



## 2026 Market Outlook

January 2026

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# 2025: Resilience amid Trump's trade war

## Patience rewarded as equities posted stellar gains.

2025 was a year where politics and policy dominated the investment landscape.

Donald Trump's return to the White House reignited global trade tensions, with a sweeping set of tariffs targeting major US trading partners – including China, the European Union, Japan and South Korea.

The initial rhetoric was aggressive, with threats of tariffs exceeding 200% on certain goods, but the final implementation was more measured, featuring delays, carve-outs, and domestic production incentives. The US introduced a baseline 10% tariff on all imports, with significantly higher rates for selected countries and sectors. Overall, the uncertainty surrounding trade policy contributed to market volatility and forced many firms to reassess their global sourcing and pricing strategies.

Despite this backdrop, financial markets delivered stellar returns. US equities continued their strong run, driven by resilient corporate earnings and ongoing enthusiasm for artificial intelligence. The “Magnificent 7” tech stocks remained in focus, but gains broadened out as investors sought value in other sectors.

The S&P 500 Index and the Nasdaq Composite Index both posted double-digit returns, touching new record highs, supported by strong consumer spending and a labour market that, while softening, remained relatively tight. However, late in the year, AI-related stocks experienced a pullback amid concerns about stretched valuations and sustainability of growth. While the sector recovered, it highlighted growing investor caution around tech valuations heading into 2026.

Japan's equity market also performed well, buoyed by corporate reform and a weaker yen that supported exporters. The UK's FTSE 100 benefited from its defensive characteristics and global exposure. European equities initially gained but ultimately lagged, held back by slower earnings growth, policy uncertainty and political headwinds in countries like France.

New Zealand's equity market showed signs of recovery, with the NZX 50 Index delivering modest gains. The local economy remained under pressure from weak growth, but falling interest rates and improving sentiment helped support asset prices.

Bond markets were more mixed. US government bonds posted gains but faced pressure from persistent inflation, fiscal concerns, and Trump's attempts to assert some influence over Federal Reserve decision-making. European bonds delivered modest returns, supported by early-year rate cuts by the European Central Bank before policy shifted to a hold stance in the second half of the year. Meanwhile New Zealand government bonds benefited from steady rate cuts by the Reserve Bank of New Zealand.

Listed property and infrastructure assets also gained, as falling interest rates made income-generating investments more attractive.

Overall, 2025 was a year where staying invested and maintaining diversification proved valuable. Despite the noise around tariffs, inflation, and politics, markets rewarded patience and a long-term focus.

As we look to 2026, a key debate remains: how much more – if any – monetary policy easing global central banks can deliver. Alongside ongoing discussion about the economic implications of AI, recent geopolitical tensions are likely to remain an important influence on markets. That said, many developed economies enter 2026 from a position of relative strength.

Against this backdrop, ANZ Investments' 2026 Market Outlook explores the key risks, opportunities, and themes shaping the year ahead.

“2025 reminded us that markets can be resilient, even when headlines are unsettling. Trade tensions, political uncertainty, and inflation risks were all in play – yet strong earnings and central bank support helped investors stay the course. It was a year where patience and diversification paid off.”



George Crosby, Chief Investment Officer

## Major asset classes delivered gains in 2025



S&P 500  
+17.9%



NZX 50  
+3.3%



ASX 200  
+10.3%



Euro Stoxx 50  
+21.2%



NZ Listed  
Property  
+13.5%



Global Government  
Bonds\*  
+2.4%



NZ Government  
Bonds  
+5.0%



Global Listed  
Infrastructure\*  
+10.8%

\* Hedged to NZD.

Source: Bloomberg, 31 December 2025

# Positioning for the future

## Staying focused on fundamentals in an uncertain investment landscape.

As we look ahead to 2026, investors face a landscape shaped by several key themes.

Artificial intelligence continues to drive innovation and market optimism, but questions around equity valuations – particularly in technology – remain front of mind.

Trade and tariff uncertainty persists, with negotiations still lacking detail and global supply chains adjusting to new realities. Inflation, which had eased earlier in the year, has shown signs of resurgence, adding complexity to central bank policy. And geopolitical risks – from ongoing conflicts to shifting alliances – continue to influence sentiment. In short, markets are likely to remain volatile, and staying focused on fundamentals will be critical.

### Embedding our new investment beliefs

Against this backdrop, our priority is clear: to position portfolios for resilience to short-term market volatility and for long-term success. 2026 will be about building on the meaningful changes we made in 2025. We've strengthened our investment approach, guided by a refreshed set of investment beliefs that now sit at the heart of how we manage money. This year, our focus will be on further implementing these beliefs across portfolios and ensuring they drive every decision we make. These beliefs are designed to help us make better decisions in a complex and fast-changing world.



They emphasise long-term thinking, diversification, and clarity of purpose – recognising that every investment should have a role in the portfolio, and that risk and return must be considered together.

One of the ways we've brought these beliefs to life is through our deepening relationship with BlackRock, which reflects our investment partnership belief – that strong relationships with global experts can enhance our decision-making and help us deliver better outcomes for investors. BlackRock's insights and our access to their analytical tools will remain central in 2026, supporting manager research and portfolio analysis. Their expertise complements ours and will continue to inform how we challenge assumptions and refine strategies.

Last year we made meaningful changes to our international equities line-up as part of our move to a total portfolio approach – an approach that uses risk where it can add the most value. It included terminating two managers that were no longer meeting expectations, introducing new strategies from Northern Trust and PIMCO, and shifting to active management in emerging markets – an area where we believe skilled managers can add real value. In addition, we appointed a new Australian equities manager to better capture opportunities in a market that continues to evolve.

The work doesn't stop here. In 2026, we'll keep reviewing our manager line-up, testing our thinking, and researching new opportunities.

"In a year of change, we've sharpened our focus. In 2026, we'll continue embedding our investment beliefs, strengthening our partnerships, and positioning portfolios for long-term success. Our goal remains the same – to deliver strong, sustainable outcomes for our investors."



**George Crosby, Chief Investment Officer**

# Navigating the AI sphere: Positioning for what comes next

As the AI theme matures, uneven outcomes may reveal new pockets of value, both within the US and beyond.

AI enthusiasm dominated global equity markets for much of 2025, with companies like Nvidia, Oracle and Taiwan Semiconductor surging to record highs. These gains were fuelled by unprecedented investment in AI infrastructure – from data centres to advanced semiconductor technologies – as hyperscalers poured billions into building capacity for the next wave of innovation.

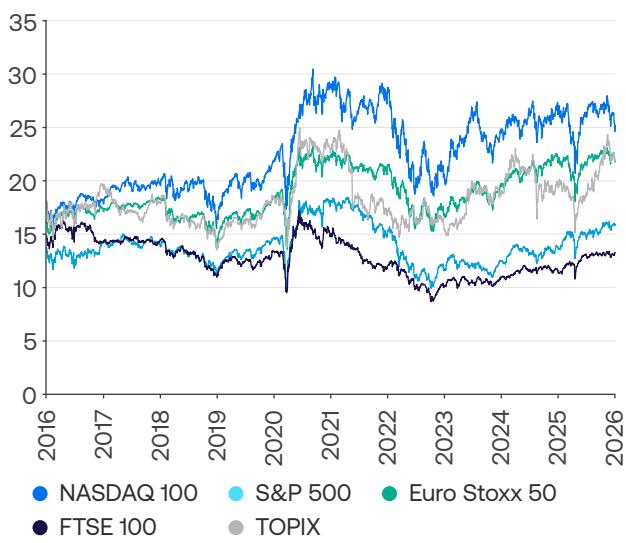
However, as the year drew to a close, concerns began to appear in the AI trade. Valuations looked stretched, and questions emerged about whether the pace of capital expenditure could be sustained. While AI will remain a key theme in 2026, we expect the story will become more nuanced, with winners and losers emerging, and rotation occurring within indices and across regions.

Against this backdrop, UK equities stand out as a compelling opportunity. Despite strong gains in 2025, they remain among some of the least expensive in developed markets and offer notable defensive qualities. The UK market is weighted toward insurance, utilities, consumer staples, and telecoms – sectors with resilient cash flows supported by a globally diverse customer base.

Macro conditions add further support: a disinflationary pulse from lower energy costs, a government focused on fiscal responsibility, and easing labour market conditions should support further Bank of England rate cuts. UK equities represent an attractive location for ex-US equity flows on AI thematic concerns and offer investors diversification at a discount price.

European equities are also an area of interest. The macroeconomic backdrop is gradually improving after years of subdued post-COVID growth. Structural tailwinds are supportive: Germany, Europe's largest economy, is poised to benefit from a comprehensive fiscal package to boost growth, modernise its economy and shore up its defence amid heightened geopolitical uncertainty. Meanwhile, peripheral markets such as Spain and Greece continue to build on its economic momentum over the past few years. These two economies have outpaced most European peers amid robust private consumption, while both countries have enjoyed the resilient tourism sector. Furthermore, Spain has seen significant investment in renewable energy – making it less vulnerable to rising energy costs, which remain a risk to the European economy.

## US forward P/E ratios are elevated



There are some concerns that, despite its cheap valuation relative to peers, European equity prices have already priced in much of the supportive outlook, reducing potential upside. In any case, 2026 will be an eventful year for Europe and will likely prove to be an inflection point for positivity turning to reality, or a continuation of dithering and delay, as seen in the past.

Asia presents a mixed picture. Japan remains attractive, supported by fiscal and regulatory reforms – following Sanae Takaichi's appointment as prime minister – and a weaker yen, which enhances the appeal of Japanese equities for overseas investors, even with the country's exposure to the AI sector. In contrast, we remain cautious on China. Despite strong performance in 2025, trade tensions and persistent deflationary pressures cloud the outlook.

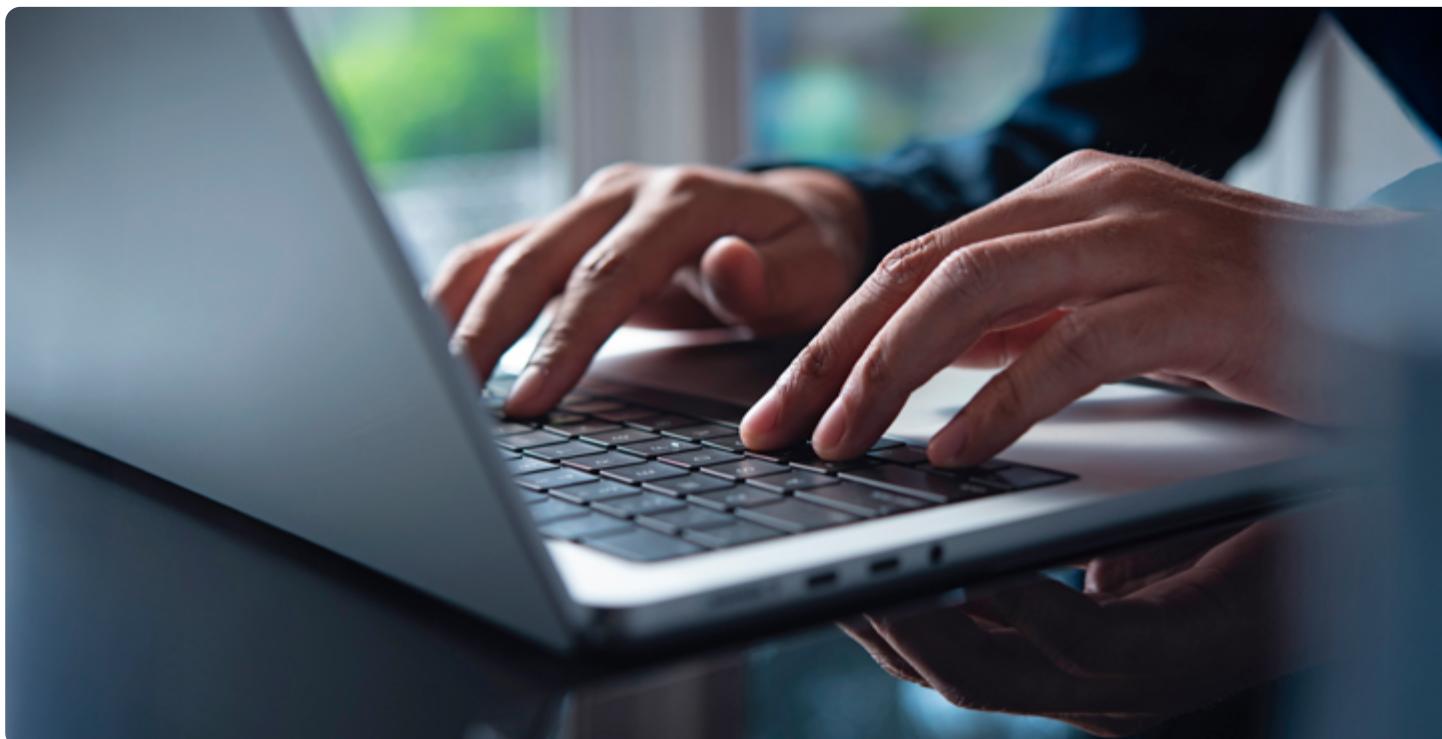
Despite all this, we are by no means souring on US equities – resilient consumer spending and corporate earnings growth will always be a positive tailwind for its economy. However, as we look to 2026, valuations are becoming an important factor

when we assess the outlook for all regions, and by some measures, the US equity market is its most expensive in decades.

“While AI-driven growth stories will remain part of the global narrative, we could see a focus shift from the end products of AI to deeper supply chain and national security opportunities, such as rare earth minerals and energy. To this end, we may see a sectoral and regional rotation away from exposures with an unclear path to earnings growth, and into more clear and durable beneficiaries of the AI buildout.”



Balthazar Ruscoe, Investment Analyst



# US bonds: Competing narratives ahead

Diverging economic signals fuel uncertainty in fixed income.

US bond markets were generally higher in 2025, with the 10-year government bond yield falling nearly 50 basis points. However, the path was far from smooth. The first half of the year saw heightened volatility, largely in response to President Trump's tariff policies. Conditions stabilised in the second half as markets digested mixed signals from the labour market, inflation trends, and shifts within the Federal Reserve.

Looking ahead to 2026, these opposing forces are expected to persist, and we expect bonds to remain largely range-bound, although volatile periods are certainly on the cards given these narratives.

## The 'bull' case for bonds

On the supportive side for bonds, the labour market has softened: job gains averaged less than 100,000 per month in 2025, down from 200,000 in 2024, and the unemployment rate rose to 4.6% - a four-year high. A deeper slowdown could prompt the Fed to accelerate rate cuts, lifting bond prices.

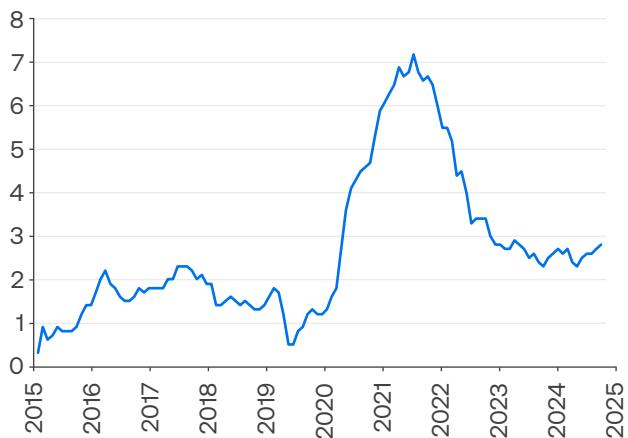
Policy developments at the Fed also point toward a more accommodative stance that would support bond prices. The Trump administration has consistently favored lower interest rates and is set to appoint a new Fed Chair in mid-2026, a move that could reinforce dovish policy. This follows the 2025 appointment of Stephen Miron, who has advocated for substantial rate cuts at every meeting since joining the Fed. A leadership team inclined toward easing would provide a strong tailwind for bonds.

## The 'bear' case for bonds

However, risks remain. Chief among them is inflation. Even if the Fed proceeds with rate cuts, a resurgence in price pressures could undermine bond performance. Higher inflation tends to push long-term yields upward, eroding bond prices. The Fed's own projections suggest that core PCE inflation – the Fed's preferred measure of inflation – will remain above its historical average throughout 2026, signaling that price stability may not be achieved quickly. This creates a scenario where monetary easing could clash with persistent inflation, complicating the outlook for bonds.

## Annual PCE inflation

– the Fed's preferred measure of inflation



Another structural concern is the US government's debt burden. At US\$38 trillion and climbing, the sheer scale of federal debt raises the specter of a potential credit downgrade, which could dampen demand for US government bonds. Rising interest costs to service this debt adds further pressure, potentially limiting fiscal flexibility and weighing on investor sentiment toward government securities.

“The US bond market could be in for a bumpy ride in 2026. Inflation is still the main driver, but idiosyncratic risks – both financial and political – could well mean we see periods of heightened volatility.”



Ray Jack, Senior Investment Analyst



# New Zealand: A recovery is emerging

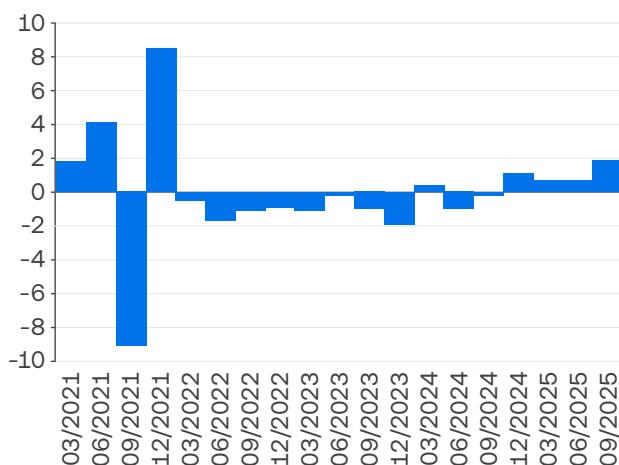
## Positive impact of rate cuts to the economy should continue.

New Zealand's economy remains in a state of flux, but there are early signs that conditions may be on the up. After the second quarter 2025 GDP report showed a 1.0% contraction in the economy, with weakness across manufacturing and construction, and GDP per capita falling for the third time in five quarters, the third quarter delivered a robust 1.1% expansion, with broad-based strength (14 of 16 sectors reported positive growth). Furthermore, we saw a steady increase in business confidence into year-end, with the ANZ business confidence index rising to a 30-year high, and retail sales began to gain some momentum suggesting consumer demand is on the up.

Despite this, as we turn the calendar to 2026, unemployment remains elevated at 5.3% and the residential property market – often a bellwether on the local economy – remains subdued.

Taken together, we are on the optimistic side of the ledger and expect a continued improvement in the economy, with the effects of the aggressive rate cuts by the RBNZ to flow through to cheaper lending and an increase in domestic investment.

### Retail sales stalled after pandemic



External conditions are also helping. Commodity prices remain relatively strong, with sectors such as dairy and horticulture delivering double-digit growth in export revenue. This resilience has helped offset some of the impact from US tariffs and supported overall trade performance. Tourism is also recovering, with international arrivals trending higher, providing a boost to regional economies.

With the country heading into an election year, policy settings may also shift, potentially adding fiscal stimulus or targeted support measures. Combined with improving retail activity and resilient export performance, these factors suggest the foundations for recovery are being laid.

Overall, our outlook for 2026 is cautiously optimistic. While the economy is not yet on a strong growth path, lower interest rates and improving domestic demand and sentiment suggests the foundations for recovery are being laid.

These trends have implications for investors in our local market. Lower interest rates and signs of stabilisation should support New Zealand equities, particularly interest rate-sensitive sectors such as listed property. Meanwhile, New Zealand bonds could remain an important part of diversified portfolios if inflation stays within the RBNZ's target band. However, if inflation moves outside the band for any sustained period, bonds could face headwinds.

# Responsible investing in a changing world

## Staying ahead of the curve is paramount in the current landscape.

Responsible investing remains a core part of how we manage money. At ANZ Investments, our approach is focused on delivering long-term value, recognising that companies managing environmental, social and governance (ESG) risks and opportunities well are better placed to support the future economy.

Stewardship is important to this approach. It's how we use our influence – directly or through external managers – to encourage better corporate behaviour and disclosure. In 2025, we published our second annual Stewardship Report, outlining how we engaged with companies on issues such as climate risk, governance, and social impact. A copy of the latest report is available on our website, and we encourage investors to read it for a deeper view of our activities. These engagements are not just conversations; they are structured, ongoing dialogues aimed at driving measurable improvements in company practices.

Looking ahead to 2026, we'll build on this work by deepening engagement with companies on issues that matter most to investors. This includes encouraging credible emissions reductions plans and clearer reporting. It isn't about simply divesting out of high emitters – it's about influencing change from within.

Social issues will also remain a priority. Modern slavery legislation is expected to progress in New Zealand, and we'll continue strengthening how we identify and manage these risks, particularly in emerging markets, where our exposure has grown. This means working closely with our managers to ensure supply chains are transparent and ethical. Poor practices can create reputational and financial risks that ultimately affect returns, so this work is critical for long-term performance.

Collaboration will remain a key tool. In 2025, we joined a collective investor engagement with Auckland Airport to push for stronger climate adaptation planning and clearer pathways for reducing emissions. In 2026, we'll build on this by expanding engagement to other sectors. Collaborative efforts allow us to amplify our voice and achieve outcomes that might not be possible alone.

We'll also look for opportunities to invest in sustainability-linked instruments. Last year, we invested in Auckland Council's sustainability-linked bond, which ties returns to environmental outcomes like native forest restoration. These structures connect investment performance to real-world impact, and we expect more opportunities like this in the year ahead.

The Government has recently removed mandatory climate reporting for managed investment schemes. We will continue to communicate with investors, and more broadly, about how we are implementing our responsible investment framework, including how we are holding companies accountable for managing their climate risks.

In short, 2026 is about momentum – embedding our responsible investment approach across portfolios, deepening our investment partnerships and using our influence to drive positive change.

“Responsible investing isn’t just about doing the right thing – it’s about making better decisions. By understanding climate risks and engaging with companies, we’re helping investors achieve stronger, more sustainable outcomes.”



**Paul Gregory,**  
**Head of Investment Partnerships**



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