

Turning views into action

Three themes for winter 2026

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Updates to our investment outlook are underpinned by two key principles. Firstly, investing is all about the long term, so we try to identify opportunities that we think can stand the test of time. Secondly, we need to stay alert to opportunities and risks that might develop and adapt our outlook accordingly. Below, we outline how our existing investment themes have evolved and introduce some new ideas to position portfolios for today's markets.



Our investment themes for 2026:

1. Diversifying via US healthcare

We continue to favour exposure to the broad US stock market for access to the AI theme. However, the S&P 500 Index has become increasingly concentrated in tech. Adding US healthcare exposure could help to improve portfolio resilience, as the sector is supported by strong corporate earnings, steady demand and relatively attractive valuations.

2. UK dividends as an income source

We see opportunities to complement UK government bonds (gilts), which offer relatively resilient income, with dividend stocks. These pay regular income, while allowing investors to benefit if share prices rise. In the UK, dividend stocks are tilted towards sectors we like and offer relatively attractive income, in our view.

3. The EM opportunity

Emerging market (EM) stocks offer potential opportunities to diversify portfolios and tap into different tailwinds, in our view. China offers an alternative tech exposure versus developed market/US tech, while India provides a more defensive, less tech-heavy option that tends to be steadier when global tech stocks experience volatility.

1. Diversifying via US healthcare

We still have high conviction in US stocks, particularly given we still see opportunities in the AI trend in 2026 and beyond. However, the US stock market has become increasingly concentrated, with the technology sector now accounting for around 34% of the S&P 500 Index.¹ We see an opportunity to balance high-growth AI themes with more defensive sectors supported by steady earnings, such as US healthcare.

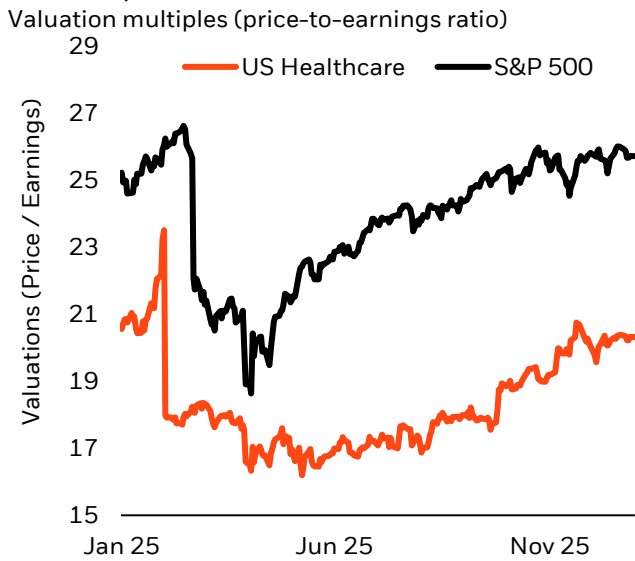
The sector also offers defensive growth – that is, it may be able to grow even if the broader economy slows, as people still need healthcare products and services. It can also help diversify portfolios given its relatively low correlation with US tech.

US healthcare remains a high-conviction area for us. It has solid fundamentals – meaning companies generally have healthy balance sheets, predictable demand and stable cash flows. Healthcare companies showed this resilience in Q3, delivering 6% year-on-year earnings-per-share (EPS) growth and beating average investment analyst earnings forecasts by 12%.² Corporate earnings matter because they can impact share prices: rising earnings give companies room to invest, return cash to shareholders and support long-term returns. US healthcare stock valuations look attractive, with the sector trading at a 20% discount to the broader S&P 500 Index on a price-to-earnings (P/E) basis.³

1 Source: Bloomberg, as of 12 January 2026. **2** Source: JP Morgan, as of 14 November 2025. **3** Source: Bloomberg, as of 8 January 2026.

Investor sentiment has improved as global flows into exchange-traded products (ETPs) tracking the sector turned positive in 2025, with \$7.1B of inflows after two years of outflows.⁴

Chart 1: Valuations for US healthcare stocks look attractive, relative to the broader US stock market



Source: Bloomberg, as of 5 January 2026.

2. UK dividends as an income source

We see income as an important source of resilience, as it can help cushion portfolios during periods when growth-oriented assets come under pressure. Growth-oriented assets are typically investments that rely more on rising prices for returns and tend to be more sensitive to changes in interest rates or economic conditions.

By contrast, income-oriented assets focus on providing regular cash flows, through interest or dividends, which can help smooth returns during more volatile market periods.

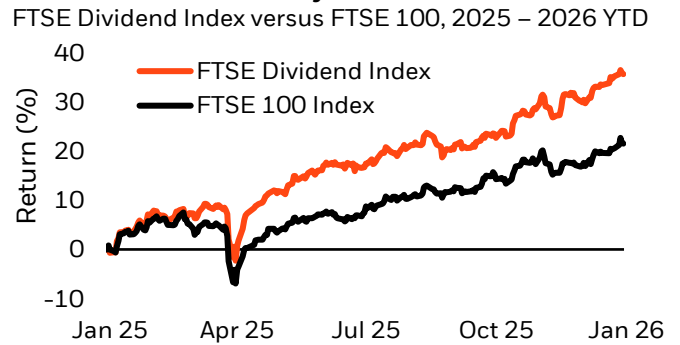
In previous Outlooks, we've highlighted UK government bonds, or gilts, and corporate bonds as ways to access this resilience, and we continue to see a role for both of these as part of diversified income allocations. At the same time, given ongoing market volatility and the modest levels of income available from some bond markets, we see merit in broadening sources of income.

We are therefore looking at income stocks – also known as dividend-paying stocks – as another way to unlock reliable income. Adding exposure to companies that pay regular dividends can help strengthen portfolios by providing a steady income stream, while still offering potential for share price growth.

The broad UK stock market has historically been a strong source of income. Investors may be able to tap into even more attractive income opportunities through exposures focused on companies that not only pay relatively high dividends, but also appear well placed to sustain them.

UK dividend stocks also tilt toward financials – a sector we like, particularly as we see tailwinds for banks.

Chart 2: UK dividend income stocks have outperformed the broad UK market last year



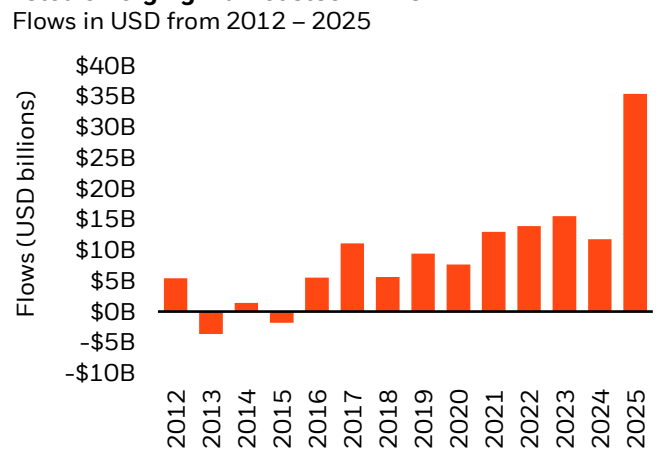
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3. The EM opportunity

Emerging markets (EM) are becoming an increasingly important component of global stock portfolios, building on themes we discussed throughout last year, including our conviction in India. Supportive economic conditions and distinct growth drivers make the case for EM exposure particularly compelling. Many EM central banks are cutting interest rates and are likely to continue, while developed market central banks have also lowered rates but appear close to the end of their rate-cutting cycles.

EM exposures may offer diversification benefits. They can provide an alternative source of tech exposure, through markets such as China. Markets such as India are less tech-heavy and supported by long-term drivers including digitalisation, population growth and strong domestic investor participation. Indian stocks may also be supported by an improved earnings outlook, which has led to valuations becoming more reasonable. The forward P/E ratio for the MSCI India Index has eased to 25.2x, down from the peak of 30.7x in October 2020, as stronger earnings growth has outpaced price appreciation.⁵

Chart 3: 2025 was a record year for inflows into EMEA-listed emerging market stock ETPs



Source: BlackRock and Markit, as of 11 December 2025.

⁴ Source: BlackRock and Markit, as of 31 December 2025. ⁵ Source: Bloomberg, as of 12 January 2026.

Performance of stock market indices referenced in this document, 2020-2025

	2020	2021	2022	2023	2024	2025
FTSE Dividend+ Total Return Index	-16.2%	24.2%	-1.5%	6.9%	12.8%	33.0%
FTSE 100 Total Return Index	-11.5%	18.4%	4.7%	7.9%	9.7%	25.8%
MSCI India Net Total Return Index	15.6%	26.2%	-8.0%	20.8%	11.2%	2.6%

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: Bloomberg, as of 31 December 2025.

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