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2026 Outlook for Fixed Income and Equities

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So how are you thinking about the 2026 outlook after another strong year for the overall market?

Anne Walsh: So I'm going to break it down into the economy and then market. So 2026 looks like it's shaping up to be a year of what I refer to as equilibrium. We're going to have, I think, on trend growth. So by trend growth this would be you know, historical average, about 2% real GDP. Fairly benign first half, from an economic perspective, we'll see some positive tailwinds from fiscal policy, in particular the One Big Beautiful. There's going to be some tax breaks for corporations as well as for individuals. And also, I frankly think monetary policy is a bit sounding dovish to me. I know we'll talk about rates in just a second, but I think that the stopping of QT is going to have a positive effect in terms of monetary policy and there's going to be some, you know, additional tailwinds from that. So, from an economic perspective, the first half of 2026 is shaping up to be pretty reasonable. And then that should translate to markets as well. So I think we'll continue to see some positives in both fixed income as well as equities.

How much of forward expectations on growth and earnings is already priced into the equity market?

Anne Walsh: Well, after the Fed meeting, and the announcement, and the somewhat--I'll call it hawkish a little bit hawkish tone with regard to actual additional rate cuts with the idea being maybe there's only one more rate cut priced in--our view is that there's probably two to come in 2026, so we're a little bit more that the economy is going to be a little bit slower and more towards an equilibrium. And more than that, to get to what I would refer to as the neutral rate of interest on fed funds, our view is that should be around 3 percent. So that's a little lower than maybe what the Fed expectations are or predictions. So for 2026 that should be helpful. Again, both to fixed income as well as to equities as we go through the year.

What did you make of this view that we are underestimating the degree of job loss? And also the notion that midterm years are kind of dicey, the worst of the cycle?

Anne Walsh: Well, we're not without volatility. And there's certainly going to be more headlines to come. But yes, and the challenge for the Fed is the fact that they're really working with stale data. And that's very concerning to them. And until they see actual evidence, they're, you know, more interested in sort of delaying action. Having said that, the Fed beige book that was published did seem to indicate quite a bit of slowing. And I think in that way, it gives the Fed some opportunity to continue to, you know, be pushing down fed funds a bit.

The best performing sectors this year were driven by AI winners. Will that continue and is that where you want to be positioned? Where will leadership come from?

Anne Walsh: Well, I definitely think that the AI story is absolutely a real one. And it's not just real in the short run, it's real in the long run. And obviously Fed Chair Powell talked about productivity. I think that we're going to see a more broad-based acceptance of artificial technology as tools and that's going to have an impact not just in 2026 but beyond. So I think the tech story continues and I think it's a good one. AI and AI buildout of the platform from infrastructure basis to digital infrastructure and the like, that's contributed about 1 percent to GDP. And I think that continues. It's a strong tailwind. It's a strong story. And we're really in a supercycle for technology and that doesn't limit itself to just AI. It's also robotics. It's communications. So there's going to be a lot of benefits here coming into 2026 and beyond.

So you don't buy the bubble story?

Anne Walsh: It feels what I call bubbly but not a bubble. And valuations can appear a little stretched but in comparison to say, the late 1990s the internet bubble, this is not the same story line. These companies are big and they have real profits. Now the question is, and the risks are, are they overbuilding for the future? And I think that that will be something that plays out. That's the risk that is in the system and I think people are observing it. The question is, are they overly concerned about it in the short run? We'll see.

You're referring not just to the hardware but also the energy buildout and how would you reallocate those resources if you didn't need them all of a sudden?

Anne Walsh: Well, and in particular, for the debt markets, the concern is what's the obsolescence risk here? And so if you're financing digital infrastructure, you have to be really thoughtful about the timeline that you're looking at to finance. Are you financing, you know, with the large expectation of an end of period amortization where there's still a big balance left outstanding?

That is an open question, and I would caution investors to be thoughtful about how they actually engage in the debt financing of these opportunities.

We need a rates market that's pretty well behaved and there has been a little bit of a flare up in rates lately even with the Fed cutting. Treasury yields are a bit higher than before we started that process. How big of a risk is that?

Anne Walsh: So we still have a fiscal story and that is there's a lot of borrowing to happen. The expectation is that the Treasury will be issuing more on the shorter end. The ten-year has been anchored in the mid threes to the mid fours and a trading range. I think we're entering year four of this trading range. So actually, I feel like the rate story at the ten-year is probably pretty stable within that range. The short end is where the actions been and I think will continue to be. So that means a steeper yield curve, for the future.

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