

Goldman Sachs Exchanges: Outlook 2026

Episode 3: Assets and Allocation

**Peter Oppenheimer, Chief Global Equity Strategist,
Goldman Sachs Research**

**Kamakshya Trivedi, Chief Foreign Exchanges and
Emerging Markets Strategist, Goldman Sachs Research**

**Daan Struyven, Co-Head, Global Commodities
Research, Head of Oil Research, Goldman Sachs
Research**

**Christian Mueller-Glissmann, Head of Asset Allocation
Research, Goldman Sachs Research**

**Allison Nathan, Senior Strategist, Goldman Sachs
Research**

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Allison Nathan: I'm Allison Nathan and this is Goldman Sachs Exchanges. This is part three of Outlook 2026, our special 3-part series examining the trends that will define the global economy in the coming year. In part one, we got an overview of the global growth picture, and, in part two, we took a closer look at the economic outlook for the US, Asia, and Europe. Today, we have a tour around the capital markets. As we look at global equities, currencies, interest rates, commodities, and the implications for

portfolio strategy.

Let's start with Peter Oppenheimer, Goldman's chief global equity strategist. Peter, welcome back to Exchanges.

Peter Oppenheimer: Thank you so much.

Allison Nathan: So Peter, in this series, we have heard from our economists about a pretty positive outlook for the global economy again in 2026. What could that mean for the global equity markets?

Peter Oppenheimer: Well, I think, Allison, the first thing to say is that, in an environment where you're getting an extended economic growth cycle as we're expecting and alongside that inflation is moderating, allowing interest rates to come down at least in the US with some dollar weakness, that setup would generally be pretty good for risk assets like equities. Now, obviously other things come into play. Valuations are quite high given that equities have performed well in recent years, but overall we're expecting it to be a good year and a year for equities that's generally driven by underlying profit growth rather than continued valuation expansion.

Allison Nathan: And if you look at your broader work, Peter, you often talk about the four parts of the equity cycle. So despair, hope, growth, and optimism. We are clearly in the optimism part of the cycle at this point, but is the next step not despair? Are you concerned about the risks around the positive view?

Peter Oppenheimer: Yeah, well, I think a little bit of context. What we mean by these different phases, I mean, they're based on the historical experience of many different cycles in equities going back over a century or so. And what we find is that each cycle repeats itself not in exactly the same way, of course. It has its distinct features and drivers. But you do tend to get specific phases of the equity cycle which are driven by different factors. So the despair phase that we describe is really a bear market. It's usually coming in advance of some kind of recession. We saw that of course during the pandemic as an example. Equities fall because profits come down.

The hope phase, the phase that follows that, tends to be very explosive, very strong, with sharp rises in valuations in equities as investors really price forward the hope of a

recovery.

And the growth phase, the longest phase, which we've already enjoyed I think a large part of, is when profits are actually growing alongside the economies.

And then you tend to get late in the cycle an optimism phase where investors get sufficiently optimistic. The valuations start rising again alongside profits. And that's what we think we've been in in the last year or so. Yes, we would expect some kind of despair phase to follow, but this optimism phase could last quite a long period of time. And with the relatively benign backdrop that we're looking at economically, together with still pretty good profit growth and the narrative of growth in AI, we would expect this still to continue at least through this year.

Allison Nathan: Let me ask about the AI theme.

Obviously it's been a tremendous theme in the markets really for the past couple of years, certainly in 2025. How do you see that playing out in 2026? Will investors be moving past that theme this year?

Peter Oppenheimer: I don't think they'll be moving

past it, and we do expect that to continue. But we're expecting a broadening out. We believe that this year investors will be widening their scope of interests beyond the hyperscalers, the companies that are really driving the fundamental large language models and infrastructure into the application layer, which companies are really driving new products and services and also in the companies that are helping to drive that growth in other sectors around energy generation, data centers, and as well companies that can benefit from these technologies to become more productive. So we're really expecting it to continue to be a major investor focus but broadening out in terms of the way it affects and drives markets.

Allison Nathan: So in that context, how would you think about allocation to different equity markets? I mean, you've made the point that despite the very strong absolute returns in the US market, the US equity market actually underperformed major non-US equity markets in dollar terms in 2025. So what do you expect for 2026? Do you think the US will underperform again?

Peter Oppenheimer: Yeah, so really diversification was our main theme last year, advising investors based on

how much they'd accumulated in US dollar assets and equities, together with technology in some of the biggest companies. And we're expecting that broadening out to continue.

There is I think also a diversification which is happening not just at the geographical level but also across different sectors. Technology was really the only major driver of profit growth for many years. Now you're starting to see many sectors enjoy better profit growth, generating higher returns for shareholders as they benefit from some of these technologies and also help to contribute to growth in the technology sector.

So I think from a risk-adjusted point of view, investors really have a broadening array of possible investment opportunities to look at this year, and diversification is a really good way of improving risk-adjusted returns.

Allison Nathan: So diversification is the key, but are there one or two regions or sectors that you're particularly favorable on in 2026?

Peter Oppenheimer: I think in terms of regions, the

highest return forecast we have across EM and Asia, particularly northern Asia, these have been areas that have lagged behind very dramatically in recent years vis-à-vis the US but where you're starting to get some real tailwinds of better growth, the prospects of a weaker dollar also boosting returns and some interesting profit growth coming through, which we think will be stronger than you're getting in the US market.

Across sectors, it really depends on which markets. We still like technology but, as I said, we're looking at the sort of broadening out more into the application layer and companies that are really generating new products and services. We like selectively in some areas financials, which we think will benefit from lower short-term rates but still higher long-term interest rates and economic growth. And we've seen a tremendous year in many financials last year; we expect that to continue. And we like areas around some of the industrials where you can also see better growth rates as companies in some of these parts of the market help to contribute to building out the infrastructure around AI, for example, in building data centers, energy exploration and distribution, and so on. So quite a broad spread really of investment opportunities across regions.

Allison Nathan: Thanks so much for joining us, Peter.

Peter Oppenheimer: Thanks, Allison.

Allison Nathan: Let's turn now from equities to currencies and interest rates. Kamakshya Trivedi is Goldman Sachs Researcher's chief foreign exchange and emerging markets strategist. Welcome, Kamakshya.

Kamakshya Trivedi: Thanks, Allison.

Allison Nathan: So Kamakshya, let's start with the dollar. The dollar started off last year with a significant drop, but it has since flattened out, hasn't done much in recent months. What do you expect to see through 2026?

Kamakshya Trivedi: Yeah, you're right. However, if you look at our global macro outlook, we are pretty positive on growth in most parts of the world. That makes for a pretty procyclical backdrop, and the dollar is still an overvalued asset. It was something like 22% overvalued at the start of 2025. After the 7-8% trade rated depreciation that you saw in that year, it's now something like 15%

overvalued. So in a broad procyclical environment, we still expect the dollar to depreciate but much less so than it did last year. We are penciling in something like a 3% trade rate to depreciation in the dollar this year. But as I said, it's a broader move. It comes against more cyclical currencies given our cyclical optimism. Currencies that tend to do well when growth is buoyant, when commodity prices are increasing, and where cyclical assets are really doing well.

Allison Nathan: Let's turn to interest rates now. You say we're at the, quote, tail end of global easing, end quote. So talk us through that and what that means for interest rates this year.

Kamakshya Trivedi: When you look across our forecasts, the easing that we are writing down has narrowed in the DM world. It's really only the US Fed, the Bank of England in the DM world that we expect to deliver more rate cuts in the year ahead. There's a few more EM central banks, particularly in higher yielding markets like Brazil, Hungary, where we also expect cuts in interest rates from high levels. But a large majority of jurisdictions we think will end up just standing pat, not moving rates in

either direction.

Ultimately, though, we think that there's going to be a kind of broader disinflation playing through much of this year. I think all of those factors should keep inflation low, should keep inflation anchored, and should allow these central banks to stay on hold. But it's an important development, Allison, and I think it has implications also for the longer end of rates curves. Remember, it's not that long ago when investors were very concerned about fiscal risks, about fiscal positions and what that meant for bonds. In our view, those risks haven't gone away. Those fiscal positions are still stretched, but the fact that we expect disinflation to be quite a prominent feature of 2026 means that should keep a lid on those pressures. It should keep bond yields well anchored.

It also means that if you're thinking about it in a portfolio context, with inflation well anchored, growth is going to be the bigger driver, the bigger swing factor in bond yields, whether they go up or down, whether you price in hikes or not. And therefore, bonds can provide a better hedge to long equities or long risk asset portfolios in that kind of environment.

Allison Nathan: Right. So investors are not as concerned, as you say, about bond yields rising as they have been in the past year or two.

Kamakshya Trivedi: That's right. I think if we look at the US, we're expecting pretty range-bound bond yields, a 10-year yield around 4.20 thereabouts. Our more stronger directional views are in some other markets. We expect on the back of Germany's fiscal impulse, we expect to see bund yields continue to rise towards 3.25. On the other hand, given our expectation that inflation will come down and the Bank of England will cut rates further, we're more bullish on bonds in the UK. We think yield-to-yields will decline from their high levels.

Allison Nathan: Kamakshya, let me just end our conversation by zooming out for a moment because you point out that markets have run ahead of the macro. I mean, does that mean that 2026 could disappoint investors even if growth is good, as our economists generally expect?

Kamakshya Trivedi: Let me explain what I mean by the fact that markets have run ahead of the macro. If you

think about the macro cycle, it doesn't feel very late cycle. On the other hand, when you look at some market valuation metrics, whether it's valuations in equity markets, whether you look at the tightness of credit spreads, both on the corporate side or on the sovereign side, those are extremely stretched. We are in the sort of first or second percentile, for example, in corporate spreads.

And so when it comes to the market side, it does feel much later cycle than the macro. Now, how is that tension going to play out? Ultimately, we still think that if we get the growth we are forecasting, if that growth is delivered, that positive procyclical environment will drive risky assets higher, will drive equities higher despite the stretched valuations.

But the tension that I described between the market cycle and the macro cycle could mean that those higher equity prices come alongside higher volatility. Or if you see investors focus on the leverage that, for example, corporates are taking up, those gains in equities could come alongside wider credit spreads.

Allison Nathan: Thanks so much for joining us, Kamakshya, truly appreciate it.

Kamakshya Trivedi: Thank you.

Allison Nathan: Let's now turn to the commodity markets with Daan Struyven, co-head of Global Commodities Research. Daan, good to see you again.

Daan Struyven: Thanks for having me, Allison.

Allison Nathan: So Daan, let's start with gold. It had an absolutely phenomenal run in 2025. What do you expect to see in 2026?

Daan Struyven: So going long gold remains our highest conviction. Our base case is that prices rise another 10% to \$4,900 by the end of this year with risk to our forecast skewed to the upside. We expect the same two drivers that drove this phenomenal run for gold last year to basically be repeated this year.

Structurally, we think higher central bank demand is the new normal since '22 when Russia's reserves got frozen.

Cyclically, two more Federal Reserve cuts, which reduced the opportunity cost of gold, should attract more ETF investment flows.

Taking a step back, our forecast that the PBOC and other EM central banks will continue to buy a lot of gold fits into our broader 2026 commodities outlook team, which is sort of the US-China geopolitical and AI power race. By buying more gold, EM central banks such as the PBOC reduce the geopolitical risk of sanctions and also improve their positioning in their gold to internationalize their currency by backing it up more with gold.

Could gold prices exceed our bullish forecast? Absolutely. In a scenario where this diversification trend broadens beyond central banks and also reaches private sector investors, we see a lot of upside. Why? The main reason is that investors are under-investing in gold. We estimate that US investors hold only 0.2%, actually slightly less than 0.2%, of their portfolios in gold. And for every one basis point increase in the gold share in portfolios, we estimate about 1.4% of additional upside to gold prices relative to our base case.

Allison Nathan: Let's turn to the energy patch. Oil is very much in focus off of the back of the recent Venezuelan developments, which you and I have recently discussed on this podcast. How does that factor into your outlook for oil prices this year and beyond?

Daan Struyven: Yes, our base case is that oil prices trend lower in 2026 and start recovering from 2027. Why do we look for additional downside on top of roughly 15% of downside to oil prices last year? The reason is the market is still oversupplied on the back of very strong supply. And to us, that suggests that you need somewhat lower prices this year to rebalance the market from '26 onwards unless we get big supply disruptions over OPEC production cuts, which we don't expect.

And so downside risk to our oil price forecast that we're watching a potential Russia-Ukraine peace deal and a potential recovery in Venezuelan production. That said, we don't think that a quick jump in Venezuelan production is likely despite the fact that production was 3.5 times higher in the mid 2000s because the state of the infrastructure is quite degraded for companies to go back.

Allison Nathan: Even if that all falls into place and they start drilling, it does take time.

Daan Struyven: A lot of time.

Allison Nathan: Let me switch gears for a moment, Daan, and talk a little bit about AI. It's been a topic for many of our episodes, but let's focus a bit on the increased energy needs around AI. You know, how might that impact commodity markets broadly in 2026?

Daan Struyven: Our view is that the best commodity AI trade is local US power markets for simple reasons. On the demand side, the demand boost from data centers to power demand is very direct and very big. For the first time since the '70s, US power demand is outpacing GDP growth. And what's interesting is that the boost to power demand is extremely local. About 72% of the US data centers sit in just 1% of the country. So these local markets are getting extremely tight.

Now moving to the supply side, power markets are very constrained. It takes years to invest in the grid, so we think the AI commodity trade is going long US power

markets where the data centers are going.

Allison Nathan: But let me just ask you, though, as you said, power markets already moved dramatically, so is this not already being priced in?

Daan Struyven: We have seen some significant increases in power prices, but on our estimates, tightness and scarcity will get exacerbated and so there is just likely more room for power prices to move higher, especially in the local markets such as the PGM markets, which includes Virginia, the data center capital of the world, because we think we really need higher power prices to incentivize supply to prevent running out of power and getting the lights switched off.

Allison Nathan: Interesting. Thanks so much for joining us again, Daan.

Daan Struyven: Thanks a lot.

Allison Nathan: Finally, to tell us what all these different market drivers could mean for portfolios, let's bring in Christian Mueller-Glissmann, our head of Asset Allocation

Research. Christian, welcome back to Exchanges.

Christian Mueller-Glissmann: Thanks for having me.

Allison Nathan: So Christian, before we get into your portfolio recommendations, you talk to a lot of the biggest investors in the world. So start by telling us what sentiment feels like to you heading into 2026.

Christian Mueller-Glissmann: Pretty bullish, I would say. I think especially in the last few weeks and coming into the year, I think people are setting themselves up for a pretty friendly backdrop. Our risk appetite indicator that aggregates risk premium patterns across assets to track a bit how bullish or bearish investors are is at 0.8 roughly. So that's the upper end of the range. Usually, you don't get much above 1.0. So you can see that investors have turned a bit more optimistic coming into the year.

But I would say that there is not the same breadth or the excessive optimism that would make us worried. And I would also say, on the flip side, what worries us a bit is that equity allocations in a lot of investor portfolios are a

bit high. And this is not because people have been buying more equity. It's just the performance. It's been a very strong rally in equities, really not only last year but for the last three years. And that actually means that equities have gotten a bit larger, and a lot of investors probably have let the equity allocation run a bit up. And that means at the margin people are positioned equities, but there is not a lot of excess, I would say.

Allison Nathan: So in that context, as you said, valuations are high, equity positions are high, equity index levels, especially in the US, are very high. So are you concerned about drawdown risk as we head into this year?

Christian Mueller-Glissmann: Yeah, I mean, listen, I think we do have elevated equity valuations, but that to some extent reflects where we are in the cycle and it reflects fundamentals in general, both cyclical and structural. So when you're late cycle, generally equity valuations tend to be a bit higher. We find that reflects in a lot of cases where you are. Like, if you look right now, unemployment rates are low so that's somewhat comforting. Even though they picked up a bit, they are still low in the long-run context. Profit margins are high, and

that's a setup which arguably markets might be willing to extrapolate, pay a bit more for.

But on top of that, you have structural optimism. I think AI gives a lot of optionality for investors. So what I would say is that valuations are high, but we are not seeing the excesses related to structural optimism that would worry us. And I would say that doesn't mean that you can't have equity drawdowns, to your question. Definitely higher valuations increase the risk of disappointment, but what I would always say is you need to have a reason. There needs to be a trigger, a kind of shock, a deterioration in macro momentum. Valuations alone are not really a good signal for equity drawdown risk.

Allison Nathan: And so that risk is there, but you remain relatively optimistic in your baseline views. But given that risk and ultimately this concentration into equities given its performance, does that make the case for diversification? That's the case you've been making for a while, but does it enhance it?

Christian Mueller-Glissmann: As an asset allocator, you have two major tools to add value in the portfolio.

Either market timing or diversification. And what we would argue is in a late-cycle backdrop, you should focus on diversification, creating a robust portfolio that can deal with shocks and that can let you stay invested because one of the most important things is, in the late-cycle backdrop when valuations are elevated, the business cycle looks late. Like unemployment rates are low, profit margins are high, as I mentioned. It's tempting to say, "Maybe I reduce my equity allocations because in the next 5-10 years maybe equities will deliver lower returns." The challenge is that often in the later stages of a bull market, equities still deliver very good returns usually. We actually found that, if you go back to 1900 and look at all the big equity bear markets, in the last six months of the bull market, you roughly make the same performance that you lose in the first six months of the bear market.

So to some extent, you want to stay invested and manage the risk of an equity bear market as you already are entering that equity bear market. But you don't want to speculate when that peak is. So from that perspective, we're overweight equities right now, and we have been overweight equities for most of last year and shifted more overweight after Liberation Day. And I think the key focus

for us now is protecting that overweight, and diversification is one of the core tools.

And the last thing I would mention on that is really alternatives. Like, public markets diversification is obviously your first goal to place to reduce risk, but we also find in a late-cycle backdrop it's a good idea to look at alternatives to help your diversification because they're less reliant on the cycle, they're less correlated potentially. So we're currently discussing a lot with clients how to think about the potentially ramping up alternatives allocation selectively.

Allison Nathan: So diversification, alternatives, you know, is there anything else that investors should be focused on in terms of thinking about and building their portfolios this year?

Christian Mueller-Glissmann: Yeah, I think one of the main messages we've been given as well is, while we do like equities, while we do like adding risk via equities and being overweight, we would avoid at the same time carry trades like credit. And that's a typical late-cycle investment strategy as well that you would rather move up

the risk curve via equity than credit because credit has a poor convexity and a poor asymmetry when you're late cycle because spreads are tight. So you want to get a bit more selective on those, considering that the upside is limited.

But if there is a recession scare, if there is a turn in the macro momentum, that these carry trades, they tend to really respond very badly to recession risk. So we've been very focused on reducing risk in credit. So stay away from credit.

And in the same vein, considering credit spreads are tight, they're usually very linked to volatility. If you look at volatility across assets, especially coming into the year, it's reset significantly. So if you look at US 10-year rates vol or euro-dollar volatility, it's close to the lowest levels on record. So that opens up the opportunity for selective hedges as well.

Allison Nathan: A lot to think about. Thanks so much for joining us, Christian.

Christian Mueller-Glissmann: Thanks for having

me.

Allison Nathan: My thanks to Christian Mueller-Glissmann, as well as to Peter Oppenheimer, Kamakshya Trivedi, and Daan Struyven. And thank you for listening to this final episode of our special Outlook 2026 series. This was recorded on Wednesday, January 7th, and Thursday, January 8th, 2026. I'm your host, Allison Nathan.

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