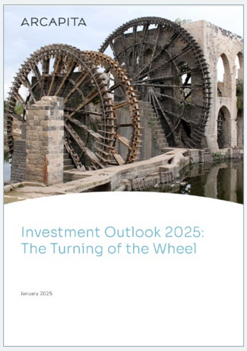
Investment Outlook 2026: Navigating Busy Seas

January 2026

Introduction

As we stand at the start of 2026, it is easy to be overwhelmed by multiple, dense economic predictions and asset class outlooks, all while fast-moving geopolitics keep changing investment parameters. This note aims for something different: to take a pause, recap what happened in a noisy but consequential 2025, and extract the investment themes that we consider the most important over the coming months. In other words, a navigation waypoint in busy seas and a reference guide to our focus points for the year ahead. We are comforted that the trends we observed in our 2025 Investment Outlook were largely borne out over the past 12 months, although with more sustained geopolitical uncertainty than we had originally anticipated, and we stay true to this approach in looking ahead to 2026.



Where we are at the start of 2026

On April 2 2025, President Trump announced new tariffs on both allies and adversaries, marking the end of the globalization era that began in 1947. That earlier period started when the United States unilaterally dismantled tariff barriers, guided by the belief, articulated by the 18th-century French philosopher Montesquieu, that trade would foster peace by binding nations together through mutual economic interests.

The recent U.S. tariffs were met with remarkably little retaliation. China stands as the main exception, owing to its strong negotiating position derived from its near-monopoly over rare earth elements, which are critical inputs in many advanced technologies.

The initially announced tariff rates were high, but subsequent negotiations, exemptions, and carve-outs have brought them down to average levels around 17%. Even so, supply chains painstakingly built over decades are now being forced to adjust to a new trade environment. Firms are rethinking sourcing strategies, investment plans, and geographic exposure, often at significant cost.

Politically, these developments reflect a broader global shift. Across many countries, parties opposed to trade liberalization, migration, and international cooperation have gained electoral ground. This backlash is rooted in the rise in income inequality associated with globalization in general, and with China's integration into the world economy in particular. While globalization delivered lower prices and higher aggregate income, its distributional consequences were uneven and, in many cases, poorly managed.

On the macroeconomic front, inflation subsided in 2025, allowing central banks worldwide to begin lowering interest rates. In the United States, the Federal Reserve halted its balance sheet reduction, a policy shift likely to support riskier assets. At the same time, food prices have risen significantly, fueling public discontent and weighing on consumer confidence. These increases were largely driven by sharp rises in fertilizer prices following the war in Ukraine and the associated tariffs on Russia, a major global fertilizer producer.

In the United States, the inflationary impact of tariffs, now being passed through to consumers, combined with a potentially more dovish Federal Reserve, risks delaying the return of inflation to the Fed's 2% target.

Russia, China, India, and other emerging economies have sharply reduced their purchases of U.S. Treasury bills and government bonds of other advanced economies and have increased their holdings of gold, an asset perceived as politically neutral. This shift has pushed gold prices to record levels in inflation-adjusted terms.

At the same time, the rise of stablecoins, facilitated in the United States by the 2025 GENIUS Act, is integrating cryptocurrencies more deeply into the financial system and increasing demand for U.S. Treasury bills as backing assets. Looking ahead, the possible emergence

of a digital renminbi or a digital euro could introduce new competitors to the dollar.

The U.S. economy itself is increasingly running on two distinct engines. Everything related to artificial intelligence is booming: investment in data centers, recruitment of research teams, and market valuations. Outside the AI sector, however, the economy appears largely stable.

The US labor market is also beginning to reflect AI's impact. Recent college graduates are experiencing higher unemployment rates than the overall population, as firms reduce hiring for entry-level positions whose tasks can now be performed with AI tools.

Looking ahead to 2026, trade uncertainty is likely to ease as firms adapt and as exemptions and renegotiations further soften tariffs.

In real estate, higher mortgage rates have sapped the housing market dynamism. Transaction volumes are low, as younger households increasingly choose to rent rather than buy. Existing homeowners are also reluctant to move, since doing so would mean giving up low fixed-rate mortgages in exchange for much higher rates. Housing price growth continues to display a pronounced "donut effect," with most increases occurring in suburbs and exurbs rather than in city centers.

Looking ahead to 2026, trade uncertainty is likely to ease as firms adapt and as exemptions and renegotiations further soften tariffs. At the same time, geopolitical risks are rising. The global order appears to be shifting toward a multipolar configuration reminiscent of the period preceding World War II.

The AI boom is likely to continue, though some leading researchers caution that the rapid scaling of data and computing power that fueled recent breakthroughs in large language models may not deliver further significant gains.

As 2026 begins, the global economy faces an unusually wide distribution of outcomes, with the potential for both significant upside and severe downside risks.

Investment Themes

Based on the current state of the US and global economy and these ongoing dynamics, we would highlight the following themes as likely to characterize most of 2026:

Geopolitical uncertainty remains

The first theme, the continuation of geopolitical uncertainty, may appear obvious but it also underpins the wider assessment of the 2026 investment landscape – and it is surprisingly easy to overlook as noise or today's business-as-usual. It also has consequences for the US as well as the rest of the world – it is not a one-way street of impact.

The potential for re-inflation

One consequence is the second theme: the potential for re-inflation. As set out above, while inflation has subsided in 2025, there are significant unknowns ahead which could lead to a tail risk of inflation re-emerging: a yet-to-be-determined new Federal Reserve chair, a potentially more dovish Federal Reserve, the Federal Reserve halting its balance sheet tightening, reduced purchases of US government bonds by overseas investors and unknown speed (and nature of) adoption of stablecoins by a wider audience. When we remind ourselves of the narrative of 'transitional inflation' in 2021-22, when inflation turned out to be more durable than initially thought, we remain cautious about the inflation roadmap for 2026 given these uncertainties.

Continued expansion of AI

Another indirect consequence of geopolitical uncertainty is our third theme: the continued expansion of AI, given impetus by the urge in the US to 'win' the AI race as well as by technological advances, customer take up and supportive capital markets. We delve into more detail in this investment theme in our recent note: *Possibilities and Pressures: The Current State of AI Digital Infrastructure*.

Trend towards shorter duration investment horizons

Lastly, and influenced by the preceding themes as well as by the extent and pace of wider geopolitical and economic currents, we observe a trend in private wealth and certain institutional investors towards shorter duration investment horizons. At the present rate of change of the economic environment, and therefore investment opportunities, it is understandable that locking up capital for 10 years or more is currently less appealing to those groups than investments offering a shorter roundtrip, or those providing liquidity options.

Arcapita's Focus

Guided by these key 2026 themes, we remain focused on sectors where Arcapita's principled investment approach aligns with the opportunities arising from the current economic landscape:

Investments insulated from geopolitical uncertainty

Within private equity, we favor investments in essential business services serving a domestic customer base.

In real estate, we are focused on industrial assets serving local and regional occupiers (rather than big box logistics more exposed to international trade), and on living sectors targeting a domestic renter base.

Income that mitigates re-inflation risk

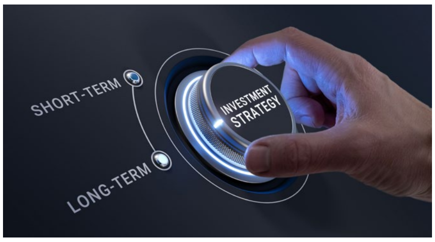
To protect against the potential for re-inflation, in real estate we favor shorter duration leases offering mark to market opportunities, and inflation-linked rental income.

In private equity, we are focused on sectors and firms with the ability to offset cost increases in their customer pricing.

Thoughtful investments around AI

While we expect a continued expansion of AI, we recognise that not all investments in this sector offer equal potential, nor equal risk.

At a company level, we focus on best-in-class AI companies and those exploiting practical real-world applications. In real estate, our emphasis is on select data center opportunities where we see durable value and mitigated downside.



Investments offering shorter durations

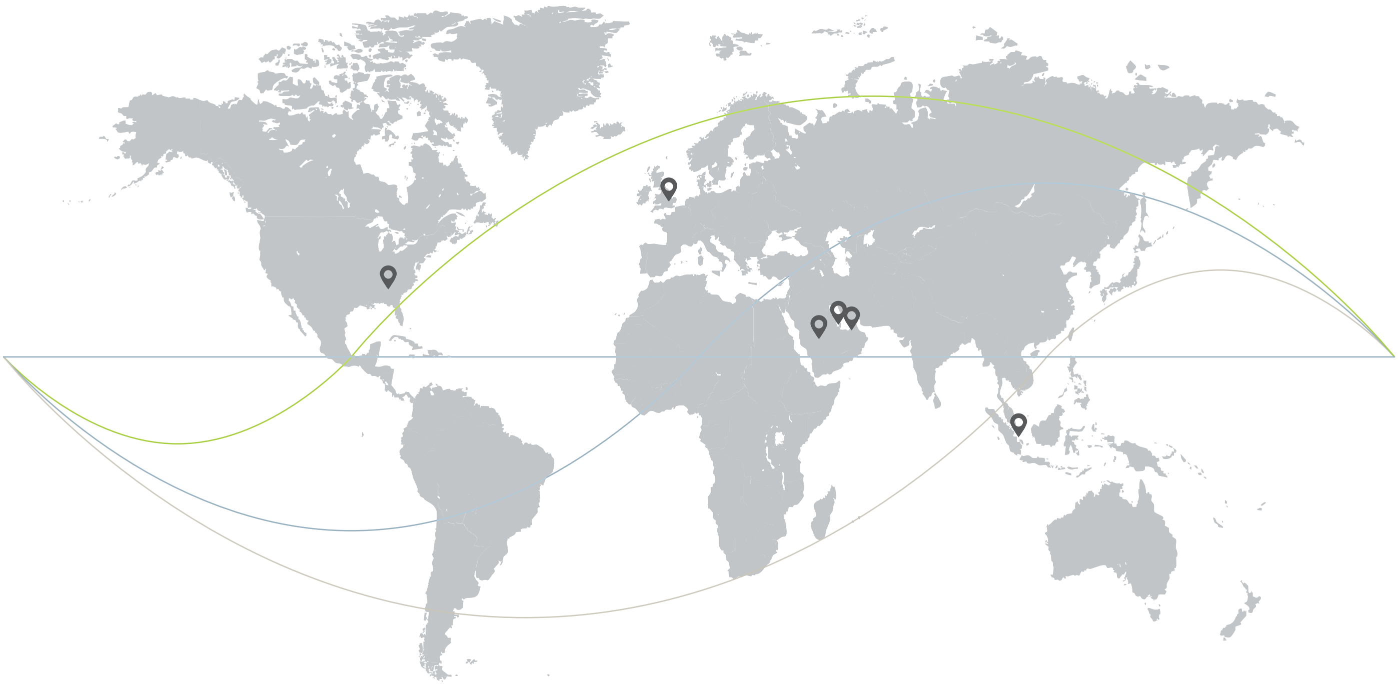
Across both real estate and private equity, our emphasis in 2026 is on investments offering a shorter duration or providing liquidity options. We recognise that the current rate of change in the global economy and political landscape is likely to endure through the coming months, and potentially longer, offering both exciting opportunities and some challenges, and it is best to be prepared accordingly.

ARCAPITA

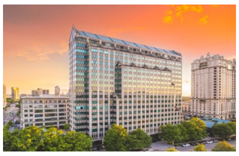
Overview

Arcapita is a premier asset manager offering diverse investment opportunities, focusing on private equity and real estate. At the center of one of the fastest growing wealth markets in the world, Arcapita's management has been serving an exclusive group of investors in the GCC region over the past two decades. With offices in Bahrain, US, UK, Saudi Arabia, UAE, and Singapore, Arcapita's management team has completed transactions worth a total value of approximately $30 billion and possesses a footprint to invest on a global scale. Arcapita focuses on defensive and counter-cyclical sectors supported by long-term macroeconomic and demographic trends.

With two decades of experience, Arcapita's management has built a global investment platform to access the opportunities that exist in our core markets of the US, Europe, Middle East and Asia.



United States



Arcapita Investment Management US Inc.

One Buckhead Plaza
3060 Peachtree Street NW, Suite 1650,
Atlanta, GA 30305 – United States

Tel: +1 404 920 9000

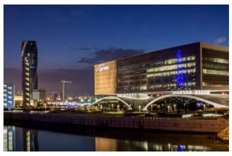
United Kingdom

Arcapita Investment Advisors UK Limited

16 Berkeley Street, Floor 5,
London W1J 8DZ
United Kingdom

Tel: +44 207 824 5600

Bahrain



Arcapita Investment Management B.S.C. (c)

Arcapita Building, P.O. Box 1357,
Manama,
Kingdom of Bahrain

Tel: +973 1721 8333

Saudi Arabia

Arcapita Capital Company

Kingdom Centre, Floor 14,
Riyadh,
Kingdom of Saudi Arabia

Tel: +966 114667610

Singapore

Arcapita Investment Management Singapore Pte. Ltd.

AIA Tower, 1 Robinson Road, #17-00
Singapore 048542
Republic of Singapore

Tel: +65 6513 0395

United Arab Emirates

Arcapita Investment Management Limited

Signature Centre, Al Maqam Tower, Office 1119,
Floor 11, ADGM Square, Al Maryah Island
Abu Dhabi, UAE

Tel: +971 816 4400