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# BMO Global Asset Management 2026 Market Outlook

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BMO  | Global Asset Management

## OUTLOOK 2026

# The year ahead: Five themes to guide portfolios through 2026

The conditions that supported strong gains in 2025 remain in place, but they are evolving. Below, we set out BMO Global Asset Management's expectations for the coming months, providing a tactical framework for performance and resiliency.



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### Key takeaways

- Five key themes will drive returns through the balance of 2026
- We remain constructive on Equities (+2, bullish) over the next 12 months
- Exposure to underinvested Emerging Markets (EM)
- Diversification across sectors will be imperative as noise continues around AI themes
- Search for yield will be important as we believe returns will not be as strong as 2025 thus favouring dividend-oriented stocks
- Fixed Income returns could prove muted, warranting selective yield pick-up as well
- Gold's utility as a hedge against multiple risks should increase

The past year rewarded investors for staying invested despite lots of uncertainty. Equity markets delivered double-digit returns across most regions, with Canada and international markets outpacing the U.S., while gold emerged as a standout performer and bonds faded into year-end as yields backed up. Those gains have left investors entering 2026 in a stronger position—but also facing another complex market backdrop.

Valuations are higher, policy rates are coming down more slowly than expected, and volatility is likely to be more persistent than it was during the steady grind higher of recent years. At the same



time, corporate earnings remain resilient, financial conditions are gradually easing, and powerful structural forces—most notably artificial intelligence (AI) investment—continue to support productivity and global growth.

This is a year that calls for balance: maintaining conviction in Equities while broadening exposures across regions and sectors; complementing growth with yield opportunities; and pairing upside participation with appropriate risk management. The following outlook is structured around five key investment themes we believe will drive returns in 2026 and form a practical framework for portfolio construction in the year ahead.

## OUTLOOK 2026

Key takeaways

Bullish on Equities

Emerging Markets

Broader growth

Yield opportunities

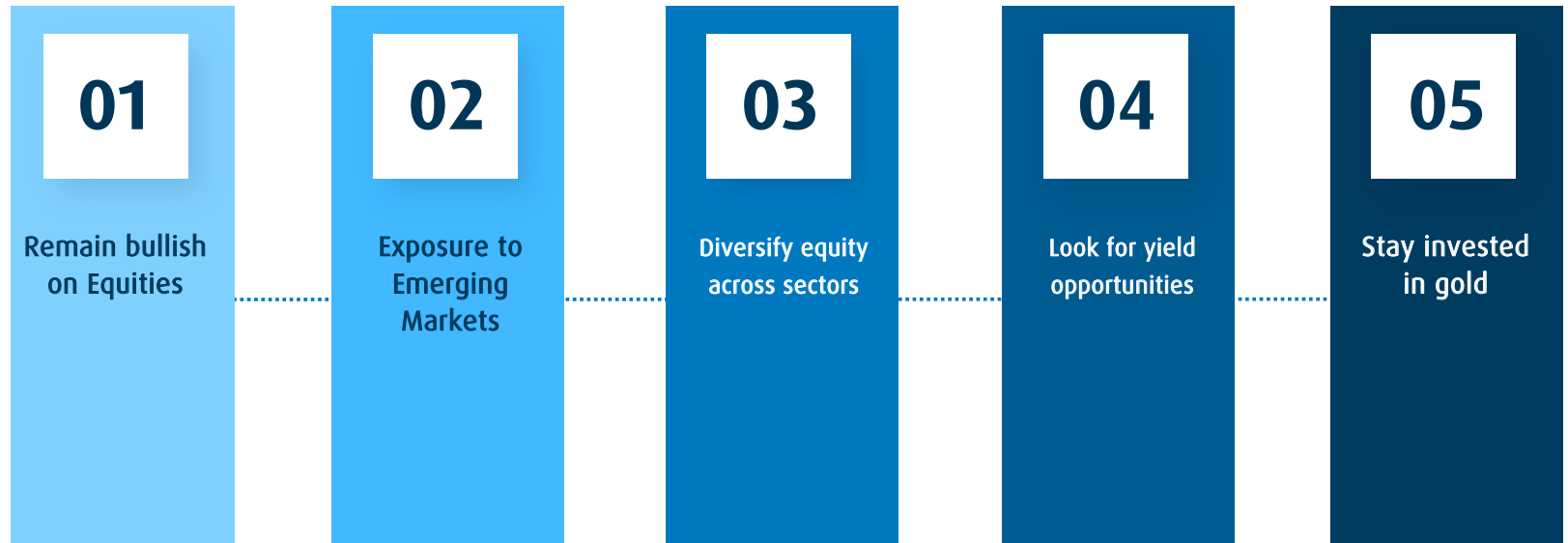
Gold

Acknowledging risks

MAST scores

Disclaimers

### Five themes for 2026



Source: BMO Global Asset Management. For illustrative purposes.

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# Remain bullish on Equities—while respecting volatility

Equities remain the cornerstone of portfolio returns in 2026. Despite elevated valuations in some parts of the market, the fundamental case for stocks is still intact. Earnings growth—particularly in the United States—continues to surprise to the upside, supported by strong balance sheets, ongoing capital expenditure, and productivity gains tied to AI adoption.

Financial conditions are also more supportive than they were a year ago. Most central banks are no longer tightening, and while rate cuts may be fewer than markets once anticipated, policy is no longer a headwind to risk assets. When compared with cash, GICs, or even high-quality bonds, equities continue to offer the most compelling long-term return potential.

Our overweight position on Equities is also supported by greater transparency around tariff risks for companies, as well as ongoing wealth effect dynamics among a material portion of households. Both developments, as well as the positive tailwinds generated from the *One Big, Beautiful Bill* should benefit aggregate consumer—as well as corporate—demand, and ultimately wider market participation.

That said, 2026 is unlikely to be a smooth ride. Higher valuations, lingering concerns about an “A.I. bubble,” and uncertainty around the pace of rate cuts all create conditions for episodic pullbacks. Importantly, this volatility should be viewed as a feature of a mid-cycle environment, not a warning of an imminent downturn. Historically, periods like this tend to reward investors who use market weakness to add selectively, rather than those who attempt to time exits.

For allocators and clients, the implication is clear: equity exposure should remain central to portfolio strategy, but expectations must be reset. Returns may be solid rather than spectacular (see 2026 forecast chart below), and discipline will matter more than momentum. Volatility is not a reason to abandon equities—it is the price of admission for long-term growth.

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# Increase exposure to Emerging Markets

One of the most notable shifts in the 2026 outlook is the elevated role of Emerging Markets (EM). After nearly a decade of underperformance and underinvestment, the setup for EM Equities has improved meaningfully. Valuations remain well below those of developed markets, positioning is light, and the bar for positive surprises is relatively low.

Several forces are converging to support this change. First, trade tensions between the U.S. and China—while not resolved—appear more stable than markets feared a year ago. A pause in tariff escalation has given companies greater clarity and reduced tail-risk scenarios that previously weighed on sentiment.

Second, Emerging Markets are increasingly embedded in the global AI supply chain. Countries such as Taiwan and South Korea play a critical role in semiconductor manufacturing, for example, while China is seeing renewed innovation and expansion in parts of its technology sector, where valuations are more reasonable than in the U.S.

Beyond China, the EM opportunity set is broadening. India continues to benefit from favorable demographics and structural reform, while countries such as Brazil are rebounding as financial conditions stabilize. Importantly, many of these markets offer exposure to growth at valuations that look far more reasonable than those in the U.S.

From a portfolio perspective, EM represent both diversification and opportunity. In 2026, EM is not simply a satellite allocation—it stands out as one of the most attractive sources of potential equity returns, particularly if global growth remains resilient and capital flows begin to normalize.



## OUTLOOK 2026

# Expect broader earnings growth

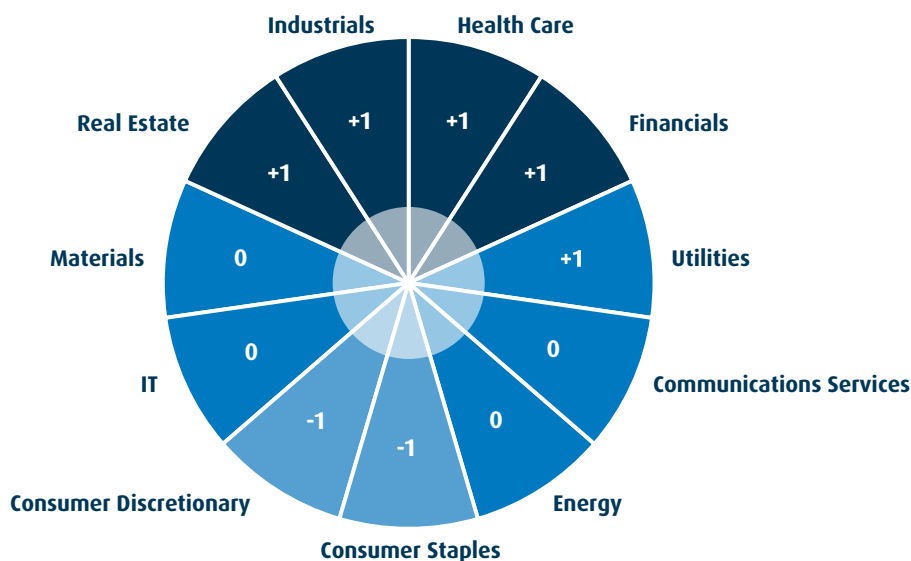
The dominance of a narrow group of mega-cap technology stocks has been a defining feature of recent years. While those companies remain high quality and continue to benefit from secular trends, the concentration risk embedded in U.S. market indices has increased. In 2026, broadening equity exposure is likely to be both a risk-management and return-enhancing strategy.

Earnings growth is expected to continue expanding beyond Technology into other parts of the market. Financials stand to benefit from a modestly steeper yield curve and improving loan growth, while Industrials and select Cyclical are likely to gain from easing tariff uncertainty and renewed capital spending. Healthcare should benefit from lower valuations and some upside surprises.

Many companies that lagged during periods of intense policy uncertainty in 2025 now have greater visibility on costs and margins, creating scope for recovery.

Importantly, the benefits of AI are not limited to technology firms. Companies across sectors are increasingly using AI to improve productivity, manage costs, and enhance profitability. This creates a second layer of winners—businesses that may not build AI tools themselves, but that deploy them effectively, this includes small/mid-cap companies.

### Global sectors score summary



- Broadening earnings story, not just Technology
- Growth in multiple sectors could outperform
- A.I. capex to boost productivity gains
- PMIs looking better for all regions
- Dividends should be bigger portion of total returns

Source: BMO Global Asset Management, as of December 31, 2025. Scoring based on BMO GAM Multi-Asset Solutions Team methodology (-3, very bearish, -2 bearish, -1 slightly bearish, 0 neutral, +1 slightly bullish, +2 bullish, +3 very bullish).

## OUTLOOK 2026

# Look for yield opportunities

As return expectations normalize, income should take on a larger role in portfolio construction this year. In an environment where equity returns may be closer to high single digits than the outsized gains of recent years, a 3-5% dividend yield or consistent income stream can meaningfully contribute to total return.

Policy rates are expected to drift lower, but they are likely to remain above pre-pandemic levels. This creates an interesting transition period. Investors who have relied on cash, GICs, or Treasury bills (T-bills) for income may increasingly look elsewhere as those yields decline. At the same time, equity and credit markets offer opportunities to lock in income without taking excessive risk.

Dividend-oriented equities, high-quality corporate credit, and covered-call strategies are particularly relevant in this environment. These approaches can help smooth returns and reduce reliance on capital appreciation alone. Yield-oriented allocations also provide some downside protection—never a bad thing. In Canada, episodic volatility, driven in part by uncertainty around CUSMA (Canada United States Mexico Agreement) trade negotiations, may also create tactical opportunities to add yield when spreads widen.



## OUTLOOK 2026

# Stay invested in gold

Gold continues to play a unique role in portfolios, and its relevance extends into 2026. Structural factors—including large fiscal deficits, elevated government debt, and ongoing central-bank purchases—remain supportive of gold demand.

At the same time, gold has proven its value during periods of market stress, holding up well when volatility spikes.

While returns in 2026 may be more muted than the exceptional gains seen in 2025, gold's primary appeal lies in diversification and protection. It acts as a hedge against geopolitical surprises, policy uncertainty, currency volatility, and inflation risks that could re-emerge if tariffs or supply disruptions intensify.

For clients, gold can be viewed as a tactical trade still but perhaps more as portfolio insurance in 2026. A strategic allocation can help offset drawdowns in risk assets and improve overall portfolio resilience, particularly in an environment where traditional correlations may be less reliable.



# Acknowledging risks

No outlook is complete without acknowledging risks. Four stand out for 2026:

- First, concerns about an AI bubble—whether justified or not—could drive sharp, sentiment-driven pullbacks.
- Second, policy uncertainties: a slower-than-expected Fed trajectory; geopolitical flareups (i.e., Venezuela); and trade-related (tariff) disruptions represent a kaleidoscope of potential market risks.
- Finally, a sharper-than-expected slowdown in the consumer or labour market would challenge the earnings outlook and raise recession risks.

The investment environment in 2026 is best described as constructive but nuanced. The conditions that supported strong returns in recent years are still in place, but they are evolving. Success will depend less on riding a single trend and more on sound diversification, income generation, and risk management.

By anchoring portfolios around the five key themes—maintaining equity exposure, increasing emerging-market allocations, broadening sector diversification, enhancing yield, and retaining the strategic hedge of gold—investors can position themselves to participate in upside while remaining resilient to volatility.

In short, 2026 is not about stepping away from risk. It is about engaging with markets more deliberately, using balance and selectivity to navigate a maturing cycle.



## OUTLOOK 2026

# MAST scores

### MAST Five Lenses scores entering 2026

Lens 1	Lens 2	Lens 3	Lens 4	Lens 5
<b>Asset mix</b>	<b>Asset class Equity</b>	<b>Asset class Fixed Income</b>	<b>Style/factor</b>	<b>Implementation</b>
<b>Tactical score:</b>	<b>Tactical score:</b>	<b>Tactical score:</b>	<b>Tactical score:</b>	<b>Tactical score:</b>
Equities <b>+2</b>	Canada <b>0</b>	IG credit <b>0</b>	Value <b>0</b>	Canadian dollar <b>0</b>
Fixed Income <b>0</b>	U.S.A. <b>+1</b>	High yield <b>0</b>	Size <b>-1</b>	Gold <b>+1</b>
Cash <b>-2</b>	EAFE <b>-1</b>	EM debt <b>0</b>	Yield <b>+1</b>	Oil <b>0</b>
	EM <b>+1</b>	Duration (U.S.) <b>+1</b>	Quality <b>0</b>	

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<sup>1</sup> Volatility: Measures how much the price of a security, derivative, or index fluctuates.

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The payment of distributions should not be confused with a BMO Mutual Fund's performance, rate of return or yield. If distributions paid by a BMO Mutual Fund are greater than the performance of the investment fund, your original investment will shrink. Distributions paid as a result of capital gains realized by a BMO Mutual Fund, and income and dividends earned by a BMO Mutual Fund, are taxable in your hands in the year they are paid.

**Your adjusted cost base will be reduced by the amount of any returns of capital. If your adjusted cost base goes below zero, you will have to pay capital gains tax on the amount below zero.**

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