

Annual Outlook 2026: Don't Fight The Trump

GeoMacro Alpha Report

December 2025, Volume I



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GeoMacro Report
The Alpha Report

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Top Takeaway: On purely macroeconomic terms, the US economy appears to be heading towards a recession. But the whole point of our framework – *GeoMacro* – is to forecast the **interplay between politics, geopolitics, and macro**. The White House is taking control of the Fed in 2026 and, together, they will look to re-lever the US consumer.

- Extreme income inequality in the US remains the most important macro reality for investors.
- With the public sector over-leveraged, the key to extending the cycle is re-levering the private sector, specifically households.
- The Trump administration will not risk a recession and will look to lean on monetary policy to offset a fiscal drag we expect in the US.
- As the White House and the Fed re-lever households, *via* lower rates, they could further inflame the AI bubble.
- The Fed will be unnecessarily dovish, leading to further downside to the USD. The big risk in 2026 is that the AI capex bubble blows up and takes the increasingly linked private credit market, and the banking system, down with it.
- We set a modest target for the S&P 500 for 2026, at 7,500 – expecting the first half of the year to test our bullish story, as the labor market continues to deteriorate.
- Opportunities for alpha in 2026 will be in oil upside, European defense stocks (sell on rumors of peace, buy on news of escalation), industrial metals, the Japanese yen, and Chinese equities. European assets continue to be our favorite long.
- Overall, we will be tactically (and strategically) nimble in 2026.

Annual Outlook 2026: Don't Fight The Trump

Twelve months ago, we argued that 2025 would be the year where everything peaked. To quote from the Annual Outlook directly¹:

- **Peak fiscal:** President Trump will have to modify his proposed tax cuts, ending the fiscal gravy train that has powered US assets and the USD over the past four years.
- **Peak de-globalization:** President Trump will surprise investors at some point next year by confirming that tariffs are a tool, not an end in themselves.
- **Peak geopolitical risk:** President Trump will show that he is far more adept at using Realpolitik (game theory) and bringing equilibria to various regional conflicts.

The confluence of these three “peaks” should be positive for global risk assets.

Global risk assets ripped, with the US lagging rest-of-the-world (RoW) performance throughout the year. It is an odd macro reality that all anyone could talk about in 2025 was AI and yet the very epicenter of AI (the US) underperformed (Chart 1).

Of the “three peaks” that we articulated in late 2024, all ended up being correct forecasts.

CHART 1
Year 2025 Was *Not* About AI



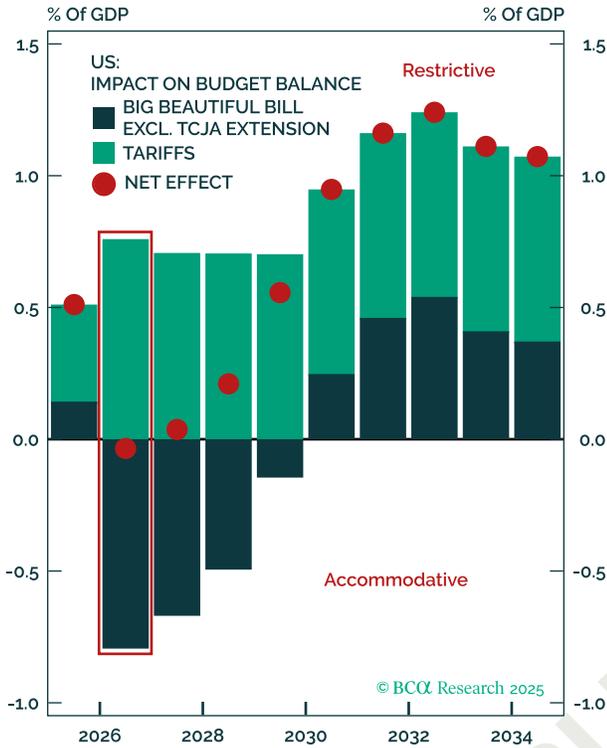
* TOTAL RETURN IN USD TERMS.
SOURCE: MSCI INC. (SEE COPYRIGHT DECLARATION).

First, on fiscal policy, the days of US policymakers wantonly relying on the fiscal lever are over. The One Big Beautiful Bill (OBBBA) is anything but big.² When combined with the revenue from America’s new consumption tax (the influx of dollars from President Trump’s tariff policy), the revenue-spending balance is surprisingly restrictive over the next decade (Chart 2).

¹ Please see *BCA Research, GeoMacro Strategy, Alpha Report, “Annual Outlook 2025: Peak Everything,”* dated December 2024, available at bcaresearch.com

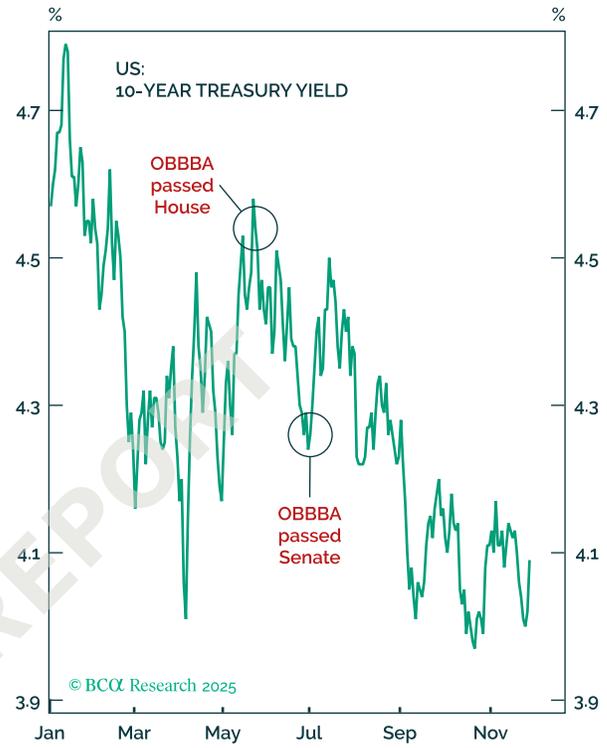
² Please see *BCA Research, GeoMacro Strategy, Alpha Report, “The Macro See-Saw – OBBBA Is Not What You Think It Is,”* dated June 2025, available at bcaresearch.com.

CHART 2
Fiscal Gravy Train Is Over



NOTE: CALCULATIONS BASED ON ESTIMATES FROM "PRESIDENT TRUMP-SIGNED RECONCILIATION BILL: BUDGET, ECONOMIC AND DISTRIBUTIONAL EFFECTS," PENN WHARTON BUDGET MODEL (JULY 2025), AND "STATE OF US TARIFFS: OCTOBER 30, 2025," THE BUDGET LAB AT YALE (OCTOBER 2025).

CHART 3
If OBBBA Was Stimulative, This Chart Would Not Exist



SOURCE: US DEPARTMENT OF TREASURY.

As such, bond bullishness in the second half of the year has been rewarded amply, with bonds rallying since the bill was passed (Chart 3).

But wait, is there not *some* fiscal stimulus next year in Q1 and Q2? Yes, a bit, just a shade over 0.5% of fiscal impulse in the first half of the year. But whatever stimulus may be embedded in OBBBA has been partly erased by the introduction of a new consumption tax. As such, we are comfortable with our controversial and dramatic conclusion from late 2024: year 2025 would be the last stop on the fiscal gravy train.³

Second, our peak deglobalization theme, while correct, was slightly handicapped by Liberation Day where we got the following two harrowing weeks wrong. The level at which President Trump set the tariffs did shock us. As did the tariffs imposed on the Master Race of Penguins of Heard Island! Ironically, we got those two weeks wrong because we ignored our own framework for predicting President Trump's negotiation style.⁴ Trump always breaks something, before he puts it back together. However,

³ Please see *BCA Research, GeoMacro Strategy, Alpha Report*, "Election 2024: Last Stop On The Gravy Train," dated November 2024, available at bcaresearch.com.

⁴ Please see Marko Pasic, "Trump: A Champion Of Globalization And World Peace?" dated March 2024, available on request at geomacro@bcaresearch.com.

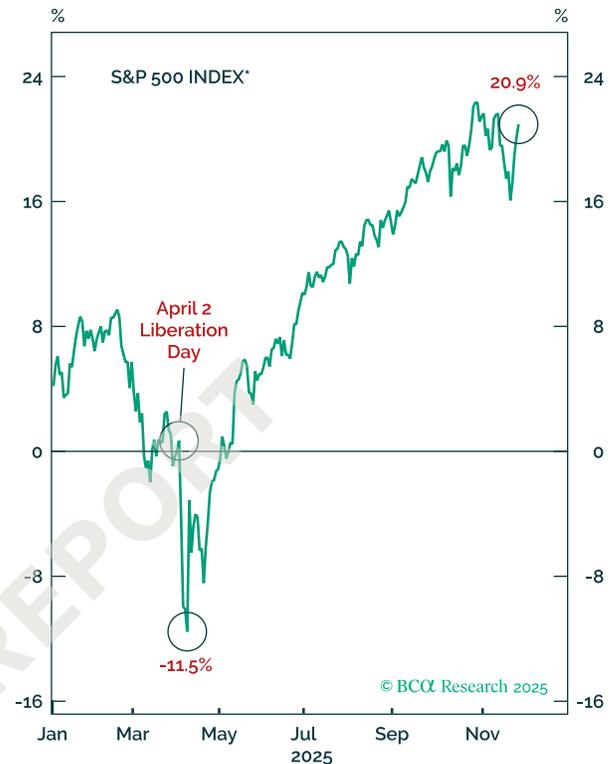
we got the Big Picture right,⁵ by steadfastly refusing to become bearish after April 2,⁶ and by reminding our clients that what “politics taketh away, it can giveth back” later in the year.⁷

That is precisely what happened. Tariffs were a market *blip* in 2025 (Chart 4). In fact, with the additional revenue that tariffs provide, the bond market was able to breathe a sigh of relief. As such, we would argue that tariffs – once negotiations passed from the erratic hands of the Commerce Secretary to the stable pair of hands at the Treasury – have been one of the underlying reasons for the equity market rally in the second half of the year.

The positive bond and equity correlation is central to our view (Chart 5). With the fiscal spigot no longer available to US policymakers, the only way to extend the ongoing bull market is to ensure that private sector borrowing costs come down. For that view to hold into 2026, tariff revenue has to continue to soothe the underlying seething rage in the bond market.

Third, President Trump *did* prove to be an adept navigator of complex game theory engagements with America’s adversaries. There is finally a ceasefire in Gaza. But most importantly, the Israel-Iran-US love/hate triangle was not market relevant,⁸ as we have argued it would not be *since the October 7 terrorist attack itself*.⁹ In fact, oil prices

CHART 4
Tariffs Did Not Drive Markets In 2025



* REBASED TO APRIL 1, 2025 = 100.
SOURCE: S&P GLOBAL.

THIS IS A SAMPLE REPORT.

Our team will be in touch shortly with the full report.

If you do not receive a call, please contact our Client Success team

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⁵ Please see *BCA Research, GeoMacro Strategy, Strategy Insight, “April 2: Sell The Rumor, Buy The News?”* dated March 25, 2025, available at bcaresearch.com.

⁶ Please see *BCA Research, GeoMacro Strategy, Strategy Insight, “Liberation Day. Now What?”* dated April 2, 2025, available at bcaresearch.com.

⁷ Please see *BCA Research, GeoMacro Strategy, Alpha Report, “What Politics Taketh... Politics Giveth Back,”* dated May 2025, available at bcaresearch.com.

⁸ Please see *BCA Research, GeoMacro Strategy, Beta Report, “The Spice Must Flow,”* dated July 2025, available at bcaresearch.com.

⁹ Please see *Marko Papić, “Limited Macro Significance of Israel’s Pearl Harbor,”* dated October 8, 2023, “Myth and Reality in the Levant,” dated October 18, 2023, “The Regional War Thesis,” dated November 2023, “[Iran-Israel Conflict: Fade Stocks. Stay Long Oil.](#),” dated October 1, 2024, available on request at geomacro@bcaresearch.com.