



Weekly Market Commentary

February 9, 2026

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Weekly Market Commentary & GRIP Summary – Week Ending February 6, 2026

Overview

The past week reinforced the core thesis we laid out in our 2026 Annual Outlook: the U.S. economy is transitioning from a late-cycle, consumption-driven expansion toward a new, production-led recovery. The GRIP framework continues to highlight a critical divergence—leading indicators are beginning to stabilize and show early signs of improvement, even as coincident indicators, particularly the labor market, continue to weaken.

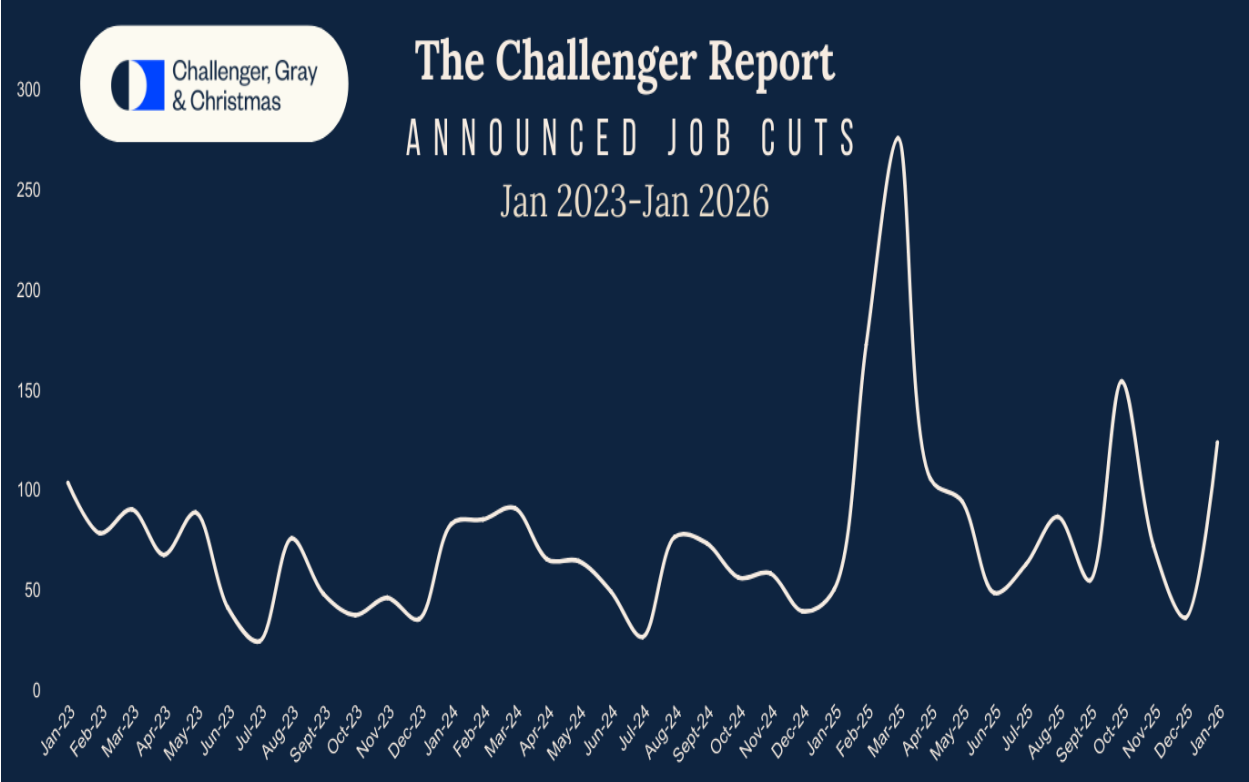
This divergence is not a bug of the cycle; it is the setup.

Growth (G)

Labor market data continued to deteriorate, validating our expectation that coincident indicators would weaken first.

- Job openings continued to break down, extending a trend that has been in place for several months.
- Firings picked up, suggesting businesses are increasingly focused on cost discipline.
- The ADP employment report showed only 22,000 jobs added, reinforcing the narrative that hiring momentum has slowed materially.





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This softening in labor conditions is important. Historically, labor market deterioration has been the trigger for more aggressive policy easing, particularly when inflation is already trending lower.

At the same time, markets are increasingly pricing a reacceleration in real economic activity, driven not by consumption, but by investment in the real economy—energy, infrastructure, manufacturing, and logistics. Leading indicators are deeply depressed, and history suggests that when policy begins to ease into this backdrop; growth tends to rebound sharply later in the cycle.

The big economic surprise last week was the move higher in the ISM Manufacturing PMI. The report showed that manufacturing is no longer in contraction after surging over 9% from the month prior, climbing to a reading of 52.6. This is the first acceleration in over one year. Furthermore, new orders broke out higher to 57.10 showing solid acceleration.



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Risk Appetite (R)

Risk appetite remains constructive but rotating, and this rotation is arguably the most important market signal today.

We are witnessing a clear bifurcation:

What's breaking down

- Software and high-multiple technology stocks continue to get crushed, as markets attempt to price a future where the marginal cost of software trends toward zero.
- This is not dissimilar to prior infrastructure buildouts. Pundits often compare today's AI cycle to the fiber-optic boom and bust—massive speculative runs followed by overcapacity and price compression.
- While this dynamic may eventually apply to chips as well (forcing dominant players to reinvest cash flows aggressively to defend market share), it is already acutely visible in software stock performance.

What's breaking out

At the same time, economically sensitive and valuation-supported areas are surging:

- Equal-weight Industrials, Energy, and Materials all broke out to new all-time highs last week.
- Regional banks surged on a relative basis, gaining 7.21% versus the S&P 500, a classic signal of improving private-sector activity and credit creation.
- Transports (IYT) outperformed even more dramatically, gaining 7.67% versus SPY, reinforcing the message from logistics and freight that real economic throughput is improving.
- Small-cap value (VBR)—historically one of the strongest performers coming out of economic slowdowns—rose 4.04% last week.
- Large-cap value outperformed large-cap growth by more than 6%, marking one of the most decisive style rotations we've seen in years.





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These are not speculative moves. They are classic recovery signals.



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Inflation (I)

The inflation debate is shifting from “Is inflation falling?” to “When does easing policy into a recovery reignite inflation?”

All of the areas currently leading—energy, materials, industrials, regional banks, and small-cap value—are:

- Tied directly to the real economy
- Correlated with rising private-sector investment
- Historically associated with stronger inflationary impulses later in the cycle

Markets are telling us that AI is not just a software story. It is a capital-intensive, energy-hungry, materials-driven transformation of the real economy. That matters enormously for the inflation outlook once growth reaccelerates.

Policy (P)

Policy now sits at the center of the opportunity set.

- The deteriorating labor market is increasingly giving policymakers cover to ease more aggressively.
- Inflation trends have already moved in the right direction.
- The question is no longer if policy eases, but how quickly and how forcefully.

Our hope—and our expectation—is that policymakers will recognize the opportunity to ease into an emerging recovery, rather than waiting for coincident indicators to collapse further. Done correctly, this could provide the fuel for a renaissance in the private sector, a revitalization of the middle class, and a return to the U.S. as a production-focused economy rather than a purely consumption-driven one.

The risk, as always, is that policy moves too slowly—allowing a near-term growth scare to develop before the next expansion phase fully takes hold.



GRIP Summary

- Growth: Coincident indicators (labor) are weakening; leading indicators are deeply depressed and beginning to stabilize—classic late-cycle setup for recovery.
- Risk Appetite: Healthy and broadening, with decisive rotation into value, cyclicals, small caps, and real-economy sectors.
- Inflation: Falling near-term, but longer-term inflation risks are rising as capital-intensive AI investment accelerates.
- Policy: Conditions increasingly justify aggressive easing; execution and timing will determine the strength of the recovery.

Positioning Implications

We continue to believe the market is sending a clear message:

- Value > Growth
- Equal-weight > Cap-weight
- Real assets > Financial assets
- Active strategies > Passive strategies

This is not the end of the cycle.

This is the transition to the next one.



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