

ELEMENT	TREND	COMMENTS
VALUATION	Negative	Stock prices are stretched, particularly among the largest companies.
INTEREST RATES	Neutral	Short-term and long-term rates have edged slightly higher YTD.
INFLATION	Neutral	Inflation is fairly steady, but upside risk remains.
VOLATILITY	Neutral	Price volatility has climbed recently, but from relatively low levels.
MONETARY POLICY	Positive	The Fed is expected to deliver two more 25-bps rate cuts this year.
DOMESTIC POLICY	Positive	Despite policy chaos, deregulation and lower taxes support growth.
GEOPOLITICAL	Negative	Tariffs and shuffling alliances are affecting global trade.

## A Strong and Snowy Start

For whatever reason, it just doesn't seem to snow that much in North Carolina anymore. In Raleigh especially, there seems to be an invisible dome that keeps snow away, much to the chagrin of local schoolchildren (and certain adults). But every once in a while, patience is rewarded. Snow finally fell in Raleigh on Saturday night, even though long after the weather media originally predicted. Meanwhile, the temperature in the financial markets has been decidedly warmer, even if similarly difficult to predict. The year has gotten off to a strong start, as stocks of just about all stripes posted strong gains in January.

Not that the month was without drama. The leader of the free world threatened to enact 10% tariffs on European countries that did not support the acquisition of Greenland by the United States, but then reversed course several days later as market gloom gathered. Markets will always be vulnerable to these types of exogenous shocks, even if investors have been getting more used to

the unorthodox management style of the administration. However, markets that remain expensive by historical standards are unusually vulnerable.

But back to the good news—global stocks were very strong last month, with the MSCI All Country World Index (ACWI) returning 3% in January. The S&P 500 returned 1.4%, a more-than-respectable return, but it was dwarfed by international returns, one measure of which was up 6%. About one-quarter of international gains was due to weakness in the U.S. dollar.

### Major Equity Index Returns

	2024	1Q25	2Q25	3Q25	4Q25	2025	Jan	YTD
MSCI All Country World	17.5	-1.3	11.5	7.6	3.3	22.3	3.0	3.0
S&P 500	25.0	-4.3	10.9	8.1	2.7	17.9	1.4	1.4
DJIA	15.0	-0.9	5.5	5.7	4.0	14.9	1.8	1.8
NASDAQ	29.6	-10.3	18.0	11.4	2.7	21.2	1.0	1.0
Russell 2000	11.5	-9.5	8.5	12.4	2.2	12.8	5.4	5.4
Russell 2000 Value	7.6	-7.7	5.0	12.6	3.1	12.4	7.0	7.0
Russell 2000 Growth	15.0	-11.1	12.0	12.1	1.2	12.9	4.1	4.1
Russell 3000	23.8	-4.7	11.0	8.2	2.4	17.1	1.5	1.5
Russell 3000 Value	14.0	1.6	3.8	5.6	3.8	15.7	4.6	4.6
Russell 3000 Growth	32.4	-10.0	17.6	10.4	1.1	18.1	-1.3	-1.3
International*	5.5	5.2	12.0	6.9	5.1	32.4	6.0	6.0

Source: Bloomberg

\*MSCI ACWI ex USA Net Total Return USD Index

The dollar continued its slide during the month. While there has been some handwringing about the USD losing some of its luster because of changing geopolitics, in the near-term, this is more of a straightforward interest-rate story. Currencies flow toward rising interest rates, and the market's perception has been that a) the economy was gradually softening and would warrant rate cuts in the back half of 2026, and b) increasing political pressure could artificially suppress interest rates and potentially stoke inflation.

## The Warsh Fed

President Trump's pick of Kevin Warsh as the next Fed chairman has, at least for now, helped assuage those fears. Warsh, while well-aligned with Trump politically, has spent most of his career as a hawk. While bucking the White House seems far-fetched, Warsh's credentials signal an approach that monetary policy will be, if not hawkish, then certainly data-driven. Warsh, a former Fed governor, has been more of a critic of mission creep at the Fed (quantitative easing, etc.) than of rate policy specifically. In short, we think it was a shrewd pick.

# Not-So-Magnificent Seven?

The reigning champions of the market, the massive tech companies such as Nvidia, Google and Microsoft that are ushering us into the age of AI, have gotten off to a slow start so far this year. The Mag Seven basket was slightly negative during January, as investors have grown more apprehensive about the mind-boggling capital investments that the AI boom will require. Accordingly, large-cap growth stocks (Russell 3000 Growth as proxy) fell 1.3%, underperforming every other major equity asset class.

Meanwhile, small-cap stocks and value stocks (and especially small-cap value stocks) are experiencing something of a rebirth. Shares of relatively smaller companies and shares of firms with more modest stock prices outperformed fairly dramatically in January, continuing the trend that began to emerge in Q425. The Russell 2000 Value index rose 7%; that's a heckuva month.

Of course, one month does not a trend make, but we are highly encouraged by these developments, given our longstanding allocations to small caps, value and international shares. While the performance premiums afforded by these "tilts" do not show up every month, or even every year, they are showing right now, and they're showing up all at the same time.

Like for the schoolchildren (and certain adults), patience is rewarded.

## FOR MORE INFORMATION, PLEASE REACH OUT TO:

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