

# NORDKINN

— ASSET MANAGEMENT —

## Market Review & Outlook

January 2026

Addressed to Nordkinn's followers on LinkedIn for informational purposes

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# Market overview

## Global review

January 2026 was marked by high volatility following a mix of grave policy uncertainty, tariff headlines, and cross-market rate spillovers. Other than historical movements within precious metals, the turbulence had impacts particularly on the FX markets.

On geopolitics and trade, Donald Trump publicly threatened to impose import tariffs on several European and NATO allies unless they agreed to U.S. control over Greenland. However, following meetings with Mark Rutte, Trump announced that the planned tariffs would be cancelled, as the administration was satisfied with gaining improved access to Greenland. In its absurdity, financial markets reacted negatively to the initial threats and positively to the subsequent reversal.

The threat of military action or punitive tariffs against a NATO country fed directly into the month's defining FX theme: Broad-based USD weakness. The USD slid to multi-year lows late in the month as investors reassessed the fiscal, political, and valuation risks of holding unhedged USD assets. Legal charges against Fed Chair Powell reignited concerns about monetary policy independence. While there were reports of Scandinavian investors reducing exposure to U.S. Treasuries, we did not observe broad-based selling by non-U.S. investors. Similarly, although increased FX hedging of USD assets appears sensible, it has not yet been reflected in flow data or in higher premia to borrow USD in the FX swap market. By contrast, we have seen demand from U.S. investors for non-USD assets, which likely explains part of the USD decline.

In rates markets, long-end steepening was heavily influenced by Japan. A sharp repricing of ultra-long JGBs—amplified by the prospect of additional fiscal spending following the snap election and weaker auction demand—raised concerns about Japan's debt trajectory and increased the likelihood of Japanese investor repatriation from the U.S. and Europe. This triggered a surge in global term premia, with Japan acting as a key swing factor for long-duration assets in the U.S. and Europe.

Meanwhile, U.S. macro signals were mixed: resilient activity contrasted against softer confidence indicators. This kept the front-end sensitive to shifts in the perceived Fed reaction function, while the long-end traded increasingly on fiscal and policy risks, as well as global supply-demand dynamics, rather than on individual data releases.

Our theme *"Global: Sovereign risk premia and fiscal divergence"* had a limited net impact on fund performance, as gains from short positions in JGBs and U.S. Treasuries versus long German Bunds were offset by losses from long UK rates and exposure to the U.S. money-market curve.

## Nordic review

Swedish market rates fell in January, led by the short-end of the curve following significantly lower-than-expected December inflation. Core CPI slowed to 2.3%, around 0.3 percentage points below both the Riksbank's projection and consensus expectations. While the volatile GDP indicator surprised on the downside in Q4, survey-based indicators such as the NIER and PMI surveys remained relatively resilient. As expected, the Riksbank left its key policy rate unchanged at 1.75%.

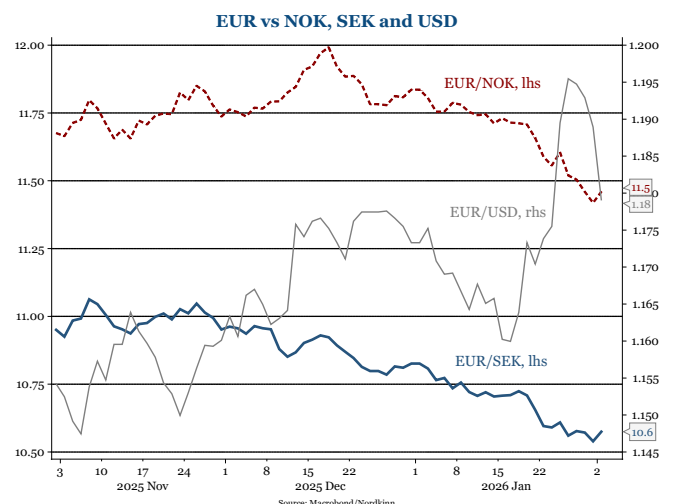
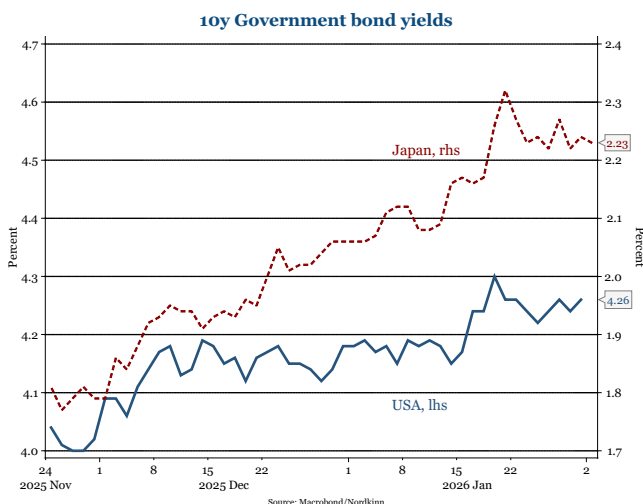
The combination of a constructive growth outlook on the one hand, and falling inflation alongside SEK appreciation on the other, contributed to a progressively steeper yield curve during the month. In addition, a sharp increase in Swedish government bond supply exerted upward pressure on longer-term yields.

Lower short-term rates and steeper money-market curves significantly benefited our *"Sweden Road to recovery"* theme. Moreover, the *"Bond supply set to expand"* theme performed strongly due to the relative underperformance of longer-dated Swedish government bonds against swaps and covered bonds. The theme *"Return of the inflation hedge"* also made a marginal positive contribution following the low inflation print.

In Norway, core inflation rose to 3.1% in December, slightly above both Norges Bank's and consensus forecasts of 3.0%. The labour market remained firm, with registered unemployment at 2.1%, marginally below the central bank's projection.

With inflation still sticky well above the 2% target and unemployment remaining low, Norges Bank decided on January 22<sup>nd</sup> to keep the policy rate unchanged at 4.00%, reiterating that it is in no hurry to cut rates further. Expected future policy rates rose slightly over the month, hence the theme *"Norway: Path to policy easing"* subtracted modestly from fund performance in January. The theme *"Norway: Lags in yield and curve dynamics"* was marginally positive on net basis, largely reflecting gains from active trading in longer-term NOK rates and curves.

Meanwhile, both the NOK and the SEK appreciated markedly, largely reflecting broad-based USD weakness as investors in a reflationary manner rotated away from the U.S. toward other regions, supporting risky assets and commodity prices. We view domestic factors as less decisive, although stronger growth supports the SEK, while positive carry and petroleum fund-related flows underpin the NOK. Our long NOK FX exposures are held within the *"Tactical risk reward trading"* theme and contributed meaningfully to the performance in January.



# Outlook

## Global outlook

The prolonged process of appointing a new Fed Chair concluded at the end of January with the selection of former Fed Governor Kevin Warsh. During his time on the Board 2006–2011, Warsh was widely viewed as a hawk, but more recently he has argued for further rate cuts. He has also been outspoken—both during and after his tenure at the Fed—about the expanding scope of monetary policy, particularly the use of large-scale quantitative easing. We view the appointment of Warsh, rather than alternatives such as Hasset, as a clear positive for Fed independence. The new Chair is likely to lean more dovish than Jerome Powell, and his ambition to overhaul and reduce the Fed’s balance sheet will successively affect longer term expectations of both short-term and long-term U.S. yields.

Beyond politics, the U.S. economic outlook remains that of a K-shaped recovery: Households at the upper end of the wealth distribution continues to be supported by a strong equity market, while households at the lower end are constrained by high prices and a sluggish labour market. We expect this divergence to persist, generating conflicting macro signals—robust consumer spending alongside weak hiring and subdued consumer confidence. In this environment, higher prices resulting from tariffs are unlikely to translate into sustained wage or inflation pressures, potentially leaving room for somewhat lower policy rates from the Fed.

In Europe, we are still awaiting the full impact of increased fiscal spending on infrastructure and defence, while wage growth continues to moderate. A stronger EUR increases the risk of downside inflation surprises in 2026. Should demand weaken again, the ECB may consider further rate cuts to keep inflation close to its 2% medium-term target.

The UK outlook remains challenging and bleak, with fiscal tightening likely to weigh on an already fragile economy. As a result, we expect wage and price pressures to ease, allowing the Bank of England to continue cutting rates toward 3% in 2026, a backdrop that favours lower front-end UK bond yields.

Finally, we believe the investment theme of gradually rotating away from the U.S. will persist, with investors increasingly hedging their USD asset exposure. This will contribute to continued USD weakness. At the same time, concerns over fiscal expansion across many economies are likely to push term premia on long-dated bonds higher, resulting in steadily steeper yield curves.

## Nordic outlook

Although Swedish flash GDP slowed markedly in Q4, we expect the economic recovery to persist in 2026, supported by household consumption and expansionary fiscal policy. However, this improving macro backdrop is unlikely to translate into inflationary pressures in the near term.

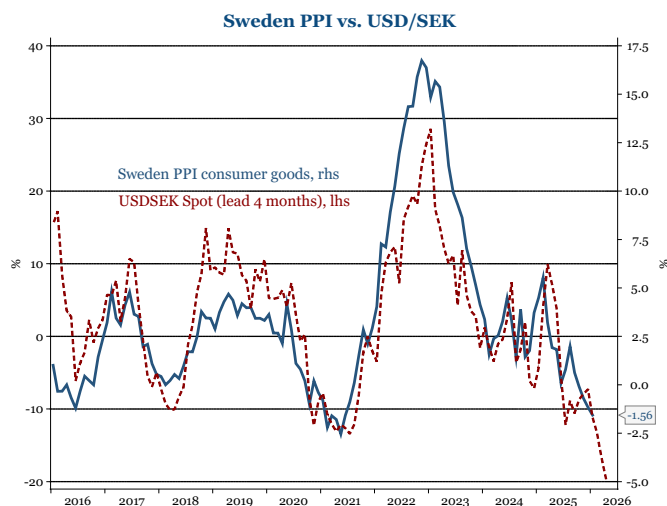
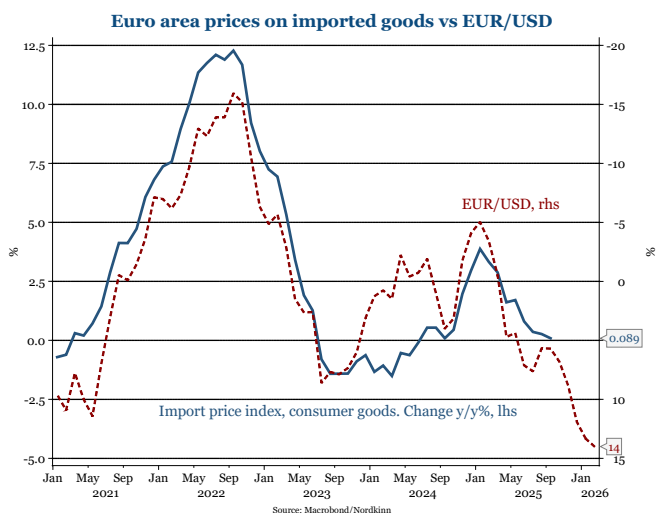
On the contrary, against a backdrop of very soft inflation momentum, contained wage growth, and a significant appreciation of the SEK, we expect underlying inflation to remain subdued throughout 2026. Importantly, this assessment holds even when abstracting from the well-understood halving of VAT on food prices from April 1<sup>st</sup>. As a result, the inflation outlook skews risks to the downside for the Riksbank policy rate in 2026. We expect this downside bias to become increasingly reflected in market pricing going forward.

At the same time, the combination of improving growth prospects and elevated government bond supply is likely to exert persistent pressure on Swedish government bond valuations, creating favourable conditions for further yield-curve steepening.

In Norway, inflation is likely to remain stickier. Elevated wage growth, combined with an economy operating close to full capacity, continues to exert upward pressure on domestically generated inflation. In addition, we expect rents to contribute positively to underlying inflation throughout 2026.

By contrast, imported inflation should ease. Lagged effects from lower commodity prices on food, softer international export prices for consumer goods, and—assuming the recent appreciation of the NOK persists as we expect—lower import prices should all contribute to disinflation. In this respect, the experience from the impact of a stronger SEK on Swedish consumer prices in 2025 appears highly relevant.

Overall, we expect Norwegian underlying CPI inflation to ease gradually during 2026. While inflation is unlikely to fall all the way to the 2.0% target, continued progress should allow the Norges Bank to cut its policy rate to 3.75% in June, followed by additional easing in the second half of the year. With markets pricing less than a 50% probability of a summer rate cut and very limited easing thereafter into 2027, we see relative value in receiving NOK rates at current levels.



# About Nordkinn

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Our focus is to generate stable absolute returns that exhibit low correlation to other assets. Our Nordkinn Fixed Income Macro Fund was launched in 2013.

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