SARASIN

Six Minute Strategy

Five opportunities for a fragmenting world

December 2025

2026: A fragmenting global economy

A world of competition, sanctions and tariffs – growth accelerates – inflation sticky

Economic views	Investment implications
United States	• **Growth expected to accelerate** in 2026, supported by a positive fiscal impulse and easier monetary policy. • **Inflation risks rise** – from tax cuts, immigration controls and tariffs.
China	• **Structural challenges persist** as property stress continues. • **Massive export drive** undermines foreign manufactures. • **Deflation risks remain** – a Japanese parallel looks possible.
Europe	• **Growth increasingly driven by domestic demand.** • **Activity marginally below trend** due to export weakness (China slowdown, strong EUR, tariffs). • **Ukraine-Russia ceasefire** would lift consumer/business conf.
UK	• **Strong demand** but constrained supply growth continues to generate **inflation pressures**. • The recent **Budget** slows the pace of fiscal consolidation.
Japan	• **Loose monetary policy and fiscal stimulus** (c.3.5% of GDP). • **Nominal GDP growth** remains robust.

1. Nominal GDP still robust globally

The UK has the highest nominal growth and China the lowest

Nominal GDP remains high as economies run hot

Source: Macrobond, 10.12.25

China credit risks are reminders of previous bubbles

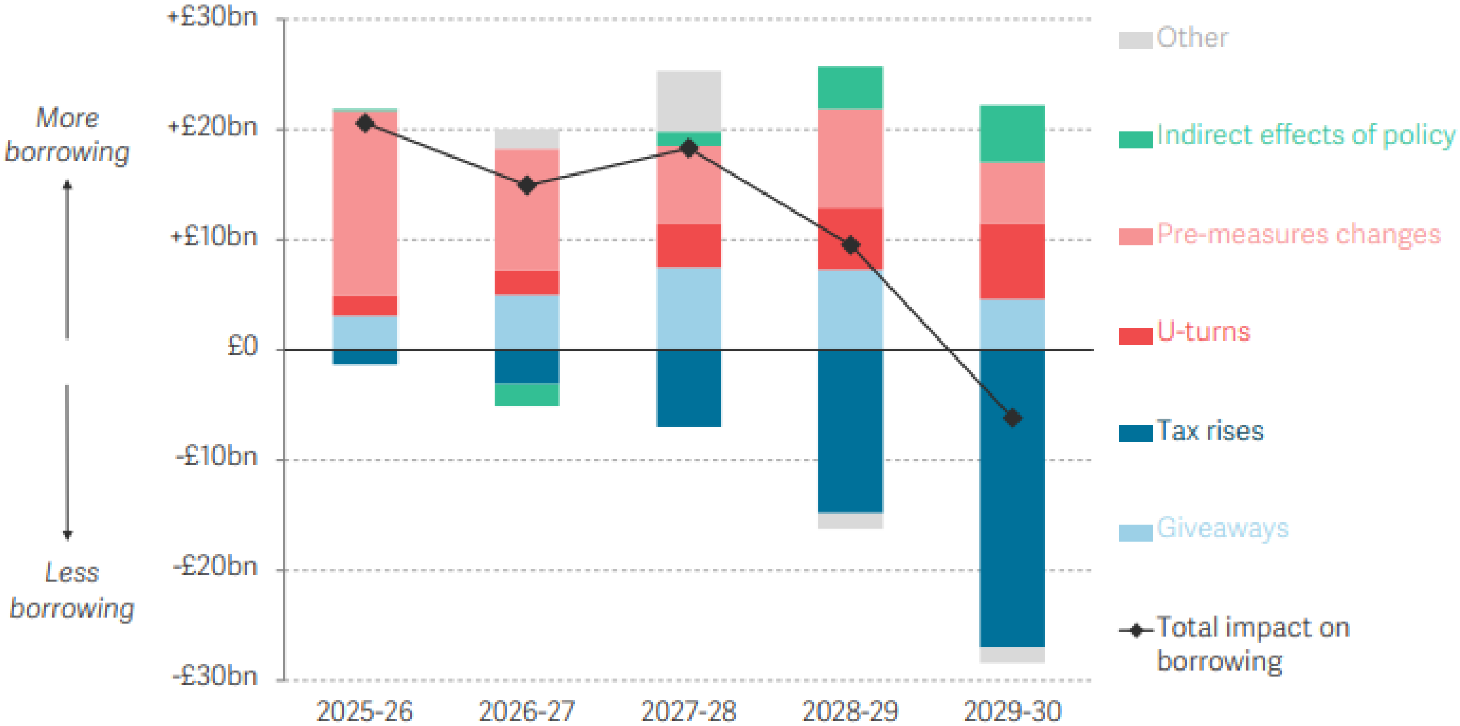
2. UK: Backloaded tax rises and frontloaded spending

The next three years will see a mildly *expansionary UK budget*

£68 billion of tax increases over last two budgets are the biggest increase since 1993 – backloaded till 2028-30

FIGURE 5: **The Government has pencilled in big tax rises for the end of the decade**

Change in public sector net borrowing compared to the OBR's March 2025 forecast: UK

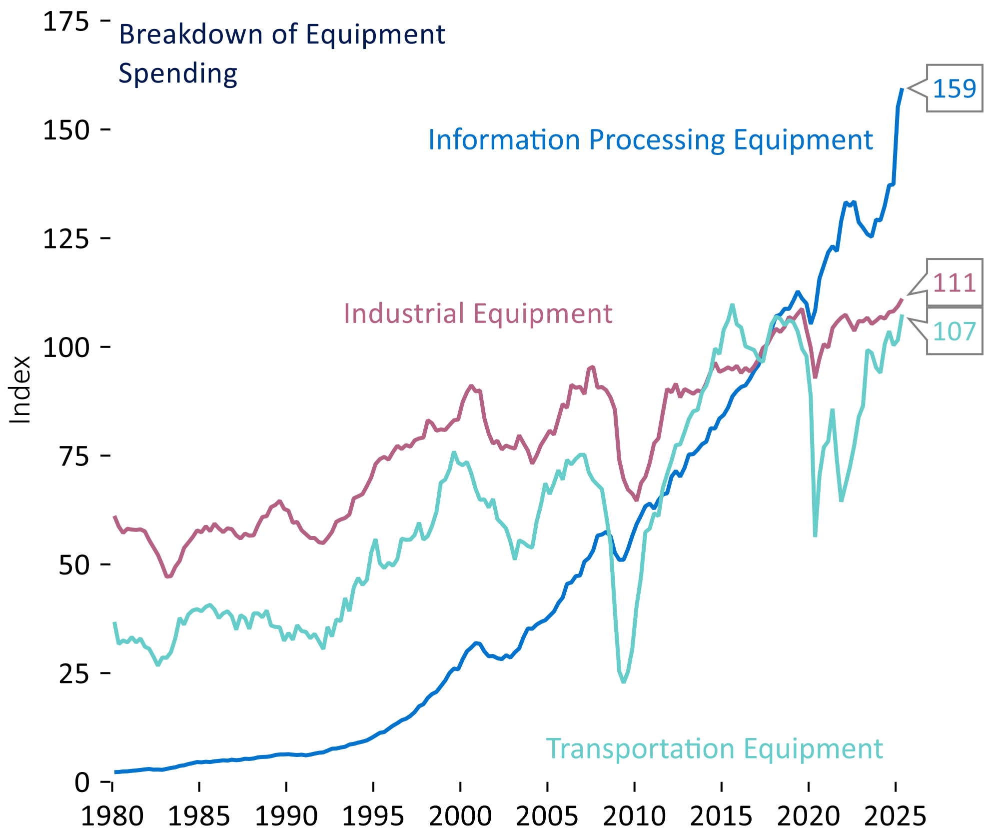


NOTES: 'Other' includes changes to capital and day-to-day spending and the OBR's SEND-related spending judgements. 'Giveaways' include increases to welfare and other spending, and the fuel duty freeze.
SOURCE: RF analysis of OBR, Economic and Fiscal Outlook, November 2025.

3. Surge in AI led IT equipment and software spending

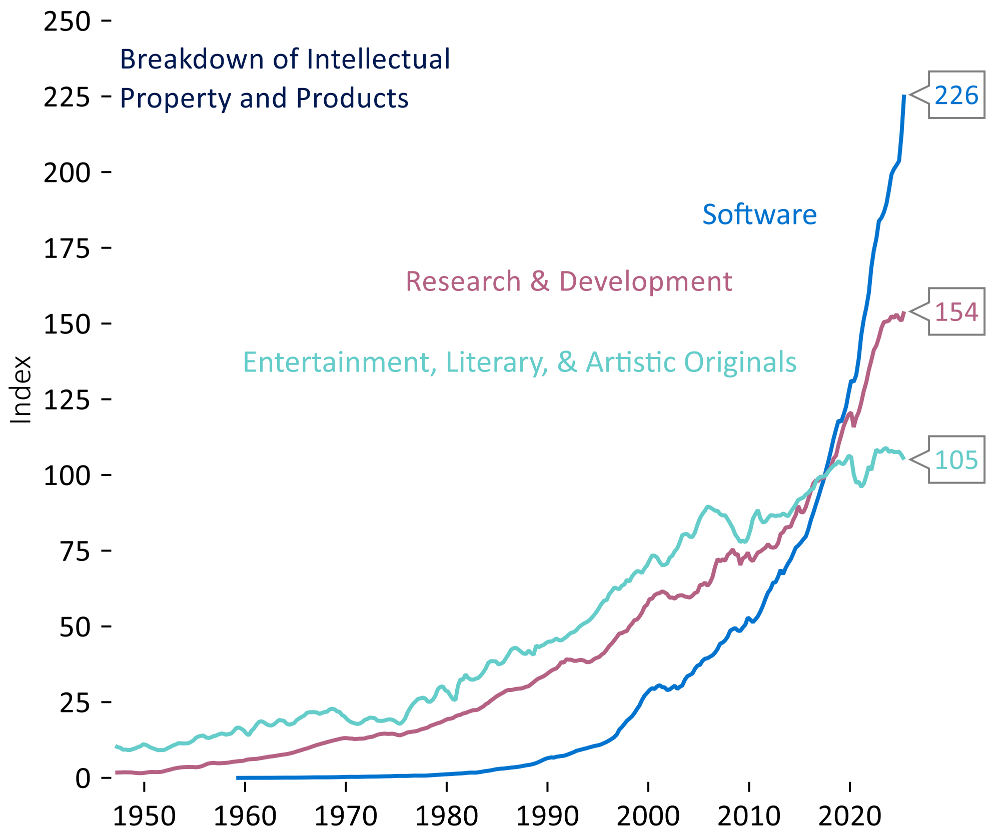
US growth dominated by IT and software spend to support AI

The AI agenda is driving massive technology spend



Source: Macrobond, 08.12.25

Software growth dwarfs R&D and entertainment spend



Source: Macrobond, 08.12.25

Five investment opportunities in a fragmented world

Implications and opportunities for investors in 2026

Implication	Opportunity
1 The world order is becoming more competitive, rivalrous – tariffs and sanctions **undermine trust in the Dollar**	*National champions, resource security, metals, foods, semiconductors – long-term dollar weakness*
2 The US is less willing to underwrite global security, prompting **rising defence and cyber spending**	*European military spend, cyber protection, missile defence, space, drone protection*
3 Spending on ageing, climate and defence drives **rising debt, deficit and interest burdens**	*Higher bond yields for savers, gold and banks (that benefit from rising long-rates)*
4 Less efficient supply chains and climate risks create **higher and more volatile inflation**	*Real assets, climate mitigation and inflation hedges perform (equities, gold, metals)*
5 As AI diffusion gathers pace productivity climbs, **supporting nominal growth and profits**	*AI led productivity surge across services – robotics, self-drive (level 5), improved drugs – even nuclear fusion may all become realities*

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