CIO Office Morning Notes

7 January 2026

On Tuesday US stocks (+0.6%) closed at a new record, on optimism driven by AI and expectations of easier policy. Activity in the services sector pointed to a clear slowdown as per the PMI survey, with a falling headline index and declines both in new orders and employment. In Europe and in the UK PMI services indicated only moderate growth in the sector. A slowing US economy in the absence of price pressures would make the case for a Fed cut as soon as January. But this is not an obvious case of Goldilocks scenario, with muted but positive growth and moderate inflation. Concerns about inflation remain, and that is why the Fed was so divided as per the December minutes, and yesterday the Richmond Fed President said policy remains in a delicate balance. And market returns so far in 2026 are telling a similar story, with EM equities and economy-sensitive sectors outperforming, so somehow investors must think activity is not so weak and inflation not so unremarkable either. These views will be put to the test on Friday, with the release of the US jobs report. And, as already remarked in Monday's publication, if cyclical assets still push higher in case of further US softness, it may be the case that China has some stimulus measures in store. In the United States the Dow Industrials (+1.0%) outperformed alongside small caps (+1.4%), while returns on other DM equities (+0.8%) were a tad lower. In the S&P 500 materials (+2.0%), the best sector YTD, topped returns closely followed by healthcare (+1.9%). The yield on the 10-year Treasury note edged higher by 1bps to 4.17%, widening its spread against the 2-year with a steepening of the yield curve, pointing to higher odds of easing by the Fed. The US dollar (+0.3) followed yields higher, gold (+1.0%) got closer to its all-time highs, while Brent crude (-1.7%) retreated.

In the region, Saudi Arabia opened local equity markets to all foreign investors, removing existing restrictions. Non-residents will be able to invest freely from Feb. 1. Increased inflows are expected to drive vibrant local markets in times of increased financing requirements that threaten to slow down domestic investments.

On a different note, the European leaders issued a joint statement urging President Trump not to unilaterally choose Greenland's future but rather to achieve security in the Arctic by working with NATO allies. That request, though very legitimate, clashes with the new fractured world order where each superpower is more likely to act in its own interest, rather than within a collective framework. At the same time, the Arctic waterway called the Northern Sea Route offers Russia and China a shorter trade route between Asia and Europe. The cold Greenland sits at the very hot intersection of these geopolitical issues.

Markets this morning:

The record-breaking global stock rally stalled in Asia amidst rising tensions between Japan and China. The MSCI Asia Pacific Index slipped 0.4%, while Japanese shares dropped 0.7% as China imposed controls on its exports either potential military uses to the country. US futures were little changed. Commodities were also volatile with gold sliding 0.4% and silver fluctuating. Brent crude extended losses as President Trump announced Venezuela would turn over as many as 50 million barrels of oil per day to the United States.

Upcoming key events/data:

Today's focus will be on jobs surveys in the United States. Payroll processor ADP will release payrolls estimates for December, while the JOLTS report will offer insights into November vacancies, quits, and hires. The ISM services survey will be of interest as well. The euro area releases the harmonized CPI.

Have a good day!

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