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Morning Briefing

On The Latest Geopolitical Consequences Of Donald Trump

Executive Summary: The EU finally inked a long-sought trade deal with a bloc of South American countries the very day that Trump slapped additional tariffs on EU countries opposing the US's purchase of Greenland. William explains why the South American deal is a huge boon for Europe. ... He also discusses geopolitical fallout from Trump's move on Venezuela, including how it impedes China's ambitions in South America, may ramp up China's efforts to take over Taiwan, and may threaten the US-China trade talks.

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Global Trade I: Europe & South America Cut a Trade Deal. Free trade got a new lease on life on Saturday as the European Union (EU) and South American countries inked a long-sought deal. The landmark agreement, which includes Brazil and Argentina, will eliminate more than 90% of tariffs to create one of the largest free trade zones involving [780 million](#) consumers and [20% of global GDP](#).

For the EU, this geopolitical victory made for quite the split screen. On the same day that the EU and the Southern Common Market (a.k.a. the [Mercosur bloc](#)) were popping champagne corks in Asunción, Paraguay, President Donald Trump was ordering new tariffs on Europe.

Beginning February 1, countries that don't back Trump's desire to buy Greenland will be hit with an added [10% levy](#) (rising to 25% by June). Those targeted include Germany, the UK, France, the Netherlands, Sweden, Norway, and of course Denmark, which [holds title](#) to the world's largest island. NATO members expressed unified outrage. EU officials are set to [halt the bloc's trade deal](#) with Trump. Republican Congressman Don Bacon of Nebraska said the "[foolish policy](#)" was akin to something Russian President Vladimir Putin would do.

Yet on the other side of the screen, the EU's biggest-ever agreement with South America is indeed a big deal. It caps off a torturous 25-plus-year negotiation. It gives the EU a major foothold in a resource-rich region that includes Paraguay and Uruguay. In the coming years, Bolivia can join the framework. Venezuela was suspended from the bloc in 2016 over trade and human rights concerns.

Let's explore why the EU-South America deal matters:

(1) *Antidote to protectionism.* As the US and China jostle over Venezuela, the EU is befriending the region's biggest economy. Over the weekend, Brazilian President Luiz Inácio Lula da Silva ("Lula") declared that "at a time when unilateralism isolates markets and protectionism inhibits global growth, two regions that share democratic values and a commitment to multilateralism chose a different path."

Lula had been a consistent advocate for the EU-Mercosur deal throughout his three nonconsecutive presidential terms. Its signing is the closest thing to an economic elixir that Brazil has experienced in the Trump 2.0 era. Along with India, Brazil faces the highest US tariff rate of 50%.

(2) *A \$22 trillion orbit.* According to Tatiana Prazeres, Brazil's foreign trade secretary, the deal "puts together economies that account for \$22 trillion" of output that "will help the region to be better integrated to the global economy." Banco Santander notes that the pact will expand the EU's trade networks to 97% of Latin America. This would eclipse the US's 44% reach and China's 14%.

So far in 2026, European stocks are building on the Stoxx Europe 600 Index's 20% gain in 2025—up 3.75% since January 1.

(3) *Exposing EU bureaucracy.* At the same time, the myriad delays in the EU-Mercosur deal speak to the chronic bureaucracy that can hamstring the Eurozone's growth prospects. A major reason the pact took more than a quarter-century was Brussels' efforts to micromanage production standards in key South American industries, such as agriculture. Thorny issues from regulations on deforestation to plastic packaging to pesticides held things up year after year.

The conclusion of the deal, though, provides a much-needed counterpoint to Washington's protectionism. As of the end of 2024, EU-Mercosur trade amounted to 111 billion euros (\$128 billion). The bulk of EU shipments to South America have been chemical and

pharmaceutical products, machinery, and transport equipment. Mercosur's exports to the EU tend to be agricultural goods, minerals, paper, and wood pulp.

(4) *Rare-earth haul*. For the EU, the deal offers a vital opportunity to develop the metal and mineral reserves needed to accelerate Europe's green growth and digital transition plans. The pact will enable the EU to rely less on China for rare-earth minerals and other raw materials to, among other things, build weapons at a moment when Putin's Russia is pushing ahead with its Ukraine invasion.

Brazil alone [accounts](#) for roughly 16% of global tantalum extraction, 13% of graphite, and 10% of aluminum. It is the world's leading producer and holder of [niobium reserves](#), which are integral to making superconductors, aerospace circuitry, medical devices, and other electronics, including the magnets that operate the [Large Hadron Collider](#), the globe's largest particle accelerator, located outside Geneva.

Global Trade II: Trump's Venezuela Gamble Upends the Game. As the EU gets a shot in the arm in a region that's increasingly contested by the US and China, Trump's ouster of Venezuelan President Nicolás Maduro and plans to "run" the country represent an abrupt wake-up call for Chinese President Xi Jinping. For Xi's Communist Party, Venezuela had long been China's gateway to Latin America. In 2006, Venezuela's then-leader Hugo Chávez called China his "[great wall](#)" against US hegemony.

At the time, China was well into its policy of investing heavily in its closest Latin American ally, with at least [\\$106 billion](#) of loans between 2000 and 2023. Now, China's ambitions in Latin America are beating a retreat as Trump reanimates the Monroe Doctrine. This 19th-century policy held that world powers—at the time, European colonists—should stay out of Washington's sphere of influence.

In Trump's view, China and Russia should stay in their own backyards. But the idea that Xi, China's strongest leader since Mao Zedong, would simply take his proverbial ball and go home—abandoning massive oil contracts in Venezuela—is unfathomable to many Asia watchers. Besides oil, China's interest in Venezuela extends to precious metals; Venezuela is thought to have the world's largest untapped gold reserves.

Might Xi tell Trump that US-China trade talks are now off for good? What Xi will do next is anyone's guess. But here's some background perspective on that question:

(1) *China's Monroe Doctrine*. While China has never declared or detailed its own Monroe Doctrine, the assumption that other powers of the world should mind their own business is

integral to its own geopolitical m.o.

The Xi era, which began in 2012, has pursued regional hegemony in the South China Sea and the Taiwan Strait. An offshoot of the so-called “Middle Kingdom” ethos, China has long expected deference from neighbors regarding its maritime ambitions. Though Taiwan is the biggie, Beijing has sovereignty-related [disputes](#) with Brunei, Indonesia, Japan, Malaysia, the Philippines, and Vietnam, employing military aggressiveness to reinforce its dominance.

The sprawling “Belt and Road Initiative” that Xi launched in 2013 often has been viewed in Monroe Doctrine terms—but with much bigger ambitions. In exchange for loans and giant infrastructure projects in Latin America, Asia, and Africa, Beijing expects loyalty in international forums like the United Nations regarding its claims to Taiwan. Twenty-two Latin American countries participate in China’s initiative.

Yet China is realizing the limits of economic realpolitik. “The [Venezuelan strike](#) exposes this presence as vulnerable to US military power,” argues Rebecca Nadin of the ODI Global think tank. “China’s strong condemnation reflects its stated principles on sovereignty and non-interference, but the episode reveals a fundamental asymmetry: economic investments cannot substitute for military capacity.”

(2) *Consequential vulnerabilities*. Trump 2.0 policies, though, are anything but academic. As China enters its 15th Five-Year Plan (2026–30), Nadin argues, “this vulnerability becomes strategically consequential,” as Latin America features “[prominently](#)” in Beijing’s global agenda. This had China, both before the Xi era and now, prioritizing infrastructure development, cooperation on manufacturing, and technology transfers to help China leapfrog into higher-value sectors of the future.

What Xi’s China didn’t see coming, though, was a US leader willing use military intervention in the great power competition of our time.

(3) *Geopolitical Black Swans*. Suddenly, China is waking up to the fact that its sizable investments in Venezuela—and its broader Latin American portfolio in general—are exposed to geopolitical [Black Swan events](#). Trump likely hasn’t intervened in his last Latin American country of geopolitical importance to Beijing. Trump World is ratcheting up the pressure on Colombia, Cuba, and Mexico. And China has a growing [trade relationship](#) with Mexico, notwithstanding recent tensions between the two, as Xi’s government has invested in Mexico’s manufacturing sector.

Global Trade III: Why Taiwan Could Be Next Gamechanger. While the EU stewes over Washington's new Greenland tariffs, China is seething over the US-Taiwan tariff deal announced last week. Beijing "resolutely opposes" the accord granting the island a lower [15% US tariff rate](#) in exchange for \$250 billion in US tech investments.

To Taiwan Premier Cho Jung-tai, the pact "shows that the US sees Taiwan as an important strategic partner." Trump's Commerce Department calls it "a historic trade deal that will drive a massive reshoring of America's semiconductor sector."

Naturally, this doesn't sit well with Xi's government, which views Taiwan as a breakaway province that must be returned to the motherland. Might China read Trump's Venezuela gambit as a green light to act in kind, seizing Taiwan?

Here's more perspective on that question:

(1) *A \$10 trillion question.* Washington's long-standing argument is that such an [action](#) would violate international law. "They are now damaging that," notes William Yang at the International Crisis Group. "It's really creating a lot of openings and cheap ammunition for the Chinese to push back against the US in the future."

On Monday, a Chinese military drone [entered Taiwan's airspace](#) for the very first time. China called it "legitimate and lawful," suggesting that it was no accident. It's precisely the ominous milestone that Asia's security experts have feared. It's also just the latest example of China's efforts to militarily intimidate Taiwan. In December, the People's Liberation Army held live-fire drills around Taiwan after the US announced [an \\$11 billion Taiwan arms package](#), the biggest ever.

There are myriad reasons why Xi might be reluctant to upend the status quo. China would face global condemnation and sanctions as well as risk US, Japanese, and allied involvement. The military and logistical challenges are daunting considering Taiwan's bevy of US weapons systems. The complexity of an invasion across the 80-mile-wide Taiwan Strait could be more ambitious than the D-Day landings—all live on CNN. And there's the economic fallout: A 2024 Bloomberg analysis estimated the cost of a China-Taiwan conflict at around [\\$10 trillion](#), or 10% of global GDP.

(2) *Beijing's ultimate prize.* Yet for Xi's party, no prize is more important than bringing Taiwan back into the fold. Given the events of the last month, it might be hard for the UN to marshal the collective will to sanction China on Taiwan while giving the US a pass in

Venezuela.

And it's not just about national pride. As the world's largest computer chip maker, Taiwan Semiconductor Manufacturing Company (TSMC) is at the center of the artificial intelligence universe. The US-Taiwan deal coincided with TSMC's saying it will boost its capital spending by as much as 40% this year. And right after, the Hsinchu-based company reported a [35% y/y increase](#) in Q4 earnings amid the AI boom.

(3) *Global trust issues.* Taiwan isn't the only risk Trump runs here vis-a-vis China. One is that Xi might refuse to sit down for trade deal negotiations. Just as Taiwan is the real prize for China, a "grand bargain" for China is the economic triumph that Trump craves most. A lesson of Trump's new 10% tariffs on eight European nations is that, with Trump, no trade deal is ever final.

China, meanwhile, has been more successful behind the scenes pivoting away from the US than Trump World likes to admit. The US is no longer China's largest market but now its third-largest after Southeast Asia and the EU.

Other top exporters to the US that Trump has alienated are similarly diversifying their trade. Last week, Canada announced a [tariff deal](#) with China, a first step in Prime Minister Mark Carney's pledge to reduce the economy's over-reliance on its southern neighbor. When Carney says, "we take the world as it is, not as we wish it to be," many in Europe seem to be nodding.

Strategy Indicators

Global Stock Markets (US\$ Performance) ([link](#)): The US MSCI index fell 0.4% during the January 16 week to 0.5% below its January 12 record high. The AC World ex-US outperformed, with a 1.6% gain to a record high. The AC World ex-US has been hitting new record highs since May 14—the first time it's had such a long streak of successive record highs since June 15, 2021. EMEA was the best performing region last week, with a gain of 2.7%, followed by EM (2.2%), EM Asia (2.2), EM Latin America (1.7), and the AC World ex-US. EMU was the worst regional performer, albeit with a gain of 0.2%, followed by Europe (0.4) and EAFE (1.4). The Korea MSCI index, with a gain of 4.3%, performed the best among country indexes, ahead of Japan (4.2), Taiwan (3.9), Mexico (3.6), and South Africa (2.8). The France MSCI index was the worst performer w/w, with a decline of 1.5%, followed by India (-0.7), Germany (-0.4), the USA (-0.4), and Switzerland (-0.1). In terms of ytd

performance rankings, the 1.4% gain for the US MSCI index ranks as the fifth worst performer among the 18 MSCI countries that we follow and trails the 4.0% gain for the AC World ex-US. Among the regional indexes outperforming the AC World ex-US ytd, EM Latin America leads with a gain of 5.9%, followed by EM Asia (5.8), EM (5.7), EMEA (5.0), and the AC World ex-US. Europe is the worst ytd performer, albeit with a gain of 2.4%, followed by EMU (2.5) and EAFE (3.4). Korea is the best ytd performer, with a gain of 14.7%, followed by Taiwan (10.2), Mexico (3.9), Japan (3.1), and Hong Kong (1.8). The worst performing countries ytd: India (-2.4), Switzerland (0.2), France (0.3), Spain (1.1), and the USA (1.4).

US Stock Indexes ([link](#)): Twenty-six of the 48 major US stock indexes that we follow rose during the week ended January 16, compared to 47 rising a week earlier. The S&P 400 MidCap Pure Growth index was the best performer for the week, with a gain of 3.0%, ahead of Dow Jones 15 Utilities (2.8%), S&P 600 SmallCap Growth (2.2), Russell 2000 Value (2.2), and S&P 600 SmallCap Pure Growth (2.1). The Russell 1000 Growth index was the worst performer, with a decline of 1.2%, followed by Russell 3000 Growth (-1.1), Nasdaq 100 (-0.9), S&P MegaCap 100 (-0.9), and Nasdaq Composite (-0.7). All but two of the 48 indexes are higher ytd. With a gain of 8.9%, the S&P 600 SmallCap Pure Value index is in the top spot as the best performer so far in 2025, ahead of S&P 400 MidCap Pure Growth (8.5), Russell 2000 Growth (8.1), Russell 2000 (7.9), and Russell 2000 Value (7.7). The worst performing major US stock indexes ytd: Russell 1000 Growth (-0.7), Russell 3000 Growth (-0.3), S&P 100 MegaCap (0.0), S&P 500 LargeCap Growth (0.5), and Nasdaq 100 (1.1).

S&P 500 Sectors Performance ([link](#)): Six of the 11 S&P 500 sectors rose during the week ended January 16, and six were ahead of the S&P 500's 0.4% decline. That compares to nine S&P 500 sectors rising a week earlier, when six were ahead of the S&P 500's 1.6% gain. The outperformers last week: Real Estate (4.1%), Consumer Staples (3.7), Industrials (3.0), Energy (2.4), Utilities (2.1), and Materials (0.7). The underperformers last week: Financials (-2.3), Consumer Discretionary (-2.0), Communication Services (-1.5), Health Care (-1.1), and Information Technology (-0.6). The S&P 500 is now up 1.4% ytd, with nine of the 11 sectors positive and seven ahead of the index. Industrials is the best ytd performer, with a gain of 7.6%, followed by Materials (7.2), Energy (6.8), Consumer Staples (5.7), Real Estate (4.5), Consumer Discretionary (2.5), and Utilities (1.6). These four sectors are lagging the S&P 500 so far in 2026: Financials (-0.8), Information Technology (-0.6), Communication Services (0.4), and Health Care (0.5).

S&P 500/400/600 Forward Earnings ([link](#)): During the January 15 week, forward earnings

rose simultaneously for all three of these indexes for a sixth straight week. LargeCap's forward earnings rose for a 35th straight week, its longest winning streak since it did so for 38 weeks through the September 13, 2024 week. MidCap's recovery has slow-walked at times, but its forward earnings has risen in 30 of the 35 weeks since it bottomed during the May 16 week. SmallCap's has risen in 31 of the 34 weeks since it bottomed during the May 23 week. LargeCap's forward earnings rose 0.3% w/w to its 33rd straight weekly record high. MidCap's gained 0.1% to its eighth straight weekly record high and has now recorded 11 new highs in the past 12 weeks. SmallCap's rose 0.4% w/w to a 38-month high and improved to 4.8% below its June 2022 record. Forward earnings had bottomed in early 2023 for these three indexes following Big Tech's year of cost-cutting in 2022. Since then, LargeCap's forward earnings has soared 40.1% from its 54-week low during the week of February 1, 2023; MidCap's has slowly gained 14.2% from its 55-week low during the week of March 10, 2023; and SmallCap's has quickly rebounded 11.5% from a very recent 42-month low during the May 23 week. These three indexes' forward earnings downtrends from mid-2022 to early 2023 and again during Trump's Tariff Turmoil were relatively modest compared to their deep double-digit percentage declines during the Great Virus Crisis and the Great Financial Crisis. Here are the latest consensus earnings growth rates for 2025, 2026, and 2027: LargeCap (12.0%, 15.4%, 14.8%), MidCap (-1.5, 19.9, 14.4), and SmallCap (6.6, 14.7, 15.2).

S&P 500/400/600 Valuation ([link](#)): Valuations fell w/w for LargeCap, but SMidCaps' rose for a second week to 13-month highs from six-week lows. LargeCap's forward P/E fell 0.2pt w/w to 21.8 and is now 1.0pt below its 25-year high of 22.8 during the October 31 week. It's up 4.8pts from a seven-month low of 17.0 during the October 27, 2023 week. That compares to a 30-month low of 15.1 at the end of September 2022 and an 11-year low of 11.1 during March 2020. MidCap's forward P/E rose 0.2pt w/w to a 13-month high of 16.7. It's just 0.4pt below its 40-month high of 17.1 during the November 29, 2024 week and 4.5pts above the 12-month low of 12.2 in October 2023. That compares to a record high of 22.9 in June 2020 when forward earnings was depressed and an 11-year low of 10.7 in March 2020. SmallCap's forward P/E rose 0.2pt w/w to a 13-month high of 16.1. It's 3.2pts above its 17-month low of 12.9 during the April 4 week and 5.6pts above its 14-year low of 10.6 in September 2022, but remains 1.0pt below its 41-month high of 17.1 during the November 29, 2024 week. That compares to a record high of 26.7 in early June 2020 when forward earnings was depressed and a record low of 10.2 in November 2009 during the Great Financial Crisis. The forward P/Es for the SMidCaps have been mostly below LargeCap's since August 2018. MidCap's P/E improved w/w to a 59-week-high 24% discount to LargeCap's P/E, and is up from a 26-year-low 30% discount during the October 31 week. That compares to a 19% discount during the March 2, 2023 week, which matched

its best reading since October 14, 2021. SmallCap's P/E surged w/w to a 57-week-high 27% discount to LargeCap's P/E, up from a 25-year-low 34% discount during the November 20 week. That compares to a 23% discount during the November 29, 2024 week, which was its best reading since the March 2, 2023 week. SmallCap's P/E was steady w/w at a 4% discount to MidCap's, which is up from an 18-month-low 7% discount during the November 20 week and above its 20-year-low 10% discount in late 2021. Prior to that, from 2003 to 2018, SmallCap's P/E had been mostly above MidCap's, and both were above LargeCap's.

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