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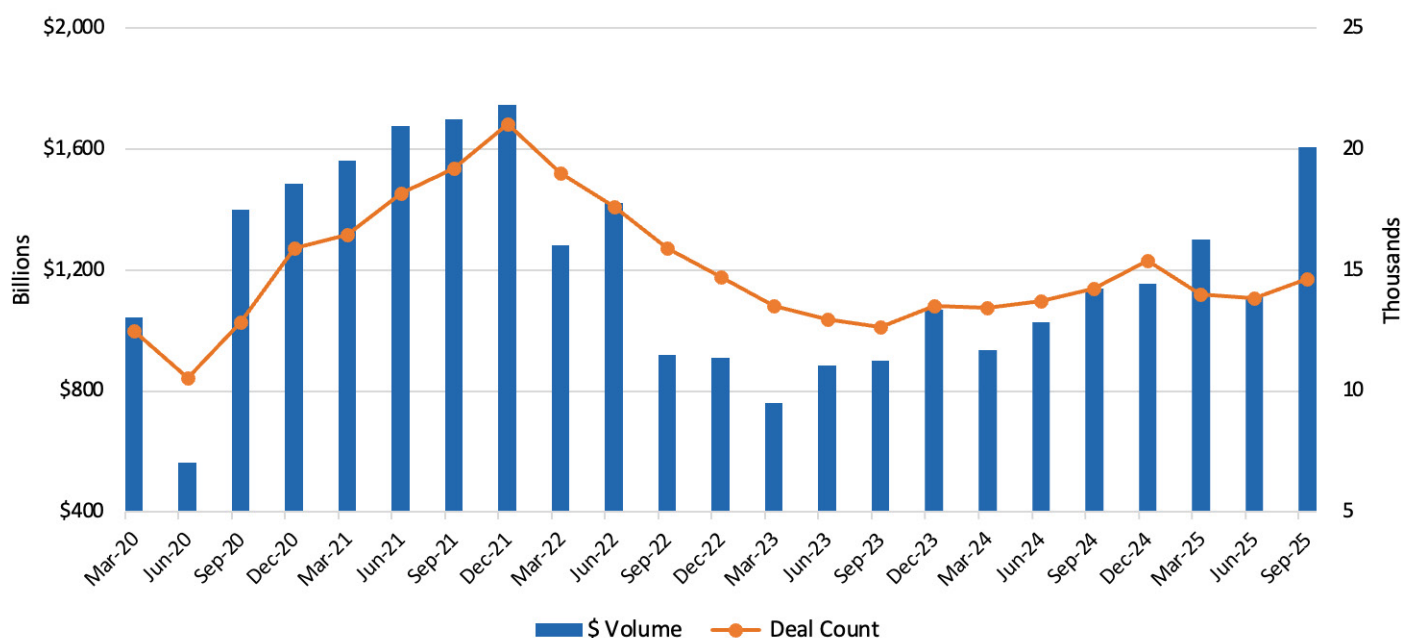
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The outlook for 2026 is shaped by both positive and negative forces moving in parallel. Some of these opposing dynamics will likely persist; the key question is whether their net effect proves supportive or challenging for risk assets. For now, we lean modestly bullish, while remaining alert to shifts that could alter this balance. This month's Chart of the Month explores tailwinds, while next month's will examine headwinds.

Potential Tailwinds for Risk Assets

- ▶ **Fiscal Stimulus Reawakens Growth.** The OBBBA (One Big Beautiful Bill Act) is set to inject stimulus into the economy. Tax changes should lift consumer refunds and spending, while new tax incentives for business investment and construction should spur capital expenditures, augmenting already announced spending increases for data center buildout. The OBBBA is estimated to add 0.2-0.5 percentage points to real GDP in 2026. In addition, the Trump administration has begun to address affordability concerns by rolling back select tariffs and may take further steps to support lower-income consumers ahead of the mid-term elections.
- ▶ **Deregulation.** According to Jefferies, looser bank regulation could unlock as much as \$2.6 trillion in lending capacity. M&A activity and IPO issuance are already rebounding, and greater lending capacity could accelerate these trends in 2026. Sentiment among global investment banks is improving, aided by reduced economic risk, expectations for lighter regulation, and the return of deal profitability – all reinforcing a more optimistic outlook for capital markets.
- ▶ **Monetary Tailwinds.** Financial conditions have eased considerably and are likely to remain supportive. M2 growth has turned positive, trending up roughly 4% year-over-year, signaling renewed liquidity. The Federal Reserve (Fed) is winding down its quantitative tightening program and is expected to continue lowering rates into 2026. While we believe inflation will remain sticky, productivity gains could usher in a disinflationary environment, giving the Fed room to ease more than markets currently anticipate.
- ▶ **Productivity Gains.** 2026 may be the year when AI applications begin delivering measurable productivity improvements. Companies that integrate AI-driven automation, workflow optimization, and other methods may see margin expansion and drive higher-than-expected profits.
- ▶ **Growth Spillover.** Beyond Mega-Caps. Market leadership may broaden as liquidity and earnings momentum extend to Value stocks and small- and mid-cap companies. These segments lagged for several years but could benefit from renewed economic growth and from the use of AI applications.
- ▶ **International Keeps Going.** A potential resolution to the war in Ukraine would remove a major overhang on energy prices and investor sentiment. The subsequent rebuilding effort could stimulate European growth, while lower energy prices could help lower European manufacturing costs. Meanwhile, Fed rate cuts and additional Chinese stimulus could support emerging markets, extending the global recovery into 2026.

Mergers & Acquisitions



Source: Bloomberg. Quarterly data since 2020 through September 2025.



Word About Risk

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