MONTHLY MARKET REPORT SUMMARY: JANUARY 2026

January was characterised by heightened geopolitical tensions and US policy uncertainty, yet global share markets still advanced in USD terms. For Australian investors, however, the sharply stronger Australian dollar dominated outcomes: unhedged global shares fell in AUD terms over the month despite positive underlying offshore market performance. Bond markets softened as stronger-than-expected activity and a steady (but more neutral) US Federal Reserve stance pushed yields higher, while geopolitical risk premiums supported strong gains in gold and other precious metals. Market leadership broadened beyond the “Magnificent 7”, with emerging markets, small caps and resource-linked sectors outperforming.

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KEY SECTOR TAKEAWAYS

GLOBAL DEVELOPED SHARES

Unhedged global shares fell 2.8% in AUD terms in January, bringing 12-months returns to 6.5%, while hedged global shares returned 16.6% over the past 12 months. Performance broadened beyond the Magnificent 7, with US small caps materially outperforming the Magnificent 7, while emerging markets and Japan also led regional outcomes.

AUSTRALIAN SHARES

Australian shares rose 1.8% in January, bringing 12-month returns to 7.4%. Australian shares began the year strongly, supported by rising commodity prices as gold, copper and base metals rallied. The resources-heavy mid and small cap segments continued to outperform, with Australian small caps up 2.7% in January and 22.8% over the past year.

EMERGING MARKETS

Emerging market equities rose 3.6% in AUD terms in January, bringing 12-month returns to 27.2%. Emerging markets started the year strongly, with South Korea remaining a standout, supported by semiconductor and automotive leaders. Further, Taiwan and China also advanced, whilst India lagged, falling -5.1% in USD terms.

KEY SECTOR TAKEAWAYS

PROPERTY AND INFRASTRUCTURE

Hedged global listed property rose 2.8% in January, bringing 12-month returns to 8.8%. Hedged global listed infrastructure rose 3.2%, bringing 12-month returns to 14.3%. Australian listed property fell 2.7%, bringing 12-month returns to 1.6%. Performance remained closely tied to movements in bond yields, whilst a rotation away from growth-oriented exposures also contributed to relative performance.

GLOBAL FIXED INTEREST

Bond markets softened as yields drifted higher, reflecting a reassessment of the growth–inflation mix and reduced conviction in near-term easing. The US 10-year Treasury yield climbed to 4.3%, while credit spreads remained compressed with investment grade at 75 bps and high yield at 288 bps.

AUSTRALIAN FIXED INTEREST

Domestic fixed interest markets were shaped by the continued repricing of inflation risk and monetary policy expectations. Persistent upside inflation surprises—including 3.4% annual core CPI (trimmed mean)—and firmer domestic demand set the stage for the RBA’s cash rate increase to 3.85% in early February.

KEY SECTOR TAKEAWAYS

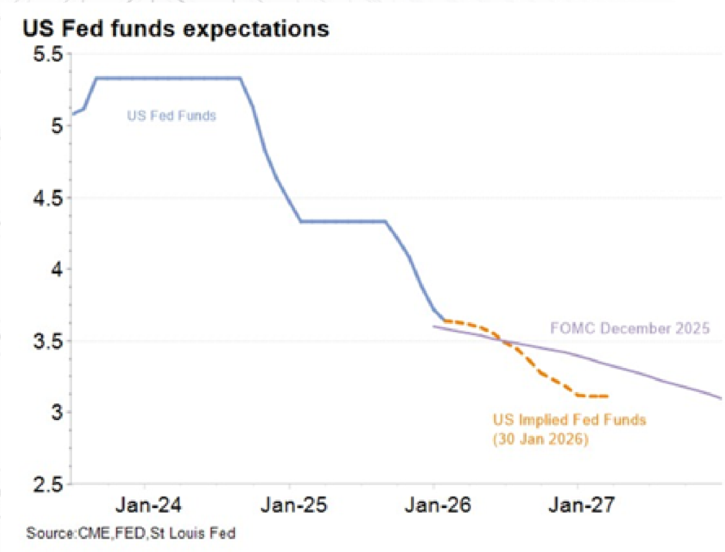
COMMODITIES

Commodities began the year with broad strength, led by a sharp rally in gold. Gold rose 13.0% to US$4,893/oz after briefly reaching US$5,608/oz, before retracing following Trump's nomination of Kevin Warsh as the next Fed Chair. Brent crude rose 14.0% to US$69.3/bbl, copper rose 6.9%, and iron ore was broadly stable at US$105.6/t.

CURRENCIES

The USD remained under pressure, declining 2.0% in January after a 9.0% fall in 2025. The AUD outperformed, pushing through US$0.70 for the first time since early 2023, supported by widening interest rate differentials and firm base metal prices. The Australia–US 2-year yield spread widened to 70 bps, its highest level since 2016.

ECONOMIC HIGHLIGHTS

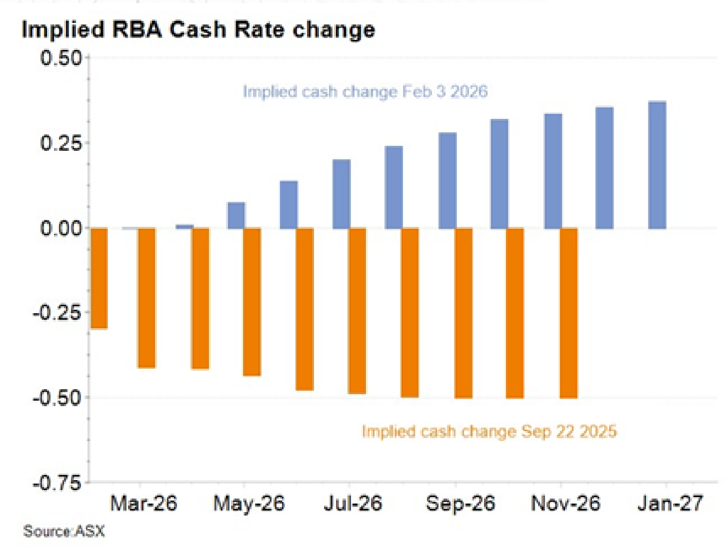


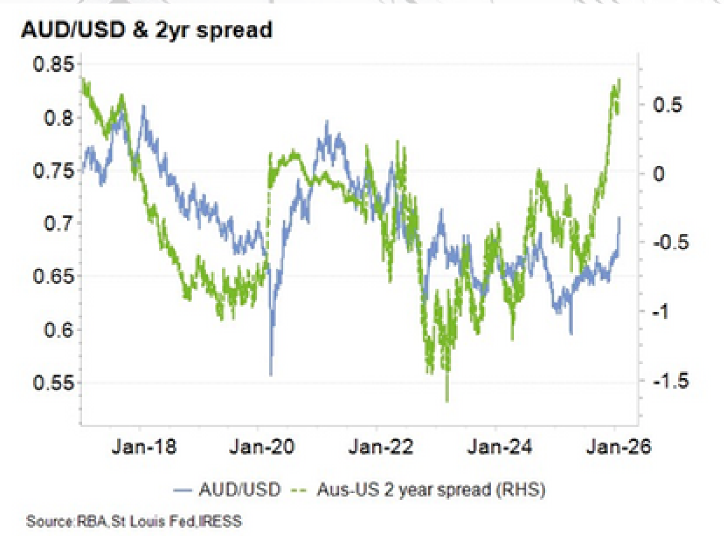
UNITED STATES: GROWTH, FED OUTLOOK AND USD

US GDP growth for the September quarter was revised up to 4.4%, following 3.8% and -0.6% in the prior two quarters. The strength was driven by consumer spending and an unusually strong net export contribution, though tariff impacts continued to distort the data.

The US Federal Reserve held the policy rate at 3.5%–3.75% in January and signalled a shift to a more neutral stance by upgrading its characterisation of activity from “moderate” to “solid”. It also noted the unemployment rate has shown “some signs of stabilisation”, reinforcing the idea that labour market cooling may have stalled. Markets still expect two further cuts in the second half of 2026. Separately, Trump’s nomination of Kevin Warsh to succeed Chair Powell was interpreted as hawkish, contributing to higher yields, a steeper curve and a temporary stabilisation in the USD, alongside an immediate pullback in gold and silver.

ECONOMIC HIGHLIGHTS





AUSTRALIA: INFLATION, POLICY AND THE AUD

Australia's December inflation data lifted, with annual headline CPI at 3.6%. Services inflation remained sticky at 4.1%, while goods inflation rose to 3.4%. Against this backdrop, the RBA raised the cash rate to 3.85% in early February, describing the move as an "adjustment" rather than the start of a cycle, while keeping guidance open-ended. Market pricing embeds a further hike by May and the prospect of another later in 2026. The AUD's strength through January was attributed to the boost in the Australia–US interest rate spread, with the 2-year yield spread around 70 bps in favour of Australia, alongside support from commodity prices.

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ASSET CLASS RETURNS

	Month Return (%)	1 Year Return (%)	3 Year Return (p.a %)	5 Year Return (p.a %)
Australian Cash	0.3	3.9	4.1	2.8
Australian Bonds	0.2	3.2	2.9	-0.3
Global Bonds (Hedged)	0.2	4.3	3.3	-0.4
Australian Shares	1.8	7.4	9.8	10.2
Global Shares (Unhedged)	-2.8	6.5	19.8	15.0
Global Shares (Hedged)	1.7	16.6	18.6	12.7
Emerging Markets	3.6	27.2	17.0	7.3
Global Infrastructure (Hedged)	3.2	14.3	8.0	7.7
Australian Listed Property	-2.7	1.6	11.1	9.2
Global Listed Property (Hedged)	2.8	8.8	4.3	3.7
AUD / USD	4.7	12.5	-0.2	-1.7

GLOBAL SECTOR RETURNS

	Month Return (%)	1 Year Return (%)	3 Year Return (p.a %)	5 Year Return (p.a %)
Consumer Staples	5.3	12.4	7.0	6.5
Consumer Discretionary	0.2	3.8	15.9	7.1
Energy	12.6	24.4	9.3	21.7
Financials	0.4	21.3	20.5	17.3
Health Care	1.1	9.1	7.0	6.4
Industrials	7.1	27.9	20.8	14.2
Information Tech	-1.2	23.9	31.2	17.6
Materials	8.9	30.3	10.4	9.3
Telecom	4.7	27.1	33.6	14.5
Utilities	3.9	26.5	13.6	9.2

AUSTRALIAN SECTOR RETURNS

	Month Return (%)	1 Year Return (%)	3 Year Return (p.a %)	5 Year Return (p.a %)
Consumer Staples	1.3	3.1	-0.5	1.2
Consumer Discretionary	-0.5	-4.0	11.8	7.5
Energy	11.1	11.4	0.8	8.9
Financials	-1.4	4.1	15.7	15.3
Health Care	1.9	-24.9	-5.7	-2.1
Industrials	-0.4	12.8	13.6	11.4
Information Tech	-9.1	-28.4	9.6	-1.4
Materials	9.4	44.8	11.1	14.1
Telecom	-1.8	6.6	8.7	9.3
Utilities	0.6	16.7	12.5	14.6

CONCLUSION

- Global share markets rose in January in hedged terms, but unhedged global shares fell 2.8% as the AUD strengthened sharply.
- Market leadership broadened beyond the Magnificent 7, with small caps and emerging markets outperforming.
- Australian shares gained 1.8%, led by materials as commodity prices, including gold, copper and base metals, rose.
- Bond yields moved higher as economic activity remained resilient and the US Fed adopted a more neutral stance, while credit spreads stayed historically compressed.
- Commodities were strong, led by gold amid geopolitical risk and policy uncertainty, before retracing after the Warsh nomination.
- The AUD pushed through US$0.70, supported by widening interest rate differentials and higher base metal prices.

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