



INVESTMENT *Strategy*

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2026: What now? Will the bubble burst or will the bull market continue



“ 2026 begins much as 2025 ended: the tech boom continues, but risk factors remain present. To capture the value creation generated by technology companies, the two areas that remain key are the United States and South-East Asia, with China at the forefront. ”



Was last year simply too good to be true? Despite geopolitical tensions, erratic tariff policies and Donald Trump's confrontational governing style, global stock markets proved surprisingly robust. Emerging markets were among the winners, and corporate bonds also delivered impressive returns. Accordingly, US equities and bonds attracted substantial capital flows. However, scepticism grew beneath the surface of the rally. The gold price surged by a whopping 65%, surpassing the USD 4,000 mark for the first time in October – a clear signal of rising demand for crisis hedging. At the same time, the US dollar weakened, suggesting that international investors are increasingly questioning the political stability of the US and the reliability of its government. Against this backdrop, investment alternatives outside the US continue to attract interest.

USA: Tailwind for the economy and stock markets

The key question for 2026 is: Will the bull market continue, or will three years of rising valuations in the technology sector ultimately force a reversal? A look at the US reveals mixed signals. The labour market is showing signs of cooling: the unemployment rate climbed from 4.2% in April to 4.6% in November, and job growth has also been losing momentum. At the same time, the risk of

inflation has not increased despite higher tariffs – leading markets to expect several interest rate cuts over the course of the year. Combined with the income-boosting effect of the One Big Beautiful Bill, this should provide a strong tailwind for both the economy and stock markets. Consumption remains broadly flat but continues to hold up, supported by rising asset values and anticipated tax breaks, particularly in the higher income brackets. Despite a historically high estimated 12-month P/E ratio in the S&P 500, the increase in free cash flow and returns on equity – both unmatched globally – partly justifies these valuations. The polarisation in a handful of heavyweights has certainly stretched certain market capitalisations, but once equally weighted, the index remains broadly in line with its 10-year average.

AI: Keep an eye on circular financing

Should investors continue to bet on AI? In the short term, there are many arguments in favour. Unlike in previous valuation bubbles, today's market sentiment is less euphoric and more cautious. While US technology stocks rose by 19 per cent last year, they recorded triple-digit gains in 2000 before the dot-com bubble collapsed. Fundamentals also remain robust: rising revenues and profit growth of around 15 per cent are expected for 2026.



However, one risk is emerging. Some large tech companies are increasingly financing their enormous investments through complex structures. In some cases, circular financing between providers and users of AI computing capacity is artificially inflating revenues. These models become vulnerable as soon as conditions change and internal rates of returns have to be adjusted – potentially leading to falling share prices, even if the underlying businesses remain operationally sound.

In our view, the interplay of AI momentum and monetary policy will remain crucial for the US stock market this year. If the AI euphoria continues and the Federal Reserve remains supportive, the backdrop is favourable for technology and high-growth quality stocks. If the economy recovers, cyclical and small caps are also likely to benefit – adding them to the portfolio could pay off. If, on the other hand, monetary policy becomes more restrictive than expected and scepticism towards AI grows, defensive, low-volatility stocks are likely to come into focus.

Europe – focus on the domestic market

In Europe, the focus is primarily on companies that could benefit from a revitalisation of the domestic economy. Tailwinds are likely to come from Germany's debt-financed infrastructure and defence investment plans announced last year, whose economic impact should become increasingly noticeable in 2026. If implementation stalls and the already subdued growth cools further, the ECB would still have room for to provide support through interest rate cuts. For export-oriented industries suffering from US protectionism and intensifying competition from China, however, there is little sign of improvement. As a result, sectors more focused on the domestic market, such as utilities and financials, are moving into focus. Defence stocks also remain attractive, not least because many investors are still underinvested in this segment.

Southeast Asia, region of the future

Southeast Asia remains indispensable for globally oriented investors: 69 of the 100 largest cities are located in the region, which offers higher long-term growth opportunities than Europe thanks to its access to cheap raw materials, labour and capital. South Korea, which has so far remained largely untouched by the AI hype, and India, as a diversifying alternative to traditional tech investments, are particularly interesting.

How to position?

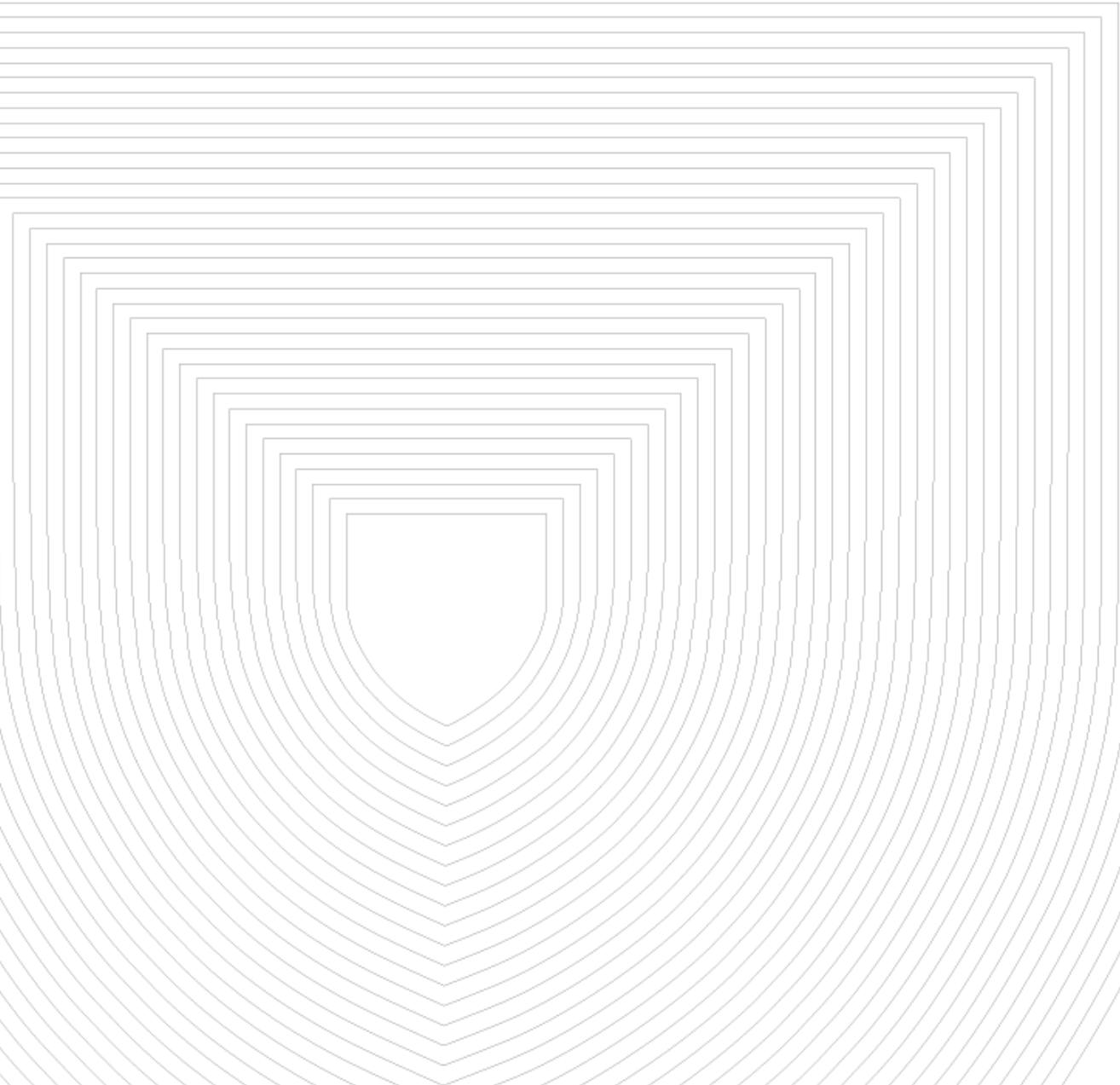
In the bond segment, we maintain a neutral duration in both the US and Europe. In core Europe, stagnating interest rate cuts, inflation close to its target and weak growth argue in favour of such a positioning. In the US, the neutral position is maintained by the balance between higher inflation and a cooling labour market. Risks to monitor remain high issuance volumes, rising public debt and a possible reversal of the Japanese carry trade. Corporate bond spreads are tight, but current yield level still offer attractive carry. We remain cautious on corporate bonds in general and high yield in particular where spread widening remains insufficient to compensate for the higher risks. In order to limit risks (duration and credit), short-term IG and HY securities therefore continue to be our preferred choice.

On the currency front, ongoing political tensions in the US – most recently the government's threat to indict Fed Chairman Powell – point to a further weakening of the dollar. The euro is benefiting from this, as is gold as a hedging instrument. Although Bitcoin is gaining importance as an asset class, it is not a reliable hedge in all market phases. In addition, investors should keep an eye on the risk posed by companies such as Strategy, which acquire Bitcoin primarily through loans. However, we still believe that, over the long term, cryptocurrencies could find a place in asset allocations as a means of diversification relative to traditional currencies. Like gold, a digital currency could ultimately evolve into a credible alternative. We are not there yet.

Conclusion

2026 begins much as 2025 ended: the tech boom continues, but risk factors remain present. To capture the value creation generated by technology companies, the two areas that remain key are the United States and South-East Asia, with China at the forefront. Investors seeking diversification beyond the US should look to a recovering Europe and the growth region of Asia. To answer the question about the bubble, we continue to sit firmly in the bull camp for now. Accommodative monetary and fiscal policies are boding well for the continuation of the reflation of asset prices. As long as we see no clear signs of a reversing trend, investors should resist the temptation to jump off the uncontrollable or unpredictable train too soon...

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