

Market commentary notes

Monthly call notes

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Wealth
Management

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Summary

1. The big news of the week is the nomination of Kevin Warsh to the Fed Board, presumably to take over as Chairman. However, there are complications both in getting his nomination through and in figuring out what policies he is going to prefer.
2. U.S. Large Cap stock market returns were positive in January. Mid- and Small-Cap did better, as did international stocks. [Morningstar as of Feb. 2, 2026].
3. U.S. manufacturing PMIs indicate modest growth, while the services PMI indicate moderate growth. Globally 24 of our 38 countries had positive manufacturing PMIs—a recent high. The mystery in the U.S. is that indicators, including weak employment growth, are modest, yet GDP growth is robust. That is largely because imports are falling and exports are increasing modestly. [<https://tradingeconomics.com/country-list/manufacturing-production>, <https://tradingeconomics.com/country-list/services-pmi>, Feb. 2, 2026]. [<https://www.atlantafed.org/cqer/research/gdpnow>, Feb. 2, 2026].
4. The Fed held rates steady in their meeting last week. Importantly, they released their five-year policy outlook. They appear to be tempering their “full employment” mandate and instead focusing on maximizing employment consistent with average inflation under 2%. That seems to make inflation control the primary objective which could mean less urgency to reduce rates. [https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals.pdf, Feb. 1, 2026].

Key issues

Without a doubt, the big story is the nomination of Kevin Warsh for Fed Chairman, effective in May (assuming he’s confirmed) — Warsh served as a Fed Governor from 2006–2011 during the financial crisis. He graduated from Harvard Law (not an economist like Powell). He had been considered an inflation hawk, favoring higher rates even during the crisis to control inflation risk. Recently, however, he has opined that AI can boost productivity without causing inflation. There might be two issues with that view once he is in policymaking position: First is timing. Even if AI can dramatically improve productivity, it isn’t likely to happen in 2026. It could take years to filter through the economy. Second, how would he deal with short term unemployment due to AI which may also affect consumer spending? You could get a scenario where productivity does indeed rise, but it shows up in job loss and consumer spending declines rather than in higher median household incomes. Alternatively, he may face a combination of a stagnant labor market and inflation pressure on Day One.

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There might be a complication in Warsh’s timely Senate approval, however. Tom Tillis (R. NC) has said that he won’t vote the nomination out of the banking committee unless there’s a DOJ resolution to their investigation of Powell. The Senate Banking committee has 13 GOP and 11 Democratic Senators. Tim Scott (R, SC) is the Chairman and Elizabeth Warren (D, MA) is the ranking member. While it is generally acknowledged that Warsh is competent, there’s a good chance that all the Democrats will withhold their votes to bring his nomination to the floor. That would mean a 12–12 tie. In that case, the nomination could still advance to the floor but would be subject to a vote that could be blocked by the Democrats.

What might this mean for Fed policy? If inflation were muted (I doubt it will be), he might be comfortable with a combination strategy of lower short-term rates and faster sales of Fed bonds holdings to raise medium term rates (i.e., tilt) the yield curve upward. Combined with growing federal budget deficits, we could see a significant rise in the 10-year rate. That is bad for debt-heavy industries such as utilities, consumer discretionary (that rely on consumer debt), real estate. Good for banking and financials.

Jobs — Still weak — The December jobs report estimated +50,000 new jobs. Job growth occurred in food services and health care while it shrank in retail and warehouses. (This suggests that there might be weakness in consumer spending.) October’s numbers were revised down by 68,000 to -173,000 and November was revised down by 8,000 to +56,000. Much of the October drop was due to the government shut down. [<https://www.bls.gov/news.release/empsit.b.htm>, Feb. 1, 2026]. We’re used to seeing monthly payroll increases of 100,000–200,000 so we’re currently pretty close to a stagnant jobs market.

The Fed — The FOMC met last week and decided to keep rates where they were. They also issued their long run monetary strategy. What was notable to me was that they referred to “maximizing employment” but there was no specific target for the unemployment rate. Rather, they are looking for the highest rate of employment consistent with price stability. They were candid enough to acknowledge that they don’t know what that means in terms of a number and it may change over time with demographics and other factors. In economics this goes by the awkward name, “NAIRU”—non-accelerating inflation rate of unemployment. To me, that sounds like they are elevating inflation control over employment in their priorities for now. [https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals.pdf, Feb. 1, 2026].

According to the January 14 Beige Book summarizing economic activity across the 12 Federal Reserve Bank districts, eight reported slight to modest growth, three reported no change and one reported a slight decline. Employment was unchanged with continued difficulties finding skilled workers, especially in engineering and health care. Prices grew at a moderate pace throughout.

Most districts attributed the inflationary pressures to tariffs, which we know are increasingly being passed along to consumers. Energy and insurance costs were also rising. [https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20260114.pdf, Feb. 1, 2026].

GDP growth — The 4Q 2025 advance estimate won’t be available until February 20. Indications so far are that increases in consumer spending and declines in imports (increases in net exports) could lead to a strong topline growth number as they did in 3Q.

Earnings update — According to FactSet’s latest report, with about a third of the S&P 500 companies reporting, earnings growth is running about +11.9% YoY. Revenues were up a strong +8.2%. However, about 50% of real estate and materials companies came in below estimates. Almost all the communications services, energy, info tech and utilities companies that have reported came in with earnings above estimates. [<https://insight.factset.com/sp-500-earnings-season-update-january-30-2026>, Feb. 1, 2026].

January — Off to a good start — Info tech, which is a big part of the S&P 500, did not do well in January. That dragged down the S&P, which was still up 1.45% compared to Mid- and Small-Cap (up 4.05% and 5.6% respectively). International stocks did well also. On the bond side, not much has changed: the aggregate index was up a mere one-fifth of a percent.

Perhaps the biggest news was metals, with **silver down 25% on Friday**. Why? We can only infer that it had something to do with the nomination of Warsh to the Fed and perhaps a view that he will keep interest rates higher for longer, to try to tame inflation. Now why that would cause silver to plunge after it spiked for 18 months is an open question. To put the plunge in context, at the beginning of 2025, silver was about \$31/oz. Prior to the drop it hit \$120 and is now in the \$80s.

Global stock indexes

Total Index	January %	YTD %	1 yr. %	Estimated PE Trailing/Projected
S&P 500	1.45	1.45	16.35	26.0/23.14
S&P Mid Cap	4.05	4.05	7.71	20.4/16.61*
S&P Small Cap	5.61	5.61	8.79	22.0/15.66*
FTSE All REIT	2.93	2.93	4.70	
MSCI All Country xUS	5.98	5.98	34.87	
MSCI Emerg Mkt	8.85	8.85	42.84	

Source: Morningstar as of January 31, 2026. Estimated PEs are 12-month values from <https://www.spglobal.com/spdji/en/index-family/equity/us-equity/#overview>. *Trailing PEs are as of December 31, 2025. Projected PEs are as of November 28, 2025. Figures are provided for comparisons over time.

Fixed income and alternatives

Total Return Index	January %	YTD %	1 yr %
Bloom Agg Intermed	0.18	0.18	7.05
ICE BofA U.S. Convertibles	4.82	4.82	21.13
S&P GSCI	10.47	10.47	13.14
Bloom U.S. Corp HY	0.61	0.61	7.79

Source: Morningstar as of January 31, 2026.

Sector performance — In January, the best performing sectors were energy, materials and consumer staples. Oil prices rose substantially during the month and beyond that all three tend to be dividend payers. Staples were among the worst three last month. The worst three in January were health care, info tech and financials. This is a very different pattern from last year when info tech and communications did well in most months. [<https://www.spglobal.com/spdji/en/documents/performance-reports/dashboard-us.pdf>, Feb. 2, 2026]. [<https://digital.fidelity.com/prgw/digital/research/sector>, Feb. 2, 2026].

Commodities

Commodity and food price changes, current month and YoY

Commodity	January %	YoY %
Copper	4.1%	37.3%
Lumber	10.3	0.3
Cotton	-1.9	-4.3
Sugar	-5.0	-26.5
Coffee	-4.4	-11.7
Wheat	5.4	-4.5
Corn	-2.7	-11.1
Oil	13.6	-10.1
Natural Gas	18.1	43.0

Source: <https://tradingeconomics.com/commodities>, Feb. 2, 2026.

In January, five of our nine major commodities experienced price declines. On a 12-month basis, six experienced price declines—same as last month. Taking a simple unweighted average of the nine YoY price changes gives us a +1.4%.

Looking more broadly at commodities, when we look at 22 categories of agricultural commodities and 26 categories of industrial commodities, 34 of the 48 saw price increases in January, which is a material increase from what we saw the last few months. 23 saw higher prices than a year ago versus 20 last month and 14 in October. This looks like a little upward pricing pressure.

U.S. Economy

U.S. PMI statistics — The U.S. Manufacturing PMI stayed about where it was at 51.9. But the services PMI—most of our economy—came down a little to 52.5. Between the two, it looks like U.S. production is growing modestly to moderately. [<https://tradingeconomics.com/country-list/services-pmi>, Feb. 2, 2026]. [<https://tradingeconomics.com/country-list/manufacturing-pmi>, Feb. 2, 2026].

International

Manufacturing PMI — Every month we look at global Purchasing Managers Index (PMI) statistics for 38 countries. For January, we have 24 countries reporting PMI's of 50 or higher. That's the same as December and up from 19 in November. The EuroArea as a whole stayed just a shade below 50. China was just very slightly above 50.

On the services side, the EuroArea came in a little lower at 51.9. China also dropped a bit, to 52.

[<https://tradingeconomics.com/country-list/services-pmi>, Feb. 2, 2026].

Here's our updated graph of Manufacturing PMIs:



Source: Author's calculations based on published PMI statistics, as of Feb. 2, 2026.

Table summary

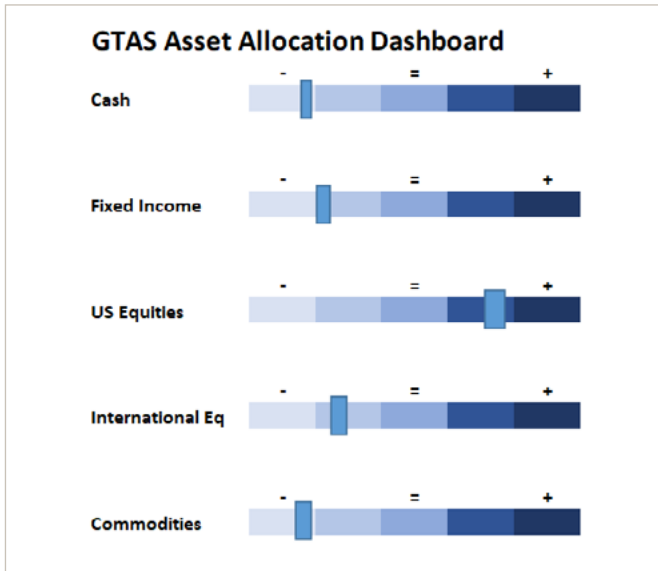
Region	Manu PMI	Last Month	12 mo. Ago
U.S.	51.9	51.8	50.1
19 majors	49.9	50.2	49.6
38 world	50.3	50.2	48.9
EU	49.4	49.2	46.1
China	50.1	50.1	50.5

Source: Author's calculations based on published PMI statistics Feb. 2, 2026.

Investment strategy:

1. Bonds — Treasuries look better priced, especially in the four- to 10-year bracket. Longer dated muni's still have attractive yields. For tax deferred accounts, Treasury Inflation Protected securities with maturities greater than five years potentially have attractive real yields.
2. Equities — We remain overweight in aerospace and defense, financials and mid-caps. Because we are concerned that the yield curve might tilt upward this year (lower short-term rates and higher longer-term rates), we would underweight debt-heavy industries such as utilities and real estate.
3. International stocks are still looking somewhat attractive, especially with possible U.S. depreciation in 2026. However, underlying market growth and profitability still don't compare to the U.S.
4. Gold still useful in moderate levels as a hedge against uncertainty.

GTAS allocation chart



(+/-) represents our group's views over a 6 to 18 month time horizon concerning tilts relative to our strategic positions.
+ implies an overweight in that asset class.
= implies a weighting similar to our strategic weight.
- implies an underweight.

Index definitions:

Past performance is no guarantee of future results. You cannot invest directly in an index.

Bar Agg Intermed — Bloomberg Barclays U.S. Aggregate Intermediate Total Return index is composed of the BarCap Government/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns for the index are total returns, which includes the daily reinvestment of dividends.

Bar U.S. Corp HY — Bloomberg Barclays U.S. Corporate High-Yield Total Return index includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Ba1, a minimum amount outstanding of \$100 million and at least one year to maturity.

FTSE All REIT — FTSE Nareit All Equity REITs Total Return index is an index of publicly traded Real Estate Investment Trusts (REITs) that own commercial property. All tax-qualified REITs with common shares traded on the NYSE, AMSE or NASDAQ National Market List are eligible. Additionally, each company must be valued at more than \$100MM USD at the date of the annual review.

ICE BofA U.S. Convertibles — ICE BofA U.S. Convertible Bonds Total Return index tracks the returns of US-traded convertible debt issued by companies with a significant presence in the United States. The index is composed of various combinations of convertible structure and credit quality, e.g. it includes investment-grade, speculative-grade, and non-rated issues. The returns for the index are total returns, which include reinvestment of dividends.

MSCI All Country xUS — MSCI All Country World Index Ex USA NR is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The index consists of 48 developed and emerging market country indices. The returns for the index are total returns, which include reinvestment of dividends.

MSCI Emerg Mkt — MSCI Emerging Markets NR index consists of 26 developing economies including Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

S&P 500 — S&P 500 Total Return index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the U.S.; it's often used as a proxy for the U.S. stock market. Total Return (TR) indexes include daily reinvestment of dividends.

S&P GSCI — S&P GSCI Total Return index is a composite index of the commodity futures. It represents unleveraged, long only investments in commodity futures that are broadly diversified.

S&P Mid Cap — S&P MidCap 400 Total Return index is comprised of stocks in the middle-capitalization range and includes approximately 10% of the capitalization of U.S. equity securities. Total Return (TR) indexes include daily reinvestment of dividends.

S&P Small Cap — S&P SmallCap 600 Total Return index consists of 600 domestic stocks chosen for market size, liquidity and industry group representation. Total Return (TR) indexes include daily reinvestment of dividends.



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