

Window on the World

FEBRUARY 2026

January turned out to be quite a month on the geopolitical front; it's not every day that the U.S. removes the president of a sovereign country or threatens allies with tariffs if they don't do as the President bids!

And yet, despite heightened geopolitical tensions, January was a positive month for equity markets, building on the strong gains of 2025. The market loves the idea of "lores", one of which is the so-called January barometer, which states, "so goes January, so goes the year". This hypothesises that stock market performance in the first month of the year sets the tone for performance for the rest of the year. And historical analysis shows that when U.S. equities post positive returns in January, they end the year higher 87% of the time.

By the same token, history also shows that during a mid-term election year (which we have in 2026), U.S. equities can be volatile and have delivered below-average long-term returns (see chart below). As always, in the market, there are different views on what will happen. Furthermore, there's a long way to go in the run-up to the midterms, so plenty of time for things to happen! And let's not forget the U.K. local elections in May, which won't have global consequences but could cause some short-term volatility in the U.K. market. As ever, investors should stay well diversified and positioned for a broadening out of returns. More on this as I explore how investors should think about the impact of a weaker U.S. dollar on their portfolios.



Capital market returns in January

	Total Returns (%)			
	1 Month	3 Months	12 Months	YTD
UK Equities	3.0	5.3	21.9	3.0
US Equities	1.4	2.0	16.3	1.4
European Equities	2.8	4.7	16.1	2.8
Japanese Equities	4.6	8.2	31.1	4.6
Emerging Market Equities	8.9	8.7	43.6	8.9
UK Gilts	-0.1	0.2	4.0	-0.1
UK Corporate Bonds	0.3	0.8	6.1	0.3
UK High Yield Bonds	1.3	2.1	8.7	1.3
US Corporate Bonds	0.3	0.4	7.5	0.3
US High Yield Bonds	0.5	1.6	7.5	0.5

Source: Bloomberg, Verso Investment Management, as of end January 2026. Returns in local currency



January proved to be a strong month for equity markets. Developments in Venezuela and Greenland that you'd have expected to cause concern, and in certain cases did, proved to be short-lived and did little to derail a move higher in all major markets. The extraction and removal of President Maduro from Venezuela by U.S. forces, and the threat of tariffs on several European companies by President Trump amid his efforts to acquire Greenland, ultimately proved to be market noise, although I do suspect they will have lingering long-term effects on certain diplomatic relationships and ties.

On more mundane matters and outside of these political developments, a sharp move higher in long-dated Japanese bond yields has brought renewed concerns about debt sustainability in some developed economies to the fore. U.K. Government bonds ultimately treaded water in January, although the yield on the U.K. 10-year Government bond hit a 12-month low of 4.34% before moving higher towards the end of the month, in tandem, though to a lesser extent than the moves seen in Japan. Credit spreads remained broadly in check, allowing this part of the fixed-income market to deliver a small positive return.

While geopolitical considerations didn't derail equity markets, their effects did manifest themselves in certain areas. Gold, which enjoyed a very strong run in 2025, finished the month up 13%, despite a sharp correction at the end of the month. And oil and natural gas prices also rose, with the latter driven by a colder-than-expected winter in Europe and North America and by tensions between the U.S. and Iran.

Emerging market equities began the year strongly, rising by nearly 9% in local currency terms during January – its strongest start to the year since 2012! Resource-rich countries and regions – such as Latin America – performed well, and unlike 2025, Chinese equities were not a key driver. However, Korea took the prize for top spot, with investor enthusiasm for the country's corporate reforms and renewed interest in Korean technology companies driving the market a remarkable 28% higher over the month.

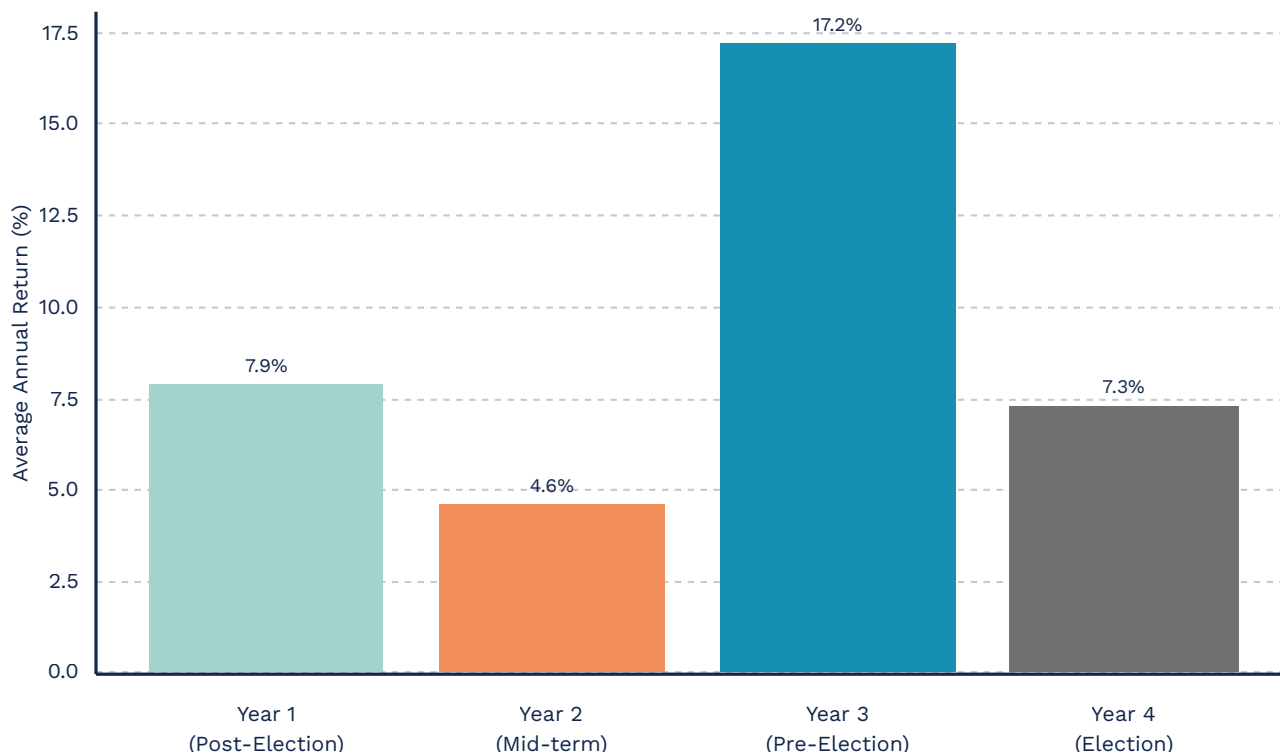
Elsewhere, rotation into underperforming areas (broadening out) remained a key feature in January. In the U.K., the FTSE 100 captured the headlines by crossing the 10,000 level for the first time, and U.K. small- and mid-cap companies also posted stronger performance. This likely reflects a lifting of uncertainty post the budget and investors anticipating further interest rate cuts from the Bank of England. In Europe, as the need to be less dependent on the U.S. gains pace, there were strong performances from defence stocks in response to Greenland developments.

Japan was the best performing developed equity market during the month, with the new Prime Minister’s pro-stimulus agenda continuing to boost market sentiment. Meanwhile, U.S. equities started the year by underperforming, following their 2025 trend of lagging other major markets, although there was evidence of rotation, with U.S. small-cap stocks outperforming their large-cap counterparts by nearly 6%.



HISTORICALLY U.S. EQUITIES HAVE UNDERDELIVERED VERSUS THEIR LONG-TERM AVERAGES DURING A MID-TERM YEAR

Average S&P 500 Annual Returns by Presidential Cycle Year (1950–2023)



Source: Verso Investment Management, 3rd February 2026

Navigating the dollar debasement

Just 12 months ago, much of the investment narrative focused on the likelihood that U.S. exceptionalism would persist.

The concept of U.S. exceptionalism is based on the idea that the country's strong rule of law, free markets and entrepreneurship, and deep and liquid capital markets promote innovation, higher productivity, and stronger, longer-term economic growth, and therefore stronger capital returns relative to other economies and markets. This has often been put forward as a justification for the better performance of U.S. equities relative to other equity markets over history, particularly in the last 15 years. A consequence of this is that the U.S. dollar serves as the world's reserve currency.

Twelve months is a long time in markets, so fast forward to now, and the investment narrative around the U.S. dollar has evolved. Throughout 2025, as investors reacted to a sizeable shift in U.S. foreign policy, trade policy, state intervention, and an apparent dismantling of the post-second world war geopolitical order, the U.S. dollar weakened and ultimately had one of its worst years in two decades.



ON A TRADE-WEIGHTED BASIS, THE U.S. DOLLAR DECLINED BY OVER 9% IN 2025, HITTING ITS LOWEST LEVEL IN FOUR YEARS AND ITS WORST YEAR SINCE 2017



Source: Bloomberg, Verso Investment Management, 5th February 2026



What caused the decline? Looking at the drivers behind this, several factors came together to push the dollar lower. These included interest rate cuts from the Federal Reserve, which turned more dovish as the year progressed. A large driver also came from U.S. tariff policies and the resultant rising trade friction, which have presented short-term issues for supply chains and shaken confidence in America's long-standing economic leadership and commitment to free trade. In addition, in response to this, capital has been rotating out of the U.S. into non-U.S. assets by both Central Banks and investors. The underperformance of U.S. equities relative to other markets highlights this, along with the sharp move higher in the gold price.

Clearly, one bad year for the dollar doesn't imply it's collapsing, nor signal the end of U.S. exceptionalism, and it remains the world's dominant reserve currency. That said, it appears its strong multi-year momentum and safe-haven status are being tested. Looking longer term, there are a number of trends which could encourage investors to move away from a heavy dependence on U.S. assets – U.S. equity valuations are high relative to other international markets, diversification of foreign exchange reserves by Central Banks and sovereign wealth funds, and concerns over Fiscal Dominance – or the idea the U.S. Government will print money to fund its \$36 trillion debt.

Conversely, there are also counter arguments to support a more constructive outlook on the U.S. dollar. We come into 2026 with growth in the U.S. accelerating, which is a supportive macro backdrop for the equity market. And although it is still early days, the recent appointment of Kevin Warsh as Chair of the Federal Reserve may help alleviate concerns that the U.S. Government will try to influence the Central Bank to aggressively lower U.S. interest rates.

Exchange rates can be a double-edged sword, as sterling-based investors have witnessed, with the dollar decline in 2025 hurting returns on their U.S. assets. Although U.S. equities were up by nearly 18% in USD terms last year, converted to sterling, the return was below 10%, which is quite a hit from the currency. The important lesson to take away here is that strategic diversification across regions and asset types is crucial for a long-term investor, and it is a core pillar of our approach to managing investments. By overweighting rest-of-world equities at the expense of U.S. equities across our portfolios last year, investors were able to benefit from the stronger performance from these areas which helped to offset the impact of the weaker U.S. dollar.

Another way to diversify outside of traditional assets is through areas such as commodities, real estate, and other physical assets with inflation-linked revenue streams – commonly known as “real assets”, which can act as hedges against dollar weakness – and are areas that we hold across many of our investment portfolios.

Positioning and outlook

As we move into 2026, the economic backdrop remains constructive and the momentum from last year continues, supported by a resilient U.S. economy, ongoing capital investment in AI, and a helpful tailwind from interest rates cuts and supportive fiscal policy. However, after the strong performance in 2025, equity and credit markets are now more expensive, which means we cannot simply rely on a rising tide to lift all boats. Success in 2026 will be about underlying fundamentals and earnings delivery from quality companies, rather than just riding a wave of cheap money. We also have to keep a close eye on tail risks, which include an escalation in trade tensions and geopolitical tensions or a potential spike in bond yields, we have a high level of diversification across multiple asset classes.

Across all our portfolios, we continue to see good opportunities in the U.K., Europe, and Emerging markets, where valuations are less demanding than in the U.S. and dividends remain attractive. Recently, we have added a stand-alone allocation to Indian equities across many of our investment portfolios, complementing our broader emerging-market exposure. There is a powerful long-term structural story underpinning India, and following a year of underperformance presented an attractive entry point. In fixed income markets, we anticipate that 2026 will mark the end of the global interest rate-cutting cycle and therefore remain focused on shorter-dated assets, both in Government bond and credit markets.



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