07 JANUARY 2026

Weekly Market Snapshot
Japan can overcome hurdles

Weekly Recap

- All eyes were focused on South America this weekend, and on Venezuela in particular, following the US capture of Venezuela President Nicolas Maduro. However, markets were not impacted by this event.
- Copper prices hit a new record going over $13,000 per tonne for the first time ever as risk of supply disruption increases.
- French inflation slowed slightly in December.
- The official monthly US unemployment report will be published on Friday.

Market	06 January Level	% Chg 1 Wk	Return Trend 1 Month	Return Trend 1 Year
Stocks				
S&P 500	6945	*+0,6%*	↗	↗
Euro STOXX 50	5932	*+3,1%*	↗	↗
FTSE 100	10123	*+2,6%*	↗	↗
Nikkei 225	51962	*+2,4%*	↗	↗
MSCI EM	1467	*+4,5%*	↗	↗
Bonds	***Yield***			
US 10Y	4,2	*-0,2%*	→	↗
Gm 10Y	2,8	*-1,0%*	→	↗
UK 10Y	4,5	*-0,4%*	↗	↗
Jp 10Y	2,1	*+2,7%*	↘	↘
IG Credit	***Yield***			
US	5,0	*+0,4%*	↗	↗
EU	3,2	*-0,3%*	→	↗
UK	5,1	*-0,6%*	↗	↗
Alternatives				
Gold	4453	*+3,1%*	↗	↗
Copper	6,0	*+3,6%*	↗	↗
S&P Global Infra	3556	*+0,0%*	↗	↗
EU REITs	1634	*+0,4%*	↗	↗
BBG Hedge Fds	1789	*-0,1%*	→	↗

Snapshot

Japan, as the 4th-largest economy in the world has several strengths and weaknesses. Japan's labour market and corporate sector are and remain solid. But the country is facing an rapidly ageing population and a loss of purchasing power due to a high inflation which stubbornly remains above target due to high rice prices.

The Bank of Japan should continue hiking rates gradually to approach 1.5% in 2027 in order to guide inflation closer to its 2% target. Over 2025, Japanese long-term bond yields have moved decisively higher, the 10-year JGB yield now exceeding 2%. These higher yields risk i) triggering the unwinding of yen carry trades and ii) a gradual repatriation of capital to Japan.

We see modest potential appreciation of the yen this year (to Y148 v USD in 12 months), with the interest rate differential between the Fed cutting rates and the BoJ increasing rates supporting the Japanese currency. The government has decided to apply more fiscal stimulus, which may limit yen strength, but which should support Japanese stocks.

NIKKEI HAS MAINTAINED STRONG MOMENTUM INTO 2026

Source: LSEG Datastream, 06/01/2026

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A mixed economy

Japan has been caught in a difficult situation. On one hand, the economy shows positive signs with full employment, a thriving corporate sector and declining debt ratios. But on the other hand, the country faces high inflation, declining real wages and a depreciating yen.

The country has low growth compared to its G7 peers with less than 1% growth expected in 2026 and 2027. This is mainly due to an ageing population, a loss of purchasing power due to a high inflation and a hit to export demand from US tariffs.

Bank of Japan, a notable exception in global policy rates

The Bank of Japan's (BoJ) role is to maintain price stability, i.e. inflation of around 2%. With headline inflation running close to 3%, the BoJ has initiated tightening at a pace materially slower than required for an economy running well above potential, with inflation only slowing gradually. Further rate hikes are expected between 2026 and 2027 in order to ease inflation back to target.

A new era for long term rates

Over 2025, bond yields rose substantially by c. 1% on 10-year and 30-year maturities. These moves were driven by the central bank which is hiking benchmark rates and trimming bond purchases. In addition, 2026 new bond issuance will be substantial due to a major fiscal stimulus programme, half of which will be financed via new debt.

Higher yields could lead to the carry trade losing its appeal. In the past, investors used to borrow in yen at near zero rates to fund higher yielding assets abroad. However, with a funding rate around now 1% and rising hedging costs, profit margins on these carry trades have been squeezed.

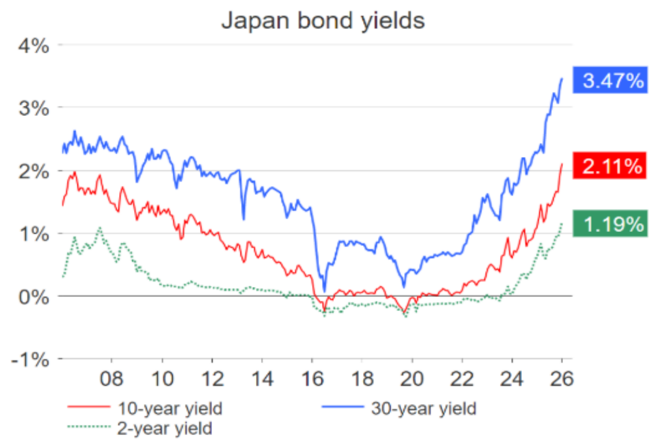
Similarly, rising bond yields impact Japanese life insurers which have seen their portfolios suffer as bond prices have fallen in response to rising yields. This means they now have weaker balance sheets with billions in unrealised losses.

Higher rates may lead to capital repatriation, a phenomenon that might increase this year. For several years, Japanese institutions have invested billions of yen abroad as domestic rates were close to zero. Now, with yields going positive, major investors (banks, insurers and pension funds) are likely to repatriate a portion of this capital.

An impacted exchange rate

One of the main drivers of an exchange rate is the interest rate differential. With the Federal Reserve cutting US rates while the Bank of Japan is increasing yen rates, the interest rate differential should favour the yen and lead to currency appreciation. However, following the recent comments of Sanae Takaichi, the new prime minister and leader of the Liberal Democratic Party, we see limited potential for the appreciation of the Japanese Yen. The new administration has campaigned the basis of greater fiscal stimulus, creating uncertainty about Japan's fiscal outlook and generating volatility in government-bond markets and more debt. This may limit the upside for the yen.

LONG TERM BOND YIELDS HAVE SURGED TO NEW MULTI-YEAR HIGHS



Source: LSEG Datastream, 05/01/2026

LITTLE YEN APPRECIATION TO DATE

Source: LSEG Datastream, 06/01/2026

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