

2026 Mid-Year Outlook Video Transcript

Here's the thing: AI is the most appreciated tailwind in markets right now. Valuations reflect it, and capital flows reflect it. You can't sit through any earnings call without hearing about AI. So, the more interesting tailwind—the one I think about a lot—is the one that isn't priced. And my answer is this: synchronized fiscal expansion for defense and economic security. It's happening simultaneously across every major economy in the world—not one country, not one region, but all of them, all at the same time, for the first time since the Cold War ended.

That, to me, is the most under-appreciated tailwind out there over the next 12 months and, frankly, over the next decade. The scale is worth pausing on. European NATO countries increased defense spending 20% over the past year—that's the sharpest acceleration since the Berlin Wall came down. Germany is doubling its defense budget by 2029. The NATO summit last year committed the alliance to 5% of GDP defense spending by 2035, which could lift European defense spending toward €800 billion a year by the end of this decade. Add in the buildouts we're seeing in the U.S., Japan, and Korea, and you have global military spending nearing \$3 trillion—the highest share of global GDP since 2009.

Over the next 12 months, this is a demand story—pretty straightforward. Order books in defense hardware, munitions, dual-use technology, and industrial infrastructure are filling faster than supply chains can absorb, and markets are still treating it as a geopolitical footnote. That's missing the big picture.

Over the course of the decade, I think it's an even bigger story. For 30 years after the Cold War, governments essentially outsourced economic security to the private sector—and that era is gone. What's happening now is sustained government backstop investments in the technologies that will define the next generation of growth: semiconductors, critical minerals, next-generation manufacturing, fusion energy, and quantum computing.

There's also a structural financing gap between government-led industrial policy and the actual commercialization of these technologies—what's often called the “valley of death”—and it runs somewhere between \$50 billion and \$100 billion globally each year.

Now, this is not a totally clean story. The IMF's latest World Economic Outlook was pretty clear about the risks. Defense buildups at this scale are historically inflationary. They tend to worsen fiscal deficits and risk crowding out more productive spending in healthcare, education, and infrastructure. So, a rearmament supercycle like the one we're seeing now—if it corners central banks into hiking rates or hollows out the productive deployment of capital—is not just a tailwind. It also creates its own headwinds.

For me, the question is not just whether you have exposure to this theme, but whether you have the judgment to capture the upside while being clear-eyed about these second-order downside risks.

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