Article MARKET COMMENTARY

Weekly round-up: 10th – 16th January

Eric Louw recaps the past week's events and looks ahead to the next.

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Weekly Economic & Market Update

The past week gave investors plenty to digest, with fresh inflation data from the US, important economic releases across Europe, and continued debate about when central banks might cut interest rates again. While markets moved around day to day, the underlying theme was cautiously positive: inflation is easing, but growth remains slow.

The most important global event this week was the release of US inflation data on 13 January. Official figures showed that core inflation (which strips out food and energy prices) slowed to 2.6%, its lowest level since early 2021. Headline inflation held steady at 2.7%, exactly as markets expected.

Investors welcomed the news, as it suggests the battle against inflation is largely being won. US stock markets initially rose after the data, with investors hoping that lower inflation could eventually lead to cheaper borrowing. However, gains faded later in the week as investors reflected on the Federal Reserve’s likely next move.

Despite improving inflation, the US Federal Reserve made it clear that it is in no rush to cut interest rates again. Policymakers have stressed they want to see inflation stay low for longer before acting. Markets now largely expect US rates to remain unchanged at the Fed’s late January meeting.

In the UK, fresh official data released on 15 January showed the economy performed better than expected toward the end of last year. According to the Office for National Statistics, UK GDP grew by 0.3% in November, a clear improvement after a small contraction in October and stronger than most economists had forecast. Growth was supported by an increase in services activity and a rebound in manufacturing, particularly car production, which recovered after earlier temporary disruptions.

While this was encouraging news, economists were quick to stress that the broader picture remains one of modest growth rather than a strong recovery. Looking at the more reliable three month average, the economy expanded by just 0.1% in the three months to November, indicating that overall momentum is still limited. Construction activity continued to weigh on growth, reflecting the impact of higher borrowing costs.

From a policy perspective, the stronger monthly figure slightly reduces fears of an imminent downturn, but it has not fundamentally changed expectations for interest rates. With inflation continuing to ease and growth remaining relatively weak, financial markets still expect the Bank of England to continuing cutting interest rates, providing some relief for households and businesses over time later in the year through lower mortgage and borrowing costs.

Across Europe, investors focused on a batch of economic releases published on 15 January. Eurozone industrial production for November rose by 0.8% month on month, beating expectations and suggesting manufacturing conditions may be stabilising after a tough 2025.

ECB officials also spoke during the week, reinforcing the message that interest rates are likely to stay unchanged for now. While inflation has largely returned close to target, policymakers remain wary of cutting rates too soon while economic growth remains fragile.

European stock markets responded positively to the improving data, particularly in industrial and export focused sectors.

The key takeaway from the past week is simple: inflation keeps moving in the right direction, but growth remains soft. Central banks are edging closer to rate cuts, but they are in no hurry to declare victory. For investors, this reinforces the importance of patience, diversification, and sticking to long term plans, rather than reacting to week by week market noise.

Week Ahead: Key events from 17-23 January 2026

In the UK, attention turns to the labour market update on 20 January, which will provide fresh information on unemployment, wage growth and job vacancies. These figures are closely watched by the Bank of England, as pay growth remains a key factor in determining whether inflation pressures have fully cooled. Signs of slower wage growth would strengthen the case for interest-rate cuts later this year.

Also due during the week is the latest update on UK inflation, covering December data. After inflation eased noticeably towards the end of last year, a further slowdown would reinforce expectations that price pressures are moving sustainably back toward the Bank of England's 2% target. Together, the jobs and inflation data will significantly influence market expectations ahead of the Bank's next policy meeting in February.

In the US, the most closely watched release will be inflation data based on consumer spending measures, alongside revised estimates of economic growth. Investors are particularly focused on whether recent progress on inflation is being sustained without causing a sharper slowdown in growth.

Markets currently expect the US Federal Reserve to hold interest rates steady at its next meeting at the end of January. However, weaker-than-expected inflation data could reinforce expectations for rate cuts later in 2026, while any upside surprises may prompt caution.

One of the biggest global events of the week will be the Bank of Japan's policy meeting, concluding on 23 January. Having raised interest rates in December to their highest level in decades, the bank is widely expected to leave rates unchanged this time. However, investors will be watching closely for signals about whether more rate rises could follow later in the year, particularly if inflation and wage growth remain firm. Any hint of tighter policy in Japan could have knock-on effects for global bond and currency markets.

Across the eurozone, markets will digest a range of business surveys and confidence data, offering clues about whether recent stabilisation in economic activity is gaining traction. The European Central Bank is also firmly in "wait and see" mode, with no immediate change in interest rates expected, but softer data could revive expectations for cuts later this year.

Overall, the week ahead will help shape the narrative around the path of interest rates. If inflation continues to cool and labour markets show signs of easing, confidence in rate cuts during 2026 is likely to grow. For long-term investors, this reinforces the importance of staying focused on the bigger picture rather than reacting to individual data releases.

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