



January 2026 Market Pulse

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EQUITIES RALLY AMID POSITIVE ECONOMIC DATA



Rising geopolitical tensions – spurred by the US’s military action in Venezuela and efforts to acquire Greenland – failed to halt a rise in global equities in January.

The Fed held interest rates at 3.5%–3.75%. The European Central Bank also kept rates steady at 2% as inflation continued to ease and Q4 GDP growth surprised positively.

Lenny McLoughlin

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US

The Federal Reserve left its benchmark interest rate unchanged at 3.5–3.75%, with the FOMC signalling no rush to resume policy easing and adopting a more hawkish tone in its statement. The launching of a criminal investigation into outgoing Fed Chair Powell heightened market concerns about the future independence of US monetary policy, although the nomination of Kevin Warsh as his replacement eased concerns; because of his experience and reputation, Warsh is viewed as a credible candidate. Markets now price in around 50 basis points of Fed rate cuts by year-end, down from 56 basis points at the start of January. Commentary at the press conference following the policy meeting indicated the Fed’s outlook is stronger than previously expected; inflation is still above target, though it is expected to fall. The Fed gave no clear indication of the timing of future cuts.

US economic data, while somewhat mixed, was generally better than expected; growth forecasts for 2026 were upgraded, with fiscal stimulus set to boost the economy. Consumer spending continued to outpace income, with the personal savings rate falling to 3.5%, its lowest since 2022. The unemployment rate ticked down to 4.4%, but job growth remained tepid and job openings declined, particularly in cyclical sectors. Durable goods orders surprised to the upside, rising 5.3% in November, while core inflation (PCE) held at 2.8% year-on-year in November. Consumer confidence, however, fell to its lowest level in a decade, reflecting concerns about the labour market and the cost of living.

Europe

The Eurozone economy demonstrated notable resilience at the start of 2026, with Q4 GDP growth coming in at 0.3% quarter-on-quarter and the annual growth rate for 2025 reaching 1.4%. Eurozone inflation eased to 1.9% in December and core inflation was unchanged at 2.3%, while services inflation edged down to 3.4%. The unemployment rate fell to a new series low of 6.2%. The composite PMI stood at 51.5 in January, indicating moderate expansion across the region.

Against this supportive macro backdrop, the ECB kept its deposit rate unchanged at 2.00% and signalled no imminent changes to policy, even as inflation is forecast to run below the 2% target in 2026. The resilient economic backdrop with positive momentum evident is likely to leave the ECB on hold through this year.

MARKET ROUND-UP

Equities

Global equities rallied over the month, up 2.5% (1.7% in euros), reflecting resilient economic data, supportive central bank policy and a positive start to the Q4 earnings reporting season. Sector leadership shifted away from megacap technology towards cyclicals, basic resources, energy, banks and industrials, which benefited from the improving growth outlook while defensive sectors and traditional software lagged. The AI narrative remained a key driver, although the market began to differentiate between the potential winners and losers of the theme in light of the outperformance of semiconductors over software amid strong results from leading AI hardware and infrastructure companies.

The MSCI All Country World index ended the month up by 2.5% (1.7% in euros), with the MSCI USA up 1.3% in local terms (flat in euros). The MSCI Emerging Markets (EM) index rose by 8.8% (7.5% in euros), driven by robust flows, a weaker US dollar, attractive valuations and continued strong performance in Korea and Taiwan on the back of the AI theme. European stocks advanced, with the MSCI Europe ex-UK higher by 2.4% (2.9% in euros), underpinned by resilient Eurozone macroeconomic data, supportive corporate earnings and broadly benign central bank expectations. Risk appetite was further supported by strong fund flows, elevated investor confidence and a valuation discount versus the US.

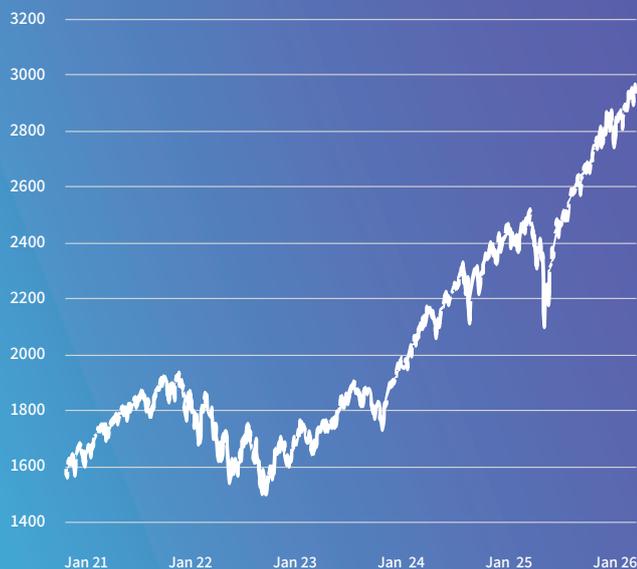
Bonds

US 10-year Treasury yields increased by 7 basis points to 4.24%, reflecting concerns about Fed independence and a resilient economic outlook. The ICE BofA 5+ Year Euro Government bond index rose by 0.9% even as 10-year German Bund yields were broadly unchanged, falling 1bp to 2.84%. Returns were supported by narrowing peripheral spreads, while French 10-year spreads against Germany fell 13bps to 58bps as a 2026 budget was agreed and a government collapse was avoided.



CHARTS OF THE MONTH

Global equities



Source: ILIM, FactSet. Data is accurate as at 31 January 2026.

Bonds – German 10-year yield



Source: ILIM, FactSet. Data is accurate as at 31 January 2026.

MARKET SNAPSHOT

Market returns (EUR)



Equity Markets (EUR)	MTD Return (%)	YTD Return (%)	2024 Return (%)
MSCI Ireland	0.0	0.0	39.9
MSCI United Kingdom	3.8	3.8	19.1
MSCI Europe ex UK	2.9	2.9	20.4
MSCI North America	0.0	0.0	4.5
MSCI Japan	5.2	5.2	10.3
MSCI EM (Emerging Markets)	7.5	7.5	18.5
MSCI AC World	1.7	1.7	8.3
10-Year Yields	Yield last month	2025 Yield (%)	2024 Yield (%)
US	4.24	4.17	4.57
Germany	2.84	2.86	2.37
UK	4.52	4.48	4.57
Japan	2.25	2.07	1.10
Ireland	3.01	3.01	2.64
Italy	3.46	3.55	3.52
Greece	3.45	3.44	3.22
Portugal	3.20	3.15	2.85
Spain	3.21	3.29	3.06
FX Rates	End last month	2025 Rates	2024 Rates
U.S. Dollar per Euro	1.19	1.17	1.03
British Pounds per Euro	0.87	0.87	0.83
U.S. Dollar per British Pounds	1.37	1.35	1.25
Commodities (USD)	MTD Return (%)	YTD Return (%)	2025 Return (%)
Oil (Brent)	16.2	16.2	-18.5
Gold (Oz)	13.2	13.2	64.7
S&P Goldman Sachs Commodity Index	9.8	9.8	7.1

Source: ILIM, Bloomberg. Data is accurate as at 1 February 2026.

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THE ILM VIEW – LOOKING AHEAD

The fundamental backdrop for global equities on a 12-month view remains positive despite uncertain US policy. The agreement of trade deals provides clarity and helps remove uncertainty. While tariffs are higher than at the start of 2025, they are at levels which should not lead to a recession. Earnings forecasts are now being revised higher, consumer balance sheets are strong, ongoing disinflation is expected through 2026 and expected Fed rate cuts and a corporate-friendly stance from the US government all should mean a favourable environment for the asset class. Divergence within regional equity performance, however, is likely to remain a feature as policies in the US and the rest of the world are set to remain in flux.

Global equities valuations are above long-term averages, trading on a 12-month forward P/E multiple of 18.8x against a long-term average of 16.3x. However, with a positive growth and earnings backdrop, multiples can remain close to current levels. The 12-month forward P/E for the MSCI USA is 21.9x against a long-term average of 16.6x. Equities outside the US offer better relative value in absolute terms and are trading closer to their long-term average P/E levels. Equities remain expensive against both bonds and cash given the high yields currently available on these assets.

Despite equities appearing fully valued, the outlook on a 12-month view is constructive. With growth expected to remain positive and US corporates eventually set to benefit from growth-friendly policies from the new administration through 2026,

earnings are forecast to rise by double digits over the next one to two years, which should be supportive. Additional rate cuts in a positive fundamental backdrop can also contribute to further gains. Over the medium term, the rollout of AI should boost efficiencies and earnings across the whole market and allow equities trade at higher valuation levels. Any short-term volatility in markets is likely to be offset by the above factors, resulting in positive returns on a 12-month time frame.

Sovereign bond yields have been volatile over the past year amid somewhat sticky inflation, but both German and US 10-year yields are below their October 2023 highs. With inflation having fallen significantly, some central banks can cut rates further, enabling bond yields to decline over the next 12 months.

On a 12-month view, our base case is that German and US 10-year government bond yields fall from current levels of 2.84% and 4.24% to 2.50% and 4.00%, respectively. We believe fixed income offers a strong risk-reward profile at this stage in the cycle, with the potential to offer protection if the economy slows. The asset class is attractive from an income perspective while also providing potential for capital gains via falling yields. We believe that the risks of materially higher bond yields have reduced and, if the economy falters, major central banks will be able to cut rates to support growth. In that scenario we would expect bonds to outperform.



THE MONTH AHEAD

February

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
	<p>17</p> <p>UK unemployment rate; average earnings; employment change</p> <p>Italy balance of trade</p> <p>Germany ZEW Economic Sentiment Index</p> <p>Canada inflation rate YoY, MoM; core inflation rate YoY, MoM</p> <p>US NY Empire State Manufacturing Index; NAHB Housing Market Index</p>	<p>18</p> <p>Japan balance of trade; exports YoY, MoM</p> <p>UK inflation rate YoY, MoM; core inflation rate YoY, MoM</p> <p>US building permits; durable goods orders MoM; housing starts; industrial production MoM; FOMC minutes</p>	<p>19</p> <p>Japan machinery orders MoM, YoY</p> <p>Australia employment change; full time employment change; unemployment rate; services & manufacturing PMIs (flash)</p> <p>Spain balance of trade</p> <p>UK industrial trends orders</p> <p>US balance of trade; exports; goods trade balance (adv); imports; initial jobless claims; Philadelphia Fed Manufacturing Index; pending home sales MoM, YoY</p> <p>Euro Area consumer confidence (flash)</p>	<p>20</p> <p>Japan inflation rate YoY, MoM; core inflation rate YoY; manufacturing, services & composite PMI flashes</p> <p>India PMI flashes</p> <p>UK retail sales MoM, YoY; PMI flashes</p> <p>France PMI flashes</p> <p>Germany PMI flashes</p> <p>Canada retail sales MoM</p> <p>US core and non-core PCE price index MoM, YoY; GDP growth rate QoQ (adv); PMI flashes; new home sales</p>
<p>23</p> <p>Germany Ifo business climate, current conditions, expectations</p> <p>US Chicago Fed National Activity Index; factory orders MoM; Dallas Fed Manufacturing Index</p>	<p>24</p> <p>EU new car registrations YoY</p> <p>France business confidence</p> <p>UK CBI distributive trades</p> <p>US ADP Employment Change weekly; S&P/Case-Shiller home price YoY; CB consumer confidence</p>	<p>25</p> <p>Germany GDP QoQ, YoY; GfK consumer climate</p> <p>EU CPI YoY; core CPI YoY, MoM</p>	<p>26</p> <p>US initial jobless claims; continuing jobless claims</p> <p>Japan core CPI YoY; industrial production MoM</p>	<p>27</p> <p>France GDP QoQ; consumer spending MoM; CPI MoM</p> <p>Spain CPI YoY</p> <p>Germany unemployment rate; unemployment change; CPI MoM, YoY</p> <p>India quarterly GDP YoY</p> <p>Canada GDP annualised QoQ; GDP QoQ, YoY, MoM</p> <p>US core PPI MoM; Chicago PMI; construction spending MoM</p>

Source: tradingeconomics.com

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