

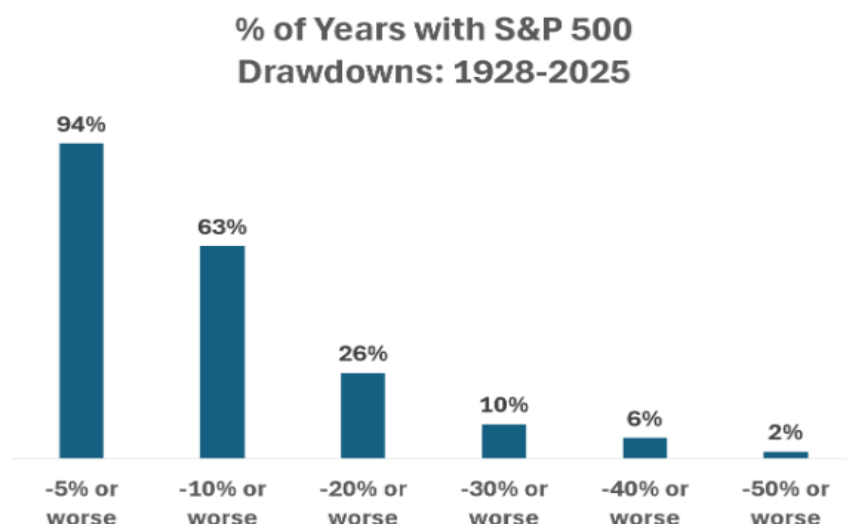
First and foremost, wishing all of you and your families a Happy New Year and a great start to 2026! So far, markets have resumed their grind higher – the S&P 500 is up 1.8% since year-end. With that said, we’ve already witnessed several notable headlines coming from the White House, including President Trump:

- issuing an executive order to ban stock buybacks and dividends for “underperforming U.S. defense contractors”
- has proposed a ban on institutional investors from purchasing single-family homes
- is considering a 10% interest rate cap for credit card lenders

I could write at length regarding why each of these issues is concerning and/or impractical, but the key takeaway is that headline risk is unfortunately likely here to stay. The administration has made it clear that they intend to keep their thumbs firmly on the scales of the private sector, which suggests that investors will be grappling with this risk for the foreseeable future.

The good news is that underlying fundamentals are very strong. Corporate earnings are expected to grow 15% this year while the Atlanta Fed’s forecast for fourth quarter GDP growth is currently 5.1%. Even stripping out the favorable effect of higher net exports, underlying strength across consumer spending and business investment is apparent, fueling the current economic expansion and rising corporate profits. It’s this strong fundamental backdrop that has continued to power markets upward despite the barrage of unfavorable headlines coming from Washington.

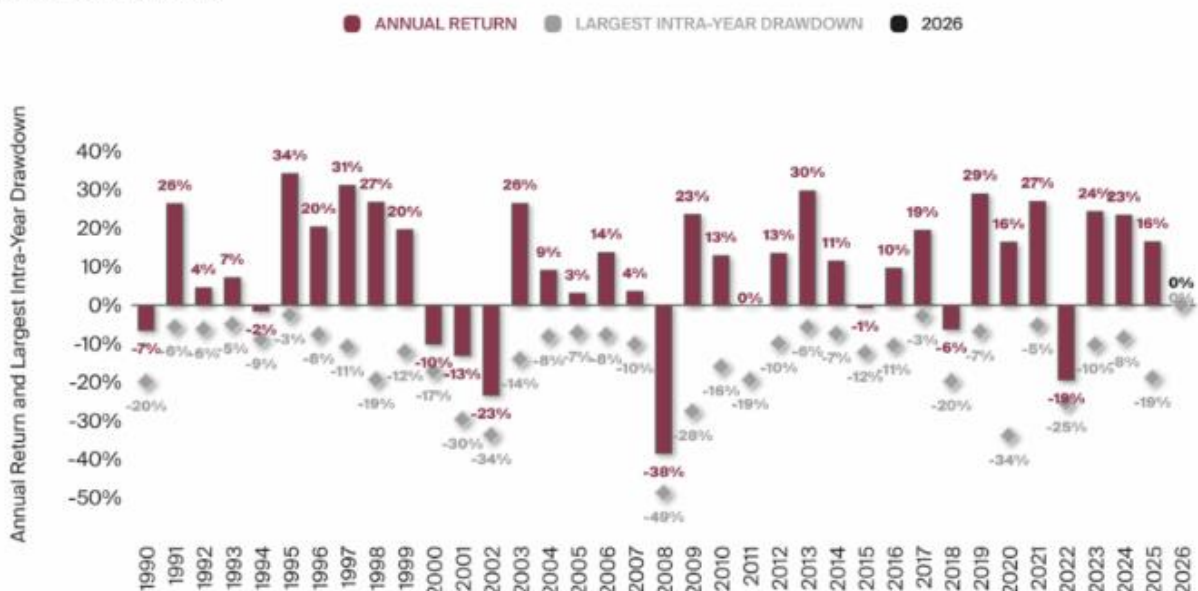
I believe this is likely to be a recurring theme throughout the remainder of the year, with the upcoming mid-term elections potentially driving additional volatility as the year progresses. I expect earnings growth to do the heavy lifting for stocks which may continue their upward trajectory provided fundamentals remain strong (with pockets of volatility along the way). It’s helpful to keep in mind that volatility is the norm rather than the exception for stock investors – intra-year drawdowns of at least 10% have historically occurred nearly two-thirds of the time.



Volatility in Stocks is Historically Normal In All Years

S&P 500 Annual Returns with Largest Intra-Year Drawdowns

Since 1990, 2026 is year-to-date.



Source: *A Wealth of Common Sense*

This suggests that security selection, backed by strong company-specific research, should be more important in this environment. Companies which can demonstrate robust growth with defensible positions in their respective markets while maintaining strong balance sheets should outperform even if market behavior becomes somewhat choppy. The market will likely have little patience for companies which underperform, especially if sentiment turns more sour.

Earnings season is about to kick into high gear, starting with the money center banks as well as Taiwan Semiconductor Manufacturing Company (the largest chip manufacturer in the world) this week. Over the coming weeks, investors will have the chance to hear from the largest and most consequential American companies regarding their outlook over the near-to-medium term. I expect their guidance will reinforce key themes that are supporting the current bull market – robust, growing levels of capital investment, revenue growth, and margin expansion.

During periods of elevated headline risk, it's important to tune out the noise and focus on company/sector fundamentals to guide investment decisions and portfolio allocations. This allows investors to make sound decisions which best suit their long-term strategic objectives while remaining tactical based on evolving market conditions. While rapidly changing news narratives can be difficult if not impossible to predict, marrying solid research with disciplined capital allocation is often the recipe for long-term success as an investor.

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