

## 2026 looks as if it will be a brutal year

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As the FT [notes this morning](#):

*The governor of the Bank of England has warned there are “substantial risks” of spillovers to UK financial markets from Donald Trump’s attacks on the independence of the Federal Reserve and his threat to annex Greenland.*

*Andrew Bailey told an influential committee of MPs on Tuesday that BoE officials “worry considerably” about how financial markets will react to rising geopolitical tensions and what impact this will have on the UK financial system.*

For once, Andrew Bailey and I are in agreement.

In fact, the S&P 500, the nearest US equivalent to our UK-based FTSE 100, fell by 2 per cent yesterday, reflecting market concern over what Trump is proposing, a move that will definitely not please him. I suspect this will get worse, as dumping US shares is, in many ways, easier than dumping US bonds, though there are signs this is happening as well.

And Bailey is right: the US's financial markets are heavily exposed to what Trump is doing. There are a few obvious upsides for them:

- \* The US is not planning to use weapons to secure the occupation of the countries it wishes to annex: there is little or no domestic boost for the defence industry as a result.
- \* The rest of the world is clearly going to be avoiding US weaponry from now on. That will weigh heavily on US stock market sentiment.
- \* Anti-US sentiment is going to be running high, and not just in the Danish Treasury. Portfolios will begin to be restructured to reflect this.
- \* The restructuring is rational: the US is at war with itself, quite literally, and Trump is not taking the US public with him on his escapades, meaning a domestic downturn is very likely as consumers cease spending in response to fear. As Keynes would have put it, the animal spirits are low in the US, and likely to turn down sharply. The paradox of

thrift is likely to emerge, leading to a recession.

- \* In this environment, investment in AI is likely to fall, and its share price bubble might well burst.
- \* A major US stock market downturn is quite possible in that case, with serious ramifications elsewhere.

How likely is that sequence of events? Much more likely than it was last week.

I do not deny that I have been forecasting this downturn for a while. What was, however, always required was a tipping point. Sentiment over Trump's irrational behaviour might well provide that. Along with all the other reasons for concern that we might have, this one needs to be on the table as well.

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