

Market Review Monthly

January 2026



Key takeaways

- Australian shares rose by 1.7% in January, gaining despite the prospect of a potential interest rate hike. Information technology was the largest detractor for the fourth consecutive month, down -9.1%.
- International shares (hedged) rose 1.7% in January, supported by investor expectations of solid earnings growth as Q4'25 reporting began.
- The Australian dollar (AUD) appreciated against major currencies, ending the month at US\$0.6964 against the USD, after employment data pointed to a stronger than expected domestic economy. The Australian unemployment rate declined to 4.1% from 4.3%.
- The US Federal Reserve (Fed) left its policy rate unchanged at 3.5%–3.75%, as expected, citing solid economic growth and a stabilising unemployment rate. Markets are currently pricing in around 50 bps of easing over the year, with the first full rate cut not expected until July.
- We have a favourable view on emerging market shares as the economic outlook remains constructive, driven by supportive monetary conditions, stimulative fiscal policies, and low inflation in most economies.

Upcoming

1. **AU wage growth (18th February)** – Will wage growth remain robust in Australia?
2. **AU labour market (19th February)** – Will the momentum of the Australian labour market extend into January?
3. **US Q4'25 earnings reporting (February/March)** – Will US corporates continue to deliver earnings growth increase?



Market review

Australian shares gain even as interest rates are set to rise

- Australian shares rose 1.7% in January, performing in line with international shares.
- The energy sector was the strongest performer, increasing 11.1%, as energy prices climbed on heightened risks of a potential blockade of the Strait of Hormuz. Materials also performed well, supported by higher metal prices.
- Information technology was the largest detractor for the fourth consecutive month, down -9.1%. The sector has now fallen -31.8% since August, reflecting its previous elevated valuations.

International share markets continue higher in January

- International shares (hedged) rose 1.7% in January, supported by investor expectations of solid earnings growth as Q4'25 reporting began.
- Like Australian shares, the best performing sector was energy, up 11.9%, followed by materials, up 7.5%. The largest detractor was the IT sector, which fell -1.3%.
- Emerging market shares rose 3.6% in January, supported by their attractive valuations compared with other international share markets.

The AUD surges as the likelihood of interest rate hikes rises.

- The AUD surged after employment data released during the month suggested that the Australian economy was stronger than expected. This lifted market expectations for an interest rate hike and pushed the AUD higher.
- The AUD rose from US\$0.6673 to US\$0.6964, an increase of 4.4% and appreciated against all other major currencies.

Australian Dollar



Source: Bloomberg, Mercer

Australian listed property performed poorly in January

- Australian listed property fell -2.7% in January, underperforming international and Australian share markets.
- Given the sensitivity of Australian REITs to interest rate expectations, it is unsurprising that the sector came under pressure in January as expectations for higher interest rates increased.

Commodities saw strong returns in January

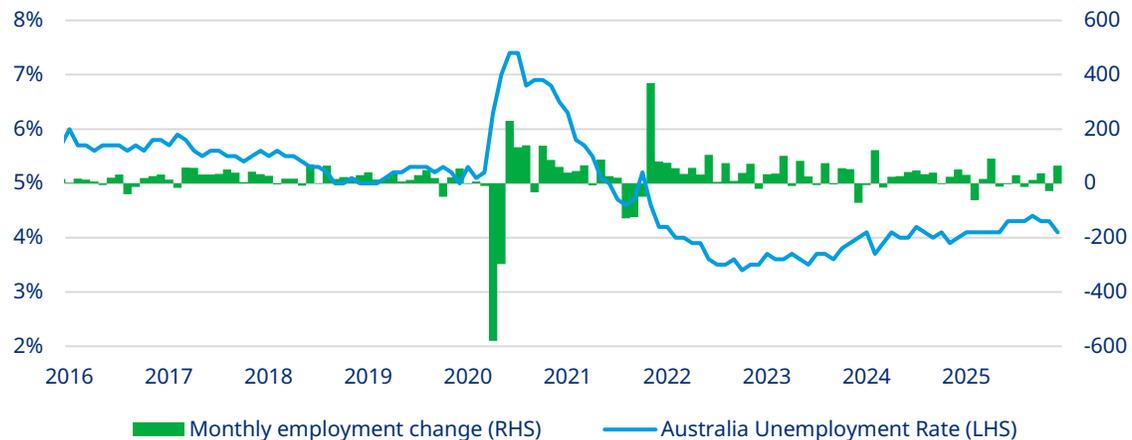
- Commodities advanced, rising 8.4%. Oil jumped 16.2% as heightened geopolitical tensions around Iran raised the risk of a blockade in the Strait of Hormuz. Precious metals delivered strong gains, with gold up 13.3% and silver 11.2% amid increased investor demand, while industrial metals also appreciated over the month.

Economic review

Australia: Strong labour market conditions boost the economy

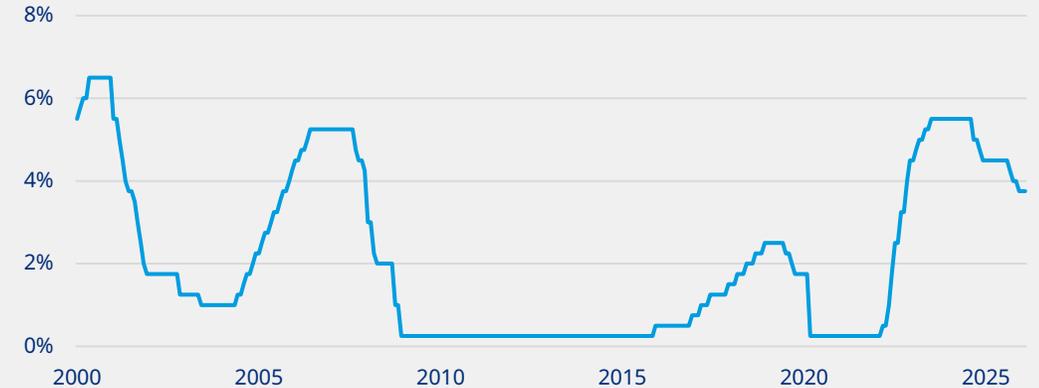
- Australian unemployment fell to 4.1% from 4.3%, supporting the RBA's view that there is still excess demand in the economy and validating its recent decisions to keep rates on hold.
- Australian monthly CPI for December came in at 3.8%, up from 3.4%. The RBA deputy governor emphasised that policy focuses on inflation over a one- to two-year horizon, while also noting that the outlook for interest rates has changed and cuts are no longer likely.
- Australian household spending rose 1.0% month on month in November, taking annual growth to 6.3% and aligning with the late-2025 rebound in consumer confidence. However, confidence has since edged lower, likely reflecting a shift in market expectations from interest rate cuts to potential rate hikes in 2026.
- The Australian NAB business survey reported slightly improved business conditions and higher confidence in December, partially reversing November's declines. Pricing pressures on businesses remain elevated.

Australia Unemployment Rate and Employment Change



Source: Bloomberg, Mercer

US Federal Funds Rate (Upper Bound)



Source: Bloomberg, Mercer

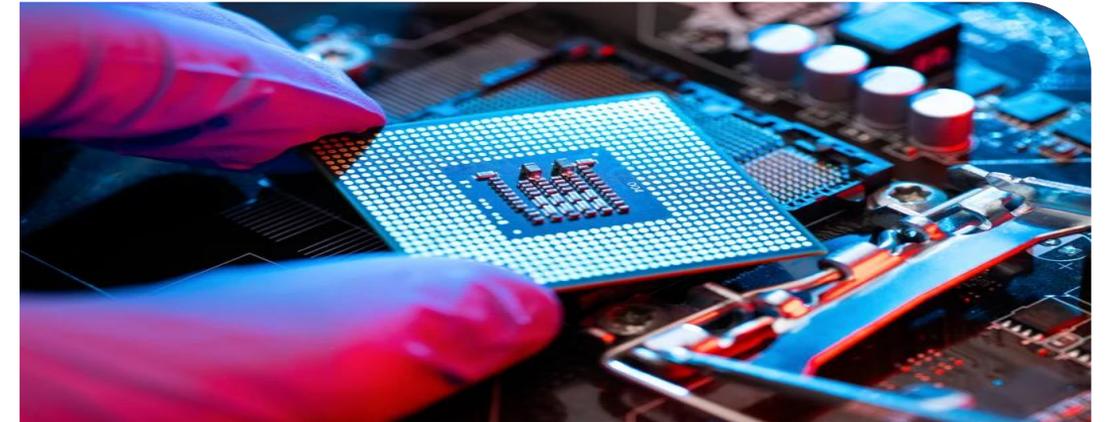
International: The Fed leaves rates on hold in January

- The Fed's FOMC left its policy rate unchanged at 3.5% - 3.75%, in line with expectations, noting solid economic growth and a stabilising unemployment rate. Markets are currently pricing in around 50 bps of cuts over the year, with the first full cut not anticipated until July.
- President Donald Trump has nominated Kevin Warsh as the next Fed Chair. Warsh sees the central bank's current policy stance as restrictive and will likely argue for further rate cuts.
- US headline CPI inflation rose by 0.3% in December. Core inflation rose by 0.2%. The data is not expected to impact the Fed's rate cutting cycle.
- Following the capture of Nicolas Maduro, US President Trump has been putting pressure on other Latin American countries including Cuba, Mexico and Colombia to curb illegal immigration and stop the flow of drugs into the US.
- Iran has experienced large scale protests across multiple cities as economic hardship from sanctions takes effect. The latest protests began after shopkeepers closed their businesses in response to high inflation. President Trump has warned that any violent crackdown on demonstrators by the Iranian authorities could trigger a US response.

Outlook

Australian economic growth is expected to pick up in 2026

- Australian economic growth is likely to pick up in 2026, driven by recent RBA interest rate cuts, improving consumer confidence, and robust income growth. Market expectations have recently moved to rate hikes in 2026.
- Headline inflation is expected to keep rising in 2026, as government energy rebates have expired and recent readings remain above the RBA's 2%–3% target range. The RBA has adopted a more hawkish stance amid concerns about persistent inflation, pushing Australian government bond yields higher. We view this as a fair reflection of market expectations for monetary policy and, as a result, currently maintain a neutral position.
- The AUD has marginally attractive valuations against the US dollar, but valuations are less supportive against other currencies. With Australian economic growth still running below potential and valuations only mildly supportive, maintaining a neutral position in the AUD remains appropriate.

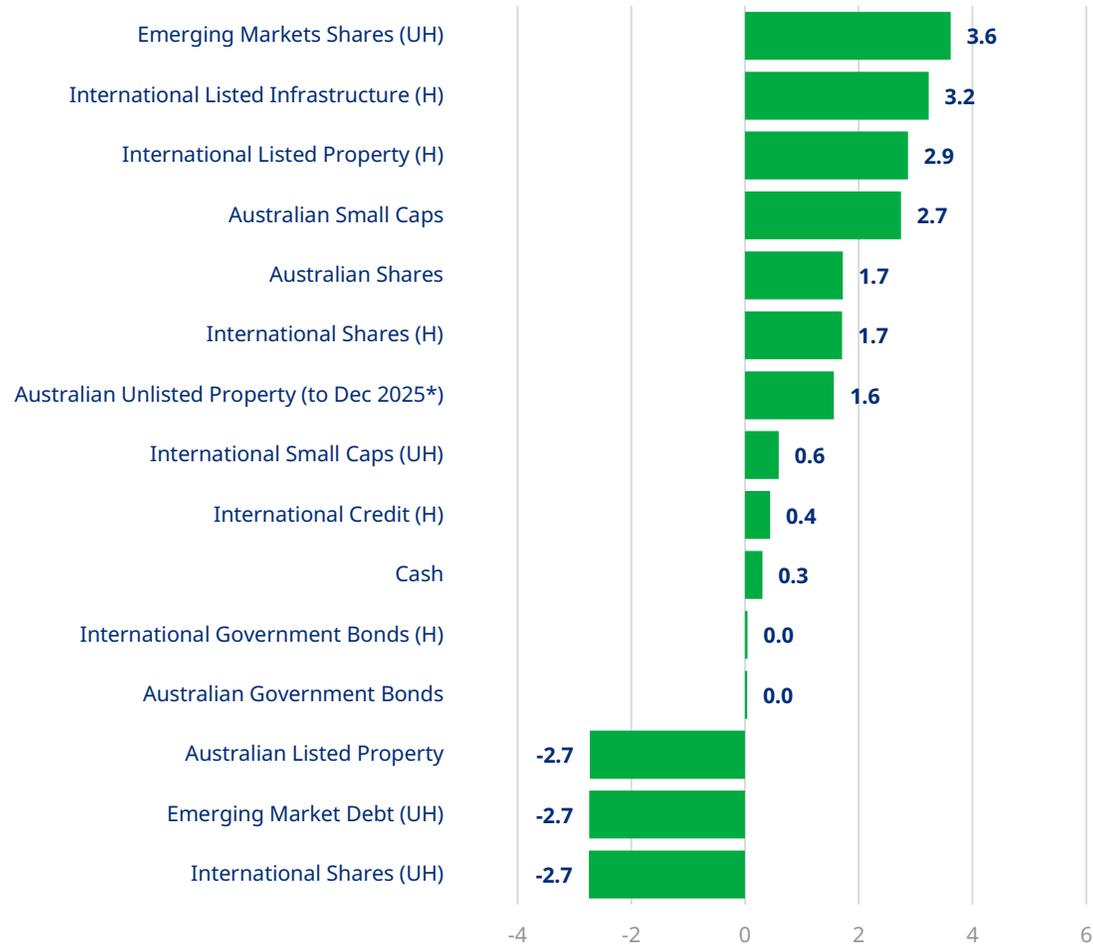


The global economy remains resilient

- Global growth is expected to accelerate into 2026, after ending the year on a much stronger footing than anticipated. We expect growth to be close to trend in most economies. The drag from higher tariffs should diminish as trade policy uncertainty eases and businesses continue to adjust their supply chains.
- Inflationary pressures are expected to moderate, keeping most central banks on an easing path. However, core inflation is expected to remain sticky, limiting the scope for central banks to cut policy rates.
- Fundamentals for shares are solid, supported by Artificial Intelligence (AI) enthusiasm, fiscal stimulus measures, and monetary policy easing, but valuations are expensive. We have a positive view on emerging market shares as the economic outlook remains constructive, driven by supportive monetary conditions, stimulative fiscal policies, and low inflation in most economies.
- Within global shares, we also favour Japanese shares, where we expect corporate profitability to be supported by robust nominal GDP growth, stimulative fiscal policy measures, and ongoing corporate governance reforms.

Performance

Market performance January 2026



Data source: LSEG Datastream. Data provided 'as is'. Details on chart constituents can be found on last page

Market performance 12 Months to January 2026



Data source: LSEG Datastream. Data provided 'as is'. Details on chart constituents can be found on last page

Chart Constituents

Asset class	Benchmark	Data type
Australian Shares	S&P/ASX 300	Total Return
Australian Small Caps	S&P/ASX Small Ordinaries	Total Return
International Shares (UH)	MSCI World ex Australia	Net Index
International Shares (H)	MSCI World ex Australia 100% Hedged	Net Index
International Small Caps (UH)	MSCI World Small Cap	Net Return
Emerging Markets Shares (UH)	MSCI Emerging Markets	Net Index
Australian Unlisted Property (one month lag)	MSCI/Mercer Australia Core Wholesale Monthly PFI	NAV Post Fee
Australian Listed Property	S&P/ASX 300 A-REIT	Total Return
International Listed Property (H)	FTSE EPRA/NAREIT Developed Hedged	Net Return
International Listed Infrastructure (H)	FTSE Global Core Infrastructure 50/50 Hedged	Net Return
International Credit (H)	Bloomberg Global Credit	Hedged Return
Emerging Market Debt (UH)	JP Morgan GBI EM Global Diversified Composite	Total Return
Australian Government Bonds	Bloomberg AusBond Treasury 0+ year	Total Return
International Government Bonds (H)	Bloomberg Global Treasury Hedged	Hedged Return
Cash	Bloomberg AusBond Bank Bill	Total Return

Notes

- Currency: AUD.
- UH: Unhedged.
- H: Hedged.
- Where a lag exists, the performance start and end dates shift accordingly.
- Total Return: Total Return Index with Gross Dividends.
- Net Index: Total Return (Net Dividends Reinvested).

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