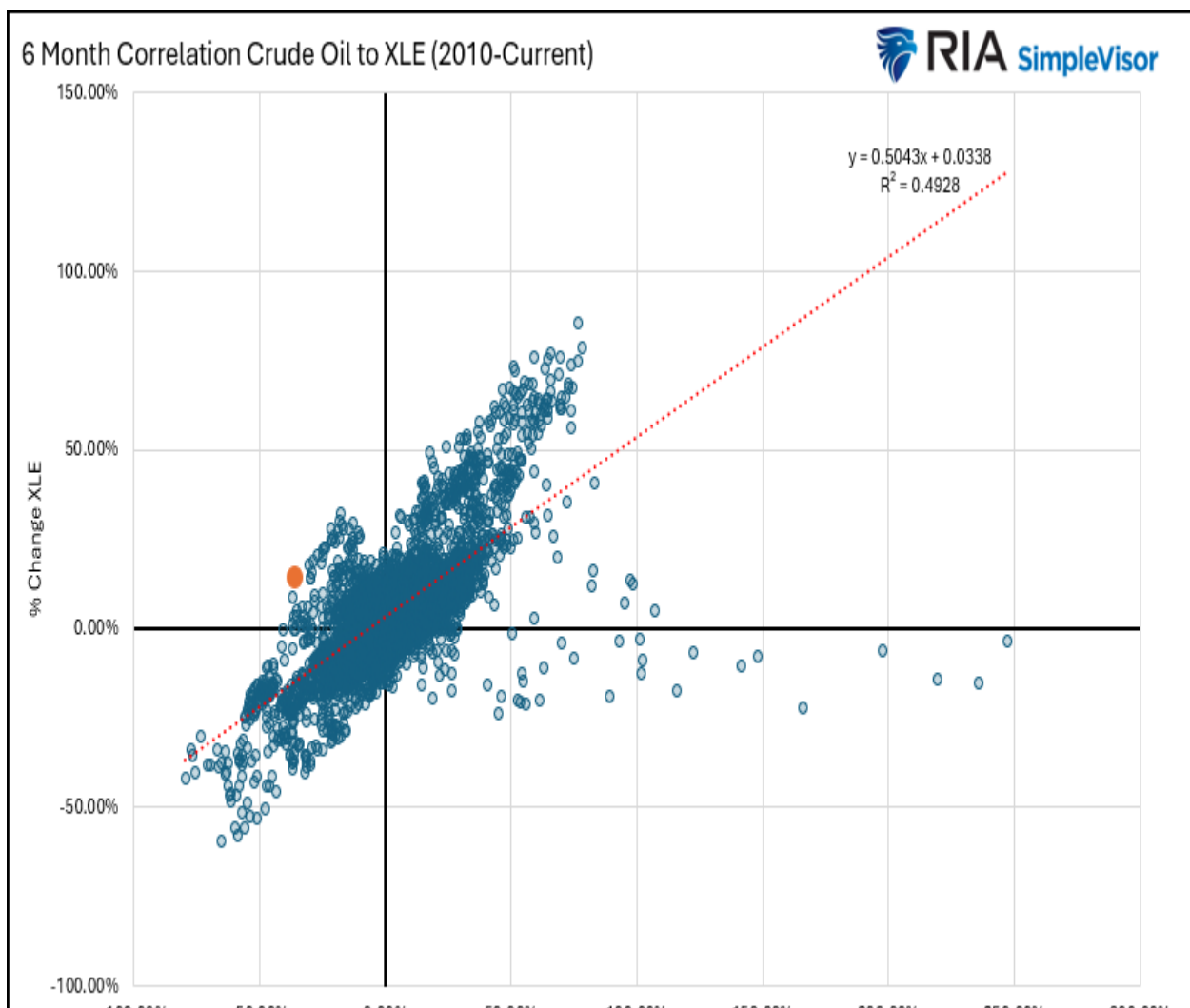


The Energy Sector Is Outpacing Energy Prices

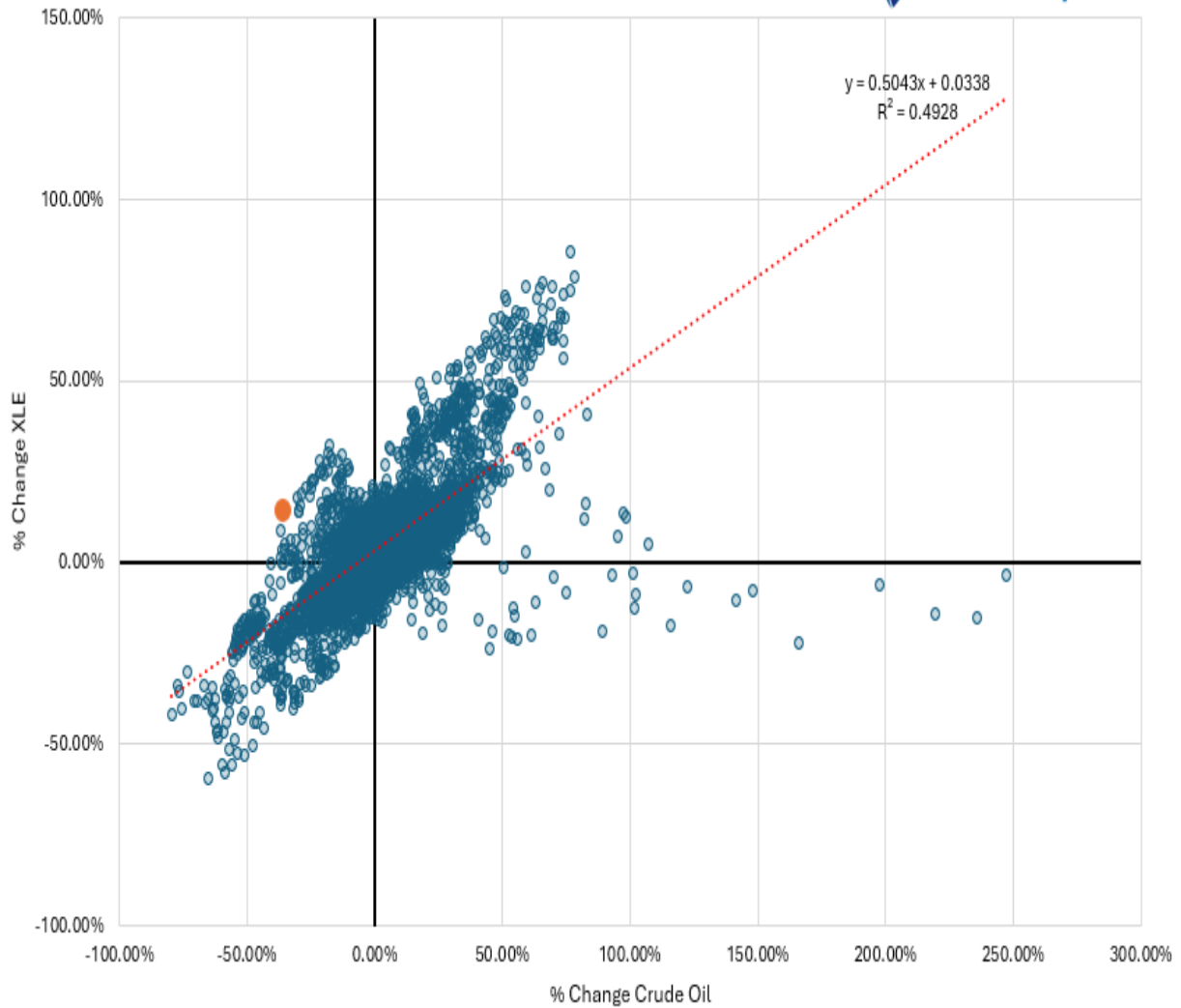
Over the last year, energy stocks have traded well despite crude oil prices languishing. For instance, over the last six months, XLE, the energy ETF, has risen 14%, while crude oil prices have fallen by 12%. The two largest components of XLE, Exxon and Chevron, which account for 40% of the ETF, are up 30% and 14%, respectively, over the past six months. This begs the question: Are energy stocks signaling an increase in oil prices, or are they getting ahead of themselves and susceptible to a sell-off?

If you buy into the economic reflation narrative, we should expect energy prices to rise as economic activity increases. In this scenario, energy stocks may be correctly priced. If you think the economy will grow at its potential rate of around 2.0-2.5%, crude oil prices are fairly valued, which might portend weakness for energy stocks. Recession forecasts that argue for \$45 oil would likely foster weakness in energy stocks.

We constructed the scatter plot below to better quantify the relationship between energy stocks and crude oil prices. Based on a decent R-squared of 0.49 of the six-month percentage changes in XLE and crude oil prices, XLE is currently overpriced by 17%, or crude oil prices are undervalued by 21%. Likely, the truth lies somewhere between. However, if an economic slowdown or recession occurs and crude oil slips to \$45, XLE could fall 30% to reach fair value. This analysis is not a forecast for oil or energy stock prices but an assessment of the potential risk for energy stocks.



6 Month Correlation Crude Oil to XLE (2010-Current)



What To Watch Today

Earnings

Thursday Jan 29	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time		
Apple AAPL:US		2.67	2.40		137.23B	124.3B	\$4.1T	Q1	PM	★	🔔
Amazon AMZN:US		1.95	1.86		211.26B	187.79B	\$2.34T	Q4	PM	★	🔔
Visa V:US		3.13	2.75		10.68B	9.51B	\$675.88B	Q1	PM	★	🔔
Mastercard MA:US		4.25	3.82		8.79B	7.5B	\$516.52B	Q4	AM	★	🔔
Caterpillar CAT:US		4.64	5.14		17.87B	16.2B	\$282.68B	Q4	AM	★	🔔
Thermo Fisher Scientific TMO		6.45	6.10		11.95B	11.4B	\$216.98B		AM	★	🔔
Blackstone BX:US		1.54	1.69		3.7B	4.15B	\$187.94B		AM	★	🔔
KLA-Tencor KLAC:US		8.79	8.20		3.16B	3.08B	\$167.25B		PM	★	🔔
Honeywell International HON		2.53	2.47		10.2B	10.1B	\$143.98B	Q4	AM	★	🔔
Stryker SYK:US		4.39	4.01		7.12B	6.4B	\$140.39B	Q4	PM	★	🔔
Southern Copper SCCO:US		1.5	1.01		3.57B	2.78B	\$117.61B	Q4	PM	★	🔔
Lockheed Martin LMT:US		6.65	7.67		19.84B	18.6B	\$117.1B	Q4	AM	★	🔔
Parker-Hannifin PH:US		7.14	6.53		5.07B	4.7B	\$107.11B		AM	★	🔔
Comcast CMCSA:US		0.77	0.96		32.35B	31.92B	\$104.54B		AM	★	🔔
Altria MO:US		1.32	1.29		5.03B	5.11B	\$102.56B	Q4	AM	★	🔔

Thursday Jan 29	EPS	Consensus	Previous	Revenue	Consensus	Previous	MarketCap	Fiscal	Time
Apple AAPL:US		2.67	2.40		137.23B	124.3B	\$4.1T	Q1	PM
Amazon AMZN:US		1.95	1.86		211.26B	187.79B	\$2.34T	Q4	PM
Visa V:US		3.13	2.75		10.68B	9.51B	\$675.88B	Q1	PM
Mastercard MA:US		4.25	3.82		8.79B	7.5B	\$516.52B	Q4	AM
Caterpillar CAT:US		4.64	5.14		17.87B	16.2B	\$282.68B	Q4	AM
Thermo Fisher Scientific TMO		6.45	6.10		11.95B	11.4B	\$216.98B		AM
Blackstone BX:US		1.54	1.69		3.7B	4.15B	\$187.94B		AM
KLA-Tencor KLAC:US		8.79	8.20		3.16B	3.08B	\$167.25B		PM
Honeywell International HON		2.53	2.47		10.2B	10.1B	\$143.98B	Q4	AM
Stryker SYK:US		4.39	4.01		7.12B	6.4B	\$140.39B	Q4	PM
Southern Copper SCCO:US		1.5	1.01		3.57B	2.78B	\$117.61B	Q4	PM
Lockheed Martin LMT:US		6.65	7.67		19.84B	18.6B	\$117.1B	Q4	AM
Parker-Hannifin PH:US		7.14	6.53		5.07B	4.7B	\$107.11B		AM
Comcast CMCSA:US		0.77	0.96		32.35B	31.92B	\$104.54B		AM
Altria MO:US		1.32	1.29		5.03B	5.11B	\$102.56B	Q4	AM
Marsh & McLennan Comp:		1.98	1.87		6.56B	6.07B	\$92.01B		AM
Sherwin-Williams SHW:US		2.16	2.09		5.54B	5.3B	\$86.97B	Q4	AM
Royal Caribbean Cruises R		2.79	1.63		4.26B	3.76B	\$80.45B	Q4	AM
Arthur J. Gallagher AIG:US		2.48	2.13		3.64B	2.68B	\$65.46B		PM
Norfolk Southern NSC:US		2.85	3.04		3.03B	3.02B	\$64.12B	Q4	AM
Valero Energy VLO:US		3.21	0.64		28.93B	30.76B	\$57.04B		AM
L3Harris Technologies LHX:US		2.78	3.47		5.76B	5.5B	\$56.25B		AM
Becton, Dickinson and Co		2.81	3.43		5.15B	5.17B	\$51.44B	Q1	AM
NASDAQ NDAQ:US		0.91	0.76		1.36B	1.23B	\$51.12B	Q4	AM
Western Digital WDC:US		1.9	1.77		2.92B	4.29B	\$45.05B	Q2	PM
Ameriprise Financial AMP:US		10.22	9.54		4.75B	4.5B	\$44.01B	Q4	AM
ResMed RMD:US		2.7	2.43		1.4B	1.28B	\$37.1B		PM
Hartford Financial Service		3.17	2.94		7.29B	6.89B	\$36.84B		PM
Tractor Supply TSCO:US		0.47	0.44		4.03B	3.77B	\$30.41B	Q4	AM
Broadridge Financial Solutio		1.36	1.56		1.6B	1.59B	\$25.95B		AM
LPL Financial LPLA:US		5.02	4.25		4.88B	3.51B	\$25.39B		PM
PulteGroup PHM:US		2.82	4.43		4.33B	4.92B	\$25.38B	Q4	AM
Dover DOV:US		2.48	2.20		2.09B	1.93B	\$24.86B		AM

Economy

Thursday January 29 2026			Actual	Previous	Consensus	Forecast
08:30 AM	US	Balance of Trade NOV		-\$29.4B	-\$42.1B	-\$37.0B
08:30 AM	US	Exports NOV		\$302B		\$303.0B
08:30 AM	US	Imports NOV		\$331.4B		\$340.0B
08:30 AM	US	Initial Jobless Claims JAN24		200K	205K	205.0K
08:30 AM	US	Continuing Jobless Claims JAN17		1849K		1860.0K
08:30 AM	US	Jobless Claims 4-week Average JAN24		201.5K		204.0K
08:30 AM	US	Nonfarm Productivity QoQ Final Q3		4.1%	4.9%	4.9%

Thursday January 29 2026			Actual	Previous	Consensus	Forecast	
08:30 AM	US	Balance of Trade NOV		\$-29.4B	\$-42.1B	\$-37.0B	
08:30 AM	US	Exports NOV		\$302B		\$303.0B	
08:30 AM	US	Imports NOV		\$331.4B		\$340.0B	
08:30 AM	US	Initial Jobless Claims JAN/24		200K	205K	205.0K	
08:30 AM	US	Continuing Jobless Claims JAN/17		1849K		1860.0K	
08:30 AM	US	Jobless Claims 4-week Average JAN/24		201.5K		204.0K	
08:30 AM	US	Nonfarm Productivity QoQ Final Q3		4.1%	4.9%	4.9%	
08:30 AM	US	Unit Labour Costs QoQ Final Q3		-2.9%	-1.9%	-1.9%	
09:20 AM	US	NY Fed Bill Purchases 1 to 4 months			\$8.304 billion		
10:00 AM	US	Factory Orders MoM NOV		-1.3%	1.7%	0.4%	
10:00 AM	US	Factory Orders ex Transportation NOV		-0.2%		0.3%	
10:00 AM	US	Wholesale Inventories MoM NOV		0.2%		0.1%	

Market Trading Update

Yesterday, we discussed the importance of buybacks in relation to market returns and earnings over time. Over the next few days, the market will be driven by both a slate of S&P 500 earnings and the market's reaction to yesterday's FOMC policy rate announcement. Technically, the market is doing fine. Breadth has improved, and the market is challenging all-time highs while triggering a momentum *buy* signal. This suggests the bulls remain in control of the market for now, keeping the portfolio weighted toward equities for now.





As we have noted before, with economic growth showing some strength and earnings reports coming in mostly better than expected, support for the market remains close to current levels. However, as shown above, the 20- and 50-day moving averages remain key supports for trend strength in the near term.

On the other hand, Emerging Markets are extremely divergent from their long-term moving averages, suggesting a reversal is likely. Look to take profits and rebalance risk, as the expected economic growth rate for many of these economies depends on that of the U.S.





As always, our goal as investors is to *buy low and sell high*. However, the biggest problem that plagues investor returns over time is that they chase what is overbought and don't buy what is oversold. As a contrarian investor, such behaviors are indicative of late-cycle behaviors, suggesting risk management is becoming more important this year.

SimpleVisor™

Don't invest alone.
Tap into the power of SimpleVisor.

[> Sign up now](#)

SimpleVisor™

Don't invest alone.
Tap into the power of SimpleVisor.

> Sign up now

The Fed Does The Expected- Nothing

As was widely expected, the Fed left rates unchanged. As we share in the redlined statement below, the FOMC upgraded its economic outlook from "moderate" to "solid" and improved its labor-market outlook. To wit, the Fed removed language from the prior statement that noted "downside risks to employment rose in recent months." At the bottom of the document, note that the voting regional Fed bank presidents allowed to vote at the FOMC meeting changed this month. Moreover, Christopher Waller and Stephen Miran sought to reduce rates by 25 bps. While there are many changes to the statement, it is broadly in line with market expectations that the Fed will pause rate cuts for the time being.

During his press conference, Chairman Powell stated the following:

- Powell believes there are distortions in economic data due to the government shutdown, but they are dwindling quickly.
- The outlook for economic data has improved since the last meeting, which is why they removed the "downside risk" caveat regarding the employment picture.
- Powell has no comment on the dollar because it's the Treasury Department's role. "We don't talk about the dollar or what moves it around."
- "This year starts off on a solid footing for growth." Thus, policy is "well-positioned" at the moment.
- "It's hard to look at the data and say policy is overly restrictive." That said, there may be more policy normalization if inflation rates move toward their target.
- Powell believes the inflationary impacts are peaking. To wit, he claims CPI without tariffs is near 2%.

For release at 2:00 p.m. EST

Available indicators suggest that economic activity has been expanding at a ~~solid~~moderate pace. Job gains have ~~remained low~~slowed this year, and the unemployment rate has ~~shown some signs of stabilization~~edged up through September. More recent indicators are consistent with these developments. Inflation ~~has moved up since earlier in the year and~~ remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate ~~and judges that downside risks to employment rose in recent months~~.

In support of its goals ~~and in light of the shift in the balance of risks~~, the Committee decided to ~~maintain lower~~ the target range for the federal funds rate ~~at 3 by 1/4 percentage point to 3-1/2 to 3-3/4~~ percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation

For release at 2:00 p.m. EST

Available indicators suggest that economic activity has been expanding at a ~~solid~~ moderate pace. Job gains have ~~remained low~~ slowed this year, and the unemployment rate has ~~shown some signs of stabilization~~ edged up through September. More recent indicators are consistent with these developments. Inflation ~~has moved up since earlier in the year and~~ remains somewhat elevated.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Uncertainty about the economic outlook remains elevated. The Committee is attentive to the risks to both sides of its dual mandate ~~and judges that downside risks to employment rose in recent months~~.

In support of its goals ~~and in light of the shift in the balance of risks~~, the Committee decided to ~~maintain~~ lower the target range for the federal funds rate ~~at 3-by 1/4 percentage point to 3-1/2~~ to 3-3/4 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

~~The Committee judges that reserve balances have declined to ample levels and will initiate purchases of shorter term Treasury securities as needed to maintain an ample supply of reserves on an ongoing basis.~~

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michael S. Barr; Michelle W. Bowman; ~~Susan M. Collins~~; Lisa D. Cook; ~~Beth M. Hammack~~; Philip N. Jefferson; ~~Neel Kashkari~~; ~~Lorie K. Logan~~ ~~Alberto G. Musalem~~; and ~~Anna Paulson~~ ~~Christopher J. Waller~~. Voting against this action were Stephen I. ~~Miran~~ ~~and Christopher J. Waller~~, who preferred to lower the target range for the federal funds rate by ~~1/42~~ percentage point at this meeting; ~~and Austan D. Goolsbee~~ ~~and Jeffrey R. Schmid~~, who preferred no change to the target range for the federal funds rate at this meeting.

AI Bubble: History Says Caution Is Warranted

Our concern about an AI financial bubble is grounded in the work of innovation economist Carlota Perez and her acclaimed book, [Technological Revolutions and Financial Capital: The Dynamics of Bubbles and Golden Ages](#). Although written in 2002, well before the AI boom, her book offers a clear explanation of why speculative financial bubbles often accompany significant technological innovations.

The biggest and most sustainable profits tend to be made after the bubble has collapsed, not during the speculative frenzy.

? Carlota Perez, *Technological Revolutions and Financial Capital*

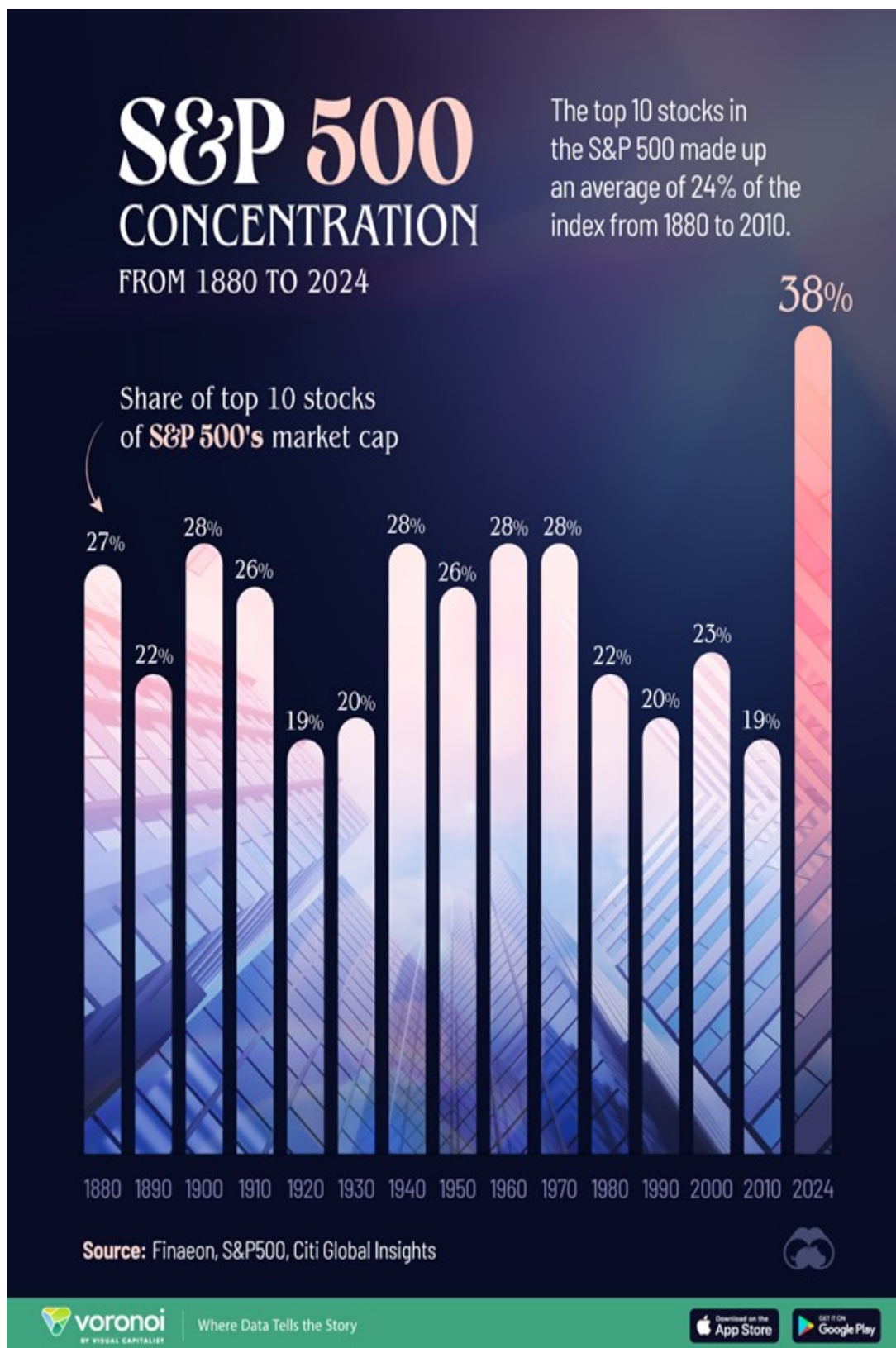
Financial capital is by nature footloose, impatient, and speculative, while production capital is tied to the long-term accumulation of capabilities.

? Carlota Perez, Technological Revolutions and Financial Capital

Technological revolutions do not necessarily bring immediate profits to investors; on the contrary, they often involve massive destruction of capital.

? Carlota Perez, Technological Revolutions and Financial Capital

[READ MORE?](#)

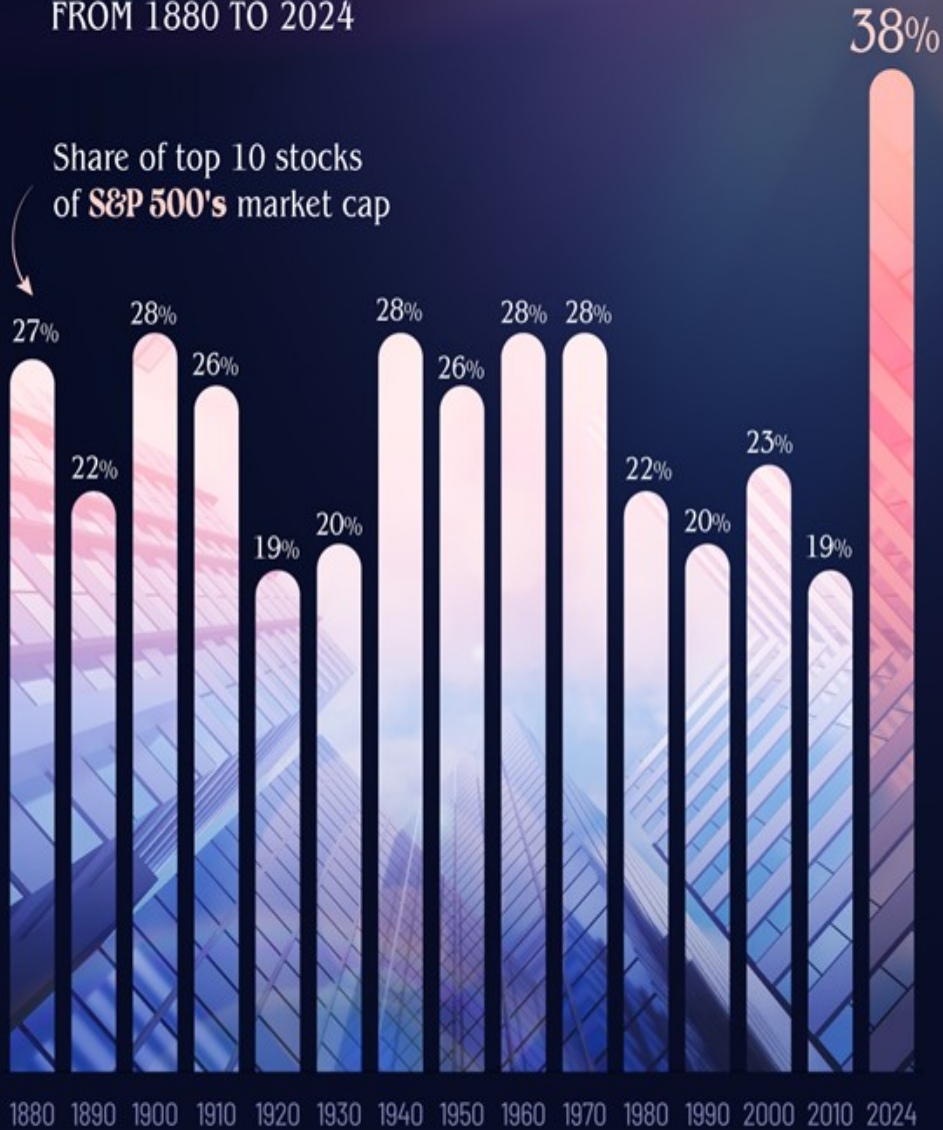


S&P 500 CONCENTRATION

FROM 1880 TO 2024

The top 10 stocks in the S&P 500 made up an average of 24% of the index from 1880 to 2010.

Share of top 10 stocks of S&P 500's market cap



Source: Finaeon, S&P500, Citi Global Insights



Where Data Tells the Story



Tweet of the Day



Peter Berezin
@PeterBerezinBCA




The Atlanta Fed's Wage Growth Tracker fell again in December. Wage growth is now back to pre-pandemic levels (when the 10-year Treasury yield was closer to 2%, half of what it is today).

Wage Growth Tracker

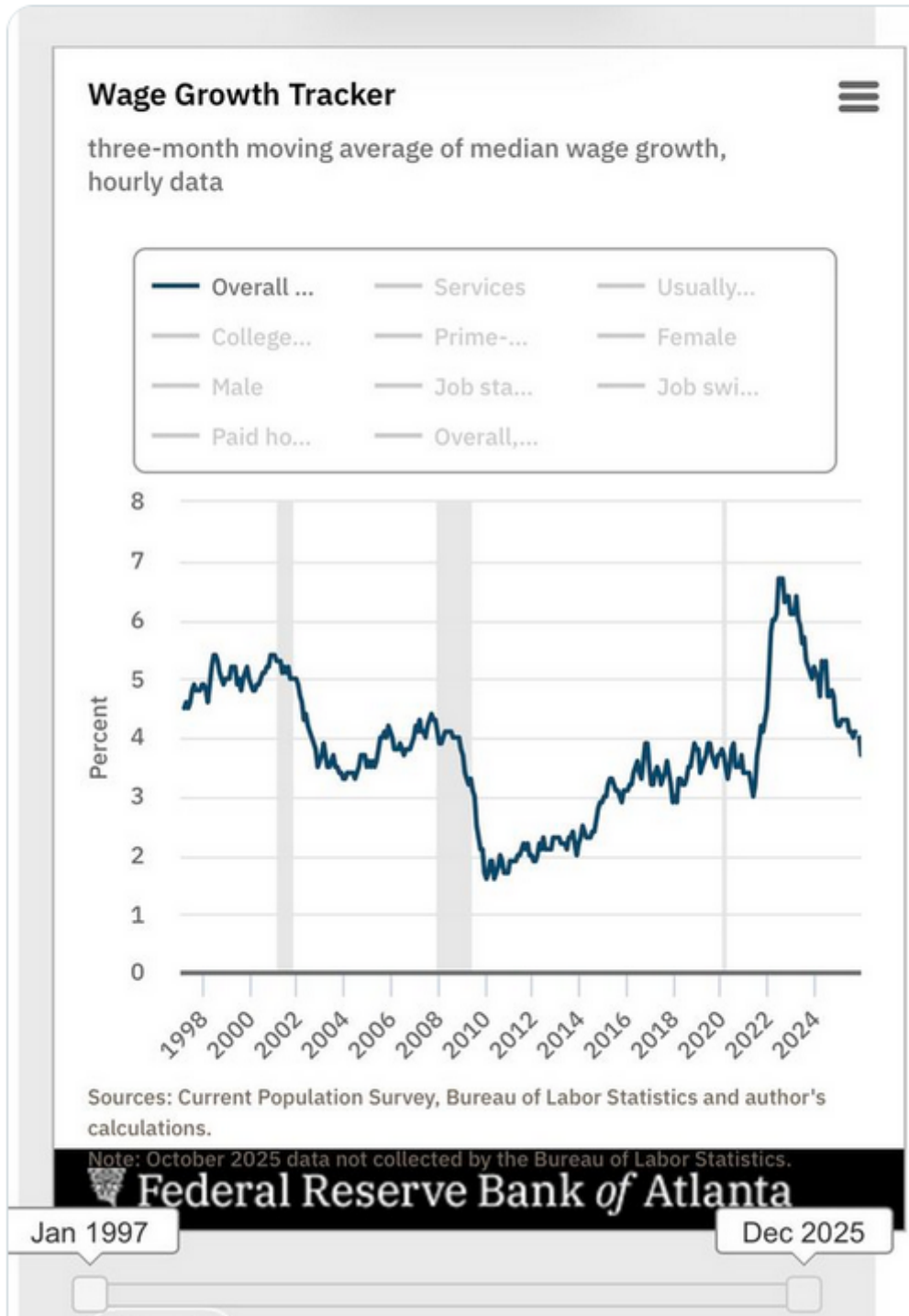




Peter Berezin 
@PeterBerezinBCA



The Atlanta Fed's Wage Growth Tracker fell again in December. Wage growth is now back to pre-pandemic levels (when the 10-year Treasury yield was closer to 2%, half of what it is today).



?Want to achieve better long-term success in managing your portfolio? Here are our [15-trading rules for managing market risks.](#)?

Please [subscribe to the daily commentary](#) to receive these updates every morning before the opening bell.

If you found this blog useful, please send it to someone else, share it on social media, or contact us to set up a meeting.