

## Weekly Digest

By John Wyn-Evans  
Head of Market Analysis

### Predictably unpredictable

With Greenland on President Trump's bucket list of places to acquire, he's threatened tariffs for any country opposing a "total" purchase. Stock markets are showing some nervousness, but we're hopeful that the "Donroe Doctrine" will be another example of escalation followed by de-escalation.

My wife and I have list of places we want to visit. I've never been to Japan, Australia or New Zealand, which are high on the list. Slightly less mainstream destinations include Guatemala and Costa Rica. One place that does *not* feature is Greenland. And yet, it's jumped to the top of President Donald Trump's bucket list, although in this case he wants to acquire it. This could create all manner of fresh geopolitical and economic disruption.

#### The Greenland transition

The latest increase in tensions relates to Trump's intent to impose new tariffs on eight European countries (including the UK) on 1 February unless and until "a Deal is reached for the Complete and Total purchase of Greenland". These tariffs are a response to those countries participating in military exercises in Greenland, to signal clear opposition to Trump's desire. As a starting

#### Quick take

- Trade and geopolitical tensions are on the rise again amid US 'offer' to buy Greenland.
- Tariff threats could remain just that; geopolitical risks may be more serious.
- For now, we're hopeful a "deal" will be reached to avoid collateral damage.

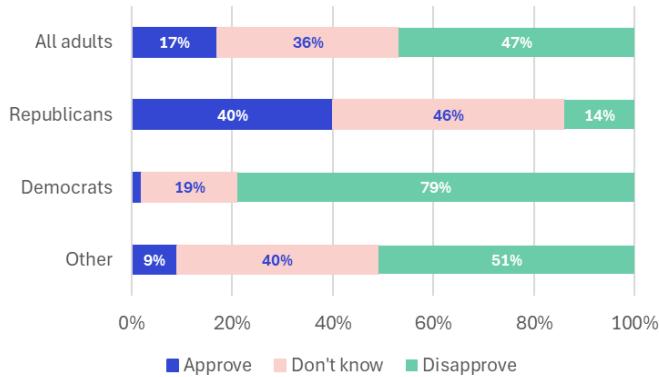
point, the legal basis is unclear. And any attempt to turn to emergency powers, including those under the International Emergency Economic Powers Act (IEEPA), may be constrained by the US Supreme Court. It's due imminently to rule on the legality of the administration's previous reciprocal tariffs, invoked in the name of IEEPA.

The tariffs, if imposed, threaten economic growth in the affected countries, although they could be circumvented by routing trade through neighbouring countries (unless, of course, Trump decides to include the whole EU trading bloc). They also threaten to increase inflation in the US, even if much of the effect of the existing tariffs appears to have been mitigated in supply chains. Europe itself is

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threatening to retaliate with its own tariff package. The economic effects are relatively simple to model, so can be quickly priced in by investors. But the effects would be negative to both sides. Thus, we tend to the view that the situation will be de-escalated.

**Figure 1: What Americans think of Trump's proposed Greenland purchase**



Source: Reuters/Ipsos survey of 1,217 US adults, Jan 12-13

Much more uncertain is the geopolitical fallout. Any attempt by the US to seize Greenland by force or coerce Denmark into ceding the territory would disrupt transatlantic relations to an extreme degree and inflict potentially irreparable damage on Nato. European governments have shown willingness to compromise with the US on trade, defence spending and Ukraine, but sovereignty over Greenland is less negotiable. Denmark's government has no authority to transfer the territory without the consent of Greenland's population.

Even so, Europe would probably be open to wide-ranging concessions. This could include agreement on an expanded military presence, although the US already has ample freedom to keep a sizeable military presence, as it did during the Cold War under a 1951 accord. The agreement could also include access to

minerals. In short, one can envisage a deal that Trump could present as a victory – even if it's largely cosmetic, given the military latitude already given to the US.

### What makes Greenland so desirable

What is it about Greenland that Trump so desires? It's not oil, as was the case with Venezuela, and probably not really about the mineral resources (which would be a mere bonus). The case made is one of "national security", to quote, for example, Treasury Secretary Scott Bessent.

The security situation is best illustrated by looking at the world from above the North Pole. From this perspective, it's clear that Greenland is the buffer that stands between Russia (and China) to the east and the United States to the west. Alarmingly, one map superimposes lines representing the potential routes of intercontinental ballistic missiles, possibly with nuclear warheads attached. Greenland would provide early warning and the potential to stop them as part the US' prospective Golden Dome missile defence system. The other notable aspect is the size and situation of the Arctic Ocean. It's becoming increasingly navigable to both military and commercial vessels and offers a seabed rich in mineral resources.

### The longer view

Looking at the longer-term implications, this all plays into the thesis of the "Donroe Doctrine", as coined by Trump. This echoes the Monroe Doctrine first articulated by President James Monroe in 1823, which holds that the US maintains political dominance over the whole of the Americas, tolerating no external influence. That boundary now extends to the North Pole.

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The other side of this coin represents the concept of ‘spheres of influence’. In today’s world, that would leave Russia and Europe fighting over their slice (we hope not literally), with China the dominant power in the East. Granted, most countries will remain reliant on each other for trade for their mutual economic benefit. But talk of the Monroe Doctrine adds to the evidence that the world has reversed course from its past trend of ever-increasing global integration. That’s something we will have to deal with as ‘business as usual’ under certain current leaderships.

Is there any more positive news? We can take solace from the fact that a Reuters/Ipsos poll has found only 17% of US citizens supporting efforts to acquire Greenland, with 47% against (see figure 1 above). Only 4% approved of using military force – and only 8% even of Republican voters did so.

**Figure 2: US consumer confidence is at a low ebb amid economic uncertainty**



Source: FactSet; 1985=100, as of 20 Jan

Indeed, we’re beginning to see more Republican opposition to several of his latest policies. Some Republican Senators oppose the Department of Justice’s decision to open a criminal investigation against the Chairman of the Federal Reserve, Jerome Powell.

We’ve also heard the odd business leader criticising, for example, the proposed cap on credit card interest rates or the undermining of the independence of the Federal Reserve, although most remain too nervous of retribution to speak up.

### Taking the punch

I wrote in January’s Monthly Digest: “Given President Trump’s fondness for using trade threats as a policy weapon, we can only expect to see more activity on this front in 2026, providing more potential episodes of market volatility.” Perhaps not the most original prediction, but worth repeating because it reminds us that the latest tariff threat should not necessarily come as a great surprise. Indeed, market reaction has been relatively subdued.

By the same token, though, the next sentence was: “His nature also suggests that he will not tolerate much collateral damage to wealth and consumer confidence.” (See figure 2 opposite.) The time one is most likely to diverge from an (investment) plan is in the heat of battle. As the boxer Mike Tyson famously observed: “Everybody has a plan until they get punched in the face”. And so, as risk assets are marked lower, it feels right, at least in the light of what we know so far, to treat this as another episode of escalation to be followed by de-escalation. But it could still get worse before it gets better.

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## Economic highlights

**UK.** November's 0.3% month-on-month (m/m) rebound in GDP, the fastest in five months, suggests the economy is heading into 2026 with a bit more momentum than expected. The monthly pace lifted the growth rate over three months from flat to just positive at 0.1%. But this pace might not be sustained as the economy continues to contend with the lingering drags from high interest rates, higher taxes and weak overseas demand. The main driver of growth in November was the recovery in car production at Jaguar Land Rover following September's cyber-attack, which led to a 25.5% m/m surge in motor vehicles manufacturing. Services activity rose by 0.3% m/m, better than forecast given that the Office for National Statistics had noted that businesses from a range of sectors were awaiting the outcome of the Budget before making spending decisions. A chunk of the 1.3% m/m contraction in construction output could be blamed on unseasonably wet weather, and will probably have been reversed. Even so, strength in information/communications (+1.5% m/m) and professional/ scientific services activity (+1.7% m/m) did little more than reverse the big declines of the past few months. With inflation set to fall to 2%, the Bank of England still has scope to continue cutting interest rates, with the next cut priced in for April or June.

**US.** Inflation was lower than expected in December, with less of a rebound from the mess of government shutdowns. Headline CPI was 2.7% and core CPI (excluding volatile food and energy prices) came in at 2.6%. The underlying data was mixed. There were some notable strong components in the month-on-month breakdowns, including shelter at 0.4% (an annual pace of 3.2%), as lodging away

from home (hotels, etc) surged 2.9% on the month; owners' equivalent rent (the implicit rent that homeowners would have to pay) and actual rent both rose 0.3%. Food jumped 0.7%, apparel rose 0.6% and airfares jumped 5.2%. On the other side of the equation, used vehicle prices fell 1.1% and new vehicle prices were flat. There was nothing in the release to shift interest rate expectations, with no further cuts now expected until June.

**Europe.** The Sentix economic sentiment index for January showed a solid improvement over the previous month. While it is a relatively narrow survey of financial-market respondents, its main value is its timeliness as the first sentiment indicator for the Eurozone each month. The rise bodes well for later surveys such as the ZEW index and the purchasing managers indices. There was also some more tangible evidence of improvement in the Eurozone economy from the strong 0.7% increase in industrial production in November. This means that the industrial sector was a meaningful contributor to GDP growth in the fourth quarter. Of course, progress might yet be derailed by the latest tariff threats.

**China.** GDP grew 5.0% in 2025, meeting authorities' "around 5%" growth target. The pick-up in momentum in the final quarter was due mainly to stronger industrial activity and exports in December, offsetting still-bleak domestic demand. China's exports surged an annualised 6.6% in December, beating expectations of 3.1% growth and accelerating from a 5.9% increase in November. For 2025 as a whole, China's trade surplus expanded to \$1.2 trillion, revealing not only the country's relentless investment in increasingly value-added manufacturing capacity but also the paltry levels of domestic demand.

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