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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **January 7, 2026**

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Last week's S&P 500 Index: -1.0%

Trendlines not headlines

Key takeaways

- We are looking through the headlines and see economic and policy trends that should drive the economy and capital markets in 2026.
- Focus on the trends that will drive innovation, the economy, and earnings, all while keeping an eye open for new opportunities.

2025 certainly created lots of headline fatigue around rapid and sometimes abrupt changes, both in government policies and in the technological revolution that is artificial intelligence (AI). But we are looking through the headlines and see economic and policy trends that should drive the economy and capital markets in 2026.

We are focused on four key trends this year: the resiliency of AI-related capital expenditures that will positively impact a number of segments of the economy, big consumer tax refunds this spring and other business-tax enhancements, the Federal Reserve continuing to lower interest rates, and deregulation.

Perhaps the most important trend is the current wave of technological advancements in AI. The potential for this technology to be an economic and productivity enhancement driver helped push the S&P 500 to a series of record highs last year. Virtually all of the largest publicly traded companies in the world are closely tied to the AI revolution. The two best performing sectors in 2025 were Information Technology and Communications Services, both of which have a high concentration of tech and tech-like companies that are on the forefront of AI development and usage.

Productivity is a buzzword we expect to hear even more of in 2026 versus last year as companies look to operate in an environment that features a tighter labor supply and tariffs. Protecting operating margins by reducing costs, increasing automation, and improving operating productivity through the use of AI will continue to be a theme this year.

But the tentacles of the AI revolution are reaching well beyond the Tech and Communications Services sectors. Our guidance reflects an effort to retain meaningful exposure to the secular AI trend through full allocations to these two sectors but to also look at other sectors that will benefit from the infrastructure build-out required to employ this technology. Companies that are building the data centers needed to power the surge in AI demand are in the Industrials sector. And, of course, the electrical power needed to run these data centers will be supplied by companies in the Utilities sector.

Many of our regular readers may have noticed over the course of the last year that some internet search engines and online retailers have been using AI to do everything from consolidating and summarizing search results to making purchase recommendations for their users. These are very early stage productivity-enhancing applications that consumers currently use in their everyday lives and represent just a hint of the promise of even greater benefits that lie ahead in the coming years.

Industry segments such as Midstream Energy and Machinery, Electrical Equipment, and Data Center Real Estate Investment Trusts (REITs) include companies that are emerging as critical contributors. In addition, the increased electrical-power demands leave us favorable on Industrial Metals, such as copper.

Focus on the trends that will drive innovation, the economy, and earnings in the quarters ahead, all while keeping an eye open for new opportunities.

Risk considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Technology** and internet-related stocks, especially of smaller, less-seasoned companies, tend to be more volatile than the overall market.

Sector investing can be more volatile than investments that are broadly diversified over numerous sectors of the economy and will increase a portfolio's vulnerability to any single economic, political, or regulatory development affecting the sector. This can result in greater price volatility.

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