Q1 2026 Market Outlook

Bull, Bear, or Badger?

”Invincibility lies in the defense…the possibility of victory in the attack„ —Sun Tzu The Art of War

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2026 is somehow feeling even more uncertain than 2025, which is a very high bar. It’s easy to forget the many monumental events that occurred this year including the DeepSeek AI scare in January, tariff rollout and subsequent market tantrum in April, wars, unrest, and a litany of events that make your head spin trying to recall them all. Our outlook for 2025 was titled “Piloting Through Noise” and somehow that underestimated the amount flak that would be thrown at the market. Our 2025 outlook had a year-end target of 7,100 on the S&P 500 (implying about a 15% return when we wrote it) and Fed Funds upper bound of 4.00%. This year will end with the S&P hovering around 6,800 (as of 12/15/25) and the Fed Funds upper bound at 3.75% - missed it by 1 cut and a tail off in the rally. Equity markets showcased their ability to ascend a growing wall of worry without breaking a sweat, as all those significant events and announcements did not derail the rally. A reminder that markets care much less about politics than we do personally.

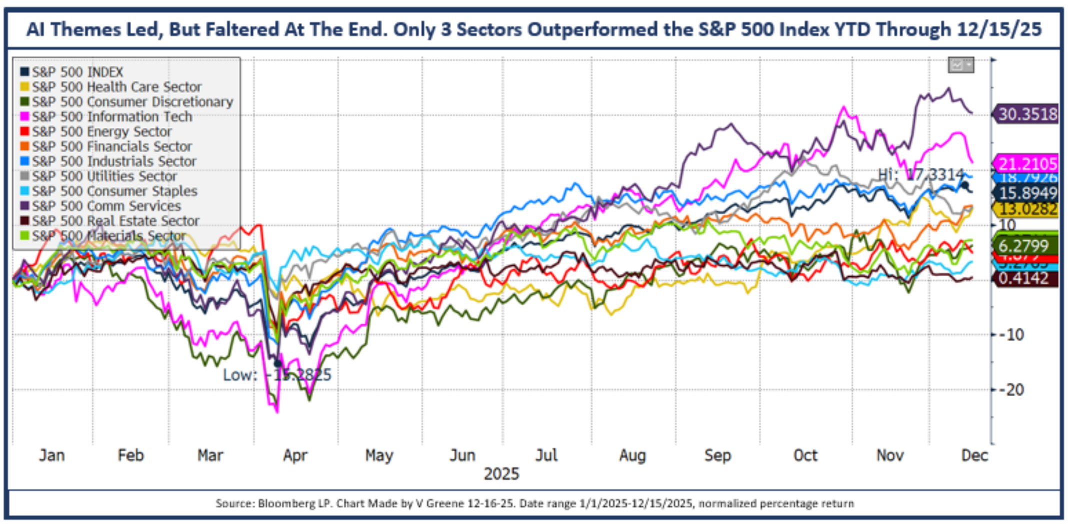
As we look forward to 2026, we could potentially have neither a Bull nor Bear market- but possibly a Badger market? Ferocious, slightly terrifying, and rapidly moving. The Honey Badger is famous for being resistant to most snake venom, and with their powerful legs and short build the badger can run up to 20mph for brief bursts when needed. This might be just like 2026- short bursts of intense and rapid movement, potential for a snake bite we need to nap off, and a need for fearlessness in the face of formidable opponents (such as inflation and a weakening labor market threaten the stock market). So, get ready to find your inner ferociousness as we see 2026 as another up year, but may come with some sector rotation, as well as more significant volatility and draw downs.

<u>2026 outlook:</u>

- S&P 500: 7,400
- Earnings: $302.00
- 10-Year Treasury: 3.85%
- Year End Fed Funds Upper Bound: 3.00% (75bps of cuts)

How We Got Here

2025 was a year of contradictions: fear vs. greed, growth vs. contraction, strife vs. peace. While the markets overall had a strong year, it was not a rising tide lifting all boats. Overall, international and emerging markets beat US markets for the first time since 2017. Large cap stocks mostly beat small cap stocks, but it was more about the outperformance of growth stocks vs value stocks – which was a strong trend through mid-November. On a sector basis, only 3 of 11 sectors outperformed the S&P 500 index: communications (GOOGL, NFLX, META as well as media companies such as WBD), technology, and industrials. There were many value-focused sectors that were barely positive on the year including energy up almost 5%, staples up only about 3%, and real estate up less than a percent. Real estate lagging is a bit of a surprise in a year where we got 3 rate cuts, but concerns on a weakening labor market, commercial real estate values, and inflation all dragged on the sector.



But it wasn't just the Mag7 this year; while they were important contributors to index returns, only 3 of them (GOOGL, NVDA, TSLA) outperformed the S&P 500. AMZN is barely clinging to positive returns on the year and AAPL hasn't broken double digits (though 12/15).

Name	1 Month (%)	6 Months (%)	YTD (%)	1 Year (%)	5 Years (%)
Alphabet (GOOG)	7.72%	72.40%	61.09%	54.76%	251.28%
Amazon (AMZN)	-4.49%	2.94%	1.38%	-4.44%	37.61%
Apple (AAPL)	2.72%	38.40%	9.66%	9.70%	113.36%
Meta (META)	9.38%	-6.17%	12.51%	5.54%	140.02%
Microsoft (MSFT)	-6.08%	-0.50%	13.13%	5.62%	117.35%
Nvidia (NVDA)	-5.20%	22.23%	31.75%	31.08%	1227%
Tesla Inc. (TSLA)	19.19%	72.38%	20.73%	5.28%	123.90%
Data from Bloomberg LP. As of 12-15-2025					

Our 2026 Outlook: Bullish with a Side of Volatility

We remain steadfastly bullish even in the face of economic cracks, high valuations, and an unrelenting deluge of drama and bad news on the geopolitical front. But our outlook is in line, if not below, most major Wall Street analysts. We feel that the catalysts continue to outweigh the risks. We are not agnostic about the economic stressors, including the growing divide between the top earners and the rest of the US population (the K-shaped economy). Job losses and sticky inflation also worry us, but the continued strength of corporate profit growth outweighs those risks in our minds. Though every investor should be prepared for more volatility.

2026 Average Street Outlooks And Most Bullish Analysts

Year 2026	Average	Growth	#Strat
2026 YE Tgt Px	7,315.22	+6.7%	18
Last Price	6,857.12		
2026 Est EPS	298.37	+10.9%	22
Curr T12 EPS	269.08		
2026 Est P/E	24.60	-3.5%	17
Curr T12 P/E	25.48		

(Chart: 25th-75th Percentile, Min, Median, Max)

Firm	Strategist	2026 Tgt Px ↓	2026 EPS	P/E	Date
Alpine Macro	Nick Giorgi	8,000.00	312.00	25.64	12/04/2025
Tigress	Ivan Feinseth	7,950.00	320.00	24.84	10/10/2025
Morgan Stanley	Michael J Wilson "Mike"	7,800.00	317.00	24.61	11/19/2025
Seaport	Jonathan N Golub	7,800.00	290.00	26.90	10/31/2025
Wells Fargo	Ohsung Kwon	7,800.00	310.00	25.16	11/24/2025
Evercore ISI	Julian Emanuel	7,750.00	287.00	27.00	09/02/2025
Yardeni Research	Dr Edward Yardeni "Ed"	7,700.00	310.00	24.84	11/16/2025
Unicredit Global	Christian Stocker	7,630.00			11/18/2025
Goldman Sachs	David J Kostin	7,600.00	280.00	27.14	11/19/2025
JP Morgan	Dubravko Lakos-Bujas	7,500.00	290.00	25.86	11/26/2025

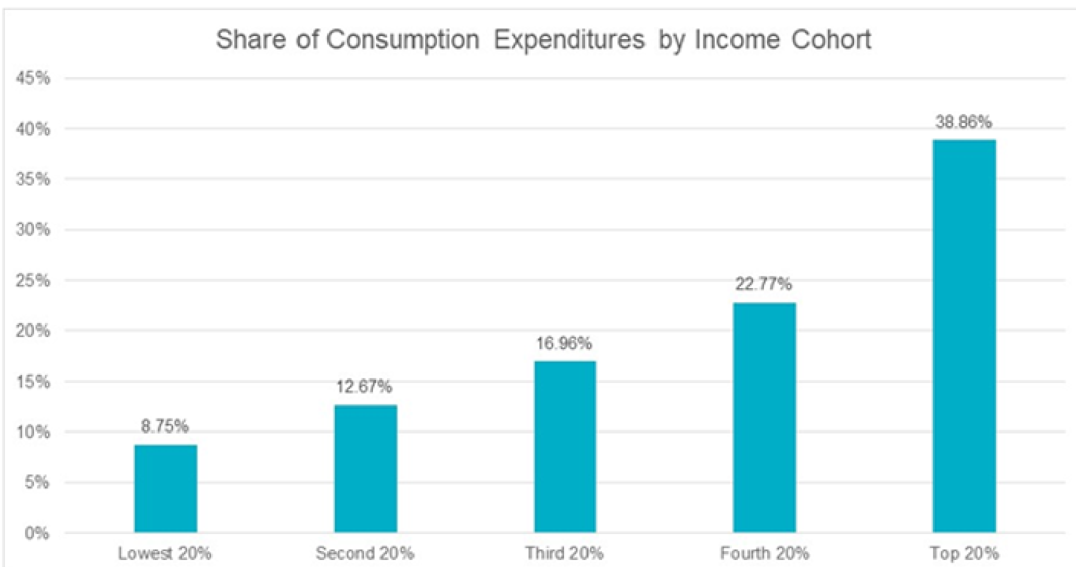
Source: Bloomberg LP as of 12-5-2025

WHY WE ARE BULLISH	WHAT WE ARE WORRIED ABOUT
AI driving productivity and margin expansion. Still early innings for productivity gains.	K-shaped economy & low income left behind and struggling to make ends meet.
Supportive tax policy with likelihood of above average refunds in 1H 2026.	Job market looks weak and job losses rising, concerns on unemployment trends.
Earnings are still growing and the rally has broadened out – it's not just 7 stocks.	Market is expensive and concentrated in the top 10 holdings. Bubble?
Bull markets and momentum tend to begat more upside. Valuations don't kill bulls.	2nd Year of the Presidential Cycle is historically the weakest year of the 4.
The Fed is cutting rates and looking to stimulate a slowing labor economy.	The Fed might be cutting rates for the wrong reason: true economic weakness.

Is The K-Shaped Economy A Problem?

The K-shaped economy refers to the 2 diverging directions different socioeconomic classes are headed. The high net worth and top 10% continue to do well and prosper while the middle-class and lower-income segments of the economy feel even more pinched and struggle to make ends meet. This growing divergence in prosperity is causing many economists to be concerned about whether economic growth can continue at a brisk pace or if the cracks forming will derail us all. As wage growth eases off but inflation continues to persist, many households feel the pinch in their wallet now more than ever. Yes, inflation has moderated from a high of 9% back in mid-2022 to a 3% rate now, but the massive price changes during the last 5 years have left many reeling. And even 3%, which is still above the long-run desired target of 2%, is not *deflation*, it just means goods and services are getting more expensive at an acceptable rate.

The Top 40% drive more than 60% of Overall Spending and Consumption- Heavily Weighted to the Top 20%



Source: Bureau of Labor Statistics.

Source: Natixis Market Thoughts by Chris Fullerton Published 12-1-2025

We feel this divergence may continue in 2026, though the middle and lower-income segments should get a more significant boost from tax policy in Q1 and Q2. The top 20% have been driving almost 40% of all consumption and likely will continue to spend at a brisk pace. We saw this trend during Black Friday and expect it to continue into next year. According to the AICPA (American Institute of CPAs), 47% of American's plan to fund holiday shopping by utilizing debt including credit cards that they cannot fully pay the balances on. Multiple companies that cater to value seeking customers have thrived across all sectors – from Dollar General, to Walmart, to a resurgent Chili's restaurant – consumers want value and are trading down while still opening their wallets. For now, the spending remains brisk, even if financed and not cash-based.

The Fed Is Key to 2026 Outcomes

The true killer of bull markets is not high multiples or length of time – it's policy error. Fiscal or monetary policy error is the absolute #1 market killer – so much depends on the Fed getting it right, or at the very least not making a complete hash out of it. Partially, the Fed is going to be reacting to economic data, so their path depends on how labor and inflation hold up. We feel labor will be the bigger risk that they will try to overcome, which is why we forecast 3 more cuts in 2026 and is in line with Goldman Sachs.

Policy and Economic Health May Be Key Players in Market Direction. Goldman Predicting Soft Landing

Economic Scenario	Macro Backdrop	Policy Implications (year end 2026)	Fixed Income Implications
Hard landing	Large increase in unemployment	-225bps to 1.5–1.75%	US Treasuries strongly rally, USD weakens vs. perceived safe havens, spreads widen
Soft landing (gradual loosening)	New job growth stays soft	-75bps to 3-3.25%	Rates unchanged, USD rangebound
Stabilization	Labor market begins to stabilize	-25bps to 3.5-3.75%	Treasuries sell-off somewhat and stronger USD, spreads stay steady
Re-acceleration	High inflation	On hold at 3.75-4%	Treasuries sell off and stronger USD, spreads tighten

Source: Goldman Sachs Asset Management, 2026 Investment Outlook, Pg. 23

Inflation may remain sticky, but lower energy costs help keep a lid on runaway inflation. If oil and gas prices start to rise in 2026 due to war or sanctions, this could become a 2-front war for the Fed to fight. It is rare, though, to have runaway inflation with tame commodity prices. For now, WTI remains range bound in the $55-$65 level, keeping gasoline prices in check and even falling slightly. We are watching other commodities though, such as copper, which have taken off and continue to hit new highs. Copper is often referred to as "Dr. Copper" as it indicates overall global economic health. When copper prices are rising it's seen as a signal that global economic growth is expanding, leading to higher demand and higher prices. This year, copper has been artificially moved around by tariffs and a 50% import duty affecting US prices more than global demand. A big spread emerging this summer between COMEX (US prices) and LME (global benchmark prices outside US).

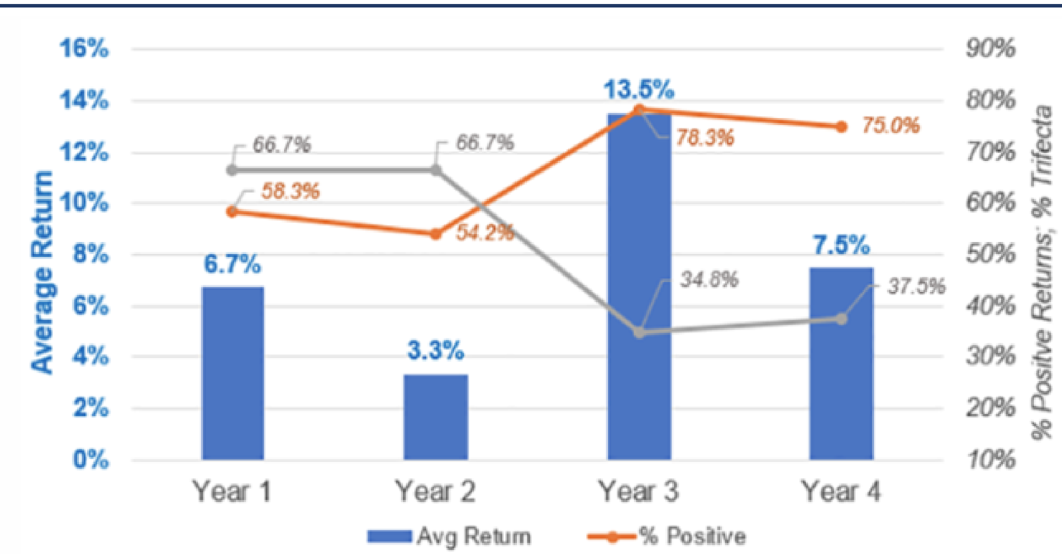
With inflation seemingly in check outside a black swan commodity event, the Fed should be able to focus both barrels on supporting the labor market and moving from restrictive to mildly accommodative policy. And it's not just rate cuts – balance sheet management can also be a powerful tool to provide ample liquidity and stimulate markets.

Beware of the 2nd Year of the Presidential Cycle

While we are not pure play market technicians (we prefer the sum-of-the parts holistic viewpoint including macroeconomic, fundamental, and technical), historical seasonal patterns and technical charting can be helpful in diagnosing near-term market trends and conditions. 2 major calendar year events happen in 2026: midterm elections and the 2nd year of the Trump administration. Neither have a great history of market outperformance, but sets us up for a strong Q4 and 2027.

Midterm elections have a history of danger, economic weakness, and occasionally bear market action. 10 of the last 16 bear markets bottomed during a midterm year – with 2022 the most recent. Pain is often felt in Q2 and Q3 of the midterm year with the S&P 500 averaging a -2.5% loss and the NASDAQ -6.6%, per the *Stock Trader's Almanac.* The midterm also corresponds to year 2 of the Presidential term and these trends add up to the historically weakest performing year of a President's term. On average, year 2 is positive only 54.2% of the time and has the lowest average annual return.

Year 2 Of The Presidential Cycle Is Historically The Lowest Performing and Most Volatile



"Trifecta" is when a single party holds the presidency and majorities in both houses of Congress.
Source: Bloomberg

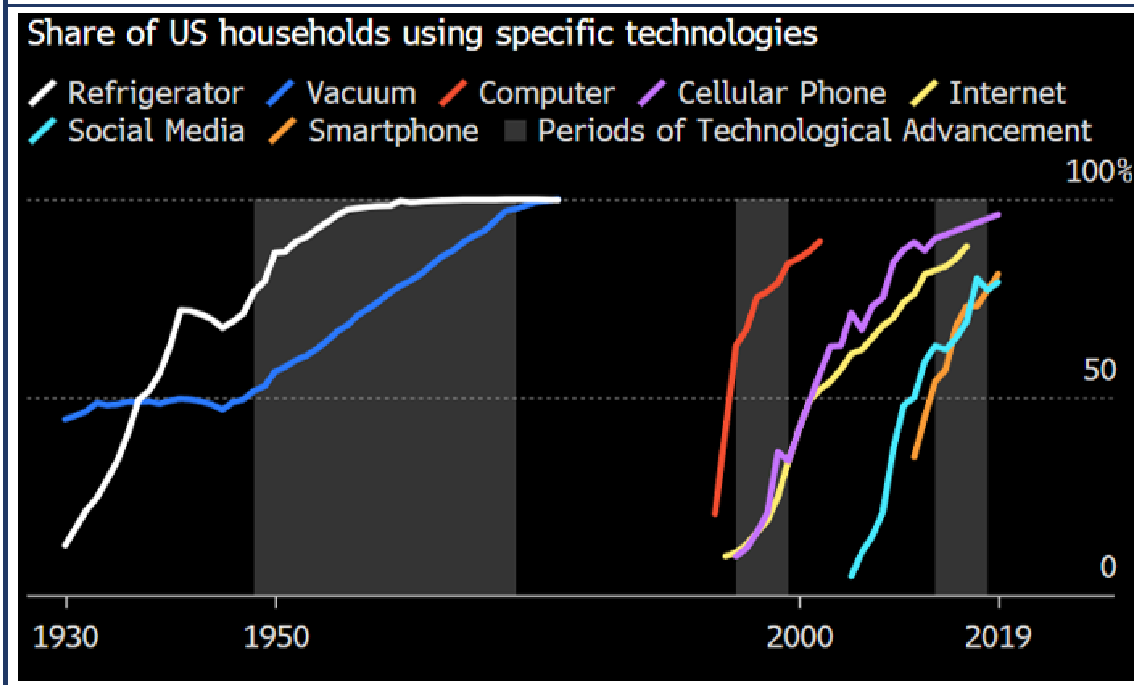
Source: https://blogs.cfainstitute.org/investor/2023/02/14/election-cycle-theory-year-three/

We would look to be a buyer of weakness in Q3, as year 3 and post-midterms tend to be the strongest part of the Presidential cycle. Nothing a stock market likes more than Washington gridlock and staying out of the way of economic prosperity. Historically, midterms have been unkind to the party in power and a divided government in the last 2 years of the term. But investors should be prepared for some drawdowns next year if history repeats itself.

<u>AI Will Continue to Drive Expansion</u>

A key tenet of our bullish thesis is that we are in the middle-innings of the next technological revolution. Similar to how the internet transformed how we do business, AI (Artificial Intelligence) will define the next decade. The world is full of periods of innovation and expansion like how the wheel changed commerce or the steam engine powered the industrial revolution, AI is going to change how we work and it will happen faster than any other expansionary period. As you can see below, the adoption rates continue to shorten as the world becomes more connected and more technologically advanced.

New Technology Continues To Be Adapted More Rapidly



Source: Bloomberg LP: *AI's Next Phase Will Push Stocks and Yields Higher: Macro View*. By Skylar Montgomery Koning. 12-4-25

Electricity took 46 years to reach 50% of US homes and the telephone took even longer – taking approximately 70 years between when Alexander Grahm Bell patented the telephone in 1876 and widespread adoption by the 1940's (partially driven by the war). But cell phones took 5 years or less to find 50% market penetration in the 1990's. This pace has continued to increase with Facebook reaching mass adoption (defined as greater than 25% market access) in 2 years, Twitter took 9-months and now ChatGPT hit 100mm users in 61 days. The pace of advancement and breakthroughs may also be exponential as new technologies usher in new products and services. This is good for the winners, but bad for the losers as they will be left behind. Not every company is going to win the AI war – for every Google there is a Yahoo and for every Netflix there is a Blockbuster. We expect disruption, sharp corrections, and new entrants into the tech leadership basket.

These periods of rapid technological advancement historically bring above average economic, productivity, and market returns. During periods of technological invocation and adoption, productivity grew 2x faster than periods of normal economic growth. This corresponds with above average risk asset performance as well as with advancement periods almost 3x those where no major technological breakthroughs occurred. Counterpoint being, this type of market can also bring nasty bubbles after the initial mania has subsided, even as the changes across the economy are lasting. Innovation and rapid change historically bode well for growth.

New Technology and Innovation Should Drive Above Average Productivity Gains

Innovation and Absorption: The History of US Productivity

New technologies drove waves of growth, until their effects were fully implemented by producers, and then the pace slowed down

Period	Productivity growth (annual)	Why
1914-72	3.0%	Huge impact of "great inventions" of late 19th century, especially electricity and internal combustion engine
1972-95	1.6	Impact of great inventions largely already implemented
1996-2004	3.2	The "Third Industrial Revolution" - computers, internet etc
2005-25	1.6	Impact of 3rd IR already implemented

Source: Robert J. Gordon

Bloomberg

Source: Bloomberg LP: Fed Fixates on AI, But It's Not Ready to Make Big Greenspan Bet. By Enda Curran 11/24/25

Technological Advancement Has Significant Benefits To Risk Markets

Annualized % change or basis points

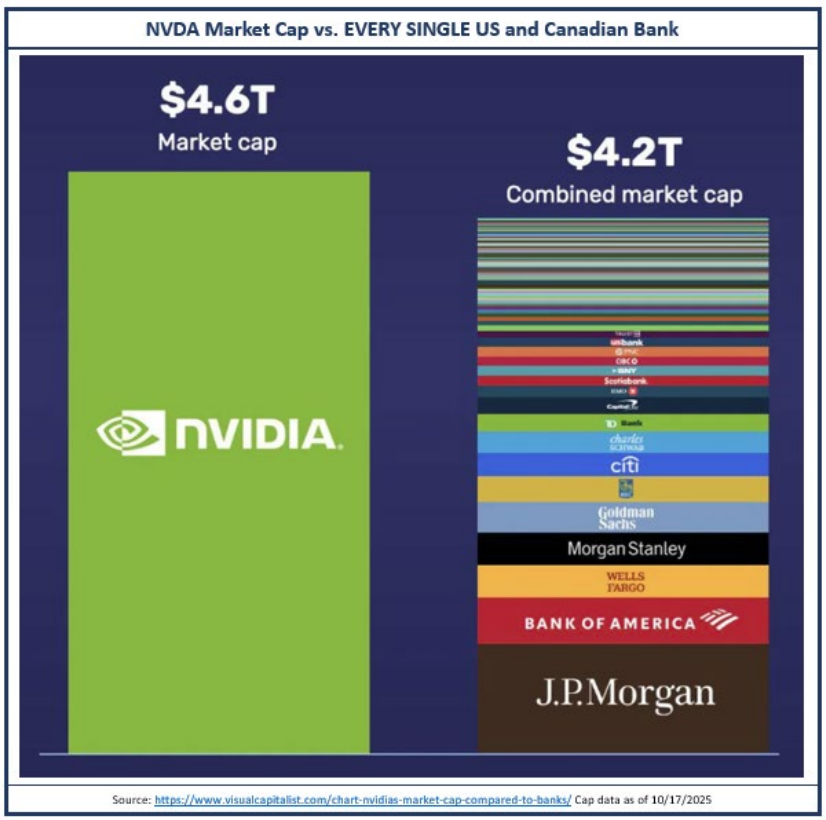
	1948-73	1973-93	1994-01	2001-13	2013-18	Advancement Periods	Intervening Periods
S&P	26.8	13.9	26.1	0.9	16.6	23.2	7.4
Dow Jones	18.5	12.6	26.8	1.9	16.9	20.7	7.2
MSCI World Ex-US	—	—	6.2	2.5	4.0	5.1	2.5
US 10y	19.6	-3.0	-9.7	-26.3	11.4	7.1	-14.7
US 2y	—	-151.5	12.4	-38.4	32.6	22.5	-95.0
2s10s	—	148.5	-22.1	12.1	-21.2	-21.7	80.3
USD vs Euro	—	-2.2	2.8	-2.4	2.0	2.4	-2.3
USD vs GBP	—	2.8	-0.1	-0.6	4.1	2.0	1.1
Gold	3.4	24.3	-4.3	43.5	-4.6	-1.8	33.9

Source: Bloomberg

Source: Bloomberg LP: *AI's Next Phase Will Push Stocks and Yields Higher: Macro View*. By Skylar Montgomery Koning. 12-4-25

How To Position For 2026

We feel value stocks and small cap stocks may be better performers in 2026 than they have been this year. We continue to advise holding your core technology/growth stock positions as we feel AI still has years to go and is just now seeing implementation across businesses and personal consumption. But, it may be prudent to take some of those gains and reposition towards sectors and stocks that do well during what we forecast for 2026: a steepening yield curve, the midterms/2nd year of a Presidential cycle, and a choppier market. Quality may be more important next year than this year and forgotten sectors such as financials, health and staples may provide a buttress against volatility. AI and tech can continue to run, but with high multiples and priced to perfection you could see significant drawdowns during the year. Tech dominates the S&P 500 which is cap weighted, meaning the bigger the stock the larger percentage allocation in the index. NVDA now has a larger market cap than EVERY SINGLE US and Canadian Bank.



Source: https://www.visualcapitalist.com/chart-nvidias-market-cap-compared-to-banks/ Cap data as of 10/17/2025

Small caps are another area we believe may outperform, for the first time in a long time, in 2026. Investors need to be wary of zombies (zero revenue under water junk stocks) but look for growing, cash flow positive businesses that have room to expand and gain market share. Large caps have vastly outperformed their small cap peers, as the S&P 500 is one of the most consistent and toughest indexes to beat, but no market wins in perpetuity and with more chop on the horizon, we feel it's prudent to add in more elements to equity portfolios.

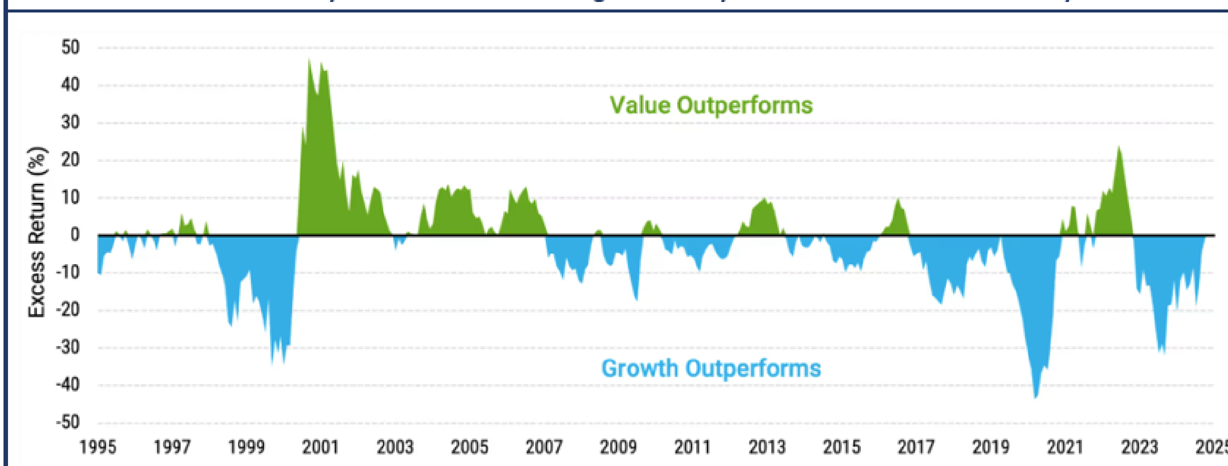
The broadening out and increased breadth in the market in December is a good sign that more stocks are participating in this rally, making the bull market run stronger. Since the bear market lows in October 2022, it's been a very tech and growth driven recovery. Since 10/1/2022, growth stocks (Russell 1000 Growth Index) have outperformed value stocks (Russell 1000 Value Index) by 72% or over 20%/year annualized outperformance.

Growth Stocks Have Vastly Outperformed Their Value Peers In This Bull Market Since Oct 2022 Bear Market Lows

Source: Bloomberg LP. Chart Made by V Greene 12-9-25. Date range 10/3/2022-12/1/2025, normalized percentage return

We are not calling the death of the AI trade or a total meltdown – merely pointing out that during times of stress and higher volatility, value stocks tend to outperform. This held true in 2016 and the recent bear market in 2022. When quality, cash flow, and fundamentals are respected more than momentum and promise of a brighter future, value can lead. After the 2000's tech bubble popped, value widely outperformed growth for 3 years straight from 2000-2003.

Value Historically Does Better In Times of Higher Volatility or Stress In the Market or Economy



Data from 6/30/1995 - 3/31/2025. Source: FactSet. Returns are in USD and represent the Russell 1000® Value Index vs. Russell 1000® Growth Index. **Past performance is no guarantee of future results.**

Source: https://www.americancentury.com/institutional-investors/insights/why-value-and-why-now/

Badger Proof Your Portfolio

The last 3 years have been driven by AI and growth stocks. Historically, no asset class remains in leadership forever and we see 2026 as a year ripe for some rotation in leadership with small, value, and international/EM needing a place in the portfolio. Diversification may be your friend in 2026 vs. concentration in tech being accretive for the past few years. This means staying balanced and disciplined, keeping a quality bond component, and owning some commodities as a hedge against the US dollar weakening further and overall volatility. This may mean trimming back some winners, possibly pulling off gains realized since 2022, but keeping your core holdings in tech and AI. Rate cuts should help keep yields in check and stimulate the economy, but a potential steepening yield curve often favors value stocks over growth.

S&P 500 Individual Stock Performance Varies Wildly Across The Index. Some Huge Movers YTD Through 12/1/2025

Members (503)	Ticker		Last Price	Cust ↑	-1Q	-2Q	-3Q	-4Q	-1Y
S&P 500 INDEX	SPX		6858.19	15.83%	7.79%	10.57%	-4.59%	2.07%	16.07%
1) SANDISK CORP	SNDK	UW	221.69	483.81%	147.41%	-4.75%	32.25%	--	211.67%
2) WESTERN DIGITAL CORP	WDC	UW	170.47	262.96%	87.62%	58.27%	-10.27%	-12.68%	132.67%
3) ROBINHOOD MARKETS INC - A	HOOD	UW	138.44	230.76%	52.92%	124.96%	11.70%	59.09%	511.36%
4) SEAGATE TECHNOLOGY HOLDINGS	STX	UW	286.94	212.94%	63.56%	69.90%	-1.58%	-21.20%	115.52%
5) MICRON TECHNOLOGY INC	MU	UW	252.46	185.72%	35.76%	41.85%	3.24%	-18.85%	61.33%
6) NEWMONT CORP	NEM	UN	91.31	146.72%	44.71%	20.67%	29.72%	-30.36%	57.74%
7) WARNER BROS DISCOVERY INC	WBD	UW	27.62	125.83%	70.42%	6.80%	1.51%	28.12%	136.73%
8) PALANTIR TECHNOLOGIES INC-A	PLTR	UW	182.12	121.46%	33.82%	61.52%	11.60%	15.04%	177.49%
9) LAM RESEARCH CORP	LRCX	UW	163.58	114.30%	37.56%	33.89%	0.65%	-11.49%	64.08%
10) AMPHENOL CORP-CL A	APH	UN	138.94	100.46%	25.32%	50.56%	-5.56%	6.58%	89.92%
11) INTEL CORP	INTC	UW	40.33	99.55%	49.78%	-1.37%	13.27%	-14.54%	43.01%
12) APPLOVIN CORP-CLASS A	APP	UW	709.51	92.57%	105.25%	32.12%	-18.18%	148.05%	450.39%
13) KLA CORP	KLAC	UW	1,224.77	83.64%	20.41%	31.77%	7.88%	-18.63%	39.28%
14) NRG ENERGY INC	NRG	UN	170.18	83.62%	0.85%	68.22%	5.81%	-0.97%	77.77%
15) ADVANCED MICRO DEVICES	AMD	UW	222.93	81.94%	14.02%	38.12%	-14.94%	-26.38%	-1.40%

Source: Bloomberg LP. Chart Made by V Greene 12-9-25. Date range YTD through 12/1/2025

If we see a mid-year drawdown in stocks, we would likely be buyers of the dip or correction. With yields coming down, we could see more funds moving off the sidelines from money markets and deployed into equities as the attractiveness of sitting in risk-free continues to wane with rate cuts. We also caution about overreacting to higher volatility next year – it's likely not the beginning of the end of the bull market, but a normal correction in an uptrend. The 2nd half of 2025 exhibited an incredible run of minimal volatility or drawdowns – which is rare. We see more potential for ferocious pullbacks within the bull market which may spook investors.

Keep your focus on what matters and tune out the noise. With midterm elections, it is going to be a very loud and distracting year. So, like the famous YouTube badger video of 2011- Honey Badger don't care. Fortify yourself, diversify a bit more, don't throw in the towel if the going looks rough, and prepare to be a ferocious investor in the face of threats and sharp drops.