

2026 INVESTMENT OUTLOOK

The synchronized shift

WHEN ECONOMIES PLAY
A RARE HARMONY



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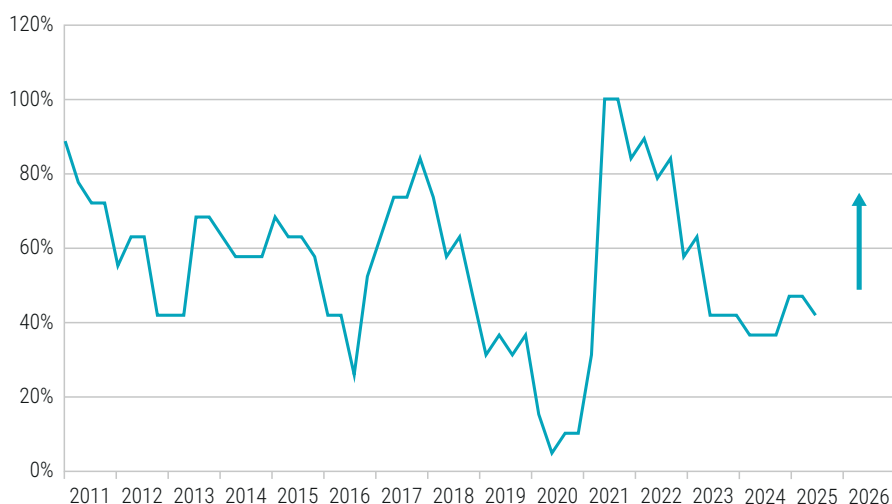
The 2026 Investment Outlook has been compiled by Peter van der Welle (Multi-Asset Strategist) and Colin Graham (Head of Multi-Asset Strategies).

1. Introduction

Great classical composers like Bach, Schubert, Mozart and Chopin all used a single, dramatic chord (several harmonious musical notes played together) in their most famous compositions to stir the attention of their listeners: the Neapolitan chord. A strikingly odd, seemingly off-key harmony, the Neapolitan chord signaled a pivotal moment in their compositions before returning to the home key. Likewise, in our base case, we expect the economic cycle to enjoy a Neapolitan moment in 2026. A rare, short-lived synchronized late-cycle upswing, driven by easing trade tensions, an uptick in the global manufacturing cycle and lagged effects of global central bank easing.

Our thesis of a synchronized shift has strong reminiscences with 2017 when the global economy, especially emerging markets, enjoyed a temporary upswing on the back of easy financial conditions, a depreciating dollar, stabilizing energy prices and a re-accelerating global economy with improving business and consumer confidence. Our metric shows that around 2017 more than 80% of G19 economies accelerated at an above 2% pace in terms of real GDP.

**Figure 1: Percentage of G19 countries growing above steady state
(four-quarter percentage change in real GDP)**



Source: LSEG Datastream, Robeco, 30 September 2025.

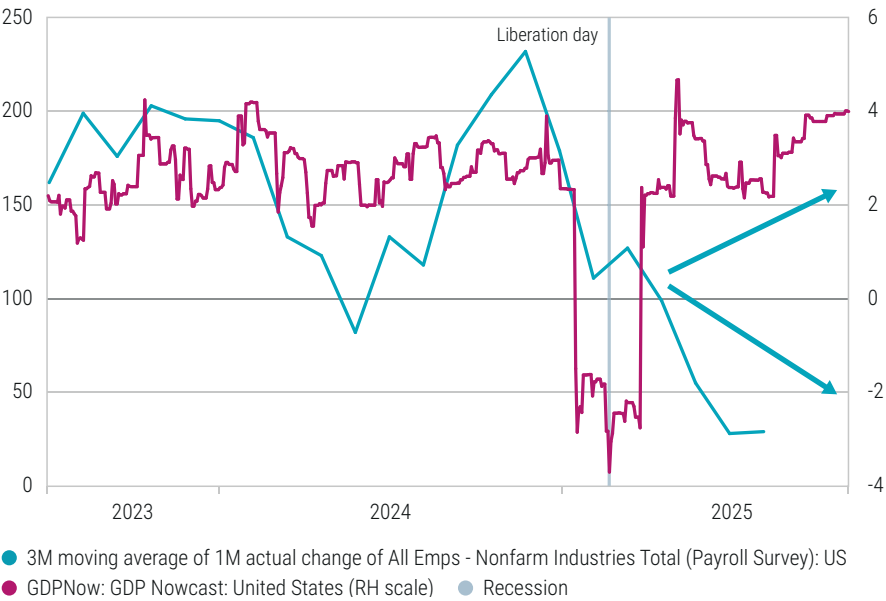
The K-shaped economy is an unstable equilibrium

We are not experiencing a 2017 redux yet. The percentage of G19 economies growing faster than 2% is only 42% at the moment. Our thesis last year, 'This is not a landing', called for the possibility of a powerful stagflationary twist arising from US trade policies into an otherwise resilient economy. 'Resilience' has been the key word here as the IMF stressed the resilience of the global economy in its latest World Economic Outlook despite the tariff headwinds. Still, Liberation Day left its mark. With the effective US tariff rate around 11%, we are still expecting to see a higher pass-through of tariffs from corporates to the US consumer into early 2026 (from the current 20% to 50%), challenging lower-income cohorts in the world's largest economy.

Simultaneously, as the US Consumer Price Index (CPI) remains well above target, the US economy is experiencing a K-shaped constellation of accelerating real activity but a notable slowdown in jobs growth. An outright stagflationary outcome remains a real possibility. The split in the US's consumption growth, with high incomes continuing to spend while lower-income households are belt-tightening as job growth decelerates, adds to this contrast.

The K-shaped dynamic might drag on for a while, but it is inherently an unstable equilibrium. Either job growth recovers or the real economy will drag jobs growth down well into recession territory. The K-shaped economy poses a conundrum: are we seeing the beginnings of broader, AI-driven productivity growth or are employers holding off on hiring, pushing their workforce harder to squeeze out more efficiency gains amid prevailing trade uncertainty? ●

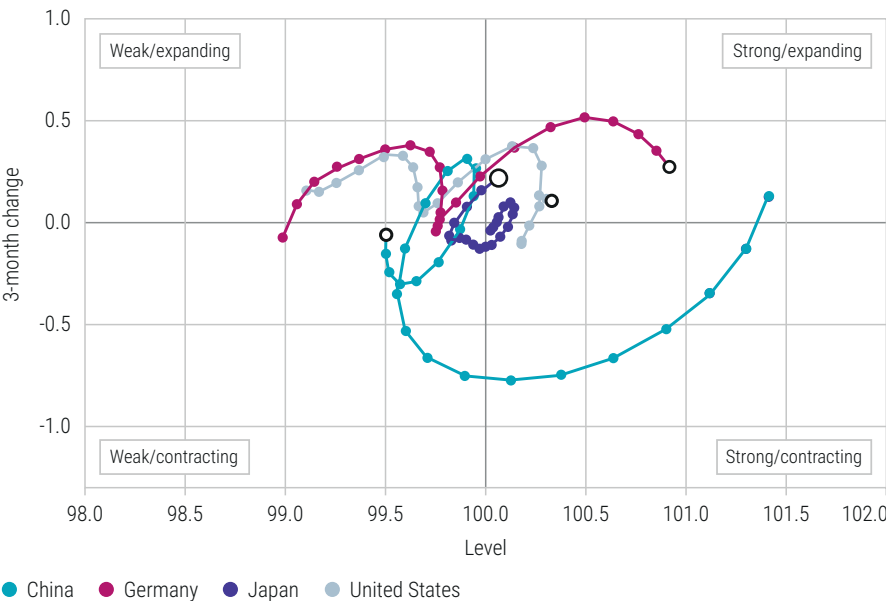
Figure 2: The K-shaped US economy



Source: LSEG Datastream, Robeco, 5 November 2025.

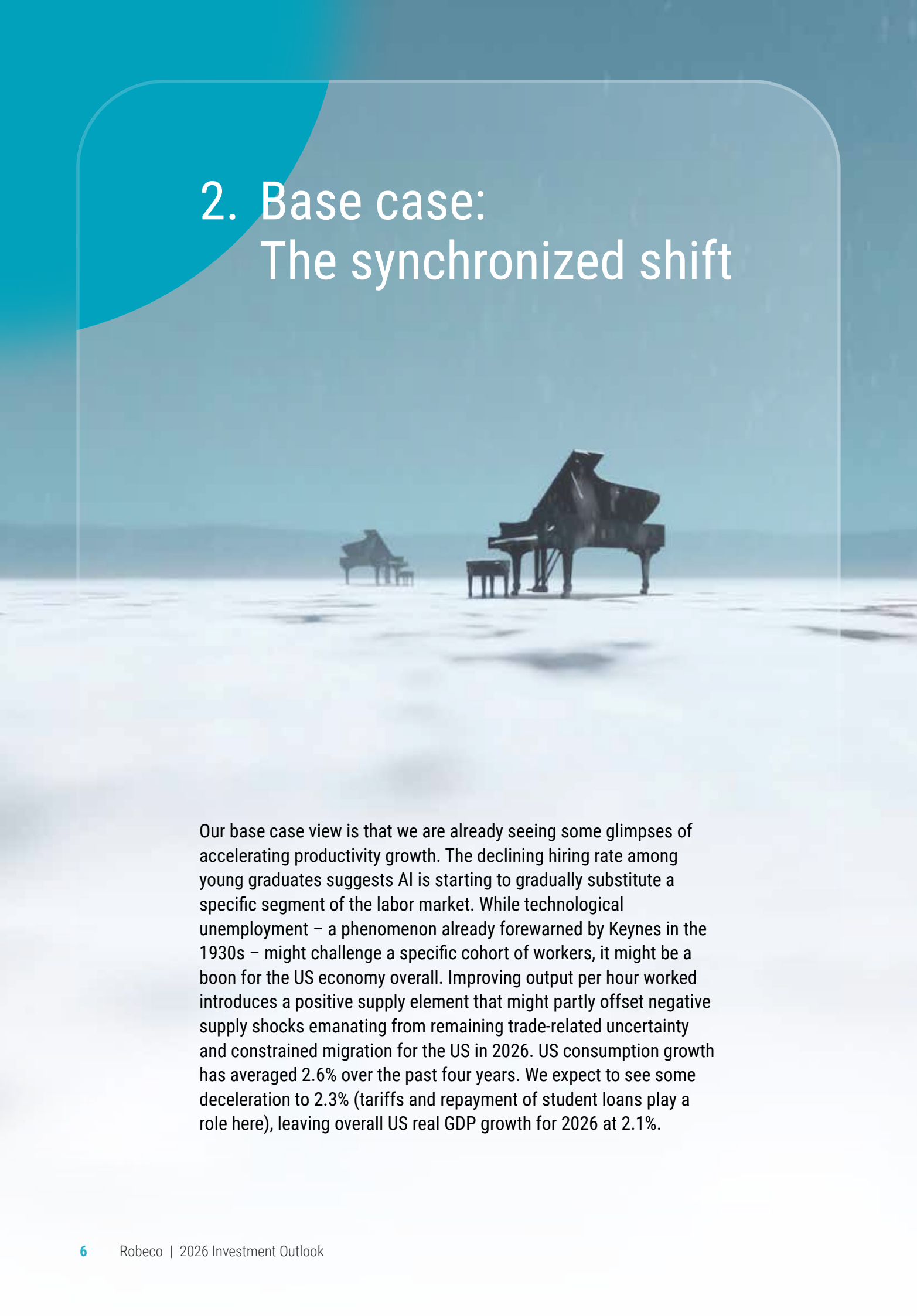
Figure 3: Accelerating expansion in major economies; could China be joining in 2026?

Tracking economic lifecycles of the last two years
OECD: Main economic indicator as of September 2025



Source: LSEG Datastream, Robeco, 30 September 2025.

2. Base case: The synchronized shift

A surreal landscape featuring two grand pianos on a vast, flat, white surface that stretches to the horizon. The sky is a clear, pale blue. The pianos are dark-colored, and the scene is captured in a wide-angle shot, emphasizing the isolation and scale of the environment.

Our base case view is that we are already seeing some glimpses of accelerating productivity growth. The declining hiring rate among young graduates suggests AI is starting to gradually substitute a specific segment of the labor market. While technological unemployment – a phenomenon already forewarned by Keynes in the 1930s – might challenge a specific cohort of workers, it might be a boon for the US economy overall. Improving output per hour worked introduces a positive supply element that might partly offset negative supply shocks emanating from remaining trade-related uncertainty and constrained migration for the US in 2026. US consumption growth has averaged 2.6% over the past four years. We expect to see some deceleration to 2.3% (tariffs and repayment of student loans play a role here), leaving overall US real GDP growth for 2026 at 2.1%.

Four pillars of strength: What's propping up global consumption?

We see four reasons for global consumer resilience and a diminishing split in US consumption as 2026 progresses. First, the uncertainty shock from tariffs dissipates further in 2026, removing a strong dampener on consumption growth and CEO confidence to invest and hire. A further 1 STD (standard deviation) decline in US policy uncertainty could boost US consumption growth by 0.8%. Recession probabilities during 2025 have been very much tied to uncertainties related to Trump's tariff policy.

Second, expansive fiscal policy through the OBBBA (One Big Beautiful Bill Act) facilitates government spending to be frontloaded in 2026. No tax on overtime, tips, car interest and child tax credits will help lower-income households recover.

Thirdly, one shouldn't underestimate the wealth effect generated by the historical +25% rally since 10 April 2025, on top of US household net worth already sitting at 7.8 times disposable income around Q2 2025.¹ Households have ample buffers, both in the US and Europe. With stock markets up double digits this year, higher-income households could raise their spending by 0.25%-0.5% in 2026 assuming an average marginal propensity to consume out of wealth.

Lastly, the International Energy Agency sees a rising supply glut² in energy markets into 2026, with oil prices dropping below 60 USD per barrel. While we deem a sub-USD 60 oil price to be unsustainable throughout 2026, oil prices in the USD 60-70 range are supportive for global consumers.

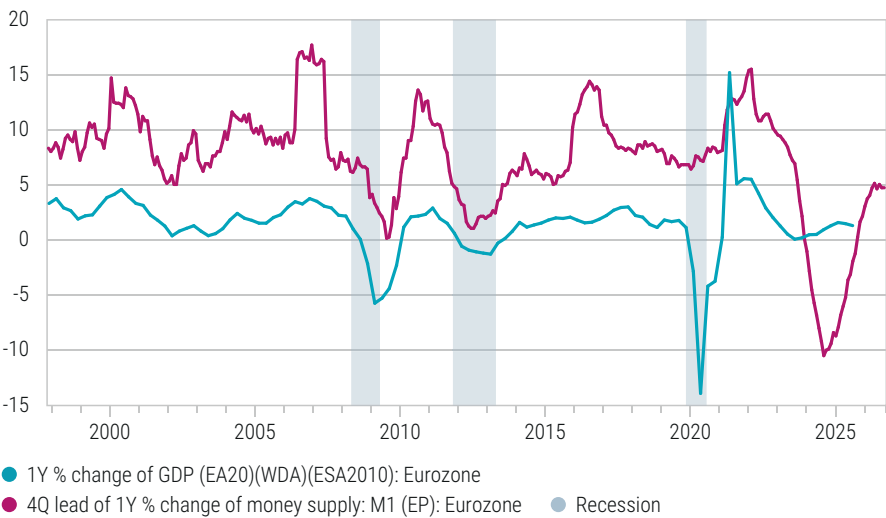
Europe's growth engine roars back

Meanwhile, other developed market (DM) economies are also expanding. Germany leapfrogged into expansion in H2 2025 based on OECD leading indicators, joining Japan in showing accelerating real activity from a strong base. Our base case foresees a further catch-up in Germany versus the US growth rates in 2026. There is still ample room for non-inflationary growth, as we expect to see the eurozone grow 1.6% in 2026. The lagged impact of past ECB easing, spending of excess household savings (2% above 20-year average), a higher fiscal impulse (contributing 0.6% to growth in 2026) and recovering export demand are likely drivers here.

1. LSEG Datastream, Q2 2025

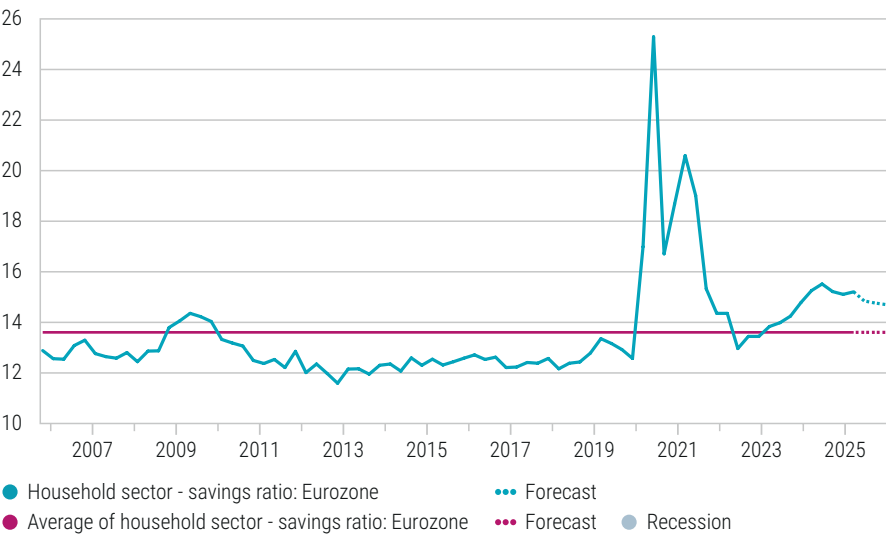
2. October 2025 Oil Market Report IEA

Figure 4: Eurozone M1 growth still supportive



Source: LSEG Datastream, Robeco, 30 September 2025.

Figure 5: Waiting for pent-up demand to be unlocked



Source: LSEG Datastream, Robeco, 30 September 2025.

While a stronger euro poses a headwind to external competitiveness, fiscal multiplier effects from defense- and infrastructure-related expenditures strengthen internal competitiveness. Germany's current industrial overcapacity allows for higher fiscal multipliers. A lull in the turbulent political discourse in France, with pension reform now postponed until after the 2027 Presidential elections, no longer weakens Europe's core.

China at a crossroads: From deflation to domestic revival?

China is still seeing subdued activity levels, gyrating between contraction and expansion as the country still battles deflationary pressures. Yet, the second half of 2026 might see more promising signs of higher domestic consumption as the Chinese housing market deleveraging cycle reaches its final phase against a backdrop of stronger domestic fiscal stimulus.

Figure 6: China's money growth suggests China's residential housing market improving



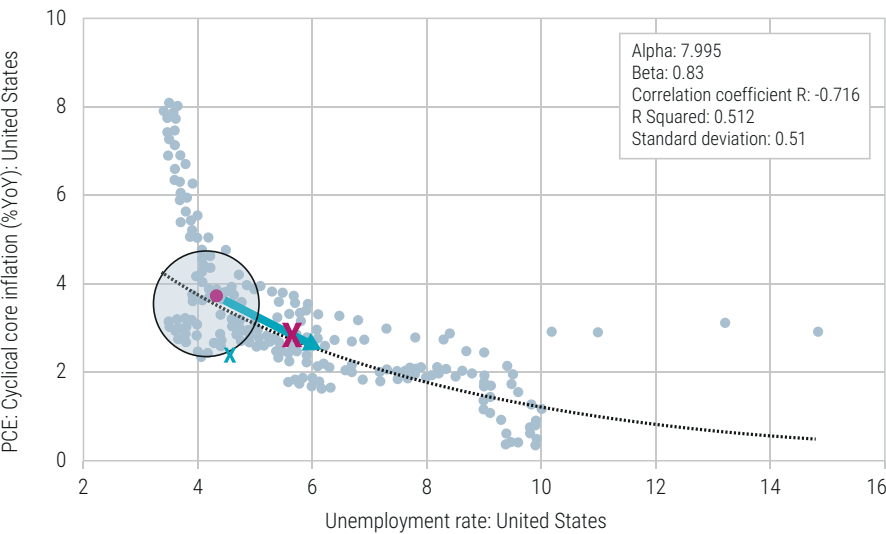
Source: LSEG Datastream, Robeco, 30 September 2025.

Inflation's next move: Will the synchronized upswing spark a fire?

The key question is what a synchronized upswing in global real activity implies for the inflation picture. Regional differences in pre-existing slack could lead to differences in inflationary pressures if global aggregate demand were to improve from here. China (and to a lesser extent Europe) has more room for non-inflationary growth compared to the US.

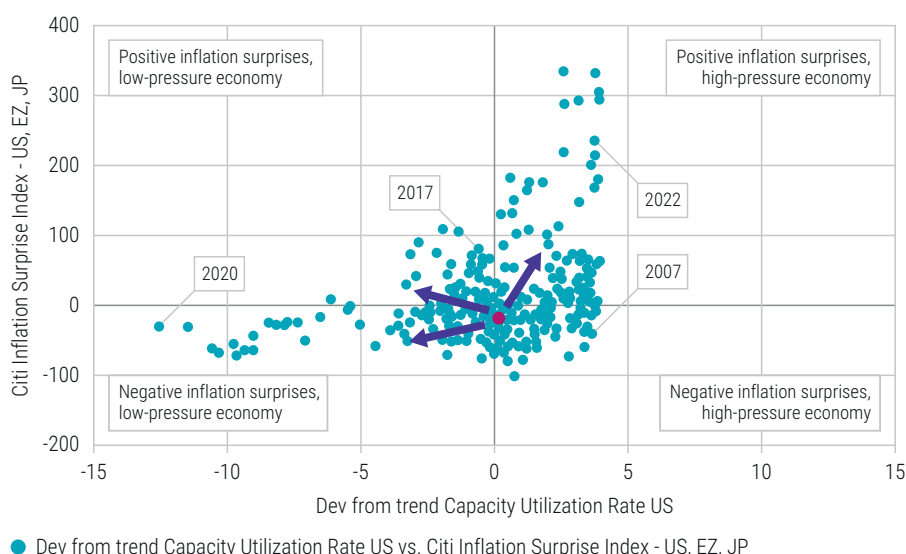
For the US and Japan the picture is far more nuanced. If the US labor market stays broadly balanced, with unemployment averaging around 4.5% through 2026, the scope for non-inflationary growth will be limited. However, a partial offset could emerge from declining unit labor costs as AI-driven productivity gains outpace nominal wage growth.

Figure 7: We expect the US labor market to remain broadly balanced in 2026



Source: LSEG Datastream, Robeco, 15 August 2025.

Figure 8: Creating a high-pressure economy?



Source: LSEG Datastream, Robeco, 6 October 2025.

Each dot illustrates a specific historical combination between developed market inflation surprises and the deviation from trend capacity utilization in the US. The upper right-hand quadrant is the 'high-pressure economy' quadrant as above trend capacity utilization in the US often coincides with higher inflation surprises. The red dot is the latest value with the arrows depicting the three most plausible directions of travel in 2026.

Fed governor Stephen Miran recently argued for 200 bps of rate cuts as he sees a lower neutral rate and further disinflation. While rent inflation may trend lower due to falling net migration, we disagree with his analysis for a lower neutral rate. In our view, productivity is likely improving and capex demands are rising relative to the existing level of US savings. Therefore, the risk is that even a below-but-close-to 3.75% policy rate amounts to excessive easing against the backdrop of continued procyclical fiscal policy, constrained migration pushing up labor costs in sectors like agriculture and housing, and an AI boom in the US.

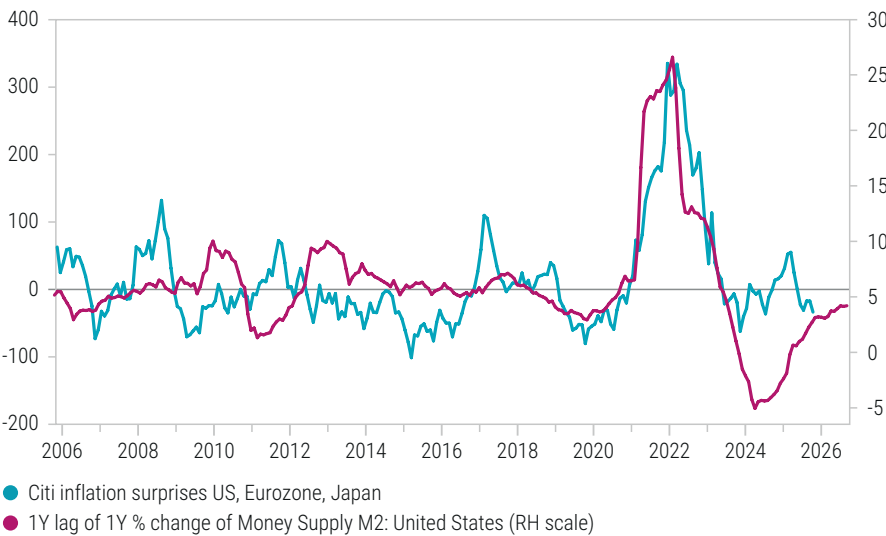
Slow burn: Inflation's delayed spark

While excessive easing could bring positive inflation surprises in 2026 compared to consensus inflation expectations, it will take time for a second inflation wave to develop. We therefore might not end up in the upper RH quadrant of Figure 8, but in the LH upper quadrant with more modest inflation surprises joined by capacity utilization below but close to trend on the back of improvements in productivity.

First, from the monetary point of view, money growth is still contained in developed economies, growing around 5% per annum. Moreover, money velocity has been trending down, in sharp contrast to the post-Covid aftermath. Second, the fiscal impulse in 2026 is likely going to be far less pronounced compared to the post-Covid fiscal push. This lowers the risk of core inflation reaching 4% again in the next 12 months, an inflation level that historically proves to be a major inflection point for equity returns³ (see Table 1 on page 18). Our base case is for the US CPI to show a random walk around 3%, with eurozone inflation almost 100 bps lower.

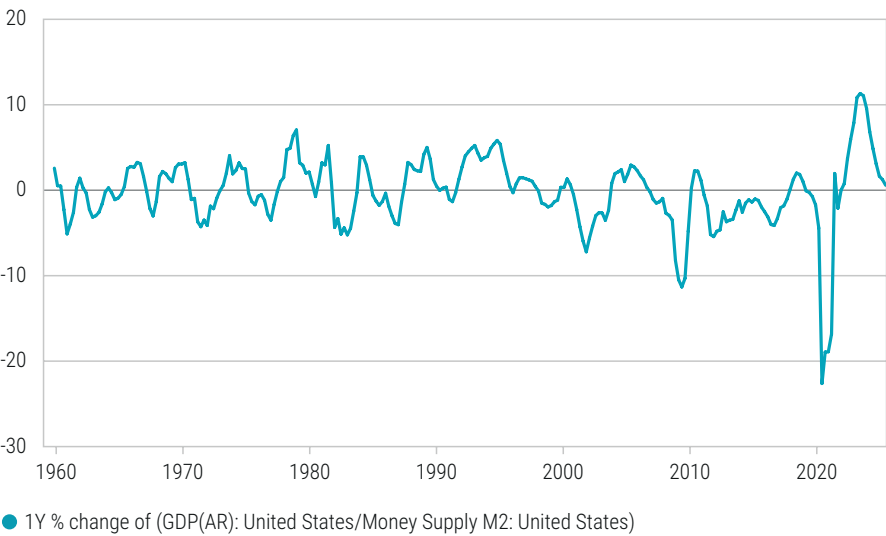
3. Past performance is no guarantee of future results. The value of your investments may fluctuate.

Figure 9: Money growth not yet conducive to see the next inflation wave in 2026 already



Source: LSEG Datastream, Robeco, 31 October 2025.

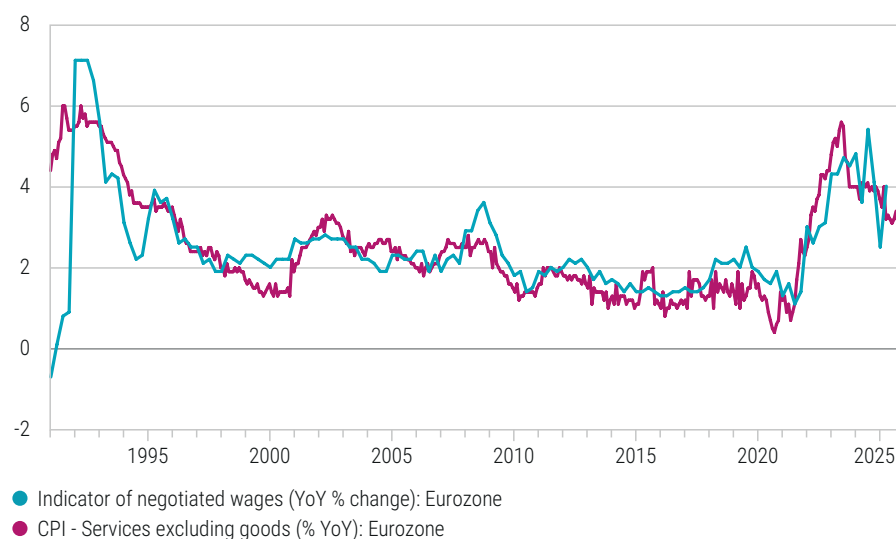
Figure 10: Money velocity is low



Source: LSEG Datastream, Robeco, 30 June 2025.

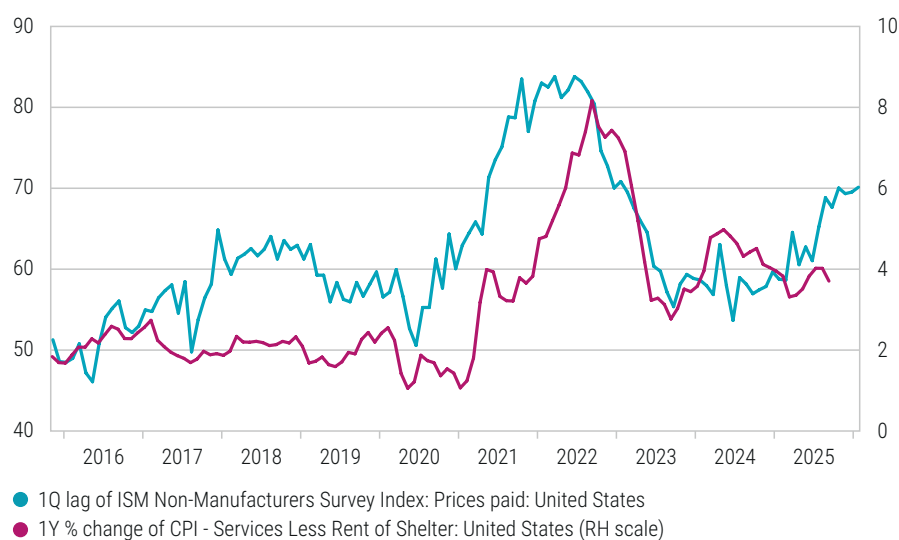
In terms of inflation dynamics in underlying inflation components, we think goods inflation could still see cyclical upside both from a lagged tariff impact and a reinvigorated global manufacturing cycle. However, its long-run trend is still mildly disinflationary as long as China struggles with industrial overcapacity. Housing inflation is expected to come down and offers a partial offset to a rising services (ex-rent) inflation.

Figure 11: Eurozone negotiated wages below 4% in H1 2026, catching down initially



Source: LSEG Datastream, Robeco, 15 October 2025.

Figure 12: US likely sees accelerating services inflation into 2026



Source: LSEG Datastream, Robeco, 6 September 2025.

Central banks in the spotlight: Navigating the easing maze

As the Fed considers itself still to be “modestly restrictive” at the current juncture, we expect more Fed cuts (75 bps toward the end of 2026). However, as we remain in a sticky inflation environment with medium-term inflation risks increasingly skewed to the upside as 2026 progresses, we expect the Fed funds rate to end above the current consensus 3% estimate by the end of 2026. Fed president Powell’s term ends in May 2026. The next Fed president could prove to be more susceptible to the Trump agenda by adopting policy rates that end up below a Taylor rule-implied policy rate. This would see policy rates below the formerly Powell-led Fed, *ceteris paribus*.

Yet, the market might be overpricing the amount of forthcoming rate cuts. First, due to constrained migration, the breakeven NFP (Nonfarm Payrolls) level is now estimated around 50K, suggesting that sub-100K NFP levels may still be broadly consistent with full employment. Second, while we expect rent inflation to decline, this is likely more than offset by services inflation ex rent. Third, sticky inflation has contributed to Trump's falling approval rating. Facing the midterms, US administration could show a waning desire to weaken the dollar.

While the ECB judges itself to be "in a good place" at the moment, we expect one more rate cut (25 bps) in 2026 even as the European recovery strengthens on the back of fiscal stimulus. First, given the degree of slack in (German) industry, there is still room for non-inflationary growth. Second, the historical lead-lag between ECB and Fed rate cuts is ten months. With the Fed expected to cut by 75 bps, pressures for another ECB cut will build in 2026. While pass-through is lower than historical norms, euro appreciation could amplify imported disinflation. Third, we haven't seen eurozone prices chasing wages this cycle, rather the other way around. This dynamic might ease concerns about second-round effects even as German unemployment improves.

We think that the market is underpricing the risk of additional rate hikes by the Bank of Japan (BoJ) in 2026. After experiencing deflation for a generation, Japanese society sees inflation as a mounting problem. A tight domestic labor market, cheap yen and higher pass-through of import prices into final CPI threatens to keep inflation sticky. Moreover, the new Prime Minister Sanae Takaichi might not deliver an exact copy of the Abenomics template, giving more leeway for the BoJ to hike.

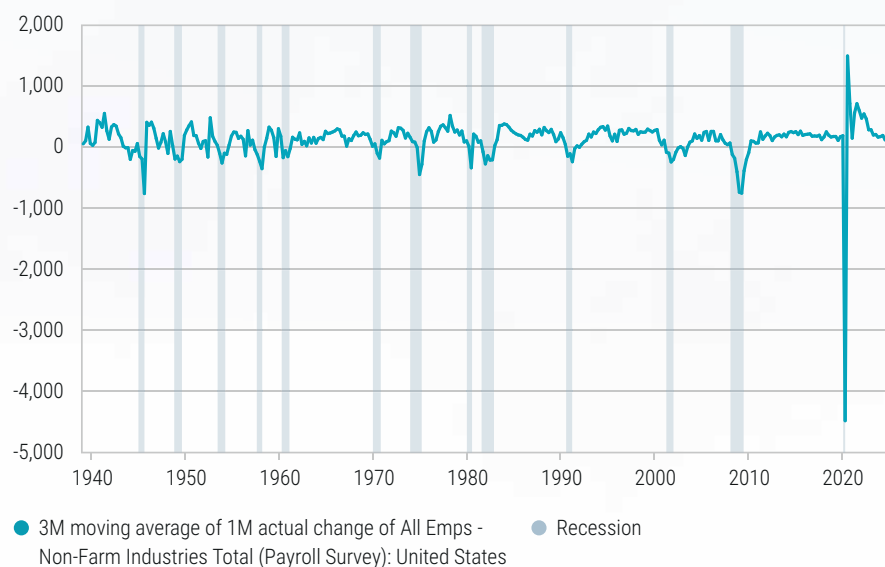
For central banks in emerging markets, we think they will largely mimic the easing stance we foresee for the Fed into 2026 as stronger currencies allow further rate cutting toward underlying neutral policy rates. For the People's Bank of China, our view of decelerating disinflation and a weaker yuan reduce urgency for aggressive cuts. ●

3. Bear and bull case

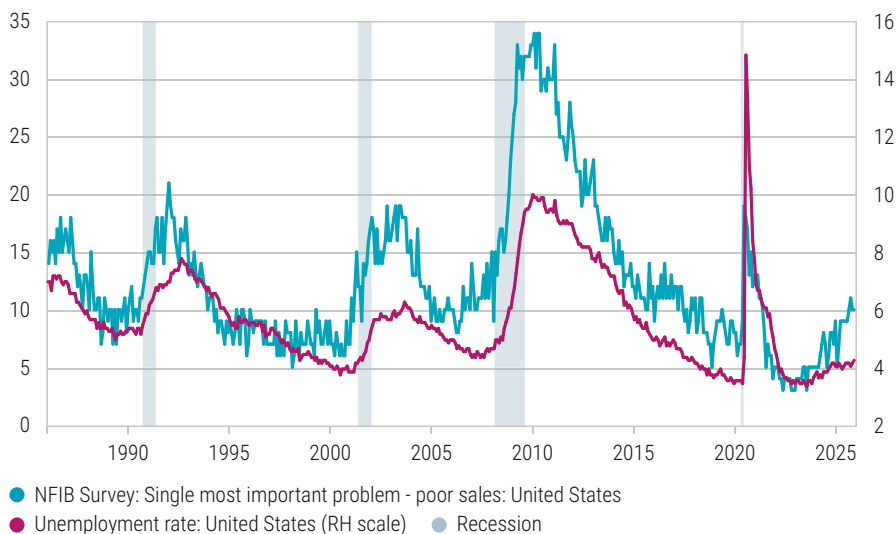
Bear case: Double decrescendo

According to the IMF, the risks are tilted to the downside in 2026. Prolonged uncertainty, more protectionism, and labor supply shocks could reduce growth. However, risks to growth are not limited to the causes the IMF cites. We agree the potential for negative supply shocks could usher in a stagflationary outcome as potential output drops faster relative to aggregate demand. But almost equally likely is a negative consumption shock in a scenario where the AI bubble bursts as Magnificent Seven earnings delivery starts to disappoint. The impact of a bursting AI bubble on growth and inflation is very distinct from a negative supply shock emanating from US policy. However, a common thread in both cases is fading US exceptionalism.

Figure 13: Weakness begets weakness



Source: LSEG Datastream, Robeco, 30 September 2025.

Figure 14: Several indicators hint at a further rise in US unemployment

Source: LSEG Datastream, Robeco, 15 September 2025.

The odds of fading US exceptionalism are non-negligible in the near term. Our recession monitor flags a 20% US recession risk. Moreover, a 29,000 three-month average payroll number as we saw in October 2025 in the US has almost always been a harbinger of US recession. The only exception has been a lucky escape in 1962 where payrolls dipped to 17,000⁴ but the expansion remained on track. In addition, there are a bunch of leading indicators that do point at a substantial further weakening of the US labor market. For instance, an NFIB survey among smaller and mid-sized companies in the US increasingly reports “poor sales” as the most important problem for these companies.

On the back of greater margin absorption during a persisting high-tariff regime, the weakness in the small-cap sector could spill over to larger companies. In that case, US unemployment jumps more than 1%, which would be consistent with a mild US recession. While typically job losses of this extent exert a disinflationary pressure, the nature of the shock (combination of negative supply shocks) leading to the downturn shows similarities with a recession caused by an oil price shock.⁵ In contrast, an AI-driven bubble bursting would see a milder unemployment impact as well as the more typical net disinflationary impact.

4. LSEG Datastream, November 2025.

5. IMF paper (2008) shows that oil-price-induced recessions typically have seen a 50 bps jump in CPI during oil-shock-induced recessions.

Bull case: Full crescendo

In the bull case scenario, a high-pressure economy develops with inflation surprising to the upside for developed economies with US real GDP growth reaching 2.9%. US exceptionalism re-establishes itself with the dollar strengthening as the debasement trade fades. The Fed has less room to cut below 3.5% given a higher neutral rate with US unemployment falling back to 4.0%. Instead, in this scenario, with inflation surprising even more strongly to the upside in developed markets compared to our base case, financial markets are frontloading another tightening cycle. Even for a more Trump-loyal Fed, inflation creeping toward 4% is getting too high for comfort.

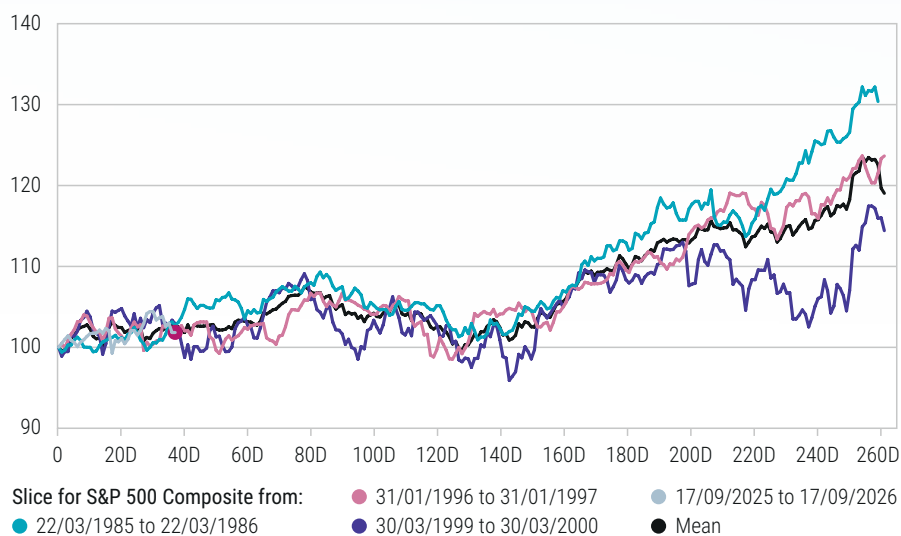
First, shocks that have held back economies get resolved. We see economic slack diminishing more rapidly in the eurozone as easing geopolitical threats proves to be a powerful catalyst to unlock pent-up demand in Europe. That diminishing slack fully offsets a slowdown on the fiscal impetus from defense expenditures. Second, a trade deal between China and the US sticks, with the US effective tariff rate declining in the course of 2026, boosting smaller and mid-sized companies in the US. Trade flows to the US recover, benefiting emerging economies' export growth. Third, next to strong export growth, China benefits from reflationary pressures. This is caused by both a recovering residential housing market following increased household formation and also the return of buyers on improved affordability.

4. Financial markets outlook

Equities: Dancing with the bulls – Are equities set for a melt-up?

Where are we in the equity cycle? First, a resumed monetary easing cycle in absence of immediate recession risk typically sees equities continue to perform well above their steady-state return of 7%.* After the Fed resumed easing after an initial pause, the S&P 500 has typically ended up 20% higher 12 months onward.

Figure 15: Resumed Fed easing cycles have seen +20% upside in next 12 months



* Past performance is no guarantee of future results. The value of your investments may fluctuate.
Source: LSEG Datastream, Robeco, 7 November 2025.

While another +20% S&P 500 rally in 2026 would be astonishing judging from the already immense rally YtD, it does signal potential for a melt-up. Second, we believe the guidance from a more Trump-loyal Fed governor taking the helm of the Fed in 2026 might also be more conducive for equity risk taking compared to the typical non-recessionary induced Fed easing cycles in the past. Third, as we hold that developed markets inflation will remain above target, but will crucially not exceed 4% in 2026, we are still in the sweet spot for harvesting strong real equity returns,* assuming no US recession materializes.

Table 1: Real returns 1875-2021

Asset class	Inflation <0%	0%-2%	2%-4%	Inflation >4%
Equities	5.5	9.8	8.2	-1.7
Bonds	8.4	3.4	1.6	-4.6
Cash	5.9	1.5	0.5	-4.3

* Past performance is no guarantee of future results. The value of your investments may fluctuate.

Source: Baltussen, Swinkels, Van Vliet, and Van Vliet (2023).

Buzzing or bursting? The AI bubble and market sentiment

Back in the late 1990s under the Greenspan Fed, a whole literature genre emerged about whether central banks should pinch asset bubbles.⁶ However, current Fed president Powell refused to comment on whether the stock market is overvalued in his press conference in October. Powell's evasion makes sense as one of the best ex-ante predictors of equity returns, the Shiller CAPE, only captures 8% of the subsequent return variance on a 24-month horizon. Moreover, the out-of-sample predictive power is negligible at a 12-month forward horizon; still anything can happen from here despite stretched US valuations.⁷

Looking at where we are in the equity market cycle from a sentiment angle, we have not entered irrational exuberance territory given subdued consumer sentiment and the AAI retail relative bullishness in the 0.3rd percentile. This is important as bursting bubbles have often been preceded by peak levels of confidence and retail margin accounts in conjunction with stretched stock market valuation levels; fear the absence of fear.

Given a global implied equity risk premium well below historical averages and the Shiller CAPE at 40, a level only exceeded once (1999) in the past 135 years, earnings delivery will be crucial in 2026. While historically stretched valuations make for a challenging starting point to 2026, a more synchronized re-acceleration of the global economy bodes well for the earnings outlook. The key focus will remain on whether the steep increase in capex to sales ratios among the hyperscalers is warranted.

6. See for instance Cecchetti, Genberg, Lipsky & Wadhwani (2000).

7. See for instance Campbell & Thompson (2008); Goyal & Welch (2008).

Will the incremental investment spend keep delivering? While current elevated sales-to-capex ratios in the US technology sector might not indicate margin compression in the next 12 months, historically the likelihood of margin compression rises afterwards. Increasingly, energy constraints emerge as the bottleneck for scaling AI, raising marginal costs. Yet, so far expected earnings growth of the hyperscalers has remained in lockstep with growth in their capital expenditures. We do not see signs of overcapacity yet. Capex is still predominantly financed by cashflows rather than debt. We are not “partying like it’s 1999”. For now, the US tech sector exhibits a buzzing instead of a bursting bubble.⁸

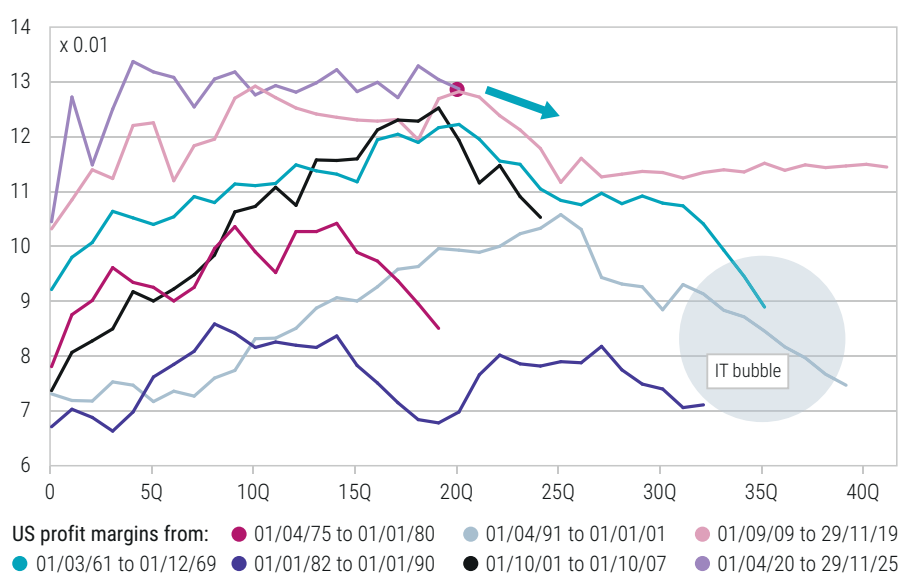
Global equity rotation: Beyond the US – Where will the next winners emerge?

Zooming out from the US, we find that the MSCI World ex US outperformed the US in 69% of calendar years⁹ that saw a depreciation of the trade-weighted dollar. Declining rate differentials and a catching up in terms of real activity of other G10 economies likely will see a lower trade-weighted dollar overall (even as there will be bouts of dollar strength). Like in 2017, this also bodes well for high-beta equity markets that are notably cheaper compared to the US equity market against a backdrop of easing global trade policy uncertainty.

We are constructive on the global profit cycle, specifically seeing upside risk to the consensus 12-month forward global EPS estimate of 8% as mid-cycle cuts usually bring subsequent global earnings upgrades. Global profit margins remain above trend. For the US, we expect some margin contraction from here until the next 12 months from peak levels but this corroborates with early late-cycle bull markets. The 1990’s NBER expansion that saw the formation of the IT bubble saw profit margins peak already two and a half years before the SPX peaked in September 2000.

Figure 16: Highly unusual to see a US recession without preceding q-o-q slump in margins

Profit margin during NBER expansion phases

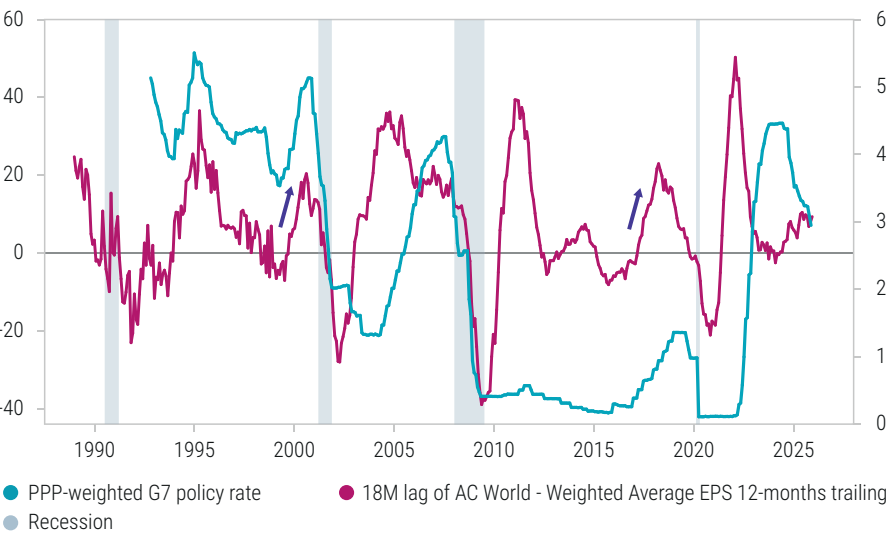


Source: LSEG Datastream, Robeco, 7 November 2025.

8. See the insight ‘Bursting or buzzing bubbles?’ published in September 2024 on the Robeco website.

9. Past performance is no guarantee of future results. The value of your investments may fluctuate.

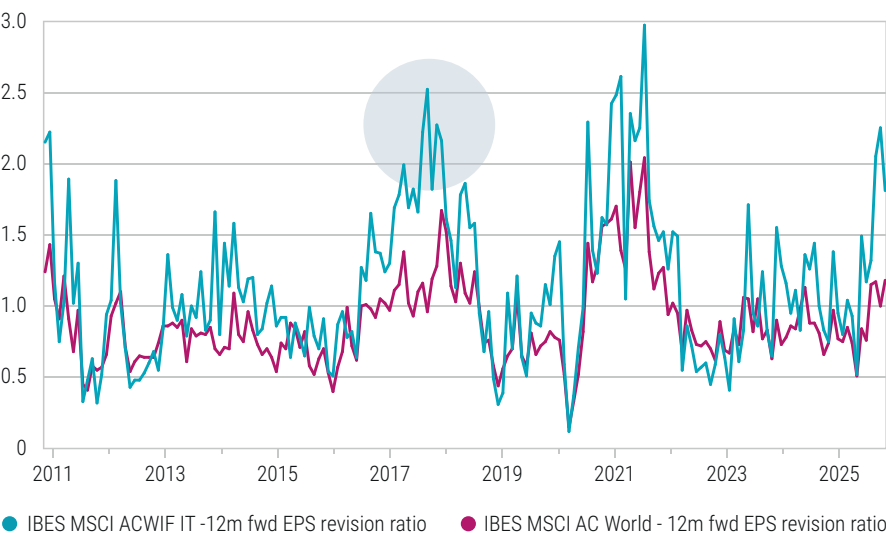
Figure 17: Mid-cycle cuts see subsequent global EPS upgrades



Source: LSEG Datastream, Robeco, 31 October 2025.

Like in 2017, we expect to see further upward earnings revisions for the technology sector in 2026, leading the way for higher earnings revisions in other sectors toward 2027. We expect some broadening out of earnings growth delivery in 2026. First, capex beneficiaries like industrials, utilities and energy companies are having a strong tailwind from initiated capex by the hyperscalers. While market views are widely dispersed about which sector stands out to benefit most from AI adoption, increasingly there are signs that Financials and Healthcare are benefiting. Second, a further reduction in trade-related uncertainty could especially help small and mid-sized companies to catch up in terms of earnings growth. Lastly, the benefits of the current easing cycle compound disproportionately on the more rate-sensitive smaller companies, lowering their cost of capital.

Figure 18: Global EPS revisions catching up with technology sector revisions



Source: LSEG Datastream, Robeco, 6 October 2025.

In further analogy to 2017, an additional weakening of the trade-weighted dollar could see emerging market equities accelerating versus developed market counterparts. As we expect earnings revisions in China to improve relative to the MSCI EM ex China, we hold there is potential for rerating of China versus EM ex China in 2026. Consensus expectations of China outperforming the rest of EM in 2026 are also subdued, making this a more contrarian trade.

We like eurozone equities on attractive valuations, weaker dollar, moderate energy prices, a further acceleration in eurozone growth spurred by fiscal stimulus, positive money growth and improving consumer sentiment.

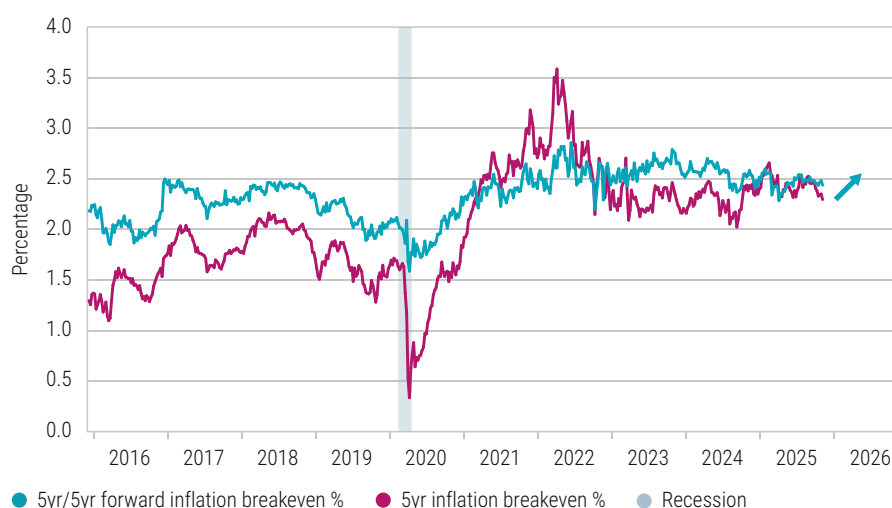
Yield curves and crossroads: Navigating the bond market in 2026

Our 10Y US fair model sees nominal yields¹⁰ upward of 4.5%, signaling downside risks for US Treasuries. In addition, a Fed resumption of rate cuts saw 10Y yields 100 bps higher in 1996 and 1999 12m onward. While nominal yields might end 2026 higher compared to today's 4% level, real yields could see downward pressure. With Trump loyalists at the Fed gaining influence in 2026, we expect a notable decline in real yields. Historically, central banks that have yielded to pressure from their country's leader on interest rate decisions have often faced the consequence of elevated inflation.¹¹

We therefore think current market-implied medium-term inflation expectations will increase in 2026. We also expect a further build of term premium as the market recalibrates the possibility the Fed will end up behind the curve (again). In addition, while lower real yields improve aggregate (labor) demand, they may accelerate asset price inflation.

Figure 19: Breakeven inflation likely higher by end-2026

US inflation breakeven rates



Source: LSEG Datastream, Robeco, 7 November 2025.

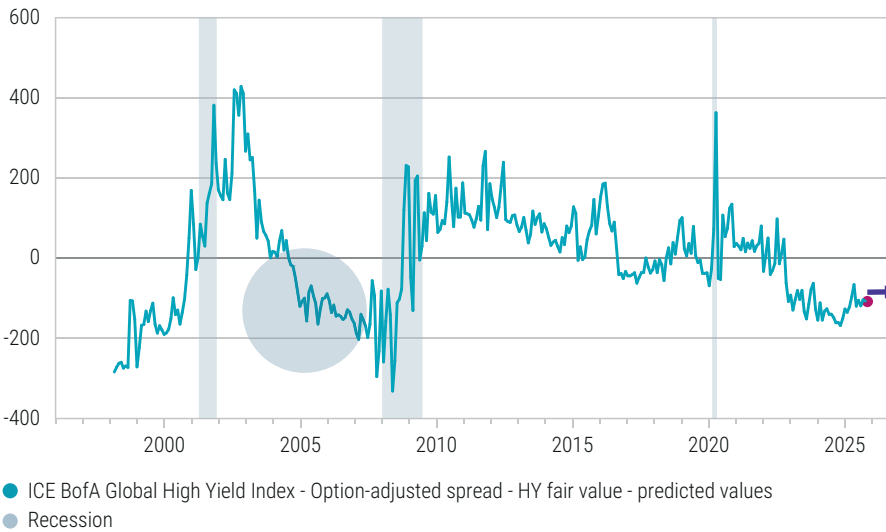
¹⁰. Past performance is no guarantee of future results. The value of your investments may fluctuate.

¹¹. See for instance BIS Working Paper No. 1028.

While technicals remain healthy, investment grade spreads are tight. Our view of long-end yields ending 2026 higher, reinforces a preference for shorter (spread) duration exposure. High yield (HY) spreads are historically stretched but financial conditions are still very easy and hint on the possibility of even further compression into 2026. A broadening out of earnings delivery will be helpful in this respect. In the early 2000s expansion, it took four years of stretched valuations before HY corrected toward its fair value spreads.

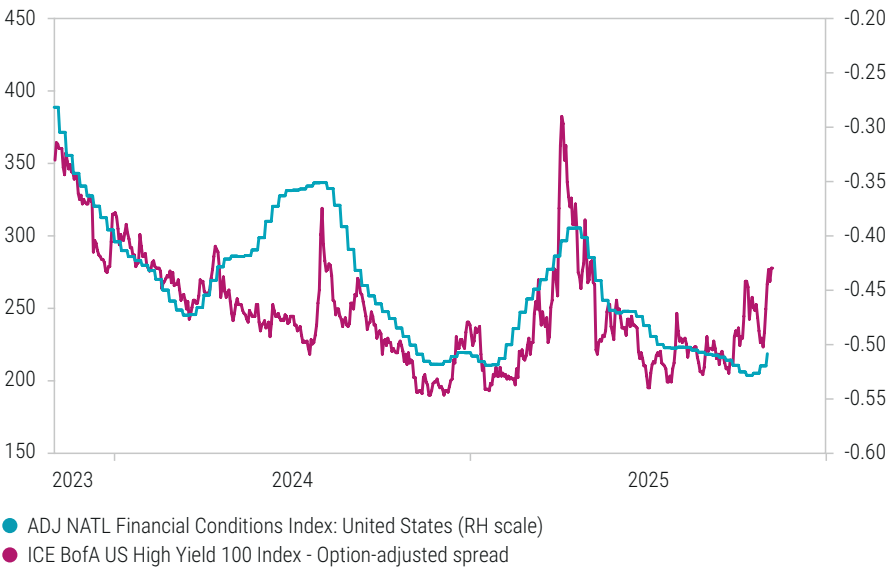
Leverage levels are still looking benign from a historical perspective with the global net debt-to-equity ratio around 2.5. This might limit the degree of any spread blowout following a systemic risk event. Yet the margin for error is narrowing and with spreads staying well below 500 bps in 2026 in our view, HY is unlikely to outperform equities. We therefore see more relative upside in equities if our base case materializes. Meanwhile, our underweight in HY will also give us downside protection if our bear case materializes. For EMD, an asset class sitting in between HY and investment grade (IG), we expect inflows persisting in an environment of monetary easing, a weaker dollar and reasonable carry especially versus developed market investment grade alternatives.

Figure 20: It took four years of overvaluation before HY corrected (2004-2008)



Source: LSEG Datastream, Robeco, 29 September 2025.

Figure 21: Still room for further compression

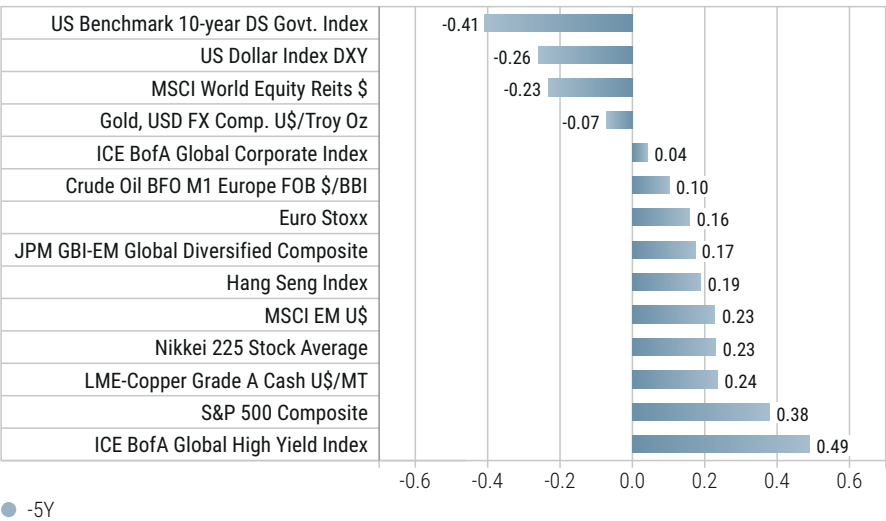


Source: LSEG Datastream, Robeco, 7 November 2025.

Show me your mettle

In light of a synchronized cyclical upswing, we think that industrial metals have room to rally. A cyclical growth proxy, the copper/gold ratio, is subdued versus the ISM manufacturing confidence indicator. As such, industrial metals could start to outperform gold once the global manufacturing cycle starts to improve. Gold still has secular upside as gold miner capex is not overextended and worries about Fed independence and sticky inflation flare up in 2026. Capping upside for gold in 2026 are a disappointing number of Fed cuts and our synchronized shift in real activity alleviating fears about stagflation.

Figure 22: Historical beta of 1Y returns to 1Y change in ISM manufacturing



Past performance is no guarantee of future results. The value of your investments may fluctuate. Source: LSEG Datastream, Robeco, 7 November 2025.

A background image showing a person's foot in a black shoe pressing a button on a control panel. The panel has several other buttons and a joystick. The image is dark and moody, with a blue curved shape in the top left corner.

5. Summary

Tail risks and triggers: What could derail the rally in 2026?

First, risk that was deemed idiosyncratic could become systemic. For example, recent bankruptcies in the US automotive sector have been shrugged off as episodic. However, FRED data shows allowances for loan and lease losses across US commercial banks have been showing a steady build. Second, both our bull and our bear case pose challenges for risky assets. Our bull case of a high-pressure economy with inflation surprises surging is not as benign for risky assets as it might seem.

Assuming institutional guardrails at the Fed are still present, US core PCE trending above 3.75% again will start to ring alarm bells, giving the Fed cause to think about hiking instead of cutting. Assessing a sustained increase in core PCE again as “transitory” might not resonate well with financial markets. Our bear case of a mild US recession could see a 30-40% equity sell-off if history rhymes. There is a clear negative correlation between ex-ante CAPE levels and the magnitude of recession-induced S&P 500 peak-to-troughs over the past 125 years. Also, equity markets do tend to wobble around midterm US elections. Mind the tail.

Please note that due to the US government shutdown, US official economic data which might have been relevant for assessing the 2026 outlook, has not been available for analysis.

When the music plays on

Financial markets are procyclical by nature. As long as the music is playing, you’ve got to get up and dance (a quote from former Citigroup’s CEO Charles Prince in 2007). Right now, the music is still playing. While the emergence of the synchronized shift might herald the transition toward the finale, it is (like the Neapolitan chord) not an ending. ●

Table 2: Six top-of-mind risks for the tactical outlook and their impact on growth and inflation

#	Scenario	Growth	Inflation
1.	US recession due to a breaking rather than bending labor market	↓↓	↓
2.	A high-pressure global economy and captured Fed	↑	↑↑
3.	AI ecosystem implosion, gold crash; a bursting instead of a 'buzzing' bubble	↓	↓
4.	Renewed trade-related uncertainty (Supreme court rulings, US-China deal breakdown)	↓↓	↑
5.	European NATO member calls in Article 5	↓	↑
6.	The potential for systemic events stemming from private (credit) markets	↓	↓

Source: Robeco, 7 November 2025.

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