Ep. 197 - 2026 Economic Outlook: What You Need to Know About Markets, Inflation, & Your Investments

Patti
Hi everyone. Welcome to the Patti Brennan show. Whether you have $20, 20 million, or $200 million, this show is for those of you who want to protect, grow and use your assets to live your very best lives. Joining me today is Brad Everett, our Chief Investment Officer, Brad, welcome to the show.

Brad Everett
Thanks, Patti.

Patti
You bet. What I was going to add to that is this happens to be the most popular program we put on. More people watch and listen to this annual outlook at the beginning of the year than any of our other podcasts. So not to put any pressure on you, Brad, but there you have it.

Brad Everett
My wife thinks it's because we're both showing her ankles!

Patti
Haha yes, living our best lives, right? Okay, all right, good deal. So let's just start off by summarizing a little bit about what happened last year and where we are year to date. To time and date this, this is January 16. So what do we think? You know, last year was a pretty good year, right?

Brad Everett
Yeah, it was, it was great. Kind of, everything seemed to stabilize. I think really, no real weak spots, right? Even, you know, obviously, we know equities did well, S & P did well, international did even better. I think that even bonds worked

Patti
Yeah, in terms of investments, couldn't go wrong last year, right? I will tell you this. For me, the big surprise was GDP coming in at 4.3% in the third quarter. Fourth quarter is to be determined. But it was really interesting to see, in spite of this, tariffs and all the things that were going on last year, last year wasn't an easy year when it when it comes to economic policy and tariffs, and you know, we bombed Iran, you know, we went into Venezuela. So you know, it wasn't an easy year from an economic perspective, and yet you wouldn't know it thanks to the markets, right?

Patti
Absolutely, just don't look at anything. Don't listen to anybody, and you'll do just fine, right? Yeah. So from a from an economic perspective, the consumer is also doing pretty well, right? When you look at the assets for the American consumer on a national level, $197 trillion that's a lot of money.

Brad Everett
It's an incredible balance sheet, yeah, compared to the debt, which is not very high.

Patti

No, it's a 21 trillion. And yet we're beginning to see some signs of stress. You know, the debt service ratio is back up to where it was actually even a little bit higher than it was before the pandemic. And we're be we're also seeing delinquencies. People are finding themselves having to make choices between paying their car loan or buying food. So what's happening? Why do you think that that is we're so wealthy, right? Yeah.

Brad Everett
I mean, I guess we're we're Americans, and we do like to spend money, whether we have it in our income or not, but I think a lot of those assets are not really spendable in the short term. You save in your 401K, I think retirement plans are a big part of that net worth. Houses, right? The real estate in this country is worth a phenomenal amount, but you can't spend that at the grocery store in short order. So, I mean, we tend to, next step is just to put it on a credit card and we'll, we'll figure it out later.

Patti
Yeah, well, I mean, even, I guess even the returns of all those asset classes came in a fairly wild pattern, right? I mean, the first three months of the year, well, even three and a half were, were a little bit of a rough sledding there. And then then, you know, again, if you don't look every day and you just look at December 31 and then December 31 again,

Patti
We'll figure it out later. We'll put it off and put it and sure enough, the credit card bill comes in, and people aren't paying the credit card bills now. So, and that's a really good point. Yes, we have a lot of assets, but it's not available, necessarily not liquid. Okay, very good. So speaking of the United States, 2014 to 2024 was the decade of US dominance. So you and I spoke this time last year and said, Geez, are international markets ever going to be relevant? Yeah.

Brad Everett
So like, every year we're like, weird, you know, we just hope that there's a reason to diversify. Right? Every year we're continuing to diversify. And every year, a diversified portfolio loses to the S & P exactly for, you know, year after year after year for a very long time, but um yeah, diversification finally worked.

Patti
Yes, it did. In 2025 the , the international markets. Global Markets struck back in a big way. So the US was up about about 17% without the US global markets, 33% Yeah. So they certainly did quite well. Now, when we really, really break that down, it's interesting because, you know, I use the metaphor of, let's pretend for a moment that I have a twin sister that's living in Europe. Let's say her name is Penny or Penny and Patty, and I call my twin and I, you know, it's 2014, or whatever. And I'm like, oh, Penny, it must be so hard for you. You're not making any money in your markets. And she's like, What are you talking about? We're doing just fine. The reason was, was because she was doing just fine in her local currency. So currency has an incredible amount of influence on what we actually experience. Fast forward to last year. Penny invested in the S&P5 500. She didn't do so hot because she was she was living in Europe. She invested in euros, but she has to buy the S&P 500 in dollars. So you've got that currency fluctuation. You said something earlier that I thought was really interesting. When you're investing globally, you're actually diversifying on two fronts.

Brad Everett
Yeah, it feels like you're just kind of diversifying geographically, right? Or you're investing under another governmental regime or something like that. But I mean, the other the part of what smooths your return out by diversifying internationally is, is the currency, right? I think that's something that you wouldn't you know, there shouldn't really be an opportunity to invest in a currency for a long period of time and have that be profitable, right? There's money can move back and forth across countries and different interest rates, and that should equalize where you know, you don't. You wouldn't really care if, over a long period of time, you were investing in England's government debt or France's government debt or Japan's really that should equalize over time, over long periods of time, 10, 15, 20 years, that you wouldn't think there's an opportunity there, but it can be very wild in the short term, right where you have you know, stocks can grow in the US. Stocks can grow internationally, and they're all subject to the same sort of market influences. The risk premium you would sort of determine the exact same way, but the currency can help smooth that out. So you don't you know, if you had a company in the US that's going to earn 10% a year, a company in France that's going to earn 10% a year, they may earn that in similar patterns, but the currency can kind of smooth that out. So you don't have just both of them going up 20% and then both of them going down 20% the following year. The currency differential can help smooth that out and make it a little nicer, right?

Patti
You're using the word smooth it out. How do you mean that? You mean they're, they're, they're, you're experiencing it at different times. Tell me more about that.

Brad Everett
Yeah, rather than just, you know, pick two companies that are in the exact same industry, right? They may go up and down together, right? So it if, without the currency, it would feel like you're not really that diversified, right? Because you're in the same industry, it doesn't it's pretty easy to order things from overseas, right? So if the French company sells it cheaper, then we buy it from them and just import it.

Patti
it's sort of like the idea of somebody coming in and saying that they are well diversified because they have, you know, CDs in 10 different banks. Well, not really. They're not really diversified, right, right?

Brad Everett
More money with several advisors,

Patti
Right. Same thing.

Brad Everett
But so the currency, though, can help if, if both companies are up 10% but the Euro is down relative to the dollar, that can kind of, you know, work to work, to bring one of the companies down toward the average, and then the next year, the other opposite could happen. But so rather than having a year of plus 10 minus 10 plus 10 minus 10, you could have plus 7, minus 4...

Patti

I get it, so you're smoothing out the returns. So you know, the highs aren't as high, the lows aren't as low, but overall, that helps your compounded returns, and you end up with more money that way.

Brad Everett
Yeah, the currencies are just a third and fourth investment that you're making, right? You invest in the US company, you invest in the French company, you invest in the euro and you invest in the dollar. So you actually have four different investments there that are all kind of working together, even though, on the surface it seems like you have two companies.

Patti
Very good. Okay, thank you, Brad. Okay, so let's fast forward to 2025. These other nations are making different decisions, also in terms of infrastructure, how they manage their own, you know, corporate decision making, etc. Tell us more about Japan and Europe and what they're doing.

Brad Everett
So, I mean, you wouldn't, you know, just just currency itself wouldn't be enough to give you a lot of confidence in investing overseas, right? Because that might not last. It could. You could had a great year, and then everything just returns to normal, or the dollar appreciates, or maybe continues. But it's not really something that you can make a real investment based on. But it does seem like they, you know, leadership does seem to be aware. Know, Asia, Europe, that that there are certain things they need to do to kind of compete and stay in the game. I think, you know, Japan, it's not a regulation, but just a strong sort of push to return capital to shareholders, to make capital efficiency. They're similar to what we understand here, right? Because I think their stock market, for a long time was mainly owned by either Japanese companies, holding companies, or citizens. And they've, you know, they've really had a great push to and this is coming from the market itself.

Patti
Yeah, they need capital from overseas. And the Tokyo Stock market basically said, Hey, if you want to attract capital from overseas, here's what you need to do.

Brad Everett
You can't hold it on the balance sheet. You need to push it back out the shareholders so they can. They don't feel like it's going to be locked up forever.

Patti
Which is also interesting, because when you compare the United States in Europe, overseas, in Europe, they are much more dividend focused, so their yields are higher than we have in the US, but the US reinvests in our own companies, so they are taking some of that profit, that capital, and putting it back into the company itself, so that the price per share goes up. So it's a different approach, but the idea, the philosophy, is, yes, we've got to find a way to return something, whether it be cash on hand through dividends or value to the shareholders.

Brad Everett
Yeah, I think what was happening in Japan is that investors were not necessarily happy with what they were choosing to do with the funds. They weren't compelling investment opportunities that were driving

stock prices up. They were just holding sort of unproductive assets, cash or other companies that just weren't weren't doing so well.

Patti
And then add to that that it sounds like Europe has woken up to the fact that they have not been spending money. And they issued, they, they basically approved a significant debt issuance for defense, for technology, etc. Yeah.

Brad Everett
So, yeah, massive debt issue. It's been approved. I think you know the details of which individual products that are projects they ultimately pick is not super clear, but I think they know that, you know this, capital spending is cut for infrastructure especially, is necessary if they're going to keep up with, you know, US, tech and and things like that. I thought the, I thought the defense spending was more, more political from, you know, pressure, I guess. I thought the the requirements on NATO spending on defense, have not been met. So I think their feet are maybe held a little bit to the fire on that. And then I think just, even just this week, the German Chancellor admitted that they may be overspent on on renewable energy. So energy projects there are extremely expensive, you know, companies that demand a lot of energy for production and things like that, so they're, I guess, trying to figure out again how they can kind of boost unrenewable energy. Exactly.

Patti
Yes. ESG was such a big deal in Europe, and it's it sounds like they're realizing that it is also very expensive way to run a business. It's hard to do that. Yeah. So are there cheaper ways to provide energy? And Europe needs a lot of energy, as we do, especially with, you know, with artificial intelligence. And if they want to be in that game, they see the United States, they see what China is doing. If they want to be, you know, don't want to be totally left behind. It's going to take time, right? 5 to 10 years is probably but let's face it, when you're investing in anything, it's an investment into their future. So if you believe that they could get it right, some of it, most of it right, then that might be a good use of some of your investments.

Brad Everett
Yeah, yeah. There's definitely a reason to be optimistic there.

Patti
And to your point, we don't have to be totally dependent on currencies, right?

Brad Everett
Yeah, you don't. You'd hope to not be. I mean, maybe take it as a bonus sometimes, or sometimes it'll surprise you on the downside too. But I think over long periods of time, that tends to even itself out good.

Patti
So let's talk about the US market. Brad, we've we hear about the MAG 7, the MAG 7, you know? Oh, how many people come in to us and say, you know, what do you think? You think w e're in a bubble? Because the MAG 7 is, so, I mean, let's face it, with the S&P500, the MAG 7, year after year after year, the last five years, it's been close to 50% of the return came from seven of the 500 companies. How

sustainable is that? How long can that actually continue? Nvidia, for example, is worth four and a half trillion dollars. That's equal to Germany's entire economy.

Brad Everett
Yeah, yeah. I thought if you took out Nvidia by itself, we've actually been. Underperforming Europe for the last I forget if it's three years or five, but it's actually Wow, just minus Nvidia by itself, and Europe is actually outperforming the US, the S and P but again, I don't know if it's three years or five, but so yeah, yes, you have this this. There's seven or eight companies, but really it's this one at the top that's that's driven a lot. And in, in fairness to them, they deserve it, right? I think analysts set very ambitious earnings forecasts, and they meet them.

Patti
They meet them every time they beat them, yeah.

Brad Everett
So, you know, maybe, maybe they miss one someday, yeah. And, you know, and that and that, just eventually, maybe it stabilizes and returns to a normal growth rate of some kind. Or, you know, people, consider investing in something else at that point. But, you know, it seems like a very well run company, but you know what? What's invited? I don't know the industry well enough to know what's involved in a competitor coming along and and offering a cheaper product.

Patti
It's very interesting. You bring that up because, remember, deep sea came out in China, and we're able to provide the same level of, you know, chips, etc, the technology for a lot cheaper than Nvidia. And Nvidia continued to increase, go up and up and up. So it is going to be really interesting, and we talk about the sheer size of that company and terms of trillions, and I think a lot of people listening and watching may not realize what we're talking about. So let me, let me kind of put it in perspective. Is that cool? Yeah. All right, let's do this. All right. So if you spent? Brad Everett, if you spent, you could never do this. I know you too well. A million dollars a day from the day that Jesus was born. All right, all right, you still would not have spent a trillion dollars today. In other words, fast forward. That's how much a trillion dollars is. Now. We're talking about four and a half trillion dollars in one company. So when we talk about risk, and we talk about bubbles, is the risk because of the sheer size? Is it too big to fail, type of thing, or is it the multiples, price earnings, you know, what kind of money are these companies actually making as a whole, right? So I can answer my own question, because I've got the set, right? You know, we got to be prepared for this, right? So together, those companies make in profit, $1.1 million every single minute. So if you and I are talking, we're not going to talk for an hour, but let's say we've been talking for 19 minutes, they've already made $19 million in profits. That's crazy. How about that for a business model, huh? Yeah, it's pretty incredible. Who wouldn't want to invest in something like that, right? Right? So if we believe that the reason we invest is because of their earnings and their future earnings potential, and, you know, fast Go, go backwards. Why is the why are the values so increasing so much? I personally this is a theory. It's not a fact. This is my theory. I think that when we look back to the four other major innovations in our lifetime, you think about the personal computer, the internet, the smartphone and the cloud. Those are four incredible innovations, right? What was, what the anticipated impact there was the estimated impact that that analysts thought that those innovations would have, versus the actual It wasn't even close. The actual impact was between 30 and 50% greater than the even the most optimistic forecasts. So personally, I think the reason these companies are going

up and up and up is because, you know what? Fool me once, fine. Fool me twice, not so hot, I'm not going for this a fifth time. So So traders and people are investing in these companies because they don't want to be left behind, right? So that's my theory, and I'm sticking with it. So back to price earnings. So you take those earnings a million dollars a minute, and I'm going to read off. And this is why I don't think we're in a bubble. Cisco, at the end of the 90s, had a price earnings multiple of 130 times. Oracle, 120 times. Microsoft, 60 times earnings. Intel, 47 times. Fast forward, what? What do we have? Google is it 2028? Times earnings? Nvidia, 25 times. That shows you how profitable Nvidia is. Apple, 32 Microsoft, again, the same Microsoft that was trading at 60 times earnings during the during the.com bubble is trading at 27 so it just goes. To show you that the earnings have powered through.

Brad Everett
Yeah, I think it's a little, I don't know. It feels a little different, too, in the sense that, you know, you think of the MAG7 and the and the spending on on AI and related tools. They're spending it from free cash flow,

Patti
right? they're not borrowing it.

Brad Everett
They have it. Yeah, they have cash to spend. I think, you know, the the obvious comparison, like you already brought up, was, you know, 1999, 2000 right? Yeah, I don't know that. You know, we thought before, like, the how technology, new technology, can be really overestimated in the short term and really underestimated in the long term, and I don't know that the industry as a whole, they were wrong about it was just the individual stock picks were bad, right?

Patti
Like zombie companies,

Brad Everett
The dot bombs, like you think of like pets.com for example, yeah, like, they eventually did earn that value, right? the NASDAQ got back to where it was. It just took a long time for the earnings to actually build to match, to match the hype up front. And we just all picked bad company. We just didn't make the winners very well, and they were, they were non profitable companies that we were betting on finding profit somewhere, right? Exactly, somehow, being on the internet meant you had an infinite number of customers, but obviously you're still limited by the number of people on Earth. But now it just seems different, like, I mean, these are, these are very profitable companies already that all have. You know, Google had plenty of established business units that before they started spending on AI.

Patti
And isn't it funny how quickly things can turn around again? This time last year, Google was left for dead. They were so far behind, kind of like the same Apple, you know, Siri, all that kind of stuff. Oh, they're never going to catch up. Sure enough, guess who's winning the game, right? Google and Gemini doing just fine. Thank you, right? Because Old habits You know, they just don't die. I know. I find myself still Googling, and I see Gemini his answer, and I'm like, Oh, that's pretty cool. Yeah, that's, that's artificial intelligence, yeah.

Brad Everett
I just think the only you know, if you were wrong about one of the companies in the MAG7, that would just mean that somebody else took their market share instead, like the in the the technology itself seems to be something that will probably become very pervasive. Yes, just we don't know exactly who the winners are going to be. Like they're investing in it is supporting and building smaller companies that we have not even heard of yet, right?

Patti
So, and that's the beauty of let's not try to pick the Michael Jordan's of the world. Let's pick all of the base the basketball teams in the NBA, and you'll do just fine. Yeah, we don't know. These companies may still be coming public, and, you know, be invented. It the the applications are going to be so interesting. I do believe that AI is going to have a profound impact on businesses and the quality of life. I don't think it's around the corner. I think we're looking five years from now, at least, but I do believe, Brad, I really do think that there's going to be this time where, just like now, I look back the way I grew up, and I say, Do you believe that we used to get out of the car in the driveway and go over the garage door and lift that big, heavy door to put the car in the garage? We used to do that, right? I think that fast forward, I don't know, 20 years from now, we're going to look back and say, Do you believe we used to drive used to drive our own cars?

Brad Everett
Yeah. Do you think Roomba? A Roomba is AI, we've got a Roomba. Turned it on, it went under the bed and died, and it's been under there for four years. That a robot or, yeah.

Patti
I don't know. Well, you know it is, it's got sensors and all that kind of stuff. It is the beginning, yeah, it is the beginning of it. Who knows? It's a great question, though. All right, so let's go back and say, Well, you know, artificial intelligence is great. We like the MAG7. We don't believe we're in a bubble. But what about those black swan it's not going to be straight up, right? Brad, so let's focus on this year, 2026 outlook. Let's focus on this year, last year. Let's let's say the last five years, we've had lots of black swan events. We've had things that have happened nobody could have ever predicted, and they could have had some devastating consequences. Covid, you know, supply chain disruption, Liberation Day just last year, and the tariff, tariff stuff that could have had devastating implications for our businesses, for consumers, and it seemed to not have that impact, right? What is that telling us about the resilience of our economy, etc?

Brad Everett
Ultimately, you know, they are. They're huge news stories that we have to digest in some way, right? It's, I mean, I guess it would be a great investor that could just not watch TV at all, yeah, which is probably not a terrible way to go about it. But, you know, you have to digest these news stories and try to anticipate what they might mean. Like,COVID is an interesting one. You know, we thought the world would shut down totally. And ultimately, the earnings of a lot of companies ended up going up. Like, you know, you just have to, kind of, you know, ultimately, these stories just may not make it to the level of an income statement on a publicly traded company. You know, what does, again, like, Apple's a great example, or Google, what like, I don't know that covid hurt them.

Patti

And some companies were helped tremendously, and then they crashed and burned. Peloton, zoom, right? And yet we still Zoom today. We use zoom all the time.

Brad Everett
That was just another case of us guessing a price that --

Patti
-- was probably ahead of time. Right? Exactly. So it was too much too quickly. Eventually, it does prove itself out, but it just is going to take more time, and we don't know what the unintended consequences of this is going to be. Also, I think cyber security is something that I that keeps me up at night. Yeah, you know, with artificial intelligence, as you know, we I'm a nut bag when it comes to that, that stuff. And I'm telling everybody, be really vigilant for our clients. Look out, monitor, monitor, monitor, and, you know, make sure that our our clients aren't, don't become victimized by it as well. Sure. Okay, so let's pull this together. So what do we think about the odds of a recession?

Brad Everett
I feel like a lot would have to go wrong. I guess I think I would probably apply a fairly low probability to that

Patti
right, so a lot would have to go wrong. So I personally think that inflation is going to tick up a little bit. I don't think the Federal Reserve is going to be able to do anything about it because of political pressure, et cetera. They're probably going to cut once, and they're going to probably feel they're going to have to stay steady. It's not, by the way, as we've learned about one person, it is a voting process. There are several fed governors who go in and and and they vote together. So it's not based on one person. It is based on their leadership and their ability to persuade others. But the fact the matter is, I don't think the Fed is going to be able to combat, I think that there is that unintended consequence of them getting back to, you know, inflation, and not not anticipating and doing something about inflation quick enough. Yeah, like, they like the issue around the pandemic, but the political pressure is too great.

Brad Everett
Yeah, it almost seems like, I guess, they the, really, the worst case scenario for them would be jobs and inflation forcing them to want to go opposite directions, right? Like that. They really stuck, and they can't solve either of them very well.

Patti
So inflation goes up and unemployment goes up. That's tough,

Brad Everett
Yeah, because they'd want to, in one case, they'd want to lower rates, and then, you know, to help the unemployed. And then, yeah, but that would probably spur inflation

Patti
And feed it even more. So, you know, it's the they've got this dual mandate, and sometimes it does create that situation. And you know, we go back to the 70s with stagflation, and when the you know, unemployment goes up, people are out of work, they spend less money, and that affects GDP, and it's a

it's a domino effect. So we've talked about the, you know, the economy, unemployment, unemployment, you know, they're not, I think businesses are not firing, but they're also not hiring, and I think that's going to continue. I think, I think a lot of businesses are in a wait and see mode, although I will say, Brad, that we have this new tax law, and businesses are definitely going to benefit from this new tax law, as are citizens. Individuals. Citizens are going to benefit in a big way, and that could also propel our market. Yeah, there's a few big changes there. Yep, yeah, exactly. So who knows? You know, I think that that, you know, high income Americans may not get as much benefit out of it based on the way it's been written, with some of the income limitations. I just think that the fact that we've got certainty that the rates are going to stay where they are, we've got, you know, the the write offs are going to remain the way they are for businesses, etc, you know, qbi stays. That was, we were worried that was going to be a temporary as well as the estate tax right now, we know, just helps people make decisions, yeah, and gives them confidence in those the. Decisions that we're making, even though, in the back of our minds, we all kind of know it's probably going to change again, right So, but that's why we do what we do, to keep our fingers on the pulse of what's going and to try to anticipate and avoid those landmines. Yeah, there's lots of reasons to be optimistic right now, though, because of the tax law, etc, coming into the economy, businesses are not letting people go, so unemployment is not probably going to skyrocket. Inflation might tick up a little bit just because of the impact of the tariffs, because that's now being felt. But who knows?

Brad Everett
Yeah, what's the the idea behind no hire, no fire. You would, you would Are you is a CEO choosing to hold employees because they may have to hire them back, and they would fear that they'd have to hire them back at a higher rate than their pay.

Patti
I think it was so painful to find talent during after the pandemic that and get them trained, etc, that they don't want to be there again, let these people go, and then have to go through all that, because it's expensive to do that, and it it's time, right? It's means that they're less productive as a as an individual, they're not adding, you know, to the productivity of the company and adding to profits. So I think that they'd rather just stay with who they have. They're trained, etc, and let's just not hire anybody else.

Brad Everett
Yeah, maybe overpay a little bit in the short term, just just in case.

Patti
Yeah, just to keep them sticky. Yeah, people aren't leaving their jobs. The the Quit ratio is way, way down. So, you know, it's, it is? It is an interesting period of time. I think we might look back at this period and say, Wow, that was pretty Goldilocks, and we just didn't know it at the time, right? Which is so typical, right? Yeah. So going forward, we think markets are going to be US market, mid single digits, ho hum kind of returns after the last few years,

Brad Everett
Yeah, or, or at least longer, right? I just think about, you know, just starting valuations, right? And I just think, you know, it's hard to I don't think the US market has to be bad, right? I mean, they could certainly have earnings growth that justifies prices as they are. I just think there are other markets that are so compelling.

Patti
And maybe pockets in our own markets, like small and dividend paying companies, which we're already seeing this year. Yeah, they are really small and mighty. Is where it's at, right, and they are. They're doing much better than they had been doing. And who knows what's going to happen going forward. A lot of these companies are also not profitable, so we have to be careful, yeah, but you know, we never want to be out entirely of anything necessarily. Just let's keep an eye on everything and invest

Brad Everett
Accordingly, yeah, yeah, no, I think there's a lot of reasons to be.

Patti
How about fixed income? How about bonds?

Brad Everett
Bonds did great last year, and probably, you know, no reason to believe that they won't, you know, I think you're there's really two components, right?

Patti
What's great? It's not double digit, is it last year?

Brad Everett
I mean, great, like seven, I think, okay, yes, right? Maybe, maybe a little, a little north of that. I think that's, you know, in recent history, that's pretty good. But I think, you know, you go into a year and you have, really, two, two ways to get return from bonds, right? One is the coupon, the interest payment, and one is any, the other is, you know, any kind of appreciation or depreciation from from the change in interest rates across the economy in general, right? That might affect the bonds in your portfolio. And I think if you know, like you said, if you're expecting, you know, one, maybe two, decreases in fed rates. You just maybe don't see a whole lot of movement there from the capital appreciation part. So you can feel pretty good that the coupon is, is going to be largely what your rate of return comes from. And that's, you know,

Patti
Not bad, not bad at all, right, especially where interest rates are today,

Brad Everett
Depending on credit quality, you should be between four and seven, probably just in interest yields,

Patti
right, right, exactly. And if we don't think that there's a recession around the corner, which nobody knows for sure, and the catalyst could be something black swan ish, you know, we didn't know that the pandemic was going to happen, right? So those things can cause recessions. But, you know, it could be, it could be an interesting year for for that, that asset class as well, international remains, compelling valuations, etc, yeah, yep, good and dividend payers, you get paid to wait.

Brad Everett

That's an interesting one too. Because I think that's that seems to be a little more nuanced also, like, again, like dividend payers and small cap seem really compelling. I think there's, there's been a lot of higher quality sort of dividend payers that have really been bid up also. And I think that was maybe a product of all, very long time when interest rates were very low, right? So you could, you know, if you were an investor with, you know, maybe you retired and a smaller withdrawal rate, you could really probably make a strong argument for buying dividend stocks instead of bonds. And so I think, you know, some of those are pretty lofty, like, you know, you look at, like, just even like Pepsi and Coke, for example. Or, I don't know, I would definitely consider those value stocks at this point. And they're, you know, their PE multiples are in the 30s, right, right? Because the dividend is so reliable, yeah, you know, I don't think investor. I think a large group of investors doesn't much care if it grows or not. They just want to take their three, three and a half percent dividend and not worry about it. So I think a lot of those have been bid up to the point where the only return is going to be the dividend.

Patti
Okay, but that's important. It's worth looking at for sure. Yeah, for all of us to keep in mind, again, I'm not a big fan of individual stocks. I think your coke Pepsi example is a really good example. Look at a broad based portfolio of dividend payers and see what that could do for you, right, right?

Brad Everett
Yeah, there's definitely opportunity. I just, you know, yeah, you wouldn't just, I don't know that. You just don't blindly buy a dividend ETF, exactly.

Patti
So overall, we're feeling pretty optimistic about 2026 I think so good. Yeah, okay, so for people who are agreeing with this, should they change their allocation? Should they change their strategy?

Brad Everett
I mean, I guess we can just, you know, tell people we've been doing and I think it probably matches what we've been saying, right? I think we there's been, again, we're not, we're not pessimistic on the US, not pessimistic on large cap. I just think there might be opportunities elsewhere also. And, you know, we've, we've always been diversified, but probably heading more to that. Now, you know you would, I think we've always, we've for four or five years now, have been overweight the US in terms of market cap. So I think we would, probably, we're still going to be overweight the US, I think. But I think, you know, small tweaks toward International, small tweaks toward smaller companies. Excellent.

Patti
Brad Everett, thank you so much for joining me. It's always fun doing this podcast with you, especially the economic outlook and our outlook for 2026 this has been fun. Thanks for joining me today. Thanks Patti. Thanks to all of you for joining us. I hope you found it helpful. Have a wonderful day and a prosperous year. Take care.