Providence Pulse

Q1 2026

Your finger on the pulse of Financial Services industry.

The financial services industry continues to evolve at pace. In Providence Pulse, we explore the regulatory, technological and behavioural shifts shaping financial advice, with practical insights designed to support confident, well-informed decision-making.

Providence

Foreword

As we enter 2026, the financial services landscape is defined by a higher standard of accountability. Regulatory expectations are no longer just about compliance; they are about proving value. Technology is no longer just a tool; it is reshaping the very fabric of advice. Against this backdrop, our mission at Providence remains unchanged: to provide the clarity, products, and insights you need to deliver exceptional client outcomes.

I am pleased to introduce Providence Pulse. Designed as a quarterly touchpoint, this publication is more than a newsletter; it is a platform for informed conversations that define our industry. To help you navigate the evolving landscape, each edition will contain the following four foundational elements:

- *Regulatory Update: Key items of interest which are shaping regulators' approaches across the globe.*
- *Megatrends: Hot topics with the power to influence the approach of advisers with their clients.*
- *Behavioural Finance: In-depth articles on areas which help advisers understand their clients better.*
- *Investment Outlook: Our summation of the views of leading asset managers.*

In this issue, we tackle the themes that will dominate 2026:

- *The Protection Imperative: Understanding the evolving financial crime landscape and what it means for advisers and clients.*
- *The Intelligence Frontier: How Artificial Intelligence is transitioning from a trend to a core operational pillar.*
- *Resilience: Addressing the sophisticated landscape of financial crime and the enduring importance of behavioural finance in volatile markets.*

2026 also marks a significant year of delivery for Providence. We are offering a new Polaris schedule to drive greater efficiency for your firm.

Crucially, we are preparing for the upcoming launch of the Providence Protected Income Plan (PPIP). The development of this plan has been specifically driven by two factors: strong adviser demand and significant megatrend drivers; specifically the needs of Baby Boomers and Gen X as they are in or heading towards retirement. We will provide a much more comprehensive update on PPIP in the Q2, 2026 version of Providence Pulse.

At Providence, we believe that the best advice is a blend of data-driven discipline and human empathy. Our goal is to ensure you have the resources to excel at both.

I hope you find this first edition of Providence Pulse both practical and thought-provoking. I look forward to our continued partnership as we navigate the opportunities of the year ahead.

Dr. Chris Divito
CEO, Providence

Regulatory Update

The 2026 Financial Crime Landscape

Protecting Clients in the Age of AI and Industrialised Fraud

Financial crime is no longer a compliance issue handled quietly behind the scenes. It has evolved into a sophisticated, direct threat to client wealth and financial adviser's professional credibility. With the rise of artificial intelligence and shifting global dynamics, fraud and money laundering have become deeply personal issues for investors and policyholders.

Financial advisers are often the first line of defence. Clients now look to their trusted partners to explain not only how the markets are moving, but why security protocols are tightening and how they can stay safe.

The Rise of "Industrialised" Fraud

The biggest shift this year is the sheer scale of criminal operations. Fraud has become industrialised. Massive scam centres now operate with the efficiency of multinational corporations. These organizations use call scripts, performance targets, and AI-generated voices to target high-net-worth individuals and retirees.

> *"Many scams today are run like multinational businesses, complete with KPIs and professional AI tools."*
>
> **Jürgen Stock, Secretary General, INTERPOL**

These organisations generate billions of dollars annually. For the end investor, this means that a random scam call or email is likely part of a highly coordinated global strategy rather than an isolated incident.

The Human Cost: Why Trafficking and Finance are Linked

A sobering aspect of the latest report is the link between human trafficking and financial crime. **Trafficking is now a 500-billion-dollar illicit economy.**

It is important to recognise that **many individuals working in overseas scam centres are victims themselves, forced into labour through coercion**. This criminal activity relies on the same infrastructure used in legitimate commerce: bank accounts, crypto wallets, and shell companies. This is why regulators now treat fraud, money laundering, and human exploitation as one interconnected web of risk.

Technology: The Double-Edged Sword

Technology is reshaping the landscape for both criminals and protectors.

The Threat

Criminals are using deepfake audio and video to impersonate family members or business executives. An individual might receive a voicemail that sounds exactly like a relative in distress or a business partner requesting an urgent transfer.

The Defence

On a more positive note, institutions are now using AI-driven behavioural analytics. These tools can identify "mule account" patterns and unusual transaction links much faster than traditional systems.

Navigating New Realities

Investors may notice that onboarding or moving funds takes longer than in previous years. Enhanced due-diligence requirements, additional transaction questions, even for long-standing low-risk clients has become a norm. This is because regulators now assume that any financial channel can be exploited.

Practical Tips for Policyholders

These simple rules of thumb can help protect assets and personal information:

- **Slow down:** Panic is a criminal's best friend. If a request feels urgent, that is the best time to pause.
- **Verify via a second channel:** Always confirm a request using a known, trusted phone number—never a number provided in a suspicious message.
- **Secrecy is a red flag:** If a caller asks for a transaction to be kept secret, it is almost certainly a scam.
- **Report early:** The sooner a suspicious payment is reported, the higher the chance of recovery.

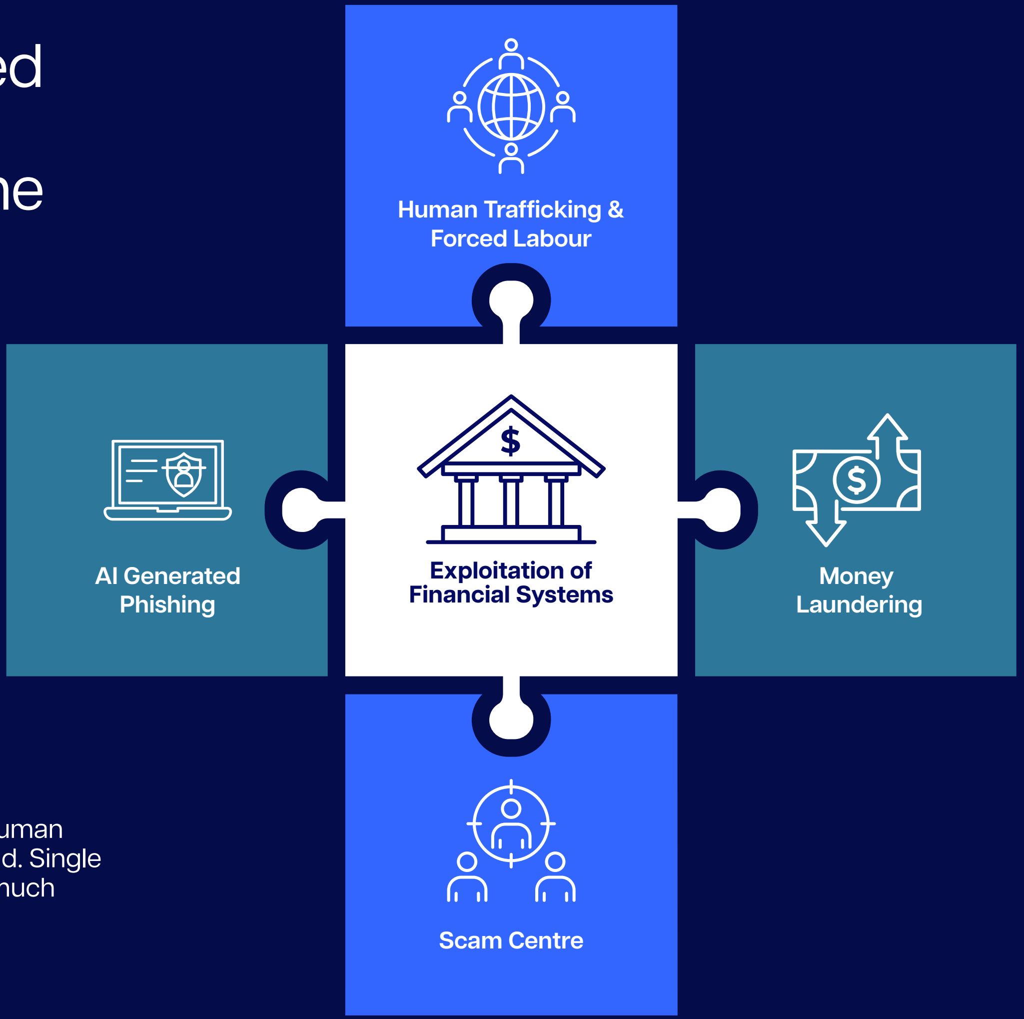
Protecting Wealth is as Important as Growing It

In 2025, value is measured by how well wealth is protected. By understanding the modern financial crime landscape, advisers and clients can work together to ensure a more secure financial future.

When the integrity of the financial system is protected, the ultimate result is the safety of the people it serves.

Source: Sanction Scanner, 2025–2026 Financial Crime & Compliance Report: Global Insights and Strategic Outlook, Fourth Edition (2025).

The Interconnected World of Financial Crime



Financial crime in 2026 is an interconnected world where human exploitation powers digital fraud. Single scam calls are often part of a much larger criminal ecosystem.

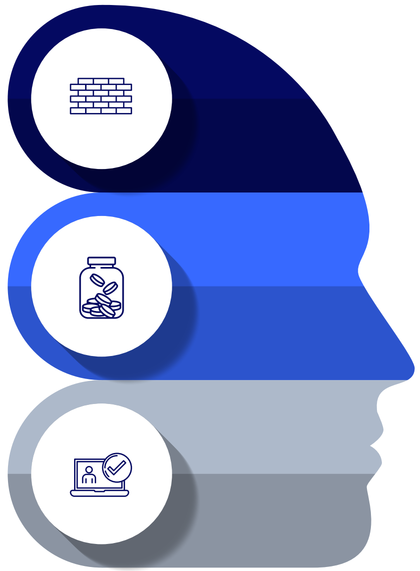
Megatrends

Is AI Changing the Rules of Financial Planning?

Artificial intelligence (AI) has moved quickly from a theoretical concept to a real force shaping global business. Few sectors are engaging with this shift as actively as financial services. Banks, insurers, asset managers and advisers are all asking the same question: how will AI change the way the industry operates, competes and delivers value to clients?

While views differ on how fast this change will happen, there is growing agreement on one point: **AI is not a passing trend. It is a structural shift that will influence how financial services evolve over the long term.**

Three recent publications by IIF, J.P.Morgan, and KPMG help bring clarity to a topic often surrounded by hype: AI and Financial Services. Together, they offer a grounded view of where AI is already making an impact, what lies ahead, and what firms need to get right as adoption accelerates.



IIF
Data, governance and foundations matter most

J.P. Morgan
AI is a transformative long-term investment

KPMG
Trust and execution determine AI advantage

The IIF perspective: foundations matter

The report focuses on how AI is already being used across financial services and what conditions are needed for it to deliver lasting value. Its key message is a practical one: success depends less on advanced algorithms and more on strong foundations. **High-quality data, cloud infrastructure, governance frameworks and skills are critical.**

Predictive AI tools are already well established in areas such as fraud detection, risk management and customer service, delivering tangible benefits to institutions and customers alike. At the same time, the report highlights constraints, including regulatory fragmentation, data localisation requirements and uneven digital infrastructure. The conclusion is clear: AI can enhance efficiency, inclusion and growth, but only when supported by the right architecture and responsible governance.

J.P. Morgan’s view: AI as a long-term investment theme

Here the approach to AI is from an investment perspective, positioning it as a transformative economic force rather than simply an operational tool. The report suggests that **AI has the potential to lift productivity, reduce the cost of expertise and reshape profit pools across many sectors, including financial services.**

Importantly, AI is compared to earlier general-purpose technologies such as electrification and computing. While the report acknowledges risks around over-exuberance

How AI Is Being Used in Financial Services Today

Fraud, risk and compliance
Detecting anomalies, managing risk and meeting regulatory requirements.

Customer service automation
Improving response times through chatbots and virtual assistants.

Operational efficiency
Automating manual processes such as onboarding and document handling.

Investment and portfolio support
Enhancing analysis, modelling and investment decision-making.

Advice and decision support
Augmenting advisers with insights, personalisation and planning tools.

The analysis brings the discussion closer to the realities inside financial institutions. AI is increasingly moving beyond back-office automation into front-office use cases, supporting decision-making, improving customer experience and strengthening operational resilience.

However, KPMG identifies trust, data quality and governance as the main constraints on progress. Many firms are deploying AI in a tactical way, without fully embedding it into their strategy or operating model. Regulation is another recurring theme: while regulators generally support innovation, uncertainty around frameworks continues to slow adoption.

The message is straightforward: **sustainable advantage will come to firms that combine innovation with strong stewardship, skills development and cultural readiness.**

Common ground across the research

Despite their different angles, the three reports converge on several key points. AI adoption in financial services is already underway, particularly in risk management, fraud prevention and efficiency-focused applications. Data quality, governance and trust consistently matter more than technology alone.

AI is expected to reshape business models and investment outcomes over time, though not evenly, creating both opportunities and disruption. Most importantly, none of the authors view AI as optional.

The real question is how prepared firms are to engage with it.

Looking ahead

For international wealth managers, the implications are clear. AI is not something to delegate solely to technology teams or treat as an abstract investment theme. It requires **informed leadership, ongoing education and a thoughtful understanding of how technology intersects with advice, client experience and portfolio construction**.

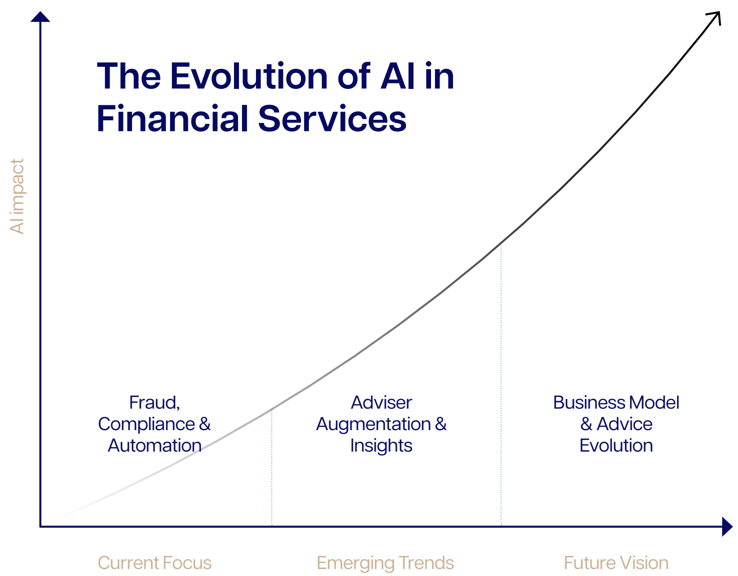
AI may not transform financial services overnight, but it is steadily changing the rules of the game. Firms that invest in understanding it today will be far better positioned to navigate what comes next.

Source:

Institute of International Finance (IIF)- AI and Financial Services: Current State and Direction of Travel.

J.P. Morgan Wealth Management- Outlook 2026: Promise and Pressure.

KPMG- Navigating Tomorrow: How Technology, AI and Regulation Are Redefining Financial Services.



Behavioural Finance

Investing Is Human

What Behavioural Finance Teaches Advisers and Clients

For decades, traditional finance assumed that investors behave rationally, carefully weighing risks and rewards before making optimal decisions. But if you have ever felt your stomach, drop during a market dip or felt the urge to jump into a “hot” stock, you know that isn’t the case. The growing field of behavioural finance offers a far more realistic picture, and recent research by Anantharajan and Manasa (2024) provides timely insights into how emotions and cognitive biases shape real-world investment behaviour

The encouraging news? Once we understand these behavioural tendencies, both financial advisers and clients can make better, more confident investment decisions.

The Reality of Investor Behaviour

The study highlights that most investors do not operate purely on logic. Instead, **decision-making is influenced by a blend of past experiences, emotions, and mental shortcuts.** In the survey, nearly 80% of respondents said they rely on previous experiences when making financial decisions, while a significant proportion admitted to feeling anxious during periods of market volatility. Fear, uncertainty, and emotional stress are therefore not exceptions, they are the norm.

Importantly, this does not imply investors are careless or uninformed. In fact, the **research shows that most participants do conduct some form of research before investing, with over half reporting that they “often” or “always” gather information.**

The Mind Traps to Watch For

Hating to Lose

The tendency to fear losses more than we value gains was evident in investors holding on to underperforming assets in the hope of a rebound. This “disposition effect” can prevent portfolios from being rebalanced objectively.

Overconfidence

When markets are going up, overconfidence tends to surface making us think we have a magic touch. This often leads to investors overestimating their skill or insight, leading to excessive trading or poorly assessed risks.

FOMO

This Fear of Missing Out has shown to drive impulsive investment decisions, particularly in fast-moving or speculative markets.

Herd Behaviour

Many investors, especially those with less experience, take cues from friends, family, or prevailing market sentiment rather than from long-term fundamentals. While this can feel reassuring, it often amplifies volatility and leads to poor timing decisions.

Recognising these biases is the first step to taking better decisions.

What behavioural finance reveals is that information alone is not enough when emotions and cognitive biases remain unaddressed.

Why This Matters for Financial Advisers

For advisers, these findings reinforce an important truth: successful advice is as much about psychology as it is about portfolios.

Clients are not simply seeking returns; they are seeking reassurance, clarity, and confidence, particularly during periods of uncertainty. By recognising emotional triggers such as fear during downturns or overconfidence during rallies, advisers can intervene constructively, helping clients avoid reactive decisions that undermine long-term goals. They take the guesswork and the “gut feelings” out of the equation.

The research also highlights the value of framing. How choices are presented (whether in terms of potential losses or long-term outcomes) can significantly affect client behaviour. Advisers who frame discussions around long-term objectives, diversification, and discipline can help counteract short-term emotional impulses.

In addition, the study supports the growing role of structured processes and automation. **Tools such as model portfolios, rebalancing rules, and even robo-advisory elements can reduce the scope for emotion-driven decisions, ensuring consistency through market cycles.**

Lessons for Clients: The Power of Staying Aware

For an investor, the goal isn't to get rid of emotions. It is about recognising them. The research shows that investors who understand their own psychological "buttons" are much happier with their financial outcomes.

Awareness enables pause, reflection, and better alignment with long-term plans. Rather than reacting to headlines or short-term market noise, informed investors are more likely to stay invested, diversified, and focused on their objectives.

Education plays a key role here. **Improving financial literacy, particularly around behavioural biases, can significantly improve outcomes.** Knowing that fear, greed, and herd instincts are natural helps investors recognise these impulses when they arise and seek guidance rather than acting hastily.

Building Better Outcomes Together

Perhaps the most positive takeaway from the study is that **behavioural biases are manageable, if not inevitable**. Through education, professional advice, diversified portfolios, and disciplined investment strategies, investors can substantially improve their outcomes.

For advisers, integrating behavioural finance into client conversations strengthens relationships and trust. For clients, embracing the human side of investing leads to calmer decision-making and more resilient financial plans.

Ultimately, **investing is not just a numbers game, it is a human one.** By acknowledging this reality, advisers and clients alike can turn behavioural insights into a powerful advantage, fostering steadier growth and greater confidence across all market conditions.

Source:

Anantharajan, R. S., & Manasa, S. (2024). Behavioural finance and the psychology of investing. International Journal of Financial Management and Economics, 7(2), 680–686.

Nearly 80% of investors admit they rely on past experiences and emotions when making financial decisions, proving that fear is the norm, not the exception.

Investment Outlook

Navigating the Q1 2026 Investment Landscape

In a recent article, the Financial Times basically admitted what we are all thinking: most “Year Ahead” investment outlooks are a bit of a slog. Readers usually have to trek through mountains of dry market analysis only to end up with predictions that are, at best, a lucky guess.

At Providence, we do not claim to be market predictors. Instead, our goal is to find common ground among some of the world’s largest asset management firms.

What follows is an informed summary of key markets, opportunities, and concerns for 2026. It is not investment advice, but rather a snapshot of where the major players see things heading.

This outlook covers three specific areas:

- U.S. Equities
- Non-U.S. Developed Equities (Europe and Japan)
- High-Quality Fixed Income (U.S. and Global)

U.S. Equities: Selectivity is Key

Given its scale, the U.S. market is central to any outlook. The consensus view for 2026 feels like "constructively cautious."

The baseline expectation is for positive, earnings-led returns. However, we anticipate more variation between individual stocks, higher volatility, and a less forgiving environment for high valuations than in recent years. Few firms expect a systemic downturn. Instead, the market is moving toward a phase where fundamentals matter more. The age of the stock-picker might finally be back. Elevated valuations are acknowledged but do not seem to be viewed as inherently destabilising so long as earnings continue to deliver and macro conditions remain broadly supportive.

Positive Drivers

AI Moment

This is the dominant force. Investment and earnings growth related to artificial intelligence are seen as just beginning.

Strong Corporate Health

Large U.S. firms have solid balance sheets and resilient margins.

A "Soft Landing"

Expectations of lower inflation and stable employment support a smooth economic transition.

Potential Risks

Valuation Stretch

Concerns remain around concentration in mega-cap tech if earnings expectations are not met.

AI Execution Risk

The path of future AI revenues is not yet fully understood.

Macro Headwinds

Persistent inflation or unexpected interest rate volatility could still unnerve investors.

Non-U.S. Developed Equities: The Viable Alternative

As the U.S. market has had such a strong run, investors are naturally considering alternatives. The outlook for non-US developed equities is constructive, with Europe and Japan seen as credible relative performers compared with the US through 2026. Analysts suggest these markets are emerging from the low-growth cycle that followed the global financial crisis. They appear to be a worthwhile strategic consideration. These gains are supported by structural changes rather than just short-term bounces.

Positive Drivers

Normalising Rates

The end of negative interest rates and higher nominal growth is positive for Europe and Japan.

Governance Shifts

Improved corporate governance in Japan is boosting earnings quality.

Broadening AI Adoption

AI productivity gains are spreading beyond the U.S. into manufacturing and industrials.

Potential Risks

Trade Uncertainty

Lingering tariff issues and sensitivity to global demand remain a concern.

Structural Hurdles

Europe still faces challenges with demographics and energy costs. Japan remains exposed to global demand cycles.

Manageable Risks

Most analysts feel these risks are already priced into the current market.

High-Quality Fixed Income: A Credible Return Source

Several large asset management firms share a strong consensus on high-quality fixed income for the coming year. Bonds are no longer just a defensive play. They are now viewed as a credible source of real return and portfolio stability.

With policy rates stabilising, high-quality government and investment-grade bonds are expected to deliver predictable returns. These will be driven primarily by income rather than big price swings. Importantly, fixed income is positioned as a core strategic holding regardless of whether equity markets continue to perform strongly or encounter turbulence.

Positive Drivers

Attractive Yields

Higher current yields provide an attractive income cushion. There are expectations of measured, shallow rate cuts rather than abrupt policy shifts.

Stable Inflation

Inflation is expected to moderate enough to keep real yields positive.

Strong Balance Sheets

Healthy sovereign and corporate balance sheets support high-quality credit while global diversification, particularly across developed market bonds, offers resilience against U.S.-specific risks.

Potential Risks

Rate Volatility

A sudden spike in inflation could pressure long-term yields.

Limited Upside

There is limited room for huge capital gains. The focus remains on steady income.

Stabilising Role

These risks reinforce the role of bonds as a portfolio anchor.

Our full 'House View' of the major markets can be found on the next page of this document.

Source: Financial Times (December 8, 2025): "Bemoaning the worthwhile nature of investment outlooks"

Providence House View

Asset Class	View Q1 2026	Rationale
EQUITIES		
US	↔	US equities remain supported by strong earnings growth and the ongoing AI investment cycle; however, elevated valuations limit further upside and argue for a selective, quality-focused approach.
Europe	↑	Fiscal stimulus, improving nominal growth and shareholder-friendly reforms support European equities, with valuation discounts versus the US providing scope for continued outperformance.
UK	↔	UK equities offer attractive valuations and income characteristics, but modest growth and fiscal headwinds suggest returns will be driven primarily by stock selection.
Japan	↔	Corporate governance reforms, wage growth and fiscal support underpin medium-term prospects, though rising bond yields introduce near-term volatility.
Emerging Markets & Asia	↑	A weaker US dollar, attractive valuations and superior growth dynamics support emerging markets, particularly in Asia.
FIXED INTEREST		
Government Bonds	↔	Yields are expected to remain broadly range-bound as cautious monetary easing offsets fiscal and inflation risks.
Investment Grade Bonds	↓	Tight credit spreads and heavy issuance reduce the attractiveness of investment grade credit relative to other fixed income segments.
High Yield Bonds	↑	Attractive carry and resilient fundamentals support corporate high yield, though active management is essential.
Emerging market Debt	↑	Improving credit fundamentals, compelling real yields and expected US dollar weakness underpin a favourable outlook.
ALTERNATIVES		
Overview	↑	Alternatives provide diversification and access to structural themes such as AI and infrastructure, with selectivity critical.
CASH		
Overview	↔	While cash yields remain attractive in the short term, anticipated rate cuts reduce its appeal beyond tactical use.

Note:

(Overweight) ↑	Favourable view of the asset class in the short-term and prefer a higher allocation relative to long-term stratetic asset allocation
(Neutral) ↔	Balanced view of the asset class in the short-term and would hold comparable allocation to long-term strategic asset allocation.
(Underweight) ↓	Less favourable view of the asset class in the short-term and prefer a lower allocation relative to long-term strategic asset allocation.

Providence

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