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Market Update

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Market Update

The US stock market ended the week with modest losses across major indices, reflecting a choppy session amid mixed earnings reports and rising Treasury yields. The S&P 500 declined 0.38%, or about 26 points, closing at 6,940.01 on Friday. The Dow Jones Industrial Average fell 0.29%, or roughly 143 points, to 49,359.33. The Nasdaq Composite dropped 0.66%, or approximately 155 points, ending at 23,515.39. On Friday alone, the S&P 500 slipped 0.06%, the Dow lost 0.17%, and the Nasdaq fell 0.06%, as investors digested comments from President Trump and early earnings from banks.

Sector performance was mixed, with small caps outperforming; the Russell 2000 rose about 2% for the week, indicating a rotation away from mega-cap tech. The S&P 500 Equal Weight Index gained approximately 0.80%, further evidencing broadening market participation. Technology and communication services underperformed, while utilities, financials, and industrials saw gains on Thursday before Friday's pullback.

Trading volume was elevated, with about 19.12 billion shares exchanged on Thursday, above the 20-session average of 16.81 billion. Advancers outnumbered decliners on the NYSE by a 1.92-to-1 ratio on Thursday. The CBOE Volatility Index (VIX) decreased 5.43% to 15.84 on Thursday, signaling reduced fear but still reflecting caution. Key drivers included uncertainty over Federal Reserve leadership, with Kevin Warsh emerging as a potential chair, pushing the 10-year Treasury yield to 4.23%, its highest since September. Early Q4 earnings from big banks met high expectations but led to some pullbacks.

Expectations for This Week (January 20-23, 2026)

With markets closed on January 19 for Martin Luther King Jr. Day, this holiday-shortened week begins on Tuesday, January 20. Futures indicated downward pressure early Monday, with S&P 500 futures down about 1%, amid new tariff threats from President Trump on European countries related to Greenland negotiations. However, the outlook remains cautious but constructive, with focus on accelerating earnings season and key economic data.

Earnings reports ramp up, including Netflix, Johnson & Johnson, Visa, and Intel, which could sway sentiment. FactSet estimates 12-15% year-over-year EPS growth for Q4 2025, potentially supporting gains if met. Economic releases include the PCE prices report, which could influence Fed rate cut expectations. Markets price in gradual Fed cuts, but persistent inflation or labor weakness may alter this.

From a technical perspective, the rotation into small caps and equal-weight indices suggests broadening, but overbought conditions in the Russell 2000 (RSI at 73) could lead to consolidation. Overall, expectations lean neutral to slightly bearish, with potential for choppy trading or mild pullbacks unless earnings exceed forecasts. Strong AI-driven sectors may provide support, but tariff risks could cap upside.

Issues Expected to Influence Market Performance in the Near Term

Several factors are poised to impact the US stock market in the coming weeks and months, potentially leading to increased volatility amid a resilient but polarized economic backdrop.

- Trade Tensions and Tariffs: Ongoing "Liberation Day" tariffs, including a 10% blanket on imports and new threats against European nations, could raise inflation and disrupt supply chains. Legal challenges may reverse some measures, but uncertainty could spike Treasury yields and pressure consumer spending.
- Federal Reserve Policy and Independence: With Jerome Powell's term ending in May, potential replacements like Kevin Warsh raise concerns over Fed autonomy. Expectations for one more 25-basis-point cut in 2026 could shift if inflation rises to mid-3%, influenced by tariffs and housing costs.
- AI Spending and Earnings Growth: Robust AI investment could drive 12-15% earnings growth in 2026, supporting equities, but concerns over an "AI bubble" or delayed returns pose risks. Market concentration in AI vs. non-AI sectors may lead to polarization.
- Economic Growth and Labor Market: GDP is forecasted to accelerate to 2.1-2.5% in 2026 via fiscal stimulus, but softening jobs (e.g., November's 64,000 additions) and potential recession risks (tied to geopolitics) could weigh in.
- Geopolitical and Fiscal Risks: Conflicts in Europe/Ukraine, potential government shutdowns, and rising deficits (estimated $601 billion Q1 2026) add uncertainty. Populism-driven policies may boost short-term growth but heighten long-term inflation.

These issues suggest a constructive yet volatile environment, with AI and earnings as tailwinds but policy uncertainties as headwinds.

Conclusion

Last week's modest declines reflect caution amid earnings and yield rises, setting a neutral tone for this shortened week. While strong fundamentals and AI momentum may drive rebounds, near-term risks from tariffs, Fed changes, and data releases could sustain volatility. Investors should focus on diversification, monitoring earnings and policy developments closely.

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