

Outlook '26 | A data-driven take on an economy that (still) wants to hang on



About the CWAN Research Desk

The Research Desk delivers timely investment and portfolio strategy insights at the intersection of macroeconomics, markets, and CWAN's proprietary database. Drawing on holdings and transaction data from institutional investors—including insurers, corporates, asset managers, and other large institutions—we identify key shifts that matter for tactical and long-term decision-making.

CWAN's research database is comprised of holdings and transactions on CWAN's platform. The data has been cleaned, anonymized, and aggregated to reflect industry best practices and compliance with our legal obligations.

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About CWAN

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Executive summary

In June, we called this cycle “the economy that wants to hang on,” despite widespread fears of an imminent recession. Looking ahead to 2026, we maintain a similar level of restrained optimism. Despite headwinds and ongoing signs of weakness, the US economy appears poised to weather the storm again. Labor market softness will continue to unfold but other drivers remain resilient.

In this outlook, we pair macroeconomic analysis, leveraging publicly available indicators, with portfolio analysis, leveraging CWAN’s platform. What follows is a data-driven take on where things stand and where they are heading—for the US economy and institutional investors alike.



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1. Monetary policy | Easing never meant easy.

Is inflation too high, or is the labor market **too weak**? For the Fed, it's a matter of tolerance.

2025 presented a conundrum for the Federal Reserve. Faced with a sudden shift in trade policy—high, broad-based tariffs against U.S. trading partners—monetary policymakers were forced to reckon with both sides of their dual mandate:

- 1) Inflation, already too high, was poised to accelerate as firms passed tariffs onto consumers.
- 2) Higher import costs, a new challenge for firm margins, would impede firms' abilities to hire, threatening the labor market.

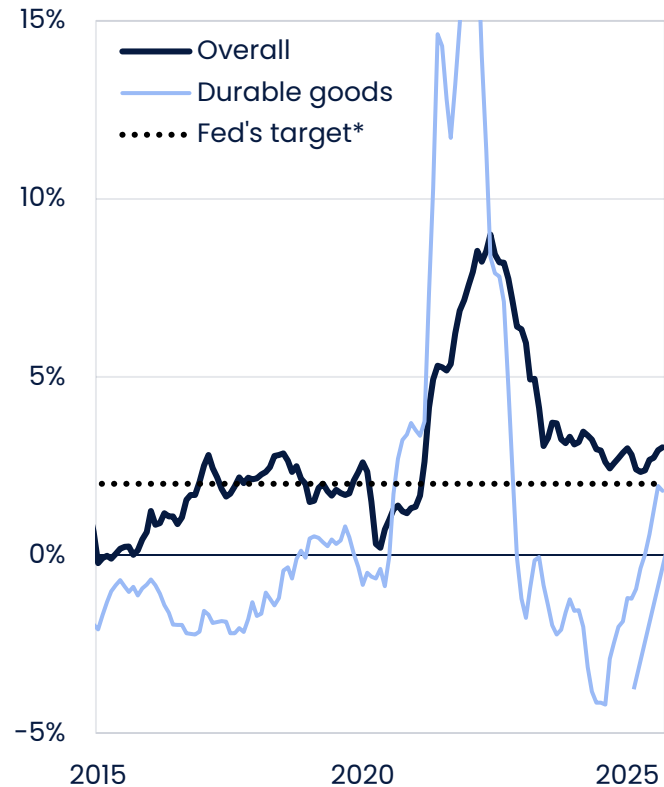
The Fed held steady for much of the year, finally cutting 25bps in September and October. Widespread prognostications of an imminent, tariff-induced recession proved incorrect. This did not come as a surprise to us at the Research Desk. **As we noted in June, "The engines of resilience in this cycle are not quite depleted." We did not view a recession as a base case for 2025. The same remains true for 2026.**

While inflationary pressures still point up as tariffs trickle through the economy (see chart, left), consumer spending, though dented, has not rolled over. And certain sectors of the economy continue to thrive (see p.13).

The labor market remains a cause for concern, though not outright alarm. As the unemployment rate has ticked up (chart, right), this cycle continues to prove just how unique it is. While hiring has slowed materially, so has immigration. The unemployment rate is likely to keep drifting, without surging, up.

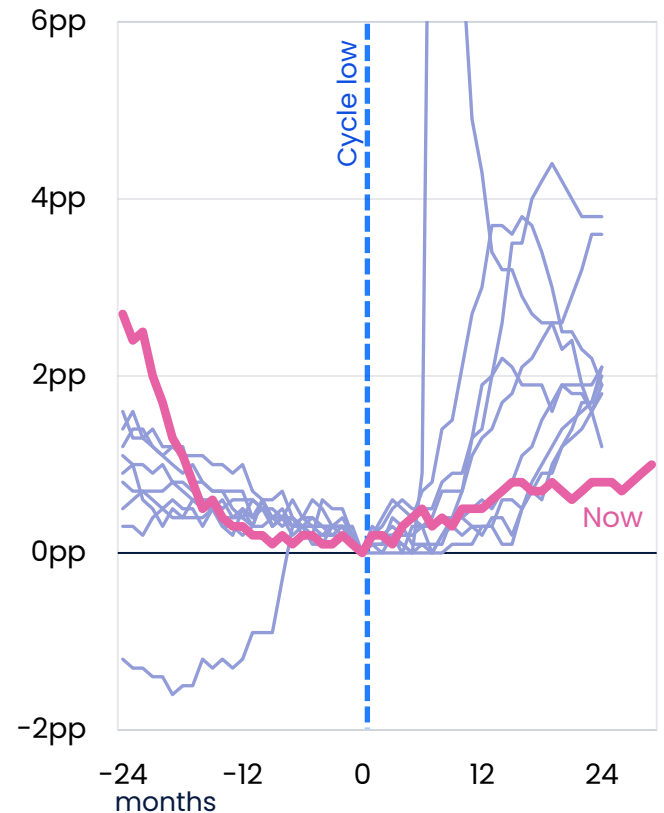
Consumer price index

Year-over-year



Unemployment rates since the 1950s

Indexed to cyclical low (pct.-pt. differences)



1. Monetary policy | Easing never meant easy.

Expect a cautious approach to rate cuts. If the Fed moves quickly, something has gone wrong.

Macroeconomically, if things continue to “hang on,” what is the Fed likely to do next year? **Our base case remains a slow, steady, and cautious approach to policy easing.** We view the latest (as of Dec. 4) market pricing as reasonable, if leaning too dovish (see chart).

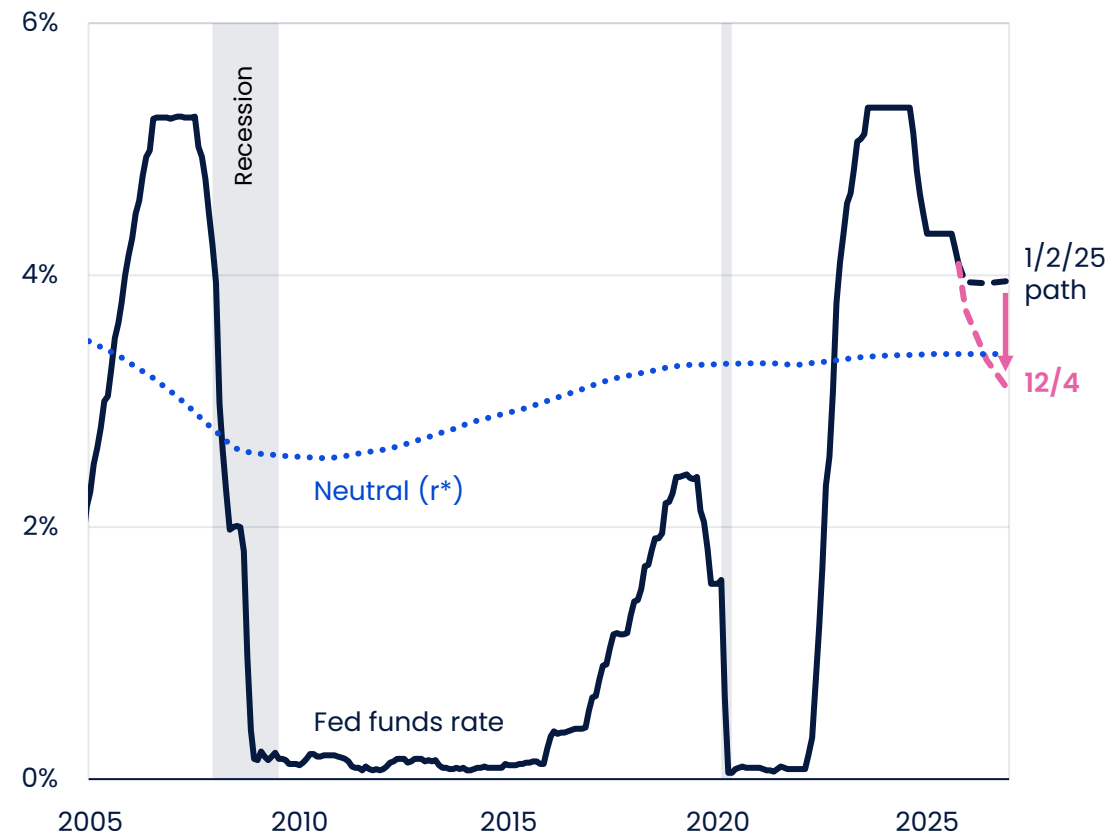
While the labor market does sit on shakier ground, inflation still stands materially above the Fed’s target (by a percentage point—and aiming higher). **Thus, under current conditions, the Fed can continue to ease policy but only to a point. If policymakers have to cut farther and faster, things will have turned south quickly.** Again, this is not our base case.

It’s true that tariffs have helped slow certain parts of the economy, notably consumer spending. But Fed policy itself has been a consistent headwind to growth this cycle, restraining borrowing and investment for households and businesses. Given the level at which the policy rate peaked (over 5%), we should be mindful that easing policy never meant easy policy. The Fed strove for a soft landing by hiking rates and then cutting slowly. For the most part, that was achieved.

As of Q4 2025, the Fed is getting closer and closer to a neutral policy stance. For some, estimates of the neutral rate (also known as r^*) sit lower than the dotted blue line to the right. For others, it sits higher. **What we know for sure, however, is that the Fed views current conditions as slightly restrictive. After a few more cuts, policy will arrive at or near neutral territory for the first time in several years, neither hitting the brake nor the accelerator.**

As Chair Powell noted in October, “If [price stability and full employment] are sort of equally at risk, then you ought to be at neutral, because one of them is calling for you to hike, and one of them is calling for you to cut.” **That tension, we believe, will persist in 2026, making the Fed’s journey towards “easy” policy longer than many anticipate.**

Fed funds rate, market projections, and neutral rate (r^*)



Note: r^* = 2-sided LW estimate + 2% inflation target. Projections through 12/2026.
Source: FRED, Federal Reserve, Atlanta Fed, CWAN Research

1. Monetary policy | Are institutional investors still cashing in?

Insurers' allocations to cash remain elevated, if drifting down.

With the Fed poised to keep easing, however gradually, what does that mean for institutional investors' cash allocations? CWAN's database shows the appeal of cash (and equivalent) holdings depends on investment priorities.

For insurers, cash allocations remain elevated, if drifting down slowly (see chart). As insurers typically target longer-term time horizons and predictable cash flows, cash allocations never comprise a particularly large share of portfolios. Still, median allocations in 2025 were the third highest in the last 8 years, following a peak in 2024.

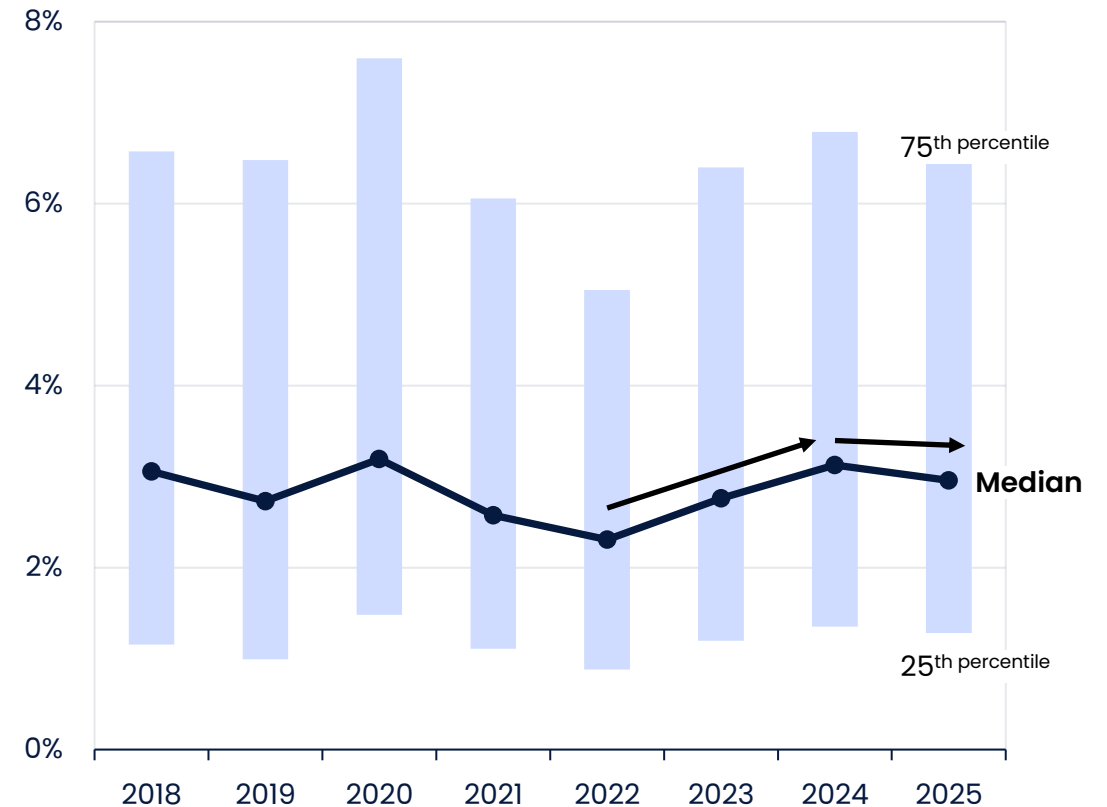
Allocations typically move in lockstep with the Fed's hiking cycle, with a notable exception in 2020. As the Fed slashed its policy rate to the zero lower bound during the pandemic, insurers held onto more cash, likely due to market uncertainty and risk-off sentiment.

While today's allocations are similar to 2020, cash maintains its appeal despite a *risk-on* sentiment (see section 3). The Fed's policy rate remains well over 3% and well above the average for the last decade. As a result, insurers are more than happy to keep "cashing in."

In 2026, we expect cash allocations for insurers to drift further down but to remain elevated as the Fed eases slowly.

Portfolio allocation to cash (& equivalents) for insurers

Share of total market value



1. Monetary policy | Are institutional investors still cashing in?

Corporates have embraced an easing Fed and have ditched cash in favor of duration.

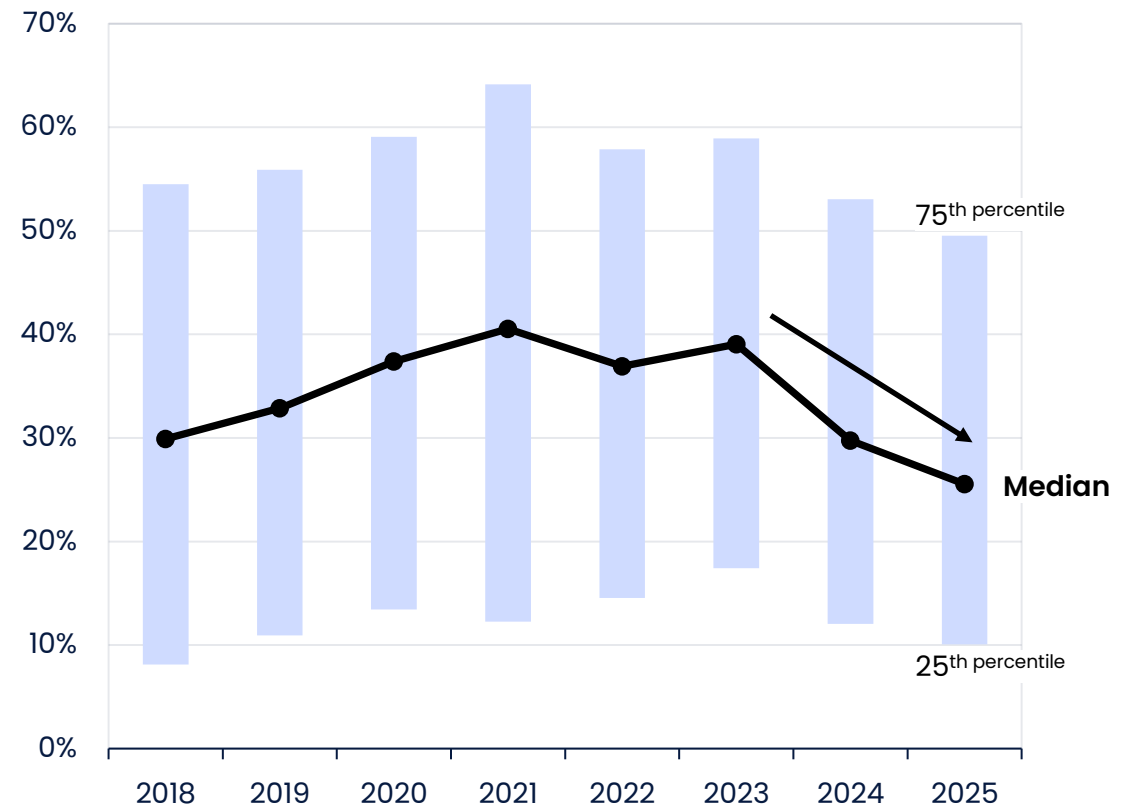
For corporate treasurers and CFOs, cash hasn't been king in years. As corporates target short-term, low-risk, and highly-liquid assets, an easing Fed has meant a tactical shift away from cash and towards fixed income. This duration extension (here, "duration" means 6 months to 1 year) began last year and has continued through the Fed's wind-down of policy.

As noted, in 2026 the Fed's direction of policy points to continued easing, albeit slowly. **Thus, corporate cash allocations will remain low**, though there is a ceiling to how much duration treasurers are willing to tolerate or, more often than not, even *allowed*, to purchase.

[As we've noted before](#), many corporates would do well to monitor their cash strategies a little better. Divergence in performance tends to arrive as the Fed shifts policy. Those who foresaw the Fed's cuts in 2025 were able to lock in yield—and will bear the fruits of their foresight for the year to come.

Portfolio allocation to cash (& equivalents) for corporates

Share of total market value



2. Long rates | How low can they really go?

Inflation expectations are anchored, but real yields and term premia are up.

If short rates are likely to fall slowly, what can we expect for long rates? **In our view, they have not much further to decline.**

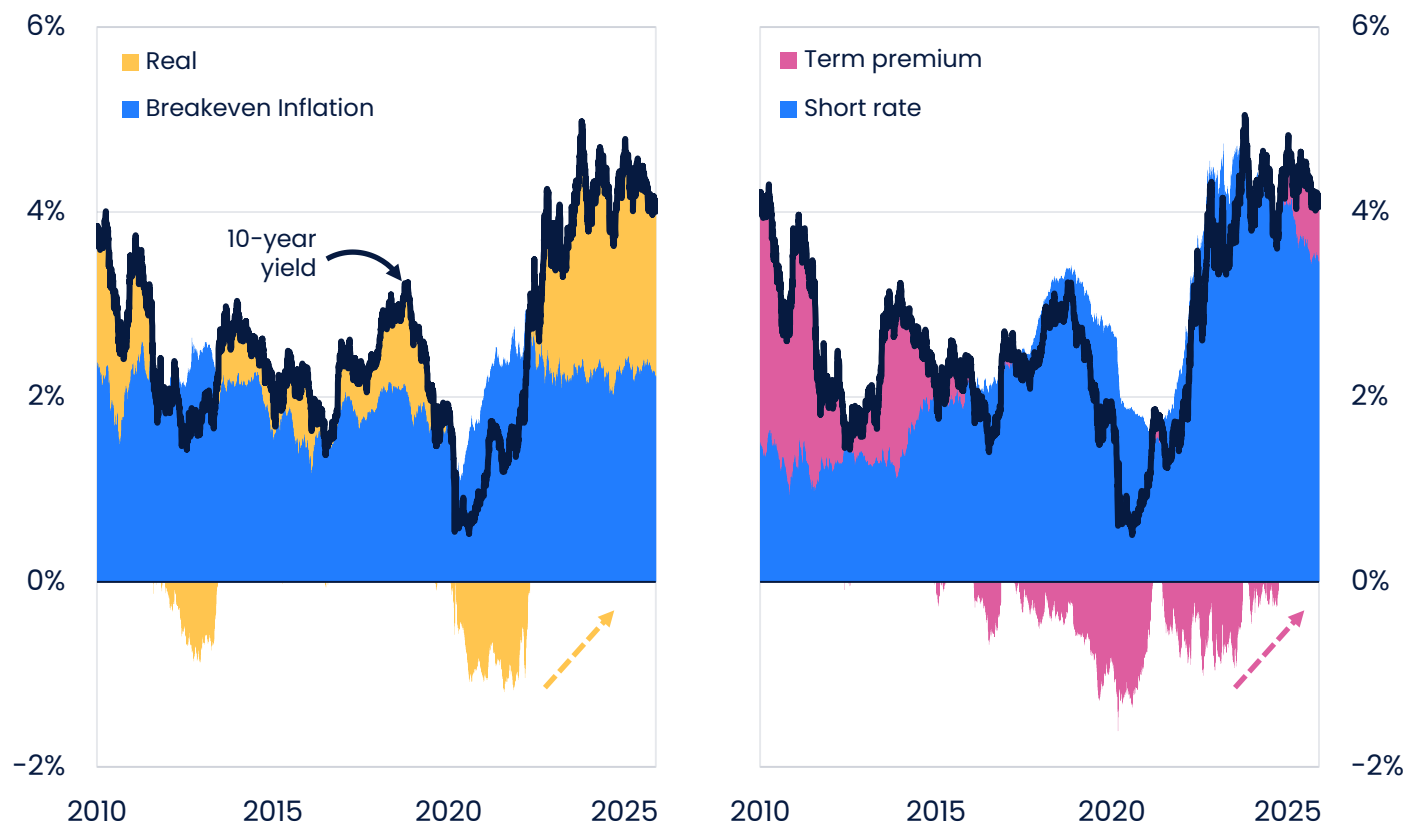
We find that decomposing the 10-year Treasury yield into two distinct sets of components can help ground our thinking:

First view (see chart, left): *Breakeven inflation plus the real yield.* Breakevens reflect the market's view of average inflation over the next decade. This component has been stable—proof that inflation expectations remain anchored despite sticky inflation sitting above the Fed's target. Real yields measure the inflation-adjusted return investors require to hold debt. These rose sharply as the Fed tightened policy and economic growth stayed firm. While the real yield is down from recent peaks, it remains well above pre-Covid levels.

Second view (chart, right): *The average expected short-term rate over the next 10 years plus a term premium.* The average short rate has climbed as markets price in the Fed's higher-for-longer stance. The term premium—compensation for the risk of holding longer-dated bonds “to term”—has moved away from negative territory, a time when investors actually “paid” to hold debt.

(continued on the next page)

Two ways of decomposing the US 10-year Treasury yield



Note: Left and right 10-year series not identical as left is a model-based fit. Term premium as measured by ACM model. Data through 11/28/2025.
Source: Federal Reserve, NY Fed, CWAN Research

2. Long rates | How low can they really go?

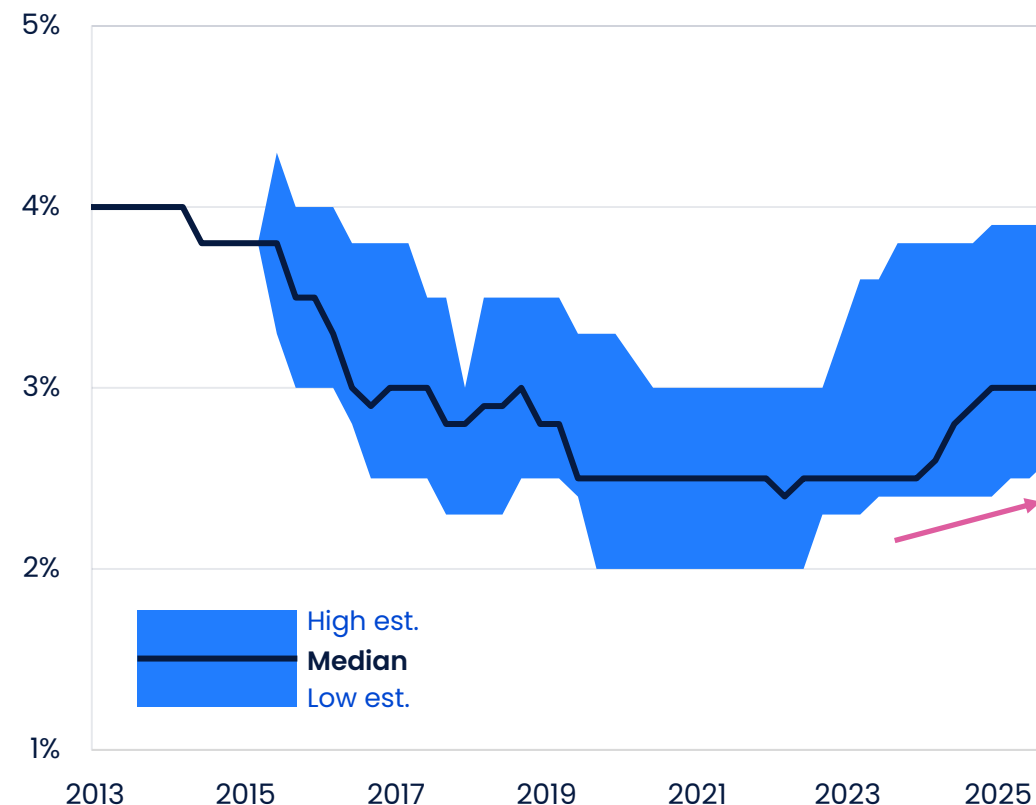
Thinking structurally: a higher neutral rate (r^*) from the Fed helps put a floor under long rates.

What would it take for long rates to decline meaningfully? In our view, it would require a sharp deterioration in macroeconomic conditions that triggers a flight to safety (not our base case). Short rates would need to reprice lower, and term premia would need to compress again. Barring that scenario, structural forces suggest each component on the previous slide has limited downside:

- 1) **Breakevens** have little room to fall from current levels around 2–2.5%. Persistent structural pressures—widening fiscal deficits, geopolitical tensions, and tariff policies (to name a few)—create an upward bias for inflation. Even as headline inflation moderates, these forces make it difficult for breakevens to compress meaningfully.
- 2) **Real yields** are unlikely to fall substantially because the Fed's neutral rate (r^*) itself has likely shifted higher (see chart, right). Tight labor markets driven by demographics and reduced immigration, combined with elevated investment demand from AI, electrification, and infrastructure buildouts, support a higher equilibrium rate. The economy is being stretched, and higher rates reflect high demand for capital.
- 3) **Term premia** have normalized and are unlikely to revisit pre-Covid negative territory given bonds' diminished value as a portfolio hedge. With the Fed's structural bias shifting from the accelerator to the brakes in order to wrangle persistent inflationary pressures, bonds provide less reliable portfolio insurance. Correlations are no longer predictably negative. As such, investors are more likely to *demand* payment than *pay* for duration.

If short rates are likely to fall only gradually, neither breakevens, real yields, nor term premia appear poised for major downside. That combination creates a structural floor for the 10-year. Without a pronounced recession or shock that forces a deep repricing, long rates have little room to revisit the lows of the previous cycle. We view a 10-year close to 4% as reasonably priced.

Long-run neutral (r^*) estimates from FOMC members



2. Long rates | Introducing the CWAN Duration Activity Index

Today's environment has institutional investors like insurers **keeping duration exposure largely unchanged**.

At the Research Desk, we continuously monitor duration exposure for institutional investors on CWAN's platform. In order to gauge the extent to which investors are tilting in one direction or another (extending or reducing duration), we are pleased to announce the launch of the CWAN Duration Activity Index, or CDAI for short.

What is the CDAI?

- The CDAI tracks how much change allocators are making to their duration exposure relative to their historical norms. Instead of tracking how much duration there is at a given moment, the CDAI aims to capture swings in tactical decision making across CWAN's client base.

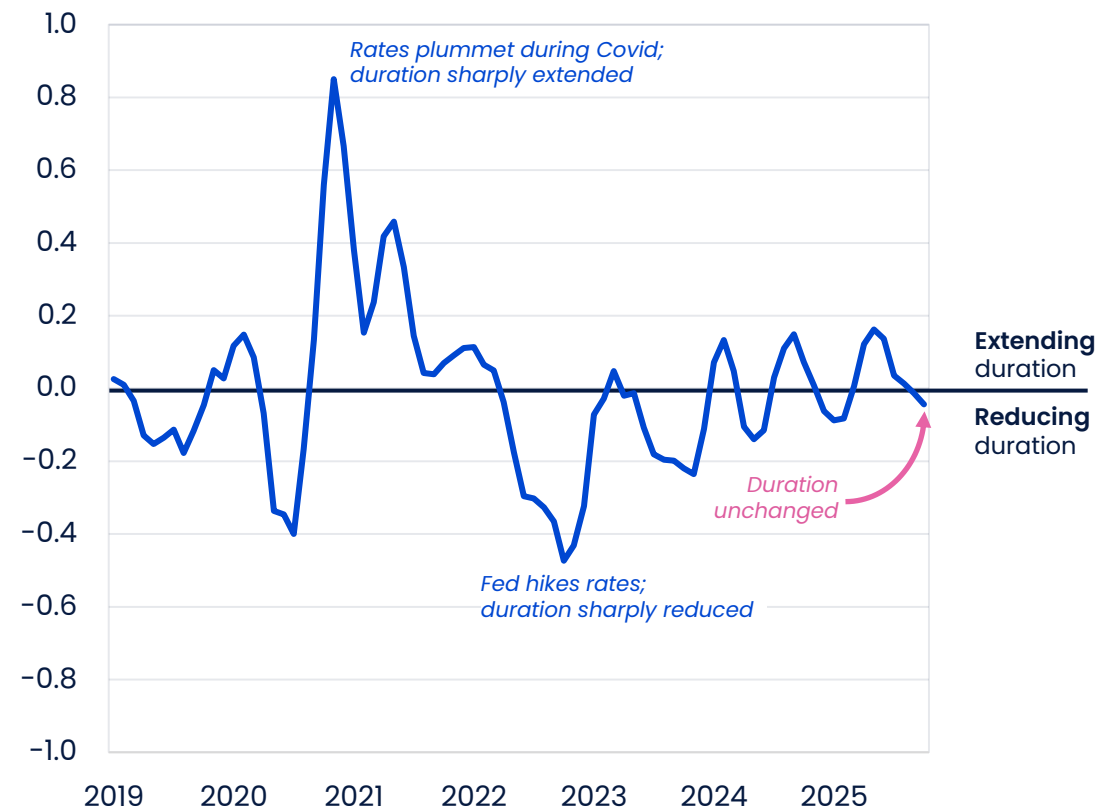
Methodology

- Each firm receives a monthly activity score. The score is the difference between the current period duration (smoothed 3 months) and the prior period's average duration. These differences are then scored and standardized per firm, relative to said firm's typical activity for the whole period (centered at 0). The final result is an average across all these Z-scores.

What the CDAI reveals today

- While we've made a CDAI for corporates as well, here we display the CDAI for insurers. What we've found is that, in today's rate environment, insurers are largely treading water with respect to duration, neither adding nor reducing relative purchases of longer-dated debt.
- We view today's duration plays as neutral posturing, in line with our thoughts on structural biases for long rates. As rates are unlikely to fall materially (but can certainly rise!), insurers are not adjusting their portfolios just yet.

CWAN Duration Activity Index (CDAI) for insurers
Standard deviations from historical average, centered at zero



Note: Data through 10/2025.
Source: CWAN

3. Credit | Risk-on amid strong fundamentals.

Spreads are very low, and high-yield issuance has been picking back up.

Credit spreads are now at or near generational lows. This is true for investment-grade and high-yield bonds alike (see chart, left). After rising briefly in 2022 as the Fed hiking cycle began, spreads have since compressed, with risk-on sentiment proving a near-constant this cycle.

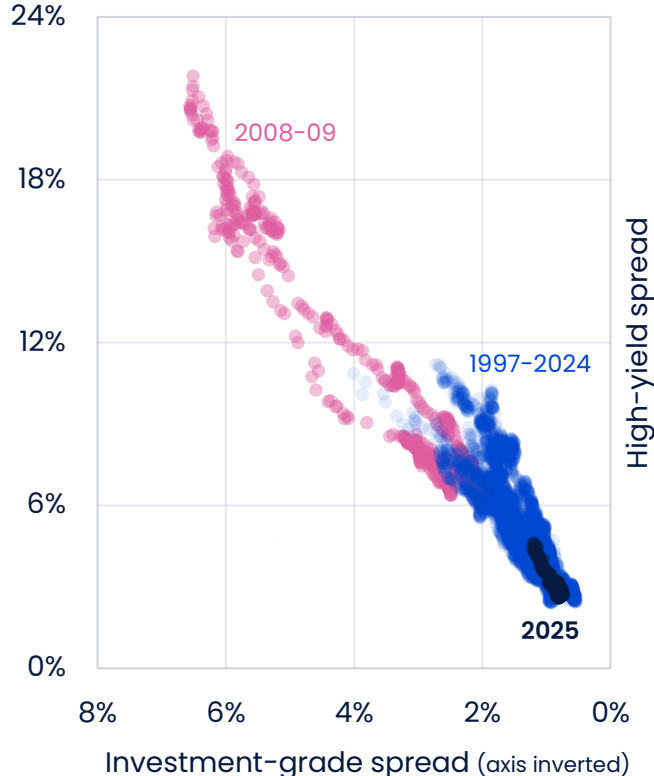
The upshot of such risk appetite has been an increase in supply. High-yield debt issuance has rebounded sharply since the decline in 2022 when the Fed tightened policy. **Today's strong issuance amid higher rates (if lower spreads) points to healthy financial plumbing. At present, those who want to borrow are able to do so.**

Can lower-quality issuance cause problems down the road? Absolutely. But to ignore risks in a credit system is to ignore the very idea of credit itself: that risk is baked into the system.

We view low spreads and increased borrowing as an ongoing theme for 2026, as the biggest headwind to this cycle—the Fed—is now fading.

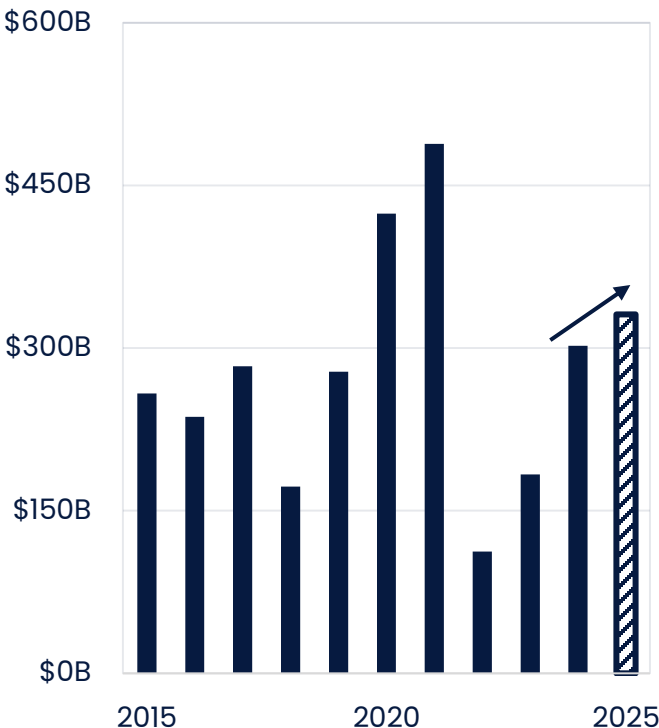
IG and HY corporate bond spreads since 1997

One dot = one day



HY corporate bond issuance

Annual (2025 projected with YTD data)



Note: Option-adjusted spreads (left, pct. pts.) through 11/28/2025. Source: ICE Data Indices, SIFMA, CWAN Research

3. Credit | Risk-on amid strong fundamentals.

There are always risks, but today's delinquencies are low, and volatility is trending down.

With spreads so low, are credit markets too richly priced? A recent spate of headlines tied to credit blow-ups have prompted renewed fears that when there's one "cockroach," there are many.

We view risks in 2026 as idiosyncratic, not systemic. If spreads are low, appetite for risk is not divorced from fundamentals.

By various measures, including delinquencies (see chart, left), credit stress is low. Here, we use business loan data from the Federal Reserve as a loose proxy for health and combine it with spreads for HY bonds.

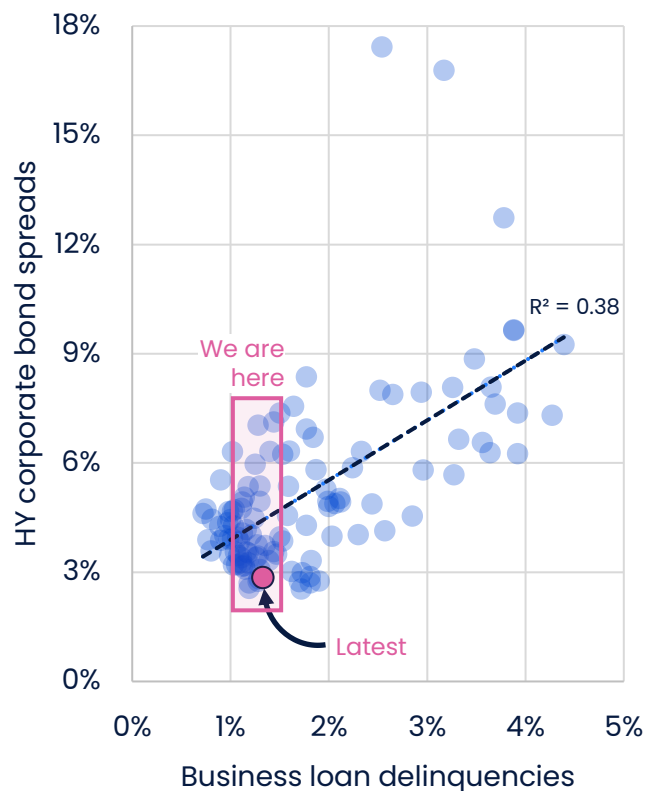
While the borrowers are different (business loans from banks tend to go to smaller firms), we view the health of smaller firms as a good omen for the health of larger firms. That is to say, risk appetite might be high, but firms, in aggregate, are not exhibiting signs of distress.

Additionally, today's tighter spreads reflect less volatility in fixed income markets (chart, right). As the Fed continues to ease policy, the range of outcomes for rates has narrowed considerably. **Thus, bonds are carrying less risk on two fronts: 1) firms are paying their debts and 2) cyclically, the Fed is highly unlikely to raise rates anytime soon.**

We view these themes as ongoing for 2026. While there is evidence of gradual erosion in credit quality (as often happens in later-stage cycles), we do not view 2026 as the straw that will break the camel's back.

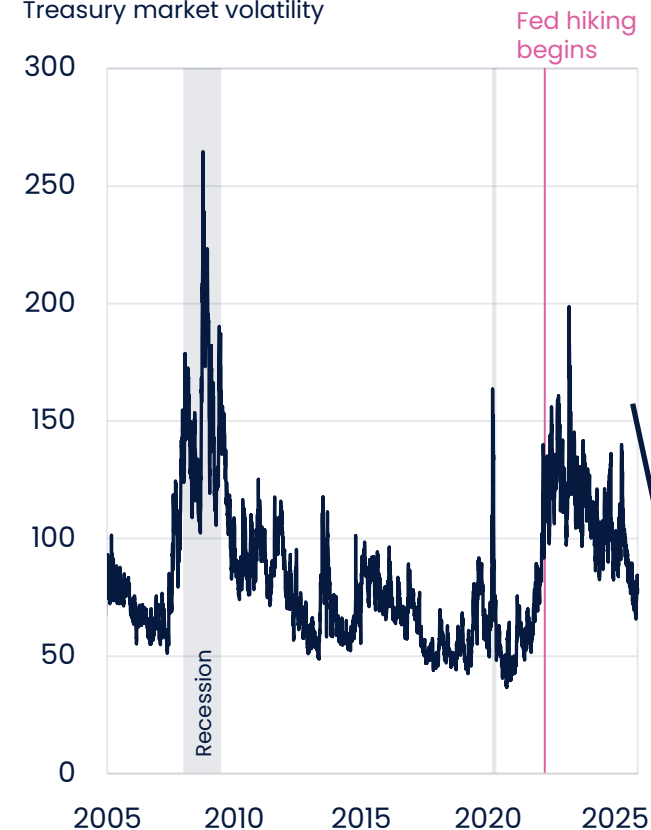
Business loan delinquencies and HY spreads

Quarterly, since 1997



MOVE index

Treasury market volatility



3. Credit | From publicly traded to privately placed.

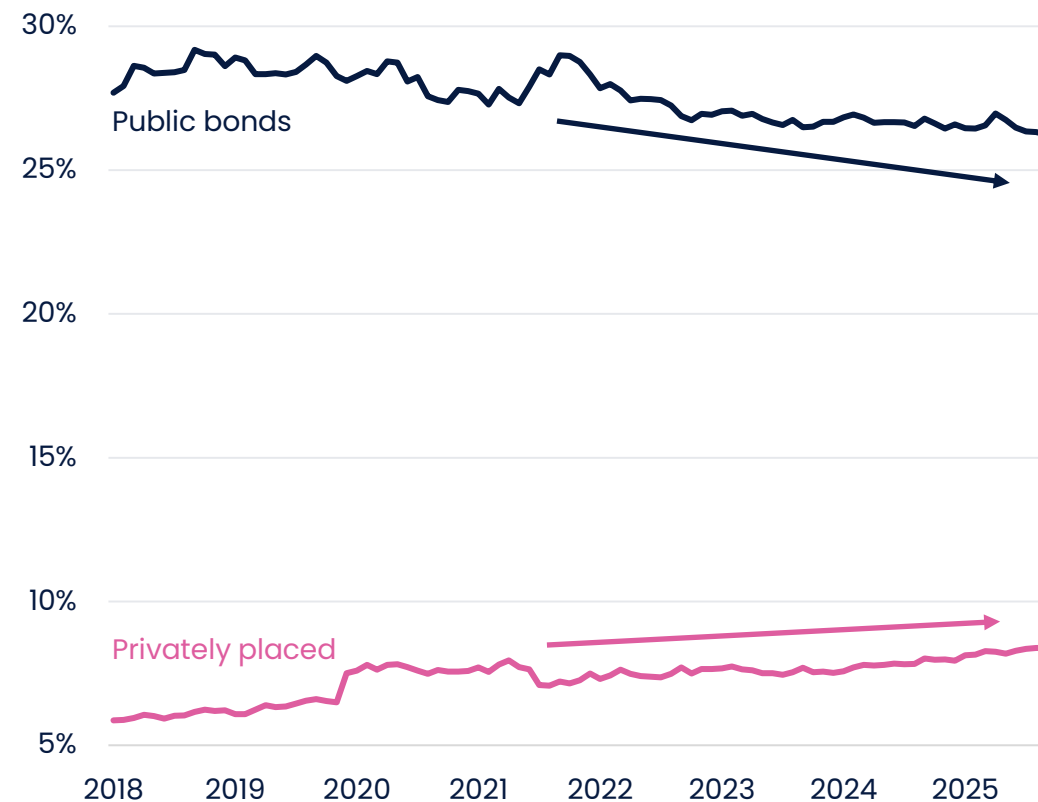
If there's one sign of risk appetite and search for yield, it's the shift from public to **private credit**.

Amid a cyclical story of risk tolerance and compressing spreads is a structural story: **the rise of private credit**.

CWAN data since 2018 shows an inexorable rise of private credit across institutional investors. To the right, we zoom in on corporate bond allocations across our insurance client base. Privately placed bonds have been gaining ground for years—at the expense of public bonds, which have seen a decline that predates the pandemic.

We view the rise of private credit as a structural story, unlikely to fade any time soon. (See our recent [report](#) "Are 'alternatives' still alternative?") If we can expect anything for 2026, it's more discussions of alternatives displacing traditional investments across institutional investor portfolios.

Corporate bond allocations for insurers
Average share of portfolio



4. US exceptionalism | It is taking a lot to end this cycle.

A strong consumer has helped things stay afloat, including corporate profits. But strong profitability is also serving as a tailwind.

Spreads are low; equity valuations are high; recession calls are failing—what keeps the US economy so resilient?

The list of cyclical engines is long. Here, we point to two ongoing signs of strength, one an input and one both an input and an output.

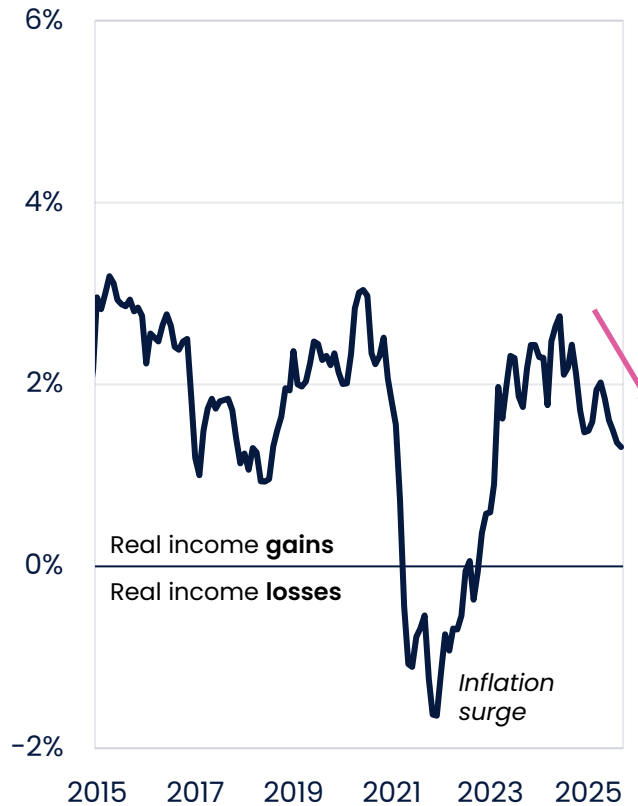
From growth perspective, the US economy has been underpinned by a strong, healthy, and irrepressible consumer. Several years ago, as the economy recovered from the pandemic, this meant robust job creation. Since then, consumption has been supported by a resilient labor market conferring real income gains, i.e., wages that exceed inflation. Where cost pressures have proven high, wage growth has proven higher.

In 2025, however, as the labor market continued to soften and prices pressures reaccelerated due to tariffs, real wage growth has eroded. Importantly, however, it has not collapsed. We do not expect it to, even as wage growth has moderated considerably and inflation pressures from tariffs prove sticky. **Real wage growth will be softer than desired, but consumption will still prove a tailwind next year (though a weaker one).**

On the corporates side, strong consumption has helped buoy corporate profits. Today's equity valuations may be high but so too is profitability (and expectations thereof). While today's business climate is challenging, we view strong profitability as a good backdrop for the cycle. Businesses are investing, borrowing, and reluctant to lay off workers (see p.15). These trends should continue in 2026.

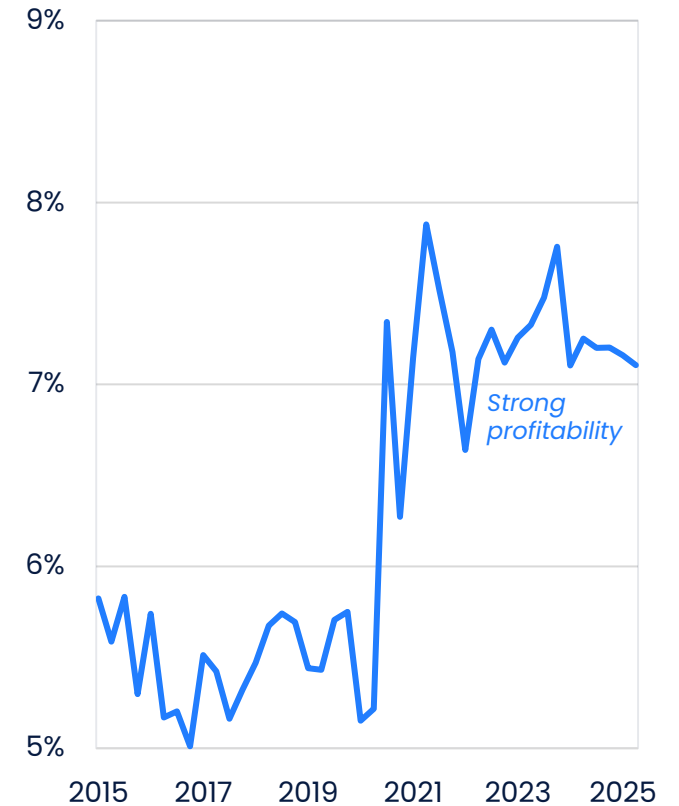
Real US wage growth

Wages – inflation



US after-tax corporate profits

Share of GDP



Note: Data through 9/2025 (left) and Q2 2025 (right). Profits are for nonfinancial corporate businesses with IVA and CCA adjustments. Source: Atlanta Fed, BEA, CWAN Research

4. US exceptionalism | The resurgent appeal of US assets.

After a short-lived divestment, US assets are **back in vogue**.

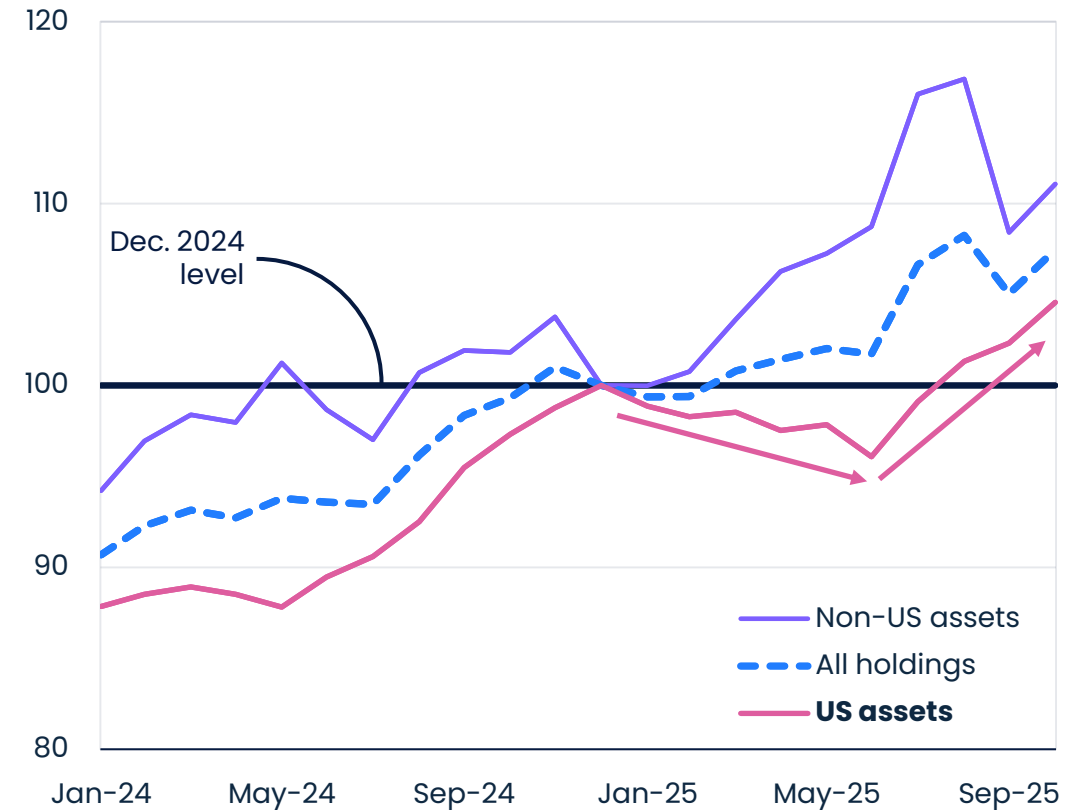
If the cycle has been resilient, so too has demand for American assets. Upon "Liberation Day" this past spring, when the White House announced new, sweeping tariff policy, markets convulsed: Equities sold off in the double digits, and the dollar declined. In the weeks that followed, pundits anticipated a divestment from Uncle Sam, as foreigners balked at a more "America first" policy.

At CWAN, we investigated whether this narrative was plausible. We leveraged our database of foreign investors (non-US insurers) to gauge whether they had soured on Uncle Sam. Initially (and to our surprise!) we found strong evidence of divestment in the first half of the year, particularly in the wake of Liberation Day (see chart, down arrow).

As the economy held up, however, and the tide of the market turned, capital flows reversed. Foreign insurers started to put money back into American assets (up arrow).

If anything, we view this dynamic of a microcosm of the current business cycle. The US economy has faced significant doubts (and genuine headwinds to growth) but has continued to defy the odds.

Book values of holdings for non-US insurers
Indexed to 12/31/2024



Note: Uses book value of assets to ignore market gyrations and distortions. Data through 10/2025.
Source: CWAN

5. AI | A tailwind and a challenge.

AI investment shows no signs of slowing down. Is AI productivity displacing jobs, or is AI investment simply...expensive?

The story of this cycle's resilience would be remiss without a discussion of the impact of AI investment. (At CWAN, we're no [strangers](#).)

The direct impact of AI on the economy is somewhat quantifiable, particularly if aggregating across sources. An obvious component is investment in information processing equipment (see chart, left), which has blown past its pre-Covid trend (adjusted for inflation). In addition to direct investments, there are second-order CapEx needs, including data centers. And then beyond that, the infrastructural needs to power such centers. All this to say, AI is a tailwind to growth, and it isn't going anywhere anytime soon.

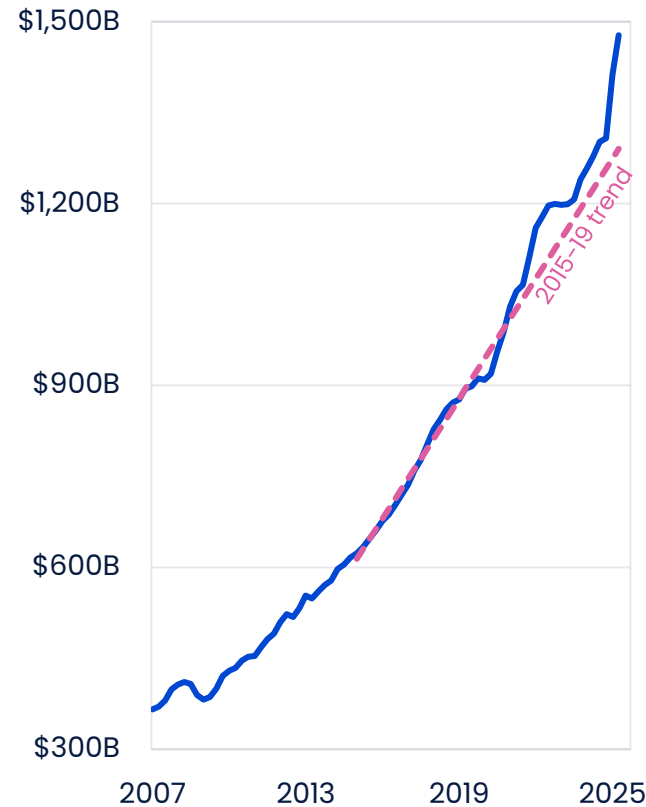
The flipside of such significant CapEx has been a flood of stories regarding technology-induced unemployment. Admittedly, some anecdotal data from firms points to AI-related layoffs (at least, that's what firms are reporting).

At the Research Desk, we tend to view AI's impact on productivity with some skepticism. Not because we don't see it as a productivity-enhancer, but rather because we view gains as incremental and long-term.

If job growth has slowed, we view this as the result of other conditions (namely, tariffs + high rates). If anything, AI's impact on the labor market is cost-based; firms only have so many dollars in their budgets, and perhaps human capital is taking a backseat to technology. All told, firms still look poised to hire in 2026, if at an ongoing modest clip (chart, right).

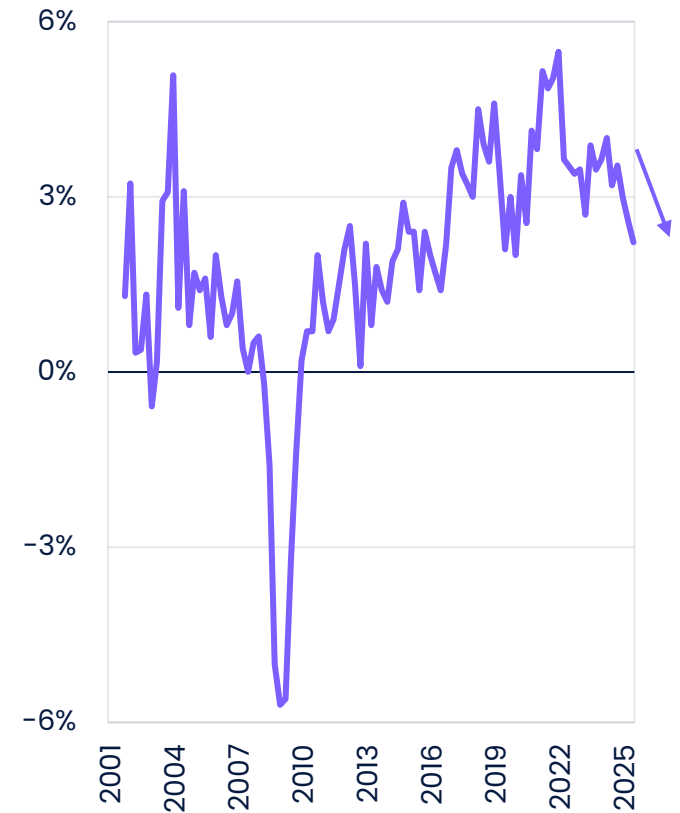
Investment in information proc. equip.

Adjusted for inflation (\$2017)



CFO survey: Year-ahead hiring

Avg. expected growth in employee headcount



Note: CFO survey changed from "12-months-ahead" to the following calendar year in 2020.
Source: BEA, Richmond Fed, CWAN Research

5. AI | Insurers have doubled down on AI equities.

After holding through 2022 and capturing gains in 2024, insurers have been adding to their positions.

The equity market offers a clear measure of AI's economic relevance, with returns and valuations soaring this business cycle.

With chatter of whether we find ourselves in an AI bubble, we sought to investigate the degree to which institutional investors on CWAN's platform have reduced or increased their exposure to AI stocks.

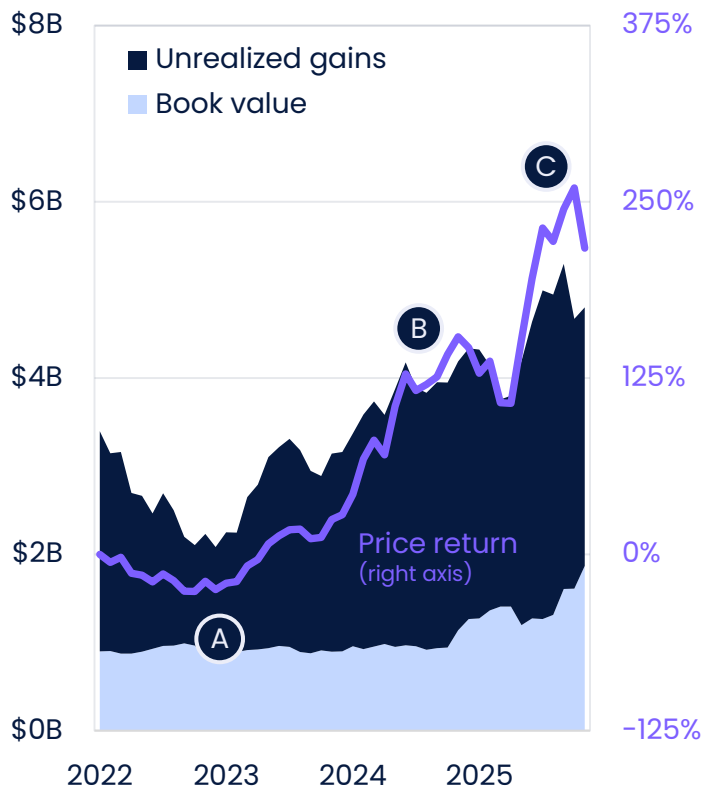
Looking at our insurance database, the Research Desk found an interesting set of trends for insurers who directly hold at least 1 of 4 major AI-related stocks*:

- (A) As equities plummeted in 2022 (violet line; chart, left), insurers on CWAN's platform by and large held onto their positions, with some modest net selling and local peaks in net purchases (chart, right).
- (B) As equities (AI-related stocks especially) recovered and rocketed north, insurers sold off a lot of their gains in 2023-24. Note that book value (the amount at which shares were purchased) was basically flat over this timespan.
- (C) Finally, in 2025, as AI stocks ratcheted up further, insurers started doubling down. Net purchases were positive in the 2nd half of this year until the market sell-off in early November. The telling sign is that book value of holdings picked up materially.

The trends suggest that institutional investors have hardly given up on the AI trade, though they have grown more skittish of late. At present, these 4 stocks alone (to say nothing of index fund exposure) comprise 7% of their individual stock holdings but 11% of unrealized gains.

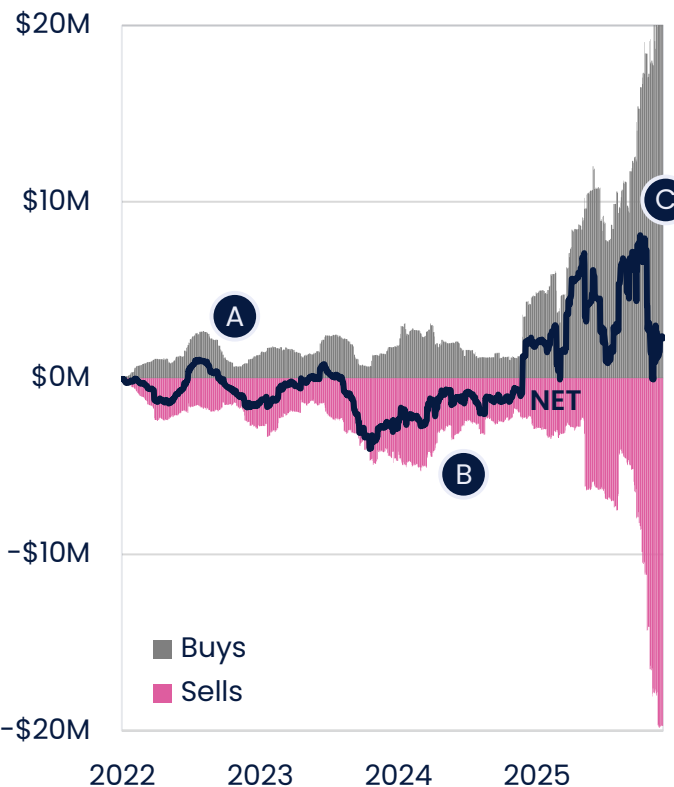
Direct holdings of AI stock and price return

For direct holdings of AI stock* by insurers



Insurer transactions for 4 AI stocks*

90-day mov. avg.



Note: *NVDA, MSFT, GOOGL, and META. Price returns are weighted by share of insurer holdings. Left chart through 11/2025 and right through 11/30/2025 (Y-axis truncated).

Source: CWAN