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After a choppy November, stocks are off to a solid start in December. The S&P 500 is just below its all-time high and is getting a boost from typical year-end trends. Historically, December has been a strong month for stocks, especially when the market has been trending upward for most of the year. While concerns are growing around the sustainability of investment in AI chips and infrastructure, the broader economy appears to be finding firmer footing. With government spending and lower interest rates expected in 2026, along with strong earnings forecasts, the outlook for stocks remains positive.

At the same time, skepticism is growing around the durability of the AI trade. Spending on equipment and technology has surged, but questions remain about how quickly these investments will translate into sustainable revenue growth and meaningful returns. Investors are also debating who will ultimately emerge as the leader in AI, as performance differences among models become more apparent. This cautious sentiment has led investors to slowly shift away from some of the early AI front-runners.

Beyond the AI debate, recent economic signals have been increasingly encouraging. Weekly jobless claims fell to their lowest level in more than three years, while announced layoffs dropped sharply in November, suggesting that firms are holding back on broad cuts. Although private payrolls declined more than expected, investors appear to be betting that the worst is behind us. Industries that tend to rise and fall with the economy—like manufacturing and banking—are showing renewed strength, and transportation stocks are sending a positive signal for overall growth. Overall, confidence appears to be gradually returning.

Looking ahead to 2026, there are reasons for cautious optimism. A wave of fiscal stimulus from the *One Big Beautiful Bill Act (OBBBA)* is expected to support growth, while further interest rate cuts by the Federal Reserve could make borrowing cheaper and help support investments, such as stocks. At the same time, 2026 is a midterm election year, which has historically been a period of heightened market volatility. Since 1960, midterm election years have seen average market declines of roughly 19%, reflecting investor caution around political and policy changes. History shows that after elections, markets often bounce back strongly, with average gains of more than 30% from their lowest point within a year. This pattern suggests that while investors should be prepared for short-term swings, the medium-term outlook for equities remains constructive.

While risks remain, from AI uncertainty to midterm election volatility, the combination of a stabilizing economy, renewed strength in economy-sensitive industries, and expected government spending, along with lower interest rates, creates a positive outlook for stocks. Short-term swings are likely, but the market appears positioned to carry momentum into 2026, rewarding investors who stay focused on fundamentals and the bigger picture.

Thanks,
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