

January 27, 2025

Weekly Investment Insights



Last week, world leaders gathered in Davos for the annual five-day meeting of the World Economic Forum. On the agenda were geopolitics, US-EU-China relations, climate and energy, the global economic outlook and much more. But what made the headlines was a little further away from Switzerland, in the US: Trump's first week in the Oval Office. Markets were turbulent as investors hung on every word Trump uttered, providing a taste of what the next four years could be like.

European stocks hit a record high last week, with investors showing optimism about Trump's Davos announcement saying that he will demand lower interest rates. Oil prices declined after Trump declared an energy emergency and the US dollar fell on hints of a softer stance on China tariffs.

This week sees monetary policy meetings from both the Fed and the ECB. The Fed is expected to hold rates steady while the ECB is expected to cut rates by 25bps.

WEEKLY ROUNDUP

Trump's first week in office

President Donald Trump has only been back in the Oval Office for a week, but he has wasted no time in making good on his campaign promises. To the surprise of many, his first order of business was not to implement his promised trade tariffs but instead focused on immigration, the environment and diversity initiatives. It was not long, however, before Trump doubled down on his promise to impose trade tariffs.

In his first week back in office, Trump signed more than 70 executive orders, some of which include:

- Barring asylum from people arriving at the southern border
- Move to end birthright citizenship
- The suspension of the Refugee Admissions Program
- Assessing China's compliance with a trade deal signed by Trump in 2020, as well as the United States-Mexico-Canada Agreement
- Ordering the government to study the feasibility of creating an "External Revenue Service" to collect tariffs and duties
- Withdrawing the United States from the Paris Agreement
- Rolling back electric vehicle targets
- Declaring a national energy emergency, unlocking the power to waive certain environmental regulations

These are just some of the executive orders signed by Trump during his first week in office, but they are some that investors will be watching closely for their potential impact on the economy.

In addition to these orders, Trump has vowed to hit China, Mexico, Canada and the European Union with tariffs, some of which as early as 1 February.

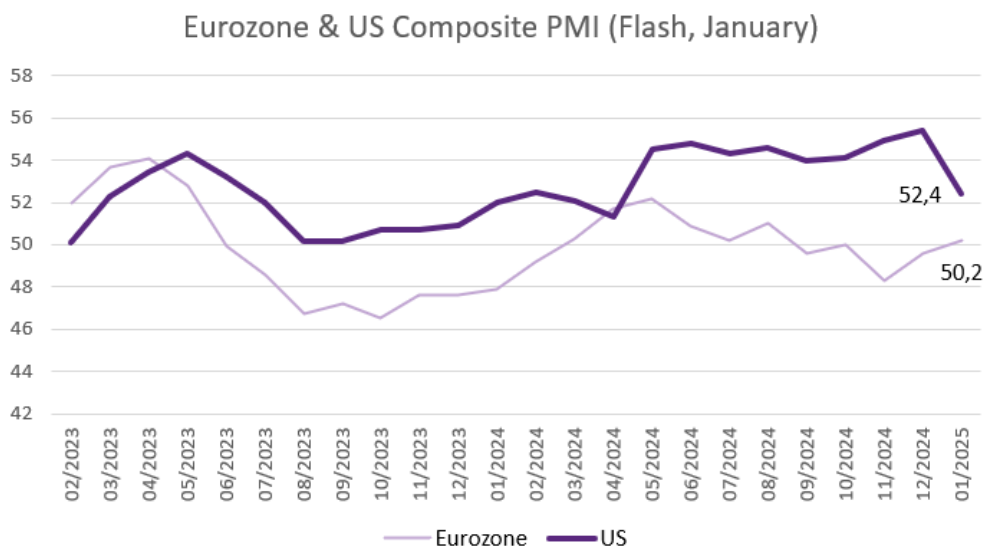
All of these announcements made for turbulent markets last week as investors tried to make sense of the potential impact of Trump's promises.

Services continues to drive growth on both sides of the Atlantic

The eurozone composite PMI rose to 50.2 in January from 49.6 the previous month. The increase was driven by an improvement in manufacturing, while services activity declined slightly to 51.4 in January. New business rose in the services sector, but demand from abroad fell. On the employment side, the number of people in work rose at the fastest pace in six months. Input prices also rose sharply, at the fastest rate in nine months.

Turning to the manufacturing sector, the PMI surprised on the upside, rising to 46.1 in January from 45.1 in December. Output, new business and employment continued to fall, though the contraction in output was the slowest in 8 months. Input costs also rose for the first time in five months.

Across the Atlantic in the US, the composite PMI eased to 52.4 in January from 55.4 in December, driven by a slowdown in the services sector. In the manufacturing sector, growth resumed after six months of contraction, rising to 50.1 from 49.4 in December. The services sector continued to expand, but at a slower pace, with the PMI falling to 52.8 in January from 58.8 in the previous month. Businesses' outlook for the year ahead, however, was at its highest level since May 2022, boosted by optimism over the new government's policies.



Source: Bloomberg, BIL

Projections for Germany's growth slashed after two years of recession

The German economy shrank by 0.2% in 2024. The Bundesbank, Germany's central bank, has cut its growth forecast for 2025 from 1.1% to 0.2%. The downgrade comes after two years in which the German economy has contracted due to increased competition, high energy costs and political uncertainty.

The ZEW indicator for economic sentiment fell to 10.3 in January, from 15.7 in December, in response to the lack of growth and inflationary pressures on the horizon. This, combined with Trump's recent reassurance that Europe will indeed be hit by tariffs soon, continues to leave little optimism for a German recovery any time soon.

Bank of Japan raises interest rates to a 17 year high

The Bank of Japan (BoJ) raised its short-term interest rate by 25bps to 0.5% on Friday, the highest level since the 2008 financial crisis. The decision was widely expected and was in line with the BoJ's pledge to continue raising rates after the 25bps hike last July, although no guidance was given on when a next hike might be expected.

Just before the monetary policy meeting, Japan's core inflation figures for December came in at 3% year-on-year, the highest level since August 2023. Unlike in other economies, an inflation rate at or above the BoJ's 2% inflation target is more welcome. Japan has long struggled with deflation hanging over the economy and is trying to encourage inflation that will boost wages and increase consumption, breathing more life into the economy.

The BoJ raised its inflation forecasts, noting that the price outlook is now skewed to the upside amid worsening labour shortages, rising rice costs and higher import costs due to a weak yen.

The yen rallied after the BoJ's rate decision and inflation upgrade.

Calendar for the week ahead

Monday – Germany Ifo Business Climate (January).

Tuesday – France Consumer Confidence (January). Spain Unemployment Rate (Q4). US CB Consumer Confidence (January).

Wednesday – Germany GfK Consumer Confidence (February). **Fed Interest Rate Decision.**

Thursday – Switzerland Balance of Trade (December), KOF Leading Indicators (January).

Eurozone, France, Germany, Italy GDP Growth Rate (Flash, Q4). Eurozone Unemployment Rate (December), Consumer Confidence (Final, January). **ECB Interest Rate Decision. US GDP Growth Rate (Adv, Q4), Jobless Claims.**

Friday – Germany, Switzerland Retail Sales (December).

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