



January 2026

## Market Commentary

**Equity markets finished a memorable year with something of a flourish in December when positive factors offset lingering concerns over the higher level of valuations and the risk of a deterioration in the economic outlook. There were further cuts in interest rates as expected by the central banks in the US and the UK, although there was a degree of disagreement, while the different dynamics in Japan prompted a rise there instead.**

The data for the US economy showed that it had expanded at an annualised rate of 4.3% in the third quarter of the year, which was ahead of expectations and which reflected reassuringly resilient consumer spending, on healthcare and computers in particular. There were further discouraging signs in the labour market, however, as the delayed data showed there were 105,000 job losses for October and just 64,000 jobs added in November, if a little more than was expected; the unemployment rate rose to 4.6% from 4.4% from two months prior, which was the highest level since September 2021. Consumer confidence has ebbed. In the UK the economy was reported to have contracted by 0.1% in October, a weaker rate than expected reflecting uncertainty over the Budget and a limited recovery from the shutdown at Jaguar Land Rover; unemployment edged up further to 5.1%. The European Central Bank (ECB) upgraded its growth forecast for 2025 to 1.4% from the 1.1% that it anticipated in September, then estimated 1.2% in 2026 rather than 1%. The Indian economy was reported to have expanded by 8.2% in the quarter to end September, in spite of the 50% trade tariffs the US imposed.

In the UK the consumer price index (CPI) was down further to 3.2% in November from 3.6% in October and its peak at 3.8% in September, helped by the rate of food inflation slowing from 4.9% to 4.2%; the central bank has forecast that CPI might reduce to near 2% in the second quarter of 2026. In the US the CPI also saw a lower reported level at 2.7% that was well down on estimates, if still complicated by incomplete data since the recent government shutdown; the core rate was at 2.6%. The prospective appointment of Kevin Hassett, President Trump's favoured candidate, as the new chairman of the central bank points to a less rigorous approach on inflation than under the incumbent Jerome Powell. In the eurozone the headline rate of consumer price inflation in November was again at 2.1% and the ECB now expects the rate to be higher than earlier expected at an average of 1.9% over the course of 2026. In Japan the annual rate of inflation dipped from 3% in October to 2.9% in November.

The Bank of England cut its interest rate from 4% to 3.75% in its latest meeting, again by a majority of 5:4, reflecting a divided opinion over the need to stimulate a softer economy as against a requirement to counter some persistent inflation. The US Federal Reserve also cut its interest rate again, by twenty-five basis points to a new level of 3.5-3.75%, with three members of the rate-setting committee taking a more cautious approach in proposing no change. The European Central Bank decided to hold its rate at the current 2% for the fourth meeting in a row, saying that it would keep all options open. The Reserve Bank of India made another cut of a quarter of a percentage point to 5.25%, as inflation eased from over 6% to near zero. By contrast the Bank of Japan raised its rate from 0.5% to 0.75%, the highest level since 1995, even as the level of monthly inflation eased; the move was well-flagged while the Yen weakened further against the US\$ given concerns over the new government's fiscal policy.

The exceptional level of corporate activity continued, prompted by deregulation and by the transformation of business sectors as AI takes hold. The highest profile bids were those from Netflix and Paramount for Warner Bros Discovery, which has a huge film catalogue that probably featured over the festive break.

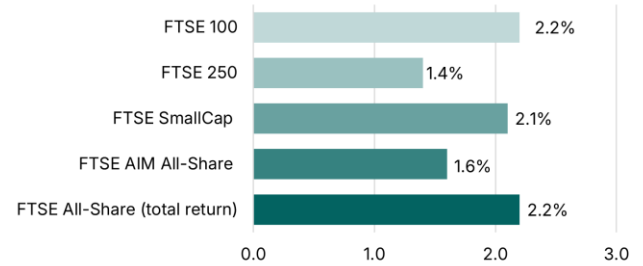
America published a new national security strategy which showed very little regard for Europe; the US launched attacks of differing types in Nigeria and in Venezuela. President Trump's peace plan to end the war in Ukraine met with typical Russian intransigence, while his efforts seemed to unwind in the DRC and in the renewed conflict between Cambodia and Thailand; he did at least take a prize from the soccer organisation FIFA. China carried out further extensive military exercises around Taiwan, testing an approach to strangle the island into submission.



## United Kingdom

The FTSE 100 index was up by 2.2% over the month to 9931 to make a gain of 21.5% for the year. The FTSE 250 index of mid-sized companies and the FTSE SmallCap index saw rises of 1.4% and 2.1%, leaving them up a more modest 9% and 10.1% for the year respectively; the FTSE AIM All-Share index was up by 1.6% in the month and just 6.5% over 2025.

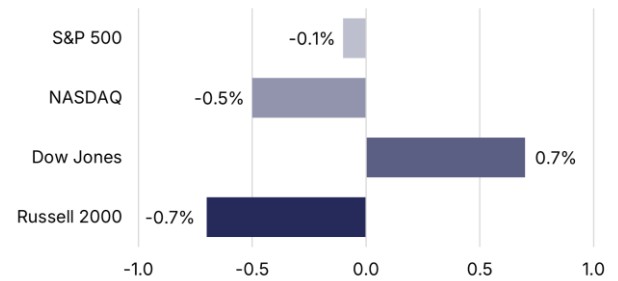
The total return for the FTSE All-Share index including income was 2.2% in the month and 24% in the year.



## United States

In the US the S&P 500 index was down by 0.1% in the month and the technology-oriented NASDAQ index off by 0.5% although the Dow Jones Industrials index rose by 0.7%; the returns for the year were 16.4%, 20.4% and 13% respectively.

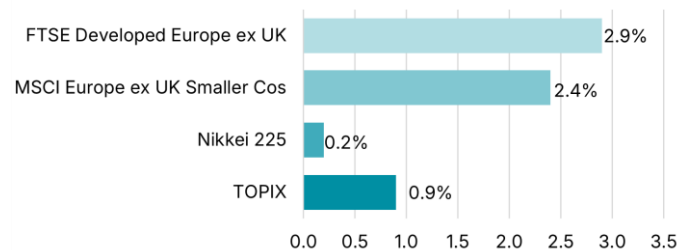
The Russell 2000 index of smaller companies was down by 0.7% in the month and up 11.3% in the year. With a weak US\$ against major currencies the US indices lagged overall.



## Europe & Japan

The FTSE Developed Europe ex UK index was up by 2.9% over the month (and 20.2% for the year), when the Spanish, Italian and German markets outpaced that in France. The MSCI Europe ex UK Smaller Companies Index was up by 2.4% in the month and 19.3% in the year.

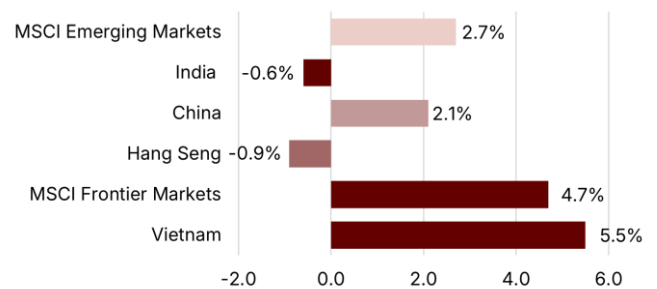
In Japan the Nikkei 225 index and the TOPIX index rose by 0.2% and 0.9% in the month, to make gains of 26.2% and 22.4% respectively for the year.



## Emerging Markets

The MSCI Emerging Markets index in US\$ was up by 2.7% in the month (and 30.6% for the year), when the Korean market gained by 7.3%, to close up for the year by a striking 75.6%, although the Indian index dipped by 0.6%. The Shanghai index was up by 2.1% while the Hang Seng index in Hong Kong fell by 0.9%.

The MSCI Frontier Markets index was 4.7% higher and the Vietnamese market gained by 5.5%, to make gains of 41.6% and 40.9% respectively for the year.

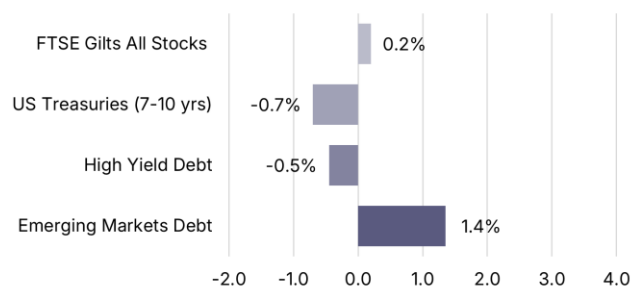




### Bond Markets

In bond markets the UK 10-year gilt yield rose slightly from 4.44% to 4.48% and the total return for the FTSE Gilts All Stocks index in the month was 0.2%, to make 5% for the year. In Germany the 10-year bund yield moved from 2.69% to 2.86% while in the US the ten-year yield went from 4.01% to 4.17%.

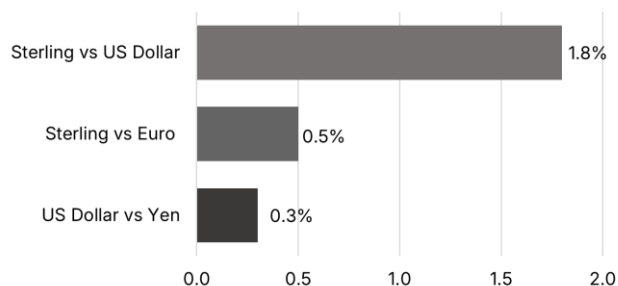
There were mixed returns in the major bond markets, with US Treasuries down and emerging market debt doing best.



### Currencies

Sterling was up by 1.8% against the US\$ in the month, ending at a rate of \$1.35:£, which was 7.7% higher than at the start of the year, while against the euro Sterling was 0.5% higher to end at a rate of €1.15:£, if 5.1% weaker over the year.

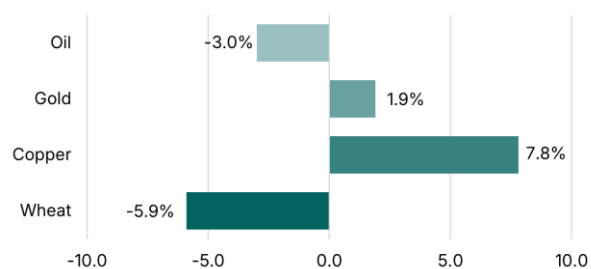
The US\$ was up by 0.3% at ¥156:\$ against the Japanese yen.



### Commodities

The price of Brent crude oil ended the month down by 3% at a level of \$62 per barrel, down by 15.7% over the year. Gold gained over the month by 1.9% to close at \$4319 per troy ounce, up 64.6% over the course of 2025.

The main metals were all higher in the month, with the bellwether copper up by 7.8%, and the main agricultural commodities were all down, with wheat 5.9% lower.



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