January 2026

Welcome to 2026!

As we reflect on 2025, it was a good year for the markets and the economy. According to the Commerce Department, US GDP expanded by 4.3% in the third quarter. We saw consumer spending grow by 3.5% in the third quarter after rising by 2.5% in the second quarter (source: CNBC). We continued to see improvement on the inflation front, according to the recent Bureau of Labor Statistics report. The Consumer Price Index rose at a 2.7% annualized rate last month while the core CPI (which strips out volatile food and energy prices) increased 2.6% over 12 months when economists had expected both to come in higher. One thing we will be keeping an eye on as we head into 2026 is the unemployment rate as it rose to 4.6% in November which was the highest in more than 4 years (source: WSJ). 2025 also saw continued Fed rate cuts. At their most recent meeting in December, the committee voted to decrease rates by 25 basis points bringing interest rates down to a range of 3.5% to 3.75%. However, in the press conference after, Chair Jay Powell signaled that investors should not except additional easing in the near term as they are watching both inflation numbers and unemployment numbers (source: Lazard).

As we start 2026, Morgan Stanley believes the year ahead is likely to be rewarding but volatile and that we are in the midst of a new bull market and earnings cycle. Morgan Stanley sees the continued prioritization of deregulation and the Fed cutting by another 50 bp in the first half of the year. One risk we see, and that many other strategists are watching is inflation and tariffs, if inflation continues to increase or if tariffs raise the baseline of inflation, it could complicate the Fed's ability to cut rates and even re-assess where rates should be (source: Lord Abbett). One major area we will be watching is AI, both in terms of efficiency gains and the amount of spending that has been occurring. According to JP Morgan Strategists "Comparisons to the dot-com bubble are inevitable, but premature: the tech sector's capex ratio today stands at 24% compared with the dot-com peak of over 35%. With investment surging, hyperscaler and tech sector revenues for 2026 look secure."

We will be hosting a vision board event virtually on January 15th and in-person on January 22nd. If you are interested, please let us know.

Also, if one of your new years resolutions was to clean up your inbox and you would prefer not to receive the Monthly Newsletter, please respond to this email with STOP and you will be removed.

We are here if you need anything and wish you a Happy New Year! James M. Koehler, Senior Vice President

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