MARKET FLASH: MARKETS APPLAUD DONALD TRUMP'S FIRST WEEK AS PRESIDENT

- **Donald Trump reassured financial markets by delaying potentially inflationary measures, leading to a rise in equity markets.**
- **Exchanges between Donald Trump and Xi Jinping helped mitigate the risks of a trade war, thus supporting a rebound in Chinese stocks.**
- **Markets were bolstered by positive developments such as the ceasefire in Gaza, improved manufacturing PMI in Europe, and excellent fourth quarter figures in the US.**

Donald Trump's first week in the White House galvanised financial markets and propelled indices to new highs. In the hours following his inauguration, he signed a swathe of presidential decrees. However, investors were unfazed as campaign promises on immigration and import duties, those deemed most likely to unleash a second inflationary wave, were put off till later.

Mexico and Canada may have been warned of a potential 25% hike in tariffs from February 1st but Europe and China have, for the moment, been spared. As the Washington Post indicated on January 3, Donald Trump wants to look at trade deficits in more depth before deciding on drastic measures. This caution reduces the likelihood of a trade war with China, especially after the new president's "friendly" phone call with Xi Jinping. Donald Trump said he preferred not to have to use customs tariffs against China and Chinese equity markets rebounded at the end of the period. The patience shown by the man whose nickname was Tariff Man during his previous period of office is a pleasant surprise. Nonetheless, the tariff weapon is still a sword of Damocles over those European and Chinese companies which had been exploring new growth avenues with US consumers. Simply analysing US trade deficits with these two zones will not get them off the hook.

In his televised speech to the Davos forum, Donald Trump put pressure on OPEC to cut oil prices by increasing production, thereby sending spot prices lower. He also called on the Fed to cut interest rates. On the other hand, he is no longer talking about tax cuts for companies but said that he wanted to extend those granted during his first mandate as they are due to expire this year.

Markets found other support factors than announcements from the 47th US president: (i) the ceasefire in Gaza which should help maritime trade in the Red Sea return, (ii) improved manufacturing PMI in Europe after a strong rebound in US data, and (iii) excellent fourth quarter figures in the US, especially for banks.

And for once, the Bank of Japan managed to raise its benchmark rates without dousing market enthusiasm. This was due to improved communication skills ahead of the monetary policy meeting, unlike the bank's surprise 15bp hike in July 2024 when investors rushed to unwind carry trades. Let's hope the bank acts as tactfully when it next raises rates. A move is expected in the second half of this year.

We are sticking with our neutral equity weighting as valuations are stretched and improved earnings have already been factored in. We are also still cautious on duration. Pending some

stabilisation in US interest rates, we have raised exposure to European bonds with a preference for corporate debt rather than government bonds.

EUROPEAN EQUITIES

Germany's ZEW economic sentiment index came in at 10.3, or below the 15.3 economists had been expecting. It was a negative mark for Germany but Europe's manufacturing PMIs were better than expected, and especially in Germany (44.1 vs. 42.3 expected). Moreover, the eurozone's PMI returned to expansionary territory -for the first time since August 2024- by hitting 50.2. In sector performance terms, industry easily outperformed by gaining more than 3% over the period for a 1.5% gain for the overall index. At the other end of the spectrum, energy and utilities both fell by 2%.

As the earnings season began in Europe, the consumer sector offered contrasting figures. **Puma** enjoyed 10% growth, mainly due to Europe and the Middle East but its operating margin was hit by difficulties in Latin America. The group responded with a cost-cutting programme but its failure to give guidance for 2025 irked investors and the stock plunged 20%. In contrast, **Adidas** surprised with 17% growth and a better-than-expected operating margin followed by management making optimistic comments on future trading. The stock jumped 7%.

Operating margins at Germany's specialist chemicals company **Lanxess** crushed analysts' expectations due to some of its customers anticipating possible tariff rises from the Trump administration. This factor needs to be watched as few European companies have mentioned it so far.

In software, **Nemetschek** and **Admicom** reported solid growth of 17% and 7.5%, respectively, mainly due to their exposure to the building sector. Investors particularly liked Nemetschek's results and the stock bounced by close to 14%.

Another big piece of news was the surprise resignation of **Telefonica**'s CEO José María Álvarez-Pallete. He was replaced by Marc Mutra, **Indra**'s current CEO. Investors are worried the change might mean a strategic overhaul and the shares have lost close to 4% since the news was announced.

US EQUITIES

In a week that showcased excellent earnings news, the Nasdaq gained 2.14%, the S&P 500 2.04% and the Russell 2000 1.70%. Roughly 10% of S&P 500 companies have reported results and they are markedly better than expected, especially among banks.

In healthcare, **Abbott** (+8.58%) had a strong quarter and delivered upbeat guidance for 2025 amid an acceleration in growth for medical devices. Insurance group **Elevance** (+4.17%) reported satisfactory figures: its medical loss ratio was in line, unlike UNH which announced its results in the preceding week.

In the media space, **Netflix** (+14.77 %) led gains after winning 19 million new subscribers, or considerably more than the 10 million pencilled in by analysts. Other audiovisual plays were also boosted by this success. **Disney** ended the period 3.76% better and **Warner Bros** jumped 7.98%. In contrast, **Electronic Arts** tumbled 16.49% after a press release revised results from its football video games like *EA Sports FC 25* lower.

In consumer spending, **P&G** gained 3.12% as like-for-like growth accelerated thanks to a favourable volume and pricing mix in the US and Europe. Volumes also rose at **Union Pacific Corporation** (UNP) and the stock gained 5.89%. Around 44% of its sales are in freight and the division had a better-than-expected fourth quarter. Operational execution was a big plus as the operating ratio beat expectations and, what's more, in an unfavourable trading environment.

In the oil sector, **Halliburton** (-6.45%) managed to preserve a satisfactory operating margin of 16 % even though price concessions had affected profitability. The international market is expected to be stable this year as countries like Mexico could slow down. **Schlumberger** (-3.56%) also referred to international stability in the first half of 2025. The group's fourth-quarter operating margins and FCF were resilient.

After its results, regional bank **Fifth Third Bancorp** (-1.11%) said that loan growth had started to rise again and management expected 2025 to be more favourable.

EMERGING MARKETS

The MSCI EM index continued its rebound, adding 1% as of Thursday's close. Mexico, Brazil and Taiwan outperformed, gaining 3.3%, 2.4% and 2%, respectively. Korea and China rose 1.65% and 0.8% while India slipped 0.4%. Next Monday is the last day to trade China before the Lunar New Year until Wednesday, February 5th.

In **China**, the CSRC announced new initiatives to expand pension fund investments in equity markets. The authorities issued an antitrust document for the pharmaceutical sector, aiming to improve the regulatory framework for the industry. **TikTok** restored its service in the US. Donald Trump is looking at a 10% tariff on China as soon as February 1st, a figure well below original estimates. The NPPA accelerated the release of domestic game approvals in January. **CATL**'s preliminary earnings were largely in line with high market expectations. It also announced a partnership with Masdar for a battery storage system project in Abu Dhabi. Core business growth at **New Oriental Education** was in line but a weak topline and soft earnings growth outlook disappointed the market. In contrast, **TAL Education** reported a solid 62% jump in revenues which suggests growth momentum remains strong driven by solid demand and capacity expansion. **BYD** is planning a $1bn Indonesia plant by year-end.

Taiwan December export orders rose 20.8% YoY, vs. the 18.8% expected, marking the fastest pace since February 2022 and a 10th straight month of YoY gains.

In **Korea**, results at **SK Hynix** were in line but capex guidance was slightly disappointing. **Hyundai motors** posted weak results for the fourth quarter of 2024 due to a bigger than expected impact from the strong dollar.

India's government is evaluating options ranging from a trade deal, cutting tariffs and importing more goods from the US. **Zomato**'s earnings were below expectations: front loading growth was at the expense of higher near-term losses. Electronic companies such as **Dixon** and **Amber** all delivered strong results but the outlook were mixed. Ultratech, a cement company, announced better-than-expected earnings driven by good volumes and price hikes. **Makemytrip** (OTA platform) delivered strong 24% YoY top-line growth in a seasonally strong third quarter on a high base. **Unilever** India missed expectations, but presented better pricing dynamics, improving the outlook for its margins. **Godrej Consumer** missed on EBITDA margins due to higher costs and a slowdown in urban consumption.

In **Brazil**, the currency continued its rebound. All eyes are on next week's central bank decision to raise interest rate by 100bps, as previously guided. The earnings season has not yet started.

Mexico declared a national emergency at the US-Mexico border. Despite talk of 20% import tariffs on Mexico, Donald Trump said agreements with Mexico's President Sheinbaum were going well at the Davos Economic Forum. Elsewhere, January CPI inflation during the first 15 days in January was lower than expected.

In **Argentina**, the IMF is to send a team to the country after an excellent meeting with President Milei.

CORPORATE DEBT

CREDIT

Euro credit markets rose, brushing off Donald Trump's inauguration and his subsequent comments. Investment grade returned 0.22% and high yield 0.29%. Hybrid corporates gained 0.34% and subordinated financial debt (AT1) 0.67%. Spreads tightened slightly and government bond yields also made a positive contribution as inflation data in the US and UK turned out to be more reassuring.

Fund flows stabilised, including for credit ETFs after a slightly negative start to the year.

M&A in the banking sector continued to hit the press headlines after **Monte Paschi** made a bid for **Mediobanca**. On the high yield new issues market, energy producer **ContourGlobal** raised €500m over 5 years and **Elior** refinanced its 2026 maturity with a 2030 bond at 5.625%. The refinancing wave is still with us.

GLOSSARY

• Investment Grade: bonds rated as high quality by rating agencies.

• High Yield: corporate bonds with a higher default risk than investment grade bonds but which pay out higher coupons.

• Senior debt benefits from specific guarantees. Its repayment takes priority over other debts, known as subordinated debt.

• Debt is considered to be subordinated when its redemption depends on the earlier payment of other creditors. To offset the higher risk, subordinated Senior debt has priority over other debt instruments.

• Tier 2 / Tier 3 : subordinated debt segment.

• Duration: the average life of a bond discounted for all interest and capital flows.

• The spread is the difference between the actuarial rate of return on a bond and the rate of return on a risk-free loan with the same maturity.

• The so-called "Value" stocks are considered to be undervalued.

• EBITDA: Earnings before Interest, Taxes, Depreciation, and Amortization.

• Quantitative easing describes unorthodox monetary policy from a central bank in exceptional economic conditions.

• Stress Test: a process which simulates extreme but possible economic and financial conditions so as to assess any impact on banks and measure their resilience to these events.

• The PMI, for "Purchasing Manager's Index", is an indicator of the economic state of a sector.

• AT1s belong to a family of bank capital securities known as contingent convertibles or "Cocos". Convertible because they can be converted from bonds to shares (or depreciated entirely) and contingent because this conversion only occurs if certain conditions are met, such as the issuing bank's capital strength falling below a predetermined trigger level.

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