

CIO Vantage Point

HENRY MERCER | Chief Investment Officer

“**Heroes? Vietnam Vets are heroes. The guys who tried to rescue our hostages in Iran are heroes. I’m just a hockey player.**

- Mike Eruzione

Captain of the gold medal winning 1980 USA hockey team

January was certainly not dull. There was enough headline grabbing financial and geopolitical news to fill an entire year. If you look at the U.S. stock market, the investment environment seems placid. Large-cap indices such as the S&P 500 finished the first month of 2026 with tiny gains. This impression is illusory because the financial world is anything but calm these days.

January witnessed the continuation of a variety newer trends established in 2025 – the most significant being a weakening dollar, a stampede into precious metals, a reassessment of cryptocurrencies, hotter commodity prices, international equity indices outperforming the U.S., and a late year momentum burst by U.S. small capitalization stocks. Checkout these January returns: WSJ \$ Index -1.3%, Gold +9.0%, Silver +11.6%, Bitcoin -5.9%, Dow Jones Commodity Index +8.0%, Crude Oil +10.1%, Gasoline +10.7%, MSCI All World Equity (ex U.S) +5.4%, MSCI Emerging Market Equity +8.8%, S&P Small Cap 600 +5.5%, and S&P 500 +1.4%. This convoluted market action in early 2026 provides an excellent excuse for investors to make sure that their asset allocations remain consistent with their objectives.

Thanks to modern day telecommunications, contemporary investors are bombarded with the day-to-day stuff. There is way too much noise and distraction. To generate lasting wealth, the investment playbook must take advantage of the long game. A crucial element Withum Wealth’s philosophy is the concept: “margin of safety.” Risky bets can destroy a lifetime of saving and compounding. Again, as referenced earlier, diversification is a key component of our strategy. We always think about balancing – by name, sector, and asset class.

Here is a summary of key factors likely to influence and dominate the attention of investors in the days ahead:

- Geopolitics:** The list of hotspots is lengthy – Ukraine, Gaza, Iran, Greenland – what’s next? Perhaps, the moon...Investors must realize that wars, international crises, and even terrorist acts do not inflict long-term damage to the stock market. Since World War II, the S&P 500 has discounted the worst impact of the various incidents and been higher on average one month, six months, and one year later. The S&P 500 was, in fact, lower a year after the Suez Crisis, 9/11, and Russia’s invasion of Ukraine. In each of these three cases, the U.S. had already entered a bear market caused by domestic economic and financial factors when the events occurred.
- The Fed:** Kevin Warsh’s appointment as the next Fed Chair appears to be an excellent decision. His qualifications are impeccable. As a former Fed governor serving during the 2008 financial crisis, he knows the territory – not just monetary strategy, but also its complex relationship with global finance. Like Treasury Secretary Bessent, Warsh has worked for legendary macro trader Stanley Druckenmiller – a big plus. Bessent and Warsh should team well. The unknown is the extent that the White House will attempt to compromise the central bank’s independence during Warsh’s tenure. In the meantime, the Fed has
- paused its easing cycle, but we doubt that Trump will ease up on Jay Powell. Don’t forget that the Fed-funds rate has already been cut six times, which is bullish for the U.S. stock market.
- The U.S. dollar:** The ICE \$ index has declined 11.3% since the beginning of President Trump’s second term. Major currencies tend to experience snail-like, long-term price trends. The dollar fell 2% versus the euro over the days immediately following the Davos Conference, a huge move historically. This volatility affects not just exchange rates and trade flows, but also commodities, and a wide spectrum of global asset classes. Trump, when questioned about dollar weakness, recently commented, “I think it’s great.” Verbal support for the currency has been a cornerstone of U.S. policy for generations. Treasury Secretary Bessent walked back the President’s words, but markets sense that a significant shift is now in motion.
- Gold and Silver:** Hate to use the term “bubble,” but the skyrocketing ascent of precious metal prices is developing into one. There is no gauging how high things can soar. Nevertheless, please be beware – gold and silver prices will plummet back to earth. Timing is unknown. Bubbles can begin with a sound fundamental underpinning. In gold’s case, it has been the quiet accumulation by the world’s central banks. Now the game has become hitching a ride on the uptrend. History’s



most infamous speculative episodes seep into all levels of society's psyche. People hate seeing other people making what seems like easy money. The temptation to join in can be irresistible. A friend at the gym just told me that she had sold her gold jewelry to pay for a lengthy vacation in the Cayman Islands. This is a clear symptom of a bubble. Thankfully, the transaction was not conducted in bitcoin. Precious metal prices tanked on the last day of January. It was the worst decline since 1980, when the Hunt brothers went bust trying to corner the silver market. Another friend told me over the weekend that he had developed a plan to trade gold. Not intending to be a smart ass, I reminded him about boxing champion Mike Tyson's words of experience - "everyone has a plan until they get punched in the mouth." Judging by his funny look, I doubt my friend took me seriously.

- **Commodities:** Thanks to the combination of a weak greenback and supply scarcity, commodity prices spiked upward in January. Commodity triggered inflation is the last thing the U.S. needs. This is reminiscent of the inflationary spiral after the Nixon administration delinked the dollar from gold. Back then, the White House initiated price controls, which was a miserable failure. Tariffs do

not help the situation. U.S. businesses importing goods pay these levies, not the overseas exporters. Rising commodity prices might deliver a double whammy.

- **The Trump Put:** Nothing regulates White House policy like the performance of the stock market. The Dow Jones Industrial Average has proven to be the scorecard. Few things would bother Trump more than for a bear market to tarnish his Presidency. This may account for his obsession over the Fed's setting of interest rates and the quick moderation of controversial objectives whenever the Dow retreats.
- **Pay Attention to U.S. Treasuries:** A stated objective of Treasury Secretary Bessent is a lower 10-year Treasury note yield, which determines mortgage rates. Many central bank watchers also stress that the yield of the 2-year Treasury is the appropriate benchmark for determining the Fed-funds rate. These yields are currently 4.24% for the 10- year and 3.54% for the 2-year. Rising yields in 2026 would be problematic. The reasons why are too plentiful to detail.
- **2026 is a Midterm Election Year:** Be prepared for volatility. The S&P 500 index has experienced a drawdown during every Midterm election year



since 1946. These selloffs have averaged 17.9%. In addition, the percentage frequency of annual advance is 55%, significantly less than the other three years within a Presidential term. The S&P 500's average annual return of 3.8% also trails the norm. History strongly suggests that investors not be alarmed if a Midterm year drawdown occurs in 2026. The declines have commonly occurred in the lead up to the elections and create ideal buying opportunities. **Since 1946, the S&P 500 has rallied 100% of the time from 10/31 just prior to election day to 10/31 of the following year – posting a 15.9% gain on average. There are zero exceptions.** The clear

message is do not panic should a similar selloff occur in 2026. Probability strongly favors staying the course. Big shoutout to CFRA Research's Sam Stovall for his pioneering analysis of historical stock market returns, the statistics cited here in particular.

- **Midterm Election Results:** Since the aftermath of World War II, the party that inhabits the White House has lost Congressional seats in all, but two of the twenty Midterm elections and the S&P 500 has advanced every time. Allowing political leanings to determine investment strategy is a lousy idea.

Here in early 2026 the entire globe has lost confidence in the United States. Our bull market has entered a fourth year, and probability favors it surviving into year five, yet current events are causing investors to reassess the nation's long-term potential. An article in today's *New York Times* is titled "Sell America is the new Trade on Wall Street." This growing sentiment is typical of institutional investors susceptibility to crowd think. Withum Wealth believes that investors should continue to maintain a long-term bullish temperament towards the United States. To paraphrase an iconic quote by Warren Buffett: "For 250 years it's been a terrible mistake to bet against America and now is no time to start."

Whenever you feel truly depressed about the future of the USA, think about those college kids, who in 1980, beat the invincible Russian Red hockey team. You think times are tough today, there is no comparison to back then. Talk about the right stuff, read Mike Eruzione's quote again. Oh, and by the way, the S&P 500 has rallied 662% since the game. ■

