2026 PREDICTIONS

Before 2026 is discussed here is a scorecard from 2025 predictions.

Prediction: The positive economic benefits from tax cuts will be far less than anticipated as the reality of budget dynamics cap the extent of the executive tax cut plan. The stock market will be disappointed by that.

XXXXX. Largely wrong.

Prediction: Core CPI (3.3% YOY) and PCE YOY (2.8% YOY) trends will remain stubbornly higher than Fed target early in 2025 due to some of the factors mentioned above but by the end of 2025 structural challenges to affordability will outweigh those factors and inflation will resume its trend down toward target.

?????. There has been some cooling after remaining stubbornly high but affordability has not yet forced prices down as much as expected.

Prediction: Buy European cyclicals, a very contrarian call for 2025.

$$$$$. Yes, this was a good idea.

Prediction: China will be able to stabilize its economy and consumer spending will grow at a modest rate in 2025, not a robust rate, but one strong enough to create some earnings growth for Chinese consumer stocks and those will provide decent returns.

$$$$$. Yes, buying Chinese stocks was a good idea.

Prediction: Modest tariffs for many countries, nothing extreme, will be put in place early in 2025 as a targeted negotiating tactic but will not lead to any near-term economic breakthrough and US households and corporations will have to adjust to more tariffs.

?????. Tariffs were put in higher than anticipated but lowered in ensuing months so not so correct there but the result is correct, households and corporations need to adjust to the new tariffs.

Prediction: History will repeat here. Technology companies and investors are spending too aggressively ahead of the opportunity. A short-term overcapacity situation will develop for models and tools, along with the processing power needed to train new models. That will lead to some stock price pain for AI companies.

XXXXX. Largely wrong. There has not been an AI stock correction yet.

Prediction: Go long volatility in 2025. Regardless of one's view on the economy, geopolitics, etc., the ownership structure of the stock market is now one where there is the potential for a burst in volatility.

XXXXX. No. Except for a brief April spike, it has been a subdued volatility year.

Prediction: Bonds will provide similar returns to stocks over the next 5 years with much lower risk.

?????. Too early to tell.

Prediction: The US markets are not immune from investor concern. In the next couple years, the capital markets are going to force politicians into decisions they are not comfortable with. At that point, the US will look very unexceptional.

?????. Too early to tell.

2026 Topics of Discussion and Predictions

Will AI spending help drive economic growth in 2026?

It surely will but expect the recent bottlenecks to grow, not dissipate. Power and financing are two very big obstacles, and it is hard to see many scenarios where growing concerns over financing don't create problems in 2026. The issue is that if a scare in the market dries up financing for data centers, where is it going to come from for those that need it? And while the big guys will continue to heavily self-finance, bottlenecks in power will slow the construction pace.

Prediction: Realism will set in and the pace of data center build outs will be much slower than many anticipate.

Will Core Inflation Finally Make it Back to the 2% Fed target?

Yes, by the end of the year, tariff inflation will have run its course. I don't think with the economy weakening there is going to be a real impetus to raise tariffs and so tariff inflation should pass. While electricity prices and medical care will be inflationary, housing related items will not and that is a very big important category. General job weakness and affordability concerns will also play an important part in keeping prices down.

Prediction: Expect Inflation to Undershoot Forecasts by late 2026.

How Many Times will the Fed Cut Rates?

The Fed will end up having to cut rates at least 3x. The 175 basis points of cuts that have already occurred are not that impactful. More is needed. The 10 year treasury rate above 4% is not that stimulative. The common assumption is that the new Fed president from the Trump Administration will be limited in power and that is true but if jobs continue to weaken and inflation cools, there is not a compelling reason not to lower the Fed Funds rate.

Prediction: The Fed Funds target rate will have an upper bound of 3% a year from now.

Where Will the 10-year treasury yield be in December 2026?

The risk-premium that is starting to be priced into long-term US government debt is not shrinking next year. It will modestly expand as the budget deficit will grow again next year. Many of the provisions in the OBBBA provide stimulus in 2026 but provide for some payback in later years. The reality is that the budget deficit is already excessive and growth in the deficit is not going to lead to lower term premiums. However, lower Fed Funds rates and weakening growth expectations will pull down long-term rates.

Prediction: The 10-year treasury rate will finish the year around 3.75%.

Will European Stocks and EM Stocks Outperform the US Again in 2026?

Yes, Europe seems to be everyone's punching bag. Many people like to refer to Europe as exemplary of what not to do if you want growth. But the reality is Europe is just fine, there is not a structural impediment to growth that exists. There is plenty of awareness within Europe that the continent needs to strengthen itself with its frayed US relationship. Fear of shrinking to irrelevance will be a powerful force for growth.

China's economy might struggle again in 2026. The ability to have such a strong trade surplus in 2025 even when facing high US tariffs has been impressive. However, other countries are going to start becoming more protective so the diversion of exports story for 2025 will stall out in 2026. Industrial production growth will also be weak as the effects of the anti-involution campaign continue to impact the economy. Consumption will be stable at a low-growth rate. But China is not the only EM story anymore. In 2026, many EM countries are going to have solid economic growth. That coupled with continued diversification from US assets will lead to another year of positive EM stock returns.

Prediction: Expect European and EM stocks to Outperform US Stocks Once Again in 2026

Will There be Above-Average Volatility in the US Markets in 2026?

Yes, conventional wisdom believes the stimulus coming in early 2026 will stabilize economic growth and allow for solid earnings growth. The logic bullish investors will use is that strong earnings growth justifies an above average market multiple. The economic growth benefits of the OBBBA are overstated and by mid-year investors will be looking at some of the offsets that come into play in 2027 and beyond. Outside of the OBBBA's influence on growth, there are quite a few things that could lead to a shock. US Foreign Policy is one. Popping of an AI bubble is another. Climate is another. A very strong democratic showing in November is another.

Prediction: There are shocks coming in 2026 that will outweigh any benefits of the OBBBA and the US stock market is going to be pretty turbulent in 2026.

Will AI lead to job losses and boost productivity?

The bullish narrative on AI is that companies will be able to save a lot of money on labor costs and so the investments will be worth it and boost productivity. That logic does not hold up. Economies are way more dynamic than that. We already have a K-shaped economy. Lower-income and middle-income families are struggling. Anything that leads to higher utility bills and significant job losses will create a wave of voters voting for an alternative. That alternative will lower any productivity benefits from AI. The wealth accumulation by the upper-class is close to creating breaking points in the economy. The US economy won't be able to function properly if wealth disparity continues to grow.

Prediction: Expect a slow and steady productivity boost from AI with modest job losses due to AI over the next few years. Any pronounced benefits, if the technology is even capable of providing, likely will be slowed down by politicians.