Wall Street impacted by Trump’s Greenland annexation threat

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After several months of seemingly being unaffected by the attacks by US President Trump on the post-war international economic order and the independence of the US Federal Reserve, Wall Street, after surging to record highs, reacted to his determination to annex Greenland when markets fell sharply on Tuesday.

They rose yesterday after Trump withdrew his threat to impose tariffs on Europe from February 1, following a speech at the Davos meeting in which he reasserted his determination to have the US own the territory. No doubt the turbulence in the markets played a part in the tariff backdown. In his rambling speech, Trump said that “Iceland” had cost a lot of money.

On Tuesday, the S&P 500 index fell more than 2 percent, erasing all its gains for 2026. The Dow was down almost 900 points, a fall of 1.8 percent, and the NASDAQ dropped 2.4 percent. It was the worst day for the three major stock indexes since October and recalled the “sell America” movement last April when Trump announced his “Liberation Day” tariffs.

All seven of the tech giants suffered a fall of at least 1 percent—Tesla and Nvidia were down 4 percent or more—the first time this has happened since last October. Collectively, they lost $653 billion, the seventh biggest one-day loss they have recorded.

The dollar fell by 0.9 percent against a basket of currencies, continuing its slide of 9 percent for 2025. Gold went well over $4,700 per ounce, a new record, while the yield on longer-term Treasuries rose.

Trump had threatened a tariff of 10 percent against major European countries, rising to 25 percent by June, if they did not agree to his demand that the US take over Greenland. In response, the European Union (EU) suspended the earlier trade deal it reached with the US and threatened to impose tariffs of some €93 billion.

There has also been discussion about the invocation of what has been called the “big bazooka”—the Anti-Coercion Instrument (ACI)—which provides for sweeping powers to ban US goods and to hit the operations of US companies in the EU.

Despite Trump’s tariff pullback, none of the fundamental issues in the conflict has been resolved.

The breakdown of the international financial and economic order that the Greenland conflict signifies was highlighted in an address by Canadian Prime Minister Mark Carney to the World Economic Forum meeting in Davos.

“Stop invoking the ‘rules-based international order’ as though it still functions as advertised,” he said. “Call the system what it is: a period where the most powerful pursue their interests using economic integration as a weapon of coercion.”

While it has not been advanced by any European government, there has been discussion in ruling political and financial circles of using an even bigger weapon than the ACI. It was set off by a note issued on Sunday by George Saravelos, the head of global currency research at Deutsche Bank.

“Europe owns Greenland, it also owns a lot of [US] Treasuries,” he wrote.

“For all its military and economic strength, the US has one key weakness: it relies on others to pay its bills via large external deficits.”

The question which is being raised is why—under conditions where all attempts at placating Trump, capitulating to his demands and arriving at subservient deals have failed—Europe should continue to finance the buildup of American military might now being used openly against it.

“European countries own $8 trillion of US bonds and equities, almost twice as much as the rest of the world combined. In an environment where the geoeconomic stability of the western alliance is being disrupted existentially, it is not clear why Europeans would be as willing to play this part," Saravelos wrote.

He noted that the net international investment position of the US—a balance sheet recording the foreign assets of a given country and its foreign liabilities—was at "record negative extremes" and the interdependence of European and US financial markets had never been higher.

"It is a weaponization of capital rather than trade flows that would by far be the most disruptive to markets."

US Treasury Secretary Scott Bessent dismissed the issue of a European withdrawal from US financial markets as "media hysteria"—a completely "false narrative" without any logic. But if the media hares were set running, it was because of a note issued by a major German bank.

And there are indications of a movement by financial institutions.

The Danish pension fund, AkademikerPension, which started winding down its holdings of US Treasuries last year, said it would completely exit this market at the end of the month because of the credit risks.

"The US is basically not a good credit risk and long-term the US government finances are not sustainable," the chief investment officer at the fund Anders Schelde told Bloomberg.

The fund, which has $25 billion in assets, has only invested $100 million in US Treasuries—a tiny drop in the ocean of the market. But as the Bloomberg report noted, the decision "marks an important symbolic step in the current political context as institutional investors rethink what constitutes a safe haven."

Others are also rethinking. In the US, the giant bond trading firm Pimco has said that it is on a "multiyear period of some diversification away from US assets."

Schelde's claim that the US financial position is ultimately unsustainable at the rate it is proceeding is not some comment out of left field, but is the opinion of US bodies, including the Federal Reserve.

The financial interdependence of the US and Europe has meant that the threat of a European withdrawal from the US Treasury market has been largely dismissed, because it would be the financial equivalent of nuclear mutually assured destruction. Nonetheless, like the nuclear option, it is being discussed and not only in Europe.

In a comment piece published in the *Financial Times* this week, Rebecca Patterson, a senior fellow at the Council on Foreign Relations, pointed to the European holdings of Treasury debt, noting that in the conflict with Trump, "Europe has more leverage than some might suppose."

"It still seems highly unlikely that the US will secure the political and legal support … to take over Greenland. But if Trump continues to press, Europe may decide that the best line of defense is not trade, but capital," she concluded.

The conflict over Greenland is not the only source of potential financial market destabilization. A major shift in Japan will have international ramifications. Japan has been marked by ultra-low interest rates which have led to the yen carry trade, in which investors borrow money in Tokyo and use it to secure higher returns in the US.

But the interest rate landscape is shifting. This week, the interest rate on Japanese 40-year bonds hit 4 percent, the first time this has happened since their introduction in 2007. The interest rate on the 10-year bond went over 2 percent, at one point reaching its highest level since 1999.

The immediate reason for the increase is a fiscal stimulus package announced by the Takaichi government, which will further add to government debt under conditions where debt servicing—the payment of interest and principal—consumes around a quarter of the government budget.

There have been warnings that in conditions of rising interest rates, a stimulus package could risk provoking a fiscal crisis.

In an editorial, the *Wall Street Journal*, one of the foremost advocates for cuts in government spending—except on the military—warned that Tokyo's "monetary normalization and its dire fiscal situation rank as one of the more serious threats to global financial stability at the moment," and that it was "an extreme case of a high-debt-low-growth policy that infects most other Western economies."