

Week in review and ahead (vol.04-26)



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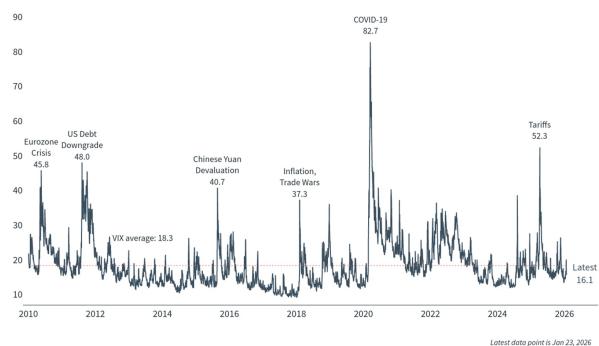
The shortened holiday week was dominated by high volatility due to geopolitical risks related to US ambitions in Greenland, defined by renewed tariff threats, EU's retaliatory threats, including actually suspending work on its trade deal with the US. The threats were ultimately rendered moot as tensions de-escalated, following POTUS speech and meetings at the Global Economic Forum in Davos with NATO and European leaders, including the EU announcing it would resume work on the trade deal (with the US). Market volatility as measured with the CBOE's VIX index had risen above the long-term average to begin the week, but subsided towards the end of the week following de-escalation, closing the week at 16.1.

Markets that began the week selling off on renewed tariff risks, among others, rebounded later in the week, albeit details on the announced framework for a solution in Greenland were not immediately known. The rebound in equities, however, did not offset the selloff earlier in the week, with all major US indices closing lower for the week. The S&P500, Nasdaq, Dow Jones, and Russell-2000 lost -0.4%, -0.1%, -0.5%, and -0.4%, respectively for the week.

Internationally, all major markets posted losses for the week, except for China, with India and Germany seeing the largest declines for the week of -2.4% and -1.6%, respectively. China's Hang Seng index rose +0.8% for the week driven by a strong tech trade on positive headline news for most larger Chinese tech companies.

Stock Market Volatility

CBOE VIX Index

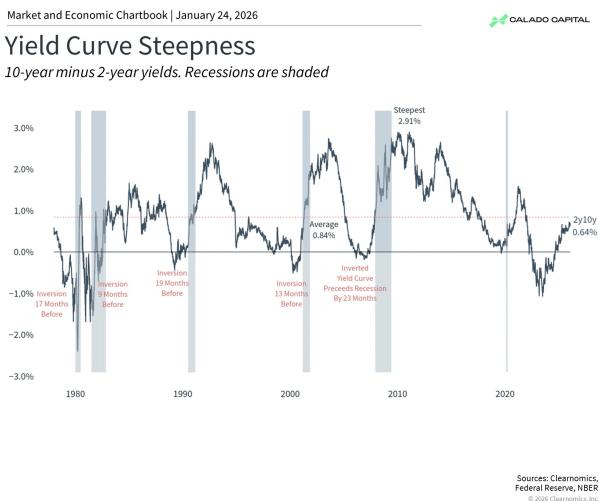


Besides geopolitical risks, long-term yields in Japanese Government Bonds ("JGBs") spiked unexpectedly on Tuesday on the heels of a disappointing 20-year JGBs auction and that extended into the US with treasuries selling off, too, adding to the risk-off sentiment in equity markets early in the week. The intense sell off in JGBs saw their 30-year maturity spike by more than 0.3%-points, to 3.91%, a 17-year high, in a matter of three (3) hours on Tuesday, before retracing Wednesday and closing the week near 3.65%, or up by 0.1%-points on the week. Similarly, yields in long-term US treasuries spiked on Tuesday with the 10-year yield reaching 4.3% for the first time since September last year before it

retraced to close the week just under 4.24%. Despite the retracement, however, the yield curve continues to steepen, reflective of stronger growth expectations amidst higher inflation, increasing borrowing costs.

Yield Curve Steepness

10-year minus 2-year yields. Recessions are shaded

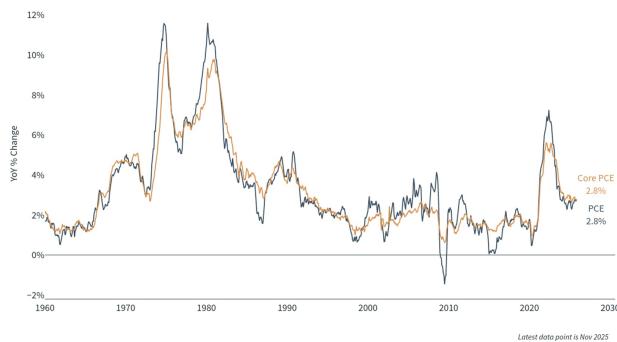


With geopolitical risks abating as the week progressed, the markets' focus shifted back to the US economy, with reports on the third (3rd) GDP for Q3'25, PCE for November and UMich's consumer sentiment, final read, for January. Initial jobless claims for the week ended January 17th remained steady at 200K, beating estimates of 208K and marginally higher sequentially, while continuing claims maintained its recent declining trend, down to 1.85M, therefore supporting the recent narrative of a "no hire, no fire" labor market.

4.3%) as net exports saw a nominal upward revision, with other categories remaining the same as the previous estimate, including personal consumption. The PCE inflation index saw both headline and core, marginally increase on a year-over-year basis ("YoY") to 2.8% in November from 2.7% in October, while increasing 0.2% on a month-over-month basis in November as expected and the same rate in October.

The 3rd estimate for Q3'25 US real GDP was revised upwards to about 4.4% (from

PCE Inflation



Wednesday during Fed chair Powell's press conference.

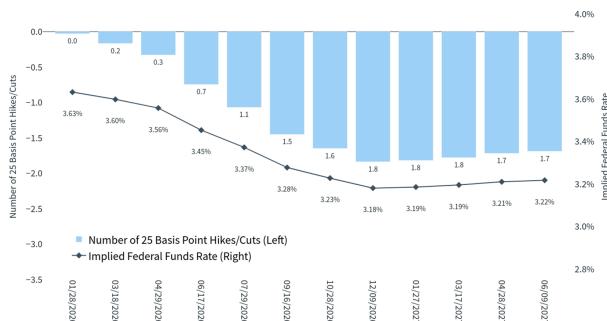
Additionally, POTUS has yet to announce a candidate to replace Fed chair Powell despite hinting numerous times he had decided on a nominee, and that he would announce it in January. With the Fed's independence being tested by this administration, namely POTUS attempt to remove Governor Cook from the FOMC and the DOJ's subpoena to Fed chair Powell threatening criminal indictments, the nominee will certainly be scrutinized during confirmation hearing by Congress and the markets alike.

Finally, next week will see about 50% of S&P companies report earnings, including four (4) of the "magnificent-7", namely Apple, Meta, Microsoft, and Tesla.

As the FOMC is scheduled to meet next week, it is widely expected that the Fed will keep interest rates steady. As the Fed continues to assess risks to its dual mandate, arguably downside risks to employment appear to have eased somewhat, as the unemployment rate declined as of recent, while upside risks to inflation remain. With markets widely expecting that rates are to remain steady in the short term, a majority maintains expectations of further cuts in 2026 to reduce the Fed funds further from the current range of 3.5-3.75%, even though US economic growth has accelerated. Accordingly, markets are expected to remain volatile next week particularly on

Fed Funds Futures Implied Rates

Implied fed funds rates and number of hikes/cuts at each Fed meeting



If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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