

The Thundering Word

Year Ahead 2026: Trading BIG & MID

2026: The Year Ahead

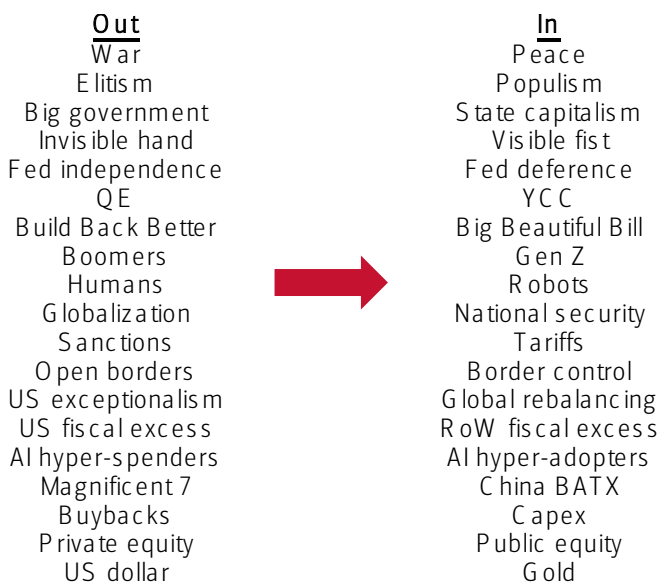
Forecasts: BofA says global GDP growth 3.3%, US GDP 2.4%, US CPI 2.9%, government bond yields up 25bps, US dollar down 5%, IG spreads in 80-100bps range, global stocks up 8%, oil ends '26 at \$60/bbl, gold at \$4500/oz (Tables 1 & 2).

View: 78 global rate cuts + 9% EPS growth = bullish backdrop for assets; it's a one-decision market...US CPI falls from 3% to 2% = bullish, CPI rises from 3% to 4% = bearish; Price, Positioning, Profits, Policy, Politics say good not great returns in '26; US admin needs lower CPI in '26 but secular trends in H2'2020s still inflationary.

Trades: long Bonds, long International, long Gold, long Mid-cap stocks, short IG bonds, short US Dollar; risks in '26...“Government Sponsored Bubble,” US K-shape economy goes pear-shaped, bond vigilantes target next Fed Chair, less Wall St-friendly Congress after midterms; China-Japan geopolitical tensions flare.

Chart 1: Investment themes in H2'2020s vs H1'2020s

Investment Themes H1-2020s vs H2-2020s



Source: BofA Global Investment Strategy. QE = quantitative easing, YCC = yield curve control, BATX = Baidu, Alibaba, Tencent, Xiaomi.

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Year Ahead 2026

BofA base case: global GDP growth 3.3%, US GDP 2.4%, US CPI 2.9%, global rate cuts 78, government bond yields up 25bps, US dollar down 5%, IG spreads in 80-100bps range, global stocks up 8%, oil price ends '26 at \$60/bbl, gold price at \$4500/oz.

BofA on Macro & Markets in 2026

On macro: BofA forecasts “Goldilocks,” 3.3% GDP growth, 2.4% US GDP, 2.9% US CPI, and US unemployment rate up from 4.3% to 4.4%.

On policy: BofA forecasts 78 central bank rate cuts (Fed cuts 75bp, ECB 25bp, PBoC 20bp – Chart 2); fiscal policy to remain loose (US deficit of 6% GDP, EU 4% GDP, China 4% GDP); US average effective tariff rate of 15%.

On bonds: BofA forecasts modest rise in government bond yields, 10-year Treasuries up from 4.0% to 4.25%, German bunds from 2.65% to 2.75%, Japanese JGBs from 1.65% to 2.0%; yield curves to steepen (e.g., US 2s10s from 70bp to 100bp).

On credit: BofA forecasts IG credit spreads to widen a tad driven by supply, but to remain in 80-100bps range.

On stocks: BofA forecasts global stocks to rise 8% (MSCI ACWI @ 1080) driven solely by 9% global EPS growth (Chart 3).

On currencies: BofA forecasts a 5% decline in the US dollar; Euro to rise to 1.22, China RMB to 6.8, Japanese yen to 155.

On commodities: BofA forecasts a fall in Brent oil price to \$60/bbl, rise in gold price to \$4500/oz, rise in copper price to \$12500/t.

BofA Investment Strategy in 2026

78 global rate cuts & 9% EPS growth in 2026 is bullish backdrop for asset prices but 5Ps of Price, Positioning, Profits, Policy & Politics argue asset price upside constrained.

Price: stocks, gold, crypto, credit hit all-time highs in '25 buoyed by big global monetary easing; asset prices are not cheap;

Positioning: record '25 inflows to IG, equity ETFs, tech...investors bullishly positioned into '26, confident Fed put/Trump put/Gen Z put limits downside;

Profits: 9% EPS growth good tailwind for markets...unless US unemployment >5%;

Policy: 78 rate cuts good tailwind for markets, as are tax cuts & tariff cuts, so long as inflation under control; one-decision market...US CPI falls from 3% to 2% = bullish, CPI rises from 3% to 4% = bearish.

Politics: Trump put for stocks, AI, crypto tested if approval rating <40 (Chart 4).

Trading BIG & MID

We remain long BIG (**B**onds, **I**nternational, **G**old), start trading MID (long **M**id-caps, short IG bonds, short **D**ollar) into '26...

Long **B**onds: UST 5-year to 3% in H1 as Fed cuts to stop weaker labor market sending unemployment >5%; Treasuries remain contrarian and hedge against credit events; Trump needs lower inflation to win midterms so geopolitical policy is lower oil prices, trade policy is lower tariffs, industrial policy is big intervention (“invisible hand” to “visible fist”) to reduce healthcare, housing, insurance, utility prices; long zero-coupon bonds (will be “sell in May” trade as bond vigilantes target new Fed Chair on May 15th).

Long **I**nternational stocks: US is exceptional and exceptionally well-priced for exceptionalism; war (1942-45), peace (1949-52), bubbles were drivers of rare 4th year of double-digit gains in S&P 500 past century; we see global rebalancing as H2'2020s



theme, China, Japan, EU fiscal stimulus to shift investors from bonds to stocks, and international boosted by lower oil price in '26; long China (3% of ACWI vs US 65% - Chart 5) on US-China tech war & consumer; long UK stocks as value contrarian play.

Long Gold: only twice has gold racked up 4 consecutive years of double-digit returns (1971-74 & 1977-80), but it will have a go in '26 as investors increase low gold allocations (2.5% institutional & 0.5% private client) as hedge (as is crypto) against political populism, debasement (most likely Japan), and flaring China-Japan geopolitical tensions; we say gold price peaks when politicians, desperate to reduce deficits, force central banks to revalue gold reserves (could cut US deficit by \$1 trillion).

Long Mid-caps: retail, homebuilders, packaging, real estate...many cyclical stocks set to rally once Fed clearly cutting into reacceleration; in US we like playing PMI acceleration industrial policy of reshoring, AI buildout, forgotten "US manufacturing renaissance" theme via unloved US mid-cap stocks at 30-year relative lows vs S&P 500 (trading 15x vs 22x – Chart 7).

Short Investment Grade bonds: global rate cuts peaking (record 315 in past 2 years), global liquidity peaking, credit tremors starting (subprime consumer, private credit, crypto, AI hyperscalers); US IG spreads hit all-time low in Sep'25 and financial conditions tighter not easier in '26; spreads have troughed and this best played via short AI hyperscaler bonds (Chart 8); only risk here is Fed panic cuts to avert "credit event" + Trump all-in on AI sparks "Government Sponsored Bubble."

Short US Dollar: de-dollarization remains a H2'2020s theme as US needs weaker US dollar and lower US yields to keep foreigners financing US debt (now costing \$1tn in interest payments each year); weaker US dollar = up in EM & commodities...AI devours commodities, EM produces commodities...why EM at secular turning point re US (Chart 6), why copper, aluminum, nickel prices to rise 10-20% in '26.

Investors on 2026

BofA Global FMS on Year Ahead: institutional investor positioning and expectations for 2026 per [Nov'25 BofA Global FMS...](#)

On macro & markets: investors expect soft landing (53% vs 37% predicting no landing & just 6% hard landing), lower rates, higher profits (most optimistic since Dec'24); investors are long stocks and commodities (most OW since Sep'22), and short cash (a very low 3.7% of AUM) and bonds;

On assets: investors believe best performing assets in '26 will be international stocks (42%) and US stocks (22%), best performing equity indices will be MSCI Emerging Markets (37%) and Nasdaq (13%), best performing currencies will be Japanese yen (30%) and gold (26%); note [one year ago](#) predicted winners were US stocks, Russell 2000, and the US dollar;

On contrarian trades: based on Nov'25 FMS positions the "pain trades" heading into 2026 are long cash-short stocks, long bonds, long sterling, long FTSE-short EM, long discretionary-short banks, and long energy-short healthcare.

The Year Behind

2025 by returns: gold 54.6%, international stocks 23.1%, US stocks 12.5%, IG bonds 9.3%, HY bonds 9.0%, commodities 6.0%, government bonds 5.7%, cash 3.8%, US dollar -7.5%, bitcoin -9.0%, oil -19.4% YTD.

2025 in flows: record year of inflows to equity ETFs (\$1.3tn annualized as of Nov 19th), IG bonds (\$434bn), gold (\$96bn), and crypto (\$52bn), 2nd biggest inflow year ever to MMFs (\$1.2tn) and US large cap funds (\$431bn); in contrast '25 outflows from small cap (\$65bn - record) and real estate funds (\$15bn).



2025 by events: DeepSeek, DOGE, NATO, Liberation Day, One Big Beautiful Bill, War (Russia-Ukraine), Peace (Middle East), Truce (US-China trade/tech), \$5tn Nvidia, Tricolor & First Brands, Mamdani, and 139 global central bank rate cuts.

2025 by themes & surprises...

Bonds: US bond yields surprised to downside, 10-year US Treasury yield currently closer to 4% than the 6% feared by bond vigilantes heading into '25; yields fell as a. inflation did not rise on back of trade war/jump in US tariff rates to 15%, b. US government spending slowed dramatically helping reduce US budget deficit, c. 139 interest rate cuts by global central banks; government bond volatility surprised to downside; rate cuts and profits kept corporate credit spreads nice and tight;

Stocks: US stock price gains were led by tech and the AI boom as a. lower cost of capital incentivized \$400bn of AI hyperscaler “arms race” capex, and boosted returns of the non-profitable tech sector, b. market assumed implicit US government backstops for “national security” companies in tech, chips & defense, c. AI build-out boosted demand for energy & infrastructure plays; US stock returns remained concentrated (37% or 183 stocks in S&P 500 outperformed); more surprisingly, “global rebalancing” theme outperformed “US exceptionalism” as US trade, industrial & geopolitical policies spurred lower oil prices (-19.4%) and new fiscal stimulus in China (to boost consumer), Europe (to boost defense), Japan (to end deflation); international stocks (23.1% in US\$ terms) outperformed US stocks (12.5%), and the performance was led by bank stocks;

Currencies: the US dollar fell 7.7%, contrary to expectations; investors balked at adding to their structural large positions in US assets, and political populism, institutional mistrust, US debt and dollar debasement fears, and big monetary easing led investors instead to seek inflation hedges...gold rose 54.2%, though crypto (-18.6%) notably failed to provide a hedge.

Table 1: BofA RSCH expects commodities to outperform in 2026

BofA Global Research asset price return projections Q4'26/Q4'25

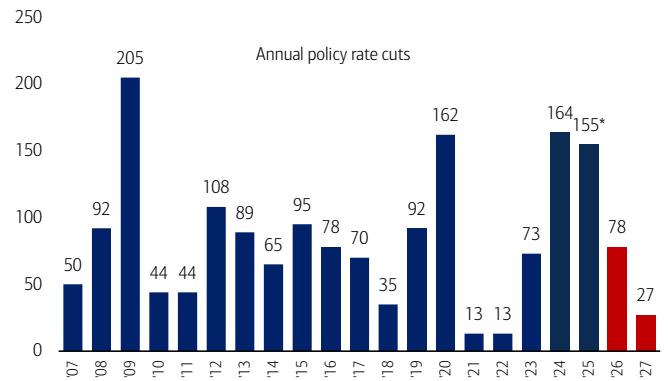
Asset	Expected Return (%)
Copper	16%
Gold	10%
Global equities	8%
US Treasuries	5%
US IG corporate bonds	5%
Cash	3%
US dollar	-5%
Oil	-5%

Source: BofA Global Research

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Chart 2: Global central banks to reduce monetary easing in '26

Annual central bank policy rate cuts



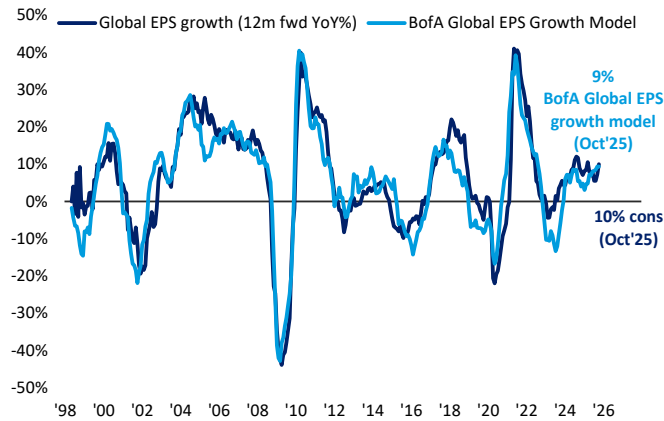
Source: BofA Global Research, BofA Global Investment Strategy. Projections for 2026 and 2027 reflective of BofA Global Economics team policy rates forecasts for year-end 2026 & 2027.

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Chart 3: BofA Global EPS growth model sees 9% EPS growth

BofA Global EPS Growth Model and MSCI ACWI 12m fwd EPS growth

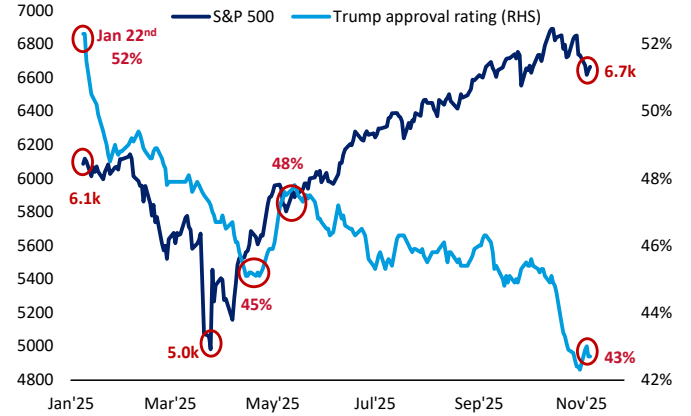


Source: BofA Global Investment Strategy, Bloomberg, Datastream, IBES, MSCI. Disclaimer: The indicator identified as BofA Global EPS growth model above is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark.

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Chart 4: Presidential approval ratings low 43%

S&P 500 and Trump approval rating

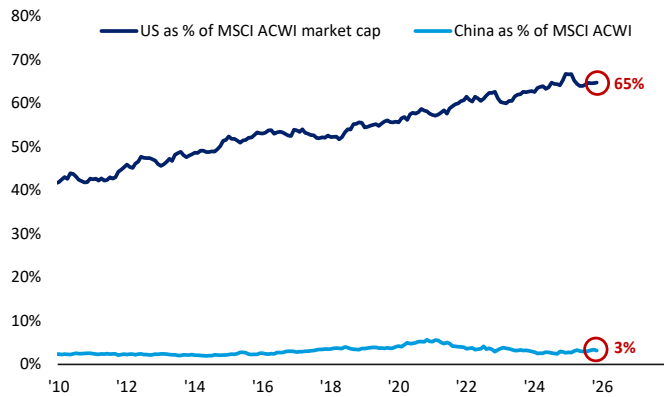


Source: BofA Global Investment Strategy, Bloomberg, Real Clear Politics

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Chart 5: China 3% of MSCI ACWI index vs US 65%

US vs China as % of MSCI ACWI

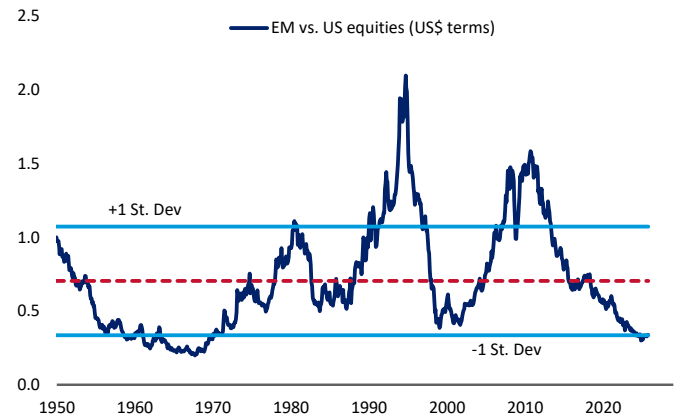


Source: BofA Global Investment Strategy, GFD Finaeon

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Chart 6: EM stocks at secular turning point vs US

Emerging Market vs US equities (US\$ terms, price relative)



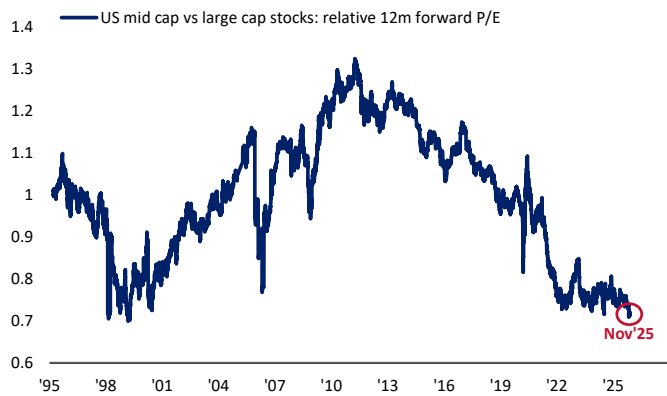
Source: BofA Global Investment Strategy, Bloomberg, GFD Finaeon

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Chart 7: US mid caps trading at P/E of 15x vs SPX 22x

US mid cap (MID) vs large cap stocks (SPX): relative 12m fwd P/E

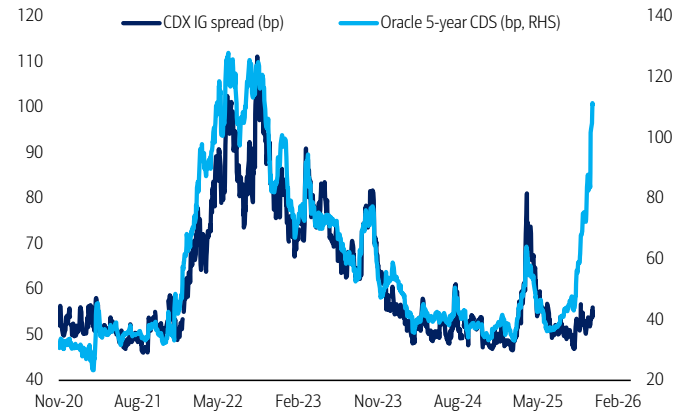


Source: BofA Global Investment Strategy, Bloomberg

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Chart 8: Credit spreads have troughed...short AI hyperscaler bonds

CDX IG spreads (bp) vs Oracle 5-year CDS (bp, RHS)



Source: BofA Global Investment Strategy, Bloomberg

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Table 2: BofA Macro & Market Forecasts for 2025 and 2026

BofA Global Research forecasts

	2025F	2026F
Economy		
Global real GDP (%)	3.4%	3.3%
US real GDP (%)	2.0%	2.4%
Euro area real GDP (%)	1.4%	1.0%
China real GDP (%)	5.0%	4.7%
Japan real GDP (%)	1.3%	0.7%
US CPI (%)	2.8%	2.9%
US unemployment rate (%)	4.3%	4.4%
Interest rates		
Fed Funds*	3.75%-4.0%	3.0%-3.25%
ECB depo rate*	2.00%	1.75%
BoE base rate	3.75%	3.25%
BoJ policy rate	0.50%	1.00%
UST 10-year Treasury*	4.00%	4.25%
Bund 10-year*	2.65%	2.75%
Gilt 10-year*	4.50%	4.50%
JGB 10-year*	1.65%	2.00%
Currencies		
EUR-USD*	1.15	1.22
USD-JPY*	158	155
USD-CNY*	7.10	6.80
Equities		
ACWI	1000	1080
Commodities		
Gold, \$/ounce*	4,125	4,500
Oil (Brent) \$/barrel*	61	60
Copper, \$/t*	10,800	12,500

Source: BofA Global Research; note all macro forecasts are annual averages, except otherwise noted.

*BofA forecasts for interest rates, FX rates, equities, and metals are year-end targets.

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