

Themes Shaping 2026



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Even after three consecutive years of above average returns in the U.S. equity markets, we remain constructive on the prospects for continued growth in 2026.

Looking into the first half of 2026, Lincoln Investment's Investment Management and Research (IM&R) team sees four themes that could continue to support modest strength in equity markets. "We continue

to believe the U.S. economy remains in a post-COVID productivity-led economic boom, which is primarily fueled by advancements in artificial intelligence (AI) and technology," says **Shashi Mehrotra**, Chief Investment Officer of Lincoln Investment's IM&R team.

"When you inject a reasonably strong economy with the duplicity of both fiscal and business stimulus, you get the kind of results we are witnessing now," says Mehrotra. "On the fiscal side, we are still seeing some effects of stimulus from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of 2022. Furthermore, the One Big Beautiful Bill Act (OBBBA) of 2025, continues to provide tax relief and business incentives, and should continue to provide stimulus for the next couple of years. Then, factor in on the business side what is a transformational tech boom led by the recent advancements in AI, and you have reason to believe that the current positive trend – even though extended when compared to history – is not yet over," says Mehrotra.

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The Investment Management and Research team sees four themes shaping the markets for stocks during the first half of 2026, and perhaps longer:

Continued AI/Tech Expansion – As developments (and investment) in AI continue to proliferate and more companies integrate and broaden their adoption of AI and AI-related infrastructure, the end result should be improved business efficiencies, margins and new markets

and businesses. It is also expected that the AI evolution will transform aspects of the workforce and require substantial investment by governments, communities and businesses, but we also believe the net economic and business benefits will be net positive, which is ultimately what drives markets and stock prices.

Tariffs and Tax-bill Head and Tail Winds – One Big Beautiful Bill Act (OBBBA) provides significant individual and business tax cuts and incentives and is estimated to reduce federal tax revenue by \$4.3 trillion from 2025 through 2034. Many of the tax benefits are front-loaded and expected to provide stimulus in 2026 and 2027. A headwind to the OBBBA tax cuts are the increased tariffs imposed on foreign countries, which are estimated to increase tax revenue by \$2.3 trillion through 2034, but are viewed as a tax that will ultimately be born by consumers and businesses.¹ The legality of a significant portion of the imposed tariffs has been challenged and is currently under review by the U.S. Supreme Court. While the final outcome and the extent to which they will remain fully adopted is unclear, given that the cost to consumers and businesses has largely been factored in by the markets, if they are deemed void it could provide further stimulus to the economy.

The Direction of Interest Rates – The question of whether the Federal Reserve (Fed) will make further interest rate cuts, and if so, when and how many, will likely continue to influence markets into the first half of 2026. While we are likely to see a new Fed Chairperson who is more open to rate cuts, the strength of the economy, employment and the level of inflation will largely dictate the number and timing of further rate cuts. We will likely see continued calls from the current administration for rate cuts because that is inherently stimulative – but it's a double-edged sword, as over-stimulating the economy can lead to inflation, which we recently spent the last couple of years paying the price and working to curtail.

¹ PWBM. <https://budgetmodel.wharton.upenn.edu/faq#purpose-and-use>

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Employment – The level of employment is shaping up to be a balancing act. The labor market has been showing signs of slowing in late 2025, the question is whether it will decline to the point of triggering a recession. We are not in that camp, as we believe productivity gains contributed by AI will help to offset declines in the labor market.

Potential Speedbumps

While we expect a positive backdrop during the first half of 2026, two key fundamentals need to continue to play a constructive role: **inflation** and **corporate earnings**.

- » While inflation is expected to gradually decline in 2026², a surprise on the upside would likely derail plans for interest rate cuts and put further pressure on the economy.
- » With respect to earnings, ultimately a healthy equity market is driven by strong corporate earnings. On balance, corporate earnings have been relatively strong during the second half of 2025.

Ultimately, a healthy economy and markets are driven by strong corporate earnings and relatively stable inflation in the 2-3% range. The current inflation rate is 2.7%³. When

earnings begin to falter within sectors or more broadly, and/or inflation rises above 2-3% in a sustained way, that is generally a sign of more fundamental challenges to the economy.

A Final Word

As mentioned at the start, we have experienced three consecutive strong years in the U.S. equity markets, much of it driven by technology and the explosion in AI on top of a generally healthy economy. Since 1970, there have been only two instances in which the S&P 500 delivered more than three consecutive years of double-digit gains, both during the dot-com bubble era of the late 1990s.⁴ “While we remain constructive for the reasons mentioned above,” says Mehrotra, “there is good reason for caution and any number of unexpected events can trigger a correction – in fact, it would not be surprising if markets witnessed some consolidation and volatility as recent gains are digested on the way to higher levels in 2026.”

That’s why it’s important to check in with your financial professional and make sure your investments are allocated in line with your risk tolerance and positioned to help meet your unique investment objectives.

² Goldman Sachs, December 3, 2025

³ Bureau of Labor Statistics, for the 12 months ending November 2025

⁴ Damodaran Online - https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html

Important Disclosures

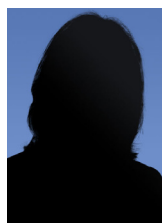
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