

January was a positive month for most investors. The bond market experienced a small decline due to a slight increase in long-term market interest rates. But this was more than offset by an increase in the stock market - supported by strong economic numbers and corporate profits. Interestingly, stock market participation has also been broadening. The Magnificent Seven U.S. big tech stocks have not been the main contributors to the recent stock market increases. Playing a bigger role recently are other sectors - such as industrials, financials, and small & mid-sized public companies - whose profits are highly correlated to the economy.

The stock market has recently experienced one of the potential downsides of the Artificial Intelligence boom - namely the growing fear that the long-term profits of software companies could be negatively impacted by easy-to-use AI tools. Whether that occurs or not, the AI boom is certainly contributing to immense capital/investment spending plans associated with AI initiatives. This in turn should add to the growth of the economy. 2026 might also be a year in which more and more attention will be paid to the companies who benefit from AI, as opposed to only the ones responsible for developing AI.

To add to the immense capital spending initiatives associated with AI, here are a few other positive tailwinds in 2026:

- The U.S. Federal Reserve Chairman is expected to change in May - and he might be more likely to push for lower interest rates than his predecessor.
- Greater deregulation - which, in the short term, might lead to higher profits and more corporate acquisitions.
- The U.S. federal government has introduced measures to stimulate the economy - partly for political reasons I am sure. Expect even more stimulative measures over the coming months.
- Regardless of the above, I predict political gridlock in the U.S. by the end of 2026. This is often viewed as a positive for the markets.

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