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*February's topic:
„Global economy takes off“*



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Global economy takes off

- Global liquidity trends remain the most important driver for stock markets, the economy and, consequently, commodity prices, inflation and long-term government bond yields.
- The momentum of global liquidity is currently slowing significantly. And liquidity is increasingly flowing from the financial markets into the real economy.
- Accordingly, headwinds are to be expected on global equity markets, while at the same time the economy is likely to find support.

Overall economic situation

The global economy is increasingly benefiting from the strong liquidity generation of the Chinese central bank and the US Treasury. This is because these funds are not flowing into the stock markets, but directly into the real economy via increased government spending. The sharp rise in government debt, particularly in the US, Europe and China, is providing additional growth impetus for the commodity markets, albeit with a significantly increased risk of inflation in the medium term.

Recent developments: Liquidity is being reallocated

- The most significant development for the global financial system at present is an increasing shift in financial market liquidity towards the real economy. In the United States in particular, monetary stimulus is shifting away from the Fed and towards the US Treasury. The increasing financing of rapidly rising government spending via short-term T-bills rather than T-bonds is monetising government debt. T-bills are money-like instruments and facilitate debt financing without pushing up interest rates. In this way, the US Treasury is taking over the Fed's monetary policy tasks while also supporting the economy.
- However, the Chinese central bank has also been massively increasing liquidity for some time in order to strengthen the domestic economy and real estate markets. These funds are also flowing into the real economy (indirectly also globally) and less into the stock markets. The current sharp rise in copper and silver prices confirms this.
- The momentum of financial market liquidity is thus declining globally. Money is flowing into the real economy and is therefore lacking in the stock markets. However, there are strong regional differences here. The US has already passed the peak of its financial market liquidity cycle. Europe and the emerging markets are still in an upswing, while China is at the beginning of a new cycle.

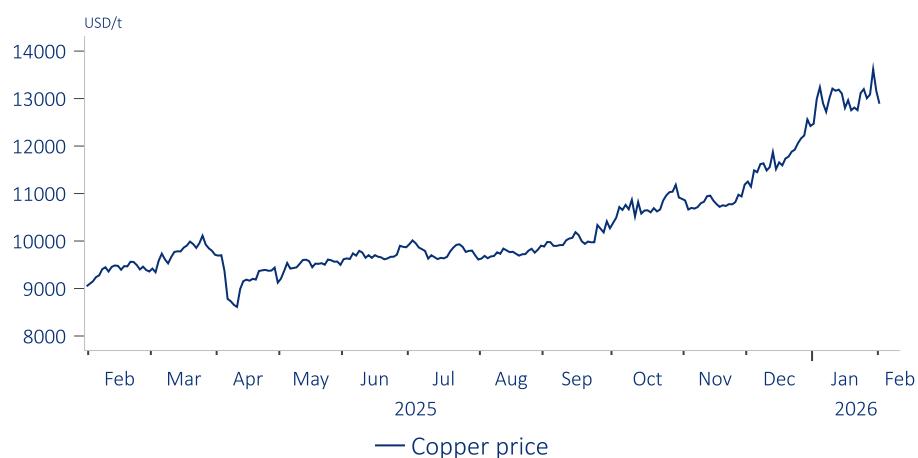
➲ On the radar: Massive speculation in US Treasuries (page 6)

Overview & outlook: China supports the economy

- The aforementioned global outflow of financial market liquidity into the real economy could lead to a lack of oxygen on the stock markets in the foreseeable future. At the same time, however, this benefits the global economy and thus also commodity prices. This means that a strong economy in itself is not a reason for rising share prices, but rather the exact opposite.
- The resulting acceleration in economic growth would then require additional liquidity, further exacerbating the lack of oxygen on the stock markets. There is therefore a risk of a self-reinforcing feedback loop.
- Solid global growth and rising commodity prices are also creating inflationary pressure in the medium term and thus upward pressure on yields on long-term government bonds, particularly in the US, but also in Europe and China. Yield curves are therefore likely to steepen. Continued sharp rises in government debt and further interest rate cuts by the Fed in the foreseeable future would be additional drivers of this trend.
- However, the Chinese central bank is likely to significantly increase its liquidity injections in the coming months in order to offset the negative effects of the harsher global trade climate and to support the domestic economy and real estate markets. This means that the outlook for the stock markets in China is also better overall than in the United States.
- Current estimates for economic growth in the US and Europe already confirm a clear upward trend. GDPNow for the fourth quarter of 2025 currently stands at a strong 4.2%.
- The current sharp rise in copper, gold and silver prices also points to increasingly robust global economic growth and potential inflationary risks.

» China's central bank increases liquidity – good for copper, gold & silver

Chart: Copper price signals strong demand from the economy



Sources: Macrobond, Fisch Asset Management

Positioning: The positive trends are still holding up for now

- As current global liquidity flows and rising government debt are leading to stronger economic growth, demand for raw materials, particularly copper, is expected to increase. At the same time, however, this is also creating inflationary pressure and thus upward pressure on both long-term government bond yields and precious metals.
- The sharp rise in gold and silver prices and the recent increase in long-term government bond yields in the US and especially in Japan confirm these expectations. The 'basis trade' on the US Treasury market and the 'yen carry trade' are also very dangerous here. Both are huge hedge fund speculations that could potentially trigger further upward pressure at the long end of the yield curves in the US and Japan – and indirectly in Europe as well. Accordingly, a neutral to slightly lower duration appears sensible.
- The shift of financial market liquidity into the real economy poses a potential threat to stock markets, particularly in the US. Weakening Mag7 and Bitcoin prices currently confirm this outflow of liquidity. High valuations are an additional burden. In this environment, it is advisable to shift direct equity exposure into convertible bonds in order to benefit from an asymmetric risk/return profile and an attractive sector allocation. For the time being, the positive trends on the global stock markets are likely to continue. However, the air is getting thinner.
- Corporate bonds are benefiting from solid global economic development, even if long-term government bond yields rise. It is entirely possible that a rise in yields will be offset by a simultaneous fall in credit spreads.
- If, in addition, the above-mentioned unwinding of the yen carry trade occurs on a larger scale, this could lead to capital outflows from the US to Japan and strengthen the yen against the US dollar.

Return drivers	US	Europe	Japan	Asia ex-Japan	LatAm	CEEMEA	
Equities	o	+	+	+	o	o	
Gov. Bonds	o	o	-				
Credit IG (Spreads)	o	o		o	+	+	
Credit HY (Spreads)	+	+		o	+	o	
<i>Total return</i>							
Convertibles	o	+	o	+			
Credit IG	+	+		+	+	+	
Credit HY	+	+		+	+	+	
<i>Commodities</i>							
	PrecMet	InduMet	Energy				
	+	+	o				

Key:

- ++ Strong positive market
- + Positive market
- o Neutral
- Negative market
- Strong negative market

Notes regarding the table: The table summarises the model results for the total return of convertible bonds and credit investment grade and high yield, which are a function of the listed return drivers. Changes from prior month are indicated with \downarrow or \uparrow , i.e. "o \downarrow " means that the output has weakened from a prior value of + or ++. The methodology for calculating model outputs, and how the various pieces fit together to form the big picture, is explained [here](#). Within government bonds, we take German Bunds into account for Europe.

Cross asset class preferences

This table combines top-down views with bottom-up analysis at the portfolio level.

	Most preferred	Least preferred
Convertible Bonds	<ul style="list-style-type: none"> – Software (Cybersecurity) – Semiconductor (AI-related) – Healthcare – CBs with high convexity – Bond-like CBs with quality credits and attractive yields – Balanced deep investment grade Chinese tech with high convexity 	<ul style="list-style-type: none"> – Consumer discretionary – Unprofitable, early stage, expensively valued IT and biotech – Weak credit quality and/or liquidity – Cryptocurrency-related names
Global IG Corporates	<ul style="list-style-type: none"> – Healthcare, financials, autos – EUR-denominated issues – BBB-rated bonds 	<ul style="list-style-type: none"> – US utilities, transportation, energy – GBP- and CAD-denominated issues – A-rated bonds
Global Corporates	<ul style="list-style-type: none"> – Healthcare, financials, autos – BBB and BB-rated bonds – Western Europe 	<ul style="list-style-type: none"> – US utilities, transportation, chemicals – AAA-rated bonds – Asia
Global High Yield	<ul style="list-style-type: none"> – Capital goods – Health care – Telecommunications 	<ul style="list-style-type: none"> – Transportation – Financial services – Insurance
Emerging Markets - Defensive	<ul style="list-style-type: none"> – LatAm (Mexico, Brasil), Eastern Europe, Saudi Arabia – Utilities, supranationals – Maturities 7-10 years 	<ul style="list-style-type: none"> – Asia (India, Hong Kong) – Industrials
Emerging Markets - Dynamic	<ul style="list-style-type: none"> – LatAm (Mexico, Brazil, Colombia), Eastern Europe – BB-rated bonds – Utilities, supranationals, metals & mining (esp. precious metals) 	<ul style="list-style-type: none"> – Asia, Middle East IG – Investment grade maturities < 3 years

Note: Preferred sectors/regions may differ between asset classes owing to respective performance drivers. In particular, equity exposure is the key performance driver for convertible bonds and is not relevant for corporate bonds.

On the radar: Massive speculation in US Treasuries

Two huge speculative trades are currently having an increasingly dangerous impact on the US government bond market. On the one hand, the so-called 'US basis trade' is causing alarm at the US Federal Reserve. Hedge funds have now invested around USD 1,500 billion in US government bonds (long position as 'basis'), financed by borrowing, and at the same time sold them again on the futures market (short position as price hedging). This results in a minimal arbitrage profit in the range of two to three basis points, which is why huge amounts have to be invested in order to generate significant returns. However, deviations between the underlying value and futures prices can occur at any time, which would force the transactions to be unwound due to margin calls. This would then require large volumes of US Treasuries to be sold on the market.

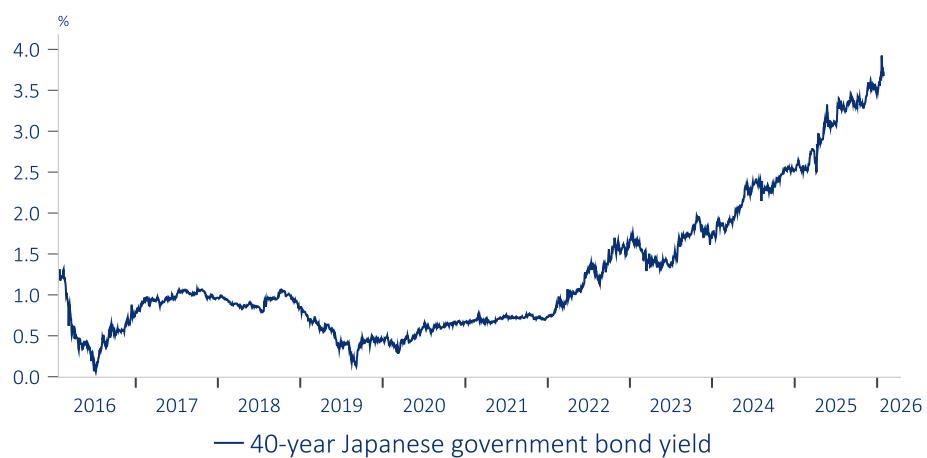
On the other hand, huge sums are also invested in US Treasuries in the 'yen carry trade', which is financed by cheap yen loans. As long as the US dollar remains stable or rises against the yen, everything is fine. Otherwise, large positions will also have to be liquidated at a certain point.

Overall, these two trades contribute to further monetary inflation in the global financial system and reinforce the expansionary effect of rising fiscal debt, the monetisation of government debt and expansionary central bank policy.

Overall, the global stock and government bond markets are thus built on an unsustainable foundation. This may hold for a while longer, but even minor negative surprises in inflation or US dollar exchange rate developments are likely to cause problems. Similarly, a further rise in yields on long-term Japanese government bonds would be very risky for the financial markets.

» The global financial system is being monetarily inflated

Chart: Rising risk from Japan's long-term bond yields



Sources: Macrobond, Fisch Asset Management

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