Schaper, Benz & Wise
INVESTMENT COUNSEL
Trusted Advisor for Generations

40 Jewelers Park Dr., Suite 200 | P.O. Box 628
Neenah, WI 54957-0628 | 920.727.1137

Economic & Market Summary
January 2026

At a high level, the US economy is in reasonable shape as we enter 2026. Below the surface, there are many countervailing forces that make assessing the true health of the economy difficult. Total consumer spending has remained resilient in the face of tariffs, but wealthy consumers account for a growing portion of total spending, suggesting they are prospering while others cut back. Also, heavy business investment in AI infrastructure has bolstered growth, and it's uncertain how long this will last. Job creation slowed in 2025, but employers are largely retaining workers. Staff reductions at several large companies made headlines, but data on layoffs and unemployment insurance claims don't suggest widespread job cuts. Slowing job growth likely stems from lower immigration, tariff uncertainty, a slowdown after several years of post-pandemic hiring (or over-hiring), and perhaps employers leveraging AI tools for efficiency.

The Federal Reserve is dealing with its own tension. At their last meeting, the Fed did what many expected and cut interest rates by a quarter of a percentage point. Rates were cut three times in 2025, and by the Fed's estimate, the target interest rate is now neutral. Monetary policy is neither stimulative nor restrictive to the economy. However, the Fed is in a challenging position. Its dual goals of fostering price stability and maximum employment conflict with each other. Inflation has remained stubbornly above the 2% target, yet the job market has slowed. Accordingly, Fed policy makers are divided about the path forward. Chair Jerome Powell emphasized that the Fed is in a good position to wait and see how incoming data evolve. Analyzing data, most of which come from government agencies, has been more challenging because of the government shutdown. Until Powell's term ends in May, it seems likely the Fed will lean towards fewer rate cuts. Given the Trump Administration's strong preference for lower interest rates, the next Chair will probably favor a more aggressive rate reduction path. Lower interest rates generally support stock prices so a key element of the investing environment should become more favorable throughout 2026. However, overly aggressive interest rate reductions could rekindle inflation.

On a positive note, while tariffs added significant uncertainty and heavily impacted specific companies and industries, the overall economic impact seems milder than originally feared. Early in 2026, the Supreme Court is expected to rule on the Trump administration's use of the International Emergency Economic Powers Act to impose tariffs. Regardless of the ruling, it seems reasonable that tariff policy uncertainty will continue. However, this effect may be offset by the benefits from declining regulation and more clarity around tax policy now that sections of the Tax Cuts and Jobs Act were made permanent last year.

Including dividends, the S&P 500 stock index rose 18% in 2026 while the equal weight version rose 11%. Performance within the index remains highly concentrated. Only 30% of stocks in the index outperformed last year. While this is a slight improvement from the last two years, it's still unusually low compared to the last 25 years. With a forward price-to-earnings ratio of 22 compared to historical levels of mid to upper-teens, we continue to view the S&P 500 as a bit expensive. For most of 2025, many companies on our Working List have traded at or above our estimate of their fair market value. However, we've seen more opportunities emerge over the last few months. With stocks at higher valuations, persistent tariff uncertainty, and an on-going AI spending boom, it's reasonable to expect volatility in 2026. However, such volatility would likely create even more opportunities for long-term investors like us.

Mark J. Sprtel, CFA

If your financial situation has materially changed or you would like to discuss your accounts in detail, please contact your investment manager. To request our SEC Form ADV Part II, please contact Mark J. Sprtel, Chief Compliance Officer, at the address above.