

# Economic and market update

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## Key events in January 2026

- Global shares made solid gains in January with optimism on Artificial Intelligence (AI) and corporate profit prospects.
- US share prices made new historic highs. Strong corporate profit results underpinned Wall Street's gains. US economic data was mixed with strong retail spending but slowing job gains. There was encouraging news with US consumer annual inflation remaining stable at 2.7% in December.
- European shares made strong gains with business surveys showing solid growth prospects and inflation proving stable around 2%.
- Chinese shares delivered impressive returns with investors focusing on cheap valuations compared to the rest of the world. Concerns over China's subdued retail spending and the weak residential property market appear to be on the backburner.
- Australian Shares made solid gains. The energy and resource sector led the charge with a +10% returns on the back of rising gold, metal and oil prices. The health care and consumer staples sector also delivered solid positive returns for January. However, these share gains were partly offset by sharp declines in the information technology and real estate sectors.
- Australia's economic data has strengthened with robust consumer spending and a revival in employment in November. However, there was a scorching consumer inflation result for December with headline annual inflation at 3.8%. Financial markets correctly priced in that the Reserve Bank of Australia (RBA) would raise interest rates at its next policy meeting in February.

## Asset class summary

### Asset class returns in Australian dollars – periods to 31 January 2026

	CYTD %	1 month %	3 months %	1 year %	3 years pa %	5 years pa %	10 years pa %
Australian shares	1.7	1.7	0.4	7.8	9.8	10.1	10.1
Global shares (hedged)	2.4	2.4	3.3	18.7	18.3	11.7	12.1
Global shares (unhedged)	-2.0	-2.0	-2.8	8.5	19.3	14.0	12.9
Emerging markets (unhedged)	3.6	3.6	2.3	27.2	17.0	7.3	10.2
Australian property securities	-2.7	-2.7	-4.5	2.0	10.7	9.2	7.7
Global property securities (hedged)	2.8	2.8	3.4	8.8	4.3	3.7	3.6
Global listed infrastructure (hedged)	3.2	3.2	4.3	14.2	8.0	7.7	7.6
Australian bonds	0.2	0.2	-1.3	3.2	2.9	-0.3	1.9
Global bonds (hedged)	0.2	0.2	0.2	4.3	3.3	-0.4	1.8
Global high yield bonds (hedged)	0.5	0.5	1.7	7.3	7.0	3.0	5.6
Australian inflation-linked bonds	0.4	0.4	-1.1	3.4	3.5	2.1	2.7
Cash	0.3	0.3	0.9	3.9	4.1	2.8	2.1
AUD/USD	5.1	5.1	7.0	12.3	-0.2	-1.8	-0.1

Past performance is not a reliable indicator of future performance.

**Sources:** Australian shares – S&P/ASX 300 Total Return Index; Global shares (hedged) – MSCI All Countries World (A\$ hedged, Net); Global shares (unhedged) – MSCI All Countries World in A\$ (Net); Emerging markets – MSCI Emerging Markets in A\$ (Net); Australian property securities – S&P/ASX 300 A-REIT Accumulation Index; Global property securities – FTSE EPRA/NAREIT Developed (A\$ hedged, Net); Global listed infrastructure – FTSE Global Core Infrastructure 50/50 (Hedged \$A); Australian bonds – Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) – Barclays Global Aggregate (A\$ hedged, Gross); Global high yield bonds (A\$ hedged) – Barclays US High Yield Ba/B Cash Pay x Financials (\$A Hedged); Australian inflation-linked bonds – Bloomberg AusBond Inflation Government 0+ Yr Index; Cash – Bloomberg AusBond Bank Bill Index; AUD/USD – WM/Reuters Daily (4 pm GMT).

## Key events in global markets over the last three months to January 2026

Global shares (hedged) have delivered a solid 3.3% return for the quarter. However, the Australian dollar's sharp rise against foreign currencies has reduced global shares (unhedged) to a -2.8% loss.

Optimism on Artificial Intelligence (AI) prospects and lower US interest rates have been key drivers of rising share prices. Notably, Wall Street's benchmark S&P 500 Index made historic highs with a quarterly gain of 1.7% in local currency terms. Investors have also taken the view that President Trump's tariffs are just a temporary threat in terms of higher US inflation and penalising US economic growth.

Asian share markets also delivered impressive performance. Korea (34.3% return) and Taiwan (14.4%) posted very strong returns in local currency terms. Japan's share market delivered a 6.6% return even with Japan's central bank raising interest rates in December. Chinese shares returns were more modest with a 0.9% return after a strong rally in the previous six months.

Global bonds (hedged) delivered a sedate 0.2% quarterly return. Concerns over persistent government budget deficits and rising Japanese interest rates countered the benefit of the US central bank lowering interest rates in December. Australian bonds delivered a disappointing setback with a -1.3% quarterly return.

## Key events in Australia over the last three months to January 2026

Australian shares delivered a subdued 0.4% return for the quarter. The Information Technology sector was the primary source of weakness with a -25.5% return given Wisetech and Xero's poor performances. The Financial and Real Estate sectors also disappointed with a -4.7% return given their acute sensitivity to the risk of rising interest rates. The Health Care sector also proved frail with a -3.6% return. In a welcome contrast, the Materials sector was one of the few bright spots with a very strong 18.8% return on the back of rising gold and metal prices.

Australia's economy is experiencing improved consumer spending, solid jobs growth and a stable unemployment rate around 4.3%. However, consumer inflation is proving high and troubling at 3.8% in the year to December. Financial markets are now pricing in a sequence of interest rate increases this year by the central bank to reduce price pressures.

## Global prospects

Enthusiasm for AI and technology are the key factors supporting rising global share prices in the past year. Lower global inflation has also allowed central banks to selectively cut interest rates which has also been favourable. Typically, a lower interest rate environment can boost corporate profits and thereby share prices.

Investors have also taken the view that US President Trump's agenda for tariffs is 'more bark than bite'. Both Europe and Japan have agreed to a 15% tariff with President Trump. However, China and the USA are still negotiating on tariffs. Until a formal agreement is signed, investors should be cautious.

Global share markets are also challenged by considerable global political risks. The Russian-Ukraine war is still casting a shadow over Europe's future security. The precarious Middle East political climate is also a major potential threat to global oil supplies.

Australia's economic prospects are vulnerable to political tensions between China and the US. Given China is the key export destination for approximately 30% of Australian exports, the relationship between Beijing and Washington is critical to Australia's national income and security. Tensions over tariffs or Taiwan would be a major challenge to Australia's economy and share market prospects.

Australian consumers are also still challenged by persistent inflation. The Federal Government's recent termination of electricity rebates as well as persistent price pressures in food, health and housing indicate the 'Cost of Living crisis' is continuing. Australia's central bank is expected to raise interest rates this year to reduce inflation.

Given these complex and significant risks, investors should maintain a disciplined and diversified strategy.

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