

## The Year Kicks Off in the Black

Jan 2026

Markets got off to a strong start in 2026, rising nearly 6% in January as measured by the MSCI ACWI ex-USA Index, and continuing to climb a seemingly ever-higher wall of worry. Headlines in January were dominated by geopolitical news – perhaps providing the relatively quiet economic and fiscal news backdrop which allowed markets to rise.

Among the major geopolitical headlines was the US's January 3 toppling of Venezuelan President Nicolas Maduro who was brought to the US to face drug trafficking charges. In the military operation's wake, Maduro's former deputy, Delcy Rodriguez, assumed the interim president role – in which the US indicated it would support her, provided she meets some demands, including allowing US oil companies a bigger role in Venezuela's substantial market. The US also demanded Venezuela cut ties with Russia, China and Iran, as well as expel Colombian guerrillas from its land. President Trump also announced the US would take control of 30 million to 50 million barrels of sanctioned crude oil from Venezuela, would sell it at market rates and would hold the proceeds to ensure they are used to "benefit the people of Venezuela and the United States."

The US's moves are of particular interest to China, roughly 20% of whose oil imports come from suppliers subject to US and other western country sanctions, such as Venezuela and Iran. Adding to the tension, the US also seized a Russian tanker in January, claiming it was transporting sanctioned oil from Venezuela and Iran. Future developments in this area will naturally bear watching – including whether Venezuela continues cooperating with the US's demands, how its government evolves from here and the collective impact of all these developments on the global oil market.

Hot on Venezuela's heels, Greenland was the next major source of international headlines as President Trump became significantly more vocal about his desire for the US to assume control of the country from Denmark. The US ostensibly has several interests in controlling Greenland, which is geopolitically relevant given its location in the Arctic, making it appealing from an oceanic and a space perspective, a missile defense perspective and a mineral extraction perspective. Further, as the US and Europe have slowly stepped back over the last several decades, China has stepped up its interest and involvement as it recognizes the territory's significance. The President's heightened rhetoric dominated headlines in Davos, where the World Economic Forum met mid-month – though as the meetings concluded, Trump announced he'd reached the outline of an agreement with NATO Secretary-General Mark Rutte over Greenland's future, with the major provisions to be ironed out in the period ahead. The announcement averted tariff threats from both the US and the EU – the former saying it would impose 10% tariffs and the latter preparing some 93 billion euros' worth of retaliatory tariffs against the US.

Though relatively unnoticed, there were ample economic data released in January, notably, signs of relative robustness in the EU, including German GDP growth for the first time since 2022, eurozone GDP growth in Q4, Spain's lowest unemployment rate since 2008 and eurozone inflation's falling to the bloc's 2% target in December. China's economy, too, seemed to be growing despite the ongoing trade war with the US (according to official data, at least), growing 5% in 2025 – though much of the growth was tied to robust exports, while domestic demand was relatively tepid. Meanwhile, the UK's economy likewise showed a few signs of weakening, including retail spending at its slowest pace in seven months and inflation up more than expected in December.

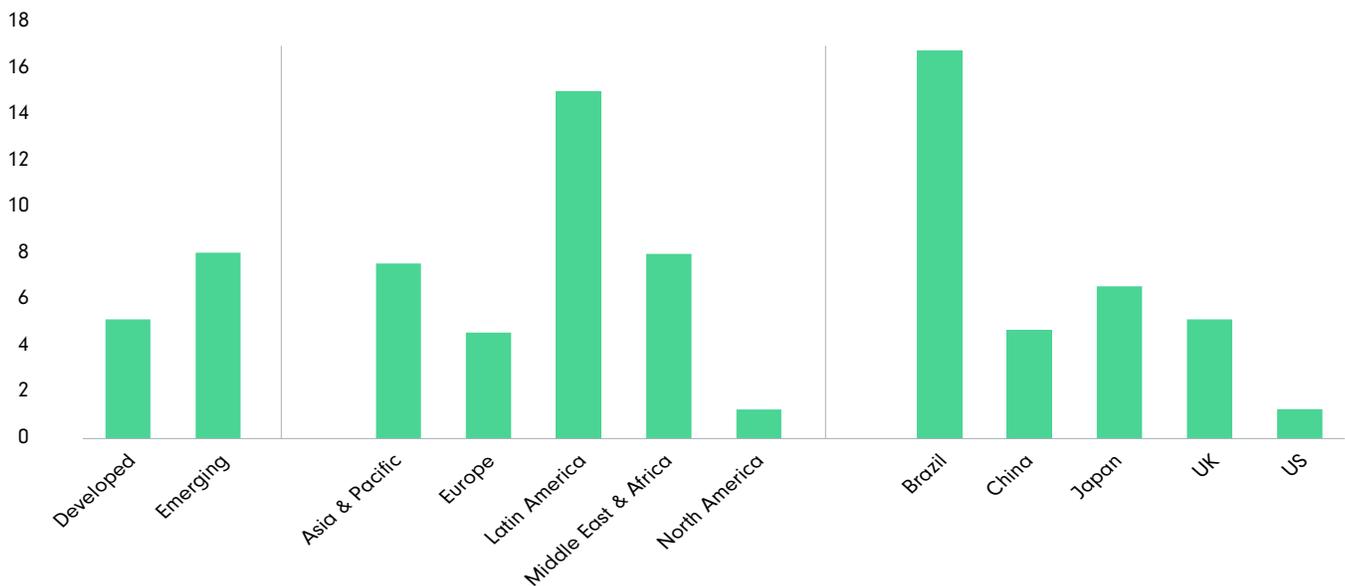
US inflation remained in check, staying at 2.7% in December and making a pause on rates at the end of January hardly surprising, with Chairman Powell indicating the Fed is in no rush to cut rates. However, the bigger news at the Federal Reserve in January was President Trump’s nomination of Kevin Warsh to succeed outgoing Chairman Jerome Powell, whose term will expire at the end of May. In other central bank news, the Bank of Japan, which has recently embarked on a rate-hike cycle and finally seemed to make some progress on inflation, held rates in January – though it said it would likely continue raising rates in 2026 as inflation and wages continue rising.

There was also a swath of trade news in January, with the EU and Mercosur signing a deal, bringing to a conclusion decades of negotiations. The agreement will eliminate roughly 90% of tariffs between the two regions over time and, once ratified by the member nations, will create one of the world’s largest free trade areas. The EU and India also inked a deal in January which will eliminate roughly 4 billion euros’ worth of tariffs on EU goods and will give India’s small businesses and farmers improved access to the EU’s market. Elsewhere, the US threatened Korea with 25% tariffs as President Trump alleges Korea has been slow to implement the agreement it signed with the US in 2025. And among the new negotiations underway, the US and Brazil are apparently working on a rare earths-related deal, which could pressure China, who runs much of Brazil’s mining operations.

Regionally, the biggest positive contribution in January came from Asia and Pacific stocks (+8%) following a blockbuster month from Korea, whose market rose 28%, defying the US’s threat of additional tariffs. Taiwan (+11%) and Japan (+7) were also positive contributors in the month. Conversely, India’s market (-5%) posed a minor headwind in the month.

European markets were also nicely positive in January, up +5% on the back of strength in the UK (+5%) and the Netherlands (+15%). Latin America (+15%) benefited primarily from strength in Brazil (+17%), but all countries in the region were in the black for the month. Finally, the Middle East and Africa was also positive, up just shy of 8% thanks to solid performances from Saudi Arabia (+10%) and South Africa (+8%).

**Exhibit 1 – January Returns for Major Markets (%)**



Source: FactSet, as of 31 January 2025.

Over the past year, the bull market has pushed past “Liberation Day” tariff announcements and fears of a resulting collapse in global trade, concerns about an AI investment bubble, and countless other predictions of its imminent end. And yet the bull market continues to defy all expectations and maintain its upward trajectory, making us as convinced as ever of the importance of a rigorous, bottom-up approach to investing, which allows well-researched and long-term investors to avoid many of the distractions which could otherwise derail an investment strategy.

**MSCI ACWI ex USA** Index measures the performance of large- and mid-cap stocks in developed (excluding the US) and emerging markets. The index is unmanaged, market capitalization weighted, includes net reinvested dividends, does not reflect fees or expenses (which would lower the return) and is not available for direct investment. Index data source: MSCI, Inc. See [diamond-hill.com/disclosures](https://diamond-hill.com/disclosures) for a full copy of the disclaimer.

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