# 2027 Investment Outlook

Investment Strategy ♦ November 2026

## 2027: Co-authored by AI

**Capital has a price again: AI, security spending and refinancing needs are competing for the same pool of savings. Investors set the terms – and every allocation must clear a higher hurdle. Global growth holds near potential at 3.4%, but rests on a narrow, interconnected base.**

**From build-out to proof of return: the AI cycle shifts from funding chips and data centres to demonstrating adoption and returns. We favour hyperscalers, adopters and owners of scarce capacity, lend to the builders rather than the dreamers, and earn income through credit rather than sovereign duration.**

**Rebuild risk selectively: we added to US equities after the autumn shakeout, upgrade IG corporate credit to overweight and cut DM sovereign bonds to a significant underweight – income from credit, not duration. We own gold as insurance, expect a softer dollar in H2'27, and see liquidity providers in private markets as clear winners.**

### Executive summary

The global economy enters 2027 having proved far more resilient than feared when the war in Iran closed the Strait of Hormuz. Our baseline is friendly: growth near potential, falling core inflation, gradually lower energy prices and an earlier end to the hiking cycle than markets price. That combination should deliver positive returns across equities and bonds, with forward-looking returns for balanced portfolios the most attractive in years.

But the investment regime has changed. After fifteen years in which capital was cheap and unconditional, it is now expensive and contested. The AI build-out, governments' security and energy agendas, and over-indebted borrowers are all bidding for the same savings, and real yields are the highest in decades. In that world, the winners are those who can fund growth on attractive terms, own scarce capacity, and supply liquidity when others need it.

Our strategy is to rebuild risk selectively after the autumn shakeout: overweight equities with a concentrated US expression, overweight investment-grade and high-yield credit, a significant underweight in developed-market sovereign duration as term premia rebuild, explicit hedges in gold, and a disciplined, liquidity-aware approach to private markets.


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**Exhibit 01: Key consensus forecasts for 2027**

| | Spot / 2026e | End-2027 forecast | Direction |
|---|---|---|---|
| **Real GDP growth (%, annual average)** | | | |
| World | 3.1 | 3.4 | ▲ |
| United States | 2.3 | 2.3 | ► |
| Euro area | 1.1 | 1.2 | ▲ |
| China | 4.5 | 4.0 | ▼ |
| India | 7.0 | 7.0 | ► |
| Japan | 0.7 | 0.7 | ► |
| **Policy rates (%, end-period)** | | | |
| Fed funds (upper bound) | 4.00 | 3.75 | ▼ |
| ECB deposit rate | 2.50 | 2.25 | ▼ |
| Bank of England | 4.00 | 3.75 | ▼ |
| Bank of Japan | 1.25 | 1.25 | ► |
| **Equities (index level)** | | | |
| S&P 500 | 7,237 | 8,600 | ▲ |
| STOXX Europe 600 | 637 | 690 | ▲ |
| TOPIX | 3,764 | 4,400 | ▲ |
| MSCI Emerging Markets | 1,417 | 1,800 | ▲ |
| **Credit spreads (bp)** | | | |
| USD investment grade | 94 | 95 | ► |
| USD high yield | 356 | 340 | ▼ |
| EUR investment grade | 104 | 92 | ▼ |
| EM sovereign (USD) | 228 | 205 | ▼ |
| **Commodities** | | | |
| Brent ($/bbl) | 89 | 78 (avg. 82) | ▼ |
| TTF gas (€/MWh) | 89 | 43 (avg. 48) | ▼ |
| Gold ($/oz) | 3,631 | 4,700 | ▲ |
| LME copper ($/t) | 12,490 | 15,000 | ▲ |
| LME aluminium ($/t) | 2,857 | 2,650 | ▼ |

*Sources: Bloomberg, IMF World Economic Outlook (October 2026), ADCB Asset Management. GDP growth is from the IMF, with India on a fiscal year basis. Spot levels as of 24 November 2026.*

**Exhibit 02: Rebuild risk selectively: overweight US equities and credit, significant underweight DM sovereign duration**

| Asset class | SUW | UW | N | OW | SOW | Change* |
|---|---|---|---|---|---|---|
| **Equities** | | | | ● | | |
| North America | | | | ● | | ▲ Increased |
| Europe | | | ● | | | ▼ from OW |
| Japan | | | | ● | | |
| APac ex Japan | | | ● | | | ▲ from UW |
| EM ex Asia | | | ● | | | |
| **Fixed income** | | ● | | | | |
| DM Treasuries IG | ● | | | | | ▼ from UW |
| DM Corporate IG | | | | ● | | ▲ from N |
| EM USD Sovereigns IG | | | | ● | | |
| EM LCY IG | | | ● | | | |
| EM Corporate IG | | | ● | | | |
| Global HY | | | | ● | | |
| Cash | | | ● | | | |

*Sources: ADCB Asset Management, Tactical Asset Allocation (10 November 2026). SUW/SOW = significant under/overweight. Notes: *changes implemented in early November 2026*

**Exhibit 03: High-conviction themes and tactical ideas**

| Themes/Ideas | Asset class | Rationale |
|---|---|---|
| Agriculture | Commodities | Food prices rise on El Niño risk into H1'27 |
| Gold | Commodities | Central bank buying provides a floor |
| AI value chain (Physical AI) | Equities | Physical AI could gain traction in 2027 |
| Data centres | Equities | Compute and power demand outruns supply |
| Indian equities | Equities | Lower oil and returning foreign inflows |
| Media and entertainment | Equities | A dislocation, not a change in earnings |
| Credit risk over duration risk | Fixed income | Income from credit, not duration |
| Curve steepness | Fixed income | Term premium rebuilds at the long end |
| Infrastructure | Fixed income | Tactical position in global core infrastructure IG |
| Carry and cyclicality | FX | Dispersed policy rates, more cyclical dollar |
| Long INR vs AUD (RV) | FX | Policy divergence: RBI versus RBA |

*Sources: Bloomberg, ADCB Asset Management, Tactical Asset Allocation (10 November 2026).*

## 1. Five Themes for 2027: Capital Has a Price Again

For most of the post-Global Financial Crisis era, capital was cheap, abundant and largely unconditional. Policymakers suppressed its price to encourage risk-taking, and almost every asset benefited. That era is over. In 2027, capital will be expensive, contested and conditional – demanded at the same time by the AI build-out, by governments financing security and energy resilience, and by over-indebted borrowers who must refinance. Investors are no longer price-takers; they are the price-setters. The defining question for portfolios is not whether to take risk, but on what terms. We organise our outlook around five themes.

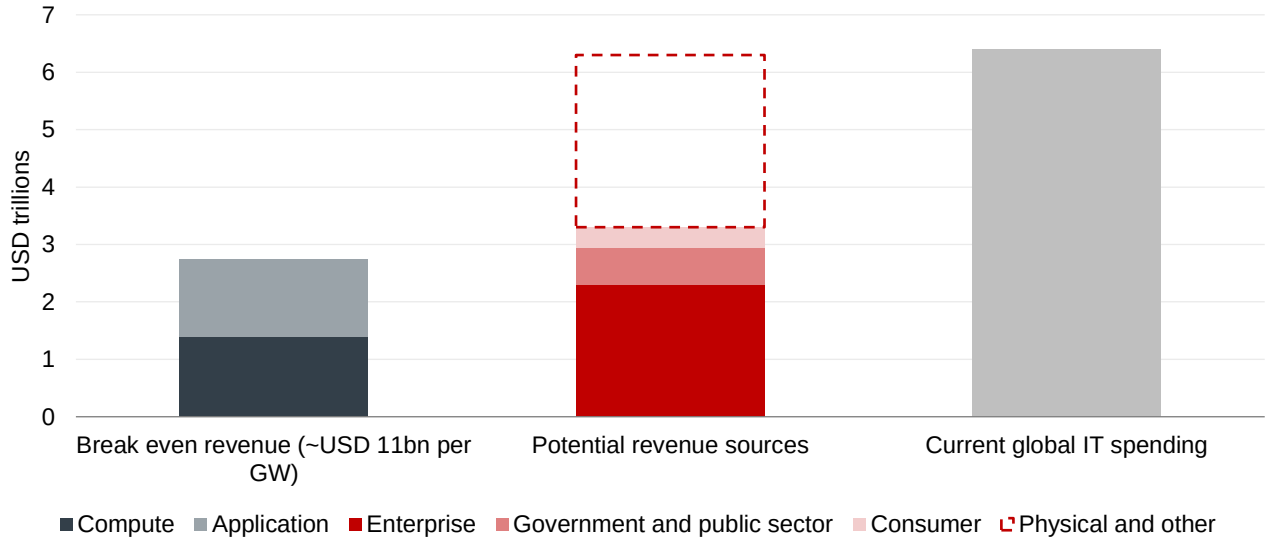
**1. The price of capital is the new macro variable**

The US 10-year yield has risen about 75bp this year to near 5%, with 50bp arriving in September alone – a top-decile monthly move since 1962. Importantly, it is real yields rather than inflation expectations that have done the work, as estimates of the neutral real rate have risen from about 0.5% before the pandemic to around 1.5%. Every financing decision – a hyperscaler's data centre, a government's defence budget, an investor's allocation – must now clear a higher hurdle.

**2. AI moves from build-out to proof of return**

The AI trade of 2026 rewarded whoever supplied chips, memory and power. In 2027, the burden of proof shifts to adoption, productivity and returns on capital. The arithmetic is demanding: a gigawatt of AI data-centre capacity costs roughly USD40bn and must generate about USD11bn of revenue a year to cover its cost of capital. The roughly 129GW of frontier capacity expected by 2029 therefore needs about USD1.4trn of annual compute revenue – and perhaps twice that in end-customer spending. Plausible early-2030s demand of about USD3.5trn clears that bar, but only just. The pipeline is approaching the limits of what revenues can support, which makes selectivity across the AI stack essential.

**Exhibit 04: The AI infrastructure pipeline is approaching the limits of what potential revenues can support**




*Source: Goldman Sachs Global Investment Research.*

**3. Fragmentation carries a resilience premium**

The war in Iran turned the closure of a chokepoint from a tail risk into a lived reality. Governments are now funding defence, energy security, critical minerals and 'compute sovereignty' simultaneously. These outlays are largely insensitive to interest rates, which makes them a durable complement to AI exposure. In a world where countries and companies are exposed to 4Cs – conflict, compute, chokepoints and climate – owners of scarce capacity are expected show the most resilience.

**4. Income comes from credit, not duration**

US investment grade yields exceed 6% for the first time since the global financial crisis, and rates would have to rise roughly another 100bp to wipe out a year of carry. But the yield is better earned through credit than through sovereign duration. Inflation uncertainty – rather than the level of inflation – is now the variable that matters for bonds: it widens the range of policy outcomes and raises the term premium investors demand, even as realised inflation moderates. Add heavy sovereign issuance and a US fiscal impulse turning into a drag, and sovereign duration carries a persistent valuation penalty. High-quality corporate credit, with sound aggregate fundamentals and lower sensitivity to term premia, offers the better trade-off.

**5. Liquidity becomes the scarcest asset**

More than 30,000 private-equity-owned companies globally are waiting to exit, distributions from recent vintages are the weakest in over a decade, and private credit is entering its first genuine rate-and-default test. Investors who can provide liquidity – through secondaries, hybrid capital or rescue financing – will be able to charge for it. Those who need it will pay.

## 2. Macro: Resilience on a Narrow Base

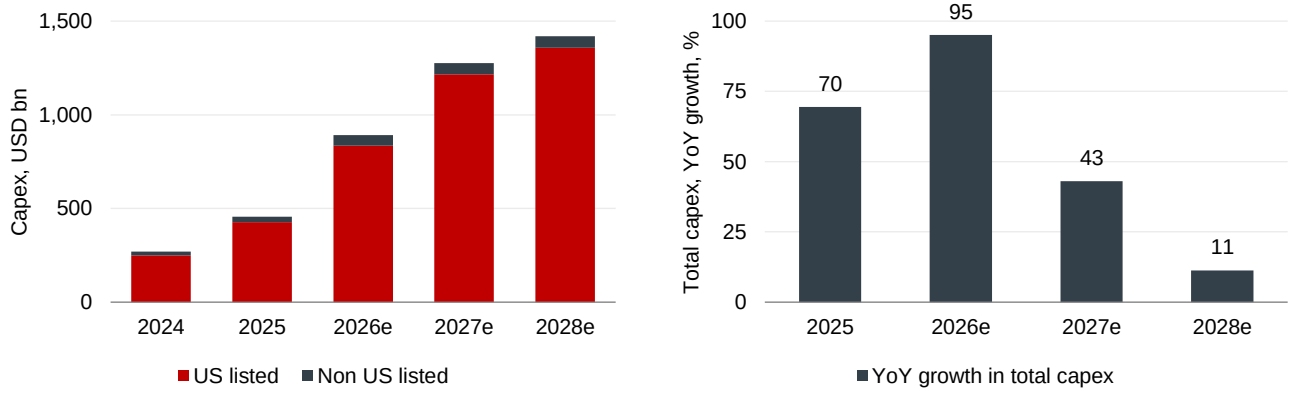
**Three buffers, one common thread**

The global economy has absorbed an energy shock, a broad G10 hiking cycle and renewed sovereign stress in Europe while still growing at about 3.1% in 2026. It is bending, not breaking. Three buffers made that possible: the AI capex boom, the willingness of households and China to absorb higher costs, and an incremental approach by central banks. For 2027 we expect global growth of 3.4%, broadly at potential. Yet the data impulse has softened: global economic surprises are rolling over, meaning activity is now struggling to beat elevated expectations. That is not a recession signal, but it reduces the cushion available to risk assets. What concerns us more is that the three buffers are interconnected. A fading AI impulse would hit equity wealth, which would hit consumption, which would tighten financial conditions – a chain rather than a set of independent risks.

AI is also beginning to reshape the labour market in ways that standard models struggle to capture. Hiring has weakened disproportionately in occupations most exposed to automation even as overall unemployment remains low, and only about 6% of US work hours are estimated to be AI-assisted today against roughly two-thirds of tasks that are theoretically exposed. Investment is front-loaded while labour disruption is back-loaded. That sequencing supports growth in 2027 but raises the political stakes beyond it: in the US midterms, 50 of 51 ballot initiatives on data centres went in favour of restricting development. The economic and political licence for the AI build-out can no longer be taken for granted.

Data centre electricity demand is expected to roughly double by 2030, with the US and China accounting for nearly 80% of the increase – a reminder that the AI cycle is also an energy and grid cycle, with transformer lead times of two-and-a-half to three years. The composition of growth is shifting. The energy drag of roughly 0.4pp in 2026 should become a modest tailwind as Brent price normalises towards the high-70s. The developed market fiscal impulse fades, with Japan the notable exception (+0.7pp). Financial conditions have tightened by around 50bp in three months. AI investment, while still rising from about USD1.1trn to USD1.8trn globally with a large share coming from listed companies, is likely to see its growth rate peak in the first half of 2027. The economy does not need AI capex to fall to feel the loss of momentum; it only needs it to rise more slowly.

**Exhibit 05: Listed AI spenders' capex keeps rising through 2028, but the growth rate slows from 2027**




*Sources: Bloomberg, ADCB Asset Management. Capital expenditure of nine listed US and Chinese hyperscale and AI infrastructure companies, calendar years; 2026e to 2028e are Bloomberg consensus as of 17 November 2026.*

We expect US growth of about 2.3%. The US remains the principal source of developed market resilience, and the quality of that growth matters: rising productivity is sustaining output and margins even with restrictive rates, and productivity-led growth supports real incomes without the inflationary pressure of growth driven by leverage or fiscal stimulus. Beneath the aggregate, the expansion is K-shaped – strategic investment and equity-rich households thrive while lower-income consumers face sticky inflation, higher mortgage rates and anxiety about AI and jobs. However, we do expect 2027 to see the divergence in the prospects of the two cohorts to slow. The euro area should grow about 1.2%; its economic surprises turned negative in early November 2026 for the first time since July. The UK, by contrast, is surprising positively. China delivers about 4.0% on a lopsided mix of record exports and weak domestic demand, while India's medium-term foundations remain strong even if near-term expectations need recalibrating.

**Inflation: the last mile runs through energy and food**

The latest energy shock has raised headline price uncertainty, but there is little evidence that it is becoming entrenched: inflation surprises have not persisted, and the global economy is far less energy-intensive than in past oil shocks. The duration of the shock matters more than its magnitude. We look for US core PCE to ease from about 3.2% to around 2.5% by end-2027 as tariff and energy effects fade, and lower oil could even produce temporary outright energy deflation as base effects turn. The risks sit in the first half – a food-inflation peak around Q2'27 from El Niño and Black Sea disruption, rising memory-chip prices, and delayed energy pass-through in Europe. For markets, however, inflation uncertainty matters more than any single print: the base case remains disinflationary, but confidence around it has weakened, and that keeps term premia elevated.

**Policy: one more turn of the screw, then relief**

Central banks are hiking to recalibrate, not to crush demand, and policy is fragmented. In our view, the Fed's decision to restart tightening was a policy error – but two wrongs do not make a right. An immediate reversal would damage credibility and loosen conditions prematurely. We therefore expect two further Fed hikes before Q2'27, followed by cuts in the second half of 2027 as inflation moderates and growth softens. We expect one more ECB hike over the next three months before weak growth and fading energy effects allow it to reverse course, and one further Bank of England hike this year before easing during 2027. The Bank of Japan is the exception: we expect it to stay on hold into 2027 when hikes could come. Fiscal policy remains accommodative but turns into a drag in the US in 2027; large deficits keep adding duration that private balance sheets must absorb. We do not see the foundations of a global fiscal crisis – rather, a persistent valuation penalty on sovereign duration, most acute in France and in markets with large financing needs.

**Scenarios for 2027**

- **Base case (60%):** Growth near potential, core inflation easing, policy rates peak around Q1'27 with cuts in H2'27, Brent price drifts to the high-70s.
- **Energy re-escalation (20%):** Renewed attacks on Gulf infrastructure push Brent above USD120/bbl; headline inflation +0.9pp; central banks tighten into weakness; stocks and bonds fall together.
- **AI disappointment (20%):** Capex or monetisation falters; a 25% US equity drawdown substantially reduces household wealth; recession risk rises sharply; bonds and the yen rally.

## 3. Rates: Own the Coupon, Not the Duration

**A generational reset in yields – and a term premium still to rebuild**

It is tempting to read multi-decade-high bond yields as a verdict on fiscal profligacy. So far, the evidence suggests otherwise: yields have risen across maturities and across countries with strong and weak public finances alike, driven mainly by a higher neutral real rate and an energy shock that pushed markets to price more hikes. Term-premium estimates have also moved, albeit to a lesser extent. That is precisely our concern. With inflation uncertainty elevated, deficits large and net sovereign issuance heavy, we expect the term premium to rebuild over time – a slow-moving valuation penalty on sovereign duration rather than a disorderly funding event.

**Exhibit 06: Global bond yields are back near multi-decade highs**




*Sources: Bloomberg, ADCB Asset Management. Monthly data to 31 October 2026. Global corporate bonds: Bloomberg Global Aggregate Corporate Index yield to worst. Municipal bonds: tax equivalent yield at a 40% tax rate.*

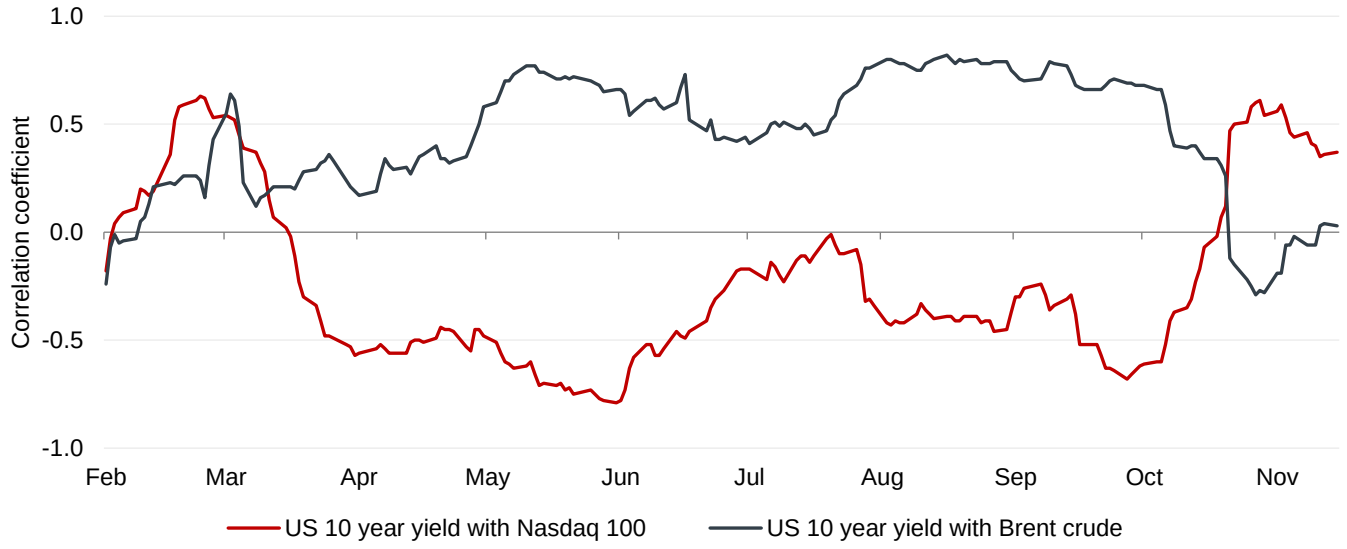
Starting yields remain the best predictor of five-year forward bond returns, and today's levels – back to the 1990s rather than the suppressed post-crisis years – make income attractive across almost every scenario. The question is where to earn it. 10Y sovereign yields fell alongside the autumn equity correction; as risk aversion fades and investors refocus on inflation uncertainty, debt issuance and term premia, we expect them to stabilise and then rise. We have therefore downgraded developed market sovereign bonds to a significant underweight and prefer to own yield through investment-grade credit, where carry is attractive and sensitivity to term premia lower.

Central bank credibility will determine how far the term premium rebuilds. Long-term inflation expectations remain anchored – 10-year breakevens have barely moved even as nominal yields rose – but the Fed's decision to restart hiking has widened the range of plausible policy paths, and that uncertainty is itself something bondholders demand compensation for. The fiscal arithmetic adds to the pressure: debt-service costs are rising across most developed markets, forcing trade-offs between interest, social spending, defence and investment, and making budgets ever more sensitive to refinancing costs.

### The hedge is improving, but it is not free

For most of 2026, supply shocks pushed stocks and bonds down together. Since late September, as the market's preoccupation has shifted from oil to AI, the correlation of US yields with technology stocks has turned positive – bonds rally when tech sells off. That restores some hedging value to duration, particularly in an AI-disappointment scenario. But a hedge that carries a structural valuation penalty is an expensive one to hold in size. We prefer to retain targeted protection – short-dated Treasuries, which benefit most when the Fed turns to cuts in the second half – rather than broad long-end exposure.

**Exhibit 07: As AI worries replace oil worries, bonds are regaining some hedging value**




*Sources: Bloomberg, ADCB Asset Management. Rolling 21 trading day correlation of daily changes in the US 10 year Treasury yield with daily returns on the Nasdaq 100 and on Brent crude. Data to 16 November 2026.*

### Where we would – and would not – own duration

In the US, the front end is where we see value: 2-year Treasuries should benefit as the Fed moves to cuts in H2'27, and we hold a tactical position in the UST 2-year index. The long end is more vulnerable to a rebuilding term premium, so we favour 2s10s steepeners and see 10-year yields ending 2027 near 5.0% after being considerably volatile through the year. In Europe, Bunds should be anchored around 3.25% as the ECB reverses course, but France is the fault line – OATs now yield more than Italian BTPs for the first time since the euro's creation, and we are cautious on OATs into the April and June elections. Gilts remain the most attractive developed-market duration on a relative basis given their high beta to oil and the chance that Bank of England will likely ease in 2027.

Japan deserves particular attention because it is where the global repricing of term premia could re-ignite. Even with the Bank of Japan on hold, core inflation is likely to stay above 3.5% into the summer and the Takaichi government's consumption-tax cuts and defence spending add to deficits. We expect 10-year JGB yields to drift towards 2.9%. The more important channel is international: rising domestic yields could encourage Japanese pension funds and insurers to repatriate capital, adding to upward pressure on global long-end yields. In the UK, by contrast, the planned budget tightening is the template for how fiscal credibility can be rewarded with lower yields.

In emerging markets, we prefer hard-currency to local-currency exposure. We are overweight EM USD investment-grade sovereigns, whose yields and improving fiscal stories offer attractive carry with lower volatility, and neutral on EM local-currency debt after a strong run that has left valuations less compelling. Within local markets, we still like India, where 10-year yields near 7.2% should drift lower as energy relief eases inflation. For regional investors high-quality GCC sovereign bonds should provide compelling opportunities.

**What would change our view**

- **Add back duration:** An earlier AI-related labour shock, signs of financial stress in private credit or leveraged AI issuers, or yields rising far enough to price the term premium we expect.

**Exhibit 08: Sovereign bond yield forecasts (%)**

| 10-year yield (unless stated) | Spot | End-2027 | Change (bp) |
|---|---|---|---|
| **Developed markets** | | | |
| **US 2-year** | 4.67 | 4.10 | -57 |
| **US 10-year** | 4.91 | 5.00 | +9 |
| **Germany 10-year** | 3.29 | 3.25 | -4 |
| **France 10-year** | 4.78 | 4.80 | +2 |
| **Italy 10-year** | 4.34 | 4.15 | -19 |
| **UK 10-year** | 5.21 | 4.85 | -36 |
| **Japan 10-year** | 2.71 | 2.90 | +19 |
| **Emerging markets** | | | |
| **India 10-year** | 7.20 | 6.90 | -30 |
| **Mexico 10-year** | 9.24 | 8.75 | -49 |
| **South Africa 10-year** | 8.91 | 8.35 | -56 |
| **Brazil 10-year** | 15.39 | 14.50 | -89 |
| **Saudi Arabia 10-year** | 6.00 | 5.85 | -15 |

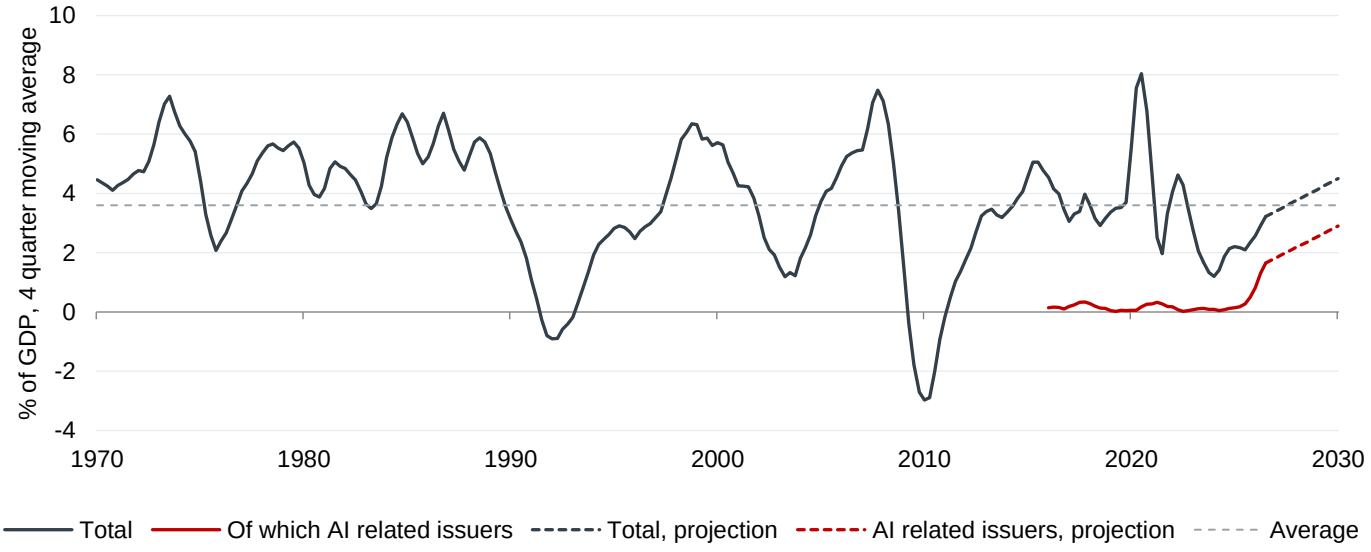
*Sources: Bloomberg, ADCB Asset Management. Spot yields as of 24 November 2026.*

## 4. Credit: Lend to the Builders, Not the Dreamers

**Who finances the bridge?**

Technology has shifted from an asset-light to an asset-heavy business model. A decade ago, the largest cloud companies reinvested about 7% of revenue in capital spending; this year consensus expects roughly 36% – close to the reinvestment rate of a regulated utility. The gap between today's capex and tomorrow's revenue is increasingly being bridged with debt. AI-related issuance reached roughly USD687bn in 2026, and we expect US IG supply to rise about 8% to around USD2trn in 2027, with hyperscaler borrowing alone near USD365bn. Non-financial credit creation is back above its long-run average for the first time in years, with AI issuers a rapidly growing share.

**Exhibit 09: AI-related borrowing has picked up sharply, and significantly more issuance is expected**

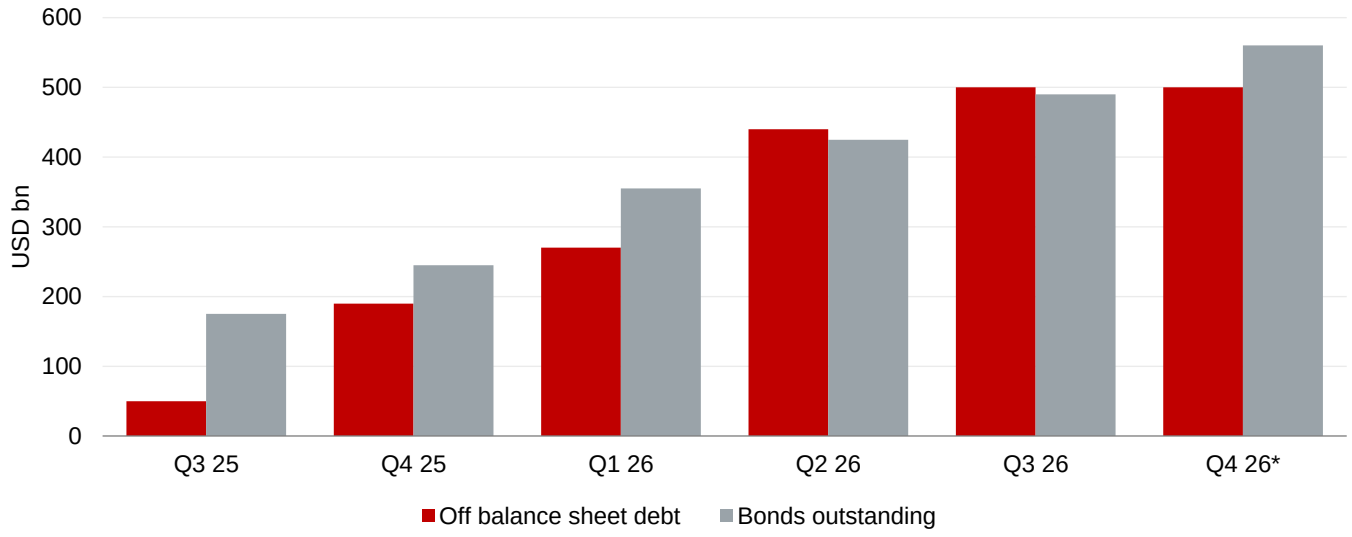



*Sources: Bridgewater Associates, Haver Analytics, Federal Reserve Board, Bureau of Economic Analysis. Data as of September 2026.*

Public bonds are only part of the story. An estimated USD400–500bn of data centre- and GPU-backed debt now sits off balance sheet – nearly doubling the effective credit available to the sector – and vendor-financing structures add to the opacity. History is a useful guide here: in the telecom boom of the late 1990s, creditors carried the downside of overbuilding while the ultimate winners were the users of the network, not the lenders to it. We therefore lend where repayment depends least on predicting AI's eventual winners.

Demand for credit remains strong enough to absorb this supply for now. Average US IG coupons above 4.5% generate close to USD400bn of annual reinvestment flow, foreign buyers – particularly from Asia and Europe – continue to add, and US investment-grade yields above 6% are attracting yield-oriented investors who had been absent for a decade. The vulnerability is less a shortage of buyers than a rising correlation within the AI complex: as more debt is issued by the same small group of borrowers and their counterparties, idiosyncratic risk becomes systematic. Investors should demand compensation not only for leverage, but for regulatory, legal and political risk around data centre development.

**Exhibit 10: Off-balance-sheet financing nearly doubles the credit available to AI infrastructure**




*Sources: HSBC estimates, company accounts, Bloomberg, Moody's.*

### Spreads tight, yields attractive – carry is the return

The competition for capital has so far been priced through real yields rather than spreads, leaving all-in yields compelling but spread cushions thin. We do not expect material broad-based spread compression; spreads in investment grade, global high yield and EM should instead remain contained, supported by resilient growth and strong demand for income. We look for US IG spreads around 95bp and US HY near 340bp by end-2027, with carry supporting total returns of 6-9%. Beneath the aggregate indices, idiosyncratic stresses matter: hyperscalers carry interest coverage above 50x against about 9x for the median IG issuer, while the most leveraged neoclouds trade at distressed spreads above 1,000bp. When index spreads offer limited protection, security selection and balance-sheet quality do the work.

### Our preferences

We have upgraded developed market investment-grade corporate credit to overweight, reflecting attractive carry, sound aggregate credit quality and lower sensitivity to rising term premia than sovereign duration. We are also overweight global high yield, with a preference for BBs over CCCs, and overweight EM USD investment grade sovereigns; EM corporate IG is neutral. Within developed markets we like both US and EUR credit, adding risk through BBs, bank Tier 2 and corporate hybrids rather than long spread duration. GCC credit remains a core holding: spreads embed a geopolitical premium, sovereign buffers are deep, bypass pipelines strengthen export resilience, and we expect USD issuance of USD135-150bn. We favour bank Tier 2s, pipeline bonds and UAE and Oman sovereigns, and are underweight Qatar. Within infrastructure, we hold a tactical position in global core infrastructure IG.

By sector, we like hyperscalers (whose c75bp AI premium should compress as supply growth slows), regulated utilities, communications, and data centre bonds with triple-net leases, amortisation within the lease term and limited construction risk. In Europe we favour banks, real estate and autos. We are cautious energy, basic industry, food and beverage, 30-year IG outside the hyperscalers, and highly leveraged AI pure plays that depend on continuous market access.

Beyond AI, the stresses are concentrated rather than systemic. CCC-rated bonds have decoupled from the rest of high yield since July, and private credit faces a 2028 maturity wall alongside disruption risk in software. Public high yield, by contrast, used 2026 to extend maturities. Our positioning prioritises ratings and subordination risk over spread duration: elevated yields mean investors do not need spread compression to earn attractive returns, and front-end and belly exposure offers the best carry per unit of risk. We would keep dry powder to add on dislocations around the French elections or AI-related supply indigestion.

**What would change our view**

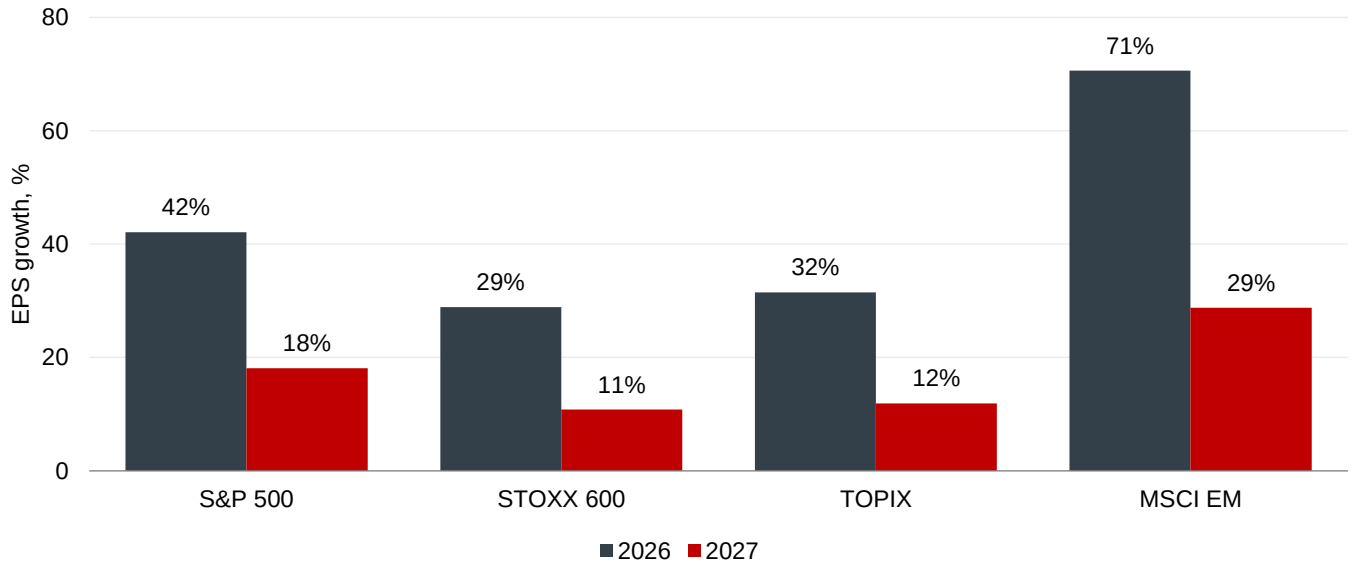
- **More cautious:** IG spreads through 120bp on a halt in AI financing, rising use of payment-in-kind outside technology, or a sharp repricing of off-balance-sheet data centre debt.
- **More constructive:** A visible slowdown in hyperscaler supply, faster AI monetisation in cloud revenues, or a dovish central bank pivot that lowers refinancing costs for weaker borrowers.

## 5. Equities: From the Picks-and-Shovels to the Payoff

**The year of earnings gives way to the year of proof**

Global equities delivered strong and unusually uniform returns in the first ten months of 2026, driven almost entirely by earnings while every major market de-rated. Global multiples near 15.3x sit below their 10-year average, and US technology valuations have fallen to five-year lows. We see the November sell-off as an opportunity to add risk once again. November 2026 correction, resilient growth and falling uncertainty on AI profitability should provide support to equities. Therefore, we expect equities to keep rising in 2027, but the engine changes. Earnings growth is set to more than halve as the AI capex impulse peaks, depreciation charges rise and energy earnings normalise: US growth slows from about 42% to the mid-to-high teens, Europe from 29% to about 11%, Japan from 32% to roughly 12%. Lower inflation, ample liquidity, lighter positioning after the autumn shakeout and cheaper starting valuations should cushion the transition.

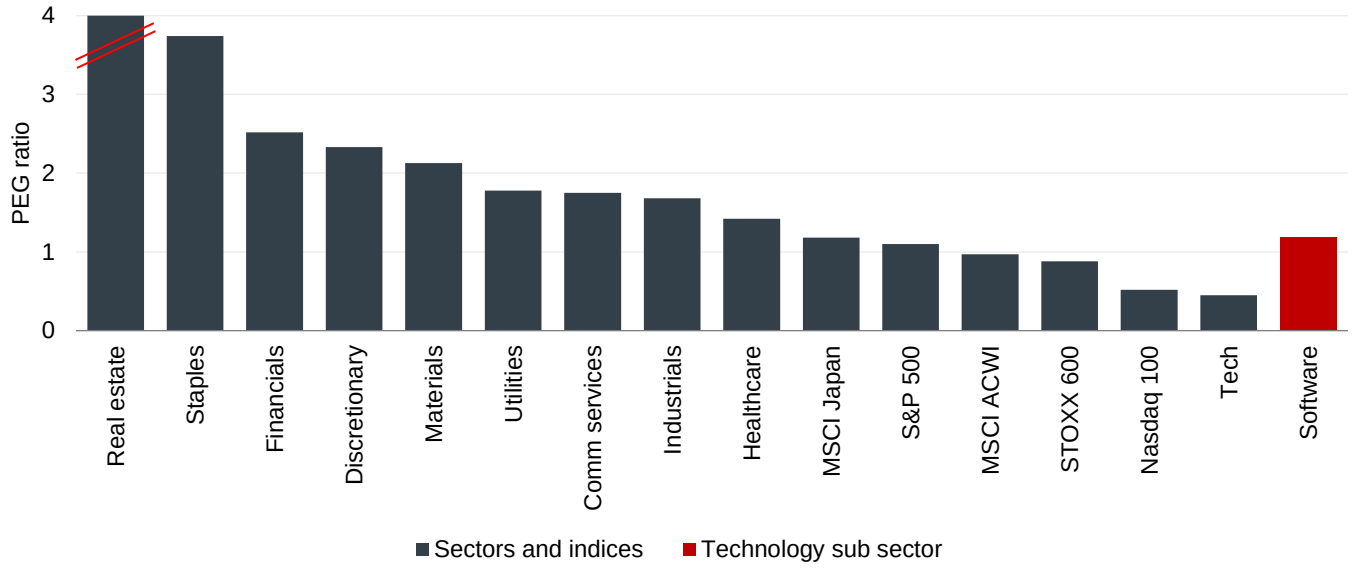
**Exhibit 11: Earnings growth is poised to more than halve across major markets in 2027**




*Sources: Bloomberg, ADCB Asset Management. Consensus EPS growth as of 23 November 2026.*

Concentration is the defining structural risk. The ten largest S&P 500 stocks account for nearly 40% of the index, the highest share since at least 1980, and three companies are expected to deliver about 45% of next year's earnings growth. Yet the market is not paying a premium for that growth: on price-to-earnings-growth, technology and the hyperscalers screen among the cheapest sectors in the US. Consensus end-2027 targets are 8,600 for the S&P 500, 690 for the STOXX Europe 600, 4,400 for TOPIX and 1,800 for MSCI EM.

**Exhibit 12: Investors are not paying a premium for technology earnings growth**




*Sources: Bloomberg, ADCB Asset Management. Forward P/E divided by expected long term EPS growth, as of 23 November 2026. Real estate (9.6) exceeds 4 and is capped at the top of the scale.*

### Where value accrues in the AI stack

The infrastructure layer gets paid on delivery, but upward revisions are reaching their limits and semiconductors already price a 20–40% earnings decline. The application layer may ultimately capture the most value, as 'second-wave' companies have in every past capex boom, but much of it remains private. In between, the hyperscalers look best placed: they own the data centres, run the clouds and sell the applications, so they benefit whether compute is scarce or abundant, and they trade at only a slight premium to the market. Beyond AI, the resilience complex – defence, grid, power equipment, critical materials – offers multi-year order books and pricing power. Physical AI as a theme could gain traction during 2027 before the sector's economic value becomes evident in 2028.

Adoption data argue that the pie is still growing fast. The average US company spends only about USD16 per employee per month on AI, the price of a given level of AI capability has fallen roughly 13-fold a year, and token consumption is projected to rise more than 20-fold by 2030 as AI moves from chatbots to agents and physical applications. Industries with high AI exposure – information, finance, professional services – are already recording the fastest productivity gains. As compute demand continues to outstrip supply, hyperscalers' revenues should grow faster than their capex in 2027, easing pressure on free cash flow.

The quality of earnings matters as much as their growth. As AI capex flows through income statements, depreciation will open a widening gap between EBITDA and net profits, and some formerly asset-light companies have become capital-intensive and, in places, free-cash-flow negative. The essential test in 2027 is whether incremental returns on invested capital exceed a now-higher cost of capital. Earnings dispersion should widen, rewarding stock selection and earnings-momentum strategies over passive exposure.

### Regional and sector allocation

We are overweight equities, and have concentrated that view in the US, adding to our overweight after the autumn shakeout. Valuations are not extreme in aggregate, positioning has lightened and liquidity remains ample, while productivity and earnings quality differentiate the US from other regions. We prefer large caps over small caps. Japan remains an overweight, where fiscal support, governance reform and a 13.7x multiple combine. We have normalised our other regional positions: Europe moves to neutral, where energy-sensitive earnings and elections offset strong corporate results and resilience spending, and Asia Pacific ex-Japan moves up to neutral, with Korea and Taiwan holding the global bottlenecks in memory and advanced logic. EM ex-Asia is neutral. We keep a tactical position in Indian equities, a domestic-demand market benefiting from lower oil and returning foreign inflows, and are constructive on the UAE (around 9.3x forward earnings).

We express the US overweight through quality growth rather than index beta. Our tactical themes each enter after a correction: data centres, where contracted cash flows meet compute and power demand that continues to outrun supply; clean energy, a structural trend that has paused rather than reversed and which a Democratic Congress and bipartisan permitting reform should support; and media and entertainment, where an October sell-off has gone further than the advertising cycle warrants. More broadly, we prefer hyperscalers and AI adopters showing tangible returns, semiconductors and memory for convexity, power, grid and defence industrials, balanced with quality defensives such as US healthcare. We are underweight energy, where consensus expects earnings to fall about 10%. Volatility is more likely to rise than fall; longer-dated hedges remain efficient protection.

**What would change our view**

- **More defensive:** A renewed oil spike above USD110/bbl, a disorderly French sovereign event, or datacentre restrictions that put a large share of 2028 US capacity additions at risk.
- **More aggressive:** Clear evidence of AI monetization beyond the hyperscalers, combined with stable bond yields and a broadening of earnings revisions outside technology.

## 6. Commodities: The Insurance Policy Is Cheap Again

### Commodities as an asset class

Commodities were 2026's best-performing asset class, with broad indices up about 18.9% and the World Bank's aggregate index heading for its second-highest level since 2013. Our baseline for 2027 points to near-zero index returns as energy normalises. We still recommend a strategic allocation, because the case is about insurance rather than momentum. Supply chains are geographically concentrated, fragmentation has made disruption more frequent – Russian gas in 2022, Chinese rare earths in 2025, Hormuz in 2026 – and in every 12-month period over six decades when both stocks and bonds delivered negative real returns, either gold or broad commodities delivered positive real returns. With Brent's geopolitical risk premium collapsing from about USD27/bbl to a few dollars after the US midterms, that insurance is far cheaper than it was in October.

**Exhibit 13: When stocks and bonds both lose in real terms, gold or commodities have delivered**

| Bonds and equities both negative in real terms | Gold | Broad commodities |
|---|---|---|
| 1973 to 1975 | ● | |
| 1977 to 1978 | ● | |
| 1980 | ● | ● |
| 1981 | | ● |
| 1984 | | ● |
| 1990 | | ● |
| 1994 to 1995 | | ● |
| 2022 to 2023 | | ● |

*Sources: Bloomberg, Goldman Sachs Global Investment Research. A dot marks a positive real return over the period; period dates are approximate.*

### Energy

Gulf crude exports have recovered to near 2025 levels via pipelines and ship-to-ship transfers, and global oil demand fell about 2.5% in 2026 – the third-largest decline on record – with an accelerated shift to electric vehicles likely to prove lasting. Consensus forecast Brent averaging about USD82/bbl in 2027 and ending the year in the high-70s. Risks are skewed higher: if Gulf output stays 2.5mb/d below 2025 levels, Brent could average around USD120/bbl. European gas is the acute near-term risk given low storage; TTF could approach EUR150/MWh in a cold Q1'27 before an LNG supply wave drives it towards an average of EUR45–50/MWh.

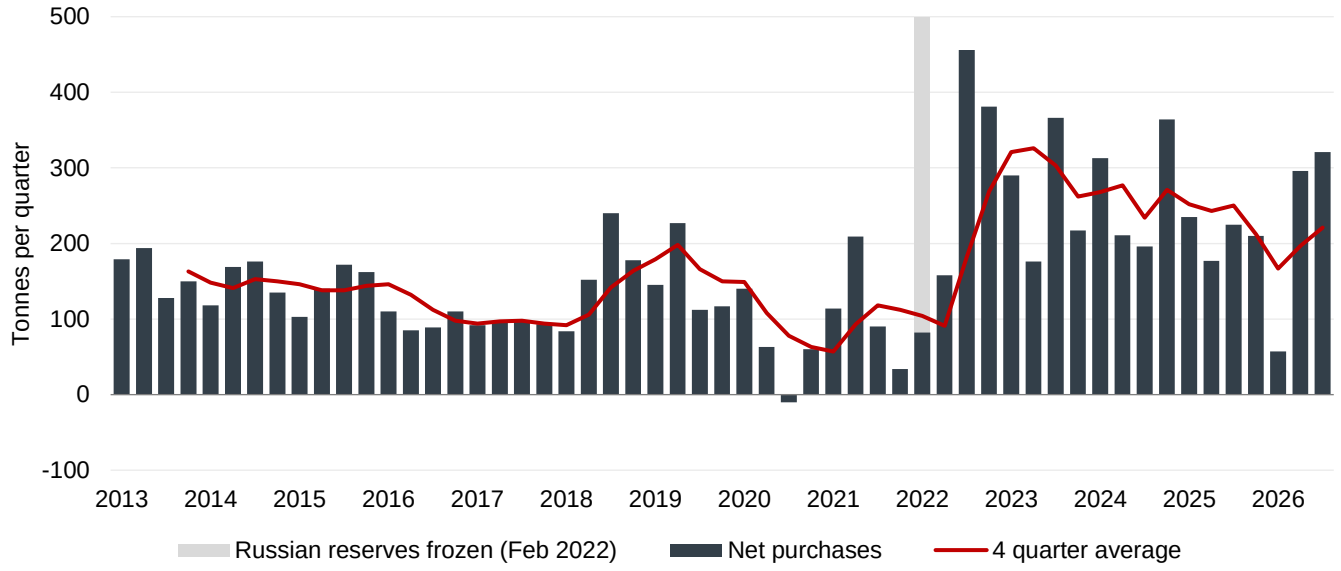
The oil shock has increasingly become a refining shock. Damage to Gulf and Russian refineries has cut net diesel exports from those regions by an estimated 60% year on year, pushing product margins and freight rates to records even as crude flows recover; US diesel has risen to around USD6.30/gallon from about USD3.80 before the conflict. IEA members have agreed to release 100 million barrels of reserves through January 2027, focused on diesel. For portfolios, the most efficient upside hedges are therefore in products and gas – Q1'27 TTF call spreads and summer 2027 European gasoline – rather than outright crude.

### Precious metals

Gold retreated to around USD3,500/oz from record highs as Fed hikes and rising real yields cooled investor demand. Central bank buying, structurally higher since the 2022 freezing of Russian reserves, provides a floor, and the dollar's share of official reserves has fallen to about 57%. Once the Fed turns to cuts in the second half of 2027, private and ETF demand should return. Consensus targets USD4,700/oz, prefer gold to the euro as a geopolitical and fiscal hedge, and retain gold among our high-conviction tactical ideas despite its recent pullback.

Silver and platinum should ease from their record 2026 averages but remain historically elevated, with silver around USD60–65/oz; platinum's declining automotive demand is partly offset by industrial uses. Commodity producers also look attractive as equities: global energy and materials trade at discounts of roughly 33% and 15% to the S&P 500 respectively, with higher dividend yields.

**Exhibit 14: Central bank gold demand remains a structural driver of prices**




*Sources: Bloomberg, ADCB Asset Management. Quarterly net purchases to Q3 2026. The line is the 4 quarter average.*

### Agriculture

A potentially record-strength El Niño, Black Sea disruption and Hormuz-linked fertiliser constraints point to food commodity prices rising about 10% in 2026 and a further 7% in 2027, led by wheat (+13%), rice (+12%) and edible oils. Fertiliser prices should ease as Chinese urea exports rise. Agricultural exposure is a valuable inflation hedge for the first half.

The World Bank's adverse scenario illustrates the asymmetry: setbacks in the Middle East, Russian oil output or Black Sea shipping would lift Brent to an average of USD105/bbl in 2027 and take food prices above their 2022 peak. For GCC investors whose currencies are pegged to the dollar and whose economies are net food importers, a measured agricultural allocation is a natural hedge.

### Industrial metals

Copper is our highest-conviction structural long: electrification, grids, data centres and defence meet constrained supply, and new mines take more than 16 years to develop. Consensus target about USD15,000/t. Aluminium faces a supply wave from China-backed smelting in Indonesia, so we favour long copper versus short aluminium.

**Exhibit 15: Diverging fundamentals: tight copper inventories, rising Indonesian aluminium supply**





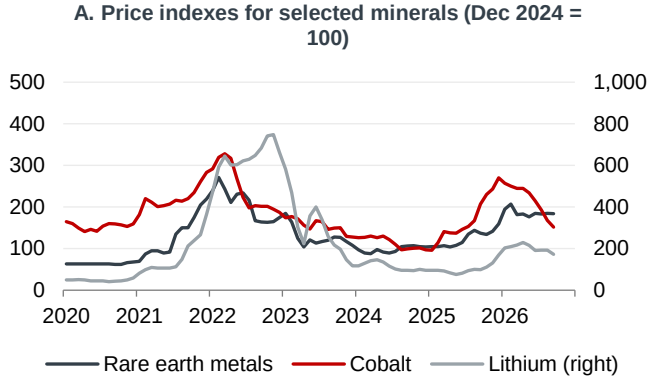


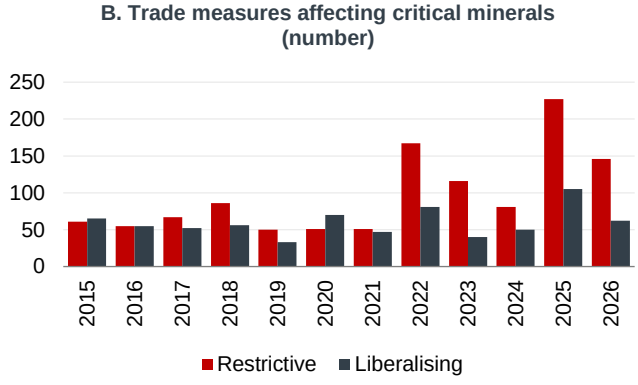
*Sources: Bloomberg, ADCB Asset Management (left panel). Wind, SMM, CRU, Wood Mackenzie, Goldman Sachs Global Investment Research (right panel). Copper stocks are month end, at LME warehouses outside the US plus SHFE, to November 2026.*

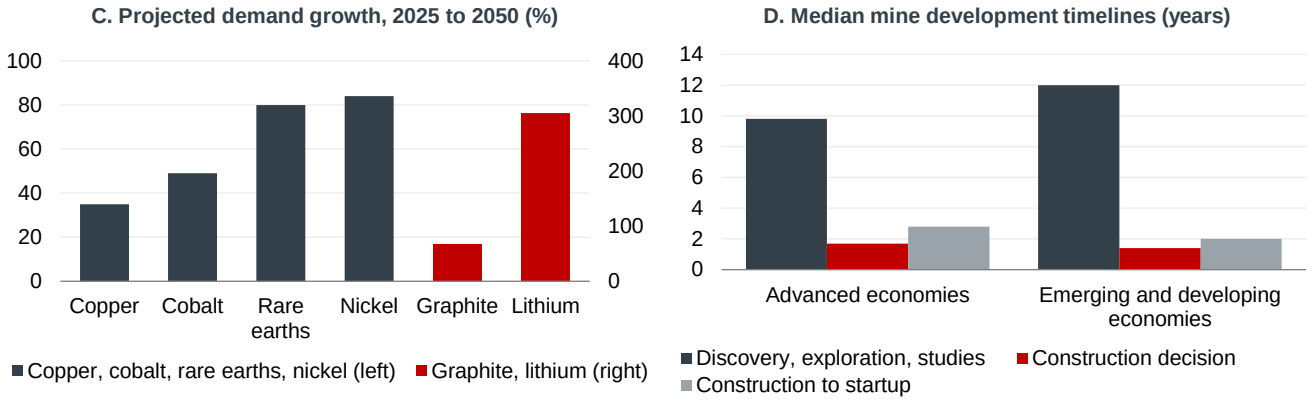
### Rare earths and critical minerals

Rare earths are a geopolitical asset as much as a commodity. Chinese export controls have kept prices elevated even as cobalt and lithium fell in Q3'26; restrictive trade measures far outnumber liberalising ones; rare-earth demand is projected to rise about 80% by 2050; and mines take over a decade from discovery to production. Policy responses such as US Project Vault and the EU Critical Raw Materials Act will diversify supply only gradually. We prefer exposure through non-Chinese producers and processors.

**Exhibit 16: Critical minerals: elevated prices, rising trade restrictions, long lead times**





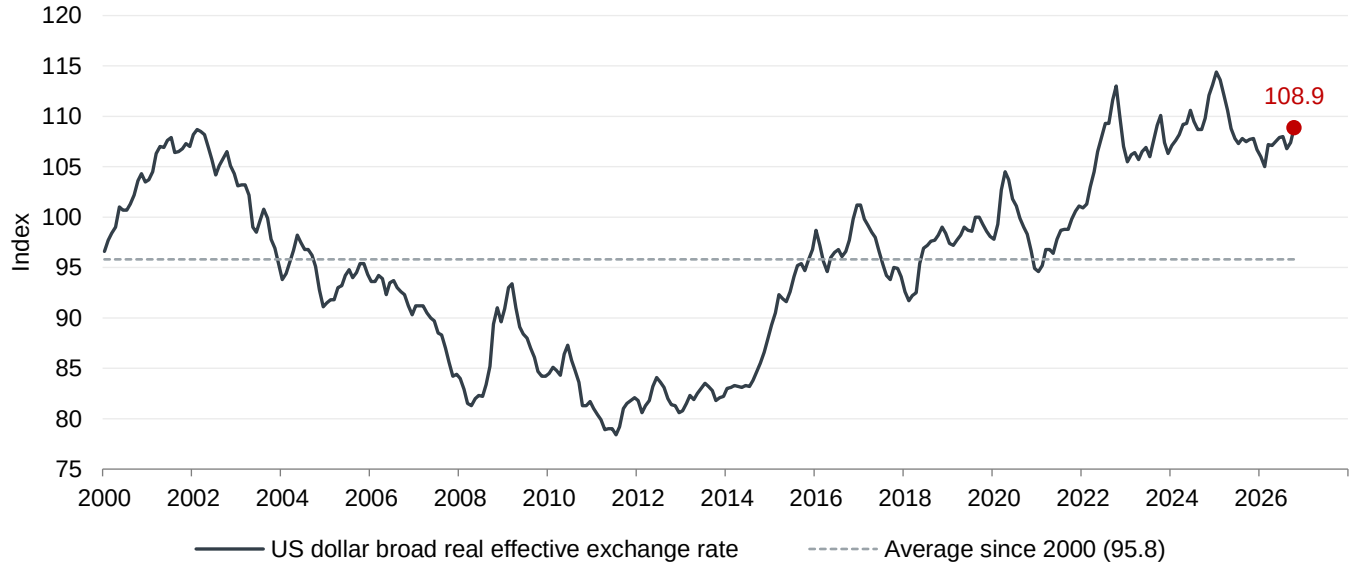

*Source: World Bank Commodity Markets Outlook (October 2026). 2026 trade measures are to September 2026.*

## 7. FX: A More Cyclical Dollar, Revaluing Asia

**The dollar has become an AI trade**

The dollar rose through the autumn before retracing, and now looks broadly aligned with the macro cycle – though still overvalued on long-run measures. The deeper story is flows: foreign demand for US assets, driven by AI-linked equity purchases, returned to trend after the 2025 diversification scare. That has made the dollar more cyclical – its fortunes increasingly tied to US technology performance rather than its role as a haven. We expect mixed performance in H1'27 as the Fed delivers its final hike, followed by a broad decline of 2–3% as energy normalises and the Fed turns to cuts in the second half. We do not subscribe to wholesale de-dollarisation; gold is the cleaner expression of that concern.

**Exhibit 17: The broad dollar remains well above its long run average in real terms**




*Sources: Bank for International Settlements, Bloomberg, ADCB Asset Management. Monthly data, January 2000 to October 2026. The latest reading is 14% above the average since 2000.*

For investors with dollar-pegged GCC base currencies, this argues for modestly increasing unhedged exposure to undervalued currencies with improving policy anchors – principally JPY and CNY – while hedging euro exposure through the first half. FX implied volatility remains low relative to rates and equities, making options an inexpensive tail hedge.

Carry should remain a meaningful contributor to FX returns given widely dispersed policy rates, but after several strong years we expect more modest gains and favour defensive carry baskets that pair high-yielders with safe-haven funders. In emerging markets, MXN stands out as a high-carry convertible currency and a nearshoring beneficiary – technology products now make up nearly half of Mexico's exports – while BRL and COP offer the widest carry but greater fiscal and political risk.

### Europe: EUR, GBP and CHF

EUR/USD faces near-term pressure from a negative terms-of-trade shock, French fiscal stress and an election-heavy calendar, and could test 1.08 early in the year before recovering to 1.12 by end-2027. GBP has been supported by fiscal credibility and closer EU ties, and might have upside risks prominent over the next few quarters. The SNB at 0% makes CHF an attractive funder, but its haven role into the European election cycle keeps risks balanced; consensus see USD/CHF near 0.83. Two cross-currents will shape European FX. First, the euro's sensitivity to energy terms of trade remains high, so the path of TTF gas through the winter matters more for EUR/USD than rate differentials in the near term. Second, the French elections in April and June – likely to pit candidates from the far left and far right against each other – could widen OAT spreads and weigh on the euro just as energy relief arrives. That is why we prefer to own euro upside through the second half rather than now, and why EUR/GBP, which has a low beta to equities, is a useful vehicle for expressing sterling caution without taking broad dollar risk.

### JPY: the preferred hedge

The yen is roughly 30% undervalued. With the Bank of Japan on hold into 2027, the support comes less from rate differentials than from intervention (in July-August), valuation and a possible rotation by Japanese pension funds towards domestic assets – and from Fed cuts in the second half narrowing the gap from the other side. It is also the clearest beneficiary of an AI drawdown in which equities and yields fall together. Consensus forecast USD/JPY at 155 by end-2027 and see the yen as a portfolio hedge rather than a carry trade.

### Commodity currencies: AUD and CAD

The RBA's hike to an 18-year high of 4.85% on 3 November looks like its last: a split board and the removal of forward guidance mark the end of the cycle, and markets now price cuts in the second half of 2027. AUD was the weakest G10 currency in the week after the US midterms, and lower oil weighs on its terms of trade. Consensus sees AUD/USD near 0.69. CAD faces two-sided risks from BoC hikes, USMCA uncertainty and energy normalisation; consensus see USD/CAD at 1.39.

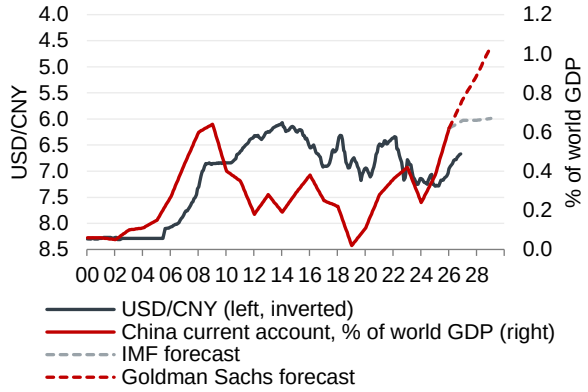
**What would change our view**

- **Stronger dollar:** A renewed energy escalation, a Fed forced to keep hiking, or continued US equity outperformance that sustains foreign inflows.
- **Weaker dollar:** An AI-related correction in US technology, faster reserve diversification by central banks, or an earlier Fed pivot.

### Asia: CNY and INR

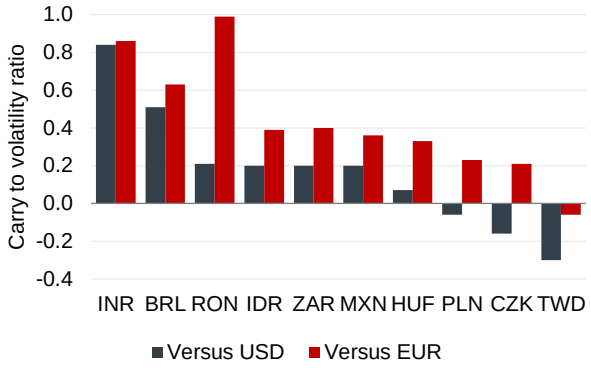
The steady appreciation of the yuan is one of the most important trends in global FX. China's trade surplus continues to surge and the currency remains about 22% undervalued even after 18 months of gains. Consensus forecast USD/CNY at 6.40. INR depreciated about 5% in 2026 on the oil shock and equity outflows, but the tide is turning. The RBI raised rates to 5.50% in October – its first hike in almost four years – reserves near USD693bn provide a strong buffer, foreign inflows have resumed and lower oil helps India as an importer. We express this through a tactical long INR versus AUD, a policy-divergence trade; the risk is a rebound in oil. Against the dollar we expect INR to outperform its forwards, with USD/INR at 96.5 versus forwards near 97.6.

**Exhibit 18: China's surging surplus underpins CNY strength**




*Sources: IMF, Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research.*

**Exhibit 19: INR carry-to-vol screens well among EM high-yielders**




*Sources: Bloomberg, ADCB Asset Management. Carry is the 3 month implied yield differential (from non-deliverable forwards for IDR and TWD) divided by 3 month implied volatility, as of 23 November 2026.*

**Exhibit 20: Currency consensus forecasts**

| Currency pair | Spot | End-2027 | Bias vs USD |
|---|---|---|---|
| **EUR/USD** | 1.10 | 1.12 | Weak H1, recovery H2 |
| **GBP/USD** | 1.31 | 1.31 | Upside risks |
| **USD/JPY** | 159 | 155 | Hedge with policy support |
| **USD/CHF** | 0.84 | 0.83 | Vulnerable in a cyclical environment |
| **AUD/USD** | 0.66 | 0.69 | Monetary policy outlook priced in |
| **USD/CAD** | 1.43 | 1.39 | CAD mildly bullish; but downside risks persist |
| **USD/CNY** | 6.67 | 6.40 | Expect slower appreciation |
| **USD/INR** | 92.9 | 96.5 | Carry attractive |

*Sources: Bloomberg, World Bank, ADCB Asset Management. Spot levels as of 23 November 2026.*

## 8. Private Markets: The Liquidity Premium Returns

### A more demanding phase

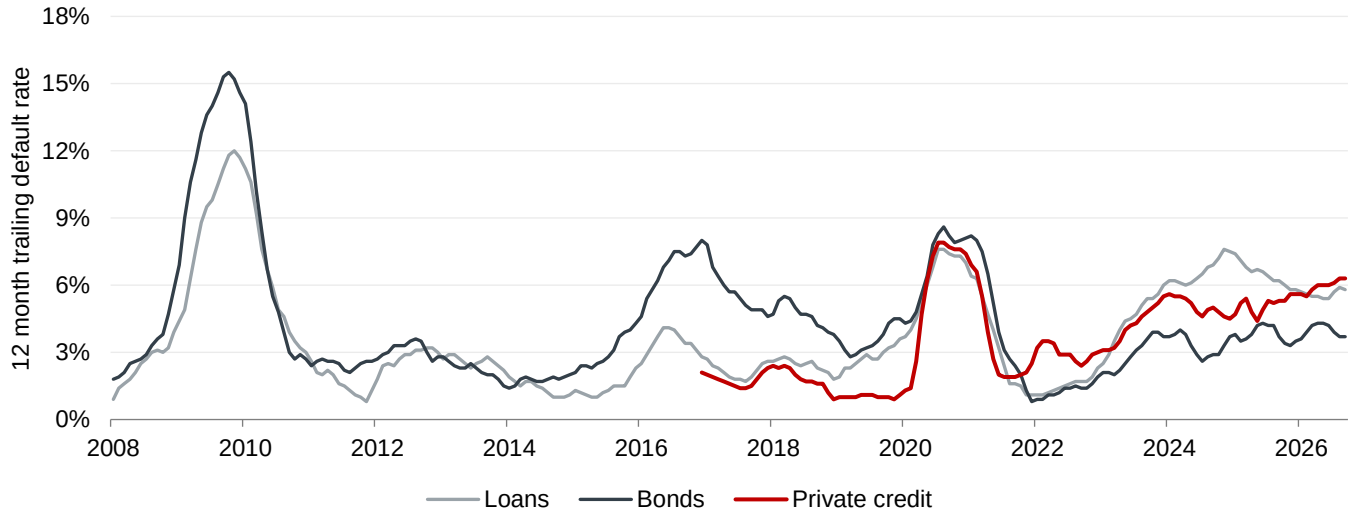
Private markets enter 2027 larger and more interconnected than ever, but in a more demanding phase. Global private-capital fundraising doubled from about USD938bn in 2015 to a peak of USD1.91trn in 2021, then fell for four consecutive years to about USD1.47trn in 2025. Growth now depends on new sources of capital – insurers, of whom 57% plan to raise private-credit allocations, and wealth and retirement channels, where US retail allocations could rise from USD80bn to USD2.4trn by 2030 according to Deloitte. These sources are not interchangeable. Each brings different liquidity needs and oversight expectations, and evergreen and semi-liquid structures can widen access but cannot eliminate the constraints of long-duration assets. For GCC investors — among the world's most significant suppliers of long-term private capital — the balance of power is shifting in their favour.

The financing chain is also lengthening. A bank may originate and keep the client relationship, a private-credit manager may structure the loan, and an insurer may provide the long-term capital. Each hand-off raises questions about who retains the economics, who controls the data and who bears the risk when conditions turn. Investors should look through structures to the underlying assets, and insist on consistent valuation and asset-level reporting.

### Private credit: from asset-gathering to underwriting

Private credit is facing its first genuine test of rates and defaults. Reported default rates look benign – around 2.5% on Proskauer's index – but broader measures tell a different story. Including non-accruals, distressed payment-in-kind, extended maturities and deep markdowns, a 'shadow' default rate puts about 15% of the BDC universe under stress. More than 10% of private loans have been marked down by at least half, and aggregate BDC fair values have slipped to 97.6% of cost from 99.3% at end-2025. On a trailing basis, private credit default rates now exceed both leveraged loans and high-yield bonds.

**Exhibit 21: Private credit default risks are now elevated relative to public markets**




*Sources: HSBC, Fitch, Moody's, S&P.*

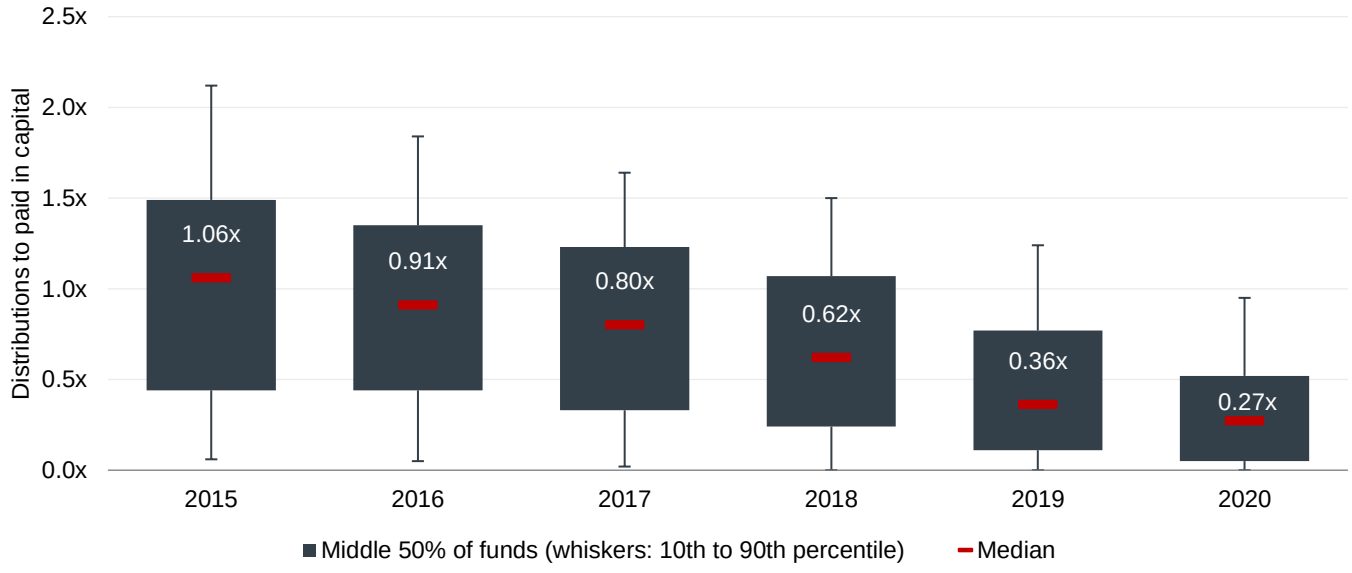
The interconnections matter as much as the losses. Banks and other institutions had an estimated $410–540bn of lending exposure to US private credit funds and BDCs, risk transfers are proliferating, and stress can travel between funds, lenders, insurers and wealth vehicles faster than headline averages suggest. Software borrowers — roughly a third of which are assessed as at risk of AI disruption — and vehicles built for benign rate environments are most exposed.

Yet higher rates are not uniformly negative. Spreads including issue discounts have widened by about 100bp this year, so loss-adjusted yields on senior-secured direct lending remain attractive even at a 5% default rate with 50% recoveries. Our stance is selective. We are cautious on generic sponsor-backed direct lending in 2020–22 vintages, and prefer asset-based finance, infrastructure and energy-transition lending, data-centre financing with contracted cash flows and strong tenants, and opportunistic strategies — private-credit secondaries and rescue capital — that can charge a high price for liquidity. Manager selection, workout capability and valuation discipline will separate outcomes.

**Private equity: exits, distributions and the vintage opportunity**

Private equity's problem is not performance on paper but cash in hand. US PE-backed inventory has risen to over 13,500 companies, the median holding period has lengthened to 4.5 years, and exits – though up 8% in number in the first half of 2026 – fell 12% in value. Distributions from recent vintages are the weakest in over a decade: even at the 75th percentile, 2019 and 2020 funds have returned only 0.78x and 0.52x of paid-in capital.

**Exhibit 22: Newer private equity vintages have returned less cash to investors**

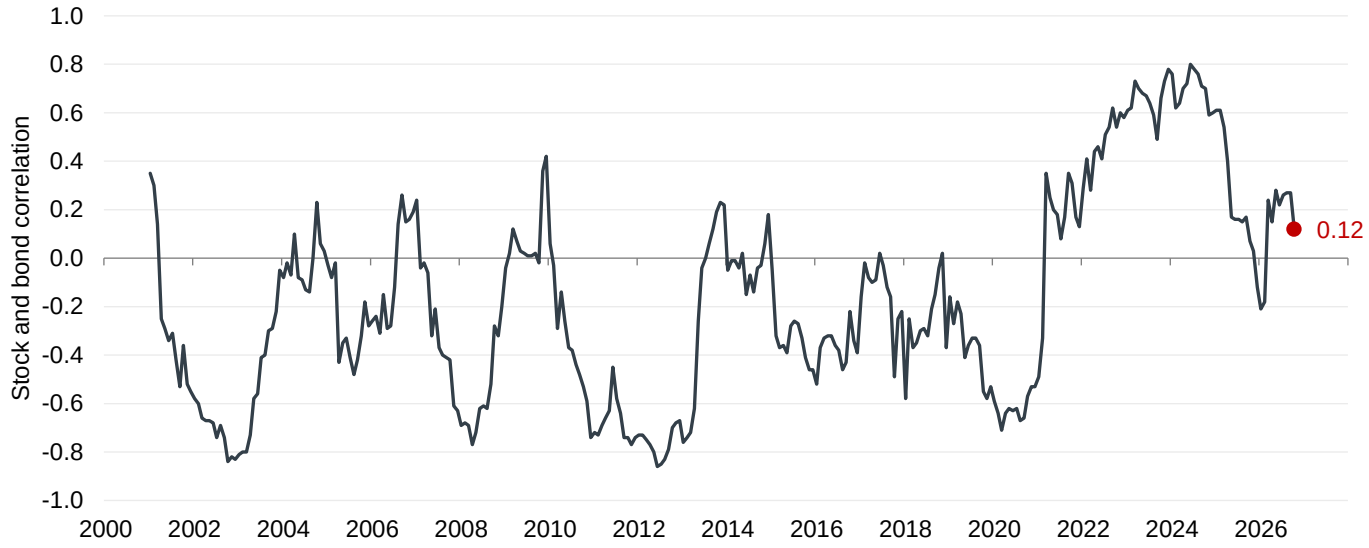



*Source: Deloitte analysis of PitchBook fund performance data by vintage year, accessed 23 September 2026.*

That backlog is the opportunity. With more than 30,000 companies globally (as per Neuberger) awaiting exit against little more than a year of secondary-market dry powder, liquidity providers hold the pricing power. Secondary volumes exceeded USD120bn in the first half of 2026, split between GP-led continuation deals and LP portfolio sales. We favour secondaries, co-investments, minority and hybrid capital, and middle-market managers that create value through operational improvement — including AI deployment in portfolio companies — rather than mega-buyouts dependent on reopening IPO markets. Private equity also offers diversification away from public-market concentration: US core PE has

about 24% exposure to technology versus nearly 50% for the S&P 500. Lower entry valuations and less competition for capital argue that 2027 could prove an attractive vintage.

**Exhibit 23: Diversifiers add most value when stock–bond correlations are positive**




*Sources: Bloomberg, ADCB Asset Management. Rolling 12-month correlation of monthly total returns on the S&P 500 and the Bloomberg US Treasury Index. Data to October 2026.*

**Private markets: our views for 2027**

- **Private credit:** Prefer asset-based finance, infrastructure and data-centre lending, and private-credit secondaries.
- **Private equity:** Favour secondaries, co-investments and middle-market operational value creation.

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