CROSSMARK GLOBAL INVESTMENTS

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10 Predictions for 2026

Theme: High-Risk Bull Market

Bob Doll, CFA
CEO/CIO/PM

2025 Review – Theme: Fewer Tailwinds, More Tail Risks

In 2025, financial markets experienced strong gains in an "everything rally," with strong gains enjoyed across stocks, bonds, and commodities led by AI enthusiasm, relatively behaved inflation, strong corporate earnings, and anticipation and realization of central bank interest rate cuts. This occurred despite ongoing volatility from trade policy uncertainties and geopolitical tensions. Of major assets, only oil dropped noticeably. Hence, our theme – "Fewer Tailwinds, More Tail Risks" – was too conservative.

The stock market rally was narrow for much of the year, with the focus on mega cap technology stocks, although it broadened later in the year to include small and mid cap stocks. International stocks outperformed the U.S., led by emerging markets, all benefiting from a weak U.S. dollar. Policy drivers included a more resilient economy than most expected, favorable cuts by most, but not all, central banks, and AI enthusiasm. The U.S. stock market fell 20% in the spring on tariff concerns, only to rally 40% off the lows to new all-time highs toward the end of the year.

Bonds delivered good returns as well, on the back of the easing monetary policy referred to above. Credit spreads were near record tight for most of the year. Gold was a standout performer, along with everything crypto, despite fourth quarter setbacks.

As a result of the Fed easing and upward earnings revisions, risk assets moved higher, despite valuation concerns and creeping speculation. After lowering rates 25 basis points (bps) in December, Fed Chair Powell stated that the policy rate is now in a broadly neutral range, with the Fed "well-positioned to wait and see how the economy evolves," thereby implying that Fed policy will likely be on hold until the economic data trends warrant a change.

The AI theme is in full-blown extrapolation mode. Elevated equity valuations and tight credit spreads indicate that investors expect an optimistic future for the corporate sector. Gold, cryptocurrencies, and private credit have been floating on buoyant global liquidity. Even safe-haven bonds have produced solid returns this year, with investors confident that inflation will stay tame and the Fed will reduce interest rates substantially in the year ahead. Capital markets appear priced for permanent perfection. Such conditions cannot last indefinitely.

It is with this backdrop that we proceed, as usual, with fear and trepidation (and hopefully some good, educated guesses) to unveil our prognostications for 2026 in the form of 10 Predictions.

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10 Predictions for 2026

Theme: High-Risk Bull Market

1	Economic growth in the U.S. improves from approximately 2.0% to approximately 2.5% real GDP.
2	Inflation remains sticky and fails to make much if any progress toward the Fed's 2% target.
3	The 10-year Treasury yield trades primarily between high 3%s and mid 4%s as credit spreads widen (i.e., a "coupon-ish" year).
4	Earnings growth falls short of consensus +14% and P/Es decline modestly, making it a tougher year to make money.
5	Stocks fail to advance by a double-digit percentage for only the third time in 10 years.
6	Technology, communication services, and financials outperform materials, utilities, and consumer discretionary.
7	International stocks outperform the U.S. for the second year in a row (first time in 20 years).
8	AI continues to be volatile/erratic creating another year of elevated volatility.
9	Faith-based share of industry AUM increases for the tenth year in a row.
10	Republicans retain control of the Senate but surrender the House, losing at least 20-25 seats.

Conclusion

The U.S. is set to remain the world's growth engine, driven by a resilient economy and an AI-driven super cycle that is fueling record capex, rapid earnings expansion, and unprecedented market concentration. The growth outlook is good, which bodes well for corporate profits and should be supportive of risk-asset markets. The recently passed U.S. tax bill (One Big Beautiful Bill) should provide a boost, especially to capex. Deregulation should also support activity. A combination of the One Big Beautiful Bill's impact on both consumer and capital spending, America hosting the World Cup, and the country's 250th anniversary will all create a tailwind for 2026 economic growth and earnings. Add to that a Fed that seems almost certain to focus more on the full employment part of its mandate rather than inflation, and it is difficult to get bearish. However, the downside of good growth may be upward pressure on inflation.

The front-end fiscal boosts will offset the lingering drag from the trade war. Job creation is likely to remain muted, versus recent years, but the unemployment rate is likely to remain at low levels. Business investment will continue to be buoyed by AI-driven and other capital spending. Inflation will remain sticky due to service sector pressures. Elevated inflation and a reasonably healthy labor market will keep the Fed policy rates higher than the doves would like to see. The Fed and bond investors have persistently bet on a return to the low and stable inflationary environment that preceded the pandemic. Most drivers of price pressures warn that the economy will remain prone to upside inflation surprises. The economic/inflation backdrop and the Fed's dovish policy bias could put upward pressure on longer-dated Treasury yields over the course of the year.

Equity valuations and widespread investor complacency make the risk-reward trade-off less favorable than the positive, top-down view implies. A shift to a defensive position is likely to occur at some point, although the timing is uncertain. Be quick to cut beta exposure if these tail risks surface. These include a spike in bond yields, a renewed intensity of the trade war, and/or if the AI euphoria fades.

2026 promises to be anything but dull. Rapid AI investment and adoption will likely continue to dominate market sentiment, and given the pace of technological advancement, it is hard to imagine this won't ultimately deliver meaningful productivity gains. That said, the winners and losers will depend on the complex interplay of evolving forces, many of which may not become apparent until after 2026. In the meantime, markets could continue to swing sharply between boom-and-bust narratives.

In conclusion, although top-down economic growth and policy outlooks are favorable for risk assets, this is already discounted in asset prices. Therefore, significant care needs to be taken in investment exposures. At some point, bond yields may climb if inflation proves sticky, which will have negative contagion on risk assets.