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INSIGHT

PERSPECTIVES FOR THE GOAL-FOCUSED INVESTOR
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The Benjamin Button Economy: 2026 Outlook — Growth in Reverse, Risks in Focus

Most economic cycles follow a predictable path: early expansion, mid-cycle momentum, late-cycle slowdown, and eventually, recession. Yet the U.S. economy in 2026 seems to be rewriting that script, aging in reverse. What analysts now call the "Benjamin Button Economy" reflects a nation regaining its youthful growth energy even after what appeared to be a late-cycle phase just two years ago.

The economic narrative shifted dramatically in 2025. Despite widespread predictions of a downturn, the U.S. turned in an impressive 4.3% annualized GDP growth rate in the third quarter, with the Federal Reserve's GDPNow model pointing to around 3% growth in the fourth quarter. Inflation continued to decelerate, corporate profits held firm, and labor markets remained resilient. Instead of fading into stagnation, the U.S. economy entered 2026 with momentum and an outlook that would have seemed improbable not long ago.

Policy Power: Monetary and Fiscal Forces in Sync

One of the defining features of this new expansion is the rare alignment of monetary and fiscal stimulus working in tandem. After several years of restrictive policy, the Federal Reserve began cutting rates in late 2025. With inflation trending lower and productivity rising, the stage is set for potentially three additional rate cuts in 2026, bringing the federal funds rate near 3%. A new Fed Chair, taking office within months, is expected to remain committed to policies that "run the economy hot," focusing on growth and financial stability.

On the fiscal side, the One Big Beautiful Bill Act (OBBBA), passed at the start of the year, delivers robust and well-timed incentives for business investment. Its provisions, restoring permanent 100% bonus depreciation and expanding expensing rules for machinery, vehicles, interior improvements, and certain manufacturing facilities, encourage companies to modernize and reshore production. The law is already spurring capital expenditures across industries, setting the stage for investment-led growth throughout 2026 and beyond.

Together, these policy tailwinds reflect a deliberate effort to extend the current expansion. Easing credit conditions, regulatory relief, and a thaw in bank lending standards all reinforce an environment conducive to growth. In essence, the economy's operating system has been rebooted, and the new software is running fast.

Risks That Matter, but Don't Dominate

Still, no expansion is without vulnerabilities. The biggest market risk remains a potential AI-bubble correction. A scenario where investor enthusiasm for artificial intelligence proves premature for certain companies. Equity valuations are high, with the S&P 500 trading near 23.5x forward earnings. Yet this doesn't automatically imply a broad bubble. 2026 will likely mark the separation of true innovators from speculative pretenders. Those actually integrating AI into profitable business models will continue to deliver strong earnings, supporting index performance.

Credit markets deserve attention but here, the story is largely constructive. Default rates are trending lower, and both public and private credit markets are flush with liquidity. Spreads have room to tighten modestly even as issuance hits near-record levels. Private credit and private equity are poised for a strong year, with valuations in private markets roughly 40% below those in the S&P 500. That valuation gap should spur deal activity and capital deployment across the alternative investment universe.

Inflation resurgence, a fear among some economists, appears misplaced. For the second consecutive year, predictions of sustained 3%+ inflation are proving wrong. Disinflation continues to flow through the system, a dynamic that remains bullish for fixed income. Lower inflation expectations open the door to further easing and an environment supportive of both borrowers and investors.

Fiscal deficits and debt sustainability pose more structural, long-term challenges. Federal debt levels are high and growing, but this translates more into elevated rates than an imminent funding crisis. The market outlook continues to reward growth over austerity, especially as nominal GDP outpaces debt service costs.

Geopolitical flashpoints, Taiwan, Ukraine, and the Middle East remain unpredictable variables, capable of injecting short-term volatility. However, markets typically adapt quickly once risks are priced in. The resilience of global capital flows suggests that shocks would likely produce tactical corrections rather than strategic trend reversals.

Consumers, Productivity, and Profitability

On the real-economy side, consumer balance sheets remain solid. Aggregate household wealth is at an all-time high, and spending continues to benefit from wage stability and easing inflation. While the lower quartile of consumers faces pressure from credit-card and auto debt, overall consumption appears sustainable. Meanwhile, businesses are boosting productivity through automation, AI integration, and supply-chain optimization, offsetting slowing job growth with higher output per worker.

These structural improvements suggest that the "real economy" has entered a modern reinvention phase, leaner, faster, and less vulnerable to traditional late-cycle dynamics. That resilience will likely translate into another year of above-trend corporate earnings growth, even with narrower margins.

The Bottom Line

For all the talk of risks, the U.S. still looks set for another strong year. Policies are supportive, credit is flowing, inflation is easing, and innovation remains vibrant. Investors should stay constructively bullish and maintain alignment with diversified allocation targets. Private markets, investment-grade fixed income, and select equities tied to infrastructure, manufacturing, and AI adoption may all stand out as key beneficiaries.

The "Benjamin Button Economy" remains alive and vigorous. Rather than aging into contraction, America's economic story in 2026 is one of renewal. A blend of youthful energy, policy alignment, and technological transformation that continues to push the cycle backward in time.

The recent upheaval in Venezuela and the arrest of its president have raised a key question for investors and clients: does a potential U.S.-led revival of Venezuelan oil fundamentally change the outlook for prices and energy equities, or is this another overhyped "new era" event?

Energy commentators have a long track record of overestimating how much each new shock will permanently reshape oil markets, from COVID to Russia–Ukraine to the Israel–Iran conflict. One consistent pattern has emerged over the past decade: U.S. shale has become the marginal, flexible source of supply, turning drilling activity up and down as prices move. When prices fall toward the low end of the range, shale investment slows; when prices rise, producers respond with more drilling. This dynamic has kept oil largely trading in a band of roughly 55–85 dollars per barrel in recent years, with spikes and dips proving short-lived.

Venezuela's reserves are enormous, but current production is under 1 million barrels per day. This is less than 1 percent of global output and a fraction of the more than 3 million barrels per day it pumped in the late 1990s and early 2000s. Even optimistic scenarios for a rebound over the next several years imply an increase measured in hundreds of thousands of barrels per day, not multiple millions. In a world where shale producers adjust activity around breakeven levels near the mid-60s to 70 dollars per barrel, this scale of Venezuelan growth is unlikely to break the existing range.

Why Refiners Could Be Quiet Winners

For investors, one of the most important implications of a Venezuelan restart sits not in the oil fields, but at the refinery gate. U.S. refineries, especially along the Gulf Coast, were built over decades to process heavy, sulfurous crudes from Latin America, including Venezuela. As Venezuelan output collapsed, heavy barrels from Canada and, to a lesser extent, Mexico and other Latin American producers stepped in to fill the gap.

If U.S. policy channels more Venezuelan heavy crude back toward American shores, refiners could gain access to additional low-cost feedstock at a time when global refining capacity in Europe and elsewhere remains under economic pressure. Because refining is capital-intensive to build but relatively low capex to maintain once constructed, incremental profitability tends to translate efficiently into free cash flow, rather than being recycled into new projects. For diversified client portfolios, established U.S. refining companies can therefore act as a low-cost way to participate in volatility around heavy crude flows without taking on direct political risk in Venezuela.

Oil Services: Growth Potential With Familiar Risks

Any serious effort to revive Venezuela's production will require substantial new investment in drilling, maintenance, and field rehabilitation. This would be an obvious positive for global oil services firms, which provide technology and expertise to increase output and efficiency. Historical experience, however, is a caution flag.

Major services providers have previously operated in Venezuela and, in some cases, exited after struggling to get paid by the state oil company. Returning in size would likely require significantly improved contract terms and clearer protections against nonpayment and expropriation. From a client perspective, international oil services names could see a new avenue of growth, but it would be higher risk and slower to materialize than headline narratives suggest, especially compared with more stable opportunities in places like the Middle East..

Global Producers: Legal Overhang Before Opportunity

Among large Western oil companies, only a handful maintain active operations in Venezuela today, with several others having left after past nationalizations and contract disputes. The country faces billions of dollars in outstanding claims and arbitration awards from former partners, which must be resolved before its reserves can become truly investable for most global producers.

Until there is clarity on ownership, contract stability, and legacy liabilities, many integrated oil companies are likely to treat Venezuelan barrels as a long-dated option rather than a near-term growth engine. For clients, this suggests that broad-based global energy equities are more likely to be influenced by the overall price band and company-level capital discipline than by sudden, Venezuela-specific windfalls.

Canada's Heavy Oil Still Anchored

Finally, some investors worry that a Venezuelan comeback could undercut Canada's role as the dominant supplier of heavy crude to U.S. refineries. Current market structure suggests those fears are overstated. Canadian heavy crude accounts for a large majority of U.S. crude imports and is supported by extensive pipeline infrastructure into key refining hubs. By contrast, Venezuelan exports have been below 1 million barrels per day and have recently been constrained by sanctions and logistics, with much of the trade routed toward Asia.

Incremental Venezuelan barrels are therefore more likely to displace other seaborne heavy barrels from countries such as Mexico or Colombia than to replace physically connected Canadian volumes.