Happy New Year! Welcome to 2026.

Global equity markets carried their momentum into year-end, holding gains through the final quarter despite persistent concerns around trade tensions and a potential AI bubble. Valuations nonetheless finished higher across most major markets, with the S&P 500 delivering its third straight year of double-digit returns. While impressive, we are cautious about a repeat performance in 2026 given the growing concentration within the index.

Beneath the surface, macro fundamentals remain constructive. GDP and corporate earnings continue to expand, inflation is trending lower, and the Federal Reserve appears poised for another rate cut this quarter. Energy markets are well supplied, keeping oil prices in check. Taken together, these dynamics provide a supportive backdrop for the U.S. consumer and equity valuations. We remain positioned with the conviction that current opportunities outweigh the prevailing risks

Market Performance:

S&P 500:	17.7%
S&P 400:	8.1%
Russell 2000:	13.4%
NASDAQ:	20.5%
MSCI World ex-US:	34.2%
US Agg. Bond	7.2%

Growth stocks slightly outperformed Value in the US. Value-oriented European and emerging market equities held their significant gains from the previous quarter. Large capitalizations continue to outperform small in the US. We await a shift of this in a late stage rally.

Portfolio Positioning

We continue to employ watchful waiting. Gold has been perplexing, rising to new highs despite moderating inflation, expectations for rate cuts, and the potential for easing global conflicts—conditions that would typically favor equities and run counter to gold's traditional role as a "fear trade."

Consensus expectations for interest rate policy in 2026 point lower, yet the 10-year Treasury yield has remained stubbornly range-bound. This yield remains a key anchor for home financing; a sustained decline would likely provide meaningful support to U.S. housing activity.

Our concern regarding concentration in the S&P 500 is valuation-specific rather than directional. We do not believe 2026 is destined for negative returns. However, following three exceptional years, history suggests that index-level returns are more likely to be muted.

Overall, we remain positioned neutral to our strategic targets. Each portfolio is guided by a custom model, designed to avoid the pitfalls of groupthink that can lead to poor outcomes in long term portfolio management. This year is no different. We trust the process and adjust as conditions warrant.

Themes for 2026

In short, valuation awareness defines our thinking as we enter the new year. Large U.S. technology companies should continue to make progress, and rate cuts would provide additional support. That said, these names remain expensive. Rather than chasing returns, we are focused on broadening exposure beyond the mega-cap segment—specifically toward smaller capitalizations and targeted sector opportunities.

We continue to favor energy, where ample supply and reasonable pricing remain supportive of the U.S. consumer, a key driver of GDP growth. Healthcare and biotechnology also remain areas of interest, offering innovation and a global need with ageing populations. Defense and infrastructure are similarly compelling; even in a scenario where global conflicts de-escalate, these long-term initiatives require patient capital and offer reasonable valuations. Finally, we are watching closely as artificial intelligence transitions from excitement to execution, particularly within software and services… shifting from stories to cash flow.

We look forward to connecting soon.

-Fountainhead Financial, LLC.