Market Review

On December 4th, 2025, the Trump administration unveiled a new "National Security Strategy" (NSS) that marks a pronounced reorientation in Washington's geopolitical posture, particularly toward the Western Hemisphere. Framed as a forceful reassertion of the "Monroe Doctrine" and augmented by a "Trump corollary", it places a much stronger emphasis on American interests in the region. Most importantly, the document signals the willingness to deploy kinetic warfare to protect US economic and strategic assets and to preserve "peace through strength". It also makes clear that the US will not tolerate rival powers embedding themselves in its near abroad, elevating hemispheric energy resources, critical minerals and maritime routes to the level of core national interests. Less than a month later, this assertive strategic stance moved from rhetoric to reality. In the early hours of January 3rd, 2026, the US launched a large-scale military operation in Venezuela targeting President Nicolás Maduro and his wife, Cilia Flores. American special forces struck key sites in Caracas, detained the pair and transported them to New York to stand trial on federal indictments that include drug trafficking charges. Following the "extraction" of its sitting president, Vice President Delcy Rodríguez was designated acting president and formally sworn in on January 5th to maintain continuity of government.

Trump, who had previously stated that the US would "run the country", publicly recognised her as a pragmatic choice to oversee Venezuela's oil sector. Rodríguez had in fact been serving as the Minister of Petroleum and Hydrocarbons since August 2024, emerging as the primary point of contact for international energy executives and cultivating working relationships with US companies, particularly Chevron, the sole major American firm permitted to operate in the country. Venezuela possesses the world's largest proven crude oil reserves, estimated at about 303 billion barrels, roughly 17-18% of global total volumes. However, its actual production has lagged far behind potential due to mismanagement, underinvestment and sanctions, crashing from peaks above 3 million barrels per day in the late 1990s to less than 1 million barrels per day in late 2025. According to Reuters, its exports reached roughly 921,000 barrels per day in November 2025, with China receiving about 80% of those shipments, underscoring Beijing's role as the country's top oil customer. In a subtle but unmistakably potent geopolitical signal, just hours before his capture, a senior delegation that included the Chinese government's special representative for Latin American affairs had visited Maduro to reaffirm strategic energy and political ties at a moment of escalating tension.

Within days of the Venezuelan raid, US attention pivoted to the Arctic. Senior Trump aides declared that, given rising Russian and Chinese activity in the region, the US had the right to secure Greenland as a matter of national security. At one point, the White House stated openly that the use of military force was "always an option". Trump himself claimed that the US might take control "the hard way" if Denmark, of which Greenland is an autonomous territory, did not agree to transfer it. Those statements provoked a diplomatic fallout as they appeared to threaten the sovereignty of a NATO member, raising alarms across Europe and within the alliance. The pressure intensified on January 17th as Trump took to social media to announce that he would impose punitive tariffs on a group of eight transatlantic partners (Denmark, Norway, Sweden, France, Germany, the UK, the Netherlands and Finland) unless they agreed to enter negotiations over the complete sale of Greenland to the US. He specified that a 10% tariff on all goods from those countries would take effect on February 1st, with the rate set to rise to 25% on June 1st if no deal was reached. However, a few days later, while attending the 56th World Economic Forum (WEF) in Davos, he performed his infamous "TACO" by walking back all threats of coercive measures and levies, proclaiming that the US and NATO had agreed on a "framework of a future deal" regarding Greenland and Arctic security cooperation.

At the same gathering, Mark Carney and Bart De Wever, Prime Ministers of Canada and Belgium respectively, delivered unusually candid speeches that, while responding to recent US unilateralism, amounted to a striking exposé about the state of the global system. Carney described the "rules-based international order" as a useful "fiction" now "fracturing," admitting that the narrative had always been "partially false". In his view, recent events marked a genuine "rupture" with the assumptions that had shaped international politics and economics since the end of the Cold War. Geopolitically, he contended that the expectation of steady liberal convergence has given way to revived spheres of influence and overt great-power competition. Economically, he noted that interdependence, once regarded as a source of stability, now exposes countries to strategic vulnerabilities. Institutionally, he warned that multilateral bodies designed for a cooperative era are ill-equipped for a landscape increasingly shaped by strategic leverage. De Wever was even more direct. Addressing his fellow European leaders, he recognised that the Old Continent was at a "crossroad" and found itself in "a very bad position". Without mincing words, he argued that so many red lines had been crossed that Europeans now faced a stark choice between self-respect and submission. "Being a happy vassal is one thing" he concluded, "being a miserable slave is something else".

International Equities

US equities ended the month higher after experiencing choppy trading. The S&P 500 (+1.37% in USD terms) briefly surpassed 7,000 points for the first time ever on January 28th, just 14 months after the index first crossed the 6,000 marks. The Dow Jones Industrial (+1.73%) climbed for the ninth consecutive month, a feat last achieved in 2017. Both averages broke to new all-time highs, together with the Russell 2000 (+5.31%), the popular benchmark for smaller companies, which outperformed the Russell 1000 by the most since August 2025. Conversely, the Nasdaq 100 (+1.20%) encountered resistance and stalled close to its peak recorded on October 29th as the "Magnificent Seven" underperformed the rest of the US large caps. Returns within the group were top-heavy, with Meta, Alphabet, Amazon and Nvidia soaring and Microsoft, Apple and Tesla falling sharply. Firms with strong growth prospects in emerging tech and niche markets continued to attract inflows, with the Nasdaq Next Generation 100, which tracks the performance of the largest 100 Nasdaq-listed companies outside of the Nasdaq 100, beating the latter for the third month in a row. Memory stocks also outperformed, as shortages have emerged as a key bottleneck in the ongoing AI-driven capex boom, driving sharp price increases.

OpenAI continued to dominate the headlines in January after the Wall Street Journal reported that Nvidia's proposed plan to invest up to 100 billion USD in the world's largest startup had paused. Despite a non-binding memorandum of understanding signed last September, negotiations are said to have not progressed beyond early stages amid internal doubts within the semiconductor giant about OpenAI's business discipline and competitive positioning. Meanwhile, its fastest growing competitor, Anthropic, has upgraded its projected revenues for 2026 to 18 billion USD, 20% above its summer forecast, but pushed back expectations for positive cash flow to 2028. The firm has secured a 10 billion USD commitment from Nvidia at a 350 billion USD valuation.

The move away from mega cap growth names continued in January, with leadership rotating to a combination of cyclicals and defensives, while breadth expanded. Energy posted double-digits gains, bouncing back following a loss the previous month, materials and industrials jumped and the Consumer Staples Select Sector TR Index recorded its 7th best month in history. Real estate and communication services outperformed the general index while financials, technology and healthcare declined.

US equities trailed the rest of the world in January (as exemplified by the MSCI AC World Index ex USA TR Index) by the most since March 2025. Emerging markets topped the list owing to explosive returns in South Korea and Taiwan, where robust demand for advanced semiconductors, AI infrastructure and related hardware boosted foundries, memory producers and equipment suppliers. Hong Kong roared back, while China saw more moderate gains. Latin America was the standout performer, surpassing even Asia's already impressive returns. In Japan, the TOPIX index notched its first ten-month winning streak in five decades. Positive momentum continued in Europe, as GDP growth for Q4 2025 exceeded expectations, inflation came in below forecasts and unemployment fell to a multi-year low. Dutch chip producer ASML became Europe's most valuable company. Finally, the MSCI World Value Index recorded its 12th best monthly outperformance ever vis-à-vis the MSCI World Growth Index. All in all, the MSCI AC World Daily TR was up +2.96% in USD terms, but down -1.47% in AUD terms.

Australian Equities

Australian equities rose in January, with the MSCI Australia Net TR index beating the MSCI AC World Daily TR index by more than 300 basis points, its second month of outperformance in a row. The S&P/ASX 300 was up +1.72% on the back of the outsized gains posted by the energy and materials sectors. The former benefited from a surge in oil and natural gas prices fuelled by tensions related to Iran and by a severe North American cold snap that temporarily shut down production. Miners continued to ride the melt-up of precious metals and copper prices, with uranium and aluminium producers the latest joiners to the rally. With financials bucking the trend, BHP overtook CBA to become Australia's most valuable ASX-listed company after just over a year. Healthcare, consumer staples and utilities were the only other GICS sector to end the month in positive territory. Technology suffered the steepest losses, with software names sinking in sympathy with their international peers amid concerns that AI could severely disrupt their markets and growth outlook. Finally, the Top 20 outperformed mid-caps but lagged smaller companies, which continued to benefit from the sustained gains in the resources space.

International Fixed Income

All the five major global central banks that met during the month held interest rates steady. Those include the Norges Bank, Norway's central bank, the Riksbank, Sweden's central bank and the Bank of Canada (BOC), which maintained their policy rates at 4%, 1.75% and 2.25% respectively.

On January 23rd, the Bank of Japan (BOJ) kept rates unchanged, allowing the domestic fixed income market time to absorb the rapid repricing that occurred earlier in the week, following Prime Minister Takaichi's announcement of a snap general election scheduled for February 8th. Her campaign platform includes significant fiscal measures that may require substantial new borrowing, a prospect that pushed the 40- year yield above 4% and caused the 30- year to spike 25 basis points in one session. On January 28th, the FED held its target rate steady at 3.50%-3.75%, opting for a widely expected pause after three consecutive rate cuts in September, October and December 2025. The vote was 10-2, with the newly appointed (and potentially politicised) Stephen Miran and Christopher Waller, one of the most influential Governors and a Trump nominee, who advocated for a 25-basis points reduction.

Yields were generally higher across the world apart from Europe, where the 10- year OAT/Bund spread, that is, the difference between French and German government bond yields, tightened to its narrowest level since May 2024. All in all, the Bloomberg Barclays Global Aggregate Index hedged back to AUD added +0.23% for the month, as credit remained well bid owing to upbeat economic data and despite the geopolitical driven uncertainty.

Australian Fixed Income

Economic data released in January signalled a clear end to the easing cycle and cemented expectations of a renewed tightening phase. First, Australia's labour market surprised to the upside in December, with the unemployment rate falling to 4.1% from 4.3%. Job creation surged by 65,200, more than double expectations and led by full-time roles. Inflation data followed suit. The trimmed mean CPI, the central bank's preferred core gauge, rose +0.9% in Q4, above forecasts of +0.8%. The annual rate accelerated to 3.4%, the highest in five quarters and firmly above the RBA's 2-3% target band. Moreover, in December alone, headline CPI recorded its largest surge since July, rising +1% MoM, as the expiry of government rebates pushed electricity prices higher and seasonal demand lifted travel and accommodation costs. Finally, annual inflation accelerated to 3.8% YoY, up from 3.4% one month before and beating expectations of +3.6%. As a result, by month end, the cash futures were pricing in two hikes in 2026, with the probability of the first move coming already at the February meeting approaching 70%. The yield curve continued to reprice higher, with the 2-, 5- and 10- year yields adding another 15, 12 and 7 basis points to reach 4.21%, 4.42% and 4.81% respectively. However, strong credit performance helped the Bloomberg AusBond Composite 0+ Yr (+0.21%) to finish January in positive territory. The Australian Dollar strengthened across the board, appreciating the most since November 2022 vis-à-vis the greenback.

Real Assets

Global property was up +3.20% in USD terms but down 1.24% in AUD terms for the month. Asia topped the list, as Hong Kong REITs caught a bid on expectations of a revival in the local housing market prompted by a recovering Chinese economy. The US came second, buoyed by a relief rally in data centres, while Australia lagged the general index.

Global infrastructure rallied +4.47% in USD terms but was unchanged in AUD terms in January. Energy infrastructure was the best performing group, followed by transportation stocks. Electric utilities posted subdued returns, while communication infrastructure underperformed.

Alternatives

Alternatives (+1.61%) started the new year on a high note. Trend following and discretionary macro mandates took advantage of the broad-based bull run in commodities. Long/Short equities navigated intra month volatility effectively, exploiting both directional trends and sector rotation.

Market Outlook

The latest Trump's antics coupled with a general reassessment of whether disruptive innovation can continue to justify elevated valuations are reviving the "Sell America" trade. Bank of America's latest "Global Fund Manager Survey" reported the sharpest reduction in technology exposure since March 2025, with allocations to the sector declining to a net 5% overweight from a net 19% overweight previously. This adjustment represents a significant pullback in what had been one of the most crowded trades in global portfolios after a decade of "American Exceptionalism". Despite this sizable repositioning, aggregate sentiment remains robust. Overall bullishness in the study has reached its strongest reading since June 2021, suggesting that investors are not broadly de-risking but are instead rotating exposures within equities. The potential for Artificial Intelligence to develop in a full-blown bubble is identified as the primary risk facing markets by 25% of participants, while another 30% believes that companies are over-investing in AI, reflecting mounting scepticism regarding the scale and pace of spending relative to near-term earnings visibility. Flow data reinforce the message from the analysis. The rotation out of US equities into emerging markets and Europe, where major benchmarks have materially outperformed the S&P 500 since the beginning of the year, is the most aggressive observed since February 2021. At the same time, allocations to smaller companies have risen to their highest overweight level since April 2021. These developments point to a decisive broadening of market leadership, as investors reallocate capital away from concentrated exposure in mega cap growth names toward regions and segments perceived to offer more attractive valuations and greater cyclicality. Although the reach for diversification appears to have morphed into a consensus positioning theme, we think that it will persist, as global growth is showing signs of a synchronised pickup reminiscent of 2017.

In the US, economic activity slowed into late 2025, as the economy absorbed a series of headwinds. Tariff uncertainty weighed on business confidence, an immigration crackdown constrained labour supply across several sectors and a prolonged government shutdown disrupted fiscal disbursements. The latter was the major culprit for the sharp slowdown in economic growth that occurred in Q4, with real GDP expanding by just +0.4% QoQ, from +1.1% in Q3, less than half the consensus expectations. On a YoY basis, the economy was +2.2% larger than 12 months earlier, a modest deceleration from the +2.3% annual growth recorded the previous quarter. Although government spending remained elevated in absolute terms, fiscal impulse faded. In fact, aided by increased tariff revenues, the budget deficit narrowed to 5.4% of GDP, down from levels closer to 7% at the end of 2024. The policy mix is now shifting back toward support. A substantial retroactive tax package, estimated at roughly 200 billion USD in rebates under the "One Big Beautiful Bill Act" (OBBBA), is expected to boost disposable income and corporate cash flow in early 2026. Broader tax relief measures and a renewed widening of the fiscal deficit back toward 7-8% of GDP should add incremental stimulus. This renewed largesse comes on top of monetary easing already delivered. The FED cut rates by 75 basis points in 2025, loosening financial conditions. While the magnitude of the reductions has been measured, they have started to stimulate the lower leg of the so-called "K-shaped" economy, primarily lower-to-middle-income households, small businesses, regional banks and the real estate sector. Mortgage rates and corporate borrowing spreads have edged lower, refinancing activity has stabilised and credit availability has improved at the margin. Finally, the scale of the hyperscale technology firms' investment tied to AI infrastructure is poised to increase exponentially this year, with tangible spillovers into construction, power generation and industrial equipment.

Against this backdrop, the Bloomberg consensus expectations for US GDP growth in 2026 sit at +2.1%. We are taking the over here and anticipate a reacceleration to the +2.5-3% range as risks appear to be skewed toward an upside surprise. Inflation dynamics further reinforce our constructive view. The Bloomberg consensus expectations for headline CPI in 2026 stand at +2.6%, above the FED's +2% target but broadly consistent with stable prices. We are taking the under here as we see risks tilted to the downside in the first half of the year. The rationale is largely mechanical. The disinflationary impulse remains largely intact on the back of the downward pressure coming from wage dynamics and the housing components. Given the way the CPI basket is constructed, these elements can exert a sizeable influence on headline readings as prior strength rolls off. Moreover, the rapid deployment of automation is curbing incremental hiring and increasing productivity per worker. Job openings have trended lower, and anecdotal evidence suggests that some postings overstate actual hiring intent. Recent data have already offered confirmation, with CPI prints undershooting estimates in January, ticking down to +0.2% MoM (from +0.3%) and +2.4% YoY (from +2.7%). The broader implication is that price pressures are not returning, or at least not immediately, even as growth quickens. In this context, financial markets are still debating how many reductions, not hikes, will the FED deliver in 2026, with approximately 50-75 basis points of additional easing priced in, an outcome consistent with ongoing disinflation and incremental labour market softening. Although the probability of a move in March is minimal, the trajectory points toward further normalisation. Shifting to the Rest of the World (RoW), in Germany manufacturing expanded for the first time in more than three and a half years, supported by a substantial increase in public expenditure on defence and infrastructure. The fiscal impulse is beginning to filter through industrial production and new orders, helping the country to emerge from a prolonged period of stagnation. In Asia, economic momentum is strengthening, supported by domestic demand and recovering trade flows.

Historically, such a convergence of regional growth trajectories has coincided with a softer greenback, a pattern that seems to have reasserted itself, driven by narrowing interest rate differentials and improving global risk sentiment. A weaker dollar eases financial conditions globally, particularly for emerging markets with dollar-denominated liabilities. This currency channel represents an additional tailwind for global growth assets and enhances the relative attractiveness of non-US markets for global investors. Following “Liberation Day”, there was an initial attempt at diversification, but the move reversed quickly as roughly 2 trillion USD in foreign inflows returned to US equities to participate in the AI transformation. However, currency hedging activity increased as investors sought to manage risk while maintaining exposure. Fast forward to today, the demand for equities outside of the US has come back with vengeance, creating, in the words of an astute commentator, a “demand shock” where flows into underinvested regions reinforce market momentum. Reallocating modest amounts from large American companies like Nvidia into smaller, under owned international markets can create outsized price effects, magnifying gains. For example, after tripling in the past six months and surpassing 1,000 trillion KRW in market capitalisation (equivalent to around 650 billion USD), Samsung Electronics, the largest constituent of the South Korean market, remains barely half the size of any of the “Magnificent Seven”. Not surprisingly, emerging markets and Asian equities have recorded one of their strongest starts versus the US in more than two decades. Recently, energy and consumer staples have exhibited relative strength as investors have piled into defensive, “boring” companies that sell necessities or hard assets. This type of leadership, if maintained, may signal a more cautious stance beneath the surface and prove “unhealthy”. However, robust corporate earnings and a supportive policy setting should provide a solid foundation for equities even amid potential episodes of volatility.

Turning to fixed income, the outlook is more nuanced. If the growth and earnings backdrop evolve as expected, the question naturally arises as to why the FED would continue cutting rates. Indeed, if economic momentum proves sufficiently robust, the policy debate in the second half of 2026 could shift from easing to the possibility of renewed tightening. The transition in the central bank’s leadership introduces an additional layer of uncertainty. Powell will step down in May and likely be succeeded by Kevin Warsh, whom Trump nominated for the top job on January 30th. Warsh’s policy record has been mixed, at times hawkish and at other times supportive of accommodation. His publicly articulated view that a productivity boom driven by AI could suppress inflationary pressures suggests he may initially tolerate stronger growth without tightening policy. However, until he formally assumes the role and communicates clearly, uncertainty will remain elevated. We expect stock markets to test the reaction function of the new Chair, particularly if inflation or growth data begin to indicate that the economy is overheating. Also, if cuts are delivered, we expect them to occur in the earlier part of the new Chair's tenure. Beyond mid-year, stronger growth could complicate the outlook. A scenario in which the global economy gathers momentum may eventually place upward pressure on long-term yields, even if policy rates remain stable. All in all, the near-term case for fixed income remains constructive and maintaining an overweight to global duration remains appropriate for now. Importantly, the case for bonds is not predicated on recession, but on normalisation of real rates. In Australia, the RBA has taken a comparatively hawkish stance, with markets pricing further tightening even as the FED is projected to ease. This policy divergence has supported the AUD, which has moved above 70 cents against the USD. While we do not hold a structurally bullish view on the domestic currency, the breakout looks genuine and puts a 0.70-0.75 range firmly on the table.