

MACROCOSM

## Predictions for 2026 (And a Very Hot Take on Venezuela)

Monday, January 5, 2026

Donald Luskin and Michael Warren

How to play the sixth year of the post-pandemic productivity supercycle.

**FIRST, VENEZUELA:** We're deep in the fog of war, but in the spirit of the idea that there are no geopolitical crises, only oil crises, here is a very hot and unfiltered take from our Energy Strategist Dr. Michael Warren:

"There are dozens of stories claiming the US wants Venezuela's oil wealth. And most articles point out how difficult it will be to establish regime security and contract vigilance, and repair an oil and gas industry that has been neglected for 25 years without any re-investment. All this is true, but another reason (besides the drug trade) for taking out Maduro is that Trump gains tremendous leverage over Canada and Mexico before those countries start to renegotiate the trade agreement formerly known as NAFTA this summer.

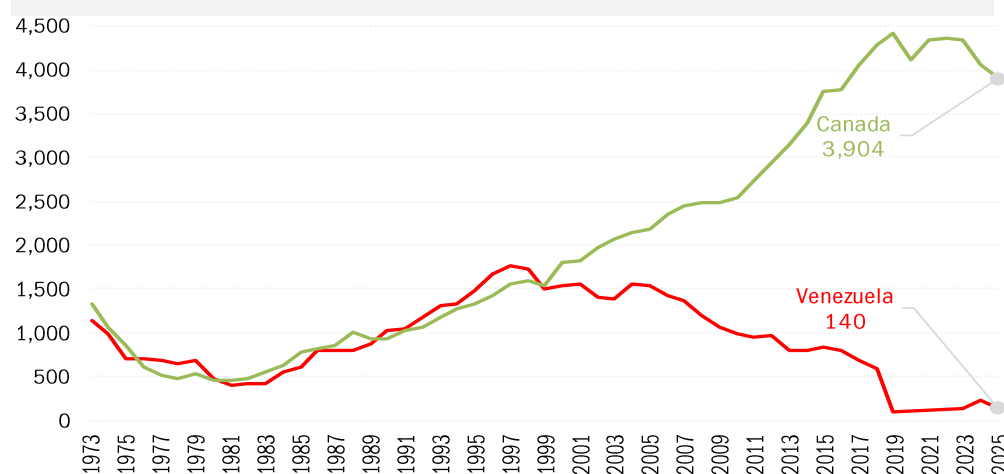
"New Prime Minister Carney is leading Canada down a horrible left-leaning pro-climate change path. He is the liberal posterchild meeting a *realpolitik* man in Trump. The Western Canadians have had it with Carney and his EU/Canadian liberal credentials touting climate change. He could be destroyed if Trump plays hardball. And a new Canadian premier could work hand in hand with Trump instead of sabotaging him. Look at the chart below. What if all

### Update to strategic view

**US MACRO, OIL, FEDERAL RESERVE, US STOCKS, US BONDS, GOLD, EUROPE STOCKS, ASIA STOCKS:**

It will take a lot to rehabilitate Venezuela's depreciated oil infrastructure, but in the meantime, diverting its heavy crude exports to the US would severely disrupt Canada's and Russia's exports and China's imports – giving Trump important leverage in trade and other negotiations. In 2026, the post-pandemic productivity supercycle will continue. Real US GDP will beat 3%, defying the consensus. Core inflation will return to the Fed's target. Fiscal policy will be accommodative, with relief from future tariffs and refunds for past tariffs, and the One Big Beautiful Bill fully in place. The Fed will cut rates three times, but that's largely already in consensus. US earnings will, like 2025, lead the world – but, also like 2025, US stocks are the most expensive in the world, so lower-quality but cheaper beta plays will outperform, as they did in 2025. Within the US, sector performance will be, like 2025, a function of ...

US crude oil imports (thousands of barrels per day)



Source: DOE, Bloomberg, TrendMacro calculations

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900,000 barrels per day of Venezuelan production goes to the US, which now imports only 140,000? Canadian exports to the US of comparable heavy crude would evaporate. Canada could be in dire straits because the 900,000 barrels TransMountain Pipeline only has ocean-going offtake of about 600,000 barrels – which it is already using to ship oil to China and other Asian nations. Do you think Alberta would stand for this? I think Canada could break up or at least get an immediate change in national leadership and reverse its climate change agenda.

“Two thirds of Venezuela’s heavy crude exports, 600,000 barrels per day, go to China. And Russia is selling about 120,000 barrels of diluent to blend with the heavy crude to make it flow. So China would need to find another source for their “teapot” refineries. Russia would be hurt by a loss of dark fleet exports and war revenue for Putin. So there’s leverage for Trump there, too. The US refining sector would benefit because the Gulf Coast would get significantly lower transportation costs for heavy crude oil, thereby lowering costs for gasoline and diesel. US shale producers would gladly send diluent south by about 100,000 barrels per day. It would be a win for our oil and gas sector. Nobody is talking about this.

“Of course, Russia and China could retaliate. You are already reading about what China might do to Taiwan given Trump’s version of the Monroe Doctrine. Trump is rolling the dice right now.”

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...earnings growth, and valuation won’t matter. The AI sector will lead the way. Financials are a good bet on lower rates, deregulation and efficiencies from AI. Health care is a good bet – if not in 2026, then someday soon – on AI bringing productivity to a sector previously immune from it. Energy will benefit from oil prices starting 2026 at the bottom of the range, and from lagged effects of regulation. 4% is the floor for the 10-year yield, no matter what the Fed does. Gold is not signaling a crisis, but rather ratifying the idea of a global boom. After 2025’s sharp run-up, though, a correction is highly likely on technical grounds.

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**NUFF SAID. NOW, EVERYTHING ELSE:** Our expectations for 2026 are based on our continuing long-standing conviction that *the global economy is in a post-pandemic productivity supercycle*, now turbocharged by the advent of artificial intelligence (see, most recently, [“Video: What you’re not hearing about what it takes to keep the productivity supercycle going”](#) December 29, 2025).

*First our baseline macro expectations, then markets.*

*US real GDP growth will be 3%-plus.* This represents a return to what used to be normal, decades ago, when the US population was growing much more rapidly than it is now. Given our secular optimism this may not seem aggressive enough, but we think *it is significantly out of consensus*. The most recent [Philadelphia Fed consensus forecast](#) is at 1.8%, and the [FOMC’s Summary of Economic Projections](#) is at 2.3%.

- For context, 2025 real GDP grew 2.5% at an annual rate through Q3, the most recently reported quarter (see [“Data Insights: GDP”](#) December 23, 2025). Based on the [Atlanta Fed’s GDPNow estimate](#) of Q4 at 3.0%, the whole year 2025 should come in at 2.6%. The consensus seems willfully blind here – in November the Philly Fed forecast said 2025 real growth would be only 1.9%, and as recently as December the FOMC SEP said 1.7%. We don’t understand that, but we’re delighted to bet against it.

Global growth will be strong, but the US – the spearpoint of the AI revolution – will lead the way.

The US fiscal environment will be accommodative. There will effectively be a significant tax cut when the Supreme Court strikes down the tariffs under the International Economic Emergency Powers Act, as we said it would from the very day they were first imposed (see “[On the January Jobs Report \(and Tariffs\)](#)” February 7, 2025). We think the market expects this.

- There will be tariff refunds that should total at least \$125 billion, about 5% of S&P 500 earnings. We think markets are not expecting that. This is a non-recurring event for corporate America, but nevertheless a great gift of liquidity.
- The Trump administration will not significantly replace the overturned tariffs with new ones under less dubious authorities. We think markets are not expecting that. But it should be clear from the evidence that ever since the present “affordability crisis” was declared by the mainstream media, President Donald J. Trump has been removing or delaying his own tariffs, [last month on food](#) and [last week on furniture](#) (see “[Did We Just See Peak Tariffs?](#)” November 17, 2025). His hare-brained [scheme for a \\$2,000 “tariff dividend”](#) will not come to fruition, but it is another token of his recognition that the tariff thing is not working.
- Corporate tax cuts under the One Big Beautiful Bill were all retroactive to 2025, so they won’t make any significant difference at the margin in 2026. But individual tax cuts will kick in, and those that were retroactive – but not reflected fully in after-tax paychecks because withholding schedules were not changed in 2025 – will generate refunds in April.

After a small scare in H1-2025, disinflation has resumed and will continue to do so (see “[Data Insights: CPI/PPI](#)” December 18, 2025). We think core Personal Consumption Expenditures inflation will return to the Fed’s target on a year-on-year basis by the end of 2026.

- The post-pandemic productivity supercycle we are in is functionally disinflationary. No, we are not making the argument that a more productive supply side of the economy makes goods and services cheaper simply because it produces them more efficiently.
- We still believe that “[inflation is everywhere and always a monetary phenomenon](#).” But when the economy grows faster thanks to productivity, it needs more money in it as a transaction medium and store of value. So any given M2 money supply growth rate is less inflationary than it would be in a less productive regime. We are confident that the present M2 growth rate of 4.3% – at the lower bound of the pre-pandemic normal – inherently represents no risk of accelerating inflation, and in this high-growth environment, is disinflationary.

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## AI podcast version



[Click here](#) to listen to an informal podcast version of this report made entirely by artificial intelligence.

Remember – AI can be funky. This is still experimental. Check it out and let us know what you think.

The labor market is not falling apart, and will not fall apart in 2026. With immigration largely halted, the dial-tone for payroll growth is about 75,000 per month.

- The large-scale self-deportation of recent immigrants appears to have halted. If it does not resume, there is no reason to expect any downside risk to the dial-tone of 75,000 payrolls in the midst of a productivity-led boom.
- Indeed, while AI is already making inroads into certain employment sectors such as computer programming (see [“Video: What you’re not hearing about how AI is already powering a productivity supercycle”](#) December 22, 2025), a booming economy probably demands more labor than 75,000 per month. We expect to see the unemployment rate drift lower this year.

The Fed will cut interest rates three times in 2026, lowering the funds rate to 2-7/8%. That is two more cuts than the FOMC consensus in the [December Summary of Economic Projections](#) “dot plots” (see [“Data Insights: Federal Reserve”](#) December 10, 2025). It is about half-a-cut more than markets expect, based on the money market curve.

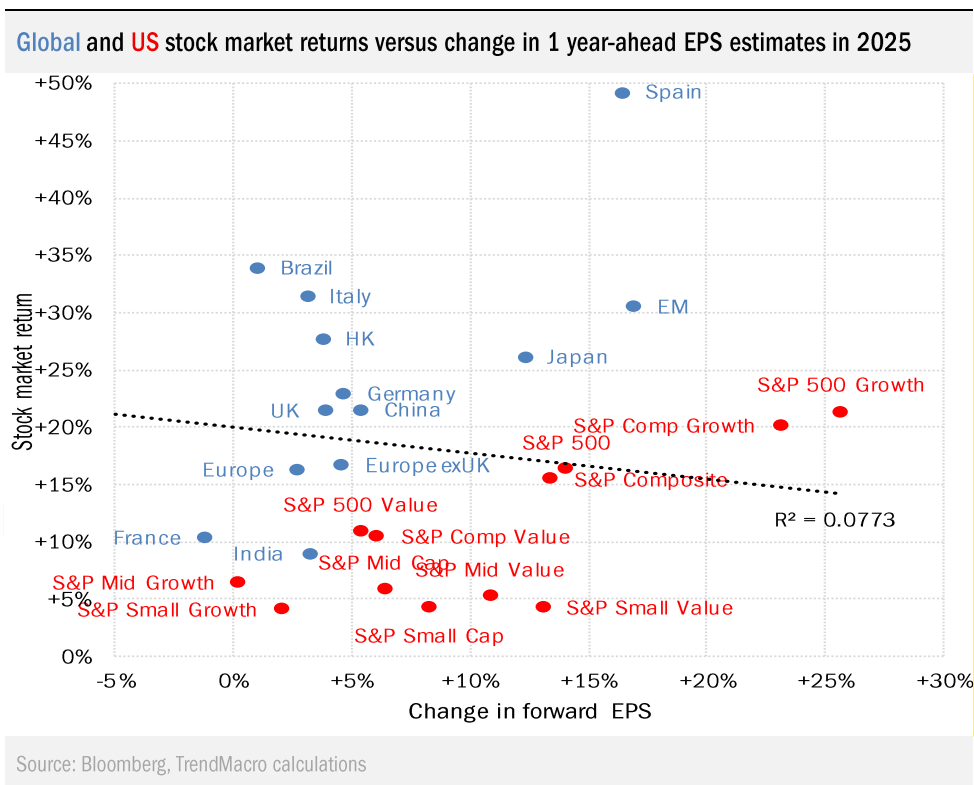
- We can be sure that whoever the next Fed chair will be, he will have been selected after his assurance to President Trump that he will promote lower rates. How far he can really take them will be a function of Trump’s ability to stack the Board of Governors. That will be a function of what happens to Governor Lisa Cook’s case before the Supreme Court (where she is fighting Trump’s effort to remove her), and whether Jerome Powell decides to stay on as a governor after his term as chair expires.
- 2-7/8% is not a crazy low number. The [Summary of Economic Projections](#) has the neutral funds rate at 3%. If we are right that inflation moves back to the Fed’s target – and unless there is some kind of surprise move lower in the unemployment rate – even the Never Trumpers on the FOMC will have a hard time rationalizing not moving to what they themselves admit is merely neutral.
- The move to 2-7/8% will have been enabled by the resumption of disinflation, but will it end up contributing to higher inflation later? We could argue that policy is *already* loose at a funds rate of 3-5/8% – after all, that’s below all but one of the 21 “Taylor Rule” prescriptions [calculated by the Cleveland Fed](#). But those calculations are driven by macroeconomic inputs which we doubt match up very well with our outlook. More important, in some sense the funds rate doesn’t really matter. It’s only an instrumental variable.
- What matters is money supply growth. We tend to forget – and the Fed shamelessly ignores – that the first phrase in [the Fed’s mandate from Congress](#) is to “maintain long run growth of the monetary and credit aggregates.” *That* is the tool the Fed is to use to achieve “maximum employment, stable prices, and moderate long-term interest rates.” It says nothing about the funds rate, because the funds rate is just one of many potential means of wielding that tool. So we’re going to be in the fed funds rate

prediction game like everyone else, but we're not going to pretend it's more important than it is.

Now let's move on to markets.

We expect the US and global stock markets will have very much the same pattern of returns as they did in 2025. What was that pattern?

- The US stock market had a very good year, with a total return of 17.9% for the S&P 500, about as we predicted (see [“Predictions for 2025: Macro and Markets”](#) January 2, 2025). This was supported by stellar earnings estimate growth of 14.9%, also as we predicted – so already-stretched US multiples didn't change very much.
- But in the global context, while US earnings growth was pretty much the *strongest* in the world, US stock market performance – while very good – was pretty much the *poorest* in the world. Globally, EPS growth and stock market performance were slightly negatively correlated – the better the earnings growth, the worse the performance (please see the chart below).

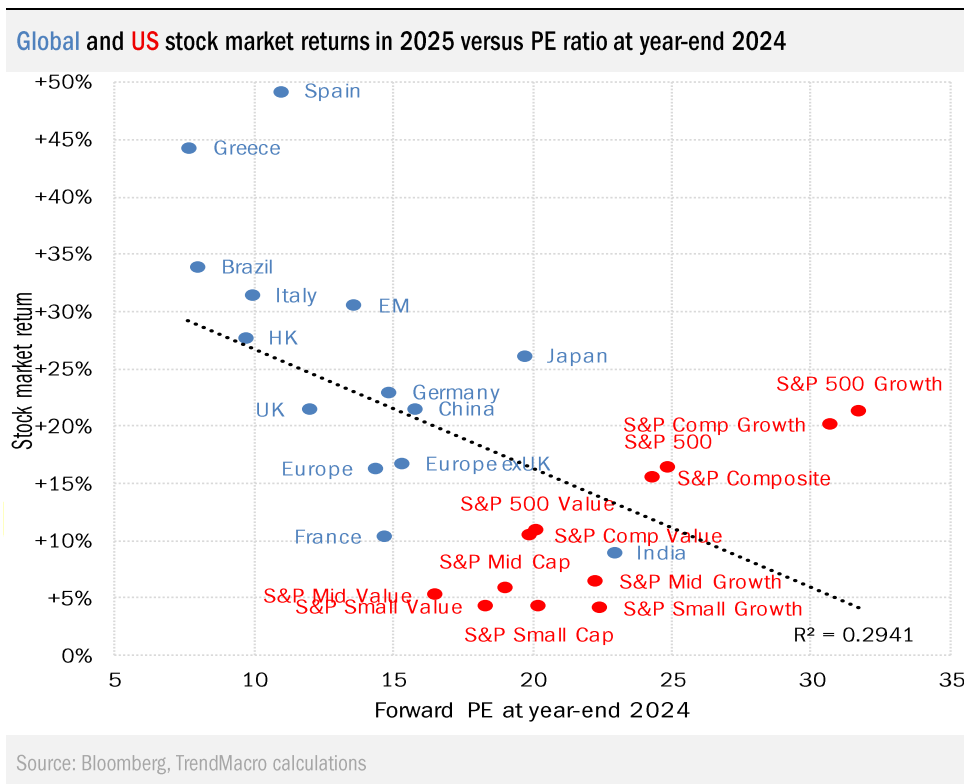


- All year this divergence between US and global equity performance has been superficially explained as an “America Last” reaction to President Trump’s economic policies, especially tariffs. We’ve never believe that (see [“Is There a New US Risk Premium?”](#) April 14, 2025).
- To be sure, we perfectly called the onset of the 21.4% bear market in stocks that started in late February, citing pervasive uncertainty



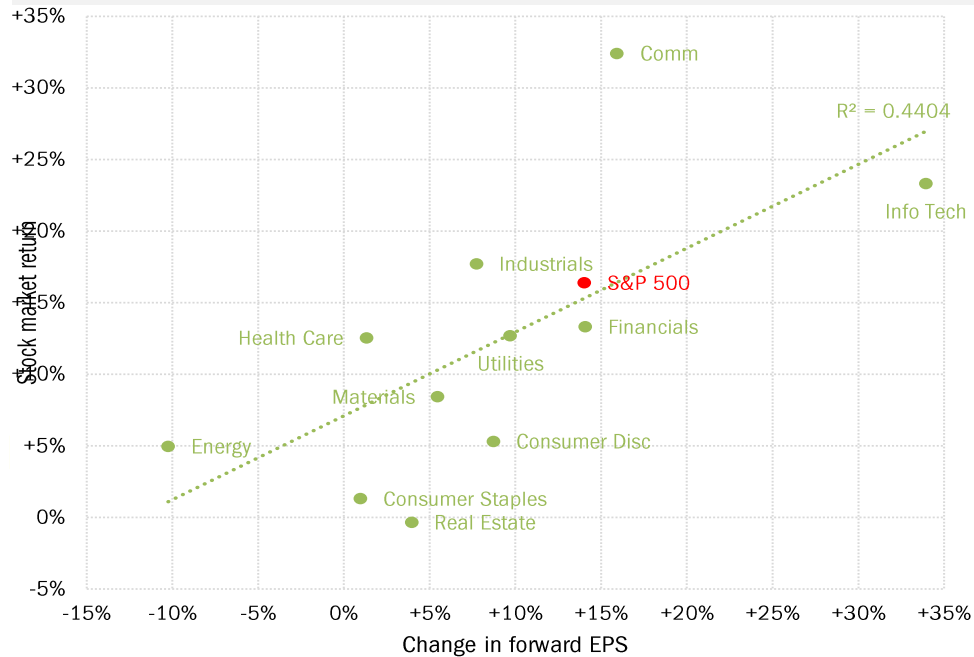
driven by Trump's aggressive and confusing policy palette – again, especially tariffs (see [“The Other Trump Effect: Uncertainty”](#) February 25, 2025).

- But we called the bottom when that uncertainty seemed about fully discounted (see [“Uncertainty Has Become a Cliché”](#) March 17, 2025). *We stand by that, and reiterate it.*
- So to understand 2025, we're going with an Occam's Razor explanation – simply that the US stock market started out the year with pretty much the highest forward PE ratio in the world, and the rest of the world just caught up. Indeed, 2025 stock market performance is strongly correlated to PE ratios at the beginning of the year – the cheaper the market at year-end 2024, the better the performance in 2025 (please see the chart below).



- The outperformance of non-US markets has closed the valuation gap a little, but the US is still the most expensive stock market in the world, so non-US markets are going to outperform again. You can call that a “value play” if you like, but we actually see it more as a risk-on play. In another year of a post-pandemic productivity supercycle, US earnings will again grow most in the world, but it's safe to do what amounts to speculate on what amount to low-quality markets just for their sheer beta.
- Within the US, the story is very different. US industry sector returns were very highly correlated with EPS growth, so 2025 was pretty much a tech story (please see the chart on the following page).
- Valuation didn't matter at all (please see the second chart on the next page). It was all about estimates.

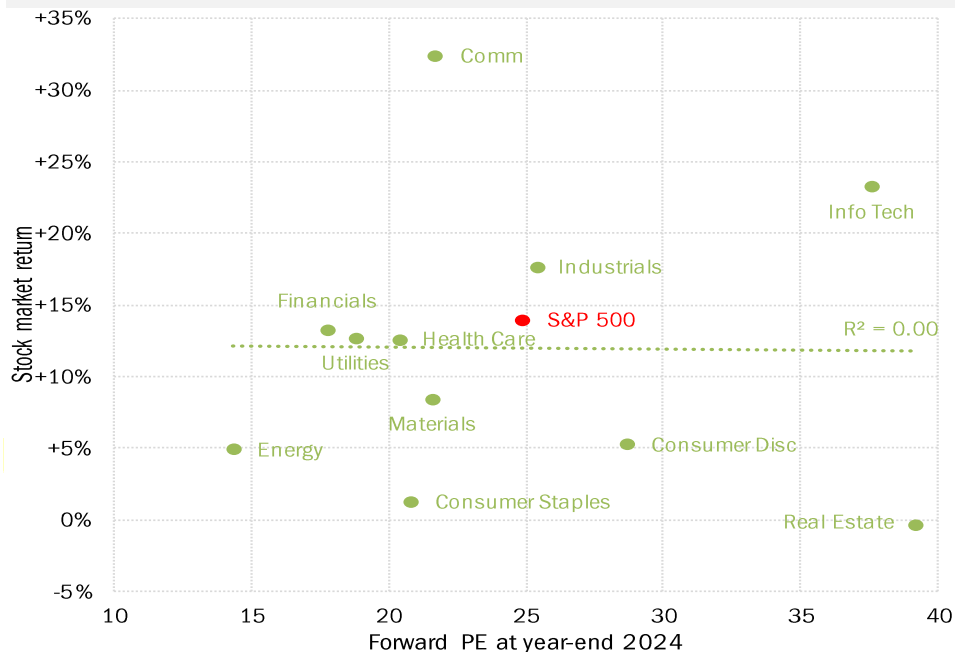
### S&P 500 and industry sector returns vs change in 1 year-ahead EPS estimates in 2025



Source: Bloomberg, TrendMacro calculations

- We think this pattern, too, will repeat itself in 2026 – so the trick is to identify the sectors with the best earnings estimate growth.
- We don't have anything new to say about the AI sector in this regard – the going-in expectation has to be that, once again, it will

### S&P 500 and industry sector 2025 returns versus PE ratio at year-end 2024



Source: Bloomberg, TrendMacro calculations

be the leader in earnings growth. Those who say otherwise are making extraordinary claims without the necessary extraordinary proof – usually just sterile cautions from the history of technology adoption amounting to the obvious observation that the path to the stars is never straight or riskless. Fair enough, but is it actionable? Now?

- We've been AI advocates from the very earliest days (first, see (see ["Video: Surprises of 2023 Volume 3: What you're not hearing about the boom in generative AI"](#) January 17, 2023), and have stayed with it through the corrections (see ["On the January FOMC, and the Briefest Word on DeepSeek"](#) January 29, 2025). We're believers in the feasibility – physical and financial – of the hyperscaler buildout (see ["Build It and They Will Come \(If You Can Power It\)"](#) November 14, 2025).
- It's probably still early to try to bet on earnings growth in other sectors arising from efficiencies gained by adopting AI. We think the best candidates are financials and health care, both dependent on pattern recognition in operating processes and subtle language-based customer interactions – just what AI can help with. Lord knows, health care needs it – it has historically been immune from productivity improvement, and as such, represents very low-hanging fruit for AI. Separately, banks can only be helped by a lower funds rate that will lower their cost of deposits. And not that it matters, but both sectors have attractively below-market PE ratios.
- AI hasn't made an appearance yet in the latest season of *Landman*. Be that as it may, separately, we think oil demand is seriously underestimated in our global productivity-led boom (see ["2026 Oil Outlook"](#) December 11, 2025). And we're quite sure the hyperscaler datacenters will end up running on natural gas, with diesel as a backstop. Electric vehicle sales growth is rolling over worldwide. So even if deregulatory initiatives from the Trump administration only contribute to energy sector profitability slowly over time, we think we're at the bottom of the range for oil prices – so it's worth another look after last year's disappointing stock returns. Again, it probably doesn't matter, but this is the cheapest sector in the S&P 500.
- Do new developments in Venezuela change this view? Probably not any time soon, but as we said at the outset, we're still in the fog of war.
- We're disappointed the financial sector didn't perform better last year, given the Trump administration's strong deregulatory posture.

In 2025, while US stocks were about the worst performers in the world, the total return of the 10-year Treasury was the best. Don't expect that in 2026. Though we are already expecting lower short-term rates from the Fed, that doesn't necessarily translate into lower long-term Treasury yields – in fact, we think it won't.

- Our forecast for three rate cuts this year is already in the money market curve, pretty much, so it's already in longer-term bond yields as well.
- The spread between the funds rate and the 10-year yield is now 57



bp. If the funds rate falls, as we predict, to 2-7/8%, then a 4% 10-year yield – “the floor” in our view – gives a spread of 112 bp, just 4 bp wider than the average in the history of the data. So don't count on the Fed to being able to lower 10-year yields.

- And the lower inflation we are expecting won't help. The inflation component in Treasuries, expressed as the TIPS breakeven spread, doesn't have any room for improvement.
- If we're right that we are now in a multidecade productivity supercycle, then the previous era of “secular stagnation” after the Global Financial Crisis, when the 10-year yield was stuck between zero and 4%, is over. As we've said many times, “four used to be the ceiling, now four is the floor.”
- That's partially because, in a higher-growth period, rates – which are, after all, the rate for renting capital – ought to be higher. And the stronger the US economy, the more creditworthy Treasury debt becomes.

And finally, a very brief word about gold, which made dramatic new all-time highs in late 2025, along with other monetary metals.

- We reiterate our view (see [“Gold at \\$4,000-plus”](#) October 9, 2025) that this should not be greeted with alarm, as though it signaled some kind of crisis of confidence in the global economy. To believe that's what's going on here would be to believe that no other market has even the slightest ability to see whatever danger gold sees. There are simply no markets that are ratifying the idea that some kind of crisis is at hand.
- Why not go with where gold and virtually all other markets seem to agree? That we are in a robustly growing economy – you don't have to buy our productivity supercycle theory to believe just that.
- Remember, the global economy is now growing much faster than the stock of gold is being increased by mining. If you believe that central banks and other savers will always want to hold gold as a reserve asset – in some proportion to their wealth – then the wealthier the world gets, the more gold it wants to hold. The world is getting wealthier very quickly right now. Embrace it.
- None of that is to say that gold can maintain its astonishing trajectory of 2025. We don't expect it will, and indeed is probably in for a substantial shake-out on purely technical grounds.

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## Bottom line

It will take a lot to rehabilitate Venezuela's depreciated oil infrastructure, but in the meantime, diverting its heavy crude exports to the US would severely disrupt Canada's and Russia's exports and China's imports – giving Trump important leverage in trade and other negotiations. In 2026, the post-pandemic productivity supercycle will continue. Real US GDP will beat 3%, defying the consensus. Core inflation will return to the Fed's target. Fiscal policy will be accommodative, with relief from future tariffs and refunds for past tariffs, and the One Big Beautiful Bill fully in place. The Fed will cut rates three times, but that's largely already in consensus.

US earnings will, like 2025, lead the world – but, also like 2025, US stocks are the most expensive in the world, so lower-quality but cheaper beta plays will outperform, as they did in 2025. Within the US, sector performance will be, like 2025, a function of earnings growth, and valuation won't matter. The AI sector will lead the way. Financials are a good bet on lower rates, deregulation and efficiencies from AI. Health care is a good bet – if not in 2026, then someday soon – on AI bringing productivity to a sector previously immune from it. Energy will benefit from oil prices starting 2026 at the bottom of the range, and from lagged effects of regulation. 4% is the floor for the 10-year yield, no matter what the Fed does. Gold is not signaling a crisis, but rather ratifying the idea of a global boom. After 2025's sharp run-up, though, a correction is highly likely on technical grounds. ▶