

Summary

Economic news for the week included the Fed keeping policy short-term interest rates steady. On the positive side, durable orders rose, as did housing prices to a lesser degree, while consumer confidence fell back sharply and producer prices rose more than expected.

Equities were mixed globally last week, with foreign outperforming U.S. Bonds were little-changed in the U.S., but some foreign were helped by a weaker U.S. dollar. Commodities were also mixed, with energy prices rebounding up, while precious metals fell back from recent strength.

Economic Notes

(0) The **FOMC meeting** went as expected for January, with no policy change at 3.50-3.75%, but two dissents from members wanting cuts. The formal statement was uneventful in that conditions were largely unchanged on the growth and inflation fronts, while labor weakness in December was upgraded a bit.

The post-meeting news conference included comments from Chair Powell noting that current policy looked “appropriate” given the circumstances, described overall as “loosely neutral.” Noted was consumer spending being “resilient” as well as was expansion in business fixed investment. Labor was described in more detail as “stabilizing” after a period of “gradual softening,” per what was noted in the formal statement, and attributed to “lower immigration” and labor force participation. Inflation continued to be described as “elevated,” although there appeared to be less concern than in prior meetings, as tariffs were noted as playing a role on the goods side, with expectations that will ease on its own. The Fed tends to take long-term inflation expectations under special consideration, and as these appear “consistent” with their long-term policy target, concern is less than it otherwise would be. The press conference featured several questions on political topics, as well as the U.S. dollar, which weren’t addressed, per the usual protocol. Powell also has not commented on his status after his chairmanship ends in May, in terms of whether or not he’ll choose to stay on as a Fed governor for the next two years. However, he did reiterate the importance of Fed independence as a democratic cornerstone that has “served the people well” by not having elected officials assert “control” over the setting of monetary policy.

Later in the week, the President nominated Kevin Warsh as the next **Fed Chair**, pending Congressional approval. Warsh had been one of the top favorites throughout the process, having served on the Fed’s board of governors from 2006-2011, appointed by Pres. George W. Bush, and a top advisor to Fed Chair Bernanke during the 2008 GFC. However, he was somewhat skeptical of the long-running low interest rate policy and QE, being more of an inflation hawk through his career. Though, more recently, he has opined that interest rates should be lower today, or at least has encouraged faster Fed decision-making. Warsh is well-regarded in the economics world, having been under consideration for other positions, such as Treasury secretary, and is a notable favorite in more conservative circles, in promoting greater fiscal discipline, limited government, less burdensome financial regulation, smaller Fed balance sheet,

pro-market orientation, as well as being critical of ‘extra’ Fed policies, such as forays into climate and social policy. He has tended to be somewhat independent-thinking, and a monetarist, in that inflation is a reflection of government money printing as opposed to other factors, such as economic growth. Warsh was seen as a more traditional choice than another favorite like Rick Rieder, Blackrock’s chief of fixed income, with high market credibility but no government background. The next step is Senate confirmation, which is normally a formality, but could be more drawn-out in the current case since there has been some demand for the investigation of Chair Powell to be resolved first. The market reaction was most notable in currencies and commodities, where the U.S. dollar rallied and gold/silver sold off, seemingly with anticipation that perpetual interest rate cuts and an expanding Fed balance sheet, to the point where they eroded dollar confidence, wouldn’t be imminent.

(-) The **Producer Price Index** rose by 0.5% in December, exceeding the median forecast of 0.2%. Removing food and energy, core PPI rose an even further 0.7%. Within the month, areas of price strength included passenger airfares (up 3%), as well as both private and government capital equipment (5%), while food and energy prices weakened a bit. Year-over-year, headline PPI rose 3.0%, with core up 3.3%. Final demand services (70% of the total) gained 3.2% for the year, with goods (the remaining 30%) up 2.5%. While personal consumption services continued to run at a strong level, personal consumption consumer goods rose just over 1% for the year. This report pointed to some tariff impacts, no doubt, including the impacts of higher prices for commodity metals over the year.

(+) **Durable goods orders** rose 5.3% in November, surpassing the 4.0% expected, and reversed the -2.1% decline of the prior month. The gain was driven primarily by commercial aircraft orders (up a choppy 98%), as durable goods orders ex-transportation rose only 0.5%. Other than transportation, fabricated metal and electrical equipment (more AI/Cloud building) were areas of growth. Core capital goods orders were up 0.7%, while core shipments gained 0.4%. Over the past year, overall durable goods orders were up 12%, largely being transportation orders, but the gain was still over 4% with those excluded.

(0) The **FHFA house price index** for November rose 0.6%, up 0.2% from the prior month. Leading regions included East South Central (KY/TN/MS/AL, 1.1%), while Mid Atlantic (NY/NJ/PA) was unchanged for the month. For the trailing 12 months, the national index rose 1.9%, led by East North Central (Great Lakes states, 5.1%), which offset a decline in the Pacific region (-0.4%). As with the Case-Shiller index, there have been signs of a continued rebound in Northern states, while the Sun Belt, so popular during Covid, has decelerated.

(0) The **S&P Cotality Case-Shiller 20-city home price index** for November rose 0.5% on a seasonally-adjusted basis, but declined a few hundredths of a percent on an unadjusted basis. Over the trailing year, it rose 1.4%, which was led by gains in Chicago and New York (over 5% each), as well as Cleveland and Minneapolis, while Tampa suffered the worst, down -4%. As has been the case in recent months, ‘real’ price gains after inflation have fallen into the negative. Comments from S&P included the housing market entering a period of “tepid” growth, especially on a real after-inflation basis (which went negative), and acknowledgments of the continuing shift in regional dynamics, with the major Northern cities leading the

way, while the Sun Belt has weakened. High mortgage rates were again acknowledged as a headwind, with rates in the low 6's, although improved from earlier highs.

(-) The **Conference Board's consumer confidence** survey for January fell by -9.7 points to 84.5, well below the 91 level expected and ending at the lowest level in 12 years. However, the December final number was revised up by 5 points. Assessments of the present situation and expectations for the future both declined by similar magnitudes. The labor differential fell by over -5 points, with jobs looking both less plentiful and a bit harder to get. Inflation expectations for the coming 12 months ticked up by 0.3% to 5.7%. Anecdotally, they noted that all five components of the index deteriorated, with consumers' write-in response on economic factors continued to be pessimistic, with "references to prices and inflation," including oil/gas and food/grocery remaining "elevated."

(+) **Initial jobless claims** for the Jan. 24 ending week saw a drop of -1k to 209k, just above the 205k median forecast. Continuing claims for the Jan. 17 week fell by a sharper -38k to 1.827 mil., below the 1.850 mil. expected. State by state results were mixed, showing no clear trend in either direction, and some apparent normalization from year-end seasonal effects. However, last week's large layoff announcements by Amazon and Dow clouded labor sentiment a bit, albeit anecdotal and not huge given the size of the overall domestic workforce.

Market Notes

Period ending 1/30/2026	1 Week %	YTD %
DJIA	-0.42	1.80
S&P 500	0.35	1.45
NASDAQ	-0.16	0.97
Russell 2000	-2.07	5.35
MSCI-EAFE	1.56	5.22
MSCI-EM	1.80	8.85
Bloomberg U.S. Aggregate	0.03	0.11

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2025	3.67	3.47	3.73	4.18	4.84
1/23/2026	3.70	3.60	3.84	4.24	4.82
1/30/2026	3.67	3.52	3.79	4.26	4.87

U.S. stocks were mixed last week, with major large cap indexes moving in different directions, but weaker results from small caps. A potential government shutdown on Jan. 31 was in the news again, despite appearing as a non-issue for several weeks, having ramped up over concerns over funding for the Dept. of Homeland Security and ICE. By the end of the week, early optimism about the Warsh Fed Chair nomination had been replaced by some angst over potential Congressional delays in the process, as well

as some uncertainty about what Warsh's past comments may mean for Fed monetary policy ahead—as in will it be hawkish or dovish?

Sector results were also split last week, with strong gains in communications, energy, and utilities, offset by declines in health care, consumer discretionary, and materials. On the positive side, Meta fared especially well after solid earnings performance, which put off some worries about further massive AI capex spending. Microsoft, however, was down on Thurs. on a slowdown in cloud computing growth as well as rising concerns about payback of high AI spending. This was accompanied by potential AI disruptions into the software sector's profitable software-as-a-service business model generally. This AI reversal more recently has also carried into data center investments of real estate and commodities. In healthcare specifically, UnitedHealth fell by -20% early in the week due to forecasted revenue pressures, specifically, far lower than expected Medicare Advantage rate increases. Consumer discretionary stocks were held back by declines in Tesla and a variety of retailers, including Starbucks and Nike.

Earnings reports for S&P 500 companies continue for Q4, with a third of firms now having reported, per FactSet. The blended year-over-year growth rate has ticked up by nearly 3% to 11.9%, albeit with a lot more to go. Leadership continues to come from technology and industrials, the size of which more than offset negative earnings growth from health care, energy, and consumer discretionary.

Foreign stocks were mixed, with gains in Japan, the U.K., and Europe, in addition to a positive week in emerging markets. While returns in local terms were mixed, much of the gain came from the tailwind of the U.S. dollar declining for the week overall. European GDP growth came in at a positive 1.5% for 2025, a half-percent stronger than the prior year, and, along with stronger more recent data and earnings, helped buoy sentiment. Countries within EM were similarly mixed, with strength in Turkey and South Korea, but weakness in Taiwan and South Africa.

Bonds were minimally changed with a bit of a twist in the U.S. Treasury yield curve, with short-term rates down and long-term rates up. Senior floating rate bank loans fell back. Foreign unhedged bonds were helped upward a bit by a weaker dollar.

Commodities were mixed last week, with energy seeing gains, while precious metals pulled back sharply after a strong run. Crude oil prices jumped 7% last week to \$66/barrel, due to continued high tensions between the U.S. and Iran, in addition to China appearing to take the opportunity of low prices to increase domestic stockpiles. Natural gas prices spiked another 20% with weather-related effects. Gold and silver prices were volatile last week, with uncertainty over how the administration will address the dollar, as well as policy impacts of the potential new Fed nominee. Precious metals tend to do best under uncertainty, a weaker dollar, and lower interest rates—trends which came under pressure after the Warsh announcement—in an apparent partial unwind of the dollar debasement trade.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.

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