MassMutual Investments Market Outlook

January 2026

2025 Recap & 2026 Outlook

The global economic environment in the second half of 2025 has been marked by resilient economic growth despite headwinds of deteriorating consumer sentiment, trade uncertainty, and a weakening labor market. Risk assets have been propelled higher with enthusiasm around the AI theme, helping to push the S&P 500® Index towards record highs. The International Monetary Fund revised its growth estimate for global growth to 3.3% for 2025 and to slow to 3.1% in 2026.[1] Inflation, while off the pandemic highs experienced in 2022, remains elevated and above pre-pandemic levels. The Federal Reserve Chair Jerome Powell has cautioned investors that additional rate cuts are far from certain as economic conditions continue to evolve. This economic uncertainty has yet to manifest itself in analyst expectations, however, as data provider FactSet notes analyst expectations for earnings of the S&P 500® Index to grow by double digits in 2026.[2]

Consumer confidence

There is a bifurcation within consumer behavior, creating a "K-shaped" economy. At the low end, the consumer is feeling the pressure of higher prices and a slowing job market, sapping their enthusiasm for spending. The University of Michigan Consumer Sentiment Index had four of its lowest readings on record in 2025. Uncertainty around tariffs, continued inflation, and a cooling labor market weighed on consumers. The higher-end consumer continues to spend, however, with their confidence buoyed by higher equity and home prices.

Sticky and persistent inflation

A resilient consumer and supply chain disruptions have kept inflation elevated. The Federal Reserve's preferred measurement of inflation, the Personal Consumption Expenditure (PCE) Price Index, while off its post-pandemic highs, began to move to the upside in the back part of 2025. Consumer expectations for inflation moderated during the second half of the year; however, they remain notably higher than where they were at the beginning of year.[3] These elevated expectations create concerns over a self-fulfilling prophecy reigniting inflation.

Outlook

Our current assessment is the broader U.S. economy is gradually slowing. Prior to the federal government shutdown, we observed a labor market that, while neither particularly weak nor strong, seemed to soften as hiring slowed and announcements of layoffs climbed. Similarly, the housing market has seen the pace of housing permits and starts decline over the past six months. The consumer, in aggregate, remains resilient with real PCE growth at the long-term historical average, albeit with a slowing growth rate for the year-to-date period. The one undeniable bright spot in the economy is clearly AI and everything related. Recent estimates of the contribution of AI-related spending to overall GDP growth are upwards of 40%, according to JP Morgan Asset Management.[4] Indeed, S&P 500® Index earnings growth, driven by the Magnificent 7, is currently estimated at just over 13% for the 12-month forward period — a very healthy growth rate by historical standards.

We believe strong projected corporate earnings growth, continued capex spending, and cautious easing of monetary policy by the Federal Reserve will likely keep a floor under equity prices in the intermediate term. Risks to this view, apart from undeniably elevated valuations for the S&P 500® Index, include an unexpected uptick in inflation and negative developments in capex spending, particularly tied to the AI/data center portion of the economy.

MassMutual Investments' Economic Regime Model is an investment modeling process that forecasts expected returns based on the prevailing economic regime. The model classifies the U.S. economy into four states — Recovery, Expansion, Slowdown, and Contraction — using a nowcasting approach that relies on a variety of economic indicators to track the business cycle of the U.S. economy on a real-time basis.

Asset Class Views

As always, we balance our intermediate term outlook with long-term strategic capital market forecasts by asset class. Utilizing a building block approach, we arrive at long-term expected returns at both the asset class and region levels. We seek to add alpha by taking advantage of intermediate term market dislocations and opportunities.

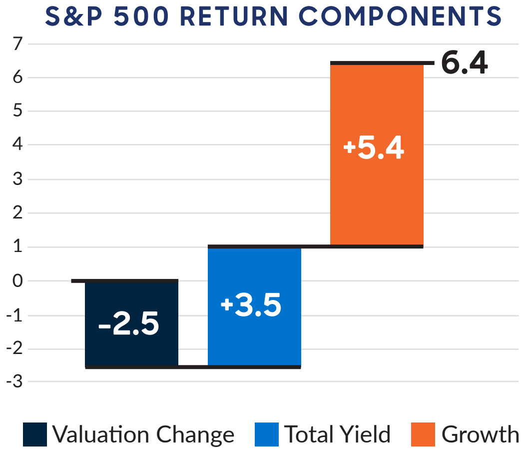
Equities

	10-year Forecasts	
	Growth 2026	Inflation 2026
United States	2.75	2.70
Euro Area	1.10	1.95
Japan	1.15	0.70
United Kingdom	0.90	2.80
Australia	1.10	2.70
China	3.90	2.20
India	4.50	5.50
Brazil	2.10	5.60
South Korea	1.90	2.40
Taiwan	2.30	1.30

Figure 1
Source: MassMutual Investments Capital Market Assumptions model, 11/30/2025.

Elevated equity valuations weigh heavily on our expected returns for the S&P 500® Index. In contrast, our growth forecast for the U.S. in both real and nominal terms is noticeably higher than developed market peers (Figure 1). As the chart on the following page (Figure 2) illustrates, the S&P 500® Index is trading at a premium to its fair value Price/Earnings multiple, leading us to expect little room for multiples to expand and that multiple contraction is likely to be a headwind for domestic stock returns.

Foreign stocks look attractive from a valuation perspective relative to domestic large-cap stocks. Their valuation support may lend them to hold up better than domestic stocks, particularly should the U.S. economy slow meaningfully.



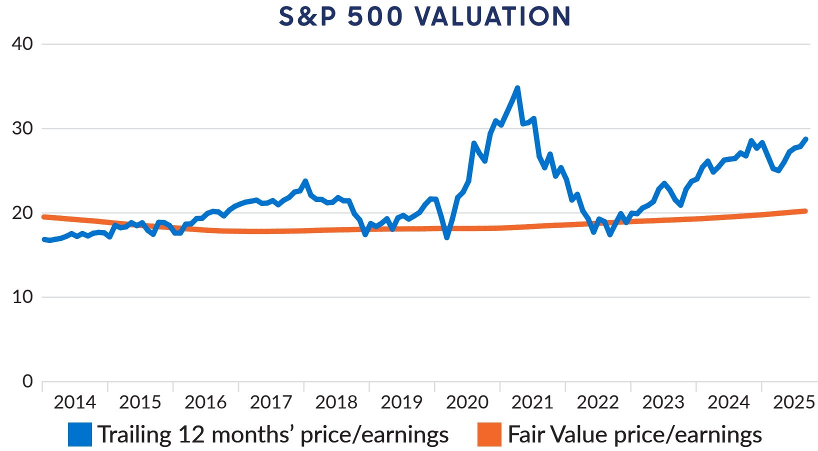


Figure 2
Source: MassMutual Investments Capital Market Assumptions model, 11/30/2025.

Fixed Income

We believe a duration neutral positioning is appropriate in the current macroeconomic backdrop. We observe the market demanding a higher term premium for U.S. rates, a result of uncertainty regarding the path of inflation going forward, the lack of fiscal discipline, and questions surrounding tariff policy. Higher expected yields, a reflection of the higher for longer rate environment, comprises the higher return potential for fixed income.

While we recognize credit spreads are relatively tight and high yield may underperform when the economy slows, we find relatively healthy financial corporate credit conditions, and our expectations of benign credit loss support the attractiveness of high yield in the intermediate term period.

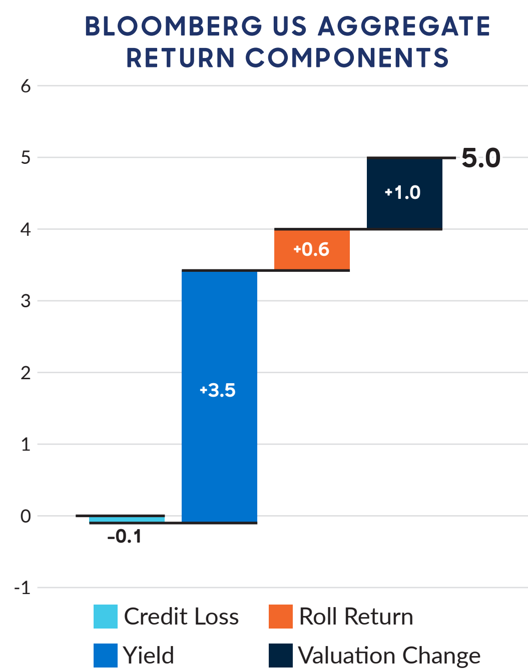


Figure 3
Source: MassMutual Investments Capital Market Assumptions model, 11/30/2025.

Long-term Capital Market Assumptions

MassMutual Investments Capital Market Assumptions

10-year Forecasts

		U.S.$ Returns	Volatility	Sharpe Ratio	Local Returns
Equity	S&P 500	6.4	15.9	0.4	6.4
	S&P 400	7.5	18.9	0.4	7.5
	S&P 600	7.1	20.6	0.3	7.1
	EAFE	7.7	16.6	0.5	6.3
	World ex U.S.	7.5	16.5	0.5	6.1
	Emerging Markets	7.7	20.4	0.4	7.6
	China	7.8	26.8	0.3	5.5
Fixed Income	U.S. Aggregate	5.0	4.2	1.2	5.0
	U.S. Treasury	4.6	4.9	1.0	4.6
	U.S. TIPS	4.5	6.3	0.7	4.5
	U.S. Corporate Investment Grade	5.5	6.7	0.8	5.5
	U.S. Corporate High Yield	5.5	10.4	0.5	5.5
	U.S. Municipals	4.6	5.0	0.9	4.6
	Global ex U.S. Aggregate	5.0	8.7	0.6	3.6
	Euro Aggregate	5.0	4.1	1.2	3.4
	Emerging Markets Aggregate	5.9	9.8	0.6	5.9
Commodities	Bloomberg Commodity	2.4	16.9	0.1	2.4

Figure 4
Source: MassMutual Investments Capital Market Assumptions model, 11/30/2025.

Equity indices are from S&P and MSCI. Fixed Income indices are from Bloomberg.

Local currency returns for EAFE, World ex U.S., and Emerging Markets represent the rolled up local currency forecast returns of the relevant index constituent countries.

Any forecasts in this document are based upon MassMutual Investments' opinion of the market at the date of preparation and are subject to change without notice, dependent upon many factors. Any prediction, projection, or forecast is not necessarily indicative of the future or likely performance. Investment involves risk. The value of any investments and any income generated may go down as well as up and is not guaranteed by MassMutual Investments or any other person. Where appropriate, changes in the currency exchange rates may affect the value of investments.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

[1] IMF World Economic Outlook, October 2025. https://www.imf.org/en/publications/weo/issues/2025/10/14/world-economic-outlook-october-2025

[2] FactSet Earnings Insight, November 2025. https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_111425.pdf

[3] Surveys of Consumers, University of Michigan, December 2025. https://www.sca.isr.umich.edu/files/tbcics.pdf

[4] On the Minds of Investors: Is AI already driving U.S. growth? September 2025. https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/market-updates/on-the-minds-of-investors/is-ai-already-driving-us-growth/

U.S.$ Returns represents the annualized expected return over a 10-year horizon, expressed in U.S. dollars. These returns reflect MassMutual Investments' long-term capital market assumptions and incorporate forecasts for income, growth, and valuation changes.

Volatility refers to the annualized standard deviation of expected returns, which measures the degree of variation or risk associated with an asset class's return forecast. Higher volatility indicates greater potential fluctuation in returns.

Sharpe Ratio is a risk-adjusted measure to help determine the reward per unit of risk using standard deviation and excess return relative to a risk-free rate. The higher the Sharpe Ratio, the better the fund's historical risk-adjusted performance.

Local Returns represents the expected return over a 10-year horizon in local currency terms, before any currency translation to U.S. dollars. Local returns for EAFE, World ex U.S., and Emerging Markets reflect the weighted average of local currency forecasts for underlying countries or regions.

The Magnificent 7 refers to the following stocks: Apple, Microsoft, Amazon, Alphabet, Nvidia, Meta, and Tesla.

The S&P 500® Index measures the performance of 500 widely held stocks in the U.S. equity market. The Index is designed to broadly measure U.S. equity performance and is market capitalization-weighted. The Index does not reflect any fees, expenses, or taxes and cannot be purchased directly by investors.

Investors should consider funds' objectives, risks, fees, and expenses carefully before investing. Please read them carefully before investing.

The University of Michigan Consumer Sentiment Index is a widely followed economic indicator that measures consumer confidence in the United States. It is based on surveys of households regarding their current financial conditions and expectations for the economy, including factors such as personal finances, business conditions, and buying attitudes. A higher index value indicates greater consumer optimism, while a lower value reflects increased pessimism.

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