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# INSIGHT INVESTMENT

## THOUGHTS FOR 2026

NOVEMBER 2025

# EXECUTIVE SUMMARY

## GLOBAL RATES: LIQUIDITY MEETS OPPORTUNITY // 4

Global cash balances have surged as investors flocked to money market funds to take advantage of higher interest rates. If the Fed eases policy over 2026, as expected, this liquidity is poised to migrate into bond markets as investors seek to take advantage of steeper yield curves. For those with flexible mandates, a global approach can unlock compelling relative value opportunities. For example, Japanese government bonds have offered a meaningful yield premium over US Treasuries and German bunds for much of 2025 when hedged into dollars or euros.

## GLOBAL INFLATION: A HIGHLY UNUSUAL CYCLE // 6

Inflation forecasts for 2026 highlight a sharp divergence across developed economies. In the eurozone and Japan, inflation is expected to remain below central bank targets while in contrast, the UK and US are projected to face persistently elevated price pressures. This divergence helps explain why the European Central Bank (ECB) has led the easing cycle. The Fed and Bank of England face a more delicate balancing act. Both are expected to ease policy despite inflation remaining well above target – unprecedented within recent history and underscoring the unusual nature of the current cycle.

## MULTI ASSET: TECH INVESTMENT TO UNDERPIN GROWTH? // 7

US corporate profitability has remained exceptionally strong, with profit margins at multi-decade highs, providing a stable foundation for investment and growth. This has particularly benefited US tech giants, who are now driving a multi-year AI-led capex boom. While headline investment figures may be overstated, even conservative estimates suggest a scale of spending that could meaningfully support global growth. With data-centre expansion accelerating worldwide, this investment cycle offers the potential for near-term resilience amid broader economic uncertainty – this leaves us cautiously optimistic on the outlook for risk assets, but with a close eye on the downside risks.

## INVESTMENT GRADE CREDIT: WHY CREDIT STILL MAKES SENSE // 9

When faced with absolute yields that are high relative to history and spreads towards the tighter end of historical ranges, we believe that for most investors yield trumps spreads. Yield is also just the starting point for returns for active managers in credit markets. In low-growth environments, credit has typically outperformed equities, as companies are able to make debt repayments even if they are struggling to expand earnings. We believe 2026 should be a compelling environment for active managers to exploit inefficiencies and mispricings in what is a structurally opaque market, making manager selection a critical decision.

## MUNICIPAL BONDS: A SWEET SPOT BETWEEN TREASURIES AND CORPORATES // 11

In our view, US municipal bonds offer a compelling middle ground between Treasuries and corporate credit, combining attractive yield premiums with improving credit fundamentals. Supported by strong state finances, steep yield curves, and favourable technicals, we believe munis are well-positioned to deliver both resilience and return in a low-growth environment – making them a valuable addition to global fixed income portfolios.

## GLOBAL HIGH YIELD: TIME TO RETHINK HIGH YIELD RISK // 12

High yield credit has undergone a structural transformation, with improved issuer quality, disciplined debt management strategies, and persistently low default rates supporting tighter spreads. The rise of private credit has shifted riskier borrowers out of public markets, raising the overall credit profile of the asset class. With attractive yields and a history of resilience through economic cycles, we believe high yield remains a viable alternative to equities – particularly in a low-growth environment where history suggests high yield should outperform.

## SECURED FINANCE: EXPLOITING THE AI INFRASTRUCTURE BOOM // 14

As tech giants ramp up spending on data centres, cloud platforms, and fibre networks, much of this investment is being funded via debt – often at a premium to traditional corporate bonds. The expanding asset-based finance (ABF) market offers tailored risk profiles and attractive spreads but demands specialist expertise in credit analysis and deal structuring. For investors with the right capabilities, this complexity premium presents a compelling way to access the next wave of digital transformation.

## EMERGING MARKETS: BACK IN FOCUS // 16

Emerging market debt is entering 2026 with a broadly attractive outlook across corporates, sovereigns, and local currency bonds. Offering a compelling yield advantage, improving fundamentals, and strong diversification benefits, the asset class is drawing renewed investor interest. Despite pockets of geopolitical risk, the breadth of the emerging market universe allows investors to navigate selectively and tap into domestically focused opportunities insulated from global shocks.

## GLOBAL CURRENCIES: DOLLAR AT A CROSSROADS // 17

The US dollar faces a pivotal year in 2026, with its recent retreat from historic highs prompting questions about whether it will rebound or enter a sustained decline. While the dollar remains the global reserve currency, its era of exceptional outperformance may be ending amid rising fiscal concerns, political uncertainty, and a deteriorating international investment position. A weaker dollar could reshape global asset flows, narrow valuation premiums on US assets, and prompt investors to reassess currency exposure, especially if interest rate differentials between the US and other major economies narrow.

# GLOBAL RATES

## LIQUIDITY MEETS OPPORTUNITY

### A wall of cash could head into bond markets

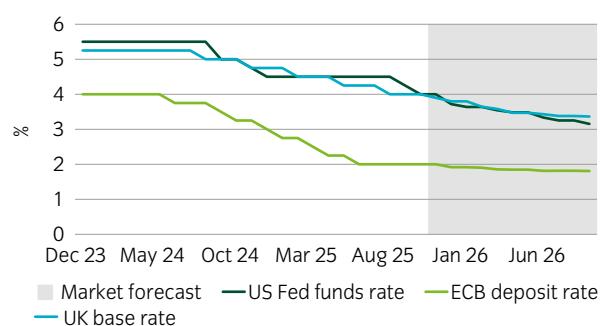
The past few years have seen a dramatic shift in investor behaviour, driven by central banks normalising interest rates as they battled the post-pandemic surge in inflation. As cash rates soared, money market funds (MMFs) became an attractive investment choice for both retail and institutional investors – offering attractive yields with minimal risk and high levels of liquidity. Following the global financial crisis, MMF balances remained stable for years at around \$3trn in the US. But by mid-2025, US MMF assets reached \$7.4trn, up \$2.3trn since the Fed began hiking rates in early 2022 (see Figure 1). In the UK, cash ISAs saw inflows of £47.2bn in 2023<sup>1</sup> – more than the previous eight years combined.

More recently, central bank policy has diverged, with the European Central Bank (ECB) easing more aggressively than its developed market peers. However, the Federal Reserve is expected to close this gap through 2026 (see Figure 2). As cash rates decline and yield curves steepen, we anticipate a natural migration of investors out of cash and along the curve – potentially unleashing a wave of liquidity into bond markets.

Figure 1: Cash held in US dollar money market funds<sup>2</sup>



Figure 2: The Fed is projected to keep cutting into 2026<sup>2</sup>



### Global opportunities abound

For investors with sufficient flexibility embedded in their mandates, adopting a global approach unlocks a broader opportunity set – spanning both outright and relative value strategies. A compelling example can be found in Japan, where government bond (JGB) yields have steadily risen throughout 2025, even as interest rate differentials between Japan and other developed markets remain high. This dynamic has created an interesting environment for international investors: by purchasing JGBs and hedging the currency exposure back into dollars or euros, they can capture a yield premium that exceeds what's available from outright purchases of similarly dated US Treasuries or German bunds (see Figure 3). Cross-market strategies such as this can offer the potential to enhance returns or increase diversification.

Figure 3: JGB's offer a yield in excess of US and German government bonds on a hedged basis<sup>2</sup>



<sup>1</sup> Source: [Investment Management in the UK 2023-2024.pdf](#), (PDF), October 2024, Investment Association.

<sup>2</sup> Source: Insight and Bloomberg. Data as at 31 October 2025. Hedged JGB rate calculated using 1mth forward rate differentials.

## ROLLING DOWN THE CURVE

### HIDDEN SOURCES OF RETURN IN BOND MARKETS

Investors often think of bond investments as a function of the prevailing level of yields. But income is just the starting point for returns when investing in fixed income. When yield curves slope upwards, bonds naturally appreciate in price as they move closer to maturity and 'roll down the curve'.

Here's how it works:

- When a yield curve has an upward slope, longer-dated bonds offer higher yields than shorter-dated ones.
- As time passes, and assuming the yield curve remains unchanged, a bond's maturity shortens, and it moves into a lower-yield segment of the curve.
- This means that as it shortens in maturity, the bond's price rises because its yield declines.
- This price appreciation adds to the bond's total return, on top of the coupon income.

For example, consider an investor who purchases Japanese government bond #368, which pays a 0.2% coupon and matures in 2032. The investor buys the bond at a current market yield of 1.4% and in that segment of the yield curve, the slope is approximately -10 basis points per year. After holding the bond for one year, the yield declines by 0.1% to 1.3%, implying a price appreciation of around 60 basis points. The investor therefore earns 1.4% from the bond's yield and an additional 0.6% from the price gain as the bond rolls down the curve – resulting in a total return of 2.0%. After a year, the investor can sell the bond and reinvest in a new issue with a similar maturity to repeat the process. This illustrates how rolldown can be a meaningful contributor to returns in fixed income markets.

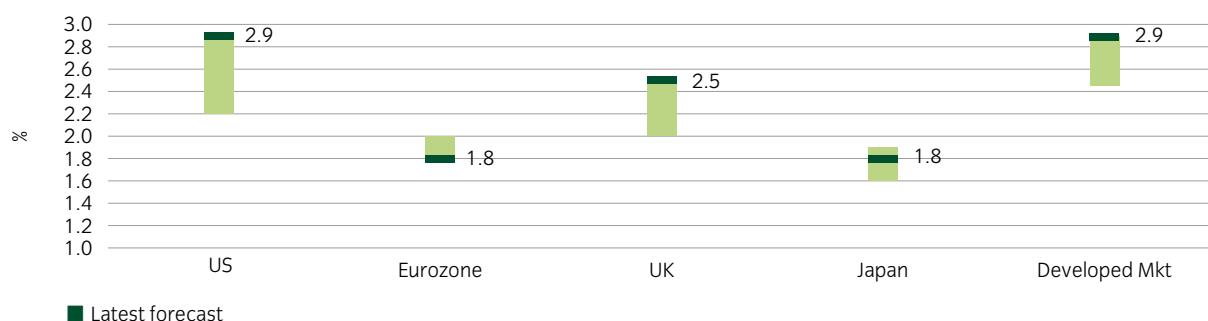
With yield curves expected to steepen as central banks begin cutting rates, rolldown is poised to re-emerge as a meaningful source of return in fixed income portfolios. This dynamic should be especially advantageous for managers with flexible mandates, who can actively target the most compelling areas of each yield curve.

# GLOBAL INFLATION

## A HIGHLY UNUSUAL CYCLE

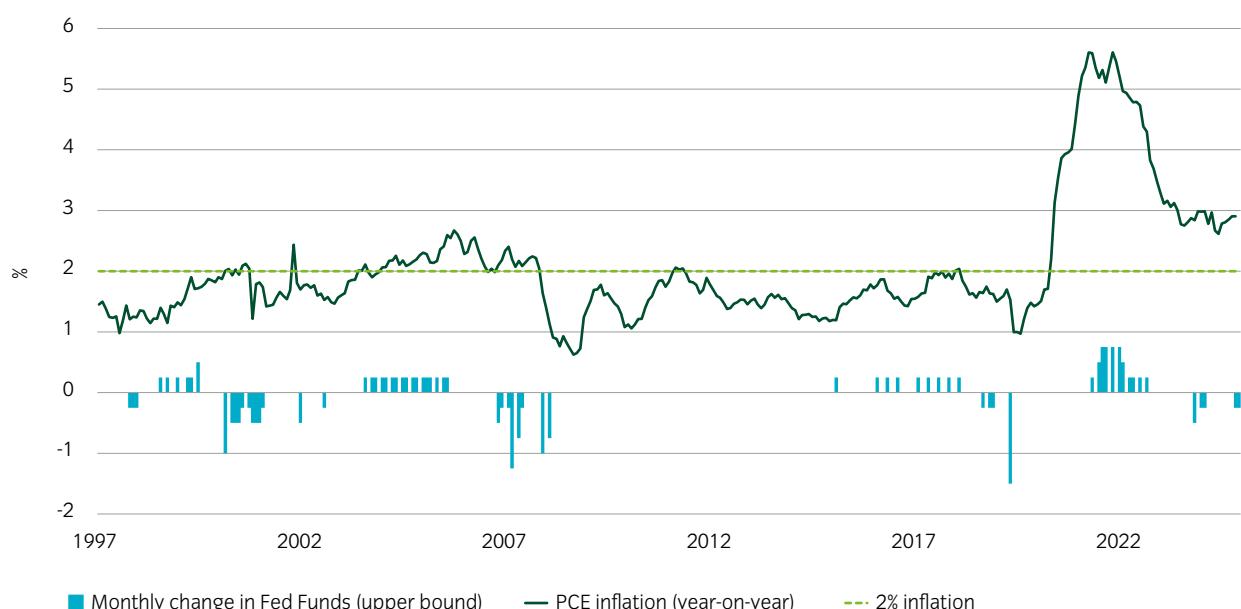
Looking ahead to 2026, inflation forecasts for the year reveal a striking divergence across the developed world. In the eurozone, expectations have steadily moderated, with consensus now pointing to inflation remaining below the ECB's 2% target, and down from initial projections (see Figure 4). Forecasters have upped their 2026 inflation forecasts for Japan, but they still expect inflation to remain comfortably below 2%. In contrast, the UK and, more notably the US, present a very different picture. Forecasts for both economies suggest inflation will remain well above 2%, with forecasters steadily increasing their expectations over time.

Figure 4: Forecasts for inflation in 2026 relative to the historical range of Bloomberg consensus forecasts<sup>3</sup>



Against this backdrop, it's clear why the ECB has found room to ease policy ahead of its peers, and why the Bank of Japan continues to tighten only gradually. In contrast, the Fed and Bank of England face a far more complex challenge. Both are navigating a scenario where inflation remains stubbornly elevated, yet growth and underlying labour markets are softening. Despite its dual mandate, as illustrated in Figure 5, it is unprecedented in modern history for the Federal Reserve to cut rates while inflation remains problematic, highlighting just how unusual the current cycle is. Much now hinges on whether labour market softness is sufficient to dampen inflationary pressures, and whether tariff-related price increases prove transitory.

Figure 5: There are no examples in recent history where the Fed has cut rates against such challenging inflation dynamics<sup>4</sup>



<sup>3,4</sup> Source: Insight and Bloomberg. Data as at 31 October 2025.

# MULTI-ASSET: MACRO TRENDS

## THE CURIOUS RESILIENCE OF US GROWTH

Despite widespread concerns about the economic fallout from escalating trade tensions between the US and its trading partners, growth has remained surprisingly resilient. One reason may be that the “trade war” has been largely one-sided – many countries have quickly accepted US demands, limiting the scope and intensity of retaliation.

But this is not the only factor. The implementation of tariffs has been staggered, with regular pauses and delays, giving businesses time to adjust and mitigate the impact. Many have strategically front-loading inventory purchases, allowing them to limit the supply chain in the short term – but this may change as inventories are drawn down over time.

Fiscal and monetary policy have also provided meaningful offsets. The One Big Beautiful Bill tax reform gave firms a substantial incentive to invest, while the Fed has cut interest rates, with expectations of further easing ahead. Financial conditions have loosened considerably: corporate borrowing costs have dropped as credit spreads have narrowed and equity markets have rallied.

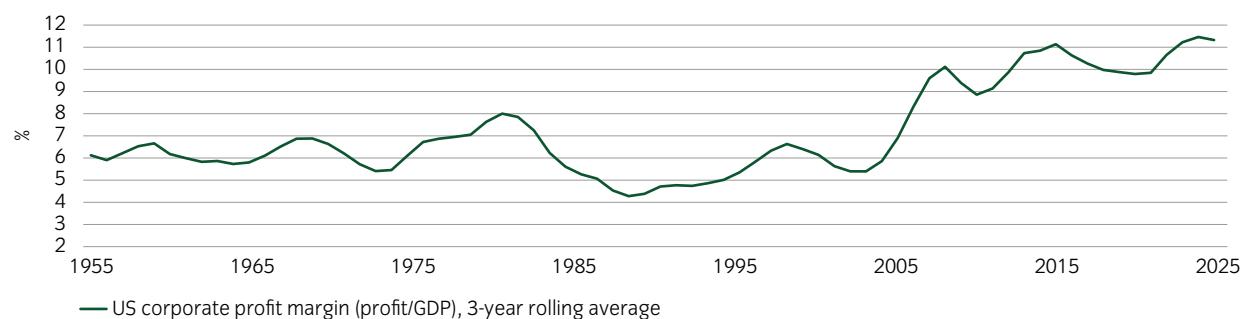
Interestingly, the US dollar did not appreciate as history would have suggested during a trade war. The Dollar Index, which measures the strength of the US dollar against other major currencies, instead weakened by around 9% from its peak, providing a tailwind for US exporters.

All of this suggests that while the structural risks of protectionism and uncertainty remain, we’re yet to see any significant economic pain. It’s possible that the real impact is still ahead of us, but for now, risk assets are signalling little signs of stress.

## TECH INVESTMENT TO UNDERPIN GROWTH?

One of the defining features of recent years has been the remarkable strength in US corporate profitability. As Figure 6 shows, profit margins have expanded steadily throughout much of the 21st century, interrupted only briefly during the global financial crisis and pandemic. High and expanding profit margins have provided a backdrop where corporates have been able to plan investment decisions with a higher level of confidence, and this has helped to underpin US growth and corporate dominance.

Figure 6: US profit margins stand at 70-year highs<sup>5</sup>



A major beneficiary of this surge in corporate profitability has been the select group of technology giants. Several of these firms – particularly the ‘hyperscalers’ such as Alphabet, Amazon, Meta, Microsoft and Oracle<sup>6</sup> – are now at the centre of a powerful secular growth trend: the AI-driven capital expenditure boom. These companies have begun deploying the profits accumulated over the past decade to ramp up investment in infrastructure to meet soaring demand for artificial intelligence and cloud computing. This acceleration in capex began in 2023 and is expected to continue for at least the next five years, as they respond to a growing array of technological and commercial demands.

<sup>5</sup>Source: Insight and Bloomberg. Data as at 31 August 2025.

<sup>6</sup>The mention of a specific security is not a recommendation to buy or sell such security.

Figure 7: Expected capex from hyperscalers<sup>7</sup>

Year	Total capex (USD bn)	Year-on-year growth (%)	Cumulative capex (USD bn)	Cumulative capex as a percentage of US GDP
2023	228	59%	228	0.8%
2024	348	52%	576	2.0%
2025	405	16%	981	3.4%
2026	452	12%	1,433	4.9%
2027	498	10%	1,931	6.7%
2028	543	9%	2,474	8.5%

While these projections are dramatic, they should be viewed with a degree of scepticism. Insight's Credit Analysis Team notes that actual investment figures may be overstated due to duplicative project filings across multiple states. Even so, applying a conservative adjustment, such as a 50% reduction, still leaves us with capex estimates of sufficient scale to imply a meaningful impact on global growth.

While US firms lie at the heart of this expansion, the growth impact should extend globally, as outlined in Figure 8.

Figure 8: Expected growth in data-centre capacity<sup>8</sup>

Region	Data-centre capacity growth (expected compound annual growth rate, 2024-2030)	Estimated GDP impact
Global	23%	High
US	26%	Very high
China	16%	High
Europe	19%	Moderate
United Arab Emirates	100%	High
Saudi Arabia	117%	High

Although the long-term productivity of this investment remains a subject of debate, the near-term outlook appears underpinned by this robust investment environment, which helps offset the uncertainties surrounding current US policy. Historically, economic downturns in the US have been triggered by sharp declines in investment spending. In every post-war recession, investment has consistently been the largest negative contributor during contraction phases. As such, shifts in corporate profitability – and their impact on investment intentions – are critical indicators to monitor.

Incorporating this into our investment framework, we remain cautiously optimistic on the outlook for the year ahead but conscious of the need to balance the clear downside risks with the signs of resilience that we observe.

<sup>7,8</sup> Source: Morgan Stanley, September 2025.

# INVESTMENT GRADE CREDIT

## WHY INVESTMENT GRADE CREDIT STILL MAKES SENSE

### The credit dilemma

Investment grade credit investors currently face a market in which credit spreads are narrow, but yields are historically high. Ultimately, we think yield trumps spread for most investors, and yield is just the starting point for returns in credit markets.

Figure 9: Investment grade credit spreads have tightened<sup>9</sup>

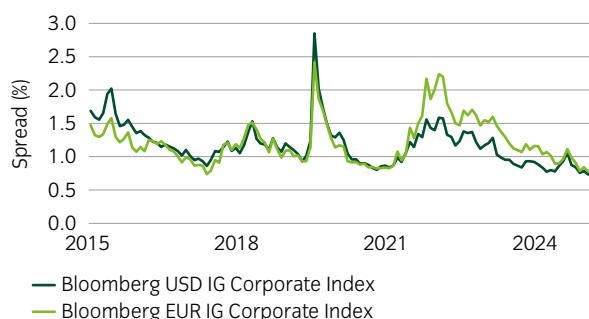
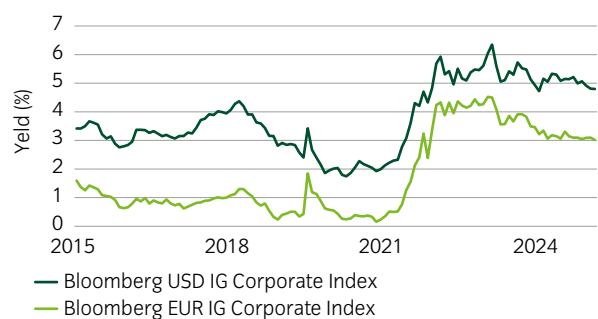


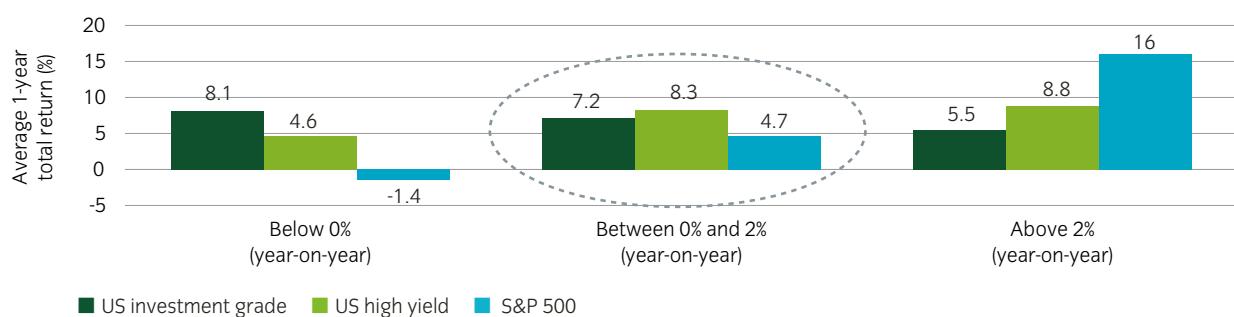
Figure 10: But absolute yields remain attractive<sup>10</sup>



### Investment grade credit could be well positioned for a low-growth environment

Although we don't expect the global economy to fall into recession, we do expect a period of sluggish growth ahead. Provided nominal growth remains comfortably positive a slowing economy is not necessarily a problem for credit. It would potentially be a trickier environment for equities, because it implies that profit growth rates will be hard to sustain organically. In fixed income, however, we do not need companies to grow faster we just need them to pay back their debt. Given this, even modestly positive nominal growth can provide a supportive environment for credit assets, and historically periods where growth has been between 0% and 2% have been an environment in which investment grade credit has performed well (see Figure 11).

Figure 11: Fixed income has historically outperformed equities through slower GDP growth periods<sup>11</sup>



For active credit managers, there is also considerable potential to add value beyond benchmark yields. Unlike equity markets, fixed income markets are structurally less efficient and transparent, creating opportunities for skilled managers to uncover mispriced assets and inefficiencies. The growing presence of passive strategies has, if anything, amplified these distortions. Credit markets can also amplify relative value opportunities and roll-down strategies. As such, it's essential to look beyond headline yields and place careful emphasis on manager selection, focusing on those with a proven ability to consistently outperform market benchmarks.

<sup>9,10</sup> Source: Insight and Bloomberg. Data as at 31 October 2025.

<sup>11</sup> Source: Bloomberg (US investment grade = Bloomberg US Aggregate Corporate Bond Index, US high yield = Bloomberg US High Yield Corporate Index, S&P 500 = S&P 500 Total Return Index), 1990 to October 2025.

## FISCAL OUTLOOK

### LOOKING FOR EXPLOITABLE WEAK POINTS

#### France is clearly a concern for 2026

Although several countries appear on an unsustainable fiscal path, France stands at the epicentre of fiscal anxiety in Europe. Once considered one of the core pillars of stability within the eurozone, the French government bond market now faces mounting pressures from persistent deficits, rising debt, political gridlock, and investor scepticism.

- **France's deteriorating fiscal metrics:** France's public debt has soared to 116% of GDP in 2025, with projections rising to 118.4% by 2026. The budget deficit remains stubbornly high at 5.6% of GDP – far above the EU's 3% threshold. Interest payments alone consume €67 billion annually<sup>12</sup>, and the country faces persistent primary deficits, weak growth, and unfunded pension and healthcare liabilities.
- **Political gridlock means reforms are out of reach:** France's political landscape is fractured. The use of constitutional tools (Article 49-3) to bypass parliamentary votes has become routine, but it signals deep instability. Investors are acutely aware that the outlook is likely to deteriorate without meaningful reforms and are demanding higher yields to take that risk.

A snap election could trigger significant uncertainty within French bond and credit markets, depending on how markets expected the election to evolve.

#### The US is on an unsustainable path in the longer-term

Long-term concerns about US fiscal sustainability are rooted in a combination of persistently high budget deficits, a rising debt-to-GDP ratio, and a lack of substantive political momentum for reform. Recent legislative measures imply that national debt will rise even more rapidly than prior expectations, with projections showing US debt-to-GDP rising from 100% to 127% over the coming decade. At the same time, the US faces elevated interest costs and gross financing needs, while also carrying substantial unfunded liabilities in healthcare and pensions.

Although the US benefits from the unique status of issuing the world's reserve currency and enjoys deep, liquid financial markets, the absence of fiscal discipline during periods of economic strength has left the country on an unsustainable trajectory. This may not be a 2026 story, but without meaningful policy changes, markets are likely to demand higher risk premia for US Treasuries over time, which would likely impact all US assets to varying degrees.



<sup>12</sup> Source: Insight, IMF, Macrobond as at 30 September 2025.

# US MUNICIPAL BONDS

## THE SWEET SPOT BETWEEN TREASURIES AND CORPORATE BONDS

In 2026, we believe US municipal bonds are likely to remain a compelling option for global fixed income investors seeking both yield and resilience. As we look ahead, the asset class stands out for its ability to offer a meaningful yield premium over US Treasuries while maintaining credit quality that is, in many respects, on an improving trajectory. The yield curve for munis remains notably steep, providing opportunities for both long-term investors and those seeking to enhance returns through active curve positioning.

Figure 12: Muni's can offer a meaningful pickup versus Treasuries or comparably rated corporate bonds<sup>13</sup>



Figure 13: The municipal bond curve is steep versus historical levels<sup>13</sup>



The credit backdrop for US states continues to strengthen, underpinned by robust cash reserves and rising tax revenues. State governments have built up record rainy day funds in recent years, and tax receipts have remained resilient, supported by healthy consumer spending and a strong labour market.

Figure 14: State cash balances remain high<sup>14</sup>

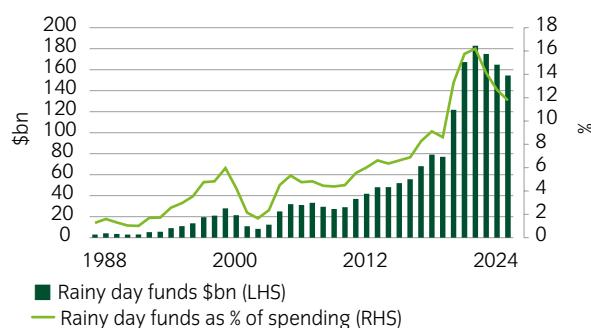
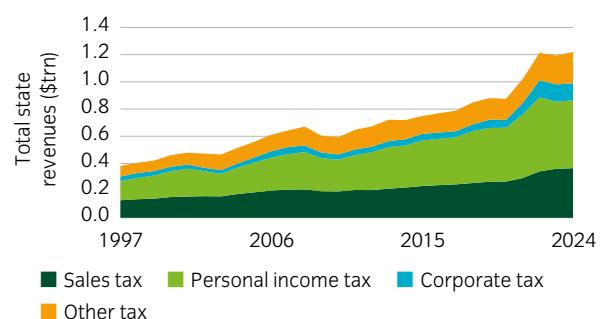


Figure 15: State tax revenues are near record highs<sup>15</sup>



This fiscal discipline is further reinforced by statutory requirements for balanced budgets in most states, a stark contrast to the ongoing fiscal expansion at the federal level. The technical environment for munis is also constructive: while overall municipal issuance has been elevated, taxable supply has actually declined year-on-year, and demand remains robust. Taking these factors together, we believe an allocation to municipal bonds can provide investors with an attractive alternative to corporate credit.

<sup>13</sup> Source: Insight and Bloomberg. Data as at 31 October 2025. Bloomberg Municipal AAA curve slopes.

<sup>14</sup> Source: Pew Trust, National Association of State Budget Officers. Data as at December 2024, published October 2025.

<sup>15</sup> Source: National Association of State Budget Officers. Data as at December 2024, published October 2025.

# GLOBAL HIGH YIELD

## TIME TO RETHINK HIGH YIELD RISK

In our view, high yield credit has undergone a structural transformation that arguably justifies tighter spreads than seen historically. High yield issuers have demonstrated notable resilience, supported by improved credit quality, and persistently low default rates. Unless a significant recession or systemic crisis emerges, we expect these dynamics to continue to underpin demand.

Over the past few decades, high yield markets have weathered multiple crises – from the global financial crisis, the pandemic and the more recent surge in interest rates. In response, issuers have strengthened governance frameworks and adopted more disciplined financial strategies. Management teams are increasingly focused on executing well-defined growth plans, securing funding certainty, and insulating operations from market volatility. The pandemic reinforced this mindset, and we see no signs of reversal.

As a result, companies are proactively managing their maturity profiles, often refinancing well ahead of schedule. This behaviour not only reduces refinancing risk but also benefits existing investors through early bond calls at a premium. Consequently, refinancing activity now dominates primary issuance.

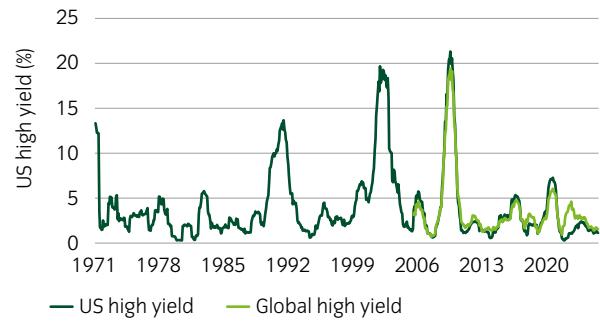
The rise of private credit has further reshaped the high yield landscape. Smaller, more distressed issuers – historically more prone to default – are increasingly turning to private markets, where bespoke financing and restructuring flexibility are more readily available. This migration has led to a marked improvement in the overall credit quality of the public high yield universe.

For example, the proportion of BB-rated issuers in the US high yield market has risen from 35% in 1999 to over 54% as at October 2025 (see Figure 16). This shift has translated into lower defaults: as illustrated in Figure 17, the rolling 12-month default rate stands at just 1.1% in the US and 1.6% globally, well below the long-term average of 3.4%.

Figure 16: High yield credit quality has trended higher<sup>16</sup>



Figure 17: Defaults are well below historical levels<sup>17</sup>

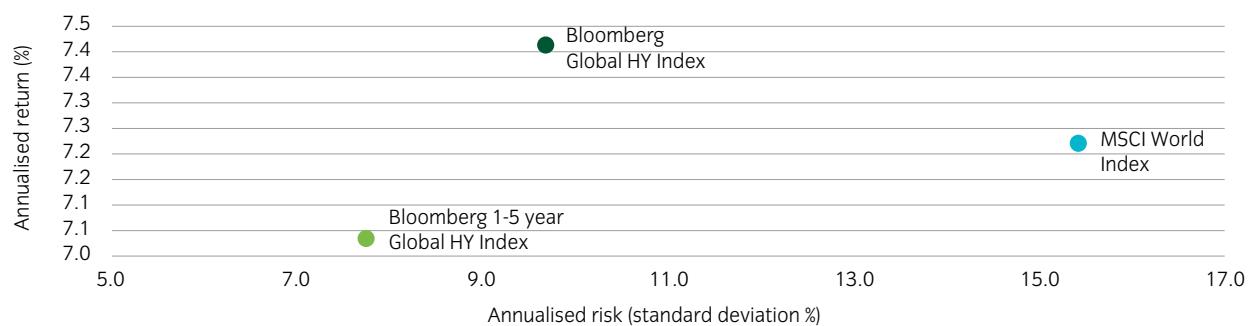


<sup>16,17</sup> Source: Bank of America. Data as at 31 October 2025.

We believe this evolution in high yield markets has helped to drive performance, with global high yield generating better annualised risk-adjusted returns than global equities since the turn of the century (see Figure 18). With absolute yields at attractive levels relative to history, we see little reason for this to change in the years ahead.

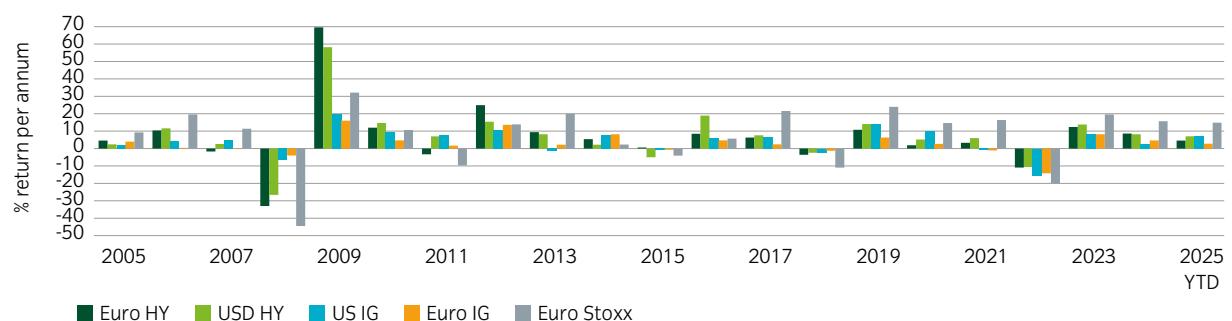
Even if the global economy were to slip into recession, we would expect the contractual nature of high yield credit to result in the asset class experiencing a shallower drawdown and faster recovery than equity markets. For those seeking lower volatility, a short-dated approach has been one way to achieve this without meaningfully sacrificing returns.

Figure 18: Global high yield has compared favourably with global equity investment over the long term<sup>18</sup>



Over the last 20 years, we have seen two meaningful annual drawdowns in high yield markets, the global financial crisis in 2008, and the post-pandemic inflation shock in 2022. In both instances, returns in the following year showed a strong bounceback.

Figure 19: The global financial crisis and pandemic have been the only meaningful high yield drawdowns over 20 years<sup>19</sup>



<sup>18</sup> Source: Insight and Bloomberg. Data between 2000 and 31 October 2025.

<sup>19</sup> Source: Bank of America Merrill Lynch indices total returns as at 30 September 2025. Euro Stoxx is Euro Stoxx 50 Index.

# SECURED FINANCE

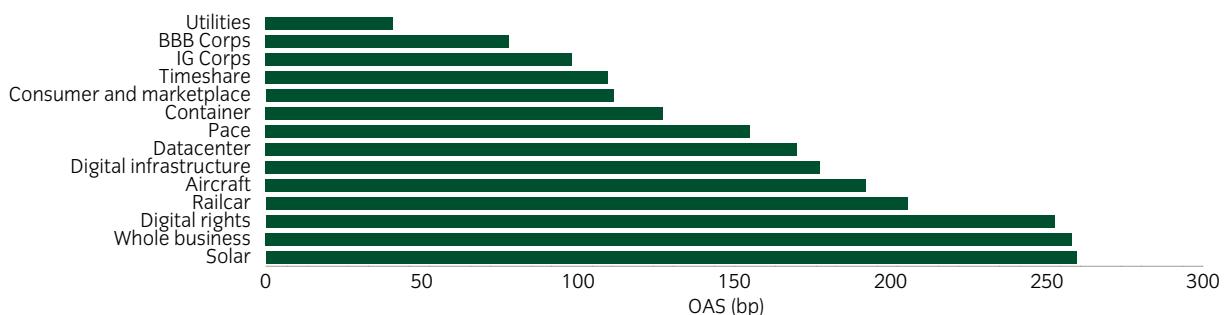
## EXPLOITING THE AI INFRASTRUCTURE BOOM

The global race to scale artificial intelligence has triggered a surge in digital infrastructure investment. While equity investors chase already sky-high valuations, the underlying data centres, cloud platforms, cell towers and fibre-optic cables are increasingly being funded through debt issuance. Bond investors have an opportunity to capitalise on the race for market leadership by financing the infrastructure build-out. Issuers are often prepared to pay a yield premium over broader corporate bond markets to secure funding.

The greater the level of complexity or illiquidity, the greater the premium generally offered.

The asset-based finance (ABF) market is growing rapidly and includes a range of collateral types including whole business securitisations, timeshares, containers, aircraft, media royalties and litigation payments. More broadly, this is referred to as 'esoteric ABS'. As with traditional ABS, where collateral is largely mortgages and consumer credit, these deals differ from private direct lending as the credit is based on bankruptcy-remote hard assets or pools of financial assets rather than the borrower's balance sheet.

Figure 20: The new economy's complexity premium – unlocking value in esoteric ABS<sup>20</sup>



The private nature of asset-based finance (ABF) allows issuers and investors to collaborate directly on structuring deals that better align with fixed income objectives – whether that's targeting dependable cashflows, managing duration, or tailoring risk exposure. For example, fiberoptic securitisations typically focus on mature, revenue-generating operations, avoiding the uncertainty tied to new development and heavy capital expenditure. This kind of precision in risk segmentation is rarely achievable in the corporate bond market.

As the ABF sector continues to expand and mature, we expect it to become a more mainstream component of securitised markets. Early adopters may benefit from complexity premium and investors' unfamiliarity with these assets, offering an opportunity to lock in what we believe are attractive spreads compared to similarly rated corporate bonds.

However, investing in ABF requires specialist expertise – credit analysis, legal structuring, and deep industry relationships are essential. Investors must be able to model and assess deal structures, ensuring they are diversified, backed by high-quality collateral, and designed to mitigate downside risks. For example, investing in data-centre backed securities demands knowledge across real estate, power generation, cloud infrastructure, and technology. Whole business securitisations (WBS) add another layer of complexity, where the sponsor's operational skill and franchise management are critical to cashflow stability.

<sup>20</sup> Source: Insight and Bloomberg. Data as at 31 October 2025.

## DIGITAL ASSETS

### 2026 AND BEYOND

In the United States, the GENIUS Act, which was passed into law in July 2025, represents a significant regulatory milestone in the digitisation of assets. This established the first comprehensive federal regulatory framework for payment stablecoins, a type of cryptocurrency pegged to the US dollar or other stable assets. The upcoming Clarity Act is then expected to provide much-needed legal certainty around how the US will enable the tokenisation of a broad range of asset classes.

This momentum isn't limited to the US. In the UK, the Financial Conduct Authority (FCA) has issued a consultation on progressing fund tokenisation, while the Treasury is investigating the issue of digital gilts. Hong Kong and China are also actively exploring frameworks for digital assets, with Hong Kong's LEAP framework, introduced in June 2025, introducing legal clarity and expanding the use of tokenisation.

We anticipate that 2026 will be a major inflection point in what will be a global shift toward asset tokenisation, and demand for these products is likely to accelerate sharply in the years ahead. Smart contracts will also play a growing role in delivering more automated and efficient client solutions.

Tokenisation can reduce transaction costs and enable faster, 24-hour settlements, increasing operational efficiency and reducing operational risk. This innovation could offer significant benefits for collateral management, allowing the instant transfer of assets without extended settlement periods. We are exploring how we can bring digital assets (such as tokenised government bonds) into our investment portfolios over the longer-term to capture the potential benefits for clients.

The tokenisation of money market funds (MMFs) is an application that we believe could be particularly beneficial. If regulators and central banks recognise these digital assets as eligible for collateral purposes, then we believe there are benefits for global financial stability. Today, investors raise cash to meet collateral calls by liquidating MMFs, which are then forced to sell short-dated instruments into illiquid market conditions. The ability to post tokenised MMFs as immediate collateral would remove unnecessary stress from the system.

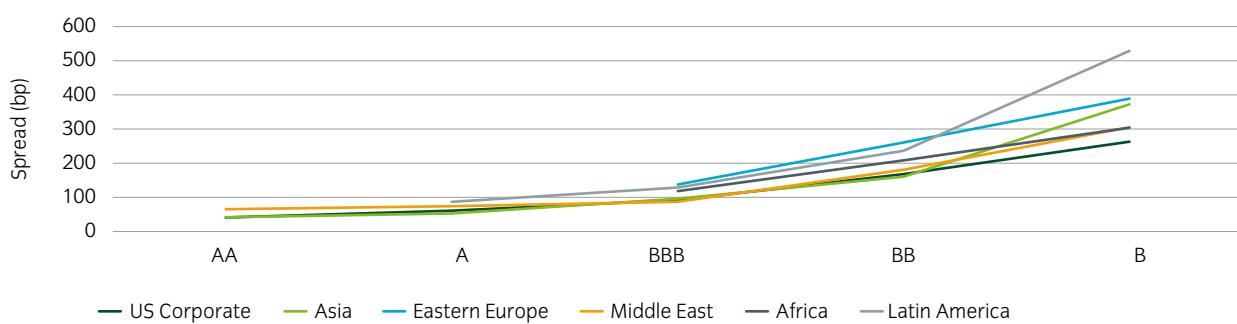
# EMERGING MARKETS

## BACK IN FOCUS

For the first time in many years, the outlook across emerging market corporates, sovereign debt, and local currency bonds is broadly attractive. As we look ahead to 2026, emerging market debt stands out not only for its yield advantage, but also for its diversification benefits and strengthening fundamentals, which are drawing increasing investor interest to the asset class.

For active managers, the dispersion of spreads across regions and credit ratings in US dollar issuance creates significant potential to generate excess returns (see Figure 21). This is further enhanced by growing issuance in euro-denominated debt and the breadth of local currency bond markets. In aggregate, the emerging market debt universe exceeded \$30 trillion at the end of 2024<sup>21</sup>. Spanning more than 70 countries and a diverse range of corporate issuers, it offers a rich and varied landscape for active investment.

Figure 21: The dispersion of opportunities in US dollar-denominated debt underscores the potential for active management<sup>22</sup>



In the short term we believe there are several reasons why emerging markets should remain attractive:

- **Growth advantage:** The growth advantage of emerging market economies over their developed market counterparts is projected to rise to a 10-year high of 2.6% in 2025, and remain at an elevated 2.4% in 2026<sup>23</sup>, supporting stronger fiscal dynamics, rising incomes, and increasing investment opportunities.
- **Strong corporate fundamentals:** Emerging market corporates enter 2026 with robust balance sheets, conservative leverage and healthy interest coverage ratios. Many issuers have proactively refinanced, often in local markets, reducing near-term refinancing risk and enhancing credit resilience.
- **Supportive technical backdrop:** Net issuance in emerging market corporates has turned negative, with more capital returning to investors than being raised – a trend expected to persist for some time to come. Meanwhile inflows into emerging market fixed income funds have turned positive, fuelled by the attractive level of yields. If the US dollar downtrend continues, it could spark greater interest in local currency sovereign issuance, while simultaneously enhancing the fiscal outlook for issuers of US dollar-denominated debt.
- **Geopolitical risks and diversification:** While geopolitical risks remain, they are increasingly idiosyncratic and localised. The breadth of the emerging market universe enables investors to diversify away from areas of heightened tension, with many regions, particularly in Latin America and Asia, remaining relatively insulated from global geopolitical shocks. Additionally, there is significant scope to invest in domestically focused companies with minimal exposure to US tariffs or external trade pressures.

<sup>21</sup> Source: JP Morgan. Data as at 31 December 2024.

<sup>22</sup> Source: CEMBI, JP Morgan and Insight, as at 30 September 2025.

<sup>23</sup> Source: Bloomberg consensus forecasts. Data as at 31 October 2025.

# GLOBAL CURRENCIES

## THE DOLLAR AT A CROSSROADS

2026 is set to be a pivotal year for the US dollar. Having retreated from its recent highs (see Figure 22), global markets are now watching closely to see whether the currency will stage a recovery or embark on a more sustained downward trajectory. The direction of the US economy, and the extent of Fed easing, are likely to be critical in determining the dollar's next move. While the dollar continues to hold its position as the world's reserve currency, the exceptional economic outperformance that has supported the currency over recent years is increasingly in question.

Figure 22: The US dollar remains close to its historical highs<sup>24</sup>



The dollar's strength has historically been underpinned by the United States' technology leadership, strong economic fundamentals, and the so-called "exorbitant privilege" of issuing the global reserve currency. However, recent trends indicate that some of the United States' long-standing structural advantages may be diminishing. For example, while expansionary fiscal policy previously supported the dollar by fuelling growth, concerns are now growing that debt is becoming unsustainable. Compounding this, the current US administration has openly expressed its view that the dollar is overvalued and may be prepared to take steps to moderate its strength.

Over the past 15 years, US equities, bond markets, and the dollar have consistently outperformed, underpinned by the country's dynamic, innovation-led economy. Unsurprisingly, this era of exceptional returns has attracted significant investor interest in US assets. As a result, the US net international investment position – the difference between US assets held by foreign investors and foreign assets held by US investors – has steadily deteriorated, reaching a deficit of nearly \$36trn by the end of 2024 (see Figure 23).

Figure 23: Foreign investors hold more US assets than Americans hold assets abroad<sup>25</sup>



<sup>24</sup> Source: Insight and Bloomberg. Data as at 31 October 2025.

<sup>25</sup> Source: Insight, Federal Reserve and Bloomberg. Data as at 31 December 2024.

If concerns over debt sustainability intensify, or the administration shifts from rhetoric to action, non-US investors could start unwinding their sizeable holdings of US assets, while domestic investors may look to diversify abroad. In that scenario, the pace of US growth becomes critical. So far, the economy has shown remarkable resilience, absorbing tariffs and policy uncertainty with minimal disruption. If this strength persists and US growth outpaces its peers, the dollar may hold firm. But a slowdown would amplify the structural weakening. The Federal Reserve will also be pivotal, as the lower US interest rates go, the cheaper it becomes to hedge US dollar risk. Although investors may continue to favour US mega-cap tech firms, they could question whether holding the dollar is a necessary component of that trade.

## MANAGING US DOLLAR RISK

### WHY HEDGED SHARE CLASSES ARE AN INEFFICIENT WAY OF MANAGING CURRENCY RISK

Investing in international assets can improve portfolio diversification and broaden the pool of available opportunities. However, it introduces currency risk too. Currency risk, due to the volatility of the asset class, can significantly affect portfolio returns. Since currency exposure from international assets is expected to yield zero returns, managing this risk may help lower volatility and boost overall returns.

When gaining exposure to international assets via publicly traded funds, a common way to manage currency risk is to subscribe to the currency-hedged share class of a fund. Although this may seem an efficient and cost-effective option, our analysis shows that hedged share classes are often neither.

We have identified three key inefficiencies:

1. **Hedged share classes often only hedge the US dollar risk in the portfolio and leave other, smaller currency risks unmanaged.** This leaves residual currency risk that can be significant, depending on the allocation of assets and the volatility of the unmanaged currency component.
2. **If investors hold several funds with international exposure, holding numerous hedged share classes can lead to implementation inefficiencies and higher transaction costs.** This is because investors do not benefit from any netting across different currency exposure positions. This is a particular issue if the assets in the various funds have a low, or negative, correlation.
3. **Currency risk is typically managed using derivatives, such as FX forwards, which require periodic funding of profits and losses at regular settlement intervals.** An equity manager would need to maintain a cash buffer to meet any losses that arise, which leads to a structural reduction in exposure to the underlying equity index. This has two direct implications: firstly, cashflows or collateral requirements managed at the individual investment level are not optimal and create additional drag; secondly, the fund manager of the hedged share class would be consistently under-investing in the underlying asset in order to maintain appropriate cash buffers for the FX hedges.

## IMPORTANT INFORMATION

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### RISK DISCLOSURES

**Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**

The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees, taxes and charges and these can have a material detrimental effect on the performance of an investment. Taxes and costs incurred when purchasing, holding, converting or selling any investment, will impact returns. Costs may increase or decrease as a result of certain currency conversions, such as currency hedging, investment exposure to international markets, and exchange rate fluctuations.

Any target performance aims are not a guarantee, may not be achieved and a capital loss may occur. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies over time, and/or prevailing market conditions and are not an exact indicator. They are speculative in nature and are only an estimate. What you will get will vary depending on how the market performs and how long you keep the investment/product. Strategies which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Any projections or forecasts contained herein are based upon certain assumptions considered reasonable. Projections are speculative in nature and some or all of the assumptions underlying the projections may not materialise or vary significantly from the actual results. Accordingly, the projections are only an estimate.

Portfolio holdings are subject to change, for information only and are not investment recommendations.

### ASSOCIATED INVESTMENT RISKS

#### Fixed income

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

A credit default swap (CDS) provides a measure of protection against defaults of debt issuers but there is no assurance their use will be effective or will have the desired result.

The issuer of a debt security may not pay income or repay capital to the bondholder when due. The return risk to a portfolio is higher where a portfolio is highly concentrated in such an issuer.

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

Investments in emerging markets can be less liquid and riskier than more developed markets and difficulties in accounting, dealing, settlement and custody may arise.

Where high yield instruments are held, their low credit rating indicates a greater risk of default, which would affect the value of the portfolio.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

Leveraged funds: as a result of market conditions, the value of the assets held by a Fund may fall and result in a higher degree of leverage than is deemed appropriate by the Investment Manager. In order to reduce the degree of leverage, the Investment Manager may seek to reduce a Funds' total asset exposure. Investors would need to subscribe for additional Shares in order to maintain the level of sensitivity to market movements. Where such an event is unanticipated, this may result in the investors having less sensitivity to market movements than they might consider appropriate to their individual requirements until they have subscribed for additional Shares

While efforts will be made to eliminate potential inequalities between shareholders in a pooled fund through the performance fee calculation methodology, there may be occasions where a shareholder may pay a performance fee for which they have not received a commensurate benefit.

#### Multi-asset

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

Property assets are inherently less liquid and more difficult to sell than other assets. The valuation of physical property is a matter of the valuer's judgement rather than fact.

While efforts will be made to eliminate potential inequalities between shareholders in a pooled fund through the performance fee calculation methodology, there may be occasions where a shareholder may pay a performance fee for which they have not received a commensurate benefit.

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