

Wall Street Retreats From Record Highs Amid Sector Rotation and Heightened Geopolitical Risk.

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The U.S. and European equity markets were mixed on Wednesday, as investors paused after recent record highs to weigh escalating geopolitical developments and position ahead of key U.S. labor-market data.

On **Wall Street, U.S. equities pulled back from record levels** on Wednesday as early-year momentum cooled across several previously strong sectors. **The Dow Jones Industrial Average fell more than 450 points**, retreating after briefly setting a new intraday high. **The S&P 500 slipped 0.3%**, backing off from a fresh record, **while the Nasdaq edged up 0.2%**.

Sector leadership reversed. Financials and energy, two of the strongest performers at the start of 2026, both declined by more than 1%. **Bank stocks, including JPMorgan, Bank of America, and Wells Fargo, gave back recent gains**, while **energy names such as Exxon Mobil, Chevron, and ConocoPhillips lagged** as crude prices weakened.

Oil prices fell after President Trump said interim authorities in **Venezuela will deliver up to 50 million barrels of oil to the U.S.**, reviving concerns about potential oversupply. Market participants interpreted the muted price reaction as confirmation that global supply remains ample.

The session underscores a familiar early-cycle dynamic: record highs invite rotation, not capitulation. As earnings, labor data, and policy signals come into focus, markets are shifting from broad momentum toward more selective leadership.

Eurozone Markets

European equities traded slightly negative on Wednesday afternoon, as regional jitters intensified following President Donald Trump's renewed rhetoric about the potential annexation of Greenland. **The pan-European Stoxx 600 closed down just 0.05%**, with performance mixed across sectors and major bourses. Notably, European defense stocks moved sharply higher, with the Stoxx Europe Aerospace & Defense index up approximately 2.5%, on track for a fourth consecutive day of gains, reflecting rising geopolitical risk premiums and renewed focus on regional security spending. **The FTSE 100 also fell 74.52 points, and the Dax Index rose 230.06, closing above 25,000.**

Global market attention has increasingly turned to President Trump's stated intentions regarding Greenland—an autonomous territory of Denmark—following the recent U.S. military operation that resulted in the capture and arrest of Venezuela's leader, Nicolás Maduro. White House officials indicated that the administration is considering a "range of options" to acquire Greenland, including potential military measures. The president has argued that U.S. control of the Arctic island is necessary for national security, citing increased Russian and Chinese activity in the region. While the rhetoric is geopolitically significant, markets have thus far viewed the issue as a strategic risk rather than an immediate economic disruption.

Rates Rally as Growth Signals Cool

In fixed income, bonds are rallying, pushing yields lower across the curve. The move reflects weaker-than-expected German retail sales, further moderation in eurozone inflation, and softer U.S. private-sector payroll gains. Collectively, the data reinforces the narrative of cooling—but not collapsing—global growth and easing inflation pressures, conditions that remain broadly supportive for risk assets. Commodity markets are mixed. Oil prices are modestly lower after President Trump indicated that Venezuela could send 30–50 million barrels of sanctioned oil to the U.S. as Washington seeks greater influence over the country's energy industry. While geopolitically meaningful, we do not see this materially altering near-term global supply-demand balances. Precious metals are pausing after a strong 2025 and a solid start to the year, with both gold and silver trading lower on the session. On the corporate front, Warner Bros. Discovery rejected Paramount's latest bid, judging it inferior to its existing strategic arrangement with Netflix, underscoring ongoing consolidation pressures and strategic realignment within the global media sector.

Early-Year Rotation Favors Small-Caps and Value

Despite a dense geopolitical backdrop, equity markets have remained resilient, with recent highs suggesting investors continue to prioritize earnings fundamentals over political noise. A pro-cyclical rotation is taking hold, with small-cap stocks outperforming large caps and value-style investments leading growth. We view this as a constructive signal, pointing to expectations for broader earnings participation beyond mega-cap technology and improving momentum across cyclically sensitive segments of the market.

Labor Market in Focus Ahead of Friday's Report

This morning's ADP report showed private payrolls rising by 41,000 in December, broadly in line with expectations and consistent with a labor market stabilizing after a softer six-month stretch. Job gains were concentrated in education and health services, while firms with fewer than 50 employees added jobs for the first time in four months—an encouraging sign for small-business activity.

Attention now turns to Friday's official employment report. The prior release showed unemployment rising to 4.6%, a four-year high, largely due to increased labor-force participation rather than job losses. Our base case remains a low-hiring, low-firing environment, with economic activity steady enough to support a modest improvement in job creation. We expect monthly payroll gains to firm into the 50,000–100,000 range, while a smaller labor supply—partly reflecting lower immigration—keeps unemployment near the mid-4% range through 2026.

Economic Update:

- **ADP Employment Change:** rose to 41,000, up from -29,000 last month.
- **ADP Median Pay YoY:** is unchanged at 4.40%, compared to 4.40% last month.
- **U.S. Job Openings:** Total Nonfarm fell to 7.146 million, down from 7.449 million last month and down 4.07%.
- **U.S. Consumer Credit Outstanding MoM:** fell to \$9.178 Billion, down from \$11.01 billion last month and down 16.61% from last month.
- **Canada Ivey PMI:** fell to 43.30, down from 51.90 last month and down-16.57% from last month.
- **Germany Real Retail Sales MoM:** fell -0.60%, compared to 0.30% last month.
- **Germany Unemployment Rate:** rose to 6.20%, compared to 6.10% last month.
- **Japan Consumer Confidence Index:** rose to 37.50, up from 35.80 last month.

Eurozone Summary:

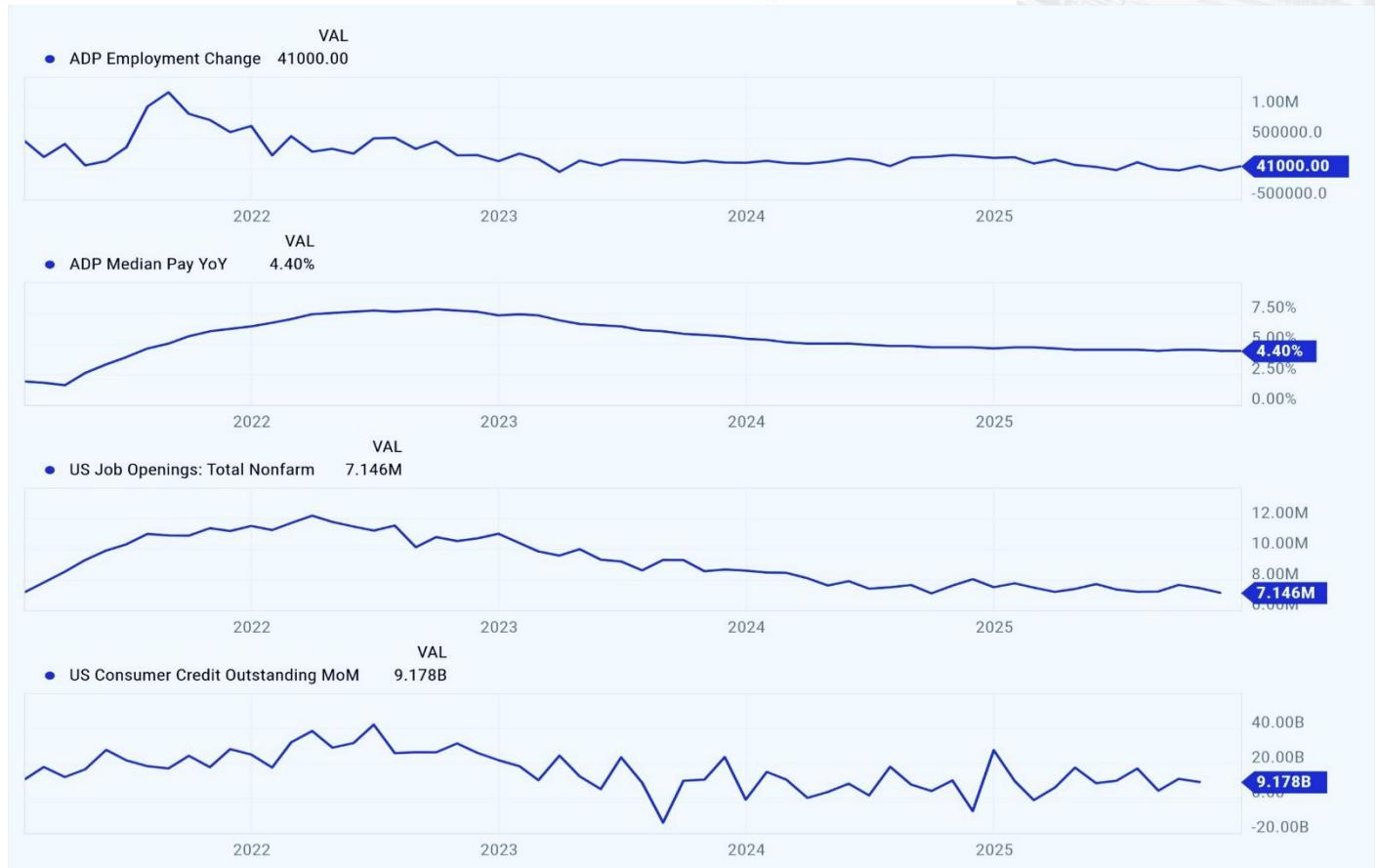
- **Stoxx 600:** closed at 604.99, down 0.29 points or 0.05%.
- **FTSE 100:** closed at 10,048.21, down 74.52 or 0.74%.

- **DAX Index:** closed at 25,122.26, up 230.06 or 0.92%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 48,996.08, down 466.00 points or 0.94%.
- **S&P 500:** closed at 6,920.94, down 23.87 points or 0.34%.
- **Nasdaq Composite:** closed at 23,584.27, up 37.10 points or 0.16%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,072.18, up 14.81 points or 0.37%.
- **Birling Capital U.S. Bank Index:** closed at 9,630.23, up 32.08 points or 0.33%.
- **U.S. Treasury 10-year note:** closed at 4.15%.
- **U.S. Treasury 2-year note:** closed at 3.47%.

ADP Employment Change; ADP Median Pay YoY; US Job Openings: Total Nonfarm & US Consumer Credit Outstanding MoM



Canada Ivey PMI; Germany Real Retail Sales MoM; Germany Unemployment Rate & Japan Unemployment Rate



Wall Street Recap

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