



CAPITAL INVESTMENT COUNSEL

# The Columns

**January 2026**

2026 hasn't exactly eased into things. We're only three weeks in and it's been busy. Since late November, the market's felt stretched and overdue for a break. Last week's selloff sparked the usual hunt for a clear target to blame. Greenland was a popular answer, but it doesn't really explain the pressure that's slowly building. I'm not convinced that's the real culprit.

The bigger story may be Japan. After years of stagnation, Japanese interest rates are rising rapidly as global bond markets are pushing (finally) Japan to get its financial house in order. After years of accommodation, the message is simple: balance sheets still matter. That adjustment hasn't stayed contained as the upward pressure on rates has rippled outward, nudging U.S. rates higher even as our jobs market cools. The fear is that we could be next. Taking a step back, a pullback wouldn't be a bad thing. In fact, it could strengthen the market's long-term health.

Just as nerves were hitting a boiling point, an old reliable signal resurfaced. One that offered a constructive view of the market's next chapter. That signal comes from the Dow Theory, a framework that's been around since the late 1880's. It was developed by Charles Dow, the intellectual father behind the Dow Jones Industrial Average that we all still watch today.

I'll give you a quick refresher. On January 6th, the market registered a Dow Theory buy signal. In plain English, both the **Dow Jones Industrial Average** and the **Dow Jones**

**Transportation Average** pushed to new highs at the same time. This is typically a positive development.

I still think the market could use a breather. But if you're permanently bearish, you might want to look away. Historically, fresh 52-week highs in Transports *confirmed* by Industrials suggest better times may lie ahead.

In my Dow Theory database, the average rally following a Dow Theory buy signal is 13%. If history rhymes, that potentially points to roughly 54,600 on the Dow sometime in early 2027. Not a bad destination. Or as Tina Fey used to say on 30 Rock: I want to go to there.

Yes, the Dow Theory means the future could be bright **BUT**. There's always a but and in this case it's the mid-term elections. 2026 is a midterm year, and those are notoriously volatile. Presidential elections grab the headlines, but midterms are my favorites. September/October can be uncomfortable during midterm years, but it's a good kind of discomfort. The kind when you plant seeds that don't potentially bloom until a year later.

As we discussed earlier, a mid-term driven pullback may be coming. I've lived through plenty of volatile markets, but the modern versions *feel* worse. Not because the sell-offs are larger, but because they're faster. During 2018 mid-terms, stocks fell 5% in two days. No warning, no easing into it. Just straight down.

Since 1950, the average drop from the high to the low during midterms has been **11%**. My takeaway is simple. If you view it conventionally, volatility can scare you out at exactly the wrong time. Let's try and flip our perspective. If you're waiting patiently on the sidelines with cash to buy, midterm volatility isn't destroying opportunity, it's providing it.

I'll close with my favorites. In mid-term years, the market has delivered an average 8% return in the fourth quarter. But that's not the best part. The economy is robust, and we feel markets may build on any potential post-election gains. The 12 months following election day *have not been negative since 1946*, so the run into November **2027** may be better than

most investors are positioned for. History shows stocks were higher 19 out of 19 times one year post election. Another possible kicker is the potential size of gains on tap. Once the market has reached bottom in a mid-term year, the historical gain has been 32% from that bottom into November of the following year.

Our most recent version was 2022, and the S&P rallied from 3500 on election day 2022 to close out November 2023 at 4400: a 25% gain. There's a whole lot of ballgame between now and then but I wanted you to have this potential roadmap in your back pocket if things get rocky later this year. Let's recap: Potential strength now. Volatility later. And if history has anything to say about it, we could all be feeling good by November 2027.

The Super Bowl is right around the corner and UNC has a chance to enter a very select group. Credit to Kendall Baker on X for surfacing this stat. Growing up in Charlotte in the early 80's, Mark Maye was an all-action local legend. I remember driving to Independence High School to watch him torch my East Meck Eagles. Mark went on to play at UNC, but his larger legacy may be his son, Drake. Drake starts for the Patriots in the Super Bowl and if they win, he will help UNC join one of the most unique clubs in sports history: the Presidential/Super Bowl Quarterback Champion's Club. Only five schools produced both a Super Bowl winning QB and a US President. Based on their football history, UNC shouldn't even be in this conversation and that's what makes it great. Here is the club's current members:

University of Delaware: the 2 Joes: Biden & Flacco

University of Miami (OH): Benjamin Harrison & Big Ben Roethlisberger

University of Michigan: Gerald Ford & Tom Brady

Stanford: Doing the double with Herbert Hoover, John Elway & Jim Plunkett

Navy: Jimmy Carter & Roger Staubach

UNC: James K. Polk & to be determined on February 8<sup>th</sup>

Go Patriots and go Heels! If you have any comments, feel free to contact me at [heddins@capital-invest.com](mailto:heddins@capital-invest.com) or call at 919-656-0836.

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