CIO Office Morning Notes

20 January 2026

Global markets started the week under pressure after President Trump reopened the transatlantic trade front and tied tariff policy directly to his push for control of Greenland, pulling geopolitics and trade back to the centre of market attention. Over the weekend, Trump warned of a 10% tariff on goods from eight European countries starting in February, with the rate set to rise to 25% by mid-year if negotiations fail. The comments disrupted the fragile trade truce reached with the European Union and the United Kingdom last year and prompted an immediate response from European leaders, who moved into emergency discussions and began preparing potential retaliation on up to €93 billion of U.S. goods. France signalled support for activating the EU's anti-coercion instrument, raising the stakes around how far the dispute could escalate. Trump also used the run-up to Davos to promote his proposed "Board of Peace," calling on allied nations to commit $1 billion for permanent membership, adding further uncertainty around global governance and institutional influence. Tariff leverage, geopolitical pressure, and institutional demands set a defensive tone across markets, leaving Europe to absorb the sharpest reaction with U.S. markets closed for the holiday. The MSCI ACWI slipped 0.1%, with weakness concentrated in Europe and more selective moves across Asia as markets adjusted to the renewed trade shock.

European equities led the decline. The MSCI Europe Index fell 1.2%, marking its weakest session in several weeks. Export-sensitive sectors were hit first, with automakers sliding sharply as markets reassessed earnings exposure to higher tariffs and the likelihood of retaliation. Losses spread across Germany, France, and Italy, extending into industrials and financials and turning the move into a broad regional selloff rather than a narrow sector response. Comments from German officials that Trump had crossed a "red line" reinforced concerns that negotiations may prove difficult, keeping pressure on equities into the close.

In Asia, Chinese equities declined, with the MSCI China Index down 1.0%, driven largely by a sharp pullback in Alibaba after its strong rally earlier in the year. The selling was concentrated in offshore listings, leaving mainland markets steadier, with the CSI 300 finishing flat. The divergence highlighted the continued split between offshore technology names and domestically focused stocks rather than broad selling across China. Economic data from China offered limited support on the day. Growth met the government's 5% target for 2025, though momentum softened into year-end. Retail sales remained subdued, fixed asset investment contracted over the year, and property-related activity continued to lag. Price action stayed tied to these underlying details, keeping positioning cautious toward sectors linked to domestic demand. There were isolated pockets of strength within the region. BYD shares rose after Canada announced a sharp reduction in tariffs on Chinese electric vehicles, a move modest in near-term volume terms but supportive for sentiment toward Chinese EV exporters. Japanese equities finished broadly flat, with the TOPIX little changed as weakness in trade-exposed names was offset by steadier performance in domestic-oriented stocks.

Within commodities, brent crude fell 0.3% to $63.94 per barrel. Gold rose 1.6% to $4,671 an ounce as demand for defensive assets increased. The dollar declined 0.3%, and the yield on 10-year Treasuries was little changed at 4.22.

Markets this morning:

Today morning, markets remained under pressure as trade tensions escalated further ahead of the U.S. reopening. Asian equities moved lower, led by Japan after Prime Minister Sanae Takaichi called a snap election, bringing fiscal discipline and policy direction back into focus. President Trump reiterated his willingness to use tariffs against countries opposing his Greenland ambitions, prompting firm responses from European officials and keeping retaliation firmly in view. U.S. equity futures pointed lower, indicating markets were still working through the implications of the latest escalation following the holiday pause.

Upcoming key events/data:

Upcoming key events and data today include Netflix reporting results, China announcing loan prime rates, and a series of central bank officials speaking at the World Economic Forum in Davos. Wednesday is lighter on headline data but includes Indonesia's rate decision and continued attention on Davos, where President Trump is scheduled to address global leaders, pushing his economic and geopolitical agenda. Thursday is the heaviest data day, featuring U.S. GDP, personal income, PCE inflation, and jobless claims, alongside Intel earnings and the ECB's account of its December meeting. Friday closes the week with a broad PMI slate across Europe and Asia, Japan CPI and the Bank of Japan rate decision, where policy is expected to remain unchanged but guidance on the timing of the next move will be closely watched.

Have a good day!

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