

## Key Insights

- **Historic “Great Rotation” Reshapes Market Leadership:** January marked a watershed moment as small-caps dramatically outperformed mega-caps with the Russell 2000 Index surging 5.39% versus the S&P 500's 1.44% and the Russell Top 50's -0.67% decline. The Russell 2000 Index achieved a 15-session winning streak against the S&P 500 - the longest period of small-cap dominance since May 1996 - as investors rotated out of richly valued tech giants into domestically-focused companies trading at a 31% valuation discount.
- **Gold's Extraordinary Safe-Haven Surge:** Gold delivered a stunning 13.31% gain in January alone, crossing \$5,400 per ounce amid a confluence of geopolitical flashpoints (Greenland tensions, Venezuela, Iran) and institutional uncertainty surrounding the DOJ investigation into Fed Chairman Powell.
- **Market Breadth Signals Healthier Bull Market:** According to Macro Charts, 65% of S&P 500 components are now beating the index - the second-best breadth reading in half a century. The equal-weight S&P 500 gained 3.38% in January, led by Energy and Materials, while value stocks (+4.65%) dramatically outpaced growth (-1.27%). This broadening suggests a more sustainable foundation for the rally after years of narrow mega-cap tech leadership.
- **Medicare Rate Shock Hammers Health Care Insurers:** The Trump administration's proposed nearly flat Medicare Advantage rate increase triggered a sector-wide selloff late in January, with UnitedHealth Group plunging 13.08% year-to-date. The Health Care sector's 0.04% monthly decline masked severe late-month damage, creating a stark “two-speed” market divergence from surging cyclical.

- **Fed Independence Concerns Add Policy Uncertainty:** The Federal Reserve held rates steady at 3.50%–3.75% at its January 28 meeting, but unprecedented political crosscurrents dominate the narrative. The DOJ investigation into Powell's Fed headquarters renovation, the Supreme Court case over Governor Lisa Cook's removal, and Trump's anticipated announcement of Powell's successor have created what analysts call an “unprecedented web of intrigue” surrounding monetary policy. Markets price in two rate cuts for later in 2026, after a new Fed Chair takes office in May.
- **Strong Earnings and International Outperformance Continue:** Q4 2025 earnings season began with 75% of reporting companies beating estimates, marking the 10th consecutive quarter of S&P 500 earnings growth at 11.9%. International markets maintained substantial outperformance with MSCI Emerging Markets surging 8.02% and MSCI World ex-US gaining 4.75% in January. Commodities (+10.04%) benefited from dollar weakness (-1.27%), while the full recovery from April 2025 lows now exceeds 40% for the S&P 500 and 69% for the Magnificent 7.

## Monthly Recap

January 2026 marked a watershed moment for equity markets as the long-awaited “Great Rotation” finally materialized with historic intensity. The S&P 500 Index gained 1.44% for the month, reaching fresh all-time highs, while small-caps dramatically outperformed with the Russell 2000 Index surging 5.39% - its strongest monthly start in over a decade. The Nasdaq Composite advanced 0.97%, while the “Magnificent 7” tech giants posted a modest 0.55% gain as investors rotated capital out of mega-cap tech and into domestic-focused smaller companies. The Russell 2000 Index achieved a remarkable 15-session winning streak against the S&P 500, the longest period of small-cap dominance since May 1996.

### The James Investment Research Team



**Brian Culpepper, CKA**  
President & CEO  
Portfolio Manager



**Fall Ainina, Ph.D., CFA**  
Director of Research  
Vice President



**Brian Shepardon, CFA, CIC**  
Vice President  
Portfolio Manager



**Trent D. Dysert, CFA**  
Associate Director of Research  
Portfolio Manager

## The Great Rotation – Historic Small-Cap

**Outperformance:** January's defining narrative was the decisive shift in market leadership from mega-cap technology to small-cap domestic stocks. The Russell 2000 Index outperformed the S&P 500 by 9.41% since April 2025 lows, a feat not seen since the post-1987 recovery. This rotation was driven by multiple catalysts: the Federal Reserve's 2025 easing cycle bringing rates to 3.50%–3.75%, providing relief for smaller companies carrying floating-rate debt; the tangible impact of fiscal legislation passed in mid-2025; and a valuation gap between small and large caps that had reached a 25-year extreme. The Russell 2000 Index traded at roughly 18x forward earnings versus the S&P 500's 22x+, making small-caps a "coiled spring" for value seekers. Notably, 65% of the S&P 500 components beat the index - the second-best breadth reading in half a century.

**The Recovery Story Continues:** From the April 8 2025 bottom through January, equity markets have posted extraordinary gains with the S&P 500 surging 40.63%, the Nasdaq climbing 54.45%, and the Russell 2000 Index advancing 50.03%. The Magnificent 7 index has delivered an exceptional 69.24% recovery, completely erasing the steep February-April 2025 declines (S&P 500 -18.75%, Nasdaq -23.77%, Russell 2000 Index -22.67%) and pushing indices substantially beyond previous highs. The S&P 500 closed at fresh all-time records multiple times during January, with the index approaching the psychologically significant 7,000 level.

**Growth vs Value and Market Cap Dynamics:** January demonstrated a dramatic continuation of the value rotation that began in late 2025. Value stocks significantly outpaced growth with Russell 3000 Value advancing 4.65% versus growth's 1.27% decline. The Russell Top 50 mega-caps declined 0.67%, marking a stark contrast to small-caps' stellar performance. This "earnings handoff" reflects expectations that Russell 2000 Index earnings growth will significantly outpace the S&P 500 in 2026, with small-cap earnings projected to grow by 17–22% versus 14% for large-caps. The valuation discount for small-caps (roughly 31% below large-caps) continues to attract institutional capital rotating out of richly valued tech giants.

**Sector Performance:** January's sector leadership was dominated by cyclical and commodity-sensitive names. Energy led with an impressive 14.18% gain, followed by Materials (+8.64%), Consumer Staples (+7.51%), and Industrials (+6.65%). Real Estate rose 2.68%, Consumer Discretionary gained 1.47%, and Utilities advanced 1.31%. Health Care managed a 0.04% decline as the sector was

rocked late in the month when the Trump administration proposed nearly flat Medicare Advantage rates, sending UnitedHealth Group plunging 13.08%, CVS Health down 5.34%, and Humana tumbling over 20%. Technology fell 0.06%, and Communication Services declined 2.00%, while Financials fell 2.43%, weighed down by mixed earnings reactions and profit-taking after strong 2025 performance.

**Q4 2025 Earnings Season Underway:** The Q4 2025 earnings season kicked off with major banks reporting mid-January and mega-cap tech earnings dominating late month. According to FactSet, with approximately 33% of S&P 500 companies reporting, 75% have beaten earnings per share (EPS) estimates. The blended earnings growth rate stands at 11.9%, marking the 10th consecutive quarter of earnings growth for the index. Revenue growth of 8.2% represents the 21st consecutive quarter of positive revenue growth. Information Technology leads sector earnings growth expectations at 29.8%, followed by Industrials (+25.6%) and Communication Services (+10.2%). Looking ahead, analysts project earnings growth of 11.7% for Q1 2026 and 14.3% for full-year 2026, reflecting continued optimism around AI-driven capital expenditure and corporate profitability.

**International Markets Strong:** International markets posted robust gains in January, continuing their recovery trajectory. MSCI Emerging Markets surged 8.02% while MSCI World ex-US gained 4.75%, both outpacing the S&P 500's return. From April's recovery bottom, emerging markets have advanced 57.13% while international developed markets gained 41.73%. The international outperformance reflects a broader global economic recovery and the weakening U.S. dollar, which fell 1.27% in January and 6.39% since the April 2025 lows.

**Fixed Income Stability and Alternative Asset Surge:** Bonds showed modest positive performance with the Bloomberg US Aggregate gaining 0.11% and 20+ Year Treasuries rising 0.01%. High-yield corporates added 0.51%. The Federal Reserve held rates steady at its January 28 meeting, with markets pricing in two quarter-point cuts for later in 2026. Commodities surged 10.04% in January, extending their recovery from April lows to 24.03%. The Bloomberg Galaxy Crypto Index declined 6.57%, continuing to experience high volatility. Gold was the standout performer, surging an extraordinary 13.31% in January alone to cross \$5,400 per ounce, driven by geopolitical tensions surrounding Greenland, Venezuela, and Iran, as well as concerns about Federal Reserve independence following a Department of Justice (DOJ) investigation into Chairman Powell. Goldman Sachs raised

its year-end gold forecast to \$5,400, citing structural demand from central banks and private investors.

**Forward Estimates and Valuation:** Looking ahead, according to FactSet, analysts project earnings growth of 14.3% for full-year 2026, with acceleration expected throughout the year. The forward 12-month price-to-earnings (P/E) ratio for the S&P 500 stands at 22.2, above both the 5-year average (20.0) and 10-year average (18.8). This elevated valuation continues to be supported by expectations of AI-driven productivity gains and continued margin expansion. The S&P 500's net profit margin remains near record levels, demonstrating exceptional corporate profitability despite elevated costs.

**Market Outlook:** January's "Great Rotation" underscored a fundamental shift in market dynamics as investors embraced broader market participation after years of mega-cap tech dominance. The Federal Reserve's pause at its January meeting, combined with ongoing geopolitical tensions and political uncertainty surrounding Fed leadership, has created a complex backdrop for markets. The dramatic sector rotation away from Health Care (following Medicare Advantage rate concerns) and toward cyclicals suggests investors are positioning for a more balanced growth environment. With the recovery from April's lows now exceeding 40% for the S&P 500 and 69% for the Magnificent 7, and corporate earnings continuing to exceed expectations, markets face the dual challenge of maintaining momentum while navigating elevated valuations and persistent policy uncertainty. The historic small-cap outperformance suggests market breadth is returning, potentially signaling a healthier and more sustainable foundation for the broader bull market.

## Topic of the Month: Understanding the Metals Investment 2025-2026 Rally

### Executive Summary

The metals complex is experiencing a historic rally driven by converging forces: institutional instability in the United States, structural demand from AI and green energy transitions, and significant supply chain dislocations. Gold surged to \$5,417 per ounce on January 28, 2026 and concluded the month up 13.31% year-to-date, while silver has risen roughly 19%. The unprecedented conflict between the White House and Federal Reserve has revived the "Sell America" trade, driving investors toward hard assets as a hedge against currency debasement.

## I. Market Context: The Macro Foundation

### The "Sell America" Trade

The Justice Department's criminal investigation into Fed Chair Jerome Powell has fundamentally altered investor behavior. President Trump stated on January 27, 2026, that he was not concerned about the dollar's decline to its weakest level in nearly four years, saying the dollar was "doing great." The US dollar fell 1.3% on January 27, its biggest one-day drop since April. Markets expect BlackRock's Rick Rieder, who has advocated for aggressive rate cuts, to succeed Powell as Fed Chair. This political pressure has driven capital flows toward hard assets as hedges against institutional instability and potential dollar debasement.

### Geopolitical Instability

The administration's foreign policy has intensified safe-haven demand. The administration's aggressive actions include military intervention in Venezuela, threats to annex Greenland, pledges to hike tariffs on South Korea, and threats of 100% levies on Canada.

## II. Metal-Specific Analysis

### Gold: The Institutional Hedge (Current: \$4,894)

Central bank accumulation has emerged as the key pillar supporting gold's dramatic rise. China's People's Bank has extended its buying streak to fourteen consecutive months. Institutional flows have reinforced this trend, with gold exchange traded funds recording nearly \$19 billion in inflows through October 2025. Tether Holdings now holds approximately 140 tons of gold, making it the world's largest known private bullion hoard outside banks and nation states. China is actively building a "parallel system" through the Shanghai Gold Exchange, encouraging nations to store and trade gold outside Western jurisdiction as a hedge against potential US asset seizures. Options traders are bracing for further gains, with implied volatility at its highest since March 2020.

### Silver: The High-Beta Hybrid (Current: \$85)

Retail mania has become defining, with particularly intense buying in China. The "Tariff Trap" has caused acute supply dislocations - fears of new US tariffs have caused silver to flood into US vaults while creating shortages in London, the global price-setting center. The silver market has been roiled by extreme volatility, including a historic short squeeze driving prices up over 150%. CME Group raised

margins on Comex silver futures effective January 28, 2026. China's UBS SDIC Silver Futures Fund LOF halted trading and paused new subscriptions after repeated warnings about unsustainable premiums. Industrial demand from solar and electric vehicle (EV) production continues tightening the market, though high prices are pushing Chinese manufacturers to experiment with aluminum alternatives.

#### **Copper: The Structural Winner**

AI data center build-out is creating unprecedented demand - each facility requires massive amounts of copper for power distribution, cooling, and connectivity. Electric vehicle adoption amplifies this, as each EV requires significantly more copper than traditional vehicles. A critical dislocation has developed: speculation about US tariffs has caused stockpiles to balloon in America while tightening availability elsewhere. London markets have moved into backwardation, where near-term prices trade higher than futures, signaling genuine physical tightness outside the US. Chinese "China Inc." infrastructure expansion overseas, including EV battery plants in Indonesia and Germany, generates copper demand independent of domestic Chinese economic conditions.

#### **Aluminum & Nickel**

Aluminum's strength is driven by substitution as silver and copper prices surge. Chinese solar manufacturers are replacing both metals with aluminum alternatives at a fraction of the cost. Infrastructure demand from Chinese-led international projects, like the \$20 billion "gas city" in Nigeria, provides additional support. Nickel functions as a high-volatility proxy for EV battery adoption, with Chinese dominance over the supply chain amplifying political sensitivity. Deep-pocketed commodity funds have piled into nickel, turbocharging rallies but creating severe "air-pocket" risk where rapid unwinding can cause violent price gaps.

### **III. Mining Equities: The "Catch-Up" Trade**

A significant disconnect has opened between physical metals prices and mining company equities. Despite gold and silver trading at or near record highs, mining stocks tracked by the Philadelphia Gold and Silver Index trade below five-year average valuations on a P/E basis. This lag creates opportunity: mining companies have largely fixed cost structures, meaning revenue increases flow almost entirely to the bottom line. A 20% increase in metal prices

can result in 40-50% earnings increases. Historical mean reversion typically occurs when these dislocations become severe - given strong fundamental support for metal prices, the path of least resistance appears to be mining stock appreciation.

### **IV. Metals vs. Crypto: The Risk-Adjusted Flip**

For the first time in this cycle, gold and silver are outperforming Bitcoin on a risk-adjusted basis. While both theoretically benefit from currency debasement concerns, their performance during the current Fed crisis has diverged notably. Metals are behaving as stable stores of value, while cryptocurrency markets suffer from contagion risks linked to leveraged liquidations. When actual questions arise about Federal Reserve independence and dollar system stability, capital flows disproportionately to the asset with a millennial-long track record. Leveraged crypto positions have occasionally forced liquidations across other sectors, creating temporary pressure on metals unrelated to fundamentals. The market is splitting: conservative capital choosing metals as their debasement hedge, speculative capital remaining in crypto.

### **V. Strategic Outlook**

The current rally is distinguished by unusual convergence of three historically powerful drivers: institutional crisis driving monetary beta, technological transformation driving green and AI beta, and supply constraints creating physical tightness. Traditional bear market catalysts face challenges: dollar strengthening requires Fed credibility restoration or US economic outperformance (both unlikely near-term); real rate increases require nominal hikes or lower inflation (markets expect cuts, inflation above target); new supply faces difficult economics and multi-year development timelines.

The combination of concerns over Fed independence and central bank buying driving gold, AI infrastructure driving copper, retail mania and tariff traps driving silver, and valuation gaps in mining equities creates multiple independent paths for portfolio returns. This diversification across themes makes the overall metals allocation more robust than simple directional bets. The "Sell America" trade may be the dominant narrative in Paris today, but structural deficits in copper and ongoing central bank gold accumulation provide secondary support pillars that could sustain the rally even if geopolitical tensions ease or Fed independence concerns resolve.



## Conclusion

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January 2026 will likely be remembered as the month the market finally broadened. After years of returns concentrated in a handful of mega-cap tech names, the historic small-cap surge - with the Russell 2000's 15-session winning streak and 5.39% monthly gain - signals a fundamental regime change in market leadership. The fact that 65% of S&P 500 stocks are now beating the index, combined with value's decisive outperformance over growth, suggests the bull market is transitioning to a healthier, more sustainable phase. Yet this rotation occurs against a uniquely complex backdrop: unprecedented uncertainty surrounding Fed independence, geopolitical flashpoints driving gold to extraordinary gains, and a late-month Health Care shock that revealed how quickly sentiment can shift. With the S&P 500 up over 40% from April's lows and valuations stretched above historical averages, markets must now prove that improving breadth and continued earnings growth can sustain momentum through elevated policy uncertainty. The "Great Rotation" has begun - the question for February and beyond is whether it marks the start of a multi-quarter trend or a temporary rebalancing before mega-cap tech reasserts dominance.

Sincerely,

The James Research Team



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P.O. Box 8 Alpha OH 45301 | (888) 426-7640 | [info@jamesinvestment.com](mailto:info@jamesinvestment.com)