



## January 2026 Market Update Summary

In their January 2026 market update, Doug Johnson, CFA, Senior Investment Strategist at HCM Wealth Advisors, and Dan Rinck, Investment Strategist and Investment Committee member, provide a comprehensive review of market conditions entering the new year. While they avoid making precise market forecasts, their analysis highlights a broad set of technical, fundamental, and macroeconomic indicators that suggest the market remains on solid footing and that 2026 could resemble the broadly positive environment seen in 2025.

Doug opens by addressing a common investor question: where the market will end in 2026. Rather than offering point estimates—which history shows are often unreliable—he emphasizes focusing on market structure, trends, and underlying drivers. While a lighthearted historical chart suggests years that start on a Thursday tend to perform well, the core message is that disciplined analysis matters more than prediction.

### ***Market Broadening Beneath the Headlines***

Dan begins by reviewing the market's behavior in late 2025. While much of last year's narrative focused on artificial intelligence and mega-cap growth stocks, the final quarter of 2025 told a different story. Over the final three months, asset class leadership broadened meaningfully. Small caps, large-cap value, and international equities outperformed, while growth-heavy indexes—including the Magnificent Seven—lagged.

This shift challenges the notion that the market has been narrowly driven by a handful of large technology companies. An equal-weighted S&P 500—where each stock has the same influence regardless of size—continued to make new all-time highs into early 2026. This indicates that market strength is becoming more evenly distributed across sectors and companies, a classic sign of a healthier bull market.

Further reinforcing this point, Dan reviews long-term trends comparing growth versus value stocks. Growth has dominated for years, but recent data show value beginning to gain traction. While it remains too early to declare a full regime shift, the emergence of value leadership—especially alongside small-cap and international strength—suggests rotation rather than deterioration.

## ***Mega-Caps No Longer Carrying the Market Alone***

Another important observation is the relationship between the Magnificent Seven and the broader S&P 500. Since October 2025, mega-cap tech stocks have underperformed the index, yet the S&P 500 has continued to reach new highs, even surpassing the 7,000 level. This contradicts the belief that markets cannot advance unless mega-cap tech leads.

Additionally, more risk-sensitive segments—microcaps, small caps, and mid caps—have all made new all-time highs. These asset classes typically struggle during periods of economic stress. Their strength suggests investors are firmly in “risk-on” mode and that market participants broadly believe the economic backdrop remains supportive.

## ***Risk Appetite and Market Breadth Remain Strong***

Multiple breadth indicators confirm this optimism. The NYSE advance-decline line has pushed to new highs, showing that more stocks are rising than falling. Historically, weakening breadth precedes market downturns, but current readings point to strength beneath the surface.

Another breadth measure—the percentage of S&P 500 stocks trading above their 50-day and 200-day moving averages—has also improved. Over half of the index’s constituents are now above both trend indicators, reinforcing the idea that the rally is becoming more inclusive rather than concentrated.

Risk appetite is further confirmed by the relative weakness of defensive sectors like consumer staples. In both large-cap and small-cap spaces, investors show little interest in traditionally “safe” stocks, favoring growth- and cyclical-oriented opportunities instead.

## ***AI Adoption and Productivity Gains***

While AI dominated headlines in 2025, Dan presents data suggesting its economic impact may just be beginning. Survey results indicate many firms are already seeing productivity improvements, faster decision-making, improved customer satisfaction, and more time spent on high-value tasks. Although many respondents still report “no change” or uncertainty, the trend is gradually shifting toward measurable gains. As AI adoption matures, these productivity benefits could become more widespread and support long-term economic growth.

## ***Earnings, Margins, and Valuations***

From a fundamental perspective, earnings remain a critical driver. Forecasts for both 2026 and 2027 call for high single-digit to low double-digit earnings growth. This supports the idea that markets may be able to “grow into” current valuations, easing concerns that price multiples have expanded too far without sufficient earnings support.

Importantly, earnings growth is expected to broaden beyond the Magnificent Seven. While those companies dominated earnings growth in 2023 and 2024, the gap narrowed in 2025 and is projected to continue narrowing in 2026. This shift aligns with the recent performance of value, small-cap, and international stocks and would represent a healthier earnings mix for the overall market.

Profit margins also remain near all-time highs, having rebounded strongly after a brief dip in 2022. Expanding margins make it easier for companies to deliver earnings growth, further supporting equity prices.

## ***Macro Backdrop: Growth, Inflation, and Rates***

On the macroeconomic front, the Atlanta Fed’s GDPNow model is projecting exceptionally strong growth for late 2025—near 5%—while Wall Street consensus forecasts are far lower. While such a wide divergence is unusual, even the lower end of estimates implies continued expansion rather than recession.

Inflation remains relatively well-controlled, with recent CPI readings around the mid-2% range. While not yet at the Fed’s ideal target, inflation is far below levels that would typically trigger aggressive policy tightening. As a result, expectations remain for modest rate cuts in 2026, though fewer than previously anticipated. Importantly, neither equity nor bond markets appear unsettled by this adjustment.

Fixed income has also quietly delivered positive returns for three consecutive years following the difficult period around 2022. Bonds remain an important portfolio diversifier, and the recent environment reinforces their ongoing role despite past frustrations.

## ***Valuations and the Bull Market Context***

A historical analysis of valuation changes since 1980 shows that when the Fed is cutting or holding rates steady and economic growth is stable or accelerating—conditions similar to

today—price-to-earnings multiples have tended to expand. While multiple expansion may be more limited than in earlier stages of the cycle, it should not be ruled out entirely.

Addressing concerns that the bull market has gone on “too long,” Doug and Dan note that since its October 2022 starting point, the S&P 500 has gained roughly 93%. While impressive, this still places the current bull market below the historical average and median in both duration and total return. History suggests bull markets often last longer and go further than investors expect, though not without volatility along the way.

### ***Final Thoughts***

Overall, the discussion paints a picture of a market that is rotating and broadening rather than weakening. Strong breadth, improving earnings participation, controlled inflation, and resilient economic growth all support a constructive outlook for 2026. While volatility should be expected, the data suggest the current bull market may be closer to the middle than the end.

Doug and Dan conclude by reaffirming their disciplined approach: remaining optimistic while staying prepared to adjust if conditions change. They also announce plans for continued monthly market updates and the launch of a new market-focused podcast to provide clients with more timely and conversational investment insights.