

Greenland Tariff Standoff and Its Implications

20 January 2026

Overview

- **US-Europe rift widens:** Washington’s tariff threat to force a Greenland purchase triggered strong European backlash, emergency EU diplomatic coordination, and firm rejection from both Denmark and Greenland.
- **High geopolitical stakes:** Greenland’s strategic value stems from its US missile-warning radar, proximity to emerging Arctic shipping lanes, and deposits of critical minerals, including rare earths.
- **Risk to Western unity:** A coercive US approach risks reinforcing Russian narratives of great-power pressure and could undermine NATO cohesion – a strategic gain for both Russia and China.
- **Market impact:** With investor positioning already extended, some profit-taking is likely. Barring an invasion, US earnings momentum is unlikely to be derailed. We stay constructive on the EU defence champions and gold.

Executive Summary – Greenland Tariff Standoff

On 17 Jan 2026, US President Trump announced that eight key European allies – Denmark, Norway, Sweden, France, Germany, the UK, the Netherlands and Finland – would face 10% tariffs from 1 Feb, rising to 25% on 1 Jun, unless they agree to a US purchase of Greenland.

Europe condemned the tariffs as coercive and damaging to transatlantic and NATO unity, warning of a “dangerous downward spiral”. EU leaders held emergency talks on 18 Jan and reaffirmed full support for Denmark and Greenland. Denmark and Greenland reiterated that the island is not for sale, with public protests underscoring rejection of US demands.

Geopolitical Implications – Why This Matters

1. Greenland is strategically critical to the US (Fig. 1).

- Greenland hosts US radar/missile early-warning infrastructure key for North American defence.
- Greenland sits along new Arctic shipping paths that are opening as ice melts, and it is close to key Russian shipping routes in the far north.
- Greenland has significant rare-earth and critical mineral deposits, essential for advanced tech.

Figure 1: Strategic importance of Greenland to the US



Source: Microsoft Copilot, UOB Private Bank

2. This could make Russia’s excuse look more valid.

- Such territorial coercion and economic blackmail could ironically legitimize narratives like those used by Russia to justify aggression in Ukraine – that powerful states can impose will on smaller neighbours under a “security threat” pretext.
- A fractured Western alliance might reduce coordinated pressure on Russia, potentially undermining the collective deterrence posture built since Russia's invasion of Ukraine in 2022.

3. A divided NATO is a strategic advantage to rivals.

- Russia and China could benefit from deep rifts among NATO and EU partners.
- Fractures can divert focus from Eastern European security and allow other major powers to exploit this diplomatic distraction.

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What This Means for Markets & Investors

First, tariffs on key European exporters could elevate costs for automotive, machinery, and tech supply chains, potentially slowing growth in affected sectors. The US consumers could face higher prices on imported goods, adding modest inflationary pressure.

Second, Europe has threatened countermeasures, including reviving pending tariffs on US goods under its “trade bazooka” policy. Escalation could widen into a full trade war, affecting global growth. To be clear, this is not our base case. On this note, we emphasise the importance of gaining portfolio exposure to safe-haven assets including gold.

Third, rising geopolitical tension increases risk premia across equities and credit markets. This could manifest in the form of:

- Wider spreads on European sovereign credit if the political risk premium rises.
- Higher equity volatility indices (e.g., VIX).
- Continued valuation rerating of defence and security-related industries.

Overall, investors can expect heightened volatility in equities and trade-sensitive sectors in the near term, especially in the developed Western markets. Given elevated positioning by retail and institutional investors alike, profit-taking should be reasonably expected. Having said that, investors have seen this US tariff playbook before; the market response may ultimately be more muted than the sharp drawdown seen in the wake of the “Liberation Day” in 2025.

For the US equities, this tariff episode is unlikely to derail earnings momentum in the near term unless the US invades Greenland. Meanwhile, there could be downward earnings revisions for the European equities in the near term, particularly in exports-oriented sectors such as luxury, automotive, machinery and semiconductor.

Currency volatility may take its course, but gradual USD depreciation against the EUR over the next twelve months remains our base case. Finally, we emphasise the importance of having a strategic allocation to European defence champions and safe-haven assets including gold. Gaining defensive equity exposure to quality companies via sell-put strategies remains appropriate.

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