Osaic Research Investment Themes 2026

2026 Will Be a Defining Year for Artificial Intelligence

Tech companies are expected to spend nearly $500 billion on Artificial Intelligence (AI) alone in 2026.[1] To validate such significant capital expenditures, investors will demand that these firms start generating revenue from AI, particularly the hyperscalers leading the charge on the infrastructure buildout. For the investment to be considered successful, even feasible, revenue from AI spending will have to increase by roughly $1.5 trillion next year. At the same time, electricity consumption is expected to double by 2030, and capacity constraints around energy production may limit the expansion of AI.[2] Large-scale infrastructure buildout will be needed in 2026 to keep pace with AI development. Equity valuations on tech stocks are pricing in lofty goals, and throughout 2025, investors have been keen to punish AI losers and reward AI winners. This investor skepticism around unprofitable AI is projected to continue in 2026.

Market Breadth Will Widen Beyond Large Cap Growth

Through the final month of the year, the number of companies in the S&P 500 with stock prices above the 50-day moving average increased, signaling improved market breadth.[3] Historically, periods of narrow market leadership, such as the Nifty Fifty era in the 1960s and 70s or the dot-com bubble of the late 1990s, often preceded market rotations. Throughout 2025, Healthcare, Industrials, and Financial Services outperformed earnings expectations, signaling a shift from the concentration in mega-cap tech earnings growth that dominated 2023 and 2024. Earnings growth for small caps in 2026 is expected to be as high as 59% compared to the 12% earnings growth forecast for the S&P 500.[4] Investors may seek returns outside of large growth companies in 2026.

GDP Will Continue to Outpace The 2.0% Historical Trend

Capital expenditures (capex) accelerated in 2025, and investment in AI and infrastructure is expected to continue in 2026. Energy and utility capex alone are predicted to reach $1 trillion by 2029.[5] Consumer spending has remained resilient amid heightened uncertainty this year and is forecast to remain robust in 2026. Spending and wages have grown above the rate of inflation throughout the year, leaving the consumer well-positioned for 2026. The impacts of tax cuts and other provisions in the One Big Beautiful Bill Act, which was passed in 2025, are expected to add 0.6% to GDP in 2026.[6] When viewed holistically, the economy is poised for above-trend growth in 2026.

Commodities Offer an Attractive Opportunity

Massive investments in AI, EVs, and grid modernization are expected to drive sustained demand for industrial metals and energy inputs, supporting commodity prices. Many commodities remain in structural deficit, with current global supplies falling short of aggregate demand. Copper, for example, is projected to fall short of demand through 2050 by 19 million metric tons without additional supply.[7] Ongoing geopolitical tensions and supply chain fragmentation are expected to keep volatility elevated and reinforce the strategic value of physical assets. China controls 69.2% of the production of Rare Earth materials, prompting expanded U.S. investment.[8] Strong GDP growth in emerging economies may provide an additional tailwind for commodity prices to rise.

International Markets Continue to See Strong Performance

International market earnings growth is expected to become more competitive due to supportive fiscal policy and improving structural fundamentals, especially in Europe and Japan. As AI adoption broadens globally, it is projected to boost semiconductor, robotics, and cloud-linked markets in Asia. In Germany, the announced €500 billion fiscal stimulus package was issued with a "growth booster," essentially, an additional initiative to create incentives for private investment.[9] More favorable business regulations in the EU could also be a tailwind for continued growth and earnings expansion. Synchronized global growth, which many economists forecast for 2026, has historically provided a tailwind to international equities.

Fixed Income Markets Remain Attractive Despite Marginally Lower Starting Yields

One of the predictors of forward-looking returns for fixed income is starting yields, which remain significantly above pre-pandemic levels. With the Federal Funds Rate Target Range at 3.50% - 3.75%, interest rates have come down from recent highs but remain elevated relative to recent history. The possibility of further interest rate cuts in 2026 adds to the potential for price appreciation. Because yields and returns are inversely correlated, as the Federal Reserve cuts interest rates, bond prices increase. Corporate fundamentals remain robust, suggesting that companies can manage the current cost of interest, and default rates are not projected to increase significantly above current levels. 2026 has the potential to be another strong year for fixed income.

Economic Definitions

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

P/E Ratio: A fund's price/earnings ratio can act as a gauge of the fund's investment strategy in the current market climate, and whether it has a value or growth orientation. Companies in those industries enjoying a surge of popularity tend to have high P/E ratios, reflecting a growth orientation. More staid industries, tend to have low P/E ratios, reflecting a value orientation. Morningstar generates this figure in-house on a monthly basis, based on the most-recent portfolio holdings submitted by the fund and stock statistics gleaned from our internal equities databases. Negative P/Es are not used, and any P/E greater than 60 is capped at 60 in the calculation of the average.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

Bloomberg US Agg Bond: The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

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Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect again loss. In general, the bond market is volatile; bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed-income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Vehicles that invest in lower-rated debt securities (commonly referred to as junk bonds or high-yield bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuation, and differences in auditing and other financial standards. These risks can be accentuated in emerging markets.

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

Any potential political or policy changes may not occur as anticipated and their market impact is uncertain. Allocation decisions should reflect individual objectives, risk tolerance, and time horizon; this is not a recommendation.

1 The Top 3 Investment Themes That Will Dominate 2026 - The Globe and Mail

2 Energy demand from AI – Energy and AI – Analysis - IEA

3 US - S&P 500 Stocks above 50-Day Average | Series | MacroMicro

4 Investment Outlook for Public Markets in 2026 - Goldman Sachs Asset Management

5 Energy utility capex predicted to top $1 trillion from 2025 through 2029 | S&P Global

6 House's One Big Beautiful Bill Modestly Boosts Short-Term Growth| Tax Policy Center

7 Supply Chains Struggle as Energy Transition Drives Surging Demand | BloombergNEF

8 How Much Control China Has Over the World's Critical Minerals

9 Federal Ministry of Finance - Fiscal foundations for the coming years

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