



## ARGUS ECONOMIC COMMENTARY

December 15, 2025

### The Argus Research 2026 Outlook

On December 3, 2025, the Argus team presented the “Argus Research 2026 Outlook” in webinar form. Below we include synopses of the commentary from Director of Economic Research Chris Graja, CFA, Fixed Income Strategist Kevin Heal, Director of Research Jim Kelleher, CFA, and Argus President John Eade.

#### 2025 Review

While our focus is on our forecasts for the year ahead, a quick look backward shows that U.S. stock indices are all positive for 2025, including the S&P 500 being up over 15%. At this late date in 2024, however, the S&P 500 was up over 25%. A variety of factors have caused bullishness to wane somewhat. These include concerns that after three strong up years, valuations in the stock market are being stretched. We are coming into the weakest year of the four-year presidential cycle. We have also noted cracks in the foundation of the AI trade, which has carried the market on its broad shoulders since the launch of ChatGPT in November 2022.

In 2025, most major indices are advancing more or less in lockstep, with the gains in the Nasdaq and the S&P 500 within a few percentages points of each other. The Nasdaq is four to five points ahead of the S&P 500, while the DJIA is four to five points behind. That mirrors 2024 and stands in contrast to 2023, when the Nasdaq Composite rose nearly twice as much as the S&P 500, and the DJIA was deeply lagging. The biggest driver of tighter relative performance across the major indices is the predominance of the biggest stocks (NVDA, AAPL, MSFT, and other Magnificent Seven and adjacent stocks) that now dominate not only the Nasdaq Composite but the S&P 500 as well.

Within the S&P 500, and as of mid-December, seven of the 11 U.S. sectors are up in double-digit percentages for 2025, in an echo of 2024. In 2023, the S&P 500 rose more

than 20%, but only three sectors were strong, while the other eight had an average gain of less than 4%.

In 2025, the two growth sectors -- Information Technology and Communication Services -- are atop of the leader board. They are followed by Industrials, Utilities, and Healthcare -- sectors with cyclical, rate-sensitive, and defensive characteristics. In our view, this sector breadth is an important feature of the 2025 U.S. stock market and a very positive indicator for 2026.

In December 2024, we provided base-case, bull-case, and bear-case scenarios for 2025. The 2025 year has unfolded mainly in line with our base case. We said that GDP growth would average in the 2% range in 2025 and that the economy would avoid recession. We forecast that inflation would fall toward 2.0% by year-end (stubborn inflation currently is above 2.5%). We said the Fed would maintain its rate-cutting program and it did, although the FOMC’s rate cuts like those in 2024 were back-weighted to the final months of the year. We forecast that S&P 500 earnings would rise in low-double digits, and the final tally may be closer to mid-teen percentages. The S&P 500 is trading near the high end of our base-case forecast for a 10%-15% rise.

Most tariffs were announced in April 2025 and implementation started in August, although some tariffs are still being negotiated. Our bullish- and bearish-case scenarios were both influenced by how tariffs might impact the economy. So far, tariffs have had a muted impact on the overall economy, although we have yet to experience a full year of trade levies.

**Director of Economic Research Chris Graja, CFA**  
Chris has had to “fly blind” in recent months, given the

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## ECONOMIC & MARKET COMMENTARY (CONT.)

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embargo on government economic data during the federal government shutdown and now the delayed and partial release of missed reports. Drawing on private data and the first trickle of government data, Chris believes the U.S. economy is healthy and growing, powered by resilient and employed consumers.

Based on the most-recent nonfarm payrolls data for September, the unemployment rate is 4.4% -- still healthy, although up from the 2023 low point of 3.4%. September nonfarm payrolls increased by 119,000, more than doubling the 50,000 consensus call. The three-month average gain of 62,000 is up from 22,000 as of August, though down significantly from the 2024 average of 184,000.

Weekly jobless claims in the 220,000-240,000 range are still below the 300,000 level seen as a “recession flag.” The job market remains in a “low-hire, low-fire” phase. Fewer people are quitting or switching jobs, and higher-paying jobs are now harder to find. At the same time, layoffs of about 1.1 million in 2025 are the highest since the pandemic year of 2020, according to Challenger, Grey, and Christmas.

Although layoffs have risen, that is within a U.S. employment base exceeding 160 million. Skilled workers are scarce, severance is expensive, and the economy is growing. In this environment, we expect employers to hang onto most of their workers and ride out any periods of softer economic growth. Immigration trends and the declining rate of native-born births are impacting the labor force. At current levels of population growth, monthly job gains in the 30,000-70,000 range should be enough to hold unemployment in the 4.2%-4.5% range.

The “Misery Index” consists of the sum of the Consumer Price Index (CPI) plus the unemployment rate. With an unemployment rate near 4.4% and CPI inflation running at about 3%, the current Misery Index is 7.4%. That is below the long-term average of 9.2% since 1949. We see more risk to the index from unemployment rising than from inflation reviving, although potential pass-along of tariffs from businesses to consumers remains a moderate risk. Based on consensus, the Misery Index will peak near 7.6% in 2Q26. We see this index as an objective indicator to watch ahead of the mid-term elections.

Chris believes that AI is underpinning healthy economic growth. Capital is funding productive innovation. In the race to not be left behind, companies are willing to invest in AI-fueled innovation to drive productivity – which is particularly vital to GDP growth in a period of slowing population growth. During 3Q25 earnings calls, we noted increasing frequency of CEOs discussing AI investments and benefits. As AI spreads out from the hyperscaler data center to enterprise verticals, certain sectors such as Financial and Healthcare are emerging as early adopters.

Beyond our usual one-year scenario analysis, Chris

analyzed materials from various government and nongovernment agencies to model the U.S. economy 10 years from now. His 10-year forecast out to 2036 includes GDP growth just under 2%, personal consumption expenditures (PCE) in the 2% range, unemployment around 4.2%, and CPI inflation of 2.3%. In terms of the interest-rate environment, the 10-year-out consensus is pointing toward a fed funds rate near 3.0%, a 10-year Treasury bond yield of 4.3%, and a 30-year mortgage rate of 6.0%. Chris also looks for the S&P 500 to be trading just above 23-times in 2036. Many of these forecast levels for growth and interest rates are reasonably close to current levels.

### Fixed Income Strategist Kevin Heal

Like Chris, Kevin has had to do without key data during the government shutdown. But the Federal Reserve’s Federal Open Market Committee (FOMC) continued to meet, and their actions and commentary provided insight during the information vacuum. Kevin’s key takeaway is that prices are under control, amid the cross currents of lower fed funds and short-term interest rates and still-unfolding tariff and macro-economic impacts.

At Argus, we look at over 20 different price indicators. On average, these indicators show a lower rise in goods prices partly offset by stubbornly high services prices. The increase in shelter costs, which comprises up to one-third of total consumer spending, has finally started to moderate.

The Federal Reserve has a stated goal of maintaining inflation near 2%, but even the Fed has noted that getting there has been a bumpy process. After raising rates aggressively throughout 2022 and early 2023, the Fed maintained its policy rate at 5.25%-5.50% from September 2023 until August 2024. Beginning in August 2024, the Fed cut rates by a cumulative 100 basis points (bps) over the next three FOMC meetings. The Fed remained on the sidelines for the first nine months of 2025 and then cut the fed funds rate by a quarter point in September 2025 and again at the end of October.

As of this writing, Kevin expects an additional 25-bps cut at the December meeting. He then anticipates just one more rate cut in the first half of 2026. Assuming those cuts are made, he expects no further cuts in the second half of 2026. These two additional cuts would enable the fed funds rate to settle at around the 3.0% level, regarded as a neutral level (neither restrictive nor accommodative).

The big event for the Fed in 2026 is not about monetary policy but about leadership. Current Fed Chair Jerome Powell’s term expires in May 2026. The Trump administration wants to install a central bank leader supportive of the president’s policies, which would likely entail bringing the fed funds rate down by an additional percentage point at least. Kevin sees risks that the new appointee may be under pressure to cut right away, even if inflation dynamics

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## ECONOMIC & MARKET COMMENTARY (CONT.)

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do not support such a move. The Fed's independence is critical on the global stage, Kevin noted.

Inflation and Fed policy are not the only factors influencing market rates of interest and the Treasury yield curve. Total U.S. sovereign debt is now at 120% of GDP, meaning Treasury issuance can "crowd" the bond market and drive up yields. On the other hand, the Fed has wrapped up its quantitative tightening program and is now allowing assets to roll off its balance sheet upon maturity. That should provide some support for longer-term bonds. Kevin also noted that the emergence of stablecoins could create demand at the short end of the curve.

In the fall of 2024, the U.S. Treasury curve finally turned positive after being inverted for two years. Lower inflation, ongoing economic growth, and Fed cuts to date have returned the yield curve to its normal slope. We look for the slope to steepen further in 2026 as shorter-term rates head lower and longer-term rates drift down or remain near their current levels. A more-upward slope in the curve has positive implications for economic growth, Kevin believes.

### Director of Research Jim Kelleher, CFA

Heading into 3Q25 earnings, Jim was looking for low-double-digit EPS growth. Final 3Q EPS growth was closer to mid-teens. Over four-fifths of companies topped expectations, and the magnitude of the earnings beat against consensus was at the high end of the historical 5%-9% range.

We were encouraged by very strong 8% revenue growth, although some of that is driven by inflation and tariffs. Operating margins in 3Q EPS were above the midpoint of the historical 9%-14% range. That shows that companies have adapted to tariffs by shifting supply chains to local resource and flexing variable costs when possible. Given that large technology companies increasingly drive market EPS growth, we look for higher margins going forward.

The main driver of 2025 earnings strength has come from the biggest part of market: Information Technology and Financial. We also look for good growth in Industrial earnings, and are beginning to see a turnaround in Healthcare earnings. We expect less of a drag from sectors that were negative in 2024, mainly Energy and Materials. As AI drives earnings, the smaller sectors become less relevant, and we would focus on market drivers.

For 2025, our forecast for S&P 500 earnings from continuing operations is \$270. For 2026, our forecast remains \$300. Our estimates continue to call for high-single-digit to low-double-digit EPS growth over the next two years.

Beyond earnings, a notable feature of solid 2025 market performance has been sector breadth and the lessened reliance on the usual growth sector leaders. In 2023, the first year of AI frenzy, only the growth leaders beat the market, and the remaining eight sectors averaged 4% capital appreciation.

In 2025, as of this writing no sector is down for the year to date. Sectors that are up in single-digit percentages

for 2025 to date include (in ascending order) Consumer Staples, Real Estate, Energy, Consumer Discretionary, and Industrials. Sectors that are up in double-digit percentage for 2025 to date include (in ascending order) Financial, Materials, Healthcare, Communication Services, Utilities, and Information Technology. This level of sector diversity is positive not only into year-end but also as a table-setter for 2026.

Our Stock/Bond Barometer asset-allocation model slightly favors bonds but it within a normal range. Price based S&P 500 multiples including price to earnings, price to sales, and price to book are above the five- and 10-year averages. But the S&P 500 itself has changed, with fast-growth Information Technology and Communication Services now dominating. The S&P 500 market cap is now about \$60 trillion, and just three companies -- NVDA, AAPL, and MSFT -- comprise about \$12 billion, or 20%, of that market cap.

The rise of generative AI arguably is turning every company into a technology company. We expect continued margin expansion across the S&P 500 as companies in every sector replace inefficient processes with digital and AI solutions. This too supports higher valuation multiples. We also see the decline in interest rates and inflation as favorable, given that high rates impact debt service and inflation makes everything expensive.

A key risk in the outlook is that earnings fail to grow due to a softer global economy. We also see risks that inflation could return due to tariffs and other policies, causing the Fed to turn restrictive and leading to higher rates.

The VIX Volatility index tended to trade in the 20 or above range for most of the 2020-22 period, as investors navigated the pandemic, the supply-chain crisis, and spiking inflation. The VIX has been below 20 for most of 2025, with notable spikes in April around the Liberation Day tariff announcements. The VIX was also above 20 in parts of October and November, on concerns about a potential AI bubble along with anxiety about the government shutdown.

Is there a stock-market bubble? We do not see the current situation as comparable to the "dot-com" era, which led to the 2000-2002 market collapse, or the sub-prime period, which led to the 2008-09 recession. In those periods, valuations in the market did not reflect the reality of what was to come. Across the entire current market, in our view, real earnings growth is underpinning valuations.

Is there an AI bubble? We do expect the AI trade to be similar to what we saw with the development of cloud in the past few decades: periods of growth alternating with periods of slowdown. AI is spreading out from compute for hyperscaler data centers to other technology niches, including networking, storage, and software; and to multiple industries and governments. In our view, that should alleviate concerns about the insular nature of AI spending in the first years of the AI revolution.

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## ECONOMIC & MARKET COMMENTARY (CONT.)

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### Argus President John Eade

As we measure historical performance across the entire presidential cycle, we find that stock market returns are typically highest in the first and third years of a president's term. Why is the first year often a good one for stocks? Generally, there is enthusiasm for the president's win and potential new policies. Also, the economy is often riding high after a wave of fiscal spending in the months heading into the election.

The second year of the presidential cycle has been the worst of the four-year cycle, with average full-year gains on the S&P 500 in the 5% range. The honeymoon phase of the first year is over, and mid-term elections are looming. Mid-term elections are often a challenge for the incumbent party, although the current redrawing of district maps represents a new complication.

Beyond the presidential cycle, another challenge facing the market in 2026 is that it is hard to "three-peat." The average gain on the S&P 500 since 1960 has been about 11%. Over that time, the S&P 500 has registered double-digit gains for two consecutive years a total of 16 times. But following those 16 two-year periods, the average gain in year three was 2%; and in eight of those years, the index recorded losses.

A key takeaway is that the long-term trend in the U.S. stock market has been higher. Going back to 1960, the S&P 500 has turned in positive annual performances almost 75% of the time. By deciles, annual returns most often fall in the 10%-20% range, which has happened 16 times since 1960. In second place, perhaps surprisingly, is the 20%-30% range, which has occurred 13 times, including in 2023.

Despite a deep correction in April 2025 related to tariff "sticker shock," the bull market continues. The S&P 500 has risen approximately 90% from its bear-market lows of 3,577 on October 12, 2022. We have studied the 13 bull markets that have occurred since the end of World War II. On average, the S&P 500 gained 164% during these 13 periods, which averaged 57 months or almost five years in duration.

We also note that the recent bull markets have generat-

ed higher returns over longer periods. On average, the five bull markets since 1980 have seen stocks advance about 240% over a period of 70 months. And the bull market prior to the pandemic carried on for 11 years, during which stocks rose 500%.

Whereas the 2009-2020 bull market began with stocks deeply depressed on valuation, stocks are near fair value in the current market environment. Even so, if rates continue to head lower on mild inflation news, while earnings growth accelerates and the economy avoids a recession, then this bull market, led by the performance of disruptive technology companies, could have room to run.

Here are our base, bull and bear cases for 2026. In a bullish scenario, GDP strengthens and EPS grows in mid-teens as trade wars settle down. Demand for long-term Treasuries grows and the 10-year yield works down to 3.75%, which is favorable for mortgage rates. As AI bubble fears recede, the bullish case calls for a 15%-20% rise in stocks.

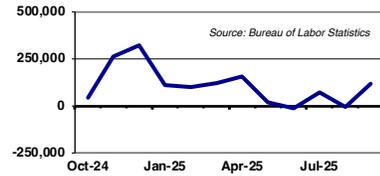
In a bearish scenario, stock momentum stalls and margins compress as AI fails to deliver promised innovation and efficiencies. A new Fed chair might push for lower rates even amid inflation pressures. With IT no longer leading the market, stocks endure a correction phase, and the bull market that began late in 2022 turns out to be below average.

Our base case reflects our thinking on the economy, interest rates, employment, currencies and commodities, geopolitics, and the U.S. corporate culture of innovation. In this base case, GDP growth remains at about 2% and the U.S. again avoids recession. S&P 500 continuing-operations earnings grow at a low-double-digit percentage rate. The core inflation rate falls to the 2.5% range by year-end. The Fed maintains its go-slow rate-cutting program, with just one rate cut in 2026, helping the dollar to stabilize and strengthen. In this base case, the S&P 500 advances a below-average 5%-10% for 2026. That forecast is more in line with S&P 500 equal-weighted index than with the broad index, where returns are unduly influenced by the Mag 7 stocks. Early in the new year and depending on the stock market's movements into year-end 2025, we will publish our target for the S&P 500 at year-end 2026.

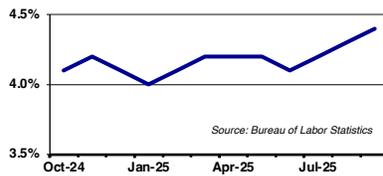
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# ECONOMIC TRADING CALENDAR

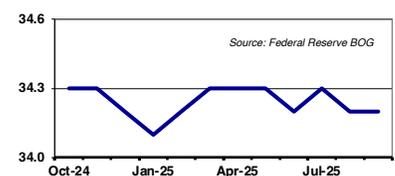
Release: **Nonfarm Payrolls**  
 Date: 12/16/2025  
 Month: November  
 Previous Report: 119000  
 Argus Estimate: 20000  
 Street Estimate: 33000



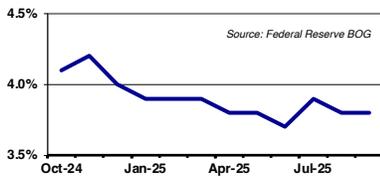
Release: **Unemployment Rate**  
 Date: 12/16/2025  
 Month: November  
 Previous Report: 4.4%  
 Argus Estimate: 4.5%  
 Street Estimate: 4.4%



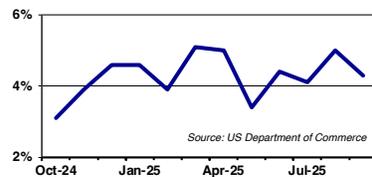
Release: **Average Weekly Hours**  
 Date: 12/16/2025  
 Month: November  
 Previous Report: 34.2  
 Argus Estimate: 34.2  
 Street Estimate: 34.3



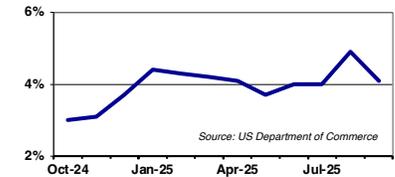
Release: **Average Hourly Earnings**  
 Date: 12/16/2025  
 Month: November  
 Previous Report: 3.8%  
 Argus Estimate: 3.7%  
 Street Estimate: 3.7%



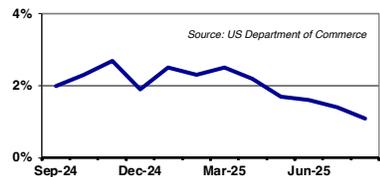
Release: **Retail Sales**  
 Date: 12/16/2025  
 Month: October  
 Previous Report: 4.3%  
 Argus Estimate: 3.9%  
 Street Estimate: NA



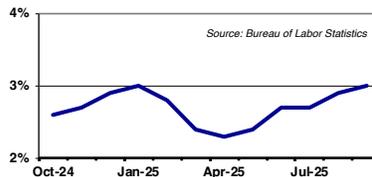
Release: **Retail Sales ex-autos**  
 Date: 12/16/2025  
 Month: October  
 Previous Report: 4.1%  
 Argus Estimate: 4.0%  
 Street Estimate: NA



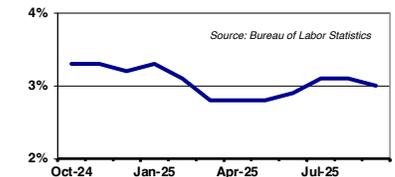
Release: **Business Inventories**  
 Date: 12/16/2025  
 Month: September  
 Previous Report: 1.1%  
 Argus Estimate: 1.2%  
 Street Estimate: NA



Release: **Consumer Price Index**  
 Date: 12/18/2025  
 Month: November  
 Previous Report: 3.0%  
 Argus Estimate: 3.0%  
 Street Estimate: 3.1%



Release: **CPI ex-Food & Energy**  
 Date: 12/18/2025  
 Month: November  
 Previous Report: 3.0%  
 Argus Estimate: 3.0%  
 Street Estimate: NA



*Previous Week's Releases and Next Week's Releases on next page.*

## ECONOMIC TRADING CALENDAR (CONT.)



### Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
11-Dec	Trade Balance	September	-\$59.6 Bln.	-\$62.0 Bln.	-\$63.1 Bln.	NA
	Wholesale Inventories	September	1.1%	1.5%	NA	NA

### Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
23-Dec	GDP Annualized QoQ	3Q "Initial"	3.8%	NA	NA	NA
	GDP Price Index	3Q "Initial"	2.1%	NA	NA	NA
	Industrial Production	Oct. & Nov.	1.6%	NA	NA	NA
	Capacity Utilization	Oct. & Nov.	75.9%	NA	NA	NA
	Durable Goods Orders	October	9.7%	NA	NA	NA
	Consumer Confidence	December	88.7	NA	NA	NA

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