February 10, 2025

Weekly Investment Insights

US equities ended lower last week, amid tariff uncertainty stemming from the Trump administration. While proposed tariffs on Canada and Mexico were postponed for thirty days after the President spoke with their respective leaders, reaching compromises on border control, 10% tariffs on China went ahead. China responded with tariffs on an estimated $14Bn of US goods (less than 10% of total imports from the US in 2023), including LNG, crude, and farm equipment. Overall, however, the response was not perceived as escalatory, rather as a way to approach negotiations.

Trade is again capturing the headlines this morning, after Trump, over the weekend, suggested he would impose 25% tariffs on all steel and aluminum going into the US. We await more details on the intended timeline, and insofar as now, the market reaction has been contained.

On Friday, the pan-European STOXX Europe 600 Index ended 0.60% higher (in local terms) —just shy of its recent record high —defying concerns about US trade policy. Oil, on the other hand, saw its third weekly decline, with traders concerned about how tariffs will affect growth (especially in China), and thus energy demand.

Elsewhere, the bulk of corporate earnings have now been delivered. In the US, where over *three-quarters of S&P 500 firms have now reported, Q4 earnings growth has been stronger than initially expected, at +13.29% YoY. 74% of firms have beat EPS estimates, bringing an aggregate positive surprise of 6%. In terms of sectors, Communication Services and Tech are still important drivers of overall EPS growth, but the spread between Mag-7 and S&P500-ex-Mag-7 earnings growth has closed to the smallest degree seen over the past eight quarters.*

The continued resilience we are seeing in corporate earnings suggests that the soft-to-no-landing scenario is still intact.

In Europe, with 44% of companies having reported, EPS growth is coming in at +0.5% YoY vs -1.3% expected. 49% of the companies that have reported have beat EPS estimates, surprising positively by 2%.

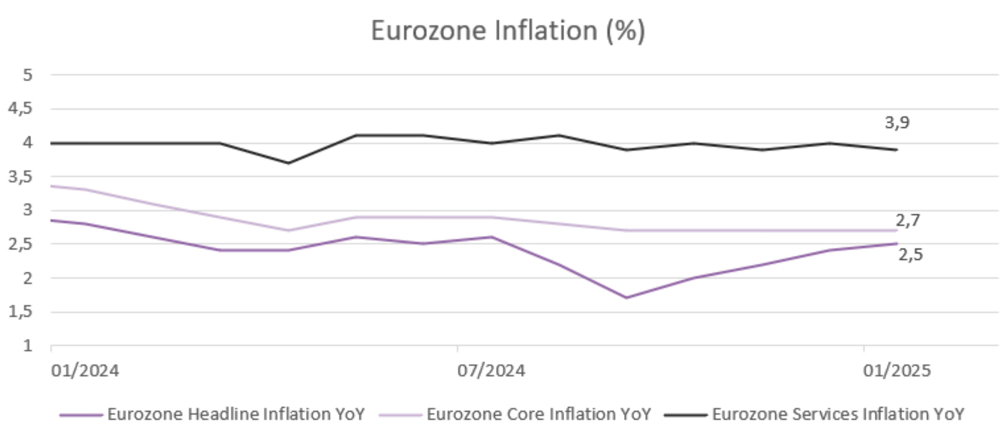
WEEKLY ROUNDUP

Eurozone inflation inches up in January

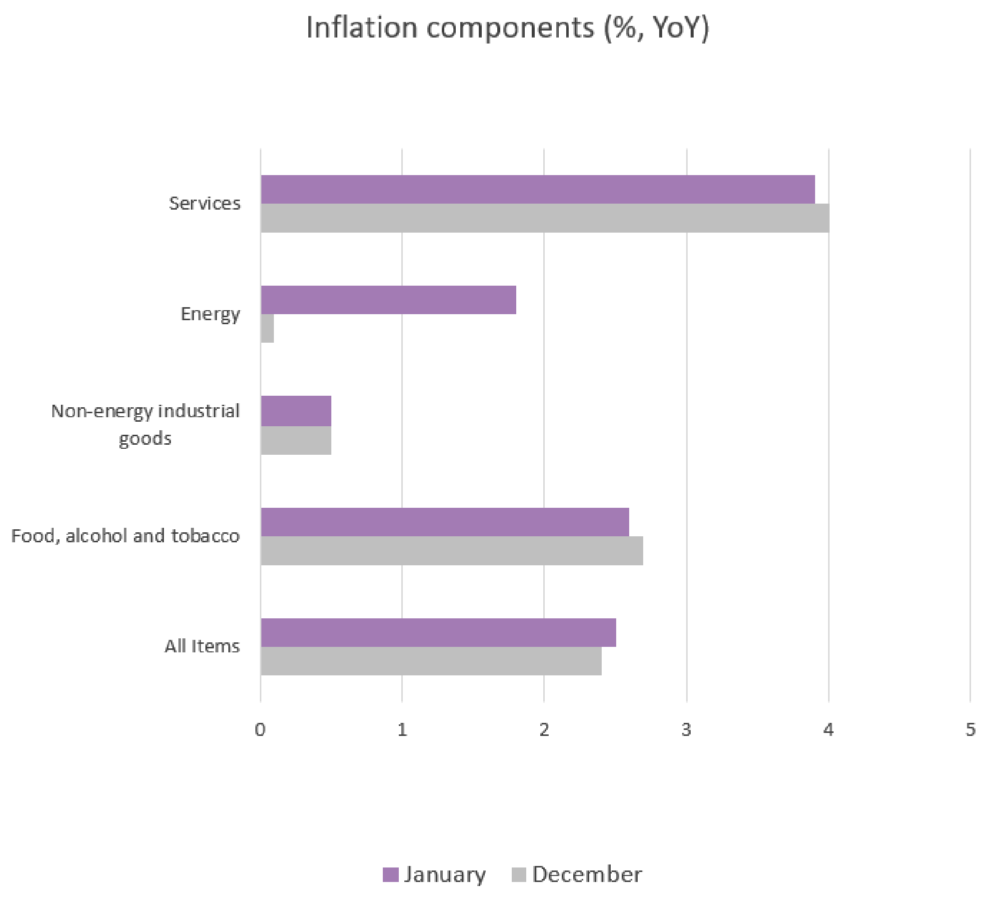
Headline inflation in the Euro Area rose from 2.4% YoY, to 2.5% in the first month of 2025, driven by a sharp acceleration in energy costs (1.8% YoY, vs 0.1% in December).

Inflation for non-energy industrial goods remained steady at 0.5%, while price increases slowed for both services (3.9% vs 4.0%) and food, alcohol, and tobacco (2.3% vs 2.6%). The core inflation rate, which excludes volatile food and energy prices, remained unchanged at 2.7% for the fifth consecutive month.

Despite the gradual increase in headline inflation that began in September, at the ECB's January monetary policy meeting, President Christine Lagarde said, "the disinflation process is well on track," hinting that further rate cuts were likely. The one sticking point is that services inflation is still uncomfortably above the 2% target. Nonetheless, the central bank does believe it will come down this year as wage pressures ease.



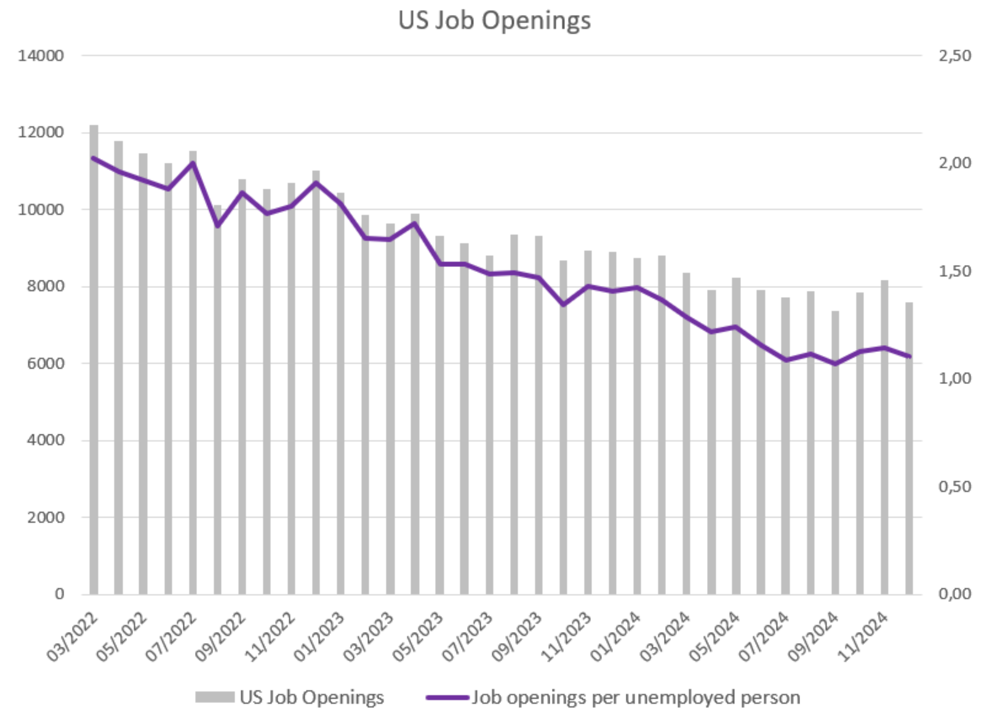
Source: Bloomberg, BIL



Source: Bloomberg, BIL

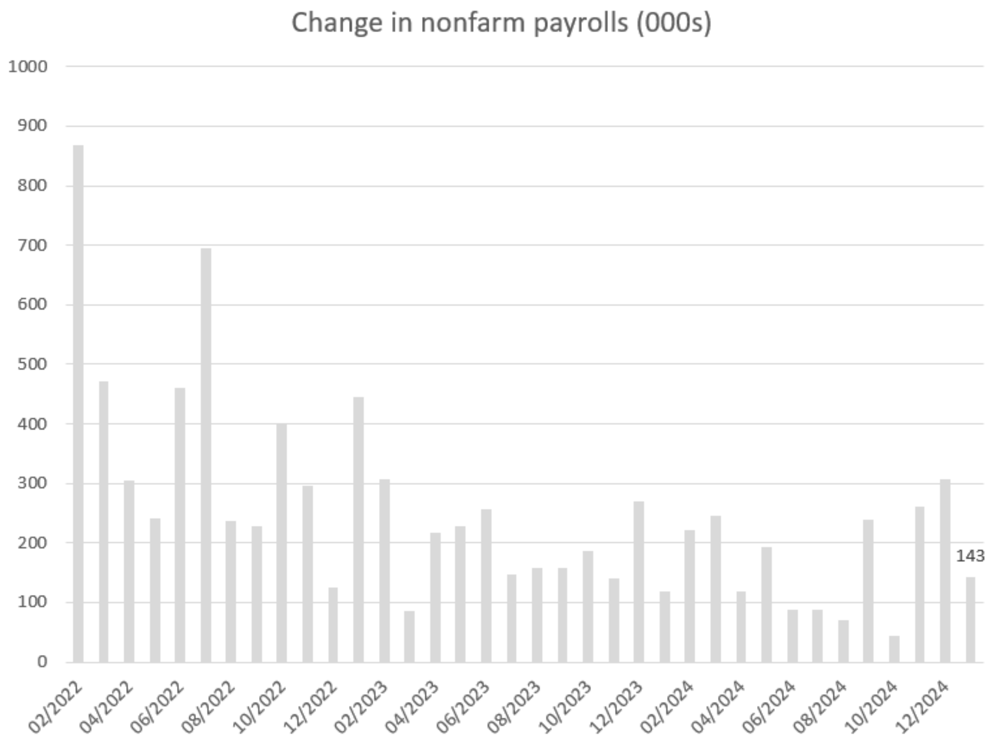
Incoming data points to only gradual cooling in the US labour market

Data released on Tuesday showed that there were 7.6 million job openings in the US in December, 556k fewer than in the previous month. At the same time, however, the number of layoffs declined modestly while more people quit their jobs: both indicators push back against worries about deterioration in the job market. After all, people are unlikely to quit if they aren't confident that they will be able to find something else.



Source: Bloomberg, BIL

The same idea was reiterated in Friday's payroll data. While the headline number of jobs added came in slightly below expectations in January (143k versus 170k), the broader picture is still one of labour market resilience and sustained wage pressure. Job gains across November and December were collectively revised up by +100k, while the unemployment rate dipped by 0.1 percentage point to 4.0%, marking its lowest level since May. Wage growth was also stronger than expected, jumping 0.5% MoM or 4.1% YoY. This was partly due to minimum wage hikes that took effect last month in 21 states and dozens of municipalities.



Source: Bloomberg, BIL

On balance, both reports would seem consistent with the Fed’s view that the labour market is healthy enough to tolerate a more cautious approach to policy easing, especially given the uncertainty surrounding tariff policy and the recent PMI data pointing to renewed price pressures.

Bank of England cuts interest rates to 4.5% amid weak growth

On Thursday, the Bank of England (BoE) cut interest rates by 25 basis points to 4.5%, while halving its growth forecast. The Bank now expects growth to be 0.75% in 2025 and inflation to peak at 3.7%. The Bank said that before carefully deciding when and by how much to cut rates next, it will monitor inflation closely and needs to be "confident that inflation will remain low and stable in a lasting way".

The 25 basis point cut was in line with expectations, but the surprise was that two committee members voted for a larger cut of 50 basis points. It is clear that the weakness in growth is a cause for concern for the BoE, with risks tilted to the downside from increased costs for employers as a result of the Autumn Budget, a potential global trade war and rising inflation.

Sterling weakened and two-year UK government bond yields fell as investors increased their bets on another BoE cut this year.

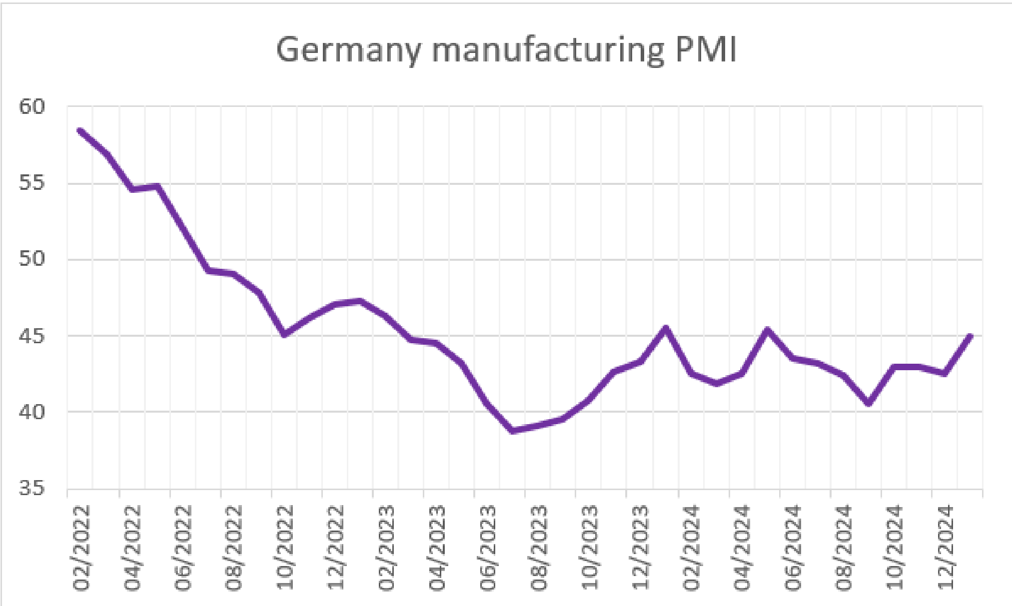
German factory orders rebound in December in another sign that manufacturing might be bottoming out

After a fall of 5.2% in November, German factory orders rose by 6.9% month-on-month in December, thanks to a jump in major orders for aircrafts, ships and trains and a rise in orders for machinery and equipment. Demand in the automotive sector remained weak, falling by 3.2% on the month.

The increase in new orders came mainly from domestic demand, while demand from the euro area rose by 6.2%, but new orders from the rest of the world fell by 1.5%.

Despite this upturn, German industry continues to struggle. Industrial production in Germany fell by 2.4% in December, the biggest drop since July, dragged down by lower output in the car industry and in the maintenance and assembly of machinery.

According to PMI data, the German manufacturing sector has been in contraction since the summer of 2022. While it remains to be the case, there are tentative signs that the situation is bottoming out (the PMI rose from 42.5 to 45.0 in January).



Source: Bloomberg, BIL. 50 is considered the mark between contraction and expansion.

For the fragile recovery, a lot now depends on the elections at home, resulting policy tweaks, and Trump's trade tactics.

As the German election on February 23rd draws nearer, polls suggest the CDU is the frontrunner, with the AFD in second place. Nonetheless, to have a majority, it is more than likely that the leading party will need to form a coalition, meaning little immediate policy changes to support the economy in the near-term.

Calendar for the week ahead

Monday – US Consumer Inflation Expectations (January).

Tuesday – US NFIB Business Optimism Index (January).

Wednesday – Italy Industrial Production (December). US Inflation (January).

Thursday – UK GDP Growth Rate (Q4, Prel), Balance of Trade (December). Switzerland Inflation Rate (January). Eurozone Industrial Production (December). US PPI (January), Jobless claims.

Friday – UK Industrial, Manufacturing, Production (December). Eurozone GDP Growth Rate (Q4, Prel). US Retail Sales (January), Industrial Production (January), Industrial, Manufacturing, Production (January).

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