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Market Weekly Insights

28th February 2025

As of February 26th, 2025

S&P 500	$5,956.06	+0.01%
DJIA	$43,433.12	-0.43%
NASDAQ	$19,075.26	+0.26%
Russell 2000	$2,174.17	+0.19%
FTSE 100	$8,731.46	+0.72%
Nikkei 225	$38,142.37	-0.25%
WTI Crude	$68.81	-0.17%
10-yr Treasury	4.478%	

Global Outlook

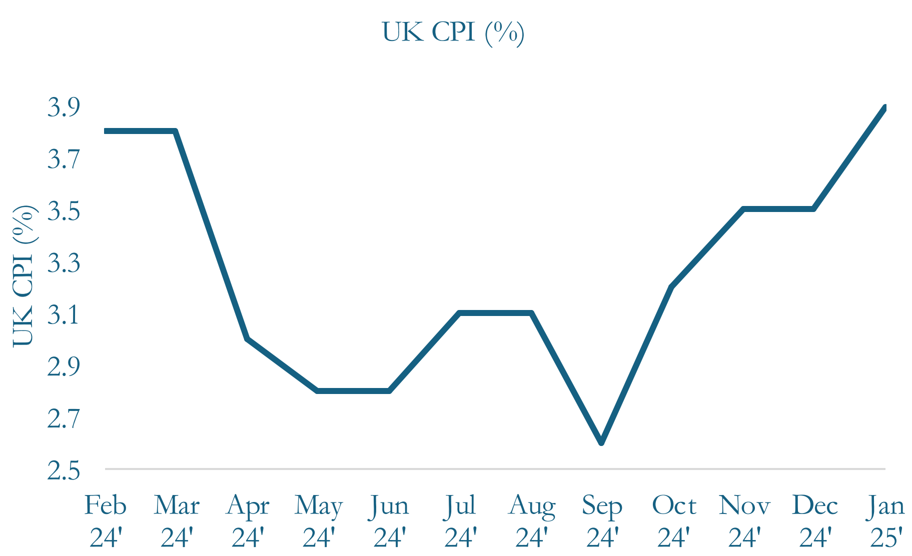
U.K. Inflation Hits 10-Month High

The U.K.'s annual inflation rate reached its highest level since March 2024, creating a complex monetary situation, with the data released after the Bank of England said it would gradually cut interest rates amid weak economic growth.

The nation's inflation rate rose to 3.0%, a 0.5% increase from December 2024's 2.5% inflation rate, rising further above the Bank's 2.0%. Additionally, according to the U.K.'s Office for National Statistics, consumer prices were 3.0% higher in January than the year prior, and up from 2.5% in December. The current inflation rate surpassed the WSJ's recent survey, indicating that economists expected annual inflation to rise to 2.8%.

In its latest meeting since February, the Bank cut interest rates to 4.5%, cutting at a slower pace than the United States Federal Reserve and the European Central Bank (ECB), emphasizing Bank Governor Andrew Bailey's "gradual and careful" approach to reducing interest rates. Furthermore, accelerated wage growth combined with high energy costs could drive the U.K.'s inflation rate to 3.7% by the end of the summer.

This recent data has raised serious concerns about the Bank of England, given their outlined plan of steadily cutting interest rates. Although decisions as to how the Bank will adjust to the economic data have not yet been made clear, containing the rise of inflation will be the Bank's definitive task in the coming months.



Sources: Newsweek, Yahoo Finance, Reuters

Trump's Tariff Indications Spurs FX Trading Volume in Asian Markets

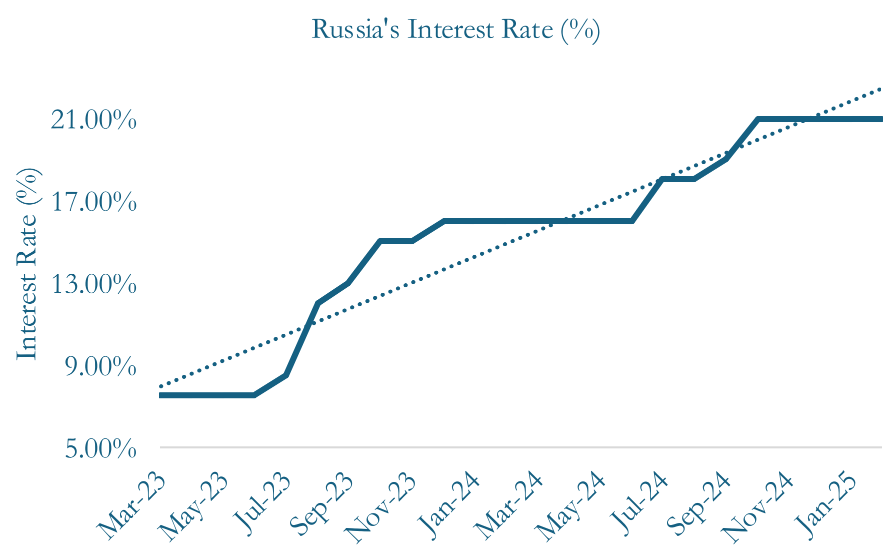
Recent policy statements made in after-market-hours by President Donald Trump have rattled FX markets, leading traders to rapidly adjust their positions. Specifically, statements regarding 25% aluminum and steel tariffs on China has created increased demand and liquidity in the Asian markets. The average daily volume in USD/CNH, China's offshore renminbi currency pair, has surged to become the second-most traded currency futures contract in recent months, trailing the USD/EUR. Traded on the Singapore stock exchange, the USD/CNH daily volume hit $16 billion in the latter half of 2024, increasing by more than 50% in 2023. Simultaneously, average daily trading volume in USD/INR has increased by 46% to $1.9 billion.

These rapid market-moving events have caused European investors to take hedge positions across Asian markets in overnight trading with the fear that they will already disappear by the morning, according to Alexander von zur Muhlen, head of Asia-Pacific, Europe, Middle East, and Africa at Deutsche Bank. Additionally, analysts at Citigroup and Bank of America warned this week that uncertainty over American trade policies will continue to weigh heavily on US/Asian currency FX rates, especially given the trade surpluses of dominant Asian Countries with the United States.

Bank of Russia Holds Interest Rates at Record High

At the beginning of this week, the Bank of Russia held interest rates at 21%. Policymakers indicated that returning inflation to target rates will require a lengthier period of maintaining tight monetary conditions. Annual price growth reached 9.52% in December, more than twice of what the Bank projected, resulted from a shortage in labor propelling wages upward and production not able to keep pace with increasing demand. Russia's current inflation rate stands at 10% with the central bank forecasting a downwards spiral to 7-8%.

In correlation with the recent data, Russian President Vladimir Putin and President Trump have agreed to talks on ending Russia's war in Ukraine, resulted in the ruble strengthening against the dollar. Current US and international sanctions on Russia over the war's duration has slowed down economic growth, putting even more pressure on policymakers and the Bank of Russia. However, the country's oil and gas revenue increased 17% in January (on annual terms) despite western sanctions but grew mainly due to strengthening of the USD and an uptick in gas prices.



Sources: Wall Street Journal, Financial Times

RBA shifts their focus to monetary policy easing

Since 2020, the RBA has maintained a steady stance on keeping interest rates high. Recent inflation data suggests that prices have been cooling. Annual CPI inflation was 2.4 percent in the December quarter, largely due to a substantial reduction in electricity and fuel costs. This data enabled the central bank to confidently announce a 25-basis-point reduction in borrowing costs to 4.10%, marking a shift in monetary policy since the Covid-19 pandemic.

While confidence in the decision is evident, the RBA remains cautious about further rate cuts in the coming months. The consensus is to wait for new economic data and monitor how the market responds to the policy shift. Geopolitical uncertainties related to Trump's administration, including the implementation of tariffs that could spark a global trade war and hinder growth, pose inflationary risks that the RBA must closely monitor. Meanwhile, economists argue that the RBA's action is timely, as evidence of disinflation in the economy coincides with slowing wage growth.

America This Week

Homebuilder Sentiment Falls to Five-Month Low Amid Tariff Concerns

Sentiment for single-family homebuilders dropped to its lowest level in five months in February due to rising concerns about tariffs. The National Association of Home Builders (NAHB) Housing Market Index (HMI) dropped five points to 42, a sharp decline from last February when it was 48; an index under 50 reflects a negative sentiment. Carl Harris, the NAHB chairman, pointed towards the recent shifts in policy specifically tariffs, as being the leading cause for the decrease in the HMI.

Across the HMI's three components, sales conditions fell four points to 46, buyer traffic fell three points to 29, and sales expectations for the next six months took the most significant hit of 13 points to 46. Builders also struggle with high mortgage rates, averaging above 7% in the last few months, and rising home prices. Following Trump's tariffs on Canada and Mexico, which, although delayed, caused builders to anticipate higher costs, with 32% of appliances and 30% of lumber coming from abroad.

With the spring homebuying season upcoming, the weak sentiment signifies potential supply constraints. The share of builders lowering prices dropped to 26% in February, down from 30% in January. Additionally, other sale incentives also declined due to affordability becoming a concern.

Shift4 Expands Global Reach with $1.5 Billion Acquisition of Tax-Free Shopping Network

Shift4 Payments, a leading payment processing company, has announced a $1.5 billion deal to acquire Global Blue Group, a Switzerland-based firm specializing in tax-free shopping services. The acquisition values Global Blue at approximately $2.5 billion, including debt, and represents a 15% premium over its recent share price. Global Blue partners with major global retailers like Prada, Nike, and IKEA, offering services that allow international shoppers to reclaim VAT on purchases. Shift4, headquartered in Pennsylvania, processes over $250 billion annually for clients across the hospitality, retail, entertainment, and travel industries.

Sources: Reuters, Financial Times

Taylor Lauber, President of Shift4, stated that the acquisition will help serve international shoppers, particularly in multi-currency transactions. As part of this transition, Shift4 CEO Jared Isaacman is expected to step down and Lauber is positioned to take over leadership. Meanwhile, Global Blue's key investors, including Ant Group and Tencent, plan to retain their stakes in the combined company and explore strategic partnerships. This acquisition is significant for Shift4 because it solidifies its position in the global payments industry while also strengthening its position in solutions for tax-free shopping.

Macro Highlights

Fed Holds Rates Steady Amid Inflation Concerns and Policy Uncertainty

During the January meeting, the Federal Reserve decided to keep interest rates at 4.25%-4.5%, with meeting minutes being released Wednesday showing that rate cuts may remain unlikely in the near term. While officials anticipate lowering borrowing costs eventually, slow progress in reducing inflation and the ongoing uncertainty around President Trump's economic policies reinforced their choice to hold rates.

Officials cited the new tariffs on China, Canada, and Mexico, along with mass deportation policies, as potential inflationary risks slowing down the disinflation progress. While some policymakers believe the effect of tariffs on inflation is temporary, others are concerned these price increases could persist.

Beyond interest rates, officials also discussed whether to slow down or pause their nearly $7 trillion balance sheet due to concerns about disruptions from the federal debt limit. The minutes showed that the Fed would continue a conservative approach, with future rate cuts behind dependent on upcoming inflation data. Policymakers now view current interest rates as restrictive enough to slow down inflation.

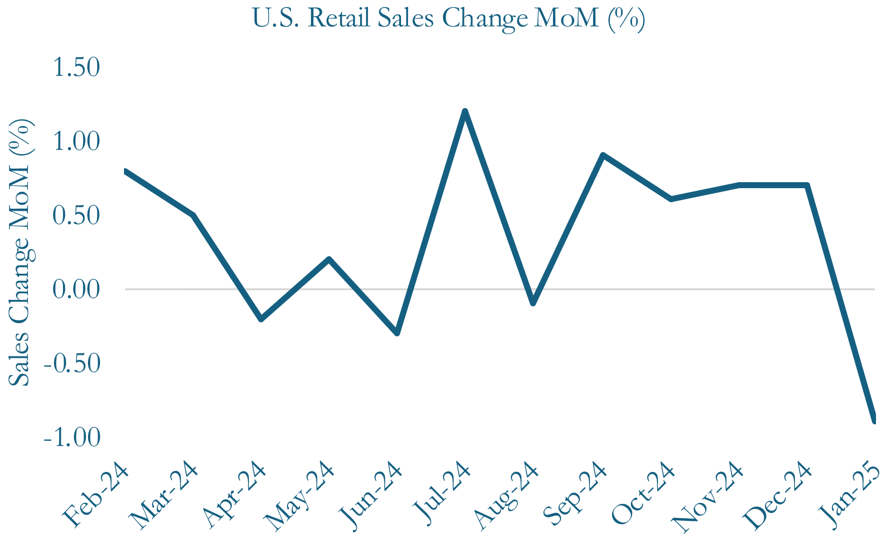
U.S. Retail Sales Decline Sharply in January Amid Economic Uncertainties

In January 2025, U.S. retail sales experienced a significant decline of 0.9%, marking the most noticeable drop in nearly two years. This downturn exceeded economists' projections of only a 0.1% decrease. Several factors contributed to this drop, including severe winter weather conditions, extensive wildfires in California, and a natural reduction in consumer spending following the holiday season. Additionally, auto sales fell by 3%, and online retail transactions decreased by almost 2%.

The drop in retail sales has sparked concerns about how it might affect GDP growth in the first quarter. Although the U.S. economy saw strong growth in 2024, factors like high interest rates, ongoing inflation, and potential tariff increases under President Trump's administration have created uncertainty. However, many economists believe this decline is temporary, pointing to a strong job market and other positive economic signs as reasons for cautious optimism.

In response to these developments, major retailers are adjusting their forecasts. For example, Walmart has projected lower-than-expected sales and profits for the current fiscal year, because of the consumer's fear of inflation that would potentially reduce their spending. This announcement led to a 6% drop in Walmart's share price and has prompted concerns about the U.S. consumer spending pattern during economic headwinds.

Sources: Financial Times, Wall Street Journal



Industry News

Southwest Airlines Announces First Mass Layoffs in 53-Year History

This past Monday, Southwestern Airlines announced a layoff of 1,750 employees, the first broad layoff in the company's 53-year history. The layoffs target corporate positions, affecting 15% of the corporate staff, which targets 11 senior leaders. CEO Bob Jordan labeled the decision "unprecedented" and expects all layouts to be completed by June this year.

Jordan's position was threatened after hedge fund Elliot Management, which had acquired a 10% stake in the airline, accused him of failing to control costs and hurting profit margins. In response, Jordan laid out a three-year plan in which the airline removed its seat-yourself policy, added seats with more legroom, and introduced red-eye flights.

Despite 47 consecutive years of profitability, Southwest suffered losses in 2020 during the pandemic. However, it remains the only major U.S. airline that has never filed for bankruptcy. According to the airline, the job cuts save Southwest about $210 million this year and $300 next year; however, these figures do not include the $60-$80 million payout severance and additional benefits to laid-off workers.

AstraZeneca faces US lawsuit over alleged misleading claims on China investigations

AstraZeneca is facing a US class action lawsuit alleging it misled shareholders regarding investigations by Chinese authorities. Filed in California in December, the lawsuit claims CEO Pascal Soriot and CFO Aradhana Sarin made false and misleading statements about risks related to ongoing probes in China. The lawsuit follows the detention of AstraZeneca's former China head, Leon Wang, and investigations into alleged medical insurance fraud, illegal drug imports, and personal data breaches involving company employees.

Plaintiffs argue that AstraZeneca's 2021 annual report understated the risk of government scrutiny, leading to significant shareholder losses. AstraZeneca's share price fell 15% in late 2023 but has since recovered. The company reported a 3% drop in Chinese sales in Q4 2024, attributing it to mild winter conditions and hospital budget caps. Additionally, AstraZeneca is under investigation in China over $900,000 in unpaid import taxes, which could result in a $4.5 million fine. The company's annual report revealed a decline in Soriot's pay from £16.9 million in 2023 to £14.7 million in 2024 due to lower share appreciation, while Sarin's pay rose to £6.8 million. AstraZeneca highlighted its 33% total shareholder return over three years and continued strong performance.

Sources: Wall Street Journal

Vanguard's VOO Overtakes SPY as World's Largest ETF

Vanguard's flagship US stock ETF, VOO, has overtaken State Street's SPY as the world's largest exchange-traded fund. VOO now holds $631.8 billion in assets, surpassing SPY's $630.3 billion. This shift reflects the growing dominance of low-cost ETFs, particularly among retail investors, who prefer VOO's 0.03% annual fee compared to SPY's 0.0945%. VOO has seen rapid inflows, gaining $23 billion this year, while SPY has lost $16 billion. The trend highlights the increasing popularity of ETFs for long-term portfolio building, as well as the broader shift from active to passive investing. SPY remains preferred by active traders due to its liquidity and derivative options.

The overall US ETF market recently surpassed $10 trillion, driven by strong equity performance as S&P 500 returns exceeded 20% in both 2023 and 2024. Despite State Street cutting fees on its SPLG ETF to 0.02%, Vanguard's strong distribution network and investor loyalty give it an edge. Vanguard also benefits from its unique "ETF-as-a-share-class" structure, allowing conversions from its mutual funds into ETFs. The firm's ETF assets now total $3.2 trillion, closing in on BlackRock's $4.3 trillion, up from 52% of BlackRock's market share in 2018 to 76% today.

HSBC Reports 6.5% Profit Growth, Announces $2 Billion Share Buyback

HSBC has reported a 6.5% increase in annual pre-tax profit for 2024, reaching $32.31 billion. Although this figure slightly missed LSEG estimates of $32.63 billion, it exceeded HSBC's internal consensus estimate of $31.67 billion. The bank's revenue for the year came in at $65.85 billion, slightly lower than the $66.1 billion reported in 2023. HSBC attributed part of its profit growth to the sale of its Canadian banking business.

In response to its solid financial performance, HSBC has announced a share buyback of up to $2 billion, which it expects to complete by the end of the first quarter of 2025. This move aligns with market expectations and reflects the bank's confidence in its long-term strategy. HSBC has also outlined cost-cutting plans aimed at reducing expenses by $1.5 billion by the end of 2026. CEO Georges Elhedery, who took over in July 2024, has been leading a major restructuring effort, including dividing HSBC's global operations into "Eastern" and "Western" markets. As part of this transition, HSBC recently laid off around 40 investment bankers in Hong Kong, primarily in M&A, consumer, real estate, and energy sectors.

Sources: Wall Street Journal

Analyst Outlook

Ahmad Shaikh – Federal Reserve Rate Cuts

Recent macroenvironmental shifts have pressured the Federal Reserve, with rising inflation and trade policies creating uncertainty. The increase in inflation since October continued with the recent January CPI report indicating inflation increased 0.5% to 3%. Trump's recent shift into implementing more tariffs could cause the Fed to delay rate cuts further into late 2025.

The Trump Administration's tariff approach is one of many factors contributing to inflationary pressures. Despite the delayed 25% tariffs on Mexico and Canada, the 10% tariff on all imports from China has been instituted, and the administration also seeks reciprocal tariffs on all countries, which will begin on April 2nd. The Fed's January meeting minutes showed concern regarding these tariffs, warning of their effect in curbing disinflation.

Due to inflation continuing to increase and the rise in tariffs, in my opinion, the Fed will delay rate cuts even further than expected. If inflation continues to grow past 3% instead of the previously estimated three to four rate cuts, the central bank may limit cuts to one or two being implemented in late 2025. Markets should prepare for an extended period of higher interest rates as the Fed balances inflation risks with economic stability.

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