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Lessons to carry forward in 2026

TIAA Wealth Management

CIO PERSPECTIVES

Executive summary

- As we look back on 2025, five critical insights emerged that will guide our approach to investing in 2026 and beyond.
  1. Market drivers have changed. Investors are focusing less on traditional economic data and more on secular dynamics that are reshaping the investment landscape.
  2. Elevated market valuations can exacerbate volatility at times of uncertainty, but investors are willing to buy the dip as long as corporate earnings remain healthy and credit remains readily available.
  3. Access to investment tools and information is democratizing investing, with profound implications for the market structure. Retail investors are a force to reckon with across asset classes.
  4. When established trends and conventional wisdom are called into question during bouts of market volatility, stay focused on fundamental dynamics.
  5. The global economy is being reshaped by an historic combination of secular developments. This environment requires a globally diversified portfolio.
- We expect bouts of market volatility in 2026, as periods of uncertainty collide with elevated investor expectations and market valuations. An investment process rooted in fundamental analysis, long-term perspective, and strong risk management is best suited to navigate an increasingly complex global environment.

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The new year keeps us focused on what's ahead, and in our 2026 Outlook, we outlined five key themes that we expect will shape global economies and markets this year (Figure 1). Yet as we chart our course forward, we recognize that the investing landscape has changed in fundamental ways. Traditional economic indicators that once reliably predicted market directions now tell an incomplete story. Secular forces—from artificial intelligence (AI) to demographic shifts—are reshaping how economies function and how markets respond.

Forecasting in this environment requires more than analyzing historical patterns. It demands constant adaptation and the ability to challenge conventional wisdom.

FIGURE 1

Key themes for 2026.

Source: TIAA Wealth Chief Investment Office.

As such, it has become our habit to spend the first few weeks of the new year reflecting on lessons learned—both from analyzing market trends and from listening to our clients. As we look back on 2025, five critical insights emerged that will guide our approach to investing in 2026 and beyond:

1. **Market drivers have changed. Investors are focusing less on traditional economic data and more on secular dynamics that are reshaping the investment landscape.**

This doesn't mean that traditional economic data no longer matters. A spike in unemployment or a sudden drop in consumer spending would likely hurt corporate profits—and stock returns. But throughout the current business cycle, we have observed a notable loss in their predictive power. In the past, these indicators reliably warned of coming downturns. This time around, significant declines in consumer and business confidence have so far provided false signals, as the U.S. economy has continued to show resilience (Figure 2).

It's now clear that the U.S. and global economies are being shaped by an evolving mix of fundamental dynamics. We still closely monitor the traditional leading, coincident, and lagging economic indicators. But we now analyze these data points in the context of accelerating secular trends. Among them:

- **Artificial intelligence** (AI) has ushered in a new era of innovation, significantly boosting business investments and productivity. The unprecedented pace of AI-related spending has been strong enough to offset weakness in other parts of the economy. Rising productivity also means the economy can achieve solid gross domestic product (GDP) growth with less job creation than in the past.

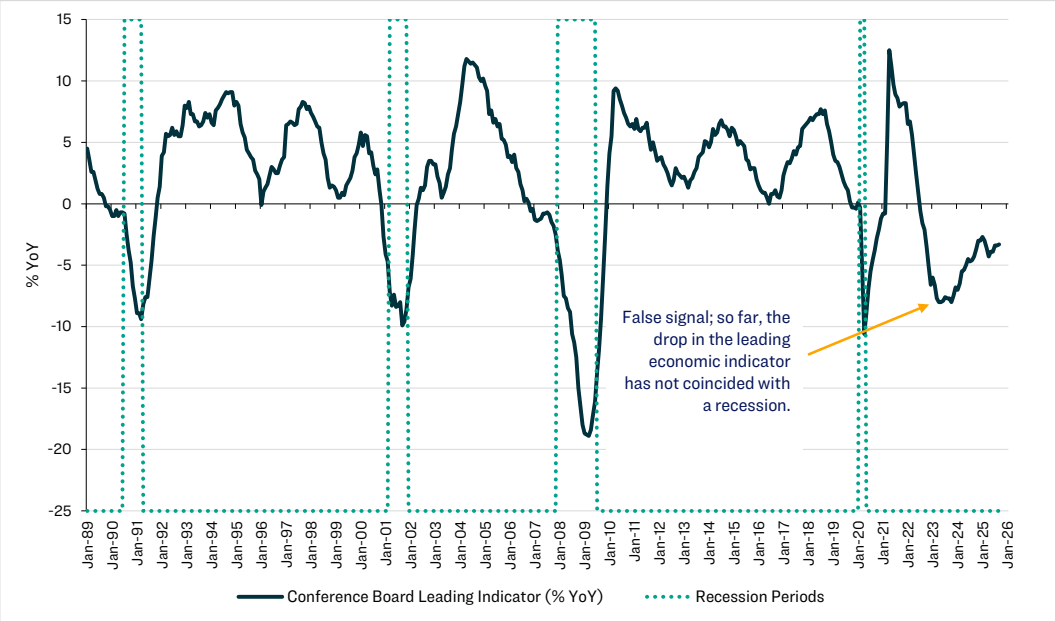
- **Aging demographics and tighter immigration policies** are reshaping the labor market, affecting everything from how fast the workforce grows to how quickly wages rise.

- **The debt burden has shifted**—from households before the Great Financial Crisis to governments today. U.S. household debt as a percentage of U.S GDP stood at 100%[1] in 2007 and has since declined to 70%. Meanwhile, U.S. government debt as a percentage of GDP has doubled from 60% to 120% over the same period. Lower household debt makes consumers less vulnerable to economic downturns and helps keep spending resilient even when consumer confidence is in decline. But higher government debt creates different risks and has important implications for monetary policy and interest rates.

These and other long-term shifts mean investors can't rely solely on historical patterns to predict future outcomes.

FIGURE 2

Falling leading indicators have provided a false recession signal so far.



Source: Bloomberg, TIAA Wealth Chief Investment Office.

2. **Elevated market valuations can exacerbate volatility at times of uncertainty, but investors are willing to buy the dip as long as corporate earnings remain healthy and credit remains readily available.**

This lesson builds on the first. Despite all the headwinds and uncertainty facing businesses and consumers, earnings growth has been supported by secular forces such as the AI revolution and heavy government spending. These tailwinds are expected to persist in 2026, supported by tax cuts in the One Big Beautiful Bill Act (OBBBA), ample liquidity from Federal Reserve (Fed) rate cuts, the Fed's newly announced Treasury bill purchases, and ongoing AI investments and adoption.

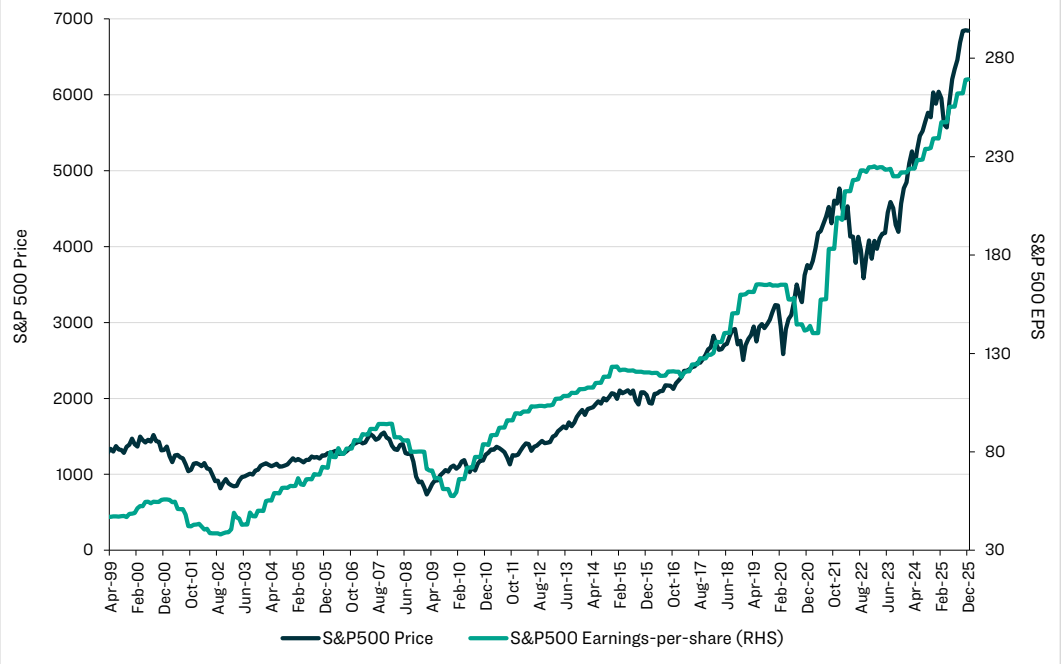
Against this backdrop, it is important to recognize that equity and credit valuations are historically high, signaling that investors already have lofty expectations. The large market swings observed around the announcement and implementation of reciprocal tariffs in early 2025 demonstrated that high valuations can amplify declines when expectations aren't met. But the S&P 500's 40% rally from its April 2025 low provides

equally compelling evidence that investors are willing to buy the dip so long as fundamentals—and in this case, corporate earnings—remain healthy (Figure 3).

In 2026, we expect bouts of market volatility fueled by periods of economic and geopolitical uncertainty. Market optimism is high, similar to the start of last year. But we're focused squarely on the earnings outlook. If the mix of secular and cyclical factors at play continues to support strong profit growth, we expect investors to remain willing to buy the dip.

FIGURE 3

Earnings growth is the key driver of equity returns over the long-term.



Source: Bloomberg, TIAA Wealth Chief Investment Office.

3. Access to investment tools and information is democratizing investing, with profound implications for the market structure. Retail investors are a force to reckon with across asset classes.

Retail investors have become a crucial driver of market flows, with their influence growing thanks to the proliferation of electronic trading platforms and retail-oriented investment products:

- Retail participation in daily equity trading has doubled over the past 10 years, now accounting for up to ~25%/30% of daily activity on average. Retail investors are estimated to account for 30% of options trading and an even bigger share—40%—of the fast-growing zero-days-to-expiration (0DTE) options market.[2]

- The exchange-traded funds (ETFs) market has ballooned over the past five years. ETFs provide direct, liquid, cost-effective and tax-efficient access to different asset classes, including equities and bonds. Since the end of 2019, assets in U.S. ETFs have increased from $4 trillion to $13 trillion. The number of ETFs available for trading has risen from 2,096 to 4,402 over the same period.[3]

Retail participation is likely to accelerate further going forward, thanks to the advent of new technologies like tokenization. Tokenization is the process of turning real-world assets into digital tokens on a blockchain,[4] thereby boosting access for retail investors by lowering entry costs and allowing fractional ownership of assets that would otherwise be out of reach for most individuals.

4. When established trends and conventional wisdom are called into question during bouts of market volatility, stay focused on fundamental dynamics.

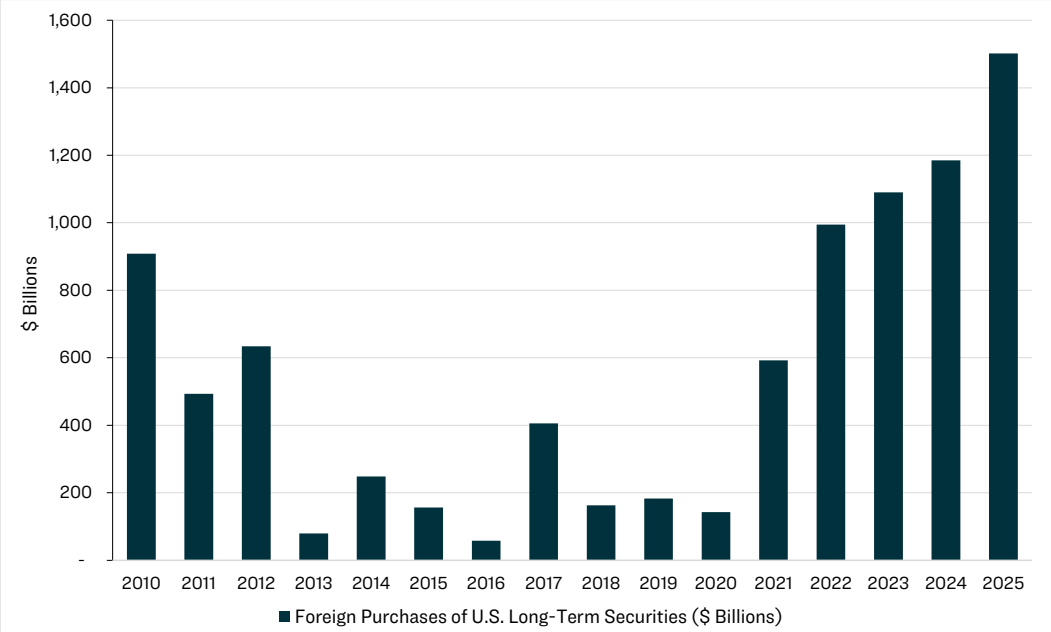
It's easy to overreact when markets are moving rapidly and there is a perception of something breaking or structurally changing. We saw this early last year. Many believed the steep tariffs implemented in April would weaken U.S. competitiveness. They believed U.S. assets were going to be sold en masse by foreign investors. But the U.S. economy is supported by secular trends that are conducive to long-term economic outperformance. Productivity growth—aided by broader adoption of AI—is likely to remain higher in the U.S. than in most developed economies. The U.S. workforce is projected to keep growing modestly, even as labor forces shrink in other major economies.[5]

Despite the volatility and economic uncertainty from higher tariffs, global investors have continued seeking exposure to the attractive long-term fundamentals described above, which are supported by best-in-class innovation. According to U.S. Treasury data, net foreign flows into U.S. assets[6] rose to +$1.5 trillion between January and November 2025, up from +$1.19 trillion in 2024 (Figure 4).

This lesson reinforces one of the key pillars of our investment philosophy: Navigating market volatility requires a disciplined, long-term perspective rooted in fundamentals.

FIGURE 4

Foreign investors bought a record amount of U.S. assets in 2025.



Source: Treasury Department,TIAA Wealth Chief Investment Office.

5. The global economy is being reshaped by an historic combination of secular developments. This environment requires a globally diversified portfolio.

The global economy is undergoing a fundamental transformation driven by multiple secular forces:

- **Innovation.** While the U.S. and China have been the main beneficiaries of the AI buildout, broader AI adoption may expand the range of countries and industries that benefit from higher productivity.

- **Climate change.** A factor with global implication requiring global solutions.

- **Commodities.** AI and the green energy transition are driving demand for lithium, natural gas, rare earth elements and other commodities extracted and processed in key emerging markets.

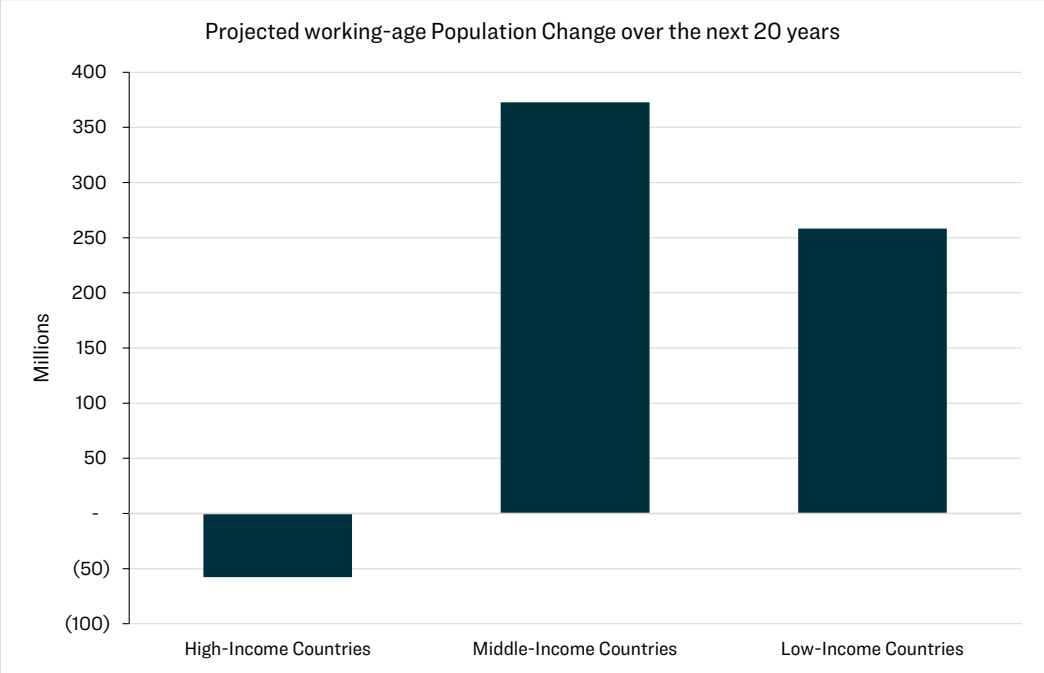
- **Shifting geopolitics.** The fracturing of the post-WWII global order is leading to larger investments in defense and more domestic fiscal policy aimed at boosting physical and digital infrastructures.

- **Demographics**. While AI adoption holds the promise of widespread productivity gains, population growth also drives economic growth too. Demographic trends vary significantly country to country, with a shrinking labor force projected in high-income countries and a growing labor force expected in middle- and low-income economies (Figure 5).

These are only some of the trends that are reshaping the global economy. In this environment, globally diversified asset allocations are best positioned to capture the broad range of opportunities these dynamics create.

FIGURE 5

Demographic trends are projected to vary significantly across countries.



Source:World Bank, TIAA Wealth Chief Investment Office. Working-age population defined as people aged 15 to 64.

Conclusions

We expect bouts of market volatility in 2026, as periods of uncertainty collide with elevated investor expectations and market valuations. Throughout fluctuations in equity and bond prices, we remind ourselves of the lessons we learned last year. An investment process rooted in fundamental analysis, long-term perspective, and strong risk management is best suited to navigate an increasingly complex global environment.

Endnotes:

[1] IIF data
[2] Contracts that expire on the same day they are traded.
[3] Data from the Investment Company Institute (ICI).
[4] A blockchain is a secure, decentralized digital ledger that records transactions in a transparent and tamper-resistant way.
[5] Long-term economic growth is the byproduct of productivity growth and labor force growth.
[6] Equities, Treasury bonds, corporate bonds and other bonds.

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