Executive Summary

We are witnessing an era of significant political and technological disruption with conflicting macroeconomic tensions. Our base case is for continued solid global economic growth, although we expect bouts of volatility to frequently test this outlook. Portfolios will need to be resilient, with underlying exposures providing genuine diversification, rather than being disguised expressions of the same themes. Achieving this requires the careful selection of sub-strategies implemented through partnerships with highly skilled active managers. The environment will also create opportunities for outperformance. These could arise in multiple areas, including technological disruption and dislocations that enable us to be providers of liquidity in situations that offer strong risk-adjusted returns.

A context of conflicting macro impulses

The current macroeconomic landscape is defined by the highly unusual tension between strong growth drivers, including consumption and capital expenditure, and weaker ones, most notably stagnant labour markets.

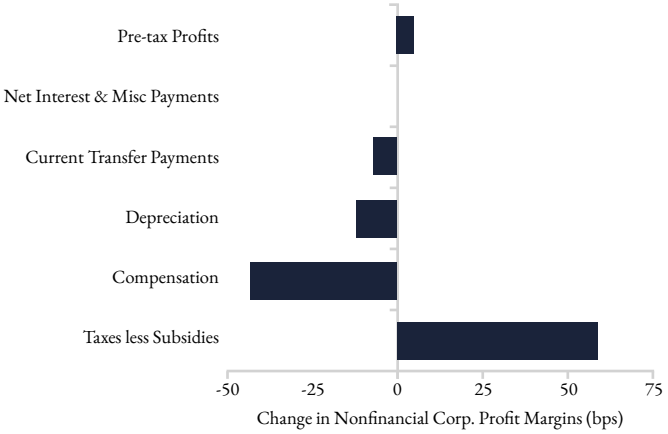
Global growth of c. 3.1% (PPP) in 2025 has been surprisingly resilient despite the US trade war shock. Beneath the surface, however, there are tensions related to unusual divergences in macroeconomic performance. Developed market business sentiment has slumped, yet business spending, and to a lesser extent consumption, have surged even as employment growth has nearly stalled. The juxtaposition of a jump in capex alongside weak job growth is unprecedented.

The US economy illustrates this tension clearly. After a soft Q1 (-0.5% annualised), growth rebounded sharply, benefiting from the front-loading of activity ahead of tariffs and substantial AI-related investment. GDP grew at a brisk 3.8% annualised pace over the second quarter and is now expected to deliver full-year 2025 growth of c. 2.0%, still well below the 2.8% rate of 2024.[1]

Corporate earnings held up far better than expected. To protect margins from rising tariff costs, firms largely cut labour compensation rather than allow profitability to erode. Bureau of Economic Analysis (BEA) data shows tariffs and production taxes rose by about $185B annualised between Q1 and Q2, which is well-aligned with the $167B increase in customs duties reported by the Treasury over this period, yet profit margins remained relatively stable due to a reduced labour share (compensation), which offset much of the tariffs (Exhibit 1).

Exhibit 1

Tariff costs were partially offset by lower labour compensation relative to total earnings



Source: *Bureau of Economic Analysis*

As a result, real labour income growth decelerated to a roughly 0.8% year-over-year pace through September. Moreover, the intra-year trend worsened. Real personal disposable income in August was -0.4% lower compared to April.[2]

1 IMF
2 Bureau of Labor Statistics

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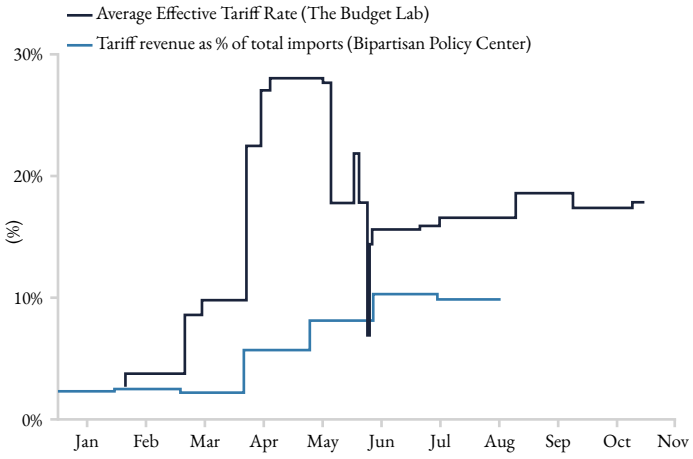
The softness in employment also tempers near-term inflation risks. Despite fears of tariff-driven price pressure, realised inflation has been muted. Front-loading of inventories, trade diversion through lower-tariff countries, and repeated delays or reductions in tariff implementation have all blunted the impact. Moreover, unlike in 2016, China has been prepared for an onslaught of tariffs and has adeptly played its rare earths card.

As a result of the above mitigating factors, the actual duty paid on imports at customs as a share of the value of imports was 10% through July, well below the calculated effective rate of approximately 17% based on a weighted average of announced tariff rates applied to pre-substitution (2024) trade weights (Exhibit 2). Additional disinflationary forces include still-weak fossil fuel prices and easing geopolitical tensions.

Exhibit 2

Factors such as inventory front-loading and trade diversion mean the actual tariff rate has lagged the expected effective tariff rate in 2025



Source: *Financial Times, Bipartisan Policy Center, The Budget Lab*

Turning to interest rates, long-end yields have stabilised as inflation concerns have receded. This has facilitated the Fed's recent dovish tilt and a shift in focus back towards their employment mandate. Fears around Fed independence have eased, though the new Chair arriving in May will be a political appointee. Importantly, however, monetary policy decisions will still be made by a majority of FOMC members. Any attempts to brazenly constrain interest rates in the face of rising inflation, e.g. by financial repression, could result in a renewal of US dollar debasement fears which would create massive financial instability and ultimately backfire on those deemed responsible.

In summary, the persistence of a jobless expansion remains the key macro challenge over the next year, with the evolution in the labour market and sentiment driving the dynamic in consumer and business spending, tilting the longer-term balance between either a resilient growth outcome with a temporary soft patch (our base case) or a shift towards a more prolonged and broad-based recession (our downside scenario). The latter scenario of a sustained employment downturn would exacerbate social tensions and likely shift the political pendulum leftward. With deficits already elevated, such a backdrop would leave policymakers facing the unpalatable choices of either substantially raising taxes and/or monetising the debt via inflation.

AI related risks building

AI may ultimately deliver a productivity boom powerful enough to offset today's macro headwinds, but the source and timing are indeterminable at present. Future applications of AI are difficult to envision today, just as today's use of the internet for a multitude of daily tasks via a handheld device would have been difficult to envision at the birth of the internet in the 1990s. Likewise, the ultimate individual winners and losers of the AI transition are difficult to identify with confidence at this early stage. However, any such process will likely take longer than is currently discounted in valuations and typically follows a pattern of fits and starts, as was the case with the internet rollout, which took decades to reach its current state.

In the near term, key risks are building in relation to the scale of infrastructure investment, with limited evidence of tangible productivity benefits in the real economy or sufficient monetisation by AI companies. While large language models (LLMs) can and do provide a convenient alternative to classical internet search tools today, many experts believe the leap toward full agentic AI implementation is fraught with technological and security impediments. These obstacles may be overcome in due course, but at this stage, it is not clear that the productivity benefits will generate an adequate return on investment.

Despite this, investment continues at an extraordinary pace. Analysts estimate that another c. $3T will be invested in AI between Q4 2025 and 2028, a figure that could reach $5-7T by 2030.[3] Much of this is aimed at building the infrastructure for ever-evolving training models. Total capex for hyperscalers is forecast to reach roughly $700B/year by 2028, or c. 70% of their operating cash flow, with $400-500B of this directly related to AI.[4]

3 Morgan Stanley, Goldman Sachs, Bloomberg Intelligence ($3T by 2028) J.P. Morgan ($5T), McKinsey ($7T) by 2030

4 Microsoft, Meta, Google and Amazon

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There is, however, a stronger likelihood that lighter, lower cost application-specific inference models will gain traction. These will require less heavy infrastructure spend, and this appears to be the approach increasingly favoured by Chinese AI developers.

Whatever the risks associated with these investments, the hyperscalers appear to believe they cannot afford to risk losing the race to AI dominance. In the meantime, the sources of AI capex funding are shifting from free cash flow financing to borrowing from the credit markets, increasing the risk profile. Whereas hyperscalers funded c. 80% of AI capex from free cash flow over the past three years, this is expected to drop to 50% over the next three years. Moreover, the entry of less profitable players such as OpenAI and Oracle, who will be heavily reliant on private and public credit markets as well as vendor financing for their investment, also raises the risk profile.

Investment Implications

In summary, the current investment backdrop is characterised by elevated uncertainty derived from significant political and technological disruption, and conflicting macroeconomic impulses.

There are four specific investment pillars that will be particularly relevant to portfolios in 2026:

1. **Boost safety net and less correlated assets:** Given extended valuations across most risk assets and elevated risks of either a temporary or more prolonged soft growth phase, we are keeping risk exposures at the lower end of our range. We are also increasing allocations to less correlated and more liquid safety-net assets – those we expect to hold their value in downside scenarios and serve as dry powder to 'play offense' when opportunities arise. To that end, we are increasing the allocations to Fixed Income and Absolute Return, removing the overweight to Liquid Credit, trimming our overweight to Private Debt, and maintaining a modest, above benchmark Cash allocation.

2. **Be highly selective within each asset class and exploit market dislocations:** While valuations appear stretched at the broader asset-class level, we continue to see compelling opportunities within select sub-strategies in all asset classes. We are particularly focused on areas where supply–demand imbalances, and capital scarcity create attractive entry points and allow us to be providers of liquidity. Structured credit, distressed lending, and private market secondaries stand out as clear expressions of this theme currently. We are also pursuing equity market opportunities beyond US technology and large cap stocks, like in Europe, Japan, smaller companies and elsewhere. We are monitoring other opportunities for attractive entry points.

3. **Embrace disruptive technologies but implement carefully in portfolios:** We are carefully tracking the rapid pace of technological disruption, but being disciplined in how we gain exposure, avoiding crowded trades and the temptation to chase late-cycle hype. Instead, we are working with our managers to identify less obvious derivative opportunities that allow us to participate in long-term upside while maintaining discipline around valuation and risk. Our areas of focus include the broader AI stack and life sciences in public equities, emerging AI applications in early-stage venture capital, and cloud computing and AI inference data centres in infrastructure. We already have exposure in each of these areas and expect to increase allocations thoughtfully as the opportunity set evolves.

4. **Watch for 'factor risks' and ensure true resilience across the entire portfolio:** Investing in multiple asset classes does not necessarily mean that a portfolio is diversified and therefore resilient against the multiple scenarios that could play out. Building a truly resilient portfolio requires a much deeper understanding of macro factor risks that can cut across asset classes to ensure the portfolio is not overexposed to any single factor risk.

   The COVID-19 pandemic illustrated this vividly: shifting probabilities around vaccine development drove sharp market volatility and raised correlations across bonds, equities, credit, and even real estate. Within real estate itself, segments such as office and logistics moved in opposite directions. Our ability to navigate this period successfully stemmed from closely tracking vaccine progress and understanding how this single factor could ripple through the entire portfolio.

   Today, the AI capex buildout is embedding a similar common factor risk across multiple asset classes (Exhibit 3). In addition to the AI risk, there are several other macro factors such as rising inflation that could affect multiple asset classes (as we saw in 2022). We are tracking these factor risks carefully to ensure we avoid pockets of hidden overconcentration across the portfolio.

Exhibit 3
The AI risk factor cuts across asset classes

Equities	Credit	VC	Infrastructure
44%	**14%**	**64%**	**61%**
AI-related stocks now account for 44% of the S&P 500 market cap	AI-related debt is the largest segment of the IG credit universe at 14%, forecast to rise to 20% in coming 2 years	64% of US originated VC deal value in 2025 has been AI-related	AI data centres account for 61% of the digital infrastructure debt

Source: *Equities & Credit (J.P. Morgan), Venture Capital (PitchBook), Infrastructure (Centre for Public Enterprise)*

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Macroeconomic View Summary

As noted above, our detailed macroeconomic outlook is covered in our special topic on growth, inflation and interest rates later in this publication. A brief summary of our views by region is shown below.

US: *2026 growth of +2.0%, same as est. for 2025.* Growth is expected to be weaker in the near term as businesses delay hiring and investment while waiting for greater clarity on the impact of tariffs and the potential productivity improvements from AI. Labour market slack will continue to build in early 2026. However, we are likely past peak policy uncertainty. The administration will look to minimise economic pain for consumers in the run-up to the midterm elections in late 2026. The recent unwinding of food tariffs is an example of this. This should afford the Federal Reserve greater confidence to prioritise growth over inflation, preventing the near-term economic soft patch from worsening into a recession.

Risks to growth are two-sided and heavily contingent on the success of AI investment spending. An AI productivity boom reminiscent of the 1990s could plausibly boost annual GDP by 0.5% or more. In contrast, growing scepticism regarding a lack of return on investment could drag down equity valuations, resulting in a negative wealth effect.

Europe: *2026 growth: +1.1%, same as est. for 2025.* Germany is embarking on substantial fiscal expansion, with federal expenditure increasing by 6.1% in 2025 and expected to rise by 3.5% in 2026. Other major European economies are fiscally constrained, with government expenditure in France and Italy expected to decline modestly in 2026 relative to the size of their economies. Private consumption should remain robust, supported by a high level of savings. Slower wage growth and lower energy prices should keep inflation expectations well anchored. However, political risks remain high in key member states, skewing risks to the downside. Specifically, underwhelming German fiscal spending or a loss of confidence in French debt sustainability due to political stasis would have meaningful negative consequences for Euro Area growth.

UK: *2026 growth: +1.3% vs. 1.2% est. for 2025.* Overall economic resilience has been better than feared but fiscal challenges remain pronounced, as evidenced by the highest government borrowing costs across major economies. The budget deficit is expected to exceed 4.4% of GDP in 2025. As of October, the IMF projected a five-year fiscal consolidation in the UK that would reduce the deficit to 2.2% of GDP by 2030. Such a consolidation would help recalibrate the supply of UK government debt to match a more elastic and less predictable demand base, with pension funds and the Bank of England becoming proportionally smaller holders of UK debt.

Japan: *2026 growth: +0.6% vs. 1.1% est. for 2025.* The new administration is highly growth-oriented and the shift toward a more expansionary fiscal stance should support underlying inflation, especially as the central bank is arguably less independent than those of other developed markets. Softening external demand resulting from tariffs will weigh on growth in 2026. However, business sentiment is expected to remain robust. The September BoJ Tankan survey showed that business conditions for large manufacturers improved in Q3, with Capex plans revised upward. While real per capita wages are slowing, real employee compensation, factoring in employment changes, continues to increase. All of which should support solid, domestic-demand-driven GDP growth.

China: *2026 growth: +4.2% vs. 4.8% est. for 2025.* Tensions with the US will remain in a strategic stalemate. China has demonstrated less vulnerability to trade restrictions compared to previous trade disputes. This reflects China's reduced dependence on the US end market, a narrowing technological gap, and the consolidation of domestic supply chains for critical minerals. However, across the broader economy, more progress is needed to rebalance production and consumption. The global backlash against Chinese products is likely to intensify in 2026, as China now runs trade surpluses with nearly all major partners, raising the risk of new protectionist measures even across other Emerging Markets. The good news is China's core CPI inflation continues to trend higher, recently reaching 1% for the first time in three years. China's upcoming 15th Five-Year Plan is expected to centre on sustaining economic growth, boosting private consumption, and enhancing resilience through self-sufficiency in key technologies and materials, with the country's growth model set to transition from export-driven to domestically anchored.

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Macroeconomic Scenarios

The macroeconomic views above help us arrive at what we consider to be the most likely base case, 'Resilient Global Growth', over the next two to three years, with a focus on where we expect to be at the end of 2026. We also outline a plausible set of outcomes on either side of the base case. Exhibit 4 below summarises some of the key components of these three scenarios by region.

Exhibit 4

Summary of Partners Capital 2026 Macroeconomic Scenarios[5]

	'Labour Market Cracks'	'Resilient Global Growth'	'Hyper Stimulus'
Probability	25%	55%	20%
US	• Companies continue to limit hiring to protect margins in the face of rising tariffs and in anticipation of yet-unfulfilled promises of AI productivity gains. • Real disposable income declines as wage growth struggles to keep up with tariff-induced inflation. • Consumption falls sharply and corporate default rates jump. • A gradual lowering of expectations of future returns on AI investment causes the AI capex cycle to falter, leading to a sharp equity market correction.	• High levels of investment spending continue, but is increasingly debt-funded. • Employment growth stabilises at low levels, with unemployment steady near 4.5%. • Anticipation of future productivity gains keep long-term inflation expectations anchored. • Federal Reserve cuts interest rates in line with market expectations. • Pockets of financial stress persist amongst weaker borrowers, but this does not represent a systemic risk.	• Economic growth powered by fiscal easing, monetary easing, private sector capex and deregulation. • Increased evidence of technology-driven productivity gains spreads across industry sectors. • Second-order growth effects from employment gains and positive real wage growth. • Equity markets broaden out. • Fed is slow to tighten policy despite rising inflation, boosting nominal growth which feeds into corporate revenue, Federal tax receipts and improved budget deficits. • A general easing of tariff pressures allows the US consumption engine to lift growth in other regions, particularly Western Europe and Asia.
Europe	• Slowdown in US weighs heavily on EU exports. • German fiscal spending underwhelms due to bureaucratic delays and political infighting. • High debt and deficits, notably in France and Italy, see long-end yields rise despite slower growth.	• Germany increases fiscal spending, mostly on defence, but other EU countries are still limited in their ability to spend. • ECB deposit rate settles around 2% as core inflation declines toward target on slower wage growth and lower energy prices. • Private consumption remains firm, supported by high savings. • Economic growth firms on stimulus and less restrictive monetary policy.	• Next Generation EU (NGEU) recovery fund sees maximum disbursement in 2026. • Private sector "crowds in" and supports investment in green tech and AI. • Peace deal reached with Russia, resulting in lower energy prices.

5 These scenarios and performance estimates are illustrative and based upon certain assumptions. There is no assurance that the performance presented will be achieved.

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	'Labour Market Cracks'	'Resilient Global Growth'	'Hyper Stimulus'
Probability	25%	55%	20%
China	• China and US trade truce falters, resulting in a tit-for-tat increase in trade barriers. • A global backlash against Chinese products intensifies, as China now runs trade surpluses with nearly all major partners. • China increases fiscal and monetary stimulus in response to slowing growth.	• Tensions with the US remain in a strategic stalemate, but no attempts are made to decouple economies. • Government policy focuses on rebalancing production and consumption. • Targeted stimulus allows inflation to recover from very low levels. • Real GDP growth slows to c. 4.2% from 4.8% estimate in 2025.	• China and the US move to defuse trade tensions. • China undertakes further stimulus to boost consumption. • Regulatory policy support given to national tech champions. • Business and consumer animal spirits recover, driving consumption and investment.
UK	• US recession rapidly spills over into UK economy via financial sector and lower natural resource demand. • Fiscal outlook deteriorates and GBP weakens, meaning inflation and bond yields remain elevated despite weak growth. Economy stagnates.	• Fiscal consolidation continues at moderate pace. • Inflation gradually slows as regulated prices are increased more gradually vs. 2025. • BoE reduces interest rates to c. 3%, which supports low, positive growth of c. 1.3% (vs. est 1.2% in 2025).	• Open economy tethered to global growth benefits from high degree of stimulus and liquidity elsewhere. • Leading UK research in new technologies is increasingly monetised by onshore companies.
Global GDP Real Growth (PPP 2025)[6,7]	2.5%	3.1% (2025 = 3.2%)	3.4%
DM Inflation 2026	2.0%	2.5%	3.0%
Expected UST 10y Yield (in 12M)	3.5%	4.25%	5.0%
MSCI World Return (Next 12M)	-18%	+7%	+20%

Source: *Partners Capital*

Hypothetical return expectations are based on simulations with forward looking assumptions, which have inherent limitations. Such forecasts are not reliable indicators of future performance.

6 Global GDP growth estimate for 2026. Country weights are based on purchasing power parity (PPP) - the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country. PPP is more stable than market exchange rates, allowing for a better comparison of year-on-year growth in real GDP over time, but does tend to increase the weighting to Emerging Markets in calculations as PPP tends to be higher than the market rate in EM countries.

7 Data sourced from IMF, Bloomberg, Partners Capital Analysis

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Key Investment Focus Areas

Credit

We continue to view credit as a core holding for portfolios, offering a resilient source of long-term income, opportunities to generate alpha in specialist areas of the market and by acting as a provider of liquidity where capital is scarce. Meaningful capital flows into more commoditised assets, combined with a period of more permissive lending driven by complacency over credit losses, lead us to expect higher dispersion in investment outcomes, where manager and asset selection will be critical to sustaining long-term returns. We also continue to advocate for a multi-strategy portfolio of complementary exposures, managed by specialists who maintain underwriting discipline and have strong asset management capabilities. In anticipation of further credit stress, we now recommend increasing exposure to more opportunistic strategies focused on capital solutions, rescue lending, and distressed assets. These are positions that can both capitalise on higher dispersion and provide liquidity during periods of market stress.

Absolute Return

Our Absolute Return program continued to deliver on its objectives in 2025, generating excess returns over cash with limited volatility and low correlation to market direction. Our strategy within the asset class remains unchanged: embrace managers with different investment approaches in different markets, each focusing on taking idiosyncratic risks rather than systematic risks. We implement this strategy by investing in both diversified multi-strategy funds and what we believe to be exceptional single strategy funds. On the multi-strategy side, we have continued to invest resources in our in-house multi-strategy platform to further improve our ability to partner with high calibre managers and add value from central portfolio management. On the single strategy side, we further increased our diversification of risk sources by investing in macro relative value and commodity trading strategies. In both cases, our experienced team and industry connections helped us to build conviction and become an early investor in two new investment firms launched by experienced portfolio managers in 2025.

Global Equities

After a strong Q1 2025 with broad participation, public equity markets experienced a pullback following the "Liberation Day" tariff announcements and then a prolonged rally concentrated in the generative AI theme and the US mega cap technology stocks that benefit from it. We are encouraged by the outperformance from active management that we generated in 2025 despite the headwind of market concentration. This result has been helped by our strategy adjustments over the past few years. A higher allocation to managers that explicitly think about positioning their portfolio relative to the benchmark means that we were less impacted by concentrated markets than in past years, as a large majority of these strategies outperformed in 2025.

Several of our traditional generalist stock pickers were also able to outperform in 2025, as they benefitted from strong returns in other areas of the market such as civil aerospace or defence companies, particularly in Europe and Asia. Lastly, we benefitted from a strong recovery in our life sciences strategies in the second half of the year. We had reviewed these investments in Q2 in the face of significant prior underperformance, and chose to maintain our investments, allowing us to participate in this recovery.

We believe that our strategy positions our portfolios well going into 2026. Our allocations to benchmark-relative managers continue to reduce our exposure to market concentration, but our traditional generalists should be set up well to outperform in a market where the excess returns of AI stocks moderates or partially reverts. Our long-term experience with thematic investments like life sciences has further strengthened our awareness of the importance of assessing these strategies with the appropriate time horizon based on a fundamental investment case, and being able to withstand the shorter-term performance volatility inherent in them.

Private Equity

In 2025, private equity and venture capital are both on pace to deliver low double-digit returns, marking the strongest annualised performance since the 2021 market peak, though trailing public equity indices over the same period. Both asset classes face parallel headwinds: persistently low distributions and a subdued fundraising environment. While distributions have improved modestly since 2023–2024, at c.10–12% of NAV, they remain well below the long-term average of c.20%. Fundraising trends are equally constrained, with 2025 projected to be the weakest year since 2020. Capital continues to consolidate among a handful of mega-funds, leaving emerging and smaller managers in an increasingly difficult position. Dealmaking dynamics, however, diverge meaningfully between strategies. In private equity, portfolio companies continue to post solid operating results, with earnings growth averaging c.+12%, amid rising deal activity and stable purchase multiples.

Transactions remain concentrated in top-performing assets, as sponsors hold onto weaker companies in hopes of further EBITDA growth before exiting. In venture capital, AI continues to dominate the investment landscape, accounting for c.64% or $161B of U.S. VC activity through Q3 2025. Leading AI labs, infrastructure providers, and application software startups are reporting extraordinary revenue and user growth, fuelling record investment volumes and producing an estimated 79 new unicorns[8] in the first three quarters alone.

Past performance is not indicative of future results, your capital is at risk and you may not get back the full amount you invested.

8 Unicorn: A privately held start-up company valued at $1B or more

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Our private equity strategy remains anchored in identifying right-sized, well-aligned managers with exceptional value-creation capabilities focused on middle market companies. We are accelerating commitments to small and emerging managers through focused sourcing and underwriting of both generalist and specialist firms early in their lifecycle. Geographically, we are expanding exposure to European and Japanese buyouts, where we see more attractive valuations, less competition, and cheaper financing. We have also deepened our co-investment platform and established a dedicated secondaries team in New York; both strategies aim to leverage our manager relationships and scale to reduce expenses and generate outperformance through security selection.

In venture capital, we continue to emphasise early-stage investing, grounded in our conviction that smaller funds deploying at the Seed and Series A stages are best positioned to generate outsized returns. Our portfolio remains broadly diversified across a mix of established multi-stage platforms and early-stage managers. We are increasing exposure to technology verticals such as AI, defence, advanced materials and manufacturing, and robotics.

We also maintain a meaningful allocation to infrastructure and real estate. In infrastructure, our investments in data centres and power generation participate in the continued buildout of low-latency, network-connected digital infrastructure to power cloud software and AI inference. We generally avoid the colossal AI training data centres that are attracting the bulk of announced capital expenditures by hyperscalers. In real estate, we maintain a focus on industrial and multifamily assets, where we see strong returns available through local owner-operators we back that are less exposed to the broad AI/technology megatrend.

Tactical Asset Allocation

Our Tactical Asset Allocation (TAA) process seeks to optimise performance across a range of macro scenarios over the next 12-18 months. One of our founding principles is that attempting to time the entry and exit from markets is likely to result in subpar returns over the long term. Instead, we believe the best method for securing attractive returns over the business cycle involves setting an appropriate risk budget and holding it relatively constant within a narrow range. We find that aggregate Equity-Equivalent Risk is a useful measure for this purpose. However, asset classes are not homogeneous, so a careful assessment of the market risks underpinning each investment is needed to understand the portfolio's sensitivities more fully. In this way, we ensure that portfolios are well-positioned for the current macro context by capturing the most attractive risk premia, remaining diversified across primary return drivers and providing better resilience across multiple scenarios.

The 2026 TAA continues to prioritise returns with resilience. As highlighted above, investors today face a wide array of highly plausible economic scenarios, as the promise of AI-driven productivity growth collides with extended risk-asset valuations, an already slowing labour market, and a quantum of expected AI-related capital expenditure that will prove difficult to justify.

All allocations below are expressed relative to our Strategic Asset Allocation benchmark (SAA) shown in Exhibit 5. We continue to recommend a 5% underweight allocation to interest rate duration, but we alter the mix of underlying assets, adding 1% to nominal government bonds (-1.5% vs. benchmark) at the expense of index-linked bonds (-3.5%). This reflects a shift in the balance of probabilities for the downside scenario, with the risk of a classic recession now greater than that of an alternative downside scenario of stagflation. Nominal bonds typically perform better than index-linked bonds (ILBs) in a recession, as falling inflation expectations dampen the decline in real yields and reduce the returns from ILBs. Additionally, if geopolitical pressures ease (e.g. Ukraine progress, US-China trade relations), it would likely help contain inflation due to lower tariffs and easing energy prices, which also supports nominal bonds over ILBs.

We favour higher-than-benchmark allocations to Cash (+2%) and Absolute Return (+4%). We anticipate a greater emphasis on deregulation and pro-business policies from the White House ahead of the midterms, presenting attractive opportunities for some Absolute Return sub-strategies such as merger arbitrage. The propagation of higher tariffs into price levels and currency markets should also create a rich environment for global macro strategies.

We reduce our recommended overweight allocation to Private Debt (from +3% to +2%) and reduce the Liquid Credit allocation to neutral from +2% overweight last year. This reflects the compression in yields and spreads over the past year, as well as the growing evidence of stress in certain sectors. We remain modestly underweight Public Equities (-3%), reflecting a cautious outlook and elevated valuations. Within equities, we continue to focus on tightly risk-managed strategies, which we believe will help mitigate against equity market concentration.

The TAA holds a -1% underweight to Private Equity, where we generally avoid frothy mega cap deals and focus on US lower mid-market, Europe and Asia. We recommend holding a modest overweight allocation to Real Estate, where we are seeing compelling opportunities in several areas of the infrastructure market, particularly digital infrastructure and power/energy infrastructure.

From 2026 onwards, our model portfolio SAA will break out a special class of investments that we have dubbed "Thematic Opportunities". These are high-potential investments that we believe are at the forefront of long-term change and innovation, with scope for significant value creation over time, but where short-term volatility may be pronounced. Examples include Life Sciences or Indian equities.

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Exhibit 5
Summary of Tactical Asset Allocation changes for 2026

	SAA	2026 TAA	Difference vs. SAA	Difference vs. 2025 TAA	Notes
Cash	1.0%	3.0%	+2.0%	-	• Limit portfolio interest-rate sensitivity by allocating to shorter-dated bonds and Absolute Return rather than long-dated government bonds. • Look to shift from cash to market duration bonds if yield curve steepens further, but this is contingent on the economic outlook.
Government Bonds	5.0%	3.5%	-1.5%	+1.0%	
Liquid Credit	2.0%	2.0%	-	-2.0%	• Passive Liquid Credit is expensive relative to history and spread risk is negatively asymmetric. • Favour Opportunistic Credit, which benefits from high dispersion, and Asset-Backed Lending, particularly commercial real estate, where much of the market dislocation has already occurred.
Private Debt	7.0%	9.0%	+2.0%	-1.0%	• Allocate to diversified sub-strategies with a focus on opportunities in smaller, more complex strategies that still offer premium spreads. • Avoid overcapitalized strategies, which have a more pronounced risk of adverse selection.
Absolute Return	12.0%	16.0%	+4.0%	+1.0%	• Higher macro volatility and asset dispersion offer strong "cash-plus" return opportunities. • Allocate to multi-strategy funds for cash efficiency and enhanced risk management, as well as strategy specialists to shape overall portfolio balance and to enhance returns.
Hedged Equities	5.0%	5.0%	-	-	• Greater economic dispersion across sectors and regions creates favourable conditions for long/short spread generation. • Partnering with managers who exhibit strong research specialization, robust portfolio construction capabilities, and disciplined risk management.
Long Equities	30.0%	27.0%	-3.0%	-1.0%	• Continue to focus on benchmark-aware strategies, portable alpha and alpha extension, which help to mitigate the concentration risk within equity indices. • Underweight allocation vs. benchmark, reflecting a modestly cautious outlook and elevated valuations.
Thematic Opportunities	3.0%	3.0%	-	+3.0%	• Initially focused on Long Equities managers but could span across asset classes. Investments can include Specialist public or private managers. Commonalities are high expected returns, high expected risk and a significant skew relative to individual asset class benchmarks.
Private Equity	18.0%	17.0%	-1.0%	-	• High conviction in buyout managers that possess an ability to drive post-acquisition value creation through operational improvements.
Venture Capital	5.0%	5.0%	-	-	• Focus on early stage as we have developed strong access and relationships to several top-tier established and emerging managers in the asset class.
Inflation-Linked Bonds	5.0%	1.5%	-3.5%	-1.0%	• Below benchmark allocation due to embedded interest rate risk. • Skew allocation towards shorter duration ILB's, where breakeven rates are more responsive to near-term inflationary pressures.
Commodities	0.0%	0.0%	-	-	• Utilise Absolute Return commodity managers that can dynamically position across time frames. • May seek to add exposure to precious or industrial metals weakness depending on the macro context.
Real Estate	7.0%	8.0%	+1.0%	-	• Focus on private equity real estate managers due to favourable acquisition valuations and value-add potential – i.e., "buy-upgrade-sell". Attractive opportunities remain in digital infrastructure and power/energy infrastructure.
Total	**100%**	**100%**	-	-	
Equity-Like Risk	66%	63%	-3.0%	+1.0%	• TAA is at the lower end of equity-like risk range, reflecting cautious stance and attractive risk-adjusted returns in AR and income-generating strategies.
Illiquid Assets	40%	42%	+2.0%	+2.0%	

Notes: Illiquid assets include Private Debt, Private Equity, Venture Capital, Real Estate and Thematic Opportunities. The underlying holdings in Thematic Opportunities will not necessarily be illiquid; however, we consider this a long-hold asset class and therefore categorise it as illiquid.

Source: *Partners Capital*

Hypothetical return expectations based on simulated market conditions which has inherent limitations. Such returns are not a reliable indicator of future performance.

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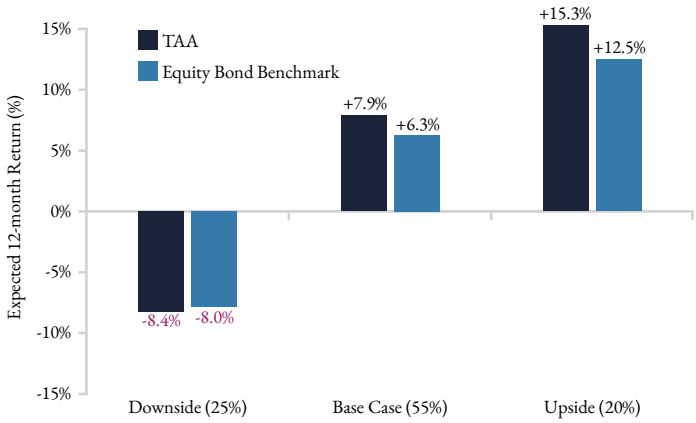
Expected Returns from the 2026 TAA

In our base case, to which we assign a 55% probability, we expect the model portfolio TAA to produce a return of roughly 8% for the 12 months starting 30 November 2025. The heightened uncertainty puts an unusually wide error band around this. Specifically, in a recession (c. 25 probability), we anticipate a decline of roughly -8%, while in the upside "Hyper Stimulus" scenario (c. 20% probability), the portfolio is expected to rise +15%.

These return assumptions compare favourably to the expected return of a 65/35 mix of Developed Market Equities and Government Bonds. The respective returns are shown in Exhibit 6 below. We expect our 2026 TAA portfolio to outperform a 65/35 equity/bond index by c. 1.6% in the base case and c. +3% in the upside case, but will likely lag a 65/35 benchmark by c. -0.4% in a recession due to the lower bond allocation.

Exhibit 6

Expected portfolio net returns by scenario, Partners Capital TAA vs. a 65/35 Equity/Bond benchmark



Source: *Partners Capital*

Conclusion

The remainder of this document provides more detail on our macroeconomic thinking, portfolio positioning and the specific opportunities we are most excited about in each asset class.

Past performance is not indicative of future returns, your capital is at risk and you may not get back the full amount you invested.

Hypothetical return expectations do not represent actual trading and are based on simulations with forward-looking assumptions, which have inherent limitations. No representation is being made that any investor will or is likely to achieve returns similar to those shown. Such forecasts are not a reliable indicator of future performance.

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