The investment outlook for 2026

Asset managers remain broadly bullish on stocks.

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Analysts:

David Brenchley
david.b@keplerpartners.com

The year just gone will be remembered as a year of upheaval, with the US administration's implementation of trade tariffs leading to turmoil in stock markets in April. Despite this, the S&P 500 ended with its third consecutive double-digit gain, with a total return of 17.4%, in US dollar terms. Yet, the US market languished near the bottom of the list of best-performing major stock markets in 2025.

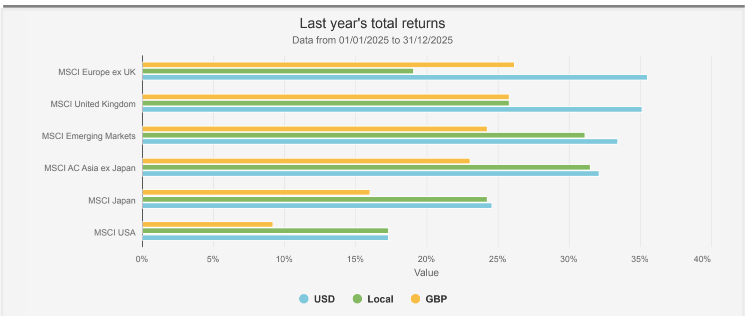
With impressive gains being clocked up all around the world, analysts from JPMorgan Asset Management (JPMAM) said that "markets have understood that while geopolitical hostilities dominate the headlines, other forces are also at play".

The bigger story for JPMAM is "the ever-increasing monetary and fiscal fuel being delivered to an already healthy economic engine", noting that we've never seen fiscal deficits or rate cuts of this magnitude delivered outside of recessions.

These fiscal and monetary boosts come from across the globe: tax rebates and pressure on the Federal Reserve to cut interest rates in the US; Europe's ramping up of defence spending and infrastructure investment; a new, pro-growth prime minister in Japan; and potential continued stimulus in China aimed at reigniting consumer demand.

"With more fuel being added to the economic engine, global activity should regain momentum and broaden out regionally in 2026," said JPMAM. There are risks to this thesis, of course. "History suggests that excessive stimulus can prove problematic if it feeds either rising consumer prices or asset bubbles."

Fig.1: Scores On The Doors



Source: FE fundinfo
Past performance is not a reliable indicator of future results.

Taking the temperature on the tech bubble

The trillion-dollar question throughout the second half of 2025 has been whether excitement over artificial intelligence (AI) has morphed into exuberance and thrown stock markets into bubble territory.

Valuations are certainly elevated. The S&P 500's forward price-to-earnings (PE) ratio was 22x on 07/01/2026, according to Yardeni Research, only slightly lower than the peak recorded in 2000 and well above its 30-year average of 17.1x.

However, technology stocks "have been more expensive in the past and are not at extremes yet", noted Johanna Kyrklund, group CIO at Schroders. The S&P 500 Information Technology sector's forward PE is c. 26x, instead of the c. 55x it reached in 2000.

We recently discussed the best ways of **investing in technology** on our sister website, Expert Investor.

There are some similarities between now and the dotcom bubble, most obviously the increasingly circular nature of recent AI deals, such as NVIDIA's $100bn investment in OpenAI, which is expected to be largely used to buy NVIDIA chips. "The more the fate of individual companies becomes intertwined, the greater the risk that a single failure could lead the broader system to unravel," said JPMAM.

There are differences, though. The AI behemoths have strong balance sheets, sitting on a cash pile of c. $450bn, a long way from the "flimsy" corporate balance sheets of the leaders of the Internet bubble.

Critically, this means most of the hyperscalers have been able to finance most of their AI capital expenditure from free cash flow. "Given tightening credit conditions have often been a major trigger for prior bubbles to burst, this suggests today's tech titans are in much better shape," said JPMAM.

Earnings provide a constructive backdrop. During the 1990s, valuations surged while earnings lagged; today, rising earnings have driven share price rises to a greater degree. The tech sector's margins are more than double that of the broad S&P 500 Index.

There are risks. Continuing to grow earnings this quickly and maintaining such high margins will be no easy feat; and the amount of AI spending forecast in the coming years will eat into those cash piles. Oracle, Meta and xAI have already tapped debt markets to finance their AI spending.

If you're due to retire imminently and you've built up a big enough investment pot for retirement, it might be prudent to take some risk off the table because of lofty valuations, said Kyrklund. However, for investors still in the accumulation phase, "there are costs to sitting on your hands". "You need a plan for the possibility that you could be waiting a long time for a correction and the golden buying opportunity."

Equities

The general theme of the 2026 outlooks is to stay the course. "The old adage that bull markets don't die of old age is probably as valid today as it has ever been," said Alex Tedder, CIO for equities at Schroders. "It implies that there has to be a catalyst for a substantial correction to take place. At the moment, there is no clear catalyst in sight."

Consensus estimates for corporate earnings growth in 2026 are between 12% and 15% for Europe, Asia and the US. "It is not surprising that investors have simply looked through the geopolitical noise and focused on the fundamentals," Tedder said.

The BlackRock Investment Institute (BII) is staying overweight US equities, particularly the AI theme, "supported by robust earnings expectations". Within this, it thinks active investment will be needed to identify the winners and avoid the losers.

Others see better opportunities elsewhere, with valuations, while higher than 12 months ago, remaining attractive relative to the US. Devan Kaloo, global head of equities at Aberdeen Investments, thinks emerging markets offer "a compelling alternative" to US tech stocks. Kaloo sees sustained downward pressure on the US dollar, which should be supportive to EM assets as they tend to gain when the dollar weakens; a once-in-a-generation capex cycle driven by decarbonisation, digitalisation and defence with EMs at its core; and low relative valuations not justified by fundamentals.

The BII has a key overweight to India, where the country's "young and expanding workforce, rapid digitisation and resilience in a fragmented geopolitical landscape bolster its long-term growth prospects".

Fidelity International sees China as "reminiscent of the US market in terms of the progress being made by its companies on technology and innovation". Yet, "positioning is not crowded and valuations are low", said CIO of equities Niamh Brodie-Machura.

"Worries about the trade conflict have cooled and it's clear that the government understands the importance of fiscal spending as a tool to reboot the market and the economy," she added. "Furthermore, the increased focus on ending blistering price wars can help corporate earnings inflect back to meaningful growth. The hints of a broader bull market are clear to see."

Min Zeng, portfolio manager at Fidelity, thinks that "mild inflation alongside gradual monetary normalisation should drive improvements in Japan's corporate earnings".

Neil Robson, head of global equities, EMEA, at Columbia Threadneedle, added: "Ongoing reforms support a more favourable growth environment, and corporate Japan is streamlining balance sheets, embracing a new focus on returns on equity, and investing capital."

JPMAM sees a slowing or stalling of euro appreciation in 2026, "which should offer relief to European companies given their revenues internationally", as well as more stable energy prices, which should support profits given the weight of commodity-related sectors in the European index.

The firm remains positive but selective in Europe, preferring banks, which are cheap and offer a robust shareholder yield; fiscal beneficiaries such as defence, AI infrastructure and utilities names; and the GRANOLAS, Europe's largest stocks across the healthcare, staples, tech and luxury sectors that have a low correlation with America's Magnificent Seven.

Janus Henderson sees optimism returning to the healthcare sector after a prolonged downturn, fuelled by confidence in regulatory oversight in the US, clarity on drug pricing and rising M&A activity, with biopharma leading the way.

"With the healthcare sector trading at discounted valuations and key policy concerns easing, it may be an opportune time to rebuild exposure, especially with expectations for lower interest rates," the firm said. "We remain particularly optimistic about biotech's prospects."

How to protect against a bubble

Despite the positivity around equities, valuations are high and should earnings disappoint, the fall-out could be damaging. It's worth, therefore, asking which assets might protect you if things don't go to plan.

JPMAM sees any AI-driven crisis as being "deeply disinflationary". "If demand for AI infrastructure is overestimated and the return on this investment disappoints, we could see overcapacity, falling prices, shrinking margins, and lower investment," the firm said. This would send stock prices lower, hitting consumer spending and throwing the US into recession.

This would prompt the US Federal Reserve to cut interest rates sharply and long-dated US treasuries would, as they did during the dotcom crash and GFC, deliver attractive returns.

That said, the US dollar might not play the safe haven this time around, given it is the US that leads the AI story. Therefore, non-US investors could consider long-duration local government bonds as an alternative to Treasuries, "though the return potential from falling yields in the eurozone and UK is likely lower than in the US".

Within equity markets, the cyclical sectors that offered protection during the dotcom crash are now trading on 22x forward earnings, leaving them vulnerable. Defensive sectors have underperformed and sit on undemanding valuations, so should be considered.

JPMAM said: "Their earnings are also less tied to tech infrastructure build out and economic activity more generally, making these sectors better insulated from any tech downturn."

How to protect against inflation

The fiscal largesse we've mentioned has the potential to reignite inflation, as it hands cash directly into consumers' hands, potentially causing demand to outstrip supply. We're also yet to see the much-vaunted impact of tariffs on inflation.

If inflation does reignite, the Fed would almost definitely stop cutting rates and potentially return to raising them. Here, JPMAM think that real assets such as timber and core infrastructure would offer the best protection. The FTSE 100 would probably outperform other markets, they said, given its commodity-heavy company make-up.

If inflation gets embedded and becomes more of a creeping problem, history suggests real estate would outperform stocks and inflation-linked bonds would outperform their nominal counterparts. Gold's store-of-value properties would make the precious metal an important diversifier, as well as serving as a hedge against concerns around US institutional credibility or fiat currency risks, JPMAM said.

No more 60/40

For decades, investors looking for the best balance between risk and return have been able to run a simple formula: 60% of your portfolio should be in equities, the main driver of returns over long timeframes; the other 40% should be in (ideally government) bonds, which provide ballast in times of stock market stress.

Paul Diggle, chief economist at Aberdeen, thinks this formula is now "losing its effectiveness". "Supply shocks, rather than demand shocks, now dominate the economic landscape," Diggle said.

"Disruptions from geopolitics, climate change and pandemics tend to push economic growth down and inflation up simultaneously. As a result, equities and bonds, which once moved in opposite directions, now often rise and fall together."

The BII broadly agrees that there are no longer any "easy passive diversification options in this environment". "Traditional diversifiers like long-term Treasuries do not offer the portfolio ballast they once did," the BII said. Both Aberdeen and the BII favour more flexibility in portfolio construction.

Schroders also sees continuing divergence across geographies when it comes to bond yield moves and the outlook, with the Fed and Bank of England still easing, the European Central Bank happily on hold, and the Bank of Japan not done hiking.

The good news, though, is that bonds do remain an attractive income opportunity, especially with rates on cash falling and unable to keep pace with inflation, according to Julien Houdain, head of global unconstrained fixed income at Schroders.

In a world where investors must be nimbler, Janus Henderson suggests multi-sector bonds, or what might more commonly be known as strategic bond funds here in the UK, where fund managers can invest across the whole fixed income space, rather than being confined to one specific niche.

"Choosing a multi-sector fund enables investors to delegate the task of continually adjusting their fixed income asset mix due to changing market conditions," Janus Henderson said. "Active managers can adjust levers across sectors, credit quality, and duration in an effort to navigate rapid market swings and potentially capitalise on dislocations."

BII likes gold as a "tactical play with idiosyncratic drivers but [doesn't] see it as a long-term portfolio hedge". It prefers private markets and hedge funds, which "pair diversification with strong return potential".

The BII likes infrastructure, which "sits at the intersection of structural demand and a timely market opportunity". Infrastructure's cash flows are often regulated or contracted, giving them defensive characteristics, while the AI buildout should benefit the asset class since it provides the power, data networks and connectivity that the eventual AI winners will rely upon.

Despite these positives, listed infrastructure trades at deeper discounts to global equities during both the global financial crisis and the COVID-19 shock. The BII said: "We think valuations don't reflect the long-term potential."

On a similar note, "real estate is central to building resilient economies and societies", according to Craig Wright, head of European research for real assets at Aberdeen. Wright sees opportunities within industrial property, community-focused housing, data centres, and decarbonising Europe's ageing housing stock.

One area to consider for capital preservation outside of bonds is absolute return. The allocations of these funds are not constrained by any index or market weightings [leaving] them well-positioned to deliver returns that are uncorrelated with the majority of today's funds, especially passive index trackers," said Matt Jones, portfolio manager at Fidelity.

A final way to diversify away from public markets is to look to private markets. Vivian Liu, portfolio manager at Fidelity, notes that privately owned companies offer exposure to mid-market, regionally focused companies, a different return source from the global, large-cap businesses leading public markets today, where supply chains and revenue sources are exposed to geopolitical tensions.

JPMAM highlight the fact that companies' growth sequence today has shifted from seeking to IPO early on in their life to staying private for much longer. Indeed, the median age of a company at its IPO in the US has gone from five and a half years in the late 1990s to 14 years in 2024. In 1996, there were over 8,000 publicly listed companies in the US; today, there are fewer than 6,000.

There are risks to private equity – valuations are high, competition for deals is intense and stress within private credit could spread. However, "falling US interest rates will make borrowing cheaper, helping boost returns and supporting current valuations," JPMAM said. The firm likes small and mid-market private equity as an attractive way to access the AI theme at more reasonable valuations, potentially at discounts to NAV.

Summing up, Kyrklund said that Schroders sees "a low risk of recession, contained bond yields and momentum in company earnings which leads us to stay positive", yet accepts that they need to quickly recognise changing views of whether they've got things wrong and adapt.

Despite turbulent news flow to start 2026, the S&P 500 is trading at a record high and the FTSE 100 is above 10,000, at the time of writing. "The waters are getting choppier, but we still see ways of navigating them to get to our destination. It is too soon to seek shelter," said Kyrklund.

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