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Market Outlook 2026

XTB Insights

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Capital at risk. Investment values can rise or fall.

By Kathleen Brooks, research director at XTB

The Macro Outlook

The global economy has brushed off a series of shocks in 2025 and has continued to expand. Our main scenario for 2026 is that the global economy remains resilient, growth continues to develop, and the chance of a global recession is slim. In the US, Bloomberg's recession probability indicator suggests there **is a 30% chance of a recession in the next year,** and this has trended lower since the middle of 2025. There is a **20% probability of a recession in the Eurozone, and a 25% chance for the UK.**

As we look towards the new year, it is worth reflecting on 2025. Overall, activity has held up well, and the global composite **PMI index rose to 52.9 in November, the highest level in 17 months.**

This is consistent with a **3% annualized global GDP rate**. The growth outlook was supposed to be **derailed by President Trump's tariffs,** but they have not yet had a materially negative impact on the global economy.

The question is why has the global economy been so resilient and can this continue? There is no doubt that the global economy has been resilient in the face of a series of shocks in recent years including the Covid pandemic and the ensuing hike in global interest rates. **Consumer spending has continued to move forward despite these challenges.**

To understand why, we need to take a look at recent history. Since the financial crisis, the global economy has become more flexible, which has given it the capacity to adjust to shocks like reciprocal tariffs that rocked financial markets earlier in 2025.

However, we cannot forget that tariffs are now a reality for the global economy. The current **US average tariff rate is 16.8%,** this has fallen slightly over the course of the year as the Trump administration has made changes and adjustments to trade levies, according to researchers at Yale University's The Budget Lab.

This is still the highest rate since 1935. The fear is that the impact of tariffs is delayed, and we are all on a steep learning curve when it comes to the impact of US tariffs on economic growth. For example, part of the reason why growth has held up so well in 2025 is down to front-loaded consumption, particularly in the first half of this year. **US imports were running well above average, as you can see below, but they have normalized in recent months.**

Chart 1: US goods imports

Source: Bloomberg and XTB. Past performance is not a reliable indicator of future results.

If consumption has been front-loaded, then it could slow next year, which is a risk for the US economy and global growth. Inflation trends are another risk for the US economy in 2026.

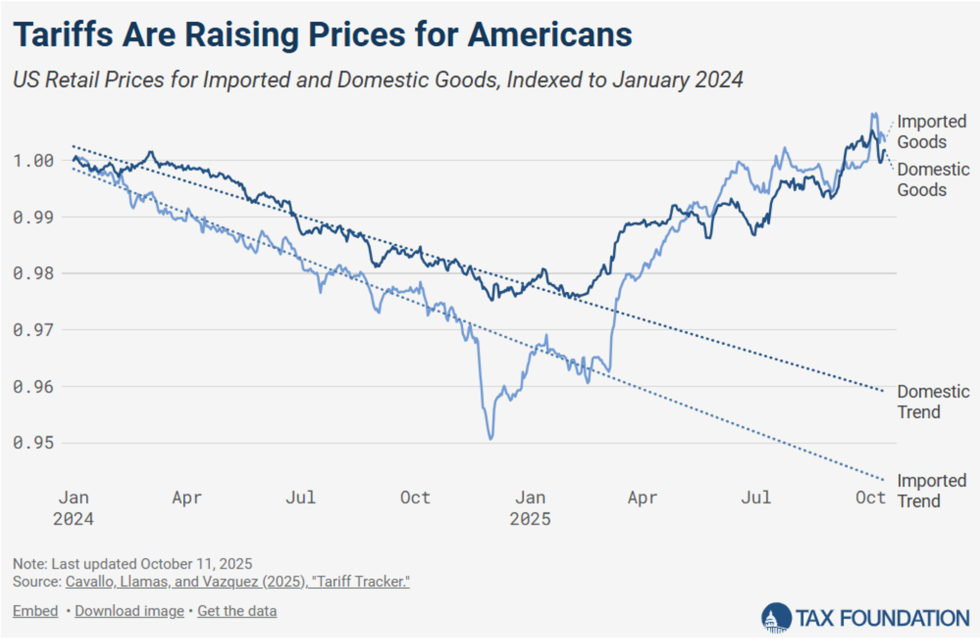
The **Tax Foundation estimates that tariffs have raised overall US retail prices by 4.9% compared to the pre-tariff trend.** Imported goods price inflation in the US has been rising ahead of domestic goods price inflation, and both are trending higher, as you can see below.

The Tax Foundation notes that while the effects of price increases from tariffs are small compared to the actual size of the levies, this could change in the coming months.

They argue that the inflation impact from tariffs has been moderate so far due to:

1. Some firms operate on a contract basis, and may **have locked in prices for the year ahead before tariffs came into effect.**
2. Uncertainty about the tariff regime has meant that more businesses have decided to absorb the impact of tariffs rather than pass price increases onto the consumer, and finally, some **firms have been drawing down on existing inventory.**

Chart 2: US imported goods prices, vs. US domestic goods prices



Source: The Tax Foundation, Past performance is not a reliable indicator of future results.

This chart clearly shows that US inflation has risen as a result of tariffs. If the **US Supreme Court allows tariffs to remain in place, then we should expect more price hikes in the US during the Holiday season and into 2026.** The OECD expects the US's average inflation rate to **be 3% in 2026, up from 2.7% this year.**

While global inflation rates are expected to normalize in the coming year, we do not expect price growth to return to pre-pandemic norms**, and getting US and UK inflation back to central bank target rates** could prove to be a long road as headline prices are expected to remain sticky.

Interestingly, while the trend could be for higher prices in the US, **tariffs could dampen inflation elsewhere.** If US consumption falls in 2026 then this could reduce export demand and put downside pressure on wages and **price growth in Asia and Europe, and the future path for inflation will not be uniform across regions and nations.**

The US government shutdown is expected to shave 0.8% from Q4 GDP, however, it is not clear if this will have a material impact on overall **Q4 GDP figure.** The Atlanta Fed's GDPNow estimate for **Q4 GDP growth is 3.9%,** which is significantly ahead of consensus. While we think that this estimate is too high, **we doubt that growth will fall off a cliff in Q4,** and instead the US economy will show the resilience we have become accustomed to.

Growth in Q1 should also remain resilient. In part, **rising prices could be a headwind for US households,** however, this could be balanced out by the tax cuts that will boost US household incomes. Overall, we believe that the US economic outlook **remains bright in 2026.**

Growth will benefit from a mechanical rebound following the end of the government shutdown, and the **effects of the expected Federal Reserve rate cut at the end of 2025.** While US GDP is unlikely to **match the 3.8% rate from Q2, we expect growth to remain above 2%, and to average between 2.1% and 2.4% in 2026.**

However, there remains big risks to the outlook for the world's largest economy. Weak hiring trends, AI -related layoffs and K-shaped consumer trends, with low earning consumers remaining fragile, are all risks to the US economic outlook. Other risks include **a sharp stock market correction,** especially in **AI-related stocks,** and any sign that huge AI capex investments are not paying off.

Not only would this hurt investment trends in the US economy, but it would also hurt the outlook for middle and high income consumers, as their wealth would take a knock from a stock market crash. It is worth noting that a sharp slowdown in the US economy is not our central scenario for 2026, however, we do see uneven growth in the US next year.

The OECD predicts that US growth will slow in 2026 to 1.7% due to a cooling in employment growth, a sharp reduction in net immigration to the US, the inflationary impact from tariffs and cuts to non-defense government spending.

The OECD also highlights fiscal risks in the US. While they are unlikely to come home to roost in 2026, in the coming years the US will **have to face the fact that the US public finances are not on a sustainable path, as persistent fiscal deficits have pushed the debt to GDP ratio to its highest level since the Second World War.** Thus, tax cuts may only be a temporary boost for US economic growth.

Overall, we expect the US economy to remain on a relatively similar trajectory in 2026 to 2025; but if it can weather the shutdown of the US Federal government, then it may start the new year on a strong footing. Risks do abound, especially linked to the labour market, but we think that these will be an issue in the second half of 2026, with growth remaining strong in the first months of the year.

Noteworthy risks: The November mid-term elections will be in focus. **Traditionally you see the incumbent Presidential party do badly in this election, although a swing to the Democrats from the Republicans in the Senate is a big ask at this stage.**

However, we could see the White House switch to more domestically focused, less controversial policies in the run up to the mid-terms. Thus, tariffs could be on the back burner, and measures to reduce the cost of living could be front and centre as we move through 2026. Any relative stability from the US could help global risk appetite.

The Eurozone: Germany vs. France

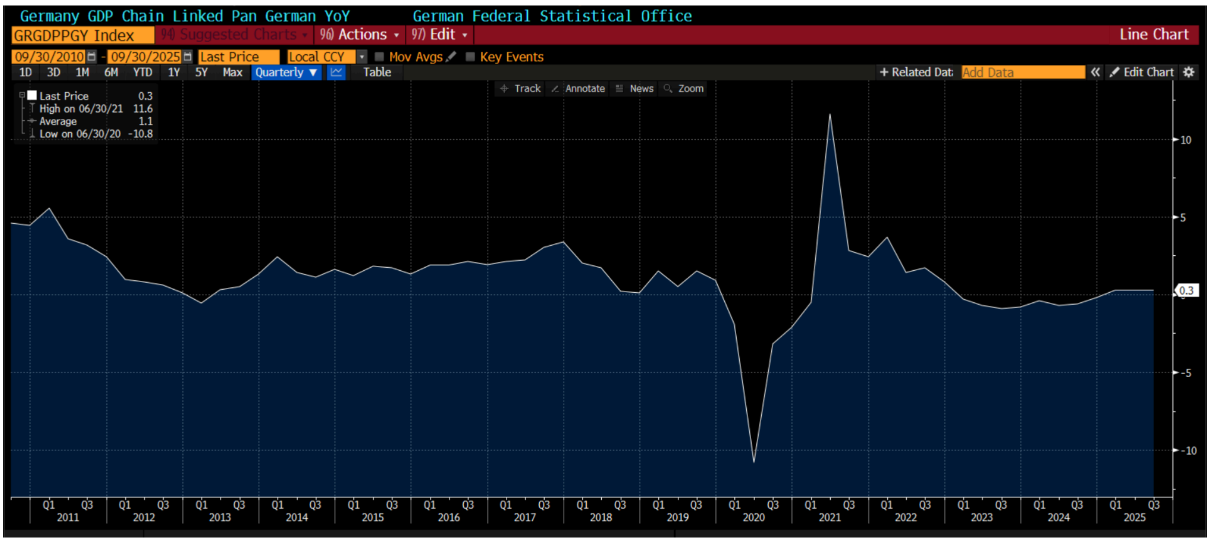
Growth in the currency bloc has been surprising on the upside this year, and analysts have upgraded **their forecasts for 2025 GDP to 1.4%.** Consumption rose in 2025, as real incomes picked up and inflation fell. Real income growth is expected to come in **at 1.3% to 1.4% for 2025,** and along with resilient labour markets across the bloc, this could sustain growth into 2026. Combined with decent consumer strength, other drivers of the **Eurozone economy next year include the delayed effects of ECB rate cuts, more investment, especially in the AI space, and a major boost from Germany** in the form of government spending on defense.

The OECD expects the rate of Eurozone growth to fall **slightly in 2026 to 1.2% in 2026, from 1.3% in 2025.** However, the driver of growth will change in the currency bloc in the coming months and years. Germany will shift from being a drag on growth, to providing a positive headwind in the form of fiscal expansion and a major boost to defense spending.

Noteworthy risks: Looking ahead, there could be tension at the heart of the Eurozone next year, with **Germany's fiscal momentum coming up against France's political and fiscal instability.** If the latest round of French budget negotiations fail, then then this could trigger fresh parliamentary elections. **Presidential elections are not scheduled until 2027,** but another bout of political instability could force President Macron's hand to call an early election.

The prospect of a win for the National Rally, the far-right political **party led by Jordan Bardella,** poses an **existential threat to the broader EU.** Its stance on Europe could challenge the EU's cohesion and hurt the euro, which is likely to react to any volatility in French politics. While an election is not **scheduled for France in 2026,** the shadow of the **next French Presidential election** could hang over the Eurozone next year.

Chart 3: German GDP



Source: XTB and Bloomberg, Past performance is not a reliable indicator of future results.

UK:Cautious Optimism

The mood music around the UK economy is not good. Fears about the economic outlook abound, and the UK economy's growth rate is expected to slow slightly in 2026. The OECD predicts that growth will **be 1.2% in 2026, down from 1.4% in 2025.**

This is below the **OECD average rate of 1.7%**. However, the UK's economic growth rate is still expected to be higher than **Japan, France and Germany.**

There are downside risks to consider. For example, the fiscal effect of the recent budget is expected to weigh on consumption and confidence, which leaves the UK open to downside risks for growth in the coming year.

Although most of Rachel Reeves's tax measures will not come into force until later in this parliament, the contractionary impulse may **already impact consumer and business behavior in ways that will limit the UK's growth potential.** This could restrict consumption and keep the UK's saving rate high.

The fiscal consolidation measures included in the recent Budget should dampen inflation as well as rebuild the fiscal space. However, the lack of growth-boosting measures in the Budget remains a concern.

This may be balanced by **loser monetary policy in the coming months.** Just over two rate cuts are expected between now and September 2027 and the terminal rate is currently expected to be just under **3.5%.** This slow unwind of monetary policy restriction could provide some relief to consumers, however, we do not think that the economic benefits will bear fruit until 2027.

Overall, it is worth noting that the UK has a habit of outperforming growth forecasts, however, we think that while the UK's growth rate will be favourable to the rest of the G7, it may not be enough to put to bed fears about further tax grabs from the government, which could limit business investment and consumer confidence.

Bond yields in the UK were surprisingly stable in the last quarter of this year. In the last 3 months, the **10-year bond yield has fallen by 10bps,** and **Gilts have outperformed all other global bond markets aside from Argentina.**

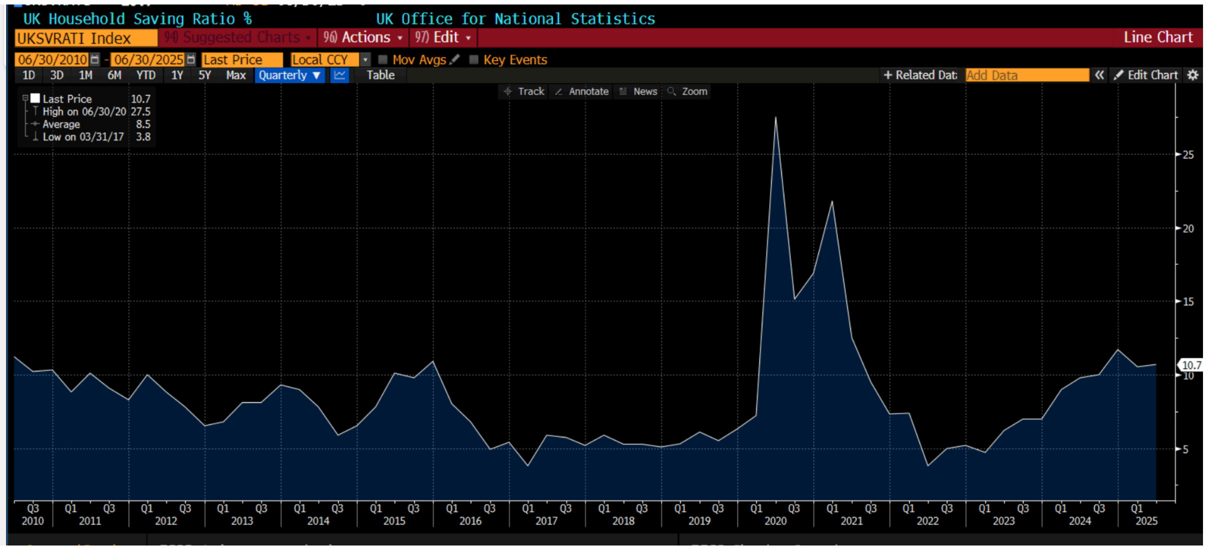
For 2025, Gilts have outperformed their European counterparts, but US Treasuries remain the top of the pack. Even so, the resilience of Gilt yields to fiscal risks in the UK has surprised some, and signs that UK yields are normalizing after a protracted period of volatility could help sterling.

Noteworthy risks: While we expect UK bonds to continue to perform well in the first quarter of the year, it may not be such a rosy picture for Q2. **The local elections on 7th May are a major political risk for bond and FX investors in the UK.**

The result of these elections could lead to a change of direction for the Labour party, and potentially a leadership challenge to Keir Starmer. It is hard to see Labour swinging further to the left, after **Chancellor Rachel Reeves's extreme left wing Budget last month.**

However, a leadership challenge from someone with centrist political views like Wes Streeting, could be welcomed by the bond market and boost the growth outlook for the UK.

Chart 4: UK Savings Ratio



Source: XTB and Bloomberg, Past performance is not a reliable indicator of future results.

The outlook for global stocks and earnings

There was a major shift in global stock markets in 2025: the US equity market is no longer the lead performer. The **S&P 500 recorded a dollar gain of 16% YTD,** this compares **with an 18.5% gain** for the **FTSE 100, a 19% gain for the Dax, a 43% gain for Spain's Ibex, and a 26% gain for Italy's FTSE MIB.** Global stock indices have made record highs this year, from Africa to South America. Asian equity indices also had a strong year and outperformed their US peers. **Japan's Nikkei rose by nearly 25% and the Hang Seng rose by more than 28%.**

The US remains an earnings powerhouse, return on equity in US indices remains above **16%, compared with 10% for the rest of the world.** The **S&P 500 also had a strong Q3 earnings season**.

Q3 revenue growth **was 8.4%,** the largest increase since 2022, on average, the S&P 500 reported the **highest net profit margin in 15 years, and there was a 33% decline in the number of companies citing 'tariffs' on their earnings calls compared to Q2, according to FactSet.**

So, what went wrong for the US stock market? Technically, nothing went wrong in the US, and instead it was a victim of its own success. High valuations hindered the main US blue chip index, with fears rising about excessive valuations, particularly for the tech sector.

The AI theme had an outsize role in driving US equities for most of 2025, **it was also the key driver of capex growth in the US.** This led to a 2-speed equity market in the US, especially since the post-tariff recovery in April.

The equal weighted S&P 500 has underperformed the market-cap weighted index, which is dominated **by the mega-cap tech stocks and 11 companies that are worth more than $1 trillion each.**

Chart 5: S&P 500 and the equal weighted S&P 500

Source: XTB and Bloomberg, Past performance is not a reliable indicator of future results.

However, **tech stocks recently had a wobble and there has been a reshuffling at the top of the tech food chain, with Google becoming the new star of the AI space, overtaking Nvidia.** Added to this, the **Magnificent 7 tech stocks recorded their weakest rate of earnings growth in Q3 since Q1 2023.** At 18.4%, earnings growth is still strong, however, it is well below the 28.8% average earnings growth for the last four quarters.

A slowdown in earnings growth for the biggest US companies is a worry and an opportunity. It raises an important question about the sustainability of big tech's capex spending, and it may raise concerns that even if the AI bubble does not burst, it could slowly deflate.

However, **in Q3, as the Magnificent 7's earnings growth moderated,** other sectors were able to play catch up. More sectors reported positive earnings growth, and earnings growth outside of the tech **sector rose above 6.8%.** Added to this, earnings growth outside of the **US rose to 7.8% in Q3, the highest level for 3 years.**

The fact that the US tech sector has dominated global equity markets for so long is highly unusual, and a normalization at this stage is to be expected.

Thus, we expect to see a continuation of the current trend in global equity indices into 2026, with more sectors playing catch up with the tech sector in the US, and the potential for indices particularly in Europe to continue to outperform the US.

We believe that investors may pay ever more scrutiny to the US tech sector and to the AI trade in the coming year. **This could be good news for European equities,** since they are not full of tech stocks, and they offer a decent alternative to the US.

Historically, **earnings growth for the S&P 500 has followed the US manufacturing sector closely,** but stock market earnings have run well ahead of the manufacturing sector for most of this decade.

Thus, the 2-speed equity market rally mirrors the 2-speed economy in the US, and if the AI bubble bursts, then the US economy could be exposed.

Our base case is that the US equity market does not crash in 2026, even if there are pockets of volatility. Overall, we think that stocks in the US will continue to trade at high valuations. **The average P/E ratio for the S&P 500 is 25 times earnings growth, which is well above average.**

However, that has been accompanied by a higher level of investor returns, and payout ratios are running **at 70-80%, compared to the average rate of 50%- 60%.** This partly justifies the higher valuations of US equities. However, if we see a sustained sell off in tech stocks, or a further slowdown in earnings growth, then this payout ratio could be in jeopardy.

Overall, we think that the time is right for global indices to continue to play catch up with the US in 2026, and we expect to see further outperformance of European equities.

The US equity market will still be an important part of investors' portfolios, and we do not expect investors to ditch the US anytime soon. **However, there could be more modest upside for US stocks from here, with some analysts calling for a high of 8,000 for the S&P 500 next year.**

Global monetary policy easing, especially in the US and the UK could also take the edge off any macro-economic headwinds in 2026, which may also allow for continued outperformance in growth and cyclical sectors of the stock market on both sides of the Atlantic.

The UK index remains attractive to investors on a valuation basis. **The P/E ratio of the FTSE 100 is 14.4, the highest level since 2021,** but still significantly lower than the S&P 500.

Chart 6: Global indices P/E ratios, the US remains a key outlier

Source: XTB and Bloomberg, Past performance is not a reliable indicator of future results.

Equities: What to watch out for in 2026

IPOs: **There was a significant increase in the global IPO market in 2025,** with global IPOs raising a total of **more than $110bn in the first 9 months of the year. India** had the largest number of deals, while on the sector front, technology and financial IPOs were the most popular.

We expect this trend to continue and **grow further in 2025**. The AI theme may have taken some knocks in recent months; however, it has not gone away, and tech fundraising has been strong in 2025.

Expectations are that **Shein**, the Chinese fast fashion retailer, **will finally IPO**. It is unlikely that this will be in the UK or the US, as deteriorating relations with Beijing means that the fashion giant will likely choose an Asian index to list on. However, at an estimated **valuation of $66bn,** Shein will be a major IPO for 2026.

Other notable names that are set to list next year include **Canva**, with an expected valuation of **$42bn**, and **Figma** at **$20bn**. The UK has had a record-breaking year for fundraising, which could boost the chance for a much needed tech IPO on home shores next year. **Femtech firm FloHealth recently reached a £1bn valuation, so it is worth watching what this company does next.**

The main event in the IPO space next year would be a potential listing for one of the LLMs including **OpenAI or Anthropic.** This would likely **lead to an AI frenzy and would be the stock market event of the year.** There is no sign yet that this will happen, however, the pace of change in the AI space is astonishing, so we cannot rule out a mega cap IPO in the coming months.

Three Stocks to watch:

1. Apple: There has been a resurgence at Apple in 2025. **Revenues surged in Q3** and a gross profit margin of 47.2% is also enticing investors, along with its operating margin, **which is at its highest level for a decade**. The stock price **is higher by 14% YTD**, after turning around a 20% loss earlier in the year. Its valuation remains high compared to the overall market, however, at 38 times earnings, it is lower than many of its tech peers.

Apple has also made an impressive pivot **away from hardware and towards software,** such as services and **buying in AI technology to expand its offering.** Apple may have been late to the AI party, but it is expected to play catch up in 2026, and at a better valuation than many of its peers.

2. FTSE 100 and BAE Systems: It's been a strong year for the UK equity market, and the top performers have **included gold miners, defense stocks and financials.** The UK market has a bright outlook for 2026, with relative political stability, at least until local elections in May. **There are BOE rate cuts expected in the coming months,** and growth is expected to remain stronger than our nearest European neighbors like France and Germany.

Energy costs could stabilize and earnings per share could grow by 12%, according to some analysts, which is significantly higher than the recent trend. **Thus, the FTSE 100 could be in focus in the new year.** If we see the US tech sector wobble in 2026, then the UK index could attract more inflows due to its lack of tech exposure.

The **UK index is coming back into investors' consciousness after a solid performance in 2025.** Companies such as **BAE systems** may extend gains into 2026, as it has a $27bn order book, which provides earnings assurance into the future. If the AI bubble starts to look fragile, then the UK defense sector could provide a reliable harbor in the storm.

3. LVMH: The outlook for the French luxury powerhouse for 2026 is cautiously optimistic. The stock price **has risen by more than 13%** so far this year and there could be more upside to come. Hopes are high for a **recovery in sales in key markets such as China.**

Consumption of luxury goods is expected to remain **elevated in Europe and the US**, and strong sales growth is expected. The company's largest brands, such as Louis Vuitton and Dior are expected to remain the key drivers of earnings growth next year.

Added to this, **fashion trends could also boost the outlook for luxury stocks.** A move away from quiet luxury towards maximalist designs may also boost sales in its key brands in the coming months.

The future for Gold: Will Gold continue to glitter in 2026

Last year, we made a good call on gold. It was our top pick, as we weighed up the odds that the world's oldest safe haven would remain in high demand. The call turned out to be correct, the gold price is higher by 60% YTD.

A call on silver would have been more lucrative, **it is up by more than 100% YTD**, however, gold easily outperformed global stock indices, and reached multiple record highs on the way.

The question now is, **where will gold go next?** Since gold doesn't yield anything, it will depend on external factors. For example, we could see gold surge in value if US inflation rises on the back of tariff pass through next year.

Some analysts are forecasting gold to rise sharply to $5000 in 2026, that would be an uplift of approximately $800 from where the yellow metal is trading today.

Several gold investors surveyed by investment bank, Goldman Sachs, expect the gold price to maintain its current upward momentum, and a number of institutional investors continue to see gold extending gains next year, with only a minority expecting a pullback.

This is significant, since it suggests that demand may continue to come from both the retail and institutional markets, **which could provide a powerful driver of demand in 2026, even after a stellar performance in 2025.**

A weaker US dollar, concerns about an AI bubble, and geopolitical concerns could all underpin demand for the yellow metal in the coming months. To sum up, we believe that the gold rally ain't over yet.

Chart 7: Gold and the S&P 500, normalized to show how they moved together in the past year.

Source: XTB and Bloomberg, Past performance is not a reliable indicator of future results.