Glen Eagle

Faith Family Firm®

January 2026 Investment Commentary

As we turn the calendar to a new year, a familiar ritual begins. Investors, strategists, and pundits alike rush to make predictions about where the stock market is headed next. Targets are set, narratives are formed, and confidence is often conveyed with precision that feels reassuring.

Yet history reminds us that confidence and accuracy are not the same thing. As Warren Buffett once wisely said, "Forecasts may tell you a great deal about the forecaster; they tell you nothing about the future."[1] The reality is that the future has always been uncertain. The most reliable way to navigate it is not through forecasts, but through a historical lens that focuses on probabilities rather than predictions.

Part of the reason predictions feel so compelling today is that markets have rewarded investors handsomely in recent years. Since 2019, the S&P 500 has delivered positive returns in six of the past seven years.[2] Even after the difficult decline in 2022, stocks rebounded quickly and went on to post strong double-digit gains in both 2024 and 2025. When returns come easily and consistently, engagement rises—and with it, the temptation to believe the next outcome can be forecasted with confidence.

At the same time, strong performance does not eliminate risk. While we are not predicting a major downturn, there are two reasons in particular that warrant attention as we move forward:

- **Midterm election dynamics**: Historically, the stock market has struggled in the twelve months leading up to midterm elections. Since 1926, this pre-midterm period has produced below-average returns, including the most recent midterm cycle when the market declined 22.1%.[3] While markets have often rebounded strongly after midterm elections, the path getting there has frequently been volatile.

- **Rising concentration**: Since the advent of ChatGPT in 2022, there has been excitement around a narrow group of technology and AI-oriented companies. Today, the ten largest companies represent just under 40% of the entire S&P 500—nearly double the long-term average.[4] When performance becomes this concentrated, markets can become more sensitive to disappointment, whether from earnings, regulation, or shifts in investors' emotions.

One reason this concentration in a few stocks matters is the potential for a broader economic "ripple effect." As we mentioned in our last newsletter, the top 10% of American households now own roughly 87% of all stocks and are responsible for more than half of total consumer spending.[5] If a stock market pullback were to impact these households meaningfully, they would likely reduce their spending—slowing economic growth in an economy where consumption drives nearly 70% of overall activity.

Such a scenario could catch many investors off guard, not because it would be unprecedented, but because recent history has been unusually forgiving. Over the past sixteen years, the average market downturn has taken only about eight months to recover back to a new all-time high.[6] That experience has conditioned investors to expect quick rebounds, even though history tells us that recoveries have not always been so swift. In fact, over the past century, a bear market that coincides with a recession has taken 81 months or over 6.5 years to reach its previous all-time high.

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Importantly, none of this suggests that we are reliving the dot-com era. During the late 1990s, corporate earnings grew roughly 79% while stock prices surged nearly 480%. Today, earnings growth has been similar, while stock prices are up closer to 121%—a far more grounded relationship.[7] Additionally, many of today's market leaders are highly profitable businesses rather than speculative ventures dependent on future promises or revenue.

With that context in mind, we believe this environment calls for discipline rather than dramatic shifts. After multiple years of strong equity returns, it is natural—and healthy—for investors to revisit their portfolio positioning. For example, a traditional 60% stock and 40% fixed income portfolio constructed in 2020 would today resemble closer to a 76/24 allocation if left untouched, simply due to stock appreciation.[8] The start of the year is an ideal time to confirm that your portfolio still aligns with your comfort level and long-term objectives.

Additionally, in this environment, we continue to favor quality and size over growth and speculation. Large-cap companies today enjoy significantly higher profitability than their smaller counterparts, with profit margins near 15.7% compared to roughly 5.9% for small-cap companies.[9] This profitability provides resilience during periods of volatility. We also believe dividend-paying companies deserve particular attention. Recent studies show S&P 500 dividend-paying stocks returned 9.2% annually over the past 50 years—more than double the 4.3% return of non-dividend payers, with lower volatility.[10]

While risks are higher than they were earlier in the cycle, that does not mean investors should expect or prepare for an inevitable major correction. History has consistently shown that attempting to guess the future—whether by timing exits or reacting to forecasts—has been far less effective than staying invested with a thoughtful, high-quality portfolio.

Predictions will continue to dominate headlines, especially at the start of the year. But investors who remain focused on probabilities, diversification, and discipline—rather than forecasts—are more likely to be rewarded over time.

Wishing you a wonderful 2026,

The Glen Eagle Investment Team

1. Buffett, W. Berkshire Hathaway Annual Commentary **2.** A Wealth of Common Sense – "The Biggest Risk in 2026." **3.** U.S. Bank Wealth Management "How Midterm Elections Affect the Stock Market" **4.** JPMorgan Guide to the Markets **5.** Wall Street Journal, Markets AM – "We Might Really, Really Need a Rate Cut." **6.** WSJ "Why We Could Use a Good, Long Bear Market" **7.** Blackrock Student of the Market November 2025 **8.** Barrons "Retirees, It's Time for Your Year-End Portfolio Review. Here's What to Do." **9.** A Wealth of Common Sense – "Animal Spirits: The Best Performing Stocks of 2025." **10.** Hartford Funds and Ned Davis Research, "The Power of Dividends: Past, Present, and Future" (1973-2024)