Equity Trustees

January 2026

MONTHLY SUMMARY

MARKET SUMMARY

Equities broadly rose

- Global equities delivered a solid start to the year, with the ASX200 up 1.8%, US S&P500 up 1.5%, Emerging Markets +8.8%, MSCI Asia ex Japan +8.6% and MSCI World ex Australia +1.6% (in local currency terms).
- However, in AUD terms, global equities (MSCI World ex Australia) fell 2.75%.

Sector performance trends - Materials (Resources) outperformed again

- The best-performing ASX200 sectors were Energy +10.6% and Materials +9.5% helped by soaring commodity prices. Conversely, the worst performers included IT −9.4% and Property (AREITs) −2.7%, negatively impacted by higher interest rate concerns.
- In the US there was a broadening trade from mega-cap tech into cyclicals and small caps. Within US tech there was divergence with semi-conductor stocks strongly outperforming software. Software downside was driven by fears of competitive displacement from AI.

Australian Bonds slightly advanced

- The Australian Fixed Interest index (Bloomberg Ausbond Comp 0+Y) rose 0.21% over the month. Australia's 10-year bond yield rose 6.5 bps to 4.81%, with yields higher across most global markets. Higher yields in Japan are keeping the market somewhat on edge concerned about "carry trade" flows.
- The local macro data remains hawkish, with expectations for the RBA to hike in twice this year due to persistent core inflation.

Global economy

- Geopolitical volatility was notable with the US' capture of the Venezuelan President, increased US tensions with NATO allies over Greenland, and civil unrest in Iran.
- The US Federal Reserve kept rates steady after cutting rates in December. In late January, US President Trump nominated former Federal Governor Kevin Warsh as the next head of the central bank.
- The US the economy remained broadly resilient. The unemployment rate fell slightly to 4.4%, Core CPI (inflation) was slightly cooler than expected and Services data was solid. However, consumer confidence fell and December pending home sales plunged 9.3%. The Trump Administration's efforts to improve housing affordability ahead of the midterm elections hit the headlines.
- In China, while headline numbers have remained solid driven by exports and manufacturing, domestic demand and a sluggish property market continued to weigh on the economy. Fixed Asset Investment is slowing also.
- Major currencies strengthened against the USD, including AUD (+4.4%), NZD (+4.6%), and Euro (+0.9%).

Australian economy

- Inflation remains too high and persistent, with Q4 trimmed mean inflation running 0.9% QoQ / 3.9% annualised, driving expectations of imminent RBA hikes.
- Economic data is broadly strong. Labour market tightening (unemployment down to 4.1%), strong household spending, and elevated business conditions were all key features over the month.

- Credit growth remains strong. House prices rose again but the rate of change is softening (+0.8% Nationally in Jan).

Commodities rose strongly

- Precious metals rose but were volatile (Gold +13%). Base metals strengthened (Copper+5%), while Lithium rallied strongly (Spodumene +28%) on surging demand for Energy Storage Systems (ESS). Uranium soared 25% driven by the data centre theme (demand for power).
- Oil (+14%) and natural gas (+18%) jumped on geopolitical issues. A weaker USD helped the commodity markets also.
- Iron ore was the only major commodity weaker, down 5% to US$103/t, due to softer demand

ASX200 -- Earnings revisions improving and pointing to solid earnings growth

- ASX200 earnings expectations **rose** +2.2% in January and +3.6% over the past 3 months, driven primarily by the Materials sector. The breadth of commodity price strength explains the earnings upgrades.
- FY26 ASX200 Earnings Per Share is now forecast to growth at ~9% — ending a three-year earnings recession if delivered. The current ASX200 1 year forward Price / Earnings ratio (Valuation) is ~18.2–18.3x above its 10-yr average of ~16.4x. Growth stocks (including IT) have de-rated materially, while domestic facing industrials now face a domestic rate hiking environment.

OUTLOOK

2026 looks set for global economic growth to remain broadly resilient supporting equity markets earnings growth. Despite higher-than-average equity market valuations, strong earnings growth should provide for moderate gains. Our expectation is that:

- Global economic growth to remain reasonable at ~2.8% in 2026
- Australian GDP growth improves to ~2.3% growth but momentum starts to wane
- Earnings per share forecasts for the year ahead is ~13% for Global equities and ~11% for Australian equities.
- Equity market valuations are mildly expensive and could cap gains
- Real Assets such as property securities and infrastructure appear fair value
- Australian Fixed Interest looks better value, and we suggest tactically adding to duration above 4.5% (10-year bond yield).
- The outlook for income has improved. ASX200 underlying dividends are forecast to grow for the first time in 3 years.

In the current market we recommend being invested in well diversified portfolios to capture upside in each asset class, while protecting any downside risk. We prefer global equities over Australian equities given the stronger growth outlook and are looking to add selectively to our Australian Fixed Interest positions above 4.5% (10-year bond yield).