Markets Gain in January, But Not All Rallies Are the Same

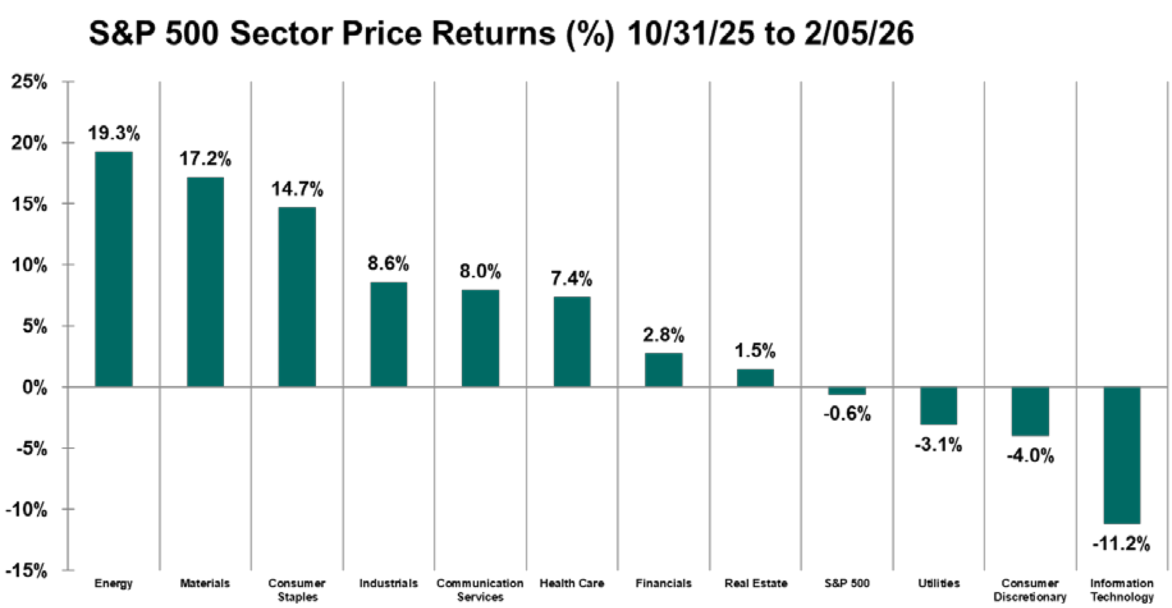
Major Equity Indices	Price 1/31/2026	January 2026 12/31/25 - 1/31/26	3 Months 10/31/25 - 1/31/26	All-Time Closing High (as of 1/31/26)	Date of High	1/31/26 Price vs. High
U.S. Large Company Indices						
Equal Weight S&P 500	8,018	3.3%	5.3%	8,088	1/22/26	-0.9%
Dow Jones Industrial Average	48,892	1.7%	2.8%	49,590	1/12/26	-1.4%
S&P 500	**6,939**	**1.4%**	**1.4%**	**6,979**	1/27/26	-0.6%
Russell Indices						
Russell 1000 Value (large company value)	1,336	4.4%	7.5%	1,336	1/31/26	0.0%
Russell 2000 (small companies)	2,614	5.3%	5.4%	2,719	1/22/26	-3.9%
Russell 1000 Growth (large company growth)	3,102	-1.5%	-4.0%	3,272	10/29/25	-5.2%

Data Source: FactSet as of 1/31/26. Calculations use closing prices. Price return excludes dividends.

U.S. equity indices largely moved higher in January, and the widely followed S&P 500 equity index set a new all-time closing high price as recently as 1/27/26. But other indices set new highs as well, and the larger story of January, in our view, was a continuation of a rotation of leadership away from large-company growth stocks and into large-company value stocks and small capitalization stocks. The shift in sector sentiment began at the end of October, and over the three-month period that includes November, December, and January, the rotation became increasingly pronounced. From 10/31/25 to 1/31/26, the S&P 500 delivered a respectable +1.4% price gain, but the Russell 1000 Value Index increased +7.5% to lead U.S. equity market gains. By contrast, the Russell 1000 Growth Index decreased -4.0% over the three-month period. The Russell 1000 Growth Index has outperformed its value counterpart for 8 of the past 10 years, including each of the past three years. The last time, on an annual basis, that value stocks outperformed was 2022. The rotation of index leadership to value from growth was driven by sector rotation as we have seen a large divergence in sector performance in recent months. The three largest sector weightings in the Russell 1000 Growth Index (as of 12/31/25) were Technology, Consumer Discretionary, and Communications Services, while the largest three sector weights in the Russell 1000 Value Index were Financials, Industrials, and Health Care (it should be noted that Technology is the #4 weighted value sector, so value includes Technology, just in a much lower weight). The top three S&P 500 sector weights (as of 12/31/25) were Technology, Financials, and Communication Services. The S&P 500 screens as a growth index but does offer some value balance as Financials have the second largest weighting.

Will value continue to outperform growth? We have argued for sector rotation for some time as a portfolio well-diversified across sectors can provide some protection from a pull-back in growth stocks, and because we see upside to economic growth estimates in 2026. Sustained economic growth can boost earnings results across cyclical industries, leading to broader participation in market gains. However, given recent underperformance of many leading growth companies despite relatively strong earnings results, we see the potential for a recovery. But, on market strength and throughout the year, we are comfortable adding exposure to value and reducing exposure to growth.

S&P 500 sector leadership has shifted since late 2025.



Data Source: FactSet, as of 2/5/26. Price returns reflect market appreciation or depreciation excluding the reinvestment of capital gains, dividends, interest, and other income. The eleven sectors are the Global Industry Classification Standards (GICS) from MSCI.

U.S. equities have decreased to begin February, although the sector rotation away from growth and toward value has continued. We have updated our 3-month S&P 500 sector performance to include the first 4 trading days of February to reflect the period 10/31/25 to 2/5/26. Over that period, the S&P 500 index decreased -0.6% on a price basis (not including dividends), but 8 of the 11 sectors gained and outperformed the index. This suggests broad participation in gains, and indeed, the Equal Weight S&P 500 (EWSP) index increased +5.6% since 10/31/25. The EWSP gives each S&P 500 constituent an equal weight (removing ranking by market capitalization) and reflects the performance of the "average" S&P 500 stock. The sectors shown on the chart, however, include the market cap weightings in the index, so the underperformance of Technology (down -11.2% since 10/31/25) is holding back the index. On the positive side, Energy and Materials each rallied more than +17% since 10/31, although both represent relatively low weights in the index. Energy, Materials, and Industrials (the fourth best sector since 10/31) are highly cyclical, and those sectors often outperform when the economic outlook improves. But Consumer Staples have also surged in recent weeks, suggesting renewed interest in a classic "defensive" sector that bears watching if investors are seeking safety.

Several factors have likely contributed to the latest sector rotation. As mentioned, investors could expect a stronger-than-expected U.S. economic trajectory in 2026. Although we remain in a data vacuum caused by the October/November government shutdown (the most current official report on gross domestic product, or GDP, covers the third quarter of 2025), monthly data on retail sales and consumer spending through November were better than expected, and corporate commentary suggests business investment on technology and data centers continues to increase. The FactSet consensus estimate for fourth quarter (4Q25) annualized GDP growth is +1.7%. This is below the +4.4% and +3.8% in 3Q25 and 2Q25, respectively, but markets are likely pricing in upside to the +1.7% estimate. The 4Q25 GDP report from the Bureau of Economic Analysis (BEA) is scheduled for 2/20/26. A second driver of sector rotation could be weakness in the U.S. dollar since October. The trade-weighted U.S. Dollar Index has drifted lower over the past year and was down -3.6% from 10/31/25 to 1/27/26. There can be positive and negative ramifications of a weak U.S. dollar policy, but it is often associated with gains in commodities-exposed sectors such as Energy and Materials. This also helps U.S. companies that export (both Industrials and Consumer Staples have large exporting constituents) as the weak dollar lowers the effective price of U.S. goods and services for foreign buyers. A third factor could be a catch-up in performance as the top three sectors since October had severely lagged market gains over the past 1 to 2 years. While recent gains have taken each of those sectors to new highs, the previous highs were: for Energy – April 2024; for Materials – October 2024; and for Consumer Staples – March 2025. Just three sectors have not closed at new highs in 2026: Technology, Utilities, and Real Estate. And finally, a fourth explanation for changes in sector leadership could be the result of investors reducing exposure to Technology stocks, and that money is likely finding a home in other sectors and asset classes. With Technology being the largest weighting in both the S&P 500 (34% weight as of 12/31) and Russell 1000 Growth Index (50% weight as of 12/31), selling creates a high level of proceeds that can be reallocated. We continue to advocate for increasing sector diversification, although we believe most investors should have exposure to high-quality technology and growth stocks.

Why has the Technology sector underperformed in recent months? From a high-level perspective, weakness in the sector can be attributed to the transformative nature of generative artificial intelligence (GenAI), which creates both huge opportunity and numerous challenges for technology companies (to a large extent, this is true for other sectors as well, but the tech sector is on the front lines). The largest companies in the space, and others, which include the "Magnificent 7" (Mag 7), massively increased spending on capital investment and research and development in 2023 through 2025. These companies are proven excellent stewards of capital over a long period of time, and in 2024 and early 2025, an announced increase in capital spending often led directly to an increase in stock price. In late 2025, investors began to question ever-higher investment in large language models (LLMs) and data centers without proven returns, and markets began fearing an "AI bubble." At the same time, spending on AI engines moved from training models (learning) to inference models (decision-making) to agentic AI (autonomous execution). This has highlighted the disruptive nature of the technology as investors fear that AI will allow companies to reduce software licenses and other subscription-based services. In 2026, this led to the selling of software stocks, payment firms, and other data providers, and has impacted the Mag 7 as well. We have also seen weakness in publicly traded private equity firms that have exposure to private technology startups that have been a meaningful driver of the tech economy. We believe that the potential for AI disruption is real, and there will be winners and losers over time. This likely continues as a volatile sector in 2026 as risks vs. rewards are assessed. Companies that can generate strong earnings and cash flow have the potential to recover, in our view. The 4Q25 S&P 500 Technology sector earnings have exceeded expectations with reporting season underway.

With S&P 500 earnings reporting season still underway, 4Q25 earnings growth has substantially exceeded estimates. On 12/31/25, the FactSet consensus estimate for year-over-year (Y/Y) earnings growth for the S&P 500 was +8.1%. As of 2/5/26, 55% (278 companies) of the index reported quarterly financial results. Reported earnings have grown +14.5%, and the full-quarter estimate now sits at +12.9%, which is 480 basis points (bp) above the pre-report +8.1% estimate. The Technology sector has been the standout earnings performer; with 48% of companies already reported, Y/Y earnings growth is +26%, and the sector is positioned to deliver more than half (750 bp) of the total estimated +12.9% growth for the index. Other solid sector earnings growth has come from Industrials (+27%), Communications Services (+15%), and Financials (+14%). In our view, earnings growth will remain a key driver for sector performance in 2026. The Technology sector continues to lead both in reported earnings growth as well as estimated earnings growth in future periods. While we believe Technology sector volatility is likely to remain elevated (i.e., stocks could move lower), the strong earnings performance keeps us grounded and creates the potential for a sector recovery in 2026. At the same time, investors should manage exposure and avoid becoming overweight relative to their portfolio objectives in individual companies and the overall Technology sector.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Russell 1000 Growth index includes the Russell 1000 companies that exhibit relatively higher price-to-book ratios, and higher expected earnings and sales growth. The Russell 1000 Value index includes the Russell 1000 companies that exhibit relatively lower price-to-book ratios and lower than average expected earnings and sales growth. The S&P 500 Equal Weight Index is the equal-weight version of the S&P 500, which is weighted by market capitalization. In the Equal Weight version, each company is assigned an equal weight, about 0.2%, and is rebalanced quarterly.

Other Disclosures:

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data on a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov. Major components of GDP include personal consumption expenditures, non-residential fixed investment, residential investment, government expenditures and adjustments for inventories and net exports (imports). Both information technology equipment and software are sub-categories within non-residential fixed investment. In 2Q25 inflation-adjusted (Real GDP) increased +3.8% on an annualized basis (subject to revision) and the 3Q25 increase was +4.4%. Consumer spending is measured by personal consumption expenditures (PCE). We track business investment through Non-Residential Fixed Investment. The most recent BEA GDP report is here. A subset of consumer spending is reflected in the Advance Monthly Sales for Retail and Food reported by the U.S. Census.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet Consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury bonds, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury bonds are widely followed barometers of the current U.S. interest rate environment. Treasury bond data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

When we discuss "growth stocks" we are referring to companies that generate expected earnings growth (over a multi-year period) that is above expected earnings growth for the overall market (typically the S&P 500 index). The largest sector weights (by market capitalization) in the Russell 1000 growth index (as of 12/31/25) were Information Technology, Consumer Discretionary, and Communication Services. "Value" stocks are characterized by companies that trade at discounted valuations to an index, sector, and/or a peer group. The largest sector weights in the Russell 1000 value index (as of 12/31/25) were Financials, Industrials and Health Care.

Defensive sectors include companies that are historically less sensitive to economic cycles as product demand remains relatively more consistent across the business cycle. Cyclical sectors include companies that are more exposed to the business cycle such that growth accelerates when economic growth is above trend and decelerates when the economy slows.

International Trade in Goods and Services is published monthly by the Bureau of Economic Analysis. It measures trade in goods and services between U.S. residents and residents of other countries. U.S. sales are exports, U.S. purchases are imports.

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. An alternative measure of consumer inflation is the Personal Consumption Expenditure (PCE) price index. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). The index is published monthly by the U.S. Bureau of Economic Analysis.

Information on the America First Trade Policy Memorandum is available from the White House. On 2/12/25, the Trump Administration announced a framework for its Reciprocal Tariffs, with a link to the memorandum, "Fair and Reciprocal Plan." On 3/26/25, the White House

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

Generative Artificial Intelligence (GenAI): We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem solving and decision making. Early versions were often called "machine learning" and could sift through large data sets and accurately predict single outcomes. Now, generative AI goes further to utilize all forms of inputs. While still predictive models, generative AI can give detailed responses, much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all new data can be trained into the system, creating new challenges and opportunities.

The U.S. Dollar index is a measure used to evaluate the U.S. dollar vs. a basket of currencies from U.S. trading partners. These currencies are the euro, Swiss franc, Japanese yen, Canadian dollar, British pound, and Swedish krona. It has a base of 100 and values are interpreted relative to this base. On 10/31/25 the index closed at a level of 99.80. On 1/27/26 it closed at a level of 96.22.

The term "Magnificent 7" was first used in early 2023 by Bank of America. It referred to seven publicly traded stocks that at the time were the most highly valued companies in the S&P 500 index ranked by equity market value. The seven stocks were: Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla.