

Quarterly Business Cycle Update (Q2 2026)

Geopolitical risk rises, but global economy remains in expansion

United States

- Positive earnings momentum, fiscal support, and wealth-powered high-end consumption support the fundamental U.S. economic backdrop.
- The combination of tariffs, rising energy costs, and stable U.S. growth suggests inflation could stay elevated, a risk that may be underappreciated.
- The jobs market remained soft in Q1, but with little evidence of artificial intelligence directly affecting hiring.
- Policy uncertainty appears to be falling from a peak, and small business sentiment has inflected higher.
- Although lower-income consumers face risks from rising energy costs, the consumer in the aggregate is less exposed to energy prices versus prior decades of oil supply shocks.

Global

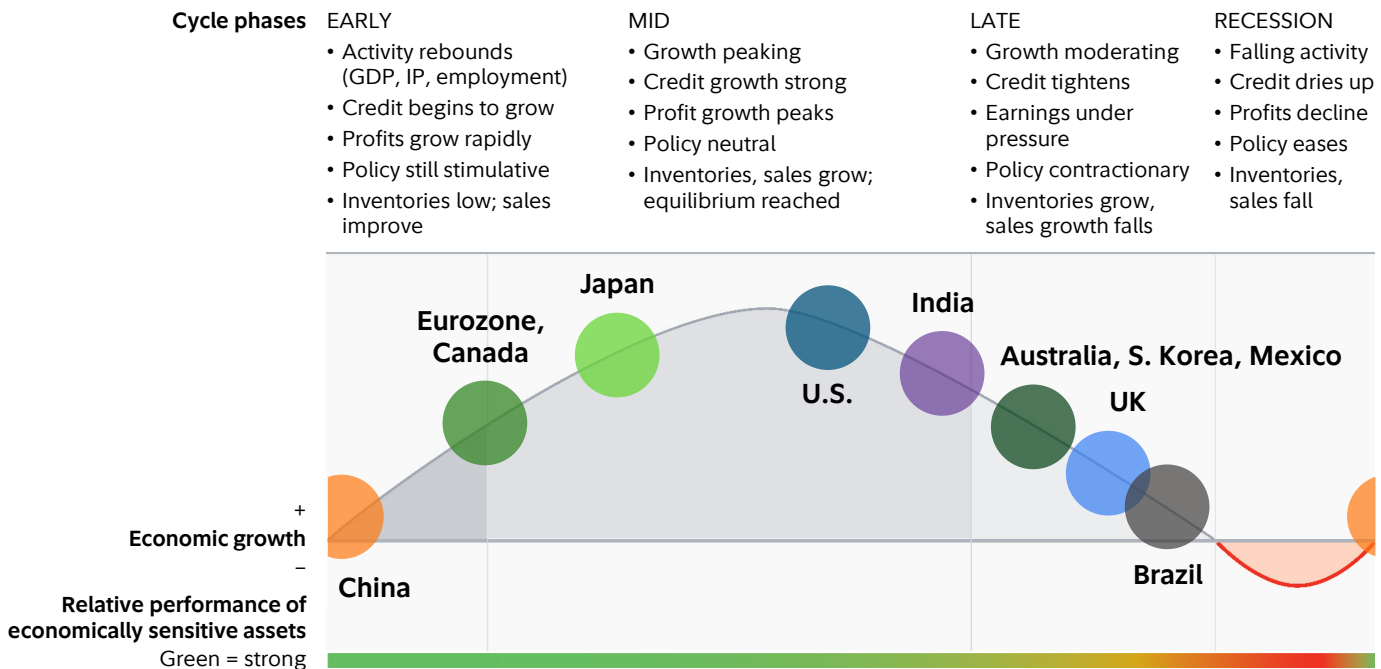
- The global economy remains in a solid, yet unsynchronized expansion, with several developed-market economies showing early signs of strengthening.
- The share of countries reporting improved manufacturing conditions continued to widen, suggesting a turnaround in global industrial activity may be taking shape.
- Several countries have implemented various policies to support domestic consumption and corporate momentum.
- A rise in 30-year government bond yields reflects investor concerns about global fiscal profligacy amid the persistence of large budget deficits.

Asset allocation outlook

- The range of outcomes over the near term has broadened, with higher volatility in stocks, bonds, and commodities likely to remain—even if geopolitical risks abate.
- Elevated risky-asset valuations may not be a near-term impediment, but they provide little cushion amid a medium-term backdrop of policy, economic, and geopolitical risks.
- Geopolitical conflict sent shockwaves through oil markets, although the market expects a relatively quick resolution between the U.S. and Iran, followed by a steady decline in oil prices.
- The AI upswing in capital expenditures has yet to materially broaden as labor market growth remains tepid.
- The U.S. dollar appears to be in a secular decline, as foreign investors' enthusiasm for U.S. assets may have peaked.

Business cycle framework

The business cycle, which is the pattern of cyclical fluctuations in an economy over a few years, can influence asset returns over an intermediate-term horizon. Cyclical allocation tilts are only one investment tool, and any adjustments should be considered within the context of long-term portfolio construction principles and strategic asset allocation positioning.



The diagram above is a hypothetical illustration of the business cycle, the pattern of cyclical fluctuations in an economy over a few years that can influence asset returns over an intermediate-term horizon. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. A growth recession is a significant decline in activity relative to a country's long-term economic potential. Source: Fidelity Investments (AART), as of 3/31/26.



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