



From Macro to Meaningful: Turning Global Forces into Portfolio Outcomes

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4 February 2026

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Agenda

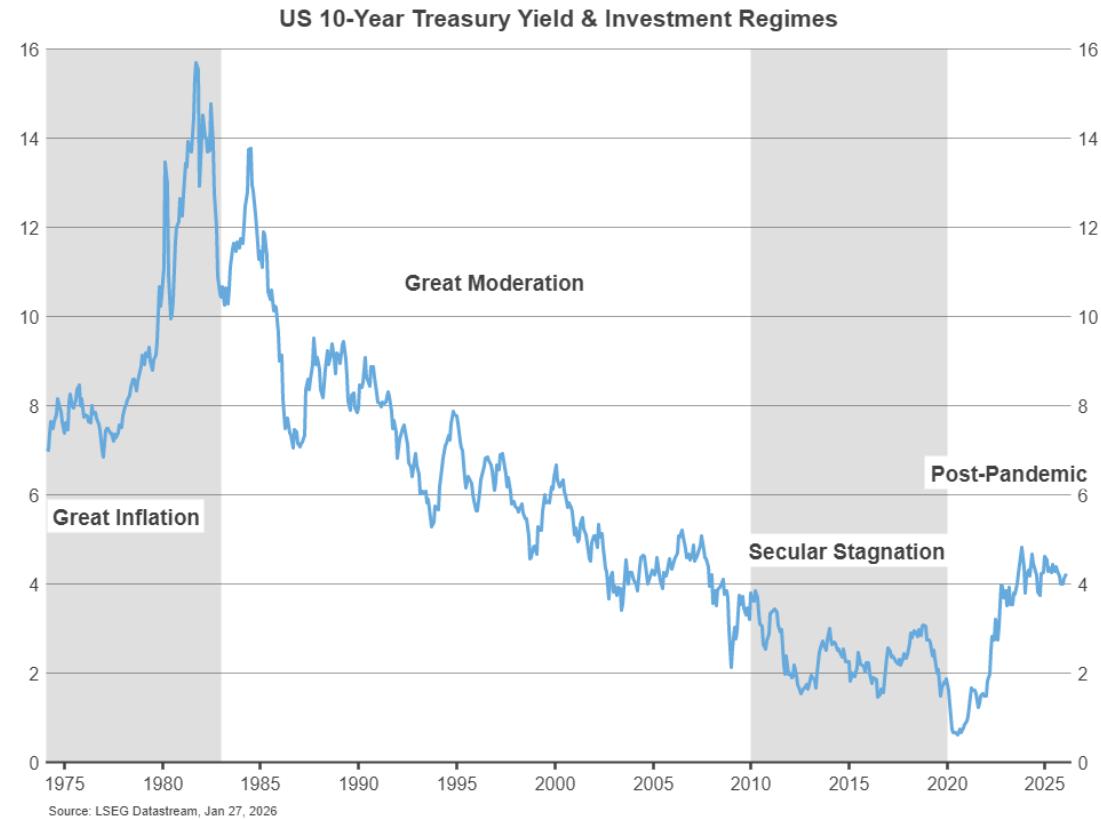
- › Learning outcomes: (1) identify megatrends (2) build these into portfolio positioning (3) distinguish between TAA and SAA
- › Investment Regimes over the past 50 years
- › Five megafactors for the next decade
 1. Artificial intelligence
 2. Climate change
 3. Private markets
 4. Government debt sustainability
 5. Geopolitics
- › Asset allocation implications



Investment regimes of the past 50 years

Structural shifts drive investment outcomes

1. The Great Inflation: 1973 – 1982
 - Oil shock, end of Bretton Woods, Arthur Burns at the Fed
2. The Great Moderation: 1983 – 2007
 - Volcker inflation credibility, deregulation, globalisation, Internet & technology
3. Secular Stagnation & U.S. Exceptionalism: 2010 – 2019
 - Deleveraging post financial crisis, quantitative easing, superstar tech firms
4. The Post-Pandemic New Normal: 2020 – present
 - Post-Covid fiscal stimulus, disrupted supply chains, inflation, AI, Mag-7



5 Megafactors for the next decade

Likely drivers of market performance

1. Artificial Intelligence

- Productivity gains, changed labour market, non-inflationary growth, who wins - AI creators or users?

2. Climate Change

- Food production, energy demand, inflation risk, likely to be more important to markets over time

3. Private Markets

- Growing rapidly, providing access to new income streams, replacing others, illiquidity constraints, retail investor access

4. Government debt sustainability

- Fiscal dominance over monetary policy, inflation risk, political instability, difficult government choices

5. Geopolitics

- Shift from unipolar to multi-polar, rise of China, globalisation, global decoupling, geopolitics sets the macro context

Asset allocation implications

More diversification, smaller US focus

1. Increase exposure to private markets
2. Build inflation protection into strategic asset allocations
3. Diversify country fixed income exposure
4. Broaden global equity diversification
5. Alternatives to the US dollar and other fiat currencies

Portfolio direction for the next decade (US investor)



Who wins from AI - creators or users?

“We Don’t Have a Moat”

Traditional tech market dominance:

- › Network effects (quasi-monopolies)
- › Economies of scale (software is cheap to create)

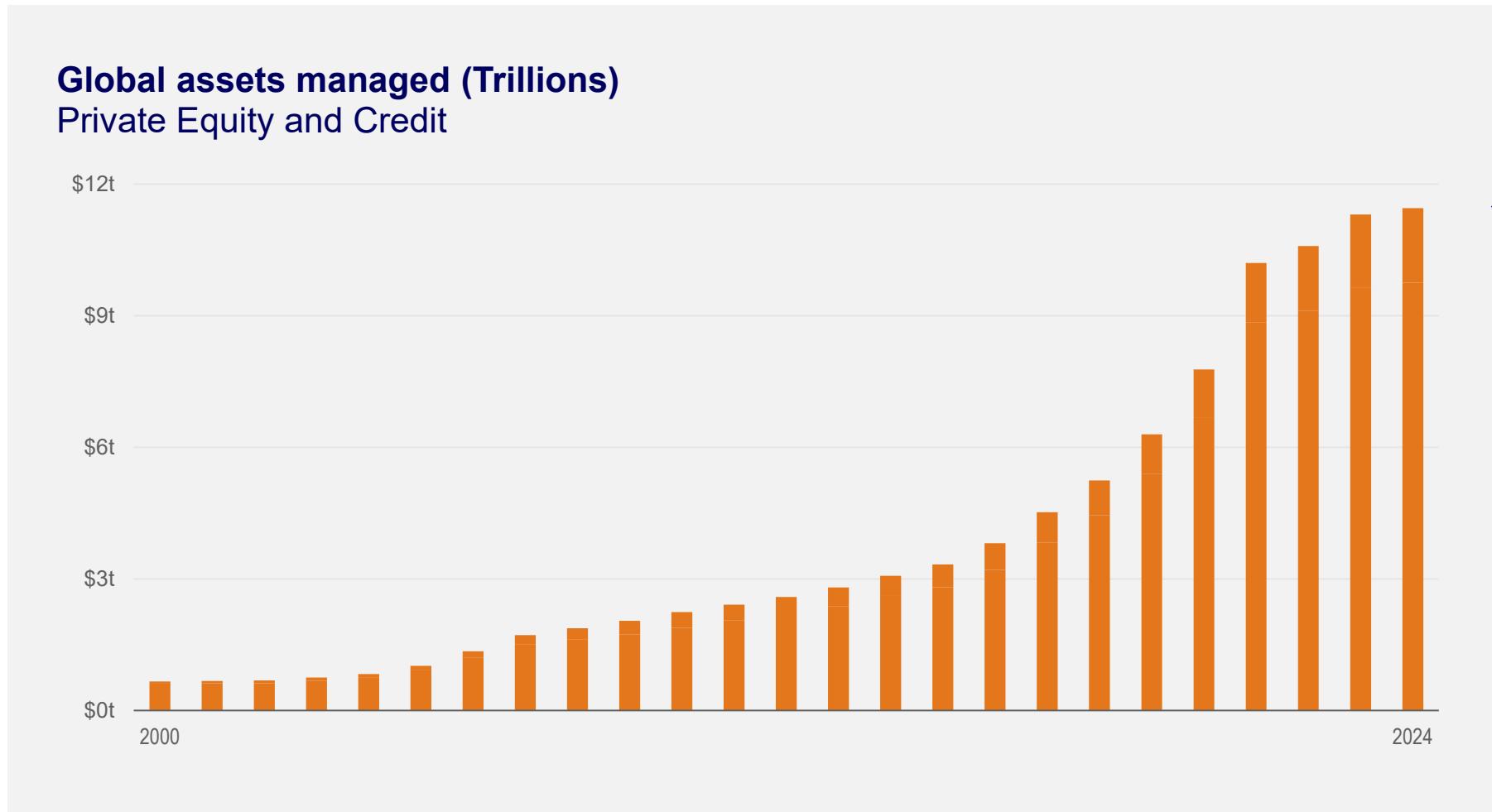
Artificial Intelligence:

- › Network effects?
- › Cost of extra customers?

Lesson from the Airline industry:

- › Important for the global economy
- › Commoditised, high capex, energy intensive

Private Markets are outpacing Public Markets



+14% p.a.

Private Markets are
growing at twice the
rate of public markets
(6.7% p.a.)

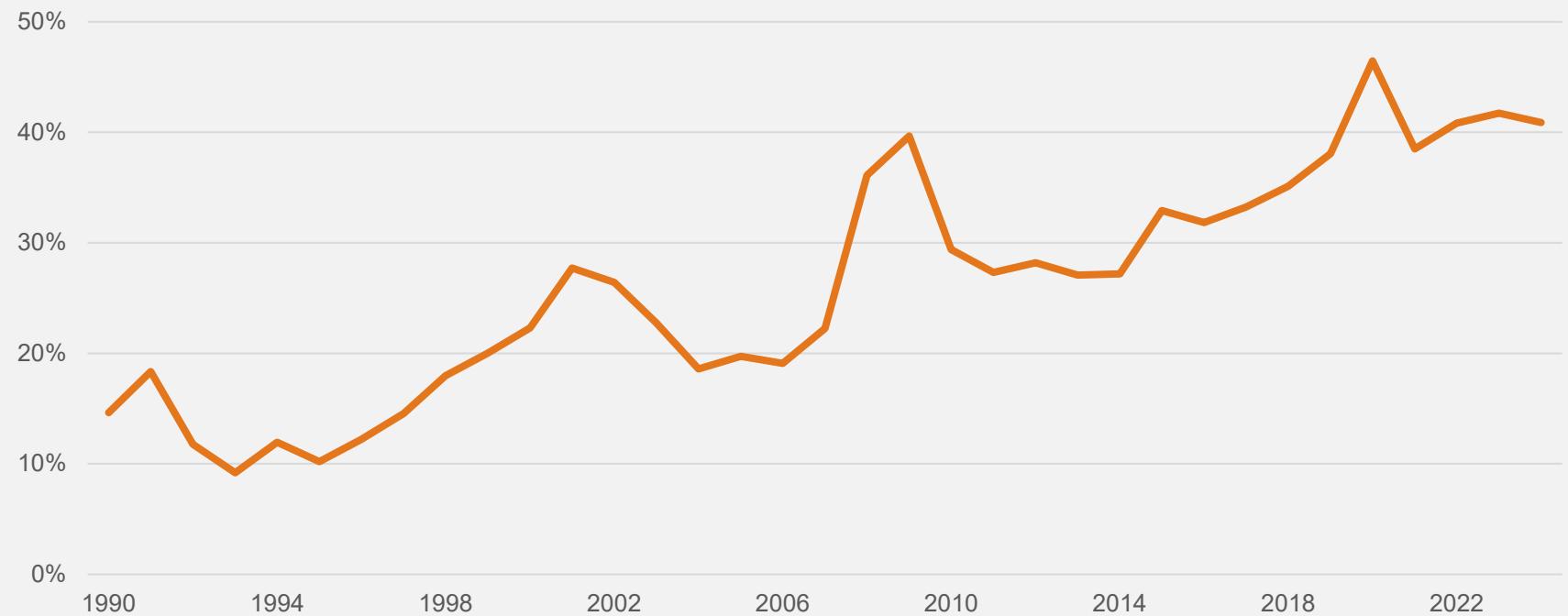
Source: Preqin Pro (pro.preqin.com). Assets Under Management Breakdown Chart. Global Private equity and Global private credit in billion USD. As at 31 December 2024.

Public markets are being displaced

Privates are replacing and extending public market income streams

Number of unicorns (private companies valued > \$1bn) has increased 62% over past three years*

Fraction of money losing companies in R2000

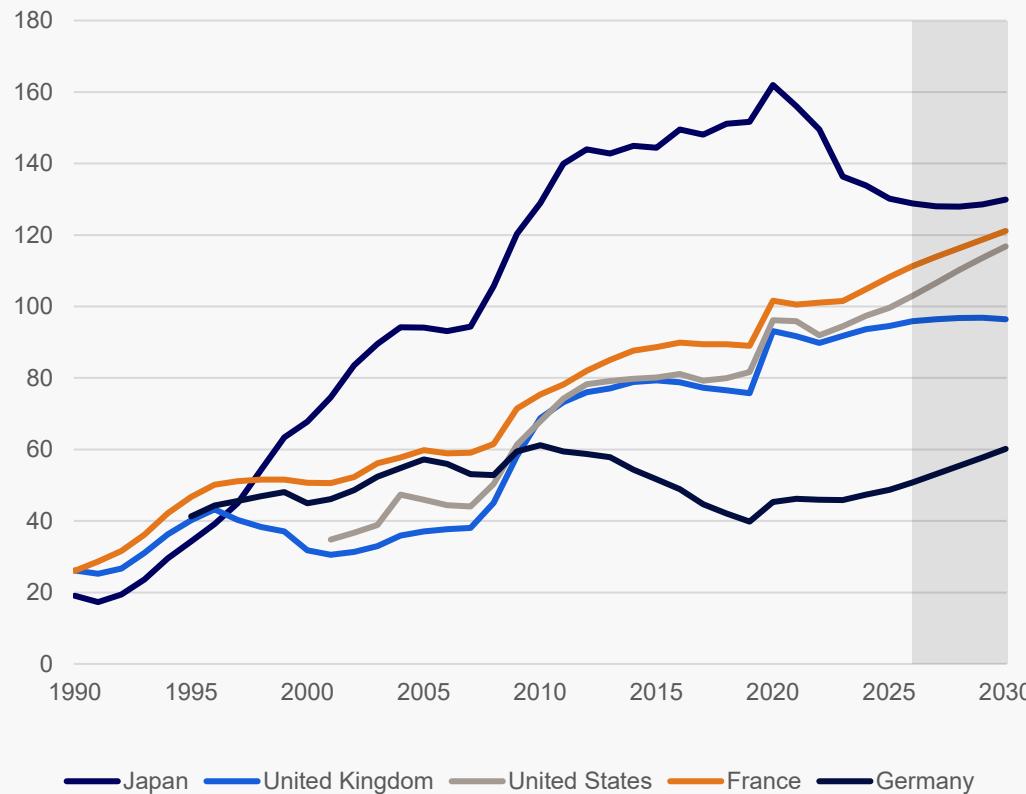


* Source: Morgan Stanley

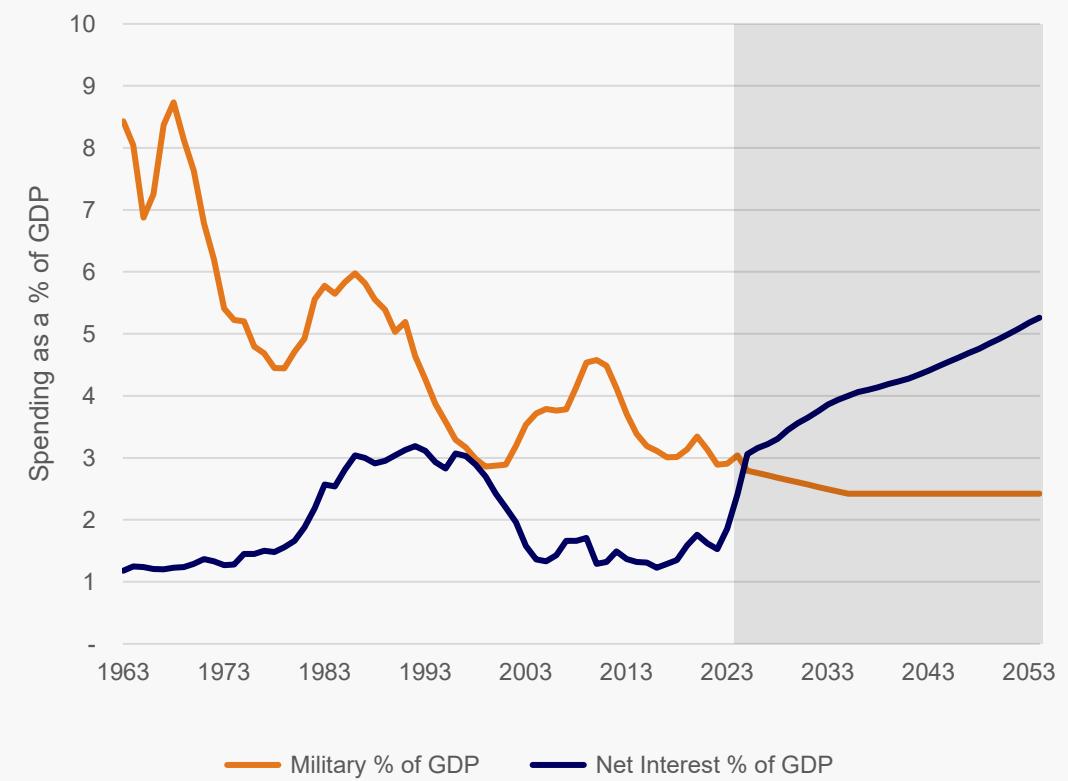
Debt & Debt Servicing have taken off

Creating difficult political choices

Government Net Debt % of GDP
IMF World Economic Outlook

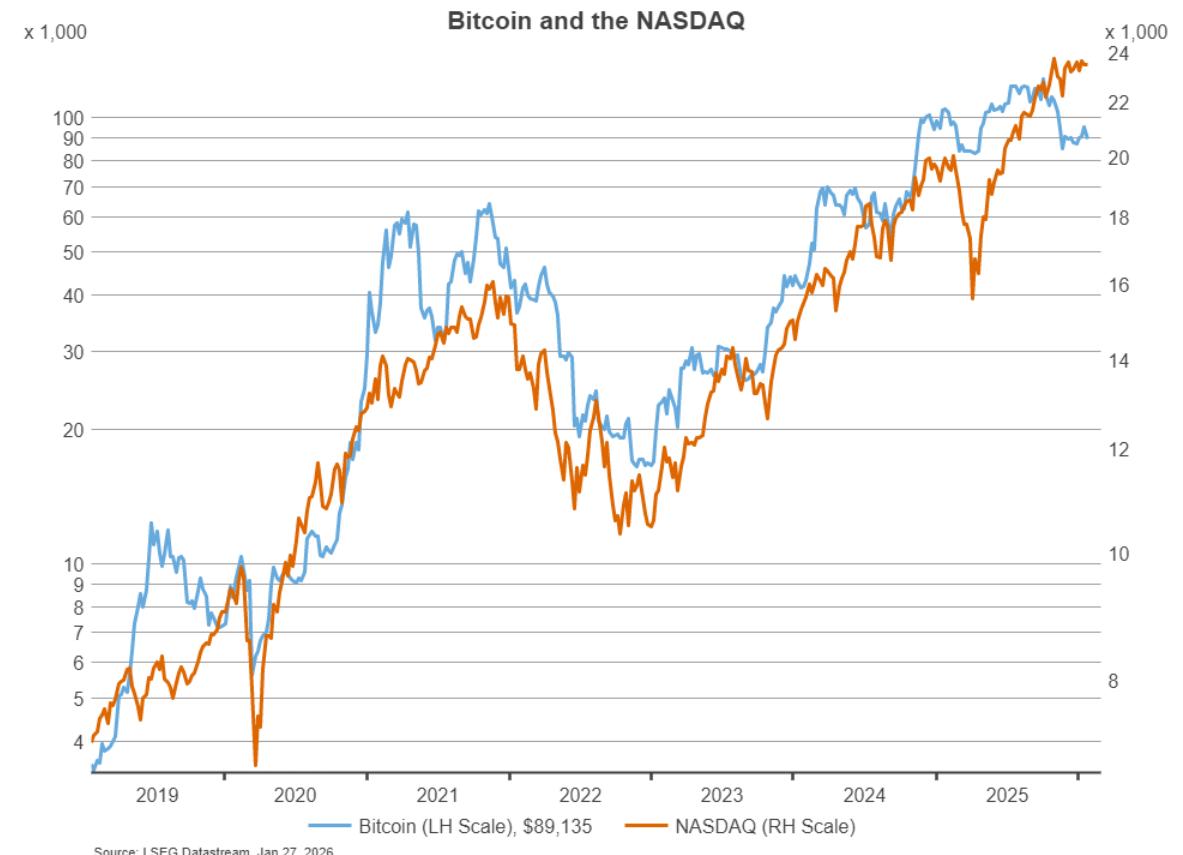
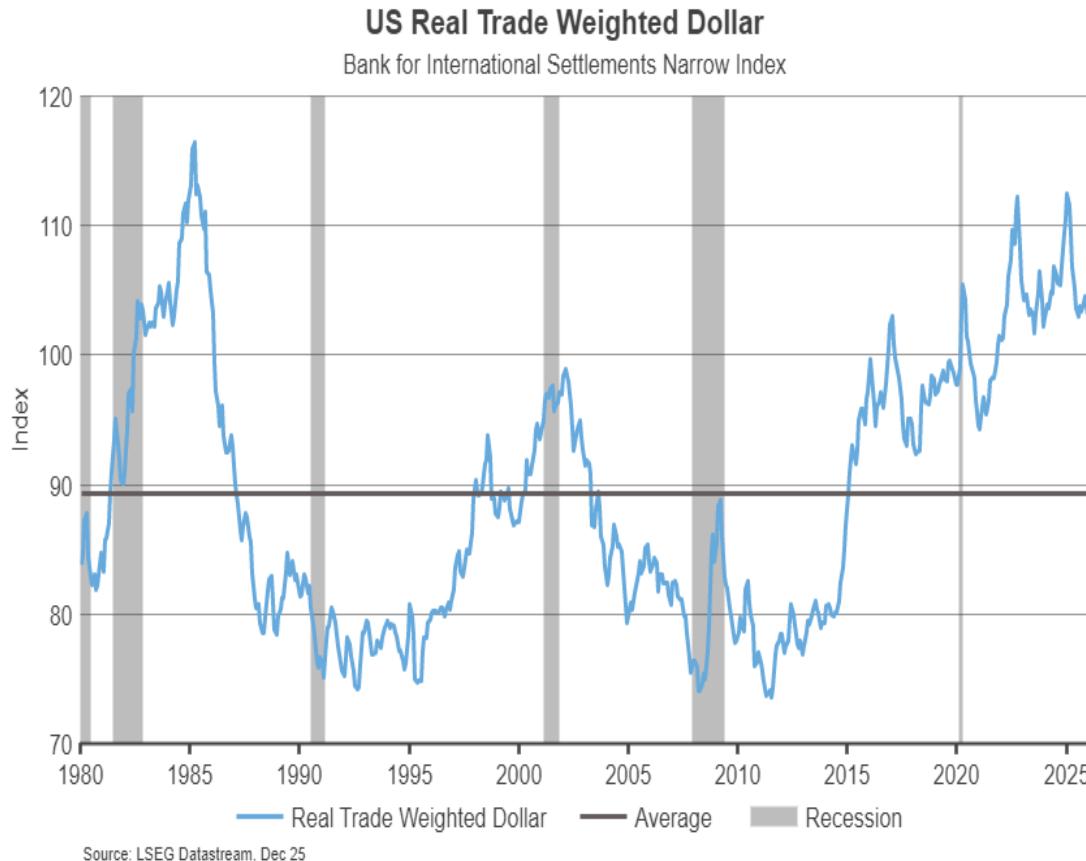


United States: Debt Servicing or Military Spending?
Congressional Budget Office Forecasts



USD is expensive & likely to decline

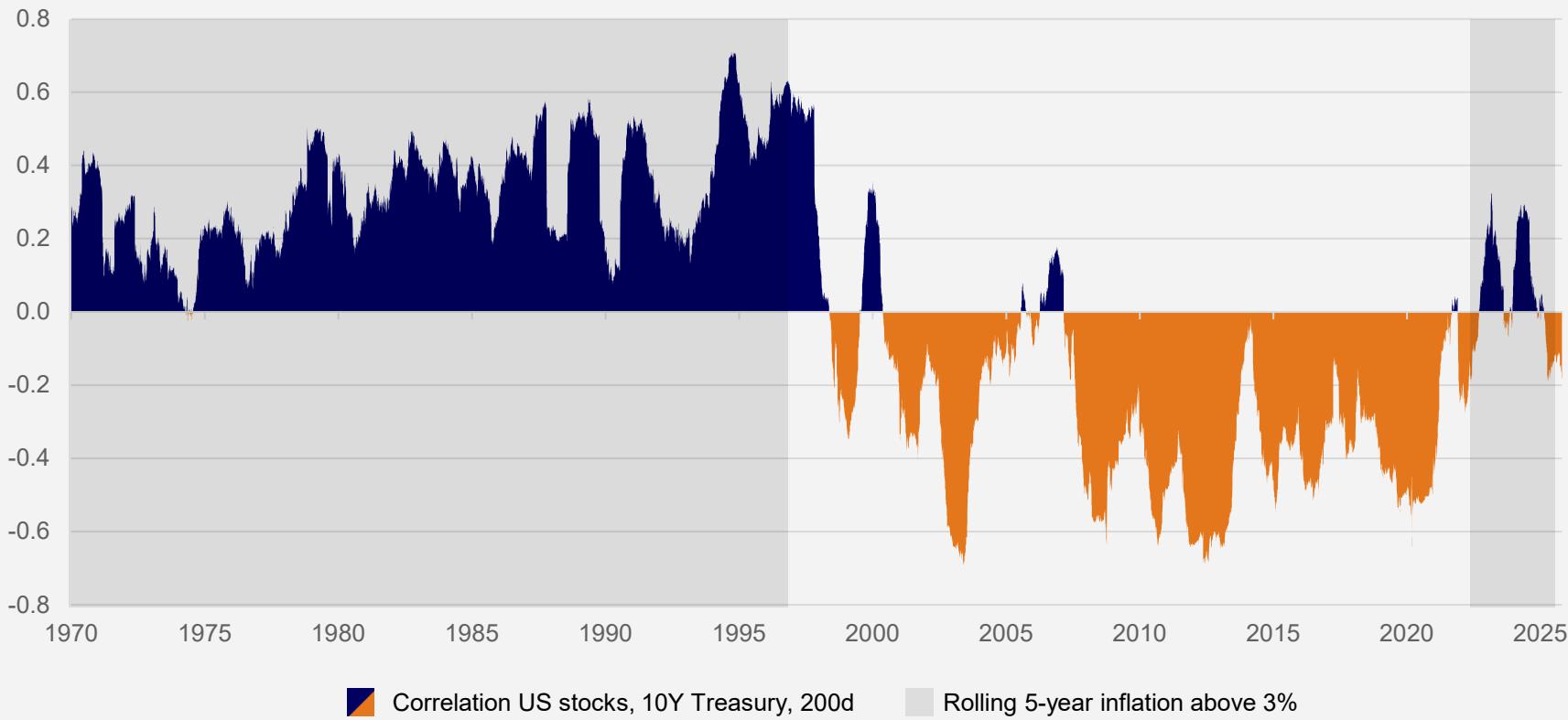
Bitcoin not yet a reliable USD alternative



How to build portfolios

Will bonds diversify stocks?

Stock-Bond Correlation has been positive at inflation above 3%

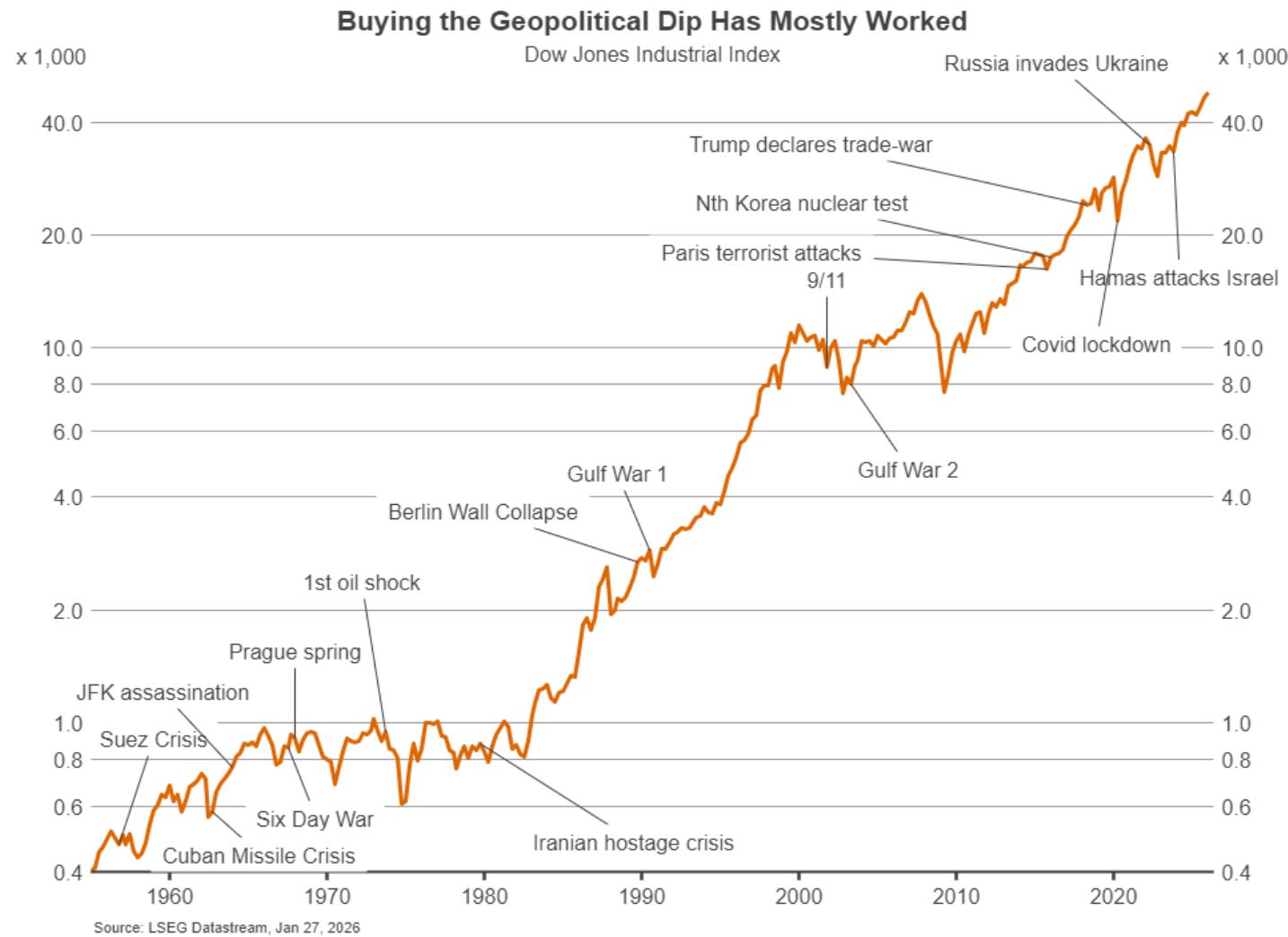


Focus:

- › Inflation?
- › Term premia
- › R-star?

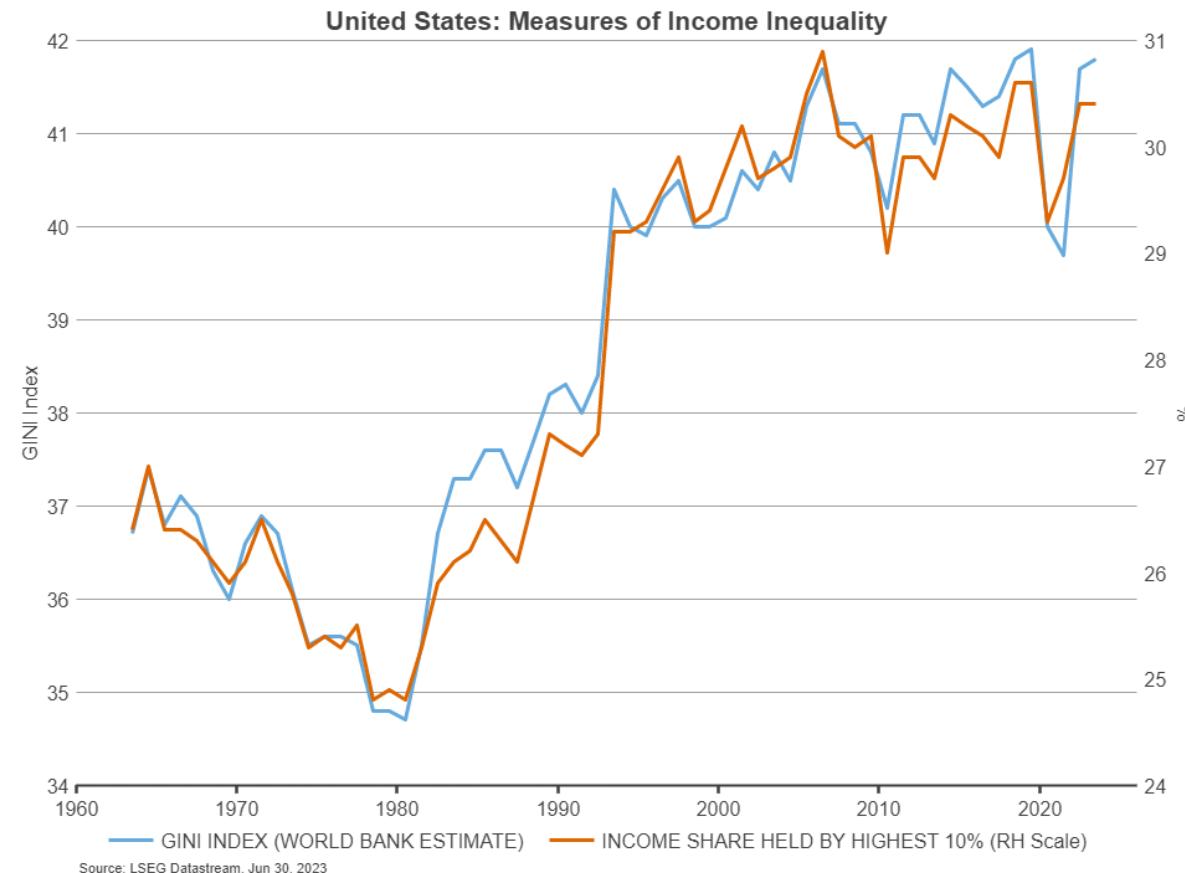
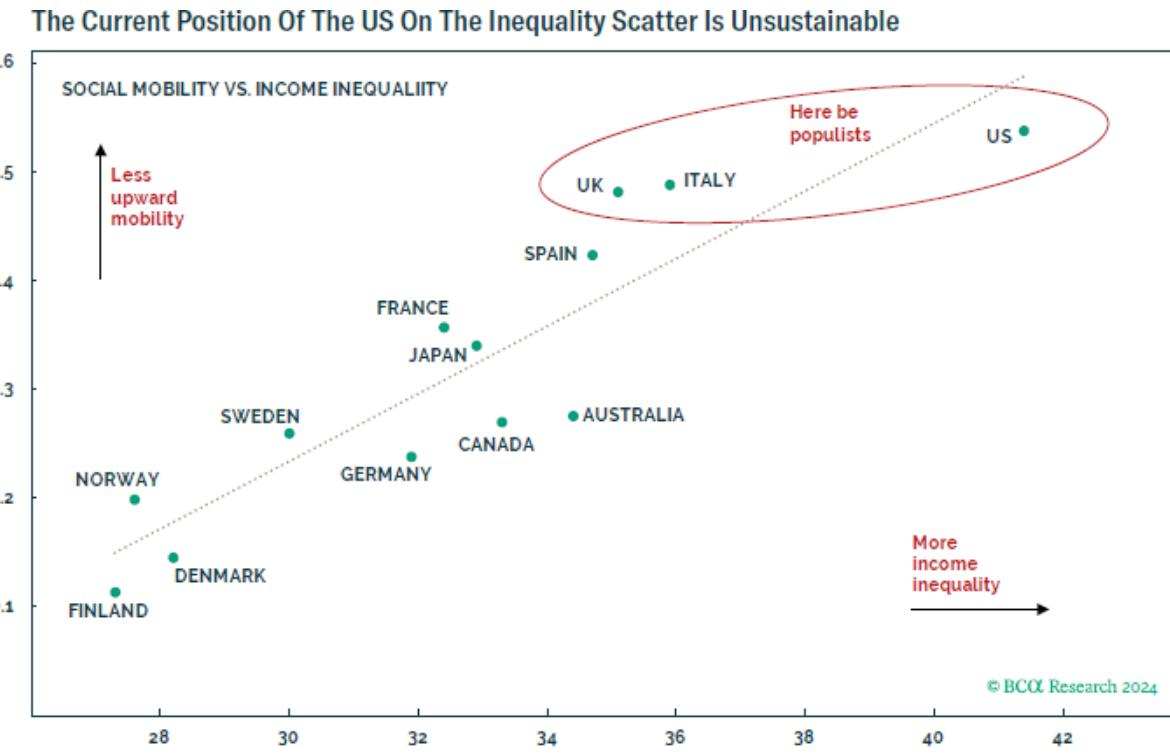
Geopolitics - TAA vs SAA

Bet against the worst-case scenario



SAA - Geopolitics sets the macro context

Policymakers choose the path of least resistance: free market vs populist



Key takeways

- Megatrends are the macro environment that drive portfolio returns
- We can identify some ahead of time and adjust portfolios
- Need to distinguish between structural forces (SAA) and temporary disruptions (TAA)

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