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Wealth Advisory Market Update

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Market Update

Looking Back

The new year began with notable volatility across equities, interest rates, and precious metals. Despite the turbulence, equity markets—measured by the S&P 500—posted a modest gain for the month. January was marked by an active earnings season with sizable stock-specific moves, a Federal Open Market Committee (FOMC) rate decision, the President's announcement of a new Federal Reserve Chair, and several high-profile geopolitical developments.

Equities

Earnings season is well underway, with approximately 60% of companies having reported results. Earnings growth is currently tracking at 13%, exceeding expectations of 8.3%. To date, 76% of companies have exceeded earnings-per-share expectations, slightly below the five-year average of 78%, while 73% have beaten revenue expectations, above the five-year average of 70%. Market reactions this season have been notably asymmetric: companies missing expectations have been punished more severely than in prior years, and even some firms that beat estimates have experienced sharp selloffs. This suggests a market with stretched valuations.

As we have noted previously, large-cap technology stocks are valued close to perfection, leaving little margin for error. In recent quarters, investor focus has centered on capital spending guidance, particularly as it relates to sustaining the artificial intelligence (AI) narrative. Analysts had expected continued, but measured, investment. Instead, hyperscalers have announced capital expenditures well above expectations. While such spending was welcomed last year, markets this year have reacted more cautiously, questioning whether these significant investments will generate adequate returns. Combined with unmet assumptions around exponential AI growth, this has weighed on large-cap technology shares. Amazon and Alphabet for example, are both down double digits to start the year.

The strong multi-year rally in precious metals, which had paralleled the rise in technology stocks, reversed sharply following the announcement of the incoming Fed Chair. This triggered a rapid unwind of the so-called "debasement trade." The U.S. dollar strengthened materially, while silver experienced its steepest decline since 1980, falling 31%, and gold dropped more than 11%—one of its largest decline on record[1]. These moves underscore the risks inherent in leveraged positioning, particularly when investors are forced to liquidate assets to meet margin requirements. As we have previously highlighted, margin debt remains at all-time highs and bears close monitoring.

Geopolitics and the Federal Reserve

Early in the month, markets were greeted with a surprising headline reporting that the United States had captured Venezuelan dictator Nicolás Maduro. Despite the unprecedented nature of the event, markets showed little to no reaction. This muted response has been consistent with recent geopolitical developments, which have largely failed to generate sustained market movements. A similar pattern was observed following the announcement—and subsequent withdrawal—of new U.S. tariffs on South Korea, widely viewed as a negotiating tactic.

[1]Taylor, Chloe. "Silver Plunges 30% in Worst Day since 1980, Gold Tumbles as Warsh Pick Eases Fed Independence Fear." *CNBC*, CNBC, 30 Jan. 2026, www.cnbc.com/2026/01/30/silver-gold-fall-price-usd-dollar-fed-warsh-chair-trump-metals.html.

The January FOMC meeting proceeded as expected, with policymakers holding interest rates steady after several consecutive 25-basis-point cuts. Chair Jerome Powell's press conference offered no surprises, reiterating that the economy remains on solid footing, labor market conditions continue to be monitored, and tariffs are expected to result in a one-time price adjustment rather than persistent inflation.

The administration announced Kevin Warsh as its nominee for the next Fed Chair, pending confirmation. Viewed as a relatively non-controversial choice, Warsh's nomination alleviated concerns surrounding central bank independence and contributed to the sharp reversal in the "debasement trade." Warsh has been a vocal critic of the Federal Reserve's expanded balance sheet, advocating for reduced intervention and a gradual withdrawal of liquidity support put in place since the housing crisis[1].

Strategy

Recent volatility reinforces the importance of maintaining discipline and avoiding excessive exposure to high-beta and leveraged assets. While some managers have strayed from this approach in pursuit of returns—as reflected in the Bank of America fund survey showing cash levels at a record low of 3.2%—we remain committed to our process[2]. Periodic market pullbacks can create attractive entry points for high-quality companies trading below intrinsic value. We continue to favor businesses positioned to perform well in an ever-evolving economic environment, supported by strong balance sheets, durable demand, and consistent free cash flow generation.

In fixed income, yields have been volatile but remain broadly in line with levels seen at the start of the month. Bond markets rallied following labor data showing job openings at their lowest level since 2020 and an uptick in layoffs[3]. We continue to see value in the intermediate portion of the yield curve, where spreads favor mortgage-backed securities and taxable municipal bonds.

Outlook

We remain committed to active, risk-aware portfolio management as the macroeconomic landscape continues to evolve. While uncertainty persists, we are focused on identifying opportunities consistent with our long-term investment philosophy. Thank you for your continued trust and partnership as we navigate these challenging market conditions together.

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[1]Ovaughn. "A Framework for Chair Warsh." *Citadel Securities*, 4 Feb. 2026, www.citadelsecurities.com/news-and-insights/a-framework-for-chair-warsh/.
[2]Admin. "Just a Moment..." *Hedge Fund Tips*, 20 Jan. 2026, www.hedgefundtips.com/january-2026-bank-of-america-global-fund-manager-survey-results-summary/.
[3]"Job Openings and Labor Turnover Summary - 2025 M12 Results." *U.S. Bureau of Labor Statistics*, U.S. Bureau of Labor Statistics, 5 Feb. 2026, www.bls.gov/news.release/jolts.nr0.htm.