LaFleur & Godfrey
PRIVATE WEALTH MANAGEMENT

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Trifecta!

Economic Perspective

With the broader domestic equity markets posting their third consecutive year of strong returns, our investment team remains on full alert asking ourselves, "What can go wrong?" as we enter the New Year. We believe that the foundation of strong corporate fundamentals begins and ends with the overall health of our economy. Looking back at 2025, many would suggest that it has been remarkably resilient in the face of a lot of uncertainty. That resiliency has buoyed equities, after a rough start to last year, and we currently trade near multi-year highs. The market's sanguine perspective is a byproduct of three positive economic drivers that are likely to boost the economy further in 2026.

First, monetary policy will continue to transition from QT (quantitative tightening = restrictive) to QE (quantitative easing = accommodative) in the coming year. According to Strategas Economic Research, the Fed's balance sheet will go from a $212 billion headwind last year to a $340 billion tailwind this year. That's a huge swing! Next, tariffs are still expected to be a liability this year, but less so compared to last year (- $110 billion in 2026 vs. - $189 billion in 2025). Finally, fiscal policy is expected to transition from an economic liability to an economic asset. The $147 billion drag experienced last year is likely to approach a $220 billion positive this year. No wonder why our forward-looking stock market is trading near multi-year highs!

Market Perspective

Our investment team is increasingly paranoid about whether or not the punch bowl will be taken away from the New Year's celebrations. Yes, valuations are stretched, especially for many of the 'Mag 7' tech names. But, aren't they strong for all the right reasons? After all, reported corporate earnings last year came in much better-than-expected and profit margins continue to hit all-time highs. Expectations are elevated for earnings this year, too. Wall Street has current growth projections in the mid-teens!

We see numerous opportunities outside of last year's leading sectors (Technology, Communications and Industrials) – specifically leading companies in the Consumer Staples, Healthcare, Energy and Utilities sectors along with select dividend payers. These names offer GARP-like (growth-at-a-reasonable-price) characteristics which serve to dampen equity portfolio volatility. With midterm elections upon us during the second half of 2026, we view risk management as key in the face of uncertainty.

Looking Ahead

There is a lot to be thankful for and optimistic about as we enter the New Year. Key 2026 economic drivers include: tax refunds are expected to top $500 billion (greatly helping consumers), deregulation is expected to stimulate business activity ($200 billion benefit), the United States will celebrate its 250th anniversary, and the FIFA World Cup (international soccer tournament) final will be in NY/NJ this summer. We are in for an exciting year.

However, our investment team believes that most of the fun could be first half 2026-loaded. Along with considerable noise expected around midterm elections in November, we could experience considerable volatility early-Summer with the announcement of a new Chair of the Federal Reserve. Geopolitical risk is also on the rise with the recent military action in Venezuela. Could this spread to neighboring countries like Mexico, Columbia, Panama and Greenland? We will see. If the economy gains too much traction, will the Fed act by raising rates to stave off anticipated inflation? In addition, at what point could rising interest rates choke off business investment and economic activity? The above-mentioned concerns should not be ignored so we will continue to monitor them closely. In the meantime, we remain constructive on equities over the near-term but will keep a watchful eye out for storm clouds on the horizon. Happy New Year!