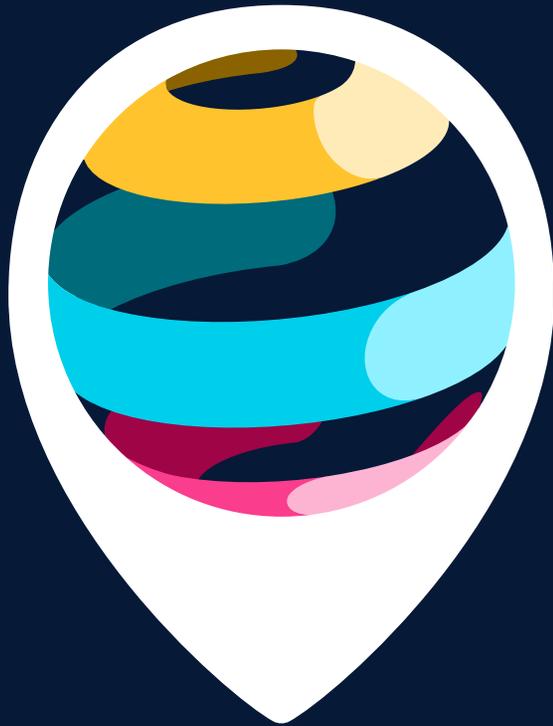




T.RowePrice



2026 Global Market Outlook

Minds, machines, and market shifts

Minds, machines, and market shifts



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Artificial intelligence (AI) is no longer just a promise—it's powering measurable change across the global economy and financial markets. After years of hype and speculation, the AI boom has crossed a critical threshold: Ideas are becoming infrastructure, and investor focus is shifting from AI's potential to its profitability.

This transformation is most visible in the surge of investment into physical infrastructure—data centers, semiconductor manufacturing, energy grids, and more—driving robust economic growth, particularly in the U.S. Major spending incentives and legislation are set to amplify AI's impact in 2026, supporting productivity even as other regions, such as Europe, contend with the aftereffects of tariffs and weaker manufacturing demand.

Yet, as markets rush to capitalize on these opportunities, stretched valuations in key AI-related sectors are fueling concerns over a potential bubble. The speed and scale of capital deployment have led to areas of speculative activity and anxiety about whether current prices reflect sustainable earnings or unsustainable exuberance. Investors must now balance excitement about technological transformation with disciplined research and a clear-eyed approach to risk.

Meanwhile, the world continues to grapple with powerful non-AI forces. Inflation remains stubborn

in many developed economies, exacerbated by expansionary fiscal policies, tariffs, and labor market shifts. Growth trajectories are diverging, with the U.S. showing resilience while Europe and China face headwinds from front-loaded demand and ongoing structural challenges. Geopolitical uncertainty—from trade tensions to the war in Ukraine—adds further complexity to the global outlook.

Equity markets are broadening, with leadership moving beyond the original AI mega-cap names to include companies building the physical backbone of AI and those positioned to benefit from broader sector rotation. International and small-cap equities are increasingly attractive, supported by fiscal stimulus and improving cyclical conditions outside the U.S.

In fixed income, higher yields and increased supply from government deficit spending underscore the importance of disciplined credit selection and the appeal of inflation protected securities. Private markets are experiencing a revitalization of dealmaking and lending, driven by demand for AI infrastructure and a more transaction-friendly regulatory environment.

For multi-asset portfolios, agility is essential. Successful navigation will require balancing exposure to enduring AI leaders with emerging opportunities in cyclical and international markets, all while remaining vigilant to persistent macro risks. The age of speculation is giving way to real-world results, but investors must be mindful that old challenges—valuation, inflation, and geopolitical uncertainty—remain firmly in play.

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Fiscal expansion to propel U.S. economy in multispeed world



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Look for the U.S. economy to shake off its growth scare from the second half of 2025 and outperform expectations in 2026 as AI spending and fiscal expansion provide support. Europe, on the other hand, could lag consensus estimates because the front-loading of tariffs in 2025 has drained meaningful manufacturing demand. In emerging markets, inflation and debt levels are reasonably under control, but tariffs are a wild card whose effects may take years to play out.

Fiscal expansion to strengthen U.S. capex tailwind

AI-related capital expenditure (capex) has significantly boosted U.S. growth in 2025, and the capex incentives in the “One Big Beautiful Bill Act” (OBBBA) should only strengthen that tailwind next year. The beneficial effects of the Federal Reserve’s (Fed) late-2025 rate cuts will add to the U.S. economy’s health in 2026. The labor market may be able to pull out of its stalemate between a low level of jobs added and minimal layoffs, moving toward expansion.

But inflation remains an overarching risk. With U.S. government debt at more than 120% of gross domestic product (GDP)¹ even as inflationary policies such as tariffs and immigration restrictions have a growing impact, the Fed will have difficulty returning inflation to its 2% target. Expectations for rate cuts in 2026 seem to overestimate the amount that the central bank will ease, and it may not be able to lower rates next year at all.

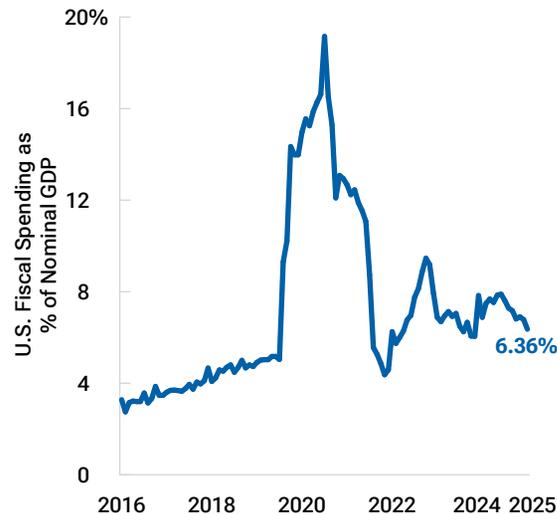
¹ Source: Bloomberg Finance L.P.

Fiscal spending is increasing globally

(Fig. 1) U.S. on upward trend while German fiscal set to jump

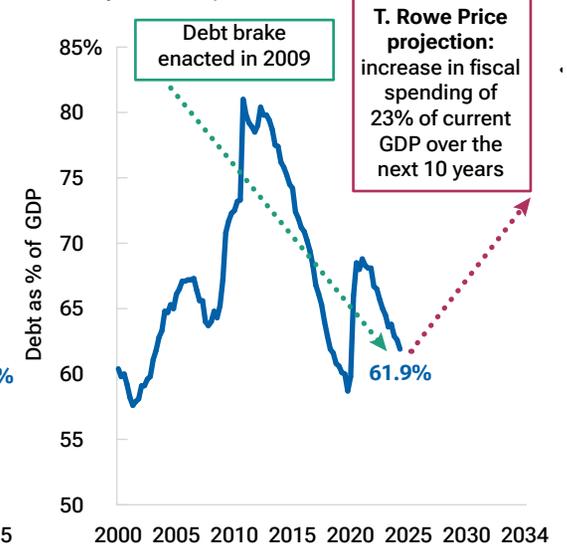
U.S. Fiscal Spending (Rolling 12 Months)

January 2016 to September 2025



Germany Total Government Debt/GDP (Maastricht Definition)*

January 2000 to April 2024



Sources: Bloomberg L.P., Bureau of Economic Analysis, Macrobond/National Federation of Independent Business. Right hand side chart shows actual data through April 2024 and then T. Rowe Price projections from May 2024– May 2034. 61.9% is as of April 2024. **Actual future outcomes may differ materially from estimates.**
* Face value of total consolidated gross debt, including currency and deposits, debt securities, and loans.

ECB could lean dovish

There was much front-loading of European exports to the U.S. in 2025 to get ahead of tariff implementation, so eurozone manufacturing may be weaker than expected in 2026. This could surprise the European Central Bank (ECB), shifting its policy stance more dovish. Germany's very large fiscal expansion is likely to drive German bund yields higher, in turn dragging all eurozone yields up. This tightening in financial conditions would be another factor leading the ECB to ease. There is also the risk of currency-driven cuts if the euro strengthens beyond USD 1.20.

Political pressure in the UK is likely to drive some fiscal consolidation, albeit from levels that are quite expansionary. In response, the Bank of England should be able to ease rates more than is currently priced in.

Japan has overcome the opposite problem of other developed markets: deflation. In fact, the Bank of Japan (BoJ) appears to be behind the curve on tightening monetary policy. We expect labor shortages to cause wage inflation, building on the existing food inflation. With Japan's new government, more fiscal stimulus is likely, adding fuel to inflation and leading the BoJ to eventually hike policy rates by more than expected.

Inflation under control in emerging markets

Inflation and debt levels are under control in emerging markets—particularly in Asia—relative to their history. In contrast with developed economies, emerging markets have made strides toward reducing their debt burdens over the last 10 to 20 years. Emerging market growth looks decent, if a bit on the sluggish side. The global trading system has proved to be reasonably adaptable to tariffs so far, but the ultimate impact on emerging markets will take years to play out.

The tariff situation with China remains particularly unsettled. The country's "anti-involution" campaign to reduce production of commonly exported goods should increase their prices, further complicating global trading relationships. Chinese domestic economic data are likely to continue to soften, and its housing industry remains under pressure. However, the People's Bank of China seems reluctant to ease, preferring to use quantity-based tools to allocate credit to favored sectors, although one rate cut in early 2026 is not out of the question.

Key takeaway

The U.S. economy is shaking off the 2025 growth scare, but the eurozone may lag as tariff front-loading weighs on manufacturing.



Global macro and monetary policy guide 2026



Growth



Inflation



Monetary Policy

U.S.

Fiscal stimulus and technology spending are expected to support economic growth.

Inflation is likely to rise and remain above the Fed's target, driven in part by the effects of tariffs.

Unless growth unexpectedly weakens, no interest rate cuts are expected in the first half; beyond that, the outlook is uncertain, with a new Fed chair taking office at the end of May.

Eurozone

As the impact of tariffs sets in and front-loading fades, economic growth could weaken in the first half.

A stronger euro, potentially lower oil prices, and disinflation from wages are likely to push inflation lower.

There is potential for another interest rate cut in this easing cycle in March 2026.

Emerging Markets

A constructive global environment should be beneficial for emerging market growth.

Inflation remains broadly benign relative to history, and this trend is expected to continue.

Further interest rate cuts are likely, but many countries are late in their easing cycles, potentially limiting the scope.

Japan

Potential for more expansionary fiscal policy in 2026 should be supportive for economic growth.

Rising wages and the possibility of stimulative fiscal measures pose upside risks to inflation.

The Bank of Japan may remain an outlier among major central banks, with potential for gradual interest rate hikes.



From hype to hard returns: AI enters a new phase



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Portfolio Manager,
Global Technology Equity



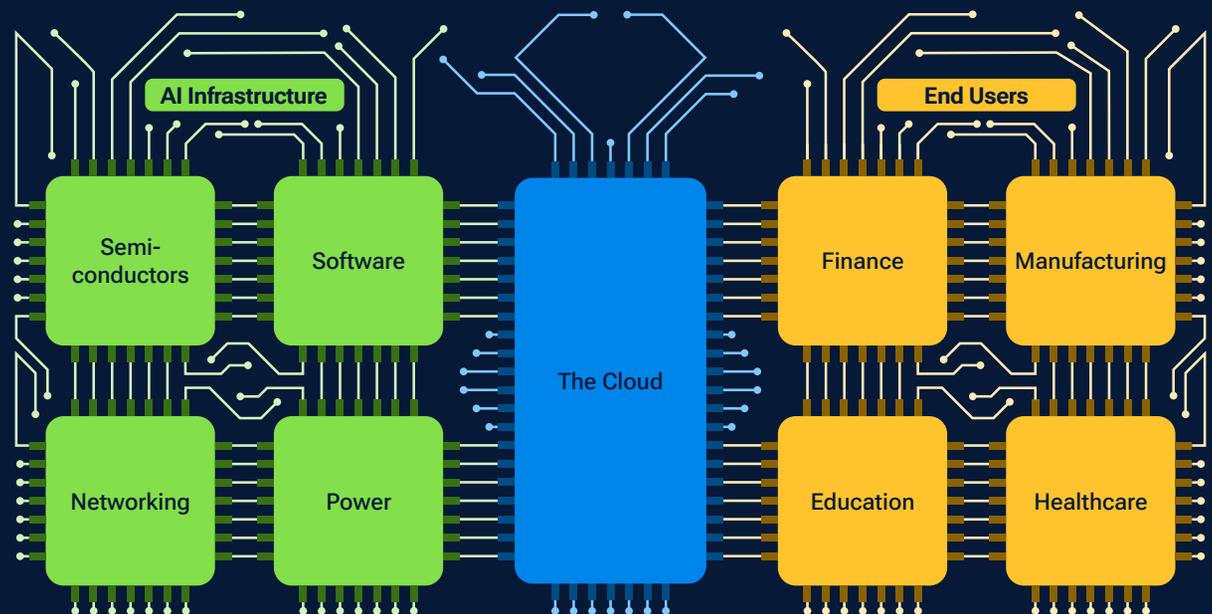
Mark Stodden, CFA
Credit Analyst

Three years after the launch of ChatGPT, the narrative around AI is beginning to shift from “what’s possible?” to “what’s profitable?” Investment remains at full throttle, and innovation is driving real-world gains, but strong stock performance and speculative activity in some corners of the market are sparking anxiety over a potential bubble. As leading firms increasingly tap debt markets for capex, pressure is mounting to carve out clear paths to monetization.

We believe AI remains on track to become the biggest productivity driver for the global economy since electricity. It has the potential to be transformative not just for tech firms, but for nearly every sector—healthcare, finance, manufacturing, education, and beyond—by unlocking new solutions to complex challenges. The leading firms are maintaining aggressive, multibillion-dollar annual capex programs to build out data centers, purchase advanced graphics processing units (GPUs), and expand cloud capacity. Many have announced or have begun construction of new AI supercomputing hubs to meet surging demand from corporate and consumer AI applications.

Beyond tech—AI’s transformative potential across sectors

(Fig. 2) Capex building across the sectors and the AI ecosystem



Source T. Rowe Price. For illustrative purposes only.

Debt demands discipline — and brings risk

Until now, these capex budgets have been largely funded by the operating cash flows of the most profitable companies in history. However, the magnitude and acceleration of AI capex requirements are such that even some of the leading firms are unable to continue funding them solely through internal cash generation. The public bond market may partially fulfill firms' funding needs, but even that could be too shallow to fund a sustained period of very high capital intensity, meaning other sources of capital will be required—most notably private credit.

As debt capital starts to fund AI investments, this will add to the already-growing pressure on the leading firms to establish well-defined strategies for turning innovation into profits. Debt is capital that must be repaid and comes with regular interest payments, restrictive bond covenants, and a new set of stakeholders to appease, meaning the borrower must generate reliable cash flows to service the debt. Lenders are also fundamentally more risk averse than equity investors, so typically they demand a clear path to monetization to reduce credit risk.

Debt funding also increases risk. As firms take on more debt, their

fixed obligations increase, and if revenue growth fails to keep pace, they may struggle to service the debt—especially if interest rates rise or business conditions weaken. Debt markets can also be more sensitive to macroeconomic shifts such as rate hikes, credit spreads, and a loss of liquidity. If many AI firms become highly leveraged and sector growth slows, systemic risks could occur—impacting lenders, investors, and the broader market.

Hardware and hyperscalers still lead the way

While the risk of an AI bubble intersecting with a credit bubble cannot be discounted, we remain very positive on the outlook for the AI sector. The AI chip market still has a lot of growing to do: AMD estimates that the AI data center chip total addressable market will rise from around \$200 billion in 2025 to \$1 trillion in 2030.¹ The leading chipmakers provide the essential hardware powering both training and inference for AI models and are therefore essential for the AI infrastructure boom. They have also benefited from technological expertise, scale, and established supply chains, creating considerable barriers to entry.

The AI hyperscalers—the large tech firms that operate cloud platforms and data centers—are being driven by sustained demand for cloud computing, AI infrastructure, and digital transformation as AI is adopted across industries. These firms are likely to remain the key drivers of innovation, infrastructure buildout, and broader adoption of AI. That said, these hyperscaler companies are also seeing the first rise in competitive intensity to their core businesses in decades, as new-age companies like OpenAI try to encroach on their core business. This rising competitive intensity will likely accelerate the AI capex buildout.

While the AI sector's expanding capex and reliance on debt will introduce new risks, we believe the long-term growth prospects remain compelling—especially for the hardware suppliers and hyperscalers at the heart of the ecosystem. For investors, this means focusing not only on visionary technology, but also on execution, financial resilience, and clear paths to monetization as AI enters its next chapter.

Key takeaway

AI is poised to be the biggest productivity driver since electricity, but soaring capex and the growing use of debt finance are fueling demands for clear monetization strategies.

¹ Source: AMD Financial Analyst Day 2025. Estimates provided are for the AI data center chip total addressable market (TAM). TAM is the total potential market for a product or service. There is no guarantee that any forecasts (AMD forecast, November 2025) made will come to pass and actual outcomes may differ materially.



Equity markets to broaden despite continued AI resilience



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While the transformative impact of AI continues to be a defining force, the contours of equity market leadership are shifting. In 2026, we anticipate broader market participation and a widening spectrum of opportunities—both within AI-related sectors and across a diverse range of industries and regions.

Within AI, we have entered a period of “existential investment”—a phase in which major technology companies, or hyperscalers, must invest heavily to safeguard their long-term value. These buildouts have so far largely been self-financed through strong cash flows, although debt financing is starting to play a bigger role. The rise of AI has transformed former monopolies into direct competitors, resulting in a more dynamic investment landscape.

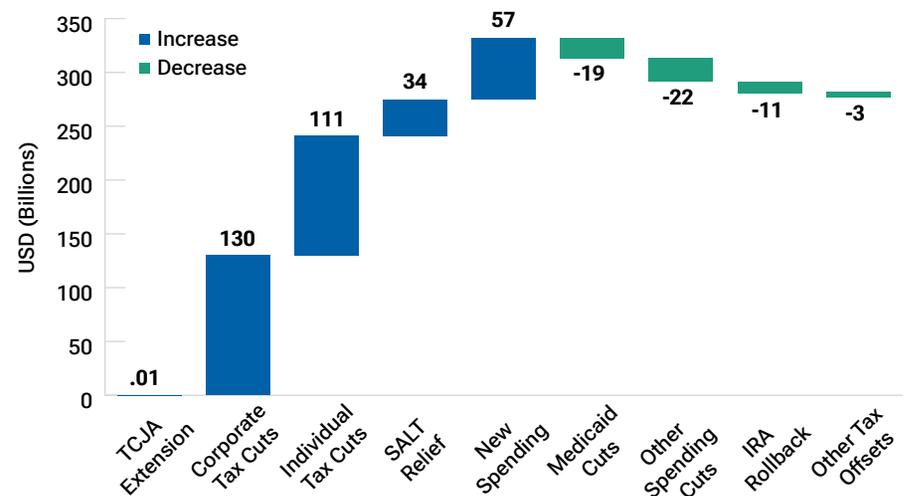
AI leadership is shifting toward physical AI, the essential infrastructure powering the next wave of innovation across energy, cooling, networking, and semiconductors. While leading AI firms are likely to continue to outperform, dispersion is rising as product cycles diverge and competition heats up. The next chapter of AI leadership may favor semiconductor enablers, power infrastructure, and automation suppliers—where earnings potential remains underappreciated.

Broader participation to gain momentum

Concurrently, there is the potential for further market broadening beyond AI into other sectors and regions. In the U.S., the enactment of the One Big Beautiful Bill Act (OBBBA) in July is expected to add approximately USD 200–300 billion in stimulus planned for 2026. This fiscal thrust should provide a front-loaded boost to economic activity and corporate earnings. The OBBBA's emphasis on physical infrastructure, energy grids, roads, bridges, data centers, and industrial capacity should drive renewed breadth across sectors, notably industrials, materials, and energy.

Net fiscal impulse from One Big Beautiful Bill Act estimated in FY 2026

(Fig. 3) Billions of USD vs. current policy



As of September 2, 2025.

Source: Wolfe Research Portfolio Strategy, Wolfe Research DC Policy, and Bloomberg. “Fiscal impulse” refers to the impact of government fiscal policy on the economy. TCJA = Tax Cuts and Jobs Act; SALT = state and local tax; IRA = Inflation Reduction Act; FY = fiscal year.

Actual outcomes may differ materially from estimates. Estimates are subject to change.

Elsewhere, deregulation under the Trump administration and rising mergers and acquisitions (M&A) activity have been lifting U.S. banks' returns on equity. We also believe bank regulation has peaked in Europe, where banks are already benefiting from higher rates and capital returns as economic activity increases from fiscal stimulus. As a result, banks in both the U.S. and Europe are likely to take on more lending, trading, and M&A activity, which would boost returns.

The outlook for the aerospace and defense sector remains strong, supported by a multiyear commercial aircraft production backlog, recovery in travel, and rising global defense spending. Less sensitive to rates and geopolitics, this sector benefits from fleet and supply chain modernization in aerospace, as well as advances in defense technology including AI-powered surveillance, autonomous systems, and small modular reactors.

AI gains to spread across regions

Outside of the U.S., Japan stands out for attractive valuations, robust cash flow, and improved corporate governance. Positioned at the heart of global supply chains for semiconductors and robotics, Japanese firms are poised to benefit from the ongoing capex cycle.

Europe is quietly entering a new expansion phase. The suspension of Germany's debt brake allows fiscal flexibility for defense and infrastructure. European industrial and automation franchises appear to be particularly well positioned to participate in the buildout of "physical AI" such as robots, autonomous systems, and drones.

China remains a tactical opportunity set. Regulatory attitudes have softened, with the government encouraging private enterprise. Domestic AI large language models like DeepSeek have spurred excitement for some Chinese platform companies. These companies are well positioned to benefit from AI-driven advertising and cloud growth. However, structural headwinds,

slower growth, and geopolitical uncertainty suggest that selectivity remains key in the region.

The outlook for ex-China emerging market (EM) stocks also looks broadly positive. Supporting factors include favorable demographics, ongoing reforms in key markets such as India and Brazil, and increased global supply chain diversification amid ongoing trade tensions. Valuations are generally less stretched than in developed markets, which could attract incremental capital if sector rotation broadens market leadership. Commodity exporters in the Middle East and Latin America may gain if global growth picks up.

Equity's "good ponds" no longer confined to tech

Overall, the market backdrop is complex, but the coming year is likely to bring broader participation. The AI cycle remains powerful, yet it is evolving; fiscal expansion, reindustrialization, and valuation gaps are opening multiple paths to growth.

Investors should balance exposure to enduring AI leaders with cyclical and international markets that stand to benefit from this broadening. The equity market's "good ponds," where growth and pricing power remain strong, are no longer confined to U.S. technology. They now encompass a wider range of sectors and regions, reflecting a more globally distributed opportunity set.

Key takeaway

Equity market leadership is broadening as AI gains spread across sectors and regions, while fiscal stimulus and reindustrialization are driving opportunities beyond U.S. tech.



Credit selection key while fiscal expansion pressures sovereign bonds



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While credit spreads¹ at near-record narrow levels received much of the attention in 2025, we think there will still be credit market opportunities in 2026. However, elevated valuations will make strong credit selection essential. Value will be harder to find in high-quality government bonds, where waves of fiscal expansion are pushing supply and yields higher in a competition to attract buyers.

Yields to remain attractive versus long-term equity returns

Despite the tight spreads, sub-investment-grade bonds and bank loans are on track to provide yields that remain attractive versus long-term equity returns. Many credit buyers focus more on yield to maturity than spread because they tend to hold the bonds or loans to maturity.

From a credit quality perspective, we don't see many particularly concerning trends in fundamentals—issuer balance sheets are still solid, capital markets access remains robust, and we anticipate that default rates will stay below long-term averages. That being said, there have been some “later cycle” credit behaviors that heighten the value of credit selection.

U.S. fiscal stimulus is just beginning to spread through the economy, with the bulk of the impact likely to reach issuers in the first half of 2026. Merger and acquisition activity has also accelerated as the U.S. administration has eased regulatory scrutiny of deals, which is generally supportive of high yield bonds and loans.

¹ Credit spreads measure the additional yield that investors demand for holding a bond with credit risk over a similar-maturity, high-quality government security.

Bond and currency markets at a glance

(Fig. 4) Six key data points



4.11%

10-year U.S. Treasury yield
as of November 10, 2025¹



USD 1.16

Price of one euro on
November 10, 2025²



JPY 153.96

Price of one U.S. dollar
on November 10, 2025²



2.67%

10-year German bund yield
as of November 10, 2025¹



0.6%

U.S. high yield
approximate default rate³



6.78%

Yield to worst of the U.S.
high yield market⁴

Past performance is not a guarantee or a reliable indicator of future results.

¹ Bloomberg Finance L.P. Yield to maturity is the total return anticipated on a bond held to maturity assuming all the securities are held to maturity.

² Bloomberg Finance L.P.

³ As of October 31, 2025. Default estimate includes only traditional defaults, not distressed exchanges. Actual outcomes may differ materially from estimates.

⁴ As of October 31, 2025. The yield of the high yield market is represented by the Bloomberg US HY 2% Issuer Capped Bond Index. Yield to worst is a measure of the lowest possible yield on a bond whose contract includes provisions that would allow the issuer to redeem the securities before they mature. Source: Bloomberg Finance L.P. For illustrative purposes only.

Disciplined credit selection will be essential

Despite the supportive backdrop, disciplined credit selection will remain essential in 2026. We anticipate isolated defaults and distressed credit events like those experienced by First Brands, New Fortress Energy, and Saks Global in 2025.

Favor bank loans over high yield bonds for income

Within the broad non-investment-grade credit asset class, high yield bond and loan valuations are roughly equal. We marginally favor loans over sub-investment-grade bonds for their higher current income.

The risks to our constructive outlook for credit include spreads that could widen quickly in the unlikely event that the economy slips into recession. A steep decrease in short-term rates would sharply lower the income from bank loans (loans have floating coupons that adjust based on short-term market rates)—but this also seems unlikely.

Expansionary fiscal policy driving government bond yields higher

Long-maturity government bond yields are a different story. Expansionary fiscal policy in the U.S., the UK, and some eurozone countries—notably Germany and France—is forcing developed market governments to fund deficit spending by issuing new debt. This raises questions about the long-run sustainability of their debt and forces governments to offer higher yields.

² Not inflation adjusted.

The Federal Reserve, the Bank of England, and the European Central Bank face structural changes in job markets stemming from AI, labor force aging, and falling immigration. These factors are decreasing employment, boosting the tension between easing monetary policy to help labor markets and holding rates steady (or raising them) to keep inflation under control. This dilemma is especially acute for the Fed, which is facing more political pressure than it has at any time since the early 1970s.

To maintain employment growth, central banks may ultimately lean toward running policy looser than they would otherwise. This contributes to inflation risk, reinforcing the outlook for higher longer-maturity yields, particularly on U.S. Treasuries.

Opportunities in inflation protected bonds

So, where are we finding opportunities in rates markets? Inflation protected bonds in the U.S. as well as some European countries and Japan represent attractive value, with those markets underpricing our anticipated inflation. We're seeing select opportunities in emerging market nominal² government bonds—the Czech Republic, Thailand, and Latin American nations like Brazil and Chile.

Key takeaway

We anticipate there will be selective opportunities in credit, but expansionary fiscal policy will drive longer-maturity government bond yields higher.

Highest-conviction ideas



Keep duration low:
higher yields and steeper curves



Exposure to inflation-linked bonds:
cost-effective way to hedge against inflation risk



Overweight credit vs. governments:
spreads well supported and could grind tighter



Overweight EM with quality:
select opportunities across sovereigns, corporates, local rates, and currencies

Ideas are provided for illustrative purposes only, are considerations and not investment advice nor a recommendation to buy or sell any security. Investing involves risk including possible loss of principal. See additional risks and definitions of financial terms in the Appendix.



Stable rates and strong demand to boost private market dealmaking



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Adam Kertzner
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Dealmaking and lending activities in private markets are poised for growth in 2026. Stabilizing interest rates and lower volatility are helping to end the drought in key deal markets, while the growing demand for capital to fund AI-related projects is creating new opportunities. We expect this momentum to continue, delivering robust acquisition and exit activities for private equity (PE), alongside elevated levels of origination and lending for private credit as issuers seek new financing.

Exit doors reopen for private equity

The period of aggressive central bank rate hikes between 2022 and 2024 weighed heavily on the initial public offering (IPO) market, which is a vital mechanism for private equity investors to realize returns. Mergers and acquisitions also slowed dramatically, affecting both private equity and private credit. Both markets have now begun to recover.

The revival of IPO activity is particularly important for private equity and venture capital, as a significant backlog of “IPO ready” firms that previously delayed going public during the high-rate, volatile equity markets of 2022–2024 are now gradually coming to market. This is providing private equity and venture capital firms with much-needed exit options after a period in which exits were limited and liquidity for their limited partners was constrained.

With more companies deciding to list publicly, private equity managers can eventually realize returns and either recycle capital into new investments or distribute proceeds to their investors. This increased IPO activity, combined with a friendlier regulatory environment and improved investor liquidity, has led to greater competition for deals and higher levels of oversubscription in rounds for high-performing private companies.

More benign market conditions have also helped to revive M&A activity. Further support for M&As is expected to come from a more supportive regulatory environment as the Federal Trade Commission appears to be moving away from the restrictive, intervention-first stance of the prior administration in favor of a more transaction-friendly approach. The improved M&A environment is beneficial for private equity and venture capital managers, as it creates an additional exit path and potential competition for high-quality assets.

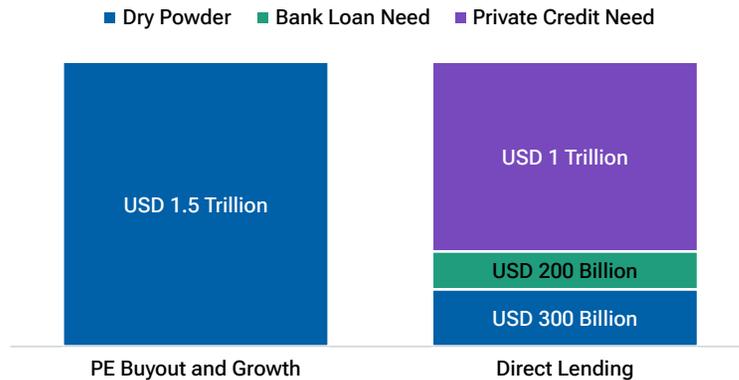
M&A and AI fuel private credit demand

Heightened M&A activity is also driving activity in private credit. As deal volumes increase, companies and sponsors need to issue debt to complete transactions, and private credit providers are major purchasers of this debt—even more so as traditional banks have pulled back from this market in recent years. With significant private equity “dry powder”¹ waiting to be deployed, the need for these private credit solutions is likely to rise as sponsors resume acquisitions.

¹ “Dry powder” refers to the amount of committed capital that a private equity firm has raised from investors but has not yet invested.

Huge demand for private credit solutions

(Fig. 5) There is a USD 1.2 trillion financing gap to deploy PE dry powder



Source: Preqin as of December 31, 2024. Totals may not add due to rounding. Assumes private equity leveraged buy outs (PE LBOs) have an average 50% equity contribution and 85% of LBOs are financed by private credit. Based on historical data from PitchBook LCD as of March 31, 2025.

Additionally, the need for capital to finance technology infrastructure, including projects related to AI such as data centers and utilities, is contributing to the supply of new opportunities for private credit investors. As issuers pursue expansion and technological capabilities, private credit providers are increasingly being called upon to fund the physical and digital backbone necessary for growth.

In addition to traditional lending, there are opportunities in distressed private credit, rescue capital, and bespoke capital solutions. In particular, tailored capital solutions—such as preferred equity, mezzanine debt, and structured financing—are increasingly sought after by issuers to address complex capital needs, recapitalize balance sheets, or support strategic transactions. These segments offer attractive risk-adjusted return potential for investors able to perform rigorous due diligence and structure deals to manage downside risk.

Like other markets, private markets come with idiosyncratic risks, as shown in the recent high-profile collapses of auto parts supplier First Brands and car dealership Tricolor. Overall, however, private credit fundamentals are robust: Default rates are low and expected to remain so, company balance sheets are strong, and investor demand for private funding shows no sign of abating. And while banks tentatively have begun to reenter private credit after largely vacating in the aftermath of the global financial crisis, this is unlikely to significantly impact the illiquidity premium. The need for financing will likely continue to exceed the capital available.

Key takeaway

Stabilizing interest rates, lower market volatility, and demand from AI-related projects are helping to end the drought in key deal markets, driving renewed growth in private equity and credit.



China 2026: A new cycle emerges



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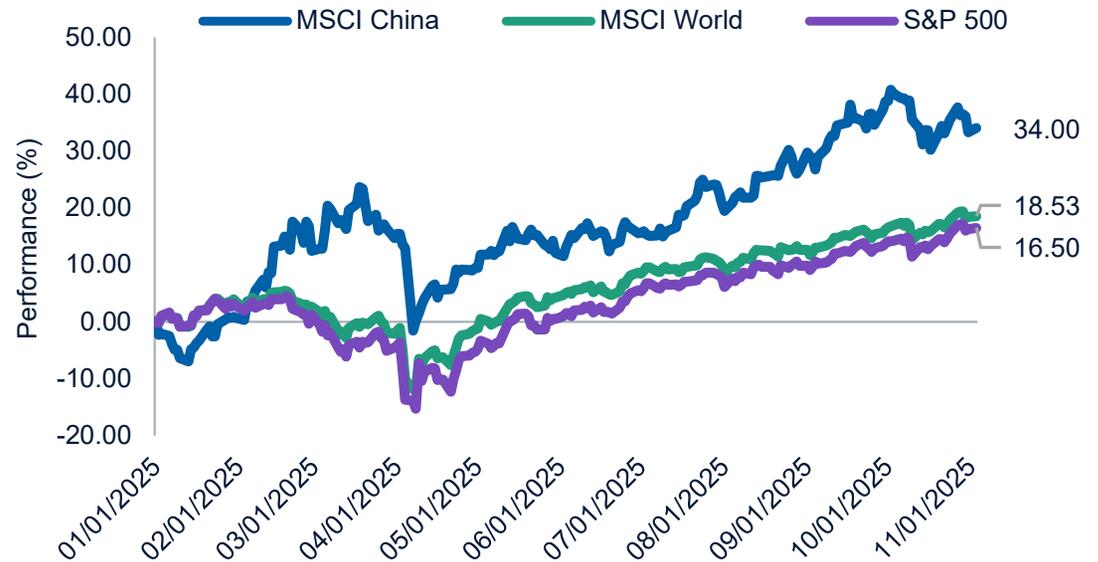
Chinese equities have outperformed the S&P 500 Index and most developed markets on a year-to-date basis, defying all the volatility linked to U.S. tariff headlines. The MSCI China Index has posted over 30% year-to-date gains, supported by policy pivot, emergence of new growth drivers, and better-than-expected geopolitical developments. Performance leadership has been concentrated in technology, industrials, and select consumer names, underscoring growing conviction in domestic growth resilience. Despite external noise, 2025's market behavior highlights a clear message: Fundamentals—not geopolitics—remain the dominant driver of China's equity performance.

Domestic backdrop—Policy pivot from deleveraging to expansion

The September 2024 policy pivot marked the close of China's property-market deleveraging cycle and the start of a new expansion phase. Over 2025, the impact has become evident: Credit conditions normalized, fiscal spending shifted toward productivity and innovation, and private sector sentiment improved. Monetary settings remain accommodative, with liquidity ample and targeted credit support for small enterprises and strategic industries, establishing a stronger foundation for sustainable growth through 2026.

Contrary to expectations at the start of the year, China has outperformed the U.S. and the rest of the world in 2025

(Fig. 6) Equity index performance in U.S. dollars from January 1, 2025.



Past performance is not a guarantee or a reliable indicator of future results.

As of November 3, 2025.

Source: Bloomberg Finance L.P.

External macro environment – Stability after volatility

Globally, conditions have stabilized following the tariff disruptions of early 2025. China's measured policy response and diversified trade links helped cushion the impact. After several rounds of dialogue, tensions cooled, and the Donald Trump-Xi Jinping summit resulted in a further reduction of tariffs and an extension of the trade truce for one year. Furthermore, reciprocal state visits in 2026 should foster a more predictable diplomatic environment. For investors, this shift likely translates to lower external volatility and greater scope for domestic fundamentals to drive equity returns.

Structural growth drivers

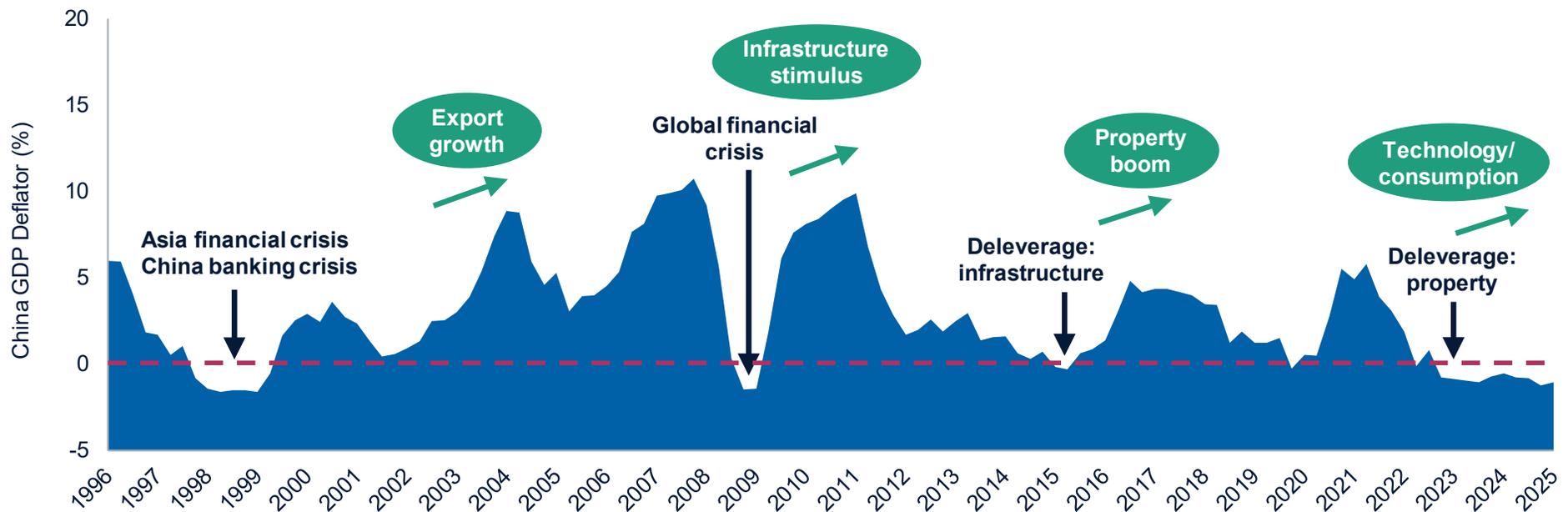
As underpinned in the recently concluded Fourth Plenum meetings, China's next expansion will be powered by innovation and domestic demand. The success of DeepSeek showcased China's growing capabilities in artificial intelligence (AI) despite semiconductor constraints, joining electric vehicles and biotechnology as areas of global competitiveness. Policy alignment around these industries—supported by digital-infrastructure investment and entrepreneurial incentives - should help sustain productivity growth over the medium term.

Simultaneously, consumption continues to broaden. Scalable platforms and leading brands are capturing discretionary spending through technology and user engagement, while traditional industries are achieving higher profitability under the anti-involution framework, which targets excessive competition.

The government's anti-involution agenda has begun to reshape industrial behavior. Capacity discipline and consolidation are improving pricing power in materials, manufacturing, and telecom infrastructure. These adjustments are expected to underpin a healthier profit cycle focused on efficiency and capital discipline.

New drivers emerge post each cycle

(Fig. 7) China gross domestic product (GDP) deflator year-on-year % change.



Past performance is not a guarantee or a reliable indicator of future results.

As of September 30, 2025.

Source: Bloomberg Finance L.P.

How we are positioned to capture opportunities emerging in China

1. Consumption and Services

Domestic consumption remains a core pillar of China's structural growth story. Rising household incomes, firmer consumer sentiment, and policy support for urban services are creating a more resilient spending base.

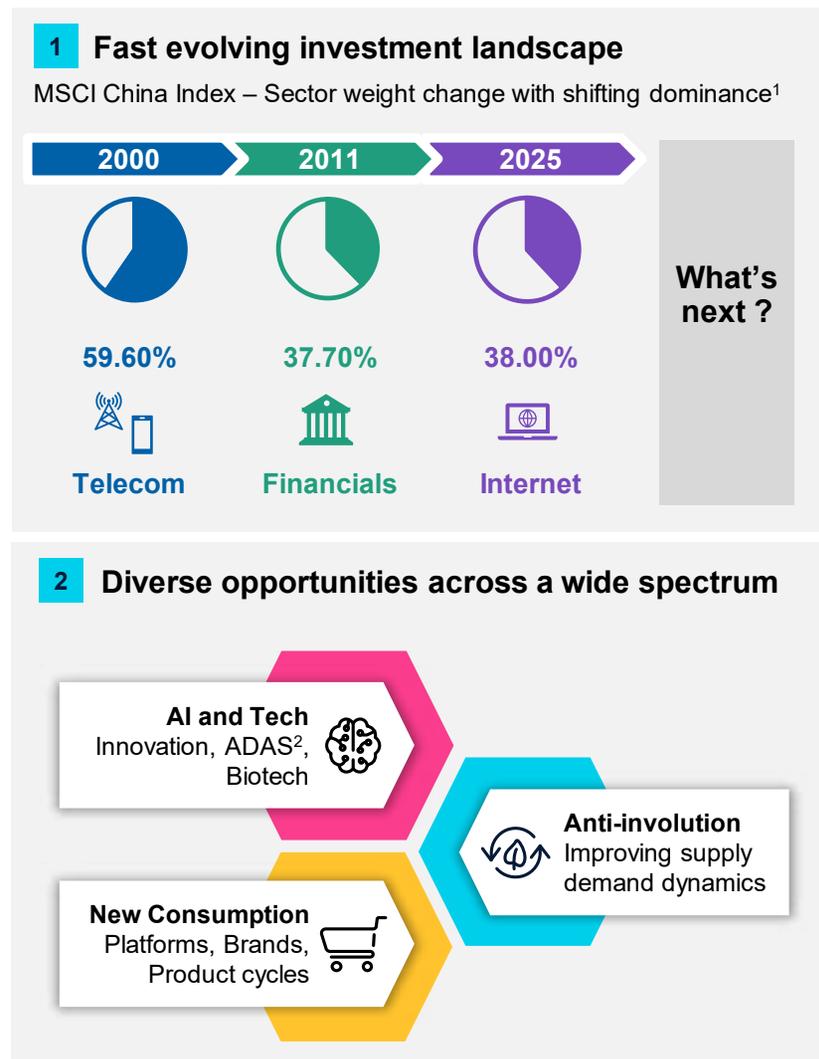
- **Platforms:** Some domestic service platforms have established scalable franchises with durable competitive moats and recurring revenue streams. Their integrated ecosystems and ability help them capture consumer traffic- both online and offline - support them to compound earnings through multiple market cycles. As service consumption deepens and foot traffic normalizes, we believe these platforms remain well placed to deliver steady growth with high visibility.
- **Product Cycles:** Companies with consumer electronics and mobility illustrate the strength of China's innovation-led consumption. As technology increasingly shapes lifestyle and mobility trends, we think that these intellectual property-driven businesses have the potential for future growth. Their capacity to commercialize new designs rapidly and connect with younger demographics positions them for powerful product-cycle expansion in both domestic and export markets.

2. Technology and Innovation

Technology remains an important driver of productivity and structural equity performance. China's innovation ecosystem—spanning AI, semiconductors, advanced manufacturing, and clean energy—is entering a phase of accelerated commercial adoption.

- **Artificial Intelligence:** With mainland China and Taiwan at the center of the global AI supply chain, we focus on companies that have demonstrated value-share gains with credible technology migration plans and defensible cost advantages. Beyond software and model development, we see opportunities in “commodity tech” components - such as copper-clad laminates and substrates - where surging AI demand may strain capacity, tightening supply, which may support profitability across hardware ecosystems.
- **Advanced driver-assistance systems (ADAS):** China's ADAS industry is now scaling rapidly, echoing the electric vehicle adoption curve of recent years. As regulatory standards evolve and consumer expectations shift toward safety and automation, domestic suppliers of sensors, controllers, and integration software are gaining global relevance. These firms are likely to play an important role in the future development of China's industrial sector as new technologies are adopted.

(Fig. 8) Where are we seeing opportunities today?



Sources: T. Rowe Price.

¹ Bloomberg Finance L.P. FactSet. As of 31 August 2025. Financial data and analytics provider FactSet. Copyright 2025 FactSet. All Rights Reserved.

² ADAS refers to Advanced Driver Assistance System.

This information is not intended to be investment advice or a recommendation to take any particular investment action.

3. Anti-involution

In our view, traditional industries are becoming more attractive as the government's anti-involution campaign aims to restore balance to supply/demand dynamics. The focus on consolidation, capacity discipline, and return on capital is reshaping the competitive landscape across LCD panels, aluminum, copper, and telecom towers. These sectors are generating stronger cash flows, improving payout ratios, and demonstrating pricing resilience after years of margin compression.

While the strength of these businesses is not solely policy-driven, the shift toward rational competition and efficiency has created a healthier, more attractive industrial base. We view these companies as natural complements to growth-oriented holdings, offering potential for cyclical stability, income generation, and exposure to China's ongoing focus on capital efficiency.

Across consumption, technology, and industrial rationalization, we see an equity market evolving toward quality, innovation, and disciplined capital allocation. This evolution may broaden the range

of investment and provide long-term investors both structural growth and genuine diversification benefits as China's stock market matures.

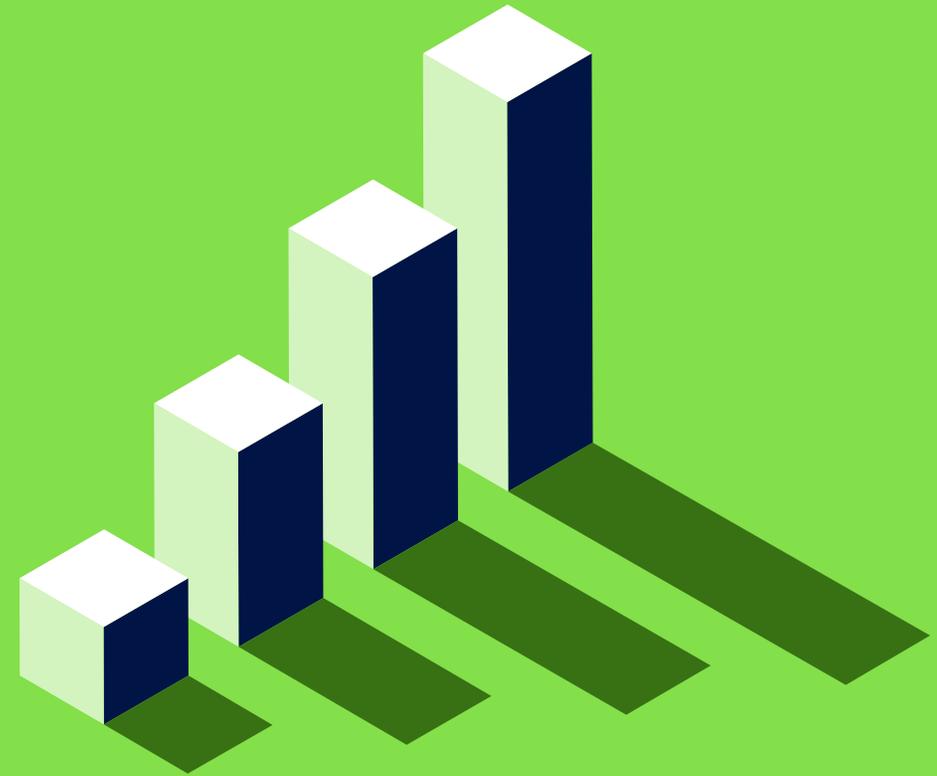
Summary

We expect a stable to moderately improving macroeconomic backdrop in 2026. Valuations remain supportive, and, more importantly, we are finding structural growth stories that we believe can outperform. Policy continues to favor productivity and innovation, while corporate balance sheets are healthier and earnings visibility is improving.

We are seeing opportunities emerging across technology, consumption, and rationalizing traditional sectors. As China advances from deleveraging toward disciplined expansion, we remain focused on identifying durable businesses positioned to benefit from this next phase of the country's economic evolution.

Key takeaway

Domestic consumption remains a core pillar of China's structural growth story. We expect policy will continue to favour productivity and innovation.



Amid extended valuations, look to non-US equities and local currency bonds



Tim Murray, CFA
Capital Markets Strategist

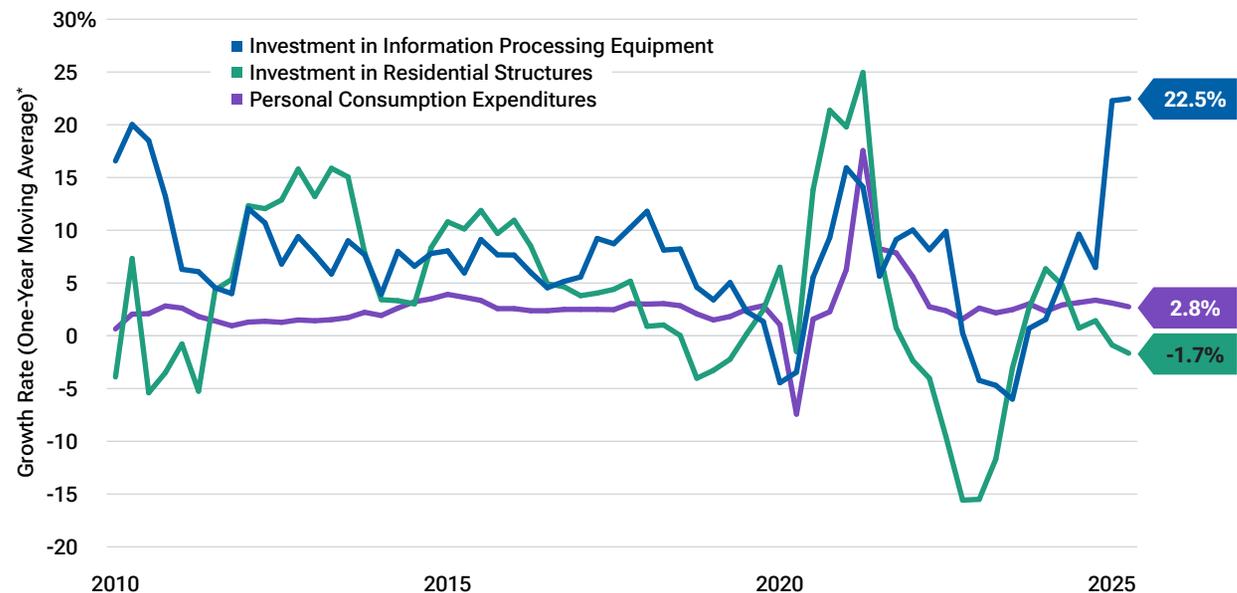
The economy is operating at two speeds, with AI-related areas absolutely booming while other segments—manufacturing in particular—are lagging. Fiscal expansion is just starting to hit its stride, which will boost AI spending even further, and the Trump administration’s prioritization of deregulation should propel the overall economy toward healthy growth in 2026. But looking across asset classes, valuations almost everywhere appear extended, clouding the outlook. Where does our Asset Allocation Committee see tactical asset allocation opportunities in this landscape?

Inflation risk leads to underweight bonds

While expansionary fiscal policy, including tax incentives for capital expenditure, will support growth, many of the U.S. administration’s policies are also inflationary. This includes restricting immigration and imposing tariffs. Whether inflation stays near the 3% level—above the Federal Reserve’s target rate—or accelerates in 2026, it will erode the value of bonds. This leads us to favor stocks over bonds.

The AI infrastructure buildout is pulling a lot of weight

(Fig. 9) Housing and personal spending are lagging



January 2010 through April 2025.
Source: Bureau of Economic Analysis/Macrobond.
* U.S. real GDP growth, selected categories.

International and small-cap equities are best positioned

Comparing the outlooks for international and U.S. equities, we see more room for non-U.S. stocks to advance as they catch up to the U.S. in AI-related sectors. Also, the Chinese government appears dedicated to supporting innovation in AI and other technologies as a way to offset the economic drag and rising unemployment from the country's severe real estate downturn.

Although the U.S. fiscal stimulus is sizable, the pivot toward expansionary policies outside the U.S.—particularly in countries like Germany—has been more abrupt, so we expect it to provide a larger relative impact. The European Central Bank, the Bank of England, and many emerging market central banks have also eased monetary policy much more than the Fed, providing further support for international stocks.

While we are neutral on growth versus value stocks in the U.S., in international equities we prefer value companies. The global cyclical backdrop is improving, and sectors such as financials—heavily represented in value indexes—should benefit from steeper yield curves and improving loan demand. Valuations for non-U.S. value stocks also remain relatively attractive.

We anticipate some broadening of equity market performance away from the U.S. mega-cap technology

stocks and expect small-caps to be the biggest beneficiaries of that shift. Because of the enormous market capitalization of the “Magnificent Seven,” even a modest move into small-caps would provide a relatively large boost to smaller stocks. Small-caps also tend to gain the most from lower short-term interest rates, which contributes to our decision to modestly overweight small-cap equities.

Leaning toward high yield bonds and non-U.S. currency exposure

In the fixed income allocation, we view high yield bonds as an attractive, lower-risk way—relative to equities—to benefit from a strong economy. Overall credit quality in the asset class is the highest in years, and we don't anticipate any deterioration in its fundamentals in 2026. Non-investment-grade bonds also have some duration,¹ which would help cushion the asset class if the economy falls into recession.

We favor taking some currency risk in fixed income through locally denominated international developed market and emerging market bonds. The U.S. dollar's decline through most of 2025 is likely to extend into 2026 as the Fed cuts short-term rates even as other central banks are much further along in their easing cycles. Also, U.S. inflation remains sticky, with the potential to increase even more. We see an overweight to unhedged local non-U.S. bonds as an attractive way to benefit from that trend.

¹ Duration measures a bond's sensitivity to changes in interest rates.

Key takeaway

We favor stocks over bonds as we expect the two-speed economy to avoid recession, and non-U.S. currency exposure as a way to benefit from likely U.S. dollar weakness.



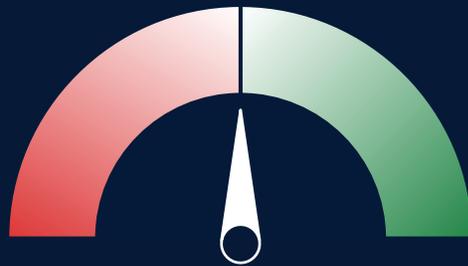
2026 tactical allocation views

As of October 31, 2025

Weighting Guide



T. Rowe Price multi-asset positioning—asset class



Stocks

We maintain a neutral stance on equities reflecting a balanced view between decent fundamentals, including fiscal support and potential for deregulation against expensive valuations.



Bonds

We maintain an underweight to bonds as inflation and funding requirements associated with U.S. fiscal stimulus and continued deficits could keep upward pressure on rates, particularly at the long end.



Cash

We continue to maintain an overweight position in cash/cash equivalents, due to reasonable yields and limited duration risk. This provides liquidity to take advantage of opportunities amid market dislocations.

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T. Rowe Price multi-asset positioning—stocks



U.S.

U.S. equity valuations are elevated but are supported by strong and improving fundamentals. The earnings outlook remains favorable, but any hiccups could be punished more harshly than normal.



U.S. Growth vs. Value¹

Growth equity fundamentals continue to deliver versus high expectations, and recently introduced tax incentives should also help. Value stocks are supported by the potential for deregulation, fiscal policy, re-shoring and Fed cuts.



Global ex-U.S.

Increased fiscal spending, monetary policy, and reasonable valuations could provide near-term upside in Europe. In China, credit conditions are bottoming, the housing sector is stabilizing, and further policy support is likely. The economic outlook for Japan is fragile but improving.



Global ex-U.S. Growth vs. Value¹

Growth stocks' valuations are more expensive and persistent consumer weakness in emerging markets present headwinds. Improving monetary and fiscal outlook as well as a normalized interest rate environment have served as a catalyst for improvement in value stocks.



Europe

Increased fiscal spending, accommodative monetary policy, and reasonable valuations could provide near-term upside. However, a relative dearth of innovation leaders dampens the intermediate-term outlook.



U.S. Small- vs. Large-Cap¹

Fed cuts, deregulation, fiscal stimulus and stronger M&A and IPO activity could lead to improving small-cap earnings and valuations. Among large caps, elevated valuations and concentration risk remain a concern.



Japan

Both trade policy and political uncertainty have decreased significantly, leading to a fragile but improving economic outlook. Structural improvements in corporate governance remain on track.



Global ex-U.S. Small- vs. Large-Cap¹

Cyclical improvement and weaker dollar could provide tailwind for small caps, particularly in Europe, with still very attractive valuations. Improving prospects for Europe and inflection in sentiment and more stable outlook in China offer support for large caps.



Emerging Markets

EM stocks have benefited from capital flight out of the U.S. while the global economy is benefiting from easing trade tensions and rising fiscal stimulus. A weaker U.S. dollar offers a further tailwind.



Real Assets Equities

Could mitigate rising inflation risks, benefits from a weaker dollar, increased energy demand from AI and stabilizing economic backdrop. Precious metals are also benefitting from rising geopolitical uncertainty.

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¹ For pairwise decisions in style and market capitalization, positioning point represents positioning in the first-mentioned asset class relative to the second asset class.

T. Rowe Price multi-asset positioning—bonds



U.S. Investment Grade (IG)

Fed cuts, improving growth and sticky inflation give curve a steepening bias. Credit fundamentals still supportive, with spreads expensive relative to history.



Global High Yield

Sector offers strong fundamentals and a low duration profile, with a healthy yield and measured expectations for increases in defaults.



Developed ex-U.S. IG (Hedged)

Hedged yields still attractive and lower inflation limits upward pressure on long end, though additional Fed cuts likely to decrease the hedged yield advantage.



Floating Rate Loans

Favorable valuations and attractive yields provide support, however, Fed cuts pose a challenge for the asset class.



U.S. Treasury Long

Concerns around persistent inflation and fiscal deficits could keep upward pressure on long-end yields.



Emerging Market Dollar Sovereigns

Attractive yields and room to cut with lower inflation, though higher long-end U.S. interest rates and unclear impact from tariffs on economies are challenges.



Inflation Linked

Risks of stickier inflation remain due to staggered effects from tariffs and more stability to the economic growth backdrop.



EM Local Currency

U.S. dollar weakness has been a tailwind and is expected to continue, however, longer term fiscal challenges from tariffs remain unclear.

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The asset classes across the equity and fixed income markets shown are represented in our multi-asset portfolios. Certain style and market capitalization asset classes are represented as pairwise decisions as part of our tactical asset allocation framework.

Appendix

Investment Risks:

Active investing may have higher costs than passive investing and may underperform the broad market or passive peers with similar objectives. Each person's investing situation and circumstances differ. Investors should take all considerations into account before investing.

International investments can be riskier than U.S. investments due to the adverse effects of currency exchange rates, differences in market structure and liquidity, as well as specific country, regional, and economic developments. The risks of international investing are heightened for investments in emerging market and frontier market countries. **Emerging and frontier market countries** tend to have economic structures that are less diverse and mature, and political systems that are less stable, than those of developed market countries.

Commodities are subject to increased risks such as higher price volatility, geopolitical and other risks. Commodity prices can be subject to extreme volatility and significant price swings.

Inflation-Linked Bonds (Treasury Inflation Protected Securities in the U.S.): In periods of no or low inflation, other types of bonds, such as US Treasury Bonds, may perform better than Treasury Inflation Protected Securities (TIPS).

Investing in **technology stocks** entails specific risks, including the potential for wide variations in performance and usually wide price swings, up and down. Technology companies can be affected by, among other things, intense competition, government regulation, earnings disappointments, dependency on patent protection and rapid obsolescence of products and services due to technological innovations or changing consumer preferences.

Because of the cyclical nature of **natural resource companies**, their stock prices and rates of earnings growth may follow an irregular path.

Financial services companies may be hurt when interest rates rise sharply and may be vulnerable to rapidly rising inflation. **Health sciences firms** are often dependent on government funding and regulation and are vulnerable to product liability lawsuits and competition from low-cost generic product.

The **value approach** to investing carries the risk that the market will not recognize a security's intrinsic value for a long time or that a stock judged to be undervalued may actually be appropriately priced. **Growth stocks** are subject to the volatility inherent in common stock investing, and their share price may fluctuate more than that of a income-oriented stocks.

Small-cap stocks have generally been more volatile in price than the large-cap stocks. Investing in **private companies** involves greater risk than investing in stocks of established publicly traded companies. Risks include potential loss of capital, illiquidity, less available information and difficulty in valuating private companies. They are not suitable, nor available, for all investors.

All investments involve risk, including possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market. Index performance is for illustrative purposes only and is not indicative of any specific investment. Investors cannot invest directly in an index.

Fixed-income securities are subject to credit risk, liquidity risk, call risk, and interest-rate risk. As interest

rates rise, bond prices generally fall. Investments in **high-yield bonds** involve greater risk of price volatility, illiquidity, and default than higher-rated debt securities. Investments in **bank loans** may at times become difficult to value and highly illiquid; they are subject to credit risk such as nonpayment of principal or interest, and risks of bankruptcy and insolvency. Some or all **alternative investments** such as **private credit**, may not be suitable for certain investors. Alternative investments are typically speculative and involve a substantial degree of risk. In addition, the fees and expenses charged may be higher than the fees and expenses of other investment alternatives, which will reduce profits. As interest rates rise, bond prices generally fall. Investments in high yield bonds involve greater risk of price volatility, illiquidity, and default than higher rated debt securities.

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