

## *1<sup>st</sup> Quarter 2026 Market Commentary*

**KEY POINT:** The markets aren't stretched and fundamentals look sound.

As we head into the new year, the markets are just coming off two very strong years for returns and growth. The \$64,000 question is can we have a third year. While fundamentally the markets still look strong, many investors still feel the markets might be stretched.....yet they continue to march upward.

When you dig deeper, it appears the S&P isn't as expensive as it might look. The information technology sector, a major area that's been driving the markets higher, makes up over 35% of the S&P 500 now. Back in the 70's it was only 10%. We can't expect the Price to Earnings ratios of the past to still be the benchmark. These are high-growth companies that trade at high multiples thus bringing the overall You'll also want to look at the fundamentals which I said earlier still look strong. There are four things taking place now that could bode well for the markets in 2026:

1. Monetary conditions are moving faster than investors thought.....The FED is still lowering rates.....Banks are easing lending. The FED wants to maintain full employment, which is showing signs of weakening. Despite inflation, they still want to be accommodative.
2. Fiscal policy is a tailwind for the markets.....Corporations are getting tax deductions for capital expenditures.....individual tax returns this year, with the renewal of our tax breaks, are expected to be a boost come Spring .
3. While deregulation has been quiet, we expect to hear more this year which creates a powerful tailwind.
4. We're seeing more Mergers and Acquisitions activity which has typically been good for the stock market. On top of that, we are in a Capital Expenditures Supercycle of spending.....and it's not just in A.I. Spending in cybersecurity, a re-shoring Renaissance and a focus on domestic technology all bodes well.

Bottom-line, there are many factors contributing to the markets making all time highs at this moment. In 2026, the run upward might not be as smooth (expect more volatility) but I still feel it will be up.