STOCK MARKET OUTLOOK

2026: Part I

Independent Research & Analysis

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2026 STOCK MARKET OUTLOOK – PART I

Executive Summary

A late-year rally brought global stocks' returns to 21.1% in 2025, finishing December near all-time highs.[1] Numerous countries set new records as years of US dominance gave way to non-US outperformance, evidence this bull market is fueled by much more than big US Tech and Tech-like stocks, though a correction (sharp, sentiment-fueled drop of -10% to -20%) is always possible for any or no reason.

A third consecutive year of near or above 20% returns might have some wondering if stocks have come "too far, too fast" considering long-term annualized returns are closer to 10%.[2] But stocks' long-term average includes both bull and bear markets. The average return during bull markets is 23% per year, on par with the last few years.[3]

Yet 2025's journey was anything but average, with a sharp correction early and a leadership shift as the "Magnificent Seven" big Tech and Tech-like stocks lagged.[4] We expect more of the same in 2026 as this bull market marches into its fourth year. Though the landscape isn't risk-free and we expect volatility, underappreciated positives outnumber and outweigh the potential drawbacks.

As in 2025, discipline will be key to not getting wrongfooted. It could have been highly problematic to get fooled out of stocks during April's sharp correction. This is a key reason why we employ a "three-month rule"—we don't elect to go defensive within three months of a market high. Additionally, we believe it is important not to chase brief countertrends like US and Tech's temporary leadership in the midyear bounce back from the correction. Brief trend reversals often accompany volatility, making it critical to look forward and not let recent returns sway you. Ultimately, non-US stocks outperformed in Q4 and the full year—and we think they should keep outperforming into 2026 even as the US and Tech do fine.

Politics adds another wrinkle as midterm campaigning heats up. (Appendix I) Midterm years often begin with a volatile grind before what we call the "Midterm Miracle" routinely boosts stocks later in the year. The "Miracle" is US stocks' history of rising in 84% of midterm Q4s—and 88% of each of the subsequent two quarters.[5] The president's party almost always loses relative clout in Congress at midterms, increasing bullish gridlock. Now, the pre-election grind doesn't necessarily mean bad returns early. But chop is more common than post-vote, as campaign rhetoric stirs sentiment.

While the calendar has flipped, headlines remain stuck on old talking points like the alleged AI bubble, inflation, tariffs and Fed moves. Markets have heard and priced all of this, climbing the wall of worry. This helped sentiment improve markedly, with investors seriously optimistic but pre-euphoric in the US. Abroad, sentiment is more measured but less pessimistic than a year ago. Regardless, warm sentiment on its own means nothing. Markets hinge on how sentiment evolves relative to reality and whether bullish drivers get noticed and priced in. Note, too, some of the more speculative pockets like bitcoin and meme stocks have already rolled over, yet the bull market continues.

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Many of the market's positives remain underappreciated, which Appendix II details. We think the rally is much broader than headlines allege. Many presume the Magnificent Seven alone drive the bull market, yet five of them lagged in 2025 and, again, the Tech-rich US underperformed. The global yield curve (the spread between short- and long-term interest rates) is steep and should stay that way, with short rates perhaps falling in the US while long rates stay relatively stable. Banks borrow short term to fund longer-term loans, so a steeper curve means more profitable lending. This typically fosters stronger loan growth—big economic fuel and magic for Financials' earnings. That is especially true abroad, where bank lending does more of the heavy lifting. This points to value outperforming growth again, though both should do well in absolute terms.

Corporate earnings should heat up. Economic drivers point to continued moderate global GDP growth, boosting demand and revenues. Trade is accelerating outside the US as the world adapts to tariffs, which remain milder than projected. Falling uncertainty is motivating businesses to ramp up capital expenditures, pumping investment worldwide. Cash-rich balance sheets, along with strong banking and capital markets activity, give them ample liquidity to invest without getting overstretched for now.

The international political calendar is quiet, with few elections either truly free or of consequential size and most trade dealmaking complete. All point to lower uncertainty overall—even with pockets of contention like France—likely a tonic to markets as US campaigning ramps up. The more meaningful, known political events are in the US, with a new Fed Chair appointment, the aforementioned midterms and the Supreme Court set to rule on tariffs imposed on national emergency grounds. The Court ruling could come any day, but however the justices decide, it likely changes little for markets in 2026—although it will undoubtedly garner many headlines.

We are monitoring for potential risks, as always, with several on our radar that Appendix III discusses. While we don't see them disrupting stocks immediately, their time could come. Fast-warming sentiment is one. Though sentiment isn't a timing tool and pockets of euphoria are common, there is a risk that a strong 2026 could get investors in full party mode, disrupting or pulling forward the Midterm Miracle.

Monetary policy errors are also possible, especially with a new Fed head soon taking the reins. While Fed heads are usually inconsequential, should this one rapidly reduce interest rates, it risks driving long rates higher. Long rates are market set and move largely on inflation expectations, which could rise if cuts prove aggressive. Rapidly steepening the yield curve risks potentially overheating the economy. Ongoing troubles in private equity and private credit so far remain confined to those realms, but a liquidity crunch that forces selling in traditional stock and bond markets remains a possibility.

Again, these are all possible, but markets move most on probabilities. We believe the strongest probability is that the good far outweighs the bad, bringing another strong year—but perhaps not as strong as the last few—that extends a very normal bull market streak. The wall of worry remains alive and well, giving stocks plenty of room to climb.

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Appendix I: The Bull Market Continues in 2026

Against a fearful backdrop, 2025 delivered the good-to-great year we expected. As a result, sentiment warmed and entered 2026 seriously optimistic in the US. But pre-euphoric, as bubble fears, economic jitters and middling professional S&P 500 forecasts illustrate. Investors abroad are much more cautious. This suggests fine economic fundamentals and political gridlock should deliver positive surprise and another nice bull market year, led by non-US stocks again. Gains may not match 2025, and we see potential for high volatility. But a good and rewarding year looks likely, with discipline proving crucial again.

The Good-to-Great Year That Was

Entering 2025, we saw three potential outcomes with roughly equal probabilities: a strong year topping 20%, a mild down year or a flattish grind. Narrowing them down hinged on sentiment, then in flux. But it evolved rapidly, with pessimism crystalizing by late January—especially in Europe, where fear of potential US tariffs and other issues ran rampant. This made another good-to-great bull market year most likely, with non-US stocks leading thanks to their higher wall of worry.

This played out. The MSCI World Index's 21.1% return smashed consensus forecasts but was near bull markets' historical average annualized return.[6] US stocks trailed but did fine at 17.9%, while Europe and Japan delivered "great" at 35.4% and 24.6%, respectively.[7]

Putting Process Into Practice

Patience and process were key, as the ride up wasn't smooth. The steep correction after President Donald Trump announced broad global tariffs on April 2 was a big speedbump that risked wrongfooting investors. It ended fast, with a steep rebound beginning a week later, after Trump delayed tariff implementation. This made our "three-month rule" critical.

This rule holds that we don't go defensive for at least three months after a market high, seeking to reduce the risk of getting fooled by a correction and missing the recovery. It guards against selling low and buying high. While bear markets are typically deep (below -20%), grueling and long, corrections are shallower (-10% to -20%), sentiment-induced and often blink-or-you-miss-it fast. They are sharp and painful, but swift initial rebounds help erase them quickly. Because they swing on sentiment (always fickle), they are impossible to time, and we don't think it is wise to try. If you do and you are wrong, you miss returns you can't get back without taking undue risk. Exhibit 1 shows this in action last year.

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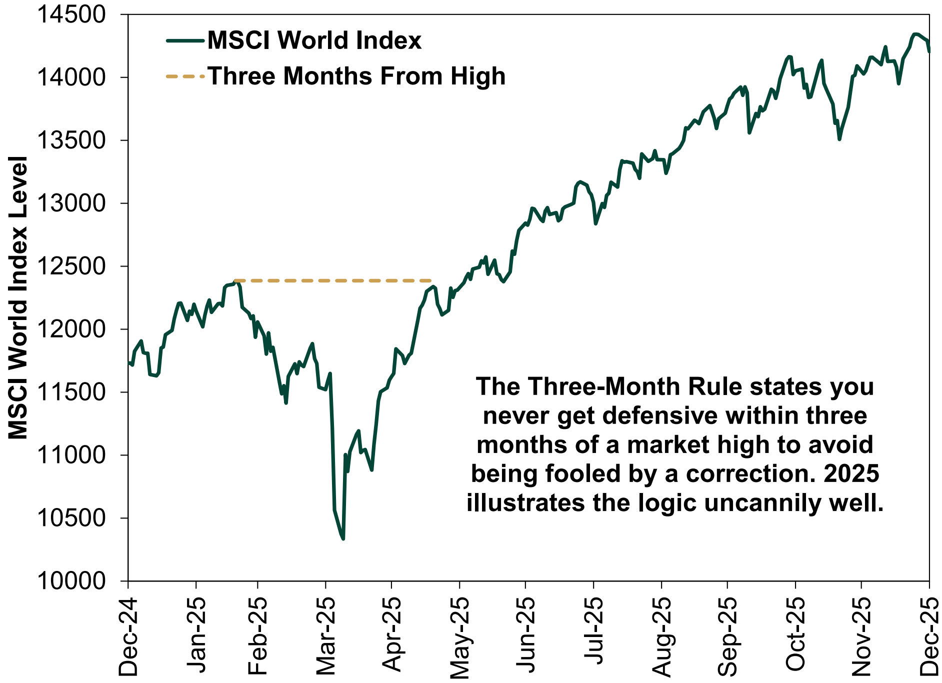
Exhibit 1: The MSCI World and Three-Month Rule in 2025



Source: FactSet, as of 1/14/2026. MSCI World Index with net dividends, 12/31/2024 – 12/31/2025.

So when markets fall from a high, we take time to assess whether a correction or a bear market is forming. We employ our “2% rule,” which observes bear markets usually decline at a -2% average monthly rate. And our “two-thirds, one-third rule,” which notes most of a bear market’s decline in magnitude typically occurs during the final one-third of its timespan. If the first three months’ decline is much steeper than -2% monthly, it is probably a correction. Last spring’s decline was much steeper.

We also survey the landscape: Is there a big story driving the downturn, something everyone talks about? If so, this is a sign it is sentiment-led and should get priced quickly. If we see an apparent cause that isn’t getting notice, that is more bear market-like. Lastly, if there is a strong case for reality to go better than expected, it also points to a correction and nearby recovery.

Using these rules last year, we saw tariffs hit markets lightning-fast, under vast media scrutiny. While corrections often fall on false fears, this looked like markets rationally, rapidly pricing a real negative—in this case, the worst-case-scenario estimates of tariffs’ potential economic effects. While we agreed (and still agree) tariffs were negative, we saw a high likelihood these estimates overshot. Tariffs are notoriously difficult to collect and enforce, and court challenges to the administration’s unorthodox legal justification looked likely. So did dealmaking, which Trump alluded to from the start. The tariffs also included numerous exemptions few noticed.

Outside America, few trade partners retaliated, instead choosing to ink deals among themselves that further freed global trade overall. All pointed to tariffs’ bark being worse than their bite. When Trump announced the temporary delay a week later, markets started fathoming this, recovering swiftly. And the bull market continued after tariff fear reset sentiment lower, rising through all the deals, court challenges and underwhelming tariff revenues.

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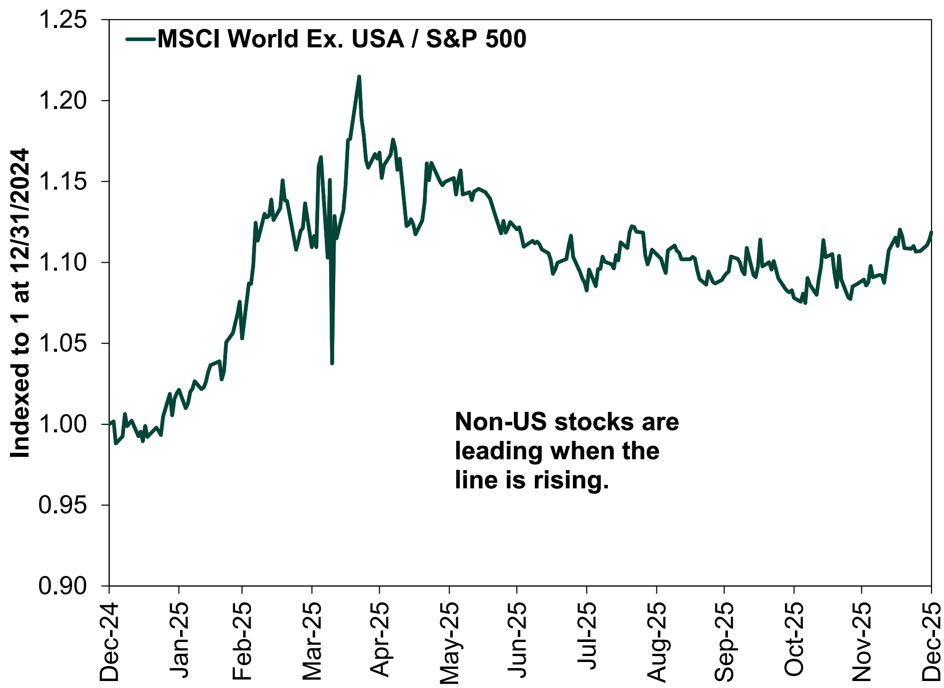
Yet the recovery wasn't an "easy button" for the full year. Corrections and recoveries often bring countertrends—temporary leadership changes. Because US stocks got hit hardest in the correction, they outperformed through the rebound, leading many to argue Europe's earlier run was a flash in the pan. But fundamentals hadn't changed. Sentiment outside the US remained too dreary relative to the reality of modest economic growth and bullish political gridlock. So we expected non-US leadership to resume, which it did after a monthslong give-and-take.

You may find this synopsis differs from what you read in headlines. Commentators continue claiming this bull market runs on artificial intelligence (AI), which is allegedly propping up Wall Street and Main Street. The "Magnificent Seven" large US Tech and Tech-like stocks continue getting credit for broad market returns. But capturing last year's gains wasn't just about owning these seven stocks. Five of them lagged![8] And again, non-US stocks led.

Exhibit 2: US Vs. Non-US in 2025



Source: FactSet, as of 1/7/2026. S&P 500 total return and MSCI World Ex. USA Index with net dividends, 12/31/2024 – 12/31/2025.

Another Good Year

This bull market, now in its fourth year, looks set to continue in 2026. Returns may not match 2025's, partly because the wall of worry isn't as high. Stocks' climb through tariff terror, slow European growth, falling Chinese investment and other stories took some bricks out, although Trump's tariff threats against the UK and some EU nations over their reaction to his Greenland talk suggest they aren't totally gone. Seriously optimistic US sentiment suggests we may be nearing the slow-rolling top that typifies normal bull markets that end as the business cycle resets. We aren't projecting this imminently, but some slowing wouldn't surprise us.

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Yet warmer sentiment hasn't rendered outlandish expectations. Analysts project middling GDP growth worldwide and remain stuck on European economic weakness. Budget battles in Britain and France feed recession and debt fears. The latter stalk Japan, too, as interest rates and borrowing rise. China's alleged hard landing continues preoccupying onlookers. Earnings growth forecasts are tame.

Sentiment alone doesn't drive returns. Stocks move on the gap between sentiment and reality—surprise, positive or negative. Hence, what matters is sentiment *relative to reality.* High sentiment increases the risk of downside surprise if reality doesn't meet lofty expectations. But disappointment isn't automatic or assured, making high sentiment alone a terrible timing tool. Unforeseen deteriorating fundamentals are usually the required spark that ignites a bear market. Today, economic and corporate fundamentals look solid amid tepid economic expectations, as we discuss below. Moreover, high investor sentiment is widely recognized, which helps keep things in check. When investors fear getting too far over their skis, it bakes in some timidity.

Consumer sentiment also adds some balance. Open any financial site, and you will see talk of an alleged "K-shaped" economy, where high-income folks are cruising while lower-income households struggle. Since there are relatively few households at the top, this implies the economy is a house of cards, ready to fall once the wealthy retreat.

Though we think this underestimates the economy's health, it has some realistic grounding. For higher-income households, inflation's pain wasn't as sharp. Their wages and salaries were faster to catch up to 2022's hot price rises. For people with low income, no income or those on fixed incomes, the catch-up is taking much longer. Many are having a tough time, and you can see their very real worries in consumer sentiment surveys. All of this matters societally, and we don't dismiss it. But cold-hearted markets look through these things, to the reality of overall healthy consumer spending and household balance sheets. Moreover, consumer sentiment isn't investor sentiment and doesn't predict stocks or the economy. In this case, we think it simply helps tame broader expectations, lowering the bar reality must clear.

Sentiment abroad is also dimmer. GDP growth in Europe and Japan had rocky spells last year, including much-watched Germany. This, plus contentious politics in several nations, keeps expectations grim and builds a higher wall of worry. Hence, non-US stocks likely lead again.

S&P 500 Forecasts Show More Fuel in the Tank

Some wonder how much stocks have left in the tank after three years at or near 20% returns. We see why: Everyone anchors to stocks' long-term annualized return of around 10%, give or take, depending on index and currency. This makes 20% seem big.

But that framework doesn't work. That 10% *includes bear markets*. Extract them, and bull markets' average annualized price return is around 23%. Hence, stocks had three very average years, rendering another good year less outlandish. Plus, most bull markets that turn three last to become fourth years. So while we don't foresee a 20%-ish four-peat, a decent year looks likely.

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Consensus forecasts help show this. We have long used these in forecasting. Not because professional investors are right, but because they aren't. (Exhibit 3) Wall Street is groupthinky, with analysts cut from the same training and curriculum. Their forecasts tend to cluster in a narrow range, and because they get heaps of attention, they get priced—as all widely known information does. Therefore, you can generally rule out the consensus forecast. This doesn't tell you what stocks *will* do, but it narrows the potential outcomes. This is why we wait to see other forecasts before developing ours. Being first is of no benefit. It raises the risk of being wrong. If stocks do what few expect, you must see where expectations are.

Exhibit 3: A Recent History of Professionals' Wrong S&P 500 Forecasts

	Median Forecast	Actual S&P Returns	Difference (ppts)
2018	5.3%	-6.2%	11.5
2019	15.8%	28.9%	13.1
2020	2.1%	16.3%	14.2
2021	6.5%	26.9%	20.4
2022	4.9%	-19.4%	24.3
2023	9.4%	24.2%	14.8
2024	1.4%	23.3%	21.9
2025	12.2%	16.4%	4.2

Source: Fisher Investments Research and FactSet, as of 1/7/2025. All based on price return.

Most know professional forecasters trend wronger, stronger and for longer, as Fisher Investments founder and Executive Chairman Ken Fisher puts it. But few understand *how* they are wrong. People tend to think in binaries—whatever the pros forecast, self-styled contrarians decide stocks will do the opposite. But that is too simple and simply wrong. Stocks do something *different* than the herd expects, and different isn't always opposite. Professionals can be too bullish, wrongly bearish, insufficiently bearish or *not bullish enough*. The range where forecasts cluster is generally the range you can rule out. But then you must determine whether stocks likely do worse *or better* than expected. Ken's 2015 book, *Beat the Crowd*, details this in a chapter.

2025 projections help show how this works. Among the 58 we tracked then, only four were bearish—and only two seriously so.[9] Yet no one was wildly bullish. The highest forecast barely topped 20%. Most landed between 10% and 14%. Their commentary cited post-election tailwinds and hopes for the new government. They forgot campaign pledges and political optimism get priced and reality often differs as gridlock clogs the pipes and priorities shift. Fed policy was another common factor, with many eyeing continued US rate cuts.

This suggested markets would probably veer from historically average returns, with US politics and the Fed not driving the train. Both were too widely known and therefore priced. Yet economic fundamentals and earnings growth looked too good for a down year, and we couldn't see major, imminent risks the crowd overlooked. So even though few forecasted a down year, we didn't think that was likely. Instead, the dearth of hot forecasts, combined with fine fundamentals and weaker expectations overseas, pointed to a good year here and a great one abroad. That happened.

This year, we are able to track 72 strategists' 2026 forecasts.[10] Their net result is a compression from both ends, clustering forecasts below the 10% historical average. The median, 9.6%, is about half 2025's S&P 500 price return.[11] Clearly, sentiment hasn't overheated.

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Echoing last year, this creates an opening for a negative or above-average year. Negative again looks unlikely. We always watch for risks, but those on our radar don't look large or pressing enough to wallop stocks soon. Some, like troubles in private markets, are getting more attention, helping defang them. (Appendix III) Meanwhile, the steep yield curve, accelerating lending, faster earnings growth and other economic factors point to a brighter-than-expected reality. (Appendix II) While returns early in midterm election years can be a choppy grind, the late-year Midterm Miracle awaits, which we will show you shortly.

Looking Beyond Tech

Last year featured several underappreciated trends we expect to continue into 2026. A big one: Non-US stocks leading, with the US lagging.

For all the talk of the Magnificent Seven carrying markets last year, only two (Nvidia and Google parent Alphabet) led global markets. The others (Apple, Microsoft, Facebook parent Meta, Amazon and Tesla) lagged. While Tech outperformed, the story was broader than AI and the giants. People harp on allegedly narrow market breadth, but that is US-centric. The S&P 500's breadth (percentage of index constituents outperforming over the last 12 months) was low, finishing 2025 at 32%.[12] Yet the MSCI World's was much higher, 47%.[13]

Non-US stocks' outperformance shatters the narrow breadth myth. If this bull market were all about AI and the Magnificent Seven, why did 33 countries in MSCI's All-Country World Index (which includes all developed and Emerging Markets) beat the US last year? Why did 35 hit new all-time highs last year, with 30 doing so in Q4? Holland, Korea, Taiwan and (to a lesser extent) Japan aside, these aren't Tech-heavy nations. Austria, which topped 50% returns in euros (even more in USD), is over 75% Financials stocks.[14] Hong Kong, with its 36.5% returns in Hong Kong dollars, is over 50% Financials, with another 16% in Real Estate and 15% in Industrials.[15] Canada, which topped 30% in Canadian dollars, is 38% Financials and 15% each in Materials and Energy.[16] This is much bigger and broader than Tech.

Higher breadth and broad sector leadership also counter ever-present AI bubble chatter, as does abundant outperformance outside the US. People endlessly compare the present with the dot-com era, but we believe that misses the mark. Yes, both share high Tech returns and above-average valuations, but 2000's tale was sloppy, unprofitable dot-com startups burning through cash.

We get why people seek historical parallels. Craving patterns and context is innately human. But it is easy to go too far. Perfect analogues don't exist, but if you must seek a comparison, we think the early 1970s' "Nifty Fifty" boom is probably better. That era was more about institutional investors seeking companies with recession-proof and inflation-proof earnings—quality stocks to weather any storm. It was broader and more unloved than 2000's, and it focused on established, profitable companies. Today, the corporate world's resilience in the face of tariffs, inflation and other disruptions, using measures like profit margins, hints at a similar story. That doesn't tell you when this cycle will end. But it is a better starting point for analysis.

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Other 2025 Trends Look Set to Extend

We think several other nuggets from 2025 should also carry over. For instance, Energy stocks underperformed, which is no shock given low oil prices. Generally, Energy earnings are oil price-sensitive, not volume-sensitive, due to new wells' high up-front costs. Pumping more to boost revenues raises costs. Interestingly, though, several large integrated oil and gas companies held up relatively well, with some outperforming. Their resilience shows large companies have the economies of scale and diverse operations that make tough times easier to weather. We expect this to continue in 2026, as oil's supply and demand landscape doesn't point to soaring prices.

You may notice we didn't mention Venezuela. Why? Developments there do little to change this analysis. Regardless of moral or political considerations, any noteworthy production increase will likely take years to materialize, if ever, given the country's political instability and dilapidated oil industry. This is outside the 3 – 30 month window markets weigh. Regardless, if it could increase production near term, that would be a headwind to prices. But we severely doubt that increase is close by. For more, *MarketMinder* detailed our views on January 7 here.

The steep yield curve should be another 2025 holdover. The global curve steepened by about half a percentage point last year, driven by the UK, Continental Europe and Japan. (Appendix II) The US yield curve is flatter than these, largely because the Fed paused rate cuts most of the year. It could steepen more this year if the Fed continues the cutting cycle it renewed late in 2025, helping encourage more lending (though there are risks here, as Appendix III discusses).

Exhibit 4: The Steeper Global Yield Curve

Region	Current 10-Year Yield	Current 3-Month Yield	Current Spread (ppt)	Spread 3 Mo. Ago (ppt)	Spread 6 Mo. Ago (ppt)	Spread 1 Year Ago (ppt)
Global Ex. EM	3.57%	2.68%	0.89	0.63	0.60	0.39
US	4.18%	3.62%	0.56	0.03	0.02	0.37
Europe Ex. UK	3.08%	1.95%	1.13	1.22	1.18	0.40
UK	4.40%	3.67%	0.73	0.74	0.52	-0.06
Japan	2.09%	0.67%	1.42	1.23	1.13	0.92

Source: FactSet, as of 1/13/2026.

Long-term interest rates were rangebound in 2025, with volatility but little net change. This likely continues: Long-term interest rates hinge on inflation expectations, and inflation remains tame. Past Stock Market Outlooks showed the war on 2022's hot inflation is over. With money supply growing at normal rates globally, there isn't tinder for reheating inflation. That should keep long rates stable, though volatility amid Fed chatter, deficit hype and other fears wouldn't surprise.

Several of the market's speculative pockets tumbled late in 2025, even as stocks hit fresh highs. Bitcoin and "meme stocks" (penny stocks popular on social media) are down, as are "bitcoin treasury" stocks like Strategy. Their alleged correlation with stocks, gold and silver is broken, shattering the myth of an "everything bubble" catching stocks in a speculative fervor.

This is a timely reminder that pockets of froth can deflate without inflicting broader damage—and without warning, when folks least expect it. Most thought 2025 would be crypto's year, buoyed by a crypto-friendly administration passing legislation legitimizing and aiding the novel

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industry. Those things happened, but crypto's early gains were fleeting. Bitcoin finished the year in the red. Keep this in mind with gold and silver, where enthusiasm looks excessive. While silver has some industrial uses, gold has little beyond jewelry, and both soared on sentiment and mythology last year. Bitcoin is a reminder the party can end at any time.

Lastly, bitcoin's bust shows the error in chasing assets based on assumptions about how an administration's policy mix may affect them. Those get priced rapidly, leaving no positive surprise power when the legislation eventually passes. This leads markets to perform differently than people expect—a point underscored by conventional Energy's lag and renewable energy's big rally last year, both defying expectations built on political bias.

The Miracle That Surprises Every Four Years

Politics are a 2026 wildcard. Midterm campaigning should quash Congress's will to legislate, bringing gridlock. Stocks usually love this. When Congress doesn't do much, businesses needn't fear big change creating winners and losers. That fosters risk-taking and investment. Yet midterm years tend to be volatile early as campaign chatter heightens uncertainty. Simply, early on, candidates are most interested in securing their party's nomination and support, so they play to the base with extreme rhetoric. That spooks many, if not most, investors who are more centrist, stoking volatility. The result can be a frustrating grind, as Exhibit 5 shows. This doesn't necessarily mean *negative.* Exhibit 5 is an average, not a blueprint, and some bad years skew that average down. It also excludes reinvested dividends, a key part of total returns. But it illustrates the point: Midterm years can be rocky early.

Then the Midterm Miracle arrives. The president's party routinely loses seats in midterms, increasing bullish gridlock. The three quarters from the midterm year Q4 through year three's first half are historically among the presidential cycle's best, with a high frequency of gains and above-average returns. This phenomenon is unseen, as party bias blinds most to it, so markets don't price it in. It is one of the market's best kept secrets.

Abroad, politics are calmer, with few truly free or consequential elections. Denmark's may generate noise if Greenland remains a talking point, but little else looms beyond that. In Japan, snap elections are now pending for February 8, as new Prime Minister Sanae Takaichi aims to capitalize on her personal popularity and regain her Liberal Democratic Party's majority. But the fact they are a minority government is telling—the party's popularity is low, hit by scandals. This should prove difficult to overcome, delivering more gridlock and easing uncertainty.

Having few elections keeps uncertainty low with gridlock the icing on the cake. Contentious budget politics across Europe perpetuate disagreements and bring other legislative business to a standstill. The UK and France are prime recent examples. France's failure to pass a budget could collapse the government again, making this an area to watch, but markets have seen this movie repeatedly this decade … and risen. This saga is a big brick in the overseas wall of worry.

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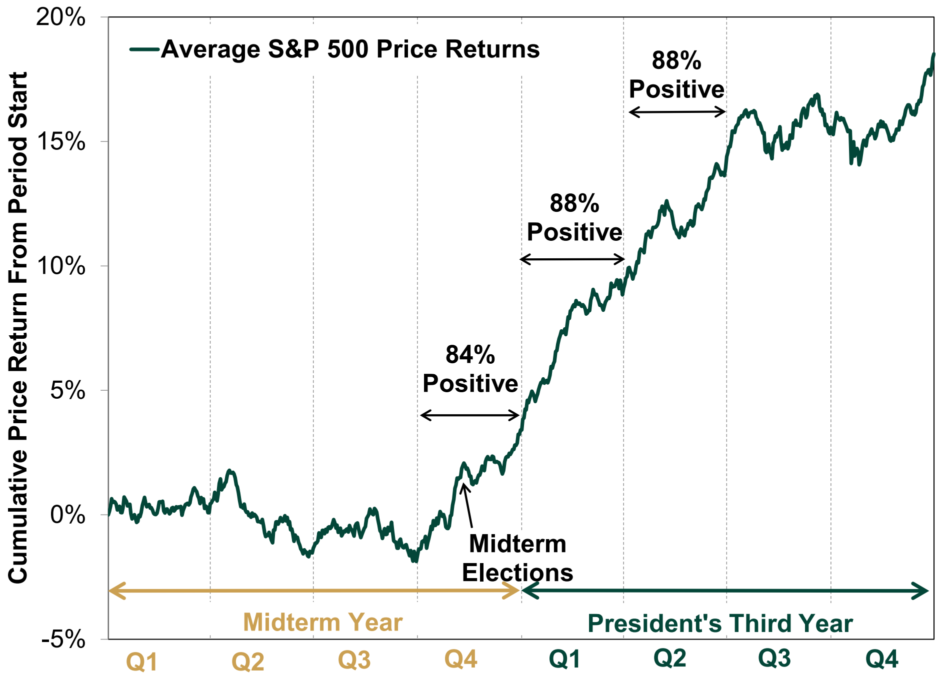
Exhibit 5: Midterm Years Grind Early



Source: Finaeon, Inc., as of 8/4/2024. S&P 500 average price return, 12/31/1925 – 12/31/2023.

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Appendix II: A Fundamentally Sound Bull Market Backdrop

Early 2026 picked up where 2025 left off, with geopolitical rumblings and an escalating battle between the White House and Fed. Headlines mask many of the bull market's positives—especially economic drivers. While many presume stocks are expensive because valuations (*e.g.,* the price-to-earnings, or PE, ratio) say so, a look under the hood reveals plenty to cheer.

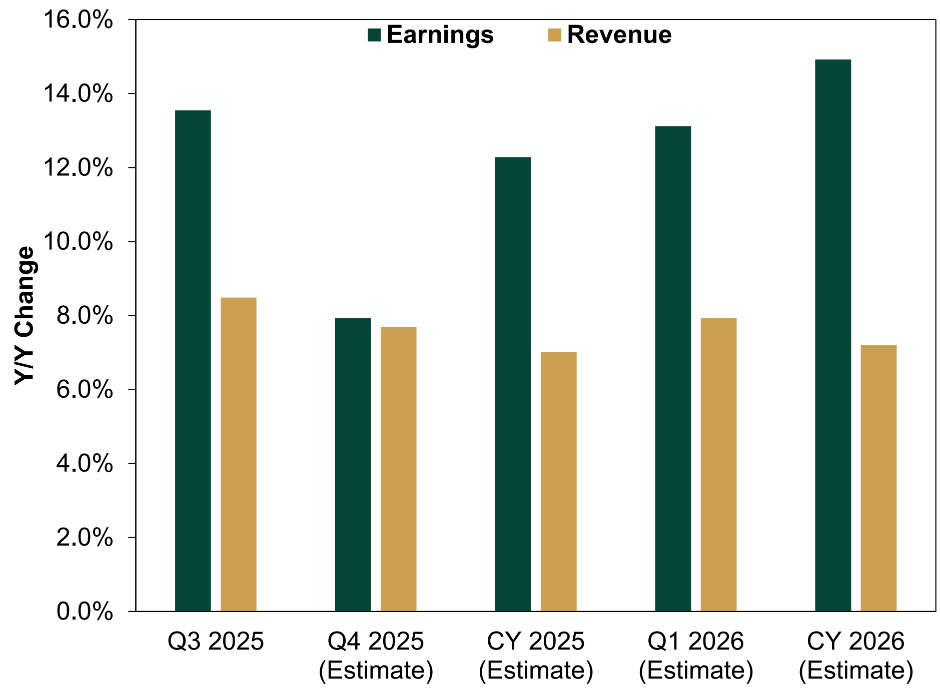
Reviewing Corporate Fundamentals

Let us start with the *E* in the PE. At the core, owning stocks means owning shares of a company's future profits. Wall Street groupthink says above-average PEs, like today's, mean stocks aren't providing much bang for your buck.

But PEs aren't predictive. They normally rise over a bull market's lifespan as investors get more optimistic and willing to pay up for future earnings. That isn't inherently bad. The time for caution is when sentiment gets too hot, creating outlandish expectations—not so today. (Appendix I) PEs are hovering, not spiking. Earnings can grow, too, reducing PEs even as prices rise. This is what we see now: Corporate earnings topped expectations, keeping PEs flattish over the past year.

While Q4 earnings season is just starting, S&P 500 earnings rose 13.5% y/y in Q3, with 82% of companies exceeding expectations (above the 5-year average of 78%). If PEs stay steady from here, earnings growth plus dividends and share buybacks add up to very healthy returns.

Exhibit 6: S&P 500 Earnings and Revenue

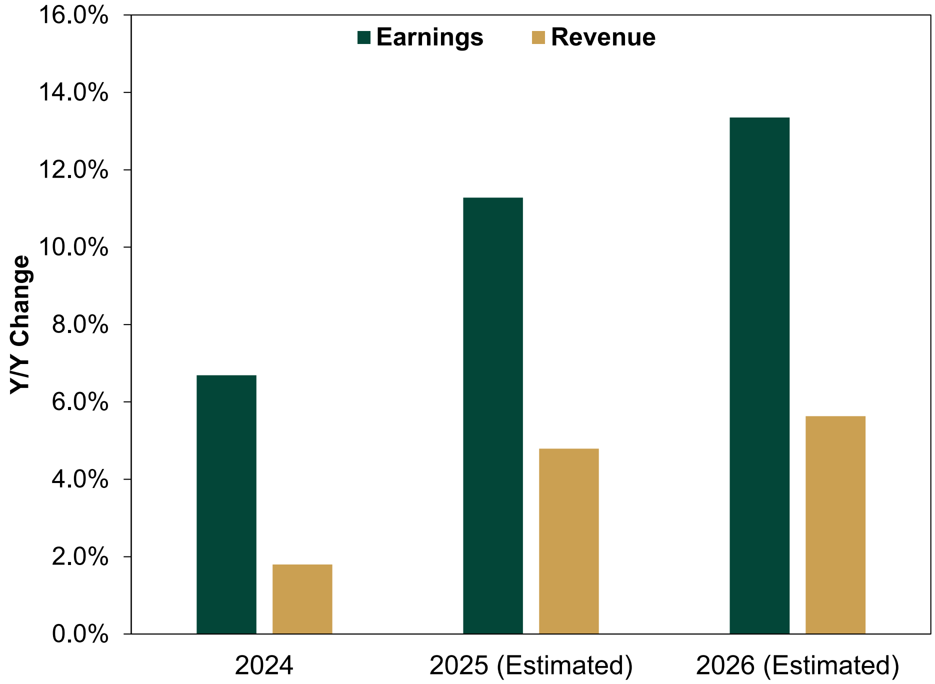


Source: FactSet, as of 1/2/2026.

Just two sectors' earnings—Communication Services and Energy—fell year over year, with Energy barely contracting (-0.5% y/y).[17] Communication Services earnings' drop stemmed from a single social media firm paying a one-time, non-cash income tax charge of $15.9 billion.[18] Excluding it, the sector's earnings would have grown 12.0% y/y rather than contract -7.8%.[19] Like America, the MSCI World's earnings and revenue growth point positively, too. (Exhibit 7)

Longer-term estimates could always prove too sunny. Forecasts are fallible. But the opposite usually holds—they err too timid. And for now, growth confirms stocks have been rationally pricing in profits. This isn't 2000, when everyone said it didn't matter that companies were burning through cash.

Exhibit 7: MSCI World Earnings and Revenue Growth (Calendar Year)



Source: FactSet, as of 1/9/2026.

Other measures show corporations have plenty of fuel. Companies boast cash-rich balance sheets and are willing to invest and spend, with capital investment (capex) soaring again. (Exhibit 8) That can feed expansion and earnings from here. Cash-rich companies can deploy balance sheets to tap bond markets, funding investment without draining rainy-day coffers.

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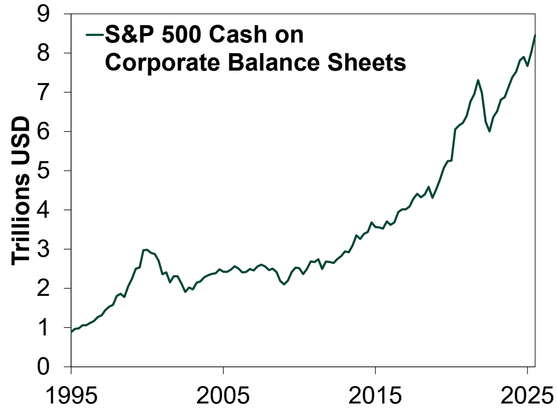
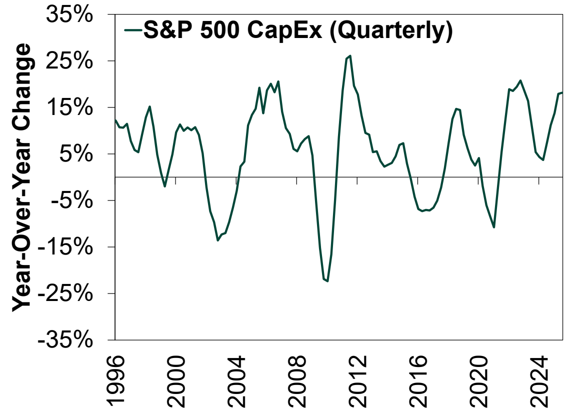
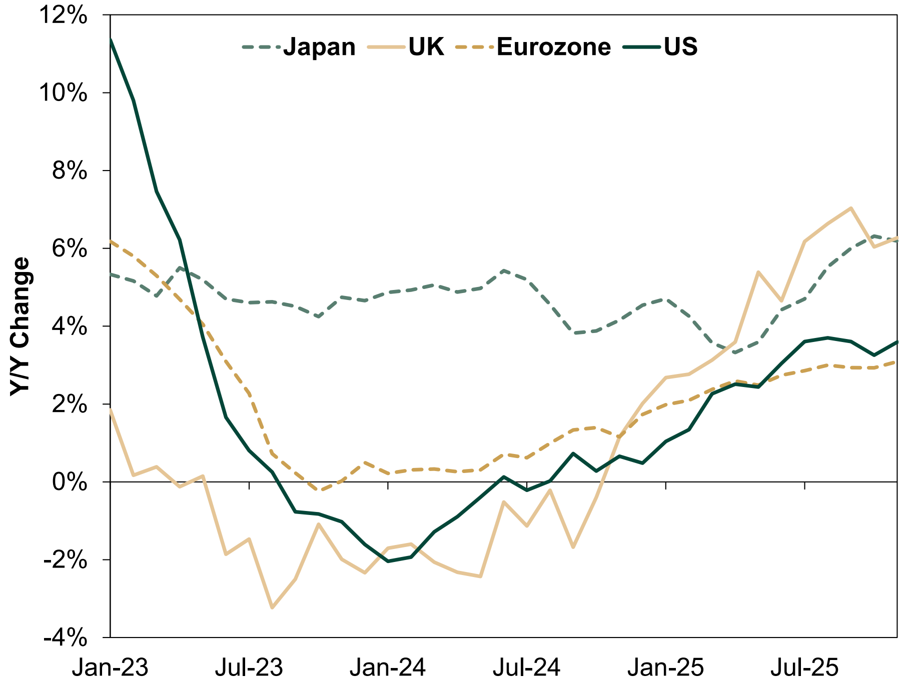
Exhibit 8: Corporate America Is Flush and Investing





Source: FactSet, as of 1/9/2026.

Exhibit 9: Business Lending Is Picking Up Worldwide



Source: Macrobond, as of 1/12/2026. Commercial and Industrial loan growth, January 2023 – November 2025. US C&I loan growth adjusted to remove one-time effects from US Federal Reserve loan category reclassifications.

Resilient Trade

After President Trump announced broad tariffs, many presumed global commerce would hit a screeching halt. While tariffs are an economic negative—adding costs and friction for businesses and consumers—we believed their effects were overstated. That played out as tariffs faced legal challenges, countries made US trade deals, major trade partners largely refrained from retaliation and many expanded trade ties with one another—boosting trade outside America. Trump's threats to tariff some nations over their resistance to his approach toward Greenland spurred fears anew, but they appear overblown on similar grounds.

Legal Clarity

The legal challenges to Trump's tariffs are still pending, with the Supreme Court now expected to rule as soon as February. The Justices seemingly expressed a good deal of skepticism over the legal basis allowing Trump to enact the tariffs unilaterally in November, but whether this hints at the final ruling remains unclear. Regardless, widespread media coverage and speculation on things like tariff refunds mutes surprise power, should the court rule against the administration (which claims to be able to replace them on other legal justifications quickly). If the justices overrule the lower courts and keep the tariffs, this also lacks surprise power. Tariffs are a negative, but companies largely know what they are dealing with and can adjust.

Dealmaking Is Largely Done

US trade dealmaking had ups and downs in Q4. In October, Trump threatened to kibosh talks with Canada over an anti-tariff US television ad produced by Ontario's government—an example of harsh rhetoric spurring short-term fear. America's agreement with the UK also stumbled after Trump paused talks on a related Tech investment deal, accusing Britain of stalling on agricultural trade barriers and reforming its digital service tax.

But positively, Switzerland reached a deal lowering US tariffs on Swiss goods from 39% to 15%—taking Switzerland from one of the highest tariff rates to the EU's rate. While some uncertainty lingers, preliminary dealmaking is largely complete, and the world is moving on.

An Update on Scenario Four

A fourth scenario emerged last year in the wake of the US tariff announcements: Countries and regions struck deals among themselves in response, rebuking protectionist fears. The EU reached agreements with South American trade bloc Mercosur, Mexico and Indonesia—and continues negotiating with India, Thailand and Australia. India and Australia are pursuing their own deal. The UK finalized a free trade pact with South Korea in December and is close to another with the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates). Despite deglobalization and tariff retaliation concerns, trade outside America has become *freer*. This isn't a near-term boost to growth rates. Such deals take years to hit the real economy. But from a sentiment perspective, the positive surprise here seems clear.

What the Data Say

Data show the global economy's resilience, too. US tariffs pulled trade forward as businesses front-ran implementation—leaving a pothole—but growth has resumed. For instance, China's exports slowed in Q2 amid Liberation Day uncertainty, then reaccelerated—notably to Southeast Asia, which may reflect trans-shipping as businesses rerouted goods to avoid the largest tariffs.

Global tech hubs Taiwan and South Korea also show trade's resilience. America and China are top export destinations, but they alone aren't propping up trade. Taiwanese and Korean exports to their next five largest trade partners mostly grew last year—a reminder global commerce feeds global growth (and earnings).

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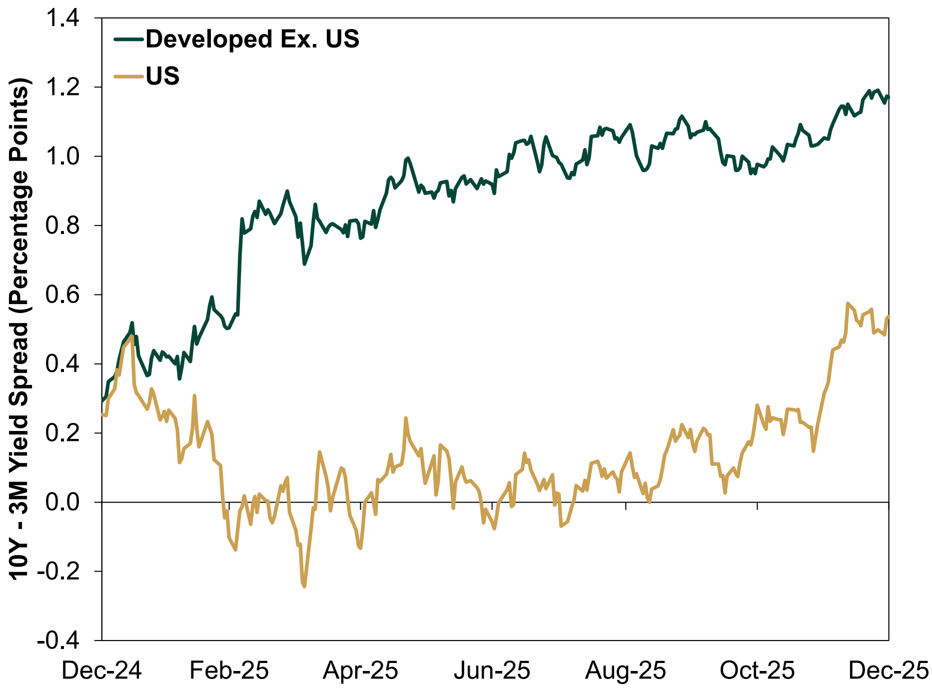
A Steep Yield Curve

Battles over central bank independence and obsession with Fed Chair Jerome Powell's replacement dominate headlines. (Appendix III) But this overshadows the positive yield curve. As last quarter's Stock Market Outlook detailed, the yield curve plots government bond yields, arrayed left to right from short-term yields to long-term. When long rates exceed short, the yield curve is steep. Banks' core business is to borrow short term to fund long-term loans, so the spread between them influences new lending's profitability. The wider the spread, the more banks earn on new loans—incentive to lend more enthusiastically, which fuels investment and growth.

As Appendix I noted, yield curves globally are steeper today than at 2025's start. Moreover, the non-US developed world's yield curve is steeper than America's—particularly beneficial for the UK and Europe, where businesses rely more on bank lending than American firms (which can more easily tap capital markets). (Exhibit 10)

Exhibit 10: Wider Yield Spreads Outside the US



Source: Macrobond, as of 1/9/2026. US and GDP-weighted developed markets excluding US government bond yield spreads (10-year minus 3-month), 12/31/2024 – 12/31/2025.

Overlooked Global Economic Fundamentals

Economic sentiment is particularly dreary internationally. Canada and Britain remain on recession watch. China "hard landing" talk persists. The griping gives the impression the global economy is crawling. But modest growth continued in most of the developed world last year. (Exhibit 11) Expansion may not be gangbusters, but stocks don't need gangbusters when expectations are so guarded.

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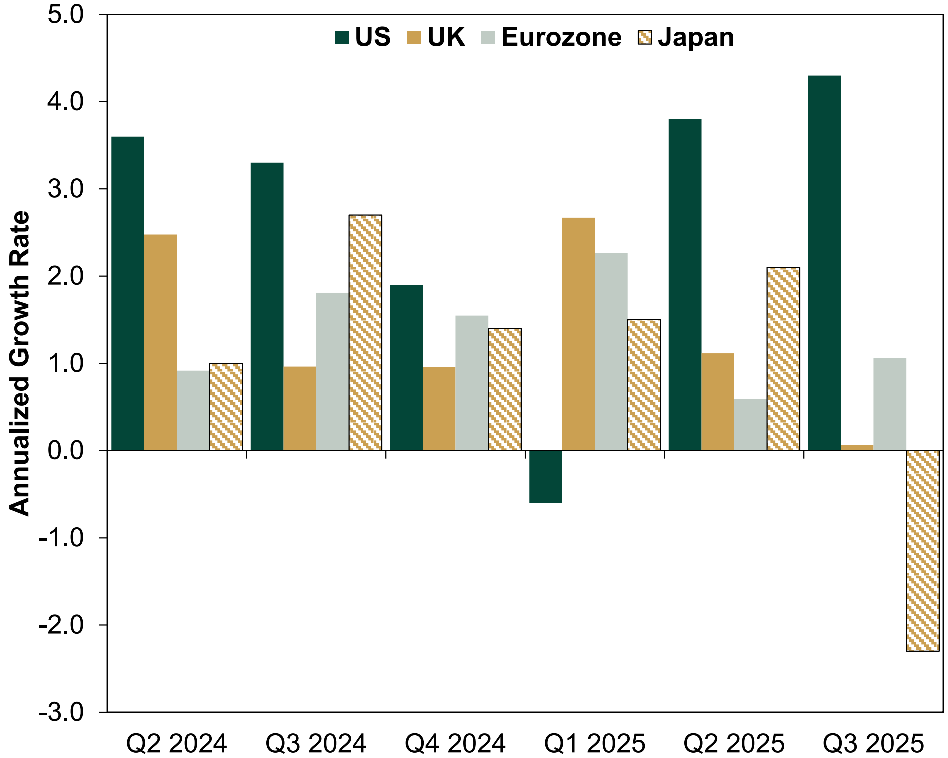
Major Emerging Markets also ended 2025 strong. Handwringing over China persists, especially after monthly industrial production and retail sales growth slowed. Yet the world's second-largest economy met its 2025 GDP growth target of around 5%.[20] India led the charge as Q3 GDP grew 8.2% y/y, accelerating from Q2's 7.8%, thanks to services. (Though Indian stocks lagged dramatically, a reminder you can't simply assume fast growth means big returns.) Not to be outdone, rising exports and improving private consumption bolstered Q3 GDP in Taiwan (8.2% y/y) and South Korea (1.8% y/y).

Latin America's results were mixed, but Brazil and Mexico's services sectors grew in Q3, indicating resilient domestic demand. Brazil's monetary policy has also been an outlier, with the central bank tightening severely to fight inflation. That fight pinched growth but successfully tamed prices, which many expect clears the way for easing this year.

Exhibit 11: Developed World Chugged Along Despite Trade Uncertainty



Source: FactSet, as of 1/12/2026. Annualized GDP growth rates for the US, UK, eurozone and Japan, Q2 2024 – Q3 2025.

The global economy will always have weak patches. Forward-looking indicators like a positively sloped yield curve suggest moderate growth continues in 2026, but that doesn't mean expansion will be universal. Yet it doesn't need to be. Isolated contractions in Japan and the eurozone last year didn't spin the global economy into recession or knock the bull market. The strong carried the weak along, as is normal in any expansion. When you take a broad snapshot, the global economy looks in fine fettle, a supportive backdrop for more bull market this year.

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Appendix III: Fathoming Risks to the Bull Market

Appendixes I and II give you some of the factors we expect to deliver a good 2026. But no bull market is risk-free, and this year is no exception.

'Wall' or 'Wallop'

Our research finds bull markets end one of two ways: Atop the "wall" of worry in euphoria, when reality can't meet exuberant expectations. Or when "walloped" by an unseen, multi-trillion dollar negative. The dot-com bubble or Nifty Fifty exemplify the wall; FAS 157 in 2007 – 2009 (the mark-to-market accounting rule) or 2020's lockdowns illustrate the wallop.

Markets efficiently pre-price widely watched news—factoring them in rapidly and muting their ability to move stocks for long. Whether wall or wallop, the key is *surprise*—a huge, unpriced negative forcing a reality check.

In the wall, surprise unfolds gradually as disappointment over unattained expectations mounts—for the economy, earnings or sales, for example. The surprise is that expectations become disconnected from reality. The Nifty Fifty was about investors, chiefly institutional investors, flocking to supposedly inflation- and recession-proof growth stocks, given outperformance in much of the 1968 – 1970 bear market—and the ensuing bull market. Unrealistic expectations toward these "one-decision stocks" teed up the ensuing deep bear market and recession. In 2000, high hopes of a new economy blinded folks to an inverted yield curve late, foretelling recession.

In the wallop scenario, the surprise is the unseen negative. 2020's unseen negative became apparent swiftly—lockdowns. Hence, markets' rapid decline and warp-speed recovery after they priced it in. FAS 157's deleterious effects—and global governments' confused attempts to respond—were far less clear and many to this day don't know of the causal effects.

So when assessing risks, we seek *surprises*. Not things dotting headlines commonly—the media helps defang and pre-price those for you. (Thank them if you wish!) Today, such non-surprises would be fears over tariffs' delayed effects, potentially resurgent inflation, an economic downturn tied to faltering consumption, geopolitical concerns or a bursting AI bubble. We don't dismiss risks merely because headlines cover them. Even widely watched factors may stoke short-term volatility. But most are too widely discussed to shock stocks into a bear market.

Today, we see few wallop-sized surprises, but some could snowball and contribute to the next bear market, whenever that happens. We aim to weigh this correctly—but foretelling a market peak is folly. We believe defensive success requires acting soon *after* a bear market forms—hence, the three-month rule. (Appendix I) Let us discuss some risks we are watching.

Risk: Monetary Error

Perhaps the most widely watched risk we think is real is monetary error, given a new Fed chair arrives in May—and Trump's pushing for far lower short-term rates, which took a turn in mid-January, after the Fed revealed it was under investigation by the Department of Justice (DOJ).

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While that news garnered headlines, the near-term effects seem limited. One, it remains to be seen how this case plays out—it could extend beyond May! But the initial reaction hints at the Fed digging its heels in on policy—rejecting politicization. And for stocks, the development was far from a surprise, considering Trump and Powell's lengthy disagreements and arguments over both policy and the Fed's office renovation—the ostensible subject of the investigation. We discuss this more shortly, but for a full analysis, see *MarketMinder's* January 12 post here.

New Fed heads are usually much less consequential than pundits suggest. Policy rarely changes on a dime with their appointment. However, if whoever leads the Fed bows to political pressure and cuts rates aggressively, the chief near-term risk is economic overheating.

Steep short-term rate cuts could lift long rates markedly, perhaps oversteepening the yield curve. As we explained last quarter, long rates don't move in lockstep with short—something few pundits acknowledge. The former are market-set and move largely on expected inflation. The latter are Fed-governed. Excessive Fed cuts may lift long rates—anticipating inflationary consequences. A sudden, sharp yield-curve steepening could induce a sugar high that overheats the economy and ultimately fuels the bubble many wrongly see today.

Yet there are many reasons this looks unlikely. Most monetary officials have the same policy roots and views. Groupthink abounds. Plus, as Ken explained in depth in *The Only Three Questions That Count*, new Fed heads often take Martin's Little Pill and forget everything they previously thought about policy, rendering earlier views irrelevant. As Ken wrote:

> Traditionally, former Fed chairs were derided for their many mistakes at mismanaging the economy. William McChesney Martin, Jr., Arthur Burns, G. William Miller, even the legendary "Maestro" Alan Greenspan—they were all criticized widely and wildly after their time. Before he became chairman, Burns criticized Martin nearly endlessly. Martin ran the Fed from 1951 to 1970, giving Burns plenty of time to attack him. Burns claimed Martin knew better than to make the mistakes he did.
>
> Martin later claimed when you became head of the Fed, you took a little pill making you forget everything you ever knew, and the effect lasted just as long as you were head of the Fed. After becoming head of the Fed and coming under attack himself, Burns claimed he took "Martin's little pill."[21]

Trump is reportedly considering National Economic Council Director Kevin Hassett, former Fed Governor Kevin Warsh, Fed Governor Christopher Waller and others. Whomever he picks, expectations for aggressive rate cuts abound. Most likely, the appointee rebukes this once confirmed—they can't be fired on policy grounds, and Trump's term expires before the new Fed chair's. So they would likely want to signal independence. But also, Martin's Little Pill suggests they won't actually do what they said to win the role. They will forget.

Beyond this, the Fed chair doesn't dictate monetary policy. The 12-member Federal Open Market Committee (FOMC) does. It includes the chair, the other six Fed governors, the New York Fed's president and a rotation of four other regional Fed branch presidents. These branches appoint their own leadership, with approval from the Fed Board. Trump plays no role. To get their way, Fed chairs have to be great persuaders—they need to understand the internal politics of the FOMC itself and be able to guide it.

Now, Trump can appoint Fed governors, but only one post is slated to open, the temporary spot he tapped Stephen Miran for last year. If Powell resigns following installation of a new chair, that would make two posts. And Trump has tried to fire Lisa Cook, a matter under Supreme Court review. *If* he succeeds, 3 of 12 voting seats would open to Trump nominees in 2026.

But that isn't guaranteed. Powell could remain on the Fed's Board through 2028. His strong response to the DOJ's subpoenas, which called out Trump, suggests he may choose to do so, becoming the second ex-chair to stay. The other, Marriner Eccles, stayed after President Harry S. Truman replaced him in 1948, often needling Truman. Powell may seek a similar role. If the Supreme Court denies Trump's attempts to fire Cook, only one seat would open—Miran's, which presumably becomes the new chair's. Exhibit 12 shows the 2026 FOMC voters. All this, plus heavy media attention, makes us skeptical this risk is likely. But we don't dismiss it.

Exhibit 12: 2026 Federal Open Market Committee Voting Members

Fed Board	Name	Term Ends?	Who/When Appointed?
Chair	Jerome Powell	May 2026*	Trump, 2017
Governor	Michael Barr	January 2032	Biden, 2022
Governor	Christopher Waller	January 2030	Trump, 2020
Governor	Lisa Cook	January 2038	Biden, 2022
Governor	Michelle Bowman	January 2034	Trump, 2018
Governor	Phillip Jefferson	January 2036	Biden, 2023
Governor	Stephen Miran	January 2026	Trump, 2025

Voting Branches	Regional President	Appointment
NY Fed	John Williams	Appointed by each regional branch's board, with Fed Board of Governors input.
Cleveland Fed	Beth Hammack	
Richmond Fed	Tom Barkin	
Atlanta Fed	Raphael Bostic**	
San Francisco Fed	Mary Daly	

Source: Federal Reserve, as of 1/9/2026. *Chairmanship ends in May 2026 but could remain as governor through 2028. **Retiring in February.

Risk: Sentiment Turns Frothy

As noted earlier, we think sentiment has become optimistic in America, but it doesn't appear euphoric and skepticism prevails abroad. Pockets of froth emerging in an optimistic stretch—and deflating with little broad market fallout—isn't uncommon. Crypto and crypto treasury stocks in 2025 are a good example. But if 2026 starts hot, sentiment could warm quickly. This could override the Midterm Miracle, as there would be much less political angst for the resulting gridlock to alleviate. Essentially, this could pull forward the Miracle's bullishness. Again though, euphoria isn't itself a bear market cause. It merely suggests vulnerability to negative surprise.

Risk: Spillover From Speculations That Blow Up

Another factor to watch: Fallout from imploding speculative assets—meme stocks, cryptos and others—could hit equities. An obvious link is companies like *Strategy*, a software company that

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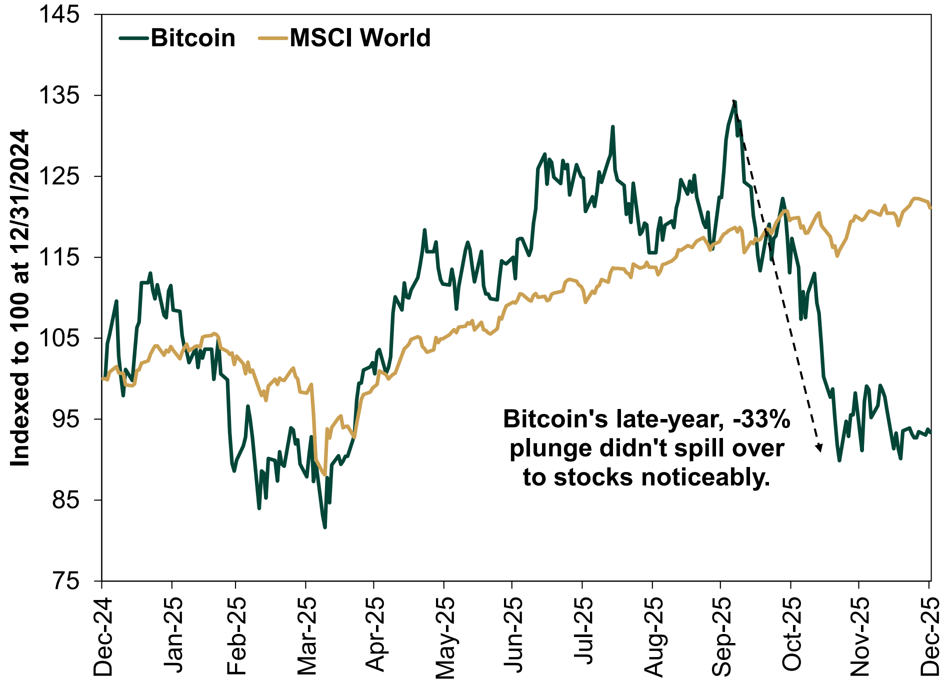
refocused its business on acquiring bitcoin in bulk via preferred stock issuance a few years ago. This and similar "crypto treasury" stocks were hard hit alongside weakness in cryptocurrencies late in 2025. More broadly, people could be forced to sell to cover margin calls tied to speculations gone wrong. That isn't today—as late 2025 demonstrates. But it is on our radar.

Exhibit 13: Bitcoin's Slide Didn't Sink Stocks



Source: FactSet, as of 1/9/2026. 12/31/2024 – 12/31/2025.

Risk: Mispricing and Illiquidity in Private Equity and Credit

The private investment funding pinch we highlighted last year remains a risk we are monitoring. As we noted then, many see private assets as one-way tickets to high returns and low volatility, which is why many flocked to them in an attempt to beat 2022's hot inflation. But these presumptions are wrong, as 2025 further illustrated. This highlights some downstream risks. Low volatility is just illiquidity—a bug, not a feature. Their fewer pricing points—which often use dodgy methodology to determine investments' values—hide serious price fluctuations alongside broad market trends.

Lately, realized returns have been poor. Private equity firms struggle to raise capital and, with pricing not matching internal models, selling portfolio companies would lock in losses. Some private equity firms resorted to selling companies to "continuation funds" that lock up investors' cash for longer. Other private equity and credit firms listed their funds as ETFs. But as *The Wall Street Journal's* Jason Zweig recently wrote, several had horrendous results, with their prices instantly falling -20% or -40% from pre-listing valuations.[22]

Cash needs, not a democratic ideal of offering normal folks investment options previously available only to the elite, underpin industry lobbying. They are pushing for private investments

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in 401(k)s and easing rules governing access. Radio ads hype private options. It isn't happenstance this comes as institutions dial back exposure.

There is a direct risk: Investors who dabble in illiquid assets get hammered when reality differs from imagined values. But there is also an *indirect* risk. In a deep, traditional bear market that comes with a recession, private investments' illiquidity may magnify declines—and investors who need cash due to unforeseen circumstances may not be able to exit them. This could force selling of stocks, bonds or other listed, liquid securities. There is no sign of this so far—private assets' weakness hasn't bled into stocks. But we think something similar contributed to 2018's late-year correction, as hedge fund closures forced selling. It could happen again at a larger scale.

We hope you have found this information helpful. Please contact Fisher Investments at 800-568-5082 for more information on our outlook and services, or to arrange an appointment with one of our representatives for a complimentary review of your portfolio. To follow our ongoing commentary on market and economic events, please visit our *MarketMinder* blog on Fisher Investments' corporate website: https://www.fisherinvestments.com/en-us/marketminder. Alternatively, you can sign up here for *MarketMinder's* weekly newsletter.

The Investment Policy Committee
Aaron Anderson, Ken Fisher, Bill Glaser, Michael Hanson and Jeff Silk

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[1] Source: FactSet, as of 1/2/2026. MSCI World Index return with net dividends, 12/31/2024 – 12/31/2025.
[2] Source: Finaeon, Inc., as of 12/24/2025. S&P 500 total return, 12/31/1929 – 12/31/2024.
[3] Ibid. Return is price-only due to daily data availability used in calculating bull market trough-to-peak returns.
[4] Source: FactSet, as of 12/24/2025. Statement based on MSCI World Ex. USA return with net dividends, S&P 500 total return and the total return of Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla (a non-Tech stock commonly included in the group).
[5] Source: Finaeon, Inc., as of 12/23/2025. Based on S&P 500 Total Return Index frequency of gains.
[6] Source: FactSet, as of 1/7/2026. MSCI World Index return with net dividends, 12/31/2024 – 12/31/2025.
[7] Ibid. S&P 500 total return and MSCI Europe and MSCI Japan with net dividends, 12/31/2024 – 12/31/2025.
[8] Source: FactSet, 1/8/2026.

[9] Source: Fisher Investments Research, as of 1/16/2025.
[10] Ibid, as of 1/15/2026.
[11] Ibid.
[12] Ibid. Percentage of S&P 500 constituents outperforming the index in 2025.
[13] Ibid. Percentage of MSCI World Index constituents outperforming the index in 2025.
[14] Ibid. MSCI Austria return with net dividends in local currency, full year 2025, sector weights on 12/31/2025.
[15] Ibid. MSCI Hong Kong return with net dividends in local currency; full year 2025, sector weights on 12/31/2025.
[16] Ibid. MSCI Canada return with net dividends in local currency, full year 2025, sector weights on 12/31/2025.
[17] Source: FactSet, as of 1/11/2026.
[18] "Earnings Insight for November 21, 2025," John Butters, FactSet, as of 11/21/2025.
[19] Ibid.
[20] Source: FactSet, as of 1/20/2026.
[21] *The Only Three Questions That Still Count (Third Edition),* Ken Fisher, *Wiley*, 2025, pp. 213.
[22] "When Your Private Fund Turns $1 Into 60 Cents," Jason Zweig, *The Wall Street Journal*, 12/19/2025.

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