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# Media Release

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## 2026 a “crossroads year” for global market investors

The year ahead is shaping up to be a crossroads for global market investors, marked by continued uncertainty around economic growth and central bank policy, according to Eric Souders, Portfolio Manager at Payden & Rygel.

“Economic signals remain mixed. The US labour market has weakened, but demand has not broken. Growth continues to look resilient, supported by strong, technology-led investment,” said Souders. “Inflation in the US has declined, and we believe it can continue to improve, even as the outlook for economic growth remains uncertain.”

Despite easing inflation, policy uncertainty remains elevated, particularly in the US.

“The upcoming US mid-term elections later this year are likely to generate heightened and often extreme rhetoric,” he said. “Investors will need to strike a balance, being responsive to actual policy actions without becoming overly reactive to political noise.”

Souders expects the US Federal Reserve to remain on hold in the near term, noting that leadership changes will be a key factor influencing policy decisions.

“The Fed is entering a period where leadership transition becomes increasingly relevant, which limits the scope for near-term action,” he said. “We do not expect rate cuts before mid-year. While we believe the Fed will cut rates several times in 2026, markets are currently pricing in just one cut through the US summer.”

He added that bond markets are reflecting this uncertainty.

“The front end of the US yield curve is expected to remain relatively contained. However, we are cautious on the long end of the curve, which has been driven more by policy dynamics than economic fundamentals. In our view, investors are not being adequately compensated for the level of volatility they are assuming in the long end of the curve.”

Looking ahead, Souders forecasts US economic growth of between 1 and 2 per cent, driven by a narrower set of factors.

“Wage growth has slowed significantly, and current immigration policies are contributing to a decline in population growth of around 1.5 per cent per year,” he said. “Together, these factors are weighing on the US economy’s potential growth rate.”

Souders believes elevated US policy uncertainty creates a compelling case for diversification into emerging markets.

“Globally, investors remain heavily overweight US assets, across equities, public and private credit, and real estate,” he said. “These assets are all ultimately reliant on a single driver: the US consumer. With labour markets softening and consumer sentiment under pressure, that concentration risk is becoming more apparent.”

“Emerging markets, by contrast, are less exposed to the US consumer. Inflation is largely contained, growth remains strong relative to developed markets, and valuations are attractive,” he added.

“These fundamentals point to a constructive outlook for emerging markets in 2026, and we expect them to perform well relative to developed markets.”

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About Payden & Rygel
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