WS Global CIO Office
21 January 2026

Market Watch

The Greenland problem

Summary

Event: Global stocks, bonds and the US dollar sold off, while gold and CHF rose, amid rising US-EU tensions over US President Trump's plans to acquire Greenland. A sell-off in Japanese bonds on concerns about rising fiscal deficit also pushed up US bond yields, adding to the equity selloff.

Our View: We see the sell-off as sentiment driven and likely short-lived. The US effectively controls Greenland, with its military presence on the sparse, but strategically important, island since the 1940s. The issue is likely to be resolved, especially if US bonds continue to sell off. Meanwhile, Japan's bond yield surge is the one to watch more closely as the driver is Japan's structural reflation. Nevertheless, we expect the BoJ to intervene to stem a surge in yields.

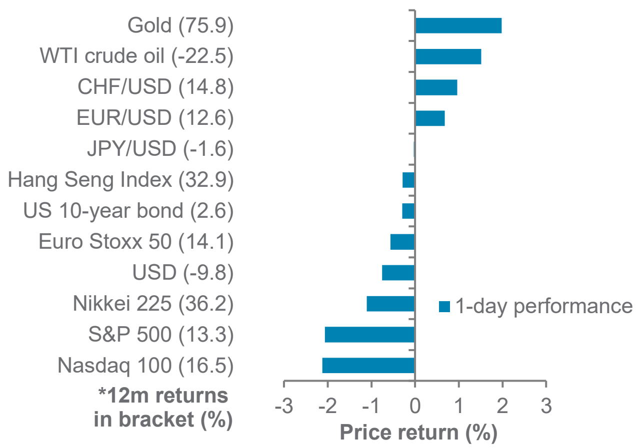
Investment strategy – Stick to the plan: While volatility is likely to remain elevated in the near-term pending a resolution of US-EU tensions, we see any further sell off as an opportunity to add to risk assets. Global fundamentals remain resilient, with ongoing fiscal stimulus across the world's major economies and the Fed likely to cut rates further.

Corporate earnings outlook remains robust, especially in the US and Asia ex-Japan, our preferred equity markets. **We would focus on quality equities with strong earnings growth,** while remaining broadly diversified. The S&P500 index has next technical support at 6,720, followed by 6,500.

We continue to see value in US 5-7-year bond maturities. The USD faces further downside risk. Our long-held hedges, such as gold, have performed well. Gold remains a core diversifier in a world facing geopolitical uncertainty.

Global stocks, bonds and the US dollar sold off, while gold and CHF rose, amid rising US-EU tensions

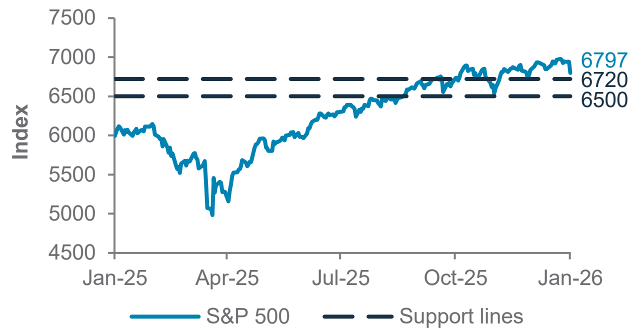
Asset class returns, 1-day and over 12 months, as of 20-Jan-2026 close



Source: Bloomberg, Standard Chartered

The S&P500 index has next technical support at 6,720, followed by 6,500

S&P 500 index and technical levels



Source: Bloomberg, Standard Chartered

Background

Greenland problem to be eventually resolved: The US has had de facto military influence in Greenland since the 1940s and is unlikely to take extreme steps that destabilize NATO. Also, Trump's tariff threat against US's European allies raises the risk of financial retaliation. Europe and Japan have been the biggest buyers of US Treasuries over the past year, while China has been diversifying UST holdings in recent years.

Given this, we believe President Trump's escalation is yet another tactical move to achieve a couple of policy objectives which are unrelated to Greenland: i) force Europe to boost defence spending; ii) create the grounds for imposing alternative tariffs on Europe if the Supreme Court rules the current tariffs illegal (a decision has been delayed by at least a month with the Court going on a four-week recess). Tariff revenues are an imperative for the Trump administration, since it needs to keep the fiscal deficit in check and bond yields capped in a mid-term election year.

Japan's bond yield rise more structural: The surge in Japanese bond yields was the other key driver of this week's market selloff. Japan's 40-year yield surged to a record high of 4.23% and the 10-year jumped to 2.36%, highest since 1999, following PM Takaichi's call for snap elections in February. Takaichi pledged to suspend consumption tax on food for two years, without offering how that would be funded, increasing concerns about Japan's rising fiscal deficit.

Rising long-term bond yields raises the risk Japanese investors may sell US government bond holdings and repatriate capital to buy Japan bonds. The sell off in Japan bonds eased on Wednesday after Finance Minister Katayama called for calm, insisting Japan's fiscal policy remains responsible. She pointed to the lowest reliance on debt issuance in 30 years, the government's rising tax revenues and a fiscal deficit smaller than other major economies.

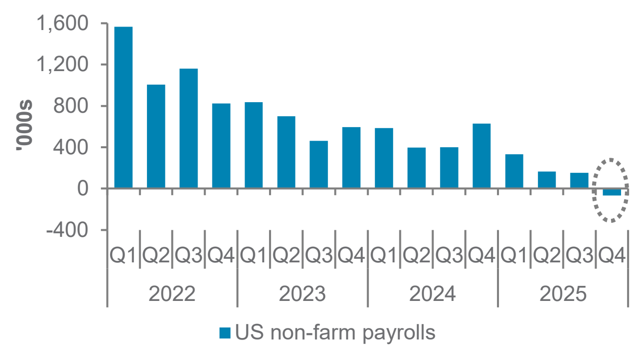
What does this mean for investors?

Equities:

Equities typically rebound after a weak January start: While we continue to monitor the ongoing geopolitical developments, we note that US stocks have historically rebounded after a poor start in January. We looked at past 15-year returns data but excluded the year 2022 (due to many extreme events like Fed rate hikes, Russia/Ukraine escalation and post-COVID tech hangover). Excluding 2022, we had four instances where we had a negative start in the month of January i.e. 2021, 2016, 2015 and 2014. The good news is during all those four years, the S&P 500 index

One of the key objectives for Trump is to revive job creation in an election year; this will require bond yields to remain capped or lower

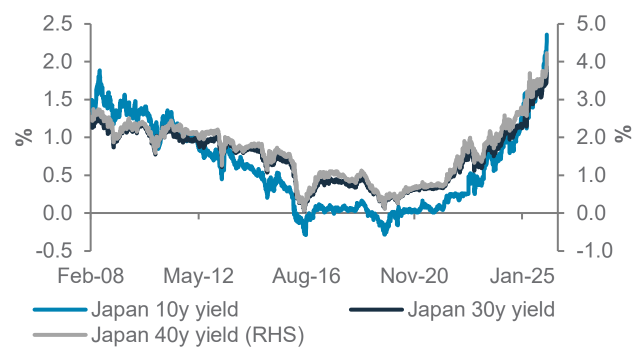
US quarterly net new non-farm jobs created



Source: Bloomberg, Standard Chartered

Japan's 40-year yield jumped to a record high and 30-year yield to the highest since 1999 following PM Takaichi's plans to suspend food tax for two years

Yield of 10-, 30- and 40-year JGB



Source: Bloomberg, Standard Chartered

The average decline for the S&P500 index in January during four years with a bad start* stood at -3.1%; the index rebounded 10% in the subsequent five months ending on average 6.9% higher in H1

S&P 500 total returns in select years with a bad start

	Jan monthly returns	H1 returns
2014	-3.5%	7.1%
2015	-3.0%	1.2%
2016	-5.0%	3.8%
2021	-1.0%	15.3%
Average	**-3.1%**	**6.9%**

*2014, 2015, 2016 and 2021, where S&P 500 had a negative return in the month of January. Excluded the year of 2022 due to many extreme events

Source: Bloomberg, Standard Chartered

rebounded strongly over the next five months and ended H1 on a strongly positive note.

As seen in the table on page 2, the average decline in the month of January during those four instances stood at -3.1%, while the S&P 500 index rebounded 10% in the subsequent five months ending on average at 6.9% higher in H1.

We believe positive earnings revisions are a key reason behind the strong rebound during the previous four instances as investors eventually looked through the macro and geopolitical noise. With S&P 500 earnings season starting on a resilient note and positive earnings revisions expected to continue, assuming geopolitical tensions subside, we wouldn't be surprised to see history repeating itself.

Action – focus on quality: Our base case is that of a potential equity rebound once global risks subside. We see striking similarities with 2021 (with a weak January start now adding to the similarity list). Given this, it makes sense to rebalance equity portfolios in favor of quality stocks with strong earnings growth outlook. Many quality companies are on sale, providing opportunities for bargain hunters.

Bonds:

Upward pressure on Japan yields: Finance Minister Katayama's call for "calm" has stemmed the bond slide for now. Since the spike in yields is sentiment driven, near-term upward pressure on yields could remain until the Japan elections (8 Feb) and until US-European tensions moderate.

The US 10-year yield could test next resistance at around 4.35%, followed by 4.49%. Potential further near-term upside to JGB yields would raise the chance of BoJ intervention.

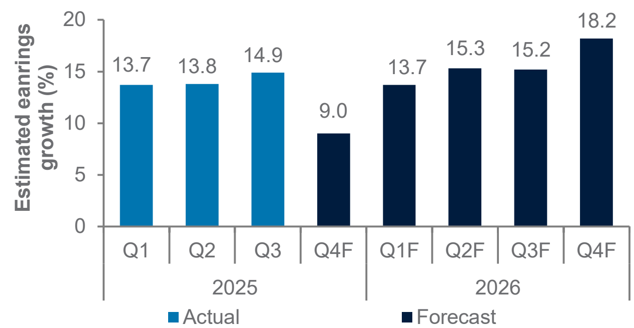
Fundamentals don't support US yield spike: Apart from the Japanese bond yield rise, we see little fundamental reason for the spike in US Treasuries to sustain. US job market has stalled and core inflation has fallen to a four-year low. Also, US long-term inflation expectations remain within recent ranges and oil prices have fallen over the past year.

US Treasury Secretary Bessent (and Trump) are focused on capping long-term bond yields – hence the shortening duration of Treasury issuance over the past year, which is likely to continue. Meanwhile, the Fed has ended selling down its bond holdings (quantitative tightening) and has restarted bond purchases. More pressure could be put on the Fed to accelerate purchases. Also, President Trump is likely to dial down tariff threats vs. Europe if the bond sell off continues.

Action – stick to 5-7-year maturities: We stick to our preference for US bonds with 5-7-year maturities since we

US corporate earnings outlook provides strong foundation to the equity rally

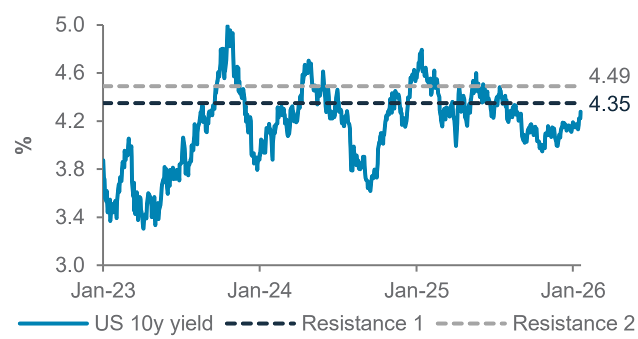
S&P 500 quarterly corporate earnings and consensus estimates



Source: LSEG I/B/E/S, Standard Chartered

The US 10-year could test next resistance at around 4.35%, followed by 4.49%

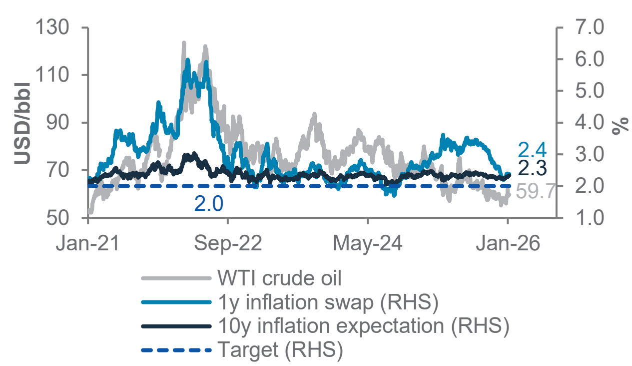
10-year US government bond yield



Source: Bloomberg, Standard Chartered

US long-term inflation expectations remain within recent ranges along with falling oil prices

WTI crude oil and US inflation expectations



Source: Bloomberg, Standard Chartered

believe they provide the right balance between risk on longer tenors from fiscal pressures and concerns about Fed independence and opportunities in the shorter tenors from potentially another 75bps of Fed rates cuts this year. We also expect the US yield curve to steepen further as the Fed cuts rates, while US term premiums remain elevated.

Currencies, commodities and alternative assets:

Downside risk for USD. The US dollar index (DXY) fell 0.8% on Tuesday along with the equity and bond market selloff. This reinforces concerns that the USD has likely lost its safe-haven appeal. These concerns have risen over the past year amid rising US policy uncertainty, growing US fiscal deficit and persistent attacks on the Fed's independence.

Any Supreme Court decision to strike down tariffs is likely to add to concerns about the fiscal deficit, although we expect President Trump to reimpose tariffs through other means (hence the tensions with EU over Greenland, which could provide an excuse to impose tariffs on EU under other laws and regulations related to national security). Similarly, any Supreme Court ruling approving Trump's dismissal of Fed Governor Cook would be seen as detrimental to the Fed's independence. Such an outcome would reinforce concerns about USD debasement. The DXY faces next support around 98, followed by 97.4 and September's three-year low of 96.2.

Gold, CHF remain big winners as safe havens: The Swiss Franc was the outperformer among G10 currencies on Tuesday, with USD/CHF falling 1% and trading below all key moving averages. A firm break below 0.7840 is likely to test the next support at 0.7780. The CHF is historically a prime beneficiary of flight to quality. Hence, it would be prudent to account for CHF strength during market stresses while considering borrowing in CHF.

Gold (XAU/USD) jumped 2%, breaking above USD 4,700/oz to a new record high. The pair is close to overbought, with immediate resistance at USD 4,930/oz. Gold remains a core allocation in our diversified portfolios. EUR/USD rose 0.7%. We see the pair testing resistance at 1.1810.

Alternative assets and strategies, such as commodities, private credit and equity and hedge funds, remain key sources of diversification, given their lower correlation with other assets and lower volatility. They are particularly beneficial in portfolios when correlation between equities and bonds rise.

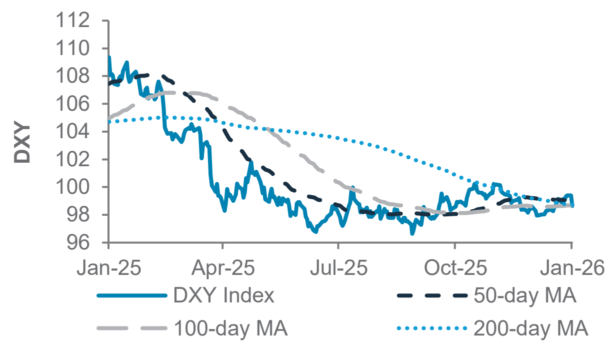
Yield differential between long- and short-dated US government bonds are likely to increase if the Fed's independence is put to further test

Yield differential between 30-year and 2-year US government bonds

Source: Bloomberg, Standard Chartered

USD downside risk rising on broad sell off in US assets

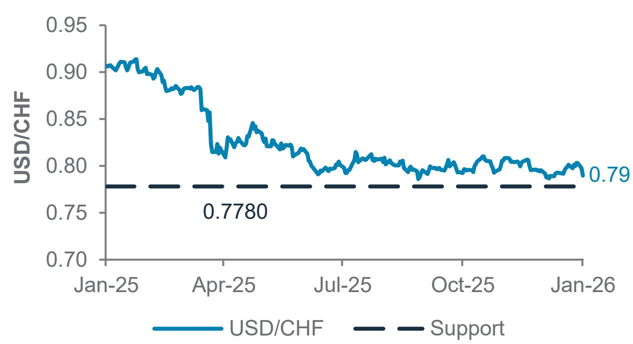
DXY Index and moving average lines



Source: Bloomberg, Standard Chartered

The Swiss Franc remains as a safe-haven currency; it is likely to extend gains amid the ongoing geopolitical developments

USD/CHF and support level



Source: Bloomberg, Standard Chartered

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