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BlackRock | Discovery

2026 Market Outlook

BUILDING RESILIENCE

The year ahead

> For years, Cogence, aligned to the BlackRock Investment Institute (BII), has argued that global markets are being reshaped by an era-defining global structural shift. The energy transition, demographic change, geopolitical fragmentation and the future of finance are among a few key forces that are reshaping economies. As they do, they are driving investment outcomes.

In 2026, the world is catching up to this new reality: we are not in a normal business cycle; we are in a period of **great transformation**.

Artificial intelligence's (AI's) immense transformative potential has placed it as the most dominant of these 'mega-forces' in recent years. As this transformation gathers momentum, a key insight for the year ahead is that these mega-forces are no longer micro themes, they have grown to have macro relevance. As thematically aligned growth broadens, change will create opportunity for investors. But as markets grapple with this emerging order, investors can expect persistent instability. The volatility that characterised 2025 is likely to remain a feature this year.

Meanwhile, the traditional macro context, informed by central bank policy, inflation and dollar weakness, may create a favourable environment for growth, notably in emerging markets (EMs), including South Africa.

Building resilience through new sources of diversification, while **investing at the speed of structural change**, will be essential in 2026. Strategies which identify the assets and sectors set to benefit from the **great transformation**, while being mindful of the risks and constraints to this change, may outperform.

"The world enters 2026 with extraordinary technological momentum, but also with emerging limits. The AI buildout is accelerating at a historic scale, yet it is now running into real physical, geopolitical and financial constraints. Energy systems are strained, supply chains are being rewired, and global capital markets are transforming faster than regulation can keep up," **says Cogence CEO and CIO, Jonel Matthee-Ferreira.**

"Cogence's collaboration with RisCura, combined with BlackRock's proprietary technology and forward-stress-testing ability, places us at the intersection of global insight and local clarity, helping investors stay agile, granular and resilient," **adds Matthee-Ferreira.**

Heading into 2026, Cogence maintains a constructive stance on global markets while remaining selective about where to take risk. Its global allocations continue to hold an overweight position in US equities, while actively managing concentration and valuation risk, given strong earnings driven in part by the AI infrastructure buildout and a supportive macro backdrop. In fixed income, the emphasis is on generating income and improving diversification through attractively priced duration and carefully selected credit. Portfolios are complemented by growing allocations to private markets through an actively managed multi-alternatives approach. Cogence maintains measured exposure to EMs and South Africa, supported by elevated real yields, cheaper valuations and improving policy dynamics.

AI: From mega theme to macro engine

Since 2022, global markets have been in a new paradigm.

Investors who have recognised structural change, more so than those focused on identifying macro business cycles, have been rewarded. In 2026, the structural transformation of global economies will continue to be central. However, focus will need to shift to keeping up with how fast these forces are accelerating.

"We're no longer just talking about big structural shifts, as in 2024, or actively positioning for mega-forces, as in 2025. The conversation now is how to build resilience in portfolios while investing at the speed of change. Concurrently, investors need to recognise that in 2026, mega-forces have the same, or greater, influence over markets and economies than traditional macroeconomic factors, such as interest rates and inflation. As the buildout progresses, we see substantial opportunity, while being mindful of constraints."
says Matthee-Ferreira.

In the US, stock valuations are already the most expensive since the dot-com and 1929 bubbles. From 2026 onward, the question becomes whether these valuations, alongside planned spending, will be justified by future revenue growth. Investment in data centres, compute, energy, and network infrastructure could rival – and potentially outpace – that of previous technological revolutions. Estimates referenced in the BII's 2026 Outlook place global spending in a range of US$5 trillion to US$8 trillion through 2030.

A rapid transformation

Length and capital deepening of notable innovations, 1760-2040

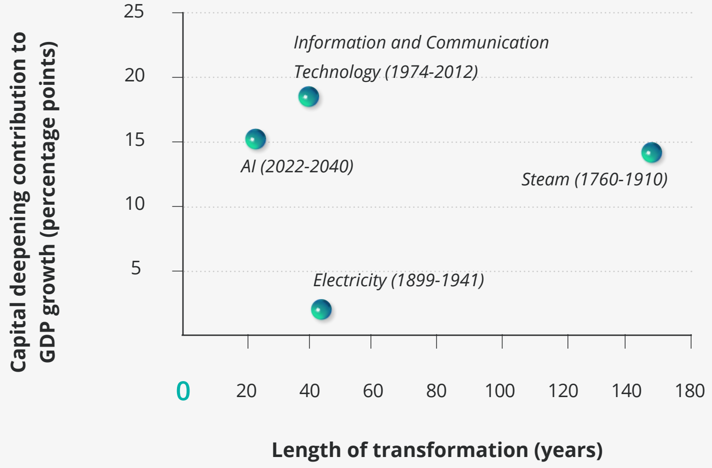


Chart takeaway:
The AI transformation is unfolding fast and is driving record investment – we could reach a level close to the largest buildout in half the time.

Forward-looking estimates may not come to pass.
*Source: BlackRock Investment Institute with data from Crafts (2021). December 2025. Notes: The chart shows the average annual contribution of capital spending to the GDP growth for previous US technologies (except *steam, * for the UK) against the length of time the capital was spent. Estimates for steam, electricity and ICT are taken from Crafts (2021). The spend needed for artificial intelligence (AI) is calculated using realised capital spending between 2022-2024, the upper end of the US$5-8 trillion range of total capital spending intentions spanning the period 2025- 2030, and an assumption that capex intensity continues at a similar rate through 2030-2040.*

Funding the gap

While comparable in scale to previous industrial revolutions, the AI capex cycle is distinct in structure. Today's leading AI hyperscalers (the biggest companies building artificial intelligence infrastructure, like major cloud providers) enter the buildout with strong balance sheets, high profitability and relatively low levels of debt, allowing much of the early investment to be self-funded, and leaving headroom to borrow if required. Bloomberg data referenced by the BII shows that the largest cloud spenders sport an average debt-to-equity ratio of 0.54 times as of 26 November 2025, pointing to room to lever up. Balance sheet strength strengthens the likelihood of success, without implosion.

In 2026, developers are taking on more debt to fund heavy upfront spending, well ahead of the revenues that will arrive later. New revenue streams could justify the spend, but only if AI breaks US out of a remarkably stable long-term growth trend, notes the BII. This is conceivable but not trivial.

Never broken out

US GDP per capita and long-term trend, 1870-2024

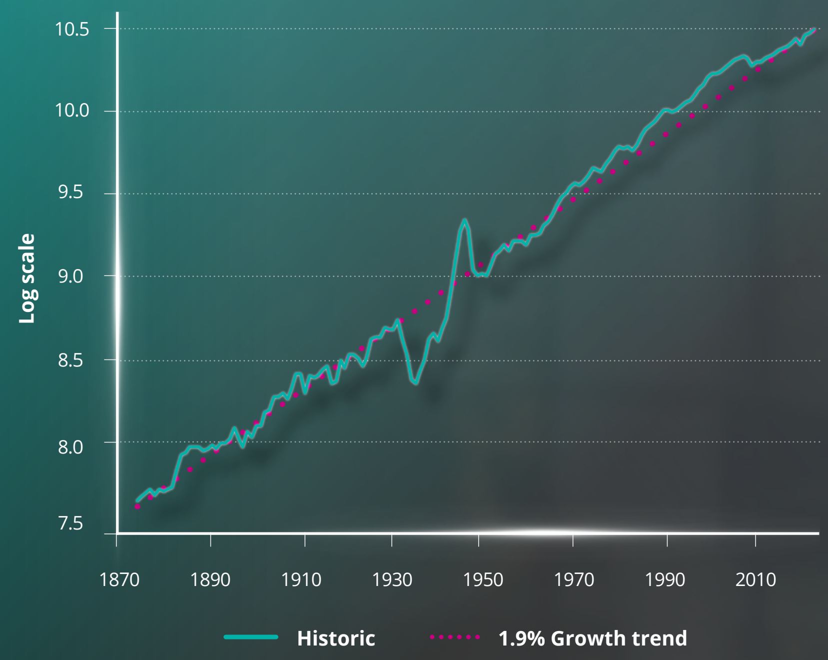


Chart takeaway: Over the past 150 years, US growth has stayed remarkably close to a 2% trend even with past technological revolutions. We think it's conceivable that accelerating AI-driven innovation could boost growth above that trend.

Source: BlackRock Investment Institute, Bureau of Economic Analysis and Macrohistory Database, with data from Haver Analytics, December 2025. Note: Historical data compiled by Òscar Jordà, Moritz Schularick, and Alan M. Taylor. 2017. Macrofinancial History and the New Business Cycle Facts, in NBER Macroeconomics Annual 2016, volume 31, edited by Martin Eichenbaum and Jonathan A. Parker. Chicago: University of Chicago Press.

The BII estimates that if AI were to deliver a roughly 1.5 percentage point boost to US growth, it could expand economy-wide revenues by more than $1 trillion per year – enough to justify even the upper end of projected spending.

To achieve this, however, the buildout will need to overcome constraints.

Transformation meets constraints

In the US, AI faces political and financial, but especially physical, constraints.

BlackRock estimates that datacentres could use up to 25% of current US electricity demand by 2030. This power hunger may collide with a backlog of projects waiting to connect to the grid and a slow permitting process.

This could constrain AI in the 'West', while creating a competitive edge in the 'East', where power is cheap, stable and new generation and transmission comes online at pace.

Facing constraints

US data centre power demand as share of total, 2024-30

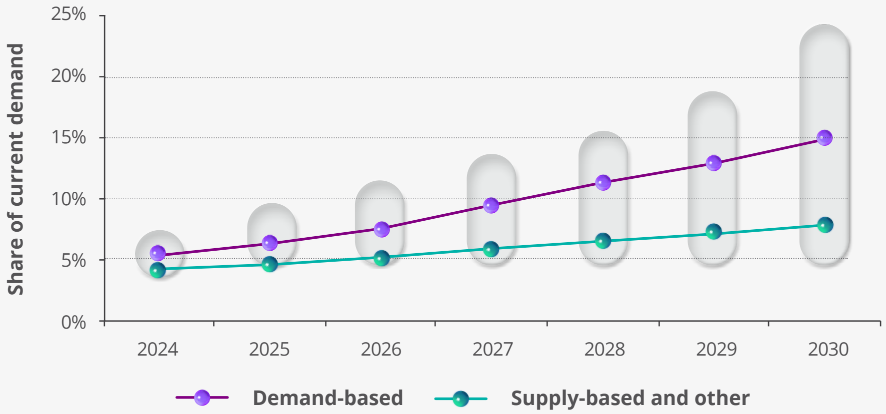


Chart takeaway: The electricity needs of data centres could make up a quarter of current US electricity demand by 2030 – with demand-based estimates exceeding those factoring in supply constraints. That underscores the scale of the challenge and the uncertainty around how the demand will be met.

Forward-looking estimates may not come to pass. *Source: BlackRock Investment Institute, based on sources reviewed by BloombergNEF, December 2025. Note: Grey bars show the total range, while lines denote the median of data centre power demand forecasts by method as a share of 2024 US total power demand, including traditional data centres and artificial intelligence (AI) data centres and excluding cryptocurrency and data transmission networks demand.*

AI bubble? A systems approach offers novel insight

Resolving these constraints will make it clearer which companies are best positioned to benefit from the AI buildout, and which aren't. This makes active management key. But a bigger question in 2025 was whether spending is justified at the aggregate, or if the world is in an 'AI bubble'.

BlackRock's data-driven systematic team has sought to answer the question: is the current AI-fuelled environment in the US closer to a 1997 moment or a March-2000 moment?

The team analysed nearly 400 bottom-up quantitative features – such as earnings quality, analyst sentiment, valuations and capital efficiency – aggregated to the market level of the Nasdaq 100.

The short answer: BII analysis suggests current large-cap US tech conditions are closer to an early-stage buildout than a late-cycle bubble.

Selective EM opportunities in a fragmented world

The global monetary cycle is becoming increasingly fragmented: a major theme for the year and one which may provide tailwinds for EMs. Europe faces disinflation and weak growth, allowing the European Central Bank to move earlier and more decisively toward rate easing – potentially reinforced by rising defence investment. Japan, by contrast, is exiting decades of deflation and cautiously tightening as wage growth improves, alongside increased military spending. China is pursuing targeted stimulus rather than broad easing, directing support towards advanced manufacturing, renewables and strategic technologies. Emerging markets, which tightened policy early, now have more room to cut than their developed market counterparts.

> *"This policy divergence is reinforced by increasingly localised fiscal strategies. The world is splitting into economic blocs, each governed by its own constraints and opportunities. For investors, this environment is volatile but opportunity-rich. Opportunities will appear less uniformly but more frequently, making relative value, especially across currencies, critical."* **says RisCura.**

EMs may stand to benefit against this fragmenting global monetary order. EMs had a strong 2025, as local-currency bonds led gains as inflation fell, central banks cut rates, and currencies strengthened against a softer US dollar. Going into 2026, a weaker dollar, lower US rates and prudent fiscal and monetary policy have improved EM credit fundamentals, reflected by a slew of sovereign ratings upgrades. This makes hard-currency debt more attractive, considering attractive income, limited issuance and stronger sovereign balance sheets.

Yet investors must consider that inflation dynamics, growth paths and fiscal constraints now diverge meaningfully across regions as the era of synchronised global monetary policy comes to an end. This makes selectivity key.

BlackRock highlights opportunities in high-yield EM issuers leading sovereign ratings upgrades this year – see chart on the next page.

Jump in quality

Rating upgrades to emerging market (EM) sovereign debt, 2010-2025

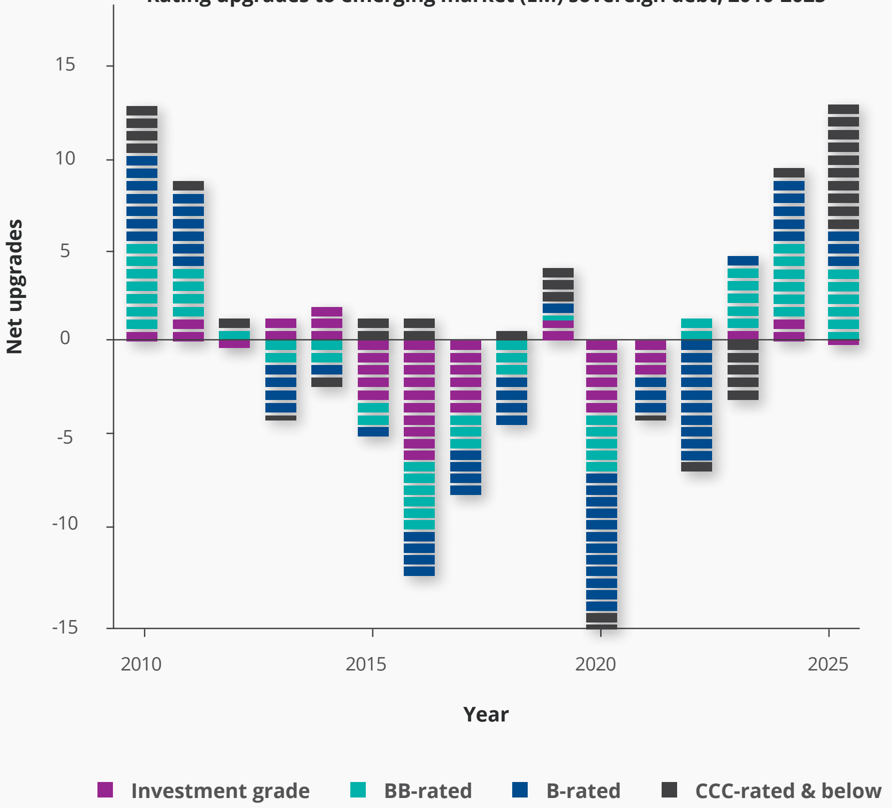


Chart takeaway:
Higher-yielding emerging market bonds are driving most of this year's ratings upgrades. We think it highlights a rising quality EM bonds – that are already attractive as high-income opportunities, in our view.

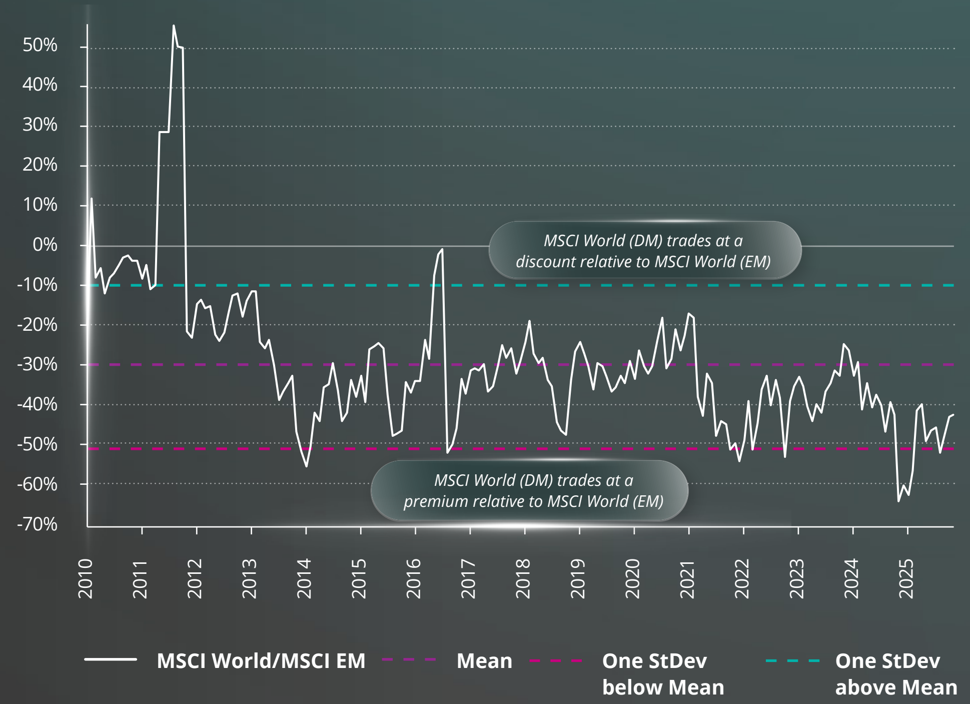
The figures shown relate to past performance. Past performance is not a guarantee of current or future results. *Source: BlackRock Investment Institute, Morgan Stanely Research, Standard & Poor's, Moody's Investors Service and Fitch Ratings, with data from Bloomberg, December 2025. Note: The bars show the net upgrades (number of upgrades minus the number of downgrades) made by S&P, Moody's and Fitch of emerging market sovereign debt across different credit ratings.*

"In a world where the US dollar gradually weakens and global growth becomes more dispersed, EMs stand to regain relevance," **says RisCura.**

The valuation discount between EM and US equities, shown in the accompanying MSCI comparison, remains one of the most telling forward-return indicators.

EMs are no longer simply a tactical expression of sentiment. As RisCura observes, *"EM is a structural allocation supported by currency valuation, policy flexibility and relative value."*

Relative P/E ratios: MSCI world/MSCI EM



Source: RisCura 2026 Market Outlook, Dec 2025

What a constrained future means for South Africa

After a very strong 2025, South Africa may, too, have room to run in 2026. The macro backdrop for the year ahead is more constructive than it has been in recent years. But the country has its own constraints and challenges on its path towards transformation.

Inflation is comfortably aligned with the South African Reserve Bank's new 3% target, supported by weak domestic demand, disciplined monetary policy, and favourable global food and energy prices, **says RisCura.**

Moreover, South Africa's opportunity set aligns closely with global mega-forces. The energy transition – spanning renewables, alternative power procurement and the rooftop solar ecosystem – mirrors global capital flows into grid expansion and energy resilience. Private credit and broader private-market solutions are becoming increasingly relevant as South African companies seek alternative sources of funding amid tighter bank lending, echoing global financing trends. At the same time, commodities critical to the AI supply chain, including manganese, platinum-group metals and vanadium, remain strategically important.

While fiscal risks remain, commodity prices, especially precious metals, support local government revenue. Precious metals demand is expected to remain strong in 2026,
says RisCura.

"South Africa is well-positioned within the current global environment. A more favourable rate cycle, elevated real yields, supportive currency valuations and commodity exposure form a coherent investment case that is reinforced rather than undermined by global conditions. South African bonds continue to offer some of the highest real yields in EMs, while local equities provide a relatively attractive entry point with a wider margin of safety," **says Matthee-Ferreira.**

While South Africa's outlook is constructive, it is not without risk – both domestically and from abroad.

South Africa's investment case for 2026 is grounded foremost in its alignment with global forces rather than in domestic optimism. This positioning leaves local markets inherently exposed to shifts in global growth, liquidity and risk appetite. An escalation in geopolitical tensions could further reshape supply chains, disrupt energy markets and materially influence risk sentiment. Likewise, a setback in major global themes could trigger a broader revaluation in key markets, with spillover effects for South Africa.

Domestic challenges, including fiscal fragility, infrastructure bottlenecks, energy constraints and political uncertainty, will need to be navigated.

Building resilience: Beyond traditional diversification

Amid the global transformation, modern portfolio thinking is changing.

A near two-decade period of predictably declining interest rates, low inflation and stable growth was brought to an abrupt end by the global COVID-19 pandemic. The asset-class correlations that underpin traditional portfolio construction have since been called into question. In the post-pandemic regime, both the risk and return characteristics of passive US bond-equity portfolios have deteriorated since 2022. In 2026, as micro thematics grow to have macro relevance, they create a 'diversification mirage': even passive strategies become big active calls.

Seeking diversifiers

Correlation in a hypothetical multi-asset portfolio

The figures shown relate to simulated past performance. Past performance is not a reliable indicator of current or future results. For illustrative purposes only. This analysis is hypothetical and conducted with the benefit of hindsight,and the true relationship between the assets may differ. *Source: BlackRock Investment Institute, MSCI, S&P, Bloomberg, FTSE, with data from Aladdin, December 2025. Note: The line represents the average pairwise correlation of all the assets in a 50-asset hypothetical portfolio spanning global equities, government bonds, credit and cash benchmark indices. We break down each asset class into style factors and use their historical correlation to calculate the correlations across these assets.*

"Rather than allowing these exposures to emerge by default, investors need to be deliberate about where they are taking risks and why. That reality strengthens the case for active portfolio construction, including selective use of new forms of diversification, such as multi-alternative private market strategies, to build resilience in portfolios," **says Matthee-Ferreira.**

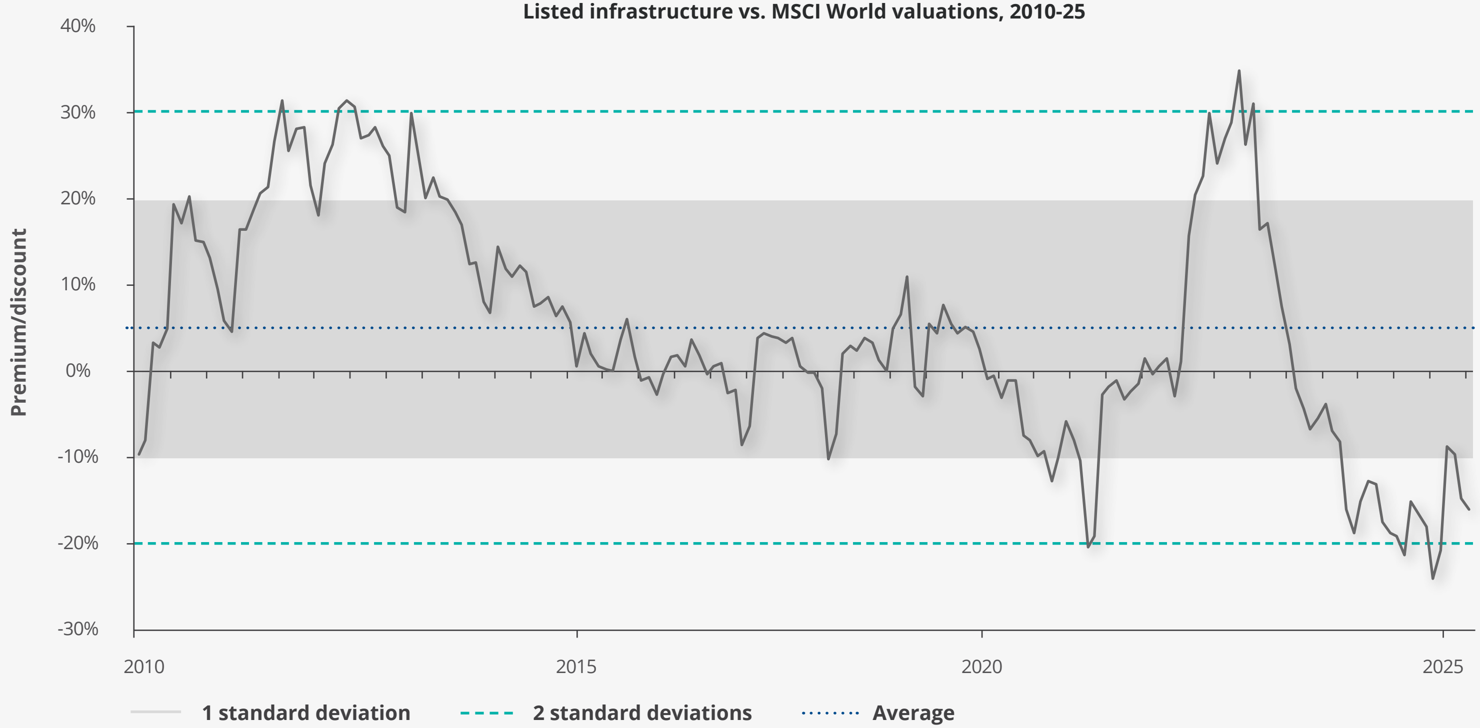
New sources of diversification have become more accessible and appealing. Stablecoins are increasingly regulated and scaling rapidly, gold has reached historic highs, and the boundary between public and private markets continues to blur. Investors are allocating more capital to private equity, real estate, infrastructure and private credit to improve income resilience, enhance diversification, and gain access to the private companies driving structural economic change.

The BII argues that private markets are no longer peripheral but increasingly integral to modern portfolio construction.

In 2026, infrastructure comes into focus.

AI, the energy transition, and geopolitical shifts are driving multi-decade demand for power, grids, data networks and transport systems. Valuations lag these trends, especially in listed assets, while private infrastructure offers inflation-linked, contracted cash flows and access to income streams largely unavailable in public markets.

A valuation discount



Investment implications

- Valuations don't fully reflect the infrastructure opportunity – underpinned by mega forces driving multi-decade investment needs.
- We think institutional investors can up infrastructure allocations across public and private markets.

Chart takeaway:

Market pricing does not reflect the opportunity in infrastructure from mega forces driving multi-decade investment needs, creating an attractive entry point.

The figures shown relate to past performance. Past performance is not a guarantee of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged, and one cannot invest directly in an index. *Source: BlackRock Investment Institute, with data from FTSE, MSCI. December 2025. Notes: The chart shows the relative difference between the EV/EBITDA ratio of the FTSE World Core Infrastructure 50/50 index and the MSCI World index. The blue dotted line shows the average, the shaded grey area shows the range of 1 standard deviation from the average and the green dashed lines show the range of 2 standard deviations from the average.*

Clarity through complexity

Since 2022, investment outcomes have been driven largely through recognition that the world is going through a **great transformation**. In 2026, investors want to understand how to navigate a **transformation which is meeting constraints.**

As micro themes grow into macro forces and the AI buildout accelerates globally, selectivity becomes essential to identifying the companies positioned to benefit and avoiding those that are not. Building resilience, including through new sources of diversification, such as in the private markets, **while investing at the speed of change**, will be essential for investors to maintain resilience in a rapidly shifting market environment.

Concurrently, investors must remain alert to the risks embedded in today's environment. Much of global growth hinges on the US and China, where momentum could falter. A further escalation of geopolitical tensions could disrupt supply chains, and a setback in the AI theme – whether from energy constraints, weaker-than-expected productivity gains, or poor capex conversion into earnings – would have global ramifications, including for South Africa.

> *"The world today is structurally more complex, and markets continue to react sharply to short-term economic data. Yet amid the noise, the long-term themes driving markets are clearer, and will drive returns, if correctly analysed,"* **says Matthee-Ferreira.**

Against this backdrop, clarity increasingly depends on robust risk management. The use of forward-looking scenario analysis and portfolio-level stress testing can cut through short-term noise and identify the structural drivers of risk and return. Through its proprietary risk technology, Cogence investors can decompose portfolios to their true exposures and test resilience across macro, geopolitical and market regimes. This is a critical capability in a world defined by faster transitions and binding constraints.

The bottom line for investors, given the risks and opportunities, is this: it's important to maintain a balanced, well-diversified portfolio. In 2026, building resilience will be critical. Cogence blends local opportunities with global diversification, capturing mega-force aligned opportunities across the globe in both public and private markets.

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DISCLAIMERS:

Cogence does not invest directly in crypto assets; references to stablecoins reflect market evolution, not portfolio allocations.

Note: Past performance is not an indicator of future performance.

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