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ARGUS ECONOMIC COMMENTARY

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Argus Year-End 2026 Outlook

Investors and political pundits expected that the midterm elections would bring change to Washington, but few predicted the extent of the political turnover experienced on election night. Investors quickly pivoted from an immediate relief rally on the day after the election to a deep selloff the following day on concerns that Democratic leadership would prioritize blocking new data centers and would otherwise weaken growth initiative.

We believe a key outcome of the election is the likelihood of gridlock in Washington, with the new Democratic-led Congress and President Trump thwarting each other whenever possible. That may prove positive on Wall Street, which would probably prefer that Washington stay out of the way.

Market Outlook for 2026

The S&P 500 advanced 16.4% for all of 2025, following capital appreciation of 24.2% in 2023 and 23.3% in 2024. The 2026 trading year to date has been positive though uneven, with more down months (6) than up months (4). The up months have averaged a nearly 5% gain, while the down months have declined an average of 1% to 2%. Stock-market momentum has tag-teamed between traditional growth leadership and formerly out-favor themes including defensive, cyclical, rate-sensitive, and inflation-hedge. The S&P 500 was up just under 12% at the nine-month mark of 2026, after rising a below-average 2% in the third quarter. Stocks prevailed through seven months of war and war-related energy inflation that is now rippling through shipping, agriculture, and other parts of the economy.

Selling in October 2026 and in November-to-date reflect uncertainty about the sustainability and profitability of AI investments. That uncertainty has been amplified by the strong showing in the midterm elections by Democrats, many of whom have pledged to block new data center construction.

Ongoing concerns that have weighed on the market in 2026 include resurgent inflation and interest rates, an upended but still existing tariff schedule, and GDP and earnings growth perceived as too reliant on AI infrastructure spending.

The 2025 trading year was aided by optimism that the new administration in Washington would be more business-friendly. In 2026, early optimism that tax cuts under the Big Beautiful Bill would partly offset higher gasoline, diesel, and other costs has dimmed due to resurgent inflation and the unsettled state of the war with Iran. President Trump, who in 2025 signaled a shift in focus from Europe and Asia to the Western Hemisphere, acted on that shift early in 2026 by seizing Venezuelan President Maduro and pledging to govern that country remotely. Success in the Venezuelan operation may have influenced the president's assessment of the risks of attacking Iran. U.S. efforts to fully reopen the Strait of Hormuz have been compromised by depleted stocks of advanced weapons systems, Iran's geographic positioning in a horseshoe around the Strait, and stubborn resistance by the regime. While the U.S. military may now be facilitating improved traffic through the Strait, the prolonged conflict and Iran's resistance may have shifted perceptions of the geopolitical power balance.

As the focus of the federal government shifts away from Europe and Asia and to the Middle East, and as the U.S. concentrates on its own hemisphere, Russia and China may seek to expand their respective spheres of influence.

Late In 2025, we issued key forecasts for 2026 related to economic growth, employment, interest rates, earnings growth, and the outlook for the ongoing bull market. We have adjusted some of these forecasts due to the war with

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Iran and other factors, while maintaining our overall outlook. We expect the U.S. economy to continue growing in 2026, fueled by an employed and resilient consumer and solid corporate investments led by AI adoption. Inflation and high financing rates continue to weigh on consumer spending, particularly for those on the bottom leg of the K-shaped economy disproportionately impacted by energy cost inflation. More-prosperous consumers on the upper leg of the K, however, continue to benefit from past and ongoing appreciation in financial assets and home values.

After multiple years of strength, the U.S. employment economy has wavered in recent months. Employment growth was better than expected across the first half of 2026 but has been challenging to predict in the second half. We now look for nonfarm payrolls growth to average about 50,000-100,000 per month in 2026, but no longer see a bias to the upside. The midpoint of our forecast range is still better than our forecast 50,000 average heading into 2026. We now estimate that breakeven employment growth, required to hold the unemployment rate steady, is in the 30,000-80,000 per month range. On that basis, we believe the unemployment rate should remain in the low 4% range exiting 2026.

Corporate spending has been super-charged by AI investments, and we believe capex can grow at least at the 4.5% historical average in 2026 (and likely higher). We also look for corporate investment to partly offset a cautious consumer, tariff impacts, a weak housing market, and subdued government spending. Measures of the commercial and industrial economy remain consistent with ongoing growth. With mortgage rates elevated and despite pent-up demand, we expect housing's contribution to U.S. economic growth to be below average in 2026.

Argus Chief Economist Chris Graja, CFA, believes strength in AI investment and ongoing consumer resilience will support GDP growth of 2.4% for 2026 and at least 2.2% in 2027. The AI economy is both fueling GDP growth and subtracting from growth, given the enormous imports of semiconductors and technology hardware required for AI implementations. The twos-10s slope in the yield curve had widened to about 38 basis points (bps) as of the end of October 2026 from 28 bps at the end of June. The positively-sloped yield curve is a solid indicator for economic growth.

New Federal Reserve Chair Kevin Warsh, bowing to the reality of war-induced inflation, in September presided over the first rate increase in three years. After the Democratic victory in the midterms lessened likelihood of a December 2026 rate hike, the strong October nonfarm payrolls report put it back on the table. As of mid-November, the market is pricing in at least one more hike by year-end 2026. Argus Fixed Income Strategist Kevin Heal expects one more quarter-point hike in interest rates in December 2026 and currently expects no fed policy movement in 2027.

Earnings growth for calendar 1Q26, 2Q26 and 3Q26 have all been exceptionally strong, resetting the earnings growth outlook for 2026 and 2027. Earnings are rising on revenue growth (as companies successfully pass along higher costs and tariff impacts) and on margin expansion (as enterprises incorporate lessons learned in tough times and as they begin to incorporate AI-based efficiencies). In June 2026, we raised our forecast for S&P 500 earnings from continuing operations to $340 per share for 2026 from a prior $315; our 2026 estimate is consistent with mid- to high-20% annual EPS growth. We also raised our 2027 EPS forecast for the S&P 500 to $390 per share from a prior $363, which is consistent with mid-teens growth. These estimates may prove to be too conservative. Given that large technology companies increasingly drive overall EPS growth, we look for further margin expansion and earnings acceleration going forward – assuming the new Democratic majority does not stop data center investment in its tracks.

Despite recent profit-taking after the multi-year bull run, stocks are not cheap, but they are also not too expensive. And given ongoing EPS acceleration combined with recent profit-taking particularly in Information Technology, the stock market does not appear to be in over-valuation territory. The output of our Stock/Bond Barometer is expressed in standard deviation to the mean, or sigma. The mean reading is a modest premium for stocks of 0.18 sigma, with a standard deviation of 1.06. The current valuation is a 0.31 sigma premium for stocks, well within the normal range. Beyond our Stock/Bond Barometer, valuation measures show reasonable multiples for stocks. The current forward P/E ratio for the S&P 500 is 18, toward the lower end of historical range of 15-24. On price/book and price/sales ratios and dividend yield, stocks are priced at the high end of historical ranges, given that tech stocks, with low capital bases and generally low yields, are the biggest component of the market. The gap between the earnings yield (blended 5-year average S&P 500 earnings divided by the S&P 500 price level) and the real 10-year Treasury bond yield is near the historical average. These valuation measures suggest that the stock market, which thus far remains in the bull market dating back to October 2022, is not in danger of entering bubble territory at this juncture but could benefit from lower interest rates down the road.

Since the launch of ChatGPT in November 2022, the AI trade has driven the market. Investors periodically have taken profits in AI stocks on concerns about an AI bubble, fears that AI would cause massive job displacement, concerns that return on AI investment will disappoint, and now fears that data centers will be blocked. Unlike past bubbles built on phantom metrics, the AI revolution is grounded in real infrastructure investment, particularly as spending

broadens out from hyperscalers to large enterprise, sovereign, and neo-cloud customers.

Amid swirling geopolitical and economic developments, we believe corporate earnings trends and still-favorable stock valuations can support a positive 2026 for stocks. In our revised base case for 2026, we are modeling GDP advancing in the 2%-plus range, unemployment remaining in the low-4% range, and corporate earnings growing at high-teen to mid-20% rates. Core PCE inflation is highly unlikely to reach the mid-2% target range by year-end 2026. We do not expect inflation to explode higher from current levels, however, and settlement of the war with Iran would likely contribute to gradual lessening in price pressures.

The current bull market is about four years old. Over this period the S&P 500 has risen over 105% in a durable advance that has withstood high inflation, economic uncertainty, implementation of tariffs, a government shutdown, major shifts in the direction of U.S. domestic and foreign policy, the war with Iran, and now the change in leadership in Congress.

The 13 prior bull markets since World War II averaged capital appreciation of 164% over an average span of 57 months, or just under five years. The five bull markets since 1980 have generated higher returns (about 240%) over longer periods (about six years).

The S&P 500 in 2026 faces the statistical challenge of sustaining momentum after three straight years of double-digit gains. The current midterm election year is traditionally the weakest of the four-year presidential cycle. Markets that have built a double-digit gain through nine months have delivered twice the average annual return on the S&P 500 for all years from 1980 through 2025.

Halfway through the final quarter of 2026, we see room for recovery in oversold growth leaders along with ongoing strength in rotation beneficiaries in inflation-hedge, rate-sensitive, defensive, and cyclical categories. In our revised base case, we believe the bull market continues and the S&P 500 can deliver a total 12%-16% gain for the year within a broader and more-balanced market.

Conclusion

As the fourth quarter approaches the midway mark, the AI trade has experienced another one of its bouts of profit-taking, this time on election hangover concerns exacerbated by intrigue at the top of Nvidia. Selling in Information Technology stocks may or may not have reached a crescendo two days after the election. Rotation out of growth leadership has enabled lately out of favor defensive sectors to recover, while slight moderation in interest rates has helped cyclical and rate-sensitive sectors.

November has been the strongest of all stock months at least since 1980, but this November is off to a stumble-start. Given still accelerating earnings growth, a fully employed labor force, improving business sentiment, and optimism that change in Washington will eventually lead to inflation relief, we continue to expect the stock market in 2026 to carry its tattered but still-standing gain through 10 months into a solid year-end finish.

Jim Kelleher, CFA,
Director of Research

KEY ECONOMIC FORECASTS

- The $33 trillion U.S. economy remains on course for productive long-term growth. Investment in data centers and infrastructure for artificial intelligence (AI) is projected to total $10.3 trillion from 2025 to 2032, according to new estimates published by the Brookings Institution. As a percentage of gross domestic product (GDP), these AI investments will be larger than transformative buildouts of railroads, highways, electrification, and telecom, Brookings' research projects.
- Real potential GDP — the sustainable speed limit of the U.S. economy — is poised to increase to 2.1%, on average, through 2030, according to the Congressional Budget Office. AI is likely to raise productivity, offsetting slower growth in the labor force from an aging population and reduced immigration.
- The Federal Open Market Committee (FOMC) voted 10-2 on October 28 to maintain the Fed Funds target at 3.75%-4.00%. Argus Fixed Income Strategist Kevin Heal expects a quarter-point hike in December before the Fed moves to the sideline in 2027. We expect the dollar will be flat/firmer over the next year, helped by higher rates, solid GDP growth, and demand for shares of innovative U.S. companies.
- After the FOMC meeting, Federal Reserve Chairman Kevin Warsh offered the following comments. "Economic activity is expanding at a strong pace. While uncertainty remains—owing, in part, to geopolitical developments—domestic spending has been resilient. Productivity growth is strong, and capital investment robust."
- Our 2026 GDP growth forecast is 2.4%, as is our 2027 forecast. We have initiated an estimate for growth of 2.2% in 2028. The U.S. has stimulative fiscal policy, while the federal government is running a budget deficit. Argus believes financial conditions remain modestly accommodative to growth.
- Argus expects S&P 500 earnings per share (EPS) to rise almost 25% to $340 in 2026 and increase about 15% to $390 in 2027. EPS have been helped by an increase in operating margins to about 19% this year. Growing tech giants such as Microsoft and Nvidia have higher margins than Dow stalwarts such as Walmart and Caterpillar. Argus expects the S&P 500 to trade in a range between 6,900 and 8,450 over the next 12 months. Our year-end 2026 price target for the S&P 500 is 8,000, based on a multiple of 20.5 times our 2027 EPS estimate.
- The Misery Index, which is the Consumer Price Index (CPI) inflation rate plus the unemployment rate, is approximately 8.1%, below the average of 9.1% since 1949 but up from 6.7% in January. Unemployment is low, at 4.1%. Inflation remained elevated at approximately 4.0% in October, but was below the recent peak of 4.2% from May.
- Gasoline prices over $4.00 a gallon are straining preholiday spending by consumers. Looking ahead to 2027, the Energy Information Administration outlook calls for a recovery in oil supply and ultimately a surplus. If that's the case, West Texas Intermediate (WTI) oil likely will resume its secular downtrend. Our preliminary 2027 outlook for WTI is $70 a barrel, down from $80 in 2026.
- The yield on the 10-year Treasury bond recently peaked at 5.4%. It has since eased to 5.0%, but is up from 3.95% before the conflict with Iran. Moves in the 10-year bond have a bigger and more direct effect on the economy than equivalent moves in the Federal Funds rate. We expect the 10-year bond to end 4Q27 in a range of 4.6% to 5.6%.
- Gold, the ancient safe-haven asset, is likely to remain at high levels, in a range of $3,500 to $5,000 an ounce in 2027, amid buying by central banks, global uncertainty, and concerns about the U.S. budget deficit.

CURRENT ECONOMIC RELEASES

Current Economic Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
5-Nov	Nonfarm Productivity	3Q	**2.1%**	2.6%	2.7%	**3.6%**
	Unit Labor Costs	3Q	**1.9%**	0.4%	0.8%	**-0.7%**
6-Nov	Nonfarm Payrolls	October	**60K**	80K	65K	**165K**
	Unemployment Rate	October	4.2%	4.2%	4.2%	**4.1%**
	Average Weekly Hours	October	34.4	34.4	34.4	**3.4**
	Average Hourly Earnings	October	**3.2%**	3.0%	2.9%	**3.1%**
	U. Michigan Sentiment	November	48.0	49.0	48.0	**51.0**
9-Nov	Wholesale Inventories	September	**7.5%**	7.4%	NA	**7.6%**
10-Nov	Consumer Price Index	October	3.7%	3.7%	NA	**4.0%***
	CPI ex-Food & Energy	October	2.6%	2.5%	NA	**2.8%***
	**Uses interpolated 2025 data.*					
13-Nov	PPI Final Demand	October	6.3%	6.3%	6.6%	NA
	PPI ex-Food & Energy	October	5.0%	4.6%	5.0%	NA
17-Nov	Retail Sales	October	6.3%	5.9%	NA	NA
	Retail Sales ex-autos	October	7.2%	6.8%	NA	NA
	Industrial Production	October	2.2%	2.7%	NA	NA
	Capacity Utilization	October	76.9%	77.0%	NA	NA
	Import Price Index	October	8.1%	7.4%	NA	NA
18-Nov	Housing Starts	October	1,221K	1,251K	NA	NA
19-Nov	Leading Index	October	0.0%	0.1%	NA	NA

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