Fourth Quarter | 2026 Outlook

Pragmatism

TK Viewpoint

Capital market performance in 2025 was stellar. Domestic equities were profitable for the third year in a row with double-digit gains and non-US equities outperforming for the first time in over a decade! To highlight the full scope of performance, fixed income, precious and industrial metals were also profitable. One of the major forces behind returns is "AI!" The world has come to use "Chat" as a verb in the way we now refer to "Google."

When you consider the amount of wealth created over the last three years for investors, there may be mixed feelings about the next year…optimism, fear, confidence, anxiety? Maybe all those things? When the market is positive this much, and for this long, it makes even the most disinterested investor attentive to what may lie ahead. There are fundamental reasons to be constructive on the prospects for 2026. Consensus estimates start at ~9% earnings growth for the S&P500, lower corporate tax rates, and expectations for additional Fed funds interest rate; all of which may impact the wind at our backs as we enter the new year.

Spending on semiconductor chips, data centers, and implementation of AI are a prominent component to earnings expectations for 2026. The technological revolution occurring offers hope for increased profit margins and productivity as well as fears for employment opportunities and head count. The implications are both incredibly promising and concerning depending on how the sand may be shifting under your feet. Remember when *"50 somethings"* were going to be replaced with young college graduates who could code? At this moment the sun is shining on experience as *"50 somethings"* are preferred for their interrogative skills with AI. It was only a few years ago employers were desperate to hire people, driving up wages to attract talent who may yet be replaced by "an agent" for the same role. The unintended consequences of progress are often a mixed bag.

An experienced sailor does not rely on the favor of the wind or the weather. She must prepare for contingencies. For long time readers, a reference to the cyclical nature of the economy and markets is familiar. We lean to the paranoid side of optimism, appreciating that the sun both rises and sets. For that reason, we took steps in the fourth quarter to protect profits from the last few years. For retirees, this included raising much of their budgeted income for 2026. For our hard-working savers, we employed hedging strategies. The steps taken are not because we are "bearish" or negative on the prospects for 2026, but because statistically a fourth year of double-digit gains is lower…but it is not impossible or unprecedented.

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Key economic data points we are watching:

1. Stable or increasing GDP ~2.6%
2. Inflation under ~3%
3. The 10- year Treasury under ~4.5%
4. Unemployment rate under ~5%
5. A declining deficit
6. Independent Federal Reserve
7. Stable dollar

A trending investment theme for 2025 was "Alternative Investments." This is a broad term referring to: Hedge Funds, Private Capital, Managed Futures, and Direct Lending. There was an Executive Order to allow access inside 401-ks. We will not be early adopters of this nascent opportunity in corporate retirement plans.

Technology, Mega-Caps and AI have carried much of the water these last three years for investors, but the emergence of performance from international and emerging markets as well as value investments and small cap companies may be a developing trend. Our portfolios performed well this past year, and we are grateful for the trust and confidence to manage your hard-earned dollars and life savings!

We view 2026 as a year of transition versus a continuation of trend. The cyclicality of markets requires advisors to master both risk taking and restraint. We have employed additional resources in technology and personnel to evaluate, pivot, and respond to opportunities and enhance performance. In that spirit, the team has advanced in credentials and expertise both organically and through recruiting. In our meetings with you we have tried to not only highlight the extraordinary success we have enjoyed the last three years but also the little "w" in negative years like 2018 and 2022 which offered investment opportunities instead of gains. This next year is likely to be volatile. We remain vigilant in our efforts to grow and preserve your wealth! We remain active in our research, continued education and focus on providing bespoke financial advice!

Your families are precious to us, and we are humbled to serve you! We look forward to connecting on your needs, challenges, priorities, and opportunities this year!

Yours,

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