FOR PROFESSIONAL INVESTORS ONLY

iM Global Partner

Outlook 2026: A turning point for active management

What broadening leadership and recovering earnings could mean for active investors in 2026

Equities delivered strong returns in 2025, but leadership was increasingly narrow and valuations moved higher, creating a more challenging starting point for allocators in 2026. Past performance does not predict future returns.

US markets were led by large-cap technology and communication services, with the S&P 500 up 17.9% and the Nasdaq up 21.1%, driven by ongoing investment in artificial intelligence (AI), cloud infrastructure and productivity-enhancing technologies.

Market leadership remained highly concentrated, with a relatively small group of large-cap technology stocks accounting for a disproportionate share of index returns. Large-cap growth stocks, (Russell 1000 Growth) returned 18.6%, modestly outpacing value, (Russell 1000 Value), which gained 15.9%. Small caps lagged, with the Russell 2000 finishing the year up 12.8%, as higher financing costs and uneven earnings continued to weigh on smaller companies.

The more notable shift was outside the US, where international equities materially outperformed after years of underperformance. Developed markets (MSCI EAFE) gained 31.2% and emerging markets (MSCI EM) 33.6%, supported by a 9.4% decline in the US dollar, improving earnings momentum, easier financial conditions and more attractive relative valuations.

Fixed income staged its strongest calendar-year performance since 2020. The Federal Reserve delivered three rate cuts, taking the federal funds target range to 3.50–3.75% and the Bloomberg US Aggregate Bond Index returned 7.3%. Credit spreads remained tight but stable, underpinned by solid corporate fundamentals and strong demand for income, resulting in positive returns across both investment grade and high-yield.

Looking into 2026

Allocators face a trade-off: developed market equities have posted three consecutive years of double-digit gains, but this has come with historically high index concentration and elevated valuations, particularly in mega-cap growth.

Against this backdrop, we see a more compelling opportunity set in areas less represented in headline indices supported by ongoing fiscal stimulus and an improving global earnings outlook.

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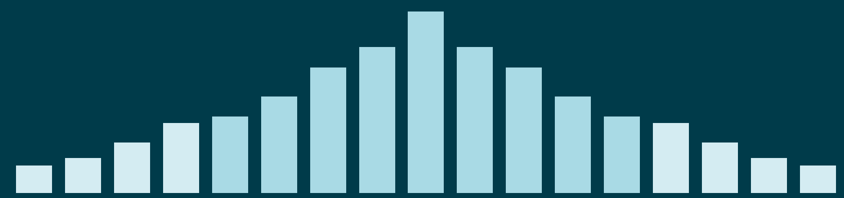
US MARKETS CONCENTRATION OF RETURNS

2025 total return of each index

17.9% S&P 500

21.1% Nasdaq



MARKET GAINS DRIVEN BY A NARROW GROUP OF LARGE-CAP STOCKS

Artificial Intelligence | **Cloud Infrastructure** | **Productivity Technologies**

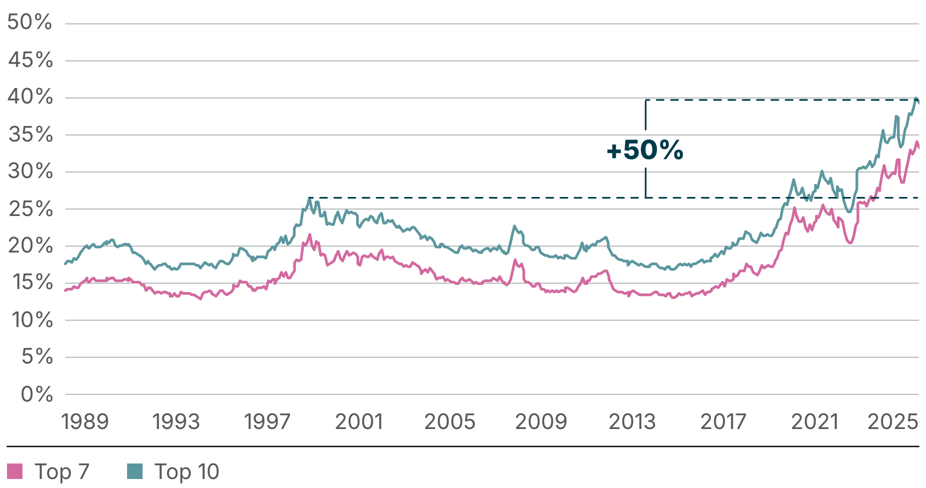
Source: Bloomberg as at 31 December 2025.

Market concentration: Historic extremes

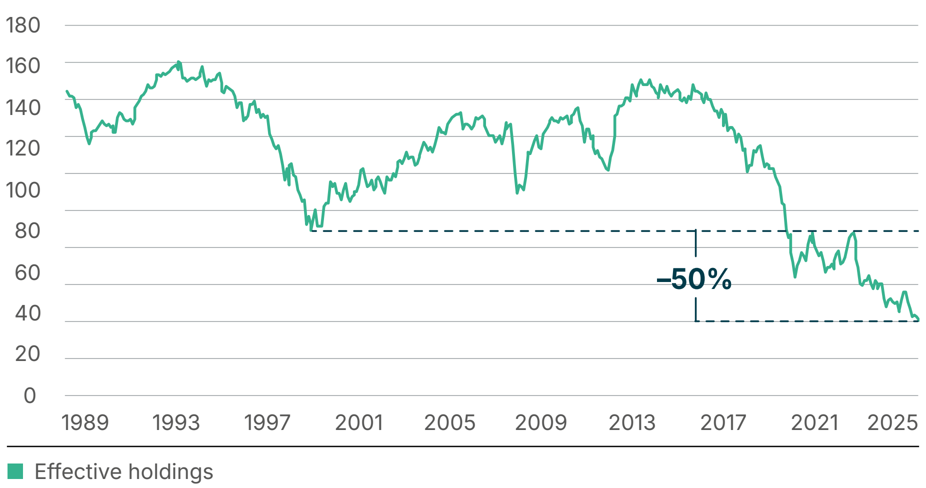
The **top 10 stocks currently represent around 40% of the 500 largest US stocks by capitalisation**, while the **top 7 alone account for approximately 35%**. This far exceeds the peaks of the dot-com bubble, making today's market environment truly exceptional by historical standards.

Figure 1: US equity market concentration

Combined weight of the top-7 and top-10 US stocks



Number of effective holdings[1] in the US equity market



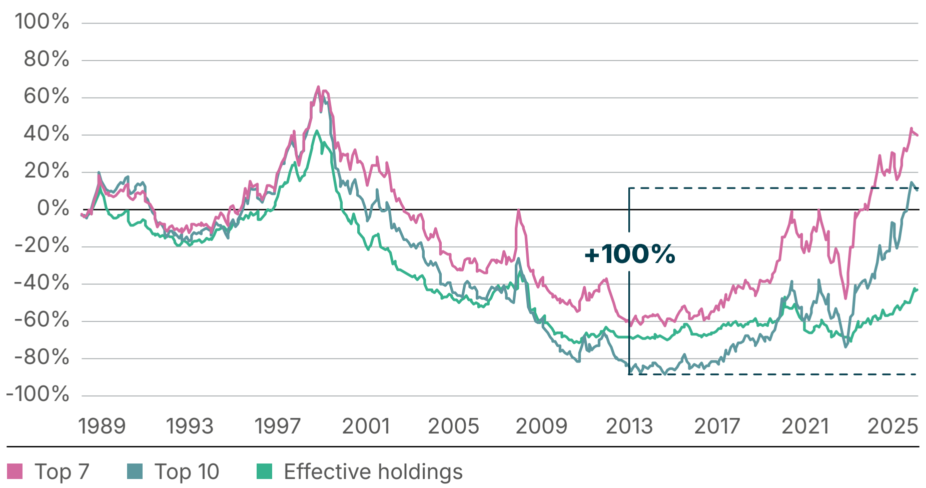
Sources: FactSet, Bloomberg, iMGP. Monthly data from December 1989 to December 2025.
(1) The effective number of holdings is calculated as the inverse of the Herfindahl-Hirschman Index (HHI), which is obtained by summing the squared weights of all constituents in the universe.

From the largest 500 US equity market stocks, **only around 40 meaningfully influence the market's performance**. In other words, the "effective number of holdings" has **halved since the tech bubble**, underscoring the exceptionally narrow market leadership.

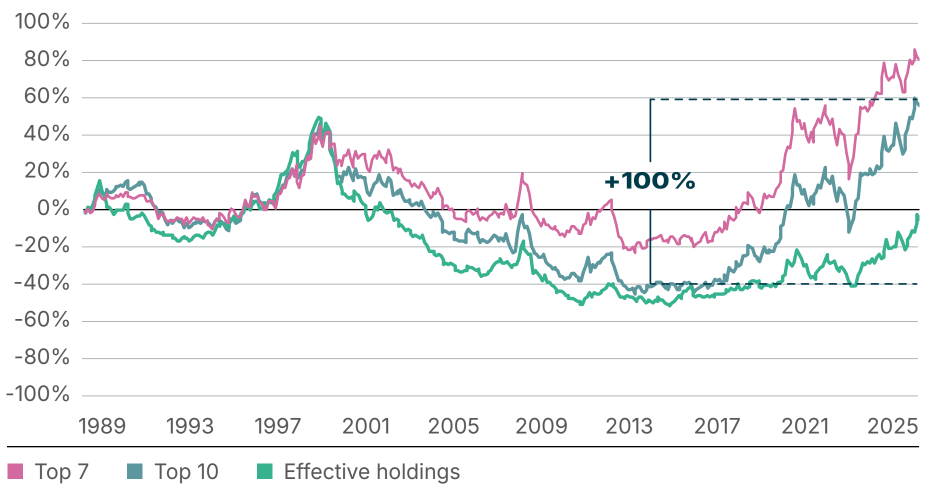
Beyond market-cap weights, the top 7 and 10 stocks have dramatically outperformed over the past decade, capturing nearly all of the US equity market returns with a near-100% cumulative gap versus the remaining constituents.

Figure 2: Excess return of largest market-cap stocks

Equal-weighted



Market-cap-weighted



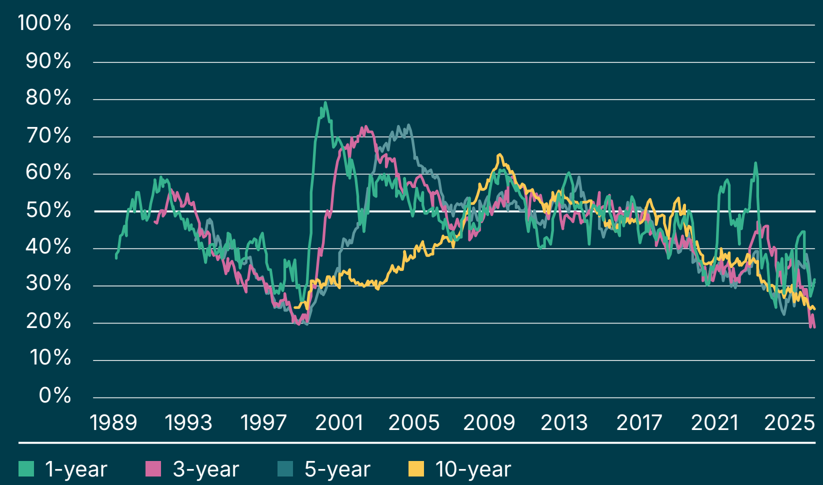
Top 10 vs the other 490: ~100% over the past decade

Sources: FactSet, Bloomberg, iMGP. Monthly data from December 1989 to December 2025. Returns are accumulated arithmetically.

As a result, only 19% outperformed

The majority of stocks lagged the market in 2025, with only around **19% of US stocks outperforming** and over **80% underperforming**, highlighting the challenge of generating returns outside of the largest names.

Figure 3: Percentage of stocks outperforming the market across multiple horizons



Sources: FactSet, Bloomberg, iMGP. Monthly data from December 1989 to December 2025. Returns are accumulated arithmetically.

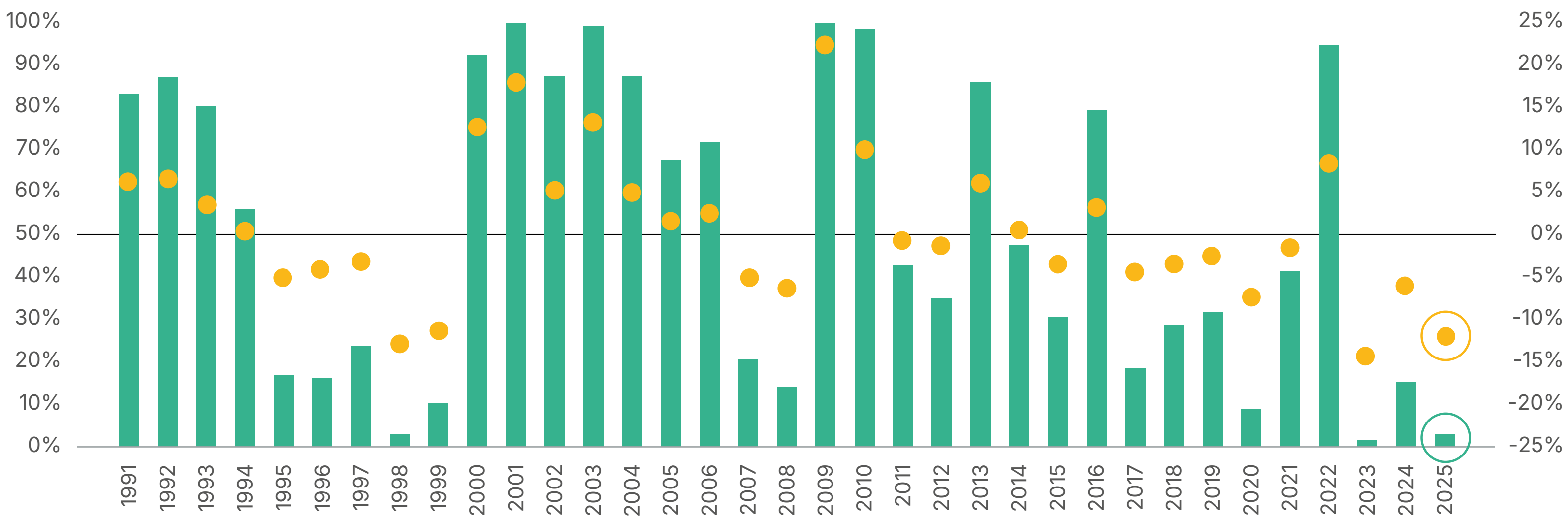
Active management under concentration pressure

Such extreme market concentration has posed a major challenge for active management. When markets are driven by a handful of stocks, broad market-capitalisation indices are very hard to beat.

To illustrate the impact of market concentration on the capability of active managers, we analysed a series of 10,000 different 'monkey portfolios' – random 30 stock portfolios, held for a one-year period and calculated the proportion of these portfolios which outperformed the market.

The results were staggering – in 2025 **only 3% of equal-weighted, random portfolios would have beaten the largest 500 US stocks** and the median performance lagged by 11.3%. Considering many active managers construct portfolios with similar allocation positions, Figure 4 spotlights how difficult outperformance has been in recent years.

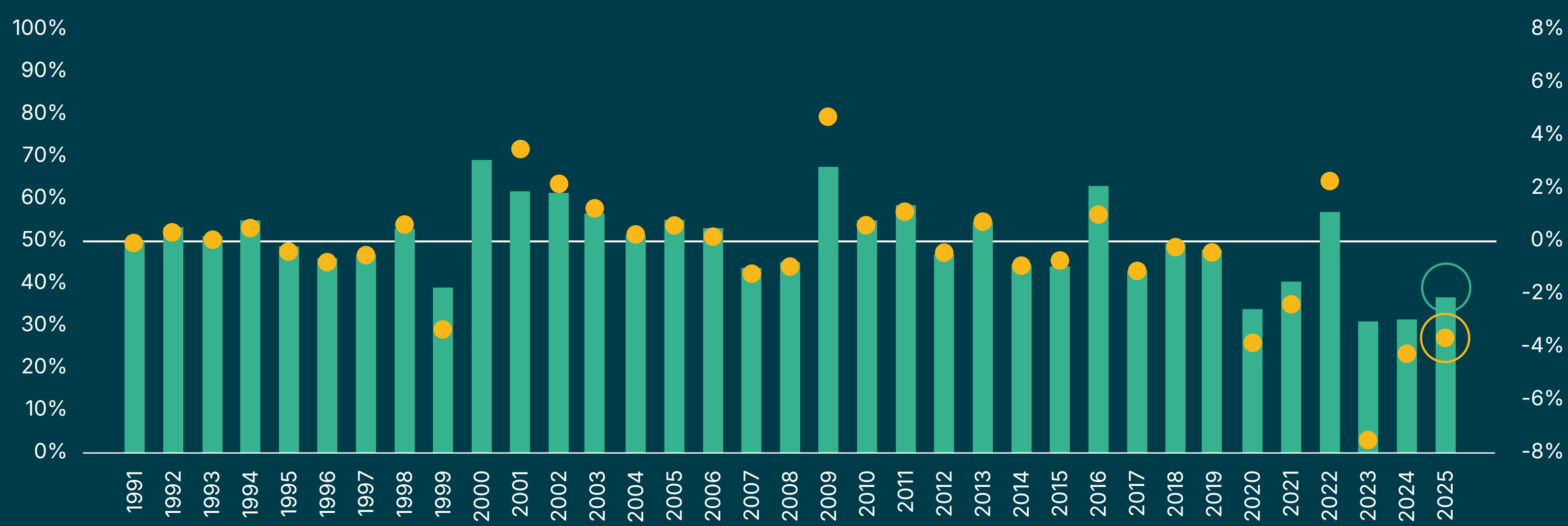
Figure 4: Proportion of **equal-weighted portfolios** outperforming over a 1-year period



Sources: FactSet, Bloomberg, iMGP. Probability based 10,000 equal-weighted random portfolios, each composed of 30 stocks. Annual rebalancing December 1990 to December 2025.

Market-weighted, random portfolios performed notably better, with around 33% outperforming the largest 500 US stocks and median underperformance of just 3.5%, reflecting the dominance of mega-cap stocks on US equity market returns.

Figure 5: Proportion of **market-weighted portfolios** outperforming over a 1-year period



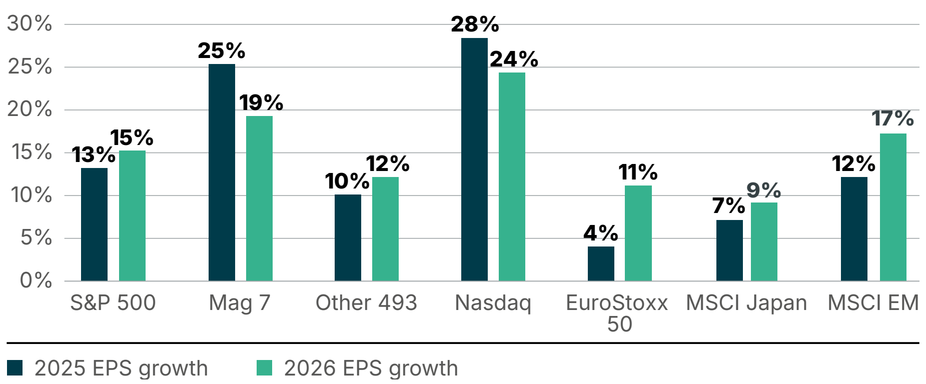
Sources: FactSet, Bloomberg, iMGP. Probability based 10,000 market-weighted random portfolios, each composed of 30 stocks. Annual rebalancing December 1990 to December 2025.

2026 Outlook:
Broadening leadership ahead

Such extreme concentration is unlikely to persist indefinitely. As market leadership broadens and performance dispersion increases, the opportunities for active management should expand, particularly in areas of the market currently under-represented in indices.

Figure 6: Global earnings per share growth forecasts

EPS growth forecast



Source: BNP Paribas Equity Research Estimates, Datastream, as at 12 January 2026.

US large-cap growth companies were responsible for much of the market's growth, which resulted in multiple expansion well above long-term averages. Despite this, areas of the market such as small and medium capitalisation and value companies continue to trade at multiples in line with their historical averages. With broad 2026 earnings growth expected, these overlooked areas could be poised for renewed performance.

Figure 7: Historical distribution of relative valuation between larger and smaller stocks

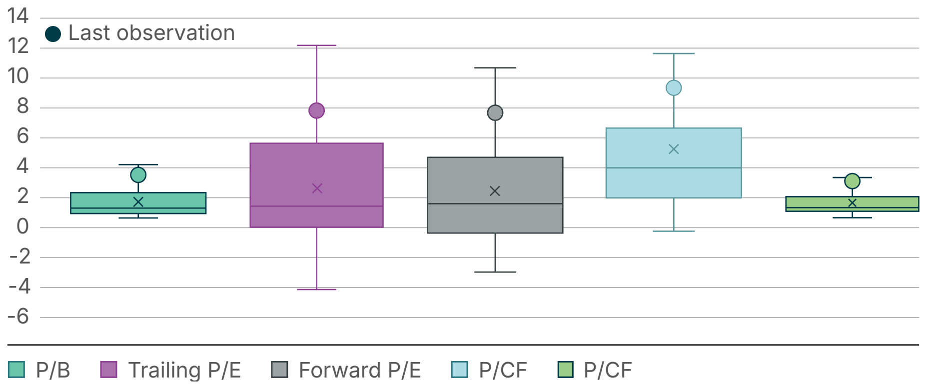
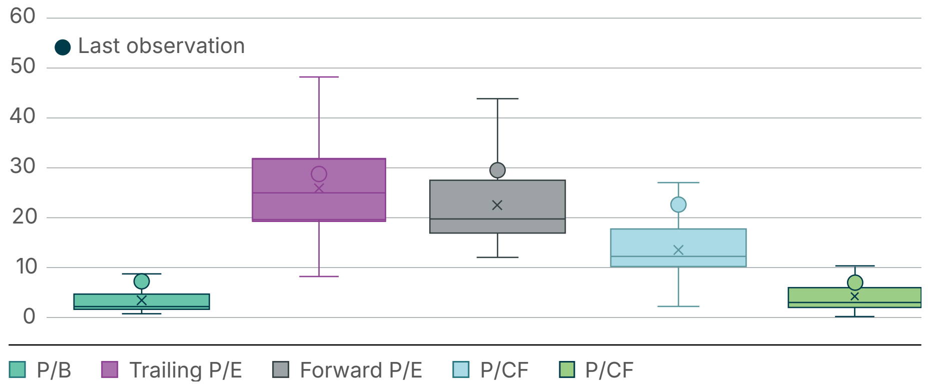


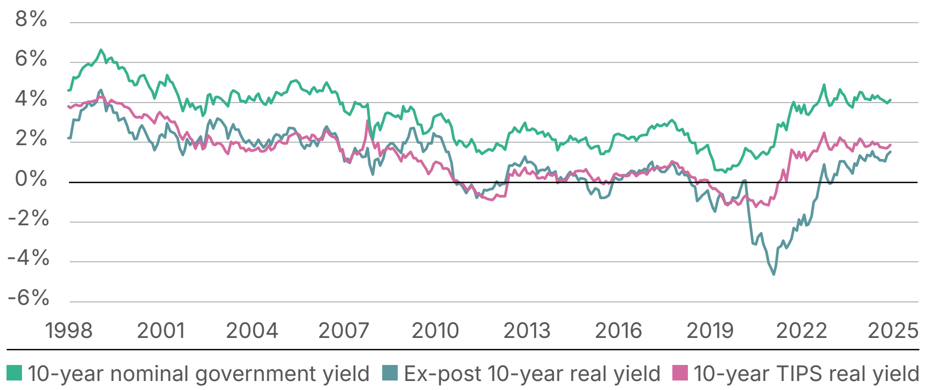
Figure 8: Historical distribution of relative valuation between expensive and inexpensive



Sources: FactSet, Bloomberg, iMGP. Monthly data from December 1990 to December 2025.

Within fixed income all-in yields continue to be at attractive levels, with the US 10-year bond trading in a range around 4% for much of the past year.

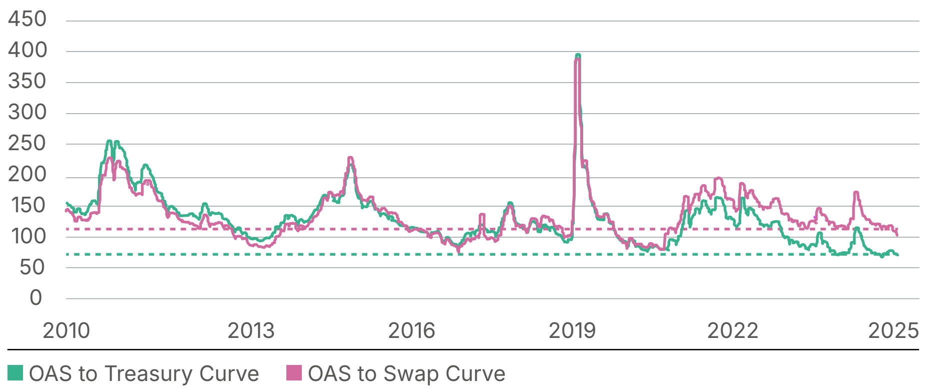
Figure 9: 10-year US government nominal and real yields



Sources: Bloomberg, iMGP. Monthly data from December 1998 to December 2025.

Excluding the April 2025 tariff volatility, credit spreads tightened steadily through the year. While all-in yields remain attractive, government bond yields now contribute the majority of income and not credit spreads.

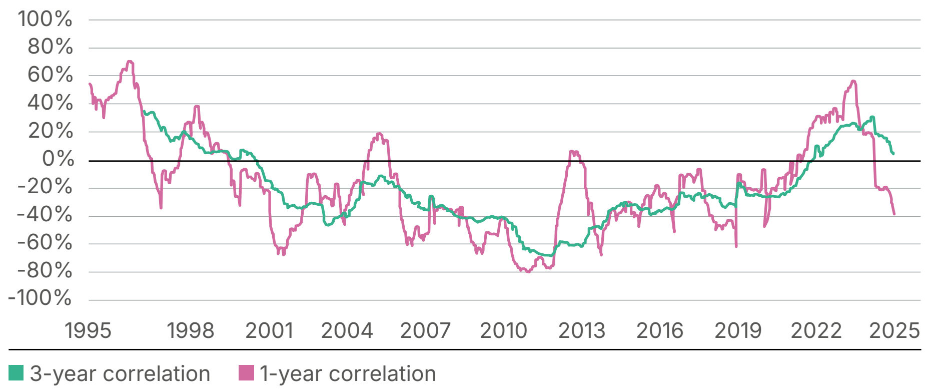
Figure 10: Swap and Treasury spreads



Sources: Bloomberg, iMGP. Monthly data from December 1998 to December 2025.

After an extended period of equity correlation, fixed income has once again de-correlated, resuming its traditional function as a portfolio diversifier against equity risk.

Figure 11: Rolling 1 and 3-year bond/equity correlation



Sources: Bloomberg, iMGP. Monthly data from December 1995 to December 2025.
Bonds: Bloomberg US Aggregate Bond Index. Equities: S&P 500 Total Return.

iMGP Partners poised for 2026 earnings recovery

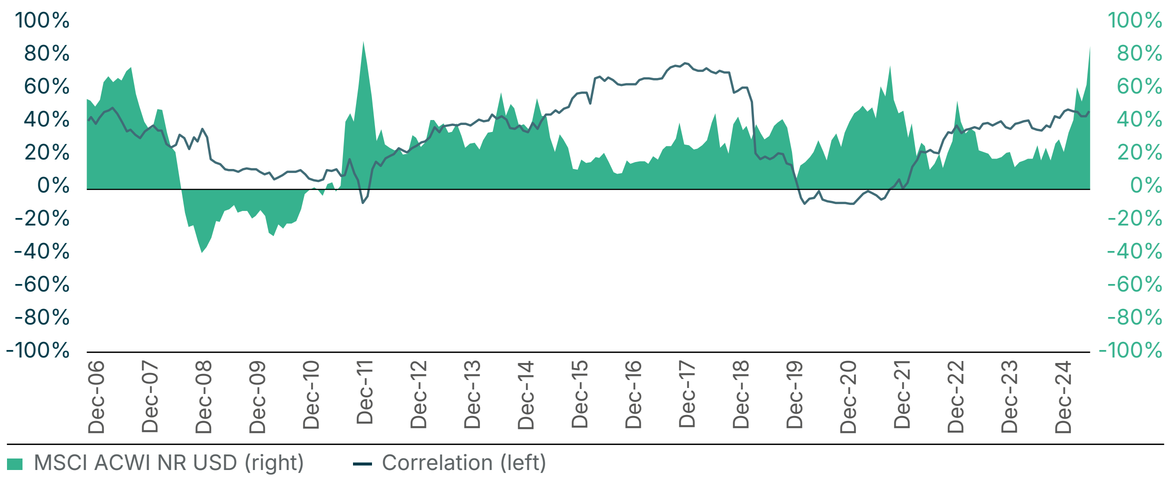
Broadening earnings breadth

Our range of differentiated active mandates, sub-advised to our Partners, are well positioned for the factor rotation and earnings rebound expected in 2026. This backdrop of increasing earnings breadth and the market beginning to reward more than just a few mega-cap stocks, favours idiosyncratic, single-stock focused managers like Trinity Street Asset Management and Zadig Asset Management.

Trinity Street Asset Management: Differentiated exposure to unrecognised opportunities

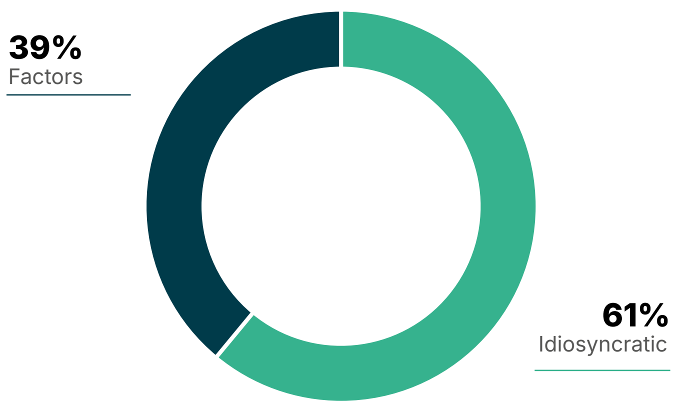
Trinity Street Asset Management's Global Equity strategy targets areas of the market with unrecognised change, delivering distinctly differentiated portfolios versus benchmarks and peers.

Correlation of 3-year excess returns of Trinity Street Global Equity Unhedged Composite (SA) and EAA Fund Global Large-Cap Blend Equity vs MSCI ACWI NR USD



Source: iMGP, eVestment, Morningstar, Trinity Street Asset Management. Data as at 31 December 2025.

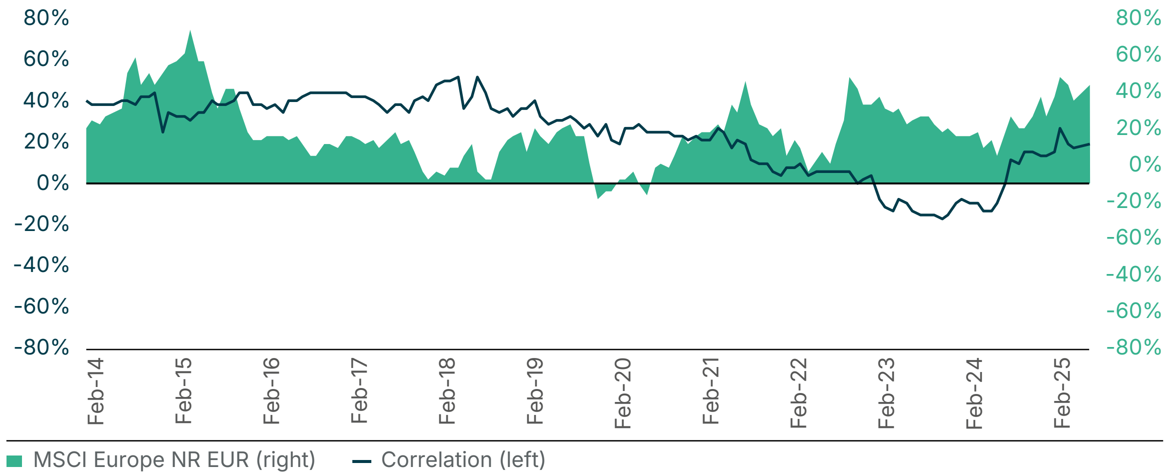
Factor risk contribution vs MSCI ACWI Index



Zadig Asset Management: Factor-neutral alpha generation

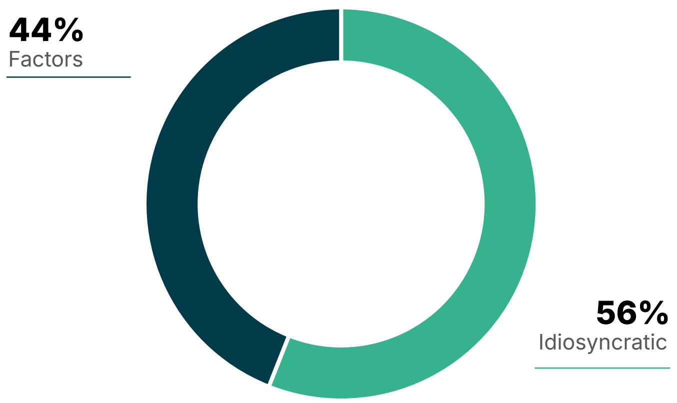
European Equity manager, **Zadig Asset Management,** builds factor-neutral portfolios where individual stock picking drives portfolio risk – ideal for an environment with broadening corporate earnings and wider market participation.

Correlation of 3-year excess returns of Memnon European I EUR Acc and EEA Fund Europe Flex-Cap Equity vs MSCI Europe NR EUR



Source: iMGP, eVestment, Morningstar. Data as at 31 December 2025.

Factor risk contribution vs MSCI Europe Index

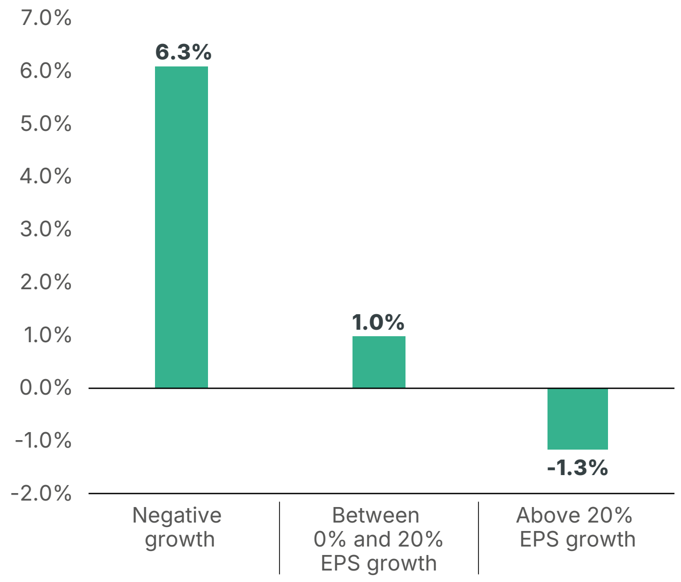


iMGP Partners poised for 2026 earnings recovery cont.

Polen Capital Focus Growth: Positioned for growth rotation

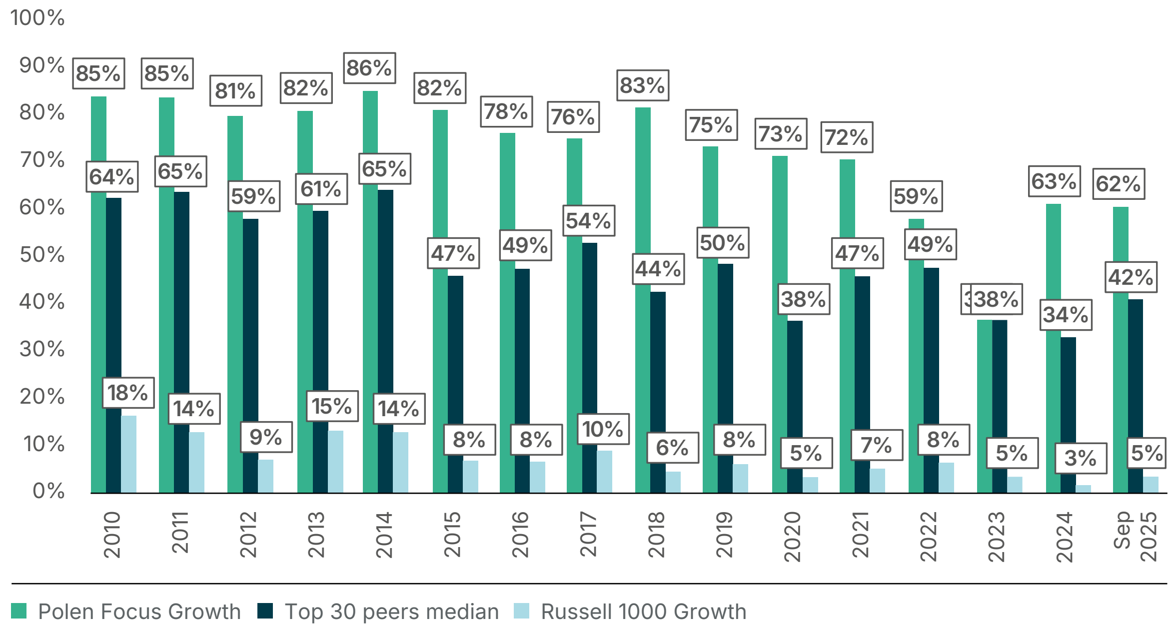
Despite its concentration on around 25 quality growth businesses, **Polen Capital's Focus Growth** strategy boasts significantly greater diversification than its peers, while maintaining financial characteristics (earnings growth and ROE) fully in line, and we believe more consistent, to those of its comparison universe. This approach makes the portfolio more resilient to idiosyncratic shocks, or events that affect specific companies.

Polen Focus Growth one-year average excess return across profit cycles



Average 1Y rolling outperformance when 1Y EPS growth is:

Annual Expected 3–5-year EPS growth diversification ratio of contributors



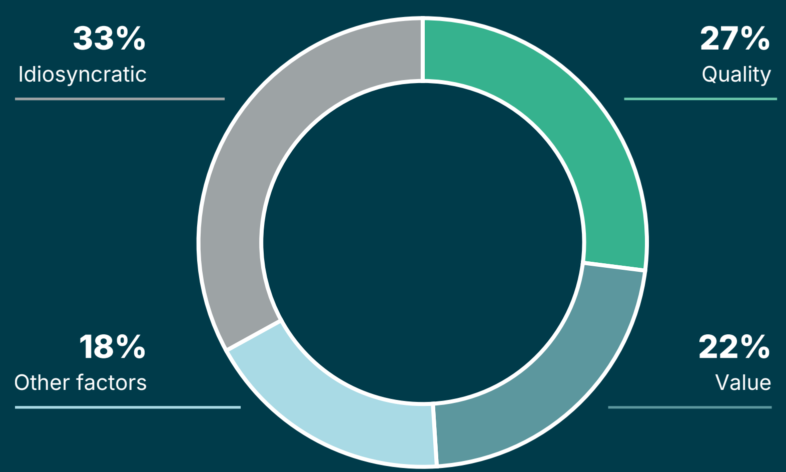
Source: Polen Capital, iM Global Partner as of 31 December 2025.

Factor rotation from mega-cap growth to value & smaller companies

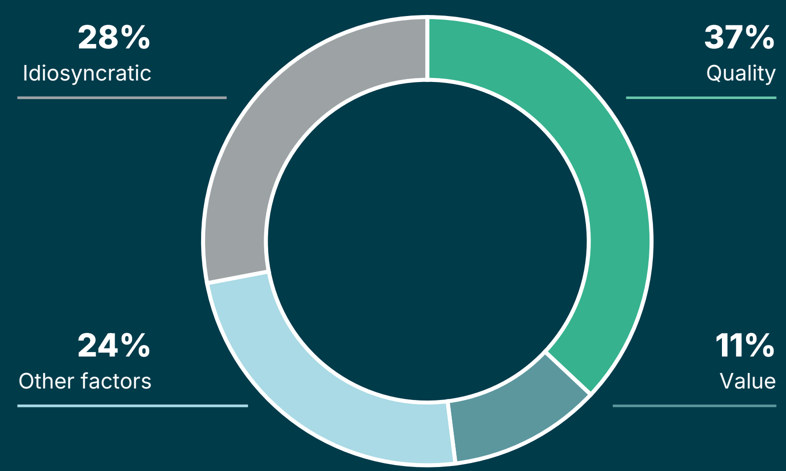
Scharf Investments & Berkshire Asset Management

Scharf Investments and Berkshire Asset Management offer substantial value exposure, well-positioned for attractive valuations and broadening earnings.

Scharf – iMGP Global Concentrated Equity



Berkshire – iMGP Berkshire Dividend Growth ETF



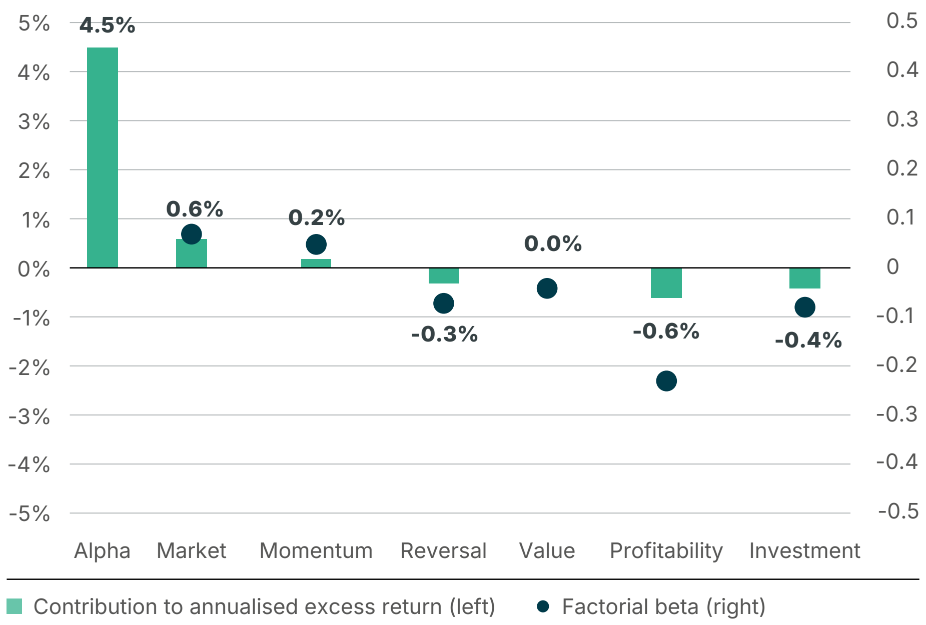
Source: iMGP, eVestment, Morningstar. Data as at 31 December 2025.

iMGP Partners poised for 2026 earnings recovery cont.

Polen Capital 5Perspectives Small & Mid-Cap Growth

With close to two decades track record across multiple market cycles, **Polen Capital's 5Perspectives** team offers an opportunity for investors to invest of companies positioned for accelerating earnings growth driven by enduring secular trends.

Historically, the 5Perspectives team has added considerable alpha, while maintaining minimal to negative exposure to other major factors.



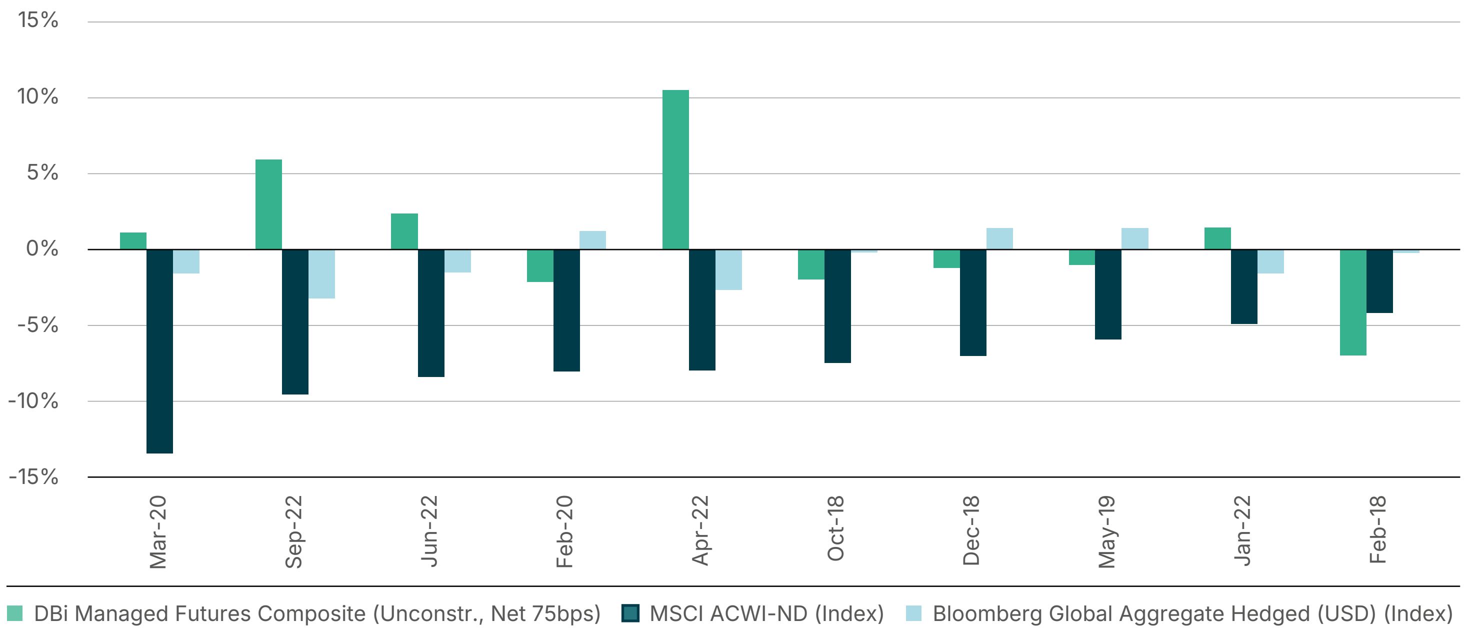
Source: iMGP, Polen Capital. Data as at 31 December 2025.

Uncorrelated diversifiers

DBi

DBi's Managed Futures strategy replicates leading CTAs using trend-following models across futures in commodities, rates, currencies and equities. This delivers low/negative correlation to traditional stocks and bonds – historically generating strong returns during equity drawdowns while maintaining daily liquidity and transparency as a true portfolio diversifier.

Performance during the worst monthly returns of MSCI ACW-ND (Index)



Source: iMGP, DBi, eVestment, Morningstar. Data as at 30 November 2025, net of fees in USD.

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