

2026

MARKET

OUTLOOK

Investment Outlook 2026

Despite extraordinary events over the past three years, U.S. financial markets have shown notable resilience. The stock market delivered two consecutive years of 20%+ returns, followed by a strong 17% gain in 2025. Meanwhile, after three years of net losses, bonds rebounded with returns in the 5%–7% range.

As a result, the typical 401(k) portfolio allocated approximately 60% to equities and 40% to fixed income posted solid gains, boosting investor confidence heading into 2026.

KEY TOPICS

What Drove Recent Performance

The single most important driver has been corporate profits. In 2025, S&P 500 earnings again grew well into double digits. Strong government spending, continued stimulus, and a surge in artificial intelligence investment powered earnings growth, despite uncertainty around tariffs and contentious tax policy debates.

Now in year four of the post-pandemic recovery, most economists expect both stocks and bonds to post positive returns in 2026, but at more muted levels, with greater sector-specific risk.

Interest Rates and Market Dynamics

Market outcomes may prove counterintuitive. While short-term Federal Reserve rates declined by 0.75% in 2025, intermediate and long-term rates remained flat or rose slightly, with the 10-year Treasury climbing late in the year.

Private investments, both in equity and income continue to grow substantially faster than public markets. Private income funds, in particular, experienced less volatility than traditional bond funds and provided meaningful diversification benefits.

Given where we are in the economic cycle, 2026 may be a year to emphasize diversification and risk management, as volatility typically increases in later-stage expansions. Historically, the fourth year of a bull market is often positive, but wider swings in stock prices and interest rates are common.

Key Drivers to Watch in 2026

- A weakening U.S. dollar
- A likely reduction in short-term interest rates following a leadership change at the Federal Reserve in May
- Continued consumer spending supported by modest economic growth (2.5%–3%)
- State-level minimum wage increases in as many as 20 states, adding incremental support to spending

At the same time, equity valuations remain elevated, with the market trading near 22x earnings, meaning future gains will rely heavily on earnings growth rather than valuation expansion.

Risks on the Horizon

Several challenges warrant attention:

- Potential reductions in healthcare funding, with as many as 20 million households possibly reducing or eliminating coverage
- Persistent inflation pressures, especially for food and rent, impacting lower-income households
- A stalled housing recovery due to elevated long-term rates
- Labor supply constraints limiting growth in certain sectors
- Falling oil prices offset by rising utility costs, reducing net consumer benefit

Looking Ahead

Markets are currently pricing in two or more rate cuts following a more dovish Federal Reserve appointment. However, the Fed operates by committee, and consensus may limit the extent of these cuts. As a result, the 10-year Treasury yield may remain flat to slightly higher, which could weigh on homebuilding and slow small-cap stocks that depend on lower borrowing costs.

Given high equity valuations, global macro uncertainty, and late-cycle dynamics, diversification is more important now than earlier in the recovery. Potential portfolio complements include:

- Gold or digital assets as a hedge against dollar weakness
- Foreign and emerging market equities, which are beginning to outperform U.S. markets
- Private equity and private income strategies, which historically exhibit lower volatility than public markets

Small business lending, such as that offered by Eppler Capital Funds, stands to benefit from moderating tariffs and lower short-term rates. If tariffs are repealed by the Supreme Court, small businesses could see an additional boost. Even within a 2.5%–3% growth environment, fundamentals point to another solid year for small business performance.

While bonds finally posted positive returns in 2025, if interest rates fail to decline meaningfully, the lower yields currently available in

bond funds may make private income investments a compelling alternative. At this stage of the cycle, public equities may struggle to outperform private income strategies on a risk-adjusted basis.

Important Disclosure

This outlook is based on current information and prevailing trends. Economic conditions and market dynamics may change, and actual results may differ materially from expectations. Diversification is particularly important during late-cycle market environments. Investment results are not guaranteed.