

Breadth is Back | 01.16.2026

The stock market is off to a solid start in 2026, with the S&P 500 up a little over 1% and hovering just below an all-time high. More notable, though, is that the market's gains are being shared more evenly, rather than being driven by just a handful of the largest companies. After several years of technology-led performance, a gradual shift toward broader participation across stocks and industries began late in 2025 and has carried into the new year. A resilient economic backdrop, ongoing fiscal and monetary stimulus, and some fatigue in the Artificial Intelligence (AI) trade are collectively helping drive this shift.

That improving breadth is also important when interpreting today's valuation backdrop. Heading into 2026, stock valuations are broadly elevated but not extreme. While the AI-driven surge has pushed overall market price measures to levels similar to the late 1990s dot-com era, that figure is driven by a few giant tech firms that dominate the index and benefit most from the AI boom. These companies are growing their businesses at an unusually fast pace, which helps justify why investors are willing to pay higher prices for their stocks. Importantly, the typical stock is valued much more reasonably compared with history, and where valuations are high, they are usually supported by strong company profits.

Looking ahead, analysts expect earnings growth for the average stock to improve as the year progresses. Over the past two years, mega-cap companies have been responsible for the bulk of the S&P 500's exceptional earnings growth, but that dynamic is beginning to shift. As the AI titans face tougher year-over-year comparisons, and the rest of the market benefits from a solid economy and government and central bank support, profits are expected to become more balanced. By the end of the year, profit growth for both groups is expected to converge around 16%.

This environment may create opportunities among stocks that are priced more modestly. Investors continue to pay a big premium for companies expected to grow quickly compared with more mature businesses, and that premium remains unusually large. As profit expectations improve for traditional businesses that depend on the broader economy, the valuation gap may begin to narrow. In short, how individual companies perform is becoming more important again, creating a more favorable environment for thoughtful stock selection.

While 2026 brings challenges, such as ongoing geopolitical uncertainty and the ups and downs often seen during U.S. midterm election years, the underlying foundation for stock performance remains solid. More types of companies joining in the market's gains, improving profit expectations beyond the largest technology companies, and generally reasonable valuations for the average stock all support a constructive outlook. In this environment, disciplined stock selection and a focus on company basics are likely to be rewarded, even as investors navigate the inevitable ups and downs along the way.

Thanks,
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