

"I've suffered a great many catastrophes in my life. Most of them never happened."

-Mark Twain

As we enter 2026, the economic and market landscape looks more balanced than it has in several years. Recent data continues to point toward steady, sustainable growth rather than extremes, and the equity market is showing signs of healthier participation beneath the surface. With mid-term elections approaching later this year, investors are naturally focused on how political dynamics may influence returns, but history suggests that clarity, rather than any particular outcome, tends to be the most important catalyst.

Economic Conditions: Slow but Steady Momentum

The U.S. economy continues to expand at a measured pace. Growth in the second half of 2025 was supported by consumer spending, services activity, and improving supply chain conditions. Inflation has moderated meaningfully from its peaks, and while month to month readings can fluctuate, the broader trend has been toward greater price stability. The labor market has cooled from its post pandemic tightness but remains healthy by historical standards, with unemployment hovering in a range consistent with long run norms.

Professional forecasters expect real GDP growth in 2026 to track close to the economy's long-term potential. Wage growth has eased from its highs, which helps temper inflation while still supporting household incomes. Overall, the macro backdrop remains constructive: not overheated, not recessionary, but steady enough to support corporate earnings and long-term investment.

A Market That Is Broadening and Rotating

One of the most encouraging developments in recent months has been the broadening of market leadership. For several years, a small group of high growth, high multiple companies carried a disproportionate share of index level returns. Recently, however, participation has widened across sectors and market caps.

Value oriented and cyclically sensitive areas such as

industrials, materials, transportation, financials, and select consumer segments, have begun to show improving relative strength. This shift suggests that investors are rediscovering companies tied more directly to the real economy rather than relying solely on the narrow group of prior leaders.

Importantly, this type of rotation can help support the major averages even if high growth names consolidate. When more sectors contribute to performance, the market becomes less fragile and less dependent on a handful of companies. Historically, periods of broadening participation have often coincided with more durable market advances.

Mid-term Elections in a Second Term Presidency

With mid-term elections approaching, it's natural for investors to wonder how political dynamics may influence markets. Historically, mid-term years tend to be volatile in the months leading up to the vote as uncertainty builds around potential policy changes. However, once election outcomes are known, markets have often responded positively as clarity replaces speculation.

In cycles where the presidency is in its second term, some historical analyses suggest that post mid-term performance has been particularly strong. While the exact statistics vary by source, the broader pattern is consistent: markets tend to prefer stability, and second term mid-terms often result in fewer major

shifts. That combination has historically supported investor sentiment in the year that follows.

The key message is not about predicting political outcomes, but about recognizing that markets have navigated many different political configurations over time and have continued to compound value for disciplined, long-term investors.

Looking Ahead

The combination of steady economic growth, improving market breadth, and a more balanced leadership structure provides a constructive backdrop for diversified portfolios. The rotation toward value and cyclicals suggests that opportunities are expanding beyond the narrow group of companies that dominated recent years. While the upcoming mid-term elections may introduce short term volatility, history shows that clarity, regardless of outcome, has often been a catalyst for renewed strength.

As we enter 2026, there is certainly a long list of

things to be nervous about. This year's worries include Venezuela, the Russia Ukraine War, Taiwan and China tensions, politics inside and outside the U.S., housing and living affordability, homelessness, accusations against the Federal Reserve, the upcoming mid-term elections, corporate earnings, interest rates, inflation, and even Greenland is now in the news. We will continue to monitor these and other events that could affect the investment landscape. However, as Mark Twain implies in the above quote, we can envision many catastrophes that will materialize, most will not.

Ralph Scott
Chief Investment Officer

Craig Weston
Senior Managing Director

DISCLOSURES:

L&S Advisors, Inc. ("L&S") is a privately owned corporation headquartered in Los Angeles, CA. L&S was originally founded in 1979 and dissolved in 1996. The two founders, Sy Lippman and Ralph R. Scott, continued managing portfolios together and reformed the corporation in May 2006. The firm registered as an investment adviser with the U.S. Securities and Exchange Commission in June 2006. L&S performance results prior to the reformation of the firm were achieved by the portfolio managers at a prior entity and have been linked to the performance history of L&S. The firm is defined as all accounts exclusively managed by L&S from 10/31/2005, as well as accounts managed in conjunction with other, external advisors via the Wells Fargo DMA investment program for the periods 05/02/2014, through the present time.

L&S claims compliance with the Global Investment Performance Standards (GIPS®). L&S has been independently verified by Ashland Partners & Company LLP for the periods October 31, 2005 through December 31, 2015, and ACA Performance Services for the periods from January 1, 2016 to December 31, 2024. Upon request to Sy Lippman at slippman@lsadvisors.com. L&S can provide the L&S Advisors GIPS Report which provides a GIPS compliant presentation as well as a list of all composite descriptions. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

L&S is a registered investment adviser with the U.S. Securities and Exchange Commission ("SEC") and is notice filed in various states. Any reference to or use of the terms "registered investment adviser" or "registered," does not imply that L&S or any person associated with L&S has achieved a certain level of skill or training. L&S may only transact business or render personalized investment advice in those states and international jurisdictions where we are registered, notice filed, or where we qualify for an exemption or exclusion from registration requirements. Information in this newsletter is provided for informational purposes only and should not be construed as a solicitation to effect, or attempt to effect, either transactions in securities or the rendering of personalized investment advice. Any communications with prospective clients residing in states or international jurisdictions where L&S and its advisory affiliates are not registered or licensed shall be limited so as not to trigger registration or licensing requirements. Opinions expressed herein are subject to change without notice. L&S has exercised reasonable professional care in preparing this information, which has been obtained from sources we believe to be reliable; however, L&S has not independently verified, or attested to, the accuracy or authenticity of the information. L&S shall not be liable to customers or anyone else for the inaccuracy or non-authenticity of the information or for any errors of omission in content regardless of the cause of such inaccuracy, non-authenticity, error, or omission, except to the extent arising from the sole gross negligence of L&S. In no event shall L&S be liable for consequential damages. L&S' current disclosure statement as set forth in ADV 2 of Form ADV as well as our Privacy Notice is available for your review upon request.