

RATHBONES

Investment Insights

Our monthly look at what's driving global markets

Quantum states
The world has become harder to understand and predict

Generation pet
How ageing is reshaping spending patterns and investment opportunities

Mystifying misnomer
Emerging markets offer another way of investing in the AI theme

Issue 54 | May 2026

Quick take
In this month's issue

Quantum states
The world has become harder to understand and predict

Investors are navigating a world of greater uncertainty, where political outcomes are more unpredictable and traditional assumptions are less reliable.

The conflict in Iran has reinforced this tendency, with risks to energy supply chains and broader commodity markets extending well beyond oil.

Despite near-term disruption, markets have so far looked through volatility, reflecting expectations that tensions will ultimately ease.

We still see de-escalation as the most likely outcome, though risks remain elevated and outcomes uncertain.

Against this backdrop, strong corporate earnings provide support, underscoring the importance of a disciplined and long-term investment approach.

Read the full story on page 3.

Mystifying misnomer
Emerging markets offer another way of investing in the AI theme

Emerging markets (EMs) are increasingly tied to the global AI story, with technology now dominating EM indices.

This development marks a shift from an earlier era, when banks and commodities businesses had the highest weightings.

Recent performance has been strong, supported by the rising demand for the equipment needed for AI.

On the one hand, this evolution reduces the benefits of diversification that investors value. On the other hand, EM tech companies often trade at more attractive valuations than their developed market peers.

Despite ongoing geopolitical and economic risks, improved governance, policy discipline, and structural growth suggest EMs may offer both resilience and untapped investment opportunities.

Read the full story on page 8.



Generation pet
How ageing is reshaping spending patterns and investment opportunities

From pampered pets to longer lives, we explore how ageing societies are influencing everyday spending and healthcare demand.

In consumer staples, older populations are shifting spending towards areas such as pet care, premium products, and consumer health, while reducing demand for early-life goods and impulse purchases.

At the same time, rising life expectancy – often without a matching increase in healthy years – is driving a surge in healthcare needs, particularly for chronic conditions.

These trends are supporting growth across pharmaceuticals, medical technology and healthcare services, with innovation and AI playing an increasing role in improving outcomes and efficiency.

These factors highlight how demographic change is reshaping industries, creating both challenges and long-term investment opportunities.

Read the full story on pages 5 to 7.

Snapshot
The global economy and markets

Key facts and figures from around the world, including how past energy shocks have driven efficiency gains, a surge in venture capital investment, and sharp rises in key raw material prices. Also features longer-term trends across global equities, bonds, and commodities.

Find out more on page 10.

This publication shares general information and insight about markets. It should not be taken as financial advice or a recommendation. The value of investments can go down as well as up and you could get back less than you invested.

Quantum states
The world has become harder to understand and predict



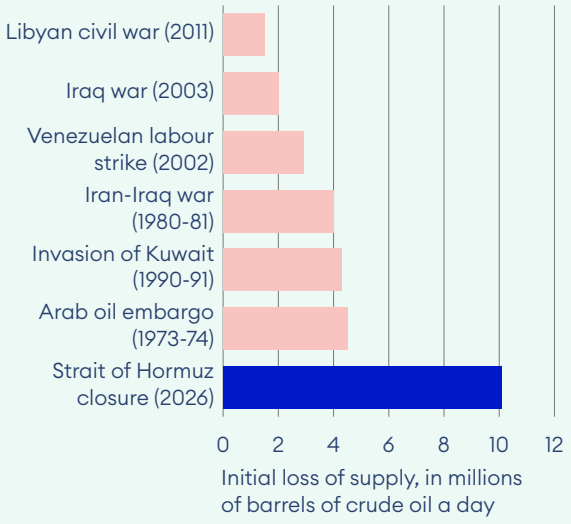
John Wyn-Evans, Head of Market Analysis

An opinion piece in the *Financial Times* earlier this year struck a chord with me. The author, Armen Sarkissian, is an arresting combination of two things: a former President of Armenia and a theoretical physicist.

Sarkissian postulated a world in which uncertainty has become the norm. He drew on his experience to describe a "quantum" world in which "outcomes are probabilistic rather than deterministic" – essentially, it's much harder to know what will happen, even if you know what the inputs are.

Investors have actually long dealt in uncertainty, weighing risk against opportunity in constructing portfolios. But Sarkissian's point was that the inputs which we have to evaluate when making these decisions, especially in politics, are increasingly uncertain. He gave the example of Greenland. If the norm that no Nato power ever threatens to take the territory of another is dissolved, this shift suggests we're now in a world that's much harder to understand and predict.

Figure 1.1: Making history
The Iran war has caused the biggest disruption to global oil supplies on record.



Source: International Energy Agency, World Bank, Energy Information Administration, Rathbones

Sarkissian further invoked the work of Anglo–Polish sociologist Zygmunt Bauman, who described our current condition as "liquid modernity". Ours is a world in which we can go to bed in one political reality and wake up in another; a world in which structures melt faster than they can be rebuilt.

When politics is so polarised, news headlines are so sensational, and it's not unusual to witness share prices move up or down more than 10% in a single trading session, I find this framework useful. But regardless of the uncertainty, we shouldn't be scared out of sensible long-term investments.

Ripples from the Gulf

Our stance throughout the Iran conflict has been that the current situation is not to anyone's benefit, and one has to have a modicum of faith that we're not headed into some form of mutually assured destruction. With this in mind, we haven't reduced overall market exposure, especially as any further rallies could be quite sharp and immediate on any firm news of a resolution. We've already seen that happen a couple of times.

As May opens, we're encouraged that the US and Iran appear still to be in negotiations, with the ceasefire still on. But it's not abundantly clear what either side will settle on as being sufficient to declare victory. For Iran this could be a lifting of sanctions and an acceptance that the current leadership can remain – and to generate revenue from ships passing through the Strait of Hormuz. This could potentially be achieved under the guise of reparations.

> "Regardless of the uncertainty, we shouldn't be scared out of sensible long-term investments"

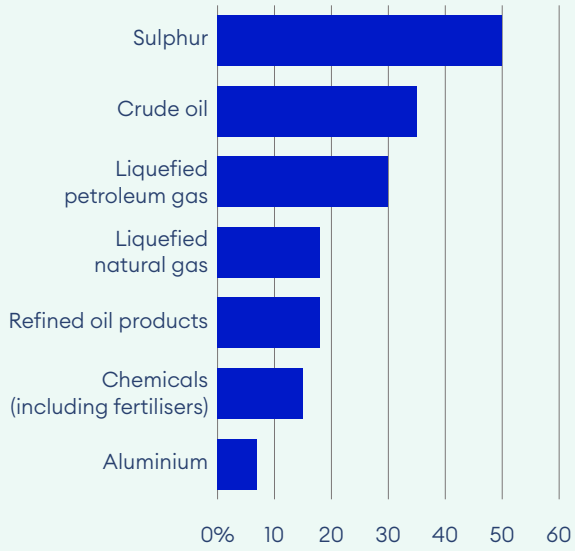
For the US the key objective appears to be some sort of oversight of Iran's nuclear capabilities, plus a commitment not to produce nuclear weapons. For now, these seem the key sticking points. As for the timing of an agreement, Iran is probably prepared to show more patience than the US – and that strengthens its ability to argue for better terms. For US President Donald Trump, the clock is already counting down to November's mid-term Congressional elections. He'll want to put the economy on a strong footing to maximise the Republican vote. But don't be surprised if we see further escalation before the denouement.

There are plenty of potential risks in this situation. And they may well increase exponentially, if the Strait of Hormuz remains closed. We're now at the point when cargoes of oil and other vital commodities that had left the Gulf before the hostilities have reached their destinations – and there are few cargoes left to come. We could soon be witnessing not just higher prices but also actual shortages. That could have a greater negative economic effect.

Although the oil price tends to dominate headlines, other commodities in short supply because of the Strait's closure include urea, ammonia, and sulphur, all of which are key components of fertiliser (figure 1.2). This is just as the northern hemisphere's spring planting begins. Butane and propane, which are also affected, are important fuels in Asia and Africa, primarily for cooking. Helium is critical for cooling semiconductor manufacturing equipment and MRI scanners.

Moreover, a quarter of the world's supply of aluminium, an important lightweight metal used for construction,

Figure 1.2: Not just about oil
The peacetime percentage of seaborne trade volume passing through the Strait of Hormuz.



Source: International Energy Agency, Rathbones

"Although the oil price tends to dominate headlines, other commodities are in short supply because of the Strait's closure"

transport and packaging, originates in the Middle East. It accounts for about 10% of a solar panel's weight, so the lack of availability will hinder the transition to greener energy.

UK consumers have already experienced higher petrol and diesel prices at the pump – and higher airfares. But the impact of Middle Eastern events might not be fully felt until holiday flights are cancelled more frequently, as jet fuel is rationed. The global number of flights has already fallen by around 3%.

Leaning towards de-escalation

You might well ask why we're not taking a more defensive stance. Our answer: we continue to believe that investors, and therefore financial markets, will look through negative effects in the short term, as long as they expect resolution in the long term.

In thinking about the best course of action, we've constructed various scenarios, giving each a numerical probability: what's the chance it will happen? We still place the greatest weight on de-escalation. That means a reopening of the Strait of Hormuz, although perhaps only a gradual increase in traffic to previous levels. This might see the price of oil return to $80 a barrel in financial markets, down from above $110 at the time of writing.

Even so, that will be higher than before the war. This is partly because, having released barrels from their petroleum reserves to ease shortages, governments will need to build them back up again. It's also because, even after the war, financial markets will continue pricing in a risk premium – an extra amount of dollars for every barrel – because the risk of another bout of severe disruption now looks more likely.

One factor working in investors' favour, though, is the growth of corporate earnings. With the first-quarter results season now in full flow, it's clear that many industries entered the period with a good head of steam. Looking further ahead, the current consensus forecasts show very strong growth – almost 20% – in global annual earnings for 2026. That's largely down to technology, thanks to the capital expenditure on data centres and AI. That said, these estimates depend on the highly uncertain outcome of negotiations between the US and Iran – which takes us neatly back to the uncertainty I raised at the beginning.

Generation pet
An ageing society is reshaping the consumer staples sector



Gregor Rapprich, Equity Analyst

Picture yourself sipping a glass of aged Scotch after a light meal, and reading this piece as your faithful feline friend purrs on your lap and a box of Green & Black's chocolates rests on the coffee table at your side. If you don't have to imagine this – because it's what you're doing anyway – you may well be an older consumer, part of a bulging demographic that's highly interesting for the consumer staples sector.

Ageing populations, characterised by rising life expectancy and declining fertility rates, have profound implications – supporting demand for some products and services, but reducing it for others.

Some markets face challenges because of ageing

Lower fertility reduces demand for infant formula and nappies, weakening long-term growth prospects for companies with heavy exposure to these 'early-life categories'.

More broadly, food consumption falls with age. The average 70-year-old consumes around 20% fewer calories than the average 26-year-old. In ageing societies, this will limit total calorie growth, even if the population is growing.

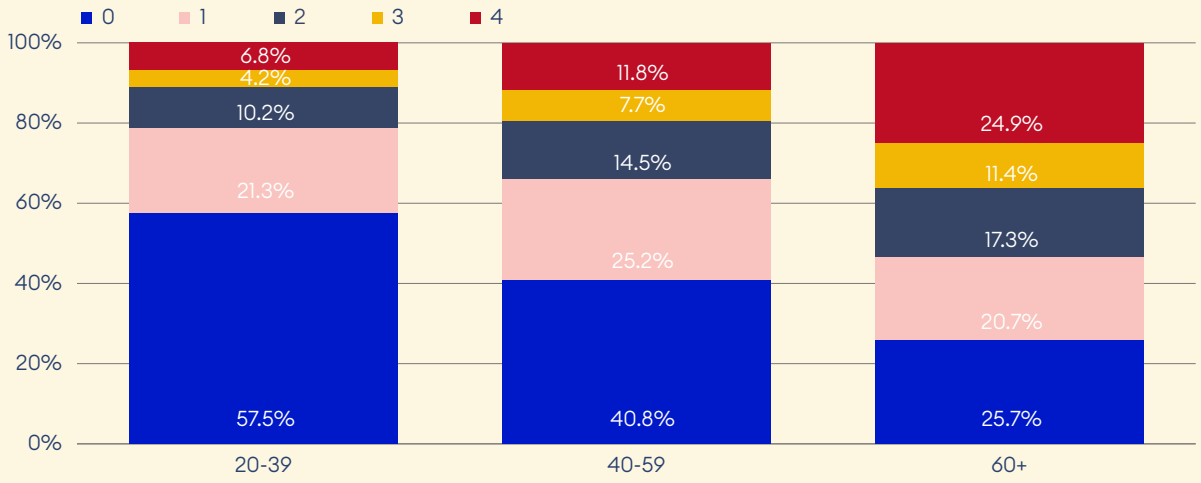
Impulse-driven food products are also under increasing pressure. Sugary snacks are already hit by rising health awareness, regulatory scrutiny, and GLP-1 weight loss drugs. On top of this, older people are less likely to eat these snacks, even if their spending remains resilient on premium and seasonal chocolate (much of the latter doubtless destined for their grandchildren).

Overall, alcohol consumption also faces demographic headwinds. But although older consumers drink less, they drink better. That's good for sales of premium spirits and wine. Meanwhile, spending on most beauty products subsides markedly beyond 65. But hair colouring is a notable exception.

Some markets will benefit from ageing populations

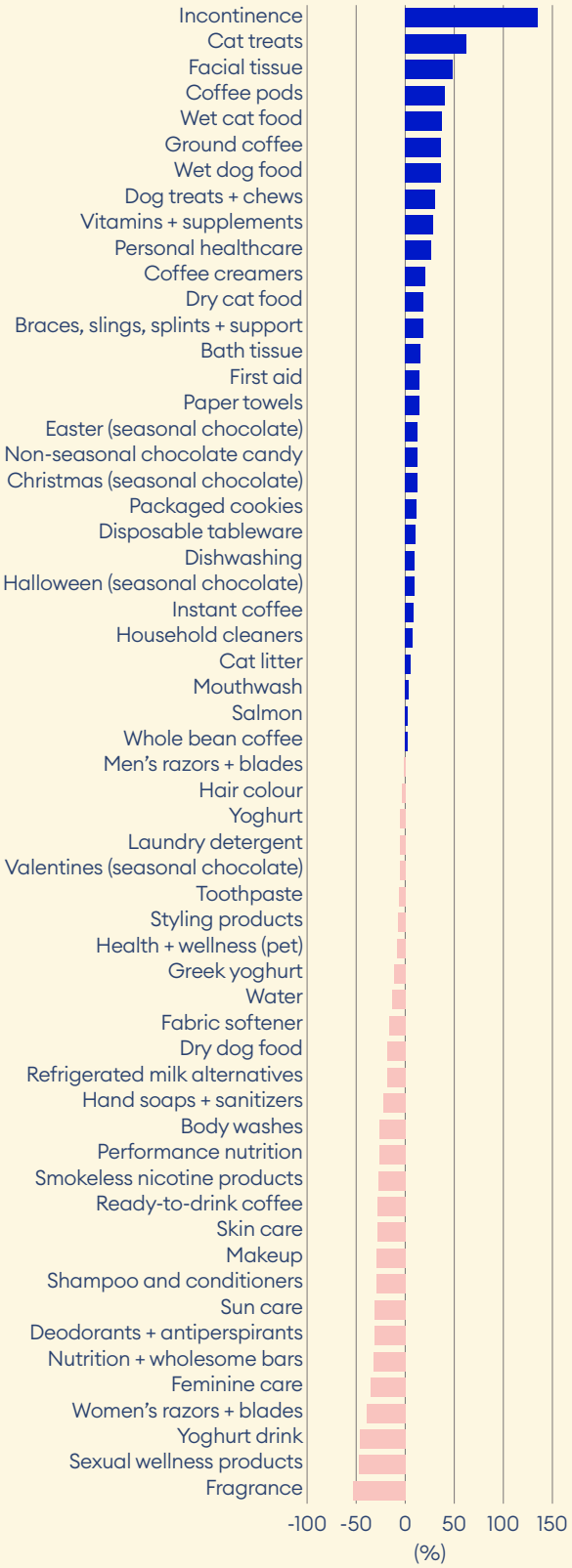
The consumer health market is likely to benefit from this trend. That should in turn increase spending on over-the-counter (non-prescription) treatments for chronic symptoms and medical nutrition products that

Figure 2.1: Older people tend to buy more vitamins, minerals and supplements
Number of dietary supplements used by Americans of different ages in the past 30 days.



Source: BNP Paribas Exane estimates, Rathbones

Figure 2.2: Older people also buy more ground coffee and cat treats, but less makeup and sun cream.
Change in spending per head for Americans aged 65+, compared with 35–64.



Source: Numerator, US Census, BNP Paribas Exane estimates, Rathbones

> "Ageing makes this sector more defensive still. This is partly because more of the consumption is non-discretionary and habitual."

respond to particular health conditions. Older people also need more vitamins, minerals and supplements (VMS) because of deterioration in their metabolism and ability to absorb nutrients.

Within food and beverages, rather than reaching for a quick sugary snack in a busy working day, older consumers are often more likely to reach for a coffee – and they have the time to make a cup of real coffee. This will support the otherwise mature coffee market.

Ageing, low-fertility societies are lonelier societies. Pets increasingly meet the need for companionship, so older people are likelier to have them. This factor could drive growth in spending on pet food – and particularly the premium end of the market, which older people often favour.

Companies that could win out from an ageing world
Looking at individual companies, market leaders in consumer health include two UK businesses: Haleon, a consumer health specialist, and Reckitt Benckiser, which is more diversified but is big in this sector.

Switzerland's Nestlé is also well-aligned with the ageing trend: it has strong businesses in coffee, medical nutrition, VMS, and pet care.

Defensiveness and dispersion
Consumer staples is quite defensive relative to other stock sectors, as demand is more stable rather than being buffeted by the economic cycle.

Ageing makes this sector more defensive still. This is partly because more of the consumption is non-discretionary and habitual. For example, you can't stop buying food for your pet and, if at all possible, vitamins for yourself. It's also because older people's income is steadier.

Despite the sector's overall steadiness, consumer staples stocks will see greater dispersion of market performance than before: the demographic changes mean some market segments will do particularly badly, some particularly well. That makes active management – good, old-fashioned stock-picking – all the more important.

A healthy increase?
We're living longer but healthy life expectancy isn't keeping up



Ozge Brinkworth, Equity Analyst

What is perhaps the greatest achievement in human history also poses one of today's greatest challenges. The solution offers a clear investment opportunity.

The good news is that average life expectancy has risen greatly. But longer lives come at a cost. People aged 65 and above need substantially more healthcare: spending on each one is on average 3.4 times higher than for other adults.

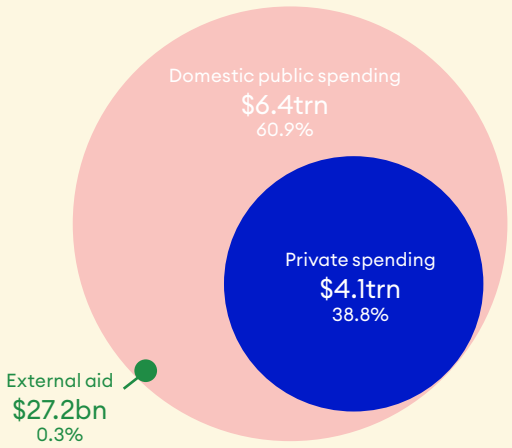
A big reason is the high prevalence of multiple chronic conditions – long-term health problems that can't be cured. In the US, almost 80% of older adults belong in this category. Age-related conditions include physical problems such as cardiovascular disease, type 2 diabetes, and various cancers. Neurological problems include cognitive decline and mental health issues.

These demographic pressures have contributed significantly to the expansion of global healthcare expenditure – now above $10trn a year. That comes to 10% of total global GDP – and it continues to outpace GDP growth.

What kind of companies are tapping into this expanding demand? In the pharmaceutical industry, the firms that stand to benefit most include those with leading positions in treatments for cardiovascular and metabolic diseases, respiratory illness, and oncology. In medical technology, demand growth is strong in fields such as orthopaedics (hip and knee implants), cardiovascular devices (such as pacemakers and stents), and minimally invasive surgical equipment. Managed care companies that serve the Medicare Advantage market will gain from rising numbers of older beneficiaries. Medicare Advantage plans are private insurance schemes within the US federal healthcare system that provide cover for older people.

Here, as in every other industry, AI rears its head. AI-powered diagnostic tools can alleviate the burden of providing patient care by enabling earlier and more accurate detection of age-related diseases. So too can robotics and remote monitoring, which can help reduce the need for hospital stays. Technology can also address labour shortages by improving operational efficiency, easing administrative pressures, and freeing clinicians to focus on patient care.

Figure 3.1: A $10trn+ market
Global spending on health is rising faster than GDP, in part because of ageing populations.



Source: WHO Global Health Expenditure Database, updated in 2025, Rathbones

Benefiting from the bulge

Several large-cap healthcare companies are benefiting particularly from this bulge in healthcare spending on older people. About 80% of sales of the UK's AstraZeneca come from the treatment of conditions associated with ageing.

The Swiss company Roche combines large businesses in areas such as oncology, neurology, and immunology with the world's leading in vitro diagnostics business.

Several US companies also have strong exposure to this theme. Eli Lilly is a leader in diabetes and obesity, conditions closely linked to ageing. It also has a strong business in oncology, immunology, and neuroscience, including one of the few therapies that modifies Alzheimer's disease. Johnson & Johnson has innovative pharmaceuticals and medical devices, in areas such as immunology, oncology, and cardiovascular and metabolic disease.

Lastly, showing that we are already in the age of the robot, Intuitive Surgical supports surgeries with its robotic devices. That means shorter hospital stays, fewer errors and complications, and more efficient workflows.

Mystifying misnomer
Emerging markets offer another way of investing in the AI theme



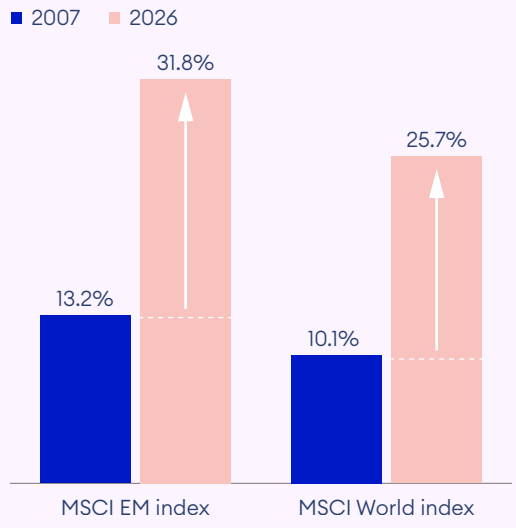
John Wyn-Evans, Head of Market Analysis

In April, a small island off the coast of mainland China reached an impressive milestone by beating a somewhat larger island off the coast of Europe. Taiwan's stock market surpassed the UK's, by attaining a total market cap of $4.13trn, thanks to the rise (above $2trn) of Taiwan Semiconductor Manufacturing Company (TSMC), which produces around 90% of the world's high-end chips.

This highlights something we've long observed: the label of emerging markets (EMs) often reflects a country's historical status as up-and-coming rather than its importance in the world today. Coined by the World Bank in 1981, the term has stuck.

It tended to describe countries that offered considerable potential but didn't enjoy the governance or standard of living of developed countries. But much has changed since then. Many readers may well, on their travels, have experienced better conditions in so-called emerging economies than at home in developed Western economies.

Figure 4.1: Tech takes the lead
The technology sector now dominates EM and World indices, with its share more than doubling since 2007.



Source: LSEG, Rathbones

However, the compilers of global equity and bond indices have been surprisingly conservative. When it comes to indices run by data provider MSCI, only two countries have crossed over to developed status in almost five decades: Portugal and Israel. No such promotion for Taiwan.

At the end of March, MSCI's EM equities index was dominated by Asian countries. China led the pack with a 25.5% weighting, followed by Taiwan (22.5%), South Korea (15.5%), India (12.5%), and Brazil (5%). On the African continent, only South Africa and Egypt are classified as EMs. The rest are merely in the 'frontier' niche investment category.

A change of emphasis

This century, EMs have had two sustained periods of outperformance. The first followed China's 2001 accession to the World Trade Organisation. By unlocking the Middle Kingdom's potential as a mammoth exporter, this event triggered enormous investment in infrastructure and manufacturing. During this period, ending with the 2008 global financial crisis, banks and resource stocks dominated EM indices. The second followed China's massive stimulus in response to the crisis. But this didn't last long, and was well and truly over by the time China devalued its currency in 2015. The worst period of performance came after China punctured its speculative real estate bubble in 2020.

The phoenix rises

EMs have seen a reversal of fortunes over the past year or so. The major turning point came when China announced an expansive stimulus package in September 2024. This provided support to the market, paving the way for a more sustained rise over the past year. Another tailwind is dollar weakness. That helps EM companies because their dollar-based corporate and state borrowing becomes easier to finance.

The most recent strong driver of returns, and in many ways the most exciting, is the extraordinary rise of companies exposed to the AI revolution. TSMC encapsulates this: its chips are a crucial component of data centres. TSMC is by far the biggest company in the MSCI EM index, accounting for 13.3% of its market cap. The next biggest are Samsung (5.1%), Tencent (3.9%), SK Hynix (2.8%), and Alibaba (2.6%).

Like TSMC, South Korea's Samsung and SK Hynix are in the chip business – specifically, the memory chips needed to power the large language models used by chatbots. China's Tencent and Alibaba are technology and consumer platform companies, but both embed AI in their offering. Both also have cloud businesses that benefit from the huge demand for computing power needed by AI. And having lost ground in March on fears that markets might have got ahead of themselves, EM tech stocks enjoyed an excellent April.

Not your father's emerging markets

The result of this structural shift is that Technology is now by far the largest sector in the MSCI EM Index, accounting for 31.8%. If we add Tencent and Alibaba, which are classified under Communications Services and Consumer Discretionary, respectively, this figure rises to 38.3%. When EMs were in full flow in 2007, Technology was only 13.2%. This change is mirrored in MSCI World (figure 4.1).

Due to this change, the performance of EM equity indices is often much more correlated with the US's tech-heavy Nasdaq index than before. At the overarching level, this makes EM less of a diversifier than in the past. But its tech companies tend to be more attractively valued than those in the rest of the world. This offers rewards for investors willing to endure greater political risk.

Scars and resilience

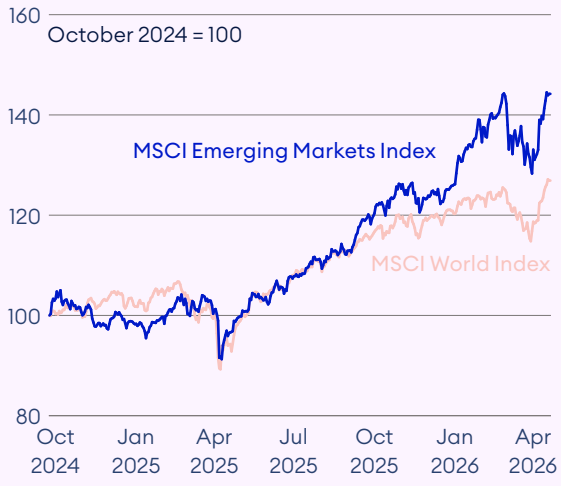
Since China's economic stimulus began, EM equities has been the best-performing of the major regional asset classes, posting a total return, by late April, of 45.5%, vs 28.6% for the MSCI All Country World Index (figure 4.2). This period has encompassed both US President Donald Trump's 'liberation day' tariffs and the war in Iran. That suggests EMs are more resilient than in the past. It helps that corporate governance has improved greatly over the years. Moreover, scarred by past crises, EM governments and central banks have improved their management of both currency and inflation risk.

> "Scarred by past crises, EM governments and central banks have improved their management of both currency and inflation risk"

When it comes to currencies, the dollar pegs that led to over-borrowing and subsequent collapses have, since the late 1990s, largely been replaced by floating exchange rates that provide a safety valve. These pegs fixed the value of a country's currency against the US dollar. Past experience of higher inflation drove many central banks to be quicker off the mark in raising interest rates in 2021–22. That means they weathered that storm better and still have some firepower to cut rates.

Figure 4.2: Emerging from the shadows

China's stimulus package in September 2024 supported emerging market equities. A year later, they began outperforming other stocks.



Source: LSEG, Rathbones

Hidden treasures

In the short term, many EMs face uncertainty as the Iran conflict creates shortages of key commodities, such as oil, gas, and fertiliser. Further obstacles to global trade, born of politics, environmentalism or industrial protection, could also create a headwind. Climate change might herald upheaval, too.

Positively, prudent past monetary policy leaves many EMs positioned well to withstand incipient inflationary pressures. And GDP growth tends to be higher than in the developed world. That hasn't guaranteed outperformance in the past, but it does help to be a company selling into an expanding economy. Moreover, improved corporate governance could mean higher returns on capital.

As well as the tech story, specialist EM managers often have greater scope to beat benchmarks than managers in some bigger developed markets. That's because each individual market has fewer managers looking for undervalued companies – which, once found, are no longer undervalued. As well as phoenixes, emerging markets may offer hidden treasures.

Snapshot
The global economy and markets

Figure of the month

107%



The increase in the average car's miles per gallon in the US since 1975, shortly after the 1973–74 oil embargo sent prices soaring. More than half of this gain came in the first six years. The global economy also became less energy-intensive, using less energy for each dollar of output. Economists believe the Iran conflict could trigger further innovation to reduce oil dependence.

At a glance

157%
Rise in global venture capital investment in first quarter of 2026

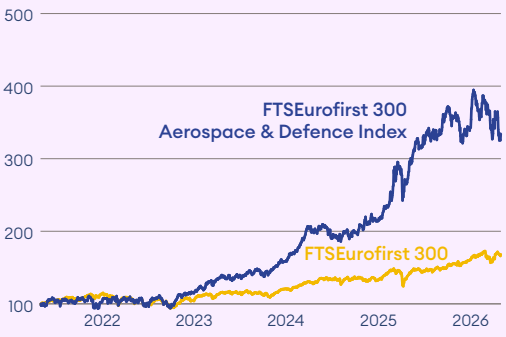
32%
Rise in liquefied petroleum gas prices since end of February

69%
Rise in gasoline prices (New York Harbor) since end of February

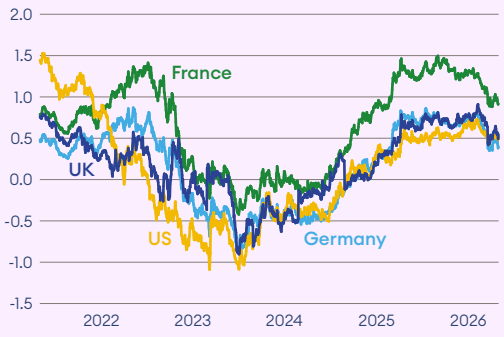
10%
Rise in aluminium prices since end of February

Key market indicators

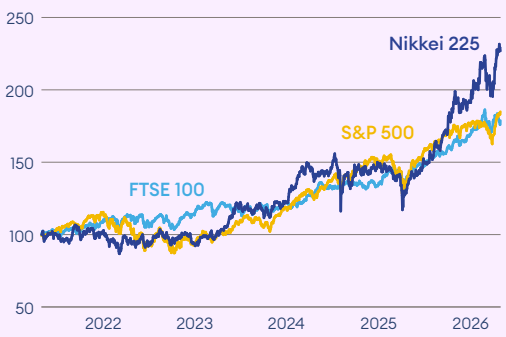
Equities
Total return in local currencies (1 May 2021 = 100)



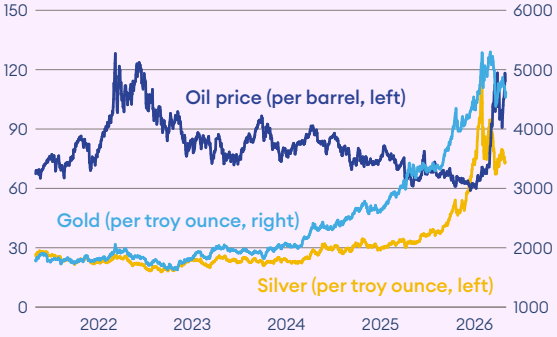
Government bonds
Difference between 2– and 10-year yields (%)



Equities
Total return in local currencies (1 May 2021 = 100)



Commodities
Oil, gold and silver prices in US dollars



Sources: FactSet, LSEG, Rathbones. Past performance is not a reliable indicator of future performance.

Find out more
Knowledge and insight

Alongside this monthly *Investment Insights* publication, we share a wide range of updates and analysis, from regular strategy commentary and video briefings to in-depth reports, all designed to help you understand what's driving the global economy, financial markets and the outlook for investment returns. To explore more, visit www.rathbones.com/en-gb/wealth-management/knowledge-and-insight

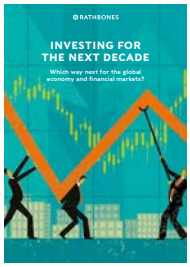
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Video updates
Stay informed with regular update videos from our investment experts that explain how geopolitical tensions, market movements and global economic trends could affect your portfolio.



Weekly and monthly digest
Keep up to date with regular insights from John Wyn-Evans, our Head of Market Analysis, as he explores the key themes shaping the global economy and investment environment.

Research reports
In line with our focus on long-term investing, we produce in-depth reports. These publications reflect the thinking behind our portfolio decisions and explore how structural trends, risks and opportunities could affect investors over the long term.



The next decade for the global economy is likely to look very different to the 2010s. *Investing for the next decade* explores how the opportunities in fixed income have changed, the possible outlook for equities and why we believe the extraordinary outperformance of the US could end.



Geopolitical risks have risen in recent years, from conflict in the Middle East to tensions in the Taiwan Strait. *Peace of mind in a dangerous world* outlines the four risks we monitor most closely, the warning signs we look for, and how we prepare portfolios to help protect your investments.

Experience and expertise
Rathbones has a large and experienced in-house research team covering global equities, fixed income, multi-asset strategies and responsible investing. With specialists dedicated to analysing market trends, sectors and individual securities, our team brings deep insight and rigorous discipline to every portfolio. This depth of knowledge allows us to uncover opportunities, manage risk effectively and respond quickly to changing conditions, helping you to invest with greater confidence.

You can access this expertise in a range of ways, from fully bespoke discretionary portfolios to ready-made multi-asset funds, tax-efficient investment strategies and specialist services for complex needs. To find out more and for details of your local office, visit www.rathbones.com/en-gb/wealth-management/contact-us



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