

History suggests headwinds for markets in 2027, but its complicated

It is the time of the year when the investment community begins thinking about “the year ahead” and formulating 2027 investment strategy. This week we will present the first in a series of articles about the outlook for markets over the next 6 – 12 months.

Whereas tariffs dominated investor concern at this time last year, the most common anxiety we now hear from our meetings with investors is fear that AI infrastructure is a bubble at risk of repeating the “Dot Com” boom and bust of 1997 – 2000.

To be sure, history can be a useful guide to the future so this week we will consider past periods that might be analogues to the present and what they might imply for investment returns in 2027.

To preview some of our main observations:

- History suggests periods of monetary tightening are challenging for markets, particularly when they are accompanied by fiscal tightening, but not always.
- Yet, no single historical analogue fits cleanly so we recommend caution about projecting past experience onto the 2027 outlook.
- To be sure, we will discuss next week why we expect positive returns to equities and fixed income in 2027.
- Nonetheless, history cautions that at this stage of the cycle investors need to think more about “fat tail” scenarios. We believe this argues for adding diversification to portfolios via Value as an equity style and Asian fixed income.

A summary characterisation of the current period might be a global investment boom with rising inflation due to an energy shock that is forcing monetary policy tightening. To be more specific, we judge the most important aspects of the current global economic environment to be:

- Generative AI has pushed the US into potentially its largest ever general purpose infrastructure cycle.
- The capex boom is diffusing globally in the form of data centers in China, India, Australia, Japan, Malaysia, and Korea, and new capacity in DRAM and semiconductors globally but particularly in Korea and Taiwan.
- Capital concentration into a small number of very large firms at the economy and market levels in the United States and some other geographies such as Korea and Taiwan.
- A large energy price shock from the Iran-US war.



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- New tariffs, investment restrictions, and subsidies that threaten to reverse or distort globalisation in the large economies.
- A resulting swing from monetary easing in 2024 and 2025 to monetary tightening this year that is expected to extend into early 2027.
- Fiscal policy is likely to swing from mildly expansionary this year in the US, Europe, and some of the Asia's emerging economies to mildly contractionary in 2027. China and Japan are perhaps the main exceptions.
- Capex financing needs plus historically large budget deficits in the developed economies are pushing up global yields.
- China's domestic economy is weakening under the weight of persistent property market deflation.

Some might also identify very strong, but peaking profit growth in the US and North Asia, generally contained wage growth pressure in most economies, already high real yields, and recent valuation compression in most markets as important considerations.

The point of making such a long list of “key” factors is to recognise that the many cross currents in the global economy mean that comparisons with past periods will be incomplete. The current environment looks like the late-1960s US fiscal and inflation regime, overlaid with the late-1990s capex boom and equity concentration, hit by a 1979-style Iran-related energy shock, inside a 1897–1913-style unwinding of globalisation and great-power rivalry.

Nonetheless we have identified past periods that resemble today's environment because they contain the beginning of new monetary policy tightening that coincides with fiscal tightening or energy price shocks. Within these the mid-1960s and the late 1990s were periods of strong investment growth similar to the current period. The late 1960s stock market was the period of the “Nifty 50” craze that increased market concentration and valuation in the top 50 stocks. The 1920s period makes the list because it was a period of investment boom in electrification, mass production, and the beginning of consumer credit – the “Roaring 20s”.

Selected Fed tightening cycles

Cycle	First tightening	Policy action	CPI y/y in hike month	Equity 12m change	Peak-to-trough within 12m	10y change (bp)	Shocks
1906-07	Oct-06	No Fed existed. Bank of England Bank Rate raised 4% → 6%		-35.0%	-40.0%		Panic of 1907: run on Knickerbocker Trust
1919	Nov-26	DR 4% ultimately to 7%	13.5%	-35.0%			Fiscal tightening 17% of GDP
1928-29	Feb-26	DR 3.5% → 4.0%	-1.7%	60.0%			
1931	Oct-26	DR 1.5% → 3.5%	-9.7%	-30.0%			Defense of gold standard
1936-37	15 Aug 1936	RR raised 50% (DR 1.5%)	2.2%	6.6%	-16.0%		Fiscal tightening of 5.8% of GDP, equity crash from Sep 27
1965-66	6 Dec 1965	DR 4.0% → 4.5%	1.9%	-13.1%	-22.2%	+22	
1967-68	20 Nov 1967	DR 4.0% → 4.5%	2.7%	15.3%	-6.7%	-5	Sterling devaluation
1968-69	18 Dec 1968	DR 5.25% → 5.5% vs Aug cut	4.7%	-11.4%	-14.0%	+162	Fiscal tightening 3% of GDP
1973-74	15 Jan 1973	DR 4.5% → 5.0%; FF up since early 72	3.6%	-16.8%	-23.4%	+53	Dollar floated Mar 73; Arab oil embargo Oct 73
1977-78	30 Aug 1977	DR 5.25% → 5.75%; FF up since Apr 77	6.6%	6.7%	-10.2%	+101	
1987-89	4 Sep 1987	DR 5.5% → 6.0% (eased after crash; hikes resumed Mar 1988)	4.4%	-15.5%	-29.3%	-44	Iran-Iraq “tanker war”
1994-95	4 Feb 1994	FF target 3.00% → 3.25%	2.5%	2.0%	-6.6%	+150	Global bond rout
1999-00	30 Jun 1999	FF target 4.75% → 5.00%	2.0%	6.0%	-12.1%	+20	Dot Com plus oil price spike plus Y2k liquidity removal
2022-23	16 Mar 2022	FF target 0-0.25% → 0.25-0.50%	8.5%	-9.1%	-22.8%	+153	Ukraine-war energy shock
2026	16 Sep 2026	FF target 3.50-3.75% → 3.75-4.00%	3.4%	3.4%	--	+30	Iran-war energy shock

Sources: FRED, Factset, Datastream, NBER Macrobistory, Robert Shiller, CRSP, S&P Dow Jones, Bloomberg
 Note: equity index changes for the 1906 - 1919 period are approximate. Data for 2026 are through October 9.
 DR: Discount rate, FF: Fed funds, RR: Reserve requirements

A first conclusion from this exercise is periods of US monetary tightening have tended to be challenging for equities, particularly when they coincided with fiscal tightening and energy shocks. However, equities have not fallen in all periods, particularly in the modern era. Important differences between these historical analogues and the current period stand out.

- In the 1920s the Fed was a new institution with still crude and at times uncoordinated policy tools and the US was still on the gold standard.
- Fiscal drag resulting from Congressional gridlock is likely to be only about 0.6% of GDP, much smaller than the consolidations of 1919, 1936, and 1968.
- The oil shocks of 1973, 1979, and even 1987 produced much larger percentage increases in energy prices than this year's Iran War and the energy dependence of the global economy was much higher than it is today.
- Most of the lower quality, higher risk financing of the 1997 – 2000 Dot Com investment that ultimately defaulted (particularly telecoms) was in public credit markets. Today, most lower quality financing is in private markets while most of the hyperscalers are solid investment grade credits.
- Another key difference between the current period and the 1999-2000 equity boom and bust and today is that many of the companies in the prior period were unprofitable whereas the leading listed companies driving AI investment are highly profitable with rates of return on investment close to 20% versus their cost of capital at just under 10%.

Perhaps crucially for the US, the S&P 500 has risen over the 12-month period following all mid-term elections since 1950. Past performance is not necessarily indicative of future performance, but that's a 19 for 19 hit rate. Historical returns in the 12-month period following the President's party losing control of the House of Representatives in the mid-term elections – which current polling suggests is likely – have averaged 16%.

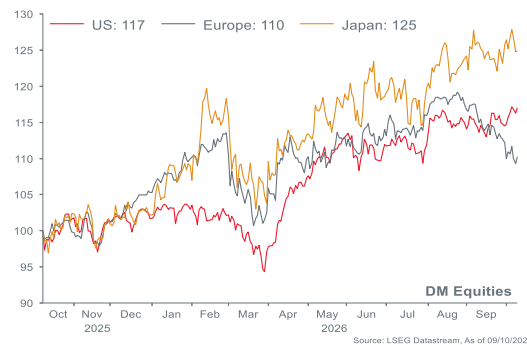
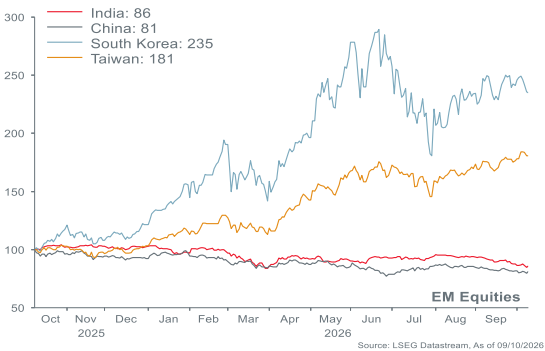
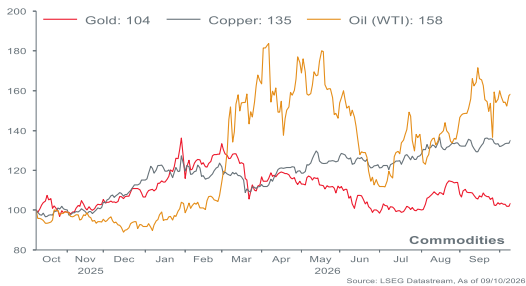
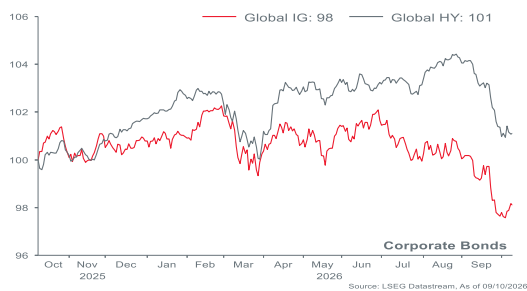
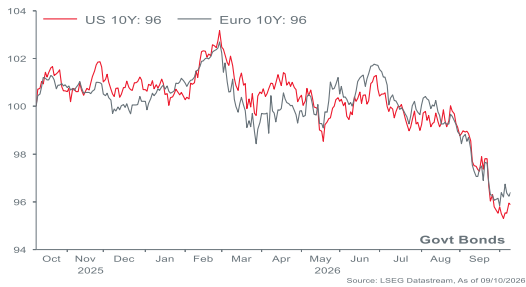
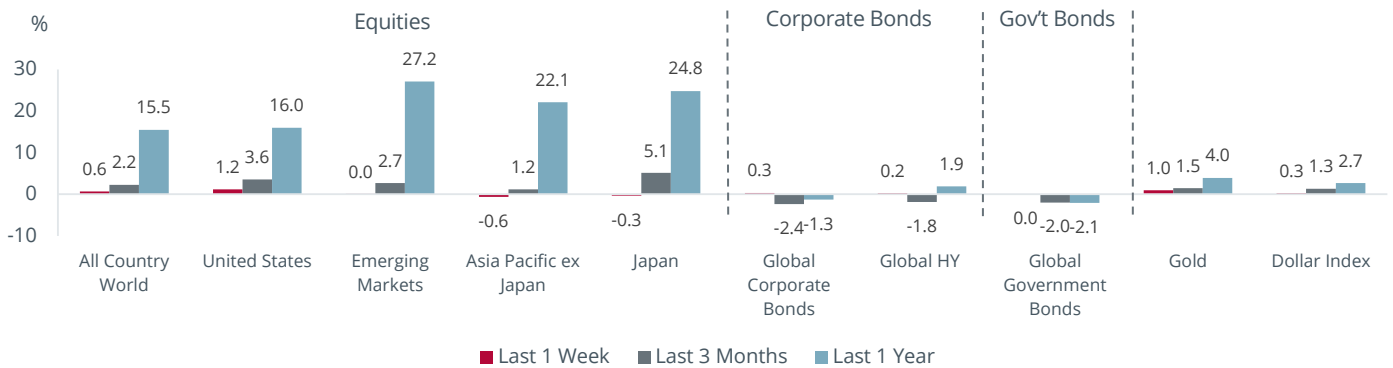
We will delve deeper into these differences, why we expect further positive returns to Asian equities and Asian fixed income to continue serving as a portfolio diversifier. We will also investigate signposts to watch for higher risk and for elevation of headwinds.

Market Review

Global equities were mixed over the week, with the MSCI AC World Index rising 0.6%. US equities performed well, with the S&P 500 gaining 1.2% and Nasdaq gaining 0.6%. Emerging Markets were flat at 0.0%, while Asia Pacific ex Japan declined 0.6% and Japan fell 0.3%

Gold rose 1.0%, while the US dollar index strengthened 0.3%. Bond markets were firm overall. Global Corporate Bonds gained 0.3%, Global High Yield Bonds rose 0.2%, and Global Government Bonds were flat at 0.0%.

Asset Performance



Market Data

Government Bonds	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
US Treasury Yield (%)								
10 Year	5.24	-0.63	8.41	15.53	26.42	26.27	5.31	3.95
10 Year Bond Yield (%)								
Japan	3.02	-2.77	4.69	4.76	78.04	45.70	3.11	1.63
China	1.72	2.20	-1.15	-1.43	-10.65	-7.63	1.93	1.67
Australia	5.35	0.19	2.61	9.44	22.90	12.31	5.41	4.10
Singapore	2.45	-0.36	3.22	14.29	32.70	10.07	2.62	1.75
Malaysia	3.95	-1.45	-4.55	8.74	12.94	13.06	4.19	3.43
Indonesia	7.24	1.09	2.00	-0.60	15.46	18.27	7.48	5.92
	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
Bond Indices								
Bloomberg Global Aggregate USD	90.82	0.20	-1.31	-2.64	-4.21	-4.05	95.69	90.53
Bloomberg U.S. Aggregate USD	89.22	0.35	-2.14	-3.53	-4.95	-5.16	95.21	88.78
Equity Indices	Close	1 week change (%)	1 month change (%)	3 month change (%)	1 year change (%)	YTD change (%)	52 week high	52 week low
World								
MSCI AC World Index (USD)	1,147.26	0.65	0.10	2.25	15.48	13.07	1,160.81	960.87
North America								
US S&P 500 Index	7,811.54	1.15	2.29	3.55	15.98	14.11	7,844.52	6,316.91
US Nasdaq Composite Index	27,366.17	0.64	4.24	4.42	18.86	17.74	27,722.75	20,690.25
Europe								
MSCI Europe	2,694.60	-0.65	-5.05	-3.54	6.97	1.96	2,917.43	2,461.79
Asia Pacific								
MSCI Asia Pacific ex Japan	874.65	-0.61	-3.23	1.19	22.15	21.11	925.80	684.96
Japan Nikkei 225	69,030.92	1.06	5.97	1.90	42.10	37.13	72,831.75	46,544.05
Shanghai Stock Exchange Composite	3,813.79	-0.74	-3.49	-5.52	-3.06	-3.91	4,258.86	3,741.11
Hong Kong Hang Seng	24,211.35	1.00	-4.21	0.75	-9.50	-5.54	28,056.10	22,518.00
Taiwan TAIEX	49,313.44	1.73	4.51	8.73	80.62	70.26	49,968.92	26,395.98
Korea KOSPI	6,625.93	-5.39	-6.04	-9.13	86.69	57.23	9,385.59	3,522.54
India NIFTY 50	22,520.45	0.44	-3.89	-6.02	-10.57	-13.81	26,373.20	22,179.90
Australia Stock Exchange 200	8,716.60	0.40	-2.19	-0.52	-2.82	0.03	9,296.70	8,262.40
Indonesia Jakarta Composite	6,093.76	0.94	-8.75	3.07	-26.15	-29.53	9,174.47	5,317.91
Thailand SET	1,577.65	0.38	-2.49	-1.91	20.07	25.24	1,657.55	1,232.40
Malaysia FTSE Bursa KLSE	1,608.45	-1.37	-6.18	-4.12	-1.30	-4.27	1,771.25	1,597.68
Philippines Stock Exchange PSE	5,700.99	1.28	-6.79	-8.40	-5.88	-5.81	6,673.61	5,584.35
Singapore FTSE Straits Times Index	5,401.89	-4.13	-5.72	-0.59	21.65	16.26	5,828.50	4,311.65
Currencies (vs USD)	Latest	1 week Change	1 Month Ago	3 Months ago	1 Year Ago	YTD	52 week high	52 week low
Developed Markets								
EUR	-0.07	-0.46	-3.71	-1.99	-3.13	-4.63	1.20	1.12
GBP	0.05	-0.08	-2.30	-1.30	-0.53	-1.80	1.38	1.30
CHF	-0.16	0.18	2.49	2.90	2.99	4.77	0.84	0.76
JPY	0.29	0.30	3.11	-2.50	3.43	1.06	163.85	150.42
Asia								
CNY	-0.15	-0.19	-0.23	-1.47	-6.11	-4.31	7.14	6.69
HKD	-0.01	0.01	0.07	0.15	0.85	0.84	7.85	7.77
INR	-0.03	0.47	1.75	1.45	8.92	7.69	96.82	87.72
MYR	-0.12	0.05	0.37	0.22	-3.11	0.67	4.23	3.88
KRW	-0.13	-0.17	0.04	-10.95	-5.80	-6.96	1,559.08	1,338.03
SGD	-0.03	0.12	1.31	-0.88	-1.43	-0.40	1.31	1.26
TWD	-0.07	0.36	1.42	-0.72	4.38	1.86	32.40	30.54
IDR	-0.08	0.04	2.14	-1.08	8.07	7.23	18,170.00	16,540.00

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Sources

Asset performances: (bar charts) Eastspring Investments, Refinitiv, as of 9 October 2026. Equities: using MSCI indices in USD, United States is using the S&P 500. Corporate Bonds: using ICE BofA indices in USD. Government Bonds: using the FTSE Global Sovereign Bond index, in USD. Gold is London Bullion Market US Dollar per Metric Tonne. DXY is US Dollar Index. **(line charts)** Eastspring Investments, Refinitiv, as at the end of the prior week, rebased to 100 as at 1 year ago. Equities: MSCI indices, in USD. Corporate Bonds: using Bloomberg indices in USD. Government Bonds: using ICE BofA US 10 Year US Treasury and ICE BofA 7-10 Year Euro Government indices. Commodities: Gold is London Bullion Market US Dollar per Metric Tonne Ounce. Copper is LME Copper Grade A Cash US Dollar per Metric Tonne. Oil is Crude Oil WTI Spot Cushing US Dollar per Barrel. US Dollar is US Dollar Index.

Market data: Eastspring Investments, Refinitiv, as of 9 October 2026. Equities: MSCI indices in USD, other indices in local currency. Other indices or assets as stated. Please note that there are limitations to the use of such indices as proxies for the past performance in the respective asset classes/sector. The historical performance or forecast presented in this slide is not indicative of and should not be construed as being indicative of or otherwise used as a proxy for the future or likely performance of the Fund.



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