CIO Office Morning Notes

21 January 2026

Markets found themselves firmly back on the defensive yesterday as political risk returned to the center of pricing and risk assets adjusted quickly. Global equities fell sharply, with the MSCI ACWI down 1.5%, led by a 2.0% decline in the S&P 500, as President Trump escalated pressure on Europe over Greenland and higher bond yields compounded the move. Developed markets dropped 1.6%, emerging markets fell 0.4%, and the shift in tone was reinforced across assets, with the U.S. 10-year Treasury yield rising seven basis points to 4.29% and gold climbing 2.0% to $4,763 an ounce. The session unfolded as a reassessment of political leverage, trade exposure, and institutional credibility rather than a reaction to economic data or earnings alone. At the center of the selloff was a sharp escalation in rhetoric around Greenland. President Trump moved beyond previous comments and explicitly linked Europe's stance on Greenland to trade consequences, warning that countries opposing U.S. control could face punitive tariffs. The language was unusually direct, with threats extending to core European economies and key export categories. The message was clear: alignment would be rewarded; resistance would carry economic cost. That framing altered how markets interpreted trade risk, shifting it from negotiation noise to actionable policy threat. European officials responded quickly, with emergency consultations and open discussion of retaliation, including the potential use of the EU's anti-coercion instrument. French President Emmanuel Macron publicly criticized the U.S. approach, warning that Europe risked economic subordination if it failed to respond firmly. Attention now turns to Davos, where President Trump is scheduled to speak later today. According to the World Economic Forum agenda, his address is set for 2:30 pm to 3:15 pm Central European Time, a window markets are watching closely for any further escalation on trade, Greenland, or Europe.

U.S. equities absorbed the sharpest adjustment. Selling built steadily through the session as markets reassessed exposure to policy shock at a time when rates are already rising. Megacap technology stocks led declines as higher yields tightened valuation assumptions. Notably, semiconductor stocks reversed recent gains following strong results from Taiwan Semiconductor Manufacturing Co., as markets took a more cautious view on supply-chain exposure in a confrontational trade environment. What stood out was not disorderly selling, but the disappearance of dip-buying, replaced by deliberate risk reduction across sectors. Corporate developments added further pressure. Netflix shares fell after the company reported results that highlighted a renewed push on investment. Management outlined a meaningful increase in content spending into 2026, alongside higher costs tied to changes in its licensing and distribution arrangements, including adjustments related to Warner Bros. While subscriber growth remains solid and revenue trends intact, markets focused on the implications for margins and free cash flow. The earnings message reinforced a broader theme emerging this season: growth remains available, but it is increasingly capital-intensive. Bond markets played a critical role in amplifying the equity move. The rise in U.S. yields was driven less by domestic data and more by developments in Japan, where government bonds sold off sharply. Long-dated Japanese yields surged to record highs following fiscal proposals linked to Prime Minister Sanae Takaichi's election strategy, including tax cuts without clear funding mechanisms. The move unsettled global fixed income, forcing a reassessment of carry trades and spilling directly into U.S. Treasuries. Higher yields tightened financial conditions just as equities were grappling with trade escalation, reinforcing the pullback.

European equities closed lower, though losses were smaller than in the U.S., with the MSCI Europe Index down 0.7%. Internally, the damage was clearer. Luxury stocks came under pressure after Trump threatened tariffs of up to 200% on beverages and related exports, with LVMH among the notable laggards. Automakers and industrials weakened as markets reassessed earnings exposure to cross-border disruption. Banks drifted lower as higher global yields and political uncertainty weighed on confidence around capital flows and lending activity. Asia reflected the global stress through local channels. Japan's TOPIX fell 0.8% as equity markets reacted to the bond rout, higher yields, and election-driven fiscal uncertainty. Exporters and rate-sensitive stocks led declines, reinforcing Japan's role as a transmission point for global volatility. In China, equities slipped more modestly, with the MSCI China Index down 0.4%. Weakness was concentrated in large technology names, while mainland markets were steadier. Authorities continued to signal policy support through loan incentives and credit measures, though global risk aversion limited appetite to add exposure.

Commodities clearly expressed the defensive shift. Gold surged 2.0% yesterday to $4,763 an ounce as demand for protection rose amid geopolitical tension and bond-market stress. Silver and platinum advanced alongside it. Oil prices also moved higher, with Brent crude up 1.5% to $64.9 per barrel, supported by geopolitical risk and evolving supply dynamics, including tighter controls around Venezuelan crude flows. The dollar fell 0.3%, an unusual move during an equity selloff, reinforcing the sense that markets are reassessing traditional safe-haven behaviour.

Markets this morning:

Today morning, markets showed tentative signs of stabilization, though defensive positioning remains firmly in place. Japanese government bonds rebounded after the sharp selloff, easing pressure on global rates and allowing U.S. equity futures to edge higher early on. Treasury yields were marginally lower as spillover risk from Japan receded, though caution persisted ahead of Trump's Davos appearance. In commodities, gold extended its rally, rising another 1.6% to around $4,840 an ounce, pushing further into record territory and signaling sustained demand for protection following yesterday's shock. Oil held near recent gains as supply concerns remained in focus.

Upcoming key events/data:

Upcoming key events and data today include President Trump's speech scheduled to address global leaders, pushing his economic and geopolitical agenda in Davos. Thursday is a heavy 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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