THE CAPITAL MARKETS

New Covenant Trust Company

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MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished January at 48,892, up +1.73% for the month. The S&P 500 closed January at 6,939, up +1.37% for the month. The NASDAQ Composite gained +0.95% in January, while small-company stocks as measured by the Russell 2000 gained +5.31%. Energy (+14.16%) was the best-performing sector in January.

2026 WORD OF THE YEAR FOR MARKETS MAY BE 'ROTATIONAL'

The S&P 500 gained over +17% in 2025, the sixth year out of seven with returns of at least that amount. Themes that drove markets higher in many of those past years were the same in 2025.

The market was driven by a handful of large technology companies, buoyed by optimism around AI technology, and the big companies got bigger — outperforming their smaller peers.

For the first time in a while, however, markets are beginning to show some persistent signs of rotation happening under the hood.

From the beginning of last December through February 6, for example, the Russell 1000 Growth Index was down -3.80% while the Russell 1000 Value Index was up +7.70%. The S&P 500 was up +1.52% while the Russell 2000, an index of small caps, was up +7.90%. The MSCI ACWI ex-US, a broad index of international stocks, gained +8.77% over the period, handily outperforming the S&P 500.

In other words, mid and small caps have been outperforming large, value has been outperforming growth, and international has been outperforming U.S. — all reversals from trends that have defined the last decade in markets.

While the period is still relatively short and not certain to persist, many strategists expect 2026 will be a year of rotation in markets. We explore a few of the potential reasons below.

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> **"After years of making outsize bets on the largest U.S. companies, investors are moving more money into international markets, wagering that America's wide lead on the rest of the world will shrink."**
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> *The Wall Street Journal, February 9, 2026*

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The economy is expected to grow, but more slowly.

While the U.S. economy saw annualized GDP growth of over +3.4% in both the second and third quarters of 2025, forecasts for GDP growth in 2026 is for more baseline levels of +2% or so.

With fiscal tailwinds coming from tax cuts and deregulation, and a Federal Reserve still accommodative for now, most expect a slip into recessionary conditions would be unlikely for the economy in 2026. A "low-hire low-fire" labor market, where companies are neither aggressively hiring nor aggressively laying off workers, may be enough for the unemployment rate to steady around current levels of 4.5% or so, still historically low.

Absent the outsized growth seen in AI spending in recent years, investors may favor more traditional industries and companies trading at more reasonable valuations.

Benefits of AI are expected to spread.

2025 was the year artificial intelligence became truly mainstream and its usage normalized, especially in business. People rode in self-driving cars, AI was used in real-time business settings, and prototypes for robotic assistants seemed less far-fetched than ever. Importantly, investors began conceptualizing and seeing actual opportunities for businesses to improve productivity, efficiencies and bottom-line results.

The S&P 500 from 2023-2025 was dominated by the performance of companies either developing AI or selling the components that go into AI. In 2026, investors are beginning to see results and returns from companies that are using AI. From logistics and manufacturing companies to drugmakers and health care companies, investors are now looking for businesses either set to benefit from AI, or those unlikely to be disrupted by AI in the near term. After a long run for the Magnificent Seven, many expect the other 493 companies in the S&P 500 are set to have their day in the sun.

Returns from here will be harder in large growth.

Many strategists expected that at least some of the euphoric returns seen through the summer of 2025 were a pull-forward of 2026 return expectations, especially in the so-called "AI trade." In the past few weeks, we've seen large tech companies beat their revenue and earnings targets, only to have their share prices fall sharply.

Mag Seven companies, and the large-growth and tech sectors generally, were priced to perfection heading into 2026. With valuations so high, it would be hard for any company to exceed expectations.

Other areas of the market, however, don't have this issue. International companies, smaller companies and those in more traditional industries like financials, health care and materials, all have valuations that make the hill less hard to climb from here.

Positioning for a rotational market means diversification.

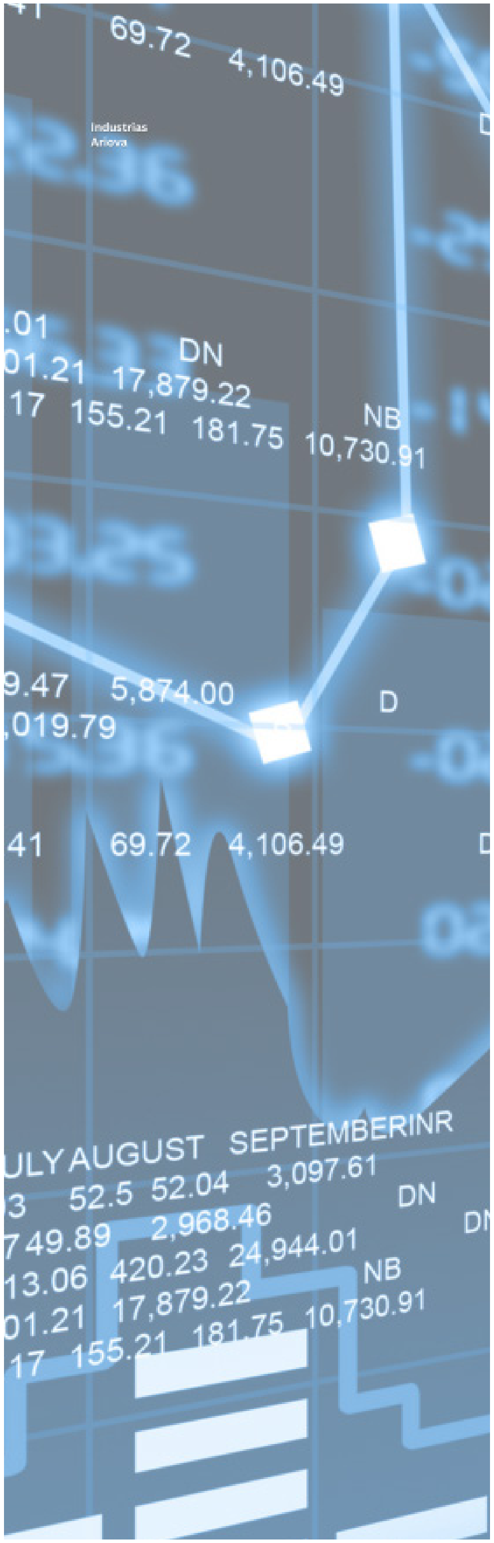
Many expected some rotation was likely after years of certain market sectors seemingly defying gravity. While AI, like most technological innovations, is likely to contribute to economic growth and productivity gains, the stocks most associated with the technology may be due for a breather.

For investors, the best way to position for a rotational market is to maintain broad diversification in portfolios across size, style, sector and geography. With markets still near all-time highs, it may be a good time to rebalance portfolios as appropriate, and to raise any cash for 2026 spending needs.

> **"Investors have also been rotating out of domestic stock-market leaders for some time. After three years of back-to-back blockbuster returns for U.S. equities — powered, for the most part, by the artificial-intelligence investing boom — traders are starting to look for the next wave of gains elsewhere. Foreign equities aren't the only beneficiary: Small-cap and blue-chip stocks have also outperformed in recent weeks."**
>
> *The Wall Street Journal, February 9, 2026*

Market Metrics

Index or Metric	Close as of 12/31/2025	Close as of 1/31/2026	Change Previous Month End	2026 YTD % Change
Dow Jones Industrial Average	48,063.29	48,892.47	+829.18	1.73%
S&P 500	6,845.50	6,939.03	+93.53	1.37%
NASDAQ Composite	23,241.99	23,461.82	+219.83	0.95%
RUSSELL 2000	2,481.91	2,613.74	+131.83	5.31%
Fed Funds Rate	3.50% - 3.75%	3.50% - 3.75%	UNCHANGED	
2-Year Treasury	3.47%	3.52%	+0.05%	
10-Year Treasury	4.19%	4.26%	+0.07%	
Crude Oil $ per Barrel	$57.42	$65.21	+$7.79	13.57%
Gold $ per Troy oz.	$4,341.10	$4,745.10	+$404.00	9.31%
UK Point in U.S. $	$1.3451US=1£	$1.3723US=1£	$ WEAKER	2.02%
Euro in U.S. $	$1.1745US=1	$1.1896US=1	$ WEAKER	1.29%
Canada $ per U.S. $	$1.37075C=$1.00US	$1.35415C=$1.00US	$ WEAKER	-1.21%
Japan Yen per U.S. $	156.745¥=$1.00US	154.26¥=$1.00US	$ WEAKER	-1.59%



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