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TITLE: **Small Caps Stir, the Dollar Firms, and the Market Starts to Smell Growth Again**

TRANSCRIPT:

**Host:**

**Eric, the tone of markets this week feels subtly different. Not euphoric, not fearful – but almost like something is turning under the surface. What’s the big picture?**

**Eric:**

Yes, it’s a really interesting inflection point. What’s changed this week is that growth – especially in the US – has started to reassert itself in a way that the market can’t ignore.

The Philly Fed and Empire manufacturing surveys both surprised to the upside. These are not soft sentiment numbers, they’re hard regional indicators of orders, activity, pricing and employment. And they’re telling us that US industrial momentum is not fading – in fact, it may be re-accelerating.

At the same time, jobless claims came in lower than expected. So the labour market is still tight enough to support spending, but not overheating. The message is: the economy isn’t rolling over, it’s finding a second wind.

**Host:**

**And that’s feeding straight into small caps?**

**Eric:**

Exactly. Small and mid-caps are the purest play on domestic growth and financial conditions. When surveys turn up, when credit spreads stay contained, when the economy looks like it can grow without the Fed having to slam on the brakes – small caps tend to lead.

We’re now seeing the Russell 2000 quietly start to outperform the S&P 500. That relative line has turned. And historically, when that happens after a long period of underperformance, it often signals a broader rotation – away from just mega-cap dominance and towards a more cyclical, domestically-driven market.

This is the market saying: “Growth is back, but it’s not just AI and the Magnificent Seven. It’s factories, logistics, regional banks, industrials, housing, services – the real economy.”

**Host:**

**But there’s a trade-off, right? Stronger growth means fewer rate cuts.**

**Eric:**

That’s the tension. The stronger the data, the more the market trims expectations for aggressive Fed easing. And we’ve seen that this week – two cuts this year are no longer a given.

But here’s the key point: Equities aren’t selling off on that. They’re welcoming it.

Why? Because this is the *good* reason for fewer cuts. It’s not inflation re-accelerating uncontrollably. It’s growth holding up. And in that world, earnings matter more than the exact timing of the first 25-basis-point move. So the narrative is shifting from “how fast will the Fed rescue us?” to “maybe the economy doesn’t need rescuing.”

That's a much healthier backdrop for risk assets – especially cyclicals and smaller companies.

**Host:**

**How does FX fit into that picture?**

**Eric:**

FX is confirming the story beautifully. The dollar has firmed as rate-cut expectations are pared back. Not surging, but steady and supported.

The yen remains the weak link. USD/JPY above 158 again, flirting with levels that make Japanese policymakers nervous. The market is effectively saying: the Bank of Japan is still behind the curve, and yield differentials still matter.

But what's really striking is emerging-market currencies.

Despite a firmer dollar and higher US yields, EM FX is holding up. The MSCI EM currency index is flat to slightly higher. That tells you two things:

- First, global risk appetite is still intact.
- Second, carry remains attractive – and credible – because inflation in many EM countries is under control and real rates are positive.

This is not the kind of FX behaviour you see in a fragile global environment. It's the kind you see when growth is firm and capital is comfortable taking selective risk.

**Host:**

**Commodities, though, have paused.**

**Eric:**

They have – and that's healthy.

Oil had a strong geopolitical rally, pricing in Middle East risk and potential US-Iran confrontation. This week that premium has eased a little as immediate escalation fears cooled. Brent and WTI pulled back, but they're still up around 6% over the month.

That tells you the risk premium hasn't vanished – it's just being rationally repriced.

More interesting is what's happening in metals. Gold remains strong, but silver and platinum have corrected after a blistering run. Again, that's digestion, not reversal.

And structurally, the story hasn't changed: Electrification, AI, data centres, defence spending, energy transition – all of them are metals-intensive. Cyclical pullbacks don't change secular scarcity.

**Host:**

**So when you put it all together – growth, small caps, FX, commodities – what's the market really saying?**

**Eric:**

The market is quietly rotating from a world of "policy fear" to a world of "growth confidence".

For most of last year, every rally was about disinflation and rate cuts. Now, increasingly, rallies are about activity, earnings and domestic momentum.

- Small caps outperforming.
- The dollar firm but not disruptive.
- EM currencies stable.
- Commodities consolidating at high levels.

- Bond yields steady, not spiking.

This is what an economy that is bending, not breaking, looks like.

And for investors, that's powerful. Because it means the opportunity set is widening. It's no longer just about owning the most defensive growth franchises. It's about finding companies leveraged to real activity – manufacturing, infrastructure, consumption, capex, regional recovery.

In other words, the market is starting to smell growth again. And when that happens, leadership broadens.

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