

Insights Engine | Year-End Review

Reflection of 2025 and Outlook for 2026: Markets at an Inflection Point



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Executive Summary



The year 2025 proved to be a time of economic divergence rather than widespread stagnation, as global growth slowed in parts of the developed world but stayed resilient in the United States. While several advanced economies experienced weak momentum amid declining fiscal stimulus and policy uncertainty, the US economy grew strongly, expanding by 4.3% in Q3 2025 and 3.8% in Q2, fueled by robust consumer spending, especially in healthcare, recreation, travel, and non-durable goods, along with increased government spending and steady exports, even despite a government shutdown. Inflation slowed across regions but remained persistently high in services and wage-sensitive sectors. Notably, monetary policy in most developed markets shifted toward easing in 2025, although financial conditions remained uneven due to policy shifts, geopolitical issues, and tariff sensitivities.

Equity markets reflected this uneven macro landscape. Headline returns were positive, but gains were heavily concentrated in mega-cap technology and AI-linked stocks, while market breadth remained narrow and volatility episodic. Commodities and select real assets regained relevance as portfolio stabilizers amid geopolitical tensions, tariffs, and ongoing supply-chain reconfiguration. Overall, 2025 underscored a regime characterized by policy-driven dispersion, asset concentration, and uneven growth, rather than systemic economic stress.

Looking ahead to 2026, the global economy enters a more balanced but fragile expansionary phase. Continued monetary easing should provide incremental support to growth, though real rates are likely to remain positive. Policy choices will be pivotal: deregulation across financials, energy, and healthcare could unlock investment. Valuation sensitivity, particularly in US equities, remains elevated, reinforcing the need for diversification beyond traditional stock-bond frameworks.



U.S. Equity Index Gains in 2025 Driven by Mega-cap Tech and AI Stocks

70%+

5%+

Growth in Emerging Asian Markets in '25, Exceeding Developed Markets

Even as Central Banks Cut Rates, Real Interest Rates Remained Positive

FY25

20%+

AI-Related Capex to Rise in '26, Extending the Cycle Started Since Early 2000s

2025 as a Year of Economic Rebalancing

The global economy in 2025 was shaped by rebalancing across regions, sectors, and demand drivers, diverging sharply from the recessionary narratives that prevailed entering the year. While growth moderated in parts of the developed world, aggregate outcomes were supported by easing monetary policy and sustained consumption. Across major economies, central banks transitioned into easing cycles aimed at countering softer employment momentum, lowering policy rates, and improving credit availability.

In the United States, economic momentum remained expansionary. Real GDP growth accelerated to 4.3% in Q3 2025 and 3.8% in Q2, driven by consumer spending, particularly in healthcare, recreation, travel, and non-durable goods, alongside rising government expenditure and resilient export growth. Interest-sensitive sectors faced mixed outcomes, but this reflected structural supply constraints rather than demand destruction. In housing specifically, depressed residential activity in the US and Canada was primarily the result of chronic housing supply shortages, not elevated borrowing costs. With rates already moving lower, the interest-rate impulse is now turning supportive for residential demand.

Financial stability remained strong throughout the year. Bank capital ratios stayed well above regulatory minimums, liquidity conditions were ample, and policy signaling was effective in containing volatility. Consequently, 2025 marked a year of macro realignment, resetting expectations toward more balanced growth, policy flexibility, and a disciplined but opportunity-rich investment landscape.

Artificial Intelligence as the Singular Engine of Economic Momentum

Artificial intelligence emerged in 2025 as the most powerful and concentrated engine of economic momentum, standing in stark contrast to deceleration in the manufacturing sector, with a decrease of 4.5% in nonfarm business sector labor productivity. While aggregate growth slowed, AI-related investment accelerated, driving capital expenditure cycles across semiconductors, cloud infrastructure, data centers, networking equipment, and energy systems. This divergence created a two-track economy, where innovation-intensive sectors expanded rapidly while traditional industries struggled to maintain momentum.

AI's influence extended beyond financial markets into operational decision-making, productivity optimization, and strategic planning across industries. Enterprises are increasingly embedding AI into logistics, customer engagement, fraud detection, research and development, and automation, shifting spending priorities toward digital infrastructure and away from labor-intensive processes. However, the economic benefits of AI remained highly concentrated among firms with scale, proprietary data, and capital access, reinforcing competitive advantages and widening productivity gaps.

From an equity market perspective, AI became the dominant justification for valuation expansion and earnings resilience. Investor capital flowed disproportionately toward companies positioned at the center of the AI value chain, driving market concentration and narrowing leadership. At the same time, the scale of investment required to sustain AI growth introduced new dependencies, particularly on energy availability, semiconductor supply, and regulatory clarity.

By the end of 2025, AI was no longer viewed as a speculative theme but as a structural growth pillar with multi-year implications. Yet its broader economic diffusion remained incomplete, raising important questions about inclusivity, capital efficiency, and the long-term distribution of productivity gains. AI-powered growth forward, but it did so unevenly, reshaping both opportunity and risk.

Inflation Persistence and the Limits of Monetary Normalization

Inflation dynamics in 2025 underscored the structural constraints facing central banks attempting to normalize policy after an extended tightening cycle. While headline inflation moderated from earlier peaks, underlying pressures proved persistent, particularly in services, housing-related costs, and wages. These components reflected deeper structural forces, including labor market frictions, supply chain reconfiguration, and higher input costs associated with energy transition and geopolitical fragmentation.

Central banks responded cautiously, initiating rate cuts while emphasizing a data-dependent approach that prioritized inflation control over growth acceleration. This measured easing marked a shift toward neutrality rather than a return to accommodative policy. Real interest rates remained positive across major economies, reinforcing tighter financial conditions than those prevailing in the previous decade. As a result, monetary policy offered limited support to growth-sensitive sectors, constraining credit expansion and risk-taking.

For financial markets, inflation persistence introduced asymmetry. Bond yields remained volatile, reflecting uncertainty around the terminal rate and the durability of disinflation trends. Equity valuations outside high-growth sectors struggled to expand meaningfully, as higher discount rates capped multiples. At the same time, the credibility of central banks in maintaining price stability helped anchor longer-term expectations, preventing disorderly market reactions.

The key lesson of 2025 was that monetary normalization has limits in a structurally altered economy. Inflation is no longer purely cyclical, and policy flexibility is constrained by fiscal dynamics, demographic pressures, and geopolitical risks. This reality reshaped investor assumptions around rates, growth, and asset valuation heading into 2026.

Tariffs, Policy Uncertainty, and the Return of Economic Fragmentation

Policy uncertainty re-emerged as a defining macro force in 2025, with tariffs and trade-related actions amplifying economic fragmentation across regions and industries. Protectionist measures disrupted established supply chains, increased input costs, and added complexity to corporate planning. These policies often produced contradictory outcomes, simultaneously suppressing growth and reinforcing inflationary pressures through higher import prices and reduced efficiency.

Businesses responded by accelerating supply chain diversification, reshoring, and regionalization strategies. While these shifts improved resilience, they came at a higher cost, weighing on margins and capital efficiency. For smaller economies and export-oriented sectors, policy unpredictability reduced investment visibility and constrained expansion.

Financial markets reacted sharply to policy signals, with tariff announcements triggering volatility across equities, currencies, and commodities. Investor sentiment became increasingly sensitive to political developments, elections, and regulatory rhetoric, elevating risk premia across asset classes. This environment favored assets linked to domestic demand, strategic industries, and policy protection, while globally integrated sectors faced recurring headwinds.

The re-politicization of economic policy in 2025 marked a structural shift rather than a temporary disruption. Tariffs were being used as a negotiating tool between the US and other countries, leading to wide disparities in tariff rates across countries, even for the same goods. Fragmentation became an embedded feature of the global economy, reinforcing the need for geographic diversification, regulatory awareness, and flexible capital allocation. Policy risk is no longer peripheral; it has become a core driver of economic outcomes and market behavior.

Labor Market Softness and the Changing Nature of Employment

Labor market dynamics in 2025 reflected a gradual but meaningful shift from post-pandemic tightness toward structural recalibration. While headline unemployment remained contained, underlying indicators pointed to softening labor demand, slower hiring momentum, and declining job openings across cyclical sectors. Companies increasingly adopted a cautious stance, prioritizing productivity gains, margin protection, and balance sheet discipline over workforce expansion. This moderation was not driven by economic distress but by a recognition that growth visibility had weakened and cost structures needed to adjust to higher interest rates and slower demand.

A defining feature of labor softness was its uneven distribution. Knowledge-intensive, technology-aligned roles continued to command wage premiums, while traditional white-collar and mid-skill jobs faced stagnation or redundancy. Automation and AI adoption accelerated this divergence, reshaping workforce needs and compressing employment growth in administrative, customer service, and operational roles. The result was a labor market that appeared stable on the surface but increasingly fragmented beneath, with rising skill mismatches and declining mobility for certain segments.

For policymakers, this environment offered reassurance that wage-driven inflation pressures could ease without triggering mass layoffs. For households, however, real income growth became less broad-based, contributing to uneven consumption patterns. The labor market in 2025 highlighted the evolving nature of employment in an economy where productivity, technology, and capital intensity increasingly outweigh labor absorption as drivers of growth.

Equity Markets Defined by Volatility and Concentration

Equity markets in 2025 delivered a paradoxical outcome: strong headline index performance alongside weakening internal breadth. Market gains were heavily concentrated in a narrow group of mega-cap technology and AI-driven companies, while a large share of stocks experienced muted or negative returns. This concentration amplified volatility, as index-level movements became increasingly sensitive to earnings revisions, capital expenditure guidance, and valuation shifts within a small subset of market leaders.

Periods of sharp drawdowns punctuated the year, driven by rate expectations, tariff announcements, and policy uncertainty, yet these corrections were often short-lived. Liquidity, passive inflows, and structural demand for growth exposure repeatedly stabilized markets, reinforcing a cycle of volatility without capitulation. Traditional diversification across sectors proved less effective, as correlations rose during risk-off episodes and leadership remained narrowly defined during recoveries.

Valuation dispersion widened meaningfully, with premium multiples justified by AI-driven growth expectations, while cyclical, defensive, and small-cap equities struggled to attract sustained capital. This divergence reflected a market environment where certainty of growth was rewarded disproportionately, even at the cost of rising concentration risk. By year-end, investor concern increasingly centered on the fragility embedded in index performance, as market resilience relied more on narrative durability than broad-based earnings strength. The equity market of 2025 thus highlighted the limits of passive exposure and underscored the importance of selectivity in an era of structural concentration.

Commodities and Real Assets as Strategic Shock Absorbers

Commodities and real assets reasserted their relevance in 2025 as macro uncertainty, inflation persistence, and geopolitical risk reshaped portfolio construction. Unlike traditional financial assets, commodities responded positively to supply constraints, policy disruptions, and the rising cost of strategic inputs tied to energy transition and

infrastructure investment. Precious metals benefited from currency volatility, flight to safety, and demand for inflation hedging, while industrial metals gained support from electrification, AI infrastructure build-out, and grid modernization.

Energy markets reflected a complex tension between decarbonization goals and structural underinvestment in supply. The Russia–Ukraine war has structurally reshaped global energy markets, supply diversification, and higher geopolitical risk premiums in energy pricing. While near-term price volatility has moderated, the conflict has entrenched energy security as a strategic priority, sustaining investment in alternative supply, storage, and energy transition infrastructure.

Agricultural commodities were influenced by climate variability and trade disruptions, reinforcing the role of real assets as protection against non-financial shocks. For investors, the performance of commodities in 2025 challenged the perception of these assets as purely cyclical, repositioning them instead as strategic diversifiers within a more fragmented global economy.

Real assets, including infrastructure and select real estate segments, also attracted renewed interest as they offered inflation-linked cash flows and lower sensitivity to financial market volatility. The broader implication of 2025 was that diversification increasingly required exposure to tangible assets whose value was anchored in physical demand, regulation, and scarcity. Commodities and real assets thus functioned as shock absorbers, cushioning portfolios against policy uncertainty, inflation surprises, and geopolitical stress in a way traditional equity-bond frameworks struggled to achieve.

Entering 2026 with a Fragile but Opportunity-Rich Backdrop

As markets transition into 2026, the global economic backdrop is best described as fragile but rich in opportunities. Growth expectations have stabilized modestly, supported by easing monetary policy and improved financial conditions, yet structural vulnerabilities remain unresolved. Elevated (and rising) government debt levels, persistently high inflation prevailing at levels higher than central bank targets, fiscal constraints, and geopolitical tensions continue to limit the margin for policy error. At the same time, the absence of systemic imbalances suggests that downside risks are likely to manifest as volatility rather than crisis.

Investor behavior is increasingly shaped by dispersion, both across asset classes and geographies. Returns are expected to be less driven by broad market exposure and more dependent on asset selection, timing, and structural alignment. This environment favors diversification beyond traditional portfolios, incorporating commodities, real assets, and selective alternatives alongside equities and fixed income. Liquidity conditions are improving, but risk premia remain compressed in certain segments, particularly US equities, where valuations reflect optimistic earnings assumptions.

The opportunity set in 2026 is therefore asymmetric. Upside exists in areas aligned with secular growth, policy support, and capital expenditure cycles, while downside risks are concentrated in overvalued assets vulnerable to earnings disappointments or policy shocks. The investment challenge lies in navigating this balance, maintaining exposure to innovation and growth while building resilience against valuation-driven corrections. 2026 is not expected to deliver uniform returns, but rather to reward disciplined, forward-looking allocation strategies.

Policy, Deregulation, and the Repricing of Risk in 2026

Policy dynamics are poised to play a decisive role in shaping asset prices in 2026, as governments and regulators seek to balance growth support with inflation control and fiscal sustainability. Expectations of further monetary easing have improved sentiment, yet central banks remain cautious, signaling that rate cuts will be gradual and conditional. This approach reinforces an environment where financial conditions ease incrementally rather than decisively, keeping risk pricing sensitive to macro data.

Deregulation initiatives across financial services, energy, and healthcare are emerging as potential catalysts for earnings expansion and capital investment. Reduced regulatory friction could spur lending activity, infrastructure development, and innovation, particularly in sectors constrained by compliance costs and policy uncertainty. At the same time, fiscal measures aimed at stimulating domestic investment may provide near-term growth support but risk reigniting inflationary pressures if poorly calibrated.

Markets are therefore entering a repricing phase where policy credibility, execution, and coordination matter more than headline announcements. Assets aligned with policy priorities are likely to benefit disproportionately, while those exposed to regulatory tightening or fiscal strain may face higher risk premia. The interplay between deregulation, monetary easing, and fiscal expansion creates a complex policy mosaic, making 2026 a year where understanding political economy becomes as important as analyzing fundamentals.

Secular Trends and the Rebalancing of Global Leadership

Long-duration secular trends are expected to exert a stronger influence on markets in 2026, gradually reshaping global leadership across regions and sectors. Artificial intelligence remains central to this transformation, with capital expenditure likely to accelerate further as compute demand, energy requirements, and data infrastructure expand. The scale of AI-related investment suggests that the productivity impact remains underappreciated, extending the runway for technology-driven growth beyond current market expectations.

Energy transition themes are also gaining structural momentum, particularly in low-carbon power generation, grid modernization, and transport electrification. These investments are less cyclical and more policy-driven, offering multi-year visibility for capital deployment. At the same time, emerging markets, especially in Asia, are positioned to capture a greater share of global growth due to favorable demographics, domestic demand resilience, and improving policy frameworks. A weaker US dollar could further support capital flows into these regions, enhancing relative performance.

This environment points to a gradual rebalancing of global growth leadership away from extreme concentration in US mega-cap equities toward a broader set of regional and thematic opportunities. While the US remains a center of innovation and capital markets depth, future returns are likely to be more geographically and structurally diversified. Secular trends in technology, energy, and demographics are therefore not only shaping industries but redefining the global investment map.

Conclusion: From Concentration to Calibration

The defining feature of 2025 was concentration amid asymmetric global growth. Expansion was led by a small group of large economies, including the US, UK, France, Japan, and India, supported by resilient consumption, easing monetary policy, and targeted fiscal support, while parts of continental Europe, most notably Germany, stagnated due to structural competitiveness challenges and weak industrial demand. This divergence concentrated equity returns and investor confidence in a narrow set of regions, sectors, and large-cap companies, particularly those linked to artificial intelligence, reinforcing leadership concentration rather than reflecting uniform global momentum.

As markets move into 2026, the investment challenge shifts toward calibration across regions, valuations, and risk exposures. With interest rates already in a downward cycle, risk is increasingly driven by valuation sensitivity, earnings dispersion, and geopolitical uncertainty. The opportunity set is broadening beyond a handful of dominant themes, rewarding investors who balance exposure to secular growth such as AI, energy transition, infrastructure, and emerging markets with disciplined diversification across geographies and business cycles. In this environment, outcomes will be shaped less by macro direction and more by selectivity, balance, and alignment with durable growth engines.



About us

RCK Analytics is a global provider of high-quality investment research, investment banking support, PE/VC insights, Gen AI solutions, market research, analytics, and assurance services. We serve a diverse client base including investment firms, PE/VC funds, asset managers, hedge funds, investment banks, consulting firms, and corporates across sectors. Backed by a skilled team, we deliver data-driven insights and strategic support to help clients make informed decisions and drive financial outcomes.



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