



CIO Office

Global Markets Weekly Kickstart

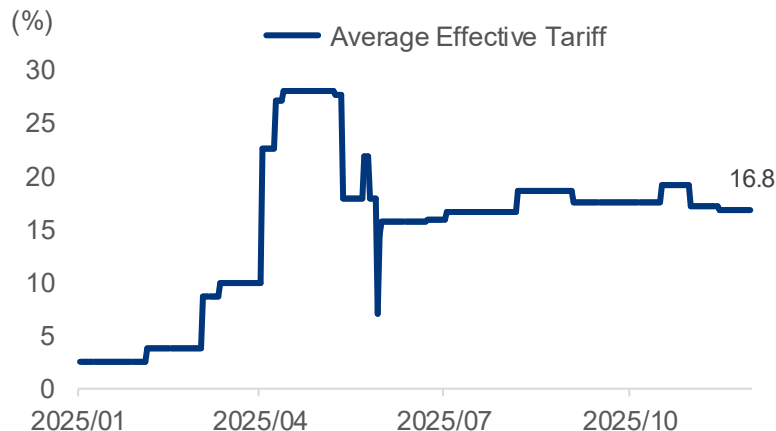
Favor Mid -To-Long Term Bonds

5 January 2025

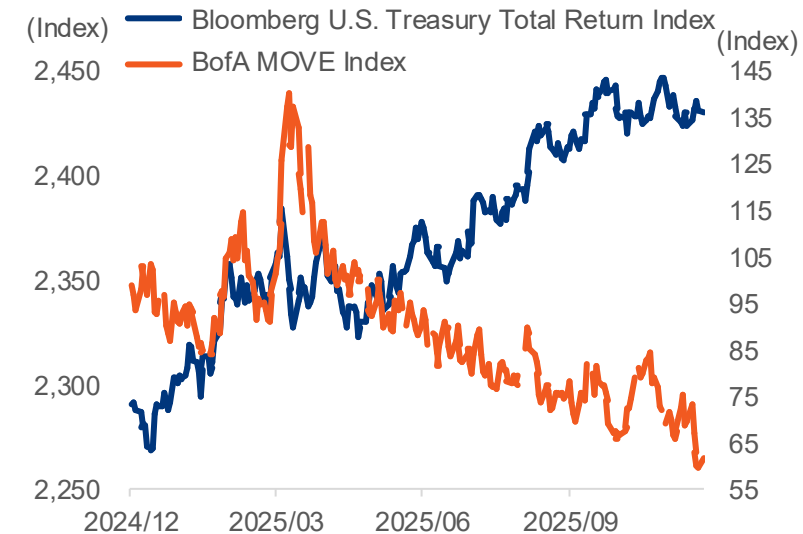
U.S. Tariffs Rise and Revenue Increases, but Ultra-Long Yields Stay Elevated

- ▶ **U.S. effective tariffs have climbed to 17%**, marking the sharpest annual shift in decades, with year-end levels the highest since the 1930s. This has reshaped global supply chains. We estimate tariffs will drag GDP growth by 0.3ppt, though increased AI investment offsets much of the impact. Tariffs generate over USD 200bn in revenue—4% of total government income, vs. 2% in 2024.
- ▶ **The Fed cut rates again**, delivering 75 bps of easing for the year, and ended QT in December to maintain ample liquidity. With core goods a small share of CPI, tariff-related inflation is largely one-off, and the Fed has avoided turning hawkish. Yields across the front end and belly have declined, but ultra-long yields remain elevated, steepening the curve. Other central banks, including the ECB and BoE, also cut rates, while Japan hiked, exiting its ultra-loose stance.
- ▶ **The U.S. Treasury market has calmed.** With the Fed back in a cutting cycle, yields have moved lower and total returns on Treasuries have been solid. The BofA MOVE Index, which tracks Treasury volatility (similar to the VIX for equities), has fallen steadily to a near four-year low.

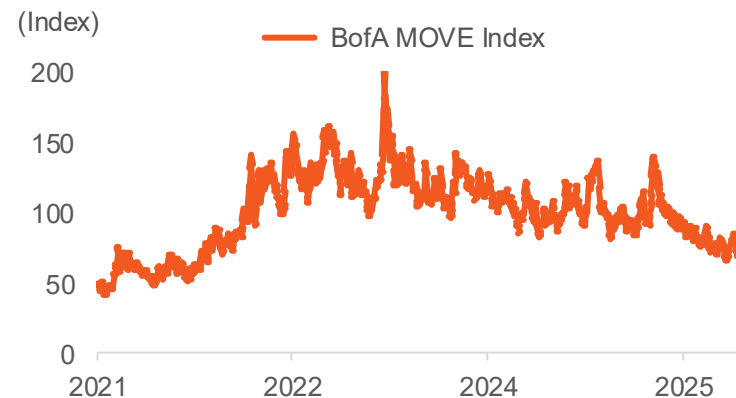
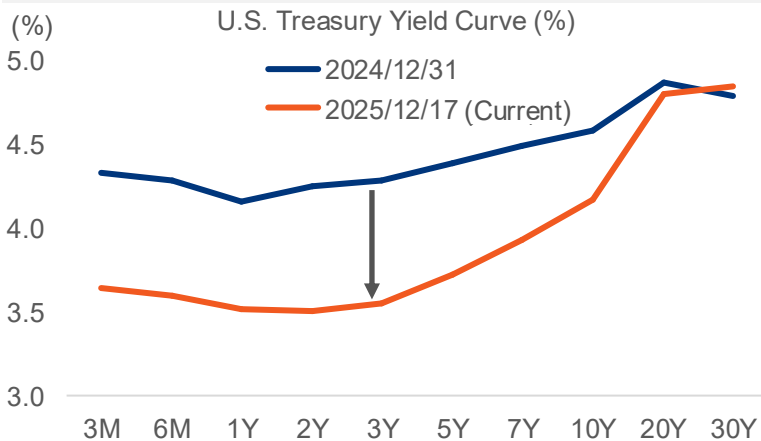
U.S. Effective Tariffs Rise to 17%, Highest Since the 1930s



U.S. Treasury Market Has Gradually Calmed This Year



Yield Curve Steepens After Rate Cuts



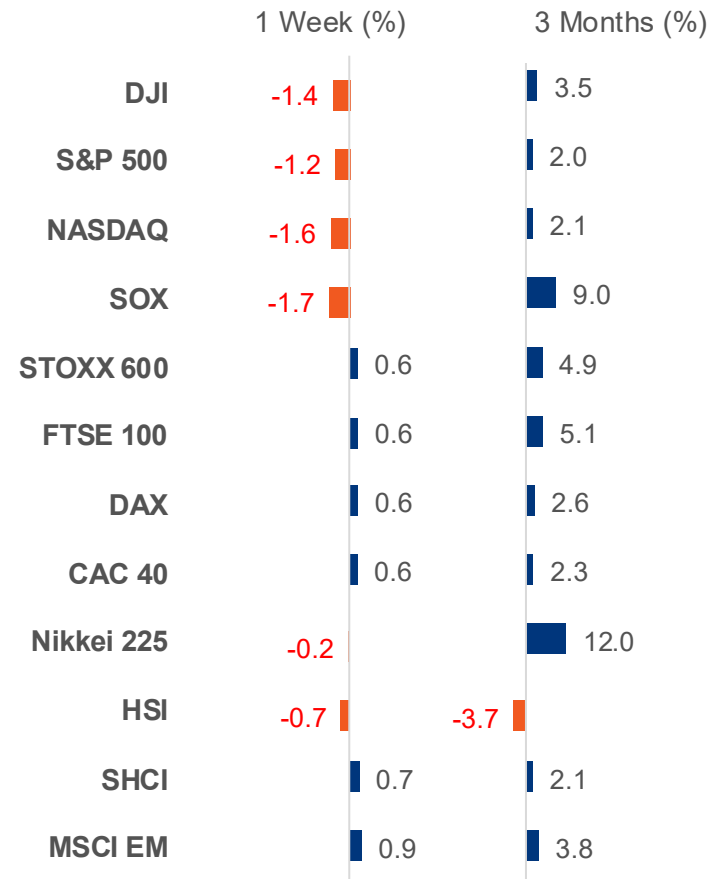
Source: Bloomberg, The Budget Lab, KGI

Market Recap

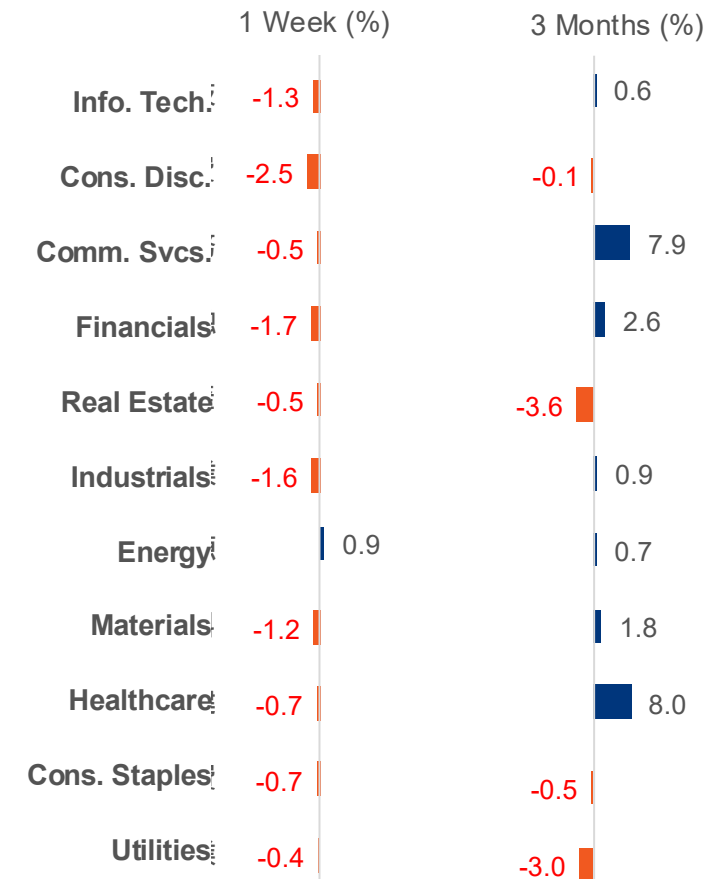
Final Week of 2025: U.S. Equities Soft; Europe Holds Steady

- ▶ In the final week of 2025, with limited corporate news flow and no fresh catalysts—and shortened trading sessions due to holidays—investor participation was muted. All three major U.S. indices extended mild declines. Energy was the only sector posting a modest gain, with some rotation into traditional sectors.
- ▶ For the full year, the S&P 500 rose 16.4%, near its record high, marking a third straight year of double-digit gains. The Nasdaq and SOX posted +20.4% and +42.2%, while the Dow, weighed by lower tech exposure, gained 13.0%.
- ▶ While U.S. year-end performance was soft, European equities held firmer. The Stoxx 600 ended 2025 near its historic high, its best year since 2021.
- ▶ Media reports indicated Chinese tech firms have ordered over 2mn Nvidia (NVDA) H200 chips, but current inventory is only around 700k. Nvidia is therefore seeking increased output from TSMC (TSM). In thin holiday trading, Nvidia dipped slightly for the month.

Regional Index Performance (%)



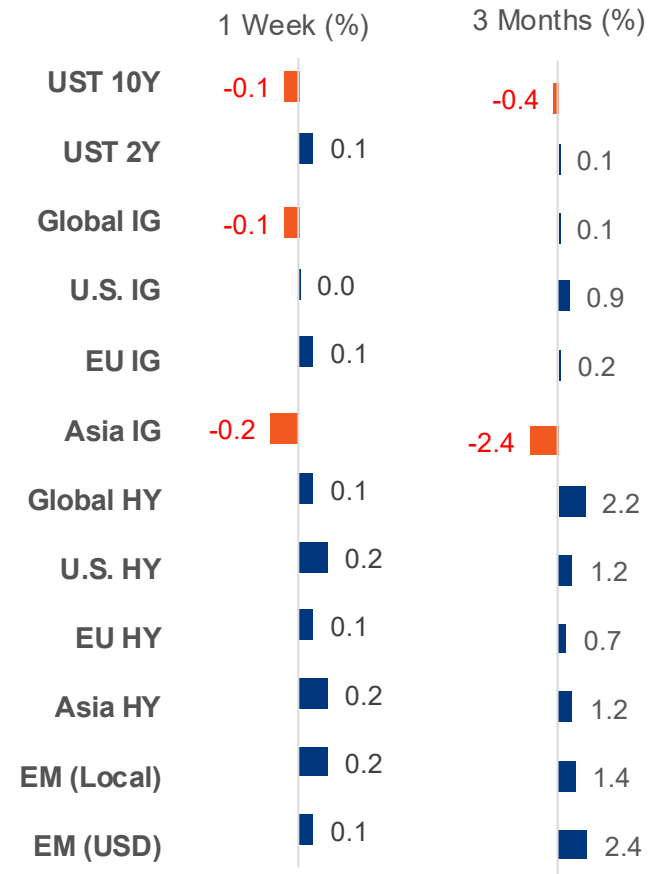
U.S. Sector Index Performance (%)



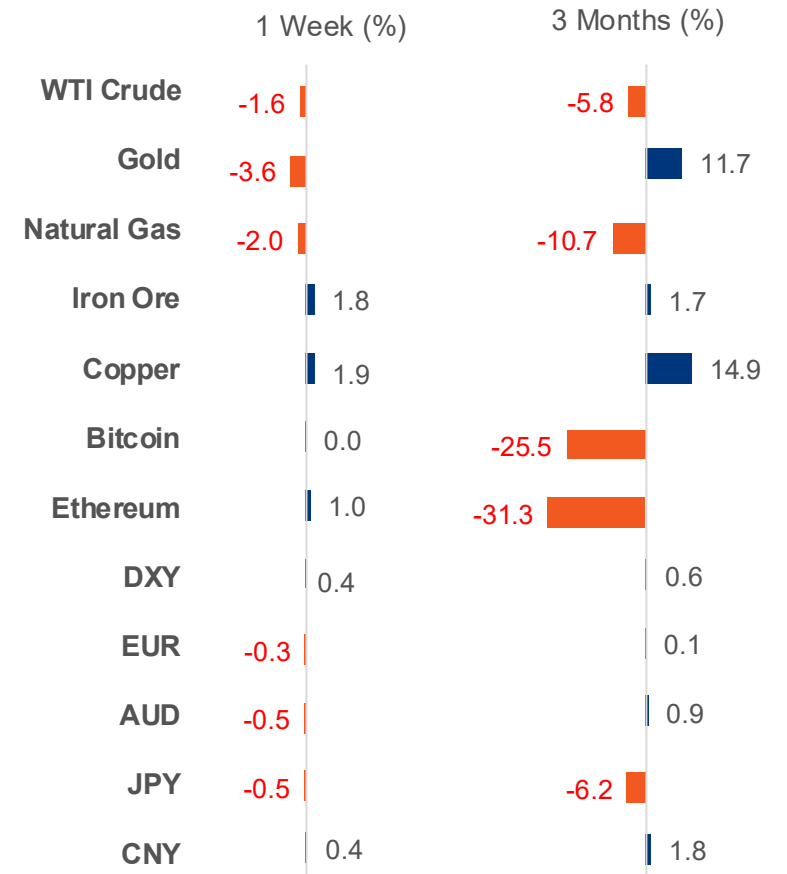
Yield Curve Steepens; Precious Metals Highly Volatile at Year-End

- ▶ Minutes from the December FOMC meeting showed notable division among officials on the policy path, raising the likelihood of a pause at an upcoming meeting. Most officials believe shifting policy toward neutral would help avoid further labor-market deterioration. Conversely, easing too aggressively while inflation remains elevated risks undermining the Fed's credibility on the 2% target.
- ▶ Rates futures still price 25–50 bps of cuts next year. Treasury yields were mixed: the 2Y fell while the 10Y rose, steepening the curve. The Fed is maintaining accommodation under political pressure, keeping front-end yields low; however, risks around Fed independence and inflation could push long-end yields higher and keep the curve steep.
- ▶ Precious metals saw extreme year-end volatility. Gold retreated after hitting a record above USD 4,500/oz and may consolidate before resuming its uptrend, supported by central-bank diversification and rate cuts. Other precious metals (silver, platinum, palladium) outperformed gold through December amid tighter supply and a surge in futures activity. Volatility in metals weighed on mining stocks.

Performance of Bonds (%)



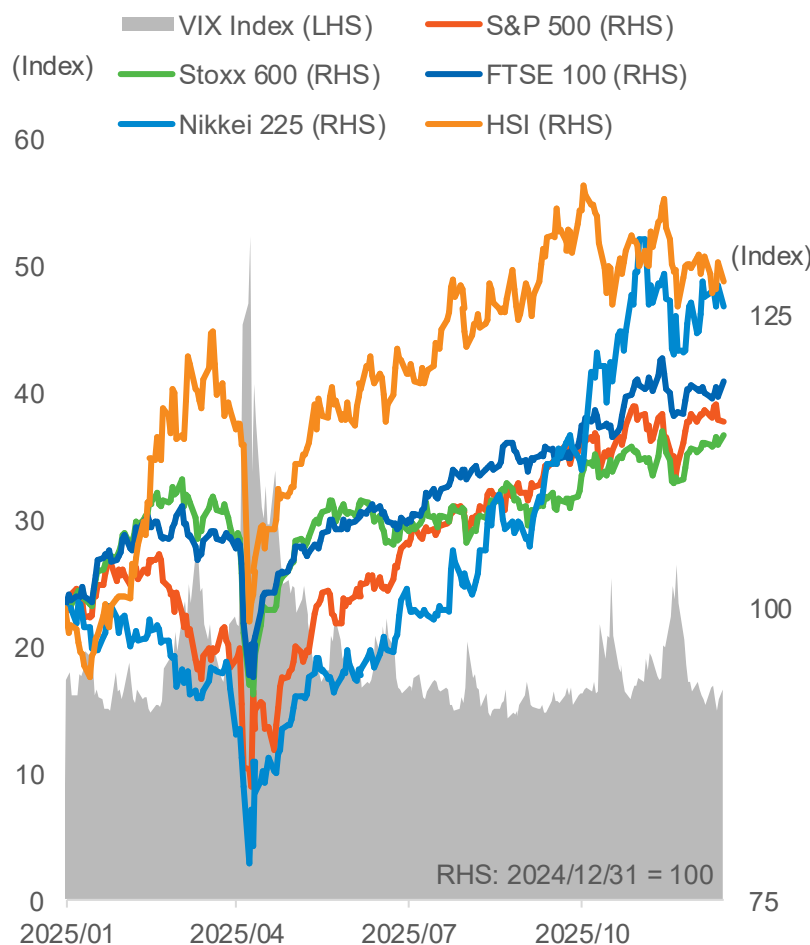
Performance of Commodities and Currencies (%)



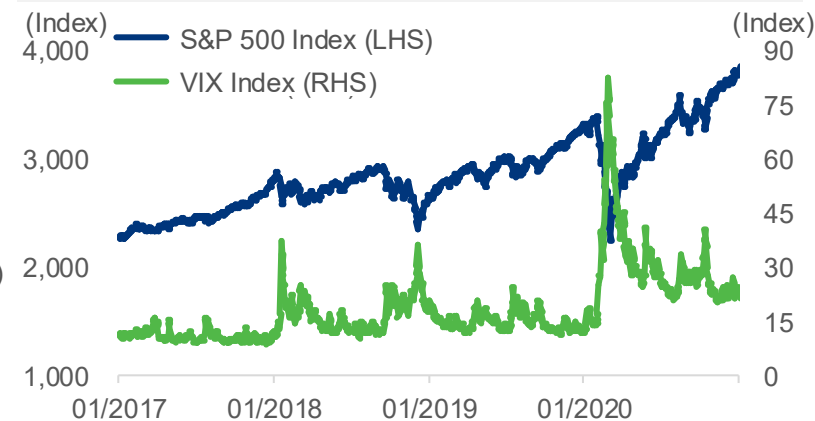
Trade War Spurs Market Volatility, but Panic Creates Ideal Entry Points

- ▶ Although Trump announced steep tariffs on Liberation Day, triggering a trade war and a sell-off in risk assets—with the VIX spiking to around 52—sentiment improved as the U.S. and multiple countries later reached agreements, driving a rebound in global equities, including U.S. stocks.
- ▶ As we noted in December 2024, Trump’s primary objective is to secure more favorable deals for the U.S., meaning policies are unlikely to inflict major economic damage. During his first term, the fear gauge briefly surged above 30 before markets staged a sharp rebound. Historically, buying large-cap stocks during VIX spikes has outperformed random entry points; the same pattern appeared this year on Liberation Day.
- ▶ With 2026 being a midterm election year, Trump may soften trade measures to avoid hurting his political standing. However, if reciprocal tariffs are overturned and new tariffs are introduced to compensate for fiscal revenue, uncertainty could rise again, lifting volatility—but also creating attractive buying opportunities.
- ▶ Beyond buying large caps when the VIX jumps, investors can add portfolio protection when the VIX is near average levels, such as by purchasing put options or taking long VIX positions—strategies built around VIX dynamics.

VIX Spike Created Buy Opportunities This Year



VIX Spiked Sharply During Trump’s First Term



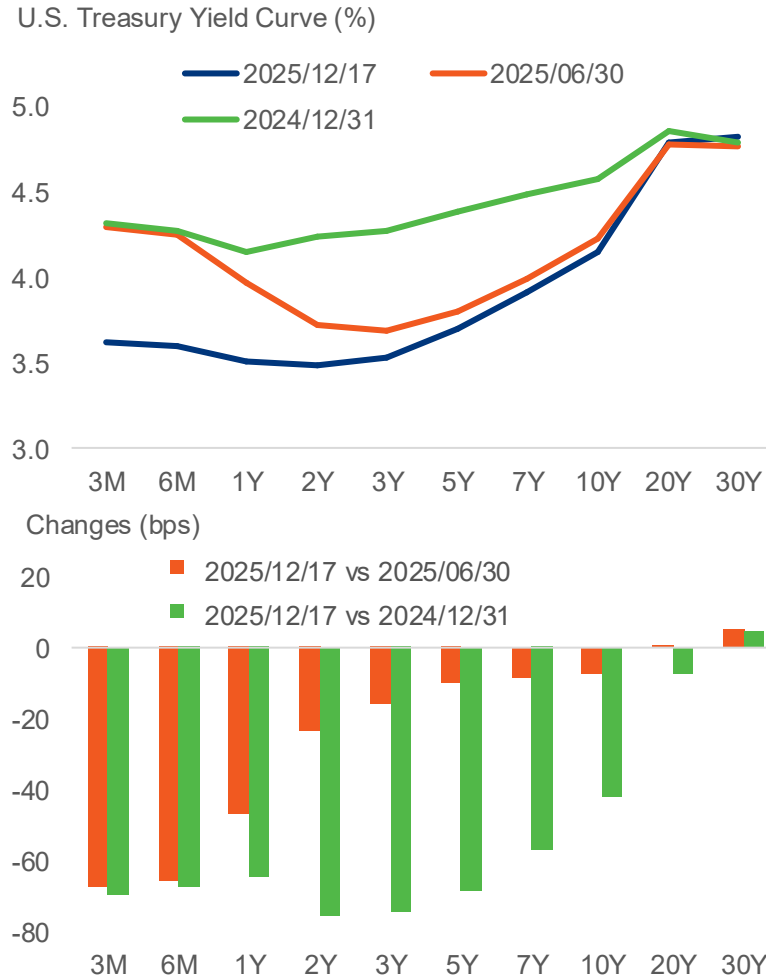
U.S. Risk Events Early in the Year

	China Tightens Export Licensing for Rare Earths; Trade Tensions Rise
	Supreme Court Begins Hearing on Removing Fed Governor Cook
Jan	Fed Governor Miran’s Interim Term Ends
	Supreme Court Rules on Tax Constitutionality
	Trump Expected to Nominate New Fed Chair (Pending)
Feb	European Parliament Votes on EU–U.S. Trade Agreement

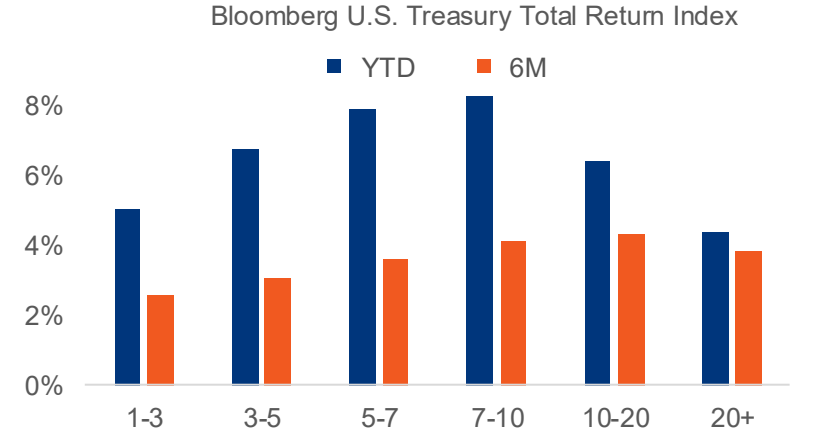
The Fed Cut 75 bps, but Ultra-Long Yields Remain Elevated

- ▶ The Fed resumed rate cuts in the second half, delivering 75 bps of easing. U.S. Treasuries across most maturities posted solid performance YTD. However, yields beyond 20 years have not fallen meaningfully—30Y yields even edged higher—so total returns on ultra-long bonds were roughly equal to their coupons, meaning almost no price-driven gains.
- ▶ The divergence in yields reflects differing catalysts at the front and long ends. Short-term rates respond directly to Fed policy; lower front-end yields reflect the ongoing rate-cut cycle and expectations of further accommodation, with 1–3Y yields especially subdued.
- ▶ Longer maturities are far less sensitive to policy rates. Tariff-driven inflation expectations, concerns around fiscal discipline, questions on monetary-policy independence, and a resilient U.S. economy all keep long-end yields elevated. As a result, the yield curve has steepened, with uneven declines across maturities leading to varied price gains within Treasuries.
- ▶ Outside U.S. Treasuries, the spread between investment-grade (IG) corporates and government bonds is extremely tight, meaning moves in Treasury yields carry significant impact on IG credit pricing.

U.S. Cut 75 bps in 2025, but Ultra-Long Yields Stayed Elevated



Medium-to-Long Tenor Treasuries Outperformed



30Y U.S. Treasury Prices Softened in 2025

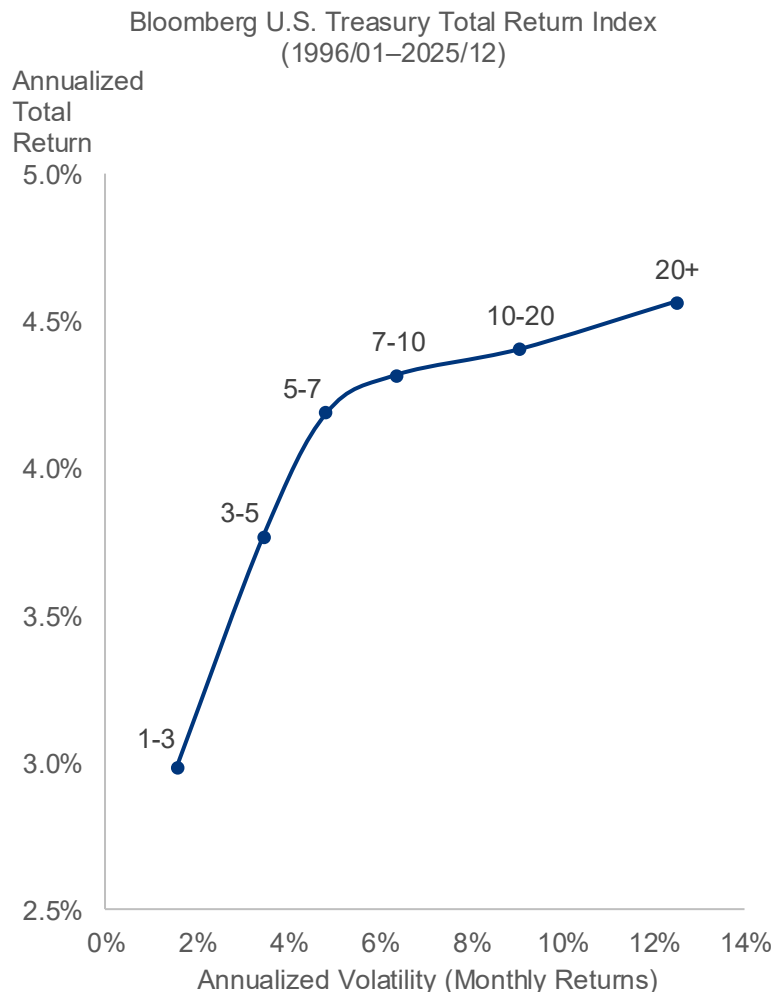


Source: Bloomberg

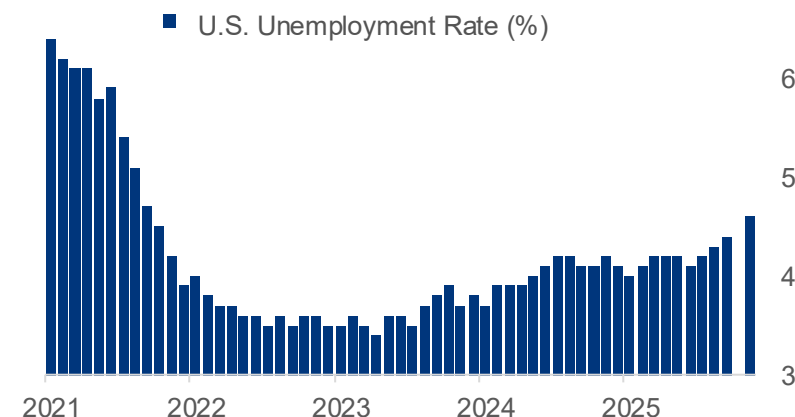
Short-Dated Bond Returns to Fall in a Cutting Cycle; Favor Medium-to-Long Tenors for Long-Term Positioning

- ▶ U.S. unemployment rose to 4.6% in November, the highest since September 2021. Given rising slowdown risks, we estimate the Fed still has room to cut, with yields across maturities likely to decline. The 10Y yield may bottom at 3.7–3.9% in the first half. Long-dated Treasuries will remain out of favor, keeping the curve steep.
- ▶ Into 2H26, the U.S. economy may approach a trough, and markets may have priced in the end of the Fed's easing cycle. Medium-to-long yields could then bottom and rebound. After the Trump-nominated Fed Chair takes office, a more accommodative stance may anchor front-end yields, while risks around Fed independence could push long-end yields higher and keep the curve steep.
- ▶ As noted earlier, short-dated bonds offer a high return-to-risk ratio and suit short-term parking or very conservative investors, but returns will fall in a rate-cut cycle. With the curve now sloping upward, extending duration modestly toward the middle and long end can improve potential returns. Many bond funds also concentrate in the belly of the curve. Maturities beyond 20 years, however, remain a trade on "U.S. fiscal conditions and Fed independence," carrying higher relative risk.

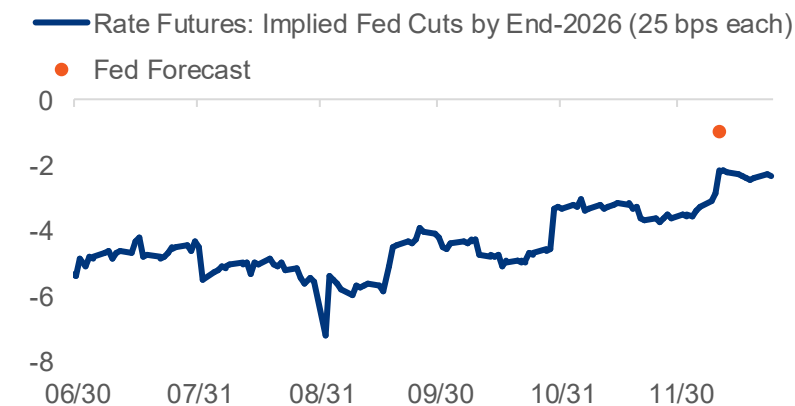
Total Return of U.S. Treasuries Across Different Maturities



U.S. Unemployment Rises to Multi-Year High



Market Still Expects Two More Cuts Ahead



Source: Bloomberg

Asset Strategy

Asset Type	Market View	Preferred Assets
Equities	<ul style="list-style-type: none"> ◆ 2026 allocation can follow L (Liquidity Shift), E (Earnings Focused), A (Adding Credit), and D (Diversified Asset) to respond to macro drivers. With expected USD softness and flows into non-USD assets, equity investment should focus on growth while maintaining valuation discipline, paired with bonds for balanced risk and enhanced returns. ◆ Eurozone equities for diversification; country picks include fiscally stimulative Germany and fast-improving Spain. Sector focus on financials with stronger balance sheets and defense supported by policy. In the U.S., focus on domestic consumption, banks, and semiconductors. 	<p>Strategy: AI beneficiaries including semiconductors, utilities, industrials; non-AI exposures include aerospace, defense, and pharma.</p> <p>Regions: Germany, Spain, Japanese banks, Japanese semiconductor stocks.</p>
Bonds	<ul style="list-style-type: none"> ◆ With the yield-curve steepening, opportunities exist in medium-to-short duration Treasuries and high-grade credit, plus select EM credit post spread adjustments. Attractive sectors include financials, utilities, and industrials. ◆ USD long-end valuation remains uncertain; increase non-USD IG bond exposure such as EUR, SGD-denominated IG. 	<p>Duration: Medium-to-short duration government bonds, high-grade credit.</p> <p>Types: High-grade credit, especially financials, industrials, utilities.</p>
Forex	<ul style="list-style-type: none"> ◆ Fed's gradual cuts delay the turn in expectations, but weak labor data and cooling inflation widen U.S. cut expectations. In 2026, Fed independence may face challenges, keeping the USD biased weaker. ◆ BoJ rate hikes and government preference for gradual normalization support JPY; Fed easing keeps USD soft; narrowing U.S.–Europe rate differentials support EUR strength. 	<p>USD: mildly softer</p> <p>JPY, EUR: biased higher</p>
Commodity	<ul style="list-style-type: none"> ◆ U.S. inflation remains sticky, but expectations of continued Fed easing plus geopolitical risks—including U.S./Nordic pressure on Russia's oil exports—keep commodity prices elevated. Tech and semiconductors are driving strong silver demand; geopolitical tension and sanctions support gold. 	<p>Gold: Bullish in the medium to long term</p> <p>Silver: Remains strong in the near term.</p>

Appendix

Key Economic Data / Events

► DEC 2025

29 Monday

30 Tuesday

31 Wednesday

- U.S. Initial Jobless Claims (Wk) (Act:199k Est:218k Prev:215k)
- China Dec Mfg. PMI (Act:50.1 Est:49.2 Prev:49.2)
- China Dec Services PMI (Act:50.2 Est:49.6 Prev:49.5)
- China Dec S&P Global Mfg. PMI (Act:50.1 Est:49.8 Prev:49.9)

► JAN 2026

1 Thursday

2 Friday

- U.S. Dec S&P Global Mfg. PMI Final (Est:51.8 Prev:52.2)
- Eurozone Dec Mfg. PMI Final (Est:49.2 Prev:49.6)

5 Monday

- U.S. Dec ISM Mfg. PMI (Est:48.4 Prev:48.2)
- Japan Dec S&P Global Mfg. PMI Final (Prev:48.7)
- China Dec S&P Global Services PMI (Est:52.0 Prev:52.1)

6 Tuesday

- U.S. Dec S&P Global Services PMI Final (Est:52.9 Prev:52.9)
- Eurozone Dec HCOB Services PMI Final (Est:52.6 Prev:53.6)

7 Wednesday

- U.S. Dec ADP Employment Change (Est:48k Prev:-32k)
- U.S. Dec ISM Services PMI (Est:52.3 Prev:52.6)
- U.S. Nov JOLTS Job Openings (Est:7,726k Prev:7,670k)
- U.S. Oct Durable Goods MoM Final (Prev:0.7%)
- Eurozone Dec CPI YoY Flash (Est:2.0% Prev:2.1%)
- Taiwan Dec CPI YoY (Est:1.30% Prev:1.23%)

8 Thursday

- U.S. Initial Jobless Claims (Wk) (Prev:199k)
- Eurozone Dec Consumer Confidence Final (Prev:-14.2)
- Eurozone Nov PPI YoY (Prev:-0.5%)
- Eurozone Nov Unemployment Rate (Est:6.4% Prev:6.4%)

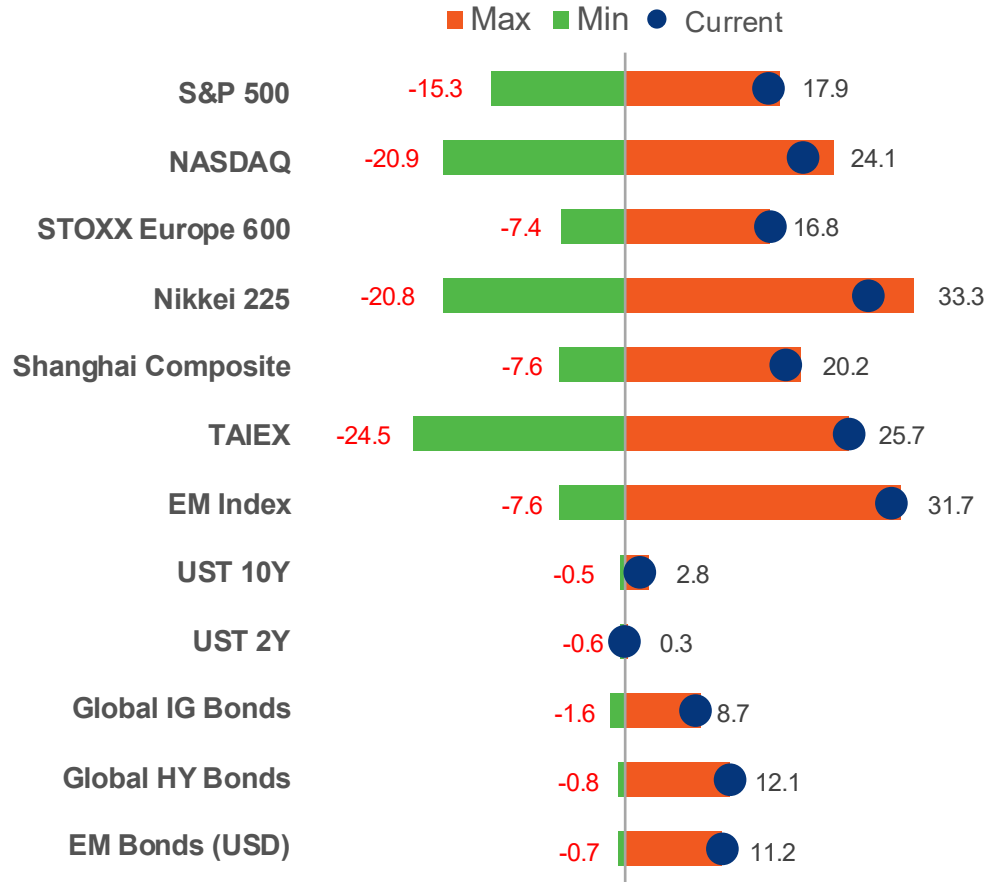
9 Friday

- U.S. Dec Nonfarm Payrolls (Est:55k Prev:-105k)
- U.S. Dec Unemployment Rate (Est:4.5% Prev:4.6%)
- U.S. Oct Housing Starts (Est:1,325k Prev:1,307k)
- U.S. Oct Building Permits (Prel.) (Est:1,349k Prev:1,330k)
- U.S. Jan Michigan Sentiment (Prel.) (Est:53.5 Prev:52.9)
- China Dec CPI YoY (Prev:0.7%)

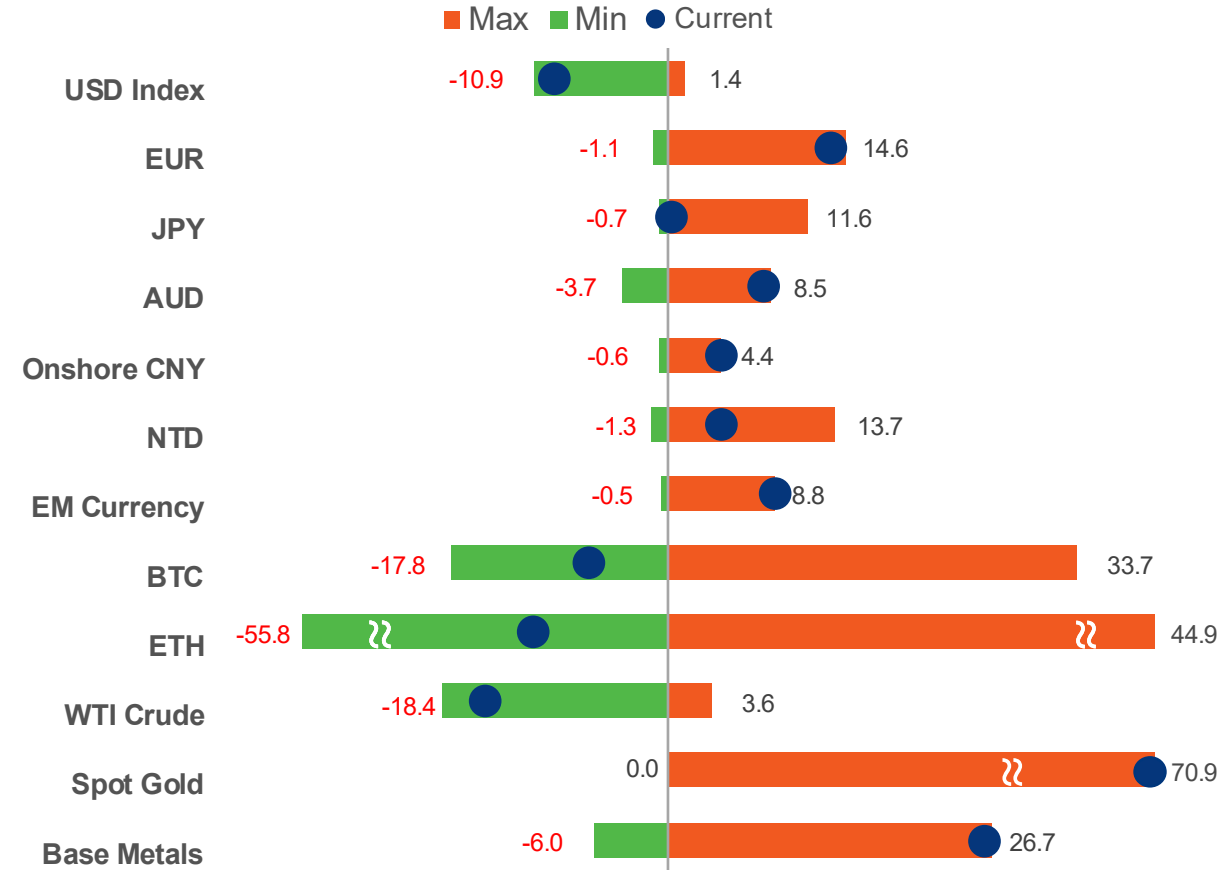
Source: Bloomberg

2025 Major Market / Asset Performance

Equities & Bond Markets 2025 Performance (%)

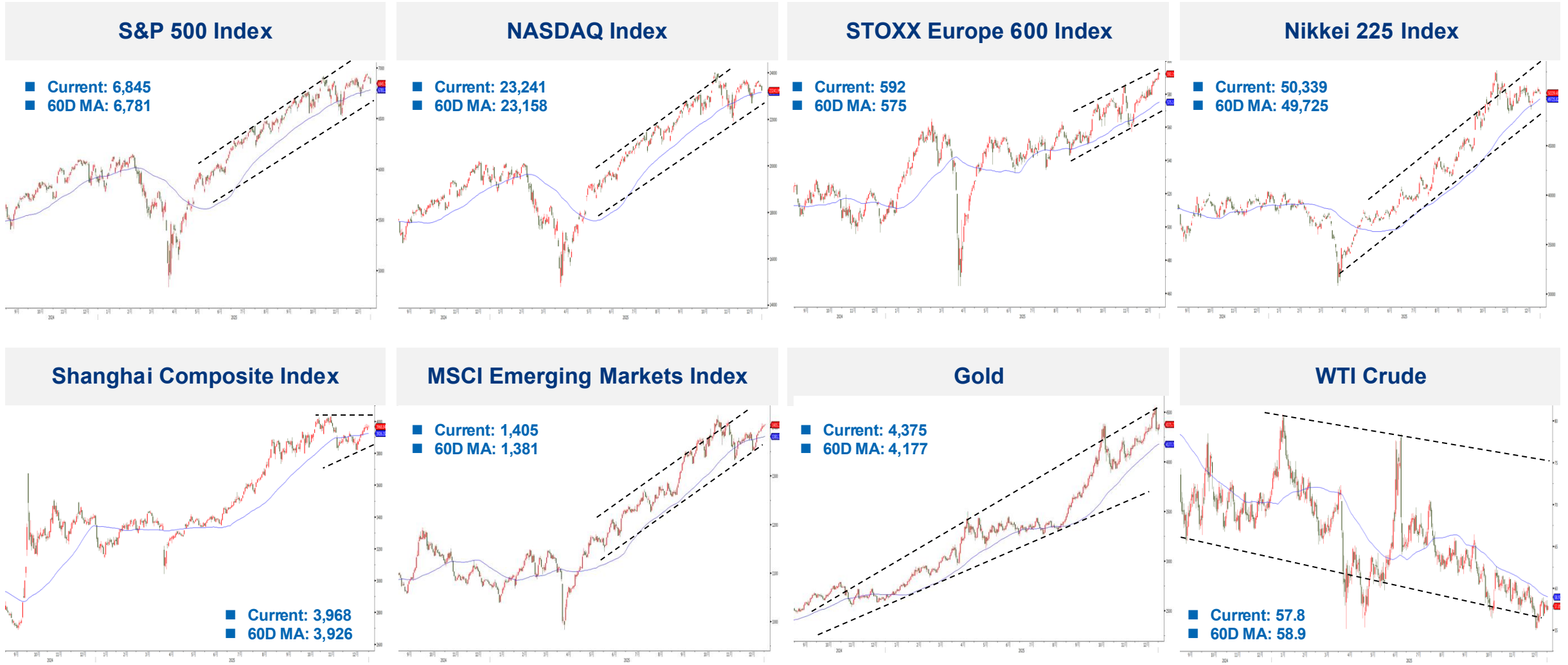


Currencies and Commodities Market 2025 Performance (%)



Source: Bloomberg, 31 Dec 2025

Technical Analysis



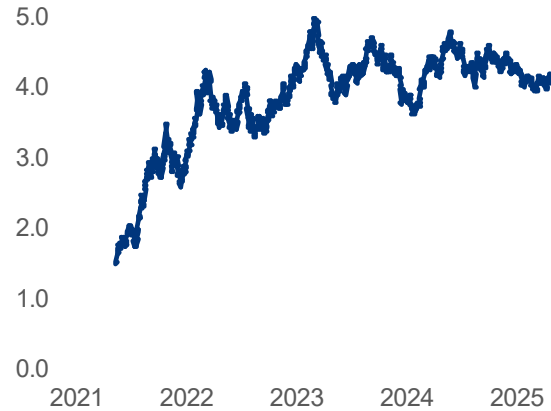
Source: Bloomberg, 2 Jan 2026

Market Monitor

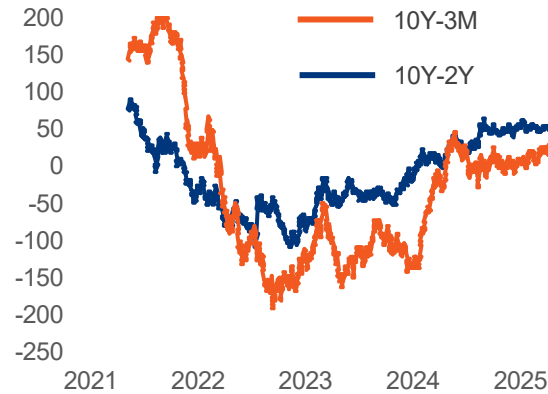
U.S. CPI YoY (%)



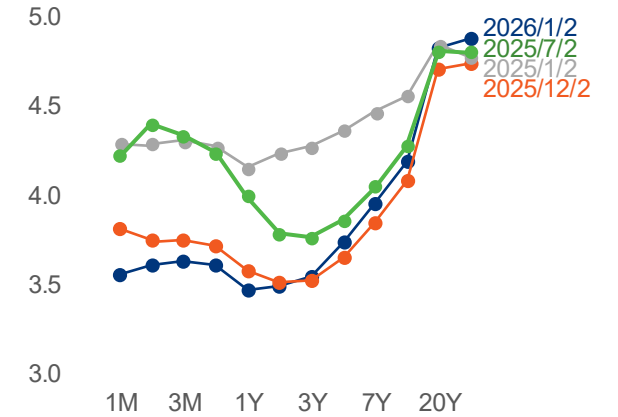
U.S. 10-Year Treasury Yield (%)



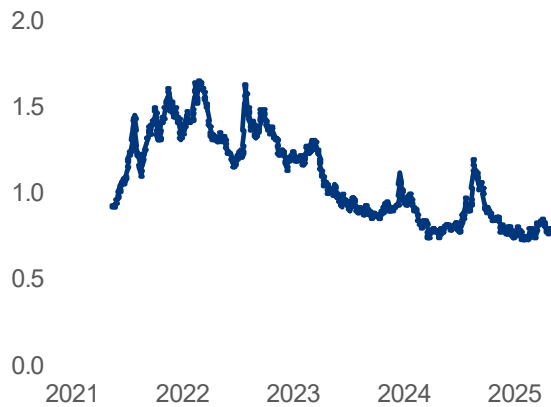
U.S. Treasury Yield Spread (bps)



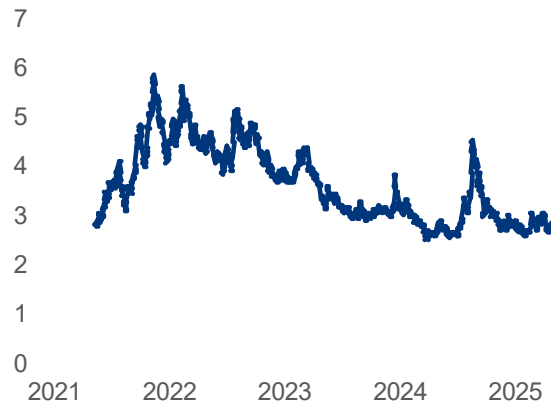
U.S. Treasury Yield Curve (%)



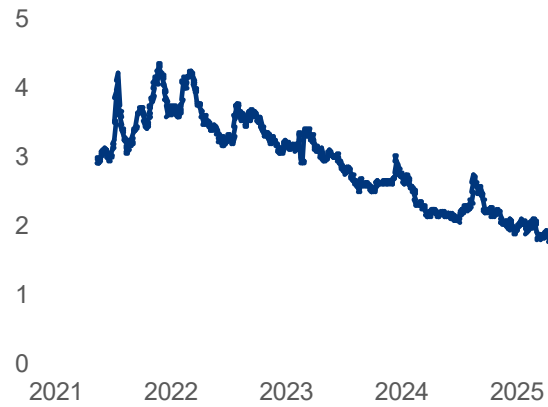
USD IG Credit Spread (%)



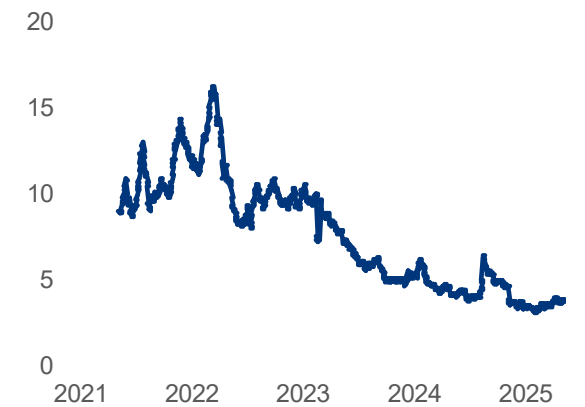
USD HY Credit Spread (%)



USD EM Credit Spread (%)



USD Asia Credit Spread (%)



Source: Bloomberg, 2 Jan 2026

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