

## Global Fixed Income Thematic Viewpoint

HIROYUKI HIGUCHI  
SENIOR PORTFOLIO MANAGER  
HEAD OF FIXED INCOME AND CURRENCY

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Mitsubishi UFJ Asset Management (UK) Ltd.  
A member of MUFG, a global financial group

### Global Geopolitics: The Current Global Situation and Its Impact on the Market

In light of recent rapid changes in the international situation, including the Ukraine-Russia peace plan, military action against the Venezuelan president, large-scale demonstrations and predictions of regime collapse in Iran, pressure from the US to acquire Greenland, and the US attack on Syria, there is a need for a comprehensive analysis of the connections between these events and their potential impact on global markets and our lives. This time, we will prioritize the key points and consider the big picture by examining the global situation that can be inferred from the news and its impact on the market. Reading this will help you understand the basis of our investment strategy.

In essence, I believe that currencies will play a pivotal role in determining the global economic landscape. It will likely influence key economic indicators such as global prices, exchange rates, and financial policies. Moreover, the implications of these events will be felt in the coming years, underscoring their significance.

We are becoming increasingly aware that fake news and reporting aligned with sponsors' or governments' agendas have become increasingly prevalent, making it challenging to verify the accuracy of information. To address this issue, we employ a meticulous approach to analyse international situations and forecast future developments. This method involves thorough comparison of multiple conflicting media sources and the construction of predictions based on the statements made by key figures and historical context. Expert opinions are important, but they are rarely accepted at face value. We believe that analysing and investigating the elements of those statements leads to the truth. It is also necessary to bear in mind that expert opinions are often incorrect. Naturally, as there are many assumptions and estimations, I would ask you to understand that my assertions are not necessarily correct. I should also note that I am Japanese, non-religious, and have no particular beliefs or supporting organisation. Let us begin.

#### Trump, America First and the Monroe Doctrine

The Trump administration's objectives are becoming increasingly apparent. Alongside its 'America First' policy, there is a clear focus on strengthening the nation's dominance in its regional sphere of influence. This approach, which could be termed 'Monroe Doctrine,' aims to consolidate influence in the Western Hemisphere, encompassing Alaska, Greenland, Canada, North America, Mexico, and South America. Concurrently, there is a gradual disengagement from the Middle East, Europe, and Asia. The Monroe Doctrine refers to the foreign policy principle advocated by US President James Monroe in 1823. This principle stated that Europe should not interfere in the American continent, and that America would not interfere in European conflicts. It is an intriguing name, but Trump's iteration of the Monroe Doctrine is referred to as the Monroe Doctrine. Its key tenets include the notion that Europe should assume responsibility for its own security, that the United States maintains a flexible stance on military intervention in Asia and the Middle East on a case-by-case basis, and that the United States will prioritize its influence in the Western Hemisphere.

There is speculation that the Trump administration believes that increasing its influence in the Western Hemisphere will allow it to find fundamental solutions to local problems such as immigration, drugs, inflation, and security issues. This approach differs from that of major Western nations, which have recently imposed burdens on their own citizens in the name of ideology and global ideals, ultimately losing domestic support. With regard to the Eastern Hemisphere, it is expected that the administration will actively engage in matters pertaining to business opportunities and those concerning future US national interests tied to hegemonic rivalries. In this sense, it should be recognised as distinct from the so-called Monroe Doctrine. It is only natural that existing frameworks, as many experts point out, cannot adequately explain this approach, and I believe it is premature to dismiss Mr Trump as simply unpredictable.

In light of recent developments, it appears that a re-evaluation of geopolitical strategies is underway, targeting the reduction of Chinese and Russian influence in South America. This initiative involves the transformation of anti-

American socialist nations and the integration of Greenland into the Western Hemisphere. Additionally, regardless of its feasibility, the inclusion of Canada is being contemplated. Consequently, the upcoming renegotiation of the USMCA, scheduled for June this year, may present challenges for Canada. Given the current uncertainty, our strategy is to reduce the allocation to this country.

## Greenland

With respect to Greenland, it appears that the US is looking to transfer its military presence in Europe within NATO to Greenland. This strategic realignment would allow a shift towards the Western Hemisphere, while ensuring continued collaboration with NATO on policy towards Russia. Greenland is not only a pivotal military location in relation to Russia, but also an area abundant in minerals such as rare earths with notable potential for future business ventures, including AI concepts. As global warming increases the feasibility of navigation along the Arctic Sea route, transport distances between the US and East Asia can be reduced by 30-40% compared to the Suez Canal route. Utilising this route offers significant advantages, particularly for China. China has long had its sights set on the Arctic Sea route and has also shown interest in Hokkaido, which lies along this route, with Chinese capital flowing in for land purchases and other ventures. China is pursuing this as a national strategy, as the Arctic version of its Belt and Road Initiative, known as the Polar Silk Road. This situation is linked to the struggle for hegemony, US security and business. It would seem that Mr Trump's motivation for acquiring Greenland is significant. This is why Mr Trump often expresses his belief that Greenland will be taken away by China or Russia.

The presence of a US military base in Greenland is an interesting case study when considering the costs of acquisition and maintenance in an untouched ice land. The infrastructure and subsidies for Greenland's inhabitants are significant factors in this analysis. A range of estimates is available, and FT Alphaville, a division of the Financial Times, puts the country's accumulated assets at \$1.1 trillion. Given that the US annual expenditure is \$6-7 trillion, defence spending is just under \$1 trillion, and the fiscal deficit is just under \$2 trillion, which is considered to be significant, this is not an insignificant figure, but it is not unmanageable as it is not a fund that needs to be covered in a single year. However, achieving this objective would be challenging under the existing fiscal expenditure framework. Substantial structural reforms would be required to generate the necessary funding. Consequently, it is perceived that the UK may be considering a strategic shift, withdrawing militarily from Europe while redirecting its focus towards Greenland.

Acquisition, on the other hand, may prove challenging due to opposition from Denmark, which holds sovereignty, the Greenlandic self-government, and the people. In response, Mr Trump has taken a strong stance, stating that he would impose tariffs on the eight NATO member states that oppose the deal, and has not ruled out military action against Greenland. Despite the significant challenges posed by the high hurdles involved, the potential acquisition of Greenland could expand his influence from a security and business perspective. However, this matter may further deepen the divide between Europe and the United States.

## Russia - Ukraine War

Regarding the Ukraine-Russia war, it appears to be heading in a highly dangerous direction. As evidenced by the backlash against peace proposals from various European nations, ending the war at this juncture faces strong resistance from European countries. While the proposal to use Russia's frozen assets to support Ukraine failed to gain consensus within the European Council, it seems there is little appetite for progress even as peace proposals are discussed.

A number of factors may be at play, but ending the war at this stage would signify a complete defeat for Ukraine and Europe, potentially leading to questions of accountability for European leaders. Conversely, Mr Trump can distance himself from this responsibility by framing the war as Mr Biden's conflict. This clear divergence in their positions further widens the rift between European leaders and Mr Trump.

It is often speculated that Europe, in conjunction with the United States, has been permitting Ukraine to engage in a proxy war against Russia. However, following a period of time buying and rearming over several years, it now appears that Europe is seeking to act as a mediator with Russia without the United States. This could explain Mr Putin's restrained comments regarding the use of nuclear weapons against Europe. In this context, if peace cannot be achieved, geopolitical risks in Europe are likely to rise sharply. Combined with the aforementioned Greenland incident, this has the potential to exacerbate the divergence between Europe and the US.

Markets are anticipating Germany's military and infrastructure investment and conditional fiscal expansion in Europe this year, with the euro and European equities rising on expectations. However, we advise caution as Europe's low productivity, high energy costs and limited growth story beyond fiscal expansion could disappoint investors and cause markets to reverse by the middle of next year. Furthermore, as the EU does not have the financial resources to support Ukraine for several years without US assistance, there is a possibility for eurozone SSA spreads to widen and ultra-long-term bonds in European countries to soften through the issuance of EU bonds. When analysing the global landscape, Europe appears to harbour the greatest geopolitical risks.

## Venezuela and Other South American Countries

In this section, we will examine the current situation in South America, with a particular focus on Venezuela. Military intervention in Venezuela was thought likely to drive up oil prices and potentially undermine Ukraine-Russia negotiations. However, it was certainly not anticipated that a strategy could exist to secure President Maduro's detention without any American casualties, thereby facilitating regime change without resorting to war.

Given that no US special forces personnel were killed, while 32 Cuban special forces and 47 Venezuelan military personnel were killed, there is a strong possibility of the involvement of informants. Furthermore, the operation appears to have been meticulously planned and prepared over a considerable period of time. This is not the sort of thing that would be undertaken on a whim by Mr Trump.

Furthermore, although claims have been made that this action was taken to secure crude oil rights, it would appear to be more logical to consider it as a strategy to eliminate the influence of China and Russia – nations that have provided support to socialist states in South America – and to utilise Venezuelan crude oil as a bargaining chip to bring about the internal collapse of Cuba, which could be viewed as the symbol of anti-American nations in South America barely surviving on Venezuelan oil. This also exerts pressure on other anti-American nations in South America, such as Nicaragua, Ecuador, Bolivia, and Brazil. Meanwhile, Mexico is set to drastically cut its crude oil exports to Cuba by more than half by 2025. While Cuba's payment capacity is a factor, this move is likely also a concession to the United States. Although Mexico officially places a high value on sovereignty, the country remains significantly dependent on the US in terms of immigration, narcotics, and relations with other nations that are opposed to America. Similar to Canada, the USMCA (United States–Mexico–Canada Agreement) renewal is scheduled for July; however, unlike in Canada's case, this is not expected to result in major issues. As US trade with China is in decline, Mexico is anticipated to continue benefiting from nearshoring, leading us to maintain a positive outlook on the country. We are systematically increasing our allocation.

With regard to the situation in Venezuela, it is important to note that the country's military equipment and defence systems are of Russian manufacture. The ease with which these systems were breached without any American casualties also serves as a warning to Russia. In addition, Cuban special forces are widely regarded as elite units, having been trained by the former Soviet Union's KGB. Cuban special forces are engaged in security operations for several nations in South America and Africa, including the protection of Venezuelan President Maduro. This incident, however, highlighted a significant disparity in capabilities with the United States. It is likely to have served as a substantial warning to the heads of state of anti-American nations in South America. As China has made investments in these countries, it also experienced damage, resulting in a loss of face for the Chinese people.

The decline of anti-American, far-left states in South America presents an opportunity to address fundamental solutions to immigration and drug problems. In addition, the timing ahead of elections enables political appeals. Therefore, it is reasonable to conclude that the primary motivation was not crude oil, but rather to weaken anti-American states in South America, strengthen US dominance in the Western Hemisphere, prepare for elections, and exert pressure on China and Russia. Furthermore, the US military action against Venezuela suggests that the Trump administration is willing to consider military options and will persist in pursuing its objectives. This also serves as a sufficient threat to Iran. Of course, it also puts pressure on Greenland in negotiations, as well as on Russia and China. The operation has become an important and symbolic element of US foreign policy moving forward.

## Iran and The Middle East

As we consider the future of Iran, the question arises as to whether interest in the country will wane under Donroe Doctrine. Given the current geopolitical dynamics, this seems unlikely. While monitoring the internal developments in Iran, there remains a possibility for intervention if the timing is deemed advantageous. Some have speculated that Israel's intelligence agency, Mossad, may have been involved in instigating the recent riots. However, I believe that these arose organically, fuelled by severe inflation, which has been made unbearable by drought, last year's tit-for-tat with Israel, and economic sanctions, rendering living conditions untenable. In essence, the populace has reached its breaking point. In that sense, I consider this irreversible.

Mr Trump has offered public commendation for the protests and has intimated that military intervention may be necessary should the demonstrators face significant casualties. However, the complexity of undertaking such intervention is considerably higher than in the case of Venezuela, given Iran's military capabilities and geographical considerations. The elimination of Supreme Leader Ali Khamenei would not necessarily lead to the dissolution of the Islamic Revolutionary Guard Corps, which holds significant power and funding. Potential consequences of intervention could include outcomes similar to those witnessed in Iraq and Afghanistan, resulting in substantial losses of American life. A more cost-effective strategy may be to observe the emergence of internal opposition forces that could overthrow or weaken the regime, while providing external support to these opposition groups.

Considering the current lack of a powerful opposition movement capable of overthrowing the Iranian government, the collapse of the Khamenei regime at this juncture appears improbable. Instead, it seems more likely that the regime will gradually lose influence and eventually be compelled to undergo a change of leadership. It is clear that among the opposition figures is Reza Pahlavi, the son of the "last Shah of Iran", who fled to the United States following the 1979

Islamic Revolution. However, it should be noted that his support within Iran remains limited. We have received reports that in some regions, Kurdish opposition forces are supporting demonstrators, which means there is a need for close monitoring of the opposition's trajectory. However, given the internet blackout in the country, there is a strong impression that much of the news, including reports from Israel and the US, appears to be fake news. Consequently, it is difficult to state anything with certainty.

However, this development presents a strategic opportunity for Israel. Iran has historically provided financial support to Hamas, Hezbollah, and Shiite militias, orchestrating attacks against Israel. The country is currently experiencing significant instability, and a potential collapse is imminent.

Prime Minister Netanyahu, facing corruption charges and prolonging his tenure through war, faces a difficult exit strategy. However, should Iran lose its power, the conflict could subside, potentially paving the way for negotiations on normalising relations between Arab nations and Israel. This outcome would represent Mr Trump's long-cherished goal. Mr Trump is interested in pursuing business opportunities with Saudi Arabia. Similarly, Saudi Arabia, which is experiencing fiscal challenges due to declining oil prices and seeking to diversify its economic interests beyond oil, is eager to explore business partnerships with America. It is estimated that around 30% of US voters are pro-Israel Christian evangelicals. There is a possibility that reducing military aid to Israel while engaging in commercial activities with Saudi Arabia could lead to an increase in evangelical support. This is a matter of interest for Mr Trump. While his son-in-law, Mr Kushner, is Jewish, the Middle East appears to be of particular importance to Mr Trump, even within the framework of his Monroe Doctrine approach.

## Closing

In closing, it should be noted that Mr Trump's Monroe Doctrine is not a modern-day version of the Monroe Doctrine. It is based on the assumption that if the US can secure its own security and public support by asserting its dominance over the Western Hemisphere, then it will be in a position to actively engage in matters that will yield immediate benefits or future interests tied to hegemonic rivalry. If we view the world from this vantage point, it becomes clear where relative benefits accrue to which nations. This analysis has examined the world from an American perspective. Incorporating European, Chinese, and macroeconomic viewpoints would allow for even more nuanced positioning.

As a final point, we wrap up by including the impact that of our above discussions on our outlook for major global currencies.

US Dollar: Weak near-term, but risk of rebound; bullish

Euro: Strong near-term, but risk of pullback; bearish

Polish Zloty: Bullish against the Euro

Swedish Krona is appreciating against the Euro.

Norwegian Krone is holding steady, with a slight upward trend against the Euro.

Danish Krone is showing a slight downward trend.

Canadian Dollar is experiencing a slight weakening against the US Dollar.

New Zealand Dollar and the Australian Dollar are neutral.

Mexican Peso is showing a strong upward trend.

Malaysian Ringgit is experiencing a slight upward trend.

Israeli Shekel is showing a slight upward trend.

Japanese Yen is experiencing a downward trend.

Chinese Yuan is experiencing a downward trend.

Singapore Dollar is neutral relative to the US Dollar.

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