

Markets in January: January was volatile. Markets faced multiple macro and geopolitical risks, including tariff threats, geopolitical tensions, a weaker U.S. dollar, rising Japanese bond yields, sticky Australian inflation and higher oil prices. Despite this, sentiment improved as investors focused on resilient economic data and expectations for solid earnings growth. Global equities finished higher, with the MSCI World Index up 1.7% and emerging markets outperforming strongly (+8.8%). Bond markets reflected fiscal pressures and diverging rate paths, while Australian equities rose 1.8%, led by a sharp rebound in resources amid higher commodity prices.

Three Key Themes for the Year Ahead

1. AI: early cycle, but increasingly selective: Artificial intelligence remains a powerful structural theme, but 2026 is likely to reward selectivity rather than broad exposure. Markets are shifting from enthusiasm about AI's potential to scrutiny of which companies can translate substantial capital investment into sustainable earnings growth. While we believe the AI investment cycle is still at an early stage, most spending is currently concentrated in enabling infrastructure (data centres, semiconductors, power and networks) rather than widespread productivity gains. This supports a focus on businesses with pricing power, strong balance sheets and clear exposure to the build-out, rather than assuming AI benefits will accrue evenly across the sector.

2. Trade policy as a strategic lever: Trade policy in 2026 is likely to remain a key macroeconomic and geopolitical risk factor, even if headline tariff tensions ease over time. Recent episodes involving tariff threats tied to Greenland and the pause in EU-US trade deal progress underscore that trade tools continue to be used as strategic levers by the U.S. administration to achieve broader political objectives, and can flare up quickly when diplomatic tensions rise.

3. Energy and infrastructure investment: Rising demand for power, storage and electrification reinforces the long-term case for infrastructure investment. Grid upgrades, storage and essential networks offer exposure to structural energy trends, alongside stable cash flows and inflation protection.

Our Portfolios: the Linara Balanced, Growth and High Growth portfolios all materially overperformed in January. On a 12-month basis they have doubled the return of their neutral benchmarks. Strong performance from alternative assets, manager selection, currency hedging and a bias to small and mid-cap stocks globally have all made positive contributions.

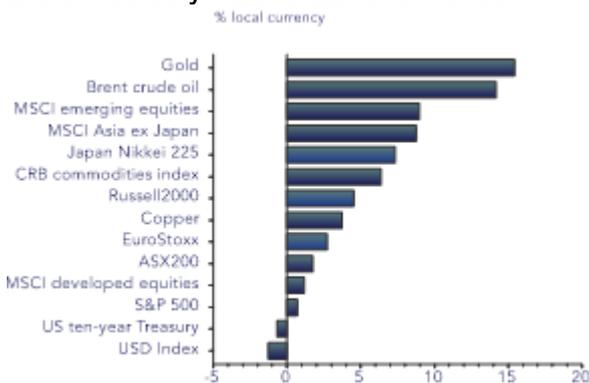
How to Position: Bond yields remain vulnerable to sharp moves higher amid ongoing fiscal pressures, which could place renewed strain on risk assets. Within credit, investment-grade spreads remain relatively resilient, while high yield appears more exposed as growth slows and the cycle matures. We therefore prefer higher-quality fixed income exposures, alongside alternative strategies that can benefit from flight-to-quality dynamics and rising defaults.

Australian equity returns are likely to be harder won at an index level, making sector positioning critical. Rate-sensitive sectors such as property and consumer discretionary may remain under pressure, while higher commodity prices should be supportive but volatile. Active management and selectivity will be key. Global equity beta alone may be insufficient; small caps and selected emerging markets, including China, continue to look attractive. Currency hedging has been retained, given the limited upside for the USD against the AUD.

Markets in January

It was a busy start to 2026 with several, very different catalysts pushing market volatility higher. Investors had to navigate: Tariff threats, geopolitical concerns (the US' desire to take over Greenland, and its incursion into Venezuela), a weak USD, rising Japanese bond yields, sticky inflation in Australia and a rising oil price.

Chart 1: January Asset Class Performance



Source: LSEG Datascreen/Fathom (Note: Past Performance is not a reliable indicator of future performance)

Despite all the noise, investors focused on supportive economic data and expectations for strong earnings growth as threats diminished. Equity markets ended the month higher, with the MSCI World Index gaining 1.7%, while the MSCI EM Index surged 8.8%. In Australia, the yield curve flattened as the 2-year yield rose 13bps to 4.19% to reflect a repricing of interest rate expectations. In the U.S. and Japan, fiscal pressure was the dominant theme. The 10-year U.S. bond yield was 9bps higher at 4.26% while the Japanese 10-year government bond yield rising 17 basis points, surpassing a 20-year high.

Chart 2: Selected Equity Markets Relative Performance (0 = 1 Jan 2025)



Source: LSEG Datascreen/Fathom (Note: Past Performance is not a reliable indicator of future performance)

The S&P 500 rose 1.5%, underperforming most other developed markets as investors look to invest elsewhere. European equities gained 2.6%, while Japan outperformed with a 4.6% increase. Emerging markets and Asia remained stand-out performers, with the MSCI Asia ex Japan Index rising 8.6% over the month. Currency movements remained a key consideration for Australian investors, as AUD-based returns on global equities were meaningfully impacted by a strong AUD.

The ASX 200 rose 1.8%, extending December's rally. Strength in commodity prices underpinned the move, driving a strong rebound in resources. The materials sector gained 9.5%, while energy outperformed again, rising 10.6%. These gains came alongside a rotation away from last year's leadership, with IT (-9.4%), consumer services (-1.8%) and financials (-1.4%) all. Real estate also underperformed, falling 2.7%, as shifting expectations around the interest rate outlook weighed on rate-sensitive sectors

Precious metals were a notable source of volatility in January. Gold prices surged to a peak above USD 5,300/oz during the month before reversing sharply, falling around 11% on the final trading day to below USD 4,800/oz. Silver experienced even more pronounced moves, rising by approximately 60% to around USD 155/oz, before suffering a steep 30% single-day decline. These moves highlighted the heightened speculative activity and sensitivity to positioning across the precious metals complex.

Key Themes for the year ahead

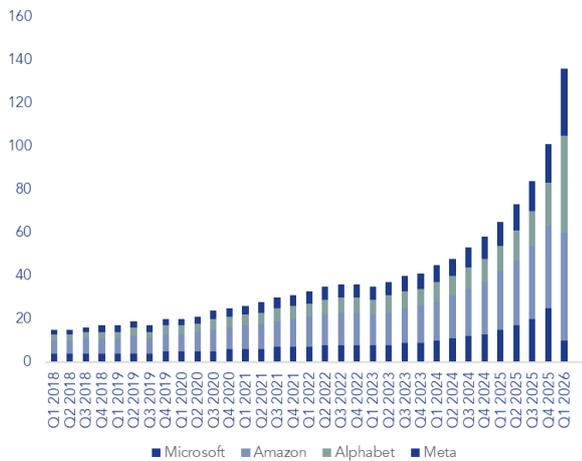
AI is still early cycle, but an increasingly selective opportunity

Artificial intelligence will remain a dominant narrative, but 2026 is likely to be a year of greater discrimination rather than broad-based gains. Not all technology stocks will be winners. Markets are already shifting from enthusiasm around AI potential to scrutiny of who can convert spending into sustainable earnings

We believe we are still very early in the AI investment cycle and the broader capex story, with wide industry adoption and consequential societal change likely years away.

The bulk of investment is going into infrastructure such as data centres, chips, power and networks, while widespread adoption, productivity uplift and broader societal change are still some way off. For investors, this argues for selectivity: favouring companies with pricing power, balance-sheet strength and clear exposure to the build-out, rather than assuming AI benefits will accrue evenly across the sector.

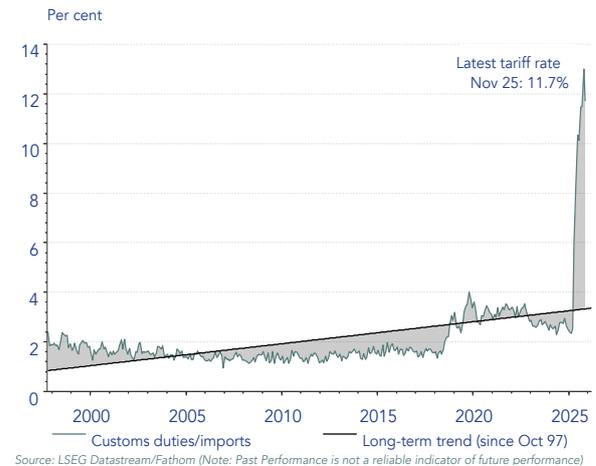
Chart 3: Megacap Tech Capex per quarter (\$USbn)



Trade policy will remain as a strategic lever

Trade policy in 2026 is likely to remain a key macroeconomic and geopolitical risk factor, even if headline tariff tensions ease over time. Recent episodes involving tariff threats tied to Greenland and the pause in EU-US trade deal progress underscore that trade tools continue to be used as strategic levers by the U.S. administration to achieve broader political objectives and can flare up quickly when diplomatic tensions rise. While markets may hope for reduced tariff friction as the year progresses, investors should expect episodic bouts of trade policy risk, particularly between major blocs such as the U.S. and EU or U.S. and China. These developments can impact global supply chains, cost structures and cross-border investment flows.

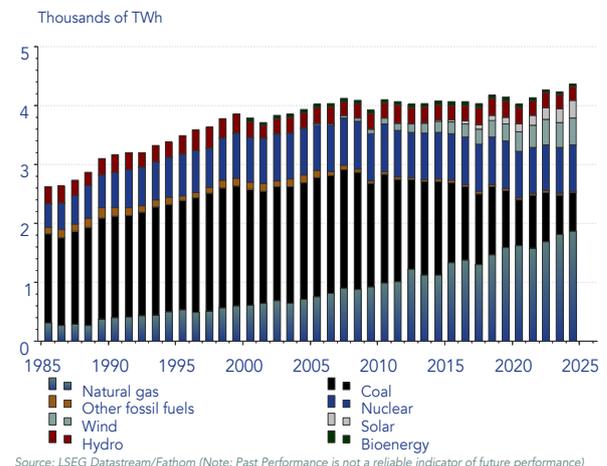
Chart 4: Average US effective tariff rate, monthly



Energy & Infrastructure Investment

The rising demand for power, storage and electrification across sectors is likely to continue at pace, particularly in the United States where investment in energy infrastructure has lagged. Ensuring reliable and affordable power is becoming a critical priority, as underinvestment in generation, transmission and storage capacity increasingly strains grids and supply chains.

Chart 5: US electricity production by source



As part of this broader structural theme, we continue to favour investing in infrastructure to gain exposure to the rise in energy needs. Infrastructure assets, including grid enhancements, storage systems and essential transport networks, often offer stable cash flows, inflation hedging, and long-duration exposure to structural energy trends. These investments also benefit from regulatory

support and can serve as a defensive complement to more cyclical equity exposures.

How to Position

Defensive

Bond yields and **fixed income** returns are diverging globally, reflecting different paths for interest rates and inflation across regions. In an environment where there is little appetite to rein in fiscal spending, we see an environment where yields can move sharply higher on refinancing concerns. Potentially putting significant pressure on risk assets.

Corporate bond spreads remain resilient in investment grade but are more vulnerable in high yield as the cycle matures further and growth gradually slows. We prefer strategies focused on higher quality holdings, while in **alternatives** in this space we advocate for strategies that can take advantage of a flight to quality and benefit from defaults.

Growth

Gains for **Australian equities** are likely to be harder won from here at an index level, with no “free kick” from rate cuts on the horizon. Sector positioning will be crucial, with sectors such as property and consumer discretionary potentially under pressure. We believe that we are entering an environment of higher commodity prices, but also high volatility. Active management and selectivity across sectors will be key to navigating this environment.

We believe that it will not be enough to have **global equity market** beta this year. If the rally in particular US equities continues, we believe small caps are

likely to continue to outperform as the rally broadens out. At the large-cap end of the market, investors are increasingly focused on the return from substantial AI capital investment, raising the bar for future earnings growth.

Global property now appears more attractive than ASX-listed property, largely due to rate divergence and more favourable valuation dynamics abroad.

We remain strongly favourable of selected emerging markets, including China. Technology will not just be a US story, and we believe investors should have exposure to this theme in markets other than the US. EM should continue to be supported in an environment of lower interest rates and a weak USD.

It is difficult to see the US Dollar rallying hard against the **Australian dollar**, so we have retained our currency hedging for now.

Luke Hansen, James Wright, and James Marchetti

Linara Investment Team

10 February 2026

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