# Q3 2026 investment outlook

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## Executive summary

The third quarter begins with a familiar but evolving backdrop. Markets have absorbed meaningful uncertainty this year, yet the core growth supports remain in place: Consumers are still spending, businesses are still investing and growing earnings, and companies continue to build the infrastructure needed for a more data-driven economy. That combination gives investors reasons to stay engaged, even as risks remain active.

The U.S. economy enters the quarter from a position of resilience. Labor conditions remain steady enough to support consumer spending, while earlier income gains still provide some cushion against higher prices. Business investment offers another source of strength; artificial intelligence (AI)-related spending is broadening beyond large technology companies into systems, energy and industrial capacity needed to support long-term productivity.

The Iran conflict is still one of the more fluid risks for markets. Diplomacy has improved and shipping activity through the Strait of Hormuz has started to recover, but the reopening remains fragile and renewed disruption could quickly rebuild pressure on energy prices, shipping costs and inflation expectations. The conflict also reinforces an important distinction: The U.S. is in a better position than many energy-importing regions, but no economy is fully insulated from sharp increases in energy and transportation costs.

Federal Reserve (Fed) policy has entered a new chapter as well. At Kevin Warsh's first meeting as chair, the Fed held rates steady while signaling a renewed focus on price stability, shorter communication and a broader review of how it sets and explains policy. Markets now price at least one 0.25% interest rate hike by year-end. Investors are also watching U.S. fiscal health, since debt and interest costs can influence Treasury demand, borrowing costs and market confidence.

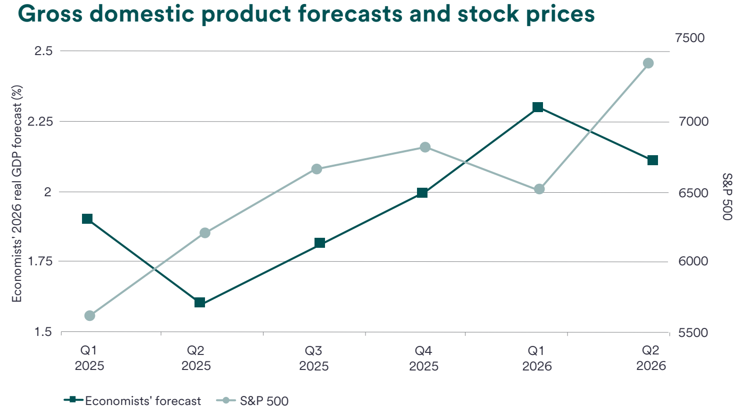
Beyond the policy backdrop, 2026 still carries a distinctive calendar. The World Cup is underway, the United States celebrates its 250th anniversary and November midterm elections add another variable for policy and investor sentiment. Private markets are drawing renewed attention as the public listing pipeline reopens, including potential offerings from Anthropic and OpenAI by year-end. Investment opportunities remain, but they are unlikely to appear evenly across asset classes, sectors or regions. Strong earnings still support stocks, higher starting yields keep bonds relevant, real assets can help diversify inflation-sensitive portfolios, and alternative investments and private capital continue to reward selectivity. We are constructive about the opportunities ahead, while staying attentive to risks when growth, policy, geopolitics and fiscal priorities move at once.

## Global economic views

*Quick take:* Consumer and business spending should keep the U.S. economy expanding, while inflation, energy costs and policy uncertainty remain the main risks. The global backdrop still looks constructive, but less even across regions.

- **U.S. consumer spending enters the third quarter with solid support from jobs, wages and household balance sheets.** Employers added an average of 114,000 jobs per month through May, a clear improvement from last year's slower pace. Wage growth has cooled, with income up 4.1% year-over-year in May, but pay gains outpaced inflation in 2024 and 2025. That combination gives households some room to absorb higher energy costs, despite price pressure risks to discretionary purchases.
- **Business investment is an important 2026 growth engine, led by spending tied to AI.** Analysts expect large U.S. companies to increase capital spending by about 40% over the next 12 months, with benefits extending beyond technology firms to manufacturers, utilities, industrial suppliers and data infrastructure companies. Manufacturers' new orders are stronger as we enter the third quarter. Companies' borrowing also rose faster than last year, giving many businesses the funding needed to keep investing.
- **U.S. government policy offers mixed impacts to the domestic economy.** Lower effective tariff rates and One Big Beautiful Bill Act tax cuts support business activity and household finances. However, the Iran conflict lifted oil and gasoline costs for businesses and consumers. Interest rate markets suggest several central banks around the globe, including the Fed, may raise rates later this year, which can slow activity by increasing borrowing costs. Still, strong investor demand has helped many companies finance expansion at manageable rates.
- **The global economy is still expanding, though risks vary by region.** Economists expect slower but positive third quarter growth in energy-importing regions such as the United Kingdom, eurozone and Japan. Several emerging markets, including Taiwan and South Korea, continue to benefit from strong demand tied to AI investment. The main risks to foreign economies center on the consumer and business spending cycle; weaker hiring, renewed energy shocks or market volatility could tighten financial conditions and slow growth.

**Gross domestic product forecasts and stock prices**




Sources: U.S. Bank Asset Management Group research, Bloomberg; March 31, 2025-June 30, 2026.

## Equity markets

*Quick take:* Stocks enter the third quarter with earnings support, broader participation and continued technology investment. Elevated valuations and uneven consumer trends keep selectivity important across company size, sector and region.

- **Earnings growth endures as the clearest support for stocks**. Analysts continue to raise earnings estimates for 2026 and 2027, which helps explain why equity market support persists despite above-average large-company valuations. Technology investment continues as a major growth engine, while resilient consumer and business spending may also support mid- and small-company stocks that trade at cheaper valuations. This combination keeps equity prices tied to fundamentals rather than momentum alone, while leaving less room for near-term earnings disappointment.

- **U.S. consumer spending, industrial demand and technology investment provide ongoing support to corporate revenue growth,** though trends vary across households and industries. Higher-income consumers remain resilient, while middle-income households appear more cautious and lower-income consumers face more pressure from higher costs. Spending on travel, dining, luxury goods and experiences are holding up better than large discretionary purchases. At the same time, steady industrial demand and robust technology spending support overall economic activity and earnings expectations.
- **Innovation is an important equity theme, but investors are becoming selective.** Demand for computing power, data storage, analytics, cybersecurity and electricity continues to support the systems needed to run AI. Public listings tied to disruptive growth themes can reinforce investor interest in innovation-oriented companies, yet early enthusiasm does not replace the need for valuation discipline. Durable business models, strong competitive positions and visible paths to profitability are still important.
- **Foreign equities add another source of portfolio diversification,** blending steadier developed-market businesses with faster-growing emerging-market technology companies. Analysts forecast 10% earnings growth in foreign developed stocks in 2026, with larger exposures to mature financial, industrial, materials and consumer staples businesses than U.S. stocks. Emerging market exposures hinge on a few concentrated fast-growing technology stocks, with analysts projecting more than 50% earnings growth this year, setting a high bar for companies to meet expectations.

**Earnings growth (%)**

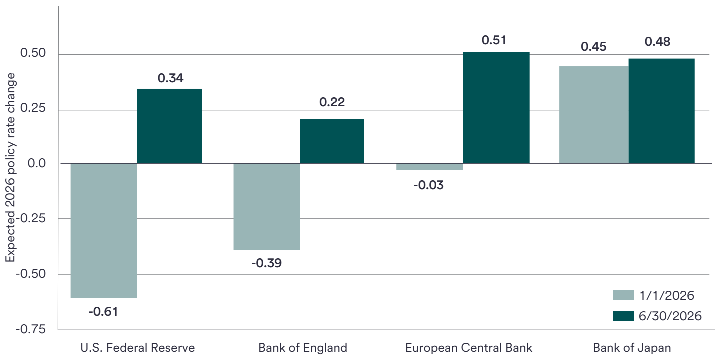

Sources: U.S. Bank Asset Management Group research, Bloomberg; June 24, 2016-June 30, 2026. Bar data labels reflect current earnings growth and valuations.

## Bond markets

*Quick take:* Bonds offer meaningful income, although prices may move as investors assess inflation and Federal Reserve policy. Selective income opportunities are attractive when paired with careful risk control.

- **High-quality bonds offer meaningful income** as investors weigh inflation, Federal Reserve policy and government borrowing needs. Treasury yields between 4% and 5% provide a stronger starting point for investors than in the previous decade, and that income can help offset price changes if interest rates move. New Fed chair Kevin Warsh brings the potential for less explicit forward policy guidance and fewer bond purchases over time. Even so, markets expect gradual policy changes, such as a quarter-point interest rate hike by year-end.
- **Corporate bonds offer attractive income, but investors should be selective.** Many companies enter the quarter with healthy finances, solid cash flow and support from expected profit growth. Heavy borrowing to fund artificial intelligence investment has added to available supply, but strong investor demand helped absorb recent new bond issuance. Depending on the financial strength of the borrower, yields range from roughly 5% to 7%. That income can support returns, though weaker companies may face more pressure if borrowing costs rise or earnings disappoint.
- **Municipal bonds appeal to investors who can benefit from tax-exempt income.** For those in the top federal tax bracket, income after adjusting for taxes looks competitive with many Treasury alternatives and near historical norms. Municipal bond issuance often slows during the summer, which can improve supply and demand conditions in the third quarter. Slightly longer-maturity and lower-rated municipal bonds offer incremental income, though investors should still weigh borrower strength and state exposure.
- **Specialty income areas offer investors opportunities beyond traditional government and corporate debt.** Mortgages not backed by government agencies appear supported by substantial homeowner equity, a strong incentive to retain low-rate mortgages originated in years past, and financial structures designed to absorb some loan losses. Reinsurance, which helps insurers manage disaster risk, offers yields above 10%, creating a buffer against potential hurricane season claims. These areas can add income and diversification, but they require careful manager selection due to unique risks.

**Expected 2026 policy rate changes**




Sources: U.S. Bank Asset Management Group research, Bloomberg; December 31, 2025-June 30, 2026.

## Real asset markets

*Quick take:* Real assets can help diversify portfolios when inflation and energy risks rise. Public real estate and infrastructure offer income potential, while commodities are useful but more volatile.

- **Publicly traded real estate offers competitive income and selective growth opportunities.** At 6%, property income relative to prices is close to historical averages for real estate investment trusts (REITs). Broad REIT valuations look somewhat elevated compared to bonds, but the largest property types enter the third quarter with healthy income growth. Healthcare properties benefit from aging demographics, industrial properties from improving manufacturing activity, and data centers from AI investments.
- **Office weakness is a concern,** but it does not define the full real estate outlook. Office properties account for less than 3% of broad REIT exposure, while many other property types continue to show low vacancy rates and steadier demand. Diversified REIT exposure gives investors access to diverse areas of the economy rather than a single property category. We prefer real estate allocations tied to durable demand, visible cash flow and growing income over time.
- **Global infrastructure offers exposure to essential services with income and growth potential.** Utilities make up nearly half of broad infrastructure indexes and can provide reliable cash flow through regulated businesses. Rising electricity demand, including demand from data centers and broader electrification, supports revenue growth, while analysts forecast strong utility earnings growth in 2026. Industrial infrastructure may benefit from improving manufacturing activity, and energy pipelines can gain support as North America works to secure reliable energy supplies.
- **Commodities can help portfolios respond to inflation, but price trends are mixed and volatile.** Oil, gas and related products make up nearly one-third of broad commodity exposure, making energy prices central to third quarter returns. Prices for future Brent crude delivery remain above pre-conflict levels, suggesting investors expect supply constraints to take time to resolve. Gold and silver may attract demand during geopolitical stress, though risks appear to be ebbing. Copper benefits from improving economic growth and rising electricity needs.

**Occupancy rates (%)**


Sources: U.S. Bank Asset Management Group research, NAREIT, Bloomberg, March 31, 2002-March 31, 2026.

## Private markets

*Quick take:* We prefer to be selective in private capital as public listings reopen and private credit faces redemption pressure. Long-term themes still look attractive when supported by strong underwriting, patience and appropriate fund structures.

- **The public listing market is reopening, but investors should separate long-term opportunity from first-day excitement.** SpaceX's public debut drew attention to large private companies moving into public markets and may improve the backdrop for expected listings from Anthropic and OpenAI by year-end, if market conditions remain supportive. A stronger listing pipeline can give public investors access to more innovation-oriented businesses, but large offerings also require careful attention to price, business quality and post-listing volatility.

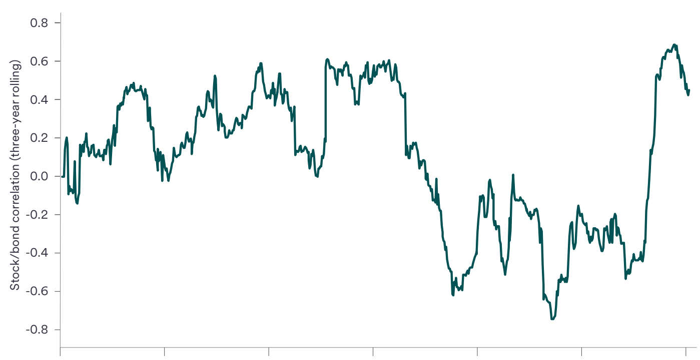
- **The recent listing activity also highlights how much company growth now occurs before public investors gain access.** Netflix went public in 2002 at a relatively early stage and later created substantial value in public markets. By contrast, many of today's largest private companies are coming to market after years of private funding and significant valuation growth. This shift supports continued interest in private markets, while also making manager access, price discipline and patience more important.
- **Some large private credit funds continue to manage investor withdrawal requests.** These funds own loans that do not trade frequently, so returning capital can take several quarters when redemption requests rise. Investor caution has increased because of concerns about AI-related disruption and the quality of underlying loans. Even so, the loans continue to perform, and default rates are around 6%, in line with long-term averages. Investors should understand how easily they can access their money and the strength of underlying loans.
- **We see opportunities in select private credit and long-term private capital themes.** Middle-market direct lending, especially senior secured loans backed by company assets, is attractive when underwriting is disciplined. Opportunistic credit can also create value when uncertainty pushes loan prices below levels justified by fundamentals. Across private equity and private credit, we favor areas with durable demand, including aerospace, defense, government services, essential services, rising power demand and secondary transactions involving existing private fund interests.

## Alternative investments

*Quick take:* Hedge funds may benefit from a market with wider performance gaps across sectors and companies. Flexibility, careful risk-taking and manager selection remain central to their role in portfolios.

- **Hedge fund managers enter the second half of the year with more willingness to take risk** as they navigate changing economic and geopolitical conditions. Many managers are taking targeted positions in companies they expect to rise or fall, rather than relying only on broad market direction. They remain focused on semiconductor, technology hardware and power generation companies that may benefit from sustained artificial intelligence investment. Those positions have supported year-to-date returns, but they could also create vulnerability if enthusiasm for technology and AI-related spending fades.
- **The current market gives skilled managers more room to distinguish winners from losers.** Company results can vary widely even when broad stock indexes look stable, especially as investors reassess earnings, interest rates and the business impact of artificial intelligence. Flexible strategies can adjust exposures as conditions change rather than relying on one market direction. That flexibility can be valuable when stocks and bonds respond to the same inflation or policy concerns at the same time.
- **Investor interest in hedge funds also reflects a broader search for portfolio diversification**. Traditional stock and bond allocations have not always moved in opposite directions during recent periods of inflation and rate uncertainty. Many hedge fund strategies aim to rely less on whether the broad market rises or falls by focusing on company selection, pricing differences or specific corporate events. Funds that offer periodic withdrawals have increased investor access, but they also make withdrawal rules, portfolio holdings and product design more important.
- **We are watching whether managers rotate away from crowded growth and momentum trades.** Strategies tied to corporate events may benefit if merger and acquisition activity improves, while biotechnology and financial services could offer opportunities after periods of investor neglect or uneven pricing. Managers are also evaluating investment banks that may benefit from stronger public listing activity. Hedge funds can add value in this environment, but only when investors pair them with disciplined manager selection and a clear portfolio purpose.

**Stock/bond correlation (three-year trailing)**




Sources: U.S. Bank Asset Management Group research, Bloomberg; June 30, 1966-June 30, 2026. Calculated using S&P 500 and 10-year Treasury monthly returns.

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**Past performance is no guarantee of future results.** All performance data, while deemed obtained from reliable sources, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for investment. The **S&P 500 Index** is an unmanaged, capitalization-weighted index of 500 widely traded stocks that are considered to represent the performance of the stock market in general. The **MSCI EAFE Index** includes approximately 1,000 companies representing the stock markets of 21 countries in Europe, Australasia and the Far East (EAFE). The **MSCI Emerging Markets Index** is designed to measure equity market performance in global emerging markets. The **Consumer Price Index** is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is one of the most frequently used statistics for identifying periods of inflation or deflation.

**Equity securities** are subject to stock market fluctuations that occur in response to economic and business developments. **International investing** involves special risks, including foreign taxation, currency risks, risks associated with possible difference in financial standards and other risks associated with future political and economic developments. Investing in **emerging markets** may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in **fixed income securities** is subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications, and other factors. Investments in debt securities typically decrease in value when interest rates rise. The risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in **high yield bonds** offer the potential for high current income and attractive total return but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The **municipal bond market** is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in **real assets** such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults). **Hedge funds** are speculative and involve a high degree of risk. An investment in a hedge fund involves a substantially more complicated set of risk factors than traditional investments in stocks or bonds, including the risks of using derivatives, leverage and short sales, which can magnify potential losses or gains. Restrictions exist on the ability to redeem or transfer interests in a fund. **Private capital investment funds** are speculative and involve a higher degree of risk. These investments usually involve a substantially more complicated set of investment strategies than traditional investments in stocks or bonds, including the risks of using derivatives, leverage, and short sales, which can magnify potential losses or gains. Always refer to a Fund's most current offering documents for a more thorough discussion of risks and other specific characteristics associated with investing in private capital and impact investment funds. Reinsurance allocations made to **insurance-linked securities (ILS)** are financial instruments whose performance is determined by insurance loss events primarily driven by weather-related and other natural catastrophes (such as hurricanes and earthquakes). These events are typically low-frequency but high-severity occurrences. **Private equity investments** provide investors and funds the potential to invest directly into private companies or participate in buyouts of public companies that result in a delisting of the public equity. Investors considering an investment in private equity must be fully aware that these investments are illiquid by nature, typically represent a long-term binding commitment and are not readily marketable. The valuation procedures for these holdings are often subjective in nature. **Private debt investments** may be either direct or indirect and are subject to significant risks, including the possibility of default, limited liquidity and the infrequent availability of independent credit ratings for private companies.

Includes AI-generated performers.