Investment market update: January 2026

Geopolitical tensions and threats of trade tariffs continued to impact global investment markets at the start of 2026. Read on to find out what factors may have affected your investments at the start of 2026.

Markets experienced highs, but geopolitical tensions continue to cause volatility

On 2 January, the first day of trading in 2026, the FTSE 100 – an index of the largest 100 companies listed on the London Stock Exchange – hit a new high and exceeded 10,000 points for the first time, getting the year off to a good start for investors.

On 5 January, headlines about the US's strike on Venezuela and the capture of the country's president, Nicolás Maduro, affected markets.

Some investors sought "safe" assets, which led to gold rising by more than 2%, while defence stocks in Europe climbed. In addition, shares in US oil companies jumped, including Chevron (4.4%) and ExxonMobil (2%).

There was good news from UK retailer Next on 6 January. The company beat expectations over the Christmas period, with sales £51 million higher than anticipated. The 2.8% boost in its stock value led to the firm becoming the top riser on the FTSE 100.

The UK's FTSE 100 wasn't the only index to perform well at the start of January. The German index DAX hit 25,000 points for the first time on 7 January.

However, rising geopolitical tensions between the US and Europe led to European markets opening in the red on 8 January and losses across the Asia-Pacific region earlier in the day. The fall occurred following meetings between the US and Denmark about the future of Greenland, over which US President Donald Trump has said he wants control.

News of a potential deal between mining giants Rio Tinto and Glencore sent ripples through the London stock market on 9 January. Glencore, which would likely be acquired if a deal went through, saw shares increase by 8%. Meanwhile, Rio Tinto, the likely buyer, saw shares fall by 2.6%.

Trade tariffs and threats of them affected markets throughout 2025, and this trend looks set to continue into 2026.

On 13 January, Trump threatened countries doing business with Iran with a 25% tariff as Iranian authorities cracked down on nationwide protests. Among the top export destinations for Iranian goods are China, the UAE, and India.

The following day, Trump announced further plans to impose new 10% trade levies on goods from Denmark, Norway, Sweden, France, Germany, the UK, the Netherlands, and Finland from 1 February, which would rise to 25% on 1 June. The president said the tariffs would remain in place until the countries supported his goal to acquire Greenland.

The news led to markets falling in Europe when they opened, including the UK's FTSE 100 (-0.48%), France's CAC (-2.1%), and Germany's DAX (-1.35%). Among the sectors hit hardest were European car manufacturers, such as Mercedes-Benz (-6%), BMW (-4.8%), and Volkswagen (-3.5%).

In contrast, defence stocks, such as Germany's Rheinmetall (3%), the UK's BAE Systems (2%), and Italy's Leonardo (3%), were up.

After days of uncertainty, Trump pledged not to use force to take control of Greenland on 21 January, and dropped the threat of tariffs, which calmed the markets.

Another market milestone occurred on 28 January. The Wall Street index the S&P 500 exceed the 7,000 mark for the first time. The boost was driven by AI optimism and expectations of strong results from big technology companies.

UK

In the 12 months to December 2025, UK inflation increased to 3.4%, which may affect the Bank of England's decision on whether to lower interest rates in the coming months.

Data from the Office for National Statistics shows the UK economy expanded by 0.3% in November, which was better than economists expected. In addition, figures were revised upwards from -0.1% to 0.1% for September.

Insight from S&P Global's Purchasing Managers' Index (PMI) was also positive. UK factories grew at their fastest pace in 15 months in December. Rob Dobson, director at S&P Global Market Intelligence, said the delivery of the government's Budget in November had helped to end uncertainty that was affecting businesses.

Europe

Data from the European Central Bank shows eurozone inflation dropped to 1.9% in the 12 months to December 2025, just below the bank's 2% target.

S&P PMI data for the eurozone showed the pace of growth slowed in December, but the bloc still posted its strongest quarterly performance in two and a half years. The economy has now grown for seven consecutive months, and S&P Global said the overall "picture looks good".

US

US inflation remained unchanged at 2.7% in the 12 months to December 2025.

Figures released in January 2026 show the US trade deficit shrank in October, thanks to a jump in exports and a fall in imports. According to the US Census Bureau, the deficit fell to $29.4 billion (£21.5 billion). That marks a fall of 39% when compared to a month earlier and is the lowest trade deficit recorded since 2009.

While seemingly good news for the US economy, Bloomberg noted there have been larger monthly swings than usual due to the implementation of tariffs.

Updated official figures suggest many more jobs were lost in October than were first estimated. Data now indicates that jobs fell by 173,000, compared to the initial estimate of 105,000. Job losses may suggest a lack of confidence among businesses.

US company Alphabet, the parent company of Google, reached a valuation of $4 trillion (£2.92 trillion) for the first time on 12 January. The news followed a report that Apple had chosen Google's Gemini as the foundation for its AI model in the future, leading to a boost in its share price.

Asia

Japanese stocks made their strongest start to a year in several decades.

The Topix index and the Nikkei 225 increased by 3.8% and 4.3%, respectively, during the first two days of trading. According to Bloomberg, that's the strongest start to a new year since at least 1990. The rise is linked to a new prime minister, who, it is hoped, will embrace looser fiscal policy to stimulate the economy.

There was also good news for Chinese car company BYD. The firm officially overtook Tesla as the top seller of electric cars in the world. In 2025, BYD delivered 2.26 million electric cars, up by 28% when compared to 2024 following aggressive expansion into the European market.

Please note: This article is for general information only and does not constitute advice. The information is aimed at individuals only.

All information is correct at the time of writing and is subject to change in the future.

The value of your investments (and any income from them) can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.