Financial Equity: A Volatile Backdrop Creates Opportunities for Active Managers

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In this report

The first half of 2026 was marked by geopolitical uncertainty and sharp AI-driven market moves, creating opportunities for active managers. European banks remain a key conviction, supported by strong fundamentals, attractive yields and benign asset quality.

Financials are also more likely to benefit from AI, particularly through banking technology and automation. In Asia, rising investment participation supports long-term growth in wealth management and capital markets.

Every time I give one of these updates, I seem to describe the backdrop as volatile or complex. But it is difficult to characterise the first half of 2026 in any other way, with the Iran war creating macroeconomic uncertainty and the AI debate driving sharp share-price movements across the market. As ever, that environment presents challenges, but it also creates highly attractive risk-reward opportunities for active managers.

European banks - Still among the cheapest sectors in the market

First, looking at Europe, banks de-rated by around 15% at the trough in March following the outbreak of the war. However, they have since recovered, and the fundamental picture remains very solid. The recent ECB rate hike provides an incremental boost to margins. Volume growth has continued to accelerate gradually despite the macroeconomic uncertainty, while asset-quality trends remain very benign. This underpins the mid-teens ROE profile and distribution yields of 7–8%.

European banks therefore continue to stand out as one of the cheapest sectors in the market, despite being one of the few sectors outside commodities and technology to have seen strong positive earnings revisions year to date.

Financials - Positioned to win from AI

There are always exceptions, but broadly speaking, we see financials as being more likely to benefit from AI than to lose out from it. They are typically data-processing-heavy institutions that can benefit from automation. At the same time, trust and complexity remain important, creating barriers to entry and defensive moats against straightforward disintermediation.

The beginning of the year saw some extreme share-price movements. Concerns were building in the market over the sustainability of certain business models across exchanges, platforms and wealth managers, and nowhere was this more apparent than in the US bank-technology space.

These are companies that provide modern core banking platforms to traditional banks that do not have the scale or capabilities to build them in-house. However, because these bank-technology names fall within the software category, they were caught up in aggressive passive outflows, which drove sell-offs of more than 30%.

The fundamentals remain very strong. These companies are delivering double-digit revenue growth, and this is a sector in which AI should only increase demand for their expertise.

Asia - Long-term structural growth drivers

In Asia, Ryan Foo joined the investment team at the end of last year. He is based in our Singapore office and having him on board and on the ground in Asia significantly strengthens our capabilities in the region.

We do not believe the wealth management theme is going away. The Japanese government is seeking to increase participation in investment markets, while equity allocations as a share of household financial assets remain relatively low. This creates what we believe are long-term structural tailwinds for brokers, wealth managers and capital markets activity.

Despite the complex backdrop, we believe the global financials universe continues to offer compelling bottom-up opportunities.

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