



# MARKET UPDATE

## Economic Market Update – 2026 Outlook

January 2026

- 2026 will be a year of digestion after the policy shocks of 2025; the backdrop shifts from constant rule changes to private sector adaptation – the environment will still be windy, but more navigable.
- Our Base Case Macro Scenario: Modest but sturdy growth with sticky inflation early, followed by moderation later in the year; the Fed is more likely to deliver another “insurance cut” (or two) to protect a fragile, low-hire/low-fire labor market than to wait for perfect inflation victory.
- Equities: We remain constructive because the AI capex supercycle is real, but markets are priced for near-perfection (high valuations + concentration), making diversification (style, size, geography) a core risk-management tool – not a tactical afterthought.
- Fixed Income: Higher yields restore bonds as a “get paid and diversify” asset, but Treasury supply/structural deficits keep duration risk relevant; we prefer being paid to take compensated risk (select credit/securitized) rather than sitting in cash.

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**Oasis, one of my all-time favorite bands, improbably returned to the stage in 2025 after a long hiatus, and it feels like one of those rare moments when time folds in on itself - when something you thought belonged to a different chapter suddenly becomes current again.** A reunion tour is nostalgia, sure. But it's also a reminder that the things that matter most in any era don't actually retire. They just go quiet for a while, then return with the volume turned back up. That's the inspiration behind this year's outlook.

Markets can have their own reunion tours of sorts. Old arguments come back wearing new costumes: soft landing versus hard landing, "higher for longer" versus "cuts are coming," concentration versus breadth, risk-on environment versus recession scare. Every cycle brings new headlines, but the underlying themes repeat. Expectations run ahead of reality, reality catches up, and investors are left to decide whether to chase the crowd or stick with a plan. Oasis' catalog has always been a soundtrack for that kind of environment - equal parts defiant and self-aware. Their lyrics are full of big statements delivered with a wink: certainty that's one bad week away from doubt; optimism that doesn't pretend the road is straight; resilience that isn't sentimental. That's a surprisingly good lens for thinking about 2026, a year likely to be defined less by a single clean narrative and more by a series of noisy, overlapping ones.

So throughout this outlook, you'll see short lines from Oasis songs. The goal isn't to turn economics into karaoke. It's to acknowledge something investors know intuitively - markets are not just math. They are stories, expectations, psychology, and time horizons colliding in public. We can't control the setlist the economy hands us in 2026. But we can control how we show up: with a process, with perspective, and with the humility to admit what we don't know without letting that uncertainty paralyze decision making.

Consider this outlook your backstage pass; a tour through the big macroeconomic forces shaping growth, inflation, and interest rates, what those forces could mean for markets, the risks worth watching, and, most importantly, the portfolio principles that can carry you through the inevitable noise. And if a few Oasis lines help us keep the tone right, then they're doing exactly what great music always does: helping us make sense of the moment we're living in.

## **2026 Outlook: "And All The Roads We Have To Walk Are Winding"**

- Oasis, "Wonderwall" (1995)

**Market participants just lived through a policy experiment in real time. 2025 wasn't simply volatile; it brought about significant structural changes that will have long lasting effects on the global economy.**

The rules changed quickly, loudly, and publicly. Tariffs were not merely discussed as a theoretical tool, as they were on the campaign trail the previous year; they were implemented and adjusted on the fly. Fiscal policy rewired the trajectory of deficits and Treasury supply. And while parts of the real economy absorbed those shocks like a body absorbing a punch, parts of corporate America responded with something closer to adrenaline.

If 2025 taught investors anything, it's that markets don't need the world to be calm in order to go up. They just need the world to be less bad than feared and for cash flows to keep arriving on schedule. As the global economy turns the page on 2026 - a year defined by the fast and furious implementation of transformative public policies and the initial shockwaves of a new trade regime - investors find themselves at a pivotal juncture. The macroeconomic landscape has shifted from the acute volatility of policy shocks to a period of digestion and adaptation. The Liberation Day tariff announcements and the passage of the One Big Beautiful Bill Act (OBBA) have fundamentally reset the fiscal and trade architecture of the United States, creating a complex backdrop of sticky inflation, moderated growth, and a labor market that has settled into a low-hire/low-fire equilibrium. By year end, the narrative had shifted decisively toward artificial intelligence - not as a futuristic concept, but as a very real capex cycle pulling forward demand, loosening financial conditions, and concentrating the AI market into a smaller and smaller set of companies.

The defining feature of the coming year is not a new set of policy surprises. It is the lingering aftertaste of the old ones. The economy is moving from shock to digestion. From uncertainty to adaptation. From improvisation to something that begins to resemble a playbook. Our base case for the economy in 2026 is built around that simple idea - we are emerging from a period of policy uncertainty, and the private sector is starting to operate with a more discernible set of constraints. That does not mean the constraints are friendly. But it does mean they are at least visible. Visibility matters because businesses can plan around known headwinds. They struggle when the wind changes direction every week. And this visibility extends beyond pure economic policy. The recent events in Venezuela serve as a stark reminder that we currently live in an era of heightened geopolitical risk and uncertainty; while the details can surprise,

we have the ability to recognize and anticipate the theme. 2026 will almost certainly bring more geopolitical surprises – but recognizing that geopolitical events rarely alter the long-term trajectory of the market is valuable. Knowing the rules of the game as it will be played going forward provides for more stability than an environment where the rules seem to change with every turn.

In that environment, we see sturdy but differentiated global growth taking hold. The United States remains the global economic growth engine, supported by a consumer that bends but does not break and by a secular investment boom in artificial intelligence that continues to pull capital forward from the future into the present. But this resilience comes with a catch that markets have a habit of ignoring – until they don't. Financial assets are priced as if the macro backdrop is not merely “fine,” but close to flawless. Equity valuations sit in rarefied air and credit spreads imply a world where risk is mostly theoretical. When markets run well ahead of the macro, the job of an investment professional isn't to predict the future with perfect precision. It's to survive the gap between expectations and reality.

That gap is the central tension entering 2026. The real economy has been living with stagnant job momentum while corporate boardrooms have been living with animal spirits. A labor market that isn't firing people but also isn't hiring them creates a strange kind of fragility: it can look stable right up until it isn't. Meanwhile, a corporate sector that feels compelled to spend aggressively on AI because it fears being left behind can keep growth afloat, but it can also concentrate market leadership and inflate expectations.

Our strategic posture for 2026 reflects that tension. If we had to pick a single word to define the current cycle, it would be resilient. The key question from here is if that resiliency can continue. Sturdy global growth and non-recessionary Fed cuts can extend the cycle and support equities, but current valuation levels increase the likelihood that upside comes with the potential for higher volatility. The current market resilience is priced for perfection, with U.S. equity valuations in the 93rd percentile and credit spreads in the 86th percentile relative to history, suggesting financial markets may be running well ahead of the macroeconomic environment. The tension between a stagnant jobs environment in the real economy and the proverbial “animal spirits” in corporate boardrooms creates a fragility that demands rigorous risk management. We remain constructive on U.S. equities because the AI capex supercycle is real and because operating leverage is returning, but diversification remains key in a market with so much concentration at the top. At the same time, we treat duration risk with respect in a world where Treasury supply is heavy, and deficits are now structural. We look for opportunity outside the United States where reform and restructuring are creating their own engines of return. The common thread is simple – we want exposure to the few places where fundamentals are improving faster than expectations.

## **The Anatomy of a Policy Shock: “Need A Little Time To Wake Up”**

– Oasis, “Morning Glory” (1995)

**To understand the trajectory for 2026, one must first dissect the structural breaks that occurred in 2025.** It wasn't another year of disinflation, with the rate of price increases slowly but steadily moving down towards the Fed's target rate. It was the year the immaculate disinflation narrative met reality. The reality was slower growth paired with sticky inflation, driven by supply-side frictions that are harder to fix with a rate cut. The defining event was the “Liberation Day” tariff shock. Protectionism, when it becomes policy rather than rhetoric, acts like an immediate speed brake. We don't need a complicated econometric model to see why. Tariffs raise input costs, disrupt supply chains, and force businesses to rethink procurement decisions that were optimized for the old regime. Labor demand responded quickly. Hiring volumes across the United States slowed to an average of just 55,000 net new jobs per month through November 2025, a stark contrast to the robust payroll gains of the post-pandemic recovery, falling toward a pace that would have looked recessionary in any other cycle.

And yet the recessionary layoffs never arrived. Instead of the economy falling off a cliff, it settled into something like a stalemate. Call it the “low-hire/low-fire” equilibrium; companies stopped expanding headcount, but they were reluctant to cut what they already had. Restrictive immigration policies implemented alongside the trade shift limited labor supply growth, effectively meeting the slowdown in labor demand. The unemployment rate did not spike, but the labor market lost its dynamism. That matters because confidence is not only about whether you have a job; it's about whether you could get one if you needed to. A stagnant jobs environment doesn't always show up immediately in the headline unemployment rate, but it shows up in sentiment, spending patterns, and risk tolerance. While the employed may be feeling confident, for those in the midst of a job hunt, it feels like a recession.

While trade policy tapped the brakes, fiscal policy hit the accelerator – just with a lag. The passage of the One Big Beautiful Bill Act (OBBBA) changed the fiscal architecture of the United States. The key point is not partisan; it's mechanical. Under the provisions of the bill, large deficits become less a cyclical feature, popping up during economic downturns and declining during good times, and more a structural baseline. Structurally, the bill was designed to front-load deficits and back-load spending cuts, creating near-term support and long-term questions. In 2025, that fiscal impulse helped prevent a deeper contraction at the exact moment tariffs were imposing a drag on the economy.

The bill also changed the bond market's backdrop. Persistent funding needs combined with Federal Reserve quantitative tightening pushed Treasury supply into the market at scale, keeping a floor under long-term yields even as growth moderated. By year-end, the fiscal narrative had shifted away from consolidation and toward sustained support. Risk assets liked the safety net. The Fed did not.

Then there was the corporate response, which might be the most important part of the entire story. The 2025 environment was characterized by extreme bifurcation – the "k"-shaped economy we have referenced repeatedly in recent months. The "old economy" struggled under tariffs and high rates, particularly interest-sensitive areas like housing and discretionary goods. But the "new economy" decoupled. Corporate leaders faced a different kind of risk: irrelevance. The fear of becoming obsolete is a powerful motivator. It causes companies to spend not because conditions are easy, but because conditions are existential.

AI capex became a dominant economic force. AI-related spending – data centers, chips, power generation and transmission – did not just add to growth; it became the main engine. In the first half of 2025, direct AI-related spending accounted for nearly two-thirds of U.S. economic growth. Even after accounting for the leakage via imports of computers and peripherals, AI spending contributed a net 0.3 percentage points to GDP, effectively offsetting softness in more cyclical parts of the economy. It also widened the gap between companies at the center of the AI boom and the rest of the market, helping explain why markets looked exuberant even while parts of the economy felt soft.

## **The Economy: "Some Might Say That Sunshine Follows Thunder"**

– Oasis, "Some Might Say" (1995)

**The United States enters 2026 positioned to move out of the fog of policy uncertainty. In our base case, real GDP growth continues at a modest but sturdy pace.** 2026 forecast ranges across major institutions cluster around the high ones to low twos on a Q4 over Q4 basis, with differences largely reflecting differing views on the consumer and on the persistence of tariff pass-throughs. Our own work aligns with the view that the front-loaded stimulus from the OBBBA – specifically tax provisions supporting disposable income in the first half of 2026 – will counteract the lingering drag from tariff pass-throughs, setting up a year that may feel choppy at the start but improves as it progresses.

The consumer is the hinge point. Real consumption is expected to rise, but not smoothly. Early 2026 has the ingredients for a pincer movement. Many firms absorbed tariff costs in 2025 to protect volumes and avoid shocking consumers. But that absorption ability has limits. As 2026 opens, the incentive to pass costs through to final prices increases, and that process tends to hit lower- and middle-income households hardest. Those households are more exposed to goods inflation, and they have less cushion in a labor market that is not generating abundant new opportunities. But the story does not end there. As the year advances, three forces can support a rebound. Fiscal transfers and tax-related provisions can bolster disposable income in the first half. The wealth effect remains meaningful because household balance sheets have been supported by higher equity and real estate values, and high-income cohorts still carry an outsized share of consumption. And perhaps most importantly, as one-off tariff adjustments fade, real wage growth has a clearer path to turning positive again. When real wages stabilize, services spending usually follows.

Business investment is the wildcard in 2026. AI-related spending is a measurable driver of GDP outcomes. We expect it to remain a primary engine of growth, adding meaningfully to economic expansion through capital formation in compute, energy infrastructure, and software. Meanwhile, the non-AI economy – where investment momentum weakened through 2025 – has the potential to stabilize and recover as companies adapt to the new trade regime. When rules become more discernible, planning becomes possible again. Planning is the first step toward animal spirits returning in the form of broader capex, M&A, and capital deployment outside the AI complex.

What's quietly important here is productivity. The most underappreciated possibility for 2026 is not a growth surprise; it is the beginning of the promised productivity payoff from all that AI spending. Baseline estimates suggest AI adoption will boost productivity growth by 25–35 basis points by 2027. In the upside scenario, early diffusion of these technologies – where AI tools actually change workflows rather than just budgets – could push productivity gains to 40–50 basis points, effectively raising the speed limit of the U.S. economy and allowing for faster growth without inflationary overheating.

Inflation remains the complication. Globally, inflationary pressures are expected to cool toward targets, but the United States is living with idiosyncratic cost pressures tied to deglobalization and fiscal expansion. Our expectation is that core inflation can remain uncomfortably above the Fed's target for longer than investors would prefer, peaking early in 2026 before moderating through the year. The path is down, but the level is sticky. That sets up a Federal Reserve that is forced to choose priorities. In our view, the Fed leans toward its labor mandate. A stagnant jobs environment is politically and economically fragile, and the Fed will be reluctant to allow it to crack. That points toward "insurance cuts" – not because inflation has been defeated, but because the Fed wants to prevent a slow bleed in the labor market from becoming a more acute downturn. The risk, of course, is that if growth re-accelerates faster than expected due to fiscal support and productivity improvements, the Fed may pause earlier than markets expect – or, in an extreme upside case, be forced to re-tighten later in the year. The point is not to predict every move. The point is to recognize that the Fed's reaction function is shifting, and markets will reprice that shift quickly when the data demands it.

## **The Stock Market: "You Can Have It All, But How Much Do You Want It?"**

– Oasis, "Supersonic" (1994)

**The U.S. equity market continues to offer an unusually compelling blend: defensive quality cash flows paired with offensive growth exposure through AI. That's a rare combination, and it helps explain why the U.S. stock market on aggregate remains expensive.** We expect this environment to persist in the year ahead, with the AI capex cycle remaining the dominant driver of the equity market. Capex commitments by corporations and governments appear to be locked in for the next couple of years, with AI-linked capex expectations remaining large. There may be further upside as AI investment begins to translate into margin expansion and monetization. The market's price targets reflect that optimism, and we view them as plausible given the macroeconomic backdrop.

Valuation, however, is the price of admission to benefit from this thesis, and at current levels that price isn't cheap. The S&P 500 trades at historically elevated multiples. We are willing to pay a premium for the composition of the index – more asset-light, high-margin, quality growth businesses than prior decades – but we also acknowledge that high multiples reduce the market's tolerance for disappointment. In an expensive market, the penalty for results that are merely "fine" can be meaningful if investors were pricing in "great." There is a tension between valuations that already reflect a lot of good news – particularly in equity and credit – and the fact that this cycle isn't showing the typical late-cycle leverage imbalances typically present at this stage.

Style and sector leadership should broaden in 2026 as the AI theme moves from pure infrastructure toward economy-wide diffusion. The "picks and shovels" trade remains real: semiconductors, data center infrastructure, and the physical buildout required to support compute. But the next phase is where the theme touches industries that benefit from applying AI rather than selling it. Utilities matter because power is the bottleneck. Banks matter because financing the buildout is required. Healthcare matters because diagnostics and workflow automation can create real productivity. Logistics matters because efficiency gains show up quickly in network businesses. Deregulation is also a meaningful tactical factor. When regulatory pressure eases, it doesn't just improve sentiment, it can change the cost structure of entire sectors. In particular, financial and energy companies can experience a valuation reset when compliance costs and capital constraints loosen. Those are not permanent tailwinds, but they can be powerful in the time window where the regime is shifting.

This does not mean that risk has evaporated, however. When U.S. equity valuations are this high relative to history, the risk isn't just that returns might be lower – it's that the margin for error shrinks to a sliver and the market starts behaving like a finely tuned machine that can only run if every gear turns perfectly. That's especially true when so much of the market's fate is effectively tethered to one dominant industry: you're no longer buying "the U.S. stock market" so much as you're buying a concentrated bet on a particular earnings narrative, regulatory backdrop, and capex cycle.

Market cap (U.S. small and mid cap stocks) and geographic (international stocks) diversification is the antidote to that kind of single-story market. It doesn't require an anti-S&P 500 or anti-U.S. view; it's simply an acknowledgment that different asset classes live at different points in the economic and market cycle, carry different sector weights, and trade at different starting prices – so you're not paying peak multiples for the same macro exposure. In a world where leadership can change quickly and correlations can rise at the worst possible time, owning high-quality businesses across multiple geographies is less about chasing what's "cheap" and more about building a portfolio that can compound through regimes – not only the periods when U.S. large cap is still leading, but also those when it inevitably isn't. International stocks had a great 2025 (though much of the outperformance was concentrated in Q1 2025), which will likely result in some rebalancing across portfolios in early 2026, but international diversification still has an important role to play. The forward-looking opportunity set varies widely by country however, which provides a strong argument for active management in the space. Internationally, Japan stands out because its equity story is tied to reforms and balance sheet behavior rather than to U.S. tech beta. Corporate governance changes that unlock cash for buybacks and dividends are the kind of slow-moving force that can generate returns over multiyear horizons, and they provide diversification when U.S. leadership becomes crowded. Europe remains more challenged because it lacks a comparable structural growth engine and remains exposed to trade friction risk. Emerging markets require selectivity, with a bias toward domestic growth stories where returns can be earned without relying on a reacceleration in China. The bottom line is that while we still believe the U.S. remains the place to be for equity investors, prudence requires diversification – and the best diversification comes from assets that are not tied to AI, the dominant U.S. market theme.

## **The Bond Market: "So Sally Can Wait, She Knows It's Too Late"**

– Oasis, "Don't Look Back In Anger" (1995)

As of December 30, 2025, the value of cash sitting on the sidelines in U.S. money market accounts hit \$7.73 trillion – an all-time high. After the worst period for U.S. bond returns in history – coupled with a stock market at lofty valuation levels – many investors are wary of taking risk when the short-term yield on money market funds remains high relative to recent history. Sitting in cash when short-term yields are this high can feel safe, but it's often just a quieter way of taking risk – because cash is a bet that tomorrow's opportunity will be meaningfully better than today's, and that you'll have the discipline (and timing) to act when it arrives. The irony is that higher long-term yields are the market's way of paying you now for patience; you can lock in income, rebuild ballast in a portfolio, and let time do more of the work than price appreciation needs to. When long-term yields are low, waiting in cash is at least understandable because you're not giving up much. When yields are high, waiting becomes expensive – the carry you're forfeiting is real, and the reinvestment risk is asymmetric. If long rates drift lower, you've missed the chance to lock in attractive yields; if long rates move higher, you can still ladder in and average your way up. In other words, elevated long-term yields turn fixed income from a "hope and hedge" asset back into a "get paid and diversify" asset – and that's not a setup that typically rewards investors who stay parked on the sidelines.

The fixed income market in 2026 is defined by a simple structural reality: Treasury supply is heavy, and the long end of the curve has to digest it. As the Fed cuts at the front end to support the labor market, the long end is likely to remain elevated due to the structural supply from the OBBBA deficits, creating a steepening dynamic. In other words, the curve can steepen even if rates fall, because the front end is responding to monetary policy while the long end is responding to fiscal arithmetic. We expect the Treasury market to reflect this "great steepening" trade in 2026. Demand is becoming more price sensitive. Households, pensions, and other long-horizon investors are increasingly willing to lock in yields at levels that were unavailable for much of the prior decade. That stabilizes the market, but it does not eliminate the supply pressure that keeps a floor under long-end yields.

In corporate credit, the starting point is tight spreads. Market participants are being paid, but not lavishly, for taking credit risk. Our expectation is for modest widening over the year, not because default risk is surging, but because confidence can bring leverage back into the system. If animal spirits return in the form of debt-funded M&A and private equity activity, net supply rises and leverage ratios drift higher. Securitized products also continue to look compelling on a relative basis. If deregulation eases capital constraints, banks can return as more meaningful buyers of agency mortgage-backed securities and high-quality securitized credit. Agency MBS, in particular, can offer attractive spreads with less exposure to the re-leveraging risk inherent in the corporate bond market. In a world where supply and leverage dynamics are changing, owning the parts of fixed income that are less dependent on corporate balance sheet behavior can be a sensible way to earn yield without taking uncompensated risk.

## **"All We Know Is That We Don't Know"**

- Oasis, "The Masterplan" (1995)

**The most honest thing we can say about 2026 is that the range of outcomes remains unusually wide.**

**That is what happens after a year of structural policy shifts.** The economy can normalize, but the path is not a straight line. The upside scenario is a productivity boom. If AI investments begin paying off faster than expected – if productivity improvements show up in the data and allow growth to rise while inflation falls – then equity upside can extend meaningfully. The market can handle higher valuations when the denominator, earnings, is growing faster than expected. The twist in that scenario is rates: stronger growth and a higher speed limit can push long yields higher, even in a "good" world, and that can reshuffle leadership across assets. The most likely downside is a crack in the labor market. The low-hire equilibrium works until it doesn't. If margin pressure from tariffs and rising costs pushes firms from hiring freezes into layoffs, consumer behavior can shift quickly. In that world, the Fed would likely cut more aggressively, Treasuries would rally, and equities would face a drawdown that feels disproportionate to the initial economic deterioration – because expensive markets are not built to absorb disappointment.

Then there is the tail risk that sits outside the usual domestic cycle: a "China Shock 2.0." If China's export strategy provokes a coordinated protectionist response from the U.S. and Europe, global trade flows can suffer, goods inflation can reappear in developed markets, and volatility can rise across rates, equities, commodities, and currencies. Tail risks are uncomfortable precisely because they are not the median forecast. They are the scenarios portfolios are built to survive.

## **"You Gotta Roll With It"**

- Oasis, "Roll With It" (1995)

We expect 2026 to be a year of normalization after 2025's policy shocks, transitioning from an economy driven by government decree to one driven by private-sector adaptation. That transition can support markets, but it does not eliminate risk – it merely changes the kind of risk.

Our positioning reflects that. We want to lean into equity exposure where structural tailwinds remain intact, particularly in U.S. quality growth and AI beneficiaries, while recognizing that volatility in the first half of the year should be treated as an opportunity rather than as a final verdict on the AI boom. Given the supply dynamics in the bond market, the focus remains on taking advantage of the higher absolute yields on offer while limiting duration risk for which investors are not being properly compensated. We want to maintain global diversification, focusing on regions where reforms and domestic drivers can generate returns that are not simply echoes of U.S. tech leadership.

The artificial age is here in two forms. AI is reshaping the capital cycle in technology and beyond, and fiscal policy is providing an unusually persistent layer of "artificial" support for demand. Those twin pillars can continue to drive the economic expansion even in the presence of headwinds. But they also pull forward expectations. In a world where expectations have already sprinted, risk management isn't pessimism – it is a necessity. The goal is not to be fearless. It's to be positioned so that when reality is merely good instead of perfect, portfolios can still win.

As Oasis says, in a rapidly changing and dynamic world, "you gotta roll with it." Our role as investors is to remain vigilant, flexible, and mindful of shifting economic and market forces. In doing so, we can harness both the changes and opportunities that 2026 brings, staying resilient in the face of uncertainty and ready to adapt as new realities take shape.

We remain as committed as ever to focusing on your long-term financial goals and priorities and constructing portfolios designed to reach those goals while minimizing risk. The volatility environment experienced over the last several years demonstrates the value of disciplined professional management. Our clients' interests always come first, and our goal for 2026 is to continue to separate the signal from the noise and focus on what truly matters to the economy and markets to help you achieve your investment goals. As we begin the new year, we wish you and your family a healthy and prosperous 2026.

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