Macro Snapshot
January 2026

cgam

Since we last wrote, there has been (yet another) flurry of headlines from the Trump Administration. Each of these reaffirms our view that the risks are still heavily weighted towards further yield curve steepening:

- The Trump Administration's strengthened resolve to bring Greenland under US control, and threats to levy tariffs against major European countries and the UK if they resist. This has – if anything – further heightened the negative risk sentiment towards US assets and given greater cause for rotation away from these. Although Scott Bessent has said that a decision by European governments to sell US Treasuries would "defy logic", it will likely continue to be the case that these developments serve as a prompt to diversify away from US assets, particularly those with long duration. Headlines relating to the decision of a Danish pension fund to exit US Treasuries underscore this point.

- The speculation around the nomination for the next Chair of the Federal Reserve System. Much of the debate around whether the next chair will be Kevin Warsh, Kevin Hassett or Christopher Waller is around finding the balance between a candidate who will give some perception of inflation-targeting credibility whilst also being strongly in favour of lower interest rates. The more the FOMC consensus embodies a lower rates bias (particularly while the economy shows an above-trend growth rate and above-target inflation), the greater the expectation of term premia across the yield curve.

- The impending US Supreme Court decision about the validity of reciprocal and fentanyl tariffs. The outcome could impact approx. USD145-150 billion of recurring tariff revenue (70-75% of total tariff revenue), on top of USD130 bn that has already been collected. The Bloomberg consensus estimate of the US fiscal deficit is approx. 6.5% of GDP over the next two years, without accounting for a possible adverse Supreme Court decision. Any additional issuance – or indeed, fiscal contraction – required in the absence of reciprocal tariff revenue has the potential to expand the deficit further, either by increasing the required supply of Treasuries (the numerator), or, in a contraction by lowering the level of GDP (the denominator).

It is important to remember that, while these are US-centric events, they also affect the global pool for risk-free assets, and so these curve steepening features have a flow-on impact to the UK. For example, following the weekend's news on Greenland, the US 10Y yield jumped by 5bps, and the UK 10Y increased by 4bp. As a consequence, we are maintaining short duration in the US and UK in our multi-asset funds and our fixed income funds.

To recap:

- We are targeting TIPS duration of 4.5 years across all relevant CG funds.

- We are keeping UK index-linked duration between 5.5-6 years across all relevant CG funds.

- In our multi-asset funds, positioning remains defensive: 26% in risk assets, 42% in inflation-linked bonds, and 36% in managed liquidity reserve (cash, short-dated government bonds and short-dated credit).

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