



CIO Office Morning Notes

5 January 2026

The year 2025 is now behind us, marked by tariffs concerns and euphoria about AI investments, as well as unabated geopolitical risks running from Ukraine to the Middle East. Worries related to President Trump's trade war waned as tariffs neither stoked inflation nor depressed global growth. Although IT-related capex was the driving force behind the United States' economic resilience, US stocks (+17.4%) significantly underperformed both the MSCI EM Index (+30.6%) and DM ex US equities (+27.9%). Also, the dollar (-9.4%) recorded its worst losses since 2017. Most indices scored double-digit returns for a third straight year even as dollar-centric assets lost some of their lustre on America First policies. US Treasuries (+6.3%) were an exception as they gained and topped global government bond returns in local currency amidst ongoing disinflation and a soft patch in the domestic economy. Gold (+64.6%) bested all asset classes on central bank purchases while regaining its status as challenger to the global reserve currency. Bitcoin (-6.5%), deemed to be digital gold, failed expectations and closed in negative territory. The current year may well see a continuation of accelerated AI investments and US underperformance, though amidst higher volatility and more muted returns globally. Valuations are elevated across risk assets and market drawdowns historically have been the most pronounced in midterm-election years. Policy and politics will still steer markets. Under fiscal dominance governments play a much bigger role, and the Washington administration has shown to be keen that the successor to Fed chair Powell presses hard on the easing pedal. We do not know whether an overly accommodative Federal Reserve will help push President Trump's approval ratings higher, but we do know that it will very much inflate the AI credit cycle.

Markets ended the last week of the year out of synch, with US equities (-1%) in negative territory, other DM benchmarks (+0.5%) scoring moderate gains overall, and the MSCI EM Index (+2.3%) outperforming. In the S&P 500 energy (+3.3%) was the standout sector, while consumer discretionary (-3.2%) were dragged down by Tesla posting disappointing delivery numbers in Q4. Mega-cap (-2.5%) weakness was a recurring theme, and software names were under pressure with Microsoft finishing close to a 6-month low. Monday saw big profit taking in commodities, in particular in precious metals with gold down more than 4% and silver tumbling 9%. Semiconductor stocks rallied on Friday, the first trading day of 2026 following New Year's Day, and EM shares were off to one of their strongest starts in years on IT shares leading the charge in Asia. US Treasuries drifted lower through the week with the 10-year rising about 5bps amid thin holiday trading. The US dollar (+0.4%) pushed slightly higher while Brent crude finished basically unchanged as Russia-Ukraine peace talks saw no breakthrough.

The release of the FOMC minutes and of the final manufacturing confidence indicators across the main regions for the month of December were the main highlights. The minutes revealed a very divided Fed. Indeed, a slowing labor market and lingering price pressures at the same time make for a difficult policy setting. So much so that, while most officials believed further cuts would be appropriate in the future as they gave priority to deteriorating jobs conditions, others would prefer to keep rates unchanged for some time concerned about inflation. As per our judgment the Fed under Powell will be more reactive than proactive, cutting only if supported by hard data, while from May this year significant easing becomes more likely under Trump's nominee. Market reaction to the minutes was muted with the probability of a January cut lingering around 15%, more or less where it ended the prior week. Manufacturing confidence surveys delivered no new news. Manufacturing activity was growing just modestly in the United States, was ailing in Europe, and remained sluggish in the UK. In China, both official PMIs edged higher just into expansion territory, yet failing to change the impression that more stimulus for internal demand is needed.

Markets this morning:

The year is off to a tumultuous start. Early on Saturday the Washington administration toppled Maduro's government with multi-pronged military strikes in Caracas. Resource-rich Venezuela had close links with US enemies and rivals, China, Russia, and Iran. Undoubtedly not in keeping with a new world order shifting to areas of influence where each superpower manages its own area with little outside interference. So, it may not be surprising that China social media hailed Trump's Maduro move as Taiwan template. But investors looked past Venezuela this morning and the oil market took the events in its stride. Asian shares climbed to a new high led by technology building on last year's AI rally. Semiconductor stocks were in the spotlight and US futures pushed higher. Gold jumped as much as 2% to over \$4,400, while silver surged as much as 4.8%. Brent crude edged higher after falling more than 1%. The dollar gained 0.2%, while the yield on the 10-year US Treasury was little-changed at 4.18%. Bitcoin led gains amongst cryptocurrencies.

Upcoming key events/data:

This week investors have plenty to look forward to in the United States, from the jobs report (Friday) to the ISM business surveys (Monday, manufacturing; Wednesday, services), and the University of Michigan Consumer Sentiment survey (Friday). Inflation gauges are released in Europe (Wednesday, CPI; Thursday, PPI), and in China (Friday, CPI and PPI).

Have a good day!

Chief Investment Office
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