



Introduction

January 2026 delivered positive returns across most global markets, but performance was increasingly shaped by political risk, monetary policy divergence and selective investor positioning. While resilient US economic data and moderating inflation supported risk appetite, heightened geopolitical tensions and renewed scrutiny of central bank independence injected episodes of volatility.

Markets navigated rising energy prices, shifting interest-rate expectations and a broadening of equity leadership beyond US mega-cap stocks. However, returns remained uneven across regions and asset classes, highlighting the importance of diversification as investors balanced growth optimism against mounting uncertainty.

Monetary policy divergence and fixed income performance

Global fixed income markets delivered broadly positive returns during the month, although UK Gilts clearly lagged. Worries about government spending and borrowing, combined with a large amount of long-term government bonds being sold into the market, caused investors to demand higher returns to hold them — with the interest rate on 30-year UK government bonds rising by 0.08 percentage points.

In the US, economic data remained resilient, supporting the view that growth is slowing gradually rather than weakening sharply. Headline inflation held steady at 2.7% in December, while the S&P Global Manufacturing PMI rose to 52.4 in January, indicating continued expansion. Against this backdrop, the Federal Reserve left interest rates unchanged at 3.5–3.75%,

January 2026

although two policymakers voted in favour of a cut. US Treasury yields edged higher over the month, leaving overall Treasury returns broadly flat.

European sovereign bonds performed better, supported by weaker-than-expected inflation. Eurozone CPI fell to 1.9%, below the European Central Bank's target, strengthening expectations that interest rate cuts could begin in 2026.

Japanese government bonds moved in the opposite direction. The Bank of Japan kept rates unchanged but adopted a more hawkish tone, upgrading its inflation outlook and reaffirming plans to normalise policy. Snap election announcements added pressure, pushing long-dated yields to multi-decade highs.

Commodities were a major source of returns. Gold and silver rose sharply, supported by geopolitical tensions and concerns about central bank independence. Oil prices recorded their largest monthly gain in four years, while copper continued to benefit from strong demand linked to AI and electrification.

Our ProsperityShield portfolio delivered positive returns and outperformed its benchmark, driven by strong precious metals and alternatives performance, partially offset by global credit, Emerging Markets hard currency debt, and absolute return strategies.



Equities: gains broaden, but volatility resurfaces

Global equity markets ended January higher, supported by improving investor confidence and signs that inflation pressures are easing. However, market leadership continued to shift away from the US, reflecting growing political and policy uncertainty.

US equities posted modest gains over the month. The S&P 500 rose and briefly moved above 7,000 points for the first time during intraday trading on 28 January. Gains were driven by strong earnings from large technology companies, ongoing enthusiasm around artificial intelligence and expectations that the Federal Reserve may cut interest rates later in the year.

Despite this, market gains were narrowly focused, and volatility increased at times. A sharp one-day sell-off followed renewed tariff threats from the Trump Administration, while concerns about the future independence of the Federal Reserve also weighed on sentiment. In addition, signs of softer consumer spending and early weakness in manufacturing activity added to investor caution.

Equity performance outside the US was stronger. European markets rose despite temporary tariff concerns linked to Greenland, which were later withdrawn. Defence stocks led gains, supported by improving risk appetite. The UK equity market benefited from firmer commodity prices, reflecting its significant exposure to oil and mining companies.

Japanese equities performed well, helped by a weaker yen and optimism around snap elections seen as supportive of pro-growth

policies. Emerging Market equities outperformed developed markets, supported by a softer US dollar, strong AI-related demand in North Asia, and rising commodity prices in Latin America.

Against this background, our ProsperityBuild portfolio delivered a positive return due to Emerging Markets and a semiconductor-driven IT rally. North America detracted amid software weakness, while materials and industrials supported returns.

Glossary

Rally: A period of sustained increases in the prices of stocks, bonds or indices.

PMI: Purchasing Managers' Index - a reading above 50 indicates growth.

Mega-cap stocks: These stocks represent the largest companies in the investment universe as measured by market capitalisation.

ProsperityBuild: A growth-oriented investment fund co-manufactured by Flying Colours Investment Management and Fidelity International, designed to provide global equity exposure.

ProsperityShield: A diversified, defensive investment fund co-manufactured by Flying Colours Investment Management and Fidelity International, designed to grow capital over the long term, while providing a smooth performance path for investors.