

SIX COURAGEOUS QUESTIONS FOR 2026

Our investment leaders explore six key questions investors should be asking to test assumptions and sharpen their thinking.



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Change has accelerated, and it's reshaping the investment landscape.

Globalisation is being rewired as industrial policy and economic security move to the fore. Artificial intelligence (AI) is driving extraordinary innovation while testing business models and risk controls. For investors, one thing is clear: the tailwinds that lifted the last cycle are unlikely to do the heavy lifting again.

In uncertain regimes, edge comes less from bold predictions and more from adaptability—the willingness to test our priors, look for disconfirming evidence, and update when the facts change.

As Richard Feynman reminded us: *"You must not fool yourself—and you are the easiest person to fool."*

This report asks six courageous questions about US market concentration, the real economics of AI, rebuilding critical industrial capacity, diversifying beyond the index heavyweights at home and abroad, the risk of avoiding emerging markets, and whether the world's 'safest' currency still deserves the name. For each, we set out what we know, what we don't, what would change our minds, and the implications for portfolios.

Use these questions to test assumptions—and act with discipline and conviction in 2026.



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01

What if the real American exceptionalism now lies beyond America's biggest stocks?

Author:
Simon Skinner

Mega-cap technology companies have come to embody America's market might—innovative, dominant, and seemingly unstoppable. Yet history suggests that when leadership becomes this narrow, the opportunity for investors often shifts elsewhere. Could the next chapter of American exceptionalism be written not by its biggest companies but by the rest of the market they've overshadowed?

Key Takeaways

Concentration risks	US exceptionalism of the last decade has become dependent on a handful of mega-cap stocks. Just seven companies currently account for more than a quarter of the US S&P 500 Index.
Valuation gap	Investors are also paying the highest prices for the most crowded part of the market. That is a dangerous combination. The ten largest companies in the S&P 500 Index trade at 34x earnings, compared with an average of 22x earnings for the remaining 490 companies.
Looking beyond the obvious	We're finding compelling opportunities within the healthcare sector and founder-led companies that we believe combine durable economics with long-run AI tailwinds, without paying "headline" AI valuations.

When one area of the market delivers so consistently for so long, it's easy to forget an uncomfortable truth: even the best investments become vulnerable when they get too crowded. Today, the "American exceptionalism" story of the last decade has become a concentrated dependence on a handful of mega-caps. Just seven US stocks—Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla (the so-called Magnificent Seven)—have powered nearly all of the S&P 500's gains in 2025 and now account for more than a quarter of the US index.

The result has been a challenging environment for active managers. Those who have tried to look for bargains among the laggards have been punished severely—if not already fired by their clients! Meanwhile, those who blindly followed the herd have been handsomely rewarded. With so few active investors willing or able to do anything but follow the crowd, we are reminded that, historically, it has been exactly such dynamics that have created the conditions for sharp and extended reversals.

"At a time when macroeconomic and geopolitical risks feel as unpredictable as ever, diversification matters."



Crowded, fragile and expensive

On top of extreme concentration risk comes valuation risk. The ten largest stocks in the S&P 500 now trade at a lofty 34x earnings. While they may be fantastic businesses, investors are paying

the highest prices for the most crowded part of the market. That is a dangerous combination—and leaves little room for error if the fundamentals fail to keep pace with expectations.

High prices are being paid for the largest US stocks

S&P 500 forward price-to-earnings* ratio for top-10 largest stocks vs remaining 490



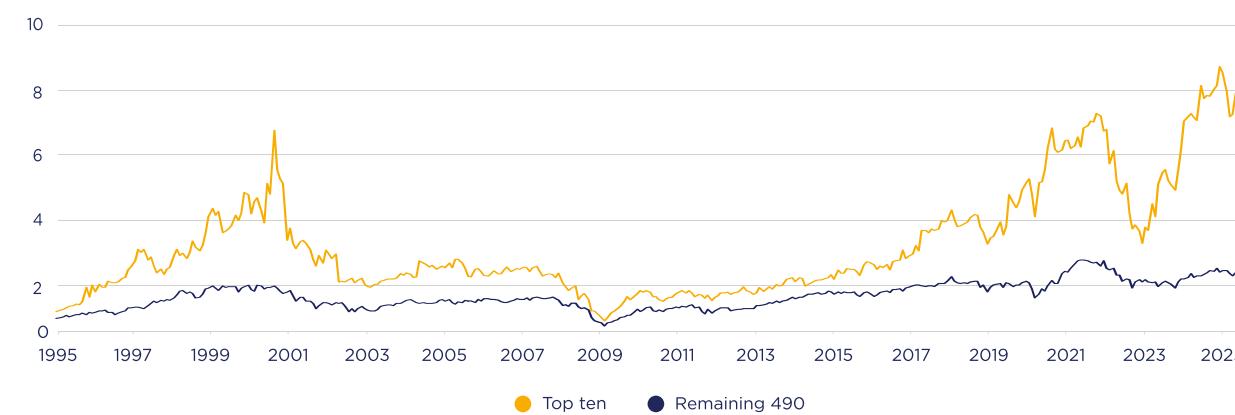
30 Sep 2025 | Source: LSEG Datastream, LSEG I/B/E/S Estimates, Orbis. Statistics are compiled from an internal research database and are subject to subsequent revision due to changes in methodology or data cleaning.

*LSEG I/B/E/S Estimates forecast forward price to earnings for the current fiscal year.

Outside the ten largest names, the remaining 490 trade at a more reasonable 22x earnings on average. But a simple price-to-earnings valuation masks the true extent of the euphoria in the largest US stocks. US profit margins are also near cyclical highs—the stellar returns of the Magnificent Seven have been driven not just by rising valuations but also by huge levels of earnings growth.

On a price-to-sales basis, valuations are higher than during the dotcom bubble

S&P 500 trailing price-to-sales ratio for top-10 largest stocks vs remaining 490



30 Sep 2025 | Source: LSEG Datastream, Orbis. Statistics are compiled from an internal research database and are subject to subsequent revision due to changes in methodology or data cleaning.

Not only is this valuation gap wide, it is also a striking reversal from much of the past 20 years, when the rest of the market regularly traded at a premium to mega-cap peers.

Overlooked opportunities in the US

Happily, the US is a large place, and when the spotlight shines brightly on the largest names in the index, there is often plenty of value to be found elsewhere. Two areas of neglected opportunity stand out to us—healthcare and entrepreneur-led companies.

Healthcare combines resilience with powerful long-term growth drivers. Ageing populations, breakthrough biotech innovations, and the growing need for specialised services are reshaping the sector. Yet despite these structural tailwinds, healthcare stocks—including the very largest names—have lagged the market's recent rally, leaving select opportunities attractively priced.

Our investments span a wide spectrum. Alnylam Pharmaceuticals and Insmed are advancing cutting-edge therapies. UnitedHealth Group and Elevance dominate US managed care, with scale and data advantages that are hard to replicate. Steris leads in sterilisation and infection prevention—an essential, recurring service. Bruker provides precision instruments that underpin both academic and industrial research. We believe these are businesses with defensible niches and steady demand, largely insulated from the market's obsession with a handful of mega-cap tech stocks.

We also find compelling opportunities in companies where the founder remains deeply involved and heavily invested alongside shareholders. Such leaders tend to think long term, take calculated risks, and build with resilience in mind. Our experience suggests that founder-run companies are more agile, more decisive, and more willing to take appropriate innovation risks—all of which position them ahead of peers as the technology landscape shifts.

Interactive Brokers exemplifies this alignment—founder Thomas Peterffy still owns the majority of the company. Others, such as QXO and Corpay, are backed by proven entrepreneurs with a track record of building durable businesses across multiple cycles. While these companies are not immune to volatility, their governance and ownership structures create strong incentives to focus on value creation over the long haul.

In many of these cases, we can see long-term opportunities for AI applications to materially improve these businesses—for the time being, these are not contemplated by other investors who are seeking obvious “AI plays”.

The ten largest stocks in the S&P 500 Index trade at an average 34x earnings, compared with 22x for the remaining 490 constituents.

34x

“Real diversification comes from businesses with durable economics, defensible positions, and leaders who can navigate uncertainty with conviction.”

As patient, long-term investors, we are happy to wait for these impacts to be evidenced in the fundamentals of these businesses. Over decades of implementing the same approach, we know that, sooner or later, fundamental value is reflected in equity prices.

At a time when macroeconomic and geopolitical risks feel as unpredictable as ever, diversification matters—but not the cosmetic kind offered by a benchmark dominated by stocks that are all largely reliant on a single technology bet. Real diversification comes from businesses with durable economics, defensible positions, and leaders who can navigate uncertainty with conviction. In this environment, the edge doesn't come from owning everything—it comes from having the courage to be selective and the discipline to avoid the rest.



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To find out more about how we are investing in global equities, visit:
orbis.com/global-equity

Our local team is here to help:
orbis.com/contact



02

Is the world's safest currency actually the riskiest?

Author:
Nick Purser

The dollar's safe-haven status is cracking under the weight of debt, deficits, and political risk. Once a symbol of stability, it now looks fragile and overvalued. It is time to diversify into alternatives, a variety of which look more appealing.

Key Takeaways

Safe-haven question

The US dollar's long-standing role as a "shock absorber" during times of market stress is showing cracks. The "Liberation Day" sell-off was a timely reminder that even American exceptionalism has limits, and the dollar's defensive reputation can no longer be taken for granted.

Mounting headwinds

The dollar's yield advantage may fade if the US Federal Reserve cuts rates too soon or fiscal pressures lead to financial repression. Rising debt, persistent deficits, and a greater tolerance for inflation also point to a weaker long-term backdrop for the currency.

Currency diversification

Investors may benefit from building a balanced basket of alternative currencies to reduce dollar dependence. In our view, the Japanese yen, Norwegian krone, and Australian dollar all offer compelling characteristics ranging from fiscal strength and external surpluses to deep undervaluation.

For generations, the US dollar has been regarded as the ultimate safe haven. In times of uncertainty, global investors instinctively seek the depth, liquidity, and unrivalled status of the world's reserve currency. But what if that confidence is misplaced? What if the dollar is actually the *riskiest* major currency to own today?

The dollar's historical appeal is easy to understand. The US is home to efficient and liquid financial markets and numerous world-class companies, and its government debt is viewed as "risk free" thanks to strong institutions that have treated foreign investors fairly. That trust has helped the US attract roughly \$4.5 trillion of net capital inflows over the past five years.

But the market turbulence of early 2025 was a wake-up call. The "Liberation Day" sell-off was a reminder that American exceptionalism has limits. The dollar's traditional role as a shock absorber began to break down, gold prices surged as investors looked for alternative stores of value, and several major currencies strengthened relative to the dollar. The dollar's value ultimately rests on trust in US policy and institutions—and that assumption is being questioned.

"If the Federal Reserve yields to political pressure and cuts rates prematurely, the dollar could lose both its yield advantage and investors' confidence."



The US dollar is no longer acting as a “shock absorber”

Trade-weighted US dollar performance during each S&P 500 correction of at least 15%, April 2010 to June 2025



30 June 2025 | Source: FRED, LSEG Datastream, Orbis. The trade-weighted Nominal Broad US Dollar Index measures the value of the US dollar against a broad basket of 26 foreign currencies. Performance for the most recent correction is shown from the previous peak to recovery. All other corrections are shown from previous peak to corresponding trough.

The first concern is fiscal policy. The US continues to spend far more than it raises in tax revenue, running a deficit of roughly 6% of GDP—a recession-like level of borrowing in an economy close to full employment. Even Elon Musk's DOGE (Department of Government Efficiency) initiative failed to make a dent. Each year of overspending adds to an already enormous debt pile. Were the US to experience a downturn, this leaves the government with fewer levers to pull.

A second concern is the current account deficit, which compounds the fiscal problem. The US spends more than it earns, importing far more goods and services than it exports. To plug the gap, it must rely on a continued stream of investment from abroad. Much of this capital has flowed into government debt and equities, concentrated in a handful of high-growth AI companies. If enthusiasm for US technology fades, or if investors start worrying about the sustainability of the government's debt, those inflows could quickly dry up. What once looked like a position of strength now feels like dependence.

Uncertainty around monetary policy credibility adds further pressure. The Federal Reserve has a challenging job balancing the impact of tariffs against a backdrop of weakening employment. Doing this in the face of aggressive political pressure to lower rates only adds to the potential for a mistake.

6%

US deficit as a percentage of GDP for fiscal year 2025—a recession-like level of borrowing in an economy close to full employment.

If the Federal Reserve yields to political pressure and cuts rates prematurely, the dollar could lose both its yield advantage and investors' confidence.

Perhaps even more troubling is a gradual loss of confidence in US institutions. The Trump administration has taken a more adversarial stance towards some historical allies while also trying to assert greater influence over the judicial system—actions that may prompt some foreign investors to look for a new home for their capital.

From a valuation perspective, the dollar also looks vulnerable on a fundamental basis. On our valuation models, it has been expensive relative to other currencies for some time. To some extent, this could be justified by relatively high US interest rates, supported by robust growth, which offered a yield premium over most developed markets. But that foundation is now weakening while the concerns discussed above are intensifying.

Looking beyond the dollar

If the dollar is expensive and vulnerable, where might investors look instead? The problem is that there is still no realistic challenger to the dollar's position as the global reserve currency. In our view, a better approach is to build a basket of alternative currency exposures that help to mitigate some of the risk that comes with excessive reliance on the dollar.

To name just a few current examples, the Norwegian krone, Australian dollar, and Japanese yen all offer compelling characteristics ranging from fiscal strength and external surpluses to deep undervaluation. The rise in the gold price also reflects a wider search for assets that can preserve value in a world of high debt and political uncertainty.

To be clear, exposure to the greenback is nearly impossible for global investors to avoid altogether. But we think it's more important than ever to avoid being complacent and to challenge the conventional wisdom that the dollar is the only game in town. While none of the alternatives can individually replace the dollar, they collectively provide a valuable counterweight in a world where the traditional safe haven may no longer be as safe as it appears.

"In our view, a better approach is to build a basket of alternative currency exposures that help to mitigate some of the risk that comes with excessive reliance on the dollar."



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03

Are you swimming in the right water?

Author:
Graeme Forster

For decades, global markets revolved around export-led growth and the gravitational pull of US assets. Now the currents are changing. Domestic investment and fiscal expansion are reshaping the capital cycle, potentially marking a new era for investors and markets outside the US.

Key Takeaways

The tide is turning

For more than a decade, mercantilist policies and capital inflows into US assets created a self-reinforcing cycle that rewarded many investors. However, as US policy turns inward—marking a structural shift in the old regime—many investors could be caught off guard.

Repricing underway

Non-US assets and currencies remain historically cheap, but fiscal expansion in regions such as Asia and Northern Europe could trigger capital repatriation, strengthening local currencies and lifting long-neglected equity markets.

Active opportunity

While not as extreme as the immediate post-pandemic period, valuation gaps outside the US remain historically wide, presenting an opportunity for bottom-up active managers.

In his 2005 commencement address *"This Is Water"*, David Foster Wallace tells a simple parable. An old fish greets two younger fish by saying, “How’s the water?” They swim away asking themselves, “What is water?” It’s a profound message: the most pervasive and important realities in our lives are often the ones we fail to notice. The same is true in investing. The market environment can become so familiar that it almost becomes invisible.

The water we’ve been in

For well over a decade, that “water” has been defined by a specific global dynamic: a world of mercantilist policies, cheap currencies, and export-led growth. Many regions—most notably in Asia and parts of Europe—have run policies designed to maintain competitive currencies and subsidise exports. Those exports were largely aimed at the US, with surplus dollar earnings flowing back into US asset markets.

The result was a powerful self-reinforcing cycle. Capital inflows into the US pushed up asset prices and drove down interest rates. Lower rates fuelled a fiscal boom, stimulating imports and further deepening the trade and capital imbalance. The dollar and US assets strengthened in tandem, rewarding investors who rode the trend.

Passive investing thrived in this environment. With US markets and the dollar seemingly locked in a perpetual uptrend, the path of least resistance for global capital was into the US. That was the water we all swam in.

“Given the lack of eyeballs on ex-US markets over the last decade, markets are rife with inefficiency and therefore opportunity for active management.”



How the water is changing

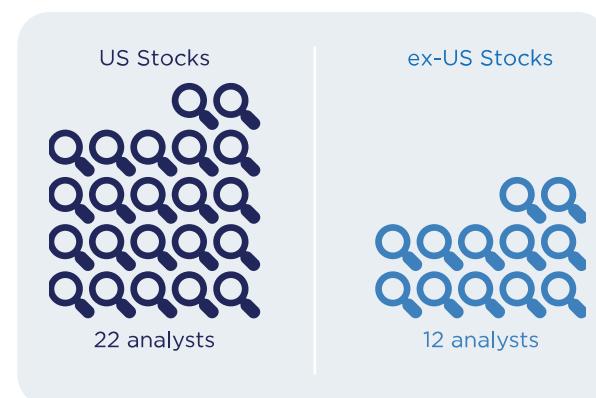
But water doesn't stay still. The environment has shifted dramatically. Policy in the US has turned inward, emphasising domestic industrial revival and strategic tariffs. This marks a structural break from the old regime. Export-led growth models are harder to sustain when the main destination market becomes more self-sufficient.

For the export economies, this change forces adaptation. If they can no longer rely solely on US demand, they will need to stimulate their own. Rather than flowing abroad, vast pools of domestic savings may now be redirected inward toward investment, fiscal spending, and local consumer demand.

This has significant implications for investors. Global portfolios are still heavily concentrated in US assets and the dollar—an understandable legacy of the last cycle but potentially a dangerous one if the tides are turning. Outside the US, assets and currencies remain cheap—a “double discount.” Now, they may also have a catalyst: a reversal in the capital cycle as money begins to flow back home. Fiscal expansion in regions such as Asia and Northern Europe could strengthen local currencies and lift long-neglected equity markets.

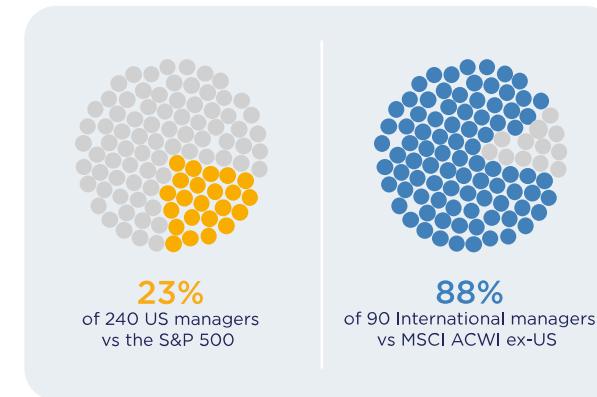
Stocks outside the US receive far less analyst coverage

Median number of analysts covering US vs ex-US stocks in the FTSE World Index



30 Sep 2025 | Source: LSEG IBES, Orbis. Analyst coverage is the number of analysts providing BHS recommendations to IBES.

Percent of surviving All Cap Equity active managers that outperformed the index over the last 10 years*



Source: eVestment, Orbis. *Outperformance calculated geometrically from monthly returns in USD gross of fees. Results may be overstated due to survivorship bias (exclusion of closed, merged, or no longer reported funds). Active managers in the eVestment US All Cap Equity universe (“US managers”) experienced 51% attrition over the period while active managers in the eVestment ACWI ex-US All Cap Equity universe (“International managers”) experienced 31% attrition. The MSCI All Country World Index (ACWI) ex-USA is calculated net of withholding tax. eVestment and its affiliated entities (collectively, “eVestment”) collect information directly from investment management firms and other sources believed to be reliable; however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment’s systems and other important considerations such as fees that may be applicable. Not for further distribution.

Given the lack of eyeballs on ex-US markets over the last decade, markets are rife with inefficiency and therefore opportunity for active management. Indeed, an active lens is essential given the complexity involved with investing across dozens of markets with wildly different economic, political, and regulatory regimes. While not as extreme as the immediate post-pandemic period, valuation gaps outside the US remain historically wide. In other words, the water may be changing—and with it, the direction of capital and opportunity.

“Global portfolios are still heavily concentrated in US assets and the dollar—an understandable legacy of the last cycle, but potentially a dangerous one if tides are turning.”



Graeme Forster, Master of Arts (Honours) in Mathematics (University of Oxford), Doctor of Philosophy in Mathematical Epidemiology and Economics (University of Cambridge), Chartered Financial Analyst. Graeme joined Orbis in 2007. He directs client capital in the Orbis Global Equity Strategy, and he has overall accountability for the Orbis International Equity and Optimal Strategies.



04

Which risk runs deeper: owning or avoiding emerging markets?

Author:

Stefan Magnusson

Emerging markets account for more than 80% of the world's population and more than half of its GDP but less than a tenth of typical global equity portfolios. With cheaper valuations, weaker currencies, and lower correlations to developed markets, selective exposure to emerging markets can add diversification and resilience when it matters most.

Key Takeaways

Valuation risk Developed markets appear safe, but extreme valuations and concentration in US mega-cap tech mask hidden risks. History shows that starting valuations at today's levels have delivered only low-single-digit returns over the following decade.

Attractive discounts Emerging markets trade at steep discounts—nearly 60% cheaper than the US and with undervalued currencies—offering visible risks but positively skewed return potential. From these starting points, history suggests forward returns ranging from low single digits to 15%+ per annum.

Weighing up the risks Avoiding emerging markets may be the greater long-term risk, as broader exposure enhances diversification and reduces volatility. Less coverage, inefficiencies, and overlooked compounders also create fertile ground for active managers to generate alpha.

In investing, measures of risk are often expressed as a single number. Calculations of metrics such as volatility, tracking error, and value at risk are learned and memorised by many aspiring young financial analysts, ready to apply their newly honed tools to the world of financial markets.

While some of these metrics may serve a purpose, they can also mask the true risks in markets and provide investors with a false sense of security.

For emerging markets, traditional risk measures don't paint a pretty picture. Over the past 15 years, returns from emerging markets have severely lagged their developed-market peers and have also been more volatile. For a rational investor with a reasonable level of risk aversion, emerging markets have been an uncomfortable place to invest.

By contrast, backward-looking risk measures point to a much smoother ride for US stocks. Returns for investors in the US stockmarket have been much more rewarding and have come with relatively lower volatility. It appears that for the average investor, the US is a much more comfortable place to be.

But that comfort may prove to be an illusion.

"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." – Mark Twain.

The US now makes up two-thirds of the world equity index, carried by a narrow handful of mega-cap technology companies. Investors appear to be comfortable crowding into these few stocks and appear certain that growth will continue.

But the risk that most investors seem to be ignoring, which is masked by aggregated risk metrics, is in the valuations. On a cyclically adjusted basis, US shares on average trade at 38 times earnings, a near-record high.

Why do these valuations matter? Because they heavily influence forward-looking returns. When US shares were valued at this multiple historically, they reliably returned just low single-digits nominally over the next decade, barely keeping up with inflation.

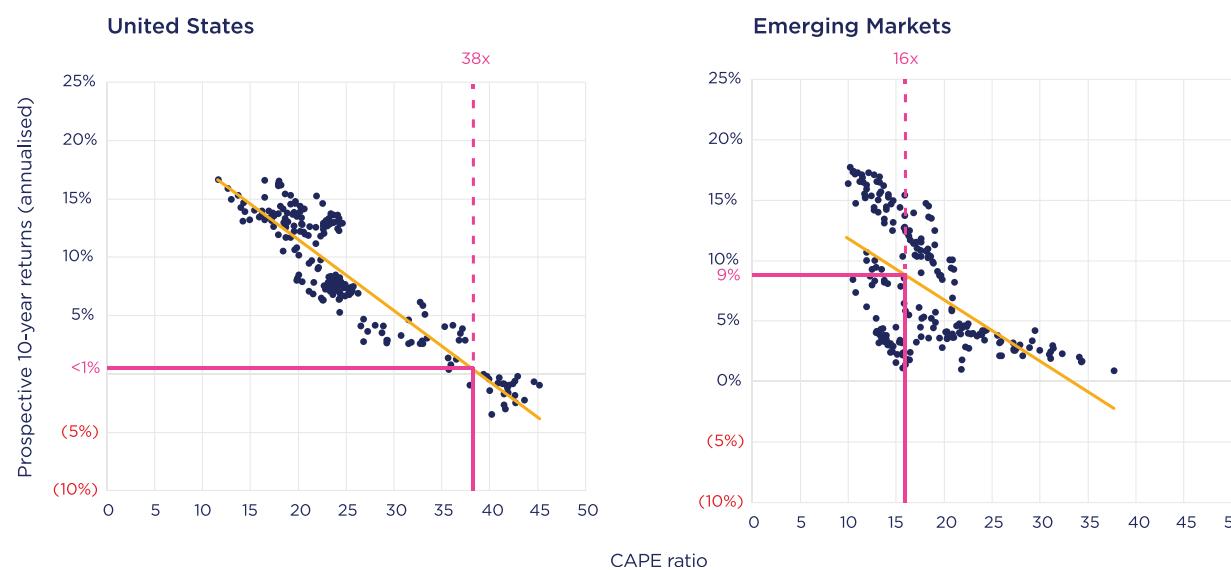
"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so."

— Mark Twain



Valuations matter in both the US and emerging markets

Cyclically adjusted price-to-earnings (CAPE) ratio and prospective 10-year returns



30 Sep 2025 | Source: Minick Advisors, MSCI, National Bureau for Economic Research. CAPE ratio is based on trailing operational earnings. US\$ price indices, with index and cyclically-adjusted earnings deflated by US Consumer Price Index. Data is monthly from 1997 to 2015. Prospective 10-year returns are total returns, calculated using monthly price series of the S&P 500 and MSCI Emerging Markets indices and annualised.

By contrast, shares in emerging-market companies today trade very reasonably. Emerging-market shares change hands at around 16 times earnings on the same basis, below their long-term average and at a steep 60% discount to the US. The currencies look cheap too, with a basket of emerging-market currencies currently close to a 20% discount to the US dollar, based on a simple purchasing-power-parity model.

For emerging markets, the range of outcomes for the future is wider but skews more positively, with returns from today's valuations typically ranging from low single digits to more than 15% per annum.

60%

The approximate discount at which emerging-market equities trade compared to their US peers.

None of this is to deny the risks. Political instability, deficient governance and state involvement are real challenges, and currency swings can magnify volatility. But these risks are visible and, in many cases, already reflected in depressed prices.

Meanwhile, government shutdowns, ballooning deficits and debt, government involvement in the private sector, trade policy uncertainty, and the dollar having one of its worst years in decades appear to have had little to no impact on valuations in the US.

With valuations where they are, to us, not having enough emerging-market equity exposure may be the deeper risk.

Long-term allocations

Often, investor enthusiasm in emerging markets is narrow and short-lived. In the 2000s, the BRICs (Brazil, Russia, India, China) became shorthand for the unstoppable rise of emerging markets. Investors were ultimately let down as valuations and governance risks reasserted themselves. Today, India has once again become an investor darling, with excitement about its impressive economic trajectory and favourable demographics. But the evidence doesn't back up the sentiment. In one of investing's great ironies, there is no reliable link between overall GDP growth and equity returns.

High-growth economies often disappoint equity investors if starting valuations are high, competition increases, or poor governance undermines minority shareholder rights. On the flip side, slower-growing economies can deliver excellent returns if shares are cheaply valued. India today trades at a 100% premium to other emerging markets. Those expectations are hard to meet, never mind exceed, perhaps part of the reason India has been left in the dust by markets like China, Korea, and Brazil over the last year.

What to do instead? Broader emerging-market exposure, for example through passive exposure, captures a better diversification benefit with less valuation risk. But, as with developed-

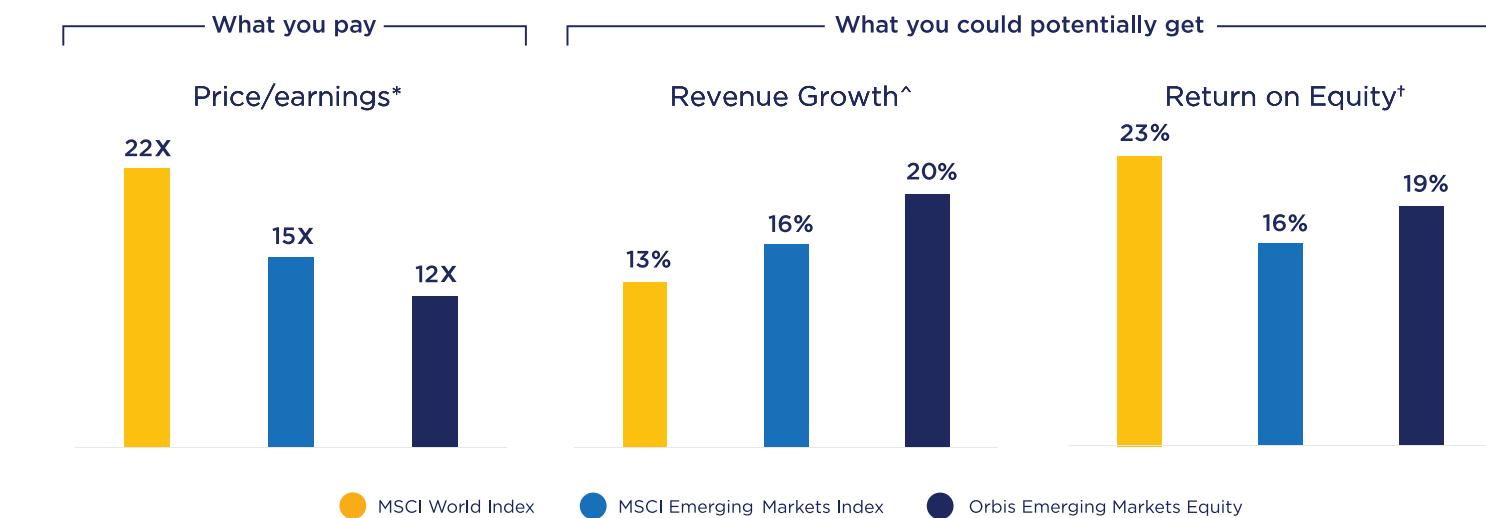
market indices, emerging-market indices are similarly concentrated. China and Taiwan make up over 50% of the MSCI Emerging Markets Index, of which 11% is in a single stock, Taiwan Semiconductor Manufacturing Company.

A passive approach misses the exceptional alpha opportunity in emerging markets. Emerging-market shares often have less analyst coverage, benefit from specialised local on-the-ground research to address challenges like language and governance, and offer a higher proportion of compounders (excellent businesses with very long-term growth potential). For disciplined investors, this is rich ground for finding opportunity.

Many of the usual risks associated with investing in emerging markets can be mitigated, if not sidestepped entirely, by being selective. Seeking out emerging-market businesses that are durable and have wide and growing moats, long runways for growth, and able management that are aligned with shareholders can prove highly rewarding.

Emerging markets are already "value"; Orbis Emerging Markets Equity appears even more so

Metrics for Orbis Emerging Markets Equity Fund and selected stockmarket indices



30 Sep 2025 | Source: IBES, Orbis. This is not personal advice or an opinion or recommendation to buy, sell or hold any financial product, or to adopt any investment strategy. Past performance is not a reliable indicator of future results. Data is based on a representative account for the Orbis EM Equity Fund. EM = Emerging Markets. In each case, numbers are calculated first at the stock level

and then aggregated using a weighted median. Statistics are compiled from an internal research database and are subject to subsequent revision due to changes in methodology or data cleaning. *Based on IBES estimates of current fiscal year earnings per share. ^Revenue growth (%), 10-year average. †Return on equity (9), 10-year average.

Breaking the comfort trap

Emerging markets are often avoided because they feel uncomfortable. Volatility, politics, governance—these risks are real, and investors can point to headlines that justify their caution. But in investing, comfort comes at a cost. Global stockmarkets today carry hidden risks in the form of high valuations, narrow leadership, and excessive concentration.

By contrast, emerging markets offer visible risks at visible discounts. They bring diversification, compelling forward-return potential, and fertile hunting ground for active managers. At today's prices, the deeper risk may not be in owning emerging markets but in avoiding them. The comfort trap is seductive—but breaking free of it may lead to stronger, more resilient long-term portfolios.



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05

Is AI a bubble, or is the best yet to come?

Author:

Ben Preston

Artificial intelligence (AI) is reshaping industries at remarkable speed. However, its rapid rise has sparked bubble-like behaviour. Extreme valuations, trillion-dollar spending plans, and circular investment flows hint at speculative excess—but transformative technologies often begin this way. For investors, the challenge is not predicting the future of AI but identifying durable businesses that benefit from AI without paying bubble-level prices.

Key Takeaways:

Bubble dynamics A defining feature of market bubbles is the feedback loop between management ambition and investor capital. Today's AI boom shows similar traits—surging spending, sky-high valuations, and a heavy reliance on investor funding rather than customers.

Stacking the odds Forecasting winners and losers is notoriously difficult; even extreme valuations can precede extraordinary returns. Rather than trying to call the top, investors can stack the odds by owning well-run, cash-generative businesses with robust economics across multiple outcomes.

Selective exposure The promise of AI is real, but so is the risk of overpaying. Selective positions in firms like Taiwan Semiconductor Manufacturing Company (TSMC), Nebius, and Samsung enable us to capture the structural benefits of AI adoption without the speculative multiples that often accompany bubbles.

A hallmark of any self-respecting stockmarket bubble is not just the dramatic rise in share prices but also the surge in corporate spending. It's that coalition between managements eager to grow and investors cheering them on with ever-larger infusions of capital that lays the groundwork for future disappointment. When managements go too far—giddy on easy money and optimistic forecasts—they sow the seeds for a bust created by their own overexpansion.

That risk looms large today, given the enthusiasm around AI. OpenAI, for instance, is being valued at \$500 billion in private markets, making it one of the world's most highly valued companies despite generating revenue comparable to a mid-sized US regional bank. It has made eye-wateringly large spending commitments totalling over a trillion dollars while expecting to remain cash-flow negative for at least four years. So far, vastly more of its money has come from investors than from customers. Add in the circular money flows—the “infinite money glitch”—between the likes of OpenAI, Nvidia, and Oracle, and alarm bells should be ringing.

Yet the technology behind AI looks genuinely transformative. Proponents describe the transition from “generalised computing” to “accelerated computing” as being as significant as the commercialisation of electricity or the shift from horses to cars. Adoption remains at an early stage relative to its full potential.

The headache for investors is that the same ingredients that often characterise bubbles—high share prices, rapid expansion before profitability, and extravagant forecasts for unproven demand—can also describe an emerging investment trend that's too important to miss. How, in advance, can one tell the difference between a dotcom bubble, featuring disasters like Global Crossing and pets.com, and a digital revolution that produced Apple, Netflix, and Amazon?

“The headache for investors is that the same ingredients that often characterise bubbles can also describe an emerging investment trend that's too important to miss.”

Hindsight always makes it look easy. After the dust settles, there will always be those taking victory laps for having called it correctly. But if it were truly easy, everyone would see it, and bubbles would never form. Apart from at “extreme extremes”, making those big market calls is surprisingly hard. There is no single metric that provides certainty. In 2002, after the dotcom bust, the CEO of Sun Microsystems famously chastised investors for having paid “ridiculous” multiples of 10x revenues just a few years earlier. Any investors who heeded that warning would have struggled to buy Nvidia at the same valuation 20 years later—and would have missed returns of 2,700%.

The future is inherently unknowable. History is a useful guide, but it's far from perfect because markets are dynamic and learn just as quickly as investors, if not more so. While not perfectly efficient, they're very good at pricing shares at a level that keeps decisions difficult.



If that uncertainty feels uncomfortable, take heart: nobody knows what the future of AI holds—not even its creators. The playing field is more level than it appears: we're all operating in an environment of unknowns.

More encouraging still, successful investing isn't about predicting the future. While a crystal ball would no doubt be useful, investors can do exceptionally well by focusing bottom-up on companies with sound economics, outstanding

management, and valuations attractive across a wide range of possible outcomes.

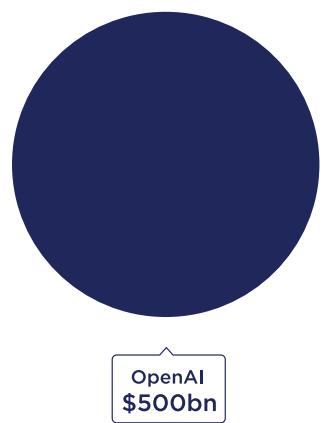
Investors who assemble a portfolio of such businesses stack the odds in their favour. Fortunately, we've been able to buy shares in companies that have turned out to be clear beneficiaries of AI—such as TSMC, Nebius, and SK Square—without having to pay the bubble-level multiples that come with significant downside risk.

Looking ahead, we expect the same disciplined approach will allow investors to continue to find opportunities to gain exposure to AI's potential, without taking a directional bet on whether it will prove the most transformative innovation or the biggest bubble in history.

Artificial intelligence is real, and it will change the world—perhaps in ways we can't yet imagine. Whether today's early leaders will dominate or collapse dotcom-style, paving the way for new winners to emerge from the ashes, remains to be seen. But by staying close to the ground, remaining adaptable, and assessing each company on its merits, we believe the hunting ground will remain fertile for bottom-up investors seeking to buy companies for less than they're truly worth.

"Successful investing has little to do with predicting the future. It's about discipline—owning quality businesses at attractive valuations across a range of possible outcomes."

Market Value*



SK Square
\$19bn

OpenAI
\$500bn

Revenue^



OpenAI
\$10bn

SK Square
\$13bn

30 Sep 2025 | Source: CapIQ, Orbis. *Market capitalisation as at 30 September 2025 or, in the case of OpenAI, based on its latest private equity raise.
^Consensus estimated revenue for 2025, calculated as the look-through revenue of SK Square's 20.1% holding in SK Hynix or, in the case of OpenAI, its latest reported annual recurring revenue



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06

What if Trump is right?

Author:
Alec Cutler

Maslow's framework helps us understand both today's shifts and the implications for markets. While capital was flowing towards the top of the pyramid—now crowded and expensive—sectors at the base were left underfunded. As nations refocus on energy, security, and industrial strength, the companies serving these essential needs are emerging as some of the most undervalued and enduring opportunities in global markets.

Key Takeaways:

From wants to needs While capital was flowing towards the top of the pyramid—now crowded and expensive—sectors at the base were left underfunded. These neglected areas are where we have found, and continue to find, undervalued opportunities.

Back to basics A broad retreat from global co-operation to national self-reliance has revealed cracks in many countries' foundations—national security, food security, and energy security. This offers opportunities in energy infrastructure and nuclear components, as well as in companies rebuilding industrial capacity and supply chains.

Structural trend This reordering of national priorities marks a structural reset, not a passing phase. As capital becomes scarcer than customers, disciplined businesses serving essential needs stand to earn durable returns.

On two big trends, President Donald Trump may well be right:

1. Nations must rebalance from aspirational wants towards foundational needs.
2. Nations can no longer depend on global support, so they must rebuild self-reliance.

Trump's own policies have accelerated these trends and made them more visible, but the seeds of both shifts predate his presidency by years.

The pyramid of needs

To understand these changes, we borrow a concept from psychology. Many will be familiar with Maslow's hierarchy of needs: the idea that humans must secure basic needs like food and shelter before pursuing aspirational wants such as entertainment and self-esteem. We believe the same framework applies to nations. Without military, energy, and industrial security, societies have little hope of pursuing a happier future.

How we got here

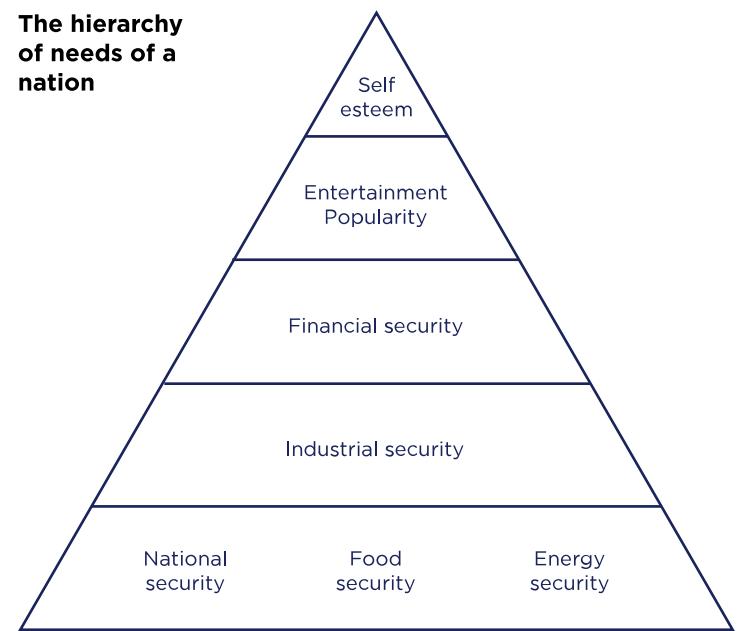
In recent decades, this pyramid has been upended, initially by a very benign force: abundance.

After the fall of the Berlin Wall, the West reaped the “Peace Dividend” on defense spending. A decade later, China joined the World Trade Organisation, accelerating globalisation and letting consumers get goods cheaply from anywhere in the world. A decade after that, the shale revolution in the US brought down energy prices globally. Throughout this period, rich nations welcomed millions of economic migrants. With an abundant supply of goods, energy, and workers—and less fretting about defense—society felt its basic needs were met. Inflation was low, allowing interest rates to decline. Money became abundant.

This sets off a cycle. When money is loose and society feels its basic needs are met, people start spending on luxuries and fun. Investors notice that and start throwing money at whoever has the grandest dreams for the future. Rising valuations signal to companies at the top of the pyramid to invest more, drawing in yet more resources.

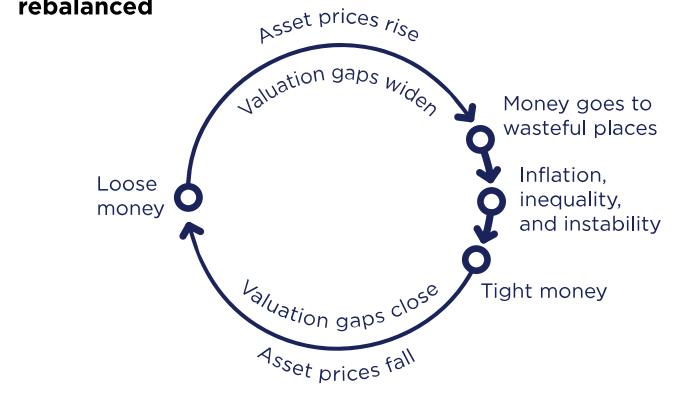
This cycle plays out at the broad level of markets and the narrow level of companies. Mark Zuckerberg burns \$46 billion building the metaverse—a digital playground that no one else wanted to play in. Bernard Looney announces that BP, an oil and gas company, will cut production of its key products by 40%. Office sub-lessor Adam Neumann gets rich promising to elevate the world's consciousness (and crashing WeWork). In times of abundance, money goes to wasteful places.

The hierarchy of needs of a nation



Illustrative only. Source: Orbis.

How the pyramid gets rebalanced



Illustrative only. Source: Orbis.



The dangers of imbalance: inflation, inequality, and instability

With resources rushing to the top of the pyramid, the base gets starved of capital. The result is shortages of things society actually needs. Those shortages cause inflation for normal people. Meanwhile, the Neumanns, Zuckerbergs, and Musks of the world are getting rich, increasing inequality. Put inflation and inequality together, and you get instability—society's alarm bell that something needs to change. Conditions were ripe for Trump's wrecking ball before he ever descended that escalator.

"Put inflation and inequality together, and you get instability—society's alarm bell that something needs to change."

Rebalancing the pyramid: AI case study

Each step in the cycle sows the seeds of the next. Higher inflation attracts higher interest rates, and with money tighter, people think more carefully about where to invest it. But the cycle does not depend on central banks or governments. If the pyramid can get unbalanced organically, it can get rebalanced the same way. Here, AI is a great example.

"If you want AI, you need a whole bunch of things from the base of the pyramid."

OpenAI chief Sam Altman has described AI as a bigger deal than the industrial revolution. It may be, and some of its applications are in crucial areas seen by companies or governments as existential needs. But his latest idea, Sora 2, is essentially a TikTok clone where all the videos are AI slop—prime top-of-pyramid stuff.

If you want AI, you need a whole bunch of things from the base of the pyramid. For a start, you need chips. Taiwan Semiconductor Manufacturing Company makes all of the world's leading-edge AI chips, whether they are designed by Nvidia, Broadcom, or AMD, yet it trades at a discount to those companies. Although AI is more memory-hungry than conventional computing, the memory makers Samsung Electronics, SK Square, and Micron Technology also trade at discounts.

Chips are of little use without related infrastructure, much of which might be built by Balfour Beatty, a construction firm with a roster of anonymous data-centre clients on its website. Those buildings sit on top of foundations laid by Keller, the world's leader in geoengineering.

Data centres can't connect to electricity grids without transformers from Siemens Energy and its competitors, who are less able to increase capacity because Silicon Valley has hoovered up the most talented engineers. Grid power has to come from somewhere and has to be reliable. That bodes well for gas producer Shell and gas transporters Kinder Morgan and Enbridge. And amid all this, nuclear power is having a renaissance. As nuclear reactor providers to navies, BWXT and Rolls Royce are highly competitive for small reactor projects.

The rebalancing is happening already. Corporate customers are sending money towards the base of the pyramid, but in many cases, capital is still too scarce. For us, that's appealing, as it suggests a higher return on that capital. For the businesses, it leads them to respond not by increasing supply but by increasing prices. That inflation, in turn, promises to keep the cycle moving.

It took decades for the pyramid of needs to get this unbalanced. Trump may have accelerated the reckoning, but the great rebalancing is just getting started.

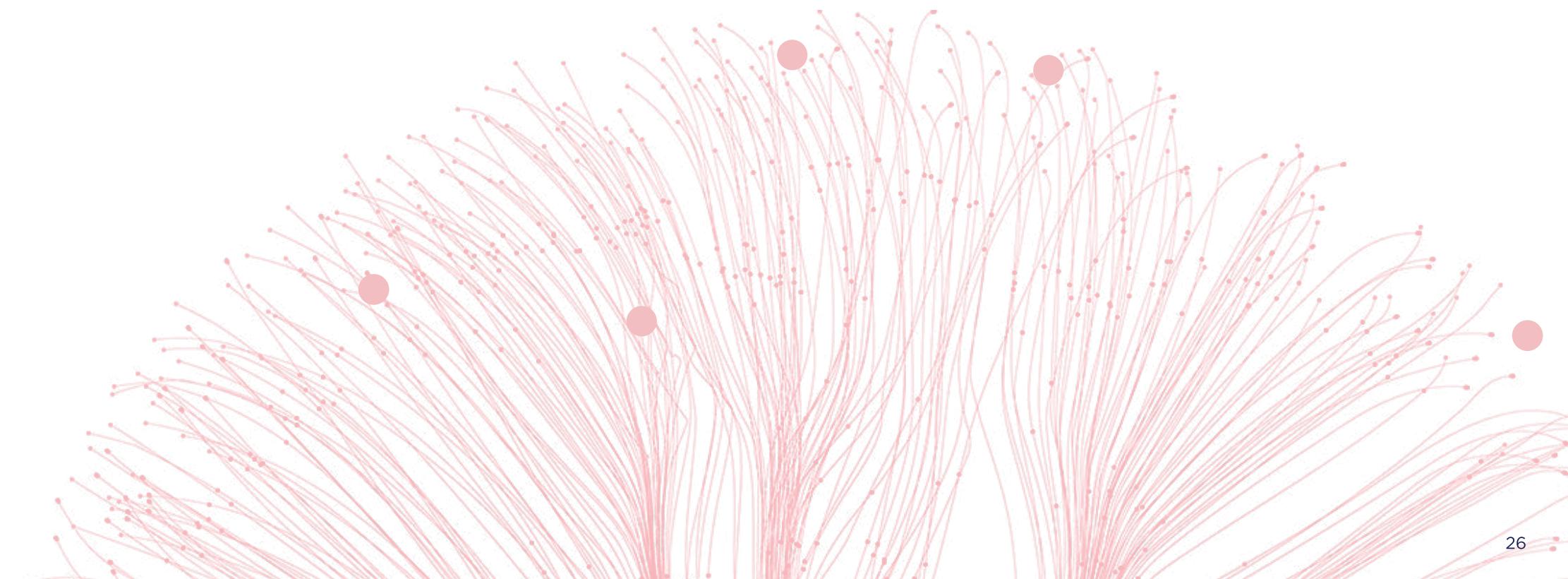
"If the pyramid can get unbalanced organically, it can get rebalanced the same way."



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CONCLUSION

We live in turbulent times—ones that bring both challenges and opportunities for investors. The six questions we've posed throughout this report only begin to scratch the surface of the structural shifts reshaping global markets. Yet despite the uncertainty, many investors appear positioned for a "certain" future—one dominated by US megacaps, the dollar, and AI headline acts.

But as history reminds us, these "obvious" winners can often carry the biggest risks. That's why we believe the overlooked areas, where expectations and valuations are low, may offer the best potential for long-term returns.

For us, that means looking at neglected areas, such as emerging markets, healthcare, and companies rebuilding the critical infrastructure powering modern life.

In this environment, success will require the courage to test your assumptions, the conviction to act when opportunities arise, and the discipline to be selective. True diversification isn't about owning a little bit of everything—it's about uncovering hidden value where others are not looking.

In the end, successful investing isn't about having all the answers. It's about asking the important questions.

Key Takeaways:

Be truly differentiated	Resist the pull of the crowd and look beyond the obvious.
Challenge consensus	Take a closer look at out-of-favour areas—do they deserve neglect, or is there hidden value?
Be valuation-disciplined	Be brutally honest about the prices you're paying—are they supported by fundamentals?
Rebalance for resilience	Adapt portfolios toward businesses and sectors that can <i>thrive</i> amid change.
Question everything	There are no foolish questions, only fools afraid to ask them.

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