Market2Market

A forward view of the global economy and financial markets

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Greenland in the news

"I was the toast of two countries: Greenland and Australia".
Dorothy Parker: American poet and writer

Source: Wikipedia

Donald Trump has made some dramatic statements regarding what he is going to do as President over the next four years. Imposing tariffs on imported goods and stopping refugee admissions into the USA are just two of them. The policy that caught my eye was his stated aim of acquiring Greenland for reasons of national security. This would not be the first time the US has occupied Greenland, it did so in World War II in order to defend against an invasion by Germany. It is a little-known fact that the Danish Sirius Patrol, which guarded the north eastern shores of Greenland using dog sleighs during the war, discovered a number of German weather stations. American troops stationed on Greenland were alerted and they destroyed the facilities.

In 1945 Greenland returned to Danish sovereignty and in 1946 the United States offered to purchase Greenland for $100,000,000 which in todays terms is about $1.618 billion. Denmark declined the offer. Since 2009 Greenland has been governed on a basis of an autonomous territory meaning it is self ruling with responsibility for its own judicial affairs, policing and control of natural resources. Greenlanders were also recognised as a separate people under international law. However, Denmark remained in control of the territory's foreign affairs and military policy while granting 3.2billion Danish Krone to the territory every year. Greenland has a Parliament which consists of 31 representatives and the premier usually comes from the majority party which is currently the Inuit Community Party.

Donald Trump first showed an interest in Greenland in 2019. His renewed interest now almost certainly comes from the territories vast mineral wealth and its strategic military importance. The US has had a missile early warning system and a radio communications site there since the 1950's. In 2020 the Thule Air Force Base, which is 750 miles north of the Arctic Circle, was transferred to the US Space Force and renamed the Pituffik Base in 2023.

Trump's proposed tariffs on Denmark and his interest in buying Greenland have concentrated the minds of the Danish government, who may now agree to Greenland receiving full independence. This would be of great concern to the US, especially as China has already tried to gain access to the territory's rare earth minerals which are so essential to the defence and technology industries. When an Australian company, Energy Transition Minerals, was granted a mining lease in 2016, a Chinese company, Shenghe Resources, immediately took a major stake in Energy Transition Minerals. Denmark, the European Union and the USA stepped in to block this move. In 2021 the Greenland parliament banned all uranium mining putting a stop to the project for the time being. Greenland's government also banned any further oil and gas activity.

China's interest in Greenland has also seen it offer to buy an abandoned Danish naval base in the northeast of the territory and the Chinese Academy of Sciences asked if it could build a permanent research centre and ground station near the capital Nuuk. The China Communications Construction Company Ltd put in a bid to build two airports on the Island. At the time the Trump administration made it clear to Denmark and Greenland's government that a Chinese presence in Greenland was unacceptable and they duly complied.

The political situation will change if Greenland becomes an independent country and needs to harness its mineral riches. The US will not tolerate either China or Russia establishing a presence in Greenland or benefiting from the extraction of the mineral wealth. President Trump is deadly serious about buying Greenland or negotiating a treaty which would ensure that Greenland is aligned with the US and not China or Russia. I believe that the Trump administration will act sooner rather than later and I do not doubt that President Trump would deploy his armed forces to ensure that Greenland does not fall into the political orbit of China or Russia.

Richard Harper
Head of Asset Allocation
GHC Capital Markets Limited

Asset Allocation

In which **Tim Harris**, the Chair of our Asset Allocation Committee, describes the factors influencing our latest Asset Allocation decisions

1. 2025: Mounting Government Indebtedness

While the initial sell-off in US government debt was driven by stubborn inflation and the Federal Reserve's reluctance to cut interest rates aggressively, the recent sell-off – and resulting rise in yields – reflects growing concerns about the sustainability of government debt and its servicing costs. According to the Congressional Budget Office, US government debt levels are surging. Despite this, the incoming president plans to implement tax cuts, hoping that these cuts will spur economic growth, and, over time, help reduce the deficit. However, this approach carries significant risks of distorting the inflation environment. **In the 1990s, when US inflation averaged around 2.7%, the 10-year Treasury yield reached as high as 6%.** At that time, the US government debt-to-GDP ratio was only half of what it is today. The US now faces an undesirable combination of persistently high inflation and record levels of government debt, highlighting the challenges ahead for both policymakers and markets.

In Europe, attempts to cut deficits have led to the fall of governments and caused political turmoil in France and Germany, two of the important EU constituents. To further complicate matters, the UK is facing a crisis of confidence in the gilt market. The experience of the UK in the past few weeks has shown what can happen when the market loses confidence in the government's ability to rein in indebtedness. Since the last Budget, the UK 10-year gilt yield has risen 50 basis points, which would increase the interest burden on government funding and affect the real estate market through higher mortgage rates.

2. A Year of Disruption?

President Donald Trump has a list of one hundred executive orders that he intends to implement after his inauguration. These orders may address Trump's key pre-election promises such as immigration, energy policy, trade, and federal governance. Many of these executive actions, particularly those concerning immigration and federal workforce restructuring will face legal challenges, potentially delaying their implementation. Furthermore, the proposed tariffs could lead to increased consumer prices and potential trade wars, affecting both domestic and international markets. Mass deportations may result in labour shortages in industries reliant on undocumented workers, further affecting the economy.

3. The Tech Sector Needs a Supply of Positive Surprises

The NASDAQ index has struggled to gain momentum so far this year. While the technology sector will remain a crucial driver of long-term equity market returns, the index's upside potential is limited without a meaningful profit growth. Over the next two years, analysts project Nvidia's revenues to grow at an impressive 100% annually. However, the broader picture is less optimistic, with the aggregate revenue growth of the MAG7 — which accounts for the bulk of the sector's earnings — forecast at 15% annually. Apple's average revenue growth over the same period is expected to be a more modest 7%. As a reality check, there may be many years of wait before quantum computing becomes mainstream.

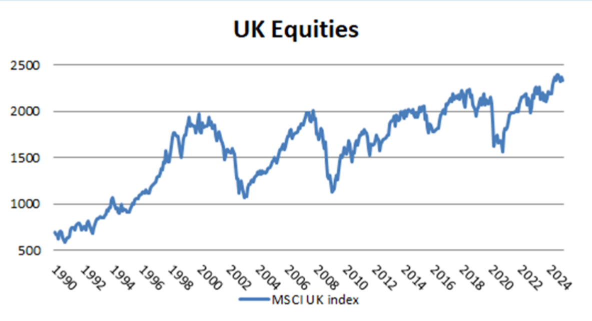
4. The High Valuation of the US Equity Market is not a Problem until it is a Problem

The US equity market, with its elevated valuations, appears vulnerable unless the newly elected president can instill confidence in the coming months. While the renewal of tax cuts could provide hope for spurring additional economic growth, bond market participants — often referred to as "bond vigilantes" — remain cautious. They worry that such cuts may worsen the national debt and push long-term interest rates higher. **Following the election results in early November, the yield on the 10-year US Treasury was 4.30%; today, it hovers closer to 4.80%.** Any proposed tax cuts are likely to face delays, as the president will need to negotiate with Congress on the specifics. While deregulation could offer targeted support to certain sectors, it is unlikely to ignite a broad market rally. Although Trump may attempt to promote a positive narrative, persistent concerns in the bond market could weigh on equities. Given the forward price-to-earnings multiple of 24.6x, the US equity market appears susceptible to profit-taking if investor sentiment deteriorates.

5. Asia and the Emerging Markets Remain the Great Hope for 2025 Positive Surprises

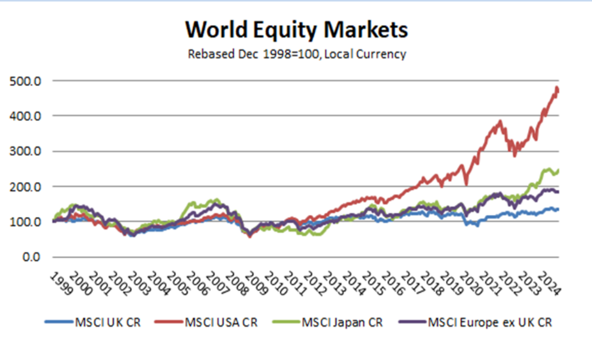
With the US and European markets grappling with government debt challenges, medium-term hopes for strong returns are focused on emerging markets. Indian equities ended 2024 with solid, though not stellar, returns, while Chinese equities posted double-digit gains amid a backdrop of high volatility and erratic macroeconomic performance. We are optimistic for Japan in 2025 and, expect the Indian economy to regain momentum after a brief pause. Latin America could also surprise to the upside, particularly if the region's commodity markets recover and drive growth. We expect the Emerging Markets to contribute the majority of global GDP growth over the next decade, and their financial markets are well-positioned to deliver increasing returns as they continue to mature and attract global capital.

Markets at a Glance



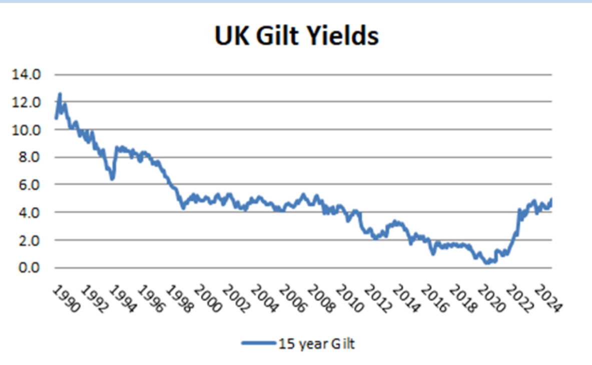
Source: Lipper for Investment Management

UK economic data remain lacklustre and sentiment since the October budget has been especially weak. The rise in the employer NI rate, the lower threshold to pay NI, and the rise in the minimum wage have all added to the cost of staff, and increasingly corporates have signaled a desire to reduce headcounts, increase prices or reduce other costs. The decline in the employment component of the PMI data has been far bigger in the UK than elsewhere. Whereas the US equity market is priced for perfection and is arguably vulnerable to any adverse shock, the UK equity market has seen large outflows in recent years and trades on historically low valuations. The FTSE 250 is especially cheap versus history.



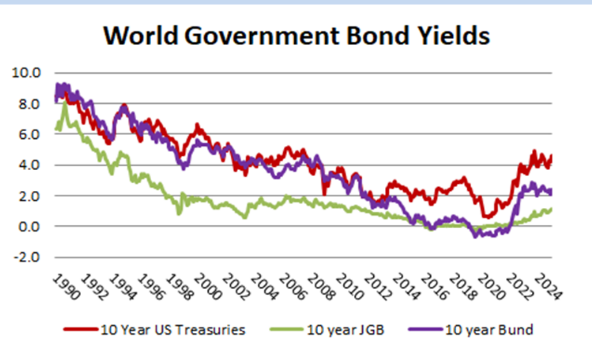
Source: Lipper for Investment Management

The macro backdrop is favourable for equities as we enter 2025, but is complicated by three main factors. First, the speed of the recent rises in stock prices has reflected much of the good news that we are expecting on growth. Second, high valuations are likely to limit forward returns. Third, unusually high market concentration of stocks (e.g. the Mag 7) increases portfolio risks. We expect positive returns through the year but see higher risks of a correction if any near term growth disappointments.



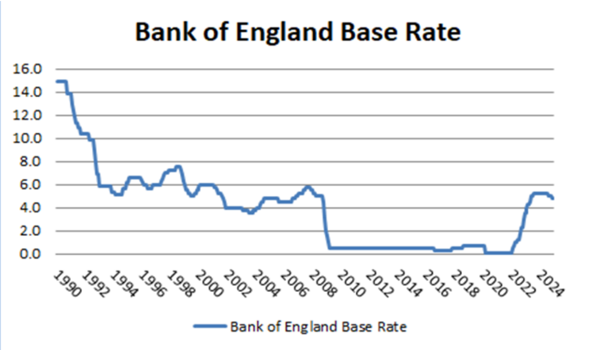
Source: Lipper for Investment Management

The latest rise in UK yields accelerated the move that started back in September. Gilts initially sold off into the October budget, then continued following the US election. Much of this sell-off was idiosyncratic to the UK, and represented a large increase in term premium compared with other major bond markets. Despite this, ongoing progress on underlying inflation and gradual rate cuts from the BoE will serve to anchor the Gilt curve, and ease digestion of elevated Gilt supply, especially in the context of a reduction in the pace of BoE Gilt sales.



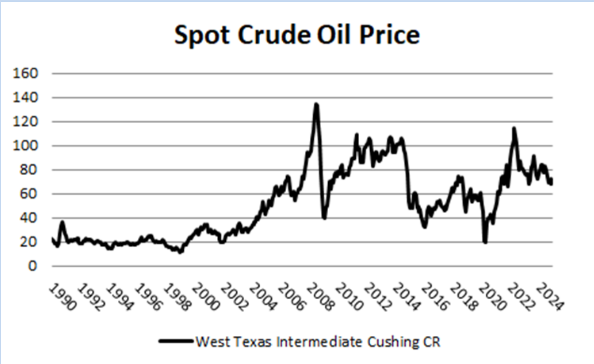
Source: Infront

The Republican electoral sweep points to significant US policy change in areas such as tariffs, fiscal plans and domestic regulation. While the initial sell-off in US government debt was driven by stubborn inflation and the Federal Reserve's reluctance to cut interest rates aggressively, the recent sell-off – and resulting rise in yields – reflects growing concerns about the sustainability of government debt and its servicing costs. The US faces an undesirable combination of persistently high inflation and record levels of government debt, highlighting the challenges ahead for both policymakers and markets. In Europe, attempts to cut deficits have caused political turmoil in France and Germany, two of the important EU constituents.



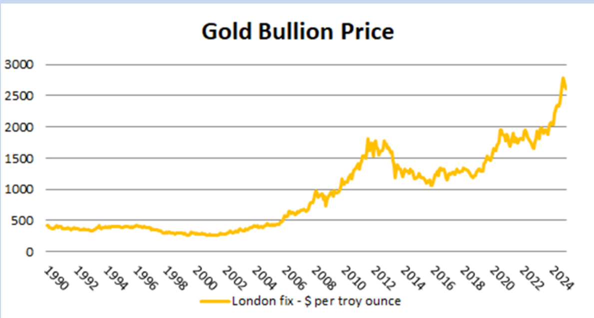
Source: Lipper for Investment Management

Despite a surprise downward print in December CPI to 2.5%, we think that headline inflation will rise to 3.3% in the second half of 2025, as services inflation remains above target levels and energy inflation moves back into positive territory, before declining to 2.8% in 2025Q4. While we expect the Monetary Policy Committee to look through the weakness in airfares prices, the deceleration in underlying services inflation and activity measures reinforces our view that the Committee is likely to cut Bank Rate in February.



Source: Lipper for Investment Management

The Brent crude price has rallied to $81/barrel in the New Year, as the US announced its broadest and strictest sanctions on the Russian oil sector yet. We forecast the Brent price will average $85/barrel in 2025, given tighter supply in the medium term. The possibility for Russian oil to incentivize a dynamic fleet to keep shipping, high uncertainty over the incoming US administration policies, and ample OPEC+ spare capacity that is likely to offset potential longer-term supply disruptions may keep a cap on the oil price.



Source: Lipper for Investment Management

Lower speculative demand and structurally higher central bank buying have effectively offset each other, keeping gold prices range-bound over the past few months. Extreme speculative demand ahead of the US election has moderated towards its long-run average, as perceived uncertainty declined. ETF demand has also grown less than expected following the reduction in uncertainty. In contrast, central bank demand has provided steady support and since the 2022 freeze of Russian central bank assets, central bank and other institutional demand on the London OTC market has increased fivefold. These factors should support the gold price.

Note that where an MSCI Index has been used for illustration. This has been sourced with permission from MSCI Inc.

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