

# PALOS

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Issue No. 1 | January 9, 2026

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## Productivity is America's Secret Weapon

Productivity has been steadily improving over the past two years. In the third quarter of 2025, it accelerated to a 4.9% clip from 4.1% in Q2/2025, 2.8% in 2024, 2.0% in 2023, and minus 1.5% in 2022. This acceleration started with the creation of OpenAI, raising hopes that investment in AI, robotics, and new business methods is indeed paying off. According to a growing body of economists, this phenomenon is likely to continue, because tax cuts, automation, deregulation and technological advancements, including AI growth, are broadening in areas where jobs are very productive, offsetting input costs and causing growth without unwanted inflation. Interestingly, the Atlanta Fed's GDPNow model estimate for real GDP growth in Q4 is a whopping 5.1%, due almost entirely to productivity gains. And the prospects for 2026 are excellent because the velocity of money is highly likely to rise as monetary policy eases, which seems to be historically related to increases in productivity.

### What Happened in the Week Ended January 9?

On Monday, the S&P 500 finished higher, rising 0.6% to finish at 6900. On the one hand, the major US oil companies like Chevron, refiners like Valero Energy, and big oilfield services companies logged strong gains, emphasizing the positive effects of the Venezuelan crisis on expectations that they would benefit from the opportunity to develop the vast oil reserves of Maracaibo and Orinoco. On the other hand, gold players accentuated the possible negative geopolitical consequences, sending its price up 2.8% to \$4457 per troy ounce while conceivable military tensions lifted global defence stocks.

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Counterintuitively, moves in oil prices were relatively muted for four reasons:

- First, bringing the country's oil production up from its current level of less than 1% of global output could take decades because the investment could amount to tens of billions of dollars and take that long to conclude. Rystad Energy estimates it would cost around \$53 billion over 15 years to keep Venezuela's crude oil production flat at 1.1 million barrels a day.
- Second, there's a huge risk involved. Given the country's political instability and lack of clarity, it will take a long time before anyone in the oil industry will commit capital. They will want guarantees from the Administration to go further.
- Third, Venezuelan exports of crude oil are very low, representing less than 0.5% of the amount exported by the nine largest oil exporters in the world.
- And fourth, the oil industry is burdened with a global glut that is difficult to unwind as demand for crude has been weakened by the rise of electrical and hybrid vehicles.

That said, Trump will likely pressure US energy companies to support his geopolitical aims, forcing oil executives to comply, fearing rivals could gain a lead on exploiting more than 300 billion barrels and/or upset the man by staying on the sidelines. Trump said: "We're going to have our very large US oil companies, the biggest anywhere in the world, go in, spend billions of dollars, fix the badly broken infrastructure, and start making money for the country."

On Tuesday, the S&P 500 traded in record territory, posting a 0.6% gain to close at 6945, a new all-time high. Contrary to the prior session, investors were concentrating on healthcare and materials, including industrial names and positioning themselves for volatility by pricing in uncertainty over the upcoming report of the December employment situation.

On Wednesday, the S&P 500 retreated from record levels after starting the year with a 3-day winning streak, slipping 0.3% to 6921 as bank stocks got hammered and metals and oil names dipped.

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On Thursday, stocks ended the day mixed, but the S&P 500 managed to inch up 0.01% as the December ADP job report, a private-sector proxy, showed that the hiring impulse had overall recovered, while the Challenger numbers showed that job cuts had receded. Nonetheless, the BLS' JOLTS announced that the jobs-jobless ratio had tumbled to its lowest point since 2021.

On Friday, the S&P 500 traded in record territory after morning weakness, following a lackluster job report that showed that the labour market was stuck in a demographic holding pattern. Meanwhile, the Supreme Court made no decision on the legality of Trump's tariffs. The blue chip benchmark rose 0.65%, to end the week at 6966, reflecting the announcement of the University of Michigan that consumer sentiment improved in December.

### **The Near-Term Stock Market Outlook**

Last week I wrote: "At this point, I have no reason to change my mind about my 2026 target for the S&P 500 of 7700. However, cash levels are low (3.3% of AUM) - a contrarian indicator that suggests near-term volatility is likely."

Goldman Sachs recalibrated its outlook this week by officially calling for a 12% total return for the S&P 500 in 2026, which should end this year at 7600.

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