# Boring is still beautiful for the second half of 2026

**Richard Bernstein**

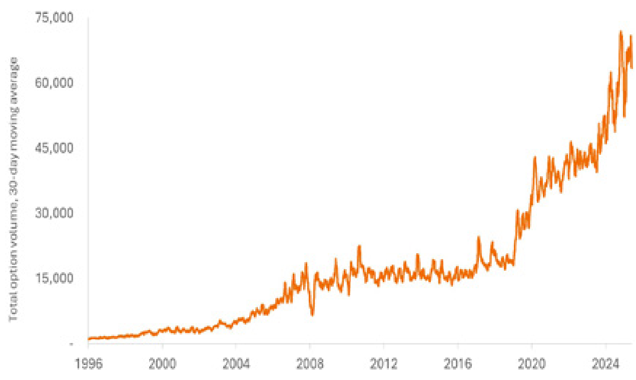
The financial markets and the betting markets serve vastly different purposes within the economy, but at the mid-point of 2026, it seems clear that there is abnormal speculation in the current economy, because investors are equating the two. In our view, investors would be better served sticking to fundamentals and leaving chance to the betting community.

The financial markets exist for capital formation. Investors take ownership positions in companies or lend to companies, which lowers those companies' cost of capital and fuels capital investment and employment. The betting markets serve no similar value-added purpose to the broader economy; participants simply wager on an outcome.

Figure 1 suggests that total options volume reflects the increasingly speculative nature of the financial markets. The embedded leverage within options provides investors with a higher-risk/higher-return method to potentially increase stock returns. Despite the increased risk of using options, trading volume has more than tripled in the last five years.

Given the speculative backdrop, our investment outlook remains focused on dividend-paying stocks, non-U.S. stocks, shorter-term higher-quality fixed income, and gold.

**Figure 1: Spiralling options volumes illustrate the increasingly speculative nature of markets**



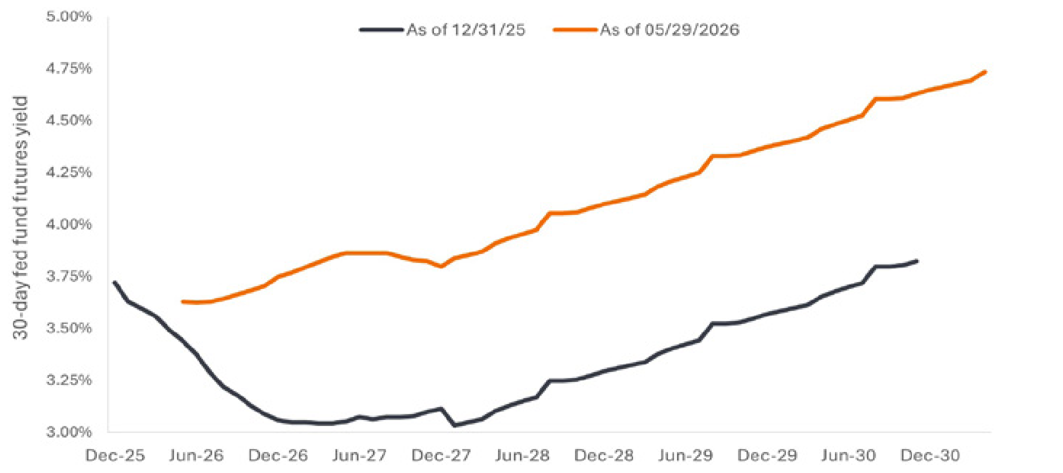

*Source: Janus Henderson*

## Investors are reassessing the Fed

One of our primary assumptions at the beginning of the year was that the US Federal Reserve (Fed) would not be able to cut rates as rapidly or as demonstrably as was consensus. In fact, we thought there was a probability that the Fed would need to shift course and increase rates.

That out-of-consensus view is apparently becoming more mainstream. Figure 2 shows the futures market's forecast for the federal funds rate. At the end of 2025 (amber line) the markets were predicting the fed funds rate would be lowered during 2026 and would not get back to current levels until 2030. The current view (white line) anticipates much higher rates, with only a small rate cut anticipated this summer and rates following a decidedly upward trajectory over the next five years.

**Figure 2. A markedly different interest-rate path compared to the beginning of the year**




*Source: Janus Henderson*

The near-term optimism regarding a potential rate cut might still be too optimistic. Figure 3 shows our simple real-time measure of Nominal Gross Domestic Product (GDP) (real GDP plus inflation) incorporating the Atlanta Fed's GDPNow forecast and one-year inflation breakevens. The bars in the chart represent actual Nominal GDP as was reported.

The nominal US economic growth has been extraordinarily strong. Nominal GDP in the third quarter of 2025 was over 8%, which was, when excluding the pandemic and post-pandemic period, the first 8% nominal GDP quarter in roughly 20 years.

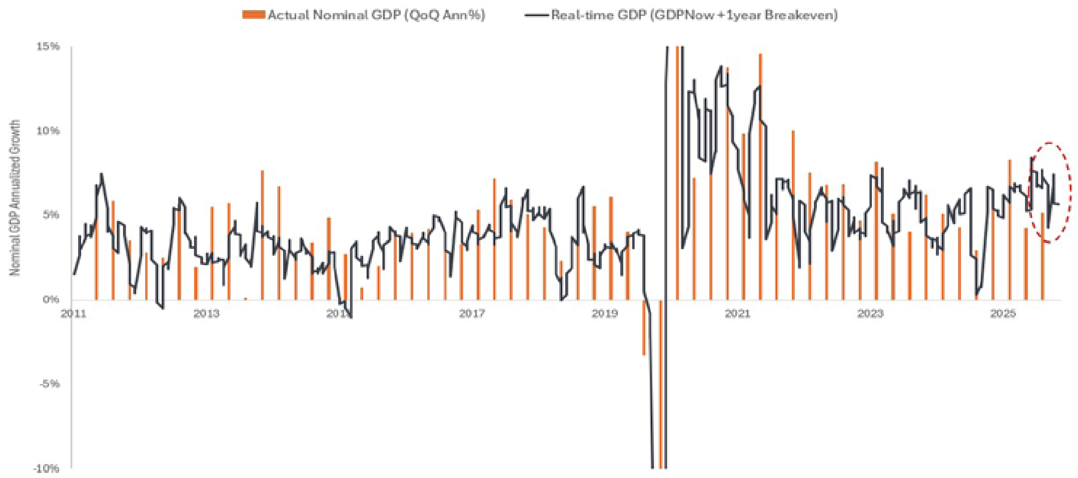
The fourth quarter was slower because of the government shutdown, but first-quarter 2026 nominal GDP was greater than 5.5%, and the current quarter is so far tracking back above 7%.

We continue to believe that such strong nominal growth will limit the Fed's flexibility, that they will gradually shift toward a tightening bias, and that they could actually raise rates.

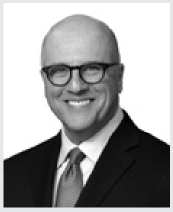
**Insights for Advisers: Preparing for a higher-for-longer rate environment**

*Strong economic growth and persistent inflation can create a different in-vestment backdrop from the low-rate conditions that shaped portfolios for much of the past decade. For advisers, this may be an appropriate time to review return assumptions, income strategies and overall portfolio position-ing. Higher-quality fixed income now has the potential to contribute both income and diversification benefits, while asset classes that rely heavily on falling interest rates may face greater challenges if rates remain elevated for longer.*

**Figure 3. US economic growth remains extraordinarily strong**




*Source: Janus Henderson*



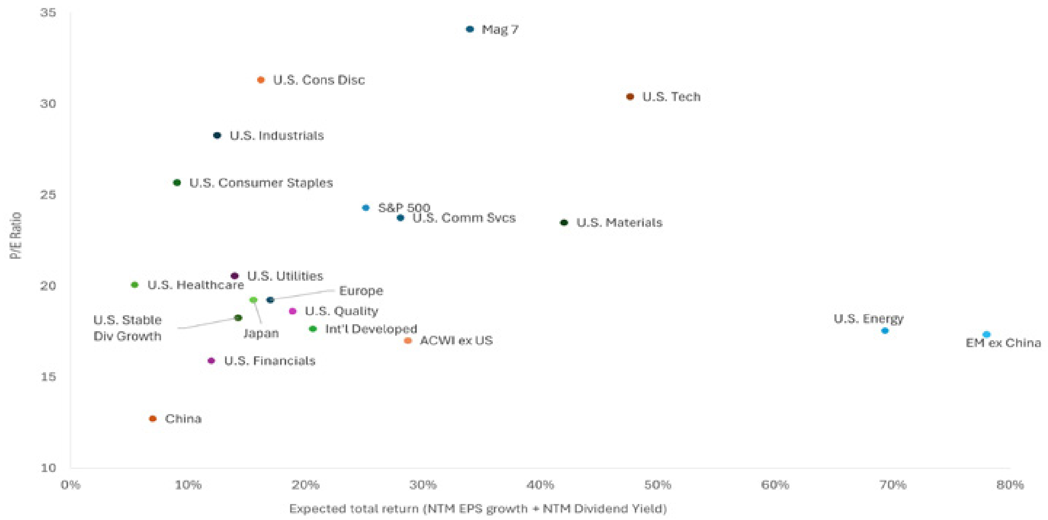
**Richard Bernstein, Janus Henderson**

Richard is global head of macro and customised investing at Janus Henderson Investors, joining in 2026 following the acquisition of Richard Bernstein Advisors (RBA), which he founded in 2009. He leads investment model, ETF, and customised macro solution teams. Previously CEO and CIO of RBA, he oversaw multi-asset, global equity, and fixed income ETF strategies for advisers and institutions. Richard co-authors RBA's monthly Insights, is a frequent CNBC and Bloomberg TV guest, and is regularly quoted in Barron's, the Financial Times, and The Wall Street Journal.

**The quote**

*When the lines are blurred between capital markets and prediction markets, no level of equity or fixed income risk seems to satisfy gambling craving.*

**Figure 4. Opportunities beyond the Mag 7 and tech**




*Source: Janus Henderson*

## Fundamentals matter more when liquidity dries up

Liquidity has historically been the lifeblood of speculation, and highly speculative periods tend to end when the Fed raises rates. History also indicates that when liquidity dissipates, investors focus more on fundamentals than on recent stock performance and momentum.

Figure 4 compares the fundamentals of major equity categories. It shows expected total return (defined as earnings growth plus dividend yield) versus valuation. Categories toward the lower left are viewed as more attractive, whereas those toward the upper right are less attractive.

Equity market segments such as dividends and non-U.S. stocks appear much more attractive than the consensus favourite, the so-called Magnificent 7 (Mag 7) stocks, or the broader Technology sector.

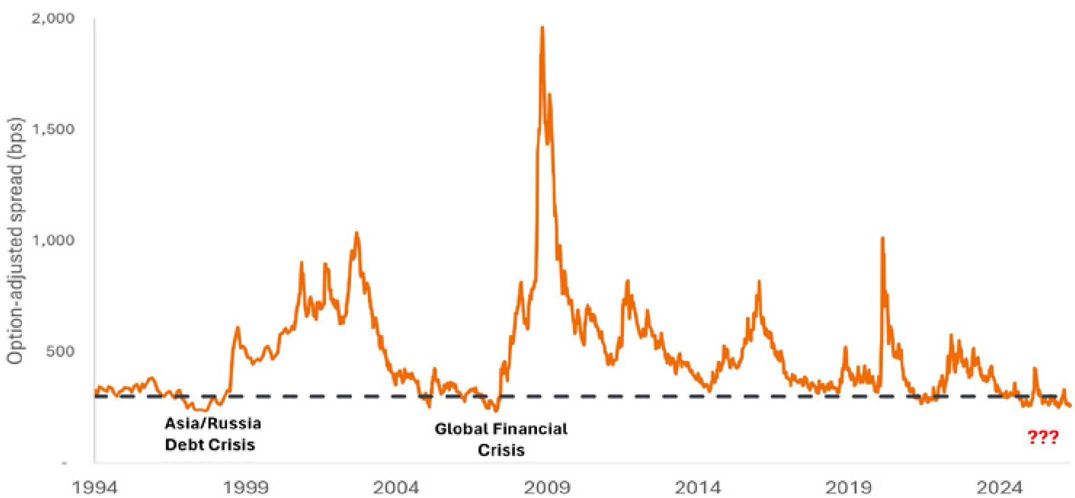
## Not a time for credit risk

Most investors are aware that higher returns generally involve taking more risk, and our research over the past 35 years strongly suggests that lower-quality investments, both equities and fixed income, provide higher longer-term returns. However, entry points are very important.

Investing when equity valuation is very high or fixed-income spreads are very narrow implies that risk premia are too small. In other words, an investor is not being compensated for the investment's risk, and the probability of an investment underperforming is greater.

Figure 5 highlights the narrowness of today's high-yield corporate credit spreads. In fact, spreads have been narrower than they are today only twice in the last 30 years, and major credit events followed each occurrence. Given that history, we continue to focus on shorter-term,

**Figure 5. High-yield corporate credit spreads have only been this narrow twice before**




*Source: Janus Henderson*

higher-quality fixed income such as municipals, Treasuries, and mortgages.

With nominal growth being stronger than investors currently expect and the Fed's potential inability to lower rates, fixed income investors may be best served by maintaining duration at lower levels than those of the benchmark.

**Insights for Advisers: Diversification may be rewarded**

*Market leadership can shift over time, particularly when performance has been concentrated in a relatively small group of stocks or sectors. Maintaining exposure across regions, sectors and investment styles can help clients participate in a broader range of opportunities while reducing reliance on a narrow segment of the market. The current environment may provide a useful opportunity to review portfolio concentration risks and ensure strategic asset allocations remain aligned to long-term objectives.*

## Boring remains beautiful

Investors' risk preferences historically swing back and forth from very cautious risk aversion to wild risk taking. At the beginning of the bull market, investors would only invest in quality dividend-bearing stocks and Treasuries. Today, when the lines are blurred between capital markets and prediction markets, no level of equity or fixed income risk seems to satisfy gambling cravings.

Instead of following the risk-taking herd, we are sticking to the fundamentals that continue to suggest boring investments are quite attractive. Dividends, non-U.S. equities, and short-term quality fixed income continue to form the basis of our allocations for the second half of 2026. **FS**

**Insights for Advisers: Focus on risk-adjusted returns**

*When investors are not being meaningfully compensated for taking additional risk, portfolio quality becomes increasingly important. For advisers, this reinforces the value of looking beyond headline return opportunities and assessing whether risks remain appropriate for each client's objectives and tolerance for volatility. Maintaining discipline around diversification, portfolio quality and risk management can help support more consistent long-term outcomes, particularly during periods of heightened market optimism.*

**The quote**

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