OpenArc
CORPORATE ADVISORY

Market Brief

MACRO

Growth: The labor market delivered a stronger-than-expected start to 2026, as January nonfarm payrolls rose by +130,000, well above consensus of 65,000. The unemployment rate declined to 4.3% from 4.4%, while the household survey showed a robust gain of 528,000 employed persons. However, benchmark revisions overshadowed these headlines: full-year 2025 employment was revised down by 403,000 jobs, reducing total annual gains to just 181,000 – averaging only 15,000 jobs per month. Healthcare (+82,000), social assistance (+42,000), and construction (+33,000) led gains, while federal government employment fell by 34,000. Average hourly earnings rose +0.4% monthly and +3.7% annually.

Inflation: Inflation showed encouraging signs of cooling, with headline CPI rising just +2.4% year-over-year – down from 2.7% in December and below expectations of 2.5% – marking the lowest reading since May. Core CPI declined to +2.5% annually, its lowest level since March 2021. Monthly headline CPI increased +0.2% versus expectations of +0.3%, while core rose +0.3%. Energy fell -1.5%, led by gasoline (-7.5%), while shelter costs rose a modest +0.2% monthly and +3.0% annually.

Monetary Policy: The Federal Reserve held rates steady at 3.50%-3.75% at its January 28th meeting, pausing after three consecutive cuts. Two dissents emerged – Governors Miran and Waller preferred an additional cut. Powell emphasized the current stance is "appropriate" given solid activity, stabilizing labor, and elevated inflation. Markets ended January pricing in two cuts for 2026, likely no earlier than June. Powell's term expires in May 2026.

MARKET

Equities: U.S. equities began 2026 with modest gains but dramatic rotation beneath the surface. The S&P 500 rose +1.5%, briefly surpassing 7,000, yet growth lagged sharply – the Russell 1000 Growth fell -1.5% while small caps surged nearly +5.5%. Emerging Markets led all indices at +8.0%, their strongest January in over a decade. Energy dominated sector performance at +14%, while Technology fell -0.1% and Financials lagged at -2.4%.

Bonds: Fixed income delivered steady returns as credit conditions remained supportive. Investment-grade corporates returned +0.18%, with spreads tightening 5 basis points despite $208.7 billion in issuance and excess returns of +0.34%. Municipal bonds outperformed on strong inflows exceeding $11 billion year-to-date and lower supply, with the 10-year Muni/Treasury ratio at 62%. Treasury yields rose approximately 5 basis points across the curve. High yield returned +0.6%.

Currencies: The U.S. dollar extended its decline, falling approximately -1.4% to below 97 on the DXY—a four-year low. Narrowing U.S.-Europe rate differentials, diminished safe-haven demand, and policy uncertainty drove the weakness, while emerging market and commodity-linked currencies strengthened.

Commodities: Precious metals surged, with gold up approximately +12.3% to near $4,865 per ounce – its strongest January in over a decade. Silver gained even more dramatically. Energy rallied sharply: Brent crude jumped from around $60 to approximately $70 per barrel (+16.1%) on geopolitical tensions involving Iran and Venezuela before moderating slightly by month-end. The Bloomberg Commodity Index surged +10.0% for the month, reflecting broad-based strength across the complex.

CIO SNAPSHOT

We maintain a tactical risk-on stance in our asset allocation, reflecting our confidence in the current market's return potential. We remain overweight equities, and recently increased exposure to U.S. markets funded from International Developed, as we believe robust U.S. earnings growth continues to underpin domestic equity performance. Within equities, we are responsibly bullish on the AI supercycle, with targeted allocations to technology and power infrastructure, and are optimistic on financials and defense, supported by lighter regulation and elevated fiscal spending, respectively. In fixed income, we hold a neutral position in duration to manage rate sensitivity, while emphasizing higher-yielding opportunities that deliver compelling income generation in today's environment.

▲ Overweight
— Neutral
▼ Underweight

	Asset Class	***CIO View***
	Equities	
Regions	US Large Cap	▲
Regions	US Small Cap	▼
Regions	Developed International Equities	▼
Regions	EM Equities	—
Factors	Growth	▲
Factors	Quality	—
Factors	Value	▼
Sectors	Industrials	▲
Sectors	Technology	▲
Sectors	Healthcare	▼
Sectors	Financials	▲
	Fixed Income	
Factors	Credit	▲
Factors	Duration	—

Source: Dynasty Financial Partners, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Breckinridge Capital Advisors, Bureau of Labor Statistics, Federal Reserve, Nasdaq, CNN Business, as of 1/31/2026

US Related

ETF	Description	January 2026	2025
SPY	S&P 500	1.47%	17.72%
DIA	Dow Jones Ind	1.80%	14.71%
QQQ	Nasdaq 100	1.23%	20.77%
IJH	S&P Midcap 400	4.05%	7.42%
RSP	S&P 500 Eq Weight	3.40%	11.21%
QQQE	Nasdaq 100 Eq Weight	1.52%	14.38%
IWB	Russell 1000	1.34%	17.18%
IWM	Russell 2000	5.48%	12.66%
IWV	Russell 3000	1.50%	16.96%

Factors

ETF	Description	January 2026	2025
IVW	Russell Growth	0.51%	21.95%
IVE	Russell Value	2.44%	13.02%
IJK	Midcap 400 Growth	3.94%	7.28%
IJJ	Midcap 400 Value	4.00%	7.27%
IJT	Smallcap 600 Growth	4.74%	5.26%
IJS	Smallcap 600 Value	6.49%	6.54%
DVY	DJ Dividend	6.60%	11.60%
MTUM	Momentum	2.23%	22.15%
USMV	Low Volatility	0.88%	7.65%
SIZE	Size	2.39%	10.51%
QUAL	Quality	1.91%	12.65%

Global

ETF	Description	January 2026	2025
EWA	Australia	5.96%	13.35%
EWZ	Brazil	16.59%	48.81%
EWC	Canada	0.61%	35.92%
MCHI	China	3.88%	31.04%
EWQ	France	0.80%	28.90%
EWG	Germany	1.44%	35.79%
EWH	Hong Kong	10.02%	34.50%
INDA	India	-4.27%	2.68%
EWI	Italy	2.85%	55.72%
EWJ	Japan	6.17%	25.84%
EWW	Mexico	8.35%	53.65%
EIDO	Indonesia	-5.61%	4.90%
EWP	Spain	4.41%	78.03%
EIS	Israel	8.14%	45.11%
EWU	UK	4.96%	34.95%
EFA	EAFE	4.90%	31.55%
EEM	Emerging Mkts	8.02%	33.98%
IOO	Global 100	1.71%	27.02%
VT	All World	3.11%	22.43%
CWI	All World ex US	5.12%	32.75%

Sectors

ETF	Description	January 2026	2025
XLY	Cons Disc	1.47%	7.37%
XLP	Cons Stap	7.51%	1.52%
XLE	Energy	14.18%	7.88%
XLF	Financials	-2.43%	14.90%
XLV	Health Care	-0.04%	14.50%
XLI	Industrials	6.65%	19.35%
XLB	Materials	8.64%	9.94%
XLRE	Real Estate	2.68%	2.63%
XLK	Technology	-0.06%	24.61%
XLC	Comm Services	2.00%	23.08%
XLU	Utilities	1.31%	16.03%
SMH	Semis	12.03%	49.17%

Currencies

ETF	Description	January 2026	2025
FXB	British Pound	1.64%	10.37%
FXE	Euro	1.00%	14.52%
FXY	Yen	1.28%	0.09%
DXY	Dollar	-1.16%	-9.40%

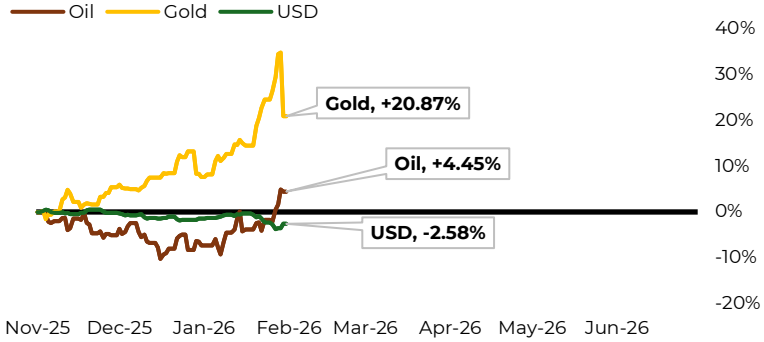
Fixed Income

ETF	Description	January 2026	2025
SHY	1-3 Yr Treasuries	0.21%	4.95%
IEI	3-7 Yr Treasuries	0.00%	6.96%
IEF	7-10 Yr Treasuries	-0.23%	8.03%
TLH	10-20 Yr Treasuries	-0.07%	6.47%
TLT	20+ Yr Treasuries	-0.03%	4.25%
AGG	Aggregate Bond	0.25%	7.19%
TIP	T.I.P.S.	0.52%	6.77%
JNK	High Yield	0.63%	8.76%
MBB	Mortgage-Backed	0.49%	8.38%
LQD	IG Corporate	0.34%	7.90%

Commodities

ETF	Description	January 2026	2025
DBC	Commodities	9.26%	8.10%
DBA	Agric Commod.	0.55%	-0.56%
USO	Oil	14.98%	-8.46%
UNG	Nat. Gas	37.85%	-27.07%
GLD	Gold	12.27%	63.68%
SLV	Silver	17.11%	144.66%

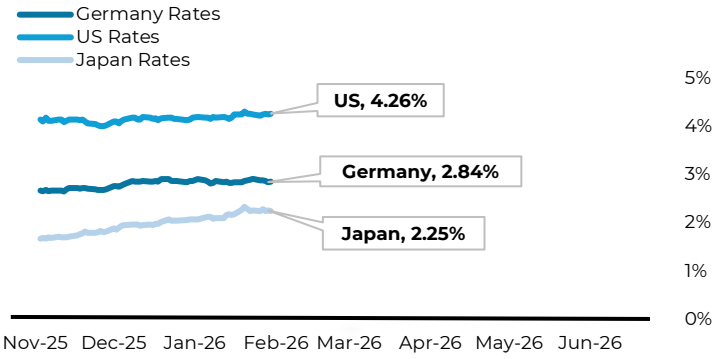
Commodity & Dollar Performance



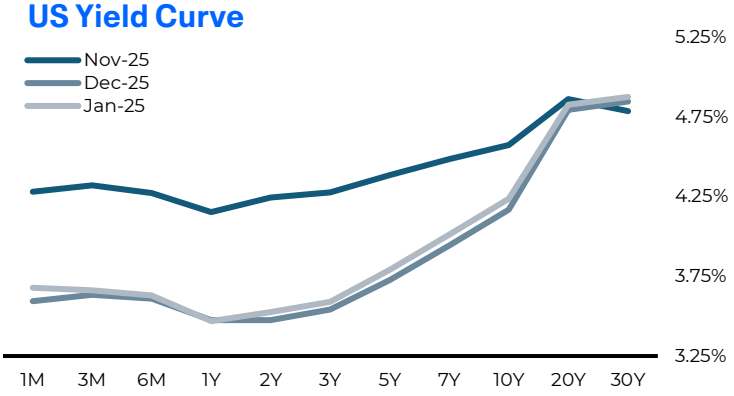
Market Breadth Widens to Start 2026

January's leadership broadened meaningfully, with Energy (+14%), Materials (+9%), and Industrials (+7%) driving gains alongside semiconductors (+12%). Meanwhile, Financials, Communication Services, and Technology lagged. This selective rotation underscores the ongoing "bits to atoms" shift, where physical infrastructure and AI buildout continue to outpace digital-first businesses. Improved breadth beyond mega-cap Tech suggests a healthier foundation, though leadership remains concentrated in infrastructure-adjacent sectors.

10-Year Bond Yields



US Yield Curve



Economic Data

	Prior Release Date	Prior Estimate	Prior Actual	Next Release Date	Upcoming Forecast Estimate
Effective Federal Funds Rate	1/28/2026	350bps–375bps	350bps–375bps	3/18/2026	No change expected
US Total Nonfarm Payrolls	2/11/2026	~70k	130k	3/6/2026	~130k
US Unemployment Rate	2/11/2026	4.4%	4.3%	3/6/2026	~4.3%
Core PCE Index YoY%	1/22/2026	2.8%	2.8%	2/20/2026	~2.8%
US CPI YoY%	2/13/2026	2.5%	2.4%	3/11/2026	~2.4%–2.5%
US Real GDP QoQ%	1/22/2026	4.3%	4.4%	2/20/2026	~3.5%

Source: Dynasty Financial Partners, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Breckinridge Capital Advisors, Bureau of Labor Statistics, Federal Reserve, Nasdaq, CNN Business, as of 1/31/2026

Tactical Asset Allocation Guide

Q4 2025

OpenArc CORPORATE ADVISORY

Legend

Underweight | Slight Underweight | Neutral | Slight Overweight | Overweight

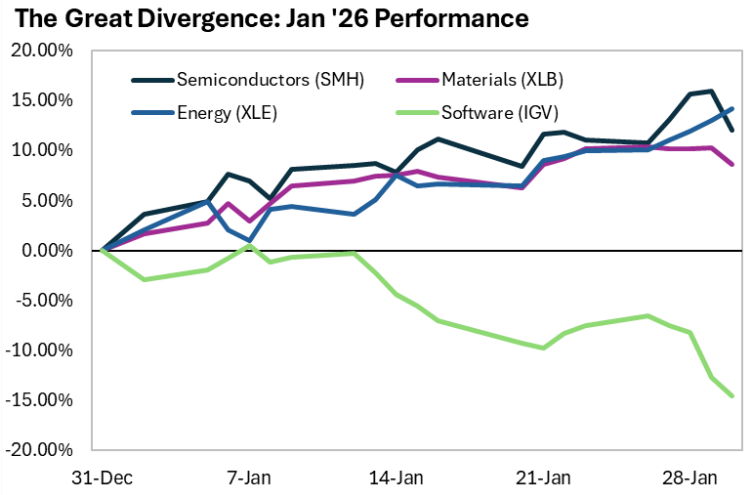
	Asset Class	View	Commentary
Equities	US Large Cap		Public company count has halved over the last two decades, concentrating quality in large caps. These firms benefit from diversified revenue streams and stronger balance sheets, positioning them to weather slowing growth better than smaller, cyclical peers.
	US Small Cap		Despite historical optimism during rate-cut cycles, small caps have underperformed when recessions are avoided—averaging +6% vs. +12% for large caps. Current leverage, weaker pricing power, and lower quality fundamentals suggest limited upside unless cuts accelerate and growth rebounds sharply.
	Developed International		Europe's fiscal push on defense and infrastructure and ECB flexibility to ease are positives. However, earnings delivery remains weak. Until growth materializes, we favor regions where valuations align with earnings momentum.
	Emerging Markets		Neutral stance persists as growth and earnings remain uneven. China's pivot to domestic consumption is structural but challenged by trade frictions. Upside in EM will be driven by AI growth, particularly in South Korea, Taiwan, and China
Factors	Growth		AI-driven demand continues to underpin growth stocks, supported by robust margins, free cash flow, and capex. In addition, adoption is starting to accelerate. While valuations are elevated, earnings delivery remains strong.
	Value		Value has lagged as growth dominates performance, fueled by AI and tech capex. Without a clear catalyst—such as a sharp rate-driven rotation – we maintain an underweight bias.
	Quality		We are neutral quality in our portfolio, as we believe that this current cycle has a combination of early innings as well as late stage.
Sectors	Technology		Tech earnings and profitability outpace the market, driven by structural AI demand and strong balance sheets. Despite trade tensions, secular growth trends remain intact.
	Financials		Easing regulation, steeper yield curve, and improving capital markets activity support financials. IPO and M&A pipelines are strengthening, adding cyclical upside. We are watching for credit quality deterioration if growth slows.
	Industrials		AI-driven power demand and infrastructure upgrades create tailwinds for industrials. Execution risk lies in cost inflation and project delays. Accelerated grid modernization funding is adding fuel to the fire.
Fixed Income	Duration		Two cuts priced in for 2026, but sticky inflation and fiscal stress limit downside for yields. We prefer favoring the front end of the yield curve as we expect curve steepening to continue.
	Credit		Elevated yields and stable fundamentals make credit attractive. IG spreads remain tight and HY offers carry but limited upside. We are comfortbale with the income from credit and like select structured credit assets.

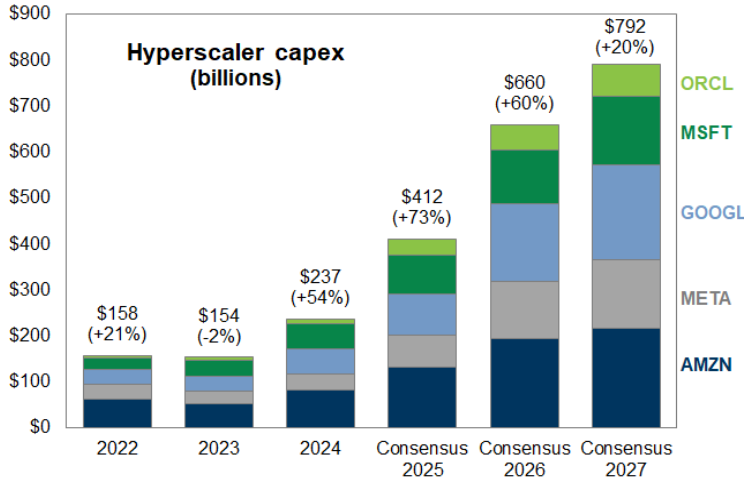
Source: Dynasty Financial Partners, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Breckinridge Capital Advisors, Bureau of Labor Statistics, Federal Reserve, Nasdaq, CNN Business, as of 1/31/2026

CIO Spotlight: From Bits to Atoms – The Great Rotation to Scarcity

The abundance-to-scarcity shift

January delivered a striking rotation that underscores a fundamental reshaping of the AI investment landscape: the shift from digital abundance to physical scarcity. While software stocks suffered their worst month since the 2008 financial crisis (IGV -14.5%), the physical infrastructure enabling AI surged – Energy +14.2%, Semiconductors +12.0%, and Materials +8.6%. This nearly 29 percentage point spread between the digital and physical worlds in a single month marks an acceleration of the market broadening we highlighted last month, but with a critical difference: investors are no longer betting primarily on what AI can do, but rather on what AI requires.





The catalyst is unprecedented: hyperscalers have committed to spending $600-$700 billion on AI infrastructure in 2026 alone, up as much as 74% year-over-year. Approximately 60% of this capital is earmarked for GPUs and servers, with the remaining 40% dedicated to data centers, networking equipment, and critically – power infrastructure. Goldman Sachs projects that from 2025-2027, total hyperscaler capex will reach $1.15 trillion, more than double the $477 billion spent from 2022-2024. This is not just a spending increase; it represents a fundamental economic shift where technology capex has, for the first time in recent history, surpassed consumer spending as a driver of U.S. GDP growth.

The market's message is clear: software scales infinitely at near-zero marginal cost, but the physical infrastructure required to run it faces hard constraints. Data centers need power – and lots of it. Goldman Sachs estimates the U.S. already faces an 11 gigawatt capacity shortfall, projected to exceed 40 GW by 2028. Google has signed nuclear power deals and restarted mothballed plants. Microsoft's electricity demand is forecast to surge over 600% by 2030. These aren't abstract projections; they are supply contracts and construction timelines that create immediate demand for energy generation, transmission infrastructure, raw materials, and semiconductor manufacturing capacity. The bottleneck isn't code or algorithms – it's copper, steel, silicon, and kilowatts.

Bottom Line

January's dramatic sector divergence crystallizes an investable thesis: AI's next phase rewards scarcity over abundance. The picks-and-shovels of this revolution – energy infrastructure, semiconductor equipment, industrial materials, and power generation – are constrained by physics, permitting, and construction timelines, not by lines of code. While software companies face new pressures from AI commoditization and efficiency gains, the companies providing the physical foundation for AI face multi-year demand visibility backed by unprecedented capital commitments. This isn't a temporary rotation; it's a structural revaluation of what scarcity means in an AI-driven economy, and our portfolios' emphasis on industrials, materials, and alternatives reflect this fundamental shift from bits to atoms.

Source: Dynasty Financial Partners, Bloomberg, Strategas, BCA, Goldman Sachs Research, YCharts, FactSet, Breckinridge Capital Advisors, Bureau of Labor Statistics, Federal Reserve, Nasdaq, CNN Business, as of 1/31/2026

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