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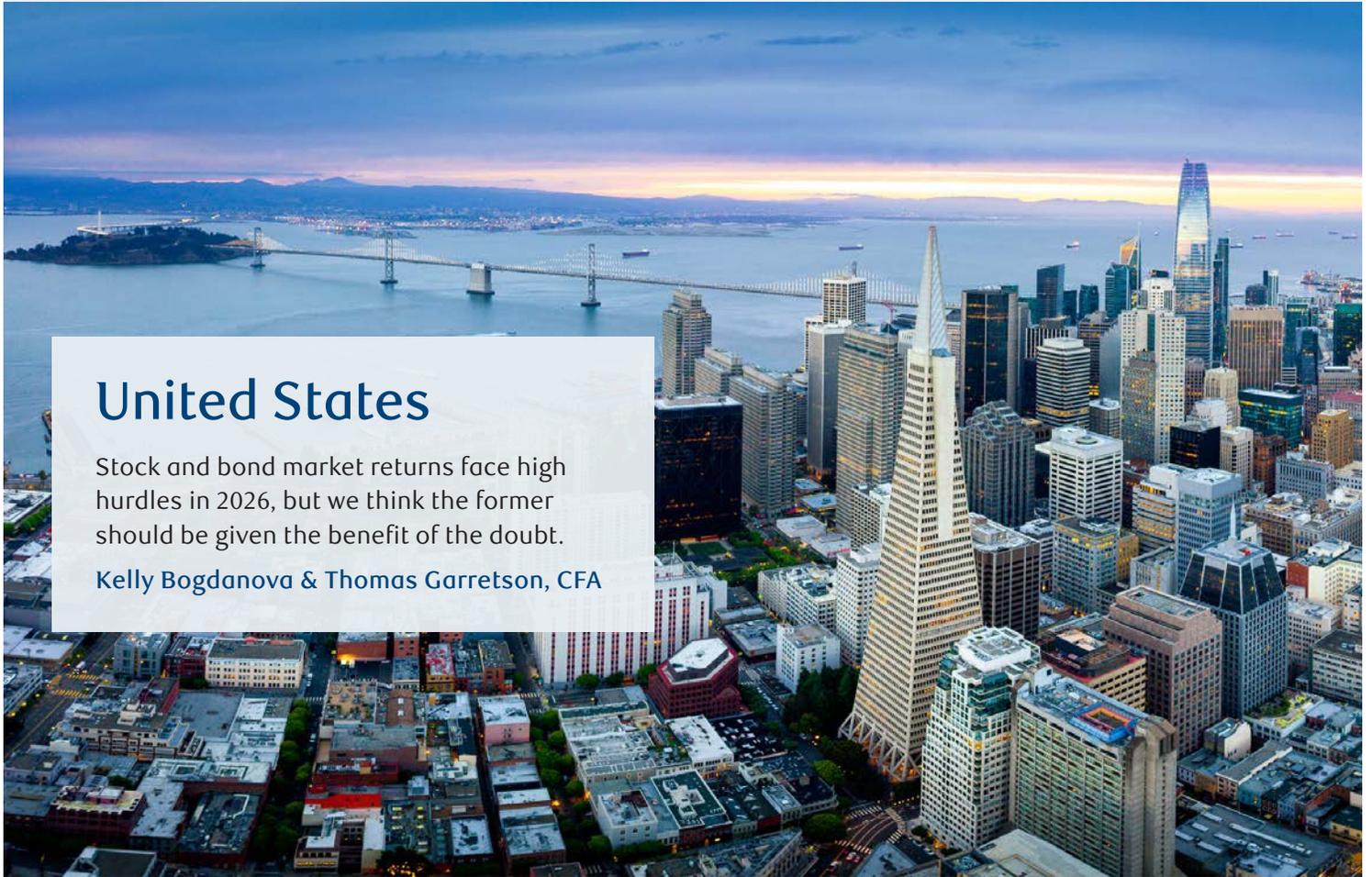
Wealth
Management

GLOBAL Insight 2026 Outlook

United States

Stock and bond market returns face high hurdles in 2026, but we think the former should be given the benefit of the doubt.

Kelly Bogdanova & Thomas Garretson, CFA



San Francisco

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Global Insight 2026 Outlook United States

- There are enough potential catalysts for investors to give the U.S. equity market the benefit of the doubt as 2026 begins.
- Fixed income yields remain historically attractive, but bond prices could face modest downward pressure in 2026 as the Fed ends rate cuts, muting total returns.

United States equities

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For the bull market to persist through 2026, we think some catalysts need to converge and an obstacle must be overcome:

- The U.S. economy and corporate profits have to keep growing at healthy clips;
- The focus of the AI development cycle probably needs to start shifting from “AI 1.0” (which has been mostly a capital spending story to build infrastructure and train and run AI models) to “AI 2.0” (where signs of productivity and financial benefits start accruing to companies inside and outside of the technology industry); and
- The market must buck the trend where the S&P 500 has experienced an average 22 percent correction surrounding midterm election years since 1934.

A tall order? Perhaps, but we’re mindful the market has jumped over high hurdles before.

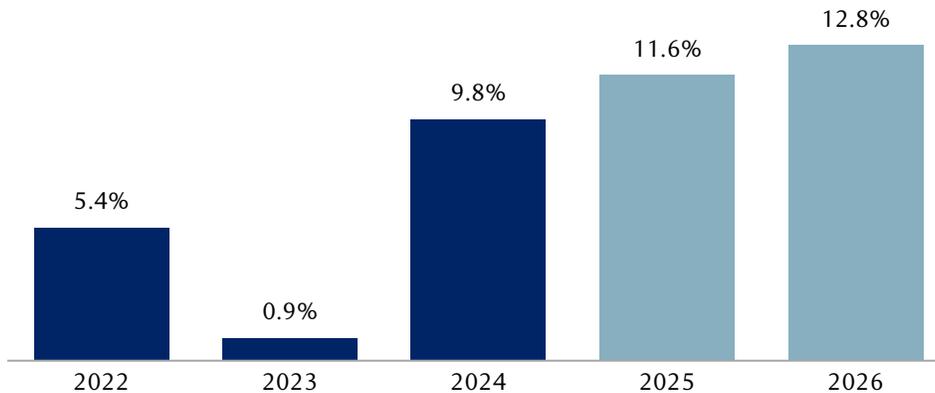
RBC Global Asset Management, LLP’s Chief Economist Eric Lascelles anticipates U.S. GDP will grow 2.2 percent in 2026, right at the 2.2 percent average since 2000 and above the 1.9 percent consensus forecast.

While the gap between tech and non-tech earnings growth rates should shrink further, overall S&P 500 profit growth will likely still be heavily impacted by AI capital spending and cloud computing given these stocks represent a large

share of the market's value (aka capitalization). The 2026 S&P 500 consensus profit forecast looks somewhat lofty to us: 12.8 percent year-over-year growth based on \$310 earnings per share. We're still wary of the market's elevated forward price-to-earnings (P/E) valuation of 21.3x compared to the 18.6x 10-year average; however, we don't think high P/Es will create problems until economic and/or earnings growth begin to buckle.

Earnings expectations: More growth ahead in 2026?

S&P 500 year-over-year earnings growth (dark blue) and consensus forecasts (light blue)



Source - RBC Wealth Management, Bloomberg (past earnings growth and consensus forecasts for 2025 and 2026); data as of 11/24/25

Questions about whether AI is in a bubble should linger into 2026, at least. We're uncomfortable with certain aspects of the boom, including the recent surge in circular financing deals—when a large AI company invests in a smaller AI company/startup, and the latter uses part or much of the financing to buy hardware and/or services from the large AI company. The possibility that unprecedented capex spending could soon run into power generation and related regulatory constraints is also of concern. But at this stage, we see certain yellow warning signs rather than a full-fledged bubble.

We begin 2026 with a Market Weight allocation to U.S. equities and favor dividend growth stocks because of their defensive characteristics and the Health Care sector due to its potential for improved earnings growth. We advise investors to be nimble overall and vigilant about single-stock and sector exposures by bringing them back in balance when they drift out of bounds.

United States fixed income

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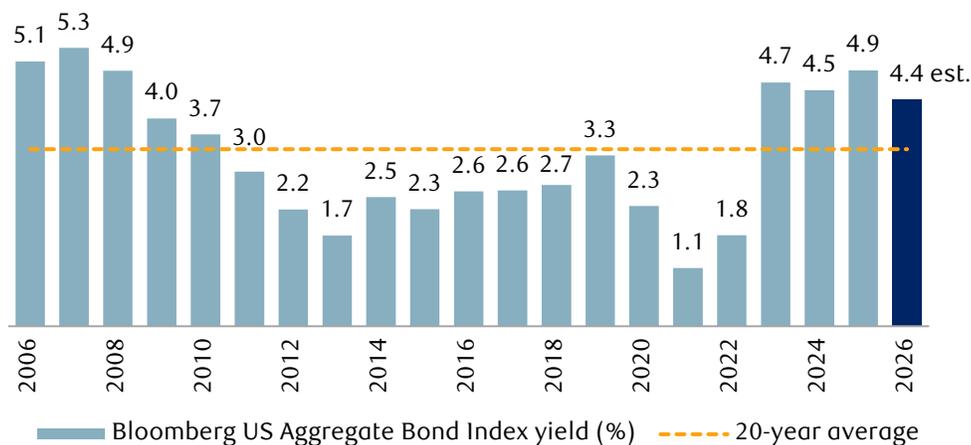
We see the Federal Reserve holding interest rates steady for the bulk of 2026. Near-term bias remains toward further cuts to around 3.75 percent or 3.50 percent. But with core inflation likely to hold north of 3.00 percent next year

even as the unemployment rate is projected to rise modestly to 4.6 percent, in our view, we see little scope for interest rates to fall further. In fact, should recent monetary policy easing—paired with fiscal stimulus via tax cuts—stoke stronger economic activity next year, we think markets could pivot the focus to the potential for rate hikes in late 2026 and into 2027.

2025 was a historically strong year for bond market performance, but we expect more-muted total return prospects for bonds in 2026. The Bloomberg U.S. Aggregate Bond Index, a benchmark comprising investment-grade government and corporate bonds, began 2025 with an average yield of 4.9 percent. But as yields have declined, in turn pushing bond prices higher,

Bond yields likely to open 2026 lower, but still near historically high levels

Beginning index yield (%)



Source - RBC Wealth Management, Bloomberg US Aggregate Bond Index; current yield data as of 11/10/25

the total return realized by investors has been even greater at 7.1 percent, one of the best years since 2000.

Given our expectations of minimal Fed rate cuts, near-average economic growth, and elevated inflation above the Fed's target, we see scope for modestly higher yields, putting downward pressure on prices and therefore total returns. We project the 10-year Treasury yield to end 2026 at 4.55 percent, up from 4.06 percent currently.

Credit markets remain historically rich and exposed to potential headwinds in 2026. The Bloomberg U.S. Investment Grade Corporate Bond Index offers investors just 0.85 percent of incremental yield over comparable Treasuries. We anticipate greater bond supply, largely from tech firms looking to finance AI-related capital expenditures, to weigh on the corporate bond sector and overall performance next year.

Municipal bonds were one of the more attractive fixed income sectors in 2025, but a rally to close out the year has diminished most of its appeal. That said, we see lingering value in bonds beyond 10 years on the curve where yields remain above recent averages.

Research resources

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			Count	Percent
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