MONTHLY
MARKET REVIEW

01 2026

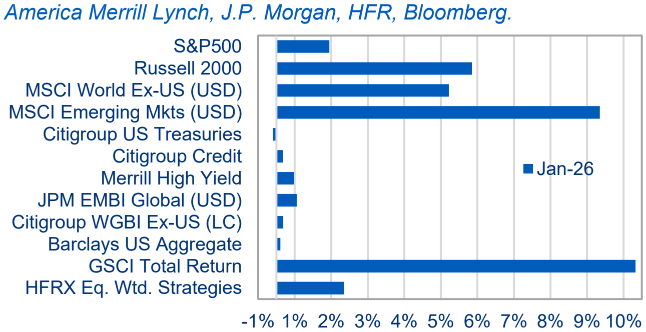
Strategic Investment Group®

Global Market Review

The year opened with another strong month for global equities. Despite wild U.S. tariff swings, covetous intentions over Greenland, and rising tensions with Iran, U.S. equities posted solid gains. Developed and emerging non-U.S. equity markets outperformed the U.S., with emerging equity markets enjoying particularly strong returns. U.S. Treasury prices declined as yields rose slightly across the maturity spectrum. Breakeven inflation expectations also rose marginally, especially over shorter horizons. U.S. investment grade and high yield credit markets rose modestly. Credit spreads remained quite compressed. The U.S. dollar depreciated against advanced and emerging economy currencies in January, extending last year's declines. Oil prices jumped toward the end of the month on rising tensions with Iran. After surging 64% last year, gold prices rose a further 13% in January, despite plunging nearly 10% in the closing three days of the month. Silver prices followed a similar trajectory, gaining 19% in January despite a 27% swoon at month end.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



Global stocks extend gains in January.

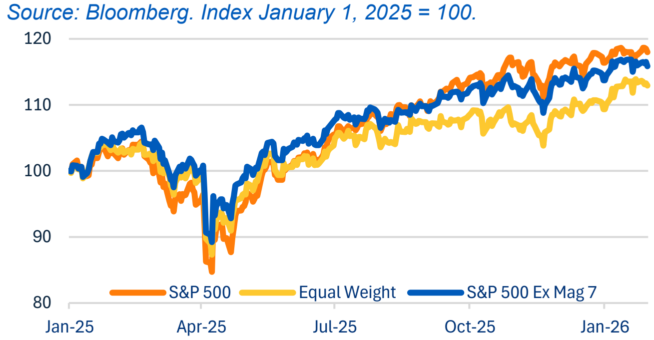
AI and Strong Growth Sustain U.S. Equity Rally

After gaining nearly 18% in 2025, the S&P 500 rose 1.5% in January and ended the month near an all-time high (Exhibit 1). The factors driving the market's extended rally revolve around the potentially transformative impact of AI and the U.S. economy's continued rapid growth. Neither appears set to slow anytime soon and, with looser monetary and fiscal policies on the horizon, could well accelerate. For the time being, these factors and the market's momentum are overwhelming nagging concerns over high equity valuations, erratic policy shifts, and the risk of overcooking an already piping hot economy.

Within the U.S. equity market, value stocks (+4.7%) led growth (-1.3%) and small cap stocks outpaced large (5.4% versus 1.4%). Reflecting the strong performance of small cap stocks, the equal-weighted S&P 500 index rose 3.3%, more than doubling the return of the capitalization-weighted index. The energy sector led all others by a wide margin as a 13.6% jump in oil prices sent energy stock prices sharply higher.

Exhibit 1. U.S. Equity Market Rally Continues

Source: Bloomberg. Index January 1, 2025 = 100.



The Magnificent 7 group of mega-cap tech stocks was little changed in January. But within the group, there was a wide divergence in performance. Microsoft declined 9% in January, despite record earnings that exceeded expectations. The fall was widely attributed to its high capital expenditure and reliance on OpenAI. Meta also announced earnings that were both higher than expected and at record levels. But its stock price rose by about 10%, notwithstanding plans for further massive capital spending. The mixed performance apparently stems from selective concern over whether firms will be able to monetize the massive capital expenditures being made to capture the expected rewards of AI.

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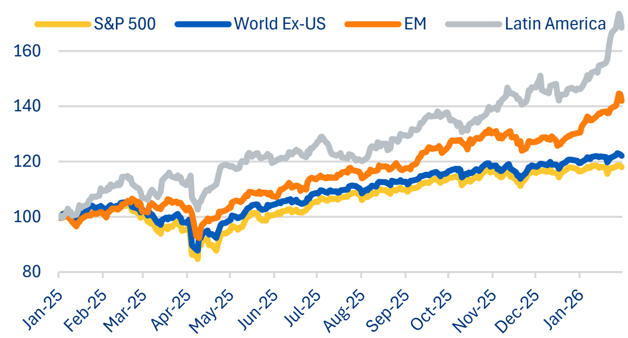
Emerging Equity Markets Open Year with a Bang

Emerging equity markets jumped 8.8% higher in January. All regions performed strongly. Latin American bourses, which rose 15.1%, led others by a wide margin (Exhibit 2). A combination of sharply rising oil, copper, and other commodity prices, strong performance by Korean and Taiwanese firms engaged in AI chip production, and the substantial appreciation of emerging economy currencies vis-à-vis the U.S. dollar were the main drivers of the strong performance across emerging equity markets.

Exhibit 2. Latin American Equity Markets Roar Ahead

Source: Bloomberg. Index January 2025 = 100.



Advanced non-U.S. equity markets also performed well in January, extending their 31.8% rally of last year. The MSCI World ex-US index of advanced non-U.S. equities rose 4.7% (see Exhibit 2). Japanese stocks, which closed last year at a record high, rose a further 6.6% in January, notwithstanding rapidly rising bond yields. Tech stocks, better corporate governance, and the prospect of continued strong economic growth were the main drivers of the gains. European equities also extended their strong performance of last year with a gain of 4.4% in January.

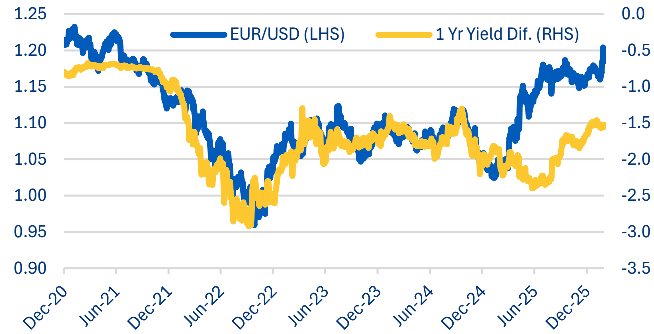
Dollar Falls Despite Stronger Growth and Higher Yields

As widely expected, the FOMC decided in its January meeting to leave the Fed funds rate unchanged and showed little inclination to lower rates any time soon. How this might change with Kevin Warsh as Jerome Powell's successor has been a source of much speculation. Warsh has argued that the prospect of a disinflationary AI-driven productivity boom justifies lowering rates. Futures markets, for their part, are pricing in about two 25 basis point rate cuts this year.

The dollar depreciated against most major currencies last year and fell further in January. This depreciation is unusual in light of the movement of the yield differential between the U.S. and other major countries and strong relative U.S. economic growth. As highlighted in Exhibit 3, the euro/dollar exchange rate has in the past closely tracked the yield differential between 1-year German and U.S. government bonds. This relationship has broken down, leading some to speculate that the imposition of high tariffs, unsustainable fiscal deficits and debt, attacks on the Fed's independence, and the rupture of long-standing geopolitical arrangements are undermining the safe haven status of the dollar. However, there is little sign of disquiet in the U.S. Treasury market. U.S. Treasury yields across the maturity spectrum rose only marginally in January. The term premium is low by historical standards and break-even inflation expectations remain well anchored.

Exhibit 3. Dollar and Yields Diverge

Source: Bloomberg. Euro/USD exchange rate (LHS) and yield differential between 1-year German and U.S. Government bonds.

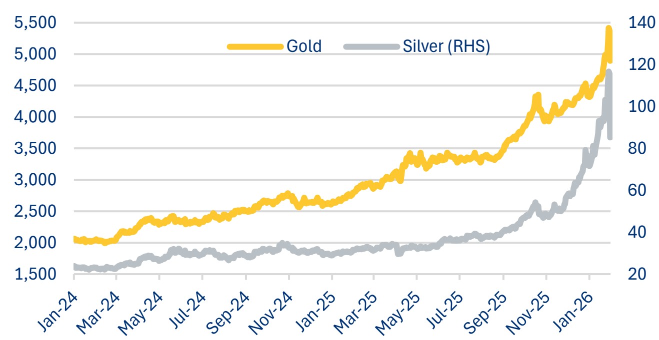


Gold and Silver Plunge from Lofty Heights

In contrast to the calm U.S. Treasury market, precious metal prices experienced wild swings in January. Gold and silver prices fell by 9.7% and 27%, respectively, in the closing three trading days of January as highly leveraged momentum trades unraveled. Despite this plunge, gold rose 13% in January and silver gained 19% (Exhibit 4). While some of the recent rapid run up in gold prices is doubtless little more than speculative momentum trading, much seems linked to concerns over the role of the U.S. as chief guardian of the international monetary system.

Exhibit 4. Precious Metals Rise Despite Month-End Swoon

Source: Bloomberg. U.S. dollars per ounce.



Performance of Major Market Indices through 01-31-2026

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	1.5%	1.5%	1.5%	16.3%	21.1%	15.0%
Russell 2000	5.4%	5.4%	5.4%	15.8%	12.2%	6.2%
MSCI World Ex-US (USD)	4.7%	4.7%	4.7%	31.5%	16.4%	10.7%
MSCI Emerging Mkts (USD)	8.9%	8.9%	8.9%	42.8%	16.7%	5.3%
Citigroup US Treasuries	-0.1%	-0.1%	-0.1%	5.7%	2.8%	-0.8%
Citigroup Credit	0.2%	0.2%	0.2%	7.5%	4.9%	0.2%
Merrill High Yield	0.5%	0.5%	0.5%	7.5%	8.8%	4.5%
JPM EMBI Global (USD)	0.6%	0.6%	0.6%	12.7%	8.9%	2.1%
Citigroup WGBI Ex-US (LC)	0.2%	0.2%	0.2%	0.1%	1.5%	-2.4%
Barclays US Aggregate	0.1%	0.1%	0.1%	6.8%	3.6%	-0.2%
GSCI Total Return	9.8%	9.8%	9.8%	13.9%	7.2%	15.7%
HFRX Eq. Wtd. Strategies	1.9%	1.9%	1.9%	8.8%	5.7%	3.3%