JANA

DEPTH WITH DIFFERENCE

2026 JANA Investment Strategy Outlook

Navigating Structural Shifts

jana.com.au

Economies and markets rarely follow predictable patterns. Instead, they exist in a constant state of flux, shaped by shifting policies, feedback loops, and powerful structural forces. No two cycles are ever the same - structural shifts in geopolitics, demographics, technology, and economic policy ensure each cycle is unique.

Each year, JANA's investment strategy teams review recent cyclical developments and assess the progress of longer-term structural changes. We identify the themes most likely to influence strategic positioning and ultimately, how they could affect long-term investment outcomes.

The **2026 JANA Investment Strategy Outlook** outlines our expectations for 2026 and beyond, focusing on key structural forces shaping the global investment environment.

This paper, *Navigating Structural Shifts*, focuses on key structural forces shaping the global investment environment, including:

- How a multi-polar world is driving a more dynamic international landscape,
- How economic nationalism and fiscal intervention are reshaping economic stability, growth prospects and policy predictability,
- The implications of fragmented global responses to climate change and the energy transition, and
- How artificial intelligence (AI) and shifting demographics are transforming labour markets, productivity and long-term growth.

A subsequent paper, *Asset Class Trends*, will examine what these forces mean in practice for markets and asset class positioning in 2026.

Navigating Structural Shifts

Our latest analysis signals that a structural break from the pre-pandemic global order has accelerated and become more firmly established over the past year. Geopolitical fragmentation deepened, economic nationalism and fiscal intervention became more widespread, and the shift toward a multi-polar world accelerated. Supply chain resilience and energy security rose to the top of policy agendas, often slowing progress toward emissions targets.

Meanwhile, AI adoption and digital infrastructure delivered tangible productivity gains, though the broader economic benefits remain uneven and subject to capacity and policy constraints. Inflation and interest rate volatility continued, and regional divergence and policy responses made the global growth environment more complex and less synchronised.

Looking forward, our structural themes have evolved to reflect the growing interconnectedness and disruptive potential of these forces. Economic nationalism and fiscal intervention emerged as a discrete theme, given the broad adoption and impact across both developed and emerging economies. The interplay between technology, energy transition, and demographic pressures has become even more influential, reinforcing the need for adaptability and resilience in investment strategy, as we continue to navigate a more volatile and fragmented global landscape.

Multi-Polar World

During 2025, we witnessed a meaningful acceleration in the transformation of the global geopolitical landscape to a more fragmented, multi-polar world.

While the chaos of Liberation Day and tariff policies grabbed the headlines, the rise of China and the China–US rivalry is at the core of this transition, notwithstanding that other regional powers such as Russia are opportunistically seeking to assert greater influence.

This sharpening rivalry has unfolded alongside a notable shift in the Trump administration's approach to the US's role in global security. Despite early commitments to avoid "endless wars," the US has shown a renewed willingness to use force abroad, first in Iran and now in Venezuela, signalling a more interventionist posture. Although access to Venezuela's oil reserves is a stated motivation, the operation to capture Nicolás Maduro can be understood through the lens of the China-US rivalry.

China has spent more than a decade deepening its economic and political influence in Venezuela and the timing (immediately after Maduro met China's special envoy) highlights Washington's intent to constrain Beijing's expanding reach in the Americas.

China-US competition is not only geopolitical but also economic, with both nations vying for dominance in strategically important sectors including AI, energy, and advanced manufacturing. The rivalry is already reshaping the trajectory of AI innovation and the global energy transition, as both countries implement trade restrictions and industrial policies targeting strategic sectors.

The US maintains leadership in a range of information technologies spanning AI, quantum computing and certain advanced technologies. Meanwhile China has established itself as the dominant global supplier of rare earths, and also rapidly advancing in AI and renewable energy technologies.

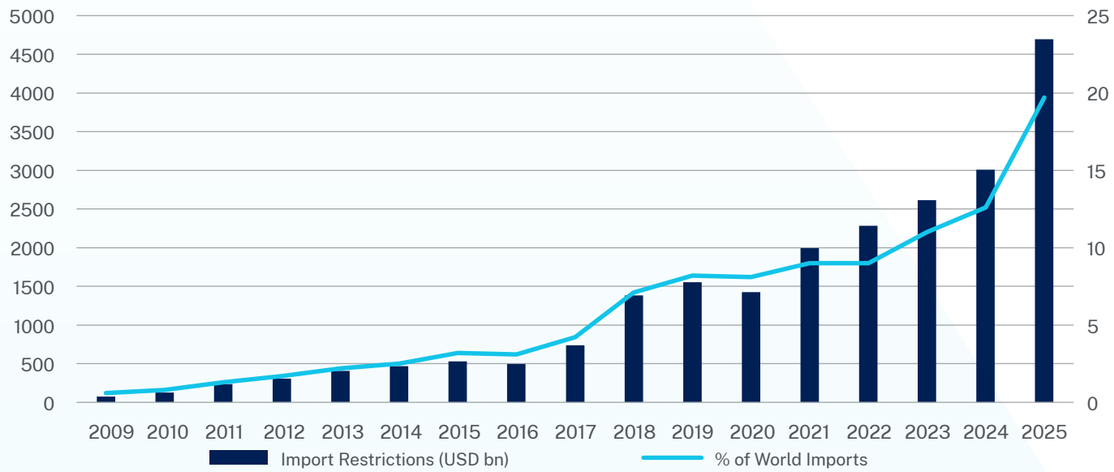
Trade negotiations spotlighted these strategically important sectors: Washington restricting advanced chip exports to China, and Beijing retaliating through rare earth export curbs, leveraging its dominant position in critical minerals.

China's provocative response underscored its strategic leverage, even as both sides agreed to suspend or ease some restrictions as part of tentative deal-making.

These trade dynamics continue to signal a competitive, yet interdependent landscape. Each economy remains vital to the other's supply chains and markets, making outright decoupling a costly and less likely scenario.

Developments over the past year have only reinforced a stronger global policy focus on supply-side security and have encouraged some further reorientation of global trade along regional and geopolitical lines. According to the World Trade Organisation, trade restrictions have skyrocketed in recent years to cover nearly 20% of global imports, up from 12.6% in 2024. This figure was 0.9% in 2009.

Increasing Trade Restrictions

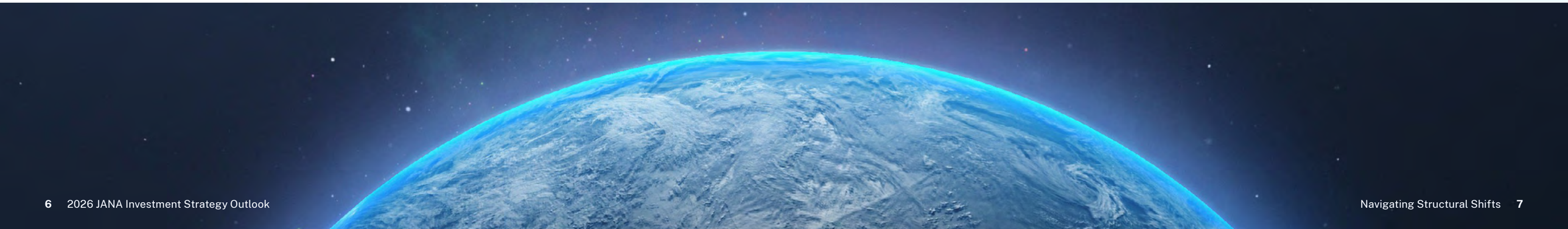


Source: World Trade Organisation Trade Monitoring Database' WTO Annual Report 2025.

Global geopolitical fragmentation is already undermining global coordination and, over time, will reduce the broad global growth benefits of free trade and capital mobility.

Higher geopolitical risk and a shift towards greater protectionism signal ongoing global supply-side uncertainty and a structural increase in inflation uncertainty relative to the pre-pandemic decade.

We believe 'through the cycle' inflation looks likely to remain higher on average (relative to the post-global financial crisis/pre-pandemic experience), with more volatility and greater divergence across regions.



Economic Nationalism and Fiscal Intervention

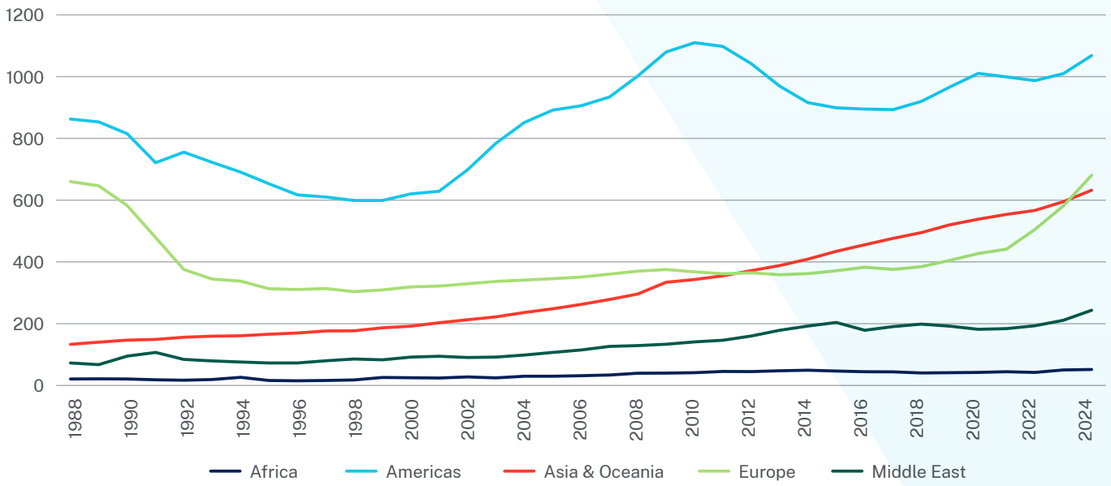
The past year has seen a marked escalation in economic nationalism and government intervention.

A number of events – including disrupted supply chains, high inflation during the pandemic, Russia's invasion of Ukraine and shifting US policies, have prompted governments worldwide to prioritise national interests, particularly for strategically important sectors. This has accelerated the adoption of interventionist policies, with significant implications for fiscal spending, industrial policy, defence spending and long-term economic stability.

A central pillar of national competitiveness has been the securing of affordable and reliable energy, prompting governments to pursue self-sufficiency in energy supply.

Heightened geopolitical tensions, including the conflict in Ukraine, China-US rivalry and recent shifts in US foreign policy have contributed to higher national defence spending, most notably in Europe. In Germany, the parliament approved a €500 billion infrastructure fund and enacted a constitutional change to adjust the debt brake (this had previously limited defence spending). Other countries including Poland, Japan, South Korea, and Australia are investing heavily in defence-linked industrial capacity across munitions, shipbuilding, energy and critical minerals. Importantly, spending is being driven by broader macroeconomic policy objectives, such as boosting employment and rebuilding national capability in strategic sectors, rather than solely by traditional defence requirements.

World Military Expenditure by Region (USD Billion)



Source: Stockholm International Peace Research Institute (SIPRI), 2025.

Across developed economies, fiscal deficits have remained wider than pre-pandemic levels, even as economic expansion continues. US debt held by the public – a key measure of fiscal sustainability – surged over the past fifteen years, from around $9 trillion (60% of GDP) to a projected $27 trillion (100% of GDP) in 2025. Deficits continue to run in excess of 6% of GDP, despite low unemployment rates. Persistent large-scale fiscal spending and elevated public debt levels are now defining features of the macroeconomic landscape, with important implications for future growth, inflation, the cost of long-term debt and financial stability.

Policy predictability is declining as governments elevate geopolitical objectives and prioritise national economic interests, increasing the risk of disruptive policy shifts over the cyclical horizon. China-US tensions are expected to persist, with the potential to lead to more disruptive geopolitical and macroeconomic scenarios over the secular horizon.

In the short- to medium-term, we anticipate rising deficit spending and industrial policy-driven spending will boost growth in some economies. Productive public and private capital expenditure could sustain stronger economic growth in those economies, though it adds to fiscal pressures. Fixed income investors are already focused on these dynamics and may demand higher yield premiums to compensate for the risk of holding long-duration government bonds.

Energy Transition and Climate Change

Climate impacts are intensifying, while the trajectory of the global policy response has become more fragmented.

The latest World Meteorological Organisation Greenhouse Gas Bulletin reports that atmospheric concentrations of CO^2 and other greenhouse gases reached new records in 2024, driven partly by wildfire emissions. This underscores a troubling feedback loop – warming amplifies fire activity, which further raises emissions. This creates a challenging backdrop for policy and market responses – and frames climate risk as not only a critical macroeconomic and market driver over our structural themes horizon but also as a long run existential threat.

The outlook for global emissions and the energy transition is increasingly intertwined with geopolitics and technology, including the surging energy demands of AI.

Heightened geopolitical competition and surging demand for energy are already subordinating climate-related objectives and reshaping the near-term energy transition, reducing the probability of achieving Net Zero by 2050. Notably, the Trump administration's decision to withdraw from the Paris Agreement, as well as its efforts to roll back investment incentives and impose new regulatory hurdles for clean energy investment have significantly undermined the outlook for renewables in the US. The International Energy Agency has cut its forecast for US renewable capacity additions in 2025-2030 by almost 50%. Other countries have also signalled plans to revisit or reduce commitments.

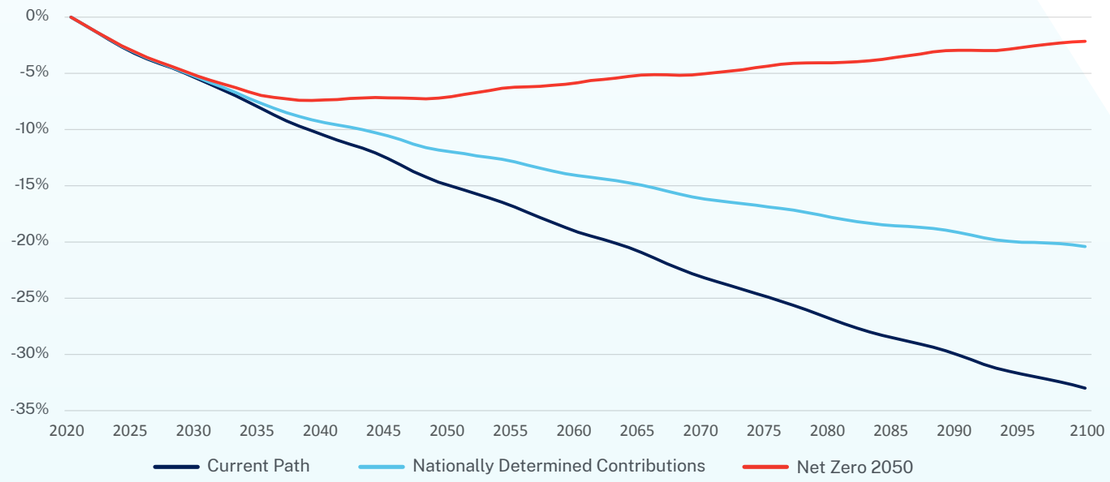
Meanwhile, AI investment is accelerating electricity demand, particularly in the US and China, where technological leadership is seen as critical to geopolitical influence. This rapid growth presents a two-sided risk – it could drive a rapid scaling up of new renewables investment, but competing imperatives, including energy security and speed of new deployment, may also drive an expansion of existing fossil fuel generation. Both paths are evident across major economies.

China is installing renewables at record pace, while aggressively building AI infrastructure. Yet coal-fired generation is also expanding to guarantee supply. This is also the case in India. In the US, fossil fuels reduced to 57% of electricity generation in the year to October, down from 67% in 2015 with a corresponding increase in renewables from 14% to 26%, with nuclear making up the remainder. However, the Trump administration's policy path is expected to significantly slow investment in renewables going forward. Energy security considerations, including risks tied to China's domination of the global renewables supply chain, are likely to drive greater reliance on fossil fuels.

We expect the energy and climate-related policy backdrop to remain both dynamic and vulnerable to change, particularly in an environment of heighted geopolitical tensions.

The path of the energy transition has implications for global growth over the transition period and longer term. Climate modelling clearly highlights that falling short of Net Zero by 2050 targets raise the probability of greater longer-term physical economic costs. From an investment perspective, JANA's portfolio climate modelling further indicates that these pathways also raise the probability of detrimental portfolio outcomes.

Cumulative GDP Impact by Scenario



Source: Network for Greening the Financial System (NGFS)

In the near term, 'Greenflation' is emerging as a key factor, driven by higher carbon pricing in some regulated markets, supply/demand mismatches, and growing global demand for commodities and critical minerals, which is putting pressure on prices.

Technology and Innovation – AI

2025 saw a distinct increase in AI investment and with that came ground-breaking acceleration in leading AI model performance and real-world application reach.

Successive generations of large language models delivered dramatic improvements in reasoning and multimodal processing, culminating in Google's Gemini 3 release, which set new benchmarks across text, code, image, and advanced reasoning. Beyond language models, breakthroughs extended into biological AI, with DeepMind's AlphaGenome advancing the use of deep learning to map DNA sequencing and gene expression, opening the door to transformative progress in genetic medicine.

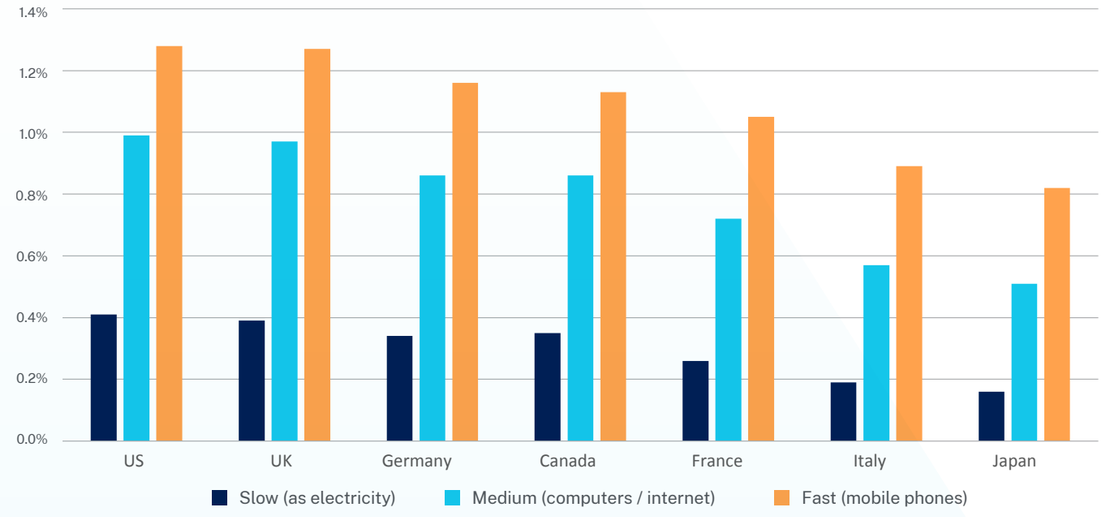
The speed of adoption has been extraordinary. AI diffusion is occurring faster than any prior technology shift. This has been largely enabled by existing digital infrastructure, the scalability of cloud platforms, and the integration of AI in widely-used software. 'Agentic-AI' (systems capable of autonomous decision making) emerged as a major trend, signalling a shift from reactive tools to proactive systems that execute tasks independently. Businesses are embracing the capabilities, though early evidence of productivity impact still remains limited. This is consistent with the 'productivity J-curve' observed in prior technological revolutions, where benefits lag initial adoption.

Increased competition between the US and China has become a strategic technology race, with both countries leveraging different strengths. The US retains leadership in AI models and chip design, while China has responded by developing homegrown AI chips that are "good enough" when used in large numbers. Yet China's accelerating power capacity growth could prove a structural advantage as energy emerges as a critical constraint for AI progress.

Putting aside these competitive dynamics, it's worth noting that the economic benefits of AI adoption will vary for all countries. There are expectations that advanced economies with more knowledge-intensive industries could see a greater uptick in trend growth resulting from the earlier stages of an AI revolution, where productivity gains are found in industries with exposure to data-intensive activities and cognitive automation. Recent IMF scenario modelling suggests the US and Europe might realise a cumulative GDP increase of between 4% and 5% over the next 10 years, while emerging and lower income countries might only realise between 2% and 3%.

A key driver of this growth is expected to come from improvements in labour productivity. OECD analysis of G7 economies shows expected outcomes to be strongest where economies have a high share of AI-suitable tasks (e.g. knowledge-intensive work), strong digital infrastructure and investment (e.g. cloud, data and software), flexible and skilled workforces and stable and predictable regulatory frameworks.

Annual Contribution to Labour Productivity Growth



Source: OECD Working Paper, Macroeconomic productivity gains from Artificial Intelligence in G7 Economies, 2025.

AI-linked productivity and efficiency benefits could eventually be a potentially powerful driver of higher productivity and a strong disinflationary force over time.

While there are concerns that productivity improvements could pose challenges for employment rates, research suggests that AI will drive job turnover and reconfiguration rather than cause outright destruction. The World Economic Forum's *2025 Future of Jobs Report* projects net job creation, with technology the most divergent driver of labour market change by 2030.

Despite strong gains and optimism, we expect that structural constraints may limit progress over the coming decade. High-quality training data is becoming scarce as models exhaust publicly available text and code, raising costs and diminishing marginal returns. Meanwhile, training and deploying frontier models are highly energy-intensive, making progress contingent on reliable, affordable electricity and data centre capacity. These factors could slow the pace of AI advancement.

Demographics

Demographic trends remain a slower moving, yet powerful influence on both cyclical economic conditions and the longer-term economic backdrop.

Declining birth rates and ageing populations continue to reshape public finances, and long-term growth prospects, with fiscal sustainability emerging as a major concern in many developed economies and in China.

Fertility rates have fallen below replacement levels in many countries, including China, South Korea, and much of Europe, while global average life expectancy continues to rise. By 2050, one in six people worldwide will be 65 or older, up from one in 10 today – with even higher proportions in regions such as Europe and Japan. This demographic shift is shrinking working-age populations and increasing the share of the population that is elderly, which is creating structural pressures on economies as a result.

Global Average Fertility Rate with Projections

Global Average Life Expectancy with Projections

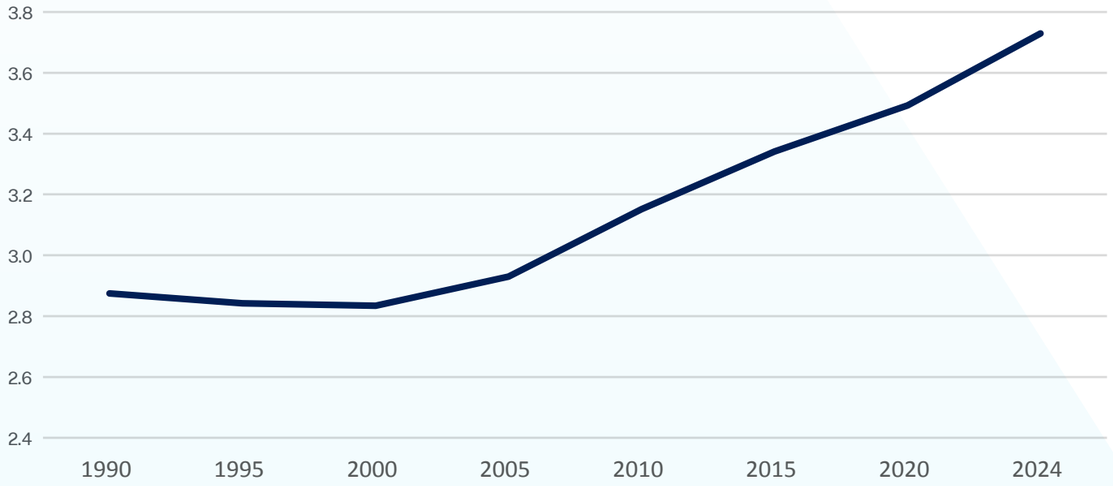
Source: United Nations, Department of Economic and Social Affairs, 2024.

*Projections based on the UN Medium scenario.

The implications for public finances are significant. Pension systems, healthcare, and social security face mounting costs as fewer workers support more retirees, while tax revenues decline. In the US, the Congressional Budget Office projects federal debt rising to approximately 160% of GDP by 2050, driven largely by social security and Medicare outlays. China faces similar challenges, as declining fertility rates and a shrinking workforce strain pension systems and healthcare capacity. These ageing-linked fiscal pressures will shape long-term debt dynamics and investor perceptions of sustainability.

Historically, immigration has helped offset demographic headwinds in economies such as the US and Australia. However, rising economic populism in both developed and emerging economies has resulted in tighter immigration restrictions in several countries. Stricter policies in the US have driven a sharp slowdown in working-age population growth. Combined with ageing demographics, this trend could lead to tighter labour markets and upward pressure on wages, with inflationary implications over both cyclical and structural horizons.

International migrant stock (% of population)



Source: United Nations, Department of Economic and Social Affairs (UN DESA) International Migrant Stock Database 2024.

Demographic factors are set to weigh on fiscal outlooks across major economies with ageing populations over a structural horizon, including the UK, China, Europe and the US. Persistent deficits and rising debt burdens will remain a defining feature of the macro landscape. Over time, we believe those concerns about debt sustainability may lead investors to demand higher yield premiums for holding long-duration bonds.

Bringing It All Together

The macroeconomic environment for investors continues to be shaped by the interplay of structural forces — geopolitics, economic nationalism, demographics, climate and energy transition, and rapid technological change. These themes are not only interconnected, but their influence on key macro variables has become more pronounced and complex.

Our analysis signals a decisive structural break from the pre-pandemic global order, with the past year entrenching a new macroeconomic regime. The emergence of a multi-polar world and the rise of economic nationalism are reshaping geopolitics, trade, technology and the global energy transition.

Inflation is expected to remain higher on average and more volatile than in the pre-pandemic era. This reflects the combined impact of supply-side uncertainty, persistent policy activism, and the ongoing reconfiguration of global trade and energy systems. The interplay between factors like climate change, technology and demographics may see significant divergence in inflation outcomes across different countries. The return of inflation risk presents a more challenging backdrop for central banks, making a near-term return to ultra-low policy rates unlikely.

Interest rates continue to be subject to structural upward pressure, driven by sustained public and private investment in areas such as industrial policy, AI, energy transition, and supply chain resilience. While high savings linked to ageing demographics in developed economies provide some offset, the persistence of large-scale fiscal spending and elevated public debt levels is now a defining feature of the landscape. Investors are likely to demand additional compensation for uncertainty, resulting in higher term premia for long-duration debt, with implications for the pricing of all risk assets.

Economic growth is expected to be less synchronised and more uneven across regions, with shorter cycles linked to inflation volatility and demographic divergence. Advanced economies and technology leaders may pull ahead, while emerging markets face both new opportunities and heightened vulnerabilities. The energy transition, while imposing short-term growth costs, offers longer-term benefits from climate resilience and energy cost stability. At the same time, demographic pressures and tighter immigration policies in some developed economies will shape labour markets and fiscal outlooks.

Instability and policy unpredictability are likely to be persistent features of the current regime. In this environment, investors must balance the pursuit of emerging opportunities, particularly in technology, infrastructure, and climate solutions, with the need to manage higher and more variable inflation, interest rate uncertainty, and the potential for shorter, less synchronised economic cycles.

A forward-looking, adaptive approach remains essential for navigating both the risks and rewards of a rapidly evolving global landscape.

Learn more about our insights

The **2026 JANA Investment Strategy Outlook** papers provide our expectations for 2026 and beyond:

- **Navigating Structural Shifts** explores the long-term structural forces that are shaping the investment landscape.
- **Asset Class Trends and Strategy** highlights the evolution of asset classes and the implications for asset allocation and portfolio design.

Find out more at jana.com.au/investment-strategy-outlook.

JANA

DEPTH WITH DIFFERENCE

Sydney

9/255 George Street,
Sydney NSW 2000
02 9221 4066

JANAadmin@jana.com.au

Melbourne

18/140 William Street,
Melbourne VIC 3000
03 9602 5400

JANAadmin@jana.com.au

CAN-JAN031_002_01.26