Zacks
INVESTMENT MANAGEMENT

Market Strategy Report

January 2026

Zacks Investment Management

Power Your Portfolio with Research

IN THIS GUIDE:

What to Expect from This Report

We're holding a constructive outlook for both economic growth and corporate earnings in 2026. Equity markets should benefit from this fundamental strength, in our view. But there are two more reasons stocks could feel tailwinds in 2026: accommodative fiscal and monetary policy.

The Federal Reserve already resumed rate cuts in late 2025, and we think the conditions—moderating inflation, weak jobs market data—for additional cuts are becoming evident. On the fiscal side of the ledger, the One Big Beautiful Bill Act (OBBBA) is poised to deliver near term stimulus in the form of refunds/credits for both businesses and households, which lift disposable income, capex, and margins. In a midterm election year, we could also see additional fiscal stimulus to 'juice' the economy, and those proposals are already being floated by the Trump administration.[1]

In this report we'll also address the Venezuela issue, separating Venezuela's geopolitics from investable math, showing why sub-1% global output and slow-to-scale oil capacity argue for limited, slow-moving effects on prices and Energy earnings. Lastly, we'll zoom out to earnings: Tech remains a powerful engine, but the setup favors broader participation in 2026, with revisions and cash-flow dynamics doing more heavy lifting than headlines.

---

[1] Wall Street Journal. January 13, 2026. https://www.wsj.com/politics/policy/in-pivot-on-affordability-trump-unveils-barrage-of-proposals-to-address-costs-961e4343?mod=article_inline

How Fiscal + Monetary Policy Could Form a 2026 Tailwind

2026 is setting up for what we're calling a "policy one-two": lagged effects of Fed easing with the potential for more rate cuts on deck, combined with a visible fiscal impulse from the One Big Beautiful Bill Act (OBBBA) and additional fiscal stimulus proposals that the Trump administration seems poised to pursue.

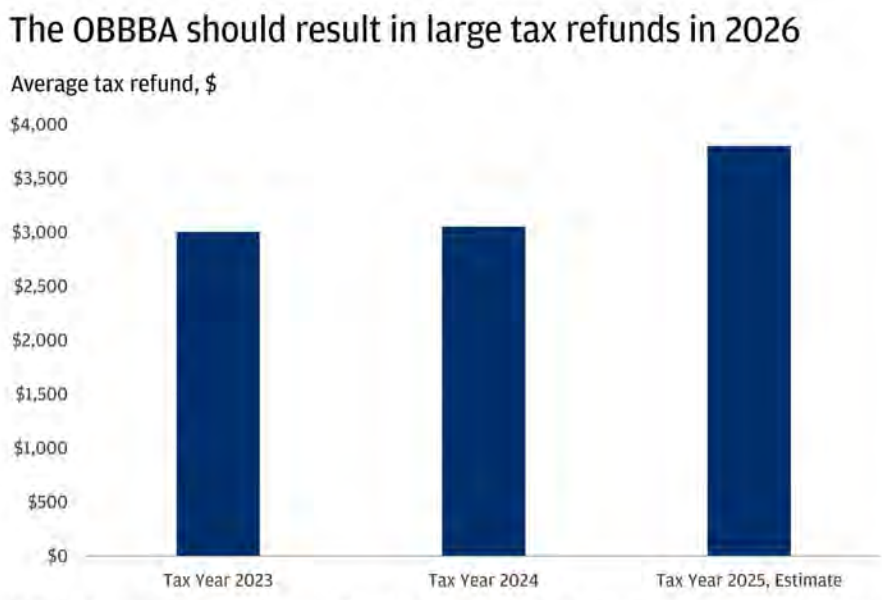
Let's start with monetary policy.

December's employment report capped a weak year for hiring, with total job gains in 2025 averaging fewer than 50,000 per month—the slowest pace outside of recessions since the early 2000s. While the unemployment rate edged lower to 4.4% in the latest jobs report, other indicators point to softening beneath the surface. Average weekly hours declined, temporary help employment fell, and long-term unemployment rose. Job growth became increasingly concentrated in healthcare and leisure, while manufacturing employment continued to contract.

In our view (assuming inflation doesn't reaccelerate), this should open the door for further easing in 2026. Markets broadly expect additional policy support.

The Fed has already cut rates at the last two meetings, and financial conditions have been easing. We think this will continue to serve as a positive tailwind for stocks.

On the fiscal side, the OBBBA is designed to arrive in 2026 in a way households will actually feel. Rather than mid-year paycheck withholding changes, the bill channels relief through tax filing season. Some estimates call for an aggregate 44% jump in 2026 tax refunds versus this year, roughly $150 billion flowing to consumers.



Source: Tax Foundation, IRS, "Filing season statistics for week ending Oct. 17, 2025", Christian Floro, "Dissecting the OBBBA: A front-loaded fiscal boost."

The stimulative provisions are many: a bigger standard deduction, no tax on tips or overtime for qualifying professions, tax breaks on car-loan interest, a slightly higher child tax credit, an increase in the SALT deduction cap to $40,000, and a new $6,000 senior deduction for incomes up to $75,000. To name a few. Refunds tend to be spent, so this near-term cash flow could buoy retail sales and state sales-tax receipts.
On the business side, three provisions pull forward cash and lower hurdle rates: 100% expensing for equipment and for domestic R&D (replacing five-year amortization), a more generous interest deduction (EBITDA rather than EBIT), and immediate expensing for building production and manufacturing facilities. All are retroactive to January 2025.

Together, the consumer and business pieces sum to roughly $285 billion of stimulus next year, or nearly 1% of GDP. That's significant.

But there's even more in the fiscal stimulus category, at least in terms of what is being proposed in various forms by the Trump administration. Some of the below policy proposals come from social media posts, so investors should not consider any of them as foregone conclusions. But it is evident that the Trump administration is seeking ways to address the "affordability" issue, which for the broader economy and markets just means more fiscal stimulus.

Here are the ideas we've seen so far:

- A 10% cap on credit-card APRs, which would deliver interest savings (on the order of ~$100 billion annually). This would require legislation and could prompt tighter card underwriting or migration to costlier non-card credit.
- The proposal to have Fannie Mae and Freddie Mac buy $200 billion of mortgage-backed securities, which could put pressure on mortgage rates given the additional source of demand.
- Rebating tariff revenues via $2,000 checks would be a clear one-off demand boost and sentiment lift, but the legal and appropriations pathway is uncertain.
- A ban on large investors buying single-family homes would likely need legislation; even if enacted, impacts would be localized and wouldn't resolve broader supply shortfalls.
- The idea of pushing oil toward $50 via deeper U.S. influence over Venezuelan output faces obvious geopolitical and operational hurdles. If f crude drifts lower for other reasons, headline CPI relief would still help real incomes.
- And finally, the notion that data-center developers should "pay their own way" on power.

What we're seeing here, in our view, is the administration's willingness to run the economy hot into the midterms. It is unclear how many of these make it from posts to policy, but it's clear the toolkit now stretches beyond what's typical in late-cycle U.S. expansions.

Near term, more announcements like these would likely be growth- and risk-asset friendly when layered on top of OBBBA refunds/credits and easier money. But it comes with risks that investors should keep in mind—if stimulus overshoots and an already tight economy absorbs more demand, inflation pressures could return. What we don't want to see is the Fed reversing course and taking steps to tighten liquidity, which would turn tailwinds to headwinds.

What Venezuela's Turmoil Means for Oil Prices

Regional conflict makes big headlines, but markets typically filter it down to what matters for prices and profits. Venezuela is a good test of that filter. Despite a fast-moving leadership shuffle and sanctions noise, the investable question is narrower: *do any of the recent events in Venezuela meaningfully change global oil supply, refining flows, or corporate earnings in the next year or two?*[2]

We don't think so.

On volumes, OPEC's December report pegs Venezuela's crude output at roughly 0.96 million barrels per day (secondary sources)—less than 1% of world supply—after modest gains this year. Outages and export disruptions have pulled production as low as ~880,000 b/d at points, and even under friendlier policy, experts estimate a reconstruction bill on the order of $100 billion to restore capacity would take years, not months.

Canada and Mexico together supply about a quarter of the crude U.S. refiners run, with more than 4 million b/d from Canada alone (heavy grades that fit U.S. refinery infrastructure). In that context, incremental Venezuelan heavy crude—if sanctions pathways ease and if contracts, financing, and fieldwork materialize—would mostly reshuffle cargoes (who buys which barrels) rather than expand total global supply in the near term. Think rerouting, not re-rating.

History says private firms move cautiously after expropriation cycles. The legal, financial, and operational tasks take time and money. Meanwhile, U.S. refiners won't reconfigure for a hypothetical flow, as they're already optimized for steady Canadian and Mexican slates. If Venezuelan heavy becomes more available, it likely displaces a slice of other heavy imports at the margin before it changes global balances.

Bottom line: Venezuela's saga is geopolitically consequential, but the investable math still points to limited, slow-moving effects. Output remains under 1% of global supply, rebuilding needs are vast and multi-year, and North American heavy-crude dynamics are anchored by Canada/Mexico's entrenched role with U.S. refiners. Markets have likely "done the math" already, which is why broad indexes barely register more than a sentiment wobble when these headlines spike.

---

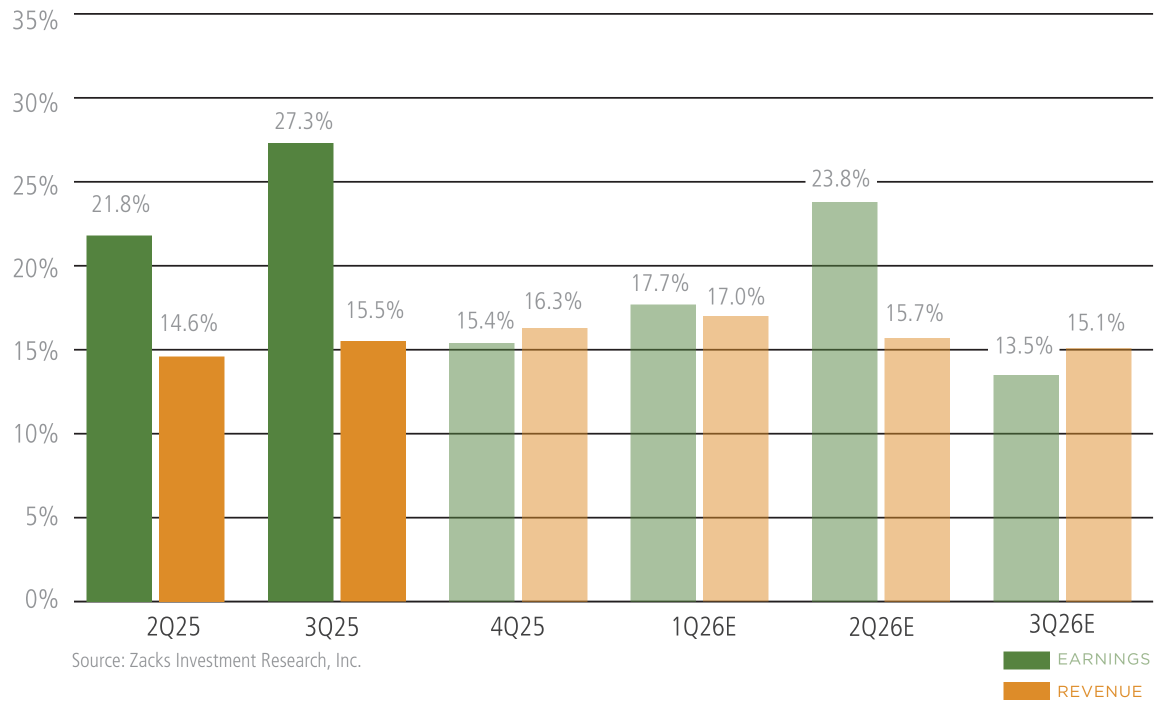
[2] Telegraph. January 5, 2026. https://www.telegraph.co.uk/business/2026/01/05/venezuelan-oil-revival-will-take-a-decade-or-more/

Broad-Based Earnings Growth Expected in 2026

The Tech sector has been driving aggregate earnings growth since Q3 2023, and the trend is expected to continue in Q4 2025. For Q4, Tech sector earnings are expected to be up +15.4% from the same period last year on +16.3% higher revenues, the 10th **quarter in a row of double-digit earnings growth.**[3]

This would follow the sector's +27.3% earnings growth on +15.5% higher revenues in Q3 2025. But as the chart below shows, the sector's growth trajectory is expected to continue in the coming quarters.

Technology Sector Quarterly Growth Rates



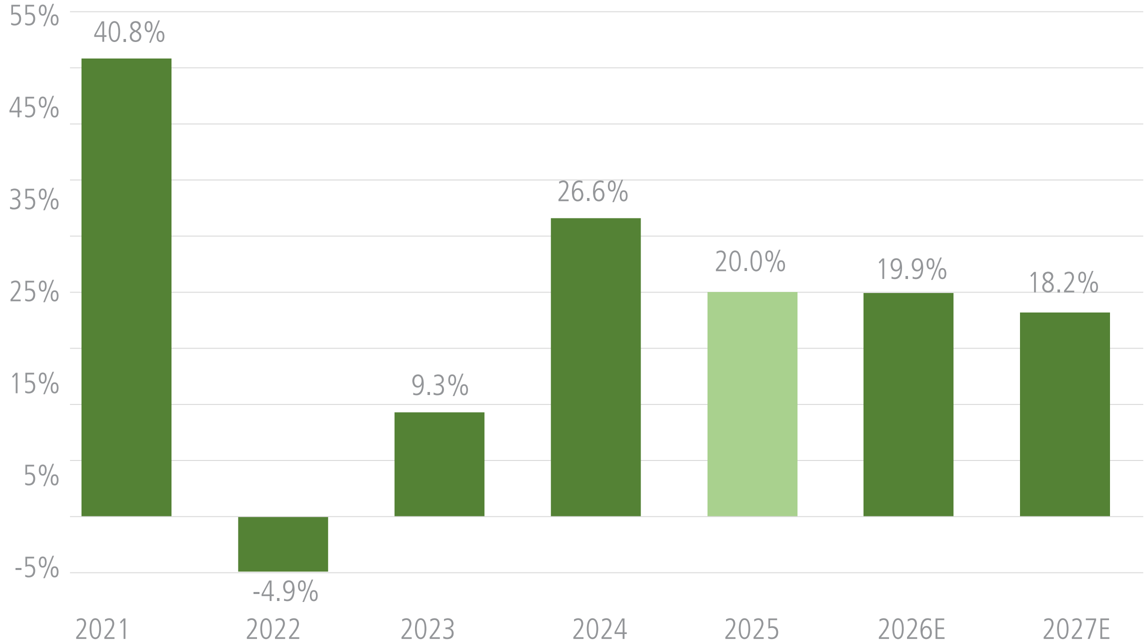
Source: Zacks Investment Research, Inc.

In addition to the Tech sector's strong growth profile, the sector is also among the few sectors whose earnings outlook is steadily improving. This shows up in the revisions trend that continues to remain positive for the Tech sector, both for Q4 2025 as well as for full year 2026.

For calendar year 2026, the Zacks Tech sector is currently expected to enjoy +19.9% earnings growth, which would follow the sector's expected +20.0% earnings growth in 2025.

[3] Zacks.com. January 7, 2026. https://www.zacks.com/commentary/2813880/broad-based-earnings-growth-expected-in-2026

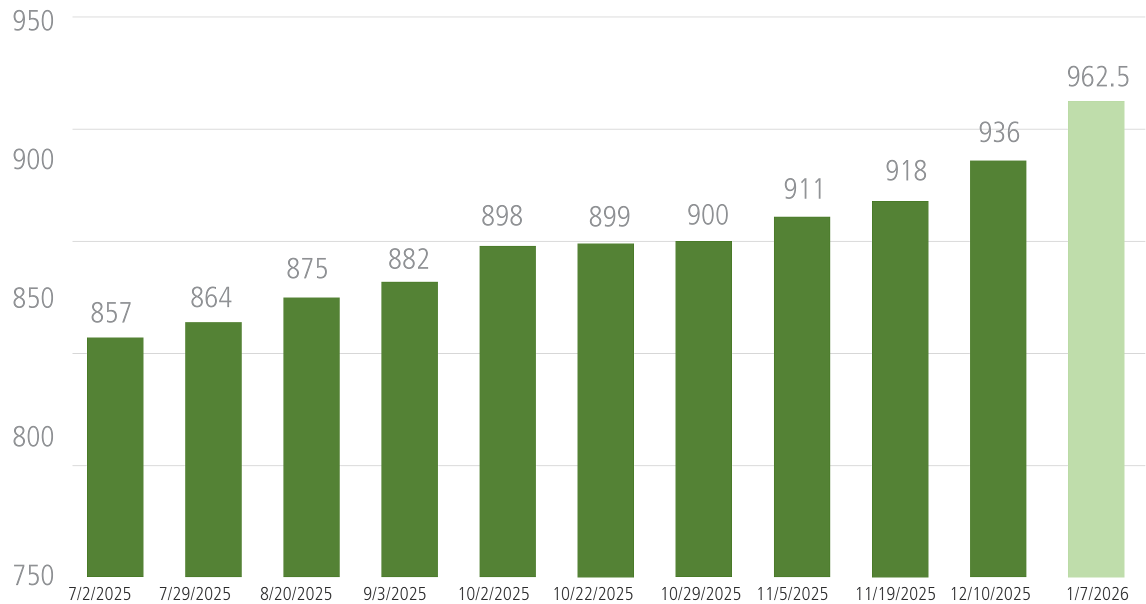
Tech Sector Earnings Growth Rate



Source: Zacks Investment Research, Inc.

The Tech sector has not only been the largest contributor to aggregate earnings growth, but it has also been enjoying persistent positive estimate revisions, a trend that continues for 2026. The chart below shows the evolution of aggregate 2026 Tech sector earnings estimates since the start of July 2025.

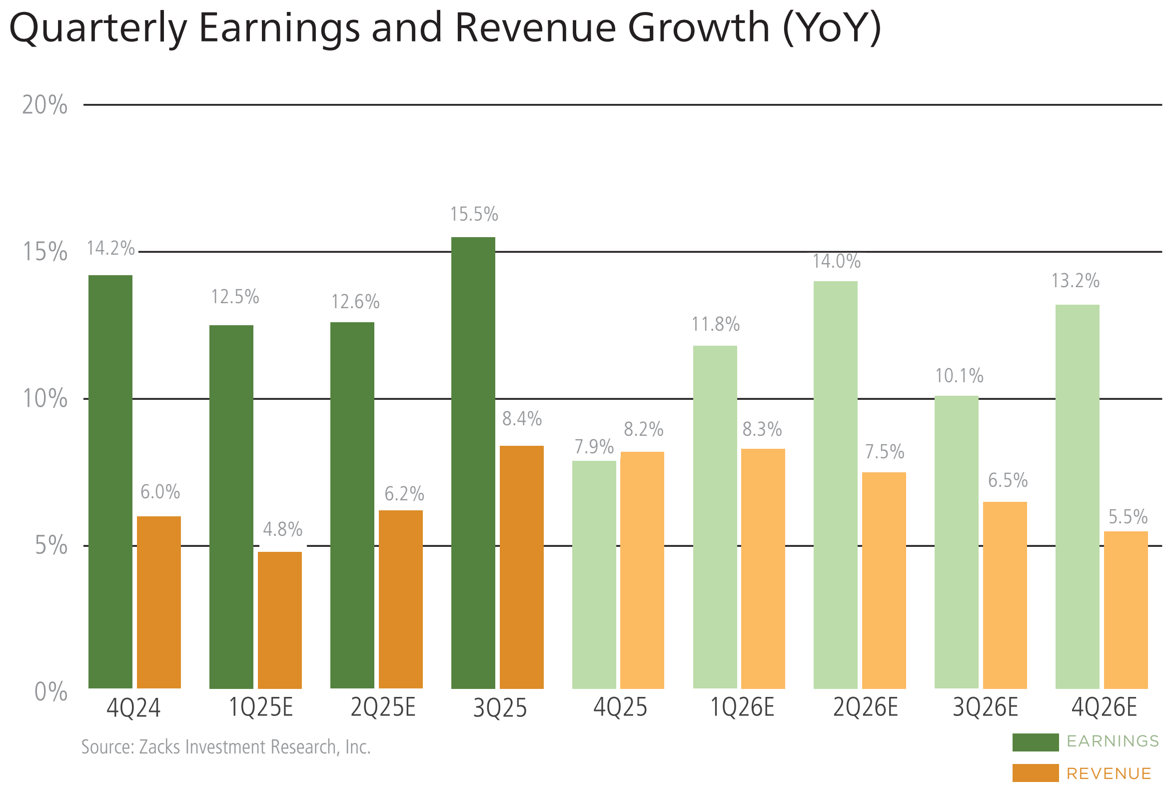
Evolution of 2026 Q3 Tech Earnings Growth Estimates (Billion $)



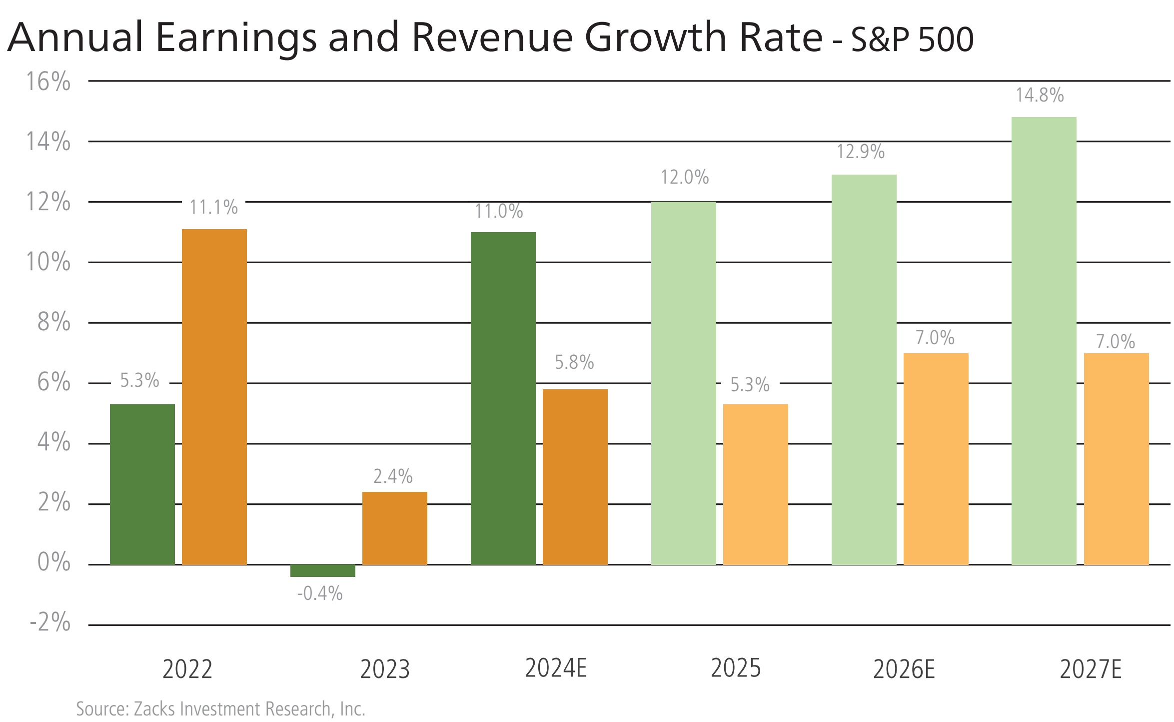
Source: Zacks Investment Research, Inc.

The Earnings Big Picture

The chart below shows expectations for 2025 Q4 in terms of what was achieved in the preceding four periods and what is currently expected for the next four quarters.



The chart below shows the overall earnings picture for the S&P 500 index on an annual basis.



The Tech sector has an outsized role in the S&P 500 index. The sector is expected to bring 35.9% of the index's total earnings over the coming four-quarter period and currently accounts for 43.1% of the index's total market capitalization. The Tech sector's positive estimate revision trend is a major reason its members enjoy a strong market following and support.

Bottom Line for Investors

The setup for early 2026 is constructive.

Monetary policy is easing, and OBBBA's tax design pushes a visible fiscal impulse into filing season while business expensing and R&D provisions bolster after-tax cash flow. Policy makers appear willing to lean into growth with unconventional affordability ideas, this year, which could boost activity near term but rekindle price pressures later. This will be a storyline to pay close attention to.

On geopolitics, the Venezuela saga looks more headline risk than macro risk, with limited, slow-moving implications for global oil supply and corporate earnings. Net-net, the balance of evidence points to steady growth and an improving earnings backdrop, with the main caveat being execution risk around proposed policies.

DISCLAIMER

Past performance is no guarantee of future results. Inherent in any investment is the potential for loss.

Zacks Investment Management, Inc. is a wholly-owned subsidiary of Zacks Investment Research. Zacks Investment Management is an independent Registered Investment Advisory firm and acts as an investment manager for individuals and institutions. Zacks Investment Research is a provider of earnings data and other financial data to institutions and to individuals.

This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. Do not act or rely upon the information and advice given in this publication without seeking the services of competent and professional legal, tax, or accounting counsel. Publication and distribution of this article is not intended to create, and the information contained herein does not constitute, an attorney-client relationship. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole.

Any projections, targets, or estimates in this report are forward looking statements and are based on the firm's research, analysis, and assumptions. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications. All expressions of opinions are subject to change without notice. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed in this presentation.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties. Zacks Investment Management does not assume any responsibility for the accuracy or completeness of such information. Further, no third party has assumed responsibility for independently verifying the information contained herein and accordingly no such persons make any representations with respect to the accuracy, completeness or reasonableness of the information provided herein. Unless otherwise indicated, market analysis and conclusions are based upon opinions or assumptions that Zacks Investment Management considers to be reasonable. Any investment inherently involves a high degree of risk, beyond any specific risks discussed herein.

The S&P 500 Index is a well-known, unmanaged index of the prices of 500 large-company common stocks, mainly blue-chip stocks, selected by Standard & Poor's. The S&P 500 Index assumes reinvestment of dividends but does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.

The Russell 1000 Growth Index is a well-known, unmanaged index of the prices of 1000 large-company growth common stocks selected by Russell. The Russell 1000 Growth Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Dow Jones Industrial Average measures the daily stock market movements of 30 U.S. publicly-traded companies listed on the NASDAQ or the New York Stock Exchange (NYSE). The 30 publicly-owned companies are considered leaders in the United States economy. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell 2000 Index is a well-known, unmanaged index of the prices of 2000 small-cap company common stocks, selected by Russell. The Russell 2000 Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot invest directly in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The S&P Mid Cap 400 provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

The S&P GSCI is the first major investable commodity index. It is one of the most widely recognized benchmarks that is broad-based and production weighted to represent the global commodity market beta. The index is designed to be investable by including the most liquid commodity futures, and provides diversification with low correlations to other asset classes. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Russell 1000 Value Index is a well-known, unmanaged index of the prices of 1000 large-company value common stocks selected by Russell. The Russell 1000 Value Index assumes reinvestment of dividends but does not reflect advisory fees. An investor cannot directly invest in an index. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The Nikkei Stock Average, the Nikkei 225 is used around the globe as the premier index of Japanese stocks. More than 60 years have passed since the commencement of its calculation, which represents the history of Japanese economy after the World War II. Because of the prominent nature of the index, many financial products linked to the Nikkei 225 have been created are traded worldwide while the index has been sufficiently used as the indicator of the movement of Japanese stock markets. The Nikkei 225 is a price-weighted equity index, which consists of 225 stocks in the 1st section of the Tokyo Stock Exchange. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor.

The CBOE Volatility Index (VIX) is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500 Index call and put options. On a global basis, it is one of the most recognized measures of volatility -- widely reported by financial media and closely followed by a variety of market participants as a daily market indicator. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.

Zacks Investment Management
101 North Wacker Drive, Suite 1500, Chicago, IL 60606
Toll-free: (888) 775-8351 | wholesalesupport@zacks.com | www.zacksim.