

Data and opinions as of January 31, 2026

Markets at the intersection of rates, AI and geopolitical risk

Markets opened the year with a cautious tone as shifting interest-rate expectations drove performance across asset classes. Equity returns were mixed, with volatility increasing as higher bond yields weighed on growth stocks, while value-oriented and cyclical sectors showed relative resilience. U.S. equities were choppy, Canadian markets benefited from commodity strength, and international developed equities benefited from a softer U.S. dollar. Emerging market performance was uneven, with gains in parts of Asia offset by underperformance in Latin America and rate-sensitive markets as higher global yields weighed on capital flows. Fixed income faced modest pressure as government bond yields rose, leading to slightly negative returns for longer-duration assets, though credit markets remained stable, supported by carry and contained spreads.

NEI perspectives

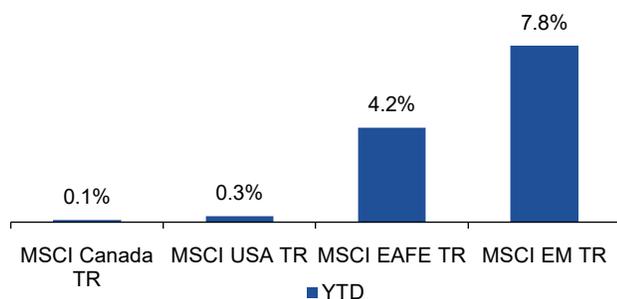
Global rate volatility returns as monetary easing expectations reset: Markets entered 2026 reassessing the pace of monetary easing as central banks emphasized patience. Early-month volatility, amplified by moves in Japanese government bonds, pressured long-duration assets and reinforced a preference for quality and balance-sheet strength. **Bottom line:** Gradual and uneven easing cycles favour selective duration exposure, diversified global fixed income, and high-quality equities with resilient cash flows.

Artificial Intelligence (AI) leadership narrows as profitability takes centre stage: Investor focus shifted from broad AI enthusiasm to selective performance driven by margins, capital discipline, and monetization. Companies with pricing power and visible earnings pathways continued to be rewarded, while more speculative exposures lagged. **Bottom line:** AI remains a long-term growth theme, but leadership is increasingly concentrated among companies with proven business models, pricing power, and clear paths to earnings accretion.

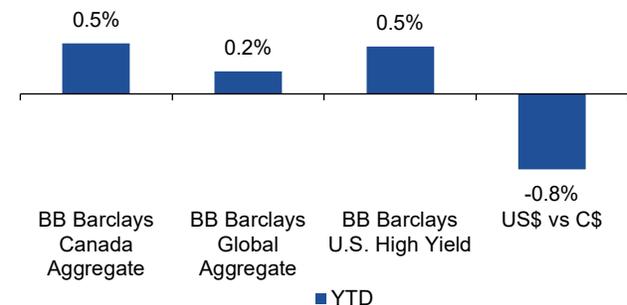
Geopolitical risk reinforces the value of hedges and diversification: Geopolitical risks resurfaced in January, supporting safe-haven assets and contributing to sector-level dispersion, even as equity markets reached new highs early in the month. Gold saw a notable run-up as investors sought protection against policy and geopolitical uncertainty. **Bottom line:** Diversification, including strategic exposure to gold, defensive assets, and liquid holdings, helped manage headline-driven volatility without sacrificing upside participation. Rate cuts prospects, AI momentum, and strong earnings fueled gains.

– NEI Asset Allocation team
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Equity returns (in C\$)



Fixed income and currency returns (in C\$)



Source: Bloomberg.

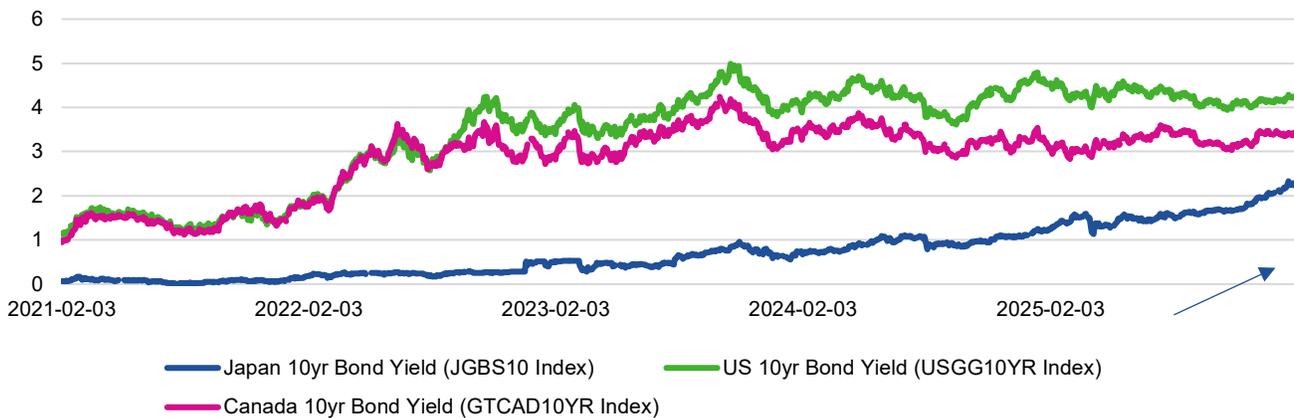
Global rate volatility returns as monetary easing expectations reset

Markets began 2026 reassessing the pace and certainty of monetary easing as central banks signaled a cautious, data-dependent approach. While inflation continued to moderate, resilient labour markets and pockets of sticky services inflation led policymakers to emphasize patience, contributing to early-January bond-market volatility and increased sensitivity to rate expectations across risk assets.

Global fixed income volatility was amplified by sharp moves in Japanese government bonds (JGBs). Speculation around further policy normalization by the Bank of Japan triggered a steepening of the Japanese yield curve, with spillover effects across global sovereign bond markets. Rising JGB yields prompted a temporary repricing of global duration, tightening financial conditions and renewed scrutiny of cross-border capital flows, particularly from Japanese investors with substantial overseas bond allocations.

Looking ahead, Japan has re-emerged as a potential source of global rate volatility. A sustained rise in domestic yields could encourage partial repatriation of Japanese capital, placing upward pressure on global bond yields, supporting the yen, and creating intermittent headwinds for risk assets. This environment raises the likelihood of continued episodic volatility across both equities and fixed income, even in the absence of a material deterioration in growth.

Chart 1: Japanese bond yields surging



Source: Bloomberg.

Bottom line: With easing cycles likely to be gradual and uneven across regions, and Japan emerging as a potential source of global rate volatility, investors are favouring selective duration exposure, diversified global fixed income, and equities with strong balance sheets and resilient cash flows.

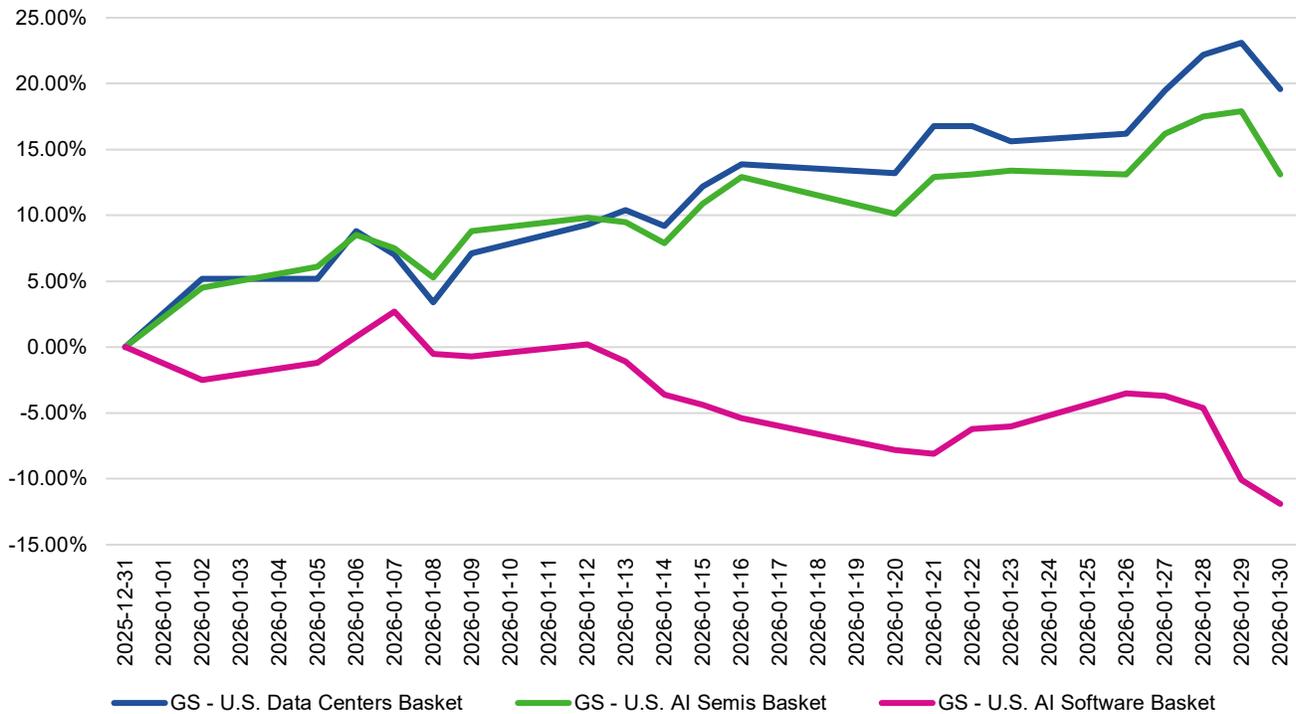
AI leadership narrows as profitability takes centre stage

January reinforced the market's increasingly selective approach to AI-exposed equities. As earnings results and guidance were released, investor focus shifted toward margin impact, capital discipline, and the near-term return on elevated AI investment. While underlying demand for AI-related products and services remained strong, equity performance increasingly reflected differentiation based on earnings visibility rather than growth narratives alone.

Large-cap AI leaders with pricing power, scale advantages, and visible monetization continued to be rewarded, while more speculative or capital-intensive exposures lagged amid higher-for-longer rates and reduced tolerance for deferred profitability. Scrutiny was particularly evident in capital-heavy areas of the AI ecosystem, reinforcing a preference for operational leverage and balance-sheet discipline.

Looking ahead, the evolution of AI leadership is likely to remain earnings-driven. As adoption broadens beyond early use cases, companies that can demonstrate scalable monetization, cost control, and sustained return on invested capital are better positioned to lead performance. This environment favours selectivity and reinforces the importance of diversification within AI-related exposures

Chart 2: AI themes, YTD performance



Source: Goldman Sachs Research, data as of January 30, 2026.

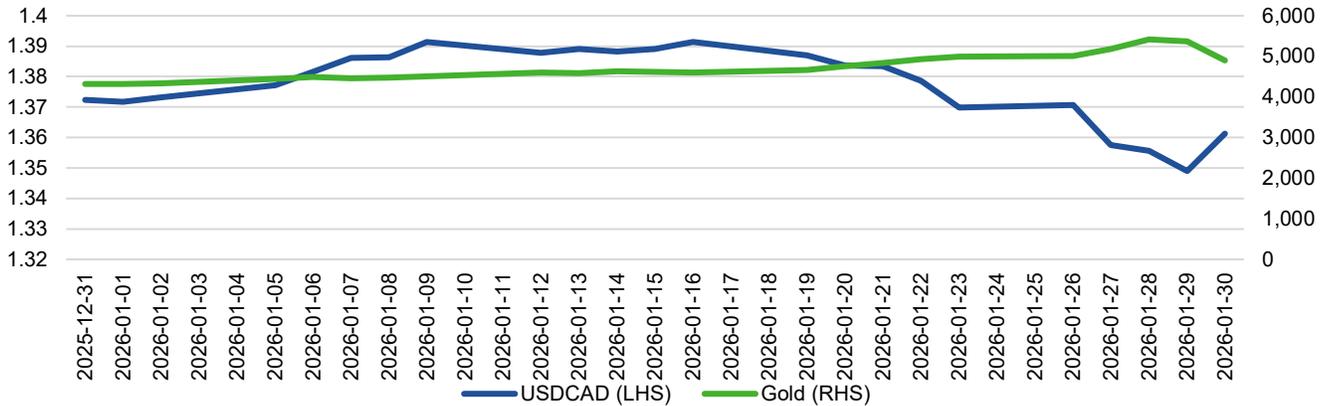
Bottom line: AI remains a powerful long-term growth theme, but leadership is becoming more concentrated. Investors are prioritizing companies with proven business models, pricing power, and clear paths to earnings accretion, while maintaining diversification away from more speculative exposures.

Geopolitical risk reinforces the value of diversification

Geopolitical developments re-emerged as a source of market volatility in January, contributing to greater dispersion across asset classes rather than prompting a broad risk-off response. Equity markets were generally resilient and, at times, reached new highs early in the month, but geopolitical uncertainty heightened sensitivity to policy signals and global headline risk. Investors largely looked through developments on a market-wide basis, while selectively adjusting exposures to reflect rising global fragmentation across trade, security, and political alliances. Trade- and policy-sensitive sectors, including parts of the industrials, materials, and export-oriented universe, experienced greater dispersion as investors reassessed exposure to shifting trade relationships and strategic resource considerations.

Against this backdrop, gold emerged as one of the beneficiaries for most of the month, supported by its role as a hedge against geopolitical stress, policy uncertainty, and periods of heightened risk aversion, although we saw an unwind of this trade at the end of the month with the announcement of the next Federal Reserve chairman. Similarly in currency markets, the U.S. dollar softened through most of the month on heightened geopolitical and policy uncertainty however this dynamic also reversed late in the month following the announcement of the next Federal reserve chairman

Chart 3: Gold and USD, YTD performance



Source: Bloomberg, data as of January 30, 2026.

Bottom line: January highlighted the importance of diversification as an effective risk management tool. Strategic exposure to gold and other defensive assets helped offset geopolitical related volatility, while diversified global equity and fixed income allocations allowed portfolios to remain positioned for ongoing market resilience without over reacting to headlines.

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