BULL & BEAR *Bulletin*

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Strong 2025, Constructive Setup for 2026

2025 was another spectacular year for both U.S. and international equities, with international markets leading the way. Year-to-date through December 12th, the S&P 500 Index has returned 17.49%. Information Technology and Communication Services were among the top-performing sectors, returning 23.18% and 31.66%, respectively, while Real Estate and Consumer Staples lagged at 3.10% and 5.45%. Gold and silver also delivered a historic run, alongside other precious metals.

Looking ahead to 2026, consensus expectations remain constructive. Based on average analyst estimates, S&P 500 earnings growth is expected to be about 12.6%, according to Bloomberg. The average year-end 2026 target for the index is approximately 7,489, or about 10% above current levels. Market expectations also lean toward lower interest rates, though there is growing debate as to the magnitude and timing. Further rate cuts may be supported if inflationary pressures continue to ease, helped by lower commodity prices and the fading impact of tariffs. Recent FOMC projections raised growth expectations, while inflation expectations have remained steady. In his most recent press conference, Fed Chair Jerome Powell highlighted productivity growth as an important driver. Additionally, prediction markets now suggest a more competitive field for the next Fed chair, rather than a single clear frontrunner. The leading candidates are generally viewed as more receptive to interest-rate cuts than the current Fed leadership, which could imply a modestly more growth-supportive policy stance. Advances in AI may also support market optimism by boosting productivity growth over time, though the pace and magnitude of these gains remain uncertain.

Despite the positive expectations, 2026 will not be without risk. The consumer backdrop remains bifurcated, with lower-income households feeling the impact of the higher cost of living substantially more than middle- and higher-income households. Any meaningful deterioration in consumer spending could send shockwaves through the economy. The labor market has also been progressively weakening. Powell recently stated that official data may be overestimating job creation by up to 60,000 jobs per month, suggesting underlying employment trends may be softer than headline data imply. Finally, inflation could still be of concern if goods prices remain sticky, additional tariffs are introduced, or further fiscal spending is enacted before the midterm elections.

Moreover, international equities outperformed U.S. equities in 2025, and we remain modestly more constructive on international equities on a relative basis. Many countries are increasing spending on defense, infrastructure, energy, and AI, and these trends may persist in the near term. In fixed income, we favor higher-quality, intermediate-duration bonds, which offer attractive yields and potential price appreciation if rates move lower. Overall, we remain constructive on risk assets but emphasize diversification and quality given these late-cycle risks.