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A LOOK AT THE YEAR AHEAD: Ten Investment Forecasts and Four Strategic Wealth Management Themes to Capitalize on Them

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As we acknowledge each December in presenting our outlook for the coming year, no one can know the unknowable or predict the unpredictable. However, as wealth managers that invest for our clients over the long-term, it is also our job to continually analyze the world around us and assess how the short-intermediate term economic landscape may impact our long-term investments. We have never believed in a “one size fits all” portfolio and have always provided custom tailored advice to our valued clients based on their personal goals and risk tolerances. With this in mind, we would like to share with you our perspective and predictions about some significant events that we believe are likely to unfold in the year ahead.

Beacon’s Ten Investment Forecasts for 2026

1. U.S. stocks will generate positive returns that are roughly in line with 2026 projected earnings growth of approximately 10%.
2. Bonds, as measured by the Bloomberg Barclays Aggregate Index, will deliver low to mid-single digit positive returns over the full calendar year.
3. The Federal Reserve (Fed) will cut short-term interest rates 25bps or more in 2026.
4. Inflation will fall, on average, in 2026 versus 2025 levels.
5. Small-cap equities (S&P 600) will outperform large-cap equities (S&P 500), as lower interest rates and artificial intelligence applications boost productivity and profitability.
6. Volatility (VIX) will increase noticeably around the midterm 2026 congressional elections.
7. The U.S. economy will continue to expand and avoid a recession.
8. Consumer sentiment will increase year-over-year, as the rate of inflation falls and tax cuts from the One Big Beautiful Bill are more fully realized.
9. Real estate prices will continue to decelerate at the national level as more supply gradually enters the market.
10. U.S. manufacturing, as measured by the ISM Manufacturing Index, will increase noticeably as prior pledges by global business leaders are slowly put into action.

Beacon's Four Strategic Wealth Management Themes for 2026

Beacon's Four Strategic Wealth Management Themes for 2026 echo our forecasts for the coming year and reflect our best thinking to protect capital and improve returns:

1. Prepare for equity returns roughly in line with earnings growth.
2. Prepare for lower short-term U.S. interest rates.
3. Emphasize and search for firms that may benefit from the productivity gains driven by the proliferation of artificial intelligence applications.
4. Emphasize quality investments and firms with demonstrated profitability over unprofitable ones.

A Glance Back on the Year That Was

U.S. stocks had a third consecutive strong year with the S&P 500 rising roughly 16% in 2025, as of the time of this writing. Performance continued to be driven by the "Magnificent 7" tech giants, with NVIDIA and Alphabet up approximately 30%, and 60%, respectively. Most other domestic equity indexes had solid but less spectacular performance, with the Dow Jones Industrial Average (+14%), Russell 1000 Value (+14%), and Russell 2000 (+15%) all reporting double-digit gains for the calendar year thus far. Bonds had a very good year for a safe haven asset, with the Bloomberg Barclays Aggregate Bond Index increasing ~7% in 2025 so far.

Before we look ahead to 2026, it seems only fair to look back on our 10 forecasts for 2025. What did we get correct and where did we go wrong? In our view, seven of our ten forecasts from 2025 were correct, and three incorrect. Let's provide some color for these assessments and then move on to our 2026 forecasts.

Let's start with our mistakes, which we always try to learn from. We predicted that the Fed would cut interest rates twice and 0.5% in aggregate this year. It was a close call, but the Fed ultimately cut rates three times and 0.75% over the course of 2025. Based partially on President Trump's campaign promises, we thought a resolution would come to the nearly 4-year war between Russia and Ukraine. Although the U.S. has tried to broker a deal between Russia and Ukraine, a formal agreement has not been reached. Lastly, we thought consumer sentiment would rebound from its low level in 2025. In contrast, sentiment slid lower amid stubborn inflation, tariff uncertainty, and increased geopolitical tensions. We are back with a similar forecast for 2026 bringing to mind the expression, "If at first you don't succeed, try, try again."

Let's move on to our clairvoyant calls from 2025. We thought stocks would have another solid year and return something close to their historical averages in the very low double-digit range. As noted above, the S&P 500 increased approximately 16% so far in 2025, once again driven by several mega-cap technology stocks. The equal weighted S&P 500 and the venerable Dow Jones Industrial Average [increased](#) roughly 10% and 14%, respectively, thus far in 2025. We thought bonds would continue to serve as ballast for diversified portfolios and increase somewhere in the mid-single digit range. We noted the Bloomberg Barclays Aggregate Bond Index has increased roughly 7% on a year-to-date basis. Inflation tends to be stubborn, so we forecast that the Consumer Price Index (CPI) would remain above the Federal Reserve's 2% target. CPI inflation averaged approximately [2.7%](#) in 2025 and ended the year with an annualized increase of 3.0%.

The initial public offering (IPO) market was somewhat sluggish over the 2023-2024 period following the sharp drop in many technology stocks in 2022. We thought the IPO market was poised to rebound this year, especially given investor enthusiasm for artificial intelligence related companies. The IPO market through 2025Q3 has already [surpassed](#) the full calendar year 2024 IPO levels. Somewhat related, 2025 mergers and acquisition activity has also been strong, as exemplified by the current takeover battle of Warner Brothers Discovery between Netflix and Paramount. We predicted the U.S. economy would not enter a recession in 2025 and GDP growth appears to be tracking in the [2.5%-3.0%](#) range for the full calendar year.

We thought the price of oil would fall in 2025, partially due to government energy policies that favored traditional fossil fuels. In fact, the price of oil fell from roughly \$70 to \$60 per barrel over the year. Lastly, we believed the cost cutting plans of the Department of Government Efficiency (DOGE) were dramatically overstated since anything close to a federal budget cut of \$2 trillion would likely push the economy into a deep recession. DOGE appeared to cut far [less than](#) \$200 billion and [disbanded](#) by the end of the year. **Table 1** provides a summary scorecard for our 2025 forecasts.

Table 1: Review of Beacon's 2025 Financial Forecasts

Forecast	Assessment	Rationale for Assessment
Positive stock returns, close to LT averages	Correct	The S&P 500 (Dow) rose ~16% (14%) in 2025 (so far)
Bonds to deliver mid-single digit returns	Correct	The Bloomberg Barclays Agg rose ~7% in 2025 (so far)
The Fed will cut rates 0.5% or less in 2025	Incorrect	The Fed lowered rates three times and 0.75% in 2025
Inflation will average more than 2% Fed target	Correct	CPI inflation averaged ~2.7% in '25 and ended at 3.0%
The IPO markets will recover	Correct	More IPOs in 2025 vs. 2024; M&A also hotter than 2024
Agreement to end war in Ukraine is reached	Incorrect	The war is ongoing despite discussions for a ceasefire
The U.S. economy will expand, avoid recession	Correct	U.S. GDP is estimated to have grown 2%-3% in 2025
Consumer sentiment will increase	Incorrect	Consumer sentiment fell noticeably in 2025
The price of oil will fall in 2025 vs. 2024 prices	Correct	Oil fell from approximately \$70 to \$60 / barrel in 2025
DOGE will cut < 25% of promised target	Correct	DOGE cut < \$200b of \$2 trillion target and disbanded

A Closer Look at Beacon's Ten Investment Forecasts for 2026

There is an element of risk in offering predictions since the future is uncertain. We can state with confidence that some forecasts we offer for 2026 are again likely to be correct, some incorrect, and some partially correct. We can also predict with great confidence that what will ultimately prove to be some of the major events of 2026 are neither on our list, nor likely on anyone else's. For example, few analysts predicted that international equities would soar in 2025. For example, the widely followed MSCI EAFE Index and MSCI EM Index, which represent developed and emerging market equity indexes, were each up more than 28% YTD, far outpacing the value and equal-weighted S&P 500. It is often the events that few investment strategists are talking about that result in the most extreme market movements.

As noted in our Executive Summary section, Beacon portfolios are custom-tailored to each client's unique risk tolerance and personal circumstances. Hence, our investment ideas may be appropriate for some clients, while not consistent with the goals and objectives of others. With these important caveats in mind, we humbly offer you some color around our top ten investment forecasts for 2026.

1. U.S. stocks will generate positive returns that are roughly in line with 2026 projected earnings growth of approximately 10%.

U.S. stocks have been on a tremendous run over the past few years. The S&P 500 increased roughly 25% in 2023 and 2024 and remains within striking distance of another 20% gain this year. Valuations, as evidenced by the Price to Earnings ratio and other metrics, are near the upper end of their [historical ranges](#). While this narrative raises a note of caution, there are also several positives for investors to consider. The Federal Reserve is expected to continue to lower short-term interest rates, [earnings growth](#) is expected to be solid, AI may improve the [profitability](#) of many firms, and the tax benefits from the One Big Beautiful Bill ([OB BBB](#)) may not be fully realized. For example, many workers did not change their withholding allowances and the increase in the state and local taxes (SALT) deduction cap from \$10,000 to \$40,000 may help a wide cross-section of households. Putting it all together, we project 2026 equity returns somewhere in the range of earnings growth estimates 8%-12%, selecting the 10% midpoint for our 2026 forecast.

2. Bonds, as measured by the Bloomberg Barclays Aggregate Index, will deliver low to mid-single digit positive returns over the full calendar year.

We view bonds as a source of income and a portfolio diversifier, especially during times of distress for equities. When equities fell sharply during the “tariff tantrum” of March-April, bonds did indeed play this [valuable role](#). We believe bonds will continue to serve this role and provide returns in 2026 similar to the current year, namely low to mid-single digits. Looking under the hood of the yield curve, we think short-term rates will modestly decline and that intermediate to long-term rates will stay flat to modestly increase. We elaborate on these views below.

3. The Federal Reserve (Fed) will cut short-term interest rates 25bps or more in 2026.

Short-term interest rates currently stand at 3.50%-3.75%, while the inflation rate is tracking at roughly 3% as the year comes to a close. In general, short-term interest rates usually modestly exceed the inflation rate. Hence, in our opinion, the Fed has room for small rate cuts in 2026 since we believe inflation will modestly decrease over the course of the year, placing a boundary on how aggressive the Fed may be with its rate cut path. President Trump has been [vocal](#) about his desire for lower short-term interest rates and this may be a litmus test for the newly appointed Chair of the Federal Reserve who is scheduled to replace Jay Powell in May.

4. Inflation will fall, on average, in 2026 versus 2025 levels.

Inflation has been in the headlines for roughly the past 4 years. The first bout of inflation was ignited by the massive stimulus unleashed by the federal government in the aftermath of the COVID pandemic, in concert with the central bank setting short-term interest rates close to 0%. More recently, inflation rates have remained well above the Federal Reserve’s 2% target, due in part to [tariffs](#) on a broad range of goods. Housing is the biggest component of the Consumer Price Index (CPI) and there are some signs that the housing market is [cooling](#). Tariffs tend to result in a one-time step up in price, rather than an unending cycle of higher prices. Consumers are [scaling back](#) on restaurant and other purchases, which suggests there is a limit to the ability of firms to raise prices. In short, inflation may still exceed the Fed’s 2% target, but it is likely to fall from its heightened levels over the past few years.

5. Small-cap equities (S&P 600) will outperform large-cap equities (S&P 500), as lower interest rates and artificial intelligence applications boost productivity and profitability.

Small-cap equities have [lagged](#) large-cap equities for the past several years. As we noted earlier, the mega-cap “Magnificent 7” stocks have led the market not only this year, but since the COVID pandemic. However, we think the macro landscape is increasingly becoming favorable to smaller firms. First, smaller firms tend to disproportionately [benefit](#) from a drop in short-term interest rates since it lowers their costs of financing. Second, earnings [growth](#) for small-cap is expected to exceed large-cap in 2026. Third, smaller firms are traditionally understaffed and may increasingly [benefit](#) from harnessing the power of artificial intelligence applications. We favor the S&P 600 Small-Cap Index over the more widely followed Russell 2000 Small-Cap Index since the former index has filters to ensure profitability and other quality-oriented metrics.

6. Volatility (VIX) will increase noticeably around the midterm 2026 congressional elections.

The U.S. financial markets have largely experienced a period of smooth sailing since the aforementioned “tariff tantrum” over the March-April time frame. The Chicago Board of Options (CBOE) Volatility Index (VIX) is the most widely followed measure of stock market volatility and is informally known as the investor’s [“fear gauge.”](#) VIX currently trades at a value of 16 and peaked earlier in the year at 60. Looking ahead at possible sources of increased volatility, geopolitical developments are always a factor to consider, as well as disappointing earnings reports from key market leaders. However, we think the most likely culprit for increased volatility in 2026 may be investor positioning both before and after the November congressional elections. Volatility may not be a bad thing for long-term investors, as we saw earlier this year, since the market has since rebounded to all-time highs.

7. The U.S. economy will continue to expand and avoid a recession.

In our equity forecast for the year ahead we noted some of the positive forces buttressing the economy. Namely the tax cuts from OBBB, falling short-term interest rates, and the increase in productivity derived from the applications of artificial intelligence applied to a broad cross-section of businesses. Recent economic growth has been uneven across income categories, resulting in what some economists have termed a [K-shaped economy](#). For these and other reasons, we expect the U.S. economy to continue to grow in the 2%-3% range over the course of 2026 and deem a near-term recession as unlikely.

8. Consumer sentiment will increase year-over-year, as the rate of inflation falls and tax cuts from the One Big Beautiful Bill are more fully realized.

We noted earlier that one of our incorrect forecasts for 2025 was predicting an increase in consumer sentiment. Since the consumer accounts for roughly 70% of U.S. GDP its pulse bears watching. What went wrong in 2025? Although it is difficult to pinpoint an exact cause, the cumulative effects of inflation have negatively weighted on the psyche of the “main street” consumer. Tariff uncertainty and the fears of AI [replacing](#) a wide range of jobs may have also put a damper on consumer sentiment. What may change the consumer’s mind in 2026? Americans are resilient. They tend to overcome adversity and are smart shoppers, increasingly using [AI tools](#) to save money and overcome inflation. Gas prices, as a percentage of income, are at a [multi-year low](#) fortifying budgets. We believe the net tax effects of the OBBB will also shore up consumer finances and boost sentiment.

9. Real estate prices will continue to decelerate at the national level as more supply gradually enters the market.

Owning a home is an integral part of the proverbial “American Dream.” The median price of a home is now [\\$415,000](#) with prices considerably greater in high income states. Perhaps more disturbing, the median first time home buyer is now [40 years old](#), the highest age on record. The Trump Administration is considering a range of options to help the housing market, from privatizing Fannie Mae and Freddie Mac, to floating the idea of a 50-year mortgage, and also discussing assumable mortgages to reduce the “[lock-in effect](#).” The Administration is also searching for [incentives](#) for homebuilders to increase supply. We believe this “all hands on deck” approach will temper the rate of home price appreciation.

10. U.S. manufacturing, as measured by the ISM Manufacturing Index, will increase noticeably as prior pledges by global business leaders are slowly put into action.

The Institute for Supply Chain Management (ISM) conducts a monthly survey on business conditions for manufacturing firms. If 50% of respondents suggest things have improved versus the prior survey, the rating would be 50. Readings above 50 suggest expansion in the manufacturing sector, while readings below 50 suggest sluggishness or contraction. ISM Manufacturing [readings](#) have largely been below 50 for the past several years. In our view, this reading is likely to increase due to the AI infrastructure buildout as well as the implementation of prior [pledges](#) from a wide variety of important firms.

Beacon’s Four Strategic Wealth Management Themes for 2026

Investment forecasts in and of themselves are interesting, but of little direct value. They must be actionable if they are to be valuable for our clients. Therefore, coupled with our Ten Investment Forecasts we offer Four Strategic Wealth Management Themes for 2026, which are often tied to the specific investments in your portfolio.

1. Prepare for equity returns roughly in line with earnings growth.

The expression “Trees don’t grow to the sky” suggests there are limits to growth for a range of physical and intangible processes. As noted earlier, investors in U.S. stocks have enjoyed three years of excellent performance. Although we would be happy to see these bountiful returns continue, we believe it is prudent to

temper expectations. We believe the good times will continue to roll, but at a more measured pace. Stock prices may sustainably increase in line with earnings growth, accompanied by their historical volatility.

2. Prepare for lower short-term U.S. interest rates.

Roughly two years ago, interest rates on U.S. Treasury Bills exceeded 5%, providing an attractive return for the minimal level of risk taken. Today Treasury Bill yields stand at less than 4% and are [expected](#) to fall further over the next two years. Although short-term fixed income securities may play a role in client portfolios, we also favor fixed income securities of intermediate term duration. Furthermore, investors should be creative in how they obtain yield, including from dividends, international investments, and alternative investments.

3. Emphasize and search for firms that may benefit from the productivity gains driven by the proliferation of artificial intelligence applications.

It should be clear to most observers by now that AI is one of the biggest technological innovations in a generation and perhaps for centuries. In fact, none other than Bill Gates [declared](#) that AI is the biggest technological innovation in his lifetime. Although pure play AI stocks may be trading at [somewhat frothy](#) levels, the benefits of AI may accrue to nearly all firms. Our Beacon colleague, Scott Marsh, calls this dynamic the “Intuit effect.” Intuit is a large technology and business services firm, perhaps best known for its TurboTax product. Intuit’s stock has roughly doubled over the past three years, due in part to using AI to improve its productivity and profitability. At Beacon we continually search for other firms on a global basis that may fully harness the power of AI in an ethical fashion.

4. Emphasize quality investments and firms with demonstrated profitability over unprofitable ones.

Although there is no uniform definition of “quality” in finance, firms with profits and investment grade credit ratings often fall under this umbrella term. Last year, investors did not have a keen focus on quality. For example, the Russell 2000 Index of small-cap stocks substantially [outperformed](#) the S&P 600 Small-Cap Index. The main difference between the two indexes, besides the number of holdings, is that the S&P 600 Small-Cap Index has a quality filter. Specifically, firms in the S&P 600 Small-Cap Index must be profitable over the past quarter and full year, have reasonable debt levels, and a positive Return on Equity. At Beacon, we emphasize quality across the global equity market capitalization spectrum as well as our investments in other asset classes.

We at Beacon look forward to the opportunity to discuss our Ten Investment Forecasts with you, as well as the ways in which our Four Strategic Wealth Management Themes can be custom tailored to your personal situation. As always, we close by thanking you for your loyalty and support. We consider our relationship with our clients a true partnership, and our sole mission as a firm is to add value to our clients in any way we can. It is with the fulfillment of this mission in mind that each of us at Beacon is focused on individual and collective improvements each day. We also wish you a happy, and especially healthy, holiday season and a wonderful New Year.

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