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Strong fundamentals and AI create exciting opportunities for 2026

With a solid fundamental backdrop, a broadening equity market, and the potential in AI, we believe this is an exciting time to be picking stocks and investing in businesses.





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US equity markets have welcomed 2026 with a mix of optimism and uncertainty. Tariff-related tensions remain, as do concerns about big tech earnings, consumer sentiment, and artificial intelligence expectations and spending. At the same time, we are excited about the potential in AI, the resilience of the equity market — the S&P 500 surpassed 7,000 for the first time — and a broadening in the market as sectors beyond technology have strengthened.

Fundamentals matter

With the first quarter well underway, my most important observation is this: The underlying fundamentals of businesses today, especially in the United States, are very strong. Our team at Putnam recently conducted analysis of earnings during the decade following the Global Financial Crisis of 2008. When adjusted for inflation, earnings growth for that decade was 1% or less, year in and year out. Since 2018, however, we have seen much more robust earnings growth. In the most recent quarter, we saw low-double-digit growth in company earnings. As of this writing, with companies reporting Q4 earnings, three quarters have beat expectations, and blended earnings growth is 13%.

> **"What companies are earning matters, and we are looking at the year ahead with a strong fundamental backdrop."**

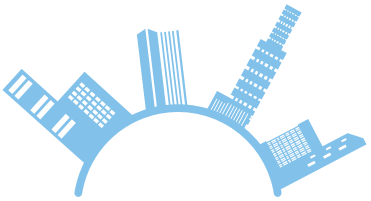
At the end of the day, stock prices follow earnings, and what companies are earning matters. We are looking at the year ahead with a really strong fundamental backdrop. This is an exciting time to be picking stocks and investing in businesses. Pockets of volatility are absolutely to be expected, as we saw in 2025, but that provides opportunity for active managers.

Perspective on lofty valuations

Are stocks too expensive? The S&P is currently trading at a forward p/e in the low 20x range, which is above historical averages. That high multiple, however, is largely the result of steep valuations for large-cap technology stocks, which have become a larger weight in the index and are trading at a premium to the market. Further, when you take index weight out of the picture and look at the equal-weight p/e for the S&P 500, it is relatively in line with history. This tells us we are in a stock-picker's market. There are certainly some companies that are overpriced, which is to be expected at these levels, and it is our job to invest in the stocks that will outperform our benchmarks.

Like the equity market, consumers are resilient

Consumer sentiment has been another concern for investors. While we saw economic anxiety in 2025—particularly in response to tariff news—I would say the consumer largely remained resilient. Despite much macroeconomic uncertainty, purchasing and travel trends remained robust. Going forward, it will be important to monitor consumer confidence and the impact of inflation, but right now we don't see them as significant headwinds for equity markets.



AI spending has been massive. Four companies alone are planning to spend $600 billion this year.

Asking the relevant AI questions

The subject of AI continues to generate both excitement and fear. From an investment standpoint, many investors in the market today are trying to get a research edge based on the next quarter, the next month, or even the next week. We take a longer, multiyear perspective, and we are fortunate to be able to have conversations with business leaders to learn more about their longer-term goals. How are they thinking about their business over the next three, four, or five years? Where are the opportunities for them to invest in AI, and where are the opportunities cut costs as a result of AI?

We believe AI presents a tremendous opportunity for nearly all businesses. As an investment team, we have great conversations about the implications of AI on technology stocks. But also, how does it affect, for example, a trucking business or a waste company that could get more efficient by leveraging AI? We want to understand how CEOs and CFOs define long-term success for their businesses. We take these insights back and plug them into our financial models to determine a company's potential earnings power and how much of it is priced into its stock today.

AI: Many unknowns create opportunities for active management

The market has been broadly optimistic about AI spending, and the AI spending we have seen has been massive. The top four hyperscalers have tripled their spending since 2022. Four companies alone are planning to spend $600 billion this year. But there is so much that we *don't* know today.

We think about the invention of the iPhone, and the fact that it took another year before the App Store arrived. So many businesses exist in large part because of that App Store—Uber for example. If you go back further to the introduction of the internet, it was revolutionary for many businesses, but also consider that hundreds of dot-com era companies quickly went bankrupt. There will be winners and losers with AI as well. We believe the power of fundamental analysis can help us determine which companies can thrive with AI and which could be left behind.

The path to realizing AI's potential is unlikely to be linear. History shows that technology cycles cause the market to swing between periods of greed and fear. At the same time, we view the underlying AI opportunity as the most compelling and durable investment theme of this generation. We are focused on quantifying AI's impact—new revenues or cost savings, for example—on our earnings estimates. While a large range of outcomes may lead to volatility, this also lends itself well to active management and creates compelling opportunities to generate alpha.

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