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The Howard Group
Market Commentary

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Exuberance, Not Irrational.

2026 Outlook

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"Irrational Exuberance" was the term used by Fed Chair Alan Greenspan in December 1996 to describe the psychological origin of speculative bubbles.[1] Throughout history, there have been many examples of speculative bubbles, dating as far back as the Dutch Tulip Mania in the 1630s, when the cost of a single bulb could reach hundreds of thousands of dollars in today's money. While bubbles have taken various forms, they all share one common denominator: irrational human behavior. Many equate irrationality with a lack of intelligence, but that is not always the case, as psychologist Daniel Kahneman points out in his book *Thinking, Fast and Slow*.[2]

Kahneman describes two systems of thinking: System 1 is fast, automatic, unconscious, and emotional, while System 2 is deliberate, conscious, logical, and effortful. The former is useful for routine daily tasks, and the latter excels at complex problem-solving. However, in today's fast-paced world, System 1 often overrides System 2, leading to irrational decision-making driven largely by emotional biases.[2]

I struggle with this on the golf course, particularly during tournament play, where I'll often speed up my decisions and become overly confident with low-percentage shots—or become too timid, allowing a previous bad shot to remain etched in memory. Thankfully, I chose a career in finance.

That said, one of the main reasons I write market commentary is that it forces me to sit down in a quiet place and thoroughly think through all the variables driving financial markets. Too often, investors form opinions based on a single headline or narrative without weighing all the evidence or seeking additional historical context.[3]

For example, if one had blindly followed the consensus Wall Street narrative over the past few years, they would have left a lot on the table. Coming out of the 2022 bear market, the consensus was overly pessimistic in 2023, largely skeptical in 2024, and finally turned optimistic at the beginning of 2025—only to panic in April when the tariff plan was rolled out.[4] Thankfully, we believed the stock market bottomed in June 2022, experienced a classic retest that October, and we've been in a bull market ever since. Have there been pullbacks along the way? Sure. But we've encouraged investors to take advantage of the volatility rather than run from it.

As we enter the fourth year of this bull market, we are certainly not in the early innings anymore, and the fat pitches are not quite as prevalent.[5] That doesn't mean 2026 won't be another good year—in fact, I think the backdrop looks quite promising for the following reasons.

Economic Growth

We outlined this in our 2025 outlook, and it is even more relevant today: When national debt reaches this level, solving it through higher taxes or deep spending cuts becomes very difficult, as both can harm economic growth. The only real paths forward are inflation or stronger economic growth. Scott Bessent, the nominated (and now confirmed) Treasury Secretary, is a well-known macro investor and champion of free markets and the private sector. In his confirmation hearing statement, he emphasized, “We will unleash the American economy by implementing pro-growth regulatory policies, reducing taxes, and unleashing American energy production.”[5]

We have started to see this play out: Real GDP grew at 4.3% in the third quarter of 2025, and the Atlanta Fed’s GDPNow model projects around 5.3% for the fourth quarter.[6] One underappreciated component is that the U.S. trade deficit narrowed in Q3 2025, adding to GDP. People often forget that GDP stands for Gross *Domestic* Product—so the more the U.S. exports and the less it imports, the higher the GDP. Also underappreciated are the more populist elements of recent legislation (e.g., no tax on tips, no tax on overtime, no tax on Social Security benefits), which are expected to provide around $150 billion in consumer relief in 2026.[8]

Inflation

Despite what many claim, inflation is caused by one thing: excess money creation. The more money created, the less valuable it becomes, which is why everything tends to get a little more expensive over time. [9] However, periods of excessive money creation—such as during COVID, the 1970s, and the 1940s—have led to inflation well above the acceptable 2–3% range. Thankfully, the COVID-era surge appears largely behind us, with the latest CPI print (December 2025) at 2.7%. [10] That said, prices are unlikely to revert to pre-COVID levels, as central banks will continue creating money, albeit at a much slower pace. The only way for overall prices to fall meaningfully would be deflation, which typically occurs during significant economic downturns. A far better scenario is a robust economy that delivers real wage growth to offset higher prices. Time will tell, but things are heading in the right direction.[11]

Interest Rates

Markets are driven by liquidity, or money flow within the economic system. Broadly speaking, markets perform well when liquidity is added and struggle when it is withdrawn. Fiscal spending has been the largest driver of liquidity in recent years, but interest rate cuts will only add to this already abundant situation. Until that changes, it’s hard not to be bullish on risk assets. Don’t fight the Fed![12]

Productivity from AI

One of the more underappreciated themes for 2026 is the broadening impact of artificial intelligence on productivity. While early AI narratives focused on infrastructure buildout, we’re now seeing real-world adoption accelerate across sectors—from agentic workflows automating complex tasks in finance and healthcare to efficiency gains in supply chains, customer service, and R&D. The longer-term implications from corporate productivity will be enormous and broad-based in our view. However, there’s no question that substantial labor displacement will occur, but like other periods of great technological innovation, we will likely see many new industries and jobs created.[13]

Investor Sentiment

After three fantastic years for the stock market, one might expect more enthusiasm from investors.[14] But as I noted in our 2025 outlook, uncertainty out of Washington, D.C., is likely keeping a lid on optimism. In fact, consumer sentiment remains extremely low, largely because wage growth has yet to fully offset the price adjustments from the COVID era.[15] That said, I believe 2026 will be the year when we see more broad-based optimism emerge—though I don’t expect euphoric or irrational behavior until 2027 or perhaps 2028.

In conclusion

The best time to invest is when it’s very uncomfortable to do so and the worse time is when it seems like it’s a no brainer.[16] This time three years ago, Wallstreet was predicting another down year for stocks with a recession as a forgone conclusion- completely ignoring the typical early signs of a bull market advance.6 And as the market continued to rally in 2023, the more we heard that the stock market was irrational and detached from reality. But it wasn't the stock market that was irrational, it was investors that were being irrational, as the bear market of 2022 was still etched into everyone's memory. 17

While the perfect setup we had in early 2023 is a distant memory, bull markets don't die of old age- they usually die of irrational exuberance. We will eventually get there, but I think 2026 will be another solid year for stocks and with the economy picking up speed… being exuberant seems quite rational to me.

All the best,
Gray

Please note: If you do not have assets under management with our group and would like more information on our process and performance, please let us know.

Sources;

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