

After seven consecutive months of increases for the U.S. stock market, it finally had a slightly negative month in December. The ever-resilient Canadian stock market has now had eight consecutive months of increases. 'Recency bias'- which is the cognitive bias of attaching greater importance to recent events - might lead us to believe 2026 will be a strong year also. But the 'reversion to the mean' statistical phenomenon - which states that the greater the deviation from the mean, the higher the probability that the next observation will be closer to the mean - might lead us to believe that 2026 will be an average or below-average year. My own approach is to typically begin the calendar the year with a 'base' forecast that it will be an average year. A major exception to this approach is whenever the markets have undergone a significant correction (e.g., the 2020 COVID bear market). In that case, I tend to become more optimistic for the future.

While the U.S. stock market might appear to be slightly overvalued based on a few valuation metrics such as historical Price/Earnings ratios, there are several positive tailwinds that may help the markets, such as:

- An upcoming change in the U.S. Federal Reserve Chairman - who is likely to push for lower interest rates.
- Greater deregulation - which, in the short term, might lead to higher profits and more corporate acquisitions.
- Corporate profits are likely to continue increasing at a pace higher than the historical average.
- Political gridlock in the U.S. might occur by the end of 2026 - which is when more than one party controls the Senate, the House of Representatives, and the office of the President. This is often viewed as a positive for the markets.
- The Artificial Intelligence trend is not showing signs of slowing down.

Given the above and the fact that the market trends have been positive, I am cautiously optimistic for 2026. But I would not be surprised if the stock market experienced a correction at some point. If that occurs in 2026, having a long-term outlook will help. Having a balanced portfolio will also help.