BofA SECURITIES

Global Research Marketing

10 Key Macro Views Shaping 2026

Investment Strategy

1) More bullish than consensus on 2026 US GDP growth

Boosted by the OBBBA, restoration of TCJA benefits, fiscal stimulus, Fed cuts.

2) No AI bubble yet

AI investment spend has already boosted GDP growth and BofA US Economics expects continued AI growth next year. Derivatives Strategy's new Bubble Risk Indicator suggests we're yet to see bubble-like instability in core US tech.

3) Constructive EM, solid backdrop with lower USD and oil

A weaker USD, lower rates and low oil prices provide a solid backdrop while technicals are favorable, especially with investors long-term underinvested.

4) More bullish than consensus on 2026 China GDP growth

We recently raised our China GDP growth forecast. The Trump-Xi meeting in Korea set a more positive tone on trade, and policy stimulus is trickling in.

5) Muted S&P returns but expect broadening, strong capex

US Strategy expects 14% EPS growth in 2026 but only 4-5% S&P price appreciation. We expect a strong, broadening capex cycle; we are more concerned about consumption.

6) US needs lower inflation, favor long bonds in 1H26

Michael Hartnett believes President Trump needs lower inflation and that contrarian Treasuries should be well bid until the new Fed Chair in May. Start trading "MID."

7) Expect flattish long rates and US home prices

US Rates Strategy expects the 10Y to end 2026 at 4-4.25% with risks to the downside. Securitized Products Strategy expects housing to become front and center in '26. We expect flat home price appreciation and an improvement in housing turnover.

8) Expect volatility, especially as AI impact becomes clear

A better understanding of the impact that AI has on growth, inflation and capex will cause volatility. K-shaped recovery, fiscal dominance are other sources of vol.

9) Private credit returns likely lower in '26, prefer HY

We expect 5.4% total returns for Private Credit (PC) in '26, down from 9% in '25. Potential for lower returns will impact PC allocation decisions.

10) Copper to perform on tight supply, strong demand

Base metals have pushed higher in '25 even with tepid demand from manufacturing and construction. Commodity Strategy expects continued supply challenges in 2026.

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Refer to important disclosures on page 27 to 29. 12907217

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MID = (long **Mid**-caps, short **IG** bonds, short **Dollar**)

1) More bullish than consensus on 2026 US GDP growth

The BofA Global Research US Economics team raised 2026 GDP growth estimates with their Year Ahead and they now look for 4Q/4Q growth of 2.4%. In 2026, five factors should push growth back to 2.4%. The team expects the One Big Beautiful Bill Act (OBBBA) to add 0.3-0.4pp to GDP growth in FY 26 compared to a roughly flat impulse in 2025. Business investment should benefit from the restoration of the Tax Cuts and Jobs Act (TCJA) tax benefits that sunsetted a few years ago.

And consumers will get around $100B (0.3% of GDP) in fiscal stimulus. Of this, ~$65B will be a tax-refund "windfall" due to favorable treatment of tip and overtime income, and a larger standard deduction for seniors. Refunds mostly get paid out in Feb-Apr. Our forecast assumes that the resulting spending boost will peak in 2Q-3Q 2026.

Second, the lagged effect of ongoing Fed cuts is likely to buoy activity in 2H26. In fact, we think the (real) policy rate could be in accommodative territory next year because i) inflation is stuck a few tenths above target, even excluding tariffs, ii) potential growth, and therefore r*, are higher than the Fed thinks and iii) financial conditions suggest policy isn't very restrictive today. Easy financial conditions are likely supporting economic activity via the equity wealth effect and we expect that impulse to continue next year. The US Economics team expects one more rate cut under Chair Powell and sees 50bps of cuts under the new Fed Chair (25bp cuts in Jun, July). This forecast was revised on 12/1, after the release of the Year Ahead.

Exhibit 1: GDP growth, inflation, and policy rate forecasts
We now forecast GDP growth at 3.3% in 2026 and 3.4% in 2027, inflation to remain stable in 2026

	GDP growth, %				CPI inflation, %				Short term interest rates, %			
	2024	2025F	2026F	2027F	2024	2025F	2026F	2027F	Current	2025F	2026F	2027F
Global	**3.2**	**3.4**	**3.3**	**3.4**	**3.2**	**2.4**	**2.4**	**2.4**	**3.83**	**3.81**	**3.26**	**3.24**
Developed Markets	**1.6**	**1.6**	**1.6**	**1.7**	**2.7**	**2.6**	**2.3**	**2.1**	**2.81**	**2.79**	**2.39**	**2.43**
US	2.8	2.0	2.4	2.1	3.0	2.8	2.9	2.4	3.88	3.88	3.13	3.13
Euro area	0.9	1.4	1.0	1.4	2.4	2.1	1.6	1.8	2.00	2.00	1.75	1.75
Germany	-0.5	0.2	0.7	1.6	2.5	2.2	1.4	1.7	2.00	2.00	1.75	1.75
Japan	-0.2	1.3	0.7	0.8	2.7	3.1	1.9	2.1	0.50	0.50	1.00	1.50
Canada	1.6	1.2	1.4	1.8	2.4	2.0	1.8	2.3	2.25	2.25	1.75	1.75
Emerging Markets	**4.3**	**4.6**	**4.4**	**4.4**	**3.5**	**2.3**	**2.5**	**2.6**	**4.50**	**4.47**	**3.80**	**3.73**
Emerging Asia	5.2	5.3	5.0	5.0	1.7	0.9	1.5	1.9	2.79	2.71	2.51	2.71
China	5.0	5.0	4.7	4.5	0.2	-0.1	0.0	0.5	1.40	1.40	1.20	1.20
India	6.5	7.2	6.5	7.0	4.6	2.2	4.4	4.6	5.50	5.25	5.00	5.75
Emerging EMEA	2.5	3.2	3.7	3.5	13.2	9.2	6.8	5.5	8.63	8.82	7.00	6.08
Latin America	2.1	2.3	2.2	2.3	4.2	3.8	3.7	3.6	8.68	8.60	6.94	6.57
Brazil	3.4	2.5	2.0	1.8	4.8	4.5	4.0	3.5	15.0	15.00	11.25	10.50
Mexico	1.4	0.6	1.0	1.8	4.2	3.7	4.0	4.4	7.25	7.00	6.00	6.00

Source: BofA Global Research

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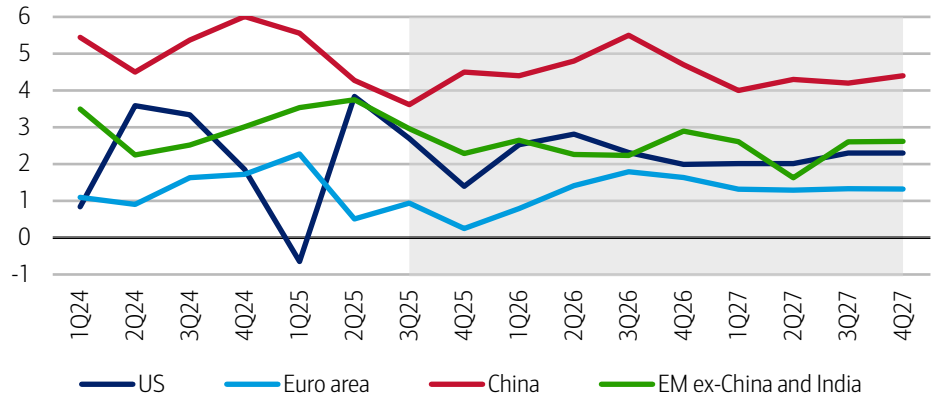
Exhibit 2: GDP growth and BofA forecasts (% qoq, saar)
We expect growth divergences to persist



Source: BofA Global Research, Haver

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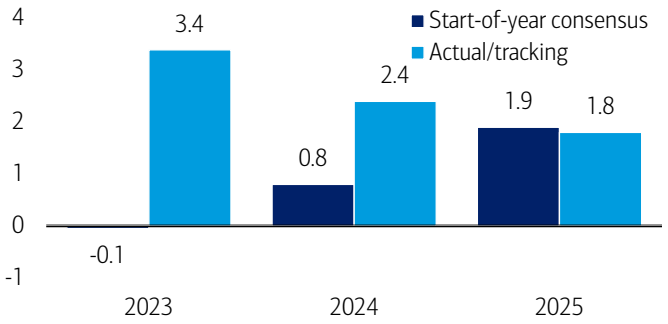
The third tailwind is related to trade policy. The Supreme Court is likely to rule on the IEEPA tariffs in late 2025 or early 2026. If the tariffs are struck down, the stance of fiscal policy would implicitly ease due to refund payments and an expected decline in the effective rate.

The degree of easing would depend on i) the extent to which policy uncertainty increases as the administration moves to replace the IEEPA tariffs with other measures, ii) how much revenue can be recovered from those measures, and iii) the bond market response to higher deficits. But we think the net effect on economic activity would be positive.

If the Supreme Court upholds the tariffs, we'd expect trade uncertainty to dissipate considerably as the administration prioritizes trade deals over new tariff announcements going into the midterms. The combined effect of the above tailwinds should help stabilize the labor market around full employment and keep equity markets strong. In turn, consumer spending growth is likely to stay solid.

Fourth, we think AI-related investment will continue to grow at a solid pace next year, despite already-elevated levels. Finally, 1Q 2026 growth should get a one-off boost from the end of the shutdown, which will add over 0.1pp to 4Q/4Q GDP growth.

Exhibit 3: Consensus growth forecasts for 2023 and 2024 were remarkably pessimistic
GDP growth, expected vs. actual (% 4Q/4Q)



Source: Bloomberg, Census Bureau

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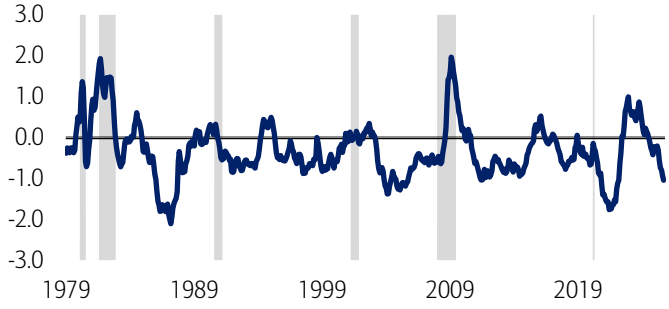
Exhibit 4: Financial conditions are easy and a tailwind for growth
Federal Reserve Board Financial Conditions impulse on growth (3-yr lookback, + = headwind, - = tailwind)



Source: Federal Reserve Board

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Rates Strategy expects the 10Y yield to end '26 at 4.25

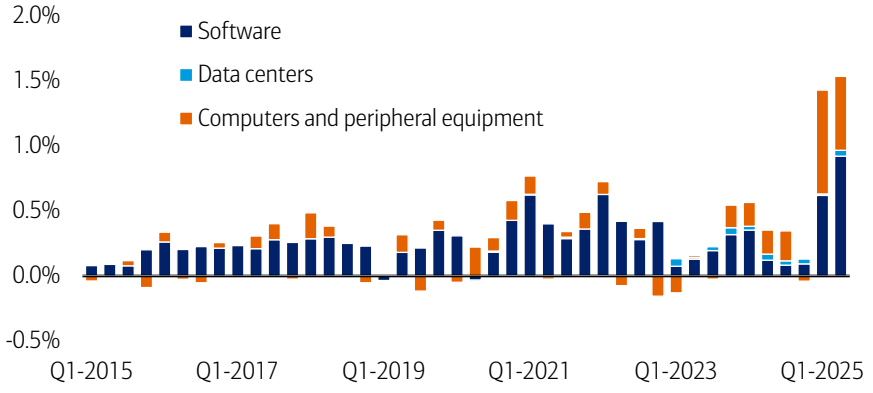
US Rates strategy has a bullish bias on the belly of the curve to hedge against downside risks to the US outlook and against a more dovish Fed. We see 10Y yields at 4.25% at year-end, above consensus (but below forwards) driven by our economists' expectation of robust growth and sticky inflation. In the view of Rates Strategy, risks to the 10Y rate are skewed to the downside due to the potential for a more dovish Fed & growth slowdown. Our end '26 rate forecast is above consensus but below the forwards, especially at the front end.

2) No AI bubble yet

The US Economics team has pointed to several reasons for what they expect to be faster GDP growth in 2026 than 2025. One of those reasons is AI-related investment which we expect to grow at a solid pace next year despite already elevated levels (Exhibit 5). As for the labor market, layoff rates have been low even though hiring has been weak. Spending data point to continued consumer resilience and the team expects the labor market to realign with the strength in spending.

There are risks, of course, including that AI investment could slow if power supply turns out to be a major bottleneck. In this case there might also be upside risks to our headline inflation forecasts. If an AI investment slowdown causes a big selloff in tech stocks, that will probably have knock-on effects for consumption, given that higher-income spending appears to be partly driven by equity wealth effects. It's also possible that investment could contract if credit conditions deteriorate rapidly. Like the 90s tech boom, the Economics team thinks it's likely that the AI cycle will end with a few winners and many losers. This could be disruptive for credit markets. But, it would probably take until at least 2027 for winners and losers to emerge in the AI space.

Exhibit 5: AI related investment has been a key driver of growth in '25
Contribution to % q/q saar GDP growth by category



Source: BofA Global Research, Haver

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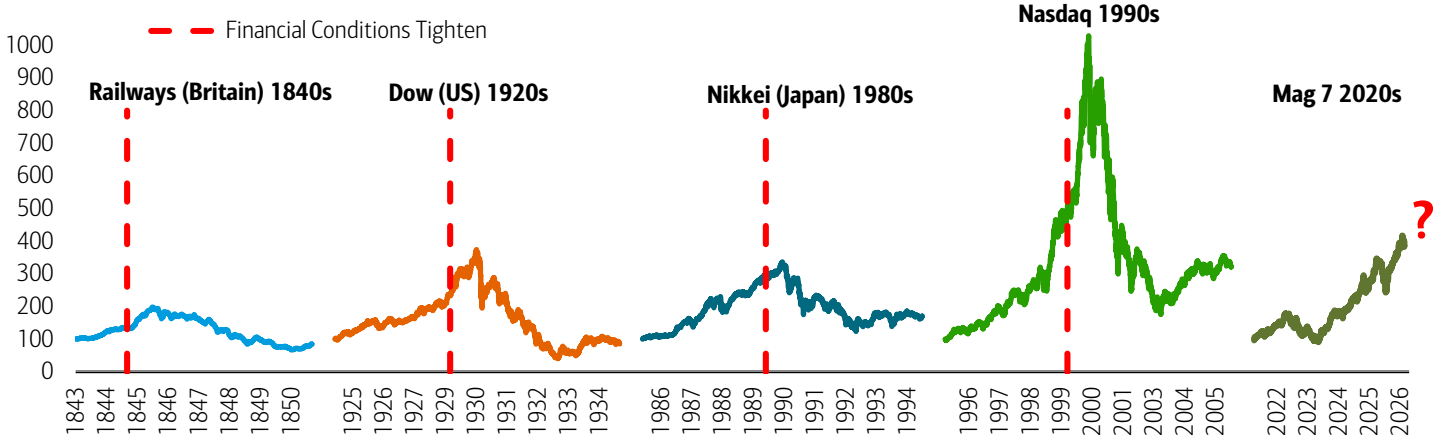
Room to run for AI but in too deep

While not a certainty, an eventual bubble seems likely according to Ben Bowler and the Global Equity Derivatives & Strategy team. But are we seeing signs yet? A hallmark of bubbles is prices becoming unstable as they near the peak. Our new Bubble Risk Indicator does suggest froth around the edges, but not yet in the core of US tech.

The Bubble Risk Indicator suggests that we are yet to see typical bubble-like instability in broader US equity markets and including the core of US tech (Mag 7), which tends to be more acute when the indicator exceeds 0.8 (Exhibit 6). Some markets, however, such as US nuclear-related and quantum computing stocks along with Asian equity indices like Nikkei & Kospi have been experiencing bubble-like instability.

Exhibit 6: Major asset bubbles in global equities in the last ~180 years have all seen financial conditions tighten before the end
Five historic equity bubbles, normalized to 100 at start, with red lines marking key financial conditions tightening events that raised leverage costs



Source: BofA Global Research. Data from 6-Jan-1843 to 24-Nov-2025. Railway data from Gareth Campbell (2013). "Deriving the railway mania." Financial History Review, 20, pp 127. Nasdaq refers to the NASDAQ-100 index; Mag 7 (BM7P) refers to the total return index of AAPL, AMZN, GOOGL, META, MSFT, NVDA, and TSLA. Each bubble shows five years before and after its peak (railways: two years). All series normalized to 100 at bubble start. Tightening of financing conditions raised leverage costs: railway companies increased share calls in 1844; brokers' loan rates were hiked in 1928; BoJ raised rates in 1989; Fed raised rates in 1999. For a broader definition of financial conditions, see this BIS Bulletin. Note this chart does not contain any input from the BofA Bubble Risk Indicator.

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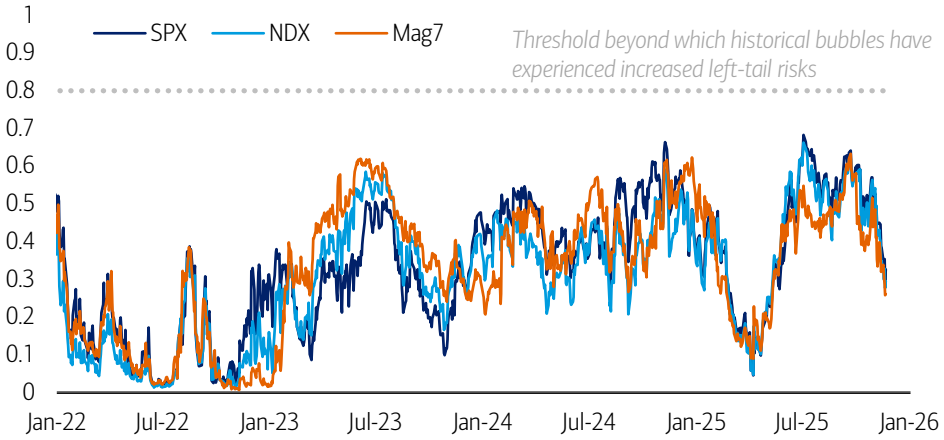
Exhibit 7: While pockets of froth have appeared in places in 2025, the BofA Bubble Risk Indicator suggests that we are yet to see bubble-like instability in broad US equites or core tech
BofA Bubble Risk Indicator on SPX, NDX and the Magnificent 7 stocks



Source: BofA Global Research. Data from 1-Jan-22 to 21-Nov-25. Mag7 / Magnificent 7 refers to Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia & Tesla; BM7P Index used for certain Mag7 data. See the More ideas on our global radar for further details on the BofA Bubble Risk Indicator. The BRI 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. The BRI was not created to act as a benchmark.

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With bubbles come risk, as volatility rises into the peak and keeps rising after; and the AI boom is likely too big to avoid a bust. The biggest challenge is timing. While our 2025 outlook highlighted similar bubble risks (see the report The roaring 2020s?) compounded by stimulative US policy (some still forthcoming), US equities have lagged global markets in 2025, especially in USD terms. Cheaper valuations, underweight positioning and concerns of "peak US exceptionalism" dominated. This could continue but is antithetical to an AI bubble peaking, as bubble-assets typically outperform until the pop. This also suggests the top is further out. Valuations in core AI not yet at extremes, a lack of obvious leverage (present in past bubbles) and a Fed easing (not hiking) argue it's still early days.

A major concern is that of marked leverage in levered/inverse ETFs, but we don't see it yet. Tightening financial conditions are the biggest risk and this has preceded all major bubble peaks. Bond vigilantes are dormant but not dead: watch inflation.

Derivatives Strategy sees potential for a bubble-prone era where booms/busts are more the norm, driven by the promise of "abundance" always just out of reach and magical AI moments fueling FOMO. But bubbles have unique signatures and recognizing that can be helpful in their navigation. Often led by value-insensitive retail, they create a real dilemma for fundamental investors: chase or risk underperforming until the pop.

AI air pocket ahead but this isn't 2000

Savita Subramanian and the US Equity Strategy team suggests breadth and lofty multiples rhyme with 2000 as the S&P trades above the Tech Bubble multiple on 9 of the 20 metrics tracked by the team. But recommended stock allocations are much lower than in 2000, earnings growth is supportive, IPOs are smaller, speculation in unprofitable stocks is less extreme. Hyperscalers' capital intensity is lower than 99/00 telecom, but AI monetization is to-be-determined as power is the bottleneck. All AI spend is not lauded (e.g., Meta's sell-off post results) as capital intensity of these companies now eclipse the oil majors. Capex funded by operating cash flow is running out. Capex growers have chronically underperformed. The spread on return on incremental invested capital (ROIIC) vs cost of capital is a good guidepost for how much to pay up for AI stocks: and today's are very high but likely to decelerate as the cost of capital should increase from today's record lows in credit and equity risk premia.

3) Constructive EM, solid backdrop with lower USD and oil

David Hauner has been constructive on EM since January and there are a number of factors leading him to expect continued upside. The BofA baseline envisages a weaker USD; lower rates; low oil prices and moderately higher equities. Metals remain bid by tech demand, while crude oil is well supplied. With such ingredients, it would be unlikely for EM not to do well. Moreover, EM local market and equity valuations are still attractive even though sovereign debt (EXD) is tight. Technicals are favorable with long-term underinvestment and declining net issuance.

The sky is the limit

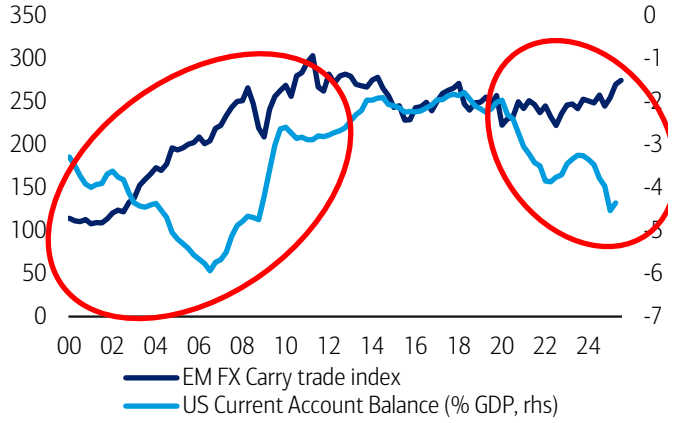
Our structurally constructive view still centers on three core tenets. First, the global balance of payments necessitates a shift from US assets to other markets. It requires appreciation of Asian and European currencies against the USD. This will be a multi-year process, and there will be setbacks. But the trend should remain constructive for EM.

We need to go back 20 years for a US current account deficit as big as now, and the adjustment occurred through a weaker USD – and higher EMFX (Exhibit 8). In 2025 portfolio flows to the US have defied gravity, but ever higher equity valuations make it harder to attract the same inflow year after year. This skews USD/EM to the downside.

Second, AI is likely to remain bullish for EM assets – if the USD cannot benefit from it. EM ex-China productivity gains are likely to lag the US and China, but if productivity rises globally, and the USD is weak for other reasons, this would be positive for EM. Moreover, AI creates demand for certain commodities. (For more on this topic, see the reports entitled EM Convictions: The Allephant in the room and EM Convictions: ChatGPT, is EMFX mine or yours?.

Third, we foresee a persistent global political bias towards loose financial conditions given the trifecta of fiscal, social and geopolitical tensions. Inflation is likely to remain sticky as per our economists' forecasts, but a glut in crude oil supply should be helping.

Exhibit 8: 20y history shows large US deficit skews $/EM to downside
EM FX Carry and US current account (as % of GDP) since 2000



Source: Bloomberg

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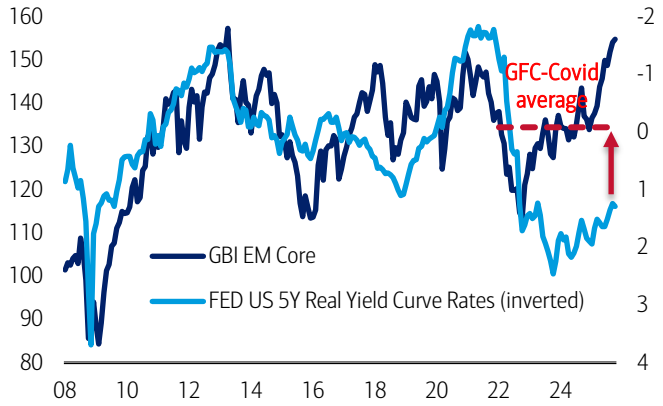
Exhibit 9: Structurally lower US real rates are bullish EM local markets
GBI-EM Core local market index and US treasury 5Y real yields since 2008



Source: BofA Global Research, Bloomberg

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The post-Powell Fed will be a key theme also in EM. 5y US real rates, a key driver of EM returns, have declined by 50bps over the past year. Our US strategy team positions for a further decline in 2026, potentially as much as 50bps. This would be bullish for EM local (Exhibit 9), where the US real rate is inverted). Moreover, the outlook for US real rates and thus EM local appears asymmetric if we assume that a Fed hike is rather unlikely.

BofA baseline boost

Our BofA 2026 house calls are supportive of EM: 1.22 for EUR/USD, 3.5% US 5y and 7100 for the S&P. Brent would stay rather weak at an average $60/bbl. Crude at current prices implies a disinflationary bias through 2026. EM inflation is 2.5% on our forecast, not much above DM, and central banks keep cutting. Meanwhile, we forecast further upside in some key metals prices, including gold and copper, partly driven by AI related demand.

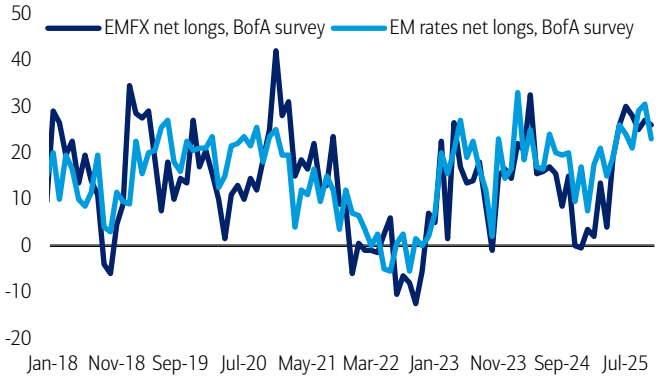
However, the EM investment case hinges more on diversification out of USD assets, lower rates and carry than economic growth. EM GDP growth stays stable at 4.4%, but the EM-US growth gap worsens to 2pts from 2.5pts. Export dynamics weaken after pre-tariff frontloading, while domestic demand is becoming the main EM growth driver.

But there is turbulence ahead

Notwithstanding a constructive baseline for 2026, we expect the year to bring more turbulence after ever lower volatility over the past six months. US financial conditions are the loosest in 35 years, except Covid. The MOVE rates volatility index is at the pre-Covid lows. Mean-reversion is likely to increase volatility in the period ahead and may create a washout from which we can reload more bullish positions in EM assets.

EM carry is exposed to a pickup in volatility as it is starting off such an exceptionally low base. USD/EM and EUR/USD option risk reversals are very bearish USD as well, leaving EMFX exposed to a shift in sentiment. Our sentiment survey shows bullish expectations on EM FX and rates (Exhibit 10). BofA trading flows show a market short USD (Exhibit 11).Two main factors are our prime candidates to tighten the presently super-loose financial conditions and generate volatility: froth in equity/credit markets and inflation.

Exhibit 10: Survey sentiment already highly bullish EM rates and FX
EMFX and EM rates net longs according to BofA Global FX & Rates Survey



Source: BofA Global Research – Global FX & Rates Sentiment Survey

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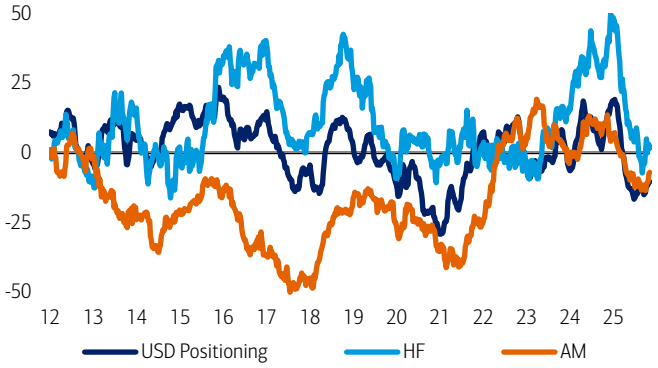
Exhibit 11: BofA trading flow shows positioning is short the USD
FX positioning according to BofA "Liquid Cross Border Flows" report



Note: Positioning across real money and hedge funds. Index scaled between +50 and -50. **Source**: BofA Global Research "Liquid Cross Border Flows" based on proprietary trading flow data

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Primary risks are weakness in credit/equities and inflation

A meaningful correction in credit and equity markets, whether they originate from company headlines or macro data, appears to be a rising risk. However, we think this would be a temporary blow to EM as such a correction would eventually likely lead to lower rates and a lower DXY. Inflation is the big risk for EM. Tighter monetary conditions are clearly not what the current US administration is looking for and markets discount this risk. A pickup in inflation that leads markets to conclude that the Fed won't be able to be as dovish as expected is the biggest risk to EM.

Michael Hartnett continues to recommend International

Chief Investment Strategist Michael Hartnett continues to recommend "BIG," or Bonds, International, Gold. He believes the 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 over the last 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%) on US-China tech war & consumer; long UK stocks as value contrarian play.

Exhibit 12: EM local markets tend to be good hedge against a lower SPX
Performance of EM asset classes in four scenarios: rising/falling DXY/SPX

	MSCI EM		MSCI EM Currency	
	DXY up	DXY down	DXY up	DXY down
SPX up	59% (1.1%)	89% (4.5%)	49% (-0.1%)	90% (1.4%)
SPX down	20% (-4.7%)	35% (-1.2%)	17% (-1.1%)	72% (0.6%)
	JPMorgan EMBI Global		**JPMorgan GBI-EM GI**	
	DXY up	DXY down	DXY up	DXY down
SPX up	64% (0.7%)	91% (1.7%)	40% (0.7%)	90% (1.7%)
SPX down	34% (-1.4%)	58% (0.4%)	20% (-1.4%)	75% (0.4%)

Note: Median monthly performance since 2008 for JPMorgan GBI-EM GC, since 2001 for the rest.
Source: Bloomberg. Green/red colour coding indicates the further away the fair value is from 0.

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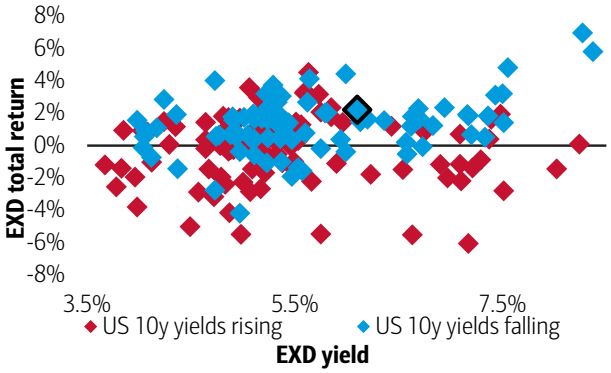
Exhibit 13: High yield protects EXD in risk-off where US 10y yield falls
EXD total return vs yield at starting point in months of rising/falling US 10Y



Note: Red markers indicate periods where US 10y yields were rising, and blue dots for periods where they were falling since 2010 (excluding 2020). **Source:** BofA Global Research, Bloomberg

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4) More bullish than consensus on ’26 China GDP growth

In conjunction with the Year Ahead note published last week, Helen Qiao raised her GDP growth forecasts for China to 5.0%/4.7%/4.5% for 2025/26/27 (from 4.7%/4.3%/4.1%).

Stimulus and trade conflict hold the key to stable growth

While recent activity data pointed to a clear softening trend in domestic demand (mainly investment) since June, Q3 GDP growth surprised on the upside at 4.8% yoy, helped by strong exports. In our view, the recent macro development aligns with our differentiated view that growth will muddle through without immediate help from policy stimulus in the near term (see the report China Viewpoint: Muddling through), except that headline growth rate exceeded our forecasts by a small margin. With the Trump-Xi meeting in Korea setting a more positive tone on US-China trade relationship for the next 12 months (see report: Xi-Trump), risks are skewed to the upside to our existing growth forecasts for 2026–27.

Meanwhile, deflationary pressure persists, as supply growth outstrips demand growth by an increasingly wider margin. Going into 2026, the key policy challenge would be to address the demand-supply gap, especially before negative expectations materialize into supply cuts and layoffs. We revise our CPI inflation forecast to -0.1% for 2025 and 0 for 2026, with seasonally adjusted sequential change remaining negative in 4Q25 and 1Q26.

(Some) policy stimulus is starting to trickle in

The good news is some policy stimulus is on the way. China deployed as much as RMB500bn of policy financing tools by end-Oct, enabling local governments to replenish equity of infrastructure investment projects and leverage more through bank loans. In addition, the government also frontloaded LGSB quota by RMB500bn, lifting credit demand for the remainder of the year.

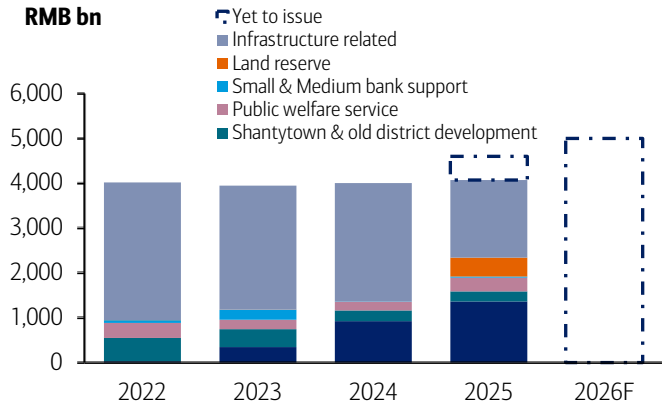
These measures will help support growth to stabilize at around 4.5%, but more easing will be needed against a high base, especially in 1H26. We expect policy makers to lean towards more easing measures to boost domestic demand in late-1Q26 and early 2Q26, and help achieve an annual growth target to be set again at “about 5.0%”. These measures include, but are not limited to, policy interest rate cuts by 20bp, continued fiscal expansion to boost consumption, and potential support of property demand.

Even taking into account the policy stimulus on government-supported infrastructure investment and a modest external demand rebound next year, we lower our sequential growth forecasts from 4.9% to 4.4% for 1Q25, due to concerns about domestic demand weakness and rising inventory pressure weighing down the pace of supply expansion. In our view, the Lunar New Year season would be key to watch, as capex and employment decisions are renewed around then.

Fiscal to remain expansionary; scope for monetary easing

We expect proactive fiscal policy to stay in 2026, which is the first year of the 15th FYP. Concurrently, monetary policy is also expected to remain accommodative, providing additional support to economic activities. While further measures aimed at stabilizing the property market are likely, these are expected to be targeted and incremental.

Exhibit 14: We expect LGSB issuance to rise to nearly RMB5tn in 2026
LGSB issuance: annual breakdown by type of usage (2022-2026)



Source: BofA Global Research estimates, WIND, Note: We assume all "purpose not specified "are used for debt swapping purpose, data as of Nov 12

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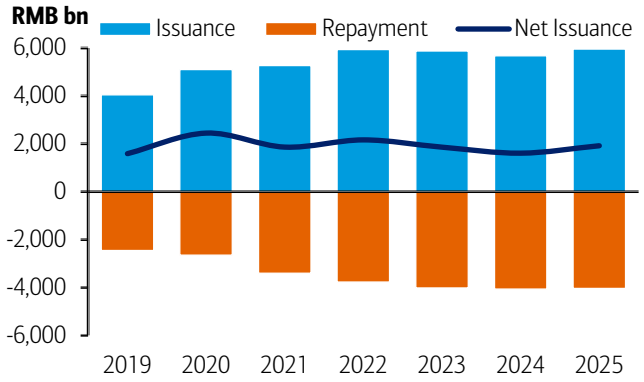
Exhibit 15: We expect more issuance from policy banks to support investment projects to restore domestic demand
Policy bank bond issuance and repayment (2019-2025)



Source: BofA Global Research estimates, WIND, Note: 2025 data only Jan-Oct

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5) Muted S&P returns but expect broadening, strong capex

The policy put is still in play, and sentiment is contained, not euphoric (Wall Street recommends just a 56% allocation to stocks). Savita Subramanian and US Equity Strategy expect upside of 4-5% for the S&P 500 from current levels, expect earnings to grow in the mid double digits (+14%) in 2026 but multiples to compress by 5-10%. **Our year-end 2026 S&P 500 target is 7100.**

Savita expects broadening and a more idiosyncratic market backdrop. Broadening in 2025 was stymied by uncertainty amid tariffs and taxes. But we are past that point, have clarity around pro-growth tax policy and company management teams, who are paid to deliver earnings beats and stock increases, are guiding above consensus 2x as frequently as below.

Last month, we adjusted our sector outlook to raise Consumer Staples to overweight from underweight and lower Consumer Discretionary to underweight from marketweight. We remain overweight Financials, Real Estate, Materials, Health Care and Energy and remain underweight Communication Services and Utilities. Tech and Industrials are market weights. We see a strong, broadening capex cycle but are more worried about consumption.

Why? The lynchpin of consumption is jobs, and middle-income professional services employees have driven consumption growth for the past decade. But challenges from aggressive inflation in their spend basket - like food away from home and higher income health care and utilities bills. Fed rate cuts, no tax on tips and overtime are better for low-income consumers, and from here, the administration is more likely to prioritize populist reform and cast a lifeline to lower income consumers via cost management and stimulus checks. Meanwhile, just as an increasing number of college grads hit the labor market, entry level office jobs are being cut amid efficiency gains and anticipation of more to come with AI. We now hear of companies proactively shifting to high school apprenticeship models.

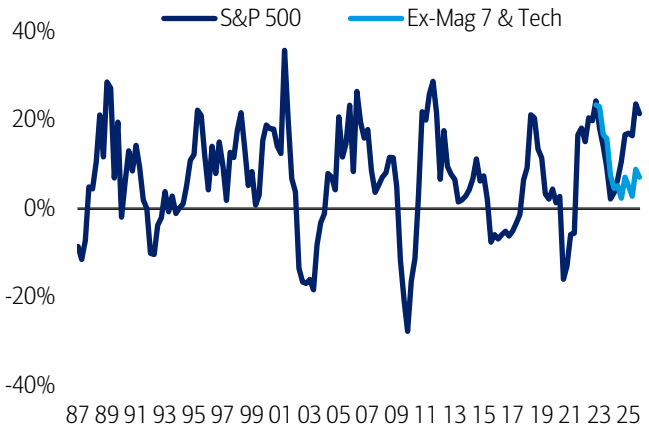
Less consumption, more investment

The drivers of the economy can be boiled down to consumption, government spending and business investment. We see signs that we could be shifting from a consumption driven bull market to a capex driven bull market. Capex as a percent of operating cash flow + debt issued has steadily risen since 2023 as it continues to be an increasingly important growth factor within the economy.

Capex slated to remain strong and broaden from AI

Investments into AI infrastructure saw big increases in '25, serving as a driver for capex and GDP growth. Hyperscalers (MSFT, AMZN, GOOGL, META, ORCL) are expected to maintain high capex spending for 2026, showing no signs of slowing down.

Exhibit 16: Capex growth was +21% YoY in 3Q (+7% ex. Mag 7 & Tech)
S&P 500 quarterly capex YoY (1987-3Q25)



Source: BofA US Equity & Quant Strategy, FactSet

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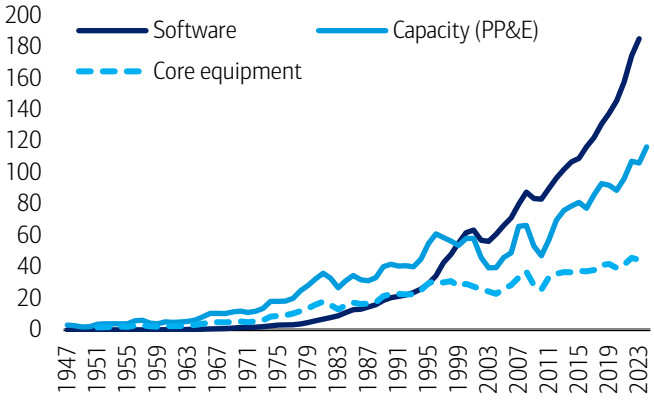
Exhibit 17: Capacity expansion in software, then structures, next is equipment?
US Manufacturing Capex: software vs. "core" industrial eqp. (1947-2024)



Source: BEA, BofA US Equity & Quant Strategy, BEA defines capex as equipment (IT equipment + transport equipment + industrial equipment) + structures + intellectual property (capitalized R&D, software, and patents). We take manufacturing IP capex and multiply by the software mix of the overall economy to estimate manufacturing software capex.. We take manufacturing equipment and multiply it by the industrial equipment mix of the overall economy to estimate manufacturing "core" equipment

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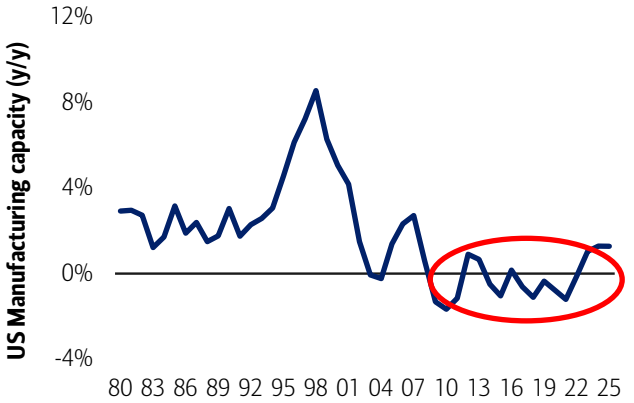
Exhibit 18: Domestic investment picking up after 10-year hiatus
US manufacturing capacity YoY (1980-8/2025)



Source: BofA Global Research, Federal Reserve

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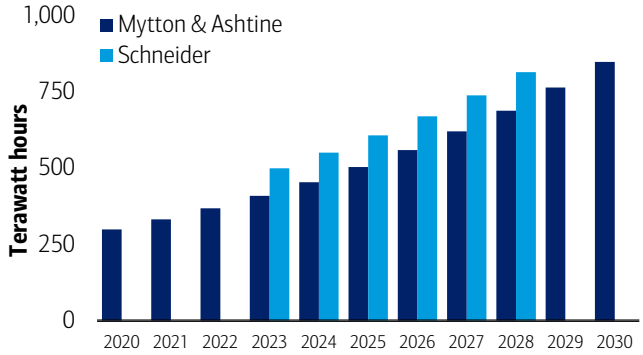
Exhibit 19: Forecasts are for an 11% CAGR for electrical demand among data centers (2020-2030)
Median of 46 2020-30 forecasts, & Schneider Energy Manager Research Center forecasts from 2023-28



Source: BofA Global Research, FactSet

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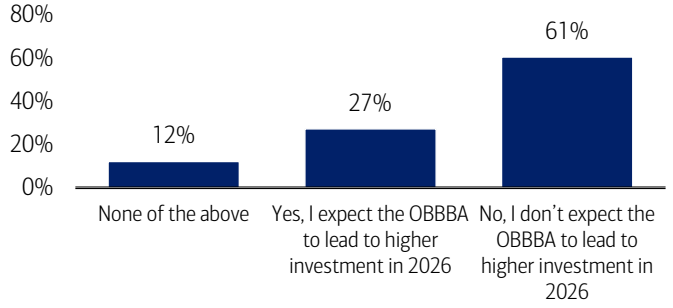
OBBBA + Inflation drives capex and helps disadvantaged consumers

The Tax Foundation has also published research finding that the policy is especially valuable during periods of higher inflation. Perhaps this explains the limited impact of the policy when the TCJA was initiated in 2017, amid ultra low rates and inflation. Our fundamental analysts, in entirety, are less sanguine on OBBBA driving a pickup in capex. But those in more capital-intensive industries (Energy, Materials, Industrials) and new media hyperscalers (Interactive Media) cite OBBBA as a likely driver of more capex.

Exhibit 20: 27% of analysts expect the OBBBA to lead to higher investment in 2026; 61% of analysts do not

BofA US fundamental analyst survey: "Are your companies planning to invest more in 2026 because of the US Administration's One Big Beautiful Bill Act and provisions like equipment expensing?"



Source: BofA Global Research. The survey was conducted from Nov 3-14, 2025 and includes responses from 33 fundamental analysts covering US stocks. For more on the analyst survey, see our EPS outlook section.

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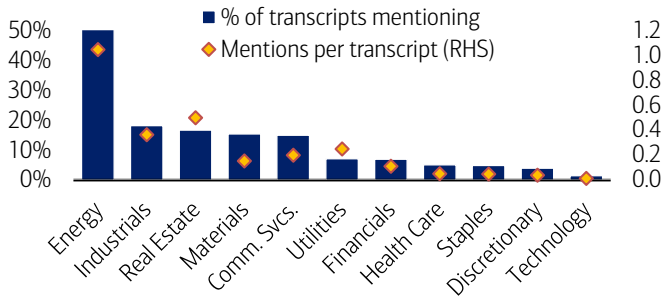
Exhibit 21: Energy, Industrials, Real Estate, Materials, and Comm. Svcs. companies mentioned bonus depreciation the most in earnings transcripts following passage of the OBBBA

S&P 500 company mentions of "bonus depreciation" by sector (7/1/25-9/30/25)



Source: AlphaSense, BofA US Equity & Quant Strategy

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6) US needs lower inflation, favor long bonds in 1H26

Michael Hartnett remains long BIG (**B**onds, **I**nternational, **G**old) in 2026. He expects the UST 5Y to reach 3% in H1 as the Fed cuts to top a further weakening of the labor market and an unemployment rate of 5%. Treasuries remain contrarian and a hedge against credit events; President 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).

Mid-caps should benefit from Fed cuts into reacceleration

While still recommending the BIG trade, Michael also suggests that investors start trading MID (long **M**id-caps, short **I**G bonds, short **D**ollar) into 2026.

Long **M**id-caps: retail, homebuilders, packaging, real estate…many cyclical stocks set to rally once Fed clearly cutting into reacceleration; in the US we like positioning for 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 – Exhibit 22).

Short **I**nvestment 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; only risk here is Fed panic cuts to avert "credit event" + Trump all-in on AI sparks "Government Sponsored Bubble."

Short US **D**ollar: 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, why copper, aluminum, nickel prices to rise 10-20% in '26.

Exhibit 22: 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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FMS suggests "long bonds" are a 2026 pain trade

BofA Global Fund Manager Survey (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.

7) Flattish long rates and US home prices

Though Michael Hartnett suggests being long bonds in 1H26, rates strategy expects a 4.25% 10Y yield at YE26, relatively flat versus current levels. The team suggests that rate risks are skewed to the downside, however, with a dovish Fed and growth risks; they favor long belly, steeper curves, lower real rates and low near-term vol.

Fed Chair affair: forecasts flat, risks for lower rates

In the Global Rates Year Ahead '25 we had forecast the 10y at 4.25% and wrote "US rates likely to be range bound despite policy changes; fade extremes" (see: '25 Global Rates Year Ahead). YTD 10y average is 4.31% & fading extremes in the 4-4.6% range would have worked.

For '26 our 10y rate forecasts are between 4-4.25% and rooted in resilient US growth / spending, sticky high inflation, and a cautious cutting Fed. Mark Cabana sees rate risks skewed to the downside and have forecasts below forwards. Our preferred year ahead trades (long belly, steeper curve, lower real rates, low near-term vol) reflect this risk.

Base case: higher growth, sticky inflation, cutting Fed

BofA Econ US macro base case: **growth** = stronger to reflect (1) easier fiscal policy (2) Fed cuts (3) dissipating trade uncertainty (4) continued AI-related investment boom (5) mechanical shutdown impact (growth lower in 4Q25, higher in 1Q26). **Inflation** = core PCE at end '26 of 2.8% reflecting strong growth and slow tariff pass thru. **Labor** = resilient, U3 to peak at 4.5% & trend slightly lower into '27. **Fed** = one more cut under Powell, 50bp cuts early under new Fed Chair (25bp cuts in Jun, July) to 3-3.25% (Exhibit 23). **Risks** = balanced; downside = weaker labor, upside = strong growth and easy fiscal.

Exhibit 23: BofA Global Research macro & rate forecasts versus consensus

BofA expects softening inflation to help Fed justify further cuts in 2026

		1Q26	2Q26	3Q26	4Q26
US Real GDP (QoQ% SAAR)	BofA	2.5	2.8	2.3	2.0
	Consensus	1.5	1.9	2.0	2.0
Core PCE (YoY %)	BofA	3.1	3.1	3.1	2.8
	Consensus	3.0	3.0	2.8	2.5
Unemployment Rate (%)	BofA	4.5	4.5	4.5	4.4
	Consensus	4.5	4.5	4.5	4.4
Fed Funds Range (%)	BofA	3.75-4.00	3.50-3.75	3.00-3.25	3.00-3.25
	Consensus	3.62	3.41	3.29	3.26
10Y Rate (%)	BofA	4.05	4.15	4.20	4.25
	Consensus	4.10	4.08	4.08	4.08

Source: BofA Global Research, Bloomberg, As of 11/23.

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Exhibit 24: BofA US rates forecasts (%)

USTs likely relatively range bound in '26, slight curve steepening into '27

	1Q26	2Q26	3Q26	4Q26	1Q27	4Q27
2y Govt	3.45	3.35	3.25	3.25	3.25	3.25
5y Govt	3.60	3.55	3.50	3.50	3.50	3.50
10y Govt	4.05	4.15	4.20	4.25	4.25	4.25
30y Govt	4.65	4.65	4.70	4.75	4.75	4.75
2s10s	0.60	0.80	0.95	1.00	1.00	1.00
2s5s	0.15	0.20	0.25	0.25	0.25	0.25
5s30s	1.05	1.10	1.20	1.25	1.25	1.25
10s30s	0.60	0.50	0.50	0.50	0.5	0.50

Source: BofA Global Research, Bloomberg

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Rate forecasts: relatively stable, risks to downside

Our US rate forecasts show a steeper curve with 2y rates lower amidst Fed rate cuts and 10y range bound / modestly higher over '26 (Exhibit 24). Our end '26 2y & 10y forecasts are 3.25% & 4.25%, respectively. The relatively range bound 10y is based off our econ base case of above consensus growth and inflation. The slight 10y increase reflects building inflation risk premium and need for Fed hikes in future. Our end '26 rate forecast is above consensus but below the forwards, especially at the front end.

We see rate risks as skewed to the downside due to potential for more dovish Fed and growth slowdown. We also see risks to a steeper UST curve if there are deeper Fed cuts and upside UST supply risks, especially if IEEPA is struck down. Our 2s10s & 5s30s curve forecasts are steeper vs forwards due to our lower front end rate profile.

EUR rates – bull steepening bias vs forwards

We have a small bullish bias vs forwards in EUR rates out to 10y driven by: 1/ the asymmetry of risks around the inflation outlook that is not priced into the ECB; 2/ implementation risks around the German fiscal package that makes real yields in particular look cheap. At the same time, we do think that the lack of receiving from the Dutch pension fund community post transition could deliver a steeper 10s30s curve than currently priced into forwards.

Don't underestimate the power of the government

In 2025, as the Securitized Products Strategy Team suspected, the main market drivers came first from administrative policy, and the uncertainty surrounding it, and second from Fed cuts. We entered 2025 neutral awaiting details and turned overweight post Liberation day, viewing the uncertainty-related widening as significant opportunity. Understanding the powerful impact of policy change, we expect the 2026 drivers to be similar, but perhaps the order in reverse. Now it's all about the Fed and we've seen markets have an exaggerated response to any shift in tone. And then with Trump's other priorities well tackled, we expect more administrative focus on housing and affordability.

Also, while much of trade and policy uncertainty may have dissipated, much of the recent low vol has been attributable to the absence of economic data due to the longest government shutdown in history. As the shutdown recently ended and data releases are starting to backfill, we may see near term pops in vol.

Fed Expectations: Waiting for the dovish tilt

The current hawkish tone that has lingered after the November FOMC could keep spreads sideways to wider in the near term, but we believe any shift to a more dovish outlook would trigger meaningful spread tightening.

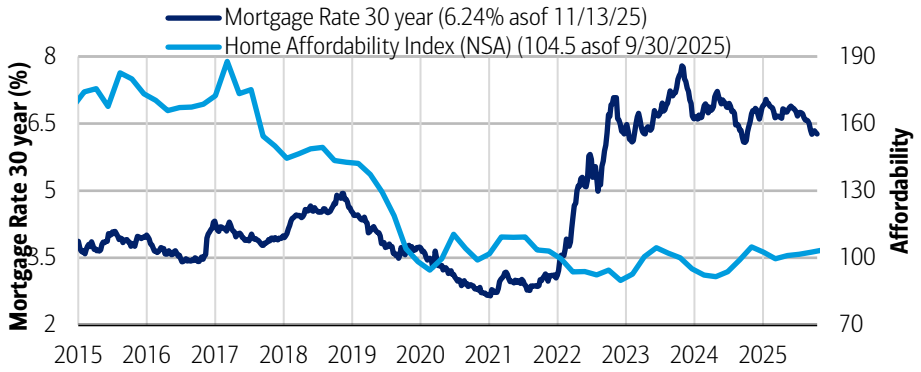
Timing that shift has always been a challenge. BofA economists expect one more rate cut under Powell and two under the new Fed Chair. At this point the market is only slightly more dovish, expecting between three and four cuts by next December. Should expectations turn and the market start pricing in more dovishness, we would expect rates to rally further, and quality duration spread products to tighten. In the report The Fixed Income Digest: Year-end rally coming soon 14 November 2025, we make the case that the recent volatility offers a healthy pause before year end tightening and then over the next 3-6 months, market pricing should more clearly reflect a dovish pivot.

Housing front and center: "everything on the table," mortgage rates in focus

We also think that now with tax cuts, immigration and tariffs (pending a Supreme Court decision) tackled relatively quickly in 2025, housing should move front and center to the administration's focus for 2026. One takeaway from several key November 2025 elections was just how important affordability is to voters. Because we think next year is "all about the midterms," it only makes sense to devote energy and effort to bringing home affordability off its multi-year lows (Exhibit 25). Mortgage rates are one such number that resonate with voters, and previous rhetoric from Bessent and others hint that the administration wants lower mortgage rates (or at least is sensitive to not raising them higher). However, pushing rates lower for the right reasons (i.e. without economic hardship) has not been as easy as it sounds.

Exhibit 25: 30YR PMMS vs. Home Affordability Index (NSA)

Home affordability has decreased 44% since 2015, remains pressured as mortgage rates stay elevated, reinforcing the inverse relationship between the two



Source: National Assoc. of Realtors, Bloomberg

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For our 2026 housing outlook, we project a base case of flat HPA with the regional variance observed this year to remain in place.

Pratik Gupta and Chris Flanagan expect HPA declines in the South / West region – namely four states – Florida, Texas, Arizona and Colorado. This is driven by homes for sale already being higher vs 2019 levels & affordability metrics.

We expect home prices to continue to appreciate in the North East and Midwest albeit at a slower pace vs 2025 due to affordability issues and an improving supply picture as the rate lock-in effect starts to get less acute. Homes for sale remain 20-30% lower vs 2019 levels.

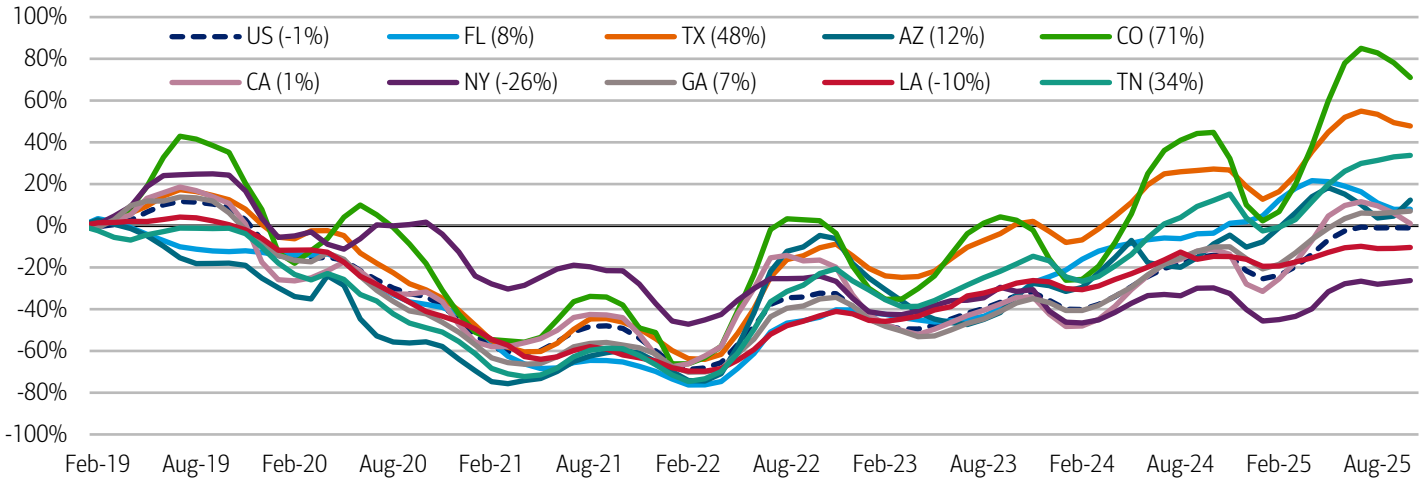
We do expect new and existing home sales to be up by 5-10% to at least 700k and 4.3mm units, respectively, benefitting from lower mortgage rates (6.25% or lower), boosting turnover speeds in agency MBS.

These forecasts are linked to our Rates strategist's expectation of a 10yr rate to be at 4.25% by 2026YE, which translates to a 6.25% mortgage rate – essentially mostly unchanged vs what was observed in 2025H2.

Upside scenario: In a scenario where the 10-year rallies to a sub 3.5% rate which would drive mortgage rates to be at/below 5.5%, we think demand wold start to outstrip supply and HPA could then be close to 3%. The administration is focused on improving both demand & supply side of the Housing market. Some possibilities include MBS QE, new products like 50-yr mortgages and a Housing Emergency that may ease zoning requirements. **Hence, in such an optimistic scenario, we forecast up to 3% HPA in 2026.**

Exhibit 26: Active listing change over the years across states and nation; We look at major states like FL, TX, AZ, CO that have been facing some pressure on HPA due to high inventory

FL, TX and CO saw the biggest increase of active listings by 8%, +48% & +71% respectively (vs national agg. -1%) since Jan 2019



Source: Relator

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8) Expect volatility, especially as the AI impact becomes clear

Unusual constellation of two-way risks

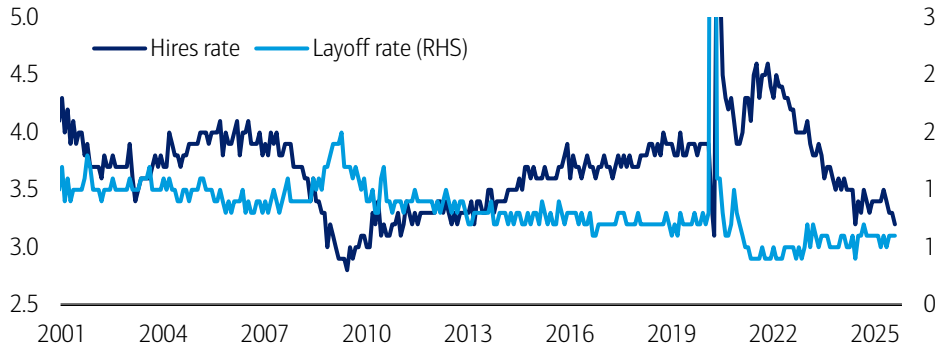
David Hauner and Ralf Preusser write that with markets pricing a very benign baseline for the global economy, volatility at the lows and valuations at the highs, risks seem unusually symmetric to the outlook for rates and FX. We expect volatility to pick up across markets as we gain a better understanding of the extent to which AI will impact the outlook for growth and inflation medium-term (as well as capex short-term). The AI-driven equity market boom is a key component of the K-shaped nature that still defines the post-pandemic recovery, which in itself is another source of risk. This K-shaped recovery also contributes to an increasingly difficult trade-off between fiscal and monetary policy, which in turn is one of the factors driving the discussion of the future of the dollar as a reserve currency.

AI should push up r* via stronger productivity growth, near-term

The IMF estimates that DMs (developed markets) such as the US, Japan and Korea are best positioned to benefit from AI. China isn't far behind, because its strategic investment in digital infrastructure offsets its deficits in other areas such as human capital. We see opportunities for future data center construction in Europe. Technical and financial services are well-positioned to use AI for augmenting human decision-making, but customer services are more prone to job replacement due to automation.

Intuitively, AI should push up r* via stronger productivity growth, near-term. Looking further ahead, we caution that AI could lead to redistribution of income from labor to capital, which would increase precautionary savings, dampen consumption and lower r*. A higher r* and stronger capex in the US should be dollar positive. But at the moment AI might actually be a drag for the dollar, to the extent that it is driving the weakness in hiring (which could allow for deeper Fed cuts).

Exhibit 27: The layoff rate remains below pre-pandemic levels, but hiring has slowed much more dramatically
Hires and layoff rates (%)



Source: Bureau of Labor Statistics, Haver

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Many shades of K-shapes

The global economy is experiencing an uneven recovery dynamic with distinct K-shaped patterns across income groups, sectors, and regions. The divergence between global consumer sentiment and global equity returns is a good way of summarizing the theme. As is the observation that young cohorts in major economies (ex-Japan) have faced a much steeper unemployment rate increase. But the K-shape comes in different shades across regions, creating different risk profiles and asset market implications.

K-shaped economic developments lead to anti-home bias. In the FX space, this is observable through diverging intraday USD price actions. We expect some USD supply pressure from Europe-based investors as they increase hedge ratios for USD-denominated assets. US policymakers' attempts to narrow the K-shaped US economy, such as lower borrowing cost, potential yield curve control, and increasing fiscal deficits to provide stimulus for lower-income households, should all be bearish USD as well, in our view.

We favor US inflation vs Europe, EM local bonds, and underweight the dollar

In 2025, fiscal policy emerged as a driver of market pricing, triggering sizeable moves in rates and FX markets, and prompting investors to ask if/ when central banks would be forced to intervene. Concerns about fiscal dominance are unlikely to abate given the stretched nature of public finances in the US and Japan and LDI (liability-driven investment) crisis scarring in the UK.

We see two themes as being under-appreciated by investors: (1) growing convergence between EM (emerging markets) and DM, with more fiscal space in EM and less in DM; (2) divergence between the US and Europe: the US fiscal situation is long-term unsustainable with near-term threats to IEEPA (International Emergency Economic Powers Act) tariff revenue adding to Fed independence concerns, while the Euro Area tends towards monetary dominance. This leads us to favor US inflation vs Europe, EM local bonds, and underweight the dollar.

Reserve currency

David Hauner and Ralf Preusser write that the US dollar is likely to retain a dominant global role for the foreseeable future. Still, FX reserve diversification is a persistent, albeit gradual, trend. Diversification continued in 2025 – passively in 1H but potentially more active in 2H. Limited footprint in USTs and USD as central banks are diminishing drivers. But reserve diversification matters for smaller markets: CBs under-own gold relative to optimal allocation estimates. Bond markets with limited net supply, like Australia, can benefit. Fiat alternatives struggle to gain share, but EUR has long-term potential from valuation, supply & rating upgrades, while China is accelerating internationalization.

Global Econ says uncertainty in 2026 but more market-friendly policy

The Economics team forecasts higher-than-normal uncertainty levels to continue, but relative to 2025, Economics expects the Trump administration to turn to more market-friendly policies ahead of midterm elections, and to focus more on deregulation and de-escalation of trade tensions on the back of the 12-month US-China trade truce. Also, the upcoming SCOTUS ruling on IEEPA and the USMCA renegotiation should end up being net positive news.

Risks: focus on the imbalances

The risks associated to with Economics' baseline scenario are a direct function of the imbalances the main economies are facing as a consequence of inherited policy shocks that are currently permeating through the global economy. We focus on 5 risks/imbalances: 1) tightening of global excess liquidity; 2) fiscal profligacy across the board; 3) the US K-shaped economy; 4) China excess capacity and 5) geopolitics and the resurgence of trade wars.

These risks/imbalances are interrelated. Since all asset classes (global equities, fixed income, FX, credit, metal commodities, EM, housing) have rallied in sync over the last 2 years, any tightening of global credit conditions, such as higher inflation or a buyer strike in a systemic bond market or a sharp correction in AI-related stocks could trigger a significant de-risking and contaminate the real economies through the negative wealth effect of K-shaped consumption dynamics, driven by higher- and middle-income brackets.

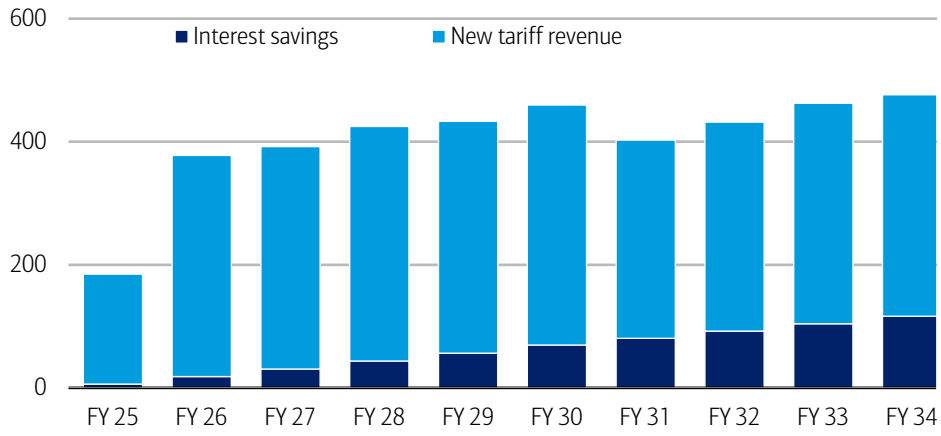
Similarly, massive fiscal stimulus that stops China exporting goods deflation to the rest of the world could impact central banks' plans to add monetary easing, effectively tightening financial conditions. Bond buyers' strikes are an issue too due to the emergence of fiscal dominance and the need for some central banks to implement financial repression. Geopolitics are always a tail risk, in particular if the impact is on oil prices, while the escalation of trade tensions can become relevant as a potential reaction to the SCOTUS ruling on IEEPA.

Upside risks: even easier policy

On the upside, policy could be even easier than we expect. We see risks of additional fiscal easing via another reconciliation package in 2026. The administration has floated the idea of refunding a part of the tariff revenues to consumers via stimulus checks.

Moreover, the Fed might cut rates as low as 2% despite a resilient economy, if there is considerable turnover on the FOMC. This could create upside risks to long-end rates, likely through higher inflation expectations, due to market concerns about Fed independence.

Exhibit 28: We expect tariffs to reduce deficits from FY25-FY 34 due to increased revenue collected and savings on interest expense
Deficit reduction from tariff revenue and lower interest expense ($bn)



Source: BofA Global Research

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9) Private credit returns likely lower in ’26, prefer HY

Private credit returns in 2026 likely far lower than 2025
Neha Khoda and the High Yield and Loan Strategy team project Private Credit (PC) returns to fall meaningfully from YTD 9% levels to ~5.4% in 2026 due to loss of carry and potential capital losses. As returns converge towards public credit, PC faces allocation consequences. We expect spreads to widen to ~540bps and supply to normalize. Defaults will ease to ~4.4% on lower rates, but will continue to outpace public credit. Structural shifts (growth in secondaries, retail entry) may introduce liquidity and regulatory challenges that reshape PC’s appeal as a diversification tool.

Exhibit 29 shows historical probability of a Loan being placed in non-accrual status over NTM given its prevailing fair value mark. It shows that fair value marks tend to be accurate proxies of credit stress. For Loans marked b/w 75 – 85pts, chances of being placed in non-accrual over the next year are the highest at 46%. However, these Loans currently comprise just 2% of BDC AUM. 87% of AUM is marked at 95pts or above, which have consistently seen <1% probability of being deemed non-accruing. This information helps us assess NTM non-accrual pressures across business development companies (BDCs) which we assess to be 2.3%, lower vs a year ago.

Exhibit 29: Loans marked between 75 – 85pts have a 50/50 chance of being assigned non-accrual, but currently only comprise 2% of BDC Loans
Fair value marks have historically been reliable proxies of credit stress in BDC portfolios

	Prob of non-accrual NTM	% wgt
> 100	0.80%	13%
(95, 100]	0.62%	74%
(85, 95]	10.80%	7%
(75, 85]	46.20%	2%
(0 , 75]	0.00%	4%
Projected non-accrual rate	2.31%	

Source: BofA Global Research, KBRA, Preqin

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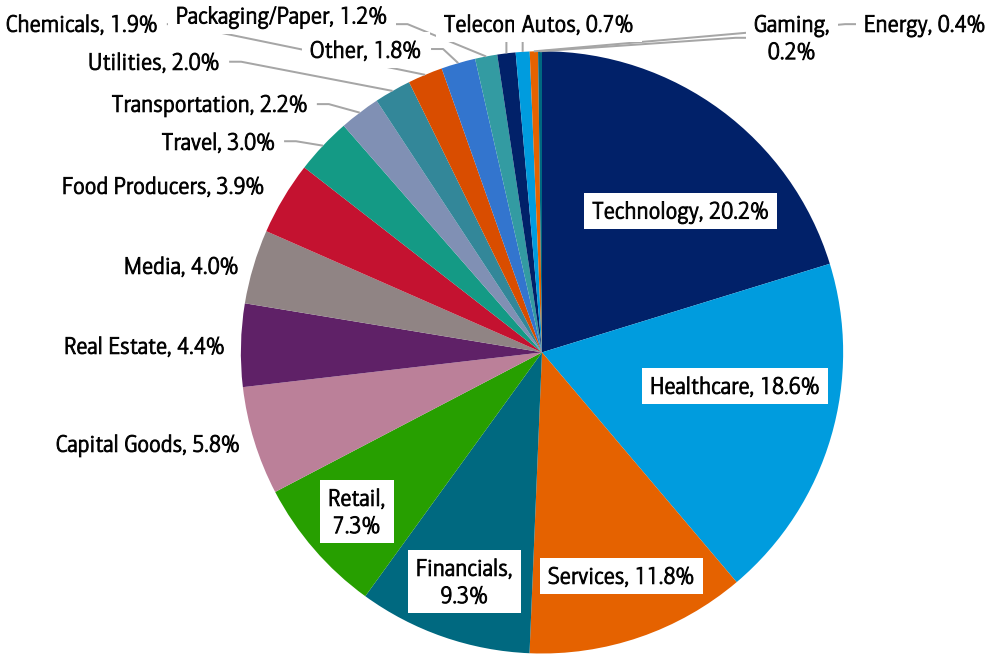
Risks to our forecast include AI-driven disruptions among software issuers, who comprise a significant share of BDC holdings (16% of AUM) and broader Private Credit. Exposure is comparable to BSL, though disruption could be disproportionately shouldered by middle market (MM) issuers who lack the maneuverability that larger software issuers possess.

Exhibit 30: 20% of BDC holdings are in Technology issuers, and 80% of those issuers are software
Breakdown of BDC holdings by sector. Software (not depicted) comprises 80% of the broader Tech sector



Source: BofA Global Research, Preqin

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Supply to mean-revert

Just like in spreads, PC supply is a function of capital inflows (fundraising) in addition to credit quality (leverage). Both leverage and fundraising are positively correlated to issuance – increasing trajectory of leverage indicates more openness to risk, as does the level/change in fundraising activity. A regression based on appropriate lags and transformations of these factors explains 70% of the variation in PC new money supply.

We expect PC supply to correct towards our forecasts over the next 12mo and likely retrace to $120bn representing a -15% decline from current levels, while core M&A/LBO supply could stay flat YoY (but still represent a decline from our '25 estimate).

The risk here is to the upside, especially if an economic pick-up generates a larger pipeline of M&A/LBO activity. This will allow investors to accept higher levered deals signaling openness of the primary, and driving issuance on a lagged basis.

Demand: Macro tailwinds but allocation headwinds

US Private Credit fundraising began 2025 on a weak note but has since recovered to match last year's pace. Fundraising was 8% lower YoY in 1H, largely due to market headwinds, but rebounded strongly in Q3, bringing LTM total to $200bn. Private Debt funds remain the dominant source of capital, accounting for roughly 80% of fundraising, while Middle Market CLOs contribute about 20%.

Looking ahead to 2026, conditions appear more favorable for fundraising. Easing trade uncertainty, stabilizing inflation, and continued Fed rate cuts should improve the macro backdrop. Liquidity should also improve as PE exits and distributions pick up, supported by growing private secondary markets. However, fundraising is unlikely to replicate the exceptional levels seen in late 2024. Headwinds also exist in the form of shifting allocations towards private equity, where returns are projected to be stronger next year.

Spreads to rebound from cycle lows

PC new issue spreads declined rapidly from Q1'23-to Q4'24 (-90bps), but have slowed down YTD (-25bps). Today, we are likely at an inflection point as recent record tights of 500bps serves as a strong resistance level for the industry. Primary market spread trajectory is driven by fundraising strength, with various combinations of DL and CLO fundraising activity influencing spreads on a 1-2 quarter lag.

PC returns to converge to HY and BSL

Putting our forecasts of new issue spread, base rate and default rate together, we come to our Total Return (TR) forecast of 5.4%, a meaningful step down from the ~9% likely to be realized in '25. This is driven by lower carry due to rate cuts, capital gains flipping to losses as investors reprice risk, but with an offset from decreasing credit losses on lower default rates. Should this materialize, it will represent a 6th straight quarter of decline in LTM PC TR. Notably, this return profile will likely put Private Credit in the same zip code as public credit, chipping away at its attractiveness as a yield enhancing strategy. Comparatively, we expect Private Equity returns to rise above 10% for the first time since 2022, encouraging some LPs to shift allocations away from PC to PE.

We also stress test PC returns using downside and upside scenarios. The former assumes prices fall back to '22 lows when interest rate concerns were at their peak, while the latter assumes valuations rally back to mid-last year highs. Notably, the output is extremely sensitive to macro assumptions highlighting the importance of getting the cycle right.

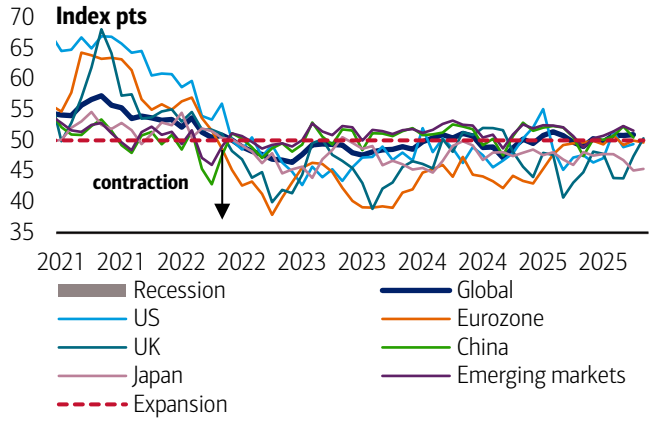
HY to outperform credit in 2026 on duration, sector mix

HY with its 3.7yr duration is just short enough to benefit from curve steepening on the back of a Fed biased to cut. It is also more defensive vs Loans in the context of credit quality (higher) and AI-exposure (lower), which should keep fundamental deterioration and credit losses in check. As such we think it will be the best performer across credit in 2026 generating 5.8%. In particular we think B HY has the best upside given its decompressed state vs BBs, while BBs could continue to decompress against BBBs as IG spreads recover from the recent supply deluge.

10) Copper likely to perform; favorable gold view on inflationary easing cycle

The macro environment looks to be supportive for metals, according to the Commodity Strategy team, especially base metals, as tailwinds could come from easier monetary and fiscal policy, reduced policy and trade uncertainty and renewed demand in the face of ongoing supply limitations. Our Global Economics team has revised 2026 GDP growth higher on the back of resilient growth this year coupled with a more supportive policy backdrop next year, supporting cyclical demand.

Exhibit 31: Global manufacturing PMIs remain at neutral levels, but are improved from the industrial recession over the past few years
Global manufacturing new orders PMI subindex, index points



Source: ISM, Markit

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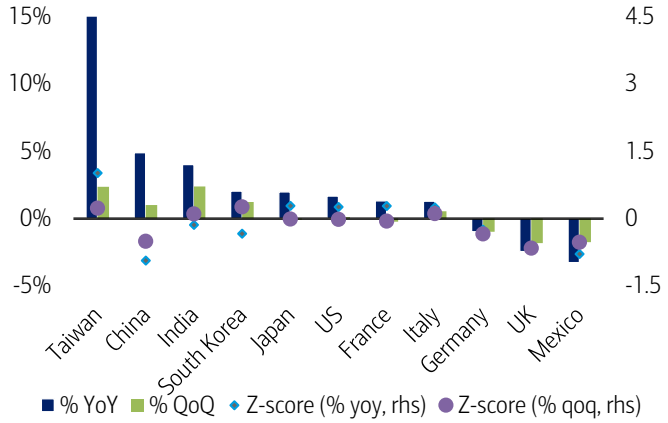
Exhibit 32: Industrial activity has diverged between surging high-tech exporters and traditional manufacturing economies
Global industrial production growth and z-score



Source: Haver, BofA Global Research

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Disruptions have limited base metals supply

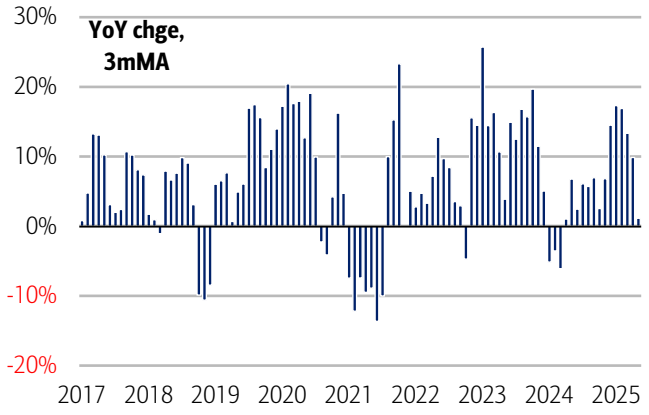
Even with a tepid demand environment stemming from weak manufacturing and construction that remains strained in the US and China, base metals have pushed higher on the year as supply remains tight. For copper, the pipeline of mine projects remains limited, only to be exacerbated by outages at the largest mines that will likely push markets into deficit next year. Inventories remains at historically low levels for aluminum and zinc, while copper has moved out of London to the US and stayed, setting up risk of shortages in the coming year if demand rebounds as we currently expect. Upstream tightness has also been apparent through negative treatment and refining charges that reflect limited supply of copper concentrate, limiting the production of refined copper as well. As a result, we remain most bullish on industrial metals, especially if positive macro forces such as continued data center and AI demand, increased defense spending and looser monetary and fiscal policy emerge as expected.

The world needs new copper mines. What price makes the miners build?

In conjunction with last week's Year Ahead, Commodity Strategy raised our long-term copper price to US$10,000/t (2026$) from $9,000 (2025$) based on an updated incentive pricing analysis. Capex for mines seems to be structurally higher. Grades are moving structurally lower, strip ratios structurally higher. ESG/community relations mean that projects take much longer to plan and build. All of these factors point to increased capital intensity = a higher long-term copper price is required to incentivize new supply. Interestingly, and quite different to the bulk commodities, the average copper price for the last 5 years is $9075/t, and for the last 10 years is $7483/t i.e. both well below our new assumed LT price.

While constructive copper, we acknowledge that China's demand has slowed down, because grid spending tailed off after the summer. Still, unless China demand contracts by more than 3% Y/Y in 2026, the copper market should be in deficit.

Exhibit 33: Copper demand growth has slowed
China, apparent copper demand growth



Source: Bloomberg, ICSG, CRU, BofA Global Research

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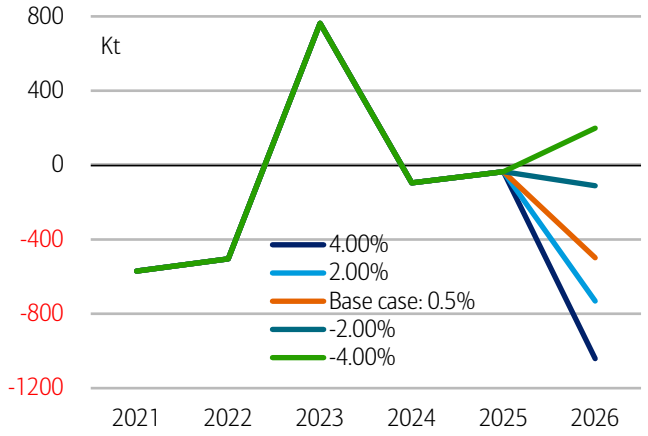
Exhibit 34: The copper market should be in deficit, unless China's demand contracts by more than 3% YoY in 2026
Market balances under different scenarios for China's demand growth



Source: Woodmac, CRU, Bloomberg, company reports, ICSG, BofA Global Research

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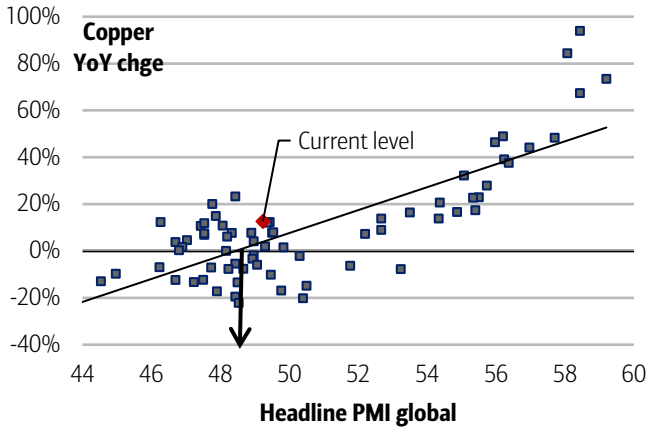
Exhibit 35: Headline manufacturing PMIs are above levels that justify copper price increases
Headline PMIs and copper prices



Source: Bloomberg, BofA Global Research

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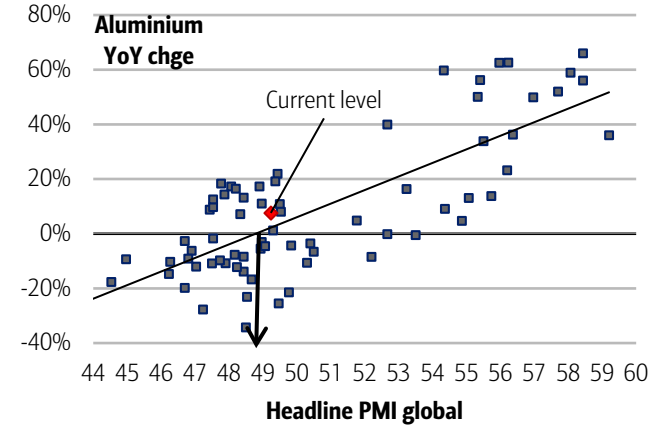
Exhibit 36: Current PMIs justify YoY increases in aluminium prices

Headline PMIs and aluminium prices



Source: Bloomberg, BofA Global Research

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Gold overbought but underinvested

The gold market has been overbought but underinvested, and prices corrected as sone of the buying subsided in October. That said, virtually all of the macro issues behind the recent $2,000/oz gold price rally are still in place, the fiscal outlook in the US (and many other DMs) remains unsustainable, the US is becoming more inward looking and central banks show continued interest in diversifying their reserves. At the same time, and also keeping in mind the breakdown of correlations, gold allocations in many retail portfolios are too low. Until the confluence of factors changes, we remain constructive and see a path for gold to hit $5,000/oz in 2026.

Current bull market not out of the ordinary

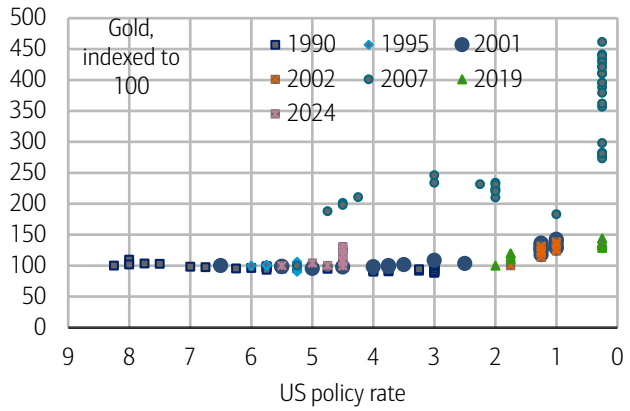
Gold has rallied sharply in recent months on a confluence of macro factors. We agree that the market had become overbought, which finally gave rise to a correction in October 2025. That said, the magnitude of the current rally is not out of the ordinary when compared to any of the other gold bull markets since 1970. But monthly price declines of +10% are not unusual either, with gold posting strong rallies thereafter. Across all investor segments, ETF buying tends to be the most volatile, so the trajectory of purchases will likely be a bellwether for market direction going forward.

The Fed eases, as inflation is above 2%

The Fed usually takes a balanced approach to its dual policy goal of full employment and price stability. Hence, from a gold perspective, prioritization of the labor market over inflation matters. Exhibit 37 and Exhibit 38 pick up on this, showing that since 2001, gold has pushed higher every time the Fed has cut rates when US CPI is above 2%.

Exhibit 37: US policy rates and gold prices in scenarios where the Fed eased monetary policy, while CPI was above 2%, since 1990

Gold prices declined in the 1990 and 1995 easing cycles, but rallied in the 2001, 2007, 2019 and 2024 reduction of rates



Source: Bloomberg, BofA Global Research

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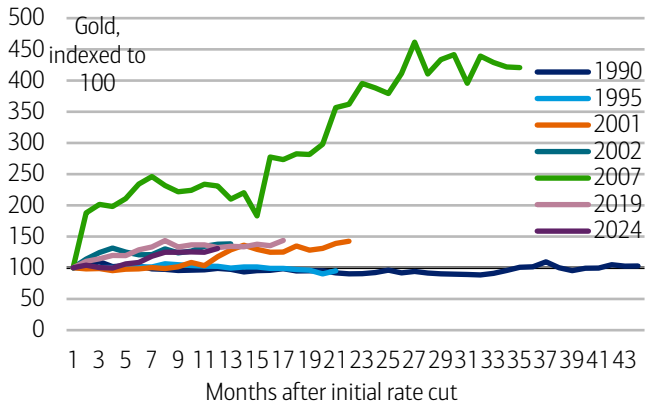
Exhibit 38: US policy rates and gold prices in scenarios where the Fed eased monetary policy, while CPI was above 2%, since 1990

Easing cycles during elevated inflation are not usually accompanied by sustained bear markets



Source: Bloomberg, BofA Global Research

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Exhibit 39 puts more concise numbers behind that, highlighting that gold has rallied by an average of 13% Y/Y annually since 2001 in an environment where the Fed cuts rates but inflation is elevated. That said, concerns over a hawkish tilt by the Fed could lead to some volatility next year.

Exhibit 39: Average gold price changes YoY during different macro regimes

On average, gold has rallied by 13.3% YoY since 2001, excluding the Great Financial Crisis, when the Fed eased and CPI was above 2%

CPI	>2%	<2%	>2%	<2%
Fed	Easing	Easing	Tightening	Tightening
Since 1990	10.5%	6.3%	6.5%	-1.0%
Since 2001	18.3%	7.2%	10.8%	5.1%
Since 2001 excluding GFC	13.3%	4.1%	10.8%	5.1%

Source: Bloomberg, BofA Global Research

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Appendix

Below you will find an aggregate of links to our Macro Year Ahead notes. Some links may not be accessible to all recipients.

The Thundering Word: Year Ahead 2026: Trading BIG & MID

- US Equity Strategy Year Ahead: 2026 Year Ahead: All bulled up, and no place to go
- US Small/Mid Cap Strategy Year Ahead: Small/Mid Cap Strategy Year Ahead
- European Equity Strategy: Year Ahead 2026: under-pricing risks
- Global Equity Derivatives & Strategy: Year Ahead 2026: The Bubble era
- Emerging Insight: ASEAN Strategy Year Ahead 2026: Bullish high-yielder rates, low-yielder FX
- LatAm Thematic: LatAm Year Ahead 2026: deep rate cuts to smooth the electoral ride
- Strategy - Thailand: Year Ahead 2026: Corporate self-help in the absence of growth engines

Global Macro Year Ahead: 2026: Attitude determines altitude

Global Economics: Year Ahead 2026: K-shaped economies with K-shaped risks

- ASEAN Viewpoint: 2026 Year Ahead: On a strong footing
- Asia Viewpoint: Year Ahead 2026: seeking stability from trade, tech capex, and liquidity
- Australia Viewpoint: Year Ahead 2026: Walking the tightrope
- Brazil Viewpoint: Brazil Year Ahead: between cuts and polls
- China Viewpoint: 2026 Year Ahead: Policy stimulus and trade conflict hold the key to stable growth
- Europe Economic Weekly: Year ahead 2026: Cautiously constructive with risks and lower rates
- Hong Kong Viewpoint: Year Ahead 2026: Broad-based recovery in sight
- India Viewpoint: 2026 Year Ahead: Policy support to put a floor on growth
- Japan Viewpoint: Year Ahead 2026: Steady growth, gradual rate hikes
- Korea Viewpoint: Year Ahead 2026: GDP to accelerate on domestic demand growth recovery
- LatAm At A Glance: Year Ahead 2026: Navigating structural headwinds amid political crossroads
- Mexico Viewpoint: Mexico Year Ahead 2026: Playing defense against uncertainty

- Taiwan Viewpoint: Year Ahead 2026: AI keeps Taiwan humming—but not everyone feels it
- Thailand Viewpoint: Year Ahead 2026: In search for new growth engines
- New Zealand Viewpoint: Year Ahead 2026: Growth returns, slack remains
- US Economic Viewpoint: 2026 year-ahead outlook: Sunny side up

Global Rates Year Ahead: 2026: When carry met rally

- Asia FI & FX Strategy Viewpoint: Year Ahead 2026: Staging a comeback
- Japan Rates Viewpoint: Yen rates in 2026 – 10yr to 2% and beyond

FX Viewpoint: G10 FX Year Ahead 2026: the (USD) long and short of it

- World at a Glance: Year Ahead 2026: the next election

Global Credit Strategy Year Ahead: Don't leave me now

- Credit Convictions in 2026: Options around the world
- Situation Room: Year Ahead 2026 US IG Credit Strategy Outlook: Clip the coupon
- IG Credit Strategist: Year Ahead 2026 US IG Credit Strategy Outlook: Clip the coupon
- High Yield & Loan Strategy: Year Ahead 2026 – A 3D World: Duration, Defense, Dispersion
- Asian Credit 2026 Year Ahead: Carry with care: Asia credit amid global shifts
- 2026 Year Ahead Outlook (CLO): Loan Warrior

Commodity Strategist: Year Ahead 2026: Commodity Outlook

- Energy Strategist: Year Ahead 2026: Energy outlook
- Metals Strategist: Year Ahead 2026: Metals & Mining – gold gains to copper crunches
- Global Agriculture Monthly: Year Ahead 2026: Ag markets under strain, but soy oil set to gain

GEMs Viewpoint: Year Ahead 2026: The sky is the limit

- GEMS Corporate Credit Year Ahead: Year Ahead 2026: Fundamental Outlook: Built to Bend, Not Break
- GEMS Corporate Credit Year Ahead: 2026 Year Ahead: Storm Proofing EM Corporates

Global Convertibles: Year Ahead 2026: Don't fight the froth

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Important Disclosures

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R1]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R1]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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