



Economic & Investment Outlook

January 8, 2026

Equity Market Update

Global equity indexes recorded solid gains in 2025, with U.S. small-caps the lone exception. Generally strong economic growth and continued AI investment were key drivers. The U.S. market was able to shake off higher tariffs and a prolonged government shutdown. International markets benefited from a weaker U.S. dollar and extremely low valuations heading into 2025.

As we start the new year, most investment strategists expect markets to remain buoyant. That consensus gives us some pause as group think often is wrong. It is rare for markets to deliver strong gains for an extended period without an interruption along the way. Nevertheless, we do not see any reason for a sustained downturn. Lower interest rates, cooling inflation and strong corporate earnings growth provide the foundation for a healthy equity market in 2026.

Encouragingly, we are seeing investors moving into areas of the market outside of technology, which is a healthy dynamic. To be sure, corporate earnings growth in technology remains quite strong, helping to justify the sector's gains. Consumer stocks may begin to perk up as the benefits of the "One Big Beautiful Bill" flow through to consumers via higher tax return refunds in the first quarter.

Total Return Performance for the Major U.S. and International Stock Market Indexes

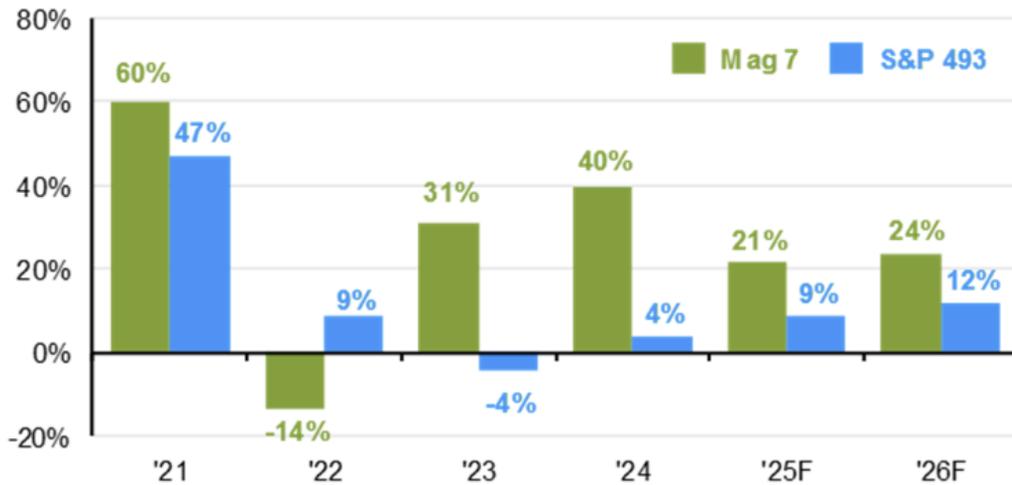
EQUITY INDEX	YTD December 31, 2025
UNITED STATES	
Dow Jones Industrial Avg.: 30 Stock Composite	14.92 %
S&P 500 Composite: U.S. Large Cap	17.88 %
NASDAQ Composite: Technology Heavy	21.17 %
S&P 600 Small Cap: U.S. Small Cap	5.99 %
INTERNATIONAL	
MSCI EAFE Large Cap: Europe, Asia & Far East Large Cap	32.03 %
MSCI EAFE Small Cap: Europe, Asia & Far East Small Cap	32.54 %
MSCI EM Emerging Market: Emerging Market Countries	34.29 %

Source: Bloomberg, L.P.

Magnificent 7 Earnings Growth

The bar chart below illustrates the fact that earnings growth for “Mag 7” stocks (NVIDIA, Apple, Microsoft, Alphabet, Amazon, Tesla, Meta Platforms) has been much stronger than the rest of the market over the past three years and this trend is expected to continue in 2026. This helps explain why “Mag 7” stocks have been outperforming the market. Encouragingly, earnings growth for the remaining 493 stocks in the S&P 500 has been accelerating, and that trend is also expected to continue in 2026.

Year-over-year earnings growth



Market Implications From Venezuela

We do not believe the capture of Venezuelan President Nicolás Maduro will have a lasting negative impact on global oil or equity markets. We have seen this already, with limited, if any, impact on oil prices or equity markets.

While Venezuela was once a major oil producer, it currently produces less than 1% of the world’s oil supply. Although there is talk of increasing oil production in Venezuela going forward, that will take many years if it happens at all.

From an economic perspective, Venezuela has had minimal trade ties with the United States or Europe for many years. Venezuela is a very poor country, and its only meaningful export has been limited amounts of oil to China and Cuba. China will likely begin purchasing oil from other world oil producers. Cuba has been buying Venezuelan oil at prices well below market and will be forced to pay more by sourcing from other suppliers such as Mexico or Russia. We do not expect world oil prices to be greatly impacted in the near term but if Venezuelan production is ultimately increased, this would likely put downward pressure on oil prices.

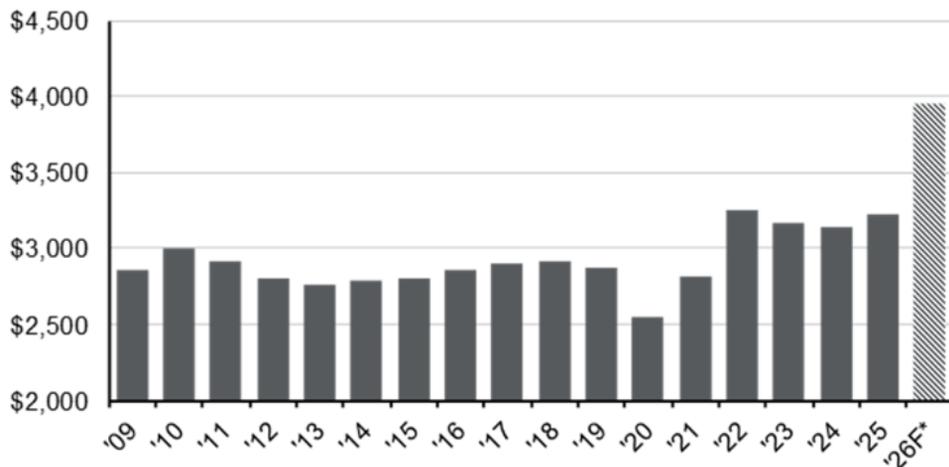
Economic Impact of the One Big Beautiful Bill (OBBB) Act

The bar chart below highlights that the average income tax refund in 2026 is expected to be much larger than past years due to the “OBBB” Act, which should support consumer spending in 2026. Key drivers include the new and expanded “No tax on tips” and “No tax on overtime” provisions, along with an increase in the SALT (state and local tax) deduction.

Business benefits include making 100% bonus depreciation permanent and allowing immediate expensing of domestic research costs. These changes should incentivize business capital spending which ultimately drives higher growth and productivity.

Average income tax refund by filing year

2009 - 2026F*



Source: JPMorgan Guide to the Markets 12/31/2025

Inflation, Interest Rates & Fixed Income

Inflation levels have stabilized in the 2.5% to 3.0% range. Due to progress on the inflation front and payroll reports weakening, the Federal Open Market Committee (FOMC) lowered interest rates by another 0.25% in December, bringing the current rate down to the 3.5% to 3.75% range. Even at that level, policy remains restrictive since rates are still above the inflation rate. There is also a growing division within the FOMC on the appropriate path for rates going forward. A new head of the FOMC will be appointed soon and will likely be more inclined to cut rates further. Despite this, it is important to remember that a vote is taken on interest rate decisions each meeting and while the FOMC chair has influence on interest rates, it is still a vote with the majority opinion carrying the day.

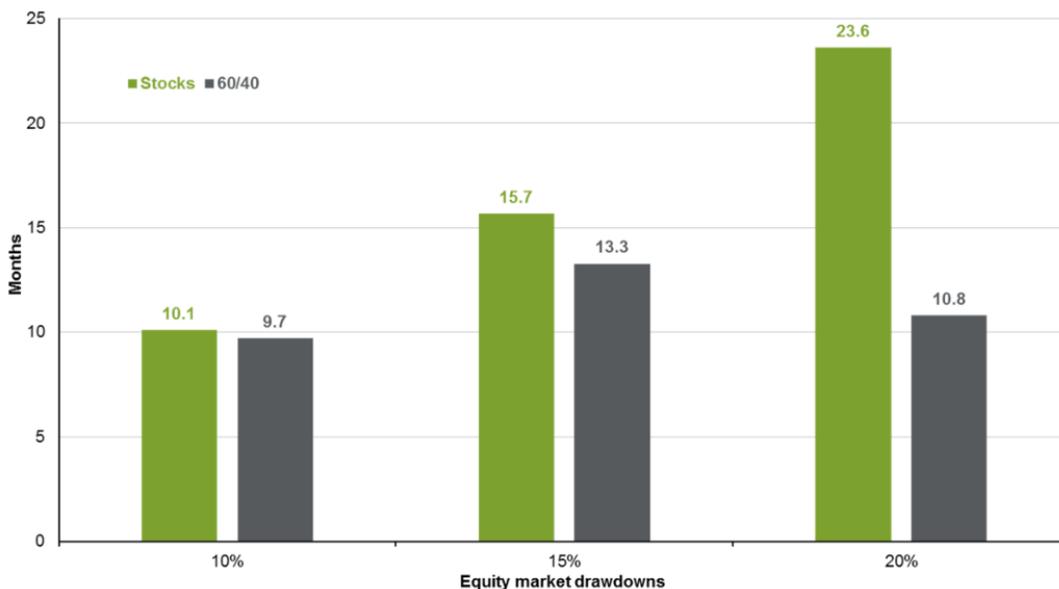
While short-term interest rates have fallen in 2025, longer-term rates have not declined as much, likely reflecting growing investor concern over the large federal budget deficit and inflation remaining above 2%. For these reasons, we continue to favor shorter-term bonds, whose prices are less sensitive to changes in interest rates and thus less volatile. In short, we do not believe the slightly higher yield on longer-term bonds is worth the bond price risk.

Summary

Equity markets fall at least 10% on average about once per year, and occasionally more than that. It typically takes on average about one month for equities to recover each 1% decline. For example, if equities fall 10%, it takes 10.1 months to recover as depicted in the chart below. This highlights that drawdowns, while uncomfortable, should not be feared as this is the normal working of the market.

Equity markets have been strong over the past three years, and all the pieces are in place for 2026 to be another strong year. Interest rates and inflation are easing, corporate earnings are accelerating and employment remains steady. There will likely be some curveballs thrown at the market this year that no one sees today. This is the normal rhythm of investing, but as long as corporations grow and expand, equities will remain an attractive asset class to grow wealth over time. We wish you a happy and prosperous New Year!

Average time to recover from equity market drawdowns by portfolio type
1988-2024



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