CAPITAL GROUP®

5 keys to investing in 2026

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is chair and chief investment officer of Capital Group. He is also an equity portfolio manager with 33 years of investment industry experience,* managing The Growth Fund of America® and The Investment Company of America®.

As we step into 2026, one theme stands out: balance. We are moving from a binary market environment in which U.S. tech stocks dominated returns to a more diversified market with a wider mix of risks and opportunities.

That points toward what I call the "and market" — investing in the U.S. and international stocks, growth and value, cyclical and secular trends, stocks and bonds. While opportunities are expanding in equities, bonds offer healthy income potential and a way to help smooth out the ride for investors worried about the risks associated with highly valued technology stocks.

The resurgence of international stocks is a good example of why diversification matters. The S&P 500 Index climbed 17.9% in 2025, but Japan was up 24.6%, while Europe and emerging markets were up 35.4% and 33.6%, respectively[†]. Even in the U.S., returns have been powered in recent quarters by a wider set of companies, not just the Magnificent Seven.

In this report, we highlight five keys to investing for 2026 — from valuations and inflation to global growth and, of course, artificial intelligence (AI). We explore what's driving markets right now, and where to look next.

As always, these insights are grounded in The Capital System™ — our approach built on deep research, diverse perspectives, and a long-term view.

Footnotes/Important information:

*Years of experience for all investment professionals are as of December 31, 2025.

[†]Source: Market returns are as of December 31, 2025, for the S&P 500 Index, the MSCI Europe Index, the MSCI Japan Index and the MSCI Emerging Markets Index. Past results are not predictive of results in future periods.

1 Bold stimulus could boost the global economy

Cheryl Frank
is an equity portfolio manager with 28 years of investment industry experience. She is a manager for American Mutual Fund® and Capital Group Conservative Equity ETF.

USA

Easy money
Lower interest rates, end of QT

Tax reform
Retroactive tax refunds
Made in USA incentives

Deregulation
Lower government oversight

EUROPE

German fiscal stimulus
€500 billion infrastructure and defense spending package

NATO defense spending
Members target
5% of GDP from 2%

ASIA

Corporate reform
Japan, Korea and China push to improve shareholder value

China stimulus

The economic landscape is expected to improve in 2026, as governments worldwide roll out bold stimulus in response to slowing growth and high trade barriers.

In the U.S., the Federal Reserve is cutting borrowing costs, a tailwind for housing and the broader economy, according to equity portfolio manager Cheryl Frank. Lower rates could lift demand for high-paying construction jobs, and materials such as lumber and paint, benefiting companies like Home Depot and Sherwin-Williams.

Deregulation could increase lending activity, supporting banks such as Wells Fargo and companies left out of the artificial intelligence boom. Meanwhile, the One Big Beautiful Bill Act incentivizes U.S. manufacturing, potentially helping industrial and technology sectors.

Across the Atlantic, Germany has shelved fiscal restraint, unveiling a €500 billion package for infrastructure and defense. The move could boost earning potential for construction companies like Heidelberg Materials and arms maker Rheinmetall.

NATO allies are likewise pledging to raise defense spending, generating even greater demand for the systems and products made by Northrop Grumman and Rolls-Royce.

Meanwhile, Japan is pushing corporate reform to unlock shareholder value, impacting companies like insurance provider Tokio Marine. Korea and China are similarly following suit, with China also introducing stimulus measures aimed at stabilizing its economy.

These policies aren't without risks. Missteps could contribute to rising government debt and add to inflationary pressures.

Source: Capital Group. As of December 31, 2025. QT, or quantitative tightening, refers to policies that reduce the size of the Federal Reserve's balance sheet.

2 Fed interest rate cuts can be good for stocks and bonds

Pramod Atluri
is a fixed income portfolio manager with 22 years of investment industry experience. He is a manager for The Bond Fund of America® and Capital Group Core Bond ETF.

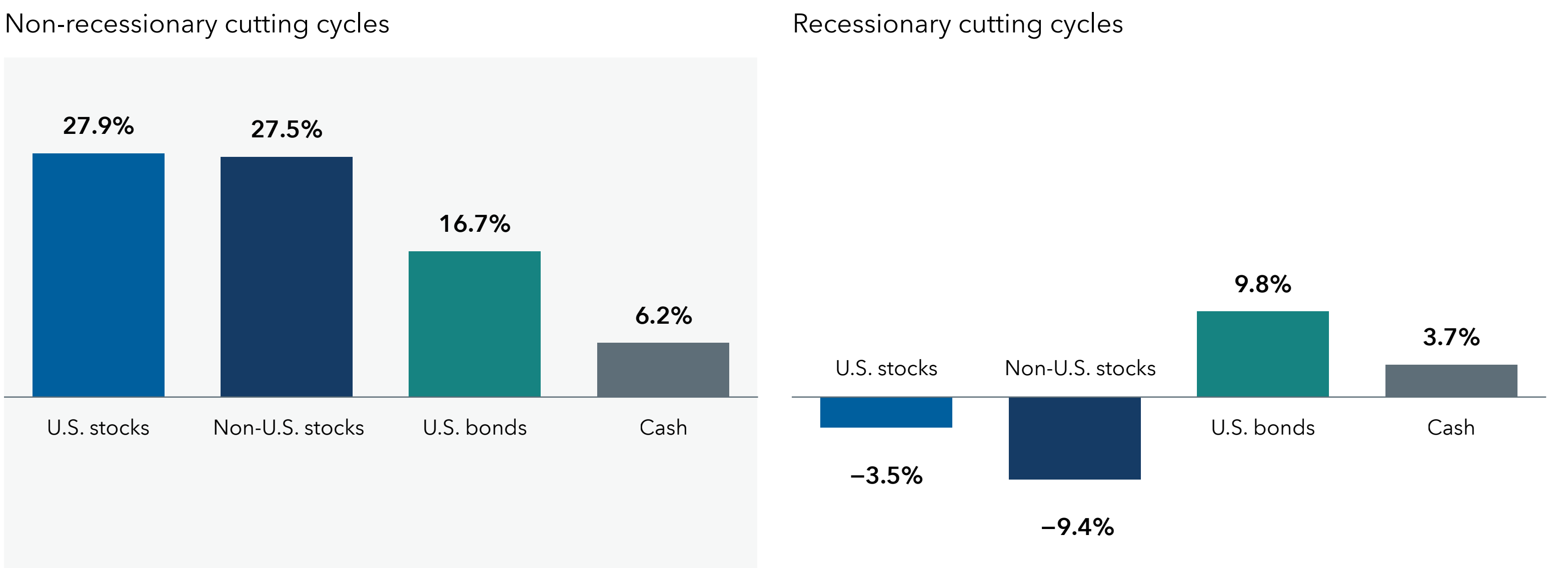
A dovish Fed is coming into focus.

Despite elevated inflation, interest rates appear set to fall in 2026 as policymakers focus on sluggish job growth. “The Federal Reserve is worried about the labor market because, historically, a weak job market leads to an economic slowdown,” says fixed income manager Pramod Atluri. “Meanwhile, more stable tariff policies should help ease inflationary pressures.” The U.S. federal funds rate is expected to end 2026 near 3%, a level Atluri describes as neither stimulating nor restricting economic growth.

The rate influences borrowing costs worldwide, and lower rates could support business and consumer spending. Historically, Fed easing cycles that occurred outside a recession have lifted stock and bond markets, while cash lagged.

The Fed is cutting as spending for AI ripples through the economy, alongside tariff concerns and labor market softness. “There’s healthy debate over whether U.S. economic growth will slow or accelerate because of these forces,” Atluri explains. “We may be entering an unusual scenario where U.S. gross domestic product accelerates beyond an expected range of 2% to 3%, even as job creation remains weak or turns negative. At the same time, unemployment could stay relatively low due to fewer layoffs and stricter immigration enforcement reducing the overall number of workers.”

Average annualized returns across past seven Fed easing cycles



Sources: Capital Group, Bloomberg, Morningstar, Standard & Poor’s. Returns reflect annualized total returns from the peak federal funds rate target to the the lowest federal funds rate target for each cycle. Specific non-recessionary cutting cycles include: August 1984-August 1986, February 1995-January 1996, March 1997-November 1998. Recessionary cutting cycles include: May 1989-September 1992, May 2000-June 2003, June 2006-December 2008, and December 2018-March 2020. Benchmarks used are the S&P 500 Index (U.S. stocks), MSCI World ex USA Index (non-U.S. stocks), Bloomberg U.S. Aggregate Index (U.S. bonds) and 3-month U.S. Treasury Bills (cash). As of December 31, 2025. Past results are not predictive of results in future periods.

3 Company profits are expected to rise worldwide

Diana Wagner
is an equity portfolio manager with 31 years of investment industry experience. She is a manager for Capital World Growth and Income Fund® and Washington Mutual Investors Fund.

If 2025 was the year that tariff-induced uncertainty upended the outlook for corporate earnings, 2026 could be the year that the numbers come back into focus.

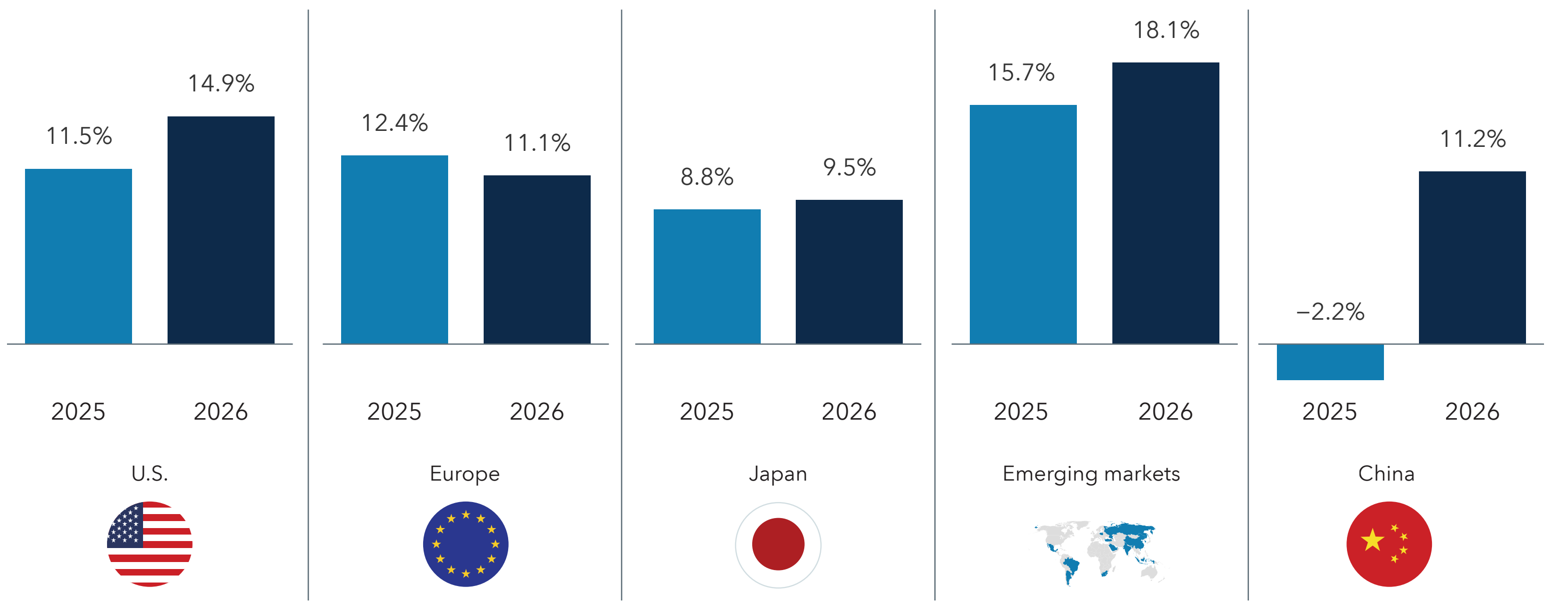
Consensus earnings estimates are looking brighter, largely due to declining interest rates, government stimulus and a string of trade deals that have reduced policy uncertainty. Financial markets have responded by rallying off the lows of last April, when the fear of sky-high tariffs reached its peak.

Another significant driver is the expansion of AI, which has spurred strong demand for computer chips, data centers, and high-tech and low-tech equipment to support the build-out of AI infrastructure.

Emerging markets are expected to enjoy the strongest earnings growth, rising 18.1%, while the United States climbs to 14.9% and Europe falls slightly lower to 11.1%.

Powerful tailwinds could drive earnings growth and support market gains beyond the tech sector in the months ahead, according to equity portfolio manager Diana Wagner, who singles out industrials, financials and consumer staples, among others. "There is a lot of support from a macroeconomic perspective but, ultimately, what's going to matter is corporate earnings growth."

Estimated annual earnings growth across select global benchmarks



Sources: Capital Group, FactSet, MSCI, Standard & Poor's. Estimated annual earnings growth is represented by the mean consensus earnings per share estimates for the years ending December 2025 and 2026, respectively, across the S&P 500 Index (U.S.), the MSCI Europe Index (Europe), the MSCI Japan Index (Japan), the MSCI EM Index (emerging markets) and MSCI China Index (China). Estimates are as of December 31, 2025.

4 Artificial intelligence: Boom, bubble or both?

Chris Buchbinder
is an equity portfolio manager with 30 years of investment industry experience. He is a manager for Capital Group Dividend Value ETF and The Growth Fund of America®.

Are we in an AI bubble? Investors have been struggling with that question for more than two years. With AI-related stocks rallying like it's 1999, comparisons to the days of "irrational exuberance" are everywhere.

If there is a bubble in the making, it's important to determine where we might be on that late 1990s timeline. Is the year 2000 the appropriate analogy, which would imply a bubble is about to pop, or is it 1998, indicating that AI stocks still have room to run?

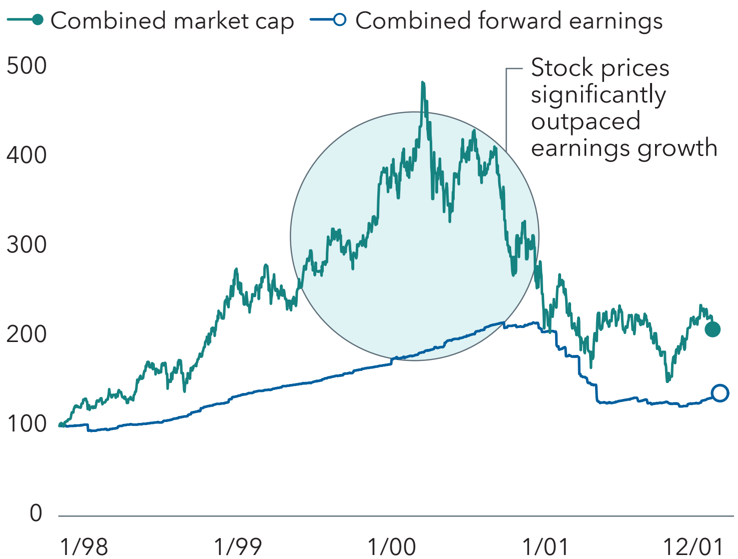
"I think we are closer to 1998 than 2000," says equity portfolio manager Chris Buchbinder, a former telecom analyst who experienced the dot-com euphoria. "It's possible we will see an AI bubble at some point, but I don't think we're there yet."

Today, stock prices for AI leaders are generally supported by solid earnings growth. What's more, companies making aggressive AI-related investments – Alphabet, Amazon, Broadcom, Meta, Microsoft and NVIDIA, among others – can support their massive capital spending far better than the upstarts of the late 1990s.

"In my view," Buchbinder adds, "it's too early to let the risk of a bubble overcome the compelling opportunities presented by this formidable technology."

Dot-com era: Price vs. earnings (1998-2001)

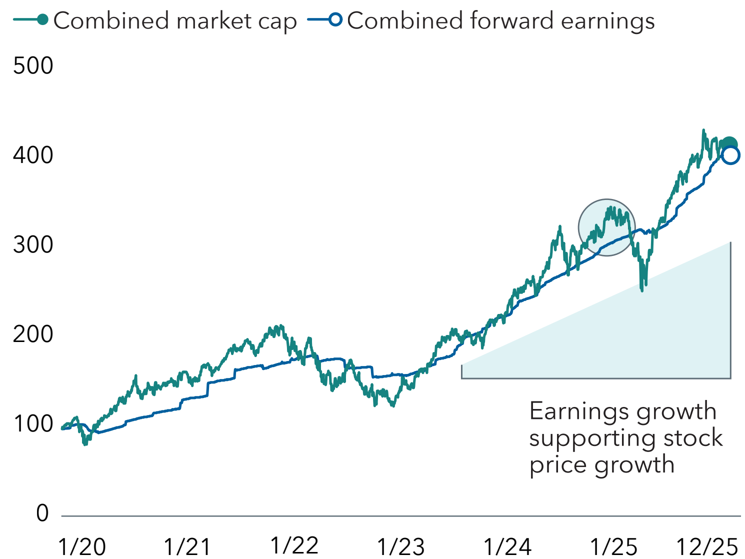
Indexed to 100 as of January 1, 1998



Sources: Capital Group, Bloomberg. Data aggregates forward 12-month net income ("forward earnings") and market capitalization ("market cap") for the "Four Horsemen" of the dot-com era: Microsoft, Cisco, Intel, and Dell, four of the largest, best performing companies of that period. Indexed to 100 on January 1, 1998.

AI era: Price vs. earnings (2020-present)

Indexed to 100 as of January 1, 2020



Sources: Capital Group, Bloomberg. Data aggregates forward 12-month net income ("forward earnings") and market capitalization ("market cap") for NVIDIA, Microsoft, Apple, Amazon, Meta, Broadcom, Alphabet, seven of the largest AI-exposed companies. Data indexed to 100 on January 1, 2020. As of December 31, 2025.

Past results are not predictive of results in future periods.

5 There are always reasons not to invest

A pandemic, wars, inflation and high tariffs have sent shock waves through the global economy in recent years. For many investors, sitting on the sidelines as these events unfolded seemed like the most sensible response. Yet, time after time, financial markets pushed through turbulence and reached new highs.

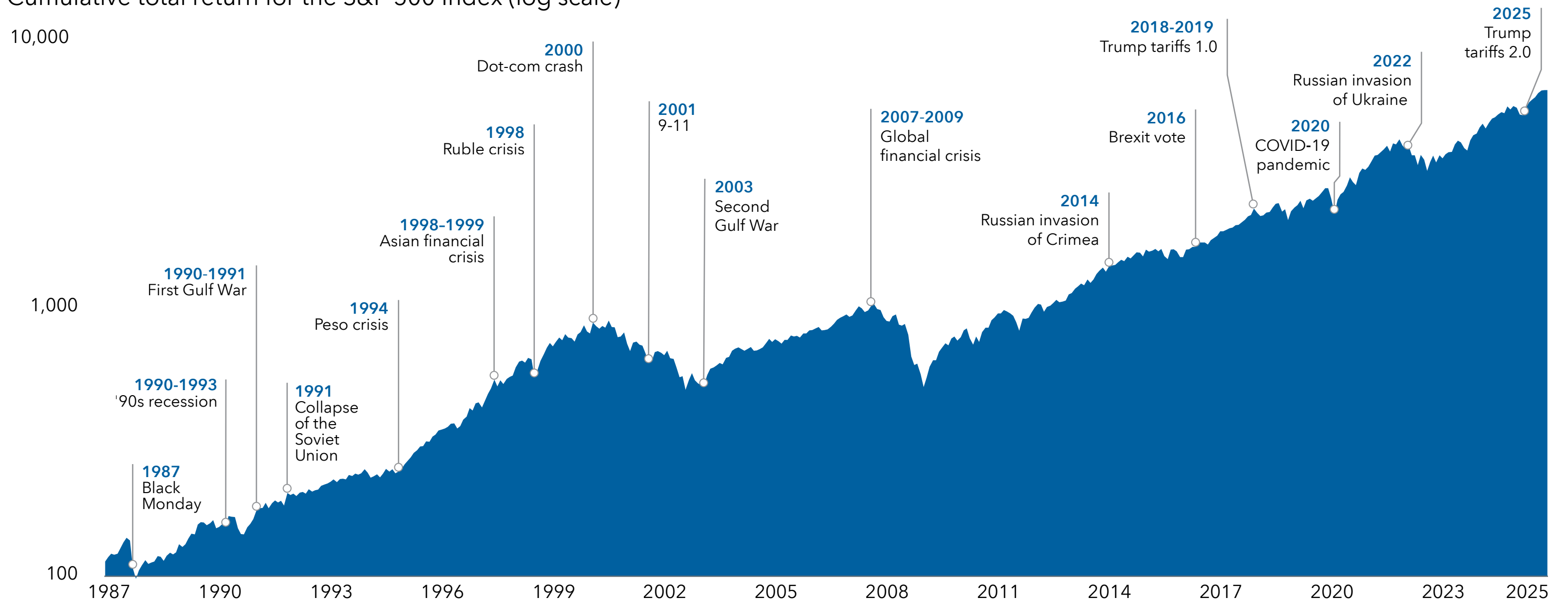
Take the sweeping tariffs President Trump levied on nearly all major U.S. trading partners in the spring of 2025. The S&P 500 Index plunged as much as 18.7% from its peak in February as investors feared the global economy would enter a downturn. But trade deals and continued economic resilience helped calm those anxieties. By year's end, the S&P 500 recovered and finished 2025 up 17.9%.

"Looking ahead in 2026, I'm both excited and uneasy," says Chief Investment Officer Martin Romo. "We're living through a tech revolution driven by AI, and the world is undergoing structural shifts in trade as well as the international order we've known for decades. But I'm reminded of what past American Funds Distributors President and Chairman Graham Holloway said in 1981: 'I have never known a good time to invest.'"

The lesson is not new. There have always been reasons to wait. It was true in 1981, 2020, and today. But markets have been resilient over time. History shows that investors who look beyond short-term uncertainty and remain committed to their long-term goals have often been rewarded.

The stock market has recovered from past crises

Cumulative total return for the S&P 500 Index (log scale)



Sources: Capital Group, Standard & Poor's. As of December 31, 2025. Data is indexed to 100 as of January 1, 1987, based on cumulative total returns for the S&P 500 Index. Shown on a logarithmic scale. Past results are not predictive of results in future periods.

5 keys to investing in 2026

1. Bold stimulus could boost the global economy
2. Fed interest rate cuts can be good for stocks and bonds
3. Company profits are expected to rise worldwide
4. Artificial intelligence: Boom, bubble or both?
5. There are always reasons not to invest

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*Source: Marketing Support: The Advisor View, May 2025, June 2024, May 2023, July 2021, June 2020; Fund Intelligence, February 2020. FUSE Research surveys of 500-1,000 advisors identifying the "most-read thought leaders." Survey was not conducted in 2022.

Investing outside the United States involves risks, such as currency fluctuations, periods of illiquidity and price volatility. These risks may be heightened in connection with investments in developing countries.

Gross domestic product (GDP) is the market value of the goods and services produced by labor and property located in the United States for one year.

The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index.

Bloomberg U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market. **Bloomberg U.S. Treasury Bill 1-3 Month Index** tracks the market for Treasury bills with 1 to 3 months to maturity issued by the U.S. government. **MSCI World ex USA Index** is designed to measure equity market results of developed markets. The index consists of more than 20 developed market country indexes, excluding the United States. **MSCI China Index** captures large- and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g., ADRs). **MSCI Emerging Markets Index** captures large- and mid-cap representation across 27 emerging markets (EM) countries. **MSCI Europe Index** is designed to measure developed equity market results across 15 developed countries in Europe. **MSCI Japan Index** is a free float-adjusted market capitalization-weighted index designed to measure the equity market results of Japan. **S&P 500 Index** is a market capitalization-weighted index based on the results of approximately 500 widely held common stocks.

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