Global Emerging Market Manager & AI

Outlook 2026

“Driving Innovation Though GEMM”

Investing in the Global network, opportunities and growth.

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Foreword

GEMM Outlook 2026

We assess these transitions as a truly global private bank and Global Emerging Market Manger, with clients in over 42 regions. Our local expertise, powered by our global network and perspective, informs how we manage an increasingly complex investing environment.

Looking ahead, we are focused on three powerful forces that will shape 2026: the domination of artificial intelligence, global fragmentation and the unknowns of inflation. Our 2026 *Outlook* explores how AI is transforming the way we work, invest and think. With innovation comes excitement, but also the risk of over exuberance. Global order and requiring greater attention to resilience and security. Inflation is no longer following the old playbook. It is more commonly trending above Private Capital targets, and increased volatility demands a new mindset for investors.

The backdrop for 2026 is constructive for investing. A U.S. rate-cutting cycle should support a rebound in global growth and continued strength in asset markets broadly. We expect solid returns for multi-asset portfolios in the coming year, even after strong equity returns in 2025. At the same time, pessimism and anxiety about the market rally persist, with many clients holding more cash than they did before the pandemic.

The transitions underway will bring pressure as well as promise. We look to build portfolios that are resilient, aligned with our deep research, and which draw on the power of our global access. It is prudent that you revisit your wealth plan to ensure it reflects your goals and risk appetite. We are here to help.

Thank you for your continued trust and interest in Global Emerging Market Manager.

Key takeaways

1

Position for the AI revolution

The technology is transformative.

Capture the upside while avoiding the risks of overexuberance.

2

Collaborate on Transformative Projects though globalization

A reconfigured economy prioritizes resilience over efficiency.

Identify opportunities where security, energy and supply chains converge.

3

Enabling Global Innovation

GEMM, we connect global entrepreneurs, investors, and organizations with the business resources they need to bring innovation to market.

4

Network with potential of private markets

Manager selection and access are especially crucial in this landscape.

Find the right partner.

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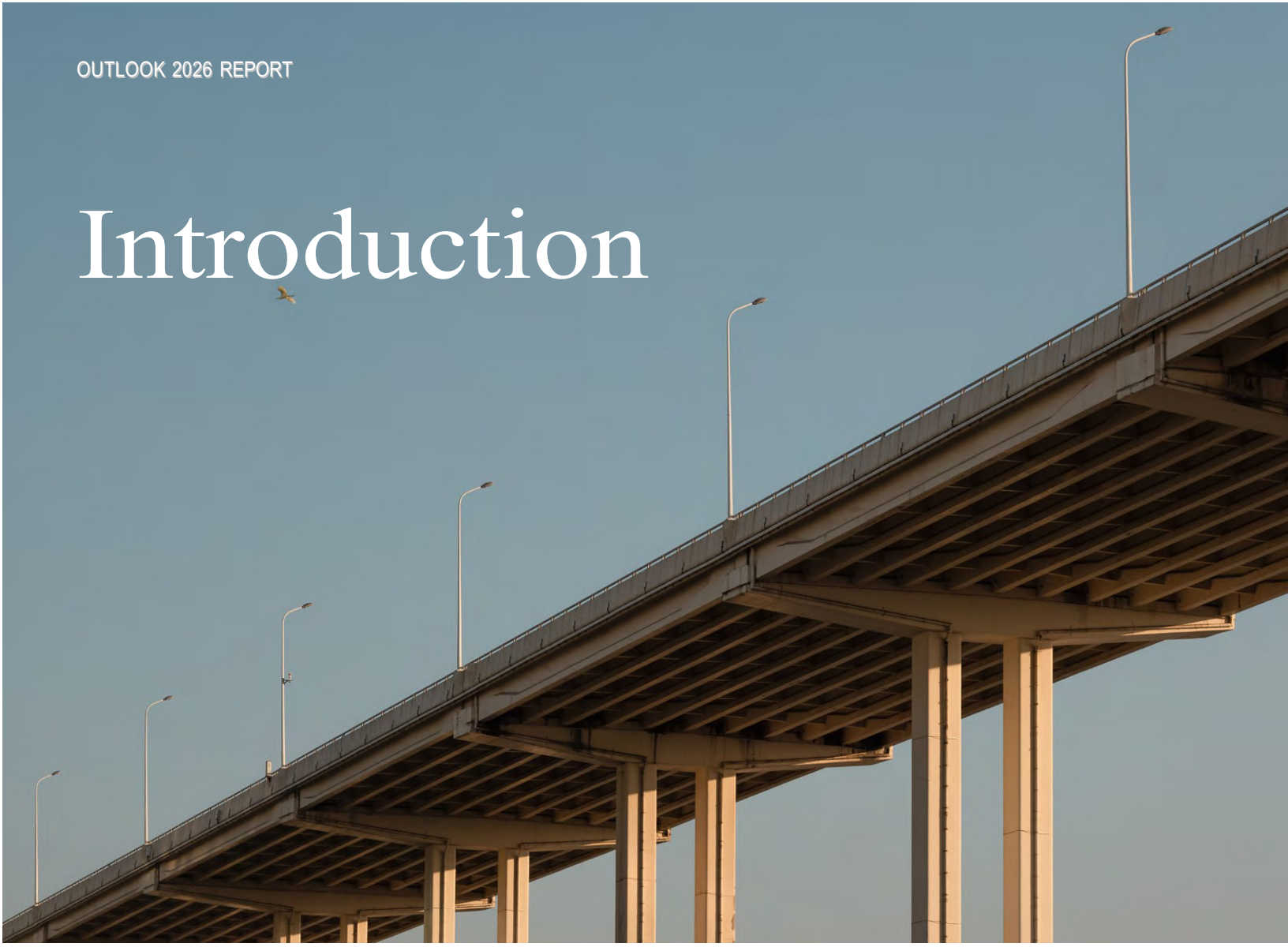
Introduction



Sometimes the investing landscape is hard to read. In prior year *Outlooks*, we often struggled with tangled debates and ambiguous data. The picture looked clear after Covid 2020 financial crisis.

In its place, three powerful, interconnected forces are defining a new market frontier: artificial intelligence (AI), global and local communities reviving from Covid 2020. Collectively, they present one overarching challenge: How should you invest in a world where the promise of productivity growth driven by AI collides with the pressure of stickier, more volatile inflation and a fractured world order?

The forces of AI, fragmentation and inflation will play out in ways we can now only glimpse on the horizon.

Part 1

Position for the GEMM revolution

Why Consult with Global Emerging Market Manager

The Global Emerging Market Manager (GEMM) will conduct an initial review of research and analytics to identify Global Emerging Markets. They aim to secure Private Capital and Equity for medium-sized businesses that require funding for innovation, equipment, and operational expenses to expand into new markets.

Enabling Global Innovation

At GEMM, we connect global entrepreneurs, investors, and organizations with the business resources they need to bring innovation to market.

GEMM®
GLOBAL EMERGING MARKET MANAGER

What are the potential limits to AI expansion?

The most pressing limit to the AI expansion is power. In the United States, companies face a five-year backlog in adding new power generation to the existing grid. Some 70% of regional power markets are already strained, and power demand is set to grow by 662 terawatt-hours through the end of the decade. This is more than the annual power generation of Texas and California combined.[25]

Accelerating demand growth will bump up against aging infrastructure: 70% of power transmission lines are over 25 years old.[26] Power investment will become more critical as policymakers increasingly view AI as a matter of national security. For example, China recently broke ground on a $167 billion hydropower project that will have a larger power-generating capacity than Poland.

Data centers require reliable, accessible power, making natural gas a critical baseload source. In part because it takes a relatively long lead time (around five years) to produce a natural gas turbine that could supply a data center, we believe renewables (which could take only one year) will also help power data centers in the coming years.

However, industry's extended reliance on fossil fuels will likely push carbon emissions above previous forecasts in developed markets. This heightens the risk of warmer global temperatures and more frequent extreme weather events. These dynamics are creating investment opportunities in commodities, particularly those critical minerals tied to the energy transition, power generation and infrastructure.

Water (needed for data center cooling) is emerging as a factor for investors to watch. It is part of a broader story in which limited resources and AI-related issues may constrain data center expansion. Phoenix, for example, recently updated its zoning ordinance to define data centers as their own category so that developers must address health and safety concerns before permitting and construction can begin.[27] High-profile projects from Amazon in Tucson and Google in Indianapolis have been canceled in the wake of local opposition related to water use and power price inflation.[28]

Data privacy remains a persistent challenge, and "intelligent" AI solutions only increase the risks. Regulators will take notice as AI models improve and start to appear in the physical world (e.g., autonomous vehicles and robotics). Debates about resource scarcity, privacy and safety will likely shape public sentiment and policy around AI in ways that can create and destroy financial value.

For investors, we believe a focus on strong stakeholder engagement and effective governance can help mitigate the risk of portfolio losses.

In our view, physical, social and political constraints on the AI expansion should act as a moderating influence, helping to restrain excess investor euphoria and giving labor markets more time to adjust to potential disruption.

AI and labor market churn: Old jobs lost, new jobs born

How might AI technology impact the labor market? This story, too, has only just begun. Some 71 million U.S. knowledge workers (average annual salary around $85,000) represent a roughly $6 trillion addressable market. Some estimates suggest over 60% of jobs in developed markets are vulnerable to upheaval from AI technology.[21] In many ways, investors value AI precisely because it has the potential to disrupt the labor market.

While a few dire forecasts envision unemployment spiking as high as 20%, history argues for a less grim and ultimately more optimistic path.[22] Major technologies rarely cause lasting mass unemployment; they slash the cost of key inputs, unlock new demand and create new roles.

Steam displaced weavers and canal workers, but dramatically increased textile output and inland trade. That generated new jobs in mining, rail and urban services. Computing automated clerical tasks, but cheaper information processing enabled the credit card and airline businesses to grow, spawning new professions (programmers, financial analysts) and pushing productivity higher throughout the economy. Mechanized agriculture decimated farm employment but delivered cheaper food and catalyzed urban migration.

According to a study by economists at MIT, more than 60% of today's U.S. job occupations didn't even exist in 1940.[23] New technologies explain much of that change. Through each successive technology transition, aggregate demand increased and the economy created jobs that didn't previously exist.

Over the near term, we think AI will enhance more jobs than it automates or eliminates. Essentially, a job is a collection of disparate tasks. Some tasks will be automated by AI, while others could be strengthened. An optimist would argue that productivity gains from AI could offset weaker population growth trends in the developed world.

To harness the full power of AI, companies will need to re-architect their data systems and infrastructures. Those are gradual processes. Current research suggests only a small share of jobs could be automated immediately. Certainly, humans will retain enduring advantages—common sense, causal reasoning, emotional intelligence, high-stakes judgment, adaptive learning and intrinsic motivation among them—for some time.

We see limited evidence that AI has impacted the labor market yet. Today, unemployment rates in the sectors most exposed to AI disruption are lower than unemployment rates in more insulated sectors. At the same time, both academic estimates and corporate anecdotes suggest that AI adoption has increased labor productivity by around 30%[24] for firms that have adopted the technology.

The early returns on the promise of higher productivity are encouraging, but investors need to also consider the limits to the AI expansion.

The GEMM Advantage

GEMM offers an online community exclusively for corporate investors and entrepreneurs from around the globe. Our platform allows you to connect with like-minded individuals, share your thoughts and ideas, and collaborate on projects that can potentially change the world.

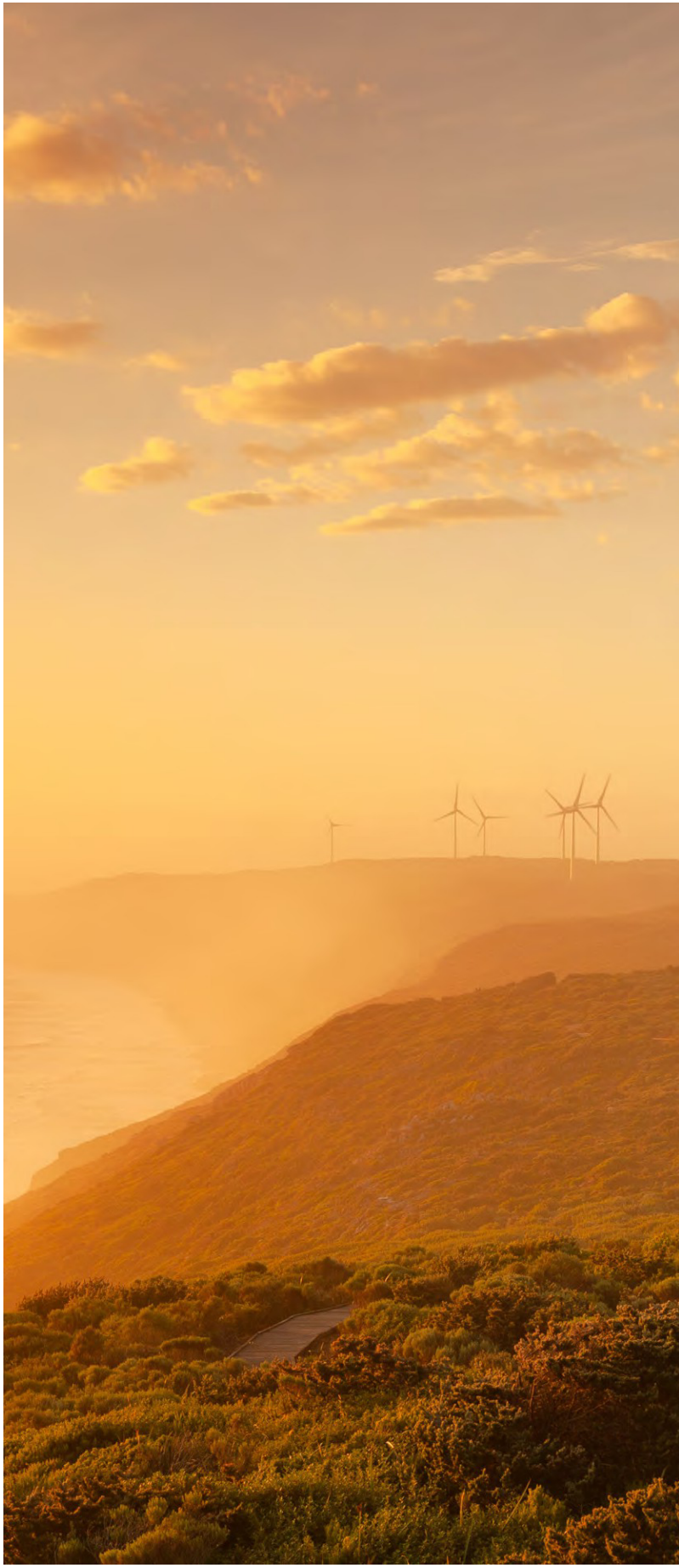
Our community is a safe space where you can network with other investors, entrepreneurs, and innovators from around the globe. In addition, you'll have access to exclusive content, online learning resources, webinars, and events that will help you stay up to date on your industry's latest trends and developments.

So, if you're an entrepreneur or corporate investor wanting to be at the forefront of innovation and change, GEMM is the perfect platform. Join our community today and start empowering the next generation of global innovators!

AI invention Nvidia was invented by Mr. David Harold Blackwell Ph. D. with the theory that created an AI. Which has changed the world and business, this individual would be considered GEMM innovator of the year.

How will we know if the boom. Because AI will have create a cost and effect of jobs encouraging more willing innovators and entrepreneurs to use their skill to be successful.

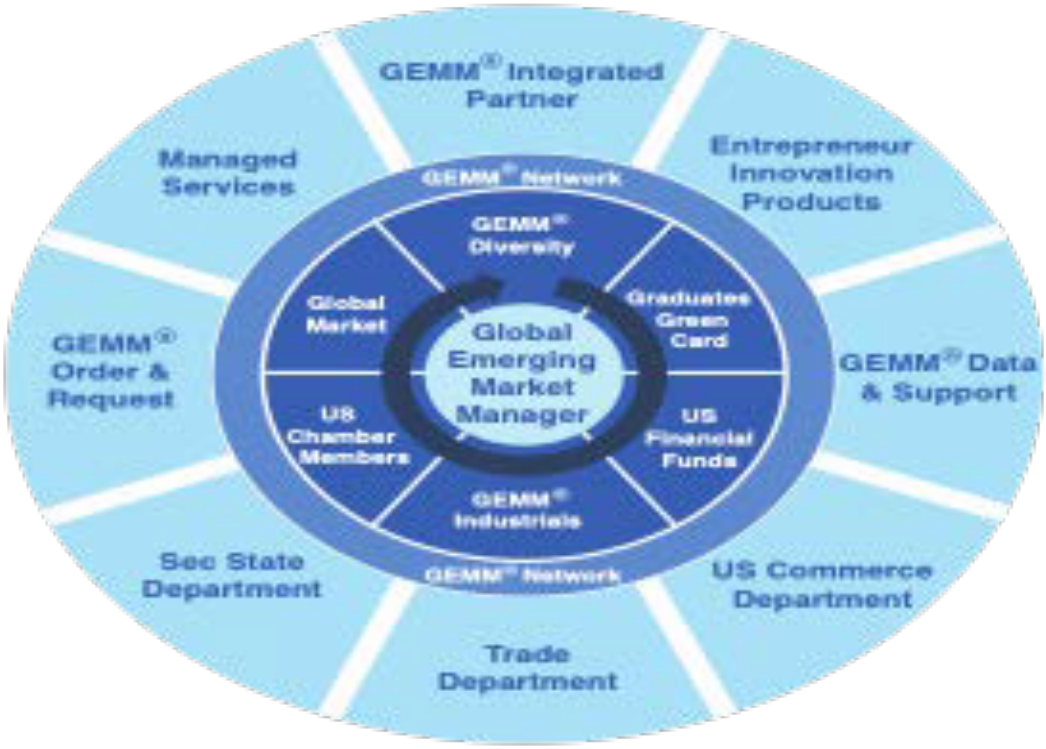
IF AI a bubble? The question is on everyone's minds. Today, nearly 40% of the S&P 500's market cap feels the direct impact of perceptions or realities related to AI usage, investment, infrastructure construction and productivity gains. Whether to the upside or to the downside, AI will almost certainly be the most important driver of public equity market returns over the next few years. To feel comfortable allocating capital to stocks, we must feel confident that we are not about to see a bubble burst. Market and economic bubbles follow a consistent narrative. Most bubbles start because of an investor thesis that the world is changing—undergoing a paradigm shift. Believers build capacity to meet future demand. The bubble begins to form in part because credit is widely available. Decaying underwriting standards and increasing leverage cause a disconnect between economic fundamentals and market valuations. More investors join the crowd—until fundamentals finally prevail the bubble bursts if market fall short on demand use of products innovators and med-size businesses.



THE AI CYCLE, VALUE HAS ACCRUED TO THE INFRASTRUCTURE PLAYERS, BUT WE BELIEVE WE ARE ENTERING THE PLATFORM TECH/APPLICATION PHASES

Estimated cumulative value creation, $ trillions

At GEMM, our portfolio of products and services is focused on providing value to key stakeholders of innovation. This includes entrepreneurs, investors, academic staff, and governments. Because of this, we envision a platform that nurtures these stakeholders, while providing them with key services to help make them successful. An overview of our stakeholder scope and services is provided in Figure 1 below. Sources:



• GEM Spotlight · GEMM Innovation Competition (solution share product)
• GEMM Navigator – Google Maps-like system allowing rapid access to region-specific entrepreneurial projects.
• GEMM Talks – Internet, global, regional, urban-generated entrepreneur talks by leading innovators.
• GEMM iShares – Provides cloud sharing of ideas, recruitment of input to new ideas allowing originators to adjust in real-time.
• In Vest (Private capital) - Identifies global, national, state, urban investment equity groups specializing in entrepreneurs, Millennials, Generation Z, and innovators.
• GEMM solutions – Global sector, category entrepreneurial / innovator solution sharing
• GEMM Agile – GEMM project management system enabling customer organizations to move quicker and easier; system that optimizes all GEMM data from storage, data sharing, networking, communications in a one stop, single source service.
• GEMM, I Connect (collaboration product) – Real-time global connectivity; Idea, program, planning, category, sector- specific meeting organizer, coordinator, agenda facilitator.
• GEMM Compete – Regional/Urban global innovation competition.
• BUS Gen – Internet, interactive business plan 60-90-120-day action plans, P&L, proposals, and lead generation strategy program – Virtual consulting
• GEMM Advantage – Access to sector / category specific regional and urban leadership advisory groups
• GEMM JumpStart – Provides virtual bifurcation planning anticipating changes in market need; allows participants to anticipate change, embrace changing market needs and facilitating ease of adjustment.

Once we've established a pattern to assess irrational exuberance, we can use it to evaluate the AI trade. Here is how we think AI now stacks up relative to five key elements:

1. A paradigm shift

Bubbles often emerge from an idea that a new technology, demographic trend or policy shift will profoundly change the world. Notable historical examples include the railroad boom in the 1840s and the internet boom in the late 1990s. Those transformations did indeed change the world, but timing matters. From 1843 to 1853, railway miles in the United Kingdom nearly quadrupled, but railway revenue per mile was flat to down.[11] By mid-2001, telecom companies had installed 39 million miles of fiber, but only 10% of those fibers were lit, and each lit fiber was utilizing just 10% of the wavelengths available.[12]

Both the railroad and internet booms featured tremendous excess capacity—capacity that was not justified by concurrent consumer demand or unit economics. Today's AI story certainly features the rhetoric and investment you would expect to see during a paradigm shift. But we do not yet see excess capacity. Data center vacancy rates are at a record low 1.6%, and three-quarters of data center capacity under construction are pre-leased.[13] Across the computing, power and data center value chain, components are scarce relative to demand. And the latest earnings season confirms that AI use is driving revenue growth for the largest companies.

2. Abundance and availability of credit

Bubbles expand because cheap, speculative capital drives prices ever higher. In the 17th century, Amsterdam's deep credit markets fueled tulip-mania, while the Japanese asset bubble of the 1980s relied on bank loans collateralized by artificially inflated corporate equity values. The housing bubble that preceded the global financial crisis (GFC) was inflated by subprime mortgages, securitized in an interconnected "shadow banking" sector. In the 2010s, an energy stock bubble formed as oil producers accessed inexpensive financing made possible by policy rates pinned at zero.

Oracle's recent foray into debt markets signals that the next phase of the AI infrastructure cycle will rely more on credit. The deal was 5x oversubscribed, and we think public markets will be willing to finance the largest tech companies, which all have tighter spreads than the broad investment grade index.[14] As the Fed rate-cutting cycle progresses, credit seems likely to finance more AI investment. This could well happen, given low leverage in the large-cap equity space and over $500 billion in private credit dry powder.[15]

3.

Increasing leverage and decaying underwriting standards

Bubbles typically expand as financial structures magnify gains and obscure risk. The South Sea bubble[16] featured debt-for-equity swaps; the pre-1929 crash years roared with margin buying. More recently, SPACs expanded via redemption puts and free warrants. In the AI arena, financial innovation and engineering are accelerating.

Among recent examples: Companies such as Lambda and Core Weave have issued debt collateralized by their high-end GPUs,[17] and Alibaba recently announced a zero-coupon convertible security to fund data center investment. In terms of financial engineering, technology sector debt and data center–related asset-backed and commercial mortgage–backed security issuance have bounced back to levels last seen in 2020 and 2021.[18] But these are relatively straightforward features of capital markets. If the hyperscale's decided to lever their balance sheets to 2.8x net debt to EBITDA (the median for an investment grade company), it could result in an additional $1 trillion of capital to spend.

One could also argue that the "circular" investments from the AI supply chain could be an example of financial engineering. These deals (in which key industry players buy and sell from one another using equity and computing power as currency) certainly increased risk. But they could also create a more symbiotic ecosystem with more competition for both hardware and software that could lead to a more balanced landscape.

We are searching for signs that underwriting standards are deteriorating, whether for power purchase agreements or for private equity and venture investments. To date, aggregate cash flows from operations still exceed capital expenditures and dividends for the major players. Leverage will likely continue to grow as AI investment continues, but AI spending today is fueled by cash flows.

- University of Minnesota. *The railway mania of the 1860s and financial innovation.* March 3, 2024.
- The Optical Society. *Boom, Bubble, Bust: The Fiber Optic Mania.* October 2016.
- CBRE. *North America Data Center Trends H1 2025: AI & Hyperscale Demand Lead to Record-Low Vacancy.* August 19, 2025.
- ıMorningstar. *Why Oracle's 'jumbo' AI-fueled bond deal is so unusual.* September 25, 2025.
- Empirical Research Partners. *Private Debt: A Game Changer?*
- April 29, 2025. In 1720, shares in the South Sea Co. crashed, part of the first international stock market crash.
- Graphics processing units, an electronic component.
- Penn Mutual Asset Management. *Pricing the Infrastructure Boom:*

4.

A gap between valuations and cash flows

In every bubble, valuations increase beyond what fundamentals, cash flows or use cases alone would justify. During the dot-com bubble, companies went public with no revenues. Cisco's stock price increased by 40x from 1995 to 2000, while its earnings grew by just 8x. Today, we are seeing pockets of froth in private markets. Unicorns—private companies with greater than $1 billion in market cap—are now worth nearly 12% of the Nasdaq; that share is close to its peak in 2021.[19] And the valuation growth of AI startups has consistently outpaced that of non-AI companies across every series. For example, the median Series B step-up is 2.1x for AI startups versus 1.4x for non-AI startups. AI companies command median valuations that are 56% higher at Series C and 230% higher at Series D+ than non-AI companies.

But in the public markets, AI companies have generated their returns entirely through earnings growth. Over the last three years, the forward price-to-earnings (P/E) multiple of publicly traded AI stocks has declined, while earnings per share (EPS) estimates have more than doubled. Over the past five years, Nvidia's stock price increased 14x, while earnings grew 20x.

5.

A feedback loop driven by speculation and broad participation

Every bubble attracts new participants convinced that rising prices are a self-fulfilling prophecy. Dutch artisans bought tulip bulbs for multiples of their annual incomes, and Las Vegas bartenders flipped houses in 2005. Recent IPO performance suggests more signs of froth. Exuberance is building, but it would need to reach much higher levels before we would grow more cautious.

When we consider the evidence, it seems clear that the ingredients for a market bubble are present. That said, we think the risk that a bubble will form in the future is greater than the risk that we may be at the height of one right now.

Moving past the AI bubble debate, here's the more important question for investors to ask: Who will ultimately capture the value from this technological transition? Unfortunately, history provides no clear pattern for which companies will ultimately capture the value of technological transitions.

In some instances, such as U.K. railways, fiber optic cables and telecoms, the first movers suffered painful drawdowns only to see new entrants capitalize when asset prices had collapsed. On the other hand, first movers in the information technology transition (e.g., IBM, Microsoft, Cisco and Amazon) were able to capture and retain market share even as other entrants capitalized on the ecosystem that developed. U.S. electric utilities-maintained market share, but regulations ended up curtailing the ultimate return to investors.

1

Keep the focus on Small/ Mid-cap Businesses

The first part of our strategy focuses on the broad technology sector's small-middle-cap leaders. While some doubt that global scalers will ultimately realize a strong return on investment from their capital investments, we are generally optimistic. In part, that's because the four original global scalers.
(Microsoft, Meta, Alphabet and Amazon) are already growing earnings at about a 20% annual pace. Once you adjust for their growth, their valuation premiums seem justified.

They are also not a monolith. For example, analysts expect that 2026 free cash flow at Microsoft and Google will exceed 2024 levels after falling in 2025. On the other hand, analysts do not expect Amazon and Meta to recover their 2024 free cash flow profiles. In choosing to borrow to fund its latest deals, Oracle decided that negative free cash flow is a price worth paying to enter the AI competition.

As a collective, they are already generating an estimated $ 5 billion in incremental quarterly revenue from AI activity, and we believe that number could be growing at a 200% year-over-year pace. If the global scalers can continue to escalate their cloud computing revenue gains, investors will likely tolerate the companies' lower free cash flow yields.

Eventually, we expect, the AI boom will create a new generation of tech leaders (that is the pattern in virtually all innovation cycles). Still, we don't think 2026 will be the year when today's market leadership will falter. In fact, we think the largest companies will continue to outperform the smaller ones. The top 100 stocks in the U.S. market generate three-quarters of total earnings, have 1.7x the return on invested capital and 1.8x the free cash flow margin of the remaining large-cap stocks.[29]

2

Find opportunity in the AI supply chain

The second part of our strategy highlights enablers of AI technology. These firms provide the key inputs (power, semiconductors, connectivity, cooling systems and commodities) to deliver the computing power needed by AI.

As we've discussed, power is perhaps the most important and scarce input—especially as reasoning models become the norm. According to a study from the University of Rhode Island, GPT-5 consumes 2.5x the energy per prompt as GPT-4.[30] We are finding interesting investment opportunities across public markets (e.g., utilities and industrial producers of electrical equipment) and private markets (in power-focused infrastructure funds, for example).

Meanwhile, demand for semiconductors still outstrips supply. Nvidia's Blackwell chip is expected to sell out over the next 12 months, while companies in the global supply chain (e.g., hyperscale's, Micron, SK Hynix, Samsung and TSMC) have emphasized capacity constraints on their earnings calls.[31] Although power and semiconductors are the most obvious places to look for opportunity, we see similar dynamics in transformers, networking equipment, fiber and subsea cables, and liquid cooling systems. In the physical world, extracting resources, including rare earth metals, and securing valuable land and water rights could be lucrative.

29 Empirical Research Partners. *The Hyperscale's: Making the Jump to Hyperspace?* August 11, 2025.

30 University of Rhode Island. *How Hungry Is AI?* October 31, 2025.

31 Barron's. *Nvidia Stock Rises After Management Says Blackwell Is Sold Out for 12 Months.* October 10, 2024.

3

Identify the "smart" corporate users of AI

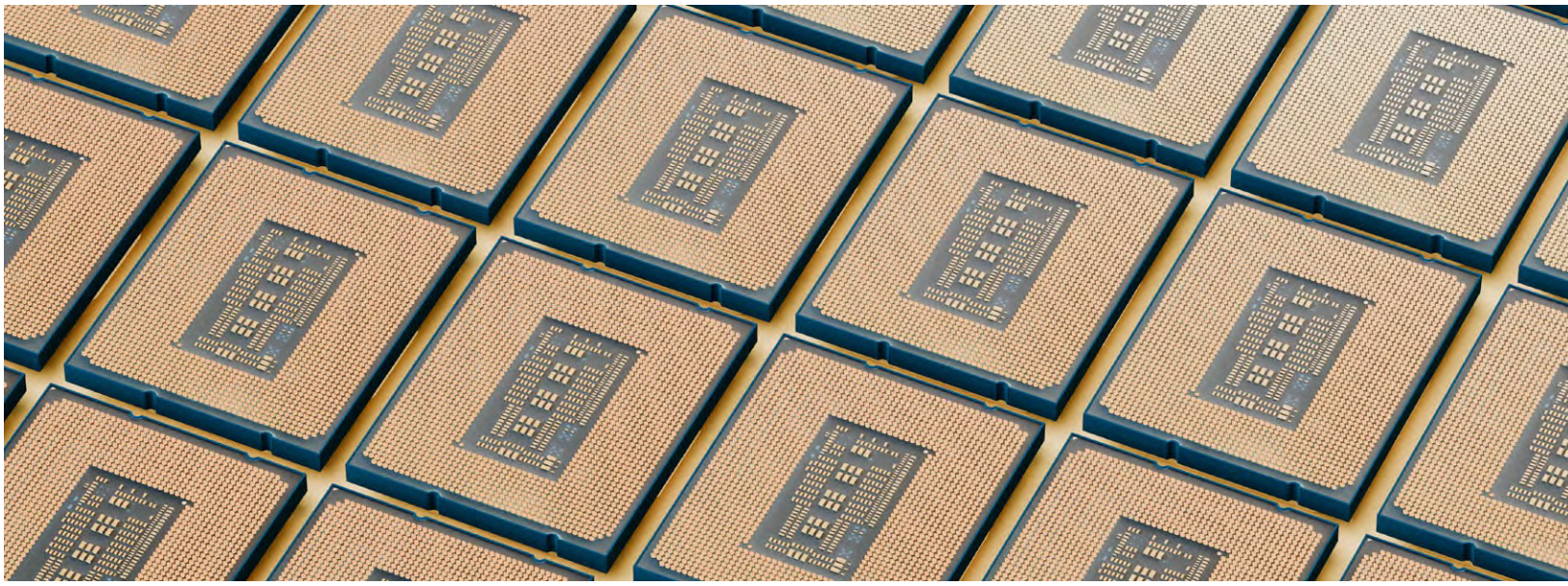
Third, we want to find businesses that are successfully deploying AI to grow revenue and profits. For example, the cloud businesses of Microsoft and Google grew four percentage points faster in Q2 2025 than in Q1 2025.[32] Nearly two-thirds of U.S. equity market cap is in the top two quintiles of AI adoption. In Europe and Japan, that share is closer to 50%.[33] Said differently, the current crop of winners is likely to compound their gains due to faster, more efficient integration of AI into existing workstreams and business models. Here, the United States seems to have a lead over other developed equity markets.

Conversely, the market is starting to punish heritage software-as-a-service companies that are not capturing enough value from AI-enhanced products. While the broad software index has gained 17% over the last year, half of the stocks in the index have fallen. That dichotomy underscores the value that a good active manager can provide in picking AI software winners and losers.

4

Make sure you consider private exposure

In the critical last part of our four-part value strategy, we look to private markets to capture the full investment potential of AI. Already, the top 10 private AI companies are collectively worth about $1.5 trillion.[34] If they were publicly held, the companies would account for about a 3% share of the S&P 500.[35] For context, the entire U.S. public small-cap market is only worth $3 trillion. AI is following a familiar innovation arc as earlier tech innovation cycles—starting with infrastructure and moving toward platforms and applications—but the economics and timing of value capture are changing. A key part of that story: the new roles of public and private markets in capital formation and allocation.



Private players, AI innovators in venture capital and private equity

Private markets will likely play a very different part in the AI boom when compared with past tech cycles.

In prior cycles, such as the internet boom that began in the late 1990s, companies launched IPOs in their early years. This allowed public market investors to participate in the most lucrative phases of a company's growth trajectory. Today, that dynamic has shifted. Businesses are staying private longer, supported by abundant private capital and alternative exit options. The median tech IPO now occurs when the company is roughly 14 years old with revenues near $220 million. In the 1990s, the median tech IPO occurred when the company was eight years old and reported revenues worth $44 million in today's dollars.[36]

This matters because the next wave of AI value creation is still in its formative stages. It includes agentic AI systems (software that can autonomously pursue goals, act and complete tasks), as well as vertical industry applications, AI-enabled software and other ideas that are just taking shape. These opportunities require strategic capital to fund long R&D cycles and scale adoption, making them well suited for private market investors such as venture capital and growth equity firms.

The public market investor has largely captured the rise in value in the infrastructure wave, through semiconductor and cloud companies. The application and platform companies—where we expect most of the value to accrue—could remain private through the end of the decade.

Consider the "Magnificent 7" of private markets (OpenAI, SpaceX, Byte dance, Anthropic, Databricks, Reliance Retail and Stripe). All have reached a $100 billion valuation while in the private markets.[37] In today's dollars, only Meta of the Magnificent 7 was valued at over $100 billion when it went public. Media reports suggest that investors expect OpenAI to generate $200 billion in revenue in 2030, while cash burn will peak in 2028 at around $45 billion.[38]

As we show in the accompanying charts, we analyzed the value created by different types of companies across the internet and cloud technology cycles and compared that to the AI cycle so far. We found that platform technology companies (e.g., Google and Microsoft) and application layer companies (e.g., Facebook, Netflix and Uber) capture more value than the physical or digital infrastructure companies. Further, more value is created in private markets in the application and technology phases than in the infrastructure phases.

A few high-profile, privately held companies (e.g., OpenAI) are already well known and well-funded. Beyond those names, we see several young, privately owned businesses with tremendous potential in the platform technologies and applications that we believe will define the age of AI.

While the promise of the private markets is clear and compelling, it comes with more acute risks and more disparate outcomes than diversified public market investing. Manager selection and access are especially crucial in private market AI investing, territory that is growing increasingly crowded. One illustrative statistic: AI investment has accounted for over 60% of venture capital investment over the last 12 months.[39]

- University of Florida. *Initial Public Offerings: Median Age of IPOs Through 2024.*
- January 3, 2025. PitchBook.[38] Data Center Dynamics.
- *OpenAI plans to spend $100bn on backup cloud servers over five*

Implications for investors

The ingredients are certainly in place for a market bubble to form, but for now, at least, we believe the rally in AI-related investments is justified and sustainable. Capex is massive, and adoption is accelerating.

We continue to look for opportunity across the AI value chain in public and private markets. Active management will be critical to avoid the business models that will be made obsolete. Within portfolios that we oversee at the Private Bank, the information technology sector has been a consistent overweight in recent years. Today, our sector exposure is diversified globally, and we continue to identify interesting prospect opportunities across semiconductors, hyperscale's and AI beneficiaries.

We remember, too, that technological transformations do not follow linear paths. We expect acute labor market pain in exposed areas such as customer service and coding, and for existing business models to be pressured by new entrants. Understanding your portfolio's current tech exposure is also essential: Technology and tech-related sectors now account for nearly half of the S&P 500's total market cap. Portfolio rebalancing may be in order.

AI has delivered handsomely for investors, but now we must consider a phase in which froth is building and disruption could have consequences. Aim to capture the upside of the AI revolution while managing the risks of overexuberance.

The second powerful force driving markets today—global fragmentation—upends an era that was characterized by three key interconnected anchors: the post–Bretton Woods dollar system that standardized global finance; the peace dividend from the end of the Cold War that kept security risks and defense outlays low (outside of the "war on terror"); and globalization that optimized supply chains for cost, not individual economies' resilience.

Global has implications for trade, security and currency. It's a significant regime change for markets, and it will be critically important for investors to assess its potential impact.

In place of globalization and peace, today's investors are encountering war in Europe, tariffs, tech controls and bloc formation. As these blocs fracture and form, currency and reserve diversification will be a focus. We note that while the U.S. dollar remains the dominant reserve currency—and in our view will keep that status for the foreseeable future—investors may well continue to marginally reduce their USD holdings as they diversify their currency exposures.

The U.S. dollar will likely face more frequent tests from strategic adversaries, alternative payment methods and market participants' desire to settle commodity trades in other currencies. Investors should look for investment opportunities where trade (including supply chains) security and energy converge.

Trade: From cheapest origin to rules of origin

We turn first to trade. From 1970 to 2009, global trade as a share of GDP increased threefold, from 20% to 60%, and foreign direct investment soared. This had profound impacts on global markets and the economy: lower inflation, wider profit margins and manufacturing job loss in developed markets. However, global trade as a share of GDP has been stagnant since 2009. And now the Trump administration has introduced the most onerous tariff rates in a century.

Today, tariffs affect nearly 70% of U.S. goods imports by value,[40] and the effective tariff rate is approaching 15%–20%.[41] We think tariffs (in one form or another) are here to stay, even if the U.S. Supreme Court finds those imposed using IEEPA unconstitutional.

40 Tax Foundation. *Trump Tariffs: Tracking the Economic Impact of the Trump Trade War.* October 27, 2025.

41 The Yale Budget Lab. *State of U.S. Tariffs: October 30, 2025.*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GLOBAL EMERGING MARKET MANAGER