



2026: Mind the (Possible) Precipice Ahead

Next year could find financial markets close to the cliff edge, as many analysts are predicting. However, while warning signs are certainly flashing, it is also possible that the year will come and go without much ado. If recent history has shown us anything, it's that markets can be surprisingly resilient in the face of adversity, especially if central bankers have got their backs, as was the case since 2008.

Will the bull keep on running?

One of the main causes of concern for 2026 is the seemingly endless bull run in global equities. Since 2010-11, global equity markets have enjoyed almost uninterrupted growth. The only two years of real decline were 2021 and 2022. Granted, Trump's "Liberation Day" tariffs almost triggered a bear market but the recovery was so fast that it has already been forgotten.

It is highly unusual for global stock markets to keep going up for so long. Perhaps now is a good time to ask yourself: "Am I over-exposed?"

Of course, it's a fool's errand to try to predict the future direction of global markets or the timing of a crash. It's perfectly possible that this next time next year the markets will be even higher, perhaps even much higher, than they are today. At the same time, however, the risks are multiplying.

One of the biggest risks is the unprecedented concentration of wealth and growth in global equity markets.

The combined value of the top five companies in the world by market cap – Nvidia, worth \$4.3 trillion as of the time of writing (25 November), Apple (\$3.9 trillion), Google (\$3.6 trillion), Microsoft (\$3.5 trillion) and Amazon (\$2.3 trillion) – is roughly equivalent to one-fifth of the net market cap of the FTSE All-World Index (\$79 trillion).

Three key assumptions

In other words, the massive and probably unsustainable growth in US tech stocks is not just a US problem, it's a global problem. Also, the continued future growth of these stocks – and equities in general – rests on three key assumptions, none of which can be taken for granted:

1. **Western economic growth will continue.** This is by no means guaranteed, especially with the current levels of public debt and political uncertainty. Indeed, the cracks are already showing.
2. **The current world order will remain intact.** The global order is already under heavy strain as geopolitical tensions rise. If the centrifugal forces continue to grow, there are no guarantees it will hold out.



3. **The promise of Artificial Intelligence (AI) must pay off.** AI's breakneck growth rests on the assumption that developments in AI and robotics will continue to advance at the same pace as they have done to date. There is no guarantee that will happen or that the financial returns of developments to date will end up meeting expectations.

All three of these assumptions, like all assumptions, are based on what is expected to happen in the future, not what is happening today. As such, there is no guarantee that all three will pan out. In fact, the chances are very slim. We are already seeing big cracks in the AI boom, upon which most of the US' economic growth now depends. Meanwhile in Europe, stagnation, or even stagflation is the order of the day.

A very different reality

On the other hand, we now live in a world where monetary policy keeps saving the day. At the slightest sign of trouble, there's always a deep monetary response.

Each time this happens, however, a bigger response is needed. And each response brings with it unintended consequences, which are also growing in size and severity. The last big bailout, during the 2020 COVID-19 crash, was the largest yet, and it unleashed levels of inflation not seen in decades.

During the preceding decade or so (2008-2021), money had been more or less free as zero and even negative interest rates became the norm. Now, financial reality has finally returned in the form of higher interest rates and bond yields.

While the amount of debt in the system may not have changed much since 2021, the cost of servicing that debt has skyrocketed. As we have seen in the UK, France and Japan, bond markets are now far less tolerant of excess public spending.

To compound matters, the UK government can no longer rely on a steady demand for its gilts from a forced, guaranteed buyer. The defined-benefits pension fund sector, once the biggest net buyer, has been a net seller since the 2022 Gilts Crisis.

Navigating a year of living dangerously

This is not to say we will necessarily see a market crash in 2026, as many are warning. After all, we've been here many times before. At the end of 2011, when Europe was mired in its sovereign debt crisis and Spain and Italy appeared to be on the verge of collapse, many were similarly predicting disaster for 2012.

Yet it never happened. Instead, in June 2012, European Central Bank Chairman Mario Draghi famously promised investors he would "do whatever it takes" to keep Europe's financial system intact. Those four words were enough to calm investors' nerves, allowing global stock markets to end the year on an unexpected high.



Could the same happen next year? Absolutely.

That said though, there is still a very real risk that financial markets will tumble off the cliff due to one, or more, of the stress factors mentioned above.

Keep your options open

So, how can investors prepare for such diametrically opposed potential outcomes without exposing themselves to too much risk or missing out on big returns if the bull run continues, or even accelerates?

One way is through options. Options strategies can allow you to participate in the upside if the bull market continues or accelerates while minimising your downside risks, just in case there is a sharp downturn. The beauty of options trading is that it allows you to tailor your investment journey to your own particular circumstances and objectives

Alternatively, investors can look to assets that typically do well in a sell off. However, with gold at record highs and the typical defensive assets of treasuries and the US dollar potentially at the epicentre of a future crisis, the usual suspects might not work. For investors looking for protection in today's market, arguably a basket of less conventional hedged may be more appropriate.

Our final thoughts

Though many are currently predicting the worst, nobody truly knows what's in store for the markets in 2026. And while there's no crystal ball to help us there are quite literally, options. Investors who enter unpredictable times with well balanced portfolios designed to match their objectives and time horizons, while not immune to downside risk, will at least feel less surprised when it does arrive. As 2026 approaches, with its mix of opportunity and threat, keeping options in your portfolio isn't just a tactic, it's a parachute against the unexpected.

If you would like to discuss any of these matters further, please get in touch with your usual contact at Cartwright.

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