February 9, 2026

Morning Briefing

10 Roaring Reasons To Remain Optimistic

Check out the accompanying chart collection.

Executive Summary: Annual real GDP growth averaged 3.6% during the second half of the 1900s versus just 2.1% since 2000. Dr Ed projects a return to 3.6% or higher over the remainder of the "Roaring 2020s" and into the "Roaring 2030s." Today, he discusses 10 reasons for his bullishness on the outlooks for both the US economy and S&P 500 companies' earnings. These include robust consumer spending supported by demographics and a huge wealth effect, massive capital spending on technology, onshoring trends, a productivity growth boom, fiscal and monetary stimulus, energy spending, and the Trump administration's rebalancing of US trade with lower imports and greater exports. ... Also: Dr Ed reviews "Hamnet" (+ +).

YRI Weekly Webcast. Join Dr Ed's live webcast with Q&A on Mondays at 11 a.m., EST. You will receive an email with the link one hour before showtime. Replays of the weekly webcasts are available *here*.

Roaring 2020s I: The Year of the Galloping Horse. Time flies when we are having fun and enjoying a bull market. This is the seventh year of the Roaring 2020s. In the Chinese Zodiac, it is the Year of the Horse. The 2026 horse is likely to be a racehorse, with real GDP growth galloping 3.5%-4.5% this year, up from 2.5%-3.0% last year (*Fig. 1*). That's because the horse will be fed a very stimulative diet of steroids and speed this year, as discussed below—so much so that real GDP might run the 2026 race even faster than we project.

For perspective, on a y/y basis, real GDP rose 3.1% on average since Q1-1948 (*Fig. 2*). It averaged 3.6% through 1999 but just 2.1% since 2000. We expect this average growth rate to improve back to 3.6% or higher over the remainder of the decade and through the Roaring 2030s.

The improvement may already have begun. During the last three quarters of 2025, real GDP rose 3.8% (saar) during Q2 and 4.4% during Q3 (*Fig. 3*). Q4-2025's real GDP growth is tracking at an annualized rate of 4.2%, according to the Atlanta Fed's *GDPNow* model

(*Fig. 4*).

Real GDP should grow more rapidly during 2026 for the reasons discussed below. If so, then S&P 500 companies' collective operating earnings per share could surprise to the upside. Industry analysts are currently projecting that it was $273.59 last year and will rise to $314.24 this year and $363.03 next year (*Fig. 5*). We are currently estimating $310 this year and $350 in 2027 (*Fig. 6*). We are considering raising our numbers.

Roaring 2020s II: Refresher Course. There are 10 good reasons for our optimistic update of the outlooks for real GDP and S&P 500 companies' earnings in 2026. Without further ado, here they are:

(1) *Roaring consumer spending.* Many taxpayers are expected to see significant refunds this tax season. Early estimates from the Treasury Department suggest the average refund could rise by roughly $1,000, potentially bringing the typical check to nearly $4,000—up from approximately $3,100 last year. This increase is largely driven by the One Big Beautiful Bill Act (OBBBA), which was signed into law in July 2025 and applied many of its tax-cutting provisions retroactively to the 2025 tax year.

Since paycheck withholding was generally not adjusted mid-year to account for these retroactive cuts, many people effectively "overpaid" their 2025 taxes and will recoup that difference as a larger refund now. Like the pandemic-era relief checks from the government, the boosted refunds will increase disposable personal income and personal consumption expenditures (*Fig. 7*).

This should offset the recent flattening of disposable income, which we attribute to the retiring Baby Boom generation. They will continue to boost consumer spending by spending their retirement funds. As a result, the personal saving rate should continue to fall, boosting consumption (*Fig. 8*).

(2) *Amazing wealth effect*. As we've often observed, the Baby Boomers are the wealthiest retiring generation ever on Planet Earth. At the end of Q3-2025, their net worth totaled a record $88.5 trillion, accounting for 51.2% of total household net worth (*Fig. 9*). At the end of Q3-2025, they held a record $30.0 trillion in corporate equities and mutual fund shares, accounting for 53.2% of the total for all households (*Fig. 10*).

In the past, worrywarts worried that when the Baby Boomers started to retire, they would depress the stock market by selling their equities to meet their needs. Instead, it seems the bull market in stocks is allowing retirees to enjoy a comfortable lifestyle while their net worth continues to rise!

The upward trend in the ratio of household net worth to disposable income helps to explain why the personal saving rate has been trending down over the years (*Fig. 11*).

Gallup reports that 62% of adult Americans held stocks in 2025 (*Fig. 12*). The total amount of assets held in IRAs rose to a record $18.0 trillion during Q2-2025 (*Fig. 13*). Since the start of the Roaring 2020s through Friday's close, the market capitalization of the Wilshire 5000 has increased by $36.8 trillion to a record $69.4 trillion currently (*Fig. 14*).

(3) *Roaring tech capital spending.* High-tech capital spending in nominal GDP rose $230 billion y/y to a record $2.3 trillion (saar) during Q3-2025 (*Fig. 15*). This year, high-tech capital spending on AI infrastructure, including power generation and transmission, is projected to total $700 billion. Last week, investors were freaked out by how much the hyperscalers planned to spend on AI infrastructure until they seemed to realize on Friday that this would be very stimulative to overall business activity as well as the cash flow of the hyperscalers. They realized that after Nvidia CEO Jensen Huang made these observations in an interview with Scott Wapner on CNBC's "Closing Bell."

Investors have been concerned that so much capital expenditures on AI will deplete the cash flow of the hyperscalers. Huang dismissed these concerns about overspending, stating that the capital investments are "appropriate and sustainable" because they lead to "profitable tokens" and rising cash flows.

Overall corporate cash flow rose to a record-high $3.9 trillion (saar) during Q3-2025 (*Fig. 16*). It will get a big boost from OBBBA this year. Under prior law, bonus depreciation had dropped to 60% in 2024 and was heading toward 40% in 2025. OBBBA permanently restores 100% bonus depreciation for qualifying property (equipment, machinery, etc.) placed in service after January 19, 2025.

This allows companies to deduct the full cost of capital investments immediately. It effectively acts as an interest-free loan from the government, boosting near-term free cash flow for capital-intensive sectors like industrials, energy, and telecommunications. Technology is now a capital-intensive industry too!

Previously, companies were forced to amortize domestic research & development (R&D) costs over five years (a change that began in 2022). OBBBA reinstates the ability to immediately expense 100% of domestic R&D costs in the year they are incurred. This provides a massive liquidity boost for tech and pharmaceutical companies. By reducing taxable income in the current year rather than spreading it out, firms retain more cash for reinvestment or AI-related R&D.

(4) *Roaring onshoring.* President Donald Trump has claimed that his administration has secured a historic amount of investment—primarily from foreign governments and corporations—as a direct result of his "America First" policies and tariff threats. The official White House tracker ("*The Trump Effect*") lists major investments at approximately $9.6 trillion as of late 2025.

The Bureau of Economic Analysis reported that foreign direct investment in the US was $323.6 billion (saar) during Q3-2025 (*Fig. 17*). The multi-trillion-dollar figures cited by the administration largely represent "commitments" and "economic exchange targets" projected over the next decade, rather than liquid capital that has already entered the US economy.

Nevertheless, foreign direct investment is likely to increase significantly over the next three years, while Trump remains in office.

(5) *Accelerating productivity growth.* Our "Roaring 2020s" thesis is a structural bull case for the US economy, predicated on the idea that the current decade is a mirror image of the 1920s—not because of "flapper" culture, but because of a massive, technology-led productivity boom driven this time by "Brains, not Brawn." Unlike past eras when technology was seen as a threat to jobs, today's labor scarcity (mostly driven by retiring Baby Boomers) is forcing companies to innovate to augment the productivity of their workers. When companies can't find enough workers, they are compelled to invest in productivity-enhancing technology to meet the demand for their goods and services, which should remain strong for the reasons discussed above

We've attributed the current productivity surge to the BRAIN acronym: Biotechnology, Robotics, Artificial Intelligence, and Nanotechnology. AI is not a "bubble" but the natural next step in a digital revolution that started with mainframes during the mid-1960s and evolved through PCs, the Internet, and cloud computing. Information technology now accounts for more than 50% of current dollar capital spending, up from just 15% at the beginning of the 1960s (*Fig. 18*).

This year, the productivity benefits of AI should broaden from the technology producers (like Nvidia and the other Magnficent-7) to the S&P 500's "Impressive 493"—i.e., the users of the tech that will see significant margin expansion as they automate routine tasks.

Almost all the awesome growth in real GDP during the final three quarters of 2025 was driven by productivity (*Fig. 19*).

(6) *Stimulating fiscal policy.* As explained above, the tax cuts in the OBBBA are providing lots of fiscal stimulus to both consumer and business spending this year. Meanwhile, the bill doesn't do much if anything to reduce the growth in federal government outlays (*Fig. 20*). As a result, the federal deficit will remain somewhere between $1.5-$2.0 trillion this year.

(7) *Stimulating monetary policy.* The Fed has reduced the federal funds rate by 175bps since September 2024. Monetary policy works with a long and variable lag, especially when the Fed is easing. Consequently, much of the monetary easing so far might be most stimulative this year. Indeed, we may be starting to see that in the rising growth rate of bank loans (*Fig. 21*).

(8) *Energizing energy.* As mentioned above, the boom in AI infrastructure spending includes lots of spending on generating and transmitting power to the data centers.

(9) *Rebalancing globalization.* The Trump administration's trade policies may already be starting to depress US imports while boosting US exports. That was one of the reasons why real GDP growth was strong during Q4-2025.

(10) *Animal spirits.* All these developments might revive animal spirits. Despite the resilience and strength of real economic growth during the first six years of the Roaring 2020s, surveys of consumer and business confidence have turned increasingly pessimistic over the past few years. They have been very misleading economic indicators, indeed, as we have consistently contended. However, the surveys may be starting to turn more optimistic, as suggested by the recent improvements in the Consumer Sentiment Index and the ISM manufacturing purchasing managers index.

Movie. "Hamnet" (+ +) is a 2025 film that imagines the life of William Shakespeare and his family. The central thesis of the movie is that the death of Will's 11-year old son, Hamnet, might have inspired him to write the play "Hamlet." The movie is beautifully filmed. Jessie Buckley plays Will's wife with a remarkable performance. (See our movie reviews *archive*.)

Strategy Indicators

Global Stock Markets (US$ Performance) (*link*): The US MSCI index fell 0.2% during the February 6 week to 0.9% below its January 12 record high. The AC World ex-US outperformed, albeit with a 0.1% decline for the week, to 0.9% from its latest record high on January 28. The AC World ex-US has been outperforming the US MSCI since December 24, 2024 and hitting new record highs since May 14—the first time it's had such a long streak of successive record highs since June 15, 2021. EM Latin America was the best performing region last week, with a gain of 1.6%, followed by EAFE (0.5%), EMEA (0.4), EMU (0.3), Europe (0.3), and the AC World ex-US. EM Asia was the worst regional performer, with a decline of 2.0%, followed by EM (-1.4). The Mexico MSCI index, with a gain of 5.1%, performed the best among country indexes, ahead of India (3.1), Japan (1.8), Switzerland (1.5), and France (1.4). The Korea MSCI index was the worst performer w/w, with a decline of 5.1%, followed by China (-3.9), Hong Kong (-.9), Spain (-1.0), and Taiwan (-0.9). In terms of ytd performance rankings, the 1.0% gain for the US MSCI index ranks as the third worst performer among the 18 MSCI countries that we follow and trails the 5.9% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EM Latin America leads with a gain of 17.0%, followed by EMEA (9.2), EM (6.3), EM Asia (6.1), and the AC World ex-US. EMU is the worst ytd performer, albeit with a gain of 4.4%, followed by Europe (4.7) and EAFE (5.7). Korea is the best ytd performer, with a gain of 21.6%, followed by Brazil (17.4), Mexico (15.0), Taiwan (10.1), and Japan (8.5). The worst performing countries ytd: India (-2.2), China (0.6), Canada (1.9), Germany (2.0), and France (2.6).

US Stock Indexes (*link*): Thirty-one of the 48 major US stock indexes that we follow rose during the week ended February 6, compared to 17 rising a week earlier. Investors dumped LargeCap Growth stocks last week, re-igniting the SMidCap's rally and sending it back to new record highs. The Dow Jones 20 Transports index was the best performer for the week, with a gain of 8.7%, ahead of S&P 400 MidCap Pure Value (6.7%), S&P 500 Transportation (6.3), S&P 600 SmallCap Pure Value (6.1), and S&P 400 MidCap Pure Value (4.9). The Russell 1000 Growth index was the worst performer, with a decline of 4.3%, followed by Russell 3000 Growth (-4.2), Russell MidCap Growth (-3.4), Russell 2000 Growth (-3.1), and Nasdaq Industrials (-2.6). SMidCaps still dominate the top of the ytd gainers list of 48 indexes, but fewer indexes are higher ytd now—37 versus 45 a week earlier. With a gain of 14.7%, the S&P 600 SmallCap Pure Value index is still in the top spot as the best performer so far in 2025, ahead of Dow Jones 20 Transports (14.6), S&P 400 MidCap Pure Value (11.6), S&P 600 SmallCap Value (11.1), and S&P 600 SmallCap (9.7). The worst performing major US stock indexes ytd: Russell 1000 Growth (-5.8), Russell 3000 Growth (-5.5), Russell MidCap Growth (-4.3), S&P 500 LargeCap Growth (-1.6), and

Nasdaq Industrials (-1.0).

S&P 500 Sectors Performance (*link*): Six of the 11 S&P 500 sectors rose during the wild week ended February 6, and eight were ahead of the S&P 500's 0.9% decline. That compares to seven sectors rising week earlier when the same seven were ahead of the S&P 500's 0.3% gain. The outperformers last week: Energy (4.1%), Consumer Staples (3.9), Industrials (2.4), Communication Services (1.8), Materials (1.2), Financials (0.9), Utilities (-0.4), and Real Estate (-0.8). The underperformers last week: Information Technology (-4.2), Consumer Discretionary (-1.6), and Health Care (-0.9). Eight of the 11 sectors are positive ytd, and the same eight are ahead of the S&P 500 and with an average gain of 7.0% among them; but the index is up just 1.1% ytd. Energy is pulling away as the best ytd performer, with a gain of 15.8%, followed by Materials (11.6), Consumer Staples (11.1), Industrials (8.9), Communication Services (4.7), Consumer Discretionary (1.5), Real Estate (1.3), and Utilities (1.3). These three sectors are lagging the S&P 500 so far in 2026: Information Technology (-3.4), Financials (-2.5), and Health Care (-0.6).

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