

January 2026

Dear Clients and Friends,

Ultimately, the stock market is all about corporate earnings. The second consideration is how much investors are willing to “pay” for those earnings (often denoted by the price-earnings or P/E ratio).

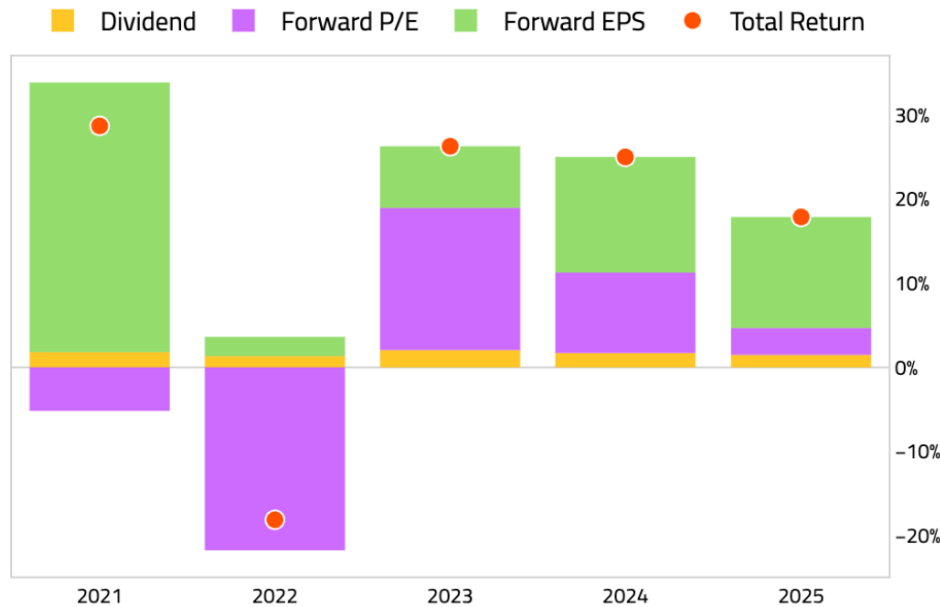
In 2025, corporate earnings took flight as enormous capital spending to build AI-related facilities gathered steam. The chart below shows the surge in earnings (yellow line) while the P/E ratio (blue line) stayed relatively flat after falling sharply in March/April.



Source: Charles Schwab, Bloomberg, as of 12/5/2025.

Looked at slightly differently, the chart below shows the share of stock market return driven by corporate earnings (green boxes) and the multiple investors are willing to pay for those earnings (purple box). We see that in 2025 it was almost entirely corporate earnings that drove the market higher. Earnings are expected to grow again, and perhaps even faster, in 2026. Thus, stock market indexes have continued their upward path so far in the new year.

S&P 500 Total Return Attribution



The Daily Shot[®]

Fueling those higher earnings projections are some of the following factors, summarized as 1) falling interest rates, 2) tax breaks, 3) fading impact of tariffs, 4) relaxed regulatory environment:

2026 Drivers of Mid-Cycle Growth Acceleration

We see Fed and fiscal policy, fading trade uncertainties, and deregulation all contributing to further economic and corporate growth in 2026. These economic drivers are additive to an ongoing structural tailwind from AI.

	2H 2025	2026 View	Implication
#1 Fed Policy	Cutting	Cutting (more than Fed dots)	Tailwinds from 2025 rate cuts will carry into 2026; softer labor market will require more easing
#2 Fiscal Policy	Emerging support	Tailwind	Corporate tax breaks from the OBBBA have first effect in 3Q2025 and grow in 2026. Consumer tax breaks and 2025 tax refunds provide demand floor from wealth effects.
#3 Trade Policy	Peak tariff headwinds	Headwinds fade heading into 2H 2026	Peak tariff headwinds in 2H25. Fiscal, monetary support heading into 2026. Fading trade, tax uncertainties provide greater visibility for c-suites.
#4 Deregulation	Early efforts benefit select segments	Potentially greater policy focus	Deregulatory agenda aimed at reducing the direct and indirect costs of doing business in the U.S.

Monthly Update (January 2026)

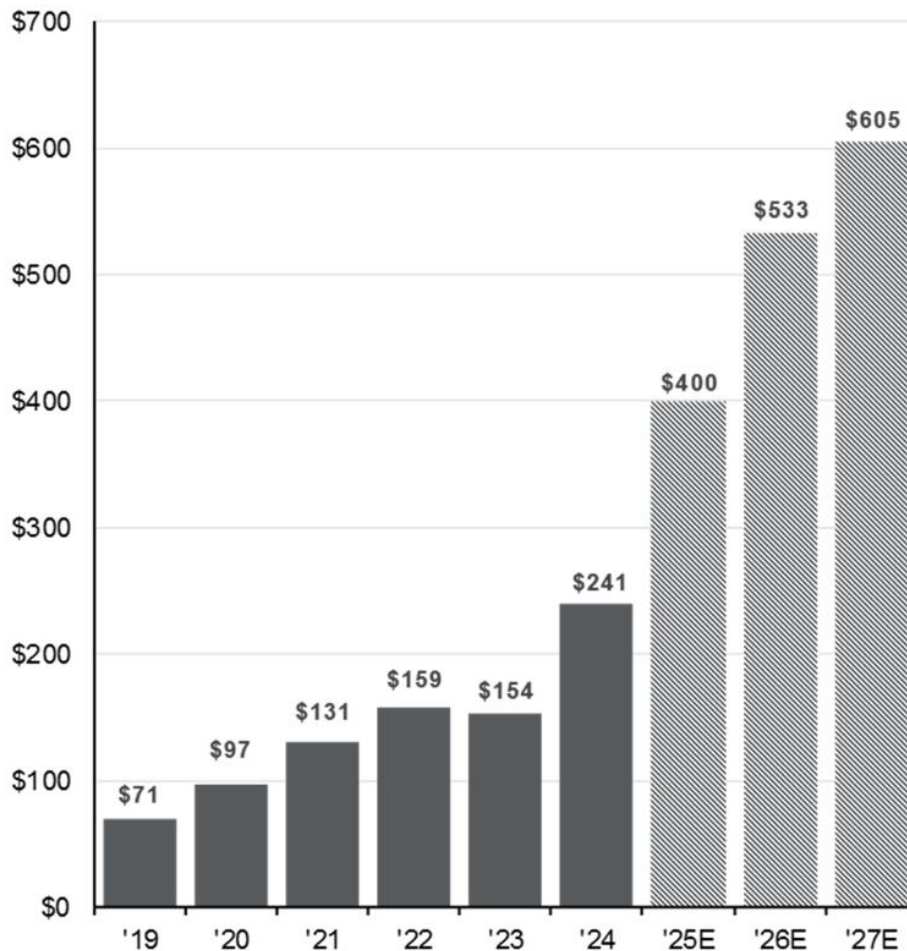


Market reactions thus far indicate that the first item, Fed Policy, may not deliver the expected boost investors have wished for. Despite three Federal Reserve rate cuts since September of last year, the market rate for the US 10 year Treasury has not budged and has actually trended higher reflecting the bond markets rejection of ballooning US deficits. What is clear is that any hiccup in earnings growth will result in stock investors reassessment of what stocks are worth going forward.

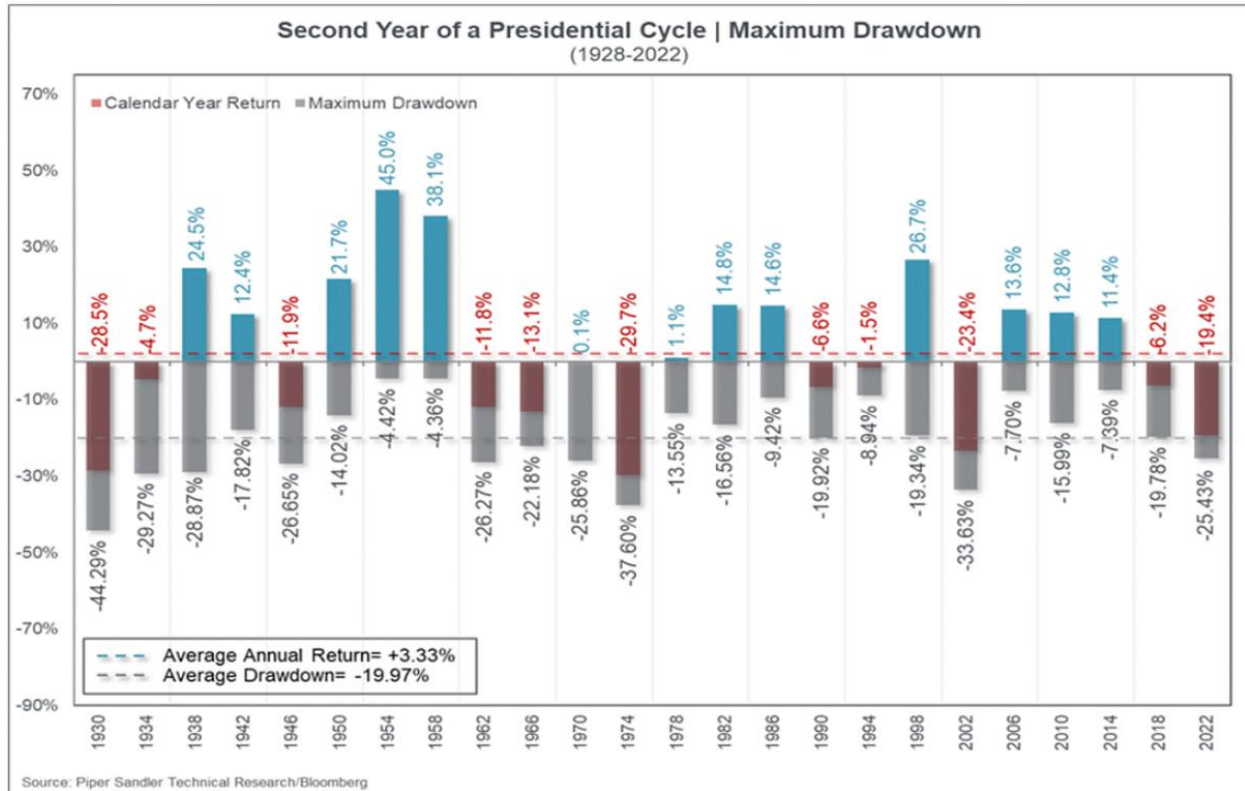
The investment in AI data centers is extraordinary with broad and unknown ramifications for many areas of the economy. The ripple-effect on industrial, material, and utilities providers has been immense. This spending has been a huge force in U.S. economic growth and, thus, the stock market's performance over the past couple of years. That spending is projected to grow further in 2026.

Capex from the major AI hyperscalers*

USD billions; Alphabet, Amazon, Meta, Microsoft, Oracle



While many of the above trends suggest a positive stock market experience in 2026, there are some counterpoints to consider. As we saw in 2025, market returns are never delivered in a straight line. Indeed, stocks were down -19% in April 2025 before rebounding sharply. Historically, mid-term election years tend to be significantly more volatile as uncertainty builds toward the November elections. The downward bars on the chart below show the magnitude of mid-year market declines in the market. The average of -20% is hefty and something to be cognizant of.



As a result of the stock market's inherent volatility, we always believe in a nimble approach to investing, becoming defensive when stocks are falling. The damage a sharp downside market can deliver to our portfolios, especially later in our investing life, is simply too great to ignore. Thus, we manage with one foot poised on the brake in case something comes along to imperil our upward path. We look forward to continuing to protect and grow your wealth in 2026.

To future profits,


Don Lansing
Chief Investment Officer
512-289-0620


Garrett Beauvais
Portfolio Manager
512-796-0233