



DOJ Investigates Powell: Implications For Fed Policy?

Over the weekend, Jerome Powell revealed that the Department of Justice (DOJ) has opened a criminal investigation into his June testimony to Congress regarding the roughly \$2.5 billion renovation of Federal Reserve headquarters. The DOJ has served subpoenas to the Fed and threatened a criminal indictment relating to that testimony. Such action by the DOJ is unprecedented and furthers the ongoing conflict between Powell and the Trump administration. Powell has characterized the legal threats as politically motivated and as a pretext to pressure the Fed to lower interest rates. Click [HERE](#) to view Powell's response to the charges.

From a monetary policy perspective, the DOJ action could alter how policy is formulated and, equally important, how the public perceives the process. The Fed's independence—the ability to set interest rates and manage inflation and employment goals based on economic data rather than political directives—has been a cornerstone of its existence. Eroding that independence, whether through DOJ investigations or threats tied to policy disagreements, could weaken confidence in the Fed's commitment to managing its dual mandate. From a market perspective, such actions could increase term premiums and volatility in Treasury bonds. Furthermore, the dollar could see increased volatility as global investors might lose confidence in the predictability of U.S. monetary policy.

Stocks, bonds, and the dollar are opening weaker on the news. At the same time, precious metals are surging. In addition to monitoring market signals, we will focus on the Treasury term premium and inflation expectations to gauge market concern about the DOJ investigation.



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What To Watch Today

Earnings

| Tuesday Jan 13 | EPS | Consensus | Previous | Revenue | Consensus | Previous | MarketCap | Fiscal | Time |
|--|-----|-----------|----------|---------|-----------|----------|-----------|--------|------|
| JPMorgan JPM.US | | 4.94 | 4.81 | | 45.89B | 43.74B | \$868.1B | Q4 | AM |
| Bank Of New York Mellon BKOF.US | | 1.95 | 1.54 | | 5.09B | 4.85B | \$77.59B | Q4 | AM |
| Delta Air Lines DAL.US | | 1.75 | 1.85 | | 14.84B | 14.4B | \$38.44B | Q4 | AM |

Economy

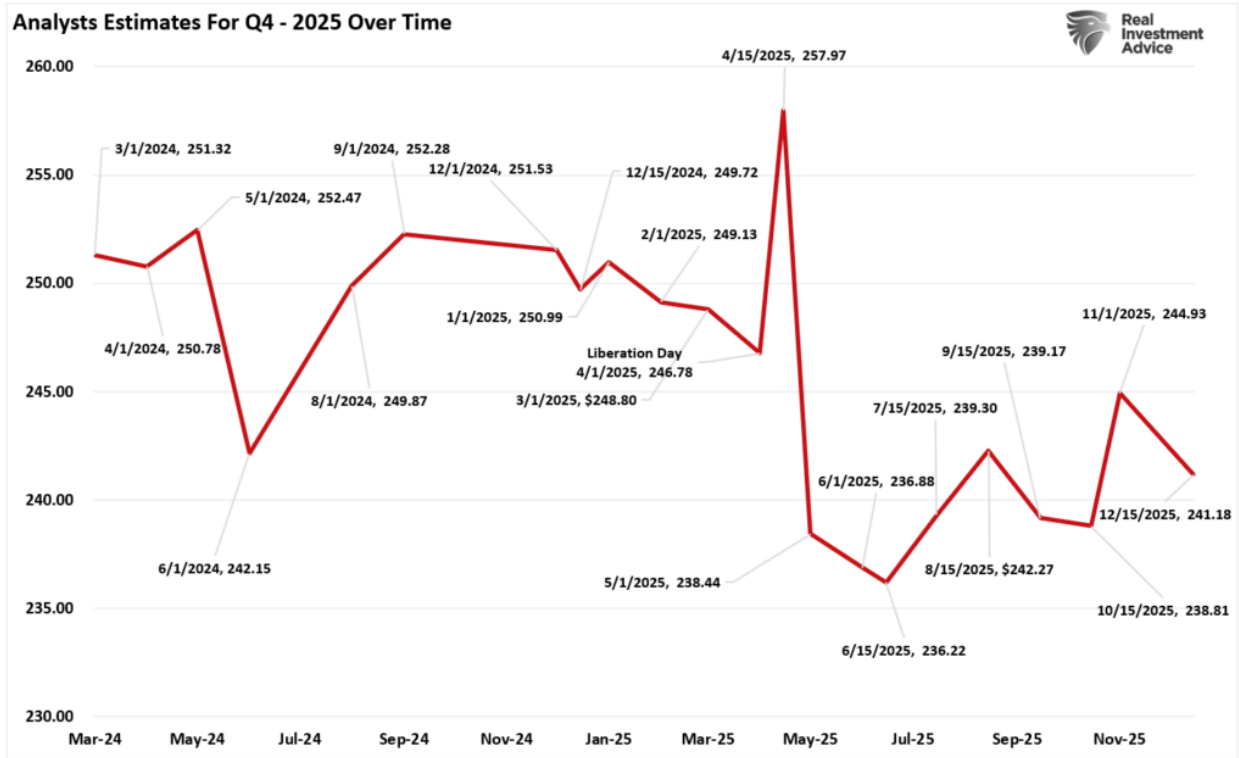
| Tuesday January 13 2026 | Actual | Previous | Consensus | Forecast |
|---|--------|----------|-----------|----------|
| 06:00 AM US NFIB Business Optimism Index DEC | | 99.0 | 99.5 | 99.3 |
| 08:15 AM US ADP Employment Change Weekly | | 11.5K | | |
| 08:30 AM US Core Inflation Rate MoM DEC | | | 0.3% | 0.2% |
| 08:30 AM US Core Inflation Rate YoY DEC | | 2.6% | 2.7% | 2.6% |
| 08:30 AM US Inflation Rate MoM DEC | | | 0.3% | 0.2% |
| 08:30 AM US Inflation Rate YoY DEC | | 2.7% | 2.7% | 2.6% |
| 08:30 AM US CPI DEC | | 324.12 | | 323.8 |
| 08:30 AM US CPI s.a DEC | | 325.031 | | 325.7 |
| 08:55 AM US Redbook YoY JAN/10 | | 7.1% | | |
| 10:00 AM US New Home Sales SEP | | 0.8M | 0.71M | 0.69M |
| 10:00 AM US New Home Sales OCT | | | | 0.7M |
| 10:00 AM US New Home Sales MoM SEP | | 20.5% | | -13.8% |
| 10:00 AM US New Home Sales MoM OCT | | | | 1.4% |
| 10:10 AM US RCM/TIPP Economic Optimism Index JAN | | 47.9 | 48.2 | 47.4 |
| 10:35 AM US Fed Musalem Speech | | | | |

Market Trading Update

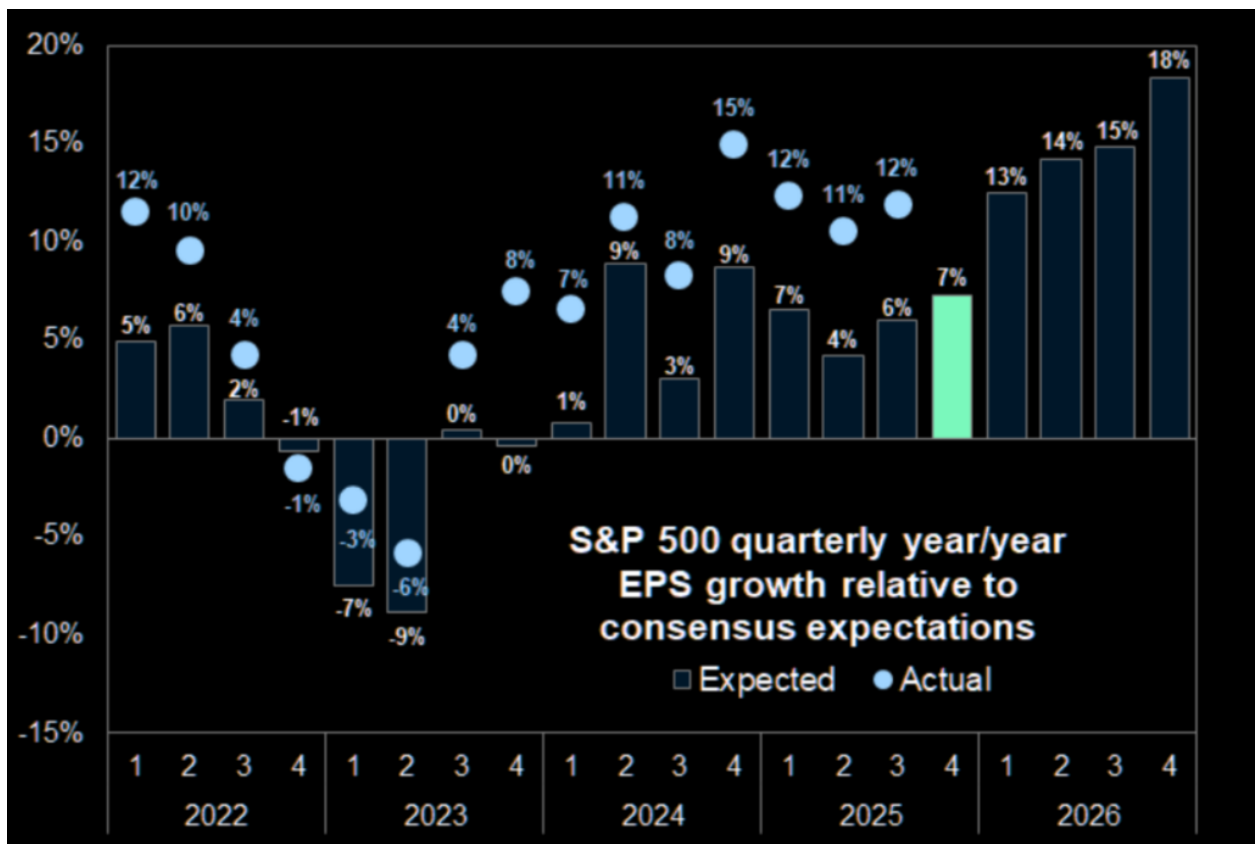
Yesterday, we discussed the technical backdrop of the market. However, today, we kick off the Q4 earnings season with the major banks.

As shown, estimates for Q4-reported earnings have dropped by about \$10/share since they were first released in March 2024. With the bar set lower, that will give the markets breathing room to

post "better than expected" reports.



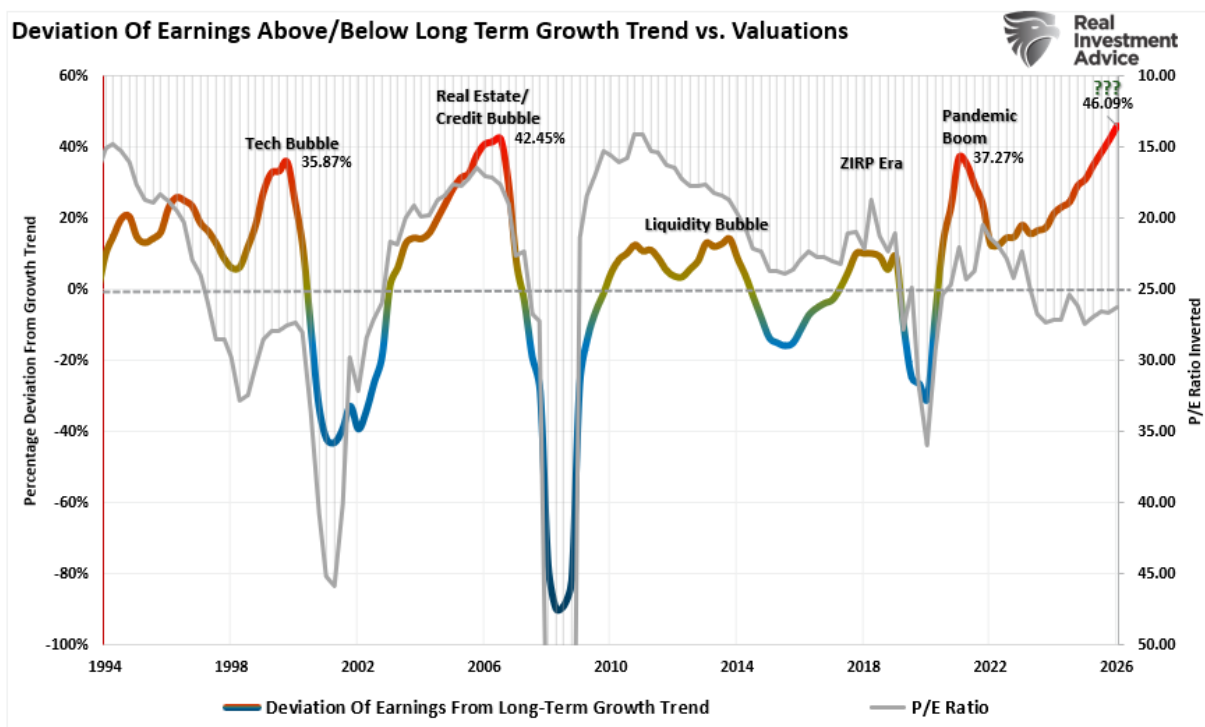
However, 2026 estimates are being more aggressively ratcheted up, with analysts now expecting an 18% earnings growth rate this year. This is based on the hope of an "economic reflation" event this year as the OBBBA, tax cuts, and deregulation kick in.



However, valuations also matter. The current price-to-earnings ratio for the S&P 500 remains above historical averages, at approximately 22x forward earnings. Those valuation levels are also

well above the five- and ten-year averages, and suggest that the market is pricing in that earnings optimism. Therefore, if growth slows toward historical norms or margins compress, elevated valuations will mean even modest earnings disappointments could result in share price declines rather than gains.

As discussed in the linked report below, the most considerable risk to investors is that the 2026 earnings estimates, which deviate the most from its 125-year growth trend, disappoint, and the markets reprice lower. As shown, historically, when earnings become deviated from actual economic activity, the mean reversion process is not kind to investors.



With the market very optimistic and priced for perfection, don't negate risk management protocols. While a majority of companies will beat estimates, it will be their forward guidance that matters more.

Trade accordingly.

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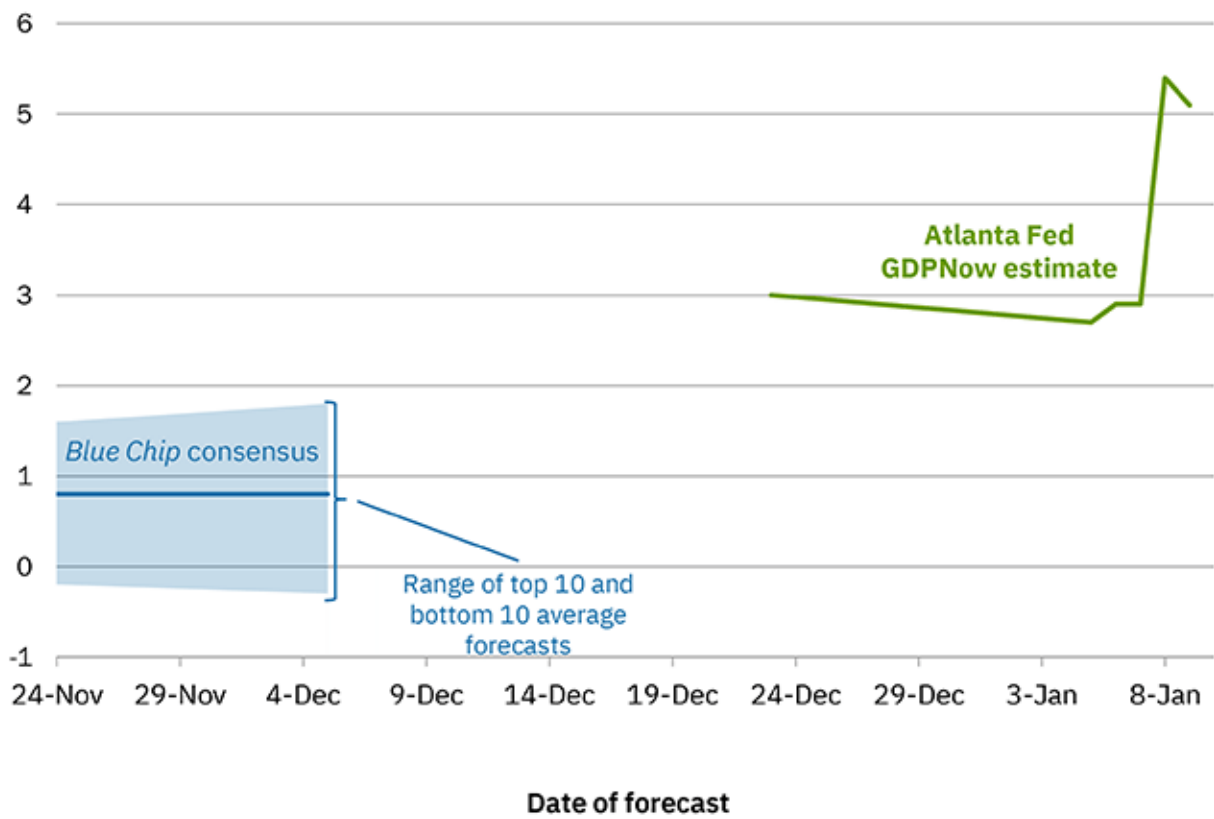
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Absolute And Relative Analysis Point To A Great Economy

The latest [SimpleVisor Absolute and Relative](#) analysis shows that the economically sensitive sectors are the most overbought, while the interest rate-sensitive sectors are the most oversold. The simple analysis is that the market is pricing in strong economic growth. To wit, the latest Atlanta Fed GDPNow forecast for the fourth quarter of 2025 projects a growth rate of 5.1%. The second graphic shows that the transportation, materials, and industrials sectors are the most overbought on a relative and absolute basis. Conversely, utilities and real estate are the most oversold. Bear in mind that materials are being boosted by surging metal prices. Currently, copper miner Freeport-McMoRan (FCX) and gold miner Newmont (NEM), which together account for 12.5% of the materials sector, are both extremely overbought.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2025: Q4

Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

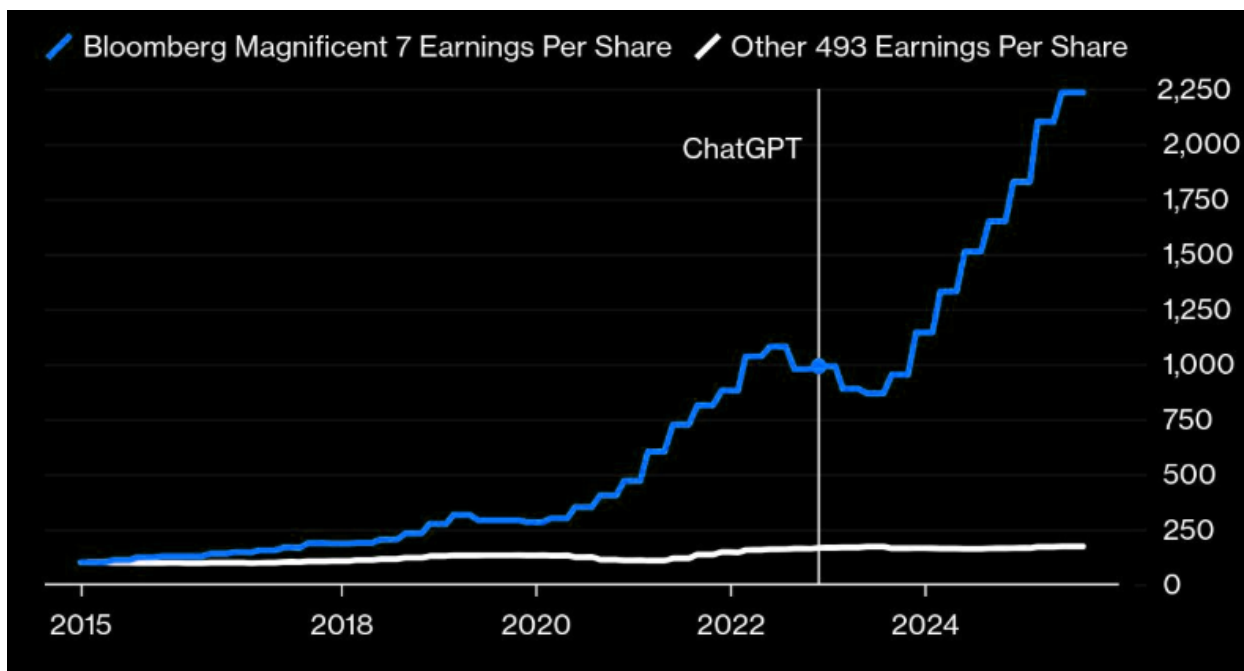
Sectors Analysis - Absolute and Relative Score (vs SPY)

| Symbol | Name | Top 10 Holdings | Absolute Score ↑↓ | Relative Score (vs SPY) ↓ |
|--------|------------------------|-----------------|--------------------------------|--|
| XTN | Transportation | | 0.74 ↻ | 0.74 ↻ |
| XLB | Materials | | 0.86 ↻ | 0.59 ↻ |
| XLI | Industrials | | 0.68 ↻ | 0.35 ↻ |
| XLY | Consumer Discretionary | | 0.68 ↻ | 0.33 ↻ |
| XLV | Health Care | | 0.50 ↻ | 0.28 ↻ |
| XLF | Financial | | 0.36 ↻ | 0.03 ↻ |
| SPY | | | 0.52 ↻ | 0.00 ↻ |
| XLE | Energy | | 0.60 ↻ | 0.00 ↻ |
| XLC | Communication Services | | 0.31 ↻ | -0.15 ↻ |
| XLK | Technology | | 0.24 ↻ | -0.22 ↻ |
| XLP | Consumer Staples | | 0.28 ↻ | -0.22 ↻ |
| XLRE | Real Estate | | -0.14 ↻ | -0.47 ↻ |
| XLU | Utilities | | -0.25 ↻ | -0.61 ↻ |

2026 Earnings Outlook

The Wall Street consensus forecast for 2026 earnings growth is strong by historical standards. Analysts are giddy and projecting another year of double-digit growth in S&P 500 earnings per share (EPS). FactSet's most recent data showed an expected 2026 earnings growth rate for the S&P 500 of about 15 percent. That is well above the long-term average of roughly 8-9 percent. If FactSet is correct, such would mark a third consecutive year of double-digit earnings gains.

Notably, the 2026 earnings assumptions are driven by the continued strength in the large technology and communications sectors. With those sectors dominated by the *Magnificent Seven*, it is hoped that they continue to contribute disproportionately to earnings growth. Those seven companies alone are forecast to grow earnings strongly once again. As shown, since 2018, there has been very little earnings growth from the bottom 493 companies.



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