

January 2026

# Quarterly Market Strategy Report

## 2026: A YEAR OF RISK, BUT GREAT PROMISE

2025 was an excellent year for stockholders. The Dow Jones Industrial Average gained 13%, the S&P 500 gained 16%, the Nasdaq Composite inked a gain of 20%, and the Russell 2000 index rose 11.3%. But it was not just about US equities; many foreign markets outperformed the US. Even though the S&P 500 nearly touched 7,000 and the Dow Jones Industrial Average surpassed 48,000, gold also peaked at \$4,500 per ounce before closing the year at \$4,326, up 65%. Silver, however, was the star performer, closing at \$70.13, up 142% for the year. Bitcoin went on a wild ride climbing above \$125,000 in October before closing the year at \$87,691.92.

Yet what may be most important about the 2025 equity market was that it was the third consecutive year of double-digit gains in all three averages. The last time all three indices had three or more years of double-digit gains was the five years of double-digit gains from 1995 to 1999. The good news about this comparison is that double-digit gains continued for two more years and later became known as the Dot-com bubble. The bad news is that this bubble ended in early 2000 and was followed by three consecutive years of annual losses.

There were several more examples of double-digit equity gains. The Dow Jones Industrial Average and S&P 500 had three consecutive years of double-digit gains in 1943-1945 and 1949-1951 (four years for the Dow Jones Industrial Average). These two rallies were followed by a year of negative equity performance in 1953. The Nasdaq Stock Market did not begin operations as the world's first fully electronic stock market until February 8, 1971, and the more volatile Nasdaq Composite Index had three consecutive years of double-digit gains on its own in 1978-1980, 1991-1993 and in conjunction with the S&P 500 in 2012-2014 and 2019-2021. Each of these periods was also followed by a full year of negative or flat performance for equities. In short, three consecutive years of double-digit gains have a long history of predicting losses in the succeeding year.

### Summary

Solid earnings growth is the strongest factor supporting equities in 2026; but there are risks. The Supreme Court is yet to rule on the legality of tariffs, which has been core to the Trump administration's economic policy. The rising cost of healthcare is a hardship for many households, and we see no sign that Congress will tackle the problems related to Obamacare. The job market displayed signs of weakness at the end of the year, and declining employment is a big risk for the overall economy. Last but far from least, history shows that three consecutive years of double-digit gains in the equity market is typically followed by a negative year.

Nevertheless, 2026 has the potential to be another excellent year for investors.

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This performance history certainly presents a risk for equities in 2026. But when we study these various markets, we believe today's market is most closely comparable to the 1990 era. There is one obvious similarity. The 1990 era was the dawn of the internet, the current cycle is the dawning of artificial intelligence, and both periods saw the stock market led by a small group of stocks related to these technological advances. But there are also important differences. While today's market does have excitement about the growth and productivity related to artificial intelligence, it does not demonstrate the mania seen at the end of a bubble. In fact, some investors have become skeptical about the return on investment (ROI) related to artificial intelligence and are now asking for measurable returns in upcoming quarterly earnings reports. This is not symptomatic of a bubble peak. From a technical analysis perspective, sentiment indicators have been displaying more skepticism than optimism in recent weeks. This is the opposite of a mania.

In the 1990s era there were several technical indicators that warned that the equity market was vulnerable. The NYSE advance/decline line peaked in 1997 and suffered three years of breadth divergence before the S&P 500 peaked in early 2000! This meant a few large capitalization stocks drove the indices while the broader market was left behind (and declined) for a long time. So, it is notable that the NYSE advance/decline line made a new high on December 25, 2025, confirming the new highs in the market and indicating that 2025 was a broad-based advance. Speculation and credit expansion define the end of a bubble market, and while margin debt was expanding at the end of 2025, it was not rising at the pace seen in 1999.

Most importantly, in the Dot-com era many of the leading internet-related companies were merely concepts and had no earnings at all, only growth "potential." This may be the most important difference between a bubble peak and the current market. Many of today's market leaders are linked to artificial intelligence but are both demonstrating exceptional earnings growth and are the major drivers of S&P earnings. Very simply, today's market has real companies with real earnings growth. Using S&P's current estimates, S&P 500 earnings are expected to grow 14.3% year-over-year in 2025, which is well above the long-term average of 8.1% year-over-year. And note that this was in sharp contrast to a year that many forecasted to be troubled by tariff-induced stagflation. Neither inflation nor stagnation proved to be accurate, and we expect 2026's economy and earnings will again be better than anticipated.

#### OUR 2026 FORECASTS

We expect good economic activity this year and our estimate for 2026 GDP is 3.4% year-on-year, which is above the long-term average of 3.2%. Our 3.4% growth rate would represent the strongest economic activity since the post-pandemic rebound in 2021. However, the significant difference between the two years is that we expect 2026's economy will be driven by fiscal policy that encourages business investment and consumer spending versus the fiscal and monetary

Our forecasts for 2026 include GDP of 3.4%, inflation easing to 2.2% YOY, earnings growing 14% YOY, and price earnings multiples remaining unchanged at 26 times. Applying a 26 multiple to our S&P 500 earnings forecast of \$315 translates into an S&P 500 target of 8190. This represents a gain of 18% YOY.

There are similarities between the current market and the market of the late 1990s. Both markets were driven by advances in technology. In the 1990s it was the dawning of the internet, and the current cycle is linked to artificial intelligence. However, the major difference between these two cycles is that many of the leading internet-related companies in the 1990s were merely concepts and had no earnings. The current environment is led by AI-related companies which are demonstrating exceptional earnings growth.



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stimulated growth seen in 2021 which focused on government spending and increasing money supply (both of which proved to be inflationary). In fact, some of the stimulus from the past administration is slowly leaving the system which we expect will be a drag on some parts of the market but will not overwhelm the broader economy.

Based upon our GDP forecast, we are raising our 2026 S&P 500 earnings forecast from \$310.50 to \$315, which reflects a 16% YOY increase. This is slightly better than the anticipated 14% earnings gain currently seen for 2025. We are also raising our 2027 earnings forecast of \$345 to \$350 to reflect an 11% YOY gain. Note that all three earnings growth rates are greater than the long-term average of 8.1%, nevertheless, we believe our forecasts could prove too conservative.

At the same time, we expect inflation to fall to 2.2% YOY and productivity to rise due to decreased government regulation and implementation of AI. Inflation is expected to ratchet lower in 2026 supported by the fact that crude oil prices are currently below \$60 a barrel and increasing supply should keep prices below \$70. This implies that price-to-earnings multiples should remain stable or move higher. The trailing PE multiple of the S&P 500 index has hovered around 26 times for most of the last twelve months and we do not expect this to change. If we apply the current 26 times PE multiple to our earnings forecast of \$315, we get an S&P 500 target of 8190, which represents a gain of 18% in 2026. It is worth noting that the trailing PE in 2000 reached 29-30 before the equity market peaked.

In sum, there are many reasons to be bullish about equities in 2026, and solid earnings growth is the strongest factor. But no market is without risks. The Supreme Court is yet to rule on the legality of tariffs, and this has been core to the Trump administration's economic policy. The rising cost of healthcare is a hardship for many households, and we see no sign that Congress is looking to tackle the problems related to Obamacare. And finally, the job market displayed signs of weakness at the end of the year. Declining employment is the biggest risk factor for the 2026 economy. Nevertheless, this year has the potential to be another great year for economic activity, corporate earnings, and investors.

We are optimistic about the US economy and stock market for 2026, but there are risks. The fact that three consecutive years of double-digit gains in equities is often followed by a down year is one risk. But the Supreme Court ruling on the legality of the administration's tariff policy is another factor. The rising cost of healthcare will be a political issue in 2026 and could depress overall consumer spending. Last, but far from least, job growth slowed at the end of 2025 that could have significant implications for the next twelve months.



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