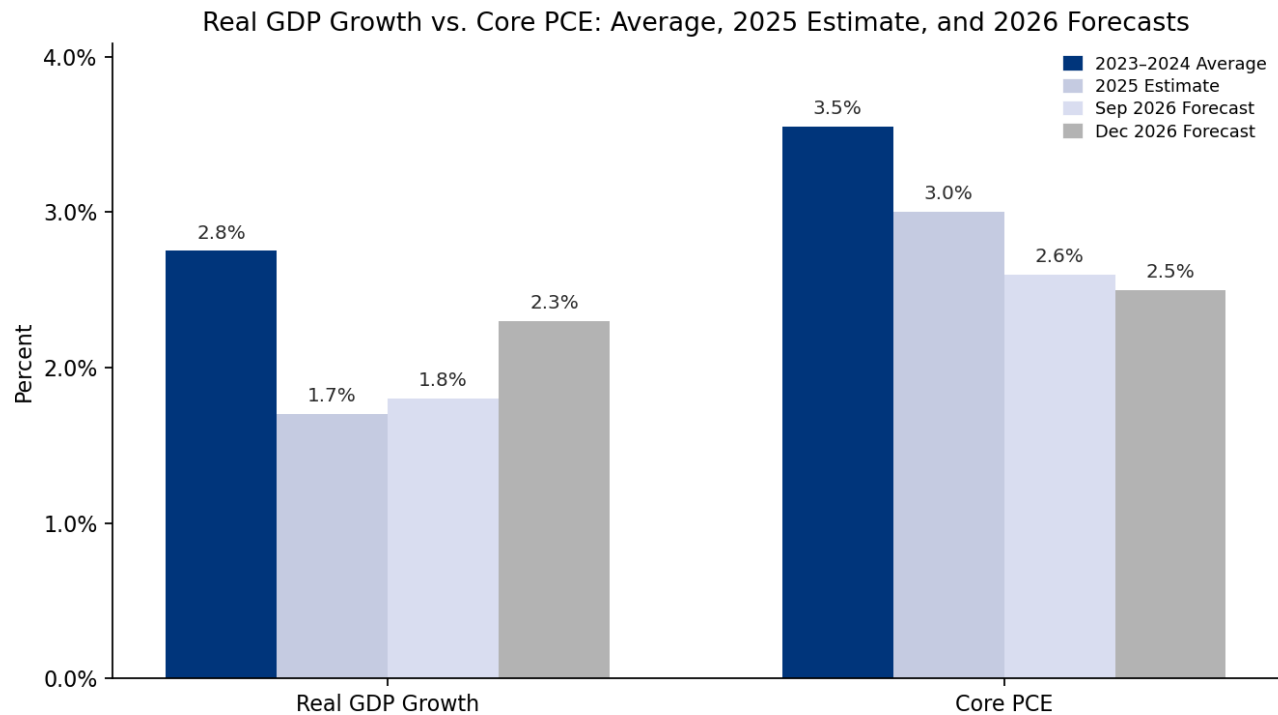


Market Sense – Fed’s Growth Signal Offers Optimistic Tone for Stocks

December 12, 2025



Sources: Federal Reserve, HB Wealth; as of 12/12/2025

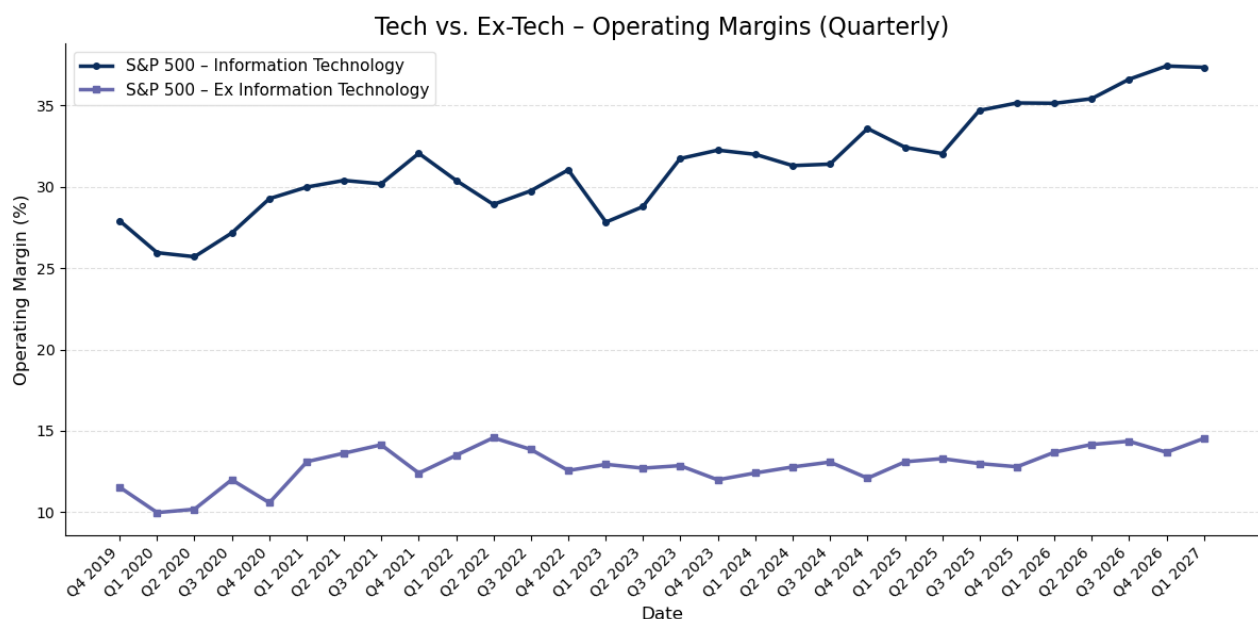
The Federal Reserve meeting this week offered more than just a liquidity cue for markets. It also contained hints that the time for AI to morph from tech profits-driver to broader economic force may be emerging. If growth accelerates while inflation eases, as the Fed now expects, S&P 500 profits may get an unexpected boost in 2026. The nature of that profits boost could result in easing concentration risk for the US equity market.

Though the Fed reduced rates at their meeting this week, the better news for stocks might be found in their forecast for growth and inflation. Growth is now expected to accelerate while inflation eases in the year ahead. The median estimate suggests a GDP gain of 2.3% next year, a full half point faster than the

September forecast for 1.8%, and core inflation is expected to rise 2.5% in the year ahead, less than the September projection for 2.6%. This implies GDP growth recovery to near pre-2025 norms and the lowest inflation figure since 2020.

For the last several years, tech has been the primary beneficiary of productivity gains, resulting in a two-speed margin landscape for the S&P 500, and contributing to concentration risk in both earnings and prices. However, if stronger growth and lower inflation emerge, it may imply a broader recovery for S&P 500 margins.

Currently the consensus anticipates the status quo will remain in 2026 – tech is expected to record much faster margin expansion than the rest of the S&P 500. Margins for tech have surged past former peaks over the last year and are expected to continue to rise to new highs by the end of 2026. Meanwhile, only modest improvement in ex-tech margins is forecasted to levels last recorded at the 2022 high. If the Fed is right and productivity gains emerge in the year ahead, presumably partly because technological advancements start to benefit non-tech industry productivity more broadly, margins may improve more than expected for non-tech companies. This margin recovery for non-tech companies could help ease the concentration risk that has plagued the index for the last several years, strengthening the fundamental backdrop for US stocks.



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