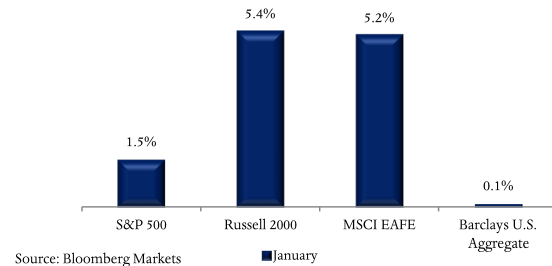




MARKETS

Equity markets began 2026 on a strong note, benefiting from a favorable mix of solid economic growth, easing inflation pressures, steady labor market conditions, and ample monetary and fiscal liquidity. US stock index performance was characterized by broadening participation amid leadership by economically sensitive and value-oriented segments of the market. The S&P 500 returned +1.4% in January, while its equal-weighted counterpart advanced +3.4%. Notably, small and mid-capitalization stocks delivered solid gains of +5.4% and +4.0% as seen by the Russell 2000 and S&P MidCap 400 indexes, respectively. This ongoing rotation reflects investor confidence in the durability of economic activity and portfolio rebalancing following the last several years of large-cap, growth-oriented, leadership. Overseas stocks in the MSCI EAFE index also fared well, rising +5.2% during the month. Returns were geographically broad based, with European bourses advancing +3.2% on average, while Japanese and Chinese markets both rose a strong +6.0%. It was, however, the emerging markets that were the best performing, leaping +8.9%, led by Asian technology shares as well as Latin American materials and energy companies. Indian equities were an outlier, producing a -4.8% return for the month, on the back of subdued earnings growth and capital reallocation towards Korea and Japan.

In fixed income markets, interest rates were largely range-bound as expectations for the next Federal Reserve interest rate cut were pushed further out. Credit conditions stayed accommodative amid solid economic growth coupled with seemingly contained inflation. Illustrating calmness, the Bloomberg Barclays US Aggregate bond index rose +0.1% in January. Conversely, Japanese long-term bonds had their worst start to a year since 1994 due to rising fiscal concerns.



Natural resources posted a strong start to the year, with the Bloomberg Commodity Index jumping +10.0%, driven by energy and materials, aligning with improved cyclical sentiment. After declining for five consecutive months, to close out 2025, WTI crude oil rebounded +13.6% in January. After a strong run in 2025, precious metals attracted momentum investors in January. Gold and silver rallied +29.5% and +69.8%, respectively, to their monthly peaks, before plummeting in the final session. Driven by macro news, increased futures margin requirements and unwinding of crowded trades, gold fell -9.0% and silver plunged -26.4% (its worst single-day drop since at least 1950). Despite the volatility, gold and silver finished the month higher by +13.3% and +18.9%, respectively. The US Dollar, as measured by the DXY index, declined for the third consecutive month (-1.4%) while temporarily breaking down below a seven-month support level to a four-year low. January was a challenging month for digital asset markets, characterized by elevated volatility, culminating in crash-like conditions. Bitcoin ended the month down approximately -10%, while Ethereum retreated -17%. Declines from the peak of various crypto assets include: Litecoin -87%, Cardano -80%, Solana -67%, Ethereum -55%, Monero -47% and bellwether Bitcoin -40%.

GEOPOLITICS

2026 commenced with a flurry of aggressive geopolitical maneuvering by the Trump administration, as seen by the detention of Venezuela's president, warnings re-

garding Iranian state violence, and diplomatic friction with European allies over the sovereignty of Greenland. The US's foreign policy strategy also saw additional weaponization of tariffs, with the President threatening levies against countries trading with Iran, European economies obstructing the purchase of Greenland, and Canada, should it deepen trade ties with China. Despite the severity of these headlines, financial markets have remained largely indifferent, interpreting these threats less as imminent policy shifts and more as high-stakes negotiation tactics designed to improve leverage, a playbook previously deployed by President Trump.

Market circumspection is likely underpinned by significant legal and political constraints that limit the administration's ability to execute on such threats. The White House's reliance on the International Emergency Economic Powers Act (IEEPA) faces an imminent test in the US Supreme Court, where an unfavorable ruling could strip the President of a key economic lever. The recent suspension of tariffs on specific consumer goods suggests a recognition that fueling inflation expectations could be politically perilous, thereby limiting the likelihood of renewed tariff implementation. Furthermore, domestic political realities provide a check on aggression; with midterm elections approaching and the Republican majority historically vulnerable, the administration must navigate voter anxiety regarding the rising cost of living as well as headline grabbing immigration related violence.

US

The US economy began the year on strong footing. The final release of third quarter real GDP was revised up to 4.4% on an annualized basis, while the Atlanta Fed's GDPNow model projects 4.2% growth for the fourth quarter. This trend has been supported by better-than-expected inflation, increasing productivity, and a strong start to Q4 corporate earnings, with analysts forecasting double-digit S&P 500 growth for 2026.

The Federal Reserve's preferred inflation gauge, the

January 2026 Economic Statistics

	Jan-26	Dec-24	Dec-23
Federal Funds Target Rate	3.50 - 3.75%	4.25 - 4.50%	5.25 - 5.50%
Consumer Confidence Index	84.5	104.7	110.7
Manufacturing PMI Index	52.6%	49.3%	47.4%
Unemployment Rate	4.4%	4.2%	3.7%
JPY / USD	154.76	157.18	141.06
USD / EUR	1.1848	1.0353	1.1036
Gold / oz.	\$4,864.35	\$2,623.81	\$2,062.59
Oil (WTI) / bbl	\$65.21	\$71.72	\$71.65

Sources: see disclosure *

Personal Consumption Expenditures (PCE) price index, rose 2.8% from a year earlier as per the latest reading. However, it is the decelerating employment situation that has risen to top-of-mind for the Fed. The JOLTS report saw job openings fall to their lowest level since 2020. Meanwhile, corporate layoff plans reached their highest January-total, and hiring intentions declined to their lowest, both since the global financial crisis, outplacement firm Challenger, Gray & Christmas reported. This led the central bank to hold rates steady at 3.50%-3.75%, as expected.

President Trump announced his intention to nominate Kevin Warsh to succeed Jerome Powell as Fed Chair. Warsh is considered an experienced central bank official with a preference for a smaller central bank balance sheet and a more focused operation on monetary policy. Historically, he was seen as a relatively hawkish member, often arguing for the need to stay on top of price risks. However, he recently argued for lowering rates from current productivity-suppressing levels. We could therefore see him, and the committee, adopt a more dovish tilt, reinforcing the expected trend.

EUROPE

Eurostat data showed that the EU's economy grew by 0.3% in Q4 2025 (1.3% on an annual basis), ahead of consensus, despite geopolitical tensions and widespread uncertainty. Generally resilient economic data points have led the European Central Bank to raise its 2026 GDP forecast to 1.2%. The potential resurgence was further showcased by the eurozone's seasonally

adjusted unemployment rate, which fell to a record low of 6.2% in December. Meanwhile, annual inflation in the region slipped to 1.7% in January, down from 1.9% in December and 2.1% in November, assisted by falling energy prices. The core rate of inflation, that strips out volatile items such as energy, food, alcohol and tobacco also edged down to 2.2% from 2.3% in December, as prices in the services sector continued to ease. Taken together, these readings are likely to reinforce the ECB's wait-and-see posture. The central bank is expected to keep interest rates unchanged at 2.0% for the remainder of the year.

ASIA

Despite trade tensions, China seemingly achieved its 5% GDP growth target for 2025, driven largely by exports which outweighed soft domestic consumption and investment. To sustain momentum, Beijing must now move beyond temporary fiscal aids and address structural weakness in the housing market. Looking ahead, the 15th Five-Year Plan pivots toward advanced manufacturing and AI, though policy intervention will likely be requisite to translate these mandates into broader job creation.

In Japan, Prime Minister Takaichi leveraged high approval ratings to cement a historic LDP majority, pledging a costly sales-tax break on food to win voters. This proposed fiscal expansion has already pushed government bond yields to record highs on sustainability concerns. To offset fiscal risks, the government must boost productivity; the return to political stability could be the catalyst needed to unlock corporate capex investment.

OUTLOOK

A resilient US economy, robust corporate fundamentals, and a Federal Reserve unlikely to tighten monetary policy anytime soon, create a constructive backdrop for financial markets in 2026. However, multi-year positive momentum across asset classes present a challenge to capital deployment. Specifically, expanded equity multiples and historically tight corporate credit spreads should serve to temper investor expectations. It is, however, worth noting that valuation metrics are historically poor tactical timing

tools. Elevated pricing can persist for extended periods, and exiting the market based solely on such factors can lead to missed opportunity. Furthermore, a structural upward shift in valuation norms may be warranted, given that our favored large-capitalization global growth companies currently exhibit higher profit margins and healthier balance sheets than in previous cycles. Lastly, the adoption of productivity enhancing artificial intelligence tools, should serve to boost future corporate profitability.

The S&P 500 is tracking toward a record net profit margin of 13.2%, demonstrating impressive operating leverage despite lingering cost pressures. This efficiency, combined with healthy 8.2% revenue growth, has pushed aggregate earnings 11.9% higher year-over-year. With positive forward guidance suggesting double-digit earnings growth will persist through 2026, the fundamental backdrop appears robust enough to justify the forward price-to-earnings multiple of 22.2 (versus 10-year average of 18.8).

Fixed income markets entered the year pricing two 25 basis point interest rate reductions in 2026. This outlook has since moderated due to economic stability and the Fed's pause. We do not anticipate significant deterioration in credit spreads or a reversal toward higher rates. As a result, our bond market outlook calls for 2026 returns to be generated predominantly through coupon income, with limited possibility of price appreciation.

At the current juncture of well-balanced capital markets, investors are advised to consider alternative asset diversification. Unique investments in cybersecurity, water infrastructure, and natural resources offer compelling opportunities to deploy capital into the private markets. The recent volatility in precious metals also provides a tactical opening for gold and silver miners. For contrarian investors, liquid software-related equities present an attractive entry point given highly publicized investor fears of the disruptive nature of AI. Lastly, our proprietary efforts to source direct investments are gaining traction, with several interesting small and middle market prospects.

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*Sources: Reuters, Bloomberg, Bureau of Labor Statistics, Conference Board, Federal Reserve, Institute for Supply Management, MSCI, Russell, Standard & Poor's, Financial Times and the Wall Street Journal.