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Investment Outlook 2026



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Our Investment Outlook for 2026 brings together our latest thinking across equities, fixed income and listed infrastructure, reflecting our commitment to sustainable investing and long-term value creation. This year, we remain resolute in our belief that investing for positive outcomes – for both people and planet – is not only our responsibility, but also a source of enduring opportunity.

Despite recent turbulence, we believe sustainable investing remains resilient. In 2026, we believe effective stewardship will be critical, as the FRC’s new code raises the bar for driving genuine environmental and social outcomes. We are also delighted to announce plans to apply SDR labels to seven more funds in our range, making us the only UK fund house with a fully labelled product range once all labels are applied in February.

We believe the trajectory of interest rates will be a key driver of market performance. We anticipate a gradual easing of inflationary pressures, with rate cuts likely to shape returns across asset classes. Energy, particularly the energy transition, stands out as a core market driver, with renewables at the heart of a more productive, lower-carbon economy.

In equities, the US market’s focus on AI infrastructure presents both risks and opportunities, while global diversification remains essential. We see compelling value in UK stocks with strong fundamentals and sustainable business models. In Europe, we favour sectors that offer resilience, such as

utilities, telecommunications, food retail and pharmaceuticals. Our approach across the board remains rooted in rigorous stock selection, seeking quality businesses at sustainable valuations.

Fixed income markets will be shaped by potential rate cuts and a new normal for inflation, and we see opportunities in high-quality credit and sovereign debt. The evolution of transition finance and sustainability-linked instruments offers exciting prospects for aligning capital markets with the journey to net zero.

Listed infrastructure continues to provide resilience and diversification, supported by long-term demand for clean energy and essential assets. The rapid growth of AI and digital infrastructure is creating new avenues for investment, while operational challenges remain manageable within a fundamentally robust sector.

Throughout this outlook, we aim to offer clear insights grounded in fundamental research and our sustainable, long-term approach. We hope you find it a valuable guide for the year ahead, and we welcome your feedback.



EdenTree’s Sustainable Investment Team

“Sustainable investing remains very much alive”

Charlie Thomas, Chief Investment Officer



EdenTree remains committed to its long-term vision: in 2026, we will continue to invest in businesses that deliver positive outcomes for both people and planet.

It's been a tough year for sustainable investing. Political polarisation, particularly in the US, has led to setbacks in climate policy and prompted some institutions to dilute their commitments. Yet history tells us these backlashes are cyclical, and we remain resolute in our thinking. We recognise that climate change poses a growing threat to both people and planet, and we view it as a financially material risk. It is, therefore, our fiduciary duty to address this risk in order to protect and grow long-term value for our clients.

We are hopeful that the negativity surrounding ESG and sustainable investing is reaching its nadir, and this hope drives our anticipation of a re-emergence of sustainability themes in 2026 – a view that has been affirmed by both flows and company valuations. We believe that younger investors, in particular, will drive part of this re-emergence through their engagement with issues such as climate change and social inequality, meaning that EdenTree's long-term story remains very much alive.

The energy transition will define the investment landscape in 2026

In terms of the macro picture, the trajectory of interest rates will play a big role in shaping market performance in 2026. The direction of rates will not only influence asset class returns but also set the rhythm for global economic growth. Our expectation is for a gradual downward shift as inflationary pressures continue to ease – though any deviation from this could spark renewed volatility.

Beyond rates, one theme stands out to me: energy. Its resurgence as a core market driver, and its role as a potential bottleneck for growth areas like AI, cannot be ignored. We are optimistic about the energy transition, which demands rapid, scalable and cost-effective deployment. Renewables sit at the heart of this transformation, and EdenTree is well positioned across our funds to capture growth in this space. In my opinion, energy will define the investment landscape in 2026.



Building the backbone of a more productive, lower-carbon economy

Of course, risks remain. Geopolitical tensions are at their highest in years. Consumer confidence, especially in the US, could falter further, with global repercussions. And certain market segments show signs of stretched valuations. But if you look beyond these risks, the rewards are compelling. Particularly with regard to the energy transition, which is not a single trade, but a multi-year story of generation, storage, grids and efficiency, building the backbone of a more productive, lower-carbon economy.

In 2026 and beyond, EdenTree will continue to back quality businesses at sustainable valuations and engage for change, staying true to our long-term vision. Sustainable investing is where innovation, resilience and value creation meet, and we are excited to continue our work investing for a better tomorrow.

“Scrutiny on effective long-term stewardship will be essential”

Carlota Esguevillas, Head of Sustainable Investment



Despite a turbulent period for sustainable investment, investor appetite and industry commitment remain. With regulatory foundations now firmly in place, we believe the conversation will shift beyond rules and frameworks to focus on driving credible action and evidencing real-world outcomes.

A clearer funds landscape

The last few years have seen a fundamental reshaping of the sustainable funds landscape. Morningstar's latest research highlights that across Europe, 28% of ESG products, or around 1,500 funds, have been renamed since the start of 2024—a staggering figure.

Looking ahead to 2026, we expect this trend to ease, with major regimes such as the UK's SDR having now had time to bed in, and those fully committed to sustainability now aligned with one of the four recognised labels. As this period of adjustment comes to an end, the funds landscape will be clearer, with naming and marketing far more reflective of underlying investments—a positive development for investors.

With rules, disclosures and frameworks now embedded, we expect to see the conversation evolve beyond labels, focusing on how these structures translate into measurable results—both in financial performance and real-world sustainability outcomes.

All eyes on stewardship

2025 saw a host of asset managers step back from previous sustainability commitments and collaborative initiatives falter under member pressure.

While greater accuracy in sustainability claims is no doubt positive, we remain concerned about the long-term implications of corporations and asset managers abandoning efforts to promote action on climate change, diversity and other critical issues.

Global environmental and social challenges haven't gone away; if anything, they're getting worse. In 2026, we believe scrutiny on effective long-term stewardship will be essential.

The FRC's Stewardship Code—due to take effect next year—will set new standards for the sector, but asset managers and clients alike must reflect on which tactics and methods are most effective in driving real-world outcomes in a rapidly changing and increasingly complex geopolitical environment.



“AI will remain a defining force in global markets”

David Osfield, Global Equity Fund Manager



In 2026, artificial intelligence (AI) will remain a defining force in global markets. While market optimism on AI runs high, the real challenge next year will be execution – can the AI growth story deliver on the market's high expectations without hitting major structural bottlenecks?

The first hurdle to the AI story is power. Even in tech hubs like California, data centres are sitting idle because energy supply cannot keep pace with the rate of demand. Securing power has become a critical priority, and the scramble for land to build these new facilities is intensifying. The second hurdle is memory. Demand is currently three times greater than supply and expanding capacity this much will take years, meaning growth is likely to remain constrained in the near term. The third hurdle is the “scaling wall” – which suggests there are diminishing returns from creating larger models powered by faster chips due to the scarcity of high-quality training data.

Beyond AI infrastructure, companies are battling fiercely on cost competitiveness. Alphabet's TPU architecture is proving cheaper and more efficient than Nvidia's GPUs, challenging Nvidia's dominance in AI compute, with Alphabet's Gemini 3 model a standout success on its release. For the EdenTree Global Equity

Fund, we remain overweight Alphabet and underweight Nvidia, a position that has paid off in 2025 and one we believe will continue to do so as the market reassesses the economics of AI.

Beyond AI – recovery in the US housing market

While AI captures headlines, we are also watching the US housing market closely, as we believe the stage is being quietly set for a recovery here. After a period of negativity around housing data, we expect easing monetary policy and fiscal acceleration to revive activity. Markets are pricing two to three rate cuts in 2026, with the Federal Reserve likely to end the year around 3%. That said, the path will be delicate, and inflation remains a wild card. Fiscal stimulus combined with a \$1 trillion AI-driven capex boom could reignite price pressures, making it harder for the Fed to cut aggressively without unsettling markets.

Against this backdrop, residential and non-residential stocks offer compelling opportunities. Companies like Carrier and Builders FirstSource are well positioned, not only for improvements in housing and industrial activity but also for their sustainable solutions.

Our positions in these companies reflect our belief that the recovery story is underappreciated and valuations remain attractive.

Our continued focus: high-quality, undervalued, sustainable businesses

Regionally, Asia continues to be an overweight for the Fund. Our exposure to Taiwan, Korea and Japan is a differentiator versus our peers and positions us to benefit from strong businesses within the AI supply chain at reasonable valuations. Finally, after a stellar 2025, we'd expect to see some consolidation in Europe. Across geographies, we remain focused on high-quality, undervalued businesses that can operate through cycles and deliver sustainable growth.

The market tends not to care about a new calendar year – structural themes tend to endure. For 2026, the interplay between AI innovation, US housing recovery and inflation dynamics will shape global markets. The EdenTree Global Equity Fund is positioned to navigate and make the best of these arising opportunities.



“Economic growth will be the central theme influencing market performance”

Chris Hiorns, Head of European Equities



I expect economic growth will be the biggest factor influencing European market performance in 2026, as its trajectory for the year is clouded by uncertainty.

The global economy is just beginning to feel the bite of US tariffs, with their impact slowing global trade and redirecting flows across regions. This disruption has already contributed to a softer economic backdrop, and the European equity markets may feel the weight of these headwinds in first half of 2026. However, interest rates are trending lower, creating the potential for a more supportive economic environment later in the year which could be supportive for a broader recovery in the second half of 2026.

The Edentree European Equity Fund: retaining our defensive positioning

Our approach remains disciplined. We enter 2026 with a defensive tilt, favouring sectors that offer resilience, such as utilities, telecommunications, food retail and, more recently, pharmaceuticals. These areas provide stability while allowing us to navigate the weaker outlook anticipated for the first half of the year. However, we are not blind to the opportunities that volatility can create. Cyclical sectors, which are currently trading at depressed valuations, may offer compelling upside should a recovery take hold. Maintaining selective exposure here, especially in small and mid caps, ensures we are positioned to capture that inflection point.

Risks, of course, remain. US economic policy casts a long shadow, with tariffs reshaping global trade patterns and creating ripple effects across Europe.

Also, the German fiscal impulse will be pivotal – whether the country channels spending into defence or delivers broader stimulus will influence regional growth. And while geopolitics defies prediction, a peace agreement in Ukraine, even imperfect, could open the door to significant upside potential for European markets.

Hopeful that value continues to recover

While uncertainties remain, there are areas that warrant optimism. Over the last five years, value stocks have recovered significantly, and we remain hopeful that this will continue, with value stocks continuing to trade at significant discounts to the main market and also a discount to their historical valuations.



“It would not take much for value to become apparent”

Greg Herbert, Head of UK Equities



UK equities have been through so many disruptive events in recent years that it's now hard to know what 'normal' looks like.

A maelstrom of Brexit, Covid, the war in Ukraine, surging inflation, chaotic government and tariffs, all coming in the wake of the 2008 financial crisis, has meant persistent net outflows into the US equity market and a dearth of new listings.

As a consequence, UK equities are as cheap now as they have been for 30 years relative to global markets (of which the US now makes up 70%). And that's just the FTSE100. The mid cap FTSE250 is as cheap relative to the FTSE100 as it has been in at least 20 years. It's fair to say that domestic UK stocks are therefore looking extremely cheap.

Minimal shifts could turn the tide...

It would not take much for that value to become apparent. A period of stability, with sluggish growth, moderating inflation and lower interest rates, is not a bold prediction but it would be a comparatively benign backdrop for UK domestic stocks to perform well. The recent UK budget was arguably a clearing event, to the extent that it at least laid the foundations for

relative stability. Consumers are in a better position to make spending decisions and businesses can take a view on investment, which has been a frustratingly difficult process in recent years.

This would be the bull case for UK equities, based on a period of stability with interest rates trending lower and inflation moving close to the Bank of England's 2% target. This is not a particularly high bar. If, say, much-anticipated housing and infrastructure projects start to materialise, this would be even better.

As we have seen in recent years, when deeply undervalued stocks start to find buyers, they can move upwards very quickly. My bull case view would see the FTSE250 outperform the FTSE100 over the course of the year.

...But risks remain

It is not hard to counter this things-just-need-to-get-slightly-less-bad scenario. It is apparent that the US market is over-reliant on the build-out of AI infrastructure. A bubble bursting in AI stocks need not have much impact on domestic UK stocks, where there is minimal AI exposure. But a broader equity market rout could. That said, our

view is that current conditions look more like 2000 than 2008. There were plenty of places to invest in 2000 beyond the tech sector, with an expectation of reasonable returns. In 2008, there were few hiding places, and there was an extraordinary level of gearing throughout the financial system that is not present now.

A more dismal view is that we simply get more of the same. Poor delivery of government policy, sticky inflation, interest rates not coming down as much as hoped. Perhaps a parliamentary revolt leading to more sclerosis.

It is worth noting that we are stock pickers in our portfolios, selecting stocks on their individual merits in terms of valuation, sustainability and business quality. The UK market has many world leaders in their respective niches, where we do have exposure, if the valuation allows it. But we do also hold stocks with more domestic exposure where the valuation is compelling and there are very low implied expectations for growth. These can be found in areas such as retail, property and construction. If, as discussed, there is a period of relief and relative stability, we would expect these value areas of the market to perform well.



“Potential rate cuts will be the key market driver”

David Katimbo-Mugwanya, Head of Fixed Income



Fixed income markets will be shaped by an interplay of macroeconomic forces in 2026; however, I'm expecting potential rate cuts to be the key driver. This is against a backdrop of higher-than-expected but gradually declining inflation and rising unemployment across major economies.

For the US, there will also be a change in Federal Reserve (Fed) leadership next year – with Powell's replacement's likely propensity to be dovish increasing the prospect of more near-term Fed rate cuts. The Bank of England is also likely to cut rates, with Europe and Canada's central banks expected to remain neutral and the Bank of Japan heading in the opposite direction.

Our strategy for the year is to remain selective and flexible. We favour shorter to intermediate maturities, and we think there's scope to go further down the capital structure in high-quality credit to capture yield and enhance carry – an important contributor to returns assuming spread movements remain relatively benign. New issuance continues to offer attractive opportunities, given how tight credit spreads are; we will continue to take advantage of these opportunities into 2026.

A higher normal for the rate of inflation

Fiscal sustainability is a key concern for next year, as governments grapple with elevated spending and higher debt costs. While larger shorter-dated issuance may temper long yields, term premia linked to fiscal risk are unlikely to disappear, particularly where countries are reluctant to recalibrate spending plans.

Inflation stickiness provides a further challenge: markets are adjusting to a new normal where inflation may average closer to 3% than 2%, which could limit the pace and depth of interest rate cuts. I expect central banks will tread carefully, wary of reigniting inflationary pressures. If central banks do decide to let inflation run hot, this would be financially repressive. Whilst not our base case, it is a scenario worth monitoring.

Reasons for optimism: sovereign debt offers value, while transition finance evolves

There are several reasons to be optimistic about the year ahead. Sovereign debt offers compelling value,

with yields rewarding underlying risks versus risky assets such as corporate bonds, where risk premia are still around all-time highs.

On the sustainability front, the evolution of transition finance is also particularly exciting. The revised SFDR framework and ICMA's new transition bond label could revive issuance of sustainability-linked instruments where supply has been waylaid by tighter ESG regulation, or inspire transition bond issuance, creating opportunities for issuers and investors alike.

We've always understood the role of transition bonds in the journey to net zero, but the increased regulatory demands and scrutiny on green and use-of-proceeds bonds meant they weren't always an easy fit within sustainable mandates. These developments provide a credible pathway for issuers to become green, progressing the wider objective of better aligning capital markets with the broader goal of net zero.



“Transformative AI opportunities without the speculative valuations”

Tommy Kristoffersen, Green Infrastructure Fund Manager



2025 was an odd year for green infrastructure.

At the start of Q2, US President Donald Trump announced plans to introduce punitive tariffs on US trading partners – a move Economics 101 would indicate would make foreign goods and services more expensive, raise input cost for local producers and dampen economic activity.

Initially, markets seemed to recognise that infrastructure could act as a hedge against stagflation in such an environment, given the sector’s economically insensitive business models and inflation-linked revenues. We still believe this is an appropriate way to look at the sector. In addition, several further tailwinds have been largely ignored by markets: rate cuts, the UK government’s rejection of zonal pricing reforms and continued M&A activity across the sector.

We believe there is potential for these supportive factors to be realised in 2026, creating the conditions for a more sustained recovery and renewed investor confidence.

Sector challenges—operational, not structural

That is not to say the sector has been without its challenges. We have seen grid outages, challenging weather

conditions, and a possible switch from RPI to CPI as the indexation mechanism for renewable obligation certificates, which would result in reduced value for these future cash flows. None of these challenges are structural, but they do pose near-term headwinds.

Having said that, contrary to what share price reactions may lead you to believe, they are headwinds against which underlying business outcomes have largely proven resilient. While some headline events have been clear drivers of negative sentiment, such as the Trump administration’s order requiring wind developer Ørsted to halt ongoing work on its Revolution Wind project off the coast of Rhode Island, there have also been political developments that should have improved sentiment.

Transformative AI opportunities without speculative valuations

During Trump’s state visit to the UK in September, Keir Starmer announced a new commitment from US tech companies to build cloud and AI Infrastructure in the UK, with Microsoft alone indicating it could invest \$15bn in AI-related UK infrastructure in the four years to 2028.

We continue to see the rapid growth of AI as supportive of green infrastructure, as large tech companies with net zero goals continue to increase their demand for clean energy, creating opportunities for infrastructure providers.

While many headline AI stocks appear overvalued and vulnerable to short-term corrections, we believe the underlying technology is poised to reshape entire industries, creating opportunities for investors to gain exposure to overlooked segments of the market. Green infrastructure companies, for example, can provide participation in the AI revolution through long-term power purchase agreements with data centres and tech companies, without the speculative valuations seen in the core AI sector.

As we move into 2026, we maintain a positive outlook for the green infrastructure asset class. We believe the potential remains for share price recovery, followed by a return to the sector’s longer-term characteristics with steady returns from underlying income.



About Us

EdenTree is an active investment management house dedicated to sustainable and impact investing – it’s all we do. We have a 35+ year track record in this space, having launched our first ethical fund in 1988.

Our Sustainable Investment Team, made up of our fund managers and sustainability analysts, is united by four core beliefs that guide everything we do. **We invest for a better tomorrow**, acting as long-term, active investors who focus on businesses making a positive contribution to people and the planet. **We invest in quality**, combining rigorous investment and sustainability analysis to tilt our focus towards resilient and responsible companies. **We invest at sustainable valuations**, always considering the long-term value an investment can deliver for our clients. **And we engage for change**, maintaining an active programme of engagement and voting to ensure businesses are operating responsibly.

Our commitment to excellence in sustainable investing is portrayed by our award wins, reflecting our leadership in sustainable finance and our inclusive culture. In 2025, we were awarded Best Ethical Investment Provider at the Investment Life & Pensions Moneyfacts Awards for the 17th year running. We also celebrated winning Best Sustainable Fund Launch at the Sustainable Investment Awards 2025 for our Global Sustainable Government Bond Fund. In addition, we were Highly Commended for Investment Group of the Year for Diversity and Inclusion at the Women in Investment Awards 2025.



EdenTree is based in the heart of the City of London, but our team serves the professional investor community across the entirety of the UK, with dedicated regional sales managers providing exceptional levels of client support.

EdenTree is part of the [Benefact Group](#) – a charity owned, international family of specialist financial services companies that give all available profits to charity and good causes.





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The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations, you may not get back the amount originally invested. Past performance should not be seen as a guide to future performance. If you are unsure which investment is most suited for you, the advice of a qualified financial adviser should be sought.

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