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Weekly round-up: 17th – 23rd January

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

Author

Eric Louw

Senior Investment Manager

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Weekly Economic & Market Update

Over the past week, global markets have continued to tread a careful middle ground: economic growth remains resilient in most developed economies, but inflation worries, interest rate uncertainty and geopolitics are keeping investors cautious rather than optimistic.

In the UK, the main talking point was inflation. Data released mid week showed that prices rose slightly faster than expected at the end of last year, with inflation ticking up to 3.4%. This was only a modest surprise, but it reinforced the idea that inflation is proving stubborn rather than falling smoothly back to the Bank of England's 2% target. Services prices, which tend to reflect domestic wage and labour costs also remained elevated. As a result, financial markets have scaled back expectations for rapid interest rate cuts this year. Instead, most investors now expect the Bank of England to move slowly and cautiously, trimming rates only if inflation clearly eases. Sterling was largely unmoved by the data, suggesting markets had already braced for this slightly bumpy path back to normal.

In the United States, attention turned towards next week's Federal Reserve meeting. Investors broadly expect the Fed to leave interest rates unchanged for now, following several rate cuts late last year. Recent economic data has shown the US economy still growing at a reasonable pace, even as parts of the labour market cool. Inflation, while lower than its peak, remains above target, giving the Fed little reason to rush into further cuts. US government bond yields rose earlier in the week before settling back, while equity markets drifted rather than moving decisively in either direction, a sign that investors are watching and waiting rather than panicking.

Bond markets more broadly were active as investors reassessed the outlook for global interest rates. US and UK government bond yields moved higher earlier in the week, reflecting a reassessment of how quickly inflation will fall and how soon central banks can cut rates further. While these moves have been noticeable, they remain relatively orderly, suggesting investors are adjusting expectations rather than fearing a renewed inflation shock.

In Japan, attention focused on the Bank of Japan (BoJ), which held rates steady and signalled a gradual approach to tightening policy. Japanese bond yields edged higher during the week, reflecting growing confidence that the era of ultra easy monetary policy is slowly drawing to a close. However, the BoJ has been careful to emphasise that any normalisation will be measured and data dependent. For global markets, Japan matters because rising Japanese yields can encourage domestic investors to keep money at home rather than investing overseas, influencing bond markets elsewhere.

Europe followed a similar script to the UK and US. Surveys of economists published this week showed little change to expectations for inflation, growth or interest rates across the euro area. Policymakers at the European Central Bank have made it clear they are comfortable keeping interest rates where they are, with inflation now hovering close to target and growth ticking along modestly rather than collapsing. European share markets edged slightly lower overall, largely reflecting valuation concerns rather than any sudden deterioration in economic conditions.

Geopolitics generated headlines but, once again, limited lasting market disruption. Early in the week, US European trade tensions flared briefly after renewed threats linked to Greenland and defence spending. The US administration threatened fresh tariffs on parts of Europe in response to military exercises taking place in Greenland, but comments later in the week suggesting a "framework agreement" had been negotiated in Davos helped ease immediate concerns and by Friday those proposed tariffs had been withdrawn. Financial markets welcomed the de escalation, and European leaders played down the likelihood that any future trade measures would have a major inflationary impact. The episode was a reminder that political risk remains close to the surface, even if investors have become more resilient to the noise.

Energy and commodity markets reflected this uneasy balance. Oil prices remained relatively stable despite ongoing tensions involving Iran and Venezuela, suggesting traders are reluctant to price in supply disruption without clear evidence. Gold prices briefly touched record highs earlier in the week before easing back, highlighting continued demand for "insurance" assets in an uncertain world.

Stepping back, the International Monetary Fund's January update offered a cautiously reassuring backdrop. Global growth forecasts were nudged slightly higher, led by the US, while inflation is expected to continue easing gradually. That said, the IMF warned that geopolitics, trade tensions and policy missteps remain the biggest risks ahead. For investors, the past week reinforced a familiar theme: markets are coping, economies are slowing rather than stalling but confidence remains fragile, and patience remains essential.

Looking Ahead: Key Events for the Week of 24-31 January

The coming week is set to be an important one for markets, with central banks and economic data shaping expectations for the months ahead.

The main event is the US Federal Reserve's policy meeting on 27-28 January, with the decision and press conference due on Wednesday evening UK time. Markets are overwhelmingly expecting the Fed to leave interest rates unchanged, following a series of cuts late last year. While the decision itself is unlikely to cause major market moves, investors will be listening closely to Chair Jerome Powell's comments for guidance on how long rates might stay at current levels and what could trigger further cuts later in 2026. Even subtle changes in tone around inflation or the labour market could influence global bond yields and equity markets.

Later in the week, attention will turn to US inflation data, including the Fed's preferred measure of price pressures. Inflation has fallen sharply from its peak but remains above target, and markets remain sensitive to signs that progress may be slowing. A firmer reading would reinforce the idea that interest rates will stay higher for longer, while softer data could revive expectations for gradual easing further out.

In the euro area, the focus will shift to a run of economic data releases rather than policy signals. Several countries are due to publish preliminary growth and inflation figures for the final months of 2025, along with business sentiment and confidence indicators. These releases will help investors assess whether the eurozone economy has maintained its recent resilience or is beginning to lose momentum. Inflation data will be watched particularly closely, after recent readings showed price pressures easing back towards the European Central Bank's target. Any unexpected weakness in growth or renewed inflation pressures could influence market expectations for euro area interest rates later in the year, even though policymakers remain largely in wait and see mode.

In the UK, there are no major Bank of England decisions scheduled, but economic updates will continue to drip through the week. Real time activity indicators and housing related data will help build a clearer picture of how the economy is coping at the start of 2026, especially after last week's slightly firmer inflation numbers. These releases will feed into expectations about how quickly and how far UK interest rates might be cut over the coming year.

Finally, geopolitics will remain in the background. Although the fresh US tariffs threatened earlier this month have now been withdrawn, the episode served as a reminder that trade policy remains a potential source of market volatility.

Overall, the week ahead is likely to be about fine tuning expectations rather than dramatic surprises, with investors focused on whether inflation continues to cool without undermining economic growth.

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Back to top

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