RATHBONES

Monthly Digest

By John Wyn-Evans
Head of Market Analysis

Double, double, toil and trouble

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The world seems to be rapidly changing in unpredictable ways, but toil and trouble is nothing new. Precious metals in particular have had a turbulent time lately. But we still see them as credible diversifiers, and maintain our belief in individuals and companies to innovate and compound growth over the long term.

Quick take:

- Global bonds and equities are off to a good start despite new worries
- Gold is down from its recent heights, but not out as a diversifier
- A robust investment process and belief in compounding growth will keep us anchored

The school I attended in Wales between the ages of seven and ten ambitiously put on a Shakespeare play every year. I reached the pinnacle of my acting career at the age of ten, playing Lady Macbeth. I died twice in one night... the Royal Academy never called.

But with certain shares and commodities doubling, then doubling again before running into the toil and trouble of profit-taking, the famous line from Macbeth, "Double, double, toil and trouble" feels like an apt title for this month's commentary.

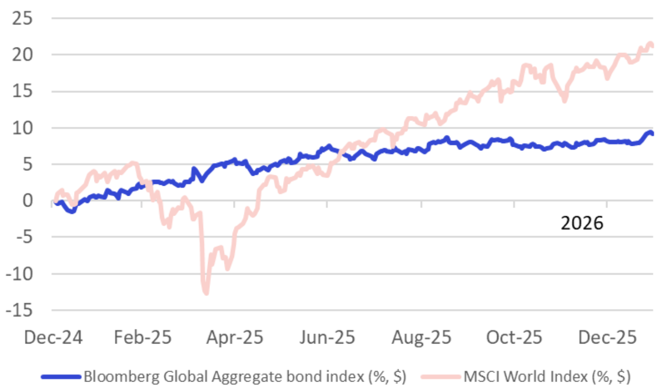
Off to a good start

An old stock market saying holds that "as goes January, so goes the year". That's not as simplistic as it sounds, because markets tend to follow the underlying direction of economic growth and corporate earnings. It usually takes some sort of policy change or exogenous event to alter the path.

January offered another array of novel things to worry about, including the arrest of the President of Venezuela, a US threat to the sovereignty of a Nato ally and the formation of an American armada that is heading for the Persian Gulf, with potential to make an intervention in Iran. There was another round of tariff sabre-rattling and ongoing uncertainty about who would be the next chair of the US Federal Reserve (Fed). The common source to all of these worries is the US government. Gone are the days when the US was the global hegemon and peacekeeper, presiding over the rules-based system that has dominated global trade, diplomacy and finances since World War Two. Now it's the disruptor.

And yet global equity and bond markets (and, hence, balanced portfolios) made further advances in January. The global economy seems to be in decent shape despite the concerns. The effect of past interest rate cuts has been supportive (with more to come), as is the capital expenditure tied to the spread of genAI in our lives. Companies' fourth-quarter earnings results announced so far suggest that profits are growing, and the outlook for 2026 is positive (more in the regional sections below).

Figure 1: Stocks, bonds keep climbing (%)



Source: Factset, Rathbones; total returns, as of 31 Jan

Prec(oc)ious metals

One of the more remarkable features of recent times has been the extraordinary rise of precious metals prices. As with most speculative runs, this one is built on sound foundations, though the violent retrenchment heading into February suggests that markets think they've got ahead of themselves. Since Russia invaded Ukraine and the US froze Russia's dollar assets, central banks around the world (mainly those of countries not aligned to the US), have been shifting their paper dollar-based reserves into something more tangible.

There has also been safe-haven demand for gold from investors looking to insulate themselves against geopolitical risk. Purchases of gold, seen as a hard asset that holds its value, may also be fuelled by the perceived risk of currency 'debasement'. This is where governments and central banks collude to encourage more inflationary growth and suppress interest rates, in order to reduce government debts in real (inflation-adjusted) terms. At the same time this destroys the real value of low-risk savings such as cash or government bonds.

Gold's gains also come in the context of a wider global commodity buying spree, which stems from the thesis that as nations become more focused on national security, this could lead to the stockpiling of strategic reserves. They'll also want shorter supply chains in general, which call for bigger inventories and more investment in local manufacturing. Add to that the ongoing demand for genAI-related infrastructure and pledges to increase defence spending, and a looming shortage of critical metals and minerals. This is exacerbated by supply constraints, with producers slow to increase output following the threat to the industry when the last big commodity boom went bust in 2016. You can read more on our views on metals and mining in our February Investment Insights magazine, due out soon.

The result has been a spectacular increase in the price of gold and silver, in particular, although other metals have been strong too. In dollar terms, gold almost tripled from around $1,800 per troy ounce just before Russia's full-scale invasion of Ukraine in February 2022 to a peak of $5,417 in January. Silver came to the party a bit later, but did more than a 'double, double', rising from $24 at the beginning of 2024 to a peak of $117.

Figure 2: 12-month moves in gold and silver

Source: Factset, NY Metals Exchange, $/troy ounce; as of 4 Feb

We still believe that the increases had their roots in sensible portfolio diversification. But that appears to have been overtaken by a combination of speculative and momentum-based purchases, including buyers who'd used borrowed funds. At the time of writing, the prices of gold and silver were down 9% and 24% respectively from their highs, but only back to levels first reached in mid-January.

We continue to see precious metals, with a preference for gold, as credible diversifiers within balanced portfolios, given their tendency not to move in tandem with equities and other risk assets.

Bank of Kevin

A long-running saga has been the race to replace Fed Chair Jermone Powell when his term ends in May. Investors are concerned because President Trump, who has nominated former Fed member Kevin Warsh, wants interest rates to be a lot lower to juice the economy. This risks pushing inflation higher, undermining confidence in the dollar and, indeed, US governance in general.

Warsh's record at the Fed (from 2006 to 2011) places him firmly in the 'hawkish' camp wanting tighter monetary policy. This makes him an odd choice. Even in the aftermath of the global financial crisis, he stood out for being critical of the Fed's bond-buying (money printing) programmes. One can only wonder if he has executed a philosophical U-turn to attain this prestigious post. A positive market reaction so far, including some recovery in the dollar, points to hope that he will stick to his inflation-fighting guns. We won't be making any portfolio changes on this basis; he still has to gain Senate approval.

The Long Now

Often in these commentaries we're looking to dispel fears about the long-term consequences of things that are having an immediate effect on markets. But for some people, even our long-term approach looks extremely short-sighted. The Long Now Foundation (of which I am not an affiliate) encourages people to consider developments over millennia. Its flagship project, started 30 years ago, is a clock designed to tick once a year and run for the next 10,000 years (it's still not finished). According to the project's leader, Danny Hillis, "We have a bias toward the sudden, and we have a bias toward also noticing the dangerous and the negative too. And so the electronic media amplifies that, and maybe it seems like things are more hopeless than they really are."

OK, even for us a 10,000-year investment horizon is a bit of a stretch! But in uncertain times we always come back to the anchor of a robust investment process and our belief in individuals and companies to innovate and compound growth. Sometimes this is in defiance of here-today, gone-tomorrow political leaders who have their own short-term agendas.

Regional highlights

US. A new intraday high for the S&P 500 Index above 7,000 fails to capture the rotation taking place beneath the surface. Since October, the leading technology companies have, in aggregate, been lacklustre, as investors continue to question the potential returns from the vast sums being invested in genAI and try to sort out the winners from the losers. Within the Magnificent Seven, for example, Alphabet (Google) rose by more than a quarter while Microsoft was down more than 20%. Investors are particularly concerned about companies which provide 'software as a service', fearing that they could be disrupted by users creating their own genAI-generated software. Over that period, the Technology Hardware sub-index gained 6% while Software shed 16%. The market is taking no prisoners. Even companies that are strongly entrenched with customers and those with unique proprietary databases have been sold off. We believe this offers opportunities for more discerning investors in the long run. The lack of technology leadership is cited by some as a reason to fear for the market overall, but a more optimistic take would be that other sectors have taken the baton. Materials and Energy have led the way in anticipation of a broader global reflation and investment cycle, while the equal-weighted S&P 500 Index is outperforming the more widely quoted large cap version.

UK. Equites have continued to build on their strong performance in 2025. The materials sector is a top performer, given the rise in commodity prices. It's followed by utilities, once seen as a safe, even boring, bond proxy. It now benefits from the burgeoning need for energy to power data centres and all things related to genAI. Although we don't make directional bets on currencies, we always keep an eye on the pound as it's a good barometer of investor sentiment. Aided to some degree by the weaker dollar, sterling's trade-weighted index is near the top of its post-Brexit range. That also reflects limited concern among bond investors about the ability of the UK to service its debts. We will be monitoring the pound even more closely around the May local elections, especially if Labour's performance leads to a leadership challenge. A stronger pound tends to present a headwind to the FTSE 100 index given the high proportion of overseas earnings.

Europe. Equities have also picked up in the new year where they left off in 2025 and gained further ground. There is undoubtedly some element of global investors reducing their US dollar exposure in favour of greater diversification (as we're seeing in other non-US markets), but Europe's recovery story still has the potential to stand on its own two feet. Much of the continent has been in retrenchment and recapitalisation mode since, first, the global financial crisis and then the eurozone crisis. Financial risk was discouraged as balance sheets were rebuilt. Encouraged by the need to spend more on defence and mindful of 2024's Draghi Report on European competitiveness commissioned by the European Commission, which championed innovation and deregulation, Europe's institutions and companies are showing signs of greater confidence. But it does remain a slow burn. We're also beginning to see the benefits of the European Central Bank having cut interest rates from 4% to 2%.

Emerging markets. While much of last year's strong performance in equities was driven by Asian technology companies, the net has widened in 2026. South America is back in the spotlight, with both Mexico and Brazil showing double-digit gains already. They, like other markets, have been supported by funds diversifying from the US, but the resurgence of commodities is another strong tailwind. Proximity and political alignment to the US bolster their trade credentials in a world where supply chains are being shortened, and pre-emptive strikes against inflation during the last cycle leave them well-positioned to cut interest rates. Even so, both markets fall short of the 24% rise in January of South Korea's Kospi index. It continues to benefit from investment in genAI thanks to its exposure to memory chips, an essential and increasingly scarce component of data centres. Chip-makers Samsung (+34%) and SK Hynix (+39%) account for around half the index's capitalisation, so these market returns are very concentrated. The outstanding laggard remains India, with the Nifty 50 Index (-2%) losing more ground. For now, it's caught in the middle of the US-China power struggle. It also lacks technology firepower and is a net importer of commodities.

Fixed income. The Bloomberg Global Aggregate Bond Index ($) gained 0.94% in January, helped by the weak dollar. The sterling hedged version returned 0.25%. As in 2025, bond yields aren't moving very far. There hasn't been the sort of economic slowdown that might increase demand for safer assets such as bonds, nor has there been too much concern about higher inflation. Corporate credit spreads (the difference in yields between safer government bonds and corporate debt) remain tight by historical standards as demand for these income-generating assets continues to be robust and default risk remains low. Our preference is still to for shorter-dated over longer-dated bonds, with minimal duration exposure. This means that we can benefit from yields that are still attractive, and potentially some tailwinds from further cuts in interest rates, without as much exposure to the risks associated with government deficits and longer-term inflation.

The All UK Conventional Gilts index delivered a total return of +0.25% over the last three months and was up 4.1% over the past year. Index-Linked Gilts returned 0.38% and 0.1% over the same respective periods. Emerging Market bonds produced a total return of 3.2% in sterling over the three months to end January (4.7% over 12m). Global High Yield bonds delivered 1.6% (6.5% over 12m) in sterling terms.

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greenbankinvestments.com

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