

# JANUARY MARKET UPDATE

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**SETTING THE TONE FOR  
THE YEAR:  
JANUARY'S EARLY MARKET  
CLUES**

As of  
**January 31st, 2026**



**American  
National Bank  
& Trust**

## Setting the Tone for the Year: Markets Open 2026 with Measured Optimism

January delivered a constructive start to the year across both equity and fixed income markets. Broad U.S. equity indices posted gains, with the S&P 500 rising 1.44% for the month, outperforming its historical January average return of approximately 1.23%. Equity returns over the past twelve months remain strong, with the S&P 500 up 19.82%. Fixed income also contributed, as the U.S. Aggregate Bond Index returned 0.11% and U.S. Municipal bonds gained 0.94%.

Investor sentiment remained steady but watchful, reflecting ongoing uncertainty around interest rates and the economic outlook. As markets transition from the liquidity-driven momentum of prior years, early 2026 is shaping up to be a period defined by fundamentals, earnings durability, and policy discipline.

## The Big Picture

### Policy Expectations Continue to Diverge

Market participants continue to forecast a lower Federal Reserve policy rate over the next twelve months, though that outcome remains far from certain. Current consensus expectations imply approximately a 50-basis point reduction in the policy rate by year-end, reaching roughly 3.14%. Importantly, market expectations remain below the Federal Reserve's own projections (3.38%), reinforcing the ongoing disconnect between investors and policymakers.

The next Federal Reserve meeting is scheduled for March 18th. Expectations around future policy moves are being shaped by incoming inflation data, labor market trends, and evolving unemployment conditions. This divergence highlights the complexity of the Fed's dual mandate as it balances price stability against signs of labor market softening.

## What the Economic Data is Telling Us

### Inflation Is Moderating, but Still Above Target

Inflation continued its gradual downward trend in January, with CPI ending the month at 2.68%. While this reflects meaningful progress from prior highs, inflation remains above the Federal Reserve's long-run target of approximately 2.5%. PCE data tells a similar story, showing moderation but remaining elevated relative to policy objectives.

The improvement in inflation has been welcomed by markets. However, recent data revisions suggest inflation may stabilize above target levels as economic adjustments continue to be released. This reinforces the Federal Reserve's cautious approach to easing. **(See *Chart Book*)**

### Employment Remains Strong, with Signs of Cooling

Nonfarm payrolls continue to trend higher, pointing to ongoing strength in employment. At the same time, the unemployment rate has risen to 4.40%, up from 4.00% one year ago. This combination highlights a growing divergence within the labor market. **(See *Chart Book*)**

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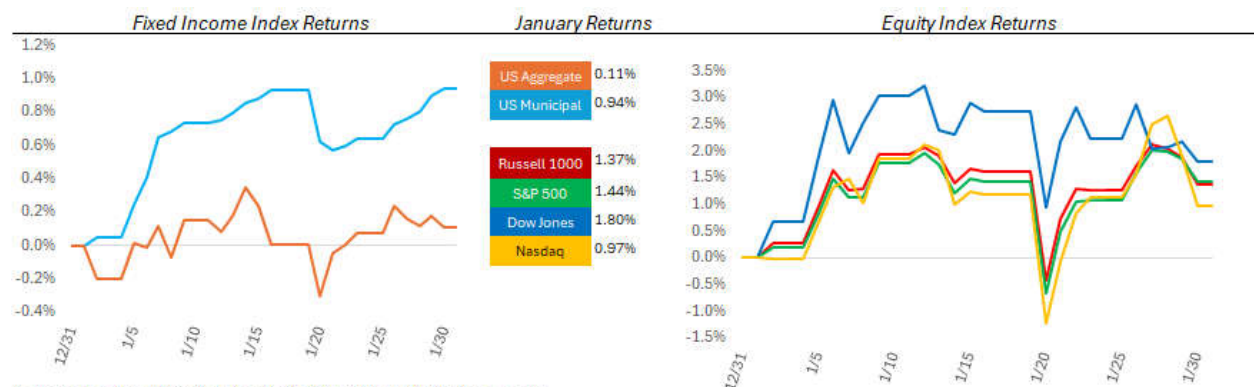
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Strong payroll growth typically supports tighter policy, while rising unemployment may signal emerging macroeconomic softness. This balance complicates the Federal Reserve’s decision-making and increases market sensitivity to incoming labor data.

## Investors expect two 25-basis point rate cuts in 2026

The Federal Reserve left short-term interest rates unchanged at their January 28<sup>th</sup> FOMC meeting. The Upper Bound sits at 3.75% and the Lower Bound at 3.50%. Based on the current market implied probability model, the first rate cut of 2026 is projected to come at the June 2026 meeting with one more cut projected at the December 2026 meeting. **(See Chart Book)**

## Market Performance in December



Source: Bloomberg LP, Calculations by ANB&T - Trust & Wealth Management

### Stock market indexes benefited from:

- Continued resilience in corporate earnings
- Positive earnings and sales surprises, particularly in Energy and Information Technology
- January earnings data showing 59% of reporting Russell 1000 companies exceeding sales expectations and 79% exceeding earnings expectations

January’s reported earnings delivered a positive surprise, with overall sales and earnings surprises of 1.42% and 8.07%, respectively. This earnings resilience remains a supportive tailwind for equity valuations heading into the next quarter.

### Bond market indexes benefited from:

- Continued demand for high-quality bonds
- Market environment offering attractive yields relative to recent history
- Risk premium spreads remaining little to unchanged month over month

Taxable bonds gained 0.11% and municipal bonds returned 0.94% during the month. While Treasury yields moved modestly higher, market conditions supported stable performance across fixed income sectors.

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## What We Are Watching and How We Are Positioning

Key Themes Guiding Market Behavior:

- Inflation trends relative to Federal Reserve targets
- Labor market strength alongside rising unemployment
- Federal Reserve policy direction and rate expectations
- The shift from valuation-driven returns to earnings-driven growth
- A “split” economy marked by resilient high-income consumers and softer labor trends

We continue to emphasize:

- **Quality U.S. equities** as the core of long-term appreciation, with a focus on AI infrastructure and power companies
- **Government and Investment-grade credit** for stability and dependable income
- **Strategic global allocations** to diversify macro and policy risk
- **Liquid alternatives**, including selective exposure to assets such as gold, to enhance portfolio responsiveness

Our approach balances growth opportunities with defensive positioning, allowing portfolios to remain resilient amid shifting policy expectations and evolving economic conditions.

## Final Thoughts

January reinforced the transition into a more fundamentals-driven market environment. While volatility remains possible as policy expectations evolve, economic resilience and constructive earnings trends continue to support the long-term outlook.

Our investment approach balances opportunity with discipline. We seek to blend value and growth investments across stocks and seek relative value in the bond market. As we move through 2026, occasional volatility is likely – yet these periods can create opportunities to capture relative value and attractive yields, rebalancing portfolios at favorable levels. We believe a disciplined and diversified investment approach is well positioned for the path ahead.

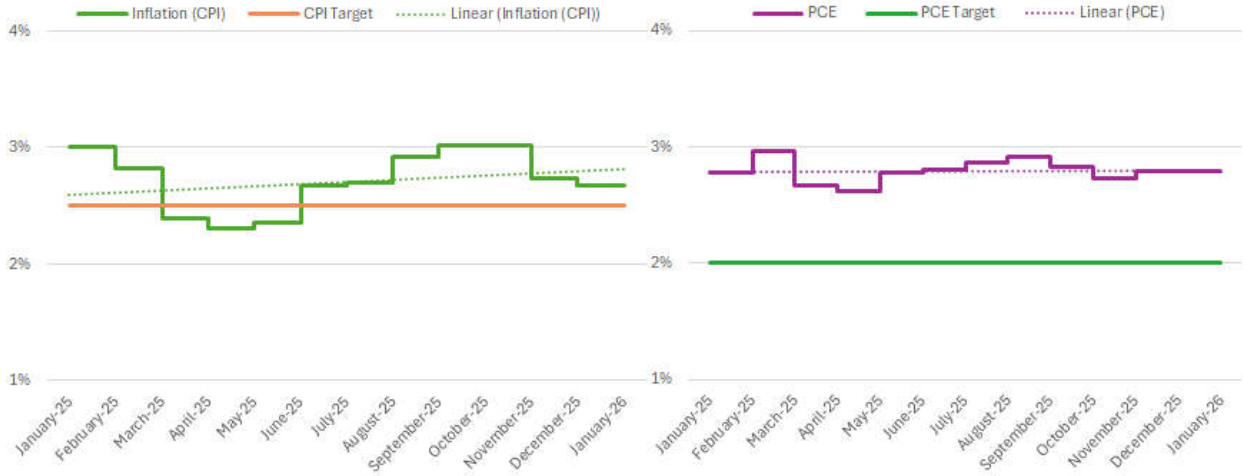
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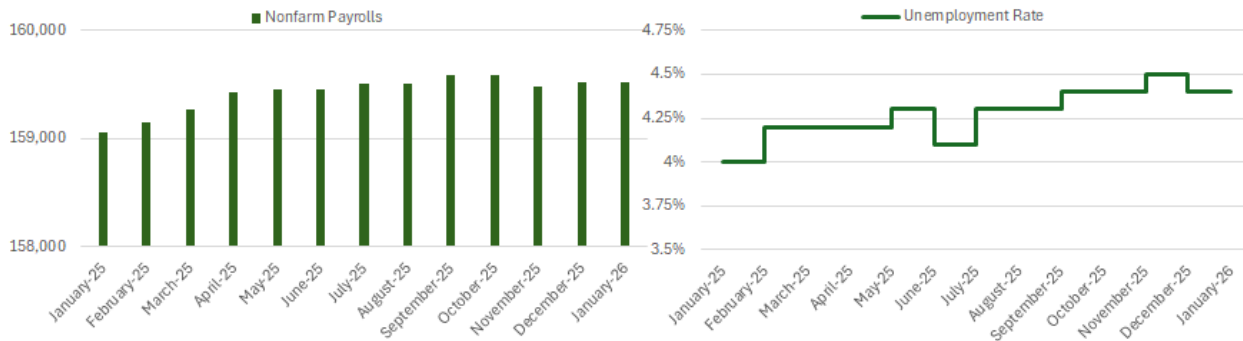
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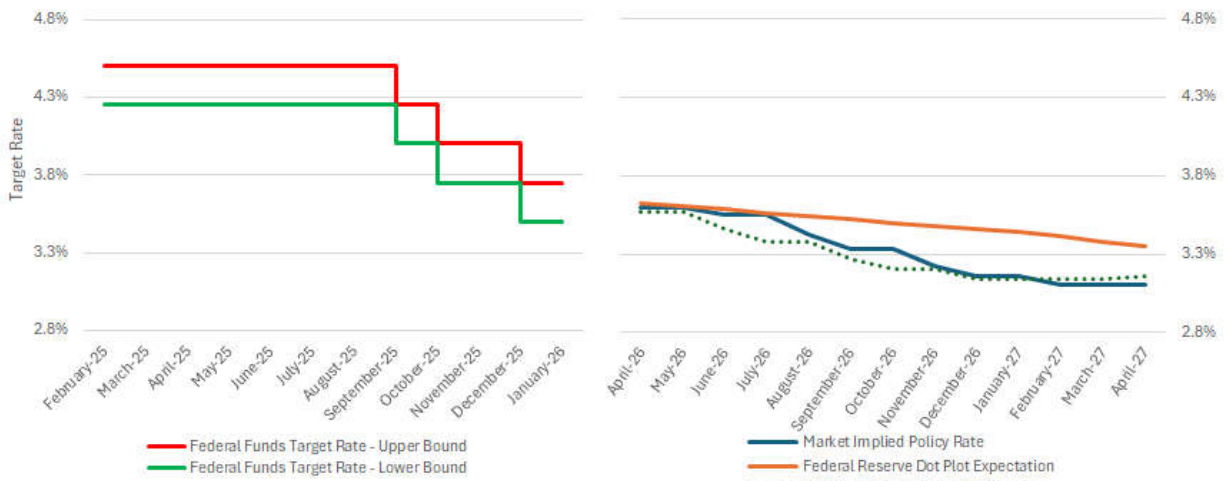
## Chart Book



Source: Bloomberg LP, Calculations by ANB&T - Trust & Wealth Management



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