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## **Calm above, chaos below: January's hidden turbulence**

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There's an old Wall Street saying that as January goes, so goes the year. If the January barometer is to be believed, 2026 is off to a promising, if turbulent, start. The S&P 500 gained 1.2 percent. The Dow rose 1.6 percent. The Nasdaq advanced 1.1 percent. The S&P briefly touched 7,000 for the first time in its history. Historically, when January has ended positively, the full year has finished higher about 89 percent of the time, with gains averaging 17 percent.

Those index numbers obscure what was happening underneath. January was one of the most volatile months in recent memory, not because the indexes moved much, but because nearly everything else did. The calm above concealed a storm below.

For two years, the "Magnificent Seven" mega-cap tech stocks dominated returns. In January, that dominance cracked. The Russell 2000 outperformed the S&P 500 for 11 consecutive sessions, a streak seen only eight times since 1979. Small-cap value gained nearly 6 percent while large-cap growth went nowhere. Materials surged 9 percent, drawing a record \$6.5 billion in weekly inflows. Industrials rose after the ISM Manufacturing PMI showed expansion for the first time in 12 months. Financials attracted \$3 billion. Meanwhile, tech funds saw \$1.4 billion in outflows in late January alone. The money wasn't leaving the market; it was moving to different neighborhoods.

This broadening is healthy. When a handful of names drive returns, the market is fragile. When participation is broad, the foundation is durable. For investors who maintained diversified portfolios, January was vindication.

The Federal Reserve held its course. At its Jan. 28 meeting, the committee voted 10-2 to keep rates at 3.5 to 3.75 percent, after three cuts in late 2025. Govs. Christopher Waller and Stephen Miran dissented, favoring another quarter-point reduction. Chair Jerome Powell struck a patient tone, calling the economy "solid" with inflation "somewhat elevated" at 2.8 percent core PCE. Markets now expect two cuts at most this year, probably not before summer. The era of aggressive easing is behind us.

Then came the gold rush. For most of January, one theme dominated: the flight from paper currencies into hard assets. Wall Street calls it the “debasement trade.” The logic is simple. When governments choose inflation and currency erosion, investors flock to things that hold value when money does not. Gold shattered records, surging past \$5,600 an ounce. Silver rose more than 60 percent to breach \$120 for the first time. The dollar fell to a four-year low amid concerns about federal debt and geopolitical tensions from Venezuela to Greenland. Bitcoin, marketed by its proponents as “digital gold,” conspicuously failed to join the rally. Spot Bitcoin ETFs recorded \$1.6 billion in outflows. When investors wanted a haven, they chose the kind you can hold.

But all that glitters is not gold. On Jan. 30, the precious metals bubble burst. Silver plunged 31 percent in a single session, its largest daily decline ever. Gold fell 11 percent, its worst day since 1980. Market veterans recalled the Hunt brothers’ attempt in 1980 to corner silver, which ended similarly when regulators intervened. This time, the CME raised margin requirements on silver from 11 to 15 percent and on gold from 6 to 8 percent, forcing leveraged speculators to liquidate at any price. Margin calls cascaded across markets.

The catalyst was President Trump’s announcement that he would nominate Kevin Warsh to succeed Jerome Powell as Fed chair. Warsh served on the Fed Board from 2006 to 2011 and carries a reputation as a “sound money” advocate skeptical of quantitative easing. Markets read his nomination as a signal that dollar strength would take priority. The dollar surged. Gold and silver cratered. The debasement trade unwound in hours. Whether Warsh proves hawkish remains to be seen, and his confirmation is uncertain, with at least one Republican senator withholding support. But the market’s initial verdict was swift.

What followed was rare. On Jan. 30 and 31, virtually every asset class fell together. Equities, treasuries, gold, silver, and crypto all fell simultaneously. An estimated \$10 trillion to \$12 trillion in global market value evaporated in 48 hours. Where did the money go? Investors poured \$79 billion into money market funds in the final week of January. Money market assets hit record highs. In times of confusion, cash is king.

A partial government shutdown added one more log to the fire. Congress failed to pass a spending bill by midnight on Jan. 30, leaving the defense, state, treasury, and transportation departments unfunded. It was the second shutdown this fiscal year. In a midterm election year, expect more fiscal drama ahead.

What should investors take from all this? First, diversification works. Those who concentrated in tech lagged. Those who spread capital across sectors, capitalizations and industries found opportunity. Materials, financials, industrials and small caps all delivered gains that didn’t exist a year ago. The S&P 500 has had three consecutive years of double-digit returns: 24 percent in 2023, 23 percent in 2024, and 18 percent in 2025. Valuations are stretched at 22 times forward earnings,

above the five-year and 10-year averages. Yet Goldman Sachs projects 12 percent total returns for the year, driven by 15 percent earnings growth. That's reasonable if earnings continue to deliver.

Second, the gold crash reminds us that leveraged speculation eventually meets reality. The rush was exciting. The collapse was terrifying. Both were temporary. What endures are companies with strong free cash flow, solid balance sheets, and exposure to growing markets.

Mark Twain is credited with the observation that history doesn't repeat, but it often rhymes. January rhymed with the Hunt brothers, with past margin-call cascades, with every episode where speculators got ahead of themselves. In each case, investors who stayed the course came out ahead. The long-term trajectory of the market has remained up and to the right, through diverse administrations, wars, and gold rushes alike.

Stay invested. Stay diversified. Stay patient. The year is young.

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