



Market Update: January 2026

January has served as a timely reminder that market progress is rarely linear. Following last year's robust rally, volatility has returned as investors recalibrate their expectations regarding interest rates, economic durability, and the long-term trajectory of the AI trade. While equities remain near recent highs, the market's tone has shifted: it is becoming increasingly selective and less forgiving of misses.

Key Market Drivers

- **The AI Evolution:** The "rising tide" phase of Artificial Intelligence—where almost any tied-in stock moved higher—is evolving. Investors are now scrutinizing fundamentals, focusing on which companies can translate massive capital spending into sustainable earnings and margins.
- **The Fed's Balancing Act:** Despite hopes for aggressive easing, the Federal Reserve held rates steady in January. Notably, two governors dissented in favor of a 0.25% cut, signaling an emerging internal debate. While inflation has improved, the Fed remains data-dependent, leading to a "wait-and-see" environment that keeps markets sensitive to every new data point.
- **A "Cooling, Not Cracking" Economy:** While growth is moderating, the narrative remains a "soft landing" rather than a recession. Current forecasts suggest only a slight decline in GDP growth versus 2025. This marginal adjustment reflects an economy that is stabilizing at a sustainable level rather than facing a sharp contraction.



Corporate Sentiment

Earnings season has revealed a shift in corporate psychology. Management teams are prioritizing efficiency and disciplined capital allocation over aggressive expansion. In an era where capital is no longer "free", the focus has moved squarely to margin protection and high-conviction investments.

Strategic Themes for 2026

To navigate the coming months, we are focusing on five critical areas:

- 1. Rate Expectation Volatility:** Expect a tug-of-war between market optimism for cuts and the Fed's cautious reality. This will likely be the primary driver of short-term price swings.
- 2. Narrowing Leadership:** Market leadership is tightening, particularly in large-cap tech. For a sustained bull market, we look for broader participation across sectors.
- 3. Fundamental Scrutiny:** With valuations currently elevated, "story stocks" are losing favor to companies with clear earnings visibility and strong balance sheets.
- 4. Geopolitical Flux:** While not currently the dominant driver, trade policy and global tensions remain "wildcard" risks that necessitate a defensive layer in portfolios.
- 5. Diversification:** Last year was the first year in a long time where owning non-U.S. equities not only added diversification but also added outperformance. We believe that this trend will continue and see value in holding international and emerging market equities going forward and do not believe they will be a drag in performance.



The Bottom Line

The current environment remains constructive, but it demands a move from complacency to conviction. With GDP growth expected to remain essentially flat, the economy is proving its resilience. While the Fed isn't moving as fast as some had hoped, the bias is shifting toward a more supportive stance later this year. We would expect to see some volatility later in the 2nd quarter when Jerome Powell's term ends and President Trump nominates his replacement. The independence of the Fed is essential for market confidence and Powell's replacement will have to demonstrate that they will act independent of any political influence.

In this climate, we believe the most effective strategy is a balanced approach. We are prioritizing quality and diversification, focusing on companies that can thrive in a slower-growth environment. The goal for the start of 2026 is to stay invested and participate in the upside, while maintaining the discipline to manage risk effectively. As always, please reach out if you want to discuss any of these topics or our views more in depth.

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