

Predicting the S&P 500 in 2026: Six “classic” signals, six different stories

By Gill Segal

Every January, people ask some version of the same question: “So... what do you think the market will do this year?” The honest answer is that predicting next year’s stock return is extremely hard. Still, finance has a long tradition of looking at a handful of “state variables” that might proxy for expected returns—valuation, interest rates, credit risk, uncertainty, and even cross-asset prices.

Below, I keep the analysis deliberately simple and transparent. I take six widely discussed predictors and, one at a time, ask what each implies for the S&P 500 return in 2026, along with the necessary dose of uncertainty.

Method in one sentence

For each predictor $X(t)$, I run a one-year-ahead predictive regression:

$$\text{S\&P 500 excess return}(t+1) = \alpha + \beta \cdot X(t) + \varepsilon(t+1)$$

I then plug in the 2025 value of the predictor to produce a forecast for 2026. Because the regression is in excess-return terms, I convert the forecast into a total return by adding 3.7 percentage points (approximately the current 3-month T-bill yield):

$$\text{Predicted total return for 2026} = \text{Predicted excess return for 2026} + 3.7$$

For each forecast I also report a 90% confidence interval for the regression’s mean prediction at the 2025 predictor value. Finally, I report the regression’s in-sample R^2 , which summarizes how much variation in next-year returns the predictor explains historically.

The six predictors (and the intuition)

P/E (price-to-earnings ratio): The classic valuation signal. A high P/E means the market is “expensive” relative to current profits. Historically, paying a high price for earnings has often corresponded to lower expected returns going forward, as valuation multiples eventually revert to the mean.

CAY (consumption-to-wealth): A powerful macro signal. This ratio measures aggregate consumption relative to asset wealth. The intuition is that when consumption is high relative to wealth, investors must be expecting either higher future returns or lower consumption growth; empirically, this has tended to predict higher future stock returns.

G/P (gold-to-platinum ratio): Gold is typically more “safe-haven,” while platinum is more tied to industrial demand. When gold is expensive relative to platinum (high G/P), it can signal elevated risk concerns—periods when investors demand a higher risk premium, which historically has been associated with higher subsequent expected stock returns.

Term (10-year minus 3-month yield): A yield-curve slope measure, often tied to business-cycle expectations and discount-rate conditions.

Def (BAA minus AAA corporate yield): When the spread between lower-rated (BAA) and higher-rated (AAA) bonds widens, it signals stress in credit markets. Like the G/P ratio, high stress often implies high required returns for those willing to bear the risk.

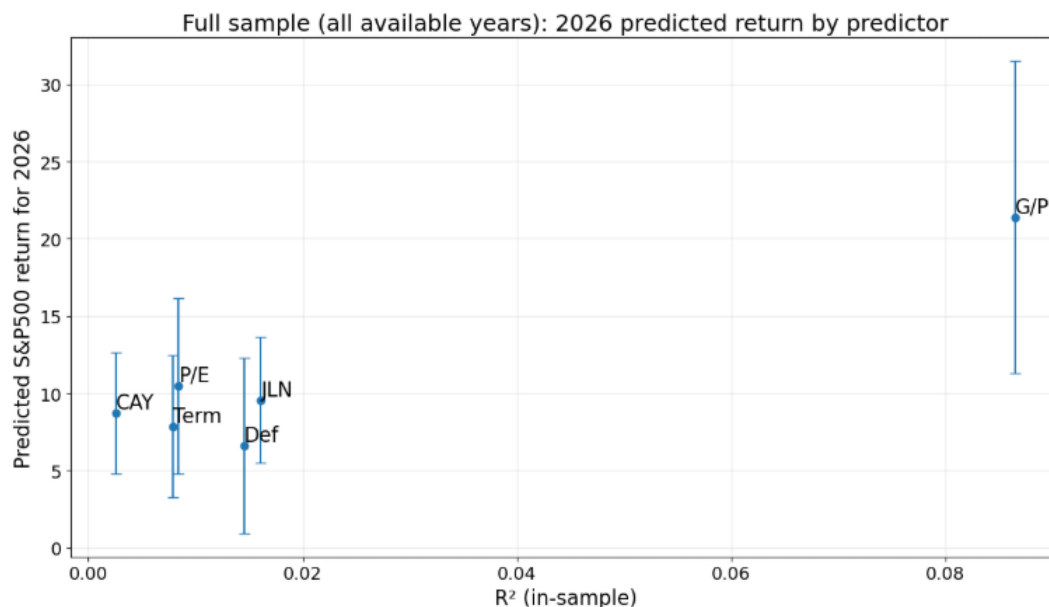
JLN uncertainty (Jurado–Ludvigson–Ng): A sophisticated macro uncertainty index. Higher uncertainty raises the compensation investors demand for bearing risk, theoretically pushing expected returns higher.

What the full-sample results say (1970–2025)

The headline takeaway is one of divergence. Most of our "classic" predictors are telling a story of moderation, while one outlier is predicting a boom. First, the **"Consensus"**: The majority of predictors (P/E, Term, Def, JLN, and CAY) cluster in a "middle-of-the-road" range. They forecast total returns of roughly 6% to 10% for 2026. This is consistent with a market that is not cheap, but also not flashing red warning signs of immediate distress.

Then, the **"Bullish Outlier"**: The Gold-to-Platinum ratio (G/P) stands alone. It demonstrates the highest historical fit (R^2 of about 8.7%) and offers the highest point forecast: a robust **21.4% total return for 2026**. Even its lower confidence bound (11.3%) is higher than the average forecast of the other models. The R^2 values remain small across the board (mostly less than 2%). However, the signal from G/P is distinct enough to warrant attention.

Figure 1: Full sample forecast plot

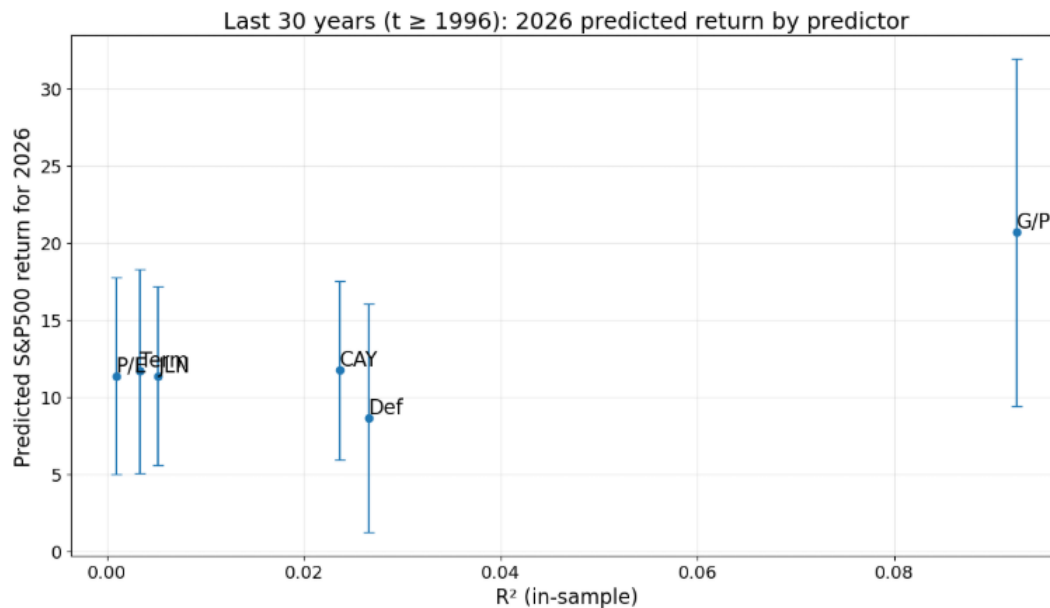


What changes if we only use the last 30 years (1996–2025)?

Predictive relationships can drift over time. To ensure these signals aren't relying solely on data from the 1970s, I re-ran the analysis using only the last 30 years.

The result? The story holds up. In the recent sample, the G/P ratio remains the dominant signal (R^2 of about 9.2%) with a point forecast around **20.7%**. Several other predictors drift slightly upward in their forecasts (to around 11–12%), but their predictive power (R^2) remains negligible. The takeaway is that the divergence between the "safe haven" signal (G/P) and the standard valuation signals is a persistent feature of the current market environment.

Figure 2: Last 30 years forecast plot



How to read these charts

A higher R^2 means the predictor has historically lined up a bit more with next year's returns. It does not mean reliable prediction.

The confidence intervals are the real headline: they are wide because annual returns are noisy and the sample is limited.

Differences between full-sample and recent-sample estimates are not a bug; they are a reminder that relationships can shift over time.

Treat the range of signals as information. When predictors disagree, that disagreement is itself a useful summary of uncertainty.

Bottom line

If you want one honest conclusion: the indicators do not agree perfectly, and no single-variable model is a crystal ball. However, the disagreement itself provides insight. The consensus of standard financial metrics suggests a normal year of single-digit returns. But the most reliable signal in our sample—the relative price of Gold to Platinum—suggests that the market is climbing a "wall of worry." This indicator points to higher expected returns (potentially >20%), driven by a market that may be pricing in too much fear relative to industrial reality.