Weekly Market Brief

AIB Treasury Economic Research Unit

26th – 30th January 2026

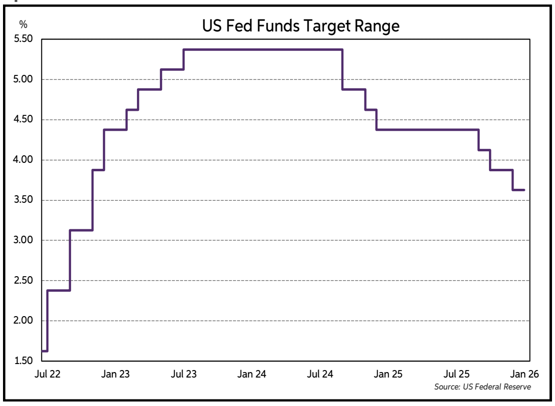
All you can eat TACOs

- **With US equity and treasury markets apparently restraining President Trump's expansionist plans for Greenland, this week's U-turn once again highlights the, so far, singular power of US financial markets in checking his political agenda.** Nonetheless, the reverberations from politics to markets have faded since the initial shock of the Liberation Day tariffs in 2025. Indeed, in the week leading up to the President's Davos speech on January 21st, the benchmark S&P 500 shed about 2.8% of its value, while treasury yields rose 10-15bps across the curve.

- **These moves pale in comparison to the ructions following the Liberation Day tariffs in April 2025.** In the week following those tariff announcements, the S&P 500 lost over 12%, compounding already sharp losses through March, while treasury yields surged c.50-60bps and the dollar fell sharply. Since then, dollar loses have been sustained, but the US 10-year is today trading around 4.3%, compared to a mid-2025 peak of nearly 4.9%. Other recent salvos from the White House, such as the political attacks on Fed Chair Powell, or escalations in tensions with China, and attacks on Iran and Venezuela, have barely registered a blip on US markets.

- **Therefore, while the TACO trade (Trump always chickens out) may have held this week, there are plenty of exceptions to this rule in the first year of Trump 2.0.** Whether investor complacency is now at play, the diminishing market effects from Trump's unorthodox policies could eventually render this TACO narrative moot. **As we have highlighted previously, outside of geopolitics, a key near term risk for markets remains the ongoing tug-of-war between the US Government and the Fed over its independence to set monetary policy.** Indeed, Chair Powell attended a US Supreme Court hearing this week in relation to the US government's case against FOMC member Lisa Cook, whom President Trump is seeking to remove from the Board of Governors. While no decision has been handed down, the arguments heard so far tentatively point to Governor Cook remaining in situ at the Fed. Meanwhile, a US Justice Department investigation into wrongdoing by the US Federal Reserve in relation to a construction project has drawn a sharp rebuke from Powell and former Fed chairs. With a new Chair set to take the reins this year, investors will be questioning their ability to set a course for monetary policy free of political pressure.

- **Also on the legal agenda is an impending Supreme Court decision on President Trump's reciprocal tariffs announced on Liberation Day, with lower courts ruling the tariffs illegal.** Although other avenues can be found to apply tariffs, if both the Fed and tariff cases go against the US government, then legal institutions might yet prove to be a firmer check than markets on the Trump 2.0 agenda in 2026.



- **Turning to the week ahead, the monetary policy spotlight will be on the first Fed meeting of the year.** The Fed cut rates by 25bps at each of its final three meetings of 2025, meaning the Fed funds target range currently stands at 3.50-3.75%. However, there were differing views amongst FOMC officials at the last meeting in December, with Governor Miran voting for a 50bps reduction, while regional Presidents Schmid and Goolsbee preferred to leave rates unchanged. However, remarks from Fed Chair Powell at the December post-meeting press conference suggest that the central bank has a higher bar for further rate cuts this year. Powell noted that the FOMC is "well positioned to wait" before lowering rates again. Furthermore, the December Summary of Economic Projections showed that the median expectation amongst officials is for just one 25bps rate cut this year, albeit the range of forecasts was relatively wide. Hence, futures pricing indicates that the market is of the view that rates will be left unaltered this month. Aside from the decision, the focus will be on the post-meeting press conference with Chair Powell for any guidance on the future path of rates. Currently, markets are pricing in circa 45bps of policy easing this year, albeit the first rate cut is not expected until July. The embattled Chair can also expect to face questions regarding the Fed's independence, given the current administration's attempts to exert political and legal pressure on the central bank.

- **On the data front, the calendar is quiet.** Indeed, in the US, the only release of note will be the Conference Board measure of consumer confidence. Worryingly, it has deteriorated in ten of the last twelve months, including the last five months running. However, a slight improvement to 90.0 from 89.1 is pencilled in for January.

- **In the Eurozone, the main highlight will be the first reading of GDP for Q4.** The consensus is for a modest 0.2% rate of expansion in Q4. If that were to transpire, it would mean that the economy grew by 1.4% last year, up from 0.9% in 2024. Elsewhere in the Eurozone, the unemployment rate reading for December is due. The jobless rate is expected to stay at 6.3%. Meanwhile, regarding some timelier data, the EC sentiment indices are projected to improve moderately in January. In terms of some of the large national economies, the flash estimates of German, French and Spanish HICP inflation for January will feature.

Interest Rate Forecasts

	Current	End Q1 2026	End Q2 2026	End Q3 2026
Fed Funds	3.625	3.625	3.375	3.125
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	3.75	3.75	3.50	3.50
BoJ OCR	0.75	0.75	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

Exchange Rate Forecasts (Mid-Point of Range)

	Current	End Q1 2026	End Q2 2026	End Q3 2026
EUR/USD	1.1747	1.17	1.18	1.18
EUR/GBP	0.8677	0.88	0.88	0.87
EUR/JPY	185.91	179	179	179
GBP/USD	1.3533	1.33	1.34	1.36
USD/JPY	158.23	153	152	152

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 26th - Friday 30th January

Date		*UK & Irish Time (GMT+1)*	*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		**Lagarde** (Tue); Schnabel (Wed); Cipollone (Thu)		
	BoE Speakers:				
	Fed Speakers:		Musalem (Fri)		
Mon 26th	**SPA:**	08:00	Overnight Stays (December)	Dec'24: 18.0m	
	GER:	09:00	Ifo Business Climate (January)	87.6	88.2
	US:	13:30	Durable Goods (November)	-2.2%	+3.0%
			- Ex-Transport	+0.1%	+0.4%
			- Ex-Defence	-1.5%	
Tue 27th	**FRA:**	07:45	INSEE Consumer Confidence (January)	90.0	90.0
	US:	14:00	Case-Shiller House Prices (November)	+0.3% (+1.3%)	(+1.2%)
	US:	15:00	Conference Board Consumer Confidence (Jan)	89.1	90.0
Wed 28th	**GER:**	07:00	Gfk Consumer Sentiment (February)	-26.9	-25.8
	ITA:	09:00	ISTAT Business Confidence (January)	88.4	
	ITA:	09:00	ISTAT Consumer Confidence (January)	96.6	
	IRE:	***11:00***	***Retail Sales (December)***	***+0.5% (+2.5%)***	
	US:	19:00	Fed FOMC Policy Announcement		
			- Fed Funds Target Range	3.50-3.75%	3.50-3.75%
	US:	19:30	Fed FOMC Post-Meeting Press Conference		
Thu 29th	**EU-21:**	09:00	M3 Annual Money Growth (December)	(+3.0%)	(+3.0%)
			- Loans to Households	(+2.9%)	
	US:	13:30	International Trade (November)	-$29.4bn	-$44.6bn
	EU-21:	10:00	EC Business Climate (January)	-0.56	
	EU-21:	10:00	EC Economic Sentiment (January)	96.7	97.0
			Consumer / Industrial / Industrial	-12.4 / -9.0 / 6.0	-12.4 / -8.3 / 6.0
	IRE:	***11:00***	***GDP (Q4 2025: Flash Estimate)***	***-0.3% (+10.8%)***	
	US:	13:30	Initial Jobless Claims (w/e 19th January)	+200,000	+208,000
	JPN:	23:30	CPI Tokyo Inflation (January)	(+2.0%)	
			- Ex-Fresh Food	(+2.3%)	(+2.2%)
	JPN:	23:30	Jobs/Applicants Ratio (December)	1.18	1.20
	JPN:	23:30	Unemployment Rate (December)	2.6%	2.6%
	JPN:	23:30	Industrial Output (December)	-2.7%	-0.4%
	JPN:	23:30	Retail Sales (December)	(+1.0%)	(+0.7%)
Fri 30th	**FRA:**	06:30	GDP (Q4: Preliminary Reading)	+0.5% (+0.9%)	+0.2% (+1.2%)
	FRA:	07:45	Producer Prices (December)	+1.1% (-3.3%)	
	SPA:	08:00	GDP (Q4: Preliminary Reading)	+0.6% (+2.8%)	+0.6%
	SPA:	08:00	Flash HICP Inflation (January)	+0.3% (+3.0%)	(+2.4%)
	GER:	08:55	Unemployment Rate (January)	6.3%	6.3%
	GER:	09:00	GDP (Q4: Preliminary Reading)	+0.0% (+0.3%)	+0.2% (+0.3%)
	ITA:	09:00	GDP (Q4: Preliminary Reading)	+0.1% (+0.6%)	+0.1%
	EU-21:	10:00	GDP (Q4: Preliminary Reading)	+0.3% (+1.4%)	+0.2% (+1.2%)
	EU-21:	10:00	Unemployment Rate (December)	6.3%	6.3%
	ITA:	10:00	Unemployment Rate (December)	5.7%	
	GER:	13:00	Flash HICP Inflation (December)	+0.2% (+2.0%)	-0.2% (+2.0%
	US:	13:30	PPI Final Demand (December)	+0.2% (+3.0%)	+0.2% (+2.7%)
			- Ex-Food & Energy	+0.0% (+3.0%)	+0.2%

♦ *Month-on-month changes (year-on-year shown in brackets)*