Summary

Economic data for the week included ISM manufacturing moving back into expansion, ISM services staying in expansion, some improvement in consumer sentiment, but weaker job openings and claims data. Another partial government shutdown paused the release of the January employment situation report until this coming week.

Equities saw a volatile week, but ended mixed, with gains in U.S. value and small cap, as well as international. Bonds saw gains across the board along with the stock market's volatility and lower rates. Commodities saw gains in precious metals but declines elsewhere.

Economic Notes

(+) The **ISM manufacturing index** rose by 4.7 points in January to 52.6, stronger than the median forecast calling for 48.5, and back into expansionary territory for the first time in a year. Underlying components showed strength as well, including strong improvement in new orders (up 10 points to the 57 level), as well as production, inventories, deliveries, and order backlog. Employment improved by several points, but remained at 48, just under the neutral level. Prices paid ticked up by just a half-point to 59, remaining solidly expansionary. Tariffs were mentioned in the report 14 times, a bit more than the 10 times in the December report, with the comments being a bit more negative than one would assume from the headline index, with the "latest tariff threats on the European Union" having a negative impact on profit on quoted orders, as well as "confused and uninformed tariff policies" weighing on smaller companies, making long-term planning challenging at best, or "pointless" as it was described in the report by one commentator. Despite the critical comments by some in the narrative, the index rising back into expansion was long-awaited, but time will tell whether this was a one-time anomaly or future reports continued this positive trend. Conditions were mixed, with 9 industries reporting growth, and 8 contracting. Commentary from respondents can be instructive and included continued negative feedback about "confused" tariff policies (including from some manufacturers who have changed supplier locations already), potential tariffs, as well as general uncertainty about the economy and labor availability. One example in machinery was "we will not be able to recover the increase tariffs in our current quotations." Another commenter in computers/electronics noted that business conditions are still uncertain with "cautious" consumers and "broad-based" inflation.

(+) The final **S&P Global US manufacturing PMI** for January was revised up by 0.5 of a point to 52.4, further into expansion. There, new orders and output were both revised up by up to a point, while input and output prices were revised down slightly, but remained strong.

(+) The **ISM services/non-manufacturing index** came in at 53.8 for January, unchanged from the seasonally-adjusted December number, but remained in decent expansion, now for the 19th month in a row. New orders fell by over -3 points to 53, also showing expansion albeit at a decelerating rate. Positive results were seen in business activity (up 2 points to 57), supplier deliveries, and backlogs, all of which moved further into expansion. Prices also ticked up by over a point to 66, still demonstrating inflation pressure. Of the industries covered, 11 of the 18 expanded, led by healthcare, utilities, construction, and retail. Laggards were transportation/warehousing, management/support, and arts/entertainment/recreation. Commentary included "uncertainty of U.S. tariff policies" affecting purchasing, questions over the impact of AI on future purchases of services, and the pending surge in new capital spending on data centers, as well as related impacts on power markets. Though, "consumers are still buying," pointing to a decent environment in retail markets.

(+) The final **S&P Global US services PMI** for January ticked up by 0.2 to 52.7, led by gains in new business, up a point past 53, as well as a small gain in employment. Input prices and output prices were mixed, but each ended in the upper 50's, which remained quite expansionary.

(0) The preliminary **Univ. of Michigan consumer sentiment index** for February showed a gain of 0.9 of a point (1.6%) to 57.3, in contrast to expectations of a decline to 55.0. This was led by assessments of current conditions, which rose by 5%, while expectations for the future declined by just under a percent. Over the past year, the broader index and two sub-components all declined just over -11%. Inflation expectations for the coming year fell sharply, by -0.5% to 3.5%. However, 5-year expectations rose a tenth to 3.4%. In the provider's commentary, it was noted that the "erosion of personal finances" due to high prices and "elevated risk of job loss" continue to be "widespread" concerns. Unsurprisingly, sentiment has improved for those with the largest stock portfolios (presumably higher-net worth), while it "stagnated" and "remained at dismal levels" for those without stocks (presumably lower income), while sentiment overall continues to run at low levels. This report reiterated other narratives about an intensifying 'K-shaped' economy in the U.S., where higher-income consumers continue to spend, while the lower-income group has more apprehension about the economy and labor prospects.

(-) The government **JOLTS** job openings report for December was delayed by a few days but showed a drop of -386k to 6.542 mil., below the expected 7.250 mil., along with a negative revision of -218k for November. This was the lowest level of openings since the 2020 pandemic and continuing a steady decline from the peak in March 2022. By segment, the largest declines were in professional/business services (-257k), retail trade (-195k), and finance/insurance (-120k); on the positive side were increases in accommodation/food services (85k) and 'other' services (56k). The job opening rate fell by -0.3% to 3.9%, while the hiring rate rose by 0.1% to 3.3%. On the departure side, the layoff and quits rates were unchanged at 1.1% and 2.0%, respectively. This reiterated the recent path of a flattish labor market, with few adds and few reductions, at least overall.

(0) The **ADP employment report** for January came out showing growth of 22k private sector jobs, under the 45k median forecast, and below the revised December number of 37k. Services sector jobs rose by 21k, with a 74k gain in education/health services offset by a -57k drop in professional/business services. Goods-producing jobs rose by 1k on net, with a 9k gain in construction offset by a -8k drop in manufacturing. This report has been somewhat useful in times of labor ambiguity, as today seems to be, but has been less correlated to the larger government employment report in recent years, which limits its use. The government report has been delayed a week to later this week, due to the short government shutdown.

(-) **Initial jobless claims** for the Jan. 31 ending week rose by 22k to 231k, above the 212k median forecast. Continuing claims for the Jan. 24 week rose by 25k to 1.844 mil., but were below the 1.850 mil. level expected. Based on the state by state data, it seems initial claims may have been negatively affected by especially extreme winter weather around the eastern half of the U.S. While claims have not changed that much, some high-profile layoff announcements have come in the past month from companies such as Amazon, UPS, and Pinterest. Challenger, Gray & Christmas track these reports monthly, with 100k layoffs mentioned for January (albeit a usually-strong time of year for layoffs). The high-profile announcements have been coupled with claims that spending is (more so than labor) being diverted to AI projects to some extent, but also due to uncertain business conditions (as noted earlier in the ISM surveys), but also in a paring back some of the strong re-hiring from the pandemic.

Market Notes

Period ending 2/6/2026	**1 Week %**	**YTD %**
DJIA	2.50	4.35
S&P 500	-0.09	1.36
NASDAQ	-1.83	-0.89
Russell 2000	2.18	7.64
MSCI-EAFE	0.51	5.75
MSCI-EM	-1.40	7.32
Bloomberg U.S. Aggregate	0.28	0.39

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
1/30/2026	3.67	3.52	3.79	4.26	4.87
2/6/2026	3.68	3.50	3.76	4.22	4.85

U.S. stocks were mixed last week, with strong returns from value, where the S&P 500 Value Index gained over 2%, while growth stocks lost an equivalent amount. Sector results reflected that, with gains of 4-6% in consumer staples, industrials, and energy; these offset negative returns 4-5% returns in communications (Meta and Alphabet) and consumer discretionary (Amazon and Booking Holdings). As a sub-group, software suffered its worst week in about four years, down close to double-digits.

A partial government shutdown began the prior weekend, when budget resolutions and associated policies couldn't be agreed upon, but Congress resolved things by late Tuesday. More importantly, also early in the week, negative sentiment surrounding software-as-a-service stocks continued. This was as investor concerns again flared over feared impacts on revenues from AI tools that could potentially replicate and replace their highly profitable business models. In particular, a new tool from AI startup Anthropic that was designed to automate some document work (including legal specifically) created concern around information providers in that segment. There continues to be a good deal of market uncertainty over the future effects of AI, including the issues of whether: (1) AI will deliver the magical productivity benefits first promised, (2) capex spending ends up being too high for hyperscalers and others to earn a profit on it, and/or (3) AI will inflict too much damage to existing companies in software, business services, media, and education (which were punished by markets last week). Many tech experts still believe it's still too early to tell, and stocks rebounded strongly on Friday due to the realization of software's demise being exaggerated. On the health care front, both in the U.S. (Eli Lilly) and internationally (Novo Nordisk), concerns over future profits in popular weight-loss GLP-1 drugs have generated volatility, both due to industry competitive pressures and a political push from the U.S. government to cut consumer drug prices.

For earnings, another quarter of S&P 500 companies reported, bringing the total to almost 60%, per FactSet. The blended year-over-year earnings growth rate has ticked up again from 11.9% last week to now to 13.0%, with revenue growth up to 8.8%. For context's sake, earnings growth is running at roughly twice the long-term multi-decade average, although it's still concentrated in technology, industrials, and communications, with growth in other sectors well under that of the broader index, mostly in the low single-digits. Companies with higher foreign revenue exposure have outperformed domestically-focused companies, although some of that exposure is convoluted a bit by the more complex nature of cross-border technology supply chains. While premature, Q1-2026 estimates growth estimates have fallen a few percent to around 11%.

Foreign stocks gained across the board in developed markets, despite the normal headwind of a stronger U.S. dollar. Japanese stocks led the way, with hopes high for the upcoming election (yesterday), where the popular prime minister's policies are expected to carry through to political wins. The ECB left policy rates unchanged at 2.0% for the fifth straight meeting, in a "broadly balanced situation" as it was described between growth and inflation. The Bank of England also stayed on hold at 3.75%, despite a weaker economic environment, and several dissents which pointed to potential future cuts. Emerging markets fared negatively overall, but were led by Mexico and India, due to the former's exposure to natural resources and the latter after the U.S. administration announced reciprocal tariffs being reduced from 25% to 18%, after India's agreement to cut Russian oil imports. These offset -4% returns in China for the week, with mixed economic data and software industry concerns.

Bonds saw gains last week in the U.S., along with equity volatility and interest rates falling back by a few basis points. Treasuries and investment-grade corporates fared similarly, while floating rate bank loans fell back a bit. A stronger dollar held back developed local bonds, while emerging market debt gained regardless, both in local and USD terms.

Commodities were mostly negative last week, along with a stronger dollar, with energy and industrial metals down several percent, although precious metals gained nearly 5%. Crude oil prices fell over -2% last week to $64/barrel, as diplomatic talks between the U.S. and Iran replaced more immediate military tensions. Natural gas corrected by a dramatic -22% last week, as U.S. weather warmed a bit and production ramped up. Gold and silver have experienced far greater than average short-term volatility, to some degree as sharp gains in recent months have resulted in traders adjusting speculative positioning, as well as questions about how ‘dovish’ or ‘hawkish’ the future Fed will be on rates policy, as well as U.S. policy uncertainty that has underpinned gold’s rise for several years.

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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