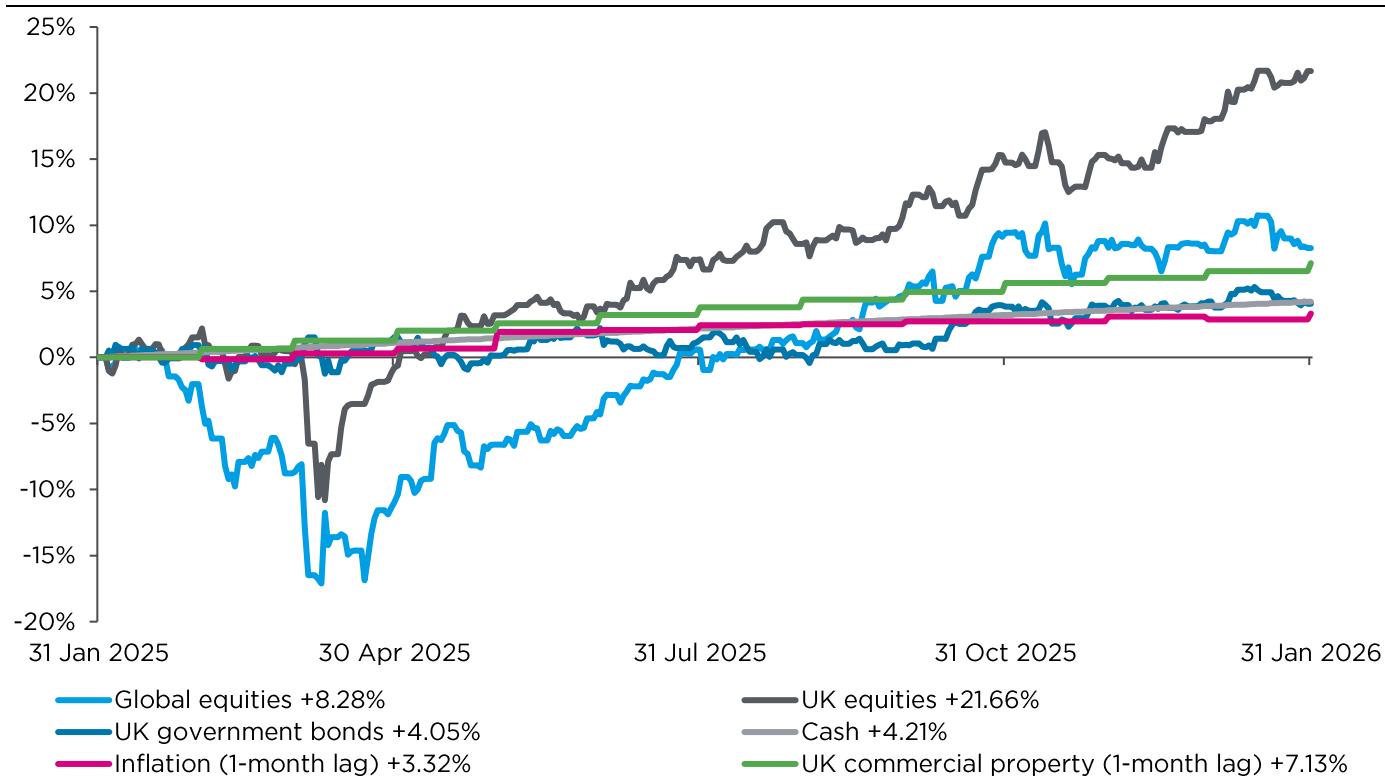


Market review

The headlines

- ▶ Stock markets continued to advance in January, with all-time highs in many countries.
- ▶ This market rally is changing shape, however, away from US shares and software firms.
- ▶ Oil, gold and silver prices rose on volatility, mostly triggered by the US Administration.

Market returns: Stock markets advanced to all-time highs in January, but the US market continued to lag.



Sources: Bloomberg, returns in pound sterling as of 31 January 2026 (31 January 2025=0%). Daily data, except for inflation and UK commercial property, shown monthly. UK government bond returns as per Markit iBoxx £ Gilts Index. Inflation as per the Office of National Statistics' UK Consumer Prices Index, with a one-month lag. UK commercial property as per MSCI UK Monthly Property Index, estimated for the most recent month. Cash returns as per Sterling Overnight Index Average (SONIA). Global and UK equity returns as per MSCI World Index and MSCI UK IMI Index, respectively. **Past performance is not a reliable indicator of future results.**

Economics and markets news

World share prices rose 2.2% in January, in local currency. US shares advanced 1.3%, eurozone shares 2.8% and UK shares 3.2%.⁽¹⁾

The Trump Administration raised tensions internationally (Venezuela, Greenland, Iran) and at home (pressuring the Federal Reserve, and on immigration). Nevertheless, solid corporate results, rising commodity prices and economic optimism boosted major stock markets to record highs.

The pound sterling strengthened versus the US dollar and the euro. This reduced returns on foreign assets, in pound terms.

Bond markets held steady in January. Policy interest rates were mostly unchanged, because central banks kept them there or didn't meet in January. Long-dated bond yields rose slightly.⁽²⁾ (Bond yields rise as bond prices fall, and vice versa.)

United States

International tensions and volatility in financial markets rose in January, after President Trump forcibly removed Venezuela's President Maduro, threatened to take over Greenland and sent warships to the Persian Gulf to pressure Iran.

The US has imposed sanctions on Venezuela's oil industry since 2017. But after President Trump removed President Maduro on 3 January, he made clear that he wants Venezuela to start exporting oil again. That prospect didn't lower oil prices, though, because it soon became clear that Venezuela's oil industry would first need substantial investment.

Later in January, Trump's pressure on Iran did raise oil prices. When several US warships headed to the Persian Gulf, oil traders worried that a conflict there might disrupt supplies. In addition, OPEC+ (the Organization of the Petroleum Exporting Countries, plus 10 other countries including Russia) decided to keep output in March unchanged, which led to a tighter supply outlook.

Retail investors and central banks continued to buy gold and silver in January. Prices for both metals peaked at all-time highs, reaching c. \$5,600 per troy ounce for gold and c. \$122 for silver. But those rising prices also showed some herd-like, self-perpetuating behaviour among buyers.

That 'buying frenzy' abated in late January, after major trading platforms forced speculators to put up more collateral to back their precious metal trades. President Trump's nomination of Kevin Warsh to chair the Fed after its current Chair leaves in May also lowered precious metal prices. To many investors, Marsh appears to be one of the more orthodox and experienced candidates for the role.

In the stock market, US share prices briefly fell in mid-January, after President Trump threatened tariffs on the mainly European countries that oppose his bid to 'acquire' Greenland. That threat soon lifted, however, after NATO's Mark Rutte and other leaders spoke with Trump and members of his administration at the annual World Economic Forum in Davos, Switzerland.

Over the month as a whole, however, positive corporate and economic news propelled US share prices 1.3% higher in January, in US-dollar terms:

- US companies started reporting their profits for the fourth quarter of 2025 in January. On average, those profits grew c. 12%, compared to the fourth quarter of 2024, significantly higher than their expected 8% growth.
- In early January, the Atlanta Fed's GDPNow model doubled its estimate of US economic growth in the fourth quarter of 2025, from 2.7% to 5.4% (annualised). This early estimate boosted share prices in January, but has meanwhile fallen to 4.2%.

Unlike in previous months, shares in information technology and communications firms lagged the

broader stock market in January. Instead, companies in the energy, materials (inc. mining) and consumer staples sectors led the market.

In the broader US economy, December consumer price inflation remained unchanged, at 2.7%, year on year (yoY). The Fed's preferred inflation gauge, core PCE (personal consumption expenditure) inflation for December won't be reported until 20 February.

The bond market held steady during the month. President Trump continued to criticise the Fed, for not cutting interest rates in January. Inflation remains above target and early estimates of fourth-quarter GDP (gross domestic product) growth were strong, which marginally raised long-dated bond yields.

United Kingdom

UK share prices rose 3.2% in January. Commodities prices boosted by the mining firms and traders that are prominent in the UK market (Glencore, Anglo American, Rio Tinto, Fresnillo etc.).

UK consumer price (CPI) inflation rose from 3.2% last November, yoY, to 3.4% in December, mainly due to prices for alcohol, tobacco, and plane and train tickets.

The first meeting of the Bank of England (BoE)'s monetary policy committee this year took place on 5 February. As expected, the BoE kept rates on hold.

The BoE cut interest rates just before Christmas, in a split vote, and it hasn't cut interest rates at two consecutive meetings since the financial crisis of 2008. Inflation edged up in December, world energy prices rose in January and the latest reading of the UK purchasing managers' index (PMI) was a robust 54.3.

For the remainder of 2026, market consensus appears to be for a gradual reduction in the Official Bank Rate (OBR), by two 0.25% cuts, to 3.25%.

As in the US, short-dated UK bond yields were largely unchanged during January, while long-dated yields rose slightly. Yields on two-year gilts UK government bonds ended the month at 3.63% and 10-year gilt yields rose from 4.57% to 4.63% over January.

Other markets

Eurozone share prices rose 2.8% in January. Semiconductor equipment manufacturer ASML continued to outperform, but more traditional sectors such as industrials (Siemens), materials (Bayer, BASF) and banking (BNP Paribas, ING Groep) also performed well.

Eurozone inflation fell from 2.1% yoY in November 2025 to 1.9% in December, mainly because of lower energy prices. Eurozone GDP is estimated to have grown 1.5% in 2025, up from 0.9% in 2024. Like the BoE, Europe's central bank (the ECB) met on 5 February, for the first time this year, and kept interest rates on hold.

Japanese share prices rose 4.9% in January, as both domestic and international investors continued to return to the Japanese market. Incoming prime minister Sanae Takaichi's planned tax cuts and subsidies are set

to support domestic demand in Japan's economy in 2026. International investors also boosted Japanese shares, in many cases diversifying away from US shares.

Japan's inflation rate fell from 2.9% yoy in November 2025 to 2.1% in December. The Bank of Japan held its policy interest rate at 0.75% in January. It aims to raise that rate to c. 1.50% by 2028, without returning the country to deflation.

After several weak months, **Chinese** share prices rose 4.9% in January. Optimism over the Chinese AI sector boosted share prices early in the month, and retail participation in the Chinese stock market hit record highs. The downturn in China's property sector continued to weigh on the country's economy. For that reason, the Chinese government has signalled continued stimulus to sustain consumer demand. It is expected that China met its 5% GDP growth target in 2025.

⁽¹⁾ Source: MSCI (total return, net of withholding tax, in local currency), except where stated

⁽²⁾ Sources: US Federal Reserve, Bank of England, European Central Bank

Looking ahead

January saw record stock market highs for the S&P500 index (large US companies), the Russell 2000 index (small US companies), Japan's Nikkei 225, the Euro Stoxx 600 and the UK's FTSE-100 index.

The shape of that stock market rally is gradually changing, however, by region and by sector, although not yet by style.

Regionally, the US stock market's 18% rise in 2025 lagged most European and Asian markets. That may seem counterintuitive, since US companies' earnings growth in 2025 is expected to, again, have outperformed European companies' earnings growth.

But the premium that investors pay for owning US shares has risen (c. 22x next year's earnings versus c. 15x earnings in Europe). Until that gap closes, investors will, in our view, continue to look outside of the US.

By sector, lower valuations for US software firms have been a key trend for the last few months. Investors

have sold many software firms that appear even slightly at risk of artificial intelligence (AI) behemoths encroaching on their market.

This ongoing rotation within software reminds all investors of the need to monitor holdings for threats and opportunities from innovation.

As long-term holders, we have long preferred large software firms, who are deeply embedded in their clients' infrastructure. These larger companies compare favourably to niche software firms, whose revenue base might indeed be cannibalised by AI firms.

By style, risk-seeking has characterised the stock market for several quarters. Ever since President Trump paused his tariffs, in April 2025, investing in high-volatility shares has been the most successful strategy.

During that time, investing in quality shares (stable earnings growth, low debt, high cash flow returns on invested capital) has, remarkably, underperformed.

In the last month, however, sentiment indicators - such as Bank of America's Bull & Bear indicator - increasingly suggest that the current market is imbued with a high degree of optimism or, some would say, overconfidence.

By contrast, the MSCI World Quality Index, which tracks quality shares, has fallen from a price premium of c. 30% over the broader MSCI World Index in 2024 to a 14% premium now. These shares are now at their cheapest, relative to the broader market, in more than four years.

Glossary

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