WEEKLY UPDATE

Japan: interest rates rediscover inflation

One of the most notable financial developments at the start of the year has been the significant rise in Japanese sovereign yields: the 10-year JGB reached 2.2%, its highest level since 1995. While this increase was accelerated by the announcement of early elections on 8 February and the prospect of a more expansionary fiscal policy, it is also part of a deeper upward trend that began in 2022, as Japan gradually emerges from two decades of deflation. In a context where inflation and nominal growth are expected to remain durably higher, Japanese interest rates are "normalising" and should stay at elevated levels. Paradoxically, this new environment is supporting equity markets, buoyed by more robust growth and a weaker yen that boosts the repatriation of dividends.

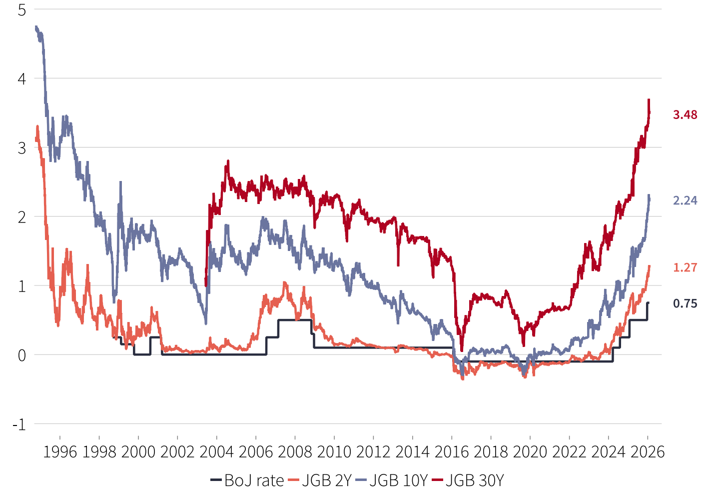
Early elections accelerating the rise in sovereign yields. The beginning of the year has been marked by intense political developments. Newly appointed Prime Minister Sanae Takaichi dissolved the Lower House and called early elections for 8 February, aiming to expand her majority. Her main economic proposal is the two-year removal of taxes on food products, a measure synonymous with expansionary fiscal policy. This announcement triggered a sharp rise in long-term rates: the 10-year yield reached 2.2%, the 30-year yield 3.5%, both at their highest levels since 1995. At the same time, the yen depreciated sharply, nearing 160 yen per dollar before recovering on the back of rumours of Bank of Japan (BoJ) interventions and a weakening U.S. dollar. Conversely, equity markets reacted positively, with the Nikkei 225 up 6% since the start of the year.

A rise in yields that reflects the end of deflation. The oft-mentioned risk of higher yields driven by concerns over public-debt sustainability — which stands at around 200% of GDP — appears limited. The Japanese economy has in fact benefited from significant fiscal consolidation since the Covid crisis, as well as structurally high current-account surpluses. The increase in yields mainly reflects the exit from the long deflationary period and fears of overheating. After more than twenty years of falling prices, inflation has been back in positive territory since 2022: headline inflation now exceeds the BoJ's 2% target, while core inflation hovers around 1.5%. Coupled with stronger real growth, this return of inflation is boosting nominal growth, thereby reducing fiscal risk. But this regime shift has pushed the BoJ to unwind its ultra-accommodative monetary stance: a gradual phasing-out of balance-sheet controls and incremental policy-rate hikes since 2024. In this context, the risk associated with new fiscal measures is that they could fuel additional inflationary pressure, forcing the BoJ to accelerate normalisation.

A new environment supportive of Japanese equities. While rising nominal growth is putting upward pressure on yields, it is proving favourable for equity markets. Since 2022, the Nikkei 225 has gained 100%. This exceptional performance is driven by: rising corporate revenues, supported by stronger nominal growth; a weak yen, which boosts profits earned abroad and enhances competitiveness. In this new macroeconomic environment — stronger nominal growth, a weak yen, and more accommodative fiscal policy — Japanese equities should continue to perform well, reinforcing our positive view on this asset class.

JAPAN : INTEREST RATE

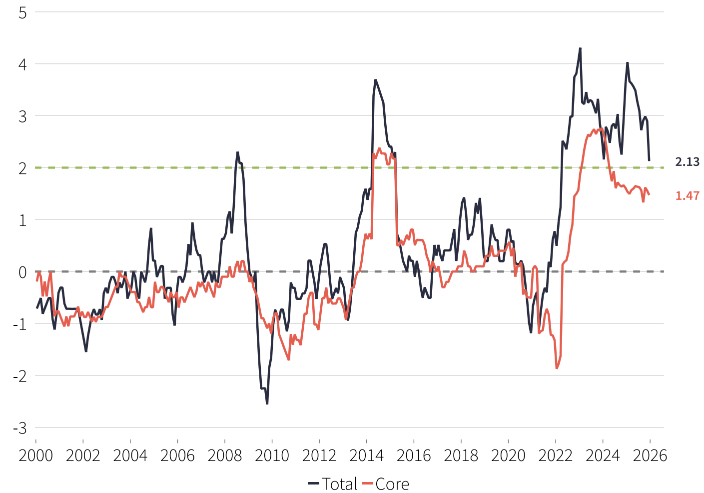
In %



Sources: Société Générale Investment Solutions, Macrobond, Macrobond, BOJ 30/01/2026

JAPAN : INFLATION RATE

In %, year-on-year



Sources: Société Générale Investment Solutions, Macrobond, SBJ 12/2025

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OUR MACRO COMMENTS

Events of the week

UNITED STATES

The Federal Reserve decided on Wednesday evening to keep its policy rate unchanged at 3.50–3.75%, a move in line with investor expectations. This status quo is consistent with the Fed's dual mandate, which seeks to balance full employment with price stability.

Jerome Powell highlighted the resilience of the U.S. economy, supported by solid consumer spending and rising corporate investment. Inflation, however, remains above target, with PCE at 2.9%, driven mainly by higher goods prices linked to the impact of tariffs. On the labour-market side, pressures appear to be easing, with signs of stabilisation after several months of gradual softening.

Since last September, the Fed has cut rates by 75 basis points, a normalisation intended to help stabilise the labour market while allowing inflation to gradually return to its target. The institution nevertheless reiterated that it is not committing to a predefined path and is maintaining a meeting-by-meeting approach.

Powell also stressed the importance of central-bank independence to ensure the effective transmission of monetary policy.

EURO AREA

The release this Friday of the growth figures for the final quarter of 2025 confirms broadly resilient activity across the main euro area economies, despite contrasting national dynamics.

In France, GDP rose by 0.2% in Q4, a result slightly above expectations after +0.5% in Q3, bringing year-on-year growth to 1.1%. Growth was supported by household consumption (+0.3%) and a modest increase in investment (+0.2%), although the latter shows signs of slowing amid fiscal uncertainty. The positive contribution from net exports was meanwhile offset by a sharp contraction in inventories (–1%).

Spain maintained strong momentum, posting growth of 2.9% in 2025, while inflation continued to ease in January, falling to 2.5% from 2.9% in December. In Germany, activity is gradually recovering: GDP increased by 0.3% in Q4 2025, resulting in annual growth of 0.3%, slightly above expectations. Italy, for its part, recorded growth of 0.7% in 2025.

Taken together, these figures bring euro area growth to 1.5% in 2025, above consensus expectations. For the ECB, this set of indicators reinforces the scenario of an economy that remains resilient, with inflation now close to target.

EVENTS IN THE COMING MONTHS

- February 5: ECB monetary policy meeting
- February 5: BoE monetary policy meeting
- February 8: Snap elections in Japan
- March 15: Municipal elections in France
- March : Adoption of the 15th five-year plan in China

Source: Macrobond, January 30, 2026. The colors in the 'Actual' column correspond to the difference from the forecast

KEY EVENTS NEXT WEEK

Monday		
	Germany	Retail sales DECEMBER
	United States	ISM manufacturing JANUARY
Tuesday		
	France	Inflation JANUARY
	United States	JOLTS job openings DECEMBER
Wednesday		
	Euro area **Italy**	Inflation JANUARY
	United States	ISM services JANUARY
Thursday		
	Italy **Euro area**	Retail sales DECEMBER
	United Kingdom	Monetary policy meeting BoE
	Euro area	Monetary policy meeting ECB
	United States	Balance of trade DECEMBER
Friday		
	Germany **France**	Balance of trade DECEMBER
	Japan	Household spending DECEMBER
	United States	- Unemployment rate JANUARY - Michigan consumer confidence index FEBRUARY

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MARKET PERFORMANCES

Interbank rates

%	28/01/2026	30/12/2025	30/10/2025	01/01/2024	30/01/2025
US SOFR	3,686	3,80	4,21	5,34	4,33
Euro area €ster	1,933	1,93	1,93	3,88	2,92
UK SONIA	3,725	3,73	3,97	5,19	4,70
Switzerland SARON	-0,060	-0,04	-0,05	1,70	0,45
Japan TONAR	0,727	0,73	0,48	-0,04	0,48

10Y Government rates

%	29/01/2026	30/12/2025	30/10/2025	01/01/2024	30/01/2025
US Treasuries	4,24	4,14	4,11	3,88	4,52
France OAT	3,41	3,56	3,41	2,55	3,26
Germany Bund	2,79	2,85	2,63	2,02	2,48
Italy BTP	3,44	3,54	3,39	3,70	3,60
Spain Bonos	3,20	3,28	3,15	2,98	3,11
Switzerland	0,29	0,33	0,18	0,66	0,42
UK Gilts	4,57	4,56	4,47	3,60	4,53
Japan JGB	2,22	2,06	1,65	0,62	1,18

Credit

%	29/01/2026	30/12/2025	30/10/2025	01/01/2024	30/01/2025
United States IG	4,85	4,79	4,80	5,06	5,28
United States HY	6,60	6,53	6,76	7,59	7,19
Europe IG	3,32	3,40	3,22	3,72	3,47
Europe HY	5,19	5,28	5,22	6,80	5,66
Emerging FX	5,48	5,46	5,54	6,77	6,27

Equity indices

29/01/2026 vs	-1w	-1m	-3m	01/01/2024	-1y
World	0,55	2,796	4,483	48,3	20,22
United States	0,62	1,442	2,784	48,4	15,85
Euro area	-0,63	2,007	4,321	39,5	20,78
France	-0,86	-0,721	-0,365	14,6	6,12
Germany	-1,95	-0,228	1,975	40,2	12,89
United Kingdom	0,31	2,645	5,086	39,7	23,15
Japan	-2,20	4,169	7,615	57,4	32,18
Emerging	2,71	10,055	10,228	62,0	42,35
China USD	3,05	6,706	1,285	68,3	40,33
India USD	1,73	-4,603	-6,433	10,4	4,67
Latin America USD	3,20	17,446	25,677	33,8	68,53

Foreign exchange rates

	29/01/2026	30/12/2025	30/10/2025	01/01/2024	30/01/2025
EUR/USD	1,19	1,18	1,16	1,11	1,04
GBP/USD	1,38	1,35	1,31	1,27	1,25
EUR/CHF	0,92	0,93	0,93	0,93	0,95
USD/JPY	152,84	156,36	154,22	141,03	154,15
USD/CNY	6,95	7,01	7,10	7,08	7,17

Commodity prices

	29/01/2026	30/12/2025	30/10/2025	01/01/2024	30/01/2025
Brent, USD/BL	70	61	64	77	76
Copper, USD/Metric ton	13 844	12 512	10 949	8 476	8 975
Gold, USD/Troy oz	5 405	4 368	3 994	2 078	2 787
Silver, USD/Troy oz	118	75	48	24	31
Palladium, USD/Troy oz	2 106	1 660	1 428	1 136	985
Platinium, USD/Troy oz	2 792	2 226	1 599	1 000	965

Source : Bloomberg on 30 January 2026, 1W = 1 week change, 3M = 3 month change, 12M = 12 mont change, YTD = year to date change, Equities; total return in local currency . Government bonds = 10 year returns. Figures are rounded..

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