

# Market Update



Whistlejacket by George Stubbs (1762)<sup>1</sup>

By Bruce VonCannon

## **Runaway Inflation in the Year of the Horse? (2026)?**

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<sup>1</sup> This painting is considered one of the most famous animal paintings in Western culture by English painter George Stubbs and representative of the school of 18th Century Romanticism. This racehorse belonged to the Marquess of Rockingham and only lost four races in his entire career. Whistlejacket was reputed to have been a very temperamental and nearly unmanageable thoroughbred.

# The Voice for Reason

## *Comments and Views for the Individual Investor*

(February 15, 2026) As the Lunar New Year comes to a close we see the last few days of the Year of the Snake cede to the arrival of the Year of the Horse. In the folklore that surrounds the 12-year repeating Chinese zodiac,<sup>2</sup> persons born in the Year of the Horse are said to be cheerful, energetic, and adventurous in spirit. In addition to the animal zodiac, there are five elements associated the year: earth, fire, water, wood, and metal. The year 2026 is the Year of the Fire Horse which only repeats every 60 years. The Fire Horse is characterised by intensity and high speed energy which abets rapid change, a propensity toward innovation but also at the risk of volatility. The last Fire Horse occurred in 1966 which brings to mind the Cold War tensions between the U.S. and U.S.S.R. and the opening days of the Cultural Revolution in China. In the U.S. rapid change was occurring during that era with the advent of the Johnson Administration Civil Rights agenda and de-segregation of all schools particularly in areas of the southern United States.<sup>3</sup> At the time the US economy accounted for approximately 40% of global manufacturing and held one-third of total global gold reserves.<sup>4</sup> It was also a period which saw the escalation of the Vietnam War which eventually took its toll on U.S. society and President Johnson stepping down from office.

### Will Inflation run out of control in 2026?

The U.S. Dow Jones index hit an all time high of 50,000 on February 10. . Since the end of 2022, the U.S. stock market has expanded by 63%. At the end of 2025 investors have enjoyed the third consecutive year that the US stock market registered a double digit return.<sup>5</sup> It begs the question how will investors

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<sup>2</sup> The twelve animals of the Chinese zodiac are dragon, snake, horse, goat, monkey, rooster, dog, rat, ox, tiger, rabbit, and pig.

<sup>3</sup> The author, growing up in the U.S. south, attended segregated schools in his youth in elementary school. Full de-segregation only occurred in the in the 1965-66 academic year.

<sup>4</sup> Today the US contribution to total global manufacturing is approximately 17% while China accounts for nearly 30% of global manufacturing output. The US, still largest holder of gold reserves, accounted in 2025 for roughly 25%. (Source: World Bank)

<sup>5</sup> The US S & P 500 expanded 24% in 2023, 23% in 2024, and 16% in 2025. (Source: Macrotrends Research Group (2026))

fare in 2026? Statistics show there is a 60% chance that the market can achieve further growth in 2026 if the years of 1945, 1952, and 1998 are reliable precedents. Average growth in those “4th years” following three good years showed an average 12% gain. While these historical precedents provide some grounds for hope, it is also important to underline the clouds which appear threatening to such scenario as well.

The factors which seem at odds with a rosy outlook include the following:

i) the impact of the Trump tariffs- To date the April 2 announcements have not resulted in immediate debilitating inflation which many analysts feared likely because many companies had sizeable inventories at the end of 2024. However, there are fears that inflation will rear its ugly head as we proceed further into the year.

“Affordability” was already a problem that quite likely turned the 2024 election against incumbent President Joe Biden. It was clearly the key theme in the remarkable election of Zohran Mamdani ( a Socialist party member) elected Mayor of New York City last November. Trump increasingly cannot escape the “affordability” issue that continues to grip middle-class Americans.

ii) Immigration policies- Aside from the inhumanity of the Department of Homeland Security’s ICE and CBP units terrorising many cities across the United States, the tight immigration policies threaten to have deleterious impact on agribusiness, healthcare, and IT sectors. Somebody has to pick the crops. Manpower shortages in hospitals and elder care facilities around the country are at a critical stage. Manpower shortages often create inflationary pressures in any workforce.

iii) Downturn in U.S. manufacturing and exports- It would be an understatement to say that the tariff policies have disrupted “global supply chains.” Whereas the Trump Administration espoused the idea that its tariffs would bring back manufacturing jobs, job growth figures just do not match the rhetoric. Recent statistics show that the United States had a net decline of over 105,000 jobs the manufacturing sector in 2025.

#### iv) Political Risks associated with war and elections-

Two major wars (in Ukraine and Gaza) remain in a protracted state of tension with neither of the warring parties willing to stomach concessions which are necessary to bring about peace. Tensions remain in the Taiwan Straits, too, exacerbated by the recent mysterious dismissal of senior military leaders in China.

The US mid-term elections are currently trending toward delivering an emphatic setback to the Trump Administration, and the potential for pre-election violence and division remains high. Key election issues beyond tariffs are US voters' disapproval of how the administration is handling immigration policies via the controversial para-military ICE and Custom Border Patrol units as well as poor disclosure of Epstein dossier files by the Department of Justice.

#### What sectors do we favour in 2026?

A diversified portfolio will fare best in 2026, that is one that retains elements of liquidity, yield bearing instruments, equity growth potential, and alternative positioning to deal with the frequent episodes of volatility that have become so common and unpredictable. Most analysts still consider the asset class that is likely to perform best in 2026 will be equities. The Trump Administration will probably continue its verbal abuse of US Fed Chairman Powell (until until his term ends and he steps down in May). Economist Kevin Warsh has been nominated by President Trump to replace Powell, and it appears likely that he will be approved by the US Senate. While Warsh has a reputation for being an inflation hawk, it could be he will favour a slightly more accommodative interest rate policy, and such policy could be stimulative for US equities. The major equity sectors that seem most interesting include Information Technology, Healthcare, and Utilities. The impact of the Big 7 mega stocks<sup>6</sup> has waned considerably in early 2026. We favour mid-cap over large cap stocks. Seeking out non-US market exposure could also add upside potential to investors particularly in the commodity and emerging markets.

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<sup>6</sup> The Big 7 mega stocks of Google, Microsoft, Meta, Amazon, Tesla, Nvidia, and \_\_\_\_\_ accounted for over 50% of US equity market performance in 2024 but fell to 24% in 2025. Year to Date in 2026 these seven have underperformed the market.

Bear in mind the Fed only controls short term interest rate policy. It can be said that the Fed can impact but not totally control medium and long term interest rates. If inflation pressures continue to build in the economy, it will likely be reflected in bond prices (which will fall) and result in a steepening of the U.S. dollar yield curve. The demand for U.S. Treasuries as a safe haven asset is also likely to become under assault by foreign bond purchasers like Japan, China, UK, and Saudia Arabia. Increasingly since Trump's April 2 tariff announcements they are becoming cautionary toward U.S. treasuries and clearly seeking to diversify dependence on U.S. dollar denominated securities. If this sentiment continues in 2026, expect a steepening yield curve (which could further cause U.S. mortgage rates to increase). Also expect the U.S. dollar to continue to weaken on global FX markets. It dropped approximately 10% versus major currencies in 2025. Further U.S. dollar weakening could make taking positions in commodities and the emerging markets more attractive.

The Year of the Horse is likely to be energetic with potential for both good outcomes as well as very undesirable outcomes. These risks will be unavoidably be reflected in the financial markets. Not every sector of the economy will do well. That is why seeking to stay on course with a diversified investment portfolio is prudent.



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**About the author:**

Bruce VonCannon is a native of North Carolina USA and currently a Managing Director with Vanheel Management Ltd., a Hong Kong SFC and U.S. licensed independent asset management firm founded in 2002. His career spanning 27 years in international banking and wealth management has included assignments in New York, Taiwan, Hong Kong, Singapore and Geneva. He is the author of "A Guidebook for the Asian Investor" (2017) published in hardback and e-book by Palgrave MacMillan and in Chinese language copy "未来博弈"(2021) by Beijing University Press.