2026 Market Outlook

This report explores the economic backdrop, market dynamics, and investment ideas we believe will matter most in 2026. From the broadening of equity leadership and the impact of innovation to compelling potential opportunities in global markets and fixed income, our goal is to provide perspective that helps you and your Oppenheimer financial advisor navigate complexity with confidence. We invite you to dive in and discover where we see potential for growth and resilience in the year ahead.

NOTE: The following commentary is provided for informational purposes only and should not be construed as investment advice. The opinions and forecasts reflect the research, subjective judgments, and assumptions of the commentator and are not a guarantee of future results.

Economic Overview

In our view, the outlook for 2026 is bullish, supported by a disciplined approach to the U.S. economy and equities. For a third consecutive year, we expect stocks stateside to experience a broadening of the powerful rally that began in late 2022 after markets had become significantly oversold on recession fears that never materialized. Positive fundamentals—monetary policy, fiscal stimulus, resilient earnings, and innovation—remain supportive of growth in the year ahead.

The Federal Reserve has slowed the pace of easing – having cut 100 bps in 2024 and just 75 bps in 2025—and we do not expect an acceleration in rate reductions this year. We believe policy decisions should remain firmly data-dependent under new leadership, with the Fed continuing to balance its dual mandate of full employment and price stability. Inflation's stickiness remains a watch point, but progress toward the 2% target suggests monetary policy will remain broadly supportive.

We expect economic growth to persist, though with periods of softness offset by surprising strength. Fiscal initiatives such as the Big Beautiful Bill should provide an additional tailwind. Consumer sentiment surveys reflect caution, yet hard data shows spending continues, albeit selectively, which supports our view that discretionary demand will remain resilient.

In 2025, equity gains broadened beyond mega-cap technology leaders, with cyclical sectors such as industrials and financials contributing meaningfully. We expect this trend to continue in 2026, with leadership expanding to small- and mid-cap stocks. In our view, artificial intelligence and automation should increasingly drive efficiency across all eleven GICS sectors, creating opportunities for companies that successfully integrate these technologies. We continue to favor U.S. equities while maintaining meaningful exposure to foreign developed and emerging market indexes.

Against that economic and interest rate backdrop, we expect corporate revenues and earnings to continue to grow over the course of 2026. We forecast S&P 500 earnings to reach $305 per share, up from $275 in 2025. Based on our assumption of a P/E multiple of 26.5x, that puts our year-end price target for the S&P 500 at 8,100, about 15% higher than its closing level at the end of 2025[1]. Markets don't move up in a straight line and setbacks are likely, but those with patience and perseverance should see gains over the intermediate and long term.

Research Perspective

Markets reached new highs in 2025 as AI-related capex spending fueled growth and trade war concerns eased. In 2026, our view is that investors will have to contend with elevated valuations, sticky inflation, and a softening labor market. OAM Research continues to emphasize the importance of geographic and asset class diversification to better navigate a challenging investment environment. The team has identified opportunities in underappreciated areas of the market.

U.S. large cap valuations remain very stretched, but we believe other equity markets appear more reasonably priced. International equities outperformed their U.S. counterparts in 2025 yet still trade at significant relative discounts. Growth overseas is expected to rebound, fueled by significant fiscal spending and accommodative monetary policy. Further U.S. dollar weakness in 2026 could boost international equity returns for domestic investors. Within the U.S., we expect high-quality small- and mid-cap stocks got left behind during the momentum rally but may be poised for recovery in 2026. Higher quality businesses have less debt and are less burdened by higher borrowing costs. Many of these industry leaders can better navigate tariffs by passing through price increases or shifting supply chains. Although many AI-related stocks seem expensive, our analysis suggests the healthcare sector could benefit from the technology's impact on drug and therapeutic innovation, and public and private healthcare valuations remain relatively discounted.

Fixed income yields remain attractive but the potential reward for taking incremental corporate credit risk remains low. We believe there are compelling opportunities in public and private asset-backed credit markets. In private markets, less crowded asset-backed lending strategies have significant absolute return potential.[*]

We anticipate elevated volatility in 2026. Investment portfolios should benefit from strategies that are truly diversified from equities and bonds. We believe event-driven strategies such as merger arbitrage provide portfolio diversification, and a continued rebound in capital markets activity should provide enhanced opportunities.[**]

Fixed Income and Municipal Commentary

In 2025, fixed-income had its best performance since 2020 with the Bloomberg Aggregate Index returning 7.46% through November. Fed cuts overwhelmed deficit and inflation fears. We anticipate more positive performance in 2026 as we believe fixed-income remains an attractive asset class. It is our opinion that investors have opportunities for potential increased income and yields in the future as we foresee the benchmark 10-year U.S. Treasury yield ending 2026 between 4.00%-4.25%.

The U.S. economy remains resilient. Our view remains that the path of Fed rates is lower with their primary focus continuing on the labor market versus inflation. We look for solid GDP growth in 2026 around 2% and moderation in core inflation to 2.7%. Growth continues to be fueled by fairly low unemployment and strong consumption.

We remain positive on credit in 2026 given corporate fundamentals, coupled with persistent institutional demand and limited net new supply anchoring credit spreads and performance. Corporate spreads are tight but we expect fundamentals, technical factors, and demand to remain supportive on the back of attractive all-in yields. We continue to believe credit selection will be paramount if the focus shifts toward the ability of corporates to navigate macro uncertainty. In addition, while we do not rule out some

* Private credit risks include limited liquidity and defaults.

** Real assets can be affected by fluctuating market conditions and illiquidity, and event-driven strategies face deal-specific risks and uncertainties related to regulatory changes, which can impact outcomes and returns.

idiosyncratic risks, we see the overall financial system as healthy and recent bank earnings have been robust both on the capital markets and investment banking side.

As tax-exempt fixed income closes out a largely range-bound fourth quarter of 2025, we expect that pattern to carry into 2026 unless economic data or external developments give the market a clear reason to move decisively in either direction.

From a valuation perspective, absolute yields in longer maturities and still-favorable municipal ratios on the front end of the curve continue to make tax-exempt bonds attractive for investors in top tax brackets, and we expect the 2026 rate path to further support that backdrop. Turning to credit, visibility remains limited on how the new federal budget framework will ultimately affect state and local government finances next year. Changes to federal healthcare funding, food assistance programs, SALT deductions, student loan policy, and proposed taxes on private higher education endowments have yet to fully work their way through issuer balance sheets, particularly for general obligation issuers, hospitals, and higher education names. Even so, in our opinion, intermediate maturity, high quality tax-exempt fixed income remains well positioned to deliver another solid year of tax and risk adjusted returns.

Based on current market conditions, in our opinion, the securities are well positioned to weather the current market cycle. Capital preservation continues to be our foremost priority followed by seeking to provide income.

AUTHORS

Economic Overview

John Stoltzfus
Chief Investment Strategist

Research Perspective

Christopher Barsky, CFA
Head of OAM Research
and Investment Management

Fixed Income and Municipal Commentary

Leo Dierckman
Senior Portfolio Manager, OIA

Michael Richman, CFA
Senior Portfolio Manager, OIA

Ozan Volkan
Senior Portfolio Manager, OIA

If you have questions about our 2026 Outlook, reach out to your Oppenheimer financial advisor, who can discuss how the market landscape may affect your investments.

Manager Perspectives

We reached out to some of our discovered managers to gain their perspective going into 2026. See what they have to say:

Large/All-Cap

ACR continues to believe that market values are near all-time highs, particularly in the U.S., with the S&P 500 currently trading at 46 times reported cyclically adjusted-earnings. We see the trend of AI investment persisting into 2026, which should bolster economic growth and likely sustain the high valuations we are witnessing. While we are optimistic about the profound long-term productivity gains AI will offer, we do not think that these advancements will be sufficient to counterbalance anticipated lower future equity market returns.

Alkeon continues to believe that the overall market offers an unattractive risk/reward as valuations remain very extended and the economy is structurally challenged. Also, social, macroeconomic and geopolitical risks are high. We also think opportunities for stock-picking are strong, both on the long and short side, as the emergence of AI increases the gap between the "haves" and the 'have nots." As a result, we believe the hedged portion over an equity allocation ought to be overweight. A long/short strategy, balanced with hedges and designed to mitigate tail risks can offer a suitable fit in the current high-risk environment.

Although the past three-year period ranks in the top ten strongest since inception of the Russell 1000 Growth Index, looking below the surface reveals a different story. A third of the stocks in the Index actually declined during the period with an average fall of 17%. Moreover, it has been the longest running narrow market in recent history with only 20% of companies outperforming the Index. The second longest running narrow market in recent memory was 1998 and 1999. As the market broadened beginning in early 2000, the average stock outperformed while the Index posted negative returns in the following decade. While it's hard to know the timing, an increase in companies outperforming the index following concentrated periods, has historically been good for diversified quality portfolios, and active management in general.

U.S. equity markets have delivered strong returns over the past three years, but valuations now appear stretched, raising questions about where sustainable growth will emerge. Structural trends in power demand, infrastructure, electrification, and clean energy remain compelling and are likely to drive long-term investment opportunities. Key catalysts include rising electricity needs from AI and data centers, onshoring of manufacturing, and accelerating adoption of renewables, EVs, and heat pumps. Clean energy continues to offer economic advantages as the lowest-cost new generation source, supported by policy incentives and faster deployment timelines. Additionally, recent Fed rate cuts and the potential for further easing could provide a favorable backdrop for these sectors in 2026.

For three years, mega-cap growth stocks have dominated U.S. equity markets, driving an 86% total return for the S&P 500 versus 43% for the Equal Weight index. This performance gap—seen only once before during the late-1990s tech bubble—has been fueled by multiple expansion rather than superior earnings growth. Both indexes have delivered similar EPS growth of ~9% annually over the past decade, yet the S&P 500's forward P/E has surged 40% to 22.4x, while Equal Weight rose just 6% to 17.0x. We believe this imbalance is unsustainable and expect 2026 to mark a shift toward broader market leadership as valuations normalize, creating opportunities beyond mega-cap growth.

Manager Perspectives (cont'd)

Large/All-Cap (cont'd)

While valuations remain high at the market index level, we see significant secular, cyclical, and company-specific change across the investment universe driving compelling opportunities. Artificial intelligence will likely continue to be a driving theme for the market, fast becoming a "whole economy" phenomenon. At the same time, we expect meaningful developments beyond the AI narrative as other sectors and themes evolve. We think caution is warranted as concentration risk in the market and the economy has increased.

As we enter 2026, market valuations remain historically elevated, with the S&P 500's forward earnings yield near parity with the 10-year U.S. Treasury — an equity risk premium of just 0.02%, among the lowest on record. This near-zero spread highlights a market environment largely devoid of a margin of safety, where investors accept equity volatility without adequate compensation. While bulls point to strong earnings, AI-driven productivity, and subdued inflation, we view these assumptions as optimistic given today's thin protective buffers.

Small/Mid-Cap

Before presenting our outlook for 2026, it is important to review the key developments of 2025. Three major themes influenced market returns: AI, tariff policy, and Federal Reserve interest rate policy. Collectively, these factors propelled megacap AI-related technology stocks to record high prices and valuations, as well as fueled significant rallies among lower-quality companies. Looking ahead, we anticipate a broadening of market returns. Currently small caps are trading at a forward P/E of 18x versus the S&P P/E of 24x. This 22% discount is near a historic low. Although many analysts view U.S. equities as overvalued, outside the megacap technology sector in areas such as U.S. small cap value we see compelling investment opportunities, especially in value stocks. This enthusiasm is tempered by weakness we see in economically sensitive sectors such as temporary staffing and global commodities.

Equity markets in 2025 were heavily driven by the artificial intelligence trade, and as we head into 2026, we expect a rotation toward segments that have been largely overlooked. While we're skeptical that all announced datacenter spending will materialize, AI-driven infrastructure buildouts should remain a strong driver of economic growth, though much of this is already reflected in valuations. Many high-quality companies grew throughout 2025 even as their stock prices declined—a disconnect we believe will eventually reverse. Early 2026 may benefit from tax refunds and corporate incentives, while a soft labor market and the selection of the next Fed Chair could introduce policy uncertainty later in the year. Overall, we expect steady U.S. economic growth, with real opportunity in fundamentally sound companies left behind in the tech-driven rally.

Manager Perspectives (cont'd)

International

While international equities have meaningfully outperformed of late, they remain deeply oversold from a long-term perspective. International or ex-US equities currently have among the lowest weight in the MSCI World Index in 40 years, at 27.5% versus their long-term average of 48.7%. Beyond a general belief in mean reversion, concrete catalysts could drive long-term rebalancing back in favor of international equities, including higher fiscal spending in Europe, more persistent inflation, and potential weakness in the U.S. Dollar. Against a backdrop of low real yields and richly valued asset prices, international dividend-paying value equities are a bright spot given their attractive valuations in both absolute and relative terms.

Following a year of trade policy recalibration and shifting monetary policies, we enter 2026 with cautious optimism. Despite lingering policy uncertainty, several conditions favor international equities: a softer U.S. dollar, European fiscal stimulus, and broadening global earnings growth. Additionally, with international valuations still at meaningful discounts to U.S. peers, we believe the case for international investing remains favorable. We continue to see attractive opportunities across secular themes including artificial intelligence, semiconductor technology, industrial automation, innovative biologic and biosimilar therapies, and the continued expansion of the consumer class in emerging economies.

High Yield - Private Credit

Medalist sees significant opportunities in 2026 for non-bank lenders and private credit managers as traditional bank lending remains constrained. Persistent pressure on community and regional banks continues to limit availability of funding, particularly for small and mid-sized borrowers. Additionally, private credit conditions differ across sectors and deal sizes, leading to clear dispersion in risk and return. Larger managers in more crowded areas such as corporate lending face stronger competition, resulting in tighter spreads, reduced protections, and potentially increased risk/volatility. Defensive areas of private credit, including asset-based lending in smaller, less competitive markets, offer attractive risk-adjusted opportunities and are expected to remain resilient in 2026.

We expect continued credit headwinds and specialist outperformance in private credit markets in 2026. Decreasing base rates, tighter spreads, and increased credit stress created a challenging environment for private credit investors in 2025, and we expect these trends to persist. These headwinds have led to greater dispersion in manager performance, and we expect this to continue, with specialist lenders that have proven competitive advantages likely to outperform. Our expectation for 2026 is for a market environment that favors consistency and resilience as investors navigate ongoing challenges in private credit.

Diversifying Strategies - Real Assets

Limited new supply will benefit major real estate sectors in the U.S. even as real estate demand is constrained. Real estate equity flows are expected to move steadily higher through 2026, enabling steady growth in transaction volume. The valuation gap between real estate and equity markets likely positions real estate to outperform the stock market on a relative basis, but the timing of that potential outperformance and the impact on absolute real estate returns is uncertain. In the U.S. and Canada, private, unleveraged real estate index returns are likely to move higher, but not significantly so. Appreciation should be positive for 2026 in both markets, adding a bit to the return above the current levels of income return.

Manager Perspectives (cont'd)

Diversifying Strategies - Real Assets (cont'd)

nuveen
A TIAA Company

Equities have benefited from economic growth, positive earnings momentum, and declining rates; however, investor concern has increasingly focused on lofty valuations in some areas of the market, particularly those tied to AI. Looking forward, listed real assets can offer defensiveness in uncertain environments given their highly visible, contractual cash flow streams. Inflation-hedging characteristics, relatively attractive valuations, and secular growth from surging power demand and AI buildout position listed real assets well as we head into 2026. Growth in power demand remains in the early innings, creating a generational opportunity for infrastructure companies to deploy capital and grow their businesses. We also see opportunities in listed real estate, supported by healthy fundamentals, including rising demand and limited supply—particularly in senior housing, as an aging population exceeds required new construction—along with data centers, necessity-anchored retail, and industrial/logistics real estate.

WESTWOOD

The energy infrastructure sector continues to offer a compelling income and total return profile as we move into 2026. The Alerian Midstream Energy Index yields approximately 5% and dividends are expected to grow 5–6%. Natural gas demand growth remains a core structural theme, driven by the continued buildout of AI data centers and Liquefied Natural Gas export capacity. However, global oil markets remain oversupplied, pressuring prices and slowing future production growth for both crude oil and natural gas liquids. In response, energy companies are aggressively cutting costs and improving capital efficiency, positioning the sector for strong operating leverage when commodity prices eventually recover. We believe this combination of durable demand growth, improving supply discipline and attractive income makes investing in midstream and broad energy particularly compelling for 2026 and beyond.

Diversifying Strategies - Event-Driven

Kite Lake
Capital

We anticipate a robust 2026 driven by a pro-business U.S. regulatory shift. On the M&A side, we expect corporate America to capitalize on a unique window for consolidation, while also forecasting increased M&A in Europe (banking/telecom) and Japan due to improved governance. Regarding the credit book, we expect Trump's new Fed appointee to run a looser monetary policy, no unwinding of fiscal stimulus, and continued acceleration of deregulation, allowing banks to reclaim private credit share. While lower rates and credit growth should suppress defaults and tighten spreads, geopolitical tensions and stimulus-driven inflation remain key risks. All in all, we see a high-volume deal environment driven by lighter antitrust enforcement and a post-COVID pipeline.

OPPENHEIMER
ASSET MANAGEMENT

[1] Reaching an S&P 500 price target involves several risks, including: Market Volatility: Geopolitical events, tariffs, interest rate changes, and unexpected economic data can lead to sudden market shifts; Earnings Uncertainty: Corporate earnings may fall short of expectations due to weakening demand or rising costs; Macroeconomic Risks: Recession fears, inflation, or unemployment trends can alter investor sentiment; Sector Performance: Underperformance in key sectors, like technology or financials, may hinder index growth; External Shocks: Natural disasters, geopolitical conflicts, or global pandemics can disrupt markets. Investors should recognize these risks as they may delay or derail the attainment of a specific price target.

Risk factors specific to certain asset classes include:

Small Cap Risk: While small-cap companies have a lot of growth potential, they have equal potential to fail. Small-cap stocks are a riskier investment than large-cap stocks. The companies usually have less access to investment capital and are more sensitive to market changes.

Foreign Security Risk: Investment in foreign securities are affected by risk factors generally not thought to be present in the US. The factors include, but are not limited to, the following: less public information about issuers of foreign securities and less governmental regulation and supervision over the issuance and trading of securities. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Fixed Income Risk: The risks associated with investing in fixed income include risks related to interest rate movements as the price of these securities will decrease as interest rates rise (interest rate risk and reinvestment risk), the risk of credit quality deterioration which is an issuer will not be able to make principal and interest payments on time (credit or default risk), and liquidity risk (the risk of not being able to buy or sell investments quickly for a price that is close to the true underlying value of the asset). **High Yield Fixed Income Risk:** High yield fixed income securities are considered to be speculative and involve a substantial risk of default. Adverse changes in economic conditions or developments regarding the issuer are more likely to cause price volatility for issuers of high yield debt than would be the case for issuers of higher grade debt securities.

Diversifying Strategies Risk: The risks associated with investing in diversifying strategies include risks related to the potential use of leverage, hedging strategies, short sales and derivative transactions, which may result in significant losses; concentration risk and potential lack of diversification; potential lack of liquidity; and the potential for fees and expenses to offset profits.

Merger-arbitrage & Event-driven strategies involve the additional risk that the portfolio manager's evaluation of the outcome of a proposed event, whether it be a merger, reorganization, regulatory issue, or other event, will prove incorrect and the strategy will suffer losses.

Please note that a company's history of paying dividends is not a guarantee of such payments in the future. Companies may suspend their dividends for a variety of reasons, including adverse financial results.

Index definitions:

The Alerian Midstream Energy Index is a capped, float-adjusted, market-cap-weighted benchmark designed to represent North American energy infrastructure companies engaged primarily in midstream activities such as transportation, storage, and processing of energy commodities. The index includes both U.S. and Canadian corporations and master limited partnerships (MLPs) that derive the majority of their cash flow from midstream operations. AMNA is rebalanced quarterly and calculates multiple return series, including price return, total return, and net total return. It serves as a broad measure of midstream energy performance and is widely used by investors seeking diversified exposure to the sector.

Bloomberg U.S. Aggregate Bond Index - The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass throughs), ABS, and CMBS sectors. The U.S. Aggregate Index is a component of the U.S. Universal Index in its entirety. The index was created in 1986 with index history backfilled to January 1, 1976. All issues in the Aggregate Index are rated Baaa3/BBB-/BBB- or higher (using the middle rating of Moody's, S&P, and Fitch, respectively) and have at least one year to maturity and have an outstanding par value of at least $250 million.

The MSCI World Index, maintained by MSCI Inc., is a market-cap-weighted benchmark designed to represent a broad cross-section of equity markets across 23 developed countries (excluding emerging markets).

The Russell 1000 Growth Index, maintained by FTSE Russell, is a broad-market benchmark representing the growth segment of the U.S. large-cap equity universe. It is derived from the parent Russell 1000 Index (the largest 1,000 U.S. stocks by market capitalization), and includes companies that demonstrate above-average growth characteristics.

The S&P 500 Equal Weight Index (EWI), maintained by S&P Dow Jones Indices, is a benchmark that allocates equal weight to each of the 500 companies in the S&P 500, offering an alternative to conventional market-cap weighting.

The performance of a benchmark index is not indicative of the performance of any particular investment; however, they are considered representative of their respective market segments. Please note that indexes are unmanaged and their returns do not take into account any of the costs associated with buying and selling individual securities. Individuals cannot invest directly in an index.