2026 Multi-Asset Outlook:
Back to Micro

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- Market leadership may well return to the US in 2026, and if so, many investors could find themselves offsides. While post-Covid US-centricity was driven by US fiscal stimulus at a time when other governments were sitting still, the market pivot that lies ahead will be driven by the private sector. Think micro, not macro.

- While it makes sense to look for parallels to the late-1990s internet bubble amid today's AI exuberance, we see more differences than similarities. That investment wave was narrow and rested on unprofitable cash-burning business models; the AI buildout is seen to be driven by highly profitable companies.

- Watch for big growth in blockchain infrastructure, electricity, and continued reshoring as well. The introduction and adoption of game-changing technologies takes time, leading to long periods of stepped-up productivity, disrupted labor forces, and profitability for the few – which, in our view, leads both to narrow economics and markets, as well as extended periods in which stock indices perform well above average. They are not always as favorable for the bonds that finance them. As such, investors should consider diversifying their diversifiers.

Many believe the economy will slow throughout 2026, with inflation remaining stuck near 3% and a deflating AI bubble keeping US markets lagging others throughout 2026. A bit too much extrapolation, perhaps? We are optimistic that US markets will likely resume their leadership positions in 2026, particularly as AI investment continues.

We're exiting a year that was marked by unusual catalysts outside the US: The grand entrance of DeepSeek, Germany's removal of its debt brake, and Taiwan life insurers getting caught offsides by US dollar strength with inadequate foreign exchange (FX) hedges – a meaningful driver of the US Dollar Index's 10% decline by midyear and providing an extra bounce in non-US market returns.

Unexpected US fiscal contraction showed up in the second half given timing issues within the One Big Beautiful Bill Act (OBBBA) paired with revenue-raising tariffs. The year ended with a US government shutdown which created an inability to spend that collided with the quarterly Treasury issuance calendar. Quantitative tightening also progressed to the point that it breached "ample liquidity" for several months before the

program was shut down. Taken together, these events drained liquidity. While US markets lagged somewhat in 2025, US earnings outperformed; we head into 2026 expecting most US markets to resume their leadership positions, including stocks and the dollar, though not the longer end of the bond market.

AI to spur a new era of growth

We believe that in certain historical periods, a new technology drives a long stretch of above-average, productivity-driven, non-inflationary growth. Job markets are often dislocated as the emergence of new professions lags the interim rise in earnings and stocks with extended above-average returns. Term premiums also rise (a bad thing for long bonds) given heavy investment demands. Despite bubble fears, our work suggests that we are still relatively early into such a period.

Instead of slowing, we see growth reaccelerating – particularly in the US, as the AI-driven investment cycle extends through 2026 and beyond, with today's liquidity disruptions normalizing early in the new year to the benefit of markets. US fiscal policy should flip early on from contractionary to stimulative (given the timing of policies within the OBBBA). It's also a midterm election year, which has taught markets to expect more stimulus. We wouldn't be surprised to see a compromise on the Affordable Care Act (ACA) subsidies (e.g., a one-year extension for reform measures), as well as a summertime bill passed through reconciliation, with affordability legislation, like tariff rebate checks, seriously considered.

China also is attempting to reboot, with more government infrastructure spending teamed with more "anti-involution" reforms (aimed primarily at stopping local governments from overinvesting, yet targeting corporate overinvestment as well). Such reform periods, which tend to last about two years, are often teamed with offsetting liquidity injections. In 2015-2016, to offset supply-side reductions in "old industry," policy banks infused liquidity into real estate. This time acceleration of the PBOC's balance sheet is being channeled into the stock market.

From the US stock market perspective, this setup looks more like the mid-1990s than 2000. The internet bubble burst in early 2000 from impatience: they "built it," but the payoffs "did not come" – at least not soon enough. The true killer apps of social media arrived much later, with Facebook in 2004 and the iPhone in 2007.

If AI does turn out to be a bubble (not our view), the cause will likely also be ineffective or delayed applications, rather than today's concerns over valuations versus current metrics or over-investment by the hyperscalers. While hyperscalers do view AI dominance as existential, we are witnessing market angst over their ever-accelerating capex as a welcome form of market discipline, capable of pushing companies to better align their plans with revenue take-up. Meanwhile, after their ratcheting of capex, the hyperscalers are still expected to deliver free cash flow exceeding their announced capital spending or debt issuance for the 2026-2028 period.

A 'micro'-driven pivot back to the US

One commonality between the mid- to late-1990s and today is global investors' desire to access the world's major growth driver. Back then it was the internet, which was US-centric. Now it's AI, and soon blockchain as well. While China is expected to dominate AI once we reach the humanoid robot stage, that is still years away; today, it's AI training, inference, and agentics waves, where in our view the US looks poised to lead.

During the internet buildout, investments had to flow to the US to access the early internet beneficiaries, and we suspect this will be true with AI as well, with flows leading to a strong NASDAQ and US dollar in 2026. In the 90s, these flows occurred despite falling rates as stepped-up productivity-driven growth cohabitated with disinflation.

Essentially, what we expect to see next year is a new version of what many had called US exceptionalism before 2025 – this time driven by micro effects, not macro policy. Post-Covid, that spell of US exceptionalism was driven predominantly by a macro dose of US fiscal activism, which spurred consumption and investment at a time when other countries were sitting still, fiscally speaking. This micro version implies that green shoots in 2026 will emerge predominantly in the US, pulling investors around

the world into investment opportunities for which they will first need to purchase US dollars. Given a growing inclination to penalize over-investors in the infrastructure buildout, these opportunities will most likely be found among users of AI or within the installed software bases that enable breakthroughs.

While markets easily accommodated post-Covid US fiscal activism due to a lack of private sector investment, the global setup today is dramatically different. Private sector investment in the US is becoming quite vibrant, driven by AI and all the electricity it will require. Japan's and Europe's governments are much more interested in investment, yet their private sectors – facing trade issues both from US tariffs and China's competitive threat – are not overly strong. In bond markets, we expect the degree of steepening in term premia to begin reflecting these country-specific borrowing appetites, despite the US Treasury's intent to shift issuance to the short end to accommodate the uptake of US-dollar-based stablecoin.

China stands out, with private sector investment coming down sharply, along with consumption, except at the very upper end (with a K-shaped pattern appearing there as in the US). The declines in China's private sector investment appear to be due, at least in part, to the government's new anti-involution policies, which aim to curb over-investment (in sync with the local governments, where such policies are primarily aimed). The only investment appetite in town is seemingly for more central-government-driven infrastructure.

2026 Asset Allocation Views

Equities: Broadening?

We foresee a continuation of US equity market leadership, especially in AI-related sectors, as well as their users. We're less convinced of the consensus call that looks for a broadening. Likely beneficiaries are data-rich industries and companies aggressively pursuing AI. At present, larger firms are pursuing AI more vigorously. Broadening-out rallies are also typically an early-cycle phenomenon. Periods of great change and innovation create meaningful winners and losers, which is not the proverbial tide that lifts all boats, and not an environment where broadening of leadership takes place.

While we're conscious of the risks of superscalers and others overinvesting in AI infrastructure, we don't think these risks will manifest in 2026 given the market discipline now setting in. We nonetheless have begun to focus more on applications that we expect to be the first beneficiaries of AI datacenter and model buildouts (and even more so if overbuilding ensues). Those will be fleet-footed opportunistic adapters – not necessarily big or small, or from any particular geography.

Fixed income: going global

While global developed market (DM) sovereigns have become more fiscally active, a positive differentiator is those whose private sectors are less vibrant with respect to issuing debt. We continue to find DM sovereign maturities of over 10 years less attractive, as well as corporate debt for which the years ahead appear heavy on long-term debt issuance, not only for AI, but also for the stepped-up electricity demands.

Given stable fundamentals, credit thrives when (and where) business is stable and the appetite to make capital investments is tepid. We see funding pressures emerging at the very long end, particularly in the US, which haven't been witnessed for decades. Within credit, we continue to favor the belly of the curve and Asian high yield (ex China property), yet we are now also interested in a handful of local currency carry bonds in LatAm, where inflation has dipped below US inflation. We also see patches of relative value in select private versus public markets amid rising rates, with a focus on high-quality tranches within private credit, including infrastructure and asset-backed finance (ABF) markets.

Alternatives: notable diversifiers

Alternatives, especially gold, are important diversifiers amid the erosion of the negative correlation between risk-free bonds and equities, which has diminished the diversification benefits of sovereign bonds. Gold remains one of the few safety assets whose diversification benefits to equity risk has not declined, rendering its value in a portfolio context more valuable. To some, as DM sovereigns' fiscal deficits to GDP continue to rise and are flirting with unsustainable levels, gold also takes on a protective element against debasement.

We have long been skeptical of crypto's allure as an alternative, as its use cases disappointed in broadening beyond speculation, with no real utility other than in remaining anonymous. In the year ahead, we expect to see the beginning of a migration by leading financial firms away from legacy-based systems toward blockchain to enable more efficient transactions. For the first time, one will be able to invest in (as opposed to speculate on) the growth of transactions occurring on the blockchain infrastructure.

For more insights into the trends moving markets in the coming year, see our 2026 Investment Outlook.