

# Outlook: Five forces that could shape markets in 2026

Fidelity's Asset Allocation Research Team outlines key investment risks and opportunities for the year ahead.



## Research



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### Key takeaways

- A historically wide gap between policy uncertainty and subdued market volatility may narrow in 2026.
- Attractive valuations of non-U.S. currencies and other structural factors may support the relative outperformance of non-U.S. equities.
- The Fed may find itself on the hot seat, as persistent inflation and high government debt complicate monetary policy.
- AI-driven capital spending and favorable fiscal policy could continue to support the health of the U.S. business sector over the coming year.
- With wealth playing a larger role in consumption than it has historically, asset-price changes might have a greater impact on economic growth than in the past.

### Introduction

Continued economic growth, increased capital expenditures, stock market momentum, and a technological transformation driven by artificial intelligence all reflect positive market trends for equities as we approach the start of 2026.

Overall, the near-term macro backdrop does not suggest major troubles ahead. The U.S. economy is in a solid expansion, and the U.S. Federal Reserve is easing monetary policy. We see a constructive expansionary backdrop, driven by healthy corporate earnings and higher capital expenditures. The market remains optimistic that companies can achieve higher profit margins and double-digit earnings growth in 2026.

Reasons for concern range from elevated stock valuations to trends in the real economy and geopolitical sphere that could elevate investor uncertainty. Amid policy unknowns, stubborn inflation, a softening labor market, and record-high public debt, navigating the equity market in 2026 will require understanding the risk-reward of several possible surprises.

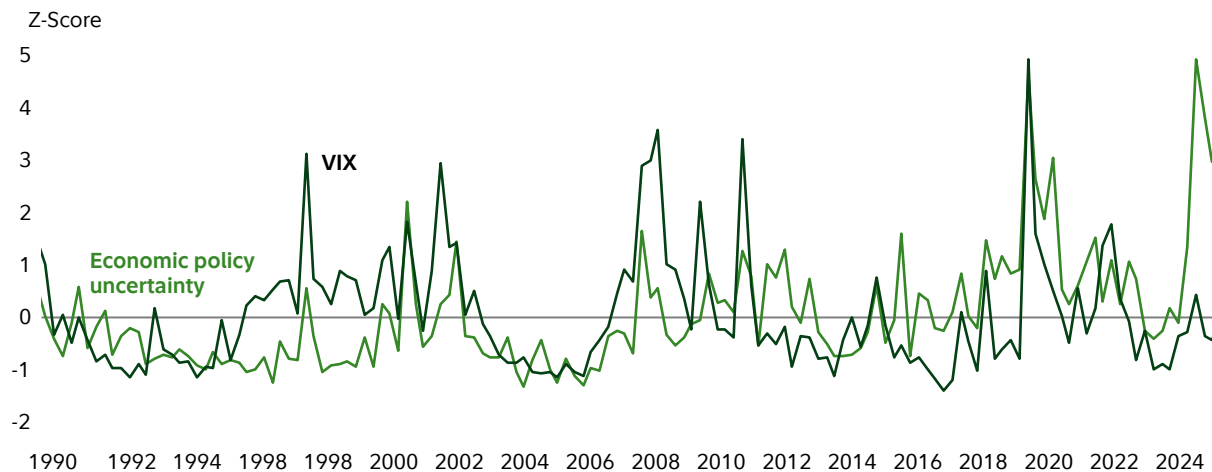
Following are five potential developments that are top of mind for us as we enter 2026, and how we believe each could impact the markets:

## 1. Policy uncertainty seems unlikely to remain decoupled from market volatility

The first half of 2025 saw economic policy uncertainty spike, with an accompanying sell-off for stocks and an increase in market volatility consistent with historical patterns. Policy uncertainty and volatility both peaked in April, following the announcement of broad-based U.S. tariff increases, only for the latter to subside in the second half of the year—even as uncertainty remained far above historic norms. This created one of the widest gaps between policy uncertainty and U.S. market volatility in the past 30 years (Exhibit 1).

### Exhibit 1: Economic policy uncertainty remains elevated vs. the VIX

A Historically wide gap between these indicators could narrow in 2026



VIX is the CBOE Volatility Index. Z-score is a statistical measure that reflects how many standard deviations a data point is from its historical range. Zero reflects the mean of the range. Source: Bloomberg, Fidelity Investments (AART), as of 11/19/25.

We believe this gap will likely narrow in 2026. Perhaps uncertainty will continue to decline and markets will remain calm. But the gap could also close due to increased volatility, potentially exacerbated by unresolved trade, geopolitical, and other economic issues. These include continued economic tension between the U.S. and China, despite a bilateral agreement in October on tariffs, rare-earth mineral exports, soybean purchases, and other measures. We're also watching ongoing negotiations to renew the U.S.–Mexico–Canada Agreement on trade, U.S. oil sanctions, and other pressures imposed on Russia to try to end the war in Ukraine, each of which could be a source of potential volatility.

## 2. A big snap-back for the U.S. dollar isn't a sure thing

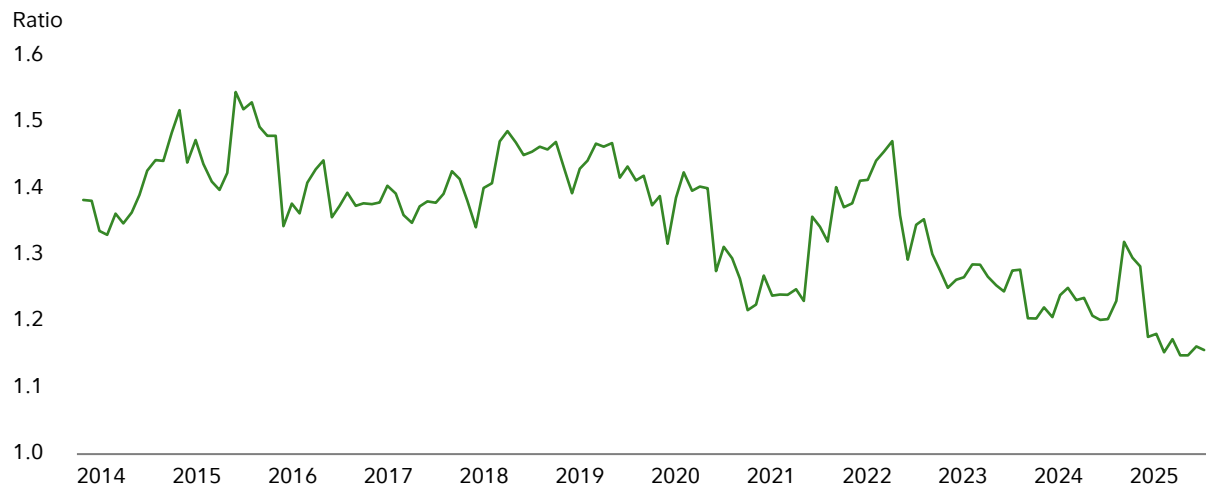
In 2025, the U.S. dollar weakened, and non-U.S. equities outperformed—a rare occurrence after a decade in which the U.S. dollar had been historically strong and U.S. stock returns far outpaced the rest of the world. In the past 20 years, the dollar has only dropped this much (-8% through the end of October) in two calendar years (2007 and 2017), and both times, the dollar rallied the subsequent year. Will 2026 be different?

By our estimates, the U.S. dollar remains about 15% above its fair valuation against major world currencies (both developed and emerging markets). It's possible that U.S. economic and corporate momentum will gain the upper hand in 2026 and provide support for the dollar. However, it's also possible that foreign investors—who have provided trillions of dollars of net capital inflows to U.S. markets over the past decade—might decide to keep more of their money at home. Some might be nervous or upset about U.S. trade or foreign policy changes, and others might see some initial signs of positive structural changes that could boost the attractiveness of foreign assets.

For example, the U.S. has long had a superior corporate sector track record, with higher total payments for shareholders (dividend and share buybacks) that raised returns on equity (ROE) above those of their foreign counterparts. Recently, more countries in Asia (led initially by Japan) have emphasized improvements in corporate governance, and non-U.S. equities have been closing the gap in total payouts versus the U.S. (Exhibit 2).

### Exhibit 2: U.S. corporate shareholder payouts have declined relative to non-U.S. payouts

MSCI USA Index payout vs. ACWI ex U.S. Index payout



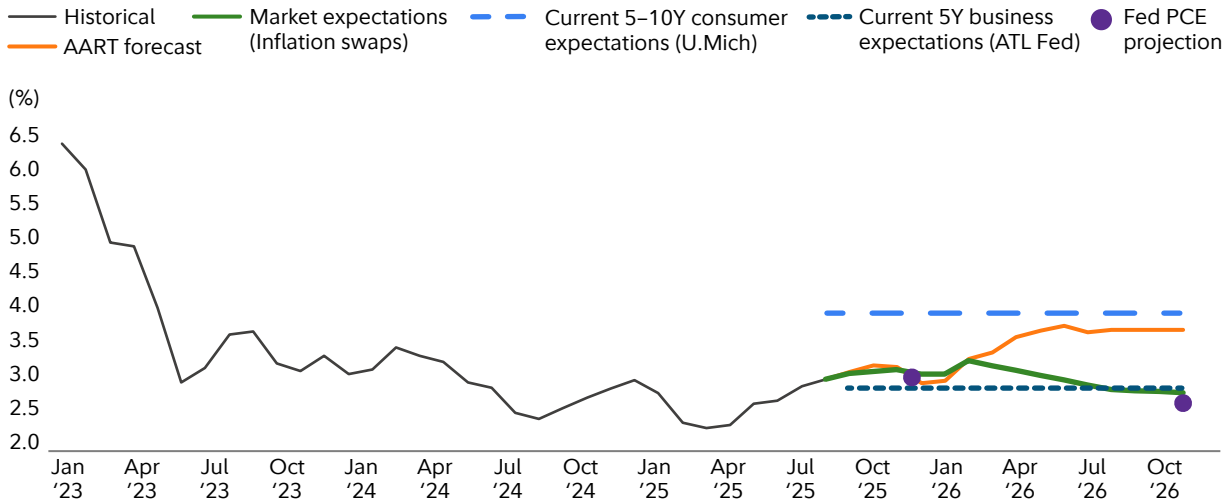
Payout = the share of earnings distributed as dividends and share buybacks. Source: Bloomberg, Fidelity Investments (AART), as of 9/30/25.

### 3. The Fed is on the hot seat amid a steepening yield curve

Our forecast is for inflation to stay stubbornly above the 3% level over the next 12 months, which is higher than both the market's and the Fed's expectations (Exhibit 3).

#### Exhibit 3: AART Forecast calls for higher inflation than market expectations

U.S. Inflation (YoY%)



PCE = Personal Consumption Expenditures price index. Source: Bloomberg, Federal Reserve Board, Federal Reserve Bank of Atlanta, University of Michigan, Fidelity Investments (AART), as of 9/30/25.

We may see disinflation in segments that have continued to experience persistent price pressures in recent years, such as rents and housing. However, goods inflation has been rising due to tariff pass-through, and the outlook for commodity prices appears uncertain. The Fed might be easing into already easy financial conditions, while inflation remains above its target.

Moreover, the Fed will likely have a new chair and new voting members by mid-2026. Fed cuts that align with the administration's preference for lower interest rates—but conflict with stubborn inflation data—may impact the market's view on the independence of FOMC decision-making.

Longer-term bond yields tend to be more sensitive to long-term inflation and fiscal expectations. Therefore, concerns about policymakers' inflation-fighting credibility would likely manifest in a steeper yield curve, with longer yields rising higher above short-term yields. A steeper curve can be a sign of economic recovery, but the Fed will have to be careful managing inflation expectations amid near-record-high government debt levels.

## 4. Corporate earnings and business fundamentals may shine

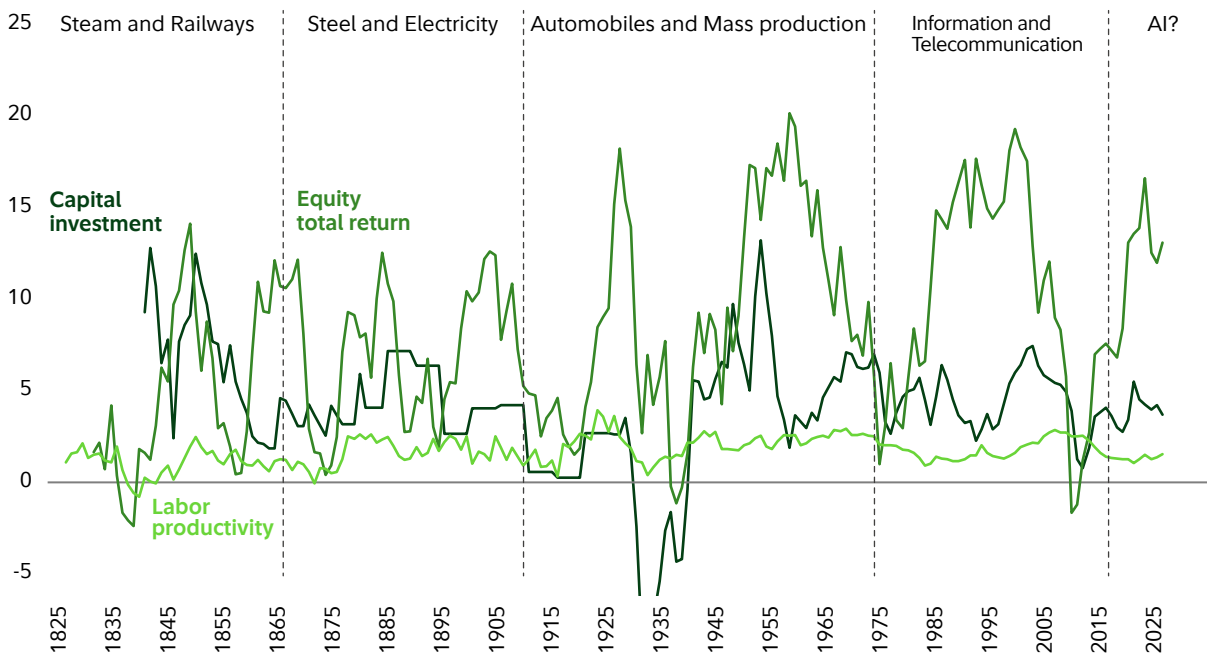
The artificial intelligence (AI) capex buildout is astounding in its scope, and it shows few signs of fading.

Like past technological transformations, the stock prices of AI-focused technology companies have led the capital spending boom (Exhibit 4).

### Exhibit 4: Technological transformations tend to follow a boom-bust cycle

200 Years of technological transformation

10-Year rolling geometric rate (%)



Labor productivity is real nonfarm output per hour (extended back from 1890 using real GDP per capita). Capital investment is real private nonresidential fixed investment (extended back from 1869 using total private investment). Equity total return is S&P 500 (extended back from 1957 using historical stock aggregates). 10-year annualized rate. Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Maddison Project Database, Historical Statistics of the United States, International Center for Finance at the Yale School of Management, Haver Analytics, Fidelity Investments (AART) as of 12/31/24.

Past transformations eventually resulted in overinvestment and a market correction, which then gave way to the broader adoption of the innovation that spurred economy-wide productivity gains.

It's likely too early to expect a big jump in AI-related productivity, but we think that the capex boom, alongside lower taxes and higher cash flows from the 2025 fiscal legislation, could support the aggregate analyst estimate of 13% profit growth for 2026, up from about 11% in 2025.

Another trend to watch is the potential broadening of earnings momentum in 2026, which could benefit small cap companies that have yet to enjoy a major profitability upswing.

## 5. The stock market may be a swing factor for consumer spending

Stock-price changes could play an outsized role in driving the economy in 2026.

U.S. consumers have never been older, wealthier, owned more stocks as a proportion of their wealth, or possessed more unequal distribution of pre-tax income and wealth. Older consumers tend to draw more from their personal wealth to fund their consumption. Because of this, wealth is now playing a larger role in driving spending and the economy as a whole—even though income from labor still drives most spending (Exhibit 5).

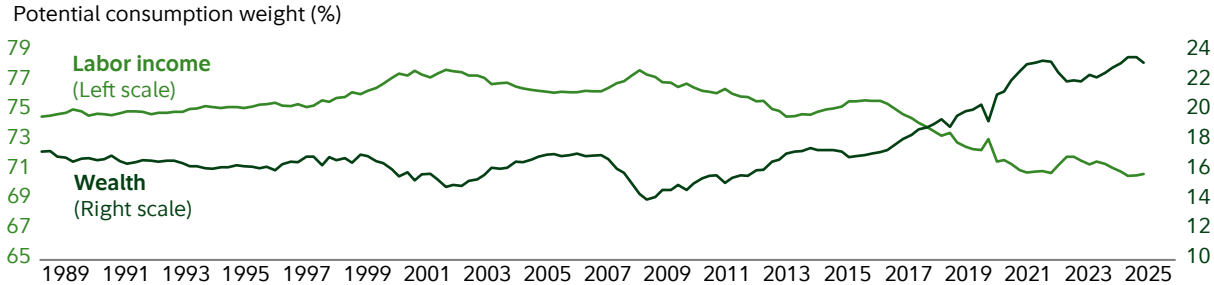
Significant changes in stock prices tend to occur more frequently than changes in labor income, so it's possible that a decline in stock prices (without a quick subsequent recovery) could cast a shadow on economic growth even if employment markets don't substantially weaken.

On the other hand, a strong stock market could boost consumer spending, even if labor markets remain relatively lackluster.

Either way, changes in asset prices may have a greater effect on consumption in 2026 than they have in the past, and they might even outweigh economic data from other segments of the economy in terms of their impact on consumption.

### Exhibit 5: Changes in wealth influence consumption more than in the past

Wealth may now drive more than 22% of U.S. consumption



Labor income and wealth represent about 71% and 23%, of consumption, respectively. The residual consumption (about 6%) comes from sources of guaranteed income, such as Social Security, defined benefit pensions, and annuities. Source: Bureau of Economic Analysis, U.S. Federal Reserve, Survey of Consumer Finances, Fidelity Investments (AART), as of 1/31/25.

## Conclusion

In our view, the macroeconomic environment appears solid. Several macro dynamics and their implications for the markets may be changing, with shifts such as AI-driven productivity and evolving global corporate governance trends presenting potential opportunities for investors. As such, we see reasons for optimism in 2026.

At the same time, several risks may challenge market stability. Investors continue to face uncertainty around stock valuations, geopolitical tensions, and stubborn U.S. inflation.

Navigating this complex terrain will require a nuanced understanding of both cyclical trends and longer-term transformations. The year ahead offers both opportunity and challenges for investors—and compelling reasons to stay informed, diversified, and prepared for surprises.



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