OBSERVATIONS

- Equity markets were mixed last week with the S&P 500 gaining 0.4%, while small caps (Russell 2000) lost 2.1%, and the yield on the 10-year Treasury was little changed, rising 1 basis point to 4.24%.[1]
- Durable goods came in better than expected in November, growing 5.3% month-over-month (MoM) and more than offsetting October's 2.2% MoM decline. Non-defense durable goods orders (excluding aircraft), a proxy for overall corporate capex spending, also beat expectations, growing by 0.7% MoM. This improved upon October's 0.5% MoM figure—suggesting that corporations are increasing their investments in production capacity.[1]
- The S&P CoreLogic National Housing Price Index showed that national home prices increased by 1.4% year-over-year (YoY) in November, the same YoY increase recorded in October.[1]
- Initial unemployment claims remain low, registering 209k new claims last week. This figure was on par with the week prior (210k revised) and about 3k more than the same week last year.[1]
- Recent trade data showed that the US trade deficit increased in November (latest available) to nearly $57 billion, a larger deficit than expected. This suggests that net trade may have a larger drag on real GDP growth in Q4 than the US economy experienced with Q2 and Q3 GDP growth figures.[1]
- Prices at the wholesale level were little changed in December, with the PPI index registering 3.0% YoY, the same as in November. Core-PPI—which removes food and energy—increased to 3.3% YoY in December, more than expected and above November's 3.0% YoY pace.[1]

EXPECTATIONS

- The Federal Reserve held rates steady last week. The current interest rate policy range is 3.5% to 3.75%. The Fed noted that it was well positioned to wait before taking any further action to lower rates, noting that both inflationary pressures and weakness in the labor market had diminished in recent months. President Trump also indicated that he would nominate former Fed Governor (2006-2011) Kevin Warsh to be the new Fed Chair after current Chairman Powell's term ends in May-2026.[1]
- The Senate has reached a compromise to avoid a partial government shutdown. At this point, all portions of the Federal government have been funded through Sep-2026 except for the Department of Homeland Security, which has been funded only until mid-February pending further negotiations.[1]
- After several high-profile tech earnings announcements last week, a positive Q4 earnings season continues to unfold. About 33% of the S&P 500 has reported, and of the companies reporting so far, 75% have had a positive earnings surprise, which is below the 5-year (78%) average for beats but on-par with the 10-year (75%) average. Overall, Q4 earnings are tracking towards an increase of 11.9% YoY.[2]

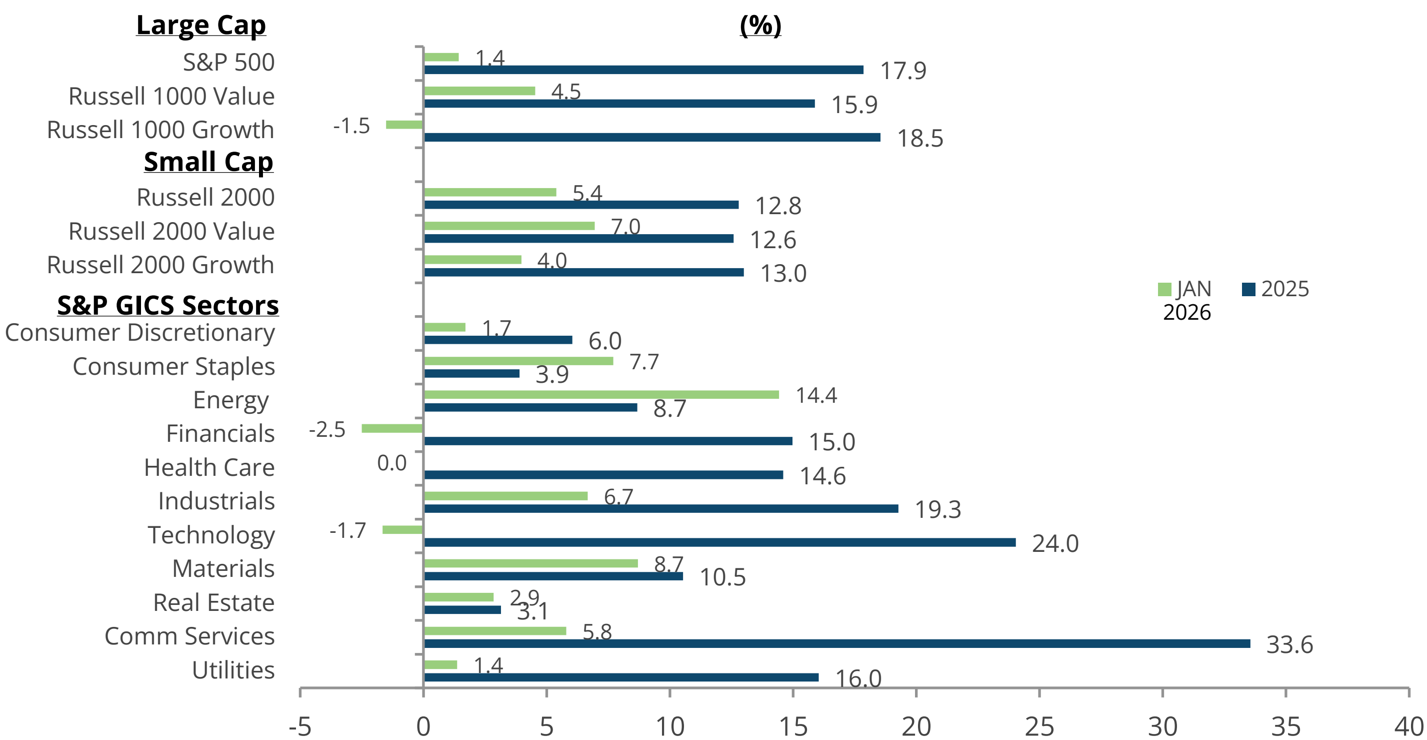
ONE MORE THOUGHT: January Positive but Volatility Increases; Leadership Rotation Continues[1]

As we noted in an earlier RC (20-Jan), January can set the tone for the full year in terms of equity returns. Since 1946, when January is positive for the S&P 500, history suggests a nearly 88% chance that the S&P 500 will finish the year with positive returns overall. Similarly, as we noted in that earlier RC, the sectors that perform the best in January often are the sectors that lead equity returns for the remainder of the year. This year's gains, thus far, have

[1] *Bloomberg LP, 1/30/2026*
[2] *FactSet Earnings Insight 1/30/2026*

been led by Energy (+14.4%), Materials (+8.7%), and Consumer Staples (+7.7%). In fact, Energy and Consumer Staples gained more in January-2026 than they did in all of 2025—see Chart of the Week. In addition to the rotation away from technology and growth stocks, there has been a strong rotation towards small and mid-cap stocks. Small caps (Russell 2000 Index) gained 5.4% during the month, and mid-caps (Russell Mid-Cap Index) gained 3.1% as compared to the S&P 500, which rose only 1.4%. While small and mid-cap stocks led in January, the Mag 7 stocks—Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla—returned less than 0.6% during the month, whereas the other 493 names in the S&P 500 gained nearly 2.0%. This kind of market rotation is healthy and reflects the expectation that a broader set of companies and sectors are likely to have a positive earnings year in 2026. Similarly, it suggests that most of the earnings power, good news, and price appreciation associated with the AI investment theme is "priced in" and that many of the past years' mega-cap tech stock "winners" are unlikely to beat the broader market in the near-term.

CHART OF THE WEEK



Source: Clearstead, Bloomberg 1/31/2026

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