

Weekly Market View

The case for lower Fed rates

→ US job creation ground to a halt in Q4 2025 and core inflation settled at a four-year low. Meanwhile, the US probe against Fed Chair Powell and President Trump's plans to revamp the Fed Board highlight growing pressure on the Fed to ease policy.

→ We continue to see 75bps of Fed rate cuts this year, adding downside risks for the USD. We also see an opportunity to lock in yields on high quality 5-7-year USD bonds and short duration high yield debt.

→ An oil shock, potentially from any escalation in Iran, is a key risk to this outlook. We hedge the risks through gold and gold mining equities, US inflation-protected bonds and by turning bearish on USD/CAD.

→ A Supreme Court decision to strike down President Trump's tariffs or Fed Board member Cook's challenge against Trump's decision to fire her are other risks, especially to longer-maturity bonds, although the president is likely to use other means to reimpose some tariffs, if necessary.

Tranche into US financials – current pullback an opportunity to build exposure; credit card interest cap unlikely

Prefer 5-7-year US government bonds over mortgage bonds – boost to mortgage bonds temporary

Limited downside for USD/CNH – near-term support at 6.94-6.95

Charts of the week: Stalling job market, cooling inflation

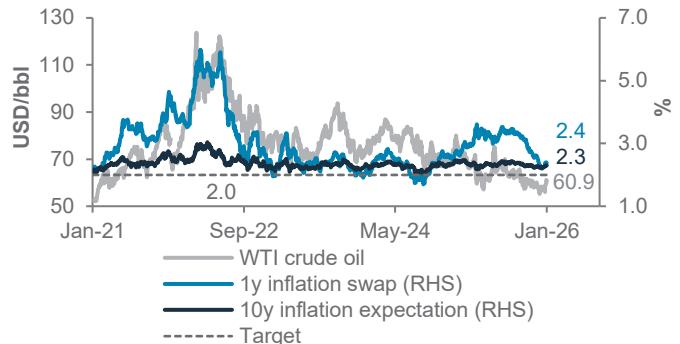
The US job market ground to a halt in Q4 2025 and core inflation fell to a 4-year low, sustaining Fed rate cut expectations

US quarterly net new non-farm jobs created



Source: Bloomberg, Standard Chartered

US 1y inflation swap rate, 10y inflation expectation, WTI oil



Editorial

The case for lower Fed rates

Strategy summary: US job creation ground to a halt in Q4 2025 and core inflation settled at a four-year low. Meanwhile, the US government's probe against Fed Chair Powell and President Trump's plans to revamp the Fed Board by replacing Powell as Fed Chair (an announcement due shortly) and firing Fed Governor Cook (Supreme Court to hear Cook's challenge on 21 Jan) highlight growing pressure on the Fed to ease policy.

We continue to see 75bps of Fed rate cuts this year, adding downside risks for the USD. We also see an opportunity to lock in yields on high quality 5-7-year USD bonds and short duration high yield debt. An oil shock, potentially from any escalation in Iran, is a key risk to this outlook. We hedge the risks through gold and gold mining equities, US inflation-protected bonds and by turning bearish on USD/CAD. A Supreme Court decision to strike down Trump's tariffs or Cook's challenge are other risks, especially to longer-maturity bonds, although the president is likely to use other means to reimpose some tariffs, if necessary.

Stalling US job market. The US job market contracted in Q4, the first such quarterly retrenchment since the COVID crisis in early 2000. In December, 50,000 non-farm jobs were generated net (vs. 70,000 expected) and prior two months payrolls were revised downward, extending a pattern of downward revisions throughout 2025. Tight supply of workers due to immigration curbs lowered the jobless rate to 4.4%, although the rate remains above the Fed's long-run equilibrium rate of 4.2%.

Softer-than-expected US inflation. US December core consumer prices rose 0.2% m/m vs. 0.3% expected. On a yearly basis, core prices rose 2.6% y/y vs. 2.7% expected and unchanged from November's four-year low. A soft job market, reinforced in the Fed's latest Beige Book survey, is likely to sustain wage and shelter disinflation, while last year's acceleration in productivity offsets the impact of tariffs on goods inflation. Barring a spike in oil prices (see below), we expect inflation to gradually decline this year, as is reflected in one-year inflation swaps which has fallen to 2.4%. Long-term inflation expectations also remain subdued (see chart above).

Jobs and inflation data, Trump's pressure sustain Fed rate cut expectations. A stalling job market and moderating inflation suggests the Fed will remain on an easing bias, possibly with a 25bps rate cut to 3.5% as early as March and 3.0% by end-2026. Meanwhile, impending changes to the Fed's policy committee in H1 lends a dovish bias to the rates outlook.

Opportunity to lock in US short-to-medium duration bond yields. US bond yields have traded within their four-month range after the jobs and inflation data. We see as an opportunity to lock-in yields on US 5-7-year government bonds and short duration high yield bonds. We prefer these over mortgage-backed bonds, despite President Trump's recent order to US agencies to buy USD 200bn of mortgage debt (see page 4).

Bank earnings mixed; tech earnings in focus. US banks started Q4 earnings season on a mixed note, with those relying on investment banking and wealth management income outperforming (page 6). The focus turns to tech sector earnings which will determine the sustainability of the AI-driven boom.

JPY intervention risk: USD/JPY has pulled back from 159.45, its highest since July 2024, after Japan's Finance Minister Katayama hinted at intervention to curb excessive moves. JPY's weakness follows expectations PM Takaichi will call for snap elections in February. We expect authorities to intervene if USD/JPY rises above 160. A firm break below 157.8 is likely to test the next support at 156.2 (50-day moving average).

US intervention in Iran is a risk: The political unrest in Iran broadened this week. President Trump said he would intervene in the event of an escalation but later appeared to moderate his comments, leading oil prices to retreat. A similar geopolitical scenario related to Iran in the past year led to retreat in oil prices after a short spike. The global oil market remains oversupplied, capping any short-term price surge. We would hedge risks of an oil price spike through US inflation-protected bonds, gold, with a target of USD 4,800/oz, and gold mining equities. We also turn bearish on USD/CAD, with a target of 1.3640.

— Rajat Bhattacharya

The weekly macro balance sheet

Our weekly net assessment: On balance, we see the past week's data and policy as neutral for risk assets in the near-term

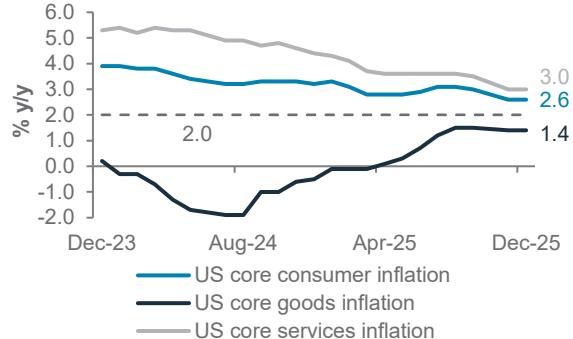
(+ factors: Stable US inflation, strong US consumer/business sentiment and China export growth

(-) factors: Cooling US job creation; elevated geopolitical tensions

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US headline and core consumer inflation remained unchanged at 2.7% y/y and 2.6% y/y US unemployment rate dropped more than expected to 4.4% US Michigan consumer sentiment and NFIB Small Business Optimism Index both beat estimates Euro area Sentix Investor Confidence rose more than expected to -1.8 China's exports and imports grew by 6.6% y/y and 5.7% y/y unexpectedly 	<ul style="list-style-type: none"> US non-farm payrolls came in weaker than expected at 50,000 in December; November's payrolls were revised lower to 56,000 US Michigan 1-year inflation expectations came in above expectations at 4.2% US headline and core producer price inflation both rose more than expected to 3.0% y/y in November
	Our assessment: Neutral – Stable US inflation and China export growth vs. weaker-than-expected US job creation	
Policy developments	<ul style="list-style-type: none"> BoE member Taylor signalled lower rates ahead amid cooling UK inflation 	<ul style="list-style-type: none"> Fed officials Musalem, Kashkari expected rates to stay on hold amid resilient economy and high inflation RBI governor Malhotra said India is in neutral interest-rate environment
	Our assessment: Neutral – BoE rate cut expectations vs. chance of Fed and RBI rates pause	
Other developments	<ul style="list-style-type: none"> US and Taiwan are close to agreeing on cutting US tariff on Taiwan goods to 15% from 20% 	<ul style="list-style-type: none"> Iran unrests intensified; President Trump signalled potential US intervention (before moderating his comments); he announced a 25% tariff on countries doing business with Iran Trump proposed 10% cap on US credit card interest rates for one year China tightened margin financing rules, signalling concern over rally's pace
	Our assessment: Negative – Elevated geopolitical tensions	

US core consumer inflation remained unchanged at 2.6% y/y in December, slightly below estimates; both core goods and core services inflation fell

US core, core goods and core services inflation



Source: Bloomberg, Standard Chartered

Euro area Sentix Investor Confidence rose more than expected in January

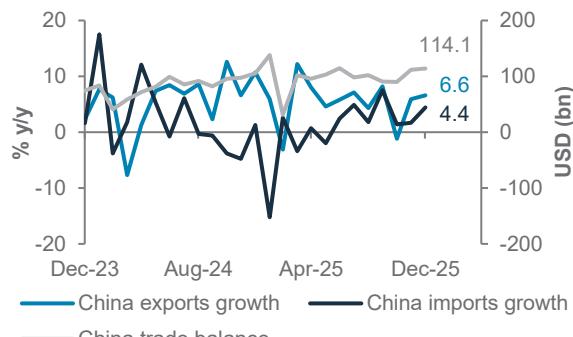
Euro area sentix investor confidence index



Source: Bloomberg, Standard Chartered

China's exports grew more than expected in December; trade surplus reached USD 114 billion, the third-highest monthly surplus on record

China exports and imports growth, trade balance



Source: Bloomberg, Standard Chartered

Top client questions

Q What do the US Department of Justice subpoenas to the Fed mean for US government bonds and the USD?

Our view: *Volatility in US government bonds is likely to persist. We avoid long-tenor bonds and believe a bond portfolio with 5-7-year maturity offers the best balance between the positives from short-end rate cuts and longer-tenor interest rate volatility. The USD is likely to remain rangebound around 98.6-99.6.*

Rationale: The US Department of Justice's (DoJ's) probe against the Fed has added to concerns about the central bank's independence. The DoJ subpoenas stem from a non-financial-market, administration-related probe into the USD 700mn renovation cost overruns related to the Fed's Washington headquarters. Continued escalation is likely to **introduce political risk to US government bonds** and lead investors to **demand additional yield premium** for holding longer-tenor US government bonds.

The USD Index (DXY) has held near 99 (its 50-day moving average) recently, showing little response to geopolitical uncertainty in Iran and Venezuela. Instead, it remains glued to the US 10-year government bond yield for direction. We expect the USD to remain rangebound until a new catalyst provides direction.

— **Ray Heung**, Senior Investment Strategist
Iris Yuen, Investment Strategist

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 of 30-year and 2-year US government bonds



Source: Bloomberg, Standard Chartered

Q US President Trump has instructed Fannie Mae and Freddie Mac to purchase USD 200bn in mortgage-backed bonds (MBS). How will this affect the bond market?

Our view: *We see the purchase programme as bullish in the short term for agency MBS, while having an immaterial direct impact on the ABS market. However, without sustained action, the MBS market impact is likely to fade. We prefer using US government bonds over MBS to express interest rate views.*

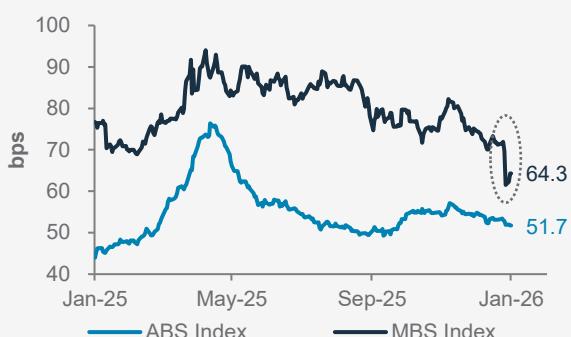
Rationale: Mortgage-backed Securities (MBS) Index credit spreads tightened by about 10bps before easing slightly following the announcement of a government-sponsored enterprise (GSE) purchase programme on 8 January, which represents roughly 2% of the overall MBS market. The programme aims to lower mortgage rates and improve consumer affordability. However, both Fannie Mae and Freddie Mac face portfolio caps of USD 225bn each, which limit their ability to retain or add MBS unless these caps are raised.

A sharp mortgage rate decline would increase prepayment risk, reducing the potential for further MBS spread tightening. Limited and indirect asset-backed securities (ABS) impact is expected, primarily through lower benchmark rates or liquidity spillover, as the programme excludes non-home-mortgage assets.

— **Ray Heung**, Senior Investment Strategist

US mortgage-backed bonds reacted positively to the news of USD 200bn purchase programme

Yield premium of mortgage-backed and asset-backed securities over US government bonds, MBS index and ABS index



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Do you expect gold and silver to extend gains after their strong December rally?

Our view: Both gold and silver are expected to remain in a structurally bullish uptrend, with near-term pullbacks likely. We remain opportunistically bullish on gold mining equities.

Rationale: Silver's 2026 rally has continued, reaching USD 90 after breaking the prior USD 84 resistance, with heightened geopolitical tensions lending near-term momentum. The gold-silver ratio has fallen below 51, approaching the low-50s range that has historically marked silver troughs, excluding the 2011 extremes. Thus, further silver outperformance's scope increasingly requires gold to exceed our base case expectations. While momentum indicators confirm the broader uptrend remains intact, near-term positioning appears stretched, raising healthy consolidation risk. A pullback towards USD 82.5 would be constructive, allowing for rebound towards USD 96, consistent with gold-silver ratio at 50 and gold price at USD 4,800; a break below USD 82.5 would signal deeper consolidation.

Similarly, gold (XAU/USD) extended its strong year-to-date rally amid geopolitical tensions and concerns over Fed independence. Stretched positioning may cap near-term upside. The next resistance level stands at USD 4,727/oz.

Our gold miners opportunistic idea has performed well, up over 30% since initiation in October 2025 and outperforming the gold price itself. We considered taking profit on our gold miners idea but decided to keep it open as we see further upside in gold prices.

— **Anthony Naab, CFA, Investment Strategist**

Iris Yuen, Investment Strategist

Q How does the situation in Iran affect your view on oil prices?

Our View: We maintain our three-month forecast of USD 61 on WTI, as past scenarios have led to retracements after a short spike. We would add US TIPS and are bearish on USD/CAD.

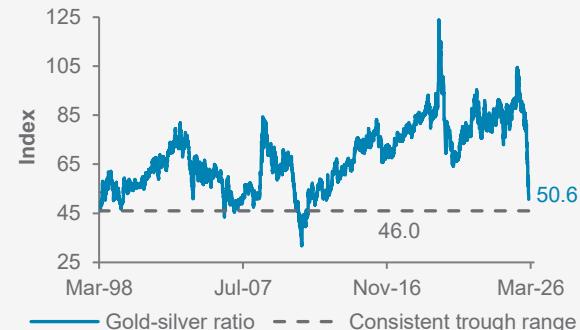
Rationale: Iran's political developments lifted oil prices, despite no material disruption to physical supply. The US Energy Information Administration's (EIA) projected surplus of around 3mn barrels per day for 2026 suggests near-term balances are not enough to drive a sustained oil rally. **Material upside risks would require a broader escalation**, notably heightened regional tensions, which could lift short-term prices towards USD 65. A major event is needed to move the needle on spare capacity and sharply higher oil prices.

We favour US TIPS as protection against oil-driven inflation risks and remain tactically bearish on USD/CAD, given the pair's sensitivity to higher oil prices, and target a move towards 1.3640-1.3720.

— **Anthony Naab, CFA, Investment Strategist**

The gold-silver ratio is nearing levels that have historically coincided with more stable troughs, outside the 2011 extreme

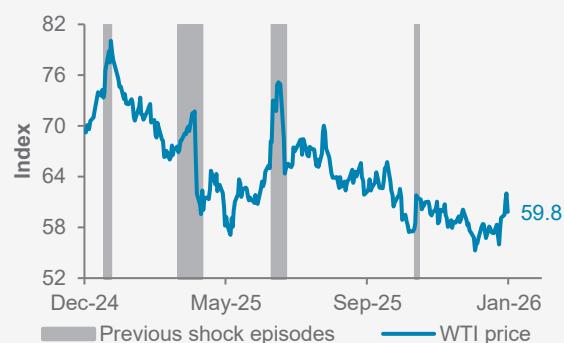
Gold-silver price ratio



Source: Bloomberg, Standard Chartered

Recent event-driven shocks have caused short-lived spikes in oil prices

WTI prices



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q **USD/CNH broke below 7 at year-end 2025. Do you see further downside?**

Our view: *USD/CNH downside is likely limited, with near-term support zone at 6.94-6.95.*

Rationale: We see growing resistance to a strong currency from China's authorities, as the country relies on exports to support growth and sees limited benefit from a strong currency for imports. Meanwhile, the volatility in the People's Bank of China's (PBoC's) daily USD/CNY fixing is easing. A stronger currency will likely increase deflation pressures at a time when the country struggles to break out of a downward price spiral.

Aside from stepping up intervention via state banks, China's authorities may intensify resistance to CNH appreciation via reliance on the counter-cyclical factor, liquidity measures, greater capital outflows, easing restrictions on overseas borrowing and further monetary easing. Technically, USD/CNH looks heavily oversold, while the pair may struggle to sustain any firm breach of the 61.8% Fibonacci retracement level (based on the price range from 2023 to date) around 6.94-6.95 in the coming weeks.

— Iris Yuen, *Investment Strategist*

Q **What are US bank earnings telling us? How would interest rate cap on credit card loans affect the banking sector?**

Our view: *The US financial sector is poised for healthy earnings growth and remains a core holding for us. Existing investors should retain their holdings, while those under-allocated to US financials can use the current pullback to build their exposure in tranches. Interest rate caps seem unlikely, given the current lack of support in Congress.*

Rationale: US President Trump has proposed a one-year, 10% credit-card interest rate cap, starting from 20 January. If enacted, this would significantly impact credit card issuers' earnings (including banks'), as most currently charge over 20%. However, the president lacks clear authority to enact such caps and would likely need Congressional approval. **Even if enacted, card issuers would likely mitigate the earnings impact by tightening lending standards, increasing fees and reducing rewards.**

Major US banks' earnings have been mixed so far, with earnings generally beating consensus and revenue being missed only in some instances. Overall, bank earnings point to a stable US economy, supporting positive loan growth and controlled credit risk. A continued increase in capital market activity and a focus on efficiency will support healthy earnings growth in 2026.

— Fook Hien Yap, *Senior Investment Strategist*

USD/CNH is heavily oversold after breaking below 7.0; downside risk is likely limited

USD/CNH and technical levels



Source: Bloomberg, Standard Chartered.

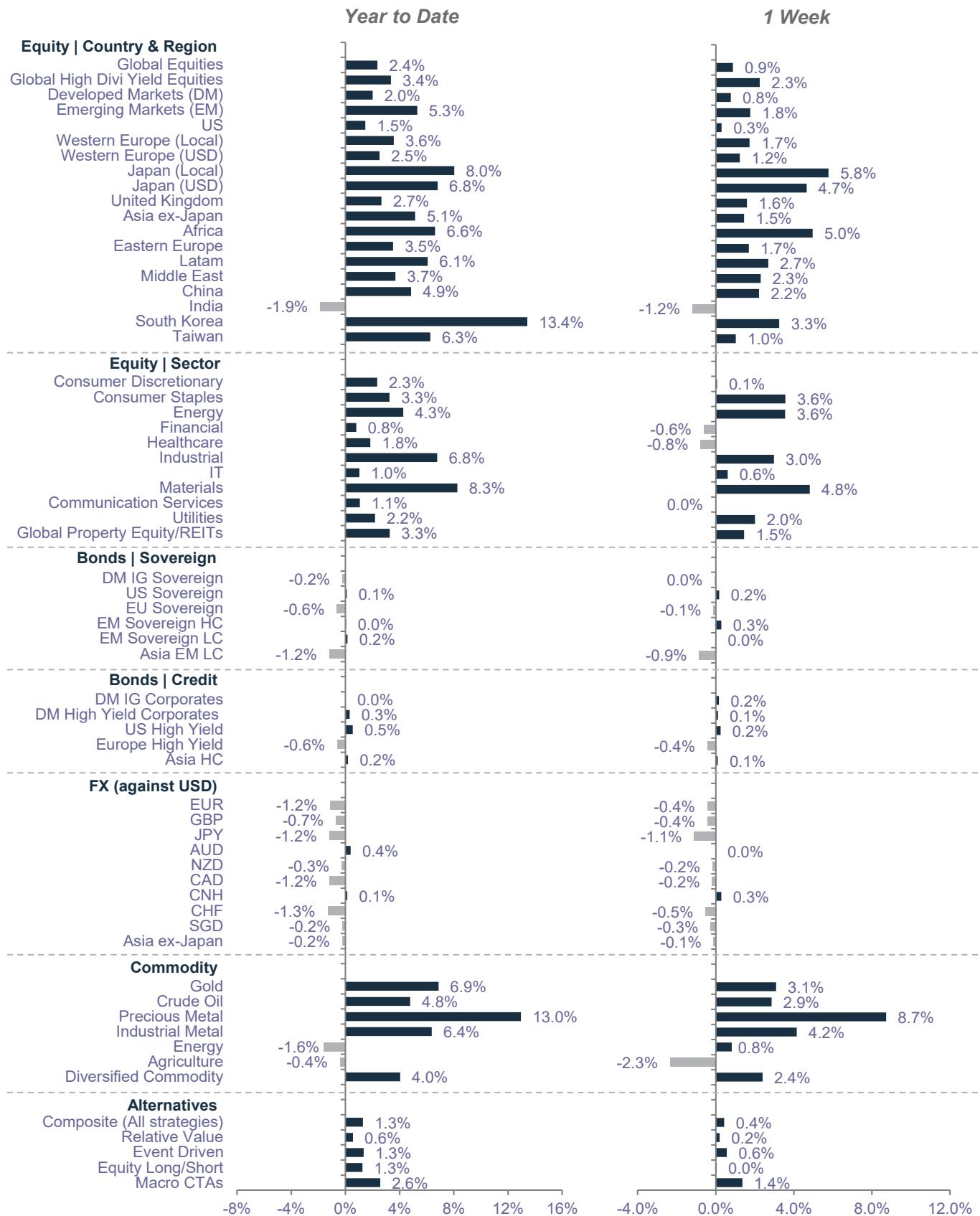
US financials have pulled back with a mixed start to the earnings season and regulatory headwinds; the sector remains a core holding for us

MSCI US financials index over the past year



Source: Bloomberg, Standard Chartered.

Market performance summary*



Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*Performance in USD terms unless otherwise stated, 2026 YTD performance from 31 December 2025 to 15 January 2026; 1-week period: 8 January 2026 to 15 January 2026

Our 12-month asset class views at a glance

Asset class		
Equities	▲	Preferred Sectors
US	▲	US Technology ▲
Europe ex-UK	▼	US Healthcare ▲
UK	▼	US Utilities ▲
Asia ex-Japan	▲	Europe Healthcare ▲
Japan	▼	Europe Industrials ▲
Other EM	◆	Europe Financials ▲
		Europe Technology ▲
Bonds (Credit)	▼	China Communication ▲
Asia USD	◆	China Technology ▲
Corp DM HY	▼	China Healthcare ▲
Govt EM USD	▲	
Corp DM IG	▼	Alternatives ◆
Bonds (Govt)	◆	Gold ▲
Govt EM Local	▲	
Govt DM IG	◆	

Source: Standard Chartered Global Investment Committee

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding

The S&P500 has next interim resistance at 7,047

Technical indicators for key markets as of 15 January close

Index	Spot	1st support	12m		
			1st resis-	12m forward	dividend yield (%)
S&P 500	6,944	6,781	7,047	22.2	1.2
STOXX 50	6,041	5,795	6,170	16.6	2.9
FTSE 100	10,239	9,846	10,441	13.7	3.4
TOPIX	3,669	3,449	3,782	17.4	2.3
Shanghai Comp	4,113	3,889	4,264	14.2	2.8
Hang Seng	26,924	25,604	27,725	11.7	3.1
Nifty 50	25,666	25,302	26,201	20.0	1.5
MSCI Asia ex-Japan	960	903	990	14.2	2.2
MSCI EM	1,478	1,392	1,523	13.6	2.6
Crude oil (WTI)	59.2	55.3	62.7	na	na
Gold	4,616	4,378	4,749	na	na
UST 10Y Yield	4.17	4.11	4.22	na	na

Source: Bloomberg, Standard Chartered

Note: These short-term technical levels are based on models and may differ from a more qualitative analysis provided in other pages

Economic and market calendar

	Market	Event	Period	Expected	Prior
MON	CNH	GDP y/y	4Q	4.5%	4.8%
	CNH	Retail Sales y/y	Dec	1.0%	1.3%
TUE	EUR	Germany ZEW Survey Expectations	Jan	–	45.8
	EUR	Germany ZEW Survey Current Situation	Jan	–	-81.0
WED	GBP	CPI y/y	Dec	–	3.2%
	GBP	CPI Core y/y	Dec	–	3.2%
	USD	Leading Index	Dec	–	-0.3%
THU	USD	GDP Annualized q/q	3Q T	4.3%	4.3%
	USD	Personal Income	Nov	0.4%	–
	USD	PCE Price Index y/y	Nov	–	–
	USD	Core PCE Price Index y/ Nov	–	–	–
	EUR	Consumer Confidence	Jan P	–	-13.1
FRI/SAT	EUR	HCOB Eurozone Composite PMI	Jan P	–	51.5
	GBP	S&P Global UK Composite PMI	Jan P	–	51.4
	USD	S&P Global US Manufacturing PMI	Jan P	–	51.8
	USD	S&P Global US Services PMI	Jan P	–	52.5

Source: Bloomberg, Standard Chartered
Prior data are for the preceding period unless otherwise indicated. Data are % change on previous period unless otherwise indicated
P - preliminary data, F - final data, sa - seasonally adjusted, y/y - year-on-year, m/m - month-on-month

Investor diversity has normalised across asset classes

Our proprietary market diversity indicators as of 15 Jan close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.93
Global Equities	○	→	1.43
Gold	●	↑	1.53
Equity			
MSCI US	○	→	1.50
MSCI Europe	○	→	1.33
MSCI AC AXJ	○	→	1.47
Fixed Income			
DM Corp Bond	●	↑	1.81
DM High Yield	○	↓	1.36
EM USD	○	→	1.41
EM Local	○	→	1.42
Asia USD	●	↑	1.73
Currencies			
EUR/USD	●	↓	1.61

Source: Bloomberg, Standard Chartered; **Fractal dimensions below 1.25 indicate extremely low market diversity/high risk of a reversal**

Legend: ● High | ○ Low to mid | ○ Critically low



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from the CIO's desk

Fortnightly series on **WEDNESDAYS**

Presented by

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Standard Chartered Bank

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