Providence Pulse

Q4 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

Hello again, everyone.

Welcome to the fourth edition of Providence Pulse and our final edition of 2026.

As we approach the end of the year, many of the themes that have shaped financial markets and our industry throughout 2026 remain firmly in focus. Geopolitical uncertainty, changing interest-rate expectations, the continued development of artificial intelligence and evolving regulation have all required advisers and investors to remain adaptable.

At the same time, some of the longer-term challenges facing our industry are becoming increasingly important:

- **Retirement is Changing**: As more investors move from accumulating wealth to drawing an income, the traditional choice between annuity and drawdown is increasingly giving way to more flexible approaches that seek to balance income certainty, investment participation and access to capital.
- **Technology is Changing Investor Behaviour**: Digital investment platforms have made investing easier and more accessible than ever. But greater convenience can also encourage more frequent trading and impulsive decision-making, reinforcing the important role advisers play in helping clients remain focused on their long-term financial plans.
- **Markets Remain Resilient, but Selectivity Matters**: Economic growth and corporate earnings have remained more resilient than many expected. However, with valuations elevated in some areas and bond yields remaining volatile, investment opportunities may increasingly depend upon identifying where future earnings and growth actually emerge.

Against this backdrop, our priorities at Providence remain consistent: continuing to deliver a high standard of service to advisers and clients while developing propositions that respond to the changing needs of internationally mobile investors.

In this edition of Providence Pulse, we explore four key themes:

- **Regulatory Update**: Looking beyond familiarity to examine Mauritius and the Isle of Man as international financial centres, including the regulatory, legal and structural foundations supporting policyholder protection.
- **Megatrends**: Rethinking retirement income and considering whether the future lies beyond the traditional binary choice between annuity and drawdown.
- **Behavioural Finance**: Exploring how digital investment platforms can influence investor behaviour and why a little “helpful friction” may sometimes support better long-term decisions.
- **Investment Outlook**: Assessing a market environment that remains broadly constructive, while examining the growing importance of selectivity, diversification and the broadening investment opportunities associated with AI.

These themes reflect the Q4 articles themselves, which move from the structural protections underpinning Mauritius, through evolving approaches to retirement income and the behavioural effects of digital investing, to a broadly constructive but increasingly selective investment outlook.

I hope you enjoy this final edition of Providence Pulse for 2026. As always, your feedback is extremely valuable and helps us ensure that the topics we explore remain relevant to the conversations you are having with your clients.

Thank you for your continued partnership and support throughout 2026. I look forward to working together in 2027 and to the opportunities the year ahead will bring.



Dr. Chris Divito
Chief Executive Officer, Providence

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Regulatory Update

Understanding the Mauritius Proposition

Mention the Isle of Man (IOM) to an experienced international financial adviser and there is a good chance they will already rightly understand its significant role in international financial services. For decades, the island has been associated with international life assurance, wealth management, fiduciary services and cross-border financial planning.

Mauritius fulfils a similar role as the 'international financial centre of choice' for many sophisticated advisers, but equally the scale and significance of the centre may generally be less well understood.

A Comparison of Scale and Economic Foundations

Modern Mauritius operates a financial centre of considerable international scale demonstrating a depth of international financial activity that compares favourably with other established international financial centres.

The Mauritius Economic Development Board's (EDB) published 2024 financial-services reports assets under management/administration in excess of US$ 750bn across the banking, insurance and funds sector – dwarfing the much more well known Isle of Man, with a GDP approaching US$ 17bn[1].

Mauritius has developed a sophisticated international financial services industry which contributes circa 13% to its well diversified economy, supported by a hybrid legal system, a specialist financial services regulator, major international professional-services firms and a financial sector whose scale is significant relative to the domestic economy. By contrast, the IOM GDP was US$ 7.1bn[2] for 2024, with a reliance of around 50% on the financial and professional services sector[3].

For advisers, the appropriate comparison is therefore not which island is better known, but how each jurisdiction supports international financial business, protects policyholders, and supervises regulated firms.

Shared Legal DNA: The Privy Council Connection

To understand modern Mauritius, it is necessary to understand its history. Mauritius was under French control in the eighteenth century before Britain took control in 1810. Under the Treaty of Paris in 1814, existing laws, language, religion and customs were respected. Mauritius remained under British administration until independence in 1968.

This history yielded a distinct institutional advantage: a hybrid legal system that combines French civil-law foundations with British common-law framework governing corporate, commercial, and procedural matters.

For Mauritius, the Privy Council sits above the Supreme Court as the final appellate court in qualifying matters. Drawing comparison, The IOM Courts of Justice likewise describe the Judicial Committee of the Privy Council as the Island's court of final appeal. **This is an important point for advisers: Mauritius is not an isolated legal jurisdiction without an internationally recognised final appellate route. In this respect, both centres ultimately connect to the same final appellate institution.**

Furthermore, with English and French embedded alongside Mauritian Creole in education and commerce, Mauritius possesses a unique bilingual professional culture uniquely equipped to navigate European, African, Middle Eastern, and Asian markets.

Policyholder Protection

As an adviser, part of the recommendation process is to highlight how the clients' money is protected. An easy headline to quote to a client is the "90% Isle of Man policyholder protection." However, this frequently quoted 90% figure needs to be understood in context; it is a statutory compensation mechanism rather than an unlimited sovereign guarantee by the IOM Government.

So, rather than default to the unproven compensation scheme, what should be compared is the prudential architecture implemented by offshore jurisdictions. This framework rests on a combination of regulatory licensing and supervision, insurer capital and solvency requirements, statutory long-term/designated insurance funds, restrictions on the use of those assets, governance, actuarial, audit and reporting requirements, as well as insolvency law and access to the courts.

How Global Jurisdictions Compare

Jurisdiction	MCR*	Principal approach	What this means	Broad model
Mauritius	US$527,000 (MUR 25 million) minimum floor, or 13 weeks' operating expenses if higher.	Designated long-term insurance funds, solvency supervision and Protected Cell Company (PCC) ring-fencing, where applicable	Long-term insurance assets are subject to statutory fund requirements; PCCs add legal segregation between cells where used.	Structural and prudential protection.
Luxembourg	US$4.51 million (€4 million) statutory floor	Segregated cover assets and preferential policyholder rights	Policyholder protection centres on segregation and priority over assets representing insurance liabilities.	Structural protection and insolvency priority.
Cayman Islands	US$200,000–US$400,000 for specified Class B licence categories	Segregated Portfolio Companies / Portfolio Insurance Companies and prudential regulation	Segregated portfolio structures are widely used in the insurance sector.	Structural segregation; not an Isle of Man-style general compensation model.
Jersey	US$66,300 (£50,000), or 2.5% of the long-term business fund if greater, for relevant Category B insurers	Prudential and conduct regulation; disclosure of applicable protection	Insurers must disclose the policyholder-protection arrangements applicable to a policy, or their absence.	Protection is contract/entity-specific rather than a direct equivalent of the Isle of Man scheme.
Isle of Man	US$3.98 million absolute MCR floor.	Life-assurance compensation scheme	Subject to the scheme rules, up to 90% of the relevant liability of an insolvent insurer.	Untested compensation after insurer failure.
Guernsey	US$330,000 minimum capital floor, or 2.5% of qualifying reserves excluding linked liabilities, whichever is higher	Independent trustee / trust protection	Assets representing at least 90% of policyholder liabilities must be held in trust for long-term business.	Structural protection of assets supporting policyholder liabilities.

*MCR = Minimum Capital Requirement. data is summarised for comparison. For full, current specifications, visit the respective jurisdiction's regulatory portal.

What This Means for Your Providence Clients

The regulatory framework enforced by the Mauritius Financial Services Commission (FSC) focuses on proactive prevention: ensuring insurers maintain exceptional financial resources, undergo mandatory financial stress testing, and legally isolate the assets supporting policyholder obligations.

These arrangements are particularly relevant to international investment-linked insurance business, where the preservation, allocation and legal protection of assets supporting policyholder liabilities are central considerations.

Providence consistently operates with capital reserves significantly in excess of its regulatory MCR ratios.

The safety and institutional credibility of Mauritius are further validated by leading global authorities:

- **International Monetary Fund (IMF)**: In its July 2026 Article IV consultation, the IMF concluded that financial sector risks in Mauritius remain contained, noting the resilience of its banking and non-bank frameworks.
- **OECD Global Forum:** The June 2026 Enhanced Monitoring Report confirmed Mauritius's top-tier "Compliant" rating for international tax transparency and information exchange.
- **Bertelsmann Transformation Index (BTI) 2026**: BTI categorised Mauritius as a highly secure, reliable environment for foreign investment, validating its adherence to rigorous international compliance benchmarks.

The Mauritius Financial Services Commission (FSC) operates within this broader regulatory environment, supervising non-bank financial services, including long-term insurance, under a framework incorporating capital adequacy, solvency requirements, actuarial oversight, and regulatory reporting.

The FSC is a member of the International Association of Insurance Supervisors (IAIS). The IAIS develops international principles and standards for the supervision of insurance companies. It is also an IOSCO member and participates in international regulatory cooperation through the IOSCO Multilateral Memorandum of Understanding (MMoU).

Mauritius's regulatory framework places substantial emphasis on preventing insolvency and protecting policyholder assets.

Capital adequacy requirements
Ensuring insurers have sufficient financial resources.

Actuarial supervision & stress testing
Ongoing assessment of financial resilience.

Statutory long-term insurance funds
Backing policyholder liabilities.

PCC legal segregation
Separating assets and liabilities between cells.

Regulatory oversight
By the Mauritius FSC, a member of the IAIS and IOSCO

Key Takeaways

While regulatory structures differ between international financial centers, the framework in Mauritius should be evaluated on its strict statutory safeguards, supervisory rigor, and compliance with international standards, rather than assumptions based on geography.

Shared Legal Safeguards	Mauritius and the IOM share an elite judicial foundation: qualifying appeals from both jurisdictions ultimately route to the Judicial Committee of the Privy Council in London.
Considerable Global Scale	Official EDB figures show that Mauritius operates an international financial hub of substantial scale.
Asset-Centric Protection	Mauritius protects long-term policyholders through a preventative prudential architecture. This framework prioritises rigorous regulatory supervision, strict solvency margins, mandatory statutory funds, and, where applicable, PCC legal ring-fencing between individual client cells.

For sophisticated advisers, the critical risk assessment is not "which jurisdiction has the highest headline marketing guarantee?" Instead, robust due diligence evaluates who regulates the insurer, its exact solvency cushion, where and how core assets are custodied, how client liabilities are structurally segregated, and what precise priority mechanisms apply in the event of an insolvency.

The world over, Mauritius is recognised as a leading international financial centre, affording Providence policyholders the comfort that their policies are issued within an established, well-regulated and internationally connected financial-services jurisdiction.



Further Reading

1. Statistics Mauritius – National Accounts Estimates, September 2026.
2. Isle of Man Government – National Income Report 2023–24 (updated January 2026).
3. Finance Isle of Man – Finance Isle of Man Programme 2025–26.

Megatrends

Beyond Annuity or Drawdown

Rethinking Retirement Income



In Q2, Providence Pulse looked at the retirement-income challenge as millions of investors move from accumulation to decumulation. But having accumulated the money, how should clients turn it into income? Increasingly, the answer may lie somewhere between the traditional choices of annuity and drawdown.

The retirement-income challenge is one of the biggest long-term changes facing wealth management. Baby Boomers are retiring in large numbers, while Generation X is not far behind. For advisers, that means more clients moving from accumulating wealth to the altogether different task of living from it.

But demographics are only part of the story.

The rise of Defined Contribution (DC) pensions has also changed who carries the risks in retirement. And that is prompting a rethink of something fundamental: how should a lifetime's accumulated capital be turned into an income that might need to last for decades?

Traditionally, the choice has often been framed around two alternatives. An annuity provides predictable lifetime income, but usually at the cost of giving up access to the capital used to purchase it. Drawdown keeps capital invested and accessible, but leaves the retiree exposed to investment volatility, sequencing and longevity risk.

It is a trade-off between certainty and flexibility. But does it have to be quite so binary?

More freedom, more responsibility

The decline of Defined Benefit (DB) pensions and rise of DC provision has gradually shifted responsibility for retirement outcomes towards the individual.

The Pensions Policy Institute (PPI) reports that 92% of UK DB schemes are now closed to new members, while automatic enrolment has brought more than 11 million people into DC workplace pensions.[1]

For millions of people, retirement no longer arrives with a predetermined income attached. They have capital and decisions to make about what happens next.

Those decisions are not straightforward. There is investment risk, inflation and sequencing risk to contend with. Then there is longevity risk: nobody knows at retirement whether they are budgeting for another ten years or another 40.

Mercer identifies market, inflation and longevity risk as three of the major risks affecting long-term retirement outcomes.[3]

That changes the objective. Retirement investing is not simply about generating the best return. It is about making finite resources support an uncertain lifespan while still allowing clients to enjoy the wealth they have spent decades accumulating.

Not every pound needs to do the same job

One way of looking at the problem is to stop treating a retirement portfolio as though every asset has the same purpose.

The OECD divides financial needs in retirement into three broad areas: essential spending, unexpected expenses and discretionary spending. It argues that retirement arrangements should help provide regular income for essential needs while allowing people to retain reserves for unexpected costs and flexibility for discretionary expenditure.[2]

For advisers, this opens up a more useful conversation than simply asking: annuity or drawdown?

The question becomes: what does this part of the client's wealth need to do?

Some money may need to provide dependable income. Some may need to remain readily available. And some can potentially stay invested for longer-term growth.

Clients will arrive at different answers. Someone with substantial DB and state pension income may already have much of their essential expenditure covered. Another client relying heavily on DC assets may place a much higher value on income certainty.

Those priorities are also unlikely to remain fixed throughout retirement.

Finding the middle ground

This is where the retirement-income debate becomes more interesting.

Rather than treating predictable income and invested capital as opposing choices, researchers are increasingly examining how different elements can work together.

Mercer's US modelling compared a conventional DC arrangement with several structures incorporating different forms of lifetime-income protection. The numbers are illustrative rather than directly transferable to international clients, but they demonstrate the principle.

In Mercer's model, the probability of exhausting DC assets over a 40-year retirement was 59.7% for the DC-only arrangement. For structures incorporating an immediate annuity, deferred longevity protection or a cash-balance component, the equivalent figures ranged from 39.9% to 43.8%.[3]

There is another interesting point. Introducing an income component does not necessarily mean the rest of the portfolio should become more conservative. If part of a client's retirement assets is already performing an income-like role, Mercer argues there may be greater scope for remaining assets to stay invested for growth.[3]

That matters because being too cautious can itself be risky over a long retirement.

The OECD finds that equity investment can contribute to better long-term retirement outcomes, although it also brings greater volatility and particular vulnerability to market falls close to retirement. It consequently cautions against default strategies becoming excessively conservative.[2]

Retirement planning therefore involves two competing risks: taking too much investment risk while making withdrawals, and taking too little growth risk when the money may need to last for decades.



Products are beginning to reflect the problem

The PPI's work on the UK retirement-income market suggests the industry is starting to respond.

It describes current support at decumulation as underdeveloped. In practice, two informal defaults have emerged: taking pension savings as cash or remaining in an accumulation strategy after retirement without reconsidering whether it is still appropriate.[1]Neither necessarily amounts to a considered long-term income plan.

The alternatives being explored are more nuanced. The PPI highlights bucket strategies, default decumulation solutions and combinations of flexible and guaranteed income. It also discusses blended approaches that could begin with flexible drawdown and introduce more stable income later in retirement.[1]

There is a common thread here. Instead of asking one product to solve every retirement problem for the rest of a client's life, different solutions can be used for different purposes and periods.

That creates room for products sitting between the familiar extremes of a lifetime annuity and conventional investment drawdown. An income might, for example, be protected for a defined period rather than guaranteed for life, while capital remains invested and the client has opportunities to reconsider the arrangement at future review points.

The distinction matters. Protected income for a defined period is not guaranteed lifetime income, and such approaches do not make investment or longevity risk disappear.

What they may offer is another way of deciding how much certainty a client wants, for how long, and how much flexibility they want to retain.

Retirement changes, so should the plan

There is a practical attraction to that idea because retirement rarely unfolds exactly as expected.

A 65-year-old client's priorities may revolve around travel and lifestyle. Ten years later, expenditure and family circumstances may look quite different. Markets, tax rules and the client's wider assets may also have changed.

FCA research published in 2025 found that receiving financial advice was associated with an increase in wealth of up to 10% in the years following advice compared with those who did not receive it, although the relationship became smaller and more uncertain over time.[4]

The FCA is careful about the limitations of that finding, and the research was not designed specifically to measure retirement-income outcomes. But one observation is especially relevant: changing markets and life events can mean recommendations made several years earlier no longer fit a client's circumstances. The FCA suggests this may point towards the value of ongoing or refreshed advice.[4]

Retirement, after all, is not one financial decision made on the day someone stops working. It is a succession of decisions that may stretch across several decades.

Natural review points can therefore serve a useful purpose, allowing advisers and clients to revisit income needs, investment risk, access to capital and the balance between flexibility and certainty.



A broader retirement-income toolkit

The Megatrend we discussed in Q2 began with demographics. More people are reaching the stage when accumulated wealth has to become retirement income.[5]

What follows is a product and planning challenge.

The evidence does not point towards abandoning drawdown or returning wholesale to annuitisation. Instead, the direction of travel appears to be towards a broader retirement-income toolkit: different assets and products doing different jobs, potentially at different stages of retirement.

For international advisers, that makes the conversation richer than simply establishing a sustainable withdrawal rate.

How much of a client's expenditure really needs certainty? How much capital needs to remain accessible? How much should continue participating in investment markets? Which risks is the client comfortable carrying, and which would they rather reduce?

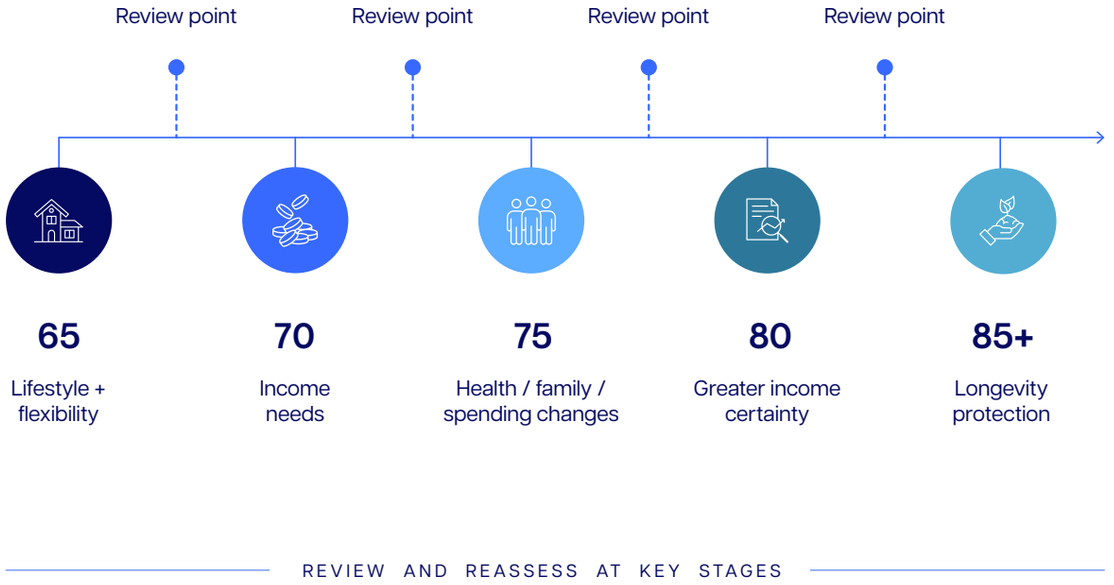
And does the answer need to be fixed for life?

As retirement-income products evolve, solutions occupying the space between traditional annuities and conventional drawdown may have an increasingly useful role to play. For some clients, the ability to combine a degree of income protection with continued investment participation, capital flexibility and regular opportunities to reassess their position could offer a useful additional building block.

The aim is not to remove uncertainty from retirement. It is to manage it more deliberately, while retaining the flexibility to change course when the client's life changes too.

Retirement is a journey, not a single decision

CHANGING CIRCUMSTANCES, EVOLVING PRIORITIES.



Further Reading

1. Pensions Policy Institute, Assessing the UK Retirement Income Market: Defaults, Active Choices, Innovation, and the Existing Gaps and Challenges for Delivering Value for Money, April 2025.
2. OECD, OECD Pensions Outlook 2024: Improving Asset-backed Pensions for Better Retirement Outcomes and More Resilient Pension Systems, 2024.
3. Mercer, Retirement in Balance: Delivering Guaranteed Lifetime Income in Retirement Programs, 2024.
4. Financial Conduct Authority, Bridging the Advice Gap: Estimating the Relationship Between Financial Advice and Wealth, Research Note, 30 June 2025.
5. Providence Pulse, Q2 2026, Megatrends: Retirement Income.

Did You Know?

The “$” symbol may have started as an abbreviation for the Spanish peso, not “U.S.”

The popular explanation that the dollar sign combines the letters “U” and “S” is likely not the whole story. The U.S. Treasury notes that the symbol was already in use before the adoption of the U.S. dollar. It is widely believed to have evolved from the handwritten abbreviation “Ps” for pesos, which were widely used in colonial North America. Over time, the “S” was written over the “P”, with the two letters becoming increasingly intertwined. As the loop of the “P” disappeared, the familiar “$” emerged.

Behavioural Finance

When Investing Becomes Too Easy

The Behavioural Risks Hidden in Digital Platforms



In behavioural finance, we often focus on the investor: their loss aversion, overconfidence, tendency to follow the crowd or preference for recent information. But there is another influence on behaviour that deserves advisers' attention – the environment in which investment decisions are made.

That environment has changed dramatically. For many investors, investing no longer involves completing paperwork, speaking to an adviser or even sitting at a computer. A portfolio is permanently available through a smartphone. Prices flash, notifications arrive and a trade can be completed in seconds.

This convenience has obvious benefits. Yet an important 2025 study from the UK Financial Conduct Authority (FCA), Playing the Market: A Behavioural Data Analysis of Digital Engagement Practices and Investment Outcomes, raises an interesting question:

What happens when an investment platform is designed not simply to facilitate investing, but to encourage engagement?[1]

The answer matters because good investment behaviour may depend not only on what investors know, but also on how easy it is for them to act on an impulse.

From Investment Platform to Attention Platform

The FCA describes Digital Engagement Practices (DEPs) as features designed to engage retail investors on digital platforms. Examples include push notifications, celebratory messages following trades, leaderboards, flashing prices, prize draws and defaults relating to investment amounts or leverage.[1]

There is nothing inherently wrong with making investing accessible or engaging. Indeed, the FCA acknowledges that digital design can potentially encourage beneficial behaviour too. The important issue is the outcome produced by the design.

The FCA's 2025 study analysed actual investor trading data from several UK trading apps and classified platforms according to whether their use of DEPs was low, medium or high. Its findings are striking.

The median user of a high-DEP app made seven times more trades than the median user of a low-DEP app. High-DEP users also had more frequent sessions, including at night, spent more days and longer periods on their apps, and were almost twice as likely to exhibit what the researchers classified as "potentially problematic engagement".[1]

Most importantly, greater activity did not translate into better outcomes. Investors on high-DEP platforms experienced significantly poorer returns than investors using low-DEP platforms. However, the FCA is careful not to claim that DEPs caused these poorer outcomes. Differences between investors and the products available (particularly cryptoassets and CFDs) could also explain the relationship.[1] That qualification matters. But so does the broader behavioural lesson:

More engagement with investing does not necessarily make someone a better investor.

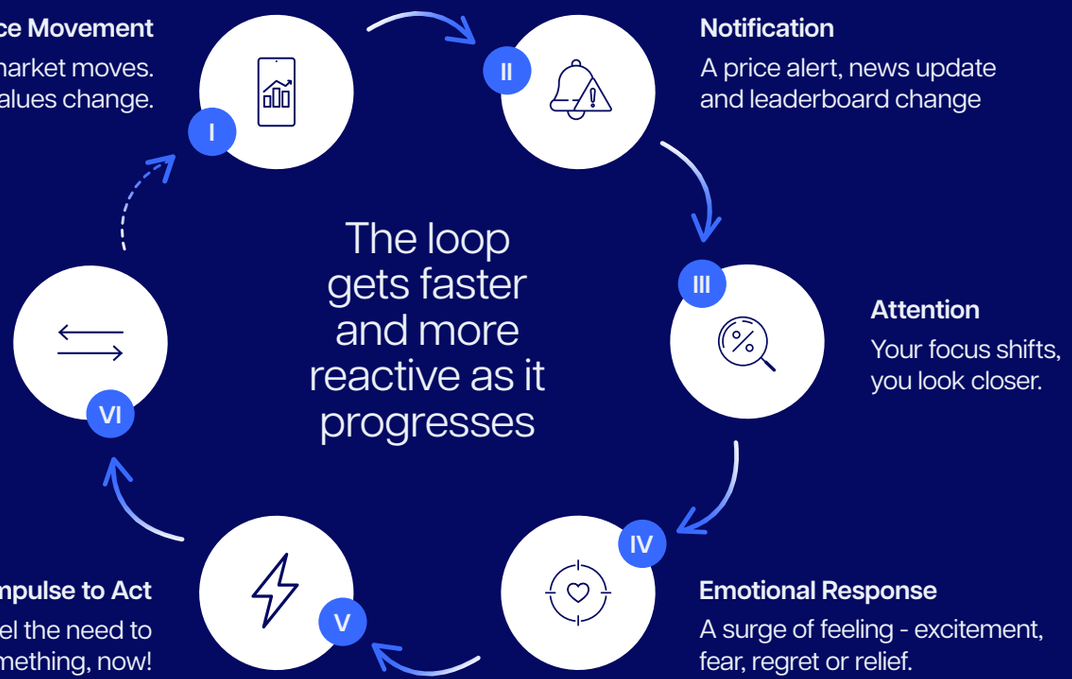
Why Our Brains May Be Poorly Suited to Constant Investing

Daniel Kahneman's Thinking, Fast and Slow (2011) provides a useful framework for understanding why. Kahneman describes two modes of thought: System 1, which operates quickly and automatically, and System 2, which is slower, more deliberate and effortful.[2]

Much of everyday life depends successfully on System 1. But Kahneman's work also demonstrates how intuitive thinking can produce predictable errors. When faced with a difficult question, for example, we can unconsciously substitute an easier one.

Now consider the environment created by a smartphone investment app. A notification announces a price movement. A flashing number attracts attention. A leaderboard shows what others are doing. An asset that has risen dramatically appears prominently on screen.

Increase in Activity ≠ Increase in Progress



More trades, more screen time and more engagement don't automatically lead to better returns, lower risk or long-term wealth.

The investor may believe they are independently asking, “Is this a good long-term investment?” Yet the immediate stimulus may be encouraging a rather different question: “Should I do something about this now?”

That distinction is important because investment success frequently requires patience precisely when our attention is being drawn towards action.

James Montier makes a complementary argument in his 2007 book Behavioural Investing: A Practitioner's Guide to Applying Behavioural Finance. He argues that investors are naturally susceptible to short-term thinking and herd behaviour, and that simply knowing about behavioural biases does not necessarily prevent them. His practical response is to construct an investment process that provides a defence against our own behavioural tendencies.[3] Digital investing makes that insight particularly relevant.

Activity Can Feel Like Control

One attraction of constant portfolio access is that it gives investors something to do.

When markets move sharply, doing nothing can feel strangely irresponsible. Buying, selling or repeatedly checking the portfolio can provide an immediate sense of involvement and control. But activity and progress are not the same thing.

The FCA's 2025 study found that high-DEP app users traded more frequently, including greater portfolio turnover, day trading and night trading. It also found that users displaying potentially problematic engagement tended to have poorer returns and a significantly higher incidence of large losses, even after accounting for the use of CFDs and cryptoassets.[1]

These are associations rather than evidence that one behaviour caused the other. Nevertheless, they raise a useful question for advisers.

Instead of asking only, "What should the client invest in?", perhaps we should also ask: "What environment gives this client the best chance of behaving well?"

Creating Helpful Friction

Much of modern technology is designed to remove friction. Usually that is desirable. Few people want their banking or investment platform deliberately made difficult to use.

But investment decisions are unusual because a little friction can sometimes be valuable.

The FCA makes precisely this distinction. Unnecessary barriers or "sludge" that make it difficult for consumers to act in their interests can be harmful. Yet appropriate friction that slows consumers when they are considering high-risk investments may actually improve decision-making.[1]

The objective, therefore, is not to make investing difficult. It is to make impulsive investing less easy.

For advisers, that might mean agreeing that a client waits before implementing an unplanned portfolio change. It could involve switching off unnecessary trading notifications, reducing portfolio checking or establishing in advance the circumstances that would justify changing a portfolio.

The principle is straightforward: Make deliberate decisions easy and emotional decisions slower.

Two Thinking Modes. One Decision.

Kahneman's research shows that we switch between two systems of thinking. In the heat of the moment, System 1 takes over fast, automatic and emotional.



The Adviser as Part of the Decision Environment

Earlier articles in this Providence Pulse behavioural finance series have considered common investor biases, behavioural obstacles to retirement planning and the importance of helping clients remain invested during periods of volatility. Digital investing adds another dimension: advisers can help clients design the environment in which future investment decisions will be made.

A financial plan can establish decision rules before fear, excitement or FOMO arrives. An adviser can also provide something an investment app cannot: another person between an emotional stimulus and an irreversible financial decision.

This suggests some useful questions for client meetings. How frequently do you check your portfolio? Which investment notifications do you receive? Do you feel more inclined to trade after checking your investments? Have you ever bought an investment because it appeared on your phone rather than because something changed in your financial plan?

These questions may reveal something a conventional risk questionnaire cannot: not simply a client's tolerance for investment risk, but their susceptibility to an environment that continually invites them to act.

Sometimes Good Investing Should Feel Uneventful

The great promise of digital investing is convenience. Its behavioural danger is that convenience can turn investing into an activity demanding constant attention. Yet successful long-term investing may frequently require the opposite.

The FCA's study does not establish that engaging app features cause poor investment outcomes, and advisers should be careful not to make that claim. What it does demonstrate is an association between highly engaging platforms, greater trading activity, potentially problematic engagement and poorer outcomes.[1]

For advisers, the practical lesson is powerful. Helping clients invest successfully may increasingly require managing not only portfolios and emotions, but also attention.

The best investment technology should make implementing a sensible financial plan easier. The best advice may sometimes involve making abandoning that plan just a little harder.

Further Reading

1. Financial Conduct Authority (2025), Playing the Market: A Behavioural Data Analysis of Digital Engagement Practices and Investment Outcomes, Financial Conduct Authority, Occasional Paper 66, April 2025.
2. Kahneman, D. (2011), Thinking, Fast and Slow, Farrar, Straus and Giroux.
3. Montier, J. (2007), Behavioural Investing: A Practitioner's Guide to Applying Behavioural Finance, John Wiley & Sons.

HELPFUL FRICTION

Pause
Step away from the nudge. Create space.

→

Check the Plan
Revisit your goals, risk profile and time horizon.

→

Decide
Make a considered choice, not a reactive one.

Make deliberate decisions easy, make emotional decisions slower.

Investment Outlook

Resilience, Rotation and the Road Ahead



In our fourth Providence Pulse Investment Outlook, there is a slightly unusual feeling of familiarity. Many of the issues that have occupied us throughout 2026 remain firmly on the agenda – artificial intelligence, geopolitics, inflation and interest rates – but the investment debate around them is changing.

As with previous editions, what follows is not 'investment advice' but rather our attempt to find common ground between some of the world's largest investment management businesses. Encouragingly, the broad message entering the final quarter of 2026 remains reasonably constructive. Economic growth has proved more resilient than feared and corporate earnings remain supportive. However, there is also noticeably greater emphasis on selectivity as growth momentum moderates, bond yields remain volatile and some valuations offer rather little room for disappointment.

This outlook will focus primarily on:



Plus a dip into:



Gold



Emerging Markets



Alternatives and Infrastructure

The bigger picture – resilient, but perhaps a little less comfortable

One of the more interesting features of 2026 has been the ability of markets and economies to absorb a succession of shocks. Middle Eastern conflict, volatile energy prices, inflation concerns and substantial movements in bond yields have all provided reasons for pessimism. Yet economic activity and, crucially, corporate earnings have remained resilient.

There is broad agreement that the global economy remains in expansion. Fidelity is becoming more cautious as its leading indicators soften and fiscal support becomes less helpful, but nevertheless remains positive towards risk assets[2]. HSBC is somewhat more upbeat, arguing that economic and corporate resilience has repeatedly offset the impact of geopolitical and energy shocks[3].

What has changed since our Q3 Outlook is therefore not so much the direction of travel as the degree of confidence. The investment environment still appears constructive, but perhaps increasingly dependent upon earnings actually delivering.

And one theme remains impossible to avoid: AI.

The AI story is evolving from simply buying technology companies towards financing and monetising an enormous investment cycle. Data centres require semiconductors, but also electricity, grids, materials, financing and physical infrastructure. This potentially spreads the economic benefits into industrials, financials, utilities and commodity-related businesses. The question for Q4 is increasingly not whether AI investment continues, but which businesses ultimately make money from it.

U.S. Equities

The view on U.S. equities remains constructive, although there is an interesting divergence between managers over just how enthusiastic investors should be.

Strong corporate earnings remain the central support. HSBC argues that earnings delivery has made headline U.S. valuations more defensible[3], while Fidelity similarly notes that earnings growth has improved the valuation picture[2]. AI investment also appears to be spreading beyond the technology giants into financials, industrials and mid-sized companies.

BlackRock is more explicitly positive, favouring U.S. equities and areas associated with AI bottlenecks such as power, chips and data centres[1]. The broader point seems reasonably clear: the AI theme remains powerful, but its investment opportunity is becoming wider.



Positive Drivers Underpinning This View

- Corporate earnings remain resilient and continue to support equity valuations.
- AI investment and adoption are broadening beyond technology into infrastructure, financials and industrial businesses.
- Continued investment in data centres, electricity and re-industrialisation provides additional sources of economic activity.
- Broader market leadership could reduce reliance on a relatively small group of mega-cap technology companies.



Potential Hurdles and Risks

- Valuations still leave less room for earnings disappointment in some areas.
- AI investment requirements are enormous, increasing scrutiny of future returns and monetisation.
- Persistent inflation or higher bond yields could pressure valuations.
- Geopolitical and trade uncertainty remains capable of generating significant volatility.

Overall, we retain a constructive view, but increasingly favour the broader beneficiaries of AI and investment spending rather than assuming yesterday's winners will automatically remain tomorrow's.

Non-U.S. Developed Equities

This has been an important theme throughout our 2026 Outlooks and Q4 provides further evidence that diversification away from the U.S. remains worthwhile – although Europe and Japan now deserve to be considered separately.

Europe

Europe has improved. Fidelity has upgraded the region to Neutral as economic data and earnings revisions strengthen, while HSBC points to defence and infrastructure expenditure as important supports[2, 3]. European financials and industrial businesses may also benefit from the broader investment and credit cycle. However, HSBC still expects Europe to lag the U.S. and Asia because of its slower innovation profile and smaller technology sector[3].

Japan

Japan presents a more complicated picture. Corporate reform, capital expenditure, reflation and broader earnings growth remain positive for equities. However, rapidly rising Japanese government bond yields introduce a new global consideration. BlackRock highlights the possibility that higher domestic yields encourage Japanese investors to repatriate capital, potentially adding upward pressure to global bond yields[1]. It has consequently become less enthusiastic towards Japanese equities tactically, although it still identifies attractive opportunities beneath the headline index.

So, Japan remains attractive – but the investment case has become more nuanced than it appeared earlier in the year.



Positive Drivers Underpinning This View

- European economic and earnings data have improved.
- Defence, infrastructure and energy-security spending continue to support European industrial activity.
- Japanese corporate governance reform and shareholder-friendly policies remain important structural positives.
- Japan and North Asia retain substantial exposure to automation, semiconductors and AI-related investment.



Potential Hurdles and Risks

- Europe still faces relatively modest structural growth and energy-related challenges.
- Rising Japanese interest rates may create currency and capital-flow volatility.
- Both regions remain sensitive to global trade and geopolitical developments.
- Higher global bond yields could challenge equity valuations more generally.

High-Quality Fixed Income

Attractive income, but watch the duration

Perhaps the biggest change from the beginning of the year is not whether bonds offer attractive income – there remains broad agreement that they do – but how investors should access it.

Higher yields have materially improved prospective income. HSBC argues that current yields provide an opportunity to lock in attractive real income[3], while Fidelity acknowledges that government bond valuations have improved as yields have risen[2].

But there is less enthusiasm for simply owning long-duration bonds. Government borrowing requirements, persistent inflation and rising Japanese yields are creating competition for global capital. BlackRock consequently prefers short- and medium-term government bonds to longer maturities[1]. Credit presents another dilemma: corporate balance sheets generally remain healthy, but spreads are tight. Fidelity is particularly cautious on investment-grade credit because valuations offer limited compensation and substantial AI-related bond issuance is adding supply[2].



Positive Drivers Underpinning This View

- Starting yields provide meaningful income.
- High-quality corporate fundamentals remain generally robust.
- Moderating growth could ultimately improve the diversification benefits of government bonds.
- Medium-duration bonds can potentially capture attractive income without taking excessive duration risk.



Potential Hurdles and Risks

- Persistent inflation could keep yields elevated.
- Heavy sovereign and corporate issuance creates additional competition for capital.
- Tight credit spreads restrict the scope for capital appreciation.
- Japan's changing interest-rate regime could exert upward pressure on global yields.

The consensus therefore remains broadly positive on bond income, but considerably more selective on bond risk.

Other Asset Classes: Brief Observations



Emerging Markets & Asia

Emerging-market equities remain one of the clearest areas of enthusiasm. Fidelity has increased EM to a strong overweight, particularly favouring Korea, Taiwan and China A-shares[2, 3]. HSBC similarly emphasises Asia's central position in semiconductors, advanced manufacturing and AI infrastructure.

The opportunity is not uniform – geopolitics, currencies and energy exposure matter – but relative valuations, earnings and participation in the AI investment cycle continue to make Asia and selected emerging markets important diversifiers.



Gold

Gold remains one of the stronger areas of agreement. Fidelity has upgraded its view to positive[2]. HSBC also retains a constructive longer-term view[3], seeing a combination of official-sector demand and continuing macroeconomic uncertainty as supportive.

The principal risk is that monetary policy remains more hawkish than expected, but gold's role as a diversifier appears increasingly relevant while traditional equity/bond correlations remain less dependable.



Alternatives & Infrastructure

The case for alternatives has arguably strengthened rather than weakened during 2026. Infrastructure sits directly at the intersection of several themes discussed throughout this year's Providence Pulse editions: AI, electricity demand, energy security, re-shoring and government investment.

Fidelity specifically highlights infrastructure and real assets linked to electrification, digital infrastructure and energy security[2], while HSBC sees infrastructure income and inflation protection as attractive portfolio characteristics[3]. Absolute-return and hedge-fund strategies may also offer useful diversification where traditional equity/bond relationships are less reliable.

Bringing it together

If Q1 was about cautious optimism, Q2 about geopolitical resilience and Q3 about fragmentation and the widening AI investment cycle, Q4 feels increasingly about delivery.

Can companies turn extraordinary AI investment into sustainable profits? Can economic growth remain resilient as fiscal support fades? Can bond markets absorb enormous financing requirements without materially higher yields? And can equity leadership continue to broaden beyond the handful of companies that have dominated recent years?

The collective view from the investment managers reviewed remains more positive than negative. Equities retain support from earnings and investment spending; Asia and emerging markets offer compelling diversification; bond yields once again provide meaningful income; and infrastructure, gold and selected alternatives can add resilience.

But Q4 also appears less forgiving. The opportunity set is broad, yet so too is the potential for volatility.

Perhaps that is the most useful conclusion for advisers: remain invested, remain diversified – but increasingly, be selective.



Further Reading

1. BlackRock (2026), Why Japan matters for U.S. bond investors, BlackRock Investment Institute, Weekly Commentary, September 8, 2026
2. Fidelity International (2026), Global Asset Allocation Insights, Fidelity Multi Asset, September 2026.
3. HSBC Private Bank (2026), AI-celeration: Investment Outlook Q4 2026, HSBC Private Bank, September 2026.

Providence House View

Asset Class	View Q4 2026	Rationale
EQUITIES		
US	↑	Resilient earnings, continued AI investment and broader participation across financials, industrials and infrastructure support a modestly positive stance. Valuations and the scale of AI capital expenditure remain risks, so selectivity is increasingly important.
Europe	↔	Improving economic data, positive earnings revisions and defence/infrastructure expenditure support the region. However, structural growth constraints and relatively weaker technology exposure leave Europe less compelling than the U.S. and Asia.
UK	↓	Attractive valuations and income characteristics remain supportive, but weak domestic growth and subdued earnings momentum lead some managers to prefer opportunities elsewhere.
Japan	↑	Corporate reform, earnings growth and exposure to automation and AI remain compelling structural supports. However, rising Japanese yields, tighter monetary policy and associated capital-flow volatility justify moderating the previous Overweight position.
Emerging Markets & Asia	↑	One of the strongest areas of manager consensus. Attractive valuations and earnings, semiconductor demand and the AI investment cycle particularly support North Asia, although geopolitical and currency risks require diversification.
FIXED INCOME		
Government Bonds	↔	Higher yields improve prospective income, but inflation uncertainty, substantial sovereign issuance and positive equity/bond correlations limit enthusiasm for long duration. Short- and medium-duration exposure appears relatively attractive.
Investment Grade Bonds	↔	Absolute yields remain attractive and corporate fundamentals are healthy, but very tight spreads and increasing AI-related issuance reduce the case for an overweight.
High Yield Bonds	↔	All-in yields remain attractive and fundamentals reasonably resilient, but tight spreads leave limited scope for capital appreciation. The attraction is principally income rather than re-rating.
Emerging market Debt	↑	Selected markets offer attractive real yields, but tighter spreads, currency risk and divergent fundamentals warrant greater selectivity than earlier in the year.
ALTERNATIVES		
Overview	↑	Infrastructure, gold, real assets and selected absolute-return strategies remain attractive diversifiers. AI infrastructure, electrification, energy security and geopolitical fragmentation provide structural support, while gold retains a useful portfolio-hedging role.
CASH		
Overview	↓	Cash still provides useful optionality and reasonable income, but the broadly constructive outlook for equities and attractive yields available elsewhere argue against excessive strategic cash holdings. Fidelity itself remains Neutral on cash, making Providence's Underweight view a synthesis of the broader opportunity set rather than a universal manager position.

Note:

(Overweight) ↑	Favourable view of the asset class in the short-term and prefer a higher allocation relative to long-term strategic 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.

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