

# Atchison

January 2026



## Monthly Market Update

# Key Events in January 2026

## January – Crowded trades move sharply up and down!

- If the month of January 2026 is a guide to the rest of the year expect 2026 to be a volatile 12 months! Crowded trades felt sharp moves up and down, particularly US large-cap technology and AI linked stocks saw notable corrections, as did gold and silver.
- The Australian share market rose modestly over January gaining approximately +1.8% supported by the resource sector, especially mining names, were a standout driver when commodities rallied (e.g. BHP). Inflation and interest rate concerns (RBA tightening prospects) provided a degree of caution for investors late in the month.
- Developed international share market (unhedged) returned - 2.8%, due to the +4.6% rise in the Australian dollar against the U.S. dollar. While international shares hedged rose +1.1% in January. Over the month there was a notable dispersion across sectors and individual stocks. Emerging markets were mixed or even weaker (notably India) reflecting varying macro sensitivities. Overall, the emerging markets basket of stocks returned around +5.4% for the month.
- Unhedged U.S. stocks finished higher up around +0.9%, with valuations reaching intraday levels late in the month. Performance was not uniform, though with notable volatility. A significant sell-off occurred on 20<sup>th</sup> January, driven by tariff-related geopolitical uncertainty. Other major U.S. indices showed mixed results: the Dow Jones fell while the Nasdaq and Russell 2000 saw modest gains in the latter half of the month.
- European benchmarks such as the FTSE 100 traded near record level, buoyed by mining and energy stocks, although gains were trimmed amid broader risk-off sentiment.
- Global bond markets saw yields rise during January 2026, especially at longer maturities, as investors priced in persistent inflation and slower expected rate cuts, pressuring bond prices e.g. US 10-year Treasury yield climber towards 4.3%. Other developed market sovereign yields (e.g. Japan and some European benchmarks) also moved higher.
- Gold and Silver and other precious metals reached record price level, reflecting broader risk patterns and supply-side concerns. Prices ended the month at or near record highs.
- The Reserve Bank of Australia (RBA) may need to maintain a cautious stance on interest rates, with markets repricing the outlook for monetary policy sooner than later.
- Australian inflation surprised to the upside, with December CPI at 3.8% year-on-year and the RBA's trimming mean elevated at 3.3%. This inflamed expectations that the RBA could raise rates in February, reinforcing monetary tightening risks.
- Cost-of-living pressures remain a dominant domestic theme, while Australia's growing strategic role in critical minerals and supply chain security continues to attract attention.
- The International Monetary Fund (IMF) issued its January 2026 World Economic Outlook Update, projecting moderate global growth around 3.3% for 2026, noting resilient activity but elevated risks from trade and geopolitical tensions.
- U.S. Federal Reserve (U.S. Fed) kept interest rates steady at its January 2026 meeting, as expected. The Federal Open Market Committee (FOMC), which sets the central bank's rate decisions, voted to maintain the benchmark federal funds rate at 3.50% - 3.75%. Following three rate cuts in 2025. Two of the committee's twelve voting members dissented, preferring a quarter-point cut instead.
- U.S. consumer confidence plunged to its lowest level in over a decade, with the Conference Board index falling to 84.5 in January. This drop – below pandemic lows – reflected growing pessimism about jobs, income and prospects despite continued GDP growth.
- Outlook research highlights that EM economies are expected to outpace advanced economies in GDP growth, albeit unevenly — with strong performers in Asia/Pacific and slower growth in parts of Latin America.
- In a high-profile message in the Communist Party's *Qiushi* journal, President Xi Jinping articulated an ambition for the renminbi to serve as a global reserve currency.
- India's Economic Survey outlined a robust macroeconomic performance, projecting real GDP growth of 6.8% – 7.2% in FY 2026–27 and signalling continued structural reforms to sustain growth amid global uncertainty.



# Asset Class Summary

**Table 1: Asset Class Returns – Periods to 31 January 2026**

	1 Month %	3 Months %	1 Year %	3 Years % pa	5 Years % pa	10 Years % pa
Australian Shares	1.8	0.4	7.4	9.7	10.1	10.0
Australian Small Companies	2.4	2.6	22.0	10.8	6.5	8.8
International Shares (Unhedged)	-2.8	-3.5	6.6	19.8	15.1	13.4
International Shares (Hedged)	1.1	2.3	16.0	19.0	12.5	12.8
Emerging Markets (Unhedged)	5.4	2.5	26.2	16.3	6.2	9.5
Australian Property Securities	-3.2	-3.2	12.3	9.9	8.4	8.0
Global Property Securities (Hedged)	2.7	2.8	6.8	3.2	3.0	
Global Listed Infrastructure (Hedged)	3.1	4.0	13.7			
Australian Bonds	0.4	-1.3	3.1	2.8	-0.4	1.8
Global Bonds (Hedged)	0.1	-0.1	4.5	2.9	-1.1	
Cash	0.3	0.9	4.0	4.2	2.8	
<b>Change over the month</b>						
AUD/USD	4.64%	0.7004				

Past performance is not a reliable indicator of future performance.

Source: iShares Core S&P/ASX 200 ETF, iShares S&P/ASX Small Ordinaries ETF, Vanguard International Shares Index, Vanguard MSCI Index Intl Shrs (H) ETF, iShares MSCI Emerging Markets ETF, VanEck Australian Property ETF, VanEck FTSE Intl Prop Hdg ETF, iShares Core FTSE Global Infrastructure (AUD Hedged), iShares Core Composite Bond ETF, Vanguard Global Aggregate Bd Hdg ETF, iShares Core Cash ETF

## Australian Markets

The Australian share market finished January modestly higher monthly, returning around +1.8% driven by strong cyclical performance in commodities, especially uranium and metals, alongside successful stock performances. Performance was tempered by weakness in technology and some financial sectors, reflecting the mixed nature of market drivers cross global and domestic themes. Whilst the small caps index returned a healthy +2.4% over the month supported by improving earnings expectations relative to large caps.

For the 12 months the ASX/S&P 200 Index returned +7.4% compared to the ASX/S&P Small Caps Index return of +22%. The dynamic that often drives small caps is when:

- domestic demand and economic activity remain resilient,
- valuations at the small end look more attractive compared to large cap growth stocks,
- and cyclical earnings prospects firm up as cost pressures moderate.

Key drivers supporting market returns over the month was strength of the resource and commodity sectors. Resource sector performance was primarily linked to global demand and commodity prices. Stocks that performed exceptionally strongly were Deep Yellow Ltd (+54%), Paladin Energy (+44%), and Boss Energy (+30%), all uranium related stocks.

Some industrial and metal stocks, such as Codan Ltd (+34%) and Iperionx (+31%), contributed to overall monthly performance of the broader index based on company-specific results and earnings momentum.

Towards month-end, the S&P/ASX 200 exhibited slight weakening due to pressure on materials and banking stocks on certain days, underscoring sector rotation, and volatility.

The consensus outlook for the Australian share market for 2026 is modest gains derived from resources and commodities. Resource companies' earnings are expected to continue delivering robust growth, while financials and industrials may deliver more modest gains. Analysts project earnings-per-share growth of ~9% in 2026 and ~10% in 2027 for ASX 200 companies, marking a potential earnings recovery after years of contraction. This recovery is driven by the resources and commodities sectors.

## Global Markets

Global equities delivered positive returns overall in January 2026: global equities, on a hedged basis rose around +1.1% for the month, suggesting broad gains across major markets but down -2.8% on an unhedged basis. Over the 12 months to January 2026 the returns between hedged and unhedged were even more stark, +16% compared to +6.6%.

Within global equities, one word dominated markets in January: broadening. Diversification away from US large caps continued to play out. Within the US, small caps had a strong start to the year, up +5%, while the Magnificent Seven stocks rose only +1% on the month. In terms of regions, emerging markets were the best performing, up 9%, followed by Japan's Topix, which rose +5%.

Emerging markets significantly outperformed developed markets, with emerging equities up +5.4% over the month, and a staggering +26.2% over the 12 months.

In terms of equity styles, small caps outperformed, both in Europe and particularly in the US, where the Russell 2000 rose +5%. Mid-caps also did well, with the FTSE 250 and the MDAX ending the month among the best performing indices in Europe, up +3% and +2% respectively.

The short-term outlook for global equities remains cautious. We continue to believe that cyclical risks are contained, but recognise valuations are challenging and political risk is heightened. We are managing these risks by combining a long position in equities (with diversifying exposures to Value), gold and the addition of commodities.

We remain positive on U.S. equities as the equilibrium of the low hiring; low firing environment has stabilised the labour market. U.S. economic data also suggests that, for now, consumers remain resilient.

The appeal of UK equities has declined as the historically cheap levels that previously underpinned the market have faded, leaving us neutral overall. However, Europe ex UK remains an attractive as earnings revisions do not appear to have bottomed.

Emerging market valuations remain favourable, especially Korea and Taiwan. Both Taiwan and South Korea continue to benefit from structural demand for semi-conductors and AI infrastructure, though we remain cautious due to tariff and policy uncertainties. Neutral on China as economy is currently deemed more

## Interest Rates and Bonds

Long-term government bond yields increased broadly in January, reflecting a repricing of fixed income markets as investors priced in persistent inflation and higher structural real yields.

Australian government bonds saw yields trend higher to between 4.78% – 4.80%, implying modest price headwinds offset by coupon income. Corporate credit, both investment grade and high yield, remained supported, with high yield credit outperforming sovereigns on a total-return basis due to elevated carry and steady credit risk sentiment.

Australian investment-grade corporate bonds, via proxies such as corporate bond ETFs, show relative stability in credit spreads over government bonds, with yields typically higher than sovereigns to compensate for credit risk, e.g. running yield of around 5.48% and yield to maturity of around 5.78%.

U.S. 10-year Treasury yield climbed toward the mid 4% area, finishing around 4.24% – 4.26% by month end, up modestly over the month. This reflected a backdrop of sticky inflation data and ongoing fiscal supply pressures.

What makes this phase distinctive is that the rise is no longer confined to the U.S. alone; yields are also resetting meaningfully in Japan as well as in Europe (e.g., France, Germany), reflecting deeper structural changes in inflation dynamics, fiscal policy, and central bank behaviour. Japanese government bond yields moved significantly higher, and yields in Europe (Bunds, French OATs) also trended up as markets adjusted to inflation persistence, fiscal slippage, and higher term premia. The simple explanation for the material steepening of the Japanese government bond (JGB) yield curve is that nominal GDP growth has been rising of late in Japan. Its nominal GDP growth has risen from a pre-Covid low of 0.5% y/y in 2019 to 4.1% y/y in 3Q25 and 4.9% y/y in the first three quarters of 2025.

Emerging-market local currency bonds posted positive total returns and attracted flows as the USD weakened. The JPMorgan index of emerging market local debt was up by more than 2% since the start of the year, with some Latin American markets notably stronger, supported by currency strength and higher local rates.

In January 2026, high-yield corporate credit posted positive returns of around 0.5%, outpacing broader corporate credit, driven by income and modest spread behaviour. Investment-grade corporate bonds also delivered positive but more modest return of about 0.26%, with tight spreads and resilient credit conditions reflecting continued investor demand and supportive fundamentals.

## Currencies and Commodity Markets

Currency and commodity markets are tightly linked because many commodity-exporting countries e.g. Australia and Canadian currencies often act as “commodity proxies.” When the USD strengthens, commodities often face headwinds, as they become more expensive in other currencies. Conversely, when global growth expectations rise, industrial commodities (e.g. copper and oil) strengthen, supporting currencies like the AUD and CAD.

Global financial markets are navigating a surprisingly resilient economic backdrop. Despite ongoing U.S. tariffs and pockets of regional weakness, global growth has held up better than expected, central bank policy paths are beginning to diverge, and currency markets are increasingly driven by relative economic performance rather than broad USD dominance. U.S. inflation has eased meaningfully, allowing the U.S. Fed to cut rates to 3.50% – 3.75% in December. As a result, the USD has drifted lower, particularly against currencies backed by improving growth or tighter monetary policy.

The AUD enters 2026 with strong tailwinds. Australia's economy has picked up momentum, inflation remains elevated, and markets are pricing a meaningful chance of RBA rate hikes as early as February. Combined with improving commodity prices and supportive global growth, AUD/USD is expected to trend higher toward USD\$0.70 over 2026.

For January, the AUD was up +4.08% against the USD finishing the month at around US\$0.69. Combined with improving commodity prices and supportive global growth, AUD/USD is expected to trend higher towards US\$0.70 over 2026.

Commodities provided clearer signals during January. Energy and precious metals continued to attract flows, supported by geopolitical uncertainty and hedging demand.

During the month, the price of gold surpassed US\$5,000 per ounce while silver also soared to record highs as precious metals have become an increasingly attractive asset class in the face of a weakened USD, uncertainty at the U.S. Fed, and geopolitical turmoil. Gold spot price ended the month around USD 4,865 per ounce whilst silver was up around +47% trading between USD 105 – 116 per ounce.

Monthly commodity tracking showed divergence across sectors: energy and metals were strong drivers while softs and agricultural products lagged. Brent crude and other crude benchmarks rose to multi-month highs near US\$70/bbl, supported by geopolitical risk premiums (notably Middle East tensions).

# Outlook for Investment Markets

## One month into 2026 and central banks are significantly shaping investor sentiment.

At the outset of 2026, major central banks have been reluctant to pivot sharply, preferring to remain cautious amid persistent inflation and labour market considerations. The U.S. Fed held its policy rate unchanged at 3.50% – 3.75% at the January FOMC meeting, defying U.S. President Trump's threats and tantrums directed at Fed Chair Jerome Powell. Futures base models show a modest downward drift in the implied policy rate over 2026, signalling conditional rather than aggressive ambitions. Implications for markets are that this neutral–slightly restrictive stance supports higher short-term yields and volatility in long-duration assets until clearer inflation signs emerge.

After multiple rate cuts in 2025, both the European Central Bank (ECB) and the Bank of England (BoE) appear to have paused further easing in early 2026, reflecting cautious calibration amid low growth and inflation near targets. Futures pricing implies stable policy rates through much of 2026, barring material inflation surprises.

The Bank of Japan (BoJ) has maintained its policy rate at approximately 0.75% but expressly flagged the possibility of further rate increases in 2026, reflecting rising inflation and wage pressures. A shift away from the BoJ's long-standing ultra-loose regime could drive higher JGB yields and carry implications for FX and global fixed income.

Markets and economists are increasingly pricing a potential rate increase at the RBA's early 2026 meeting following unexpectedly persistent inflation pressures around or above the 3% – 4% range, above the RBA's 2% – 3% target band. An RBA tightening cycle, albeit modest, would reinforce Australian fixed-income yield support and could tighten domestic credit conditions.

Some emerging markets maintain tighter stances to defend currencies and combat imported inflation, while others with weaker growth profiles have paused or are on hold. Futures imply mixed expectations.

## What does stable but high interest rates mean in early 2026?

From a macro perspective markets are adjusting to a world where rates are not "temporarily restrictive," but structurally higher than the 2010s norm.

When central banks hold rates at elevated levels, it usually reflects three conditions:

- Inflation is moderating, but not fully back to target.
- Growth is slowing but not collapsing.
- Policymakers want to avoid easing too early and reigniting price pressures.

Implications for bonds are deemed to be supportive as they regain their role as a source of income in a diversified portfolio. High cash rates and elevated yields. However, duration risk remains important. If rates stay higher or rise again, long duration bonds remain vulnerable i.e. long-term bond prices fall when yields rise. So, the opportunity is real, but the bond market is no longer a one-way "capital gains" trade.

For equity investors, interest rates form the foundation of equity valuation. When rates are high:

- Future cash flows are discounted more heavily.
- Price-to earnings multiples tend to compress.
- Markets reward real earnings, not just growth narratives.

Stocks that tend to be negatively affected by high rates are "long-duration" equities e.g. technology, and speculative growth. Whilst stocks that hold up better are companies that generate cash and those with pricing power.

## What to watch in markets in early 2026

- Persistent inflation Yield curve shape.
- Credit stress emerging beneath the surface.

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