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MARKET INSIGHTS

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THE 2026 MARKET FORECAST:

The baton is being passed

Prologue: When the cycle breaks

History does not move in straight lines. Markets ricochet between excess and restraint in violent cycles, a truth American economist Peter Bernstein hammered home and one investors are again being forced to relearn. The foundation for the 2026 investment thesis is that with interest payments on U.S. debt now exceeding annual defense spending, the fiscal constraint has become too binding to ignore, and structural adjustment is no longer optional. We have no choice but to adjust; the system is in a state of flux.

As Canadian Prime Minister Mark Carney has argued, the world is entering a regime shift as consequential as the post-Cold War settlement: 2026 marks the end of pandemic-era stimulus and the start of a new cycle driven by credit markets, technology infrastructure, and redesigned policy frameworks. Under U.S. President Donald Trump, the United States is pivoting toward physical production and capital formation, reviving a traditional comparative advantage that

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“ The history of markets is one of overreaction in both directions. ”
- Peter Bernstein

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other nations are emulating—much like the 1990s shift from Keynesian to supply-side economics after the Berlin Wall fell when risk assets thrived. In 2026, liquidity increases, deregulation continues, and early in the year, investors should begin increasing exposure to interest-rate-sensitive areas as equity market participation broadens.

Positioning portfolios as the tectonic baton is passed

The central question for investors is straightforward: which exposures best align portfolios with a technology wave, an increase in liquidity, and real-economy growth as this tectonic baton passes?

In 2026, the familiar four-year market cycle begins to break down, returning control to the private sector and the underlying business cycle. Investors should expect risk-asset movements to be increasingly sentiment-driven, with prices often diverging from reality as fundamentals strengthen or weaken in ways the tape fails to reflect. Such disconnects should be expected during a generational innovation wave.

Quantitative tightening (QT) comes to an end as the U.S. Federal Reserve stabilizes its balance sheet through reinvestments and modest U.S. Treasury purchases. Policy rates move toward a neutral level in the high-2s, supporting liquidity just as supply-side measures gain traction and set the stage for upside surprises. The environment ahead points to lower policy rates, expanding liquidity, renewed focus on productive capital, rising productivity, a sustained capital expenditures (CapEx) supercycle, a housing recovery, and a revitalized consumer base emerging from prior policy missteps and inflation distortions.

This institutional pivot includes bank deregulation, a narrower Federal Reserve mandate, greater Treasury involvement in liquidity, and more normalized balance sheet settings, shifting credit creation from central bank intermediation to private channels. Echoing the 1950s, when government receded and Wall Street drove dynamism, portfolio strategies evolve from chasing political headlines to owning real-economy engines like artificial intelligence (AI) infrastructure, data centres, power plants, critical minerals, steel, nuclear reactors, pipelines, and superconductors. Trump's Alexander Hamilton-inspired approach prioritizes market-driven investment in advanced supply chains and energy, with tariffs acting as stabilizers that channel wage gains into CapEx without triggering inflation spirals.

Against this backdrop, risk assets face a strong base case, with S&P 500 targets at 8,000 and potential upside to 8,400 amid productivity surges and innovation—a pattern typical of major historical shifts rather than an anomaly. Interest-rate declines give fixed income a tailwind. Inflation surprises to the downside, and a crude oil glut brings prices at the pump dramatically down. Given the importance of the U.S. midterm elections, the base case for 2026 is that Trump maintains a relatively light policy touch; a “peace dividend” combined with a pragmatic Federal Reserve, rate cuts, and a recovery in interest-rate-sensitive areas—especially housing—should support solid growth.

Bull markets end on liquidity droughts, not stretched valuations alone, and with inflation easing, real incomes rising, and private growth stabilizing, 2026 offers one of the most constructive setups since prior cycles. The key unknown is timing: when supply-side reforms fully ignite early-cycle expansion. History, however, favours those betting on private capital's resurgence and the return of the U.S. consumer.

Liquidity, credit, and the new regime

For half a century, Wall Street has preached a simple gospel: bull markets end when stocks become “too expensive,” and every four years a mid-cycle correction cleanses excess. That muscle memory will be costly in 2026—because the real story is not valuations or election-year folklore but a once-in-a-generation reset in how liquidity, credit, and productive capital flow through North American economies. After three years of aggressive QT that pulled reserves toward scarcity and kept funding desks on constant alert, the drain flips direction as balance-sheet runoff ends and maturing securities are reinvested, turning a persistent outflow into a steady net injection that supports bank balance sheets and market plumbing instead of stressing them.

The U.S. Federal Reserve has signalled that reserves will be added back into the system, much as after the Second World War, and while markets will not label this quantitative easing (QE), they will feel its impact—just as they did in late 2019 when a quiet balance-sheet expansion rerated risk assets without fanfare. Simultaneously, policy rates glide back toward normal: the era of 5 per cent emergency settings gives way to cuts through 2026 that point toward a de facto neutral in the high-2s, implying slightly negative real rates with strong nominal gross domestic product (GDP) doing the heavy lifting on the debt burden.

That shift demands a different kind of Federal Reserve, less beholden to rigid, backward-looking academic models and more attuned to real-world supply, market-based data, investment, and liquidity—one that stabilizes without smothering and keeps zero-rate and crisis tools in reserve rather than on tap. Regulation is moving in the same direction: a recalibrated leverage regime, especially around the enhanced supplementary leverage ratio, frees capacity for Treasuries and repo, nudging markets back toward a pre-Dodd-Frank level of depth and resilience in which primary dealers can truly intermediate government debt and provide liquidity when most needed. This echoes the post-Second World War template in which negative real rates, strong nominal growth, and tolerance for a larger central bank balance sheet helped absorb war debts while financing industrial expansion.

The real question, now that QT has ended, is how much base money and what level of central bank reserves are “enough” for an overindebted economy to grow out of its problems instead of sliding into a debt-deflation spiral. Twice in living memory, after the Second World War and after the pandemic, policymakers made the same error: draining liquidity too far, too fast, then discovering how much structural money the system really needed to function safely. The emerging 2026 strategy is a course correction: stop shrinking, refill the reserve bathtub to a level that keeps short-term funding markets orderly, then hold it there while nominal GDP compounds.

The Federal Reserve accepts a larger monetary base, while more of the marginal liquidity work migrates to the Treasury and private markets through bills, buybacks, and active cash management. This blend of ample reserves, deep collateral markets, and private intermediation is the scaffolding of a more durable liquidity regime—one that can support a CapEx supercycle rather than lurch from crisis to crisis.

The great rebalance and secular bull market

Betting against Wall Street consensus is not a contrarian hobby; it is a systematic edge built on finding where establishment narratives misprice political and macro risk, then taking the other side with history and real-economy signals instead of fashionable opinion. Street consensus remains oblivious to the fact that structural change is now unavoidable; the status quo is no longer sustainable.

In the short term, investors should ignore the fear of a massive U.S. midterm elections correction that dominates Wall Street narratives. Over the longer term, the world is entering a great rebalance in which the baton passes from a hollowed-out, financialized, post-Cold War order to a revived American System rooted in productive capital, manufacturing, and critical supply chains. With interest payments on debt exceeding military expenditures, there is no alternative to change; the current path is unsustainable.

In 2026, that baton pass becomes more visible as once-controversial ideas—strategic tariffs, supply-side reform, running the economy hot—move from the fringe toward consensus, and the S&P 500’s intermediate-term path opens toward 14,000 by decade’s end. In this framework, tariffs are not primarily a growth-killing tax but a tool to re-anchor production at home, redirect capital, and restore resilience in strategic sectors, much as earlier American tariff and industrial policies achieved—with varying degrees of success—in the 19th and early 20th centuries. Trump-era deals are better read as growth policies rather than stagflation traps given America’s primacy as the world’s dominant consumer market.

At the same time, a second baton passes from the U.S. Federal Reserve back to private markets as the primary engine of credit creation and financial-market stability. With a new Federal Reserve chair, long-overdue structural change at the central bank becomes more likely. Post-crisis mission creep is unwound through targeted deregulation, recalibrated capital rules, and a deliberate retreat from permanent emergency tools, narrowing the Federal Reserve’s task to setting an independent policy rate and offering liquidity backstops rather than micromanaging every market tremor.

The architecture shifts back toward a postwar-style model in which abundant safe collateral, deep private intermediation, and a steady but more restrained central bank balance sheet underpins stability while allowing market signals, not central bank activism, to allocate capital. The narrative Wall Street continually misses is that the U.S. economy is “derisking, not decoupling” from the global economy: shortening and securing key supply chains while staying engaged with global demand wherever it advances U.S. strategic and economic interests.

Within this shift, the investment opportunity is the reintroduction of supply-side economics aimed squarely at productive capital rather than financial

engineering. Here, supply-side policy means targeted deregulation and tax treatment that channel capital into AI infrastructure, advanced manufacturing, and real-world capacity—turbocharging productive investment so the private sector leads on CapEx, credit creation, and market stability while the central bank is pushed back toward a narrower, liquidity-focused role.

All of this unfolds while government debt is refinanced at lower rates, and the economy is meant to run hot: mildly negative real rates and deliberate tolerance for above-trend nominal growth help erode the debt burden—echoing the post-Second World War playbook in which strong nominal GDP and financial repression worked down very high public debt. The core bet is that Wall Street will chronically overprice inflation and crisis risk while underpricing the upside from a sustained CapEx supercycle in productive American assets, creating the structural mispricing that rewards those willing to stand apart from consensus.

Extending the postwar framing forward through the 1980s and 1990s is instructive, when economist Robert Mundell's supply-side blueprint helped former U.S. President Ronald Reagan usher in a multidecade secular bull market in U.S. equities. The through line is that a coherent supply-side regime can again underpin above-trend returns, with pro-growth tax, regulatory, and investment policy compounding over many years. In this view, a modern, Hamiltonian, productive-capital version of supply-side economics, combined with a Federal Reserve that steps back and private markets that step up, sets the stage for a new secular bull market led by CapEx-heavy, real-economy winners rather than financial engineering—a landscape consensus investors, still fighting the last war, are systematically mispricing.

The 2026 playbook

Evolution has entered a phase of rapid acceleration. This is not theory for markets; it is the architecture of a new cycle already stress-tested by the April 2025 correction. The roughly 20 per cent drawdown was a dress rehearsal, sparked by renewed tariffs and a misplaced fear on Wall Street that forced investors to reprice earnings power, cost structures, and supply chains, provoking exaggerated fears of systemic crisis. Trillions in market cap vanished as pundits revived “end of the world” narratives.

They were wrong. Trump used tariffs as a negotiation tactic, consistent with his established strategy while the reshoring impulse supported growth rather than triggering runaway inflation. Historically, outside recessions, 20 per cent S&P 500 declines are rare and do not typically occur in back-to-back years. The lesson is that the old four-year cycle template, with its scheduled midterm election-year scare, may have been short-circuited.

While another policy-induced drawdown is always possible, the base case is that Trump prefers a lighter touch in 2026 to preserve midterm elections momentum, limiting the odds of another forced liquidation. Crucially, U.S. households entered this phase in far better shape than after the Global Financial Crisis: debt-to-asset ratios sit near multidecade lows, excess savings cushioned recent shocks, and the private sector absorbed volatility without cracking.

The old rule holds: do not bet against the U.S. consumer. As rates fall, inflation cools, and real incomes stabilize, the consumer should reassert itself by late 2026, turning the April 2025 episode into a deliberate reset that wrung out speculative froth and cleared the way for a capital-intensive expansion defined by policy agility, monetary accommodation, and the extraordinary demands of a new technological era. Investors need to be proactive and position portfolios in Q1 for the return of interest-rate-sensitive segments as a key driver of equity returns.

Meanwhile, North America is quietly pivoting from stimulus-led growth to investment-led renewal. In Washington, tariffs, reshoring incentives, and credit expansion aim to re-anchor growth in productive capital formation, factories, energy infrastructure, and advanced supply chains. Canada's “special deal” is no longer a given as the U.S.–Canada free trade agreement comes up for renegotiation in 2026, raising the question of whether Ottawa's preferred access can survive a harder-edged American trade posture. In Ottawa, Carney's government accelerates project approvals, offers full expensing, and channels capital into infrastructure, energy security, and technology capacity.

Headlines scream about trade tensions but policy vectors are converging: both countries now view resilient infrastructure, secure supply chains, and advanced technology as the foundation of long-term prosperity, reinforced by accelerated tax deductions for CapEx. Capital is following those signals into transport systems, manufacturing hubs, logistics corridors, and resource extraction.

For investors looking at North American markets, the greatest opportunities lie where these policy priorities overlap: infrastructure, AI, energy, critical minerals, and advanced manufacturing. Full expensing and streamlined approvals reward new capital formation, while banks and credit providers—freed from some regulatory shackles—stand to benefit from surging loan demand and growth in asset-backed lending. Winners in this cycle will be those who can read not just earnings and multiples but the alignment between sentiment, liquidity, and policy.

Business confidence and government direction are no longer background noise; they are central drivers of returns. This is why a Trump-era renaissance matters. The defining lesson of the last two crises is that liquidity, not valuation, ends bull markets, and under U.S. Federal Reserve Chair Jerome Powell the central bank was late to internalize that—misreading the post-pandemic recovery and treating tariffs primarily as inflation shocks.

That phase is over. Under Trump, fiscal and monetary policy are moving into alignment for the first time in years—replacing friction with coordination and shifting from government-led stimulus to private-credit expansion—with liquidity as the cornerstone of economic management. This is not a bailout of a fragile system but a pre-emptive reinforcement of growth, with private balance sheets healthy, earnings still expanding, and liquidity steered toward sustaining momentum rather than averting catastrophe.

Trump's agenda—tariffs, energy development, and incentive-driven reindustrialization—seeks to ground U.S. growth in real production. The first visible effects should emerge in 2026, potentially setting up the most durable expansion since the postwar boom as markets pivot from recession fears to opportunistic positioning in onshoring, energy security, and the AI CapEx wave.

What began as a technical reset in 2025 is morphing into a structural platform for renewal. Layered on top is the AI supercycle: like railroads, electrification, highways, and the early internet, the coming AI CapEx wave will remake the physical foundation of the economy, with hundreds of billions per year flowing into data centres, power grids, construction, and critical minerals. New legislation for crypto and stablecoins ensures continued U.S. leadership in digital assets.

The software titans that once lived in the cloud are becoming industrial behemoths, buying land, steel, nuclear reactors, copper wire, and transmission capacity; AI's needs are not virtual but real, physical, and very demanding—upgraded grids, advanced cooling, hardened security, and ramped-up mining for copper, uranium, and rare earths. Unlike past digital booms, this cycle is explicitly built on productive capital, corporate operating leverage, and the market's willingness to fund real-asset projects at scale.

That rotation puts utilities, construction firms, logistics operators, and miners at the centre of the portfolio debate, with tech and AI infrastructure leading early but leadership rotating into energy, industrials, financials, and materials as the buildup ripples through the economy. Gold, silver, and crypto deserve a place as monetary and geopolitical hedges. Routine 5–8 per cent pullbacks should be treated as overdue resets, not the start of collapse, and institutional allocators able to rotate tactically with macro and CapEx signals—rather than cling to static style boxes—will have the edge.

None of this is risk-free: geopolitical shocks, energy price spikes, conflict, cyberattacks, premature policy clampdowns, uneven AI adoption, or a surging dollar destabilizing emerging markets could all trigger brutal repricing. These are risks to manage—not excuses to sit out.

The base case for 2026 remains powerful. An S&P 500 at 8,000, with room to overshoot toward 8,400, is a reasonable waypoint in a secular bull market with credible upside toward 14,000 by decade's end, assuming productivity gains stick and liquidity remains ample. Earnings should benefit from AI-driven efficiency and margin improvements across sectors, coupled with increased participation from interest-rate-sensitive areas, while valuations can stay elevated but supported in a world of broadening leadership and deepening liquidity.

Greater sectoral balance reduces the risk of a narrow, bubble-prone blowoff, and truly bearish outcomes mostly require exogenous shocks or a sudden collapse in confidence rather than orderly mean reversion. The deeper lesson from the 1950–70 secular bull market is that when public wartime stimulus fades and private credit plus consumer finance take the baton, volatility is frequent but does not kill the trend; it clears excess and resets expectations.

Today's shift from pandemic-era fiscal support to an interest-rate-sensitive, private-sector-driven, tech-fueled expansion will likely produce similar conditions. Abundant liquidity and aligned policy create opportunity, but sentiment and volatility will determine how much of that opportunity investors actually capture. The death of the four-year cycle means volatility is not a bug in a credit-led supercycle anchored in AI and real assets; it is the engine of opportunity.

The AI buildout, like railroads and the grid, is more than a tech story; it is the scaffolding of the next American expansion, and a North American rebuild. 2026 is not the end of a clockwork pattern; it is the turning of the cycle itself. Investors who cling to valuation scare stories and midterm election-year lore will spend the next few years underexposed, nervously selling every pullback.

Those who respect history—and remember that markets overreact in both directions—will treat S&P 8,000 as a staging post rather than a peak. If the liquidity regime holds, credit expands, and AI infrastructure delivers even a conservative share of its promise, 14,000 by 2030 is not fantasy. It is what a well-managed, private-sector-led, productivity-driven supercycle looks like when the baton of progress is passed cleanly instead of dropped.

What should investors do?

With structural change now a binding constraint, investors should lean into this new cycle rather than hide from it. The core task is to be long on recovery in interest-rate-sensitive areas and productive capital, and short stagnation, tilted toward assets that benefit from liquidity, AI buildout, and policy tailwinds. As Peter Bernstein noted, "The history of markets is one of overreaction in both directions." In 2026, valuation is secondary to liquidity strength, productivity, and supportive policy.

With fiscal expansion yielding to private-sector credit and AI infrastructure fueling growth, the secular bull market will advance in rolling waves, not a straight line. Practically, that means overweighting U.S. and North American equities tied to hard infrastructure, AI, energy, critical minerals, interest-rate-sensitive sectors, banks, the consumer, and advanced manufacturing, while avoiding overconcentration in legacy, low-growth financial engineering stories.

Portfolios should bias toward CapEx beneficiaries—utilities, industrials, banks, gold, Bitcoin, materials, and infrastructure—alongside high-quality AI platforms and enablers. Routine 5–8 per cent pullbacks should be treated as buying opportunities, not existential threats—provided the liquidity regime and credit impulse remain intact; 2026 should see the return of the classic "early-cycle" trade.

Risk management shifts from timing the "end" of the bull market to sizing positions for volatility: diversify across sectors, maintain some monetary hedges in gold, silver, or crypto, and keep dry powder to deploy into policy- or sentiment-driven drawdowns. If all goes well, the early-cycle trade will be fully in motion by early 2026, with interest-rate-sensitive areas and the U.S. consumer at the centre of equity returns.

Above all, ignore four-year election folklore and valuation scare stories that miss the bigger point: in a well-managed, private-sector-fueled, productivity-driven supercycle, underallocation to real-economy winners is the biggest risk of all. The baton is being passed, don't miss the handoff.

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