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BROOKS MACDONALD

THE Quarterly Edit

2026 Outlook
& review of Q2 2026

Q2 2026

Quarter IN REVIEW

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Technology sector earnings forecasts went vertical worldwide in the last few months, further igniting the sector's share-prices.

Stock investors enjoyed a quarter for their scrap books as a result. The upgrades were particularly focused in companies benefitting from the hyperscaler capital expenditure splurge. Supply in various key subcomponents, particularly memory chips, has been overwhelmed by FOMO engorged demand. Pricing power and talk of super-cycles saw chip supply chain shares soar across the US and Asia in particular. The box office IPO of Space X landed in amongst all of this with both a bang and a whimper.

Meanwhile, the conflict in the Middle East cooled a little. That, in turn, took some heat out of concerns that central bankers would be forced to turn hostile to combat the energy price shock.

The ECB broke cover, raising rates during the quarter. However, central banks in the US and UK were alive to the possibility of policy rates rising in the quarters ahead. This was more jarring for investors in the US given the change in Federal Reserve chair during the quarter.

There was certainly a gathering sense of vertigo in markets given some parabolic moves. However, as we discuss in more detail in the outlook, the signs of a precise repeat of the 2000 bubble are still overstated in spite of some superficial similarities. Certainly, there are some eye watering valuations scattered about – we continue to see merit in active management in navigating these. However, as of yet, the economic and financial excesses that characterised the late 1990s appear substantially absent. That does not mean that the coast is clear; that is never true. However, diversification, not disinvestment, remains the most sensible answer given the continuing underlying momentum in the global economy amidst an unfolding industrial revolution.

Concentration risks

In the last quarter, we wrote of a welcome broadening in equity market leadership. That proved short lived. The quarter was characterised by a breathtaking acceleration in corporate earnings in many parts of the technology ecosystem, with outlooks to match. Share prices of a select few soared as a result. For the most part, this was all a function of surging capital expenditure on Generative AI infrastructure by a few titans. The potential payback from this splurge remains hotly debated amongst investors, and mostly unknowable from our current vantage point. However, the fact that the median S&P 500 company grew earnings by 14% year-on-year in the first quarter suggests that corporate strength is not just tech. Asia was also hot in the quarter. With markets in the region playing host to key parts of the related supply chain, this was possibly not too surprising. However, here again, worries about concentration were widespread given a small number of large participants in the dominant theme of the moment – the generative AI infrastructure build out.

The Prime Minister merry go round

As widely expected, Prime Minister Starmer's accident prone time at the top dribbled to a conclusion. At the time of writing, Andy Burnham, former mayor of Manchester, is the heir apparent. Admittedly, a nano-second is now a long time in British politics. Nonetheless, the King of the North's selfie with much of the parliamentary party behind him in Westminster suggests he has the numbers. In the 37 years between 1979 and 2016, Britain had 5 prime ministers. In the decade since the Brexit vote, we've burnt through 6. Each certainly had their faults but they were mostly distinct, helping the sense that the problem is systemic rather than individual. Many will argue that low to non-existent growth, in part a result of the agonies of extricating ourselves from EU membership, is to blame.
We continue to argue that much of the stagnation discussed in the media is a statistical illusion.
The UK has its fair share of problems for sure but is doing better than feared on a range of metrics. Meanwhile, the outlook is happily founded on comparative advantages in some of the sectors most likely to enjoy a boost from the incoming technological frontier.

Debt worries?

The rise and rise of government debt around the world remains a source of widespread angst. Will future generations be left to foot the bill? Are older generations again recklessly borrowing from the future? Debt is understandably emotive. At a personal level, few will avoid the stress of finding money for overdue loan repayments at some point in their lives. Consumers can usually borrow only a finite amount, linked to income or assets, and eventually it must be repaid. It is tempting to apply the same logic to national or even global economies.

However, there are important differences. The lifespan of a state is considerably longer for a start, meaning more debt capacity and no need to ever pay it all back - the UK has been successfully borrowing in international markets for hundreds of years. Meanwhile, debt does not, by itself, raise or reduce aggregate financial wealth. At the global level, there can be no net debt: for every borrower there must be a lender, and both must exist at the same time. Often, they are the same entities; companies, governments and consumers can all be creditors and debtors in different ways. Netting off those exposures is harder than it sounds. It is also worth remembering that the long-term path of debt to GDP is highly sensitive to assumptions about trend growth. Many gloomier forecasts rest too heavily on the idea that the recent past must be prologue. There are other possible paths ahead, as rising growth trends in the UK and US suggest.

Global economy remains more adaptable than feared

So far, the global economy has proved significantly more adaptable than its ever-present detractors warned. Still strong private sector balance sheets and free cash flow are an important part of this, as are mostly resilient labour markets. Analysis of the economy starts by the assumption of innocent until proven guilty – this is because growth tends to be the norm, not the exception. At the heart of this is how incoming and existing technologies interact with our problem solving and adaptation skills. Importantly this engine at the heart of long term economic growth is mostly invisible to our current statistical framework. It is worth remembering that this was designed in the aftermath of the second world war to capture the 'steel and wheat' economy. Furthermore, declining responses to the surveys on which these datasets rely, mean that we should listen even less attentively than usual! There are certainly pockets of stress and plenty of risks – there usually are. However, alongside all this, there is cause for optimism in spite of the tone of our news feeds.

2026 OUTLOOK

Humbly optimistic

There is a strong temptation to conflate the rhythms of our lives with those of the economy and the capital markets that reflect its evolving outlook. Viewing the history of markets and economies through this prism, we automatically search for the cause of the various busts in the booms that mostly precede them - if the economy and capital markets are sick now, it must be something they 'ate' or did in the prior period? The pattern spotting skills that were such life savers for our human ancestors in the wild are capable of leading us astray here.

A new study on the history of booms and busts[1] points to a more logical, but perhaps more alarming conclusion – the short term ups and downs of the economy and capital markets are more random than you've been told. Most recessions are not a predictable function of fatal flaws in the preceding expansion, fodder for morality tales cautioning us against future greed, gluttony or some other deadly sin. Instead, they tend to result from multiple overlapping, sometimes unrelated, factors often made worse by human behaviour and policy mistakes.

To that end, a study of the last 400 years shows that there is no clear relationship between the length or vigour of an expansion and the contraction that follows. Neither is there an appreciable link between the 'age' of an expansion and its proximity to 'death'. Most economic cycles are cut short; they do not get the chance to die of old age and perhaps they wouldn't if given the chance. For example, there were few signs that the cycle ended by COVID-19 – already the longest on record – was running out of steam before the shock of the pandemic. In the US, four of the five longest expansions since 1700 have occurred since 1960, with two of the longest in the last 30 years.

This matters enormously for investors. Not as a justification of a gung-ho 'all-in' approach - far from it. It is a reminder that most cycles end unpredictably. There will always be the stopped clocked doomers on hand in the aftermath to tell us that they told us so. However, investing sensibly is mostly not about a supernatural ability to see around corners. Instead, it is about the more prosaic and, dare I say it, boring stuff. Carefully thought out diversification across asset classes and geographies, based on an admission that the past may not be prologue. Pain staking due diligence on a variety of assets and the necessary dispassion to take profit on winners (and cut losers) and perhaps most importantly of all, a heavy dose of humility.

1. Goodspeed, Tyler (2026) Recessions, The Real Reasons Economies Shrink and What to Do About It – Basic Venture.

Equity Regional Outlooks

UK

UNITED KINGDOM EQUITIES

UK equities remain supported by their attractive valuation backdrop and strong income characteristics. The FTSE 100 continues to trade at a meaningful discount to US equities while offering a dividend yield comfortably above global market averages. Performance has been resilient, aided by improving sentiment towards the UK economy and market. Combined with ongoing share buybacks and historically undemanding valuations, UK equities continue to offer a compelling blend of income, value and diversification within multi-asset portfolios.

US

UNITED STATES EQUITIES

US equities have continued to reach new highs, underpinned by resilient earnings growth, ongoing AI-related investment and solid corporate fundamentals. Importantly, market leadership broadened during June, reducing concerns that returns were being driven solely by a narrow group of mega-cap technology stocks. However, valuations remain elevated relative to both history and other regions, leaving future returns increasingly dependent on earnings delivery rather than further multiple expansion. While the fundamental backdrop remains supportive, elevated valuations leave the market more sensitive to policy uncertainty and any disappointment in growth expectations, reinforcing the case for a selective approach.

EU

DEVELOPED EUROPE EQUITIES (EXCLUDING THE UK)

European equities continue to offer a more attractive valuation starting point than the US, supported by reasonable earnings expectations and healthy dividend yields. While fiscal support and structural investment themes remain supportive over the medium term, the outlook has become more complicated as policymakers balance growth concerns against renewed inflationary pressures. Against this backdrop, European equities remain attractive from a valuation perspective, although exposure to global trade and geopolitical developments may lead to a less straightforward return path.

AP

ASIA PACIFIC EQUITIES (EXCLUDING JAPAN)

Asia Pacific ex Japan continues to provide exposure to some of the world's most attractive long-term growth opportunities, particularly in Korea and Taiwan, given their importance to the global technology supply chain, and in parts of Southeast Asia where domestic demand and infrastructure spending remain supportive. However, regional performance remains uneven. Chinese growth concerns, ongoing property market weakness and trade-related uncertainty continue to weigh on investor sentiment, while currency fluctuations add a further source of volatility. Valuations remain broadly reasonable, but near-term returns are likely to remain sensitive to both global growth expectations and developments in geopolitics.

JP

JAPAN EQUITIES

Japanese equities remain supported by ongoing corporate governance reforms and improving capital discipline. Share buybacks continue to provide meaningful support, while earnings growth has benefited from improved operational efficiency across many sectors. However, policy normalisation and persistent currency weakness are creating a more complex backdrop for investors. While the structural investment case remains compelling, periods of increased volatility should be expected as markets adjust to a less accommodative policy environment.

EM

EMERGING MARKETS EQUITIES

Emerging market equities continue to offer attractive relative valuations and a diverse set of return drivers. India remains one of the strongest structural growth stories globally, while commodity-linked opportunities across parts of Latin America provide additional sources of potential upside. That said, the asset class remains highly sensitive to shifts in global risk appetite, US policy developments and movements in the US dollar. Emerging markets therefore continue to play an important diversification role within portfolios, although conviction remains stronger in selected countries and sectors than across the asset class as a whole.

Outlooks defined: *We express positive, neutral, and negative outlooks across a range of asset classes. These are defined as our judgement as to the expected return compared to the relevant broader asset class benchmark over our central forecast period of twelve months.*

POSITIVE NEUTRAL NEGATIVE

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The information in this document does not constitute advice or a recommendation and you should not make any investment decisions on the basis of it. Investors should be aware that the price of investments and the income from them can go down as well as up and that neither is guaranteed. Investors may not get back the amount invested. Past performance is not a reliable indicator of future results. Changes in rates of exchange may have an adverse effect on the value, price or income of an investment.

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The views in The Quarterly Edit are correct as at 30 June 2026. All information is current at the time of issue and, to the best of our knowledge, accurate.

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