

Promise and Pressure

Three powerful, interconnected forces—global fragmentation, inflation and artificial intelligence—are now shaping a market environment that looks structurally different than a decade ago. As these themes converge amid rising geopolitical tensions, the central question is not which scenario proves right, but rather, how can investors stay invested with intention as these forces create both pressure and opportunity?

1. Fragmentation

The global order is fracturing, raising the cost of critical resources, rerouting strategically important supply chains and shifting where opportunity may be found.

WHAT COULD GO WRONG?

- ◇ The disruption of critical trade corridors for energy and semiconductors could compound market and economic volatility, raising risks to growth.
- ◇ Dependence on imported energy and structural headwinds could keep Europe constrained, with a tighter set of policy options and trade-offs.

WHAT COULD GO RIGHT?

- ◇ Emerging market assets in economies with stronger macro fundamentals, natural resources and manufacturing advantages could translate into a more durable investment opportunity.
- ◇ Fragmentation could become constructive where developed markets preserve trade blocs, such as in North America, while investing in resilience.

IMPLEMENTATION OPPORTUNITY

Markets contend with a world in which access to energy, safe routes and critical materials can no longer be assumed. Position to invest in security, including national champion companies, and resilience-linked sectors that benefit from rearmament and reconfigured supply chains. Seek portfolio resilience strategies amid higher policy risk and volatility.

2. Inflation

Inflation may be undergoing a long-term shift—more volatile, more shock prone—which makes protecting your purchasing power central to portfolio design.

WHAT COULD GO WRONG?

- ◇ Inflation could spiral, as it did in the 1970s, with repeated shocks embedding higher inflation expectations into wages and pricing.
- ◇ Higher energy prices could collide with sticky inflation, raising the odds of policy mistakes or recession.

WHAT COULD GO RIGHT?

- ◇ Labor market slack points to limited evidence of a wage-price feedback loop today.
- ◇ If high tariffs and energy prices fade while housing disinflation holds, inflation pressure can ease meaningfully.

IMPLEMENTATION OPPORTUNITY

Ask whether cash holdings are eroding your wealth as the inflation rate ratchets up closer to cash yields. Plan with intent. Stress test your goals against a range of inflation and market scenarios. Design allocations that account for cash flows and taxes. Diversify beyond traditional stocks and bonds toward assets and strategies that are less correlated to both, including real assets and select hedge funds.

3. Artificial intelligence

The AI boom is both a supercycle and a stress test for labor markets and business models. If AI lifts economic productivity, it could prove to be disinflationary.

WHAT COULD GO WRONG?

- ◇ White collar workers could be disrupted faster than markets (or policy) can adjust.
- ◇ Record AI company debuts in the IPO market could test broader investor sentiment. Heightened issuance has previously coincided with market peaks.

WHAT COULD GO RIGHT?

- ◇ The AI capex cycle could extend further—hyperscalers have lifted 2026 capex projections, which now exceed \$650 billion.
- ◇ AI adopters could see productivity improve, supporting profit margins, valuations and earning power.

IMPLEMENTATION OPPORTUNITY

Do not underestimate the supercycle or its disinflationary potential as AI lowers the cost of expertise and raises potential output. Seek diversified exposure to the build-out's bottlenecks—semiconductors, networking technologies and, especially, power generation, transmission and storage. Avoid concentrated exposures to vulnerable legacy software and its business models.

Summary

Investors are navigating a world in flux. Fragmentation, inflation shocks and rapid technological change are raising the pressure on portfolios, even as dislocations may create entry points for disciplined, long-term investors. Your J.P. Morgan team can help you craft a plan to capture the promise and manage the pressure of the new investing environment.

To read our full 2026 *Mid-Year Outlook*, [click here](#).