Marketline January 2026

Stocks

The rotation away from technology stocks and into just about everything else entered its third month in January. The Dow, representing mostly industrial and service companies, rose 1.7%. The S&P, with a few more mid- and small-cap companies in the lower echelons of its ranks, managed a rise of 1.4%. The NASDAQ, saturated with technology, was flat. Overseas, where tech companies are seldom found in the indices, stocks also rose. Canada's market tacked on 0.7%, while Mexico – a beneficiary of trade relationships with the US – increased over 5%. European stocks were up about 2%.

While overall the month was positive, a mid-month decline in most stocks generated angst; we saw the same kind of sinkhole in early February, accompanied by articles in the *New York Times* and other publications that the "sell America" trade was at fault. We'd like to know what those authors have to say about the rebound in nearly every asset just a few days later. In fact, the Dow reached an all-time high of 50,101 after tacking on 1200 points on February 6th alone. I've been in business for a few decades now, but that's one of the largest point increases I can recall – ever. *Someone* was buying.

Meanwhile, as usual, earnings reports have produced their share of volatility among individual names. Software stocks – threatened by artificial intelligence – can't seem to exit the mire, and the auto sector has tripped lately; but nuts-and-bolts companies are behaving in stellar fashion. Caterpillar is up over 26% in 2026 (remember, we've seen just 24 trading days this year so far); Honeywell is up 22%; and WalMart is up 18%. Even energy companies like Chevron are participating: that stock has slightly edged out WalMart with a price rise of 19%.

As a reminder, when we see outsized increases in our portfolios' individual stock prices, we're likely to "right-size" those positions by making partial sales. This risk-control strategy may relinquish return, but it moderates volatility too, when markets turn nasty. Most of our sales have been from the tech sector over the last few years, but lately industrial names have made it onto our "reduction" list.

Bonds:

The guessing game around who will be the new Fed chairman has ended. Kevin Warsh was named on January 30th. Warsh is crisis-tested, having served in critical roles during the 2008 financial catastrophe. He leans hawkish on inflation – causing the bond market to rally once he was named; and he would strongly prefer to reduce the Fed's role in the economy by reducing its balance sheet. This is music to my ears – we're big fans of less interference from the Fed. Of course, time will tell, as far as what Warsh can actually accomplish.

The yield curve was about as quiet as a mouse this last month, though the ten-year rose about 7 basis points to 4.24%. Across the rest of maturities, changes amounted to a couple basis points. Because the "sell America" articles mentioned above discussed "rising interest rates", it's worth pointing out that rates have fallen in all but the longest maturities from one year ago.

The municipal market continues to absorb very high supply, with 2026 expected to be another record year. Generous supply tends to push rates up and prices down, so we think returns in this sector will be subdued yet again. Of course, return is one thing, income is another: these bonds will still pay tax-advantaged interest.

Corporations have been busy too, especially in the technology sector. These companies are transforming from asset-light, cash-flow generators to capital-intensive, cash-flow consumers – and debt is easing this transition. From Amazon and Meta to Oracle and Microsoft, the market is awash in technology bonds. Our focus, meanwhile, has been on decent-quality industrials, though we've picked up a few health care and financial issues lately as well. The shape of the yield curve has also allowed us to execute the occasional swap – selling a lower coupon issue to purchase a higher paying bond due a few years farther out. While we don't want entire portfolios of long bonds, for the right situation we can lock in higher cash flows for longer this way.