JANUARY: CONSOLIDATION SPRINT

The global stock market looked a bit tired at the beginning of December after the November ride and the rich performance of the whole year. The long-awaited Christmas *rally* did not involve the world's major stock exchanges evenly and effectively excluded the United States (S&P flat in December, +16,4% on the year). It was more of a period of consolidation than a final *sprint*.

In Europe, however, December proved to be more solid: +2,3% for the Eurostoxx50 and even +2,7% for the Stoxx600 (both closing on new all-time highs, between +16% and +18%). Switzerland, which had lagged behind, also made an excellent recovery, closing 2025 at +14,4%. The British FTSE100 closed its best year since 2009 with an annual increase of around 21.5%.

Asia shone, with Japan's Nikkei up 26%, Hong Kong almost 28% and Korea's KOSPI even +75%. It's no wonder that the MSCI Emerging Markets Index rose by around 33%, with a 3% appreciation in December alone. While the MSCI World achieved around +20% in 2025, for the MSCI World index, which excludes the United States, the performance was almost 30%.

Basically an excellent year for everyone, but "only" good for Wall Street's flagship index, the S&P. In reality, the decline in the dollar (-13% against the euro) allowed American investors, who were able to diversify abroad, to still perform very well. While in the rest of the world, particularly in Europe, the weakness of the dollar has reduced gains. Gold (+64%) and silver (+147%) helped to dilute the depreciation effect of the greenback.

Crypto, macroeconomic data and the "liquid" turn

Bitcoin's performance began to show signs of concern as early as mid-October. It is a very liquidity-sensitive instrument. This is why it often anticipates the performance of the stock exchanges. In early December, in addition to cryptocurrencies and the sharpest contraction in four months in US manufacturing activity (ISM down 0,5 to

48,2), weighed down by uncertainty about trade policy and high production costs, there were signs of a slowdown in the US labor market (ADP: -32,0000 in November against a consensus of +10,000).

But these weak indications on the state of the economy soon turned into excellent impulses for the financial market, because they strengthened bets of a rate cut at the Federal Reserve's last meeting on December 9-10, 2025.

Stock markets resumed when the Federal Reserve actually proceeded to a quarter-point reduction for the third time in a row at its last meeting of the year and after Chair Powell expressed optimism about strengthening the economy, deeming the inflationary impact of tariffs temporary.

This happened because inflation in the US fell in the previous month to 2,6%/2,7% year-on-year (*headline*/*core CPI*) against expectations of 3,1%/3%, with an expanding economy (4,3% annualised real GDP in the third quarter).

End of Fed balance sheet tightening and liquidity

Powell, in a nutshell, also announced a new plan to purchase short-term Treasury bonds for 40 billion a month starting December 12. Formally, it is not a question of a new monetary easing (*Quantitative Easing*) that implies the purchase of *long-dated Treasuries*. But of interventions to increase the liquidity of the interbank market which was beginning to show signs of tension. However, the market interpreted this move as the end of the contraction of the Federal Reserve's balance sheet, which in the last three years, with *Quantitative Tightening* (*QT*), has reduced liquidity by $2,4 trillion. The return of liquidity will help the Treasury place the copious new bond issues, but also Wall Street, which dragged the financial markets in December.

The Fed, with its last intervention of the year, consolidated, in 2025, its membership in that group that concerns 86% of central banks that have cut rates. It is this monetary environment, along with generalized fiscal levers and the promise of artificial intelligence (AI), that has fueled the stock markets despite the challenges of tariffs and Trumpian geopolitics.

Four variables in a more complex relationship

What does 2026 look like after three years of rising indices? Geopolitics, liquidity, fiscal policies and fundamentals will set the pace in this new year as well. Unlike last year, the relationship between these facets of reality will be more complex.

The American intervention in Venezuela has substantially a geopolitical and economic value. Washington is not satisfied with a rebalancing of world powers by trying to downsize China. It wants to make up for the strategic delay that Beijing has cleverly woven over the last twenty years: the United States wants to be the only real hegemonic power. China now has a huge advantage, refining 90% of the rare earths needed for the AI revolution. He is therefore able to blackmail the United States. To neutralize this position of strength, Trump has decided to control the world's oil flows on which China is totally dependent.

With the intervention in Venezuela and the simultaneous reaffirmation of the Monroe Doctrine (Latin America is the U.S.'s backyard), Washington is getting its hands on Venezuelan oil with the associated export controls that China and Russia thought they could manage to their advantage. By bombing oil-producing Nigeria to "protect Christians," the United States is also issuing a warning on the African continent by testing the strength of the Middle Kingdom's ambitions to supply this continent. As if that were not enough, attention is also returning to Iran, also a supplier to Beijing, where internal pressure (with some external help) can bring down the regime of the Ayatollahs and, perhaps, open the way to the return of the son of the Shah of Persia, Reza Pahlavi, a refugee in the United States. Saudi Arabia, which dreams of American and Israeli technology, has long been flattened on the United States.

It is not a question of strangling China by thirsting for oil. On the contrary. The idea is to make good deals by selling black gold, but through taps that, if necessary, can be closed. Of course, American oil companies are afraid to invest in a framework of instability. Trump, on the one hand, forces them to take risks by blocking their freedom to make *buybacks* and limiting the distribution of dividends, but on the other hand, he will probably guarantee his willingness not to let the price of oil fall too much to guarantee their profitability.

The Tycoon*'s geopolitical design* is also enriched by the manifest desire to own Greenland: he would gain control of the new Arctic sea routes and the possibility of exploiting a quantity of frozen resources in these territories.

The financial dimension: oil, inflation and the Fed

Trump's geopolitical moves also have a profound financial value. Its goal is to be able to influence the price of oil by anchoring it in a *range* aimed at keeping inflation low in the United States. It is a matter of putting the Federal Reserve in a position to be able to lower rates further in 2026, without being forced to excessively maneuver its future president: the fear of *bond vigilantes* is real even if the Administration will not fail to challenge their autonomy.

Trump also needs the support of those *baby boomers*, now retired, who entrust Wall Street with their well-being. Given the particularly high valuations, especially in the AI sector, it is necessary for these companies to be able to discount the future with low interest rates to justify growth in margins and investments, supporting the indices also in 2026.

January starts well, but the second half of the year can change tone

The market seems to have understood this design, welcoming the intervention in Venezuela. January has therefore started well. Signs of falling inflation and the creation of few jobs (only 50 thousand in December against expectations of 73 thousand), bring the monthly average for 2025 to 49 thousand from 168 thousand in the previous twelve months: we have to go back to 2003 to find, in this type of statistic, such a sluggish labor market. Nevertheless, unemployment fell from 4,5% to 4,4% for the year and Gross Domestic Product (GDP) recorded an annualised quarterly performance of 4.3%. All in all, this is an economic growth framework, which creates few jobs and, if inflation remains under control, opens up the possibility of further interest rate cuts. This is a perfect size for exchanges with the alignment of geopolitics, liquidity and the macroeconomic environment. The company's results for the last quarter of last year, soon to be released, will probably be positive globally.

The first quarter of the year could continue to reflect the trend of the first days of January. But the violence of Trump's interventions will provoke reactions. The war in Ukraine seems less close to its epilogue: Russia and China will use it to put Washington in difficulty. India is moving closer to China, as is South Korea. Europe suffers the humiliation of its inconclusiveness with the threat of losing Greenland. Financial markets depend heavily on Trump's perception of power, which for now seems solid. It is no coincidence that in the first ten days of January these rewarded the Eurostoxx50 (+3,56%) and the MSCI Emerging Markets (+3,42%) more than the American S&P (+1,76%). In the second half of the year, geopolitics could revolt, causing volatility: the forces that are suffering Trump, starting with China, will look for every opportunity to put him in difficulty, hoping that the *mid-term* elections will turn him into a lame duck.