



## Market Momentum Holds in 2026 as January Risks Loom

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The market enters 2026 on a fundamentally solid footing, even if the year-end trading days were choppy than the traditional year-end rallies we often see. Economic momentum exiting 2025 was strong. Initial jobless claims briefly dipped below 200,000, holiday spending came in better than feared, and GDP tracking models are pointing to roughly 3% real growth in the fourth quarter on top of more than 4% in the third. That is not an economy rolling over, it is one carrying meaningful forward momentum into the new year.

The immediate focus, however, shifts from macro fundamentals to January policy risk. Three events could materially move markets this month. First is the risk of another government shutdown ahead of the late-January deadline. Betting markets still assign a nontrivial probability, but my sense is that policymakers understand how damaging another shutdown would be for confidence.

Second is the potential announcement of the next Fed chair. Kevin Hassett remains the frontrunner, with Kevin Warsh close behind. While I do not view any of the candidates as a problem, I see a Hassett appointment as putting modest upward pressure on long-term rates for perceptions of greater alignment with White House preferences for easier policy. That inflationary bias would likely show up at the long end of the curve, not at the front, ironically countering administration goals of lower rates.

Third is the Supreme Court's long-anticipated ruling on tariffs. My preference remains a delayed implementation window that forces congressional approval rather than an abrupt reversal, which would inject unnecessary disruption into pricing and supply chains.

Fiscal policy is also more nuanced than the headline tax-cut narrative suggests. While lower taxes support growth, the scheduled expiration of Affordable Care Act premium subsidies raises healthcare costs for many households, partially offsetting the net stimulus. The true fiscal impulse in 2026 will depend on how these pieces are reconciled.

Looking ahead, I remain constructive on the year. AI investment remains robust, even as competition intensifies and markets debate who ultimately monetizes the productivity gains. History suggests that when productivity accelerates, equity markets benefit even if individual leaders change. Importantly, higher productivity is disinflationary, not inflationary, allowing real growth to rise without forcing the Fed tighter.

On policy, I still believe the Federal Reserve should cut rates further. Money supply growth remains subdued—M2 rose only about 4% over the past year, well below levels historically associated with overheating. There is no evidence of excess liquidity. That gives the Fed room to ease, potentially another 50 basis points by mid-year, even if long-term Treasury yields remain above 4%. Mortgage rates have already begun to edge lower as spreads compress, providing some relief to housing. Recent home price data surprised modestly to the upside, suggesting the correction phase is largely behind us, though I do not foresee a renewed surge.

Neutral Fed policy, in my view, sits in the low-3% range for fed funds, implying a 10-year Treasury yield around 4 to 4.25% under a normal term structure. If productivity gains from AI prove durable, the neutral real rate may rise—but that would be accompanied by lower inflation, leaving nominal rates relatively contained. That environment is supportive for equities, even if further P/E expansion is limited by higher long-bond yields.

In sum, the economy enters 2026 on solid ground, liquidity conditions argue for Fed easing, and productivity trends remain favorable. January's policy headlines may create volatility, but the underlying fundamentals continue to favor a positive investing backdrop for 2026.

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Professor Jeremy Siegel is Senior Economist to WisdomTree. This material contains the current research and opinions of Professor Siegel, which are subject to change, and should not be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. The user of this information assumes the entire risk of any use made of the information provided herein. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.