

Markets Cool After Relief Rally as Consumer Sentiment Rises and Investors Rotate Ahead of Mega-Cap Earnings.

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The U.S. and European stock markets closed mixed to end a volatile week, as investors moderated risk exposure following a two-day rebound and repositioned ahead of a heavy slate of earnings. With Greenland-driven geopolitical risk premia easing for now, attention shifted back to corporate fundamentals—particularly guidance, margin durability, and sector-level leadership—setting up next week's mega-cap reports as the market's next decisive test.

On Wall Street, sentiment weakened after Intel shares dropped sharply following softer forward guidance tied to ongoing manufacturing and execution challenges. The move weighed on the broader technology complex and reinforced the market's growing sensitivity to company-specific fundamentals—particularly as investors rotate away from "narrative-driven" momentum and toward profit delivery, operational consistency, and balance-sheet quality.

By the close, markets delivered a mixed but disciplined finish. The Dow Jones Industrial Average fell 285 points, reflecting pressure in selecting cyclicals and pockets of profit-taking after recent gains. In contrast, **the S&P 500 managed a marginal advance of 0.03%**, while the **Nasdaq Composite rose 0.28%**, supported by relative resilience in growth and large-cap technology, despite Intel-driven weakness.

In fixed income, **Treasury yields remained steady** and contained, with the **10-year note closing at 4.24%** and the **2-year ending at 3.60%**, reinforcing the view that the macro backdrop remains stable and that markets are not pricing an abrupt shift in Federal Reserve policy in the near term.

For the week, stocks were on track for a modest decline overall, but sector performance remained notably constructive beneath the surface. Energy, health care, and materials outperformed, supporting the view that broader market leadership is still intact. At the same time, small caps, value-style equities, and precious metals continued to attract increased investor interest—an important signal that diversification and rotation, not outright risk aversion, are shaping allocations.

In commodities, WTI crude traded near \$60, while government bond yields and the U.S. dollar finished little changed, suggesting the pullback was orderly rather than driven by macro stress.

Wall Street Drivers — Geopolitical risk fades, earnings take center stage

With Greenland-related geopolitical and trade headlines fading from the immediate spotlight, investors shifted focus back to corporate fundamentals, positioning for earnings and forward guidance as the next major catalyst. Roughly one-third of the S&P 500 is set to report fourth-quarter results, setting up a decisive test of profit durability, margin resilience, and management credibility at a time when valuations remain elevated and leadership is broadening.

Next week will be particularly consequential, with four members of the Magnificent 7—Meta, Microsoft, Tesla, and Apple—scheduled to report, alongside a heavy slate of technology earnings. This matters because tech has lagged year to date as market leadership has expanded beyond a

narrow group of mega-cap winners, meaning the next leg of performance will likely be driven less by momentum and more by results, guidance, and execution.

Consensus expectations remain constructive: the S&P 500 is projected to deliver its 10th consecutive quarter of year-over-year earnings growth, with fourth-quarter profits expected to rise roughly 8%. More importantly, the forward outlook has firmed. Over the last six months, 2026 earnings expectations have been revised higher, now pointing to nearly 15% EPS growth over 2025, with contributions expected across all 11 sectors.

In our view, one of the most important strategic signals is that earnings growth has accelerated without a meaningful surge in headcount, highlighting productivity gains and operating leverage—not simply labor expansion—as the underlying driver of profit momentum.

European markets close lower as Davos geopolitics offset earnings strength.

European equities finished Friday's session modestly lower as geopolitical developments at the World Economic Forum in Davos weighed on sentiment, offsetting pockets of strong corporate earnings. The pan-European Stoxx 600 closed down 0.2%, with regional markets trading mixed as investors reassessed Europe's geopolitical positioning amid shifting U.S. policy signals.

Shares of Ericsson surged roughly 10% after the company delivered a stronger-than-expected fourth-quarter profit, providing a rare bright spot for the technology sector. The rally underscored that stock-specific fundamentals continue to matter, even as macro and political narratives dominate broader market direction.

The pullback followed Thursday's advance, when European stocks rallied after President Donald Trump confirmed a "framework" agreement related to Greenland and moved to suspend escalating tariffs on several European countries. That announcement temporarily eased fears of a tit-for-tat trade confrontation with the U.S., a development welcomed by business leaders attending Davos. JPMorgan's EMEA co-CEO Conor Hillery described the tone as "very good for business," reflecting relief across corporate and financial circles.

However, sentiment turned more cautious after Ukrainian President Volodymyr Zelenskyy delivered a sharply critical address, accusing European leaders of lacking strategic unity and being overly focused on persuading Washington rather than strengthening Europe's own defense posture. Zelenskyy also confirmed that trilateral talks among Ukraine, Russia, and the U.S. were scheduled for the weekend in the United Arab Emirates, reintroducing geopolitical uncertainty into the market narrative.

Adding to the unease, investors are closely watching developments surrounding the so-called "Board of Peace," chaired by President Trump, which was initially conceived to oversee post-conflict reconstruction in Gaza but is now being discussed as a broader global governance body. Trump's decision to rescind Canadian Prime Minister Mark Carney's invitation overnight added to concerns among U.S. allies about shifting diplomatic alignments.

While trade tensions with the U.S. have temporarily cooled, geopolitical uncertainty and questions around Europe's strategic autonomy continue to cap risk appetite, keeping equities range-bound despite selective earnings strength.

The Fed is expected to hold steady — and markets agree.

The first Federal Reserve meeting of the year takes place next week, and no policy change is expected. Bond markets are pricing in only a minimal probability of an immediate rate cut, reflecting a macro environment still defined by steady growth, resilient consumer activity, and stable labor-market conditions.

Meanwhile, the political backdrop is becoming more relevant to markets. The White House is expected to announce a new Fed Chair soon, with Kevin Warsh or Rick Rieder frequently cited as leading candidates. At the same time, the Supreme Court appeared skeptical of President Trump's attempt to remove Fed Governor Cook, with several justices raising concerns about protecting the Federal Reserve's independence.

This combination has contributed to a modest repricing in the expected rate path, with markets now anticipating a slightly flatter pace of cuts than they were pricing last month. Even so, we believe monetary policy will remain anchored to the data. And regardless of who becomes the next Chair, that individual still holds only one vote on a 12-member committee, with additional voting power held by a rotating group of regional Fed presidents selected through their reserve banks—structural safeguards that limit the ability of any single person to materially shift the policy stance.

Bottom Line

Markets ended the week slightly lower, but the tone remains fundamentally constructive. With Greenland-related risks cooling, the next decisive driver is earnings and forward guidance. If results validate the outlook for continued profit growth, rising productivity, and stable macro conditions, the broader leadership trend can remain intact—even with the Fed in a holding pattern.

GDPNow Update:

- The GDPNow for the fourth quarter was updated on January 22 to 5.40% and is unchanged.

Corporate Earnings Parade:

- **OFG Bancorp (OFG):** reported its fourth quarter 2025 results with Revenues of \$185,371 million, up 0.75%, Net income of \$55,893 million, up 7.74%, and earnings per share of \$1.27. OFG Stock Price Objective of \$47.60 and has a Tier 1 Capital of 13.97%. View our report on OFG: <https://mcusercontent.com/8a74decb0cc0cdc6eb732b812/files/b7af3945-42f4-56ad-9371-abf959626663/Report.OFG.01.23.2026.pdf>

Economic Update:

- **U.S. Index of Consumer Sentiment:** rose to 56.40, up from 52.90 last month, a change of 6.62%.
- **UK Retail Sales YoY:** rose to 2.50%, up from 1.80% last month.

Eurozone Summary:

- **Stoxx 600:** closed at 608.34, down 0.52 points or 0.085%.
- **FTSE 100:** closed at 10,143.44, down 6.61 or 0.065%.
- **DAX Index:** closed at 24,900.71, up 44.24 or 0.18%.

Wall Street Summary:

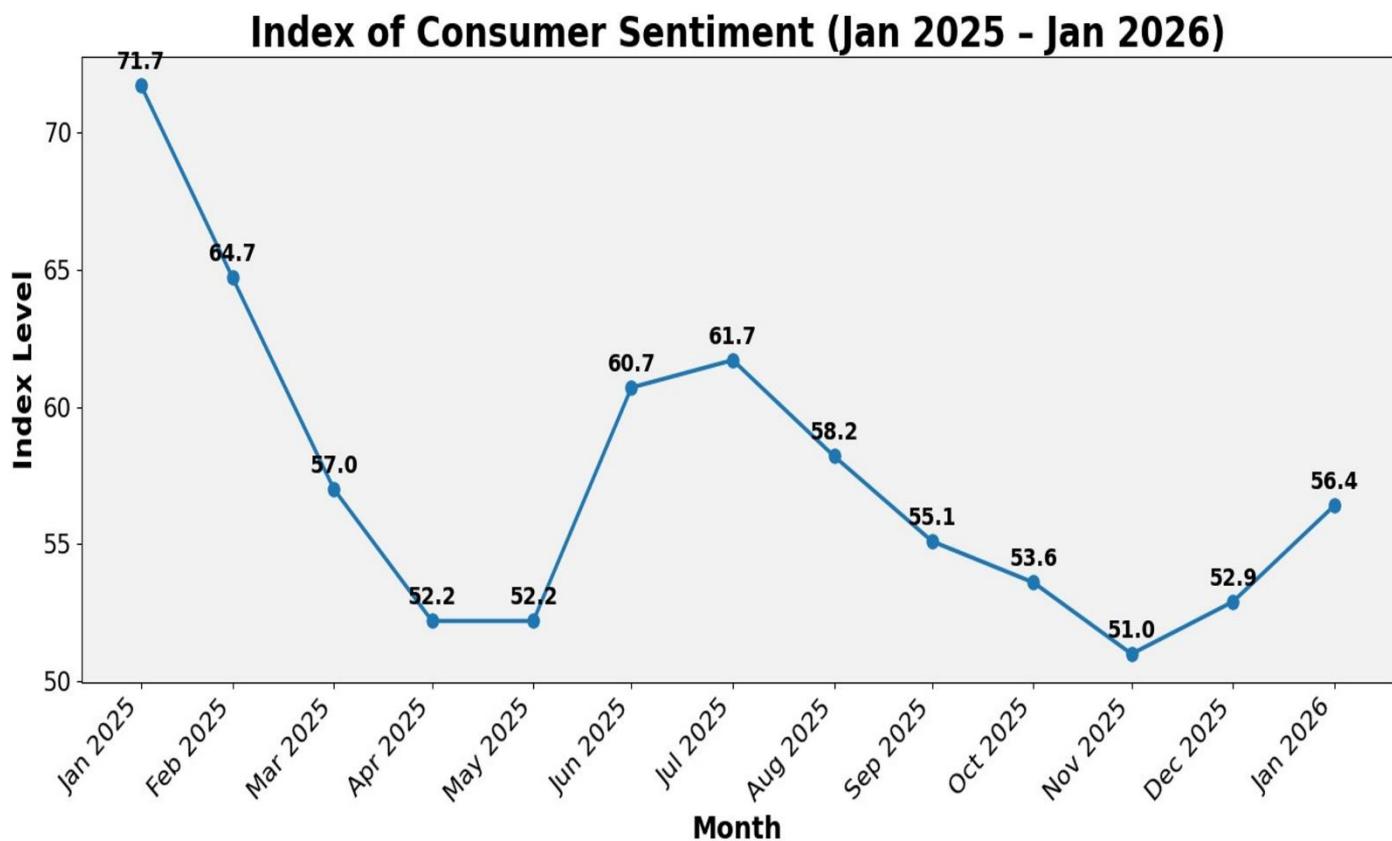
- **Dow Jones Industrial Average:** closed at 49,098.71, down 285.30 points or 0.58%.
- **S&P 500:** closed at 6,915.61, up 2.26 points or 0.03%.
- **Nasdaq Composite:** closed at 23,501.24, up 65.22 points or 0.28%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,010.06, down 102.03 points, or 2.48%.
- **Birling Capital U.S. Bank Index:** closed at 9,081.84, up 73.52 points or 0.82%.
- **U.S. Treasury 10-year note:** closed at 4.24%.
- **U.S. Treasury 2-year note:** closed at 3.60%.

GDPNow

Fourth Quarter 2026

Date	GDPNow 4Q25	Change
12/23/2025	3.00%	Initial Forecast
1/5/2026	2.70%	-10.00%
1/8/2026	5.40%	100.00%
1/9/2026	5.10%	-5.56%
1/14/2026	5.30%	3.92%
1/21/2026	5.40%	1.89%
1/22/2026	5.40%	0.00%

Index of Consumer Sentiment (Jan 2025 – Jan 2026)



Wall Street Recap

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