

February 4, 2026

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
49,501	6,883	22,905	2,625	4.28%	73,247	\$5,209	\$64.31

Investment Strategy Report

Stocks Look To Find Their Footing In The New Year

We are now 5 weeks into the new year and we are all trying to divine the direction that stocks will take in 2026 and which areas of the market will get the most attention. As I summarized in last month's letter, growth stocks again led the way in 2025 and helped the S&P 500 outperform both the Dow and small caps. Foreign stocks did even better. Developed country stocks had a very strong first half of the year and then coasted the rest of the way, adding little to their first half gains. Emerging market stocks had a very strong year as the weakening dollar helped propel them higher.

Looking now at the first month of 2026, we see that the S&P 500 gained 1.4%, the Dow 1.7%, and the Nasdaq 1.0%. Value stocks definitely had an edge over growth. Small caps led domestically with a 5.3% gain. And overseas, European stocks gained 3.7% and emerging markets were up a large 8.0%. I will continue to monitor the situation and see whether this pattern continues. If so, I will plan to make rebalancing moves. And if January turns out to be just a one month respite from the previous trends, I will continue to let our winners run.

Looking now just at the US markets, the general consensus is that 2026 will be another good year for stocks. On average, analysts have employed the "10% rule", i.e., when in doubt, predict a 10% rise in stock prices. So a year end target for the S&P of around 7,700, or a gain of about 10-12%, is a common prediction. Ryan Dietrich of the Carson Group was on CNBC on 1/23 and was a little more optimistic, seeing gains of 12-15% for US stocks this year. Among the positive signs he sees: the high price of copper signals a strong global economy, the strength of high yield bonds indicates little stress in the bond market, and highs in the advance/decline line are indicative of a broadening out of market strength. He sees bigger than average tax refunds this spring due to the 2025 tax bill that will spur spending and strong earnings and profit margins.

Jay Kaepfel of Sentimentrader.com (1/26) titled his letter "More Indicators Lining Up on the Favorable Side of the Ledger". He concluded that "Until price action rolls over in a meaningful way, the weight of the evidence still suggests that investors give the bullish case the benefit of the doubt". Jay also wrote a column on 1/15 which looked at the sentiment survey among AAII subscribers. Their negativity towards the market combined with stocks in an uptrend is another factor which points to continued strength in stocks.

Chris Verrone of Strategas was interviewed on CNBC on 1/20, a day when the market was selling off. His take on the market was that a) credit conditions were very benign, b) a pro-cyclical recovery was well underway, and c) economic growth was getting better, commenting on Treasury Secretary Bessent's remarks about the US economy experiencing a nominal GDP of 6%. His strategy would be to use any pull backs in the market as buying opportunities.

Commerce Secretary Howard Lutnick was interviewed at the Davos Economic Forum on 1/20 and spoke about the fundamental strength of the US economy and the extraordinary amount of investment that has been or will soon be started throughout the country. He cited the \$100 billion mega-fab facility near Syracuse and Micron's \$200 billion investment. He added that there are 30 other massive projects that will begin in the next 45 days. With growth like this, the chances of a recession seem very slim.

After 3 years of strong gains in the market, we have to expect an increase in volatility this year as well as possible changes in market leadership. As I said in a previous letter, staying nimble will be important.

Schwab 1099s – The 1099-R's (for IRA accounts that had withdrawals) have already been sent out. The 1099-Bs (for non-IRA accounts) will be going out at various times in February. If you log in to your account, you will get access to them about a week before you receive the hard copy.

2025 Charitable Contributions (QCDs) – If you made charitable contributions last year from your IRA account, please make sure to tell your tax preparer. You don't want to pay income tax on these withdrawals. *Jeff Feldman*