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Aptus January 2026 3-Pointers Highlights

Market Overview

January was characterized by a significant amount of "noise" and headlines that created a sense of volatility, yet the S&P 500 finished the month up 1.5%. A notable shift in market breadth occurred as small caps outperformed large caps for the first 15 trading days of the year, a phenomenon not seen since 1996. Sector-level changes were also visible; while semiconductors continued to lead software, the gains broadened beyond the most dominant names like NVIDIA and Broadcom to include companies like Micron and Intel. Furthermore, international markets and Emerging Markets (EM) showed strength driven by earnings growth rather than just currency devaluation, suggesting that many of the winning themes from 2025 are persisting into 2026

Currency, Policy Friction, and the New Fed Chair

The nomination of Kevin Warsh as the new Fed Chair introduced a fresh layer of market uncertainty due to his historical skepticism of Quantitative Easing and his calls for a "regime change" at the Federal Reserve. Although historically viewed as a hawk, Warsh has recently advocated for lower interest rates and a more aggressive reduction of the Fed's balance sheet. Meanwhile, the U.S. dollar has entered a modest weakening cycle, which historically provides a 2% to 3% boost to S&P 500 earnings for every 10% drop in value. The S&P 500 remains naturally hedged against these currency shifts, as approximately 42% of its revenue is derived from international geographic regions.

Consumer Strength and Economic Momentum

Consumer spending continues to trend higher, supported by rising real wages, asset-driven wealth effects, and strong balance sheets. While savings rates have declined, higher asset returns and income growth are sustaining demand. Consumer resilience remains a key pillar supporting earnings and economic stability.

Volatility, Midterm Dynamics, and Risk Management

Midterm election years historically bring higher volatility and larger drawdowns, though not necessarily weaker returns. With the Fed entering a cutting cycle and no recession signals present, market structure favors long-term opportunity over short-term fear. Volatility is expected but viewed as a tool for active allocation rather than a risk to avoid.

Looking Ahead

It is difficult to be bearish as long as earnings and consumer spending remain robust. January's extreme volatility in precious metals, with gold and silver experiencing massive intraday drops of 15% and 30%, respectively, highlights the importance of sticking to a disciplined allocation process rather than chasing "consensus" tilts or asset classes driven purely by sentiment. Moving forward, the focus remains on high-quality earnings and structural productivity as the dominant forces shaping the market's trajectory.

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