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Highland ReCAP

A Review of Capital Markets

January 2026

Summary

The new year got off to an eventful start as geopolitical intrigue, growing artificial intelligence capital expenditures, and a slew of creative economic proposals from the White House kept investors on their toes. With the United States front and center for most of the turmoil, both domestically and abroad, U.S. markets broadly underperformed their international counterparts. Stocks and bonds managed to finish the first month of the year in the green despite various headwinds, with the exception of long-dated fixed income.

Equities

Large cap U.S. stocks lagged small caps and non-US equities in January. A poorly received earnings report from Microsoft – over 5% of the large cap index – showed little sign of near-term profits from the company's growing AI spend. By the time the market closed the following day, the stock had absorbed the second largest one-day market capitalization loss in history at \$357 billion. Small caps were spared from broader AI-related concerns and returned north of 5% for the month, while non-U.S. markets carried their 2025 momentum into the new year, with emerging markets leading the way, rising nearly 9%.

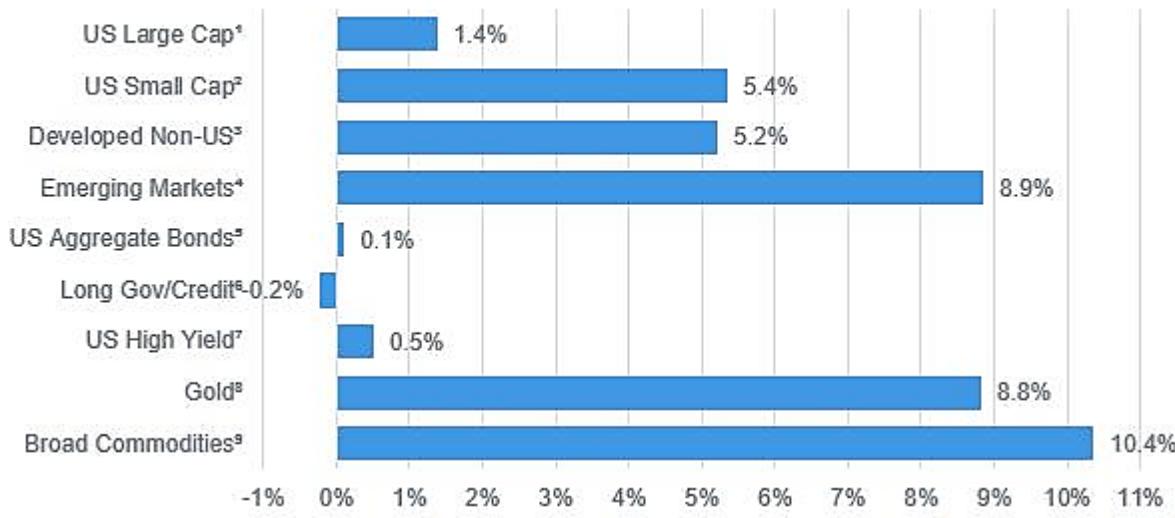
Fixed Income

While the Federal Reserve held the policy rate steady in their first meeting of 2026, A proposed cap on interest charged by credit card issuers from the Trump Administration, managed to give the yield curve a jolt in January. The 10-year Treasury yield finished the month just under 4.3% after dipping in the wake of an announced criminal investigation against Fed chairman Jerome Powell. High grade bonds finished the month flat in the face of rate gains, while credit spreads continued to hold at tight levels, allowing high yield bonds to outperform.

Market Trends

As of January 31, 2026

Month to Date Total Return



	1M	3M	1Y	3Y	5Y	10Y
US Large Cap ¹	1.4%	1.6%	15.3%	20.7%	14.1%	15.4%
US Small Cap ²	5.4%	5.7%	15.8%	12.2%	6.2%	11.2%
Developed Non-U.S. ³	5.2%	9.0%	31.2%	16.2%	10.3%	9.6%
Emerging Markets ⁴	8.9%	9.4%	42.8%	16.7%	5.3%	10.1%
US Aggregate Bonds ⁵	0.1%	0.6%	6.8%	3.6%	-0.2%	1.9%
Long Gov/Credit ⁶	-0.2%	-1.2%	5.9%	0.8%	-4.4%	1.7%
US High Yield ⁷	0.5%	1.7%	7.7%	8.9%	4.5%	6.8%
Gold ⁸	8.8%	18.0%	65.7%	33.6%	19.8%	14.4%
Broad Commodities ⁹	10.4%	13.5%	22.9%	7.6%	12.3%	7.0%

1 – Russell 1000, 2 – Russell 2000, 3 – MSCI EAFE, 4 – MSCI Emerging Markets, 5 – Bloomberg US Agg, 6 – Bloomberg US Long Gov/Credit

7 – Bloomberg US Corporate High Yield, 8 – Bloomberg Gold Subindex, 9 – Bloomberg Commodity

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Disclosure Statements

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