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The facts: Indicators and quarterly earnings reports continued to give a contrasted view of the US activity, and no clear trend appeared to be prevailing. Political developments, both domestically and internationally, however looked increasingly likely to impact global growth.

The effects of last fall's long government shutdown continued to fade, as more economic indicators were released, but neither these delayed numbers nor those which were published in the usual timeframe were particularly clear.

Sentiment surveys were mixed. The ISM Manufacturing index declined for the fourth month in a row, to 47.9, whereas its Non-Manufacturing peer posted a fourth consecutive progress, to reach 54.4. Ironically, the new readings were respectively the worst since October 2024 for the former, and the best since the same date for the latter. This presumed strength in Services was also difficult to reconcile with the Conference Board's Consumer Confidence index, which was published little before month-end, and fell to 84.5. **Even during the Covid period, household sentiment had not been that low**, and one had to go back to ... May 2014 to find a worse level. The NAHB index, which had been giving signs of improvement since its September lows, fell back slightly in January.

Actual business metrics were not much clearer, in that they did not automatically confirm sentiment surveys. The Federal Reserve estimated that industrial production had resisted well, rising 0.4% sequentially in December, after a similar progression in November. Capacity utilization thus rebounded to 76.3%, its highest reading since last April. **The Census Bureau's figures also appeared to confirm this resilience**, with another rise in durable goods orders (even excluding transportation, which was particularly strong) and

a rebound in factory orders, without any official sign of deterioration on the inventory side. December vehicle sales were steady and retail sales rose in November at a pace which had not been seen since the summer months. However, according to the Bureau of Labor Statistics, **the US economy only added 50 000 non-farm payrolls in December, and manufacturing companies actually cut their total number of employees** for the eighth consecutive month.

Data compiled by the Bureau of Labor Statistics also confirmed that inflation was not completely gone. Excluding food and energy, consumer prices were up 0.2% in December, but the **production price indices for the same period, which were released late in January, pointed to a reacceleration**, with a 0.7% sequential rise in the core index. As expected, the Federal Reserve thus kept its target rate unchanged during its first FOMC meeting of 2026.

Meanwhile, corporations were reporting their quarterly results and issuing, or refining, their guidance for the new year. As of the end of January, approximately a third of S&P 500 companies had done so, and their message was contrasted. Banks generally exceeded expectations, as IPOs and M&A supported investment banking fees, while market volumes and net interest margins also helped. In Technology, many companies also posted strong results, but their forecasts were less upbeat as **a shortage of memory chips, caused by AI demand, threatened to impede hardware production and pushed input costs**



higher. In consumer-oriented industries, things were even more puzzling. Cruise lines mentioned strong bookings, carmakers exceeded expectations and looked more optimistic than ever in the recent past, but restaurant chains (which have to deal with higher food prices) struggled and apparel retailers failed to impress. Brands such as Abercrombie & Fitch, American Eagle Outfitters and Birkenstock announced disappointing holiday sales. Saks Global (the holding behind Saks Fifth Avenue, which now also owns other emblematic department stores such as Bergdorf Goodman) had to file for bankruptcy under "chapter 11", after missing an interest payment related to its Neiman Marcus acquisition.

The most significant developments however took place on the political side. On the domestic front, there was a growing rejection of the methods used by the federal immigration agents. The media had long been reporting the behaviors of Immigration and Customs Enforcement, deporting entire families who had been calling the country home for years, arresting mothers while they were collecting their children at school, and detaining five-year-old children separately from their parents. **This approach started to backfire when two citizens were shot, on separate occasions, during demonstrations in Minneapolis.** Several members of the federal administration, including Donald Trump himself, tried to distort the facts to reject responsibilities on the victims, or blame the local (Democratic) authorities for having been unable to enforce immigration laws by themselves. This woke up the opposition, which used the debt ceiling to leverage the situation. As a matter of fact, a new government shutdown was threatening at the end of the month, despite a relatively smooth negotiation process until then. While an agreement had already been found for key services, such as nutrition assistance programs, to remain open, the funding of other important administrations, such as those in charge of defense, transportation and health, was still awaiting Congress approval. The Democrats made a last minute move to exclude the Department of Homeland Security from this

budget until its ICE agents were subject to a stricter code of conduct.

On the international front, the month started with the US attack on Caracas and the arrest of Nicola Maduro and his wife, who were taken to New York for trial under various drug trafficking charges. This caused a major shock, both because Venezuela has the largest oil reserves in the world and because the method was widely seen as a violation of international laws. Meanwhile, Russia tried to leverage the very low winter temperatures, and intensified its strikes on Ukraine's energy infrastructures. Peace talks however continued in Abu Dhabi and, although no formal deal was reached, reports from all parties involved suggested that progress was being made. **In Iran, the protests against the Islamic regime, which had erupted in late December, went growing throughout the first half of the month, and triggered a violent repression.** Various sources estimated that the Iranian security forces had killed between fifteen and thirty thousand protesters, and the White House warned Tehran of a massive reaction if they did not end the shootings. The US Navy actually reinforced its presence in the region, but no strike was ordered and, towards January 20th, the Iranian government's crackdown appeared to have ended the unrest. Just before month-end, Donald Trump was pressing the local government to open negotiations on its nuclear program, which Tehran's foreign minister said he was open to, while repeating that the country's defense system would never be up for discussion. Despite these key developments, the most important international events of the month probably took place around the Economic Forum of Davos which, this year, was dominated by geopolitical rather than economic topics. The US President's address, in particular, came as a shock to all the delegates who still had illusions about his respect for the United States' allies and the rules he intended to apply with them. In that period, Donald Trump was also promoting his "Board of Peace", a structure initially designed to manage the Gaza strip, which increasingly looked like a U.N. substitute built to accommodate the President's objectives. **Tensions however eased somewhat when a sudden rise in US treasury yields prompted the White House to threaten**



countries which might be tempted to sell US debt, thus showing foreign investors that they still had a lever to control their fate. The tone of Washington's communication then became softer, and the announcement of Kevin Warsh as the President's nominee for the Federal Reserve's next Chair was seen as an attempt to reassure the market. Indictment threats against Jay Powell had raised concerns about the future independence of the central bank, and **the choice of an experienced, assertive candidate rather than a more docile one was welcomed by investors**.

The above developments (especially those on the domestic front) were likely a catalyst behind a resumption in the deterioration of the US President's support rate. However, **contrary to what was often reported in the European media, that evolution was not a landslide**. According to Real Clear Politics, which constantly compiles polls from the most serious institutes in the USA, Donald Trump remains slightly more popular than he was at the same stage of his first mandate. His "job approval" rate is also very similar to that obtained by Barack Obama one year after his second inauguration.

The effects: Despite sharp movements on many individual stocks and profit-taking on some of last year's best performers, including several of the "Mag 7s", the S&P 500 index started the year with a 1.42% rise in January. Our strategy did even better as a vast majority of our holdings outperformed.

US equities produced widespread returns in January, and the gap between the best- and worst- performing sectors was larger than in recent months. Interest rates, energy prices and the sharp depreciation of the dollar, especially against the euro, played a role in these reactions. **Most categories actually did much better than the S&P 500 index**. Energy was the best-performing group, with a 14.4% gain, as the barrel of light crude rose by about the same magnitude because of tensions with Iran and US warships converging towards the Gulf. This sector was followed by Materials (+8.7%), whose results were far from exceptional, but which discounted many countries' growing effort to secure long-term access to key resources. Consumer Staples (+7.5%) came third, largely because of the strong results announced by food and household products distributors, which managed to offset higher input costs through pricing. Industrials (+6.6%) and Communication Services (+5.7%) also significantly outperformed.

Only three sectors (Finance, IT and, to a lesser extent, Healthcare) declined over the month, but **they happened to**

be among the largest in the S&P 500 index, and they therefore weighed on the market's overall performance. Financials, which represent about 13% of the index, lost 2.6% despite their reasonably good results and confident guidance, because investors worried about a potential debt crisis. Technology also lost more than 1.6%, with a significant impact on the market, due to its 33% share of the index. The sector gave growing signs of capacity constraints in the memory industry and, more generally, wafer supply. This sent most storage-related companies sharply up. Sandisk gained almost 143% in the month, while Seagate, Micron and Western Digital were also among the S&P 500's top five with returns in excess of 45%. Semiconductor manufacturing equipment stocks, such as Lam Research, Applied Materials and Teradyne were also boosted by that situation, on hopes of further investments in capacity. However, many other sub-industries within Technology reacted negatively to the risk of supply disruptions or rising input costs. **The hype around AI also started to waver and investors took profits on some of their 2025 favorites**. This



selective stance was reinforced after Microsoft's forecasts failed to confirm that growth could be consistent with the heavy investments required, sending the stock down 11% despite strong reported results. Software editors were particularly impacted by the AI threat, and Intuit, Service Now, Salesforce, Workday, Adobe and Autodesk were all among the benchmark's bottom 25 returns, together with Oracle. These companies, which overall have a much larger weight in the market than the storage micro-segment, prevailed in the sector's orientation. Finally, Healthcare was penalized by insurers, as the US administration announced flat Medicare rates in 2026. Humana was the most impacted with a 23% drop in January, but several other players, such as United Health, also posted double-digit declines.

As regards the "Mag7s", whose outlying returns often skewed the performance of the S&P 500 index on the upside over the last few years, **they continued to harm the benchmark's representativeness of the whole market, but their effect played in the opposite way.** The official, market-cap-weighted benchmark lagged behind the simple average of its components by almost 200 basis points, as investors finally appeared to adopt a more selective stance on giants. Meta Platforms gained more than 8% after reporting strong results, backed by growing utilizations and AI-driven productivity gains in development. The company's forecasts saw above-estimates revenue in the current quarter but also a continuing rise in capital expenditures. Alphabet, which did not report yet, rose almost as much, as positive reviews about Gemini 3's potential drew increased attention towards the attractive capabilities and price of the TPUs on which it was developed. Amazon and Nvidia did not report their latest quarter either, but the former announced a number of restructurings (including layoffs and the closure of all Amazon Go "checkout-free" stores). The latter benefited from China's approval of a first batch of H200 AI chips imports. Both outperformed modestly. On the other side, Microsoft was weak, as explained above, while Broadcom and Apple also weighed, with 4-5% declines. Beijing asked its major firms to stop using cybersecurity software from the USA or Israel, which harmed the specialist of IT infrastructure through its ownership of the

former VMware business. As for the device designer, its deal with Alphabet raised hopes to see Siri and Apple Intelligence finally reach the expected performance, and its headline results were rather good, on the back of recovering iPhone sales in China. However, several other segments were disappointing, the management signaled that it was suffering from capacity constraints on a number of products, and the company continued to lose its top AI specialists to competition.

Due to these contrasted movements on key stocks, **the two families of S&P style indices continued to give conflicting information.** According to the "standard" indices, Value was almost 200 bps ahead of Growth (2.36% vs 0.50%), but the "Pure" family gave a completely different view, in which Growth (+4.63%) did better than Value (+3.80%).

Our strategy performed relatively well in this tough environment, and its gross return was exactly 100 bps ahead of its benchmark. The gap had been larger until late in the month, but Microsoft's results caused a wave of profit-taking through a large part of Technology, which remains one of our most overweight categories.

Our stock selection was reasonably good in most areas, but **some of our self-imposed guidelines had a negative influence.** In particular, our choice to stay away from Meta Platforms was harmful. Although we do not make ESG considerations a central factor in our investment process, our policy regarding these matters involves a number of principles, which make it difficult for us to hold this stock despite its fundamental attractiveness. In addition, the risk mitigation rules we introduced a few years ago to deal with the growing weight of the Mag7s imply that we cannot be more than 3% underweight on any specific stock. As a reminder, Alphabet and Broadcom are currently the only "megacaps" that we hold intentionally. While our minimum exposure to the others admittedly limited our underperformance in the exceptional conditions of the last few years, it was detrimental in January as the market came back to a more normal situation. **Just to avoid any misunderstanding, we have no intention of changing this rule again.** It was designed for the long-term, independently



from any specific market environment, and we are convinced that, over time, it will dampen risk in a way well worth the occasional miss of opportunities.

Our stock selection (including its indirect impact on the resulting sector exposures) was harmful in two sectors, with a third one (Consumer Staples) costing us about 15 bps mainly due to our underexposure. In Communication Services, our positive stance on Alphabet was correct, but it did not help much. We remain optimistic about this investment for the long-term but, as allowed by our tactical implementation rules, we intentionally kept the holding's target weight unchanged, so that its outperformance of the last few months gradually ate into our overexposure. Moreover, our other two holdings in the sector underperformed. Our only telecommunication operator was under small market pressure despite strong business trends, as its competitor Verizon adopted an aggressive marketing approach to regain market share. Pinterest was much weaker, due to its announcement of a restructuring plan aiming to cut about 15% of the social network's workforce, and reallocate the savings to AI investments. **While we usually view such announcements as positive, especially when they are driven by a long-term vision, investors obviously had a different opinion**, and the stock lost 14.5%, mostly in the wake of the news. Technology also produced a detrimental effect of a similar magnitude on our portfolio. Our software developers, which we believe have an opportunity to enjoy bigger benefits from AI than most other companies if they manage the integration well, were hurt by the same concerns that sent the whole group down. In addition, concerns about component shortages and price increases weighed on our hardware distributor CDW. Some of our stocks in the sector however did well, and Intel was, again, particularly strong with a 26% gain. The chip manufacturer reported strong results, but issued a soft

guidance, as it had no inventory left to offset the wafer shortage. Investors however managed to overcome the disappointment, as TSMC's capacity constraints opened an opportunity, and Apple was said to be considering to use Intel Foundry for the manufacturing of some of its next smartphone chips.

All other sectors produced a net positive contribution. Our selection of industrials was particularly favorable. Nextpower, which had disappointed a few months ago by announcing their renaming and their development into adjacent solar specialties, was our best performer with a 34.4% return. The solar tracker manufacturer reported strong results, issued a confident guidance, announced a large contract in the Middle-East and received several analyst upgrades. Our latest pick Huntington Ingalls Industries came third in the performance table, just after Intel. The mood was generally favorable to the sector, as geopolitical tensions fueled spending and Donald Trump fought to get a \$1.5trn budget for Defense. In addition, the company won a contract with the Missile Defense Agency and was among the bidders for another, very large project. Financials also brought a substantial contribution, which we estimate around 65 bps. None of our holdings did particularly well, but they all performed better than their sector. The situation was a little less easy in Healthcare, as Eli Lilly and Jazz Pharmaceuticals were slightly soft. The former made several positive announcements about its drug pipeline and unveiled a few acquisition or co-development projects, but Reuters suggested that the FDA might take more time than expected to review orforglipron, the company's oral drug against obesity. As for the latter, there was no particular issue but, as usual, the market felt disappointed when the company only reaffirmed its full year revenue guidance, instead of raising it.



Our decisions: Given that the recent developments contributed to keep uncertainty high without meaningfully changing our economic scenario, we did not alter our stock selection in January. Our only transactions were weight adjustments caused by market or client movements.

The earnings season, which typically brings more information about companies' perception of the outlook, was just starting, and the main references we had to refine our view of the environment were general factors, such as macro-economic indicators and political events. These were broadly consistent with our expectations, and **we did not feel compelled to change our strategy, which anyway puts more emphasis on company-specific drivers.**

Our portfolio thus started 2026 with generally unchanged characteristics. Our stock-picking approach currently results in relatively limited sector weight deviations from our benchmark, which fits well with the lack of visibility. Our most overweight sectors are, as often, Technology and Healthcare, where it remains possible to find companies with a solid, sustainable growth, which is our priority, at an

acceptable valuation. Our portfolio actually continues to offer its typical characteristics, such as a stronger earnings growth than the S&P 500 index over both the short-term (13.61 vs 9.44% expected in 2026) and the long-term (13.13 vs 10.56%) based on Graphene Investments' calculation using LSEG/IBES data. Its earnings revisions are also more favorable than market average. As a result of our effort to favor stocks with a consistent growth pattern rather than hype themes, we also benefit from an attractive valuation advantage, which may prove useful in the event of investor nervousness. **Our cautious stance on most of the Mag7s results in a relative overexposure to the rest of the large cap world, as well as a few "mid-caps"** (assuming that someone still knows how to define these categories, whose limits moved a lot lately).

The outlook: As long as Donald Trump's popularity doesn't collapse and force him to adopt a less excessive profile, we expect political decisions to often interfere with the economy. This will make it difficult to predict fundamental trends, which anyway will probably not be the main market driver.

Admittedly, there are positive factors for the US economy in 2026. Oil prices remain manageable and **Donald Trump's "coup" in Caracas, which may not do much for its official objective against drug trafficking, will give the USA an access to more reserves.** As regards supply, though, the effect will probably be long to materialize, as Venezuelan oilfields are in an advanced state of decay, and their content is thick and difficult to refine. Exchange rates should help exporters' competitiveness and encourage foreign investment, which aligns with Washington's efforts towards

a reindustrialization of the country. Many of the measures that formed the "One Big Beautiful Bill" act are due to apply from 2026 onwards and, while they are often just an extension of already existing solutions, they can only support sentiment and spending. Moreover, **with the mid-term elections approaching, the White House is poised to keep taking initiatives to retain voters,** if they seem likely to withdraw their support.

However, there are also headwinds for economic growth, and **we disagree with analysts who tend to say that the**



slow growth in non-farm payrolls is not an issue since jobless claims stay remarkably low. Admittedly, with only 200 000 persons applying for unemployment subsidies every week when 400 000 was considered a low level a few years ago, things may seem encouraging. However, it looks like the main reason for this paradox is that **baby-boomers, who had stayed in their job as long as there was demand, may now be dropping out of the workforce.** Surely, this is perfect if they are going to keep spending at the same pace and if productivity gains are going to allow as much wealth creation with fewer workers, but what if it is not the case? What if AI proves less reliable than expected, and keeps requiring both heavy investments and a permanent supervision, except in a few, very specific use cases? In addition, we also believe that the recent slide in consumer confidence is a sign that households are not blind. Several retailers already stressed the impact of inflation on their most modest customers and, although one data point doesn't make a trend, the recent rise in production prices may be a sign that it is only the beginning. It is actually difficult to see why the PPI would suddenly move by such a magnitude, if there was not at least some sort of inflation resumption, due to tariffs or other factors. At least, in this respect, the choice of Kevin Warsh as the Fed's next Chair will likely be ratified and is probably good news. **The nominee's recent stance was in favor of lower rates, but his longer history suggests that this is not a dogmatic opinion,** and that he can form independent views and behave pragmatically.

The main reason why the US economy historically showed an impressive resilience and rebounded faster than others after almost every crisis is, the government, the central bank and corporate executives were all working together, in their respective areas, to fix issues and, ultimately, create a backdrop favorable to confidence. Today, we are less sure that all three factors are aligned. From what we can judge, **companies are still disciplined and there is a good chance that the Federal Reserve will keep acting independently** to manage the growth/inflation balance. However, we are more concerned about the government's action because, **even if the intent is globally understandable, the method**

is not. The approach is too messy and the announcements too unpredictable to not harm trust. On the international front, the damage has already been done, plenty of long-time alliances have been severed, and the "new order" which is shaping up will no longer be as clear and US-centric as the previous one. In the same way that Donald Trump's 2019 measures against Chinese smartphones using Android pushed Huawei to develop its own solutions, the current war around AI chips will probably make Beijing catch up even faster, and the damaged trust with other countries may lead them to follow a similar path when they can. As regards the domestic side, we are surprised to see Donald Trump's support rate stay at such a high level, despite its undeniable decline. We are therefore carefully monitoring opinion polls, because a sharp deterioration would certainly force the US President to revert to more conventional, predictable methods. **The economy and the market like predictability, and we would be more confident in their ability to hold up well.** For the moment, we are likely to retain our current median strategy, with few clear-cut bets but a nice upside, which sell-side analysts estimate around 19% if we trust their current target prices.

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