WEEKLY ECONOMIC UPDATE JAN. 26, 2026

Markets ended a short but eventful week slightly lower amid geopolitical tensions and fresh tariff threats. However, constructive economic news appeared to buoy spirits as the week progressed.

The Standard & Poor's 500 Index fell 0.35 percent, while the Nasdaq Composite Index was flat (-0.06 percent). The Dow Jones Industrial Average declined 0.53 percent. By contrast, the MSCI EAFE Index, which tracks developed overseas stock markets, rose 0.91 percent.[1,2]

Tariff Talk

Stocks opened lower on Tuesday after the White House threatened fresh tariffs on EU nations following an international debate over Greenland.

The S&P 500 and Nasdaq slid more than 2 percent, while the Dow Industrials also came under pressure.[3]

Markets rebounded on Wednesday after assurances that the U.S. would adopt a more diplomatic approach toward Greenland. By the close of trading, the White House also walked back its tariff threats and said it had reached a framework for a Greenland deal.

On Thursday, markets accelerated higher, powered by a slight uptick in revised Q3 GDP and lower-than-expected weekly jobless claims.[4,5]

The S&P 500 went sideways on Friday as investors looked ahead to a big week of Q4 corporate reports and the first Fed meeting of 2026.[6]

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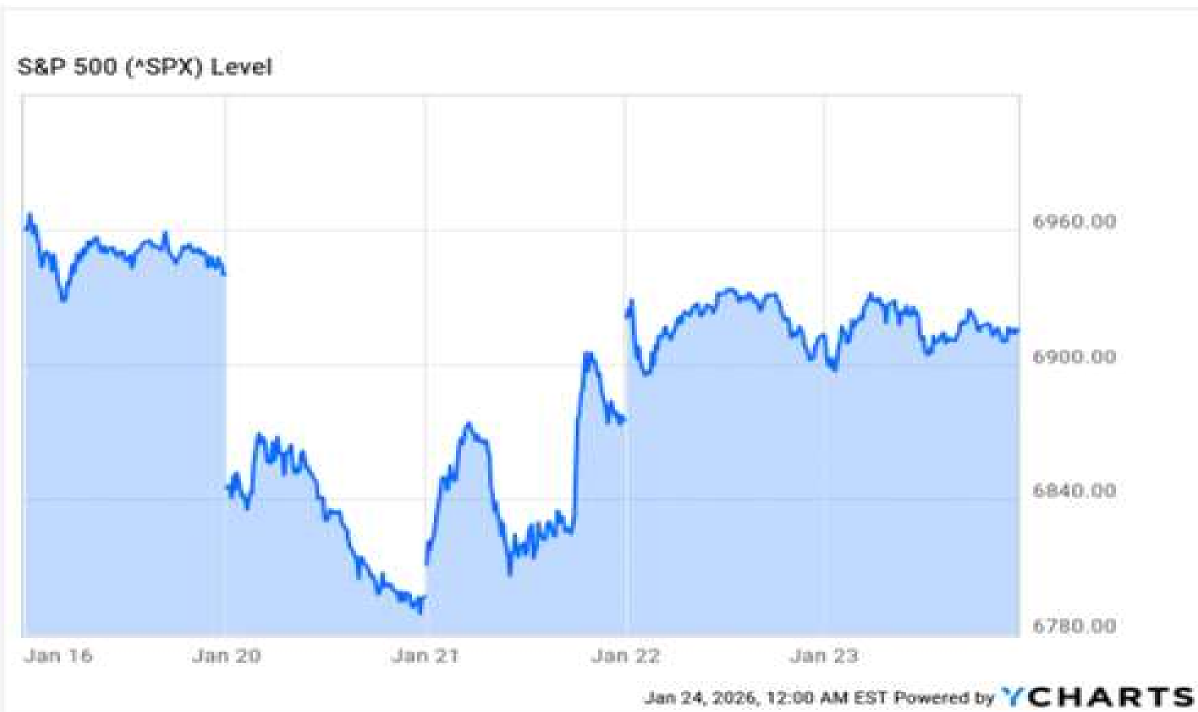
Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
MSCI EAFE	3.88%	3.28%	31.98%	58.44%
Dow Jones Industrial Average	2.18%	2.81%	13.77%	75.41%
Nasdaq Composite	0.05%	0.85%	17.88%	79.56%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 01/23/26	4.24%	4.18% 4.01% 4.65%	1.44% ▲ 5.74% ▲ -8.82% ▼

Eye-Catching Small Caps

For the 14 consecutive trading sessions through Thursday, January 22, David beat Goliath—the Russell 2000 Index of small-cap stocks outperformed the S&P 500. The last time that happened was May 1996. Small caps broke that streak on Friday.[7]

Small caps have historically outperformed large caps when interest rates have trended lower, but the 10-year Treasury rate has been rising since late October.[7]

This Week: Key Economic Data

Monday: Durable Goods (Nov).

Tuesday: Consumer Confidence.

Wednesday: Fed Interest Rate Decision. Fed Chair Powell Press Conference.

Thursday: Weekly Jobless Claims. Trade Deficit (Nov). Productivity (Q3). Wholesale Inventories (Nov). Factory Orders* (Nov).

Friday: Producer Price Index*(Dec).

Quote of the Week

"The people will not revolt. They will not look up from their screens long enough to notice what's happening."

– George Orwell, 1949

Of Note

It has become increasingly clear the stock market is no longer a stock market in the traditional sense. Its primary purpose was once straightforward: a venue where companies could raise capital by selling shares to the public, and where investors could freely buy and sell those shares among themselves.

Today, the market still performs that function — but it has been far overshadowed by three larger, unofficial roles that have become existential to social and political stability:

1. Liquidity Sponge: All the trillions in newly created currency units have to go somewhere. Better to have them chasing stocks than bidding up the price of groceries.
2. De Facto Savings Account: Most people treat their brokerage account as if it were a savings account. Their financial futures depend on the stock market continuing to rise. But putting money into the stock market is not saving — it’s investing, and that’s a very different thing. The rapid debasement of fiat currency has destroyed savings for the average person, forcing them into riskier assets like stocks in a desperate attempt to outpace inflation.
3. Crucial Tax Revenue: Taxes on capital gains, dividends, corporate profits, and other market-related activity have become an essential pillar of government funding.

As the failure of DOGE — the most serious attempt to cut federal spending in most people’s lifetimes — demonstrated, it’s politically impossible to even slow the growth rate of federal spending, let alone cut it. It doesn’t matter which party is in office; they're all headed in the same direction. It's like riding a runaway train with no brakes.

Issuing debt and then printing money to buy that debt remains one of the primary ways this out-of-control spending is financed. All those new currency units need an outlet. If people lose interest in the stock market because it has declined, those freshly created dollars will start flowing elsewhere, bidding up the prices of housing, food, and other basic necessities, which could trigger real social upheaval.

Another reason the government cannot allow the stock market to fall is that it would devastate retirement savings and infuriate the most politically active demographic. It's a near-guaranteed way to lose the next election.

A third reason is fiscal. A declining market would slash hundreds of billions in federal revenue from taxes on capital gains, dividends, corporate profits, and other market-linked activity. That shortfall would further explode the deficit, which would then need to be financed by even more borrowing and even more money printing, compounding the problem.

This is why, in short, the political establishment cannot tolerate a sustained downturn in the stock market. It would unleash intense social and political instability that could bring down the entire system. And this is also why the stock market is no longer primarily a stock market in the traditional sense. It has become a mechanism that the political establishment relies on to maintain control.

This is the backdrop behind today's absurd valuation metrics. The S&P 500's Price-to-Earnings (P/E) and CAPE (Cyclically Adjusted P/E) ratios are near historical highs, while Free Cash Flow Yield and Dividend Yield are near historical lows. Meanwhile, Market Cap to GDP (the Buffett Indicator) sits at a record high. It measures the total value of the US stock market relative to US GDP. Today, that ratio stands at roughly 221% — far exceeding prior peaks of 139% at the height of the dot-com bubble in 2000 and 106% at the peak of the housing bubble in 2007.

These are just a few examples. Nearly every fundamental measure of valuation is at or near all-time highs — and still climbing. This highlights the biggest challenge with investing today: rampant money printing by central banks has distorted financial markets like never before, rendering traditional fundamental analysis far less effective. It's like using a measuring stick where the length of a centimeter keeps changing.

As a result, finding high-quality businesses at reasonable valuations through Graham-and-Dodd-style securities analysis is becoming increasingly difficult, if not impossible. You would be mistaken to believe today's insane valuations reflect a voluntary free market of rational buyers and sellers operating with honest money. What we are witnessing instead is the financial equivalent of a carnival fun house — a distorted, warped mirror shaped by an ever-increasing supply of fake money.

Many are understandably confused because today's stock market valuations don't make financial sense. But what they overlook is that these valuations do make political sense — and political concerns will continue to trump fundamentals as long as politicians control the money printer.

The financial fun house illusions will persist, and they will become even more absurd. To distill it down to its most concise form: the US government can either let the stock market decline and watch the whole house of cards come tumbling down, or continue to goose it with easy money. It's not difficult to predict which option they'll choose.

That is why, if we do see a stock market decline, it likely won't be prolonged. In the past 26 years, the only extended downturns were the dot-com bust and the 2008 financial crisis. Every other pullback — including the 2020 Covid collapse — was so brief that if you'd taken a long vacation, you might have missed it entirely. That's because at the first sign of trouble, the Federal Reserve stands ready to create as many currency units as necessary to prop up the system.

This dynamic will persist. If another downturn is coming, it won't last long. The far more likely outcome is that we'll continue to experience a melt-up (in nominal terms) until they destroy the currency.

Ludwig von Mises, the godfather of free-market Austrian economics, summed up the US government's dilemma: "There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as the result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved."

The US government will not voluntarily "abandon credit expansion," as Mises puts it, because Washington is dependent on issuing increasing amounts of debt — which the Fed buys with dollars it creates out of thin air — to pay for the ever-growing costs of Social Security, national defense, welfare, and interest on the federal debt. That means their only choice is to debase the US dollar by ever-increasing amounts until, as Mises puts it, the "final and total catastrophe of the currency system involved." It's like a drug addict who needs to keep raising his dose to get the same effect… until he dies of an overdose. Could that happen in 2026? It's a possibility, but not the most likely outcome. More likely, the melt-up will continue.[8]

Footnotes And Sources

1. WSJ.com, January 23, 2026
2. Investing.com, January 23, 2026
3. CNBC.com, January 20, 2026
4. CNBC.com, January 21, 2026
5. WSJ.com, January 22, 2026
6. CNBC.com, January 23, 2026
7. WSJ.com, January 22, 2026
8. zerohedge.com/markets/stock-market-isnt-market-anymore-its-political-control-mechanism

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The forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice.

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The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. The Nasdaq Composite is an index of the common stocks and similar securities listed on the Nasdaq stock market and considered a broad indicator of the performance of stocks of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

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