

Market Commentary 7th of January 2026

Global financial markets ended December 2025 amid a challenging macroeconomic and geopolitical environment. Inflation across major economies remained stubborn, reinforcing expectations that interest rates would stay elevated for longer. This continued to constrain equity valuations and contributed to volatility in fixed income markets. At the same time, renewed trade tensions and tariff discussions between large economies increased uncertainty across global supply chains, particularly affecting export-dependent companies. Geopolitical risks, including the war in Ukraine and ongoing instability in the Middle East, supported demand for safe-haven assets such as gold, while placing pressure on more speculative assets.

By year-end, equity markets delivered mixed but generally positive performance. U.S. equities, as measured by the S&P 500 Index, and Japanese equities, represented by the Nikkei 225 Index, ended December broadly unchanged, while maintaining solid year-to-date gains of 16% and 26%, respectively. European equities, measured by the MSCI Euro Index, rose 2.29% in December and finished the year near record levels. European markets remained on track for their strongest annual performance since 2021, supported by declining interest rates and increased fiscal spending in Germany. The UK FTSE 100 Index gained 2.17% in December, contributing to a strong full-year return of 21.51%, supported by strength in mining and defense stocks, as well as growing optimism around future rate cuts.

In fixed income markets, easing expectations around monetary policy led to a modest decline in yields. The Global Aggregate Bond Index ended the month flat, while delivering an 8% gain for the year.

Commodities continued to provide diversification benefits. Gold rose 1.89% in December, extending its strong annual performance to a 65% gain, reflecting sustained demand for inflation and geopolitical hedging. In contrast, crude oil declined 2.10% amid expectations of a global supply surplus.

In currency markets, the U.S. dollar, as measured by the Dollar Index (DXY), fell a further 1% in December, ending the year down 9.37%—its largest annual decline in nearly a decade. Tariff announcements and broader policy uncertainty prompted investors to reassess the outlook for growth, inflation, and public debt simultaneously, leading to a rapid repricing of the dollar. Despite its significant single-year decline in 2025, the U.S. dollar continues to maintain its position as the world's dominant currency, supported by the size of the U.S. economy and the depth and liquidity of the U.S. Treasury market. Bitcoin declined 3.87% during the month and finished the year down 6.7%.



Crystal Ball for 2026

Every December most strategists and financial commentators cannot resist putting out elaborate research with their annual forecasts for all financial and economic indices. While many of these are useful, to the extent that it makes us all think about where we might be going, most remind us of the drunken uncle who loves to hear himself talk. I.e. bla, bla, bla.

For anyone who wants a really good summary of the many predictions for 2026, Bloomberg has done an excellent job in summarizing what most investment houses say in a paper titled "*Here's (Almost) Everything Wall Street Expects in 2026*", and you can view it here:

https://www.bloomberg.com/graphics/2026-investment-outlooks/?utm_campaign=202601_BATC_subs_eng_what_wallst_expects_subs_eng_wallst_expects_jan2026&utm_term=21249981&utm_source=subs-email&utm_medium=email&utm_content=16328809

For those that do not have the time, the FT provided the below for the US equity market:



The expected returns for the S&P 500 are 8.5%, while for European markets they are about 4%. So nothing to get too excited about, but as in every single year in memory, they predict positive returns. Yawn.

For those more interested in a longer time frame of 10 & 20 years, Horizon Actuarial put out their forecasts (after polling many well-known investment houses) every year, and the latest is below:

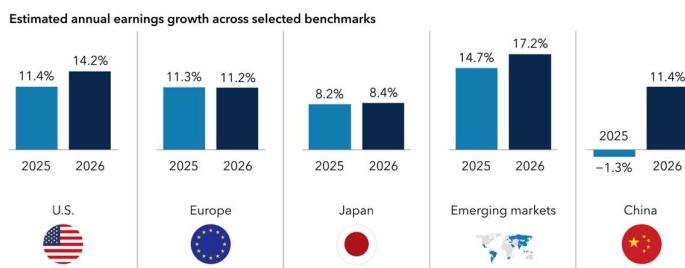


Average Expected Returns: Short-Term vs. Long-Term			
All Survey Respondents	10-Year Horizon	20-Year Horizon	Difference
Asset Class			
US Equity - Large Cap	6.39%	7.00%	0.61%
US Equity - Small/Mid Cap	6.92%	7.38%	0.46%
Non-US Equity - Developed	7.03%	7.35%	0.32%
Non-US Equity - Emerging	7.38%	7.91%	0.53%
US Corporate Bonds - Corp	5.00%	5.10%	0.10%
US Corporate Bonds - Long Dur.	5.04%	5.28%	0.24%
US Corporate Bonds - High Yield	5.97%	6.33%	0.36%
Non-US Debt - Developed	3.89%	3.99%	0.10%
Non-US Debt - Emerging	6.03%	6.30%	0.27%
US Treasuries (Cash Equivalents)	3.58%	3.59%	0.00%
TIPS (Inflation-Protected)	4.44%	4.41%	-0.03%
Real Estate	6.21%	6.38%	0.17%
Hedge Funds	5.92%	6.24%	0.32%
Commodities	4.67%	4.76%	0.09%
Infrastructure	7.22%	7.52%	0.30%
Private Equity	9.13%	9.63%	0.50%
Private Debt	7.91%	8.08%	0.18%
Inflation	2.38%	2.40%	0.02%

10-year horizon results include all 41 survey respondents.
20-year horizon results include a subset of 27 survey respondents.
Expected returns are annualized (geometric).

The above grounds us in what to expect in a more meaningful time horizon.

Additionally, as earnings growth is a major driver of market returns, below from Capital Group is the expected earnings growth for various geographies.



Sources: Capital Group, FactSet, MSCI, Standard & Poor's. Estimated annual earnings growth is represented by the mean consensus earnings per share estimates for the years ending December 2025 and 2026, respectively, across the S&P 500 Index (U.S.), the MSCI Europe Index (Europe), the MSCI Japan Index (Japan), the MSCI Emerging Markets Index (Emerging markets) and MSCI China Index (China). Estimates are as of November 30, 2025.

As you can see, emerging market equities have the highest expected earnings growth, followed by the US market. Unfortunately, this is not enough to conclude that EM equities will have the best performance in 2026.

We leave you with a quote from the CEO of chip manufacturer AMD, Lisa Su, in an interview she gave on Bloomberg TV on January 6th:

"AI compute will increase 100X in the next 4-5 years". This is a staggering expectation and should have massive implications on investing. {Just FYI, "AI compute" refers to the computational resources used to train and run AI models. This includes the processing power, memory, and storage needed to handle the large amounts of data and complex calculations involved in AI}.

So let the year begin!

We wish you all a Happy New Year!

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