Weekly Macro and Markets View

19 January 2026

Highlights and View

US inflation rates hold steady at the end of 2025

Price pressure remains elevated, however, and a pickup in trimmed mean measures shows that the Fed will have to proceed with caution.

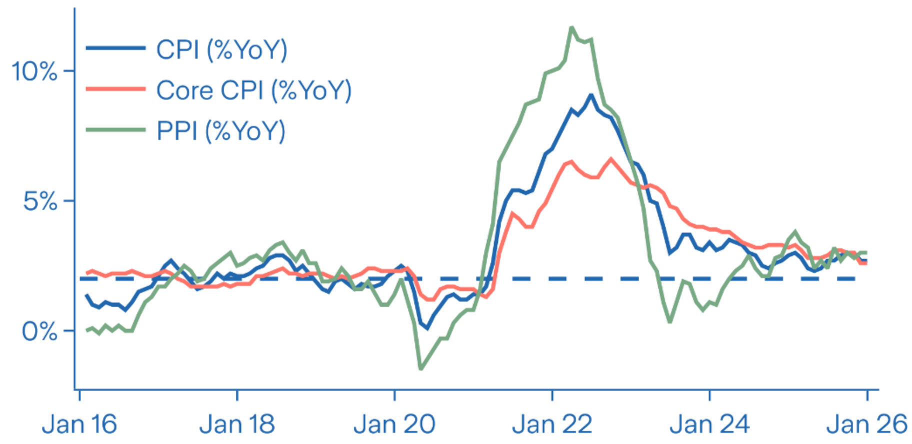
China closes 2025 on a weak macro note, with Q4 GDP at 4.5% YoY, while strong December trade data lift the full year trade surplus to a record USD 1.2tn

Export strength is helping to offset persistent domestic weakness while policymakers are beginning to signal that more easing measures may be forthcoming.

US-EU tensions re-escalate as President Trump threatens 10% tariffs as of February on eight European nations linked to US control over Greenland

The Turnberry trade agreement is in jeopardy as EU MEPs withdraw support, and risks of trade escalation have increased with calls for use of the EU's Anti-Coercion Instrument.

US inflation remains elevated



Source: Bloomberg

Headline CPI inflation remained at 2.7% YoY in December while core inflation was stuck at 2.6% YoY, a tick below consensus expectations. Core goods were a drag on overall inflation, driven down by substantial falls in prices for IT commodities and used cars and trucks. A substantial pickup in the Cleveland Fed's trimmed mean CPI measure shows that the benign inflation print was distorted by substantial outliers, however. Reassuringly, price related components within the NFIB's (National Federation of Independent Business) small business optimism survey have ticked down, pointing to a moderation in price pressure. Retail sales show that consumer spending remained robust in November, but the control group measure indicates that spending momentum has slowed somewhat. Initial jobless claims fell back below 200'000, showing that despite the recent slowdown in the labour market and households' rising worries about job losses, actual firing remains very low. Finally, regional activity indicators, including the Empire Manufacturing survey and Philadelphia Fed Business Outlook, show a substantial acceleration in activity at the beginning of the new year. Bond yields have picked up as investors lower their expectations of future Fed rate cuts, with 10yr Treasury yields rising to the highest level since early September last year.

China

A turbocharged exports boom helps cushion domestic weakness

China closed 2025 with weak macro data, as Q4 GDP grew just 4.5% YoY and retail sales rose only 0.9% YoY. In contrast, robust December trade figures pushed the full year trade surplus to a record USD 1.2tn. Exports rose 6.6% YoY, well above expectations, with solid demand from Europe and ASEAN offsetting a steep 30% drop to the US. Autos surged 71%, underscoring China's expanding EV dominance, while machinery and tech shipments also posted strong double-digit gains. Policymakers have moved to scale back export tax rebates for solar and battery products in an attempt to temper the production overcapacity that is driving a ballooning surplus and lingering tensions with trading partners. Meanwhile, the PBoC's 25bp cut to the 7-day repo rate signals a return to easing and hints at room for LPR and RRR reductions, though policy remains incremental. The MSCI China Index is trading within a range, now nearing the upper end. The early 2025 liquidity rally has faded, and further upside will likely depend on credible policy stimulus.

Eurozone

Trade war redux

An otherwise calm week on the Eurozone macro front was shattered on Truth Social over the weekend. President Trump announced 10% additional tariffs starting February 1, and escalating to 25% on June 1, on eight European countries which had sent a small military contingent to Greenland. The tariffs are directly linked to US demands for the ‘complete and total purchase of Greenland’. Economically, these tariffs would put further pressure on Eurozone growth via the net export channel this year. But the marginal impact is falling as EU firms reduce trade dependency on the US. The most recent trade data showed that exports to the US from the EU fell 20% YoY in November 2025. More concerning to the outlook would be either an EU rejection of the trade deal agreed on last year, or further escalation via the Anti-Coercion Instrument (ACI). The exact form of the ACI threat is unclear, with no easy options for EU leaders given a heavy reliance on US service imports. Nevertheless, escalation in either area could spark an economically damaging further tit-for-tat with the US administration.

Global Inflation

Although inflation has been well behaved, price pressures are emerging around the AI buildout

Global inflation dynamics have been constructive, with further declines in headline CPI rates reflecting both softening services dynamics and disinflationary global goods prices. While this is encouraging and further progress is expected, price pressures around the AI and technology buildout are emerging, reflecting surging demand for key components in combination with constrained supply. This is most notable for prices of memory components, which have risen at an exponential rate over the past quarter, with a range of DRAM prices up by over 300% since Q3 2025. The shifting dynamics are also visible in a broad-based rise in prices of key metals needed for the AI buildout. Surging power demand associated with the data centre expansion is moreover leading electricity prices higher, particularly in the US. While the price mechanism is powerful for triggering an expansion in supply, this will likely take some time, with upward price pressure set to remain in place for the time being. This poses a risk to the relatively benign inflation outlook and warrants continued vigilance from central banks.

Equities

Investors continue to broaden their equity exposures

Although the MSCI World Equity Index failed to make much progress last week, this disguised some notable moves. Many indices posted new highs in the week, before easing back modestly. That noted, Japan’s Topix held on to a gain of 5%, as prospects of snap elections and further fiscal spending buoyed investors. Elsewhere, tech remains in favour in Asia despite fading in the US, with the Kospi Index in Korea up another 2.3%. Sector rotation in the US has been a clear theme since Q3. The Russell 2000 Index is now up almost 8% this year, as investors have diversified some holdings away from the richly valued tech sector. Banks were in the spotlight last week as earnings season got underway. While Morgan Stanley and Goldman were up around 5%, Wells Fargo, Citi and JP Morgan were all down around 4%, with investment banking fees at JP Morgan falling short of expectations. We remain optimistic for US corporate reports and maintain that sector and regional rotation is a positive which gives a further leg up to stocks, though geopolitics remains potentially disruptive.

US ABS

Credit card headlines fail to dent resilience

US credit card ABS spreads were resilient last week despite the headlines around Trump’s proposed 10% cap on credit card interest rates for one year. In contrast, card issuers’ stocks sold off last week. The proposal seems unlikely to be enacted in the near term as a bill is likely required to be passed by Congress, which could struggle amid potential lobbying by the credit card industry. If enacted, however, the cap would significantly reduce credit card ABS trusts’ yields and decrease the cushion against charge-offs. This in turn could lead to higher spreads. More importantly, the most immediate impact would be reduced credit availability for consumers, especially those with weaker risk profiles, which in turn could negatively affect consumer spending. Despite the emergence of this tail risk, our base case is that credit card ABS spreads will continue to trade in their recent narrow range, supported by improving collateral performance.

What to Watch

- In the US, investors will focus on the latest batch of PMI data as well as another round of corporate earnings announcements.
- A whole range of important data will give insights into the current state of the UK economy.
- This week brings top-tier survey data in the Eurozone. This includes the ifo and ZEW sentiment surveys for Germany, and Consumer Confidence and preliminary PMIs for the Eurozone.
- Central banks in China, Japan, Malaysia, and Indonesia are likely to keep rates unchanged. Key indicators to watch include Korea's 20d exports, Taiwan's new export orders, Australia’s job data and India's Flash PMIs.

Disclaimer and cautionary statement

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