



Trump goes Green

A happy new year?

Key points:

- Venezuela has hit the headlines at the start of 2026, and geopolitical risk is rising as the US asserts dominance in Latin America and Greenland.
- The backdrop for US growth remains relatively robust and this week's ISM Services survey suggests ongoing momentum in economic activity.
- Global fixed income prospects appear more favourable than at any start of a year since 2020, with 10-year government yields exceeding cash rates and more countries prepared to cut rates, rather than hike, in 2026.
- In emerging markets, Venezuelan assets have seen a surge in value, with PDVSA bonds up around 30% relative to where they were at the start of this year, prior to US intervention.
- An IEEPA tariff ruling is likely in the coming week, however it's clear that any tariffs voted down will be replaced by others, and companies wanting to reclaim tariff revenues will fear retaliation from an assertive US administration.

London, 9 Jan 2026: 2026 has started with something of a bang, with Trump once again generating the headlines following the dramatic capture of Maduro in Caracas, the seizure of a Russian ship in the Atlantic, and comments reiterating a desire to incorporate the country of Greenland within the sovereignty of the United States.

Yet against this geopolitical volatility, global fixed income markets have remained broadly rangebound at the start of the year. In the US, 10-year Treasuries have traded between 4.00-4.25% for the past four months, with interest futures markets discounting one Fed cut in the first half of 2026 and another to follow in H2.

The backdrop for US growth remains relatively robust and this week's ISM Services survey suggests ongoing momentum in economic activity. Meanwhile, an incoming Fed Chair is expected to deliver some monetary accommodation, with each of the candidates still under consideration seeking to paint a picture that AI productivity benefits will enable strong growth combined with low inflation and lower interest rates in the period to come.

Consequently, any trend move in yields away from the current status quo is dependent on data and events that reshape this narrative and, until this time, it seems that rates have found something of a short-term equilibrium.

Turning to the geopolitical consequences of recent US actions, there is a building sense that this administration is embracing the Monroe doctrine, declared by president James Monroe in 1823, establishing the western hemisphere as the US sphere of influence.

This was something we witnessed in meetings with policymakers in Washington in 2025 and it was a pretext for the US decision to offer material support to President Milei in Argentina ahead of last October's elections.

It is even more evident today, with the US President making claims that the country would effectively 'run' Venezuela for the foreseeable future and in remarks that the US would pursue its objectives in Greenland by any means necessary.

With respect to Venezuela, there is a prospect that US intervention will lead to a re-build of depleted infrastructure in the oil industry, putting it in a position where it controls more reserve capacity than OPEC combined.

The prospect of lower oil prices could mean good news for inflation and interest rates but a challenging backdrop for higher cost producers of heavy crude (such as Canada) or sovereigns heavily reliant on oil revenues to support their fiscal position (such as Saudi Arabia).

However, such trends may play out over the quarters ahead, rather than something that will influence oil prices in the next few weeks.

Meanwhile, Trump's threats over Greenland have created even more panic (and a sense of despair) in European capitals. In the age of power politics, Europe demonstrated in 2025 that it is a weak player. Europe can protest, but ultimately it has very little leverage with the Trump administration and in this sense, if the US really wants Greenland, then there won't be too much getting in the way of this.

Perhaps the bigger danger is the implication US policy has with respect to other more authoritarian regimes. For example, there is a sense that China may feel content that it has a greater carte blanche in Taiwan or across Asia Pacific, and suddenly it is becoming harder to criticise Russia's violations of international law with respect to its invasion of Ukraine.

In this way, the US administration needs to be careful how it wields the power it obviously has, if it is not to end up creating a more dangerous and destabilised world in the decades to come.

Over the past year or more, it appears that global markets have become desensitised to geopolitical instability and also to the vagaries of a bold and interventionist US president in the White House. Arguably, if the US economy is doing fine, then markets may be justified in looking the other way.

However, it seems worth reflecting that we are living through periods of material upheaval in national and international politics, and it may not take too much to cause the investment landscape to turn more fearful in the months ahead. Should this manifest, then government bond yields could rally in a flight to quality.

A similar outcome could also come from any sharp reversal in equity markets with respect to sentiment towards AI valuations, though this seems a more realistic risk in our eyes in the later part of 2026, should evidence build that the acceleration in AI investment spending is starting to slow.

Government bond yields may also be helped by constructive year-over-year base effects on oil prices pulling CPI rates lower over the next couple of months. Conversely, abundant government bond supply creates a more challenging backdrop for longer-dated fixed income securities, though as the average maturity of issuance dramatically shortens in response to bond issuance plans, this may counter pressure on the term premia priced into the yield curve across many markets.

All of this said, we would note that for the first time in the past few years, 10-year government yields are all trading some margin above current cash rates and with far more countries inclined to lower interest rates than hike them in the year ahead, this suggests that the outlook for global fixed income returns is looking more constructive than has been the case at the start of a year since 2020.

On a relative basis, we currently maintain a constructive view on the UK gilt curve on the basis that political risks should be contained over the next few months, and incoming news on the economy and inflation could build the case for further monetary easing from the Bank of England over the next two quarters. We are also constructive on local rates in Norway and Iceland on prospective rate cuts.

Core Eurozone government bonds underperformed in 2024 in the wake of announcements with respect to German fiscal expansion. Pressure at the long end of the curve also continued into year-end ahead of changes to Dutch pension fund legislation, which has seen a reduction in demand for longer-dated duration.

However, on a forward-looking basis, we see the Eurozone economy struggling to grow, and risks to inflation more prevalent to the downside than the upside. The ECB may be wary of cutting rates, per comments from Schnabel and others at a time when fiscal policy is also trending looser, and it is hard to get too excited in the outlook for bonds.

However, we are more inclined to think that returns over the next couple of months could exceed cash returns, helped by inflation surprises to the downside in the near term.

In Japan, yields have remained under some upward pressure, though there is perhaps a sense that there is more stability in the market with 10-year yields now above 2%. It is also worth noting that Tokyo annual inflation dropped to 2.0% from 2.7% in December and this is likely to herald a similar drop in national figures released in a couple of weeks from now.

Although core inflation remains more elevated, there is a sense that greater price stability closer to the BoJ inflation target is now starting to be witnessed as distortions from FX and from rice prices drop out of the data. We retain a neutral stance on 10-year JGBs, having closed out short above 2%, though retain an overweight in 30-year bonds relative to 10s on a relative value basis.

In emerging markets, Venezuelan assets have seen a surge in value, with PDVSA bonds up around 30% relative to where they were at the start of this year, prior to the US intervention.

More broadly, we think there is a narrative building in a more US friendly direction across Latin America, and notwithstanding the rights and the wrongs of the Monroe doctrine, it is possible to build a narrative that may see increased interest in acquiring regional assets. Should this help reduce risk premia, it can help generate a generally constructive investment backdrop.

We have a constructive view on rates in Colombia and Brazil, where we think the days of left-leaning administrations are numbered, and in FX we are constructive with respect to the outlook for the Chilean peso.

Elsewhere in FX, the narrative of US dominance leaves us positively minded towards the dollar coming into 2026. We are downbeat on the British pound, looking for downside data surprises and lower rates to see cable trade lower below \$1.30.

We are also generally negative on the euro against an impaired macro backdrop for the continent. We favour the Norwegian and Icelandic krone on a relative basis and also the Chinese renminbi relative to the European currency.

We have no strong view on the yen for the time being, though elsewhere we feel that owning carry in FX remains an attractive approach against the backdrop of muted volatility.

In credit, we are also happy to own carry but find it hard to get too excited with respect to asset class valuations. More opportunities in credit in 2026 seem more likely to come from relative positioning between sectors and issuers on a global basis, than in a more overt directional play.

Although the macro backdrop remains broadly favourable for credit, it is worth reflecting that US IG supply could hit \$1 trillion this year, thanks to abundant issuance from the hyperscalers. This compares to around \$650bn last year and typical run rates of around \$450bn in the couple of years prior to that.

Looking ahead

We now at last have regular economic data released from the US, with the period of data disruption in the wake of the government shutdown behind us. Payrolls data today will be a notable market driver, as always, with CPI to follow next Wednesday.

However, we think it could take a material surprise, or shock event, in order to shift Treasuries away from the equilibrium they have sat in over the past few months. A ruling on IEEPA tariffs is also likely in the coming week and this could be a driver of market volatility, though we think that by now, it is very clear that any tariffs that get voted down will be quickly replaced by others.

We are also very doubtful that too many companies will want to try to sue to reclaim tariffs revenues already paid, for fear of putting themselves into the crosshairs of a very assertive US administration.

On geopolitics, we think that the likelihood of US military action in Greenland is very low. However, we would not be too surprised to see a small population convinced to cede sovereignty over their land of snow and rock, for a fistful of dollars in exchange.

We would also note that there is a historic precedent with respect to the US Virgin Islands, which the US government purchased from Denmark in 1917, ostensibly to put itself in a position of controlling the access point into the Panama Canal.

Meanwhile a price tag of \$60 billion would mean that a population of 57,000 inhabitants could become millionaires overnight in a lottery win that almost makes enduring that harsh climate seem a bit attractive.

Yet, what is perhaps most striking at the start of 2026 is the overt power and strength of the US, which stands in contrast to the weakness and meekness of Europe as a whole. European policymakers in the past would have always hoped that Trump could be persuaded to adopt green policies. One thing is for sure...this isn't what they had in mind!

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