Investing with Confidence in a Fragmented World

January 19, 2026

Dear Valued Clients,

For financial markets, 2025 was not merely a period of recovery, but a drastic shift in global economic architecture. We witnessed the convergence of aggressive fiscal expansion, a resurgence of protectionist trade regimes, and a fundamental pivot in central bank mandates. Navigating these cross-currents required a disciplined balance between seizing global growth opportunities and managing the idiosyncratic risks of a "lackluster" domestic recovery. As we review the milestones of the past twelve months, it becomes clear that the themes established in 2025, deregulation, fiscal dominance, and the AI revolution, will continue to dictate the investment landscape well into 2026.

The Return of the Trump Administration

The most significant catalyst for global markets in 2025 was the return of the Trump administration and its implementation of a "pro-growth" agenda. This was anchored by the passage of the One Big Beautiful Bill, a massive fiscal package that made the 2017 tax cuts permanent while introducing new incentives for domestic consumption. While the bill acted as a powerful tailwind for US equities, it came with a staggering price tag: an estimated $4.1 trillion addition to the US deficit over the next decade. This is stimulative in the short term, but has major implications for long term interest rates.

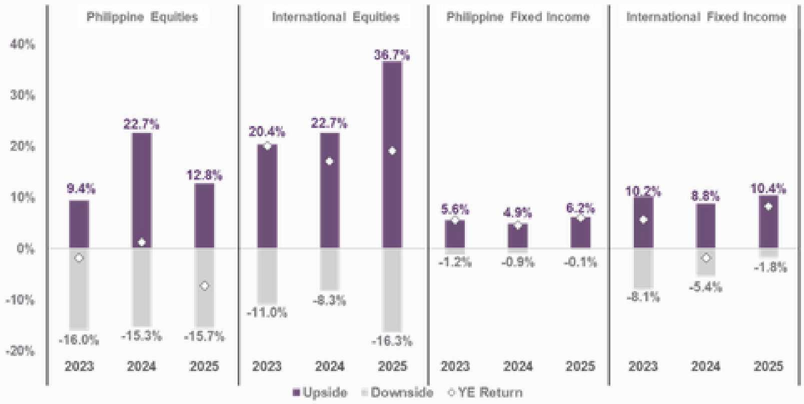
Parallel to this fiscal surge was a radical shift in the US regulatory environment. The administration focused heavily on the deregulation of the banking sector, proposing lower capital requirements to unlock "trapped" liquidity and encourage lending. The US SEC underwent a notable transformation, relaxing climate-related disclosure requirements that had previously burdened corporate balance sheets. Furthermore, the enactment of clear rules for digital assets and expanded access to private markets provided a much-needed regulatory clarity for these alternative investments.

A World of Protectionist Divergence

While the US was deregulating internally, it was insulating externally. 2025 marked the end of the post-Cold War era of seamless global trade. The Trump administration implemented reciprocal tariffs targeting steel, aluminum, electronics, and consumer goods, aiming to correct trade imbalances. This protectionist wave was not isolated to the United States. Across the globe, elections in Germany, Australia, Japan, and Canada saw the rise of leaders with decidedly nationalistic agendas.

With price pressures appearing to normalize, the focus of most major central banks shifted to economic expansion. The Federal Reserve utilized its space for easing to support the fiscal-led boom, adjusting the fed funds rate lower by 75 basis points, the Bank of England and the European Central Bank both lowered rates by 100 basis points. Emerging Markets such as Indonesia, South Korea, and the Philippines likewise cut their rates. The Bank of Japan took the opposite path, continuing its hiking cycle to defend the yen and normalize its interest rate environment after decades of stimulus. This divergence created a dispersion of returns:

Figure 1: Maximum Upside and Downside Per Asset Class



YE Return		
Philippine Equities	2023	-1.8%
	2024	1.2%
	2025	-7.3%
International Equities	2023	20.1%
	2024	17.1%
	2025	19.1%
Philippine Fixed Income	2023	5.6%
	2024	4.6%
	2025	6.0%
International Fixed Income	2023	5.7%
	2024	-1.8%
	2025	8.3%

After experiencing losses with the announcement of tariff sanctions, global equity markets recovered in a strong way to end the year. Fixed income markets saw strong returns given the general easing in monetary policy. Opportunities were available in 2025 for active management over passive indexing.

The AI Boom and the Broadening Market

Investment in Artificial Intelligence reached a fever pitch in 2025. What was once a speculative theme became the core of global equity portfolios. However, as valuations for the "Magnificent 7" and their peers reached stratospheric levels, we advised our clients to broaden out their bets. The investment thesis evolved from the software giants to the Enabling Industries: the power utilities, cooling system manufacturers, and semiconductor equipment providers that form the physical backbone of the AI era. Throughout the year, our house view remained generally positive on global equities, with an emphasis on geographic diversification. We recognized that the US-only trade was becoming crowded and expensive, prompting a tactical shift toward Europe, Japan, and select emerging markets that stood to benefit from the relocation of supply chains.

The Philippine Context: A Tale of Two Realities

Closer to home, the Philippine story in 2025 was one of missed opportunities. Despite a global backdrop of easing, domestic growth remained lackluster. This was largely attributed to a significant slowdown in government spending, as fiscal bottlenecks and the flood-control corruption controversy led to delays in critical infrastructure projects. While household consumption remained resilient, the lack of a strong public investment meant that the Philippines missed its target for the year. In terms of asset allocation, we were neutral to cautious on Philippine equities. However, we maintained a positive stance on Philippine fixed income. As the Bangko Sentral ng Pilipinas (BSP) followed the Fed’s easing cycle, cutting policy rates significantly as inflation remained benign, bondholders enjoyed healthy capital gains.

2026: The Road Ahead

We view 2026 not as a year of radical new departures, but as a crucial second act where the policies and changes experienced in 2025 begin to mature. For the Philippine investor, this requires a transition from the momentum-chasing of the post-pandemic recovery to a more disciplined, all-weather approach.

The Continuity of Volatility and Polarization

The first theme defining 2026 is elevated volatility. The geopolitical noise that characterized 2025—driven by a more protectionist US stance and fragmented global trade—has created a polarized world where market reactions are increasingly sharp and binary. We expect this to persist as the global order recalibrates. In this environment, safe-haven assets and defensive positioning are core requirements.

The Fading Echoes of Stimulus

The massive stimulus seen in 2025 is still being felt, but its impulse is undeniably reducing. In the US, the One Big Beautiful Bill continues to act as a primary floor for consumption, bolstered by permanent tax credit increases and new deductions for auto loans and seniors.

Monetary policy easing is also likely reaching an end. Unlike the aggressive cuts of late 2025, central banks now have significantly less space for further easing. While we expect the Federal Reserve and the Bank of England to implement modest cuts most other central banks will likely be on hold. Locally, the Bangko Sentral ng Pilipinas (BSP) is expected to follow suit to support growth, but their pace will be tempered.

Strategic Recommendations for 2026

Given this backdrop, we advocate for a three-pronged strategy to navigate the year ahead:

- **Rebalance and Harvest:** After three years of strong financial market performance, it is an opportune time to review your portfolio allocation. We recommend harvesting gains from overextended sectors and rebalancing back to your long-term strategic targets.

- **Focus on the "Belly" of the Curve**: With global debt burdens rising and monetary easing entering its final stages, we believe medium-term bonds (2-7 year maturities) offer the sweet spot for returns. This segment provides a compelling balance of yield protection and capital appreciation potential as rates settle, without the extreme volatility associated with longer-duration bonds.

- **Broaden the AI Play:** While Artificial Intelligence remains a generational theme, the 2026 opportunity lies in diversification. The AI trade is moving beyond the chipmakers and into the adopters. We see significant upside in Financials, Industrials, and Healthcare. Diversifying across these sectors and adding different geographies will be the key to achieving superior risk-adjusted returns this year.

In conclusion, 2025 taught us that the old rules no longer apply. In 2026, success will depend on an investor's ability to navigate a fragmented world where fiscal policy is king, regulation is local, and technology remains the ultimate disruptor. As we start the year, now is an ideal moment to start a conversation with us and optimize your portfolio for the emerging trends.

Thank you for your trust.

Tono Zialcita

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Chief Investment Officer

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