What's on Our Minds

January 12, 2026

MARKET HIGHLIGHTS

- **Employment reports released last week continue to reveal a low-hiring and low-firing mentality** among employers who appear to be struggling with a mismatch between available skills and the demands of producers and service providers in an increasingly knowledge-based economy.
- **Current labor market dynamics are best summarized in the Bureau of Labor Statistics (BLS) December nonfarm payrolls report,** which showed an increase of 50,000 jobs while the previous two months were revised down by 68,000 jobs. This level of jobs growth can best be described as anemic, but it is still growth. With labor force participation declining slightly month over month, the unemployment rate declined to 4.4% from 4.6% in November.
- **Third-quarter productivity was up a stunning 4.9% according to the BLS,** with second-quarter data revised up to 4.1%. Although these figures can be volatile and subject to meaningful revision, unit labor costs are up only 1.2% year over year, which best explains how the U.S. economy can grow meaningfully above its long-run trend growth rate without stoking rampant cost-push inflation.

MARKET PERFORMANCE

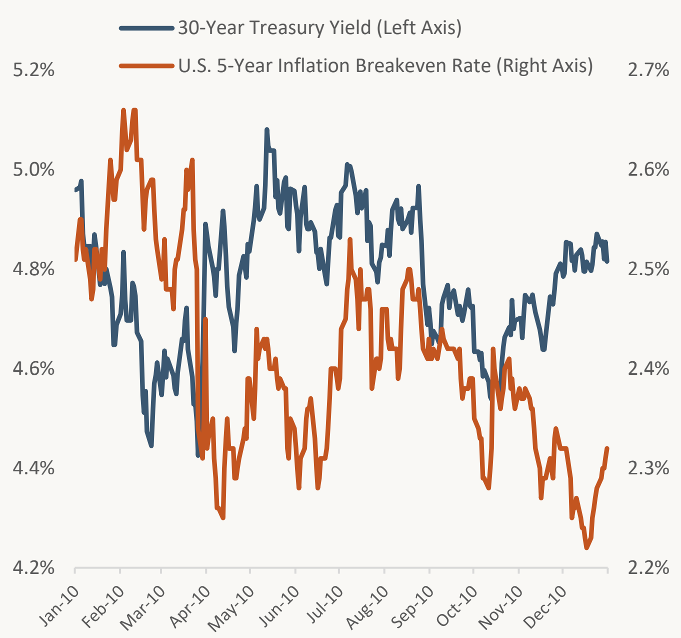
ASSET CLASS	1-WEEK	YTD
U.S. Aggregate Bond (Agg)	0.35%	0.15%
Municipal Bonds 1-10Y	0.60%	0.66%
U.S. High Yield	0.40%	0.40%
S&P 500	1.58%	1.80%
Russell 2500 (SMID cap)	4.04%	5.47%
MSCI EAFE (International)	1.42%	2.03%
MSCI Emerging Markets	1.61%	3.44%
MSCI ACWI (Global)	1.50%	2.01%
Crude Oil (NYMEX WTI)	1.72%	3.21%
Gold LBMA PM	0.84%	2.89%
60/40 ACWI/Agg Portfolio	1.04%	1.27%

WHAT CAUGHT OUR EYES THIS WEEK

Fed Pressure Hits a Fever Pitch

A new front has opened in the battle between the White House and the Federal Reserve (Fed). Fed Chair Jerome Powell announced over the weekend that he had been subpoenaed by the U.S. Department of Justice in a criminal investigation over testimony to the Senate Banking Committee in June about ongoing renovations to Fed buildings. Powell made a rare but forceful public statement, rebuking the action and drawing a direct line to the president's frustration at the Fed's cautious approach to easing monetary policy. At the same time, the legality of President Trump's attempt to fire Fed Governor Lisa Cook remains with the Supreme Court, and Trump's nominee for Fed Chair could come any day. If investors get a sense that the Fed (in whatever form it ends up taking) now operates at the behest of the White House, we could see that reflected in markets through higher inflation expectations and long-term Treasury yields, a lower U.S. dollar, and a renewed bid for "debasement trades" like gold and bitcoin.

Market Release Valves for a Compromised Fed



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OUR CURRENT OUTLOOK

- **The U.S. economy is resilient,** but softer labor markets translate into slower (albeit still positive) trends for consumer spending.
- **Our current expectations of a recession in the next 12 months are moderately low.**
- The One Big Beautiful Bill Act can **offset some of the negative impacts of tariffs on consumers and businesses**, with benefits accelerating in 2026**.**
- **The Federal Reserve is still looking to cut interest rates**. We expect one or two cuts for 2026.
- **We expect S&P 500 profits to continue with their momentum from 2025,** growing in the low to mid-teens again in 2026.
- **AI capital spending, driven by the hyperscalers, should continue to boost the U.S. economy,** fueling productivity gains and infrastructure growth.
- **Potential risks to our outlook include** disappointments in return on investment for AI spending, growing signs of speculative excess in certain pockets of equity markets, continued geopolitical uncertainty, and further deterioration in foreign sentiment for U.S. dollar assets.

IN CASE YOU MISSED IT

INSIGHTS

Establishing Sound Retirement Plan Governance

2026 Economic and Market Outlook

Retirement Planning for Single Women: How to Prepare

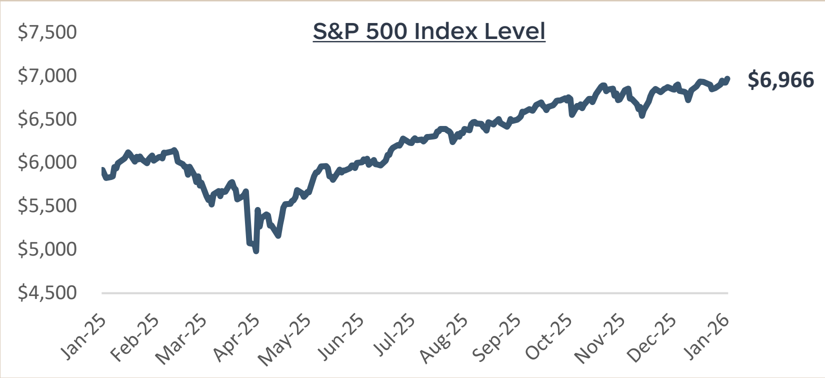
ARCHIVE

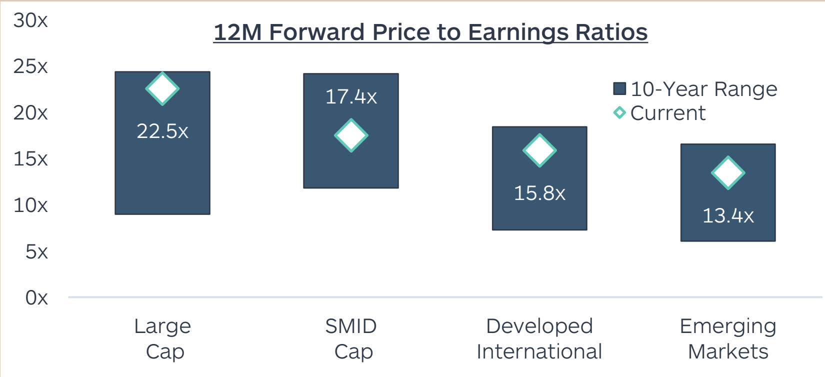
Historical Economic and Market Outlooks Insights

WEBINARS

Recording: Q4 2025 Market & Economic Outlook

EQUITIES





S&P 500 SECTOR	1-WEEK	YTD
Consumer Discretionary	5.8%	4.6%
Materials	4.8%	6.5%
Industrials	2.5%	4.4%
Comm. Services	2.4%	2.0%
Consumer Staples	2.1%	2.0%
Energy	2.1%	4.3%
Financials	1.4%	1.8%
Health Care	1.1%	1.6%
Real Estate	0.4%	0.5%
Information Technology	0.0%	0.1%
Utilities	-1.6%	-0.4%

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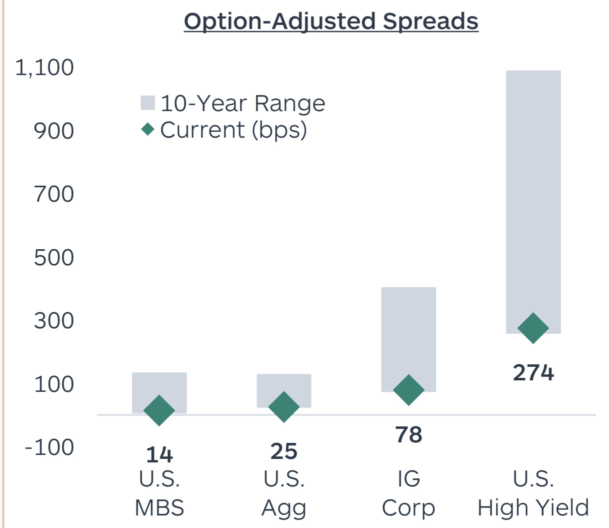
FIXED INCOME

KEY INTEREST RATES	1/9/26	Δ YTD
Municipal Bonds 1-10Y	2.83%	-0.14%
3M T-Bill	3.59%	-0.04%
Effective Federal Funds Rate	3.64%	0.00%
10Y Treasury Yield	4.17%	0.00%
U.S. Aggregate	4.33%	0.01%
30Y Mortgage Rate	6.33%	0.08%
Prime Rate	6.75%	0.00%
U.S. High Yield	7.02%	-0.06%



COMMODITIES, CURRENCIES, CRYPTO

Asset Class	1/9/2026
Crude Oil	$59.10
Gold	$4,493.85
U.S. Dollar Index	$99.13
Bitcoin	$90,405.00

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THE WEEK AHEAD

Jan. 12 (Mon)	Jan. 13 (Tue)	Jan. 14 (Wed)	Jan. 15 (Thu)	Jan. 16 (Fri)	Coming Up
	CPI	PPI	Initial Claims	Industrial Production	January FOMC Meeting (1/27–1/28)
	New Home Sales	Existing Home Sales	Retail Sales		Q4 GDP (1/29)
	NFIB Small Business Index		Import & Export Prices		January Employment Report (2/6)

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ABBREVIATIONS: Agg: Aggregate. EM: Emerging Markets. SOFR: Secured Overnight Financing Rate. MBS: Mortgage-backed securities. IG: Investment Grade.

CHART OF THE WEEK: Cerity Partners, FactSet, 1/12/2026.

MARKET PERFORMANCE: All returns represent total return for the stated period. 1-Week and Year-to-Date (YTD) returns are as of 1/9/26. Underlying indices are in descending order: Bloomberg US Aggregate provided by Bloomberg Capital; Bloomberg Municipal Bond 10 Yr provided by Bloomberg Capital; ICE BofA US High Yield Index provided by Bloomberg Capital; S&P 500; provided by: Standard & Poor's. Index; Russell 2500; provided by: Russell Investments; MSCI Europe, Australasia, and the Far East (EAFE) provided by MSCI net official pricing; MSCI EM provided by MSCI net official pricing; MSCI All Country World Index (ACWI) provided by MSCI net official pricing; Crude Oil (WTI) provided by CME; LBMA Gold Price PM provided by FactSet. The 60/40 ACWI/Agg Portfolio (60% ACWI / 40% AGG) is not a recommendation and is provided for reference purposes only.

EQUITIES: Top Left-hand Chart. S&P 500 Index Level as of 1/9/26 and provided by Standard & Poor's. Bottom Left-hand Chart. Forward Price to Earnings Ratios refers to the price-to-earnings ratio for the forward 12 months, which is a valuation measure applied to respective broad equity indices as of 1/9/26. Large Cap data is proxied with the S&P 500 and provided by FactSet. SMID data is proxied by the Russell 2500 and provided by FactSet. Developed International data is proxied with the MSCI EAFE and provided by FactSet. Emerging Markets data is proxied by the MSCI EM and provided by FactSet. S&P 500 Sector performance table. Sectors are based on the GICS methodology. Return data are calculated by FactSet using constituents and weights as provided by Standard & Poor's. Returns are cumulative total return for stated period, including reinvestment of dividends. 1-Week and Year-to-Date (YTD) returns are as of 1/9/26.

FIXED INCOME: Top Table. Effective Federal Funds Rate provided by FactSet. Composite Municipal Bond Yield provided by FactSet. Bloomberg US Aggregate provided by FactSet. 3-Month Treasury Bill rate provided by FactSet. 10-Year Treasury Yield provided by FactSet. 30-Year Mortgage Rate provided by FactSet. ICE BofA US High Yield Index provided by FactSet. Prime Rate provided by FactSet. Bottom Table. Option Adjusted Spreads as of 1/9/26. Bloomberg US Aggregate Securitized – MBS, Bloomberg US Aggregate, ICE BofA US Corporate, ICE BofA US High Yield data provided by Bloomberg Capital.

COMMODITIES, CURRENCIES, CRYPTO: WTI NYMEX Crude Oil provided by FactSet. Gold is proxied with the LBMA Gold PM and provided by FactSet. Bitcoin is proxied by the Bitcoin (CME) Continuous index and provided by FactSet. U.S Dollar prices are proxied with the U.S. Dollar Index and provided by FactSet.

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