PULSE SURVEY

January 2026

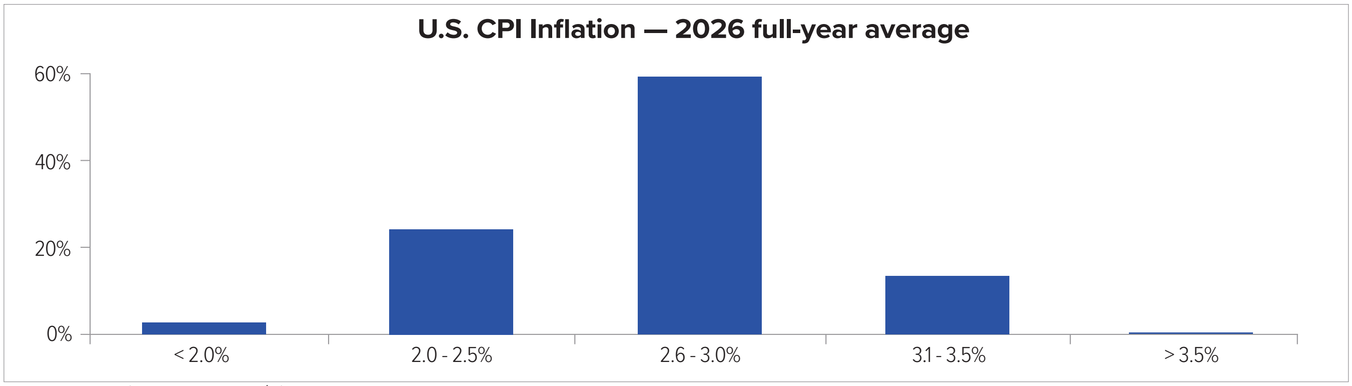
Taking the Pulse for 2026

With the finish line for a robust 2025 in sight, we surveyed our sub advisors in mid December to gauge their base cases for growth, inflation, policy and market leadership in 2026. Thirty-eight respondents of 61 sub-advisors surveyed point toward **moderate global growth, lingering but manageable inflation and a cautiously constructive backdrop for risk assets** – with an emphasis on **breadth, value and emerging markets.**

Insights From Our Pulse Survey

Macro: Growth, Inflation and the Federal Reserve

- **Global growth outlook:** Nearly three-quarters of respondents (73%) anticipate global gross domestic product (GDP) growth of **2% to 3%** in 2026, forming the clear base-case outlook. Smaller groups of respondents project growth above 3% (14%) or below 2% (13%), highlighting a range of views but strong consensus around moderate expansion.
- **U.S. inflation outlook – Consumer Price Index ("CPI"):** Respondents suggest inflation is continuing to cool, though not fully back to the Federal Reserve ("Fed") target. A majority of respondents (59%) expect full-year CPI to average between **2.6% and 3%**, forming the central consensus. Additional respondents see inflation settling between 2% and 2.5% (24%), while 14% anticipate a slightly higher range of 3.1% to 3.5%. Expectations for inflation below 2% or above 3.5% were uncommon, reinforcing the view that disinflation is progressing but remains incomplete.



Source: American Beacon Advisors

- **Fed stance:** Respondents largely expect the Fed to continue easing policy in 2026. More than three-quarters of respondents (76%) anticipate **net interest rate cuts of 50 to 100 basis points (0.5% to 1%)**, making this the dominant outlook for 2026. Another 19% expect the Fed to hold rates steady, while just 5% foresee more aggressive easing of more than 100 basis points (1%). Notably, none of the respondents expect rate hikes, underscoring broad consensus that the Fed's next move is toward accommodation rather than tightening.

Rates and Dollar

- **U.S. Treasury yield curve (two-year vs. 10-year, December 31, 2026):** The dominant expectation is a **modestly positive yield curve** of roughly 100 basis points (1%), cited by 81% of respondents. Smaller shares anticipate a flat curve (11%) or a very steep curve exceeding 200 basis points (3%). Respondents point to lower front-end rates, rising term premia and fiscal dynamics as the primary drivers of curve steepening.
- **U.S. dollar outlook:** A majority of the respondents (54%) expect the **U.S. dollar to weaken**, while 30% foresee it remaining range-bound. Fewer respondents anticipate a stronger dollar (8%) or heightened volatility swings (5%).

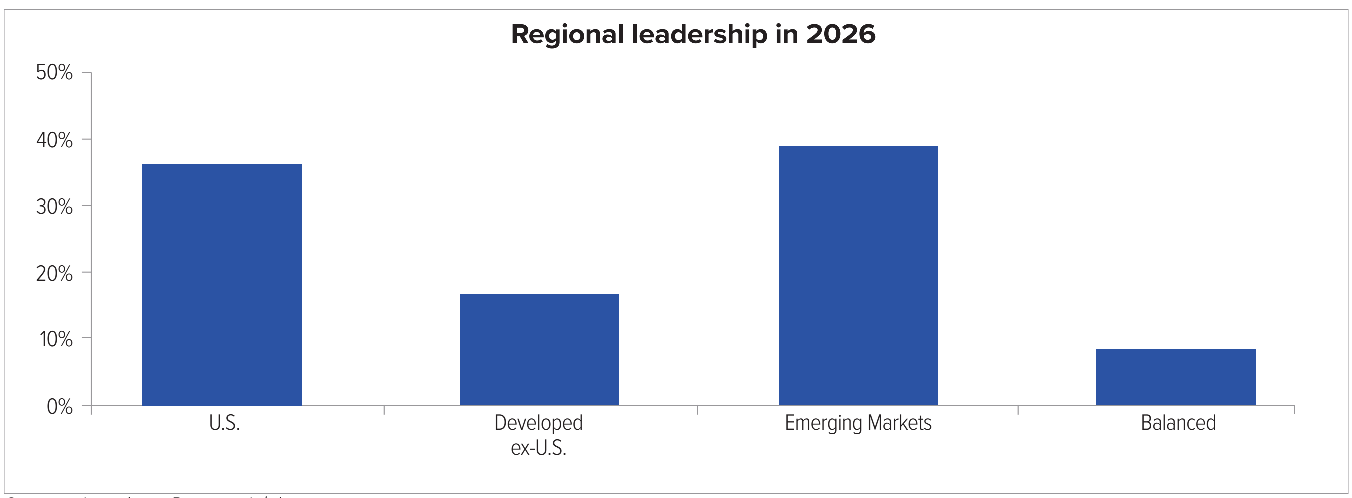
Equities

Earnings and Breadth

- **S&P 500 Index earnings per share (EPS) growth (year-over-year 2026):** Respondent expectations center on mid-single-digit to low-double-digit growth. A majority of respondents (56%) anticipate earnings growth of **6% to 10%**, while 31% expect stronger growth of 11% to 15%. A smaller cohort (13%) projects more modest growth of 1% to 5%.
- **Equity breadth (equal weight vs. cap weight):** A clear majority of respondents (69%) expect **equal-weighted** U.S. equities to outperform cap-weighted indices, reflecting concerns around valuation concentration and expectations for mean reversion among mega-cap stocks.

Style and Region Leadership

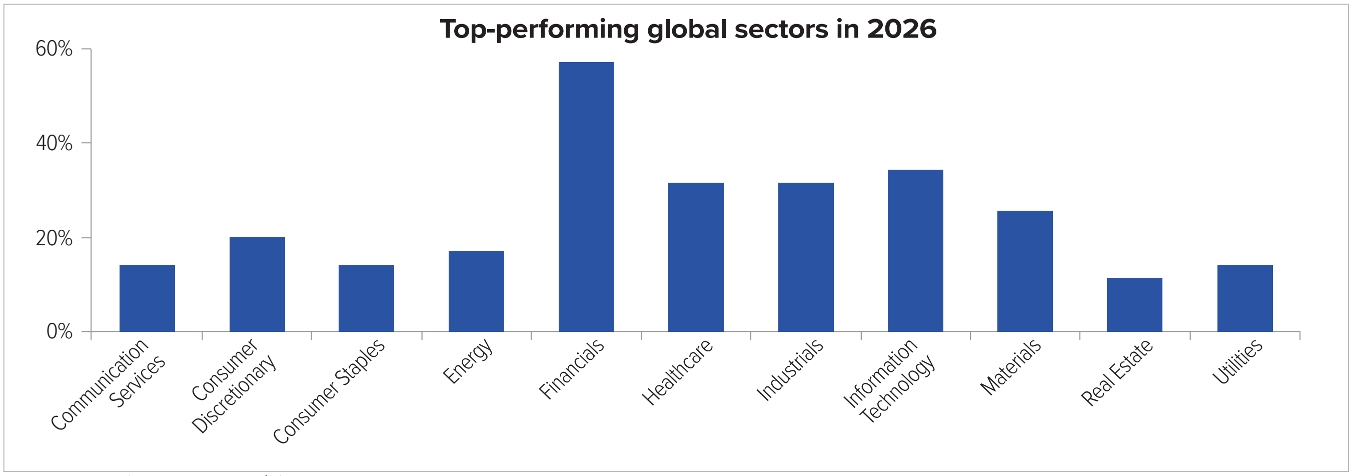
- **U.S. equity style leadership: Value-oriented styles** dominate expectations, with Large-Cap Value (34%) and Small-Cap Value (31%) leading respondent preferences. Large-Cap Growth (17%) ranks third. Commentary highlights a balance between attractive valuations supporting value investing and increased macro sensitivity – particularly for small-cap stocks.
- **Regional equity leadership: Emerging Markets** (39%) are modestly favored to lead performance, slightly ahead of the U.S. (36%), while Developed markets ex-U.S. (17%) and Balanced (8%) trail. This reflects a tilt toward Emerging Markets driven by valuation opportunities and supportive policy dynamics.



Source: American Beacon Advisors

> ***"While risks remain elevated, Aberdeen expects the global expansion to continue, driven by ongoing technology investment and supportive fiscal policy. Investors should stay alert to potential surprises in commodity markets and shifts in regional equity leadership."***
>
> **- Kevin Daly**
>
> ***Investment Director, Emerging Market Debt,***
> ***Aberdeen Investments***

- **Sector views: Financials** top the list (57%), followed by Information Technology (34%), Healthcare (31%), Industrials (31%) and Materials (26%). The mix reflects cyclical breadth plus structural themes in Information Technology and Healthcare.



Source: American Beacon Advisors

- **Factor views:** Nearly half of the respondents rank **Value** as leading in 2026, supported by attractive valuations and a rotation away from expensive growth. **Quality** was a close second as respondents expect strong balance sheets and earnings resilience to outperform.

Fixed Income

- **Top performance rankings:** The aggregate scoring places **Emerging Market Debt** at the top, followed by **High Yield ("HY") Corporates** and **Investment Grade ("IG") Corporates.** Intermediate Government, Agency Mortgage-Backed Securities ("MBS") and Non-Agency MBS form a middle cohort, while IG Municipals and HY Municipals round out the bottom in this cross-asset ranking.
- Comments highlight **starting yields, steepening curves** and **relative value** in non-U.S. (including local currency) exposures.

Artificial Intelligence Theme

- **Views are split:** Many **do not** see a broad bubble yet but acknowledge **pockets of overvaluation, capital intensity and circular financing risks.** Others anticipate a **necessary correction that reprices risk and resets Artificial Intelligence ("AI") economics** while leaving the long term thesis intact.

Risk and Opportunity Themes

- **Geopolitics:** Half of respondents cite **Taiwan/U.S.-China** as the primary geopolitical swing factor, consistent with concerns around supply chains, semiconductors and potential policy shocks. **Russia-Ukraine/Europe** and the **Middle East** collectively form the next tier of risks, often tied to energy markets and shipping chokepoints. A sizable minority points to **U.S. political dynamics** (elections, deregulation and civil unrest) and **trade/tariff** volatility as market relevant risks, potentially affecting inflation, growth and equity leadership.
- **Dark horse:** Respondents largely framed a "dark horse" in financial markets, or an unexpected winner/contender, around **structural shifts** (Japan repatriation, Emerging Market valuation and European renaissance); and **underappreciated tailwinds** (AI productivity and energy technology).
- Themes suggest dispersion and **active management** will matter more in 2026 than broad beta exposure.

In Summary

As we look ahead to 2026, our Pulse Survey respondents paint a picture of cautious optimism tempered by structural shifts and latent risks. While the base case calls for moderate growth, easing inflation and a supportive policy backdrop, respondents emphasize that dispersion, not direction, will define the year.

- Active management stands out as critical, given expectations for broader equity leadership, factor rotation toward value and quality, and regional opportunities in Emerging Markets.
- Fixed income offers compelling income potential, particularly in Emerging Market debt and credit, amid a steepening curve and dollar weakness.
- Risks remain real as geopolitical flashpoints, fiscal strain and evolving AI economics could challenge consensus views.

In short, 2026 may reward investors who combine selectivity, flexibility and vigilance, positioning portfolios to navigate uncertainty while capturing opportunities across asset classes.

American Beacon's commitment to providing access to a broad range of high-quality investment strategies and products through our best-ideas open architecture platform, extends to also providing you the best thinking from our 25-plus sub-advisor relationships. Our periodic *Pulse Survey* provides you with insight into what they are anticipating for the months ahead.

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Pulse Survey numeric results may be rounded for simplicity and percentages may not equal 100% in total.

Basis Points: Is a unit of measure used in quoting yields, changes in yields or differences between yields. One basis point is equal to 0.01%, or one one-hundredth of a percent of yield and 100 basis points equals 1%.

Consumer Price Index: A measure that examines the weighted average of prices of a fixed basket of consumer goods and services (such as food, transportation. shelter, utilities, and medical care), and is widely used as a cost-of-living benchmark.

Macroeconomics: Deals with aggregate variables like national output, inflation, unemployment and government policies (fiscal/monetary).

Macro Finance: Studies the interplay between the real economy and financial markets, including asset pricing and risk.

Non-U.S. Domiciled: Any company or entity whose primary base of operations is not in the United States.

Term Premia: Often called "term premium," refers to the extra yield investors demand to hold a longer term bond instead of rolling over a series of short term bonds.

Valuation: The process of determining the value of an asset or company. Stock analysts determine the value of a company based on current and future earnings, the market value of the company's assets and the balance sheet. A company with a high price-to-earnings ratio is said to have a high valuation or be highly valued. Bond analysts determine the value of a bond based on projections of future interest rates, and they use their valuation to determine whether a bond should be bought or sold at its current price.

Volatility: A statistical measure of risk. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index. Commonly, the higher the volatility, the riskier the security.

Yield: The annual return on an investment, expressed as a percentage of the price. For stocks, yield is the annual dividend divided by the purchase price, also known as a dividend yield. For bonds, it is the coupon rate divided by the market price, called current yield.

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