Ascentis
Asset Management

2026 Annual Outlook

Here Comes the Boom

January 5, 2026

Here Comes the Boom

As 2026 begins, the United States is on the cusp of an AI-fueled boom. This is not a typical tech cycle; it touches national security, energy and the real economy. The world is splitting into competing blocs, supply chains are being rerouted, and governments are intervening in markets on a scale not seen in decades. Winning the AI race has become a strategic imperative. Doing so will require massive investment not just in software and data but in power plants, metals and skilled workers. As President John F. Kennedy declared during the 1962 Moon speech, "we choose to go to the Moon … not because they are easy, but because they are hard"; the AI race mirrors that spirit, embracing difficulty to achieve something transformational. This outlook examines those dynamics and concludes with a **GRIP** update on Growth, Risk Appetite, Inflation and Policy.

AI Megatrend in a Deglobalizing World

Trade tensions, pandemics and geopolitical rivalries have exposed the fragility of global supply chains. Nations are moving production closer to home and treating semiconductors, rare earths and advanced manufacturing as national security assets. The United States is pouring public money into chip fabs, battery plants and clean energy through laws such as the CHIPS Act and Inflation Reduction Act. Imports from China are falling while imports from Mexico and Canada rise, reflecting this **friend-shoring** trend. AI sits at the center of these shifts: controlling its hardware and inputs has become a lever of geopolitical power. As the psychoanalyst Theodor Reik observed, history does not repeat itself, but it rhymes; today's drive to dominate AI echoes earlier national projects like electrification and the space race, even if the technology is new.

Genesis Mission: Coordinating Data, Compute and Energy

To cement its AI lead, the White House launched the **Genesis Mission** in late 2025. This initiative directs federal agencies, national labs, universities and private firms to share computing resources and open vast government datasets for research. By unifying disparate data stores and supercomputers, Genesis aims to accelerate breakthroughs in fields ranging from climate modelling to drug discovery. Equally important, the mission recognizes that AI's voracious energy appetite is an emerging bottleneck. It calls for an all-of-the-above energy strategy—adding new nuclear, gas and renewable plants—and modernizing the grid so that electricity does not constrain AI progress. Genesis signals that AI, data and energy are inseparable elements of national strategy.

Government Equity Stakes: A New Industrial Policy

One of the most striking developments is Washington's decision to take **equity stakes** in companies central to the AI supply chain. Historically, the U.S. has relied on grants, tax credits and loans to encourage strategic industries. Now it is buying shares in mining companies, magnet makers and chip manufacturers. The rationale is twofold: reduce dependence on foreign suppliers and ensure taxpayers benefit from the upside of public subsidies.

Washington's portfolio includes stakes in companies like Korea Zinc, Trilogy Metals, Critical Metals, Lithium Americas, MP Materials and USA Rare Earth to secure supplies of copper, zinc, lithium and rare earths. It has also bought nearly a tenth of **Intel**, converting subsidies into stock to bolster domestic chipmaking. These deals give the government a direct seat at the table in critical supply chains. Supporters view them as vital to reduce reliance on foreign suppliers; critics warn of politicized corporate governance and market distortion.

Power Bottlenecks: The Race for 90 Gigawatts

AI's meteoric rise has exposed a basic constraint: electricity. Franklin Roosevelt once declared that "electricity is a modern necessity of life," and AI's voracious appetite for power is making that necessity acutely clear. Data centers already consume a significant share of U.S. electricity, and demand is expected to more than double by 2030. Former Google CEO Eric Schmidt warns that about **90 gigawatts** of new generating capacity—roughly ninety nuclear reactors—may be needed within a few years. In some regions utilities are delaying data-center projects because they lack capacity. Meeting this challenge will require building new reactors, gas plants and renewable farms while modernizing transmission lines, substations and transformers. Regulators are approving multibillion-dollar upgrades that will ultimately be passed on to consumers. Unless addressed quickly, electricity shortages could stall the AI revolution.

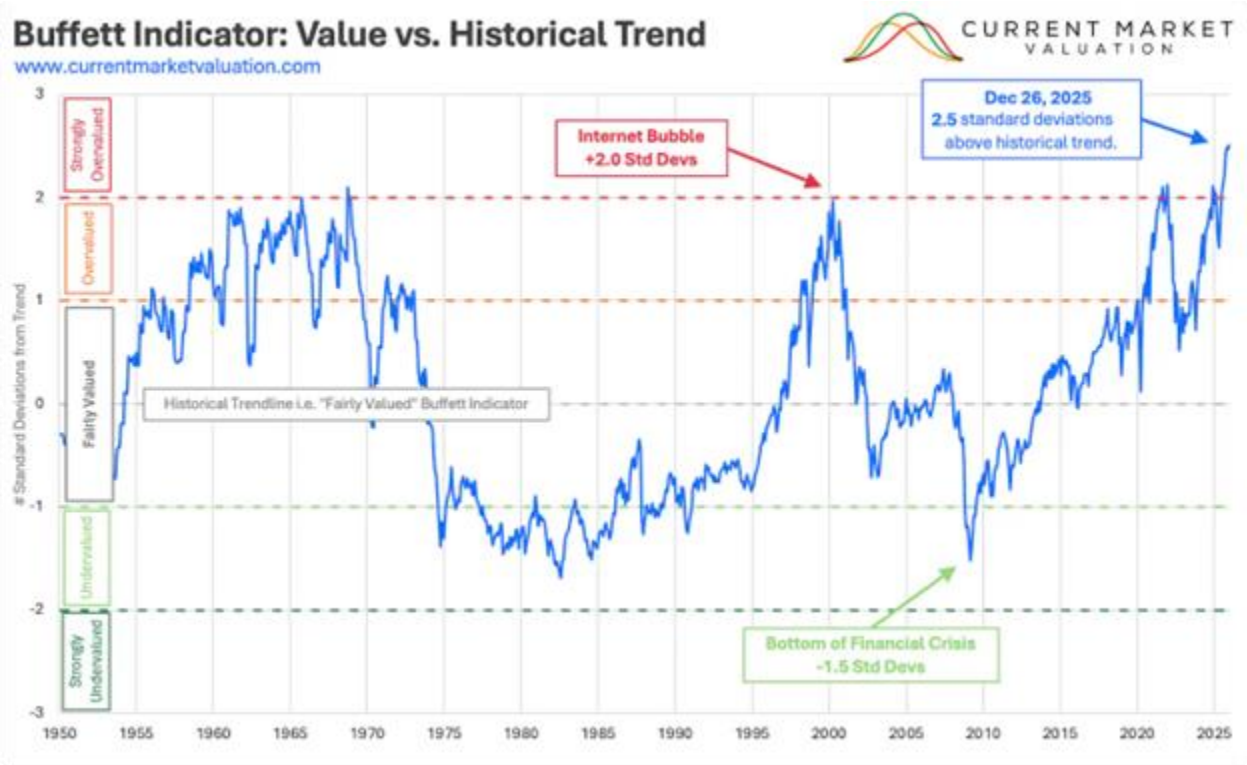
Materials Supercycle: Copper, Steel and Silicon

The physical manifestation of AI lies in metals and construction materials. Hyperscale data centers are built from miles of copper wiring, steel racks, concrete and silicon. Expanding the grid and generating capacity for AI requires similar ingredients on a monumental scale—copper and aluminum for cables and transformers, steel and concrete for towers and foundations, and specialized materials for batteries and solar panels. Even storage and backup systems hinge on lithium, nickel and cobalt. As AI scales up, demand for these materials is projected to surge. Miners and metal producers anticipate a **supercycle**, with structural demand growth outpacing supply additions. Copper, in particular, could see consumption jump dramatically because it is used both inside data centers and in the power grid that feeds them. Investors may therefore find opportunity not just in data-center operators, but also in the miners and manufacturers that supply the raw inputs of the AI age.

Market Imbalances and Concentration Risks

Financial markets have responded to the AI narrative by bidding up a handful of technology giants to astronomical values. One semiconductor company briefly achieved a market capitalization of around five trillion dollars—greater than the combined value of entire industries like energy, materials and utilities. Such concentration has lifted index valuations to levels that many analysts consider stretched. Measures such as the **Buffett indicator**, which compares the total value of U.S. stocks to GDP, are near record highs, suggesting future returns could be modest from here.

At the same time, sectors essential to AI's physical build-out—utilities, materials, industrials and energy—remain relatively unloved by investors. Yet these industries stand to benefit if governments and corporations pour hundreds of billions into power plants, grids and manufacturing. Should AI enthusiasm cool or broaden to include more cyclical companies, capital may rotate into these "old economy" sectors. A portfolio tilted only toward a few mega-cap tech names risks missing the wider opportunity set and could suffer if valuations revert to more normal levels.



AI and the Middle Class: A Blue-Collar Renaissance

The infrastructure projects underpinning AI are not only about megawatts and tonnes of copper; they are also about people. Building and maintaining data centers, power plants and grids requires skilled trades—electricians, welders, plumbers, HVAC technicians and crane operators. Nvidia CEO Jensen Huang has said that electricians, plumbers and carpenters will be needed by the hundreds of thousands to build new AI factories and predicted that the skilled craft segment of every economy will see a boom. Labour shortages in these fields are already driving up wages: many crews now earn 25–30 % more than just a few years ago, with some workers exceeding six figures.

Executives of major tech firms have mused that tradespeople may be among the biggest beneficiaries of the AI era. Eric Schmidt has warned that the United States is running out of electricians and emphasized the need for more apprenticeships. Crucially, these jobs are resistant to automation; robots cannot easily thread wires or weld pipes in the field. As billions pour into physical infrastructure, a new middle class may emerge—reminiscent of the post-war manufacturing boom—powered by AI but rooted in hands-on work.

GRIP Framework Update

Growth

Leading indicators for the U.S. economy—orders, permits and sentiment surveys—have been weakening for months and now sit roughly two standard deviations below their long-run trend. Meanwhile, coincident measures such as output and employment remain solid, creating a **K-shaped** pattern in which the wealthy keep spending while lower-income households feel the pinch. We expect these coincident indicators to drift lower early in 2026 as the labour market softens and wealth effects fade, but the depressed level of leading indicators implies a potential rebound later in the year when AI investment and onshoring accelerate.

Risk Appetite

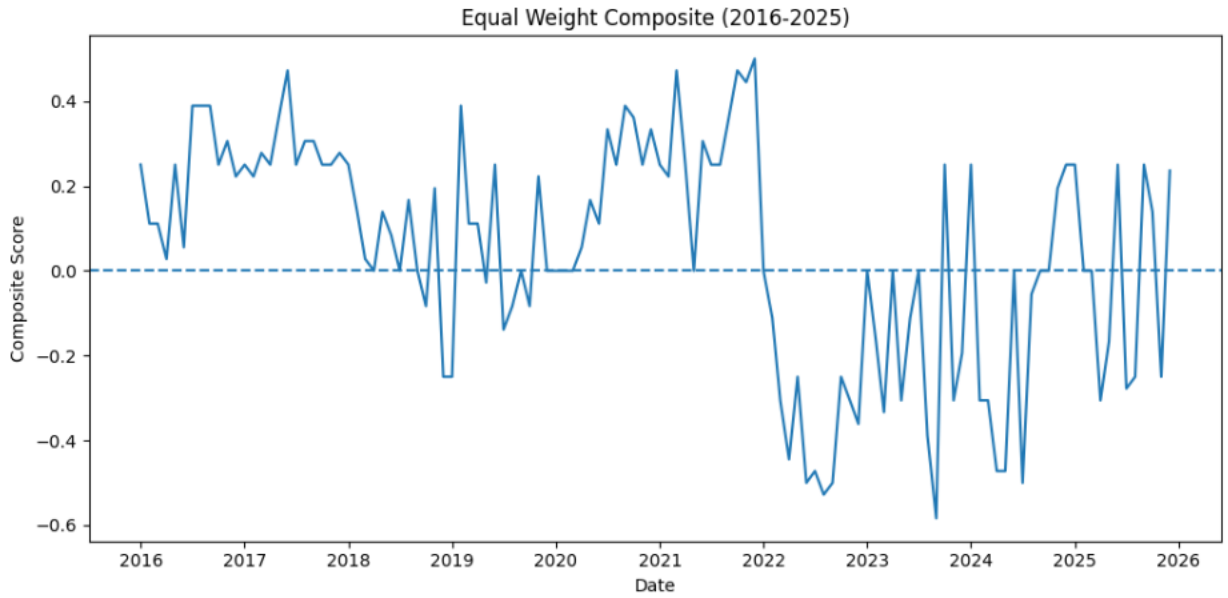
Warren Buffett famously quipped, “It’s only when the tide goes out that you discover who’s been swimming naked,” a reminder that bull markets can hide vulnerabilities. Investor sentiment is both optimistic and fragile. Market valuations are lofty by historical standards, and the **Buffett indicator** implies returns could be limited over the medium term. Nevertheless, price momentum remains positive: equity indices are near record highs, credit spreads are tight and volatility is subdued. Beneath the surface, however, leadership is narrow. A small cohort of mega-cap technology stocks has driven gains, while many cyclical and defensive sectors lag. The rally in **gold**—up dramatically in 2025—signals that investors are hedging against macro risks even as they chase growth. Should AI demand cool or inflation flare up again, risk appetite may shift abruptly. Diversification into real assets—such as commodities, utilities and industrials—could offer a hedge against the overconcentration in technology.

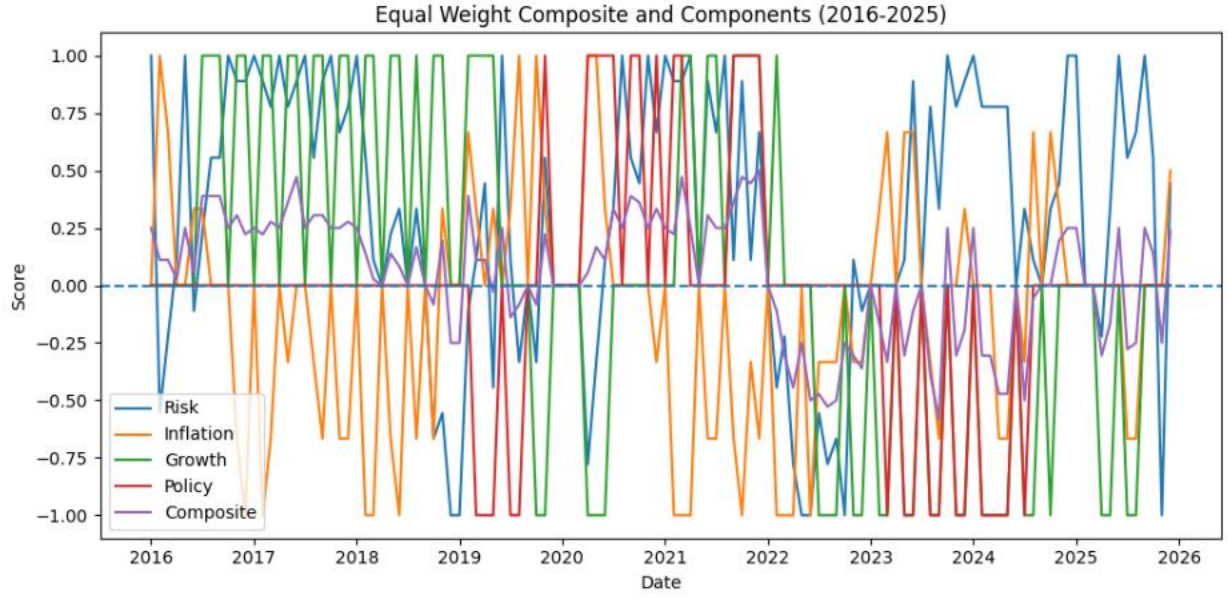
Inflation

Price pressures, which were the dominant economic story in 2022 and 2023, have moderated. By late 2025, headline inflation in the United States was around 2.7 %, and core inflation was near its lowest reading in several years. Housing costs—the largest component of inflation—are decelerating as rent growth slows. Energy prices have also declined; Brent and WTI crude fell sharply in 2025, and natural gas prices remain subdued. Market-based inflation expectations, measured by breakeven rates on Treasury inflation-protected securities, have edged downward, suggesting investors believe inflation will remain contained. This gives policymakers flexibility to support growth. Nonetheless, the massive infrastructure spending required for AI, coupled with potential shortages in labour and materials, could reignite inflation later in the decade. Monitoring commodity markets and wage trends is crucial.

Policy

Monetary and fiscal policy are both leaning toward growth. After aggressively raising rates, the Federal Reserve has paused and is signaling potential cuts if inflation stays low. On the fiscal front, Washington is deploying an array of programs—from the CHIPS Act and IRA to the Genesis Mission and direct equity investments—to spur semiconductors, clean energy and manufacturing. By taking ownership stakes in critical supply chains, the government is deepening its involvement in the private sector. This alignment of monetary and fiscal levers could provide a significant tailwind for risk assets and economic growth in 2026. Long-term challenges include managing rising public debt and ensuring that industrial policy does not stifle innovation.





Conclusion: Balancing Digital Dreams and Physical Realities

The AI revolution is poised to drive a historic boom, but it is rooted in more than code. Success requires secure supply chains, abundant energy, heaps of raw materials and armies of skilled workers. In a deglobalizing world, the United States is rewriting the playbook: it is friend-shoring critical industries, mobilizing national laboratories and taking ownership stakes in strategic firms. Power constraints and materials shortages threaten to throttle progress, while market valuations reflect exuberant expectations concentrated in a few stocks. Meanwhile, new opportunities are emerging in the so-called old economy—utilities, mining, construction—and a blue-collar renaissance may be on the horizon.

For investors and policymakers, the challenge is to navigate this complex landscape. Portfolios overly weighted to a handful of tech titans risk missing the broader gains from infrastructure and resource plays. Governments must balance intervention with market discipline, ensuring that public capital crowds in private investment rather than crowding it out. As 2026 unfolds, the interplay of **Growth**, **Risk Appetite**, **Inflation** and **Policy** will determine whether the boom becomes sustainable or gives way to new constraints.

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2026 S & P Targets and Earnings

Industry forecasts for 2026 point to another year of solid, earnings-driven gains for U.S. equities, even as starting valuations argue for a measure of discipline. While the S&P 500's bottom-up target sits just below 8,000, history suggests a somewhat more tempered—but still constructive—path for returns.[1][2]

Index level and valuation

Industry analysts using a **bottom-up** approach project the S&P 500 will end 2026 at 7,968.78, a 16.4% advance from the December 31 close of 66,845.50. This target aggregates median company-level price objectives across all S&P 500 constituents and implies that most upside should come from continued earnings growth rather than further multiple expansion, with consensus 2026 EPS estimates pointing to a P/E in the mid-20s, similar to today's valuation on 2025 earnings.

History argues for some caution around these point estimates. Between 2005 and 2024, analysts overestimated the S&P 500's year-end level by an average of 5.9%, missing high in 11 of the past 20 years and in five of the last six; adjusting the current bottom-up target for this typical bias implies a more conservative year-end 2026 level near 7,501, or an 9.6% gain from 6,845.50. Even on this adjusted basis, investors would still be looking at respectable mid-single-digit real returns if inflation remains contained.

Street targets and policy backdrop

Wall Street strategists have been revising S&P 500 targets higher, but their views cluster around the same broadly constructive narrative. Current published targets span from roughly 7,100 on the low side for 2025 to 8,000–8,100 on the high side for 2026, with firms such as UBS (7,500), RBC Capital Markets (7,750), Morgan Stanley (7,800), Deutsche Bank (8,000), and Oppenheimer (8,100) all calling for new highs over the next two years.

Oppenheimer's especially optimistic stance rests on supportive monetary and fiscal policy, innovation-led productivity gains, and resilient corporate earnings growth. At today's levels, the index trades near 25 times expected 2025 EPS of about 271 dollars, and consensus 2026 estimates imply a similar forward P/E, underscoring that incremental returns will likely depend on companies delivering the robust earnings growth embedded in forecasts rather than investors paying meaningfully higher multiples.

Earnings, revenues, and margins

Fundamentals are expected to do the heavy lifting. Analysts project roughly 14–15% year-over-year S&P 500 earnings growth in calendar-year 2026, which would mark the third consecutive year of double-digit gains and the strongest performance since 2018 outside the post-pandemic surge, well above the 2015–2024 average of 8.6%. Revenue growth is forecast around 7.2%, ahead of the past decade's 5.3% pace, with ten of eleven sectors projected to increase sales.

Profitability is also expected to reach new highs. The S&P 500's projected net profit margin of 13.9% would be the highest since FactSet began tracking this metric in 2008 and stands meaningfully above the 10-year average margin of 11.0%, reflecting both operating leverage and continued cost discipline. If realized, this combination of above-trend revenue growth, strong earnings, and record margins should give equity markets a fundamentally sound base in 2026.

Breadth, sectors, and the "Magnificent 7"

Importantly, the earnings story is expected to broaden beyond the mega-cap technology and platform leaders that have dominated recent cycles. The "Magnificent 7" cohort is still projected to grow profits by about 22–23% in 2026, but only NVIDIA and Meta Platforms are expected to rank among the top five contributors to S&P 500 earnings growth, while the remaining 493 companies are forecast to accelerate earnings growth to roughly 12.5% from 9.4% in 2025.

All eleven S&P 500 sectors are expected to post positive year-over-year earnings growth, with Information Technology, Materials, Industrials, Communication Services, and Consumer Discretionary expected to deliver double-digit gains. From a price-target perspective, Information Technology is projected to see the strongest upside at roughly +19.8% in 2026, while Financials sit at the low end with high-single-digit appreciation and Energy stands out as the only sector where revenues are expected to decline.

Policy tailwinds and key watchpoints

Fiscal policy may add another layer of support—along with some complexity. The "One Big Beautiful Bill Act" restores 100% bonus depreciation on qualifying property, a provision that should depress reported net income and tax payments in the near term while boosting cash flow available for capital investment and share repurchases, potentially enhancing shareholder returns over time. Some analysts, however, question whether this incentive could pull earnings forward or distort year-to-year comparability, contributing to skepticism around the most optimistic 14–15% EPS growth projections.

For clients, the message entering 2026 is one of cautious optimism. Index-level targets, robust earnings and margin forecasts, improving breadth beyond the largest names, and supportive policy all argue for maintaining a constructive stance on equities, but elevated valuations and analysts' mixed forecasting record highlight the importance of diversifying exposures and paying close attention to corporate guidance and incoming data as the year unfolds.

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