

## **Analyst Survey 2026** A power puzzle

Politics, prices, and the AI conundrum  
from the ground up

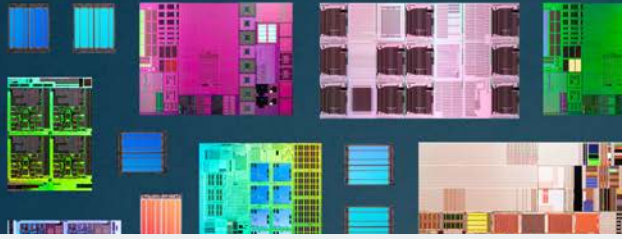
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# Foreword

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The 2026 Analyst Survey lands at a critical time for global markets. Top-down factors may be driving the narrative, but are the moves we've seen backed up by facts on the ground?

We publish the Analyst Survey each year to show you the world through the eyes of Fidelity International analysts. Clients tell us they use the Analyst Survey to complement their own in-house research and provide a fundamental, bottom-up view that informs internal debates. Whether our findings support their thinking or challenge it, the Analyst Survey provides something you won't find anywhere else.

This year's report is based on the responses of over 120 of Fidelity's analysts from around the world. You'll hear their thoughts on topics as varied as rare earth metals, Asia's corporate reforms, energy prices, humanoid robots, the effects of geopolitics on companies' bottom lines and much more.

Our analysts share what they've learned from speaking to CEOs, from field trips, from conversations with other market professionals, and from the painstaking work they do every day, collaborating with Fidelity colleagues across asset classes to understand what the market's getting right – and what it isn't. This work is becoming ever more valuable as we use new technologies to scour the 1,000 or so research notes analysts publish in a typical week, allowing us to build highly detailed pictures of companies and industries and respond to shocks swiftly. You'll also see examples from our portfolio managers of how the research directly drives investment performance.

Fidelity's clients trust us to make decisions that affect them financially. It's a responsibility that requires expertise grounded in careful analysis and judgement, and our research reflects that. It's a privilege to work every day with the people who do this work and see how they're able to get closer to the facts that matter. We trust you'll find our analysts' views informative, thought-provoking and timely.



**Niamh Brodie-Machura**  
Chief Investment Officer,  
Equities



**Marion Le Morhedec**  
Chief Investment Officer,  
Fixed Income

# Confidence and the K-shaped economy

Companies are experiencing a once-in-a-generation investment boom across a growing list of industries, but there are nascent signs that artificial intelligence (AI) is already suppressing wages, and potentially consumer demand with it. This year's Fidelity International Analyst Survey takes the temperature of more than 120 analysts covering thousands of companies across the globe.



**Rebecca Motta,**  
Director of Research, Fixed Income



**John Stavis,**  
Head of Equity Research, Asia

## Key takeaways

- Corporate confidence has been steadily rising in recent years, boosted by the optimism around tech.
- Cost pressures are one fly in the ointment, with most analysts expecting these to rise in 2026.
- Geopolitics is making growth uneven and threatens its stability.

The results are in: the AI investment boom has companies feeling better than at any point since the chaotic aftermath of the COVID pandemic. In the background, however, there are risks to raw material costs, wages and household spending that threaten to weigh over the global economy for years to come, the more so with conflict in the Middle East.

Those are the central conclusions of this year's Fidelity International's Analyst Survey, the product of the detailed observations of more than 120 specialised analysts who cover companies all over the world in eye-watering detail. Spaced across equities and fixed income, they've reported back from more than 20,000 meetings with C-suite executives over the last year. And, overall, the message is positive.

## Management confidence nears highs

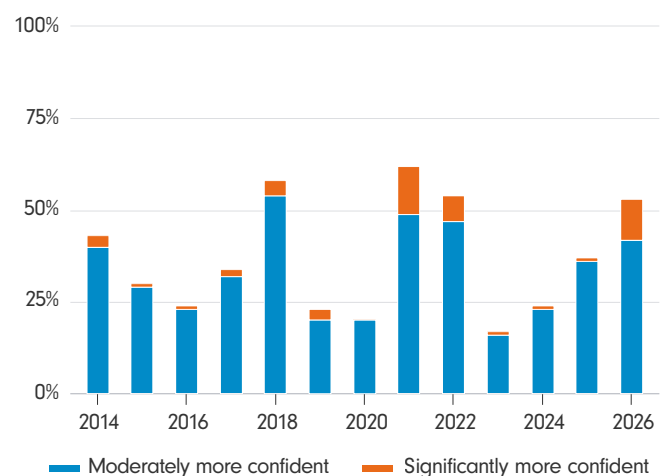


Chart shows percentage of analyst responses to the question 'How would you describe the confidence level of your companies' management teams to invest in their businesses over the next 12 months, compared to the previous 12 months?'  
Source: Fidelity International Analyst Survey, March 2026.

The analysts are clear on the source of that optimism: we are in the middle of the biggest investment boom in years, driven by spending on AI and all of the infrastructure needed to deliver it.

“AI pull-through is broadening,” says Terence Tsai, the leader of a team of tech analysts who cover semiconductor producers globally. “The buildout is expanding, not peaking.”

That development is bolstering spending by the customers of a wide range of businesses and points the way to streams of revenue that extend years into the future. Information technology (IT) is the clearest beneficiary but the effects are also strongly visible in the materials and energy sectors, where demand for power and the commodities needed to construct a world of new data centres and power plants follows more than a decade in the doldrums. Some 64% of materials sector analysts say company managers are moderately or significantly more confident about the coming year than the previous, compared to 81% in the IT sector.

“Orders are off the charts,” says Srishti Sinha, who covers the U.S. power companies tasked with delivering several percentage points of additional capacity every year for the rest of the decade. “My sector utilities have increased their five-year capex plans by 20% when they rolled forward, and that was after a 20% increase last year as well.”

### The investment boom broadens

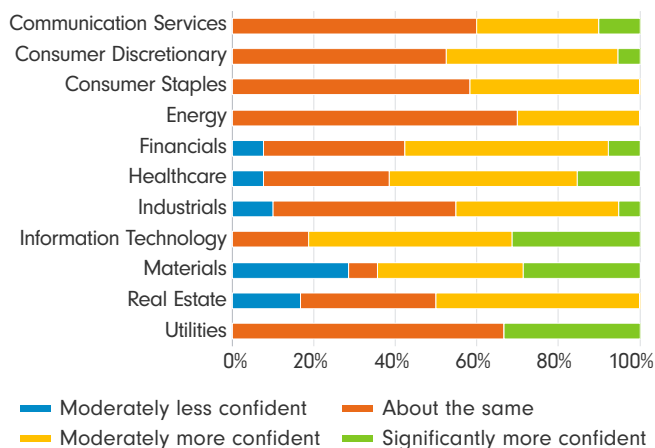


Chart shows percentage of analyst responses to the question ‘How would you describe the confidence level of your companies’ management teams to invest in their businesses over the next 12 months, compared to the previous 12 months?’  
Source: Fidelity International Analyst Survey, March 2026.

Expectations on mergers and acquisitions also speak to the glut of money circulating. About half of industrials analysts expect M&A deals to be more prevalent this year versus a third a year ago. And while the volume of IT deals may be held back to some degree by companies pouring capital into the AI buildout, 63% of IT sector analysts now expect a rise in M&A in the months ahead.

“Achieving meaningful productivity gains from AI in system integration may require a certain level of scale,” says Japanese sector analyst Noriyuki Takizawa. “Larger players may therefore seek consolidation to strengthen their AI implementation capabilities. Overall sector valuations are [also] meaningfully cheaper than they were two to three months ago.”

### AI buildout to bring more M&A?

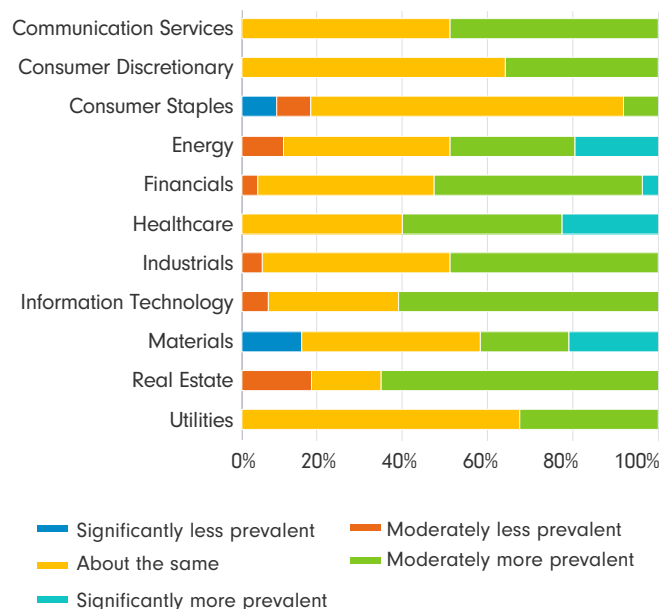


Chart shows percentage of analyst responses to the question ‘Do you think M&A will be any more or less prevalent among your companies over the next 12 months?’  
Source: Fidelity International, March 2026.

There is, of course, a catch.

Costs have increased significantly in the past year across sectors and many expect those pressures to rise further in the months ahead. Only

8% of analysts covered by the Survey expected inflationary pressures to ease off in the next 12 months. Half said pressures would continue at the same level and 40% expected a rise.

Crucially, however, the results also point to a divergence in wage and non-wage cost pressures. The Survey's quarterly indicator on expectations for labour costs over the next six months is close to zero for the first time in three years.

It is telling, then, that most of the analysts covering consumer companies in the annual survey point to affordability, its impact on poorer consumers or overall demand as their biggest concern for the year ahead. Yes, they say, for middle America, they're constructing a new power plant across the road to fuel the gigantic data centre warehouse on the other side of town. And out beyond the suburbs there might be a copper mine delivering on the enormous demand for power cabling. But for consumers not benefitting from stock market gains, or higher interest rates, or returns on gold, the picture is bleaker. Fuel costs will continue to rise, and wages will not.

"I think rising unemployment and a consumer spending pullback would be the biggest risk to fundamentals of my companies over the coming 12 months," says Chase Bethel, who covers Walmart, Costco and a host of other US retailers.

The other big risk many cited is the geopolitical backdrop. Jousting by governments over industrial commodities raises costs and pressures manufacturers' margins. The supply-side-driven inflation may prevent central banks from cutting interest rates. That will become even harder if governments wind up spending to offset the impact of higher oil and gas prices on lower-income households, drawing base long-term interest rates higher. In addition, private credit fundamentals are under pressure and showing early but accumulating signs of stress.

### The price of politics

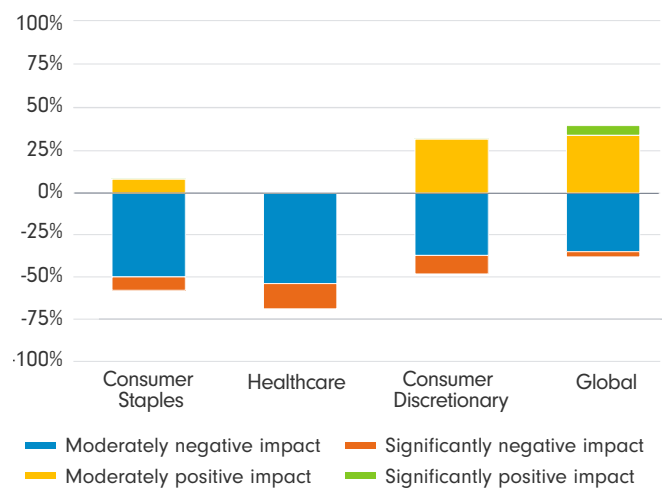


Chart shows percentage of analyst responses to the question 'How would you describe the confidence level of your companies' management teams to invest in their businesses over the next 12 months, compared to the previous 12 months?' Source: Fidelity International Analyst Survey, March 2026.

### Cost pressures grow

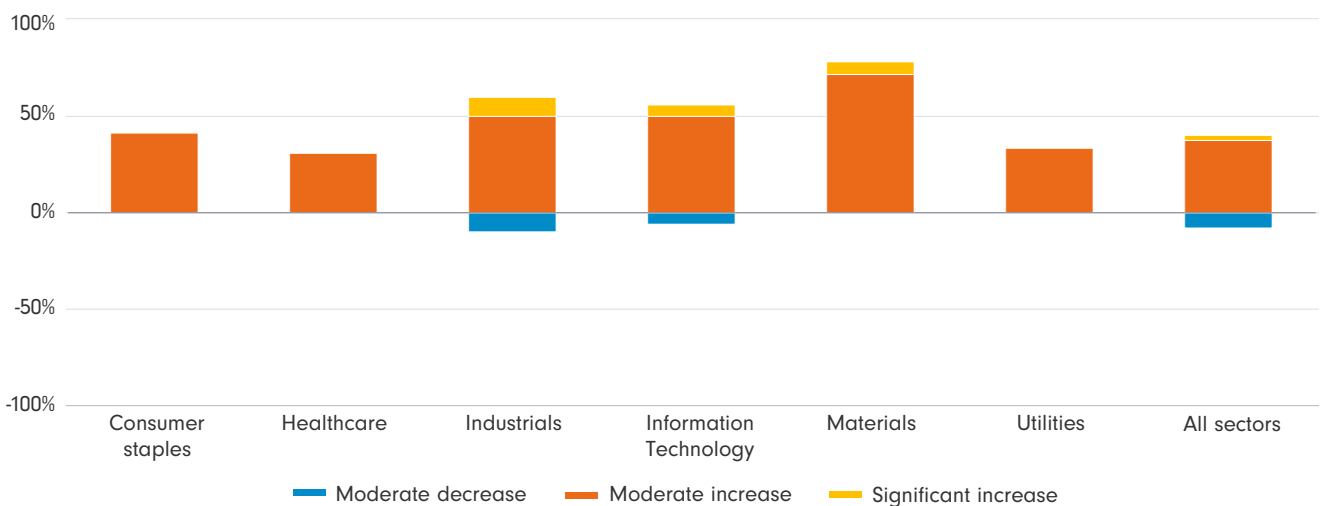


Chart shows percentage of analyst responses to the question: 'How, if at all, do you expect inflationary pressures within your companies' cost bases to change over the next 12 months?' Excludes analysts who say pressures would be unchanged. Source: Fidelity International Analyst Survey, March 2026

Health care analysts also point to the fiscal fallout of militarised conflict, adding to widespread concern in the sector about political pressure to regulate pricing more aggressively.

“Health care is a significant line item in the budget for all countries,” says analyst Justin Teo. “As other priorities like defence spending take precedence, there’s increased pressure on healthcare budgets.”

### Confidence

All that said, corporate confidence among companies does remain high: they are benefitting from the AI capital spend and rising stock markets. Returns on capital and dividend payouts to investors are widely expected to improve. More than half of all the analysts surveyed expect dividends to rise; in IT, that figure is 63%.

A more complicated geopolitical situation is delivering a messier economic outlook and, as our tech analysts discuss here, AI’s contribution may be to make it easier for companies to do more with less and reduce the relative size of workforces - but at a time when the economy is already putting pressure on middle-income consumers.

None of that should detract from the central message, however: that the investment by Microsoft, Meta and Google in AI is not just a driver of stock-market valuations. Main Street continues to feel cost pressure, but that wall of capital will eventually trickle down to the builders and electricians who are constructing the new factories and data centres. When that happens, we can expect the beneficiaries to widen out with higher living standards and a better breadth of stock market returns.

### Capital returns expected to improve

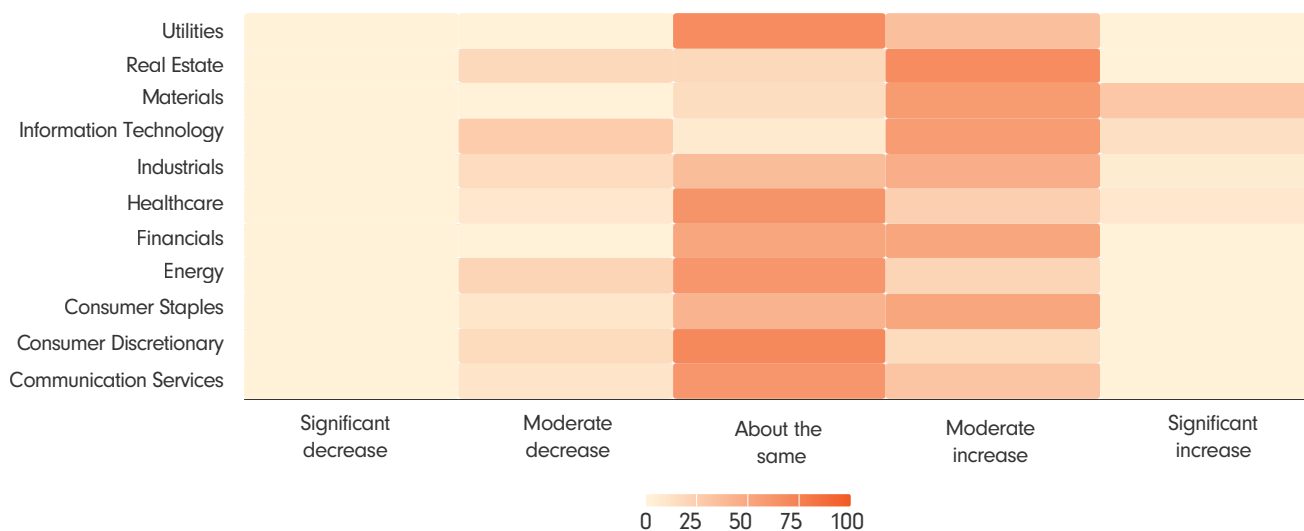


Chart illustrates responses to the question ‘What is the outlook for overall returns on capital for your companies for the next 12 months?’  
Source: Fidelity International, March 2026.



# Tech is undervalued

Markets are growing increasingly worried over the prospect of an AI-led tech bubble. Fidelity International's investment analysts are less so.



**Terry Raven,**  
Director of Research, Equity



**Randy Cutler,**  
Director of Research, Fixed Income

## Key takeaways

- The software sell-off has gone too far.
- AI is not displacing human labour to any great extent at present.
- The application of AI by companies is broad and multifaceted.

Fidelity International analysts are still bullish on AI. Indeed, none of our analysts who focus on tech companies believe their sector is overvalued – the only sector for which this is the case. They also report higher levels of confidence among their management teams than any other sector.

There is, of course, plenty of debate within Fidelity about the durability of the current boom and the longer-term sustainability of earnings. Some of our shorting analysts, for instance, spend their days looking for tech names for which the hype has gone too far.

But, taken as a whole, the findings of this year's Analyst Survey would appear to mitigate rising concerns that valuations in the tech sector are stretched beyond repair.

## Hardware justifies the hype

Terence Tsai, Fidelity's tech sector leader and portfolio manager, argues that high levels of investment will benefit companies across the AI value chain. "With hyperscalers raising capex numbers higher than market expectations, that cascades into the capital beneficiaries – the suppliers of the AI infrastructure build, and also their suppliers," he says.

In Tsai's view, his companies will "strongly outperform" the market this year: "humans and markets tend to think linearly and have trouble grappling with exponential growth."

Jonathan Tseng and Austin Kelly focus on North American semiconductors, businesses usually considered among the biggest beneficiaries of the capex spend Tsai references.

They are similarly bullish. “Although valuations are towards the upper end,” says Tseng, “I suspect ongoing earnings upgrades can drag these names upwards in spite of an elevated multiple starting point.”

For Kelly, this points to a wider market transformation. “The emergence of AI as a demand driver in semiconductors has caused and will continue to cause supply/demand tightness across many areas of technology hardware. We have already seen the impact in memory, but we will soon see it in other areas, too.”

### The software sell-off may have gone too far

The transformational promise of AI means the market is now discounting other parts of the tech sector previously considered among the most predictable names in investors’ portfolios: namely, software. The SaaSocalypse began in late 2025 and has intensified through 2026, as the market believes software-as-a-service applications could be replaced by AI altogether.

But many of our analysts think this sell-off has gone too far. Clare Coleman says the market is wrong to deem all her Australian software and internet companies AI losers. Instead, after the indiscriminate selling, she’s finding value in those “with strong network effects, proprietary data, and/or regulatory and compliance moats.”

Jack Graham, who focuses on US software and IT services names, believes we may be at the start of a cyclical shift away from growth towards value following higher inflationary expectations this year, supporting some of the less favoured names he follows.

That dynamic, in his eyes, will be exacerbated by rising commodity prices stemming from geopolitical tensions and – for now, at least – the conflict in Iran.

Meanwhile, many of our analysts who focus on software think the market is overstating its redundancy risk in a new AI-dominated world.

Siddharth Misra, who focuses on India IT services companies, thinks there remain valuable, fundamental use-cases for IT services names.

Misra cites the role of these companies as “bridging the gap between off-the-shelf agents and driving value in a complex enterprise” by:

- Managing and unblocking the data layer in enterprises
- Orchestrating and integrating multiple agents within the enterprise
- Creating new applications that will emerge because of AI
- Having the right guardrails and governance in place

Noriyuki Takizawa reports a similar dynamic among his Japanese companies, explaining that “internal development capacity, governance structures, and security constraints [mean] the assumption that generative AI will quickly displace external IT services demand in Japan may be overstated.”

But both Misra and Takizawa do not think these realities will necessarily reflect in valuations immediately. In fact, Takizawa expects his companies to underperform other Japanese companies this year. “It may take time, or prove impossible in some cases, for some IT services companies to demonstrate they are not meaningfully impacted by AI disruption,” he says.

### Demand justifies the supply

That’s the supply, what about demand? Our analysts following companies from sectors beyond tech report widespread usage of AI.

Almost 90% say that at least some of their companies are seeing productivity benefits, though 62% overall say this is only relevant for a minority of their companies.

# Emerging markets: Where diverse stories build resilience

Almost a year after the Liberation Day tariff rollout, the conflict in the Middle East has delivered a fresh shock to economies. While investors may be concerned about its impact on emerging markets, there are companies and sectors in these regions where long-term fundamentals continue to look promising.



**Monica Li,**  
Director of Research, Equities



**Punam Sharma,**  
Head of Equity Research, Europe

## Key takeaways

- Geopolitical shocks are driving volatility across emerging markets, with higher oil prices, freight disruption and shifting trade policies weighing on corporate profitability.
- Despite headwinds, analysts still see pockets of strength, from China's tech and biopharma industries to India's steel sector and Korean companies benefitting from governance reforms.
- Improved fiscal discipline is creating advantageous conditions in specific markets.

We publish this year's Analyst Survey at an especially volatile moment for emerging markets. Previously prevailing themes, such as a weaker outlook for the U.S. dollar or the potential easing of monetary policy, have been brought into question in the wake of the conflict in the Middle East. In their place are higher oil prices, inflation worries, and renewed concerns about the logistics of global trade.

## Geopolitical shocks

Over half of our China analysts (54%) say geopolitics or monetary factors will have a moderately or significantly negative impact on corporate profitability over the next 12 months. That compares with 43% in EMEA/Latin America, 35% in Asia (excluding China and Japan), and the global average of 38%.

"Even if the conflict ends tomorrow, freight rates will not return to normal immediately," says Amara Xia, an equities analyst covering China marine transportation. "Port congestion, the time needed to reposition vessels and the surge in demand to rebuild depleted inventories will all keep rates elevated for a while before they eventually normalise."

James Trafford, an EM portfolio manager and energy analyst, adds: "If there is a fast resolution to the conflict, then oil should be able to move quickly again, so long as there has not been any material damage to the upstream producing fields. The high-quality nature of the Middle East reservoirs means that those which have been closed can restart promptly. However, if disruption lasts beyond the end of March, or there are fresh attacks on infrastructure, then it will likely cause

more substantial drawdowns of inventories keeping the market tighter for longer.”

Geopolitical shocks can cause acute market volatility while simultaneously casting persistent shadows. Following last year’s tariff shocks, for example, nearly two-thirds of Fidelity analysts in this year’s Survey say they continue to factor the impact of shifting trade policies into their fundamental analysis.

### Tariffs still matter

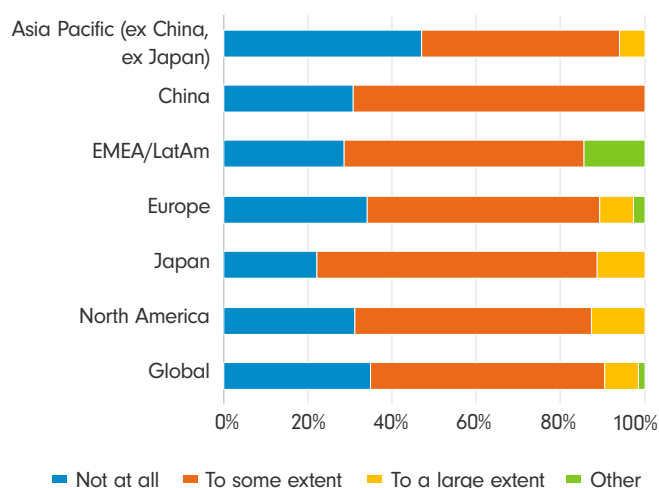


Chart shows percentage of analyst responses to the question ‘To what extent are you still factoring continued impact from shifting trade policy into your fundamental analysis?’ Source: Fidelity International, March 2026.

Yet despite these headwinds, our Survey finds that, beyond the headlines, there remains a diverse set of positive investment stories.

“Within Asia’s oil-refining sector, the most likely beneficiaries of higher oil prices are non-government-owned, independent upstream producers,” says Eliza Tay, an equities analyst covering the sector.

She also points to a split emerging in downstream refining and petrochemicals, where companies with reliable raw material supply have the capacity to maintain stronger margins and raise operating rates.

### China’s tech prowess

Chinese leaders have invested heavily in high-tech industries to boost the country’s self-reliance and resilience to volatile geopolitics. Those efforts have supported China’s rise in electric vehicles, AI, biotech and robotics. The economy is increasingly driven by innovation and policy that supports technology and science.

Despite U.S. export controls on cutting-edge technology, “a growing number of chips used in China will be made locally,” says Allen Yang, an equities analyst covering China’s chipmaking industry. “Local semiconductor equipment makers will continue to benefit from domestic capacity expansion and supply chain localisation for years to come.”

China’s pharmaceutical industry is rapidly shifting from being a fast follower of innovative medicines to a challenger of U.S. dominance in R&D, capturing a growing share of global drug licensing deals, according to Lizheng Zhu, an equities analyst covering China biotech.

“Chinese biopharma companies’ drug development is two or three times faster than U.S. or EU counterparts, but at only half or a third of their costs,” says Zhu. “We will see more and more first-to-market drugs coming from China in the next few years.”

### China consumer

Though China’s technological development has stormed forward, the country still faces a series of economic challenges: a troubled housing sector, persistent deflation risks and sluggish consumer demand. Signs of recovery are emerging among consumers, with strong demand for both premium and value-for-money products, according to Alex Dong, an equities analyst covering China consumer staples.

“The Chinese consumer market is evolving,” says Dong. “Despite the muted demand in the middle segment, we are seeing intriguing opportunities in the top and bottom end.”

Of China analysts, 31% see their sector as undervalued, the highest across the world and compared with 24% in Asia (excluding Japan and China), and 29% in EMEA/Latin America. But their emerging market peers are more confident about stock performance in the coming 12 months.

Fifty-seven percent of EMEA/Latin America analysts and 50% of Asia (excluding Japan and China) analysts say their stocks will significantly or moderately outperform the regional benchmark, higher than the 46% for China.

## Paying dividends

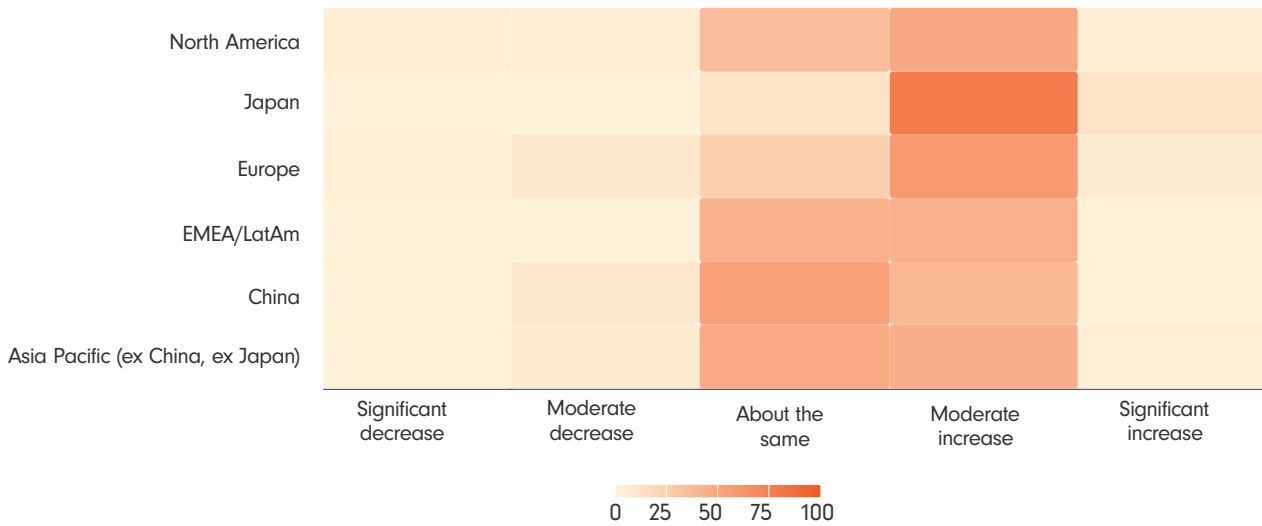


Chart illustrates responses to the question 'How, if at all, do you expect your companies' dividend payments to investors (in absolute terms) to change over the next 12 months?' Source: Fidelity International Analyst Survey, March 2026.

## Emerging improvement

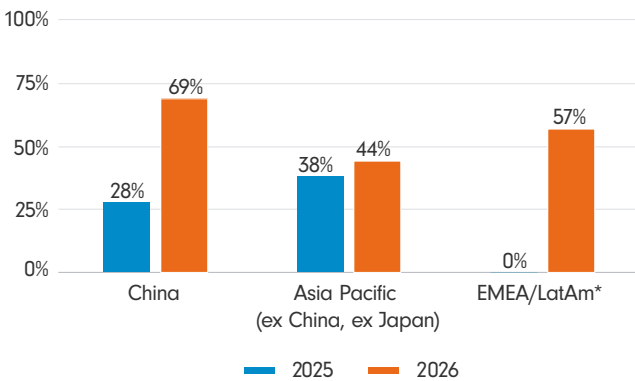


Chart shows percentage of analyst responses that say 'Moderately more confident' or 'Significantly more confident' to the question 'How would you describe the confidence level of your companies' management teams to invest in their businesses over the next 12 months, compared to the previous 12 months?' Source: Fidelity International Analyst Survey, March 2026.

## Emerging outperformance

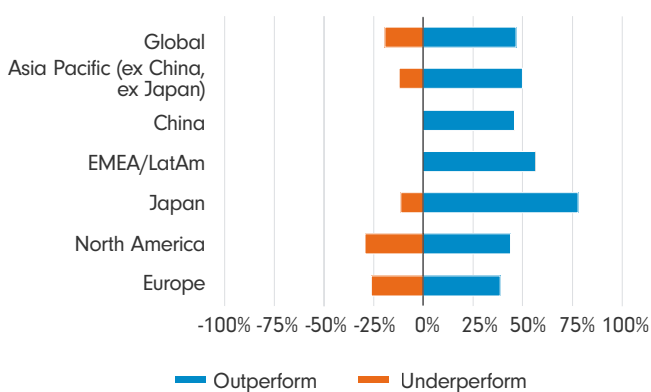


Chart shows percentage of analyst responses to the question 'What are your current views regarding your sector's performance outlook relative to its regional market for 2026?' Source: Fidelity International Analyst Survey, March 2026.

## Korea's corporate reforms

One of the big stock-market winners last year was Seoul. For years, Korean companies have been criticised for hoarding cash on balance sheets and refusing to share profits with shareholders. But, following in the footsteps of Japan, the authorities have confronted the issue with structural reforms. The Value-Up program, which aims to reduce the so-called Korea discount, has gained steam with a new president pushing for shareholder-friendly policies.

"Given the ongoing reform, I expect Korean financials to deliver better capital allocation and improving corporate governance versus their history," says Charvi Pandey, an equities analyst covering Asian financials. The near term, however, looks more challenging.

"Korea is a net importer of oil," Pandey adds. "An extended crisis in the Middle East could hit its economic growth. We will continue to monitor the impact on Korean financials, especially those which have direct lending or equity exposure to the region."

Across Asia Pacific, 47% of Asia (excluding Japan and China) analysts expect dividend payments to increase over the coming 12 months, higher than the 39% in China and 43% in EMEA/Latin America.

## Indian steel

A couple of other opportunities stand out in the survey. India's steel industry has expanded rapidly over the past decade, benefitting from accelerated urbanisation and industrial growth. Deepak Kumar, an equities analyst covering Indian metals, says the sector will outperform on the back of a strong earnings outlook in the coming year after the country extended a tariff on steel imports for three years.

"With the customs duty and safeguard duty, India's steelmakers now have as much as a 20% price advantage over regional steel players," says Kumar. "The sector has seen a valuation rerating on increased earnings visibility. I expect the rerating to sustain."

Because iron ore is domestically available in India, the only direct impact on the sector from disruptions in the Middle East is higher freight costs for imported coking coal, he says.

Greek banks is another interesting sector.

"Greece has been de-leveraging for some time and the ratio of private sector credit to GDP is low relative to European peers," says Tim Eklund, an equities analyst who covers emerging market banks. The economy has been strengthening and loan growth picking up, he adds, pointing to the country's return to investment-grade just over two years ago, for the first time since the eurozone debt crisis.

Higher energy prices are, however, a concern. "Anything impacting the flow of tourism to Greece would have a negative impact on the country's economy," says Eklund.

## No common outcome

The duration of the Middle East conflict arguably matters more for emerging markets than others. The longer it goes on, the more it could exacerbate inflationary pressures and negatively impact energy importers.

Some industries and geographies will prove more resilient than others, and emerging markets should not be viewed as a single uniform bloc. They comprise diverse economies with distinct growth-drivers, risk profiles, opportunity sets, and monetary and fiscal considerations. Careful discrimination, patience and a measured approach will be critical.



## What kung-fu robots tell us about China's humanoid revolution

A kung-fu show demonstrated dramatic progress in China's humanoid robotics over the past year. But a bigger challenge lies ahead: how to make these humanlike robots useful in real-life environments.



**Reggie Pan,**  
Investment Analyst

### Key takeaways

- China wants to build on its tech prowess to make robots that can thrive in the real world.
- The challenge is getting from teleoperation to full automation.
- We're around two years away from some meaningful breakthroughs.

Aside from fireworks and dumplings, watching the televised annual Spring Festival Gala, or Chunwan, has been a holiday tradition for every Chinese family on the eve of the new year.

For decades, the four-hour show was a jumble of songs, dance routines, and skits, all performed by human beings. But starting from last year, humanoid robots took centre-stage, giving demonstrations of what Chinese robotics can do. In 2025, dancing robots twirling handkerchiefs wowed viewers. This year, we saw something more stunning.

Dozens of humanoid robots practiced martial arts, mimicking action star Jackie Chan's Drunken Boxing style made famous by his iconic 1978 movie Drunken Master, which requires incredible balance, flexibility and strength. They also performed nunchaku, aerial flips, and executed three consecutive single-leg backflips. The performance, well synchronised to music and the human performers, was far more complex than the handkerchief dancing the year before. It was not just a kung-fu show, but a message to the world about how fast China's humanoid robotics is evolving.

Manufacturing expertise and government support have given China the edge in developing robotics. China's robust hardware supply chain, much of it built up through the electric vehicle sector's R&D on everything from sensors to batteries, has helped local companies to iterate faster than western competitors. According to the 15th five-year plan, which sets strategic objectives and policies for 2026 to 2030, Beijing is prioritising several emerging technologies, including advanced chips, robotics, batteries and the brain-computer interface.

Despite the marvellous choreographed demonstrations, a bigger challenge lies ahead: how to make these humanlike robots useful in real-life environments. That is no mean feat. The machines need to figure out on their own how to get a job done and how to work with other robots, without laborious programming for each situation. Brain-function hurdles, co-ordination between brain and hardware and a lack of data for 3D real-world movement mean widespread commercial deployment still faces technical and cost challenges. It's one thing for a desktop-bound large language model to make a mistake, but a very different thing for a robot that's physically moving among humans to do so.

### Mixing with the robots

I recently visited more than a dozen Chinese robotic original equipment makers in mainland China. Some are developing versatile robots

aimed at manufacturing, logistics, hospitality and household applications. With big leaps in hardware technology, the robot-makers are already good at balance, motion control and dynamic locomotion. Their focus is now on refining the foundation model, which is a large-scale AI system trained on massive, diverse datasets that will act as a brain for robots, allowing them to plan movements, co-ordinate with each other and adapt to new situations.

Most players still rely heavily on teleoperation and videos to gather real-world data and refine foundation models. This is both time consuming and costly, but recent progress related to the generation of synthetic data might become increasingly useful in training the models, accelerating the whole refining process.

With continued improvement in robotic foundation models, I believe humanoid robots can start becoming productive in factories or warehouses, performing repetitive tasks such as box-carrying or sorting, within a couple of years.

The number of robot developers has increased rapidly in China, which could intensify competition within the sector. But competition will drive the startups to innovate, iterate faster, and improve their products to stand out.



# The geopolitics of commodities on – and below – the ground

**China remains the controlling force of the supply chain for rare earth magnets, essential to a range of industries. Conversations across the industry suggest the market still underestimates how difficult scaling meaningful production outside of China will be.**



**Sam Heithersay**  
Investment Analyst

## Key takeaways

- Efforts to build rare earth magnet supply chains outside China face deeper structural barriers than many investors recognise.
- Prices have surged, and the hope is that supply will rise to meet strong demand and put downward pressure on prices.
- Easier said than done, the fundamentals suggest elevated pricing for the foreseeable future.

Rare earth magnets play a critical role in renewables, aerospace and defence manufacturing but the supply chain is tightly controlled by China. It's become increasingly clear to me that the wider market still underestimates this dependency and the inherent challenges of scaling ex-China rare earth magnet production.

How did I come to this conclusion?

There's a natural assumption in commodity markets that high prices cure high prices because high

prices incentivise new supply. But the concentration of the rare earth supply chain and the geostrategic nature of global demand complicates this supply response. Rare earth prices have doubled in the last year after China imposed export restrictions in retaliation to U.S. tariffs. The U.S. responded by taking a direct-equity stake in a rare earth magnet producer and under-writing investment with a price floor. The market assumes that in the long term, high prices, supported by a price floor, will incentivise new Western supply. There's also

the possibility that in the short term, China eases restrictions on its rare earth exports, as it has in the past, flooding the market with excess supply. Both scenarios would bring prices down.

The conversations I've had with a range of the companies involved in this supply chain make me question these assumptions.

First, regulation has moved on. From January next year, the United States will not allow Chinese rare earth components in the defence supply chain. That will support prices and demand for production outside of China.

Second, a number of downstream customers we talk to have told us that even if restrictions were to be eased tomorrow, they will still want more supply outside China. Recent experience has highlighted the vulnerabilities in their supply chains and they do not feel comfortable with this concentration of supply anymore.

Third, this is less about rare earth mining and more about rare earth refining, for which the barriers to entry are high because successful refining at scale requires a supportive industrial complex. China has invested heavily in its rare earth processing and refining complex since the 1980s. Any new Western supply won't be able to draw on the components, reagents and expertise that China has consolidated over the years.

This may slow the pace of the expansion of the rare earth supply chain beyond China, despite the commercial and geopolitical imperative, and potentially keep prices higher for longer than consensus is currently expecting or pricing into rare earth share prices.



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Cover, page 2 and 3: A Collection of Multi Colored Semiconductor Chips.

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Page 4: The New York Stock Exchange is seen during morning trading.

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Page 9: Switching on the new AI supercomputer at the Vilhelm Lauritzen Terminal in Kastrop, Denmark.

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Page 13: Opening of a Google AI-Centre in Berlin.

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Page 14: Employees work on the automated production line [in] Zhejiang Province of China.

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Page 20: A girl plays with a robot at the Shanghai World Expo and Convention Center in Shanghai, China.

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Page 21: A woman talks to a remote-controlled bipedal humanoid robot in Shanghai, China.

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Page 22: Electric concept car on display at the AutoSalon press preview in Brussels, Belgium.

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Page 23: Electric vehicle stands in the factory's final inspection area in Brandenburg, Grünheide.

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Page 24: Aerial view of snow on rock formations located in Xinjiang Uygur Autonomous Region of China.

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Page 25: Labelled rare earth elements in padded case.

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