

Q4 2025

Four factors of change

Equity markets have been in a phase where the magnitude of earnings growth has been rewarded over the sustainability of earnings growth. A phase where longer-term company fundamentals have been less rewarded, resulting in valuation multiple compression.

The latest period for active managers, including ours, has been challenging. In 2024 and 2025, historic headwinds prevailed with the US market driven by higher-growth companies and strong value-driven performance from the balance sheet-heavy western banks.

However, we see signs of change emerging. The first silver linings in a while. Things can change quite dramatically within a short period of time,

and we have identified four pivotal changes that point to an emerging change in market trends with investors refocusing more on fundamental and structural growth. These four changes are a revival of quality stocks, broadening out of the AI theme, the rise of China and India and the peak of US equity market capitalisation dominance.

1. Revival of quality stocks

Quality stocks are defined as companies with higher operating margins, higher returns on capital, lower debt and a long-term sustainable business model.

In the fourth quarter of 2025, we witnessed the first signs of a revival in quality stocks. For example,



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the stock price of luxury goods company LVMH rose more than 20% during the quarter and about 40% from early August to end of 2025 with very little positive news flow.

As shown in figure 1 below, these stocks are now trading at a reasonable valuation relative to the market compared to the past 20 years after a marked derating over the past three years. We believe the scene is set for a more sustainable comeback to fundamental quality as an anchor in global stock portfolios. We continue to prefer companies with sustainable earnings growth rather than earnings growth characteristics of higher magnitude. We favour allocating active capital to investments in companies that are relevant for the coming decades, supported by thematic tailwinds. The core of the portfolio companies

within our global strategy are quality companies with strong balance sheets, high margins and strong profitability and sustainability of growth.

2. Broadening of the AI boom

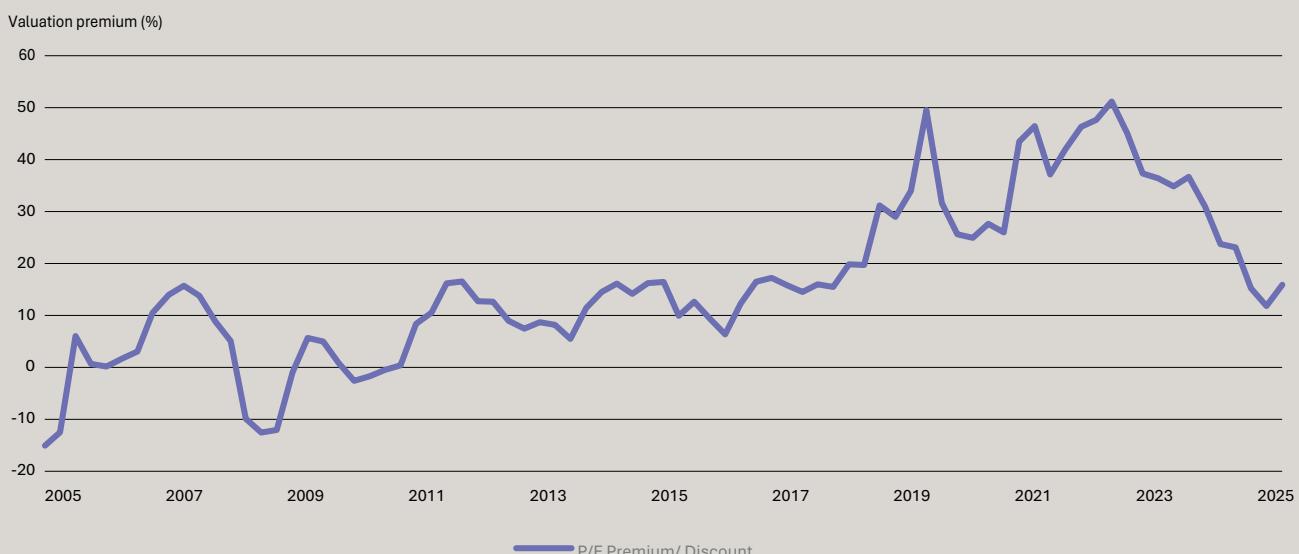
The vulnerabilities in the AI theme have recently been clearly exposed. The world's biggest company, Nvidia, has been at the top of the world since the launch of Chat GPT three years ago, but a narrow customer base with five clients estimated to make up more than 50% of their business is a fundamental risk. Especially as they are all trying to develop their own competing chipsets, and it has become clear that Alphabet (Google), in partnership with Broadcom, has a competitive AI solution based on an alternative TPU custom-design chip. Alphabet has about 3 bn. clients across their

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Figure 1

Quality companies trading at a reasonable multiple



Valuation premium/discount (P/E) of the companies in the Global Equities strategy relative to the MSCI AC World Index.

products, including Search, Gemini AI, YouTube and Cloud. Their vertically integrated model is a more robust business model, which is why we are invested in Alphabet and not in Nvidia.

We believe in a broadening of the AI theme in 2026, where more companies will benefit. We see many great companies in Asia and Europe that stand to benefit as we move into a new phase. The current phase of excitement will be replaced by a phase

of realism. We will become more cognizant of the limitations of AI and the physical dimension of AI and the digital world, where the roll-out of data centers covering an area the size of Manhattan poses clear execution risks. Building complex energy infrastructures relying on a global supply chain under pressure is also a concern. We have also reached a stage where the datacenter build-out is dependent on buoyant capital markets and where financial creativity is swelling to secure

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funding. The change of leadership at the Fed is a key development and thus a risk factor for the funding aspect of AI.

3. The rise of China and India

While the more transactional geo-political approach from the US has stirred uncertainty, the tectonic plates of geopolitics are changing with the age-old forces of demographics and technology. India and China are a third of the world population with big domestic economies and on paths to become future superpowers and the biggest economies in the world. Technological skills are prioritised in their vast educational systems. We are impressed by both countries' rapid ascent up the value chain that we have witnessed



firsthand during recent travels to these countries, especially in China.

China is positioning itself as a source of stability and power in communication and in action. In a rule-based, borderless' globalised world, you could safely depend on global supply chains, intellectual property rights and security guarantees. This is no longer the case. It is about power in a multipolar world. Here, countries need their own defense, own manufacturing capabilities and ideally own and have access to processing facilities for energy and the critical rare earth minerals. In a sense, this is the revenge of the physical world.

The physical world is the foundation of the growing digital world, and China has a significant lead when it comes to physical manufacturing capabilities, built over decades and very hard to catch up with.

The Chinese LLM's are close to par with the US in tests, with only 1/10 of the capex spending needed. Chinese universities are leading by a wide margin when it comes to AI and machine learning patents. We recently met with SSE, a UK electricity utility that stressed that the opportunities to combine renewables and batteries are not going to happen without China.

Visit China, and you will experience the undervaluation of the Yuan. China's monthly trade surplus is appx. 100 bn USD – an explosion from around 20bn before Covid. The Yuan and the Yen are undervalued against the USD, and with the present appetite for political intervention, something significant could happen. Perhaps a

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2020s version of the old Plaza accord? Post the Plaza accord reached in 1985, the dollar fell 33% over the following 18 months.

Despite these positive structural trends, China (3%) and India (2%) only have single-digit weighting in the global stock market benchmark (MSCI ACWI). There are recent silver linings in China when it comes to the importance of capital markets and technological progress. Jack Ma is back. President Xi needs technological leadership to “Make China great again.”

The underperformance of Emerging Markets has reached a historically low (figure 2 shows the per-

formance since 1987). In our opinion, it is long-term unreasonable that China (and Emerging markets in general) play such a marginal role in global markets, and we see a higher future weighting in global equity benchmarks for China, India and Emerging markets in general. It will be key to benchmark towards the future rather than the past.

4. Peak of US market capitalisation dominance

I started my investment career in September 1989. The fall of the Berlin Wall on November 9, later that year, formed geopolitics and markets for more than 30 years. But for investors, there was a more

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Figure 2
Emerging Markets at a 40 year low



C WorldWide Asset Management and MSCI, January 2026

immediate consideration in the 1990s: what to do with Japan?

After the Plaza Accord in September 1985, where the G5 countries agreed to address the US current account deficit with Japan and Germany via currency interventions, the Japanese market doubled as a share of the global stock market index, as seen in figure 3.

The leading central banks sold US dollars against yen and deutschmarks, and the dollar lost about 40% in value against the yen over the following three years.

Japan had built a formidable export machine after the Second World War, which was severely hit by the devaluation of the Yen. The policy response was to stimulate the economy with easy credit policies and low interest rates. However, this led

to a speculative boom in real estate, land, and stock prices.

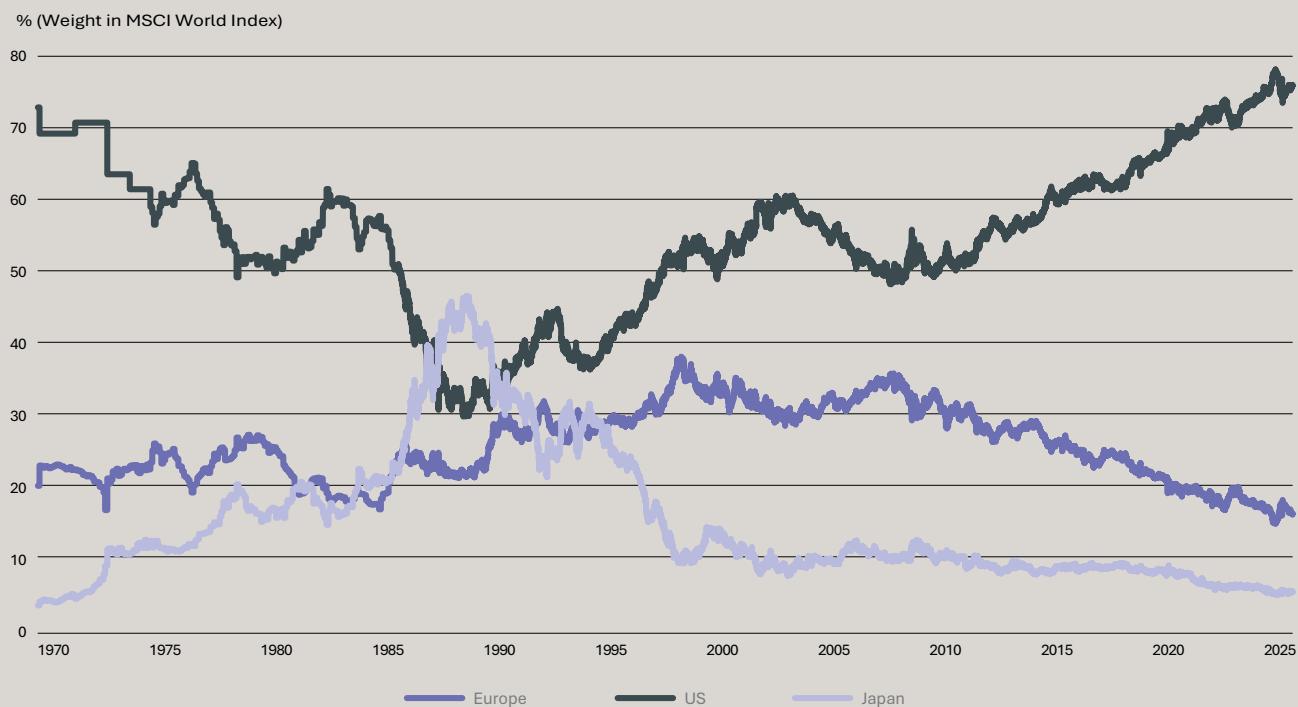
Measuring investment performance against a market benchmark started back then, and the big discussion at the end of the 80s and the 90s was: What investment weight should be allocated to Japanese equities?

With our unconstrained strategy, we had close to zero weight in Japan in most of the 90s as we could only find a few attractive stocks when doing our company analysis. Over the following 35 years, the Japanese stock market share of global equity markets fell from appx. 40% to the present level of 5,5%. Although the trend is clear in hindsight, it was not always obvious during the transition.

Fast forward to today, where indexation has become the market, with 60% to 80% of flows on

Figure 3

The rise and fall of regions



Percentage share of the global stock market

C WorldWide Asset Management and MSCI, 31 December 2025

“autopilot”. When money is allocated to an index strategy, the autopilot dictates buying the index stocks at the weight of the index.

In the clear rear view mirror, markets were irrational by pushing Japanese equities to 40% of the world's stock markets. Human feelings and short-term greed and fear can and will rationalise irrationality for long periods of time.

The outperformance of the US stock market over the past 15 years has been exceptional, as can be seen from figure 4, which shows periods of US equity market outperformance and underperformance vis-à-vis the rest of the world. Although the significant value creation in the US has been supported

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by superior earnings growth, the critical allocation today is whether it is as extreme to allocate approx. 65% to US equities (current weight in MSCI AC World Index), as allocating 40% to Japanese equities in 1989?

A significant risk factor specifically for the US stock market is the historically narrow leadership where the five largest stocks in the MSCI USA now account for approx. 30% of the index, as shown in figure 5.

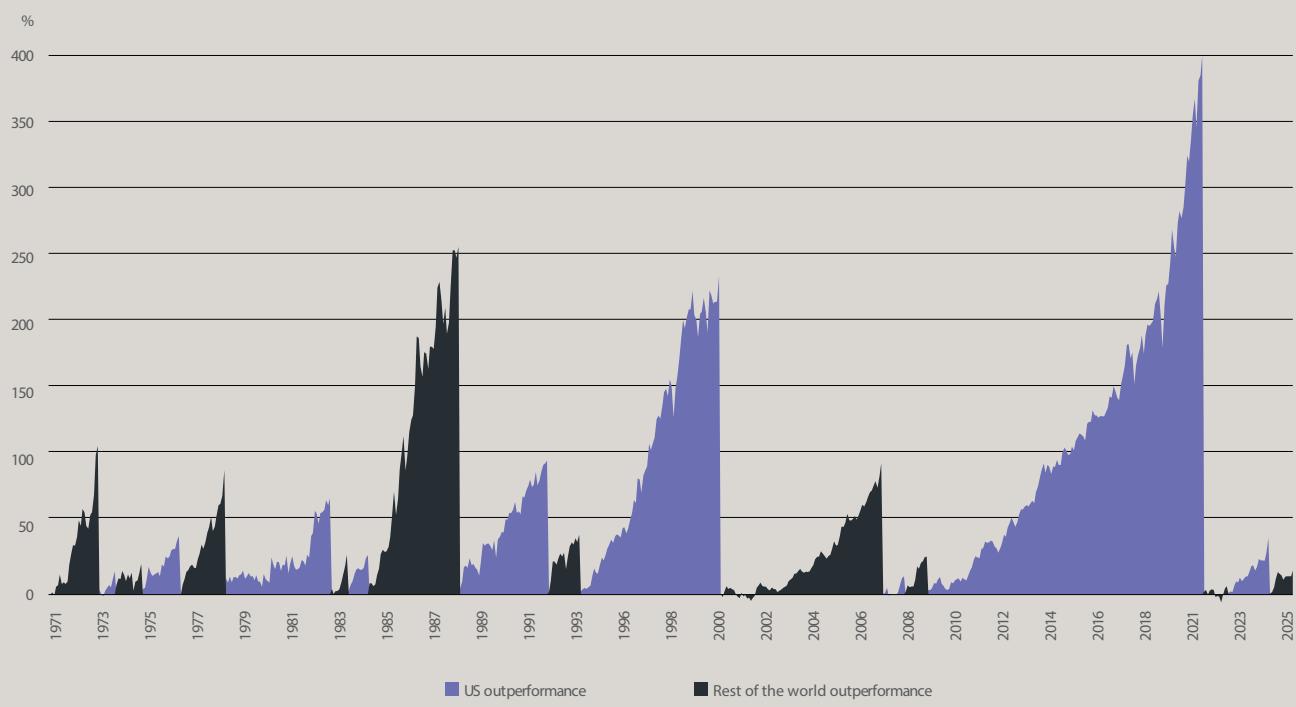
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Figure 4

The US market has dominated since 2010

Periods of US equity market out- and underperformance.



C WorldWide Asset Management and MSCI, 31 December 2025

And all five of these stocks are dependent upon the AI investment boom. As mentioned earlier, we are concerned that investors may be disappointed given the high expectations for generative AI over the next 12-18 months.

Market trends for 2026 — the year of realisation

We are confident that 2026 is going to be dominated by these four factors of change. As unconstrained active investment managers, we advocate being positioned for the future, not by looking in the rear mirror of the global benchmark, but through the lens of fundamental analysis and understanding of the drivers of change.

2026 is going to be a year of realisation. The realisation that fundamental earnings and fundamental qualities matter. The good news is that you can buy quality companies at reasonable prices. High-quality companies that help to build the necessary

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We expect that the leadership of the U.S. equity market over the past 15 years will gradually erode.

physical infrastructure are often based in Europe and Asia, and we see this as a source of returns and alpha in the coming quarters and years.

At the same time, we see a broadening of the market leadership, where the narrow leadership is being replaced by a more broad-based market recovery.

We expect that the leadership of the U.S. equity market over the past 15 years will gradually erode, while equity markets in China and India, in particular, will, over time, constitute a larger share of the global market. In the end, there are no shortcuts to investment returns – only long-term grinding.

Figure 5
A narrower US equity market than ever before

Percentage share of the 5 largest stocks



MSCI and FactSet, 31 December 2025

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