

# 2026 Midyear Market Outlook Summary

Competing forces drive a broader, more complex opportunity set

**M**arkets have been anything but stable in the first half of 2026.

A sequence of geopolitically driven shocks has collided with surging artificial intelligence (AI) investment, robust corporate earnings, and solid U.S. economic growth. Risk assets have remained relatively strong amid these crosscurrents. But the danger for investors is mistaking resilience for calm.

Many of the themes we identified at the start of the year have broadly played out: AI-driven growth, broader equity market performance, and continued strength in credit, even with upward pressures on bond yields. Macro forces are now driving a new and more dispersed opportunity set as the AI trade moves into physical sectors and geopolitical fissures reshape the global economy. The market regime is changing.

## Five shifts reshaping markets



### Geopolitical fragmentation raises risk premium

Rising global tensions are accelerating security-driven reinvestment and a broader shift toward economic fragmentation.



### Manufacturing revival complicates inflation fight

A manufacturing revival, fiscal expansion, and policy shifts could make inflation stickier and more volatile.



### Supply shock sparks energy security push

Energy scarcity is reshaping supply chains and creating opportunities in select commodities-related sectors.



### AI moves into the real economy

AI is moving from a concentrated technology trade into a broader industrial and infrastructure investment cycle.



### Concentration makes way for dispersion

The conditions that supported market concentration are shifting, expanding the opportunity set beyond the past cycle's winners.

## What this could mean for portfolios

Theme	Investment implication	Ideas to consider
<b>THEME 1:</b> Geopolitical fragmentation raises risk premium	Continued fragmentation may widen dispersion across regions, sectors, and companies, increasing the value of active and regional selection.	<ul style="list-style-type: none"> <li>– Research-driven global and U.S. equities</li> <li>– Select international equities</li> </ul>
<b>THEME 2:</b> Manufacturing revival complicates inflation fight	Longer-term inflation risks may favor active yield curve management, disciplined credit selection, and inflation-sensitive exposure.	<ul style="list-style-type: none"> <li>– Active management across fixed income sectors</li> <li>– Global bonds</li> <li>– Inflation-linked bonds</li> <li>– Ultrashort bonds</li> </ul>
<b>THEME 3:</b> Supply shock sparks energy security push	Higher and more volatile energy prices may support real assets and select beneficiaries of energy security and supply diversification.	<ul style="list-style-type: none"> <li>– Natural Resources/ Real Assets</li> <li>– Emerging market debt</li> </ul>
<b>THEME 4:</b> AI moves into the real economy	AI opportunities are expanding beyond large technology platforms into infrastructure and industrial beneficiaries tied to power, connectivity, equipment, and operational demands.	<ul style="list-style-type: none"> <li>– Technology equity</li> <li>– Infrastructure-linked equity</li> </ul>
<b>THEME 5:</b> Concentration makes way for dispersion	Broader leadership and greater return dispersion may favor active selection over passive exposure to concentrated benchmarks.	<ul style="list-style-type: none"> <li>– Active core and diversified equity</li> <li>– Small- and mid-cap equity</li> <li>– Value-oriented equity</li> <li>– Multi-asset and target date allocation</li> </ul>

### Key takeaway

Macro matters again along with fundamental research. In a market shaped by fragmentation, infrastructure investment, and durable earnings growth, success may depend less on simply owning the benchmark and more on identifying the regions, sectors, companies, and asset classes positioned to thrive.

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## Investment Risks:

**Active investing** may have higher costs than passive investing and may underperform the broad market or passive peers with similar objectives. Each person's investing situation and circumstances differ. Investors should take all considerations into account before investing.

**International investments** can be riskier than U.S. investments due to the adverse effects of currency exchange rates, differences in market structure and liquidity, as well as specific country, regional, and economic developments. The risks of international investing are heightened for investments in emerging market and frontier market countries. Emerging and frontier market countries tend to have economic structures that are less diverse and mature, and political systems that are less stable, than those of developed market countries.

**Commodities** are subject to increased risks such as higher price volatility, geopolitical and other risks. Commodity prices can be subject to extreme volatility and significant price swings.

**Inflation-Linked Bonds** (Treasury Inflation Protected Securities in the U.S.): In periods of no or low inflation, other types of bonds, such as US Treasury Bonds, may perform better than Treasury Inflation Protected Securities (TIPS).

Investing in **technology stocks** entails specific risks, including the potential for wide variations in performance and usually wide price swings, up and down. Technology companies can be affected by, among other things, intense competition, government regulation, earnings disappointments, dependency on patent protection and rapid obsolescence of products and services due to technological innovations or changing consumer preferences.

Because of the cyclical nature of **natural resource companies**, their stock prices and rates of earnings growth may follow an irregular path.

**Financial services companies** may be hurt when interest rates rise sharply and may be vulnerable to rapidly rising inflation. **Health sciences firms** are often dependent on government funding and regulation and are vulnerable to product liability lawsuits and competition from low-cost generic product.

The **value approach** to investing carries the risk that the market will not recognize a security's intrinsic value for a long time or that a stock judged to be undervalued may actually be appropriately priced. **Growth stocks** are subject to the volatility inherent in common stock investing, and their share price may fluctuate more than that of a income-oriented stocks.

**Small-cap stocks** have generally been more volatile in price than the large cap stocks. Investing in private companies involves greater risk than investing in stocks of established publicly traded companies. Risks include potential loss of capital, illiquidity, less available information and difficulty in valuating private companies. They are not suitable, nor available, for all investors.

**All investments involve risk, including possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market. Index performance is for illustrative purposes only and is not indicative of any specific investment. Investors cannot invest directly in an index.**

Fixed income securities are subject to credit risk, liquidity risk, call risk, and interest rate risk. As interest rates rise, bond prices generally fall. Investments in high yield bonds involve greater risk of price volatility, illiquidity, and default than higher rated debt securities. Investments in **bank loans** may at times become difficult to value and highly illiquid; they are subject to credit risk such as nonpayment of principal or interest, and risks of bankruptcy and insolvency. Some or all **alternative investments** such as private credit, may not be suitable for certain investors. Alternative investments are typically speculative and involve a substantial degree of risk. In addition, the fees and expenses charged may be higher than the fees and expenses of other investment alternatives, which will reduce profits. As interest rates rise, bond prices generally fall. Investments in high yield bonds involve greater risk of price volatility, illiquidity, and default than higher rated debt securities.

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