Ascentis
Asset Management

Weekly Market Commentary

January 19, 2026

Weekly Macro Report – Week Ending January 16, 2026

Growth and Leading Indicators

- **Industrial production and manufacturing** – Economic releases for December highlighted a modest uptick in manufacturing activity. The Federal Reserve's industrial production report showed total output rising **0.4 %** in December, with manufacturing production up **0.2 %** and core manufacturing (excluding autos) up **0.3 %**. High-tech equipment production jumped 0.7 % and is up 10.9 % over the past year, while business equipment production is up 10 %; utilities output rose 2.6 % and mining slipped 0.7 %. Regional surveys gave early indications of improvement: both the New York Fed's Empire State index and the Philadelphia Fed index turned positive in January, suggesting that manufacturing conditions may be stabilizing.

- **Retail sales** – November retail sales (the most recent data available due to the earlier government shutdown) rose **0.6 %**, though after downward revisions to prior months the net increase was **0.4 %**. Sales are up **3.3 % year-over-year**, but momentum has cooled—annualized growth over the last three months has slowed to about 2.3 %. The gain was broad: auto sales and gasoline stations led the advance, while core sales (excluding autos, gas and building materials) rose 0.4 % (0.2 % after revisions). The data suggest that consumer spending remains resilient but is decelerating as higher interest rates and fading pandemic savings restrain discretionary purchases.

- **Housing** – The housing sector continues to recover from the 2024-25 slump. **New home sales fell 0.1 % in October** but were **up 18.7 % year-on-year**, and **existing home sales jumped 5.1 % in December** as lower mortgage rates sparked a surge in applications. Supply remains constrained and mortgage rates, while off their peak, are still elevated; nonetheless, the rebound in home sales is a positive signal for residential investment, a key component of the Conference Board's Leading Economic Index (LEI). Overall, the LEI likely remained in negative territory in December, but the coincident indicator (employment, income, production and sales) still points to **moderate growth**, albeit at a slower pace.

Inflation

- **Consumer prices** – The delayed December CPI report showed that **headline CPI rose 0.3 %** and **2.7 % year-over-year**, while **core CPI (excluding food and energy) rose 0.2 %** and **2.6 % year-over-year**. The largest monthly contributor was shelter (+0.4 %), but food and energy prices also moved higher. The annual rate has moderated from over 3 % in mid-2025 to the high-2 % range, reflecting ongoing disinflation.

- **Producer prices** – November producer prices offered further evidence of easing upstream cost pressures. **Headline PPI increased 0.2 % month-on-month and 3.0 % year-on-year**, while **core PPI was flat**. Input costs for intermediate goods remained subdued. As supply chains normalize and commodity prices stabilize, producers have less incentive to raise prices, suggesting that consumer inflation should continue to grind lower in coming months.

Overall, inflation trends support the case for additional interest-rate cuts later in 2026. Shelter costs remain sticky, but broad measures of price pressures are moving back toward the Federal Reserve's 2 % target.

Risk Appetite and Market Dynamics

- **Rotation out of the "Magnificent Seven"** – The market's narrow leadership began to fracture in early January. A broadening "great rotation" has seen investors move capital away from mega-cap technology giants into more cyclical and rate-sensitive stocks. Analysts noted that by mid-January the **Nasdaq 100** was range-bound while the **Russell 2000** and **S&P 400 MidCap** indices **surged significantly**, far outperforming large-cap counterparts. Market breadth expanded to pre-pandemic levels, signaling a healthier, more sustainable rally. This shift was driven by a combination of Federal Reserve rate cuts in late 2025 and favorable fiscal incentives that support capital spending, leading investors to reallocate from expensive large-cap growth stocks to undervalued mid-caps. Wall Street analysts dubbed the trend the "Great Rotation."

- **Cyclicals, value and defensive sectors lead** – The rotation has benefitted "quality cyclicals" such as industrial machinery manufacturers and mid-cap electronics companies, as well as **financials and real estate**, which are enjoying improved net-interest margins. Reuters' global markets column observed that the **shift out of high-flying tech stocks gathered more steam**, lifting **cyclical and value shares**. The Russell 2000 is now **outpacing the S&P 500**. This broadening out of market strength has been interpreted as healthy, even though it results in declines for heavyweights like Apple and Microsoft. High-beta indices are at record highs relative to low-volatility indices, underscoring robust risk appetite.

- **Metals, mining and defense stocks** – Commodity-related equities have joined the rally. A Reuters report noted that the **S&P 500 aerospace and defense index reached record highs** after President Trump proposed a larger U.S. military budget, propelling gains in stocks such as Northrop Grumman and Lockheed Martin; Europe's defense index also hit an all-time high. Analysts highlighted that **defense stocks and rare-earth companies are among the plays in 2026**, reflecting the importance of geopolitical tensions. Precious metals, particularly gold and silver, continued to outperform most other commodity categories, benefiting from falling real interest rates and safe-haven demand.

- **International, small-cap and micro-cap equities** – International stocks finished 2025 with a strong rally: European equities gained 3.9 % in December, while emerging-market indexes were lifted by double-digit gains in South Korea and Taiwan, aided by AI-related companies. In the U.S., small-cap and micro-cap stocks have been among the biggest winners of the rotation. Many small-cap indices reached record highs in the second week of January, reflecting investors' search for value and sensitivity to easing financial conditions. Value stocks have moved to a short- and medium-term uptrend relative to growth, reversing much of the dominance of the "Mag 7."

- **Cross-asset correlations** – Stock–bond correlations are positive; equities are outperforming bonds while bond yields remain range-bound. Gold continues to outperform equities, and precious metals are ahead of broad commodity baskets, reinforcing the narrative that investors are hedging macro risk even as they embrace cyclicals. The **U.S. dollar resumed its downtrend**, buoying international assets; Park Avenue's market commentary noted that the dollar fell nearly 9.4 % versus a basket of currencies in 2025. Credit markets have not fully confirmed the risk rally: high-yield bonds have yet to break to new highs relative to Treasuries, and corporate spreads remain slightly elevated. **Bitcoin remains in a negative trend**, consolidating below recent highs and exhibiting a "fear" reading on sentiment gauges. Cryptocurrencies continue to lag traditional risk assets.

Policy and Central Bank Developments

- **Criminal investigation into Jerome Powell** – The Justice Department's investigation into Fed Chair Jerome Powell's testimony about cost overruns on Federal Reserve building renovations has intensified. According to the Associated Press, many Fed watchers believe the investigation is **intended to intimidate Powell into stepping down** when his term as chair ends in May. By remaining on the Board of Governors, Powell could deny the White House a majority and thus preserve central bank independence. Former Fed economist David Wilcox argued that leaving the board would be a "mortal threat" to the Fed's governance structure and that Powell therefore **may view it as his duty to stay through 2028**. The administration has said it hopes to name a new chair soon but acknowledges that the investigation could delay a nomination. The episode has raised concerns about political interference at the Fed and could prompt Powell to **dig in his heels**, maintaining tighter policy independence even as the economy weakens.

- **Policy outlook** – Investors still expect several rate cuts in 2026, but the Fed is likely to hold fire until at least the second quarter. The combination of **slowing inflation**, **deteriorating leading indicators** and **labour market softening** suggests that there is room for more aggressive easing later this year. However, political pressure and uncertainty over Fed leadership may keep policymakers cautious in the near term. President Trump has alternated between criticizing Powell and signaling that he does not plan to fire him despite the investigation. In other countries, the European Central Bank and Bank of England maintained their policy settings at recent meetings, while the Bank of Japan continued its slow normalization—highlighting divergent paths among major central banks.

Markets Summary

- **Equities** – U.S. benchmarks were little changed over the week: the S&P 500 slipped about 0.4 %, the Nasdaq fell 0.7 % and the Dow declined 0.3 %. However, the **small-cap Russell 2000 hit a record closing high and rose more than 2 %** over the week, reflecting the ongoing rotation. Sector leadership broadened, with real estate, consumer staples and industrials among the top gainers, while technology shares lagged. International indices extended their gains, aided by a weaker dollar and fiscal stimulus in Europe and Asia.

- **Fixed income** – Treasury yields traded in a narrow range, with the 10-year yield hovering around 4.2 %. High-yield spreads narrowed modestly, but the **high-yield-to-Treasury ratio** has not yet broken out to confirm the equity rally. Bond funds continued to see inflows, reflecting investors' desire for income and caution about valuations. Corporate issuance remained heavy, putting upward pressure on yields in primary markets.

- **Currencies and commodities** – The dollar index drifted lower as traders priced in slower U.S. growth and further Fed easing. The euro and yen strengthened modestly. Gold hovered just below record highs and silver continued to surge, while copper prices consolidated near their all-time peaks, reinforcing expectations for strong industrial demand. Oil prices were volatile but ended the week little changed, as geopolitical risks were balanced by concerns about oversupply.

- **Crypto** – Bitcoin traded in the mid-$90k range but remained below its late-2025 peak; the crypto fear index stayed in the "fear" zone, signaling cautious sentiment. High-utility tokens outperformed speculative altcoins, but the sector as a whole continues to lag equities.

Outlook

- **Economic trajectory** – The macro backdrop remains one of **slowing yet positive growth**. Industrial production appears to be stabilizing and housing is improving, but retail sales and manufacturing survey data point to softer demand. The labour market is cooling and the Conference Board's leading index is still negative, raising the risk of a **growth scare** in the near term. Nonetheless, fiscal spending and corporate investment in AI and infrastructure should underpin activity later in 2026.

- **Policy risks and opportunities** – The ongoing investigation into Chair Powell could delay leadership transitions and heighten tensions between the Fed and the White House. With inflation receding and the labour market weakening, the **window for aggressive rate cuts** is opening; however, political dynamics may compel the Fed to move cautiously until the leadership question is resolved. Investors should monitor upcoming meetings and communications for signs of a shift.

- **Investment implications** – A broadening equity rally and rotation into value, cyclicals and small-caps suggest opportunities beyond the mega-cap tech names that dominated 2025. At the same time, high valuations and unconfirmed credit signals warrant selective positioning. Real assets such as gold and industrial metals, alongside international equities, may offer diversification benefits as the dollar trends lower. The AI megatrend is expected to remain a key driver of corporate investment and productivity gains, reshaping sector leadership over the next year.

Sources

- **Washington Trust Bank** – *Economic Perspectives: Week Ending Jan 16 2026*. Reports that industrial production rose 0.4 % in December, manufacturing output 0.2 %, and notes existing home sales up 5.1 % and new home sales down 0.1 % but up 18.7 % year-on-year.

- **First Trust Portfolios** – *Monday Morning Outlook (Jan 15 2026)*. Describes industrial production increasing 0.4 % in December; manufacturing ex-autos 0.3 %; high-tech equipment production +0.7 % and up 10.9 % y/y; business equipment production +10 % y/y; utilities +2.6 %, mining −0.7 %; Empire State and Philadelphia Fed indices turned positive. Another First Trust article notes that November retail sales rose 0.6 % but net 0.4 % after revisions, with sales up 3.3 % y/y and core sales up 0.4 %.

- **Bureau of Labor Statistics (BLS)** – *Consumer Price Index (Dec 2025)*. Reports that headline CPI rose 0.3 % month-on-month and 2.7 % year-on-year, and core CPI rose 0.2 % month-on-month and 2.6 % year-on-year.

- **Baker Market Update** – *Fixed Income Market Update (Jan 16 2026)*. Notes that PPI rose 0.2 % month-on-month and 3.0 % year-on-year, and core PPI was flat.

- **NAI 500** – *The Great Rotation of 2026: Investors Pivot to Mid-Caps and Cyclicals (Jan 15 2026)*. Describes capital migration from mega-cap tech to mid-cap and cyclical sectors; explains that the Nasdaq 100 has been range-bound while the Russell 2000 and S&P 400 MidCap indices have surged; market breadth has expanded and valuation gaps have prompted institutional reallocation. Lists winners including industrial, electronics, financial and real estate stocks; notes that the "Magnificent Seven" is losing luster.

- **Reuters** – *Morning Bid: Great stock rotation rolls on (Jan 14 2026)*. Reports that the rotation away from high-flying tech stocks has gathered momentum; cyclical and value shares are benefiting; the Russell 2000 is outpacing the S&P 500; declines in Apple, Meta and Microsoft are seen as healthy broadening. Also notes that President Trump has no plan to fire Powell despite the ongoing investigation.

- **Reuters** – *Global defense stocks advance after Trump calls for higher US military budget (Jan 8 2026)*. Highlights that the S&P 500 aerospace and defense index reached record highs following calls for a higher military budget; U.S. defense stocks surged and Europe's defense index hit all-time highs; analysts suggested that defense stocks and rare-earth companies are the plays in 2026.

- **Park Avenue Securities** – *Monthly Market Commentary – January 2026*. Notes that international stocks led December returns, with Europe up 3.9 % and emerging markets boosted by South Korea and Taiwan; describes rotation from AI-related stocks into financials, materials and industrials following Fed rate cuts; notes that the dollar declined 9.4 % versus a basket of currencies and that increased government spending on aerospace and defense helped international equities.

- **Associated Press (ABC News)** – *Criminal investigation raises key question: Whether Chair Powell leaves Fed in May (Jan 15 2026)*. Explains that the criminal investigation into Powell's testimony could be intended to intimidate him into stepping down; staying would deny the White House a majority on the Board of Governors, preserving Fed independence. Former Fed economist David Wilcox argues that Powell may see it as his duty to remain on the board. The article notes that political pressure could delay the nomination of a new chair and that staying would hinder the administration's ability to rapidly lower rates.

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