

Thinking Out Loud



So Goes January...So What?

2/6/2026

In January 2026, the S&P 500 gained 1.4%, slightly above the +1.1% average January return since 1950. Wall Street has long embraced the axiom “So goes January, so goes the year,” reflecting the historical tendency for a strong start to align with favorable full-year results. **In years when January is positive, the market has finished higher 89% of the time, with an average annual return of 16.9%.** By contrast, a negative January has offered little predictive value, with positive/negative full-year results occurring equally. In addition, this relationship has weakened in recent decades, with January and full-year direction (both positive and negative) aligning just 56% of the time over the past 25 years, compared with 82% from 1950 to 2000. **As a result, the January axiom is, at best, viewed as a helpful rule of thumb, rather than a strategy. A good start can set a constructive tone, but it does not determine how the year will unfold, particularly in light of the views we outline below.**

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Markets entered February balancing solid fundamentals against an increasingly complex policy and market backdrop. Economic data and earnings continue to signal resilience, supported by AI-driven capex and the delayed fiscal impulse from the OBBBA package. Yet confidence seems to be softening as **labor indicators grow noisier**, valuations and positioning (MAG 7) remain stretched, and investors reassess how liquidity and credibility will be managed through changing Federal Reserve leadership. As we pointed out in our 2026 Outlook entitled “[Point of No Return](#),” growth in early 2026 increasingly looks front-loaded rather than linear, while risk remains concentrated in policy error and uncertainty, rather than fundamentals.

The selection of Kevin Warsh to replace Fed Chair Powell has become a prism through which asset repricing is unfolding. Investors have questioned not only immediate rate moves but also how the Fed’s reaction function and balance-sheet strategy may evolve. Markets appear to be conflating Warsh’s public skepticism of post-crisis (both GFC and COVID) QE with the likelihood of rapid quantitative tightening in the near-term. In addition, more dovish comments leading up to Mr. Warsh’s nomination draw contrast to his historically hawkish monetary stance. The more credible risks, as we pointed out last week, lie in sequencing and FOMC communication. This is now particularly true, as Stephen Marin’s resignation from the White House CEA clears the path for a FOMC reshuffle.

Labor conditions are manically evolving. While recent trends in both initial and continuing unemployment claims have remained resilient, January ADP payrolls slowed sharply to +22k, with weakness concentrated in professional services. Official BLS data will be delayed once again, leaving investors reliant on proxies that may increase volatility around each release. Headline conditions remain tight, yet perceptions of job availability have softened, pointing to the potential for wage pressures to ease without the need for outright layoffs. The low-hire, low-fire posture adopted by many firms further supports this expectation. While the economy is holding together, we remain concerned that breadth is narrowing rather than accelerating.

Underneath the surface, market dynamics are tightening conditions more than policy rates alone. Recent swings in silver, gold, and select software equities were driven by margin and collateral mechanics, not a shift in inflation or fundamentals. Equity leadership continues to rotate rather than break: semiconductors and AI infrastructure remain supported, while software faces competitive repricing. Earnings breadth is expanding—the S&P is tracking a fifth straight quarter of double-digit growth—even as investors differentiate between productive AI capex and circular investments and vendor demand. To this end, we continue to expect companies with balance sheet flexibility, direct AI monetization levers, and/or holding structural pricing power to be the clear winners.

We’d love to hear your thoughts.

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