2026 Outlook: Riding the Wave

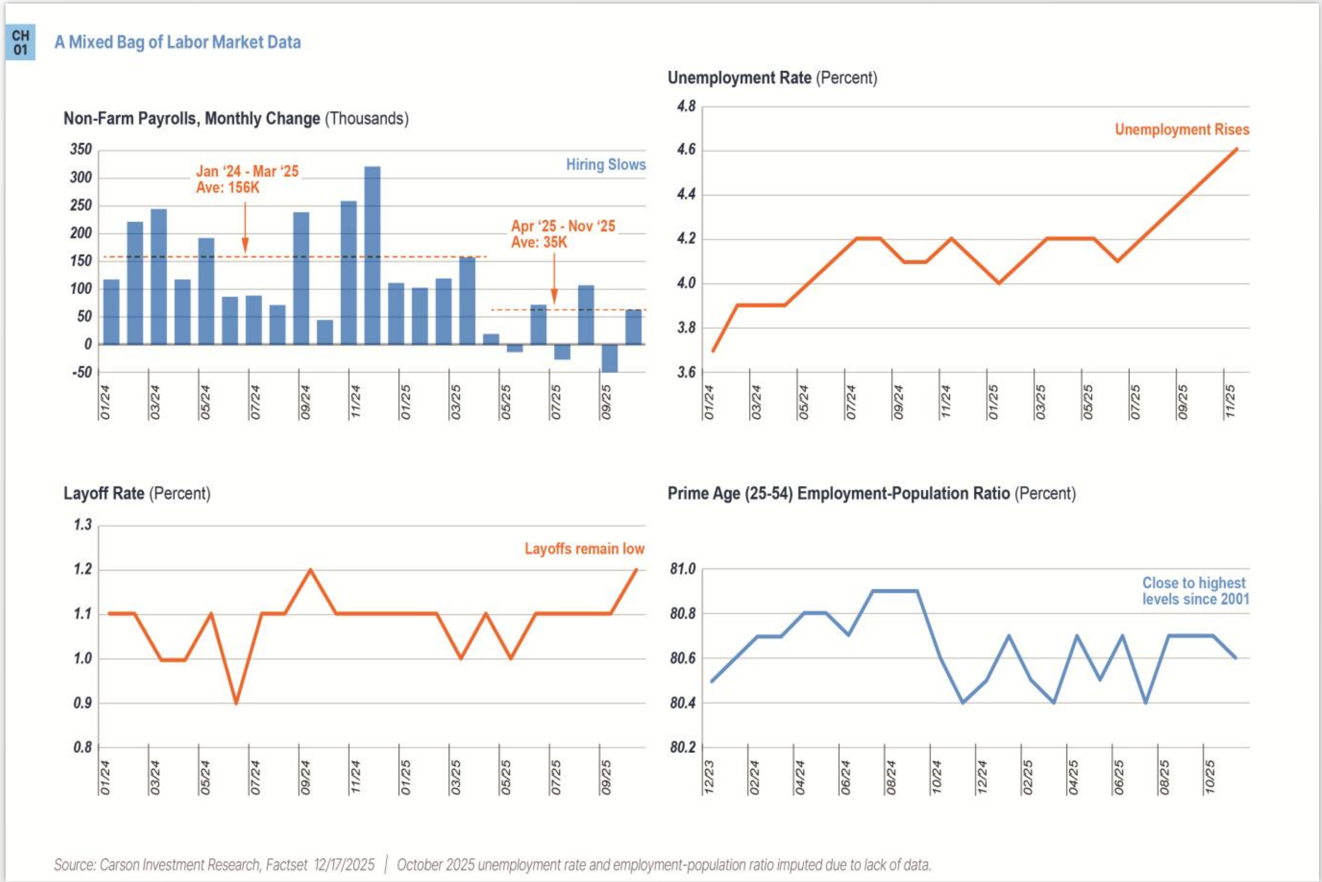
Carson Investment Research

January 13, 2026

Economy

The Labor Market Is Cooling, Mostly Through Slower Hiring

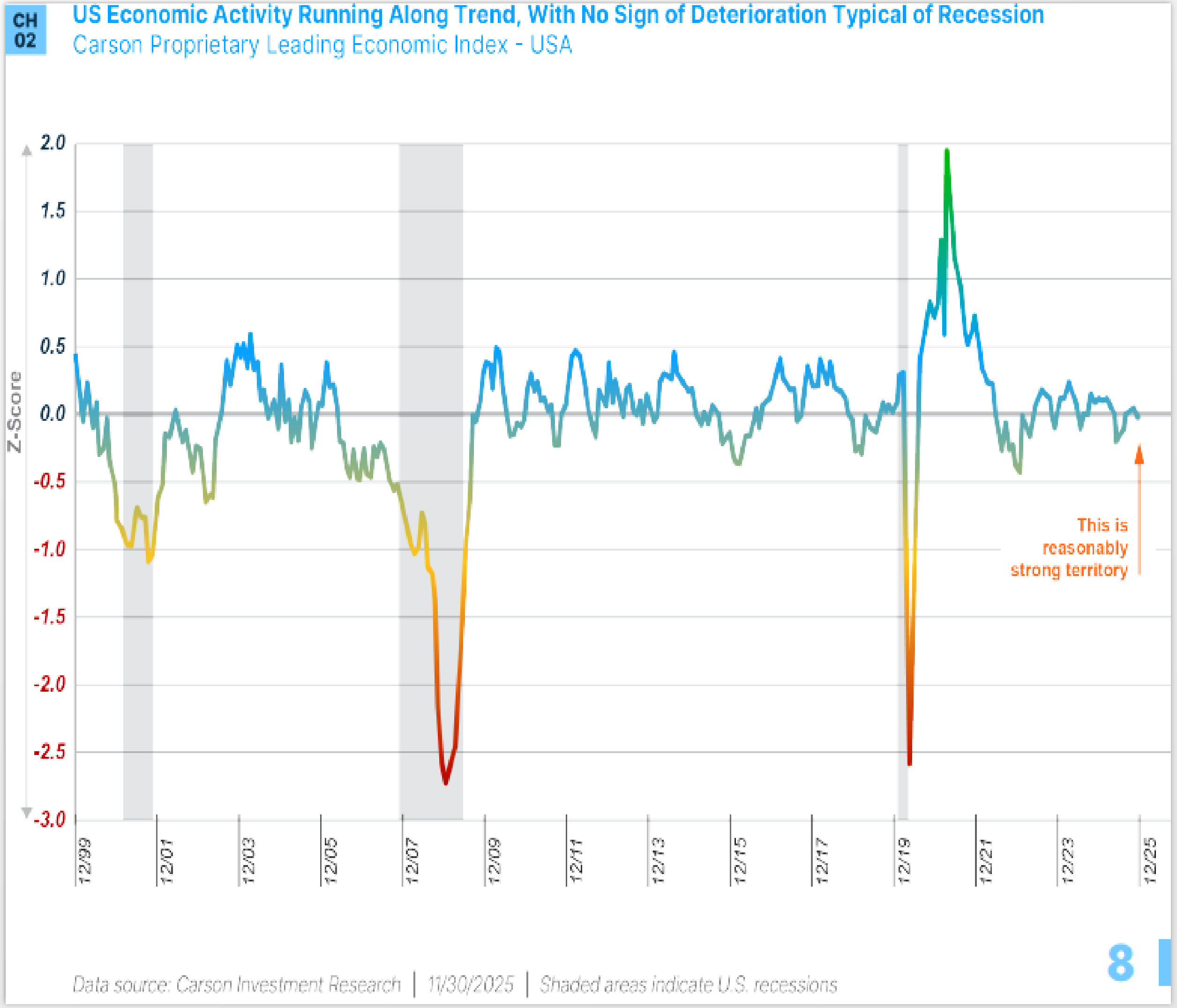
- Payroll growth has been choppy and generally softer vs prior years, pointing to slowing hiring momentum.
- The unemployment rate has drifted higher, but the layoff series stays relatively contained.
- Prime-age employment remains strong, suggesting the labor backdrop is still supportive even if it's less tight.



Economy

Activity Looks Near Trend, Not Recessionary

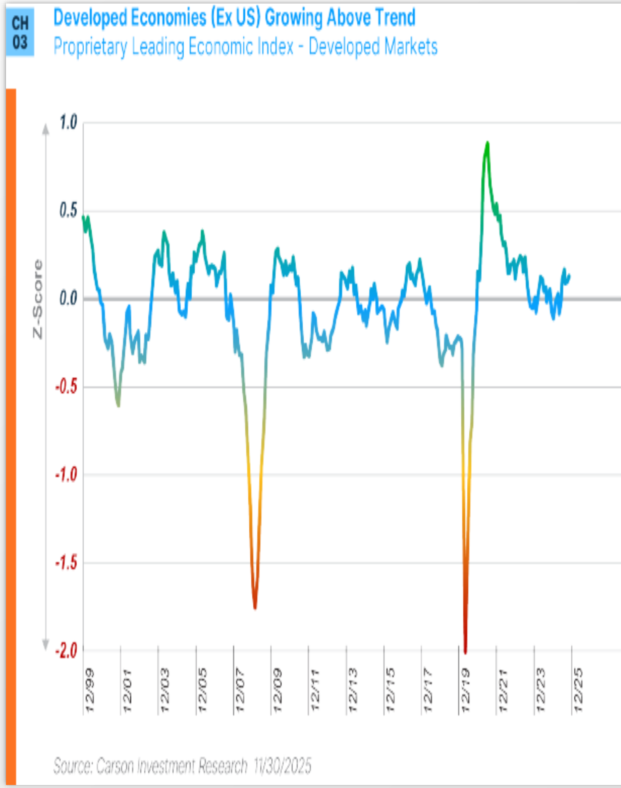
- Carson's Leading Economic index is hovering around the middle of its historical range indicating trend growth rather than plunging into recession-style territory.
- Prior recessions on the chart show sharp, deep drops; the current reading does not resemble those drawdowns.
- Momentum appears to have stabilized after the earlier soft patch, consistent with slower growth, not a collapse.

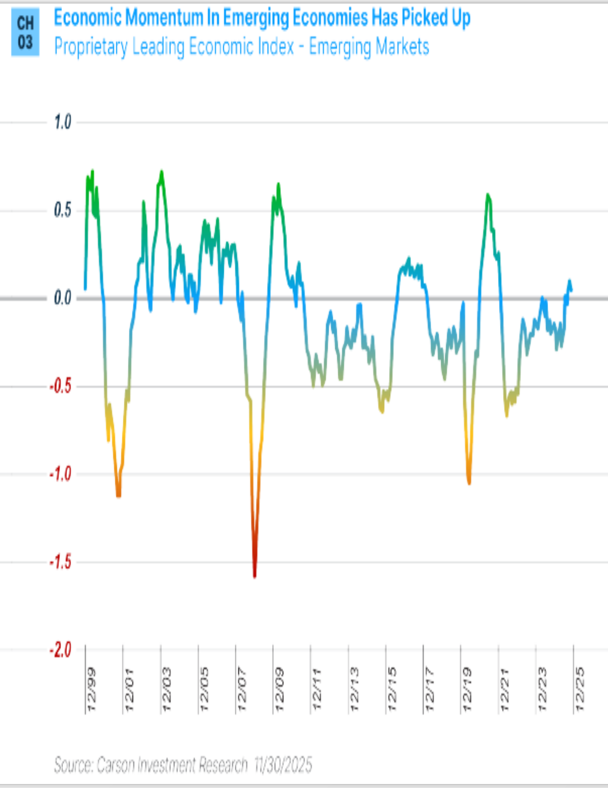


Economy

Both Developed and Emerging Growth Signals Have Improved

- The proprietary leading index for developed markets has been mostly positive recently, with fewer deep negative swings.
- The emerging markets leading index has also improved, with the latest readings back above/near zero.
- The pattern looks like broadening global momentum, not a single-country story.

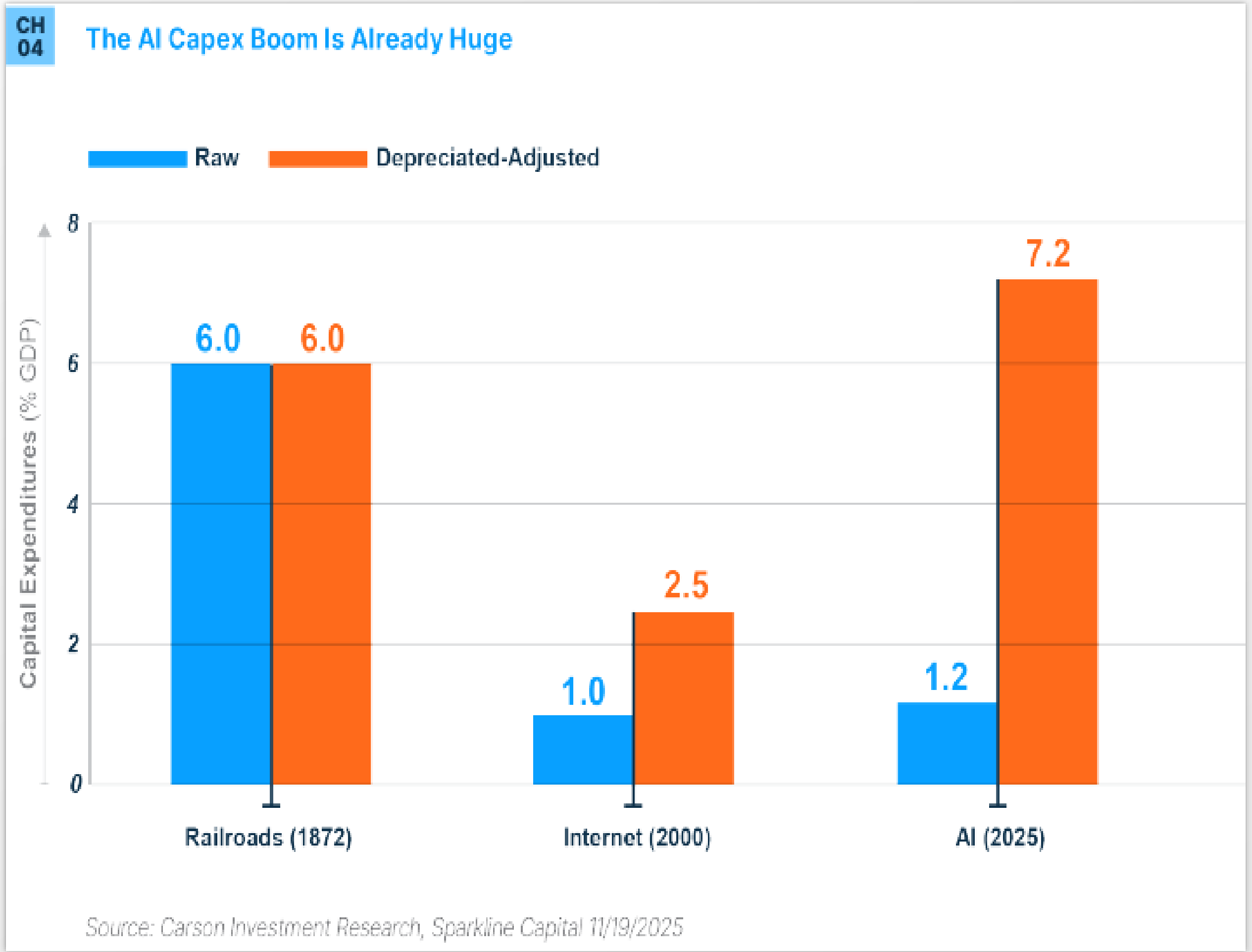




Economy

AI Capex Is a Historically Large Investment Wave

- The chart compares major capex booms (Railroads, Internet, AI) and shows AI's scale is large even by historical standards.
- On a depreciation-adjusted basis, AI's contribution stands out even more.
- When investment waves are this large, they tend to create real economic and earnings ripple effects.

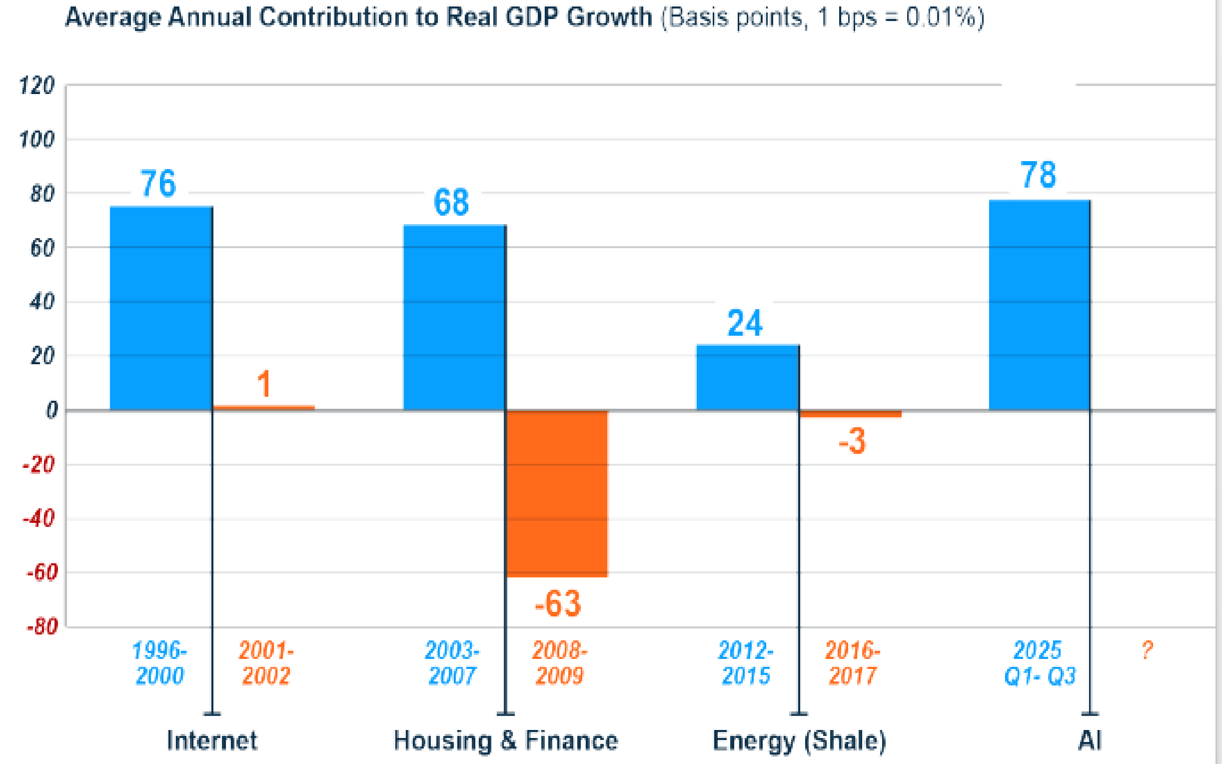


Economy

Big Investment Booms Lift Growth, But They Can Swing

- The chart shows boom periods can add meaningful GDP growth, but bust phases can swing to large negative contributions.
- The housing/finance and energy booms highlight how reversals can erase prior gains quickly.
- The takeaway isn't "avoid investment themes"; it's don't assume a straight line and diversify around cycle risk.

CH 05 Booms Are Great For GDP Growth, While They Last; The Bust Leads to a Big Swing in the Other Direction

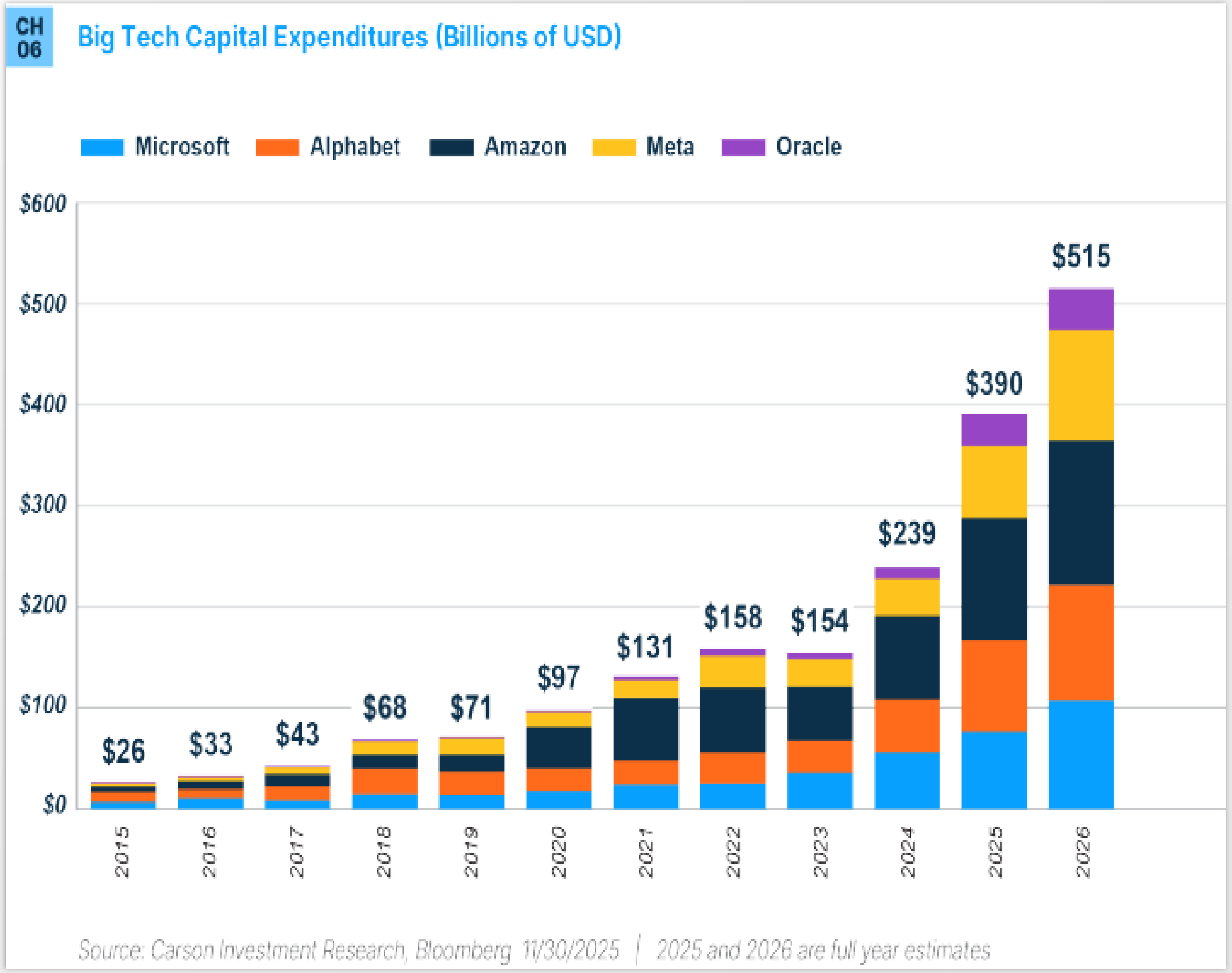


Source: Carson Investment Research, Bloomberg 12/23/2025 | 2025 GDP contribution are for the first three quarters

Economy

The AI Buildout Is Showing Up in Big Tech Budgets

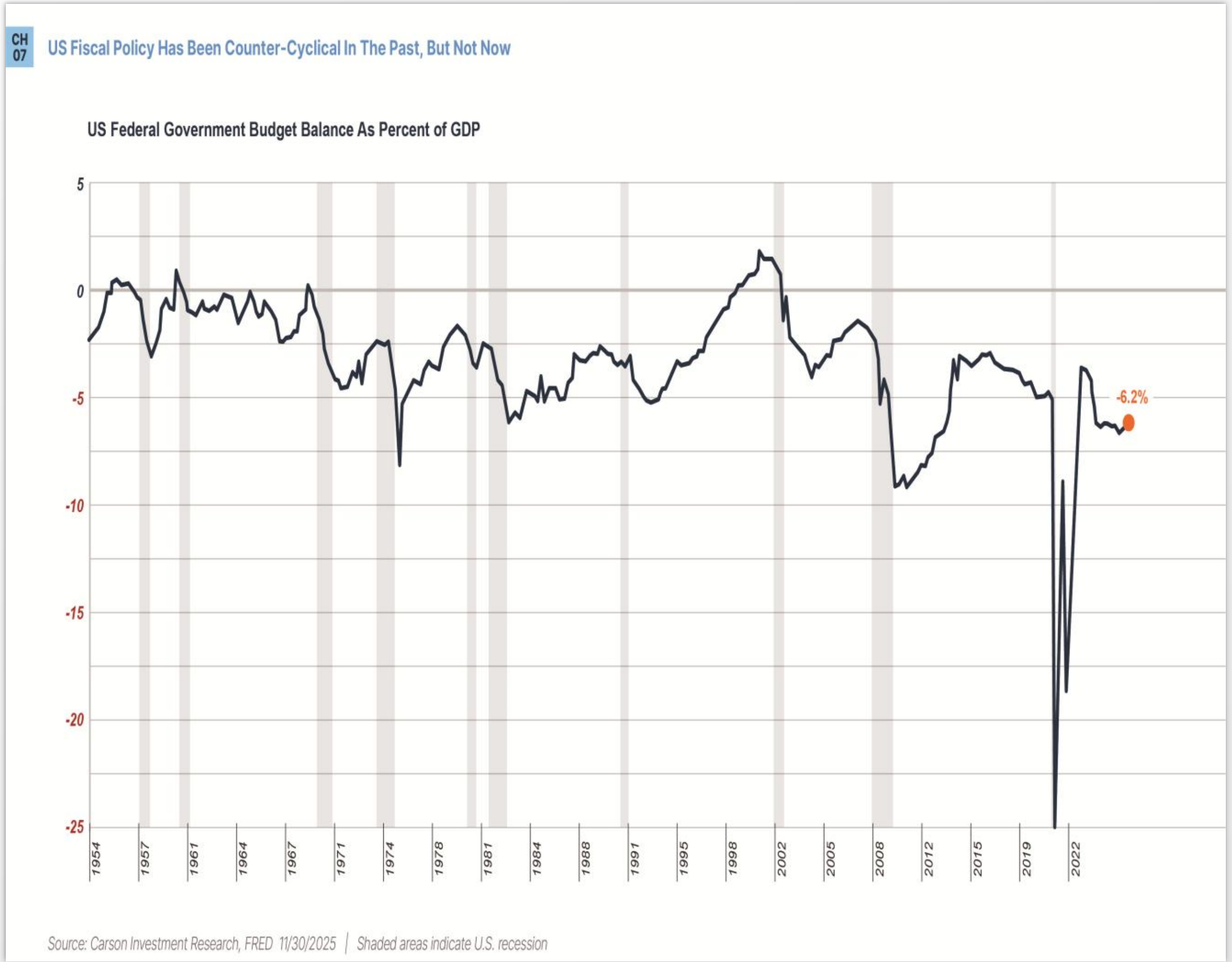
- Combined capex for the major tech platforms has surged over time, reaching the highest levels on the chart.
- The spending is broad-based across multiple firms, suggesting system-wide infrastructure buildout.
- A capex ramp-up of this magnitude typically supports a multi-year ecosystem of hardware, power, networking, and software demand.



Economy

Deficits Are Still Large Even Outside a Recession

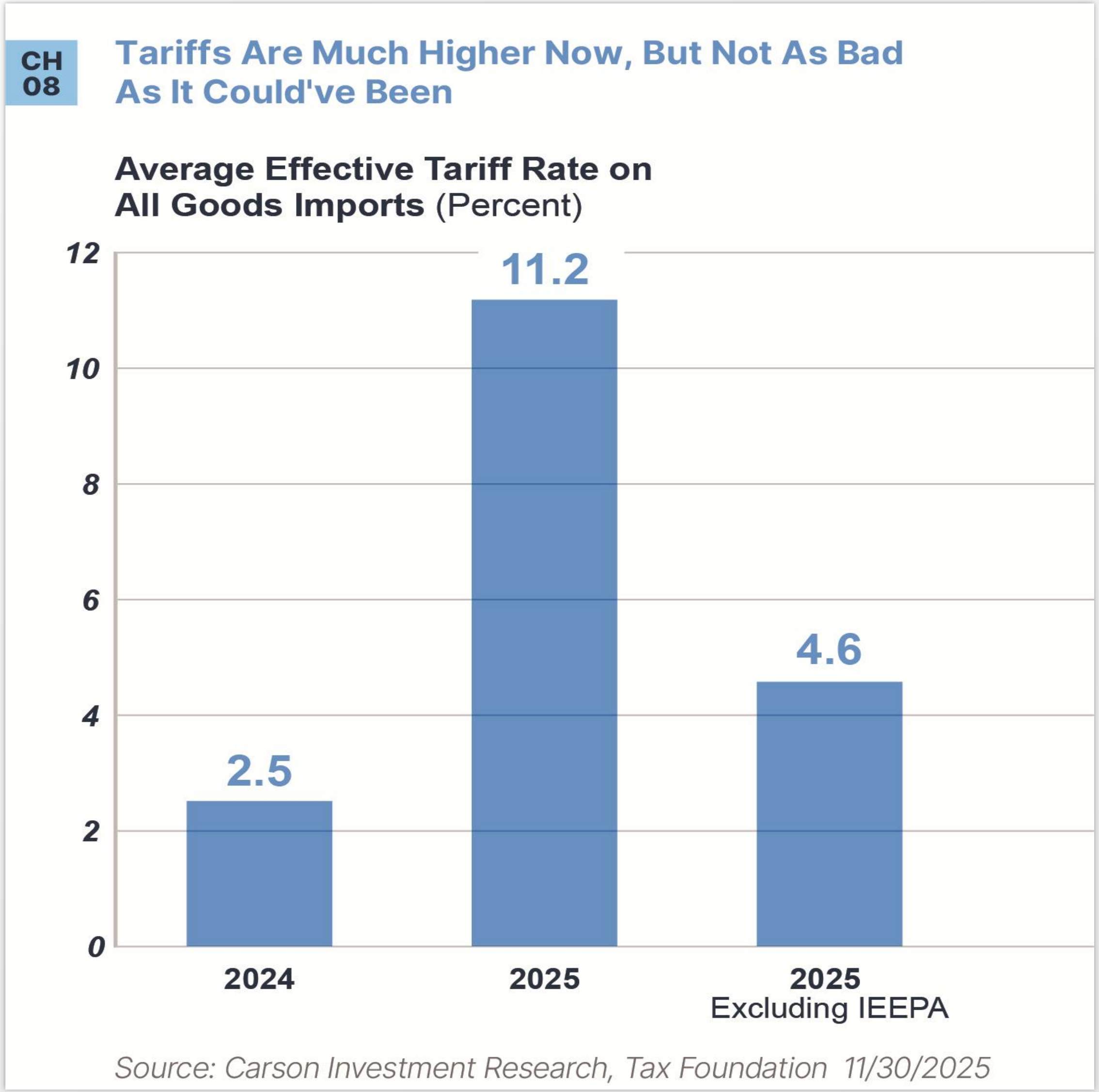
- The federal budget balance remains meaningfully negative (around the -6% range on the chart), well below “normal” expansion periods.
- Past cycles show deficits widening sharply mostly during recessions; what’s notable here is persistent deficit even without recession shading.
- Persistent deficits can support demand in the short run, but they also keep inflation and rate volatility in play.



Economy

Tariffs Jumped, but the Outcome Has Been Less Severe Than Expected

- The effective tariff rate rises sharply from 2024 to 2025 in the chart.
- The “excluding IEEPA” bar is materially lower than the headline 2025 number, should the Supreme Court rule against the administrations use of IEEPA as a basis for tariffs.
- Net: tariffs appear significantly higher than last year, but in practice have been much lower than feared.



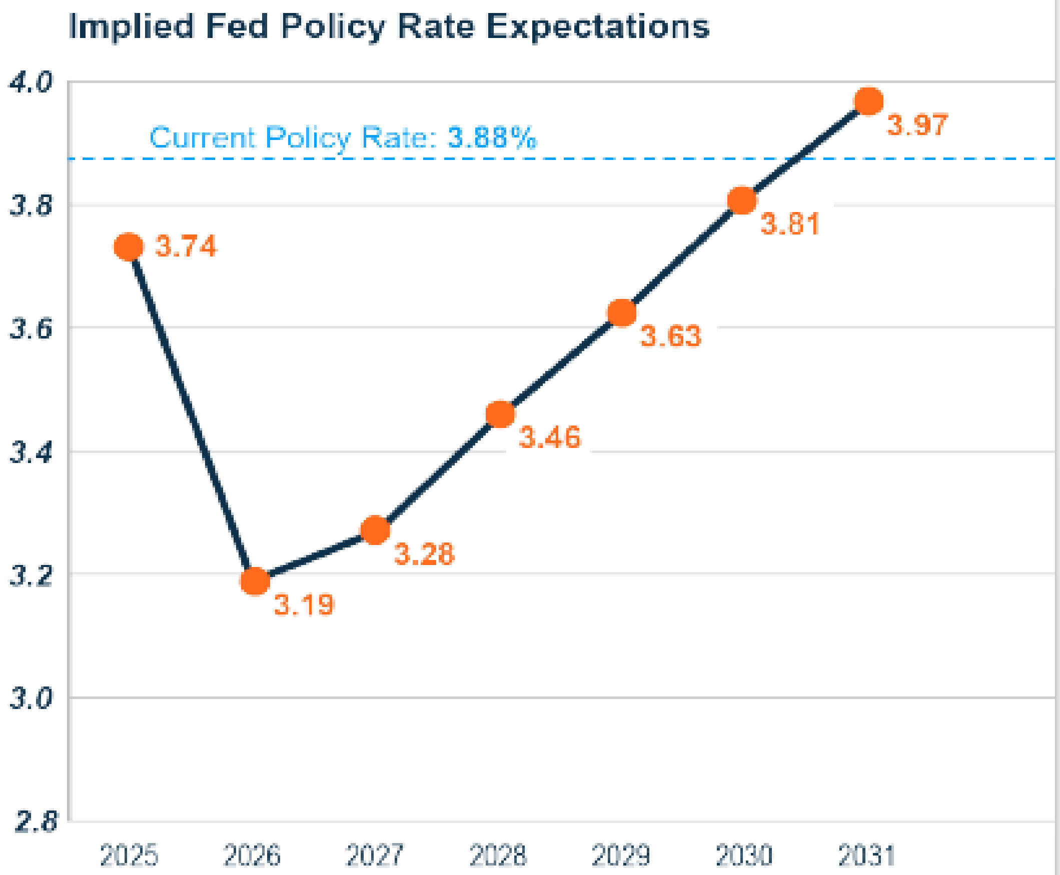
Economy

Markets See Rates Falling, Then Normalizing Higher

- The implied policy path drops into 2026 from the current level, suggesting markets expect easing ahead.
- After that trough, the curve slopes back up, implying the market sees cuts as cyclical, not permanent.
- This “down-then-up” path supports risk assets near-term but also hints that rate volatility may not be gone.

CH 09

Markets Still Predict A Near 3% Policy Rate By 2026, Followed By Gradual Rate Hikes From 2028

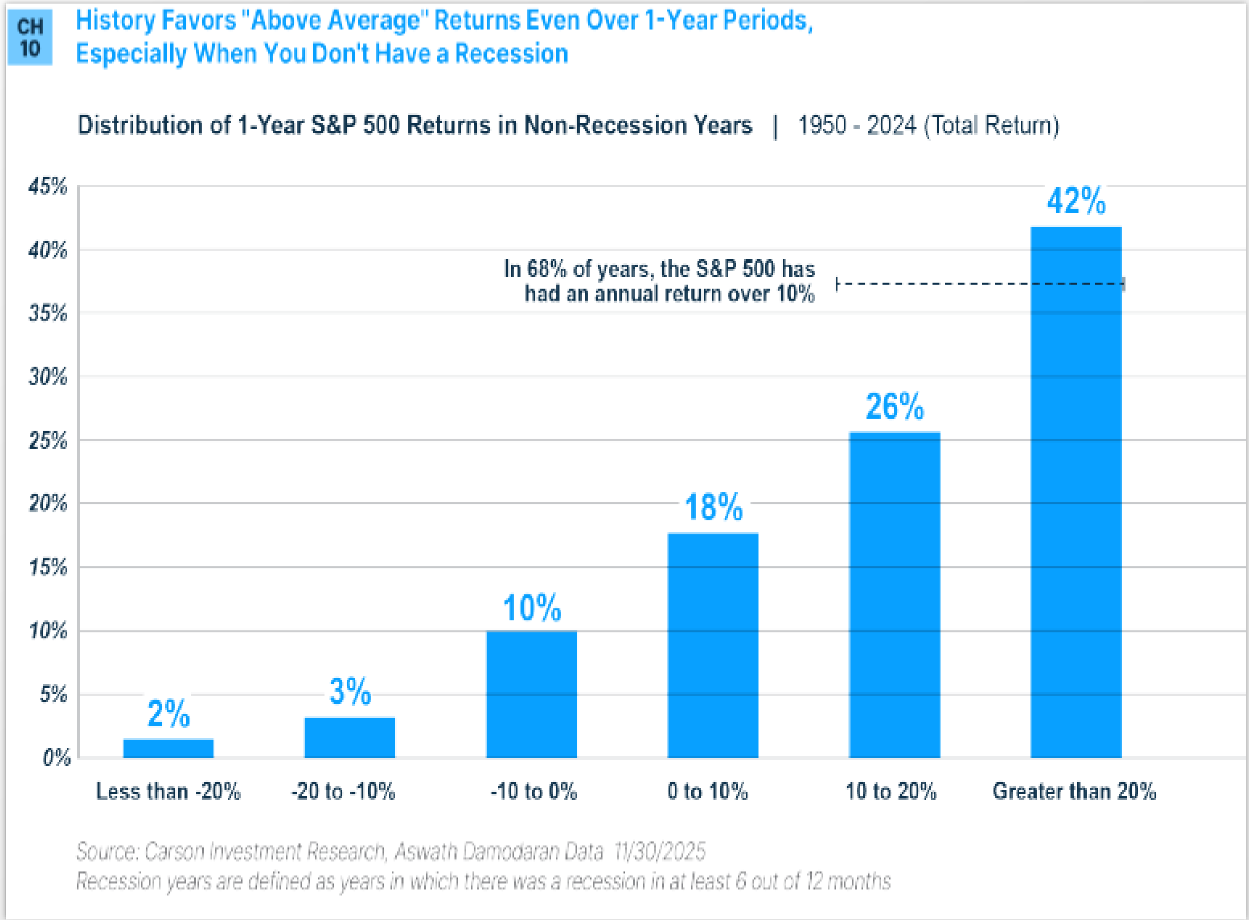


Source: Carson Investment Research, Bloomberg 12/2/2025
Implied policy rate proxied by SOFR futures

Equities

Strong Markets Don’t Need Perfect Conditions

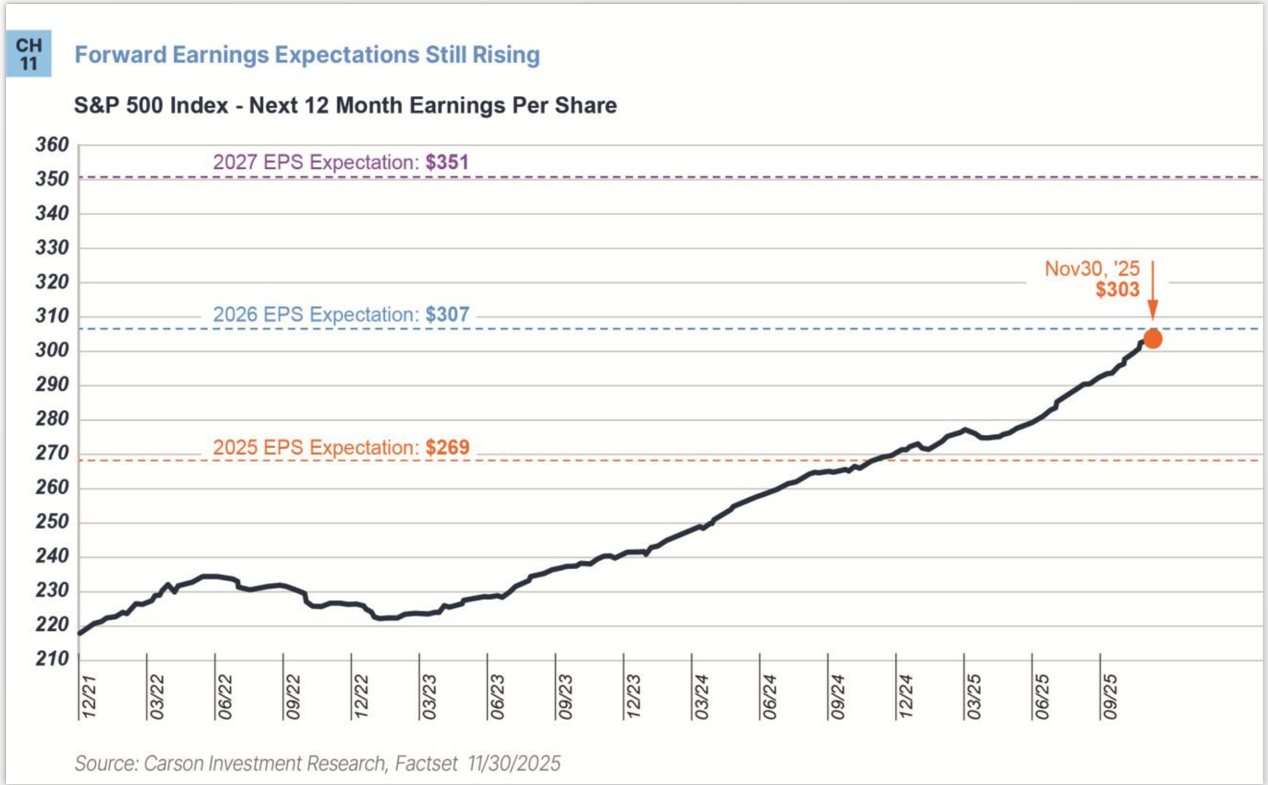
- The distribution of 1-year S&P 500 returns during non-recession periods skews heavily positive.
- Large negative outcomes are relatively rare outside recessionary environments.
- The chart reinforces that the economic regime matters more than year-to-year uncertainty.



Equities

Earnings Expectations Continue To Climb

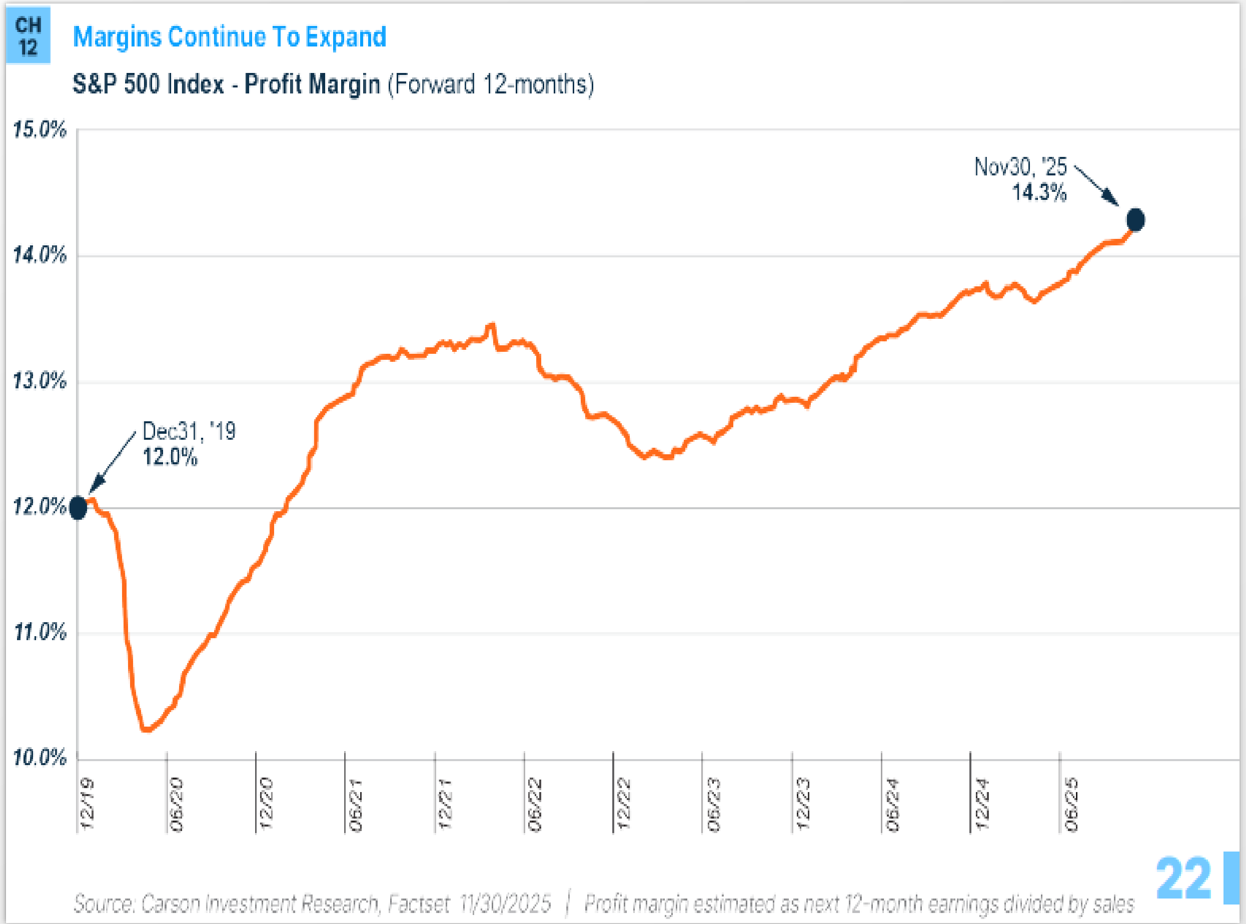
- Forward 12-month earnings expectations have trended higher over time despite volatility.
- Periodic pullbacks in expectations have been followed by renewed upward revisions.
- The slope of the line suggests earnings momentum remains intact.



Equities

Corporate Margins Have Recovered and Expanded

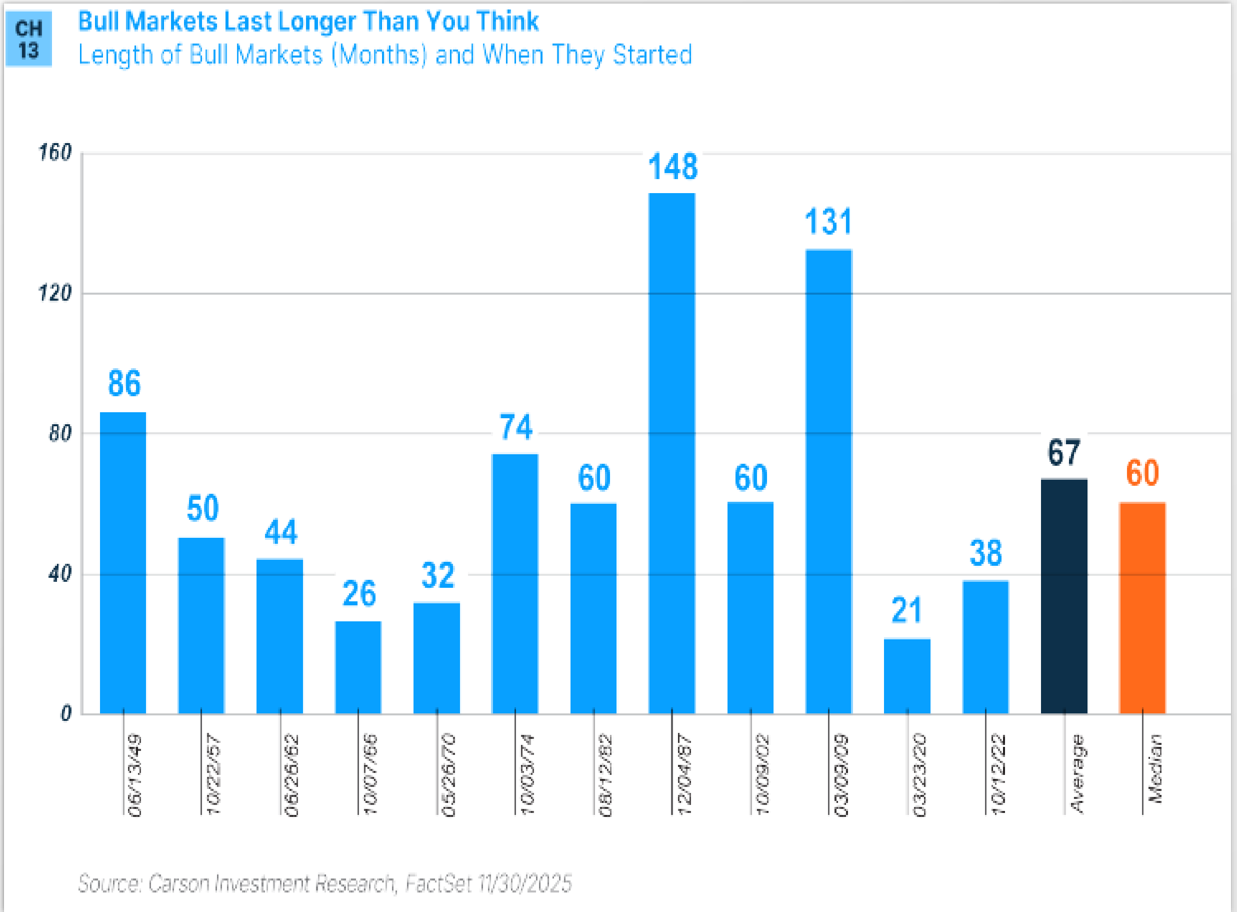
- S&P 500 profit margins rebounded sharply after the 2022–2023 compression.
- Current margins sit near the upper end of the historical range on the chart.
- Margin expansion helps explain why earnings growth has remained strong even with slower revenue growth.



Equities

Bull Markets Tend to Last Longer Than Investors Expect

- Historical bull markets frequently persist for many years, with wide variation in length.
- Several prior bull markets lasted well beyond the median duration.
- The current cycle does not yet stand out as unusually long relative to history.



Equities

This Bull Market Still Looks Young by Historical Standards

- When comparing past bull markets at similar ages, many continued to deliver positive returns.
- Early and mid-cycle bull markets often show the strongest cumulative gains.
- The data suggests time alone is not a sufficient reason to expect a peak.

CH 14

This Bull Market Might Be Three, But It Is Still Young

S&P 500 Bull Markets (1950 - Current)

Bear Market Bottom	Bull Market Peak	S&P 500 Change	Years	Bull Start in Oct?
06/13/49	08/02/56	267.1%	7.1	No
10/22/57	12/12/61	86.4%	4.1	Yes
06/26/62	02/09/66	79.8%	3.6	No
10/07/66	11/29/68	48.0%	2.1	Yes
05/26/70	01/11/73	73.5%	2.6	No
10/03/74	11/28/80	125.6%	6.2	Yes
08/12/82	08/25/87	228.8%	5.0	No
12/04/87	03/24/00	582.1%	12.3	No
10/09/02	10/09/07	101.5%	5.0	Yes
03/09/09	02/19/20	400.5%	11.0	No
03/23/20	01/03/22	114.4%	1.8	No
10/12/22	12/23/25	93.2%	3.0	Yes
Average		191.6%	5.5	**5/12** Started Oct.
Median		114.4%	5.0	

*Source: Carson Investment Research, YCharts 12/23/2025 | * Current Bull Market Is Still Active*

Equities

Early Years of Bull Markets Tend to Be Strong

- The first few years of bull markets historically show above-average returns.
- Returns often moderate later in the cycle but remain positive in many cases.
- Missing early participation materially reduces total cycle gains.

CH 15

Year Four Of Bull Markets Tends To Be Strong

S&P 500 Yearly Performance During Bull Markets (1950 - Current)

			S&P 500 Returns			
Bull Start Date	Bull End Date	Return First 3 years of Bull Market	Year 1	Year 2	Year 3	Year 4
06/13/49	08/02/56	79.9%	40.0%	14.5%	12.9%	-3.1%
10/22/57	12/12/61	38.2%	31.5%	9.7%	-4.8%	27.5%
06/26/62	02/09/66	59.7%	32.7%	17.4%	2.3%	X
10/03/74	11/28/80	50.0%	34.6%	21.2%	-8.4%	6.2%
08/12/82	08/25/87	83.9%	12.8%	15.2%	13.9%	27.8%
12/04/87	03/24/00	44.1%	57.7%	2.0%	-8.0%	17.5%
10/09/02	10/09/07	54.0%	21.4%	29.0%	5.4%	12.9%
03/09/09	02/19/20	99.9%	28.8%	5.7%	3.5%	13.7%
10/12/22	10/28/25*	83.2%	21.0%	34.7%	12.7%	?
Average		66.4%	31.2%	16.6%	3.3%	14.6%
Median		59.7%	31.5%	15.2%	3.5%	13.7%
% Higher			100.0%	100.0%	66.7%	85.7%

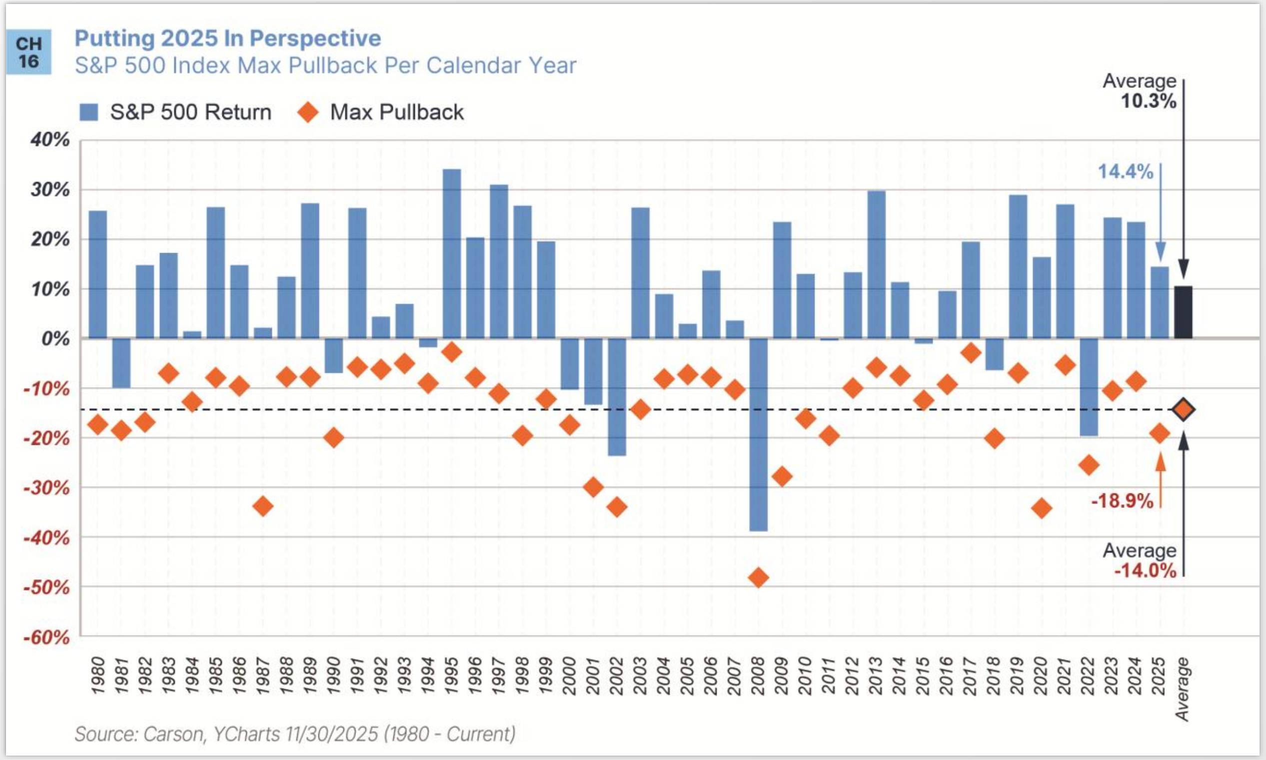
Source: Carson Investment Research, FactSet 11/30/2025 | 'X means the bull peaked and a bear market started this year

** Current Bull Market Is Still Active*

Equities

Pullbacks Are Normal, Even in Strong Market Years

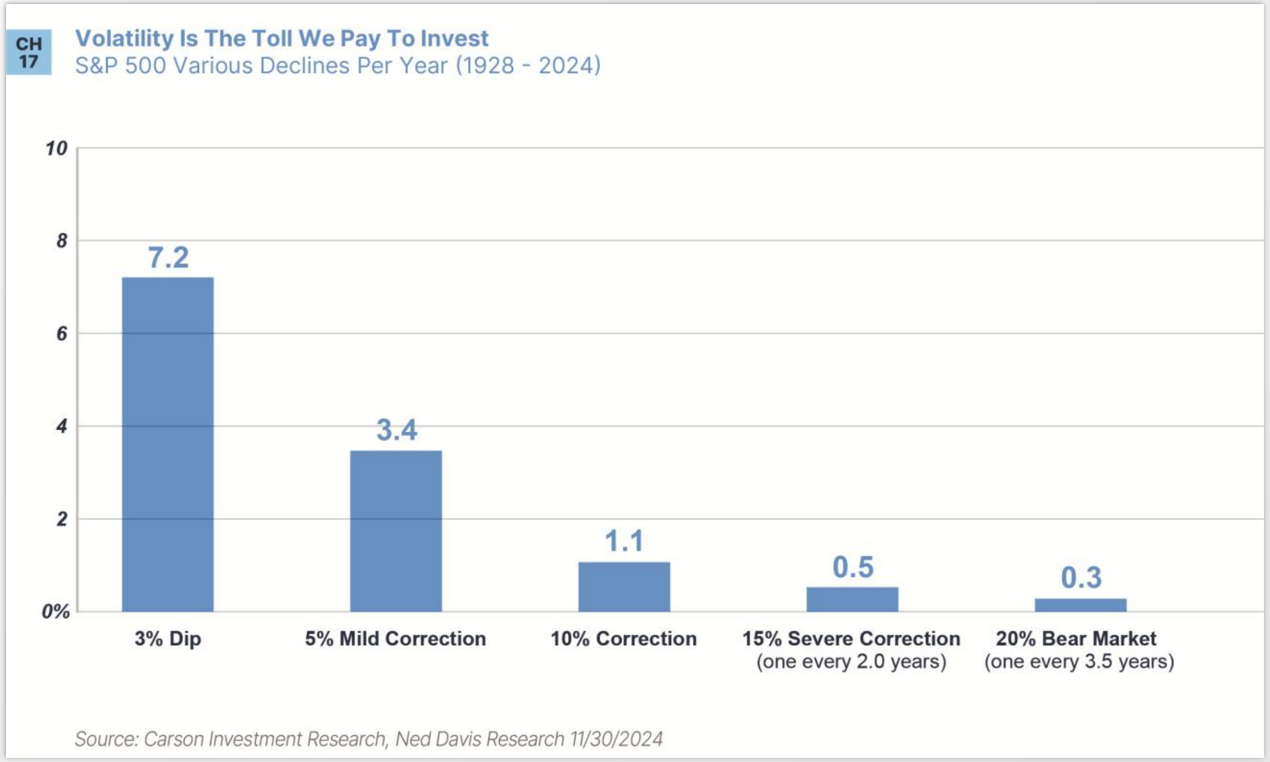
- Most calendar years experience a meaningful pullback, even when the full-year return is positive.
- The average intra-year drawdown (~-14%) is larger than the average calendar-year return (~+10%).
- Large pullbacks and strong annual gains often coexist, reinforcing the challenge of timing markets.



Equities

Volatility Is the Price of Admission for Equity-Like Returns

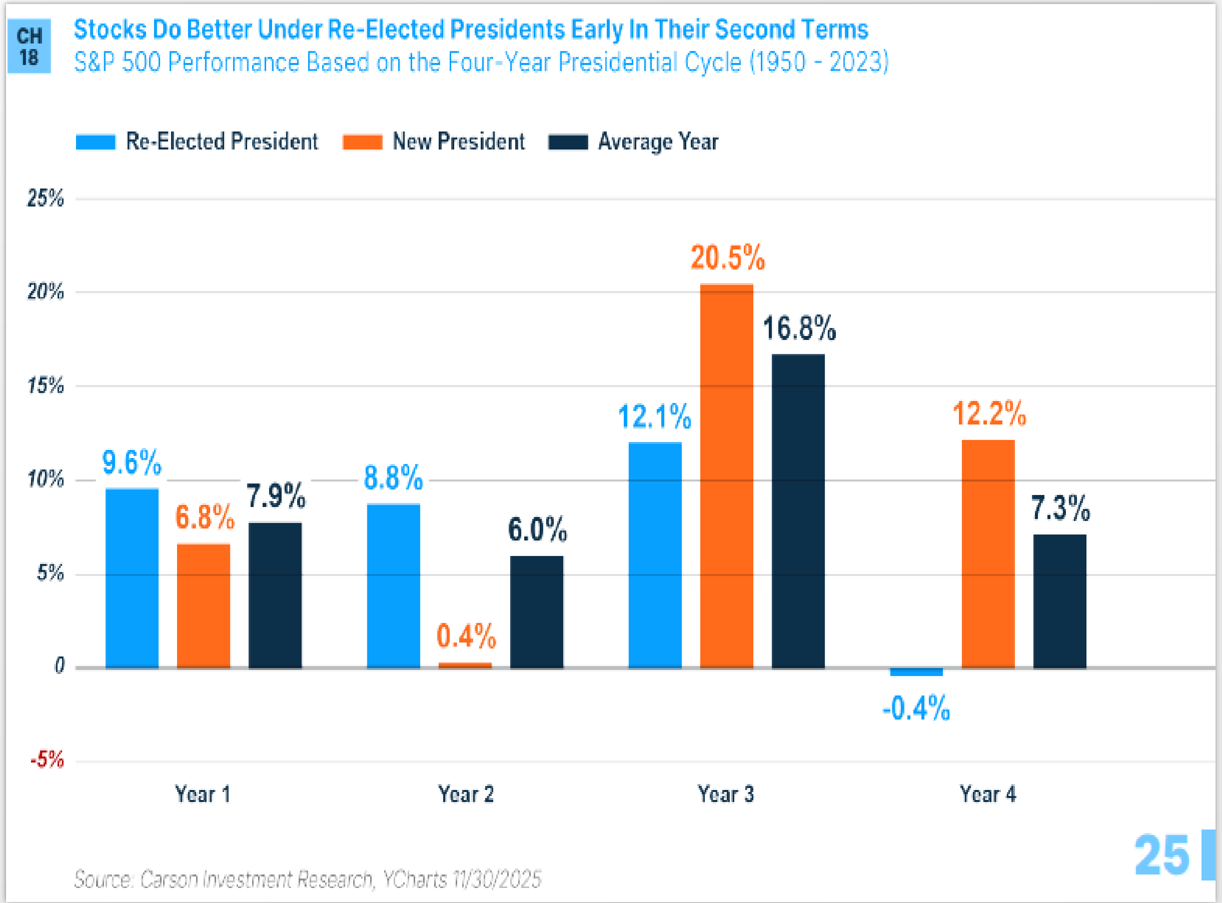
- The chart shows frequent drawdowns for the S&P 500 even during long-term bull markets.
- Larger drawdowns occur less often, but small and mid-sized pullbacks are common.
- Long-term returns have historically compensated investors for enduring volatility.



Equities

Market Returns Vary More by Year Than by Party

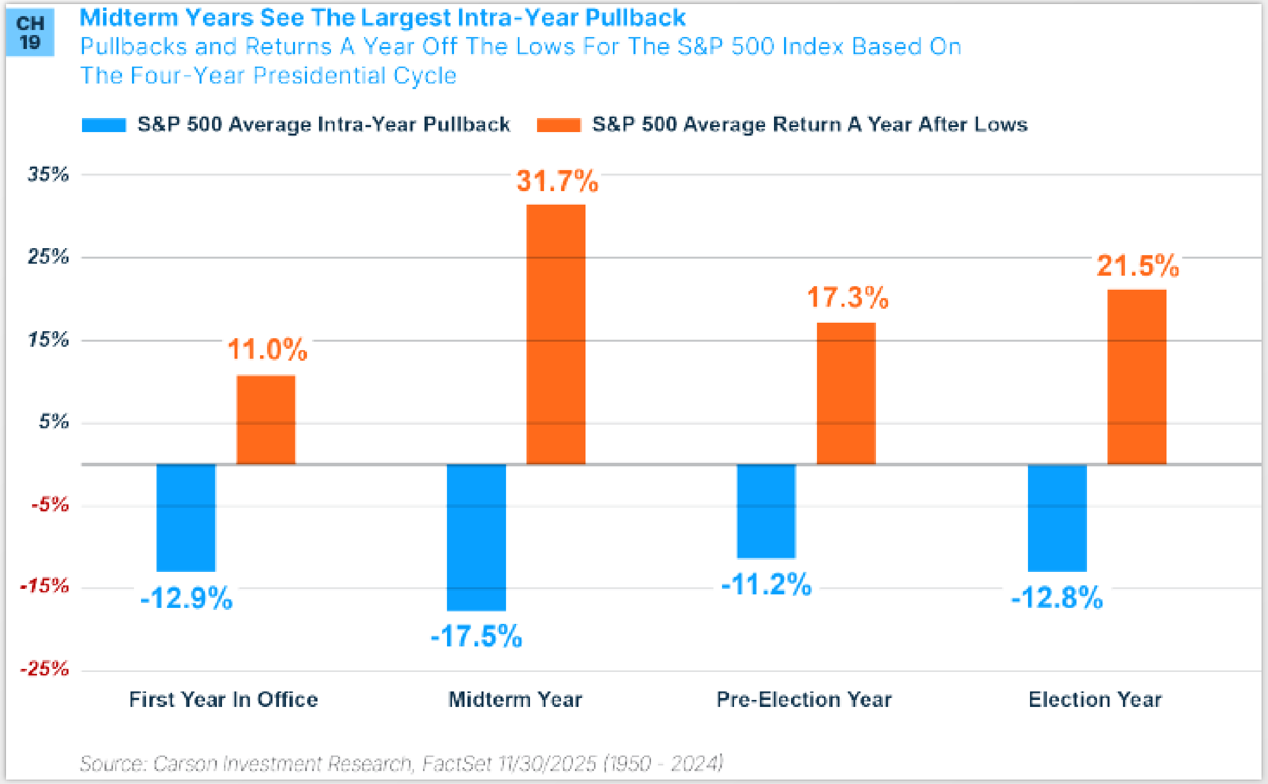
- Annual returns differ meaningfully across years under the leadership of both political parties.
- No consistent pattern suggests one party dominates performance across all years.
- The dispersion within parties exceeds the average difference between parties.



Equities

Midterm Years Are Volatile, but Often Profitable

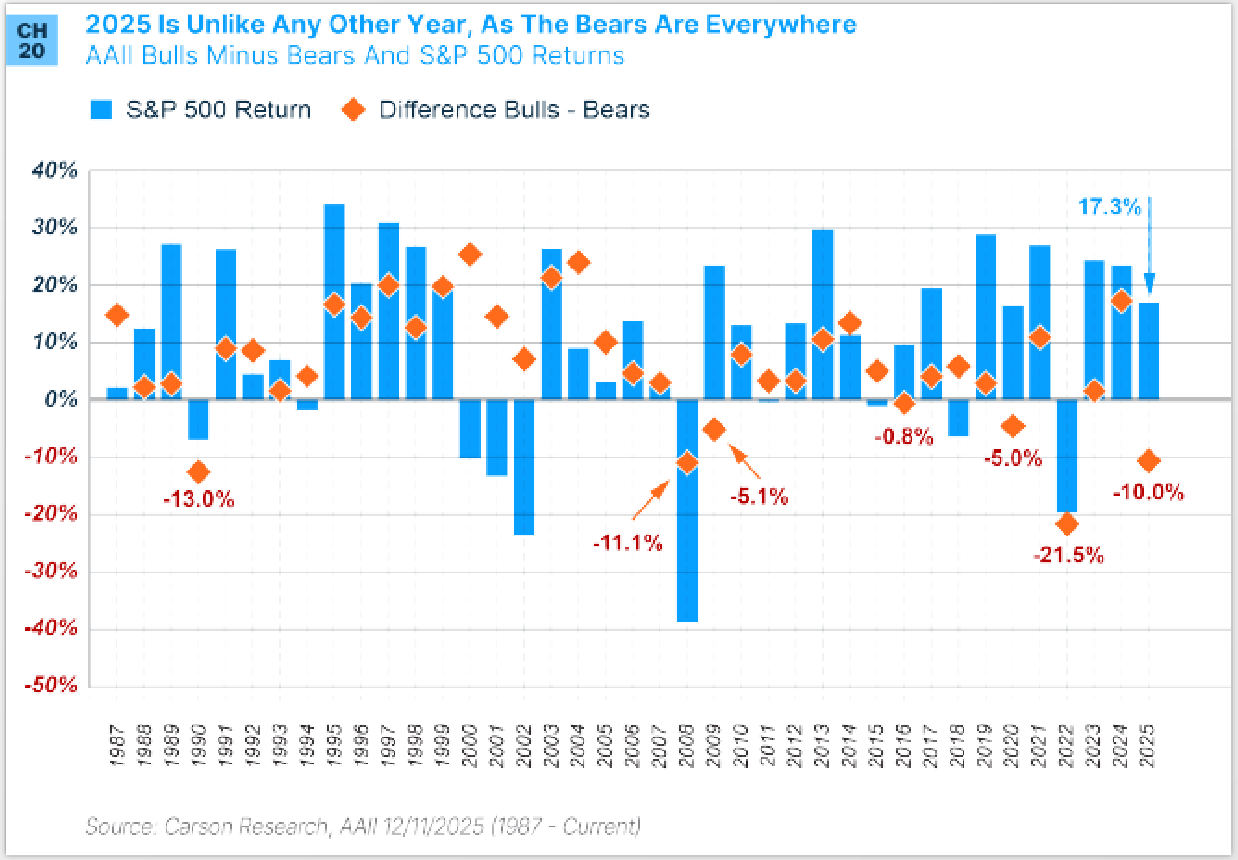
- Midterm years (like 2026) show deeper average pullbacks compared to other years in the cycle.
- Despite volatility, returns following midterm lows have historically been strong.
- Drawdowns and full-year returns can coexist in the same calendar year.



Equities

Strong Returns Often Coexist With Persistent Skepticism

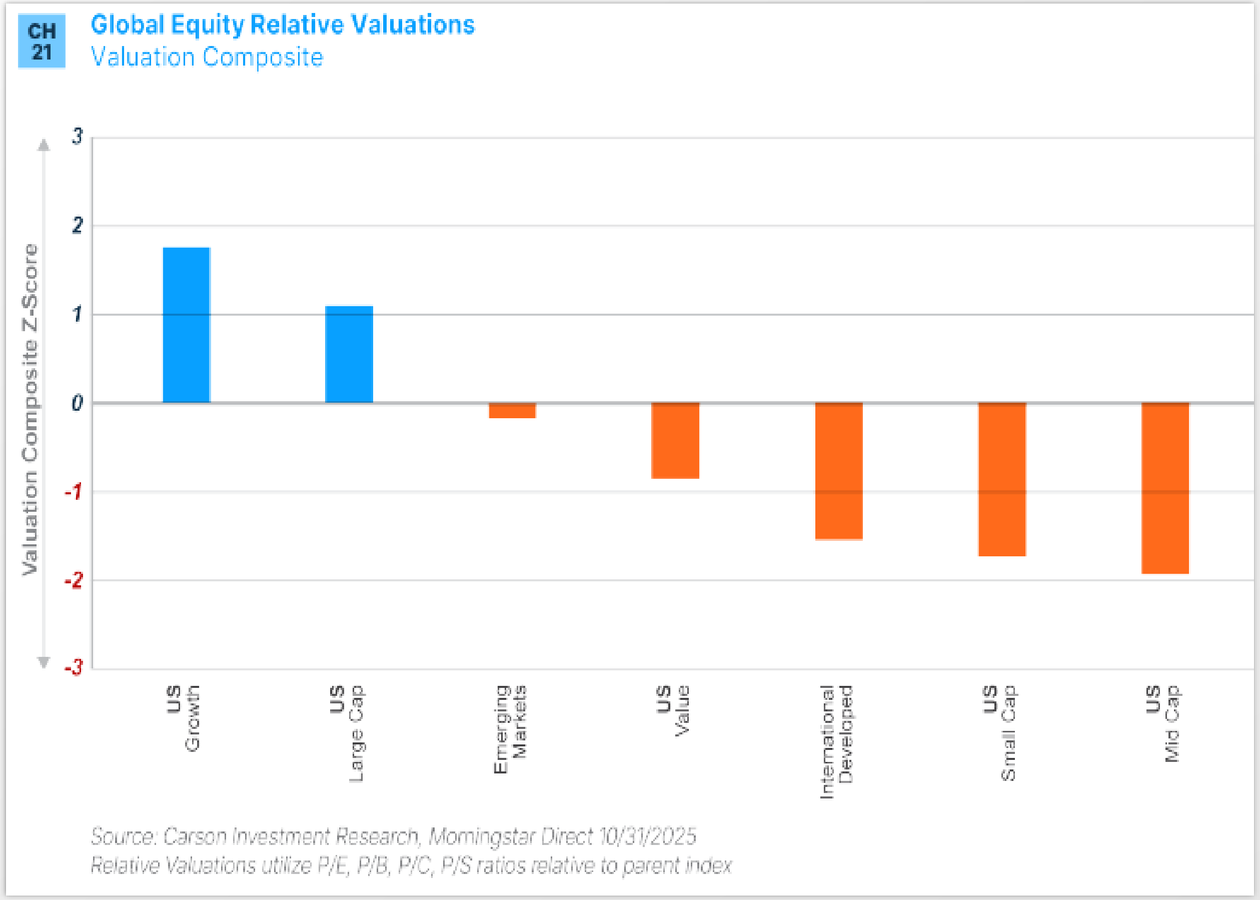
- The chart shows many periods where positive market returns occurred alongside widespread bearish sentiment.
- 2025 saw a large divergence between market sentiment and returns.
- Skepticism about this market, if it persists, may be bullish.



Equities

Valuations Look Very Different Once You Leave the U.S.

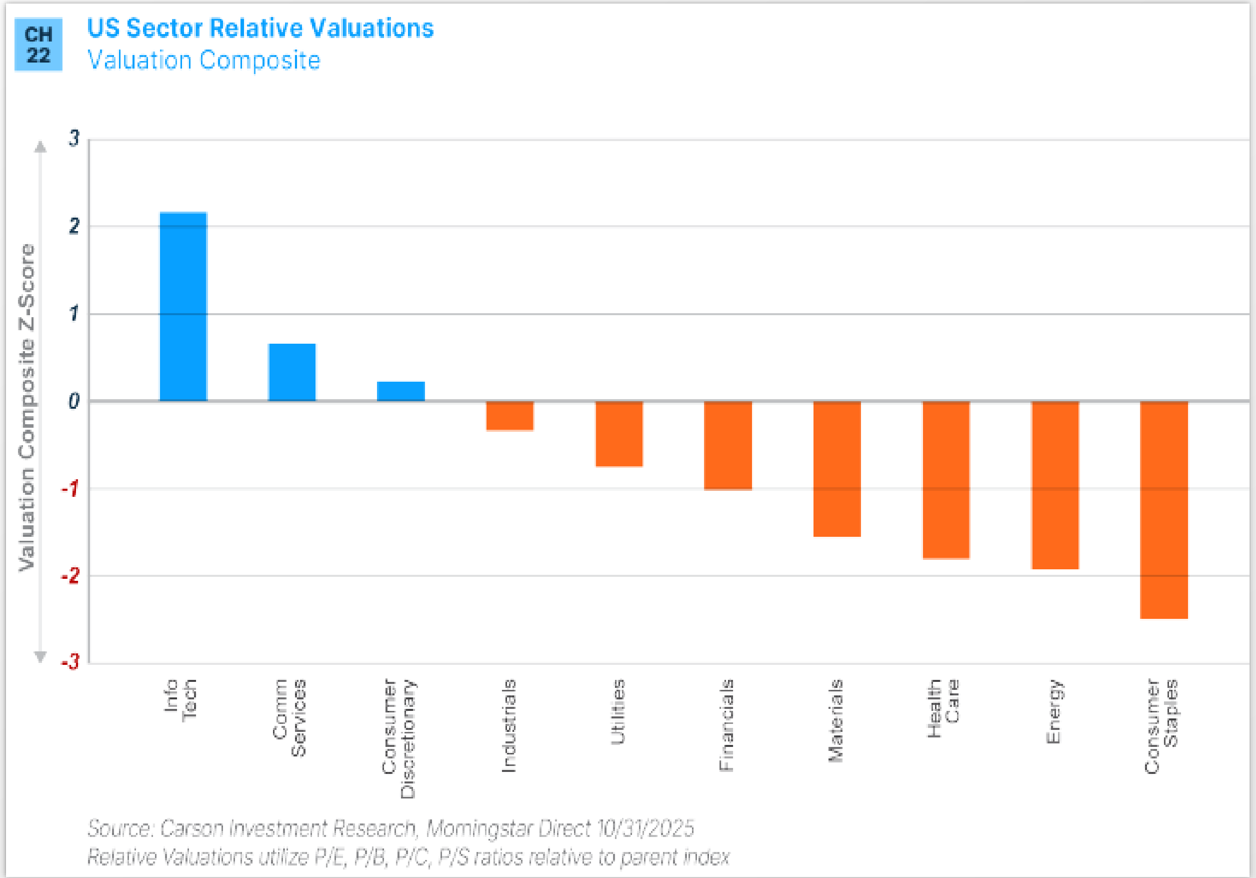
- U.S. equities screen as expensive relative to their own history.
- Most international regions trade at discounts versus long-term norms.
- Valuation dispersion across regions is unusually wide, not uniform.



Equities

Market Concentration Is Distorting Headline Valuations

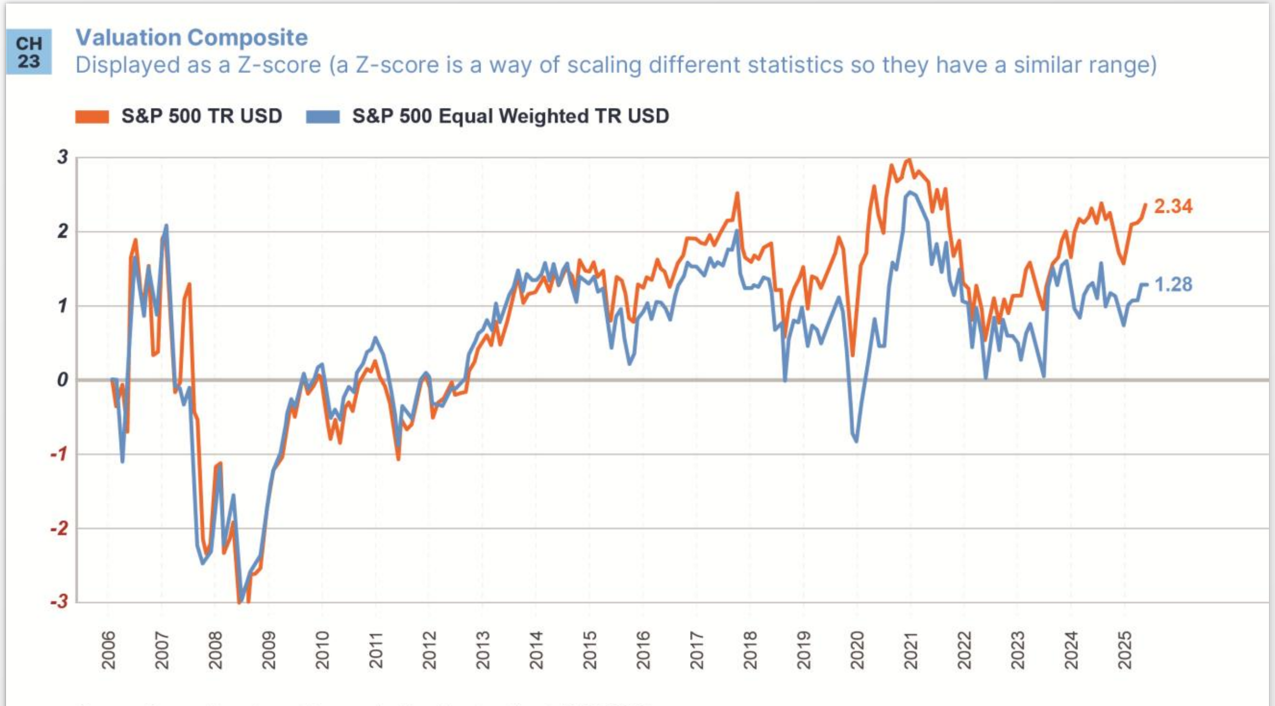
- The most expensive segments of the market are concentrated in a narrow group of stocks.
- Large portions of the market trade closer to historical averages.
- Aggregate index valuations mask meaningful differences beneath the surface.



Markets

Valuations Are Elevated, But Concentration Is the Gap

- The market-cap weighted S&P 500 screens significantly more expensive than its own history.
- The equal-weighted S&P 500 trades at a materially lower valuation level.
- The widening gap suggests a small group of large stocks is driving aggregate valuation readings.



Source: Carson Investment Research, Morningstar Direct 10/31/2025
Relative Valuations utilize P/E, P/B, P/C, P/S ratios relative to parent index

Bonds

Even Small Rate Increases Can Favor T-Bills Over Bonds

- When yields rise even modestly (0.33%–0.67%), intermediate bonds underperform T-bills over a one-year horizon.
- Core bonds do have a yield head start going into 2026.
- Bond returns turn strongly positive in scenarios where yields fall meaningfully, but this is not our base case for 2026.

CH 24 **Intermediate-Maturity Bonds Underperform T-Bills Even With A Small Yield Increase**

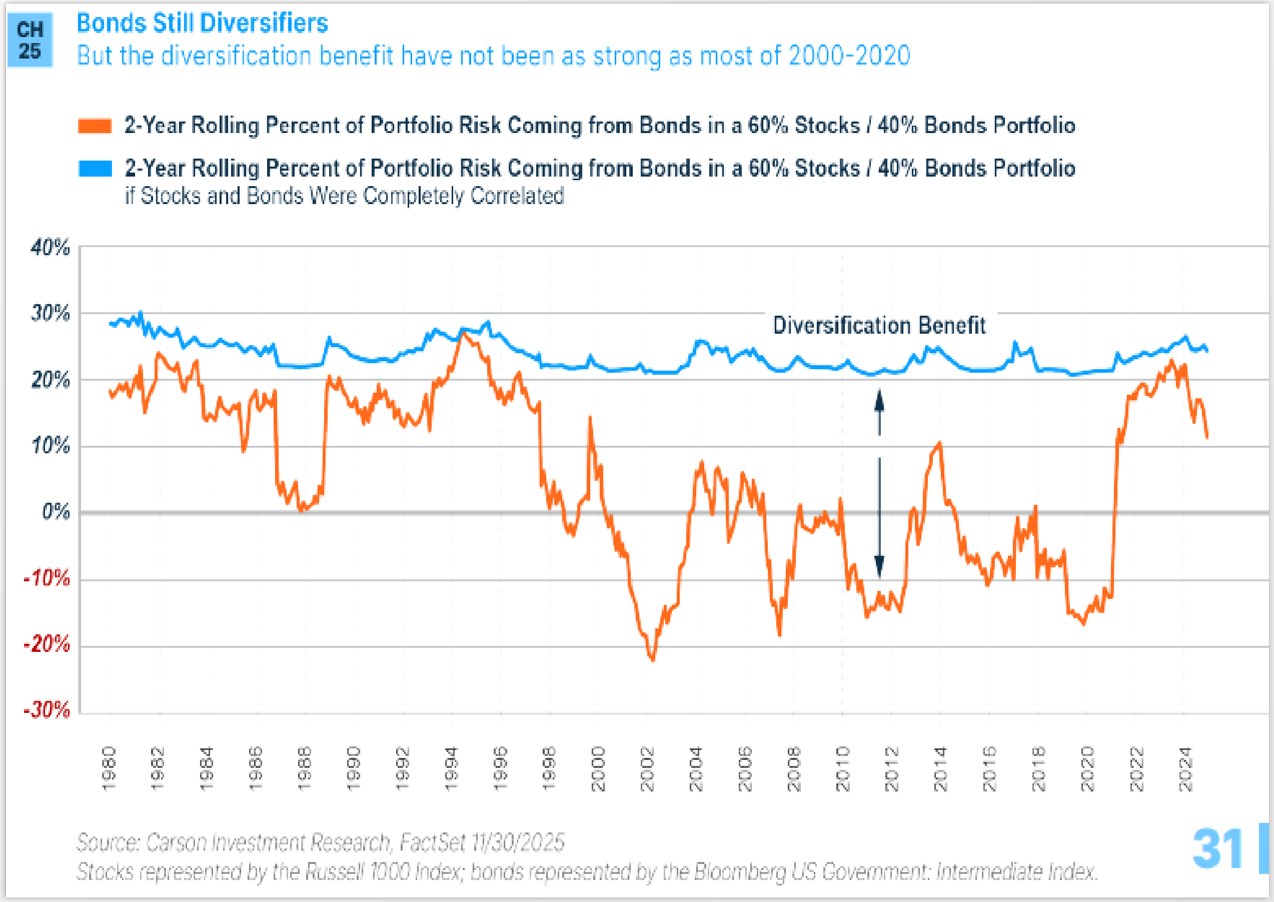
One Year Change in Yields	-1.00	-0.67	-0.33	0	0.33	0.67	1
Projected Bloomberg US Aggregate Return	10.7	8.7	6.7	4.7	2.7	0.7	-1.3
Projected 3-Month Treasury Return	3.3	3.5	3.6	3.8	4.0	4.1	4.3

Source: Carson Investment Research, FactSet 11/30/2025 | Scenarios assume no change in spreads, reinvestment at the current yield, and a one year holding period. Indexes: Bloomberg US Short Treasury (1-3 months), Bloomberg US Aggregate Bond Index | Baseline range highlighted.

Bonds

Bonds Still Diversity, But Less Than in the Past

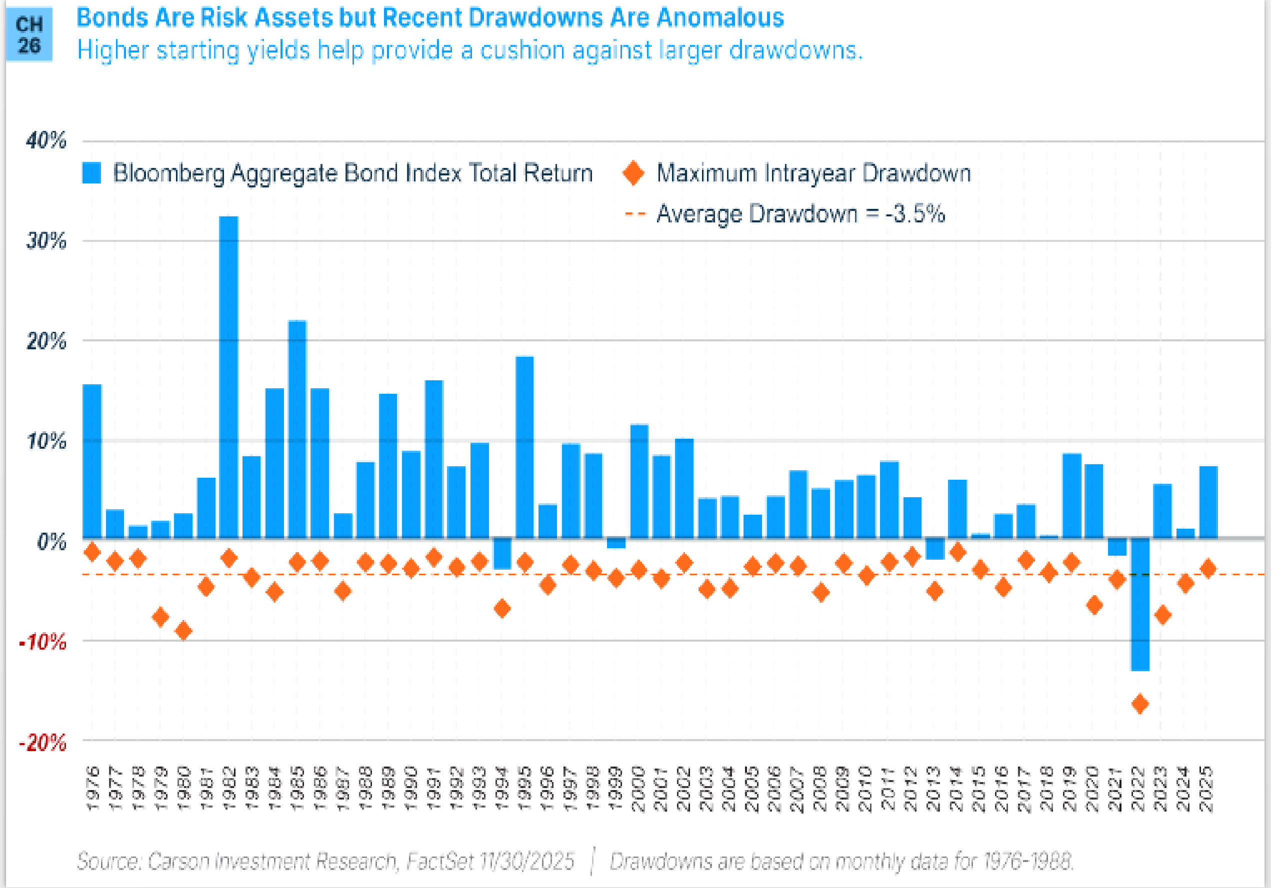
- The share of portfolio risk coming from bonds has often been much lower than expected based on their risk level.
- Periods of higher stock-bond correlation reduce diversification benefits.
- The gap between actual and “perfect correlation” scenarios shows diversification still exists, but has been structurally higher.



Bonds

Bond Drawdowns Are Real, But 2022 Was an Outlier

- Most years show modest bond drawdowns clustered near the historical average (~-3.5%).
- 2022 stands out with an unusually large drawdown compared to history.
- Higher starting yields in recent years have helped cushion returns against drawdowns.



Bonds

Long-Term Yields Tend to Fall Less Than Short-Term Yields

- Across tightening cycles, short-term yields decline more than long-term yields after peak rates.
- On average, 3-month yields fall ~4.6%, while 10-year yields fall ~2.0%.
- This pattern limits how much long-term rates may decline even if policy eases.

CH 27 **Long-Term Yields Decline More Slowly then Short-Term Yields**

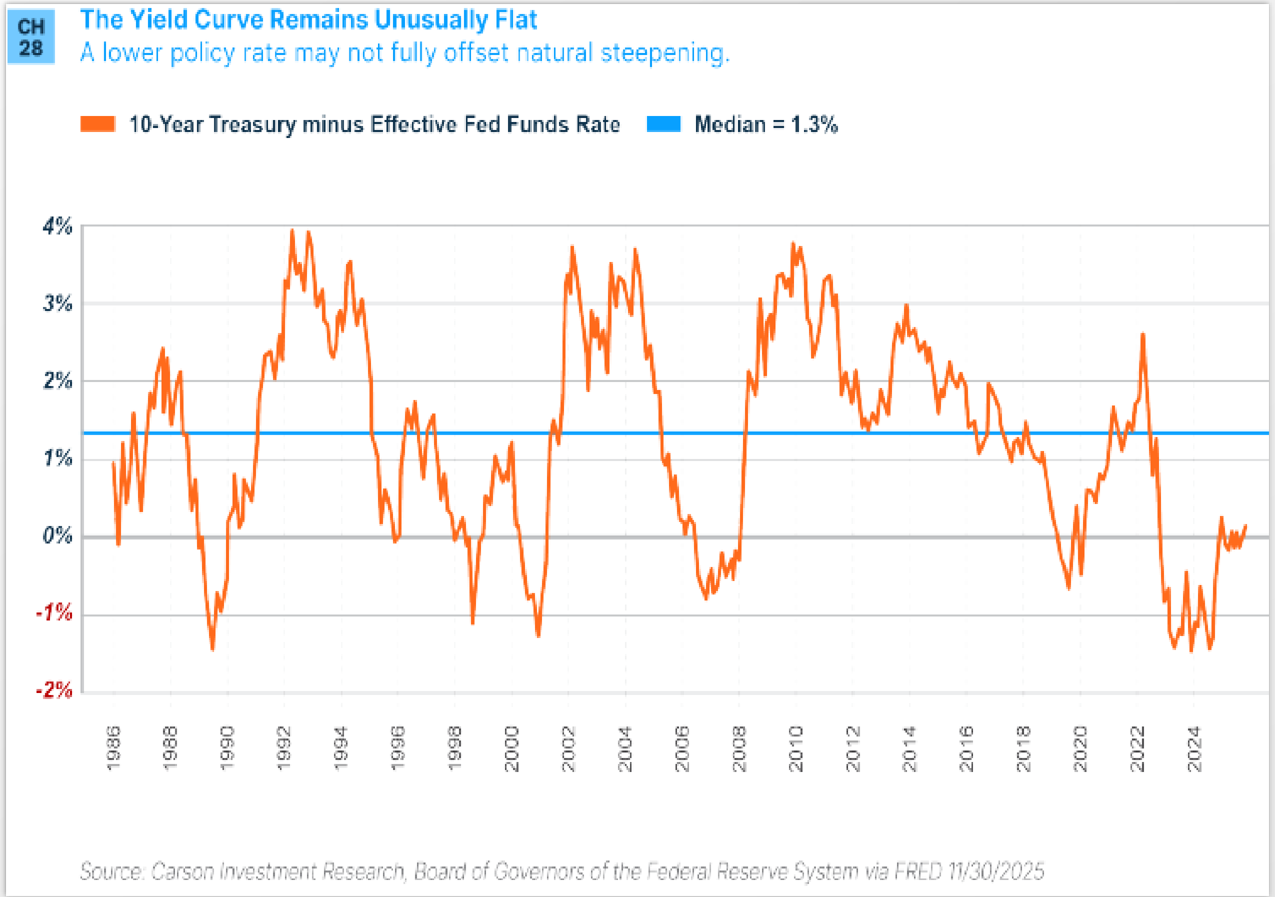
3-Month Treasury Yield Peak Date	3-Month Treasury Yield at Peak Date	10-Year Treasury Yield at Peak Date	3-Month Treasury Yield Trough Date	3-Month Treasury Yield at Trough Date	10-Year Treasury Yield at Trough Date	3-Month Treasury Yield Change	10-Year Treasury Yield Change	3-Month Yield Change / 3-Month Yield Change
10/16/57	3.67	3.97	05/27/58	0.55	2.93	-3.12	-1.04	0.33
01/06/60	4.68	4.71	07/01/60	2.05	4.02	-2.63	-0.69	0.26
09/21/66	5.59	5.21	06/23/67	3.33	5.14	-2.26	-0.07	0.03
12/29/69	8.08	8.05	03/11/71	3.22	5.69	-4.86	-2.36	0.49
07/19/71	5.53	6.71	02/11/72	2.99	6.12	-2.54	-0.59	0.23
08/23/74	9.74	8.15	12/20/76	4.24	6.84	-5.50	-1.31	0.24
03/25/80	16.00	13.10	06/13/80	6.18	9.51	-9.82	-3.59	0.37
12/11/80	17.14	13.57	08/20/82	7.31	12.24	-9.83	-1.33	0.14
09/04/84	11.14	12.88	10/0886	5.18	7.31	-5.96	-5.57	0.93
03/27/89	9.45	9.44	10/01/92	2.67	6.23	-6.78	-3.21	0.47
02/01/95	6.07	7.66	02/16/96	4.89	5.76	-1.18	-1.90	1.61
12/22/97	5.46	5.72	11/16/98	3.65	4.44	-1.81	-1.28	0.71
11/06/00	6.42	5.87	06/19/03	0.81	3.35	-5.61	-2.52	0.45
08/01/06	5.24	4.98	12/10/08	0.01	2.68	-5.23	-2.30	0.44
03/06/19	2.46	2.69	03/26/20	-0.06	0.81	-2.51	-1.88	0.75
10/03/23	5.50	4.80	?	?	?	?	?	?
					Average	-4.64	-1.98	0.50

Source: Carson Investment Research, FactSet, Federal Reserve 11/30/2025 | Post-meeting policy statements were not a regular part of Fed communication until 1995. Prior numbers are estimates based on our own research. The period starting in December 1980 and October 1984 included both hikes and cuts.

Bonds

The Yield Curve Remains Historically Flat

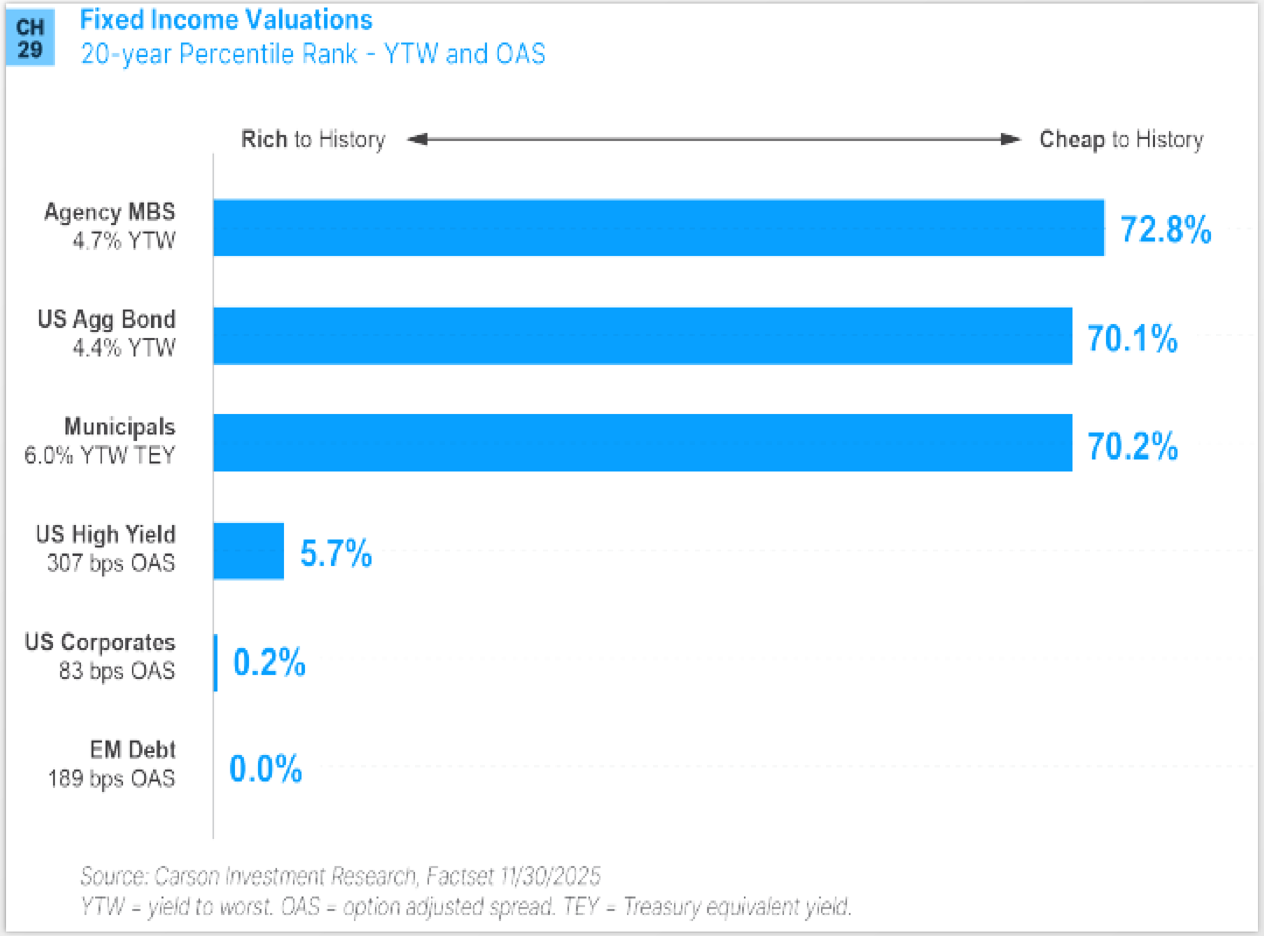
- The spread between the 10-year Treasury and the fed funds rate remains below its long-term median.
- Even during past easing cycles, curves typically steepened more than today's level.
- This suggests natural steepening may continue if the economy continues to expand.



Bonds

Fixed Income Valuations Vary Widely Across Sectors

- Agency MBS, U.S. Aggregate, and Municipals screen cheap relative to their 20-year history.
- Corporate credit and EM debt sit near the rich end of historical valuations.
- Yield and spread opportunities appear less attractive for credit-sensitive sectors.



8706890.1. – 13JAN26A