J.W. Burns & Company
Investment Counsel
Quarterly Update and Annual Outlook
January 2026

Same Themes With New Worries

"Prophesy as much as you like, but always hedge."
Oliver Wendell Holmes

Dear Clients and Friends,

2025 was another exceptional year for stocks, with all major market indices up double digits – and then some. The S&P 500 Index finished the year up 17.8%, the Dow Jones Industrial Average up 14.9%, small/mid-cap stocks finished up approximately 12%, and international stocks led the pack, with the Vanguard Total International Stock Index up 32%. We were very pleased with how our clients' portfolios performed, and we believe that solid stock market gains is the most likely outcome for 2026.

As I always do before penning a quarterly client letter, I review at least a full year's worth of our commentary. I believe the tone and tenor of what I wrote throughout 2025 turned out to be quite accurate and is similar to what I see for this coming year.

In our January 2025 client letter, I stated that stocks were positioned for solid returns based on strong earnings growth, a robust economy, and a slightly more accommodative Federal Reserve. However, because of the underlying strength of the economy, I believed significant interest rate cuts were unnecessary and would be less than the consensus expectations. I also stated that inflation would remain sticky. Check all these boxes for 2025.

"In our January 2025 client letter, I stated that stocks were positioned for solid returns based on strong earnings growth, a robust economy and a more accommodative Federal reserve."

Last year's letter additionally predicted that 2025 would be a transition year from the incoming Trump administration, which would assert a complex set of policy goals; and as such, our clients should expect higher volatility. This too proved to be generally accurate, at least during the first four months of last year. Stock prices began to crack in mid-February on aggressive tariff rhetoric from the Trump administration, culminating in an intense, and scary, 15% market drop in just four trading days in early April.

However, from the April 7 low, stocks would recover dramatically, embarking on a smooth 35%+ rally right through the end of the year.

J.W. Burns & Company
5789 Widewaters Parkway
Dewitt, NY 13214
(315) 449-1341
Fax (315) 449-1349
jburns@jwburns.com
www.jwburns.com

Finally, I was bullish in our client letter of January 2025, but not bullish enough. I forecasted high single digit returns in the market, which turned out to be too conservative. This is a forecast I am pleased that came up short – and I'm hoping for the same again this year.

There's an old Wall Street saying: "I'd rather be lucky than smart." Well, I'd like to think I was a little bit of both!

For 2026, we continue to believe the path of least resistance for global equities is up. The same fundamental tailwinds – namely strong earnings growth, a resilient economy, stable to lower interest rates, and a powerful AI investment boom – remains very much intact.

Let's briefly touch on all.

A Resilient Economy

GDP growth is expected to climb 2-3% in 2026 aided by tax cuts, de-regulation, and an expected $100 billion in tax refunds to consumers between now and June.[1] Yes, employment growth has been stagnant – 2025 generated the lowest number of jobs created in a non-recession year since 2003[2] – but much of that can be attributed to one-time government job losses. Furthermore, wage growth has been strong, with average hourly earnings up on average 3.5% year-over-year, comfortably ahead of the rate of inflation.

> **"For 2026, we continue to believe the path of least resistance for global equities is up. The same fundamental tailwinds remains very much intact."**

So, from our vantage point, the economy looks to be in good shape.

Interest Rates & Federal Reserve Independence

As I write this, the Department of Justice has launched a criminal investigation into Federal Reserve Chair, Jerome Powell, related to the $2.5 billion renovation of the Central Bank's headquarters.

Powell – along with most economists and Wall Street firms – believe the probe is related to President Trump's frustration over Powell not cutting interest rates as swiftly as he would have liked.

Along with the criminal probe of Jay Powell is the pending Supreme Court ruling on the ousting of board member, Lisa Cook, which is expected soon.

Powell's eight-year term ends in May, so he has likely made his last interest rate cut, nevertheless. Currently, the consensus forecast is that the Federal Reserve will cut interest rates twice in the second half of 2026. We believe this should be an added tailwind for the markets, all else being equal.

As for his replacement, the betting markets are currently implying that former Fed Governor, Kevin Warsh, will become Trump's pick for the new Fed Chair. I believe investors should be fine with that. Not far behind, however, is Director of the National Economic Council, Kevin Hassett, who is viewed as more amenable to President Trump's political persuasions.

Needless to say, I believe Federal Reserve independence is of utmost importance to the economy and financial markets.

As with the tariffs last spring, I believe the markets will let President Trump know swiftly and forcefully if he's gone too far.

Strong Corporate Earnings

For the last three years, I have consistently stated that earnings would come in better than Wall Street forecasts, and for the last three years, I have been right.

S&P 500 companies have had two years of double-digit earnings growth and, according to FactSet, are projected to have their third consecutive year in 2026, with an average consensus of 14% growth – well above the long-term average. Furthermore, as the chart below from Haverford shows, earnings growth from S&P 500 Companies outside of the AI dominated Magnificent Seven are actually accelerating, a trend we view as healthy and constructive for the overall market.

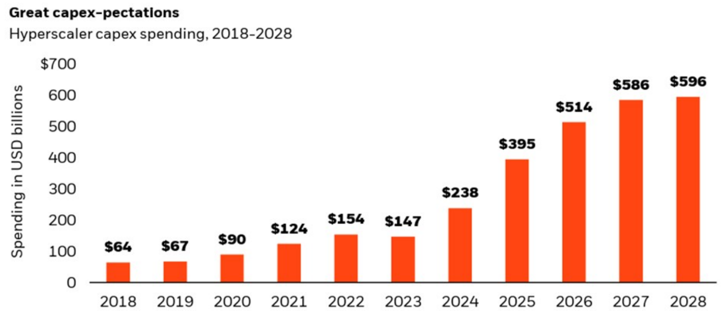
Simply put, robust double-digit earnings growth, especially across the broader market, provides a strong underpinning for higher stock prices in 2026.[3]

I believe the market will be pleased with earnings growth anywhere north of 10%. And, if we get 10%+ earnings growth, with two interest rate cuts, and no multiple expansion, we could still get high single digits, or even double digit returns in 2026.

The Promise of AI

Since ChatGPT launched in late 2022, investors have been captivated by the promise of AI.[4] Adoption is growing around the world, with roughly one in six people worldwide using some sort of generative AI tool like ChatGPT in 2025.[5]

Based on our research, we believe that the artificial intelligence investment boom is still probably in its relatively early stages, with spending amongst the five largest hyperscalers alone projected to grow 30% in 2026 alone.



Source: BlackRock Fundamental Equities, with data from FactSet as of Nov. 24, 2025. Chart shows capex spending and spending intentions of the five largest U.S. hyperscalers (Amazon, Meta, Alphabet, Microsoft and Oracle).

While the investment in and adoption of AI has been dominated by the mega-cap hyperscalers, adoption among corporations is broadening. Generative AI is expected to have significant impacts across banking, healthcare, manufacturing, and logistics, and could eventually add the equivalent of anywhere from $2.6-$4.4 trillion in annual economic value according to McKinsey.[6] Even at the lower end of this range, there is little doubt that AI is here to stay, and its impact will only broaden.

Without question, AI investment and adaptation has been a fundamental driving force behind the S&P 500's three straight years of 15%+ returns.

I believe this trend will continue throughout 2026 – and beyond.

So, overall, stocks have plenty to like with a fine economic backdrop and accommodative Fed policy, yet there is also plenty to be worried about.[7]

The aforementioned AI earnings machine could disappoint, bringing into question our previous commentary about a transformative economic application. Geopolitical conflicts such as what is happening in Venezuela, Iran, etc. could escalate and spin out of control. Political tensions in the United States are simmering at dangerous levels. Stocks have a relatively higher tendency to underperform in a president's second year.[7] Inflation has been running well above the Fed's 2% target and with too much monetary/fiscal support could cause an additional spike upward which likely would compress market multiples sharply. In fact, resurgent inflation is my biggest concern for 2026.

As I mentioned in our third quarter client letter, stocks are expensive on an historical basis, and any significant economic weakness would negatively impact what investors are willing to pay for equities. Finally, there's always a possibility of any "black swan" event that cannot be forecasted or foreseen that derails this bull market.

As I wrote last quarter, and reiterate in all our client commentary, we must be prepared for sharp corrections – and even bear markets – at any time, for any reason, or no reason at all. Nevertheless, the key drivers behind our bullish outlook for stocks in 2026 are likely to persist.

To close, these are certainly pleasant days for equity investors. As the bull market enters its fourth year, we remain constructive on the outlook equities in 2026, while acknowledging many of the "what ifs" that could inject sharp volatility into the mix.

At the end of the day, our job at J.W. Burns & Company Investment Counsel is not to react to every short-term move in the economy or equity markets, but rather to remain disciplined, data driven, and focused on meeting the investment objectives of our valued clients. We come into our work every day providing a full measure of effort to add value to our client's lives while maintaining the highest level of integrity, quality, and service.

We are grateful for your continued trust and look forward to working with you and your families in 2026.

Best wishes,

Jim

James C. Burns, CFA
President

J.W. BURNS & COMPANY, INC.
INVESTMENT COUNSEL
Important Disclosure Information

1 Goldman Sachs "*The Global Economy Is Forecast to Post 'Sturdy' Growth of 2.8% in 2026.*" 19 December 2025.
2 CNBC
3 Haverford Annual Economic Outlook. January 2026
4 J.P. Morgan - *"2026 Outlook - Promise and Pressure."*
5 Microsoft. *"Global AI Adoption in 2025 - A Widening Digital Divide."* 8 January 2026.
6 Mckinsey. The Economic Potential of Generative AI.
7 Fisher Investments, "2025 Stock Market Outlook - Part IV." October, 2025