



Q1 2026 investment outlook

Markets seek to continue the winning streak in 2026



Contributors from U.S. Bank Asset Management Group:

Kaush Amin, CFA
Head of Private Market
Investing

Chad Burlingame, CFA, CAIA
Head of Impact Investments

Thomas M. Hainlin, CFA
National Investment Strategist

Robert L. Haworth, CFA
Senior Investment Strategy
Director

William J. Merz, CFA
Head of Capital Markets
Research

Terry D. Sandven
Chief Equity Strategist

Executive summary

As we enter 2026, investors find themselves at a pivotal moment — much like a championship team eyeing a fourth consecutive title after a historic “three-peat.” Just as the Chicago Bulls (1991-93, 1996-98) and the New York Yankees (1998-2000) defied the odds to extend their dynasties, markets have delivered three years of robust gains from 2023 to 2025, overcoming presidential administration changes, monetary and fiscal policy shifts, and tariff-related impacts. The question now: Can the streak continue? Our analysis shows that resilient consumer spending, accelerating technology investments and supportive fiscal and monetary policies are creating favorable conditions for another year of growth. A Bloomberg survey of analysts forecast U.S. real gross domestic product (GDP) will rise by 2.0%. We anticipate global equities will advance on the back of artificial intelligence (AI)-driven productivity, strong earnings and attractive opportunities in both domestic and foreign markets. Bond markets continue to offer meaningful income as rate cuts and solid fundamentals persist, while real assets and private markets benefit from easing debt costs and sector-specific tailwinds.

Yet, as the “Market Weighing Machine” reminds us, risk counterbalances every opportunity. On one side of the scale, fiscal and monetary stimulus, robust earnings growth and positive investor sentiment create momentum. On the other, risks loom: A slowing labor market, high U.S. stock valuations, tariffs and inflation, geopolitical tensions and consumer loan delinquencies. The possibility of a government shutdown, anticipated changes in Federal Reserve (Fed) leadership, the ongoing Russia-Ukraine conflict and the November mid-term Congressional elections add further uncertainty. Navigating these crosscurrents demands discipline and a focus on long-term fundamentals, much like a championship team that adapts its strategy to changing conditions.

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Within the U.S. Bank Asset Management Group, our strength lies in our collaborative, data-driven and apolitical approach. Our team continually refines our framework, considers multiple risk scenarios and puts clients' interests first. The following outlook reflects our current thinking across asset classes and geographies, shaped by rigorous research and a commitment to transparency. We invite you to engage with us on any topic in greater depth. Our best to you and yours as we embark on 2026 together, confident that our partnership and shared insights will help you navigate whatever the market brings.

Opportunities	Risks
Fiscal & monetary stimulus	Slowing labor market
Resilient consumer spending	High U.S. stock valuations
Business capex & AI investment	Tariffs & inflation
Robust earnings growth	Geopolitical tension
Positive investor sentiment	Consumer loan delinquencies

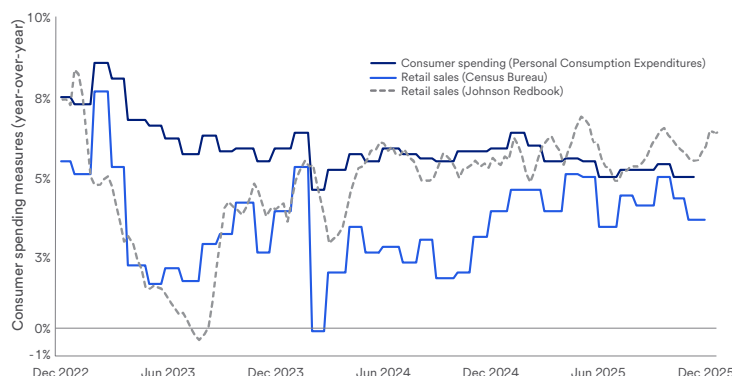
Global economic views

Quick take: Resilient consumer spending and technology investments drive global growth in 2026. Supportive fiscal and monetary policies, stable inflation and expanding activity offset labor market vulnerabilities and policy uncertainties.

- **Consumer spending continues to anchor U.S. economic growth**, with higher-income households maintaining robust expenditures even as borrowing costs rise and hiring slows for lower-income groups. This steady demand supports the gross domestic product (GDP) and helps offset softer sentiment and rising loan delinquencies. The labor market remains vulnerable, with businesses slowing hiring in 2025, yet layoffs are modest and unemployment rates remain low. Reduced immigration and aging demographics constrain labor supply, making the job market less able to absorb shocks and increasing the importance of avoiding government disruptions.
- **U.S. fiscal and monetary policies actively support growth.** The One Big Beautiful Bill Act delivers tax benefits for corporations and consumers, with the Congressional Budget Office estimating \$100 billion in corporate tax relief in 2025 and \$127 billion in consumer tax credits for 2026. The Fed's 2025 rate cuts of 0.75% along with investor expectations for two more quarter-point cuts in 2026 should further stimulate economic activity. Increased tariff revenues help offset some costs of tax reform, reinforcing the positive impact of policy decisions.

- **Global economic activity expands, as recent purchasing manager surveys and consensus forecasts indicate.** A consensus of analysts Bloomberg surveyed project U.S. real GDP (GDP adjusted for inflation) to grow by 2.0% in 2026, with developed economies advancing 1.7% and emerging markets growing 4.2%. Stable inflation enables central banks to maintain accommodative stances, though trade negotiations and elections introduce uncertainty. Expanding fiscal policy via increased defense spending in Europe supports developed market growth, while higher long-term interest rates challenge the United Kingdom and Japan. Emerging markets in Asia continue to benefit from AI-related growth, and China's neutral outlook reflects housing market over-supply offsetting increased investment spending. U.S. tariffs and global trade remain key factors for the outlook.

Consumer spending



Sources: U.S. Bank Asset Management Group Research, Bureau of Economic Analysis, Census Bureau and Redbook Research Inc., 12/31/2022-12/13/2025.

Global equity markets

Quick take: AI-driven growth, strong earnings and supportive policy are set to propel a global equity advance in 2026. Foreign equities offer attractive valuations and income. Fundamentals are likely a primary driver of equities with elevated valuations a risk, especially if inflation re-accelerates or interest rates rise.

- **The S&P 500 stands poised for above-trend earnings growth, with a year-end target of 7,625.** Current valuations reflect robust earnings, ongoing AI investment, rising shareholder payouts and fiscal support, rather than speculative excess. Investors express concern about an AI bubble, but fundamentals suggest that multiples realistically mirror strong growth and productivity gains.

- **Foreign equity fundamentals are compelling.** A Bloomberg survey of analysts forecasts 9% earnings growth for developed markets and 17% for emerging markets. These stocks offer higher dividend yields and trade at more attractive valuations compared to U.S. counterparts, despite regulatory and geopolitical risks. European fiscal expansion and growing AI spending across Asia are supporting fundamental growth, and both developed and emerging market foreign equities provide U.S. investors with diversification benefits with strong income.
- **AI continues to expand technology investments across sectors and geographies.** Companies specializing in data capture, storage, processing, software and security stand to benefit, and the impact extends to communication services, utilities, banks and healthcare, where AI enhances productivity an outcomes. This broad adoption of AI drives capital expenditures and rapid earnings expansion, fueling equity price growth. Investor focus will shift to how AI spending improves profitability as the growth rate moderates in 2026.
- **Earnings growth will play a central role in driving equity performance throughout 2026.** Investors should remain mindful that high valuations could become vulnerable if inflation rises, interest rates do not fall or earnings growth disappoints. While we monitor potential risks from changes in Fed leadership and the mid-term election, supportive factors such as stimulative fiscal policy, advances in artificial intelligence and lower short-term interest rates continue to provide a constructive market backdrop.

Expected earnings growth

	2025	2026
U.S. large-cap	10.5	13.1
U.S. mid-cap	7.0	12.8
U.S. small-cap	5.0	17.5
Foreign developed	7.7	8.7
Emerging markets	16.1	16.9

Sources: U.S. Bank Asset Management Group Research, Bloomberg, 12/11/2025.

Bond markets

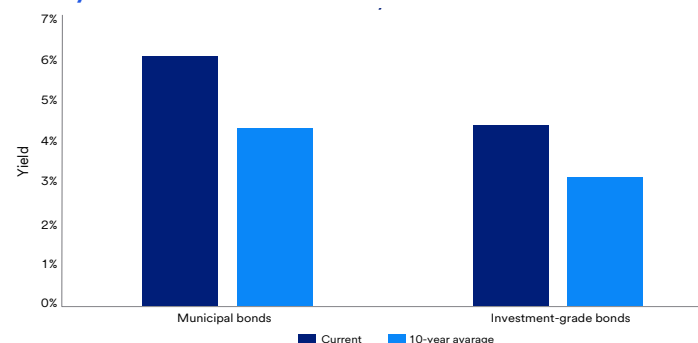
Quick take: Bond markets offer the highest yields in a decade as the Fed eases rates and fundamentals remain strong. Investors should monitor fiscal deficits and Fed leadership changes, but attractive yields persist across sectors.

- **Markets expect the Fed to cut rates two times in 2026, moving toward a neutral stance,** which neither restrains

nor inflates business activity. Anticipated leadership changes may favor lower rates, but the Fed's consensus-driven process tempers abrupt shifts in policy. These adjustments create a supportive environment for fixed income investors, who benefit from lower borrowing costs and improved refinancing conditions.

- **Treasury yields fairly compensate investors for anticipated 2026 policy impacts.** The Congressional Budget Office projects a federal deficit around 6% of GDP for the next decade, prompting the Treasury to issue more short-term bills in 2026. This strategy helps limit upward pressure on long-term yields, while international yield movements, such as increases in Japanese bond yields, continue to influence U.S. markets by drawing demand away from U.S. Treasuries.
- **Corporate and municipal bonds present compelling income opportunities,** with yields ranging from 4.8% for investment-grade to 6.7% for high yield as of December 17 and tax-equivalent yields between 6.1% and 9.4% for top federal tax bracket investors. Strong issuer fundamentals justify these valuations; the extra yield compensates for credit risk. Continued Fed rate cuts in 2026 should lower corporate borrowing costs, ease refinancing and keep default rates modest.
- **Non-traditional bonds offer extra yield and income diversification.** High-quality securitized credit categories provide meaningful yields with loan loss protection, while AAA-rated non-agency mortgages and collateralized loan obligations (CLOs) offer yields near 5% and substantial protection from individual loan losses. Reinsurance pays more than 10% in annual income to compensate for natural catastrophe insurance losses, and returns tend to be unrelated to economic cycles, enhancing portfolio resilience.

Bond yields



Sources: U.S. Bank Asset Management Group Research, Bloomberg, 12/31/2015-12/10/2025. Data for municipal bonds are tax-equivalent yields.

Real asset markets

Quick take: Easing debt costs and solid growth support real estate and infrastructure, while commodities may offer inflation protection. Utilities and energy demand drive income and appreciation, though sector-specific risks remain.

- **Real estate investment trusts (REITs) benefit from lower funding costs and strong economic growth** supporting substantial income returns. As the Fed cuts rates, real estate income becomes more competitive versus bonds, and funding costs drop. Healthy occupancy rates outside office properties bolster prospects, while office assets make up a small portion of publicly traded real estate, limiting their impact on broad REIT exposure.
- **Global infrastructure investments diversify portfolios and drive steady income,** with rising power demand and record natural gas consumption fueling utility sector growth. Utilities, industrial businesses and energy pipelines offer steady income and appreciation potential. Domestic power needs support 11% utility sector earnings growth in 2026, according to a Bloomberg survey of analysts.
- **Commodities can offset inflation, though outcomes depend on unique supply and demand dynamics.** Fiscal spending concerns, Fed rate cuts, central bank purchases and ongoing geopolitical uncertainty drove gold prices to a record high in 2025. Expanding economic activity stands to benefit other commodities in 2026, such as energy and industrial metals, while agricultural commodities may continue to experience price swings as international trade negotiations shape foreign demand for U.S. exports.

Income opportunities in REITs



Sources: U.S. Bank Asset Management Group Research, Bloomberg, 9/30/2015-9/30/2025.

Private markets

Quick take: Private markets rebound as deal activity accelerates, initial public offerings (IPOs) increase and institutions compete for individual investors. Sector-specific themes shape opportunities for 2026.

- **Private equity transactions are gaining momentum, with deal volume continuing to grow for the second consecutive year.** Managers feel increasing pressure to close deals and return capital to investors, while corporate buyers remain active in the market. Barring major macroeconomic disruptions, market conditions should further boost activity in 2026, supporting a strong performance outlook.
- **IPO markets revived in 2025, and the pace may accelerate in 2026** as lower interest rates, expectations of further cuts, stronger earnings and renewed public market interest spark a meaningful rebound. Sectors like crypto, fintech and AI lead the way, although deal sizes remain smaller than in previous years. While the number of IPOs jumped 60% year-over-year, volumes still lag 2021 highs, indicating a recovering market rather than speculative excess.
- **Private market institutions are competing more aggressively for individual investors,** expanding access through semi-liquid investment vehicles and policy changes such as the U.S. Department of Labor's 2025 reversal allowing private market options in 401(k) plans. Retail-focused structures differ significantly from traditional closed-end funds, introducing new risks for both investors and the market itself. As the industry adapts to attract individual investors, it faces challenges in balancing accessibility with prudent risk management.
- **Key themes for 2026 include opportunities in aerospace, defense, and government services, as well as essential services businesses in the lower middle market.** Rising energy demand is creating compelling investment opportunities, while sports, media, and related ecosystems benefit from strong secular tailwinds. Managers plan to deploy capital in these areas with the right partners, reflecting a targeted approach to sector-specific growth.

Alternative investments

Quick take: Hedge funds can thrive amid volatility, with tactical managers and flexible mandates attracting strong demand. Event-driven strategies gain momentum as the merger and acquisition market improves.

- **Hedge fund managers capitalized on rapidly changing macroeconomic conditions last year**, seizing ample trading opportunities and boosting performance gains in the fourth quarter by exploiting increased volatility. Directional and variable bias funds outperformed lower net exposure peers as managers actively balanced long and short positions or tilted toward more long positions to maintain market exposure. The most successful managers dynamically adjusted their market exposure, capitalizing on the equity rally and outperforming market-neutral peers.
- **Investors are demanding multi-strategy funds with flexible mandates that adapt to evolving opportunities** — particularly multi-manager firms that allocate capital across dozens of investment teams. These funds have

grown assets under management faster than the hedge fund industry overall during the past five years. They account for an outsized amount of hedge fund market exposure because they borrow money to amplify the bets they make with investor capital and aggregate hedge fund borrowings have climbed to multi-year highs. We are monitoring the increased leverage, since it could amplify market volatility in the short-term. These strategies are typically tax inefficient and expensive relative to the hedge industry, reducing their attractiveness.

- **Event-driven strategies such as merger arbitrage offer attractive opportunities independent of market trends.** These strategies typically move independently of overall market trends, making them especially attractive during periods of heightened volatility. The 2026 merger and acquisition pipeline looks strong, supporting continued demand for these approaches.

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