March 24, 2025

Weekly Investment Insights

Last week was dominated by central bank meetings, with the Fed, the Bank of England, Sweden's Riksbank and the Bank of Japan holding rates steady amid heightened global uncertainty. Only the Swiss National Bank cut rates by 25bp. This was all in line with market expectations, making market movements following the announcements rather limited. In the US, however, equity markets rallied toward the end of the week as investors found Powell's statement largely positive. Gold continued to shine, rising to a record high after the Fed's announcement.

Central banks and companies around the world are waiting to see how tariffs will play out and what impact they will have on inflation and growth. Trump is set to unleash a new wave of "reciprocal" tariffs on 2 April. While no tariffs would be the widely preferred situation, even a clear announcement on what tariffs will be imposed could provide some stability and allow companies to adjust their strategies accordingly.

WEEKLY HIGHLIGHTS

The Fed holds rates steady in March

On Wednesday last week, the Federal Reserve kept interest rates steady at 4.25-4.5% and signalled two possible cuts in 2025. It also updated its economic forecasts, estimating that economic growth in 2025 will be 1.7% (down from 2.1%), while foreseeing higher inflation - headline PCE for 2025 is seen at 2.7% (up from 2.5%). It also announced that starting next month, it will slow the pace of its balance sheet drawdown amid an ongoing impasse over lifting the government's borrowing limit.

As mentioned in the introduction, the Fed is in a 'wait and see' mode, waiting for more clarity on the economic impact of tariffs before altering its policy pathway. Despite noting the increased uncertainty, the Fed said it sees another 50 basis points of rate cuts this year. However, Federal Reserve Chairman Jerome Powell stated that "If the economy remains strong, and inflation does not continue to move sustainably toward 2%, we can maintain policy restraint for longer ". Powell called the inflationary impact of tariffs "transitory"—a phrase that markets greeted with skepticism, recalling the Fed's earlier misjudgment of post-pandemic price pressures.

Equities rose after the announcement as investors saw the move as less hawkish than expected. It also triggered a relief rally in US Treasuries.

US retail sales recover from a two-year low

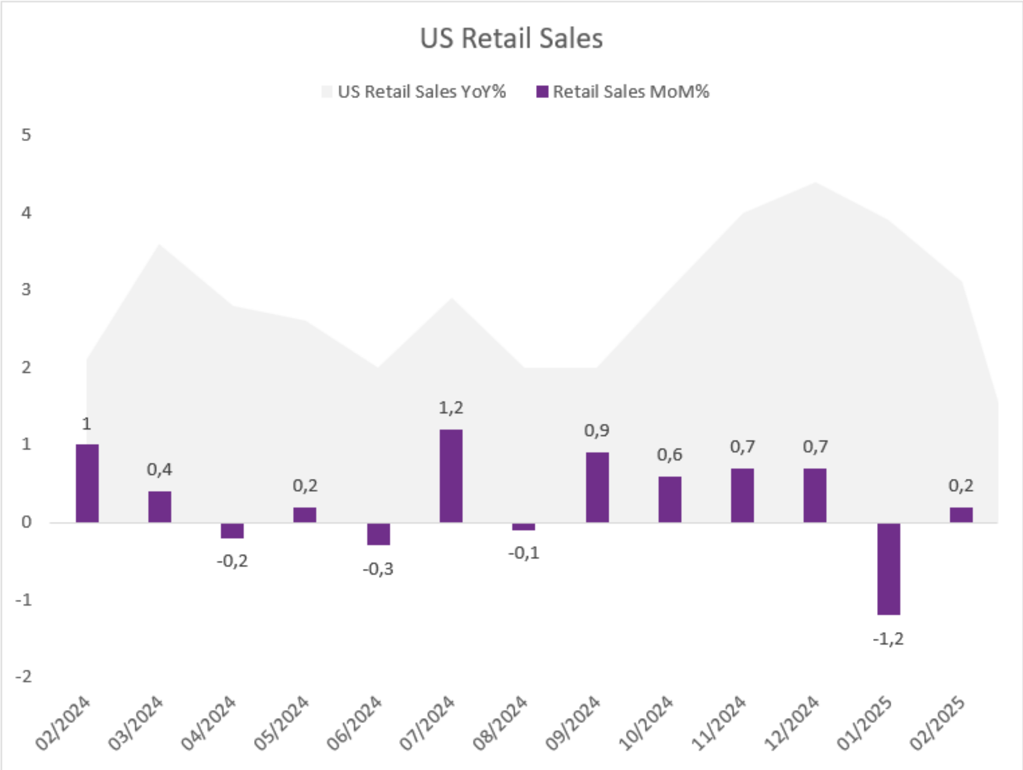
Consumer spending has been the main driver of growth in the US over the past year, but recent consumer confidence readings cast doubt on whether this momentum will continue throughout 2025.

Rewinding back to January, retail sales slumped by the most in two years at a downwardly revised -1.2% MoM pace, with sales falling across 9 of 13 categories. Shopping activity was likely affected by the wildfires in Los Angeles, as well as severe snowstorms elsewhere in the country.

However, retail sales attempted a partial recovery in February, rising by 0.2%. The reading was still below expectations of a 0.6% rise, however. Declines in sales at eating and drinking places, petrol stations, clothing stores, motor vehicle and parts dealers, among others, were offset by increases in sales at online stores, health and personal care stores, food and beverage stores, general merchandise stores and building material stores.

The report comes amid heightened concerns about the outlook for economic growth, with tariff announcements weighing on sentiment at a time when stubborn inflation and high borrowing costs are still weighing on consumers.

Households and businesses alike are expected to be more cautious about spending as they await greater clarity on the economic outlook.



Source: Bloomberg, BIL

Thursday on Threadneedle Street

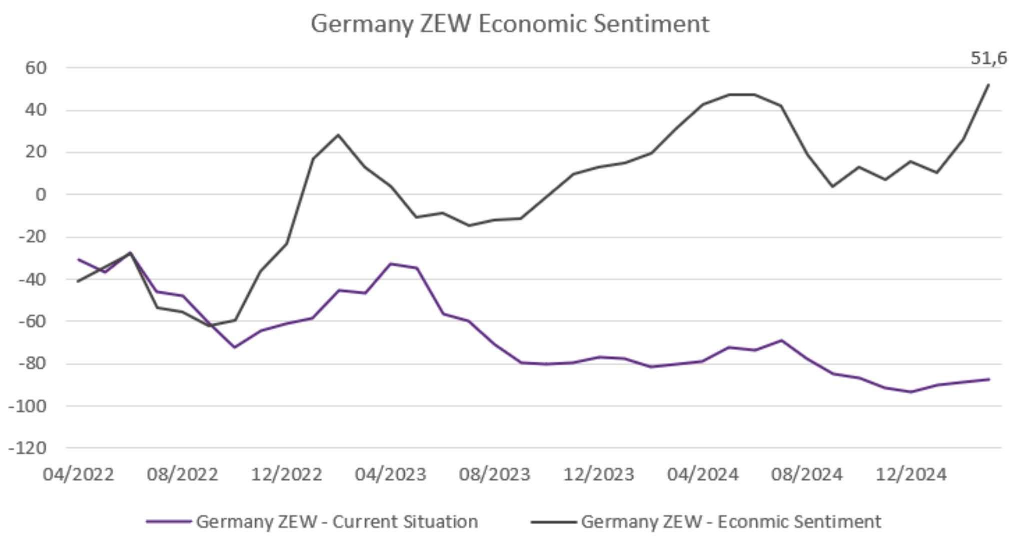
Across the Atlantic, the Bank of England held rates steady on Thursday, while emphasising a gradual and careful approach. The Monetary Policy Committee voted 8 to 1 to keep the benchmark policy rate at 4.5% and markets perceived the meeting as somewhat hawkish. The BoE faces still-strong wage growth, and the fact that firms are more aggressive in passing on increasing costs while the domestic economy is weak. Potential tariffs add to an already-complicated stew. "There's a lot of economic uncertainty at the moment," Governor Andrew Bailey said in a statement. He said the BoE still believed rates would fall gradually but it would look "very closely at how the global and domestic economies are evolving at each of our six-weekly rate-setting meetings."

With inflation stuck well above the 2% target, hitting 3% in January, the central bank also updated its inflation forecast for the year, estimating that inflation will reach 3.75% at its peak. This is in part due to the tax hikes for employers that is set to come in force in April.

Economic sentiment in Germany on the rise

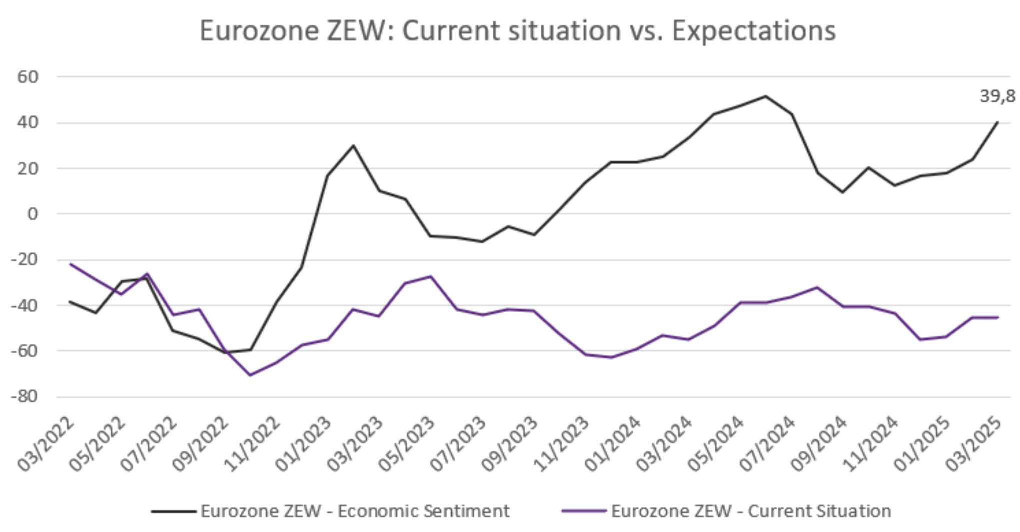
The ZEW Indicator of Economic Sentiment for Germany jumped 25.6 points to 51.6 in March, the highest level since February 2022. Driving optimism is Germany's commitment to a significant fiscal expansion, including a EUR 500 billion infrastructure fund over 12 years and the easing of its constitutionally mandated debt break to enable higher borrowing.

In particular, the outlook for metal, machinery, and steel production is showing signs of improvement. The ECB's latest interest rate cut, has also helped boost sentiment about financial conditions for both households and businesses.



Source: Bloomberg, BIL

On the Eurozone level, economic sentiment rose to the highest in 8 months to 39.8 in March.



Source: Bloomberg, BIL

Swiss National Bank cuts rates to 0.25%

The Swiss National Bank (SNB) swam against the tide last week and cut interest rates by 25 basis points, bringing the key interest rate to 0.25%. This is the lowest rate since September 2022 and comes amid low inflation, a strong Swiss franc and economic uncertainty from Trump's trade tariffs. Inflation has fallen from 0.7% in November to 0.3% in February, largely due to lower electricity prices. The rate cut is aimed at preventing a further decline in Swiss inflation and a further strengthening of the Swiss franc.

The SNB expects the economy to grow by 1-1.5% in 2025, driven by higher wages and low interest rates, while noting that weaker global demand could weigh on trade.

The Swiss franc weakened slightly against both the euro and the dollar following the announcement.

Calendar for the week ahead

Monday – **US, Japan, Eurozone, UK Flash Manufacturing PMI.**

Tuesday – Eurozone Car Registrations. Germany IFO Business Climate. US House Price Index, Richmond Fed Manufacturing Index

Wednesday – **UK** Inflation and **Spring Economic Sentiment**. France Unemployment data. US Durable Goods Orders.

Thursday – China Industrial Profits. Eurozone M3 Money Supply. US GDP Growth (Q4, Final Print), Weekly Jobless Claims, Pending Home Sales. Spain Business Confidence.

Friday – Germany GFK Consumer Confidence. UK Retail Sales, GDP Growth (Final, Q4). France, Spain Inflation (Preliminary, March). France Household Consumption. Germany Unemployment. Italy Business and Consumer Confidence, Industrial Sales. Eurozone Economic Sentiment. US Personal Income and Spending and PCE Price Index, Michigan Consumer Sentiment (Final, March).

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