



## SoundView Wealth Management Q4 2025 and 2026 Market Outlook

### To Our Clients,

The S&P 500 rose to an all-time high in the fourth quarter as economic data showed solid growth, the Fed met investor expectations and cut interest rates and massive investment in AI infrastructure continued apace, supporting expectations for continued economic and corporate earnings growth in 2026. The S&P 500 logged a modestly positive return for the fourth quarter and an annual return of close to 18%<sup>1</sup>, continuing a strong three-year run.

### Q4 Review

The S&P 500 started the quarter by hitting a new all-time high in early October, although volatility struck markets mid-month as trade tensions between China and the United States escalated once again. After several weeks of tit-for-tat trade restrictions and fee increases, in mid-October, President Trump threatened 100% tariffs on Chinese goods, dramatically escalating trade tensions between the two countries. That caused a short, sharp drop in U.S. stocks, although the volatility was ultimately short-lived thanks to a strong Q3 earnings season, rising expectations for a Fed rate cut and some de-escalatory rhetoric from President Trump about the U.S./China trade war. In the final days of October, those positive expectations were fulfilled as the Fed cut rates another 25 basis points and President Trump and Chinese President Xi met and struck another trade “deal” that de-escalated trade tensions and resulted in tariff reduction for Chinese imports to the U.S.

Volatility returned to markets in a more sustained way in November, thanks to rising doubts about future Fed rate cuts and disappointing AI-related news. Stocks dropped early in the month on further digestion of the recent Fed decision, which provided markets with a desired rate cut but also injected some doubt over whether the Fed would cut rates again in December. Then, in mid-November, several headlines and corporate updates cast some doubt about the expected return on investment of massive AI infrastructure spending. New York Fed President Williams helped stabilize markets around Thanksgiving, as Williams, who is seen as one of the most influential Fed members, implied he did expect the Fed to cut rates again in December. Williams’ comments sent expectations for a December rate cut surging.

Volatility remained elevated in early December, however, thanks to the same forces that caused the November pullback (uncertainty over Fed policy and mixed AI news). Unlike November, though, none of the news was bad enough to cause a sustained pullback in stocks. Starting with the Fed, it cut interest rates a third time in 2025 at the December meeting but also signaled that it did not plan to cut rates again in early 2026. The mixed message wasn’t bad enough to disrupt markets,

SoundView Wealth Management at Morgan Stanley

Morgan Stanley Wealth Management

2 Jericho Plaza | Jericho, NY 11753

Direct: 516 336 0700

<https://advisor.morganstanley.com/soundview-wealth-management>

however, and with a new Fed chair looming in 2026, markets still believe more rate cuts are on the way. Turning to AI, corporate results remained mixed as underwhelming earnings reports were offset by strong results from a memory maker. However, none of the news was bad enough to disrupt market momentum and with no more surprises lurking in 2025, year-end momentum carried the S&P 500 to new all-time highs late in the month.

In sum, 2025 was another strong year for markets, as continued investor enthusiasm for artificial intelligence, more Fed rate cuts and stable economic growth helped to offset decades-high tariff rates and general policy volatility.

## **2026 Market Outlook**

Markets begin the new year riding an impressive three-year winning streak that's been powered by rate cuts, solid economic growth and extreme investor enthusiasm over artificial intelligence, and those positive factors remain in place as we begin 2026.

Starting with economic growth, despite major shifts in global trade policy and the longest government shutdown in U.S. history, the economy starts the new year on solid footing. Major economic metrics regarding consumer spending, service sector demand, business investment and employment are showing solid growth and that is important support for risks assets as we begin 2026.

On monetary policy, the Federal Reserve has cut rates aggressively over the past year and a half, easing the headwind on the U.S. economy. And despite some uncertainty about the number of future rate cuts in 2026, investors do still expect a generally "dovish" Fed as the Fed projections show another rate cut in the new year while a new Fed chair (likely to be appointed soon, and who will take office in May) is expected to push harder for more rate cuts and generally be more dovish than current Fed Chair Powell.

Finally, investor enthusiasm for the productivity and profit-boosting potential of artificial intelligence has been the main fuel behind this remarkable three-year bull market, and as we start 2026, AI enthusiasm remains broadly in place. In fact, major U.S. tech companies remain committed to spending hundreds of billions on AI infrastructure buildout and that should continue to power broader economic growth and strong tech sector earnings growth.

Bottom line, the factors that have fueled this three-year bull market remain in place as we start the new year and that means the outlook for markets and risk assets remains positive. However, that positive outlook should not be confused as being one without risks. And while the outlook is positive, it is also fair to say the market enters 2026 with weaker tailwinds than it's had in the past few years.

Starting with economic growth, it's true that most economic metrics are showing solid growth and there are few, if any, major economic metrics warning of an economic slowdown. However, the labor market has been losing momentum for most of 2025. The unemployment rate hit a four-year high late in 2025, and broadly speaking the labor market is in a current state of "No Hire/No Fire." If layoffs start to increase in 2026, it will negatively shift the economic outlook and that could be a new, substantial headwind on stocks.

Turning to the Fed, while most expect the Fed to continue to cut rates in 2026, the reality is that the Federal Reserve is as divided as any of us have seen in a long time. Fed members appear torn over whether to continue to cut rates or hold them steady at current levels, and while the new Fed chairman is expected to be dovish, he is still only one vote on the committee. If the Fed more forcefully signals that rate cuts are over for the foreseeable future, that can be a negative surprise for markets.

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Finally, enthusiasm for artificial intelligence stocks and the tech sector remains generally high, but skepticism about the massive amount of money being poured into AI infrastructure is rising and we saw that in mixed performance of tech stocks in the fourth quarter. If investor sentiment towards AI sours in 2026, that could remove a major tailwind from the tech sector and the entire market more broadly, and this is a risk that we will continue to closely monitor.

Perhaps one of the biggest surprises of 2025 was that continued geopolitical tensions and trade policy volatility did not negatively impact markets. But the reality is that both geopolitics and trade policy volatility are still potential negative influences on risk assets. An expansion of Russia's war with Ukraine, a military confrontation between the U.S. and Venezuela, and the Supreme Court invalidating the 2025 tariffs are just some of the geopolitical and policy unknowns we must monitor in 2026, as each has the potential to cause surprise volatility.

Bottom line, while the outlook for markets is positive as we start the year, we won't allow that to create a sense of complacency because, as the past several years have shown, markets and the economy don't always perform according to Wall Street's expectations.

As such, while we are prepared for the positive outcome currently expected by investors, we are also focused on managing both risk and return potential because, as last year once again demonstrated, a well-planned, long-term-focused and diversified financial plan can withstand virtually any market surprise and related bout of volatility.

We thank you for your ongoing confidence and trust and please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Sincerely,

Brad Schatz

Financial Advisor

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2000 Westchester Avenue, Purchase, NY 10577-2530 USA

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**Morgan Stanley Wealth Management**

2 Jericho Plaza | Jericho, NY 11753

Direct: 516 336 0700

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<sup>i</sup> [https://ycharts.com/indicators/sp\\_500\\_total\\_return\\_annual](https://ycharts.com/indicators/sp_500_total_return_annual)