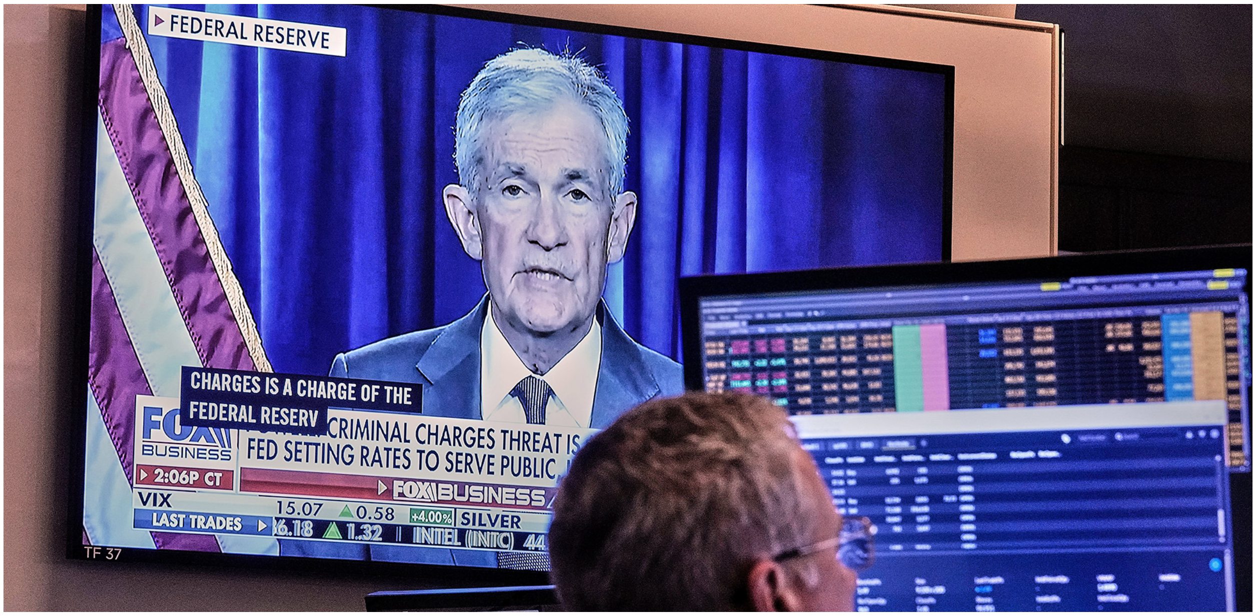
THOUGHTS FROM THE FRONTLINE

The Bipolar Economy, Part 2

By John Mauldin | January 17, 2026



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Today we continue my 2026 economic and market forecast. Last week I described our current environment as The Bipolar Economy, featuring wild and frequent mood swings. We could also add psychosis to the symptom list.

For example, why have silver prices (roughly) doubled in the last three months? What changed to make it suddenly more valuable? I know, it's supply and demand in a relatively thin market. But it's seems to be more than just a classic short squeeze. (More below)

The broader point is that so many trends and events simply *don't make sense* right now. They seem disconnected from reality. That's the definition of "psychotic" and, at least among investors, it may be approaching pandemic status.

I think part of the explanation may be that we live in different realities, often defined by our news sources and social media habits. We increasingly feel entitled not just to our own opinions but to our own facts. Strange market activity is one consequence.

Unfortunately, I can’t solve that problem. What I can do is share with you the latest thoughts of sources I’ve found interesting and reliable. As I noted last week, the real goal here isn’t to tell you what will happen. It’s to help you know what *could* happen so you can be prepared.

Eight Themes

We’ll begin with David Bahnsen, whose Year Behind, Year Ahead white paper should be on your must-read list. (Hit the small subscribe button on that page to get his daily content. It’s one of my favorites!)

Last week I briefly mentioned David’s thoughts on AI. That was one of eight 2026 themes he described in the report. Last year he was 8 for 8, so we’ll see how it goes this year, but he is one of the most thoughtful analysts I know and is someone you should follow. Considering it alongside his other seven themes will help you put it all in better context. So, here’s the full list and some highlights.

1) AI Vulnerabilities Will Become Much More Evident to the Markets

> “The late 2025 pause in the AI trade did see some stock prices drop a great deal, and others drop a modest amount, but very little was fully broken or purged. A company like Oracle ended the year down 44% from its high of three months earlier, yet still up 17% on the year. Froth may have come out of some names, but much of these declines are simply air coming out of prior inflations. There is ample vulnerability to be found if and when sentiment reverses, and that sentiment reversal is not likely to come until there is some fundamental breakdown.”

While I agree with this, the sentiment underlying the AI stock boom is not entirely rational. Some of it is self-perpetuating; the math of capitalization-weighted indexes forces other investors to follow the crowd. As Keynes famously noted, markets can stay irrational for a long time.

Hence, the kind of “fundamental breakdown” David thinks necessary to a sentiment reversal may need longer than we think to get investors to reconsider. People who are sitting on huge open gains don’t easily admit the ride is over.

2) The Economy is in a Tug-of-War Between Two Unknowns

> “What we have is an unknown potential growth driver (new tax provisions) competing with an unknown potential risk (labor), with tariff uncertainties thrown in for good measure. The bold thing to do here would be to take a side: ‘The labor market will weaken further and expose a real vulnerability in this economy that supply-side tax cuts will not be able to fix’ – or, perhaps – ‘The OBBBA tax provisions will prove to be an underrated source of growth and productivity in 2026 that will drive more capital investment, more hiring, and continued wage growth.’ These sentences cannot co-exist, yet I am fairly certain one of them will prove to be the economic story of 2026.”

3) Midterm Elections: The House Will Flip to Democratic Control But the Senate Will Stay Under GOP Control

"What about the midterms could spike volatility in the year ahead? (1) The magnitude of the first half of my forecast (could a Democratic takeover of the House be bigger than currently expected); and (2) The accuracy of the second half of the prediction (despite overwhelming GOP advantages in the Senate map, should a blue wave become material, this expectation could potentially be called into question)."

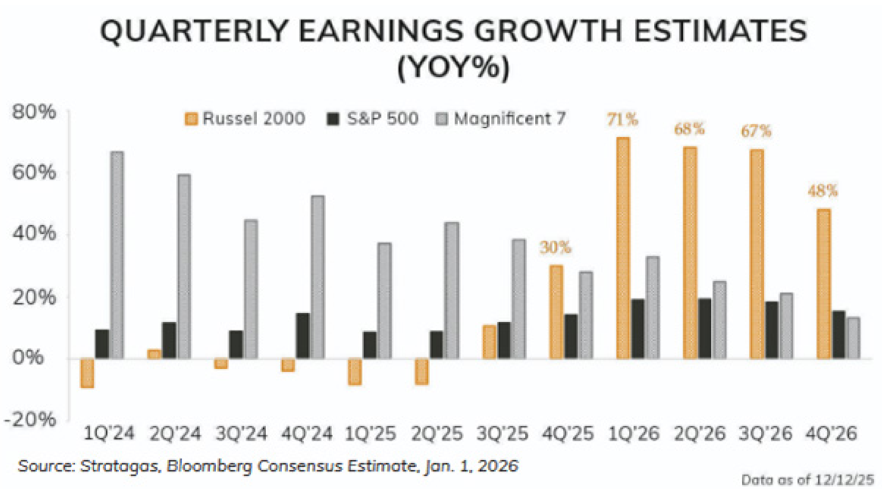
4) Housing Will Get Cheaper This Year, Or There Will Be Problems

"From the financial sector to the construction sector to the retail sector, housing has a long tail. The combination of inadequate supply, high price expectations from would-be sellers, prohibitively high borrowing rates for would-be buyers, and too-good-to-sell rates for current owners all "froze" housing activity over the last couple of years, with little gains on the affordability front, and no gains for those looking to tell themselves their houses are more valuable than they were a year ago…

"The most natural solution to this is a modest re-pricing and I expect that to happen in the lion's share of American metro markets in 2026 (it has already begun in many of the frothiest). The economic benefits here are for buyers and those with adjacent connectivity to housing activity. That latter point has concerned the Federal Reserve for some time, and it is where I believe the biggest need lies."

Housing prices are kind of a chicken-and-egg problem. Getting them down is necessary to keep inflation under control. But without lower inflation, it's harder for the Fed to justify rate cuts. The Trump administration is working on a few possibly helpful policies, like having Fannie Mae buy mortgage bonds. But those have risks, too. And the real problem is inadequate housing supply. Solving that problem is largely in the hands of NIMBY-leaning local voters.

5) Small-Cap Earnings Growth Will Outpace S&P 500 Earnings Growth



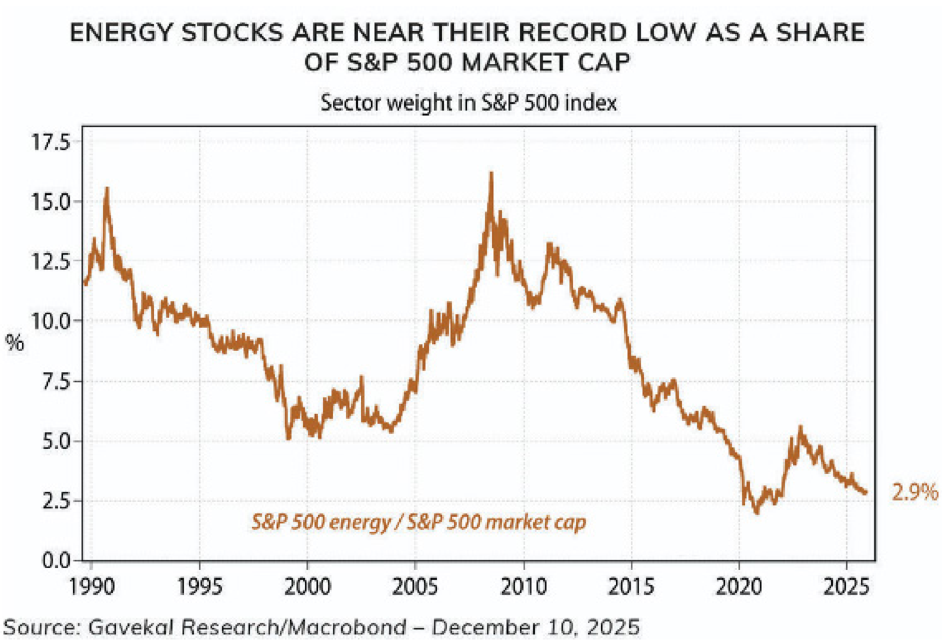
Source: David Bahnsen

6) Foreign Appetite for U.S. Assets to Stay Strong

"Not only am I unconvinced that the delta between our imports and exports will really go down that much as a result of tariffs (I see total trade being impacted more than the trade deficit), the fundamental reasons for foreign investment into U.S. markets remain the presumption until proven otherwise."

7) The Energy Sector to be A Solid Contrarian Play in 2026

"I say this knowing oil is sitting around $58 and that the White House would love for it to be even lower. But I also believe that OPEC+ is a larger factor than the U.S. in where total global supply goes next year, and I do not believe most of those countries can afford to elevate production much with prices in the 50's."



Source: David Bahnsen

Energy stocks may well stage a rally this year, but the fact that they are near a record-low share of the market doesn't make it inevitable. The share could increase from the 2.9% that his chart shows even if energy stocks go sideways. A little shrinkage in the technology sector would do it.

8) M&A (Again!)

> "The pent-up need for exit events in private equity has not subsided from a year ago. IPOs (SPAC and otherwise) seem to have a high capacity for digestion at present. There is huge desire from sovereign wealth funds to participate in large-size equity transactions. And last year was just the first year of a Trump administration that has, so far, been giving the green light to mega-cap M&A. Even as private equity deals with its own capacity issues for exit transactions, there paradoxically exists ample dry powder for acquisition events."

This M&A trend, while good in some ways, has the side effect of helping the big get bigger. Successful small-cap companies are less likely to grow into large ones because they get acquired, sometimes before they even go public. This means fewer opportunities for individual investors.

As you know, David Bahnsen and The Bahnsen Group are my favorite wealth management firm. I believe their style of dividends mixed with alternatives offers us the best way to get through what I think will be coming the future crisis. Many of your fellow readers agree. I have mentioned various managers before, but I have never seen this level of response. Clearly, TBG is resonating with my readers. You can find out why by talking with one of their representatives and learning more here. Ask them for my white paper on why I have chosen TBG to manage my assets.

Inflation Reset

My friend Ed Easterling of Crestmont Research has a fascinating way of pulling statistics apart to find out what really drives them. Recently he dissected the inflation data to explain why yearly rates will probably fall over the next few months.

The key is in what is sometimes called the "base effect." Each monthly report doesn't just add more data. It also *removes* data as the year-ago month drops out of the annual rate. And if that year-ago month showed high inflation, the yearly rate could drop a lot. Ed thinks that is what will happen in 2026.

Ed explains this better than I can. Here is his table and short description of what it shows.

CPI REPORTS BY MONTH *Annualized*	(reported) Y/Y	(reported) M/M	(falling off) *prior year* M/M
Dec '24	2.9%	**0.43%**	-1.19%
Jan '25	3.0%	**8.14%**	6.74%
Feb '25	2.8%	**5.46%**	7.69%
Mar '25	2.4%	**2.73%**	8.04%
Apr '25	2.3%	**3.80%**	4.77%
May '25	2.4%	**2.54%**	2.01%
Jun '25	2.7%	**4.17%**	0.41%
Jul '25	2.7%	**1.83%**	1.40%
Aug '25	2.9%	**3.50%**	0.98%
Sep '25	3.0%	**3.10%**	1.94%
Oct '25	3.1%	**3.01%**	1.39%
Nov '25	2.7%	**-5.33%**	-0.65%
Dec '25	2.7%	**-0.25%**	0.43%
Jan '26	***2.3%***	***4.00%***	**8.14%**
Feb '26	***2.2%***	***4.00%***	**5.46%**
Mar '26	***2.3%***	***4.00%***	**2.73%**
Apr '26	***2.3%***	***4.00%***	**3.80%**
May '26	***2.5%***	***4.00%***	**2.54%**
Jun '26	***2.5%***	***4.00%***	**4.17%**

Source: Ed Easterling

"The table provides a forward view of the statistical biases in reported CPI reports. The reported value for CPI each month is the year-over-year value. However, each month brings one new month of current data (prior months are not revised).

"Thus, each monthly annual report reflects eleven of twelve months in the preceding month's report, plus the new month's data.

"In other words, each monthly annual inflation rate drops the value from a year ago and adds the new value.

"When the values *from a year earlier* are relatively high, there is a bias in the data toward a declining inflation report (and vice versa).

"For example, if the January 2026 annualized M/M inflation rate is less than 8.14%, the reported CPI value for January will decline from December's 2.7%.

> "The left column in the table reflects the reported Y/Y CPI for each month since December 2024. The additional two columns and forward-looking rows provide real insights.
>
> "The center column is the month-over-month annualized rate for CPI [M/M(a)]. In other words, the Sep '25 value of 3.10% reflects the annualized inflation rate from Aug '25 to Sep '25.
>
> "In contrast, the Y/Y column for Sep '25 reflects the inflation rate from Sep '24 to Sep '25.
>
> "Here's where the insight starts. The right column reflects the annualized M/M rate for the corresponding month a year ago. In Sep '24, M/M CPI rose at an annualized rate of 1.94%. For Sep '25, M/M CPI rose by an annualized 3.10%.
>
> "Since the Y/Y rate is effectively the previous twelve months of the M/M rate, the Sep '25 Y/Y rate drops the Sep '24 M/M rate and includes the Sep '25 M/M rate.
>
> "The Sep '25 Y/Y inflation rate increased because the Sep '25 M/M rate was higher than the Sep '24 rate. The eleven months in between remained the same because this version of CPI inflation is not revised.
>
> "The reported CPI rate for Sept '25 of 3.0% increased from 2.9% in Aug '25 because 3.10% replaced 1.94% in the cumulative Y/Y measure.
>
> "The numbers in the center column are colored green and red. A green font is used when the new number is lower than the prior year's value, signifying a decreasing effect on Y/Y CPI. A red font is used when the latest number is higher, indicating an increasing effect on Y/Y CPI."

John here again. To be clear, this doesn't actually change the numbers. Inflation is what it is. The yearly comparisons are important because they alter perceptions. This month's change can be exactly the same as last month's, but the yearly figure still change due to what happened a year ago. This affects expectations, and inflation expectations can be more important than actual data.

As of now, it appears likely we will soon see a string of months where *annual* inflation is running 2.5% or below. That's within shouting distance of the Federal Reserve's target and may raise the odds of more rate cuts this year.

Magic Number

I noted above how housing prices (and rent) are a big part of the inflation rate. The housing market is important not only in its own right, but because it is a major inflation factor. Barry Habib, my go-to housing expert, talked about this in his 2026 forecast. He does these on video so I'll quote from the transcript.

> "[The BLS and BEA] measure shelter prices but they only look at a small portion of the country every month. One sixth of the country, that means the other five, sixth of the country, 83%, is not being looked at. So, you're not getting up-to-date information.
>
> "Now, when we look at real-time information, things like Apartment List and Totality, and the numbers from Fannie Mae and, and the information that we get from things like Zillow, it shows rents continuing to decline, but just this also hasn't been caught up in the numbers that are being reflected.
>
> "Rents were going up, up, up very rapidly in 2021-2022. But the reason why the Fed kept the printing press going and rates at zero was because while this was going up and we knew that inflation was to follow, the Fed didn't pay attention to this. And this time, let's hope the Fed pays attention and sees that inflation will likely come down slowly, but it will likely come down and that this number is overstated.
>
> "Also overstating inflation are things like the tariffs, which should start to kind of come off of that as we head into the middle of 2026 as well. So we see these numbers coming down.
>
> "We think that core PCE inflation, while it's 2.8% based upon overstatements, as I mentioned for tariffs and also the lag in shelter, it's really much lower, although it'll take a little bit of while to get there…
>
> "So, if you said, okay, what's the real number? It's closer to like 1.9% we think now, but we think that these things will start to come off and start to influence this number lower. So our 12 month forecast is that we get some of this, maybe it could be a little lower than 2.5%, but we think we head in the direction of 2.5% on core PCE.
>
> "And you know, I think it's kind of a magic number. The fed's target is 2%, but if we're below 2.5%, the Fed will start to feel a lot more comfortable on inflation and a lot more focused on the labor market. And that should help us to see lower interest rates, but also the bond market will start to feel more comfortable as well."

The Fed's other mandate is employment, weakness in which is another reason inflation is softening as Barry says. They have to find some happy medium. To the extent Fed officials care about public opinion, I suspect they will lean into the inflation side even if unemployment rises a bit. A 5% or higher unemployment rate might change their minds, but right now people are more concerned about "affordability" than about losing their jobs.

Re-Anchored World

Geopolitical Futures' forecast for 2026 is titled **"Re-anchoring the World"**. his involves a reordering of the major powers with the United States and China being the only two global powers and Russia falling back to the level of a regional power.

Perhaps the most important of George's many forecasts is his prediction that the United States and China will reach an understanding on economic and military relations this year. This would establish a radical new global geopolitical system.

I'll write more about George's geopolitical forecast next week, since it could heavily affect economic outcomes. Meanwhile you can get a copy of George's full yearly forecast as a free bonus with a trial subscription to his service. More info here.

I mentioned silver above as part of the seemingly crazy markets. What is spurring so much demand? Literally there are a magnitude or more of futures contracts than there is silver available for delivery. Of course, 99%+ of the time those contracts are just rolled forward. Except now, the actual users of silver that use futures to manage their cost are concerned they won't be able to get it in the future so they are doing something quite rare: they are rolling "backwards" and taking delivery because they can't take the risk of not having the actual silver for their business. That's the mechanical explanation.

2026 Strategic Investment Conference, West Palm Beach and More

The team at Mauldin Economics are in the middle of planning for the 2026 Strategic Investment Conference. It will be virtually held May 4-13 over five days. We have a great lineup of speakers already, but I want to reach out to possibly my best source, which is you (!) and ask who do you think we should try to get and secondarily, do you have a way to help us get in contact with them? What new topics should we cover? Write us at **sicideas@mauldineconomics.com**.

I was in West Palm Beach last Monday meeting with Mike Roizen and the team at The Lifespan Edge clinic in West Palm. We hope to open towards the end of the first quarter and that will shortly be followed by a clinic in Columbia, Maryland. The Dallas clinic is open and doing well, and Puerto Rico should open next week.

2026 should be the year we all dedicate ourselves to living longer and healthier. Experts are increasingly saying that your longevity journey should begin with Therapeutic Plasma Exchange. Think of it as an oil change for your body, getting rid of the old junk like mis-folded proteins, dead cells and micro-plastics that create inflammation and neurological issues in our aging bodies. Mike Roizen says TPE is the only true therapy for Alzheimer's disease if you catch it early enough. We are seeing increased activity at the Dallas clinic, and you should consider going there.

You can learn more at Lifespan-Edge.com (note the dash). If you haven't, you really need to read our main research report. The research and other information we have can make a real difference in your life. And we will shortly roll out a new longevity AI powered by Mike Roizen's extensive research that will answer all your questions on longevity. Feel free to leave a note if you would like to talk to either Mike or me. You can schedule a discovery call at the website.

With that, I will hit the send button. While 2026 may be an emotional roller coaster, we should all try to have a little fun with friends and family on the ride.

Your rationally optimistic analyst,

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