

Multi-Asset Investment Solutions

Weekly Market Review

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Market recap – markets fall as conflict drives oil sharply higher

Global stock markets fell last week as the conflict in the Middle East intensified and pushed oil to its highest level in nearly two years. In sterling terms, the US **S&P 500 index fell 1.4%** and the **Nasdaq 100 slipped 0.6%**, with investors reacting to weaker US employment data and renewed inflation concerns. The **FTSE 100 fell 5.7%**, its worst week in almost a year, as energy-related inflation fears weighed heavily on UK shares. European markets were even weaker, with the **MSCI Europe index (excluding the UK) down 7.1%**, as higher energy prices and rising government borrowing costs dented confidence. Japan's **TOPIX fell 5.9%** as higher oil prices posed a challenge for an energy-import-reliant economy, while the **MSCI China index declined 2.9%** amid concerns about slower domestic demand and the impact of higher global energy prices. Overall, the combination of geopolitical tensions and worries about inflation created a clear reduction in risk appetite among global investors.

Geopolitics – oil supply fears rise after US-Israeli strikes on Iran

Geopolitics dominated market sentiment as **coordinated US and Israeli strikes** on Iran triggered retaliation from the Islamic republic and raised concerns about possible disruption to oil and gas shipments through the Strait of Hormuz. Investors focused on the risk that prolonged conflict could keep the oil price elevated, and delay expected interest rate cuts. For now, spare capacity from the oil-producing nations of OPEC+ and the option for major economies to release strategic reserves could provide important shock absorbers should disruption persist.

Central banks – inflation worries slow talk of rate cuts

Central banks continued to stress a **data-driven approach** as rising energy prices complicated the outlook for interest rates. In the US, the higher oil price contributed to **uncertainty over when the Federal Reserve will feel comfortable cutting rates again**. **European policymakers also faced increased inflation pressure**, with rising energy costs increasing expectations that the European Central Bank is likely to remain cautious. **In the UK, weaker employment data and slower wage growth** supported expectations for future rate cuts, but the conflict has added a new inflation risk that officials will monitor closely. Policymakers in **Japan and China are expected to continue with measures to support their economies**, aware that higher oil prices could add to pressures limiting growth.

News – weak US payrolls and higher energy costs hit confidence

The dominant market story was the combination of a **sharp spike in the oil price and a disappointing US labour report**. Payrolls fell and unemployment edged higher, raising concerns that the economy may be cooling, just as inflation pressures rise again. **Technology shares also remained volatile**, with investors questioning whether recent heavy investment in artificial intelligence can be sustained in a higher-cost environment. Despite the stock market pullback, many investors remain focused on long-term fundamentals and diversification rather than reacting to short-term swings.

Economic data – mixed signals as growth cools

US economic data was mixed, with weaker jobs numbers contrasting with still-resilient business activity surveys. In Europe, **German business confidence** improved but **French sentiment weakened**, and inflation figures across the region were mixed. **UK data showed slower job and wage growth**, supporting the view that domestic inflation pressures are easing. **China announced a lower 2026 growth target**, with factory data showing a divide between large state-owned firms and smaller exporters.

Commodities

Oil surged above \$90 last week, driven by the escalating conflict in the Middle East and fears of disruption to shipments through the Strait of Hormuz. The key question is whether the oil price will remain high. If it does, inflation could rise again, but OPEC+ members' spare capacity and strategic reserves may provide relief.

Gold moved above \$5,120 as investors sought safety amid geopolitical tensions and weaker US labour data.

Week ahead – what to watch

US: Existing home sales (Tue), inflation (Wed), building permits (Thu), housing starts (Thu), core personal consumption expenditures (PCE) inflation (Fri), durable goods orders (Fri), fourth-quarter economic growth (Fri).

UK: Economic growth for January (Fri).

Europe: Germany's trade balance (Tue).

Asia: China – inflation (Mon), China – trade (Tue), Australia – consumer and business confidence surveys (Mon-Tue), Japan – consumer confidence (Wed).

Source: Marlborough Multi-Asset, Morningstar, BBC News, Financial Times, PIMCO, John Hancock, ESG Today, Trading Economics

Risk Warnings

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