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From the US Market Desk

Let's talk about this: S&P 500 Equal Weight Index hit new all-time high

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How US equities and US fixed income performed with a resumption of Fed easing

Macro

- Our US real GDP forecast for 2026 is 2.5% (based on our Global Investment Management Survey) versus the Federal Reserve's (Fed) forecast of 2.3% and the Wall Street consensus of around 2%. The main drivers of our GDP forecast are the continued capital expenditure (capex) spend by big technology firms and a resilient consumer (on Walmart's February 19 earnings call, CEO John Furner said, "Spending continues to be resilient in the US."[1]). These comments echo those of Bank of America (BoA) CEO Brian Moynihan, who referenced data at a recent conference showing consumer spending by BoA clients rose 5% in January.[2]
- We expect the Fed to cut rates twice in 2026 and core Personal Consumption Expenditures (PCE) to remain stable in the range of 2.5%–3.0%. The December core PCE data released last week was 3.0%, versus expectations of 2.9%. The U-3 unemployment rate for January was 4.3%, just off the recent high print of 4.5% in November, which was the highest level going back to October of 2021.
- Inflation expectations have moved up in the near term. One-year breakeven rates have risen to 3.73%, up from 2.12% in December. This is the highest reading since March/April of 2025, which was peak tariff time. Two-year breakeven rates were 2.80% as of this writing, with five-year rates at 2.48%. These numbers represent bond market pricing of annualized inflation expected in the coming one, two and five years. It's important to note that the vertical move up in one-year breakeven rates is alarming.
- On the currency front, we are expecting the US dollar to be essentially flat during 2026 despite its recent volatility. The US Dollar Index (DXY) is trading at US$98, which is near the middle of its range during the past 11 months of US$96–US$100. Many investors are concerned about the US dollar losing value, and some believe the dollar has recently weakened materially. However, the fact is the US dollar is at the same level today as it was in April of 2025 and higher than it was in early July of 2025, late September of 2025 and mid-January of 2026.

Equities

- We are constructive on US equites and have established a target range of 7,000 to 7,400 for the S&P 500 Index, as expected earnings-per-share growth of 8%–13% year-over-year (y/y) (based on our Global Investment Management Survey) is likely to drive stock prices higher.
- As you may recall reading in our previous commentaries, we have been on the "broader market" train since January of 2025 (see "Get ready for a broader US equity market"). Our operating thesis from that research is playing out largely as we expected. As further evidence, consider this year-to-date (YTD) index performance through Thursday, February 26, 2026: The Russell 2000 Value Index has led the way, up 10.88%, the S&P MidCap 400 Growth Index was up 10.58%, the S&P MidCap 400 Index was up 9.17%, the Russell 2000 Index was up 8.02%, the S&P MidCap 400 Value Index was up 7.76%, the Russell 1000 Value Index was up 6.99%, and the S&P 500 Equal Weight Index was up 6.26%. Meanwhile, the Russell 1000 Index was up 1.69%, the S&P 500 Index was up 1.09%, the Russell 1000 Growth Index was down 3.13% and the Magnificent Seven (Mag 7) basket (the stocks of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) was down 3.98%.

Equities (continued)

- So why does this feel like a bear market to so many investors? I would say it is because of the drawdowns in some pockets of the market: The Russell 1000 Growth Index was down about 3% YTD as of this writing, and the Mag 7 basket was down about 4% YTD. Software was down about 22% YTD as measured by the iShares Expanded Tech-Software ETF, IGV. Last week, Nvidia (NVDA) reported earnings and showed a strong quarter, but the market took down the stock by 5% on this print. It feels like a bloodbath to a lot of folks. But remember, this is what rotational markets do—they inflict pain on the crowd. If I have learned one thing over 35 years in this industry, it's that the market will inflict maximum pain on maximum people, and it doesn't care about your feelings, your fundamental analysis or your valuation argument. I've learned that positioning matters and sentiment matters.
- But at the same time, we're not seeing an across-the-board bloodbath: The S&P 500 Index was up about 1% YTD. It has essentially gone nowhere since October 27, 2025. Similarly, the Nasdaq composite has gone nowhere since September 22, 2025, and it's down a "whopping" 1.5% YTD. All the while, the S&P 500 Equal Weight Index traded to a new all-time high last Thursday. That's consolidation, folks. We believe consolidation and rotation are underway, not a bear market, and it's usually not the end of the world if one is diversified.
- As a sidebar, for what it's worth: the iShares Expanded Tech-Software ETF (representing a sector at the center of the artificial intelligence (AI) storm) recently registered its most oversold reading in five years. The Relative Strength Index (RSI) traded to 15 on the weekly chart. I see the exact same set up in Bitcoin. Its RSI traded to 17, at a spot price of approximately $60,000. The oversold part is interesting to me, and it appears these assets may be set up to bounce higher, but keep in mind that oversold isn't the same as saying that prices have yet hit the bottom. What the oversold indicators have meant historically is that there has been rapid pain, and a tradable bounce may be coming.
- The broad participation is a result of a few things. First, earnings power is broader at the index and sector levels than it has been in five years (source: Franklin Templeton Institute, based on FactSet data as of November 12, 2025). Second, based on our conversations with financial intermediaries, many investors still appear to be concentrated in large-cap growth names. Third, many investors are underexposed to the broadening thesis, specifically in mid- and small-cap space. When I was managing money and I found myself in this position, I learned to act. I took starter positions and added to them on weakness. I viewed it as a way to be constructive with risk awareness.
- We maintain our bullish view of emerging market (EM) equities. This call is not currency driven; remember, we are expecting a flat US dollar in 2026. Rather, this call follows on our view of earnings power, and by our estimates, EMs have the strongest forward, two-year cumulative earnings power on the planet. We have seen that stock prices follow earnings over time. The MSCI Emerging Markets Index was up 15.45% YTD as of this writing versus 1.09% for the S&P 500. If you don't think you have appropriate EM exposure and may be underexposed, it may make sense to consider the gradual positioning process I outlined above, starting with small exposure and later adding to it on price weakness.
- Bottom line: Our view is to have a diversified equity playbook that includes US large-, mid-, and small-cap exposure with a balance of growth and value. The same can be said for ex-US equity exposure; we consider it an attractive time to own EMs and developed international markets. We think it is prudent to reduce concentration and spread exposures.
- For those of you who like podcasts, I'll be on the Animal Spirits podcast March 9, 2026. In the recording session, it was great fun to talk with Michael Batnick and Ben Carlson of Ritholz Wealth Management, and we discussed all these topics. Have a listen, I think you'll enjoy it. I'll post the link when it's available.

Fixed income

- We expect the US Treasury 10-year bond yield to trade in the range of 4.0% to 4.25% this year. The 10-year yield is currently at the lower end of that range, at 4.01%. The two-year Treasury yield has been range-bound for the last few months as well, most recently trading near 3.44%. The US yield curve has flattened recently, with the two-year-to-10-year spread at 57 basis points (bps). We expect bull-steepening of the yield curve in 2026.
- We are forecasting short-duration fixed income mandates and corporate credit to outperform cash in 2026, as they did in 2025. Considering our views on US 10-year yields, we do not expect duration to be a significant driver of total return this year. Rather, all-in yield capture seems to be the play.
- Despite fears of a looming credit crisis, we see little evidence of that in corporate bond spreads. Investment-grade (IG) spreads (one-year to three-year option-adjusted spreads, or OAS) were 48 bps over Treasuries, flat on the week. High-yield (HY) spreads (as proxied by the Bloomberg US Corporate High Yield Index OAS) were 277 bps over, up a bit on the week. Both measures are very close to five-year tights. Corporate fundamentals appear healthy to us. Significant spread compression from here seems unlikely, either in IG or HY space.

Fixed income (continued)

- We are bullish on municipal bonds this year and find taxable-equivalent yields to be attractive along with robust fundamentals. Importantly, the increased supply in the marketplace seen in 2025 appears to have run its course for now, and muni bonds have been performing well since last August. We think this should continue. To get a current update on the municipal sector, have a listen to Ben Barber, Director of Municipal Bonds at Franklin Templeton Fixed Income, and Rick Polsinello, my colleague at Franklin Templeton Institute, discussing "The opportunity in municipal bonds," in our recent Talking Markets podcast.

Sentiment

- The percentage of bullish investors in the latest AAII Investor Sentiment survey dropped to 33%, down two ticks from last week's reading. The percentage of bearish investors in the AAII survey is 40%, a little above last week's reading.
- Neither of these readings are at extremes, but sentiment is growing more cautious. Remember, this is a contrary indicator.

We will continue to analyze the markets and will offer insights again next week.

Source of data (except where noted) is Bloomberg as of February 27, 2026. There is no assurance that any forecast, projection or estimate will be realized. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. ***Past performance is not an indicator or a guarantee of future performance.*** *Important data provider notices and terms available at www.franklintempletondatasources.com.*

The Franklin Templeton Institute Global Investment Management Survey is a biannual outlook survey designed to give a view across our investment teams. The Franklin Templeton Institute identifies the median across the survey answers and develops the outlook. The survey received responses from around 200 portfolio managers, directors of research and chief investment officers, representing participation across equity, private equity, fixed income, private debt, real estate, digital assets, hedge funds and secondary private markets. Each of our investment teams is independent and has its own views.

Endnotes

[1] Source: Walmart Inc. Q4 2026 earnings call transcript. Insider Monkey Transcripts and msn.com. February 19, 2026.

[2] Source: Bank of America Securities Financial Services Conference. February 10, 2026. Comments from Chief Executive Officer Brian Moynihan on bank data showing consumers spent 5% more in January 2026 than in January 2025.

Glossary of terms

The AAII (American Association of Individual Investors) Sentiment Survey: This survey offers insight into the opinions of individual investors by asking them their thoughts on where the market is heading in the next six months.

Breakeven rates: The difference between yields of Treasury bonds and TIPS for issues of the same tenor/maturity, calculated by subtracting TIPS yields from Treasuries; a measure of inflation.

Capital expenditure (capex): Funds that companies spend to acquire, upgrade or maintain physical assets, such as buildings, technology or equipment, with the purpose of maintaining or growing future operations.

Duration: A measure of how much a bond's price changes relative to changes in interest rates.

Option-adjusted spread (OAS): Measures the spread between a bond's interest rate and the risk-free rate, while adjusting for any embedded options like callables or mortgage-backed securities.

Personal Consumption Expenditures (PCE) and core PCE: Measures the price changes in goods and services purchased by US households; core PCE excludes food and energy prices. Both are measures of inflation.

Relative Strength Index: A momentum indicator that measures the speed and magnitude of recent security price changes, used in technical stock market analysis.

Taxable-equivalent yield: The yield of a municipal bond investment calculated to reflect the benefits of income tax exemption and to be comparable to the yield of a taxable bond.

U-3 unemployment rate: The official measure used by the US Bureau of Labor Statistics (BLS) to report the percentage of the labor force that is unemployed and actively seeking work.

Yield spreads/tights: Spreads are the difference between yields on differing debt instruments of varying maturities, credit ratings, issuers or risk levels. “Tight” in reference to spreads indicates small differences in yields.

Indexes

Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. Past performance is not an indicator of future results.

Bloomberg US Corporate High Yield Index: Tracks the performance of the USD-denominated, high yield, fixed-rate corporate bond market.

MSCI Emerging Markets Index: A free float-adjusted, market capitalization-weighted index designed to measure the equity market performance of global emerging markets.

Russell 1000® Index: A market capitalization-weighted that measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents the majority of total US market capitalization.

Russell 1000® Growth Index: A market capitalization-weighted index that measures the performance of Russell 1000® Index companies with relatively higher price-to-book ratios and higher forecasted growth rates.

Russell 1000® Value Index: A market capitalization-weighted index that measures the performance of Russell 1000® Index companies with relatively lower price-to-book ratios and lower forecasted growth rates.

Russell 2000® Index: A market capitalization-weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index.

Russell 2000® Growth Index: A market capitalization-weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index with relatively higher price-to-book ratios and higher forecasted growth rates.

Russell 2000® Value Index: A market capitalization-weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000 Index with relatively lower price-to-book ratios and lower forecasted growth rates.

S&P 500® Index (SPX): A market capitalization-weighted index of 500 stocks, a measure of broad US equity market performance.

S&P 500 Equal Weight Index (EWI): The equal-weight version of the S&P 500 Index. The index includes the same constituents as the capitalization weighted S&P 500, but each company is allocated a fixed weight, or 0.2% of the index total, at each quarterly rebalance.

S&P MidCap 400® Index: A market capitalization-weighted index of 400 stocks of mid-size companies, distinct from the large-cap S&P 500.

S&P MidCap 400 Value Index: This index measures constituents from the S&P MidCap 400 that are classified as value stocks based on three factors: the ratios of book value, earnings and sales to price.

US Dollar Index: A basket of six foreign currencies (euro, Japanese yen, UK pound sterling, Canadian dollar, Swedish krona, and Swiss franc) used to track the relative strength of the US dollar, with a higher index value representing US dollar strength.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

The allocation of assets among different strategies, asset classes and investments may not prove beneficial or produce desired results.

Blockchain and cryptocurrency investments are subject to various risks, including inability to develop digital asset applications or to capitalize on those applications, theft, loss, or destruction of cryptographic keys, the possibility that digital asset technologies may never be fully implemented, cybersecurity risk, conflicting intellectual property claims, and inconsistent and changing regulations. Speculative trading in bitcoins and other forms of cryptocurrencies, many of which have exhibited extreme price volatility, carries significant risk; an investor can lose the entire amount of their investment. Blockchain technology is a new and relatively untested technology and may never be implemented to a scale that provides identifiable benefits. If a cryptocurrency is deemed a security, it may be deemed to violate federal securities laws. There may be a limited or no secondary market for cryptocurrencies.

Diversification does not guarantee a profit or protect against a loss.

Equity securities are subject to price fluctuation and possible loss of principal.

Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default.

International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**.

The investment style may become out of favor, which may have a negative impact on performance.

Large-capitalization companies may fall out of favor with investors based on market and economic conditions.

Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks.

Any companies and/or case studies referenced herein are used solely for illustrative purposes; any investment may or may not be currently held by any portfolio advised by Franklin Templeton. The information provided is not a recommendation or individual investment advice for any particular security, strategy, or investment product and is not an indication of the trading intent of any Franklin Templeton managed portfolio.

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