

March 7, 2025

# Weekly Investment Insights



This newsletter was written on 07 March 2025.

*Last week, the euro reached its highest level versus the USD year-to-date, with traders anticipating an influx of cash into Europe's defense sector.*

*The European Government Bond market underwent a sharp uptick in long-term yields, particularly Germany, where borrowing costs rose by the most in 28 years. The reason is the fiscal impulse from European Governments keen to urgently increase defence spending after the Trump Administration's pivot on Ukraine.*

*Europe's policymakers have expedited steps to unlock hundreds of billions of euros in military spending, a move that might give the economy an additional tailwind. On Tuesday, European Commission President Ursula von der Leyen announced almost EUR 800 Bn of potential funding.*

*Thereafter, German Chancellor-in-waiting Friedrich Merz agreed with prospective coalition*

*partners that they would propose exempting spending of more than 1% of GDP on defence from rules that limit the government's ability to borrow money. They also said they will seek to set up a EUR 500Bn fund to finance spending on Germany's infrastructure over the next 10 years. The sheer magnitude of the proposed fiscal expansion is considered a game changer and analysts are rushing to revise up their growth forecasts for the Eurozone's largest economy. The impact will also likely spill beyond Germany's borders.*

*On the other side of the Atlantic, US President Trump's trade tariffs continued to rattle markets. His promised 25% trade tariffs on goods imported from Canada and Mexico came into effect on Tuesday, along with an additional 10% tariff on Chinese imports. The decision came after Trump said the three countries had not done enough to stop the flow of fentanyl into the US. Canada responded with reciprocal tariffs shortly afterwards, warning that a trade war would damage relations between trading partners and disrupt business on both sides of the border. Mexico also vowed to retaliate, and China responded with 10-15% retaliatory tariffs on US agricultural exports, affecting some \$21 billion of US exports. However, before the end of the week, Trump delayed tariffs on goods under the Mexico-Canada trade deal until April 2, when Trump is expected to impose a global system of reciprocal tariffs on all US trading partners.*

## WEEKLY HIGHLIGHTS

### **ECB cuts interest rates by 25 basis points, stating that the disinflation progress is "well on track"**

The European Central Bank (ECB) cut interest rates by 25 basis points on Thursday, bringing the deposit facility rate to 2.5%, as inflation eases and growth falters. Inflation data earlier in the week suggested that disinflation is moving in the right direction, allowing the bank to continue its rate cut path as expected.

Despite heading in the right direction, the bank now sees inflation averaging at 2.3% this year, above the 2.1% seen three months ago, due to stronger energy price dynamics. The bank noted that its "monetary policy is becoming meaningfully less restrictive, as the interest rate cuts are making new borrowing less expensive for firms and households and loan growth is picking up."

Along with its interest rate decision, the ECB also downgraded its growth forecasts, noting that the economy continues to face challenges with potentially lower exports and continued weakness in investment. Growth forecasts were updated to 0.9% for 2025, 1.2% for 2026 and 1.3% for 2027. Rising real incomes and the fading effects of past interest rate increases are expected to underpin the expected pick-up in growth over time.

The ECB lowered its 2025 economic growth forecast for the fourth consecutive time

	<b>MARCH FORECAST</b>	<b>PREVIOUS FORECAST</b>
<b>2025 GDP GROWTH</b>	0.9	1.1
<b>2026 GDP GROWTH</b>	1.2	1.4
<b>2027 GDP GROWTH</b>	1.3	1.3

To ensure that inflation stabilises at the ECB's 2% target, the bank said it will continue to “follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance”, and that it will not commit to a specific rate path.

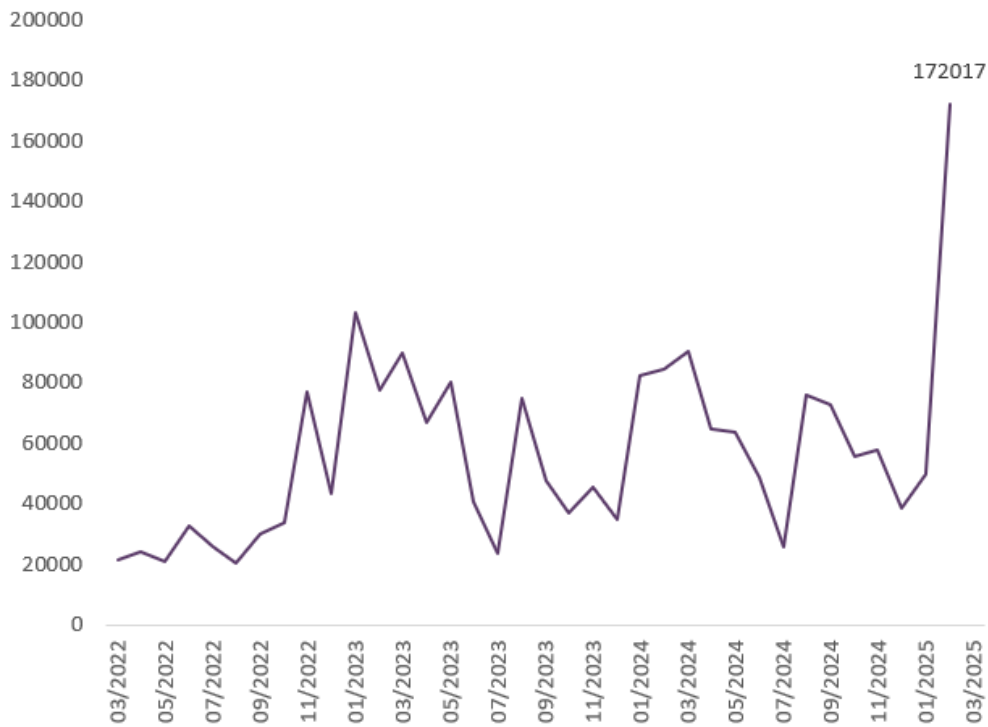
For now, investors are expecting the ECB to continue its rate cut path this year, despite a surge in budget spending that could eventually alter the outlook, with markets pricing in almost two more rate cuts this year.

### **US job growth picked up in February while the unemployment rate rose to 4.1%**

US employers added 151 000 jobs last month, after a downwardly revised increase of 125 000 in January. Employment increased in health care, financial activities, transportation and warehousing, and social assistance. Meanwhile, federal government employment fell by 10 000. The unemployment rate rose to 4.1%, up from 4% in January.

Data released last week also showed that US employers announced over 172 000 job cuts in February, up 245% from January and the highest monthly count since July 2020. More than a third of these job cuts were a result of DOGE (Department of Government Efficiency) efforts, with about 75,000 federal employees having accepted deferred resignation offers to leave their jobs in exchange for financial incentives as of February 12. Trade war fears, the cancellation of government contracts and bankruptcies also contributed to job cuts soaring.

## US Job Cuts (Challenger, Gray & Christmas)



Source: Bloomberg, BIL

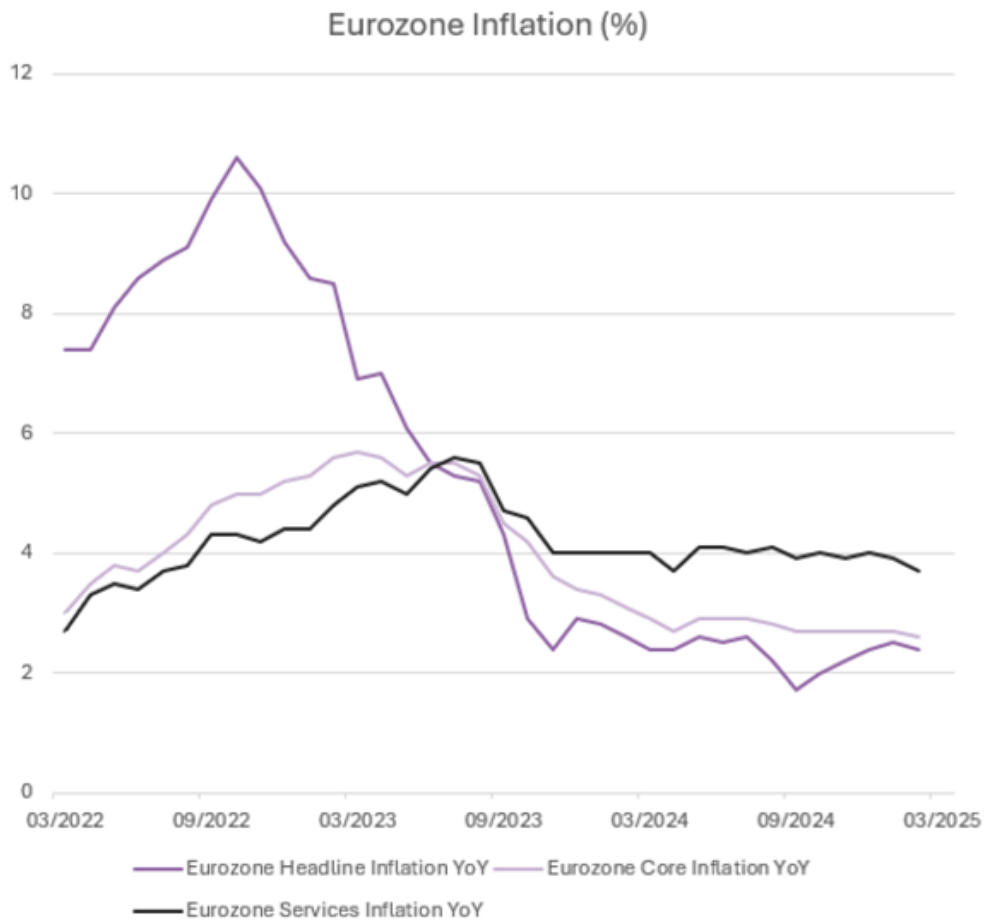
Total job cuts across the first two months of the year in the US now stands at 221,812. That's the highest for the period since 2009 and up 33% from the same time range in 2024.

## Eurozone inflation slows to 2.4% in February

According to flash estimates, the headline inflation rate in the Eurozone eased to 2.4% YoY in February, from 2.5% the month prior. Price growth slowed for services (3.7% vs. 3.9% in January) and energy (0.2% vs. 1.9%), but picked up for food, alcohol & tobacco (2.7%, compared with 2.3% in January) and non-energy industrial goods.

Core inflation, which excludes volatile categories like food and energy, also eased to 2.6%, marking the lowest level since January 2022.

The slight decline in the core rate, combined with slower price growth in services, is a reassuring sign that inflation is heading in the right direction, which was a welcome indicator for the ECB ahead of its monetary policy meeting last week.



Source: Bloomberg, BIL

### Eurozone unemployment rate holds steady at 6.2%

Eurostat data released Tuesday showed that the Eurozone unemployment rate held steady at 6.2% for a third consecutive month in January; a record low. Despite a wave of layoffs, especially in the manufacturing sector and in the bloc's largest economies, the data indicates that overall, the Eurozone labour market remains tight.

### OPEC+ to go ahead with planned oil production increase

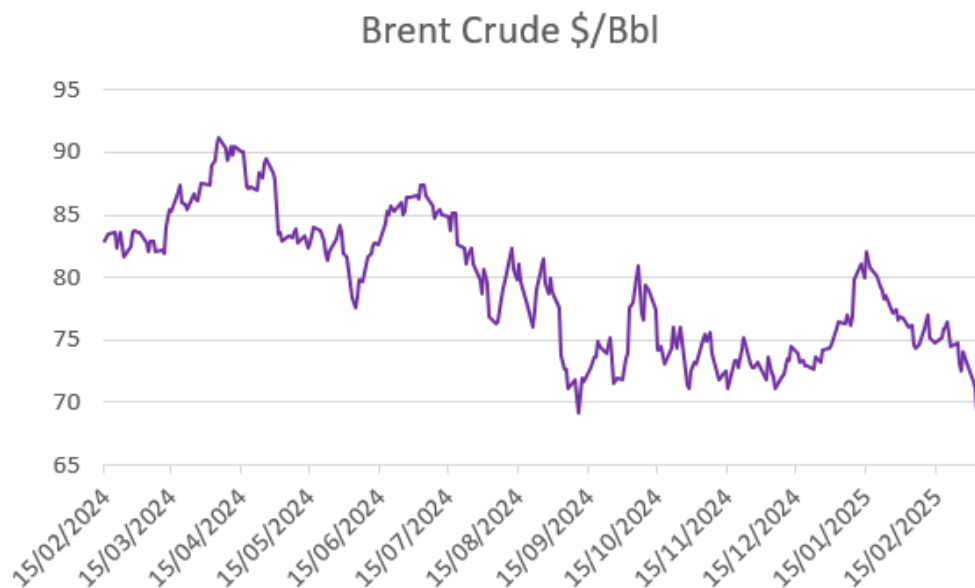
The Organization of the Petroleum Exporting Countries (OPEC+) announced last week that it will proceed with the planned increase in oil production in April. The increase will be the first since 2022, and follows pressure from US President Trump on OPEC and Saudi Arabia to lower prices. Oil prices fell on the announcement.

Although the production increase will go ahead, OPEC said it could be paused or reversed depending on market conditions, giving the group some flexibility on how best to support the oil

market.

After a volatile 2024, oil markets continue to long for stability. With a potential trade war that could disrupt supply, possible changes to US sanctions on major oil producers and lower demand from China, oil prices have fluctuated in recent weeks.

Prices have also fallen recently on the hopes that a peace deal between Russia and Ukraine will be reached, boosting Russian oil flows. However, whether this will be a direct outcome of a peace deal is still to be seen.



Source: Bloomberg, BIL as of 7/3/25

## Calendar for the week ahead

**Monday** – Germany Balance of Trade, Industrial Production (January). Switzerland Consumer Confidence (February). US Consumer Inflation Expectations (February).

**Tuesday** – US JOLTS Job Openings & Quits (January).

**Wednesday** – US Inflation Rate (February).

**Thursday** – Eurozone Industrial Production (January). US PPI (February), Jobless Claims.

**Friday** – UK GDP, Industrial Production Balance of Trade (January). US Michigan Consumer Sentiment (Prel, March).



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