

APOLLO

2026 Outlook: The Year Ahead in 14 Sparks

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A Letter from Torsten Slok

Resilience Meets Momentum

The main story of 2025 has been the strength of the US economy. Growth has repeatedly exceeded expectations, including at times my own forecasts. This resilience has persisted despite headwinds from trade war uncertainty and tariffs, immigration restrictions and the restart of federal student loan payments.

Several tailwinds have also gained momentum. AI and the data center boom continue to raise investments. The dollar has weakened. And the Congressional Budget Office (CBO) projects that the “One Big Beautiful Bill” will raise GDP by almost a full percentage point in 2026.¹

Against this backdrop, some central themes are emerging as we enter 2026:

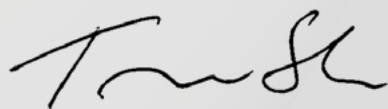
- **Brief stagflation lies ahead.** Growth will likely soften over the next few quarters as tariffs continue to be implemented, while inflation remains above target at 3%, keeping interest rates higher for longer.
- **A reacceleration will follow.** This slowdown will most likely be followed by an AI-fueled recovery. Put another way, we are not in for a recession. Although as of this writing, the consensus is predicting a 30% recession risk for the US in 2026,² which should keep us all on alert.
- **A continued K-shaped economy.** We expect ongoing strength at the top of the income distribution, strain at the bottom and a widening dispersion in spending patterns in the year ahead, creating risks for the broader economy.
- **Global divergence.** The consensus sees lower recession risk in the Eurozone than in the US (20% risk vs. a 30% risk)³ and falling inflation that supports earlier rate cuts, while Asia remains a strong buyer of US yield and AI-linked technology.
- **AI as a central macro force.** AI and data center investment remain a primary driver of business spending, market performance and foreign investor interest.

The bottom line is that despite significant turbulence, the US economy continued to hold up in 2025, and with more signs of improvement, there are many reasons to be optimistic about the momentum going into 2026. At the same time, high inflation, higher-for-longer interest rates and uneven growth create a complex backdrop, akin to the 1970s.

The following pages take a deeper look into these themes across a series of charts and data analysis, similar to the Daily Spark newsletter, but with a broader look that encompasses the critical forces driving the US economic outlook across the overarching themes of headwinds, tailwinds and the impacts of AI.

I hope you find this format useful. And of course, as 2026 unfolds, my team and I will be closely monitoring and reporting on these trends (and more), so please be sure to sign up for our Daily Spark emails at the link below.

Thank you for following along in 2025, and we look forward to hearing from you in the year ahead. Wishing you a Happy Holiday season!



Torsten Slok
Apollo Chief Economist



Torsten Slok, PhD
Partner, Apollo Chief Economist

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¹Sources: (as of December 2025) CBO, [H.R. 1, One Big Beautiful Bill Act](#), Apollo Chief Economist

²Sources: (as of December 2025) Bloomberg, Apollo Chief Economist

³Sources: (as of December 2025) Bloomberg, Apollo Chief Economist

Headwinds

➤ 45 Million People Have a Federal Student Loan

➤ Quantifying Student Loan Balances

➤ Delinquency Rates Rising for Student Loans

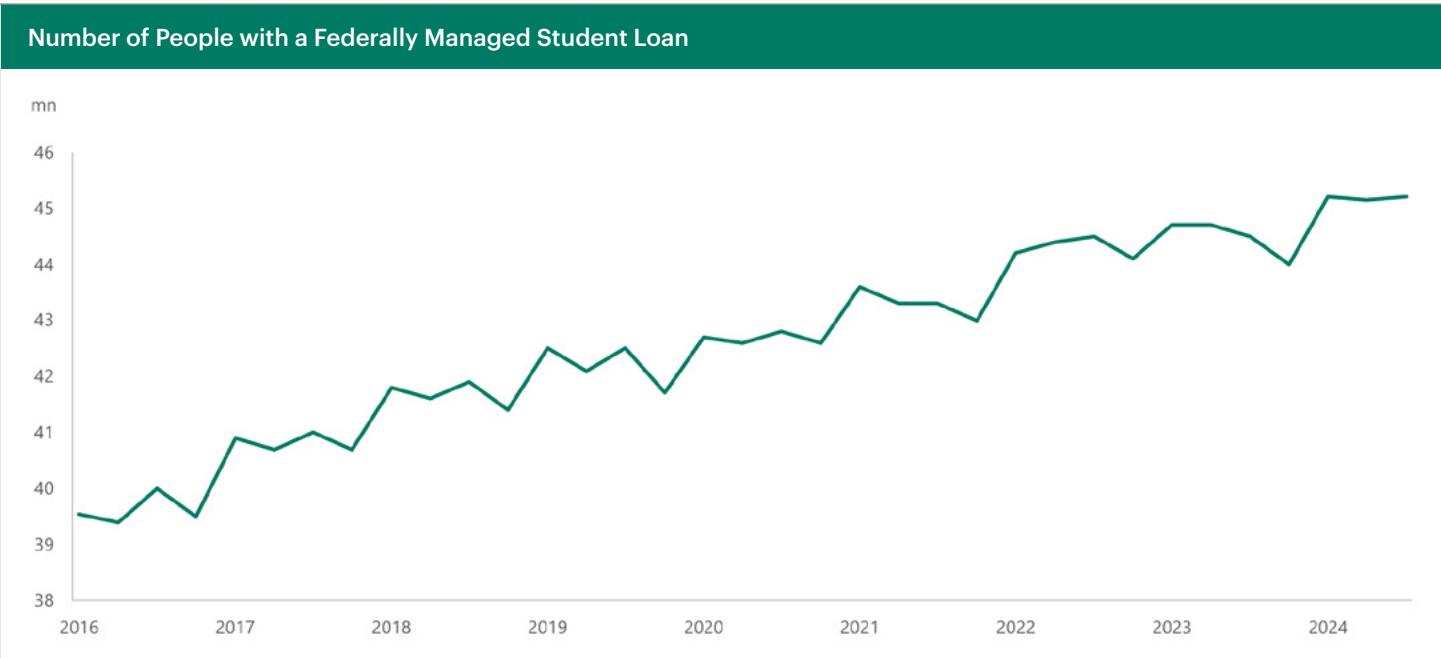
➤ Savings Across Income Distribution

➤ A K-Shaped Economy for Consumers

Spark 1

45 Million People Have a Federal Student Loan

The moratorium on federal student loan repayments that began during the Covid pandemic in 2020 ended in May of 2025. Put differently, in the second half of 2025, nearly 45 million Americans experienced a significant shift in their personal financial picture. With the spending power of close to 20% of the population potentially impacted, overall softening in consumer spending could result. There are even deeper consequences, both for borrowers and for the broader economy, for those missing payments or slipping into delinquency.



Sources: FSA, Apollo Chief Economist

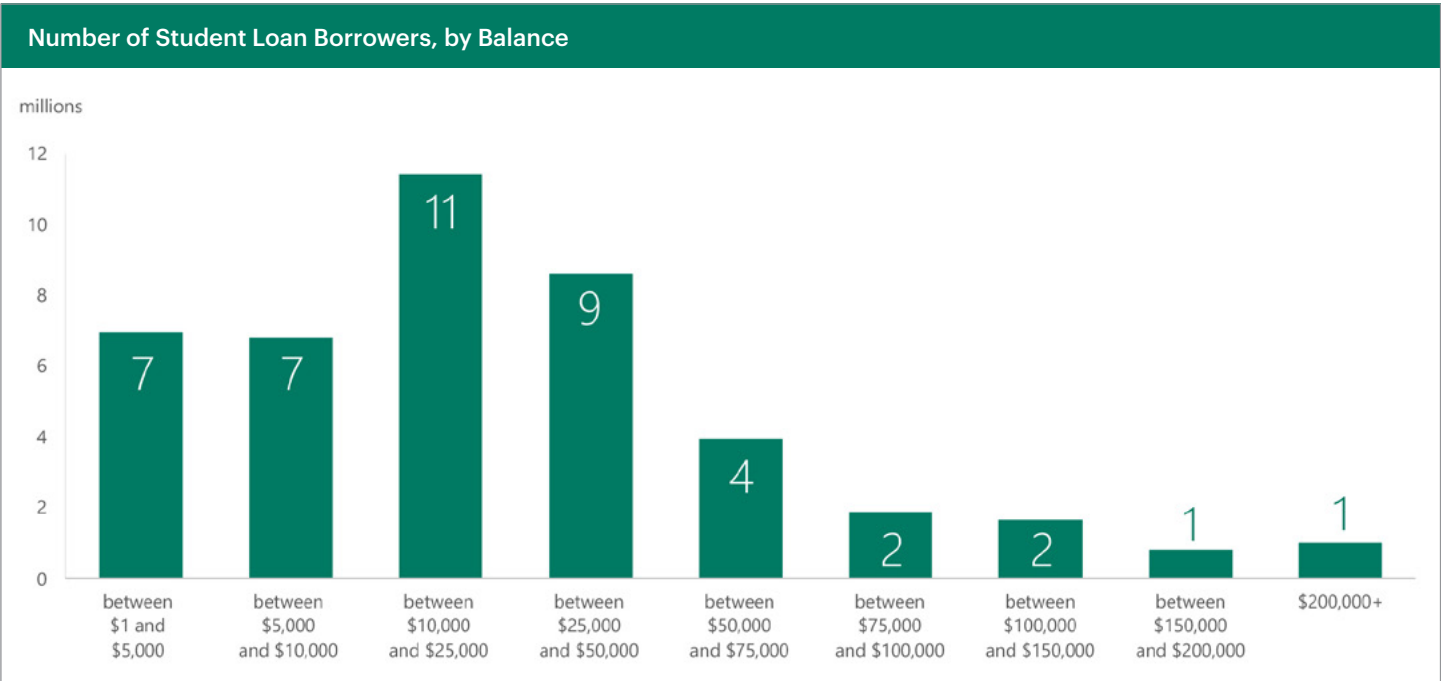
What this means **for 2026**

The restarting of federal student loan payments is a notable headwind for a sizable portion of US consumers, especially for middle and lower-income households.

Spark 2

Quantifying Student Loan Balances

What is the net balance of student loans at the moment? As shown in this chart, about 11 million households have a student loan balance between \$10,000 and \$25,000, and 9 million households have a balance in the \$25,000 to \$50,000 range. At the higher end of the spectrum, a million borrowers owe more than \$200,000. In other words, these are not small groups or small amounts.



Sources: Federal Reserve Bank of New York Consumer Credit Panel/Equifax, Apollo Chief Economist, as of Q4 2024

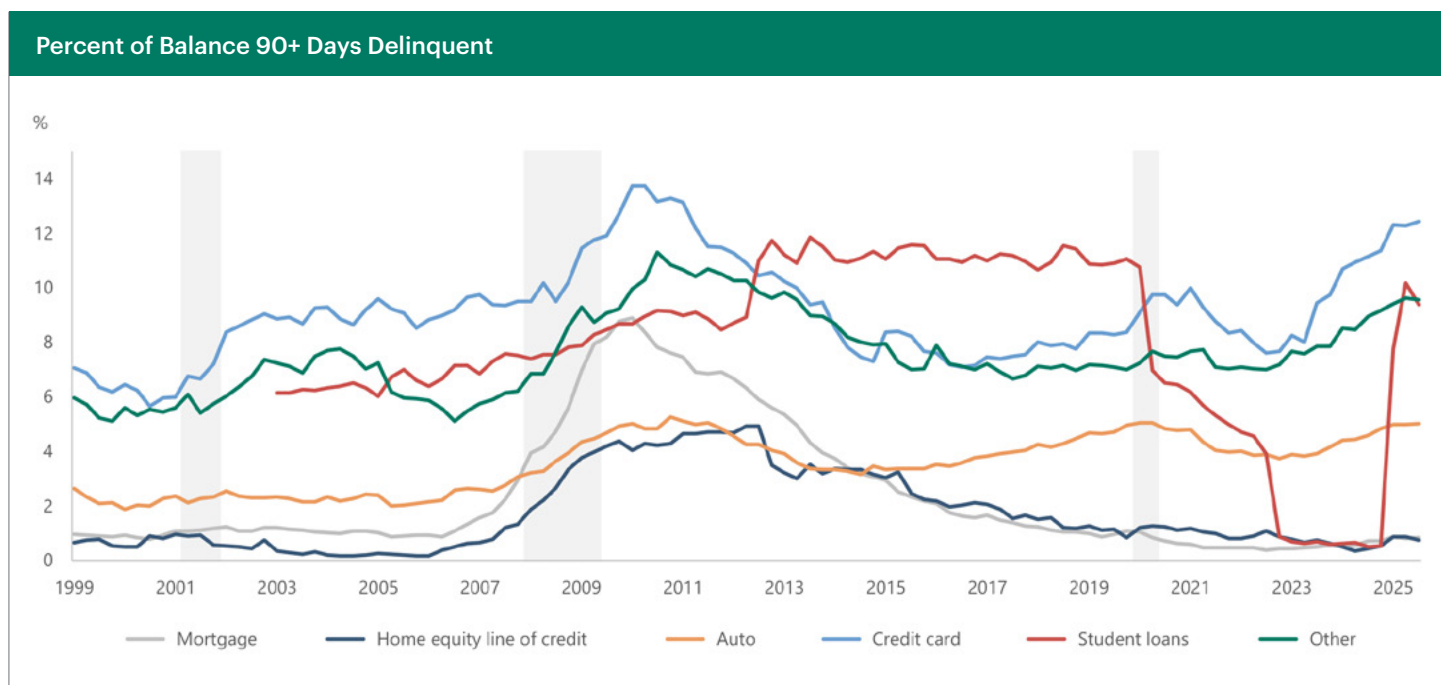
What this means **for 2026**

These loan balances are significant and broad reaching. Restarting payments on loans of this magnitude will have real consequences for household budgets and for the broader economy.

Spark 3

Delinquency Rates Rising for Student Loans

This chart shows what is happening with delinquency rates across different types of consumer credit categories. Following the red line reveals a notable jump in student loan delinquencies. But also note the light blue line (credit card delinquencies), which is also climbing. The same trend is happening with auto loans, represented by the orange line. Why? Because the US Federal Reserve started raising interest rates in 2022, and when interest rates go up, more people start falling behind on their payments. Note that credit card and auto loan delinquencies are in Global Financial Crisis-level territory.



Sources: Federal Reserve Bank of New York, Macrobond, Apollo Chief Economist

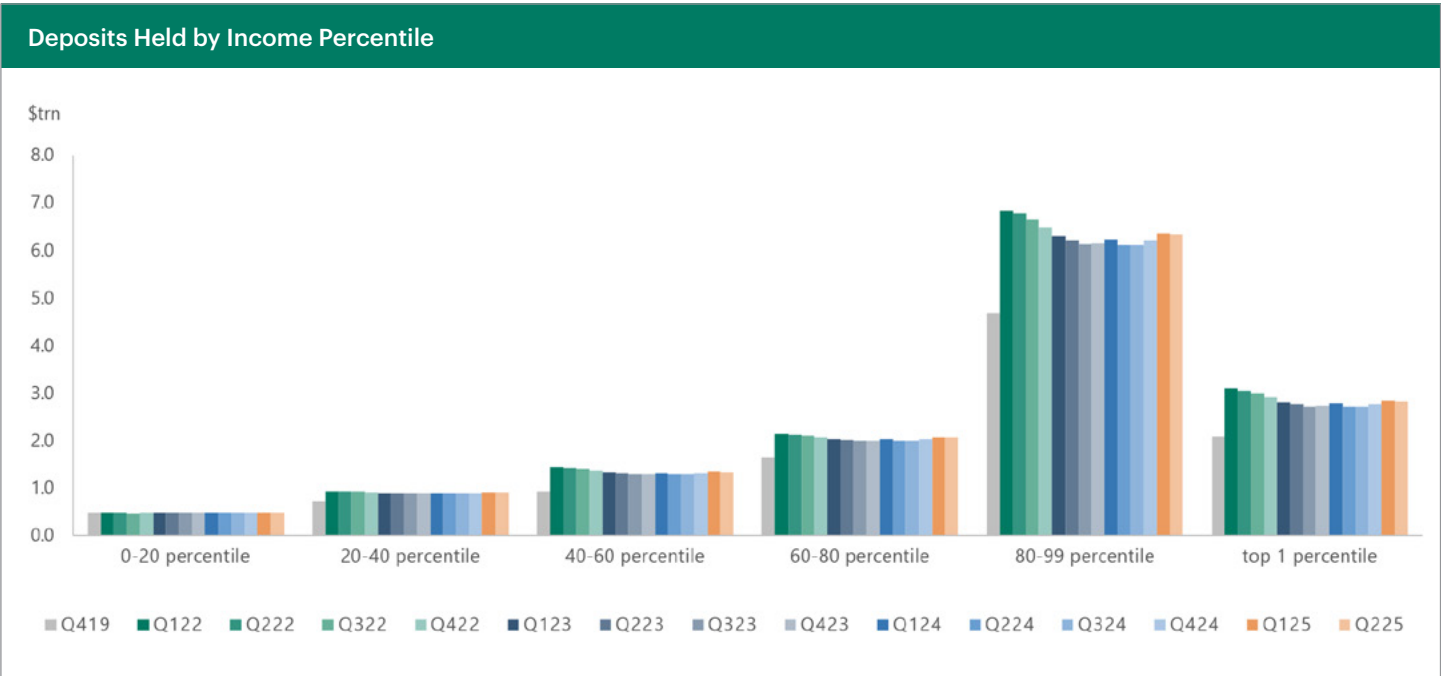
What this means **for 2026**

Even before student loan payments restarted, many consumers were already in distress, especially those with more debt, which tends to be lower-income households.

Spark 4

Savings Across Income Distribution

Savings levels are another important piece of this picture. This chart explores savings amounts across income levels, and it’s clear from this data that households in the lowest income bracket have not seen growth in their savings over the last six years. That’s in sharp contrast with what’s happening within the higher income levels, where there’s been a notable spike in savings relative to 2019.



Sources: Federal Reserve Board, Haver Analytics, Apollo Chief Economist

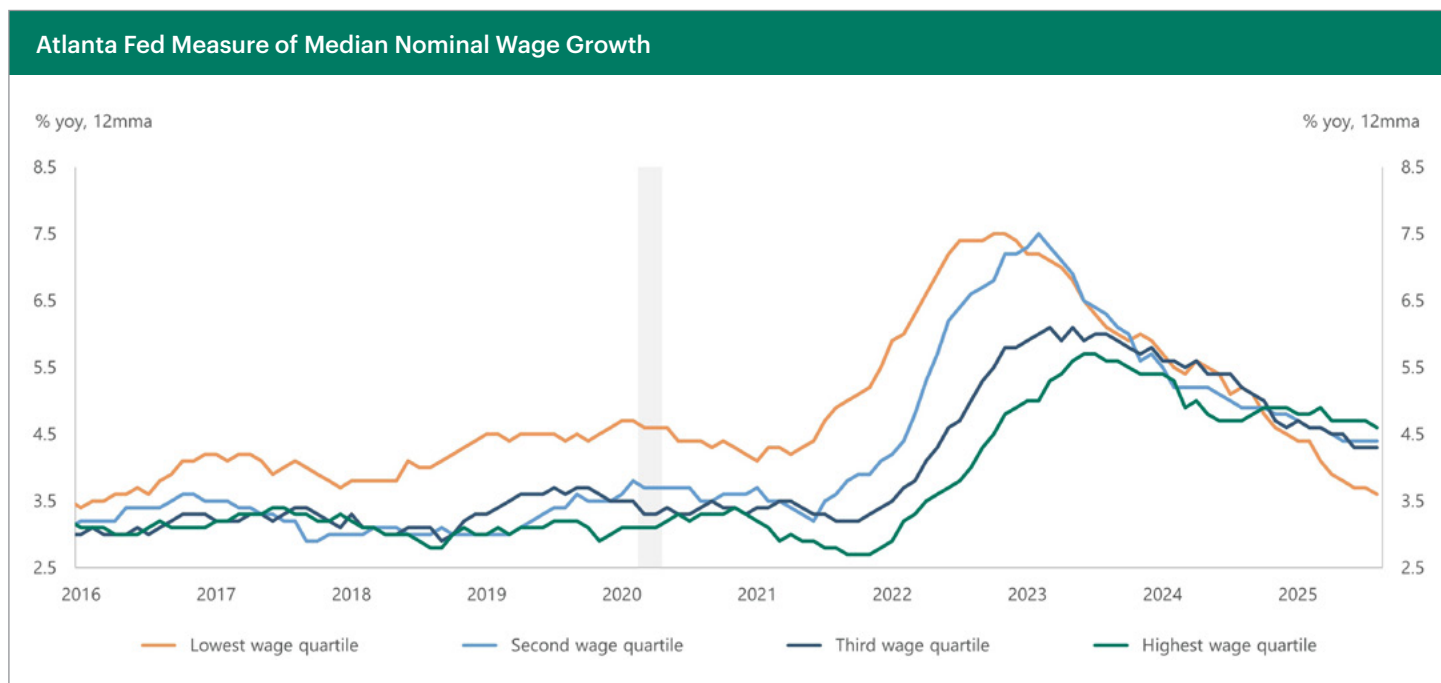
What this means for 2026

Higher-income consumers continue to gain ground and those on the other end of the spectrum fall further behind.

Spark 5

A K-Shaped Economy for Consumers

Now let's dig into another critical piece of the K-shaped economy story: changes in wage growth. This chart shows Atlanta Fed data for wage growth across income distribution. The orange line plots wage growth for low-income earners, while the green line shows wage growth for the highest-income earners. From 2016 to 2022, the lowest-wage earners were experiencing stronger wage growth than all other groups. But over the last two years, that trend has completely reversed. Today, the highest-income earners are experiencing stronger wage growth than everyone else. That's a remarkable shift, and a clear indication that we're in a K-shaped economy.



Sources: Federal Reserve Bank of Atlanta, Macrobond, Apollo Chief Economist

What this means **for 2026**

This bifurcated economy (where high-income consumers gain ground while others fall behind) is a clear trend. This dynamic can serve as a headwind for markets and a drag on overall growth.

Tailwinds

 Weekly Bankruptcy Filings Trending Down

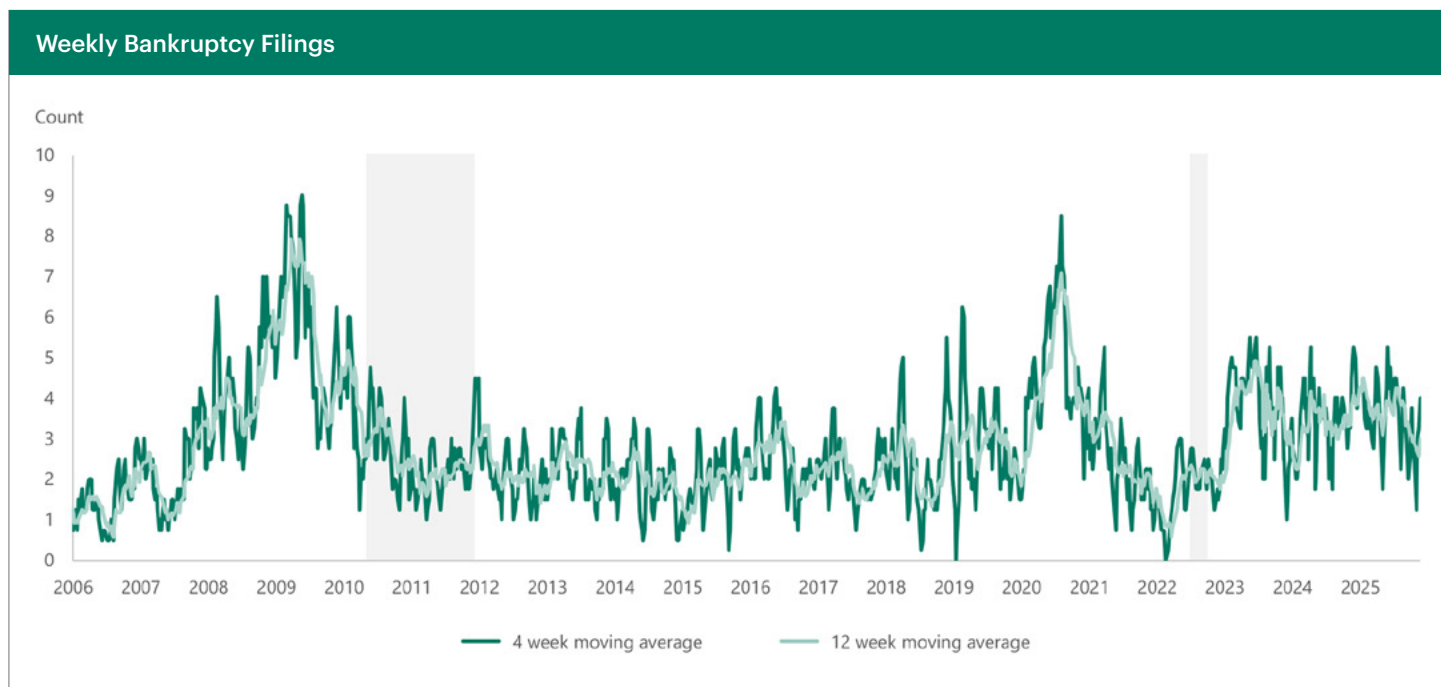
 The One Big Beautiful Bill Will Boost GDP Growth

 Strong Foreign Demand for US Assets After Liberation Day

Spark 6

Weekly Bankruptcy Filings Trending Down

This data measures weekly bankruptcy filings for companies with more than \$50 million in liabilities, and more recently, we've started to see an improvement in this metric with bankruptcy filings trending lower. This could be an indication that the turbulence observed in early 2025 because of the trade war may be declining.



Sources: Bloomberg, Apollo Chief Economist. Note: Filings are for companies with more than \$50 million in liabilities. Data as of the week ending November 20, 2025.

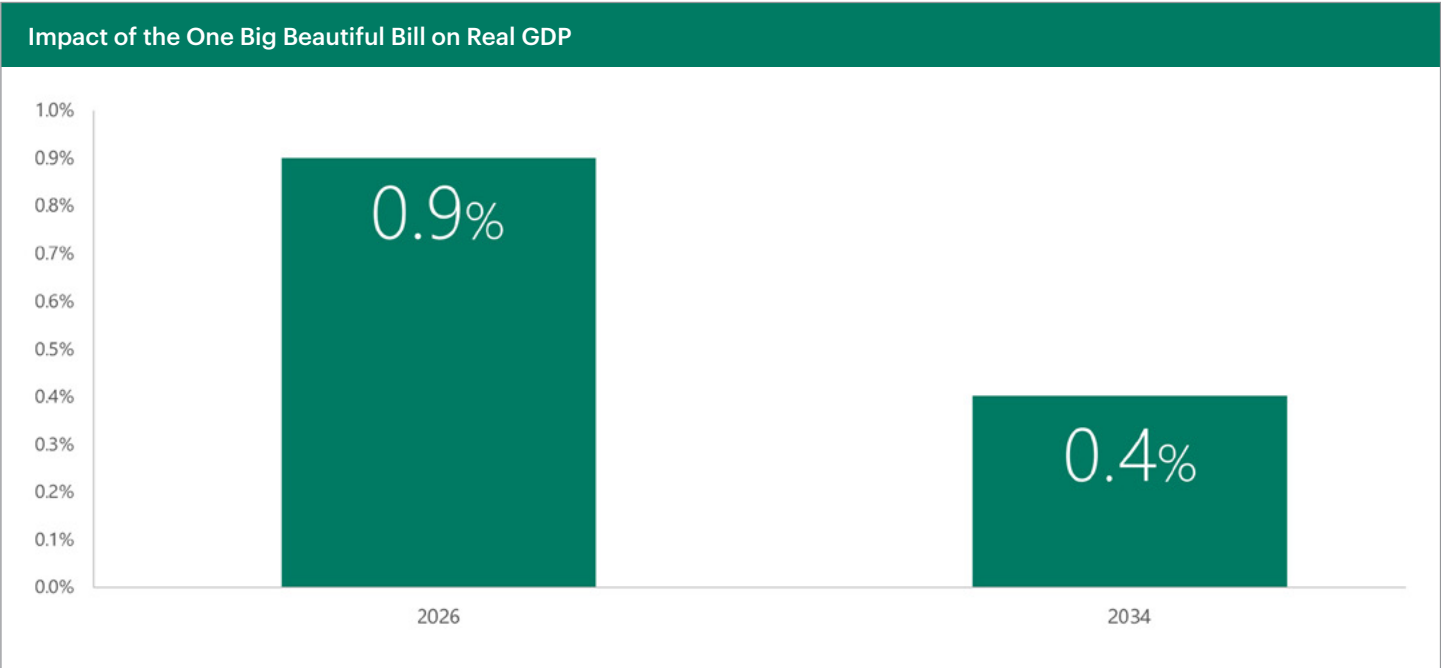
What this means **for 2026**

Larger companies appear to have found their footing after an uncertain start to 2025. This is an important signal of strength heading into the new year, with impacts for credit markets and the overall economy.

Spark 7

The One Big Beautiful Bill Will Boost GDP Growth

There is also an important tailwind coming from the One Big Beautiful Bill, which takes effect on January 1, 2026. The numbers in this chart come from the CBO, and their analysis indicates that we'll see a lift of 0.9% in GDP growth in 2026 from the legislation. One main factor driving that growth is that businesses can immediately deduct capital expenses, such as investments in equipment and R&D. This will likely be a boost for the economy in 2026 and beyond.



Sources: CBO, [H.R. 1, One Big Beautiful Bill Act](#), Apollo Chief Economist, as of December 2025

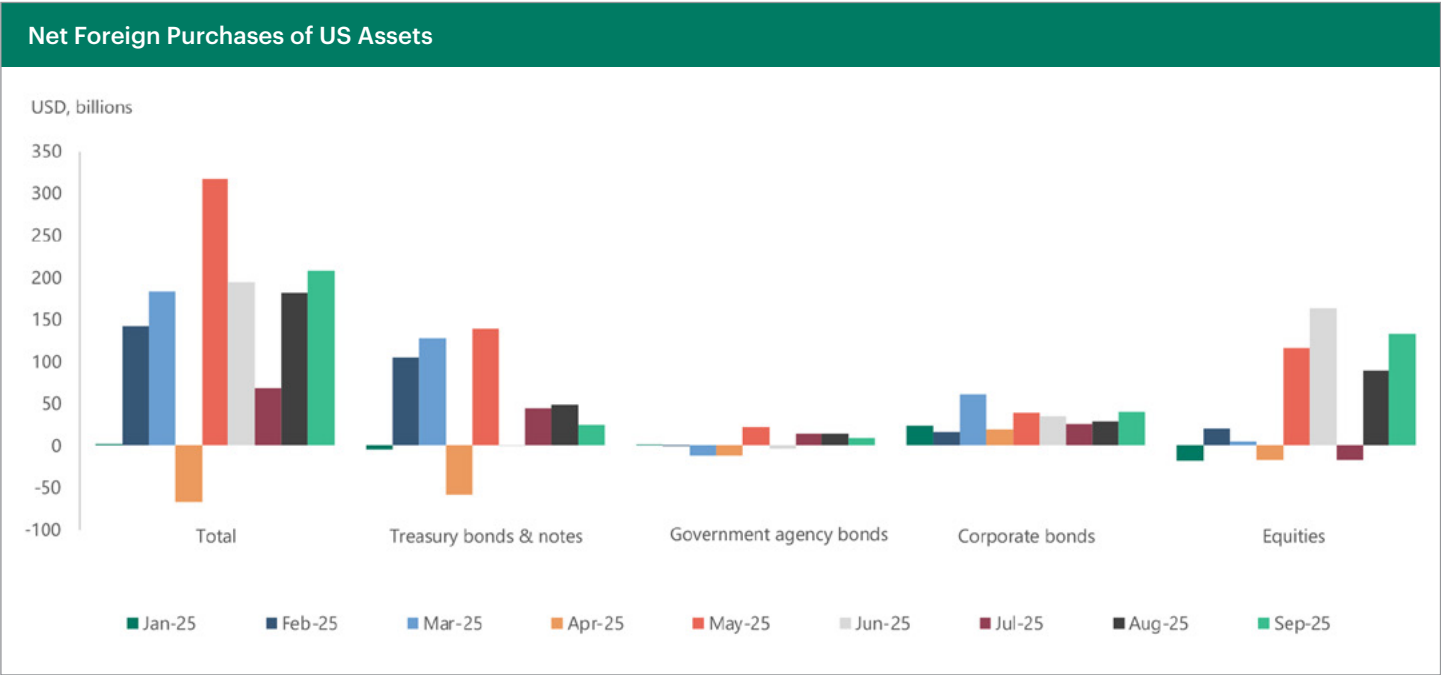
What this means **for 2026**

The One Big Beautiful Bill will likely be supportive of overall US growth, both in the near and long term.

Spark 8

Strong Foreign Demand for US Assets After Liberation Day

Another tailwind to the US 2026 outlook is the broader impact of the depreciating dollar. When the value of the dollar declines, exports rise, which is a boost to GDP. There’s also a broader impact on foreign demand. For instance, this chart explores what foreigners did in US financial markets in 2025. We can see that during the turbulence of Liberation Day, foreigners clearly sold US assets in April 2025. But since then, we’ve experienced a significant growth in appetite among foreigners for US Treasury bonds, equities and more. Why is this? Simply put, foreigners come to the US for two main reasons: to invest in the AI story (we’ll explore that more in the pages that follow) and for yield, because they get a higher level of yield in the US than they get elsewhere.



Sources: US Dept of Treasury, Macrobond, Apollo Chief Economist

What this means **for 2026**

As the AI story continues to unfold, expect continued foreign investment in US assets — which can provide another tailwind for growth in the year ahead.

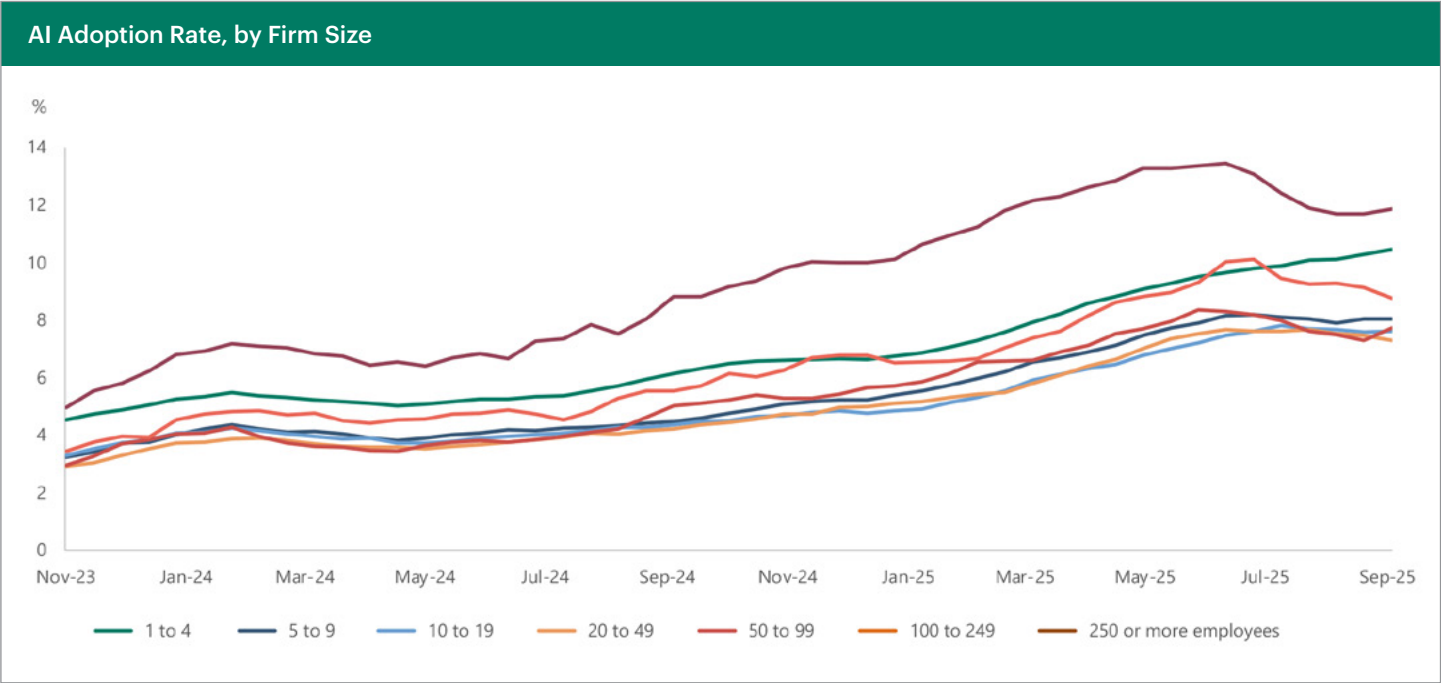
The AI Story

- AI Adoption Rates Starting to Flatten Out Across All Firm Sizes
 - Capex Share of Operating Cash Flow for Hyperscalers: 60%
 - Basically No Growth in Corporate Capex Outside of AI
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 - 2026 Earnings Expectations Revised Up for the Mag 7 & Down for Everyone Else
 - Slowdown in Growth in Data Center Construction
-

Spark 9

AI Adoption Rates Starting to Flatten Out Across All Firm Sizes

All things considered, we are still in the early days of implementing AI, and uncertainty remains high as we continue to examine the broader economic impacts of this technology. When it comes to AI adoption trends, we are starting to see some signs of cooling. For example, consider data from the US Census Bureau, which conducts a regular poll of businesses about their AI use. The scope of this research encompasses 1.2 million businesses across sizes, and by this metric AI adoption has moved sideways, as shown in the chart below. There’s some still growth occurring in some smaller businesses, represented by the green line, but the takeaway here is that AI growth among US businesses seems to be stabilizing.



Sources: US Census Bureau, Macrobond, Apollo Chief Economist. Note: Data is a six-survey moving average. The survey is conducted bi-weekly.

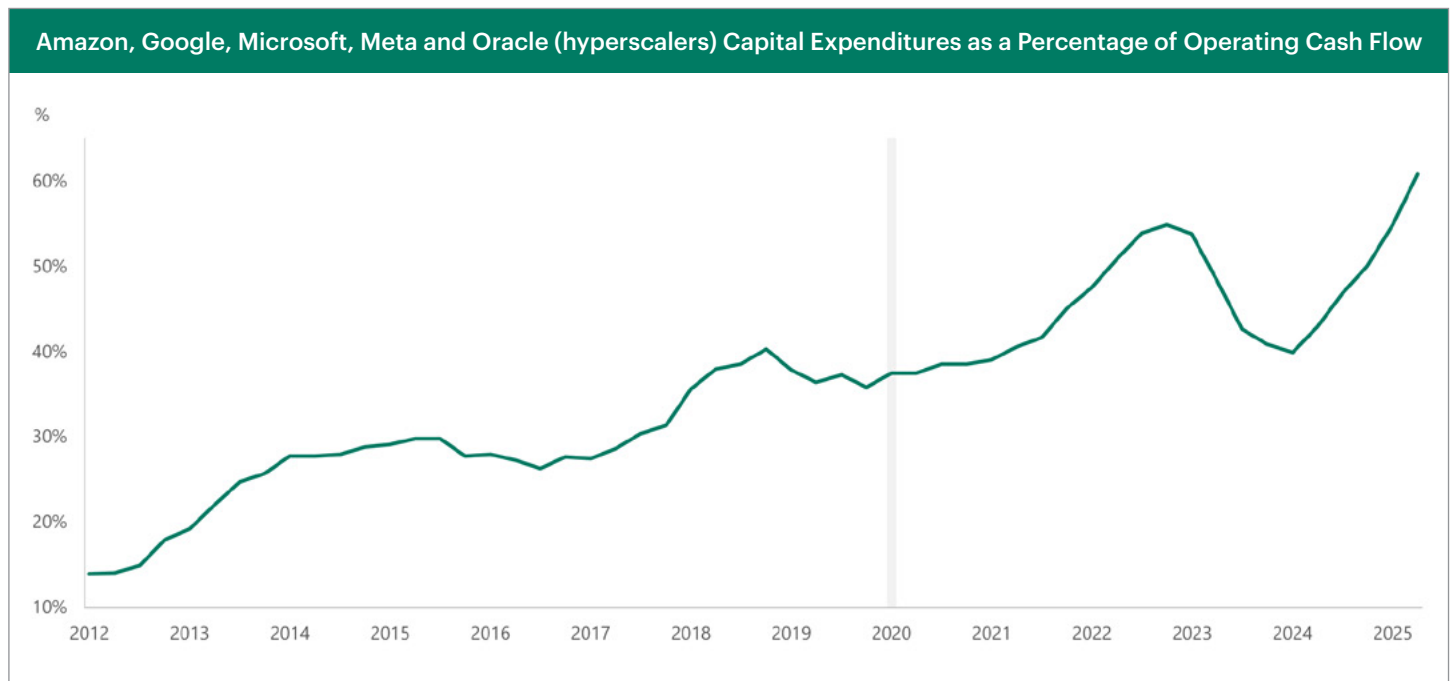
What this means **for 2026**

Growth is expected from AI and data centers in the year ahead, but uncertainty remains. We’ll be carefully monitoring for any signals of weakening AI demand.

Spark 10

Capex Share of Operating Cash Flow for Hyperscalers: 60%

Another way of telling the AI story is to look at the capital expenditures of hyperscalers as a percentage of their total operating cash flow. This chart shows that 60% of hyperscalers' operating cash flow is now dedicated to capex. This is the highest level ever.



Sources: Bloomberg, Apollo Chief Economist

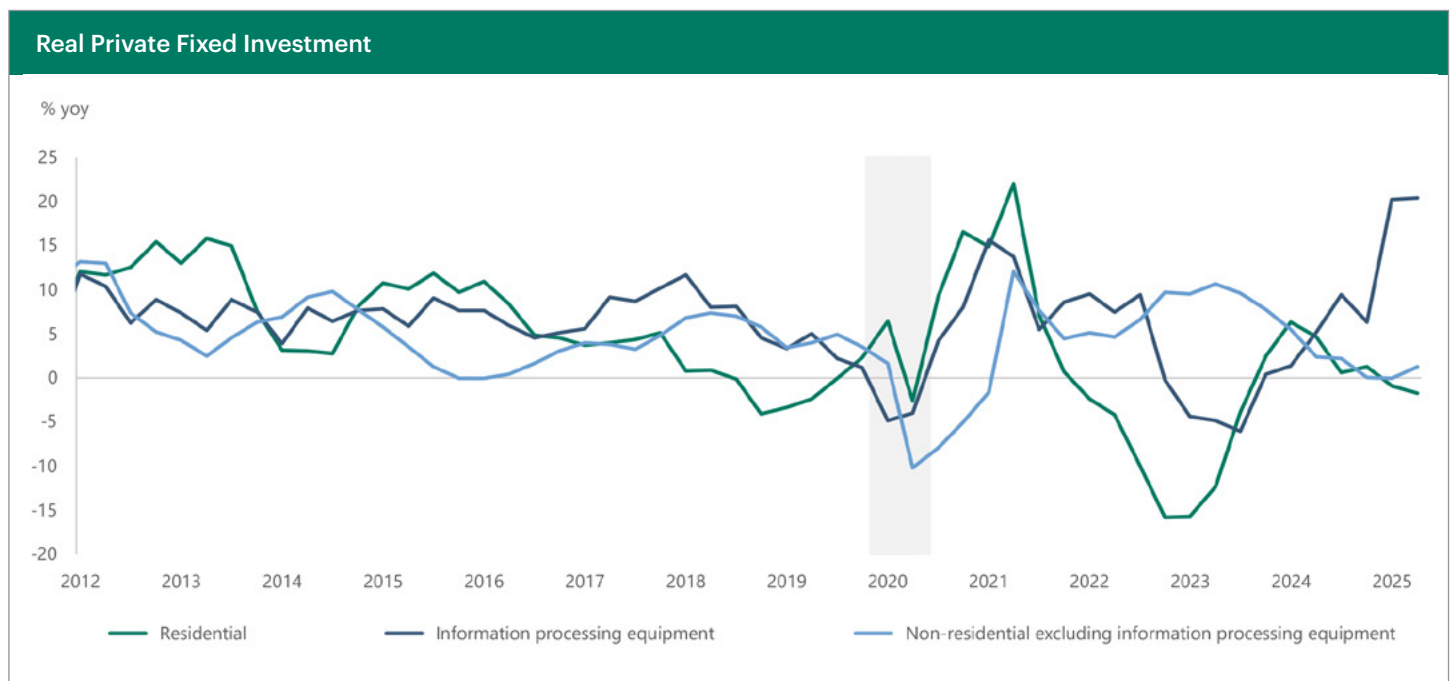
What this means **for 2026**

Hyperscalers' data center capital expenditures have reached historic levels, a signal that they may be extremely bullish on AI's future.

Spark 11

Basically No Growth in Corporate Capex Outside of AI

AI's dominance points to potential weakness in the broader macroeconomic picture. Take, for example, capex and business investment levels. This chart shows real private fixed investment, which is a different way of saying business investment. The dark blue line represents investment in information processing equipment including computers, data centers and software. Essentially, everything that has to do with AI. And not surprisingly, there's been strong growth there. Compare that with a light blue line, which is growth in non-AI business spending. That line is basically at zero, meaning there has been no growth in corporate capex outside of AI. The takeaway is that the broader US economy has become much more reliant on AI's performance, especially in the last year.



Sources: US Bureau of Economic Analysis (BEA), Macrobond, Apollo Chief Economist

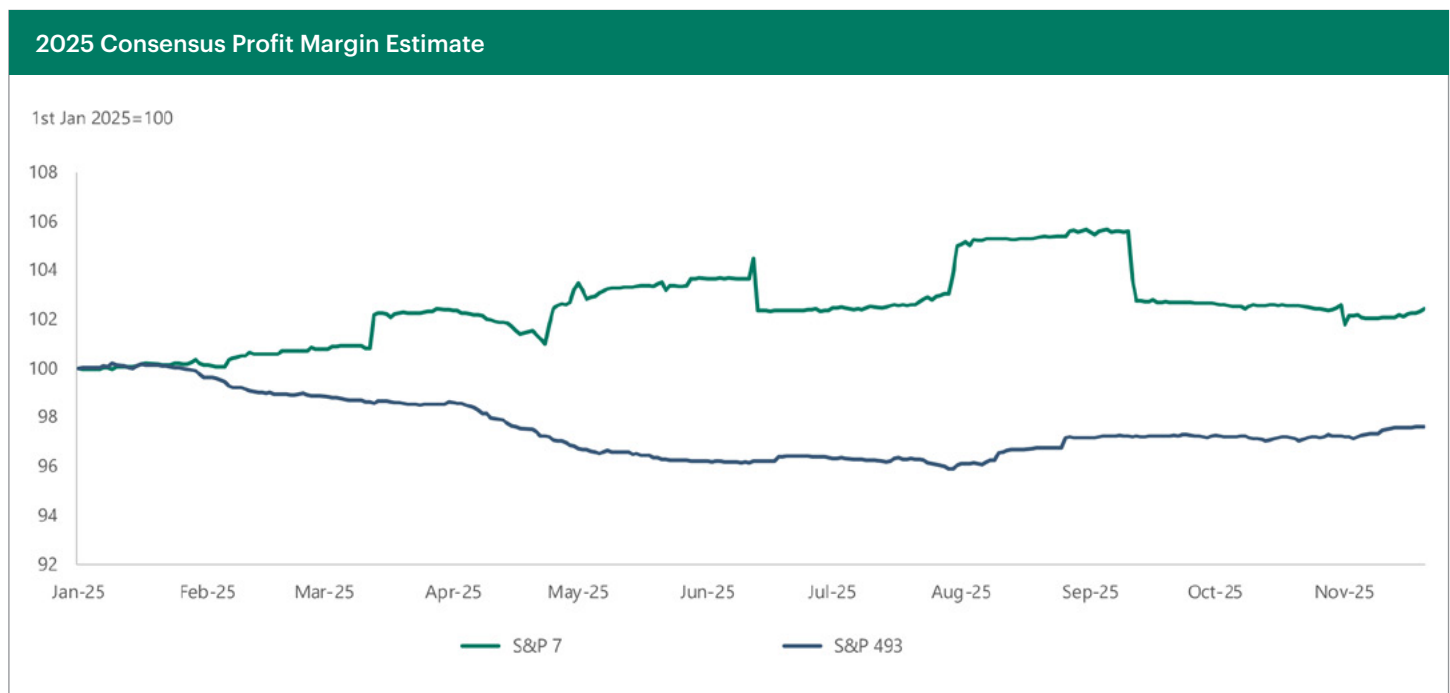
What this means **for 2026**

While we do believe that AI will continue to grow, if there was a slowdown in the space, we can expect that impact to be felt across the economy.

Spark 12

Profit Margins Rising for the S&P 7 and Declining for the S&P 493

Let's now further explore the impact of AI on the broader economy. Take, for example, the S&P 500, which historically has offered investors diversified exposure to different industries and sectors. But as we're all aware by this point, that's no longer the case. The S&P 500 is now being driven by the AI story, with the 10 biggest stocks now making up 41% of the index's market capitalization. From a performance point of view, we can see that profit margins for the Magnificent 7 have been revised up over the last year, whereas the opposite has happened in the S&P 493.



Sources: Bloomberg, Apollo Chief Economist

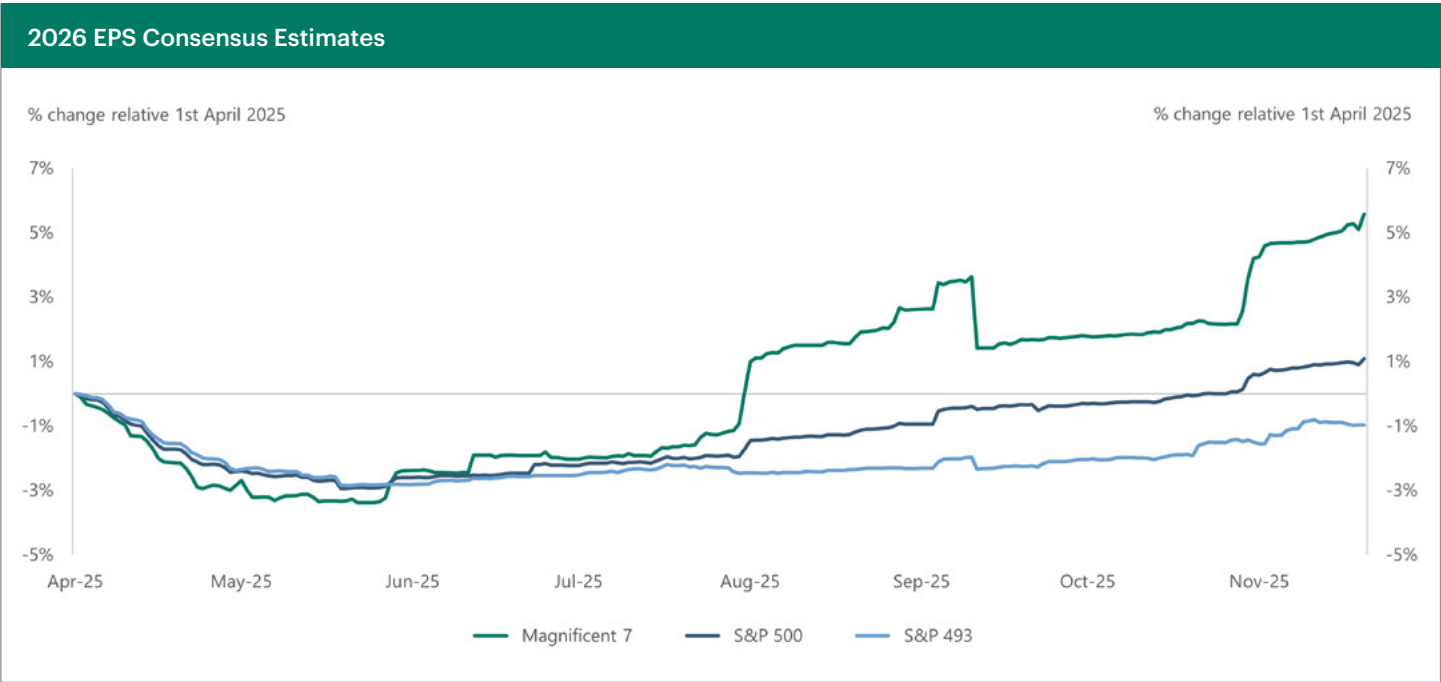
What this means **for 2026**

Investing in the S&P 500 today means largely investing in AI.
In other words, the index no longer offers the diversification it once did.

Spark 13

2026 Earnings Expectations Revised Up for the Magnificent 7 and Down for Everyone Else

It's the same story when it comes to earnings. Earnings projections for the year ahead show the Magnificent 7 clearly outperforming both the S&P 500 and the S&P 493.



Sources: Bloomberg, Apollo Chief Economist

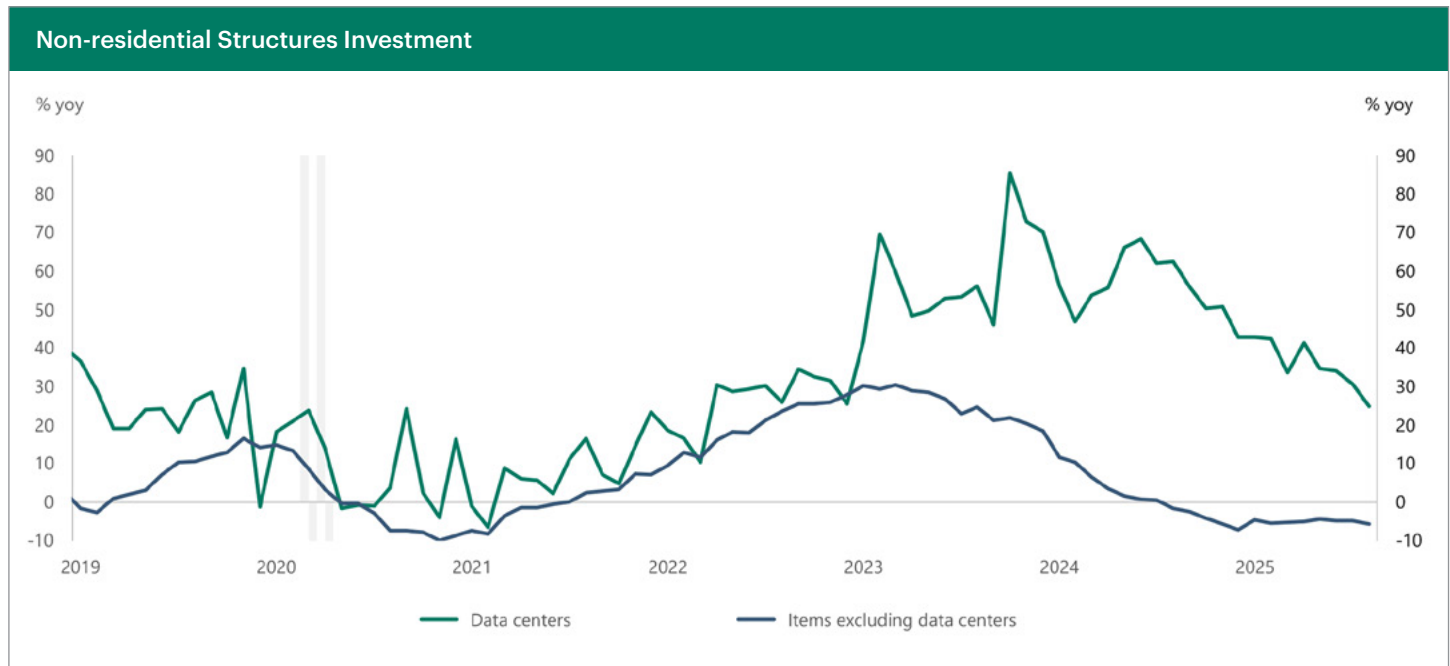
What this means **for 2026**

The forward-looking view of the consensus is that AI will continue to drive the performance of the S&P 500 in 2026.

Spark 14

Slowdown in Growth in Data Center Construction

Another way of looking at the AI story is through the investment levels in non-residential buildings. It's clear from this chart that the growth in data centers (the power hubs behind AI) has been very strong for years. That trend has admittedly declined, but the growth rate is still impressive, especially in comparison to the construction of all other types of buildings, which has slowed since 2023 and slipped into negative territory for all of 2025.



Sources: US Census Bureau, Macrobond, Apollo Chief Economist

What this means **for 2026**

If AI growth were to slow, it would have negative consequences not just for data centers, but also for stocks, consumers and beyond.

Key Takeaways

Investment Implications

Taken together, several important investment themes are coming into view as we embark on the new year:

- **The US Outlook for 2026 Is Consistent with a Stagflationary Environment**
Boosted by accelerating tailwinds, we are bullish on the medium-term outlook for the US economy. However, in the short term, slowing growth — driven by trade frictions, immigration restrictions and risks from a deepening K-shaped economy — combined with inflation stuck near 3% puts the US squarely in a stagflation environment. ***We can therefore expect higher-for-longer interest rates to remain, with direct implications for all rate-sensitive investment strategies.***
- **Recession Risk Remains Elevated, and Earnings Vulnerability Is Rising**
Current pricing implies a 30% recession probability for the US in 2026. In a slowdown, non-AI-related equities (the S&P 493) face meaningful earnings risk. ***The combination of weakening growth and persistent inflation increases the likelihood of further market turbulence, requiring investors to be cautious as they position portfolios in 2026.***
- **AI Remains a Central Driver of the Macro Outlook**
The AI buildout has become the foundational pillar of US growth, driving capex investments, equity valuations and consumer wealth. While we expect the AI cycle to continue in 2026, any rollover would have material negative consequences for data center investment, the Magnificent 7 and broader consumer sentiment. ***We are therefore monitoring all dimensions of the AI story extremely closely.***
- **A Rare and Significant Divergence Between the US and Europe Is Emerging**
The consensus expects US inflation to remain elevated because of ongoing tariffs. Europe faces none of these trade frictions and therefore will likely see inflation and interest rates fall in 2026. ***This divergence is unusual and increasingly relevant for global asset allocations.***

Key Risks to Monitor

Additionally, some of the top risks we're closely tracking include:

- The US economy re-accelerating because of the fading trade war shock and the One Big Beautiful Bill, prompting inflation to move even higher.
- The global industrial renaissance boosting global growth with more countries focusing on homeshoring advanced manufacturing capacity, infrastructure investment, energy, defense and supply chains.
- The new Fed Chair lowering interest rates for political reasons.
- A rollover in AI forcing a correction of the Magnificent 7's equity prices, leading to a slowdown in capex and high-end consumer spending.
- An increase in the supply of fixed income (stemming from growing government deficits and hyperscaler issuance), putting upward pressure on rates and credit spreads.



Torsten Slok, PhD
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Torsten Slok joined Apollo in August 2020 as Chief Economist, and he leads Apollo's macroeconomic and market analysis across the platform. He is also an Apollo Partner.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist at Deutsche Bank where his team was top ranked in the annual Institutional Investor survey for a decade. Prior to joining Deutsche Bank, Mr. Slok worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a PhD in Economics and has studied at the University of Copenhagen and Princeton University.

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