PIMCO

Charting the Year Ahead: Investment Ideas for 2026

Marc Seidner, CIO of Non-traditional Strategies, explores opportunities across equities, bonds, credit, and commodities that have the potential to offer investors resilience and diversification.



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Introduction

After a year of broad-based gains, many investors feel both upbeat and uncertain looking toward 2026.

Equities extended their bull run in 2025, but valuations remain historically stretched amid a sharp dispersion of returns across sectors. Cash offered both safety and income for a while, but it no longer seems attractive as the Federal Reserve cuts interest rates.

And the U.S. economy appears resilient, yet a K-shaped split shows prosperity for wealthier households diverging from mounting strain for others.

We'll update our views on the economy and fixed income markets in more detail in our January *Cyclical Outlook*. For now, we'll explore select areas of interest across financial markets looking toward 2026 – individual themes that can be brought together in a portfolio – in a way that's actionable for investors and advisors.

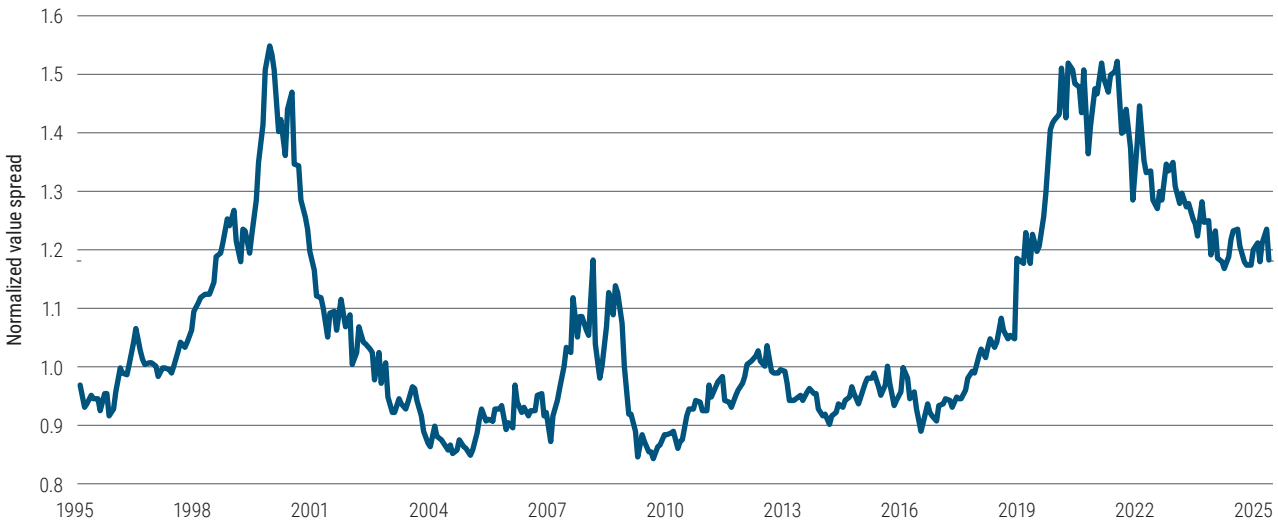
I. Equities: Expensive on the surface, value beneath

U.S. equities approach 2026 with valuations still near historical highs after a multi-year, technology-driven rally. While AI investment continues to underpin economic growth and market optimism, the concentration of returns in a handful of mega-cap tech stocks raises questions about sustainability.

The tech sector, once celebrated for capital efficiency, has entered a more capital-intensive phase. AI-related spending, previously funded largely by free cash flow, is increasingly fueled by debt issuance. Another notable spending trend: The biggest hyperscalers and chipmakers are funneling billions of their investment dollars into one another through circular deals that amplify sector-specific risks.

Beneath the surface, however, the story is more nuanced. For example, value-oriented stocks remain attractively priced relative to historical averages (see Figure 1), suggesting potential for mean reversion over time.

Figure 1: Value stocks may have more room to run



Source: Compustat, Capital IQ, MSCI, PIMCO calculations as of 21 November 2025. Normalized value spread using PIMCO Value Composite, Developed Markets.

Macro conditions could provide a tailwind for value in the near term. An outlook for trend-like U.S. economic growth should help broaden earnings growth across sectors in 2026. In our view, the best scenario for value is if the Fed continues cutting rates into reaccelerating and broadening growth.

We also see opportunities to diversify globally. Central banks in emerging markets (EM), having established stronger monetary policy frameworks, now have more flexibility to ease policy and stimulate domestic demand, potentially supporting EM equities. Specifically, we see attractive opportunities in Korea and Taiwan, which offer exposure to the tech sector at cheaper valuations, and China.

Investor takeaway: With high valuations concentrated among a small number of companies, it's not difficult to find attractively valued stocks with desirable characteristics such as robust balance sheets and healthy growth. Consider tilting toward undervalued sectors rather than chasing the most expensive parts of the market.

II. Cash is not a strategy: The case for fixed income

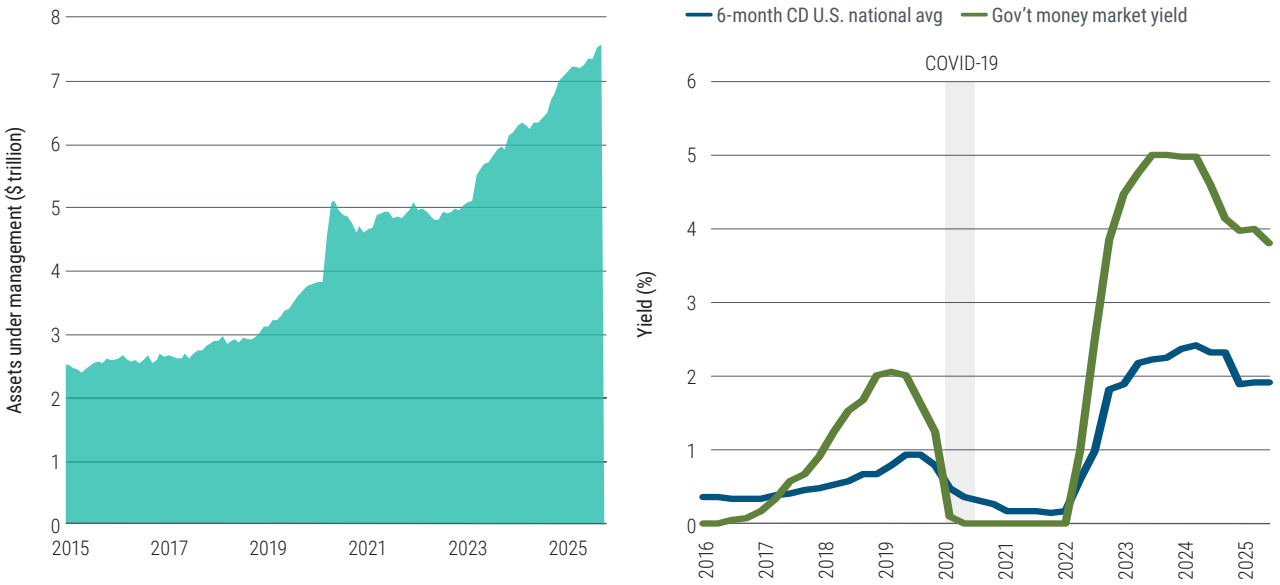
In our view, investors who continue holding excess cash today are missing a potential opportunity.

Unusually high returns attracted investors to cash during the post-pandemic period of elevated inflation and Fed interest rate hikes (see Figure 2). But the current Fed rate-cutting phase brings opportunity costs and reinvestment risk, as cash holdings are repeatedly rolled into lower-yielding instruments.

As yield curves have steepened, cash yields have declined relative to a variety of bond maturities. Bonds allow investors the potential to lock in income at more favorable levels over longer horizons.

When interest rates fall, cash earns less, but bonds typically gain in value, enhancing total return potential. At today's yields, high quality bonds look attractive across many possible economic scenarios. With inflation having moved back toward central bank targets, bonds again provide opportunities for diversification through their traditional negative correlation to stocks, helping portfolios weather equity downturns.

Figure 2: Money market fund assets have kept climbing even as cash rates have declined



Source: Money market fund assets under management (AUM) according to Crane Data as of 31 October 2025. Average 6-month CD and government money market yield data according to Bloomberg as of 30 September 2025.

Investors can also take advantage of today's abundance of global fixed income opportunities, with attractive real and nominal yields available in countries across developed and emerging markets, such as the U.K., Australia, Peru, and South Africa (for more, see PIMCO's October 2025 *Cyclical Outlook*, "Tariffs, Technology, and Transition"). We believe diversification across regions and currencies is an effective way to harvest differentiated sources of return while fortifying portfolios.

Investor takeaway: Consider rotating from cash into high quality bonds for the potential to lock in yields and position for capital appreciation as interest rates decline. We favor 2- to 5-year bond maturities.

III. All that glitters: Gold, crypto, and the search for real assets

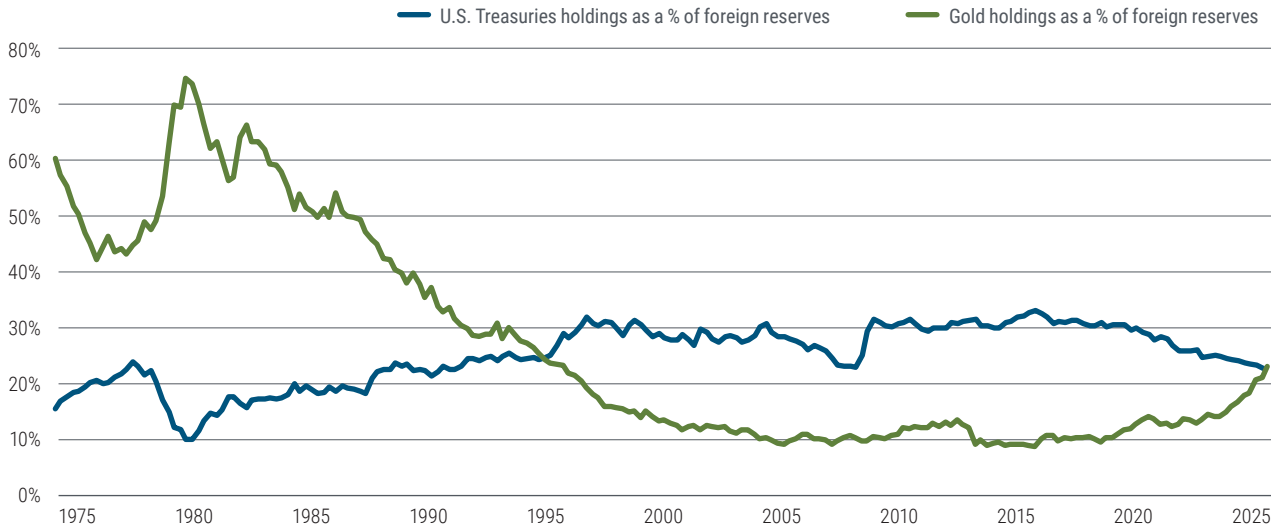
Gold's extraordinary rally – recently topping $4,300/oz – has captured widespread attention. Prices have soared to all-time highs even in a generally risk-on market environment. Investor demand for inflation protection, geopolitical hedging, and diversification away from the U.S. dollar has reinforced gold's role as a strategic asset. Central banks now hold more gold than U.S. Treasuries (see Figure 3), reflecting a shift in reserve management.

The geopolitical backdrop remains a key driver. The 2022 seizure of Russian reserves helped catalyze gold accumulation as a politically neutral store of value. This trend, coupled with persistent trade frictions and rising sovereign debt, suggests structural support for gold demand. A potential gold price increase of more than 10% over the next year is feasible, in our view.

However, gold's recent rally has been fueled by momentum and liquidity as much as by fundamentals, and short-term retracements are possible. While falling interest rates reduce the opportunity cost of holding gold, its valuation appears elevated relative to real yields, warranting careful sizing within portfolios.

Since 2020, commodity indices have delivered returns comparable to global equities but with lower volatility,[1] reinforcing their role as diversifiers and inflation hedges. Historical evidence shows that even modest allocations to commodities can improve portfolio efficiency, particularly when inflation runs slightly above central bank targets.

Figure 3: Foreign central banks hold more gold than Treasuries



Source: Bloomberg, International Monetary Fund, and Federal Reserve Economic Data (FRED) as of 30 September 2025

Broad commodities can also provide a potential alternative way to play the AI investment theme, as infrastructure needs drive demand for inputs such as copper, lithium, and energy as well as strategic assets like rare earths.

Crypto assets, led by bitcoin, continue to evolve as digital analogs to gold, appealing to younger investors and those concerned about currency debasement. The recent decline in bitcoin reminds investors that it is a volatile instrument and perhaps not a true store of value. The rise of stablecoins and tokenized assets points to a transformative year ahead for digital finance, though volatility, tax treatment, and regulatory uncertainty remain significant considerations.

Investor takeaway: Consider modest, diversified allocations across gold and broad commodities for the potential to enhance portfolio resilience and inflation protection without overconcentrating in any single theme.

IV. Credit markets: Risks and rewards along the credit continuum

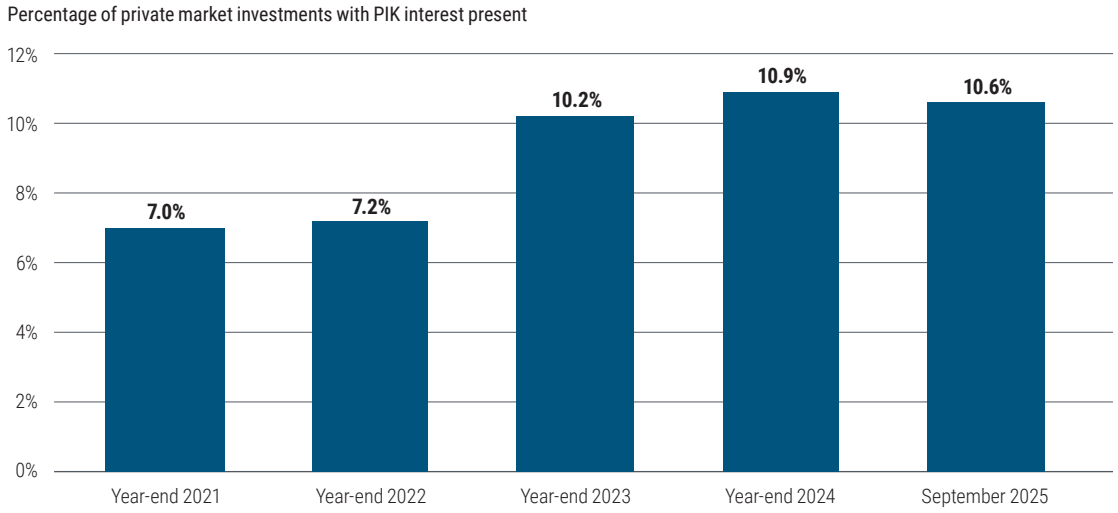
Credit spreads remain tight. PIMCO has cautioned throughout 2025 about risks in certain lower-rated credit sectors, particularly within private market areas that have experienced sharp growth. We are now seeing some of those challenges surface, including recent bankruptcies and instances of fraud, which may be symptomatic of broader late-cycle laxity in credit underwriting.

Challenges are showing up in other ways. On average, shares of publicly traded business development companies (BDCs), investment vehicles for corporate direct lending, are trading at roughly a 10% discount to their net asset values. This suggests that the market is cautious about a combination of declining dividends (due to falling short interest rates) and rising credit problems. Indeed, against a strong equity market backdrop, we have also seen share price declines this year for major alternatives firms.

While debt service may become easier with lower interest rates, we have observed more privately financed companies seeking amendments to their loans or paying their debt with additional debt – known as payment-in-kind (PIK) financing – both of which can be signs of debt-servicing challenges (see Figure 4). In fact, using PIK and other data, Lincoln International calculates a "shadow default rate" of 6% as of August 2025, up from 2% in 2021.

Amid these strains in certain areas, PIMCO sees ongoing opportunities in credit markets for investors who can look beyond whether an investment is public or private (for more, see our latest *View From the Investment Committee* video, "Starting Valuations Fuel 2025 Bond Performance, 2026 Potential"). In our view, the key is to focus on evaluating liquidity and credit risk across both areas and finding where the potential rewards are greatest.

Figure 4: Payment-in-kind (PIK) trends can signal debt-servicing challenges



Source: Lincoln International as of 30 September 2025

We are seeing opportunities in certain large-scale financings, where competition is limited; in credit linked to lower-risk consumers; and in select real estate lending. Longer-term trends – such as the buildup of home equity among more affluent borrowers, and the expansion of AI and related energy needs – create potential opportunities to provide high quality financing with returns that can rival or exceed those of lower-quality, leveraged corporate credit.

For example, while we have a cautious outlook in general for data centers and AI, many hyperscalers are strong, investment grade companies that need to invest – and borrow – to build out AI infrastructure. We have seen compelling opportunities in recent months in project finance, or lending secured by data centers that are being built with leases in place to investment grade tenants. Such financings do not necessarily reflect a sector-level call but rather represent opportunities with high barriers to entry, which can result in attractive valuations, structures, and tenants.

Investor takeaway: 2026 will likely shed light on whether recent challenges are indicative of broader underwriting problems in lower-rated credit. In the meantime, we would suggest investors think carefully about the positions they hold and whether they are being compensated for their potential credit risk, illiquidity, declining yields, and lack of transparency. The credit continuum offers many opportunities to finely tune exposure to each of these risks, and investors should use the full toolkit. At a time when many direct-lending approaches resemble passive "buy the market" strategies, we believe investors should consider being active in their credit allocations. Consider flexible strategies that are agnostic between public and private in their pursuit of superior risk- and liquidity-adjusted returns.

Conclusion

Across asset classes, a common thread is the need for active decision-making in 2026. Dispersion in equity returns, shifting interest rate dynamics, and the evolving interplay of public and private credit markets underscore the importance of independent investment research and risk management. Rather than chasing crowded trades or relying on static allocations, investors should consider strategies that balance liquidity, return potential, and diversification, while remaining flexible enough to seize new opportunities as they emerge.

Ultimately, 2026 may reward investors who embrace today's macroeconomic environment: leaning into high quality fixed income as rates decline, selectively adding real assets for resilience amid geopolitical and inflation risks, and identifying undervalued equity sectors amid a concentrated market. In a world where uncertainty persists alongside optimism, thoughtful portfolio construction will be key.

1 Source: Bloomberg and PIMCO data from 31 December 2019 through 30 September 2025. Asset class proxy indices are as follows: commodities – Bloomberg Commodity Index Total Return; gold – Bloomberg Gold Total Return Index; global equities – MSCI World Index – Global Equities.

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