

# VIEWPOINTS

JANUARY 2026

## The Golden Ascent

In a year of strong financial market returns, few assets have stood out more than gold. Across centuries, Gold has transformed from a static store of value—the “Golden Constant”—into a dynamic portfolio asset. Historically, gold underpinned global currencies, with governments pegging fiat to bullion for credibility. This changed in 1971 when former U.S. President Nixon ended the gold standard, liberating the metal. Since then, gold has delivered an impressive annualized return of around 7%, warranting a new moniker: the “Golden Ascent.”

Initially, gold surged as a hedge against stagflation post-Bretton Woods. While developed market central banks spent decades reducing their reserves, new sources of demand emerged, such as gold-backed exchange-traded funds (ETFs) that democratized retail access. A structural break occurred following Russia’s invasion of Ukraine. The subsequent freezing of Russia’s central bank reserves sent a stark message to the world: in a system where Western financial assets can be weaponized, gold remains one of the few sanction-proof markets. With slow mining supply and complex demand dynamics, price movements defy historical models. Non-linear trends and past bubbles suggest another may be forming, though fundamentals can justify current valuations.

Despite its physical scarcity, available gold is valued at roughly one-quarter of global equities, underscoring its unique asset class status. Future potential demand catalysts include gold-backed stable coins, African gold standards, and regulatory reclassification for banks and insurers. China’s continued diversification and insurance sector adoption further support structural demand.

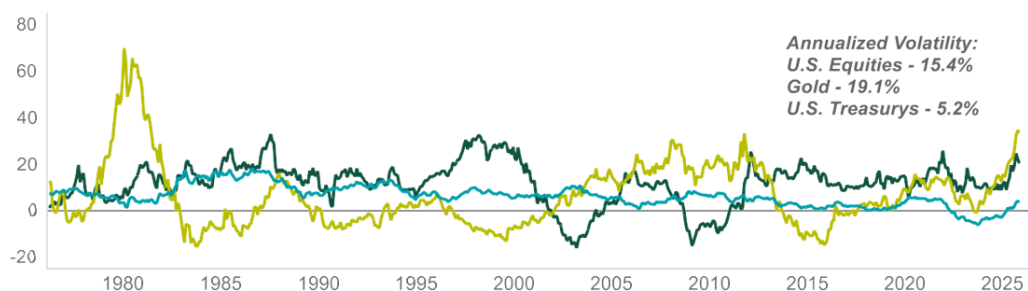
Gold’s low correlation to stocks and bonds enhances portfolio efficiency. Historical risk-return analysis suggests that an allocation in the range of 8–10% could enhance portfolio efficiency, with higher allocations warranted during periods of elevated volatility or inflation. Current investor surveys reveal widespread under-allocation. Gold’s ultimate utility lies in hedging “fat tail” risks—deep dollar weakness or severe geopolitical shocks, such as U.S.-China conflict. In an increasingly fragile world, the Golden Constant has taken on a more strategic role.

Heading into 2026, our tactical portfolio maintains a risk-on tilt, favoring equities over fixed income. Equity positioning is constructive across major regions, and we also maintain an overweight to Developed ex US and Emerging Markets. We continue to believe that the corporate profit growth story is more compelling than the search for yield.

### A Gold Rush

Trailing 3-Year Annualized Return (%)

— U.S. Equities — Gold — U.S. Treasuries



Source: Northern Trust Asset Management, Macrobond, Bloomberg. Monthly data from March 1973 through November 2025. Indexes used: S&P 500 (U.S. Equities), World Gold (Gold) and Bloomberg U.S. Treasuries (U.S. Treasuries). Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

## Interest Rates

After announcing the end of quantitative tightening (QT, or balance sheet reduction) at the October meeting, the Fed took subsequent action on monetary policy implementation at the December meeting. Reserve Management Purchases (RMPs) will be used to add reserves into the system via buying \$40 billion of T-Bills per month. This is in addition to the \$15 billion per month in MBS proceeds also being reinvested in T-Bills. With the aggregate level of reserves already at the tipping point between “abundant” and “ample”, and seasonal demand for reserves expected to increase around year-end and into Tax Day, it was judged as appropriate to mitigate that pressure via RMPs.

While we see no implications for the stance of monetary policy as a result of the decision to implement RMPs, we did see prices for T-Bills increase in response to the announcement of RMPs. In addition to the T-Bill market, we also see downward pressure on other money market rates, like repo, as a result of RMPs. This should alleviate much of the concern around year-end disruptions in the funding markets. While we’ve written extensively on balance sheet policy over the past year, RMPs may usher in a quieter period for balance sheet policy in 2026.

## Credit Markets

After resolution of the longest government shutdown in U.S. history, November’s market narrative was dominated by concerns of an artificial intelligence (AI) “bubble”, driving volatility across risk assets. Against this backdrop, credit markets still generated positive returns. Within high yield bonds, modest spread widening early in the month gave way to a late-month rally, with index spreads declining 12 bps month-over-month.

Despite strong high yield returns year-to-date, there could still be room for seasonal outperformance. January has historically delivered outsized returns: the average high yield bond return over the past 39 years of +1.6% exceeds other months by about 1 percentage point. Since 1987, high yield returns have been positive 85% of the time in January. While January is typically the best month for high yield, the 30-day stretch from mid-December to mid-January averages +1.9%, more than triple a typical 30-day period. Recall, high yield bonds posted a -0.4% loss in December 2024 as the Fed delivered a hawkish cut, followed by a +1.5% gain in January.

## RESERVE MANAGEMENT

Repo rates have seen upward pressure.



Source: Northern Trust Asset Management, Bloomberg. T-Bill = Treasury Bill. Data from 6/16/2025 through 12/12/2025. Historical trends are not predictive of future results

- Reserve Management Purchases (RMPs) will be used to mitigate pressure in repo and money markets.
- The Fed will be buying \$40 billion of T-Bills per month in addition to the \$15 billion per month in MBS proceeds also being reinvested in T-Bills.
- While we don’t see any implications for monetary policy, RMPs will likely bias money market rates lower within the target range.

## THE JANUARY EFFECT

January has historically provided outsized returns.

### AVERAGE HY RETURN BY MONTH (%)



Source: J.P. Morgan. Data from 1987 through 2024. HY = High Yield. Historical trends are not predictive of future results

- Despite the strong high yield returns year-to-date, there could still be room for outperformance from a seasonal perspective.
- January’s average high yield bond return over the past 39 years of +1.6% exceeds the average for all other months by about 1 percentage point.
- Since 1987, high yield returns have been positive 85% of the time (33 out of 39) in January.

## Equities

November markets echoed October's pattern: a sharp mid-month drop followed by recovery. U.S. equities fell 4.5% through November 20 but rebounded to finish flat. Developed ex-U.S. markets gained 1%, while Emerging Markets declined 2.4%, pressured by China's tech weakness—similar to U.S. trends. Volatility spiked but then eased—a cycle seen throughout 2025. Late November and early December showed broader market participation beyond the "Mag 7." From October-end to December 11, the S&P 500 Equal-Weighted Index rose 3.6%, beating its cap-weighted counterpart by 2.6%. Value stocks led, outperforming Growth by 4.2%. The mid-month sell-off reflected concerns over the AI ecosystem—stretched valuations, circular financing, and rising capex—but rotation toward cyclical equities signaled a better backdrop.

The macro backdrop and fundamentals remain supportive. Valuations are elevated, but earnings expectations have continued to improve across sectors. U.S. equities show 14% forward earnings growth. We favor U.S. equities over bonds as recession risks fade. We also see opportunities in Developed ex-U.S. and Emerging Markets, supported by policy, resilient earnings, and global tech leadership.

## Positioning Scenarios

### Reflation (20% probability)

Policies of the U.S. administration have a net stimulative effect, leading to above-trend growth, persistent inflation and a pause in the Fed rate-cutting cycle.

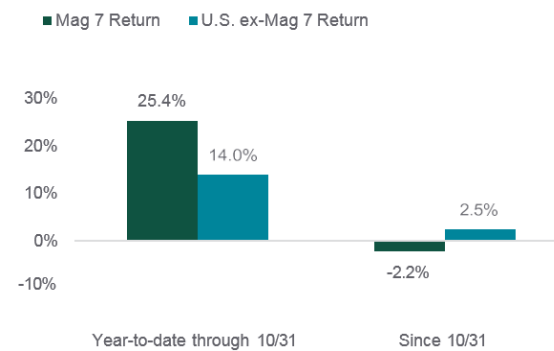
### Supply Restraint (25% probability)

Supply-side shocks from higher tariffs in addition to broader policy uncertainty weigh on consumer and corporate activity while halting the disinflationary process until a recession takes shape.

Note: Probabilities are assumed from proprietary research and are subject to change.

## MORE THAN MAG 7

U.S. equity returns have started to broaden.



Source: Northern Trust Asset Management, MSCI. Data from 12/31/2024 through 12/11/2025. Past performance is not indicative or a guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

- November saw a sharp mid-month sell-off followed by recovery, with mixed results across regions.
- Leadership broadened beyond mega-cap tech, with value and equal-weighted stocks gaining traction.
- Supportive fundamentals and healthy earnings keep us constructive on global equities.

### Soft Landing (50% probability)

Global growth slows but remains positive via two potential paths: i) tariff policy eases; ii) the U.S. economy is more resilient than expected and avoids a major deterioration in the consumer backdrop.

### Stagflation (5% probability)

Initially similar to the Supply Restraint scenario, but the rise in inflation is more persistent. As a result of slower monetary policy support, the recession is deeper and longer.

## Indexes Used and Definitions:

**MSCI ACWI:** A free-float weighted equity index that includes both emerging and developed world markets.

**S&P 500 Index:** Widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

**S&P Global Infrastructure Index:** The S&P Global Infrastructure Index includes exposure to 75 companies from around the world that represent the listed infrastructure universe.

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## INVESTMENT PROCESS

The asset allocation process develops both long-term (strategic) and shorter-term (tactical) recommendations. The strategic returns are developed using five-year risk, return and correlation projections to generate the highest expected return for a given level of risk. The objective of the tactical recommendations is to highlight investment opportunities during the next 12 months where the Investment Policy Committee sees either increased opportunity or risk.

The asset allocation recommendations are developed through the Tactical Asset Allocation, Capital Markets Assumptions and Investment Policy Committees.

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