Research @ Citi Podcast Markets Edition: Where Is Consensus for 2026 and What to Do About It?

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Host: Dirk Willer, Global Head of Macro Strategy and Asset Allocation, Citi

Guest: Alex Saunders, Head of Global Quant Macro Strategy, Citi

Transcript:

Opening Teaser: (00:00)

Research @ Citi Markets Edition.

Dirk Willer (00:04)

Welcome to Research @ Citi Markets Edition, where we break down global macro in 10 minutes or less. I'm your host, Dirk Willer, Citi's Global Head of Macro, and with me today is Alex Saunders, our Quant Macro Head. Welcome to the show, Alex.

Alex Saunders (00:16)

Thanks, Dirk.

Dirk Willer (00:18)

We are recording this podcast at 9 a.m. on Monday, Jan. 12, 2026.

It's early January, which is a time when investors put money to work in line with their views for the year to come. Usually, a large part of that money goes into consensus trades, which therefore initially do quite well before often eventually having a setback.

It's therefore very important to know what consensus is. Not so much because investors are supposed to lean against it — they're actually supposed to go with it. But between now and end of January or end of March, often those consensus views get tested.

So let me start on where we are entering this year. And initially, let's talk about the U.S. economy. Consensus has U.S. growth running a little bit north of 2%, and Citi economists largely agree, sitting at 2.2% for 2026 for the U.S.

Inflation, they're a bit lower than consensus: Consensus has CPI closer to 3%, while Citi has it moving towards the Fed's target. This is partly on housing, but also on an expectation of weakness in labor markets that they think will continue. This is partly but not only due to AI.

This also results in more Fed cuts than consensus, where Citi comes in at three cuts to 3%, while consensus hits 3.2%. This is the result of benign inflation and a weakish labor market. The new Fed chair is not necessarily the key driver for this call. We don't think that Lisa Cook will lose her seat, and it's unclear if a new Fed chair can swing the board to aggressive cuts unless the data requires it.

What is likely, though, is that a new Fed chair may stay further behind the curve, if hikes were ever required later. The lower Fed funds means that our U.S. Treasury forecast is at 3.75%, very below the median consensus, which has it roughly unchanged at 4.1%. Our rates strategists are looking for a steeper curve focused on 5.30s, especially later in the year when the coupons will have to be increased, probably in the November refunding.

Overall, this economic outlook is quite risk-friendly and it's therefore not surprising that consensus on equities is quite strong. For the S&P, the consensus forecast is coming in at 7,464. It's a roughly 7% upside. Our Citi strategists are sitting at 7,700, so low double-digital returns.

So we are more bullish than consensus. Why is that the case? Well, we have lower rates than consensus, without lower growth.

In macro strategy, we do think that we are in a bubble in the U.S. equity market, but we don't see it peaking yet, given liquidity, given sentiment not being overly stretched, and the last part of the bubble can be really quite lucrative.

We are also still overweight tech. Recently investors fell a little bit out of love with tech. We are not convinced, though. In the past, the leader in the bubble stayed the leader to the bitter end. Diversification can be helpful, of course, but most helpful when the bubble is done and when we are rotating out of tech. So at this stage, yes, there is likely some broadening, but we stay engaged in tech as well.

Alex, talk us through consensus on the other asset classes and where we are sitting.

Alex Saunders (03:25)

Thanks Dirk. Yeah, so consensus on gold is yet again bearish, as it normally is. Going into this year our commodities team has also been bearish, but they have emphasized the need to adjust tactically, really all throughout last year as well. So gold in particular has been a good trade from the long side for the global macro team last year. We've been neutral since October. ETF flows at least as of last week had been bearish and that's kept us on the sidelines, but policy and geopolitical uncertainty are really key supports for that trade and the rally that we've seen in gold. We've had plenty of that to start the year and obviously that's supportive of the trade.

Moving to copper, consensus forecasts are also bearish there. This is our preferred long commodity expression. Base metals tend to do well when you see an upswing, when you have global economic momentum strong, and Citi indicators are currently pointing that way. I would note on copper and base metals that despite the sort of gloomy sell-side forecasts, our work on asset-manager positionings shows also a long bias there.

FX is a tricky market. Now, since 2019, euro-dollar forecasts from a consensus of sales side have generally been positive. And again, going back to the work on asset managers, they've been overweight euro for most of last year.

Our FX team takes the other side of that based on three factors.

The first one, which you alluded to as well Dirk, is U.S. growth. Fiscal support from tax-policy change is coming, not yet in the price. In Europe, good news already priced in from the fiscal side and AI, which is really a non-Europe-centric technology at the moment.

On the global macro team, we see the year in three thirds. So that prevents me from giving the classic sports analogies, unless you're an ice hockey fan. But the first third being that labor-market weakness and the Fed easing that you spoke on the top of the call, Dirk, will weigh on the dollar. Probably early in the year, before we get those cyclical tailwinds that I just discussed from our FX strategy team, which would kick in.

And then again, Dirk, you mentioned at the top of the call, but term premia could rise into year end. That's what our rates-strategy team is thinking. Coupon issuance may have to be increased at that time. That historically has weighed on the broad dollar.

So Dirk, what about EM? What's the consensus there and how do you see it?

Dirk Willer (05:54)

Yeah, thanks Alex. So in EM, I think the preferred asset class for consensus is EMFX, the high yielders and EMFX. And we do agree with that. We also like EM carry baskets and think that can continue for longer.

The enemy of EM carry are really volatility spikes, which are very hard to forecast. We have a methodology where we get out when the volatility starts to spike, but it's usually not a good idea to front-run these type of events.

So yes, consensus and Citi likes EM carry, and we don't fund it in dollars, but across some Asian currency So, we are not quite as sensitive to the big dollar call here.

The second consensus still seems to be the frontier. Our CEEMEA team also has a trade in Egypt. So we are part of that, I would say.

In local rates, investors are still long. We're a bit more skeptical. And that's because a lot of central banks are really getting stuck in the easing cycles, and that usually means the easy rates trade is behind us. There are of course exceptions, and there is Brazil, which hasn't even started yet, and so forth. But broadly speaking, rates are a bit trickier than last year.

And then in credit, the consensus seems to be sort of down on the credit curve: your Ukraines, your Argentinas, your Venezuelas and so forth. And our EM credit team also has some of those type of trades. So broadly speaking, I think consensus bullish EM, but this year more focused on EMFX rather than EM rates.

Alex, how does consensus fit in with your regime work?

Alex Saunders (07:25)

Yeah, I feel the regime work has been quite boring for the last year, but broadly correct. And it's in line at the moment, with a sort of run-it-hot environment, so we classify that as normal. It means that stocks tend to outperform bonds, it means that commodities tend to do quite well.

The details are quite interesting, so in line with our commodities team, the model is overweight in both gold and base metals. In equity land, European equities for that cyclical factor at the top overweight. In rates, U.S. and Japanese bonds are long-time underweights and the UK is the top preferred market.

And despite the volatility that we saw last year, as I mentioned there, that regime has broadly been the correct one. The overweights in equities and bonds are making up the lion's share of return contribution, but the financing side, the underweight that we had in rates and credits were detracting, very little to nothing at all.

The other point to make is that, in some sense, the asset-manager consensus is in line with that as well. There is definitely a bias toward equities. There are consensus shorts in Japan and the U.S. I would say Europe is not the most loved market. And I had already mentioned earlier that base metals overweight is somewhat consensus as well.

So Dirk, what themes are we positioning for?

Dirk Willer (08:43)

We already mentioned some of them on the top of the call. So we still like the AI theme. So we like the Nasdaq, as we do think those type of stocks will continue to deliver, including the shovel providers, even though cyclicals will do well too.

There is an election theme, with the U.S. of course being the most important one: the midterms. Usually the midterms are not overly equity bullish. And maybe that's especially the case if the administration should start to focus on affordability, i.e. more Main Street rather than Wall Street. But historically, that has not led to much downside early in those mid-election years.

We have a theme which is based on the global expansion — the robust global expansion, really. And that's being long the base metals, which I already mentioned. They said bank divergence as a theme. I don't think it's as clear-cut anymore that you can receive most countries. You have to be more in relative-value space.

So we think Sweden is a better idea than Norway or to receive Canada, better idea than Australia, and so forth. And the Canada trade also has a trade angle because USMCA will be renegotiated and Canada is probably unlikely to hike before then.

And there's a theme of fiscal deterioration that's a global theme. It includes the fallout from the Japanese election. It includes maybe the U.S. end of the midterms, but also in Europe, where France is really quite unlikely to quickly get its fiscal house in order, while the UK is looking a bit better in terms of supply. So, we favor the back end in the UK or France.

And there is, of course, the theme of the new Fed chair. Again, it's not so much the case maybe that the Fed chair can just easily, aggressively cut interest rates. It's more that it could be slower to react if there were hikes necessary. So that's something to be watched as the year progresses.

Alex, anything else from your side?

Alex Saunders (10:35)

Yeah, I'll mention just a couple of things. And one is an outshoot really of our regime work. So if we do get that cyclical upswing, we could move into an economic regime that we classify as sort of a recovery mode. In that regime, dollar correlations tend to fall. So as you had mentioned, Dirk, we like EM trades — so that for investors that can, you can take advantage of that potential decline in dollar correlations with high carry vs. low-carry currencies.

The second one is on AI power demand. So we think that data-center demand could crowd out the power that's needed for aluminum smelting, and aluminum demand is particularly likely to be strong from China. So digital and AI infrastructure is a strategic priority. That's one that our commodities team likes.

Another theme we like is long equity vs. credit. So we think that the next stage of AI expansion could be debt-led. That may lead to some pressure on credit. If we do get a significant downturn, we think that credit on a risk-adjusted basis is just as exposed as equities, but with much less exposure to the upside that you will get from an AI productivity boom.

So that's it from my side.

Dirk Willer (11:50)

Thank you, Alex.

So overall, consensus bullish on growth and risky assets, in particular equities; bullish on commodities ex-oil; and emerging markets. Citi broadly agrees that we know consensus is often right early in the year before potential pullback by the end of Q1. I would also say, though, that at Citi, our analysts are more bullish on U.S. rates and we are more positive on U.S. Tech, and prefer to hedge some of our equity risk with credit.

Lastly, we are also somewhat more bullish the big dollar, but do like EMFX.

Thank you for joining us for today. This episode was recorded on Jan. 12, 2026, and I'm your host, Dirk Willer. For more details, Citi clients can check out our report on Citi Velocity. If you enjoyed the podcast, please leave us a review on your favorite podcast platform.

Next week's Research @ Citi Markets Edition will be hosted by Scott Chronert, Citi's Head of U.S. Equity Strategy. And be sure to watch out for Research @ Citi podcasts, which you can view on the same channel. The macro strategy team will be back in two weeks. Stay sharp!

Disclaimer (12:55)