Everyone Is Saying the Same Thing

Consensus is usually a good thing. In healthy markets, it's what allows the wisdom of crowds to accurately assess opportunities and risks. But consensus can also be problematic.

This distinction highlights a key difference between economic and market analysis. When it comes to the economy, we can usually look at the same set of facts, collectively interpret them, and arrive at similar views without creating a self-defeating prophecy. In fact, self-*fulfilling* prophecies tend to be the norm in economics.

But in markets, when everyone sits on the same side of the boat, you're more likely to tip over. Self-defeating prophecies are more often the rule—and the concern. Right now, all the Wall Street strategists Bloomberg surveyed are arrayed on the same side of the boat. Everyone's a bull in 2026, and market sentiment reflects this optimism.

While such uniformity raises some concerns, it doesn't necessarily spell doom and gloom. Many of the same bull and bear cases floating around today were just as valid a year ago. Yet the markets have rallied, mainly on the back of earnings growth, rather than multiples.

On balance, this makes us sensitive to near-term turbulence while maintaining our fundamentally based optimism. The economic cycle remains relatively strong, global government policies—especially in the US—are both fiscally and monetarily supportive, and the rise of artificial intelligence continues to boost both the economy and the market. Bubble fears persist in AI, but we see air pockets as more likely than a dramatic pullback.

Ultimately, after two relatively solid years for markets and a widespread sense of optimism, it's natural to worry about prices and valuations having run too far, too fast. The risks of turbulence are real, but the overall outlook is generally upbeat.
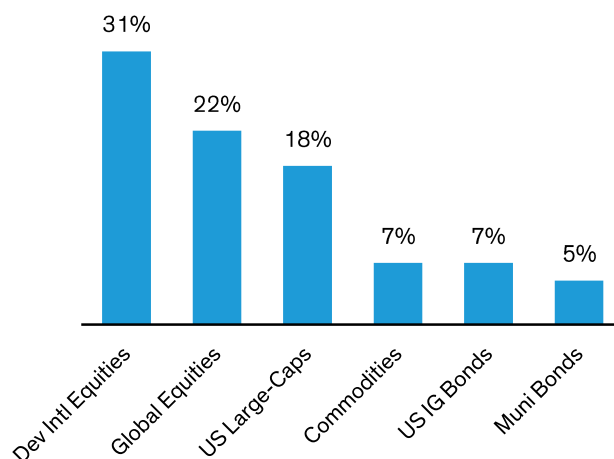
Markets in Motion

Having closed the book on 2025, the year will be remembered for tariffs and AI. Spring brought a sharp dip in markets, driven by initial tariff policies that rippled first through investor sentiment and then through global trade. In the span of two months, the S&P 500 fell by 20%. Yet, just as quickly, policies were reversed and the markets rejoined the expansionary path our Private Wealth Investment team envisioned a year ago. Does anyone even remember when the markets fell deeply into the red? It was over before you knew it.

That recovery fed an extraordinary rally, powered first by the market regaining lost ground, then by AI and macroeconomic enthusiasm, resulting in a nearly 40% increase from its trough. Tech stocks led the charge, but the AI wave touched nearly every sector, fueling optimism and, at times, a sense of exuberance reminiscent of the late 1990s. Still, as the year drew to a close, markets retrenched slightly before regaining their footing, reminding us that cycles—no matter how novel—are marked by both progress and pause.

The year also reminded investors of the value of global diversification (**Display 1**). After long stretches of underperformance, international stocks held up much better than US stocks in the first part of the year and continued to perform well in the latter part. In the end, developed international stocks closed the year up 31%, partially driven by a weak dollar, versus US large-caps' still-respectable 18% return (even more impressive considering their run in recent years).

DISPLAY 1: A POSITIVE YEAR ACROSS THE BOARD

International Stocks Led the Way, But All Asset Classes Performed Well

Past performance does not guarantee future results.
Source: Bloomberg and Bernstein analysis

Diversification across asset classes also worked, as US investment-grade bonds generated 7% returns and municipal bonds delivered 5%. Commodities, too, gained 7%. Within the commodity complex, gold stood out, up a whopping 65%, after being up 27% in 2024 and 13% in 2023 amid heightened global fears. This three-year run is almost enough to overlook the prior 15 years of measly returns.

AI: Bubble Trouble or Air Pocket Pause?

Artificial intelligence has become the defining theme of the day. But as with any technological revolution, the question looms: are we witnessing a true economic transformation, or simply inflating another speculative bubble?

This surge is not just about hardware. It's about embedding AI into the daily routines of billions of workers, revolutionizing industries from healthcare and manufacturing to retail and finance. To be clear, we consider AI a net positive over the long-term. The benefits far outweigh the costs, in our view. When it comes to labor, concerns about AI proving to be a job killer persist. And in the short term, that might hold true. But over the next generation, AI will create new roles, forms of work, and products/services that we can only begin to contemplate today. Our labor market tends to take roughly a generation to digest any innovative technology before it becomes clear how new roles will facilitate further growth. This time should be no different.
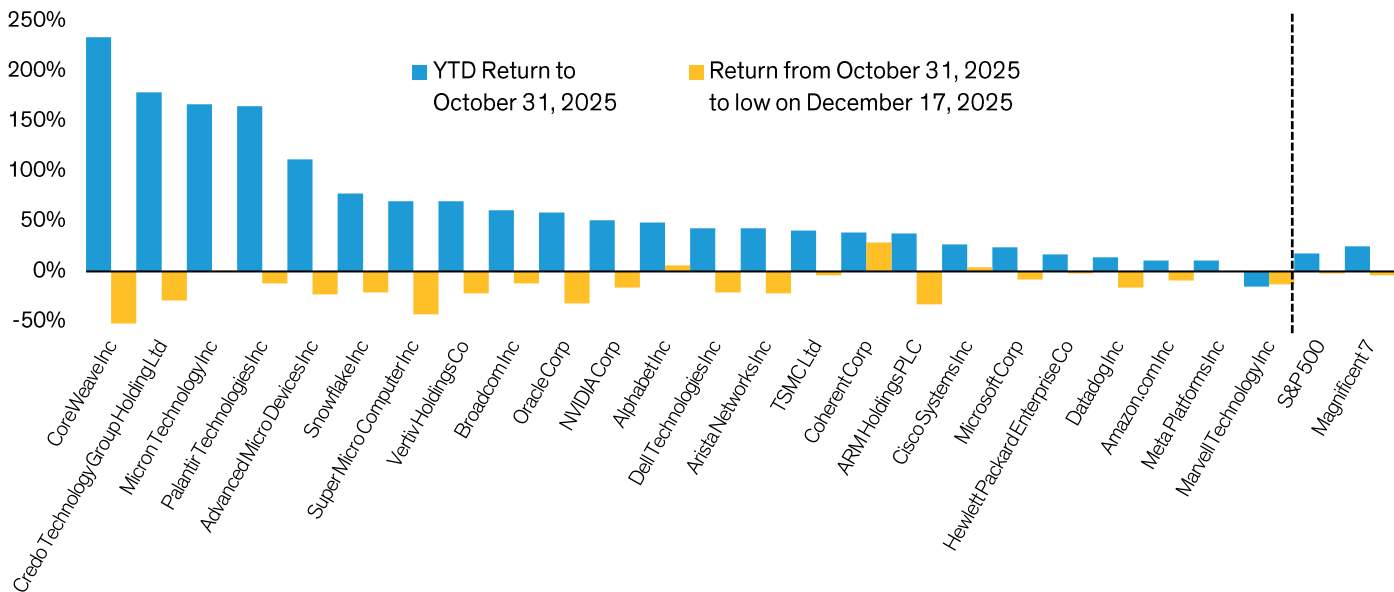
The fundamentals behind AI's expansion are staggering. Corporate investment in AI infrastructure—chips, datacenters, software, and talent—has unfolded at a pace even faster than previous tech waves. The five major hyperscalers[1] alone are expected to spend over $500 billion on capex in 2026, with projections rising to $600 billion the following year. Nvidia's CEO has talked about the potential for over $2 trillion per year in AI capex (a figure we'd consider bubbly, barring further major breakthroughs).

The scale of computational power being deployed is unprecedented, as is AI's growth rate. We simply don't have the power or the chips (or possibly even the data) to continue scaling large models at the rate at which we've been training them over the past 15 years.

Given such rapid expansion, it's natural to wonder whether we're in a market bubble. Many AI stocks (though not all, and not all the major players even) are trading at elevated multiples. Meanwhile, market multiples have reached levels seen only twice in the past 35 years. Are there names we'd rather not own at these prices? Of course. But there are also many we'd gladly own.

My biggest takeaway is that the distinction between an "AI bubble" and a "stock market bubble" is crucial. Not all richly valued stocks are AI plays, just as not all AI stocks are overvalued. Dispersion is increasing, creating opportunities for careful stock selection and for those positioned to tackle bottlenecks within the ecosystem (**Display 2**).

DISPLAY 2: INCREASING DISPERSION INSIDE THE AI THEME

Legend: YTD Return to October 31, 2025 / Return from October 31, 2025 to low on December 17, 2025

Categories: CoreWeave Inc, Credo Technology Group Holding Ltd, Micron Technology Inc, Palantir Technologies Inc, Advanced Micro Devices Inc, Snowflake Inc, Super Micro Computer Inc, Vertiv Holdings Co, Broadcom Inc, Oracle Corp, NVIDIA Corp, Alphabet Inc, Dell Technologies Inc, Arista Networks Inc, TSMC Ltd, Coherent Corp, ARM Holdings PLC, Cisco Systems Inc, Microsoft Corp, Hewlett Packard Enterprise Co, Datadog Inc, Amazon.com Inc, Meta Platforms Inc, Marvell Technology Inc, S&P 500, Magnificent 7

As of December 17, 2025. **Past performance does not guarantee future results**. References to specific securities discussed are not to be considered recommendations by AllianceBernstein L.P.

Source: FactSet, S&P, and Bernstein analysis

1 The five major hyperscalers include Google, Microsoft, Amazon, Meta, and Oracle.

Our research suggests that a systemic bubble is currently less of a risk than potential "air pockets"—temporary disruptions where one part of the AI ecosystem outpaces others. The most immediate roadblocks can be found on the supply side: chip production, power generation, and datacenter capacity. These constraints can create turbulence, forcing companies to slow down and realign their investments. For example, the development of advanced chips has hit snags, and the power required to run new datacenters is straining existing US infrastructure. BloombergNEF's latest projections show datacenter power demand growing at 10% per year, with around $3 trillion in datacenter capex anticipated over the next decade.

Investors must also guard against overbuilds—capital cycles where too much is invested in anticipation of future demand, only for that demand to materialize more slowly than expected. The advent of railroads, the power grid, and the internet all offer cautionary tales of overinvestment and subsequent retrenchment.

Our team has also stress-tested this AI spending arms race with our fixed-income colleagues, as crises often start in the credit markets before rolling over to the broader economy and the stock market. Our fixed-income team believes that so far, there are few signs of trouble and no evidence of a debt bubble that would spark a crisis.

Despite the headlines and corporate embrace, AI has yet to noticeably impact macroeconomic data or even blue-chip forecasts. Everyone seems content to take a wait-and-see approach. Yet, if they wait too long, they may find themselves forced to rapidly catch up to reality.

AI is a structural force reshaping the economy, with risks and opportunities emanating from the uneven pace of expansion. Investors who foresee where bottlenecks will form, and who can identify companies that have a competitive advantage in easing those constraints will be well positioned to thrive in this AI-driven landscape. While the macro impacts will take time to materialize, the seeds of transformation are already being sown.

Whither Inflation?

Unfortunately, it's too early to declare victory over inflation. While progress continues, tariffs complicated the picture from April onward. Then the government shutdown in October and November muddied it further, with a methodology issue regarding shelter inflation calculations potentially biasing CPI figures downward through at least this coming April.

Data collection and processing should go back to normal now. Yet we expect some of those computational issues to linger, affecting longer-term averages and trends and distorting data for another few months.

Importantly, inflation is not moving in lockstep across sectors. Data distortions aside, shelter inflation has been ticking down through 2025—a trend we expect to continue as weak house prices in 2024 and 2025 flow through rents in 2026. Other categories may move at different rates, from groceries to apparel, household furnishings, and recreational items.

What's more, while some prices surged when tariffs were imposed, many companies preemptively stocked up on inventory that was either tariff-free or subject to lower tariffs. Now that those inventories are mostly depleted, if the current tariffs remain, we can expect to see more price increases in the coming months. Yet, the Supreme Court seems poised to strike down these tariffs, prompting the White House to replace them using other authorities—either at reduced levels or with a lag. This could create more opportunities to order and implement lower-cost inventories, further postponing the full impact on prices. As a result, the inflation picture is likely to remain muddy through 2026.

Perennial Eye on the Risks

As we look ahead to the rest of the year, it's essential to weigh the risks that could shape it. AI disappointment—whether from slower monetization, supply-side constraints, or ecosystem imbalances—remains a possibility. In fact, of all the possible negative shocks, it's the most likely, or at least the most salient, in our minds.

A US fiscal mini-crisis, akin to those seen in the UK under Liz Truss a few years ago or in France last year, could emerge from policy missteps or external shocks. Theoretically, we'd expect those to be tied to budgetary considerations. Yet, as we learned from the US case in 2025, a mini-crisis could be sparked by other geopolitical or strategic actions. Alternatively, if the market pans the president's choice for Fed chair, such a chilly reception could precipitate a similar reaction from global investors. That broader set of catalysts may be worth bearing in mind as the year begins.

The labor market is another area to watch (**Display 3**). It's softened throughout 2025, and even with the delayed employment report released in December, we're working with a cloud of relatively light official data for at least another month or two. Our hope is that with resumed business confidence, the labor market should be able to find its footing in the coming months—but we stand ready for however that data breaks.
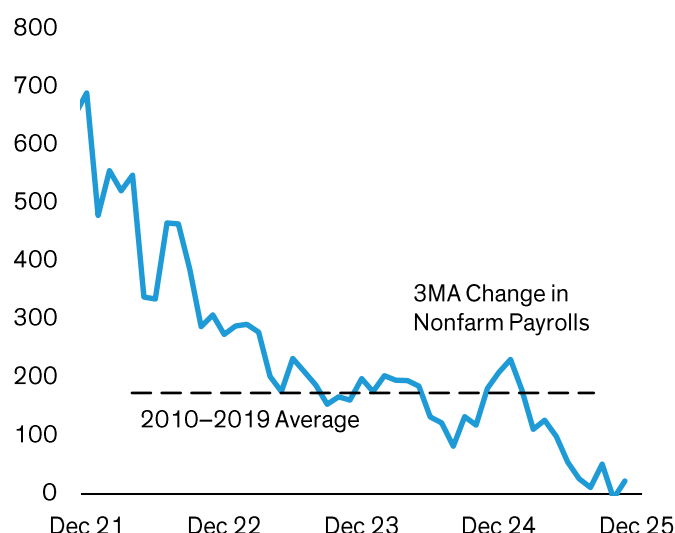
In addition, high market multiples and widespread optimism set the stage for potential corrections if earnings fall short or if sentiment weakens. Geopolitical tensions and sector-specific vulnerabilities add further layers of complexity.

Upside risks exist as well. We could start seeing some of the productivity gains from AI this year. Alternatively, while we expect the White House to lean on other tariff authorities if the 2025 IEEPA tariffs are deemed unconstitutional, the president could decide to lighten the tariff load—a boon to businesses and consumers.

DISPLAY 3: IS THE LABOR MARKET LEADING OR LAGGING?

New Jobs Added Continue to Show Declines
Thousands

The Unemployment Rate Has Broken Above Recent Ranges
Percent

As of December 31, 2025. **Current analysis does not guarantee future results**. 3MA: three-month moving average.
Source: Bloomberg, US Bureau of Labor Statistics, and Bernstein analysis

Hidden Figures: Fed's $40 Billion/Month T-Bill Purchases

The Fed's December move to halt quantitative tightening (QT) and resume $40 billion/month in T-bill purchases reflects a shift toward preserving market liquidity amid rising funding pressures—a technical intervention with potential implications for the broader markets. While different from quantitative easing (QE), the purchases are widely seen as easing financial conditions and helping absorb Treasury issuance, stabilizing short-term rates and indirectly supporting risk assets.

The pivot signals a flexible stance which may or may not have implications for inflation. If the level of liquidity is appropriate, it should merely stave off a potential breakdown of the plumbing of the banking system. But if it's overdone, it could inject too much credit and demand into the system, leading to some more inflationary pressures. Conversely, if it's not enough, the financial plumbing could get gummed up anyway.

For the most part, we think this is a fair approach suggesting the Fed is working to eliminate downside risks to the economy and markets, which should further support both the economic expansion and the bull market in risk assets.

In addition to the maintenance of smooth monetary functioning, on the fiscal side, the stimulative elements of the One Big Beautiful Bill Act should hit the economy in 2026. That should result in roughly another $100–200 billion in deficit spending, much of which will eventually make its way into corporate profits.

Navigating Opportunity and Uncertainty

Thank you for another year of your partnership and trust. The coming year promises both opportunity and uncertainty, and our commitment to disciplined research, risk management, and flexibility will be more important than ever. As we navigate the evolving cycle, I believe our approach will help position us—and our clients—for both resilience and growth.

Best regards,

Alex Chaloff
Chief Investment Officer

Alex Chaloff is the Chief Investment Officer and Head of Investment and Wealth Strategies at Bernstein. In this role, he leads a national team of strategists across investments and wealth planning—including asset allocation advice, investment platform oversight, model portfolio construction, new product development, manager research, tax planning and solutions, and estate planning research—while remaining continuously focused on moving our clients forward with strong after-tax risk-adjusted returns. Alex has spent his Bernstein career refining our investment platform, listening to clients, and conducting deep research into investment and wealth planning topics that are critical to achieving clients' goals.

BERNSTEIN

INVEST WITH INTENTION®
BERNSTEIN.COM