Market Outlook '26

Lincoln Financial Investments℠

3 Key Themes for 2026

Theme 1:
AI and the Capex super-cycle

- AI-driven capex is now a visible global growth driver with no immediate signs of slowing, but many outlooks flag stretched pricing in mega-cap tech and a likely broadening of AI beneficiaries across sectors and regions as adopters begin to recognize productivity gains.
- **Talking point: *"Consider positioning AI as a long-term productivity story but manage concentration risk and be selective across sectors that benefit from AI capex (infrastructure, software, industrials, healthcare)."***

Theme 2:
Rates normalizing, not "low forever"

- Many expect rates in 2026 to settle in a more "normal" range (above those seen in the 2010s), supported by steady, not spectacular, growth and inflation converging toward targets and lingering uncertainty about the true neutral rate.
- **Talking point: *"The free-money era is over. Consider planning portfolios for structurally higher real yields, and don't wait for a return to the ultra-low-rate world of the last decade."***

Theme 3:
60/40 "plus" portfolio & bonds back in play

- Growing understanding of the role of private assets in portfolios coupled with newer retail-friendly investment structures is building advisor conviction in a 60/40 "plus" portfolio
- Higher starting yields have restored the income and diversification case for core bonds.
- **Talking point: "Consider *rebuild balanced portfolios with higher-quality fixed income at the core plus alternatives for incremental yield and diversification."***

Risks/Considerations

- **Tech valuations:** While today's AI leaders are highly profitable, stretched multiples could leave markets vulnerable to volatility if earnings disappoint
- **Tarriff sting:** Corporate resilience has been strong, but further escalation risks a direct hit to profit margins or consumer prices
- **Fiscal handcuffs:** Stimulative policy is expected, but if the economy weakens, there may be little room for economic support given the large deficit that already exist
- **Inflation's last mile:** Even as inflation trends towards targets, the possibility of sticky services or wage inflation could force tighter-than-expected policy
- **The credit divide:** Higher yields have restored the income case for lenders, but "higher-for-longer" rates create a sharp divergence between solid companies with manageable debt and highly-levered borrowers that may struggle when they roll their debt over into today's higher rates

10 Year Capital Market Expectations

	US Equity	Int'l Equity	Priv. Equity	US Fixed	Int'l Fixed	Priv. Credit
JP Morgan	7.9%	7.5%	10.2%	4.8%	4.3%*	7.7%
BlackRock	5.2%	7.1%	12.9%	4.1%	4.4%*	10.5%
StateStreet	6.3%	6.4%	8.2%	4.2%	3.4%**	6.4%

Longer Term Industry Trends

- **Decumulation wave:** A record number of retirees with record levels of wealth seeking advice[1]
- **Advisor consolidation:** Fewer advisors servicing more clients and AUM (100k advisor shortage by 2034)[2]
- **AI's economic impact:** AI expected to increase GDP by $3.8T/yr by 2038…the next wave of wealth creation[3]

Source: [1]Decumulation wave – Alliance for Lifetime Income Peak 65 (2025), Federal Reserve Bank of St. Louis: U.S. Households; Net Worth Level as of Q2 2025; [2]Advisor consolidation - McKinsey, The looming advisor shortage in US wealth management, February 2025; [3]AI's economic impact - Accenture/Microsoft – Unlocking the economic potential of the U.S. generative AI ecosystem November 2024; *Ex US Govt., **Ex US Corporate

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Capital market expectations

BlackRock: https://www.blackrock.com/institutions/en-us/insights/charts/capital-market-assumptions, as of November 2025. 10-year return time period.

J.P. Morgan Asset Management, 2026 Long Term Capital Market Assumptions: https://am.jpmorgan.com/us/en/asset-management/adv/insights/portfolio-insights/ltcma/.

StateStreet: https://www.ssga.com/us/en/individual/insights/long-term-asset-class-forecasts-q4-2025. as of Sept 2025. 10+ year return time period.

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