

Market Returns

(Returns in £)	1 month	3 months	6 months	1 year
UK Equities	3.0%	5.2%	11.2%	17.0%
Global Equities	0.9%	-0.4%	8.7%	8.9%
UK Gilts	0.3%	-1.9%	0.5%	-0.1%
UK Property	0.8%	1.5%	2.8%	5.5%
Gold	14.0%	21.0%	47.2%	62.1%
Commodities	5.3%	2.2%	5.0%	-1.0%
Sterling	1.3%	2.6%	1.4%	2.5%

Returns to 30th January 2026. Source: Refinitiv

Market Overview

2026 has started in a similar vein to last year, with what felt like a year's worth of twists and turns in one month. As before most of it emanated from the President of the US. A daring extraction of President Maduro from Venezuela seemed to embolden the desire to reshape the world order, culminating in military threats to Iran and the desire to control Greenland. Not surprisingly, gold and other precious metals, found new demand as hedges against the disorder. However, the speed of their price ascent caused some altitude sickness, with the last couple of days seeing a dramatic collapse in prices. Despite the fall, precious metal prices still ended up on the month.

The prime reason given for the sharp retreat in the gold and silver price, was the announcement at the end of January that President Trump has selected the replacement for the head of the Federal Reserve Bank. Come May, Kevin Warsh will take the helm, and the market judged this to be a more conservative pick than had been feared. The dollar, and US treasuries, which had sold off on fears of weakened central bank independence, rallied. Commodity prices, particularly industrial metals, which were dragged higher in the wake of gold, also eased. Oil was initially an exception but then rose quickly on the threat of conflict with Iran.

In contrast to this, stock markets appeared relatively calm. Notably the UK stock market was again one of the stronger markets, in part helped by the heavy weighting of mining stocks in the FTSE 100, although its relative cheapness compared to other markets is being recognised as investors look to limit their exposure to the US. Company results to the end of 2025 have started to be released, with many offering reassurance. However, the closest attention has been on companies most closely tied to Artificial Intelligence. Investment in AI capacity continues apace, but where growth and returns have been questioned, share prices have come off.

Expectations of economic growth, aided by various stimulus packages, settled inflation and some interest rate cuts are all underpinning financial markets. There is always the risk that a push to reorder the world could cause economic damage in the process; a tail risk, but something we take seriously.

Concern about a military strike on Iran aside, OPEC+ has agreed to hold production quotas going into 2026, and the oil market looks like it will be in surplus. Russian strikes on Ukraine and a cooler winter have seen gas prices spike, hopefully for not too long. Industrial metal prices have been strong following supply restrictions after several significant mine disruptions and closures. Food prices have also been elevated, feeding into inflation. Gold and silver prices surged to new highs but collapsed back at the end of the month.

Global supply chains have continued to be challenged, as tariff disruption, re-shoring and security concerns further disrupt, with the US declaring 60 minerals being critical and vital to the US economy. China has become the dominant supplier in a number of crucial areas, such as rare earth metals where they control ~90% of global processed supply and have used that advantage to counter US trade restrictions.

A global interest rate cutting cycle (bar Japan and Australia) is still in place. Small companies along with households should benefit. The yields on long bonds have steadied recently, despite being sensitive to the growing levels of government debt across the western world. If we get some tariff certainty, and lower costs of debt, it might encourage some long-term investment commitments.

2025 saw a significant number of takeovers for property REITs with large discounts to underlying asset value attracting interest. Listed infrastructure trusts also trade on wide discounts, UK renewable energy focused plays have been unsettled by proposed changes to government set pricing. Despite windfall taxes and regulatory uncertainty there is still plenty of room to grow.

Politicians are having to tread a careful line on fiscal policy, with a reluctance or inability to cut costs and substantial budget deficits

adding to national debt, testing bond markets' willingness to provide finance. In the US tariffs are meant to fill some of the hole, whilst elsewhere tax increases are looking increasingly likely; none more so than the UK budget significantly raising taxes for a second time.

In the UK and Europe economic activity and confidence remain subdued, and many governments are struggling to get their economies to achieve lift-off speed. Meanwhile the tricky issue of how to fund greater levels of defence spending only adds to the deficit problem. There is some softness beginning to emerge in the employment market, although real wages continue to grow after a long period of erosion and a rise in household savings means consumer finances are generally quite healthy, even if confidence isn't.

Company results in 2025 held up well in general, with aggregate reported profits advancing. This has been especially true for the dominant US tech companies driving the push of AI, but more mixed elsewhere, with increasing signs that tariffs are now being passed through. Some consumers though have been showing greater price sensitivity, in what has been called a 'K' shaped economy, where those without investment savings, continue to struggle.

Despite a ceasefire between Israel and Hamas, and US brokered peace discussions between Russia and Ukraine, conflict continues around the world, and lasting peace feels distant. This has led to a substantial policy shift in Europe, with recognition that 'national security' needs a significant increase in defence spending. Some companies will be obvious beneficiaries of this, but this will need to be paid for, either with spending cuts elsewhere, tax increases or even more debt issuance. Looking through all the uncertainty, we still see positive investment returns but are alert to negative surprises and expect volatility to be a regular partner as well.

Market Outlook

Equities	Despite heightened uncertainty, stock markets continued to make further gains, helped by some reassuring company earnings reports, with a key focus on those most engaged with AI. Economies remain robust enough to allow further earnings growth expectations which, along with anticipated interest rate cuts, underpin forecasts of continued positive investment returns in 2026. However, inflation and government deficits need to be watched carefully.
Fixed Interest	Both the Bank of England and the US Federal Reserve Bank cut interest rates in December, but both decisions were finely balanced, and the Fed has not followed up with another cut. The announcement of the next head of the Fed has settled nerves about political interference dampening expectations of aggressive rate cuts. Interest rates are still expected to come down in the UK, as long as inflation eases back.
Commercial Property	M&A activity in property trusts (REITs) continues, as market stabilisation and steep discounts to quoted asset values attract takeover offers. This has probably been aided by a growing consensus that supply, and demand have settled down and rents for good quality property are rising. Additionally, with higher build costs and higher energy standards required, it is still cheaper to buy, than to build new.
Alternative Assets	Infrastructure investment funds had a tricky year, with uncertainty over assumptions on the cost of debt, government reimbursement rates and private equity valuations. As these settle down, we would expect volatility to ease and steadier returns to be generated. Gold and metals saw wild moves in January, reflecting the uncertainty in institutional and geopolitical stability. Given the uncertainty remains, demand for gold is unlikely to disappear, but fluctuate!
Cash	The investment return on cash and cash like instruments is 'safe' but expected to gradually decline through 2026.

Drumnor Investments

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