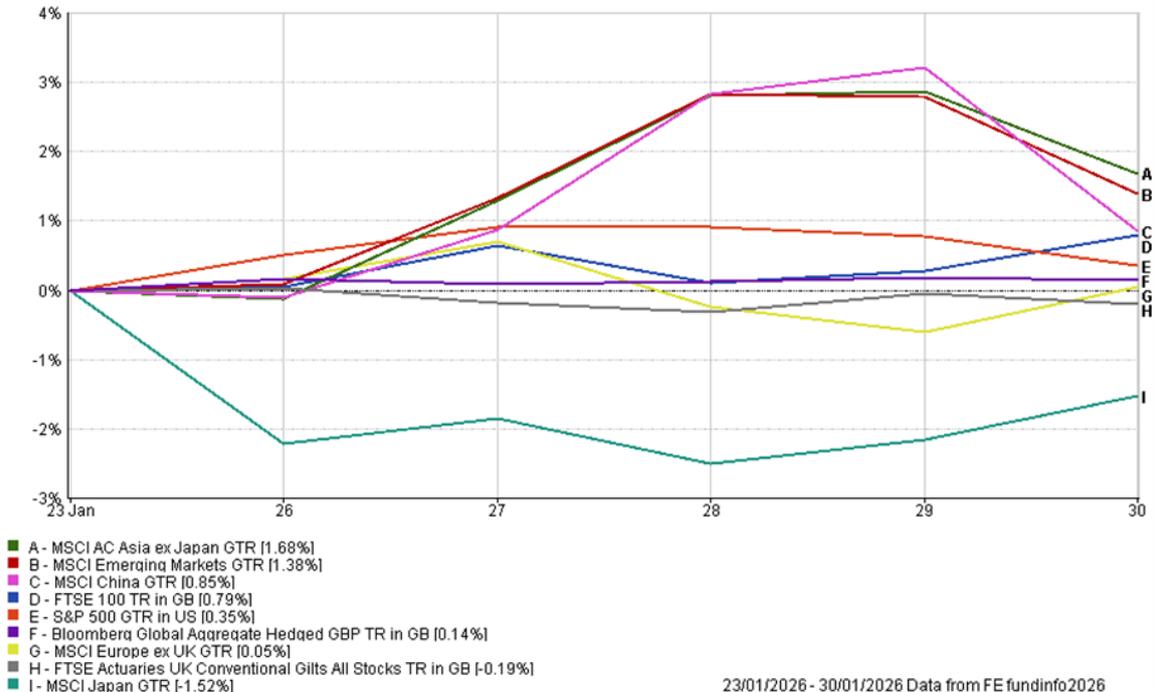


Market Matters

Not a complete Warsh-out!

Market Overview

Last week's market action appeared relatively subdued at the index level, but that surface calm masked a series of important shifts beneath the hood. Equity markets largely traded in place, bond yields remained range-bound, and volatility stayed contained. Yet investor focus continued to shift away from short-term macro noise towards more fundamental questions about confidence, capital allocation, and the quality of earnings growth.



Earnings were central to that reassessment. Results from Microsoft and Netflix crystallised a debate that has been building for months: not whether companies should be investing heavily, but whether the returns on that investment are becoming visible quickly enough. Microsoft delivered a headline beat, but the market reaction was emphatically negative. Shares sold off sharply as investors focused on the scale of AI-related capital expenditure and the near-term impact on margins. This was not a rejection of the AI opportunity itself, but a clear signal that markets are becoming less patient with open-ended spending cycles. The burden of proof has shifted. Investors now want clearer evidence that today's investment surge will translate into durable earnings power and acceptable returns on capital, rather than simply larger balance sheets and deferred payback.

Netflix sat at the opposite end of that spectrum. Its results were received far more favourably, reflecting a perception that spending is translating more directly into subscriber growth, pricing power and margin expansion. While questions around longer-term growth inevitably remain, the mechanics of the business feel easier to underwrite. The contrast between the two reinforced a broader market theme: growth narratives are no longer sufficient on their own. Capital discipline and demonstrable conversion from spend to earnings are increasingly decisive.

The Federal Reserve's January meeting provided little in the way of immediate drama, but important context nonetheless. Rates were left unchanged, as expected, and Chair Powell's tone was deliberately neutral. There was no attempt to forcefully challenge easing expectations, nor any renewed emphasis on inflation risks. The Fed appears content to sit back and let incoming data do the work, particularly as growth shows signs of moderating and inflation continues its uneven descent. Policy remains restrictive but not actively tightening, leaving markets to focus more squarely on earnings and confidence than on central-bank intervention.

More significant than the meeting itself was the news around Fed leadership. President Trump's nomination of Kevin Warsh to succeed Powell when his term ends next year was arguably the most consequential development of the week. Warsh is widely viewed as credible and institutionally orthodox, qualities that matter at a time when markets are sensitive to the independence and coherence of monetary policy. He is also associated with a framework that places greater weight on productivity gains and the potential for technology, including AI, to be structurally disinflationary. In an environment characterised by heavy capital investment and temporary margin pressure, a Fed leadership more tolerant of that transition is seen as broadly supportive for risk assets.

The nomination did not trigger an immediate repricing in equities, although the \$ strengthened. Still, it subtly reinforced the sense that policy may be more accommodating than feared if growth slows without reigniting inflation. Against this backdrop, the sharp deterioration in US consumer confidence stood out as a clear point of concern. The Conference Board's index fell in January to its lowest level since 2014, missing all economists' expectations and signalling a broad weakening in sentiment. Expectations for the next six months declined sharply, while perceptions of current conditions also worsened.

US Consumer Confidence Plunges to Lowest Since 2014

Views on the economy and labor market prospects deteriorated in January

Consumer confidence index



Present situation index



Share of consumers who say jobs are hard to get



Share of consumers who expect an income increase



Source: The Conference Board

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Survey respondents cited high prices, sluggish job growth and rising geopolitical tensions, with mentions of politics, war and healthcare costs increasing noticeably. Particularly striking was the drop in confidence among middle-aged and higher-income households, groups that had been relatively resilient until recently.

Confidence indicators often move ahead of hard data, which is why this decline could appear as another canary in the coal mine in retrospect. Real income growth has stagnated, personal saving rates are already low, and fewer consumers now expect their incomes to rise in the coming months. The share of respondents saying jobs are hard to get has increased to the highest level in several years, while the gap between those saying jobs are plentiful and those saying they are scarce has narrowed to levels historically associated with softer labour markets. That said, there remains a counterbalance. Spending has proven more resilient than sentiment alone suggests, and upcoming tax refunds may provide near-term support. For now, confidence looks like an amber warning light rather than a definitive recession signal.

Gold & Silver: The late-week volatility in precious metals added another layer of complexity. Gold and silver both suffered sharp reversals, with silver in particular experiencing an abrupt sell-off. Trading volumes did not point to widespread panic, suggesting the move was driven more by positioning than by a fundamental shift in demand. The key trigger was the CME's decision to raise maintenance margin requirements across several metals, effectively forcing leveraged traders to reduce positions ahead of the weekend. That mechanical pressure accelerated selling into the close.

While speculation quickly turned to geopolitical explanations or historical parallels, the evidence points more clearly to a technical unwind. In fact, the broader macro backdrop should have been supportive for precious metals. Warsh's nomination implies a more growth-tolerant Fed, producer price inflation surprised on the upside, and tariff and currency effects may still be working their way through supply chains. Crucially, there was little sign of spillover into other asset classes. Credit markets remain

ed orderly, and equity volatility stayed contained, suggesting this was a leverage reset rather than a systemic stress event. Outside the US: Europe quietly delivered a modest upside surprise. Growth exceeded expectations, defying concerns that trade uncertainty would weigh more heavily on activity. While growth remains subdued, the data reinforced a familiar theme: expectations for Europe are low, and outcomes merely need to be less bad than feared to stabilise markets. That helps explain why European equities were broadly steady despite the global cross-currents.

Looking ahead, several themes warrant close attention. Consumer confidence will be monitored to see whether January's slump stabilises or deepens, particularly as labour-market data evolve. Earnings season will continue to test investor tolerance for heavy investment, with a growing distinction between companies that can demonstrate a credible path from spend to returns and those that cannot. On the policy front, markets will watch how the Fed balances patience with credibility, and how leadership changes may shape that balance over time. Finally, commodity markets will be assessed for signs that last week's volatility was an isolated technical episode rather than the start of broader instability.

This week: the diary is busy on both earnings and macro fronts. In the US, results are due from several large-cap names, including Alphabet, Amazon, Advanced Micro Devices, Qualcomm, Walt Disney, PepsiCo, Eli Lilly and Pfizer, alongside a broad mix of industrial, healthcare and consumer companies. In Europe, earnings continue from large-cap firms across energy, financials and industrials, including Shell, BP, HSBC and TotalEnergies. On the macro side, attention will focus on the US labour market, with the JOLTS job openings report, ADP private payrolls, weekly jobless claims and the January non-farm payrolls report all scheduled, alongside ISM manufacturing and services surveys. In Europe, the calendar includes inflation updates and industrial production data, rounding out a heavy week for both earnings and economic releases.



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