VINTAGE asset management

Market Commentary

Equity markets started the new year with a broadly positive return, with many reaching new highs, if also a degree of volatility against a background of substantial political developments reflected in sharp moves in currencies and commodities. The economic outlook remained broadly reassuring although the US labour market remained patchy; inflation rates looked reasonable and there should be further cuts to interest rates in the US and the UK.

January saw further indications of an end to the old rules-based world order, although the American mid-term elections in November may prompt a revised approach. The United States challenged its NATO allies and threatened further tariffs in a dispute over the territory of Greenland, while in Venezuela it seized President Maduro as well as a struggling oil industry. President Trump sent what he called an armada towards Iran, where thousands died in protests against the regime; the price for Brent crude oil rose above $70 given potential US military attacks. The US seemed distracted from the war in Ukraine, where Russia's conflict has now lasted longer than it did with Germany in WWII and where a bitter winter is at work. Mark Carney, the Canadian prime minister, spoke at Davos on the rupture to the world order, which has also included Trump's new Board of Peace as a rival to the United Nations. Carney also visited China as did Sir Keir Starmer; President Xi continued with his purge of senior army officials, which might ease some pressure on Taiwan. The Japanese prime minister Sanae Takaichi called a snap election for 8th February to confirm a mandate for a major change in policy. The Vietnamese Communist Party's quinquennial conclave confirmed To Lam's position as leader and set an ambitious target for double-digit economic growth.

The International Monetary Fund released its latest quarterly forecasts which saw a small upgrade to its forecast for global economic growth to 3.3% in 2026, similar to the expected rate of expansion for 2025. The Fund noted a surprising level of resilience if also a risk to the downside if trade disputes flared and if the anticipated gains from AI in productivity or profitability did not materialise. The US is set to grow at the fastest rate among G7 nations at 2.4%, the UK at 1.3%, Germany at 1.1% and China at 4.5%, after a reported level of 5% in 2025. The Chinese population fell by 3.4m last year, with the birth rate the lowest on record since 1949. The US economy is expected to have expanded in the order of 5% in the final quarter of 2025, following data showing 4.4% growth in the third quarter, although only 50,000 new jobs were added in December when the level of unemployment eased to 4.4%. Consumer confidence in America was at its lowest level in January for twelve years, with economic inequality worsening. Trump continued with his threats of tariffs, over Greenland and Canada's economic co-operation with China. The EU and India signed a free trade agreement that will come into place over a number of years.

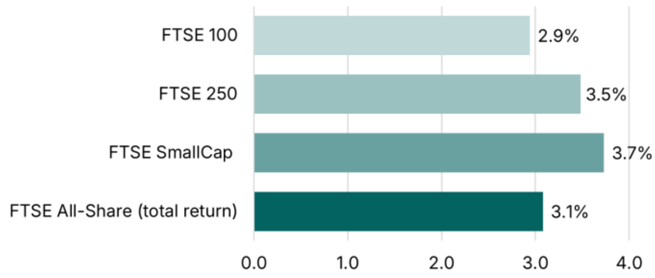
In the UK the consumer price index (CPI) rose to 3.4% in December from 3.2% in November given higher prices from a tobacco tax and in travel, although the rate is forecast to fall to 2% in the coming months. In the US the CPI was at the same level of 2.7% in December as in November; the core rate was at 2.6%, the lowest since 2021. In the eurozone the headline rate of inflation fell to 2% in December from 2.1% in November. In Japan the annual rate of inflation fell sharply to 2.1% in December from 2.9% in November, which was the lowest level since March 2022 although the cost of living remains politically contentious.

The US Federal Reserve held its interest rate at the level of 3.5-3.75% following three successive cuts and indicated that there was unlikely to be any change given that the labour market was showing signs of moderation and that economic activity was expanding at a solid pace. The nomination of Kevin Warsh to succeed Jay Powell as the Fed chair in May, subject to Senate approval, eased concerns on the political pressure to lower rates - the US$ rallied and the price of gold fell – although Warsh is keen to reduce the reach of the central bank as well as its balance sheet. The Bank of England is expected to hold its rate at 3.75% but cut again soon, and the European Central Bank is also expected to hold rates, at 2%, in its February meeting. The Bank of Japan may raise its rate from 0.75%, with the currency a consideration. The Swiss National Bank has been forced to contemplate negative interest rates again, after the Swiss franc rose by 14% against the US$ in 2025 and 2.5% in January; its strength against the euro is key given the pressure on exporters. Gold had been seen as a safe haven against the erratic policies of the Trump administration and worries over the independence of the Federal Reserve, if volatile. Central bank buying of the metal fell by 20% in 2025 to 863 tonnes while investment demand surged by 83% to 2,175 tonnes.

United Kingdom

The FTSE 100 index rose by 2.9% over the month to 10,224 while the FTSE 250 index of mid-sized companies and the FTSE SmallCap index rose respectively by 3.5% and 3.7%.

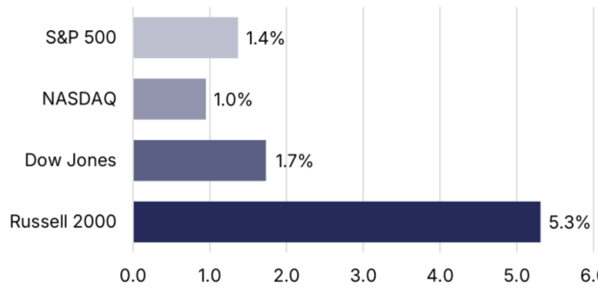
The total return for the FTSE All-Share index, including income, was 3.1% in the period.



United States

In the US the S&P 500 index was up by 1.4% in the month, while the equal-weighted version rose 3.3%; the technology-oriented NASDAQ index was 1% higher and the Dow Jones Industrials index rose by 1.7%.

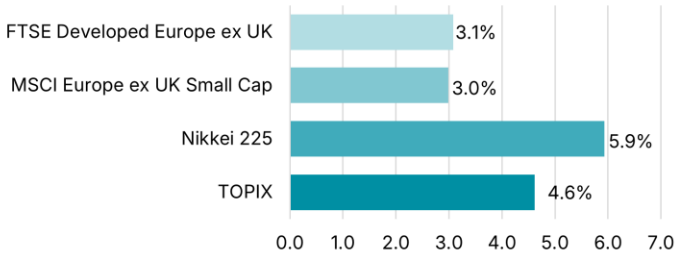
The Russell 2000 index of smaller companies was up by 5.3%.



Europe & Japan

The FTSE Developed Europe ex UK index was up by 3.1% over the month, when the Spanish market saw useful gains, while the German market was marginally up and the French market down. The MSCI Europe ex UK Small Cap Index rose by 3%.

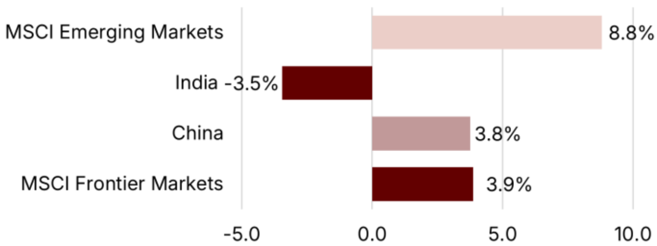
In Japan the Nikkei 225 index was up by 5.9% and the more representative TOPIX index rose by 4.6% in the period.



Emerging Markets

MSCI Emerging Markets index in US$ was up by 8.8% in the month; there were significant gains of 24% in Korea and 12.6% in Brazil, while the Indian market fell 3.5%. The Shanghai index was up by 3.8% and the Hang Seng index in Hong Kong rose 6.9%.

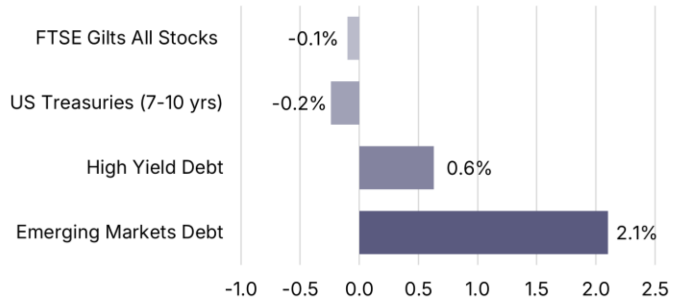
The MSCI Frontier Markets index was 3.9% higher and the Vietnamese market rose 2.5%.



Bond Markets

In bond markets the UK 10-year gilt yield rose slightly from 4.48% to 4.52% and the total return for the FTSE Gilts All Stocks index in the month was -0.1%. In Germany the 10-year bund yield moved from 2.86% to 2.84% and in the US the ten-year yield was higher at 4.24% from 4.17%.

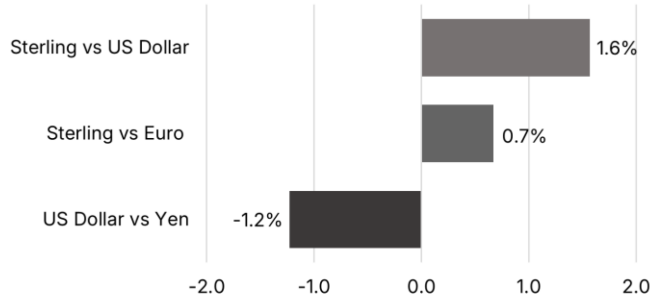
There were mixed results in the major bond markets, with index-linked gilts in the UK strong and US Treasuries marginally down.



Currencies

Sterling was up by 1.6% against the US$ in the month, ending at a rate of $1.37:£, while against the euro Sterling was 0.7% higher to end at a rate of €1.15:£.

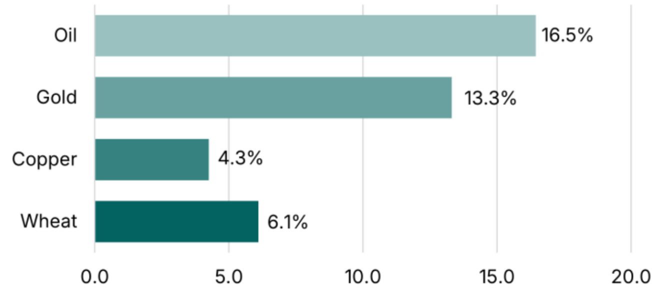
The US$ was down by 1.2% at ¥155:$ against the Japanese yen.



Commodities

The price of Brent crude oil ended the month up by 16.5% at a level of $73 per barrel. Gold gained over the month by 13.3% to close at $4894 per troy ounce, if off its highs.

The main metals were all higher in the month, with the bellwether copper up by 4.3%, and the main agricultural commodities were mixed, with wheat up 6.1%.



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