2026 Outlook: Listed Equities

Perspectives from the Impax Listed Equities team

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Listed Equities outlook

Despite the dawn of a new era of tariffs, ongoing geopolitical concerns and spasms of investor anxiety, global stockmarkets reached near all-time highs in 2025.

Market leadership remains highly concentrated, as it has since 2023. In the US – which accounts for 65% of the MSCI ACWI index of global shares – the 10 largest stocks account for 35% of the market, by value, up from 18% a decade ago.[1]

As we look towards 2026, we continue to take a critical view of certain valuations and expect more investors will rediscover a focus on fundamentals.

Is the 'AI bubble' going to burst?

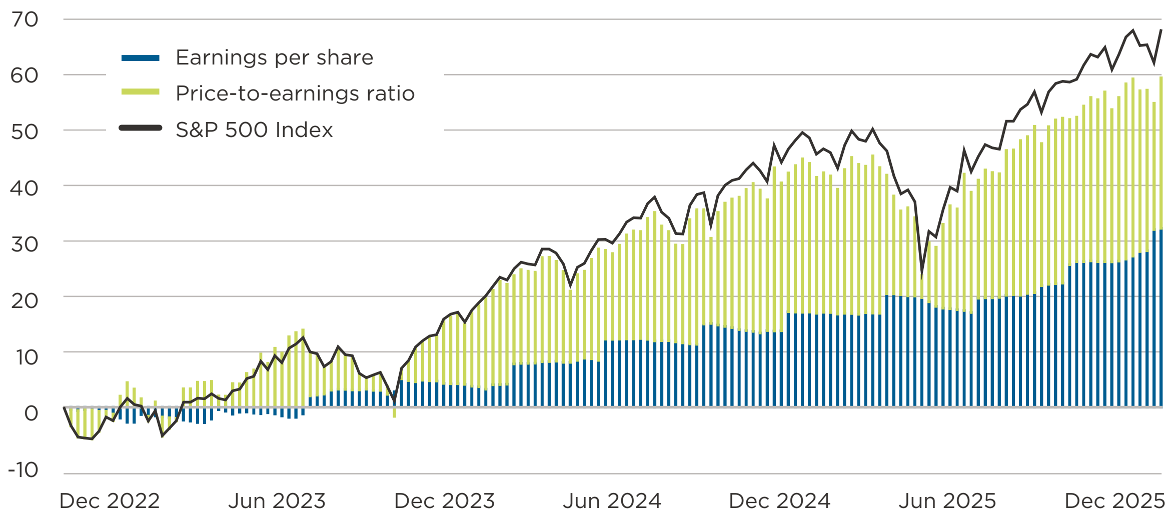
Excitement about the possibilities of artificial intelligence (AI) has dominated global equities – especially the US – since the pandemic. AI-related optimism about future earnings has been a key driver of expanding price-to-earnings multiples in the technology sector and, by extension, the US stockmarket at-large (see chart below). Overall, the S&P 500 Index of US shares trades on a forward price-to-earnings ratio of 22 times, versus a 30-year average of 17 times.[2]

It is beyond doubt that the advent of AI ushers in an era of potentially radical innovation and disruption across the global economy, but has reason given way to hype?

Optimism – not fundamentals – has driven much of recent gains

Contributions to S&P 500 returns: earnings versus price-to-earnings ratios (%)

Figures refer to the past. Past performance does not guarantee future results.



Source: Bloomberg, 2 December 2025. One-year forward earnings estimates (Bloomberg)

1 Morningstar, 2 December 2025: Beyond the Magnificent Seven: Unlocking Value in a Concentrated Stock Market
2 Bloomberg data, as at 30 November 2025

Past performance is not indicative of future returns.

Soaring interest in the possibilities of AI has led to a spike in AI-related investment, from all sectors, supporting demand for the products and services that enable the AI revolution.

Investor hype about many other businesses perceived to be at the vanguard of the AI revolution looks bombastic, however. There is clearly little room for disappointment among highly-rated technology stocks, which account for 31% of the S&P 500 index's total value but only 21% of earnings.[3] Unless projections of rapid AI-related earnings growth are realised, some reallocation of capital looks rational and probable.

In this context, we anticipate at least some rotation within equities into less highly-rated sectors and companies over the course of 2026. We expect investors to take a more critical view of companies' abilities to generate returns and so favour businesses' that are currently generating healthy returns on invested capital.

Will 2026 see an M&A boom?

Having peaked in 2021 – the *fin de siècle* of the ultra-low interest rate climate across developed markets – global mergers and acquisitions (M&A) activity has since remained relatively subdued.[4]

Momentum is now building again, supported by falling interest rates and a relaxation in regulatory restrictions on M&A in the US. Global deal value was 10% higher in the first nine months of 2025 than in the same period in 2024.

High-value M&A activity has notably rebounded. During the first nine months of 2025, there were a total of 27 megadeals – those valued at US$10bn or more – up from 21 over the first nine months of 2024.[5]

Leading indicators of future deal activity, such as BCG's M&A Sentiment Index, point towards an acceleration in M&A, particularly in the technology and energy industries.

Private equity firms continue to hold substantial dry powder: roughly US$2tn is estimated to be waiting to be deployed.[6]

It is smaller and mid-sized companies, whose share prices are more often out of step with the intrinsic value of a business, that would stand to disproportionately benefit from an uptick in M&A, in our view.

3 Murugaboopathy, P., 25 November 2025: US tech valuations stretched further as earnings contribute less. *Reuters*
4 BCG, October 2025: The 2025 M&A Report
5 BCG, October 2025: The 2025 M&A Report
6 Finalis, November 2025: Dry Powder in 2025: Private Markets Poised for Deployment

Past performance is not indicative of future returns.

Can emerging markets continue to outperform?

Emerging market stocks have enjoyed a stellar 2025, outperforming global equities for the first time since 2020.[7]

Recent outperformance, which has been supported by the relative weakening of the US dollar, has four key drivers. First, macroeconomic conditions have been supportive with stable policies and moderate inflation, as well as falling interest rates, in core emerging market economies including India and South Korea. Second, and related, US-China trade tensions have eased since earlier in 2025, benefiting emerging market exporters to the US. Third, relative valuations at the start of the year primed emerging market equities for outperformance: they ended 2024 at near 20-year lows relative to US equities. Fourth, several leading emerging market companies play a key role within the AI supply chain and global data centre build-out – a major theme for 2025, of course.

In our view, each of these factors looks set to remain supportive for emerging market equities into 2026.

Crucially, too, the prospects for emerging market equities into 2026 and beyond are supported by Asian companies' technological leadership in fast-growing niches within the new economy.

It is true that, after exceptionally strong share price gains in 2025, the valuations of certain Asian AI-related stocks (as elsewhere) look stretched, in our view. However, opportunities are arising in other technologies where emerging market companies are world leading. These include established technologies that are being rapidly adopted – like EVs and batteries – as well as earlier-stage technologies like robotics.

7 MSCI, December 2025: MSCI Emerging Markets Index (USD)

Themes in focus for 2026

As we look into 2026 and beyond, we are focused on compelling multi-year investment opportunities created by secular drivers of growth arising from the transition to a more sustainable economy.

These drivers are diverse, as environmental and societal challenges influence every part of the global economic value chain. Below, we highlight four areas of thematic opportunity where the Listed Equities team has high conviction.

1 Healthcare innovation

We perceive compelling opportunities in the US$10tn global healthcare industry for companies whose products and services can reduce the cost of healthcare delivery while improving patient outcomes.[8]

Looking into 2026, we see two overarching factors that should support the prospects for innovative healthcare solutions providers:

1. **Fiscal pressures –** In the US, where healthcare system costs account for almost 17% of GDP, the federal deficit exceeds 6%.[9, 10] Given that labour accounts for roughly 60% of US hospital costs, solutions that reduce the labour-intensity of delivering treatment should benefit from strong underlying demand growth.[11] The UK's NHS public healthcare system is meanwhile accelerating its adoption of robotic surgery to cost-effectively reduce patient waiting times.
2. **Return of M&A activity -** Drugs with combined global sales exceeding US$100bn are due to lose protection from generic competition, including biosimilars, in 2027 and 2028. In the face of this looming 'patent cliff', there is pressure for 'Big Pharma' to bolster product pipelines by purchasing promising drugs in late-stage trials.[12]

2 Implementation of AI

We are focused on stocks that are already harnessing the potential of AI, either to improve their services or to realise financial savings in their operations.

Looking into 2026, we see two overarching reasons why software and industrial companies that are implementing AI effectively look well-placed for resilient growth.

1. **Questions over the AI build-out** – The prospective returns on investment from AI-related capital expenditure (capex) are increasingly under scrutiny at a time when the data centre build-out is increasingly being financed by debt, not from balance sheets.[13] Irrespective of these concerns, software and industrial companies can continue to leverage the growing power of AI to improve their services and operations. As well as not being exposed to the build-out risks, any overcapacity in computing power would be to their commercial advantage.
2. **Robust earnings growth** – Reported profits continue to rise among leading software providers that are leveraging AI within their services. In our view, valuations among these types of companies often look more compelling looking into 2026 than those of businesses more directly involved in the build out of AI infrastructure.

Case studies are provided for illustrative purposes only.

8 World Economic Forum, 2024: Is this how healthcare will be optimized in the future?
9 OECD, 2025: Health Statistics 2025
10 Federal Reserve Bank of St. Louis, 2025
11 American Hospital Association, 2024: Cost of Caring Report
12 Evaluate data in Kuchler, H. & Temple-West, P., 9 July 2025: The looming 'patent cliff' facing Big Pharma. Financial Times
13 Vlastelica, R., 21 November 2025: Big Tech's Debt Binge Raises Risk in Race to Create an AI World. Bloomberg

3 Water security

Stress on water systems is being exacerbated by population changes and economic growth, as well as the impacts of climate change: droughts and floods are becoming more frequent and intense as global temperatures rise.[14]

Looking into 2026, we see three reasons why the opportunity set for solutions to the challenges of water scarcity and quality looks set to continue expanding:

1. **Data centre / AI demand** – With data workloads rising by around 20% a year, local water scarcity risks and financial considerations are incentivising data centre operators to invest in technological solutions that reduce water consumption.[15]
2. **Water availability concerns** – Widespread droughts in 2025 highlighted the economic risks posed by increasingly volatile rainfall patterns. As the price of clean water continues to better reflect its economic value, we expect investment in water management solutions to rise.
3. **Regulation** – The regulatory ratchet continues to tighten on drinking water quality within the EU. Utilities typically partner with laboratory service providers to test samples and ensure drinking water meets local regulations.

4 Shifting consumer habits

As spending gradually shifts online, we believe platforms that leverage technology to efficiently offer tailored, high-value experiences, subscriptions and marketplaces should be well-placed.

Looking into 2026, we see three reasons why the opportunity set for digital service providers looks well positioned for resilient growth, irrespective of macroeconomic conditions:

1. **Rise of younger consumers** – The purchasing power of Generation Z is growing at twice the rate of previous generations' at the same age and is on track to eclipse baby boomers' globally by 2029.[16] We expect this to turbocharge the shift online, and towards services and experiences.
2. **AI-driven opportunities** – Incumbent digital platforms can leverage rich datasets on consumer preferences to improve user experiences. Successfully leveraging the potential of AI tools should lead to a self-reinforcing loop between customer data, quality of service and sales conversion.
3. **Resilient business models** – Capital-light digital platforms can generally sell their services globally without obstructive trade restrictions, making them less vulnerable to policy disruption in the tariff era.

As spending gradually shifts online, we believe platforms that leverage technology to efficiently offer tailored, high-value experiences, subscriptions and marketplaces should be well-placed.

Case studies are provided for illustrative purposes only.

14 European Environment Agency, June 2025: Climate change impacts, risks and adaptation
15 McKinsey, 2024: AI power: Expanding data center capacity to meet growing demand
16 McKinsey, June 2025: State of the Consumer 2025: When disruption becomes permanent. Generation Z generally refers to those born between 1997 and 2012

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