

What Could Go Wrong In 2026?



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For the third year in a row, the US stock market was up double digits with NASDAQ leading at +20.4% (after gains of +43.4% and +30.8% in '23 and '24, respectively) and the S&P 500, the standard market benchmark, up +16.4% following robust gains of 24% in each of the two previous years.

The year started with positive expectations for the economy and earnings, particularly in tech and large caps, as AI adoption accelerated with expectations of productivity gains (over 65% of the S&P 500's total return for 2025 was from AI-related activity: infrastructure, monetization, and AI cloud demand). Stocks opened the year reflecting both that optimism and the anticipation of a newly elected president who would cut taxes, ease banking and business regulations, and enact pro-business policies.

However, on April 2, President Trump announced a major tariff package that sent stocks spiraling downward, losing almost 19% from their February highs as other countries threatened retaliation and company managements of both large and small companies went into damage control, putting on hold spending plans while they figured out best and worst case scenarios re increasing costs, pricing impact, hiring, and more.

Despite the stutter step that lasted into late summer as government tariff policies seesawed back and forth, earnings continued to improve, up ten quarters in a row through the third quarter, with fourth quarter earnings being reported right now expected to be the fifth consecutive quarter with double-digit earnings growth.

With labor softening – the oft-noted “no hiring/no firing” stalemate we are seeing, the Fed cut interest rates three times in the fall to forestall any further weakening and remains on high alert, watching for signs of a more serious jobs decline.

But jobless claims, a leading indicator, show no signs of stress, while unemployment hovers at a healthy 4.4%. Inflation remains above the Fed's 2% target with recent PPI data showing rising

wholesale price pressures that do not augur well for further interest rate cuts from the Fed, even as the prospective new Fed Chair, Kevin Warsh, a proponent of cutting rates further, gets ready to take office in May.

Unexpected late-night tweets, ongoing tariff threats, sudden US military interventions abroad and threats of more, combined with a stock market at over 22x 2026 earnings estimates means ongoing volatility in stocks.

But earnings are what drive stock performance, and most signs point to continued consumer spending given full employment and some \$40-50 trillion in wealth created since 2019 (albeit the lower-income consumer continues to struggle). With three-quarters of the US economy driven by consumer spending, it seems realistic to expect continued economic growth, which should drive the stock market higher by year's end.

What could go wrong? The risk list is always long and almost never includes the one-offs like an economic shutdown due to a pandemic. A leading worry is the unpredictable actions of today's current administration e.g., Greenland, Iran, Venezuela, whose sudden policy changes can unsettle markets and impact business and consumer confidence: the latter's discomfort shows up in ever lower consumer confidence surveys, usually precursors to lower spending; at this time, however, low consumer confidence and healthy spending continue in parallel. Other key risks are inflation that stays stubbornly higher above the 2% target and more serious job loss.

We pay close attention to the broader economy and the many factors affecting it, but try to mitigate external risks by building portfolios from the ground up with high-performing companies that have structural and competitive tailwinds and strong management and balance sheets to drive them forward through thick and thin.

As the CIO of BD8 Capital Partners, I appear on CNBC frequently to talk about stocks and the stock market, as well as on other news outlets (e.g. Bloomberg, Fox Business), and we post frequently on “X” (Twitter), LinkedIn and our BD8 Capital Partners Facebook page so you can follow our market commentary. Our website also has updates and information about the firm (<https://bd8cap.com/>).

As always, we at BD8 Capital Partners continue to focus on your long-term financial future and planning needs, while managing your investments to help meet your financial goals.

Thank you for your continued interest and trust. We look forward to navigating the remainder of the year with a measured and informed approach.

Warmest regards,



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Endnotes

- i. <https://www.cnbc.com/2025/12/30/stock-market-today-live-updates.html?msocid=0f13a0af1f2d65642225b6741e4a6427>
- ii. <https://www.morganstanley.com/insights/articles/stock-market-outlook-2025>
- iii. <https://www.spglobal.com/spdji/en/commentary/article/us-equities-market-attributes>
- iv. https://en.wikipedia.org/wiki/2025_stock_market_crash#:~:text=Starting%20on%20April%202%2C%202025%2C%20global%20stock%20markets,U.S.%20president%20Donald%20Trump%20during%20his%20second%20term.
- v. <https://insight.factset.com/sp-500-will-likely-report-double-digit-earnings-growth-for-5th-straight-quarter>