026:

Cutting Through Challenging Crosswinds

The 2026 global macro and interest rate outlook stands at a critical inflection point. The median dot-plot projection from FOMC members—around 3.1% for the Fed funds rate by year-end—suggests a modest easing in terms of overarching sentiment, but not a dramatic pivot to ultra-low rates. Persistent inflation risks, (Federal Reserve) leadership shifts, and external policy shocks, at a time of strengthening macroeconomic and credit fundamentals across the GCC & Egypt region, will all create challenging crosswinds of risks and opportunities for investors.

After what has been a reasonably sluggish past two years (FY2024/FY2025) in terms of global economic growth, 2026 is generally expected to witness a modest improvement in economic activity and (real GDP) economic growth levels. As such, we expect the global economy to avoid recession again this year (2026), but at the same time remain cognisant that the global macro landscape will continue to struggle to regain its pre-pandemic buoyancy. Moreover, we see a not insignificant risk that a stagflationary environment may evolve – if not deepen – in some geographies including the U.S. and Europe. In aggregate, we expect the global economy to expand by close to 3.0%, broadly in line with the post-pandemic average.

In its latest World Economic Outlook (WEO) publication, the International Monetary Fund (IMF) opined that the global economy is adjusting to a landscape reshaped by new policy measures. At the same time we acknowledge that while some of the extreme impacts of punitive (U.S.) import tariffs have been mitigated in recent months by trade deals and resets, the overall global macro outlook for 2026 remains characterised by volatility. Moreover, we are conscious that many of the temporary factors that supported economic activity in the first half of 2025—such as front-loading—are now fading and will have less of a positive impact on global macro conditions in 2026.

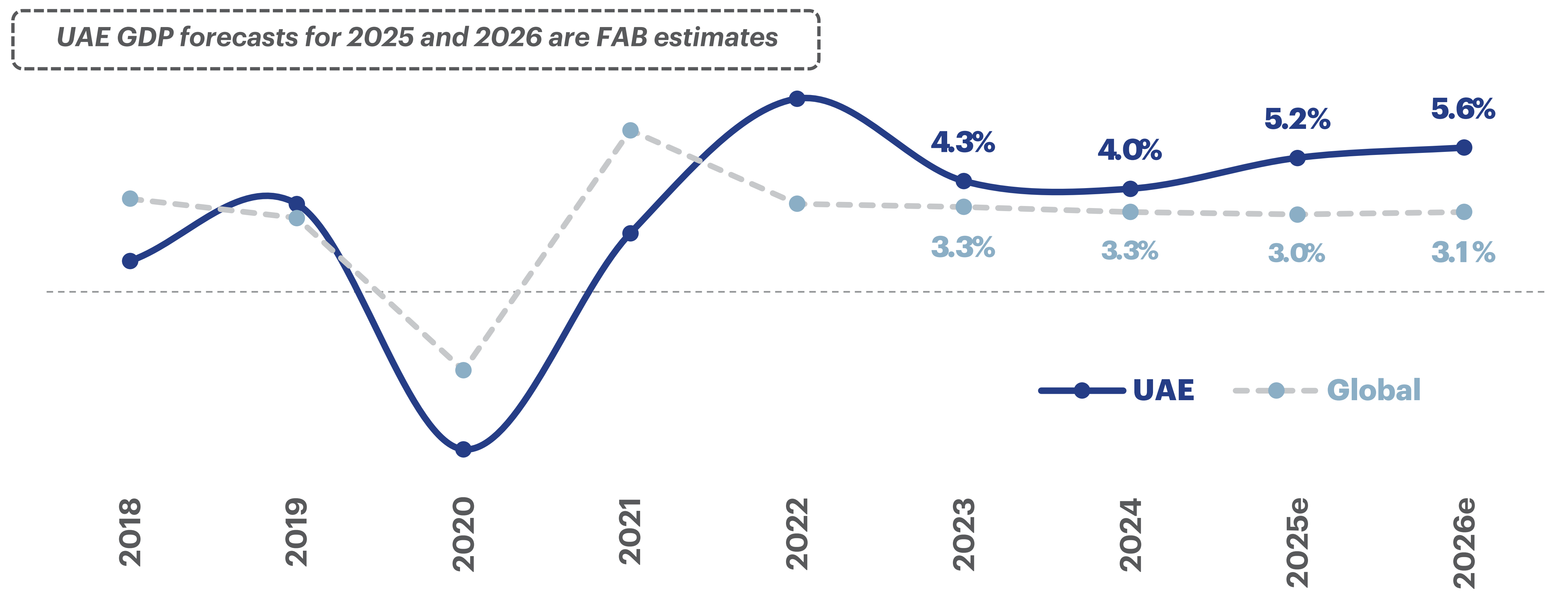
As a result, we note that the IMF revised up its global growth projections for 2025 and 2026 in the latest (October 2025) WEO, relative to its April 2025 projections, albeit in the context of continued modest downward revisions relative to the pre-policy-shift forecasts. Several factors such as higher international trade tariffs, persistent geopolitical tensions in the Middle East and Ukraine, as well as limited fiscal and monetary policy accommodation may continue to dampen the macro landscape.

Our outlook for global growth this year (2026) is closely aligned with that of the IMF. We expect global economic growth to moderate to around 3.1%, compared to 3.2% in 2025 and 3.3% in 2024. Within this we see consensus for advanced economies to grow by around 1.5% and emerging market and developing economies to expand by 4.0%-4.5% on average.

In this context, we believe that the GCC & Egypt economies should outperform the average in 2026, spear-headed by the United Arab Emirates. As we discuss later in this paper, **we expect the UAE economy to expand by 5.6% in terms of real GDP growth** as the economic diversification story gathers further positive momentum. Likewise, **we anticipate 4.5% real GDP growth for Egypt in FY2025/26 and 5.1% in FY2026/27.**

Meanwhile, although we expect inflation to continue to decline globally over the coming year, price pressures will differ dramatically by geography. Indeed, inflation seems set to remain sticky and above target in the United States as well as in Japan – with risks tilted even further to the upside – but likely more subdued elsewhere. **The key takeaway is that the inflation landscape will be anything but homogenous.**

Regional macroeconomic resilience is increasingly compelling



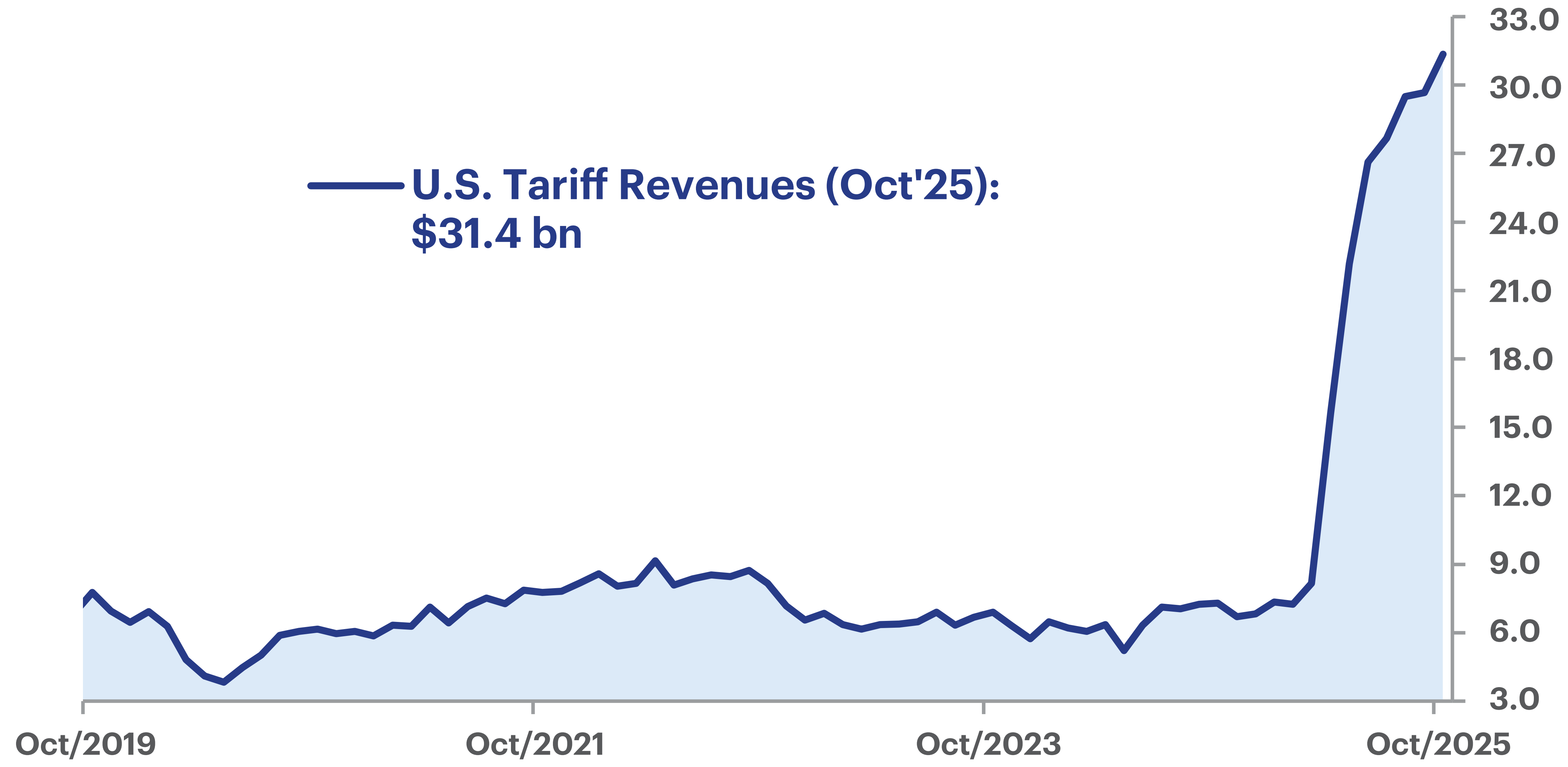
Source: IMF/FAB

Overall, we would conjecture that risks to the global macro outlook remain tilted to the downside as we enter the New Year. We would caution that a combination of prolonged rates uncertainty, intensifying protectionism, and labor supply shocks could reduce growth. At the same time, fiscal vulnerabilities, potential financial market corrections, and erosion of institutions (through political interference), could also threaten market stability.

The Outlook

In aggregate therefore, we perceive the global economy to be entering 2026 with a sense of cautious optimism and balance at best. After several years defined first by the Covid-19 pandemic shock and its associated supply-chain disruptions, then by inflation spikes and subsequent monetary tightening cycles, as well as heightened geopolitical tensions, the world now appears to be settling into a new equilibrium—one that is more complex, more fragmented, and less predictable than the pre-2020 global environment. At the same time though it is encouraging that the outlook for the world economy in general still appears to be more resilient than many had anticipated during the nadir

Consumers can't avoid such price pressures



Source: Bloomberg/FAB

of the pandemic and the peak in investor uncertainty.

The economic landscape of 2026 is not one of exuberance; it is not a world booming with explosive growth or dramatic structural shifts. Instead, it will be one of incremental adjustment, slow rebalancing, and tentative transition. Growth continues, but modestly. Inflation may have adopted a more structural bias in recent quarters; at best it is declining only gradually.

Trade flows have taken on a more fragile persona over the past year or so, especially in the wake of 'Liberation Day' and U.S. President Trump's controversial trade tariffs. Moreover, trade patterns are now being buffeted and shaped by geopolitics. Meanwhile, technology is seen to be accelerating productivity and helping the disinflation narrative, albeit not uniformly. In aggregate, we would suggest that the current government and central bank policy frameworks remain in flux as we attempt to navigate a world where shocks have become more frequent and the margin for policy error has narrowed.

What emerges is an environment in which resilience—of supply chains, of fiscal positions, of monetary systems, of labour markets—becomes more central than the pursuit of hyper-globally integrated efficiency.

The shift is subtle but unmistakable: the world is not de-globalising entirely, but it is realigning. Not collapsing into protectionism – albeit with the acknowledgment of the MAGA regime in the U.S. – but fragmenting into more regional blocs. And not rejecting new technology but wrestling with how to integrate it meaningfully into economic structures.

The result is a mixed global picture. Some economies enter 2026 with robust fundamentals, sound domestic demand, strong investment, and supportive policy environments. Others face elevated debt burdens, political uncertainty, shallow buffers, and external vulnerabilities. In this sense, the global macro outlook is neither decidedly positive nor clearly negative; it is a multi-piece jigsaw of diverging shapes, sizes, and directions, built on structural forces and cyclical dynamics that, understandably, do not always align neatly across countries. In this context, we therefore expect the coming quarters to be characterised by moderate and uneven global economic growth levels overall. While we anticipate that advanced economies will experience still somewhat limited growth potential of around 1.0%-2.0% over the coming year – with growth constrained by cooling consumer demand, sticky and elevated inflation / borrowing costs as well as a tighter fiscal policy bias – it will not be a case of 'one size fits all'. According to the IMF, which is close to our own First Abu Dhabi Bank (FAB) house view, global real GDP growth is projected to come in at around 3.1% over the course of 2026.

Closer to home, we forecast a more optimistic outlook for emerging market economies over the coming year. On average we would expect economic growth rates across the emerging market regions of c.4% on average, with much of the GCC – especially the United Arab Emirates – expected to outperform the average, but more on that later.

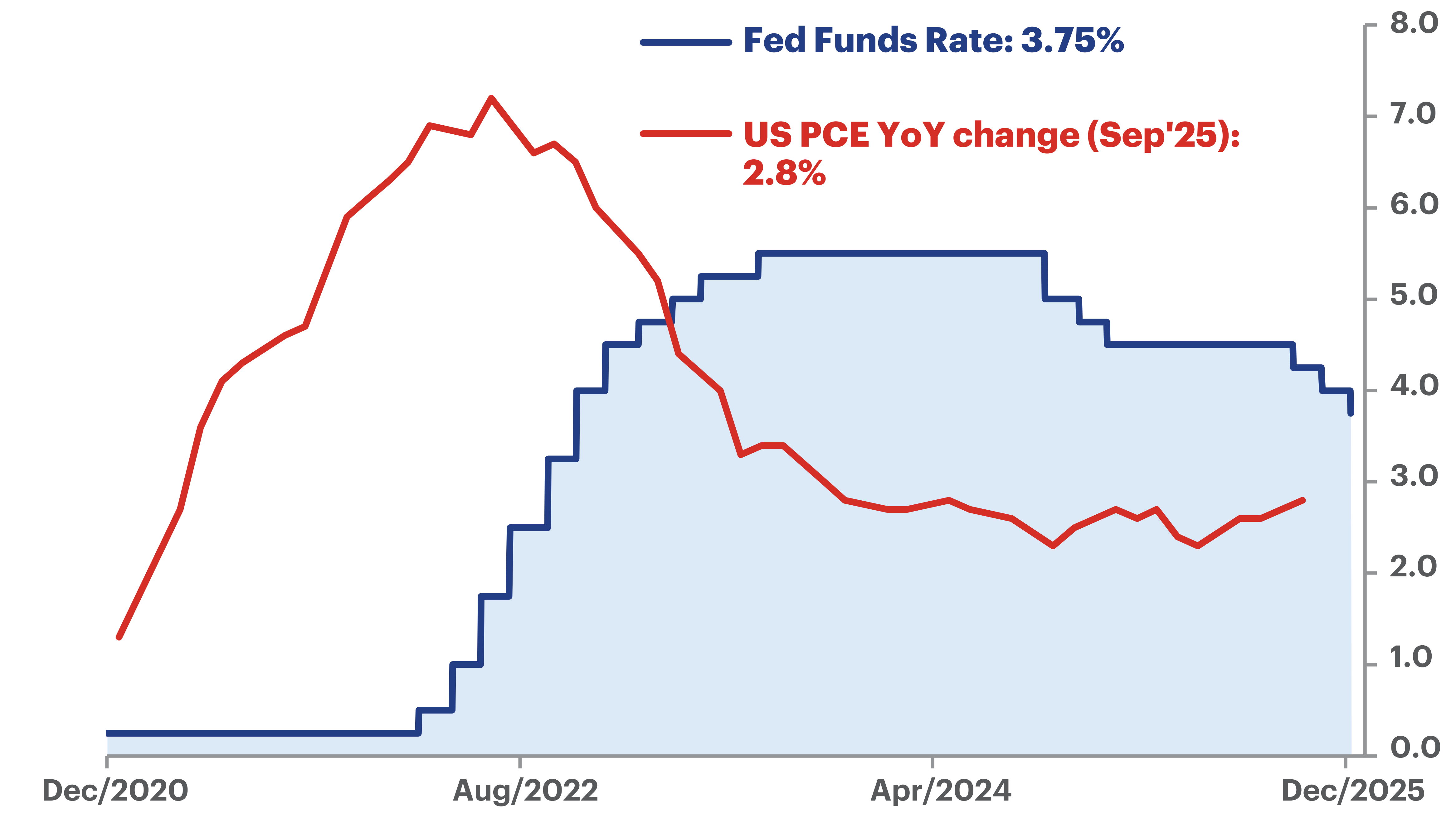
U.S. Macro and Rates in 2026

As the U.S. economy transitions from its post-pandemic economic normalisation to a more mature growth phase, the outlook for the Federal Reserve's policy rate in 2026 will remain a central concern and challenge for financial markets, policymakers, and industry. Indeed, the path for U.S. interest rates in 2026 is anything but transparent at this stage as Chairman Powell and his Federal Open Market Committee (FOMC) colleagues try to reconcile the two elements of the Fed's mandate; maximum employment (by promoting job creation and keeping unemployment as low as possible without triggering excessive inflation) and stable prices (as per a 2% annual inflation rate as measured by the Personal

Consumption Expenditures (PCE) price index). As expected, the Federal Reserve cut rates again – for the third consecutive time – on December 10 as the FOMC chose to favour supporting the labour market over concerns about uncomfortable price pressures (inflation). Critically though, the Fed suggested – as we had been hoping would be the case – that this may have been the last rate reduction for some time. In his post-meeting news conference, Federal Reserve chair Jerome Powell stated that additional rate cuts will now be tougher to justify. Powell frequently reminded us that the Fed has now lowered rates three times this year, with the subliminal underlying message that this is 'enough for now'.

What was also telling was the latest number – and direction – of dissenters. While the majority of the 12-person committee again voted with the chair for the rate cut, three members failed to agree. It was no surprise that President Trump's stooge, Stephen Miran, voted in favour of a larger (50bp) reduction again, just as he has in previous meetings, but what was more interesting was that both Kansas City Fed President Jeffrey Schmid and Chicago Fed President Austan Goolsbee both voted to keep rates on hold this month. The latter two clearly preferred to prioritize curbing inflation, rather than advocating any pressing need to ease policy again to support the labour market. This was the highest number of dissents since September 2019 and the fourth consecutive meeting at which the Fed decision hasn't been unanimous – the longest period since 2019.

Pushing back the rate cut narrative



Source: Bloomberg/FAB

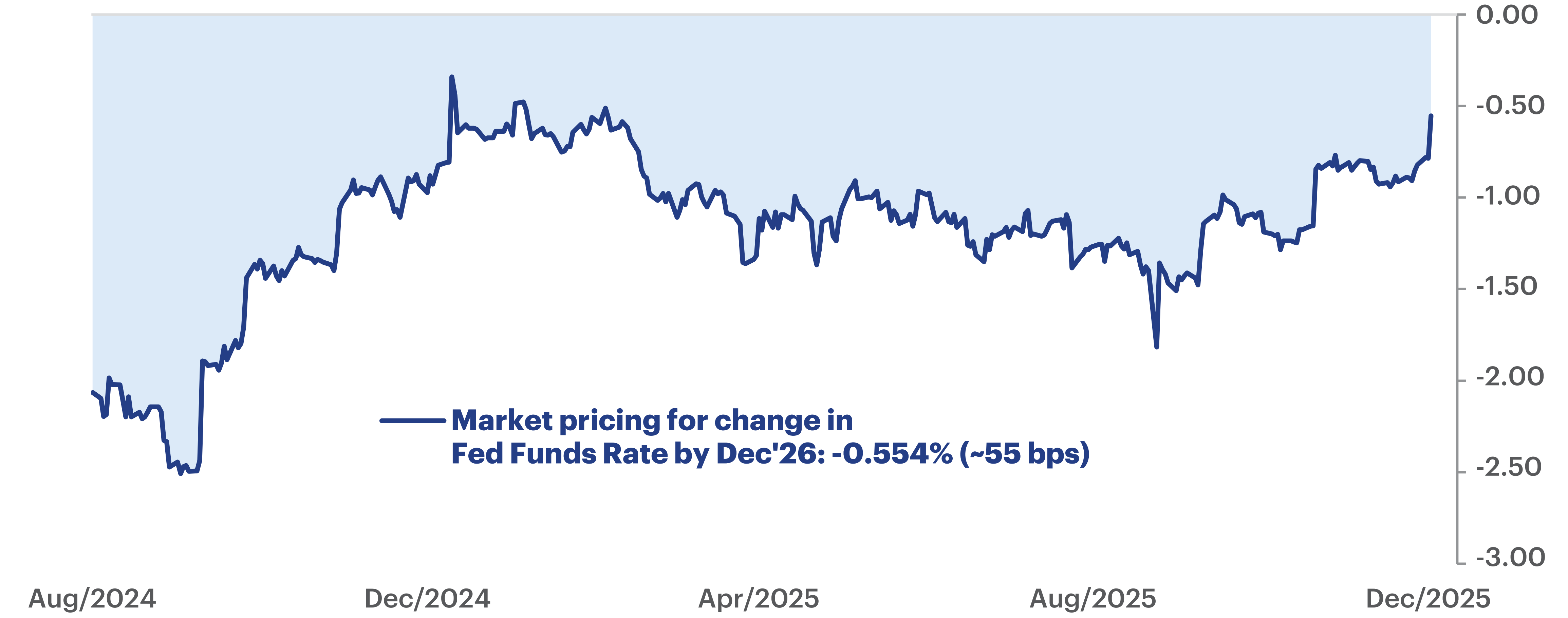
We challenged and argued against a more dovish U.S. rates outlook throughout much of 2025. That said, the politically charged, economic polemic is clear; while the U.S. labour market has been stagnant, inflation has refused to budge from its elevated perch, well above the Fed's 2% target. Moreover, price pressures seem set to only edge higher next year as President Trump's tariffs take full effect. And Trump's quest of getting rates significantly lower seems set to only get even more difficult this year with Dallas Fed President Lorie Logan and Cleveland Fed President Beth Hammack joining the FOMC voters, with both having previously expressed in public their reservations with lowering rates further.

The outlook for U.S. rates as well as that of the composition of the FOMC could be further complicated by political interference over the coming months. With current Fed chair Powell coming to the end of his term in May, we know that President Trump will want to replace him with a committed dove. Kevin Hassett, current director of the National Economic Council currently appears to be Trump's favoured candidate. Such a politically-driven move of appointing a mouthpiece for the President, while not surprising, could call into question the independence and credibility of the institution of the Federal Reserve itself. Such an event would surely prove to be a negative event risk for investor sentiment and the U.S. dollar.

We hope that common sense will prevail and that the next Fed chair will be appointed for his or her economic prowess rather than their political persuasion. At the end of the day though our concerns should be assuaged by the fact that the FOMC votes as a committee and that one (chair) person does not have absolute power.

For now, the Fed's path—and the ultimate "floor" for the Fed funds rate—remains deeply uncertain although our core view remains that with U.S. economic growth momentum fading and (tariff-driven) price pressures sticky to the upside, a net hawkish bias should increasingly characterise Fed thinking – and narrative – over the coming quarters. More broadly though, the key drivers of the U.S. interest rate outlook this year will include not only inflation and growth dynamics, but also labour-market risks, geopolitical tensions, fiscal policy, and internal FOMC divisions.

Maximum 2 further Fed rate cuts, if that, by end 2026



Source: Bloomberg/FAB

From a global perspective, we would conjecture that the Federal Reserve will continue to lead the monetary policy evolution debate over the coming year. Expect the Fed to remain biased toward maintaining a measured, stimulatory monetary policy position to support the labour market element of its dual mandate, but also to carefully calibrate (and avoid) any further, significant monetary easing, in an effort to avoid reigniting inflation, which in turn could require a return to a more (economically damaging) hawkish bias before the end of this year.

The U.S. interest rate outlook for the months ahead therefore now stands at a critical inflection point. The median Federal Reserve FOMC dot-plot projection currently sits at around 3.1% for the Fed funds rate by the end of this year (2026) – implying a modest degree of easing from current levels, but not a dramatic pivot to an ultra-low rates strategy. Persistent inflation risks, Federal Reserve leadership shifts (as we approach the end of Chair Powell's contract in May) and external policy shocks will all contribute to ensure the U.S. rates path remains far from certain.

As such, global markets need to prepare themselves – if not prepared already – for a range of outcomes. These could include a gradual descent to a ~3.0% terminal rate, a shift to a more aggressively dovish strategy if the economy weakens, or conversely, even a more hawkish stance if inflation surprises to the upside.

In our opinion, the latter scenario is non-zero probability risk that is certainly not priced into the market at current levels. For the Fed, the challenge will be to cover all the bases and possible scenarios: ensuring that monetary policy remains 'easy' enough to underpin economic growth, but not aggressive or ultra-easy, so as to potentially jeopardise the price stability side of its mandate.

While we anticipate no more than an absolute maximum 50bps of additional monetary easing by the Fed during the 2H2026, ultimately, of course, the interest rate path for the year will depend heavily on how inflation evolves, how the labor market performs, and how both internal and external policy risks play out. ***The Black Swan*** event this year will be a shift to a hawkish bias by the Federal Reserve, as tariff-fueled U.S. price pressures tick higher. For investors, firms, and households alike, this uncertainty underscores the importance of flexibility, vigilance, and scenario planning in their financial strategies.

GCC Macro in 2026

Against the backdrop of global macro challenges and monetary and fiscal uncertainties, the six countries comprising the region of the Gulf Cooperation Council (GCC) look set, once again, to be a haven of solid economic activity. In aggregate, with GCC interest rates largely tracking those set by the U.S. Federal Reserve, as a result of the currency pegs, the GCC economy is expected to expand by 4.3% in 2026, up from 3.9% in 2025, buoyed by the region's relative resilience to global macro volatility and price pressures.

With inflation across the GCC expected to remain muted and among the lowest globally at an average rate of 2% in 2026, reflecting stable exchange rates and prudent fiscal policies, the outlook for GCC interest rates will be a derivative of the countries' currency pegs (or Kuwaiti basket) to the U.S. dollar. Most GCC central banks will be expected to largely mirror (any) policy changes by the Federal Reserve.

Back on the economic growth front though, within the aforementioned headline GDP growth figure of 4.3% GCC real GDP growth target for this year, it is the non-oil sector that will be the driving force behind economic performance. In broad terms we would expect GCC non-oil real GDP growth of around 5% in 2026, with GCC oil GDP growth positive, but modest, down closer to sub-3%.

Across the region, we expect the United Arab Emirates to have been – and to remain in 2026 – the strongest performing economy in terms of economic growth. We expect the UAE economy to have expanded by 5.2% (real GDP growth) in 2025, and for the pace of economic expansion to accelerate to 5.6% in 2026.

Across other geographies, Qatar should see robust economic growth of around 5.5% this year (up from

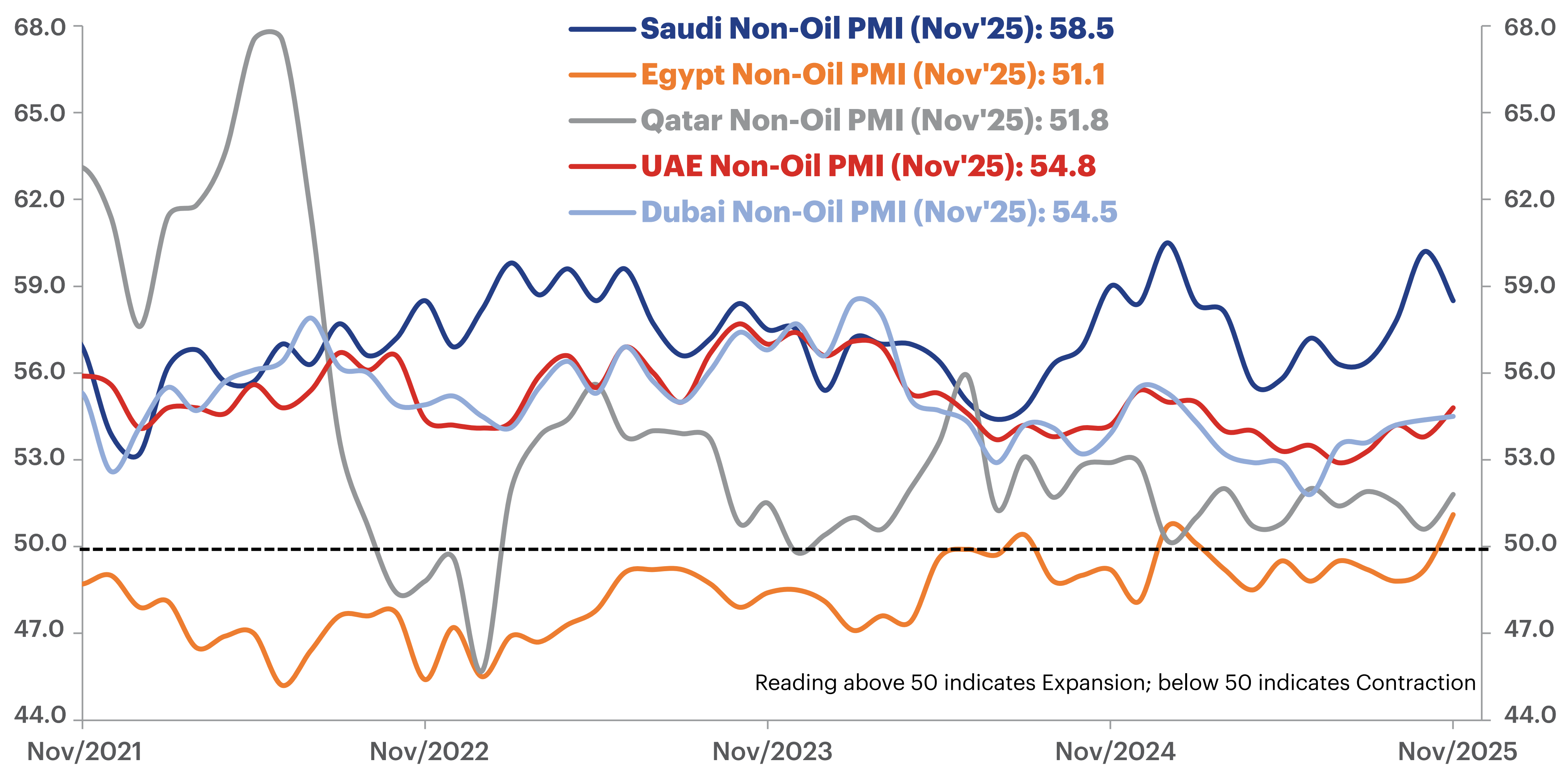
2.5% in 2025) with Saudi Arabia real GDP growth holding steady around the 4.5% level. Meanwhile, Oman, Kuwait, and Bahrain are forecasted to achieve more moderate growth of between 3.0-3.5%.

All in all, we believe that the macro outlook for the GCC region offers a strong economic foundation for the year ahead. From a MENA sovereign credit rating perspective, we would argue that the outlook remains 'neutral' and 'stable', buoyed by fairly stable oil prices and solid economic growth.

With oil prices fairly stable for now, economic diversification will remain the driving force behind economic growth performance across the region in 2026. At the same time though we remain cognisant that the privilege of these diversification strategies remains financed - in the near to medium term – by petrodollars.

In this respect, we note that Saudi Arabia recently approved a 2026 budget worth SAR1.3tn, slightly lower than in 2025, and that this pace of budget should then hold through 2027. Government (oil) revenues are expected to recover after dipping in the last year, which should help to fuel what we forecast to be an improving budget position from -5.3% in 2025 to -3.3% this year as a whole and then a more modest -2.3% deficit in 2027.

Solid macro performance buoys sentiment as Egypt climbs above psychological 50



Source: Bloomberg/FAB

With a less favourable fiscal breakeven oil price (mid $90s/bbl) in KSA though, compared to the UAE ($50/bbl), it is understandable that the Kingdom may look to scale back, or at least delay, some Vision 2030 (non-oil) projects during 2026 and beyond. While foreign direct investment (FDI) in Saudi Arabia has quadrupled since the launch of Vision 2030, supporting economic diversification efforts, we were not surprised recently to hear KSA Finance Minister Al-Jadaan emphasising a greater degree of flexibility in project prioritisation in the coming months.

The strength and resilience of non-oil economic activity across the GCC as a whole is clearly reflected in the individual countries' Purchasing Managers' Index (PMI) data. The Purchasing Managers' Index is a composite indicator designed to give an accurate overview of operating conditions in the non-oil private sector economy. Produced monthly and based on a scale of 0 to 100, a PMI reading above 50 indicates a period of economic expansion while a reading below 50 suggests economic contraction.

The robust economic nature of the GCC region is clearly reflected in the fact that most GCC members' PMIs have consistently printed above 50 since late 2020. As the economic diversification narrative gathers further momentum in 2026, so we expect this to again be highlighted in the PMI data.

A Spotlight on Egypt

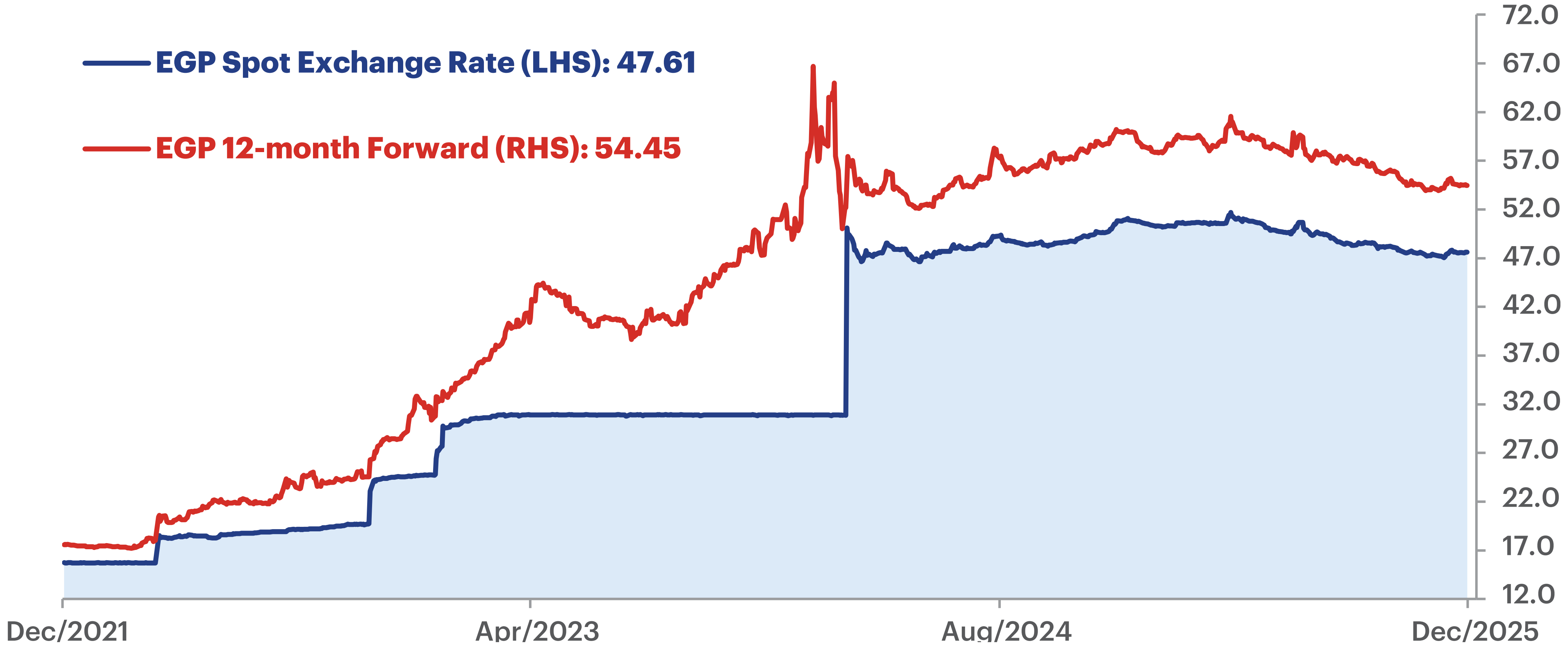
Our macro outlook and assumptions on Egypt are closely aligned with those of the IMF, or vice versa. We see the potential for Egypt's real GDP growth to pick up to around 4.5% in FY2025/26, with the Central Bank of Egypt most recently forecasting an average of 4.8% real GDP growth in FY2025/26 and 5.1% in FY2026/27.

The basis for the recovery in Egypt's macro position – and stabilisation of the local currency (Pound) – over the past few years, has, of course, been the extent of financial aid poured into the economy. With the IMF's Extended Fund Facility having started the rally back in 2022, subsequent financial investments and injections from the UAE, KSA, and EU have helped to solidify the narrative. Such has been the depth and breadth of foreign (financial and structural) support for Egypt that the commitment is now 'too big to fail'.

Overall, we anticipate that future seeds of economic growth will be germinated by stronger performance in extractions, manufacturing, and services, as well as a partial recovery in Suez Canal business volumes and anticipated monetary easing as inflation pressures recede.

With inflation well down from its peak – Urban CPI has fallen from 38.0% in September 2023 to 12.3% as of November 2025 – we believe that the CBE will remain biased toward further monetary accommodation in

Building a long-term recovery story



Source: Bloomberg/FAB

the months ahead, which in turn should boost real private sector credit growth and support economic expansion.

After peaking at 7.5% in FY2024/25, Egypt's fiscal deficit is now projected to narrow to below 7% of GDP in FY2025/26 and then contract further to 6.1% in FY2026/27. At the same time, the public debt-to-GDP ratio is expected to fall from 88.3% in June 2025 to 84.3% by the end of FY2026/27.

European Outlook

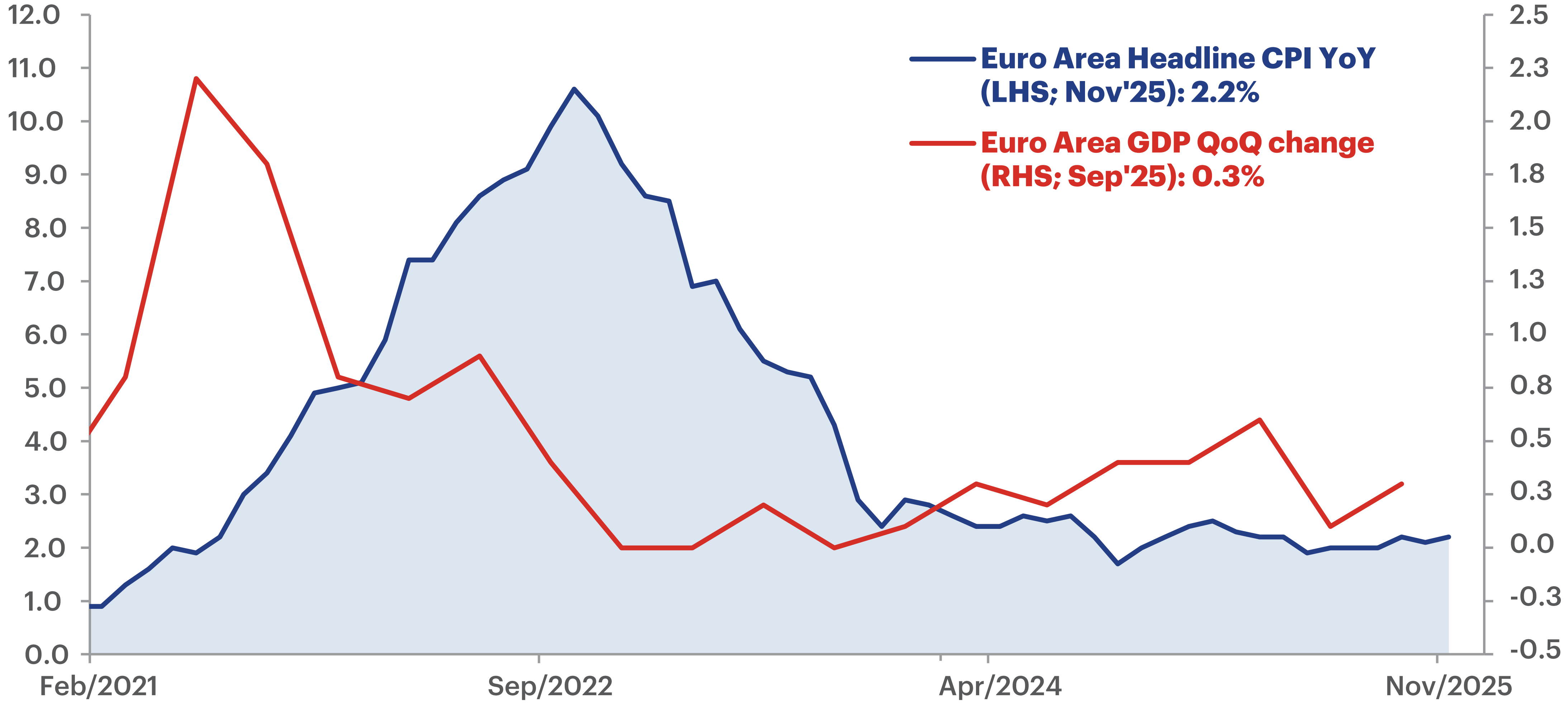
Europe's outlook is more muted this year (2026) as the Euro area grapples with the residual effects of an energy-price shock, soft industrial activity, and structural rigidities. Fiscal space is limited, leaving governments with less room to stimulate demand. Some countries—Germany in particular—face the difficult combination of high energy costs, aging demographics, and challenges in terms of competitiveness. Growth in the region should be positive but anaemic, and likely to remain so. From an estimated economic (real GDP) growth rate of just 1.2% in 2025, we anticipate that the Eurozone economy will fade somewhat this year. Real GDP growth for FY2026 is forecast to print around 1.1%. Although structurally weak, such a growth profile will find some support from German fiscal stimulus, improving business confidence, a more certain global trading environment, and the effects of recent European Central Bank (ECB) rate cuts filtering through to the real economy.

However, the outlook remains fragile and Eurozone real GDP growth will likely fail to exceed 1.0% over the coming year. We anticipate Euro area real GDP growth of 0.9% for 2026. Under such conditions, the ECB (and the Bank of England likewise in the UK) will not want to ease rates too far and risk over-stimulating a fragile economy.

With Eurozone inflation forecast to sit just below 2% in the coming year – with core inflation seen in the context of 1.9% - we expect the ECB to maintain a cautious approach to monetary and fiscal policy. Under such circumstances, we believe that the Bank should keep rates on hold through the coming year – with the Deposit Rate held at 2.00% and the benchmark Refinancing Rate at 2.15%. That said, with inflation pressures simmering, we note the risk that the next rate move by the ECB could be a hike before the end of the year.

On the fiscal side, expansionary policy initiatives – particularly in Germany – should continue to provide moderate underpinning support for economic growth in the near term, especially through investments in manufacturing upgrades and energy transition. A likely fiscal boost from increased Eurozone defense spending is also expected to further support Eurozone growth in 2026.

Languishing in anaemic territory

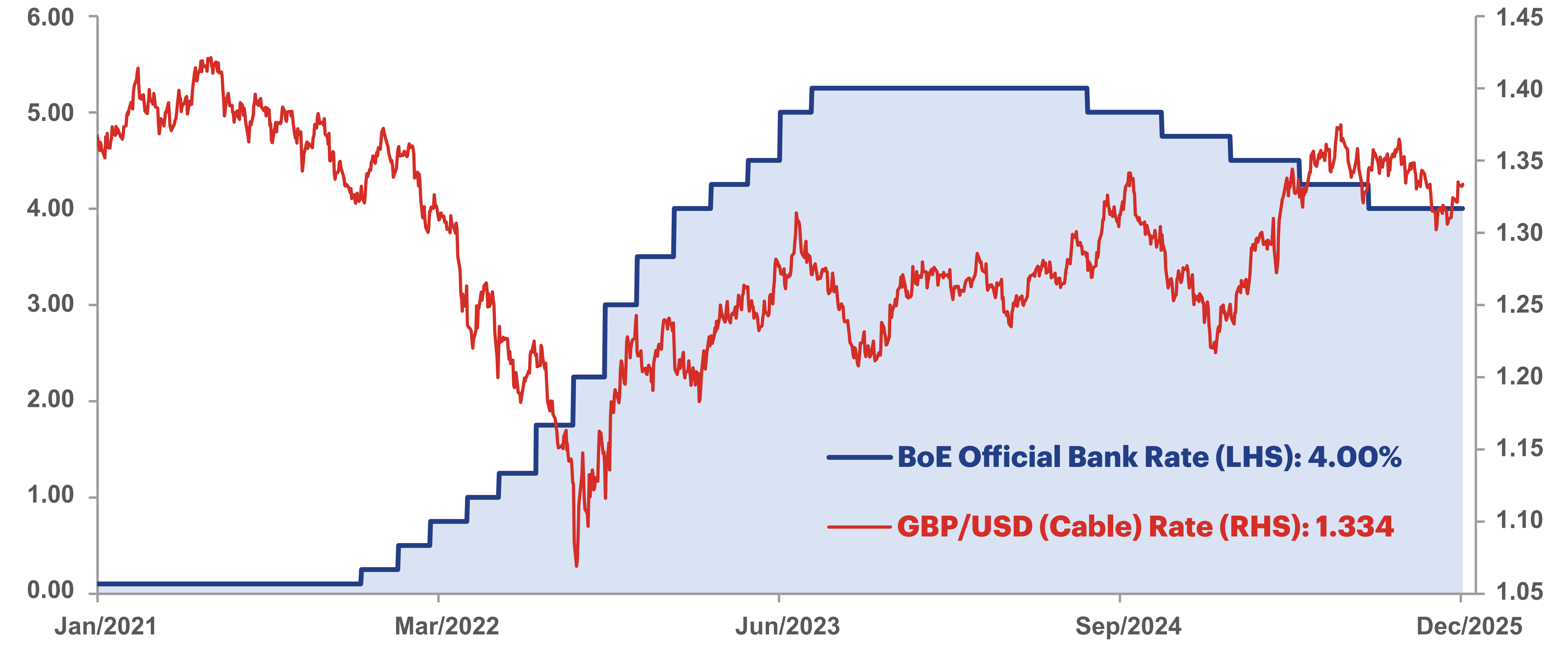


Source: Bloomberg/FAB

A Brief Perspective on UK Macro in 2026

Our macro outlook for the UK economy in 2026 continues to be one of tepid economic activity, characterised by sluggish growth and sticky, above-target inflation, leaving the Bank of England having to maintain a modest pace of quarterly interest rate cuts through mid-year. From the current Bank of England Bank Rate of 4.00%, we forecast that the neutral rate should be close to 3.00% and that the Bank should ease policy to that level by the end of the year. As such, we do not agree with the current market consensus that there should be a bullish outlook for GBP over the coming 12 months. Some forecasts suggest that GBPUSD could strengthen to as much as $1.40 by the end of this year, as a result of the Fed seen cutting rates further than the BOE. But we have already discussed why we see an opposite scenario emerging; with the Fed on hold through 1H2026 at least, while the BOE is seen reducing Base Rate by up to 100bps over the course of the year. If this scenario were to emerge we would expect to see cable weaken to at least the high $1.20s by year-end. So, we would suggest that GBP should underperform relative to other G-10 currencies in 2026, despite the removal of fiscal uncertainty and a supportive USD backdrop, due to the Bank of England's ongoing rate cuts and subdued UK growth outlook.

Potential for parity?



Source: Bloomberg/FAB

We forecast UK real GDP growth to be an anaemic 1.2% this year, down from 1.4% in 2025, before perhaps picking up just slightly, back to around 1.4% in 2027. The economy will remain constrained in the near-term at least, by flaccid consumption which itself will be the result of fiscal and political uncertainties. In turn this will create a challenging environment for investment amid a net restrictive monetary policy environment. At best, UK economic growth over the next two years will be anchored well below a 2% ceiling.

In terms of inflation, we believe that UK price pressures should have peaked in late 2025 (at around 3.5%) and should now recede modestly in the opening months of 2026. We see UK inflation averaging around 2.5% through much of the coming year and only approaching the Bank of England's 2% target by the latter stages of 2027. As alluded to above, such a scenario should keep Bank of England policymakers cautious as the year evolves.

On the fiscal side, even though large budget tax increases were deferred at the government's last Budget – very conveniently for the government's falling popularity ratings – until 2028 or beyond, fiscal policy in the UK is still set to tighten in 2026 due to the pre-existing tax drag. And with the UK unemployment rate expected to peak at around 5% in the first half of 2026, before easing to 4.1% only by the end of 2030, fiscal impulse for the coming year will need to remain supportive for economic activity, mainly sustaining consumption. At the same time though we would caution that budgetary constraints and a commitment to gradual improvement in the primary balance limit the potential for stronger fiscal expansion.

This all suggests that the UK gilt curve should remain stable in the coming months. After a sharp drop in policy rate expectations in 2025, there is now little room for UK bond yields to decline significantly further in 2026, with a small downside to yields across tenors due to a constructive liquidity backdrop and low inflation. The 10-year UK gilt yield is forecast to remain around 4.5% throughout 2026, perhaps with a slight decline to 4.3% by year-end, but we do expect that the decline in yields will be more pronounced at the front end of the curve.

China Outlook

China remains a challenging and relatively opaque economy in terms of its contribution to the 2026 global outlook. The economy is growing more slowly than in previous decades, constrained by real estate imbalances, demographic decline, and the transition away from property-driven growth. Yet China still contributes significantly to global output, even at a lower growth rate.

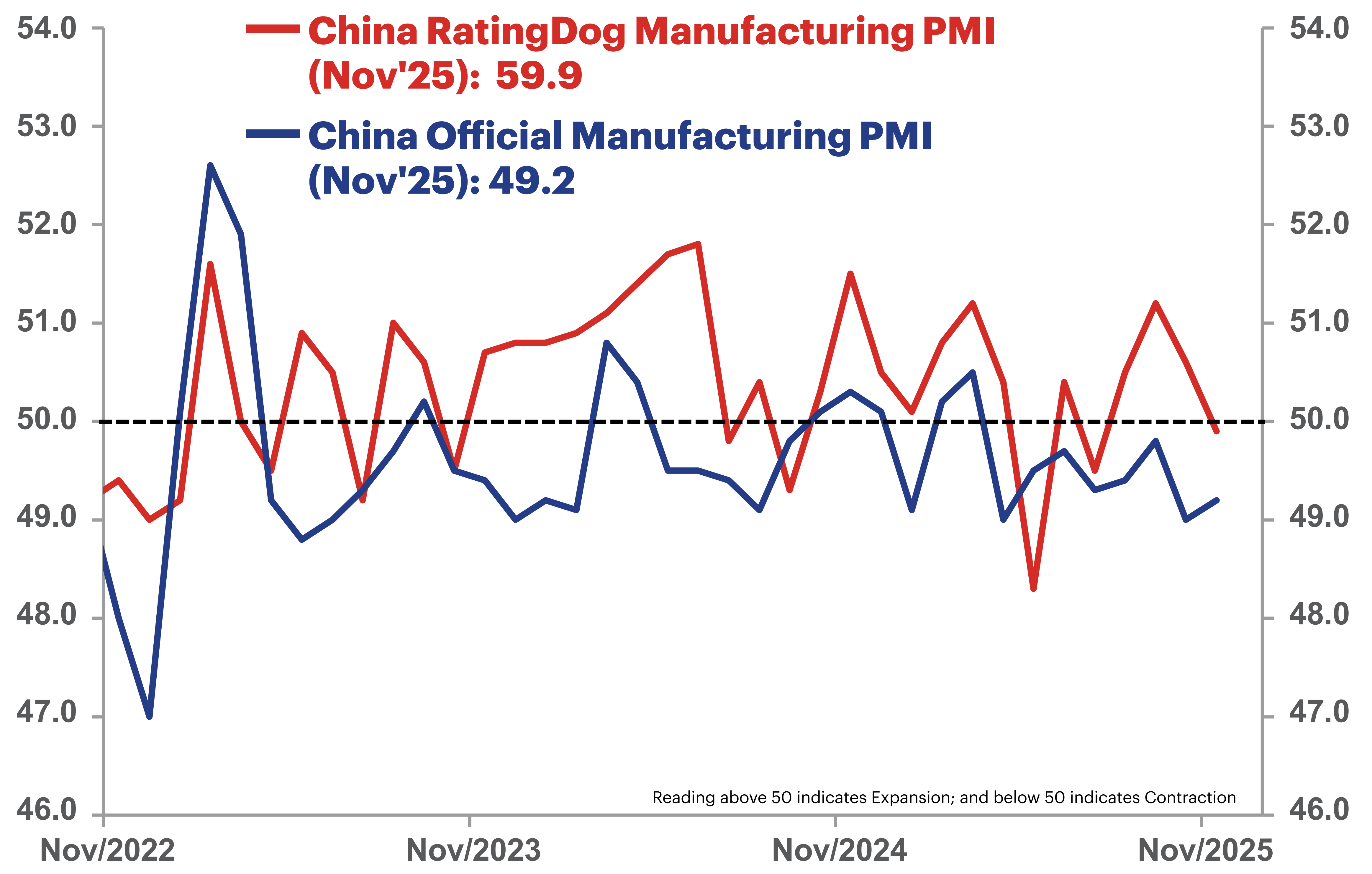
As such, the macro outlook for China in the coming year will likely be characterised by a slowdown in headline real GDP growth from 5.0% in 2025 to 4.5%/4.6% in 2026. Within the context of this slowing growth scenario though, we expect targeted stimulus to again underpin macro performance and contribute to a modest pickup in quarter-over-quarter growth in the first half of 2026.

Monetary and fiscal stimulus may also be appropriate tools for assuaging downside risks to the macro outlook. Such risks could include a re-escalation of trade tensions and tech sector friction with the U.S. as well as the spectre of other local and global geopolitical concerns.

In an effort to support economic growth potential, we do expect the PBoC to ease rates again in the coming months. At this stage we believe that a 10bp policy rate reduction by Q2 2026 would be appropriate. Before then though, we believe that the Reserve Requirement should be cut by 25bps during the course of Q1.

Certainly, we would advise policymakers against pursuing 'ultra-loose' policy initiatives at this stage. The latter could risk financial instability and also jeopardise the balance between short-term economic stimulus and the government's longer-term structural goals. While China's aspired transition from being an investment-led economy to being a consumption-driven economy will clearly take time, in the near-term we expect the weight of expectation for economic growth to remain on government spending. With such financing targets undoubtedly reliant on government (central and local special) bond issuance in the months ahead, we expect to see China's budget deficit narrow slightly to 3.8% of GDP from 4.0% in 2025. At the same time, such an outlook should help to anchor our China inflation forecasts for 2026. We estimate that China CPI should average around 0.5% in 2026, as progress on reflation remains slow and amid persistently weak domestic demand.

Still stimulatory work to be done



Source: Bloomberg/FAB

Conclusion

The 2026 global macro and interest rate outlook stands at a critical inflection point. The median dot-plot projection from FOMC members—around 3.1% for the Fed funds rate by year-end—suggests a modest easing in terms of overarching sentiment, but not a dramatic pivot to ultra-low rates. Persistent inflation risks (Federal Reserve) leadership shifts, and external policy shocks, at a time of strengthening macroeconomic and credit fundamentals across the GCC & Egypt region, will all create challenging crosswinds of risks and opportunities for investors.

In short, the global macro outlook for 2026 portrays a global economy that continues to expand, but not evenly. The cogs within the engines of growth are shifting, demand / supply dynamics are evolving, and the margins of safety are narrowing. The investment path will be far from certain, which in turn should support our case for 'caution' and 'stability' across global rates at least through 1H 2026.

Consequently, markets must be prepared for a range of outcomes in 2026 and beyond: a gradual descent to ~3.1% territory by the Fed funds rate, a more aggressive easing by the Federal Reserve if the U.S. economy weakens more than we anticipate, or even adopts a more hawkish stance if inflation pushes to the upside. For the Fed, the challenge will be to thread the needle: cutting policy rates enough to support growth, but not so aggressively as to jeopardise its price stability mandate.

Ultimately, the rate path for 2026 will depend heavily on how inflation evolves, how the labor market performs, and how both internal and external policy risks play out. For investors, firms, and households alike, this uncertainty underscores the importance of flexibility, vigilance, and scenario planning in their financial strategies. Within this, the UAE and GCC more widely, should continue to stand out as regions of resilience, strategic agility, growing influence, and relative value investment opportunity.

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Glenn Wepener - Chief Strategist

Key Risks in 2026

The world faces another year of risks and uncertainty, including shifting strategic alliances, trade wars, rising levels of cybercrime and sadly ongoing regional conflicts and further climate-related disasters. However, there will of course be opportunities too, such as greater AI adoption by businesses and institutions. This will not only lead to new potential breakthroughs in medical research, but also transform, healthcare, manufacturing, logistics, cybersecurity, and finance, leading to greater productivity, a reduction in red tape, better customer service and perhaps new innovations in the field of renewable energy.

Anyone who isn’t confused doesn’t really understand the situation.

- Edward Murrow.

The invention of the printing press by Johannes Gutenberg in the 15th century had a dramatic effect on the world by sharply raising levels of literacy and the spread of knowledge. The consequent faster distribution of information encouraged new ideas in the areas of science, religion, politics, and philosophy, which in turn helped to generate the ‘Renaissance’ and the ‘Age of Enlightenment’ with the latter period eventually culminating in the French Revolution. Today, most researchers agree that Artificial Intelligence will have an even bigger positive and negative impact on society than the printing press, especially as this is the first technology that is able to teach itself. In this piece we highlight again some of the risks that AI poses in our increasingly more polarised and uncertain world, as well as a number of other important issues to keep an eye on in 2026 and beyond.

Artificial Intelligence

The general school of thought suggests that the first scientific steps towards the creation of AI began in the 1950s when Marvin Minsky and Dean Edmunds built the first artificial neural network. However, the earliest thoughts on this form of technology can be traced back to the 18th century, when in 1726, Johanthan Swift published his famous novel, Gulliver's Travels'; in which he writes about a fictional machine called 'The Engine', which is used to assist scholars in generating new ideas, sentences and books. Fast forward to 2020, and OpenAI launched GPT-3, the first actual example of a large language model. Over the past five years, the speed of development within this sector has been unprecedented, while the latest breakthroughs include the creation of deep learning microchips, the introduction of generative adversarial networks and program synthesis. AI can now better understand human emotions and predict our behavior, while neural networks are now able to solve mathematical problems without any human interaction.

All this will certainly benefit a range of sectors, such as education, medicine, finance, retail, and logistics, but there will be several negatives too. For example, increasing AI-led automation will lead to significant job losses in traditionally human cognitive roles like customer service, transportation, office administration, manufacturing marketing, advertising and IT support. According to a 2024 McKinsey report, as many as 800 million jobs could be displaced globally by the end of this decade, which in turn could exacerbate economic inequality. Of course, new jobs will be created, but in order to mitigate the risk of higher unemployment and a more polarised workforce in the future, reskilling programs across both the public and private sectors will be imperative. Other more immediate dangers of generative AI include a sharp rise in cybercrime (especially impersonation scams), mass-produced political disinformation, overreliance on automated systems, market manipulation, personal data leaks and non-consensual deepfakes. According to a recent study undertaken by SoSafe, 87% of the 500 security professionals surveyed said that their institution had experienced an AI-driven cyberattack in 2024.

Meanwhile, a separate research article published by IBM and the Ponemon Institute has highlighted how Artificial Intelligence is currently outpacing most institutions' cybersecurity and governance policies. Their report stated that 97% of those organisations who had reported an AI-linked security incident lacked proper AI access controls. But it's not just individuals and companies that need to urgently invest more in upgrading their cybersecurity protocols, governments around the world also need to come together and implement harmonised, effective regulations on AI which not only safeguard against the misuse of this powerful technology but also avoid disrupting its obvious economic and social benefits.

A New World Order

The US-led world order which was established soon after the end of World War II is continuing to fragment in the 21st Century, and an alternative somewhat more multipolar one appears to be taking its place. Admittedly the old order was far from perfect, but many would agree that it helped to facilitate international cooperation, prevent a direct armed conflict between the major world powers and enable over seven decades of prosperity and stability.

Conversely, widespread multipolarity can increase geopolitical risks due to shifting alliances, greater economic uncertainty, and miscommunication, which in turn can potentially trigger significant diplomatic and/or military miscalculations.

The US and China are unquestionably the world's two preeminent superpowers, but they are also strategic rivals, especially in the race towards technological supremacy. At the same time, the Trump administration is repositioning what it sees as their country's primary national interests and prioritising an 'America First' doctrine. This shift was highlighted in a speech given back in January 2025 by the Secretary of State designate, Marco Rubio, who stated that "while America too often prioritised the global order above our core national interest, other nations continued to act the way nations have always acted and always will: in what they perceive to be their best interest. And instead of folding into the post-Cold War global order, they have manipulated it to serve their interests at the expense of ours," and adding, "the post-war global order is not just obsolete, it is now a weapon being used against us.

The pursuance of this new doctrine has seen President Trump sign 217 executive orders since entering his second term in office, many of which are reshaping not just global trade, but also US national security, energy, immigration, and foreign policy, the latter of which has shaken long-standing alliances such as NATO and seen the US withdraw from a several international organisations including the WHO and UNESCO. However, despite these historic unilateral actions undertaken in Washington, we believe that globalisation is here to stay although its form will change, as will Western influence, with the East now becoming the world's more dominant economic zone. Global governance won't disappear but will have to become more adaptive in this fast-changing new century. Meanwhile, rising regional powers like Brazil, India, Saudi Arabia, Turkey, Indonesia, Vietnam, and the United Arab Emirates are now playing a more active and important part in reshaping world politics which in turn could help to inject a level of stability in this transition towards a new world order.

Geopolitical Frictions

Aside from the ongoing bumpy journey away from the US-led global order of the past 70 years as described above, there are other more specific geostrategic and geopolitical risks to watch in the months ahead. For example, within the Gulf region, the outlook for **Iran** remains highly uncertain. At the time of writing there had been no progress towards a resumption of negotiations over Tehran's nuclear program, with the Iranian government affirming its stance that it would not re-enter such talks directly with the US unless Washington abandoned its three primary conditions which are: 1. Iran halts in uranium enrichment program, 2. Stops supporting its proxies in the region and 3. Accepts restrictions on its ballistic missile program. This was underlined by Iran's Foreign Minister Abbas Araghchi, who was quoted as saying in early November, that his country "will never negotiate our missile program, and no rational actor would disarm. We cannot stop uranium enrichment, and what cannot be achieved by war cannot be achieved through politics," although adding that Iran was "ready to negotiate to remove concerns about our nuclear program and are confident in its peaceful nature. Reaching a fair agreement is possible, but Washington has proposed unacceptable and impossible conditions."

In late November 2025, the IAEA's board of governors passed a resolution calling on Iran to provide "precise information" on its 440.90 kg stockpile of near weapons-grade uranium and grant the UN watchdog's inspectors access to all the country's nuclear sites. Since the end of its 12-day war with Israel, Iran has reportedly not given IAEA inspectors access to the three nuclear facilities targeted by US and Israeli forces in June. At the same time, a report published by the Washington-based Centre for Strategic & International Studies, claims that there has been increased activity in recent months at Iran's so-called 'Pickaxe Mountain' enrichment site, including the construction of a large security perimeter and several tunnels. Thus, concerns are growing that if negotiations on the future of Iran's nuclear ambitions remain stalled and Jerusalem begins to believe that Tehran is rearming and seeking to take its atomic program underground, then there is high risk that Israel will attempt fresh military strikes on Iran, with or without US involvement.

Elsewhere in the Middle East and despite reports of some mutual ceasefire violations by both sides in the **Gaza** conflict, the fragile truce appears to be holding, at least for now. However, movement towards the next phase in the US led 20-point peace plan for the strip has been slow, with lingering questions around the creation and make-up of an International Stability force to manage security on the ground and enable faster and broader distribution of humanitarian aid, but the biggest near-term hurdles are the disarmament of Hamas and withdrawal of Israeli troops. Meanwhile, another uneasy peace between Israel and Hezbollah in Lebanon continues, although there are growing fears that the **Lebanese** army is still not strong enough to disarm Hezbollah by the end of 2025, as demanded by both Washington and Jerusalem. This in turn raises the risk that Israel could mount deeper ground incursions into southern-Lebanon in the new year. The country is also due to hold elections in May 2026 which may increase tensions between opposing domestic groups, (especially about Hezbollah's future role in Lebanese politics) and reignite civil unrest.

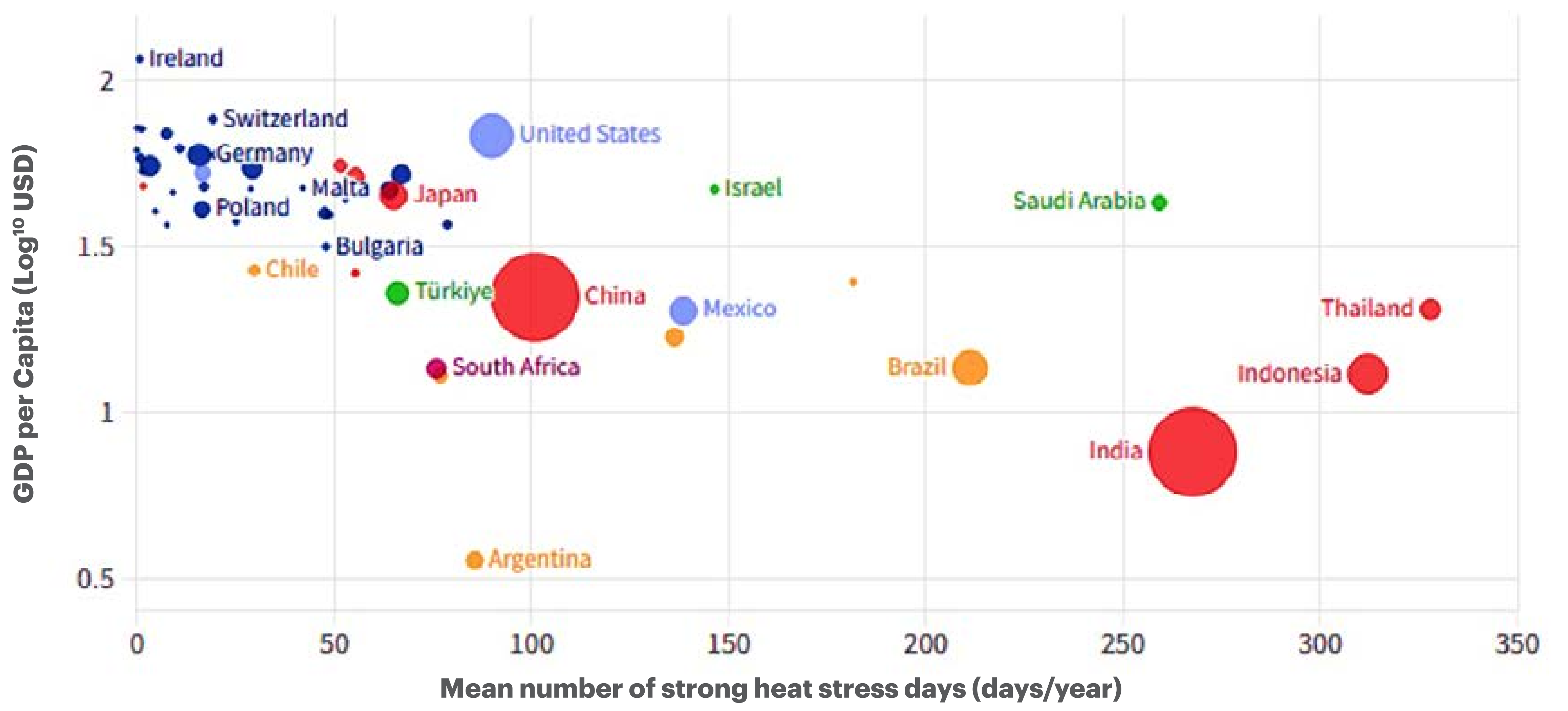
Across in Eastern Europe, the war in **Ukraine** grinds on despite further attempts by the Trump administration to force an end to this ugly conflict. A recent 28-point peace proposal by the US was later revised to 20-points following intervention from Ukraine's European allies, who said that the original draft was too one-sided towards Moscow. Since then, a partial breakthrough came during a meeting in Berlin on the 15th of December, when the US offered to provide Kyiv with 'NATO-like' security guarantees and support an EU-led multinational force that would police a final accord. However, this security offer was time sensitive, and no progress was made on the issue of territorial concessions. These proposals are set to be put to Moscow, but in the meantime, focus is on the 18th of December 2025 EU summit , where member states will vote on the potential use of €210 billion in frozen Russian assets to fund Ukraine. In our opinion any deal that Kyiv can agree to will be rejected by Moscow and vice versa, thus a final deal looks to be some way off still. However, the already massive human and economic cost on both sides must sooner or later lead to some sort of pause, which hopefully could finally open the door towards a permanent and sustainable end to the largest war in Europe since WWII.

In **Africa**, several countries in the continent look set to lead emerging market growth in 2026, with S&P predicting that Africa will record a median economic growth rate of 4.50% from 2026 to 2028, driven primarily by infrastructure projects, global commodity demand and diversification including renewable energy. However, while the IMF sees Africa's nominal GDP reaching US$3.32 trillion next year it also highlights that just ten countries will account for 68% of total output, namely South Africa, Egypt, Nigeria, Algeria, Morocco, Kenya, Ethiopia, Ghana, Ivory Coast and Angola. Unfortunately, a number of African states are still battling poor governance, resource scarcity, political instability, and conflict, with Burkina Faso, the Central African Republic, Chad, the DRC, Eritrea, Mali, Niger, Sudan, South Sudan and Somalia listed as the ten most unstable countries on the latest 'Africa Country Instability Risk Index'. They are also the states experiencing an increasing number of displaced people due to war, with **Sudan**'s forcibly displaced population now estimated to total 14.40 million people which not only represents 32% of the continent's overall number of refugees according to the Africa Centre for Strategic Studies, but also the world's largest displacement crisis. This civil war which began in April 2023 has also further destabilised several of Sudan's neighbors, such as Chad, South Sudan and the CAR which were already battling their own domestic crises. Meanwhile, the **Western Sahel** region remains an area of acute concern in the year ahead, as extremist groups continue to expand their influence there and highlighted by a sharp rise in terror attacks in Burkina Faso, northern Mali and western Niger in the past few months.

Climate Extremes

We wrote about the ongoing impact of climate change in our previous annual risks report, and it remains our primary long-term concern. Severe temperatures were again recorded this past year, with India experiencing one of its deadliest heatwaves ever and western Europe reporting temperatures over 46 °C in June, whilst some regions in Argentina saw temperatures as high as 10 °C above their seasonal norms. According to the latest 'Climate Action Monitor' emerging economies experiencing high exposure to heat stress have a lower adaptive capacity than developed ones, and points out that India, home to the world's largest population, has the highest mean population exposure to heat stress amongst OECD and OECD partner countries with more than 267 severe heat stress days per annum.

Population Weighted Mean Number Of Severe Heat Stress Days Per Annum (2020-2024 Average)



Source: OECD (2025)

There were a range of weather-related disasters this past year, including Pakistan's worst flooding in decades which killed over 1,000 people and displaced at least two million more. Meanwhile during the northern hemisphere summer, wildfires severely damaged large areas of southern Europe and over 1 million acres in California, the latter being the second largest fire in the state's history.

The World Meteorological Organization says that the past eleven years have been the warmest period since records began and believes that 2025 is set to be the second or third warmest year ever. "This unprecedented streak of high temperatures, combined with last year's record increase in greenhouse gas levels, makes it clear that it will be virtually impossible to limit global warming to 1.5 °C in the next few years without temporarily overshooting this target. But science is equally clear that it's still entirely possible and essential to bring temperatures back down to 1.5 °C by the end of the century," the Secretary-General of the WMO was quoted as saying. Most worryingly, ocean temperatures rose again in 2025, which could have devasting consequences including the breakdown of important marine ecosystems and a weaking of our seas' ability to absorb carbon emissions. It also speeds up the loss of ice in the polar regions and intensifies tropical storms. The WMO predicts that this specific warming is likely to continue and could potentially become irreversible.

Meanwhile, S&P Global suggests there is a 50% likelihood that the global average temperature will be 2.3 °C above the pre-industrial average by 2040, while the UN says that the number of natural disasters globally could rise by 40% over the next five years, unless efforts to mitigate greenhouse emissions are rapidly increased. However, lowering emissions alone will not be enough, more needs to be done in building climate resilience, because up to now many governments and companies have been slow in preparing and implementing effective adaptation and resilience plans, this needs to change. At the same time, rich countries need to provide more assistance to the developing world where the impact of climate change is the most acute.

Supply Chain Challenges

Tariffs and trade barriers have been one of the main challenges for global supply chains this past year and are likely to remain one of the primary disruptors for supply chains in 2026. The issue is not just the fact that tariffs can rise and fall (sometimes at dizzying rate) but also that their structures are changing. A recent report published by 'Z2 Data' uses the semiconductor industry as an example of this change, whereby certain semiconductors are now subject to customs duties based on their 'Country of Design' rather than the more usual 'Country of Origin'. Meanwhile, sector specific tariffs also complicate matters by distorting pricing benchmarks.

Strategic competition between China and the US is another hurdle suppliers and their clients are facing, highlighted by Beijing's decision in early 2025 to place export controls on seven rare earth minerals and magnets which affected companies across various sectors, especially EVs and defense. While this restriction was lifted in June, Ford's CEO, Jim Farley later revealed that it had forced his company to temporarily shut down a few of its US plants. *"We shut down plants for three weeks because we cannot get high power magnets - magnets go into your speakers in your audio system, your seat's motors, your wiper motors, your door motors, and we can't make that stuff,"* he was quoted as saying in July. Meanwhile, the number of cyberattacks on supply chains is increasing and may soon overtake geopolitical shocks and tariffs as the biggest risk to trade, with one global survey showing that 29% of procurement managers reported a rise in the number of cyberattacks on their own supply chain in 2025. A recent example was Jaguar-Land Rover which was reportedly unable to produce vehicles for more than a month after a major cyberattack affected its computer systems in Brazil, India, Slovakia, and the UK.

On the economic front, elevated inflation looks likely to linger in 2026 as will rising insurance premiums and skilled labour shortages, further squeezing margins. With regards to the latter, unfilled US logistics roles in transportation, warehousing and utilities are currently running at between 266,000 to 379,000 per month, according to data published by the St Louis Federal Reserve. Then of course there are natural disasters and tighter regulations, with many major international conglomerates reportedly now demanding more detailed information from their suppliers including enhanced compliance and due diligence, risk analysis and emissions data. On the positive side, the growing use of AI and automation as the costs surrounding this technology continue to fall, will help supply chain managers tackle at least some of the challenges listed above. In fact, a recent Accenture report suggests that autonomy can cut order lead times by 27%, raise productivity by 25%, accelerate disruption recovery by 60% and reduce carbon emissions by 16%. But most companies are still in the very early stages of adopting such capabilities, with the same report stating that the current median level of such adoption across supply chain activities is only 16% on an index ranging from 0% (fully manual) to 100% (fully autonomous).

Summary

As briefly outlined above, the world faces another year of risks and uncertainty, including shifting strategic alliances, trade wars, rising levels of cybercrime, and sadly ongoing regional conflicts and further climate-related disasters. However, there will of course be opportunities too, such as greater AI adoption by businesses and institutions. This will not only lead to new potential breakthroughs in medical research, but also transform, healthcare, manufacturing, logistics, cybersecurity, and finance, leading to greater productivity, a reduction in red tape, better customer service and perhaps new innovations in the field of renewable energy.

Shargiil Bashir - EVP & Chief Sustainability Officer

Technology Meets Sustainability

Strategic AI Investment Powering the Transition

The integration of AI into the energy sector is revolutionising sustainability efforts. AI ability to optimise energy consumption, improve infrastructure resilience and enable smarter resource use is transforming the ESG landscape, creating new value chains that position green tech a cornerstone of the 21st century economy.

Concept

In this article, we explore how Artificial Intelligence (AI) is emerging as a strategic enabler of the green transition. Amid shifting global dynamics, monetary recalibration, evolving capital flows, and disruptive technological innovation, AI is redefining the sustainability investment landscape.

We examine how AI is enhancing climate risk modelling, optimising energy systems, and enabling nature-positive outcomes. These capabilities are not just operational upgrades, they represent a new frontier for ESG-aligned investment strategies. Strategic capital allocation toward AI-driven sustainability solutions offers investors a dual advantage: improved regulatory alignment and operational efficiency, alongside the potential to capture outsized returns in a decarbonizing economy.

As sustainability and technology converge, this article argues that AI is no longer a peripheral tool—it is central to unlocking ESG alpha and shaping the future of climate finance.

Redefining Sustainability Investment through AI

In 2026, the fusion of sustainability and technological advancement is poised to reshape global capital markets. ESG assets were forecasted to rise to USD 53 trillion by the end of 2025—accounting for more than a third of global assets under management, according to Bloomberg Intelligence. The Global Sustainable Investment Alliance (GSIA) echoes this trend, reporting that sustainable investment assets have grown by 15% year-on-year since 2020, with Europe and North America leading the charge. The International Finance Corporation (IFC) noted that sustainable finance flows to emerging markets reached USD 1.7 trillion in 2024, a record high.

This evolution is occurring alongside a period of monetary recalibration, fluctuating capital flows, and disruptive innovation in financial and industrial sectors. Against this backdrop, AI is rapidly evolving from a peripheral support tool to a strategic enabler of the green transition.

AI's emergence is fundamentally altering the ESG investment landscape. Today, as investors seek both resilience and returns in a decarbonising global economy, the strategic allocation of capital to AI-powered sustainability solutions offers a unique dual advantage. First, such investments support enhanced regulatory alignment, enabling institutions to meet complex and evolving requirements from international bodies such as the International Sustainability Standards Board (ISSB), the Corporate Sustainability Reporting Directive (CSRD), the Taskforce on Climate-Related Financial Disclosures (TCFD), and the Taskforce on Nature-related Financial Disclosures (TNFD). The United Nations Environment Programme Finance Initiative (UNEP FI) notes that AI is increasingly being used to automate compliance with these frameworks, reducing reporting overhead by up to 40%. Second, they deliver operational efficiencies—streamlining data collection, automating reporting, and facilitating sophisticated risk assessment. The IFC estimates that AI-driven ESG analytics have cut portfolio risk by 12% in emerging market funds.

Crucially, these advances represent not just incremental operational upgrades, but a new frontier for ESG-aligned investment strategies. AI is enabling investors to generate ESG alpha through superior risk-adjusted returns achieved through forward-looking analytics, dynamic portfolio optimisation, and more robust impact measurement. From sentiment analysis to generative models simulating climate scenarios, AI-powered tools are outperforming traditional approaches, with MIT studies indicating up to 15% higher predictive accuracy. PwC's Global AI Study projects that AI applications in climate and ESG investing could contribute up to USD 4.4 trillion to the global economy annually by 2030. The global AI in ESG market is expected to grow at a CAGR of 28%, reaching nearly USD 15 billion by 2034, according to Statista.

As the boundaries between technology and sustainability continue to blur, Artificial Intelligence stands at the epicentre of a transformative shift—changing how capital is mobilised, deployed, and managed on a global scale.

AI's Transformative Impact on Climate Risk, Clean Energy, and Nature-Positive Outcomes

Traditional models for assessing and managing climate risk have often struggled to address the non-linear, complex, and compounding nature of climate shocks. AI is fundamentally changing this paradigm. By integrating vast and varied data sources—including satellite imagery, sensor networks, and socio-economic indicators—machine learning algorithms can now predict climate-related risks with unprecedented levels of detail and accuracy. The World Economic Forum highlights that AI-driven climate models are capable of reducing prediction errors by as much as 40% compared to conventional methods. In practical terms, these models are being deployed to forecast wildfire risks—with California's Department of Forestry reporting a 25% improvement in early warning accuracy—assess vulnerabilities to coastal flooding, and simulate timelines for asset devaluation. These enhanced capabilities allow investors to proactively adjust their portfolios, use targeted hedging strategies, and support infrastructure investments that boost climate resilience.

Beyond risk management, Artificial Intelligence is revolutionising clean energy production and distribution. AI-driven systems optimise power generation across diverse energy sources, facilitate the management of smart grids, and drive significant emissions reductions—up to 50% in industrial settings, according to the International Energy Agency (IEA). In renewable energy, AI enhances forecasting accuracy and grid integration: Google's DeepMind, for example, increased wind energy output predictions by 20%, enabling more reliable and cost-effective energy delivery. The UK's National Grid reports that AI-powered demand response systems have reduced peak grid strain by 30%, contributing to a 10% reduction in carbon emissions from electricity generation since 2022. Such advances improve the efficiency of energy storage, grid balancing, and demand response, thereby supporting both commercial and residential sustainability goals.

AI's impact also extends into nature-positive outcomes and regenerative practices. The World Wildlife Fund (WWF) reports that AI-based biodiversity tracking tools have increased endangered species detection rates by 30%, empowering conservationists to respond more effectively to threats. Machine learning is used to predict deforestation hotspots, optimise reforestation efforts, and advance regenerative agriculture through real-time soil and crop monitoring. The Food and Agriculture Organization (FAO) highlights that AI-powered precision agriculture has improved crop yields by 18% and reduced water usage by 22% in pilot projects across Africa and Asia. NatureMetrics, using eDNA and AI, now monitors biodiversity across millions of hectares, and AI-assisted monitoring can increase species detection rates by up to 96%. These capabilities are increasingly aligned with emerging investor frameworks like the Taskforce on Nature-related Financial Disclosures (TNFD) and the UAE Sustainable Finance Taxonomy, which are shaping standards and expectations across MENA and global markets. As climate resilience technologies mature, McKinsey estimates they could unlock as much as USD 1 trillion in private capital by 2030—an opportunity AI is helping to quantify and de-risk for investors worldwide.

Strategic Capital Deployment and Responsible AI Governance in the Green Transition

The strategic deployment of capital into AI-driven ESG solutions is accelerating with remarkable speed and scale. In 2025 alone, technology and energy firms committed over USD 7 trillion to AI infrastructure investments—Microsoft and Nvidia alone reported record AI-driven capital expenditure of USD 80 billion and USD 41 billion, respectively. This surge is mirrored by institutional sentiment: EY's 2025 CEO Outlook found that 88% of CEOs are investing in AI-driven products, with 38% prioritising sustainability as a key driver in capital allocation decisions. BlackRock's Global Client Survey (2024) indicates that 60% of institutional investors plan to increase allocations to AI-enabled climate solutions over the next two years, citing both risk mitigation and alpha generation as core motivators. According to Morgan Stanley, AI-powered ESG funds have outperformed traditional ESG funds by 3–5% annually over the past three years. It's not just tactical—it marks a fundamental, structural shift in how ESG and innovation are financed globally.

Financial institutions are leading the charge. FAB's Sustainable Finance Impact Report underscores the integration of AI into risk modelling, impact measurement, and ESG scoring—processes critical for mobilising capital toward climate and nature-positive solutions. On a global scale, green bond issuance surpassed USD 650 billion in 2024, with AI-powered platforms streamlining verification, reporting, and compliance. Generative AI is transforming climate finance by automating carbon footprint analysis, simulating climate scenarios, and customising ESG disclosures to meet diverse regulatory requirements. The European Investment Bank (EIB) reports that AI-driven sustainability platforms have reduced green bond verification and reporting costs by 25%. These innovations are reducing costs, improving transparency, and unlocking new sources of value for stakeholders.

Navigating the Risks of AI Integration in Sustainable Finance

The transformative potential of Artificial Intelligence in sustainable finance is accompanied by a complex risk landscape that demands careful consideration and responsible stewardship. One of the most immediate challenges is the escalating energy demand associated with AI infrastructure. Data centres have grown from 500,000 in 2012 to more than 8 million today, according to The Economist Impact. Data centres powering AI operations already account for 1–2% of global electricity consumption, and this figure is projected to double by 2030, according to the International Renewable Energy Agency (IRENA). The energy intensity of advanced AI models can result in thousands of metric tons of CO2 emissions, prompting organisations such as the Green Software Foundation to advocate for greener standards, renewable energy adoption, and energy-efficient cooling technologies.

As AI becomes more central to decision-making in climate finance, the imperative for responsible use grows. Ethical risks—including algorithmic bias, fairness, and data privacy—are increasingly

prominent, especially as AI systems influence capital allocation and risk assessment. Without robust oversight and transparent design, these technologies may inadvertently perpetuate inequities or erode stakeholder trust. Regulatory frameworks such as the OECD AI Principles, the EU AI Act, and UAE's national AI ethics guidelines are emerging to provide essential guardrails, ensuring that AI deployment remains responsible, equitable, and sustainable.

Crucially, the integration of AI into sustainable finance requires a nuanced understanding of risk trade-offs. While AI-driven solutions can enhance regulatory alignment, operational efficiency, and risk-adjusted returns, they also introduce new vulnerabilities and compliance challenges. A 2024 survey by KPMG, targeting 1,800 companies spread across 10 major economies (please refer to graphic 1), showed the biggest AI risk were found in transparency and sustainability as they were deemed important but under-delivered. Organisations should focus on closing these gaps to build trust and resilience in AI systems. Meanwhile, privacy and security were well-covered, but emerging areas like explainability and accountability need attention as expectations evolve. Financial institutions and investors must weigh the benefits of AI-enabled analytics and automation against the environmental and ethical risks, aligning their strategies with evolving international standards such as ISSB, CSRD, TCFD, and TNFD. The UNEP FI highlights that AI can automate compliance and reduce reporting overhead, but also underscores the need for adaptive governance and ongoing risk assessment. Industries with high adoption and high risk like healthcare and financials need robust risk management frameworks. Conversely, sectors with low adoption and high risk may need clearer strategies before scaling AI. The safest zone with low risk and high adoption shows sectors such as IT and energy where AI is already delivering value with manageable risk (please refer to infographic 2).

In summary, the promise of AI in climate finance is matched by the imperative to manage its environmental, ethical, and governance risks. Responsible stewardship—grounded in credible standards and continuous oversight—will be critical to ensuring that AI serves as a catalyst for sustainable progress, rather than a source of unintended consequences. Only by navigating these risks with integrity and vision can the sector unlock the full potential of AI in driving the transition to a low-carbon, resilient economy.

Shaping the Future of Responsible Investment

The convergence of Artificial Intelligence and sustainability is ushering in a new era for global finance—one defined by unprecedented complexity, opportunity, and responsibility. As AI becomes deeply embedded in ESG frameworks, it is not only transforming how capital is allocated, but also how risk, impact, and value are understood across markets and sectors.

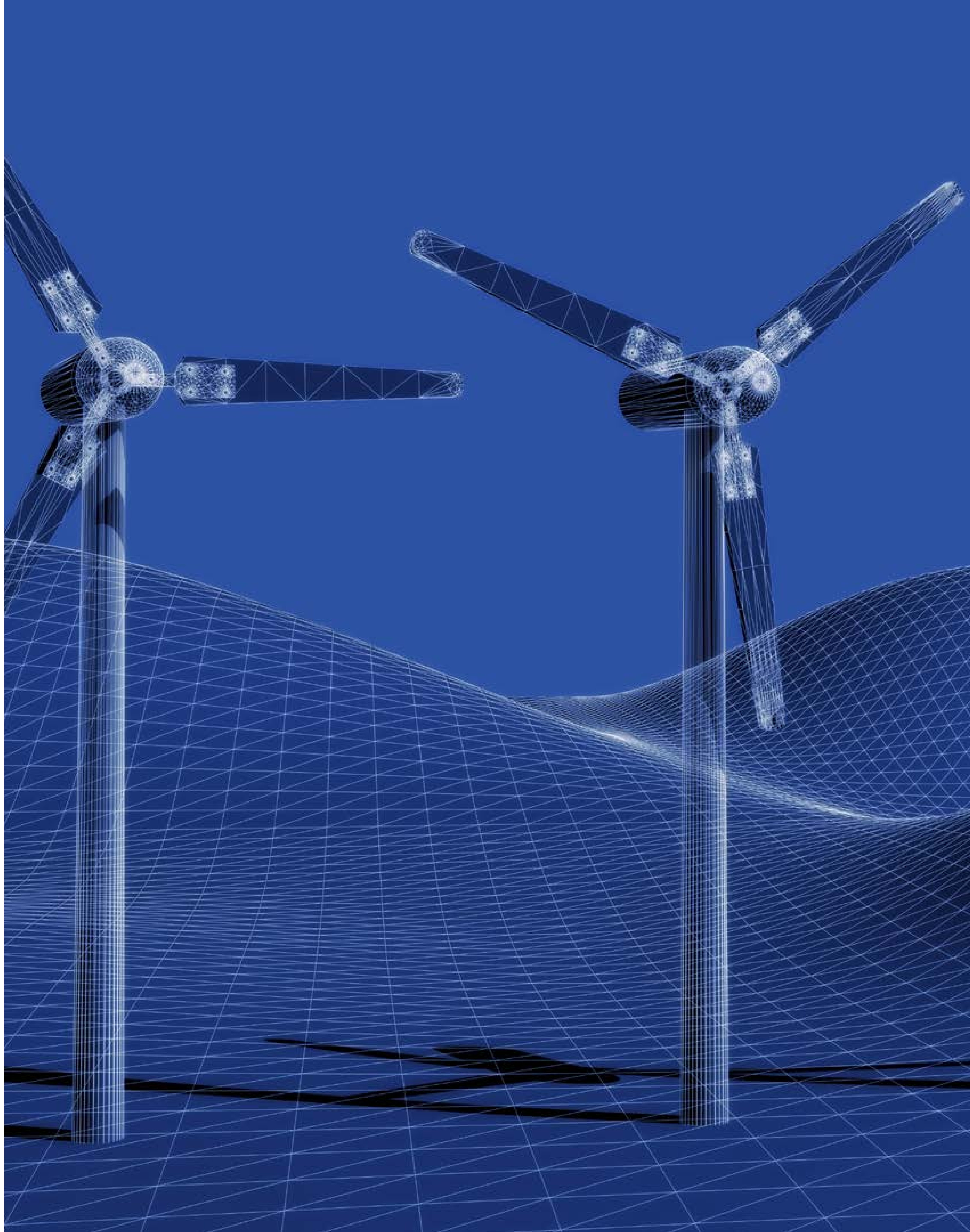
In the MENA region, the convergence of AI and sustainable finance is unfolding against a backdrop of rapid digital transformation and ambitious climate commitments. Countries such as the UAE are leading with national AI strategies and pioneering frameworks like the UAE Sustainable Finance Taxonomy, yet the region's energy mix—still dominated by fossil fuels—raises important questions about the environmental impact of expanding AI infrastructure. As financial institutions and policymakers accelerate AI adoption to enhance climate risk modelling and regulatory alignment, they must also prioritize responsible use, renewable energy integration, and robust governance. By carefully weighing the risk trade-offs and aligning with both international and regional standards, MENA can harness AI's potential to drive sustainable progress while safeguarding its climate goals and long-term resilience.

The impact of AI on responsible investment is already visible. Institutional investors are leveraging machine learning to enhance climate risk modelling, optimise portfolio resilience, and identify new opportunities in the transition to a low-carbon economy. AI-powered tools are enabling more granular, forward-looking analysis of both physical and transition risks, supporting the development of sophisticated hedging strategies and targeted capital deployment. In the energy sector, AI is driving operational efficiencies that have resulted in emissions reductions of up to 50% in some industrial settings. Meanwhile, in nature-positive finance, AI-enabled biodiversity monitoring is transforming how investors and corporates measure and manage their impacts on ecosystems, aligning capital flows with global frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD).

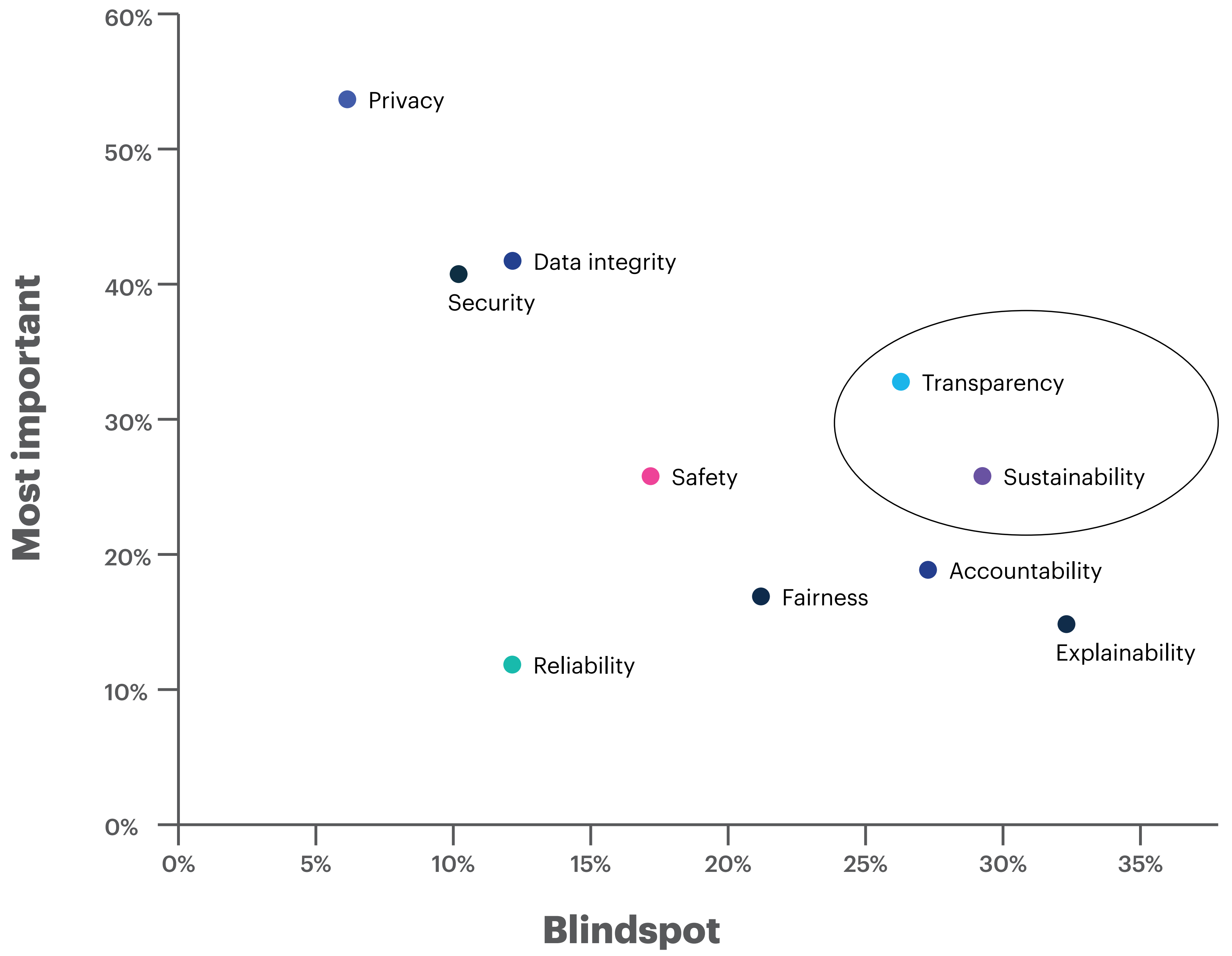
Yet, the promise of AI in responsible investment is matched by the imperative for robust governance and ethical oversight. The environmental footprint of AI infrastructure—particularly data centres—has come under scrutiny, with global electricity demand from data centres expected to double by 2030. Organisations such as the International Renewable Energy Agency and the Green Software Foundation are calling for a shift towards renewable-powered, energy-efficient AI operations. At the same time, the ethical dimensions of AI—ranging from algorithmic bias to data privacy—are prompting regulators and standard-setters to develop new frameworks for transparency, accountability, and stakeholder engagement. The OECD AI Principles, the EU AI Act, and the UAE's national AI ethics guidelines are setting the tone for responsible AI deployment in finance and beyond.

Looking ahead, the strategic integration of AI into ESG is poised to deliver a triple dividend: improved regulatory alignment, enhanced operational efficiency, and the potential for outsized, risk-adjusted returns. But the true measure of success will be the ability of investors, corporates, and policymakers to harness AI not just as a tool for compliance or alpha generation, but as a catalyst for systemic change. This means investing in the skills, infrastructure, and governance needed to ensure that AI-driven innovation is inclusive, equitable, and sustainable.

As the boundaries between technology and sustainability become further entwined, the future of responsible investment will be defined by those who can navigate this convergence with vision and integrity. The winners in this new era will be those who combine bold capital deployment with responsible stewardship—ensuring that Artificial Intelligence serves as a force multiplier for climate resilience, nature restoration, and long-term value creation. In doing so, they will not only capture the opportunities of the green transition, but also help shape a more resilient, just, and sustainable future for generations to come.

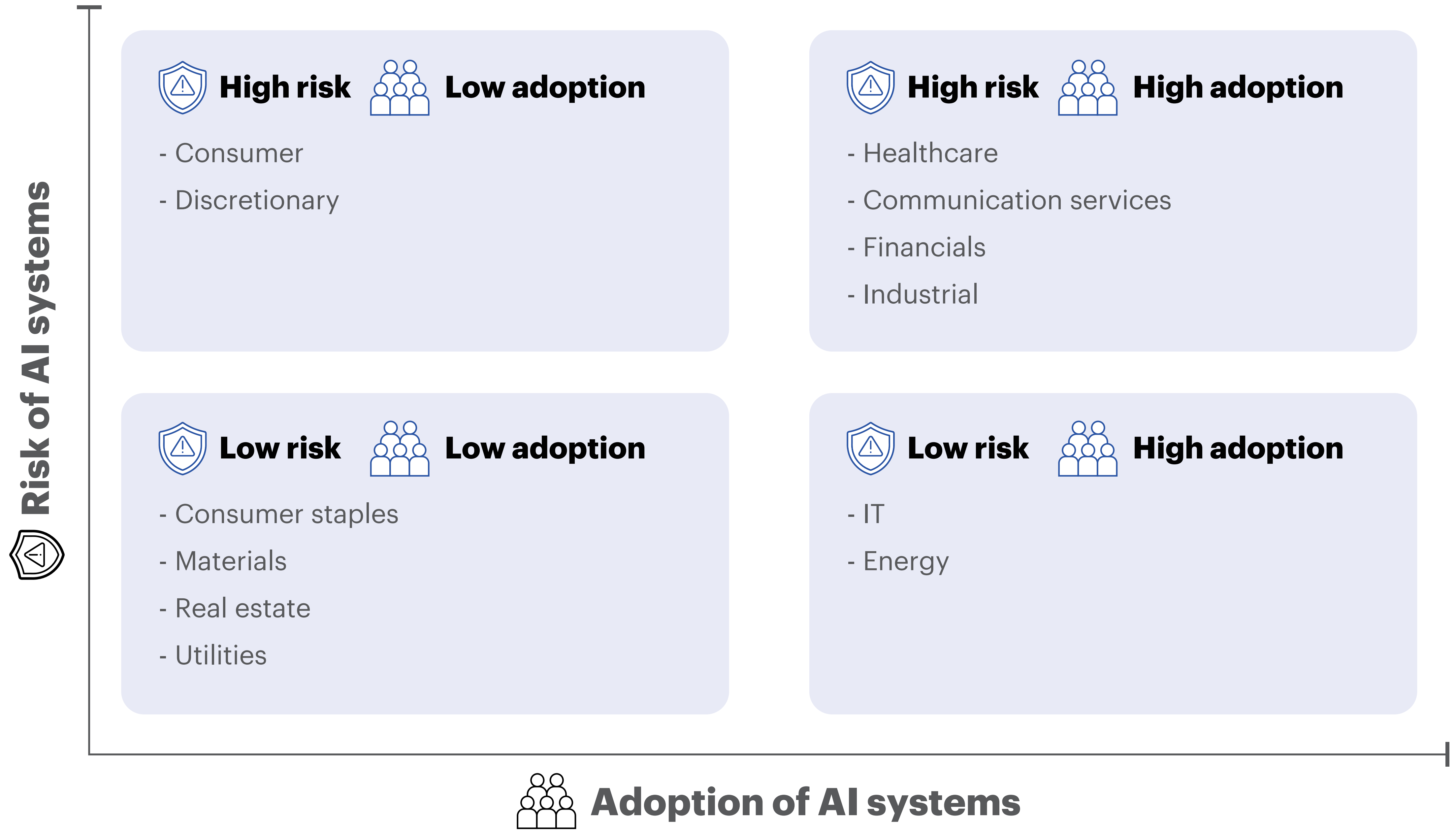


Most important AI attributes vs. biggest blind spots



Source: KPMG survey

AI risk and adoption by sector



Source: World Economic Forum

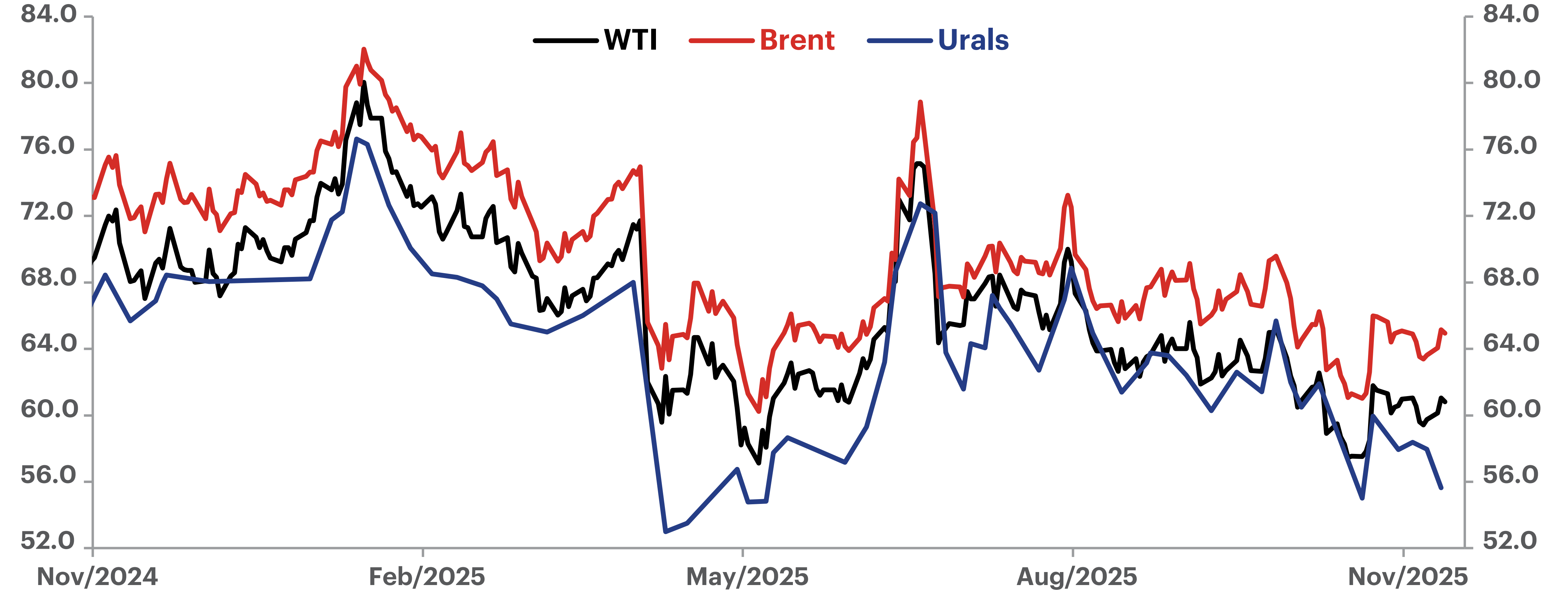
Crude Oil

Glenn Wepener - Chief Strategist

Oil Market Outlook

Crude oil entered 2025 on a firm footing, supported by the ongoing OPEC+ production cuts, an optimistic global economic outlook, strong demand for petrochemicals as well as several geopolitical risks. This sentiment shifted as we moved into Q2 after the Trump administration launched its 'Liberation Day' tariffs program in April, followed by the OPEC+ decision in May to begin returning barrels to the market. In this piece we discuss these and other factors impacting oil's performance this past year, and what 2026 may bring.

Oil Price Performance in US$-November 2024 to November 2025



Source: Cbonds / FAB

Supply & Demand

Global oil and fuel production averaged 106.18 million bpd in 2025, whilst consumpion is estimated to have been around 103.94 million bpd, according to the most recent STEO report published by the EIA. In 2026 the agency sees output rising to 107.43 million bpd compared to 105.17 million bpd of demand, while OPEC recently adjusted its original prediction for 2026 from a supply deficit to a more balanced market. Conversely the Paris-based IEA is as usual more pessimistic in its outlook, predicting a potential 4 million bpd supply surplus this coming year. On the inventory front, commercial OECD and US crude stocks sat close to 4% and 3% below their five-year seasonal average at the end of November 2025 respectively. However non-OECD stocks have risen sharply this past year albeit mostly in China. The world's largest oil importer does not publish the official level of its strategic and commerical oil reserves, but independent research houses have estimated, that China's overall stockpile is sitting at a record high of close to 1.20 billion barrels and that the country still has roughly 40% of spare storage capacity left. Meanwhile, the recently enhanced sanctions on Russia and Iran have resulted in an sharp expansion of the amount of oil on water, which stood at an estimated 24% above their five-year seasonal average in early December 2025.

Economic Headwinds

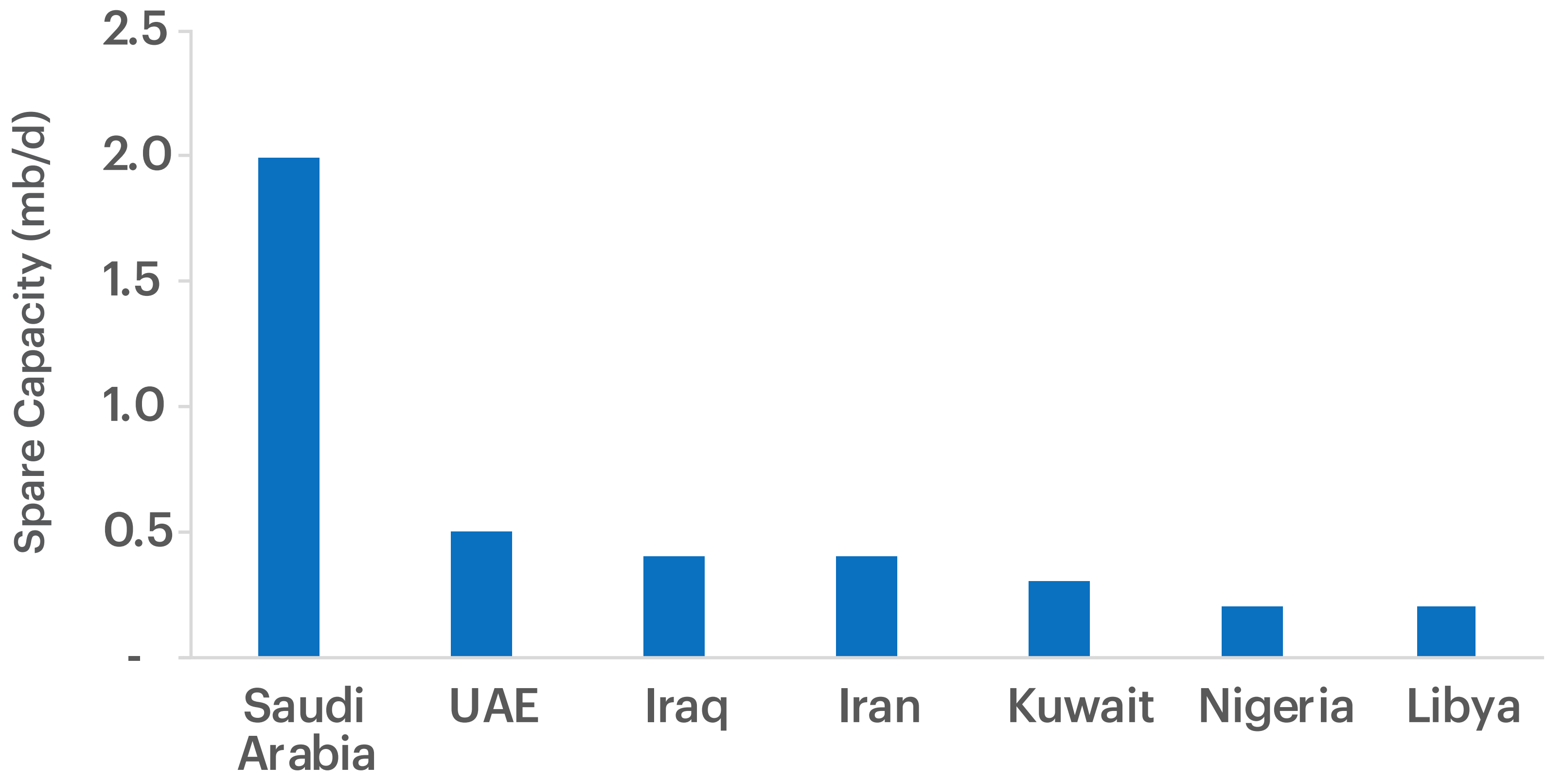
According to the IMF, global economic growth is set to average 3.10% in 2026, however the US induced tariff war is far from over. The Trump administration is still in trade discussions with China and India and a final agreement with both these countries may be months away. Meanwhile, progress towards reaching deals with America's other important trading partners, Canada and Mexico, remained at a standstill at the time of writing. Admittedly, the impact of higher customs duties on the US economy appears to have been limited thus far, with many US businesses having front-loaded their imports and are yet to pass on these additional costs to their customers, but this could well change in 2026 when we are more likely to see the average consumer bearing a greater load. Certainly, the risk of the US slipping into recession has not faded despite the stock market's gravity defying bullish sentiment. The Federal Reserve's Beige Book for October 2025 suggested that only 18% of the economy was growing compared to 100% at the end of 2024, while the OECD expects the US economy to have grown by 2.00% this past year and that it will slow to 1.70% in 2026.

Across Europe, the Eurozone region grew by just 0.30% between July and September 2025 led primarily by Spain and France, while Germany continues to struggle. Meanwhile, the IMF now expects China's economy to expand by 4.50% in 2026 (down from an estimated 5.00% in 2025) and despite US/China tensions cooling slightly, following the October meeting between President Trump and President XI, the impact of this tariff war is becoming more apparent. This was highlighted in China's November trade figures, which showed that Chinese exports to the US fell by 28.60% y/y that month, while its imports from the world's largest economy dropped by 19.10% y/y. At the same time, the energy research house Wood Mackenzie, believes China's oil demand is close to peaking, and although petrochemicals will remain a key source of crude demand in 2026, there are concerns over a rapidly expanding supply capacity within this sector, especially in Asia. One bright spot is the air travel sector, which is experiencing another year of strong passenger demand, resulting in a record load factor of 86% this past summer according to IATA. This performance was underlined in a recent ACI 'World Airport Traffic Report' which sees global passenger numbers reaching 9.80 bio in 2025 and explains why the world's aviation fuel market is projected to continue to grow by 8.80% annually in the next decade.

OPEC/OPEC+

Since the decision by OPEC+ in May 2025 to begin unwinding its voluntary production cuts, the group will have returned just over 2.20 million bpd of supply to the market by the end of 2025. However, while prices did soften, the market absorbed these fresh barrels better than most energy analysts had initially anticipated. Then, at their November meeting OPEC+ members decided to pause any further unwinding during the first quarter of 2026, which is important, because while the group said in a statement that this temporary pause was due to an expected seasonal dip in demand during that period, the decision also suggests that they remain sensitive to market conditions and thus may well re-introduce production cuts if crude prices decline significantly. Where that threshold may be is debatable, but we would suggest Brent below US$55 for a sustained period could force them to act. In terms of spare capacity, the IEA has estimated that OPEC currently has just over 4.0 million bpd in production capacity available, although the majority of this lies with Saudi Arabia, the UAE and Iraq. Meanwhile, non-OPEC spare capacity is far more limited and sits close to just 1.0 million bpd according to the Energy Intelligence analytics firm.

OPEC Spare Production Capacity (in mio bpd)



Source: IEA / FAB

US Production

US output averaged 13.61 million bpd this past year but will slip to 13.53 million bpd in 2026, according to the EIA's calculations. It is worth noting too, that the number of active US oil rigs at the end of November 2025 stood at 407 which was 70 rigs below November 2024's figure. This means that while output edged higher (via consolidation and better efficiencies) despite the ongoing decline in rigs, any further upside remains limited and dependent on fresh capital expenditure into exploring and opening new fields. This spending is not going to happen unless the price of WTI rises significantly, while shale operators are facing other challenges too, such the rising cost of skilled workers and material inputs like steel.

According to a recent report by Enverus Intelligence, the average breakeven price for new shale wells in the US has now risen to US$70 a barrel. Their report also suggests that the marginal breakeven price will rise to US$95 by 2035. "As core shale oil inventory in the US depletes, the industry is entering a new era of higher costs and more complex development. This shift will reshape the cost curve and redefine investment strategies across the continent," a director at Enverus stated, adding that "North America's dominance in supplying global oil demand growth is waning. Over the next decade, its contribution to consumption growth is expected to fall below 50%, a stark contrast to the previous 10 years when it supplied more than 100%." However, it is worth keeping an eye on the sharp rise in production of natural gas liquids (like butane, ethane and propane) within the US shale sector. According to the EIA, the supply of NGLs has been growing almost twice as fast as the country's crude output since 2023, while the analytics firm East Daley has estimated that around 1.40 million bpd of additional ethane and LNG export capacity will come online by 2028. Other major oil producers are also working to increase their own NGL output, with Rystad Energy predicting for example, that Saudi Arabia's new Jafurah gas field will free-up an additional 350,000 bpd of crude oil for export by 2030.

Geopolitical Risks

The US decision to sanction Russia's two largest oil companies in October 2025, had an initial impact on the country's seaborne crude exports which fell to their lowest level in two months during the first half of November. At the same time, the country's seaborne refined product exports also slipped due to continued Ukrainian drone attacks on refineries and other related facilities in Russia. Meanwhile, there were reports that China's state-run refineries as well as a number of Indian refiners had paused their orders of Russian crude for December delivery. This in turn led to the amount of Russian oil sitting on water rising to a 2.5 year high in early December, while these targeted US sanctions combined with the latest round of EU measures also triggered a deeper discount in Russian crude prices, with Bloomberg calculating that the average price of Urals slid to US$41.16 per barrel in the four weeks to December 7th 2025. However, a sustained disruption of crude supplies from Russia appears unlikely, with the country still able to utilise its large 'shadow' fleet of tankers in getting its oil to market and the wider discount is already attracting buyers again. Meanwhile at the time of writing, traders were keeping a cautious eye to see if the Trump's administration's latest aggressive diplomatic push to end the war in Ukraine, will be successful or not.

There are also questions surrounding enforcement, and this is highlighted by the fact that even Iran, which like Russia is currently under the broadest range of sanctions imposed on any country in modern history, still managed to export an estimated 2.06 million bpd of crude and fuel oil in November, its second highest level in 2025. Saying that, the risk of another outbreak in direct confrontation between Jerusalem and Tehran remains high, especially as there are still no signs that fresh negotiations over Iran's nuclear program will resume anytime soon.

In Africa, the continent's second-largest producer Libya, is experiencing a revival within its oil sector as both international and local firms increase their exploration and production activities there. Indeed, Libya's oil output averaged 1.38 million bpd in 2025, and the country's National Oil Company is planning to raise this to 1.60 million bpd in 2026. Refiners in Europe and Asia are especially keen on Libya's high-quality crude, but the security situation in the North African country remains fragile as political power remains divided between the two rival administrations in Tripoli and Tobruk, and sporadic outbreaks of violence continue to occur.

Across in Venezuela tensions between Caracas and Washington continue to escalate, highlighted by the recent US Coast Guard's seizure of a sanctioned supertanker carrying Venezuelan oil to Cuba. More such seizures appear likely and could lead to the disruption of up to 400,000 bpd of the LATAM producer's heavy grade crude exports. Meanwhile the US Air Force positioned EA-18G 'Growler' electronic warfare jets in Puerto Rico in early December, which further add to the US military's already sizeable presence in the Caribbean Sea, the largest such deployment since the Cuban Missile Crisis in 1962. This could signal that it is preparing to launch air and/or missile strikes against drug-related infrastructure and camps in Venezuela, which in turn would raise the risk of a confrontation between the two countries armed forces, although it is unlikely that the White House would commit to also putting boots on the ground, especially considering President Trump's longstanding aversion to committing US soldiers to another war.

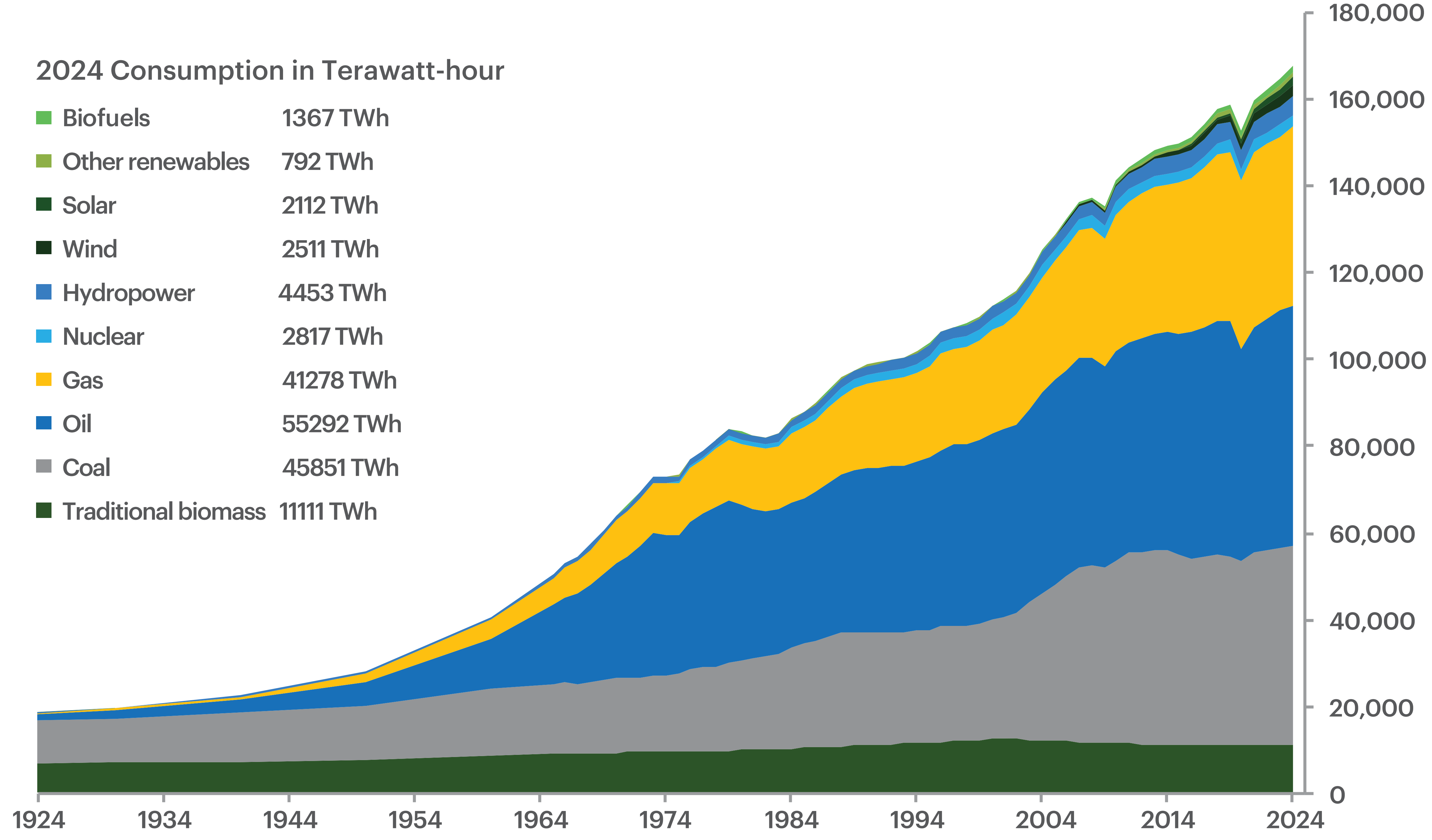
Energy Security Challenges

Global energy demand rose by 2% y/y in 2024 to hit a fresh record high and driven primarily by rising electricity needs. In fact, all regions of the world reported a sharp growth in electricity demand, with the Middle East and Asia Pacific registering the strongest increase in electricity generation at 5.30% and 5.40%, respectively that year. Meanwhile, Goldmans Sachs expects global power demand from data centres to rise by 50% to 84GW by 2027 and by as much as 165% by end of this decade.

Fossil fuels still met more than 85% of overall energy consumption in 2024, with oil, coal, and natural gas remaining the largest sources of energy supply and meeting close to 60% of electricity demand, according to the 74th annual Statistical Review of World Energy.

On the green energy front, wind and solar power generation grew by 16%, however, China alone accounted for almost 60% of global renewable supply additions in 2024, and so even when hydro, nuclear and other clean energy sources are included, it is still far from being enough to meet ever rising energy demand in the short and medium term and to ensure a balanced transition. At an OPEC-GECF gathering in November 2025, OPEC's Secretary General Haitham Al Ghais, underlined the essential role that oil and gas play as affordable, reliable energy sources to meet this growing demand for power, with both organisations warning about the risk of

Global Primary Energy Consumption In Terawatt Hours (1924 – 2024)



Source: Our World in Data

underinvestment in these two sectors, predicting that as much as US$18.20 trillion of investment will be needed by 2050 in order to meet long-term energy demand.

These statements are in line with the International Energy Forum's own views and who calculated that US$4.30 trillion in new investments in the upstream oil and gas sectors will be required between 2025 and 2030, just to keep up with natural demand growth. "More investment in new oil and gas supply is needed to meet growing demand and maintain energy market stability, which is the foundation of global economic and social wellbeing. Well-supplied and stable energy markets are critical to making progress on climate, because the alternative is high prices and volatility, which undermines public support for the transition as we have seen in the past two years," the Secretary-General of the IEF was quoted as saying in 2024.

Conclusion & Forecasts

Brent crude averaged just over US$68 a barrel in 2025 and thus close to our April prediction of US$67. However, ongoing geopolitical and economic uncertainties are making the outlook for 2026 more complicated, especially in terms of oil demand. While the US Supreme Court may overturn President Trump's tariff actions, this in turn could trigger further uncertainty, as his administration might then look to find ways to sidestep such a decision. On the other hand, if the court endorses the President's power to impose tariffs, the real economic cost of such a policy could well begin to be seen in the year ahead. Meanwhile, GDP growth in China appears set to slow, the global petrochemical industry faces a potential excess capacity issue and OPEC+ returned over 2.20 million bpd to the market over the past eight months as key members worked to reclaim market share.

At the same time, an increasing focus on NGL production in the US and elsewhere, is leading to a shift in the structure of the fuel products market, with US inventories of these natural gas liquids now sitting above 300 million barrels, their highest level on record according to Bloomberg. Therefore, NGLs could help to meet the sharp rise in global electricity demand and in turn reduce the use of crude oil for such power generation in the years ahead. Conversely, as we have outlined in our previous research pieces, the dramatic growth in US crude production since 2014 has cooled, and while overall output may still edge higher in the very near term, we still believe this important supply source is peaking. Even the IEA has begun raising concerns about global oil supplies in the medium term, opining in September 2025 that new oil and gas resources are going to be required just to keep production flat, due to declining rates of output at existing fields. Meanwhile, although oil demand growth in China may slow in the years ahead, the IEA sees India's crude consumption rising to 8 million bpd by 2035, driven by increasing vehicle ownership and ongoing industrialisation.

On the geopolitical front, the risk of a major disruption of Iranian, Russian, or Venezuelan oil supplies lingers, although equally a diplomatic breakthrough leading to either an end to the war in Ukraine or a new nuclear accord with Iran also remain possible in the weeks and months ahead. So, considering all the above, we are currently more cautious in our outlook for crude prices over the next 12 months and have adjusted our forecast for Brent, which we now expect to average US$60 in 2026. However, we consider this decline to be temporary and see benchmark crude prices rising again in 2027, as demand dynamics improve and supply challenges reappear.

GCC/MENA Market Outlook

Musa Haddad - Head of Fund Management
Rameshwar Tiwary - Executive Director - Equities Management

GCC Equities Outlook 2026:

Resilient Growth in a Shifting Landscape

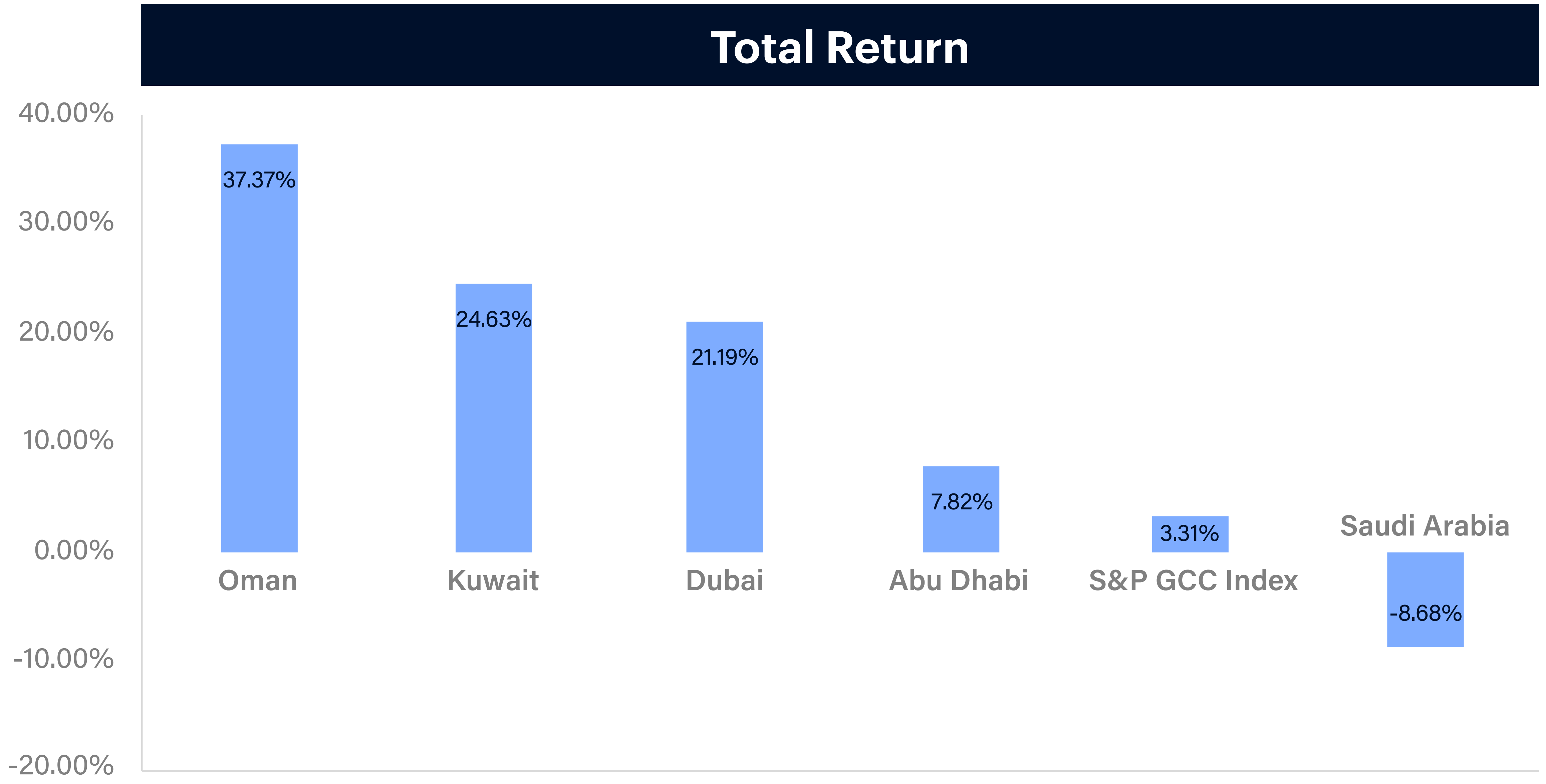
In 2025, GCC equities faced significant volatility and uncertainty due to global growth concerns and geopolitical risks. Despite this, markets rebounded strongly after hitting a low in late March and early April, with the S&P GCC Composite Large Midcap Index gaining 8.50% since April and 3.31% year-to-date as of December 5. Performance varied across the region: Oman, Kuwait, and Dubai led with notable gains, while Abu Dhabi saw moderate growth and Saudi Arabia underperformed with a negative return.

Market Performance Overview: Volatility Amidst Recovery

The GCC equities market experienced one of its most challenging periods in 2025, characterised by extreme volatility and heightened uncertainty. Global growth concerns coupled with unprecedented geopolitical risks created a perfect storm for market participants.

As professional money managers navigating these turbulent waters, we observed a swift and substantial market recovery following the trough reached in late March and early April 2025. The S&P GCC Composite Large Midcap Index (SGCCPUX Index) has demonstrated remarkable resilience, recovering 8.50% since April 2025 and posting a 3.31% gain year-to-date (5th December 2025).

This recovery, however, has been unevenly distributed across the region. Oman, Kuwait, and Dubai have emerged as standout performers, delivering impressive returns of 37.37%, 24.63% and 21.19% YTD respectively followed by Abu Dhabi with 7.82% return. In contrast, Saudi Arabia's market–which commands the largest weighting in the GCC index–has underperformed with a negative return of -8.68% YTD (4th December 2025).



The Central Question for Investors Remains: Are the Risks that Drove Market Volatility Now Behind Us?

Our assessment suggests they are not. Many of the events that precipitated market uncertainty remain unresolved. While there has been good progress regarding Trump's tariff policies, negotiations between the US and various trade partners continue. The Middle East has seen a significant reduction in active conflict, yet the Russia-Ukraine situation persists without a clear resolution in sight.

Despite these ongoing challenges, the MENA region continues to demonstrate robust economic fundamentals. Overall GDP growth for the GCC is projected at approximately 4% for 2025. Oil prices have experienced volatility, trading in a range between USD 60- USD 80 per barrel, with an average price of USD 69 YTD. This pricing level has generally supported most of GCC economies in achieving fiscal breakeven points, providing a foundation for stability amidst external pressures.

As we assess the interplay between global risks and regional strengths, we maintain that selectivity and fundamental analysis will be critical for investors seeking to capitalise on the opportunities presented by this complex market environment.

Strong Fundamentals: The Engine of GCC Market Performance

Non-Oil GDP Growth

Expected to remain robust at 4.5-5.5% over the next 2-3 years, significantly outpacing many developed markets

Growth Drivers

Corporate Earnings Growth

Q3 2025 showed aggregate earnings growth of 28% YoY, with 9%-11% growth projected over the medium term

Q3 2025 Performance

Attractive Valuations

S&P GCC Composite Large Midcap Index trading at a prospective P/E of 13.03x for 2026, based on consensus earnings growth of 8.03%

Future Outlook

With 2025 behind us, the fundamental economic and corporate performance data provides compelling evidence for optimism regarding GCC market prospects. Corporate earnings reports have been broadly positive, and we anticipate this momentum to continue with aggregate double-digit earnings growth expected for the full year 2025. These strong earnings fundamentals will likely serve as the primary driver of market performance in 2026.

Looking at the most recent quarterly data, Q3 2025 demonstrated impressive normalised earnings growth of 28% year-over-year. This robust corporate performance is primarily attributable to accelerating economic growth in the non-oil sector, fueled by ongoing structural reforms and increased government spending across the region.

The non-oil GDP growth for the GCC is projected to maintain strength, with estimates ranging between 4.5% to 5.5% over the next two to three years. This economic backdrop should support corporate earnings growth of 9-11% over the medium term, comparing favorably with developed markets while offering more attractive valuations in a global context.

The earnings picture does show some sectoral divergence worth noting. The petrochemical sector continues to face headwinds due to lower product pricing, although some stabilization was evident during 2025. In contrast, the banking sector, which represents approximately 55% of GCC indices, delivered 33% year-over-year growth in Q3 2025. This performance reflects the strong non-oil GDP growth particularly in UAE and Saudi Arabia, which has directly bolstered bank profitability.

Sector Performance Analysis

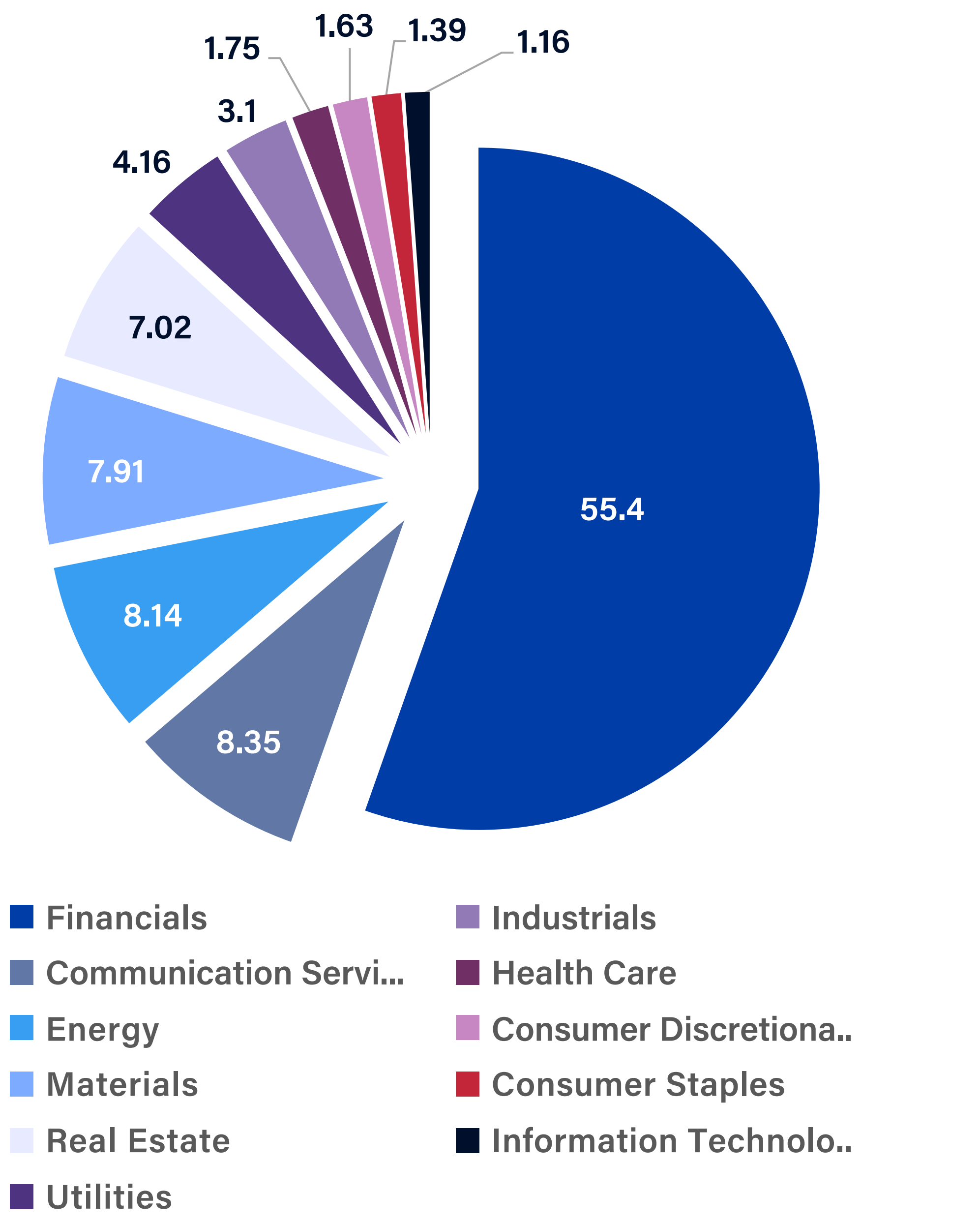
The telecommunications sector has emerged as another standout performer, with earnings growth driven by increased demand stemming from ongoing digitalisation initiatives, expanded corporate solutions, rising data consumption, and growing populations across the region.

Similarly, the real estate sector in both UAE and Saudi Arabia reported robust financial results, benefitting from structural reforms and demographic trends.

From a valuation perspective, the S&P GCC Composite Large Midcap Index is currently trading at a prospective price-to-earnings ratio of 13.03x for 2026, based on estimated consensus earnings growth of 8.03%. This valuation level represents an attractive entry point for investors when considered alongside the region's growth prospects and ongoing economic diversification initiatives.

The convergence of strong economic fundamentals, solid corporate earnings growth, and reasonable valuations positions GCC equities favorably for 2026. However, investors should maintain awareness of the sectoral disparities and country-specific dynamics that will influence relative performance within the broader regional market.

GCC Index Sectoral Composition



United Arab Emirates: Higher Growth and Strong Real Estate Momentum

The United Arab Emirates continues to demonstrate robust economic momentum, with real GDP growth of 4.0% in 2024 expected to accelerate to 4.9% in 2025 and 5.3% in 2026, according to Central Bank of the UAE estimates. The non-oil GDP growth remains particularly strong, projected at 4.5% in both 2025 and 2026, highlighting the success of the UAE's diversification strategy.

4.9%

2025 Real GDP Growth

Expected to accelerate further to 5.3% in 2026

4.5%

Non-Oil Growth

Consistent strong performance 4.8% growth expected in 2026

4.5%

Dubai Real Estate Transaction Growth

Year-over-year increase to AED 624 billion in Nov.2025

4.5%

Abu Dhabi Real Estate Transaction Growth

Year-over-year increase to AED 94 billion YTD 9M-2025

The UAE continues to benefit from a strong pickup in economic activities driven by population growth resulting from structural reforms, changes in labor laws, new visa options, and a favorable tax regime. As a global logistics and transportation hub and a major tourist destination, the UAE has benefitted significantly from the robust growth in travel, tourism, and hospitality sectors globally. These strengths have positioned the U.A.E as a preferred destination for both business and leisure travellers, contributing to consistent economic expansion.

Real Estate Market Dynamics in the UAE remains particularly buoyant, with record levels of transactions and improving property prices. The heightened demand for real estate has been partly driven by the implementation of numerous government reforms, including the issuance of long-term visas for expatriates, which has attracted both residents and international investors.

Dubai Real Estate

In Dubai, real estate transactions rose by 49.6% year-over-year in YTD till November 2025, reaching AED 624 billion. In H1-2025, the market welcomed 59,000 new investors contributing AED 157 billion, with residents making up 45% of this investor base. This influx of investment has supported price appreciation over a period across various property segments and locations within the emirate.

Abu Dhabi Real Estate

Abu Dhabi has also experienced significant growth in its real estate sector, with transactions increasing by 43.3% year-over-year to AED 94 billion YTD till Sept. 2025. While smaller in absolute terms compared to Dubai, the percentage growth demonstrates strong momentum in the capital's property market, with particular strength in premium residential segments and mixed-use developments.

Market Performance and Valuation Abu Dhabi's equity market has delivered a solid 7.82% return year-to-date (as of 4th December, 2025), while Dubai has significantly outperformed with an impressive 21.19% gain over the same period. From a valuation perspective, Abu Dhabi is trading at a prospective P/E multiple of 10.57x for 2026, while Dubai offers an even more attractive valuation at 12.31x prospective earnings for 2026.

For income-focused investors, the UAE markets also present compelling opportunities, with dividend yields for select companies ranging between 5.0-6.0%. However, investors should note that from 2025, a higher corporate tax of 15% will be levied on large corporations that operate outside the UAE, which may impact earnings growth for these entities.

The combination of strong economic fundamentals, robust real estate market performance, reasonable valuations, and attractive dividend yields positions the UAE equity markets favorably for continued outperformance. The acceleration in GDP growth, particularly in the non-oil sectors, provides a solid foundation for corporate earnings expansion in the coming years.

Kingdom of Saudi Arabia: Transformation Amid Market Challenges

Saudi Arabia continues to pursue its ambitious economic transformation agenda, with non-oil economic growth momentum expected to persist alongside increases in oil production. The kingdom is projected to achieve approximately 4% real GDP growth in 2025, a significant improvement from roughly 2% growth recorded in 2024. Looking ahead, the medium-term real GDP growth is estimated to stabilize around 3.5% annually.

1 — March 2025

S&P Global upgraded Saudi's sovereign credit rating to A+ from A with stable outlook, citing sustainable growth in non-oil sectors

2 — 2025-2028

Fiscal deficit expected to increase to 4% due to ongoing heavy investment and capital expenditure in the economy

3 — Vision 2030

Long-term economic diversification plan continues to gain momentum with significant investments in non-oil sectors

The kingdom's economic diversification continues to gain momentum, with government policies and reforms increasingly focused on reducing dependence on hydrocarbons. This commitment to structural transformation was recognised in March 2025 when S&P Global upgraded Saudi Arabia's sovereign credit rating to A+ from A with a stable outlook. The rating agency specifically cited sustainable growth in non-oil sectors leading to economic diversification as a key factor in its decision. However, the pursuit of economic transformation comes with fiscal challenges. The fiscal deficit is expected to increase to approximately 4% between 2025 and 2028 due to ongoing heavy investment and capital expenditure throughout the economy.

These investments represent a strategic allocation of resources towards building a more diversified and sustainable economic model for the future. Despite the positive trajectory of Saudi Arabia's economic transformation, Saudi equities have underperformed over the past three years. This divergence between economic fundamentals and market performance presents a potential opportunity for discerning investors.

The underperformance has been largely concentrated in the petrochemical sector, where earnings have declined due to global demand-supply dynamics. In contrast, sectors that are more dependent on domestic growth have continued to perform better.

Banking Sector Strength

Saudi banks, which constitute a significant portion of market indices, have benefitted from strong demand for corporate loans and project financing. The system-wide loan growth is expected to reach approximately 13-14% in 2025. However, bank margins have experienced some compression due to tighter liquidity conditions within the system which is expected to improve with rate cuts.

The banking sector's growth is directly tied to the kingdom's economic diversification efforts, as financial institutions play a crucial role in funding the transition toward a more balanced economic model. Despite margin pressures, the volume growth in lending activity has supported overall profitability for the sector.

Attractive Valuation Opportunity

Following a period of underperformance, Saudi equities now present an attractive valuation proposition. The market is currently trading at a prospective P/E multiple of 14.31x for 2026, based on Bloomberg consensus earnings growth of 10.31%. This valuation level represents a substantial 24.49% discount to its five-year average; historically, the Saudi market has traded at a P/E multiple of 18.95x forward earnings. Expected dividend yield of 4.34% for 2026, is higher than its historical average.

This significant valuation discount, combined with the strong economic fundamentals and ongoing reforms, suggests potential for multiple expansion alongside earnings growth as the market eventually recognises the progress being made in economic diversification and corporate performance improvement.

The sustainable economic growth story over the medium term remains a key positive factor for Saudi Arabia. While certain sectors have faced challenges, the broader economic transformation continues to progress, creating opportunities across various segments of the market. For investors with a medium to long-term horizon, the current valuation levels may present an attractive entry point to gain exposure to the kingdom's ongoing economic evolution.

Kuwait: Growth Resurgence and Strategic Reforms

Kuwait's economy is expected to return to growth in 2025, with real GDP projected to increase by 1.9% following a contraction in 2024 due to voluntary cuts in oil production as part of OPEC+ agreements.

Looking ahead, GDP growth is estimated to average 2.4% between 2025-2027 as oil production restrictions normalise and project implementation accelerates.

1

Fiscal Outlook

Kuwait's budget deficit is expected to widen to KD 6.3 billion (8.2% of GDP) in FY 2025-26 compared to 2.2% of GDP in FY 2024-25. The FY 2025-26 budget projects revenue of KD 18.2 billion against expenditure of KD 24.5 billion, with oil price assumptions of USD 68 per barrel and oil production of 2.5 million barrels per day.

2

New Kuwait Vision 2035

To stimulate non-oil growth and reduce fiscal pressures, the government is focusing on public-private partnerships (PPP) and high-impact projects led by its "**New Kuwait Vision 2035**" program. In 2024, approximately USD 8.7 billion in projects were awarded and in 2025 expected USD 26 billion projects awarded led by power and water sector.

3

Credit Growth

Domestic credit demand accelerated in 2025, driven by increased loans for securities purchases, higher lending to banks and financial institutions, and growth in business and household credit. This resulted in **7.5% growth year-to-date and 8.3% year-over-year** (compared to 6.7% in FY 2024) till October 2025.

1 New Kuwait Vision 2035
Government focusing on public-private partnerships (PPP) & high-impact projects to stimulate non-oil growth

2 Mega Projects
USD 84 billion of projects either under execution or in planning phase

3 New Debt Law
Recently passed, enabling government to issue more debt and enhance fiscal balances

4 New Mortgage Law
Expected soon, enabling banks to directly give mortgages to customers

Fiscal Reforms

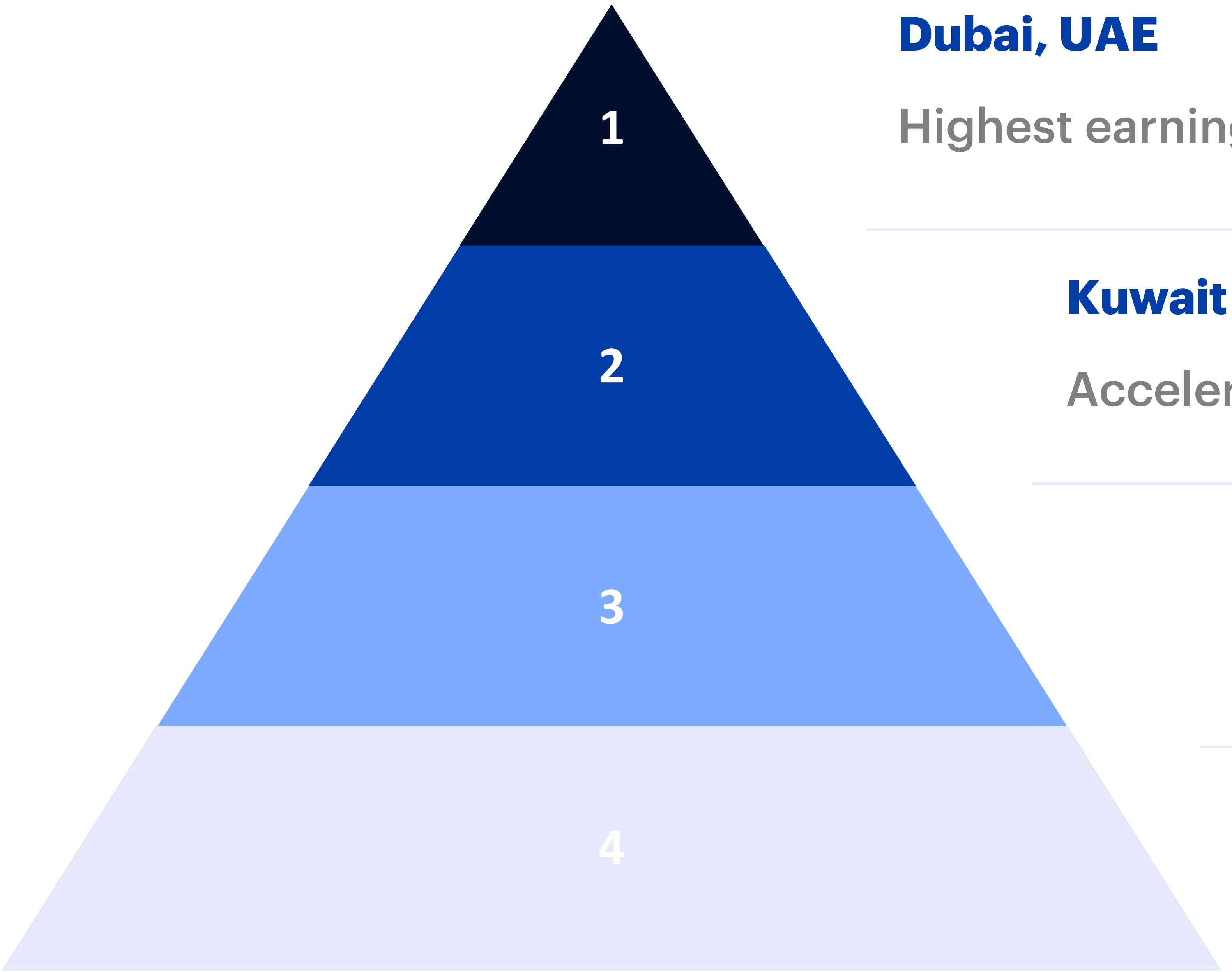
The government is looking to reduce the burden on public expenditure due to fluctuations in oil prices by encouraging private health expenditure growth. The objective is to reduce the burden on the public budget by 30% by attracting private and foreign investment of up to KD 10 billion by 2030, which would also create more than 50,000 job opportunities across the ecosystem.

New Mortgage Law

Kuwait is expected to pass a new mortgage law soon, enabling banks to directly provide mortgages to customers. This regulatory change would significantly boost credit and economic growth in the country by facilitating increased homeownership and stimulating construction activity. The mortgage law represents an important component of the broader financial sector reforms aimed at deepening capital markets and expanding access to financing.

Kuwait equities trade at 13.86x 2026 earnings with projected growth of 8.57%, offering a stable base with reform-driven upside. Progressive fiscal and policy reforms, project spending, credit expansion, and the passage of the debt law enhance market resilience and fiscal flexibility. Public-private partnerships and diversification efforts support medium-term earnings growth, while Vision 2035 initiatives provide a structural tailwind. Valuations remain reasonable, positioning Kuwait as a compelling stability-plus-growth story beyond oil price volatility.

Country and Sector Positioning Strategy



Dubai, UAE

Highest earnings growth with attractive valuations

Kuwait

Accelerating reforms and project execution

Abu Dhabi, UAE

Diversification potential with strong dividends

Saudi Arabia

Long-term economic transformation with valuation discount

- **UAE**
  Dubai offers higher earnings growth and attractive valuation. Abu Dhabi provides potential for further diversification with strong annual dividend payout and reasonable valuation, supported by strong recovery in corporate earnings.

- **Kuwait**
  Gradually increasing exposure as reforms pick up, mega projects gain traction, and project execution gathers pace. Looking to further increase allocation as we see higher earnings growth subject to valuations. Overall overweight but selective on names.

- **Saudi Arabia**
  Clear beneficiary of various government reforms driving sustainable economic growth. Focus on value-added hydrocarbon products, clean energy, and non-oil sector growth remains positive. Execution of mega projects has gained traction, driving corporate credit .

Financial Sector

Selective focus on banks benefitting from higher economic growth, leading to increased loan demand, while maintaining sound asset quality and strong capital positions. UAE banks are currently our preferred picks within this sector.

Telecom Sector

Telecom companies benefitting from government digitalisation initiatives, IT services expansion, data centres, cybersecurity solutions, and cloud computing infrastructure development.

Other Sectors

Stock-specific approach focused on companies with pricing power or those gaining market share through e-commerce capabilities or consolidation within their respective sectors.

Underweight Sectors

We maintain an underweight position on the petrochemical sector, as product pricing has yet to demonstrate any meaningful improvement. Increased supply from China continues to exert pressure on product pricing, while demand growth lags behind. This supply-demand imbalance is likely to persist in the near term, limiting the earnings recovery potential for the sector.

Our sector positioning strategy reflects our assessment of both cyclical factors and structural trends within the GCC economies. We favor sectors that benefit from the ongoing economic diversification initiatives, digitalisation trends, and financial deepening across the region. By maintaining selectivity at both the country and sector levels, we aim to capitalise on the most promising growth opportunities while managing exposure to areas facing persistent headwinds.

Expected Returns and Outlook for 2026

Based on our analysis of fundamentals, valuations, and growth prospects across the GCC markets, we have developed a comprehensive outlook for expected returns through 2026. The earnings growth in 2025 on an aggregate basis for the stocks held in our strategy is expected to reach 11.4% followed by projected growth of 9.3% in 2026, combined with a potential re-rating of 1-2%, we project double-digit total returns of around 10-12% for 2026, inclusive of dividend income. This forecast reflects our confidence in the fundamental strengths of GCC economies and the improving corporate earnings trajectory.

11.4%

2025E Earnings Growth

Expected earnings growth for 2025

9.3%

2026E Earnings Growth

Projected strategy earnings growth for 2026

13.88%

PE Multiple

Assumed PE multiple for 2026 projections

Oman, Kuwait, and Dubai have been the standout performers in 2025 so far, while Saudi Arabia offers attractive valuation after recent underperformance. The continued implementation of economic reforms, infrastructure development, and diversification efforts across the GCC region provide a solid foundation for sustainable growth in the coming years.

- **Economic Growth Drivers**

  Non-oil GDP growth across the GCC is expected to remain robust, supported by ongoing economic diversification initiatives, structural reforms, and increased government spending on infrastructure and development projects.

- **Corporate Earnings Momentum**

  Strong corporate performance is anticipated to continue, with earnings growth driven by increased economic activity, credit expansion, and improvements in operational efficiency across various sectors.

- **Valuation Considerations**

  Current market valuations remain attractive relative to growth prospects, with potential for multiple expansion as investor confidence improves and risk perceptions moderate.

Risk Factors and Market Challenges

While our outlook for GCC equities remains broadly positive, prudent investment decision-making requires thorough consideration of the potential risks and challenges that could impact market performance. We have identified several key risk factors that investors should monitor closely:

Geopolitical Tensions

Selective focus on banks benefitting from higher economic growth, leading to increased loan demand, while maintaining sound asset quality and strong capital positions. UAE banks are currently our preferred picks within this sector.

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Global Economic Slowdown

As export-oriented economies with significant international investments, GCC countries are not immune to global economic cycles. Any significant slowdown in major economies like the US, China, or Europe could affect trade volumes, tourism, and investment flows into the region.

Liquidity and Capital Flows

GCC markets can experience periods of reduced liquidity, potentially exacerbating price movements during market stress. Additionally, shifts in global investor sentiment towards emerging markets broadly could affect capital flows into GCC equities, regardless of regional fundamentals.

Sector-Specific Challenges

Banking Sector

Selective focus on banks benefitting from higher economic growth, leading to increased loan demand, while maintaining sound asset quality and strong capital positions. UAE banks are currently our preferred picks within this sector.

Real Estate Sector

The strong performance in real estate markets, particularly in the UAE, has raised concerns about potential overheating in certain segments. Any significant increase in global interest rates or reduction in foreign investor interest could impact transaction volumes and pricing. Supply-demand imbalances in specific submarkets also warrant careful monitoring.

Implementation of fiscal reforms the successful implementation of planned fiscal reforms, including VAT introductions and corporate tax, represents both an opportunity and a challenge for GCC economies. While these measures are necessary for long-term fiscal sustainability, they could create near-term headwinds for consumer spending and corporate margins if not carefully managed. The timing and communication of these reforms will be crucial in determining their market impact.

Despite all these challenges, in 2025, GCC economic growth and corporate earnings growth remains on a strong footing. Overall, the non-GDP growth for GCC is estimated to be around 4.5%-5.5% in next 2 years. So far, oil price (Brent) has remained volatile (traded in the range of USD 80 to USD 60 per barrel) given the global macro and geopolitical environment, however the average oil price is around USD 69 per barrel YTD, supporting most of the GCC economies to achieve fiscal breakeven.

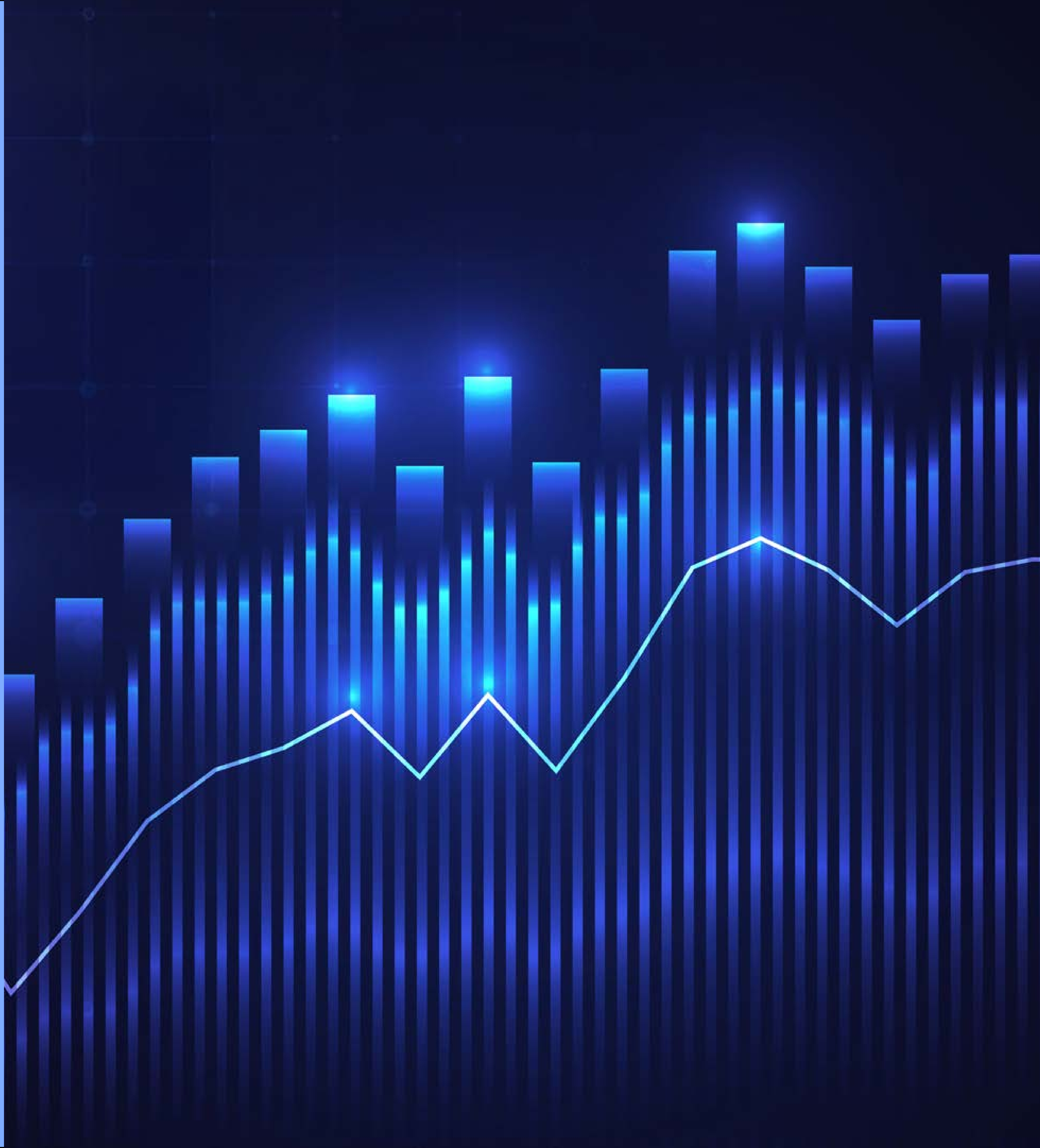
Despite these challenges, we believe the fundamental case for GCC equity exposure remains compelling. The combination of attractive valuations, strong earnings growth prospects, and ongoing economic diversification provides a solid foundation for investment returns. By maintaining a disciplined approach to country and sector allocation, while closely monitoring the identified risk factors, investors can effectively navigate the complexities of GCC markets to capitalise on the region's growth potential.

Zehan Salleh - Executive Director, Fixed Income Management

The 2026 MENA Bond Outlook

Balancing Global Rates and Regional Reform

In this article we take stock and explore how the US Federal Reserve's evolving stance along with other global central banks regarding interest rate policy will shape market outcomes. Here in the GCC we will consider regional fiscal strategies – in particular the GCC-led diversification efforts and geopolitical dynamics that will determine opportunities and risks for investors in the coming year.



Executive Summary

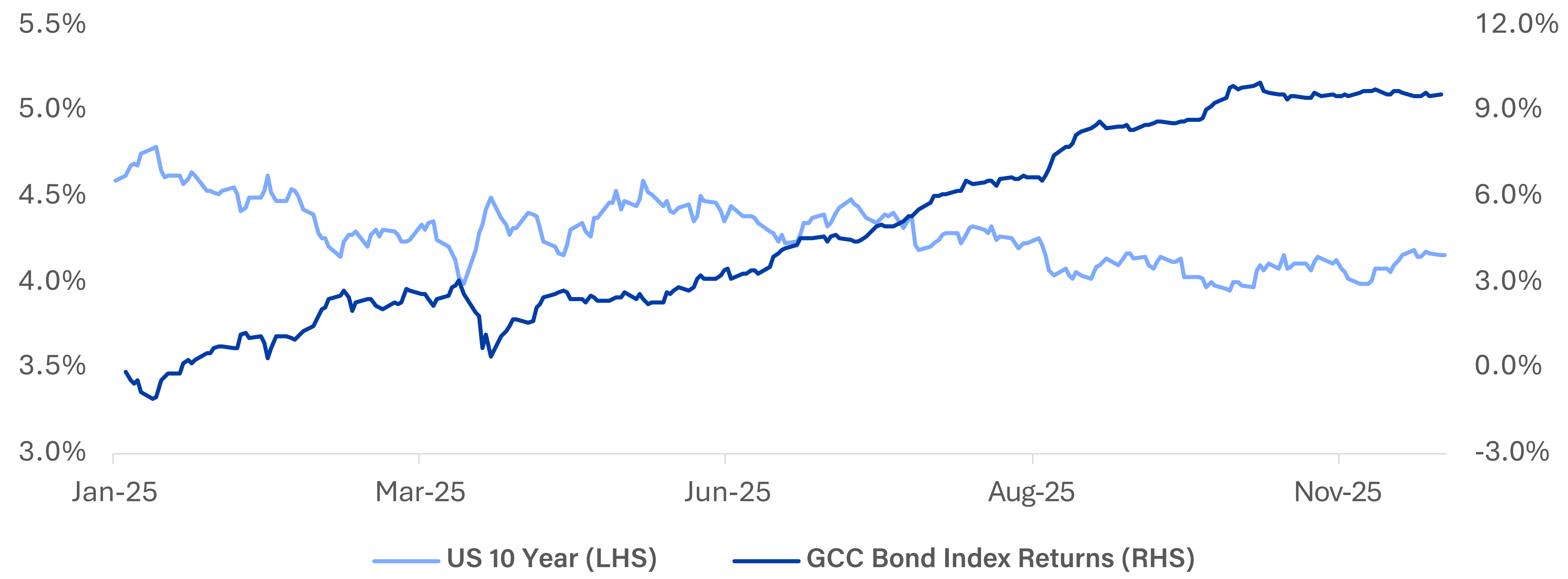
The Middle East and North Africa (MENA) bond market enters 2026 with remarkable resilience and momentum. Record issuance volumes, historically low default rates, and robust investor appetite underscore the region's growing prominence in the global fixed income universe. Yet, this optimism is partially tempered as we approach the coming year with global monetary policy shifts, oil price volatility, and structural reforms that are reshaping regional economies.

In this article, we take stock and explore the impact of the US Federal Reserve's and other global central banks' evolving stance on interest rate policies, and its outcome on markets. Here in the GCC, we will consider regional fiscal strategies – in particular the GCC-led diversification efforts, and geopolitical dynamics, which will determine opportunities and risks for investors in the coming year.

Global Backdrop: Fed Policy and Its Ripple Effect

The Fed's late-2025 pivot towards rate cuts has eased global funding conditions, triggering a rally in fixed income assets worldwide. For MENA, this translated into record issuance as sovereigns and corporates locked in lower borrowing costs, ahead of further expected easing in 2026. The bond market has defied headwinds, delivering strong performance of 9.6% in 2025, essentially erasing the losses of 2022, one of the worst years for bonds in decades, as central banks raised interest rates to combat global inflation post-Covid.

Bloomerg MENA Bond Index Returns vs. US 10 Year Yield



Source: Bloomberg

Over the past year, GCC credit spreads have tightened to historic lows, supported by strong foreign inflows chasing yield amid compressed returns in developed markets. The economic policy shifts by the region's powerhouses' have enabled markets to mature further in size and depth as evidenced by multi-billion, longer-duration issuance from sovereigns, such as Saudi Arabia's 30-year bonds, and UAE's extended Sukuk programs. Such action has bolstered liquidity across both primary and secondary market activity despite being against a backdrop of softening oil prices.

For MENA, this means:

- **Lower global funding costs:** Beneficial for issuers locking in longer-duration debt and/or refinance expensive legacy issuances. This reduces near-term refinancing risk and particularly attractive for issuers with large capex plans or cyclical businesses. For example, Ittihad International redeemed its 2028 maturity 9.75% profit rate Sukuk and reissued a 5-year Sukuk priced at 7.375%, essentially saving the company more than 200 bps in interest costs for the next 3 years whilst extending the repayment by another year.
- **Sustained foreign inflows:** Yield compression in developed markets keeps global investors chasing MENA spreads. Tight spreads and strong issuances have attracted first-time issuers and foreign investors, though valuations are now less compelling versus LatAm and Africa within the EM universe. This has given rise to investors' caution in adding risk at these expensive levels hence any breakout in risk (be it fiscal, monetary, economic, or geopolitical) may lead to quick and significant widening of spreads. However, despite some market volatility witnessed in the last 18 months, any risk-off widening in spreads proved to be short-lived, as investor confidence returns quickly.
- **Curve dynamics:** Expect a steepening bias in interest rate curve as regional issuers extend maturities to capitalise on lower rates. The front end of the curve should remain anchored by stable policy rates and strong demand from local banks, while the long end faces incremental concession as sovereigns and GREs push out tenors to 10 to 30 years. Liability management exercises, as per Ittihad International tender and reissuance example will further elongate duration profiles.

Among the GCC countries, Saudi Arabia, along with Bahrain as its proxy, remains an outlier where current spreads are wider than pre-covid levels. This divergence is primarily supply-driven, as Saudi's ambitious funding program and Bahrain's frequent issuance have created persistent pressure on secondary valuation. Heavy supply has absorbed liquidity, and limited spread compression, despite improving macro fundamentals and robust oil revenues.

Regional Landscape: Reform and Resilience

MENA economies are navigating an era of significant structural transformation, balancing fiscal reforms with urgent need for diversification. Broader tax frameworks, through VAT implementation and corporate tax adoption, are new and sustainable sources of improved fiscal strength. This has certainly improved credit fundamentals across the region as seen with the rating upgrades in Saudi Arabia, UAE and Oman.

Meanwhile, diversification strategies such as Saudi Arabia's Vision 2030 and parallel initiatives in the UAE and other neighbours continue to channel investment into non-oil sectors, even as mega-project ambitions are scaled back and foreign direct investment inflows moderate.

On the hydrocarbon front, OPEC+ supply discipline combined with Saudi Arabia's pivot toward market share gains is expected to keep Brent crude prices in the range of USD 60 – USD 65 per barrel, a level below fiscal breakeven for several GCC states. This dynamic underscore the need for sustained debt issuance to bridge budgetary gaps, reinforcing the role of capital markets as a critical funding channel amid ongoing economic transformation.

Issuance Boom and Market Technicals

Bond issuance surged to USD 125 billion in the first nine months of 2025, marking an all-time high. Sukuk accounted for nearly 40% of total proceeds, reflecting strong Islamic finance demand and ESG-linked mandates, appealing to a broader investor base. As expected from previous years, Saudi Arabia led with over 50% of the region's primary market, followed by the UAE.

Egypt and Morocco returned aggressively to international markets, signalling confidence in their reform trajectories, following the massive foreign direct investment by the UAE into Egypt and the credit rating upgrade for Morocco. Spreads compressed to all-time lows near the 115-basis points mark, underscoring expensive valuations but also highlighting robust liquidity and negligible default risk.

Credit Quality and High-Yield Opportunities

- **Morocco:** Upgraded to investment grade (BBB-), attracting benchmark-driven inflows.

- **Egypt & Jordan:** Continue to offer compelling carry, supported by IMF programs and external financing, though vulnerable to global shocks.

- **Bahrain & Turkey:** Remain high-beta plays, sensitive to oil and geopolitical risk. Despite elevated leverage in some corporates, default rates remain at historic lows, thanks to proactive refinancing and strong regional banking support.

Geopolitics: Noise Without Disruption

Regional tensions persist two years on, along with the Iran nuclear uncertainty, but markets have largely priced in a "status quo" outcome so far, even at the peak of uncertainty. The region's global systemically important energy infrastructure remains exposed, yet investor confidence is supported by maturity and depth of the market liquidity and sovereign wealth buffers.

Key Risks

Despite a constructive outlook, several vulnerabilities could challenge MENA credit performance in 2026.

A **hard landing in major economies** such as the U.S. or China would send negative shockwaves through global markets, widening spreads and dampening risk appetite for emerging market debt.

Oil price volatility remains a critical pressure point: a sustained drop in oil price below USD 60 per barrel would strain fiscal balances for several GCC states, potentially accelerating debt issuance, and eroding investor confidence.

Additionally, **policy slippage** poses a structural risk — delays in implementing tax reforms or broader economic diversification measures could undermine credit profiles and stall progress on fiscal consolidation. Together, these factors underscore the need for active monitoring and agile portfolio positioning to navigate an environment where external shocks and domestic execution risks intersect.

Conclusion

For 2026, we will see a story of contrasts: global rate normalisation meets regional reform momentum. For investors, the opportunity lies in active management of funds by leveraging on the ongoing structural shifts that continue to redefine the region's economic landscape. Whilst in 2025 the market performance was driven by declining rate environment, increased liquidity leading to spread tightening, next year returns may not be so plane sailing.

In 2026, the interest rate environment may prove benign and debt levels might come under the spotlight, under such circumstances, credit vigilance will become of the utmost importance. There will be a need to balance carry (bond coupon) with yield, avoiding complacency in credit differentiation. More than ever, portfolio alpha will come from selectivity, agility, and strategic curve positioning.

Global Market Outlook

Musa Haddad - Head of Fund Management
Rameshwar Timary - Executive Director, Equities Management

Beyond the Buzz

Global Equities in the Age of AI Dominance

As the global economy turns the page on a turbulent but resilient 2025, investors enter 2026 facing a fundamentally different landscape—less defined by macro shocks and more by structural transitions that are finally converging into tangible results. 2026 is not expected to be a year of exuberant market expansion nor a year of recession-driven pessimism. Instead, it is a year defined by earnings reality, structural productivity, and a more level playing field across sectors and regions.

Executive Summary: A New Chapter Begins

As the global economy turns the page on a turbulent but resilient 2025, investors enter 2026 facing a fundamentally different landscape—less defined by macro shocks and more by structural transitions that are finally converging into tangible results. Inflation has cooled, financial conditions are gradually easing, and the investment cycle—long dominated by expectations of technological transformation—is beginning to deliver measurable earnings contributions.

The story of 2026 - might not be one of dramatic rebounds or crisis-driven pivots. Instead, it could be the story of **normalisation** (return to fundamental-driven valuations), **rebalancing** (broader market participation across sectors), and **delivery** (AI monetisation becomes reality). Markets are shifting away from narrow leadership and entering a phase where market breadth, valuation discipline, and strategic allocation matter far more than they have in recent years.

In this environment, global equities are poised to transition from a narrative-driven bull cycle—fueled by Artificial Intelligence enthusiasm and liquidity optimism—to one where earnings resilience and operational delivery become the core drivers of performance. This represents a fundamental shift in market dynamics that sophisticated investors must navigate with precision and discipline.

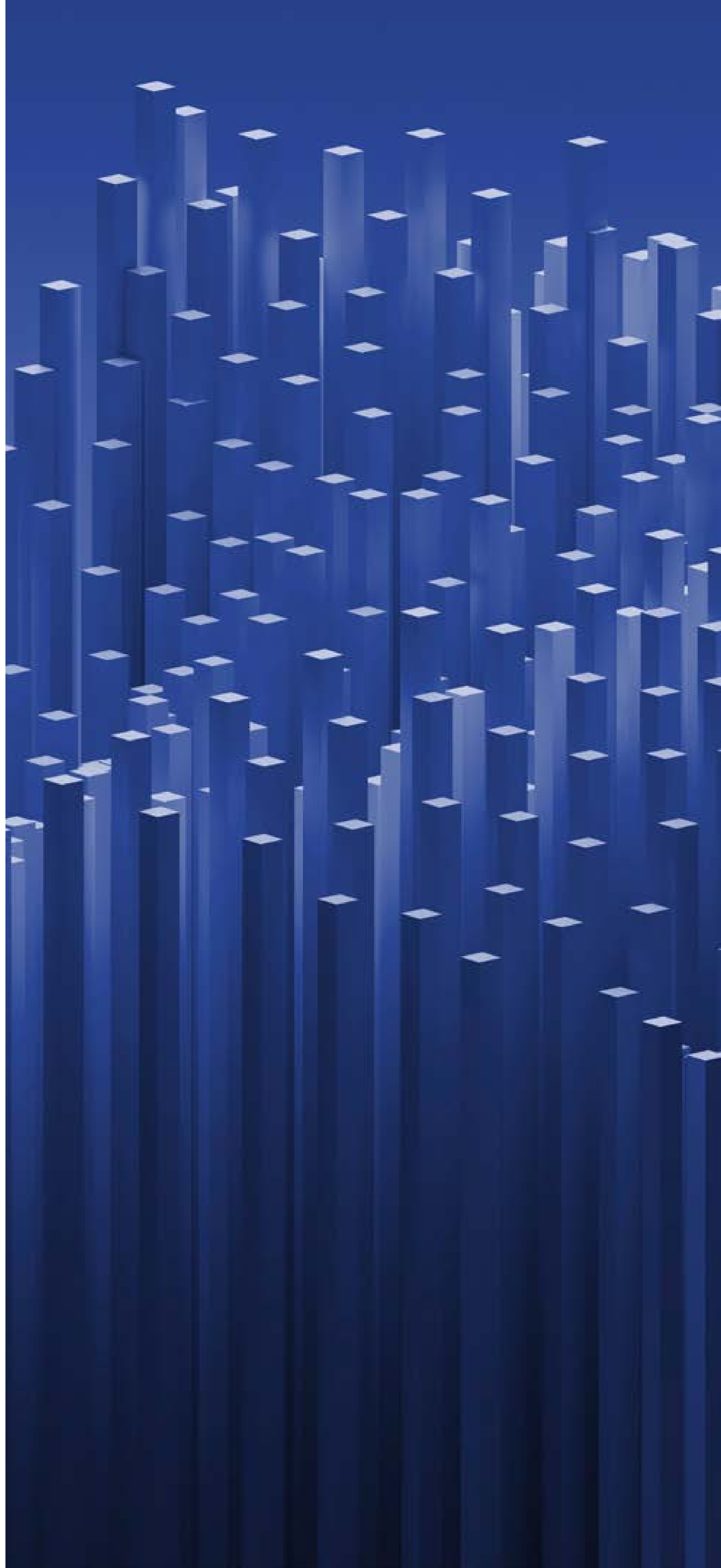
A World in Transition: The Macro Landscape of 2026

The global macro picture has changed decisively since the volatile post-pandemic period. Inflation across major advanced economies fell back towards the upper end of the central banks comfort zones through 2025, driven by easing supply bottlenecks, stabilising commodity prices, and the fading of extreme post-COVID demand imbalances. While not uniform across regions, the trajectory instills greater confidence that the worst of the inflation shock is firmly behind us. This transformation creates a more favourable environment for equity investors. The central banks have successfully navigated the tightrope between controlling inflation and avoiding recession, setting the stage for a period of relative stability. The key question is no longer whether inflation can be tamed, but rather how quickly economic conditions can normalise without triggering new imbalances.

The Key Macro Indicators to Normalise in 2026

The divergence in policy paths across major economies will create opportunities for astute investors who can identify relative value and position portfolios accordingly. This is not a homogeneous recovery—it is a nuanced evolution that rewards strategic thinking.

Global Macro Indicator	Expectations for 2026
Target Inflation	2.5% - major 2.5% - major economies approaching the central bank targets
Global GDP Growth	3.2% stabilisation around the long-term trend



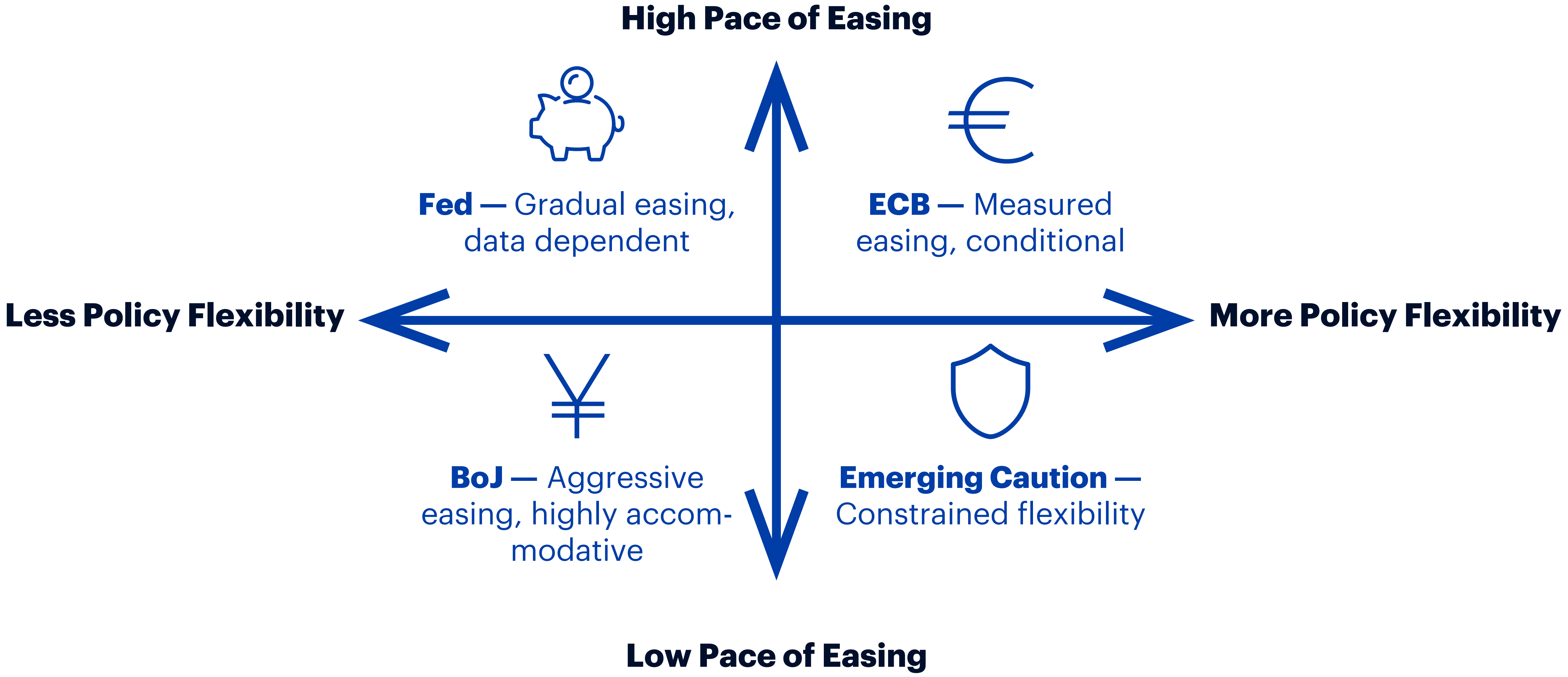
Monetary Policy: The Era of Peak Tightening Is Over

The world's major central banks are no longer fighting inflation—they are shaping soft landings. This represents a critical inflection point for asset allocation and portfolio construction. The Federal Reserve is cautiously cutting rates, balancing the need to support economic activity without reigniting inflation. The European Central Bank begins a more gradual easing cycle after a year of subdued growth. The Bank of Japan, still committed to reform and structural realignment, maintains an accommodative posture while managing currency stability.

This divergence is unlikely to create market fractures, but rather—opportunities for valuation dispersion and relative-value strategies. Currency markets will remain active as policy paths diverge, creating both hedging requirements and trading opportunities for multi-asset portfolios.

The coordination—or lack thereof—among the central banks will be a key theme throughout 2026. While synchronised tightening defined the 2022-2023 period, the easing cycle will be far more heterogeneous, reflecting differing economic conditions, structural challenges, and political pressures across regions.

The Central Banks are Following Different Pace for Easing Cycle



Economic Growth: Solid Foundations

2026 begins with global growth stabilising around its long-term trend. The U.S. remains the world's economic anchor, supported by strong household consumption and unprecedented investment in digital and physical infrastructure. Europe is showing early signs of industrial recovery, while Asia—particularly Japan, India, and selected ASEAN markets—continues to attract capital on the back of structural reforms and demographic advantage.

The improvement is not uniform, but it is durable. Unlike previous cycles characterised by boom-and-bust dynamics, this expansion is built on more sustainable foundations: productivity enhancements, capital deepening, and a more balanced global demand profile. Consumer balance sheets remain healthy in major economies, corporate leverage is manageable, and banking systems are well-capitalised.

Risks remain, of course. Fiscal tensions in major economies, potential supply disruptions, and geopolitical flashpoints could all derail the recovery. However, the base case for 2026 is one of steady, if unspectacular, growth that provides a favourable backdrop for equity performance.

Markets in 2025: Resilience in the Face of Uncertainty

Few would have predicted at the start of 2025 that global equities would deliver such resilient performance. Despite geopolitical tensions, energy market swings, and policy uncertainty, markets posted respectable gains across major indices. The performance reflected mid-single-digit to low-double-digit returns, with outperformance in sectors tied to AI, industrial recovery, and premium consumption.

Importantly, earnings held up. Corporate profitability broadened beyond mega-cap technology names, a theme that is expected to deepen in 2026. Investor sentiment, once fragile, has been bolstered by a combination of disinflation, stabilising growth, and renewed investment in high-productivity sectors.

The resilience of 2025 sets an important precedent. It demonstrates that markets have matured in their ability to navigate uncertainty, that diversification works, and that quality assets can perform even when macro conditions are less than ideal. These lessons will serve investors well as they position for 2026.

AI Adoption: From Build-Out to Monetisation

For nearly two years, the market narrative around Artificial Intelligence was dominated by capex announcements, architectural upgrades, and promises of efficiency gains. In 2026, the rhetoric shifts from "potential" to "delivery". This represents perhaps the most significant thematic evolution in equity markets since the advent of cloud computing.

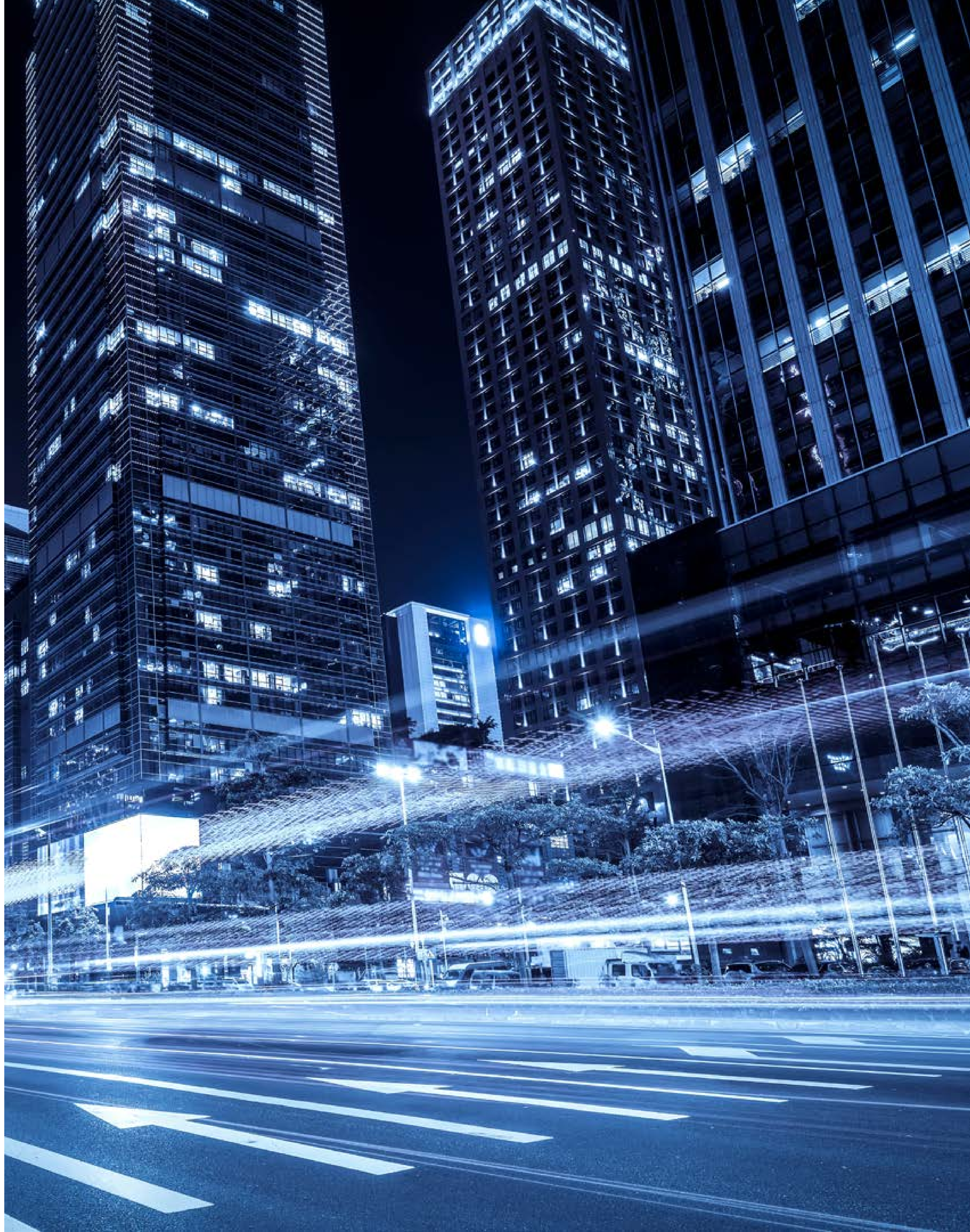
Enterprises across sectors are now integrating AI models into supply chains, customer acquisition, risk management, and product design. Semiconductor and cloud computing demand remain elevated, but the value chain is widening. Cybersecurity, automation software, and AI-driven analytics move to the forefront as beneficiaries of monetisation.

AI Adoption Timelines from Conceptualisation to Monetisation

Time Period	Phase	Outcomes
2022-2024	Infrastructure	Foundation building
2025	Integration	Entreprise adoption accelerates
2026 Onwards	Monetisation	Earnings impact to materialise

This transition marks a structural uplift in earnings visibility, not just in technology but across industries leveraging AI to reduce costs and enhance productivity. Healthcare providers are using AI for diagnostics and drug discovery. Financial institutions are deploying it for fraud detection and risk assessment. Retailers are optimising inventory and personalising customer experiences. Manufacturing firms are enhancing quality control and predictive maintenance.

The breadth of application is what makes this cycle different. Unlike previous technology waves that primarily benefitted a narrow set of enablers, AI monetisation is creating value across the entire economic spectrum. This broadening of beneficiaries is precisely what equity markets need to sustain a multi-year expansion.



Global Industrial Reacceleration

The industrial sector quietly staged a comeback in late 2025. Re-shoring, near-shoring, and supply-chain diversification—initiated in the wake of geopolitical realignments—are now resulting in real investment flows. This is not merely a cyclical upturn; it represents a structural shift in how global manufacturing and logistics networks are configured. We think some of these key themes in industrial sector will continue to drive growth.

Key Themes Driving Growth in Industrial Sector

Key Themes	Growth Drivers
Automation and Robotics	Replacing labour scarcity with capital intensity
Defense and Aerospace	Sustained government spending cycles
Infrastructure Materials	Accelerating public-private partnerships
Industrial Software	Digital twins and predictive systems

2026 may well be the strongest year for industrial capex since the mid-2000s, driven by both public and private sector commitments, automation, robotics, data centres, defense and aerospace. Government initiatives around infrastructure renewal, energy transition, and national security are converging with corporate strategies around supply chain resilience and automation.

The implications for equity investors are profound. Industrial stocks, long dismissed as low-growth value traps, are experiencing a fundamental revaluation as earnings power expands and return profiles improve.

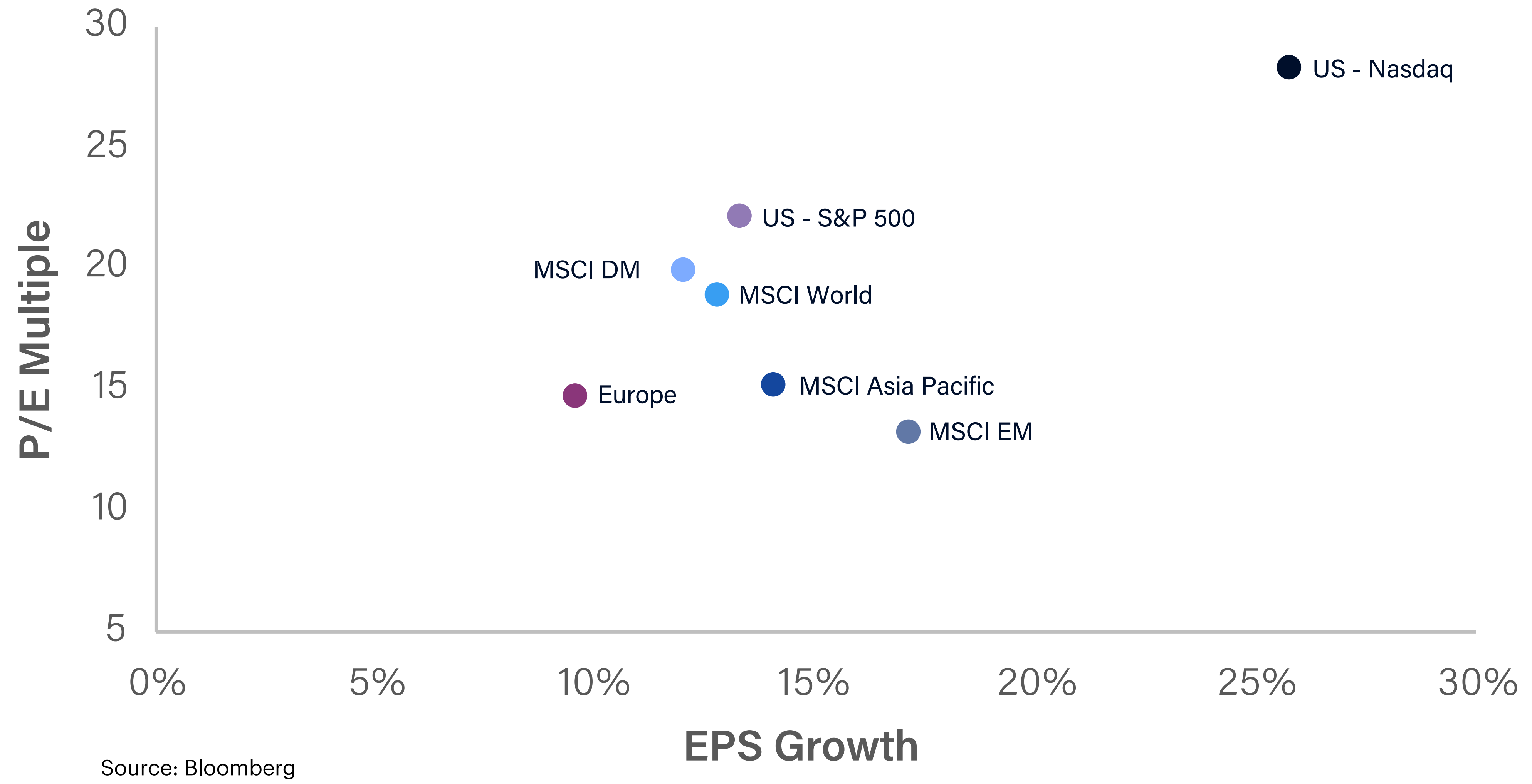
Valuation Dispersion: The Opportunity Set Expands

With tighter monetary conditions easing, global markets begin to price equities on fundamentals rather than liquidity-driven momentum. This creates a favourable environment for stock pickers, quality-growth strategies, and relative-value regional exposures. The U.S. maintains a valuation premium due to its superior profitability, but Europe, Japan, and emerging markets offer increasingly compelling entry points.

The dispersion in valuations reflects genuine differences in earnings quality, growth prospects, and risk profiles—but it also presents opportunities for investors willing to look beyond home bias and momentum. The key is identifying where valuation gaps are justified by fundamentals versus where they reflect excessive pessimism or outdated perceptions.

Active management comes back into its own in this environment. The rising tide that lifted all boats during the liquidity-fueled years is giving way to a market where security selection, sector allocation, and regional positioning determine success. This is precisely the environment that rewards analytical rigour and disciplined investment processes.

P/E Multiple vs. EPS Growth in 2026



Source: Bloomberg

US Market Outlook

The Productivity-Driven Growth Engine

The U.S. enters 2026 on strong footing, supported by healthy consumer spending, tight but stable labour markets, strong corporate capex, and productivity gains led by AI and automation. Earnings growth is expected to broaden meaningfully. While mega-cap tech remains influential, 2026 could mark the first year since 2019 when mid-caps and industrial names contribute a larger share of S&P 500 earnings growth. The main risks include fiscal tensions and election-related volatility, but neither is expected to derail the broader trajectory. The U.S. corporate sector has demonstrated remarkable adaptability, maintaining margins despite wage pressures and successfully passing through costs where necessary. Balance sheets are healthy, capital allocation has improved, and the focus on shareholder returns remains paramount.

From a positioning perspective, the U.S. market warrants a core overweight in global portfolios, but with greater attention to valuation discipline than in recent years. The days of indiscriminate buying are over; selectivity within the U.S. market will be as important as the regional allocation itself.

The Key Factors Expected to Drive US Market Performance in 2026

Time Period	Key Factors Expected to Drive Market Performance
Q1-2026	Policy easing to support investor sentiment
Q2-2026	Industrial capex cycle accelerates
Q3-2026	Earnings breath expands
Q4-2026	Market momentum consolidates

Asia Pacific Market Outlook

- **China: Stabilising, Not Reaccelerating**

  China's modest 2025 recovery gives way to cautious optimism. Targeted fiscal support, property-sector backstops, and incentives for advanced manufacturing stabilise growth, but structural headwinds remain pronounced: demographics, debt overhang, uneven consumer confidence, and complex geopolitical pressures.

  Valuations remain attractive, but the market requires selective and theme-driven exposure. Technology, electric vehicles, pharma and biotech, and renewable energy offer pockets of genuine opportunity, but investors must navigate regulatory uncertainty and competition dynamics carefully.

- **Japan: Structural Transformation**

  Japan continues to be one of the most compelling equity stories globally. Corporate reforms are real, governance is improving, and capital allocation is becoming more shareholder friendly. Steady domestic demand, rising wage growth, currency stability, and return-on-equity enhancements across sectors all support the investment thesis. Foreign inflows are expected to remain strong as Japan cements its role as a structural outperformer.

- **India**

  World-leading GDP growth and robust domestic demand make India the standout emerging market opportunity.

- **Indonesia**

  Supply-chain diversification and commodity stability support selective positioning.

- **Vietnam**

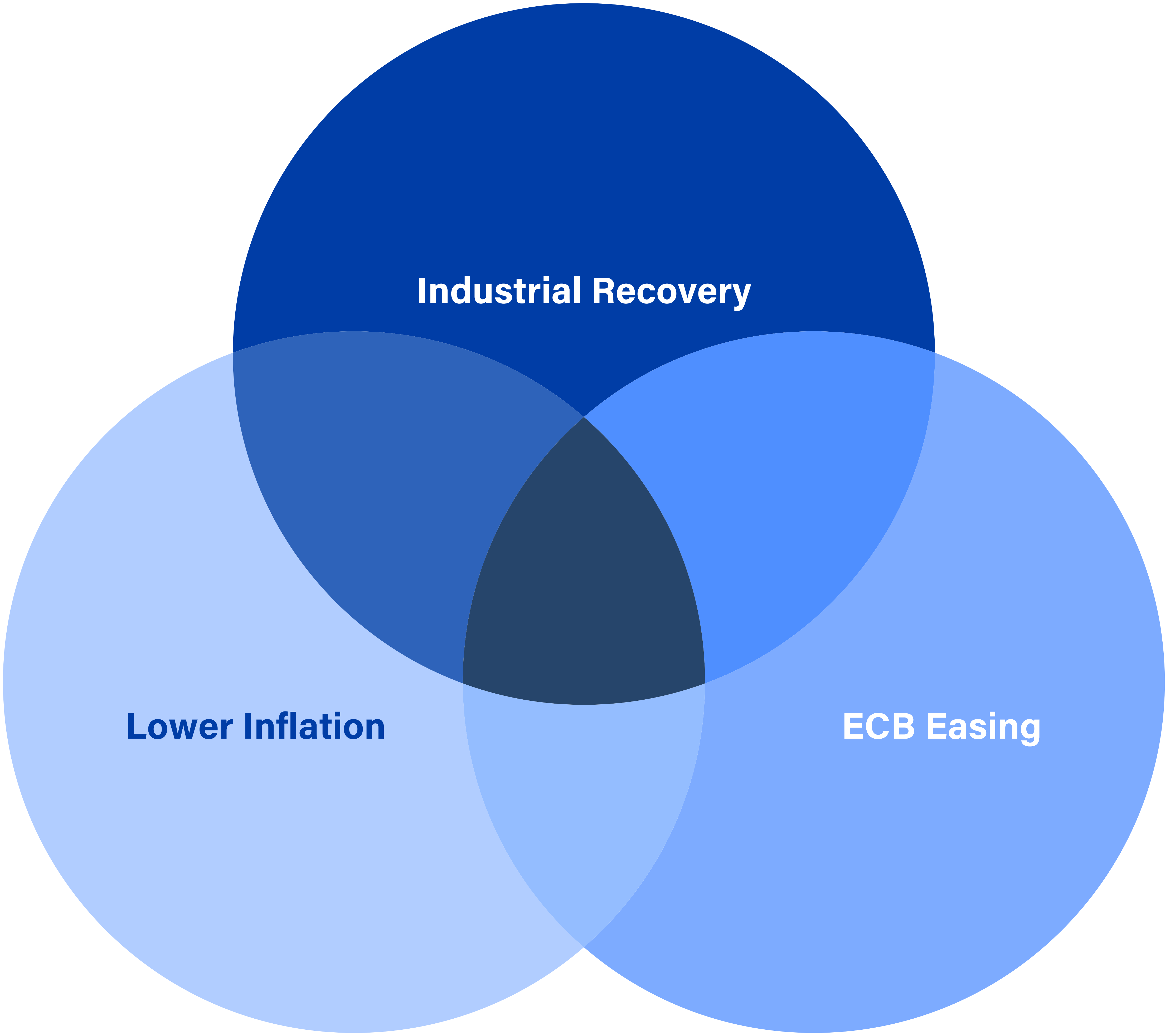
  Manufacturing hub benefitting from nearshoring trends and competitive labour costs.

European Market Outlook

Europe surprised many observers in 2025. Energy affordability, gradual industrial improvement, and stronger bank profitability all contributed to a more resilient earnings profile. In 2026, the region stands to benefit from lower inflation, gradual ECB easing, improving consumer sentiment, and inflows into industrial and luxury sectors.

Political fragmentation remains an overhang, but overall fundamentals are better than they have been in years. The key for investors is identifying companies with global revenue exposure, pricing power, and operational excellence—characteristics that allow them to transcend regional headwinds.

The Key Macro Theme Outcomes that are Driving Market Performance in Europe



Sector Outlook 2026: Strategic Positioning

- **Technology: Neutral to Selective Overweight.**

  AI monetisation will be one of the defining themes. The sector remains a leader, but valuations demand discipline. Focus on software, cybersecurity, and enabling infrastructure.

- **Industrials: Overweight.**

  Re-shoring, automation, and infrastructure spending make this one of the most durable cyclical trends. Favour automation, aerospace, and industrial software.

- **Financials: Slight Underweight.**

  Credit quality stabilises, but margins face continued pressure as rates fall. Select exposure to asset managers and insurance.

- **Healthcare: Neutral.**

  Glucagon-Like Peptide-1 (GLP-1) medicine for weight loss and diabetes its momentum continues; biotech improves, but pricing pressures limit upside. Focus on innovation and med-tech.

- **Energy: Underweight.**

  Oil remains range-bound; renewables accelerate but require selective positioning. Prefer integrated majors with transition strategies.

- **Consumer Discretionary: Neutral.**

  Premium consumers remain resilient; middle-income spending softens. Favour luxury, travel, and experiential consumption.

Valuations and Expected Returns from the US Market in 2026

Global equities enter 2026 with valuations that are neither cheap nor excessively stretched. The U.S. trades at roughly 22x forward earnings, supported by superior profitability. Europe, Japan, and emerging markets offer more favourable risk-reward profiles, particularly for long-term investors. The key shift is the broadening of earnings contribution beyond mega-caps, a healthy sign for the sustainability of the equity cycle. The S&P 500 earnings outlook shows consensus forecasts of USD 306 for 2026 and USD 342 for 2027.

S&P 500 Index is currently trading at P/E multiple of 25.7x, and 22x for 2026 earnings, as against its long-term average (five-year) multiple of 23.4x. Assuming P/E multiple in the range of 23.4x - 25.0x for 2026, it implies S&P 500 fair value between 7,160 – 7,650, giving 6.5% – 13.7% upside from the current levels of 6,728. Our fair value target is the midpoint of 7,160 - 7650 range at 7,400. These projections assume no major macro shocks, continued policy support, and successful AI monetisation.

Expected Fair Value of S&P 500 Index in 2026

Scenarios	S&P 500 FV Target	Upside Potential	Forward P/E Multiple
Bull Case	7,650	13.70%	25.0x
Base Case	**7,400**	**10.00%**	**24.2x**
Bear Case	7,160	6.50%	23.4x

Conclusion: A Year Defined by Realism

2026 is not expected to be a year of exuberant market expansion nor a year of recession-driven pessimism. Instead, it is a year defined by earnings reality, structural productivity, and a more level playing field across sectors and regions. The market leadership of the past decade—narrow, tech-dominated, and liquidity-powered—is giving way to a more balanced environment where quality matters more, valuation discipline is rewarded, and secular themes are monetised.

Fundamentals return to centre stage as earnings power and operational delivery replace narrative momentum. The geographic diversification becomes essential as no single region dominates; alpha comes from allocation. Valuation discipline is rewarded as paying fair prices for quality assets matters again. Secular themes are monetised with AI, industrial renewal, and energy transition deliver results.

Industrial and technological investment converge to create new growth vectors. The broadening of earnings beyond mega-cap technology is not a sign of weakness, it is a sign of maturity and sustainability. Markets that depend on a handful of stocks for performance are fragile; markets with broad participation are robust.

2026 marks the beginning of a more sustainable, earnings-anchored chapter for global equities, one in which fundamentals return to centre stage, and disciplined investors stand to benefit the most. The opportunity set is rich, the macro backdrop is supportive, and the structural trends are compelling. Success will require analytical rigour, strategic patience, and the wisdom to distinguish between genuine value creation and ephemeral narratives.

Oliver Kettlewell - Executive Director, Fixed Income Management

Global Fixed Income

Expect Another Year of Gains for Bonds

The fixed income market is expected to remain attractive in 2026, with solid returns anticipated through coupon income rather than price appreciation. The yield curve is likely to remain steep due to the expected increase in supply in government, municipal, and corporate bonds. Central banks bias towards easing creating a favourable backdrop for bond investors.

All the Stars Aligned for Last Year's Returns

Emerging market (EM) bonds saw impressive gains last year, thanks to moderate growth and inflation, amid the backdrop of a rate-cutting Federal Reserve. The Bloomberg EM Hard Currency Index posted returns over 10%—its first double-digit performance in the 2020s and the best return since 2019.

High Yield (HY) bonds outperformed Investment Grade (IG), as speculative-grade credit benefitted from the dovish Fed, declining oil prices, and a weaker dollar. Latin America led the regional pack, outpacing Europe, the Middle East, Africa, and Asia. Argentina's government bonds were the top performer, surging following market-friendly policies from its Trump-backed President Milei.

EM Bond Returns: 2025 Posted the Best Year so Far in the 2020s

Year	2020	2021	2022	2023	2024	2025
Return	6.5%	-1.7%	-15.3%	9.1%	6.6%	10.3%

Why are Bond Returns Forecast to Decline in 2026?

Compared to last year, bonds face less favourable conditions going into 2026. Using the Bloomberg EM Hard Currency Index as a reference, several key factors suggest returns will be lower:

- **Yields**

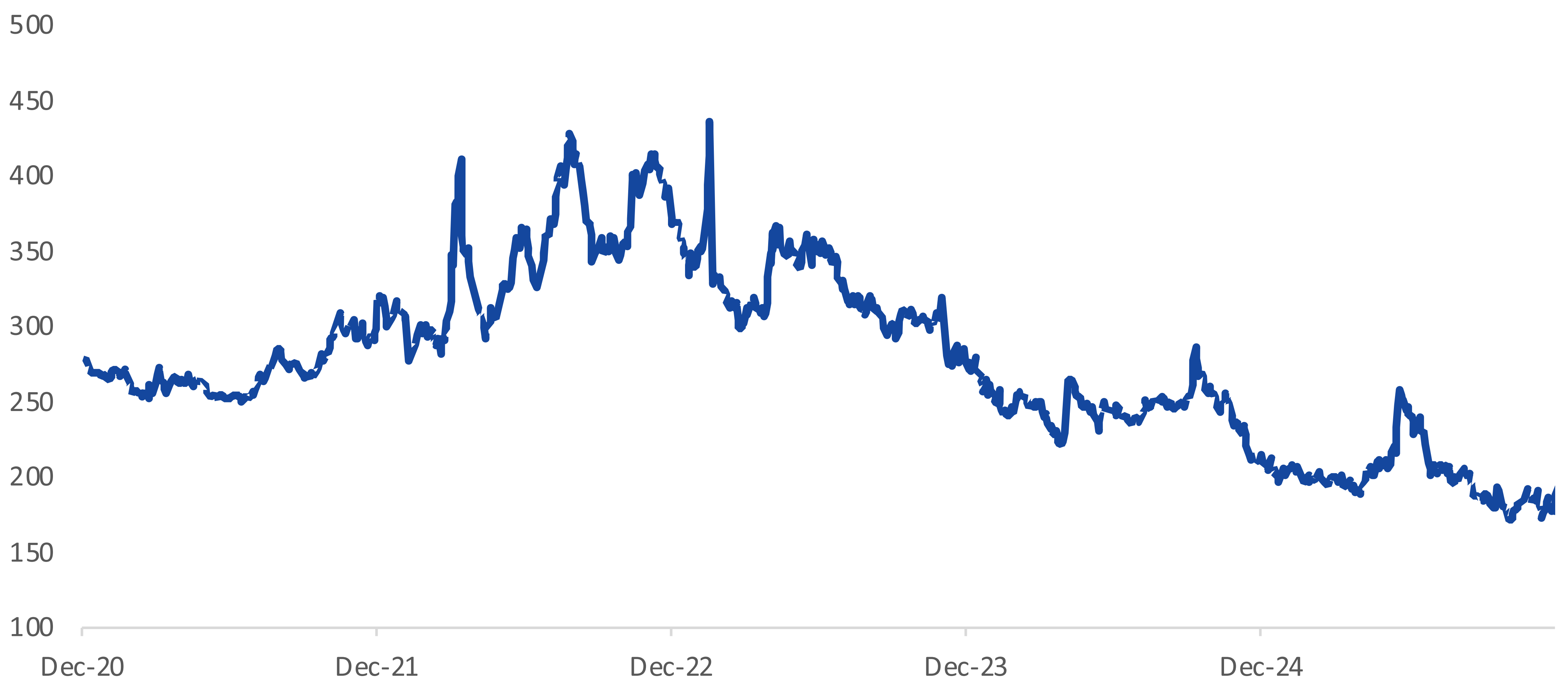
  Yields at the start of 2026 are lower, with the index yielding 5.7% compared to last year's 6.7%. Since yields generally indicate expected returns, this one percentage point drop signals potentially smaller gains.

- **Spreads**

  Spreads are at historic lows, starting the year at just 180 basis points (bps) versus a long-term average of 500 bps. Granted, the emerging market bond universe has matured since the index was established in the year 2000 resulting in a less risky asset class than 25 years ago. But even over a more up-to-date timeframe of five years, spreads are 300 bps.

  Accordingly, bond spreads of 180 bps appear relatively unattractive from a valuation perspective for 2026, and further spread compression is unlikely. In fact, widening could negatively impact bond returns in 2026.

Tighter Spreads: Spreads are at record lows of 180 basis points



Source: Bloomberg

- **Rates**

  The interest-rate environment may be less supportive. Last year, the Federal Reserve cut rates by 75 basis points, fueling bond returns in the second half of the year. For 2026, projections indicate only a single 25-point cut. While a new, dovish Fed Chair could favor more cuts, the committee-based decision process makes substantial easing unlikely, especially given sticky inflation.

  Rate reductions are likely to lower short-term yields, whereas persistent inflation may keep long-term yields elevated, so the overall effect on bonds is not necessarily positive. ***With these factors combined—lower yields, tighter spreads, and more neutral monetary policy—mid-single-digit returns seem likely for 2026.***

- **Bond Coupons vs Bank Deposits**

  Although forecasting bond returns can be tricky, bond coupons are a steady source of income, and 2026 looks promising: average coupons stand at 5.2%, compared to just 3% for bank deposits. This creates a sizable 2.2% yield advantage over deposits, much higher than last year's difference of 1%, when deposit rates of 4% could still compete with coupons of 5%. In 2026, bond coupons offer a clear income advantage over bank deposits.

Conclusion

We concluded last year's global bond outlook by urging clients not to wait for bad news to clear up before investing in bonds. Last year we wrote "Do not be deterred by the potential new inflection points, such as Trump tariffs, trade wars, military wars, etc." The same holds true for 2026: do not be deterred by the potential new inflection points, such as Trump's puppet Fed Chairman, EM elections, or the many geopolitical events that are always on the horizon. The lofty double-digit returns of last year are unlikely due to the terribly tight spreads and a new-look Fed. But to counter these headwinds, the strong tailwind of high coupon income gives bonds a good chance of delivering historically ***normal mid-single-digit returns in 2026.***

Neal Lindsay - Managing Director, Head of Global Real Estate Finance
Andreas Costa - Managing Director & Head of International Real Estate Finance

Global Real Estate Outlook 2026

Diversification vs Returns

After a stop-start 2025, the global Commercial real estate market enters 2026 with cautious optimism, sentiment indicators and direct investment volumes point to gradual normalisation. Across major developed markets, central banks have begun easing policy, narrowing bid–ask spreads and improving financing conditions for high-quality assets. Leasing activity is rising in select sectors and regions. These global trends set the stage for how capital costs and investment strategies are evolving as we move into 2026.

As we approach the end of 2025, we find ourselves asking a very similar question to the one we posed this time last year. That question remains: Is the recovery in global commercial real estate investment now firmly, and confidently, reestablished? And for UAE based real estate investors does the perceived diversification benefits of mature market investing trump the simple fact that the UAE real estate market has continued to relatively outperform its emerging market and mature market peers? The answer is nuanced and requires a holistic view of both global and local dynamics.

Global Commercial Real Estate Backdrop: Recovery Is Uneven But Improving

After a stop-start 2025, the global CRE market enters 2026 with cautious optimism. The pause in recovery was driven by persistent macroeconomic volatility, tariff and trade policy shifts, and higher-for-longer borrowing costs that complicated price discovery. Even so, sentiment indicators and direct investment volumes point to gradual normalisation. Across major developed markets, central banks have begun easing policy, narrowing bid–ask spreads and improving financing conditions for high-quality assets. Leasing activity is rising in select sectors and regions, particularly where supply is constrained and secular demand drivers such as digital infrastructure, logistics, and essential-service retail, remain intact. These global trends set the stage for how capital costs and investment strategies are evolving as we move into 2026.

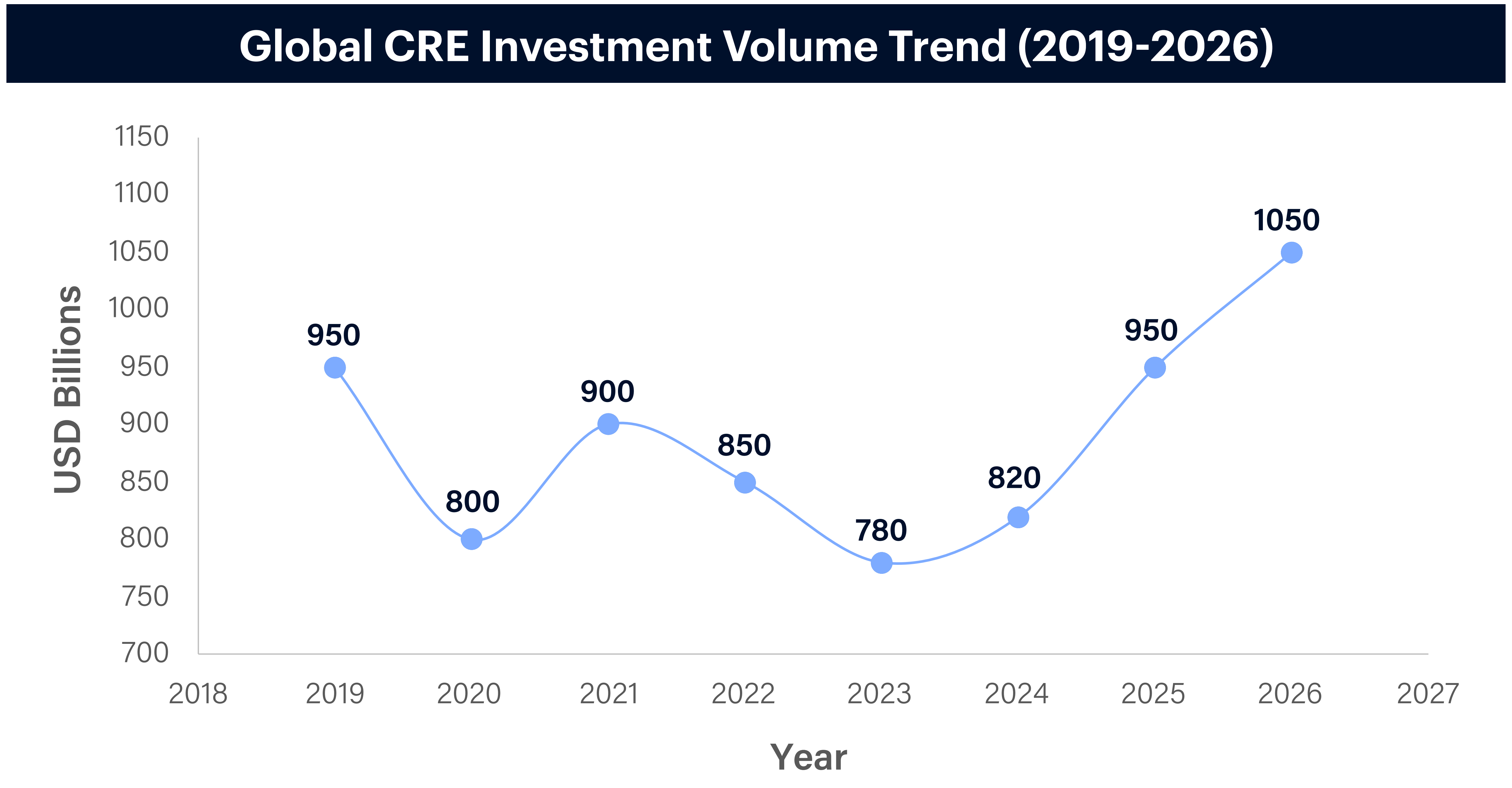


Figure1: Global Commercial Real Estate (CRE) Investment Volume Trend (2019–2026)

Cost of Capital: Rates Ease, but Pricing Discipline Persists

Rate cuts in late 2024 and 2025 have improved deal economics, yet CRE remains sensitive to the spread between unlevered rental yields (cap rates) and the cost of debt. Long-end yields are still elevated versus the prior decade, keeping underwriting conservative and pushing investors toward higher operating efficiency rather than relying on cap-rate compression alone. Refinancing walls are being managed through extensions, amortisation adjustments, and wider use of alternative capital, private credit, debt funds, and separate accounts to bridge selective gaps left by bank lenders. Structurally, value-add business plans and adaptive reuse strategies have moved to the fore, especially in office and mixed-use, where ESG upgrades and amenity refreshes are prerequisites for rent defensibility. As capital structures evolve, strategic partnerships are becoming increasingly important in navigating this complex environment.

Strategic Partnerships and Capital Structures

In response to higher capital costs and increased complexity, investors are placing greater emphasis on strategic partnerships and collaborative investment structures. Joint ventures, co-investments, and club deals are becoming increasingly common as market participants seek to share risk, access specialised expertise, and enter new sectors. This trend is particularly evident in capital-intensive and operationally complex asset classes such as data centres, life sciences, and large-scale mixed-use developments.

These partnerships enable investors to blend different forms of capital across the stack, combining senior debt, preferred equity, and common equity to optimise risk-adjusted returns. Sovereign wealth funds, pension plans, and insurance capital are increasingly partnering with experienced local operators to deploy capital efficiently while managing execution risk. This evolution reflects the growing importance of diversification not only across asset classes and regions, but across investment structures themselves. With capital and partnerships in focus, debt markets and refinancing risks are now at the forefront of investor concerns.

Debt Markets and Refinancing

Debt markets sit at the center of the 2026 outlook. A substantial volume of legacy loans originated during the low-rate period of 2018 to 2021 are now approaching maturity in a far higher interest rate environment. Over $1.7 trillion in U.S. commercial mortgages come due by 2026, while Europe faces similarly concentrated refinancing exposure in markets such as Germany, France, and the United Kingdom. These loans often face refinancing gaps due to lower asset values and reduced leverage availability. These financial pressures are playing out differently across sectors, each with its own recovery trajectory.

Sector Views: A Corrugated Recovery

While alternatives are increasingly becoming part of the real estate investing narrative, the vast majority of invested capital continues to be directed towards the traditional sectors, each of which has its own story. That said one perspective they all share is that cap rate compression from current levels is anticipated in the next 12 months, suggesting a more attractive investment market in 2026. While these sectoral trends are global, regional differences across the major cities are increasingly shaping investor strategies as they each have their own recovery trajectory.

Forcasted Cap Rates by Sector

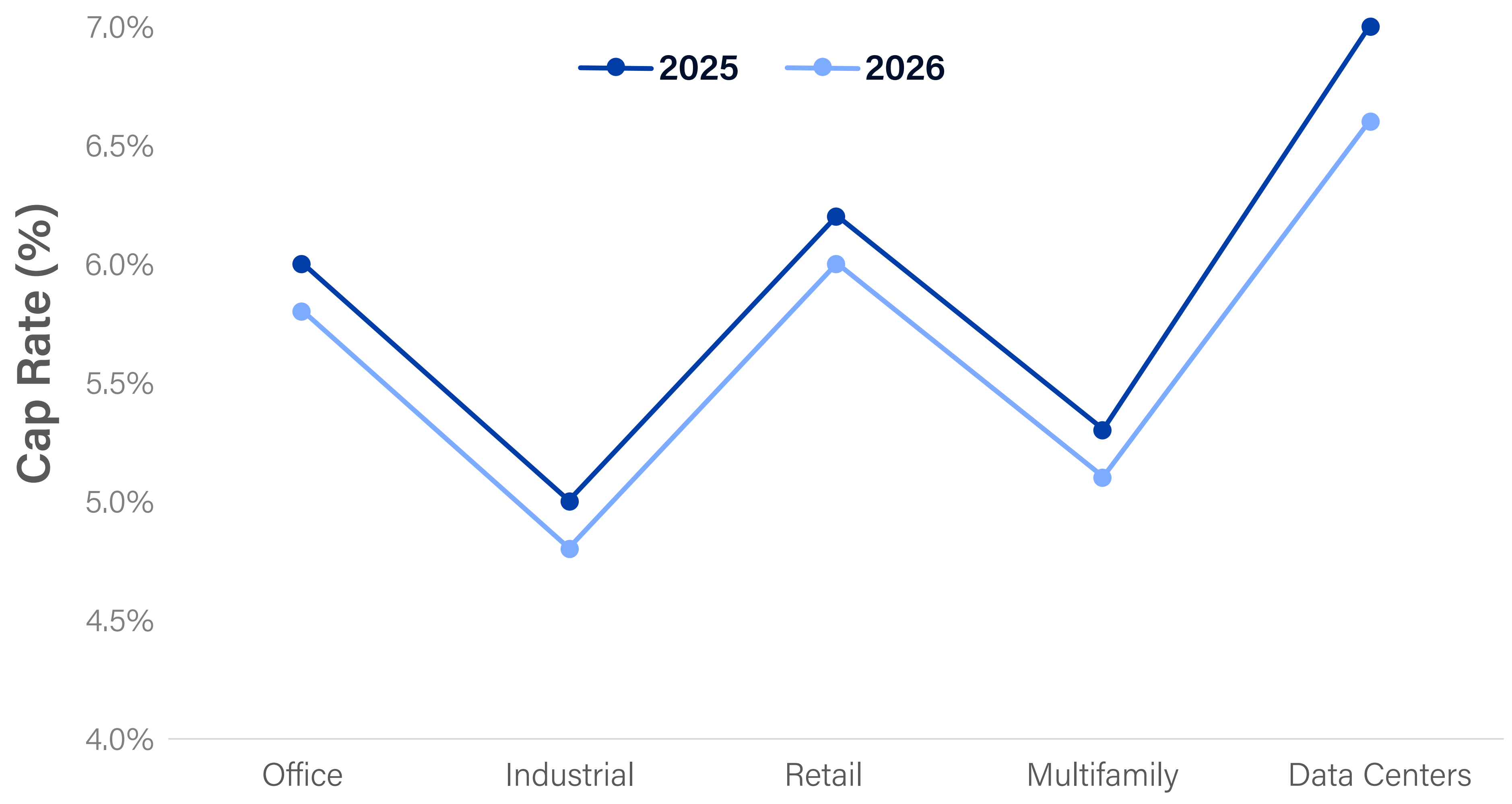
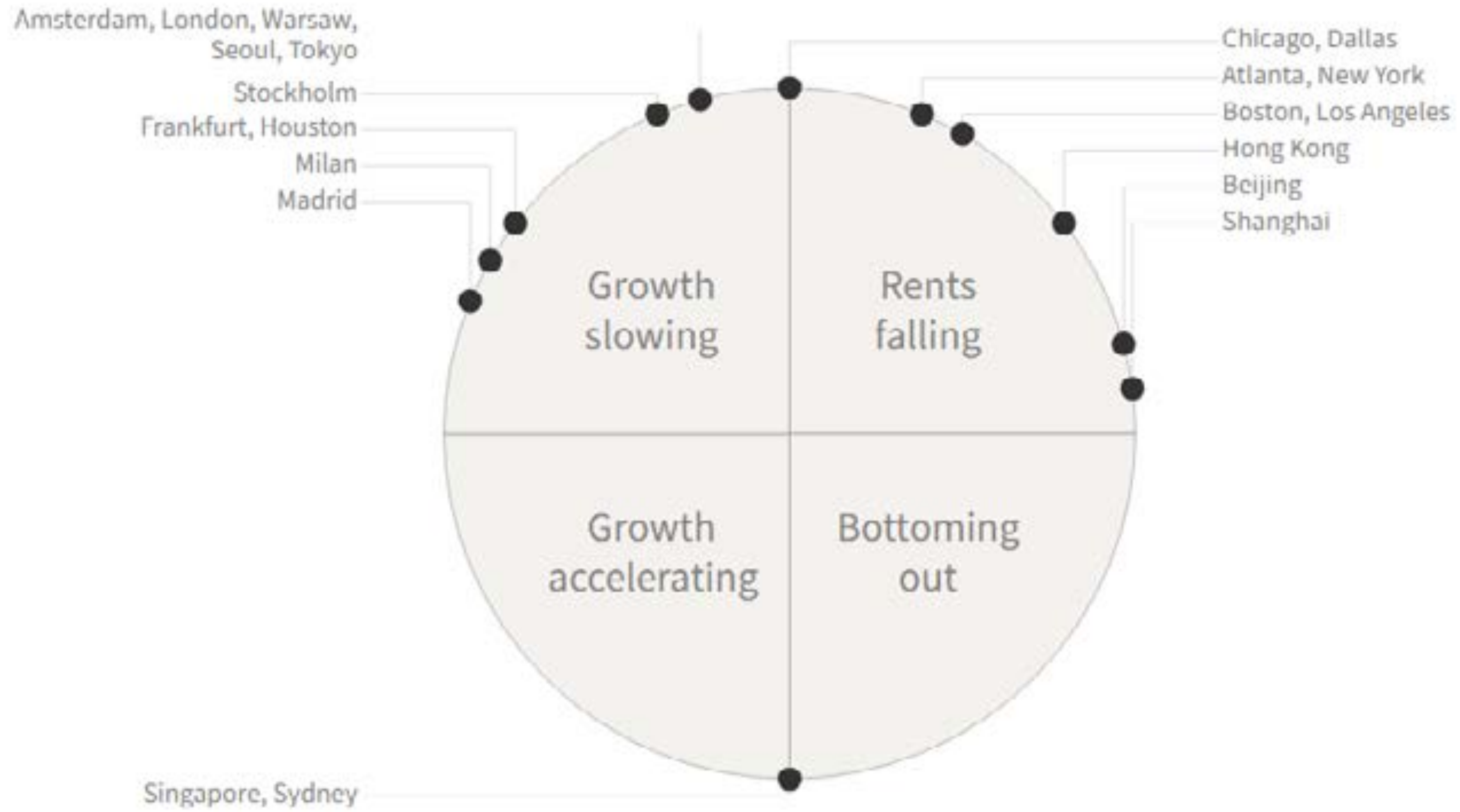
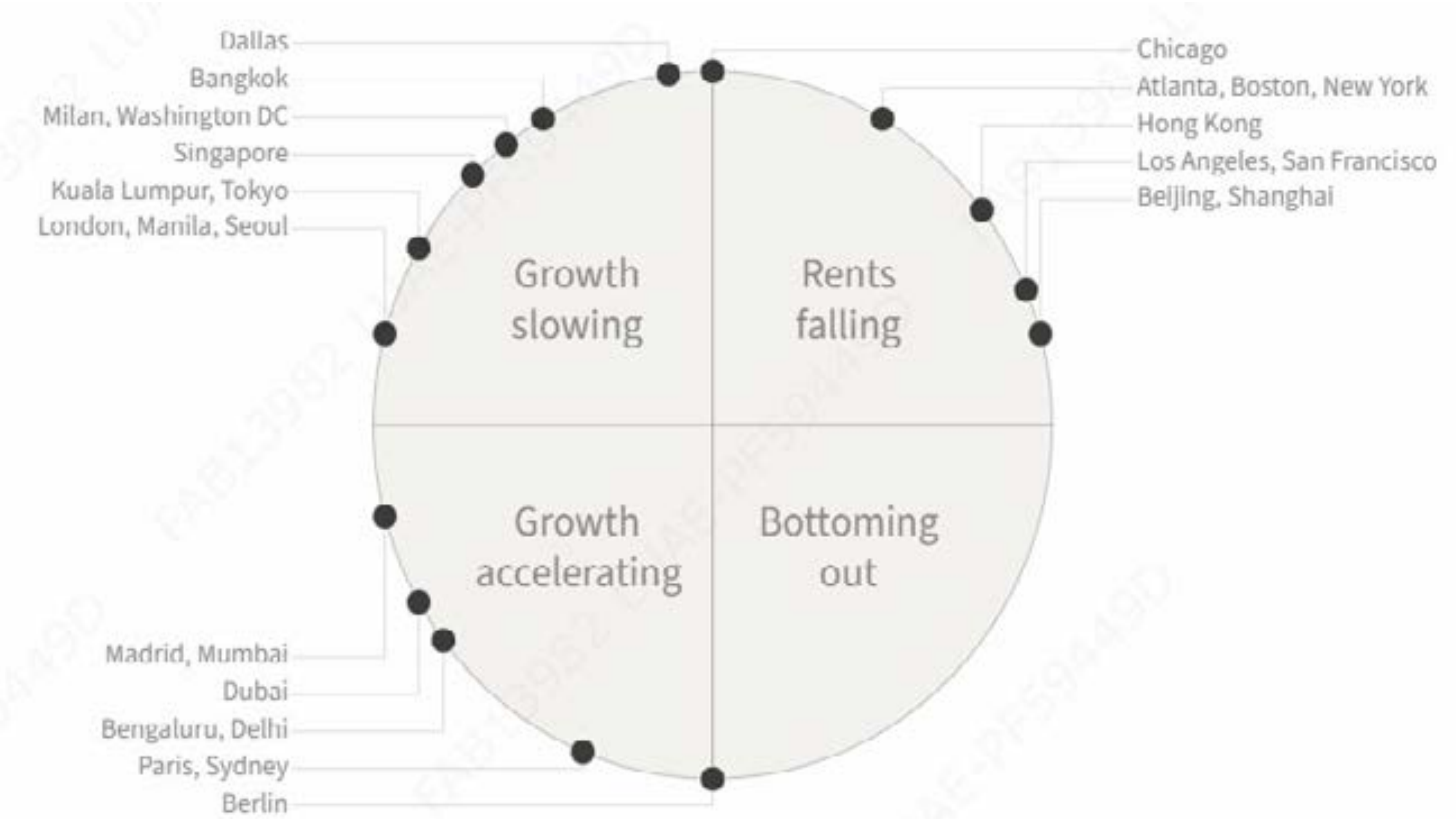


Figure 2: Forcasted Cap Rates by Sector (2025 vs 2026) - illustrative.

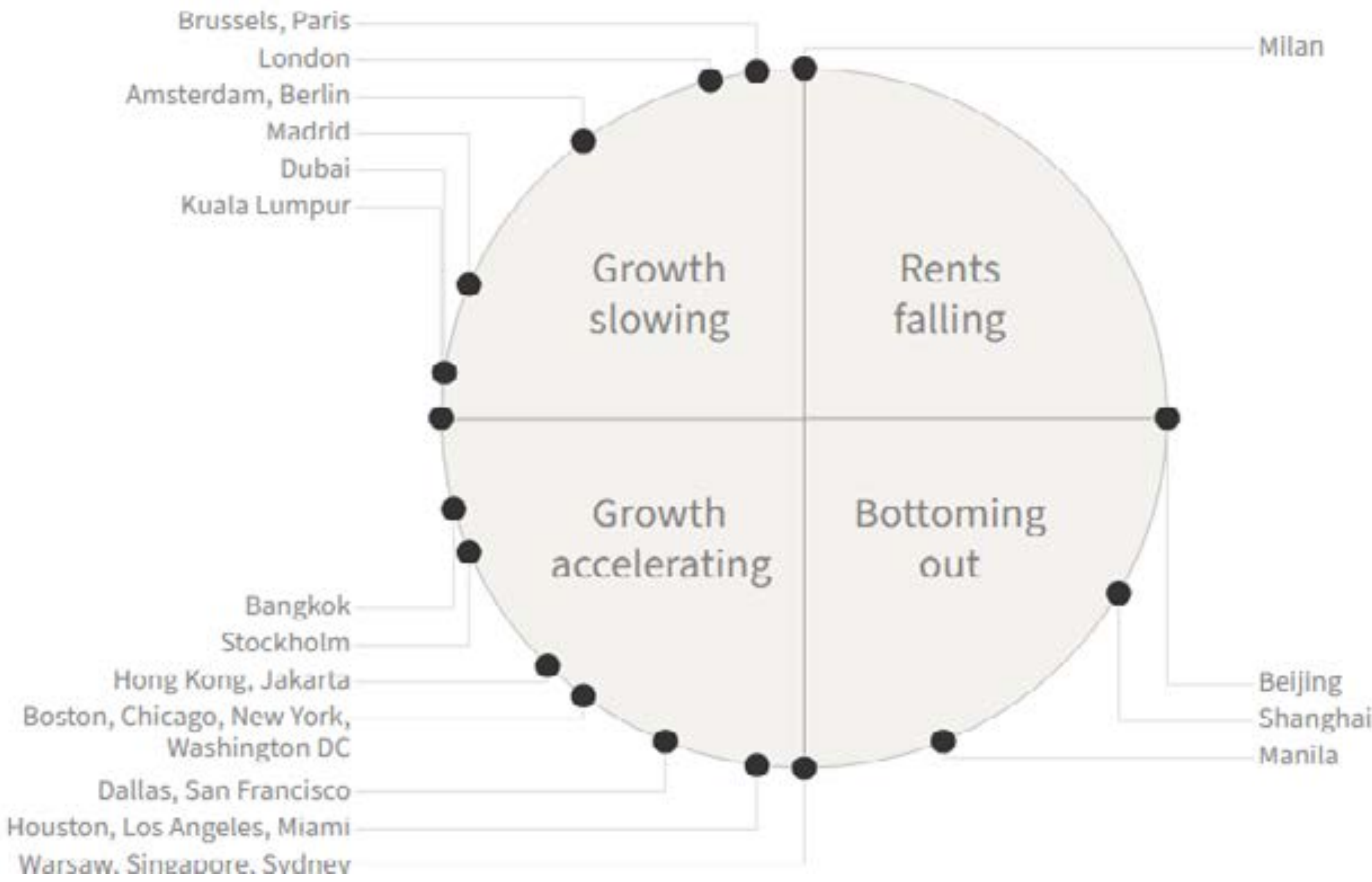
Industrial Sector



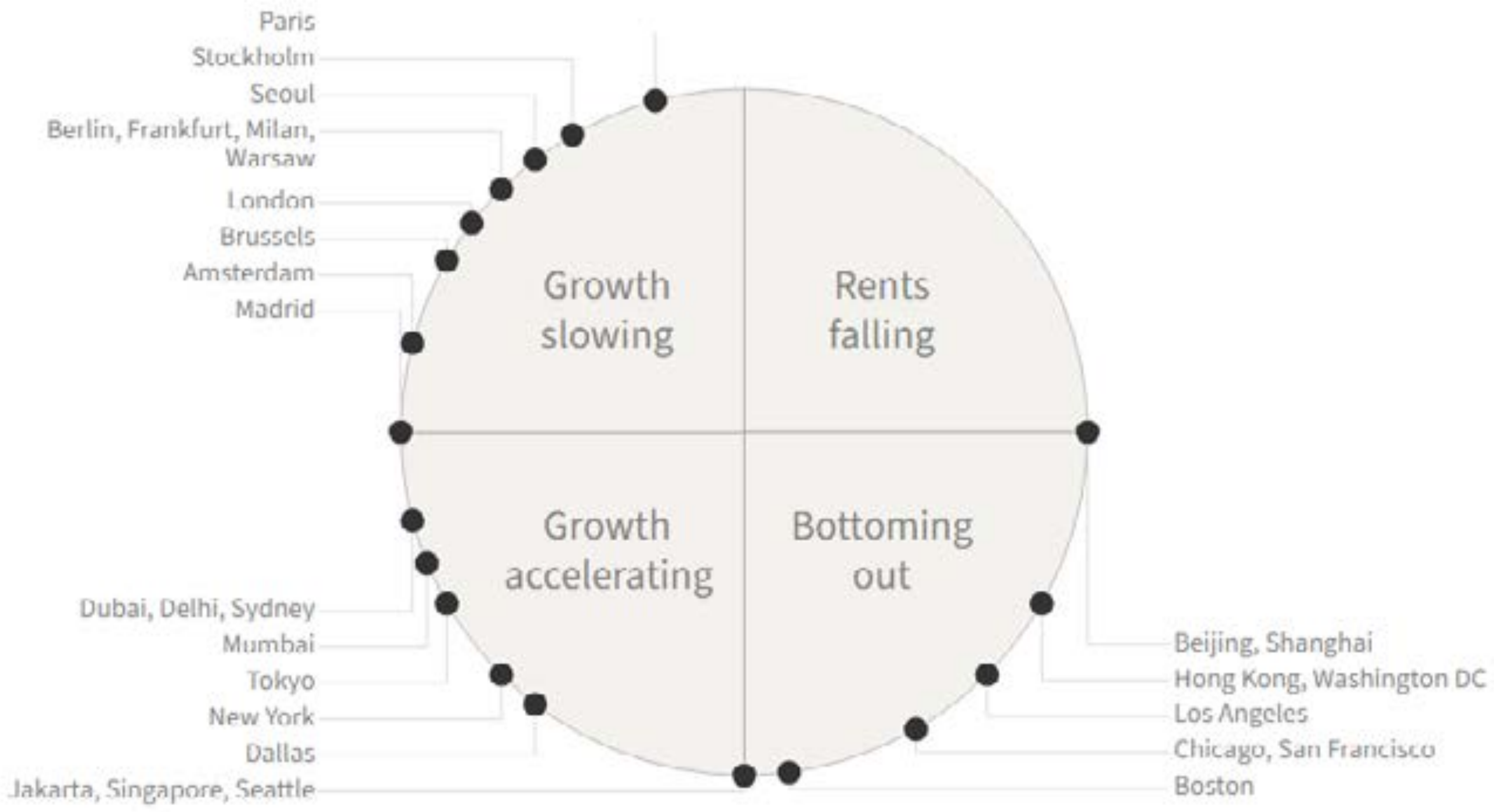
Retail Sector



Living Sector



Office Sector



Industrial & Logistics: The global bellwether. E-commerce, supply-chain rerouting, and selective reshoring continue to support demand for modern, well-located assets. Vacancy generally sits below pre-pandemic averages in core hubs, and rental growth persists where land and power are tight.

Living: Resilient amid structural housing shortages and affordability constraints. Rent growth has normalised from post-pandemic peaks, but institutional appetite remains firm, particularly for build-to-rent, single-family rental, and student housing.

Retail: Stabilised in prime formats. Grocery-anchored centres and curated experiential retail continue to perform, with new development restrained by costs and risk pricing. Portfolio curation, right-sizing, energy retrofits, and merchandising remains central to NOI (Net Operating Income) improvement.

Office: Bifurcated. Prime, amenity-rich, ESG-compliant assets in core submarkets are winning leasing, supported by clearer hybrid work patterns and return-to-office mandates. Secondary stock faces obsolescence risk unless repositioned. Capital is available for strong sponsorship with credible upgrade plans and demonstrable tenant demand.

Alternatives: No Longer Peripheral is the Overarching

AI is transforming data centres into a core global asset class. Growth in 2026 is highly regionalised. In North America, hyperscalers dominate, with cap rates at 4.5–5.75% and development yields 150–250 bps higher.

President Trump recently wrapped up State visits to Saudi Arabia, Qatar, and the UAE, which all have pledged a combined $2.8 trillion in deals spanning from AI, aviation, defense, and energy. Europe faces power and zoning constraints, sustaining pricing resilience with cap rates at 4.75–6.25% and development yields 7–8.5%.

Asia-Pacific shows strong growth, led by Singapore, Tokyo, and Sydney, with cap rates as low as 4.25–5.25% in Singapore and up to 6.5% in Japan/Australia.

Regional Perspectives: EMEA, APAC, and the Americas

Investor motivations are shifting accordingly. Inflation-protected cashflow, portfolio diversification, income stability, and tax efficiency are cited as leading reasons for renewed allocations into real estate. This aligns with rising transaction volumes across regions. The Americas saw a strong rebound in property sales, Asia-Pacific recovered sharply after a weak start to 2025, and Europe continued to lag but showed signs of bottoming in the UK and portions of the Nordics. Savills reported that the most attractive destinations for cross-border capital include the United States, Canada, Dubai, Singapore, Sydney, Tokyo, and select Indian cities, with this trend projected to accelerate in 2026.

Regional Capital Flows (2026 Forecast)

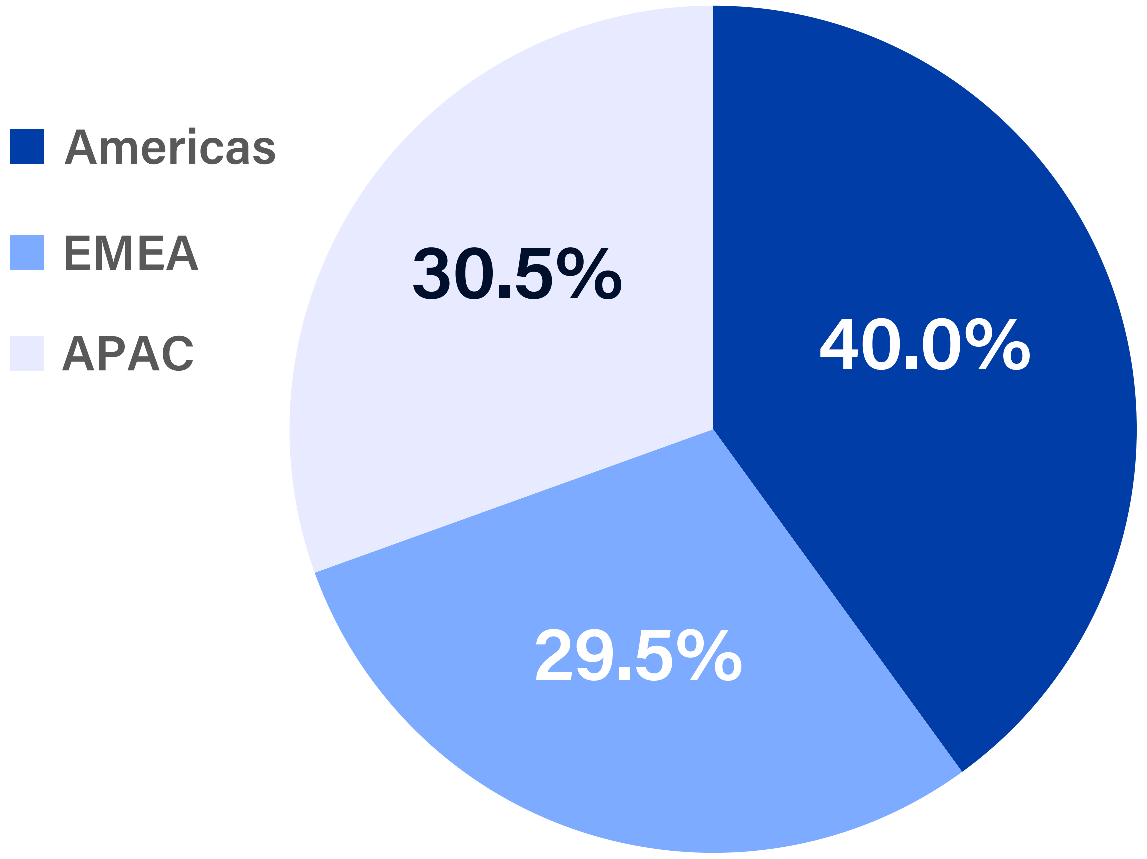


Figure 3: Regional Capital Flows (2026 forecast split) - indicative

EMEA: Investor confidence is strengthening as allocations rebalance toward Europe. Large office transactions are returning in tier-one and tier-two cities where repositioning and sustainability upgrades are central to business plans. Industrial and logistics remain robust in Germany, the Netherlands, and the UK, while Purpose-Built Student Accommodation (PBSA) continues to institutionalise.

Asia-Pacific: Cross-border activity is accelerating as capital seeks diversification and tech-linked growth. Logistics and data center platforms lead, supported by policy clarity and improving liquidity conditions. Select markets benefit from relatively lower financing costs and a predictable regulatory environment.

Americas: A nuanced picture. Industrial and living sectors are resilient; prime retail is steady; office is stabilising unevenly, with suburban and top-CBD properties showing the clearest path to rent defensibility. Private credit is playing an increasingly important role in bridging complex capital stacks.

Regardless of geography, one key thematic is to favour income and operational excellence: With cap-rate compression, anticipated but less certain, returns are driven by NOI growth and disciplined cost control. Favoring assets linked to secular demand—logistics, data centres, living, and markets where development supply is structurally constrained remains a focus for many investors. Against this global backdrop, the Middle East, and the UAE in particular stands out for its resilience and growth.

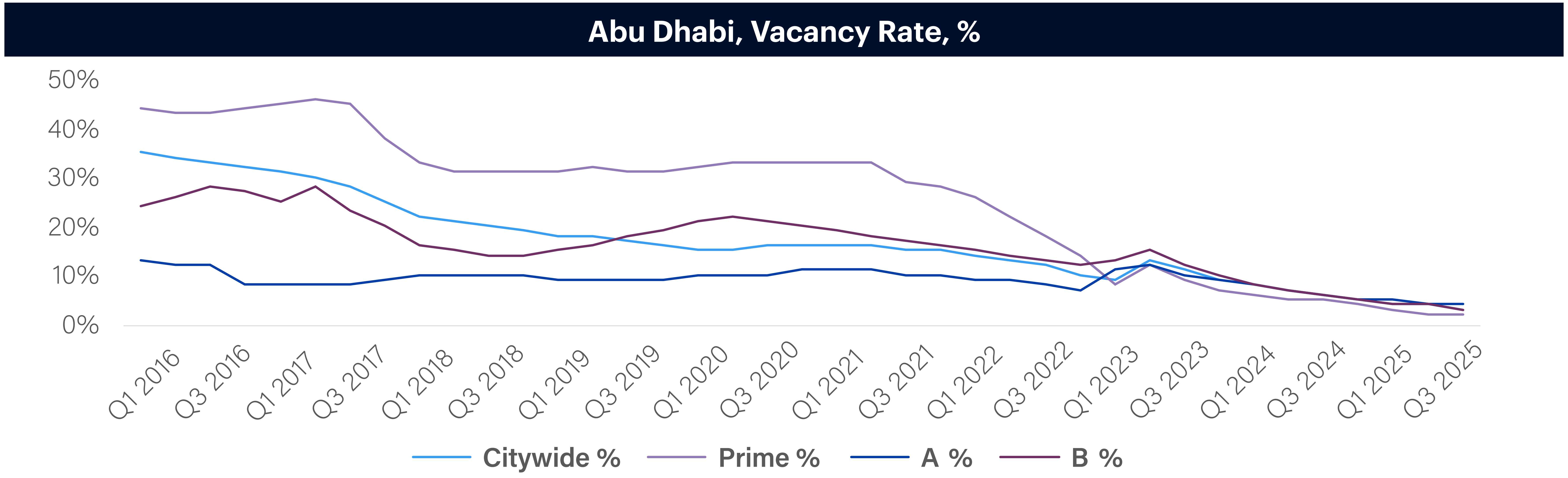
GCC and UAE in Context

The Middle East, particularly the UAE, continues to serve as one of the world's most liquid and dynamic CRE markets. Supported by sovereign wealth funds, diversified development pipelines, and strategic tourism initiatives, the region remains largely insulated from the refinancing stress observed in Western markets. Dubai experiences record demand for Grade A office space and residential sector, hospitality, logistics, and mixed-use developments are particularly strong beneficiaries of economic diversification. Data Centres in the region have also experienced increased demand with the most recent and largest investment by the UAE's MGX and Open AI when they announced the stargate AI campus, one of the largest Data Centre Campuses in the world in collaboration with NVIDIA, Oracle, and SoftBank.

The UAE enters 2026 from a position of relative strength compared to the global average. Benefitting from policy stability, diversification initiatives, and strong tourism and FDI inflows, both Abu Dhabi and Dubai exhibit tight prime office markets, accelerating logistics hubs, landlord-favoured prime retail, and above-trend hospitality KPIs. The following outlines the key differences and implications for financing and investment.

UAE Offices: Tightness in Prime Versus Global Bifurcation

Globally, office demand is bifurcated: modern, amenity-rich, ESG-compliant assets in core submarkets are winning, while secondary assets struggle without substantial capex. In contrast, the UAE's prime office segment is exceptionally tight. Abu Dhabi's ADGM/Maryah/Reem corridor and Dubai's DIFC/DMCC/d3 nodes report near-full occupancies, materially higher effective rents for fitted Grade A space, and robust pre-leasing for upcoming supply. Tenant affordability has become the key watch-point, but the depth of occupier demand, regional corporates, global financial services, and tech/fintech, continues to support pricing power. For lenders, this translates to lower leasing risk, provided forward rent growth is tempered and fit-out/ESG capex is provisioned; for equity, value-add business plans should focus on high-spec upgrades, floor plate flexibility, and energy performance.



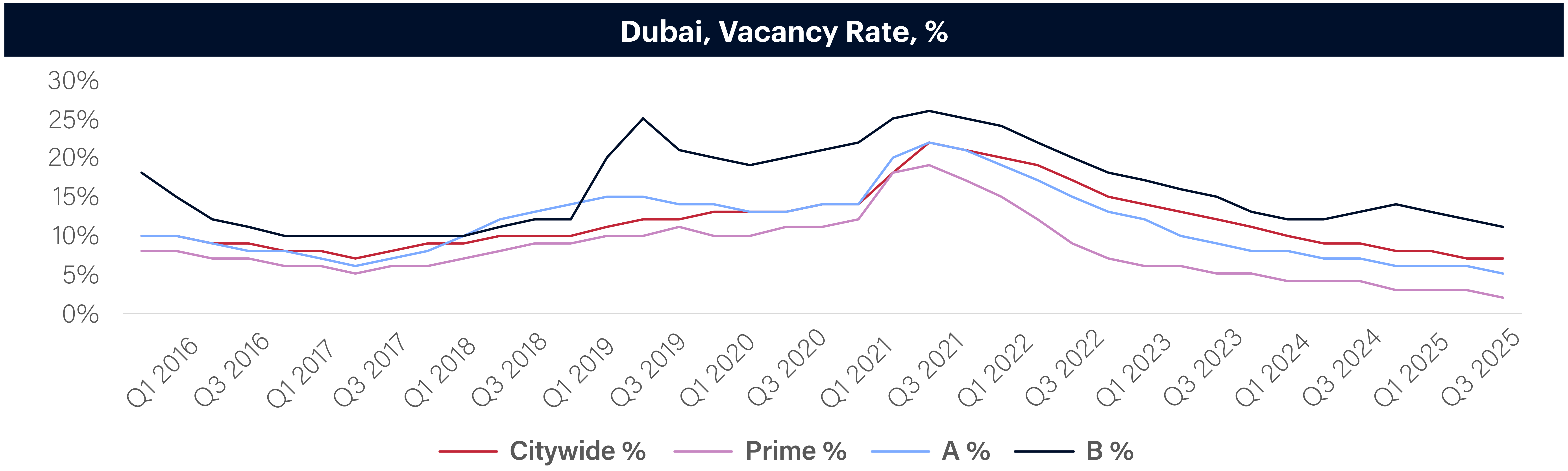
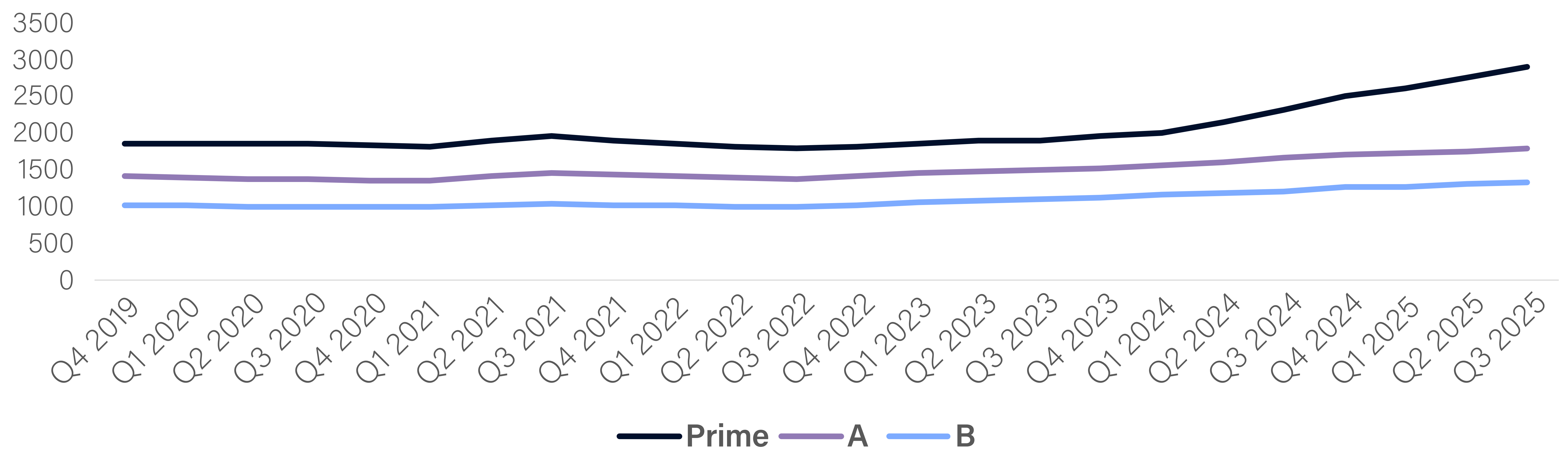
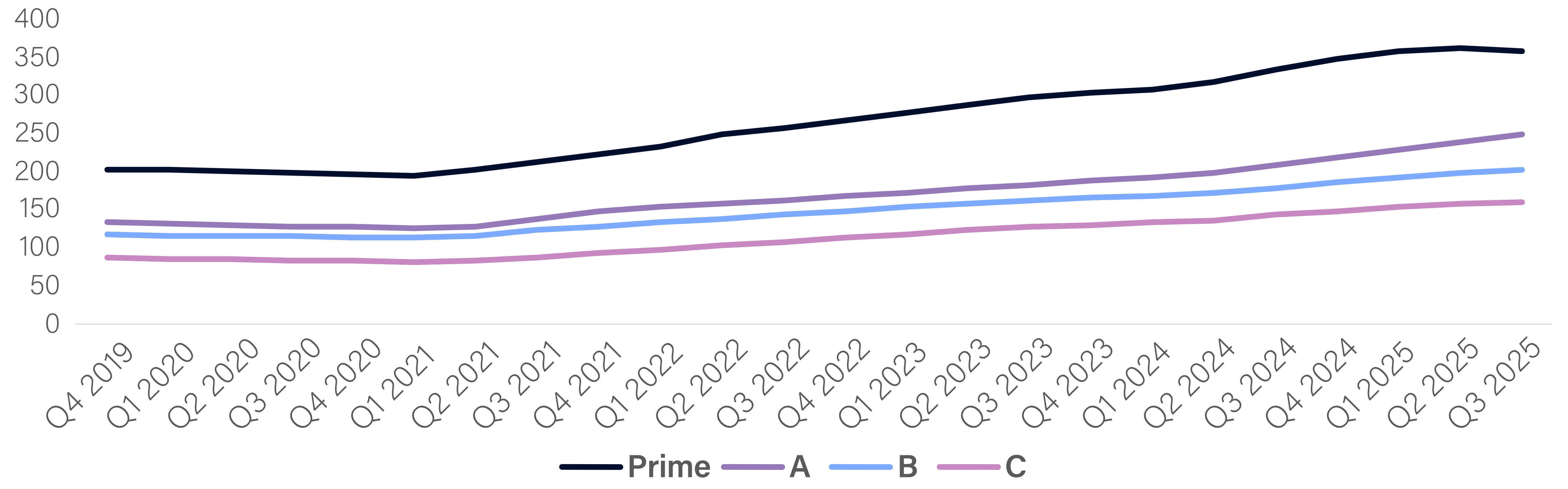


Figure 4: UAE Office vacancy & prime rent (Abu Dhabi vs Dubai) - indicative

Abu Dhabi, AED/Sq. M, By Grade (JLL Research, 2025)

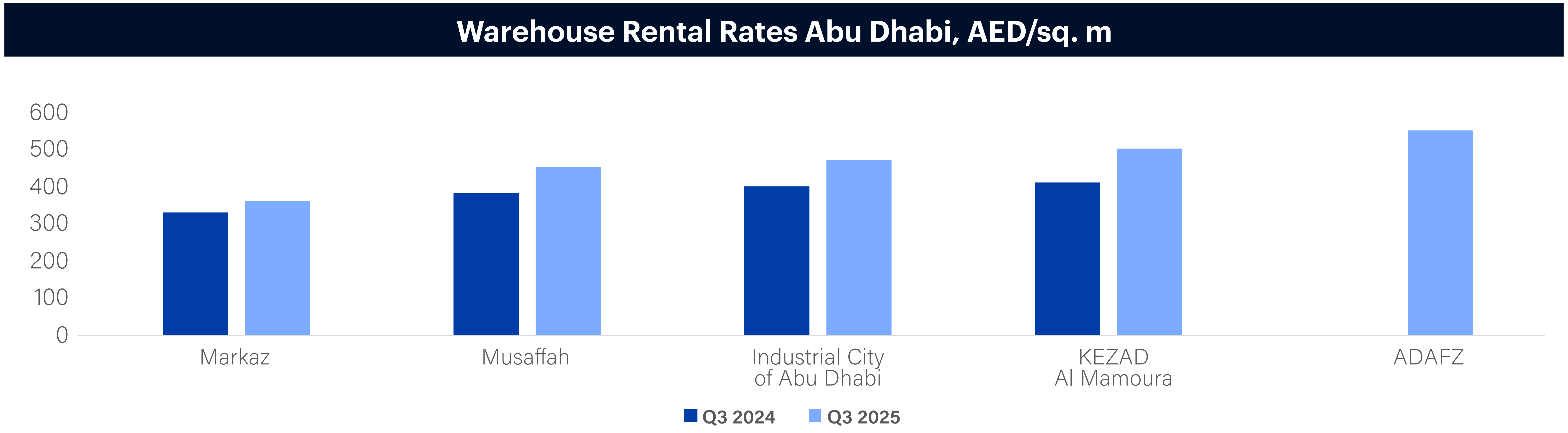


Dubai, AED/Sq. M, By Grade (JLL Research, 2025)



UAE Industrial & Logistics: Outperformance and Pre-Leasing

Industrial and logistics in the UAE are outpacing global peers. Grade-A occupancy routinely sits in the mid-90s, with double-digit rent growth recorded over the past year in prime Dubai and Abu Dhabi submarkets. KEZAD, Dubai South, National Industries Park, and airport/free-zone locations benefit from multimodal connectivity (ports, airports, and rail), deepening occupier commitment. Limited stock in core locations has driven pre-leasing and build-to-suit activity, while affordability-seeking occupiers explore Northern Emirates for spillover capacity. Financing strategies should favour longer tenor, CPI-linked escalations, power-secured diligence (especially for cold chain and light manufacturing), and covenants tied to sustainability/ESG targets.



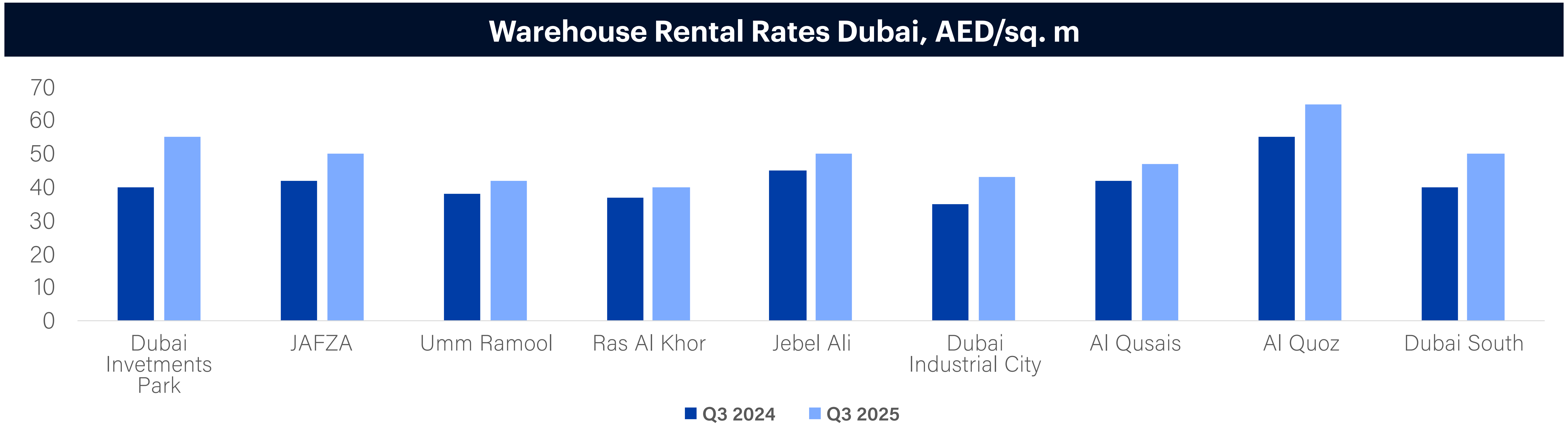


Figure 5: UAE logistics rent change - indicative

UAE Retail: Prime Malls Retain Pricing Power

UAE retail, particularly super-regional malls and top-tier community centres, remains landlord-favoured. Strong footfall, elevated turnover for high-performing tenants, and limited immediately occupiable prime space reinforce rental growth. The opportunity set is concentrated in renovation and experiential capex: tenant-mix enhancements, F&B and entertainment anchors, and energy retrofits (lighting, HVAC, solar integrations) that boost NOI and valuation resilience. Debt packages should incorporate capex draws for these upgrades and link pricing to measurable energy performance improvements.

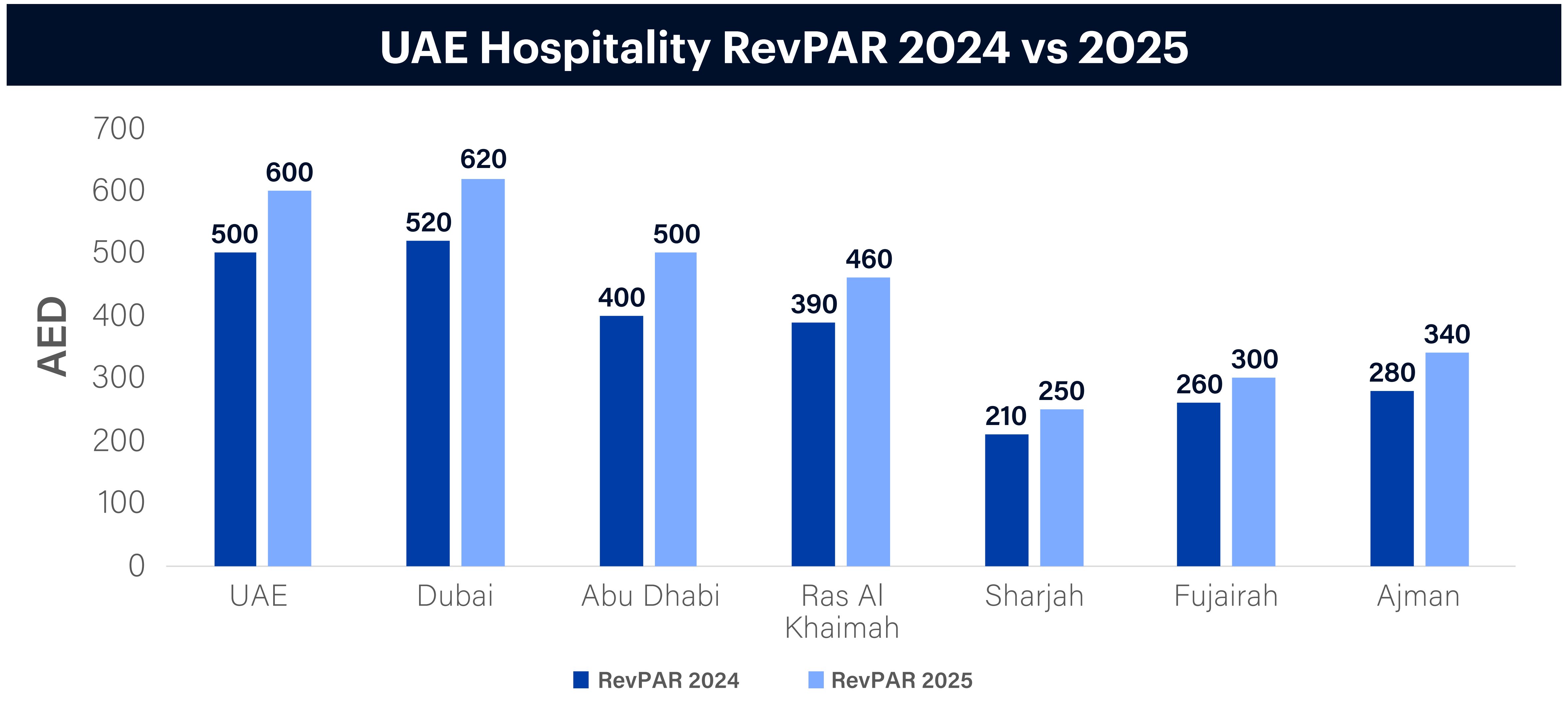
UAE Hospitality: KPIs Above Trend; Market Maturing

Hospitality KPIs in the UAE are structurally strong heading into 2026. Abu Dhabi and Dubai have sustained high occupancies, rising ADRs, and RevPAR growth supported by record international arrivals, event calendars, and a deepening business-travel base. The investment market is maturing, with greater emphasis on strategic acquisitions and asset repositioning (public-area upgrades, F&B, banqueting, and wellness). Financing structures can be aligned to RevPAR triggers and phased capex milestones to match cash-flow timing and sponsor execution.

These local strengths raise the question for UAE based investors: Global diversification or local focus?

UAE Alternatives: Data Centres and Digital Infrastructure

The UAE's data-centre build-out is accelerating and is notable in a global context. Existing capacity has grown rapidly, with substantial new MW in the pipeline through 2026. Abu Dhabi is leading on planned power capacity, aligning with sovereign-backed AI initiatives, data-residency requirements, and hyperscale cloud expansion. Bankable projects are characterised by long-duration operator covenants, Tier III/IV standards, robust redundancy, and power-secured underwriting (grid commitments, on-site generation, advanced cooling). Debt structures should allocate capex for liquid-immersion cooling where appropriate, and tie pricing to energy-efficiency outcomes.



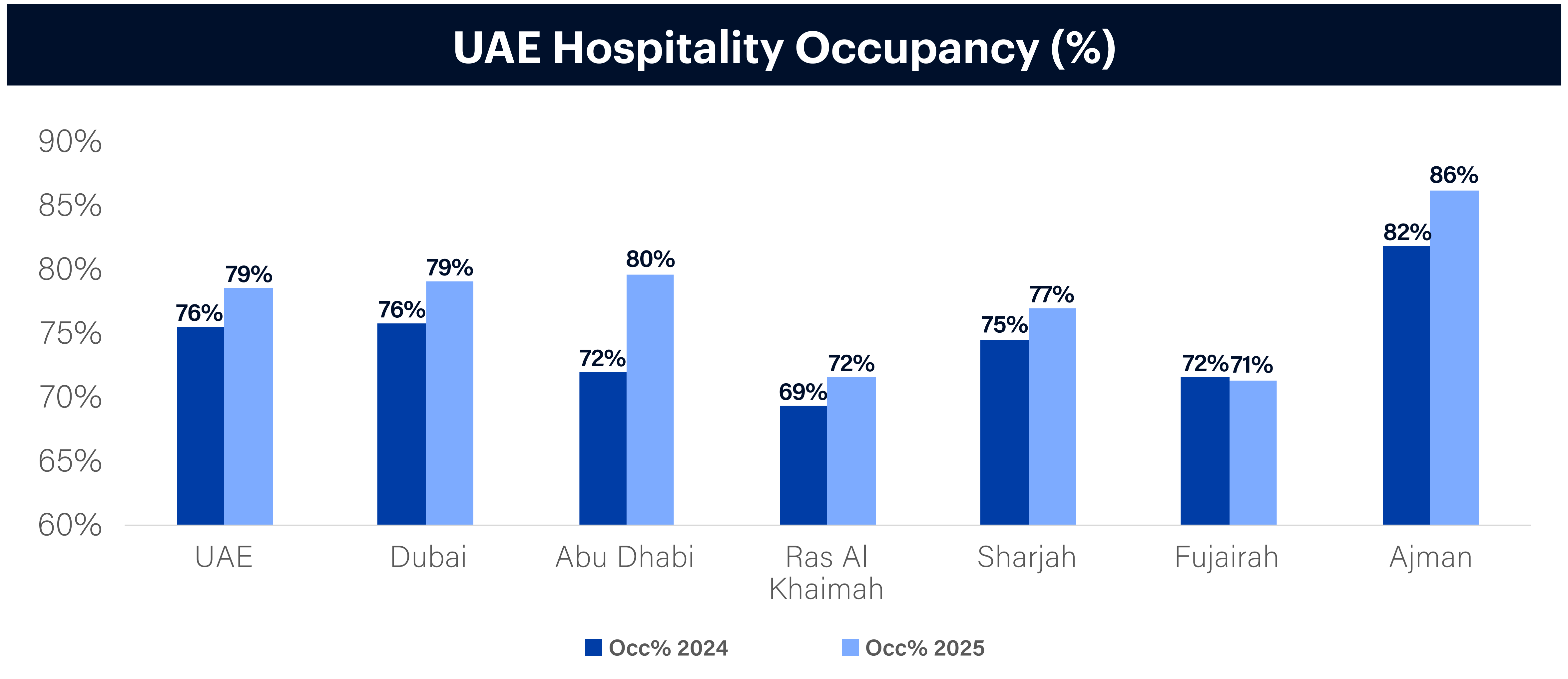


Figure 6: UAE hospitality ADR & RevPAR

Abu Dhabi Policy Tailwinds: ADGM as a Structural Demand Anchor

Abu Dhabi's financial centre has expanded significantly, boosting licenses, assets under management, and workforce across Al Maryah and Al Reem Islands. Lower administrative frictions, clarified regulatory frameworks, and talent inflows have tightened Grade-A office supply and catalysed occupier commitments. For CRE finance, ADGM-adjacent assets enjoy structural demand support from financial institutions, asset managers, and professional services firms favoring longer lease terms, premium specifications, and sustainability-linked fit-outs.

The 2026 CRE cycle favours disciplined, income-led strategies and operational excellence. Globally, investors and lenders should expect selectivity to remain high, with capital rewarding execution quality, sustainability, and technology-enabled performance.

In **conclusion,** the UAE, policy stability, deepening financial platforms, logistics connectivity, and tourism strength together create a differentiated, lower-volatility profile. This is ideal for core-plus and value-add strategies in prime offices, logistics, data centres, and hospitality.

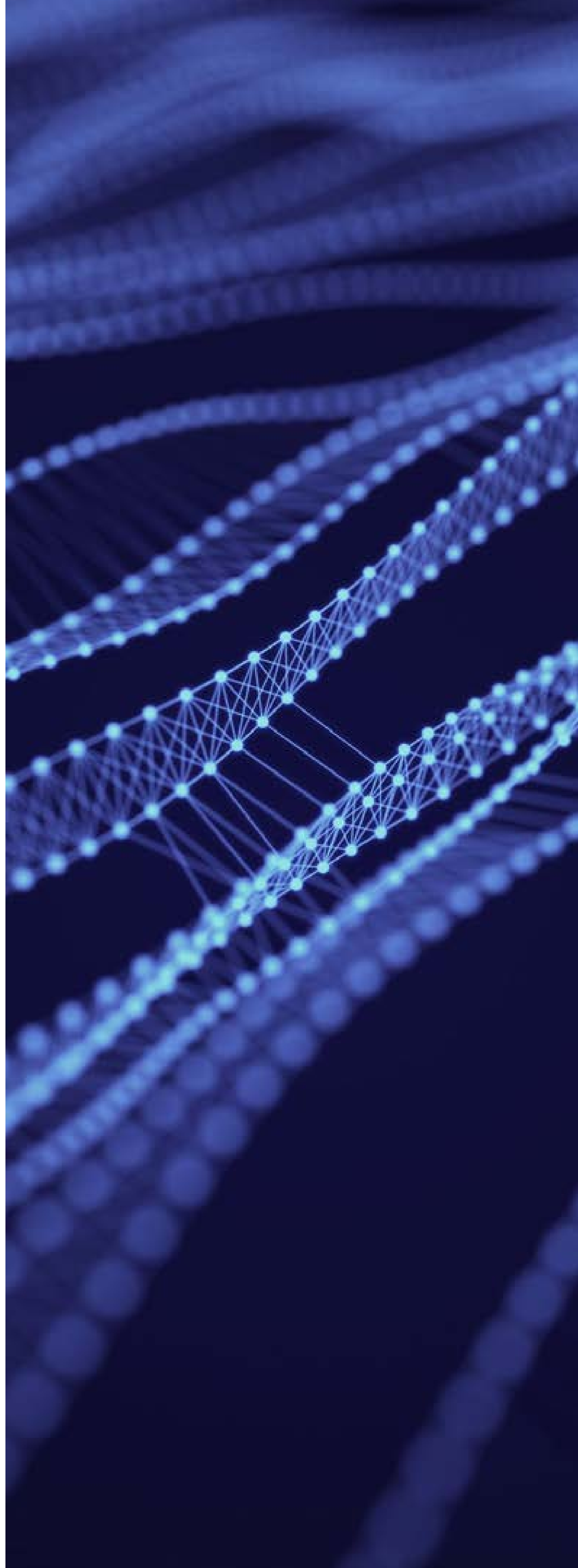
Global Diversification vs Local Focus

For UAE-based investors, the strategic question for 2026 is whether to lean into global diversification or concentrate capital locally. Global exposure offers risk dispersion, access to mature markets, and participation in secular growth themes such as logistics and data centres across EMEA and APAC. However, the UAE currently presents a compelling case for overweight positioning: prime office markets are near full occupancy, logistics hubs are experiencing double-digit rent growth, and hospitality KPIs remain above global averages. These fundamentals, combined with policy stability and infrastructure investment, create a lower-volatility environment with strong income visibility.

In the near term, returns in UAE core-plus and value-add strategies may outpace global benchmarks, particularly in Grade A offices, logistics, and digital infrastructure. That said, concentration risk should not be ignored. A balanced approach anchoring portfolios in UAE high-conviction assets while selectively allocating to global sectors with structural tailwinds offers the best blend of resilience and upside.

Concluding Remarks

Global commercial real estate enters 2026 at a turning point, moving from prolonged correction toward recovery. While increased interest rates and refinancing pressures persist, stabilising valuations, narrowing bid-ask spreads, and improving liquidity signal confidence. Regional performance remains uneven, with the U.S. and Asia-Pacific leading growth, Europe lagging, and the Middle East emerging as a resilient hub. Investor strategies are increasingly diversified across geographies, sectors, and capital structures. Driven by private credit expansion, abundant dry powder, and opportunities in ESG-aligned assets and AI-driven data centres. Success in this environment will depend on adaptability, leveraging strategic partnerships, flexible financing, and forward-looking allocations to capture value in the market.



Developments in Investment Products & Solutions

Julien Collin - Managing Director & Global Head of Products and Services
Kishore Ranganathan - Executive Director, Investment Solutions

Accessing Private Markets

Strategies for the Modern Portfolio

The investment world is changing. Private markets and structured products—once the domain of large institutions—are now within reach for a broader range of investors. This shift is driven by innovation in fund design, smarter product architecture, and evolving market infrastructure. Private markets and structured products are no longer optional—they're essential tools for building resilient, forward-looking portfolios.

Introduction

The investment world is changing. Private markets and structured products—once the domain of large institutions—are now within reach for a broader range of investors. This shift is driven by innovation in fund design, smarter product architecture, and evolving market infrastructure.

Private markets, now exceeding **USD 13 trillion globally,** offer long-term return potential, diversification, and access to opportunities that public markets simply cannot provide. Structured products, on the other hand, deliver flexibility and liquidity, enabling investors to manage risk, enhance income, and express market views through predefined payoff structures.

Together, these tools form a powerful combination for building resilient portfolios. But success requires more than access—it demands disciplined manager selection, robust due diligence, and thoughtful liquidity planning. In this paper, we explore practical strategies for integrating private markets and structured products into modern portfolios, and how FAB is leading the way in providing innovative solutions across the region.

The Case for Private Markets

Public markets have become increasingly efficient, making it harder to generate consistent alpha. Private markets, however, continue to stand out for three key reasons:

- **Illiquidity Premium:** Investors are compensated for committing capital over longer horizons.
- **Diversification:** Exposure to sectors and business models not represented in public markets.
- **Resilience:** Historically, private assets have shown lower volatility and less sensitivity to short-term market swings.

Structural trends reinforce this appeal. The rise of private credit—driven by global bank deleveraging—and growing demand for infrastructure linked to energy transition highlight why private markets remain a strategic allocation for forward-looking investors.

Accessing Private Markets: Expanding the Toolkit

Traditionally, private markets were reserved for institutions and ultra-high-net-worth individuals. Today, innovation in fund structures has opened the door to a wider audience.

At FAB, we've built a comprehensive platform that offers both evergreen and closed-ended funds across private credit, private equity, infrastructure, Asian credit, real estate, and specialised strategies. This flexibility allows clients to tailor allocations to their objectives, risk appetite, and liquidity needs.

Key Routes to Access Private Markets:

- **Direct Investments:** High transparency and potential for strong returns, but require significant due diligence and higher minimums.
- **Commingled Funds:** Private equity, venture capital, private credit, and real asset funds for diversified exposure.
- **Evergreen Funds:** Open-ended structures with periodic liquidity windows—ideal for smoother cash flow management.
- **Feeder Funds & Fund-of-Funds:** Lower entry points and manager diversification, though with additional fee layers.
- **Secondaries:** Growing in popularity for their ability to reduce J-curve effects and improve liquidity.

Structured Products: A Liquid, Customisable Complement

Private markets deliver long-term value, but they come with reduced liquidity. Structured products fill that gap, offering flexibility, defined risk-return profiles, and potential yield enhancement.

FAB's Structured Products Platform provides access to capital-protected, yield-enhancing, and market-linked solutions across global equities, rates, FX, and commodities. These instruments help clients reinforce portfolio resilience while aligning exposures with specific market views.

Why Structured Products Matter:

1. **Liquidity Management:** Short-to medium-term maturities (6–36 months) and secondary market liquidity help balance long-term commitments.
2. **Customisable Risk-Return Profiles:** From capital-protected notes to yield-enhancing autocallables and thematic market-linked strategies.
3. **Income Enhancement:** Predictable income streams complement the irregular distributions of private market funds.
4. **Diversification:** Targeted exposure to sectors or themes not easily accessible otherwise.
5. **Risk Management:** Defined payoff structures provide buffers and controlled exposure.

Portfolio Construction: A Holistic Framework

Integrating private markets and structured products requires a disciplined approach in portfolio management:

- **Allocation:** Institutions often allocate 10–30% to private markets; private banking clients typically start with 5–10%.
- **Core-Satellite Structure:** Core allocations are generally made in established alternative investment strategies, complemented by capital-protected structured solutions; satellites allocations are made in venture capital, secondaries, and thematic notes.
- **Liquidity Planning:** Structured products bridge capital calls, provide interim yield, and support rebalancing without liquidating long-term assets.

A balanced portfolio might include:

- Long-term private market allocations for return enhancement.
- Structured products for liquidity and tactical positioning.
- Public markets for daily tradability and broad exposure.

Risks and Mitigation

Every strategy carries risks:

- **Private Markets:** Illiquidity, infrequent valuations, and performance dispersion among managers.
- **Structured Products:** Counterparty risk, market sensitivity, and complexity.

Mitigation of these risks come through rigorous due diligence, diversification, and clear understanding of payoff structures.

Looking Ahead

Several forces are reshaping investor access:

- Broader retail participation driven by regulatory evolution.
- ESG integration influencing investment design.
- Technological enablement—digital issuance and tokenisation.
- Growth of private credit as banks retrench.
- Innovation in structured solutions offering greater transparency and refined risk-return profiles.

Conclusion

Private markets and structured products are no longer optional—they're essential tools for building resilient, forward-looking portfolios. At FAB, we combine global expertise with regional insight to help clients navigate this evolving landscape with clarity and confidence.

Gerardo Amo - Managing Director, Head of Products and Services - FAB Private Bank Suisse (SA)

The Enduring Power of Diversification

Rethinking Asset Allocation in a Changing World

As investors rethink asset allocation in today's rapidly changing world, they may discover that the most powerful ideas are the ones that have stood the test of time. Diversification is one of those ideas. Its relevance has not diminished; if anything, it has grown. In a world where complexity is rising and outcomes are increasingly difficult to predict; a well-diversified portfolio remains the most reliable foundation for long-term success.

For as long as investors have been seeking to preserve and grow wealth, one principle has remained remarkably enduring: diversification. It appears deceptively simple—hold a variety of assets rather than concentrating risk in a single idea—but behind this simplicity lies one of the most powerful concepts in modern finance. Throughout history, from early trading societies to today's highly interconnected global markets, diversification has repeatedly proven its value, protecting portfolios through cycles of expansion and contraction, innovation and disruption, optimism and fear.

As we navigate a world transforming at the intersection of geopolitics, technology, demography, and monetary policy, it is natural for investors to question whether the familiar frameworks of asset allocation still hold. After all, markets today are more complex, faster-moving, and more influenced by intangible forces than ever before. Yet, despite the shifting contours of the investment landscape, the logic of diversification not only remains intact but is strengthened by the very uncertainty that defines this era. Rethinking asset allocation does not mean abandoning time-tested principles; it means refining them to align with modern realities.

To appreciate why diversification continues to be such a powerful anchor, it is helpful to trace its origins, understand its evolution, and examine why it retains its relevance in a world where change is the only constant.

A Brief History of Diversification and Asset Allocation

The roots of diversification stretch back thousands of years. Clay tablets from ancient Mesopotamia show merchants spreading goods across multiple ships to reduce the risk of loss at sea. The logic was intuitive long before it was formalised: no single outcome should determine one's fate. However, it was not until the twentieth century that diversification was rigorously defined as a cornerstone of modern investment theory.

Harry Markowitz's 1952 paper, later recognised by a Nobel Prize, provided the mathematical foundation for what became known as Modern Portfolio Theory (MPT). His insight was elegant: portfolio risk is not just the sum of individual asset risks, but the interplay among them. Assets that do not move perfectly in tandem can offset each other's volatility, allowing investors to achieve higher expected returns for a given level of risk, or reduce risk without sacrificing returns. This risk-return optimisation transformed investment management and set the basis for the strategic asset allocation processes institutions still rely on today.

Following Markowitz, William Sharpe introduced the Capital Asset Pricing Model (CAPM), emphasising systematic risk and helping investors think in terms of beta, market exposure, and the trade-offs between risk-free assets and risky market portfolios. The 1980s and 1990s, a period of increasing institutionalisation of asset management, saw the widespread adoption of strategic asset allocation frameworks that anchored long-term portfolio construction. Pension funds, sovereign wealth funds, endowments, and family offices embraced the philosophy that asset allocation, not security selection, drives the vast majority of long-term portfolio performance.

Over time, the spectrum of investable assets expanded dramatically. Where early asset allocation models focused on equities, government bonds, and cash the last four decades introduced high-yield credit, emerging-market debt, hedge funds, private equity, real estate, commodities, infrastructure, and, more recently, digital assets. With this expansion came greater possibilities for diversification but also new challenges in understanding correlations, liquidity profiles, and risk factors across an increasingly complex ecosystem.

Yet, through all these evolutions, the central insight remains the same: no single asset class delivers superior returns in every environment. Economic cycles, interest-rate regimes, geopolitical events, and technological breakthroughs constantly reshape the distribution of winners and losers. Diversification is therefore not merely a portfolio choice; it is a philosophical acknowledgement that uncertainty is intrinsic to investing.

Why Diversification Still Matters, Even When Markets Appear to Defy Logic

In today's world, investors are surrounded by extraordinary narratives. Artificial Intelligence promises to reshape economic productivity. Energy transitions are redefining supply chains and geopolitical alliances. Demographic shifts are influencing consumption patterns and labour markets. Meanwhile, the post-pandemic era has challenged many assumptions about inflation, monetary policy, and fiscal sustainability. Against this backdrop, it is tempting for investors to anchor portfolios to a handful of high-conviction themes or dominant market winners.

However, history consistently warns against overconfidence in singular outcomes. Markets have a way of surprising even the most seasoned investors. The 1990s technology boom, the commodity super-cycle, the real estate bubble of the mid-2000s, the post-Global Financial Crisis era of zero rates, and the extraordinary recovery following the pandemic each produced dominant narratives that seemed indisputable, until they were not. Investors who over-concentrated risk often paid a high price for ignoring diversification.

One of the most powerful arguments for maintaining diversified allocations today is the renewed presence of meaningful dispersion across and within asset classes. Over the last decade, ultra-accommodative monetary policies compressed volatility, flattened yield curves, and lifted valuations across many assets simultaneously. This made diversification feel less effective, as correlations rose and traditional defensive assets struggled to deliver ballast during equity sell-offs.

With the normalisation of monetary policy, the investment environment is fundamentally shifting. Positive real interest rates have restored the traditional role of fixed income as a stabilising force. Equity markets are no longer driven by a single factor such as abundant liquidity, but instead by the relative strength of earnings, cash flow visibility, sector leadership, and regional economic resilience. Alternative assets, from private credit to infrastructure, are benefitting from structural demand and offering return streams less tied to public-market dynamics. In this environment, thoughtful diversification becomes more valuable precisely because markets are no longer moving in lockstep.

Another compelling reason diversification remains essential is the rise of idiosyncratic and unforecastable risks. Geopolitical tensions, regulatory interventions, cybersecurity threats, climate-related events, and fragmentation of global supply chains have all introduced new layers of uncertainty. These risks do not follow predictable cycles and can emerge abruptly, affecting specific sectors, regions, or asset classes. Diversified portfolios provide insulation against such shocks, ensuring that no single event can materially impair long-term wealth creation.

Dispersion Is Back: A New Landscape for Asset Allocation

For much of the decade following the global financial crisis, declining yields and expanding central-bank balance sheets created an environment where asset prices were buoyed by the same powerful force: liquidity. Risk assets moved symmetrically, and defensive assets often behaved in unexpectedly correlated ways. This diminished the effectiveness of diversification and encouraged investors to chase higher returns through concentration or leverage.

The post-pandemic era marks a clear departure from this regime. Dispersion of returns has risen across almost every dimension of investing. Equity markets are experiencing greater differentiation among sectors, driven by divergent earnings trajectories, regulatory environments, and exposure to structural trends such as digitalisation and decarbonisation. Fixed income markets are exhibiting vastly different dynamics across sovereigns, investment-grade corporates, and high-yield issuers, influenced by fiscal positions, refinancing needs, and market expectations of policy paths.

In alternatives, private credit is benefitting from the retreat of traditional lenders, infrastructure investments are supported by long-term policy commitments and demographic demand, and hedge funds are enjoying a more favourable environment for alpha generation as volatility returns. The coexistence of these varied return drivers creates fertile ground for diversified asset allocation.

This dispersion also underscores why investors should resist the temptation to extrapolate recent winners indefinitely. Concentration may generate spectacular returns over short horizons, but it also magnifies vulnerability to regime changes. In contrast, a diversified allocation, when carefully calibrated to risk tolerance and investment horizon, provides a smoother and more reliable journey, preserving capital during drawdowns while capturing opportunities across different phases of the cycle.

Diversification in the Age of Structural Change

What distinguishes today's environment from past cycles is the coexistence of several long-duration structural forces shaping economic and financial outcomes. These forces are neither cyclical nor temporary; they are reshaping the investment landscape in ways that make diversification even more relevant.

Technological transformation, particularly Artificial Intelligence, is accelerating productivity in some sectors while causing obsolescence in others. Energy transition is creating new industries, altering commodity demand patterns, and driving unprecedented capital flows into renewable infrastructure, storage technologies, and grid modernisation. Shifts in global demographics are redefining consumption demand, healthcare requirements, and labour supply. Meanwhile, geopolitical realignment is creating new trade corridors, new spheres of influence, and new risks for multinational enterprises.

In such an environment, concentrating portfolios around a single theme or geographic region increases exposure to structural uncertainty. Diversification mitigates this by spreading risk across sectors and asset classes that are affected differently by these long-term trends. It also enables investors to participate in structural growth opportunities while maintaining defensive resilience.

Behavioural Biases and the Case for Discipline

Beyond historical evidence and economic rationale, diversification also serves as a safeguard against behavioural pitfalls. Human psychology often drives investors to chase performance, anchor on recent trends, or overreact to market noise. Periods of strong market performance in a particular asset class can create a sense of inevitability, leading to overexposure at precisely the wrong moment. Diversification enforces discipline, reducing reliance on timing decisions that even professional investors struggle to execute consistently.

Properly designed strategic asset allocation frameworks, reviewed periodically but not constantly adjusted based on short-term sentiment, create a disciplined guardrail. They ensure portfolios remain aligned with long-term objectives and risk appetite, rather than being reshaped reflexively during moments of market stress or euphoria.

Rethinking Asset Allocation: Evolving, Not Abandoning Principles

Revisiting asset allocation in a changing world does not imply discarding diversification. Instead, it requires adapting how we implement it. Modern portfolios should reflect the evolving opportunity set, incorporate new sources of return, and recognise shifts in the behaviour of traditional assets. This involves deeper consideration of factors beyond traditional correlations, including liquidity, duration of capital commitments, and exposure to themes that transcend economic cycles.

Dynamic asset allocation, whereby portfolios are periodically rebalanced in response to changes in valuations, risk conditions, and macroeconomic indicators, complements the strategic allocation without undermining it. It allows investors to tilt portfolios thoughtfully while maintaining the resilience that comes from broad diversification.

Ultimately, diversification remains the most reliable antidote to uncertainty. In a world marked by rapid change, it offers something profoundly valuable: the ability to stay invested with confidence.

Conclusion: A Principle for All Seasons

The enduring power of diversification lies in its universality. It has protected merchants from storms in ancient seas, shielded investors from market crashes, preserved endowment capital through recessions, and enabled families to grow wealth across generations. It recognises a fundamental truth about investing: the future is unknowable, and no model, however sophisticated, can predict every outcome.

By spreading risk across complementary sources of return, diversification transforms uncertainty from a threat into an opportunity. It enables portfolios to weather shocks, participate in growth, and compound returns over time; quietly, steadily, and effectively.

As investors rethink asset allocation in today's rapidly changing world, they may discover that the most powerful ideas are the ones that have stood the test of time. Diversification is one of those ideas. Its relevance has not diminished; if anything, it has grown. In a world where complexity is rising and outcomes are increasingly difficult to predict; a well-diversified portfolio remains the most reliable foundation for long-term success.

GCC Asset Management Landscape

Musa Haddad - Head of Fund Management

The New Era of Asset Management:

Trends and Insights

We have looked at the latest developments in technology that are transforming the asset management industry. The adoption of AI is picking up rapidly across many functions of asset management as regional markets remain at the forefront of its implementation.
The technology is all set to play a bigger and more meaningful role in reshaping the industry. The UAE and Saudi markets have already set up the framework to adopt and implement new developments as the region aspires to become a global hub in asset management.

The New Era of Asset Management: Trends and Insights

"The future depends on what you do today."
— Mahatma Gandhi

In this article we have looked at the latest developments in technology that is transforming the asset management industry. The adoption of AI is fast picking up across many functions of asset management as regional markets remain at the forefront of its implementation.

Systems and Innovation

1. From Active to Algorithmic: How the Global Playbook Changed

Three forces that are reshaping Global Asset Management:

Operational Discipline. The industry has moved from relationship-heavy, manual processes to industrial-grade operating platforms: centralized dealing, independent risk, T+0 data, and straight-through processing. Costs fell as processes scaled, enabling managers to deliver better outcomes at lower fees while maintaining rigorous controls and transparency.

Structural consolidation. Fee compression, regulation, and globalisation concentrated flows with the largest platforms and smartest specialists. The top cohort now controls a far larger share of global AUM than in 2000. Passive and factor strategies—once niche—became mainstream, with ETF assets surging from low single-trillions a decade ago to USD ≈ 12.9 trillion (June-2024), reaching ≈ USD 18.8 trillion as of Sept-2025 (Ref. PwC).

Technology everywhere. Data science and AI moved from back-office curiosity to front-office edge. Machine learning now informs security selection, factor timing, liquidity management, and risk overlays, while natural-language models parse vast information sets in seconds. The best managers behave like information companies that happen to allocate capital.

These three forces did not operate in isolation. They reinforced one another in a virtuous cycle: better technology enabled consolidation by creating economies of scale; consolidation funded further technology investment; and both operational discipline and technology reduced costs, making passive strategies viable at institutional scale. The result was an industry that looks fundamentally different from its analogue predecessor, more efficient, more data-driven, and more accessible to a broader range of investors.

"The best way to predict the future is to create it."
— Peter Drucker

2. Technology Infrastructure: The Digital Foundation

Today, asset management is fundamentally a technology business. Every investment decision, risk calculation, and client interaction depends on the quality and reliability of digital infrastructure. For the GCC, this represents both a challenge and an opportunity: building the platforms, data systems, and cybersecurity frameworks that can enable the region's financial markets to operate at global standards of speed, integration, and intelligence.

Modern cloud-native systems, real-time data architecture, and multi-layered cybersecurity are transforming how managers monitor portfolios, assess risk, and deliver transparency to investors. API-first design now connects fund administrators, custodians, and market data providers seamlessly, reducing friction across the value chain.

The UAE, in particular, has positioned itself as the region's technology leader. National AI strategies, partnerships with global firms, and regulatory support for innovation have created an ecosystem where asset managers can deploy cutting-edge tools with confidence. This technological foundation is no longer auxiliary—it is the core competitive advantage defining the next generation of regional asset management.

3. The Modern Operating Model: Platform, Partners, and Governance

Globally, the post-crisis "new model" separated manufacturing—investment strategy, portfolio construction, risk—from distribution, which encompasses client coverage and platforms. Non-core functions such as fund administration and middle/back-office operations were outsourced to scale providers, without compromising governance. The aim: clarity, cost efficiency, and control. That model is now standard in the UAE and Saudi Arabia. In practice, it has resulted into:

Multi-Entity Structures: Clear control functions align onshore and offshore vehicles with transparent governance and regulatory compliance across jurisdictions

Open-Architecture Distribution: Capital flows via private banks, wealth platforms, and workplace schemes, expanding investor access while maintaining product quality

Independent Oversight: Boards, depositories, and auditors provide UCITS/'40-Act-style expectations, ensuring investor protection and operational transparency

Global Partnerships: Collaboration with administrators, custodians and index providers meets international operating standards and reduces friction

In short, the global operating stack has found a home in the Gulf. The benefit is not cosmetic; it is competitive: talent can specialise, scale partners can reduce friction, and investors get transparency they recognise. This alignment with global standards was neither accidental nor automatic. It required sustained dialogue between regulators, market participants and international standard-setters. It demanded investment in systems, training and cultural change. But the payoff is an operating environment that institutional investors worldwide understand and trust.

The modern operating model also enables rapid innovation. When new product structures or investment strategies emerge globally, GCC-based managers can adopt them quickly because the underlying infrastructure, governance frameworks, custody arrangements, risk systems already meets international standards. This agility, combined with proximity to regional capital and understanding of local market dynamics, creates a genuine competitive advantage for managers operating from the Gulf.

4. Tokenisation: Rewriting Market Infrastructure

The next decade will blur the boundary between public and private assets. Tokenisation-issuing fund units or real-world assets on distributed-ledger infrastructure—promises faster settlement, fractional access and richer transparency. Global pilot projects by leading firms have already proven feasibility, and credible projections suggest tokenised assets could reach the mid-teens trillions of dollars by 2030 if adoption accelerates.

The UAE and Saudi Arabia are proactively aligning their regulation with this future. ADGM has frameworks referencing distributed-ledger operations within fund administration; DIFC runs innovation sandboxes for digital-asset and wealth platforms; and Saudi CMA continues to expand regimes that could support tokenised funds and private-credit structures under appropriate oversight.

5. Benefits of Tokenisation

- **ETFs and Money-Market Funds:** Near-instant settlement and transparent liquidity transform daily operations, reducing counterparty risk and improving capital efficiency for institutional and retail investors alike.

- **Multi-Asset and Income Strategies:** Accessibility at lower ticket sizes via fractionalisation democratizes sophisticated strategies previously available only to large institutions or high-net-worth individuals

- **Private Markets and Private Credit:** Traditionally illiquid asset classes can offer controlled secondary liquidity through tokenised structures, addressing a long-standing impediment to broader participation

- **Sustainability-Linked Products:** Smart contracts embedded verifiable impact metrics, addressing greenwashing concerns and providing real-time transparency on ESG outcomes and progress toward climate targets

This is not "crypto for its own sake." It is market infrastructure modernisation, executed under regulated, institutional standards. The distinction matters. Tokenisation in this context means applying distributed-ledger technology to solve real operational problems—settlement delays, opacity, illiquidity—within established regulatory frameworks that protect investors and ensure market integrity. The GCC's approach has been pragmatic: experiment through sandboxes, learn from global best practices, and scale gradually as technology matures and regulatory clarity increases.

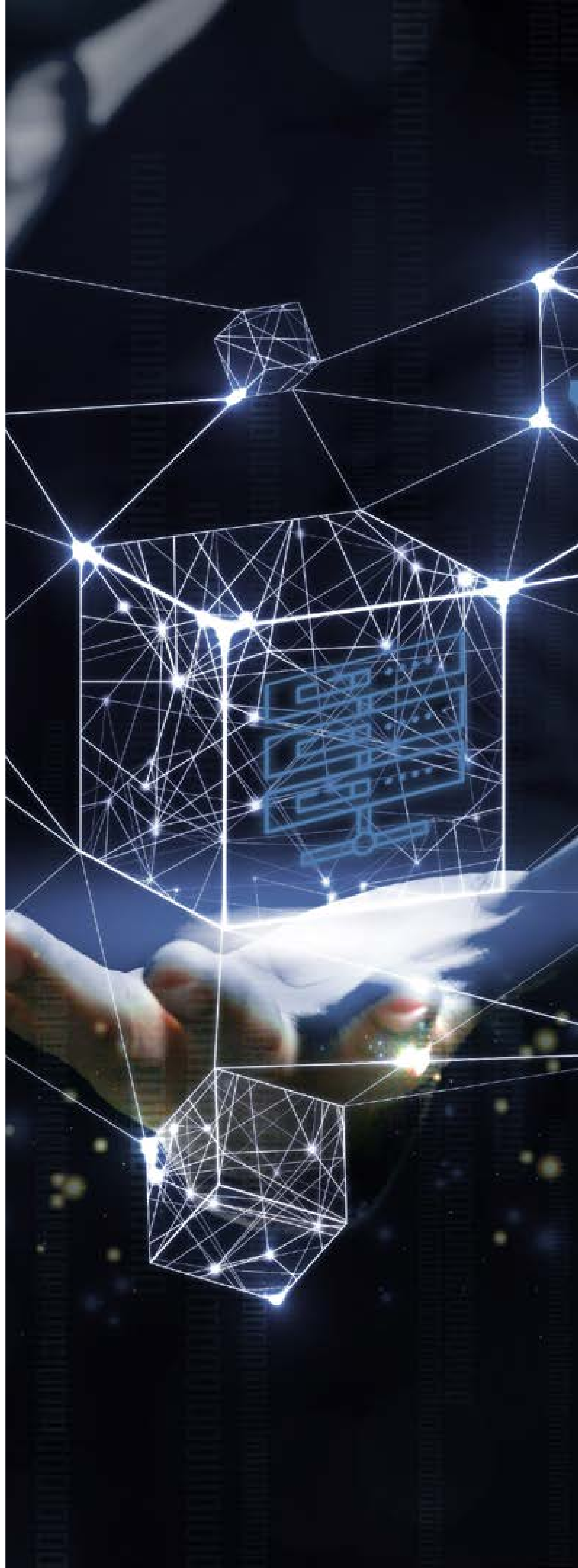
"You can't stop the waves, but you can learn to surf." — ***Jon Kabat-Zinn***

6. Artificial Intelligence: From Back Office to Alpha Generation

If tokenisation is rewriting market infrastructure, AI is reorganising market intelligence. Machine learning now supports signal discovery, factor rotation, liquidity scoring, scenario design, and real-time risk. Natural-language models compress the research cycle from days to minutes.

McKinsey estimates generative AI could add USD 2.6–4.4 trillion annually to global productivity at full adoption; PwC puts the broader AI impact on global GDP by 2030 in the USD 15-plus trillion range.

In asset management, the gains are clearest in research velocity and client personalisation. Algorithms can process earnings transcripts, regulatory filings, news flows and alternative data in real time, flagging



material changes and identifying patterns that human analysts might miss. Portfolio construction becomes more dynamic, risk management more precise, and client communication more tailored. The best managers are learning to orchestrate human judgment and machine intelligence in ways that amplify the strengths of both.

Robo-Advisory Evolution
Matured from "model portfolios" into institutional-grade allocation engines serving retail, affluent and SME treasuries with disciplined rebalancing, tax overlays and factor tilts

Digital-First Markets
For the GCC—where digital adoption is high and wealth is young population-AI-driven platforms unlock participation at scale, democratising sophisticated investment strategies

Research Acceleration
Natural-language AI compresses information gathering from days to minutes, allowing investment professionals to focus on idea generation and decision-making

The UAE has become the region's technology epicentre. ADGM and DIFC host hundreds of assets, wealth and fintech licenses, Hub71 and the DIFC Innovation Hub anchor start-up ecosystems alongside global cloud, data and cybersecurity providers. National strategies around AI and digital economy translate directly into infrastructure: API-based onboarding, real-time data, automated compliance, and AI-enabled client service. This creates a self-reinforcing cycle: technology attracts talent, talent builds better platforms, and better platforms attract more capital and further innovation.

We think future of asset management will be defined by these trends. The technology is all set to play bigger and more meaningful role in reshaping the industry. The UAE and Saudi markets have already set up the framework to adopt and implement new developments as region aspire to become a global hub in asset management.

Musa Haddad - Head of Fund Management

The Evolution of the Asset Management Industry in the GCC

From Local Foundations to Global Frontiers

The GCC asset management industry has experienced significant growth and transformation over the past 25 years. The industry has grown from a modest size to a substantial $2.2 trillion in AUM as of the end of 2024. In this article we chart the path of this growth and how regional sovereign wealth funds have come to the fore on the industries global stage.

Two and a Half Decades of Asset-Management Transformation in the GCC and Beyond

In this article we have analysed how two decades of innovation has turned the GCC (Gulf Cooperation Council) from a liquidity exporter into a global investment hub in a comprehensive analysis. The note is divided into three parts – Transformation and scale, Regional Maturity and Global Integration and Outlook for GCC Asset Management industry.

Part I – Transformation and Scale

1. The Gulf's New Era of Capital Command

Two decades ago, the Gulf's financial landscape was defined by deposits, property, and direct equities. Today it sits at the crossroads of global capital flows—a region no longer exporting liquidity but commanding it. From Abu Dhabi to Riyadh, modern regulation, sovereign scale, and digital infrastructure have turned the GCC into the world's newest capital-formation hub.

Global asset managers, hedge funds, and family offices are not just investing here—they are relocating here. As Artificial Intelligence, tokenisation, and sustainability redraw the architecture of finance, the UAE and Saudi Arabia are quietly positioning the region as one of the defining forces of global asset management by 2030.

- USD 128T Global AUM 2024 (Ref. BCG) Up from USD 18 trillion in 2000
- USD 4T Regional AUM Target Projected by 2030
- 2X UAE International Financial Centres Growth - AUM doubled since 2020

"The Gulf is no longer a participant in global capital markets; it is becoming an architect."

2. A Long Arc of Change: Witnessing the Transformation from Within

When I began managing money in the early 2000s, GCC asset management was still largely analogue. Research came by fax, performance was reconciled overnight, and "data" meant spreadsheets guarded by gatekeepers. Globally, assets under management stood close to USD 18 trillion in 2000; by 2024–25, the industry had ballooned beyond USD 120–130 trillion. The shift was not just scale, but the new structure: the rise of indexation and ETFs, the professionalisation of governance, the integration of risk systems and, eventually, the digitisation of everything.

The GCC's evolution over the same period has been not only dramatic—but also faster. What began as an ecosystem dominated by bank deposits, real estate and direct equities is now a genuine asset-management industry with institutional investors, global gateways and an increasingly diversified product shelf. Sovereign wealth funds such as **ADIA, PIF, QIA, KIA,** and **Mubadala** have long anchored the region, but the story today extends far beyond sovereigns.

Domestic institutional pool—from money-market funds to workplace savings and insurance assets—now help to provide the steady base that every mature market needs.

3. Sovereign Wealth Funds: The Anchor of Regional Capital

Sovereign wealth funds such as **ADIA, PIF, QIA, KIA,** and **Mubadala** collectively manage well over USD 4 trillion (Ref: Global SWF) in assets, positioning the GCC among the world's largest and the most sophisticated institutional investor blocs. Over the past two decades, these institutions have evolved from passive holders of foreign reserves into active architects of global capital flows—deploying capital across every major asset class and geography while strengthening the region's own market infrastructure.

Their influence now extends far beyond direct investment. By incubating talent, fostering governance standards, and building relationships with global asset managers, SWFs have helped transform the region's investment ecosystem into a globally credible marketplace. Through co-investments and partnerships, they catalyse private-sector participation, align with national economic priorities, and provide ballast during periods of market volatility. Their long-term orientation and strategic footprint have given the GCC resilience and visibility in international markets.

Looking ahead, the relationship between sovereign and private capital will deepen, with SWFs serving as anchor investors in local funds, co-investors in global infrastructure and technology projects, and strategic partners in financing the energy transition. They remain the cornerstone of regional stability and the bridge connecting the GCC's domestic transformation with its global ambitions.

That mental shift, from tactical liquidity to strategic capital, defines the last 25 years. It represents a fundamental reorientation of how the region views capital: not as a byproduct of commodity revenues to be parked abroad, but as a strategic asset to be deployed, managed and multiplied through sophisticated institutional frameworks.

"The empires of the future are the empires of the mind." — Winston Churchill

Timelines: Two and a Half Decades of GCC Asset-Management Transformation

Time Period	Key Theme	Outcome
2000-2005	Foundations	*Capital dominated by bank deposits, real estate, and direct equities; limited institutional product depth. Global AUM ≈ USD 18 trillion.*
2005-2010	Institution Building	*Regulatory frameworks emerge (SCA, CMA, DFSA); first generation of mutual funds, Sukuk, and regional fixed-income strategies introduced.*
2010-2020	Global Integration	*ADGM and DIFC mature; independent custody, fund-admin, and ETF structures appear; foreign participation accelerates.*
2020-2025	Capital Command	*GCC becomes a global investment hub—sovereign scale, regulatory credibility, and digital infrastructure attracting global managers.*

4. Private Markets: The Next Frontier of Regional Growth

While public markets have captured headlines, private markets represent the next major growth frontier for GCC asset management. Private equity, private credit, infrastructure, and real assets have become essential components of institutional portfolios globally, offering diversification, illiquidity premiums and alignment with long-term economic development. The GCC is now building the infrastructure, regulatory frameworks, fund structures, co-investment platforms to participate fully in this evolution.

Several factors make the region particularly well-suited for private-market growth. First, patient capital: sovereign and family-office investors have long time horizons that align naturally with private-asset strategies. Second, deal flow: the region's ongoing economic transformation generates proprietary investment opportunities in sectors from logistics to technology to healthcare. Third, geographic position: the GCC sits between Europe, Asia, and Africa, enabling cross-regional strategies that capture value from connectivity and growth differentials.

Infrastructure Opportunities: Massive infrastructure pipelines across transportation, utilities, and digital connectivity create decades of investment opportunity aligned with economic diversification.

Venture and Growth Capital: Emerging technology ecosystems in fintech, healthtech, and climate tech offer early-stage opportunities with potential for outsized returns.

Private Credit Expansion: As banks balance sheets become more selective, private credit fills financing gaps for growth companies and established businesses seeking flexible capital.

Regulatory Enablers: Regional policymakers have already begun laying the groundwork for this expansion. **ADGM's Private Credit Fund Regime** provides a dedicated framework for non-bank lending and institutional private-credit vehicles; **Saudi Arabia's CMA** has refined **private-equity** and **venture-capital fund structures** to attract both domestic and international sponsors. Together, these initiatives mark a turning point in the regulatory infrastructure supporting alternative-asset growth.

The challenge is operational. Private markets require different capabilities than public investing: deal sourcing, due diligence, operational value-add, exit planning. They demand patient capital, tolerance for illiquidity, and governance structures that align investor and manager interests over multi-year hold periods. The region is building these capabilities; through direct sovereign investment programs, partnerships with established global managers, and gradual development of local general-partner expertise.

As this ecosystem matures, private markets will likely represent an increasingly large share of regional AUM and an increasingly important source of economic value creation.

Part II – Regional Maturity and Global Integration

1. The GCC's Institutional Awakening (2010 – 2020)

During the 2010s, the region did the hard, unglamorous work of building institutions. Regulators strengthened rulebooks; exchanges modernised; custody and fund-admin providers scaled local capability. The UAE Securities and Commodities Authority (SCA) updated fund regulations; ADGM's FSRA and DIFC's DFSA established internationally recognised regimes; Saudi Arabia's CMA opened capital markets for deeper foreign participation and professional managers.

2. Regulatory Evolution: Balancing Innovation and Protection

The GCC's regulatory landscape has undergone one of the most rapid transformations in emerging markets, evolving from a rules-based framework into a principles-driven system that encourages innovation while safeguarding stability. Across the UAE and Saudi Arabia, regulators such as the SCA, FSRA, DFSA, and CMA have progressively aligned local frameworks with global best practice, giving investors the legal certainty and transparency they expect from mature markets.

Innovation has been built into supervision itself. Sandbox environments allow fintechs and digital-asset platforms to test new models safely, while cross-border passporting enables fund managers to operate seamlessly between the UAE and Saudi Arabia. Reforms to custody, fund-administration, and governance standards have raised the quality bar for both domestic and international managers.

This measured balance—between innovation and protection—has earned the region credibility with global allocators. Regulation has become not a constraint but a competitive advantage, allowing the GCC to expand access to international capital while maintaining the trust and stability that underpin sustainable market growth.

Two things followed. First, product depth: public mutual funds, Sukuk and fixed-income strategies, multi-asset funds, and eventually ETFs. Second, market confidence: higher foreign participation, more listings, and a pathway for regional families and institutions to deploy capital professionally onshore rather than only offshore. The groundwork was laid for the 2020s.

This decade of institution-building has transformed the region from frontier market to an emerging market with promise into a credible platform for global capital allocation.

"Capital goes where it is welcome and stays where it is well-treated." — Walter Wriston

3. Cross-Border Capital Flows: The Two-Way Bridge

Over the past decade, GCC capital flows have evolved from one-way to two-way. Historically, the region exported capital—petrodollars recycled into global equities, bonds, and real estate. Today, that dynamic is bidirectional: GCC institutions invest abroad, while global investors increasingly allocate into GCC markets. This shift reflects the region's growing market depth, regulatory credibility, and integration into global financial systems.

Inbound flows underscore international confidence. Index inclusions by MSCI and FTSE have brought passive allocations, while active managers seek exposure to regional IPOs and secondary markets. Outbound flows, meanwhile, show GCC institutions co-investing globally, taking strategic stakes and forming long-term partnerships.

Regulatory and Product Offering Timeline in GCC

- **2010–2013:** Regulatory foundations established (SCA, ADGM, DIFC).
- **2014–2018:** Market openings and product expansion—Sukuk, mutual funds, multi-asset strategies.
- **2019–2025:** ETF launches, custody infrastructure, and passporting frameworks mature.
- **2025–2030:** The GCC emerges as a global capital hub, with sustained two-way flows.

Outbound and inbound investments now reinforce one another, creating a virtuous cycle of liquidity, access, and credibility. The region's financial centres **(Abu Dhabi, Riyadh, and Dubai)** stand at the crossroads of East and West, bridging regional wealth with global opportunity.

4. Exchanges as Listing Engines and Liquidity Drivers

The region's exchanges: **Abu Dhabi Securities Exchange (ADX), Saudi Tadawul Group, and Dubai Financial Market (DFM)** have become the operational backbone of this transformation. They serve as engines for primary listings, secondary liquidity, and index inclusion, ensuring that capital formation is both transparent and scalable.

ADX's Main Market and Growth Market pipelines have grown sharply since 2021, hosting state-linked and private-sector IPOs that deepened the investor base. **Tadawul** has evolved into the largest exchange in the MENA and among the largest EM bourses by market capitalisation, drawing record international inflows following MSCI and FTSE EM inclusion. **DFM** continues to strengthen UAE corporate listings while diversifying sector representation and investor participation. Together, these exchanges provide the infrastructure through which regional savings are mobilised, benchmark visibility is achieved, and international capital finds credible access to GCC opportunities.

5. 2020 – 2026: The Global Operating Model Finds a Regional Home

As the world re-opened post-pandemic, the GCC began to feel familiar to global allocators: clarity of rules, quality of infrastructure, and speed of execution. The UAE's ADGM and DIFC matured into English-law hubs with cross-border fund passporting and deep service ecosystems. Riyadh accelerated under Vision 2030: independent custody, expanded listings, and new licenses for international managers and hedge funds.

The result was visible in the logos on office doors. Global asset managers such as **BlackRock, Fidelity, Amundi, and State Street**, hedge funds including **Brevan Howard** and **Millennium**, and family offices from Europe and Asia established regional presences. Reported figures vary by source, but across ADGM and DIFC, the number of licensed asset and wealth managers has risen sharply since 2020, and AUM in the UAE's international financial centres has more than doubled over recent years. In Saudi Arabia, new mandates and inflows into local strategies and private markets point to growing depth and confidence.

Inbound Capital Flows

MSCI and FTSE index inclusions helped normalise GCC allocations within EM and global strategies. Foreign participation on local exchanges has increased notably since 2020, and both Abu Dhabi and Riyadh benefitted from sustained net foreign inflows and strong listing pipelines. The region moved from peripheral allocation to core emerging-market exposure.

Outbound Investment Activity

SWFs and leading institutions continued to deploy tens of billions into global infrastructure, renewables, private equity and technology, creating a **two-way bridge for capital.** This bidirectional flow demonstrates the region's maturity: sophisticated enough to attract international capital, confident enough to deploy regionally sourced capital globally.

The pandemic accelerated trends that were already underway. Remote work proved that sophisticated investment operations could function from anywhere with proper infrastructure. Digital onboarding became standard. And geopolitical shifts prompted many institutions to diversify their geographic footprints. The GCC, with its time-zone advantage, regulatory clarity, and growing talent base—emerged as a natural hub for firms seeking to bridge East and West, traditional and digital, public and private markets.

"Strategy is about making choices; trade-offs; it's about deliberately choosing to be different."
— Michael Porter

Part III – Outlook

1. Sustainability and the Energy-Transition Balance Sheet

No serious investment outlook can ignore sustainability. The IEA Net Zero estimates the world needs USD ~4.5 trillion per year by 2030 in transition investment to stay on course. For the GCC, the narrative is about and/and, not either/or: continuing to supply conventional energy reliably while financing renewables, hydrogen, grid modernisation and low-carbon industrial pathways. The region's sovereign institutions—and increasingly, private capital—are committing multiple tens of billions to transition assets within and beyond the Gulf.

Risk Management Baseline
Sustainability is now fundamental to portfolio risk assessment: climate scenarios, physical-risk analytics, scope-3 data quality (reliable and accurate), and stewardship. Asset owners globally are demanding transparency on climate exposure, transition plans and alignment with international frameworks such as Task Force on Climate – related Financial Disclosures (TCFD) and Net Zero Asset Managers.

Growth Investment Thesis
For the GCC, sustainability represents enormous growth opportunity: project pipelines in solar, wind, and hydrogen; transition technologies from carbon capture to battery storage; and cross-border capital partnerships connecting Gulf finance with global decarbonization needs.

In portfolio terms, sustainability is both defense and offense. On the defensive side, managers must understand climate risk: which sectors face stranded-asset risk, which geographies face physical climate hazards, and which regulatory regimes will price carbon meaningfully. On the offensive side, the energy transition creates multi-decade investment opportunities in infrastructure, technology and enabling sectors—opportunities where the GCC's combination of capital, project-execution capability and energy expertise creates genuine competitive advantage.

"We do not inherit the Earth from our ancestors; we borrow it from our children."
— proverb

2. Challenges and Risks: Navigating Complexity

Progress is neither linear nor guaranteed. The GCC asset-management industry faces genuine tests in the years ahead—from market volatility and geopolitical uncertainty to rapid technological change and global competition for talent. Recognising these risks is not pessimism; it is disciplined realism.

Market and Regulatory Risks: Concentrated sectors and diverse regulatory regimes can heighten volatility or confusion, requiring continued coordination and diversification.

Technology and Talent Risks: Innovation cycles are accelerating; staying ahead demands constant reinvestment in digital capability and human expertise.

Geopolitical and Execution Risks: External shocks and internal misalignment can derail even the best strategies; sustained focus and operational excellence will separate success from disappointment.

Yet none of these challenges is insurmountable. Markets anchored by strong institutions, clear policy frameworks, and adaptable cultures will continue to navigate complexity successfully. The GCC's record of learning, adjusting, and executing with discipline remains its greatest asset for the decade ahead.

"To take risk and fail is not a failure. Real failure is to fear taking any risk."
— H.H. Sheikh Mohammed bin Rashid Al Maktoum

3. The Decade Ahead: 2026–2030 Outlook

Scale: The Path to USD 3–4 trillion
Regional AUM—including public funds, Discretionary Portfolio Management (DPMs) and alternatives, excluding sovereign wealth—could plausibly rise toward USD 3–4 trillion by 2030 if current trends in market depth, listings, and private-market formation continue. Still a fraction of global AUM, but a meaningful step-change for the region demonstrating genuine institutional maturity.

Connectivity: Cross-Border Infrastructure
Expect deeper fund passporting, dual listings, global custodial links and digital settlement rails across UAE and Saudi Arabia, shortening time-to-market for international strategies and improving secondary-market liquidity while reducing operational friction and cost.

Product Mix: Beyond Equities
Continued expansion into fixed income, Sukuk, multi-asset, ETFs and private credit, with tokenised share classes emerging where regulation supports them. Income-generating solutions—from high-grade credit to infrastructure debt—will be central for regional and international investors alike.

Human Capital: The Real Differentiator
Talent density in risk, quant, data engineering and portfolio management will separate winners from

followers. The flywheel is already turning as global teams relocate to ADGM, DIFC, and Riyadh to sit closer to allocators and issuers, creating knowledge clusters and competitive ecosystems.

These four dimensions—scale, connectivity, product, and talent—are not independent variables. They reinforce one another. Deeper product offerings attract talent; talent builds better capabilities; better capabilities attract larger mandates; and larger mandates justify investment in connectivity and infrastructure. The regions that execute this flywheel most effectively will emerge as the centres of gravity for 21st-century finance.

The GCC has advantages on each dimension: capital surplus to fund growth, policy support for infrastructure investment, regulatory openness to product innovation, and quality of life that attracts international talent. The question is not whether the region will grow, but how quickly and how sustainably. The answer will depend on continued institutional focus, disciplined execution, and willingness to adapt as markets evolve.

By 2030, the defining forces will be: scale through institutional depth, trust through regulatory maturity, and agility through digital integration.

"Vision without execution is hallucination."
— commonly attributed to Thomas Edison

Personal Reflection:
Building on Solid Foundations

Having lived this industry from the inside for nearly three decades, I've learned that markets reward adaptation. The GCC has done just that—importing global standards, building its own infrastructure, and now exporting capital formation and innovation back to the world. The progress has been extraordinary: from nascent markets to sophisticated financial centres that global investors now recognise and respect.

The next chapter will not be written by size alone, but by capability: the ability to combine governance, digital fluency, and investment judgment in one platform. On that front, the UAE and Saudi Arabia have a unique combination of vision, policy clarity, and institutional strength. What matters now is disciplined execution—raising standards, developing talent, and deepening local markets. If we remain patient and confident, the conversation in 2030 will not be about whether the region has arrived, but about which new frontiers it is shaping next.

If we do that, the conversation about the GCC in 2030 will not be whether it has "arrived," but which new frontiers it is shaping next.

"What counts in life is not the mere fact that we have lived. It is what difference we have made."
— Nelson Mandela

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