

MONTH IN REVIEW

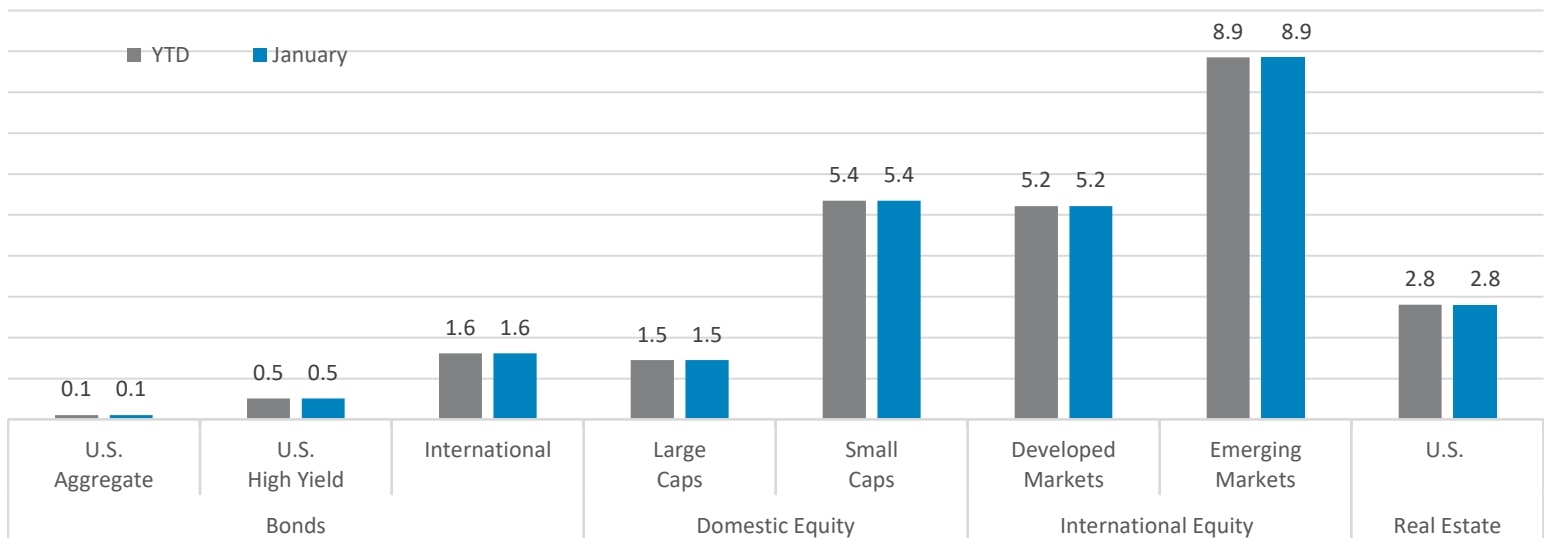
JANUARY 2026

Quick Takes

- **Stocks Edge Higher.** U.S. equity indices were up slightly in January as Trump announced a new Fed chair and software stocks sold off. The S&P 500 was up 0.7% in January while the Nasdaq was up 0.4% and the Dow was 1.2% higher.
- **Inflation & Interest Rates.** The 10Y rose to just over 4.2% in January while the Fed held its policy rate steady at their January 28 meeting at 3.50% to 3.75%. Headline CPI inflation for December held steady at 2.6% versus the forecasted 2.7% and core CPI inflation was 2.7%, which was in line with November's level and economists' forecasts.
- **OpenAI Fundraising.** Nvidia's plan announced in September to invest up to \$100 billion in OpenAI has showed signs of stalling as some within the chipmaker, including CEO Jensen Huang, have privately expressed concerns about OpenAI's lack of business discipline and competition from Google.
- **Trump & The Fed.** January was an eventful month for the Fed and for Trump. The Justice Department investigated Fed Chair Powell. Fed Governor Lisa Cook faced a trial on mortgage fraud. Trump announced that Kevin Warsh would be his nomination for Fed chair when Powell's term ends.

Asset Class Performance

Small caps outperformed large caps in January as equity markets experienced some broadening out. Emerging and Developed market equities both outperformed large-cap U.S. stocks in January on dollar weakness and U.S. policy concerns.



Source: Bloomberg, Goldman Sachs Investment Research, as of December 31, 2025. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

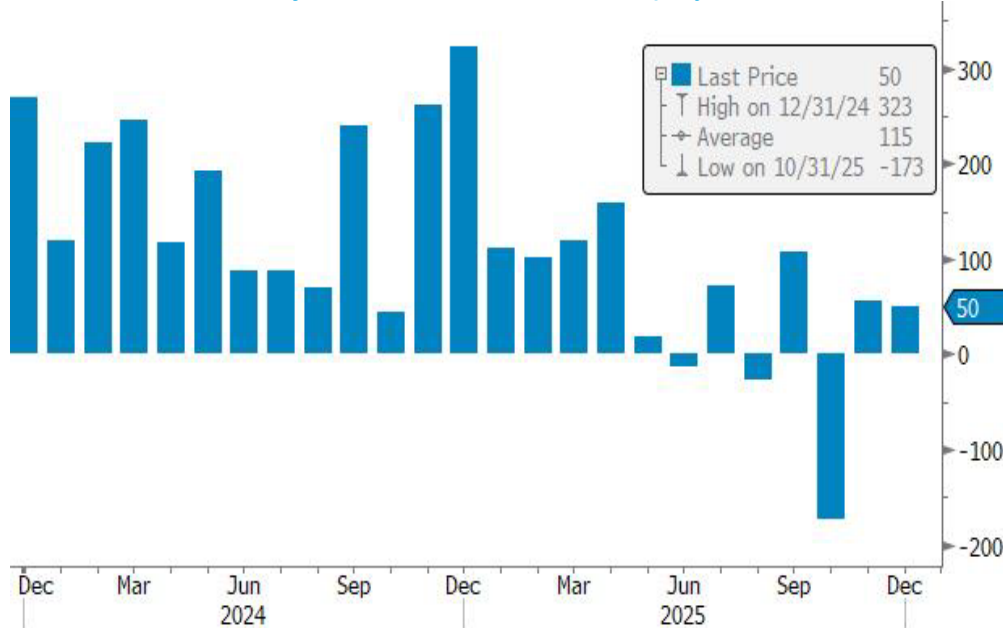
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Markets & Macroeconomics

The Fed held rates and Trump announced his Fed Chair Pick

Change in Nonfarm Payrolls

The U.S. added 50K jobs in December & Unemployment fell to 4.4%



Source: Bloomberg, BLS

The U.S. economy added 50K jobs in December as strong hiring in the leisure and hospitality and healthcare sectors drove job gains while job cuts in trade, transportation, and utilities and construction weighed on hiring. Unemployment fell from 4.5% in November to 4.4% in December. Labor force participation remained relatively unchanged at 62.5% in November to 62.4% in December. Jobless claims were generally below expectations in January. Headline CPI inflation for December was 2.7% and core CPI inflation was 2.6%, both unchanged from November. For producers, headline PPI inflation was unchanged in December at 3.0%, but core PPI inflation rose to 3.3% from 3.0% in November. The FOMC held the Fed's policy rate steady at their January meeting at 3.5%-3.75% and Trump announced that he would nominate Kevin Warsh to be the next Fed Chair when Chairman Powell's term ends in May. Warsh is generally seen as a more hawkish pick than the other

likely Trump picks and is generally seen as a typical independent central banker. Markets continue to price in 1-3 interest rate cuts in 2026. In January, consumer sentiment was mixed as the University of Michigan Consumer sentiment survey was 56.4, which was above expectations. Meanwhile, Conference Board Consumer Confidence was 84.5,

S&P 500 vs 10Y Treasury Yields 1Y

Equities were up modestly in January while yields rose



Source: Bloomberg

much lower than expectations and below December's level at 94.2. In manufacturing, industrial production rose in December by 0.4% month-over-month. December's ISM Manufacturing PMI came in below expectations at 47.9, marking the 10th consecutive month of declining manufacturing activity in the U.S. The S&P Global U.S. Manufacturing PMI was more in line with expectations at 51.8, indicating modest expansion of activity during the month. The Dollar Index fell again in January and treasury yields generally rose as investors were concerned about Trump's challenges to Fed independence as the Department of Justice opened an investigation into Fed Chair Powell, which Powell claimed as an attempt by the administration to influence Fed policy on interest rates. The administration is also trying to remove Lisa Cook, a Fed Board of Governors member, from her post.

Bottom Line: The Fed has kept interest rates steady as the labor market has remained weak and inflation remains above-target, but significantly below its peak. Trump also announced his Fed Chair pick, Kevin Warsh, and continues to pressure the Fed to lower rates.

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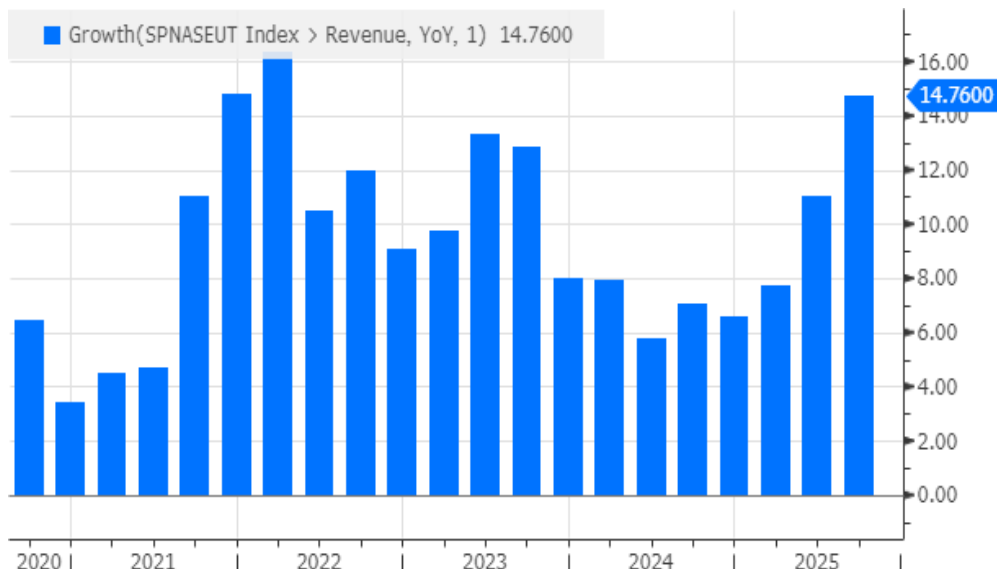
What's Ahead

Software Stocks and AI Disruption

January was another brutal month for software stocks. As major large language model (LLM) providers continue to release new and updated models and features, investor concerns about the durability of the software industry have risen. As companies like OpenAI and Anthropic have continued to release new models and tools for coding and application development, investors have become concerned that many software-as-a-service (SaaS) companies are at risk of losing their competitive edge and pricing power. The release of tools like OpenAI's Codex, Gemini's coding partner, and Anthropic's Claude coding tools have driven a view that SaaS companies are likely to face a greater threat of their services being replaced by major customers looking for cheaper and/or more customizable alternatives. Even as many software companies reported strong earnings results for Q4 and issued guidance reflecting strong growth, the results, commentary, and guidance did little to ease investors' concerns. Microsoft posted in-line growth of its Azure cloud business, which grew 38% year-over-year and forecasted 37%-38% year-over-year growth in the business for 2026. The company also posted 14% year-over-

Software Industry Annualize Growth by Quarter Q3 2020 – Q3 2025

Software companies' revenue growth decelerated after the Pandemic



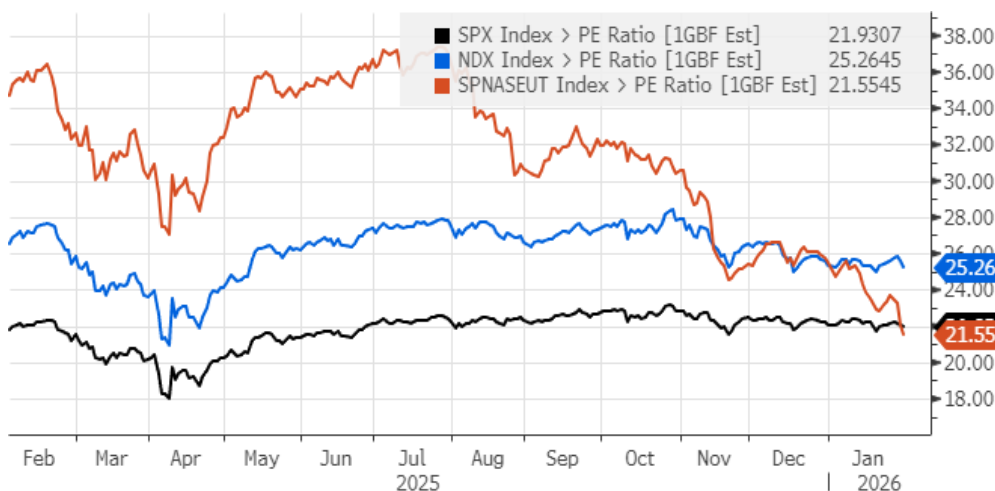
Source: Bloomberg

year growth in Productivity & Business software revenue and forecasted 13%-14% growth for the year. The shares fell 11% post-earnings anyway. ServiceNow, a leader in IT service management software, reported results on the same day as Microsoft. The company reported over 20% growth year-over-year in revenue and 26% growth in adjusted earnings per share.

For 2026, the company expects to grow revenue another 18-19% year-over-year and management even announced a share repurchase program. The shares fell 11% after they reported. It is not just replacement that investors are concerned about. Many observers believe that software's seat-based revenue model, where SaaS providers charge enterprise customers for each employee using a given software platform or application, may not be viable if AI is successful at automating significant numbers of white-collar roles. Some companies like ServiceNow and Salesforce, the customer relationship management software giant, have announced changes to their revenue models are coming to ease market concerns and protect their businesses. While analysts generally remain positive on the stocks, investors' fears around disruption have rattled the industry.

Software Stocks' Forward P/E (Red) versus Major Indexes

Software Multiples compressed significantly over the last 12M



Source: Bloomberg

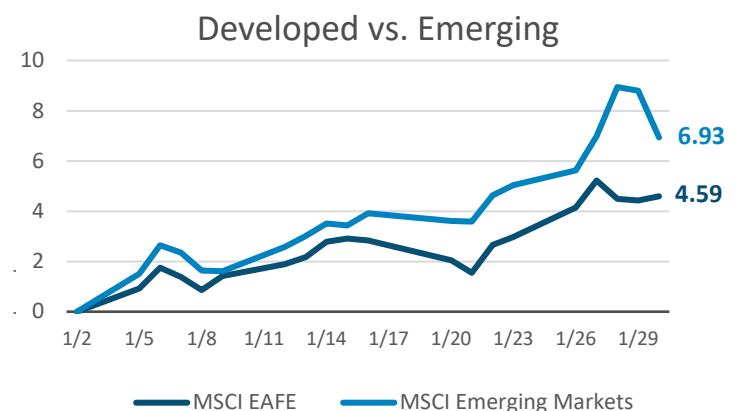
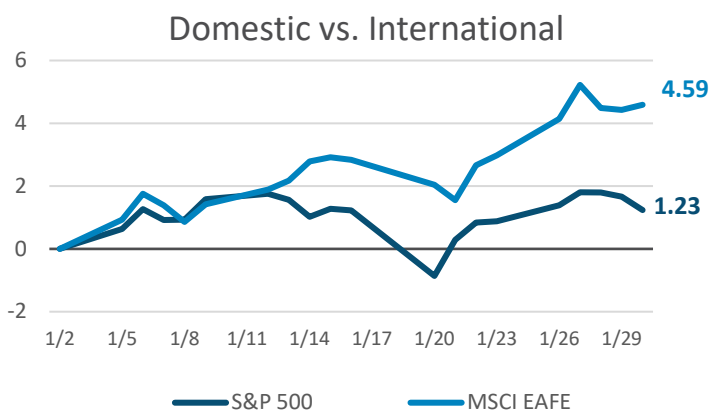
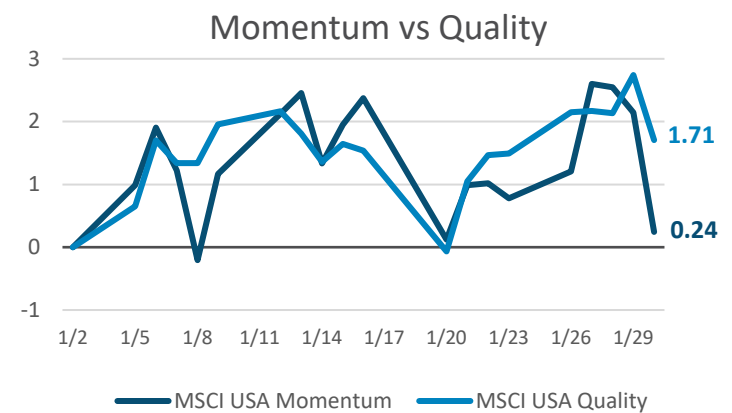
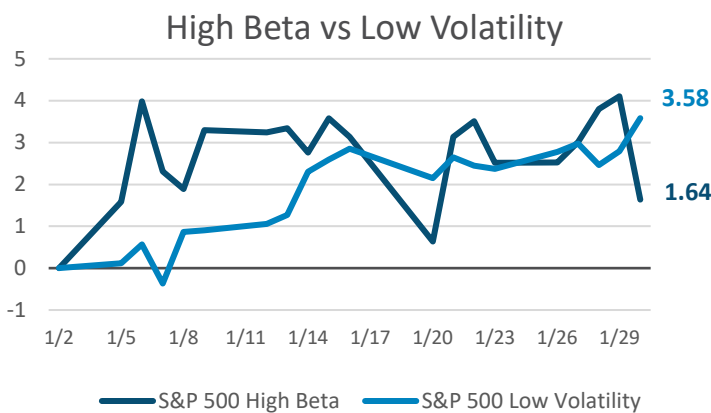
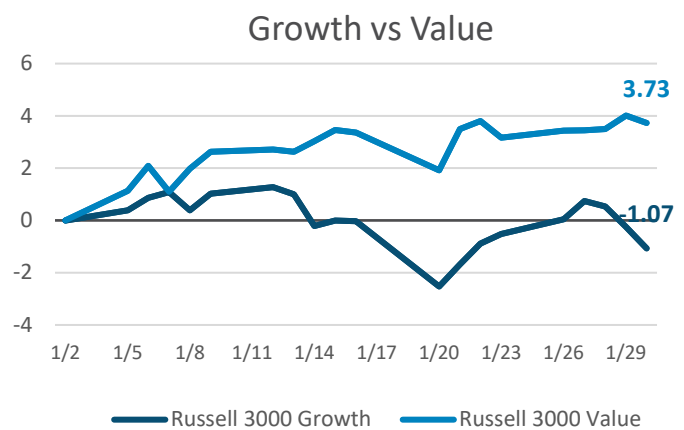
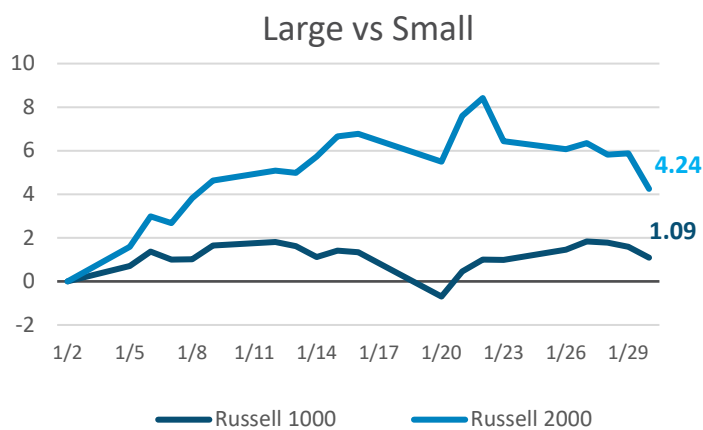
Bottom Line: Investor worries about the software industry have grown as OpenAI, Anthropic, and others have released new AI tools for coding and software development. Software companies are adapting by changing their business models.

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Equity Themes

What Worked, What Didn't

- **Small Outperformed Large while Value Outperformed Growth.** Market participants moved more into small caps and value stocks in January as the market broadened.
- **Low Volatility and Quality Outperformed.** Low volatility outperformed in January and momentum outperformed quality.
- **International Over Domestic, Emerging Over Developed.** International equities outperformed domestic stocks in January while emerging outperformed developed markets.



Source: Bloomberg.

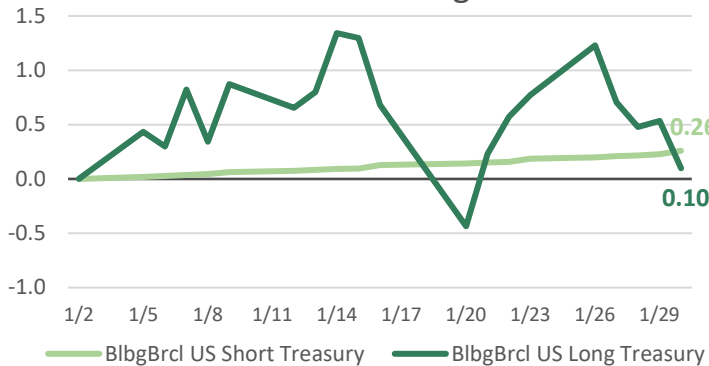
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Bond Themes

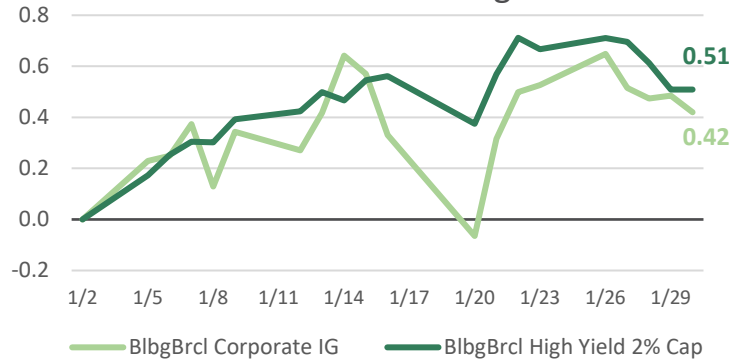
What Worked, What Didn't

- **Short Duration Outperformed while High Yield Beat Investment Grade.** Short duration treasuries outperformed long duration in January. High yield outperformed investment grade during the month.
- **Duration Tops Credit while TIPS Beat Treasuries.** In January, duration outperformed credit while TIPS outperformed treasuries.
- **Munis Beat Taxable and International Outperformed Domestic.** Municipal bonds outperformed taxable bonds, while international bonds outperformed their domestic peers in January.

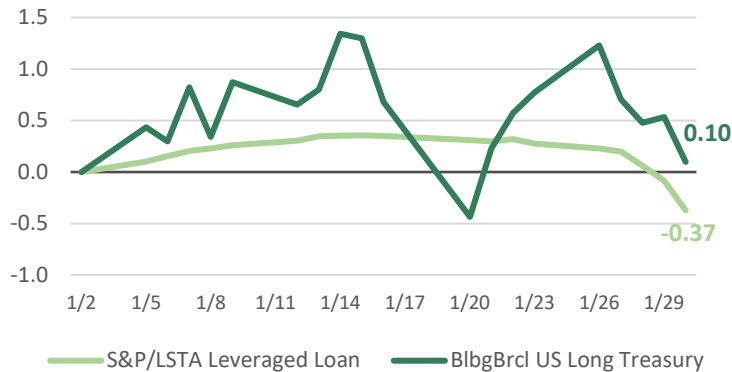
Short Duration vs Long Duration



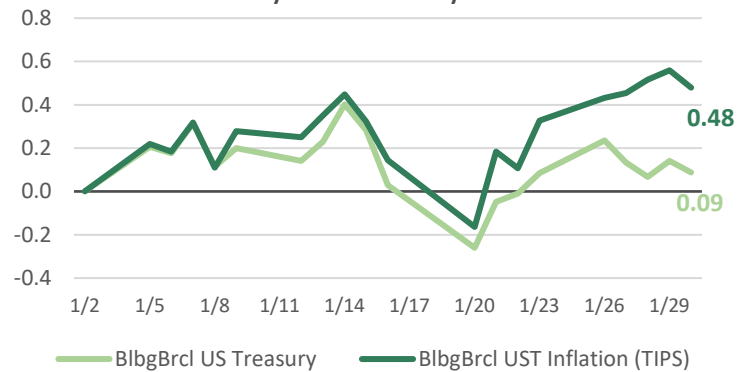
Investment Grade vs High Yield



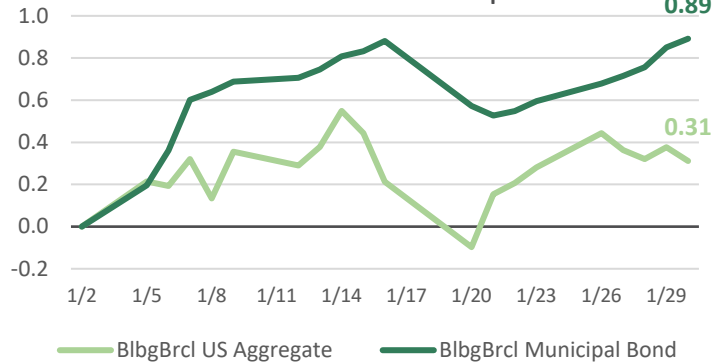
Credit vs Duration



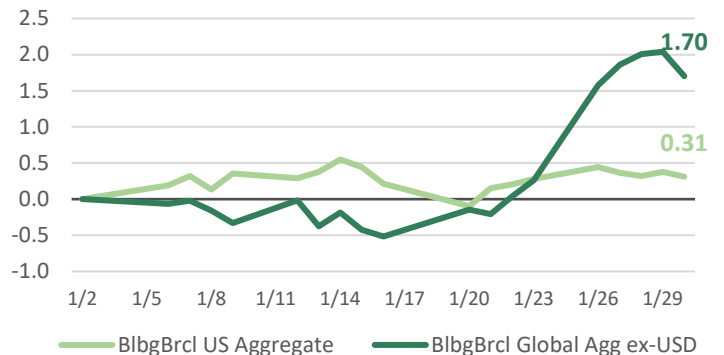
Treasury vs Treasury Inflation



Taxable vs. Municipal



Domestic vs. International

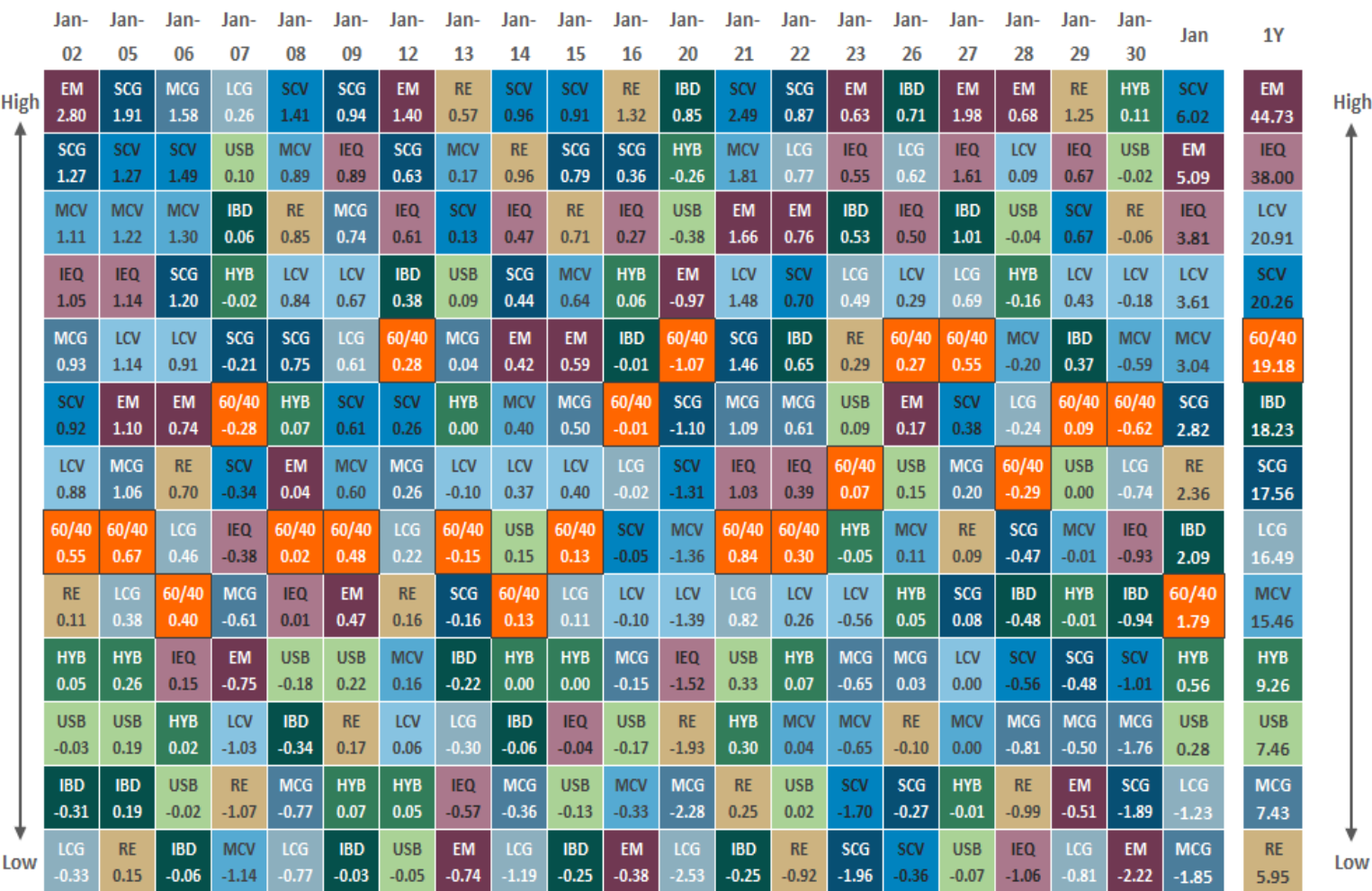


Source: Bloomberg.

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Asset Class Performance

The Importance of Diversification. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.



Legend

60/40 Allocation
(60/40)

Large Growth
(LCG)

Large Value
(LCV)

Mid Growth
(MCG)

Mid Value
(MCV)

Small Growth
(SCG)

Small Value
(SCV)

Intl Equity
(IEQ)

Emg Markets
(EM)

U.S. Bonds
(USB)

High Yield Bond
(HYB)

Intl Bonds
(IBD)

Real Estate
(RE)

Source: Sources for this market commentary derived from Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by Prime Capital Financial. The performance of those funds in December may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx \$ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate. 080223006 - MAH

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