



## Investors Will Need to be Both Agile and Pro-Active in 2026

Following another year of all-time highs in equity markets, investors are looking forward to the year ahead with a mixture of optimism and skittishness.

Let's begin with the good news.

There's at least some cause for cheer and optimism as the new year begins, including the impressive resilience of global equity markets last year. Despite plunging stock markets into bear territory for a brief moment, Trump's tariffs were not (at least, not yet) the catalyst for crisis that some had feared.

Also, the recent end of the Federal Reserve's quantitative tightening program should signal the return of easier monetary conditions in 2026. That, in turn, should fuel more appetite for risk assets like equities. At the same time, however, it will increase inflationary pressures.

On the other hand, fundamentals are fraying under the surface. Both public and private debt are rising, defaults are increasing across income brackets, and private credit markets are displaying early signs of stress.

Meanwhile, the global equity rally is still dominated by mega-cap stocks tied to AI - a sector that is exhibiting increasingly bubble-like features - though there are tepid signs that the US market may be broadening out to include industrials and healthcare. That's before we get to the question of whether AI can actually deliver on its lofty promise. If these stocks falter, the broader market could tumble.

### An early warning sign?

The recent performance of the shares of two of the main companies involved in the US' AI boom, Oracle (down 40% since early September as of writing) and Nvidia (down just over 10% since early November) could be an early warning sign.

Given how jittery markets are right now, investors need to be both agile and alive to the shifting risks and opportunities. At the same time, they need to anticipate any potential surge in inflation unleashed by the central banks' accommodative policies and take pre-emptive action.

With central banks easing monetary policy during a time of already moderate inflation - in the UK, the consumer price index clocked in at 3.2% in November - the chances are that inflation will pick up sharply in 2026. Lowering rates may bring some temporary relief to debtors, including, of course, the government, but it will come at the price of further monetary debasement.



The challenge for investors will be reacting promptly. It could take some time: maybe two or three quarters for the inflationary effects to feed through, especially with the Bank of Japan's recent rate hikes sucking liquidity out of the global financial system. On the other hand, it could be much quicker.

Choosing the right moment to move into harder assets - be they harder currencies, such as the Swiss franc or the Singapore dollar; commodities, including, of course, precious metals; real estate, or Bitcoin - could protect against some of these risks. Choosing the "right moment" or "right amount" to invest will be a more nuanced decision and will very much depend on your views and circumstances.

### A fine balancing act

In short, it's about being both reactive to market developments and pro-active with regard to monetary developments. It's a fine balancing act.

Like the William Wallace character in Mel Gibson's *Braveheart* shouting "hold, hold, hold", it makes sense, in this context, to hold on to equities and other risk assets, especially with central banks looking to ease into an inflationary cycle. However, be ready to let go and change course if the underlying conditions change.

Given the growing pressures in government debt markets, it makes sense for most exposure to be only short-term in duration right now. Some exposure to wider credit markets is probably also warranted, but that means keeping a very close eye on the macro picture.

To provide good, steady returns, credit markets need relatively stable underlying macro conditions, such as moderate economic growth and low unemployment. Right now, most of those indicators are trending in the wrong direction in many advanced economies, including the UK and the US.

In the UK, unemployment just reached a four-year high of 5.1%, with white-collar jobs bearing the brunt. Ominously, the Financial Times recently reported that a "white-collar recession" is emerging in the US, suggesting that a decisive shift is also taking place in the structure of the US economy.

Most of the US's economic growth this year is the result of the AI boom. That boom is now destroying well-paid white-collar jobs. In the UK, meanwhile, economic growth is all but anaemic. Plus, Labour's tax-heavy budget was hardly growth-friendly.

So, again, "hold, hold, hold," but be ready to change course if the underlying conditions worsen.

### Geopolitical risks

Another potential source of risk in 2026 is the accelerating breakdown of the rules that govern global markets and trade.



The European Union was recently forced to back down on its threat to “permanently” seize frozen Russian assets in the bloc’s banks after failing to achieve a broad consensus. But it’s unlikely we’ve seen the end of this saga.

In mid-December Russia’s central bank filed a lawsuit against Euroclear, Brussels’ main clearing authority, seeking 230 billion euros over its seized assets. It is far from clear how this issue will ultimately be resolved, but suffice to say that investors in European assets are no longer just concerned about the return ON capital, but also the return OF capital.

We’ve already seen how the weaponisation of the dollar in recent years has intensified the de-dollarisation of global trade, prompting more and more countries to settle their trade with bilateral swaps as well as increase their gold reserves as a stable, sovereign alternative.

Likewise, the weaponisation of the euro could lead global investors to move their capital elsewhere, which will heap even further pressure on Europe’s fiscal and economic health. Another example of this trend was the Trump administration’s decision in December to start seizing tankers transporting Venezuelan oil in the Caribbean.

The US’ decision in early January to launch a military assault on Caracas and abduct Venezuela’s head of state, Nicolás Maduro, in a bid to seize control of Venezuelan oil, whose biggest buyer is China, has further escalated tensions between the major powers. So, too, has the seizure of a Russian tanker in early January.

Some geopolitical analysts have warned that the US’ attack on Venezuela and its brazen attempt to take over the country’s oil sector represents the final blow to the international rule of law. Trump has also threatened to seize Greenland, a territory that has belonged to Denmark since the early 18th century, as well as launch military attacks against Cuba, Colombia and Mexico.

This gradual breakdown of the basic rules governing global markets, trade and international law is certainly a trend to watch closely in 2026. With different challenges emerging in different jurisdictions, investors need to focus not only on *what* is happening but *where* it is happening.

## Final thoughts

For an investor with a long-term strategic portfolio in place, the correct action is likely to remain “hold”; however before simply defaulting to this position, investors would do well to sense-check what they already own;

- Was your current strategy reviewed recently?
- Is your equity exposure overly concentrated in a small number of stocks or themes?
- Are credit holdings of the correct duration to withstand further stress, while being tailored for your particular objectives and timelines?



- Does your portfolios contain any meaningful protection against renewed inflation or currency debasement?

Holding still makes sense in many cases but investors who don't have well diversified portfolios customised to their objectives would certainly benefit from a refresh.

**We're here to help you review and fine-tune your strategy. Get in touch with your usual contact at Cartwright or contact [enquiries@cartwright.co.uk](mailto:enquiries@cartwright.co.uk) to sense-check your portfolio.**

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