

Bull vs Bubble: How long will it last?

Investment Outlook 2026


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Bull vs Bubble: Growth is the decider

The global economy enters 2026 with a volatile mix of calm and concern. World growth in aggregate has been steady – hovering around 3% in recent years – yet this placid surface conceals powerful undercurrents. Trade tensions, fiscal pivots, and an investment boom in artificial intelligence have defined the past year, and they will continue to shape the future. And the question for investors is whether today's bull market is built on the solid ground of fundamentals or on the froth of a speculative bubble?



JOE PRENDERGAST
Head of Investment Strategy

America is in flux but remains the fulcrum of global finance and trade. Tariffs, dramatically raised and partially reversed in 2025, have left a residue of uncertainty. A looming battle over the Federal Reserve's independence adds another layer of intrigue, with potential implications for long-term rates and institutional credibility. Yet the US economy has shrugged off these risks, buoyed by a resilient consumer and a surge in capital spending on AI infrastructure. Softness in the labour market hints at softer consumption ahead but investment has surged to 18% of GDP – high, and supportive of growth going forward, but still shy of the excesses of past booms.

Europe, long the laggard, is stirring. A fiscal volte-face in Germany – embracing defence and infrastructure spending – may lift growth from its anaemic base. This shift, combined with looser policy across the bloc, gives the euro area a more constructive, if still modest, growth outlook than it has enjoyed in years.

Markets have taken note. After a rocky start, equities surged in local currency terms in 2025, propelled by AI optimism and resilient earnings. Technology and Communications Services led the charge; Healthcare and Utilities lagged but are now improving. Valuations may appear lofty, but here's the surprise: despite strong gains this year, our long-run expected equity returns have ticked up – from 6.6% this time last year to 6.7% now. This modest but meaningful rise reflects stronger earnings forecasts, even as valuations create headwinds. Having notably underperformed over the past year, Healthcare stands out for its attractive mix of value and growth in our view. Technology may face the largest perceived bubble risk, but can remain a structural winner if earnings momentum persists.

Fixed income tells a more nuanced story. The past year saw short-duration and lower-rated credits outperform, while long-dated sovereigns suffered as yield curves re-steepened. Debt sustainability has become a watchword: France's fiscal slippage triggered downgrades and spread widening, while Britain's budgetary woes kept gilt yields elevated. By contrast, corporate bonds remain attractive; spreads are tight, and there has been some pick-up in defaults, but investment-grade corporate balance sheets appear healthy and robust profits support stability.

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For 2026 and beyond, our outlook emphasises selectivity and structural growth. Equities should deliver moderate gains, led by technology, healthcare, and industrials, while fixed income strategies tilt toward corporates and avoiding long maturities. With fiscal risks reshaping yield curves and valuations limiting upside, disciplined allocation and a focus on quality remain paramount. The bull market endures – but growth must keep delivering to avoid the bubble.

Global Economy Climbs a Wall of Worry to Deliver Steady Growth

The global economy climbed a wall of worry in 2025. Despite a host of trade, geopolitical and economic uncertainty, estimated Gross Domestic Product (GDP) growth of slightly over 3% for 2025 is bang in line with expectations from a year ago. Indeed, at a headline level global growth has been remarkably stable at close to this level since 2023, with something similar anticipated for 2026 too.

Like a swan, the global growth environment belies the turbulence that has been happening under the surface to achieve this outcome. There are structural and cyclical features present here that will continue to make their presence known as we progress through the next twelve months.

Persistent uncertainties in the US policy sphere

The biggest uncertainty in the first half of 2025 was tariffs, peaking in early April with the seismic announcement by US President Trump on April 2nd, followed by a partial reversal a week later after a market meltdown. Tariff deals have followed with numerous trading partners, but the upshot is still a significant increase in tariffs relative to a year ago. Unlike the first Trump term, these tariffs are on a much greater array of countries beyond China, although it continues to be at the epicentre of a wider battle for economic supremacy. While we await the Supreme Court's decision on the legality of the tariffs, it would be foolish to think that this uncertainty will be completely removed in 2026.

A second uncertainty which will gain greater prominence in the early part of the year will be the appointment of a new Chair of the Federal Reserve and the apparent threats to the independence on that organisation. The outcome of that process and potential other efforts to change the composition of the rate-setting committee will have important implications for the credibility of US institutions and for long-term US interest rates.



DERMOT O'LEARY
Chief Economist

Still early in the AI investment boom

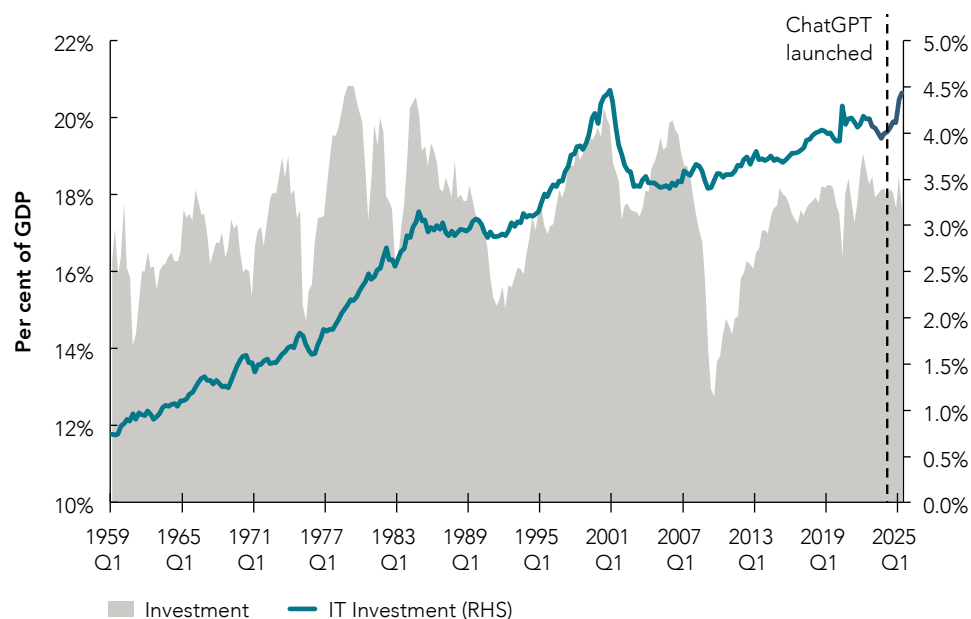
These uncertainties have not halted growth in the US economy, which has outperformed expectations once again. The most important contributor to this outperformance has been investment, most notably in the boom in technology and the development of AI infrastructure. This has led to concerns about the risk of an investment bubble. While the scale of expansion is noteworthy, historical comparisons would suggest that it is still relatively early in this particular investment cycle. As shown in our chart, investment relative to GDP currently stands at 18% in the US, relative to over 20% during both the tech boom in 2000 and the housing boom in 2006. Within this, we estimate that tech investment, including data centres, amounts to 6% of GDP. A hit to this sector would be painful, but there appears to be a runway for growth in the short-term given the announced investment plans.

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Figure 1.

Still in early stages – investment as a % of US GDP

Source: BEA Note: Data is in nominal terms

The US consumer has also outperformed over the past twelve months, aided by wealth effects at the upper end of the wealth distribution and a relatively resilient labour market. There are some cracks emerging in the latter though that provide concerns for the consumption picture in 2026. It will likely allow the Fed to engage in modest interest rate cuts, moving rates back to normal levels. Upside risks prevail from tariff feed-through.

Looser fiscal policy aiding Europe

The past twelve months has seen an extraordinary U-turn on fiscal policy in Germany that will have implications for growth dynamics in the euro area in late-2026 and into 2027. A combination of increased defence spending and a wider infrastructure push will mean higher deficits in the short-term to address long-standing structural issues. These are to be welcomed and put a more positive slant on European growth prospects, albeit from a low base.

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Moderate Gains Ahead on AI Momentum and Stable Growth

Looking ahead to 2026, the picture for stock markets is encouraging. Global economic growth is expected to remain steady - close to trend rather than booming. Interest rates in major economies will be flat to down. This is a good mix for investors because stable growth and lower borrowing costs usually support company profits and share prices.

However, it's worth noting that markets have already priced in a lot of this good news. Valuations are higher than they were a year ago, so while we expect stocks to keep moving forward, gains will likely be moderate.

A look back at 2025

2025 was a year of contrasts. The first few months were challenging. Trade tensions between the US and its partners created uncertainty, and there were doubts about whether US companies could maintain their leadership in artificial intelligence (AI). These worries weighed on markets - US stocks underperformed, and the dollar weakened.

But things changed dramatically from April onward. Trade tensions eased, and US companies proved they were still at the forefront of the AI revolution. Markets rebounded strongly, led by the US, and even the dollar stabilised despite ongoing concerns about debt and politics.

Sector performance was uneven. Technology, Communication Services, and Utilities were the clear winners, driven by strong demand linked to AI and digital infrastructure. Defensive sectors like Healthcare, Consumer Staples and Property struggled, delivering negative returns. Corporate earnings were a bright spot, beating forecasts for the first time since the post-Covid recovery. Much of this strength came from US companies benefiting from a weaker dollar and AI-driven growth.

What's ahead in 2026

Many of last year's themes will continue. The US economy remains resilient, outperforming expectations for the second year in a row. Tariffs could still pose challenges, but overall, the outlook is positive. Europe also looks promising, with fiscal stimulus expected to boost growth in 2026. AI investment surprised us in 2025 by accelerating instead of slowing - and we expect that momentum to carry into 2026. Companies are spending heavily on technology and infrastructure to support AI, and this trend looks set to continue.



BERNARD SWORDS
Chief Investment Officer

Our investment strategy for 2026

We believe the best approach is to focus on structural growth - long-term trends that shape the economy - rather than short-term cycles. Here are the sectors we like:

Technology & Communication Services: The backbone of the AI economy, driving innovation and connectivity.

Industrials: Benefiting from electrification and the build-out of data centres.

Healthcare: Demographic trends and ageing populations will support growth now that policy hurdles have eased.

Utilities: Offering stability and benefiting from rising electricity demand as digital infrastructure expands.

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We're avoiding deep cyclical sectors like Energy and Materials, which depend heavily on short-term economic swings. Within financials, we prefer insurance over banks, as insurers are less exposed to economic volatility. Regionally, we maintain a preference for the US, but we're increasing exposure to Europe slightly, given its improving outlook and fiscal support.

Warning: The value of your investment may go down as well as up. Past performance is not a reliable indicator of future performance.

Steady Earnings Growth Meets Valuation Headwinds

Our expected average annual return from equity markets over the next five years remains broadly in line with last year's forecast. We anticipate global economic growth to stay close to trend, with interest rates in developed markets likely to remain flat or move slightly lower. This environment should support corporate profit growth, which we expect to average around 8% over the period.

Valuations have risen, and we expect this to create a greater headwind for returns compared to previous years. However, stronger earnings growth should help offset this impact.

Sector Outlook

Among sectors, healthcare stands out due to its combination of attractive valuations and solid earnings prospects. The sector faced challenges over the past year and was downgraded, but earnings have met expectations, and we believe sentiment will improve. In technology and communication services, current return projections are low but if recent trends of earnings outperformance continue, these sectors could deliver stronger results than currently forecast.

Regional Outlook

Regional differences in expected returns are minimal – about 0.5% between the highest and lowest performers. The US faces more pressure from valuations but benefits from a stronger earnings outlook. The euro area ranks highest overall, driven by its exposure to lower-rated sectors and higher dividend yields, despite having the weakest earnings outlook among major regions.

Figure 2.
Expected equity total return p.a. by region

	US	Euro	Asia Pacific	World
Valuation contribution	-4.30%	-3.12%	-4.34%	-3.85%
Earnings contribution	9.46%	7.16%	8.53%	8.34%
Dividend	1.30%	3.00%	2.80%	2.20%
Total	6.47%	7.04%	6.99%	6.70%

Source: Goodbody as at 03 December 2025



BERNARD SWORDS
Chief Investment Officer



Figure 3.
Expected equity total returns p.a. by sector

Energy	Materials	Industrials	Consumer Discretionary	Healthcare	
5.1%	5.8%	4.1%	4.0%	13.3%	
Consumer Staples	Communication Services	Utilities	Property	Financials	IT
7.1%	6.0%	5.4%	6.6%	7.7%	5.8%

Source: Goodbody as at 03 December 2025

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Fixed Income Outlook – Fiscal Matters – Rethinking Spreads

As we think ahead to 2026, it is useful to take stock and think about the lessons we have learned in 2025. One way to measure this is to look at the trends in fixed income market performance. Looking at markets by region, duration and credit rating - this year has seen the US outperform Europe, ultra long duration assets experience negative returns, whilst short to medium term fixed income assets gained, and lower rated credits outperform. Focusing on credit rating, investment grade corporates outperformed government bonds and high yield bonds surpassed investment grade bonds. Globally, emerging markets significantly outperformed developed markets in both returns and investor flows. Conversely, Japanese government bonds notably underperformed.



ELIZABETH GEOGHEGAN
Head of Fixed Income

Performance trends and spread risk

Whilst this list of performance trends may seem broad, we could argue that they are all tied together by one factor, spread risk premia. Within fixed income, the term 'spread' refers to the additional yield above the risk-free rate that is required by investors to take on additional risk. This is evidenced in several different ways. Longer duration assets should offer higher spreads relative to short duration assets, all else being equal. Illiquid assets should also offer a commensurately higher spread known as a 'liquidity premium' and more volatile bonds with lower credit ratings can be expected to compensate investors with an additional 'credit spread'.

Debt sustainability: a growing concern

Reflecting on 2025, it seems that markets have started to re-evaluate how to think about spreads and one thematic tying this all together is market risk perceptions about fiscal sustainability. In 2025, one area of market concern which moved to the forefront of investor minds, was the fiscal health and debt sustainability of sovereign borrowers. The best example of this was seen in Europe where concerns over fiscal deficit levels in France led to volatility and to two rating agency downgrades for the sovereign. As at the time of writing, the yield spread of French sovereign bonds over equivalent German bonds, was roughly comparable to that of Italian bonds. Italy, although investment grade, has a lower credit rating relative to France and its bonds have historically been considered more volatile investments. However, the convergence of French and Italian yields and spreads illustrates the level of risk aversion that markets now exhibit towards countries with fiscal imbalances. A similar situation is also playing out for UK gilts whereby concerns over the UK budget, and the government's ability to deliver its fiscal goals by 2029/2030 are also weighing on gilts, keeping yields elevated. The strong performance of emerging markets fixed income can also be linked to the theme of fiscal prudence. Emerging market governments did not have

the scope to undergo huge fiscal stimulus on par with their developed market peers when reacting to Covid, thus limiting the growth of fiscal deficits. This factor, along with many others, has helped emerging markets this year, making them an attractive allocation for many high-risk investors.

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Whilst the theme of debt sustainability has natural connotations with sovereign spreads it has also influenced market pricing for long term interest rates, and the respective 'term premium' spread for long duration assets. In the last 24 months markets have seen a significant re-steepening of yield curves. The yield curve is a plot of the interest rates or yields available at each given maturity. Typically, the longer the maturity or duration of the bond, the higher the interest rate. Just as investors demand a 'credit premium' for holding riskier corporate credit bonds, longer duration (maturity) bonds will have a 'term premium' above the cash rate to compensate investors for their money being invested for a longer period. In years gone by significant central bank easing has distorted the yield curve shape but as policy makers moved to normalise policy the curve reassumed a more typical 'upward sloping' shape, with longer term bonds offering higher yields relative to short term bonds.

This 'term premium spread' for longer dated bonds is linked to the uncertainty in forecasting future economic growth and inflation, but another factor which is having an increasing impact today is the risk premium demanded for 'fiscal sustainability risks'. In terms of 'fiscal risks' the only thing more concerning than large debt loads, is large and growing debt loads over time.

Japanese bond markets

Staying on sovereign bonds, one final influencing factor is the shift in Japanese bond markets. Until March 2024, the Bank of Japan maintained a negative policy rate and implemented 'Yield Curve Control,' committing to keep interest rates below a set level. These measures kept Japanese yields artificially low, in stark contrast to other developed market central banks such as the Fed and ECB, which hiked rates aggressively over the same period. This divergence created a substantial spread between Japanese government bond (JGB) yields and those of other sovereigns, offering relative value opportunities for active investors and causing Japanese rates to act as an anchor for sovereign bond yields globally. Recently, Japanese bond yields have been rising, due to two factors. Firstly, the Bank of Japan have been hiking rates. Secondly fiscal sustainability concerns, sparked by economic stimulus packages, have influenced yields, keeping them elevated. As these dynamics play out, the anchor effect is weakening, removing a structural force that previously suppressed global borrowing costs.

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Corporate bond yields

While markets have been re-thinking sovereign spreads, yield curve shapes and the sovereign landscape globally, there has been a record compression or reduction in corporate bond spreads. Assuming corporate bond yields remain unchanged, all things being equal, higher 'risk free' government yields will naturally compress corporate bond spreads, the additional yield over government bonds. Moreover, corporate balance sheets remain relatively healthy, reducing the level of perceived credit risk and the need for additional yield compensation. Indeed, it seems market participants are increasingly pointing to the 'all in yield' as still being quite attractive for corporate bonds today despite the tighter spreads. In effect, concerns around fiscal sustainability appear to have prompted a shift in how investors view corporate bonds. Investment-grade corporates offer slightly higher yields with less interest rate (duration) risk, while providing exposure to issuers with solid fundamentals. Crucially there have been some signs of stress in private credit markets, however these are being viewed as idiosyncratic for now. Looking ahead, investors may be best positioned by focusing on higher-quality, short-duration exposures. This segment has seen strong demand growth this year, as lower-risk investors are drawn to attractive overall yields – particularly relative to cash rates, which have declined in line with the ECB policy rate.

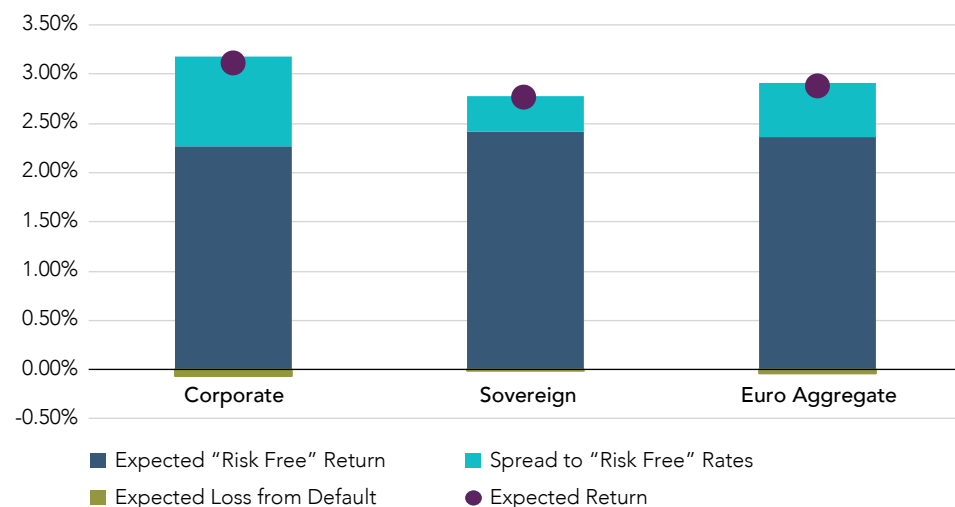
Our outlook for 2026

Our 2025 reflections have helped to shape our outlook for expected returns over the medium term. Our expected returns are derived from the future path of policy rates and expectations around risk premia going forward. We believe that the 'risk free' core government bond rate will be structurally higher over time reflecting the inherent risks associated with higher debt loads. This upward pressure on equilibrium rates will put pressure on capital values causing downward price moves, but once in place can lead to higher return potential, as higher equilibrium rates compound over time. Focusing on sovereigns, we view the spread available on European governments bonds relative to German bonds as compressed currently. We expect that this can remain, as the improved backdrop of some countries helps to offset rising spreads sparked by the increased fiscal concerns of others. For corporate bonds, although spreads are tight currently, we think that high quality investment grade corporate bonds spreads can be maintained at these levels absent any systemic shocks. There are many reasons for this. These include higher 'government risk free rates', increased buying demand from investors and ultimately resilient earnings growth. Naturally the outlook for inflation also plays a role in our expectations for future returns. We view the outlook for inflation as persistently uncertain.

On one hand, upward pressures remain evident: disinflationary momentum appears to be fading, with inflation stabilising above central bank targets. Additionally, an overly accommodative Federal Reserve stance could fuel higher inflation expectations over time. Conversely, several factors exert offsetting forces – such as declining oil prices, the diminishing impact of tariffs, the uncertain implications of AI on labour markets, and slowing global growth. Taken together, these dynamics suggest that inflation will remain unpredictable, reinforcing the potential for continued market volatility.

The results, shown in the table below, reflect a slightly higher expected return for investment grade European corporate bonds, relative to European government bonds. The figures support our structural view to over-allocate to corporate bonds relative to government bonds, whilst our view for higher equilibrium rates supports a slight under-allocation in terms of duration.

Figure 4.
Fixed income long-term expected returns



Source: Goodbody as at 03 December 2025

Cash Outlook

One final aspect to consider when looking to fixed income expected returns is cash and cash rates. As central banks hiked aggressively in recent years to combat inflation, the rate on ultra short-term bonds or overnight rates moved north of 3%. This meant that ultra-low-risk investors could earn attractive returns, for limited risk. As the saying goes 'all good things must come to an end' and so, unsurprisingly, this rate was the function of a point in time rather than a sustainable constant yield. As the ECB has cut policy rates, the rate available on cash or cash equivalents has fallen. This is reflected in returns. Cash held at the overnight deposit rate in 2023 and 2024, would have earned more than 3.20% and 3.60%, respectively. Year to date cash held overnight would have earned close to 2%. Looking forward, as the ECB remains on hold, and market expectations are for inflation to undershoot ECB targets next year, the risk to this rate are to the downside over the near term. For investors still looking to gain low risk exposure to fixed income but seeking slightly higher yield, there is the possibility to enhance yield and return potential by allocating to high quality low duration investment grade corporate bonds. These bonds offer a 'spread' over the cash rate to compensate investors for the higher risk of default but by remaining low duration the sensitivity to adverse moves in spreads or rates is limited.

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+353 1 667 0400

goodbody@goodbody.ie

Arrange a call back at a time that suits you.



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