MARKET REVIEW & OUTLOOK

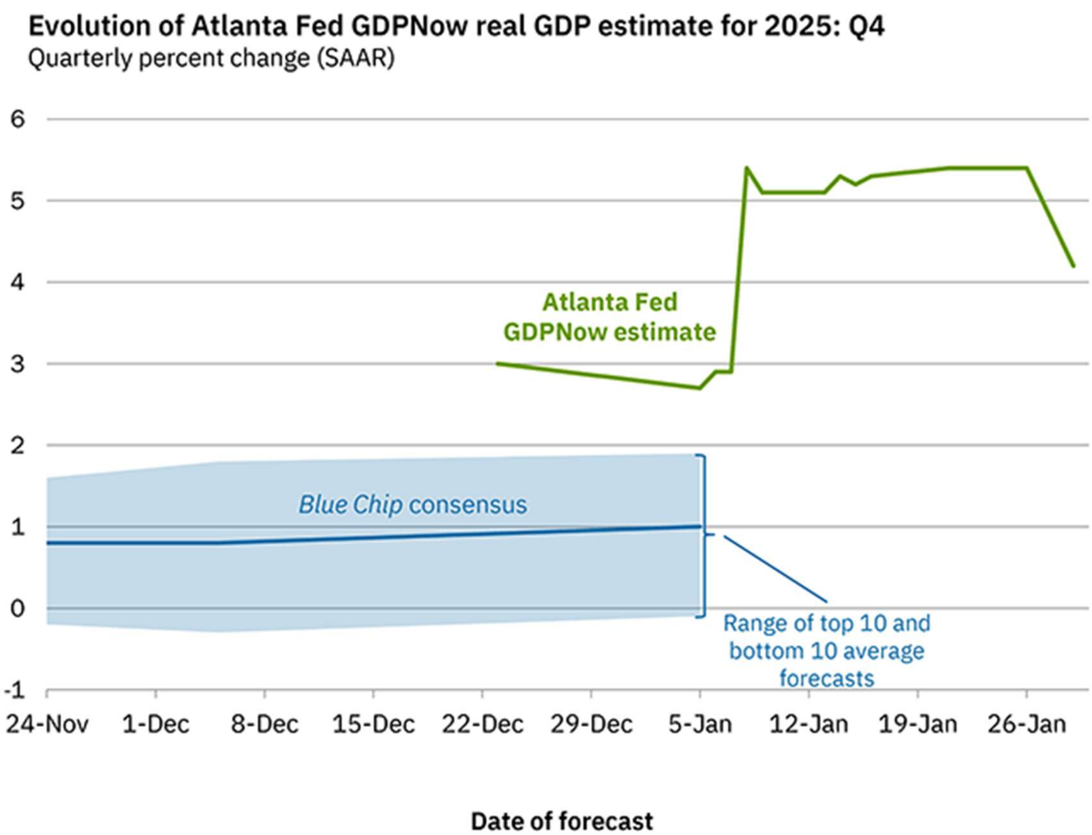
JANUARY 2026

KEY TAKEAWAYS

- **Equities:** The markets didn't change much this month, but sure exhibited a lot of volatility, remaining near all-time highs.
- **Fixed Income:** The U.S. 10-year Treasury Yield moved up sharply mid-month, to 4.3%, before backing off into month end.
- **Crude oil** slumped to start the month, then rallied nearly $10 on geopolitical risks.

The U.S. Economy

The second read on 3rd quarter GDP came in a bit higher than the original at 4.4% vs. the initial report of 4.3%. The PCE, the embedded GDP inflation, is reported to have remained unchanged at 2.8%, I misreported last month as being 3.8%. The 4th quarter looks strong, the GDPNow estimate is just above +4%, though that is likely skewed by Gold movements again, and the Blue-Chip consensus forecast is at 1%, as shown in the chart below. The continued strong forecast for 4th quarter likely results in reasonably strong growth for 2025.



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Source : https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

The U.S. 10-year Treasury yield shuffled along the first couple of weeks, ignoring the increase in global bond yields. Though mid-month, the U.S. finally took notice, especially of the soaring Japanese yields, which caused U.S. yields to jump almost 20 basis points in 3 days. After that movement, Japan's yields settled down on clarifying comments from the Japanese Prime Minister and global yield tensions eased for the balance of the month. The Fed had their late month meeting and in one of the least responsive market reactions, the no rate cut decision elicited almost no reaction. Two days later, the market's anxiousness of Trump's Fed Head announcement finally came to pass, when he announced Kevin Warsh as his new Fed Head pick. He is well known to Trump but has expressed inflationary concerns for decades. So, will he do what he says, focus on inflation, or do what he thinks Trump wants, i.e. lower interest rates? The increase in yields was barely a headwind for High Quality fixed income, which as measured by the iShares US Aggregate Bond ETF fell -0.00% for the month. The U.S. 10-year Treasury bond yield ended the month at 4.24%, up from December's close of 4.16%.

The Dow Jones Industrial Average rose +1.73%, the S&P 500 increased +1.37%, and the small cap iShares Russell 2000 ETF jumped +4.61%. The International markets traded significantly better than the U.S. markets. The MSCI EAFE iShares Core International Developed Markets ETF Index popped +4.73%, and the MSCI Emerging Markets iShares Core ETF Index soared +8.20%.

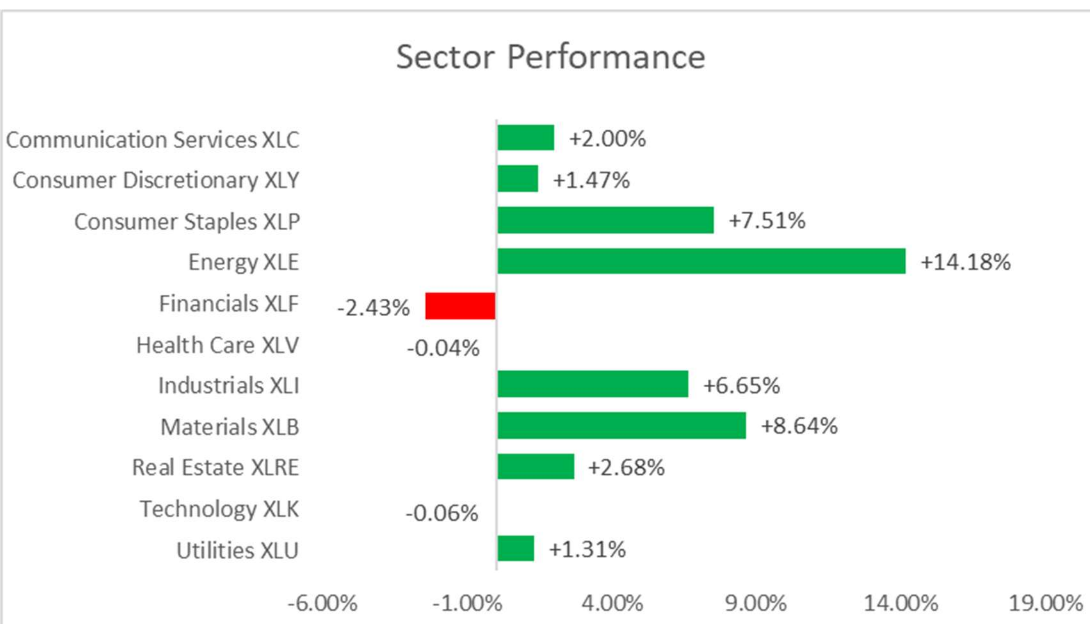
January's sector performance is very deceiving relative to the monthly index performance number. Technology and Financials are 2 of the largest sectors and weighed down the overall performance.

The best performers were…

- Energy: +14.18%
- Materials: +8.64%
- Consumer Staples: +7.51%

The worst performers were…

- Financials: -2.43%
- Technology: -0.06%
- Health Care: -0.04%



Source: https://www.morningstar.com

Oil Report

Crude Oil finally played a different record, though that is not necessarily positive. Crude appears to have established a double bottom near $55 and saw a very strong rally off that level, moving well north of $60 by month-end. Softness in global demand and "glut" supply concerns for 2026 took a backseat to the geopolitical turmoil in Venezuela, Iran and the drawn-out Ukraine/Russia conflict. Venezuela appears to be a quick change and of course we have droned on seemingly forever about the Ukraine/Russia conflict. However, new sparks in Iran are really grabbing International attention. Protests in Iran raised the possibility of regime change and with the swift change in Venezuela, led to major U.S. assets transitioning to the Iranian theater. There is talk of negotiation and it is too early to tell what will happen, but the puffed chests have the oil market on edge. The current NYMEX WTI Crude Oil futures settled at $65.74, surging almost 15% from the prior month's close of $57.32 a barrel. RBOB gasoline was like Crude, jumping by almost 14% for the month vs. December's close. Well, the slower winter season didn't last long, oil and gas prices rallied significantly but paled in comparison to the massive spike in natural gas due to the arctic blast impacting large swaths of the country.

The Rest of the Data

The December ISM Manufacturing Index decreased to 47.9 from November's reading of 48.2, remaining below 50. The ISM Services Index jumped to 54.4 in December, from November's print of 52.6, holding above the 50 level. Any reading below 50 generally indicates deteriorating conditions and any reading above 50 generally indicates improving conditions. The prices paid component for Manufacturing remained just below elevated levels and Services' prices eased, though remained at elevated levels. Consumer confidence dropped to 84.5 in January, which compared to another sharp upward revision of 94.2 in December. The unemployment rate in December fell to 4.4%, while the number of jobs added came in at 50,000, matching expectations of 50,000. The Consumer Price Index for All Urban Consumers (CPI-U) for December was back to the normal granular fashion. The December monthly CPI came in at 0.3% versus no data for the month of November, on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rate remained at +2.7% on a non-seasonally adjusted basis. The CPI ex Food and Energy declined to +2.3% over the last year. Economic growth reports are good, the unemployment rate has stabilized, but the employment jobs growth is low, and inflation reports are showing some signs of firming.   We will continue to monitor economic activity, policy announcements, and inflation reports for potential shifts.

Summary

The market seems to be continuing to mark time, though with a lot more volatility. Not much time has passed, but the market now knows who the next Fed Head is, pending confirmation. I think the pick leaves the markets questioning what will actually happen and that creates uncertainty which the markets hate. At the last minute, we seem to have temporarily avoided another shutdown, so an imminent delay in economic data has been sidestepped for now. It is still a question of what is the market waiting for? The answer is we are not sure at this point. Next month likely continues the volatile theme as the government shutdown looks to only be delayed by 2 weeks and the debates as to what presumed Fed Head Warsh will do likely have the markets gnashing teeth most of the month. We just take it one day at a time and stay focused on our process.

More than ever, the markets can be emotional, so we retain our focus on what we can control, which is the amount of equity risk that is taken in a clients' portfolio in concert with the clients' risk tolerance and long-term goals. The markets will always face different "worries", today it is inflation/tariffs vs. growth and interest rates, tomorrow it will be something else. We have built our asset allocation models with dynamic features and quarterly rebalancing, both in fixed income and equities.

If you have specific questions about your portfolio or financial situation, we are here to help. Long-term financial planning is designed to deal with uncertainty like those we discussed above. Our portfolio management process is to design a prudent allocation across many asset classes. Equities are for long-term growth and several vehicles that we utilize offer defensive mechanisms to mitigate equity market declines.

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