

Highlights

- **The S&P 500 briefly crossed 7,000¹ for the first time, despite the distractions presented by President Donald Trump.**
- **Most other major equity markets had a good start to 2026.**
- **The Federal Reserve left interest rates unchanged, but with a slightly hawkish tinge to its commentary.**
- **Japan was a focus of attention, with a volatile Yen, sharply rising bond yields and a snap election called for 8 February.**
- **Gold and silver raced to new highs before sharp falls at the end of the month.**
- **Bond markets were little changed over the month.**

This January saw an exciting start to the new year. Donald Trump's actions dominated the month, from capturing Venezuelan President Nicolás Maduro and his wife, Cilia Flores, in a military operation in Caracas, through military threats against Greenland and Iran, to ending his latest version of *The Apprentice* – with the appointment of a new Chair of the Federal Reserve. One victim of January's politics was the US dollar, which resumed the decline that it had suffered in the first half of 2025.

For all but the final day of the month, a corollary was soaring prices for gold and silver, with the latter peaking at \$120 an ounce on 29 January, only to end the following day at under \$79².

Europe

European markets had a mixed month, despite the Euro Stoxx 50 rising by 2.7%. While German (+ 0.2% DAX) and French (-0.3% CAC 40) markets were virtually flat, the Iberian markets continued their strong runs, with Spain's IBEX 35 up 3.3% and Portugal's Portuguese Stock Index (PSI) rising 4.8%. Eurozone economic growth for the final quarter of 2025 was 0.3%, beating expectations and bringing to nine the Eurozone's consecutive run of consecutive quarterly expansions. Germany recorded 0.3% growth in Q4, which meant it ended the year with growth of 0.2%, having seen contractions of 0.9% in 2023 and 0.5% in 2024³.

The French budget reached the end of the road (again) on 30 January, when the French Prime Minister, Sebastien Lecornu, used a controversial constitutional mechanism to force through his measures without a parliamentary vote⁴. He now faces a no-confidence vote, which he is expected to survive with tacit support from the Socialists.

Eurozone government bond yields fell marginally over the month as Eurozone inflation for December came in at 1.9%; 0.1% below expectations. Outside the Eurozone, the weakness of the dollar created fresh problems for the Swiss National Bank's (SNB) management of the Swiss Franc. The dollar rallied for a final day on the announcement of the new Federal Reserve Chair, but the Swiss Franc was still up 2.5% across the month. The next step for the SNB could be a return to negative interest rates, but that risks further tariff scrutiny by Trump^{5,6}.

United States

In January, the S&P 500 rose by 1.3%, having briefly broken through the 7,000 barrier for the first time on the 28th. While the new intraday peak was widely attributed to the AI boom/bubble (take your pick), over the month, it was not the tech stocks that were driving the market higher. Third-quarter results from Microsoft, one of the Magnificent Seven, disappointed investors and prompted its shares to drop 10% on the penultimate day of January⁷. Tesla shares also dropped 3.4% on its quarterly figures⁸, although later recovered most of their loss. A third member of the Magnificent Seven, Meta, jumped 10.4%⁹ on its fourth-quarter results, which beat market forecasts.

The Russell 2000 index, covering smaller companies, added 5.3% while the tech-heavy Nasdaq was up less than 1%. Some commentators see this as a continuation of a sector rotation away from tech that began towards the end of 2025. There is a growing concern that the level of capital expenditure planned by the AI 'hyperscalers', such as Microsoft, will fail to be justified by future profits.

December's US inflation numbers were broadly as expected:

- 2.7% consumer price index (CPI); and
- 2.6% core CPI.

The figures show little sign that the tariffs are adding to goods inflation, as had been widely anticipated¹⁰. The month saw more Trump tariff threats, including:

- 10% levy (since withdrawn) on the EU if a Greenland deal was not reached;
- 100% levy on Canada if it signed a trade deal with China; and
- Unspecified tariffs on any country supplying oil to Cuba.

The one tariff decision of most interest to the markets, the Supreme Court's judgement on their overall validity, remained on hold despite regular predictions that publication was imminent.

The Federal Reserve left the fed funds rate unchanged (3.50%–3.75%) at its January meeting, with tweaks in its statement suggesting that the rate setters saw the balance of risks moving away from unemployment towards inflation. Two days after the Fed's decision, the President revealed that he had chosen Kevin Warsh to replace Jay Powell as the Fed chair¹¹, a move that was generally welcomed by the markets. The dollar rallied on the news, but the currency's trade weighted index still ended the month down 1.35%.



Emerging Markets

The MSCI Emerging Markets Index rose by 8.1% over the month in dollar terms, helped by the weakening dollar, which is seen as generally beneficial for emerging markets.

China revealed annual GDP growth in 2025 of 5%, directly in alignment with the Chinese Communist Party's target, and the Shanghai Composite rose 3.8% across the month.

Korea built on 2025's strong performance with the Korea Composite Stock Price Index (KOSPI) adding 24%, driven by Samsung and SK Hynix, two technology companies, which together account for about one third of the index.

They serve as a reminder that the AI boom is not limited to the US (as neither is any potential AI bust)¹².

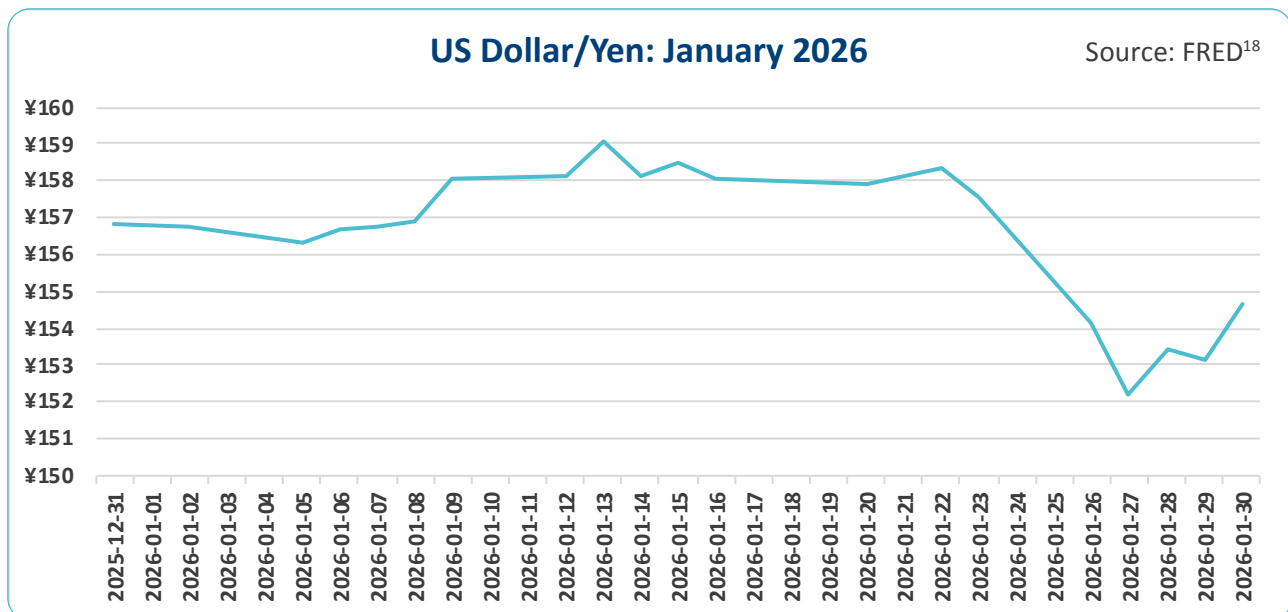
The Indian market remained on a downward trajectory; the Bombay Stock Exchange (BSE) Sensex fell 3.5% in December, returning to its level at the start of August¹³.

The Indonesian market experienced a similar fall (-3.7% on the Jakarta Composite) as MSCI, the index provider, raised questions about investability. By the end of the month, the chiefs of Indonesia's financial regulator and stock exchange had both resigned¹⁴.

Asia

Japan was the country of the month, and not only because the Nikkei 225 added 6% after a disappointing couple of months at the end of 2025. In mid-month, Prime Minister Sanae Takaichi called a snap election for 8 February¹⁵. While the move was not a complete surprise, Japanese government bonds (JGB) reacted badly, fearing that an election win could mean Takaichi gave a boost to her stimulus plans. The 40-year Japanese government bond (JGB) yield broke through 4% for the first time, while the 10-year yield neared 2.3%.

Talk of a combined Federal Reserve and Bank of Japan intervention to bolster the Yen then followed¹⁶, pushing the currency up from ¥159 against the dollar – close to the Bank of Japan's ¥160 pain threshold – to nearly ¥152 before losing ground as the month closed¹⁷.

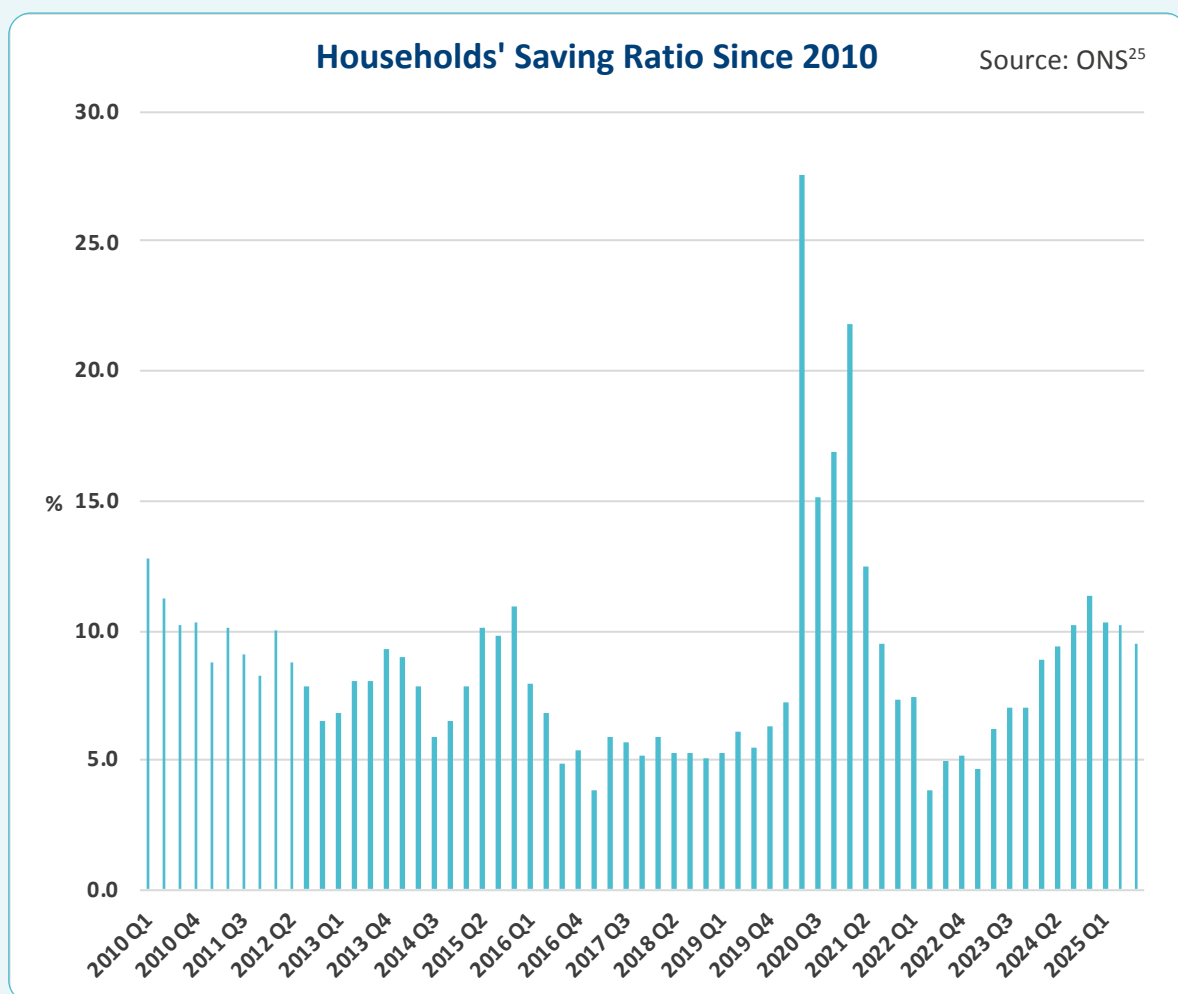


Hong Kong's three-month run of Hang Seng losses ended in January, with the index adding 6.9%, helped by a pledge from Beijing to deepen financial links and a strong pipeline of initial public offerings (IPOs)¹⁹. The Taiwan stock market surged 10.7% in January as Taiwan Semiconductor strongly on AI chip demand²⁰.

United Kingdom

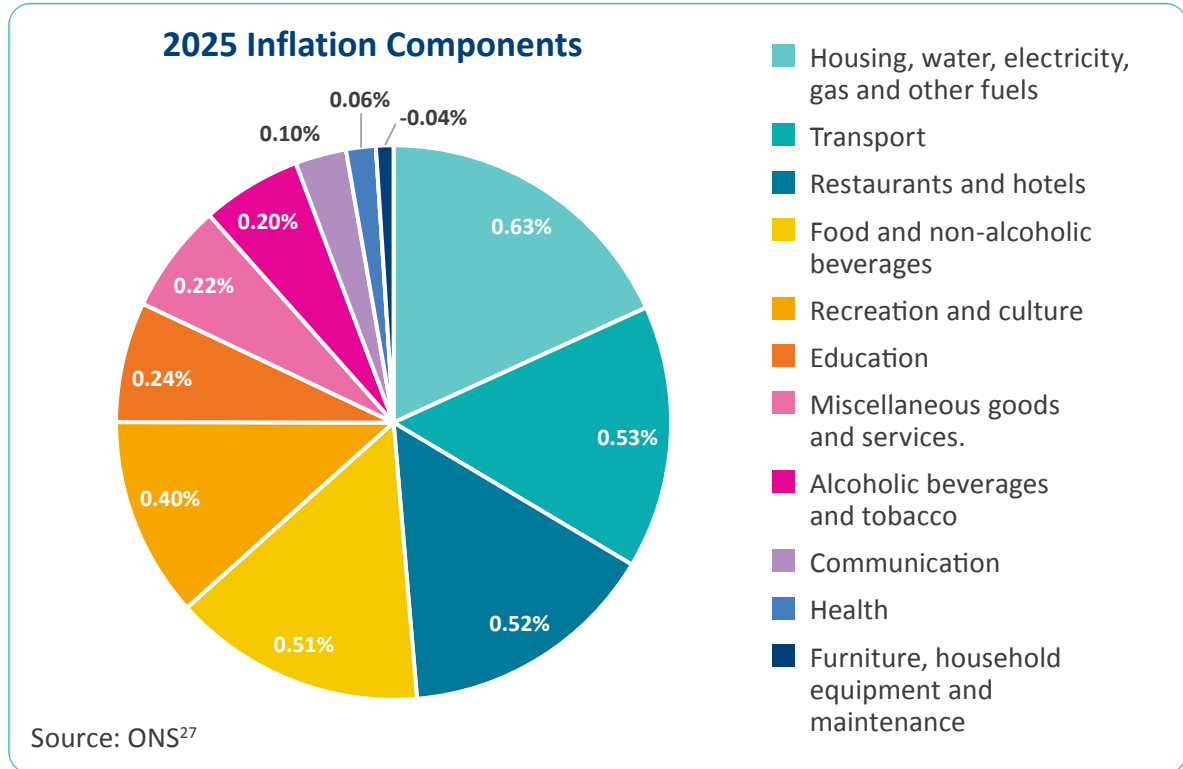
UK equity markets had a good start to the year, with the FTSE 100 breaking through the 10,000 barrier for the first time on 2 January²¹. Although it closed that day at 9,951, for the rest of the month, the index reading remained in five figures²², ending January with a rise of 2.9%. The path to 10,000 equates to an annual growth rate for the index of 5.6% since January 1984²³, compared with average yearly CPI inflation of 2.9% over the same period²⁴.

January proved an even better month for companies outside the FTSE: the FTSE 250 added 3.5% and the FTSE Small Cap 3.7%. That may, in part, have reflected better-than-expected Gross Domestic Product (GDP) news, as the Office for National Statistics (ONS) data for November showed monthly UK GDP growth of 0.3% against expectations of 0.1%. December retail sales also beat forecasts with growth 0.4%, although quarterly data on goods purchases pointed to continued weak household demand. As the graph below shows, the UK savings ratio is at relatively elevated levels, although down from its Q4 2024 peak.



In some quarters, the high savings ratio has been blamed on concern about the impact of Rachel Reeves' Budgets, even though the markets appeared to accept the Autumn Budget 2025 as bringing some stability ahead of the Spring Forecast 2026. Gilt yields rose minimally over the month, despite a November CPI inflation reading of 3.4%; 0.1% above market expectations. Inflation should fall close to 2%²⁶ in April as 2025's large annual increases in water bills drop out of the comparison and energy bills fall in the wake of Budget measures (see Europe).

And also...



The December 2025 print for UK CPI annual inflation was 3.4%, up 0.2% from November and 0.9% above the corresponding 2024 figure of 2.5%. At the start of 2025, the Treasury independent forecasters' consensus median was for 2025 inflation to be 2.6%. This was slightly above the Office for Budget Responsibility's 2.4% projection²⁸, which was issued at the time of the Autumn Budget 2024. The highest figure from the Treasury's 26 forecasters was the one that came closest, at 3.5%.

A breakdown of the components of inflation in 2025 shows where the consensus may have strayed and why, for 2026, the median estimate is 2.1%:

- The biggest contributing category to 2025 CPI inflation was housing, water, electricity, gas and other fuels. This suffered annual inflation of 4.9% (3.1% in 2024) with an index weighting of 12.8%²⁹. The largest single element – about 60% of the category – housing rents, had 2025 inflation of 3.6%, whereas the corresponding 2024 figure was 7.6%. However, this decline was more than offset by:
 - Electricity, gas and fuel prices, which rose by 2.5% in 2025 after falling by 6.8% in 2024, with the unwinding of the Ukraine-inspired price spike.
 - Water and sewerage supply, which registered a 26.1% increase in 2025 when the new five-year Ofwat settlement took effect with heavily front-end loaded rises in April. In 2024, this element recorded inflation of 8.1%.
- Transport inflation (13.2% weighting) was 4.0%, not far off the overall 3.4% figure, but in 2024, the category saw prices fall by 0.6%. Fuel prices dropped by 5.0% in 2024, and the Ukraine war and Covid distortions disappeared, air fares sank by 26%. In 2025, the corresponding inflation rates were 0.9% and 11.0%.
- The Food and Non-alcoholic Drink category (11.3% weighting) had 4.5% inflation in 2025 against just 2.0% inflation in 2024. This category saw across-the-board rises year-on-year.

Looking out to 2026, measures in the Autumn Budget 2025 to move some environmental levies from utility bills (primarily electricity costs) to general taxation are projected to reduce the Ofgem cap by £150 (about 8.5%)³⁰ before any wholesale cost changes. Water bills will be back to more modest inflation+ increases in April 2026³¹, now the front-end load is over. Another administered price being squeezed is regulated rail fares in England, which went up 4.6% in March 2025, but will see a freeze apply in March 2026³².

The projected fall in inflation partly explains why the Prime Minister has been talking about a cost-of-living crisis – he should have a good story to tell soon. Falling inflation is also welcome for the Chancellor as it will mean a lower rate of revaluation for nearly £700 billion of index-linked gilts³³.

One cloud on the horizon is that manipulating administered prices has only a one-year benefit, so there could be a revival in inflation come 2027.

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