Aprio's 2026 Economic Outlook

The Greatest IPO in History Turns 250: Navigating Liquidity, Productivity, and Change in 2026

Wealth Management

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Executive Summary

As 2026 begins, the Twin Engines of Growth—liquidity and productivity—are propelling the U.S. economy forward, while the bond market sets the pace by shaping inflation expectations and long term rates. This is a year to seize early opportunities: focus on effective pricing for both high-income and low-income households, refinance balance sheets, and invest in technology-driven efficiency and cash producing AI infrastructure. Expect liquidity to increase in the first half, but remember, the "sugar high" will fade if inflation remains sticky or fiscal credibility falters. This year will likely bring broad economic growth early on, followed by a reality check later, so it's important to structure your business and investment strategies to thrive whether growth accelerates or slows.

The Defining Theme of the Year: The Gas Pedal and the Speed Limit

Leadership coach Gregg Schoenberg recently noted that the U.S. is the "*Greatest IPO in History*," highlighting its rapid evolution from humble beginnings to a global powerhouse. Much like a successful start-up, America's strengths come from adapting to secular changes and demonstrating resiliency through challenges.

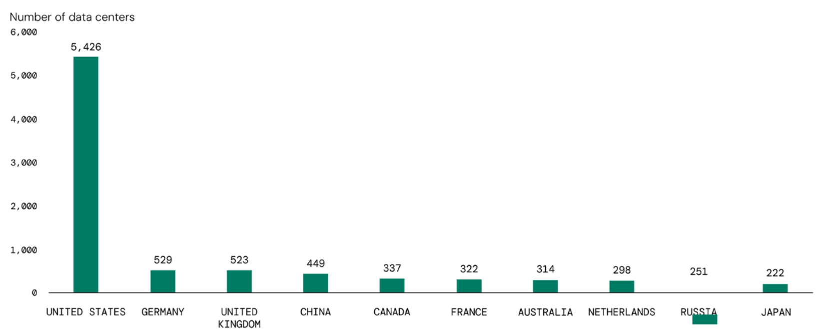
In 2026, the nation's 250th anniversary, the U.S. will face palpable tension: synchronized fiscal and monetary policy support (the gas pedal driven by the One Big Beautiful Bill's (OBBB) fiscal stimulus and the Federal Reserve's (Fed) easing cycle) and the speed limit imposed by the bond market's vigilance on inflation and fiscal discipline.

While the U.S. is uniquely positioned to benefit from this environment, capital is no longer free, and concerns linger regarding the health of U.S. consumers and the sustainability of AI investments. For decision-makers in business and investments, the challenge will be navigating the tailwinds without losing sight of the headwinds.

KEY SUB-THEMES SHARING 2026

1. *First-Half "Sugar High," Second-Half Reality Check*: Economic growth, ample financial liquidity, and active M&A deal flow are expected to surge early in 2026, but challenges may emerge as policy support fades.
2. *Two Wallets, One Economy: A Brief Truce:* The gap between secure and stretched consumers will narrow temporarily in 2026, but underlying structural pressures will return.
3. *AI as Infrastructure: Lumpy, Strategic, and Unavoidable*: AI and digital infrastructure are essential but will expand unevenly, while U.S. innovation remails a growth driver.
4. *Market Broadening, Then Re-Concentration:* Expect broader market gains early, led by small and mid-sized companies. However, dominance by scale, services, and technology is likely to return.

MORE DATA CENTERS IN THE US THAN IN ALL OTHER MAJOR COUNTRIES COMBINED



Source: Apollo Global Management

U.S. Economic Outlook

America's economic story in 2026 will be defined by a push for productivity and liquidity, with real GDP growth likely between 2.25% to 2.75%. Early-year gains will stem from fiscal stimulus, tax-driven cash flows, and cautious rate cuts by the Fed. While short-term interest rates have dropped 1.5 points, further reductions are expected, though their effect will take time. However, if persistent inflation or fiscal discipline slips, long-term rates could quickly rise, compressing valuations and raising the cost of capital.

Against this backdrop, unemployment sits at 4.6%, still near historical lows, but talent mismatches persist. Skilled labor is scarce, and technology is reshaping entry-level and routine work, resulting in uneven wage growth. Companies investing in upskilling, workflow redesign, and productivity-enhancing technology, specifically AI, will outperform, helping smaller firms catch up to larger ones.

Inflation is likely to remain higher than the Fed would like, with estimates of CPI near 2.5% to 3.0%, led by rising services costs. Pricing power is fading and consumers are increasingly demanding value. Consequently, firms able to deliver productivity and cut costs will lead, while those passing on higher costs to consumers may struggle.

Consumer behavior will likely remain split. Secure consumers will spend more thoughtfully, seeking quality and value, while Stretched consumers may get a temporary boost from tax refunds and declining interest rates, but will continue facing affordability challenges. With that in mind, use 2026 to enhance offerings and streamline costs. Policy changes are a tailwind, but their impact will be uneven. The real risks to watch are:

- Rising longer-term interest rates
- Possible pause in AI capital expenditures
- Renewed inflation concerns

Capitalize on the current opportunities but remember this window won't stay open forever.

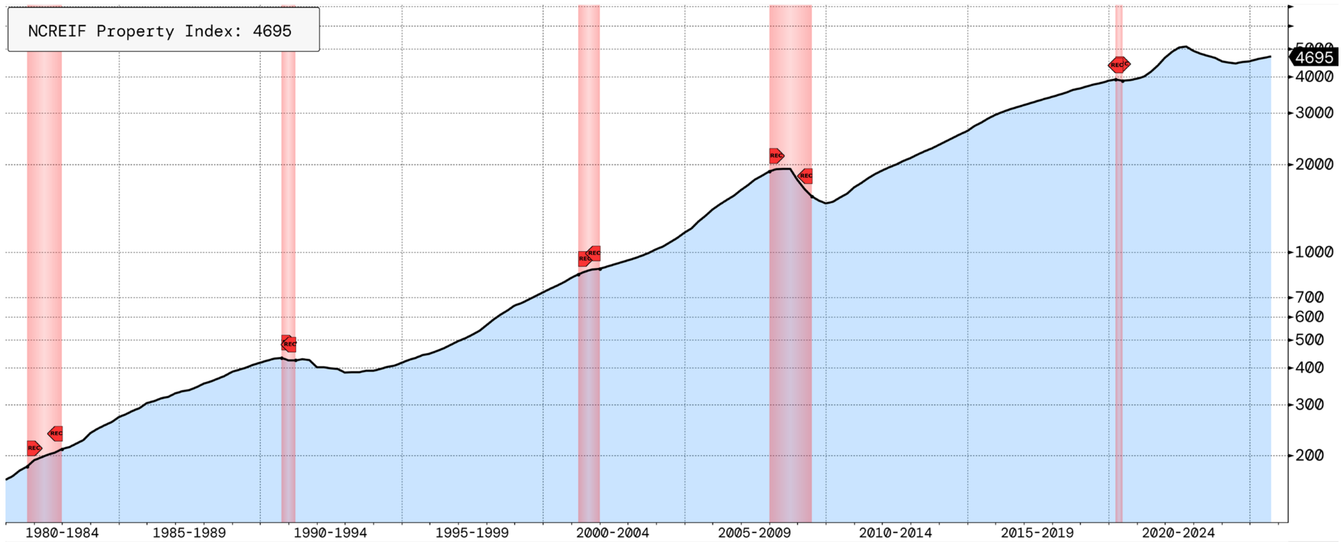
Industry Spotlights Across Aprio's Client Base

REAL ESTATE

The real estate market is resetting at different speeds across asset types. Liquidity is improving as problematic properties are resolved and bank lending resumes. Demand is highest for logistics warehouses, data centers, and infrastructure. Multifamily properties in the SunBelt markets are navigating the late innings of a surge in new supply, while rents and pricing held up markets where supply growth has been moderate. The office market remains divided, with newer Class A buildings offering ample amenities will outperform, while older Class B/C properties struggle.

AI infrastructure is driving data center expansion in constrained markets. Industrial and multifamily occupancy rates are rising, but high insurance, materials, and labor costs keep operating expenses up. Cyclical tailwinds, such as easier refinancing and narrowing price gaps, should help the market recover faster, but operators and investors must adapt to higher cap rates, hybrid work, power constraints, and a split between cash flow durable asset properties and capex heavy assets.

National Council of Real Estate Investment Fiduciaries (NCREIF) Commercial Real Estate Values



Source: Bloomberg Finance, L.P., National Council of Real Estate Investment Fiduciaries

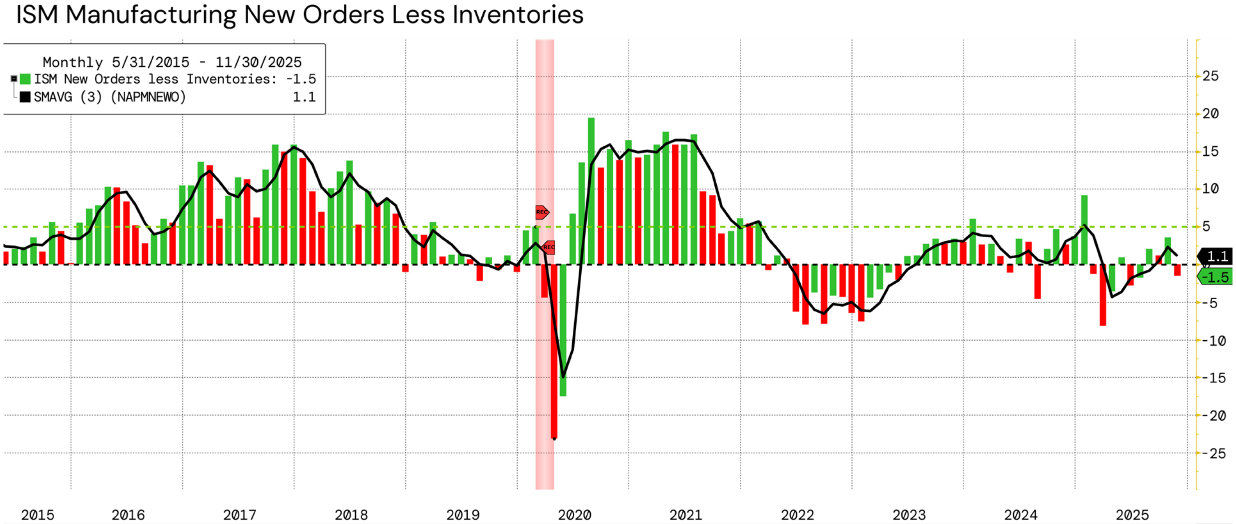
RESTAURANT, FRANCHISE & HOSPITALITY (RFH)

The first half of 2026 could bring stronger traffic for RFH businesses, aided by tax refunds and lower financing costs. Profitability will depend on tight execution rather than expansion. Demand will be concentrated between two ends of the spectrum: premium experiences and value-driven offerings, while mid-tier concepts face pressure. Meanwhile, labor remains the key challenge, with higher wages and turnover affecting margins. Pricing power is weak, and food costs are expected to stay volatile, making flexible menus essential. Early-year tailwinds may allow investments in automation and robotics, but long-term success depends on throughput, speed, and cost control through technology and simplified offerings.

MANUFACTURING, DISTRIBUTION & CONSUMER PRODUCTS

Expect a rebound in demand and liquidity early in year. Consumers favor premium and value-focused brands, squeezing mid tier products unless they stand out.

ISM Manufacturing New Orders Less Inventories



Source: Bloomberg Finance, L.P.

After a year of adjusting to the tariff changes, supply chains are more reliable but still face labor, power, and logistics bottlenecks. Margins can improve with automation and renegotiating supplier contracts, but rising wages and energy costs could reverse gains. Key trends to watch include:

1. Reopening the M&A cycle, which is releasing pent up transactions
2. AI infrastructure build-out, driving demand for data center hardware and power systems
3. Continued reshoring, which increasingly rewards resilient supply networks over the cheapest bids

Cyclical tailwinds will drive stronger orders and financing access, yet firms must plan for higher capital costs, tariff uncertainty, and scale-driven, tech-enabled operations.

PRIVATE EQUITY

Capital markets are reopening, fueling a real M&A cycle, especially early in the year. Deal activity is rising as lender interest returns. The focus shifts to investments delivering measurable productivity and cash flow resilience. Sponsors should drive returns through organic EBITDA growth through pricing, automation, and disciplined procurement — not exit multiple expansion or increasing leverage. Easier financing and narrower bid-ask spreads are cyclical boosts, while platform-driven scale and durable cash flows are long-term advantages. Operational playbooks and secondary exits will continue to shape sponsor strategies.

TECHNOLOGY

AI buildout fuels technology demand in 2026, but adoption will be uneven. Budgets must balance AI, cybersecurity, and cloud needs, as CFOs demand measurable returns on investment. Software firms providing customers with real productivity gains and easy integration will thrive. Quick delivery and real world results are crucial; vendors should lead with short pilots, seamless integration, and pricing tied to savings. Bottom line: demonstrate fast results, cost efficiency, and ease of use in a highly competitive market.

AEROSPACE, DEFENSE & GOVERNMENT

Demand stays strong as national security and modernization programs accelerate, backed by fiscal spending. Liquidity and productivity gains help clear backlogs, but regulatory complexity and timing challenges remain. Large players benefit from scale, long-term contracts, and pricing power, while small suppliers face cost pressures from labor and compliance. Geopolitical and technology risks require disciplined execution and investment in resilient systems to meet demand.

CONSTRUCTION

The construction sector begins 2026 with a mixed outlook. Non-residential activity is slow, but financing and infrastructure projects, particularly for AI-driven sites, offer early opportunities. Margins can hold steady with efficient labor scheduling and smart purchasing, but insurance and wage pressures remain difficult. Improved bank lending helps early in the year; maintaining productivity and flexibility is key as project flow shifts. Operators should secure financing and crews early, avoid chasing risky new starts, and focus on execution over expansion.

DENTAL

Dental demand is steady but is tied to consumer confidence and the "Two-Wallets" economy. Higher-income patients continue elective care procedures, while lower-income may delay care. Practices should offer value options, flexible financing, and strengthen collections. Margins depend on staffing and patient flow, but labor costs will likely remain elevated. Technology adoption for scheduling and workflow optimization boosts productivity and valuations. 2026 is a good year for investments in equipment due to favorable tax code changes for capital expenditures and lower interest rates.

FINANCIAL SERVICES

Easier liquidity and monetary policies in early 2026 will support lending and deal flow, with a better regulatory environment. Strong underwriting and risk controls can help to offset credit risks. The early liquidity surge may become moderate, but normalization rates and regulatory scrutiny will remain. Firms excelling in technology-driven productivity and practical AI solutions will outperform. Early in the year is ideal for deepening client relationships and securing high-quality assets.

HEALTHCARE

Healthcare demand is strong, driven by demographics, but labor shortages and reimbursement risks persist. To protect margins, operators must increase productivity using early financing for technology upgrades and workflow redesign. AI tools for scheduling and diagnostics can drive gains. We recommend AI investments that reduce reliance on labor, increase throughput, and accelerate the revenue cycle. Ultimately, scale and efficiency will determine market leaders.

INTERNATIONAL

Global supply chains continue to adapt to geopolitical friction, tariffs, and ongoing trade uncertainty. Early 2026 brings better financing, but challenges remain. The “Just in Case Over Just in Time” and “Regionalization, Not Globalization” themes continue to shape sourcing plans. Diversified sourcing and flexible pricing help to manage volatility. Early in the year is ideal for renegotiating contracts and securing freight. Flexibility enables quick pivots if conditions change. Investing in digital tools for real-time visibility will help manage risks and maintain service.

NONPROFITS

After a challenging 2025, funding for nonprofits is expected to improve in 2026 as the economy strengthens though market volatility could affect donors. Clear, frequent communication about potential impact is essential. Cost increases from labor and services will require budget discipline. Building reserves and scenario planning remain crucial. Technology should be leveraged to deepen donor engagement and streamline operations to help maintain strong visibility and execution if capital access tightens.

PROFESSIONAL SERVICES

Demand remains steady but is becoming more value-driven, with clients seeking outcomes over hours. Early-year liquidity boosts deal activity, while later periods reward productivity via AI and standardization. Firms leveraging AI and talent to scale and automate will expand margins. Turning repeatable services into products and investing in training and AI education could help offset rising labor costs. First and second quarters are ideal for investing in technology and training to shorten delivery times and improve client retention.

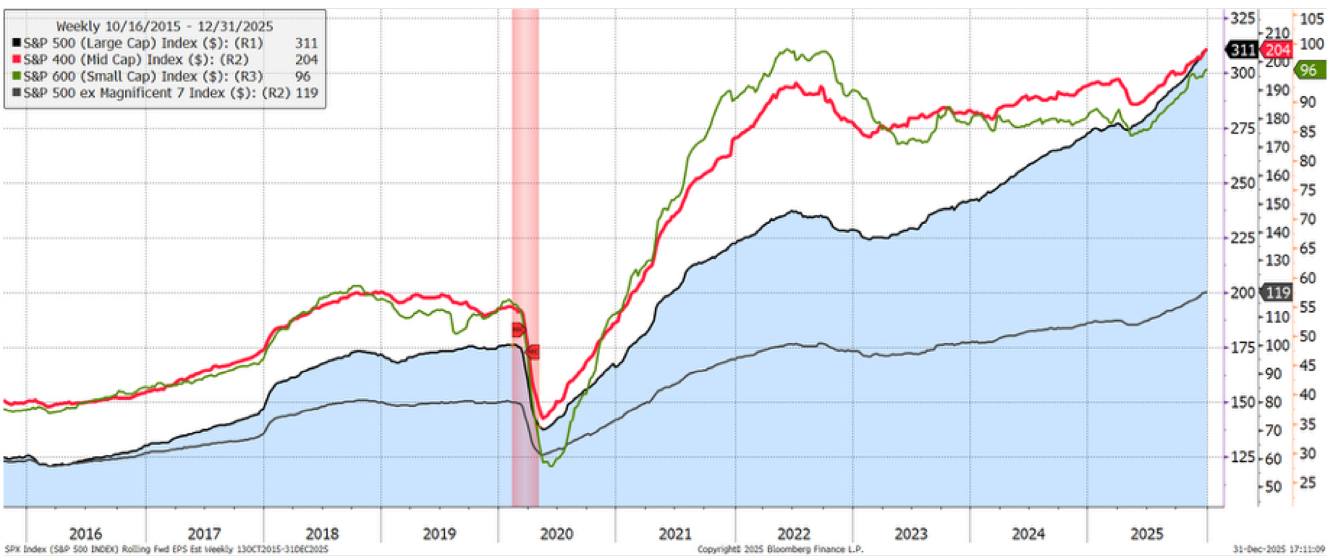
CAPITAL MARKETS OUTLOOK

2026 brings a revival in capital markets, with improving liquidity and a surge in deal activity, especially for small and mid-sized companies. This is a rare window for M&A activity, presenting compelling opportunities for those ready to act.

PUBLIC EQUITIES

Expect stronger growth for small and midcap U.S. firms in early 2026 as liquidity returns. However, as fiscal and monetary support fades, investors should become more selective and mindful of persistent deficits and debt risks.

Next 12 Months Earnings Estimates by Company Size



Source: Bloomberg Finance, L.P.

High valuations leave little room for error, and the market could react less forgiving if earnings disappoint or if investor sentiment turns. In our view, we see three risks that can pressure valuations, even without a recession:

- **Rising long-term interest rates:** If investors demand higher yields to fund deficits, rates could climb, echoing the return of the "bond vigilante" era.
- **Setbacks in major AI companies:** Weaknesses in this area could dampen household wealth and investor sentiment.
- **Geopolitical shocks:** A military conflict in or near Taiwan could disrupt supply chains and increase risk premiums.

Given recent markets gains, we should be prepared for possible short-term pullbacks.

FIXED INCOME

Fixed income matters again, with the 10-year Treasury likely trading between 4.50% and 5.50%, even as the Fed lowers short-term rates. We expect economic growth above 2% and inflation between 2.50% and 3% to the 10-year yield, thus it may be unlikely that falling rates will boost asset values. Instead, focus on cash flow quality and disciplined underwriting.

REAL ASSETS (REAL ESTATE, INFRASTRUCTURE, AND COMMODITIES)

- **Real Estate**: The real estate market is split. Logistics, data centers, and essential infrastructure are leading, while older office properties face tenant demand and modern amenity challenges. Value creation stems from improving cash flows and operational efficiency, not just lower cap rates. With home-ownership affordability poor, multifamily housing remains strong nationally, even as SunBelt cities navigate a supply overhang, but expenses must be tightly managed.
- **Infrastructure:** Demand is robust, driven by AI and national security needs. Projects that offer inflation protection and stable cash flows are in favor, though project timelines still depend on utility connections and permits.
- **Commodities**: Commodities are no longer an afterthought. Metals and energy play a vital role in the modern supply chain. Demand is strong, but new supply remains tight. Precious metals can serve as a policy hedge risk, but we're cautious following recent gains at the end of 2025.

The Global Backdrop

Overall, the global economy enters 2026 with a boost from fiscal stimulus and easier financing, but structural challenges will return and may limit growth as the year progresses.

- **Europe**: Modest growth in early 2026 is expected, supported by fiscal programs and stable interest rates. Easing inflation is helping, but manufacturing is still weak due to competition from Chinese exports. Delays in project permitting and new business formation are ongoing structural headwinds, and aging demographic issues persist.
- **Asia**: Gains in AI hardware and semiconductors drive momentum from reforms and fiscal support, though growth may be uneven as tariff uncertainty weighs on trade and export demand softens. Supply chain resilience and infrastructure bottlenecks remain the main constraints.
- **Middle East and Energy**: After weaker oil prices in 2025, non-oil sectors, such as technology, logistics, and infrastructure, grow as oil prices stabilize. Lower energy prices eased inflation but limited fiscal flexibility for oil-producing countries. Higher oil prices are a potential risk to the global economy in 2026 after a disappointing year.

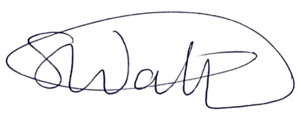
Final Thoughts: Adapting to a New Economic Reality

We view 2026 as a year propelled by two powerful forces: abundant liquidity and rising productivity. The economy's foot is on the gas pedal, fueled by supportive conditions, at least at the start. But as the year progresses, the initial "sugar high" of stimulus and lower short-term rates may fade. Persistent inflation could force the Fed to pause further rate reductions, reminding everyone that the cost of capital is real.

THE STORY ISN'T OVER: AMERICA'S ENDURING PLATFORM FOR INNOVATION

The U.S. continues to be the world's most dynamic platform for growth, innovation, and reinvention. To thrive in 2026 and beyond, embrace a long term, adaptive mindset. The lesson from our history isn't that conditions are always easy, it's that the country has repeatedly overcome adversity through investment, innovation, and building resilience. Approach your business and investments this year with discipline, flexibility, and commitment to planning amid uncertainty. Treat unforeseen challenges as opportunities to plan better, not reasons to freeze. The window for action is open, but the rules of the road still apply—speed limits still matter.

The "Greatest IPO in History" is still compounding. Make sure you are, too.



Simeon Wallis, CFA
Chief Investment Officer | Partner

Simeon Wallis, CFA, is the Chief Investment Officer of Aprio Wealth Management and the Director of Aprio Family Office. Each month, Simeon brings you insights from the financial markets in Aprio's Pulse on the Economy. To discuss these ideas and how they may affect your current investment strategy, schedule a consultation.

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