



# 2026 Year-End Outlook

S&P 500: **6,000**

Real GDP: **2%**

Unemployment Rate: **4.6%**

Inflation: **2-2.5%**

Corporate Profits: **7.5%**

10-Year Treasury Note Yield: **3.5-4%**

Monday Morning **OUTLOOK**

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2026 Forecast: Still Wary

January 5, 2026

Last year, we thought economic growth would slow. Verdict: GDP data say we were wrong, employment data say we were right. Last year we thought the stock market would decline. Verdict: it did in March and April, sharply, but the S&P 500 ended the year with an impressive 16.4% gain. Overall, we'd say our negativity was unwarranted.

But to be clear, we are not pessimists. We expected – and continue to expect – amazing new technologies to roll out. Like always, we believe it is innovation that leads to higher standards of living. We are also very supportive of deregulation and fewer bureaucrats, policing crime and rooting out fraud, stopping illegal immigration and the drain on societal resources this seems to come with, keeping tax rates low, using tariffs in an attempt to reduce other countries' trade barriers and unfair trade practices against the US, and cutting government spending in any way possible.

In other words, our pessimism was not driven by policies or the actual events of 2025. We did not worry about tariffs causing inflation or a collapse in global trade. Nor did we think closing the border would collapse consumption and growth. Moreover, we completely disagree with fears of "debasement" and the end of American Exceptionalism.

But two things did concern us last year. 1) COVID stimulus – from easy money and irresponsible deficit spending – was wearing off. No way should we be able to lockdown the economy and never have a recession. So far, the main price was higher inflation and more inequality and that price has been paid by those with lower incomes. The overall economy has continued to grow, but as stimulus faded we expected things to slow more than they have. And 2) The fact that by any measure the stock market was over-valued.

So, what about 2026?  
First off, if anyone thinks they know exactly what will happen, they are kidding themselves. We woke up on January 3<sup>rd</sup> to the arrest of Nicolas Maduro, the self-proclaimed President of Venezuela. No one expected this, but it will have far-reaching effects on Russia, China, Cuba, the oil market, and global politics.

In November, the US will elect a new Congress which could have a massive impact on fiscal policy for years to come. The Federal Reserve will likely cut interest rates – our base case is two or three more 25 basis point cuts in 2026 – but with a new Fed leader coming in it could be more than that.

What we do know is that things will change. And many of those things will be positive for growth. The OBBBA restored 100% expensing for most business investment. And

although the law didn't cut marginal income tax rates, it did keep them from rising.

In addition, deregulation, the shrinking of the bureaucracy (January to November federal employment was down 271,000), and hundreds of billions of dollars in cuts to climate-related subsidies are removing wasteful spending and obstacles to productivity growth.

And while it is still too early to say with conviction, the actions against Maduro in Venezuela are likely to begin a process of pushing back against captured global institutions. We fully understand the arguments many are making about the Constitutionality of Trump's arrest of Maduro. We won't debate them other than to say Congress drivers while China, Russia, and Maduro thumbed their noses at the US. China and Russia actually like that Maduro was a criminal and dictator, they were supporting him. And they were doing it in our hemisphere with little pushback until now.

A global elite, who stand for open borders and "reimagining" the economy and support things like the "Great Reset," are now on notice. Undermining freedom one institution at a time with seemingly free reign is over. At least for now. We see this as a good thing. Why? Because any reasonable person, looking at the history of our world, realizes that the founding of the US was one of the greatest things to ever happen. Freedom reduces the power of authoritarians and dictators don't like this, but freedom is the greatest generator of wealth. It seems we are getting more of it. Which is appropriate in our country's 250<sup>th</sup> year.

One worrisome development is a significant economic slowdown in Europe. We won't go into all of it, but Germany and the UK are having economic problems. The German economy contracted from April to September, while the UK economy grew just 0.1% in Q3 (0.4% annualized). Much of this weakness is in manufacturing as electricity prices have soared because of climate-change-related energy policy.

Which brings us to the forecast for 2026. We could forecast just about any GDP growth rate imaginable. On the one hand we have all the ingredients of a boom – better tax environment, deregulation, less wasteful government spending, interest rate cuts, lower inflation, and an A.I. boom. On the other hand, the M2 money supply is only up 4.3% in the past year. With 2.5% inflation, that leaves just 1.8% for real GDP growth.

At the same time, the US has an extremely bifurcated economy with high asset values and high household have

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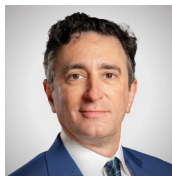
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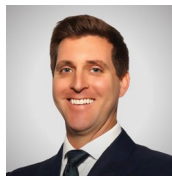
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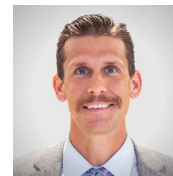
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### Forecasts as of January 2026.

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