Market Commentary - January 2026

FTSE 100	**10,124**	S&P 500	6,966
Resistance	10,200	Gold	$4,592
Support	9,600	GBP/EUR	1.1524
VIX	16%	GBP/USD	1.3462

Introduction:

Never mind the tariffs. The S&P 500 finished the year with a 16% gain, higher than the index's long-term average of 10%. Indeed, *"average"* years are actually quite rare. In only 4 of the past 75 years has the S&P finished the year with a yearly gain of between 8% and 12%. Annual returns are distributed widely, with those higher than 10% occurring in 62% of calendar years, but there was also a 38% drop in 2008 as the global financial crisis took hold. As the old joke about the statistician goes: *"He put his feet in a bucket of ice and head in the oven. When asked how he felt, he answered 'pretty good on average'."*

Market Outlook:

Over the long term *(since 1984), the FTSE 100 has returned 6% per annum and that does not include the dividend yield (~3.3%) earned on top. Therefore, 'strategically', it pays to be in the market. Also, considering inflation averaged 6.2% over the same period, it is vital that an investor invests in equities in order to preserve the purchasing power of their money. However, markets can be subject to swings in the interim and investors should be mindful of these with a view to protecting their capital and thus maintain a 'tactical' view.*

Our allocation to the stock market remains at overweight. We expect the global economy to continue growing in 2026, remaining on an upward path that will be supported by three main factors: an employed consumer, solid corporate investment, and attentive central banks.

It is the consumer who drives the overall economy. Rising stock prices and high house prices are giving consumers the confidence to spend. Meanwhile, corporate spending is forecast to grow as the dawn of the AI era encourages companies to invest. We expect modestly lower interest rates in 2026, and for the yield curve to maintain an upward slope. Lower inflation, ongoing economic growth, and rate cuts have returned the yield curve to its normal upward slope. An increasingly upward slope in the curve has positive implications for economic growth.

Meanwhile, corporate earnings are up on an upward trajectory and equity valuations, whilst high, remain within normal levels. The forward P/E ratio for the S&P 500 is 23x, within the normal range of 15x to 24x. And the ratio of the S&P 500 price to an ounce of gold is 1.6, near the midpoint of the historical range. These valuation measures suggest to us that the stock market, near-record highs, is not yet in bubble territory.

How much further can this bull market go? Of the 13 bull markets that have occurred since the end of WWII, the S&P 500 gained on average 164%, which averaged 57 months in duration, or just about five years. The current bull market is just three years old and has increased 90%.

Market Commentary

Market Outlook (cont):

There are risks of course. Of the four years in a presidential term, the second year - the mid-term election year - has been the worst for investors. Investors favour predictability and continuity, and in mid-term elections incumbent parties typically lose seats. Even the loss of a few Republican seats in the House could tip the chamber Democratic and then lead to gridlock in Washington. In addition, it can be a challenge for the market to string together three good years in a row. There have been 16 instances since 1960 in which the stock market has risen double-digits at least two years in a row. What happened in the "year 3" years? Well, the average return in those 16 third years was only 2%, and eight of those years included outright stock market declines.

But on balance, we believe the stock market should be able to eke out moderate, if below-average, gains this year.

Market Commentary

Recommended Investment:

Investment Themes for 2026

In a certain-to-be-unpredictable investing environment, we present our key themes we think will be important over the next 12 months.

1-Quality Dividend-Payers

At this stage of the economic cycle, investors should pay close attention to companies raising guidance and increasing dividends. Consistent dividend growth at a company gives three important signals to investors. First, the company's balance sheet is strong enough to pay a dividend. Next, management is mindful of shareholder returns, which include dividends. And finally, a significant dividend increase can be a message from management to the market that the near-term outlook for the company is promising. *SPDR S&P UK Dividend Aristocrats ETF trades on the LSE (UKDV.L) with a Total Expense Ratio (TER) of 0.30%.*

2-Artificial Intelligence

We expect the AI trade to be bumpy. But like other transformational technology trades before it, we expect the AI trade to be long and fruitful. The industry was worth ~$250 billion in 2025, and it is expected grow 55% a year to 2030, when it is expected to reach $3.5 trillion in annual revenue. *Roundhill Magnificent Seven ETF trades on the Nasdaq (MAGS) and provides equal-weighted exposure to the 'magnificent seven' (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia & Tesla) with a TER of 0.29%.*

3-Clean Energy

The rise in global land and sea temperatures, the melting of Arctic Sea ice, and the alarming frequency of extreme weather events provide evidence that climate change is underway. The 2015 Paris Agreement seeks to limit global warming to well-below two, preferably 1.5 degrees Celsius, compared to pre-industrial levels. This has prompted governments around the globe to develop and deploy clean, renewable sources of energy, providing incentives relating to energy security, grid energy storage, electric vehicles as well as tax credits for wind power, solar power and hydro. *iShares Global Clean Energy ETF trades on the LSE (INRG.L) with a TER of 0.65%.*

4-Investing in the Cloud

The emergence and adoption of cloud computing reflects a confluence of factors. A key driver of cloud adoptions is the ability to match and scale IT resources to an enterprise's needs in real time. The traditional on-premises approach is inherently inefficient, given that IT needs may fluctuate. In cloud services models, enterprises only consume as much computing, storage and networking bandwidth as they need at any one time. *First Trust Cloud Computing ETF trades on the LSE (FSKY.L) with a TER of 0.60%.*

5-Cyber Security

The large number of well-publicised security breaches in recent years has forced businesses and governments to invest heavily in cybersecurity products and services to meet the challenge. Cybercrime cost the world an estimated $10.5 trillion in 2025, compared to $3 trillion in 2015. Thus, cybercrime represents one of the largest transfers of wealth in the history of humankind. The cyber security solutions market, consisting of dedicated hardware & software, comprises a $250 billion annual revenue opportunity, that is expected to grow at more than a 11% compound CAGR over the next several years. *L&G Cyber Security ETF trades on the LSE (ISPY.L) with a TER of 0.69%.*

Market Commentary

Post of the Month:

Investment strategies should only be tampered with for good reason, but the start of a new year is a good time to hold up asset allocations against the macro and market landscapes

There is rarely full agreement on these matters. But interest rates, inflation, the employment rate and public borrowing are all expected to be heading in a downward direction.

At its last meeting of 2025, the Bank of England (BoE) reduced the base rate to 3.75%. The strong expectation is that rates will fall further, potentially to as low as 3%. The BoE expects inflation to fall back to its 2% target this year. Falling rates and inflation will be supportive for businesses, but less helpfully household income growth is also expected to be in retreat as wage growth dwindles.

Public sector borrowing has risen to its highest level ever (£132bn) outside the pandemic as public sector wages and welfare bills rose. It is expected to drop back, largely due to the reduction in debt interest as rates fall, the rising haul from frozen tax thresholds and new tax measures. After two big tax-raising Budgets, which will take the tax-to-GDP level to a record-breaking 38%, chancellor Rachel Reeves has not ruled out further tax rises. But there are serious doubts about Reeves' haphazard tax approach and ability to cut spending. Fiscal worries will soon surely return to dominate again.

The heavy tax burden on UK businesses means domestic economic growth is expected to remain weak with GDP growth to slow from around 1.4% in 2025 to just 1% this year. Yet UK's attractive valuations and earnings strength should continue to draw in investors, and analysts mostly expect the level of takeovers of UK-listed companies to remain firm or even to rise in 2026.

Commodities had a good 2025, but oil could continue to fall and silver and gold may go into reverse as the structural driver of rising demand starts to weaken.

The US economy is expected to grow at a solid 2.5% - analysts see AI productivity gains continuing to add to US GDP growth. Many investors believe we are in the midst of an AI bubble. We do not see the current situation as comparable to the dot-com era, which led to the 2000-2002 market collapse, or the sub-prime period, which led to the 2008-09 recession. In those periods, valuations in the market were based on phantom metrics (clicks, eyeballs) and assets (cheap credit, derivatives). This time, in our view, real earnings growth is underpinning valuations across the market. The AI-ification of the world is expected to continue driving momentum with high expenditure keeping the rally going and pushing a potential correction into 2027.

Aim may get a badly needed boost from changes outlined in the London Stock Exchange's (LSE) recent proposals. Having initiated a discussion with participants on what changes would benefit the 30-year-old market, the LSE has outlined plans to reboot the junior market by channelling more investment into it, protecting tax incentives and stripping away the cost and regulatory friction that has held back growth.

GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary

Quote of the Month:

"Bull markets are born on pessimism, grow on scepticism, mature on optimism, and die on euphoria" - Sir John Templeton

With optimism dominant and markets at all-time highs, this quote serves as a temperature check. While not every optimistic phase ends immediately, late-cycle markets become increasingly sensitive to disappointment. The lesson is not to exit blindly, but to recognise where sentiment sits in the cycle and adjust risk accordingly - by rebalancing, trimming excess exposure, and avoiding leverage.

Economics:

Economists forecast that Britain's economy expanded by 0.2% in November, bringing an end to two straight months of contraction. Manufacturing is expected to show the strongest improvement as vehicle production increased by 22% to more normal levels. The recovery follows disruption caused by a major cyberattack that forced Jaguar Land Rover, the UK's biggest car manufacturer, to halt production in September. This rebound in automotive output played a significant role in reversing the economic weakness seen in previous months. Pantheon economists expect the manufacturing recovery to support fourth-quarter growth, though they predict expansion of just 0.1%. Geopolitical tensions, subdued business confidence, and the prospect of further tax rises are all expected to weigh on the near-term outlook.

Eurozone inflation slowed to 2% last month, capping a surprisingly benign year price-wise for the currency bloc, even as questions linger about the delayed impact of US tariffs, German stimulus and geopolitical stresses. The eurozone withstood unexpected turbulence from trade tensions, disappearing export markets and Chinese dumping last year, while domestic consumption finally kicked into gear and lower interest rates offered some relief. But this resilience is unlikely to give way to a boom, especially since deeply rooted structural rigidities keep holding back growth and governments lack appetite for political compromise needed for deeper integration. Still, taming inflation is a clear victory for the bloc of 350 million and is likely to hold near this level for years to come.

The US economy added 50,000 jobs in December, according to data published by the Bureau of Labor Statistics. The payrolls number was slightly below economists' forecasts for 55,000 jobs, but the unemployment rate ticked down to 4.4% from a revised 4.5% in November. Traders are now pricing in just a 5% chance that the Federal Reserve cuts interest rates at its policy meeting later this month, according to CME FedWatch. That's down from a 22% chance one month ago. *"Overall, it's a mixed report"* says Angelo Kourkafas, senior global investment strategist at Edward Jones. *"Not weak enough to derail the Fed's pause signal, but not strong enough to remove its rate-cutting bias. Slow, gradual cuts remain our base case for 2026."*

Market Commentary

Seasonality: *"History doesn't repeat itself, but it does rhyme" - Mark Twain*

The January Barometer

Historically, the returns in January have signalled the returns for the rest of the year. If they are positive, the returns for the whole year tend to be positive and vice versa. First mentioned by Yale Hirsch in the Stock Trader's Almanac in 1972, a variant has it that returns for the whole year can be predicted by the direction of the market in just the first 5 days of the year. Judging by the first 5 days, 2025 is likely to be a positive year for the stock market.

January

January is the 6th in the ranking of monthly performance, rising 55% of all the years in January, with an average return of 0.6%. In an average January shares usually start trading strongly in the first few days most likely a momentum effect from the surge in prices traditionally seen in the last two weeks of the year. However, that ebullience soon wears off and prices then slide for the rest of the month until recovering somewhat in the last few days.

First Quarter

The FTSE 100 has risen 29 of the 42 years (69%) between 1984 and 2025, posting an average gain of 1.4%

November - April

The FTSE 100 has returned 6.7% since 1984 during the winter 6-month period. This compares with -0.2% for the summer 6-month period. There is a 1-in-1,000 chance of this occurring by luck. One explanation for this is that as the nights draw in during winter, we become anxious and depressed, which means share prices fall and expected returns rise. This then leads to a decent winter rise.

Second-Year US Presidential Cycle

The stock market tends to bottom out during the second year of each new presidential term and then recover strongly in the final two years. This is due to each Administration ensuring that the economy is strong by re-election time. Unfortunately, the excessive stoking of the economic fires creates excesses, including over-priced stocks, leading to poor stock market returns in the first two years of the next term.

Chinese New Year - Year of the Snake

Chinese calendar revolves around a 12-year cycle where each year is associated with an animal (rat, ox, tiger, rabbit, dragon, snake, horse, goat, monkey, rooster, dog and pig). Each New Year starts between 21st January and 21st February, the exact date being dependent upon a variety of complex factors. The best performing animals since 1950 have been the goat and dog. The worst performing animals have been the rooster and snake. *In Chinese astrology, the Snake symbolises wisdom, caution, and strategic thinking. These traits might culturally inspire investors to adopt a more analytical or conservative approach. Interestingly, this is the Wood Snake Year, which comes about every 60 years. Wood represents expansion, innovation, and flexibility. This could favour industries like tech, renewable energy, and AI, which thrive on evolution.*

GIBRALTAR ASSET MANAGEMENT

STOCKBROKERS & INVESTMENT MANAGERS

Market Commentary

Investment Calendar:

3rd January	Full Moon (markets tend to reach a low point around this time)
13th January	US CPI. Consensus models expect a moderate CPI print of ~3%
16th January	Options Expiry Day
18th January	New Moon (markets tend to reach a high point around this time)
21st January	UK CPI. Markets broadly expect CPI to soften further
27th January	FOMC Meeting. Markets widely see the Fed holding rates stable in January

Technical Analysis:

The FTSE 100 has entered the New Year in a position of exceptional strength but clear short-term overextension. At 10,124 it sits well above the 20-day (9,880), 50-day (9,765) and 200-day (9,145) moving averages, confirming a firmly bullish structure. An ADX of 40 signals a strong, persistent trend. However, the RSI at 77 indicates overbought conditions, increasing the likelihood of consolidation or a modest pullback. Seasonally, late January and early February often bring digestion after strong starts to the year. A drift back toward 9,900–9,800 would be healthy and consistent with trend continuation. Provided the index holds above the 50-day average, the bias remains sideways-to-higher rather than bearish.

"The illusion of randomness gradually disappears as the skill in chart reading improves" – John Murphy

Chart Legend:

red dashed line	20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
red thin line	50 day moving average	(signifies the medium-term direction of the security)
red thick line	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
blue line		(an indicator that measures 2 standard deviations away from the 20 day m/a)

Technical Analysis Guide:

RSI (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

ADX (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. ending markets Bollinger Bands work best (sell at upper band, buy at lower band).

World Trade Center, Suite 5.28, Gibraltar. Telephone: +350 200 75181. Website: www.gam.gi

Printout from Alpha Terminal - 09/01/2026 18:00