



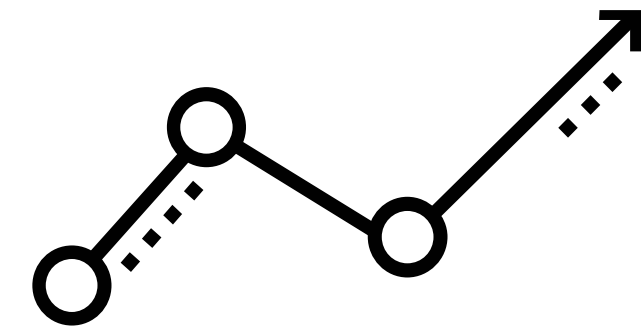
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Capital Markets Trends 2026 and beyond

Insights and Outlook

An  **RPG** Company

Top Capital Markets Trends



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Tariffs – Redefining global capital flows

How tariffs reshape global financial markets and economies



Tariffs: Redefining Global Capital Flows

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Tariffs are being strategically deployed as economic tools to reshape trade relationships, incentivize domestic investment, and assert US leverage in global negotiations

Tariff effects in practice

- ▶ Tariffs were strategically used to **encourage domestic production**, with companies such as Apple and Nvidia exploring reshoring part of their supply chains
- ▶ Allies like the EU, Japan, and Canada were forced to rethink trade alliances, leading to new regional trade agreements and reduced reliance on the US
- ▶ Tariffs reduced the **openness of the US economy**; capital flows were disrupted as investors reassessed risks in a more protectionist environment
- ▶ Investors began favoring **US-based assets**, especially in sectors benefiting from protectionist policies such as tech, pharma, steel, and semiconductors

Future Impact on Global Capital Markets

Volatility in capital markets

Trade policy will drive financial market volatility and market instability

- Investors will continue to react to uncertainty in trade policy and slower growth expectations
- Capital will continue to move away from cyclical sectors toward defensive assets
- Rise in regional ETFs and country-specific funds directed toward Southeast Asia and Europe

Corporate earnings pressure

Tariffs will raise input costs, squeezing margins for globally integrated firms

- Despite efforts to pass on tariff costs to consumers, actual pass through will be lower leading to margin compression
- Firms have used inventory buffers to mitigate short-term impact, but this is not sustainable in the long-term

Shift in investment flows

Tariffs will lead to capital reallocation across geographies and sectors

- Emerging markets will suffer from reduced foreign investment due to perceived risk
- Tariffs will disrupt global innovation hubs, pushing venture capital and R&D investments toward less exposed regions
- MNCs will relocate investments to countries not subject to US tariff

Currency/interest rate fluctuation

Prolonged trade disputes and retaliatory tariffs will lead to currency and interest rate volatility

- The initial dollar gains will be tempered by concerns over economic slowdown and inflation, leading to unpredictable movements
- Tariffs will be inflationary, prompting central banks to adjust interest rates, which in turn will affect bond yields and equity pricing

Impact of Tariffs on Market Participants

Strategic actions that key financial market participants can take to navigate and capitalize on the opportunities created by tariffs

Market participant	Strategic Action
Asset managers and hedge funds	<ul style="list-style-type: none">• Diversify portfolios: Shift capital toward sectors less exposed to international trade, such as domestic tech, utilities, or consumer staples.• Hedge against risks: Use derivatives such as options, futures, and swaps to protect against volatility in tariff-affected sectors.• Active management: Continuously rebalance portfolios in response to tariff developments and geopolitical shifts.• Expand product offerings: Launch tariff-themed ETFs, structured products, or mutual funds to help clients hedge or speculate.
Brokers, dealers, and market makers	<ul style="list-style-type: none">• Enhance research: Provide timely insights and research on tariff implications for various sectors and asset classes.• Leverage technology: Use algorithmic trading and AI-driven analytics to respond swiftly to tariff news and market movements.• Enhance client advisory: Provide actionable insights on liquidity, spreads, and execution strategies during tariff-driven volatility.
Intermediaries (exchanges, depositories, clearing corporations, clearing houses, and custodians)	<ul style="list-style-type: none">• Improve liquidity management: Ensure robust liquidity in tariff-sensitive markets to support efficient trading.• Strengthen risk systems: Upgrade risk models to account for increased volatility and counterparty risks.• Facilitate information flow: Offer real-time data feeds and analytics on tariff developments and market reactions.
Banks and lenders	<ul style="list-style-type: none">• Adjust lending criteria: Reevaluate credit risk for tariff-exposed industries; tighten or relax terms accordingly.• Offer advisory services: Guide clients on restructuring supply chains, managing costs, and navigating trade finance.• Expand trade finance solutions: Provide tailored solutions such as export credit insurance or tariff-adjusted letters of credit.• Monitor credit exposure: Track and reassess exposure to vulnerable sectors to maintain healthy loan portfolios.
Investors (retail and institutional)	<ul style="list-style-type: none">• Diversify investments: Allocate across geographies and asset classes to reduce tariff-related concentration risk.• Focus on domestic markets: Favor companies with strong domestic supply chains and minimal foreign dependency.• Use thematic investing: Invest in funds or stocks aligned with reshoring, infrastructure, or domestic manufacturing

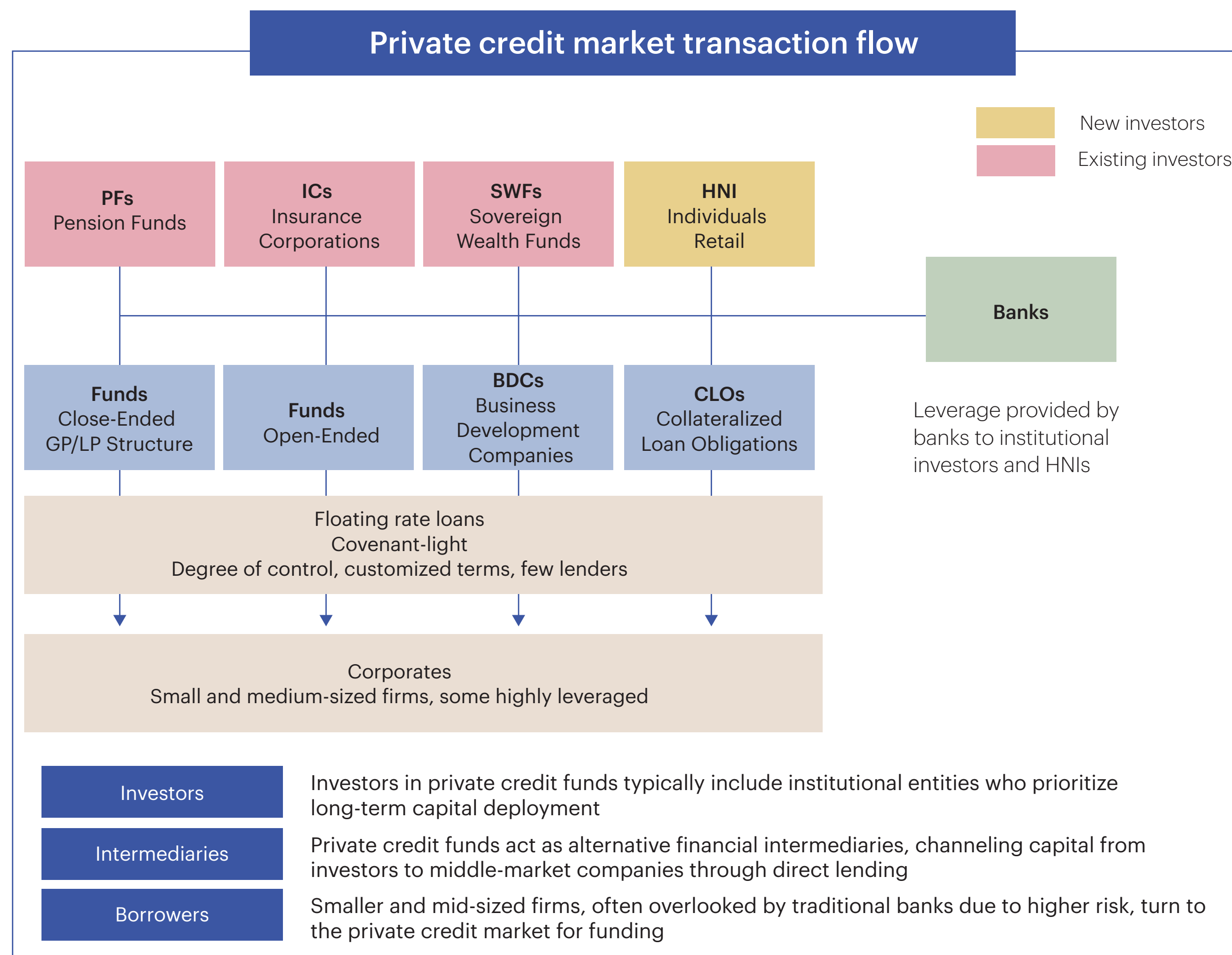
Rise of Private Credit

Emergence of alternative financing channels
facilitated by non-bank lenders



Emergence of New Investors in Private Credit Market

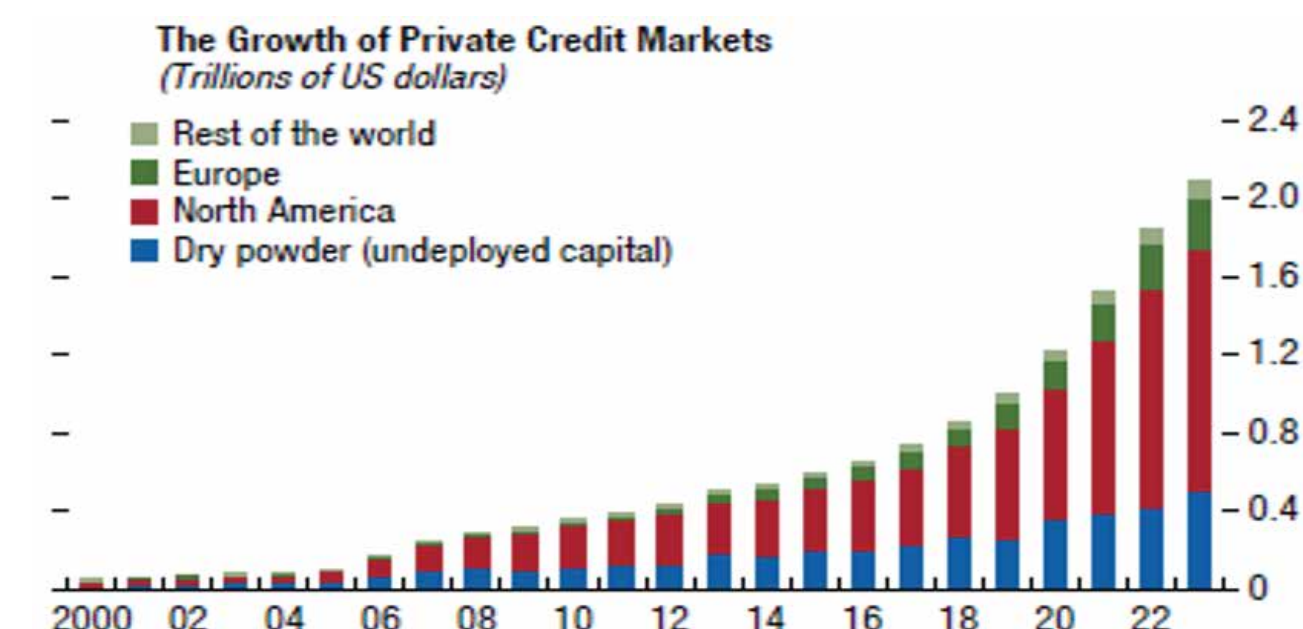
- Once dominated by only **institutional investors**, the private credit market is now attracting a broader range of investors
- **HNWIs and retail investors** are increasingly turning to private credit, drawn by the appeal of higher yields and portfolio diversification



Enablers for Broader Retail Investor Participation

- ▶ **Regulatory reforms** are enabling broader retail investor participation in private credit funds, which were previously restricted to accredited investors
- ▶ **New fintech platforms** are facilitating retail investors to explore direct lending opportunities through **fractional investment** in private credit funds
- ▶ **Private** credit exposure for retail investors is also being made possible through **real estate debt funds and REITS**.

Growing at ~12% annually, private credit is among the fastest-expanding asset classes, on track to **hit ~\$3 trillion by 2028**, driven by new-age real investors.



Private Credit – A New Lending Channel

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Due to economic uncertainty and tightened funding by traditional banking, private credit has emerged as an alternative channel for global lending

Threat to Traditional Banking

- ▶ Private credit funds offer greater flexibility and lend to **middle-market or higher-risk businesses** outside strict banking regulations.
- ▶ Private credit lenders can swiftly approve and fund **tailored loan structures, including higher leverage and covenant-light terms**, unlike traditional banks
- ▶ Companies that once depended on **bank-arranged syndicated loans now turn to private credit firms** for direct financing, often at higher interest rates and with more flexible terms

Key impacts reshaping the private credit industry

01. Expansion into wider lending avenues

Private Credit will expand into a broader range of funding structures and onboard new set of borrowers in addition to traditional ones – Top sectors will include below

- Asset-backed finance
- Large residential mortgages
- Infrastructure and project finance
- High-risk commercial real estate

02. Increasing scale of operations

Large lenders will venture into new sub-sectors and create moat in the industry

- Previously, private credit was restricted to PE backed mid-sized companies but now with expansion into large infrastructure projects, scale will be cost of entry for lenders
- Large financial institutions will have financial strength to finance multi-billion-dollar private credit deals and scale will help in fundraising as well.

03. Open architecture business models

Traditional participants will take up different roles in the private credit value chain either directly or through partnership for sustainability

- Banks are expected to adopt collaborative strategies, focusing on loan origination while cross-selling their fee-based services.
- Insurers with offshore balance sheets can move up in the value chain, i.e., origination.
- Asset managers can create new alternative asset class for new end investors.

04. Technology driven efficiency boost

Technology will play a crucial role in fundraising, underwriting and operations of private credit going ahead

- AI/ML can improve underwriting decisions, while alternative data can complement traditional data to develop robust risk algorithms.
- Digital platforms will enhance user experience, while simplifying the entire application to disbursement journey for borrowers.



Unrealistic Valuations because of AI

Cutting through the narrative hype to derive
true AI potential



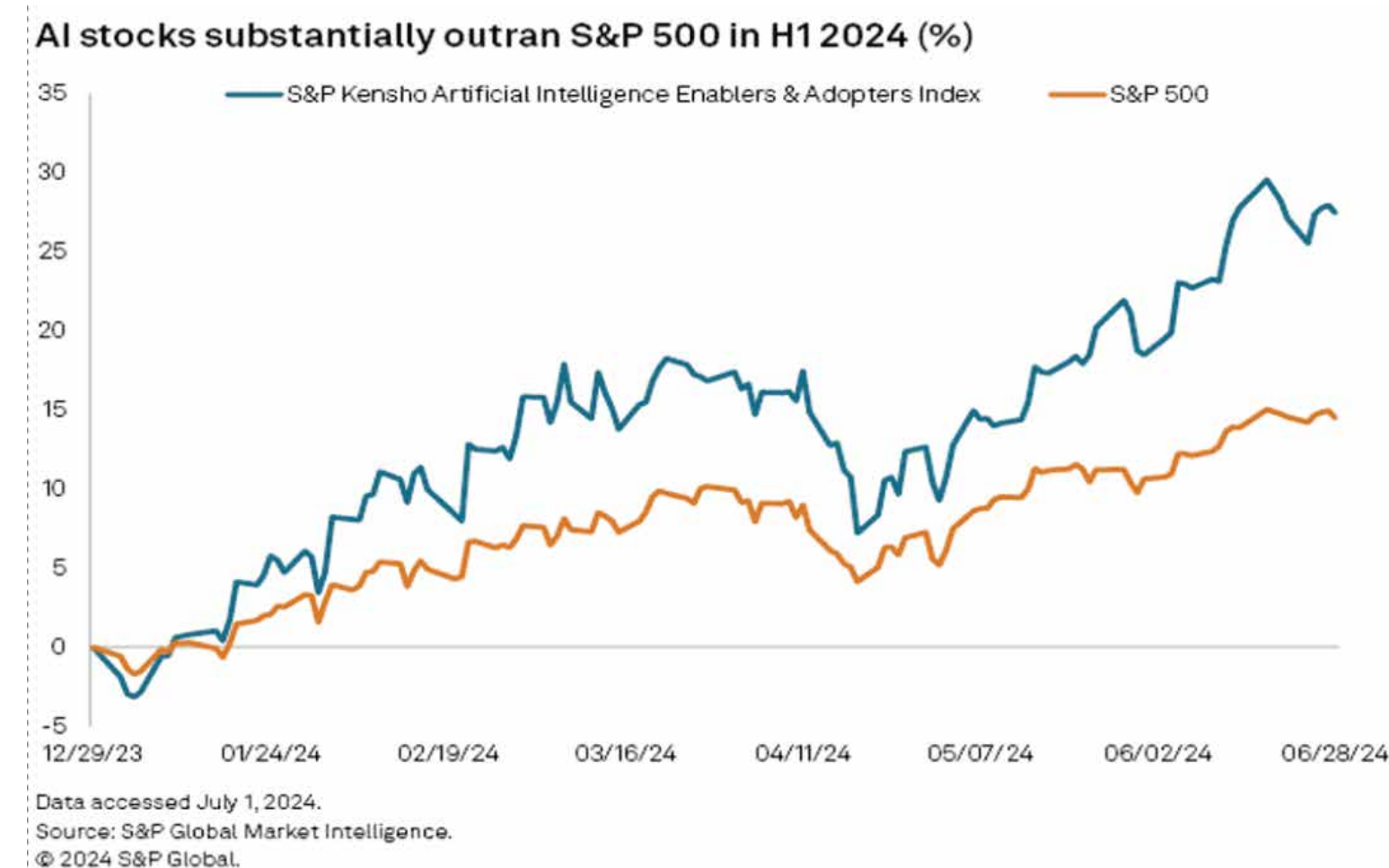
Valuations Driven By AI Narrative Than Business Fundamentals **Zensar**

The global AI revolution is reshaping market valuations, often prioritizing potential over proven performance. Research firm MarketsandMarkets states that the AI market surged to a staggering **\$214 billion in 2024** and is expected to touch **\$1.34 trillion by 2030**.

01. Public markets

Investor enthusiasm for AI played a pivotal role in driving broader equity markets during the first half of 2024.

AI equities significantly outperformed broader markets, with the S&P Kensho Artificial Intelligence Enablers & Adopters Index rising 27.5% in the first half of the year



02. Private markets

Databricks secured \$15.3 Bn in funding at a \$62 Bn valuation, fueled by anticipation surrounding its potential to become a cornerstone of AI infrastructure.

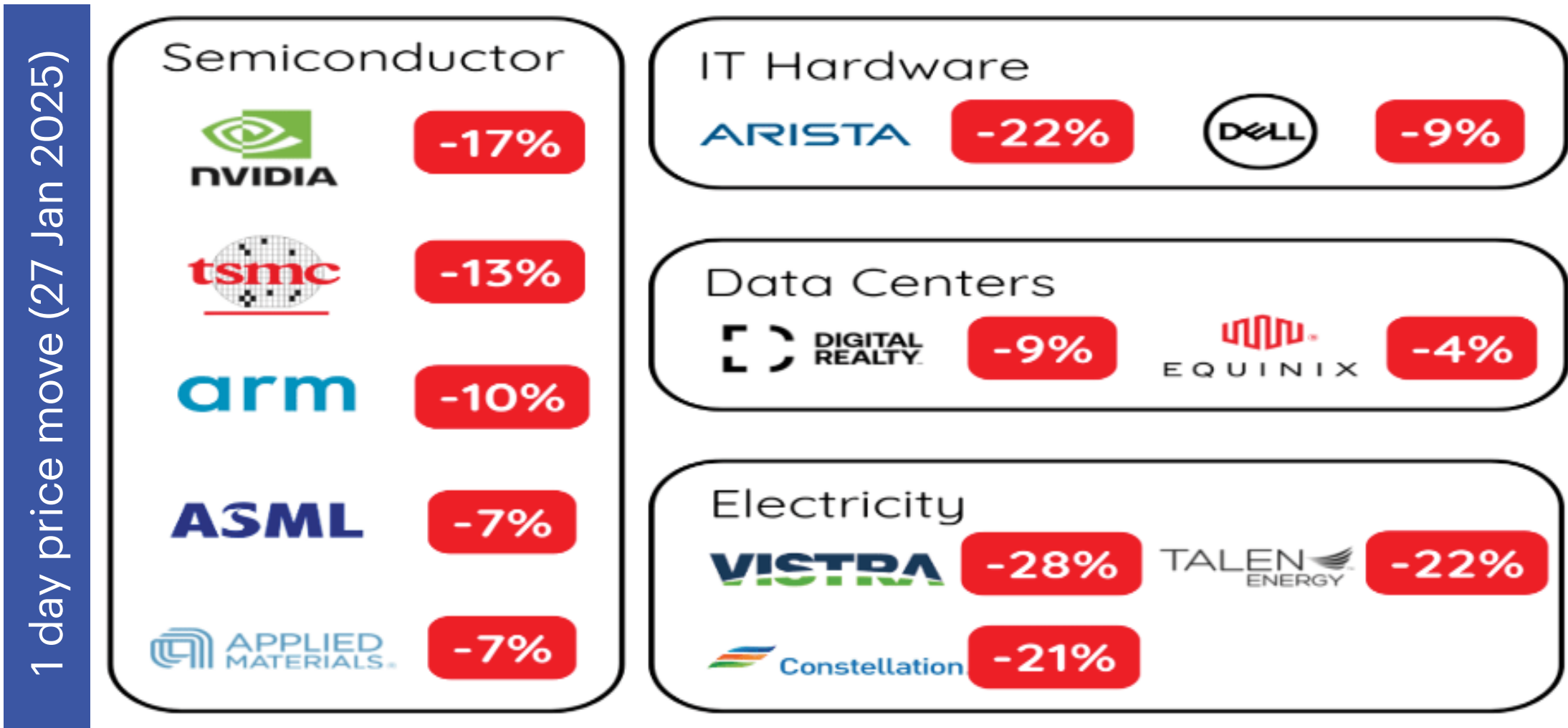
ElevenLabs raised **\$180 million** in series-C funding, tripling its valuation to **\$3.3 billion** in just a year, underscoring its rapid ascent as a leader in genAI audio.

"AI is the best story out there and an easy narrative to spin and sell."

- Paul Schatz, Heritage Capital

03. Valuation influence

- Current valuations seem to reflect market hype more than business fundamentals, raising concerns about the sustainability of such rapid growth.
- Nvidia shed a record **\$560 Bn** in market value after Chinese startup DeepSeek unveiled a powerful AI model, triggering a broader sell-off in U.S. tech stocks.

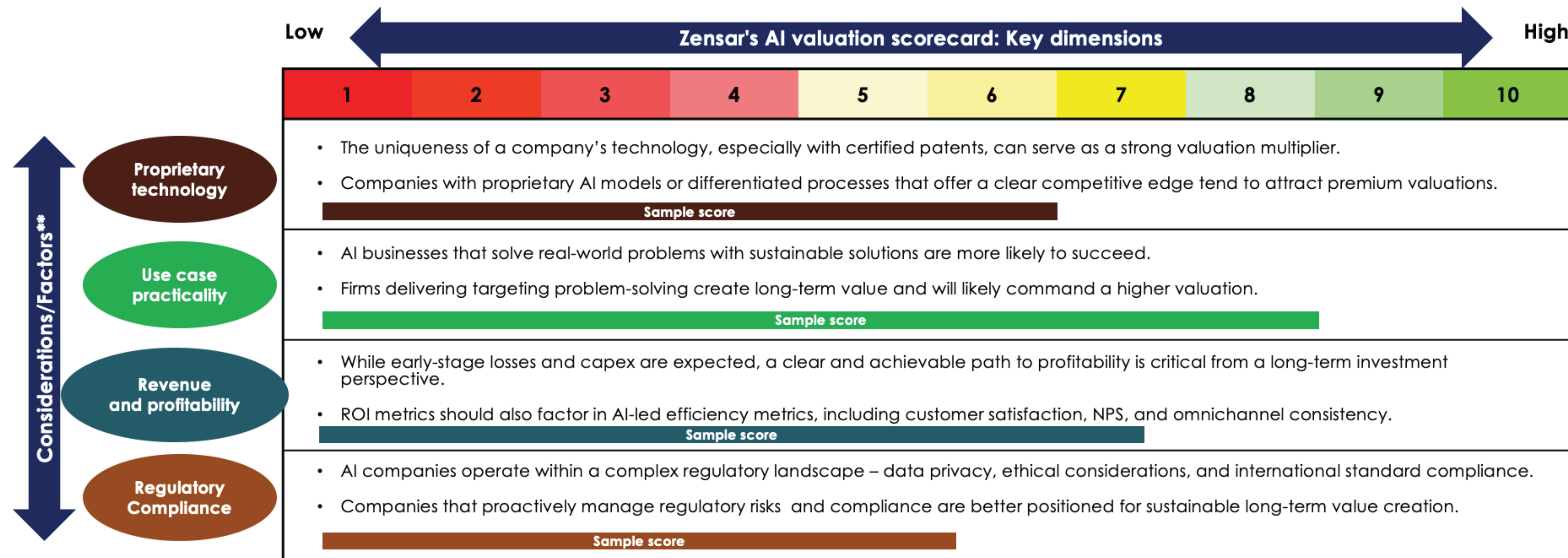


Valuing The True AI Potential

Valuation frameworks need to integrate AI-specific considerations into the core model to arrive at an “AI-Adjusted Valuation”

Beyond the standard DCF – Zensar's scorecard-based framework

A scorecard-based approach would help quantify key considerations while evaluating the soundness of a company’s AI strategy
The below is an indicative scorecard-based methodology developed by Zensar to quantify qualitative factors/considerations



The numeric output based on this scorecard approach can then be plugged into standard valuation models to arrive at the “AI-adjusted Valuation.”

****Industry-specific factors and weights can enhance the scorecard, yielding a single input score for the model.**

Policy Easing Spurs Risk Shift

Emerging investment themes amid global
interest rate cuts



Strategic Capital Reallocation Amid Rate Cuts

Across the globe, interest rates are predicted to decline, with major forecasters predicting interest rates going down to 3% in US by end of 2025

Emerging investment themes

01. Strategic shifts in asset allocation

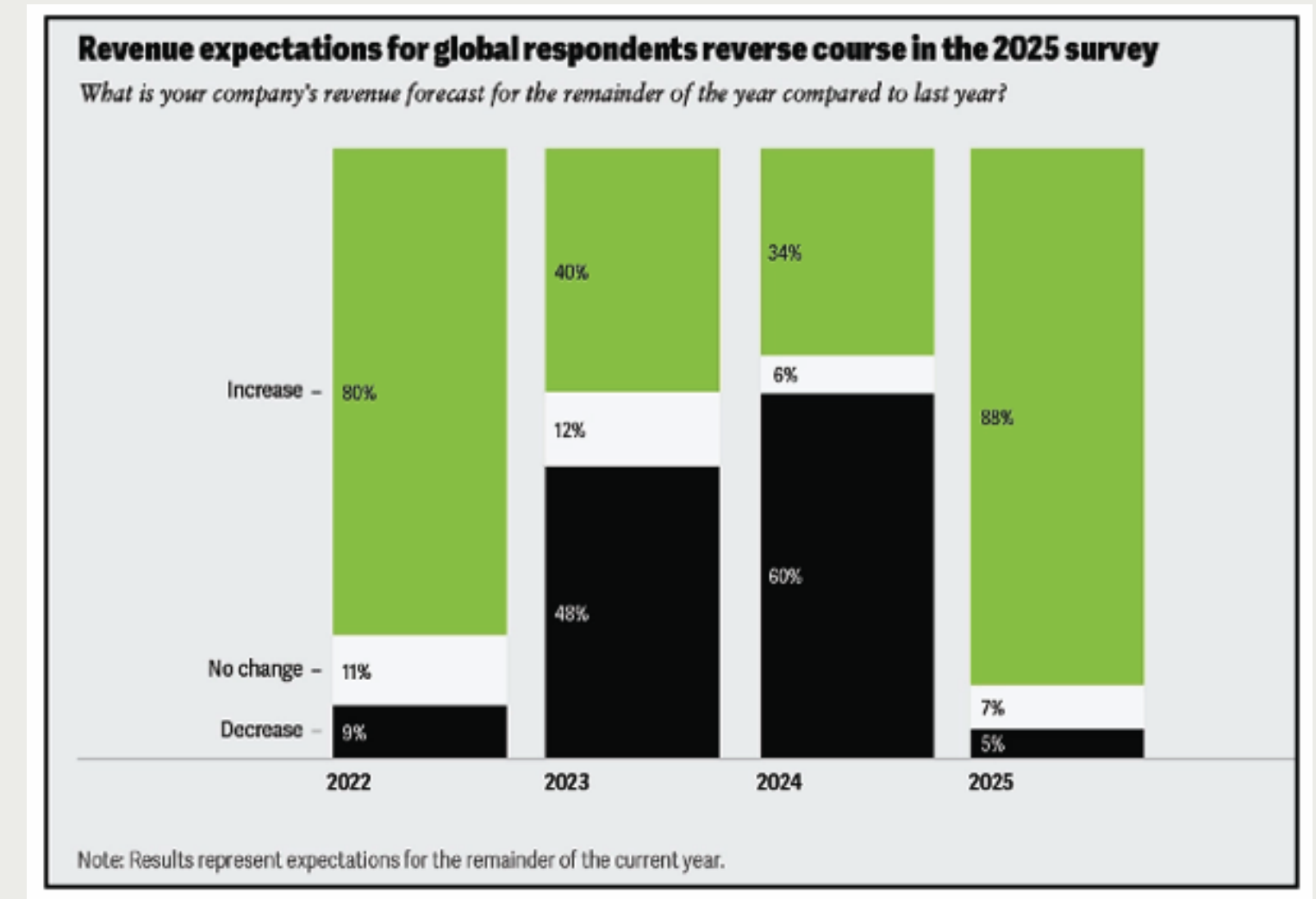
Conservative capital is gradually entering equity markets, with a likely tilt toward defensive growth stocks in the near term.

Value stocks, long overlooked, are poised for a potential rebound—particularly in sectors like IT Services and New Tech, which are gaining investor attention.

Meanwhile, T-Bills are offering attractive short-term yields (~5%). However, with anticipated rate cuts, investors may begin rotating into longer-duration assets to capture yield and duration gains.

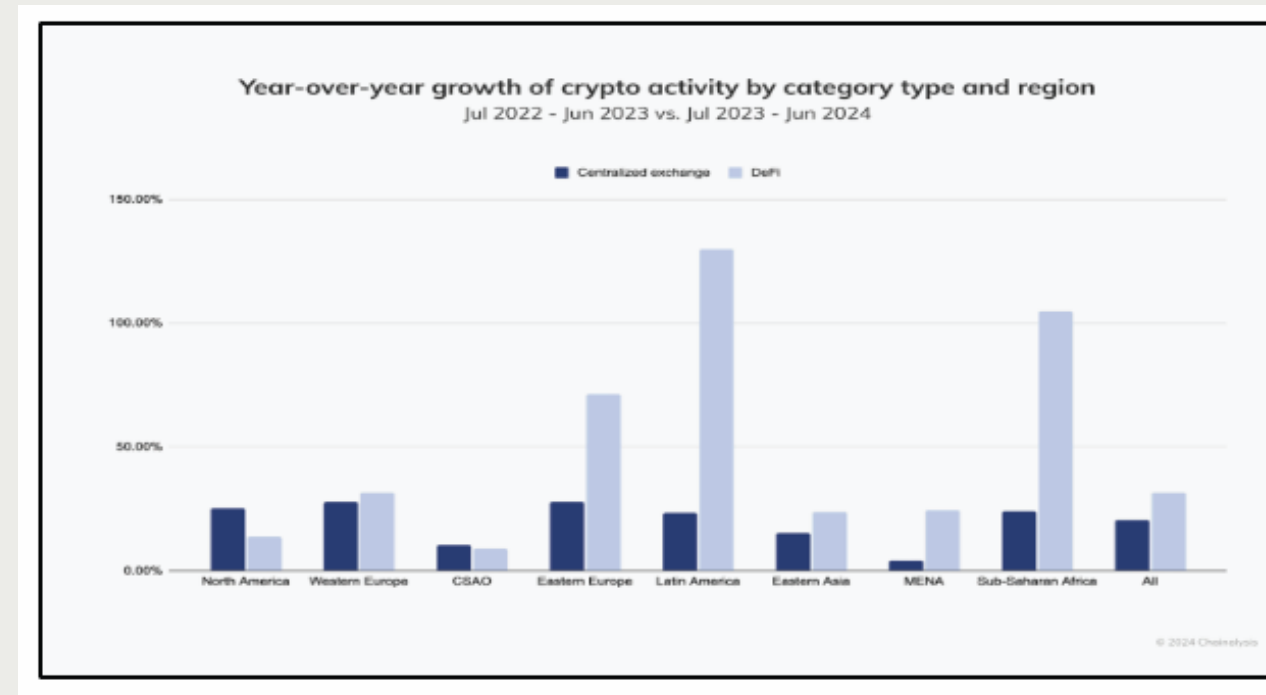
02. Increased Investments in

Commercial property: In the commercial real estate industry, the shift to prospective rate cuts has boosted sentiment for the remainder of 2024 and 2025. Major CRE Survey shows increased revenue forecast for year 2025.

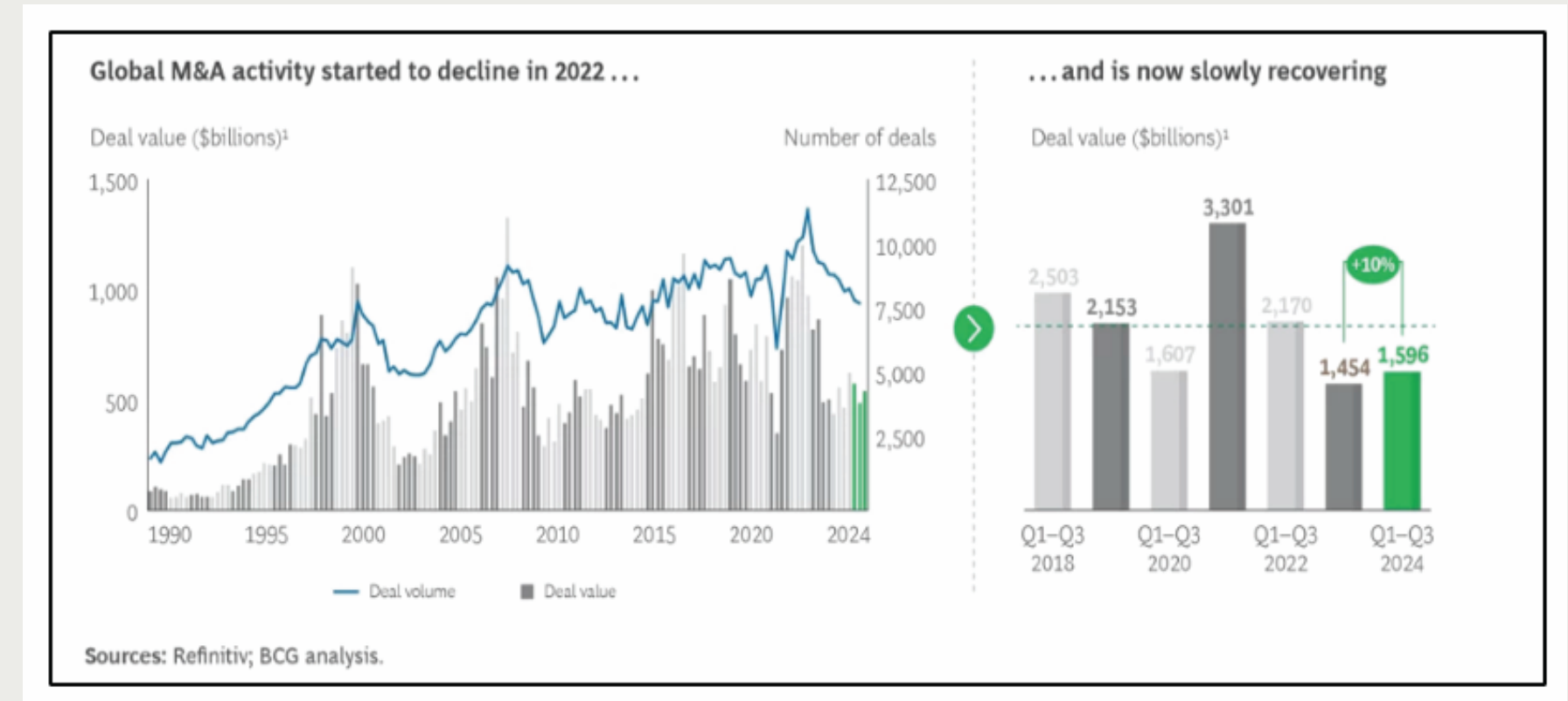


03. Alternate assets to be part of investment strategies - Commodities, arts and antiques, NFTs, Hybrid ETFs – seem to be favored by investors considering uncertainty in global economics and GDP growth

Increased investments in crypto -
Compared to 2023, Investments in Crypto-currencies has been on the rise in 2024, with the trend to continue in 2025



04. Increased M&A activity - Green shoots are visible in MnA activity in Investment Banking sector that had a muted 2023 and 2024



Regulatory Momentum Towards Accelerated Settlements

Adoption of shortened settlement cycles
to reduce market risks



Regulatory Push for Shorter Settlement Cycles

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Regulators across key markets are recognizing the benefits of faster trade finalization and pushing the markets to shorter settlement cycles. This move aims to improve the safety, efficiency, and competitiveness of financial markets to remain aligned with international best practices.

What makes this possible?

Technology is playing a critical enabling role in the adoption of shorter settlement cycles. Robust stock market infrastructure and efficient domestic and FX payments network are key building blocks

Key benefits

Reduced risks	Shortened window will result in reduction of systemic and operational risk specially during the periods of high market volatility.
Margin saving	Reduced counterparty risks will reduce the associated margin requirements.
Improved liquidity	Investors will have quicker access to sales proceeds, and it can be deployed more effectively
Better market efficiency	Better market efficiency will boost the investor confidence and attract more investors.

Evolution of Settlement Cycles for some key markets

Market	T+7 or more	T+5	T+3	T+2	T+1	T+0
India	Pre 1996	1996 onwards	Apr 2001	Apr 2003	Jan 2023	Available for 25 stocks since 2024
US	Pre 1975	Pre 1993	1995	Sept 2017	May 2024	
Canada	NA	Pre 1995	1995	2017	May 2024	
UK	Pre 1994	Jul 1994 onwards	Jul 2001	Oct 2014	Planned on Oct 2027	Not Migrated
Europe	Pre 1970s	1980s	1990s	Oct 2014		
Australia	Pre 1994	1994 onwards	1999	Mar 2016	Not Migrated	
Japan	Pre 1991	1991 onwards	May 2004	Jul 2019		
Hong Kong	NA	1989 onwards	1992	Jul 2011		

Transition to T+1 and Beyond: The Future of Settlement Cycles

Until 2022, all major economies were following T+2 settlement cycles. Recently, India, US, Canada shortened settlement cycles for trades on security exchanges (including stocks, ETFs, and bonds) to one day after the transaction date (T+1).

In order to maintain global competitiveness, more and more markets will move towards T+1 and same-day settlement. Shorter settlement cycles is going to be the standard in next few years.



Way forward to real time/ instant settlement

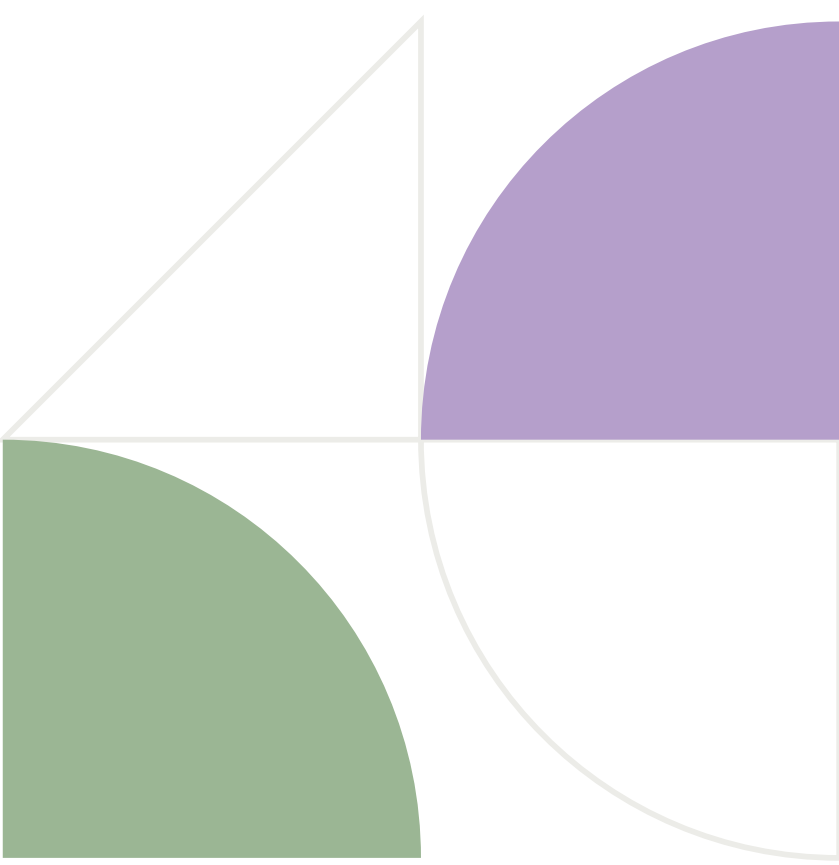
Current settlement process includes centralized multilateral netting and settlement. It increases the efficiency of markets by reducing the capital requirements and overall risk. Real time settlement eliminates this netting benefit. This shift can strain market participants by requiring immediate availability of funds and securities.

While technologically feasible, switch to instant settlement would require a complete rethink by market participants on their operating models.

Impact of Shorter Settlement Cycle on Market Participants

Market participant	Operational impact	Technology changes required	Business impact
Asset managers and hedge funds	<ul style="list-style-type: none">• Less time for trade allocation and settlement processing• Tighter deadlines for funding and collateral management• Increased complexity in managing cross-border settlements	<ul style="list-style-type: none">• Automation of trade allocation and confirmation• Need for real-time trade reconciliation systems• Advanced liquidity forecasting tools to avoid funding gaps	<ul style="list-style-type: none">• Lower margin needs, freeing up capital• Higher operational risk if the funding of trade allocation is delayed• Increased complexity in managing FX settlements, as many still follow T+2 cycles
Brokers and dealers	<ul style="list-style-type: none">• Faster trade matching and settlement processing• Real-time margin monitoring	<ul style="list-style-type: none">• Upgrades for real-time settlement systems• Automation of trade processing• Enhanced risk management tools	<ul style="list-style-type: none">• Lower capital needs due to reduced margin needs• Higher operational costs for technology upgrades and staffing
Intermediaries and Market Makers (Exchanges, depositories, clearing corporations, clearing houses, and custodians)	<ul style="list-style-type: none">• Faster reconciliation, trade validation and processing• Enhanced risk management framework needed for real-time monitoring• Increased coordination with global markets, as some still operate on T+2	<ul style="list-style-type: none">• Upgrades to clearing and settlement platforms to support T+1,• Implementation of real-time trade matching and risk monitoring• AI and automation to process high trade volumes quickly• AI risk detection to detect anomalies faster• Integration with global financial networks to handle different settlement cycles	<ul style="list-style-type: none">• Lower systemic risk• Higher compliance and technology costs for real time processing• Improved efficiency in capital usage, benefiting overall market liquidity• Better market efficiency, attracting more investors

Market participant	Operational impact	Technology changes required	Business impact
Banks and lenders	<ul style="list-style-type: none">• Shorter funding windows for trade settlements• Increased pressure on intraday liquidity management• Faster FX settlement required	<ul style="list-style-type: none">• Automated liquidity management systems• Integration with clearing houses for real-time transaction monitoring• AI based fraud detection to prevent settlement errors	<ul style="list-style-type: none">• Lower credit exposure• Higher operational costs for faster liquidity management• Potential liquidity risk due to a mismatch with FX settlement cycles
Investors (Retail and Institutional)	<ul style="list-style-type: none">• Shorter time to fund trades• Increased pressure on trade allocation and reconciliation timelines• Shorter settlement window for global investors due to time zone differences	<ul style="list-style-type: none">• Real time trade confirmation• Automation for trade reconciliation and error resolution• Advanced liquidity management tools to ensure timely funding	<ul style="list-style-type: none">• Faster access to funds and securities• Increased risk of settlement failures if funds are not available in time• Higher operational costs for institutional investors needing faster processing



Capital Markets 2.0: Blockchain- Powered Future of Trading and Settlement

Development of blockchain infrastructure
across exchanges



Capital Markets 2.0: Blockchain-Powered Future of Trading and Settlement

- Global exchanges are advancing toward full automation through blockchain-based tokenization, aiming to eliminate costly messaging and reconciliation processes.
- Examples –
 - NASDAQ has implemented NASDAQ Linq – a blockchain ledger technology that allows private securities transaction to be conducted
 - Hong Kong Stock Exchange (HKEx) recently launched “HKEx Synapse” (Synapse), a new blockchain-based settlement platform to complement the existing post-trade infrastructure
- Several other players have announced they are close to go-to-market with digital exchange offerings.
- Exchanges are expanding into data monetization, ESG-linked securities, and blockchain-based digital assets
- Like top market infrastructure players, exchanges are leveraging cloud, AI, and analytics to cut costs and unlock new revenue opportunities

Key Advantages of Using Blockchain

Self-enforced validation

A central mechanism of trade will carry out the matching of any purchase and sale order of transaction

Low transaction fees

Blockchain technology will require less maintenance while eventually reducing transaction costs in the long run

Real-time settlement

Blockchain can accelerate settlement cycles across all asset classes and support regulators in meeting shorter settlement cycle objectives



Legal Hurdles to Blockchain Adoption

- Acquisitions and transactions made on securities networks using blockchain technology are likely to be subjected to state laws
- Investment companies and regulated banks cannot afford to transfer large securities portfolios onto blockchain-empowered exchanges, even if they are technically advanced, because such platforms may not yet fully comply with regulatory and legal requirements
- Legal interference could make the whole platform less efficient and harder to use as settling disputes between users and/or platform's engineer might be reasonable using built-in rules and systems.

To truly modernize, the industry must gradually phase out legacy systems and intermediaries – carefully integrating fallback mechanisms and aligning with evolving legal and regulatory frameworks



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Part of the \$4.8 billion RPG Group, we are headquartered in Pune, India. Our 10,000+ employees work across 30+ locations worldwide, including Milpitas, Seattle, Princeton, Cape Town, London, Zurich, Singapore, and Mexico City.

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