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# Market outlook for 2026

**JM Finn's Head of Investment Office Jon Cunliffe gives a top-level view of what 2026 could have in store for markets and economies globally, before taking a more in-depth look at their stance on regions and sectors for the final quarter of 2025.**



**Global stock markets look set for a good year in 2026, with double digit gains possible across both developed and emerging markets.**

## Overview

Global stock markets look set for a good year in 2026, with double digit gains possible across both developed and emerging markets. This view is based on wider earnings growth, lower interest rates and fewer policy obstacles. The United States and Asia are the main drivers, helped by an AI led investment cycle that is boosting business investment and profits. The recovery is uneven, however, creating clear winners and losers and feeding political discontent in some places.

## United States

The US economy and policy are moving in the same direction. We expect the Federal Reserve to cut interest rates to about 3% by the end of the year, with the possibility of deeper cuts if politics push policy further towards easing. Under this scenario, an S&P 500 level of 7,700 — roughly a 13% total return — looks plausible. If rate cuts are larger and inflation falls, the index could reach 8,000, though a weaker dollar would reduce returns for investors outside the US.



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### Companies and markets

Corporate profit margins could rise a little from already high levels, helped by productivity gains from AI. We expect earnings growth in developed markets in the low to mid teens percentage range. A small group of AI leaders now makes up a large share of the US market and has driven much of the recent gains, supported by rising investment in equipment and research. Companies should keep returning cash to shareholders, but investment spending may grow faster than buybacks. For investors, the best opportunities are likely among high quality firms that benefit from AI, especially in technology, communications and utilities, with selective exposure to banks and pharmaceuticals. Quality growth and momentum strategies should do well, while small cap and low volatility holdings can help diversify if the Fed eases more aggressively.

### Europe and the UK

Europe is in a stronger position than it has been for two years. Credit conditions are improving and fiscal support is being rolled out, so earnings growth could match the US. Valuations look attractive and cautious investor positioning leaves room for upside, especially in Germany and France. Companies tied to construction, industrial upgrades and capital spending should benefit from planned stimulus. The EU's planned spending on defence and infrastructure — around €1 trillion — and looser deficit rules should help mid sized firms. In the UK, shares trade at a notable discount to peers; the market's heavy weighting in consumer staples, healthcare and commodities offers some protection against inflation, rate swings and geopolitical shocks.

### Japan

Japan's outlook rests on steady policy and reform. "Sanaenomics," a continuation of reflationary fiscal policy, plus corporate governance changes, should free up cash, encourage investment, lift wages and increase shareholder payouts. Companies have already started buybacks, asset sales and higher dividends, and households are beginning to move savings from cash and bonds into equities.

### Emerging markets

Emerging markets should outperform as local interest rates fall, earnings growth outpaces developed markets, governance improves and fiscal positions strengthen. Valuations are supportive. China should see a policy led pick up in activity early in the year. Korea is well placed thanks to governance reforms and a strong role in practical AI applications. More broadly, Emerging Asia should benefit from faster growth and a weaker dollar, allowing more scope for monetary easing. Latin America could also gain from lower rates and elections that favour market friendly policies, despite local risks.

This positive outlook depends on continued supportive policy. It could be derailed if the recent era of easy liquidity and low interest rates ends suddenly. A sharp rise in long term bond yields would be the most likely trigger. Overall, however, we expect policy to remain supportive.



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## Asset Allocation and Sector Focus

As part of our focus on providing a high quality, personalised investment service, our Investment Office look to support our investment managers in their decision making when it comes to constructing client portfolios.

Our asset allocation committee is one example of this, via their monthly output showcasing their views on a global basis; this is then complemented by a sectoral view from the stock selection committee. The combination of these top down and bottom up opinions is an important resource for our investment managers to validate their own investment theses or to generate new investment ideas.

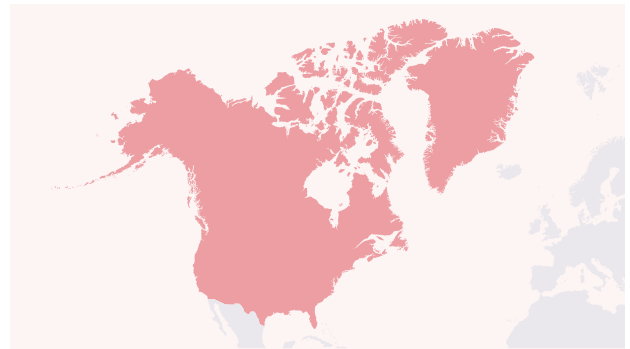
These committees, which form an important element of our Investment Office, consist of research analysts and a number of investment managers. The output of the monthly meetings remains a suggested stance and it is important to note that the views expressed are those of the committees and may not necessarily be those of your individual investment manager.

Here we present a snapshot of the current views from the Investment Office.

- Overweight
- Neutral
- Underweight

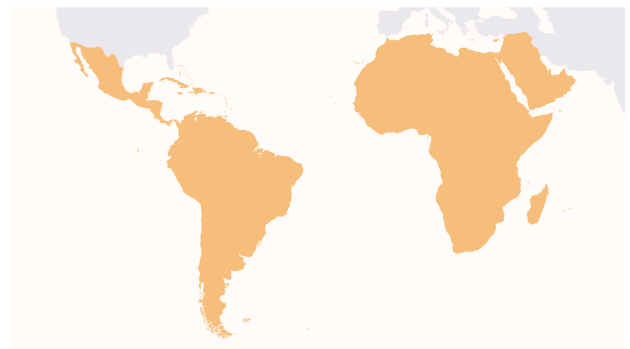
## Asset Allocation

### North America



The US economy is growing moderately, but inflation remains above target. The Federal Reserve is shifting focus away from inflation to labour market softness, with markets expecting further rate cuts. Equity earnings and valuations are buoyed by anticipated easier monetary policy. However, declining interest rates and large deficits may weaken the US dollar, reducing returns for Sterling investors. Higher long-term Treasury yields threaten mega cap tech valuations. We maintain an underweight rating.

### Emerging Markets



Latin America (LATAM) is navigating uneven macroeconomic conditions. Commodity rich economies may benefit from global demand or supply tightness, while others face inflation, fiscal and political strains. For equities, LATAM offers valuation appeal and dividend yield potential, especially in sectors tied to commodities or domestic growth surges. However, volatility is elevated, and there are risks of substantial currency swings and policy shocks. Whilst the prospect for a weaker US dollar is a helpful market backdrop, evolving US trade policy keeps uncertainty somewhat elevated and we therefore retain a neutral weighting.

## UK



Having delivered solid growth in the first half of the year, the UK business cycle is in danger of stalling. With inflation and high wage growth, the Bank of England has been reluctant to cut interest rates swiftly to respond to continued weakness in the labour market. However, significant fiscal consolidation is likely to weigh on growth and inflation in the months ahead – we anticipate several more rate cuts. Whilst valuations are attractive, fiscal consolidation supports a neutral rating.

## Japan



Japan's economy has emerged from decades of deflation. Structural reforms, particularly in corporate governance, are likely to enhance profitability, creating a supportive backdrop for equities. While Japan's growth outlook remains modest, improving cost of capital and shareholder-friendly initiatives suggest potential for valuation re-rating. Despite US trade policy risks, the appointment of Takaichi as Prime Minister suggests a more reflationary and market friendly policy tilt, so we remain constructive on Japanese equities.

## Europe



The Euro area economy shows signs of resilience despite the challenges of labour market rigidities, sluggish productivity and US trade policy. 2025 growth should far exceed 2024 – and with inflation hovering around the 2% target, the European Central Bank has been able to maintain a supportive monetary policy. Tailwinds include planned defence and industrial spending. Whilst there are risks of trade shocks and political uncertainty, the policy tilt toward growth suggests the region may outperform expectations. We continue to favour an overweight stance.

## Asia Pacific



Asia stands to benefit from the technology and semiconductor cycle, with much of the manufacturing base located in the region. Furthermore, the growing trend of supply chain diversification is shifting production and foreign direct investment into ASEAN economies. Valuations in many Asian equity markets remain attractive and the prospect for a weaker US dollar will allow regional central banks to keep monetary policy supportive of growth. We therefore retain our overweight stance.

## Sector Focus

● Overweight ● Neutral ● Underweight



### Communications

The communications sector is concentrated around a few large US companies, including Alphabet and Meta. Some parts of the sector have benefitted heavily from exposure to the AI theme, however this has come with increased capital intensity. Whilst AI-driven profits are still yet to materialise, the increase in capital expenditure needs to be monitored. We remain underweight, given increased capital intensity and valuations.



### Consumer Staples

The sector is stabilising as inflation gradually moderates and supply-chain pressures ease. Consumers continue to shift toward value channels and private-label products. Overall, the sector offers steady defensive characteristics and resilient cash flows, though upside may be limited until stronger real income growth emerges. We upgrade to a neutral stance, balancing the sector's stability against its muted growth prospects.



### Financials - Banks

Financials performance continued to be strong and in the UK, the sector outperformed. US banks also performed strongly. Banks are driven by economic growth and the subsequent impact this has on interest rates. We believe the path of interest rates is downwards, but with the gap between short-term and longer-term rates remaining wide, this remains a helpful backdrop, so we retain a neutral stance.



### Consumer Discretionary

The sector benefits from persistent demand in areas like travel, online retail and experience-led spending. That said, consumer budgets are becoming more stretched, and tariff risks remain a headwind. We maintain an overweight position, focusing on segments where demand is more resilient (e.g., digital experiences, travel, premium services) and valuations are attractive, while remaining selective given the sector's sensitivity to economic cycles.



## Energy

The oil price has continued to be subdued throughout the quarter and the Brent Crude price has continued to shift downwards. Oil company performance has been better, with many majors delivering strong share price performance. The 2026 oil price risk is tilted downward, barring geopolitical disruptions or aggressive production cuts. As a result, we expect the oil majors will prioritise financial discipline, optimise legacy assets and scale green ambitions pragmatically.



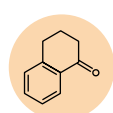
## Health Care

Health care performance picked up in the quarter as President Trump's policy on drug pricing appeared more benign than expected. A first deal struck with Pfizer and the US administration has led to a change in sentiment for the sector. Fundamentally, these remain defensive businesses with non-discretionary cashflows. Even with the recent pick up in performance, health care stocks continue to look like good value, so we retain our overweight recommendation.



## Industrials

Industrials have been a mixed bag in the year to date. Those delivering robust growth have largely had some connection to the AI datacentre theme and have been rewarded with rich valuations, which are beginning to look a little expensive. Aside from this trend, global industrial production numbers continue to remain muted. All things considered, we move from neutral to underweight on the sector given where valuations now sit.



## Materials

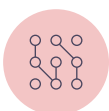
Copper prices rallied in the quarter and continued a strong performance year to date, which translated into good performance for the mining stocks, many of which have large exposure to copper. Iron ore prices were flat through the quarter, in contrast to a strong performance in precious metals. We expect a recovery in copper demand during 2026, including from China, which accounts for more than 50% of global copper consumption. In light of this, we remain neutral.



## Utilities

Power utilities continue to outperform water in 2025 with the market

increasingly appreciating the important role suppliers of power across the globe are set to play in the expansive roll out of AI datacentres. In contrast, water in the UK continues to be overshadowed by the need to overhaul outdated infrastructure that requires significant investment against a backdrop of constrained balance sheets. We remain neutral, with a preference for power.



## Information Technology

AI continued to be the dominant driver of technology sector performance. Q3

results demonstrated generally strong demand for AI-related products, however this was coupled with another significant increase in capital intensity. The increasingly circular nature of tech investment also began to concern investors. Whilst we continue to see the long-term structural outlook for the sector as positive, valuations look stretched and so we retain our underweight position.



## Real Estate

Real estate markets continued to recover, and demand for commercial

real estate is solid. The sector is interest rate sensitive as this affects the price of their property portfolios, and they are heavily financed by debt. As we look ahead to 2026 there are grounds for measured optimism incorporating a modest recovery in housing, strong rental growth, and commercial resilience in logistics and the broad residential investment market.



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## About the author

Jon Cunliffe is Head of JM Finn's Investment Office and has over 30 years' experience in the City. He has previously been the Chief Investment Officer at Charles Stanley

and worked at Aberdeen Asset Management, ABN AMRO, Lombard Odier and the Bank of England – where Jon began his career, having gained a degree from Cambridge in Theology.

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