

January 30, 2026

CJ's Weekly Market Memo

As we close the books on January, I find myself reflecting on how quickly markets can shift from panic to optimism and back again. This week's wild swings in precious metals and software stocks reminded me why successful investing requires looking past the headlines to understand the underlying currents shaping our economy and markets.

The Economic Picture: Stronger Than the Worriers Think

The economic data continues to tell a story of resilience that the hand-wringing headlines often miss. Take this week's Chicago PMI, which spiked into expansionary territory above 54, the second-strongest reading since 2022. Yes, it's just one regional indicator, but it reflects a broader pattern we're seeing across manufacturing data. The Five Fed composite improved to 51.5, driven by surging new orders and shipments. This isn't an economy on the brink.

What's particularly encouraging is the rotation we're witnessing. The weaker dollar, down to 52-week lows, is already showing up in stronger industrial activity and export demand. Energy and Materials sectors have jumped 14% and 9% respectively this year, reflecting genuine demand for industrial commodities, not just speculative fever. When transportation equipment orders are soaring (as they are in the latest durable goods data) and core capital expenditure sales are growing at an 8% annualized clip, that's telling you businesses are investing in growth, not hunkering down.

The labor market picture supports this view. Initial jobless claims continue running below 2024 levels, and continuing claims have actually declined year-over-year for two straight weeks. The disconnect between hard employment data and consumer sentiment about jobs, which suggests we should have 6% unemployment rather than the current 4%—is one of those sentiment-versus-reality gaps that creates opportunity for patient investors.

Market Technicals: Range-Bound But Not Broken

The S&P 500's brief touch of 7,000 this week sparked predictable excitement, but let's keep perspective. Round numbers don't create support or resistance, they're psychological waypoints. Looking at history, when the S&P first crossed similar thousand-point thresholds, it typically ping-ponged across that level multiple times. At 6,000, the index crossed back and forth 17 times before moving decisively higher.

What matters more is the underlying market structure, and here the picture looks relatively healthy despite pockets of volatility. The S&P 500 remains above its 50-day moving average

and has been making higher highs since late November. Small caps actually broke out to new highs before pulling back, while the Russell 2000's 5.1% January gain marks its best start since 2023.

The real story is broadening. Seven sectors outperformed the S&P 500 year-to-date, with Energy, Materials, and Industrials all up over 5%. The average sector sits just 3% from its 52-week high. When sectors collectively cluster near new highs—as happened this month when the average spread narrowed below 2.5%, history shows the subsequent 12 months have been positive every time since 1991, with just one exception before COVID.

Yes, software stocks got hammered, falling over 20% from October's peak. Microsoft's near 10% single-day drop was the second-largest market cap loss ever for an individual stock. But here's the question worth pondering: Was that the washout the group needed? Last January's DeepSeek panic saw similar carnage in semiconductors and software. The 25 stocks hit hardest that day went on to gain a median 23% over the following year—all 25 were higher. Sometimes what looks like disaster is capitulation.

Speaking of semiconductors, vs. the S&P their relative strength has turned decisively higher. The Philadelphia Semiconductor Index hit new highs this week, with its relative strength versus the S&P 500 also making new highs. The sector is up 16% year-to-date while NVIDIA, accounting for over 12% of the index, has merely ticked up 3%. That's 22 of 30 semiconductor stocks participating in the rally, not just the mega-cap darlings. When leadership broadens like this, it's a confirmation signal.

The VIX remains remarkably contained despite all the headline drama. After last week's commodity chaos—gold plunging 12% and silver dropping nearly 30% on Friday—you'd expect more fear. Instead, volatility metrics suggest investors are looking through the noise.

Looking Ahead: What 2026 Might Bring

All the buzz about Kevin Warsh's nomination as Fed Chair strikes me as much ado about not very much. Fed Chairs have a way of surprising presidents, and markets. They tend toward independence once in office, guided by economic realities rather than political expectations. Warsh served as a Fed Governor during the Financial Crisis, so he knows what the job entails. Whether he turns out "hawkish" or "dovish" will depend far more on the data he sees than the labels being tossed around today.

What I'm watching more closely is whether the technical damage in software represents a true regime change or just violent rotation. AI remains transformational, but perhaps we're moving from the infrastructure buildout phase (semiconductors, cloud capacity) toward

monetization questions around software margins. That's a shift worth monitoring, not panicking over.

The commodity moves this week were spectacular but not necessarily durable. Gold's parabolic rise, up 25% in a month before Friday's plunge, had speculators' fingerprints all over it. The subsequent crash suggests late buyers got trapped. But the underlying demand for industrial metals looks more fundamental, driven by the capital spending we're seeing in transportation equipment and core capex. That's economic activity, not just speculation.

International markets have awakened, with country ETFs outside the U.S. averaging 7.2% gains versus our 1.4%. The dollar's weakness is lifting all boats abroad. Whether this persists depends partly on whether U.S. growth continues strong enough to keep foreign capital interested in our markets despite currency headwinds. Small-cap and mid-cap international stocks are leading, classic broadening behavior.

The February seasonal pattern isn't particularly encouraging (it's historically one of only two down months), but after strong Januarys in years with 10%+ trailing returns, the odds tilt positive. More importantly, when sectors cluster near new highs as they are now, the subsequent year has averaged 12.6% gains with positive returns five out of six times.

Chasing headlines, particularly around Fed nominations, tariff threats, or single-stock earnings reactions, has been terrible for returns. The investors who reacted to last year's DeepSeek panic by selling AI infrastructure stocks watched those names double while the "safe haven" utility stocks they rotated into went nowhere. The lesson isn't to ignore news, but to distinguish signal from noise.

The signal I see is an economy that's growing, a labor market that's solid, capital spending that's expanding, and a market that's broadening beyond mega-cap technology. The noise is everything else, the breathless speculation about Fed philosophy, the dramatic commodity swings, the software sector panic.

Nobody rings a bell at major turning points. But they do ring bells constantly about things that won't matter three months from now. The key is knowing which sound to follow.

Here's to tuning out the noise and focusing on what matters.

CJ Brott
Chairman Emeritus
Capital Ideas

The information presented is for educational purposes only and is believed to be factual and up-to-date. All expressions of opinion reflect the judgment of the author(s) as of the date of publication and are subject to change. Nothing in this commentary should be construed as investment advice and does not take into consideration your specific situation. All investments involve risk. Past performance does not guarantee future results. Advisory services offered through Capital Ideas, an investment adviser registered with the U.S. Securities and Exchange Commission.