

Broadening Underway? 6 Equity Ideas For 2026

As global markets adapt to shifting leadership, AI-driven innovation, and new economic regimes, investors face a wider array of opportunities and risks.

The global economy and markets navigated a challenging backdrop in 2025, marked by rising trade tensions and tariffs, ongoing conflicts in Europe and the Middle East, and persistent weakness in China. Yet, despite these headwinds, global growth proved resilient, and inflation remained relatively contained. Corporate earnings surpassed expectations—most notably in the US—with strength also broadening to Japan and select emerging markets (EM).

It would be an oversimplification to frame 2025 as a year when “the rich got richer.” While mega-cap tech leaders continued to dominate, many overlooked segments of the economy showed signs of stabilization—getting “less bad” rather than worse. The narrative of narrow market leadership holds true within the US, but beyond its borders, leadership has already begun to broaden.

Equity markets enter 2026 with resilience, even amid heightened geopolitical uncertainty. Supported by fiscal and monetary accommodation, ongoing deregulation, and the AI-driven capital expenditure¹ (capex) cycle, we anticipate a further broadening of economic growth in the year ahead. Here are six themes we’re watching closely in 2026:

1. No AI Bubble ... At Least Not Yet

We see compelling reasons to remain optimistic about AI in 2026. Continued technological advancements may not only accelerate capital investment but also begin translating into meaningful gains in productivity and economic growth.

That said, alongside this constructive outlook, we’re mindful of several flashing yellow lights, including rising debt-financed capex, increased interrelated-party transactions and financings, and more speculative activity in high-beta² areas of the equity market (**FIGURE 1**). These will be critical trends to monitor throughout the year.

So far, most AI-driven equity market moves have been underpinned by strong fundamentals. Unlike the debt-fueled telecom buildout of the late 1990s, most AI-related capex has been funded through free cash flow³—though we’re starting to see a shift at the margins.

From a valuation standpoint, big tech valuations remain well below the extremes of the late ’90s. Importantly, rising rates helped burst the last bubble; this time, the Federal Reserve is easing, not tightening.

Finally, the internet boom of the 1990s was built on a “build it and they will come” mindset. In contrast, AI is already delivering tangible consumer and enterprise use cases. Enterprise demand for primary enablers (such as power, labor, and natural resources), as well as critical infrastructure (such as data centers, compute, and GPUs), is already outpacing current AI capacity supply.

Insight from sub-adviser Wellington Management



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Key Points

- Global equity markets are showing signs of broader growth, driven by resilient earnings, AI-fueled investment, and shifting leadership beyond mega-cap tech.
- Changing correlations and new economic regimes in regions such as Europe, Japan, and emerging markets are creating fresh opportunities and risks for diversification.
- Investors must adapt their strategies for 2026 by balancing AI enthusiasm with discipline, diversifying across regions and styles, and expanding risk-mitigation tools as traditional hedges lose effectiveness.

FIGURE 1

What Should Investors Look Out For?

An AI Bubble Checklist

Valuations	Traditional valuations stretched (price/earnings, price/book) ⁴	Moderate	Valuations are high, but not extreme relative to market or growth prospects
	Alternate valuations stretched (market cap/GDP, Tobin's Q) ⁵	High	Both measures at/near peak
Fundamentals	Over-investment in the "new thing"	Moderate-High	Risk of data-center overcapacity, but demand picture unclear
	GDP-level impact	Moderate	Impact of AI capex approaching 1% of GDP
	Market anomalies/dislocations	Moderate	US share of world market cap; IT share of S&P 500 Index ⁶
	Unusual mergers & acquisitions or financing	Moderate-High	Circular financing; "off balance sheet" data center deals
Psychology	Cavalier attitude to risk ("can't lose")	Moderate	Market seems pretty engaged with AI risk
	"This time is different" mindset	Moderate	Lack of mean reversion ⁷ across multiple markets
	Conversation meter and FOMO	Low-Moderate	Uber Driver Index ⁸ feels low (Bitcoin > AI)
	Corporate rebranding	Low	No widespread dot-com era name changes
	Frauds and scams	Low	Recent examples were not linked to technology
Liquidity	Ample liquidity for the "new thing"	Moderate	Initial public offering market warming after a cold start; robust demand for private credit
	Easy conditions/low interest rates	Low	Catalyst in 2000 and 2008

Source: Wellington Management.

Investment Implications

While we don't see an imminent bubble, investors should remain vigilant for signs that one may be forming. Key questions to monitor include whether companies deploying AI-related capex are generating meaningful returns, whether today's favorable supply-demand dynamics persist, and whether monetary policy and financial conditions remain accommodative, thereby continuing to support investment and lending.

2. Will the Broadening Keep Broadening?

For much of the past three years, earnings growth has been concentrated among mega-cap companies. In 2025, US large caps continued to lead, but recent months have shown encouraging signs of broadening, both by market capitalization and region (FIGURE 2). Positive earnings-per-share (EPS)⁹ revisions across large-, mid-, and small-cap stocks in the US, as well as in Japan and select EMs (particularly Taiwan and South Korea) suggest a wider set of potential beneficiaries. A more supportive macroeconomic backdrop could further reinforce this trend.



Recent months have shown encouraging signs of a broadening equity rally, both by market cap and region.

FIGURE 2

The US Earnings Outlook Continues to Broaden Across Market Caps

12-Month Forward Earnings Trends

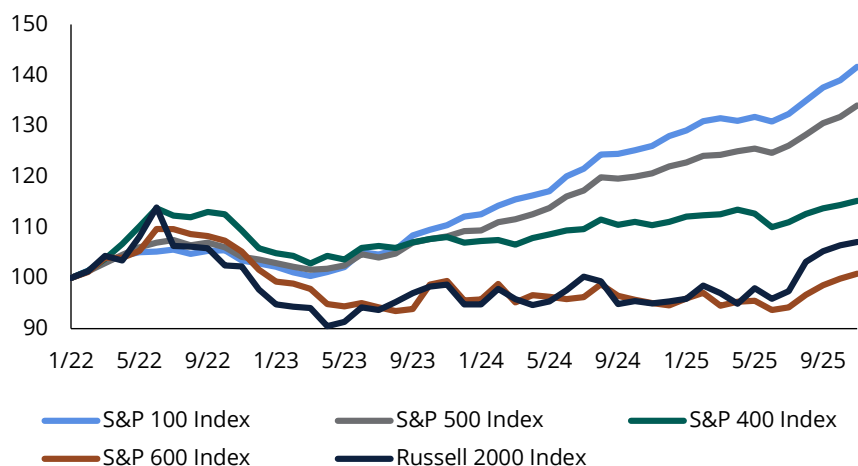


Chart Data: 10/30/25. **Past performance does not guarantee future results.** Indices are unmanaged and not available for direct investment. Data shows 12-month forward EPS indexed to 100 as of 1/22, for the S&P 100 Index, S&P 400 Index, S&P 500 Index, S&P 600 Index, and the Russell 2000 Index. Please see page 7 for index definitions. For illustrative purposes only. Select data provided and copyrighted by Refinitiv. Data Sources: Wellington Management, using data from Bloomberg Index Services Limited, S&P, and Refinitiv DataStream.

Investment Implications

Earnings growth is no longer confined to mega-caps. Positive revisions across regions and market caps point to a broader opportunity set. We see potential for a revival of earnings growth in Europe and across EMs, suggesting investors may want to position for more diversified sources of growth.

3. Changing Correlations Are Driving Increased Value in International Diversification

Historically, globalization fostered a highly correlated and synchronized global economy, leaving little room for divergent cycles. In an interconnected world, markets moved in unison, and volatility, inflation, and interest rates remained low. That paradigm is changing as the global order deglobalizes—or at least reorganizes. We’re seeing greater cyclical divergence between countries, requiring different central-bank responses. The result: lower correlations,¹⁰ less synchronization, and structurally higher volatility, inflation, and interest rates.

Investment Implications

The growing desynchronization of equity market moves—evident in 2025 and likely to persist into 2026—underscores the importance of diversification across geographies, industries, styles, and factors. Within styles, the sharp underperformance of quality in 2025 vs. strength in beta and momentum may present an attractive entry point. Quality may offer both offensive and defensive characteristics in a more volatile, less synchronized global environment.

4. Europe And Japan Continue to Transition to the New Regime

While the US market remains powered by the AI boom, Europe and Japan are charting their own distinct paths—idiosyncratic drivers that are strong enough to keep global markets and economies desynchronized (FIGURE 3).

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Earnings growth is no longer confined to mega-caps, and we see potential for a revival of earnings growth in Europe and across EMs.

The landscape in Europe is shifting. Slowing globalization and structurally higher inflation point to interest rates that could remain elevated over the long term. At the same time, the region is becoming more domestically focused and interventionist, with national security, economic resilience, and competitiveness now central to policy priorities. We think the potential winners in this new regime could be European value stocks rather than international growth names—a leadership shift supported by a recovery in European domestic demand.

An equally significant transformation is underway in Japan. After decades of deflation and sluggish growth, nominal growth is finally accelerating. Inflation has broadened, wages are rising, and both companies and households are shedding their deflationary mindset. Fiscal stimulus, accommodative monetary policy, and demographic shifts are reinforcing these trends.

This shift has two key implications. First, nominal growth drives equity returns by improving corporate earnings and margins, making equities more attractive than cash for households. Valuation outlooks are also improving as earnings become more predictable. Second, ongoing corporate governance reforms are enhancing shareholder value, further strengthening the case for Japanese equities.



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FIGURE 3
In Europe and Japan, Value Outperforms Growth, Unlike in the US
Relative Performance of Value vs. Growth Equities

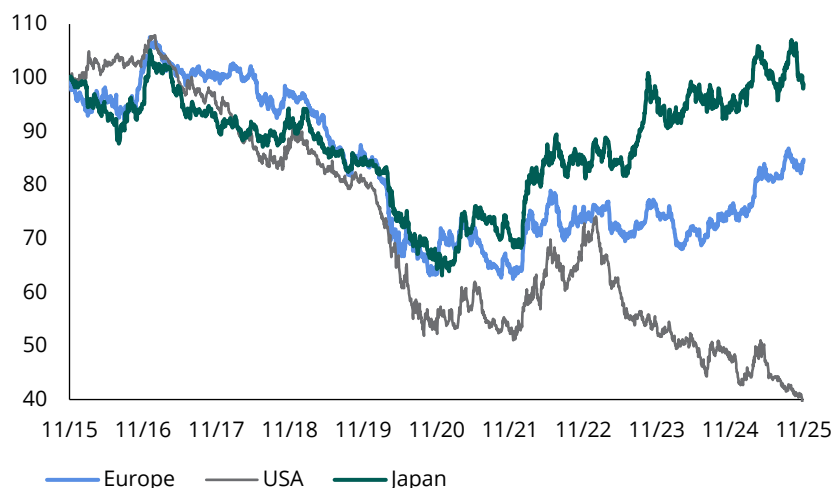


Chart Data as of 11/4/25. **Past performance does not guarantee future results.** Indices are unmanaged and not available for direct investment. Indices used: MSCI Europe Value Index, MSCI Europe Growth Index, MSCI USA Value Index, MSCI USA Growth Index, MSCI Japan Value Index, and MSCI Japan Growth Index. Please see page 7 for index definitions. For illustrative purposes only. Data Sources: Wellington Management, using data from MSCI and Bloomberg Index Services Limited.

Investment Implications

In Europe, investors may want to rotate away from former winners and focus on domestically oriented companies with strong margins (i.e., those aligned with regime-change beneficiaries). Sectors tied to domestic demand, such as telecoms, banks, and construction, look well positioned. Additionally, select defense stocks and utilities with high barriers to entry could emerge as winners in Europe's transformation.

In Japan, the combination of fiscal support and accommodative monetary policy should continue to favor domestic cyclical. Two sectors that stand out are banks and services.

5. Is The Time Finally Right for EMs?

Until 2025, EM equities lagged developed markets for nearly 15 years, weighed down by weaker EPS growth.¹¹ That narrative is changing. EM equities delivered their strongest year-to-date performance in seven years, signaling a potential turning point.

Like the US, 2025 returns were concentrated in tech and AI-related mega caps. While EM equity valuations remain lower than those in the US, they are no longer deeply discounted relative to history. Looking ahead to 2026, we expect EPS growth to broaden across EMs, supported by several factors:

- **Global Growth Tailwinds:** A more synchronized global recovery should benefit EM economies.
- **Currency Dynamics:** The US dollar's reserve currency dominance faces pressure from fiscal deficits, growth and inflation headwinds, and capital flows to other regions. A weaker dollar—potentially favorable for US policymakers—could boost EM returns and ease debt burdens tied to dollar-denominated liabilities (**FIGURE 4**).
- **Corporate Governance Reforms:** A growing focus on shareholder value is driving capital discipline and prioritizing returns. South Korea's Corporate Value-Up Program is making meaningful progress toward changing corporate behavior and increasing shareholder value. China's anti-involution campaign¹² reflects a similar push for reform, but both are supportive of long-term performance.
- **Policy and Financial Conditions:** The impact of tariffs on EM growth has been milder than expected, with policy responses emphasizing domestic resilience. Meanwhile, lower central-bank policy rates have provided a significant tailwind, with more global rate cuts in 2025 than in any year over the past two decades.

FIGURE 4

Is a Weaker Dollar a Catalyst for Asia and EM Outperformance?

EM Equity Performance Relative to US Dollar Strength

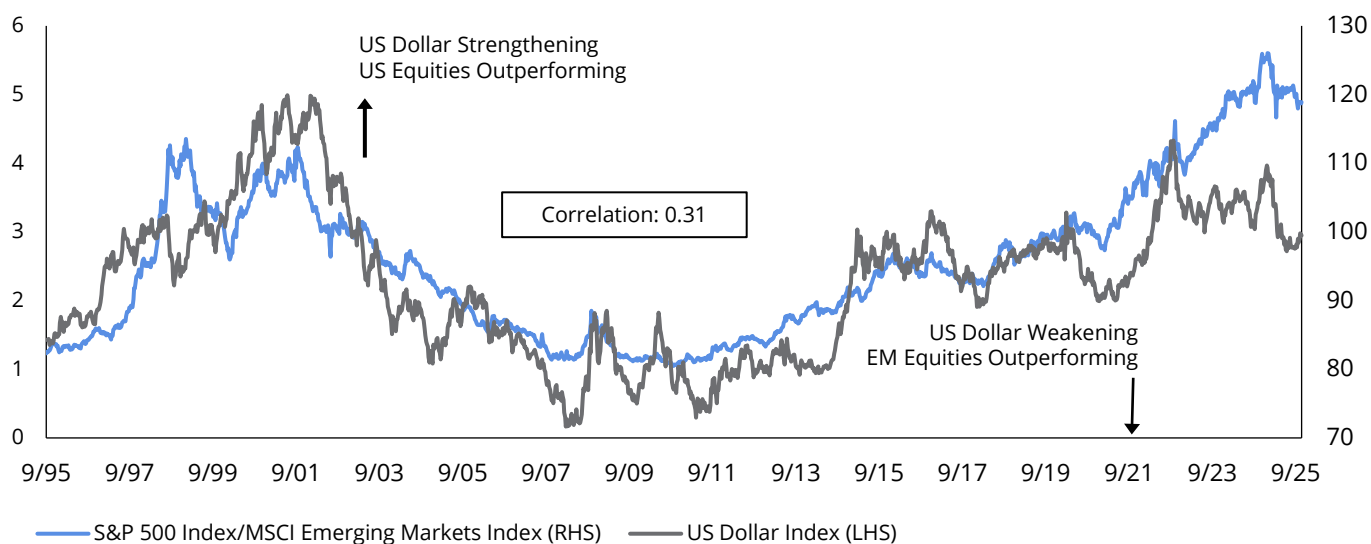


Chart data as of 11/10/25. **Past performance does not guarantee future results.** Indices are unmanaged and not available for direct investment. Correlation is a statistical measure of how two investments move in relation to each other. Please see page 7 for index definitions. For illustrative purposes only. Data Sources: Wellington Management, using data from MSCI, S&P, and Bloomberg Index Services Limited.

Investment Implications

After years of neglect, investors may want to consider revisiting their allocation to EMs within a global portfolio. However, variation across countries remains high due to political, social, and industrial differences, meaning some markets will fare better than others. While EMs may offer a rich opportunity set, selectivity will be critical.

6. Equity Investors May Want to Look Beyond Bonds to Hedge Market Risks

The final theme we're watching is what could go wrong. Equity investors face a growing challenge in hedging downside risks as traditional correlations shift. Stocks and bonds have become more correlated in recent years (**FIGURE 5**), reducing bonds' effectiveness as an "all-weather" diversifier for equity exposure. Similarly, if US equities and the US dollar remain positively correlated, the dollar could lose its historic safe-haven status and instead becomes a risk multiplier. For non-USD investors, this dynamic heightens downside risk, making currency hedging or alternative protection strategies increasingly important.

The most difficult scenario would be a reflationary environment—one that pushes interest rates higher while driving stock and bond prices lower in tandem, as we saw in 2022.

FIGURE 5

How Might We Hedge Downside Risk?

Correlation between the S&P 500 Index and 10-Year Treasury Yields

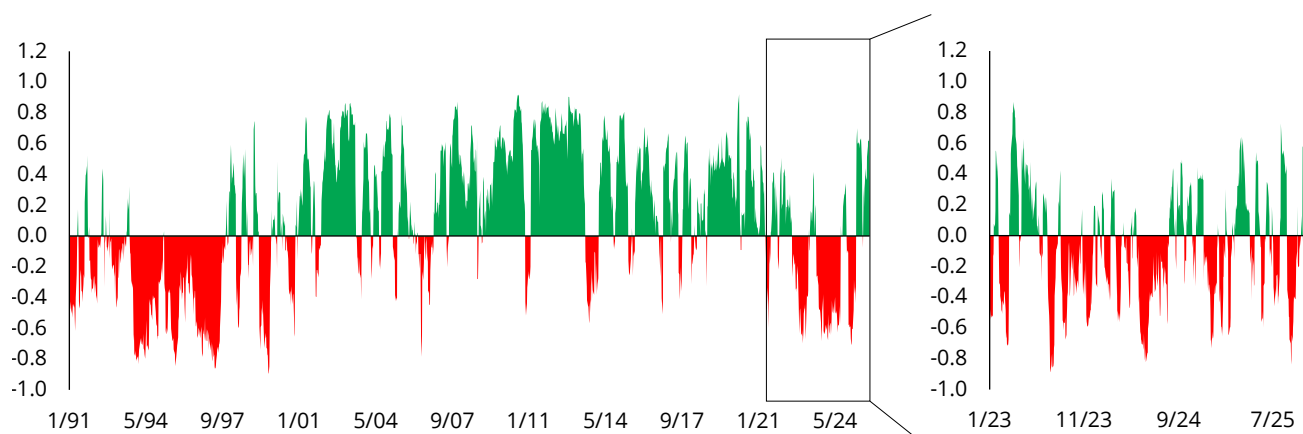


Chart data as of 11/5/25. **Past performance does not guarantee future results.** Indices are unmanaged and not available for direct investment. Please see page 7 for index definitions. For illustrative purposes only. Data Sources: Wellington Management, using data from S&P, and Bloomberg Index Services Limited.

Investment Implications

To help protect against downside risks, equity investors may want to consider:

- Portable alpha¹³ strategies
- Stocks or strategies positioned to outperform in a higher-rate environment
- Alternative asset classes or commodities that tend to benefit from rising rates

A Broader Opportunity Set in 2026

Accommodative monetary and fiscal policy and accelerating AI-driven capital investment buoyed global growth in 2025. Looking ahead, growth may remain robust, but the investment landscape will be shaped by wider earnings variation, shifting correlations, and regime transitions in Europe, Japan, and select EMs. Against this backdrop, we believe equity investors will need to balance AI enthusiasm with discipline, diversify exposures across regions and styles, and expand their risk-mitigation toolkit to navigate a more volatile, less synchronized world.

To learn more about equity opportunities, please talk to your financial professional.

MSCI Emerging Markets Index captures large- and mid-cap equity performance across 24 emerging market countries.

MSCI Europe Growth Index represents European companies with higher growth characteristics such as earnings and revenue growth.

MSCI Europe Value Index tracks European companies exhibiting value traits like low price-to-book and price-to-earnings ratios.

MSCI Japan Growth Index measures Japanese stocks with strong growth fundamentals, including higher forecasted earnings growth.

MSCI Japan Value Index focuses on Japanese companies with value characteristics, such as lower valuations relative to fundamentals.

MSCI USA Growth Index represents US companies with above-average growth prospects in earnings and revenue.

MSCI USA Value Index tracks US companies with value attributes, including lower valuations and higher dividend yields.

Russell 2000 Index is a benchmark for US small-cap stocks, covering the smallest 2,000 companies in the Russell 3000 Index.

S&P 100 Index is comprised of 100 major US companies with large market capitalization and high liquidity.

S&P 400 Index represents US mid-cap stocks, typically companies ranked between large and small caps.

S&P 500 Index tracks 500 leading US companies across all major industries, widely used as a proxy for the US equity market.

S&P 600 Index measures US small-cap stocks, focusing on companies with smaller market capitalization and liquidity.

US Dollar Index gauges the value of the US dollar against a basket of major foreign currencies, including the euro, yen, and pound.

¹ Capital expenditures are the money a company spends to buy or upgrade long-term assets such as buildings or equipment.

² Beta is a measure of risk that indicates the price sensitivity of a security or a portfolio relative to a specified market index.

³ Free cash flow represents the cash a company can generate after accounting for capital expenditures needed to maintain or maximize its asset base.

⁴ The price-to-earnings ratio measures a company's share price relative to its earnings-per-share and helps assess the relative value of a company's stock. Price/Book is the ratio of a stock's price to its book value per share.

⁵ Tobin's Q measures how much the market values a company compared to what it would cost to replace its assets. A higher number means the market sees more value than the cost to rebuild.

⁶ S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks.

⁷ Mean reversion, or reversion to the mean, is a theory used in finance that suggests that asset price volatility and historical returns eventually will revert to the long-run mean or average level of the entire dataset.

⁸ The Uber Driver Index is an informal, sentiment-based gauge rather than an official financial metric. It reflects how frequently popular investment themes (such as Bitcoin or AI) surface in everyday conversations, including among rideshare drivers. Analysts use it as a proxy for retail investor enthusiasm and market "buzz," recognizing that heightened chatter often coincides with periods of speculative fervor.

⁹ Earnings per share measures how much profit a company makes per share of common stock.

¹⁰ A correlation of 1.0 indicates the investments have historically moved in the same direction; a correlation of -1.0 means the investments have historically moved in opposite directions; and a correlation of 0 indicates no historical relationship in the movement of the investments.

¹¹ EPS growth is the projected growth rate in EPS for the next five years.

¹² China's anti-involution campaign seeks to reduce wasteful, zero-sum competition among companies by discouraging excessive price cutting and overexpansion, and instead promoting efficiency, innovation, and sustainable growth.

¹³ Alpha measures how much an investment outperforms or underperforms its benchmark after adjusting for risk. In short, it shows whether a manager or strategy added value beyond what the market delivered.

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