



Time to Draw a Breath

2nd February 2026

- Central banks held rates steady, but policy ambiguity kept markets unsettled.
- Tech sector fractured as investors demanded earnings clarity.
- Tech euphoria in abeyance.
- Commodities plunged on positioning stress and profit-taking.
- Japanese elections the next hurdle to further equity market gains.



FOMC Meeting and Broader Central Bank Context

After last year's frenzy of rate cuts, 2026 has started in a more nuanced way. Last week's FOMC meeting confirmed that the Federal Reserve has transitioned beyond the cycle of consecutive rate cuts to a "show us why we should cut" phase, where its decisions will be guided strictly by data. In fact, Chairman Powell made it clear that any future moves will depend on economic conditions, underscoring the Fed's intent to balance inflation control with growth. It was no wonder then that the rates were left unchanged despite ongoing political pressure for deeper cuts. Only two FOMC members voted for a cut. The market's response was measured: Treasury yields edged higher and the US dollar strengthened modestly.

The Bank of England's (BoE) Monetary Policy Committee (MPC) may adopt a similarly cautious stance this week. A Reuters poll showed almost all economists expect the BoE to hold its rate at 3.75% when it meets on 5 February, with only a narrow majority anticipating a cut in March. Stronger-than-expected private sector data and resilient retail sales have complicated the case for easing, and the Bank's MPC members appear reluctant to act prematurely. In Asia, both Bank Indonesia and the Bank of Korea kept their policy rates unchanged last week, at 4.75% and 2.50%, respectively. These decisions reflect a balancing act between containing inflation and managing capital flows amid currency pressures and still-uneven domestic demand.

Some central banks may yet resume rate cuts, particularly in response to the dollar's weakness. While policymakers at the ECB have been signalling unease over the strength of the euro, which could suppress inflation below target, they have also sounded concerns after a consumer survey showed five-year inflation forecasts rose to a record 2.4%. In sum, these developments point to a global monetary environment dominated by caution. Policy rates remain on hold across major economies, and any adjustment will depend on clear shifts in inflation or growth outlooks.

Equities and Tech Sector Dynamics

The tech sector faced sharply different fortunes last week as investors repriced expectations for even the most dominant names. Microsoft was one of the standout stories, posting solid revenue growth but disappointing on forward guidance. Slower expansion in LinkedIn and Azure's peripheral services, combined with heavy AI-related capital expenditure, raised concerns about return on investment. The result was a more than 7% drop in Microsoft shares over two sessions, triggering renewed scrutiny on large-cap tech valuations.

Fresh developments around OpenAI compounded these worries. Reports suggested that Nvidia's proposed \$100 billion investment in OpenAI had stalled, while Amazon and SoftBank were negotiating with the ChatGPT maker for contributions of up to \$50 billion each. Crucially, these deals require OpenAI to purchase services from the same firms providing capital, raising questions about the substance of its funding model. Investors grew uneasy with what appeared to be circular economics: vendor-financed infrastructure dressed as venture investment, potentially distorting OpenAI's independence and scalability.

In contrast, Meta Platforms impressed. The company's strong ad revenue rebound and ongoing cost discipline helped it outperform peers, helping propel the stock more than 10% post-earnings. Meta's results demonstrated that monetisation and operating leverage - not just AI posture - are increasingly central to investor decisions. Apple also delivered solid earnings, with record iPhone sales and expanding services revenue helping it avoid the broader tech selloff. These results exemplified the market's new bias toward companies with clear monetisation and margin durability.

Chipmakers reflected this divergence. AMD and Qualcomm gained on targeted demand strength, while Nvidia underperformed amid fears that AI compute pricing is peaking and gross margins could compress.

Mid-cap SaaS and infrastructure firms tethered to OpenAI's ecosystem also came under pressure, as sell-side analysts began downgrading names with opaque monetisation or dependency on subsidised AI infrastructure.

Last week probably marked a break from the blanket AI euphoria of 2025. Investors now demand earnings visibility, capital discipline, and pricing power. Exposure to AI alone no longer justifies premium valuations. As forward guidance and funding structures face more scrutiny, the tech sector is transitioning from narrative-driven to results-driven - a shift that rewards execution and punishes hype.

Chart 1: Nasdaq Index at Risk of Breaking Key Supports



Source: Bloomberg

Commodities: Extreme Volatility and Profit Taking

Last week saw extraordinary volatility in commodity markets, especially in precious metals. Gold surged to record levels, briefly topping \$5,600 at one point as investors sought safe-haven protection amid rising global uncertainty. However, profit-taking took hold, as the announcement of a 'moderate' for the Fed Chair role prompted a rebound in the dollar. The yellow metal experienced one of its steepest intraday falls in recent memory, slipping around 10% or more at times from peaks to troughs. The drop in silver was even more violent, with single-session declines approaching or exceeding 30% as forced liquidations and compressed liquidity amplified moves. With Shanghai closed for the Lunar New Year and no price discovery in Asia - selling pressure intensified on COMEX, already stretched by speculative positioning and a March contract leverage ratio of nearly 5:1. The result was a dramatic and disorderly repricing that underscored just how unstable precious metals markets have become.

Industrial metals such as copper also retreated from record highs, reflecting both reduced speculative fervour and a broader recalibration of real rates and demand expectations. While these short-term corrections were sharp, they do not negate the longer-term structural drivers that support commodity demand, including supply constraints in critical minerals, strategic stockpiling by major central banks and institutional investors, and continued industrial demand growth. Last week's volatility can be interpreted as noise amid persistent upward pressure on real assets, rather than a definitive structural reversal.

Chart 2: Gold and Silver Down Heavily on the Week but Still Higher Year-to-date



Source: Bloomberg

Investor Sentiment and Risk Positioning

The extreme price action in commodities, particularly precious metals, has significantly roiled investor sentiment. Investors rapidly unwound their long-only positions, established amid the mid-January rally, as the dollar strengthened and Fed policy expectations shifted. Sentiment indicators from positioning data and futures markets suggest that speculative inflows were heavily crowded in metals, and that the sharp downdraft was exacerbated by forced margin selling and algorithmic adjustments. This was compounded by repositioning in FX markets, where the US dollar's rebound pressured dollar-priced commodities further.

At a deeper level, the current episode also reflects a broader market challenge: investors are struggling to find new, durable themes capable of delivering the kind of gains seen in recent years. As a result, capital is rotating rapidly into perceived opportunities, including commodities, often with such intensity that price action becomes exaggerated over short periods. Extraordinary liquidity, coupled with limited conviction in traditional equity or credit plays, is amplifying volatility as investors seek exposure to any theme that appears to offer clear upside.

Near-Term Macro Outlook: Major Data Next Week

Next week's global data releases will focus on purchasing managers' indices (PMIs) and US labour market numbers. These will offer timely signals on the pace of growth and inflation pressure. PMIs from the US, Europe, and Asia will indicate whether expansion is broadening or stalling.

In the US, ISM reports and jobs data - including non-farm payrolls and ADP - remain key for assessing labour market health and inflation, both central to Fed policy. Investors will scan Eurozone PMIs for divergence across member states, given the ECB's wait-and-see stance. Markets will also monitor China's post-Lunar New Year PMIs for signs of a domestic demand rebound. Several economies will release inflation expectations and consumer confidence readings, offering insight into demand trends and potential policy shifts in Q1 2026.

With central banks in cautious mode and markets highly reactive to macro signals, this week's data releases could shift expectations around policy direction and risk appetite. Stronger PMIs or jobs numbers may support a pause or even a tightening bias. Weaker data, on the other hand, could revive talk of easing and lift risk assets. Volatile commodity markets may respond sharply, especially if real rate expectations adjust.

Watch out for Japanese elections

Japan's upcoming general election on 8 February is causing some unease among investors that Prime Minister Sanae Takaichi's hands may become politically tied. While her personal approval ratings remain solid, polling suggests that her Liberal Democratic Party may struggle to retain a strong mandate, raising the risk of coalition fragility or legislative gridlock. Markets are increasingly sensitive to the prospect that core fiscal, defence, and structural reform agendas could be delayed or diluted, just as global investors have re-engaged with Japanese assets. The potential for weakened policy clarity adds another layer of uncertainty to an already fragile macro landscape.

Chart 3: Japan Equities Topix Index Waits for the Next Leg of the Politics



Source: Bloomberg



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Falco Model Performance (as of 31 December)

Falco Models	1 Month	2025	2024	2023	2022	2021	2020	2019	IRR Since Inc
FPW Cautious	+0.16%	+10.10%	+6.89%	+6.86%	-10.14%	+3.44%	+10.80%	+12.30%	+5.57%
FPW Balanced	+0.35%	+12.59%	+9.56%	+6.51%	-9.75%	+5.10%	+11.10%	+14.90%	+6.94%
FPW Speculative	+0.41%	+16.65%	+11.72%	+7.88%	-10.06%	+9.42%	+13.60%	+18.50%	+9.41%
FPW 100% Equity	+0.45%	+16.52%	+15.74%	+15.82%	-7.19%	+18.05%	+9.36%	+21.34%	+12.59%

Low-Coupon Gilt Summary (as of 2 February)

Holding	Coupon	Maturity Date	Price	Yield to Maturity
0.375% Treasury Gilt 2026 (T26A)	0.375%	22/10/2026	£97.94	3.32%
0.125% Treasury Gilt 2028 (TN28)	0.125%	31/01/2028	£93.62	3.47%
0.50% Treasury Gilt 2029 (TG29)	0.50%	31/01/2029	£90.99	3.71%
0.375% Treasury Gilt 2030 (TG30)	0.375%	22/10/2030	£85.11	3.86%
0.25% Treasury Gilt 2031 (TG31)	0.25%	31/07/2031	£81.88	3.95%
0.50% Treasury Gilt 2061 (TG61)	0.50%	22/10/2061	£25.39	5.01%

Example Cash Deposits (as of 2 February)

Holding	Interest Rate	Max Deposit	FSCS Protection
Instant Access Deposit*	3.75%	£1,000,000	Yes
95 Day Notice Account	3.57%	£1,000,000	Yes
1 Year Fixed Term Deposit	3.86%	£1,000,000	Yes
2 Year Fixed Term Deposit	3.92%	£2,000,000	Yes
5 Year Term Deposit	4.00%	£2,000,000	Yes

*Exclusive rate for new customers

Yield Enhancement Examples (as of 2 February)

Holding	Structure	Liquidity	Average Maturity	Yield to Maturity
GBP Liquidity Fund	UK OEIC	Daily	49 days	3.72%
USD Liquidity Fund	Lux SICAV	Daily	48 days	3.71%
Example Short Duration High Yield ETF	ETF	Intra-day	2.3 years	6.04%
Example Fixed Income ETF Portfolio	ETF	Intra-day	6 years	4.82%
Asset-Backed Mortgage Bond (GBP and USD)	Bond	Daily	2 years	10.00%