FE Investments

WEEKLY MARKET COMMENTARY BY ROB GLEESON
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BOND MARKETS SEEM CALM AS TRUMP ADMINISTRATION STEPS UP EFFORTS TO CONTROL US FED

This has been another week dominated by Donald Trump's political moves as the US president encouraged protests in Iran and threatened a military response to violent government suppression. Trump threatened higher tariffs on countries which do business with Iran. His administration has also opened a criminal investigation into Federal Reserve chair Jerome Powell. The investigation has been rightly condemned as politically-driven interference but concerns about central bank independence added to the recent rally in gold.

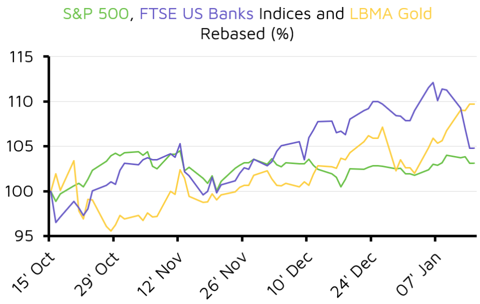
Trump's short-term agenda raises clear risks for the US. Recent Chinese trade data show the potential for unintended long term consequences. China's trade surplus widened in 2025 not despite US trade restrictions, but because of them, as it sought alternative markets. Commentators have long warned that the loss of Fed independence heightens the inflation risk. Bond markets have been calm but some institutional investors are starting to take US political risk more seriously and markets are unlikely to stay relaxed if Trump appears to be gaining control of the Fed.

THE MARKETS THIS WEEK

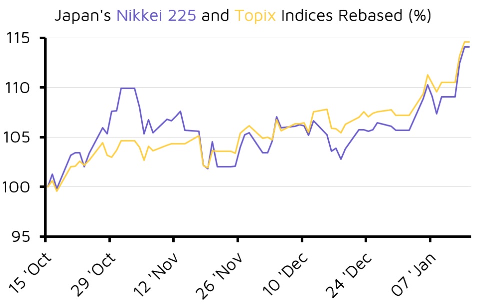
FTSE 100	S&P 500	Nikkei 225	STOXX 600	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Copper	GBP USD
+1.49%	+0.59%	+3.55%	+1.24%	+2.24%	-0.02%	-0.01%	+3.57%	+2.92%	+0.80%	-0.06%

US: FED CRIMINAL PROBE SPARKS CONCERN OVER INDEPENDENCE

Global markets have been getting to grips with US president Donald Trump's latest attempts to drive down interest rates. Fed chair Jerome Powell revealed that he is under criminal investigation by the Department of Justice over whether he misled Congress. The chair of the Federal Reserve rejected the investigation as an attempt to influence the bank's decisions and the last three Fed chairs and leaders of most major central banks condemned the attempt to erode the independence of the US central bank.



Although lower rates would be good for US bonds and equities in the short-term, global markets saw little movement. However, the price of gold increased further. JP Morgan CEO Jamie Dimon warned of the risk of inflation spiking in future if the Fed loses its independence. The latest data from the US shows headline price inflation holding steady as CPI remained at 2.7%, although the Producer Price Index shows input costs for businesses are rising faster.



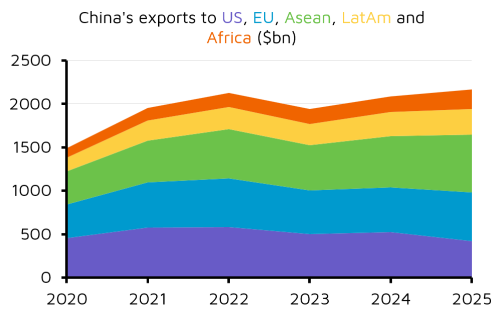
JAPAN: TAKAICHI TRADE SENDS STOCKS HIGHER AND YEN LOWER

Markets revived the "Takaichi trade" as investors priced in a snap election and a pro-growth tilt. The Nikkei 225 set a record, rising 4.3%, and Topix gained 4.6%, while the yen fell to around ¥159 per US dollar, its weakest since July 2024. Japanese government bonds sold off, with yields moving inversely. The 10-year yield rose to 2.19% (the highest since 1999) and the 20-year touched 3.17%. Buying clustered in technology, defence and basic materials on expectations of further fiscal stimulus and a measured rate path, as a ¥135bn package supports equities and weighs on the currency.

Politics was the catalyst. The prime minister plans to dissolve the lower house and call a February election. Takaichi enjoys approval as high as 76% even as her Liberal Democratic Party's support hovers near 35%, making an early vote a calculated risk after recent lost majorities. Restoring the majority would provide her with the national mandate she lacks to push through her fiscally expansive policies.

CHINA: SURPLUS GROWS AS EXPORTS ARE DEVERTED FROM US

China's trade surplus hit a record $1.2tn in 2025 as December exports rose 6.6% year on year and imports climbed 5.7%, capping a year with exports up 5.5% and flat imports. Flows have pivoted from the US toward other markets due to tariffs. Shipments to America fell 20%, cutting the US share of China's exports to 11.1% from 14.7% in 2024. Exports to the EU rose 8.4% and exports to south east Asia increased 13.4%.



The rerouting of Chinese supply supports goods availability but raises trade policy frictions—especially in Europe, which has pressed Beijing to spur domestic demand and open its markets. Beijing attributes the trade imbalance partly to US tech export curbs, while Trump's renewed tariff threats (up to 145%) and a one-year truce after an October summit have kept uncertainty elevated. The record surplus shows China's export strength yet highlights reliance on external demand amid weak consumption and a prolonged property slump. This is an uncomfortable mix for both China's growth model and global trade equilibrium.

Data sourced from FE Analytics and trade data