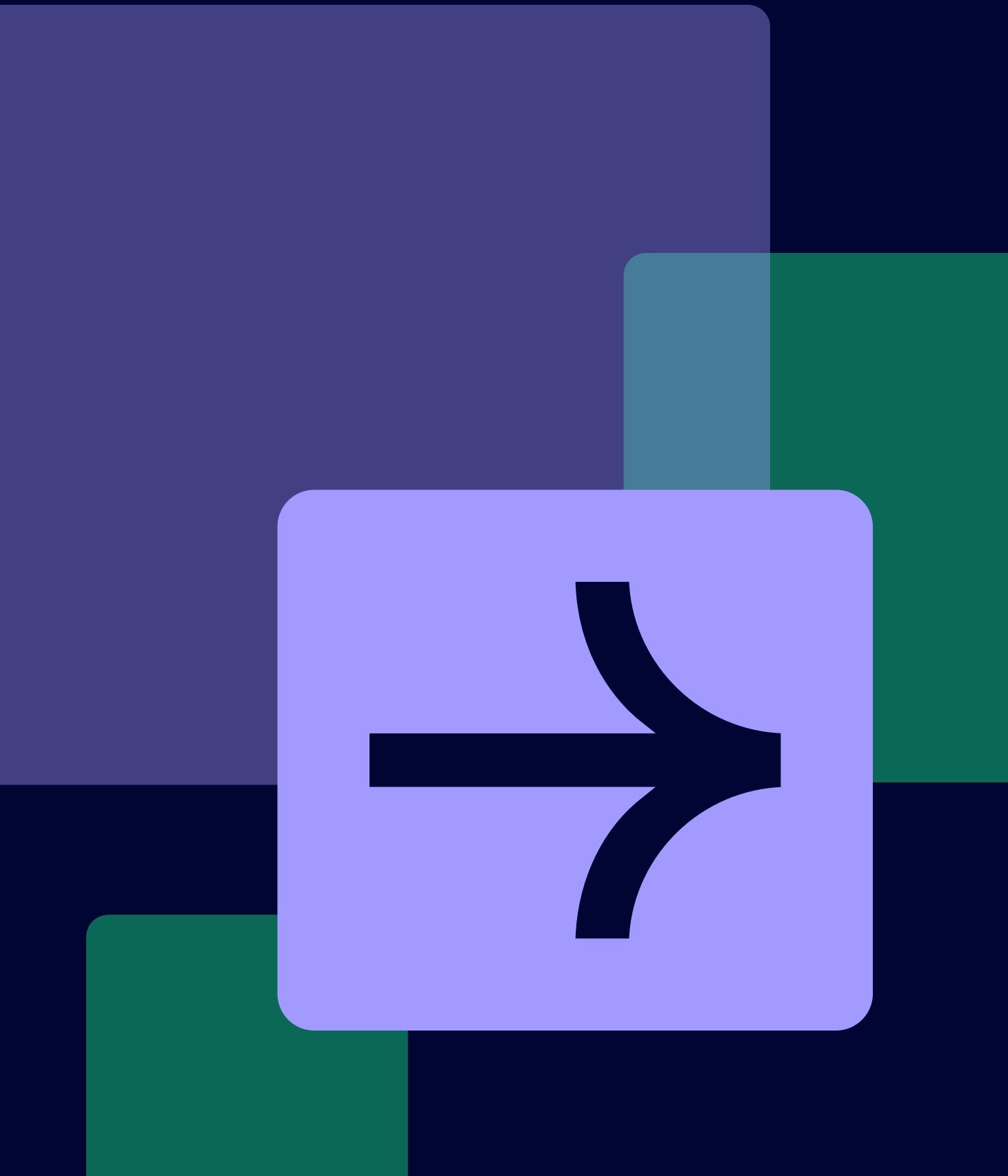


GLOBAL MARKET OUTLOOK 2026

**Forward  
with focus**



# Contents

3	<b>Forward with focus</b>	A letter from Lori Heinel, CFA, Global Chief Investment Officer, State Street Investment Management.
4	<b>Macroeconomic outlook</b>	<b>Growth amid uncertainty</b> Global economic growth continues, supported by policy shifts, AI investment, and fiscal stimulus. But uncertainty remains amid lingering trade and geopolitical risks.
8	<b>Equity outlook</b>	<b>AI optimism trumps policy concerns</b> AI optimism underpins global equities in 2026, but policy risks, volatility, and rich valuations call for a selective investment approach.
12	<b>Fixed Income outlook</b>	<b>The search for income and opportunity</b> Our fixed income outlook reflects a preference for sovereigns over credit, while potential opportunities lie in EM debt and other segments.
17	<b>Alternatives outlook</b>	<b>Income, diversification, and growth</b> The attraction of alternative exposures has grown as traditional portfolios face rich equity valuations, shifting correlations, and policy uncertainty in 2026.

# Forward with focus



**Lori Heinel, CFA**

Global Chief Investment Officer  
State Street Investment Management

As we move into 2026 after another year of significant developments and surprises, we do so with a sense of cautious optimism.

The resilience of markets has been tested, but the strength of the global economy has shone through. Although the narrative around tariffs continues to unfold and the shock of “Liberation Day” is behind us, the direction of travel on negotiations is clear and should contain more upside than downside surprises. With an inflation trajectory trending lower, US policy rates likely to fall as the Fed takes stock of a softening labor market, and policy levers turning stimulative, we have a supportive environment for risk assets.

Although equity markets have enjoyed a healthy uplift in 2025, strong earnings growth in key sectors provides hope that additional gains can be realized. The continued promise of artificial intelligence (AI) and supportive fiscal policies in major economies underpin good prospects in the coming year. We stay constructive on the asset class and maintain a slight preference for US stocks, while recognizing that valuations are rich and market concentration remains a concern—underlining the importance of being selective in exposures.

Because global equity portfolios already tend to have a significant weighting in US shares, non-US investors have the additional task of assessing the impact of currency translation. Fiscal and policy developments create a risk that USD weakness may offset gains from US equity holdings for these investors—selective hedging of dollar exposure is worthy of consideration to help preserve portfolio returns.

Within fixed income, we have a preference for government bonds over credit across most advanced economies given tight spreads, the policy backdrop, and ongoing concerns that additional shocks may surface.

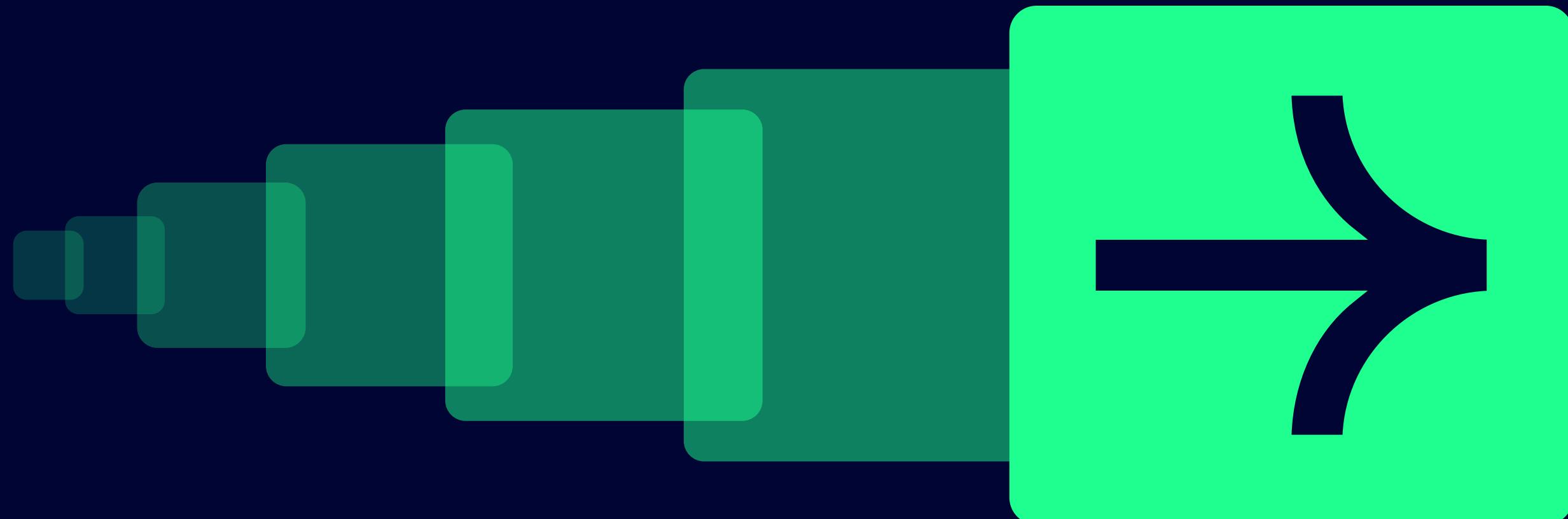
Beyond the main asset classes, a range of alternative investment types can help diversify portfolios and source additional return avenues. As we have seen, gold and other commodities, income-generating assets, real assets, and private markets have all benefited from investors adopting a broader approach. And while there may be concerns that some of these assets have become more fully valued, there is room for broader adoption, risk management impulses, and improved market access to further support advances in 2026.

We explore these themes and more in our latest Global Market Outlook.

Lori Heinel, CFA

A handwritten signature in black ink that reads "Lori M. Heinel".

# Growth amid uncertainty



# Our outlook for the global economy in 2026 reflects the recent evolution of policy decisions and their delayed effects.

Notwithstanding the headlines and uncertainty surrounding the initial tariffs announcement earlier in 2025, our base case that such levies would neither cause a recession nor have an outsized impact on inflation has largely played out. The US, and global, economies are set to enjoy continued growth in the coming year, albeit growth that is accompanied by a continuing sense of anxiety.

With most of the easing cycle globally behind us, and as central banks move closer to assumed neutral rates, we are now more cautious about the pace of future rate reductions, and expect more divergence between central banks:

- For instance, the Federal Reserve (Fed) should have room to deliver up to three cuts in 2026
- The Bank of England (BoE) has been a laggard in the easing journey, so some catch-up is expected in coming quarters, and we believe the European Central Bank (ECB) will pause for the near term
- Meanwhile, the Bank of Japan (BoJ) may extend its approach of cautiously hiking rates

In the US, a variety of policy levers will be stimulative, at least in the short term:

- Monetary policy will continue on its easing path, complemented by fiscal stimulus stemming from the One Big Beautiful Bill Act (OBBA) and the many tax incentives and refunds triggered in January 2026
- Furthermore, the deregulation agenda is now being prioritized, with a major focus on the financial and energy industries; this should help promote credit creation and sustain low energy prices
- Finally, the US administration is considering tools to improve housing affordability, including some regulatory options that could help reduce average mortgage costs

**“Both the US and the global economy are expected to keep growing in the year ahead, though this progress comes hand in hand with lingering uncertainty.”**

—Simona Mocuta, Chief Economist

## Fiscal impulse to support growth

Outside the US, policy settings are also shifting towards moderately stimulative measures that could help defray the effects of trade uncertainty. In Europe, Germany's combined defense-infrastructure program—anchored by its €500 billion fiscal package—is expected to begin lifting macroeconomic indicators in early 2026, particularly through increased public investment and industrial activity. This fiscal impulse aligns with broader European efforts to modernize defense capabilities and digital infrastructure, potentially spilling over into earnings growth in sectors such as Industrials and Utilities. However, the scale of AI investment in Europe still lags behind the US, and overcoming regulatory hurdles remains key to unlocking further upside.

In Asia, both China and Japan are poised to increase net fiscal stimulus over the course of the year. China is pivoting toward policies that stimulate domestic consumption and infrastructure investment, with a strong emphasis on AI leadership and innovation. These efforts aim to counterbalance weak consumer sentiment and high household savings, while also positioning China competitively in the global AI race. Japan, under Prime Minister Takaichi's agenda, is pursuing fiscal expansion and defense modernization, alongside strategic

investments in multilingual AI and hardware-software co-evolution. These initiatives are expected to drive earnings growth and reinforce Japan's ambition to become “the world's most AI-friendly country for development and utilization.” Together, these regional policy shifts suggest a more supportive macro backdrop for global growth in 2026, even as trade uncertainty and geopolitical tensions persist.

## The year of delayed policy impact

2026 should see a ‘breather’ on the policy front as short-term focus returns to macro fundamentals. But 2026 will still be “the year of delayed policy impact.” The world is only just starting to grapple with the full impact of US trade, migration, and defense policies. Positive shocks such as the OBBA and the relaxation of the German debt brake will also only begin to show up in the data in the coming year and beyond. Whether due to intentional delay in business responses, pre-empting compensatory actions like stockpiling, or the existing cushion of supply in the labor market, the full impact of each policy decision is going to take time to pass through its respective transmission channels to the real economy.

## Old structures are evolving to meet shifting trade policy and the AI race

The hard stance adopted by the US on tariffs continues to ripple through the global economy. But deals are being closed, uncertainty has eased, and trade continues to grow (Figure 1).

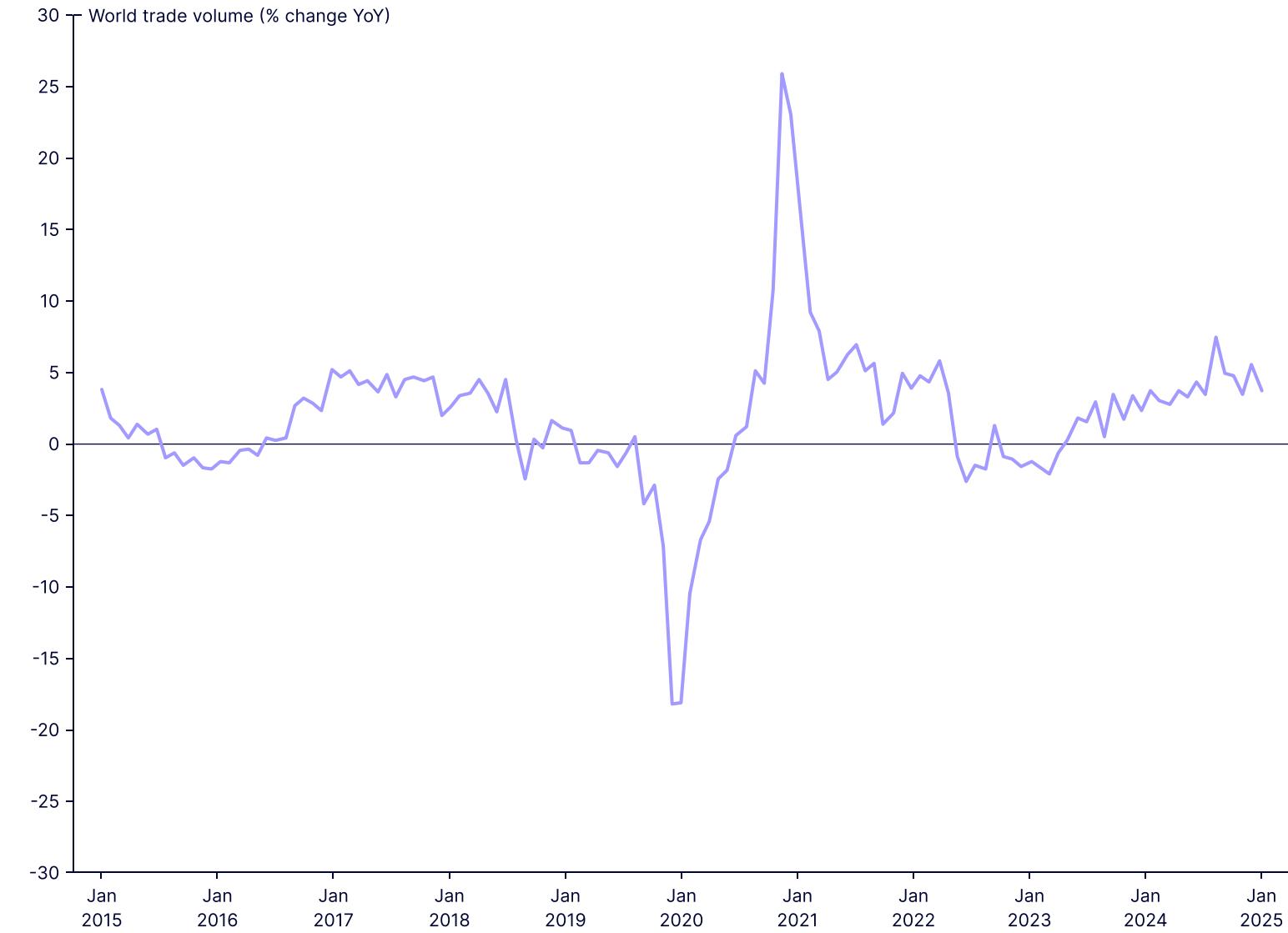
The uncertainty that lingers around trade centers largely on the renegotiation of the USMCA with Mexico and Canada, as well as trade agreements with major trading partners such as India, Brazil, Taiwan, and Switzerland. However, most of these carry more upside than downside risk as the departure from the status quo would be positive. For the USMCA, specifically, we believe that the US midterm elections in late 2026 will act as a constraint on any negative surprise.

The process of intentional reorientation of global trade relationships through the prism of strategic national interest and security, including how and where AI-related investments are deployed, marks an important shift in the landscape. Whether this negatively impacts either productivity or inflation remains to be seen, with AI's unrelenting rise adding to the mix. But even 2026 will be too soon to see AI's productivity impact in a macro sense, although its promise should be clearly visible in a global wave of investments in data processing capacity.

The US and China currently lead the race, but the Middle East is trying to carve out a space for itself as part of their strategic economic diversification—this will contribute to the expansion of the regional AI battleground to the sourcing and development of chips, power, and talent.

**The hard stance adopted by the US on tariffs continues to ripple through the global economy. But deals are being closed, uncertainty has eased, and trade continues to grow.**

**Figure 1: Trade grows despite trade wars**



Source: Macrobond, State Street Investment Management, US Customs and Border Protection (CPB) data as of October 31, 2025.

## Geopolitical developments still warrant attention

We had anticipated that a Trump presidency would initially seek to de-risk the international environment. At this stage though, the realities of geopolitical competition with friction points still have the potential to deliver risk-off moves in financial markets. In descending order, the market-relevant potential for the largest short-term surprises stem from: the US-China trade and diplomatic front; Russian provocations and sabotage in Europe; US military confrontation in Latin America; a renewed war between Israel and Iran.

To get a sense of the turmoil navigated by investors in 2025, Figure 2 shows major volatility indices rebased to their January 1 levels. Both bond and equity market volatility (as measured by the MOVE and VIX, respectively)

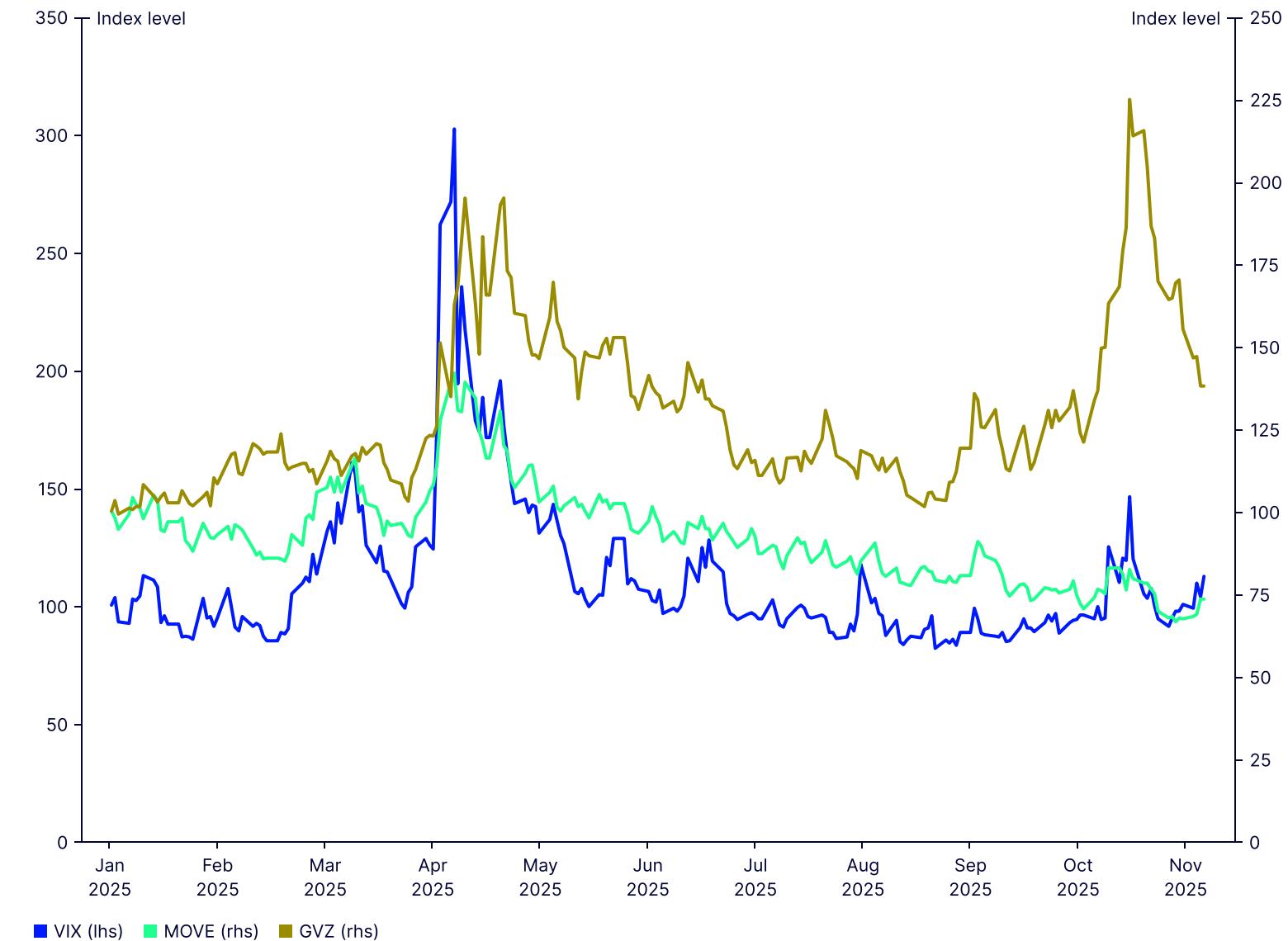
have settled well below the April peaks, mirroring wider perceptions that the shocks of the first half year are fading. However, gold volatility (GVZ) remains elevated albeit retreating from recent highs. Together with the huge jump in spot prices, this signifies that concerns about geopolitical tail risks, as well as worries about higher inflation and fiscal stress, are unlikely to subside in 2026 despite the overall policy 'breather'.

It seems almost certain that the shifting sands of global macro and geopolitical relationships will continue, bringing threats and opportunities to all players. Building resilience is the task at hand in this new ecosystem, whether for countries, individual firms, or the world's investors. The road toward more balanced trade is not smooth.

**“Despite fading market shocks, ongoing geopolitical tensions and elevated gold volatility signal that concerns about global risks may linger in 2026.”**

—Elliot Hentov, Head of Macro Policy Research

**Figure 2: Volatility indexes retreat, gold volatility remains elevated**



Source: Macrobond, CBOE as of November 6, 2025. Metrics: Chicago Board Options Exchange's CBOE Volatility Index (VIX), Crude Oil Volatility Index (OVX), ICE BofAML MOVE (Merrill Lynch Option Volatility Estimate) Index, CBOE Gold Volatility Index (GVZ). **Past performance is not a reliable indicator of future performance.** Rebase 01/01/2025=100.

# AI optimism trumps policy concerns



# Global equities have delivered strong returns through 2025, supported by a resilient economic backdrop and powerful earnings.

The transformative potential of Artificial intelligence (AI) across the broader economy has made it a focus for investors. While the Magnificent 7 companies have dominated the headlines, it is AI's role as a driver of capital allocation, sector leadership, and macroeconomic momentum that is a key focus heading into 2026. The positive effects of the AI investment narrative will continue to offset the drag from protectionist policies and continued geopolitical uncertainty.

We remain constructive on equities while recognizing that market valuations are expensive—and not just in the US. Higher volatility is likely to return at some point, along with the possibility of market adjustments, but these should be short-lived and overall we remain upbeat for 2026.

## United States: AI investment propelling the market

Our outlook for US equities, which comprise more than 60% of global market capitalization, is powered by several forces. First, the US remains the epicenter of the AI trade with Magnificent 7 share price gains fueled by AI spending expectations. Capital spending by this cohort is expected to grow to about \$520 billion in 2026, or over 30% year-on-year.<sup>2</sup> AI-driven capex is boosting GDP and earnings—not just within the technology sector—with potential to unlock broad productivity gains.<sup>3</sup>

Second, it's not all about the US large cap tech stocks. Signs of a turnaround in small cap fortunes are emerging; small caps historically have outperformed when the

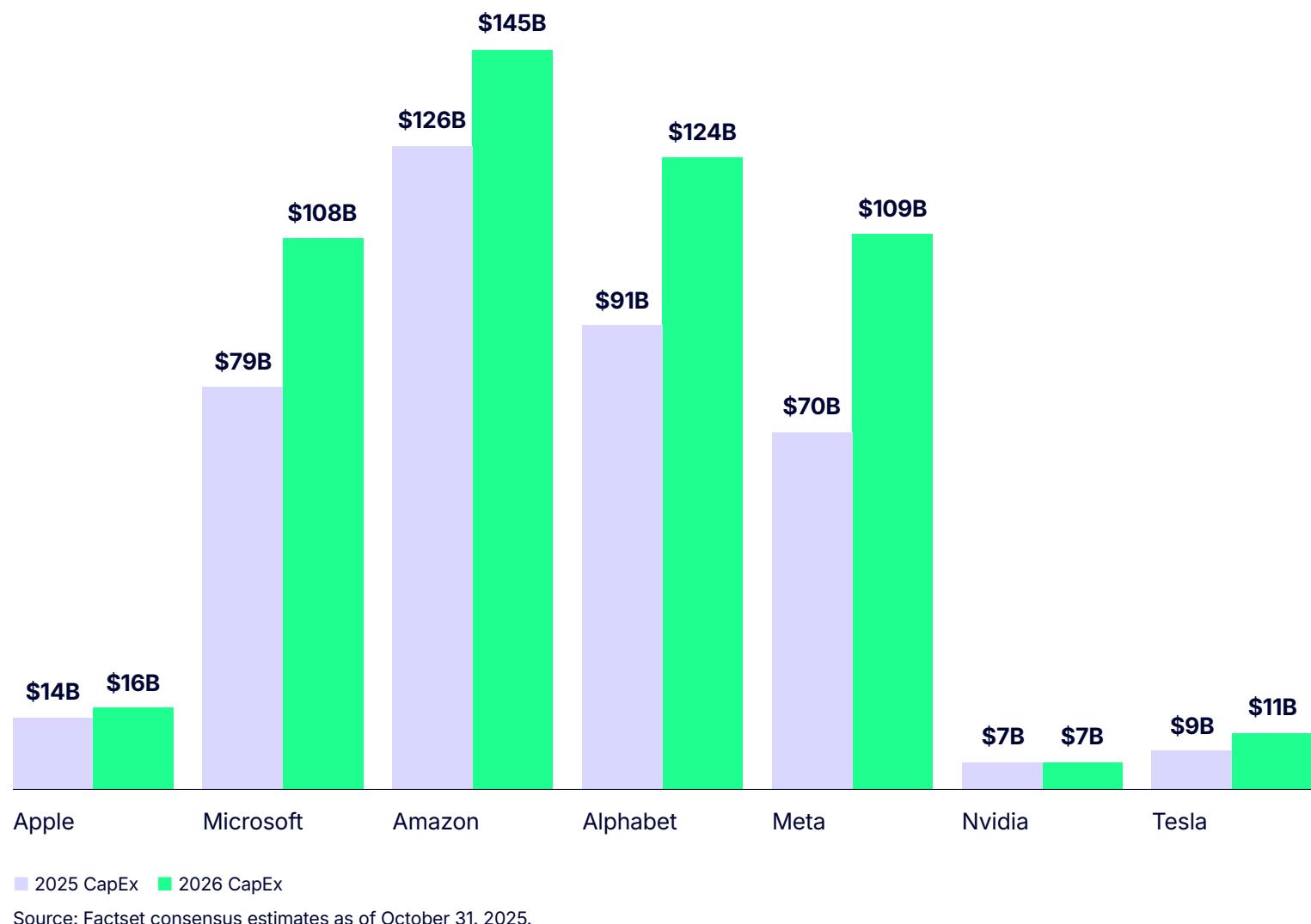
economy is improving and monetary policy is easing. US manufacturing activity appears to have stabilized, while anticipated Federal Reserve rate cuts could alleviate financing pressures on companies, small caps in particular.

Third, with pro-business policies on the horizon, US companies may get an extra shot of pro-growth momentum. Small caps trade closer to fair value<sup>4</sup> and present an opportunity to leverage domestic growth. Fiscal policy is reinforcing this trend, with the One Big Beautiful Bill Act (OBBA) providing incentives for capital goods, research and development, and factory construction, and potentially boosting corporate profits. Tax refunds will also provide consumer support in early 2026.<sup>5</sup>

**“Fueled by transformative AI investment, robust capital spending, and supportive fiscal policies, US equities remain at the forefront of global markets—yet a careful eye on valuation risks is warranted”**

—Dane Smith, Head of North American Investment Strategy & Research

**Figure 3: Magnificent 7 to increase AI capex again in 2026 (USD)**



## Proceed with caution

There are two key caveats to the assumptions behind our US equity outlook, however. First, AI spending carries risk. An unexpected slowdown, especially among hyperscalers, could disrupt the market rally that has been rooted in earnings growth. The AI narrative is particularly vulnerable to any cracks in the key pillars supporting growth, specifically the depletion of free cash flow and falling FCF yields. Increased financial leverage via debt issuance could also become a weak spot, particularly if earnings decline or interest rates stay elevated.

Furthermore, the market's run to new highs has been accompanied by rich valuations; the S&P 500 trades on a next-twelve-months (NTM) forward PE multiple of 23.1x<sup>6</sup> and the Shiller CAPE ratio (cyclically-adjusted price-to-earnings ratio) has only been higher once before, prior to the dot-com collapse. That said, we subscribe to the argument that focusing solely on valuations can be myopic during periods marked by technological inflection points—where exuberance becomes rationalized by the uncertainty of its impact. The US market can outperform as long as corporations continue to improve return on investment (ROI) and productivity. While the AI theme supports momentum, a more discerning approach may be required should these firms not meet lofty growth expectations.

# In focus: US sectors in pole position

Diversifying across cyclical, defensive, and secular growth sectors can help investors navigate macroeconomic trends and strengthen portfolio resilience at a time of high US market concentration.

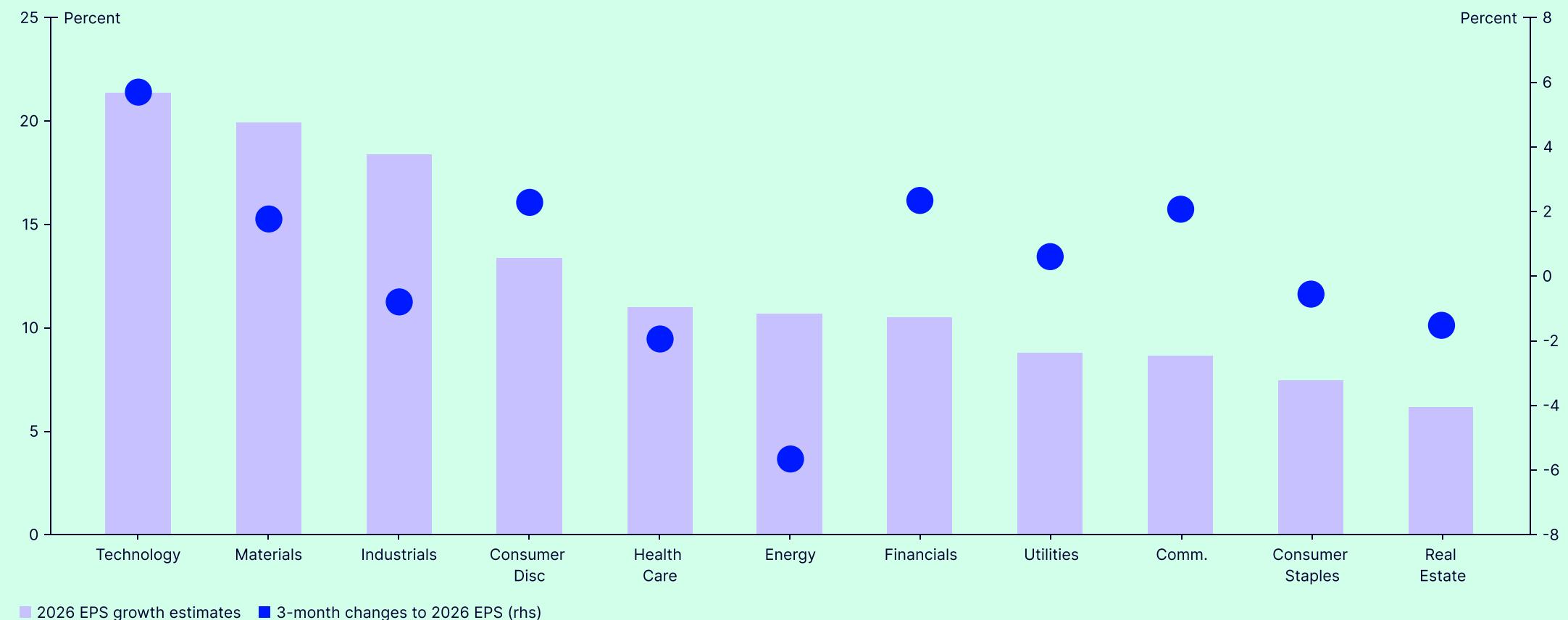
**Communication Services:** Despite recent performance, valuations remain below the historical median, offering an attractively valued exposure to AI-driven growth—and with potential for upside surprises.<sup>7</sup> Looking to 2026, from automated content generation and scalable personalization to campaign optimization, AI is driving significant operational efficiency gains and enhancing return on investment for advertisers.

**Utilities** offer a combination of defensive positioning and exposure to rising electricity demand from AI data center expansion and manufacturing reshoring,<sup>8</sup> while relative valuations remain below historical medians.<sup>9</sup> Utilities are also investing heavily to boost

generation capacity, supporting above-trend earnings growth through 2026. More rate cuts and economic uncertainty could enhance the sector's defensive appeal for portfolios.

**Industrials:** Increased defense spending, investment in power infrastructure, and a continued rebound in non-defense capital goods orders underpin earnings growth expectations of 18% in 2026—the third highest among sectors.<sup>10</sup> The aerospace and defense industry is expected to thrive on higher spending under the OBBBA, power demand is fueling growth in electrical equipment, and earnings per share (EPS) growth expectations for machinery and ground transportation are robust.

**Figure 4: 2026 EPS growth and revisions by sector**



Source: FactSet, as of October 24, 2025. Projected characteristics are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

## Europe: Playing catchup on infrastructure

European equities have narrowed the performance gap with the US, supported by new fiscal stimulus focused on defense spending, both in military and cybersecurity. In particular, Germany's €500 billion infrastructure package should contribute positively to regional growth. However, the scale of AI investment in the US dwarfs European efforts and overcoming regulatory hurdles and fostering tech ecosystems are essential to being competitive. Market EPS growth expectations for 2026 have been revised higher, but still trail the US; further upside is contingent on Europe's ability to implement fiscal reforms and achieve targeted earnings growth.

## Japan: Takaichi targets growth

Japan's equity market has surged to new highs amid reflationary momentum, governance reforms, and optimism around the policy agenda of new prime minister Sanae Takaichi. Her agenda emphasizes fiscal expansion, technological nationalism, and defense modernization. Earnings growth for 2026 is projected to hit approximately 10% compared to about 2% in 2025.<sup>11</sup>

Takaichi's policies build on the AI Promotion Act for Japan to become the "most AI-friendly country," prioritize voluntary compliance and innovation, and promotes strategic investments in multilingual AI and hardware-software co-evolution. A deal with the US also removes trade uncertainty, albeit with a sticker price of 15% tariffs, and allows policymakers, companies, and investors to refocus on opportunities.

## Emerging markets and China: Macro tailwinds, AI adoption, and domestic shifts

For emerging markets (EM), we hold a broadly constructive outlook heading into 2026 as AI-driven global growth, loose liquidity, and a weak US dollar act as tailwinds. AI-led productivity growth is bullish for EM countries such as India, Saudi Arabia, and the UAE, where governments are driving AI development and infrastructure. A weaker USD can support EM performance as capital continues to get pulled into the asset class.

China aspires to boost domestic consumption, but high savings and weak spending reflect low consumer confidence in property prices, employment, and social security reforms. More importantly, the country is determined to be a leader in AI and is prioritizing infrastructure investment to compete with the US.

Equity valuations are above the five-year average and EPS has been revised lower. The IT sector and AI investment are critical to sustaining equity market performance, but questions persist around the quality and monetization of innovation, where China holds an energy advantage but lags in the development of advanced chips.

While AI adoption and shareholder return initiatives provide tailwinds, investor sentiment remains sensitive to policy and macroeconomic developments. For global investors, Chinese equities offer diversification benefits due to their relatively low correlation with other major markets. However, a selective approach is warranted amid uncertainty around the sustainability of earnings growth, the degree of policy dependence, and the concentration of market leadership in a few sectors.

**While AI adoption and shareholder return initiatives in China provide tailwinds, investor sentiment remains sensitive to policy and macroeconomic developments.**

## In focus: European sectors well placed to gain

Within Europe, there are opportunities to be selective while focusing on larger secular trends that impact global economic growth, productivity, and fundamental cash flows. Though not cheap, valuations are less expensive versus the same pockets in the US.

Europe may not have the Magnificent 7 but investors can still participate in AI and digital transformation trends. Q3 corporate results topped high expectations and though Europe's **Technology** sector is trading above long-term valuation metrics, it is not at the all-time highs seen in the US.

As in the US, **Utilities** present opportunities amid the need to fulfil global AI and data center needs, with upbeat earnings trends suggesting potential to extend the sector's gains.

For **Industrials**, a fiscal impulse will offer support via new defense spending, particularly as Europe aims to counterbalance other nations' needs for self-sufficiency with its own plans (i.e. Draghi report and Europe defense 2030 roadmap).

# The search for income and opportunity



# Heading into 2026, we continue to hold a constructive view on prospects for much of the fixed income market, with a general preference for sovereign debt over corporate bonds.

The combination of a favorable rates environment and resilient economic backdrop bolster our outlook. While the scope for gains in credit appear less plausible, opportunities may lie in emerging market debt, mortgages, and structured credit.

## Sovereign debt

The policy setting of the three major central banks falls conveniently into the three possible states:

- The Fed clearly leaning towards cutting
- The ECB at neutral
- The Bank of Japan still in hiking mode

Simplistically, we could translate those different policy leanings into relative return expectations for the coming quarters. Of course, reality is more nuanced, and rate cycles will change as economic conditions evolve. The pricing of those divergent central bank policies led to some dispersion in G7 benchmark yields in Q3 2025, but it would be wrong to assume that the relationship out the curve has broken down completely.

Sovereign debt remains attractive, but investors should be selective about duration and mindful of inflation risks. There is a question mark over the willingness of governments to credibly address fiscal deficits, which could have implications for the long end of some yield curves.

The US and France have attracted most attention but they are not alone: Japan and a handful of European countries remain on the bond vigilantes' radar. Looking forward, the US Treasury market remains the linchpin for global rates markets for the coming year.

Foreign currency exposure is also key. For example, unhedged euro- and Swiss-based investors have seen their currencies' strength decimate overseas bond returns, especially in US dollar and Japanese yen-denominated debt. Continued currency-driven volatility can be expected and hedging currency exposure should be a priority for many bond investors.

**“Sovereign debt remains attractive, but investors should be selective about duration and mindful of inflation risks.”**

—Desmond Lawrence, Senior Investment Strategist

## US Treasuries

A significant impact of the US government shutdown was the dearth of data releases. Even in their absence though, it had already become evident that a softer trend was emerging in the US labor market. The inflation picture is more nuanced, and while published data continues to run at a slightly higher than comfortable level for some at the Fed, the trend appears to be (slowly) moving in the right direction. So although the Fed revised its median inflation forecast for 2026 slightly higher in its September economic projections, average inflation is expected to decline to 2.1% by the end of 2027.

Policy easing by the Fed will anchor short-dated US Treasuries and may help draw yields lower if the jobs market weakens further. We are conscious, however, that US yields are close to the lower end of the range seen over the past twelve months. That's not to say that US yields cannot move lower, it's simply stating that we got here quite quickly. There are two implications:

- 1 A correction in yields would not be that surprising and would offer an opportunity to extend or reposition duration.
- 2 US Treasury returns from current levels are more likely to be in the low-to-mid-single digit range over the coming year. We favor the 5- to 10-year part of the curve. An unexpected and more meaningful contraction in the jobs market could be a catalyst for larger gains given the disinflationary implications and likelihood of a more forceful Fed response.

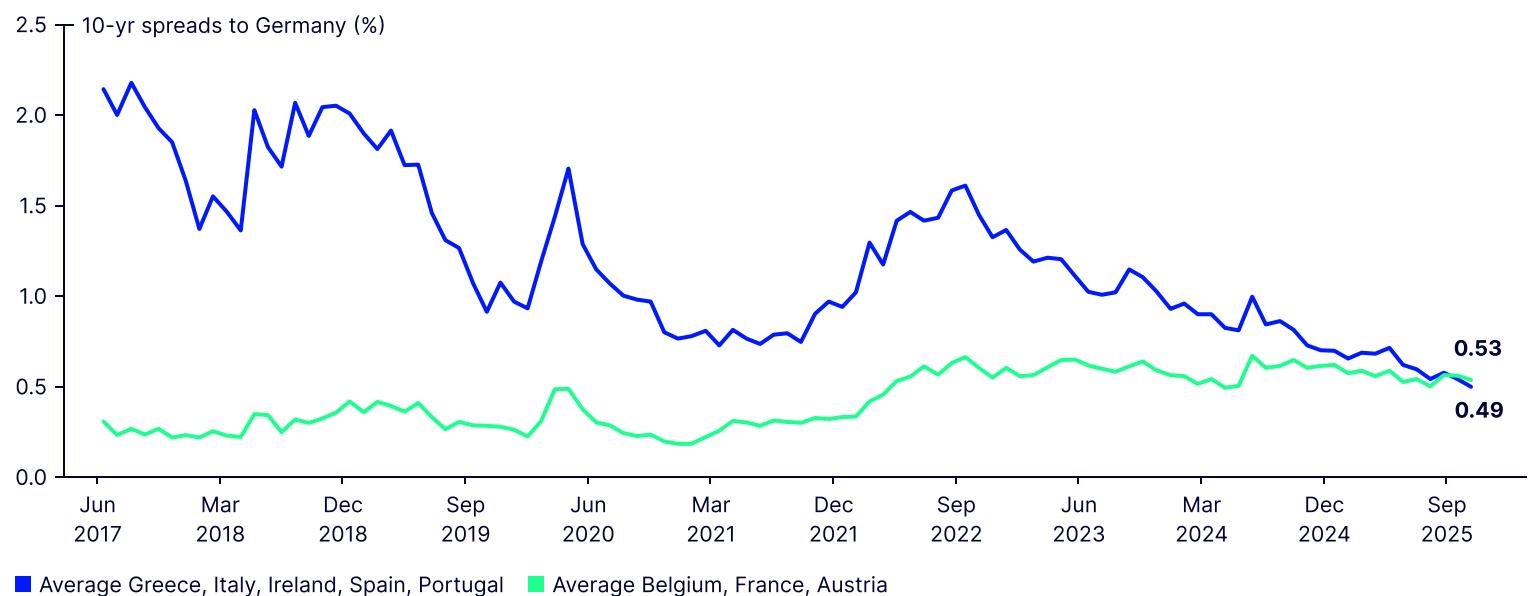
**A significant impact of the US government shutdown was the dearth of data releases. Even in their absence though, it had already become evident that a softer trend was emerging in the US labor market.**

**Figure 5: Much priced into short-dated debt, favor 5- to 10-year bonds**



Source: Bloomberg Finance L.P. as of October 31, 2025. Past performance is not a reliable indicator of future performance.

**Figure 6: Converging sovereign yields, diverging fundamentals**



Source: Bloomberg Finance L.P. as of October 31, 2025. Past performance is not a reliable indicator of future performance.

### European and Asian government bonds

Eurozone government bonds face a similar if slightly more constrained setup to that in the US, given diminished prospects of rate cuts and ongoing fiscal concerns. We expect modest returns unless a more significant slowdown unfolds and unlocks additional ECB policy easing. However, returns can be augmented with an active investment approach.

High and rising debt levels, in France and Belgium for example, are raising debt sustainability risks in the medium term. The factors contributing to these increased risks are slow-moving and deeply engrained in the economic and political architecture, making them predictive of long-term ratings trends and offering opportunities for alpha generation. Pension reform in the Netherlands could also lead to significant allocation changes—generating risks and opportunities.

We see potential value in UK Gilts. A sluggish economy and the increasing likelihood of sustainably lower inflation underpins the prospect of more Bank of England rate cuts. With limited fiscal headroom, the aim of the government is to retain market confidence and contain rapidly rising public borrowing while also trying to foster growth prospects. A credible commitment to spending cuts is required to realize the full potential.

In Asia, Japanese government bonds may present an interesting opportunity in 2026. A perceptible end to the rate hiking cycle combined with the potential deployment of Japanese banks' substantial cash holdings could be a performance catalyst for JGBs, particularly for the belly of the curve. Meanwhile, Chinese sovereign yields are likely to remain range-bound—ongoing disinflationary forces should contain the upside in yields while a less accommodative monetary policy stance will likely limit the downside.

**Eurozone government bonds face a similar if slightly more constrained setup to that in the US, given diminished prospects of rate cuts and ongoing fiscal concerns. We expect modest returns unless a more significant slowdown unfolds and unlocks additional ECB policy easing.**

### Investment grade credit and high yield debt

Although fundamentals in corporate bonds are still solid, it's hard to see meaningful upside from here. Generally, spreads for both investment grade credit and high yield debt are unlikely to decline significantly given current low levels.

We see more attractive opportunities in mortgages, structured credit, and private credit. That said, corporate credit still offers reasonably attractive carry and as such should remain a core allocation. Interestingly, in terms of market value, BB-rated bonds now account for the largest proportion of the US high yield market compared to B-rated bonds than at any time previously.

### Emerging market debt

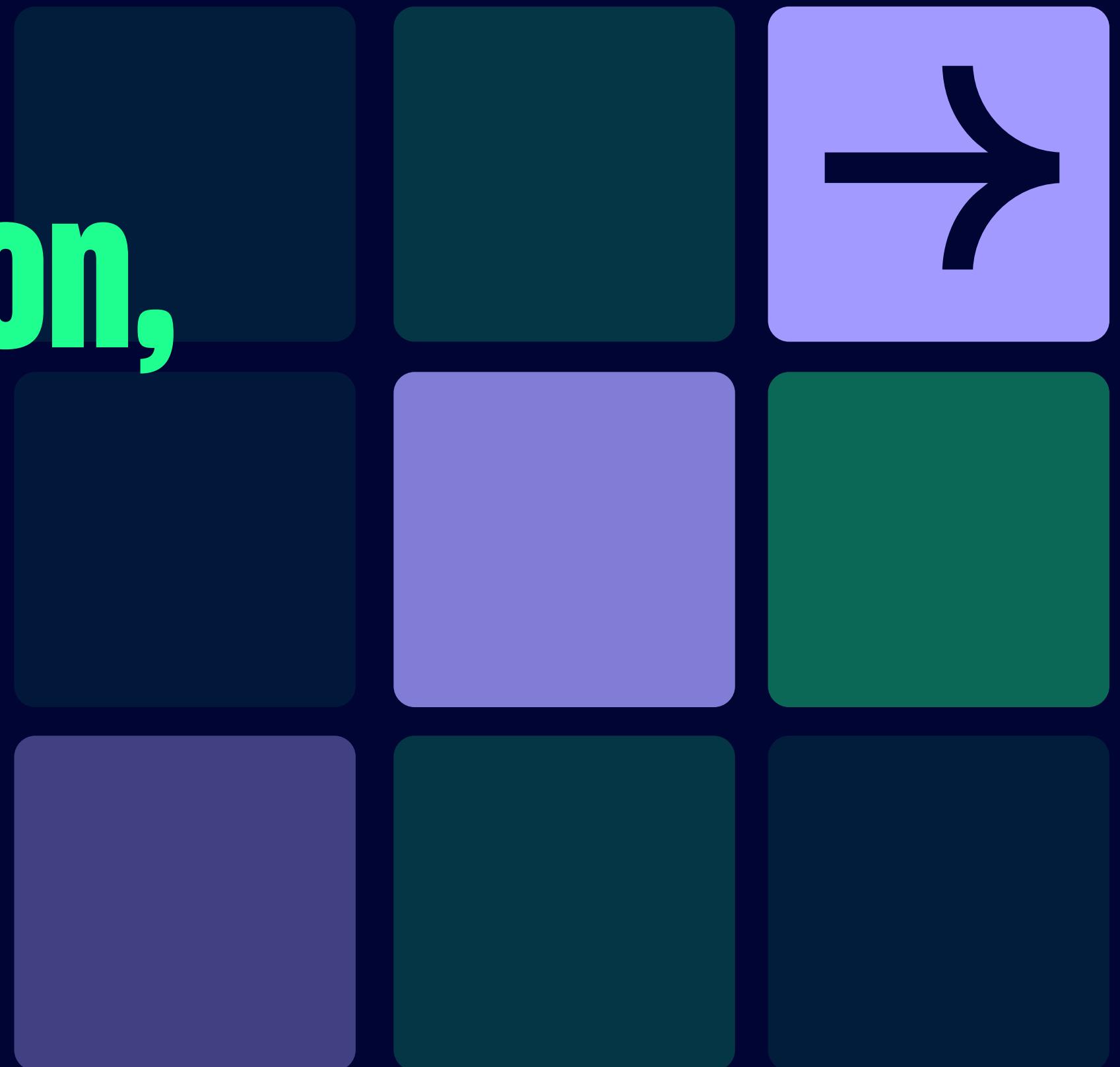
We retain a positive outlook on emerging market debt, with a slight preference for local currency bonds. An attractive risk/reward profile, declining policy rates, and underlying EM country dynamics such as credit rating upgrades support our positive view.

Hard currency emerging market debt can benefit from underlying US rate dynamics. Spreads have tightened, although a risk-off correction could offer an attractive entry point. US dollar exposure warrants attention, however, as a full year's coupon could potentially be wiped out by a single quarter's adverse FX move for non-dollar investors.

Local currency EM debt remains supported by solid fundamentals. Amid a generally favorable inflation environment, the prospect of lower domestic rates could bolster gains, as could any US dollar weakness. As with hard currency bonds, a yield correction could present an attractive entry point.

**We retain a positive outlook on emerging market debt, with a slight preference for local currency bonds.**

# Income, diversification, and growth



# With stock markets hovering near all-time highs, and security concentration within key equity indices at record levels, investors face a landscape marked by elevated valuations of risky assets, high equity/bond correlations, and increased tail risks.

The appetite for alternative assets has grown in recent years as investors have reassessed the merits of the traditional 60/40 stock/bond portfolio. 2022 was a watershed year when equities and fixed income fell together, underscoring the risk of relying exclusively on negative stock/bond correlation for diversification. Gold and other commodities, real assets, and private markets have been among the beneficiaries of investors adopting a broader view of diversification.

In today's more divergent macro landscape, the imperative for alternatives is broader: portfolios must be built to withstand not just volatility, but also regime shifts. Investors need exposures that deliver sustainable income, provide genuine diversification, and give access to growth themes that are reshaping the global economy. Alternatives—spanning private credit, real assets, infrastructure, private equity, and select hedge fund strategies—offer the tools to meet these demands.

## Income: Enhancing yield with private credit and real assets

The search for income remains a central theme for investors. With bank lending constrained and public fixed income yields and spreads under pressure, private credit has grown to \$2.8 trillion<sup>12</sup>, filling the gap left by banks with flexible financing solutions for middle-market companies and merger and acquisition activity. Direct lending and opportunistic strategies have generated attractive total returns relative to public fixed income, and with further Federal Reserve rate cuts expected, the asset class stands out as a robust source of income. Selecting managers with rigorous underwriting and proven track records is essential to navigate credit cycles and avoid idiosyncratic risks.

Income generation is also supported by real assets. Infrastructure investments, underpinned by long-term contracts, essential services, and pricing power, offer resilient cash flows. The momentum in AI-driven capital spending is fueling growth in digital infrastructure, such as data centers, which benefit from secular demand and high barriers to entry. Multifamily real estate, supported by persistent housing shortages and affordability challenges, provides steady rental income and the potential for capital appreciation as markets recover. These exposures not only enhance yield but also offer inflation protection and stability in volatile markets.

**“In a shifting market landscape, true resilience comes from building portfolios that not only weather volatility but also unlock new avenues of income and growth through strategic allocation to alternatives.”**

—Robert Spencer, Head of Client Portfolio Management

## Diversification: Building resilience through private assets, gold, and select hedge fund strategies

With fiscal issues coming to the fore, the risk of relying exclusively on stock/bond correlations for diversification has arguably never been greater. Investors are turning to alternative asset classes to provide deliberate diversifiers that help dampen portfolio volatility and hedge against macro, policy, and geopolitical uncertainties. Private equity and private credit, gold, and select hedge fund strategies are well placed in the year ahead to provide structural diversification to a 60/40 portfolio. These assets are less correlated with traditional equities and bonds, and their performance drivers are often linked to secular trends, regulatory changes, and local market dynamics.

Gold, in particular, has proved a powerful diversifier, benefiting from both structural and cyclical tailwinds. Central bank purchases provide price-inelastic demand, while geopolitical tensions, fiscal imbalances, and lingering inflationary concerns reinforce gold's appeal as a strategic hedge. Its low correlation with equities and resilience in times of uncertainty make it an essential component for portfolio diversification.

Discretionary macro, equity hedge, and risk parity strategies further enhance diversification. Skilled managers can profit from geopolitical shifts, currency moves, and commodity price changes, while risk parity approaches balance exposures across asset classes, mitigating risks from market concentration and regime shifts.

## Growth: Unlocking new engines of value

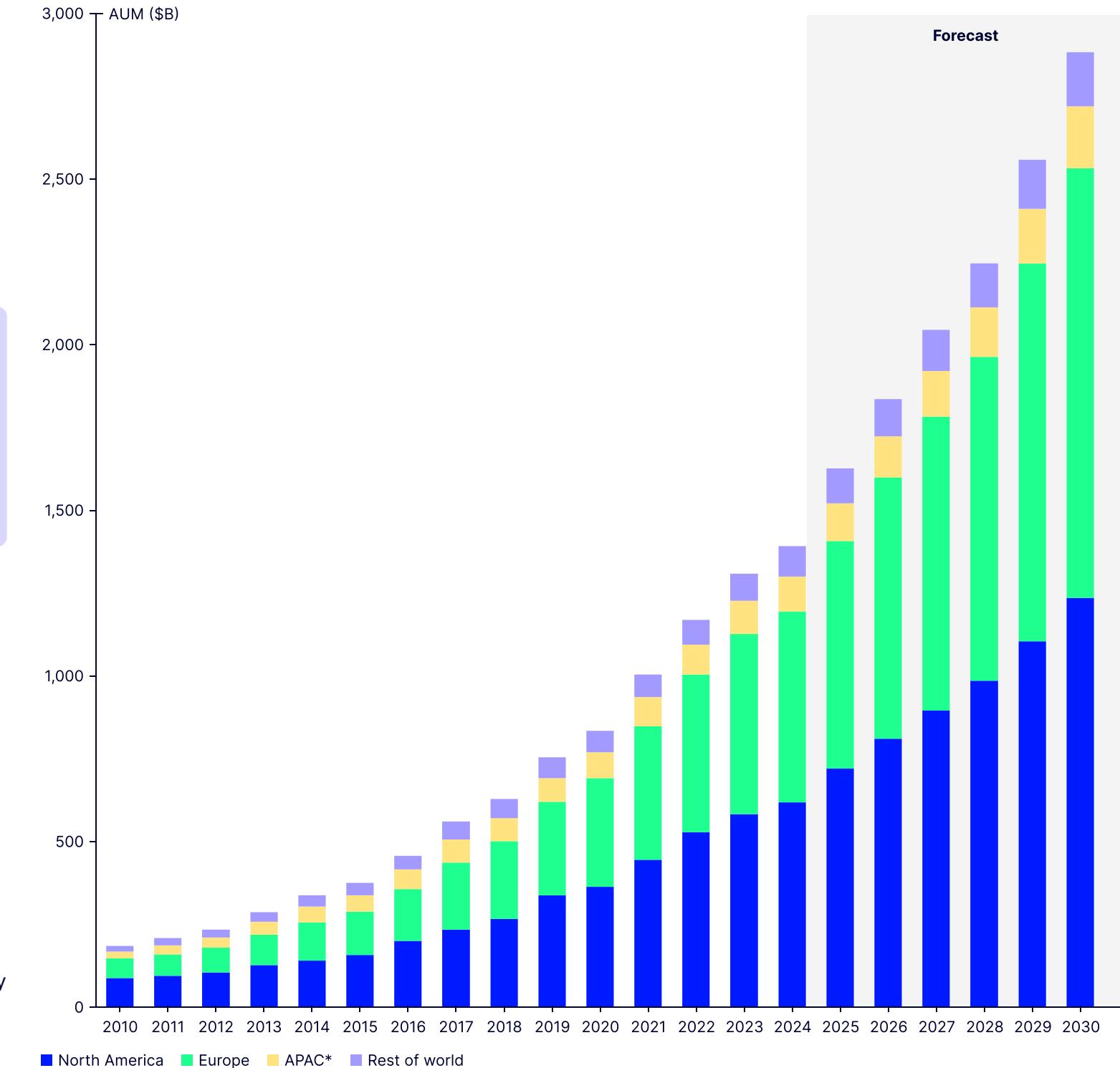
Alternatives are not just about cashflow and risk management—they are central to capturing growth in a world where traditional growth drivers are under pressure or feel like a crowded trade. Infrastructure benefits the most from momentum in AI capital spending, though select private equity and private credit investments may also experience gains. Digital infrastructure represents a powerful growth theme, with AI adoption and cloud expansion fueling significant opportunities in data center development.

**Digital infrastructure represents a powerful growth theme, with AI adoption and cloud expansion fueling significant opportunities in data center development.**

However, maintaining discipline is important when investing in this rapidly expanding sector, given its high profile and the risk of market overheating. Infrastructure is not only a source of stable income but also a driver of long-term capital appreciation as economies modernize.

Private equity is another strong option in 2026 for accessing growth, having rebounded with a 64.5% increase in IPO activity through mid-October in 2025 compared to 2024<sup>13</sup> helping investment managers return more capital to investors—these include high-profile names such as Databricks, Klarna, and Shein. The expansion of private equity secondaries helps ease liquidity constraints and gives investors a way to acquire existing stakes in established private equity funds, typically at a later stage in their lifecycle. This approach may mitigate the J-curve effect, reduce “blind pool” risk, and benefit from potentially discounted pricing.

**Figure 7: European infrastructure to grow fastest to 2030**

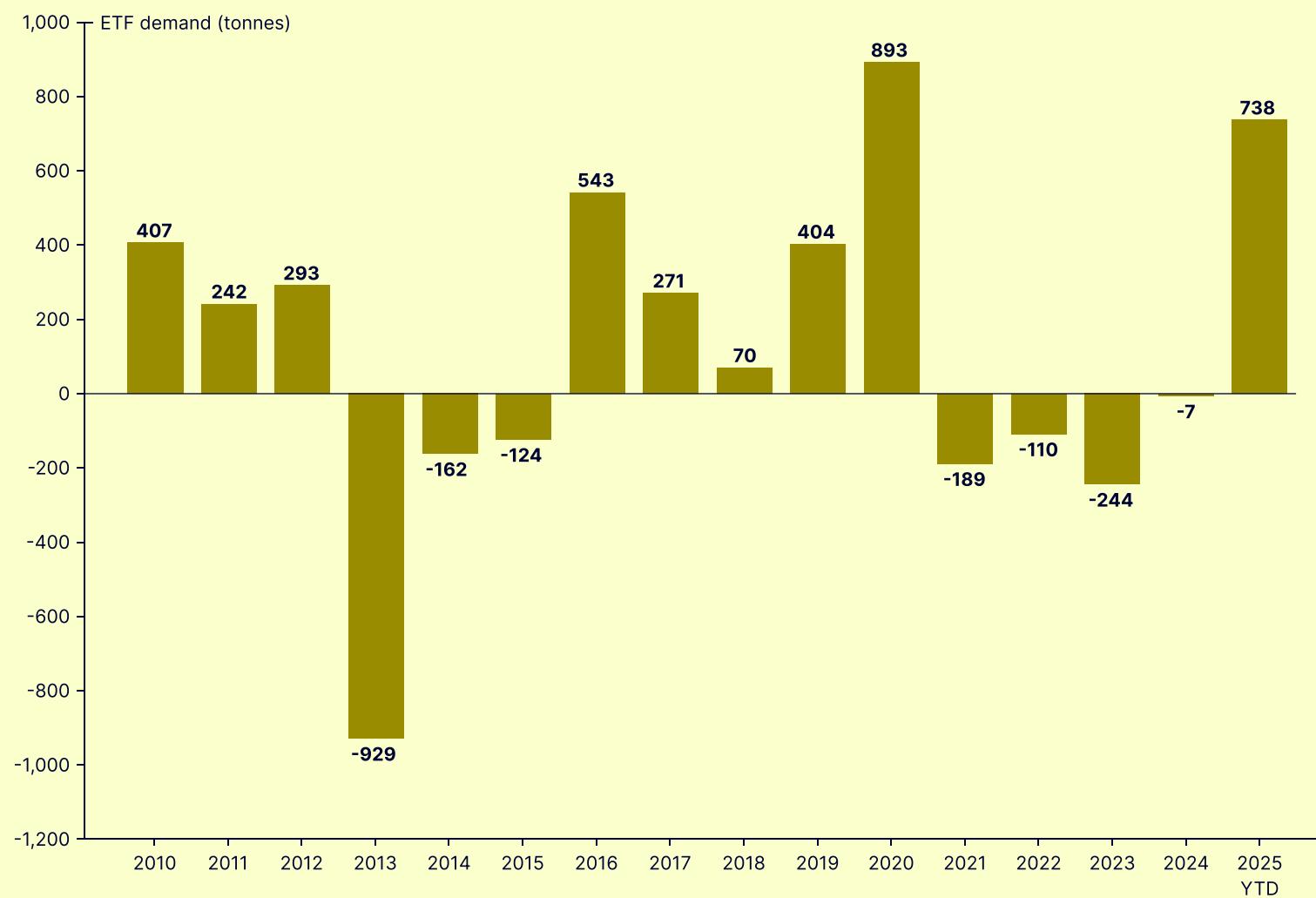


Source: Preqin – Private Markets in 2030. All figures are nominal. 2025 onwards are estimates. AUM figures exclude funds denominated in yuan renminbi.

# Gold: A strategic hedge in an uncertain environment

Gold's performance in 2025 has been marked by consolidation within a broader bull cycle, supported by resilient physical demand, robust ETF inflows, and continued central bank purchases. While headlines have focused on the possibility of gold reaching \$5,000/oz, a balanced assessment suggests a range of potential outcomes, shaped by both supportive and challenging factors.

**Figure 8: Resurgent gold ETF inflows in 2025**



Source: State Street Investment Management, World Gold Council as of October 17, 2025.

## Demand drivers

Physical gold demand reached an all-time high in Q3 2025, up 3% year-over-year despite record prices. This strength was driven by ETF investors, bar/coin consumers, and central banks, offsetting weakness in the price-sensitive jewellery sector.

Central banks, particularly in emerging markets, remain a structural source of demand, with Q3 purchases rebounding and helping to lift the price floor. Although full-year 2025 purchases may fall short of the recent ~1,000t annual trend, they are still expected to be among the strongest on record.

ETF flows have also been robust, with year-to-date inflows already surpassing the 2020 full-year record in US dollar notional terms and nearly matching 2020 in tonnage terms (see Figure 8).

## Macro and policy context

Gold continues to benefit from macroeconomic uncertainty, fiscal activism, and elevated global debt levels. In this environment, gold serves as a strategic hedge against debt monetization and currency debasement.

The Federal Reserve's ongoing rate cuts and the expected conclusion of quantitative tightening are likely to lower real interest rates, reducing the opportunity cost of holding gold. As real yields decline, gold's appeal as a portfolio diversifier and hedge is further enhanced.

**Gold continues to offer diversification and growth potential, but its path will be shaped by the interplay of monetary policy, investor flows, and global economic developments.**

## Looking ahead

Given the macro tailwinds supporting gold, recent forecasts have upgraded the base case price range for gold to \$3,700–4,100/oz. The most bullish scenario would see gold reach \$5,000/oz and would require a confluence of Fed easing, persistent ETF inflows, and renewed central bank demand. An additional potential support for gold is that it remains "under-owned" in many portfolios, with ETF holdings and futures positions below historical peaks. Gold could benefit from broader adoption which would reinforce its appeal, driving a virtuous cycle.

The main risks are twofold:

- 1 Physical demand in Asia-Pacific (the leading gold consumer) could be adversely impacted by record local prices.
- 2 A resurgence of US growth exceptionalism in 2026—if accompanied by contained inflation and a stronger US dollar—could dampen gold's appeal as a debasement and FX depreciation hedge.

In sum, gold continues to offer diversification and growth potential, but its path will be shaped by the interplay of monetary policy, investor flows, and global economic developments.

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## Endnotes

- 1 Japanese government's AI Basic Plan to promote use of AI in public institutions—Asia News Network
- 2 Source: Factset consensus estimates as of October 31, 2025
- 3 Estimates range from up to a 20% cumulative productivity increase over 10 years, or equivalent to 0.1–2.0 percentage points annually, according to the Richmond Federal Reserve.
- 4 Source: Factset as of October 28, 2025
- 5 Source: Oxford Economics, TaxPolicyCenter.org
- 6 Source: Factset as of October 28, 2025
- 7 Source: FactSet, as of October 24, 2025
- 8 Source: EIA, Short-term Energy Outlook, May 2025
- 9 Source: FactSet, as of October 24, 2025
- 10 Source: FactSet, as of October 24, 2025
- 11 Source: Factset as of October 28, 2025
- 12 Source: Bank for International Settlements
- 13 Source: Bloomberg Finance L.P. as of October 2025w

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