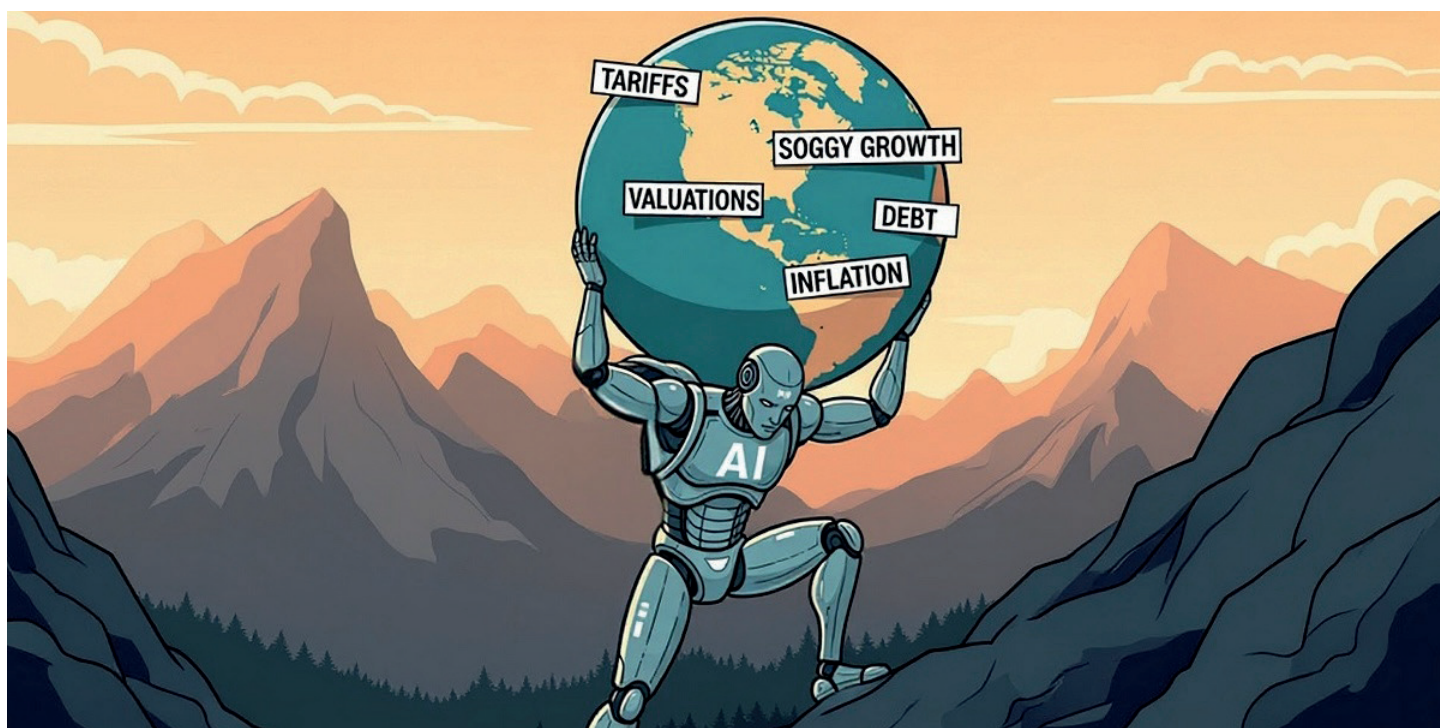


2026 Year-Ahead Investment Outlook

AI Lift and Economic Drift



In brief:

- Both economic growth and inflation should heat up in early 2026 due to OBBBA impacts. Thereafter, however, higher tariff levels and lower immigration will cause growth to slow and inflation to cool.
- A wide range of views across Fed officials suggests a shallow easing path; we expect the Fed will reduce rates 2-3 times through 2026.
- In this environment, long-term rates should remain range bound with modest curve steepening. Investors should continue to embrace income in fixed income and active security selection across credit, securitized assets, global bonds and municipals.
- Valuations, earnings and AI look bubbly but are underpinned by solid fundamentals. Investors should prioritize quality and focus on secular, rather than cyclical, themes, like the broadening AI ecosystem and deregulation in financials.
- Not last decade's international markets: U.S. versus rest of world earnings growth gap has narrowed, as structural changes overseas bear fruit. Strong international equity returns have further room to run due to positive nominal growth, AI, fiscal stimulus and shareholder friendly policies.
- Alternatives can allow investors to lean into thematic exposures that will continue to be relevant in 2026, such as AI, or, conversely, add diversification to concentrated portfolios.
- Diversification isn't dead, just different: Foreign markets are competing, bonds are attractive and alternatives will play a critical role in portfolio construction for all desired investment outcomes.

Executive summary

After weathering the 2025 policy storm, 2026 should be another year of U.S. economic resilience, continuing to support risk assets like stocks and corporate credit. Beneath the surface, however, cyclical economic momentum remains modest – with a K-shaped economy where middle income and below consumers feel pressured and rate-sensitive sectors of the economy (like housing) remain soggy. The risks around the base case outlook are wide next year – for investors and for the Fed, which will remain in rate normalization mode for a bit longer but at a slow pace given risks to both sides of its mandate.

Rate volatility may flare up from time to time next year, so investors should stay nimble around duration management. More than trying to perfectly capture yield levels, investors should lean into the income in fixed income, especially tied to solid corporate, consumer and municipal balance sheets. Within stocks, we continue to see the biggest opportunities in structural rather than cyclical stories. The investment and adoption of AI continues to dominate the strength seen in U.S. economic and earnings growth – and, increasingly, international earnings growth as well (especially in Asian emerging markets). The AI theme also continues to power both public and private markets – but the key is to stay ahead of the evolving AI winners, especially as expectations have ratcheted higher and investors have started to focus more on the return for all that investment. “Smarter regulation” also remains a powerful theme for U.S. markets, including banks and private equity and credit.

Overseas, we expect other structural themes to power a narrowing of the earnings growth gap with the United States, including higher nominal growth, higher government investment and a focus on shareholder returns. This, combined with a continued weaker dollar and still low expectations, point to another strong year for international equities, especially Asian emerging markets and the value style in Europe and Japan.

The biggest risk for investors remains the elevated starting point for risk assets, especially in the United States, and how offside portfolios have been to the broadening of asset class returns underway. As 2025 showed, diversification can come roaring back with a vengeance. Investors would be wise to take this lesson into 2026 – a year that at surface level everything might appear fine, but in which investors need to work extra hard beneath the surface to make further progress.

Cold, hot and cold again in a continued K-shaped expansion

It is customary, in a U.S. economic forecast, to focus on the baseline and only briefly mention issues that could cause the economy to veer from that path. However, entering 2026, while a baseline forecast is relatively easy to construct, it is the alternative scenarios that deserve the most attention, as significant policy and financial market issues continue to swamp other considerations in mapping out the direction of the economy.

Entering 2025, it appeared that the economy would avoid recession but only achieve 2% real GDP growth, with inflation falling to 2% and the unemployment rate hovering at around 4%. However, policy changes from the new administration, combined with AI enthusiasm and a continued stock market boom, have had significant impacts that are likely to continue into 2026.

First, dramatic increases in U.S. tariffs have generated very significant revenue, averaging over \$29 billion between June and October. So far, most of the cost of the tariffs appear to have been absorbed by U.S. retailers. However, we expect an increasing share of this cost will be passed on to consumers in the fourth quarter and in 2026. Provided tariff levels don't change from here, we expect tariffs to boost year-over-year inflation and drag on real consumer spending through the first half of 2026 but then fade as a macroeconomic force thereafter.

Second, the immigration crackdown continues to impact labor supply. Accurate data on legal immigration and involuntary deportations are very spotty, while illegal immigration and self-deportations are even harder to track. That being said, available evidence suggests a dramatic decline in net immigration, likely triggering an absolute decline in the working-age population – a trend we expect to continue in 2026 and beyond. This suggests that, even with some increase in labor force participation, very slow job growth should still be consistent with a roughly stable unemployment rate. This slow job growth would, however, negatively impact overall real GDP growth both in 2026 and beyond.

While higher tariffs and lower immigration are slowing growth, other factors are supporting it.

First, as this is being written, the S&P 500 is up 17% year-to-date in what has been, so far, a third consecutive blockbuster year for U.S. equities. This is generating very substantial gains in wealth, supporting spending on high-end services and goods even as low-end spending remains sluggish. This is contributing to a so-called “K-shaped” economic expansion, with richer households getting richer even as lower and middle-income households feel squeezed.

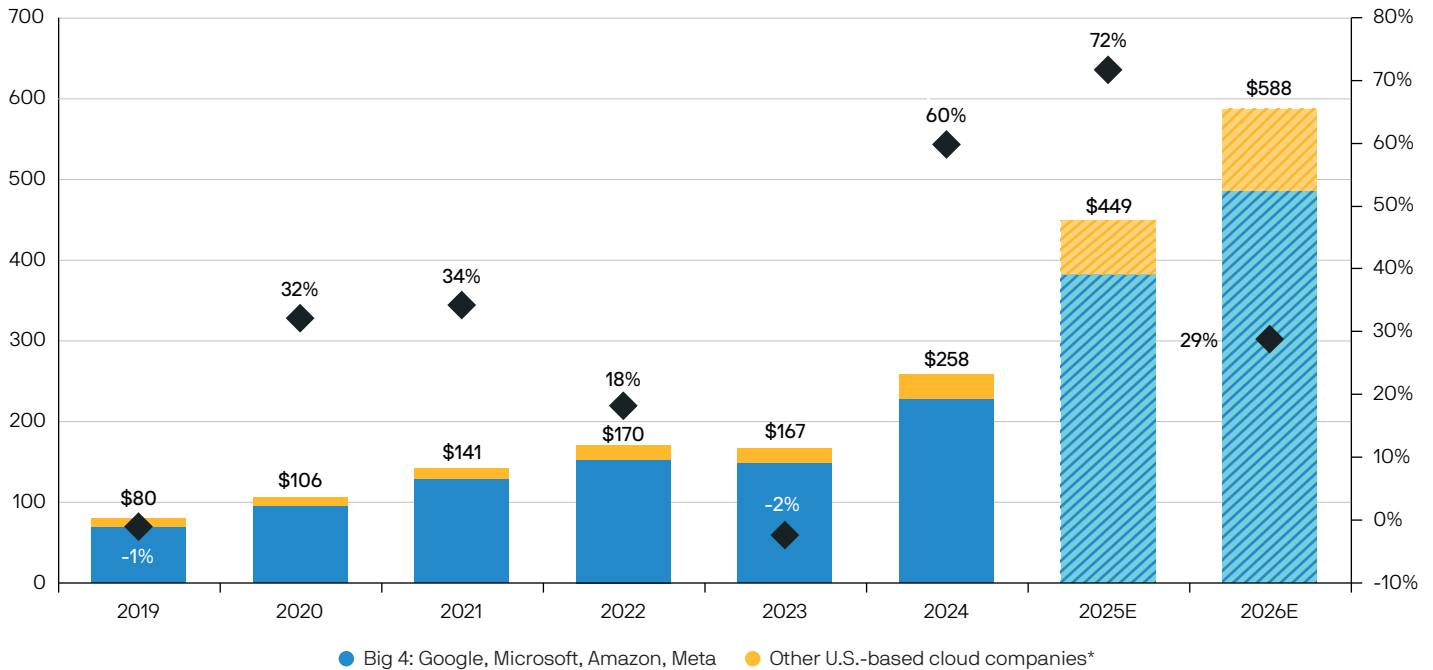
Second, AI investment is booming as tech giants race to acquire the chips, data centers and electrical supplies necessary to feed their voracious training projects and accelerating inference demand. At its current pace, capex is already significant by historical standards, with data center capex amounting to 1.2-1.3% of GDP (although not all investment boosts GDP because of imported equipment), and continued investment growth is expected. Business adoption is also accelerating, with 9% of U.S. firms reporting the integration of AI in production and 44% of firms now paying for some kind of AI model or platform. While it is too soon to ascertain productivity impacts in the data, there are indicators consumers are already benefiting from the usage of AI technologies.

Third, the OBBBA is boosting demand. This year, the stimulus is largely in the form of investment incentives as the legislation provides for full expensing of spending on equipment and R&D. Other new tax breaks for households became effective at the start of 2025. However, because the IRS has not yet adjusted income tax withholding schedules in accordance with the new law, these tax breaks should show up as a bumper crop of tax refunds early in 2026.

Putting it all together, our base case forecast sees real GDP growth slowing to a roughly 1% pace in the fourth quarter, picking up to above 3% growth in the first half of 2026, and then slowing again to between 1% and 2% growth later in the year, as the stimulative impact of refunds fades. This growth only yields an average of 50,000 new jobs per month, partly reflecting a lack of available workers. However, constrained labor supply prevents sharp layoffs, with the unemployment rate peaking at only 4.5% in late 2025 and early 2026, before declining slightly thereafter. Year-over-year inflation rises through June 2026. However, CPI inflation still peaks below 4% year-over-year, due to lower oil prices and sliding shelter inflation, and falls to 2% by the end of 2026.

Voracious spending from the major U.S. cloud companies is fueling an AI investment boom

Exhibit 1: USD billions (left), year-over-year % growth (right)



Source: Bloomberg consensus, company reports, Goldman Sachs estimates, J.P. Morgan Asset Management.

*Other U.S. includes Oracle, CoreWeave and Apple. This list of cloud/hyperscale spenders is intended to capture key market contributors but should not be interpreted as exhaustive. Microsoft figure is cash capex (excluding assets acquired as capital leases).

Guide to the Markets – U.S. Data are as of November 13, 2025.

Risks to the forecast

Such is the baseline forecast. However, a number of factors could significantly impact this outlook.

First, the Supreme Court could rule that the president lacked the authority to impose country-specific so-called “reciprocal” tariffs under the International Emergency Economic Powers Act of 1977. If it does so, we expect the administration to cobble together alternative tariffs under different laws. However, these tariffs could raise less revenue than current tariffs and such a ruling could necessitate substantial refunds to U.S. companies that have already paid the tariffs. If this happens, expect slightly stronger economic growth in 2026 with lower inflation.

Second, if the economy weakens going into the second half of next year, Congress might pass further fiscal stimulus to boost consumer spending ahead of the mid-term elections. If this occurs, possibly in the form of so-called “tariff rebate checks,” both economic growth and inflation would likely be higher later in 2026.

Third, the boom in tech stocks and AI spending could lose its luster, even if temporarily. While few doubt the potential transformative impact of AI, a shift in momentum could be triggered by a range of factors (i.e. a miss on mega cap earnings, a supply crunch on power or critical materials or an external liquidity shock). Given the significance of AI investment, such a slowdown could cause a recession and/or bear market, or at minimum pressure the AI-linked wealth gains that have lifted consumption. The rising cost of AI is also a risk and increases the likelihood of corporate belt-tightening to fund AI strategies, which may result in hiring freezes or increased layoffs.

In short, our baseline forecast is that after a modest surge in inflation and economic growth, both slowly slide to subdued levels by the end of 2026. But as has been the case in 2025, there is plenty of potential for a considerably bumpier ride.

Fixed income: Difficult decisions facing a divided Fed

Fixed income returns are shaped by central bank policy expectations and, given the wide range of views within the FOMC, this raises both risk and opportunity for bond investors in the year ahead.

At the October Fed meeting, we saw this range of views clearly: one FOMC member dissented in favor of no rate cuts, while another dissented in favor of more aggressive easing. While policy disagreements are generally uncommon, this discord signals a committee wrestling with the balance between staying on hold or cutting rates further.

Why such a wide range of views? The divergence boils down to the Fed's dual mandate: maximum employment and stable inflation. On one side, the hawkish camp views inflation as the more urgent challenge, with inflation hovering at 3% and tariff-driven inflation just becoming evident in the data. Moreover, if the Fed continues to cut rates while inflation remains above target, there may be an implicit assumption the committee is targeting a higher inflation rate – a notion that Chair Jerome Powell has overtly dismissed.

On the other end, low hiring rather than widespread layoffs likely only nudges the unemployment rate higher. Assuming more upward risk to inflation than unemployment, one might argue the Fed should focus more on inflation. In addition, there is, of course, political pressure from the administration on the committee to lower rates. While it's unlikely Fed governors will vocally push back against the administration, a quiet, resolute stance defending Fed independence may be forming among a few members. That said, Powell's term as Chair expires in May and Stephen Miran's interim governor seat expires in January.¹ While both seats are likely to be filled by individuals that favor easier monetary policy, the long, staggered terms of Fed governors² shouldn't materially alter the Fed's path next year.

Given this, next year may see markets grappling with a more patient Fed than originally anticipated. At the time of writing, the market is pricing in roughly 80 basis points (bps) of rate cuts through 2026. Yet, as Powell recently stated, further adjustments are far from a foregone conclusion.

It is worth noting, as shown in Exhibit 2, that just as many Fed officials are concerned about the upside risk to inflation as they are to the upside risk to unemployment. Moreover, given the Fed is already near their estimate of “neutral” suggests more measured easing next year.

What does all this mean for fixed income in 2026?

- 1. As markets recalibrate rate cuts, be prepared for rate volatility.** A dovish or hawkish pivot from the Fed could send yields lower or higher, respectively. As such, duration management will be key. We expect short rates (2-year Treasuries) will hover between 3.50%-3.75%, while long rates (10-year Treasuries) settle between 4.00%-4.50%. Therefore, balancing short-dated securities with select intermediate to long maturities provides adaptability if cuts stall or hikes re-enter the conversation.
- 2. Investors should embrace active management.** Income in high-quality credits, securitized assets and municipal bonds remain attractive given solid corporate, household and municipal fundamentals, but selectivity is key. Moreover, if inflation does percolate, locking in attractive real yields via TIPS (and/or inflation-hedged assets like gold, commodities and private alternatives) may offer diversification from that risk.
- 3. Diversify across global bonds.** It's likely inflation uncertainty and debt levels will continue to rise in the United States, so other developed sovereign bonds may provide diversification against U.S.-specific risks, while emerging market debt continues to offer attractive carry (especially in local currency).

History shows that when inflation is a concern, the Fed tends to tread carefully – a pattern that may reassert itself in 2026. In short, fixed income investing is less about a big bet on the direction of interest rates and more about managing for a range of outcomes. This means active fixed income management, disciplined risk control and careful positioning are more important than ever.

¹Stephen Miran can serve beyond January without another senate vote until a replacement is found.

²Each of the seven members of the Federal Reserve Board serve 14-year terms and are staggered so that one term expires every two years.

Fed worries about both inflation and unemployment suggest measured easing ahead

Exhibit 2A: Target federal funds rate, FOMC median projection of longer run federal funds rate

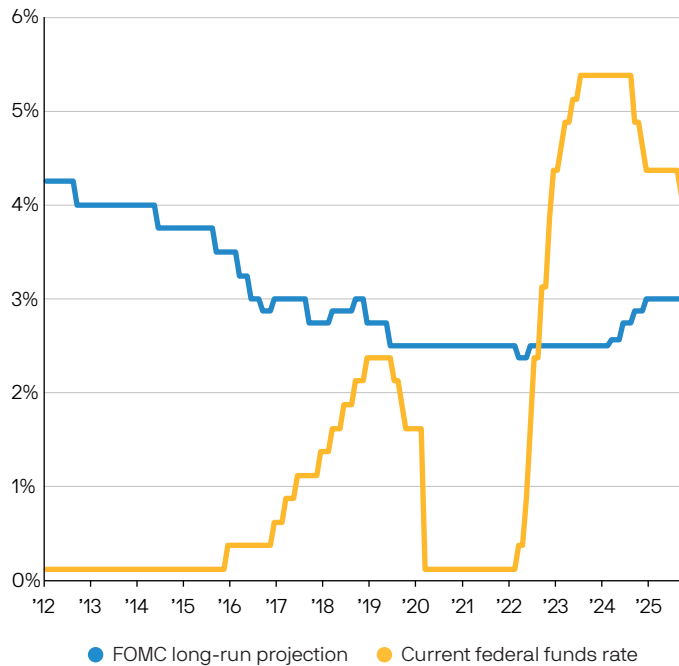
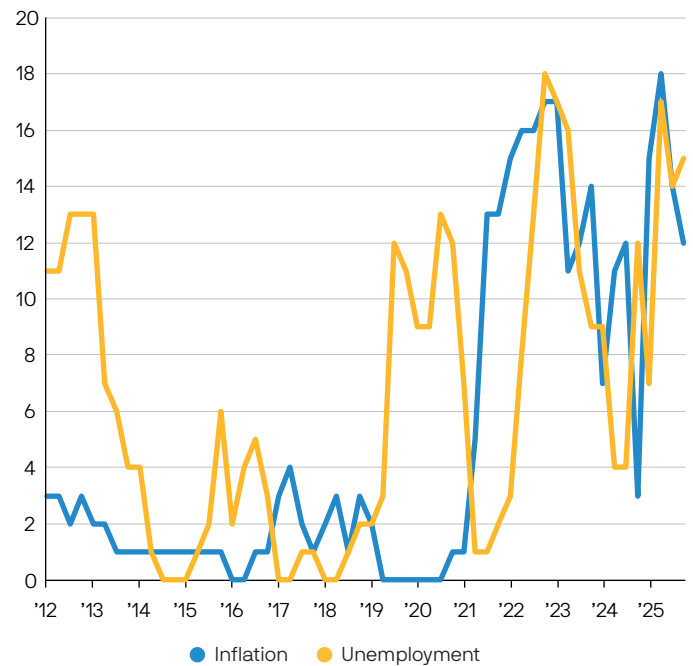


Exhibit 2B: # of FOMC participants who view inflation and employment risks as skewed to the upside relative to forecast



Source: (Left) Bloomberg, Federal Reserve Board, J.P. Morgan Asset Management. (Right) Federal Reserve Board, J.P. Morgan Asset Management. For each SEP, participants provided responses to the question "Please indicate your judgment of the risk weighting around your projections." Data are as of November 13, 2025.

Equities: Bubble or boom?

Despite a tempestuous start, U.S. equities are on track to notch a third consecutive year of double-digit gains – the third instance since the Great Financial Crisis (GFC). Given this heady run, investors are grappling with three central questions for 2026:

1. Are stocks too expensive?

Valuations are undoubtedly rich, but there are some compelling justifications. First and foremost, profit growth has been impressive, tracking for four consecutive quarters of double-digit earnings growth. Earnings also comprise the largest contribution to total returns in the United States compared to its global counterparts on an absolute and relative basis. This resilience in valuations and profits comes with policy rates above 4% for the last three years, a softer consumer, less fiscal stimulus and few cyclical tailwinds. In addition, structural factors, like shifting index composition from value to growth, may also warrant higher valuations.

2. Can earnings remain this robust?

Profit growth is poised to continue its remarkable run, although expectations may be a tad optimistic, hinging on tech and taxes. S&P 500 earnings are expected to grow 11% in 2025 and another 13% in 2026. Magnificent 7 earnings growth may decelerate slightly to 20%, while the rest of the index is expected to grow 11%, contributing 64% of overall profit growth. However, this "broadening out" has thus far failed to materialize, and 2026 Mag 7 earnings estimates have been revised up by 3.4% vs. -1.2% for the S&P 493 since the start of the year. Additionally, estimates call for earnings growth to accelerate in 2H26 without any clear catalyst.

Provisions from the OBBBA around capex and R&D expensing and bonus depreciation could postpone certain tax liabilities, improving free cash flow for R&D-intensive (tech, health care) and capital-intensive (industrials, energy) companies. However, if companies increase investment, this effect would be neutralized. Finally, consumer sectors may benefit from a consumption boost from tax refunds, but that could be offset by tariff costs hitting already slim margins.

3. Is AI a bubble?

Unlike past episodes of speculative excess, today's AI cycle is being largely financed by profitable, cash-rich firms and underpinned by robust demand. The tech sector's free cash flow margin, near 20%, is more than double its late 1990s level, underscoring both robust profitability and the capacity to self-fund AI investment. AI spending is also translating into monetized demand for AI hardware, cloud services and software, helping justify continued investment. Indeed, bubbles burst into nothing, but the AI theme is building real infrastructure to meet growing demand.

Still, markets are struggling to price a technology that is advancing at exponential speed. Earnings growth has been extraordinary, but expectations have risen even more so. Tech sectors have accounted for 36% of S&P 500 earnings and 56% of the index's capital spending growth over the last 12 months, leaving markets vulnerable to any missteps, such as a slowdown in business adoption, power constraints or faster-than-expected hardware obsolescence. The stakes are high,

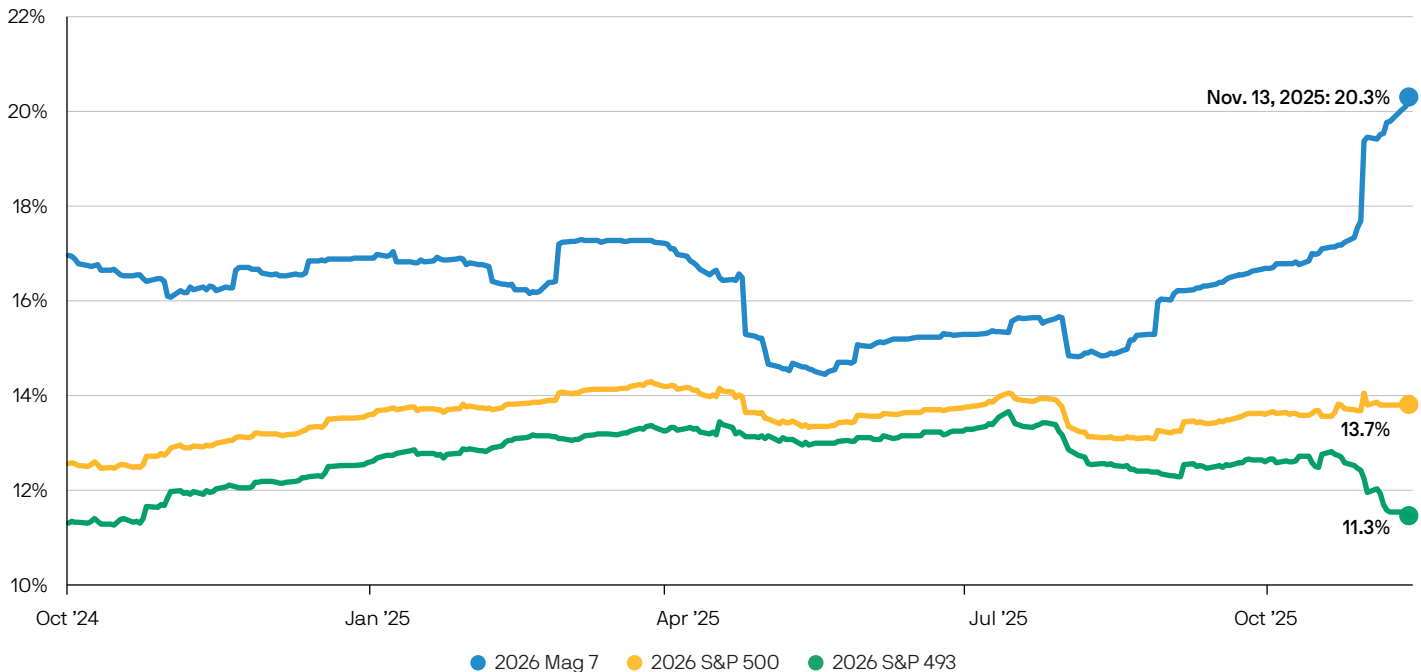
and visibility into the ultimate winners limited, but this looks less like a bubble and more like the tumultuous beginnings of a structural transition.

Whether bubble or boom in valuations, profits or innovation, selectivity and balance are critical for portfolios. Within growth, the tech sectors have obvious appeal given their exemplary profits, while consumer discretionary has lagged this year, beleaguered by tariff pressures, a softening consumer and a relatively weak showing from the sector's Mag 7 names. Within AI, beneficiaries should continue to broaden out from the innovators (tech) to the enablers (industrials, utilities) and the adopters (financials, health care). Traditional value sectors like energy and consumer staples may continue to struggle due to low oil prices and a deteriorating low-end consumer, while financials boast resilient earnings and differentiated catalysts like deregulation and yield curve steepening.

While markets appear undeterred, even with solid fundamentals markets can correct, investors should be prepared for both success and setbacks.

2026 earnings estimates for the Mag 7 shoot up; S&P 493's shoot down

Exhibit 3: 2026 consensus EPS growth estimate



Source: FactSet, S&P Global, J.P. Morgan Asset Management. Magnificent 7 includes AAPL, AMZN, GOOGL/GOOG, META, MSFT, NVDA and TSLA. Data are as of November 13, 2025.

International equities: Global structural changes driving narrowing U.S. earnings growth exceptionalism

After much anticipation – and despite significant trade policy uncertainty – international equities had a spectacular 2025. As of the time of writing, international equities are up 31% in U.S. dollar terms, outperforming U.S. equities by 1,520bps (the biggest outperformance since 1993) and including every major region. An improvement in sentiment from a low base has been behind the outsized moves: Multiple expansion has contributed 15%pts to returns and a weaker U.S. dollar has contributed another 7%pts. This has been particularly powerful for markets that had previously underperformed, including parts of emerging markets (Korea and LATAM) and the eurozone. It has not all been based on hopes and dreams, however, as next twelve months earnings expectations moved higher in all the major regions (except LATAM). This was due to more resilient global economic and earnings growth than feared despite tariff-related uncertainty and stronger currencies.

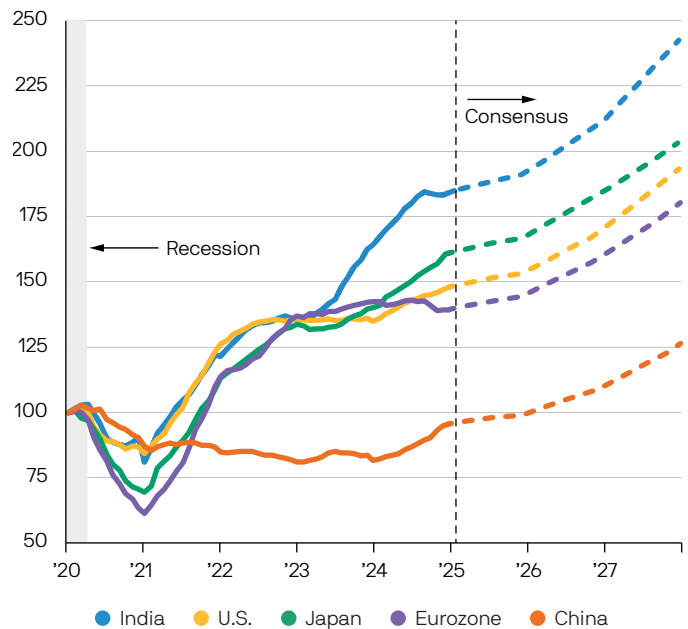
Next year, sentiment should still support international equities given low positioning albeit at a lower contribution. After a strong start to 2025 in 1Q and then a 6-month pause in 2025, global reallocation should be a recurring tailwind in 2026 and beyond. Inflows into emerging markets have begun to inflect higher after muted interest the last few years. As noted in our Mid-Year Outlook, there's a push and pull driving global investors to invest their next marginal dollar outside the United States:

- U.S. dollar is still 10% overvalued versus fair value,³
- This year's positive correlation between the dollar and U.S. equities is leading foreign investors to hedge more dollar exposure,
- U.S. equity premium over international equities is still at 34% (versus its 19% long-run average),
- U.S. still represents over 65% of global equity benchmarks, and
- U.S. equities still have a record over 40% concentration in 10 companies (and in the AI theme).

In 2026, the biggest contributor to international equity returns should come from the fundamentals side, especially earnings growth. In 2025, investors had some disappointment with low-single-digit earnings growth in Europe and Japan (versus over 10% in the United States) due to higher tariffs and stronger currencies hitting key export companies. Next year, expectations are for a narrowing in earnings growth between the United States and other regions, with about 10% expected. This looks reasonable given resilient global activity, less tariff uncertainty, easier global monetary policy given well-behaved inflation, fewer unexpected swings in currencies and a manufacturing upturn in Germany and broader Europe as recent government investments are executed.

This cycle, earnings growth overseas (ex-China) is keeping up with the U.S.

Exhibit 4: Earnings growth, last 12 months, local currency, Jan 2020=100



Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Countries are represented by their respective MSCI country index except for the U.S., which is represented by the S&P 500. Data are as of November 13, 2025.

³Based on J.P. Morgan Asset Management's 2026 Long-term Capital Market Assumptions. USD refers to the trade-weighted dollar. The projection is based on its starting point versus fair value estimate using a purchasing power parity framework and applies to the next 10-15 years.

In fact, despite a stall in 2025, the earnings gap between U.S. and international companies has been shrinking since the pandemic (except for China), as Exhibit 4 shows. Looking ahead, it's structural versus cyclical themes that give us conviction in international earnings. These include four major themes that are difficult PASS on.

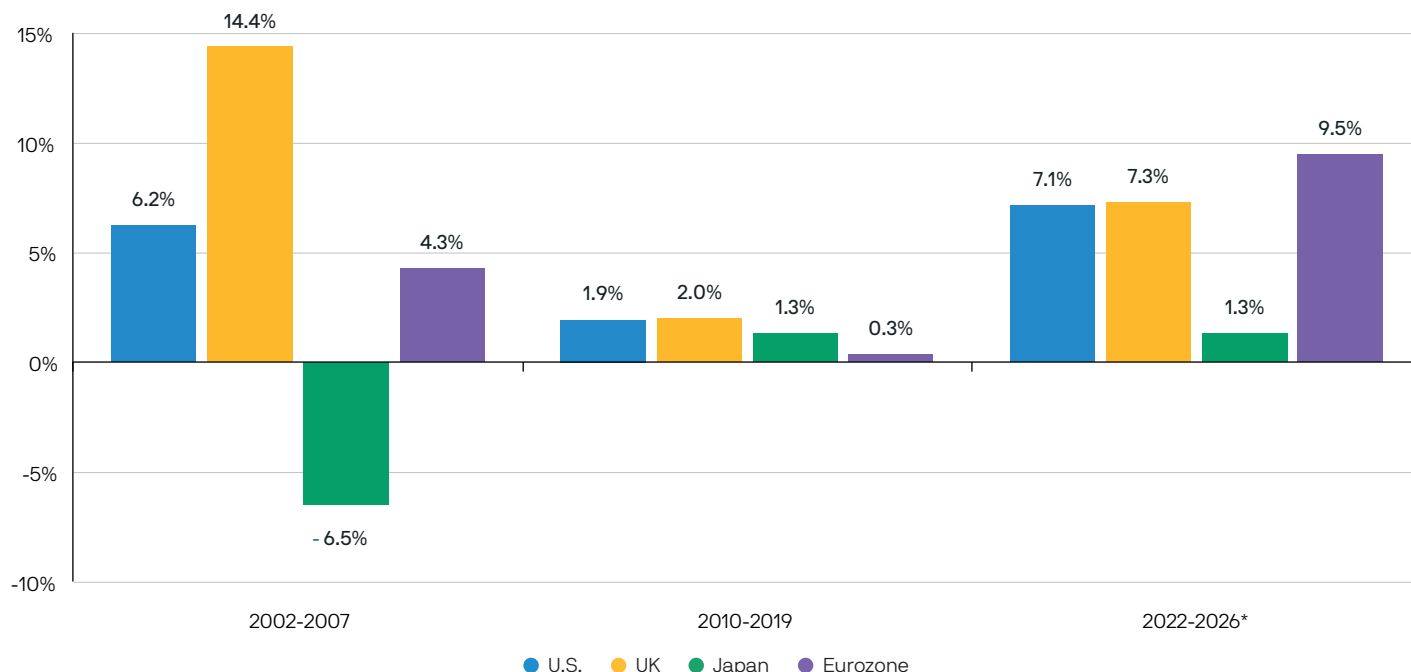
1. Positive nominal growth: The shift to higher nominal growth and the end of negative rates has transformed European and Japanese companies, especially banks and value sectors. Opportunity still exists in developed ex-U.S. financials given still deep valuation discounts.
2. AI theme broadening: This theme should continue next year involving a broader range of semiconductor, cloud/internet and robotics companies. This supports technology sectors in Offshore China, Korea, Taiwan and Japan, and is increasingly important in emerging markets, where technology is 27% of the index.
3. Spending on the fiscal side: Unlike the post-GFC and pre-pandemic cycle, this cycle has seen strong global government investment, with the eurozone leading

(Exhibit 5). 2025 saw several big fiscal announcements, the biggest of them all in Germany, but also broader European countries pledging to spend 5% of GDP on defense and infrastructure. This spending should start to occur in 2026 – especially on domestic procurement benefiting European defense champions (still trading at a discount to U.S. peers). Japan's new government is also likely to boost fiscal spending, especially aimed at households. That, combined with accelerating real wage growth, should provide a welcomed further reflationary boost. In developed markets ex-U.S., this argues for a tilt toward domestic companies, including down the market cap spectrum.

4. Shareholder focus overseas: Buybacks and shareholder-friendly policies, once unique to the United States, have spread to Europe and Asia. In 2025, buyback announcements as a share of market cap in Korea and Japan surpassed the United States. This trend, especially in Japan and Korea, supports value stocks and boosts earnings per share. International markets also offer dividend yields twice those of the United States.

Unlike the post-GFC period, fiscal austerity has been left behind across regions

Exhibit 5: Nominal government investment, average annual growth rate



Source: OECD, J.P. Morgan Asset Management. *2022-2026 includes OECD forecasts. Eurozone is a GDP-weighted average of France, Germany, Italy and Spain. Government investment is fixed capital investment by government entities in long-term assets such as infrastructure, buildings, machinery and equipment, intended to support public services and economic development. Data are as of November 13, 2025.

Alternatives: Broadening access to alpha but selectivity matters

As investors increasingly consider private market alternatives as integral to a balanced portfolio, many of the same themes in public markets are relevant to investors in private markets. And helpfully, the growing accessibility of alternatives provided by evergreen funds has allowed more investors to invest thematically across a wider opportunity set.

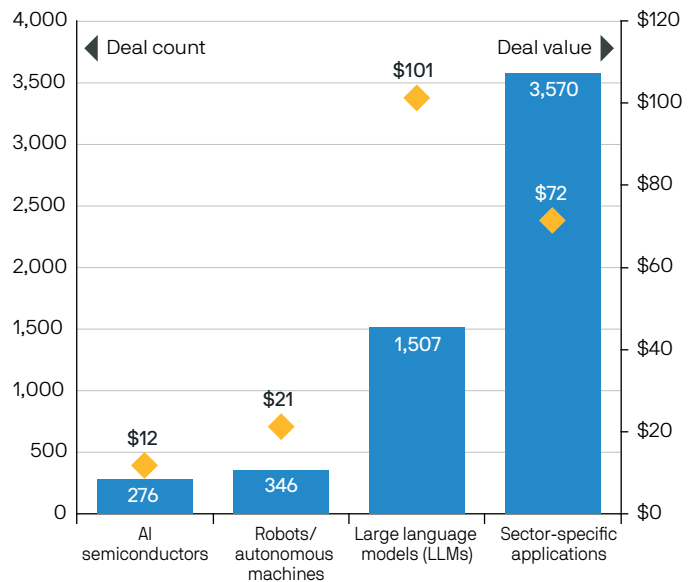
In the coming year, AI is expected to remain a dominant theme. As we move from proofs-of-concept to large scale adoption, the question of where to invest in the value chain of this technological revolution becomes important. Private markets offer wide latitude here. AI enthusiasts may look to venture capital for opportunities to lean into cutting-edge development, or infrastructure to support the insatiable need for power by data centers. Indeed, the massive spending by the hyperscalers may be viewed as a transfer of value from the public to the private markets: Private equity, infrastructure and private credit funds have been key players behind the build-out of data centers and their associated infrastructure.

2025 also reminded us that AI is a disruptive and unpredictable technology. Markets got a loud wake-up call to this vulnerability in January with the revelation that Deepseek, a relatively unknown Chinese company, was able to build a large language model faster and cheaper than its more famous rivals. Those concerned about the increasing concentration of public equities in the AI theme and lofty valuations, with the Magnificent 7 making up 35% of the S&P 500, and the forward price/earnings ratio of the index touching 23X, may look to boost allocations to alternatives that have lower correlation to public markets.

Private equity (PE) has historically been a strong generator of alpha relative to public markets. A diversified global buyout index has outperformed global public equity by 500bps from 2005-2024. However, since 2023, the exceptional performance of public equities has outshone the median PE fund. The outperformance of public markets is unlikely to persist, and we expect the liquidity premium to return, but it is increasingly important to seek out managers with the ability to outperform consistently by adding meaningful alpha.

Venture capital provides many opportunities to invest in AI themes

Exhibit 6: VC AI deal activity by type, trailing 12 months count, USD billions, 2Q25



Source: Pitchbook, J.P. Morgan Asset Management. Sector-specific applications are built on top of AI models and enable domain-specific performance and integration. Data are as of November 13, 2025.

The high levels of volatility and economic uncertainty seen in early 2025 made it a more challenging time to sell companies or execute IPOs, particularly at the large-cap end of the market where large, international companies are exposed to headline risks. In this environment, small and mid-cap PE have advantages: lower valuations, domestic focus, simpler business models and more tried and tested value creation playbooks.

As interest rates come down and lower the cost of financing, this could be a meaningful tailwind to private equity dealmaking. Add this to the robust post-IPO performance of recent PE exits, a non-recessionary economy, healthy capital markets and a pro-merger regulatory environment and 2026 has all the makings of being a good year for exits, allowing PE funds to increase distributions to investors amidst still elevated company inventories.

Real estate continues to undergo a valuation recovery, as the sector rebounds from interest rate hikes in 2022 as well as a post-COVID re-assessment of the future of offices, retail and urban-suburban living patterns. The NCREIF posted its fourth consecutive positive return in 3Q25, with all sectors showing gains. Many of the factors that led to this repricing are now being re-evaluated.

For offices, investors are gaining a better understanding of what hybrid working may look like in future. In residential markets, while some markets are contending with localized over-supply, many urban centers with more restrictive building permissions are seeing robust rent growth. While markets are pricing short-term interest rates to come down by 0.5-0.75% over the coming year, mortgage rates and longer-term rates might stay elevated as fiscal concerns weigh on the long end of the yield curve. This could be an environment that keeps construction restricted and rewards patient capital investing in supply-constrained markets.

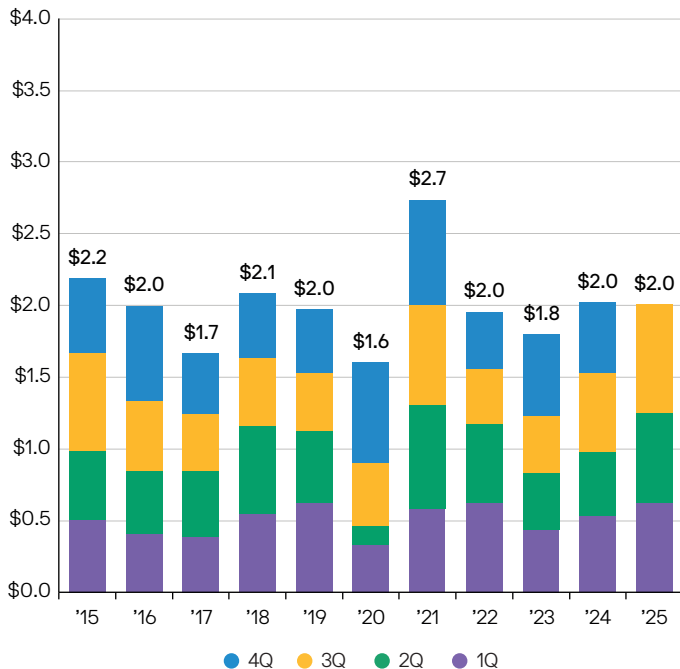
Those warning of a growing bubble in private credit may have felt vindicated when, in September, several borrowers defaulted on large debts. However, the defaults appear to be isolated to issuer-specific concerns and the auto sector rather than signaling broader systemic risks in the private credit and leveraged loan space. That said, as credit spreads have compressed, there is a renewed focus on quality of credit

and adequate pricing in recognition that pockets of risk may exist. While recession appears unlikely in 2026, concerns around the economic outlook persist. Private credit continues to offer a healthy premium relative to public market credit, though investors may consider diversifying exposure and considering strategies that may be able to better weather a slowdown, such as broadly diversified secondaries investments, investment-grade private credit or opportunistic strategies like distressed debt and special situations.

Throughout 2025, hedge funds had ample opportunity for trading as policy-driven volatility and pricing dislocations provided managers with the raw material for alpha generation. However, the variety and velocity of change favored a strategy of diversification across hedge fund strategies. Global macro practitioners today have catalysts everywhere they look: Divergent central bank policies, reshoring of supply chains and geopolitical risks are creating tradeable dislocations across rates, currencies and commodities.

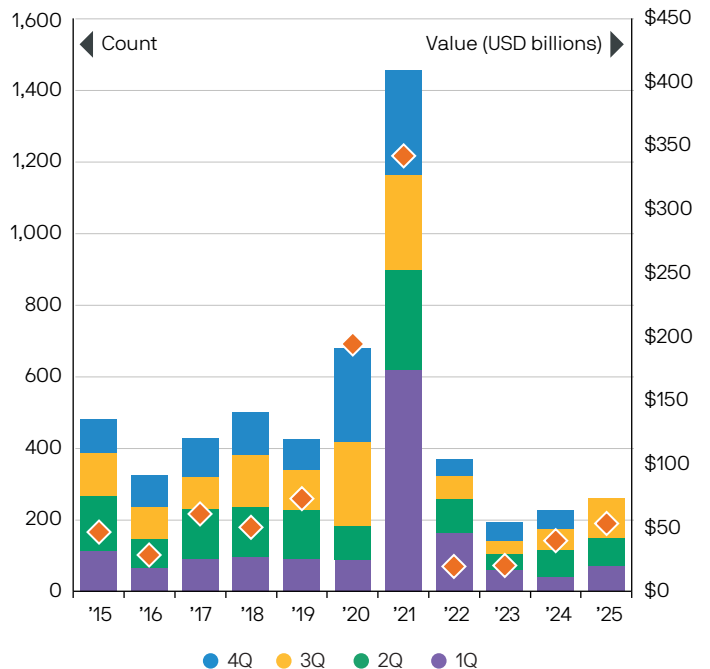
North America M&A: Continued momentum could unlock value in private equity

Exhibit 7A: USD, trillions



North America IPOs: High valuations are motivating listings

Exhibit 7B: Quarterly count and annual value by announcement



Source: 2025 data are as of the latest quarter shown. (Left) Pitchbook, J.P. Morgan Asset Management. Guide to Alternatives. Data are as of November 13, 2025. (Right) Bloomberg, J.P. Morgan Asset Management. Initial Public Offerings data are provided by Bloomberg and are tracked through public announcements or disclosed directly via the deal's lead underwriters. Exceptions include direct listings as IPO actions or SPAC mergers that result in a private company becoming listed. Guide to Alternatives. Data are as of November 13, 2025.

Asset allocation: It's time to get back “onsides”

Over the course of many years, “correct” portfolio construction (think a diversified portfolio, with exposure across stocks and bonds, both domestically and abroad) has slowly become unpopular. This is because certain assets have consistently outperformed their counterparts: stocks over bonds, growth over value and U.S. over international. As a result, at the beginning of 2025, many investors may have found themselves “offsides,” as bonds rallied and ex-U.S. equity markets surged. They won’t want to be “offsides” again.

When thinking about how to get back “onsides” with portfolio construction in 2026, investors must ask themselves a series of outcome-oriented questions: Are they looking for income, capital preservation or growth? Along the way, are they tolerant of volatility or risk-averse? And is liquidity a concern? The answers to those questions inform allocation decisions, and both traditional and alternative assets play a role.

How these assets will perform is tied to the macro backdrop. Here, the picture is as muddled as ever: Growth is cooling but not cold, with a low unemployment rate obscuring a meaningful slowdown in job creation and consumption progressing unevenly between the wealthiest and the less fortunate; inflation is trending in the wrong direction for now, but should fall later in 2026; and significant policy changes are underfoot. All of this translates into oscillating interest rate expectations across the curve, which means volatility in markets.

Beneath this volatility, the opportunity set has shifted. Fixed income is arguably more attractive than in recent decades. However, while allocations to intermediate bonds have increased to 12-month highs, 80% of investors remain underweight duration relative to the Bloomberg U.S. Aggregate. That shouldn’t be a problem, though, as a steepening yield curve suggests most of any upcoming decline in interest rates will occur at the shorter end. That said, investor sentiment will ultimately inform the appropriate exposure: concerns around growth would suggest an extension in duration, for example, as the current rate environment makes bonds an effective ballast against recession. The credit conversation follows a similar path: while a benign macro backdrop supports a greater allocation to credit, recession fears would encourage an emphasis on active management.

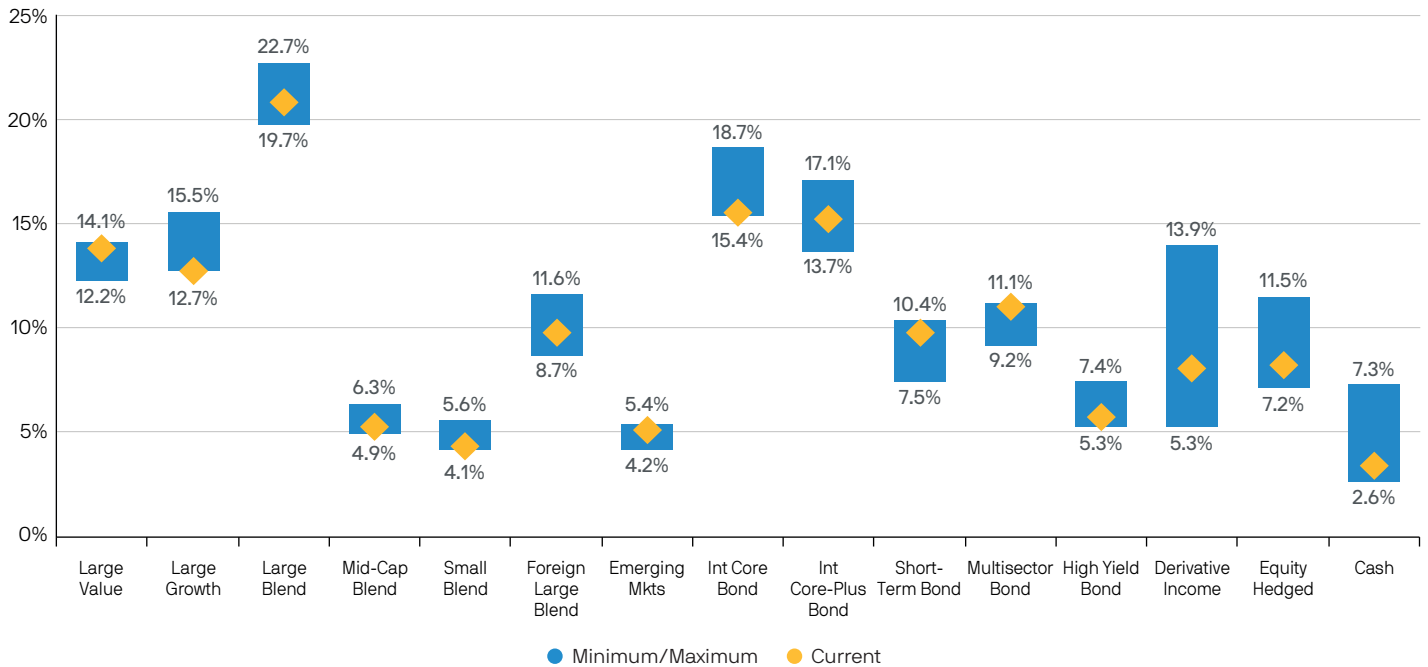
In equities, strong earnings growth from the Magnificent 7 over the past three years has extended an already powerful period of growth outperformance, leaving investors underweight other markets. While U.S. equity portfolios seem to have equal exposure to value and growth when approached at the index level, an analysis of underlying holdings shows an overweight to growth. In addition, interest in foreign markets has come off a boil after surging earlier this year on the backdrop of impressive performance. Over the course of the year, the average allocation to ex-U.S. stocks has risen from 20% to 25% of all equity holdings – a meaningful increase but still well below what is considered “diversified.”

These underweights are too severe: structural shifts in foreign markets, which have led to improved fundamentals this year, should persist, allowing them to continue to compete. Moreover, while the breadth of U.S. equity market performance hasn’t improved as much as initially expected, it is trending in the right direction: the Magnificent 7 have accounted for less of 2025’s S&P 500 performance than in previous years and earnings growth continues to broaden out, with analysts predicting near-parity between the Magnificent 7 and the rest of the index. This suggests that with overall valuations at multi-decade highs, select value sectors should play a bigger role in 2026, though growth should continue to fare well as the long-term secular force of AI continues to mature. In other words, portfolios should be balanced.

For alternatives, the outcome-oriented approach toward portfolio construction is particularly relevant. Each major sub-asset class is set to play a specific role: stretched valuations in public equities will challenge future returns, income opportunities are fading as rates fall and stock/bond correlations should remain positive in the absence of a recession. These assets will also become increasingly accessible for average investors, as regulation shifts and technology “democratizes” access through lower minimums and greater liquidity. For this reason, the traditional stock/bond framework of “60/40” should be reformed into one that also includes alternative assets: a “60/40+”, for example, where, depending on the desired outcome, alternative assets are folded in to complement public market holdings, should result in stronger, less correlated returns with reduced volatility.

Diversified portfolios have evolved but investor positioning has not

Exhibit 8: Average allocations in moderate models, last 12 months



Source: J.P. Morgan Asset Management. Note average allocations will not sum to 100 as not all categories are represented in each portfolio analyzed. Data are as of November 13, 2025.

All told, while traditionally diversified portfolios may not be as popular as before, a broader evolved model of diversification is more critical than ever. Unfortunately, that rebalancing has a cost: taxes. For this reason, investors should incorporate tax management into portfolio construction in 2026, with an emphasis on ETFs for their tax-efficiency and “tax loss harvesting” to improve after-tax outcomes.

For those worried that in today’s world diversification is dead, take comfort: reports of its death are greatly exaggerated, and now marks an excellent time to get back “onsides.”

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All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

The **Composite PMI future output index** is a gauge of economic growth and can provide valuable insights into GDP, service sector growth and industrial production trends well ahead of official data.

The **Bloomberg Euro Aggregate Corporate Index** is a benchmark that measures the corporate component of the Euro Aggregate Index. It includes investment grade, euro-denominated, fixed-rate securities.

The **Bloomberg Pan-European High Yield Index** measures the market of non-investment grade, fixed-rate corporate bonds denominated in the following currencies: euro, pounds sterling, Danish krone, Norwegian krone, Swedish krona and Swiss franc. Inclusion is based on the currency of issue, and not the domicile of the issuer. The index excludes emerging market debt.

The **Bloomberg U.S. Aggregate Treasury Bond Index** is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

The **ICE BofA MOVE Index** tracks fixed income market volatility.

The **J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified)** is an expansion of the J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI). The CEMBI is a market capitalization-weighted index consisting of U.S. dollar-denominated emerging market corporate bonds.

The **J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI Global Diversified)** tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. The index limits the exposure of some of the larger countries.

The **J.P. Morgan GBI EM Global Diversified** tracks the performance of local currency debt issued by emerging market governments, whose debt is accessible by most of the international investor base.

The **J.P. Morgan Leveraged Loan Index** is designed to mirror the investable universe of U.S. leveraged loans.

The **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets.

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States and Canada.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.

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The **MSCI World with USA Gross Index** measures the performance of the large- and mid-cap segments across 23 developed market countries. With 1,540 constituents, the index covers approximately 85% of the global investable equity opportunity set.

The **Russell 1000 Index**[®] measures the performance of the 1,000 largest companies in the Russell 3000.

The **Russell 1000 Value Index**[®] measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The **S&P 500 Index** focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the overall market.

The **U.S. Treasury Index** is a component of the U.S. government index.

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