

Goldman Sachs Exchanges

Will US Stocks Outperform in 2026?

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Allison Nathan: 2025 was a strong year for US stocks, but they actually underperformed in major markets around the world. So will US assets lead or lag in 2026? I'm Allison Nathan and this is Goldman Sachs Exchanges.

Today, I'm pleased to sit down once again with Sharmin Mossavar-Rahmani, head of the Investment Strategy Group and chief investment officer of Wealth Management.

Sharmin and their team recently published their 18th Annual Outlook in which they take stock of the world's most consequential economic and market trends and present their recommendations for clients. Sharmin, welcome back to Exchanges.

Sharmin Mossavar-Rahmani: Thanks a lot. Glad to be

here.

Allison Nathan: I always look forward to this annual conversation, and we have so much to talk about. But let's start with a brief lookback at equity performance in 2025. You've become very well known for your views on long-term US exceptionalism, but in 2025 that proved true on the growth side. We did have US growth outperform meaningfully relative to consensus and to other major economies but not really on the asset side. US stocks did rise significantly, but they underperformed their global peers. So in hindsight, was that underperformance surprising? And what drove it?

Sharmin Mossavar-Rahmani: Allison, you're quite right. We're known for having a couple of key investment themes. First and foremost, US preeminence. And we use the word "preeminence" to indicate that relative to other parts of the world, both developed and emerging markets, we believe US is preeminent. And we go in the report through a whole list of factors. And we believe that that is still true.

What does that imply for investments? An overweight to US assets but never totally at the expense of non-US

assets. So we always tell clients you should have some non-US assets. One of the pillars of our investment philosophy is appropriate diversification. So clearly some exposure to non-US assets and emerging market assets.

And the second theme is stay invested. So to your point, yes, staying invested in US equities, in spite of the volatility during Liberation Day, was a good recommendation. And we actually recommended clients lean in as the market was going down. So if people had cash on the sidelines deployed to your strategic asset allocation, if they needed to rebalance their portfolios they should do that. So stay invested. And of course, as you just mentioned, the returns were surprisingly strong.

So US equities up 18%, well beyond our best estimate. So we had a base case return of about 6%, and we had a 30% probability to a very good return and that was about 14. Far exceeding.

What about non-US assets? So what the surprise was, is US 18% high but non-US developed returns were 22%. And as an example, China was up at 33%. What's amazing is that is an exactly opposite direction as earnings. So US

equity returns were up by 18%. Earnings grew by 12. So you had really robust earnings supporting this increase in returns and prices. You did not see that in non-US developed or in, for example, China. Non-US developed markets earnings were up only 2%, so a market that was up 22% with only earnings up two. China it was even more shocking, up 33% and earnings were down. So earnings were actually down in China. It's pretty remarkable that you would see something like that.

Our view is that, at the end of the day, prices follow earnings. And so you could have these short-term movements, but, at the end of the day, you want to make the bet where the earnings are going to be sustainable. And so we still like our US overweight.

Now, it's not to say that US will outperform every single year. These relationships aren't linear. And in fact, since the Global Financial Crisis, US equities have underperformed developed and emerging market equities nine times. So it's not a surprise that this would occur. We expect something like this to occur. But in the long run, we prefer our US overweight based on earnings.

Allison Nathan: So if you think about 2026, what are your expectations for earnings? And will that potentially lead to outperformance for the US this year?

Sharmin Mossavar-Rahmani: The way we're thinking about 2026, we expect non-US developed to lag, both earnings as well as returns. We expect US to be in the middle and emerging markets to outperform, especially emerging markets excluding China.

The numbers aren't that different. So for example, for non-US developed, we have a 6% base case return. For the US, we have 7%. And for emerging markets, we have eight. So these numbers are not that significant that would prompt us to change our asset allocation. And again, the earnings are going to be very strong in the US, much better than, for example, non-US developed.

Allison Nathan: I want to follow up on China because, as you mentioned, returns were through the roof but the earnings didn't keep pace with that, were negative. You've been well known for a negative view on China, at least in terms of its assets, so are you standing by that view?

Sharmin Mossavar-Rahmani: What's really surprising is the big spread between the published numbers on growth and what people are seeing elsewhere. So for example, they are printing numbers in the 5% neighborhood, 4.8%, 5%. And yet the Rhodium Group, that is very well respected for their information on China, has a number, about 2.5 to 3% for 2025.

And then Emerging Group Advisors, Jonathan Anderson, who used to work at Goldman many years ago and now is based in China proper, actually has a number that he thinks mid-2025 the number was more like 1%. So there's a big question mark in terms of what are the real numbers for China's GDP?

When we look at trend growth for the next ten years, our base case is about a 3% growth rate, and they end up in 2035 at about 2% GDP, which will be lower than trend growth numbers in the US, especially if we include the estimates from our colleagues in the economics department in GIR, Global Investment Research, where they think AI will add about 0.4% to US GDP. So if trend right now is around two, US trend will be 2.4 by 2035 and here is China at two. So our view of China growth slowing down

prevents us from being so excited about their equity markets.

Now, it is a closed financial market, so it's not as if Chinese households can leave and go and invest in non-Chinese assets in a meaningful way. So they're somewhat stuck between investing in their banks where there are very low rates, they could invest in equities, and they could buy gold. And so they invest in equities and buy gold, and also the government there encourages institutions, asset management firms, and insurance companies to invest in their equities. And so we don't think those numbers and that outperformance is sustainable by any means.

Allison Nathan: I'm interested in your positive view on emerging markets. Are there certain countries, certain markets that you're particularly favorable on in 2026?

Sharmin Mossavar-Rahmani: We have what we call tactical tilts. So there's strategic asset allocation for clients. We recommend all investors at any wealth level should think about what's their right strategic asset allocation. But over time, the market presents itself with opportunities, and we call those tactical tilts, tactical asset

allocation.

And so we actually do like emerging markets ex-China. So we made a strategic shift in the portfolio towards that. And then also more tactically, there are countries that we like. So for example, South Africa would be one example. India with much stronger steady earnings over time would be another. And then Mexico.

So there are reasons why we would have these tactical tilts. They're small positions but generally we're favorable in that regard. We also don't think that incredible currency depreciation of emerging market countries relative to the dollar is going to persist. It has been a significant headwind to emerging market returns, about 40%, and we think that's no longer going to be a factor.

Allison Nathan: Right. So some positive tailwinds to emerging markets in the coming year. You mentioned AI. I want to talk a little bit more about it. Obviously a major theme in 2025. Likely going to be a very big theme in 2026. You point out in the report that it is, quote, especially hard to separate fact from boosterism -- I like that term -- in the AI ecosystem. So where does that leave

investors who are very exposed to the AI theme?

Sharmin Mossavar-Rahmani: There are a couple of questions in your big overall question, so we have to parse it out. So in the report, we have a section called "Bubble, Trouble, Here and There." And we're saying US equities, for example, are not in bubble territory. However, in the AI ecosystem, we think there is too much excitement and hype. What do we mean by that?

For example, the expectations for the impact of AI in terms of short-term productivity, in terms of job losses is enormous. It was an incredible article today in the paper version of the *Financial Times* where they have a discussion on the impact of AI on childcare. And they specifically mentioned that there has been some research that reports that physical childcare productivity can improve by 21% from AI. How is that possible? If you're playing with your kid, if you're outdoors, if you're taking them here and there, the physical aspect is what they mentioned, is 21%. And the overall impact on improvement in productivity is 28 for any kind of care, elderly care or childcare.

That just doesn't make sense. If anybody's been a parent,

having an AI tool to actually help raise your kids is a little strange. So I think the hype and excitement about all the things AI is going to do is a little too high. And where do you see it most? When you look at the private markets. We think you see it a lot more than you do in public markets.

And when we talk about some of the hype there and the bubble-like features, the vendor financing that we see amongst all the AI companies including the private ones, the ease with which credit has become available where any private equity firm, any venture capital that has AI tied to it can easily raise money without a really necessarily good product or service that they're offering. So when we look at that, that's where we say there's a little bit too much hype in expectations.

Now, in the public markets, obviously concentration has been a big theme. And we have said that, when you look at concentration in equities, there's actually no statistical significance in forward-looking returns. So the level of concentration, for example, that was such a concern last year did not necessarily bear on returns in 2025. So the concentration in 2024 did not hinder incredible returns for

the S&P 500.

And in fact, the S&P 500 returns, ex the Magnificent Seven and the tech space, did very well. S&P up 18, excluding Mag Seven up 15. And so definitely there has been a benefit to earnings and S&P returns over the last four or five years from the tech sector and specifically the Magnificent Seven. But we don't think you see the same pattern in the public market as you do in the private market. People are becoming much more realistic and prices have adjusted.

Allison Nathan: There has been a tilt towards the Mag Seven and the AI theme. Do you think investors should maintain that going into 2026?

Sharmin Mossavar-Rahmani: We have said that the S&P 500 Index is a very hard index to beat. And so just stay invested, passive equities. It's cheap, it's tax efficient, and over time it's been such a difficult benchmark to beat that one should not adjust that. Do we think one should overweight the Mag Seven and that sector? No, not necessarily. We'd rather just have broad market cap exposure in the S&P 500.

And it is interesting in that the S&P is constantly revised. They put better growing companies in their, and they take out the weaker companies. And what they take out actually continues to underperform. And what they add to the S&P Index does very well. And so we think the S&P's just a great benchmark overall.

Allison Nathan: Understood. Another asset that's had a phenomenal run is gold, but in your report you stick to your long-held recommendation that clients shouldn't use gold, or bitcoin for that matter, as a hedge in their portfolios. Why is that?

Sharmin Mossavar-Rahmani: So one is the long-term strategic question. What is the value of gold in a portfolio? Does it generate cash flow? Is it a good inflation hedge? Is it a good deflation hedge? Does it grow with earnings like equity would grow? And the reality is it doesn't do any of those things.

So if you look at inflation in the long run, gold is actually not a good inflation hedge. It hedges inflation about 50% of the time, while US equities, over the long run, hedge

inflation 100% of the time. So when you look at the numbers overall, gold is not a strategic asset class in a portfolio, and that actually includes all commodities, including oil. So generally, that's our strategic view.

Tactically, the reason we're not recommending gold is gold has already rallied quite a lot. A lot of that is driven by initial central bank buying, and there's no doubt the central banks can continue to buy. We know that, for example, China has been trying to increase its allocation to gold. No one really knows all the numbers for China. People are making estimates of how much gold they're importing. And obviously that price has created some momentum. Institutions have followed up. Households are following up. And importantly, Chinese households are also buying a fair amount of gold. And so that creates a lot of momentum. There could be more upside. People could get exposure conservatively if they want, but we don't think these prices are sustainable long term.

China still has a lot of buying to do. So as long as they're buying, there's a floor on prices and there could be a lot more upside. But we're saying that this is not necessarily a great trade with really supportive valuation to make that

trade.

Allison Nathan: Understood. So if we think back, though, you started the conversation: Diversification is still key. So how would you recommend diversification and hedging your portfolio?

Sharmin Mossavar-Rahmani: When it comes to US assets, the most reliable consistent hedge, in fact, are US treasuries. So if people want a well-diversified portfolio, we recommend people have global stocks with an overweight US but still have non-US developed and some emerging markets. We recommend having fixed income as, quote/unquote, the sleep-well money. And the most reliable sleep-well money has historically been US treasuries. In a deflationary environment, US treasuries are a better hedge in the portfolio than, for example, gold. So we would recommend that.

And then we also recommend having an allocation to private assets. So private equity, growth equity, private infrastructure, private credit. But the issue there is to make sure clients are realistic about what the incremental returns are going to be. So if people think they're going to

get mid-teens in a diversified private asset portfolio, we think that's unrealistic. We think it's going to be a few percentage points above, for example, the S&P 500.

Allison Nathan: So let me end the conversation, Sharmin, talking about the longer term. There's been an interesting market debate about whether high current valuations are likely to reduce long-term returns. What's your take on that debate?

Sharmin Mossavar-Rahmani: There a couple of factors one has to think about as we think about long-term returns. First and foremost, it is really incredible, there's this myth out there that there's mean reversion in equity valuations. So if equity valuations are high, they have to revert to some mean and that will lower returns going forward.

When we look at valuations across eight different metrics, across four different sectors -- so we're looking at the US, we look at Japan, we look at the UK, we look at euro zone monetary union countries in aggregate -- you have 32 observations. Only one of them has shown statistically significant mean reversion. So we start with the base case

that valuations being high doesn't tell you anything about returns for the next one, two, three, five years. So that's base case. Earnings will matter much more, the direction of margins matter.

But if earnings are way above average -- so your earnings growth trajectory is like what we had last year at 12% -- and long-term trend in the US is, for example, 6.5, that tends to mean a bit of multiple contraction. So you could get lower returns, but it doesn't mean such lower returns that people are talking about nowadays. So that's number one.

Number two is we have seen a significant shift in GDP volatility. Volatility of GDP has come down steadily since the '60s, '70s, all the way to the present. So if you have less volatility of GDP, it means you're also spending less time in recession. Before 1992, we would spend about 18-19% of the time in recession. Now that number has come down to 8%. So if you have less recession, you have more stable earnings, and investors will pay a higher multiple.

So we have actually seen a significant step-up in market valuations -- taking out the dot-com bubble so it doesn't

distort the data -- but post 1992. So even though valuations are high, we don't think you should look at, like, post World War II valuation metrics. You need to look at them at post 1992.

And then when we look at valuations relative to bond yields and think about the equity risk premium, actually the market appears fairly valued. And there's some great research done by Professor Damodaran of NYU, and in fact it shows total fair value. So that's also something we need to think about.

Then we also need to think about margins. Margins have continued to surprise to the upside. And generally, when you're in an economic expansion, margins continue to improve. And so with this incredible improvement in margins and companies being so efficient, we continue to get good earnings. So we are not pessimistic on long-term returns at all. Now, we're not expecting double-digit returns over the next five years. We're assuming returns more like, I'd say, 6% for US equities.

Allison Nathan: So reasons to be somewhat optimistic, not just in the short term but over the longer term.

Sharmin Mossavar-Rahmani: Yes.

Allison Nathan: Sharmin, thanks again for joining me today. Always a great conversation.

Sharmin Mossavar-Rahmani: Thanks. I appreciate being here.

Allison Nathan: This episode of Goldman Sachs Exchanges was recorded on Friday, January 9th, 2026. I'm your host, Allison Nathan. Thank you for listening.

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