Four Points Group Market Outlook & Reflections

A new year always brings a fresh round of market predictions. Before jumping into what we think lies ahead, it's worth taking a step back and looking at what we expected this time last year—and how things actually played out.

Heading into 2025, we spent a lot of time thinking about the push and pull between market headwinds and tailwinds, especially with a new administration entering the White House. On the risk side, we pointed to several potential challenges: tariffs and their impact on inflation, immigration policies affecting the labor market, inflation remaining "sticky" and—most importantly—starting valuations that were already historically high after back-to-back 20%+ gains for the S&P 500 in 2023 and 2024.

On the flip side, we also believed there were enough positive catalysts at play to offset those risks. We expected a more accommodative Federal Reserve, the extension of tax laws set to expire at the end of 2025, lighter regulation across industries and productivity gains tied to the growing adoption of AI. Our conclusion at the time was that these tailwinds could keep the market moving modestly higher.

That part turned out to be correct—but the magnitude surprised us. The S&P 500 returned just under 18% in 2025, which was higher than consensus expectations from market pundits, including us at Four Points Group. Aside from a brief but sharp pullback in April around the administration's "Liberation Day" tariff announcement, the market proved to be remarkably resilient. In hindsight, we underestimated just how well large companies could navigate tariff-related uncertainty. And while we knew AI was a positive force, capital investment by some of the largest tech companies has far exceeded even the loftiest expectations.

So now, as we head into 2026, it's time to make some new predictions, never an easy task. As Yogi Berra famously said, "It's difficult to make predictions, especially about the future."

Looking back, we hope we can be forgiven for expecting modest, single-digit returns last year given all the uncertainty at the time. Twelve months later, we have more clarity on some issues, less on others, and investors are once again asking the same question: where do we go from here?

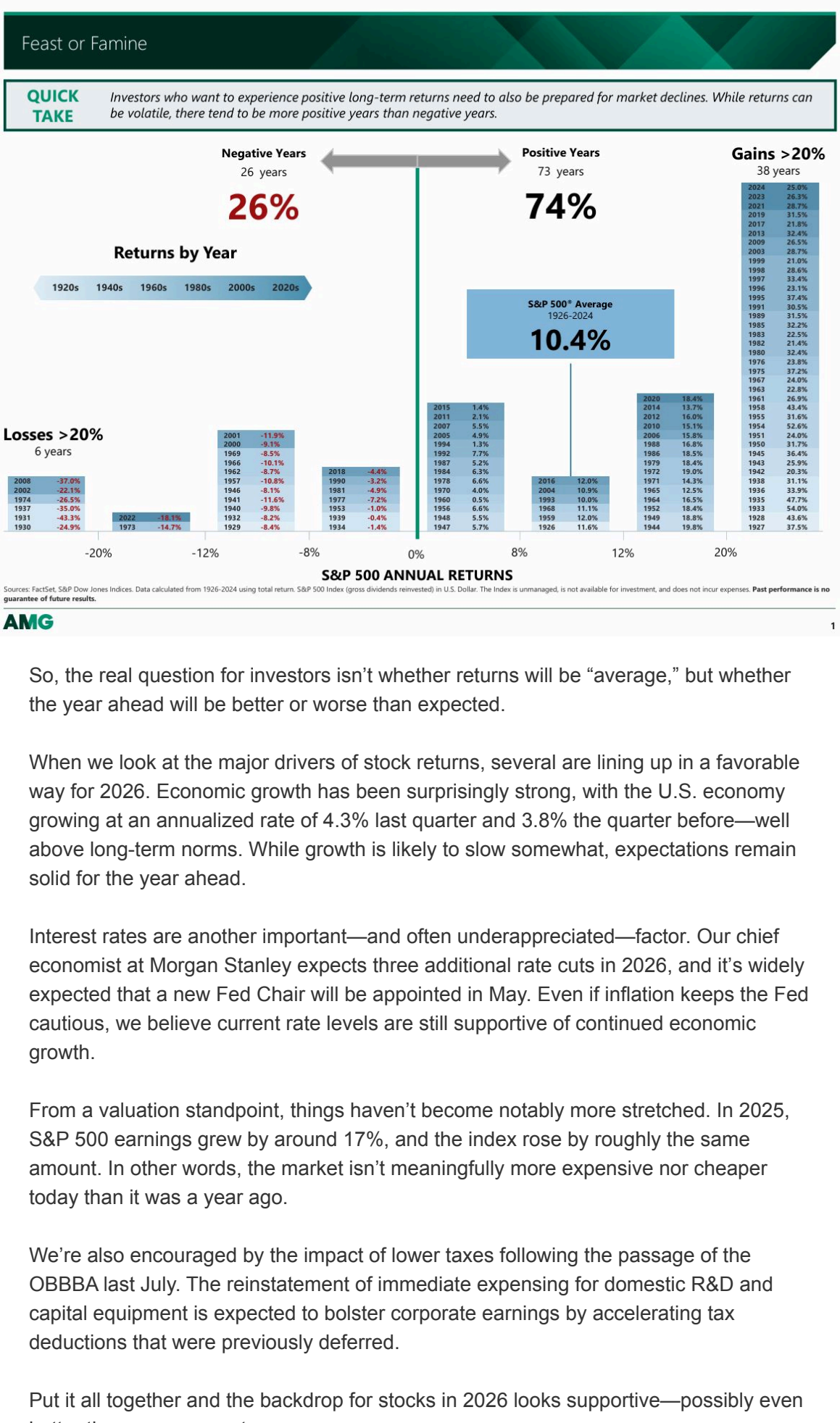
Morgan Stanley's official 2026 year-end estimated price target for the S&P 500 is 7,800, which implies about 14% upside from where we finished 2025. That forecast is based on stronger-than-consensus earnings growth driven by increased operating leverage, pricing power, AI-related efficiency gains, and more business-friendly tax and regulatory policies.

This outlook sounds reasonable and is largely in line with many other notable Wall Street firms' forecasts* - but that's also what gives us pause. When consensus lines up too neatly around a single outcome, history tells us to be skeptical. In fact, predicting an 8–12% return for the S&P 500 in any given year is a bit like betting on the New York Giants to win the Super Bowl next season—the odds aren't great.

*Wall Street analysts share their S&P 500 outlook for 2026 - TheStreet

Despite the S&P 500's 10% long-term average annual return, annual results in the 8-12% range are surprisingly uncommon, having occurred just six times since 1926.

Statistically speaking, those are not great odds. The takeaway is that markets are far more likely to deliver either strong gains or disappointing returns than something neatly in the middle.



So, the real question for investors isn't whether returns will be "average," but whether the year ahead will be better or worse than expected.

When we look at the major drivers of stock returns, several are lining up in a favorable way for 2026. Economic growth has been surprisingly strong, with the U.S. economy growing at an annualized rate of 4.3% last quarter and 3.8% the quarter before—well above long-term norms. While growth is likely to slow somewhat, expectations remain solid for the year ahead.

Interest rates are another important—and often underappreciated—factor. Our chief economist at Morgan Stanley expects three additional rate cuts in 2026, and it's widely expected that a new Fed Chair will be appointed in May. Even if inflation keeps the Fed cautious, we believe current rate levels are still supportive of continued economic growth.

From a valuation standpoint, things haven't become notably more stretched. In 2025, S&P 500 earnings grew by around 17%, and the index rose by roughly the same amount. In other words, the market isn't meaningfully more expensive nor cheaper today than it was a year ago.

We're also encouraged by the impact of lower taxes following the passage of the OBBBA last July. The reinstatement of immediate expensing for domestic R&D and capital equipment is expected to bolster corporate earnings by accelerating tax deductions that were previously deferred.

Put it all together and the backdrop for stocks in 2026 looks supportive—possibly even better than many expect.

Of course, we're mindful of the gap that can exist between strong corporate profits and the experience of everyday consumers. We're keeping a close eye on consumer spending, housing and affordability pressures, a gradual uptick in unemployment along with longer-term trends about how AI could reshape the labor market. Any of these could potentially lead to periods of volatility, as could the Supreme Court's upcoming decision on tariff policy, the midterm elections this fall, and ongoing geopolitical risks.

As seasoned long-term investors, we know the proverbial wall of worry is always shifting but never abates.

We're confident the road ahead won't be a straight line higher. Markets rarely are. But based on what we see today, we have good reason to remain constructive for 2026—and we wouldn't be surprised if the market once again manages to outperform consensus expectations.

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