Earnings Anchor Markets Amid Rotation as Policy Headlines Fade, For Now

February 3, 2026

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The U.S. and European equity markets closed broadly lower Tuesday, with investors rotating out of higher-beta growth stocks and shifted toward more economically sensitive, cyclical sectors, while balancing an active earnings calendar against evolving policy headlines from Washington. The stock's movement suggests the market is in digestion mode rather than repricing mode. Shares of Palantir Technologies outperformed after the company delivered results and forward guidance that exceeded expectations, underscoring continued momentum in AI-driven demand.

Attention now turns to the next wave of megacap technology earnings, with Alphabet set to report tomorrow and Amazon following on Thursday—reports that are likely to shape further the market's view on the sustainability of AI-related capital spending.

From a sector perspective, early breadth is modestly positive. Materials and energy are leading, supported by firmer commodity prices, while technology is lagging and weighing on the Nasdaq. Asian markets closed higher overnight, led by a nearly 4% advance in Japan's Nikkei.

In fixed income, yields were flat, with the 10-year U.S. Treasury closed at 4.28%.

In Washington, the U.S. House of Representatives is expected to vote today on legislation to fund five of the six agencies whose budgets lapsed over the weekend, alongside a short-term extension of Department of Homeland Security funding. While the partial shutdown will create temporary disruptions—including delays to this week's labor-market data from the Bureau of Labor Statistics—indications are that the bill could advance quickly, limiting broader economic fallout in our view.

Earnings remain the market's anchor

Corporate earnings continue to dominate the investment narrative. More than 100 S&P 500 companies are scheduled to report this week, with results so far reinforcing a constructive profit outlook. With roughly 40% of the index having been reported, fourth-quarter earnings growth expectations have climbed to around 10%, up from roughly 7% at the start of the year. Technology remains the primary engine, with the sector tracking close to 30% year-over-year earnings growth for the quarter.

Looking ahead, forecasts for 2026 call for S&P 500 earnings growth exceeding 14%, with positive contributions from all sectors except energy. The macro backdrop is gradually turning more supportive as well. Yesterday's ISM Manufacturing PMI reached its highest level since August 2022, hinting at stabilization—and potentially improvement—after a prolonged period of contraction. Additional tailwinds for consumers may emerge later this year through higher tax refunds tied to tax legislation enacted in 2025. Against this backdrop, we continue to see equity opportunities as attractive and favor a globally diversified equity tilt, with particular appeal in U.S. large- and mid-caps, developed international small- and mid-caps, and select emerging-market equities.

January’s signal: history, not destiny

Despite periodic volatility, the S&P 500 advanced 1.4% in January and is up roughly 16% over the past 12 months. Historically, a positive January has often been associated with favorable full-year outcomes. Since 1970, the index has posted gains in January 33 times and, in those years, delivered an average full-year return of 16.4%, finishing higher nearly 90% of the time. By contrast, years that began with a negative January produced far weaker average results.
While history is not a forecast—and never a guarantee—we believe the combination of improving economic signals, resilient consumer fundamentals, and strong corporate profit growth provides a reasonable foundation for continued equity-market gains as the year progresses.

European Markets Update

European equities closed broadly flat on Tuesday, as markets stabilized following a brief but sharp sell-off in cryptocurrencies and precious metals earlier in the session. The pan-European STOXX Europe 600 finished unchanged, making modest gains across most sectors and all major regional bourses. Mining stocks were the clear outperformers, benefiting from a rebound in metals prices after a historic drawdown. The STOXX Basic Resources sector advanced nearly 4%, led by UK-listed mining heavyweights, as investors rotated back into the space amid improved pricing dynamics for key commodities.
Overall, European markets reflected a pause rather than a reversal—suggesting investors are reassessing risk after recent volatility, while remaining supported by sector-specific tailwinds tied to commodities and global demand normalization

Economic Update:

- **US Retail Gas Price:** rose to $2.98, up from $2.933 last week and an increase of 1.60%.

Eurozone Summary:

- **Stoxx 600:** closed at 617.93, up 0.62 points or 0.10%.
- **FTSE 100:** closed at 10,314.59, down 26.97 or 0.26%.
- **DAX Index:** closed at 24,775.35, down 222.17 or 0.09%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 49,240.99, down 166.67 points or 0.34%.
- **S&P 500:** closed at 6,917.81, down 58.63 points or 0.84%.
- **Nasdaq Composite:** closed at 23,255.19, down 336.92 points or 0.56%.
- **Birling Capital Puerto Rico Stock Index:** closed at 4,178.35, up 60.06 points, or 1.46%.
- **Birling Capital U.S. Bank Index:** closed at 9,243.68, up 116.47 points or 1.28%
- **U.S. Treasury 10-year note:** closed at 4.28%.
- **U.S. Treasury 2-year note:** closed at 3.57%.

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