MARKET WATCH JAN2026

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ORIGINAL THINKING

Neil Birrell,
Chief Investment Officer

IN BRIEF

- A quick look back at 2025 tells quite a story.
- The year ended on or near a high.
- But the big news story, again, is Trump.

Will 2025 be declared a vintage year?

At the start of 2025 Donald Trump had not yet been inaugurated as the President of the US and we were expecting a series of policy measures that would be good for the US economy. There was a general feeling of optimism around. We quickly moved on to the haphazard introduction of US trade tariffs and the fallout from the meeting of the US and Ukrainian leaders in the White House onto talk about the reverse of globalisation, the end of US exceptionalism and the need for all countries to look at their own security and supply of raw materials, food and energy. The tariff issues raised real questions over the US economy and the potential global fall out, as well as concerns over inflation.

However, much of that seems a long time ago. The US has asserted itself as the global leader in economic and military terms, its economy is strong (although the jobs market is a bit of a concern), tariffs have not had a significant impact and the rest of the world economy has remained in decent shape. The concept of US exceptionalism fading has, itself, faded.

The UK economy, on the other hand, has failed to show signs of life. The Government's very tight Budget of 2024 did not spark any growth in the economy as it hoped it would and the 2025 version is of a similar ilk. UK business and consumer confidence remains low, and the prevailing economic conditions have the traits of recession.

All in all, it was an eventful year, as they all seem to have been since the arrival of Covid at the start of 2020. Each year has brought its own challenges and problems, but globally, society and the economy have proven to be resilient and able to adapt quickly.

Financial markets weathered the storm quite comfortably in the end.

Through 2025 bond markets were impacted by the rapidly changing economic news and geo-political events, which led to them being quite volatile. Equity markets were also volatile, particularly in the spring, during the on / off / on introduction of US trade tariffs, with different regions and sectors providing a wide range of returns at different times. That was a trend that re-emerged through December when the US market was unchanged, but down in Sterling terms, with the Bloomberg 500 Index falling 1.6%. That compared to the UK, where the Deutsche Numis All Share Index rose 2.66%. December closed out the year, with the UK significantly outperforming the US, although the move in the currency exchange rate had a big part to play in that.

In fact, unusually, the US stock market lagged most others in 2025, something we have not seen for some time.

UK equity markets vs the world and US in 2025 (total return, sterling, 31.12.2024 – 31.12.2025)

Source: Bloomberg Finance L.P. - UK; Deutsche Numis All Share Index. World; MSCI World Index. US; Bloomberg 500 Index. The chart has been rebased to 100 as at 31.12.2024. **Past performance is not a reliable indicator of future returns.**

Many equity markets were at or very near all-time highs towards the end of the year. Whilst there are clear concerns around their valuation and the dominance of a small number of very large companies that make up the market indices, we should not lose sight of the fact that corporate profitability, overall, grew nicely in 2025 and is forecast to grow stronger in 2026 and 2027.

2026 was ushered in with more than fireworks.

The actions of the US in Venezuela have been taken calmly by financial markets. This has partly been because it has previously been discussed at length by the President and some action was expected, perhaps not exactly what unfolded though. Bonds have barely reacted, equity markets have carried on where they left off in 2025 and the oil price was unaffected.

On a stand alone basis, the US action has little direct impact on financial markets, but we should consider what might happen next. It is clear that the President has put US self interest at the very heart of foreign policy and how far that might reach into Columbia, Cuba, Guyana or other south and central American countries will be important. Similarly, the US has mooted further moves in Iran, although it is a stretch to see anything significant developing in Greenland. But, be prepared for surprises. Crucially, international ramifications and responses need to be considered, particularly from China.

One final point on the US. The mid-term elections in the House of Representatives and the Senate take place late this year, but campaigning will start soon enough. The President is doing badly in opinion polls and given the strong chance the Republicans lose their majority in the House and possibly the Senate, that would be enough for the Democrats to hamper, if not block the President's policy measures and even, should they chose, make it easier to start investigations and legal proceedings against him. As we get closer we could see the President change tack and introduce more populist policies to help election prospects, which could be less financial market friendly.

One prediction for 2026 that is not that controversial; it will remain all about Trump.

Neil Birrell
Chief Investment Officer

Glossary

Bonds (or fixed income)

Types of investments that allow investors to loan money to governments and companies, usually in return for a regular fixed level of interest until the bond's maturity date, plus the return of the original value of the bond at the maturity date. The price of bonds will vary, and the investment terms of bonds will also vary.

Equities

Another name for shares (or stock) in a company.

Index

An index is a method of tracking the performance of a group of shares, bonds, other assets or factors. For example, the FTSE 100 Index is made up of the 100 largest companies on the London Stock Exchange.

Risks

Forecasts are not reliable indicators of future returns.

Important Information

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