



- Perceived erosion of institutional credibility weighs on dollar, boosting franc and gold ([link](#))
- Global systemically important banks hold \$192bn in surplus CET1 capital buffers ([link](#))
- Solid investment fund demand compresses European IG and sub-IG corporate spreads ([link](#))
- Investors have pulled back from EM bonds while equity demand accelerated ([link](#))
- Brazil's inflation eased in December, anchoring gradual Selic rate cut trajectory for 2026 ([link](#))
- Modest OmniVision debut in China shows growing risk differentiation among AI stocks ([link](#))

[Mature Markets](#)[Emerging Markets](#)[Market Tables](#)

Fed Credibility to Become Part of a Broader Global Macro Trade

Markets opened the week under pressure. The Department of Justice subpoenaed the Fed, threatening Chair Powell with indictment. Powell, in turn, accused the White House of undermining the Fed's independence. Gold rose and the dollar fell against major peers while S&P500 futures pared back in pre-market trading. Short-end Treasury yields declined, but long-end yields moved up, consistent with markets pricing in political interference and rising fiscal risks. Safe-haven flows into the Swiss franc, gold, and other precious metals continued. Some market contacts see this as a sign of rising doubts about the Fed's credibility and discomfort with the dollar's central role in global pricing as market participants position around a pattern consistent with past periods of institutional stress. Others view current events as a trigger for renewed positioning around global defense themes, driven by weakening trust in the global order. In Japan—where markets are shut for a holiday—election speculation continues to weigh on the yen. The euro firmed on the day, though market contacts see little room for further upside. In China, record stock trading volumes reflect growing retail participation, but OmniVision's subdued IPO debut suggests investor caution is rising around AI-linked names. For this week, wildcards beyond key economic data releases include the postponed IEEPA ruling, a possible Russia sanctions bill vote, and rising Middle East tensions after a weekend of violent protests in Iran.

Key Global Financial Indicators

Last updated: 1/12/26 7:59 AM	Level		Change from Market Close					% YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		
Equities								
S&P 500		6966	0.6	2	2	20		2
Eurostoxx 50		5999	0.0	1	5	21		4
Nikkei 225		51940	1.6	3	2	33		3
MSCI EM		57	0.5	2	5	39		4
Yields and Spreads								
US 10y Yield		4.20	3.8	4	2	-56		4
Germany 10y Yield		2.85	-1.2	-2	-1	26		0
EMBIG Sovereign Spread		251	-1	0	-10	-67		-2
FX / Commodities / Volatility								
EM FX vs. USD, (+) = appreciation		46.8	0.3	0	1	9		0
Dollar index, (+) = \$ appreciation		98.8	-0.3	1	0	-10		0
Brent Crude Oil (\$/barrel)		63.2	-0.2	2	3	-21		4
VIX Index (% change in pp)		16.0	1.5	1	0	-4		1

Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

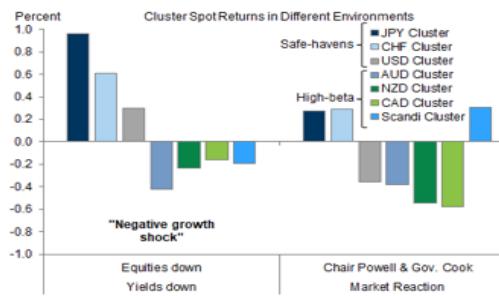
[back to top](#)

The week ahead includes several key data releases. After recent releases have been affected by the government shutdown, market participants will focus on Tuesday's release of US consumer prices in December, along with monthly budget figures. On Wednesday, December PPI, retail sales, and Q3 current account data will be key releases, along with the Fed's Beige Book on regional economic conditions. Outside the US, trade data will be published by China, India, Spain, and Singapore. Global CPI prints are slated for Germany, Italy, France, Spain, Denmark, India, and Hungary. The United Kingdom sees the release of, November GDP, including monthly data for manufacturing, services, and construction. Among central banks, the Polish central bank and the Bank of Korea will convene for a monetary policy meeting. Market contacts expect both institutions to keep policy rates unchanged.

Global Currency Markets

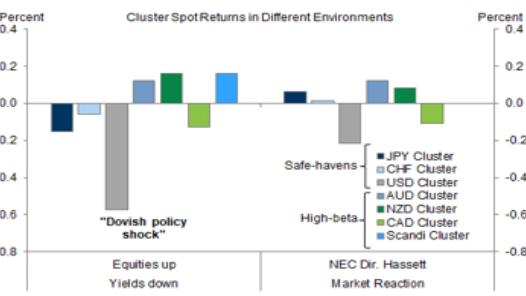
An increasing number of market contacts see dollar softness being driven more by institutional credibility risk than by rate differentials. Goldman Sachs analysts note safe-haven clusters tend to outperform during episodes of institutional stress—a pattern that matched Monday's move after the Department of Justice subpoena (left chart). The swiss franc is again acting as the cleanest hedge, appreciating +0.7% on the day. Credit Agricole analysts flag the Powell-Trump clash as a potential trigger for renewed “sell-America” positioning, echoing spring 2025, while arguing the dollar risk premium now looks systemic, not cyclical. ING analysts see asymmetric downside for the dollar if political interference deepens, particularly with long-end yields rising on fiscal fears. Price action across assets supports the shift: S&P500 futures fell (up to 0.9%) in pre-market trading while gold rallied (+1.7%) to \$4,592 per ounce. This lines up with a “negative growth shock” pattern, rather than a dovish pivot (right chart). Since last week, gold is up +4%, continuing to act as the clearest expression of lost trust.

CHART 1: Policy actions seen as weakening institutional credibility were priced as a safe-haven bid in FX markets



Source: Bloomberg, Goldman Sachs Global Investment Research

CHART 2: While more standard, though dovish, personnel announcements resulted in “dovish policy” pricing

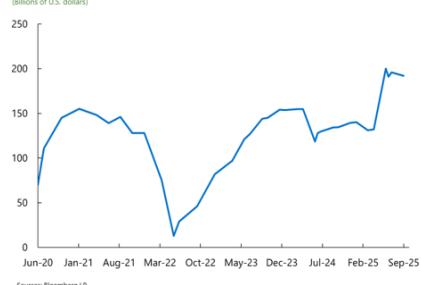


United States

Global systemically important banks (GSIBs) in the United states hold an estimated \$192 bn in surplus common equity tier 1 (CET1) capital, according to Bloomberg. As of 2025Q3, these banks reported \$16.6 tn in total assets and \$1 tn in CET1 capital. Bloomberg estimates surplus CET1 ranges from \$4–6 bn for custodian banks to \$20–65 bn for large universal banks. These figures exclude potential impacts from proposed changes to the enhanced supplementary leverage ratio and Basel Endgame, such as adjustments to capital treatment for low-risk assets or revised calibration of operational risk buffers. With 2025Q4 earnings due next week, U.S. GSIBs are expected to outline their 2026 capital plans. This includes guidance on share buybacks, dividend increases, investment priorities, mergers and acquisitions, and loan growth.

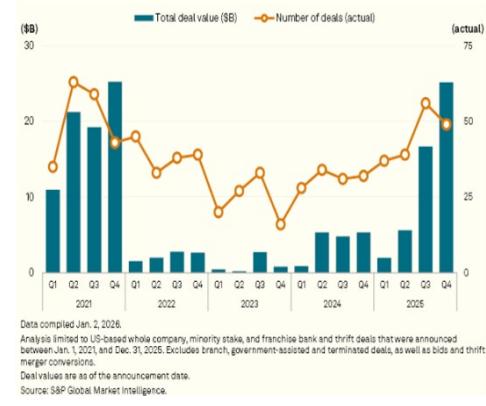
Surplus CET1 capital for U.S. GSIBs

U.S. GSIBs: Estimated Surplus CET1
(billions of U.S. dollars)



Mergers and acquisitions (M&A) activity among banks picked up sharply in 2025. According to S&P Global Market Intelligence, 181 deals were announced—the most since 2021. Activity was concentrated in the second half of the year, with 105 deals versus 63 in the same period of 2024 (see chart). Deal values also rose sharply, with total M&A value in H2 2025 up more than \$30 bn y/y. The S&P report highlights faster regulatory approvals, clearer procedural guidance, and improved transparency as key drivers. Institutions also conducted more pre-deal analysis, with some buyers proactively approaching targets. Valuations stood out: in several high-profile transactions, buyers' stock was trading above 1.5x tangible book value, based on S&P data.

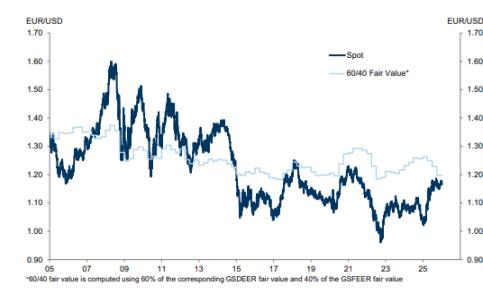
Announced US M&A bank deals in 2025



Euro Area

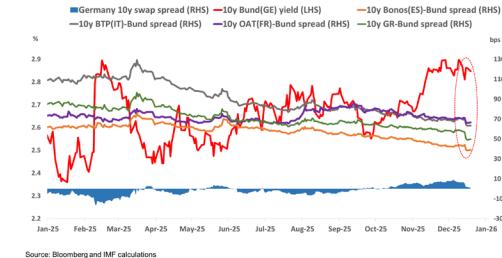
European equities slipped from Friday's record high, while the euro firmed alongside broad dollar weakness. The Stoxx 600 fell (-0.2%) on weaker risk sentiment, led by losses in utilities (-1.1%) and banks (-0.6%). Across countries, only Germany's DAX nimbly advanced (+0.1%). Tech edged lower, with HSBC citing flat regional IT capex and muted AI momentum as headwinds for earnings. The euro rose (+0.4%) to \$1.1684/€, though Goldman warns that recent drivers of last year's gains (including fiscal surprises, portfolio reallocations, and broader dollar softness) are unlikely to persist (see chart), limiting further upside if growth disappoints in the Eurozone or US growth expectations rebound.

After leading the way in 2025, the Euro enters 2026 much closer to "fair" against the Dollar



European government bond yields edged lower, led by modest bull-flattening in the Bund curve. German 2y, 5y, and 10y bond yields fell (-1bps) to 2.09%, 2.41%, and 2.84%, respectively. The 30y Buxl yield declined more (-2bps) to 3.43%. Southern sovereign spreads over Bunds remained stable, though French OATs slightly underperformed, with the 10y OAT–Bund spread widening to 67bps. Political risk remains in focus as France faces two no-confidence votes this week over its stance on the EU–Mercosur deal. Credit Agricole sees heightened fiscal and political tension, warning that a government collapse could push the OAT–Bund spread above 80bps.

10y Bund-swap and Southern spreads



Euro investment-grade (IG) and sub-IG corporate bond spreads have notably tightened in recent months. Credit Agricole analysts note that since May last year, IG spreads notably compressed (-32bps) to a level of 74bps, outpaced by the compression of sub-IG spreads (-118bps) to a level of 302bps. They attribute the compression to strong demand from investment funds while the ECB still holds around €260bn of corporate bonds. JP Morgan analysts note that cumulative euro IG inflows reached €36.4 bn YTD (10.5% of AUM), while TD highlights record 2025 bond fund inflows (€129 bn) alongside the strongest ex-UK equity inflows in a decade. Deutsche Bank sees only moderate overweight positioning in European assets, implying further room for inflow-led repricing.

Cumulative Flows - IG > 3Y (EURm) - 316 funds



Emerging Markets

[back to top](#)

This morning, EMEA equities mostly gained as currencies held in narrow ranges. In CEE, Romanian stocks outperformed again (+1.4%) with the materials sector outperforming, while stock markets in the Czech Republic lagged (-0.2%). CEE currencies remained range-bound, except for the Hungarian forint, which weakened -0.2% to 386.5/€. The Turkish lira dipped (-0.1%) to 43.14/\$, while equities rose (+0.8%). In the Middle East, Saudi and Qatari equities gained +1.2% and +0.5% respectively, while those in Kuwait (-0.4%) and Jordan (-0.3%) fell. Separately, Bloomberg reports that North Macedonia has launched a tender for notes maturing in June 2026, with plans to issue new debt to manage its maturity profile.

Asian markets saw modest gains across equities, while currency moves diverged. Hong Kong SAR (+1.3%) and Korea (+0.8%) led stock market gains in the follow-through after softer U.S. payrolls and a new S&P 500 record. Within currency markets, the baht outperformed (+0.5%) on strong local gold selling and USD conversion, lifting it to +0.8% ytd vs the dollar. In contrast, the won weakened for an eighth straight session (-0.6%) on continued retail outflows. Market contacts remain constructive as expected FX stabilization measures and foreign equity inflows tied to AI optimism are expected to dampen further losses.

On Friday, Latin American equities and currencies broadly advanced, with stocks leading gains alongside firmer currencies across most economies. Colombia's (+1.2%) and Mexico's (+0.8%) stock markets outpaced the region, while Brazil and Chile also posted gains. Currencies mildly appreciated against the dollar, with the Brazilian real, Chilean peso, and Colombian peso posting moderate gains; the Mexican peso remained flat. In Venezuela, a group of key bondholders stated readiness to begin talks on debt restructuring: a development that may help temper longer-term risk premia in local assets.

EM Fund Flows

Investors have pulled back from EM bonds while equity demand accelerated, driven by strong ETF inflows. Emerging market bond flows reversed to -\$616mn (from +\$533mn) for the week ending January 9, while EM equity inflows surged to +\$4.9bn (from +\$855mn). Local-currency bond fund outflows widened to -\$392mn (from +\$505mn), and hard-currency bond funds reversed to -\$224mn (from +\$28mn). The bond pullback was driven by non-ETF outflows, which accelerated to -\$722mn (from +\$543mn), even as ETF demand turned positive at +\$106mn (from -\$10mn). Equity inflows were led by ETFs, rising to +\$5.6bn (from +\$1.2bn), while non-ETF flows remained negative at -\$692mn (from -\$321mn). Year to date, EM bond flows stand at -\$0.6bn, while equity flows total +\$4.9bn.

Figure 1: Weekly cross-asset flows

USD billion

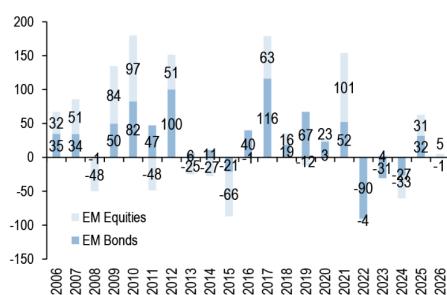
Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities	4.3	4.3	
EM Bonds	-0.6	-0.6	
Hard Ccy	-0.2	-0.2	
Local Ccy ^a	-0.4	-0.4	
o.w. EM ex-China	-0.5	-0.5	
o.w. China	0.1	0.1	
EM Equities	4.9	4.9	
US HG	4.6	4.6	
US HY	0.4	0.4	
Global Equities	-17.7	-17.7	
EM Bond and Equity ETFs	5.7	5.7	
EM Bond ETFs	0.1	0.1	
EM Equity ETFs	5.6	5.6	
Non-resident EM flows*	5.2	5.5	

*High-frequency non-resident EM portfolio flow data where available. ^aLocal ccy split is retail only.

Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Figure 2: EM bond and equity fund flows

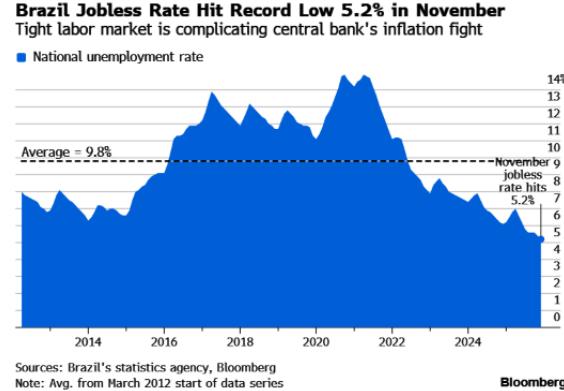
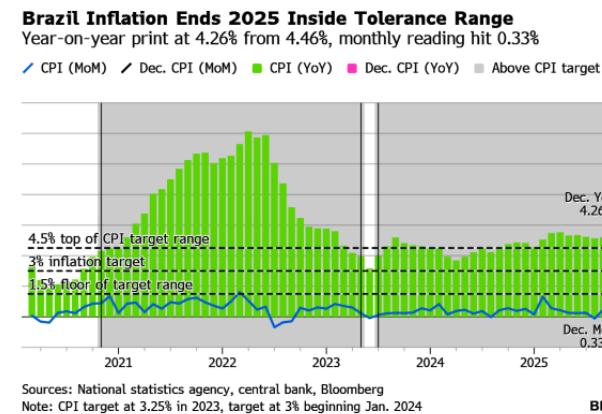
USD billion



Brazil

IPCA inflation eased in December, entering the Banco Central do Brasil's (BCB) target range and reinforcing expectations for rate cuts in early 2026. Friday's print matched expectations at 4.26% y/y (exp. 4.26% from 4.46%), falling within the central bank's 1.5%–4.5% inflation target corridor (left chart).

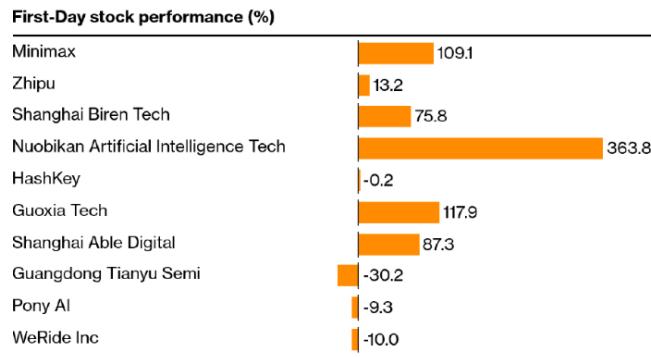
With the Selic rate at 15.00% (one of the highest in the region), market contacts expect easing to begin in Q1 this year. Still, a tight labor market (right chart) and expectations of higher public spending could complicate the policy outlook ahead of the January 28 BCB meeting. Overnight forwards price the Selic at 14.97% in one month and 14.74% in three months, consistent with a gradual path of easing.



China

Modest Hong Kong IPO performance of chip designer OmniVision underscores growing investor scrutiny of the AI sector. On its first trading day, shares of OmniVision rose by up to +7.5% compared with an offer price of HK\$104.8 apiece while its Shanghai-listed shares fell as much as -1.5%, reversing earlier gains. The offer price represents a 29% discount to the close price of its Shanghai-listed shares, and is a deeper discount compared with an average 19% discount for Hong Kong-listed shares relative to their mainland peers. OmniVision provides CMOS image sensors (i.e., chips that turn incoming light into electrical signals), which are used in smartphones, automobiles and emerging technologies such as smart glasses and Edge AI. Market contacts note that the shares' modest performance compared to recent chip IPOs underscores how global investors are increasingly differentiating likely winners in the AI sector. Meanwhile, 11 companies, about half of which are AI firms from China, are due to IPO in Hong Kong this month.

Recent China AI IPOs Have Seen Mixed Share Performance in HK Debuts



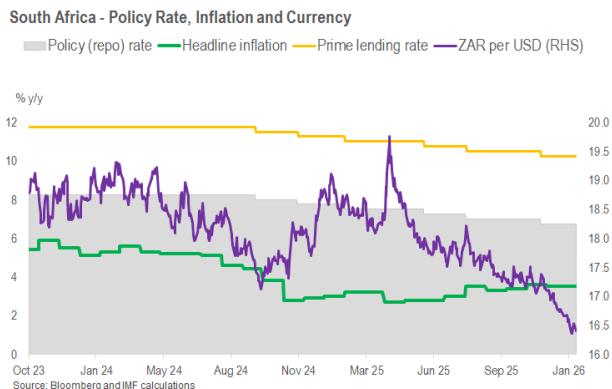
Source: Bloomberg

Bloomberg

Stock trading volumes reached a record high amid fund inflows. The trading volume in Shanghai and Shenzhen exchanges reached an all-time high of RMB 3.6tn (or \$516bn) on Monday as fund flows into Chinese equities continued, pushing the Shanghai Composite nearly +9% higher from its low in early December (see chart). The gains had initially been largely driven by exchange-traded funds, likely from insurance or other state-proxy funds, according to market observers. Organic buying, including from retail investors in recent weeks, has subsequently boosted overall equity gains.

China Onshore Equity Turnover Hits Record**South Africa**

The Reserve Bank of South Africa (SARB) is poised to review its prime lending rate. The SARB announced it will assess the rate; a key loan benchmark fixed at 350 bps above the policy rate since 2001. Potential changes include abolishing the prime rate as a reference or adjusting the spread to the policy rate—both of which could affect bank profitability. Currently, around \$378bn in gross loans and advances are linked to the prime rate. Some market participants argue that narrowing the spread would lower consumers' debt-service costs, improve business loan access, and ease financing constraints in the short term. This morning, South African equities traded higher, supported by rising gold prices, while the rand firmed (+0.4%) against the dollar to 16.42/\$.



This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Caio Ferreira (Deputy Division Chief), Sheheryar Malik (Deputy Division Chief), and Saad Siddiqui (Deputy Division Chief). Fabio Cortes (Senior Economist), Timothy Chu (Financial Sector Expert-New York Representative), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Senior Financial Sector Expert), Johannes S. Kramer (Senior Financial Sector Expert), Benjamin Mosk (Senior Financial Sector Expert), Sonal Patel (Senior Financial Sector Expert-London Representative), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Sally Chen (IMF Resident Representative in Hong Kong), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Analyst), Deepali Gautam (Senior Research Officer), Zixuan Huang (Economist – EP), Harrison Kraus (Research Analyst), Yiran Li (Senior Research Analyst), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Silvia L. Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Lawrence Tang (Senior Economist), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Jing Zhao (Economic Analyst). Jeremie Benzaken (Administrative Coordinator), Olivia Marr (Administrative Coordinator), and Srujana Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

1/12/26 7:59 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities							
United States	6,966	0.6	1.6	2.0	19.6	2	
Europe	5,999	0.0	1.3	4.9	20.5	4	
Japan	51,940	1.6	3.2	2.2	32.5	3	
China	4,790	0.7	1.5	4.6	28.7	3	
Asia Ex Japan	98	0.4	1.6	6.2	39.0	5	
Emerging Markets	57	0.5	1.6	5.3	39.1	4	
Interest Rates							
basis points							
US 10y Yield	4.2	4	4	2	-56	4	
Germany 10y Yield	2.9	-1	-2	-1	26	0	
Japan 10y Yield	2.1	0	-3	14	89	3	
UK 10y Yield	4.4	2	-11	-12	-44	-8	
Credit Spreads							
basis points							
US Investment Grade	107	-1	-2	-4	-13	0	
US High Yield	321	-5	-12	-18	7	-15	
Exchange Rates							
%							
USD/Majors	98.8	-0.3	0.5	0.4	-9.9	0	
EUR/USD	1.17	0.4	-0.3	-0.5	14.0	-1	
USD/JPY	157.9	0.0	1.0	1.3	0.2	1	
EM/USD	46.8	0.3	0.4	1.0	9.2	0	
Commodities							
%							
Brent Crude Oil (\$/barrel)	63.2	-0.2	2.3	3.9	-13.6	4	
Industrials Metals (index)	173.1	2.0	2.4	11.8	20.6	6	
Agriculture (index)	54.4	0.4	0.6	-0.8	-5.6	2	
Gold (\$/ounce)	4590.5	1.8	3.2	6.8	72.4	6	
Bitcoin (\$/coin)	90671.3	0.0	-0.4	0.5	-3.9	3	
Implied Volatility							
%							
VIX Index (%), change in pp	16.0	1.5	1.1	0.3	-3.5	1.1	
Global FX Volatility	6.7	0.1	0.0	-0.1	-2.4	-0.3	
EA Sovereign Spreads							
10-Year spread vs. Germany (bps)							
Greece	50	1	-8	-10	-32	-9	
Italy	63	0	-7	-6	-54	-7	
France	67	1	-4	-5	-17	-4	
Spain	39	1	-4	-6	-28	-4	

Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Emerging Market Financial Indicators

1/12/2026 8:00 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)								
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD		
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M			
vs. USD		(+/-) = EM appreciation				% p.a.										
China	6.97	0.1	0.2	1.2	5.1	0.2		2.0		-1	2	4	28		2	
Indonesia	16833	-0.2	-0.6	-1.1	-3.3	-0.8		6.0		1	2	-7	-108		1	
India	90	0.0	0.1	0.3	-4.0	-0.3		7.1		-3	-4	-13	-27		5	
Philippines	59	0.0	-0.3	-0.3	-0.9	-0.7		4.7		-1	4	5	-36		4	
Thailand	31	0.6	0.3	1.1	11.4	0.9		1.9		3	13	7	-51	13		
Malaysia	4.06	0.2	0.2	0.8	11.0	-0.1		3.5		-1	0	-7	-31		1	
Argentina	1465	-0.1	0.7	-1.8	-29.2	-0.9		33.6		30	107	266	822	119		
Brazil	5.38	-0.3	0.5	0.7	13.3	1.7		13.5		5	4	-11	-186		-12	
Chile	887	0.8	2.0	2.4	13.6	1.6		5.2		0	-10	-6	-58		-10	
Colombia	3715	-0.1	1.6	4.0	16.6	1.7		12.6		-9	-25	35	112		-24	
Mexico	17.90	0.4	0.1	0.6	15.3	0.6		8.9		6	-11	-14	-134		-12	
Peru	3.4	0.1	0.0	0.1	12.0	0.0		5.9		0	11	8	-78		13	
Uruguay	39	0.2	0.2	1.2	12.6	0.3		7.4		-2	-9	-37	-226		-12	
Hungary	331	0.1	-1.1	-1.0	21.8	-1.2		6.4		-3	-12	-21	-19		-12	
Poland	3.60	0.5	-0.3	-0.1	15.7	-0.4		4.5		-2	-7	-15	-116		-7	
Romania	4.4	0.4	-0.4	-0.5	11.4	-0.5		6.5		-1	-14	-29	-91		-14	
Russia	78.4	0.7	3.7	2.1	31.2	0.5										
South Africa	16.4	0.5	-0.2	2.9	16.1	0.9		8.7		-4	8	-18	-189		12	
Türkiye	43.13	-0.1	-0.2	-1.0	-17.7	-0.4		29.9		19	58	-106	101		25	
US (DXY; 5y UST)	99	-0.3	0.5	0.4	-9.9	0.5		3.78		3	8	4	-79		6	

	Equity Markets							Bond Spreads on USD Debt (EMBIG)								
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD		
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M				
basis points																
China	4,790	0.7	1.5	4.6	28.7	3.5		76		0	2	-19	1			
Indonesia	8,885	-0.6	0.3	2.6	26.6	2.7		92		7	5	2	6			
India	83,878	0.4	-1.8	-1.6	9.9	-1.6		75		-16	-16	-9	-15			
Philippines	6,420	1.1	4.1	6.3	1.2	6.1		79		7	4	-5	4			
Thailand	1,242	-0.9	-3.0	-0.9	-8.3	-1.4										
Malaysia	1,695	0.5	0.9	3.5	6.9	0.9		61		4	2	-13	2			
Argentina	163,370	0.5	-1.3	3.7	10.1	1.2		571		4	-69	11	2			
Brazil	11,021	0.3	0.9	1.6	37.5	1.4		204		3	-4	-27	1			
Chile	2,213	0.1	3.1	6.0	61.7	5.1		95		4	2	-23	4			
Colombia	66,063	1.2	7.0	5.0	57.3	7.0		280		-1	-8	-44	3			
Mexico	2,901	0.8	3.0	2.1	33.2	2.7		221		7	-2	-80	4			
Peru	116,249	2.7	12.3	13.0	66.7	12.3		114		7	15	-26	5			
Hungary	121,515	-0.2	2.7	6.1	42.2	4.7		144		9	6	-6	5			
Poland	26,243	0.0	1.1	6.8	47.8	3.6		94		4	10	-18	3			
Romania	119,550	2.0	8.2	9.6	53.9	7.4		186		12	-1	-45	10			
South Africa	12,328	1.2	2.5	5.5	43.2	3.2		230		15	8	-53	12			
Türkiye	57	0.3	1.6	5.3	39.1	4.4		247		13	6	-11	13			
EM total								265		-6	-11	-90	-7			

Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

[back to top](#)