February 17, 2025

Weekly Investment Insights

Stocks on both sides of the Atlantic finished higher last week. Stateside, the S&P 500 Index and Nasdaq Composite both closed the week within 1% of all-time highs, showing the most momentum on Thursday after Trump shunned global tariffs in favour of a more targeted, country-by-country approach based on reciprocity. The Commerce Secretary and his team will now work on a plan, which is expected to be delivered on April 1st. Traders appeared to welcome this delay which could allow for negotiations between the US and its trading partners.

Here on the continent, European equities hit a new high last week on optimism that US-Russia dialogue might bring about the end of the Ukraine war. Some robust earnings reports also helped.

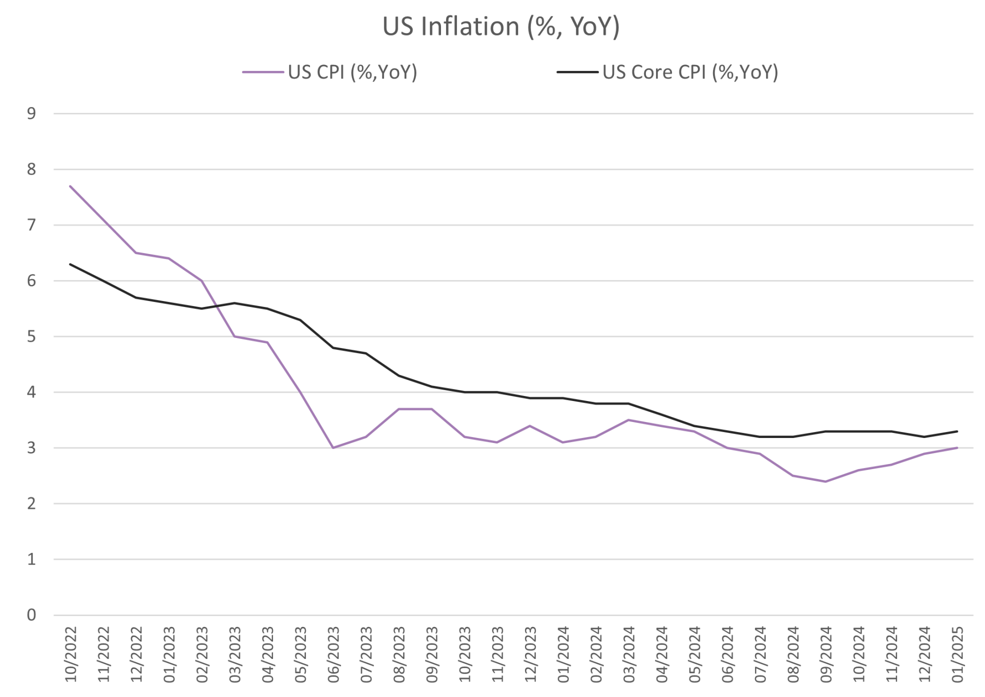
According to FactSet, 77% of companies on the S&P 500 have now reported their results, delivering EPS growth of 16.9% on aggregate (a positive surprise of 7.3%). The results were met with upwards revisions to expected earnings growth. Worth noting, is that for Q1 2025, S&P 500 companies with more international revenue exposure are projected to report lower earnings than equivalents with more domestic revenue exposure. The estimated earnings growth rate for the S&P 500 for Q1 2025 is 8.1%. For companies that generate over 50% of sales within the US, estimated EPS growth is 9.1%. For companies that generate over 50% of sales outside the US, the estimated EPS growth rate is 6.6%.

In Europe, less than half of companies have reported Aggregate EPS growth stands at around 2%, with an aggregate positive surprise of 4%.

WEEKLY HIGHLIGHTS

US headline inflation rises for a fourth month

US headline inflation rose for a fourth consecutive month in January, reaching 3.0% year-on-year, slightly above the anticipated 2.9%. Core inflation, which strips out volatile categories, also unexpectedly rose to 3.3%, while forecasters had predicted a decline to 3.1%.



Source: Bloomberg, BIL

Metric	Actual	Estimate
CPI MoM	+0.5%	+0.3%
Core CPI MoM	+0.4%	+0.3%
CPI YoY	+3.0%	+2.9%
Core CPI YoY	+3.3%	+3.1%

Digging into the details, energy costs experienced a 1% YoY rise, primarily due to gasoline (-0.2% vs -3.4% prior), fuel oil (-5.3% vs -13.1%), and natural gas (4.9% vs 4.9%).

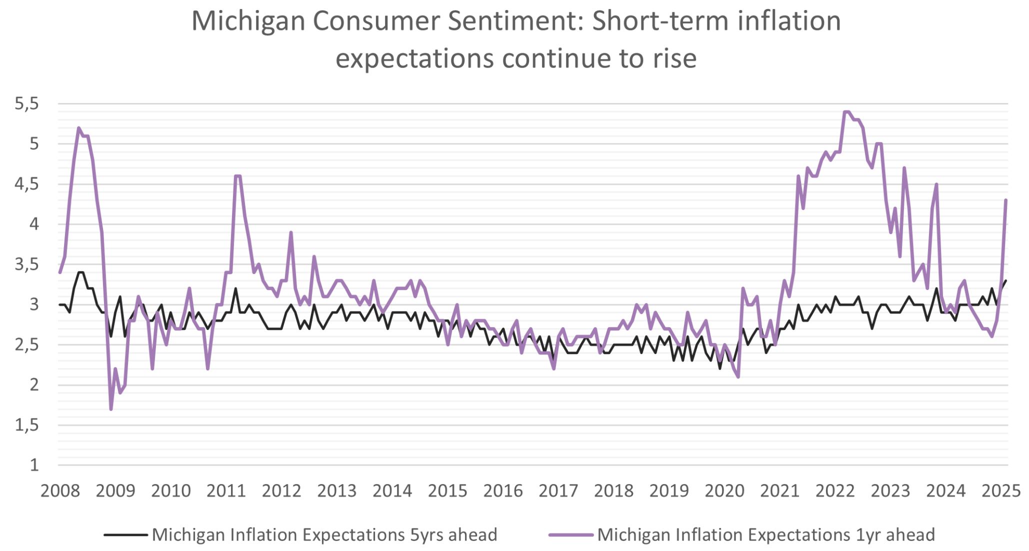
Additionally, prices increased for used cars and trucks (1% vs -3.3%), transportation (8% vs 7.3%), and hotel stays.

Conversely, inflation for food remained stable at 2.5% (vs 2.5% prior), while it slowed for shelter (4.4% vs 4.6%). Albeit, the latter still accounted for 30% of the overall monthly increase.

Some Fed officials have observed that inflation can heat up early in the year, as businesses implement outsized price increases. Evidence suggests some have even tried to front-run potential tariffs in their pricing strategies.

Overall, the print provides further evidence that the progress made in curbing inflation could be at risk of coming undone. Coupled with the fact that the labour market is cooling only very gradually, the case is there for the Federal Reserve to exercise caution in its approach to interest rate cuts in the months to come.

Fed policymakers also await more concrete facts on the new Administration's trade policies in order to calibrate policy accordingly. The threat of tariffs is already exerting significant upward pressure on consumer inflation expectations, as can be seen in the below chart.

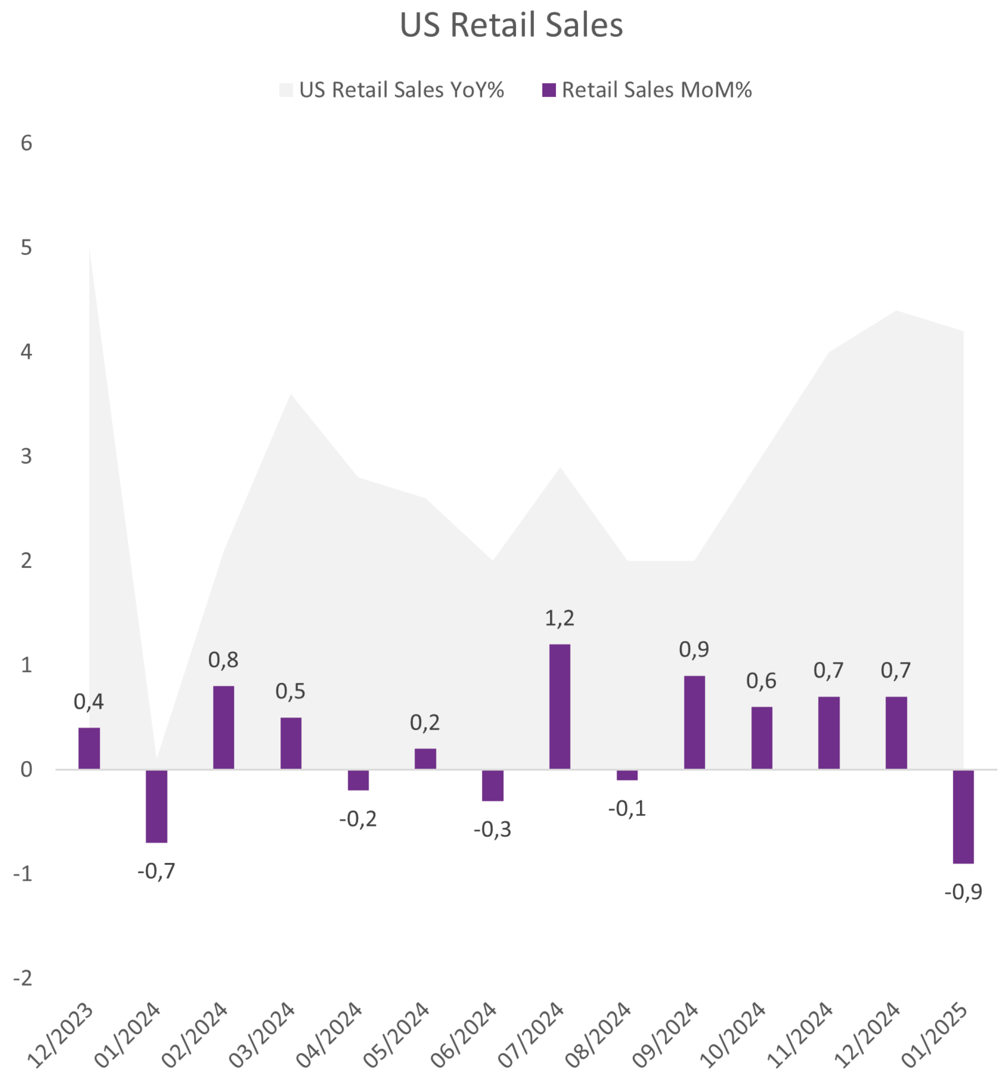


Source: Bloomberg, BIL

According to the University of Michigan Consumer Sentiment Survey, 1-year inflation expectations recently spiked to their highest level since November 2023, while long-run inflation expectations have reached 3.3% - the highest level since June 2008!

US Retail Sales

After a holiday spending spree, US consumers tightened their belts at the onset of 2025, with monthly retail sales dropping by the most in two years. The declines were broad-based, with 9 out of 13 categories falling. It is thought that wildfires in LA (the second largest metropolitan area in the US) and severe winter weather might have curtailed spending at brick-and-mortar stores, however, stubborn inflation and high borrowing costs are also taking a toll more broadly speaking. Until now, consumers have been the driving force behind US exceptionalism. The key question now is whether a potential spending slowdown could be partially compensated by an uptick in corporate activity amid Trump's business-friendly agenda.



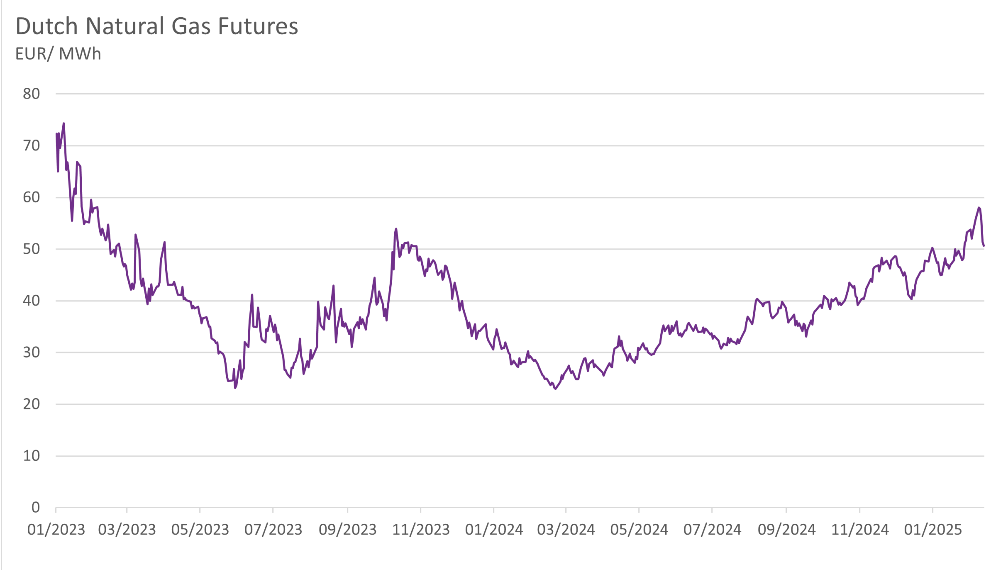
Source: Bloomberg, BIL

EU explores energy price cap

Reports last week suggested that the European Commission is contemplating a cap on gas prices. After a cold winter and a lack of wind for renewables, gas prices recently rose to levels unseen in over two years. A similar cap was already on the table back in 2022, at the height of the energy crisis, but it was never activated because prices remained below the €180 per megawatt-hour knock-in level.

Energy groups fear a gas price cap would "harm the trust" in Europe's benchmark, while others opine that price fixing is just a temporary band-aid and Europe must instead direct efforts towards bolster supply.

After hitting the highest level since February 2023, European gas prices tumbled towards the end of the week. One driver was the hope that US-Russia talks would lead to the end of the war in Ukraine, but the key catalyst was a request by Germany for exemptions from the EU's storage filling target this year. Policymakers in Berlin are concerned that the requirements are driving market speculation and pushing up prices as traders know that EU member states will have to intervene to make sure the targets are met.



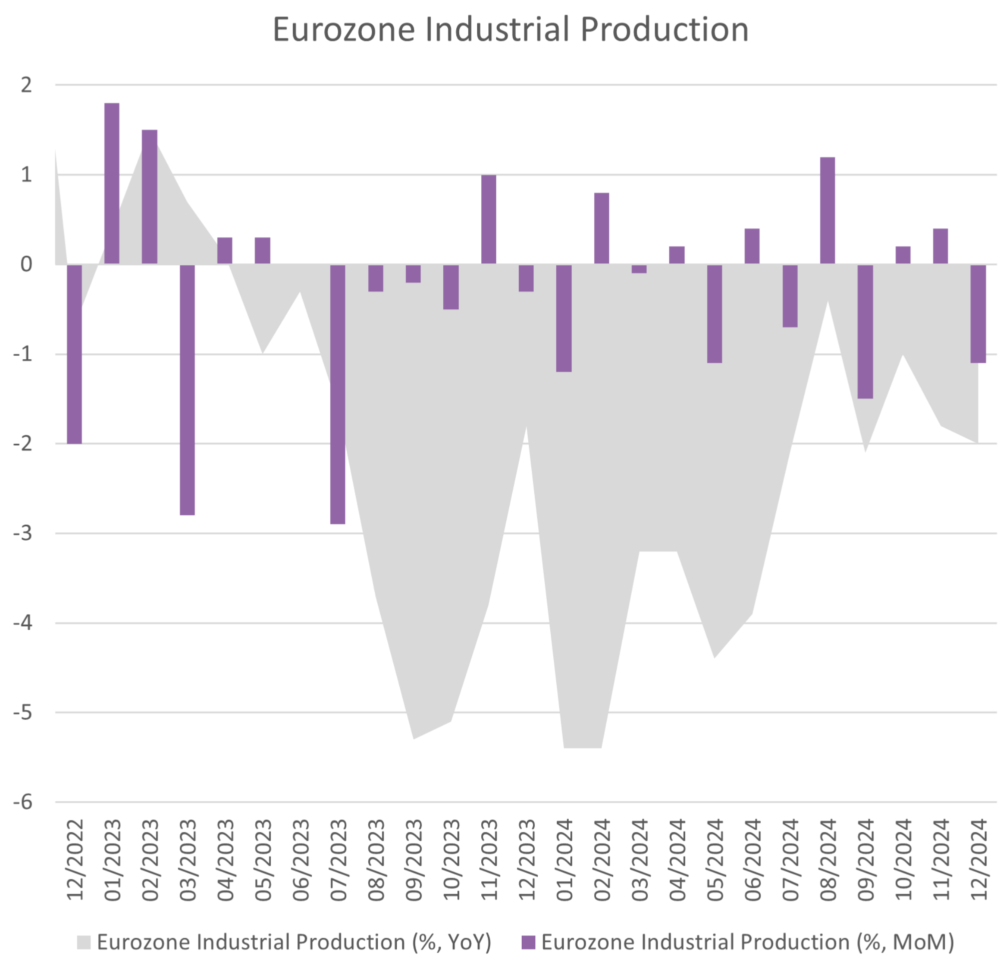
Source: Bloomberg, BIL

Eurozone Industrial Production declines in December

The energy crisis took a heavy toll on European industry, especially energy-intensive sectors, and a recovery is still not forthcoming. Eurozone industrial production fell by 1.1% MoM in December, while the market expected a more modest decline of 0.6%. The number was driven by reduced output in capital goods (-2.6%), intermediate goods (-1.9%), and durable consumer goods (-0.7%), while production increased for non-durable consumer goods (5.1%) and energy (0.5%).

On a country-by-country basis, industrial activity contracted in Germany (-2.9%), Italy (-3.1%), the Netherlands (-1.0%), and France (-0.4%), whereas Spain recorded a 1.4% increase

While manufacturing PMIs appear to be bottoming out, it is difficult to expect a quick turnaround amid weak global demand, volatile energy prices and looming trade tariff uncertainty.



Source: Bloomberg, BIL

UK economy surprises with 0.1% growth in Q4

Defying expectations of a contraction, the UK economy grew by 0.1% in the final quarter of 2024, bringing total growth for 2024 to 0.9%. Despite the growth surprise on the upside, there are still growing concerns about the outlook of the UK economy, with consumption and business investment coming in weaker than expected at the end of last year.

Growth is being driven by the services sector, with wholesalers, film distributors, pubs, machinery manufacturers and pharmaceutical companies performing well. However, business investment fell by 3.2%.

At its monetary policy meeting earlier in February, the Bank of England halved its growth forecast for 2025 to 0.75%. Businesses are facing higher costs as a result of the Autumn Budget, weak demand from Europe, higher energy costs and the potential impact of US President Donald Trump's trade tariffs, meaning that 2025 will likely be a challenging year for the economy.

Sterling strengthened on the surprising GDP print.

Calendar for the week ahead

Monday – Eurozone Balance of Trade (December).

Tuesday – **UK Unemployment Rate** (December). Switzerland Industrial Production (Q4). Eurozone, Germany ZEW Economic Sentiment Index (February).

Wednesday – **UK Inflation Rate** (January). US Housing Stats.

Thursday – Switzerland Balance of Trade (January). Eurozone Consumer Confidence (Flash, February). US Jobless Claims.

Friday – UK Gfk Consumer Confidence (February), Retail Sales (January). **Germany, France, Eurozone Manufacturing, Services & Composite PMIs** (Flash, February). **UK, US S&P Global Manufacturing, Services & Composite PMIs** (Flash, February). US Michigan Consumer Sentiment (Final, February).

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