Post Oak Private Wealth Advisors
ADVISORY, CONSULTING & INVESTMENT MANAGEMENT

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Monthly Market Commentary

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While much of the U.S. shivered under bitter cold and snowy weather in January, geopolitical risk turned up the heat as tensions erupted in hotspots such as Venezuela, Iran and the icy tundra of Greenland. Investors got re-acquainted with tariff turmoil too and markets reacted to President Trump's trade threats against the E.U., Canada and South Korea. Luckily, there were few surprises in the economic numbers from year-end 2025 or in the Federal Reserve's decision to hold interest rates steady at the end of the month.

Stocks did touch all-time highs before the tariff-induced volatility and recouped those losses for the S&P 500 to get back near the 7,000 level. But overall, it was a modest month for stock returns, with the S&P 500 gaining 1.5% and the Nasdaq Composite rising around 1.0%.

Catching up with the economic data

Following the disruption in reporting during last quarter's federal government shutdown, markets welcomed the return of regular economic data flow this past month, even though most reporting was still making up for lost time. Taken all together, the recent numbers show that the economy is in pretty good shape, while also giving investors some sense of where Federal Reserve monetary policy may be headed in the coming year.

Of keen interest to Fed watchers were monthly inflation readings, which showed consumer price pressures continuing to moderate and little to no impact from higher tariffs. The Fed's preferred inflation gauge—the Personal Consumption Expenditures Index—was flat in November and largely in line with expectations. December's number for the Consumer Price Index also showed inflation holding steady at 2.7% year-over-year. That's good news on the affordability front, although highly visible grocery prices increased at the fastest rate in over three years and shelter costs rose the most since last August. Prices for appliances, used vehicles and car repairs saw significant declines in December.

On the other side of the Fed's mandate, employment trundled along with another weak month for nonfarm payroll gains (just 50,000 new jobs created in December) but the unemployment rate did ease to 4.4%. Companies appear not inclined to add to their workforces—both job openings and hiring dropped in the November JOLTS report—but they're also not accelerating layoffs. That may be a slim silver lining for the jobs market after a year when employment growth slowed considerably; monthly job growth averaged around 49,000 for all of 2025, down from just under 168,000 for 2024. But the fact that the jobs number didn't decline in December and showed signs of stabilization was enough to inspire hope in the markets that employment growth may be turning the corner.

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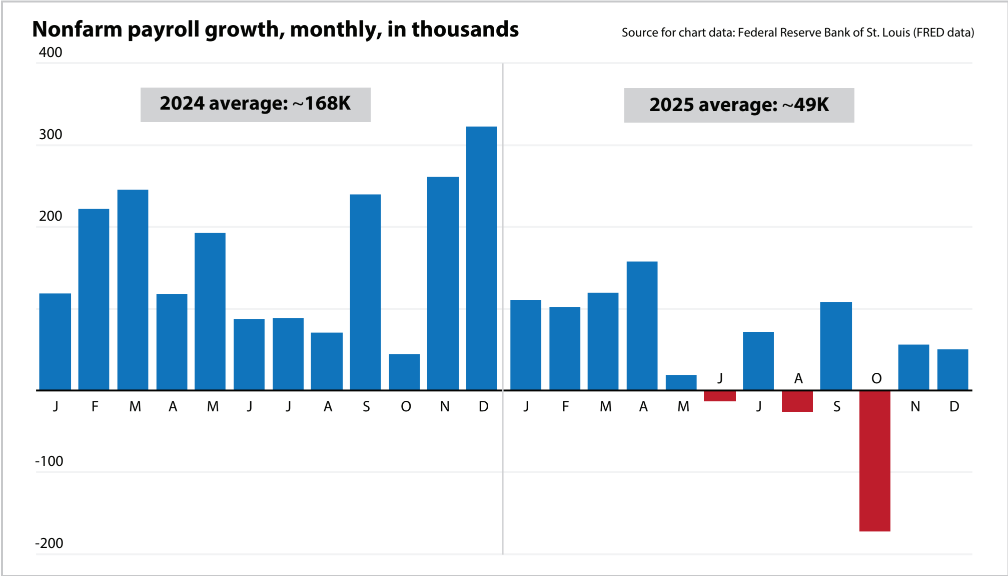

Soft labor conditions and sticky inflation didn't hold consumers back from shopping as 2025 ended. Spending increased at an inflation-adjusted 0.3% rate in November, which was mostly on par with previous months. The strength in consumer spending helped bolster overall Gross Domestic Product, which accelerated at a 4.4% year-over-year rate for Q3. While the lack of decent job growth is a concern, most other datapoints reflect an economy that's running on all cylinders, fueled by card-charging consumers as well as the AI infrastructure buildout and not constrained by out-of-control inflation.

Changing times at the Fed

In light of the strong economic numbers, the Federal Reserve really had little choice but to press pause on further rate cuts at its January 28 meeting. There were still calls from the White House for lower interest rates, and two voters did favor a rate reduction, but the majority of FOMC members see current monetary policy as "well-positioned" (in the words of Fed Chair Jerome Powell) to wait out the impact of its three rate cuts at the end of last year. With good GDP growth and no breakout of inflation, the Fed may be as close as they can get to a neutral rate, at least under current conditions.

As of this writing, the next Fed rate cut isn't likely to come until June. By that time, Powell's tenure at the helm of the central bank will be over and the next Chair will be in place. That's likely to be Kevin Warsh, Trump's nominee to lead the Fed, if he is approved by the Senate. Warsh has experience on the Fed's rate-setting board and was known to be an inflation hawk, but more recently has been a vocal Fed critic and spoke publicly about the need for lowering rates and shrinking the Fed's balance sheet. Those positions may align Warsh with the president's wishes, but rate easing may be more difficult to accomplish if inflation proves tougher to tame. Interestingly, his nomination and hawkish past was at least part of the reason why the torrid rally in gold and silver prices reversed into a tailspin on January 30.

Incoming Fed chairs often speak of maintaining continuity through the transition, but Warsh's arrival may represent a break from current Fed policy. Investors will learn more during Warsh's

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confirmation, which will play out over the first half of 2026. Expect more intrigue over the future direction of monetary policy and more debate on the topic of Fed independence. It is essential for the integrity of the U.S. economy that Fed officials make the effort to act independently and be transparent in their decisions. Over the past month, financial markets have held the faith that Fed independence will remain in place, even as longer-term interest rates percolated and the U.S. dollar weakened. Those moves were largely driven by factors beyond the Fed's influence.

The return of geopolitical risks

The geopolitical stage was relatively quiet in the closing months of 2025, but that changed dramatically in the new year. It started with the seizure by US forces of Venezuelan president Nicolás Maduro, who was arrested on allegations of drug trafficking and collaboration with drug cartels. That was followed by internal unrest in Iran, with President Trump vowing to come to the aid of Iranian citizens protesting the current regime. Stock investors largely looked past these events, although oil markets saw some upward increase in prices but pressures eased along with the tensions.

Another of Trump's geopolitical obsessions—Greenland—had more of an impact. In the case of the Denmark-controlled territory, the spat between Trump administration officials and leaders of the other NATO countries escalated to tariff threats. It was all too reminiscent of last April's "Liberation Day", with renewed talk of a "sell America" trade that fueled a drop in the dollar, a rise in long-term interest rates and a swoon in the stock market. After the market had its say—including daily declines of over 2% in the S&P 500 and Nasdaq Composite—Trump de-escalated the following day, backing away from both the tariff threats and any plans to take Greenland by force.

It was a stark reminder to the markets that geopolitical risk has not gone away. In fact, these risks are still out there, not only over Greenland (where US and European officials are holding discussions) but also with Iran. As of this writing, tensions are on the rise as the U.S. increases its military presence in the Gulf region and the president piles rhetorical pressure on Iran's leaders. Iran has been in the crosshairs of several U.S. administrations and time may be approaching for decisive action. But unlike Venezuela and Greenland, Iran presents a tougher proposition with a bigger military in a more dangerous part of the world. I won't speculate on the geopolitical fallout, but from an investment perspective the potential for market volatility is significant. We are monitoring the risks but also well-positioned in our portfolios to manage them through our defensive strategies.

Rotation within market leadership

Looking deeper into market returns over last month, the rotation in performance that we saw last quarter continued. Investors haven't soured on technology and AI-growth stocks, but the dominance of the Magnificent-7 stocks appears fractured. Moving away from high-priced growth stocks means looking more at undervalued areas of the market, including financials, industrials and energy. Rather than multiple expansion, which has been the primary driver of stock returns over the last three years, earnings growth is likely to become more of a catalyst with the S&P 500 trading roughly 23-times forward earnings—well above average—and investors more discerning about AI infrastructure spending and how companies are growing revenue.

From a sector standpoint, there were some clear outperformers in January, starting with energy which benefited from the rise in oil prices during the month. More old-school, value-oriented sectors including materials, industrials and consumer staples also outshined the market. Technology was among the decliners, although financials was the worst-performing sector, falling over 2% for the month.

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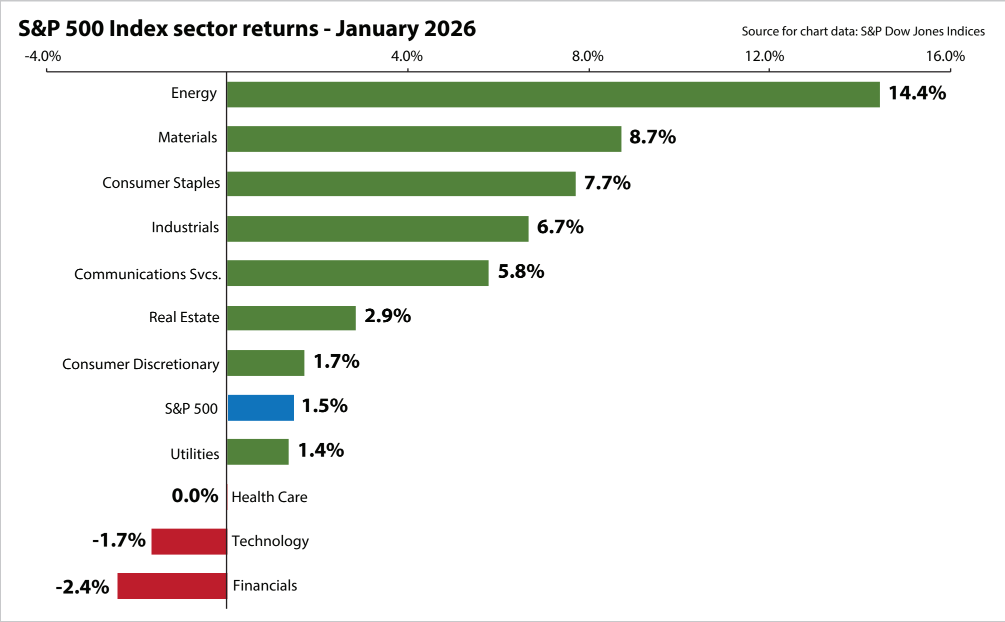

A market climate where leadership is on the move presents a good opportunity to position for sustainable growth in the year ahead. While we're always focused on quality companies, the timing is right to sharpen that focus and upgrade to firms that are delivering quality in their fundamentals. A shift away from the more speculative names that drove performance in 2025 was appropriate in our January rebalance, but that doesn't have to mean giving up on the growth potential of technology stocks or the AI opportunity. Industrials, for example, offer a creative way to participate in the AI growth potential with companies that are growing revenues today in the construction of data centers and power grids.

Continuously managing risk in a volatile climate

Every year brings with it a new set of challenges and opportunities, and 2026 is certain to not be an exception. As managers, we embrace these challenges while continuing to seek opportunities to grow and protect our clients' wealth. You can count on us to keep you informed of the financial implications of any economic and political events that transpire. Please contact us at any time if you are interested in discussing what's happening in the market or with your investments.