



# Market update

January 2026

## January 2026: a good start is half the battle?

Financial markets started the year well, despite all the geopolitical complications. Stock markets in Asia and emerging markets took centre stage. US equities lagged, while the dollar depreciated. Capital market rates in Europe also declined slightly.

January 2026 presented a positive picture for stock markets, with many reaching record highs. For example, the Dutch AEX index broke the 1,000-point barrier for the first time in history and the US S&P 500 index briefly rose above the 7,000-point mark. Remarkably, the Nasdaq index, in which US technology equities feature prominently, came close to the record set in late October 2025, but just failed to break it. By the end of January, most stock markets had fallen below their peak levels again.

Also noticeable was the large difference in equity returns between the different regions. Big winners in January were stock markets in Asia, with a monthly return of 6.6% for the MSCI Asia Pacific index, and emerging markets, with a monthly return of 7.8% for the MSCI Emerging Markets index. There were also major differences within Asia between the winners (such as Japan, South Korea and Taiwan) and the losers (such as the major economic powers China and India). Outside Asia, the high returns in emerging markets were mainly driven by stock markets in Latin America, such as those in Brazil and Mexico.



European stock markets also had a good start to the year, with a return of 3.1% for the MSCI Europe index in January driven by the stock markets in the Netherlands, Spain and Portugal. By contrast, stock markets in the two largest economies in the eurozone – Germany and France – underperformed. European listed real estate slightly outperformed the overall stock market with a monthly return of 3.4%, partly due to slightly lower capital market rates in the eurozone. This also meant that European government bonds delivered a slightly positive monthly return of 0.7% in January. Both investment-grade and high-yield European corporate bonds achieved returns similar to government bonds.

US equities were the worst performers in January, but still achieved a slightly positive return of 0.3% (measured in euros). This underperformance was partly due to the depreciation of the dollar, but even without this currency effect, US equities lagged behind most other stock markets in January.

The returns on the various asset classes were as follows:

Rendementen (total return, in euro's)	January	Q1	2026	12 mths
Bloomberg Barclays Eurozone Staatsobligaties	0.7%	0.7%	0.7%	1.5%
Bloomberg Barclays Euro Bedrijfsobligaties	0.8%	0.8%	0.8%	3.4%
Bloomberg Barclays Euro High Yield Bedrijfsobligaties	0.7%	0.7%	0.7%	5.3%
FTSE/EPRA Europe Onroerend Goed	3.4%	3.4%	3.4%	3.1%
MSCI Europe Aandelen	3.1%	3.1%	3.1%	15.6%
MSCI North America Aandelen	0.3%	0.3%	0.3%	1.5%
MSCI Asia Pacific Aandelen	6.6%	6.6%	6.6%	18.7%
MSCI World Developed Markets Aandelen	1.2%	1.2%	1.2%	3.2%
MSCI Emerging Markets Aande- len	7.8%	7.8%	7.8%	24.9%
EUR/USD	1.0%	1.0%	1.0%	14.4%

Source: Bloomberg

## Geopolitics and US domestic politics dominate the news

Following an eventful 2025, there was little respite in January 2026. The year had hardly begun when President Trump once again caused a stir with a lightning raid resulting in the arrest and transfer of [Venezuelan President Maduro](#) to a prison in New York. No sooner had the fuss died down than Trump switched his attention back to Greenland, which he said he wanted to acquire from Denmark by fair means or foul. The subsequent [Greenland crisis](#) eventually blew over again, but not before Trump threatened European countries that supported Denmark with his favourite pressure tactic of tariffs. By the end of the month, Trump's attention had shifted to Iran, which risks facing US countermeasures after the violent suppression of demonstrations against the Iranian regime.

The Trump administration's domestic policies, especially the violent crack-down by immigration police ICE in Minneapolis, raised eyebrows as well. Politically, this led to a brief partial [shutdown](#) of the US government at the end of January, as Democratic senators refused to agree to fund ICE under the current conditions. While this shutdown did not last as long as the previous one less than two months ago, which at 43 days was the longest shutdown in history, it is unlikely that this will be the last occasion on which US public finances are used as a means of political pressure.

## Impact of geopolitical turmoil on economy and financial markets limited for now

Remarkably, all this geopolitical and political turmoil in recent weeks had little effect on financial markets. Prices on most stock markets have risen and capital market rates have actually fallen since the beginning of the year. While stock market volatility was slightly elevated in January, it remained barely above the historical average. In interest rate markets, volatility actually fell to its lowest level since the beginning of the inflation crisis towards the end of 2021, more than four years ago.

Economically, the damage from all the upheaval – including tariffs and shutdowns – appears limited. Although the US economy contracted slightly in the first quarter of 2025 (-0.6% annualised quarter on quarter), US GDP growth in the following two quarters (i.e. after '[Liberation Day](#)' at the beginning of April 2025) was 3.8% and 4.4% respectively. The growth rate for the fourth quarter of 2025 is not yet known, but the Atlanta Fed's [GDPNow](#) indicator is assuming that this will again be more than 4%. This would bring US economic growth to more than 2% for the full year 2025, in line with what was expected at the start of 2025, but well above the 1.4% growth expected in the aftermath of 'Liberation Day'.

## Is increased enthusiasm about US growth forecasts justified?

US economic growth forecasts for 2026 have recently been revised ever further upwards. In January alone, the growth forecast for 2026 according to the Bloomberg consensus was raised from 2% to 2.4%. While economists assume that the contribution of consumer spending to US growth in 2026 will be less than it was in 2025, this should be more than offset by above-average contributions from net exports (thanks in part to tariffs and the weak dollar), business investment (notably in AI), and government spending (partly under the 'One Big Beautiful Bill Act').

Whether all of this is justified or whether we have now reached a peak of optimism remains to be seen. In any case, American consumers do not share the economists' enthusiasm. US consumer confidence plunged last month to its lowest level since May 2014, apparently due to concerns about high prices (affordability), doubts about the labour market and annoyance about the policies of the Trump administration. Besides this, 2026 may also prove to be the year of truth for investments in AI. Doubts about whether they are too expensive and/or will ultimately deliver the intended productivity growth have recently increased. The depreciation of the dollar and the sharp rise in prices of 'safe haven' investments such as gold and silver are also signs that not everyone is convinced about the strength and stability of the US economy.



## Growth forecasts for Europe and Japan unchanged, Chinese growth flattening

Compared to the US, the economic growth forecast for the eurozone is quite stable. According to the Bloomberg consensus, economists still expect GDP growth for the eurozone to reach 1.2% by 2026, which would be a marginal decline from the most recent 1.3% year-on-year growth rate for the fourth quarter of 2025. Confidence among European entrepreneurs and consumers remains around average levels, with business services still outperforming industry. Within the eurozone, the former peripheral countries (such as Spain and Portugal) are now driving momentum rather than Germany and France.

Among the other major economic powers outside the US and Europe, it is striking that India seems to be able to maintain its current high level of growth for the time being, but that China is expected to have to settle for lower growth of around 4.5% in 2026 rather than the 5% growth that was still recorded in 2025, possibly for the last time. Finally, Japan is still expected to experience unspectacular growth of around 1% for 2026, but Prime Minister Takaichi's budget plans may give the economy another boost, assuming that she is re-elected in the parliamentary elections on 8 February.

## Inflation and interest rate forecasts more uncertain for the US than for the eurozone

Inflation figures did not show any major shifts in January. In the eurozone, inflationary pressure eased slightly to 1.9% year-on-year for headline inflation (although this is the first time that it has fallen below 2% since May 2025) and 2.3% year-on-year for core inflation (which excludes volatile food and energy prices). In the US, inflation remained unchanged from December, with headline inflation at 2.7% and core inflation at 2.6% year-on-year. In China, inflation remained below 1%. In Japan, headline inflation declined to 1.5% year-on-year (from 2% in December), but core inflation remained above average at 2.4% (especially given Japan's long-standing history of deflation). For 2026, economists expect inflation to be around 2% for the eurozone and Japan, and around 1% for China. For the US, inflation is now not expected to fall below 2.5% until 2027.

Given this inflation outlook, we should not expect interest rate moves from the ECB for the time being, unless of course there is an unexpected inflation shock. For the US central bank, the outlook is more complicated. At its last interest rate meeting in January, the Fed left the US base rate unchanged at 3.75%. Market expectations are now that the Fed will cut rates twice over the course of the year, reaching around 3.25% by the end of 2026. In this context, it is not only the uncertain development of inflation that plays a role – more so than in Europe. The appointment of the envisaged new Fed Chair, Kevin Warsh, may also affect forecasts. The announcement of President Trump's nomination in late January was greeted with a sigh of relief by financial markets, especially as Warsh is seen as a relatively mainstream candidate.

Although he has recently supported the low interest rate policy that President Trump would like to see, he was previously known as an inflation hawk who tended to keep interest rates high rather than cut them quickly. However, his main contribution to the debate on monetary policy is that he is in favour of quantitative tightening, i.e. the accelerated reduction of the US central bank's balance sheet. The Fed recently stopped selling government bonds from its balance sheet, partly to limit upward pressure on bond yields.



### Will new Fed Chair be put to the test by bond investors?

A combination of lower policy rates and quantitative tightening, as Warsh appears to support, could be interesting for financial markets. The most likely scenario would be for short-term (or money market) interest rates to fall and long-term (or capital market) interest rates to rise – in other words, a steepening of the yield curve. This should not be a problem in itself, but if, for example, financial markets start to worry that the Fed's policy rates might at some point be too low to keep inflationary pressures manageable, capital market rates could rise faster than is desirable. We have recently seen the potential effects of a crisis of confidence in the capital markets in [the UK](#) and [Turkey](#), among others.

Of course, this is not yet the case in the US; however, confidence in US government bonds is not so high that there is much room for experimentation with monetary policy. The 30-year yield in the US has already risen from less than 2% to 5% in recent years, and US government bonds lost their [AAA](#) rating some time ago. The Trump administration's continued undermining of the Fed, reaching its lowest point with the [criminal investigation](#) of current Fed Chair Jerome Powell, is not exactly reassuring for investors. It is precisely this investigation that may still pose a problem for Warsh's nomination: Republican senator [Thom Tillis](#) has indicated that he will block any appointment of a new Fed Chair as long as this investigation is not abandoned.

Somewhat reassuring, however, is that the Fed's policy decisions so far do not seem to have been much influenced by Trump's actions, that far worse candidates than Kevin Warsh were conceivable as the new Fed Chair, and that monetary policy decisions are not made by one person, but by a [committee](#) of Fed board members. [In sum, there is no real reason for concern at this point...](#)

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