

Economic outlook: What to expect in 2026

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Investors have been on quite the ride since 2020. A record plunge in unemployment to start the decade, speculative bubbles in 2021, and 40-year high inflation in 2022 resulted in the Fed's most aggressive interest rate hike campaign in history.

President Donald Trump's reelection in 2024, the tariff shock in 2025, and geopolitical events along the way have left investors wondering what comes next.

With so much uncertainty surrounding the economy, stock market, and bond market, here's what our firm sees on the horizon in 2026:

Economy

The economy continues to be described by one word: resilient. Since 2022, we've heard endless calls for the U.S. economy to spiral into a recession, to no avail. Amid rising costs, a cooling labor market, and trade policy uncertainty, the economy has pushed forward.

Add 2026 to the list. We do not anticipate a recession in 2026 for a few reasons, starting with the current economic output. The most recent GDP print released in December showed real GDP growth of 4.3%, driven by strong household balance sheets and robust consumer spending. Wage growth outpaced inflation for many workers across the economy. Fiscal stimulus from the extension of tax cuts will likely provide a direct boost for both consumers and businesses.

We also have observed a significant "wealth effect" for middle class and high-income households. Asset owners have seen their investment accounts and home values increase, boosting confidence and encouraging spending.

That's not to say that this economy is good for everyone, especially low-income households and first-time homebuyers who have gotten crushed by rising costs. But the above factors, paired with productivity gains from artificial intelligence (AI) adoption, point to further economic



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resilience in 2026. While this economy is no longer red-hot, we feel it's strong enough to keep the wheels turning.

Stocks

Stock market returns are largely driven by corporate earnings, which depend on the strength of the economy. In 2025, strong corporate earnings helped propel the stock market to new heights. S&P 500 companies significantly outperformed projected earnings growth, delivering nearly 13% growth year-over-year. In 2026, we foresee continued earnings growth given the anticipated productivity gains from AI adoption.

As we move into the fourth year of this bull market, history is another source for optimism. The S&P 500 has historically averaged a 12.8% gain during the fourth year of bull markets since 1950, with six positive years out of seven.

One other consideration: In recent years investment portfolio returns have been driven by large-cap stocks, like those in the S&P 500. We believe that small and midcap stocks will join the party in the near future. Small and midcap stocks historically have outperformed after the Fed has cut interest rates, reducing borrowing costs for rate-sensitive companies. With market breadth returning to last year's rally to include companies outside of the Magnificent 7, we feel this trend can continue with broader participation from smaller companies. It should be noted that the prices of small and midcap stocks are generally more volatile than large cap stocks.

While we continue to be cautiously optimistic on stocks in 2026, we do

expect increased volatility consistent with midterm election years. Stocks are no longer cheap, and we are likely to incur significant market pullbacks this year. Still, we see the stock market producing new all-time highs in 2026.

Bonds

Our outlook for the bond market is neutral-to-positive. Following strong gains in 2025, returns in 2026 may be lower albeit positive. In short, lower interest rates tend to bode well for bond values. Last year, the Fed delivered three .25% interest rate cuts. Market expectations for 2026 indicate one to two .25% cuts, providing less support for bond returns.

In addition, the growing federal debt remains a challenge. Global bond investors may demand more yield to compensate for the increasing risk of repayment, which could keep interest rates high and bond returns muted.

With that said, the bond market still offers compelling income opportunities with elevated yields, even if total returns moderate. Bonds remain an important part of a balanced portfolio, providing both diversification and stability. This is especially important during times of increased volatility, which we foresee in 2026. Please note that bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

If the past few years have taught us anything, it's that the financial markets can move higher amid a whole lot of turbulence. Remember to stay focused on your time horizon, financial goals, and overall investment plan despite the noise and uncertainty.

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