



The Weekly Market Update – 1/26/26: We Expect the Fed to Stand Pat

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	6,915.61	-0.35%	1.02%	1.02%	17.58%	6,977.27	0.9%
Dow Jones Industrial Average	49,098.71	-0.53%	2.15%	2.15%	15.41%	49,590.20	1.0%
NASDAQ Composite	23,501.24	-0.06%	1.12%	1.12%	21.70%	23,958.47	1.9%
Russell 2000	2,669.16	-0.32%	7.54%	7.54%	19.68%	2,718.77	1.9%
MSCI EAFE (USD)	2,995.99	0.13%	3.57%	3.57%	32.46%	2,995.99	0.0%
MSCI Emerging Markets (USD)	1,501.11	1.09%	6.89%	6.89%	39.58%	1,501.11	0.0%
Bloomberg Commodity Index	119.58	5.27%	9.02%	9.02%	21.08%	237.95	99.0%
Barclays U.S. Aggregate Bond	93.95	0.04%	-0.13%	-0.13%	3.90%	112.07	19.3%

Source: FactSet

We expect the U.S. Federal Reserve Bank (Fed) to leave its short-term fed funds interest rate target unchanged when it holds its first 2026 monetary policy meeting on 1/28/26. After the Fed's previous meeting in December 2025 (which included a -0.25% rate reduction for the 3rd consecutive meeting), Fed Chair Jerome Powell set market expectations for a pause in future changes in interest rate policy. Chair Powell said that the Fed believes the current fed funds target range of 3.50% to 3.75% is within the Fed's "broad range of neutral." This was a departure from the Fed's position since the start of the current interest rate reduction cycle, which maintained that fed funds rates remained restrictive (a level of rates that limits economic activity and suppresses inflation). Since September 2024, the Fed has cut the fed funds target by a total of 175 basis points. A neutral level is theoretically neither accommodative (stimulates economic activity) nor restrictive. In December 2025, the Fed acknowledged a challenging policy environment as inflation risks tilted to the upside (requiring higher interest rates), while employment risks tilted to the downside (addressed with lower rates). Fourth quarter inflation data (as measured by the consumer price index) moderated with December 2025 CPI up +2.7% year-over-year (Y/Y) vs +3.0% Y/Y in September. Similarly, month-to-month (M/M) December CPI was up +0.2%, which is a modest +2.4% annualized. At the same time, employment growth (nonfarm payrolls from the Bureau of Labor Statistics) moderated in November and December. A combination of lower inflation and weakening jobs growth could support more rate cuts, but U.S. economic growth (as measured by gross domestic product, or GDP) appears healthy (third quarter 2025 GDP growth was +4.4% annualized and fourth quarter 2025 estimates have moved higher). We don't see the Fed cutting rates in early 2026 if GDP growth accelerates and thus expect no change on 1/28.

Political uncertainty at the Fed remains elevated but does not change the outlook for future policy moves, in our view. Since the last Fed meeting on 12/10/25, U.S. Treasury yields (TY) have moved modestly higher. The U.S. 10-year TY was 4.22% on 1/23/26, up from 4.14% on 12/10/25, and the 2-year TY moved to 3.60% from 3.53%. We attribute the increase to market expectations that the Fed will pause rate cuts for at least a couple of meetings but this increase could also be a response to political uncertainty on several Fed-targeted actions. Most importantly, President Trump is expected to nominate a new Fed Chair, perhaps by the end of January (for a term that begins in May), and a handful of candidates remain. Potential front runners include Blackrock CIO Rick Reider and former Fed Board member Kevin Warsh. Both are well regarded by financial markets, in our view, and supportive of continued Fed independence. Jerome Powell has not confirmed his future plans as the term allows remaining on the Fed Board for two more years. President Trump has made it clear that he will pressure the Fed to lower fed funds targets, but in our view, even a newly constructed Fed will require sustained progress on inflation to implement more cuts in 2026.

Investors await a full week of earnings reports and Friday's much anticipated 4Q25 GDP report has been delayed. With 103 S&P 500 companies scheduled to report 4Q25 financial results this week, we will have good data to assess if Y/Y earnings growth is on track to exceed the +8.1% FactSet consensus estimate. The Bureau of Economic Analysis has delayed the first estimate of 4Q25 GDP to 2/20/26, a one-month delay attributed to the government shutdown in October/November 2025. While the current FactSet consensus estimate shows expectations that quarterly GDP increased +1.2% annualized, we believe that markets are pricing in a stronger number, primarily due to consumer spending data in October and November that exceeded estimates.

James D. Ragan, CFA
Co-CIO, Director of Investment Management & Research
(206) 389-4070
jragan@dadco.com

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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 1/22/26 the BEA reported that 3Q25 GDP increased +4.3% annualized from the previous quarter. This was inflation-adjusted, or "real GDP." The [1/22/26 GDP report is linked here](#). The BEA also reports month income and spending data in a [Personal Income and Outlays](#) report. Consumer spending (personal consumption expenditures) data for October and November (representing 4Q25 data) reflected solid month-to-month growth, fueling optimism for 4Q25 GDP that could exceed estimates.

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.

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 1Q25 reported S&P 500 earnings growth was +12.9% (consensus estimate was +6.5%), 2Q25 earnings growth was +12.1% (estimate +4.9%) and 3Q25 earnings growth was +13.6% (+7.6% estimate).

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component

of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work. According to BLS data released on 1/9/26, U.S. nonfarm payrolls in November 2025 and December 2025 increased +56 thousand and +50 thousand, respectively.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The most recent [FOMC meeting concluded 12/10/25](#).

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.