



2026 OUTLOOK: WHAT'S AHEAD?

Did You Know? Spicy Food

Spicy food doesn't actually "burn" your mouth. Chili peppers contain a chemical called capsaicin which is the natural oily chemical in chili peppers that makes them feel spicy. It isn't actually hot in temperature, it's more like a *switch-flipper* for certain nerves in your mouth.

Inside your mouth you have nerve endings with a sensor called TRPV1. Think of TRPV1 like a "heat alarm" button: it normally turns on when something is hot enough to potentially hurt you (around 43°C / 109°F) or when there's irritation.

When it turns on, it sends a message to your brain that feels like burning heat, so your brain gets a "HOT!" message even though the food isn't high temperature.

Since your body thinks you're overheating, it responds the way it would on a hot day: you sweat, your eyes water, and your nose may run. It's basically your body trying to cool off or rinse away an irritant.

The more often you eat spicy foods, the more those nerves can get used to it.

If your mouth is on fire, milk works better than water because capsaicin mixes better with fat than with water, so dairy can lift it off your mouth's nerves instead of just spreading it.

Source: *Biology Insights / Guardian*



The month of December turned out flat for stocks, but it capped off a strong year. For the month, the Dow eked out a 0.7% gain, the Nasdaq squeaked out a nominal 0.5% gain, and the S&P 500 trailed the other indexes, ending the month down -0.1%.

For the year, the Nasdaq Composite rode AI enthusiasm to a 20.36% advance, while the S&P 500 wasn't too far behind with a 16.39% gain, its third straight double-digit annual advance. While Dow advanced 12.97%, hindered by its lack of tech representation. The 2025 rally swept across more than just major US stock indices. Gold and silver had their best year since 1979, bonds saw their best showing since 2020, and developed international markets outpaced the US, with the EFA Index topping 31%, for 2025.

Putting the year into perspective, 2025 was dominated by tariff talk, Artificial Intelligence, geopolitical concerns, and interest rates. For all the talk about tariffs and their potential impact on consumer pricing, they were neither a drag on economic expansion or fuel for inflation. Frankly, tariffs turned out to be mostly about headlines and political positioning rather than market moving data.

Artificial Intelligence also captured headlines and turned into a story about market structure and concentration. It's estimated that 11% of the S&P 2025 return came from just two sectors: Information Technology and Communication Services. Furthermore, by year-end nearly 40% of the S&P 500's value resided in just 10 companies. This heavy concentration is why 2025 felt like a wild ride because whenever the mega-caps tech stocks sneezed, the whole market seemed to come down with a cold.

When it comes to understanding geopolitical concerns and their impact on the markets, it's worth noting that markets usually don't react to the event or "tension" as much as they respond to whether it changes things like energy prices, supply chains, currencies especially the US dollar, and then corporate margins and growth forecasts, in particular, for larger multi-national corporations.

So similar to tariff talk, geopolitical events in 2025 seemed to carry more headline shock than actual cashflow shock. That being said, both 2025 and the start of 2026 suggest that our global arena remains unstable with a growing number of flashpoints that can be disruptive to trade and commodities like oil and gas.

In 2025, inflation and interest rates quietly shaped most of the market's biggest swings because they influenced both corporate borrowing costs and the valuation investors were willing to pay for earnings. As inflation showed signs of cooling, markets increasingly priced in an eventual shift from restrictive policy to easing, thus helping support equities and improving the backdrop for bonds.

The Federal Reserve ultimately cut rates three times in 2025, each by 0.25%, beginning in September, then again in October, and December, bringing the target range down to 3.50% -3.75% by year-end. Those cuts, and the expectations leading up to them, helped spark periodic market broadening beyond the largest mega-cap winners and contributed to a stronger year for fixed income as declining rates lifted bond prices.

Trivia:

- 1) What spice is made from dried flower buds?
- 2) Which fruit has its seeds on the outside?
- 3) What is the only continent with no reptiles or snakes?
- 4) What's the name for a word that reads the same backward and forward (like "racecar")?



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Special Issue... continued

If 2025 was a year of dramatic dips that eventually smoothed out, 2026 could be a year where the market remains bumpy and the winners rotate more often. It's a new year but familiar themes are emerging. We continue to view AI as a transformational long-term trend. James Liu, CFA, at Clearnomics, points out that from the railroad era of the 1860's through the dot-com bubble of the 1990's, transformational technologies have consistently followed similar patterns: skepticism, rapid adoption, market exuberance and adjustment of expectations.

AI headlines and growth have been concentrated in key areas, which have become overvalued, but unlike the dot-com bubble of the 90's, there are earnings and profits behind that growth. Productivity and broadening profits are beginning to be seen in other areas of the market. So, while exuberance will fade, functionality will have a growing impact.

Current consumer price levels and the rate of inflation, are two very different concepts. Inflation, or the rate at which prices grow, is well below its post pandemic highs. As mentioned on page 1, tariffs didn't produce any good or bad shocks to the economy but they may effect inflation in early 2026, as they trickle into the economy. We expect prices to nudge higher for two reasons; first, the major 2025 tax bill made new and retro-active adjustments that suggest larger and more prevalent tax refunds this year: A one time event until payroll withholding adjustments fully sink in.

More money in hand, means consumers will spend more, and more demand for products from shoppers means opportunities for higher prices from sellers. And second, tariffs which were absorbed by businesses, may find their way into price adjustments early in the year. We expect this small bump in inflation to be temporary, and for inflation to edge lower later in the year.

24-hour news cycles can make it feel like we've never left election season. But as we approach 2026 and mid-term elections, you can expect more political noise. Mid-term elections have historically been bad for the party in office, producing lower average returns. When the S&P 500 returns are tallied by (1) Non-Election Year, (2) Presidential Election Years and (3) Midterm Election Years, Midterms come in last.

Since 1933, the S&P 500 has average 8.6% annual total returns in midterm election years, lower than the other years, but is still positive. But the crystal ball shattering reality indicates the performance difference was not related to elections but other factors such as economic fundamentals and business conditions.

What we see ahead, is a growing, but slowing economy influenced by improving technologies, and declining inflation. The investment markets, we believe, will continue to reflect the unstable global arena, and reinforce the need for a disciplined investment approach rather than a reason for major portfolio adjustments. Making 2026 much more about preparation rather than prediction.

Specifically, our focus will continue to be building diversified portfolios anchored in strong dividend paying companies, respecting concentration risk in mega-cap tech by using quarterly time frames to rebalance, and using a combination of fixed income and preferred stocks as both a ballast and income generator for portfolios.

Trivia Answers

- 1) Cloves
- 2) Strawberry
- 3) Antarctica
- 4) A Palindrome

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