Weekly Macro and Markets View

6 January 2026

Highlights and View

US GDP grew at an annualised rate of 4.3% QoQ in Q3 2025 while inflation slowed markedly

Recent data points have to be viewed cautiously given the shutdown-related distortions, but most of them point at a benign environment for financial markets at the beginning of 2026.

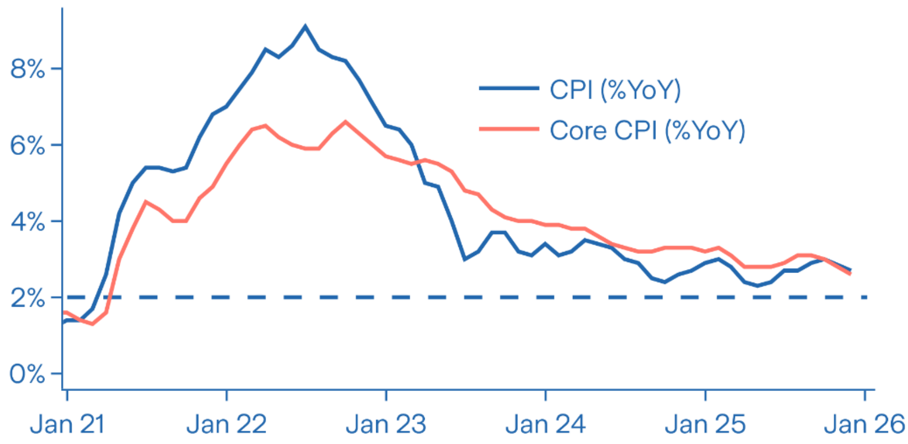
The US ousting of President Maduro could reshape the outlook for Venezuela's oil production

Venezuelan oil supply may face short-term disruptions, though the impact should be limited given ample global supply. Longer term, upside potential is high but hinges on political stabilization as substantial multi-year capex is needed.

Asia's exports are surging, led by booming semiconductor shipments particularly from Taiwan and Korea

Strong global demand for AI and data centres should keep Asia's trade upbeat, but export growth will remain concentrated in the tech sector rather than across broader manufacturing.

Solid growth and slowing inflation in the US



Source: Bloomberg

The US economy remained in remarkably strong condition during the third quarter of 2025. GDP grew by 4.3% QoQ (annualised) in Q3, the fastest pace in two years and up from an already very solid pace in Q2. Consumers were the major driver of growth, helped by robust government spending. At the same time, inflation has slowed markedly. Headline CPI fell from 3.0% YoY in September to 2.7% in November (there were no data for October), with Core CPI dropping from 3.0% YoY to 2.6%. These numbers should be interpreted with some caution given the distortions created by the longest ever government shutdown, but they nevertheless point at substantially weaker price pressure, particularly in services. This will help the Fed to justify further rate cuts in 2026, particularly given the softer labour market. Payrolls recovered in November following the significant drop in October caused by DOGE-related declines in government employment, but the unemployment rate picked up to 4.6%, the highest level in more than four years. The latest FOMC minutes are signalling further rate cuts in 2026, but most FOMC members seem willing to pause the cutting cycle for the time being. This week's labour market report will be crucial in shaping the Fed's future rate path.

Equities

The bull market remains in good spirits

With only very modest signs of profit taking in the closing days of the old year, equities have started 2026 in rude health. The MSCI World Index has hit a record high, and investors appear to be constructive in deploying funds. While this may seem surprising given the events in Venezuela, it again illustrates that in regard to geopolitics investors have become increasingly focused in recent years on short-term prospects for corporate profitability. On that front, US oil companies have experienced a pop on the potential for rebuilding Venezuelan oil production, with Chevron and SLB up 8% and 14% respectively in the two trading days of the year so far. The equity rally has been broad-based, however, with markets in Asia particularly strong, while US tech stocks are picking up where they left off at the end of last year with a mixed start. Certainly, the opening trading days should not be extrapolated, but we remain constructive on stocks for the year ahead, and expect that monetary and fiscal policy, along with capital spending, will be supportive.

Eurozone

Back to reality

The year starts with limited economic data as Europe emerges from the festive period. We expect an investment frenzy in defence and infrastructure led by Germany's fiscal loosening to be offset by a weakening consumer outlook and the fallout from deteriorating trade conditions. This Wednesday brings December inflation data, which we expect will first tick down to 2% before falling further in 2026. Spanish inflation data was released on December 30, falling from 3.2% YoY to 3%. French parliamentary turmoil will roll over to 2026. As happened into 2025, a 'special law' was passed to allow spending and taxation to continue without a formal budget. We will continue to see downside risks to French debt pricing as campaigning for the 2027 Presidential election begins in earnest. Lastly, just prior to the holidays, the EU agreed on further joint-debt funding for Ukrainian assistance, solidifying the EU as a permanent bond issuer. This was a compromise as no agreement could be found on a complex legal loan secured against Russian assets held in Belgium.

Japan

Tokyo's inflation eases more than expected

Japan's latest data paints a mixed picture for the end of 2025. Industrial production remains weak, especially with auto output hit by semiconductor shortages, but retail sales nudged up 1% YoY, hinting at a rebound after a sluggish Q3. Momentum is shifting, with real consumption often outpacing retail stats, putting Japan on track for a solid 1% GDP growth in 2025. Inflation is cooling faster than expected, with Tokyo's headline and core CPI dropping to 2% and 2.6% YoY, respectively, thanks to ongoing energy subsidies and 2024's high base. This is good news for consumers who have been grappling with a higher cost of living. Meanwhile, likely decent wage hikes from Shunto negotiations, income tax cuts, and extended consumption subsidies from the recent budget are all set to boost spending in 2026. Yet, the downward trend in inflation won't derail the Bank of Japan's steady path toward a 1% policy rate by mid-2026. With real rates still negative, JPY weakness looks set to persist, while bond yields could rise further as the BoJ and life insurers continue to step back from the market.

Asian Trade

Tech is keeping Asia's exports sizzling

Asia's exports are surging, fuelled by booming semiconductor shipments and robust demand for AI and data centres. Taiwan's new export orders soared nearly 40% YoY in November, while Korea's 20-day chip exports for December jumped 42%, mostly driven by exports to the US. Vietnam, Malaysia, and Singapore also posted double-digit growth in electronics, confirming the region's tech-driven upswing. In this regard December Manufacturing PMIs signal caution. Aside from Korea, new export orders across most countries stayed below the key 50 line revealing that rather than a broad-based strength in manufacturing, it is tech that is predominantly driving growth. China achieved a record USD 1tn trade surplus for the first 11 months of 2025, with strong gains in Europe and ASEAN compensating for weaker exports to the US. While Europe has voiced concerns about China's export dominance, protectionist moves remain scattered and limited. Although future risks could tilt towards tougher policies, China's export strength appears set to continue for now.

Credit

A surge in supply will test investor appetite amid tight spreads

Corporate credit spreads in the US and Europe moved in a narrow range in the second half of December and ended 2025 not far from the lows touched earlier in the year. After slowing down during the holiday season, the US Investment Grade (IG) primary market saw 20 issuers selling deals on Monday, January 5, the largest tally since the post Labor Day session on September 2 last year. Investor demand was healthy, resulting in very low new issue concessions, and US IG spreads held at 78bp. The supply pipeline is heavy, with roughly USD 70bn expected this week and USD 215bn in total this month. Looking ahead, we believe that credit will continue to benefit from yield-driven demand and a still benign global macro backdrop. At the same time, we expect supply technicals to deteriorate, especially in the US IG market, as tech giants increasingly rely on debt issuance to power the AI race. Given the tight starting valuations, we see credit spreads at risk of creeping wider were investors to become increasingly sceptical about the sustainability of a debt-powered AI race.

What to Watch

- In the US, the latest labour market report will be crucial for the Fed's future rate path, with consumer sentiment and the ISM surveys providing more insights into the current state of the economy.
- Eurozone HICP for December will be released on Wednesday and is expected to be around 2% YoY. Unemployment data for November is due towards the end of the week, as are retail sales and industrial production data for a variety of nations.
- China's CPI and PPI, Japan's wages and Australia's CPI are key to watch.

Disclaimer and cautionary statement

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