Investment Strategy Insights

Monthly Views From Our Diverse Global Investment Teams

PineBridge® INVESTMENTS

A MetLife Investment Management Company

January
2026

Assessing Bull and Bear Scenarios for Our 2026 Outlook

Hani Redha, CAIA, Global Multi-Asset Portfolio Manager

Our base case outlook leans constructive for 2026, with a powerful "micro" force – AI – pulling the cycle forward even as the macro factors of funding, policy, and inflation constraints set the speed limit. US leadership remains supported by clearer AI-driven earnings, steady demand, and a market set up for "beats and raises." As we start the year, we extend our analysis beyond the base case to probe what could go wrong – or right – and the implications for various asset classes.

From the Multi-Asset team's view, 2025 was unusually macro-driven, with early trade reset fears sparking a rotation away from US assets before conditions settled into more of a standoff. Looking ahead, we expect leadership to shift back to the US, driven by AI, a once-in-a-generation force reshaping the market narrative. Macro still matters, but major tech waves often dominate markets, and the US captured an "AI dividend" this year. However, there's real controversy about whether the AI build-out can be financed at the scale being discussed, especially if so much of the ecosystem is perceived to hinge on a single player like OpenAI. In our view, the pace ultimately comes down to use cases: Where there are compelling use cases, there will be measurable return on investment, and financing will follow – yet with plenty of bumps along the way.

From the equity side, the base case is a market that can grind higher as uncertainty stays elevated and companies guide conservatively, setting up room for beats and raises through 2026, with upside driven by backlog conversion in industrials and broader cyclicals. In technology, a shift from indiscriminate punishment of industries perceived to potentially be negatively impacted overall by AI, such as software companies, to clearer winner/loser differentiation will unfold as questions about the viability of existing business models are resolved. The more optimistic skew assumes inflation stays tame enough that the Fed can continue to cut, AI demand holds up, and earnings breadth widens beyond the obvious leaders. The more cautionary risk is that inflation flares and forces a higher-rate backdrop that parts of the market will not take well, while any wobble in the AI story – even a slowdown, let alone a collapse – triggers profit-taking after big runups and tight positioning. A pickup in layoffs and margin management add another layer of fragility to sentiment if growth disappoints.

For emerging market (EM) equities, the anchor is earnings, with recent revisions improving but still uneven. We expect this trend to continue, led by a narrow mix of tech, the AI proxy, and steady financials, while much of the rest of the market stays flat to down. The upside risk is that AI demand holds up, more sectors start to bottom and add breadth, and a positive surprise on geopolitics or policy – like progress on Russia and Ukraine, a Venezuela shift, or a calmer tariff path – lifts risk appetite; and vice versa.

In fixed income, the central story is supply, with an AI and capex cycle that increasingly looks like it will be financed through heavy debt issuance, especially in US investment grade. That creates a practical message: Do not stand in the way of issuance. In a constructive setup, growth holds together, equities behave, and yield buyers keep showing up after the Treasury reset, allowing spreads to stay contained and potentially drift a touch tighter as new paper is absorbed. The risk is that investors push back, viewing deals as equity-like for fixed returns, forcing spreads to widen to clear supply. If that happens at the same time that equities wobble or the AI story loses momentum, it will force the financing burden to spill across investment grade, high yield, and private credit, with more volatility than the base case implies.

About This Report

PineBridge believes that not only do differences of opinion make markets, but they also foreshadow substantial moves ahead as these differences are resolved. Once a month, investment leaders from our global multi-asset, equities, and fixed income teams meet to share their diverse viewpoints. This report reflects those discussions and debates by providing insight on the topic of the month along with snapshots of our asset class views and convictions across the firm.

Overall, we see a net positive setup for 2026, with a slightly positive skew for risk assets. AI remains the dominant micro force, while funding, policy, and inflation set the pace of progress. These factors will create an environment ripe for both asset allocation and security selection alpha potential as the dust starts to settle and winners and losers become clear.

Conviction Score (CS) and Investment Views

The Conviction Scores shown below reflect the investment team's views on how portfolios should be positioned for the next six to nine months. 1=bullish, 5=bearish, and the change from the prior month is indicated in parentheses.

Global Macro

Sam McDonald
Sovereign Analyst, Emerging Markets Fixed Income

CS 3.25 (unchanged)

November jobs data were largely distortion-free and showed a modest reacceleration in private-sector jobs, with the three-month moving average job gain rising to 75,000. November's Consumer Price Index (CPI), however, was materially distorted by the shelter component, coming in at just 2.6%. Members of the Federal Open Market Committee (FOMC) reiterate that the Fed has shifted back to a data-dependent stance; the unemployment rate still may be rising, but hiring demand is stable and business surveys point to solid growth. With tailwinds from the year's first half coming into play and an expected bounce in inflation, a January cut appears unlikely unless data materially weakens from here.

In contrast to the material drag from deferred DOGE resignations that was evident in October's payroll numbers, which declined by 105,000, November payrolls were relatively distortion-free and saw gains of 64,000, marked by an acceleration in private payroll growth. The diffusion index also indicated more broad-based job gains, increasing to 56.8 from a low point of 46.2 in June. The unemployment rate increased to 4.6%, but that partly reflected an uptick in temporary layoffs. While the labor market has slowed since the summer, there are tentative signs that it is stabilizing rather than slowing further. Initial and continuing claims have normalized after Thanksgiving and continue to point to a low-hiring, low-firing economy.

The lower-than-expected CPI number was likely driven by imputations being carried forward from previous months, which added a downward bias to the inflation number. As a result, December data is likely to show a rebound in inflation, even though the underlying November numbers still read on the softer side overall.

Other business data continue to reveal relative resilience. Control group retail sales increased by 0.8% month over month in October and credit card spending data point to another robust print in November. The Dallas Fed Weekly Economic Index has also bottomed out from its low point in November.

There remains some room for the FOMC to cut rates in 2026 given that the fed funds rate is still above most FOMC participants' assessment of neutral. However, further cuts will likely be cautious unless growth in labor market slack accelerates.

With tariff increases largely behind us and the impact of immigration cuts already under way, growth looks to be marginally stronger in 2026, although not at the exceptional levels we have seen over recent years, as some supportive factors are being weakened.

Credit

Steven Oh, CFA
Co-Head of Leveraged Finance

CS 3.25 (unchanged)

While credit correlation with equities will continue, the growing dominance of tech and AI on equity markets should result in lower correlations overall relative to historical levels. However, particularly for the investment grade market, we anticipate that the increasing share of future issuance related to the tech sector could shift industry weightings.

The government shutdown had a limited effect on market sentiment despite reaching a record length; the ultimate resolution should contain any economic damage. Fed statements have become more divided on additional near-term rate cuts despite indications that employment trends could be deteriorating. A key factor determining the market direction over the next year will be the level of stimulus that is anticipated to emerge in 2026 from tax cuts, refunds, and other fiscal measures intended to reverse some of the declining trends.

Valuations remain tight but are not too far off the lower end of fair-value range within a low-but-positive economic growth scenario, which is typically supportive for credit. As we head into the final month of the year, spreads are generally near levels seen at the beginning of year, with returns driven by carry and the yield curve impact.

Currency (USD Perspective)

Anders Faegermann
Senior Sovereign Portfolio Manager, Emerging Markets Fixed Income

CS 2.75 (unchanged)

Rate convergence between the US and the rest of the G10 world in recent months suggests rate differentials are less supportive for the US dollar. However, we expect growth differentials will become the dominant driver of currencies in 2026. Our call for a stronger US dollar in the first half of 2026 rests primarily on the US economy reaccelerating from March onwards, helped by easy financial conditions and additional tailwinds from monetary and fiscal stimulus.

Divisions building within the FOMC, Bank of England, and Bank of Japan over the pace and direction of monetary policy have created increased market uncertainty. Ultimately, however, we believe the Fed will cut only one more time in the first quarter and pause in the second.

Foreign exchange (FX) drivers will increasingly depend on growth divergence, liquidity, and risk sentiment. We strongly believe that growth differentials will favor the US dollar once the US economy bottoms in coming months. In addition, we expect Germany's fiscal spending will fall short of expectations and that too much growth optimism is already priced into the euro.

While the US dollar's correlation with the US equity market has turned mildly positive in recent months, signaling limited diversification benefit from unhedged US dollar exposure, the US dollar has switched back to trading like a safe-haven currency.

Overall, we remain confident in our base case of "Stabilization" in growth, inflation, and monetary policy, allowing the US dollar to trade more in line with its cyclical fundamentals, which are improving. Technical factors would be supportive of a US dollar bounce, as the market is once again short the US dollar.

Emerging Markets Fixed Income

Joseph Cuthbertson
Sovereign Analyst, Global Emerging Markets Fixed Income

USD EM (Sovereign and Corp.)
CS 2.75 (unchanged)

Local Markets (Sovereign)
CS 3.00 (unchanged)

From return and fundamental perspectives, 2025 was a good year for emerging markets. After a volatile first quarter, EMBI spreads finished the year around 70 basis points (bps) tighter and the CEMBI about 21 bps tighter. Nominal growth levels continued to improve while EM current accounts remained in surplus; overall balances – still elevated owing to higher borrowing costs on higher debt levels post Covid and the Ukraine war – are trending in the right direction. Aggregate inflation declined in 2025. Despite high core rates, spread compression across most EM sovereigns has been sufficient to reopen market access down the rating spectrum.

In 2026 we expect growth to be broadly flat versus 2025. We also expect improvements in the external sector, with our commodity outlook remaining supportive. Inflation too should be flat versus 2025. However, there is still room for rate cuts, with EM high yielders taking the lead as many low yielders' cutting cycles have largely finished. These high yield issuers also tend to have better fiscal trajectories, which could support yield curve flattening. In 2026, we expect market access to extend to several issuers that defaulted in the previous cycle, which we view as supportive of sentiment.

We expect improved sovereign credit metrics in 2026 and anticipate that rating agencies will upgrade several rising stars, notably Serbia and Morocco, to investment grade and lift ratings out of the CCC category for Pakistan, Ghana, and Argentina. Given the many net upgrades in 2025, fewer are likely in 2026, even as fundamentals remain positive. Rating outlooks have shifted toward neutral. Nonetheless, longer term reform stories remain in play, with scope for idiosyncratic spread compression across select sovereigns. Many of these names (e.g., Argentina) look to capitalize on bilateral/multilateral anchors.

As the last third-quarter earnings reports come in, results have been broadly neutral with a skew to positives, especially in CEEMEA. Given the current skew of our Credit Trend, with 15% positives versus 12% negatives, we anticipate EM corporate credit fundamentals to be resilient in 2026.

In 2025, EM sovereigns saw a gross supply of US$251 billion and net supply of US$92 billion. For 2026, we expect this to fall to US$27 billion net. On the flow side, bond funds saw inflows of US$24 billion year-to-date through November. This number does not include flows from cross-over funds. For 2026, expectations are for around US$40 billion-US$50 billion to enter the market via dedicated EM bonds. For corporates, we expect a modest uptick in 2026, with net financing projected at -$20 billion. EM assets remain structurally under-owned, and we expect a positive technical throughout 2026.

Multi-Asset

Sunny Ng, CFA
Portfolio Manager,
Global Multi-Asset

CS 2.50 (unchanged)

We revised our Risk Dial Score to 2.5 from 2.75 in mid November as monetary and fiscal conditions turned more supportive. The end of quantitative tightening (QT) on 1 December, another expected rate cut, the reopening of the US government, and renewed OBBBA stimulus all improved liquidity heading into 2026. We expect these cyclical boosts to evolve into a secular AI driven productivity upswing, especially in the US. Rate cuts should also support small businesses and lower income consumers, helping offset labor pressures from AI.

Despite skepticism around an AI bubble, recent developments – Nvidia's strong results, Google's Gemini 3 launch, and longer useful life for AI chips – signal continued momentum. Healthy skepticism should temper excesses while we look for early signs of AI monetization in 2026. We view the current correction as constructive; it encourages hyperscalers to align capex with realistic revenue expectations amid physical constraints like power and datacenter capacity. This discipline should extend the AI cycle.

Fed staff now project stronger growth and lower unemployment through 2028, partly due to AI, although they no longer expect inflation to return to target. Recent market volatility reflects tightening liquidity from the Treasury General Account spike and QT, both of which should ease soon. We expect the Fed to begin growing its balance sheet again in 2026, improving the backdrop for risk assets.

In December, markets were choppy in thin holiday trading as delayed US data created distortions, with government job cuts finally appearing and private sector gains looking overstated. This echoed Fed Chair Powell's warning that payrolls may be inflated by about 60,000 per month. CPI surprised lower, though goods and services data were skewed by shutdown related gaps and holiday discounting, leaving both markets and the Fed waiting for cleaner readings. Despite the noise, private sector and consumer trends are firming, fiscal support is building, and Fed reserve additions continue, so we maintain a constructive Risk Dial Score of 2.5.

Global Equity

Chris Pettine
Healthcare Analyst,
Global Equities

CS 3.00 (unchanged)

Developed economy equity markets held on to strong gains into year-end, with the MSCI World Index +18% at mid-month, with Japan outperforming Europe and the latter outperforming the US. The favorable backdrop of lower interest rates as well as economic and business incentives from the Trump administration's OBBBA should aid the broadening out of the economy in 2026. In terms of risks, lower-income consumers continue to struggle with higher prices, while higher costs continue to challenge small businesses. In its policy moves, the Fed remains divided over prioritizing higher prices or a weaker labor market. Earnings growth has been supportive. For the third quarter, S&P 500 earnings per share were up 12% versus a consensus expectation of 6%, while company managements are sounding confident on fourth quarter progress.

As to sector trends, hyperscaler capex and AI infrastructure buildouts remain strong, with demand greater than supply. Consumer spending has held up well despite some low-end weakness. Banks are healthy, with business activity picking up, while private credit concerns appear contained. Healthcare industry sentiment has improved from low levels on policy clarity and higher utilization of healthcare services.

Global Emerging Markets Equity

Taras Shumelda
Portfolio Manager,
Global Equities

CS 3.25 (unchanged)

We are leaving our RDS unchanged at 3.25, but global EM equity earnings upgrades continue. With the recent minor decline in the benchmark, our confidence in future upside is improving, but not yet enough to change our score.

In India, banks have reported sequential improvement in loan/deposit growth and are seeing some earnings upgrades. In China, the government is trying to lift consumer spending, but so far with limited success. Auto and electronics products saw a sales slowdown in the fourth quarter, which is likely to extend into this year's first quarter due to the front-loading of demand from government subsidies over the last 12 months. High-end consumer goods, however, are seeing improving sales. China's sufficiency in power generation and fuel supply will be supportive of more development of grid infrastructure and renewables. Energy storage is also an integrating factor, and electrification may find further policy support. TSMC reported November sales at the high end of the already-increased revenue guidance and indicated there may also be an upside surprise to gross margins. For now, AI-driven demand is unabated, although investors are showing doubts. We pulled back on some AI-related names and reduced our overweight in IT.

In Latin America, the Brazilian presidential election campaign began with a third candidate entering the race. In Chile, a far-right candidate won the presidential elections, continuing the continent's shift rightward. Materials stocks continue their outperformance, helped by large positive financial reports.

In EMEA, all eyes are on the peace process again. The US seems prepared to abandon its defense of Ukraine and Europe against Russian aggression unless Kyiv agrees to onerous peace terms, while at the same time floating security guarantees if Ukraine agrees to a deal. Given several false starts to such efforts, the market is adopting a wait-and-see mode. It's not clear how much falling oil prices will factor into Moscow's calculus.

Quantitative Research

Yang Qian
Fixed Income
Quantitative Strategist

Our conviction was relatively unchanged, as the yield curve steepened while credit spreads widened. Our yield curve model forecasts higher yields for Switzerland, Japan, Denmark, and Norway and lower yields for Oceania, North America, and most European countries. Our model forecasts steeper curves in the US, Norway, Switzerland, and the UK and flatter curves for the rest of the world. Our model portfolio is overweight global duration by +0.70 years: it is overweight France, Spain, New Zealand, and Canada and underweight the US, Germany, and Japan. Along the curve, it is overweight the six-month, 10-year, and 20-year and underweight the two-year, five-year, seven-year JGB, and the 30-year. Global credit forecasts remain negative, with slight improvements. In developed market industries, our model favors industrials, banking, and natural gas and dislikes finance companies, other utilities, and basic industries. Among EM industries, the model likes financials, metals & mining, and TMT and dislikes industrials, real estate, and consumer.

All market data, spreads, and index returns are sourced from Bloomberg as of 29 December 2025.