Hamilton-Bates
Market Update

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The Santa Rally was Punk; Like the Eagles in this Year's Playoffs

2026 has hit the ground running, with the major averages up 2-3% since the start of the year. This on the heels of a punk Santa Claus rally which should have occurred the last week of the year but didn't. The market has since played a game of catchup. Sadly our Eagles could not catchup and lost their first round game in this year's NFL play-offs. We will have to get by on memories of last year. The stock market should do so as well, continuing the trend from last year into the early months of 2026. There could be a but of a mid-year hiccup, but early 2026 should be strong.

The Economy, Earnings, and Interest Rates

The economy continues to chug along, continuing to deliver above trend growth despite fears that tariffs would cause a recession. Last quarter GDP grew at 4.3%, much better than expected. After last week's solid employment report, the Atlanta Fed's GDPNow model has Q1 GDP growth jumping to 5.3%. This rate of growth is really strong, and should lead to strong earnings results in coming quarters. <u>As long as earnings continue to grow, and especially if they continue to come in much better than expected, the market can move higher, and market valuations will remain favorable</u>. Inflation has come down, especially in housing and energy, but price levels remain elevated due to past inflation. The way to get through the affordability issues is to grow incomes. That is the plan in a nutshell. They will try to 'run it hot' to keep the economy strong. The Fed will do what they can do to help, especially with a new Fed chair in May, but we don't see the Fed cutting as much as people think in 2026. We see just 1 or 2 cuts this year and that will be ok.

Stock Market and Investment Outlook

A bullish trend is in place and the Fed is supportive, that's reason enough to be bullish. Add on top of that Fannie Mae and Freddie Mac could be buying $200B worth of mortgages, essentially another round of QE that will add liquidity to the market.

Now we also have a robustly growing economy, strong earnings, and seasonal flows—a lot of factors that suggest the first leg of 2026 should be strong.

We like stocks, especially dividend payers, which are just now starting to get attention as the rally starts to broaden out away from just the Mag7. In bonds we still prefer short-term yields in the corporate sector. Gold and inflation hedges continue to perform very well.

S&P 500 Chart—No Change—The Uptrend Continues—Moving Up and to the Right

The S&P continues to move higher, and remains well above our first 'watch' level of 6700. We are beginning to see a push above the late 2025 peaks around 6900. A move to 7100 in Q1 seems very possible. Stay invested.