2025 YEAR BEHIND
2026 YEAR AHEAD

"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria."

~ Sir John Templeton

If you could flash back one year to the beginning of 2025, I suspect you would find the following conversations to be pretty dominant amongst investors:

> *"What is going to happen with the Trump tax cuts from 2017 that are set to expire?"*
>
> *"What is going to happen with trade and tariff policy, and how will it impact the economy and markets?"*
>
> *"Are these valuations in the stock market sustainable, and what will AI top-heaviness mean for the overall market?"*

It therefore evokes a little déjà vu if I am correct that the three major questions that are dominating conversations amongst investors as we enter 2026 are:

> *"What will the impact be to the economy and markets from the new tax bill passed in 2025?"*
>
> *"What will the impact be to the economy and markets from 2025 tariff policies?"*
>
> *"Are these valuations in the stock market sustainable, and what will AI top-heaviness mean for the overall market?"*

The more things change, the more they stay the same.

THE/BAHNSEN GROUP

That the major questions entering 2026 are largely the same as the major questions we faced entering 2025 does not mean that nothing happened in 2025. The major categories of uncertainty are largely the same, as are the major categories of risk for investors. And along those lines, if valuation and the risk of market exhaustion is a concern, we are one year deeper into it all than we were a year ago. But alas, a 26% stock market return in 2023 followed by a 23% return in 2024 followed by a 17% return in 2025 seems to have the opposite impact for many index investors (rather than fear exhaustion, more and more fear "missing out"). It is all somewhat understandable.

The questions we want to address entering 2026 are not as similar to the questions we had entering 2025 because nothing happened in 2025, but because a lot did happen in 2025, and the mere incidence of a calendar change did not bring resolution to all of those things. The tax bill passed in 2025 did extend the tax cuts of 2017 that were set to sunset at the end of the year, but that was never the real uncertainty many made it out to be. After the election of 2024 went the way it went there was never a doubt that the tax cuts were going to be extended. However, we now have the clarity that we didn't have a year ago about specifics, and the questions around economic impact now have more teeth.

Likewise, the idea that nothing would happen in trade and tariffs in 2025 was always absurd, and in my estimation, so was the idea that a Smoot-Hawley trade war would ensue (more on threading this needle in our report card of 2025 Themes). The very nature of the administration's handling of tariffs makes perfect clarity impossible, as does a pending Supreme Court ruling, but we know a lot more now than we did a year ago. What we do not know, though, is the deeper level of impact that transcends headline discussions. Monthly movement (up or down) in certain grocery items or consumer products may dominate media coverage and even political polling, but 2026 will have a lot more to say about the substantive impact the tariffs create on capital expenditures, total global trade, currency values, business investment, and more. In other words, the "beef" of economic impact on tariffs is far more important than the price of "beef," and that remains to be determined as we enter the new year.

Last but not least, the discussion of market valuations and AI top-heaviness may seem like a broken record entering 2026, but there is far more to think about now than there was a year ago. Markets have done their part – delivering double digit earnings growth from a starting point of valuations well above historical averages. Yet the vulnerabilities of the AI story are far more pronounced than they were a year ago, and the interconnectedness to markets is far more understood.

So we do not enter this annual recap bored by the events of 2025, but energized, stimulated, and prepared. The conditions we seek to navigate in this new year have new dimensions to them even if they share many of the same characteristics as last year. Across all categories, though, our approach to what is old and what is new will be rooted to that which does not change: Discipline, first principles, patience, and humility.

To that end we work.

2025 IN REVIEW:

Like the year that preceded it, 2025 did not give investors a lot of chance for disappointment (provided they were actually invested and provided they did not make a major behavioral mistake in the middle of the year). Bond and stock investors alike achieved constructive returns and very few asset classes dipped into negative territory.

We entered the new year aware that the first major event would be the inauguration of President Trump. As expected, the new administration signed executive orders at a furious pace, but few had any market impact. A general moderation of the high growth rally from 2024 took place and more value-oriented sectors led the way, particularly after a late January announcement from China that their own AI lab, DeepSeek, was a formidable yet lower cost alternative to U.S. competitors in the Artificial Intelligence space. That narrative would subside, but February saw more weakness in the technology sector and the beginning of uncertainty over what President Trump had in mind regarding tariffs. March saw the selling in technology intensify, but also saw intense volatility when President Trump threatened a significant elevation of tariff levels against Mexico and Canada. The market's swift sell-off and the President's immediate capitulation reinforced the narrative that the President's tariff policies would be held in check by market discipline (a narrative that would be challenged in another month's time). The auto sector and materials sector were particularly hit in March as tariff uncertainty lingered, and the "big tech" space remained unable to find a footing behind high valuation and questions about AI capex sustainability. All in all, the first quarter would prove to be a huge quarter for the "rotation" thesis – the idea that a bear market was not upon us, but rather a transition from high growth and beta sectors to more durable and stable value sectors of the market. That narrative would peak in Q1, though.

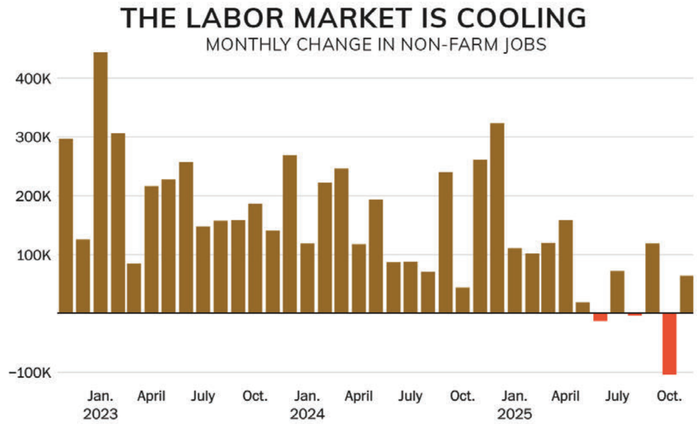
The second quarter would kick off with the most intense market sell-off since the COVID moment of March 2020. After the market close on Wednesday, April 2, President Trump's long-awaited tariff policies would be announced on the White House lawn. While markets had prepared themselves for more "reciprocity" and some tougher terms in global trade to "even the playing field" (to borrow from the White House's rhetoric), the actual substance of what was announced shocked markets as actual tariff rates were intensely punitive and disconnected from what other countries were actually levying against U.S. exporters. Risk of global retaliation intensified and market hopes for a sober and judicious tariff policy were dashed.

What happened next was the most dramatic market event of 2025. After a 13% drop in the S&P 500 in just four days (which brought the total peak-to-trough drawdown to 19%) and a 5,000 point drop in the Dow, President Trump reversed course on Wednesday, April 9, catalyzing one of the most dramatic mid-day market reversals in history, and possibly saving his presidency. The volatility and uncertainty would continue, but the downside bleeding would end and lows for the year across all three market indices had been set.

While the worst tariff threats of "Liberation Day" were now off the table, markets still had to wait for individual deals with individual countries. Most significantly, tariff levels with China (along with their expected retaliatory tariffs) meant that trade between the world's two largest economies had come to a standstill. A barrage of carve-outs and exemptions from the administration for major technology companies took more risk off the table, even if the policy decision seemed to contradict the stated policy intention. This allowed the technology and communication sectors to rally for the remainder of the second quarter, which drove cap-weighted indexes higher due to the high weighting representation of those sectors.

Throughout this Q2 period, another issue would enter markets that temporarily spiked volatility: The fate of Federal Reserve chairman, Jerome Powell. The Powell Fed "wait and see" approach to interest rates upset the Trump administration, who believed that rates were prohibitively and unnecessarily high. That federal funds futures market were re-pricing to a "higher for longer" period was challenging enough for markets but talk of the President prematurely firing Powell before his May 2026 term expiration introduced a new layer of market uncertainty. Ultimately, Treasury Secretary, Scott Bessent, convinced President Trump that such a move would be highly problematic for the bond market (it would have been), and would have ended up in a court battle anyway (it would have), which would have delayed any action being taken until close to the time of his term expiration, anyway. Markets would move past this issue, but Fed plans for easing the policy rate would remain an issue for markets for the rest of the year.

The third quarter launched with a renewed market rally as markets fully absorbed that trade war issues were in the rearview mirror. Various hems and haws with particular country negotiations no longer phased markets, and neither did the social media feed of the President. Most importantly for markets, quarterly earnings results were better-than-expected, driving technology names and cyclical names higher. Equities were further boosted by bond yields dropping, as the 10-year reached 4.5% in early July but was at 4% by mid-September.



Source: Bureau of Labor Statistics/FRED®, Dec. 29, 2025

It was the late August revisions to jobs data that represented the biggest economic news of the year. Not only were robust June and July job gains revised meaningfully lower, but the entire prior year gains were revised to a much lower number, calling into question not just the short-term health of hiring, but even the presumed structural strength in U.S. labor markets.

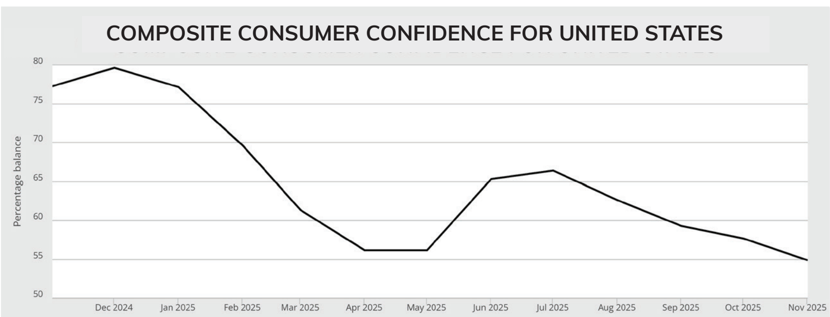
Of course, this also eliminated any doubt that the Fed would resume cutting rates at its September meeting.

Though the market would close September up on the month, there was late month-volatility that began to signal signs of rotation. The Fed did cut rates for the first time all year in mid-September but avoided signaling that a new wave of cuts were coming. October saw the fourth quarter start with a solid broadening of markets, with the Russell 2000 small cap index up nearly +10% on the month. Cyclical sectors rallied and while technology names did not collapse, the fact that markets had a solid month without reliance on the big tech/AI sector provided a boost to confidence that there was better underlying breadth in the market than many believed.

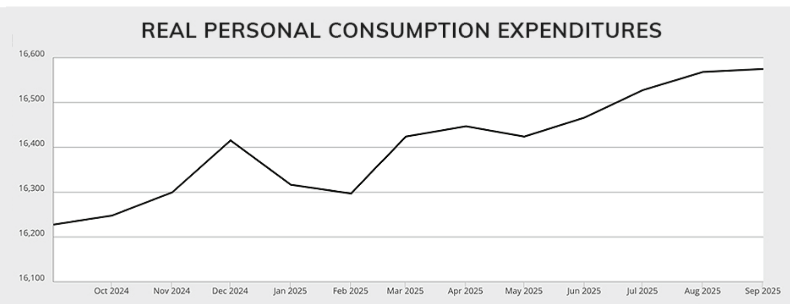
Two market stories dominated the news in the final two months of the year. First, the Fed, who after their second rate cut of the year in late October hinted that it may be the last for a while (note: it wasn't), and second, significant volatility in the Artificial Intelligence trade, as several market-leading stocks suffered significant double-digit declines. Despite a couple bouts of downside volatility mid-month November and again mid-month December, the S&P 500 would still close 2025 up over 16%, near its all-time high.

Two data points that both came out in December poetically capture so much of what 2025 proved to be. On one hand, consumer confidence reached its lowest point of 2025, and well below the confidence levels seen from a year ago.

On the other hand, consumers apparently were willing to do something different from what they said they felt. Real consumer spending (after adjusting for the impact of inflation on prices) soared +3.5% in Q3, just as consumers were saying they had the least confidence they had to spend money in over three years.



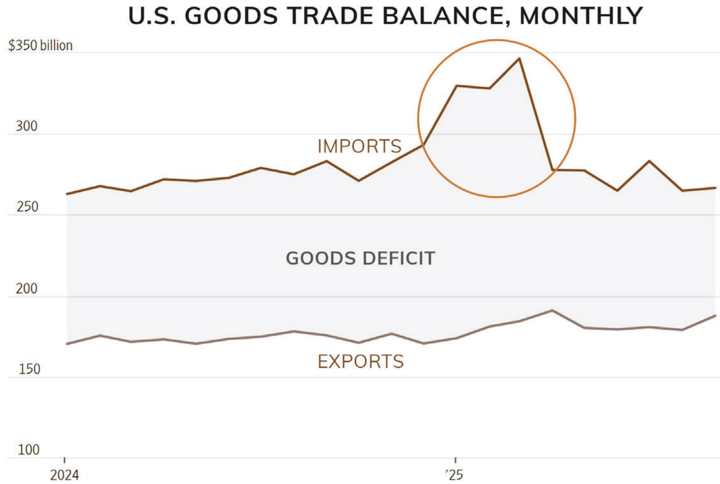
Source: Organization for Economic Co-operation and Developement via FRED®, Dec. 29, 2025



Source: U.S. Bureau of Economic Analysis via FRED®, Dec. 27, 2025

This "trip down memory lane" doesn't cover every major news story of the year for the simple reason that many of the major news stories proved to be non-events for markets. The government would shut down for five weeks at the beginning of the fourth quarter, yet markets were up +4% in that period (the Nasdaq and Russell 2000 were up more than that).

While we await the Q4 GDP growth results, we know that the economy grew in 2025, and that real GDP growth for the year will come in at approximately 1.8% to 2%. This represents lower economic growth than we saw in 2024, but higher growth than many feared in the middle of 2025. There are some anomalies in the data that made it lumpier than it normally is throughout the year (essentially, the statistical complexities of companies that were front-running tariffs), but 2025 was a "muddle through" year for the U.S. economy with growth hardly eye-popping, but also better than a lot of consensus expectations.



Source: Commerce Department, Dec. 26, 2025

2025 MARKET SUMMARY:

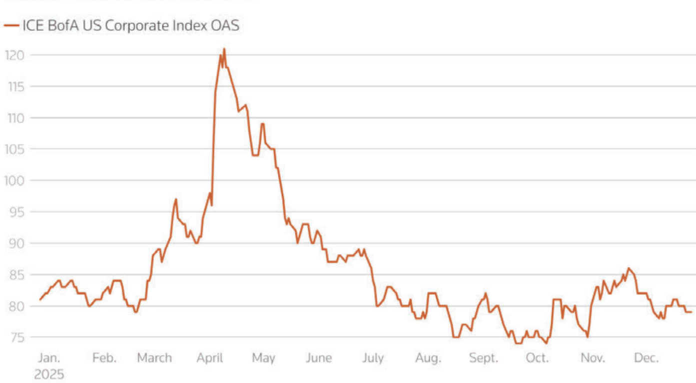
The three years we have just completed represent one of the best three years for markets since the late 1990s. Only 2019-2021 saw a stronger market return that 2023-2025, going back to the 1997-1999 period that trounced both of them (and any other three-year period in market history). 2022 was a rude interruption to this but aside from 2022 the entire 2019-2025 period has been remarkable.

It was a solid year for growth, with large cap growth up +17.4% versus large cap value up 13.2%. And it was a good large capitalization year, with large cap stocks up 15.5% versus small cap stocks up 12.6% and mid cap stocks up 7.5%. However, the reasonably small delta by the end of the year between growth and value as well as between large-cap and small-cap are both a by-product of a heavy convergence in the last few months of the year. Mid-year, the gap between large cap and small cap was around double what it would end up being by year-end, and the gap between growth and value was triple what it would end up being. In other words, the latter portion of the year saw a meaningful pick-up in market breadth.

It was also a fine year for debt investors, with the broad U.S. bond market up delivering a total return over 7%. Corporate credit spreads started and ended the year very tight, with the only real widening taking place in the Liberation Day tumult of early April.

US INVESTMENT-GRADE SPREADS TIGHTEN IN 2025

Investment-grade credit spreads - or the premium over U.S. Treasuries paid by high-rated companies to issue bonds - ended at about the same level they were at the beginning of the year and close to their lowest since 1998



Source: ICE Index Platform | Davide Barbuscia, Jan. 1, 2026

Significant central bank support gave gold bugs something to celebrate this year with gold up 64% and silver up 144% (the bulk of silver's return coming in the last few weeks of the year). The commodity world's strong gains did not end at precious metals, though. Copper enjoyed its best year in a long time (behind a huge supply/demand imbalance exacerbated by electrification), and other industrial metals were also up.

One of the only commodities to not see a positive return in 2025 was crude oil as an increase in supply was not met with an increase in demand, though natural gas would be up 9% on the year.

2025 ASSET CLASS PERFORMANCE

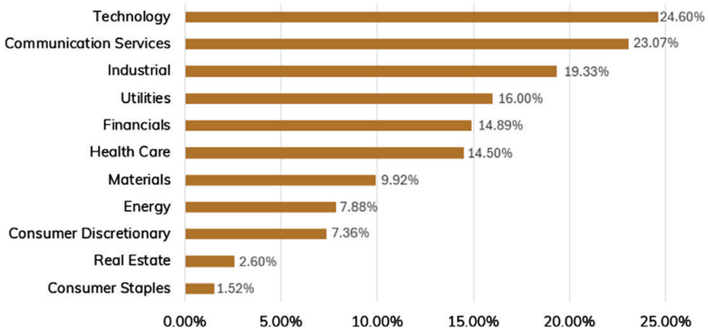
Gold	63.7%
Emerging Markets	32.1%
MSCI China	31.1%
Nikkei 225	26.2%
FTSE 100 (World)	21.5%
Nasdaq	20.4%
S&P 500	17.6%
Dow Jones Ind Avg	14.6%
Russell 2000	12.6%
Alerian MLP	9.8%
High Yield Bonds	8.2%
S&P MidCap	7.5%
U.S. Bonds	7.1%
Municipal Bonds	3.4%
U.S REIT	1.7%
Bitcoin	-6.1%
Dollar DXY	-9.4%
WTI Crude Oil	-9.4%

Source: S&P Global, MSCI, Reuters, Jan. 1, 2026

In short, there wasn't a particular narrative that did well in 2025 (i.e. risk-on vs. risk-off; stocks vs. bonds; U.S. vs. international; traditional vs. alternative) but nearly all assets, even of competing narratives, did well. Other than the crypto world, oil futures, and a few noteworthy currencies (the dollar and the yen), virtually every asset class was up in 2025.

The individual sector performance within the U.S. stock market would not be different. Though some sectors were up a lot more than others, all eleven sectors of the S&P 500 were up in 2025.

2025 SECTOR PERFORMANCE



Source: Factset, December 31, 2025

Later in the report I will have more to say about the specifics of the Artificial Intelligence (AI) sector relevance to Technology and Communication Services this last year (and next). It was not a monolithic year inside any sector. Though each "Magnificent Seven" name ended in positive territory, two were meaningfully below the market return, three were around the market return, and two were quite a bit higher (keeping with our divergence theme within this grouping).

The defensive sectors were no exception to this "non-monolithic" theme as Consumer Staples and REITs severely lagged (low single-digit return environment), but Healthcare and Utilities would enjoy mid double-digit returns. As was the case with the Mag-7, AI, and Big Tech, the end results of many other sectors do not tell the whole 2025 story. The Healthcare sector, in particular, lagged much of the year before enjoying a significant rally late in the year.

The Financial sector saw massive strength with some of the big bank stocks, but weakness with many of the alternative asset managers (which had been big leaders the last couple of years). The Energy sector was similar as pure upstream companies struggled, midstream companies did well (but not double-digit well), and downstream companies were generally very strong. Natural gas exposure did quite well relative to pure crude oil exposure. And within each sub-sector there are companies that buck the trend (to the upside or downside).

In summary, across the U.S. stock market positive returns were to be found in most places, but with highly divergent results across sectors and even sub-sectors of the market.

Where more monolithic returns were found for equity investors was outside the United States, as a weaker dollar, less structural concentration, and more attractive valuations allowed investments in China, Japan, and even Europe to all outperform U.S. stock indices.

That the 10-year started the year at 4.6% provided a great entry for bond investors. If we had known that the Consumer Price Index (CPI) would end the year up around 2.7% many would not have expected fifty basis points to come out of the long end of the curve, but real growth expectations moderated a great deal in the middle of the year, and bond investors benefited.

U.S. 10-YEAR TREASURY YIELD

Source: LSEG, December 31, 2025

2025 MARKET SUMMARY TAKEAWAYS:

- Risk assets and safety assets were almost all up in 2025
- The heavy delta between large cap and small cap, as well as between growth and value, compressed a great deal in the last few months of the year
- U.S. stock market indices were all up, as were all U.S. stock sectors, but with very dispersed results under the hood
- Bond investors saw positive returns in "safety" bonds (declining rates) as well as in "credit" (tight spreads)

2025 BOTTOM LINE:

1 EARNINGS TRUMPED VALUATIONS

High earnings growth beat out concerns over high valuations to once again create well above-average stock market returns. And while so much focus in parts of 2025 were on the big tech/AI/Mag-7 story, market breadth was far better by the end of the year than it appeared to be mid-year.

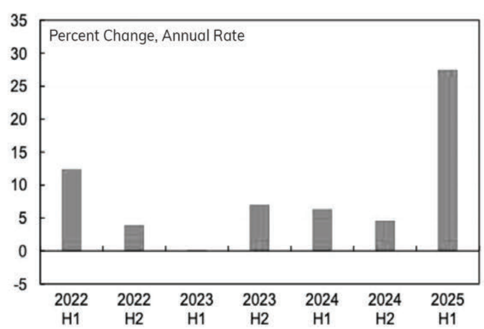
2 LUKEWARM ECONOMY

The economy did not go into recession, as it certainly would have had the “Liberation Day” announcements seen enactment, and in many categories the economy performed better-than-expected for the full year, at least once moderated expectations were baked in. However, significant revisions to job growth and a wide array of private sector surveys cast a shadow over the health of the labor market.

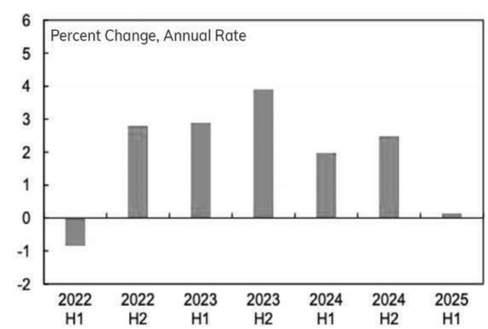
3 AI CAPEX

By one economist’s estimate (and I wouldn’t be quoting Jason Furman if I didn’t believe he was a credible economist worthy of being quoted), technology capital expenditures accounted for 92% of GDP growth in the first half of the year.

REAL BUSINESS FIXED INVESTMENT: PROCESSING EQUIPTMENT & SOFTWARE



REAL GDP EXCLUDING INFORMATION PROCESSING EQUIPTMENT & SOFTWARE

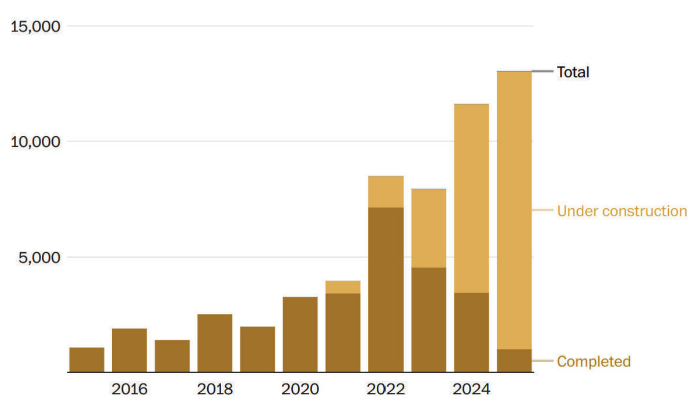


Source: *Jason Furman, Harvard University, Sept. 27, 2025*

Significant AI investment has, until recently, represented a huge boon to the stocks of both the companies spending the money and the companies receiving the money. That narrative has recently run into various headwinds and certainly will be a major investment question for 2026, but as for 2025 there is no question that in both the broad economy and financial markets, capital expenditures around AI were a major story.

With private business investment outside of AI remaining quite weak, the AI capex story boosted the economy in ways that were not imagined a year ago, and offset what would otherwise have been a material vulnerability in GDP growth.

U.S. DATA CENTER CONSTRUCTION, BY MEGAWATTS OF IT POWER DEMAND



Data for 2025 is through Nov. 26. Data center capacity measured in megawatts.

Source: MSCI, Novemember 21, 2025

2025 REPORT CARD:

(annual analysis of last year's themes and expectations)

1 TARIFF VOLATILITY UNDER-APPRECIATED & TARIFF PANDEMONIUM OVER-THOUGHT

A+

I have no doubt that by mid-March some were questioning this 2025 outlook of mine. By late March I suspect the questioning had turned to full-blown skepticism. And then, after the Liberation Day pummeling, I am sure many thought I was absolutely insane. I, myself, wrote a Dividend Cafe in mid-March questioning "Is the Trump market put dead?" But it took less than five market days for the very reasoning I brought to this position to re-surface and, ultimately, drive the policy reversals that we would see throughout the year.

My basic thesis was that there was a left tail outcome (low probability, high bad impact) and a right tail outcome (low probability, high good impact) that were both receiving too much attention. The left tail risk was a full-blown trade war, and there was no question that the newly re-elected President had used rhetoric throughout the campaign that suggested an embrace of such a scenario. My view, largely informed by the reality of his first term, but also my own psychoanalysis (and the testimony of others formerly in the administration) led me to believe that severe adverse market responses to tariff policy were, ultimately, untenable for the President. This is not to say that the President does not sincerely believe some of the things he has said about trade deficits and the propriety of protectionism as an economic strategy. Rather, it is to say that the total weight of considerations, opportunities, and risks lent themselves to a situation where:

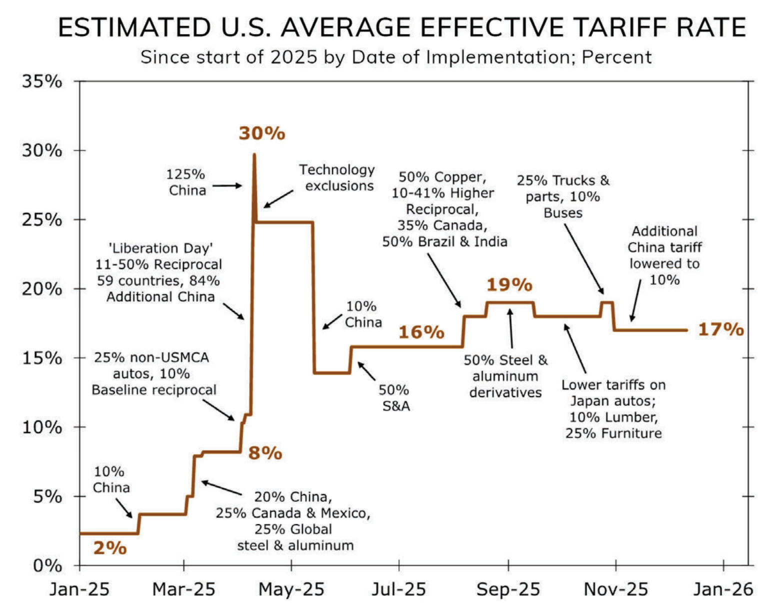
(a) Tariffs would go higher, but not beyond a pain threshold that markets set

(b) The lack of consistent rationale for the tariffs meant the policy was less ideological and more pragmatic, and the pragmatic scenario was one where "deals" could be announced (of varying impact and reality) but worst-case outcomes would be avoided

(c) Large companies whose products were primary in the U.S. economy (semiconductor chips, iPhones, etc.) would be exempted, relieving a lot of the pressure on public stock markets due to the disproportionately high market cap of the companies receiving waivers

What most certainly did not happen was the "best case scenario." My hope and the optimism of some who I know and respect proved wrong, that the pressure of higher U.S. tariffs would allow for unilaterally lower tariffs (that old "he is negotiating/art of the deal" line). Indeed, the right tail outcome was just as far from reality as the left tail outcome would prove to be (after the President's reversal on April 9, that is).

This chart captures the reality of 2025 and the theme I projected a year ago perfectly. Tariff rates would not stay in the low single digit level they had been, but nor would they stay at the 30% threat (125% for China) in the aftermath of Liberation Day. In a mathematical encapsulation of meeting in the middle between the two tail risk outcomes, the actual rate would prove to be between 14% and 17%, with certain waivers, exceptions, and carve-outs still bringing that effective rate lower now.



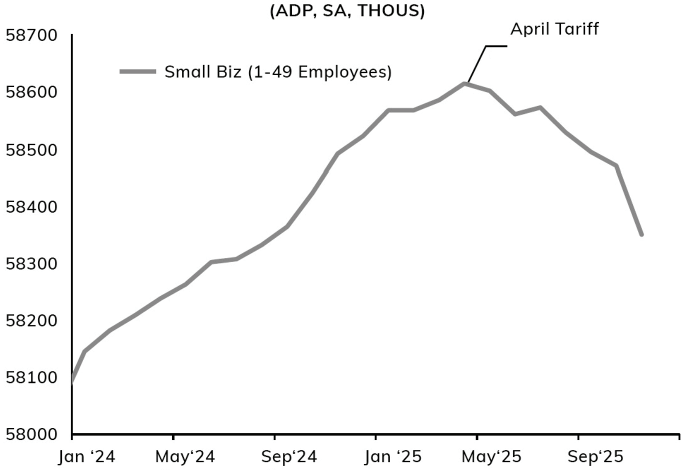
Source: U.S. Department of Commerce and Wells Fargo Economics, Dec. 29, 2025

(note: these percentages are the *stated tariff rates* as policy pronouncements have vacillated and changed; the *effective tariff rates* are estimated to be closer to 12-14% per the Tax Foundation and Strategas Research).

My own view has been for some time that once the President took the left-tail risk off the table in early April the major issue was not in short-term market impact but rather longer-term economic impact. We know there have been some pricing pressures from the tariffs (as evidenced by the administration's removal of tariffs on price-sensitive items like coffee, bananas, beef, fruit, and cocoa late in the year). What we do not yet know is the impact to capital flows, total trade, and overall capital expenditures. This will be a major story in the second half of 2026.

Thus far, AI capex and mega-cap tariff waivers have left that segment of the economy less impacted by tariffs, but small businesses do not appear to be able to say the same. Small businesses have shed 300,000 jobs since the tariff announcements, and the NFIB Small Business Optimism Index has weakened since tariff implementation began.

ADP NONFARM PRIVATE PAYROLL EMPLOYMENT: SMALL BUSINESS
(ADP, SA, THOUS)



Source: Stratagas Research, Economic Update, Dec. 16, 2025, p.5

Actual economic data and headline/social post narratives may or may not be in conflict with each other. But 2025 was not a year of decisive action on tariffs, let alone decisive reactions. Companies cannot decisively set pricing, make ordering decisions, or finalize their response to the new tariff reality when they (a) Are waiting for a Supreme Court decision to see if the tariffs will survive legal review, and (b) The White House, itself, has taken a highly discretionary and flexible approach to implementation throughout.

So whether one supports the tariffs on policy grounds or opposes them; whether one is predicting a negative outcome or a positive one; whether one sees tangential benefits coming from this tariff posture or unintended consequences, there is no rational way to yet determine how tariffs have played out. When one gets past the partisanship (from either side) that has replaced economic analysis these days, we enter 2026 with the left tail and right tail scenarios off the table, and a lot of questions about this will play out, in between those two scenarios.

In other words, we go into 2026 with exactly the scenario I described a year ago.

2 TAX BILLS ARE THE MOST IMPORTANT POLICY REALITY

A

DOGE was all the hype at the beginning of the year, and many believed that governmental deregulation initiatives would be the most consequential for markets. By the end of the year, DOGE had effectively been shut down, and the actual savings ended up being roughly 10% of what was initially stated, with many independent estimates suggesting the actual savings are even less.

Some suggested a resurgence in manufacturing would come from trade policy. Instead, factory activity has contracted for nine months in a row and the ISM Manufacturing Index has stayed in contraction all year. Manufacturing jobs are at a net loss of 49,000 on the year.

My view was that a comprehensive tax bill was going to pass (that it was inevitable given the results of the election), but that if they did not pass it until the very end of the year, leaving much of the year subject to significant uncertainty around particulars, it would heavily weigh on sentiment and activity. However, if they managed to pass a tax bill through budget reconciliation in the first half of the year, it would avoid such an uncertainty drag and the malignant consequences of waiting too late in the year to act.

Alas, the One Big Beautiful Bill Act did pass at the mid-point of the year, making permanent the individual tax cuts from the 2017 Trump tax bill, and adding a few new tax cuts that will be significant in 2026. As I wrote a year ago, the primary importance here, relative to other policy categories, was not anything particular in the bill (the overall bill had plenty for people on all sides to both like and dislike), but rather the timing and magnitude (my exact words a year ago).

3 CHINA RELATIONSHIP TO IMPROVE, NOT WORSEN

A

I gave an A instead of an A+ because I am sure that there are some who will say that the April escalation in trade and tariff threats as well as the October jabs around export controls represented some dampening of the big picture story, but this was a full-year theme, it was a pretty contrarian call a year ago, and there is no question it came to fruition.

Consider the following: In 2018, the Trump administration banned U.S. agencies and contractors from doing any business with Huawei, China's leading information technology company, and heavily pressured other private companies and foreign allies not to use Huawei in their 5G networks. The U.S. had the Huawei CFO arrested. Well beyond the public spat over tariff rates and soybean purchases, the U.S. was creating an embargo in U.S.-China relations around matters of critical technology. Fast forward to 2025 and the way in which export controls, Nvidia chips, and Chinese rare earth minerals were positioned in trade talks, and one would be hard-pressed to not see a categorically improved relationship between the two super-powers. Not only was the entire mindset categorically different for both countries, but the end result spoke to a drastically different environment.

Did China's control of various rare earth minerals soften the U.S. position? It didn't help. Does President Trump crave diplomacy with strong world leaders more than conflict? That seems to track. Would genuine decoupling threaten U.S. stock markets in a way that undermined the administration's strong economy messaging? I sure think so.

In other words, there are plenty of reasons why all of this may be true, but there is little doubt that it is true. At press time, it appears highly likely that President Trump and President Xi will be meeting four times in 2026, the same amount they met the entire first term, and more than the amount of times President Biden met with Xi his entire four-year term. The policy conclusions of 2025 are easy to summarize:

- The administration has approved Nvidia selling its H200 processors to China, marking a huge easing in export controls and technology restrictions.
- TikTok was allowed to stay open in the U.S. despite a Congressional order stopping it, and a massive commercial transaction was effected, making TikTok a joint venture between the U.S. and China.
- Last, but not least, the actual 2025 National Security Strategy released in December contained such undeniable softening in its tone and content that the framing was essentially moved from that of an existential threat to that of a strategic competitor.

My intent here was not to commend such an improvement in relationship or to criticize it, but merely to predict it. The future may hold different cards for the relationship between the world's two most significant super powers, and there are vast tensions that still exist. But that the relationship went the opposite direction many expected in 2025 was a thematic call worthy of an A grade.

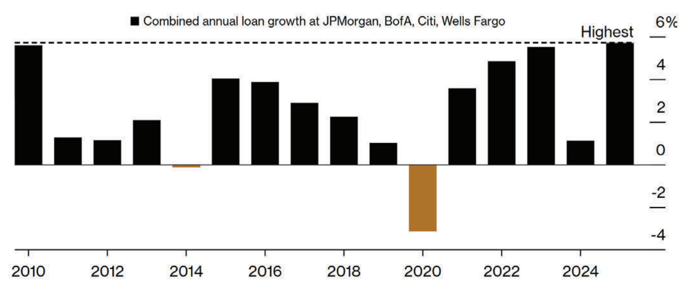
4 FINANCIAL DEREGULATION TO BE UNDERRATED CATALYST FOR GROWTH

B+

There is no question that financial deregulation happened in spades in 2025. The Consumer Financial Protection Bureau was essentially disbanded (it technically still exists but with very limited activity). The Basel III Endgame capital requirements were rejected in the U.S. and the revisions are substantially friendlier to U.S. banks. Multiple reprieves were given that would have forced banks to hold even more capital. Federal Reserve stress tests for financial institutions were made much less dramatic. A two-year average is being considered for capital buffer requirements. More transparency and clarity has been given to banks by regulators as to what will be required of them in annual stress tests, making compliance easier and allowing for better capital planning. A more permissive approach to banks paying dividends and buying back company stock was enacted. And while some of these things are not fully enacted, the financial system sees the proposals as a constructive forward indicator.

BANKS GROW LOAN BOOKS AT FASTEST PACE SINCE CRISIS REBOUND

Looser US capital rules and oversight let commercial banks lend more



Source: Bloomberg, Dec. 29, 2025

So why is this a B+ versus an obvious A+? After all, the largest financial institutions saw their stock prices up an average of +45% in 2025, so if that was not a "catalyst for growth," what is? I specifically referenced the low price-to-book ratios of our big banks in last year's commentary, and those ratios all moved meaningfully higher in 2025.

Well, it was a catalyst for growth in the financial sector, particularly for commercial banks and investment banks. However, the broader context of this theme was financial deregulation catalyzing broader economic growth. I also believe this to be the case, but I do think it is fair to say that financial deregulation in 2025 creates broader economic benefits in 2026.

We will look at the ramification on M&A in theme #6 below, but I graded myself harder than I normally would. Some of the deregulatory emphasis of the new administration are outside the domain of my interest (i.e. an almost complete cessation of regulatory activity in the crypto space, for example). But what is clear to me is that excessively burdensome regulations have been lifted, and the low-hanging fruit of more sensible capital requirements were a huge story in 2025 that didn't get the media attention it deserved. The market, however, clearly paid attention.

5 EARNINGS DISAPPOINTMENT A BIGGER RISK THAN EARNINGS SURPRISES

A

I acknowledged when I set this theme last year that:

"This is an especially lame theme for those who want to treat these themes as predictions, forecasts, or market calls. By definition, there is no way to measure or verify my assertion that falling short of 15% profit growth has more implications than if we somehow exceed it."

However, given the market response any time there was a threat to those earnings growth expectations, it seems rather obvious this was correct. That earnings growth of roughly 12% was achieved on the year allowed markets to advance in line with that earnings growth with only a small attribution from multiple expansion.

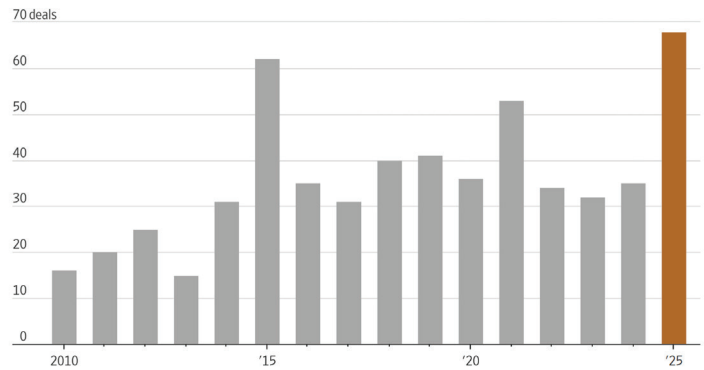
But I know – setting a theme that "would be a bigger risk if it doesn't happen than it would be a reward if it does happen" seems rather unhelpful, especially when the thing in question did happen, and there is no other actuality to compare it to. When it comes to non-provable assertions, I am happy to get an A when I know I am right, even if it can't be proven.

6 CORPORATE ACTIVITY TO SKYROCKET

B+

Global mergers and acquisitions (M&A) reached $4.5 trillion in aggregate transaction size last year, the highest in history and roughly 50% higher than the year before. If we isolate the date to the United States, which was the focus of my theme, there were $2.23 trillion of transactions last year (so half of global M&A was domestic), and this was a massive 54% increase over 2024 levels. That the dollar value of deals was up so much even with a slightly lower transaction volume speaks to the size and scale of deals that were done, with a record level of deals over $10 billion hitting the market.

NUMBER OF DEALS VALUED AT $10 BILLION OR MORE, YEARLY



Source: M&A Wall Street Journal, Dec. 29, 2025

There were 144 SPAC IPOs in 2025 which was 2.5x the SPAC volume from 2024. Total IPOs were 33% higher in 2025 than 2024.

So from mega-M&A to IPO and SPAC activity this forecast was spot on…so why a B+ instead of A? One of the rationales I offered last year was specific to the "private equity exit theme" – that is, the pent-up demand for profitable exits from private equity investments where capital was expected back by PE limited partners. And indeed, private equity exit value was $622 billion in 2025 versus only $380 billion in 2024. The total PE exit increase in 2025 was so substantial you would think I would take points in my grade here, but there are two reasons why I am being honest enough to do a modest docking of points:

(1) Private equity exits, while up on the year, were only 20% (perhaps 25% when all is said and done) of the total M&A volume last year. That was not exactly how I saw it happening (a three-pointer that goes in still counts but it goes off the backboard and you didn't call glass, well, if you know, you know)

(2) The private equity data is not pure to sale events to strategic acquirers, or IPOs, or other financial sponsors but includes transactions involving continuation vehicles or secondary buyouts. This is not large enough to alter the intent of what I thematically forecast, but nor is it small enough to pretend that it is a pure apples-to-apples comparison.

Truth be told, the private equity activity of 2025 was just strong enough to make me right for 2025, and just soft enough to leave it on the table as a theme for 2026 (along with what I believe will be another mega-M&A year).

7 THE DEFICIT WILL BE LOWER

A

I was a little imprecise when I said that the "deficit would be lower" as one of the 2025 themes, in that I did not specify if we were talking fiscal year (Oct. 1 – Sept. 30) or calendar year. Fortunately, the math played out as I suspected in either case.

The fiscal year 2024 deficit (Oct 1, 2023 – September 30, 2024) was $1.83 trillion. The fiscal year 2025 deficit was $1.78 trillion, down by $50 billion. However, the deficit was projected to be up by $200 billion, not down by $50 billion. And indeed, federal outlays (spending) were larger this year than last. The $6.7 trillion of federal spending in fiscal year 2024 was increased to $7 trillion in the next year.

So how did spending increase $300 billion yet deficits come in a tad? Because tax revenues increased by $300 billion year-over-year, the exact basis for the call I offered a year ago. If we look into the next fiscal year, which is where the calendar years would start to overlap with one another, the deficit appears likely to come in at $1.7 trillion, meaning the calendar measurement would side even more favorably with my prediction.

A huge wildcard for the deficit is revenue, specifically, capital gain tax revenue. It is estimated to be up 25% in the next fiscal year and it was already up 25% in this last year ($261 billion in 2025 versus $206 billion in 2024). I must reiterate the same point I made last year: A budget deficit going down from $1.83 trillion to $1.7 trillion is not because fiscal responsibility was found in the halls of Congress. Some have asked if the reduction of the federal workforce contributed to deficit reduction and, indeed, the federal workforce is 9% smaller than it was a year ago. However, despite a headcount reduction, federal spending has increased by 6% over the same period.

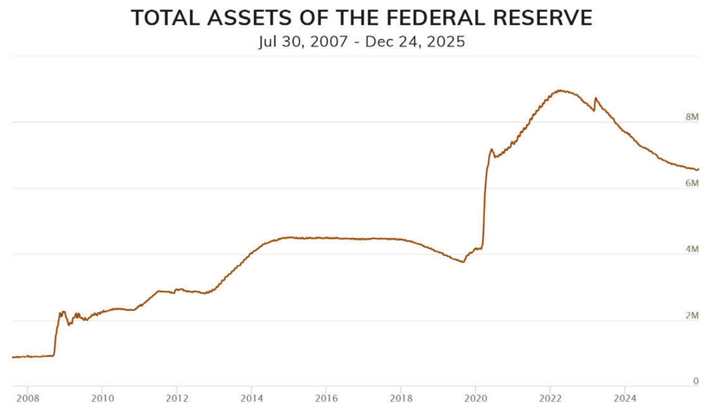
8 QUANTITATIVE TIGHTENING IS ENDING

A+

Some may remember that I had the same theme in 2024 and received a letter grade D for that call one year ago. Therefore, this grade has to be taken as the "do-over" that it was. In fairness to me a year ago, the Fed began cutting rates in September of 2024, and it made no sense to me that one policy tool was easing while another policy tool would be tightening at the exact same time. The Fed apparently agreed with me, but not for another year.

The intent now, per the Fed, is to hold the balance sheet level, reinvesting maturing securities but not adding to their asset level with net purchases. I remain of the opinion that we have not seen the end of quantitative easing, but before that future call will be proven correct they first had to at least stop quantitative tightening and that has now happened.

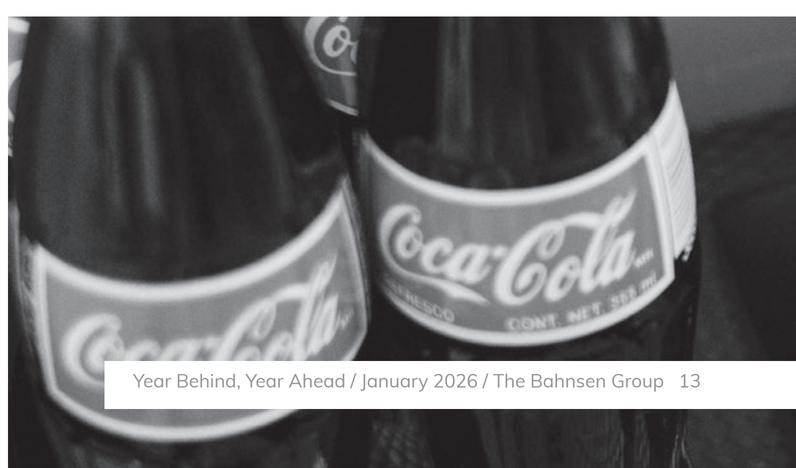
One thing I have admitted to being wrong about before, and certainly am not alone in this, is my surprise that the Fed reduced its balance sheet by $2.5 trillion over the last three years without doing any damage to credit markets or financial system liquidity. The Fed believes that they have pushed their luck, and money market rates and reverse repo funding markets suggest they are correct. But that they took out the excess bloat of the "COVID quantitative easing" (not the first shot of the bazooka, but the two years' worth that followed) is a pleasant surprise to me.



Source: Federal Reserve, Dec. 31, 2025

SUMMARY: TWO B'S, FOUR A'S, TWO A+'S

Look – one could say I am cheating when I (a) Picked the assignment, (b) Did the assignment, and (c) Graded the assignment. And it is true that this year's thematic scorecard has a pretty high GPA. But to be clear, those B+'s could have easily been A's, and let's not forget that I had three B's and two D's last year! Maybe I attempted too many lay-ups for 2025 and that created a higher average, but it really was a better year for thematic analysis than most. We'll see how 2026 goes (I promise I am taking harder shots this year).

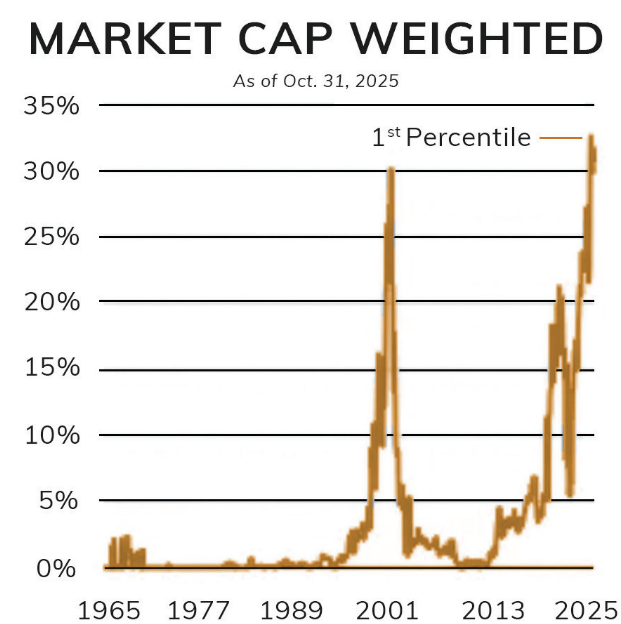


2026 THEMES

1 AI VULNERABILITIES WILL BECOME MUCH MORE EVIDENT TO THE MARKETS

It would be hard to pick a topic where the opportunity for embarrassment looms larger. I have strong convictions about what is happening in the Artificial Intelligence space, and I have even stronger convictions about some of the things that lie ahead (some of which have been discussed; others of which have not). But I have almost no convictions about the timing of any of this, and, in fact, my own study of the history of situations that I consider analogous or adjacent to this one reveals that moments of excess, euphoria, and over-investment can last far longer than their skeptics can maintain a voice. So while I am putting the AI narrative vulnerability as my number one theme for 2026, I am incredibly open to the idea that the reckoning I envision may not take place this year. But I stand by the conviction that there are deep flaws in the narrative that has been presented, and prudent reasons to moderate exposure and orient exposure around thoughtful selectivity.

I would not devote the time and space I do to this subject if we were just talking about two or three AI companies caught in a "shiny object" moment. The way in which this narrative has become mainstream for investors is a big part of the story, itself. Consider that right now, nearly 33% of the S&P 500 is trading above 10x sales:



Source: Callum GMO, Dec. 29, 2025

Not earnings – revenues. One-third of a cap-weighted S&P 500 index fund is trading at a revenue multiple it has never seen before in history. As the chart below (left) shows, we saw this percentage of the broad market index see this happen once before. Pictures tell a thousand words.

I want to be very clear (as I have been careful to do in Dividend Cafe) about what I am not saying. I am not suggesting that AI is a myth, a joke, or a non-event. I believe it is a major technological story, and I believe there is serious transformation coming in many ways.

I also believe that many of these transformative stories are unknown, unclear, or uninvestable at this time. I believe a great deal of speculation is embedded in much of the AI investment narrative. And I believe that there is very low regard for risk in how most AI investments are discussed, and certainly how they are priced.

What has become more of a story in late 2025, though, and why I am willing to launch my 2026 themes with this commentary, is something more than the mere valuation and speculation concerns behind this story. The basic fundamentals also leave a lot of questions, and they have begun to receive scrutiny.

The late 2025 pause in the AI trade did see some stock prices drop a great deal, and others drop a modest amount, but very little was fully broken or purged. A company like Oracle ended the year down 44% from its high of three months earlier, yet still up 17% on the year. Froth may have come out of some names, but much of these declines are simply air coming out of prior inflations. There is ample vulnerability to be found if and when sentiment reverses, and that sentiment reversal is not likely to come until there is some fundamental breakdown.

That fundamental breakdown, combined with a sentiment shift, is most likely to be catalyzed by an eventual investor processing of the capex circularity reality embedded in the present AI moment. The classic circularity issue is this: Hyper-scalers doing deals with companies that build large language models (LLM), as those large language models do deals to buy high-end AI chips, as those chip companies and hyper-scalers invest equity money in the LLM companies, themselves – rinse and repeat. I could provide you a dozen high-profile examples of just these arrangements, right now. These arrangements are perfectly legal, and in certain cases, totally rational. What they are not, though, is evidence of a successful model. The success all depends on a significant amount of change in the future that is entirely aspirational. There are legitimate questions as to how the amount of investment going into this build-out will be recuperated, and how it will be recuperated by all the companies competing with each other, at once. The hyper-scalers are investing as if this is a “winner take all” challenge, but that is most definitely not how retail investors are investing (“all will be winners”).

I am asked often, “what do you think would catalyze a real unwinding of this story?” My answer remains the same – some hyper-scaler blinking. I do not mean surrendering, exiting, or ceasing to invest. I merely mean “slowing the pace of investment.” This not only strikes me as possible, but inevitable, and I do not see how valuations hold across the AI system ecosystem when that moment comes.

There is another vulnerability I want to quickly mention, but hold for a more exhaustive Dividend Cafe later in the first quarter of 2026. Not only does this investment story depend on a friendly regulatory regime, a path to monetization that is not currently visible, and a sort of magical ending where everyone wins together, but it also seems extremely dependent on the assumption that this whole thing is something the public wants, period. I am not suggesting that the public does not want AI, but I am suggesting that people being impressed with what ChatGPT can tell them or what LLM’s can create has distorted what the cultural and political pushback is going to prove to be in 2026.

So with all that said, my list of things to watch in 2026 around the AI story:

(1) Cultural and political pushback against the aggressive use of intellectual property being granted to LLM’s, the regulatory favors being granted to big tech companies, and greater scrutiny of the social cost from AI as various new narratives take hold

(2) Whether or not capital expenditure assumptions are revised down as ROI realities are re-priced

(3) China’s announcements in the space, both in terms of their own LLM development, and their own ability to generate sufficient computing power domestically

(4) How much financing in this whole story (circular capex or otherwise) becomes debt-sourced versus equity

Can the AI darling stocks be up, yet again, in 2026? Sure. Can some stocks be down while others are not (a more Darwinian interpretation)? Sure. Could it be a bit of a roller coaster along the way, but with a successful outcome in the end? Yes.

But my 2026 theme is that there are more questions than answers, more risks than rewards, and more problems than solutions. And if I end up being early here, so be it. I have seen what happens when people are late.

2 THE ECONOMY IS IN A TUG-OF-WAR BETWEEN TWO UNKNOWNS

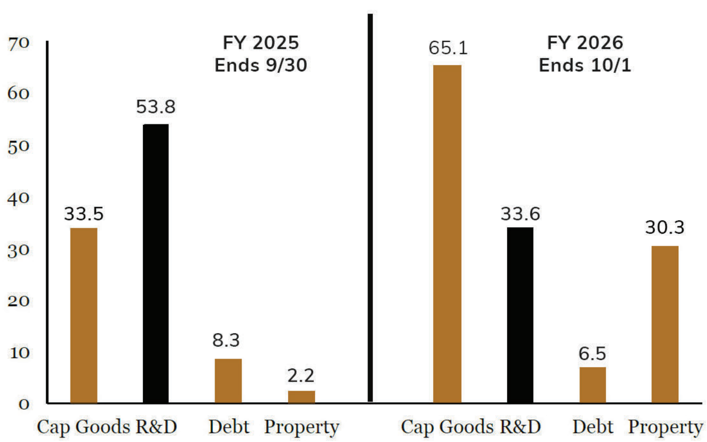
We enter 2026 with a potential headwind and a potential tailwind in conflict with one another in the U.S. economy.

Are the promised foreign investments in the United States hype or real? Are they now or later? Are they economic or are they marketing? Will the tax benefits of the new tax bill result in greater capital goods and R&D investment?

The answers to those questions will go a long way towards determining the economic narrative of 2026 (and therefore the midterm results of 2026), as the potential for new capex and promised investment goes into a push-pull with the cost and negative impact of tariffs. The total annual cost of the tariffs is now going to be around 1% of GDP ($300 billion). The total tax savings of the OBBBA is estimated to be $200 billion, the sum of increased business deductions. On paper, this appears to be a slight net cost to the business sector and economic growth. However, those "increased business deductions" cover bonus depreciation, greater expensing for manufacturing structures, greater expensing for Research & Development, and more favorable rules for business interest expense deductions. This tax savings may very well provoke a supply-side virtuous cycle wherein incentives to produce increase at a higher rate than the cost of the tariffs represent.

As for the impact of the tax bill's new provisions, the simplest way to say it is that the cost of investment has now fallen and therefore should lead to more investment (if you tax more of something, you get less of it; inversely, if you tax less of something, you should get more of it).

ESTIMATED TAX SAVINGS BY BUSINESS TAX PROVISIONS, $BN, FY



Source: Stragegas Research, Policy Outlook, Dec. 16, 2025, p.5

We do not know the current reality of the U.S. labor market. We know it is not robust, but we do not know that it is broken. A 4.5% unemployment rate that tilts back towards 4% is not something to fret over. But a 4.5% unemployment rate headed towards something above 5%, is. Has the Fed left rates too high, too long? Do private sector surveys like ADP and Challenger, Gray, & Christmas accurately describe a weakening labor market in the business sector?

What we have is an unknown potential growth driver (new tax provisions) competing with an unknown potential risk (labor), with tariff uncertainties thrown in for good measure. The bold thing to do here would be to take a side: "The labor market will weaken further and expose a real vulnerability in this economy that supply-side tax cuts will not be able to fix" – or, perhaps – "The OBBBA tax provisions will prove to be an underrated source of growth and productivity in 2026 that will drive more capital investment, more hiring, and continued wage growth." These sentences cannot co-exist, yet I am fairly certain one of them will prove to be the economic story of 2026.

Why stop at the framing without offering an opinion on which door it will be? Humility and honesty. I do not know. No one else knows. And it is immaterial to how we would be investing money this year. Therefore, I am content to lay out my view of the tension, without a fabricated view on which side will win.

3 MIDTERM ELECTIONS: THE HOUSE WILL FLIP TO DEMOCRATIC CONTROL BUT THE SENATE WILL STAY UNDER GOP CONTROL

As one who hates doing political prognostication more than market prognostication, I really shouldn't be breaking my own rules here - especially because the second half of that prediction is far more vulnerable than the first half. But I bring it up purely because of market relevance: Midterm election years tend to experience far more intra-year volatility than non-midterm years (i.e. the average drawdown in a midterm election year is 19% whereas it is just 12% in the other three years of a Presidential cycle). Stocks have not had a negative year in the year following a midterm election year since 1938, so elevated volatility this year may seem like a good buying rationale for many investors. What about the midterms could spike volatility in the year ahead? (1) The magnitude of the first half of my forecast (could a Democratic takeover of the House be bigger than currently expected); and (2) The accuracy of the second half of the prediction (despite overwhelming GOP advantages in the Senate map, should a blue wave become material, this expectation could potentially be called into question).

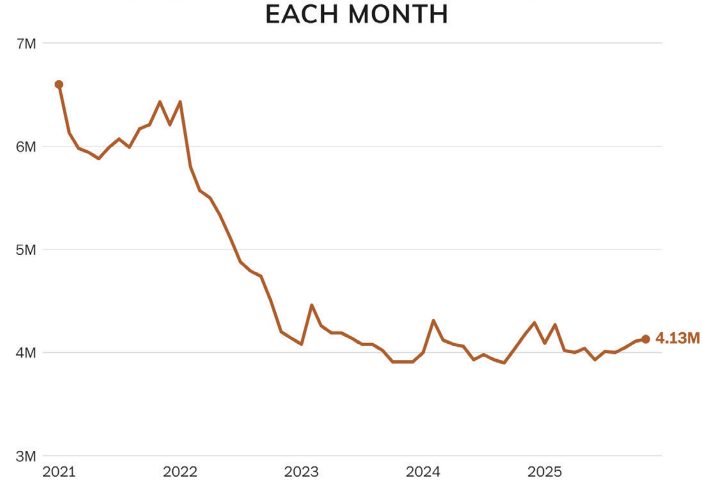
4 HOUSING WILL GET CHEAPER THIS YEAR, OR THERE WILL BE PROBLEMS

I cannot tell you how much joy it brings me to see a narrative so violently turned on its head as the narrative that drove American thinking from the late 1990s until about five minutes ago. We have always heard plenty about "how housing is doing" or "the need for a better housing market," but all anyone ever meant by that was the asininity of "expensive houses going up in price more." Somehow the definition of a "strong housing market" was a sticker price disconnected to wage growth, economic growth, affordability, and any other metric that would qualify as sensible or rational. Suddenly, that has all changed, and I mean for the better. The conversation headlines are still the same – "how is housing doing" and "concerns for an improved housing market" – but out of nowhere, the meaning of the exact same language is basically the exact opposite of the prior [un]orthodoxy. This language now means "affordability" – and with that, the adjacent benefits of a functioning housing market (activity, construction, renovations, etc.).

Few parts of the American economy carry an embedded multiplier effect more pronounced than housing. When there is a strong housing market, properly defined as price equilibrium and sensible activity, not bubble-forming, non-sustainable prices, there will be multiple adjacent benefits to the economy. From the financial sector to the construction sector to the retail sector, housing has a long tail. The combination of inadequate supply, high price expectations from would-be sellers, prohibitively high borrowing rates for would-be buyers, and too-good-to-sell rates for current owners all "froze" housing activity over the last couple of years, with little gains on the affordability front, and no gains for those looking to tell themselves their houses are more valuable than they were a year ago.

2026 is going to have to see that change, and by change, I mean, a lower price of housing which serves as a benefit to the housing sector. I understand the Trump administration is preparing to announce a master plan for improving affordability in the housing sector. I will analyze any particular plan put forward as I have thus far (the 50-year mortgage idea, federal subsidies for down payments, federally-facilitated mortgage portability, etc.), but the truth is that I believe there is almost nothing the federal government can do to fix what is almost entirely a supply problem.

NUMBER OF EXISTING HOMES SOLD EACH MONTH



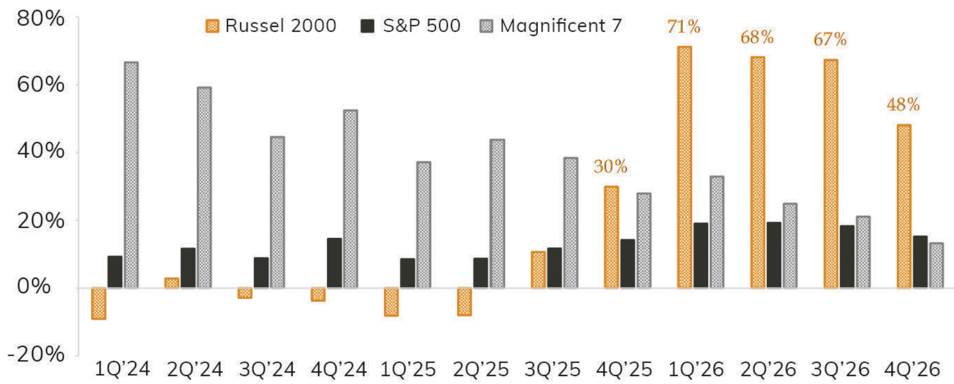
Source: WAPO National Association of Realtors, Dec. 29, 2025

The most natural solution to this is a modest re-pricing and I expect that to happen in the lion's share of American metro markets in 2026 (it has already begun in many of the frothiest). The economic benefits here are for buyers and those with adjacent connectivity to housing activity. That latter point has concerned the Federal Reserve for some time, and it is where I believe the biggest need lies.

5 SMALL-CAP EARNINGS GROWTH WILL OUTPACE S&P 500 EARNINGS GROWTH

This doesn't contain any prediction on the price performance of the S&P 500 or the price performance of the Russell 2000, but it does state that the percentage of earnings growth, which has lagged in the small-cap world for several years, will outpace the earnings growth of its big-cap older cousin. And I will add this: it will do so by a meaningful amount!

QUARTERLY EARNINGS GROWTH ESTIMATES (YOY%)



Source: Stratagas, Bloomberg Consensus Estimate, Jan. 1, 2026

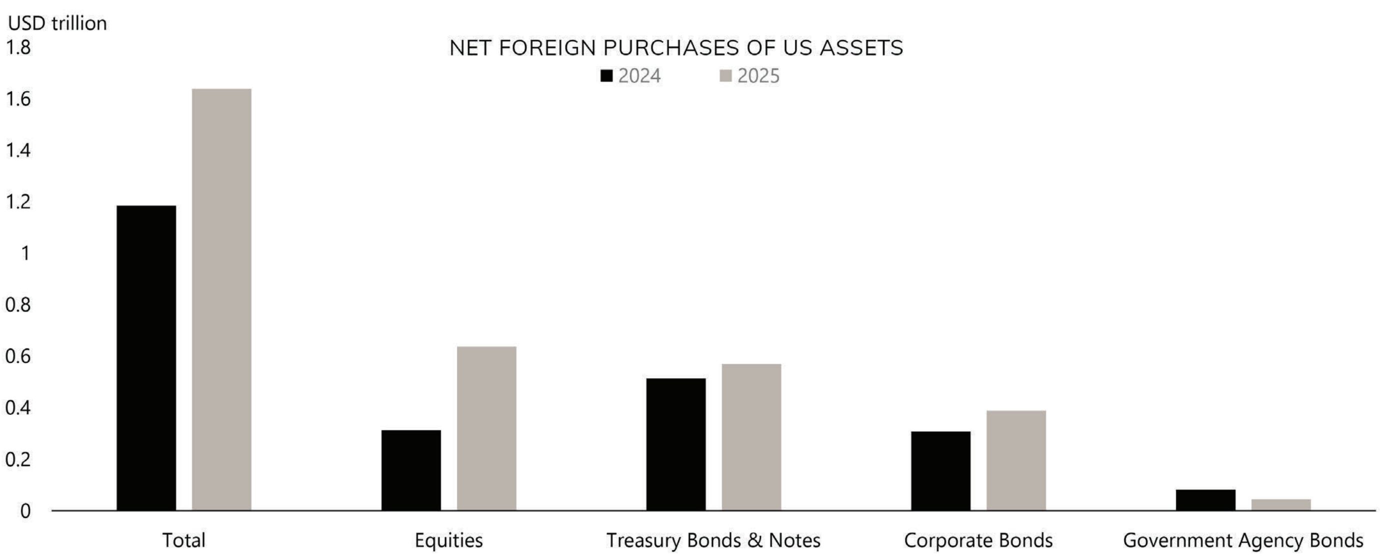
Data as of 12/12/25

6 FOREIGN APPETITE FOR U.S. ASSETS TO STAY STRONG

A theme that I regret for questioning in the middle of 2025 has been that of appetite for U.S. assets from foreign buyers.

On the one hand, should our current account deficit go down, the accounting identity is that there must be less dollars to come into U.S. assets from foreign investors. However, the current account deficit was never the only issue driving strong foreign interest in U.S. assets – it was merely the accounting reality that made them. But not only am I unconvinced that the delta between our imports and exports will really go down that much as a result of tariffs (I see total trade being impacted more than the trade deficit), the fundamental reasons for foreign investment into U.S. markets remain the presumption until proven otherwise.

HIGHER FOREIGN DEMAND FOR US ASSETS IN 2025 THAN IN 2024



Source: U.S. Department of Treasury, Macrobond, Apollo Chief Economist Dec. 31, 2025 / Note: 2025 data is annualized.

7 THE ENERGY SECTOR TO BE A SOLID CONTRARIAN PLAY IN 2026

I say this knowing oil is sitting around $58 and that the White House would love for it to be even lower. But I also believe that OPEC+ is a larger factor than the U.S. in where total global supply goes next year, and I do not believe most of those countries can afford to elevate production much with prices in the 50's. I also offer a contrarian bullish call on energy because of the need for more electricity production that everyone seems to be aware of but no one seems to understand how it will have to happen (i.e. natural gas).

Source: Gavekal Research/Macrobond – December 10, 2025

From LNG exports to a low starting spot in WTI prices, I think the fact that Energy is so often ignored allows this contrarian call to be less risky than it may seem on the surface. I also believe that history has been kind to the sector when it becomes such a low part of the S&P 500. The sector may be less than a 3% weight in the S&P 500 right now, but I assure you it is more than 3% of what matters to American economic life.

8 M&A (AGAIN!)

The pent-up need for exit events in private equity has not subsided from a year ago. IPOs (SPAC and otherwise) seem to have a high capacity for digestion at present. There is huge desire from sovereign wealth funds to participate in large-size equity transactions. And last year was just the first year of a Trump administration that has, so far, been giving the green light to mega-cap M&A. Even as private equity deals with its own capacity issues for exit transactions, there paradoxically exists ample dry powder for acquisition events.

For all these reasons, and in a spirit of continuity from what we experienced throughout 2025, I believe 2026 will be another strong year for corporate activity, made stronger still by the continued easing of monetary conditions we expect from the Federal Reserve.

CONCLUDING THOUGHTS

When one reads of my skepticism and concern regarding the AI-capex story, not to mention my concern regarding broad market index valuation and concentration, it would be easy to conclude that I am bearish about the state of affairs in markets and the broader economy. Add in the standard geopolitical risks, midterm election uncertainties, and concerns around the impact of tariffs on our vulnerable labor market, and I don't think it is a mystery to see what could go wrong in 2026.

Yet if I left things there I would be doing readers a disservice. Allow me to say something as clearly as can be as we prepare to enter the new year:

There is upside risk in the economy!

My friends at Strategas Research are fond of calling tariffs the "spinach" stage of the administration's policies, and I do not disagree. But as I mention in theme #2 (page 16), the OBBBA tax provisions may very well create a "candy" stage. No honest economist can say that this will play out, but neither can an honest economist say it will not. There are upside scenarios to the supply-side provisions of the new tax bill that, coupled with an obviously accommodative Federal Reserve, may very well create economic upside that is not currently appreciated.

One of the reasons we find market timing and altering one's investment plan around short-term market projections so foolish is that it never accounts for the unknowns, and never accounts for the degree to which that which is known (or expected) is already priced into markets.

Most market watchers believe another rate cut is coming before a new Fed chair comes, and there is some indication that two more cuts are possible. It is totally outside of my belief system to set an economic or market expectation around the actions of the Federal Reserve, but with two rate cuts for 2026 almost assured, and four cuts not at all out of the question, is there not some possibility that the economy does not struggle as it much as it could, and finds a super accommodative Fed at the same time, boosting capital returns and provoking greater investment?

I am happy to do the half-empty glass scenario, too, because I am just as persuaded to that argument as I am the upside argument. I have no conviction about the reality of U.S. labor markets and believe it is entirely possible that the supply-side benefits of OBBBA will be overshadowed by tariff costs. If that tug-of-war goes the wrong way and an AI-capex implosion happens, it is not hard to see a scenario where markets quickly re-price, and even the optimists start seeing "muddle through" as the best-case scenario.

My goal is never to be the two-armed economist Harry Truman hated so much ("on one hand" this and "on the other hand" that) – it is to be humble and honest, because my fiduciary duty, as well as the painful experience of reality, commands that I be so. I humbly lack the ability to discern exactly how the economy will unfold in 2026, and I honestly have no way to know how markets will respond.

What I do know is that the right investment plan is not dependent on a particular GDP growth rate in 2026, or a prescient forecast of Fed rate cuts, or even a crystal ball about the AI-arms race. 2026 is, like all other years, a year with significant economic questions, and the need for an investment plan that advances the goals of the one who holds it.

And to that end we work, tirelessly, and forever. Markets will not be the same in 2026 as they were in 2025, and if someone forced me to guess if the markets would be above 15% for the fourth year in a row, suffice it to say I would not take the bet. But what must be the same in 2026 is an investment plan that does not expose you to fatal damage, that does not bet on the mania of the crowds persisting, and that prizes the timeless truths of sensible investing.

We enter the next 25 years of this century cautious, excited, optimistic, and ready. We enter 2026 humble, because we have learned to be so.

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