

Investment Commentary—January 2026

The S&P 500 Index of U.S. stocks finished a strong year by returning 2.7% in the fourth quarter. Underneath the solid headline number, several fundamental questions loom over financial markets, adding uncertainty to the economic and stock market outlook over the next several years.

To begin, there is the crucial question of how AI will unfold. Recent signs suggest that enthusiasm over AI may be giving way to skepticism. Oracle Corporation, discussed here three months ago, is a case in point. Excitement over a \$300 billion contract with OpenAI sent Oracle's share price up 36% last September, but with investors now questioning whether the company will make much if any profit from the OpenAI deal, Oracle's share price is 20% below where it was *before* the contract announcement.

We are skeptical that AI will transform the global economy as quickly or profitably as the stock market seems to be expecting, but over time the transformation will be profound. Worries that huge swaths of the labor market are about to be replaced by AI are overdone¹. But if and when artificial general intelligence (AGI)—AI that can think for itself, mirroring human cognitive flexibility—emerges, it will have an enormous impact on jobs. Despite much hype, AGI is not right around the corner and may require significant conceptual breakthroughs. Those breakthroughs may not come for a decade or more, but until four years ago hardly anyone expected generative AI (the type of AI exemplified by ChatGPT or Google's AI overviews) to explode as quickly as it has, so it's best to acknowledge that no one really knows when AGI will arrive. If and when it does, very large numbers of jobs will become obsolete and productivity will skyrocket. How large-scale job losses and increasing productivity will interact and whether AGI will be a net positive or a net negative for the economy and for the stock market is impossible to say.

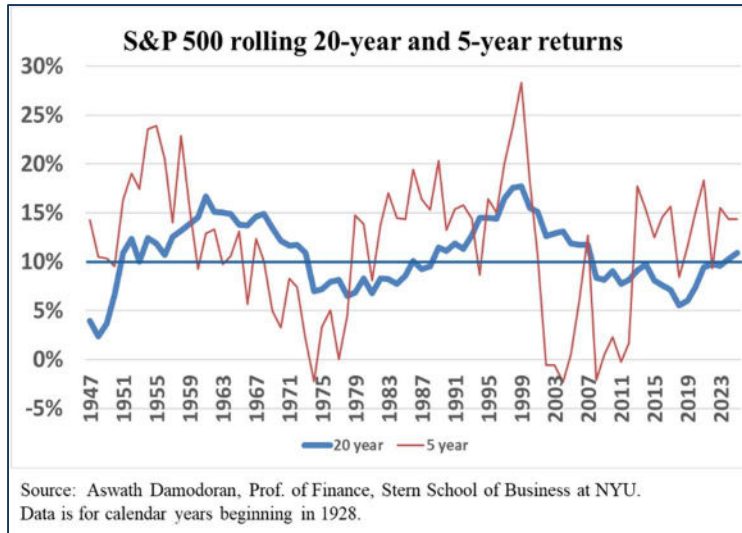
Just as AI has created a great deal of uncertainty, geopolitics appears to be undergoing a dramatic but unpredictable transformation. From an aggressive new tariff regime—that has, it's important to acknowledge, proven far less disruptive than feared!—to casting doubt on NATO's future, to the deposition of Nicholas Maduro in Venezuela, the Trump administration has moved decisively to disrupt the post-World War II global economic and political order. China and Russia are aggressively asserting their own power. Many pundits foresee a multi-polar world where the U.S. dominates the Americas, China dominates Asia, and Russia dominates parts of Europe. What such a geopolitical transformation would look like and its economic consequences are very difficult to know.

There are also questions looming over the future of the U.S. Dollar. U.S. debt continues to accumulate rapidly with no sign that political leaders or voters have the appetite to address it. The future of monetary policy is uncertain with Federal Reserve Chair Powell's term ending in May and President Trump seeking unprecedented influence over monetary policy. One can't help but wonder if, at some point in the future, there will be a marked erosion of faith in the U.S. Dollar.

¹ In recent commentary, Vanguard notes that the 140 occupations most affected by AI have experienced above average job growth over the last two years.

In the face of uncertainty over AI, a transforming geopolitical and economic order, and the future of the U.S. Dollar, investors would do well to focus on several fundamental investing principles: “Stocks for the Long Term,” “Bonds for Stability,” and “Diversification to Manage Risk.”

Stocks for the Long Term



As the chart to the left illustrates, short-term returns on U.S. stocks can vary widely, with negative returns over five-year periods unusual but not unheard of. Longer term returns, however, have been consistently positive, with twenty-year returns generally ranging from 7% to 15%. If you don't plan to retire for fifteen to twenty years or more, your savings can be invested in stocks with confidence. If the last 100 years (including a Depression and two world wars) is any indication, you will be able to weather whatever financial market ups and downs lie ahead.

Bonds for Stability

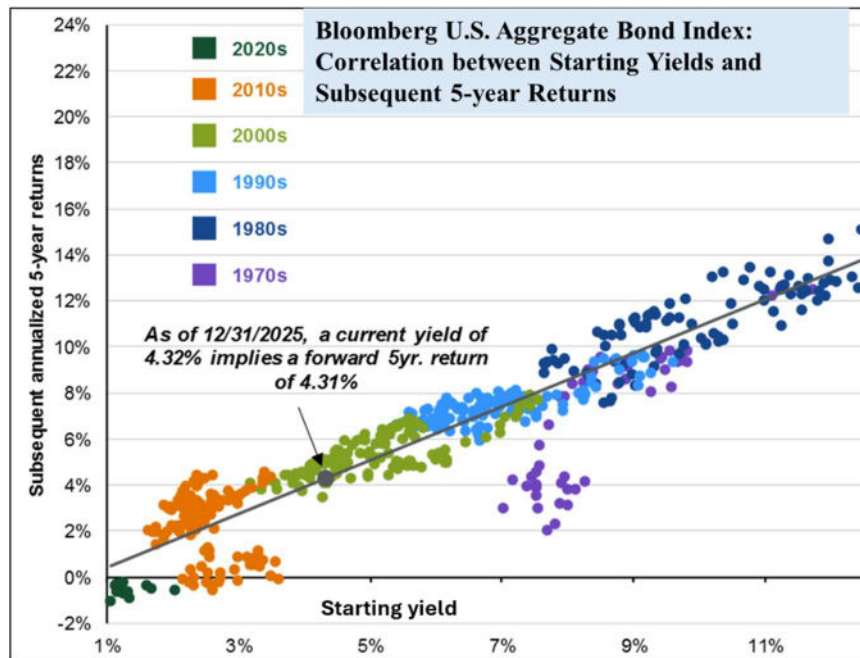


Chart courtesy of J.P. Morgan Chase

If you are retired and drawing on your investment portfolio, the long-term track record of stocks may be of less comfort (though stocks still have a key role to play if you want to avoid outliving your assets!) The good news is that bonds can stabilize portfolio returns. It certainly didn't seem that way in 2022, one of the worst years ever for bonds, with the Bloomberg Aggregate Index of U.S. bonds declining by 13.1%. However, as the chart on the left illustrates, bond returns are extremely well correlated with starting yields. As we pointed out

often in 2020 and 2021, the near-zero yields that prevailed in the wake of the Covid-19 pandemic created significant risk for bondholders. With the yield on the benchmark 10-year U.S. Treasury now over 4%, the outlook for bond returns is considerably better than it was four years ago. By

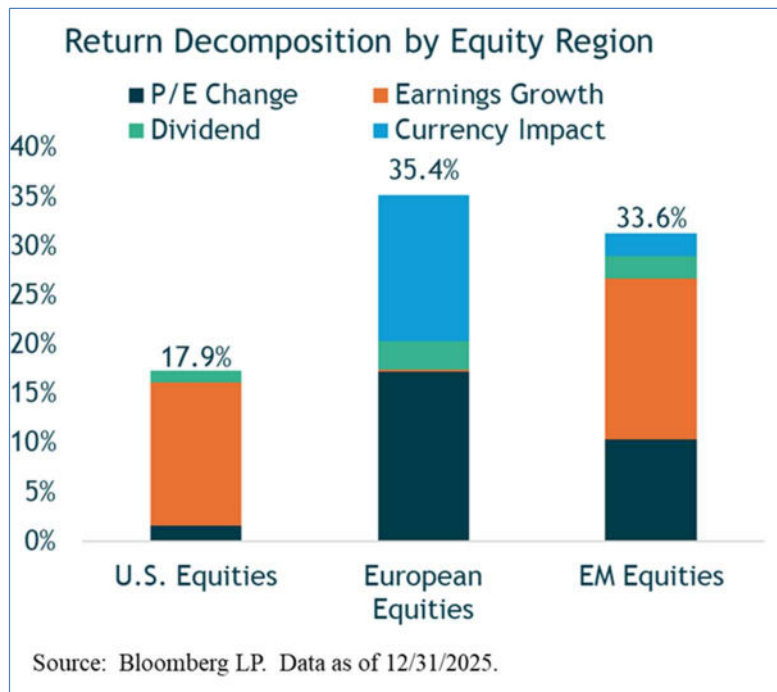
going beyond U.S. Treasury bonds (but sticking to the investment-grade bond universe), a good bond manager can find yields of 5% and prospective returns in that vicinity.

Bonds have the additional advantage of generating higher returns when interest rates decline (the reverse of 2022 when the Federal Reserve pushed rates higher). In a significant economic downturn, the Fed would lower short-term interest rates, very likely boosting bondholder returns.

Diversification to Manage Risk

A final investment principle to bear in mind in uncertain times is that diversification is an important risk mitigation tool. The investment universe is extensive, with what can seem like a bewildering array of options. Investments vary by type (stocks, bonds, real estate, commodities, etc.) and geography (U.S., foreign developed markets, foreign emerging markets). Within each type of investment, there is, of course, further categorization. Stocks, for example, can be broken into large company stocks, mid-sized company stocks and small company stocks. Each type or subtype of investment has its own return and risk characteristics.

If you are looking to “strike it rich” and willing to lose everything for the chance to do so, the best strategy is to pick a small handful of investments and hope for the best. If you get extremely lucky, you’ll invest in the next NVIDIA.



Most investors, however, are not trying to play the lottery with their investments. They want more predictable returns that allow their wealth to accumulate over time and support them in retirement.

Diversification—investing broadly across geographies, company size and other factors—doesn’t eliminate significant swings in portfolio value but it helps. The chart on the left illustrates how returns can vary for unexpected reasons. While earnings in the U.S. and emerging markets grew much faster than in Europe in 2025, returns in European stocks easily outpaced U.S. returns due to the appreciation of the Euro against the U.S. Dollar (“currency impact”)

and the fact that investors appeared willing to pay more for a dollar of earnings in European stocks than they paid in 2024 (“P/E Change”).

U.S. large company stocks are concentrated to an unprecedented degree, with nearly 30% of the S&P 500 comprised of just five stocks—Alphabet, Amazon, Apple, Microsoft and NVIDIA—four of which could stumble badly if AI adoption is slower or less profitable than anticipated.

Diversification is probably more important than ever.

*Boston, MA
January 14, 2026*

Our Pledge to Clients

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We will invest for the long-term while always striving to maximize
returns and minimize risk.

We will seek to minimize your investment expenses.

We will not accept any payments or anything of value from third
parties that might influence our choice of investments for your
portfolio.

We will invest our personal assets in parallel with yours.