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INVESTMENT SERVICES

Hymans Robertson Investment Services (HRIS)

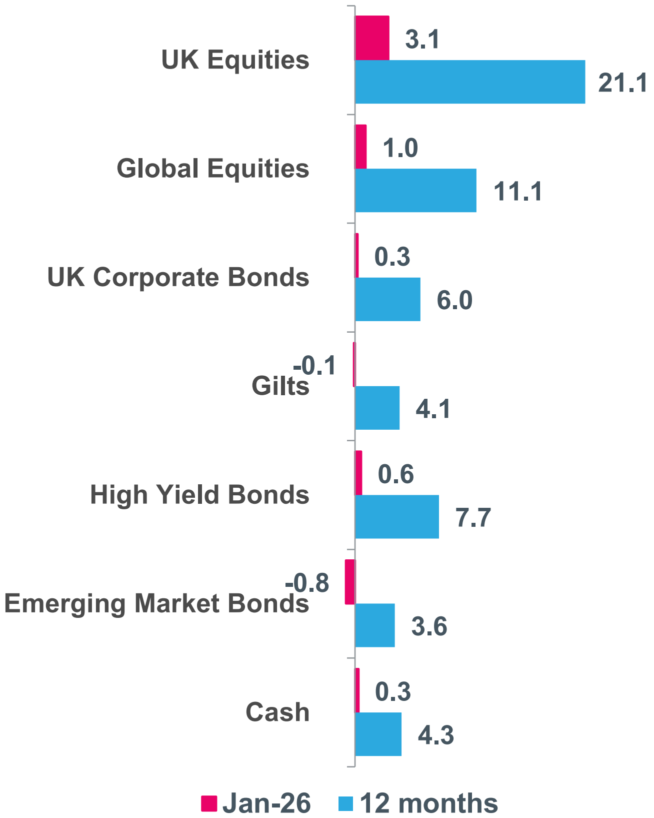
Market digest

January 2026

Monthly highlights

- Geopolitical developments took centre stage as President Trump threatened Europe with tariffs over Greenland, just days after a US military operation captured Venezuelan President Maduro.
- Equity markets remained resilient and gains continued to broaden out beyond the US tech leadership that has dominated in recent years.
- Page 3 of this document includes market commentary for the 12 months to 31 December 2025.

Asset class returns (%)



Source: Morningstar. Figures to 31 January 2026. Returns in unhedged sterling terms except high yield bonds which are hedged. EM bonds are 50% local currency denominated, and 50% US dollar denominated bonds.

Market summary

- Our model portfolios typically invest in a combination of the asset classes shown in the left-hand chart.
- For a few days, investors were transfixed by geopolitical risks, including President Trump's ambitions for Greenland, but the rhetoric cooled following discussions at Davos.
- The impact on equity markets was fleeting as investors enjoyed a strong month of performance.
- Asian markets were strong outperformers after a snap election in Japan drove performance there. Corporate governance reforms also led to an incredibly strong South Korean market. UK equities also performed well, while the US market continues as a relative underperformer.
- Bonds were mostly flat over the month. Although news of Japan's election boosted the equity market, bond yields there rose sharply (bond prices fall as yields rise) following promises of big fiscal spending. This, along with the US Federal Reserve's decision not to cut interest rates, pushed bond yields higher globally.
- Corporate bonds and high yield outperformed government bonds such as gilts.
- With equities outperforming bonds in January, higher risk portfolios typically performed better than lower risk portfolios over the period.

Outlook and topical market themes

- President Trump announced former Federal Reserve (Fed) Governor Kevin Warsh as his nomination for the next Fed Chair. The pick has momentarily eased concerns about excessive political interference over monetary policy, though Warsh's current views are not yet fully understood.
- Precious metals experienced an exceptionally volatile start to the year. What began as a fundamentally driven wave of central bank demand has evolved into a retail-investor-led buying surge.

Kevin Warsh gets the nod for Fed Chair

After months of speculation, President Trump has nominated Kevin Warsh to succeed Jerome Powell as Chair of the Federal Reserve. To date, market reaction to this news has been pretty limited; this is probably due to two reasons 1) Warsh becoming the frontrunner for the role in recent weeks, and 2) because he is viewed as a relatively orthodox choice. Warsh previously served at the Fed from 2006-2011. During that period, he had a reputation as a hawk (someone who favours higher interest rates) and was critical of quantitative easing. More recently however, he has argued that an AI-driven productivity boom could allow the Fed to cut interest rates. It also seems likely that he would not have got the job unless he convinced President Trump that he wanted lower interest rates (lower rates is a well stated aspiration of the President).

It remains unclear whether he has undergone a genuine policy shift or is merely appeasing political pressures. There will be plenty of investor scrutiny on his Senate confirmation hearing (the date of which is yet to be confirmed) and his first few Fed meetings to try and decipher what this means for the path of interest rates and bond markets.

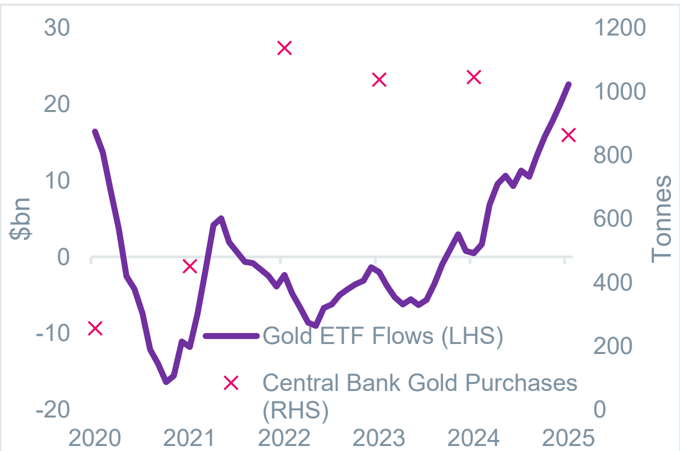
Precious metals are trading like speculative assets

Gold and silver enjoyed a strong period of performance over the last 12-18 months, but in 2026 these metals experienced a spectacular level of volatility. It began as a fundamentally driven rally when central bank buying increased following Russia's invasion of Ukraine, when the US froze Russia's dollar reserves. This broadened out to other buyers over 2025 as concerns over Fed independence and US tariff policy pushed investors away from dollars into gold leading to returns of over 50% for the year. Most recently we have seen extremely erratic price action as retail investors pile into gold ETFs. By late January, gold was up another 20% before dropping sharply over the following days. Silver saw an even more dramatic move as a 60% gain in the first few weeks of the year preceded a 31% drop in just two days.

We think precious metals like gold can play a role in investors' portfolios, but we are cautious given the entry point is so critical in an asset with no yield. In the past, investors have had to wait over a decade for positive returns when buying after large price spikes. Implementation is also an important consideration given there is a variety of options ranging from physical gold, derivatives or gold miner equities (HRIS portfolios hold some via this latter route).

Chart of the month

Central-bank gold buying has been strong for years, but gold ETF flows have surged recently



Source: Morningstar, World Gold Council

The line on the chart shows the net flows into one of the largest gold ETFs, while the crosses mark annual central-bank gold purchases.

Central banks sharply increased their buying from 2022 onwards. More recently, however, the bigger story has been the surge in flows into gold ETFs, a vehicle often used by retail investors and short-term traders.

This shift has added momentum to gold prices but has also made the market more sensitive to swings in investor sentiment, helping explain some of the sharp moves seen in early 2026.

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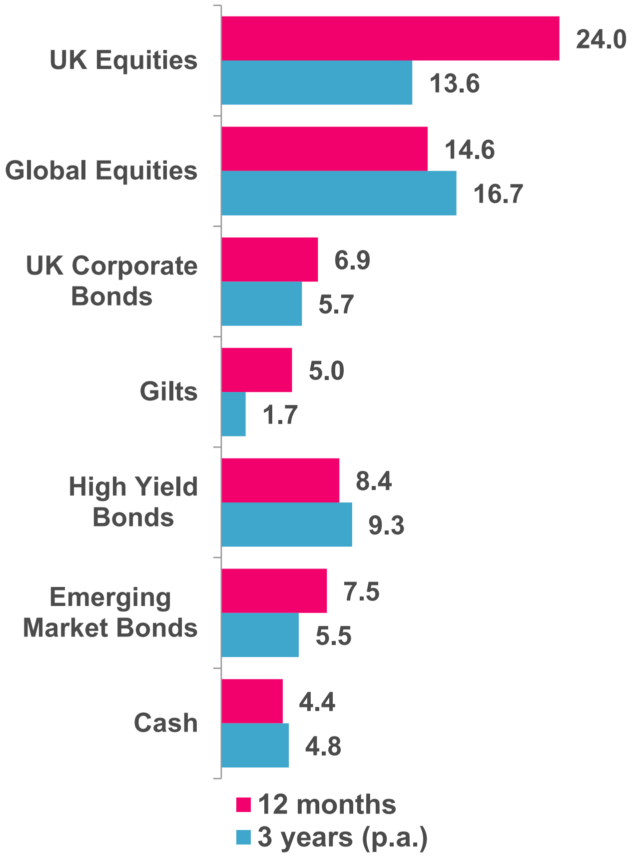
Annual market summary: covering the 12 months to 31 December 2025

The start of the period focused on President Trump's tariff policies which sparked fears of a global trade war and saw increased market volatility. In April, "Liberation Day" further disrupted markets, with no economy seemingly safe from Trump's tariffs. Markets recovered quickly, following a postponement of the announced tariffs and indications of positive trade talks, but volatility persisted. This recovery continued over the third quarter of 2025 as better-than-expected corporate earnings, strong performance in the technology sector, and the Federal Reserve resuming interest rate cuts, increased investor confidence. Over the final quarter of 2025, optimism within the technology sector started to fade as concerns grew around the high valuation of these companies and the level of spending on AI infrastructure, which impacted overall market returns.

Central banks continued their path towards lower interest rates. The Bank of England cut by 1% over the period to 3.75%, with markets now expecting a further cut in early 2026, following the lower-than-expected November inflation data. The Federal Reserve resumed rate cutting in late 2025, cutting rates by 0.25% in September, October and December. These were the first cuts since December 2024 and marks a 0.75% reduction over the period to 3.75%. Investors are expecting rate cuts in the US to continue over 2026 (subject to inflation remaining under control), as data points to a weakening labour market.

Overall, the 12 months to December 2025 were positive for equity performance, despite the tariff driven volatility and concerns within the technology sector. The Asia-Pacific ex Japan and European markets ended the period as the top performing regions, recovering from the falls seen earlier this year.

Asset class returns (%)



Source: Morningstar. Figures to 31 December 2025. Returns in sterling terms except High Yield Bonds which are hedged. EM bonds are 50% local currency denominated and 50% US dollar denominated bonds.

Bond performance was positive across the different markets. Gilt returns were positive as a result of falling gilt yields (bond prices rise as yields fall) as inflation started to recede in the final quarter of the period.

Corporate bonds outperformed government bonds over the period, supported by strong earnings growth. High-yield bonds delivered even stronger 12 month returns as credit spreads (the additional yield received on corporate over government bonds) fell over the period (bond prices rise as spreads fall) and emerging market bonds benefitted from a weakening of the US dollar.

Risk warning

The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS. This document is based on using data at the time of the relevant preparation and analysis, sourced where appropriate. Whilst HRIS uses reasonable efforts to obtain information from sources which it believes to be reliable, HRIS makes no representation that the information in this document are accurate, reliable or complete.