The Weekly Market Update – 1/12/26: Small Caps and Cyclicals Lead Market to New Highs

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	6,966.28	1.57%	1.76%	1.76%	18.44%	6,966.28	0.0%
Dow Jones Industrial Average	49,504.07	2.32%	3.00%	3.00%	16.36%	49,504.07	0.0%
NASDAQ Composite	23,671.35	1.88%	1.85%	1.85%	22.58%	23,958.47	1.2%
Russell 2000	2,624.22	4.62%	5.73%	5.73%	17.67%	2,624.22	0.0%
MSCI EAFE (USD)	2,951.15	1.41%	2.02%	2.02%	30.48%	2,960.98	0.3%
MSCI Emerging Markets (USD)	1,452.35	1.60%	3.42%	3.42%	35.04%	1,467.16	1.0%
Bloomberg Commodity Index	112.13	2.39%	2.22%	2.22%	13.53%	237.95	112.2%
Barclays U.S. Aggregate Bond	94.10	0.31%	0.02%	0.02%	4.05%	112.07	19.1%

Source: FactSet

Just one week into 2026, an equity rally led by the Russell 2000 (small-company stocks) and Russell 1000 Value (large-company value stocks) took those indices, along with the S&P 500, to new all-time closing highs. The Russell 2000 increased +4.6% the first full week of 2026 (as of 1/9/26), the index's second-best calendar week performance since November 2024. Including prior week gains on 1/2/26, the Russell 2000 has rallied +5.7% in January (month-to-date, MTD). The strong start to the year was not limited to small-company stocks as the MTD increase for the Russell 1000 Value index was +3.4% and the S&P 500 gained +1.6%. Cyclical sectors have led gains for the S&P 500 with Materials up +6.4%, and Industrials, Energy, and Consumer Discretionary each up more than +4.0% MTD. We attribute gains in small caps and cyclicals to economic optimism and investor sentiment that considers the potential for market leadership to rotate into a wider group of sectors and companies. Consumer spending trends were boosted by strong 2025 holiday spending (Visa data) and expectations for an early 2026 lift from tax refunds tied to the 2025 budget bill. The outlook for business investment remains elevated as well, not only in support of artificial intelligence projects and data centers, but also other projects that can benefit from favorable depreciation incentives. Technology and growth stocks have underperformed MTD (Russell 1000 Growth index up +0.6% and S&P 500 Technology sector up +0.1% in January) but were modestly positive. Because Technology comprises nearly 34% of the weighting of the S&P 500, it raises questions whether the index can reach new heights absent leadership from its largest sector. To begin 2026, the answer is "yes", but clearly, we are barely one week in. While broad sector gains remain our call for the full-year 2026, we also acknowledge that fourth quarter (4Q25) earnings reports, which will begin in mid-January, are expected to reflect strong year-over-year (Y/Y) growth from growth sectors, especially Technology. This could support a rebound and more gains ahead for the tech sector.

The outlook for 4Q25 U.S. economic growth looks good following solid inputs in the Federal Reserve Bank of Atlanta's GDPNow model. U.S. economic growth is reported by the Bureau of Economic Analysis and reflects inflation-adjusted gross domestic product, or GDP. Although the 3Q25 GDP report was delayed, when reported in December, it reflected better-than-expected growth of +4.3%, attributed to upside in exports and consumer spending. The 4Q25 GDP report is due on 1/29/26 and the FactSet consensus estimate is just +1.0% as economists incorporate headwinds created by the 6-week government shutdown (October to mid-November). But the GDPNow estimate, most recently updated on 1/9/26, pointed to 4Q25 growth of +5.1%. The Atlanta Fed model shows the running GDP trend using only reported data and does not estimate pending data (at this point, most December data remains pending). Upside to GDPNow data through October/November was attributed to consumer spending (adding +210 basis points, bp, to GDP) and net exports (adding +200 bp). We don't expect +5.0% 4Q25 GDP to hold but see upside to the +1.0% consensus estimate.

Political uncertainty remains a wildcard for markets. Financial markets have largely shrugged off recent actions and commentary tied to the Trump Administration that could be disruptive. Over the weekend, it was reported that the Department of Justice has issued subpoenas to the Fedal Reserve Bank to probe cost overruns tied to its headquarters renovation. The timing is curious ahead of the nomination of a new Fed Chair expected in 1Q26. In addition, there remains uncertainty regarding the U.S. presence in Venezuela, and President Trump has threatened to set limits on credit card interest rates and corporate homebuyers.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The S&P 500 index change (price returns not including dividends) by quarter in 2025 was: 1Q25: -4.6%, 2Q25: +10.6%, 3Q25: +7.8%, 4Q25: +2.4%. The full-year price return for 2025 was +16.4%.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities. Growth sectors are those that generally drive expected annual sales and earnings growth that exceed market and sector average. Value stocks will typically trade at valuation levels below peer group averages. Cyclical sectors tend to be more economically sensitive, with more volatility in sales and earnings growth when the economy is either decelerating or accelerating.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data on a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov. Major components of GDP include personal consumption expenditures, non-residential fixed investment, residential investment, government expenditures and adjustments for inventories and net exports (imports). Non-Residential Fixed Investment includes several subcategories including software and information processing equipment that measure investment in technology. Imports of goods and services are subtracted from GDP data (products are not produced or performed in the U.S) while exports are added to GDP. On 12/23/25 the BEA reported that 3Q25 GDP increased +4.3% annualized from the previous quarter. This was inflation-adjusted, or "real GDP." The 12/23/25 GDP report is linked here.

The U.S. Constitution states that money drawn from the U.S. Treasury must be from appropriations signed by law. Congress has created 12 appropriation committees to approve annual spending in 12 spending categories. Spending bills require a majority vote in the U.S. House of Representatives, and 60 votes in the U.S. Senate, and then a signature from the President. Bills can be combined into an omnibus bill, or funding can be extended through a continuing resolution. On 11/12/25, Congress approved a continuing resolution that ended the budget shutdown after six weeks.

Generative Artificial Intelligence (GenAI): We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem solving and decision making. While still predictive models, generative AI can give detailed responses, much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all new data can be trained into the system, creating new challenges and opportunities.

The Federal Reserve Bank of Atlanta publishes a current quarter U.S. economic growth, to track real (inflation adjusted) gross domestic product, or GDP. GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow – the estimate is based solely on the mathematical results of the model. The most recent GDPNow update for 4Q25 GDP reflected growth tracking at +5.1% (as of 1/9/26) and is one source of our commentary about recent U.S. economic data exceeding expectations.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

In July 2025, the U.S. Congress passed the One Big Beautiful Bill Act and it was signed by the President. A summary of the Bill's provision was published by the Tax Foundation. Our discussion about pro-growth business investment incentives tied immediate deduction for capital investment projects and less restrictive limitations on interest deductions and makes permanent Section 179 expensing for small business. The bill provided tax relief for low income earners for wages or income tied to tips, overtime and social security payments. The Internal Revenue Service did not adjust withholding tables for these tax breaks that were retroactive to the beginning of 2025. This is likely to be adjusted on individual tax returns, leading to a year-over-year increase in refunds.

Digital payments leader Visa publishes retail spending data captured from its payment network. On 12/23/25, Visa published a retail holiday spending release indicating that U.S. sales increased +4.2% year-over-year.

When we discuss "growth stocks", we are referring to companies that generate expected earnings growth (over a multi-year period) that is above expected earnings growth for the overall market (typically the S&P 500 index). The largest sector weights (by market capitalization) in the Russell 1000 Growth index (as of 9/30/25) were Information Technology, Consumer Discretionary, and Communication Services. "Value" stocks are characterized by companies that trade at discounted valuations to an index, sector, and/or a peer group. The largest sector weights in the Russell 1000 Value index (as of 9/30/25) were Financials, Industrials, and Health Care. Cyclical stocks and sectors are considered to be more closely correlated with overall economic growth, with stronger than average earnings growth potential during an expansionary economy.