

Tech lags as mega-cap names hit hard; Crude gains on US-Iran tensions

- **SNAPSHOT:** Equities down, Treasuries up, Crude up, Dollar down, Gold up.
- **REAR VIEW:** US military shot down Iranian drone that approached USS Lincoln; Iranian gunboats approached a US oil tanker, ordering it to stop; US House approves funds to end government shutdown; Russia's Deputy PM Novak says they have a surplus in fuel supplies; RBA hikes rates by 25bps, as expected; EU is reportedly to offer the US a partnership on critical minerals to counter China's influence; PLTR beats earnings and guidance; NVO 2026 outlook underwhelms; Dismal PYPL report
- **COMING UP:** **Data:** Global Final Composite/Services PMIs (Jan), EZ Flash HICP (Jan), Italian CPI Prelim. (Jan), US ADP (Jan), ISM Services (Jan). **Events:** Riksbank Minutes (Jan); Treasury Refunding Announcement; NBP Policy Announcement. **Speakers:** RBA's Jones; Fed's Cook. **Supply:** Australia, Germany, US. **Earnings:** Alphabet, Arm, Qualcomm, ELF, Snap, Uber, Eli Lilly, AbbVie, CME, Bunge.

MARKET WRAP

US indices were hit hard on Tuesday, albeit settling off troughs, as weakness in mega-cap names (NVDA, AVGO, META, MSFT, AMZN) weighed on the tech-heavy Nasdaq 100, which unsurprisingly saw Tech as the clear sectoral laggard. Communications and Discretionary were the next worst hit, while Energy, Materials, Consumer Staples, and Utilities all saw gains in excess of 1%. Supporting the former was strength in the crude complex after heightened US/Iran rhetoric, despite seemingly easing in the last couple of days. WSJ reported that Iranian gunboats approached a US oil tanker in the Strait of Hormuz early Tuesday and ordered it to stop, and in response, the US military shot down an Iranian drone that approached a US Navy aircraft carrier in the Arabian Sea. Separate reports suggested that, ahead of the Iran/US meeting, Iran reportedly wants to change venue [Oman from Istanbul] and the format of nuclear talks with the US. Amid the continued risk-off sentiment, precious metals saw hefty gains and reversed some of their extensive losses since the Warsh Fed Chair nomination. Bitcoin saw extensive losses and tested USD 73k to the downside. In FX, the Dollar was broadly weaker against G10 peers, as the Swissy gained from broader risk-off sentiment, while Antipodeans, and in particular the Aussie, benefitted from the RBA hiking rates by 25bps overnight. Treasuries saw marginal gains across the curve, albeit in very tight ranges, ahead of QRA on Wednesday. Lastly, the US House approved funds to end the partial government shutdown and sent them to US President Trump for signing into law (which is a given), but it still means the US payrolls report on Friday is delayed, with ING writing this week's data may be published next week.

FED

BARKIN (2027 voter): Said the policy rate is now at the higher end of the neutral rate estimate. He described recent economic data as encouraging on the demand side, employment and inflation, but remains concerned about risks to employment and inflation. Barkin is open to a conversation about any aspect of the balance sheet or other Fed operations. Meanwhile, he said it's still an open question about when inflation will fall to 2% and expects progress on inflation, which remains above target. On jobs, he noted a world of no job growth is 'uncomfortable' even if the unemployment rate stays low; firms say demand is fine and are not doing layoffs at scale. Barkin does not know Kevin Warsh well, but said he seems capable and charismatic.

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED UNCH. AT 111-19

T-Notes see marginal strength across the curve, albeit within very tight ranges. At settlement, 2-year -1.4bps at 3.570%, 3-year -0.8bps at 3.643%, 5-year -1.0bps at 3.833%, 7-year -1.3bps at 4.047%, 10-year -0.6bps at 4.272%, 20-year -1.0bps at 4.854%, 30-year -1.2bps at 4.905%.

THE DAY: T-Notes traded sideways in overnight trade, before seeing gradual weakness through the European morning, albeit within thin parameters, highlighted by T-Notes trading in an initial 3 tick range. Headline-driven newsflow was sparse, which was accentuated by the cancellation of JOLTS data due to the partial Government shutdown. However, as the session progressed, T-Notes came off its lows of 111-13+, and ground higher as sentiment continued to worsen out of the US. US indices saw notable downside, as did Bitcoin, while precious metals soared, reclaiming some recent losses, and in turn, T-Notes benefited from the souring sentiment to hit highs of 111-21+. On the shutdown, the US House approves funds to end the partial government shutdown and sends them to US President Trump for signing into law (which is a given), but it still means the US payrolls report on Friday is delayed, with ING writing this week's data may be published next week. Looking ahead, attention is on the quarterly refunding announcement on Wednesday, alongside ISM Services, ADP (Jan), and earnings from GOOGL/QCOM/ARM earnings after-hours.

SUPPLY

BILLS

- US sold 6-week bills at a high rate of 3.64%, B/C 2.83x
- US is to sell USD 105bln of 4-wk bills and USD 95bln of 8-wk bills on February 5th; USD 85bln of 8-wk bills on February 4th;

all to settle on February 10th

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: March 1bps (prev. 2.2bps), April 5.3bps (prev. 5.8bps), June 17.4bps (prev. 17.3bps), December 48.7bps (prev. 47.4bps).**
- NY Fed RRP op demand at USD 1.79bln (prev. 10.42bln) across 18 counterparties (prev. 8)
- EFFF at 3.64% (prev. 3.64%), volumes at USD 93bln (prev. 101bln) on February 2nd.
- SOFR at 3.69% (prev. 3.68%), volumes at USD 3.307tln (prev. 3.275tln) on February 2nd.

CRUDE

WTI (H6) SETTLED USD 1.07 HIGHER AT 63.21/BBL; BRENT (H6) SETTLED USD 1.03 HIGHER AT 67.33/BBL

The crude complex was firmer, supported by US/Iran tensions, seemingly intensifying once again. Prior to this, WTI and Brent were choppy, but ultimately pressured in the European morning to hit lows of USD 61.12/bbl and 65.19, respectively, following comments by Russia's Deputy PM Novak, saying they have a surplus in fuel supplies. Following this, benchmarks ground higher from lows before extending to intra-day highs after WSJ reported that Iranian gunboats approached a US oil tanker in the Strait of Hormuz early Tuesday and ordered it to stop. In response to this, the US military shot down an Iranian drone that approached a US navy Aircraft Carrier in the Arabian Sea. Separate reports suggested that, ahead of the Iran/US meeting, Iran reportedly wants to change venue [Oman from Istanbul] and the format of nuclear talks with US – they also now want to hold them in a bilateral format, only with the US, rather than with several Arab and Muslim countries attending as observers, with Axios sources adding that is because the Iranians want to limit the talks to nuclear issues and not discuss things like missiles and proxy groups that are priorities for other countries in the region. After-hours focus will be on the weekly private inventory figures, whereby current expectations are (bbls): Crude +0.5mln, Distillates -2.3mln, Gasoline +1.4mln.

EQUITIES

CLOSES: SPX -0.84% at 6,918, NDX -1.55% at 23,339, DJI -0.34% at 49,241, RUT +0.31% at 2,648

SECTORS: Technology -2.17%, Communication Services -1.28%, Health -1.01%, Consumer Discretionary -0.95%, Financials -0.88%, Real Estate -0.29%, Industrials +0.89%, Utilities +1.54%, Consumer Staples +1.71%, Materials +2.00%, Energy +3.29%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.24% at 6,030, Dax 40 +0.02% at 25,411, FTSE 100 -0.03% at 10,137, CAC 40 -0.14% at 8,347, FTSE MIB -0.45% at 45,525, IBEX 35 +0.08% at 17,687, PSI +0.77% at 8,559, SMI -0.44% at 13,368, AEX +0.37% at 997

STOCK SPECIFICS:

- **NVIDIA (NVDA):** OpenAI has determined it needs alternatives to NVDA's latest AI chips in some cases.
- **Palantir (PLTR):** EPS & rev. beat w/ stellar guidance.
- **PayPal (PYPL):** Profit & revenue light.
- **NXP Semiconductors (NXPI):** In line revs. & slower-than-exp. automotive growth, which outweighed the modest earnings beat.
- **Amazon (AMZN):** Will cut c.2.2k jobs in Washington as part of 16k Co-wide layoffs.
- **Woodward (WWD):** Top & bottom line beat with a strong outlook.
- **PepsiCo (PEP):** EPS, rev. topped, affirms '26 outlook & plans to cut prices by up to 15% on snacks due to customer complaints.
- **Archer-Daniels-Midland (ADM):** Top line light with a weak '26 profit view.
- **Merck (MRK):** FY guidance disappointed.
- **Eaton (ETN):** Rev. light w/ next Q & FY profit weak.
- **Pfizer (PFE):** Solid Q4 metrics, but midpoint of FY outlook underwhelmed.
- **Intel (INTC)** CEO says couple customers knocking on his door now after 18a process tech doing well; of there is any slowdown, it would be from memory - Cisco AI summit; Knowledgeable people told him the US is behind China on open-source AI; 'No relief' on memory shortage until 2028.
- **Google (GOOGL):** Reportedly looking at major Indian expansion as US tightens visa rules.
- **Santander (SAN SM):** To acquire Webster Financial (WBS) for USD 75/shr, according to Bloomberg TV.
- **Gartner (IT):** FY26 guidance missed.
- **IT names:** Weighed by Anthropic's recent release of a new automotive AI tool that weighed of Experian (EXPN LN), LSEG (LSEG LN), Thomson Reuters (TRI), and LegalZoom (LZ), before weighing on the Software Sector ETF, IGV; the Gartner guidance miss also weighed. Blue Owl Capital (OWL) was also weighed due to its exposure to software.
- **Novo Nordisk (NVO):** Releases 2026 sales and op. profit outlook; Sees 2026 sales at constant FX -5% to -13% (exp. -1.39%).

FX

The Dollar was broadly weaker against major peers, trimming the strength seen after Monday's strong ISM Manufacturing PMI reading. The dollar was briefly weighed further vs EUR, GBP, and JPY on geopolitical updates, whereby the US military shot down an Iranian drone that approached USS Lincoln in Arabia, an update that followed reports of an Iranian gunboats approached a US oil tanker in the Strait of Hormuz early Tuesday and ordering it to stop. The risk-off tone in US equities, likely kept a floor to USD weakness, with US Treasuries benefiting in a flight to safety. Aside from the above, developments were light as the US House has approved funds to end the government shutdown, which may mean the delayed JOLTS (Dec) and NFP (Jan) reports that were originally due this week may be rescheduled as early as next week.

G10 FX gains were led by Antipodes amid the renewed risk-appetite for precious metals. Also supportive for AUD was the hawkish RBA hike, namely, hiking rates by 25bps to 3.85% whilst stating that inflation is likely to remain above target for some time and that broad measures of wage growth continue to be strong. Governor Bullock offered no forward guidance. ING writes that with this hiking profile priced in and our bias for a slightly stronger USD, a gradual unwinding of this post-RBA rally looks more likely than a re-test of last week's 0.7094 high. Currently, AUD/USD trades ~ 0.7008

JPY lagged in the G10 space ahead of the Lower House election this Sunday. Overnight, Japanese Finance Minister Katayama clarified PM Takaichi's weekend remarks, noting the PM spoke about FX effects in general, not specifically favouring a weak JPY. USD/JPY traded between 155.29-156.08.

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