

Executive Summary:

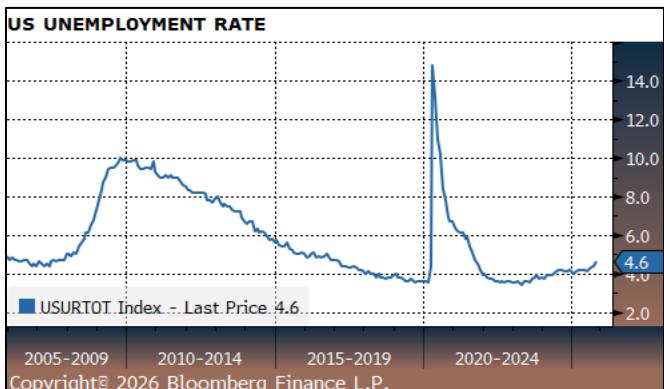
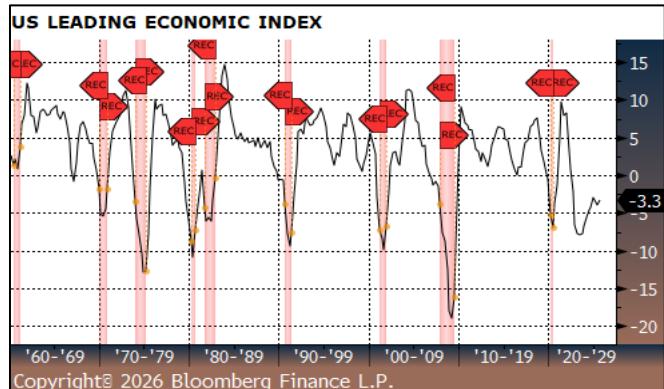
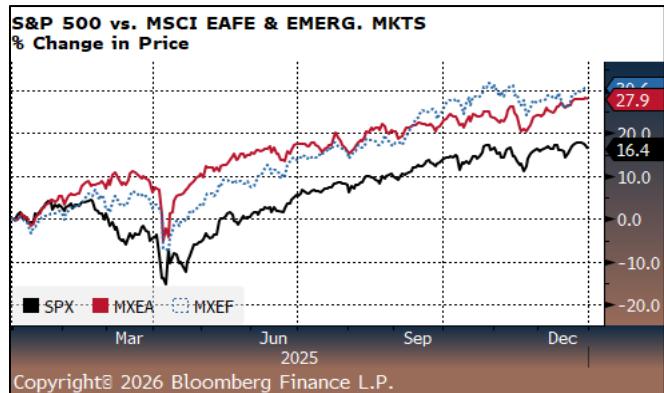
- International stocks outperformed U.S. equities in both currency and USD terms; AI-related stocks contributed the most to the S&P 500 Index.
- The U.S. economy and financial markets should benefit from the Fed's dovish posture in 2026.
- Big-Tech valuations and AI capex spending have investors increasingly worried about an AI bubble.

International equities outperformed the U.S. in both local-currency and USD-denominated terms, although notably most of the excess gains occurred during Q1 2025. Growth stocks also dominated with AI-related equities contributing the most to the returns for the S&P 500 Index. The S&P 500 Index has more than doubled since mid-October 2022, and we expect the bull market to continue given a combination of robust economic fundamentals, policy tailwinds, and innovation.

In our view, the odds of a near-term recession are low, and we expect the Fed will maintain its dovish posture in the face of declining inflation data and a tepid labor market. Judging from the FOMC's "dot-plot" and Summary of Economic Projections, we expect more rate cuts in 2026 as inflation drops toward 2%. On the fiscal side, the One Big Beautiful Bill should be accretive to GDP through tax cuts and substantial incentives for corporate investment.

Investments in artificial intelligence continue to ramp, with data center capex, hardware upgrades, and broader AI adoption expected to sustain elevated spending throughout 2026. AI adoption is accelerating across industries, and given these dynamics, S&P 500 earnings could easily grow at a mid-teens clip over the next 12 months.

What could go wrong? The degree of Big Tech spending on AI, and more importantly the significant debt being added to balance sheets, could increase fragility to external shocks. Moreover, as valuations have risen, some investors are concerned about a bubble. While excessive optimism may lead to a bubble in time, we believe it is too early in the demand cycle for those views to be investable. While downside risks remain, we do not view them as likely to materialize relative to current market pricing.



Overall, we believe 2026 could mark the fourth year of this enduring bull market, driven by a virtuous cycle of growth, policy support, and innovation. While no forecast is certain, we believe the weight of evidence points to sustained upside.



SECTORS	2024	2025	EQUITY INDICES	TICKER	2025	COMM. & CURRENCIES	LAST CLOSE	YTD
S&P 500 COMM SVC	40.23%	33.56%	S&P 500 INDEX	SPX	17.86%	WTI CRUDE FUTURE Feb26	55.99	-1.93%
S&P 500 CONS DISCRET IDX	30.14%	6.04%	DOW JONES INDUS. AVG	INDU	14.92%	BRENT CRUDE FUTR Mar26	59.96	-1.46%
S&P 500 CONS STAPLES IDX	14.87%	3.90%	NASDAQ COMPOSITE	CCMP	21.17%	NATURAL GAS FUTR Feb26	3.53	-3.04%
S&P 500 ENERGY INDEX	5.72%	8.68%	S&P 400 MIDCAP INDEX	MID	7.48%	LME COPPER 3MO (\$)	12,899.50	3.84%
S&P 500 FINANCIALS INDEX	30.50%	14.97%	RUSSELL 1000 GROWTH INDX	RLG	18.55%	Gold Spot \$/Oz	4,464.50	3.38%
S&P 500 HEALTH CARE IDX	2.58%	14.60%	RUSSELL 1000 VALUE INDEX	RLV	15.88%	Silver Spot \$/Oz	79.48	8.52%
S&P 500 INDUSTRIALS IDX	17.30%	19.27%	RUSSELL MIDCAP RT INDEX	RMC	10.59%	Euro Spot	1.17	-0.53%
S&P 500 INFO TECH INDEX	36.61%	24.04%	RUSSELL 2000 INDEX	RTY	12.79%	British Pound Spot	1.35	0.16%
S&P 500 MATERIALS INDEX	-0.04%	10.54%	MSCI ACWI ex US	NDUEACWZ	32.39%	Japanese Yen Spot	156.53	-0.08%
S&P 500 REAL ESTATE IDX	5.23%	3.15%	MSCI EAFE	MXEA	32.03%	DOLLAR INDEX SPOT	98.68	0.42%
S&P 500 UTILITIES INDEX	23.43%	16.04%	MSCI EM	MXEF	34.29%			

Source: Bloomberg

As of: 1/7/2026

Total Return						Key Rates	
Bloomberg Barclays Bond Indices	2024	2025	Effective Duration	Avg. Maturity	Yield-to-Worst		
						Effective Fed Funds	3.64%
U.S. Aggregate	1.25%	7.30%	6.04	8.26	4.32%	2-yr Treasury	3.47%
Intermediate	3.00%	6.97%	3.84	4.31	3.89%	10-yr Treasury	4.15%
Global Agg ex USD	-4.22%	8.85%	6.72	8.26	2.83%	10-yr German Bund	2.81%
Inv Grade Corporate	2.13%	7.77%	6.95	10.46	4.81%	Prime Rate	6.75%
U.S. Corporate High Yield	8.19%	8.62%	2.98	4.77	6.47%	30 Year Fixed Mortgage	6.24%
Tax Exempt							
Muni 1-10 Yr Blend (1-12)	0.91%	5.14%	4.09	6.41	2.84%		

Source: Bloomberg

As of: 1/7/2026

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