



WALKER, HIGGINS & ASSOCIATES
WEALTH MANAGEMENT, LLC

First Quarter 2026 Review and Outlook

Data Points

Stock Market Data @ 12.31.25

DOW Jones Industrial (DIA)	15.18%	3-year average annual return ¹
S&P500 Index (SPY)	22.87%	3-year average annual return ²
NASDAQ Composite (ONEQ)	31.58%	3-year average annual return ³
S&P Small Cap (IJR)	10.12%	3-year average annual return ⁴
MSCI EAFE (EFA)	17.26%	3-year average annual return ⁵
U.S. Market Valuation		
S&P 500 Forward P/E Ratio		22.0x ⁶
S&P 500 Forward P/E Ratio 30-YR average		17.1x ⁷

Interest Rates, Bonds, Federal Reserve Data @ 12.31.25

U.S. Aggregate Bond (AGG)	4.69%	3-year average annual return ⁸
3 Month U.S. Treasury Bill Yield		3.67% ⁹
10 Year U.S. Treasury Bond Yield		4.18% ¹⁰
U.S. Federal Reserve Effective Federal Funds Rate		3.50-3.75% ¹¹

2025 Review

2025 ended three consecutive years of double digit returns for the broad U.S. stock market. This is great but this is a very rare feat, having occurred only three previous times since World War II.¹² Given that we are talking about three times over 80 years, we would caution about trying to draw parallels between the other iterations.

European equities did better than U.S. stocks last year, but over the last three years, the U.S. large cap stock market has been the place to be. Large cap stocks did much better than small cap stocks. The U.S. bond market did well.

With all that positive news to report, it is obvious to us that the U.S. stock market is not cheap, as evidenced by the forward P/E of 22 when compared to the 30-year average of 17.1. What will the financial markets deliver in 2026? We don't know with certainty, but for the U.S. stock market to achieve 4 consecutive years of double-digit growth, a lot of things need to go right.

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2026 Economic and Market Outlook

Artificial Intelligence

Hardly a day goes by without an article or report that debates the impact, promise, or peril of AI. Our purpose here is to not focus on the societal, moral, and cultural controversies surrounding AI, but to instead focus on the investment implications. We believe AI is the enduring growth story of the last few years and, importantly, the growth engine of the immediate future.

Remember the internet boom and bust of the late 90's? There were many IPOs of small, obscure technology companies—any company that went public with “.com” in its name had terrific success. In many cases, however, the initial success turned into a spectacular bust. Pets.com was launched in November of 1998, raising \$82.5 million in its IPO. It never made a profit and declared bankruptcy just nine months later.

Is it possible that AI companies will suffer the same fate? Anything is possible, but we don't believe it's the same scenario.

AI-related capital expenditure (capex) is experiencing a massive and accelerating boom, with major technology companies spending over \$400 billion in 2025.¹³ Even more astonishing is that just five hyperscalers (Alphabet, Amazon, Meta, Microsoft, and Oracle) are expected to spend over \$520 billion in 2026 alone.¹⁴ This spending has consistently exceeded analyst expectations and represents a significant portion of overall U.S. GDP growth. Importantly, much of this capex spending is from established companies with strong earnings history and solid balance sheets. We are having a hard time finding a “Pets.com” company in this group.

In terms of dollars that can help drive the economy and corporate profits, nothing is even close to AI right now and that is very unlikely to change anytime soon.

So, how do you focus on AI opportunities from an investment standpoint? We think you can break this down into four categories—semiconductors, infrastructure, applications, and energy.

Semiconductors are the fundamental hardware enabling AI, providing the immense processing power needed for complex algorithms. NVIDIA is the 800-pound gorilla here but, AMD, and Broadcom are also top names in this space. These chips are the building blocks of AI.

Infrastructure includes hardware, software, and networking companies. You have no doubt read about and heard the term “data center”. Hardware is networked in these data centers, and powered by software of various kinds, to produce AI. There are many good players here, but Microsoft is a name that everyone knows.

Applications are a large and encompassing category. Amazon and Alphabet are easy examples. Even in the early stage of AI, many companies from financials to healthcare to media have adopted AI to seek operational and competitive advantages. For example, JPMorgan Chase reported in May that it has saved \$2 billion using AI to generate efficiencies.¹⁵ This will accelerate in the coming years.

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Finally, AI will require a massive amount of energy to run its data centers and to fuel growth. Traditional utility companies will provide some of that. AI developers are also seeking alternative sources of power to meet rapidly growing needs. For example, the market for small modular nuclear reactors (SMRs) is expected to grow to \$13.8 billion by 2032¹⁶. Companies like GE Vernova are coming into heavy focus. In January, they announced a \$160 million expansion of their gas turbine facility in Greenville, SC.¹⁷ The U.S. has abundant natural gas, and efficient turbines can provide power relatively cheaply when compared to other forms of energy.

In short, we do not believe that AI today is like the internet and .com bubble of the late 90's. We think there are more opportunities ahead. We intend to participate in those opportunities.

Interest Rates: Up, Down or Sideways

It is obvious to us and everyone else, likely including Jerome Powell, that the Federal Reserve will have new leadership in 2026. Agree or disagree with that but, President Trump has been adamant since his election in 2024 that he wants interest rates to go lower, much lower. It appears that the leader in the race for the new Fed Chair, as of now, is Kevin Hassett. He is the current Director of the National Economic Council.¹⁸

Obviously, we would assume that he would try to execute President Trump's desire of lower interest rates and pro-growth monetary policy otherwise he would not receive Trump's nomination. What does history say happens when the Federal Reserve cuts rates during non-recessionary cycles? Since 1984, when rates were cut while there was no recession, U.S. stocks have an average annualized return of almost 28% and U.S. bonds have an average annualized return of around 17%.¹⁹ We'd sign up for that!

We know of few economists forecasting a recession in 2026. LPL states, "The first half of 2026 will likely be the weakest, with Q1 economic growth slowing to 0.8% with risks to the downside. But as businesses and households regain their footing from uncertainties during 2025, we expect 2026 to grow close to 2.1%, higher than 2025 but not as fast as 2024".²⁰ Additionally, the Atlanta Federal Reserve's GDPNow model, suggests U.S. GDP grew at 3.0% for Q4 2025.²¹

This growth doesn't seem recessionary to us. As we sit in early 2026, this seems more positive than negative. If Hassett can usher in pro-growth monetary policy, lower rates and the U.S. avoids a recession, then we'd expect continued gains in the financial markets.

Headwinds: Mid-Term Elections & Market Valuations

Just like winds while sailing a boat rarely push in one direction, market and economic influences are rarely all positive or all negative. Above we've provided our perspective on some potentially positive tailwinds for markets. To be objective, we find it prudent to consider some potential headwinds.

The first headwind is the current valuation of the U.S. stock market. By virtually every measure, U.S. stocks are expensive, particularly large-cap stocks. Not grossly overvalued but frothy. These valuations can be a headwind to short-term market returns. If the market is priced to perfection, but doesn't deliver perfection, that tends to produce volatility and to push stock prices lower. If the

The second is that 2026 is a mid-term election year. Historically, mid-term election years can produce volatility and are the worst of a 4-year presidential term. LPL Research finds, “Since 1950, the S&P 500 has averaged a modest 4.6% gain during midterm years, with an average maximum drawdown of 17.5%.”²² At this stage it remains too early to say which political party has the edge in controlling Congress. Which is why we have long stated that markets do not like unknowns or surprises. The more uncertainty, the more volatile markets can become.

Finally, it is important to remember that stock market corrections (market declines of 10%-20%) are normal. Historically, corrections occur about every 18 months. Our last correction surrounded the Trump Tariffs in March to April 2025. Ultimately, the Trump Tariffs did not cause a recession or rampant inflation like many predicted and the stock market had a dramatic recovery.

The bottom line here is we don’t believe that either of these issues will cause a recession and produce a dramatic decline in the stock market this year. However, we fully expect that we will be at a point over the course of the year where the market declines for a period of weeks, maybe months, and possibly quarters.

Final Thoughts

There are many positives as we look at 2026. Generally speaking, publicly traded companies are spending money and exceeding expectations.²³ Interest rates appear to be heading lower. Many Americans will see a reduction in taxes this year. Inflation does not seem to be largely under control. These are all positives and should be acknowledged as such.

In fact, many Wall Street firms see markets advancing in 2026. LPL states, “The median consensus S&P 500 target is 7,500, with a range of 7,000 to 8,100...LPL’s target implies 8% appreciation through year-end 2026, for a potential total return including dividends of 9-10%”.²⁴ If U.S. financial markets are able to make it 4 consecutive years of 10%+ returns that would be an incredible streak.

Beyond the U.S. financial market, we see opportunities in bonds and selective opportunities in foreign markets. Bonds like falling interest rates—as we said, rates should decline in 2026. Rather than make broad bets on European, Japanese, or Emerging Market stocks, we think the smart path here is to allocate to specific companies that are attractive—we will be looking at growth at a cheap valuation here.

Throughout 2026, we plan to consider the tailwinds and the headwinds. Overall, we are optimistic that the ingredients are present for the continued advancement of stocks. There are many reasons for optimism but also reasons for caution.

As always, we will continue to monitor circumstances, events and opportunities. If our thought process changes, we will not hesitate to communicate that with you. Should you have any questions or thoughts, please let us know.

We hope that 2026 is full of joy and prosperity for you and your family!

We look forward to talking with you soon.

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Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Stock investing includes risks, including fluctuating prices and loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. ETFs trade like stocks, are subject to investment risk, fluctuate in market value, and may trade at prices above or below the ETF's net asset value (NAV). Upon redemption, the value of fund shares may be worth more or less than their original cost. ETFs carry additional risks such as not being diversified, possible trading halts, and index tracking errors.

¹ <https://www.morningstar.com/etfs/arcx/dia/performance> The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. Indexes are unmanaged and cannot be invested in directly.

² <https://www.morningstar.com/etfs/arcx/spy/performance> The S&P500 is comprised of 500 stocks that are major factors in their industries and widely held by individuals and institutional investors. Indexes are unmanaged and cannot be invested in directly.

³ <https://www.morningstar.com/etfs/xnas/oneq/performance> The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. Indexes are unmanaged and cannot be invested in directly.

⁴ <https://www.morningstar.com/etfs/arcx/ijr/performance> The S&P Small Cap 600 Index is an unmanaged index generally representative of the market for the stocks of small capitalization U.S. companies. Indexes are unmanaged and cannot be invested in directly.

⁵ <https://www.morningstar.com/etfs/arcx/efa/performance> The MSCI EAFE Index is an unmanaged index generally representative of the market for the stocks of international companies. Indexes are unmanaged and cannot be invested in directly.

⁶ Global Market Insights Strategy Team. "Market Insights: Guide to the Markets®". J.P. Morgan Asset Management. Page 5. December 31, 2025.

⁷ Ibid.

⁸ <https://www.morningstar.com/etfs/arcx/agg/performance> The Bloomberg U.S. Aggregate Bond Index is an unmanaged index generally representative of the market for the fixed income securities in the U.S. Indexes are unmanaged and cannot be invested in directly.

⁹ https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value=2025

¹⁰ Ibid.

¹¹ <https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html?redirect=/trading/interest-rates/countdown-to-fomc.html>

¹² Beren, David. "Postwar Warning: What History Says Happens in 2026 After Three Consecutive S&P 500 Double-Digit Years". Yahoo Finance. December 26, 2025.

¹³ <https://io-fund.com/ai-stocks/ai-platforms/big-techs-405b-bet>

¹⁴ LPL Strategic and Tactical Asset Allocation Committee. "Outlook 2026: The Policy Engine". Page 9. LPL Research. December, 2025.

¹⁵ The Capital Group. "2026 Edition Outlook: Long-term Perspective on Markets and Economies". Page 11. November 30, 2025.

¹⁶ Ibid.

¹⁷ <https://www.governova.com/news/press-releases/ge-vernova-announces-more-160-million-investment-greenville-facility>

¹⁸ Gillum, Lawrence. "Daily Market Update: What the Fed Leadership Shift Could Mean for Stock-Bond Correlations". LPL Financial. December 2, 2025.

¹⁹ The Capital Group. "2026 Edition Outlook: Long-term Perspective on Markets and Economies". Page 5. November 30, 2025.

²⁰ LPL Strategic and Tactical Asset Allocation Committee. "Outlook 2026: The Policy Engine". Page 6. LPL Research. December, 2025.

²¹ <https://www.atlantafed.org/cqer/research/gdpnow>

²² LPL Strategic and Tactical Asset Allocation Committee. "Outlook 2026: The Policy Engine". Page 13. LPL Research. December, 2025.

²³ <https://www.blackrock.com/us/financial-professionals/insights/q3-earnings-equity-market-outlook>

²⁴ Buchbinder, Jeffrey. "LPL Research: Daily Market Update". LPL Financial. December 22, 2025.

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