DATE: January 23, 2026
TITLE: **Davos Diplomacy, Dollar Doubts, and the Rising Cost of the Electric Age**

TRANSCRIPT:

Host:
Eric, last week markets were obsessed with geopolitics, gold, and bond yields. This week feels calmer on the surface – equities are higher, volatility has eased. But it doesn't feel like we're back to "business as usual." What's really going on?

Eric:
That's exactly right. The tape looks calmer, but the underlying message is actually more complex – and, in some ways, more interesting.

The big immediate shift came from Davos. Trump effectively walked back the two tail risks that had unnerved markets: the threat of fresh tariffs on Europe and the bizarre escalation over Greenland. By ruling out force and softening the trade rhetoric, he removed what the market feared most – a sudden policy shock.

So equities breathed out. The S&P, the Dow, the Nasdaq all rallied for a second day. Volatility fell. But I'd characterise this less as a new bull leg and more as a pressure valve being released. This was positioning being stress-tested by headlines, not fundamentals suddenly improving.

And that's important, because it tells us something about the regime we're in: valuations are being moved faster by politics than by profits.

Host:
Yet the economic data itself has actually been strong.

Eric:
Very strong. Almost awkwardly strong for anyone hoping for imminent rate cuts.

In the US, jobless claims are still sitting around 200,000 – that's a labour market in "low firing, low hiring" equilibrium. Growth was revised up to 4.4% in Q3. That's the strongest since 2023, and it's being driven by two powerful engines: the consumer and AI-related capex.

That's not an economy crying out for monetary easing. It's an economy that's running hot enough for the Fed to stay patient.

And Europe isn't weak enough to force the ECB's hand either. Consumer confidence is healing, PMIs will tell us more today, but the tone from the ECB minutes is clear: policy is in a "good place," and they're in no rush to cut.

So the global backdrop is one of resilient growth, sticky inflation, and central banks sitting on their hands.

That's a very different world from the "six cuts are coming" narrative of a year ago.

Host:
Asia's central banks are also sending a very deliberate signal.

Eric:
Yes, and it's remarkably consistent.

Japan is moving, but at a glacial pace. The Bank of Japan kept rates at 0.75% with an 8–1 vote. Inflation is easing back toward the mid-2s. PMIs are improving. Long-dated JGB yields have risen, but the message is: no rush, no shock, no Volcker moment.

China, meanwhile, is easing – but quietly. No dramatic rate cuts. Instead, massive liquidity injections, reserve-ratio tweaks, and now another huge MLF operation. It's support, not stimulus. Cushioning, not reflation.

That combination keeps Asian duration supported, but it leaves currencies and equities extremely sensitive to data surprises. There's no policy put that comes with fireworks.

Host:
Let's talk FX, because the dollar story seems to be changing in a subtle but important way.

Eric:
This is one of the most interesting shifts of the year.

Despite strong US data, the dollar has softened. Not collapsed – but it's no longer reacting in a one-directional, "US exceptionalism" way.

The euro is back in the mid-1.17s. Sterling is near 1.35. The yen is still weak around 158, but even there, the upside in dollar-yen feels capped unless the BoJ completely disappoints.

And then you look at gold at record highs, central banks diversifying reserves, and a world where the dollar now weakens on good US data as much as on bad. That tells you something profound:

We are slowly moving out of a world where every global shock meant "buy dollars, sell everything else."

Dollar exceptionalism is eroding. Not collapsing. Eroding.

And that matters enormously for asset allocation in 2026.

Host:
Commodities are also sending mixed but revealing signals.

Eric:

Yes – and the story isn't just geopolitics anymore. When the Greenland and Iran rhetoric cooled, oil fell back sharply. That shows how much of the move was pure risk premium – it can disappear in a heartbeat.

But look at the rest of the complex. Natural gas has surged around 75% in weeks. Some of that is weather and positioning, but the impact is real: higher power costs, squeezed margins, and renewed inflation pressure in energy-intensive sectors.

Copper is even more revealing. Electrification, AI, data centres and grid upgrades are all driving demand, yet supply is being marked down. Freeport cutting its long-term outlook isn't cyclical – it's

structural. And semiconductors tell the same story: Intel beat, but still warned, because AI-driven server demand is outstripping the industry's ability to build capacity fast enough.

Put it together – tight gas, tight copper, chip bottlenecks, and massive capex needs for grids and data centres – and you get one clear message: we're in the age of electricity, and it isn't cheap.

Markets are still pricing parts of the equity world as if the cost of building the future is falling. In reality, the marginal cost of physical capacity is rising. So the next cycle may be less about a classic recession and more about a repricing of real assets and real duration – favouring shorter-duration credit, infrastructure and commodity-linked equities, and a bit less blind faith in ultra-long-duration growth multiples. Not because growth is over, but because growth is getting more expensive to build.

Host:
So if you had to sum up the week in one line?

Eric:
I'd say this:

Markets were calmed by diplomacy, but they were reminded by data, currencies and commodities that we are entering a world of higher geopolitical noise, firmer growth, stickier inflation, and rising real-world capital costs.

The Greenland scare faded.
The rate-cut fantasy continues to fade.
The dollar's dominance is slowly fading.

But the cost of energy, metals, chips and infrastructure is not fading at all.

And that tension – between financial valuations and physical reality – is where the real investment story of 2026 is going to be written.

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