

Economic News January 2026

Key events in global markets over the last three months to December 2025

Optimism surrounding Artificial Intelligence (AI) and the prospect of lower US interest rates were key drivers of rising global share prices throughout 2025. These themes look set to continue, with the rate of AI sales and adoption and interest rate expectations once again likely to be major influences on share market performance in 2026.

In December 2025, Wall Street's benchmark S&P 500 Index reached another historic high, delivering a quarterly gain of 2.6% in local currency terms. Investors have largely taken the view that President Trump's proposed tariffs represent a temporary threat in terms of higher US inflation and slower economic growth. Despite these tariffs causing the first major trade dispute in decades, US investment markets have largely brushed off their impact anticipating that any rising inflation and slower economic growth could be offset by the US Federal Reserve cutting interest rates to stimulate economic activity.

Asian equity markets also delivered some impressive performances. Korea (30.7%) and Taiwan (13.8%) posted very strong quarterly returns in local currency terms. Japan's share market rose 9.6% despite the central bank raising interest rates in December 2025. In contrast, Chinese equities disappointed, falling -7.6% after a strong rally over the previous six months. China continues to present complex challenges for foreign investors due to economic, political, and regulatory factors.

Global bonds (hedged) delivered a modest 0.7% return for the quarter. Ongoing concerns around persistent government budget deficits and rising Japanese interest rates offset the benefit of the US Federal Reserve lowering interest rates in December 2025.

Key events in Australia over the last three months to December 2025

Australian shares experienced a disappointing quarter, delivering a mildly negative return of -0.9%. The Information Technology sector was the primary source of weakness, falling -23.7%, largely due to poor performances from WiseTech and Xero. The Health Care sector also lagged, declining -9.5% amid continued weakness in CSL Limited, a leading biotechnology company. In contrast, the Materials sector was one of the few bright spots, posting a strong 13.0% return supported by rising gold and base metal prices.

Australia's economy is showing signs of resilience, with improved consumer spending, modest employment growth, and a stable unemployment rate around 4.3%. However, inflation remains persistent, running at 3.8% in the year to October 2025. As a result, expectations for further RBA interest rate cuts have largely evaporated. Recent high inflation readings have led markets to contemplate the possibility that the Reserve Bank of Australia (RBA) could raise interest rates in 2026 which would mean borrowing costs would increase and economic growth often slows as consumers and businesses look to reduce spending. The next inflation data will be released by the Australian Bureau of Statistics (ABS) at the end of January 2026 and will be closely watched by markets and policymakers.

Global prospects going forward

Strong enthusiasm for AI and technology continues to underpin global equity markets. Lower global inflation has also allowed central banks to selectively reduce interest rates, providing further support for asset prices. Typically, lower interest rates can stimulate borrowing, boost corporate profits, and support higher share and property prices as confidence improves.

Investors have also taken the view that President Trump's tariff agenda may be "more bark than bite". Europe and Japan have reportedly agreed to a 15% tariff framework with the US, although negotiations between China and the United States remain ongoing. Until a formal agreement is reached between China and the United States, investors should remain cautious given the potential for renewed trade tensions.

Global share markets also face elevated geopolitical risks. The Russia–Ukraine war continues to cast a shadow over European security, while instability in the Middle East remains a significant threat to global energy supplies. In addition, recent geopolitical developments in Latin America have added further uncertainty.

The political and economic crisis in Venezuela — a country with the world's largest proven oil reserves — has intensified following a significant escalation when the United States captured President Nicolás Maduro and stated they wish to control Venezuelan oil production and supply infrastructure. This ongoing situation has the potential to create volatility in energy markets and influence global risk premiums, even if the immediate impact on broader markets has so far been relatively muted given Venezuela's limited share of total global GDP and oil output.

Greenland is also emerging as a geopolitical consideration due to its strategic location and resource potential, amid emerging comments from President Trump. The Arctic territory sits atop substantial untapped natural resources, including oil, gas, and critical minerals that are increasingly valuable in the global energy transition and security landscape.

Any escalation in these regions whether through conflict, political instability, or shifts in control over key resources could materially impact inflation, growth, and financial markets, particularly in energy and commodities sectors.

Australia's economic outlook remains vulnerable to political tensions between China and the United States. With China accounting for approximately 30% of Australia's exports, the relationship between Beijing and Washington is critical to Australia's economic performance. Any escalation in tensions over tariffs or Taiwan would pose a risk to Australia's economy and share market prospects.

Australian households continue to face cost-of-living pressures. The Federal Government's decision to end electricity rebates, combined with persistent price pressures in food, healthcare, and housing, suggests inflation challenges remain entrenched. There is a growing risk that the RBA may feel compelled to raise interest rates in 2026 to contain inflation. Such an outcome would likely weigh on household budgets, housing affordability, and overall economic growth.

Given these complex and evolving risks, investors are encouraged to maintain a disciplined, diversified, and long-term investment strategy.

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If you have any questions or wish to arrange a meeting to review your personal situation earlier, please do not hesitate to contact me on 03 9544 1004. We hope you have a very happy and healthy New Year.

Regards,

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