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Stock Bulls Have a Worryingly Long List of 2026 Risks to Ponder

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(Bloomberg) — US stocks are heading into 2026 with positive momentum and a host of bullish forecasts at their backs. For the fourth year of strong gains that many predict to play out, they must still overcome plenty of potential threats.

For a start, valuations are already rich and the group of stocks leading the gains is relatively narrow, a risky setup in itself. A lot is riding on artificial intelligence winners proving that, rather than forming a bubble, they have further to climb.

“AI is set to transform industries and investment opportunities, but it also brings the risk of overenthusiasm,” said Kristin Lemkau, chief executive officer of JPMorgan Wealth Management.

Much of the optimism rests on the economy maintaining a fine balance of resilience, without running hot enough to cause inflation or interest-rate shocks. And investors will be hoping that geopolitics are somehow calm enough to avoid disruptions to the supply chain.

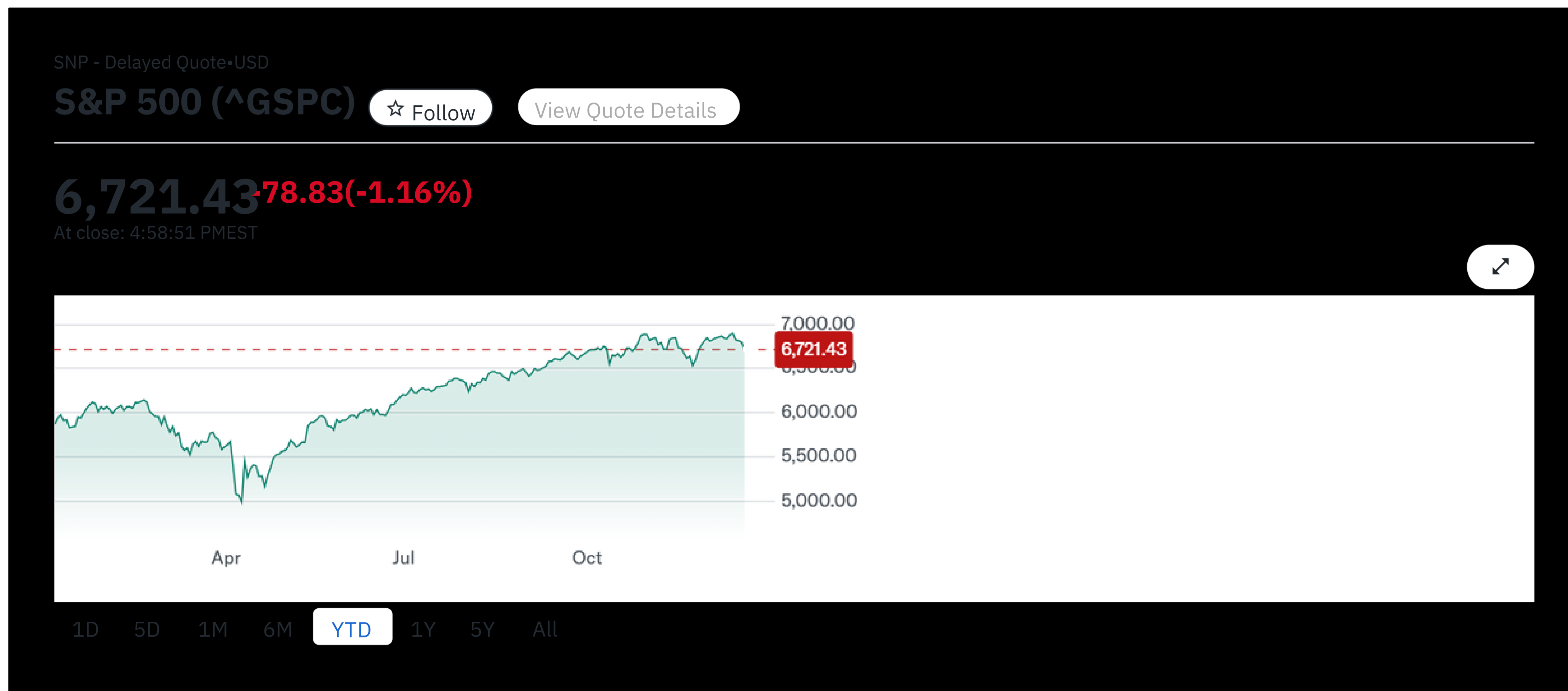
“Fragmentation, where the global order is dividing into competing blocs and supply chains, means that resilience and security are more important than ever,” Lemkau said.

The long list of things that could go wrong suggests that drawdowns and volatility spikes are likely during 2026, especially given an investor base that is so determined to chase the market higher. Here’s a closer look at the challenges to the upbeat outlook.

AI Expectations

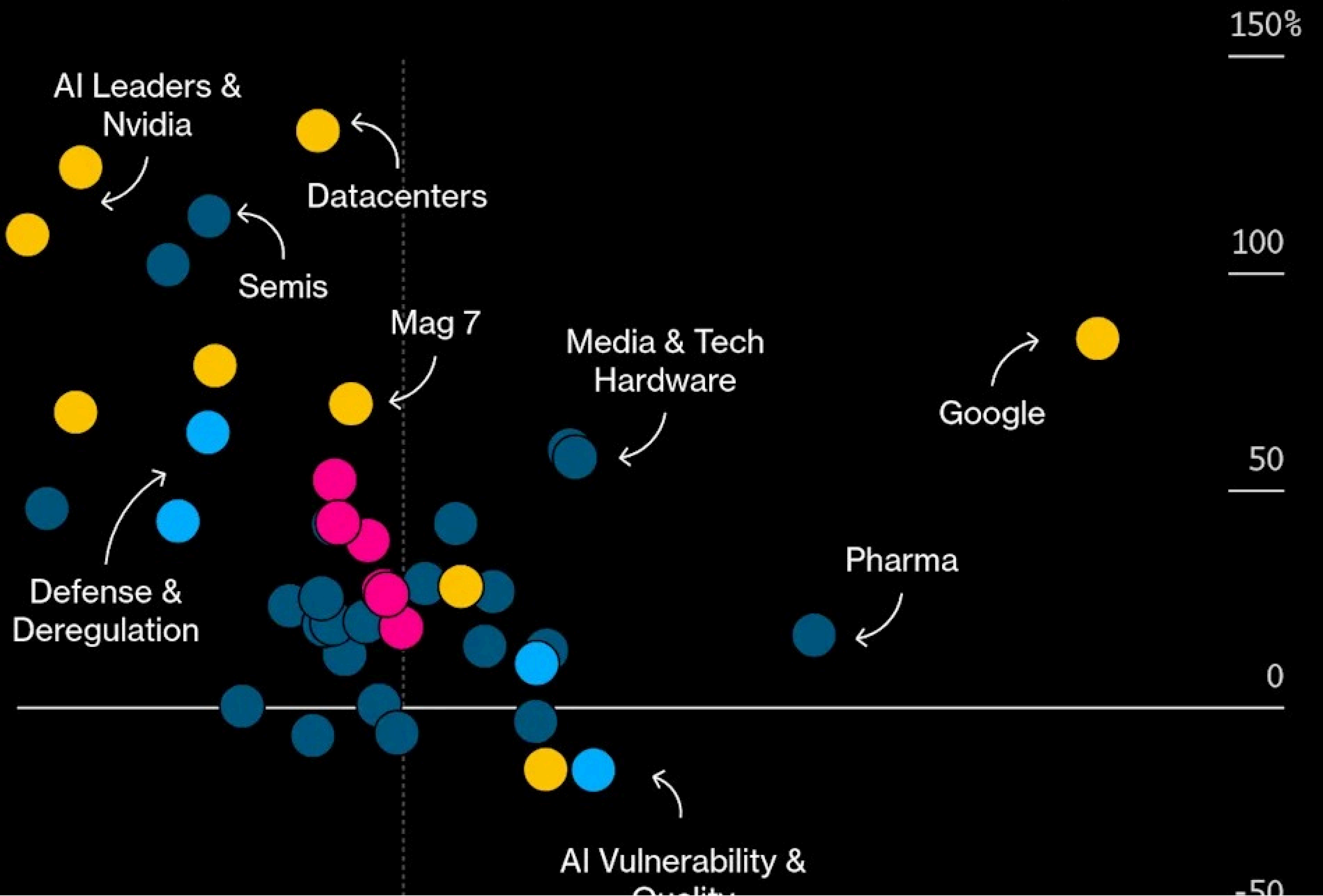
The AI revolution continues to be the dominant narrative underpinning faith in US and global equities.

The risks are around timing and return on investment. If AI adoption proves slower than expected, or if pricing power among technology leaders disappoints as competition intensifies, earnings forecasts could be revised down sharply.



Markets may also question whether capex is peaking without having delivered commensurate profits. Given the heavy weighting of AI-linked stocks in major indexes, even a partial reassessment of the theme could have broad consequences.

And threats to the AI value chain could flare up in 2026. There are plenty of potential sources of concern, ranging from chip demand and supply to shifts in technology, as seen in the recent discussion over TPUs versus GPUs. Providing data centers with the equipment and power supply they require presents huge opportunities, but also potential pitfalls that could temper the AI hype. On top of that, AI’s impact on jobs is still a big unknown if adoption becomes a lot more widespread.

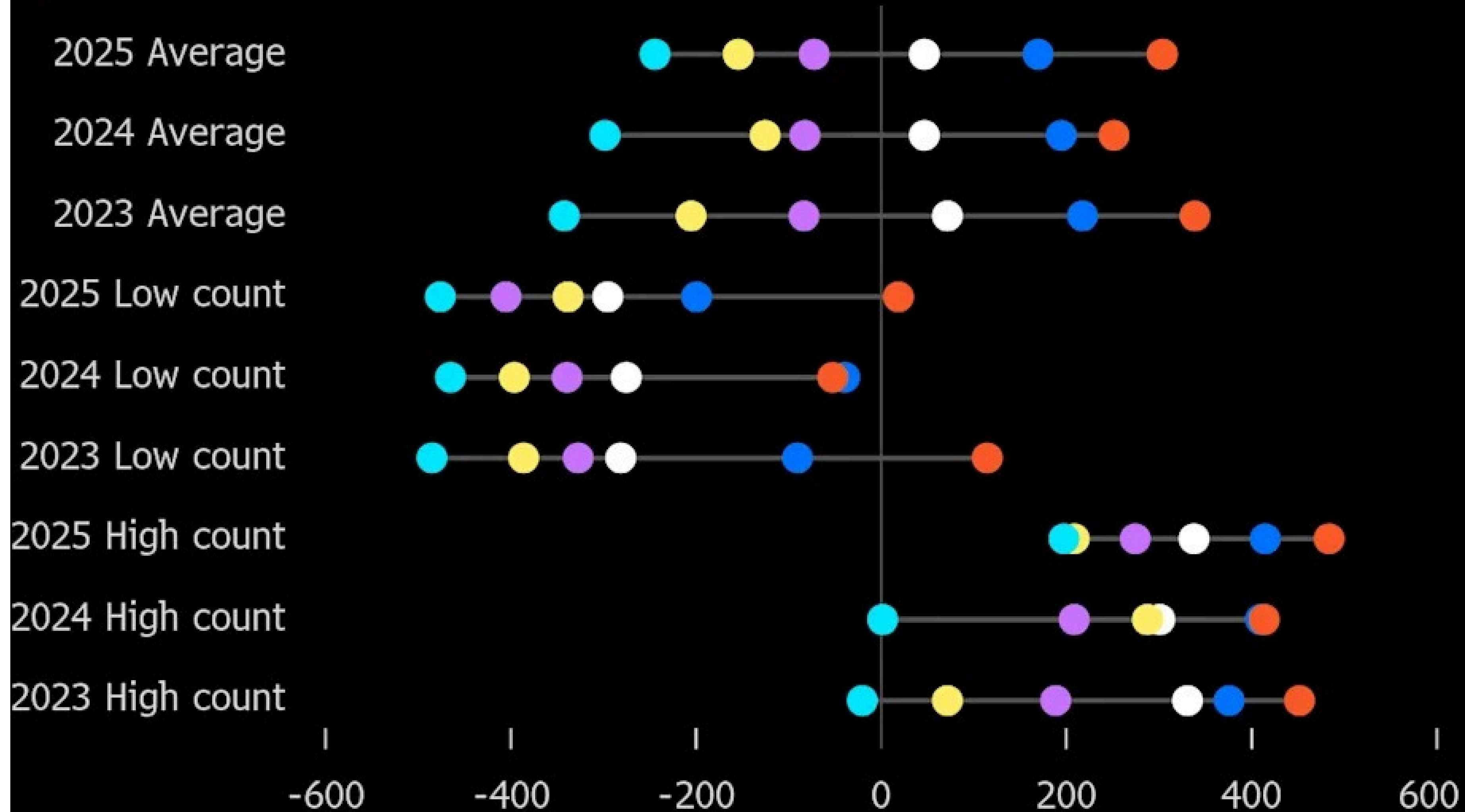


Tech Leadership Has Faded Since October
AI
Benchmark
Other thematics
Sector
April 8 - Oct. 28
150%
100
50
0
AI Leaders & Nvidia
Datacenters
Semis
Mag 7
Media & Tech Hardware
Google
Defense & Deregulation
Pharma
AI Vulnerability &

Valuation and Concentration

US equities are priced for near-flawless execution. The S&P 500 trades well above long-term valuation averages, while market leadership is increasingly concentrated in a small group of mega-cap technology stocks. That dynamic has amplified returns — but it also increases downside risks.

Should profit growth slow even modestly, or if margins come under pressure from wages or financing costs, the compression of earnings multiples could be swift.



Inflation and Rates

Markets are still anchored to the assumption that inflation is cooling and policy rates will drift lower. But inflation may not play ball, with price pressures potentially flowing from heavy AI spending or lingering tariff effects. The upshot would be the Fed keeping rates higher for longer — or even tightening financial conditions. Bond yields would likely rise, pushing up equity discount rates and challenging investors' tolerance for lofty valuations.

Rate volatility itself is a risk: abrupt repricing in the front end of the curve tends to spill over into equities, particularly among growth stocks. For investors positioned for a benign rates backdrop, the asymmetry is clear — surprises skew negative.

Geopolitics and Trade

Geopolitical risk lurks as a latent but potent threat to equities. Tensions between the US and China, conflicts that ripple through energy markets, or disruptions to critical supply chains — including semiconductors and rare-earth minerals — could trigger abrupt risk-off moves.

Trade policy is another wildcard, particularly if tariffs return to the political spotlight. For markets, the issue is less about forecasting outcomes than pricing uncertainty. History shows that geopolitical shocks often lead to spikes in volatility,

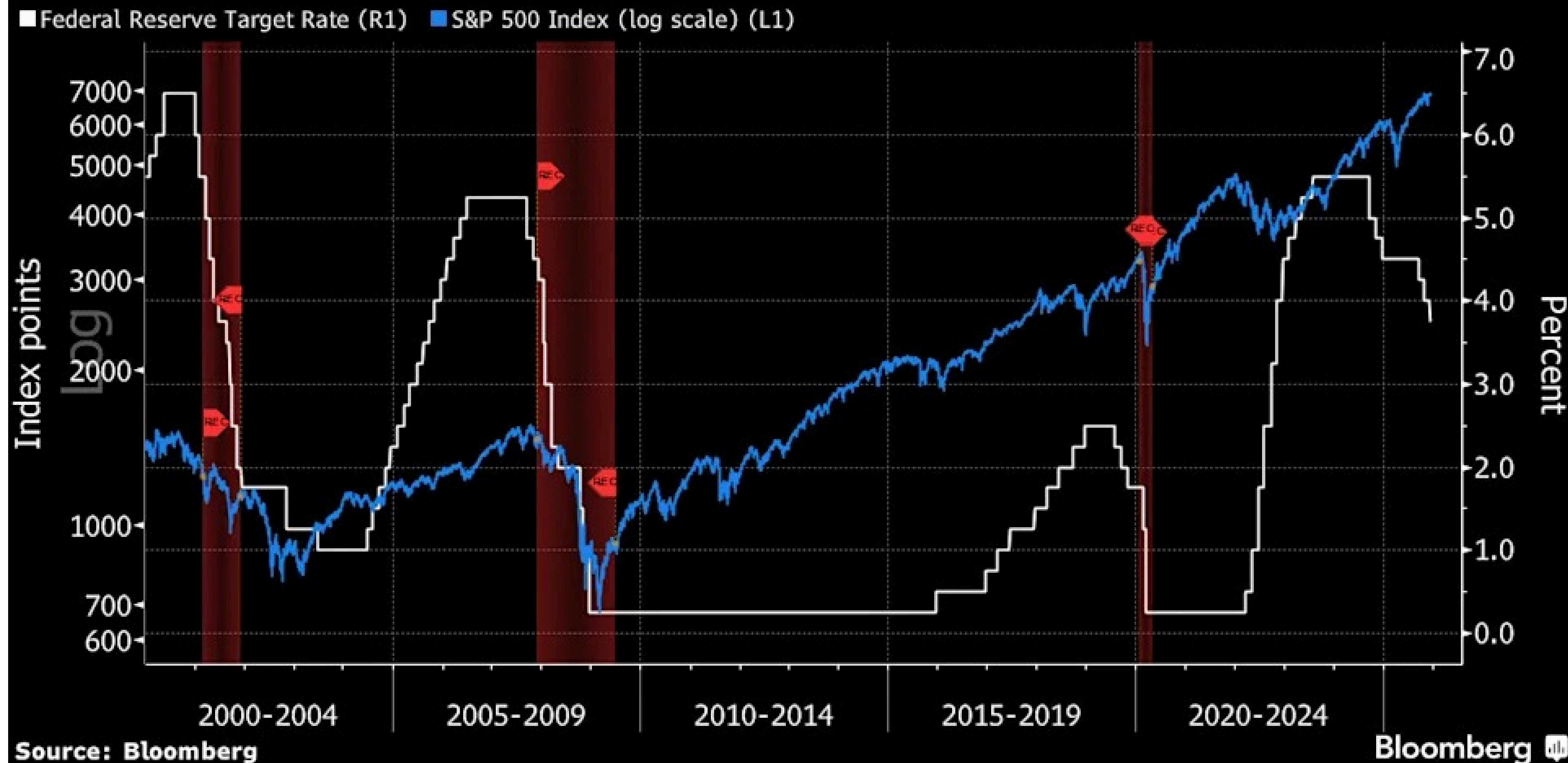
dollar strength and equity drawdowns, even if the long-term economic impact proves manageable. In a market priced for stability, such events carry an outsized impact.

Macroeconomic Slowdown

The consensus is that the US economy will prove robust, while hopes for Europe revolve around a spending spree among governments. But any cracks in this narrative will be closely watched.

Questions around how consumers are coping with cost-of-living pressures and how bank balance sheets are handling credit risk will be top of mind. A forced slowdown in fiscal spending or dips in corporate hiring could quickly translate into weaker earnings, particularly outside megacap tech companies. With expectations for earnings growth still optimistic, any downside revisions could trigger broader de-risking.

“One thing that keeps me up a little bit at night is the macro softening,” said Helen Jewell, international chief investment officer of fundamental equities at BlackRock Inc. “My nervousness is that actually you end up in a K-shaped economy and its knock-on effect of the consumer,” she said.



The Sideshows

Deteriorating liquidity during drawdowns, crowded trading as well as increased flows from leveraged ETFs, systematic investors and passive strategies may not be risk events in themselves, but they make stocks more reactive under stress.

The pace at which volatility spikes have faded have helped markets to overcome episodes of stress, but this poses a challenge for hedging and market timing. It can potentially encourage investors to execute faster, sparking episodes of sell

first, ask questions later.

Buybacks have proved a major pillar of market support, but might vanish should the economy falter. Add to the list of concerns increasing sensitivity in markets to government financing and public deficits. The same goes for regulatory and legal shocks, which are worth keeping in mind for 2026, as AI remains arguably lacking in clear rules.

And finally there is consensus risk. When most investors agree on why markets are rising — AI productivity, the economic outlook and rate cuts — the risk isn't being wrong eventually, but being wrong together. The vulnerability may lie in the market structure's itself — where positioning, liquidity and sentiment interact in ways that turn small catalysts into large moves.

—With assistance from Sagarika Jaisinghani.