



Investing in 2026

► **Sandra Haurant looks ahead at the key investment trends for pension funds over the coming year**

For pensions, 2025 has been busy. There was the Mansion House Accord in May, the Pensions Scheme Bill, which is making its way through parliament, and the Chancellor's November budget announcement of a new cap on national insurance contributions (NICs) exemption set at £2,000 for employee contributions made through salary sacrifice, to name a few events.

In the wider world, violent conflicts in Ukraine and the Middle East continue to elude resolution, the US announcement of tariffs seemed to mark the start of global trade wars, and the global economic environment has been uncertain, to say the least.

And yet, Russell Investments global head of solutions strategy, fixed income and FX, Van Luu, says: "If 2025 had one defining theme, it was resilience. Markets absorbed the biggest tariff shock since the 1930s, sweeping immigration and regulatory changes, and major fiscal swings, yet most equity indices still finished the year near all-time highs. These shocks tested but did not derail the global economy thanks to solid fundamentals. That resilience surprised many and created the foundation for what comes next." But just what will that be?

Ringling the changes to UK pensions

One change that is already underway, as 2026 begins, is the shift towards the key Mansion House points. XPS CIO, Simeon Willis, says: "I expect to see increased momentum towards investment in medium to higher returning private market assets within defined contribution (DC) as the Mansion House mindset beds in." Willis expects defined benefit (DB) schemes to continue reducing higher-returning illiquid exposures via "a combination of secondary sales and letting assets run off without new investments taking their place". And in DB, while some schemes might "pick up on attractively priced opportunities", Willis expects a greater number of schemes will be "selling to move into insurance".

As for the Pensions Scheme Bill, this could be done and dusted soon. But, IFM Investors chief strategy officer, Luba Nikulina, says it will need some final polishes: "With so much of the detail to be filled in by secondary legislation via statutory instruments, it is through this process that much of the impact on pension schemes will be decided."

As for the salary sacrifice changes, Willis says employers have concerns. "Many feel that salary sacrifice is another

Summary

- The pensions industry had a busy 2025, with the Pensions Scheme Bill, more Mansion House pledges and a change to NIC exemption tabled for 2029.
- The coming year is expected to continue in the same vein with global conflicts still seeking resolution and continuing economic uncertainty.
- AI is evolving at a rapid pace, but some are warning of an impending bubble in tech investment – active and careful management are key.
- There have been pushback regarding ESG commitments lately but this area is set for some practical improvements and sustainable investments are key to long-term success.

unwelcome NI cost burden," he says. The changes will not come in until 2029, so there is time to adjust benefit structures, but the main worry is that both employers and employees might reduce pension saving to cut immediate costs.

For employees, though, Hargreaves Lansdown head of retirement analysis, Helen Morrissey, says: "It could be a good option to take advantage of the system as it currently stands and if they have the extra money, they could boost their contribution to make best use of the tax breaks they have now."

Investing in an ever-changing world

As the world remains an uncertain place, 2026 will continue to present challenges for pensions investment. The greatest cause for consternation? JPES Partners head of investment, Matt Rogers, says: "It is difficult to look past the US, given the unpredictability of the Trump administration and its ability to influence world events and economies." Markets might have shown resilience in the wake of the US tariffs, but Rogers says: "The potential impact of tariffs can't be ignored."

Willis adds: "There has been a general concern about US exposure,

which has led to some schemes reducing allocations or hedging a greater proportion of dollar exposure.”

Luu is more upbeat. Although he says the choice of the next Federal Reserve chair, the midterm elections, and “geopolitical flare-ups” are potential “watchpoints”, he believes the US economy is “poised to regain momentum as the drag from tariffs fades and the tailwinds from loose financial conditions and fiscal stimulus strengthen.”

Meanwhile, IFM Investors chief strategy officer, Luba Nikulina, says the US remains a “core market,” but says: “Our latest PM700 report, surveying 700 institutional investors, shows Europe’s appeal is strengthening – particularly in infrastructure, green energy, and industrials. [...] The commitment to the energy transition and energy security continues to be a major draw.”

According to Willis, deglobalisation could lead to greater interest in emerging markets (EM) in the coming year. “The different sector exposures that come with EM could be attractive, for example vast reserves of precious and industrial metals resources and other commodities,” he says. Although, he adds: “Given typical scheme allocations are biased towards bonds, I’d expect that there will be more focus towards increasing exposure to hard currency EM debt than EM equities from pension schemes.”

Keyridge Asset Management CIO, Anthony MacGuinness, sees potential in industrial sectors across a range of geographies, including defence and aerospace, due to Europe’s drive to rearm, gold, and some of the areas China excels in, such as EVs, batteries and solar supply chains.

The AI question

Another of MacGuinness’s picks is AI-related infrastructure; Luu also cites AI as one of the strongest potential drivers for growth. “AI adoption is accelerating and beginning to lift productivity, profitability and energy demand across

sectors. We expect the beneficiaries to broaden from AI builders to AI users as more firms translate AI investment into tangible efficiency gains,” Luu says.

But for all its pace and promise, could AI come crashing down around us? “This is not an AI bubble,” says Luu. “The early phase dominated by hyperscalers and semiconductor firms is giving way to a genuine adoption cycle, which points to structural transformation rather than speculative excess.”

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MacGuinness also sees AI as “a genuine economic force and a major driver of capital expenditure (capex) and productivity”, but he adds that it comes with valuation and adoption-timing risks; problems with rollouts or delays in monetisation can cause “short-term pullbacks”. As such, MacGuinness qualifies AI as “an opportunity that merits exposure with active risk management, since a collapse in confidence around AI investment would be a meaningful downside risk to growth and equity markets”.

London-based Marathon Asset Management managing director and portfolio manager, Europe, Charles Carter, says that the concerns about an existential threat posed to companies’ investment strongholds by AI means that “the AI investment boom can be viewed as a combination of the fear of missing out and of cannibalisation.” “From a capital cycle perspective, the question of demand is secondary,” Carter says. “What really matters is whether the industry will tend towards fragmentation

or concentration over the next 25 years. Even if demand exceeds expectations, investor hopes could still be dashed by the onset of excessive competition.”

Willis says concentration risk is “generally reasonably well recognised,” by investors, and adds that “unlike the banking crisis of 2008, any issues arising out of this can’t be considered a surprise”. Indeed, Willis says the market is currently demonstrating that it considers AI a “risk worth taking”. Perhaps 2026 might show us whether that is a fair assessment.

What next for environmental, social and governance (ESG)?

“Despite push backs we’ve seen in 2025, we expect continued focus on sustainability from large investors in particular,” Willis says. For smaller schemes, lacklustre performance has been a challenge, but Willis says they remain on an “ESG journey” which he anticipates will continue into 2026, with a shift towards investment in “laggards” and working to improve those companies, rather than screening them out.

Practically speaking, a new EU Sustainable Finance Disclosure Regulation (SFDR) framework is set to improve fund labelling and marketing, and UK Sustainable Reporting Standards should improve the disclosure of sustainability data, too.

Indeed, Nikulina says sustainability remains central to private-market strategies worldwide, and that it is viewed as “a key driver of performance and risk management across climate, biodiversity, and broader nature-related considerations”. Looking to 2026 and beyond, Nikulina says: “Investors allocating to sustainable infrastructure, supporting decarbonisation, and engaging actively with companies are best positioned for long-term success.”

Written by Sandra Haurant, a freelance journalist