View in browser

FOUR C FINANCIAL

Market REVIEW

"May you live in interesting times" is a phrase often attributed to an ancient Chinese curse, but its origin actually dates back to the early 1900s in speeches by a British politician. Regardless of origin, its intent is still applicable in today’s geopolitical and market landscape.

Markets found a bit of footing last week as tensions eased over the U.S. acquisition of Greenland. This stability was further bolstered by the temporary removal of a 10% retaliatory tariff threat against NATO allies. Additionally, strong economic data released in the U.S. helped support markets with Q3 GDP coming in at 4.4% while inflation readings were in line with estimates, albeit at a stubborn rate of 2.8% on a year-over-year basis.

With strong growth and inflation still above target levels, markets have repriced the possibility of near-term interest rate cuts. Currently, the probability of a cut at this week's Fed meeting is about 3%, while the odds of a March cut are approximately 15%, down significantly from just a month ago. Adding to this shift is the lower likelihood of Kevin Hassett becoming the next Fed chair, based on recent comments from the Trump Administration.

On the back of those developments, the yield on the 10-year note in the U.S. has drifted higher to 4.25%. Adding to the upward pressure on rates has been the move in Japanese rates, given the country's fiscal outlook, with yields on long-term debt in Japan at levels not seen since the mid 1990's. The shift in Japanese rates could significantly accelerate the unwinding of yen carry trades. Since these trades often funded long positions in Bitcoin and the "Mag 7," this unwinding helps explain recent downward pressure that extends beyond market fundamentals.

Speaking of the Mag 7, next brings earnings from 4 of the 7, which will be the main focus for investors. Key areas of focus will be future AI capital expenditures and the current pace of adoption among end users. These trends have significant implications for U.S. power demand, which could place further upward pressure on already stubborn inflation levels.

On the back of geopolitical tension between the U.S. and NATO, focus is also shifting to actions being taken by foreign owners of U.S. government debt. Roughly 40% of foreign ownership of U.S. Treasuries is in the hands of European countries and other NATO members (see the chart of the week below). Any pointed divestiture on the part of foreign owners may have the consequence of pushing rates higher in the U.S.

Breakdown of U.S. Government Debt Foreign Ownership

DOWNLOAD THE CHART

What Happened

Greenland Tensions - Greenland tensions eased as the Trump Administration lessened tariff threats and worked towards a potential deal for U.S. access to

Greenland at the Davos economic forum.

Japan Interest Rates - The yield on Japanese government debt surged to levels not seen since the mid 90's on the back of fiscal outlook concerns.

U.S. GDP - Q3 GDP for the U.S. came in at 4.4% quarter-over-quarter annualized vs. estimates of 4.3%.

Dustin Metcalf
President & Founder

CA Office: (760) 491-1499
WA Office: (360) 865-7365 Dustin@fourcfinancial.com

Learn More ›
ABOUT MY PRACTICE

Contact Me ›
FOR A CONSULTATION

Four C Financial | www.FourCfinancial.com | 73000 Highway 111, Suite 202, Palm Desert, CA 92260

Source: Bloomberg