

Key Takeaways:

- Addressing the market swings seen year to date.
- Further evidence of soft labor market.
- AI spending punishing stock prices.
- Fears that Warsh will disrupt credit demand.
- Unwinding momentum trades can be painful.

Key Takeaways from Rocky Start to 2026

After a strong finish to 2025, this year has left equities struggling to find a consistent direction. Investors have been whipsawed (up and down) on a daily and intraday basis. Volatility as measured by the VIX Index hit a three month high and investors have seen a reversal in several of the most favored positions (e.g., tech, bitcoin). In this weekly insights, we offer several reasons for the volatility we have experienced year to date.

- **Signs of soft labor demand:** The December JOLTS report showed job openings at the lowest since 2020. As a result, the number of Americans that are unemployed exceeds the number of job postings by the most since 2021. In addition, the Challenger, Gray & Christmas report showed that January layoffs rose 118% (YoY), the worst January since 2009.
- **Capex spending being punished.** In 2025, companies were rewarded for their AI spending. However, with valuations at multi-decade highs, investors are concerned about the excessive spending. Amazon and Google both saw their shares fall sharply last week after announcing ~\$200 billion in spending this year.

- **Rotation growing stronger:** The rotation away from big cap tech has accelerated. The S&P 500 Equal Cap Weighted Index is outperforming the S&P 500 Market Cap Weighted Index by 425 bps year to date. In addition, the Russell 3000 Value Index is outperforming the Russell 3000 Growth Index by 514 bps.
- **Seasonality a factor.** History may not tell the entire picture about market performance. However, since 1945, February has been the second worst month of the calendar year for the S&P 500 (behind September) and has only been positive ~50% of the time.
- **Midterm angst.** Midterm election years have not been easy for investors. Since 1945, the average maximum drawdown in a midterm election year has been 18%. In addition, the average annual return has been much less than (4%) the return in years that do not hold a midterm election (11%).
- **Fed fears.** Equities have viewed Trump's nominee for the next Fed Chair (Kevin Warsh) as a hawk. Warsh also served as a Fed

Governor during the Great Financial Crisis and has been critical of the expansion of the Fed's balance sheet. The fear that he will move to aggressively reduce the balance sheet has caused a widening of credit spreads, a drop in leverage loans and has raised questions around the trillion dollar private credit market.

The Bottom Line:

Investors are seeing how overpaying for momentum and euphoric trades can painfully unwind and disrupt broad market sentiment. Even those investments that are viewed as safe havens can sharply deteriorate when trades become crowded. Especially when leverage amplifies price movements (e.g., silver, gold). Discipline is crucial in the current investment environment. Valuations are stretched across a variety of investments and we expect further unwind and volatility this year (e.g., credit, tech, bitcoin, metals). It is important to have liquidity to take advantage of long term opportunities as they arise.

Weekly Economic Recap –

Economic activity accelerates but labor demand weakens

The ISM Manufacturing Index saw the biggest monthly jump since June 2020 and in January entered expansion territory (level above 50) for the first time in 11 months. Every component of the Index rose except customer inventories. The largest increase was seen in new orders which rose to the highest level since February 2022.

According to ADP, private payrolls were weaker than expected in January (+22K vs. +45K estimate). The jobs that were added were focused in the service producing sector.

The ISM Services Index was relatively unchanged in January (from December) but remained in expansion territory for the 19th consecutive month. The biggest increase came in delivery times, broad business activity and prices paid. However, orders (both new and export) were weak.

According to the JOLTS report, job openings in December fell to the lowest level since September 2022. As a result, the number of unemployed Americans is exceeding the number of job postings by the most since 2021. The quits rate, those leaving their job voluntarily, remained unchanged at 2.0%. The drop in openings was largely due to the professional and business services sector.

The preliminary reading on the University of Michigan Consumer Sentiment Index showed that consumer confidence rose to a six month high in February. However, it was completely due to consumers being more confident on current economic conditions as the expectations component fell. The rise was attributed to higher stock prices which drove consumer's view on their current financial situation.

Key Takeaways:

- Manufacturing and service activity rise in January.
- Soft labor demand.
- Stocks help boost consumer sentiment.
- Global equities fall led by U.S.
- Credit hampered by risk off sentiment.
- Commodities drop sharply as gold and silver recover.

Weekly Market Recap –

Global Equities Drop as U.S. Tech Struggles

Equities: The MSCI AC World Index fell modestly last week as a rotation out of U.S. technology accelerated. In addition, emerging markets declined as commodity prices retreated and broad risk appetite was hampered. Within the U.S., the weakness was led by large cap growth and technology. In fact, the Nasdaq has declined for five of the six weeks year to date. Small and midcap stocks rose as the rotation out of tech continued.

Fixed Income: The Bloomberg Aggregate Index rose for the third consecutive week as bonds took over as a safe haven while gold and silver plummeted. Every sector in fixed income rallied with the exception of leverage loans. Safety outperformed risk in credit as investment grade bonds outperformed high yield bonds.

Commodities/FX: The Bloomberg Commodity Index declined for the first time in five weeks due to volatility in the metals market and a steep drop in crude oil. Gold and silver saw intense volatility, with silver prices dropping nearly 20% in a single day last week. Both precious metals recovered to end the week in positive territory.

Lowest Level of Job Openings Seen Since Pandemic



Footnotes: Data is as of December 2025.
Data Source: Bloomberg Finance LP, Verdenca Capital Advisors.

Global Equities Drop as U.S. Tech Continues to Decline

		Current	1WK	1MO	3MO	1YR	YTD			Current	1WK	1MO	3MO	1YR	YTD
U.S. Equities	Dow Jones Industrial Average	50,116	2.5%	1.4%	7.3%	13.9%	4.3%	International Equities	MSCI AC World (USD)	1,043	-0.1%	0.8%	5.4%	20.8%	2.8%
	S&P 500	6,932	-0.1%	-0.1%	3.5%	15.4%	1.3%		MSCI EAFE (USD)	3,058	0.5%	3.3%	10.1%	30.9%	5.8%
	Russell 1000 Growth	4,599	-2.0%	-4.0%	-3.1%	11.2%	-3.4%		MSCI Europe ex UK (USD)	3,404	0.2%	2.7%	11.1%	30.5%	4.4%
	Russell 1000 Value	2,210	2.2%	3.8%	11.2%	17.8%	6.8%		MSCI Japan (USD)	5,210	1.8%	4.1%	8.5%	32.2%	8.5%
	Russell 2500	4,651	3.0%	3.6%	12.1%	16.3%	8.1%		MSCI UK (USD)	1,679	0.7%	3.4%	11.3%	35.3%	5.9%
	Russell 2000	2,670	2.2%	3.5%	10.8%	17.3%	7.7%		MSCI EM (USD)	1,506	-1.4%	2.7%	8.5%	39.7%	7.3%
	Nasdaq	23,031	-1.8%	-2.2%	0.1%	17.2%	-0.9%		MSCI Asia ex Japan (USD)	969	-1.9%	1.2%	6.4%	38.5%	6.1%
Fixed Income	U.S. Aggregate	4.3%	0.3%	0.4%	0.8%	6.4%	0.4%	Commodities	Bloomberg Commodity Index	298	-2.2%	5.0%	11.2%	17.8%	7.9%
	U.S. Govt/Credit	4.2%	0.3%	0.3%	0.6%	5.9%	0.3%		Crude Oil (USD/bbl)	\$63.6	-2.5%	6.4%	4.1%	-7.1%	6.1%
	U.S. 10 Year Treasury	4.2%	0.5%	0.1%	0.2%	6.6%	0.0%		Gold (\$/oz)	\$4,964.4	1.4%	10.4%	24.8%	73.8%	14.9%
	U.S. TIPS (1-10YR)	3.9%	0.1%	0.5%	0.7%	6.4%	0.5%		Copper	\$588.2	-0.7%	-3.0%	18.4%	31.9%	3.5%
	U.S. High Yield	6.6%	0.1%	0.4%	2.0%	7.6%	0.6%		Wheat	\$529.8	-1.5%	3.8%	-3.6%	-19.2%	4.5%
	EM Bonds (USD)	5.7%	0.2%	0.5%	1.4%	10.0%	0.6%		U.S. Dollar	98	0.7%	-1.0%	-2.1%	-9.3%	-0.7%
	Municipal Bonds	3.4%	0.3%	0.8%	1.5%	4.4%	1.2%		VIX Index	17.8	1.8%	20.4%	-8.9%	14.6%	18.8%

Footnotes: Data is as of February 6, 2026.

Source: Bloomberg Finance LP, Verdenca Capital Advisors.

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