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MARKET FLASH: MARKETS HAVE CALMED DOWN BUT CAUTION IS STILL THE WATCHWORD

- **OPEC+ decided to stick with current production cuts to keep oil prices around $75.**
- **As expected, the Bank of England cut its benchmark rate by 25bp amid slowing growth and inflation.**
- **In China, employment and export orders resulted in indicators coming in lower than expected with services at 51 and industry at 50.1.**

In France, a joint Senate committee reached an agreement on a draft budget but the prime minister still decided to roll out the guillotine 49.3 mechanism to get the bill through rather than submit it to a vote. The Socialists and National Rally decided not to vote in favour of the inevitable no-confidence vote that followed so France at last has a budget. Its aim is to reduce the deficit by €50bn to take it down to 5.4% of GDP. The immediate effect is that it offers economic agents better visibility.

In the US, Donald Trump's threat to impose customs duties on Canada and Mexico was suspended for a month after both countries agreed to fund efforts to reinforce border controls and clamp down on drug traffic. Markets saw this as a sign that Donald Trump was primarily using these threats as a negotiating tool to extract concessions. However, the decision to impose an extra 10% on Chinese imports was not suspended and Beijing retaliated by slapping 15% tariffs on imports of American LNG, lodging a complaint with the WTO, restricting rare earth exports and initiating an investigation into Google.

US inflation rebounded slightly to 0.3% in December and underlying inflation came in at 0.2%, or higher than the 0.1% expected. Household consumption remained at a robust 0.7% in the same month vs. +0.7% expected and manufacturing ISM returned to expansionary territory (50.9) for the first time in more than 2 years. On the other hand, services ISM fell to 52.8 and the number of new job openings fell to 7.6 million when analysts were going for 8 million. The ADP survey of job creations rose to 183,000 but it was offset by wage growth continuing to decelerate for people changing jobs. The data reinforced rate cut expectations but the lack of political visibility as well as data divergence are likely to leave the Fed in wait-and-see mode over the short term.

Europe's inflation also rebounded a little to an annualised 2.5% in January, or more than the 2.4% expected, but was down 0.3% over a month, albeit less than the -0.4% pencilled in by analysts. The ECB sees wage growth rising 2.8% this year excluding bonuses and by 0.3% including bonuses. As a result, the ECB is likely to continue with its gradual rate cutting.

OPEC+ decided to stick with current production cuts to keep oil prices around $75. The cartel is effectively ignoring Donald Trump's call for them to get prices lower.

As expected, the Bank of England cut its benchmark rate by 25bp amid slowing growth and inflation and accompanied the move with more accommodating comments that suggest it will go further.

In China, employment and export orders resulted in indicators coming in lower than expected with services at 51 and industry at 50.1.

Despite the political scene calming down and the increased likelihood of the rate cutting cycle continuing, we consider that markets are underestimating political risk and the possibility of a trade war. We have turned more cautious on equities and remain neutral on fixed income but with a preference for the eurozone where valuations are attractive.

We prefer protected equities and companies less exposed to US tech. We also prefer European duration as well as corporate rather than government bonds.

EUROPEAN EQUITIES

Eurozone inflation rose to 2.5%, mainly due to services. The Bank of England reduced its rates by 25bp as expected and also slashed its growth forecasts for 2025 from 1.5% to 0.75%

At the beginning of the week, Donald Trump confirmed his wish to impose customs duties on Mexico, Canada and China so European sectors exposed to these countries came under attack. The auto sector lost 2% but had recovered by the end of the period. Beverages also suffered.

In contrast, communication services easily outperformed in Europe thanks to results at **Publicis**. The French media specialist enjoyed like-for-like growth of 6.3%, or significantly more than its rivals. Management sounded an optimistic note for growth in 2025 and the stock jumped by almost 5% over the week.

In the banking sector, strategic moves in Italy continued. **UniCredit** acquired 4% of insurance giant **Generali**. In the previous week, **Monte Paschi di Siena**, which owns 13 % of Generali, had tried to buy **Mediobanca** but shareholders rejected the offer, citing worries over value destruction. Elsewhere, results at **Société Générale** crushed analyst expectations, largely due to the bank's capital markets division. The stock soared by 15% on the news.

In the energy sector, optimism resurfaced after wind turbine maker **Vestas** raised its guidance for 2025. The group said order book momentum was strong even after Donald Trump became US president. The stock gained more than 10 % over the period.

US EQUITIES

Wall Street rose for the third week in a row. The Nasdaq 100 gained 2.24%, the Russell 2000 2.16% and the S&P 500 1.49%.

The week started with results from **Alphabet** (-4.79%) and ended with **Amazon** (+0.60%). The key point is that capex in AI data centres is to continue: a combined $175bn is slated to be invested by the two groups. The news boosted semiconductor plays like **NVIDIA** (+10.30) as well as **Broadcom** (+6.26) and **ARM** (+7.59%).

In the energy sector, **Patterson UTI** (+6.35%), which specialises in drilling, said it expected the cycle to improve from the second half of this year. Another drilling company **NOV** (+8.33%) also said demand for drilling equipment would pick up from the second half of 2025.

In healthcare, the Senate approved Robert Kennedy Jnr. as secretary of health. Elsewhere, the fourth quarter at **Eli Lilly** (+7.40%) was generally in line with expectations and the group guided on 2025 sales in a range with $58.8bn as the low end, the level analysts are expecting. **Pfizer** (-1.41%) also had a good fourth quarter, especially in vaccines. The figures reflected excellent R&D optimisation efforts. In contrast **Merck** (-11.76%) missed expectations for

Gardasil sales in China, one of the reasons why the group's guidance was below expectations. **Boston Scientific** (+1.89%) had a solid fourth quarter and sees growth this year coming in at +10-12% compared to analyst expectations of +9%.

In consumer goods, **Mattel** (+20.53%) said profitability improved markedly in the fourth quarter despite a slight slowdown in its top line. In stark contrast, **Estée Lauder** (-22.36%) missed expectations due to slowing sales, mainly in Asia. The CEO's comments on a new strategic plan also failed to impress. **Pepsi** (-3.27%) saw a slight slowdown in sales in North America and management said it expected US consumer spending to slow. Similarly, **Whirlpool** (+3.69%) revised down guidance for 2025, also because its expects no recovery in consumer spending.

Share price volatility with **Tesla** (-2.44%) and **Uber** (+4.01%) reflected market uncertainty over the impact of new autonomous driving catalysts. Uber, for example, tumbled 7.56% when it released upbeat fourth quarter results but then rebounded by 8.53% the following day after equity analysts brought out reassuring notes.

EMERGING MARKETS

The MSCI EM index continued on its rebound and had edged 0.8% higher as of Thursday's close. China jumped 3.5%, catching up from the Lunar New Year market close. Mexico also gained 3.5% on easing tariff threats in the near term while India and Taiwan corrected by 0.8% and 1.8%, respectively.

In **China**, the Caixin manufacturing PMI fell to 50.1 from 50.5 in December, and Services PMI was 51, also below the 52.4 expected. The US imposed 10% import tariffs under IEEPA on all goods from China, and it remains unclear if such hikes could be paused/withdrawn with further US-China negotiations.China's top legislator met the speaker of South Korea's parliament and said China was willing to hold free-trade talks. During the Lunar New Year holiday, travel and consumption data was mixed, with domestic travel up by 6% YoY, and daily travel revenue is now 15% higher than 2019's level, vs. 8% in the 2024 National Day holiday. Box office revenue during the holiday broke record highs. **BYD** will have its smart Strategy Launch conference next week, aiming to provide affordable autonomous driving. **CATL** is said to be planning a HK listing in the coming weeks.

In **Taiwan**, **HonHai** management said it wanted to work with **Nissan** after the **Nissan**-**Honda** merger talks breakdown. **MediaTeck** reported better-than- expected fourth quarter results and first quarter guidance.

In **India**, the RBI cut repo rate by 25bp and kept CRR flat. It expects FY26E GDP growth to be around 6.7%, or in line with economists. The government announced its 2026 budget, with tax cuts to underpin consumption and no change to capex. Results at **M&M** were in line and margins improved sequentially. **Reliance Retail** launched its **Shein India** fast fashion app, marking **Shein**'s return to India 5 years after it was banned. The **State Bank of India**'s last quarter disappointed on lower NIM due to the higher cost of funding. **Zomato**, the food and grocery delivery major, was rebranded as **Eternal**.

In **Brazil**, manufacturing PMI rose by a small 0.3 points to 50.7, interrupting a sequence of three consecutive declines. **Itau** reported solid results but surprised the market positively by launching a new buyback programme and paying an extra dividend.

In **Mexico**, the threatened 25% tariff by the US on Mexican exports was postponed for a month after talks between two presidents. **Banxico** cut its interest rate by 50bs to 9.5% in a split decision. **Cemex** reported weak results but guidance for 2025 was above expectations and the stock rallied.

In **Chile**, economic activity continued to improve, according to its central bank. **Santander Chile** reported good results with ROE at 26% and increased its profitability guidance for 2025. The company also appointed a new CEO.

CORPORATE DEBT

CREDIT

Credit markets continued higher over the week with Investment Grade returning 0.36% (+0.84% YTD) and High Yield 0.34% (+0.95% YTD). The rise was driven by falling government bond yields to start the week and friday morning the yield on the 10-year Bund was 2.38%, or down 9bp on last Friday's close. Generally stable spreads also helped with investment grade at 90bp and high yield at 287bp. The Xover widened by 10bp on Monday but had returned to 287bp, or levels seen at the end of January, by the end of the period. As for euro AT1 debt, spreads fell to 318bp, flirting with historic lows on investor appetite for yield in a favourable environment for banks.

The outlook for lower yields to come is driving current demand as IG is yielding an attractive 3.2% and HY 5.6%. In the eurozone, the ECB cut its deposit rate to 2.75% and is expected to move below 2% by the end of the summer so it would make sense to buy longer-dated corporate bonds.

Results from **BNP Paribas**, **Société Générale**, **Deutsch Bank**, **Santander** and **UBS** remained robust. Investor demand is still practically intact: the order book for a new USD-denominated CoCo from **UBS** - two $1.5bn tranches callable in 5 and 10 years- was over $20bn.

In high yield refinancing, **Loxam** sold a 2030 maturity at 4.25% and **Kantar** a 2030 maturity.

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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