Richard Rose Wealth Management January 12, 2026

WEEKLY COMMENTARY **Richard Rose AIF®**

Good morning,

What's in this week's Report:

- How Much Uncertainty Can Markets Withstand?
- Weekly Market Preview: Can Treasury Yields Remain Stable? (CPI, Possible SCOTUS decision, Fed concerns)
- Weekly Economic Cheat Sheet: Inflation in Focus This Week
- What Could Make Markets Decline in 2026?

Futures are moderately lower following the announcement of a federal criminal investigation into Fed Chair Powell.

On Sunday night, the government confirmed it had opened a criminal investigation focused on Fed Chair Powell and the construction of the Fed's new headquarters. The net impact of the news is to pressure further Fed independence, which is why futures are declining moderately.

There were no notable economic reports overnight.

Today, there are no economic reports so that the focus will be on Washington, first with more details on the criminal investigation into Fed Chair Powell, and then on a potential Supreme Court IEEPA tariff decision. Regarding the Fed, any news that further raises concerns about the loss of Fed independence will send Treasury yields higher and stocks lower.

There are also three Fed speakers today: Barkin (8:00 a.m. ET), Bostic (12:30 a.m. ET), and Williams (6:00 p.m. ET). Any dovish commentary from the three should help support markets (Williams is the most important speaker today).

Market	Level	Change	% Change
S&P 500 Futures	6,966.25	-38.75	-0.55%
U.S. Dollar (DXY)	98.72	-0.41	-0.41%
Gold	4,620.46	119.56	2.66%
WTI	58.95	0.01	0.02%
10 Year	4.201%	0.029	0.70%

Stocks

Last Week (Needed Context as We Start a New Week)

Stocks powered to new highs to start last week as escalating geopolitical tensions were shrugged off, while markets received a fresh jolt of AI enthusiasm after a well-received industry trade show event. A midweek pullback due to growing political and related U.S. fiscal concerns was short-lived as the market powered higher into the weekend. The S&P 500 gained 1.58% on the week.

News that U.S. military forces had detained Venezuelan President Maduro was digested positively amid the fresh investment opportunities and prospects for an improved economic dynamic in the oil-rich, but crisis-ridden South American nation. The S&P 500 gapped higher at the open and rallied on the back of a soft ISM Manufacturing release that shored up dovish policy hopes as well as soft-landing optimism before the index turned sideways to close with a gain of 0.64% on Monday.

Stocks continued to march higher on Tuesday with a fresh jolt of AI enthusiasm sourced from commentary from mega-cap tech companies, including keynote speaker Jensen Huang of NVDA during the Consumer Electronics Show in Las Vegas. Also, potential clarity on the Supreme Court's decision on Trump's tariff policies supported solid gains, and the S&P added another 0.62%.

Stocks rallied to intraday highs midday Wednesday as a solid ISM Services PMI release balanced out a pair of weak labor market reports, leaving soft-landing hopes intact. Upside momentum faded midday as China halted any domestic company orders for NVDA's H200 chips, presumably in reaction to the U.S.'s "Oil for Benefit" deal with Venezuela, before Trump's political tirade on Truth Social poured cold water on investor sentiment, leaving the S&P 500 to snap a three-day winning streak with a 0.34% loss.

Thursday's session was dominated by rotational money flows, masked by the S&P 500's 0.01% gain, with small caps handily outperforming. At the same time, mega-cap tech pulled back amid easing AI enthusiasm and growing optimism about U.S. economic resilience and soft-landing hopes after favorable jobless claims data and positive commentary from Fitch bolstered growth prospects in 2026.

The early-week rally resumed in earnest on Friday, with stocks gapping higher at the open as the December BLS jobs report was digested mainly as Goldilocks, despite a "warm" wage-growth print. The rally gained steam after the Consumer Sentiment headline topped estimates, while one-year inflation expectations held near a 12-month low. The S&P 500 pulled back slightly into the close but still notched a one-day gain of 0.65%.

How Much Uncertainty Can the Market Withstand?

There's an old Wall Street adage that markets hate uncertainty. Still, that idea has been challenged over the past year as stocks have rallied despite surging uncertainty on trade policy, immigration, geopolitics, and, more recently, government/corporate relationships. But with general policy uncertainty rising/spreading, it's worth pointing out that just because markets can stomach some uncertainty doesn't mean they can withstand unlimited uncertainty. It's not unreasonable to think that policy volatility emanating from Washington could become a headwind for stocks in the coming year.

Over the past year, the level of policy uncertainty confronting investors and markets has been the highest I have ever seen in my career. 1) U.S. trade policy was upended like we haven't seen in decades, with dramatic changes followed by near-constant delays, revisions, threats, etc. Nearly a year later, U.S. tariff policy remains very unclear with the Supreme Court IEEPA decision looming. 2) Immigration policy was also upended, with dramatic changes that have impacted the supply of available labor, with unknown influences on inflation. 3) Geopolitics remains as unsettled as it's been in decades, with the Russia/Ukraine war, Israel/Iran/U.S. tensions high, China/Taiwan tensions elevated, and U.S. policy shifting towards its own hemisphere (Venezuela, Mexico, Greenland, etc.). 4) Fed policy, with Trump's criticism of Powell and concerns about a less independent future Fed chair.

Last week, markets had to confront new uncertainty as government influence on industry entered the fray, as President Trump announced initiatives to 1) Ban investment firms from buying single-family homes (this hit the financials on Wednesday), followed by an announcement to 2) Limit credit card rates to 10%. Additionally, the president threatened action against defensive companies that, in his view, pay too-high dividends or buy back too many shares.

The various industry announcements weighed on specific sectors temporarily last week, but it wasn't enough to pressure the entire market. However, last week's announcements raise a new potential risk for us to consider in 2026: **Government policy chaos negatively impacts business investment or earnings.**

Financial firms being banned from various profitable business activities would obviously be negative for earnings, while the government becoming more involved in shareholder policies would also be negative. Now, to be clear, these pronouncements last week can't just be decreed, and many of them would have to become law. However, they can still influence corporate behavior, so we need to watch that closely, especially if government influence/involvement in the industry continues to rise.

More broadly, while none of this uncertainty has impacted markets yet, I do think this is a risk we need to monitor going forward because the lack of market reaction to this policy uncertainty seems to be emboldening the administration. So far, markets have weathered it thanks to positive offset (stimulus, etc.). But at some point, uncertainty will take a toll, and while we're not there yet, we are getting closer.

Economic Data (What You Need to Know in Plain English)

Last Week

Goldilocks economic data has been important support for the rally, and that continued in 2026, as last week's economic prints showed stable, if unspectacular, growth, thereby pushing back on slowdown concerns while not hawkishly shifting rate-cut expectations.

The key print last week was the jobs report, which was generally "fine." Job adds were 50k vs. (E) 70k and solidly within our "Just Right" range. The most positive part of the jobs report was the Unemployment Rate, which backed off the four-year high and declined to 4.4% from 4.6%, below the 4.5% expectation. As we've said, a rising unemployment rate to 5.0% would be a clear negative economic signal, so the fact that it did not move closer to that level is positive. Now, there were negative revisions to the October and November jobs reports of -76k, but that came almost entirely from a revised October report (to -173k from -105k). Remember that was during the government shutdown, and these numbers are estimates anyway, so that they can be largely dismissed. Bottom line: the first major economic report of 2026 was Just Right, and that helped stocks rally on Friday, as the jobs report was good enough to keep labor market concerns at bay without pushing back rate-cut expectations.

Looking at the other notable reports, the December ISM PMIs implied generally solid growth, thanks mainly to a big jump in the ISM Services PMI, which rose to the highest level since October 2024. The December ISM Services PMI jumped to 54.4 vs. (E) 52.2, while the details of the report were equally strong. New Orders rose to 57.9 from 52.9 (the best since September 2024), while employment also rose to 52.0 from 48.9, back into expansion territory. Since the service sector accounts for nearly two-thirds of the U.S. economy, these numbers reinforced that, as we ended 2025, the economy was broadly stable (which is important for supporting stocks). Turning to manufacturing, the numbers were a bit disappointing, as the manufacturing PMI fell to 47.9 vs. (E) 48.3, while the details were more mixed as New Orders rose to 47.7 from 47.4. Manufacturing activity has been stuck in doldrums (mild contraction) for more than two years, and that hasn't hurt broader growth, in part because manufacturing is such a small part of the economy. So, as long as the PMI doesn't fall away from 50 towards the mid-to-lower 40s, it's not a negative for growth.

Last week was the first big week of economic data this year, and the numbers were positive for stocks, showing broadly stable growth, which is enough to keep slowdown concerns low but not enough to push rate-cut expectations out materially.

Important Economic Data This Week

Typically, the week after the jobs report is quiet on the economic calendar, but that is not the case this week, as the economic calendar remains busy with important updates on inflation and growth that could change the outlook for the first rate cut of 2026 (currently expected in April). The key report is tomorrow's CPI print, as several Fed members have said in their comments and the FOMC minutes that inflation is the key hurdle to more rate cuts in 2026. If inflation can continue to decline and move closer to the Fed's 2.0% target, that will boost rate-cut chances and put an additional tailwind under stocks (remember, markets begin 2026 expecting just one or two rate cuts, and that's a stark departure from the previous two years, where numerous expected cuts helped support stocks). The lower the CPI and Core CPI, the better for stocks.

Turning to growth, there are several important updates this week, starting with Wednesday's retail sales report. Consumer spending remains the key engine of growth behind the U.S. economy. While there's been some cautious commentary recently on the pace of consumer spending, the reality is that consumers have been able to hold up well amid affordability challenges, and that needs to continue to support economic growth.

Thursday brings weekly jobless claims (always important) and the first look at January data via the Empire and Philly Fed manufacturing PMIs. These are volatile, regional metrics, but they are the first look at January activity, so they still matter. The key here is stability (i.e., don't show a sudden drop in activity that could spook investors).

Goldilocks data showing stable inflation and growth was a major, often underappreciated, tailwind for stocks in 2025, and we need that to continue in 2026 if we are going to see the rally that strategists universally expect. CPI is the second major data point of the new year, and the lower it falls, the better it is for markets.

Special Reports and Editorial

What Could Make Markets Decline in 2026?

Can anything make the market go down?

That's a thought I know some investors have had as the S&P 500 has started trading in 2026 the same way it ended 2025, by ignoring shocking headlines and relentlessly grinding higher despite a long list of geopolitical tensions and mixed economic data. Of course, we know the answer to the question. Yes, several factors can cause the market to go down.

However, you're likely not hearing about them from many sources, as evidenced by the fact that Bloomberg found none of the 21 market strategists surveyed at the end of 2025 expected stocks to decline in 2026. All 21 strategists are confident the three-year bull market will continue. While it's reasonable to expect the majority of analysts to forecast a rally (analysts are, by default, mostly bullish), the reality is that the unanimity of positive opinions struck us as a potential red flag.

So, in the interests of taking the “other side of the trade,” I wanted to present a few events that could actually make the market go down and prove once again that too much agreement on anything in markets is often a dangerous proposition. To be clear, I’m not predicting this will happen, but I am throwing it out there as food for thought (so we can recognize any negative headlines as legitimately negative).

<u>Event 1 That Could Cause Stocks to Decline: A Steep Rise in Treasury Yields.</u> The last time Treasury yields rose sharply and unexpectedly was in 2022, and the S&P 500 fell into a steep bear market. The reality is that upward pressure on Treasury yields could be building in 2026.

Several factors could push Treasury yields higher, and two of them could appear in January: the reversal of the IEEPA tariffs and the selection of the Fed chair. Of the two, it’s the latter I’m more concerned about. Put simply, President Trump is playing with fire by nominating a potential Fed chair (Hassett) who is seen as too closely aligned with the administration.

To see how this can push yields higher and hurt stocks, look at a chart of the S&P 500 in the 1970s. In the mid-1970s, bowing to political pressure from an aggressive president, then-Fed Chair Arthur Burns cut rates to placate the administration and reopened the door to inflation. Inflation remains well above the Fed’s 2% target. With tariffs likely to stay in place in one form or another, the ingredients are in place for a sustained move higher in Treasury yields if the Fed is viewed as not independent and interest rates are cut prematurely. That type of surprise yield increase would be a significant new headwind on stocks.

Regarding the IEEPA tariff decision, the reality is that it could add more upward pressure on Treasury yields. To be clear, I don’t think the Supreme Court's striking down tariffs will, by itself, cause a sustainable rise in yields, as the tariff revenue may never be repaid; tariffs may be refiled under other authorities, and the U.S. fiscal situation has improved from two years ago. But it could combine with Fed chair worries and stubbornly higher inflation to put the cross sustainably above 4.50%, which will become a direct headwind for stocks.

<u>Event 2: That Could Cause Stocks to Decline: A Suddenly Slowing Economy.</u> We begin 2026 with the unemployment rate at a four-year high. While most economic data remain generally solid, the reality is that the economy is facing headwinds from years of elevated inflation (affordability) and threats to employment from technology (AI and others). The bottom line is that we start 2026 in a “no-hire/no-fire” labor market that can quickly turn into a “downsizing” labor market. Meanwhile, other growth metrics are “ok,” but we’ve seen clear evidence that the economy has lost momentum in the second half of 2025. Bottom line, employment has been the linchpin in the economy that’s allowed people to weather years of higher inflation. But if the unemployment rate rises to and through 5.0% in early 2026, then the idea of an economic slowdown will be on the table, and that would absolutely cause stocks to drop. A contracting economy is not a thing from history books; it can happen, and it shouldn’t be dismissed.

<u>Event 3 That Could Cause Stocks to Decline: AI “Bubble” Burst.</u> AI has been pushing markets higher for nearly three years. Still, the bar for further gains in AI is as high as it’s been, as investors are starting to demand proof of positive ROI on the dramatic AI infrastructure spending underway (which has acted as a private-market stimulus program). Bottom line: With the Q1 earnings season fast approaching, there will be scrutiny on mega-cap tech firms to explain how hundreds of billions in capex will deliver clear, positive ROI within a reasonable time frame, and the easy days of simply mentioning AI in earnings calls and having the stock rally are over.

While it is possible that the “rest of the market” could hold up if the air starts to come out of the AI bubble, the reality is that AI infrastructure spending is the marginal engine of growth of the U.S. economy. If that scales back, then we’d be looking at AI-bubble deflation combined with slower economic growth (or contracting growth), and that’s a recipe for a material decline in stocks.

Now, I'm not predicting these events will happen, but if I were asked, "What could cause stocks to drop in 2026?" I think these are the most likely candidates. And despite the unanimous bullish outlook from Wall Street analysts, the reality is none of these events is far-fetched, and we will be watching for signs they may be occurring because with bullish sentiment high, a market decline could be sharp and painful.

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Richard Rose AIF®
917-597-7432
rrose@nationwideplanning.com