



February 4, 2026

Dear Valued Investor,

Other than the historic volatility in gold and silver prices, the biggest news for markets in January may have been the nomination of Kevin Warsh as the next Federal Reserve (Fed) Chair. We anticipate a Warsh-led Fed will be able to steer the Federal Open Market Committee (FOMC) toward two rate cuts later this year, with help from easing inflation pressure. Remember, the Chair just gets one vote on the 12-member FOMC, so the health of the labor market and the path of inflation will be critical.

Warsh's track record of flexibility on interest rate policy, his credibility with Fed officials, and prior advocacy for central bank independence should help ease concerns about the President's influence. However, his preference for a smaller Fed balance sheet, now over \$6.6 trillion, and his emphasis on fiscal responsibility could complicate the Treasury's efforts to refinance government debt at lower rates. This dynamic will be important to watch because the U.S. government's fiscal situation is not on a sustainable path.

One of the reasons Warsh is likely to push for lower rates, despite still-elevated inflation, is productivity gains from AI can help the economy grow faster with less inflation. Recent data shows U.S. nonfarm business productivity rose 4.9% in the third quarter of 2025, strong enough to counter inflationary pressures even amid solid economic growth. Technology and more efficient processes enable firms to produce more with fewer hours worked, a key reason economic growth will likely help push stocks higher.

AI investment is also helping drive a strong fourth quarter earnings season. S&P 500 companies are on track to deliver a fifth consecutive quarter of double-digit earnings growth. While this is driven mostly by the tech sector's 30% earnings increase, keep in mind industrials are tracking toward 25% earnings growth. Several leading companies have cited tangible benefits of AI during earnings season, including Bank of America, Meta, and Costco. Strong earnings can help solidify the floor under stock prices, while cooling inflation and stable interest rates can help raise the ceiling by supporting higher valuations.

Looking ahead, the backdrop for stocks remains favorable. Massive AI investment is driving gains in productivity and earnings. Consumers will get tax refunds associated with the One Big Beautiful Bill Act starting this month. Positive stock market performance in January often bodes well for annual returns, though past performance does not guarantee future results. And increased participation in this bull market is encouraging — the average stock has outperformed the S&P 500 Index over the past three months*.

AI scrutiny, deficit spending, and geopolitics remain key risks. New Fed Chairs are often tested by markets, and midterm election years tend to be more volatile. Don't let any volatility that may come along shake your confidence. It will not shake mine. I believe volatility creates opportunity. Stay invested and diversified.

As always, please reach out to me with questions.

Thank you for your continued trust.

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Important Information

* The average stock is the equal weight version of the S&P 500. Return for the equal weighted S&P 500 over the past three months (since 11/03/25) is 6.7% vs. 2.1% for the regular S&P 500 over that period.

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All data is provided as of February 4, 2026.

All index data from FactSet.

The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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