

MARKET OUTLOOK

2026

*The Architecture of a
New Economic Order*



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Equity

The Broadening of Opportunity

The investment landscape for equities in 2026 is expected to be characterized by a fundamental transition from narrow market leadership to a broader, more inclusive rally.

For several years, global returns have been dominated by a handful of massive technology companies in the United States. While these industry titans remain critical to the economy, the investment narrative is evolving rapidly. The driving force behind this shift is the evolution of the artificial intelligence growth story. What began as a frenzy over software and large language models has now transitioned into a massive buildout of physical infrastructure, the physical AI cycle. The binding constraint on technological progress is no longer just code, but the physical capacity to run it. This reality is redirecting capital toward the "picks and shovels" of the digital age. Investors are increasingly focusing on the industrial base required to power data centres, including utilities that provide electricity, manufacturers of cooling systems, and the companies upgrading aging electrical grids. These sectors, often viewed as defensive or slow growing in the past, are now at the forefront of a secular growth trend, effectively becoming the engine room of the next economic phase. The simultaneous demands of the artificial intelligence buildout are creating a favourable environment for mining majors and energy producers, who control the finite resources essential for the modern economy.

As this capital expenditure boom cascades through the economy, it is catalysing a much-needed equity broadening. The extreme valuation gap between the largest technology stocks and the average company is expected to narrow. For some time, the broader market has languished while a select few garnered all the attention. However, as interest rates stabilise and economic growth normalizes, the "forgotten" segments of the market are primed for a rebound. This calls for a more balanced approach between growth and value stocks. Value-oriented sectors that were left behind during the tech boom are now showing signs of life, offering investors a way to participate in market upside without paying the premium valuations commanded by the technology giants.

In Europe, the investment thesis is pivoting toward the theme of European autonomy. This is a structural shift driven by geopolitical necessity rather than simple economic cycles. The region is moving aggressively to reduce its reliance on external powers for its security and energy needs. This drive for "Strategic Autonomy" is creating long-term investment opportunities in sectors that were previously overlooked. Defence and aerospace companies are benefiting from a secular increase in government spending as nations ramp up their military capabilities to meet new geopolitical realities. Similarly, the push for energy independence is accelerating investment in green industrials and domestic technology ecosystems. These companies are not just value plays; they are beneficiaries of a continent-wide industrial policy that prioritizes continental resilience.

Finally, macroeconomic volatility and higher costs of capital mean that the gap between winning and losing companies is widening. In 2026, the advantage lies with active stock selection. Investors must distinguish between companies with genuine pricing power and strong balance sheets and those that are heavily indebted or facing disruption. This environment favours a more hands-on approach to portfolio construction, where the ability to identify specific winners within sectors matters more than simply betting on the sector itself.

Fixed Income

Navigating the New Yield Landscape

The fixed income markets in 2026 offer a compelling landscape for investors, defined by the return of genuine income but complicated by structural challenges. After years of negative or negligible yields, the asset class has experienced an income renaissance. Bonds are once again fulfilling their traditional role of providing steady, reliable cash flow. However, the strategy for capturing this income has changed. The days of relying on capital appreciation from perpetually falling interest rates are largely over. Instead, the focus has shifted to "carry"; locking in attractive yields from high-quality issuers. Investment grade credit, particularly in the Eurozone and the United States, stands out as a sweet spot. Corporate balance sheets in these regions remain generally healthy, often healthier than their sovereign counterparts, allowing investors to earn yields significantly above cash with a relatively modest risk profile.

Driven by the objective of income generation, we maintain a constructive view on sub-investment grade bonds. The asset class continues to provide attractive yields, bolstered by resilient corporate fundamentals and expectations of historically low default rates. With no immediate recession on the horizon, the economic backdrop is supportive, enhancing the appeal of carry. Notwithstanding this positive backdrop, we are actively monitoring emerging risks, particularly those emanating from the cooling US labour market.

This renewed appeal of income comes against a backdrop of structural inflation. Forces such as deglobalization, the emergence of tariff shocks, aging demographics, and the costs of the green transition exert persistent upward pressure on prices. This structural shift implies that inflation volatility will remain a constant companion for investors. Consequently, protecting purchasing power is paramount.

The government bond market faces its own unique set of pressures, primarily driven by fiscal dominance. Across the developed world, governments are running large budget deficits to fund industrial policies, defence spending, and social programs. This surge in government borrowing increases the supply of sovereign debt, which can weigh on bond prices. Investors are increasingly demanding extra compensation for the risk of holding long-term debt in an environment of fiscal extravagance. This dynamic suggests that long-duration government bonds, carries heightened risks. Investors may find better risk-adjusted returns in medium-dated maturities, where yields are attractive and exposure to volatility is lower.

Navigating this complex environment requires a shift away from passive aggregate bond indexing. The disparity between different sovereign yield curves and credit markets means that flexibility is key. The corporate credit market offers a haven for yield, provided investors remain selective and avoid issuers with unsustainable debt loads. The fixed income market of 2026 is no longer about waiting for rates to hit zero; it is about actively managing exposure to capture yield while insulating portfolios from the twin risks of sticky inflation and fiscal expansion.

Local Markets

Yield, Risk, Resilience

As we look toward 2026, the Maltese financial landscape presents a compelling picture of economic resilience. The macroeconomic backdrop remains supportive, with real GDP growth projected to stabilise at 3.7%* for the year. This performance, which continues to outpace the broader Eurozone average, is underpinned by robust private consumption and a strong tourism sector. With inflation forecast to settle near 2.3% for 2026, the economy offers a predictable foundation for investors. However, beneath these steady headline numbers lies a complex capital market environment characterized by significant technical challenges that demand a hands-on investment approach.

In 2026, the local fixed income market will be characterised by a “maturity wall”. Over €300 million in corporate bonds are set to mature this year, creating significant supply for the market to absorb. This wave of redemptions coincides with funding requirements from the government to cover refinancing and fiscal deficits, with over €860m of Malta Government Stocks maturing this year. This heavy supply of sovereign paper is likely to keep yields elevated and attractive relative to European benchmarks, but it also crowds out liquidity for corporate issuers. Consequently, a sharp divergence is emerging between high-quality corporate issuers, who will easily refinance their debt, and weaker companies that may face struggles. In this environment, active credit selection allows for the avoidance of potential distress while capturing higher yields from secure issuers.

On the equity side, the narrative for 2026 is shifting towards capital efficiency and shareholder returns. The banking, tourism and telecommunication sectors remains a pillar of strength. However, the defining theme for the year is the increasing use of share buyback programs by major listed companies. These programs provide a vital technical support level for share prices. For investors, this signals an evolution of Maltese corporate governance, moving beyond simple dividend payouts to more comprehensive total return strategies.

The Maltese equity and corporate bond market show a notable concentration in real estate-related issuers, which can increase sector-specific risk and reduce diversification. This exposure must be closely monitored to ensure financial stability and investor protection. The divergence between winning and losing issuers means that capital preservation and growth will depend heavily on professional selection.

*Central Bank of Malta. (19/12/2025). “Economic forecast for 2025”. Retrieved from <https://www.centralbankmalta.org/news/93/2025/11328>

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