

AI Investment and Fiscal Stimulus to Bolster Early 2026 Growth

This report is excerpted from the *First Quarter 2026 Fixed-Income Sector Views*.

Gradual disinflation expected as wage and rent pressures ease.

In 2026, we expect the U.S. economy to show solid real gross domestic product (GDP) growth a bit above 2 percent, while inflation is expected to resume its cooling trend. The third-quarter real GDP reading revealed positive underlying growth momentum, highlighting two primary drivers: robust consumer spending—benefiting from the wealth effect of rising asset prices—and a continued boost from AI investment.

In the first half of 2026, the expansion should be further supported by a rebound following the government shutdown, additional fiscal stimulus and support from monetary and financial conditions. This strong growth impulse is likely to moderate in the second half as fiscal stimulus fades, allowing the economy to move toward equilibrium.

The labor market remains a downside risk to our outlook, but conditions are cooling only gradually. Private sector payroll growth slowed from a three-month average of 203,000 in January 2025 to 29,000 in December, with gains highly concentrated in healthcare. The unemployment rate has trended up since last summer, indicating that slower job growth reflects lower labor demand, not just slowing labor force growth. Fortunately, jobless claims remain low, and business sector financial health remains solid, with limited pressure on profit margins that typically precedes a wave of layoffs. We expect conditions to stabilize in

2026 as growth improves, while remaining attentive to the risk of a sharper deterioration that could weigh on consumer spending.

We expect core inflation to remain sticky over the next few months as gradual tariff passthrough continues. However, the bigger story for 2026 is likely to be one of fundamental inflation drivers resuming their downward trend. Leading measures of rent inflation continue to soften, which should lead to further downside for this large category of the inflation basket. And the softer labor market means wage pressures are easing, which should ease services inflation. We expect year-over-year core personal consumption expenditures inflation to fall to around 2.5 percent by the fourth quarter of 2026, with monthly readings somewhat closer to the Fed's 2 percent target.

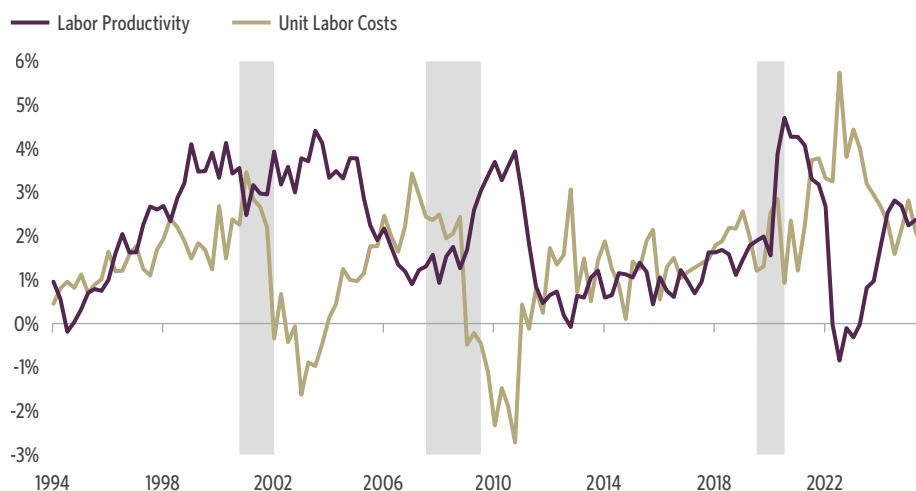
The outlook for solid growth, a stable labor market, and gradual disinflation reflects productivity growth that is expected to be relatively strong, continuing the trend of recent years and some nascent gains from AI adoption in 2026. The Fed's latest Summary of Economic Projections also show supply side optimism, with most participants seeing strong growth and lower inflation. Despite this, views on the path for monetary policy remain dispersed, highlighting different perspectives on neutral rates and the balance of risks to the Fed's dual mandate. As the disinflationary trend becomes more apparent later in the year, we see the Fed easing to a neutral rate of 3–3.25 percent.

By Matt Bush and Maria Giraldo

Productivity growth has picked up over the last several quarters, which should allow the economy to maintain solid growth rates without generating inflationary pressure.

Solid Productivity Growth Should Help Sustain Growth and Ease Inflation

Labor Productivity, 8Q Annualized Change



Source: Guggenheim Investments, Haver Analytics. Data as of 6.30.2025. Gray areas represent recession.

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