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The Outlook for 2026 Is Positive Despite Challenges

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Joining me now is Patricia Zobel, senior managing director and head of macroeconomic research and market strategy for Guggenheim Partners Investment Management. Patricia, welcome to the show.

Patricia Zobel: Thank you. It's a pleasure to be here.

So the fed dominated headlines last week. What do you think their decision you know says for the policy path and for investors?

Patricia Zobel: Well I think the first thing that investors should be realizing about this decision is that it was a risk management cut. So at the same time the committee was reducing rates they marked up their growth for 2025. And really what they were trying to do is reduce the labor market risks that have emerged over the course of this summer.

They're really trying to address what they see as balance in the risk to their mandate. Inflation is high, but they're also they also have growing labor market risks, so they wanted to reduce the restrictive ness of policy. I think going forward what investors should be looking at is that the committee intends to return policy more closer to neutral in the course of 2026.

But they're going to be navigating challenges to both sides of their mandate and there's still a lot of diversity of opinion among committee members about that path. So we'll have to watch the data through 2026. In terms of what that means for fixed income, what I would say is these moves have been largely priced in. Yields have come down a lot in recent months. And so I think that the committee's path is largely priced.

In the Fed's signal to more potential rate cuts, through the end of the year. What are your thoughts on that?

Patricia Zobel: So my sense is that two rate cuts are likely but not assured. I think investors should be looking at the data as it comes in. When you looked at the committee's summary of economic projections, what you saw is a good diversity of opinion among committee members about

whether or not there would be zero, one or two cuts left this year. So I think they'll be watching the data.

All right, and 2026, I know you touched on it. What do you think we'll see from the fed?

Patricia Zobel: Well, so, you know, our own forecast for 2026 is for them to return policy closer to 3%. What we see is growth being pretty well supported in the first half of 2026. You're going to get fiscal stimulus, including some decent tax refund checks for consumers. You're going to have ongoing AI cap investments, capex investments. And these are going to sort of help offset the tariff drag that's going to be ongoing through the first half of next year.

So you're going to have slow but positive growth and inflation that's a little bit sticky in the first half, but probably comes down in the second half, paving the way for the fed to ease further next year. For us, the risks are two sided. The labor market could deteriorate a little bit more quickly. You could see downside risks and then cutting more, or inflation could stay a little bit sticky. But our base case is they return policy to neutral, mostly in the second half of next year.

And I know you mentioned the potential rate cuts that might be coming this year will be data dependent. We have PCE data coming out on Friday. That is the Fed's preferred inflation gauge. What are you expecting to see?

Patricia Zobel: Well, so, you know, I think PCE after you get the CPI and PPI reports is largely determined. I think you're going to see that it was it's going to be how it fed through from CPI and PPI. It's going to be a little bit lower than it had been in recent months. But I think the overall backdrop for inflation is that, you know, you're starting to see tariff inflation feed through to certain goods prices and goods inflation is now positive after having been negative for many years. And you're seeing services inflation that isn't coming down quite as quickly as the committee might like to see. So I think we're going to have to see several months of data, but the committee's going to be looking for services inflation to come down. They're probably going to look through a little bit the goods price inflation.

And any global growth headwinds coming that you think could shape the rest of 2025?

Patricia Zobel: Well, in my mind, you know, global growth outlook is going to be sluggish over the next year. And so what we're looking for is, you know, a slow growth environment globally, you know, Europe is going to get a little boost from fiscal stimulus and the cumulative effects of ECB rate cuts. And the UK is going to be a little bit sluggish, and the U.S. is going to be, you know, in that pack and maybe even outperform a little bit some of these economies.

And given the volatility like how are you advising investors right now?

Patricia Zobel: So you know we think this environment where yields in the U.S. they're lower than they were before. But they're still relatively elevated. And corporate fundamentals are pretty good. It could be a good backdrop for actively managed fixed income. You know equities in this environment are fully priced and fixed income can provide good diversification to that. And for

active managers, even though spreads are tight, you can find value outside of the benchmark. So you know what I would say for investors is that this could be a good environment for fixed income.

Is there anything else you'd like to add?

Patricia Zobel: No, I think 2026, you know, we're looking forward and seeing an environment where the committee's going to be managing challenges to its mandate. But we think the backdrop is supportive for the first half of the year.

Patricia Zobel from Guggenheim, thank you so much for joining us at the New York Stock Exchange.

Patricia Zobel: Thank you for having me on.