

Weekly Macro and Markets View

12 January 2026



Highlights and View

Corporate bond supply surges to a record high in the first week of 2026 amid strong investor demand

The well-received surge in supply confirms that credit markets continue to provide ample fuel for growth and investment, although tight spreads limit the rewards for credit investors.

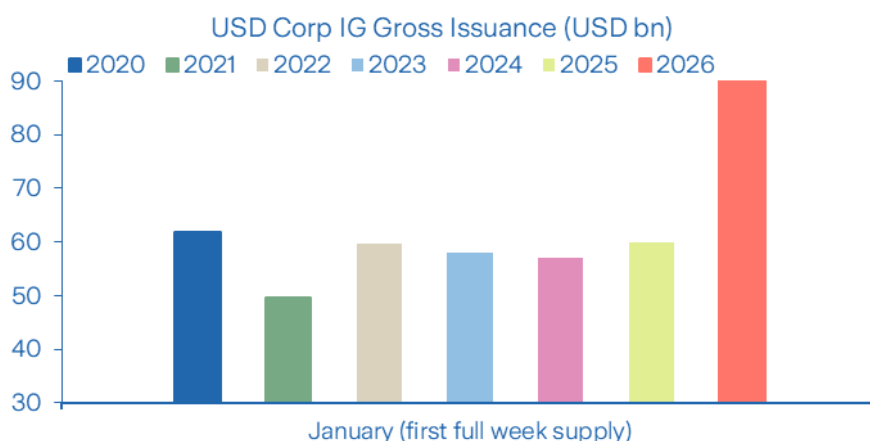
US services activity picks up, with the ISM Services Index rising to the highest since October 2024

Strong new orders and the first employment expansion since May 2025 point to a solid start into the new year for the US economy.

Eurozone inflation hits the ECB's target of 2% YoY in December

We expect it to fall further in 2026, helped by slowing wage gains.

Credit supply off to a record start



Source: Bloomberg

Credit markets continue to provide ample funding to corporates and other borrowers which should continue to spur economic growth, M&A, investments and the continuing artificial intelligence boom. Primary credit markets started 2026 on a very strong note, with supply surging above and beyond normal seasonal patterns amid strong demand. US Investment Grade (IG) supply was around USD 90bn, the strongest first week of January on record and the strongest week since the post-Covid deluge seen in 2020. The trend was mirrored across the globe, with weekly global supply setting a record over USD 250bn. Deals were well received. US IG oversubscription averaged around four times with minimal new issue concessions. High Yield supply was also strong, and we expect Leveraged Buyout (LBO) activity to pick up in 2026, which would increase aggregate issuer leverage. Looking ahead into 2026, credit is likely to provide abundant fuel for economic growth, although the rewards for investors are rather limited. With current spread levels, especially in the US, skirting around multi decade lows, the key risk is whether leverage build up is facilitated to the degree where bubbles are formed. Hence, supply trends from leveraged companies and from those who have riskier business models are worth monitoring.

US

Services activity is picking up

The US economy remains in good shape according to the latest batch of economic data. While manufacturing keeps struggling, services activity has picked up with strong new orders and employment expanding for the first time since May 2025 based on the latest ISM survey. Services prices remain elevated, but momentum has now softened the third month in a row. Meanwhile, the labour market is holding up. Payrolls rose by 50'000 in December while the unemployment rate ticked down to 4.4% from 4.5% the month before. Broader based

underemployment fell more substantially from 8.7% to 8.4%. Consumer sentiment improved in January, lifted by both current conditions and expectations. Households' perception of the government doing a good job of fighting inflation has further deteriorated, however. Stocks continued to rise, with the S&P 500 reaching a record high in the first few trading days of the new year. Smaller companies fared even better, with the Russell 2000 rising by 4.6% over the course of the week.

Eurozone

A successful landing

Eurozone headline CPI printed at 2% YoY for December, confirming an average pace of 2.1% YoY throughout 2025. This print was exactly in line with the ECB's target and is further evidence of a welcome normalised inflation environment. Core inflation remains slightly too high at 2.3% but continues to slow. Services inflation fell slightly to 3.4% but is rising at a faster pace than seen in the summer. We expect inflation to fall meaningfully below 2% in 2026, driven by both energy prices and abating services price pressures. Relatedly, the market's openness

to ECB hikes in 2026 looks misplaced. While the absence of a long-term inflation premium in bond markets is a headwind for valuations, this is not a story for 2026. Final December PMIs show a fall in the Eurozone composite figure from 52.8 to 51.5. Spain continues to stand out at 55.6, while Italy's reading unexpectedly fell from 53.8 to 50.3. German hard data were mixed for November. Retail sales slowed further to -1.8% YoY. Offsetting this, factory orders and industrial production figures rose.

Switzerland

Weak inflation and economic activity at the end of 2025

CPI inflation was soft in December, up 0% MoM and 0.1% YoY, leaving average annual inflation in 2025 at 0.2%. Prices on imported goods are in deflation, while the domestic pricing environment is stagnant, with rent inflation now also falling. Producer prices confirm the weak pricing environment, down -1.2% YoY in November, led by weakness in the export goods segment. This highlights pressures on manufacturers to cut prices, amid tariff headwinds and currency strength, which we anticipate will continue to weigh on prices more broadly. Elsewhere, December

PMI data show an encouraging pickup in services activity, potentially reflecting reduced uncertainty after the conclusion of the tariff agreement with the US, though the Manufacturing PMI ticked lower, with headwinds persisting. Looking forward, activity and inflation should stabilise in early 2026 as tariffs have come down while domestic demand should be resilient. We do not anticipate further rate cuts from the SNB, but risk to the rate outlook is to the downside, with the labour market key to watch.

LatAm

Inflation wrapped up 2025 on a constructive note across the region

Last week saw the release of 2025 inflation data across key regional markets. In Brazil, December CPI rose 0.3% MoM, in line with consensus, while annual inflation eased from 4.5% to 4.3%, within the BCB's 1.5-4.5% tolerance band, a notable improvement considering that 2025 inflation expectations were near 6% early last year. Against this backdrop, we maintain our view that the BCB will start cutting the MPR by the end of Q1 2026. In Mexico, headline inflation for December undershot consensus expectations of 3.8% coming in at 3.7% YoY,

supported by subdued non-core components, especially agriculture products. After Banxico's 25bp cut in December, we expect a more cautious stance ahead and a likely pause in the next February meeting as inflation risks tilt higher (e.g. new tariffs on non-FTA goods, taxes on sugary drinks and tobacco). In Chile, December inflation surprised to the downside again, with annual inflation at 3.5%, 100bps below 2024 year-end. Recent downside surprises have reinforced the likelihood of reaching the 3% target as early as Q1 2026.

Bonds

Government bond yields are stable despite the volatile geopolitical backdrop

Core government bond yields have been stable despite the volatile geopolitical backdrop, supported by constructive inflation data and continued low oil prices. US Treasury yields have been well bid, with the 10yr yield trading below 4.2% and the 30yr yield rangebound. Pricing has been anchored by expectations of further Fed rate cuts and contained inflation. Globally, upward pressure on long-dated bond yields has eased, in part reflecting a pause in the repricing of Japanese government debt, with the 30yr

JGB yield broadly flat YTD. German Bunds have been similarly flat YTD. In Europe, gilts have outperformed on improved prospects for further BoE rate cuts. We expect yields to continue to range trade as bonds appear fairly priced. That said, there is potential for volatility, reflecting both the fractious geopolitical backdrop, but also the ramping up of fiscal and AI related spending globally. The latter could well lead to bottlenecks and the emergence of price pressures, and this risk is not currently reflected in market pricing.

What to Watch

- In the US, investors will focus on the latest inflation numbers and the beginning of the earnings season.
- External trade data for the Eurozone from November will be released and will be closely watched for further impacts of US tariffs and Chinese competitiveness. Industrial production data are also due.
- China's exports and credit data for December, India's exports and job data, and Malaysia's GDP are key to watch. The Bank of Korea is expected to keep its policy rate unchanged.

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