



**January 2026  
1Q2026**

## **Rolling the Dice in Financial Markets-Could Wall Street Crap Out?**

***“Gambling: The sure way of getting nothing for something”***

~William Mizner, American Playwright, Entrepreneur, Con Man, 1876-1933

In the early days of the Louisiana Purchase, one of the more Netflix-documentary-worthy characters and the wealthiest person in this vast 828,000 mile swath of land was purported to be a French Creole aristocrat, politician, notorious dueler, gambler and land baron by the name of Bernard de Marigny of New Orleans. He was born in 1785 into a wealthy family and made his money the old-fashioned way—he inherited it. He then went on to prove the aphorism “The way to make a small fortune is to start out with a large one.”



Marigny's business and personal affairs had a more *speculative* flair attached to them. His business ventures ranged from real estate development to sugar and cotton plantations to owning the first horse race course in the Southern United States. But Marigny is best remembered for bringing the dice game *Hazard* to the US after a grand tour in Europe in his youth. The game soon became popular with both French Creole and new Americans. Noting that the Creole gamblers crouched like frogs when they threw the dice, the game acquired the nickname *Crapaud* which is the French word for frog. The name was shortened to the popular casino game commonly known today as *Craps*.



### **Gentlemen, Place Your Bets**

Today's financial markets have a similar roll-the-dice-like feel compared to fundamentally-driven markets of old. The lines between current stock and bond markets and prediction markets like DraftKings and Polymarket, which allow users to trade contracts on future events, have been blurred. The proliferation of things like AI and alt coin-influenced SPACs, retail-friendly leveraged ETFs and up to 500-1 margin available on some bitcoin purchases also help illustrate how comfortable individuals have become with the concept of risk. Not to be left out, traditional financial markets have an equivalent risk-on feel. The S&P 500 continues to drive higher on the back of a single overriding theme, volatility in the fixed income market is near the lowest level in history, and leverage in the financial system is growing. But underneath the rare combination of complacency and speculative fervor are the challenges facing the real economy including the fact that economic growth is flat when AI is backed out of the equation. As the new year begins, an important question to ask is will the market continue to press its bets or will it *crap out*?

### **Hot Dice or Snake Eyes?**

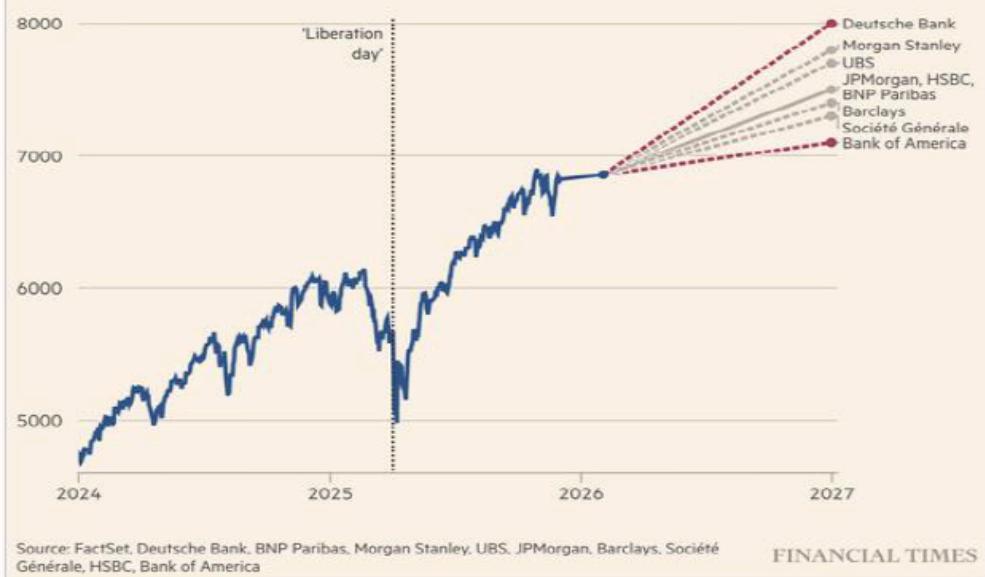
Wall Street strategists have placed their bets for 2026 and they are unanimous! Thanks to expected increases in capex spending on artificial intelligence (AI) data centers and tax cuts from *The Big Beautiful Bill*, the average forecast from nine major investment banks in a survey done by the *Financial Times* is for earnings of S&P 500 companies to grow by more than 10% in 2026 and the market to follow (see Chart 1). The unanimity is concerning.

While tax cuts and the hope of improved corporate profits this year have put risk takers firmly in the winners' circle, professional market prognosticators may be overlooking a few key headwinds. Current equity market valuations and a historic level of market concentration in a few stocks may be the combination that ultimately douses the market's hot streak and, at the very least, was a combination reminiscent of past overextended markets. Goldman Sachs Investment Research suggests the current market has reached levels consistent with one of the most expensive markets in the past 100 years. As evidenced by Chart 2, when the market became too concentrated in one theme or a single investment thesis in the past, ultimately the markets reversed course.

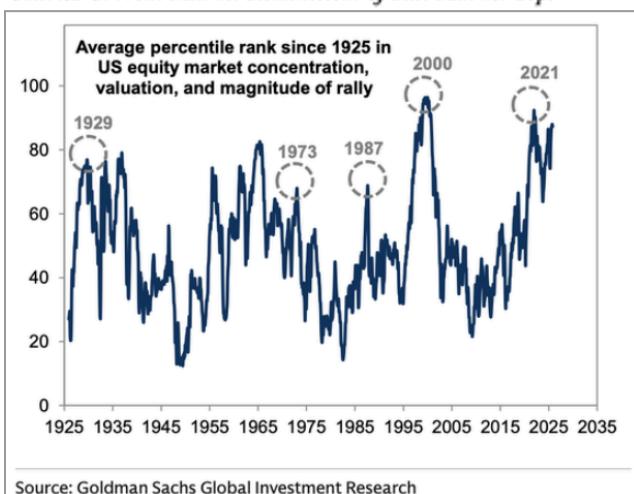
**Chart 1: Wall Street Bets on Black for 2026**

Wall Street expects US stocks to continue rallying in 2026

S&P 500, dashed lines indicate forecasts



**Chart 2: Current Market Reminiscent of Past Market Tops**



## All In On Black

The current market may be in that very predicament. The economic fate of the United States may just be a gamble on whether companies will continue to increase their spending on AI and AI data centers at ever increasing levels. Andrew Ross Sorkin of the *New York Times* and CNBC posed a key question: "How much is the AI growth rate papering over the problems of the rest of the economy?" Harvard University Economist Jason Furman attempts to provide an answer. He states "without AI spending, US

economic growth was nearly zero. Investment in information processing equipment and software is 4% of GDP. But it was responsible for 92% of GDP growth in the first half of 2025. GDP, excluding these categories, grew at a 0.1% annual rate." However, since 2022, the narrowness of the market and the dependence on one central market theme has not been a concern for most investors. As seen in Chart 3, the largest seven stocks in the S&P 500 (all technology stocks) have provided the majority of the earnings for the entire Index over the past three years. Moreover, these same stocks are expected to have an equally significant contribution to the earnings for the market in 2026.

## What Could Cool This Hot Hand?

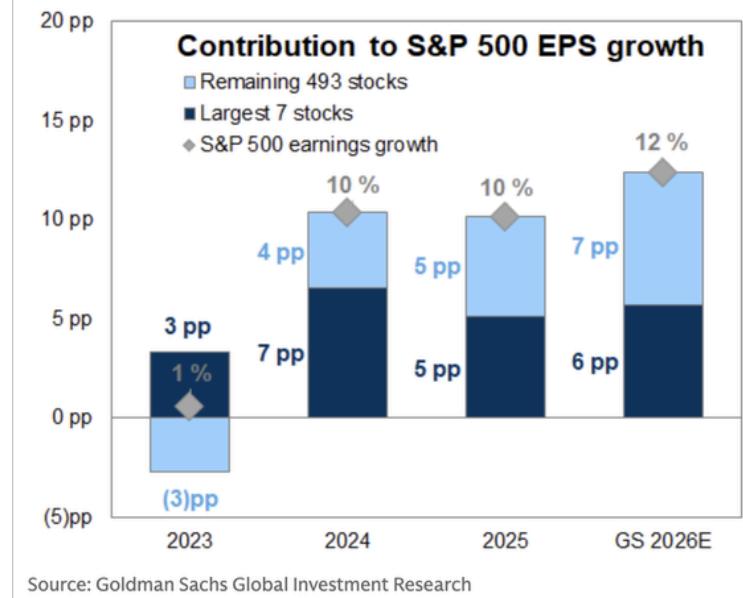
Here is the problem with putting all of your chips on the AI bet. While the odds are that AI is a transformative technology and will dramatically change the lives of many in the future, the growth in AI investments may begin to slow and be insufficient to justify existing market multiples unless end users begin to see more immediate benefits from these investments. Two key studies suggest money invested in AI is not resulting in gains for early AI adopters yet. The *New York Times* reported that a recent McKinsey study found that "nearly 80% of companies using AI report no significant bottom-line impact." Likewise, an MIT study found similar results when it revealed that 95% of organizations in their study reported "zero return on their (AI) investments."

Whether or not the *AI investment/end user return* issue resolves itself any time soon, both individual and institutional investors are "all-in." In fact, Cantor Fitzgerald stated on their January 5th Bi-Weekly Equity call that "margin balances in retail accounts are the highest since 2008." (see Chart 4) They went on to say that when

Chart 4: Retail Investor Leverage At Historic Highs



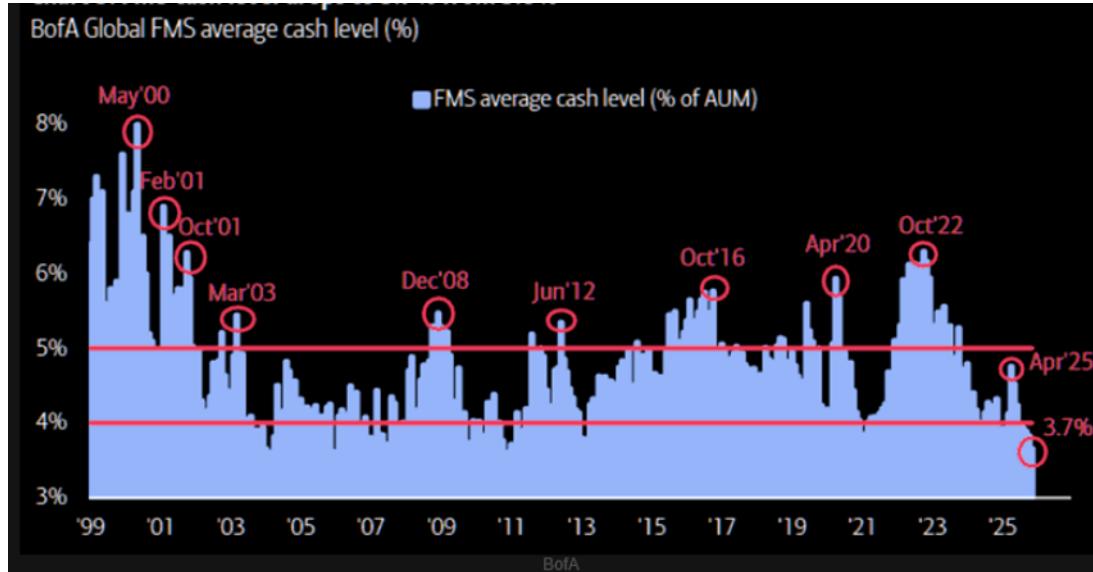
Chart 3: Contribution to S&P 500 EPS Growth from Fantastic 7



"leveraged ETF assets under management are added to the equation, margin balances are even higher for individual investors today than they were in 2008."

Not to be outdone, institutional investors now have among their highest equity and lowest cash portfolio allocations in over 20 years (see Chart 5) and “hedge fund net exposure is now in the 96th percentile

**Chart 5: Institutional Cash Levels**

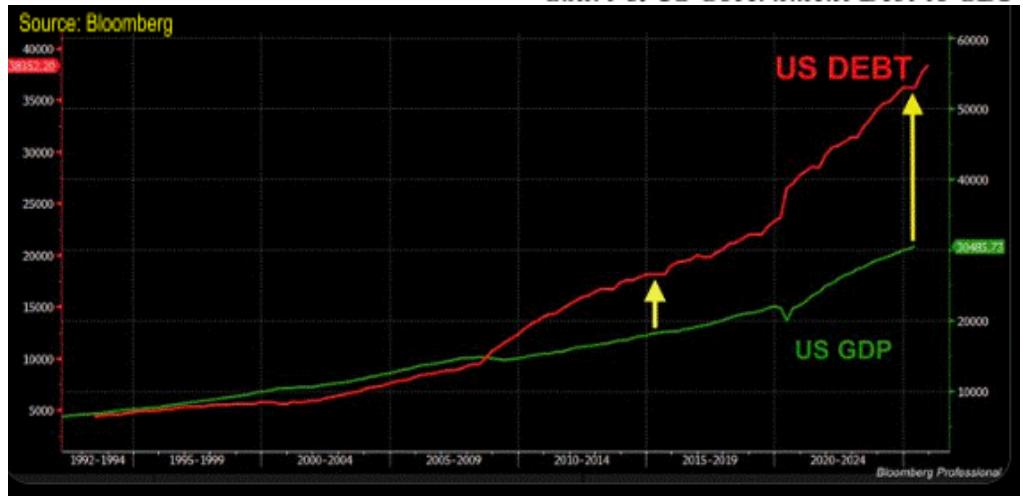


over the past three years.”<sup>1</sup> So while players stack their chips higher and higher on the same number, it is less than certain these bets will result in a handsome payoff.

## Bets on Bonds

Higher levels of risk behavior can also be found in the bond markets today. In the US government market, Treasury debt levels are now over \$38.5 trillion, and rising, with deficit spending of about \$1.8 trillion or 5.9% of GDP in 2025. In their book entitled “This Time is Not Different,” Carmen Reinhart and Kenneth Rogoff suggested that once a country’s debt hits 90% of its GDP, growth in a country’s economy will slow and each additional \$1 in debt will ultimately produce less than \$1 of corresponding GDP. US government debt to GDP currently stands at 124% which certainly adds risk even to “riskless” Treasuries.

**Chart 6: US Government Debt to GDP**



The proliferation of issuance in debt to help fund AI data centers and the continued meteoric rise in government bond issuance are just two examples of how risk and leverage are building in this quiet sector of the financial markets. And while debt builds, it is less than certain how these gambles will work out. Success in

AI-related debt is predicated, partly, on the ability of companies to pay principal and interest at levels that are beyond any realistic possibility today.

### Chart 7: Volatility in Credit Markets

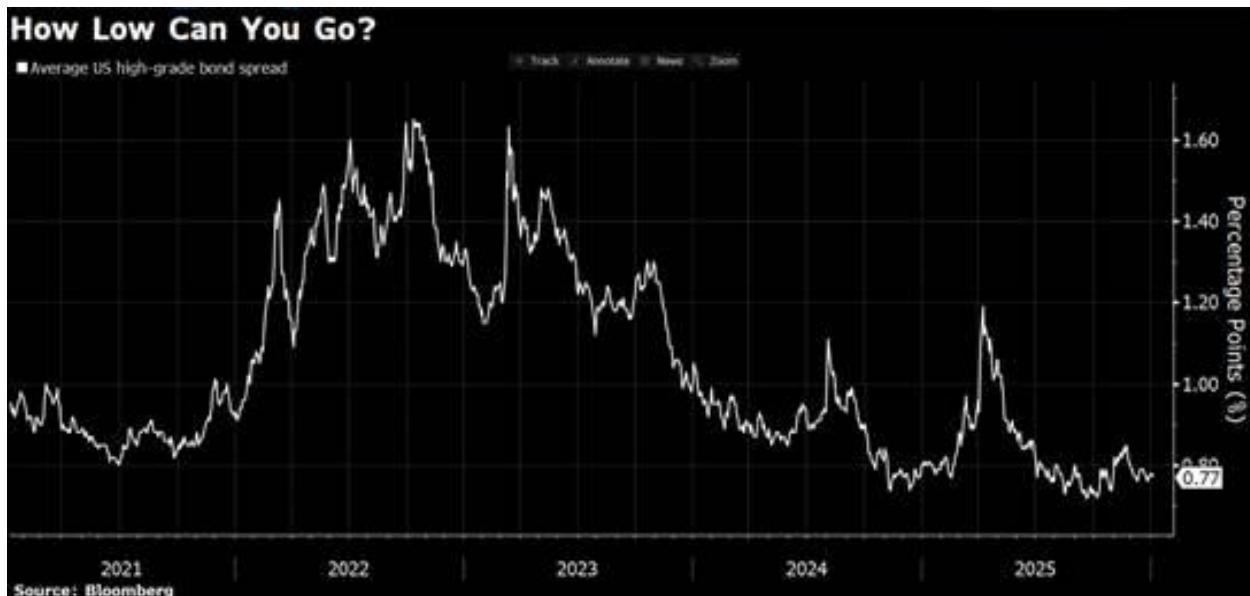


Despite the growing level of debt in certain areas of the fixed income market coupled with two high profile bankruptcies, investors in bond markets have rarely been more complacent. The North America 1-Month Credit VIX measures volatility in both the investment grade and junk bond markets (see Chart 7). Based on the most recent statistics, bond volatility is near the lowest levels on record.

The combination of a profligate Congress since the Great Financial Crisis (GFC), little volatility in the debt markets and good corporate profits overall have

helped credit spreads (yield differential between corporate bonds and Treasury bonds) narrow to their lowest level since 1998, just months before the Dotcom bust. The same pattern also surfaced shortly before the GFC suggesting this technical formation in the bond market has been an ominous historical marker that may be predicting that the dice are about to cool and investors should take some chips off of the table.

### Chart 8: Credit Spreads AT Lowest Levels in 25 Years

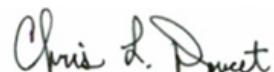


## ***Ride the Hot Hand or Avoid the Marigny Trap?***

Charles Merrill, co-founder of Merrill Lynch, famously penned a letter to his clients on March 31, 1928. He suggested that his clients should reduce their stock holdings citing elevated equity prices and rampant speculation in the market. He also advised his clients to take some of the sale proceeds and “get out of some debt.” Between the time he wrote his letter in March of 1928 and the September high in 1929, the market rose 90%. Of course, it famously reversed course and declined by 90% over the subsequent 33 months. Similarly, the financial markets today could continue their upward trajectory for some time and it could take weeks, months, or years before the market dice rolls that unlucky 7.

Given the combination of lofty valuations, a singular focus in the market which has failed thus far to produce desired returns on investment, and the leverage now in the financial markets today, some prudence is needed to ensure we do not meet the fate of old Bernard de Marigny. Investors should take steps to avoid turning a larger fortune into a smaller one!

Sincerely,



<sup>1</sup> Cantor Fitzgerald, *Cantor Bi-Weekly Equity and Macro Trading Presentation*, Eric Johnston, 1/5/2026

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