

JANUARY 12, 2026

Weekly Wire

Higher Margins Should Mean Higher Stock Prices

By Tim Holland, CFA

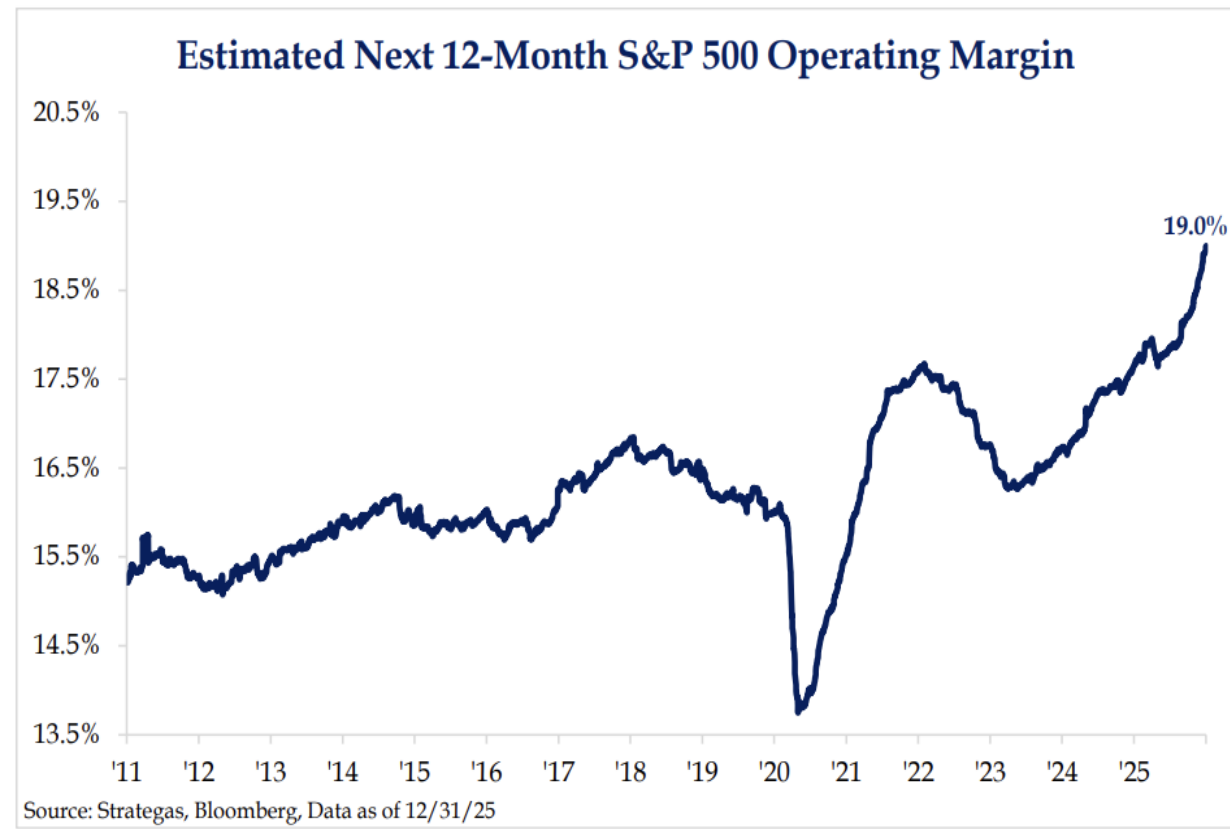
- Concerns over valuation have dogged US stocks for years, the idea being stocks can't grind higher because they are richly priced and are due to either move sideways until corporate profits catch up with them (a best-case scenario) or tumble meaningfully until they catch up with corporate profits (a worst-case scenario). And it is true US equities, using the S&P 500 as a proxy for the broad market, are expensive relative to their own history, trading close to all-time highs on multiple earnings metrics, including trailing earnings, forecasted earnings and the Case / Schiller Cyclically Adjusted Price to Earnings ratio.
- We are not dismissive of valuation concerns. But we also think it's worth remembering not all stock markets are created equal – some are made up of less profitable companies, and some are made up of more profitable companies. And that framework doesn't just apply to one stock market relative to another but one stock market relative to itself over time, if that makes sense (meaning as a country's economy evolves so should its stock market, for better or for worse). Which brings us to the point of this week's note, and an important offset we think to the concerns over valuation, and that is the absolute level of US corporate profitability.
- According to Strategas, a leading Wall Street research firm, the S&P 500 is closing in on an historic 19% operating margin (see chart...from an income statement or P&L perspective, costs core to running a business – like salaries – tend to reside above the operating line while costs not core to running a business – like interest expense – tend to reside below the operating line). We would argue more profitable companies are worth more, that they deserve a higher multiple on earnings (and other valuation metrics) as higher margins should signal a more efficient enterprise, with increased pricing power and greater opportunities for the reinvestment of profits going forward. Now, the caveats to that argument are margins need to prove sustainable and companies need to continue to drive sales and earnings growth. As Wall Street expects S&P 500 sales and earnings to grow 7% and 15% respectively this year, it seems those important boxes, at least for now, are being checked off. Trees don't grow to the sky, and markets don't always go up, but higher margins should mean higher stock prices.

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Looking Back to Last Week

The first full trading week of the year posted strong returns. Major benchmarks posted roughly 2% gains, with the S&P 500 and Dow Jones Industrial Average reaching new all-time highs on Friday. Small caps led the move higher, reflecting broad risk appetite. International equities also performed well despite a stronger dollar. Global stocks gained 1.4%, led by emerging markets, as non-U.S. equities look to extend their relative strength into 2026. Real assets participated as well, with commodities up 2.5% and REITs gaining 1.4%.

Labor data sent mixed signals. Hiring slowed more than expected in December across both ADP Employment and Nonfarm Payrolls. Even so, the unemployment rate edged down to 4.4%, below the 4.5% consensus. That combination was enough to all but remove expectations for a January rate cut. Consumer sentiment improved modestly. The University of Michigan's preliminary reading rose to 54.0 from 52.9 in December, a four-month high, though still well below levels from a year ago.

Interest rates dipped slightly across the curve, offering modest support to rate-sensitive assets.

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Looking Ahead to This Week

It is a busy week for both earnings and economic data. Q4 earnings season kicks off with major banks reporting alongside Delta Air Lines and Taiwan Semiconductor, setting the tone for financials, travel, and global tech. Economic releases will be closely watched. CPI, PPI, retail sales, and both new and existing home sales are all due this week, providing fresh reads on inflation, consumer strength, and housing.

Several Federal Reserve regional presidents are scheduled to speak ahead of the January 28 FOMC meeting. Markets are listening for any clues on how policymakers are thinking about growth, inflation, and rate policy in 2026.

Rate expectations have shifted meaningfully. Markets now assign a 96% probability of a hold at the January meeting. While the base case still assumes two cuts later in 2026, expectations remain widely dispersed as investors await clarity on the next Fed Chair.

Growth estimates are moving quickly. The Atlanta Fed GDPNow model now projects Q4 GDP at 5.1%, up sharply from 3.0% last week, driven almost entirely by stronger net exports.

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Stocks, Bonds, Alternatives, & Real Assets as of January 9, 2026

| Security Name | Risk Score | 1 Week | 1 Month | QTD | YTD | 1 Year | 3 Year Ann. |
|--------------------------------------|------------|--------|---------|-------|-------|--------|-------------|
| Global Equities (60% US, 40% Intl) | 100 | 1.62% | 3.20% | 2.18% | 2.18% | 25.76% | 20.53% |
| S&P 500 Total Return | 102 | 1.58% | 1.94% | 1.80% | 1.80% | 19.23% | 23.16% |
| Dow Jones Industrial Average | 97 | 2.34% | 4.17% | 3.03% | 3.03% | 18.11% | 16.07% |
| NASDAQ 100 Total Return | 122 | 2.22% | 0.42% | 2.06% | 2.06% | 22.51% | 33.41% |
| TV Benchmark | 107 | 2.05% | 2.18% | 2.30% | 2.30% | 19.95% | 24.21% |
| Morningstar US Large Cap | 102 | 1.36% | 1.39% | 1.41% | 1.41% | 20.62% | 25.91% |
| Morningstar US Mid Cap | 113 | 2.33% | 3.74% | 3.36% | 3.36% | 12.79% | 14.12% |
| Morningstar US Small Cap | 125 | 3.67% | 4.96% | 4.95% | 4.95% | 17.17% | 15.33% |
| Morningstar US Value | 98 | 1.93% | 4.55% | 2.67% | 2.67% | 19.86% | 14.42% |
| Morningstar US Growth | 126 | 2.21% | 2.03% | 3.21% | 3.21% | 15.80% | 25.79% |
| MSCI ACWI Ex USA | 98 | 1.44% | 4.90% | 2.41% | 2.41% | 36.11% | 17.03% |
| MSCI EAFE | 101 | 1.42% | 4.68% | 2.03% | 2.03% | 33.98% | 16.91% |
| MSCI EM | 98 | 1.62% | 5.55% | 3.44% | 3.44% | 40.03% | 16.03% |
| Bloomberg US Agg Bond Index | 27 | 0.35% | 0.70% | 0.15% | 0.15% | 7.97% | 3.97% |
| Bloomberg High Yield Corp Bond Index | 41 | 0.39% | 1.02% | 0.39% | 0.39% | 8.70% | 9.19% |
| Bloomberg Commodity Index | 70 | 2.46% | 2.70% | 2.31% | 2.31% | 16.33% | 5.83% |
| Wilshire Liquid Alternative Index | 25 | 0.57% | 0.17% | 0.68% | 0.68% | 6.35% | 5.56% |
| MSCI US REIT | 104 | 1.40% | 2.36% | 1.68% | 1.68% | 6.18% | 8.44% |
| US Dollar | 10 | 0.62% | -0.15% | 0.62% | 0.62% | -9.31% | -1.61% |
| Bloomberg US Treasury Bill 1-3mo | 1 | 0.07% | 0.34% | 0.10% | 0.10% | 4.30% | 4.92% |

Source: Morningstar.

The TV Benchmark represents an average of the S&P 500, Dow Jones IA, and NASDAQ 100 return indexes

The Orion Risk Score represents risk relative to the global equity market.



We hope you have a great week. If there's anything we can do to help you, please feel free to reach out to ben.vaske@orion.com or opsresearch@orion.com.

Interest Rates as of January 9, 2026

| Rate | This Week | 1 Week |
|-------------------------|-----------|--------|
| 13-Wk Treasury Yield | 3.51% | -0.02% |
| 10-Yr Treasury Yield | 4.17% | -0.02% |
| Bloomberg US Agg Yield | 4.33% | -0.02% |
| Avg Money Mkt Yield | 3.54% | -0.04% |
| Avg 30-Yr Mortgage Rate | 6.22% | -0.03% |

Sources: Yahoo Finance, S&P Global, Crane Data, BankRate

Key Economic Data Last Week

| Data Point | Expectation | Actual |
|------------------------|-------------|--------|
| ISM Manufacturing | 48.3 | 47.9 |
| ADP Employment | 48,000 | 41,000 |
| ISM Services | 52.2 | 54.4 |
| U.S. Trade Deficit | 58.4B | 29.4B |
| U.S. Consumer Credit | 9.2B | 4.2B |
| U.S. Employment Report | 73,000 | 50,000 |
| U.S. Unemployment Rate | 4.5% | 4.4% |

Source: MarketWatch, First Trust

Key Economic Data This Week

| Data Point | Expectation | Release Date |
|--------------------------------------|-------------|--------------|
| Consumer Price Index (CPI) YoY - Dec | 2.7% | 1/13/26 |
| Core CPI YoY - Dec | 2.7% | 1/13/26 |
| U.S. New Home Sales - Oct | 709,000 | 1/13/26 |
| Retail Sales - Nov | 0.4% | 1/14/26 |
| Producer Price Index (PPI) YoY - Nov | -- | 1/14/26 |
| Core PPI YoY - Nov | -- | 1/14/26 |
| Existing Home Sales | 4.25M | 1/14/25 |

Source: MarketWatch

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