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The December Outlook

Market Stance

CENTRAL BANKS

Expectations for further monetary easing have whipsawed lately. The synchronised global easing cycle appears to be ending

Commentary

- The Federal Reserve appears more hawkish after October's "insurance cut"
- The lack of US economic data, owing to the prolonged shutdown, leaves the FOMC with little visibility to base decisions on
- The BOE will likely continue its quarterly pace of rate cuts, while the ECB remains on hold. The BOJ may hike to curtail inflation

Upshot

- Diverging inflation trajectories and fiscal policies across developed markets will create investment opportunities for global bond investors

UK BUDGET IMPLICATIONS

Public spending remains high, forcing the government to favour broad tax hikes over structural reforms

Commentary

- The relief rally was driven by a fiscal forecast downgrade that was less severe than feared, meaning a deficit reduction required fewer tax hikes than anticipated
- The Debt Management Office (DMO) announced it would reduce long-dated and index-linked gilt issuance in favour of medium-term debt, surprising markets positively

Upshot

- We think that the budget's fiscal backloading, a further deterioration in the UK's fiscal position, political uncertainty, and sticky inflation argue against sustained rallies in long gilts

EQUITY MARKETS

The strong recovery in stocks in the second half of the year, particularly those linked to Artificial Intelligence, leave broader equity indices vulnerable

Commentary

- On some measures, global equity markets trade on valuations not seen in decades
- AI exposures are at the core of this revaluation, but other more traditional sectors (e.g. banks) have also been re-rated

Upshot

- Strong profits growth can sustain current multiples, but downside risks are elevated should the macroeconomic or earnings backdrop deteriorate

SARANAC MULTI-ASSET POSITIONING

There are no immediate catalysts for the prevailing 'risk-on' market phase to unwind, but risks are building

Commentary

- The soft-landing narrative lends itself to higher risk asset exposure, the valuation background points in the other direction
- Given these different pressures, positioning remains risk-aware, but not pessimistic
- Equities remain the largest contributor to risk, but cash weights are also very low, reflecting the significant exposure to alternative assets

Upshot

- Portfolio structure reflects the need to maintain exposure to market risk, but with sufficient diversification to allow for adequate returns to be realised in a more challenging market environment

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The Long Read

Beyond AI: The Long-Term Themes Driving Equity Markets

SNAPSHOT

For several years, artificial intelligence has dominated the global investment narrative. The extraordinary rise of mega-cap technology companies, particularly those tied to AI infrastructure, has shaped equity performance, index concentration, and investor sentiment. Yet even as AI remains a powerful structural force, the next decade of global equity leadership will be far broader than a single technological revolution.

Beneath the headline excitement around algorithms and compute power, a deeper and more varied set of global shifts is taking place. These shifts are rooted in industrial policy, the transformation of manufacturing industries, demographic changes, and the geopolitical restructuring of global trade. Together, they constitute a new macroeconomic landscape that will coexist with AI but also reshape capital allocation in profound ways.

In this article we explore these four major secular themes poised to influence global equity markets well beyond the current AI cycle.

1. A New Era of Industrial Policy and Infrastructure Investment

One of the most significant developments in the global economy is the resurgence of industrial policy and large-scale public investment. After decades in which governments adopted a relatively hands-off approach, leaving most capital allocation to the private sector, the strategic vulnerabilities exposed by recent geopolitical events, climate change, and ageing infrastructure have caused policymakers to rethink their approach. The result has been an extraordinary wave of investment commitments from governments in the United States, Europe, Japan, and other advanced economies.

In the United States, the scale of fiscal intervention is without precedent in the past half-century. The Inflation Reduction Act, although somewhat constrained under the current U.S. administration, directs more than $300bn toward climate and energy programmes, while the CHIPS and Science Act allocate over $50bn to semiconductor manufacturing incentives, along with substantial tax credits designed to reshape the domestic manufacturing ecosystem. Alongside these initiatives, the Infrastructure Investment and Jobs Act represents a multi-year commitment worth approximately $1.2tn, with major investments in transport networks, digital infrastructure, clean water systems, and grid modernisation. These three pieces of legislation collectively amount to the largest coordinated industrial-policy effort since the 1960s, reshaping the long-term demand profile for a wide range of industries.

Europe has pursued a similarly ambitious agenda through the Green Deal Industrial Plan and other initiatives. Together, these programmes channel more than €600bn toward renewable-energy expansion, electricity-grid reinforcement, low-carbon manufacturing, and strategic technology development. Japan, for its part, has recently launched a stimulus package worth more than ¥20tn, focused on advanced manufacturing, energy security, and cost-of-living support for households.

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Even countries with historically conservative fiscal policies, such as Germany, have committed to deploy significant public resources to reinforce industrial competitiveness and national security.

Industrial policy has therefore moved from the fringes of economic thought to the centre of global economic strategy. Historically, when governments coordinate large, sustained flows of capital into target industries, those industries experience multi-year earnings stability and meaningful barriers to entry. Unlike typical cyclical infrastructure booms, this new era of industrial policy is explicitly strategic, tied to national security, energy independence, technological competitiveness, and economic resilience. As a result, the investment outlook appears structurally stronger for sectors including semiconductors, defence, and of course renewable power generation and related industries.

Alongside this resurgence in industrial policy is the equally important global infrastructure investment cycle. Much of the physical infrastructure in advanced economies is decades beyond its intended lifespan. In the United States, for instance, tens of thousands of bridges are classified as structurally deficient. Water systems in parts of Europe experience excessive leakage rates, while Japan faces rising maintenance costs due to infrastructure built during the rapid economic expansion of the mid-twentieth century. Climate change has only intensified the urgency of reinvestment. Estimates from the OECD suggest that without systematic upgrades, climate-related infrastructure damage could reach $1tn per year globally by mid-century. This suggests that the rebuilding cycle is not a temporary fiscal outlay but a structural necessity.

As governments and private companies commit to long-term investments, the equity implications are significant. Engineering and construction firms, industrial-equipment manufacturers, and transport-infrastructure operators are all poised to experience multi-year growth in order backlogs. These businesses have historically been treated as cyclical, but the new investment landscape provides them with greater revenue visibility and stability, characteristics investors tend to reward with higher valuations. In this respect, industrial policy and infrastructure renewal together represent one of the most powerful non-AI secular drivers of global equity markets.

2. Automation, Robotics and the Transformation of Global Manufacturing

While AI has captured the public imagination through technological breakthroughs and computational advances, the quieter revolution underway in robotics and automation is equally transformative. The economic logic behind automation has strengthened considerably due to labour shortages, rising wage pressures, supply-chain bottlenecks, and the strategic necessity to reshore production. Across advanced and emerging economies, the demographic and cost realities of manufacturing are reshaping the incentives for investment in automation.

It is increasingly evident that the world is experiencing a structural decline in labour availability. The U.S. continues to exhibit significantly more job openings than unemployed workers, Japan's population is shrinking rapidly, and Europe faces the prospect of losing tens of millions of working-age adults by the middle of the century. China's labour force, once an effectively limitless supply of workers, has already begun to contract, having declined by more than 40 million people since its 2015 peak. These pressures mean that labour-intensive manufacturing models are becoming increasingly difficult to sustain.

In this context, the adoption of industrial robotics has accelerated dramatically. Robot density – the number of robots per ten thousand manufacturing workers – has reached extraordinarily high levels in countries such as South Korea, Singapore and Japan. The United States and Europe have also experienced rapid increases in robot adoption as companies respond to demographic and cost pressures.

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Importantly, automation is no longer confined to just the automotive sector. Electronics production, pharmaceuticals, warehousing, agriculture, and food processing are all adopting sophisticated automation systems. In logistics specifically, the growth of e-commerce has driven demand for automated picking, handling, and sorting systems, reducing labour intensity and increasing throughput predictability. Many fulfilment centres now rely on robotic infrastructure to maintain efficiency during peak cycles, with automation reducing labour costs by as much as 40%.

The latest generation of automation systems is qualitatively different from earlier iterations. Improvements in sensors, machine vision and software integration mean that robots can now support smaller production runs, rapid product-line changes, and higher-precision manufacturing. They are increasingly interoperable with AI-powered optimisation tools, allowing companies to integrate both physical automation and digital intelligence into unified manufacturing architectures. Automation is becoming a strategic capability rather than a tactical cost-reduction measure. This transition supports a robust investment outlook for companies in the robotics and automation supply chain, ranging from hardware manufacturers to systems integrators and industrial-software platforms.

As global manufacturing becomes more diversified and regionalised, automation provides companies with a means of maintaining competitiveness while reducing geopolitical exposure. The long-term capex cycle attached to this transformation is substantial and appears well supported by structural economic forces.

3. Fragmented Globalisation and the Reconfiguration of Trade

Although popular narratives often describe globalisation as retreating, the reality is more nuanced. Rather than collapsing, globalisation is reorganising into a network of regional, strategically aligned blocs.

The lessons of the past decade – trade conflicts, pandemic-driven disruptions, technological nationalism, and supply-chain vulnerabilities – have encouraged companies and governments to prioritise resilience and redundancy over cost minimisation.

Trade patterns reflect this evolution. The United States now imports more manufactured goods from Mexico than from China, reversing a multi-decade trend. Foreign direct investment into India has surged as multinational companies diversify manufacturing capacity away from East Asia. Southeast Asian economies such as Vietnam, Indonesia, and Malaysia have benefited significantly from supply-chain reorientation, with exports and investment flows rising sharply. Meanwhile, Eastern European economies are becoming increasingly important nodes in Europe's manufacturing ecosystem as companies seek to reduce dependency on longer, more exposed supply chains.

This shift toward regionalisation has important implications for equity markets. Countries positioned as alternative manufacturing hubs stand to gain from rising investment, employment, and infrastructure development. Companies that provide essential logistics services – shipping, rail freight, cross-border trucking, or air-cargo operations – are also central beneficiaries of more complex and geographically diversified supply chains. Similarly, firms involved in industrial real estate, particularly warehouse operators and logistics-park developers, are seeing sustained demand for properties close to key consumption centres.

As global supply chains become more distributed, companies that manage geopolitical risk effectively may see greater investor confidence and more stable earnings profiles. Conversely, firms that remain highly concentrated in geopolitically sensitive regions may face higher risk premia. The new era of "fragmented globalisation" therefore introduces a fresh dimension to equity analysis, in which supply-chain resilience becomes an increasingly important driver of valuation.

The Long Read

4. Demographics and Changing Consumer Behaviour

Demographic transitions represent one of the most powerful yet often underappreciated forces affecting global markets. Ageing populations in advanced economies are reshaping economic structures, consumption patterns, and labour dynamics. At the same time, younger generations are redefining consumer behaviour in ways that affect industries ranging from finance and entertainment to housing, travel and wellness.

Ageing is advancing rapidly across many economies. By 2030, one in five Americans will be older than 65, Europe's median age will exceed 46, and Japan's population will be among the oldest in recorded history. China is moving into a period of demographic contraction, which will have profound implications for its long-term growth trajectory. Ageing populations tend to spend more on healthcare, assisted living, and financial planning. These categories often exhibit structural growth rates above GDP and are likely to remain central to equity-market leadership in the coming decade.

At the same time, younger generations are shaping a very different consumer landscape. Millennials and Generation Z allocate a higher proportion of income to services, experiences, travel, and digital engagement. They are more likely to embrace subscription models, digital banking, online education, and cashless payments to name a few. Sustainability considerations also play a larger role in their consumption choices, influencing everything from transportation to food to housing. The companies that resonate most effectively with these preferences are gaining market share at the expense of legacy incumbents.

Migration dynamics add further complexity. As labour shortages intensify, immigration has become a key driver of economic growth in many advanced economies. Countries that succeed in attracting skilled migrants may experience higher growth, more robust consumer demand, and greater fiscal sustainability. This has implications for housing markets, education providers, healthcare systems, and consumer-goods companies.

Together, demographic change and evolving consumer behaviour are reshaping global demand in ways that will create winners and losers across sectors. Healthcare, financial services, technology-enabled consumer platforms, travel, and lifestyle companies all sit at the centre of these shifts.

Conclusion

Although artificial intelligence continues to be one of the most dynamic forces in global markets, it is not the sole driver of the next investment cycle. Industrial policy, ageing infrastructure, the transformation of manufacturing through automation, increasingly fragmented global trade, and shifts in demographics are all exerting long-term influence on corporate revenue and profitability. These forces are broader, more diversified, and in many cases more durable than the AI cycle alone. They represent a rebalancing of the global equity landscape, one in which leadership is likely to extend well beyond the narrow group of technology giants that have dominated recent years.

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