CROSSMARK GLOBAL INVESTMENTS

Jan. 5, 2026 | Issue 6.02

10 Predictions 2026 High-Risk Bull Market

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What's Inside

2025 Review – Theme: Fewer Tailwinds, More Tail Risks

In 2025, financial markets experienced strong gains in an "everything rally," with strong gains enjoyed across stocks, bonds, and commodities led by AI enthusiasm, relatively behaved inflation, strong corporate earnings, and anticipation and realization of central bank interest rate cuts. This occurred despite ongoing volatility from trade policy uncertainties and geopolitical tensions. Of major assets, only oil dropped noticeably. Hence, our theme – "Fewer Tailwinds, More Tail Risks" – was too conservative.

The stock market rally was narrow for much of the year, with the focus on mega cap technology stocks, although it broadened later in the year to include small and mid cap stocks. International stocks outperformed the U.S., led by emerging markets, all benefiting from a weak U.S. dollar. Policy drivers included a more resilient economy than most expected, favorable cuts by most, but not all, central banks, and AI enthusiasm. The U.S. stock market fell 20% in the spring on tariff concerns, only to rally 40% off the lows to new all-time highs toward the end of the year.

Bonds delivered good returns as well, on the back of the easing monetary policy referred to above. Credit spreads were near record tight for most of the year. Gold was a standout performer, along with everything crypto, despite fourth quarter setbacks.

As a result of the Fed easing and upward earnings revisions, risk assets moved higher, despite valuation concerns and creeping speculation. After lowering rates 25 basis points (bps) in December, Fed Chair Powell stated that the policy rate is now in a broadly neutral range, with the Fed "well-positioned to wait and see how the economy evolves," thereby implying that Fed policy will likely be on hold until the economic data trends warrant a change.

The AI theme is in full-blown extrapolation mode. Elevated equity valuations and tight credit spreads indicate that investors expect an optimistic future for the corporate sector. Gold, cryptocurrencies, and private credit have been floating on buoyant global liquidity. Even safe-haven bonds have produced solid returns this year, with investors confident that inflation will stay tame and the Fed will reduce interest rates substantially in the year ahead. Capital markets appear priced for permanent perfection. Such conditions cannot last indefinitely.

It is with this backdrop that we proceed, as usual, with fear and trepidation (and hopefully some good, educated guesses) to unveil our prognostications for 2026 in the form of 10 Predictions.

10 Predictions for 2025: Scorecard

We achieved seven correct predictions for 2025, in line with our long-term average.
Here is a brief rundown of the 2025 predictions.

Score / Prediction		Explanation
1 ✓	**Economic growth slows as the unemployment rate rises past 4.5%.**	Real economic growth did slow by nearly a full percentage point on the back of tariff uncertainties and some slowdown in consumer spending on the back of lower and some middle-income consumers. With the government shutdown, the last 2025 unemployment report will be released Dec. 16. Consensus is in the 4.4%-4.6% range. We are expecting 4.5% or 4.6%, so we will take credit for the prediction, recognizing our final write-up could count only half of this prediction correct.
2 half ✓	**Inflation remains sticky, fails to reach the Fed's 2% target, and causes Fed funds rate to fall less than expected again.**	Inflation certainly remained sticky and actually showed almost no signs of improvement (in part due to tariffs). The Fed's 2% target remains elusive. At the start of the year, the Fed funds future curve suggested 2.5 Fed cuts for 2025. Last week, the Fed lowered rates for the third time, causing us to fail on that half of the prediction.
3 ✓	**Treasury 10-year yields trade primarily between 4% and 5% as credit spreads widen.**	While the 10-year Treasury yield dipped below 4% several times, it spent more than 95% of the year between 4% and 5%. Clearly, rates were higher early in the year and lower during the second half. Like Prediction #1, the second half of the prediction (spreads widen) is on a razor's edge, but we are on the right side of the prediction as we write. Our final write-up will make the adjustment if necessary.
4 ✓	**Earnings fail to achieve consensus a) 14% growth and b) every sector has up earnings.**	While earnings growth has been strong, the consensus forecast for the full year is now +10%, short of the +14% expected on Jan. 1. Modest cost pressures have been the source of the shortfall. Unlike the beginning of year, the consensus forecasted that all sectors will show up earnings. Energy, consumer staples, and possibly real estate are now expected to show declined full-year earnings.
5 ✓	**Equity volatility rises (VIX average approaches 20 for only the third year in 14).**	The VIX in 2025 will average between 19 and 20, the highest we have seen since 2022. Tariffs, the government shutdown, geopolitics, and economic and Fed uncertainties contributed to the volatility, with the highest volatility recorded in March/April/May. (April average 32.0.) High volatility is likely to continue somewhat in 2026.

10 Predictions for 2025: Scorecard (Continued)

Score / Prediction		Explanation
6 half ✓	**Stocks experience a 10% correction as stocks fail to keep up with earnings (i.e., P/Es contract).**	As we know, the market corrected 20% rather abruptly in March-April due to the concerns around tariffs. (And the rebound since has been breathtaking.) The second half of this prediction is still possible, but at this writing, we are on the wrong side as the stock market's multiple has increased modestly.
7 ✗	**Equal-weighted portfolios beat cap-weighted portfolios (average manager beats index), and value beats growth.**	The first half of this prediction we got very wrong. Equal-weighted portfolios have noticeably lagged cap-weighted portfolios due to significant gains by many mega-cap stocks. At this writing, value stocks are lagging growth stocks by about 300 basis points (bps) year-to-date.
8 ✗	**Financials, energy, and consumer staples outperform healthcare, technology, and industrials.**	After a great start to the year on this one, the strong performance of technology stocks and the nice recovery in healthcare rendered this one incorrect. Financials started the year very well, but lagged a bit in the second half.
9 ✓	**Congress passes the Trump tax-cut extension, reduces regulation, but tariffs and deportation are less than expected.**	This prediction in some ways has four parts. The tax-cut extension (and much more) was passed ("One Big Beautiful Bill") with much hoopla. Regulatory reduction, while not getting a lot of attention, has been plentiful with more to come in 2026. Tariffs (while getting a lot of headlines), look to be about 12% of imported goods, as measured against the so-called Liberation Day plan of 21%. Certainly immigration was curtailed significantly, but deportation fell short of the Administration's goal.
10 ✓	**DOGE efforts make progress but fall woefully short of \$2 trillion per year of savings.**	With hindsight, this prediction was like "shooting fish in a barrel." Elon Musk's stated goal was out of the realm of possibility. Needless to say, progress was made by "only" a couple hundred billion – nowhere near \$2 trillion. As we have stated many times, the ONLY way to begin to solve the increasingly acute debt and deficit problem is to tackle the entitlement programs, which comes with political suicide!

Observations

Positives

1. **Earnings are very good.**
2. **The Fed has begun lowering rates.**
3. **AI and other productivity factors are boosting profit margins.**
4. **Sentiment is neutral at worst.**
5. **Credit markets are signaling a strong economy.**
6. **There is more clarity around tariffs.**
7. **Cash flow and dividend growth are improving.**

Negatives

1. **Valuations are elevated.**
2. **Inflation remains sticky.**
3. **The tariff impact on growth and inflation is concerning.**
4. **Job growth has slowed noticeably.**
5. **Consumer spending has weakened noticeably down income cohorts.**
6. **Speculation has increased (margin debt, IPO activity, circular financing).**
7. **Tensions are escalating between Russia and the U.S./NATO, the U.S. and China, etc.**

2026 Outlook

The U.S. is set to remain the world's growth engine, driven by a resilient economy and an AI-driven super cycle that is fueling record capex, rapid earnings expansion, and unprecedented market concentration. The growth outlook is good, which bodes well for corporate profits and should be supportive of risk asset markets. The recently passed U.S. tax bill (One Big Beautiful Bill) should provide a boost, especially to capex. Deregulation should also support activity. A combination of the One Big Beautiful Bill's impact on both consumer and capital spending, America's hosting the World Cup, and the country's 250th anniversary will all create a tailwind for 2026 economic growth and earnings. Add to that a Fed that seems almost certain to focus more on the full employment part of its mandate rather than inflation and it is difficult to get bearish. However, the downside of good growth may be upward pressure on inflation.

The front-end fiscal boosts will offset the lingering drag from the trade war. Job creation is likely to remain muted versus recent years, but the unemployment rate is likely to remain at low levels. Business investment will continue to be buoyed by AI-driven and other capital spending. Inflation will remain sticky due to service sector pressures. Elevated inflation and a reasonably healthy labor market will keep the Fed policy rates higher than the doves would like to see. The Fed and bond investors have persistently bet on a return to the low and stable inflationary environment that preceded the pandemic. Most drivers of price pressures warn that the economy will remain prone to upside inflation surprises. The economic/inflation backdrop and the Fed's dovish policy bias could put upward pressure on longer-dated Treasury yields over the course of the year.

Equity valuations and widespread investor complacency make the risk-reward trade-off less favorable than the positive top-down view implies. A shift to a defensive position is likely to occur at some point, although the timing is uncertain. Be quick to cut beta exposure if these tail risks surface. These include a spike in bond yields, a renewed intensity of the trade war, and/or if the AI euphoria fades.

2026 promises to be anything but dull. Rapid AI investment and adoption will likely continue to dominate market sentiment, and given the pace of technological advancement, it is hard to imagine this won't ultimately deliver meaningful productivity gains. That said, the winners and losers will depend on the complex interplay of evolving forces, many of which may not become apparent until after 2026. In the meantime, markets could continue to swing sharply between boom-and-bust narratives.

In conclusion, although top-down economic growth and policy outlooks are favorable for risk assets, this is already discounted in asset prices. Therefore, significant care needs to be taken in investment exposures. At some point, bond yields may climb if inflation proves sticky, which will have negative contagion on risk assets.

10 Predictions for 2026

Theme: High-Risk Bull Market

	Prediction	Explanation
1	**Economic growth in the U.S. improves from approximately 2.0% to approximately 2.5% real GDP.**	2025 turned out to be a good economic growth year for the U.S., especially after the better-than-expected Q3. We expect even stronger growth in 2026 (≈50bp higher). The economy should benefit from generally easy financial conditions, including the lagged impact of the three Fed interest rate cuts in the last months of the year. The benefits of the One Big Beautiful Bill should be a noticeable tailwind. Other aids include likely good productivity, less drag from trade, and wealth effect benefits, especially to upper-income Americans from higher stock portfolios and home prices. Partial offsets come from a suspect labor market and drags from debt and deficits. Continued deregulation and federal efforts to boost growth in light of the mid-term election give further support to our prediction.
2	**Inflation remains sticky and fails to make much if any progress toward the Fed's 2% target.**	The Fed continues to argue for (and almost promise) a reduction in inflation to 2%. For all of 2025, the inflation rate has been (and remains) closer to 3% than 2%. Our assertion has been and remains that a 2% inflation rate is unlikely, absent a recession, for which we place fairly low odds. We continue to argue that the 2-3% inflation ceiling of the 2010s has become the inflation floor for the 2020s. The drivers of inflation have calmed somewhat, but outright disinflationary categories are few and far between. Economists will continue to argue about the source of goods and services inflation, which remains somewhat confusing. If our inflation outlook is accurate, the Fed will have trouble initiating many (if any) further interest rate cuts. Separately, the price level ("affordability") is getting significant attention and will likely be a significant mid-term election theme.
3	**The 10-year Treasury yield trades primarily between high 3%s and mid 4%s as credit spreads widen (i.e., a "coupon-ish" year).**	The trading range for interest rates on 10-year government paper was fairly narrow in 2025 and is likely to continue for 2026. It is interesting to note that as the Fed lowered rates during 2025, longer-term rates remained stable or climbed modestly, thereby steepening the yield curve. Bond investors are cognizant of sticky inflation and huge amounts of debt issuance for 2026. A 4.25% 10-year yield seems to be the fulcrum point for the U.S. equity market. We were amazed at the tightness of quality spreads in 2025 but continue to expect some widening during 2026. Our fixed income strategy remains neutral duration and high quality, with a favorable view toward municipals versus Treasuries where tax brackets permit.
4	**Earnings growth falls short of consensus +14% and P/Es decline modestly, making it a tougher year to make money.**	Once again, the consensus is calling for earnings growth to be double its long-term trajectory (14% versus 7%). While earnings reports and surprises and forward revisions have all been positive, we are skeptical that profit margins (which are at all-time highs) can sustain further upside, a condition necessary to achieve consensus earnings growth targets. However, positives for earnings include a decent overall economic growth rate, assists from the Fed, productivity/AI, deregulation, and lower tax rates. As usual (and we are again skeptical), analysts are forecasting a year where all sectors experience positive earnings growth. The higher estimates may be a necessary condition for stocks to advance in 2026.
5	**Stocks fail to advance by a double-digit percentage for only the third time in 10 years.**	The U.S. stock market has advanced by a double-digit percentage for three years in a row. A fourth year of double-digit earnings growth has happened only once in the last 100 years. (Actually, five years, 1995-99.) If the market keeps "walking the tightrope" of good employment and economic growth sufficient to produce double-digit earnings growth but not so strong as to stoke inflation, another double-digit stock market return is possible. The risks are either an economic acceleration creating problematic inflation (and accompanying valuation decline) or economic weakness threatening disappointing earnings (whereby stocks struggle). No matter the outcome, high valuation levels demand a strong fundamental/earnings backdrop for another significant advance in equity averages.

10 Predictions for 2026 (continued)

Theme: High-Risk Bull Market

	Prediction	Explanation
6	**Technology, communication services, and financials outperform materials, utilities, and consumer discretionary.**	Failing to get our sector call correct in 2025, we try, try again! We are counting on the strong earnings of technology and communication services to overcome the valuation nosebleed these sectors present. Technology stocks lagged in the back part of the year while fundamentals remained reasonably strong. Strong secular growth has raised the multiples, but end-of-year underperformance has rendered their valuation somewhat less onerous. We continue to favor financial stocks, as they benefit from good earnings prospects, reasonably good balance sheets, and further deregulation. From a common factor standpoint, we favor low price to free-cash-flow multiples with high-quality management, good free-cash-flow generation, and high profitability (ROEs).
7	**International stocks outperform the U.S. for the second year in a row (first time in 20 years).**	Some (quietly for many due to their underexposure) missed that international stocks beat the U.S. in 2025. For the first time in 20 years, we expect a repeat in 2026. Expected relative earnings comparisons are improving significantly in 2026. Valuation differentials remain strongly in favor of international over domestic. Further potential positives for international over domestic include a weakening dollar, monetary policy differentials, and general underweights (often significant) of international versus domestic in U.S. portfolios. An area of noticeable controversy is China, which continues to be in an economic cold war with the U.S. Most agree that China has significant long-term problems (aging of population, debt, and domestic growth challenges).
8	**AI continues to be volatile/erratic, creating another year of elevated volatility.**	"AI" has become a buzzword all across society. Virtually all agree that AI is a transformative technology. The controversy is over magnitude, timeframe, and winners/losers. Popping up in recent months is the subject of "circular financing." Until then, most financing of AI advancement, especially for capital expenditures, was done with cash or equity. That is now progressing into debt financing without adequate certainties of repayment, causing controversy and criticism. Our expectation is that AI will remain controversial, create confusion and volatility, and result in some amazing positive stories and probably some noticeable losses going forward. One key positive versus the dot.com/internet period 25 years ago is that the current leaders have legitimate revenues, earnings, and cash flow, unlike the leaders back then.
9	**Faith-based share of industry AUM increases for the tenth year in a row.**	The faith-based share of money management industry AUM has increased nine years in a row, granted from a very small share. We expected this to be the tenth year in a row, making it a decade of more than doubling market share. Why? More and more individuals, financial advisors, and institutions are desiring to align their portfolios with their values. Investors are both excluding companies that maim, kill, or addict people as well as favoring companies that "do good." With ample evidence pointing to these investors not having to surrender any investment performance, this area continues to be one of increasing interest.
10	**Republicans retain control of the Senate but surrender the House, losing at least 20-25 seats.**	Mid-term election years are typically years of decent earnings growth but low equity-market returns. Mid-term election years are rarely good for the party in control. Our guess is that history will repeat itself, meaning the Republicans will lose a few seats in the Senate (but maintain control), but will lose at least 20-25 seats in the House, thereby surrendering control to the Democrats. The off-year gubernatorial races in Virginia and New Jersey are bad signs for the Republicans. One issue that is likely to play for the Democrats is the "affordability" issue – that is, a focus on how much things cost, not the trailing 12-month inflation rate. The elephant in the room remains the ongoing debt and deficit issue. If this prediction is accurate, it will render President Trump largely a lame duck, making the One Big Beautiful Bill his most significant second-term achievement.

Focus Five: 2026 Factors

Factor	Key points	Portfolio response
1. Economy/ earnings	• Expect some economic acceleration. • Inflation sticky (2% unlikely). • Earnings estimates too high.	• Be flexible. • Don't chase returns – buy dips. • Consider alternatives.
2. Fixed income	• Maintain neutral policy. • Expect some quality spread-widening. • Munis relatively attractive.	• Recommend neutral duration. • Focus on quality. • Munis attractive (if tax circumstances appropriate).
3. Equities	• Valuations near all-time high. • Earnings risk. • Margin improvement in consensus estimates may be running out of steam.	• Focus on earnings. • Tougher year to make money. • Buy dips/trim rallies.
4. Sectors	• Generally high-quality companies preferred. • Focus on earnings and cash flow, not P/E expansion. • Strong free-cash flow, high profitability (ROE).	• Overweight technology, communication services, and financials. • Underweight materials, utilities, and consumer discretionary. • Own value with a catalyst and inexpensive growth.
5. International	• Markets significantly cheaper than U.S. • Relative earnings comparisons improving significantly. • U.S. dollar weakness helps.	• Increase international weighting.

What to do?

1. Watch earnings revisions and Fed action like a hawk! (Required for bull market to continue)
2. Expect lower returns.
3. Hold some cash for deployment in selloffs.
4. Expect some yield curve steepening.
5. Stocks – buy dips/trim rallies.
6. Stocks – focus on attractive P/FCF and high ROE companies.
7. Position for international to outperform U.S. again.

About Crossmark Global Investments

Crossmark Global Investments (Crossmark) is a faith-based investment management firm that creates and manages values-based investment strategies with a goal of providing performance excellence for financial intermediaries and their clients. Founded in 1987, the firm specializes in developing tailored solutions and has a rich history of inspiring and equipping its clients to align their investments with their values.

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