FOUNDED IN	EMPLOYEES	LOCATED IN	ASSETS DIRECTLY UNDER MANAGEMENT	ASSETS HELD BY INVESTEE & AFFILIATED COMPANIES
1988	**80+**	**10+** COUNTRIES	**USD 1.4** BILLION	**USD 42.8** BILLION

ICM Monthly Outlook

JANUARY 2026

Market Review

January 2026 has been an intriguing smorgasbord of market forces. We have seen momentum continue from last year, an endless stream of geopolitical headlines, shifting monetary policy expectations, and continued enthusiasm for AI-driven productivity (more later).

Since the start of the year, equity markets have made new all-time highs and remain near historic highs. So far in January, the S&P has put on 1.52% on top of 16.39% in 2025. Similarly, global equities as measured by the Morgan Stanley World index has gained 1.7% so far this year, after 19.49% last year.

Commodities have rallied hard. Gold and silver prices continue to set new all-time highs, thanks to their safe-haven demand against the backdrop of rising political tensions. Oil prices climbed on concerns over supply disruptions tied to Middle East developments, while natural gas prices jumped more than 50% due to severe winter weather in North America.

Renewed U.S.–EU tariff clashes spooked markets temporarily. Japanese government bonds sold off sharply, temporarily reaching record-high yields because of political uncertainty following the announcement of a snap election, and concerns for future fiscal stimulus. The JGB sell off threatened to spill over to the U.S. Treasury market over fears that Japanese investors would need to repatriate up to USD 1.2 trillion Treasuries to cover losses elsewhere.

Market Outlook

The global economy has proven very resilient over the past three years. And we believe there is more cause for optimism now than at the start of any of the last three years, notwithstanding the possible 500lb gorilla in the corner, which we'll come to later.

Having reviewed our past three January letters, the outlook for 2026 appears more promising than any of these. Many of the previous risks and threats to economic growth never transpired; things were never as bad as they seemed. And investors learned to live with the predictability of President Trump's behaviour; his bark is worse than his bite. Over the past three Januarys, the dominant sentiment has been one of caution amid uncertainty about interest rates, the likelihood of Central Bank policy errors, apprehensive inflation expectations, and, of course, the effect of President Trump's policies, especially tariffs. For the past three years, global economic growth has come in on target, nearly.

The 2026 global growth forecast remains 3%[1], which feels reasonable to us. We expect the same mainstay contributors to growth in 2026 as for the past three years, including AI capex spending, AI productivity gains, Chinese growth above the global average, investment in electricity generation, military spending, gradual disinflation, and, new to our list, increased investment in metals and mining.

AI
Investment in artificial intelligence infrastructure and the subsequent productivity gains look set to dominate the business cycle for years to come, possibly even decades. Capex investment in AI is frenzied at present. There appears to be no end in sight for demand for data centres and electricity supply.

Productivity gains from AI continue to boost earnings as new models are rolled out into new sectors and use cases. Based on commentary from most analysts and leading global experts, AI models have a long way to go before becoming true Artificial General Intelligence, capable of thinking for itself, with profound impacts, both positive and negative, for society. In many instances, it's reducing labour costs through job cuts – a big concern for policymakers.

Last month, we mentioned that Google's weather model is more accurate than traditional meteorologists. This month, it's the architects' turn to feel the heavy hand of AI producing multiple planning-compliant precision drawings and plans for houses and extensions with the click of a button, for a pittance.

AI will transform how we live our lives through improved robotics, autonomous vehicles, and broader, general efficiency gains.

China
China's economic rebound looks set to continue next year, with President Xi Jinping forecasting solid growth of 5% in 2026, ahead of global growth forecasts of 3%, which is no surprise given how closely linked China is to AI investment, and technology investment more generally, including cars, batteries, as well as its usual manufacturing and export sectors. The race for technological supremacy is a two-horse race between China and the U.S., which is a topic we'll develop further this year.

Disinflation and interest rates
AI will be deflationary, as anyone who has experience with architects' fees will testify. (Scaffolding, however, is a whole other ball game; bonkers expensive and insulated to AI interference.) Inevitably, AI will accelerate job losses if the rollout proceeds as predicted currently. The upshot of such disruption will be higher unemployment, which will force Central Banks to lower interest rates to stimulate job creation, as their mandate specifies.

Defence spending and consumer sentiment
Smaller countries that hitherto felt protected by the U.S. are suddenly feeling vulnerable, leading to a significant increase in investment in physical and cyber defence. Similarly, we expect consumer spending to remain strong. Consumer spending has helped prop up the U.S. economy more than expected in the past few years, and recent consumer sentiment data reaffirmed its resilience. The University of Michigan's Consumer Sentiment index figure for January 2026 was 56.4, up from 52.9 in August, and its highest level since August 2025. We expect consumers to become increasingly optimistic as stock markets go higher and interest rate forecasts trend lower due to further disinflation and softer jobs growth.

Metals
Central Banks have restrained inflation, even if the 'final mile' is proving stubborn, particularly in certain hot spots like electricity and food, which will be addressed in the coming years.

Major Central Bank rhetoric and the current global GDP forecast suggest the global economy is not too hot, nor too cold, and unlikely to result in a significant surge in inflation.

That said, we are constructive on the copper price, which has recently started to rally. Rising copper prices often signal growth, while falling prices may indicate a slowdown in economic activity. Often referred to as Doctor Copper, it is considered a reliable economic indicator given its wide range of uses across myriad industries such as computing, electronics, energy, construction and transportation. Therefore, it is no surprise to see the copper price rising in tandem with the surge in data centre investment, upgrades to global electricity infrastructure, including cars, and defence spending.

We also note a dearth of capital investment in copper in the past decade. Cast your mind back to April 2024, when BHP tried unsuccessfully to buy Anglo American as a cheaper way to access copper reserves than to develop greenfield sites. BHP bid nearly $40 billion. The acquisition would have increased BHP's access to copper reserves. We commented at the time that BHP's management was not confident enough in the copper price to make a substantial investment in a greenfield site, which is fraught with permitting challenges and expenses. More recently, Anglo American and Teck Resources agreed to a merger. The cost of new production from less hospitable global locations could drive up copper prices. It is just a matter of time before supply constraints bite if our anticipated capex investment expectations transpire. In the meantime, copper prices should continue to rise, offering an additional margin of safety for producers.

Geopolitics

We are also more optimistic, or less fearful, of geopolitical risks. In fact, we believe most investors are starting to ignore President Trump's geopolitical posturing and focusing on what's happening in the real world. Consider the market's subdued reaction to President Trump's despoilment of the Venezuelan President (See our September 2025 newsletter.)

Similarly, investors' assessment of President Trump's recent threats toward Greenland is another good example of how geopolitical risks are no longer given significant weight by the market. Greenland is also another nice example of how standing up to the bully is the best option. (See our December 2025 letter.)

The more unexpected recent political jibe was the U.S. Department of Justice serving subpoenas on the Federal Reserve Bank related to Jerome Powell's testimony on the Federal Reserve's headquarters renovation project. This is yet another example of President Trump's petulance. Again, the market shrugged it off.

The U.S. President's behaviour is increasingly consistent with the hallmarks of an emerging or frontier country leader, based on his attempted diminishment of the organs of the state (the Federal Reserve Bank and the FBI), the intimidation of its citizens (ICE), and border disputes. But most of all, like a frontier economy, it is heading toward an overwhelming debt burden. Even the U.S. Treasury Secretary describes it as a "mountain of debt." U.S. indebtedness is the 500lb gorilla in the corner. We have highlighted this risk ad nauseam. The U.S. Federal debt is expected to reach 120% of gross domestic product in the coming years. The U.S. government also has a deep-rooted budget deficit. The U.S.'s indebtedness is its Achille's heal. Like emerging markets, the market can only tolerate so much fiscal indiscipline.

Time and again, we have seen the debt crisis overwhelm emerging markets with long-lasting effects. While the U.S. cannot default in the old-fashioned way, it can succumb to currency devaluation, resulting in higher inflation and subsequent breakdown in society in a country with an estimated half a billion guns. But that is the scary version. It will never come to that because the bond market will not let that happen. The bond market will tolerate only so much before pricing the President out of the market, resulting in budget cuts and significant hardship for some members of society, forcing political change. We have discussed this topic before. How did you go bankrupt, slowly, then suddenly? This is considered the main reason for the rally in gold to hedge against the possible devaluation of the US dollar.

Conclusion

Despite moments of political theatrics to deflect attention, we have far more reasons for optimism grounded in the many levers for growth, as outlined above. A key skill in the last few years was not overreacting. Nor are we complacent that the U.S. fiscal trajectory remains the most significant structural concern on the horizon. While this dynamic may introduce future bouts of volatility, the long-term consequence is a system that self-corrects before a true crisis takes hold. For now, the weight of evidence suggests the global economy is neither overheating nor stalling but finding an equilibrium that supports continued growth. In a world full of noise, the signal for 2026 is one of steady progress, transformative opportunity, and the reminder that disciplined optimism has been a winning strategy in each of the past three years - and looks well-positioned to be one again.

Conor Spencer
26th January 2026

Source Data: ICM, Bloomberg as of 31 December, 2025.
[1] Bloomberg World GDP Economic Forecast Survey

Risk Warning

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