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Economic & Market Watch

Economic & Market Watch Intelligence Brief

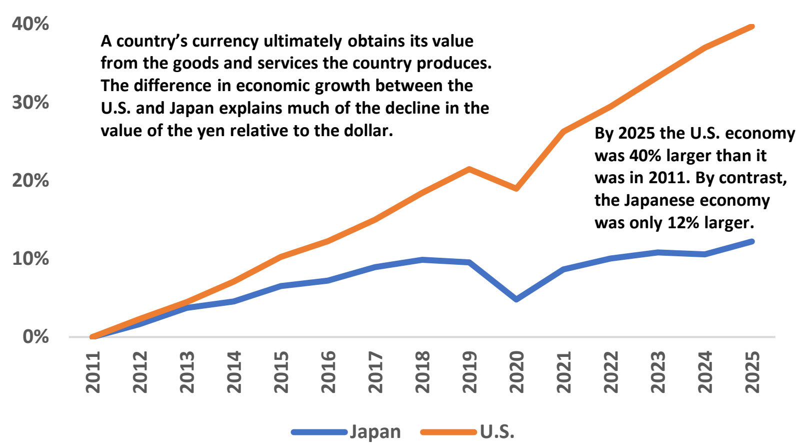
February 9, 2026

Briefing

- Last month, Japan's prime minister called for a snap election in a move to secure support for consumption tax cuts. This raises questions about Japan's already-stretched public finances. With no clear commitment to offsetting spending cuts, investors began to price a higher probability of increased government borrowing. The reaction in bond markets was swift: The 10-year Japanese Government Bond (JGB) yield jumped to its highest level in decades (**Figure 1**).
- The market response did not remain confined to Japan. Over the five days following the announcement, gold and silver prices spiked, with gold rising 8.5% and silver 14% before retreating in the subsequent week (**Figure 1**).
- Japan maintains a higher debt-to-gross domestic product (GDP) ratio than the U.S. despite lower interest rates (**Figure 2**). Nearly 90% of Japan's central government debt is held domestically, with roughly half on the Bank of Japan's balance sheet. In the U.S., about 70% of federal debt is held domestically, and the Federal Reserve holds roughly 12%.
- Japan serves as a reminder that even advanced economies with long records of debt sustainability can face sudden shifts in market tolerance. A possible explanation for the jump in gold and silver prices, often an indicator of concerns about impending inflation, is that investors are looking at Japan and asking whether and when the U.S. debt might become unsustainable.

Chart of the Week

Cumulative Economic Growth since 2011



Commentary

The jump in Japan's 10-year yield may be a warning sign rather than a crisis indicator. Japan's debt dynamics remain unique. Japan's central bank holds around half of Japan's governmental debt—a greater fraction than in any other developed economy. The recent spike in the long-term JGB yield highlights how quickly political decisions can reprice sovereign risk. Markets appear increasingly sensitive to signs that fiscal policy is driving public debt to a point that inflation pressures are no longer negligible.

The concern isn't only monetary. Increased fiscal spending can slow economic growth when it replaces private sector decision-making with public sector fiat. Japan's federal spending is around 30% of the country's GDP, compared to 23% for the U.S. The difference, along with differences in population growth, contributes to Japan's economy growing 12% since 2011 versus the U.S. economy growing 40% since 2011 (**Chart of the Week**).

Differences in economic growth contribute to changes in exchange rates. Ultimately, the value of a currency lies in the goods and services that the currency buys. Other things equal, the more goods and services the currency's economy produces, the greater is the value of the currency. The difference in economic growth goes a long way to explaining the decline in the value of the yen (**Figure 3**).

Snapshots

Figure 1. JGB 10-Year Yield & Gold

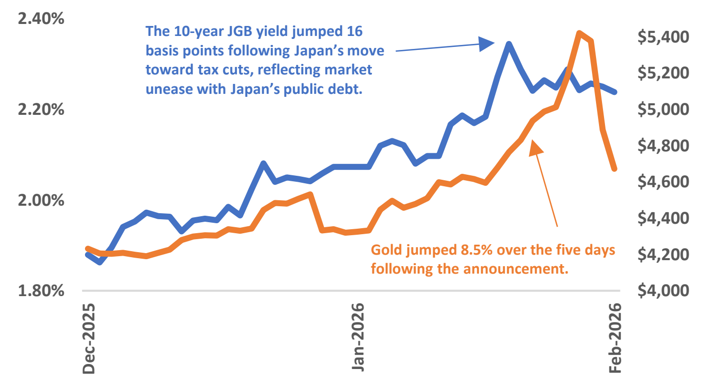


Figure 2. Public Debt Relative to GDP

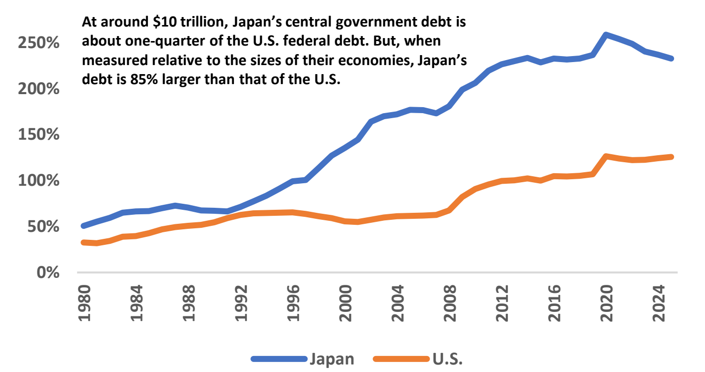
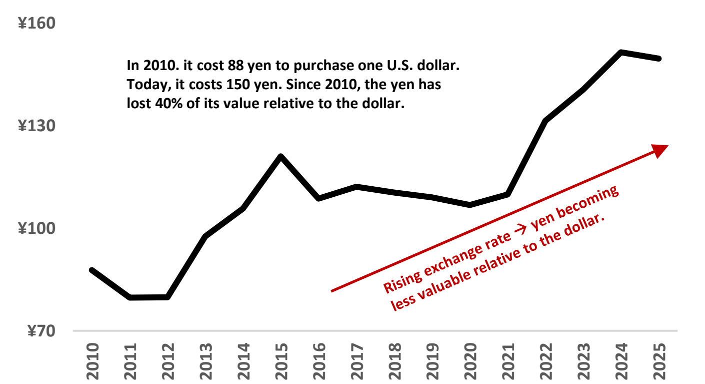


Figure 3. Exchange Rate (Yen Per US Dollar)



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Key Indicators

INTEREST RATES[1]

		2026				2027
	Current	Q1	Q2	Q3	Q4	Q1
Fed Funds Target[2] (%)	3.75	3.75	3.50	3.25	3.25	3.25
SOFR (%)	3.64	3.36	3.22	3.15	3.12	3.08
2Y UST (%)	3.49	3.42	3.40	3.39	3.36	3.33
5Y UST (%)	3.76	3.66	3.66	3.67	3.67	3.67
10Y UST (%)	4.23	4.10	4.11	4.11	4.10	4.08
30Y UST (%)	4.88	4.69	4.68	4.67	4.65	4.64

ECONOMY

		2026				2027
	Current	Q1	Q2	Q3	Q4	Q1
PCE Inflation (YoY %)	2.8	2.7	2.5	2.3	2.3	2.2
CPI Inflation (YoY %)	2.7	2.8	2.6	2.5	2.4	2.3
Real GDP (QoQ %)	4.4	2.1	2.0	2.0	2.1	2.0
Unemployment (%)	4.4	4.6	4.6	4.5	4.5	4.5
Consumer Spending (QoQ %)	3.5	1.3	1.5	1.7	1.8	2.0
Industrial Production (YoY %)	2.0	0.9	1.0	1.2	1.5	1.5

Equities & Currency

	Current	Year ago	YoY Δ
DJIA	49,848	44,470	12.09%
Nasdaq	23,023	19,714	16.78%
S&P 500	6,924	6,066	14.13%
US Dollar Index	$1,188.63	$1,3.03.51	(8.81%)

Commodities

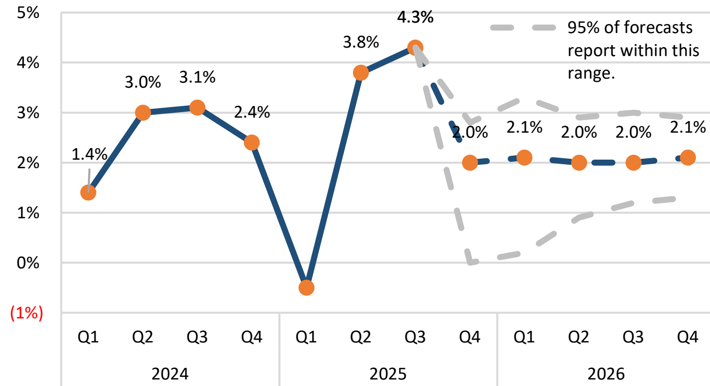
	Current	Year ago	YoY Δ
Crude Oil (Per Barrel)	$64.16	$72.32	(11.28%)
Natural Gas (Per MMBtu)	$3.17	$3.54	(10.56%)
Coal (Per Short Ton)	$11.56	$10.57	7.79%
Gold (Per Ounce)	$5,033.00	$2,917.06	72.52%
Corn (Per Bushel)	$4.28	$4.92	(12.88%)
Soybean (Per Bushel)	$11.11	$10.50	5.81%

Industry

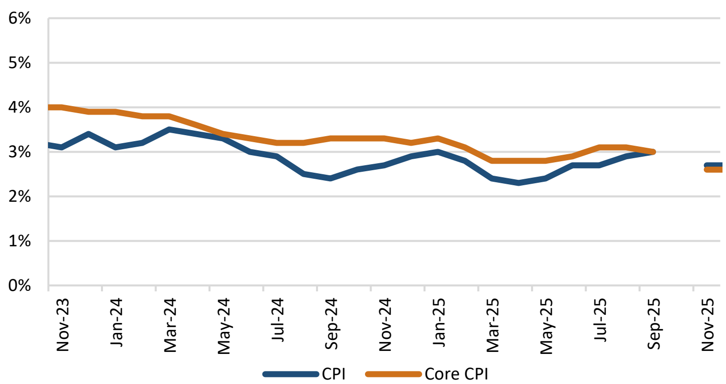
	Current	Year ago	YoY Δ
Natural Gas Storage (Billion Cubic Feet)	2,463	2,422	1.69%
US Daily Power Consumption (MWh)	12,241,798	10,993,636	11.35%
World Container Index (Per 40ft)	$1,959	$3,364	(44.77%)

Forecasts

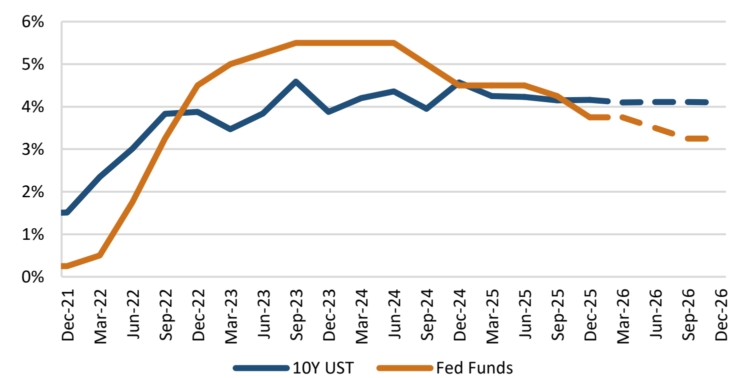
Real GDP Growth Trend



Headline vs. Core Inflation



10-Year US Treasury vs. Fed Funds Trend



[1] *Unless otherwise indicated, forecasts are from the Blue Chip Professional Forecasters.*
[2] *Target rate forecast is based on futures market contracts.*

Source: Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Trading Economics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, U.S. Treasury Department, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, University of Michigan, The Conference Board.