

Monthly Download

January 2026

Summary

- ◆ **January proved to be an eventful month** mixing geopolitics with doses of Trump populism, surging precious metal markets, weather impact and strong earnings before closing with President Trump's selection for the next Federal Reserve Chairman. Data on corporate earnings and the US economy remained strong with 4q25 GDP tracking above 4% along with double-digit S&P 500 earnings growth. Equity markets continued their positive trajectory with a pro-cyclical bent from Small Caps, Industrials, and Materials while foreign stocks maintained their leadership from 2025 to start the new year.

By Summit Trail Investment Team

David Romhilt, CFA
Seth Katz
Ben Johnson, CFA
Michelle Zeng, CFA
Chris Hopkins, CAIA
Charu Lahiri, CFA
Isabelle Kane
Kevin Dawson, CFA
Louis Filippelli
Ryan Gell, CFA
Tobit Powell
Darryl Frank
Blake Peters

Market Overview

- ◆ **Equity markets** posted solid performance to start the month as investors digested early earnings reports and world events. Market leadership has been shifting from the Mag7 and AI capex story to a more pro-growth cyclical bent in recent months led by smaller companies, and industrial and "old" economy names.
 - US Large Cap stocks (S&P 500) rose 1.5%, led by Industrials, Staples, Materials and Energy. Mag7 performance was mixed as investors digested AI capex spending from Meta and Microsoft earnings reports. Larger companies dragged down the index as the equal-weight S&P 500 returned 3.4% for January.
 - US Small Cap stocks (Russell 2000) returned 5.4% despite a pullback towards the end of January. Small regional banks saw strong performance adding 6% for the month.
 - Non-US stocks (MSCI EAFE Net) rose 5.2% as investors continued to embrace non-US assets. The MSCI EAFE index was up 3.2% in local currency. Japan and Hong Kong along with the Nordic markets led performance. Non-US markets also benefited from higher exposure to sectors like Financials, Industrials, Materials and Utilities that all performed well to start 2026.
 - Emerging Markets (MSCI Emerging Markets Net) picked up in January where they left off in 2025 roaring to an 8.9% return to start the year. South Korea (+28%) and Taiwan (+11%) continued their leadership as chip stocks saw strong performance from earnings reports. Latin American countries like Brazil (+17%), Chile (+13%), Columbia (+27%), and Peru (+27%) with heavy exposure to mining also saw strong returns for the month.
- ◆ **Interest rates** rose slightly to start 2026 with the 10-Year Treasury moving from 4.16% to 4.24%. As expected, the Federal Reserve kept their benchmark Fed Funds rate at 3.50 to 3.75% in late January. Mortgages rallied after President Trump announced we was directing his "representatives" to purchase \$200 billion in mortgage bonds, with the market assumption this would come from Fannie Mae or Freddie Mac.
 - High Grade Taxable bonds (Bloomberg US Aggregate) were up 0.1% as higher interest rates created headwinds for total returns. Mortgages rallied relative to Treasuries as the 30-Year mortgage rate spread to the 10-Year Treasury dropped from 1.99% to 1.86%.
 - Municipal bonds (Bloomberg 1-10 Year Muni Bond) started 2026 with strong performance of 1.0% for the month. January is traditionally a positive seasonal period of relative performance for tax-exempt bonds given the supply/demand dynamics for retail investors and year-end bonuses that need to be invested.

Summit Trail Advisors LLC ("STA") is a SEC registered investment advisor headquartered in New York, NY. Please see the Important Information section for additional disclosures

- Investment Grade and High Yield bonds saw modest returns to start 2026 given higher interest rates. Credit spreads remained close to all-time lows given strength in corporate earnings. Investment Grade bonds (Bloomberg US Corporate Investment Grade) were up 0.2% for the month. High Yield bonds (Bloomberg US Corporate High Yield) rose 0.5% for the month.
- ◆ **Commodities** (Bloomberg Commodity Index) rocketed 10.6% higher to start 2026 on strength from energy, precious metals and industrial metals despite significant declines to close the month. Crude oil rose 13.6% from low levels on US-Iran tensions after the oil market initially was pricing in increased supply after the US removal of Maduro from Venezuela. Natural gas futures at one point in January more than doubled from the arctic blast gripping much of the US after two relatively balmy US winters in the Northeast and Mid-Atlantic before settling in at an 18% gain. Metals like Gold, Silver, and Copper also saw double-digit gains for the month despite a seismic pullback on the last trading day of January.

Economic Commentary

Kevin Warsh was nominated on January 30th as the 17th Chairman of the Federal Reserve. President Trump announced Warsh's nomination after months of speculation on who he would choose to replace Jerome Powell. Warsh was one of the "Kevins" (along with Kevin Hassett) who had been viewed by the market as the likeliest candidates in recent months. However, Trump surprised investors in early January with comments that Hassett was too important in his current role at the National Economic Council and markets then predicted Blackrock portfolio manager Ric Rieder over Warsh as the favorite for the nomination. Despite Trump's non-traditional reputation, Warsh is the most "traditional" of the major candidates considered for Fed Chair. Warsh served on the Federal Reserve Board of Governors from 2006 to 2011 during the Financial Crisis and spent recent years at policy think tanks and lecturing at Stanford's business school. Warsh has a reputation as more of an inflation hawk given his opposition to some of the extraordinary Fed measures after the Financial Crisis and criticisms of the Fed's role in the inflation spike from 2022-2023. He made a speech in March 2010 to the Fed's Shadow Open Market Committee titled "An Ode to Independence"¹. That history would not suggest he was a prime candidate for President Trump, but he had been runner up to Powell in 2017 and had commented more recently on the disinflationary power of Technology and AI providing the Fed more flexibility in monetary policy. Warsh has also been critical of the Fed's balance sheet growth in the past, as part of the Financial Crisis and Covid-19 response.

The overall market response to Warsh's nomination was muted, stocks were down on the day of Warsh's nomination but had opened down as investors digested earnings versus expectations with the S&P 500 dropping 0.4% from the January 29th close. The 10-Year Treasury Yield rose from 4.23% to just 4.24% and expectations on rate cuts were stable. But the overall market's subdued reaction was in stark contrast to precious metals like gold and silver that saw historic one-day pullbacks. Gold and silver were up 64% and 148% respectively in 2025 and were up 23% and 63% in January going into the last trading day of the month on the 30th. Prior to Warsh's nomination, gold and silver's meteoric rise was being driven by views on inflation given the Fed was moving to more accommodative policy despite above-target inflation and active diversification by foreign central banks away from the US dollar and into assets like gold. Precious metal price momentum caught fire on January 11th after Chair Powell posted a statement decrying a Department of Justice investigation into testimony he provided to Congress. Markets (and Chair Powell) viewed the DOJ action as an overt attempt by President Trump to punish the Fed Chair for his lack of interest rate cuts to align with Trump's view. The sanctity of Fed independence and its perceived decline drove the metals market along with speculation by retail investors. Warsh's nomination, with his public views on inflation and central bank independence, removed a major catalyst in the eyes of the market and gold and silver saw their worst daily performance in decades.

¹ <https://www.federalreserve.gov/newsevents/speech/warsh20100326a.htm>

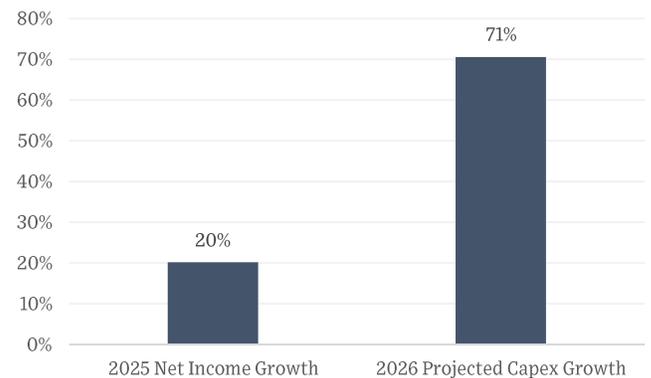
Gold fell over 11% on January 30th, and silver plummeted over 30%. Both metals have stabilized in early February but remain well off their January 29th highs.

In a normal environment, Warsh's candidacy for Fed Chair and approval process would be straightforward given his credibility and experience. Senator Thom Tillis, who sits on the Senate Banking Committee that will oversee and vote whether to take Warsh's nomination to the full Senate, has made clear he has no intention of moving the nomination forward until the DOJ investigation into Chair Powell is resolved. Other Republican senators have made similar comments, although Tillis has been more demonstrative given he is not running for re-election in 2026. The DOJ investigation could impact whether Warsh is confirmed by May when Powell's terms as Fed Chair is scheduled to end as well as whether Chair Powell chooses to step down from the Board of Governors which has been the typical path for Fed Chairs when they are replaced. The questions on the transition and Powell's longer-term role impacts the likelihood of Fed cuts but also a bank deregulation agenda under Warsh. Warsh's goal of reducing the Fed balance sheet is not plausible without privatizing those assets into banks, which would require loosening of post-Financial Crisis regulations. If Warsh is confirmed he will quickly step into a very difficult position of delivering Fed cuts for President Trump while navigating markets. Markets have a way of challenging new Fed Chairs, but Fed Chair Walsh would likely consider his time as Fed Chair a great success if his only challenges are markets.

January equity market performance shifted away from the Mag7 and Technology leadership towards smaller companies and more cyclical sectors. US markets have been telegraphing a more pro-cyclical environment in recent months as expectations for Technology earnings remain sky-high. The Russell 3000 Value Index outperformed the Growth index for a 3rd consecutive month in January, adding almost 6% in relative performance for the month alone. Small cap stocks in the Russell 2000 index added 5.4% in January versus just 1.5% for the S&P 500 index. The S&P 500 Technology sector declined 1.7% in January, dragged down on concerns in the software sector (-10.7%) from artificial intelligence disruption. The top 8 names in the S&P 500 index that represent over 35% of the index's weighting were negative in January on average 0.2% while the S&P 500 equal-weight index returned 3.4%. This is all to say the market's leadership appears to be shifting away from the steady Mag7 and AI capex story that has dominated equity performance since the September 2022 release of ChatGPT. Technology remains in a leadership position with respect to earnings growth, but investors appear to be expecting even more than projected numbers to justify current stock prices. Earnings reports

from the hyperscalers to date have been strong but capex spending projections have also far exceeded expectations (and earnings growth) further amplifying concerns on spending levels and realistic assumptions on return on investment. Microsoft, Google, Meta, and Amazon have projected they will spend \$650 billion in 2026 building out AI, a 71% increase from 2025. While these companies have strong earnings growth, balance sheets, and margins (ex Amazon), the rate of change on capex is growing far faster than top line revenues and earnings. To

date, investors have afforded the companies that ability to fund AI spending to ensure they do not fall behind competitors. But each of the capex numbers exceeded analysts' expectations. Microsoft and Amazon sold off after their earnings reports despite beating earnings expectations, while Meta and Google earnings were cheered by the market. Non-Technology areas of the market look better positioned to benefit from the current economic backdrop and have lower expectations. Industrials, powered by Boeing, saw the largest increase to date for 4th quarter earnings versus



Hyperscaler Net Income vs. Capex Growth

Source: Google, Yahoo! Finance. Hyperscalers are MSFT, GOOG, META, AMZN

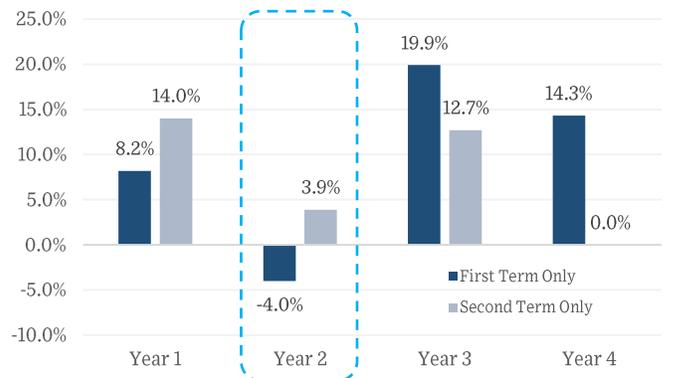
Summit Trail Advisors LLC ("STA") is a SEC registered investment advisor headquartered in New York, NY. Please see the Important Information section for additional disclosures

expectations at year-end 2025 and were a leading sector of performance in January. Earnings reports over the past three years have driven Mag8 exceptionalism, but the recent quarter may be the beginning of a reversion to the overall market.

President Trump ramped up populist policy efforts in January keeping investors on edge as markets turn attention to the 2026 US mid-term elections. Mid-term election years are by far the weakest for S&P 500 Index returns of the four years in the presidential cycle. This is despite the incentives for an administration to show well going into elections and that GDP growth has historically been higher in Year 2 than the other three years of a presidential cycle. Mid-term years have historically had higher volatility, larger drawdowns, and lower returns in modern equity markets. Our past two mid-term cycles in 2018 and 2022 have generated the only negative returns on the S&P 500 index in the last 15 years. Data from 2025 governor

elections in NJ and VA as well as a recent special election in Texas along with President Trump's approval rating suggest Republicans will lose control of the House for the last two years of Trump's term. The Trump administration is messaging that the President will be "laser" focused on mid-terms and make his case directly to voters. In January, Trump floated numerous policy proposals related to housing, credit cards, and health care that caught investors off guard and moved markets. The administration's focus on housing to date had

primarily been the President's efforts to pressure the Fed to cut rates more aggressively. On January 20th, President Trump signed an Executive Order restricting large institutional investors (i.e. Wall Street and Private Equity) from buying single-family homes with the idea that these buyers were suppressing home ownership by purchasing homes in desirable markets. The order followed a post from Trump that he was instructing his "representatives" (we are assuming this is Fannie and Freddie) to purchase \$200 billion in mortgages to lower spreads on mortgage rates to Treasuries. Each of these measures related to housing moved markets. The purchase ban caused stock prices for publicly traded private equity firms to underperform with Apollo, Blackstone, Carlyle, and Ares averaging a 6% loss in January. Mortgage spreads to Treasuries narrowed sharply after Trump's \$200 billion purchase announcement and the average 30-year mortgage rate approached 6%, its lowest level since late 2022. President Trump also floated a 10% cap on credit card interest rates in an attempt to relieve pressure on consumers. The President will need help from Congress to implement a cap but in early February a bill was introduced to do just that by Vermont Senator Bernie Sanders proving politics, especially populist politics, make strange bedfellows. Whether the president's attempts to improve his approval ratings will be successful remains to be seen but investors are on notice that in a mid-term year, investment themes should align or at least not be at odds with Trump populism.



Average S&P 500 Index Performance by 4-Year Presidential Term
Source: Strategas. Data is from 1961 to 2025

Important information

The information provided is for informational purposes only and does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Summit Trail Advisors, LLC), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situations, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Summit Trail Advisors, LLC. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual

Summit Trail Advisors LLC ("STA") is a SEC registered investment advisor headquartered in New York, NY. Please see the Important Information section for additional disclosures

Monthly Download
January 2026

situation, he/she is encouraged to consult with the professional advisor of his/her choosing. All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. Summit. Summit Trail Advisors, LLC is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the Summit Trail Advisors, LLC's current written disclosure statement discussing our advisory services and fees is available upon request. If you are a Summit Trail Advisors, LLC client, please remember to contact Summit Trail Advisors, LLC, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services.

Summit Trail Advisors LLC ("STA") is a SEC registered investment advisor headquartered in New York, NY. Please see the Important Information section for additional disclosures