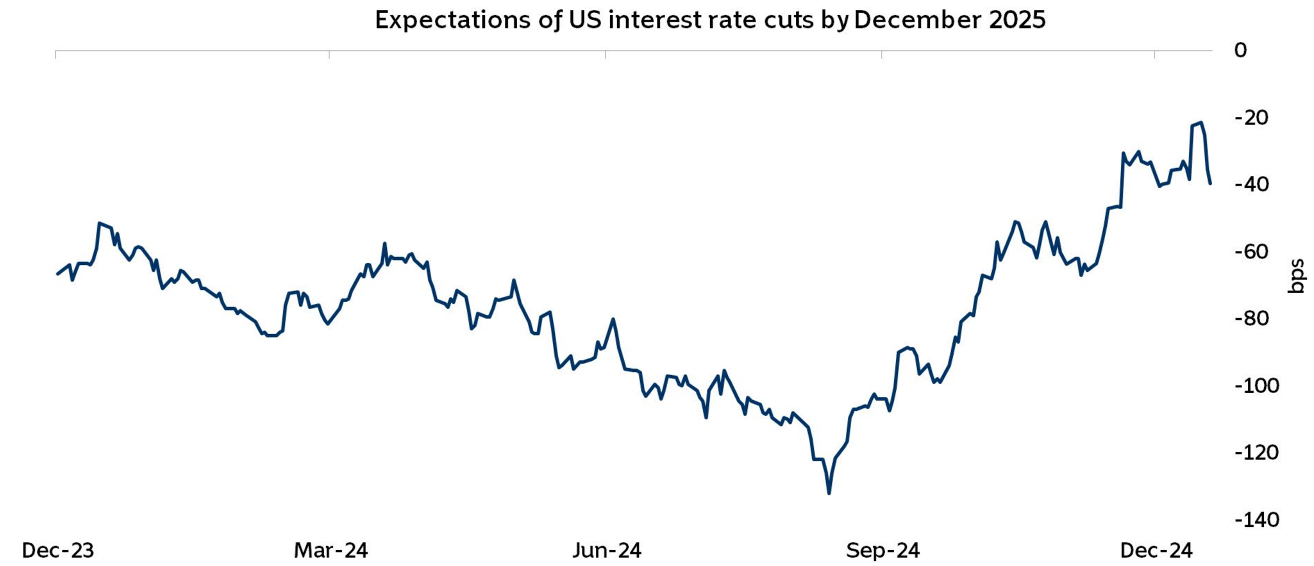
Chart of the Week

20 January 2025

Weekly market update

week ending 17 January 2025

momentum
global investment management



Source: Momentum Global Investment Management, Bloomberg Finance L.P., as at 16 January 2025.

Fed up or ready to cut?

Gabby Byron
Investment Services Executive

What this chart shows

This week's chart illustrates the market's expectations for US interest rate cuts leading up to the December 2025 Federal Open Market Committee meeting. In the lead up to the US election, rate cut expectations had already tempered as investors began pricing in the likelihood of Trump's pro-growth and inflationary policies. Following his victory, expectations tempered further due to his policy agenda, including fiscal expansion and tariffs. However, last week's US inflation print shifted sentiment again. The December CPI report showed inflation rising to 2.9% year-on-year, above the prior month's reading of 2.7%, but the market latched onto signs of softer core inflation which moved down slightly to 3.2% after being largely flat since June. As a result, investors are now pricing in around 40bps of cuts by the end of 2025 across the eight meetings, whereas prior to the reading and after a strong jobs report, they were less optimistic and only pricing in 20bps of cuts.

Why this is important

The relationship between Trump's policies and inflation creates a challenge for the Fed. While tax cuts and looser regulation are likely to boost growth, these effects may be partially offset by inflationary pressures from new tariffs and restrictive immigration policies. Historically, these types of policies would force central banks to maintain or tighten monetary policy to contain inflation. Market expectations for lower rates in the US shifted substantially since August but now investors are betting that cooling growth in other parts of the economy might prompt the Fed to ease policy. This uncertainty leaves the Fed in a difficult position: will they prioritise containing inflation, or will they pivot to support growth if economic data softens? Recent CPI trends, particularly in core inflation, suggest a gradual disinflationary trend, but risks remain. If upcoming inflation readings, such as core Personal Consumption Expenditures, exceed expectations in the first half of the year, the Fed may need to rethink its stance–and even entertain the conversation of additional rate hikes.

The anticipation of President-elect Donald Trump's policy implementations, particularly regarding tariffs and trade relations, has introduced uncertainty and potential volatility in global markets, prompting regions worldwide to prepare for economic adjustments

US

- President-elect Donald Trump signalled plans to designate cryptocurrency as a national priority upon taking office, indicating a potential shift in regulatory focus.
- The US Producer Price Index (PPI) data released on January 14 provided insights into inflation at the production level, serving as a precursor to shifts in consumer inflation.
- Major financial institutions, including JPMorgan, Goldman Sachs, and Citigroup, reported earnings on January 15, offering a glimpse into the health of the financial sector.
- The US Federal Budget Balance was released on January 13, highlighting the monthly difference between government income and expenditure.

UK

- The UK's FTSE 100 share index reached a record high, driven by a weak pound and positive economic data from China, boosting investor confidence.
- UK Chancellor Rachel Reeves returned from China with deals worth approximately £600 million, aiming to strengthen economic ties between the two nations.
- The UK Consumer Price Index (CPI) data was released on January 15, providing insights into inflation trends and potential implications for monetary policy.
- UK GDP figures were announced on January 16, reflecting the country's economic performance and influencing future policy decisions.

Europe

- The European Union faced potential trade tensions as President-elect Donald Trump threatened to impose tariffs, prompting the EU to consider retaliatory measures to protect its industries.
- Eurozone Consumer Price Index (CPI) data was released on January 17, indicating inflation trends within the bloc and guiding European Central Bank policy.
- Germany's CPI figures were announced on January 16, shedding light on inflation in Europe's largest economy and its potential impact on the Eurozone.
- The Eurozone's trade surplus highlighted its export competitiveness, especially in the automotive and industrial sectors.

Rest of the World/Asia

- China achieved its 2024 GDP growth target of 5%, buoyed by aggressive government stimulus, though concerns over a looming deflationary spiral persist.
- China's retail sales rose 3.7% year-on-year in December, while industrial output expanded by 6.2%, both faster than expected.
- Economists criticized Japan's ultra-loose monetary policy, arguing that it undermines fiscal discipline and raises concerns over long-term economic stability.
- Crude oil headed for its fourth consecutive weekly advance, despite a slight decline on Friday.

Weekly market data

week ending 17 January 2025

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Asset Class / Region	Currency	Week ending 17 January	Month to date	YTD 2025	12 months
		Cumulative returns			
Developed Markets Equities					
United States	USD	2.9%	2.0%	2.0%	27.8%
United Kingdom	GBP	3.0%	4.1%	4.1%	18.0%
Continental Europe	EUR	2.4%	3.7%	3.7%	13.3%
Japan	JPY	-1.3%	-3.8%	-3.8%	9.9%
Asia Pacific (ex Japan)	USD	1.0%	-0.7%	-0.7%	17.8%
Australia	AUD	0.2%	1.9%	1.9%	16.5%
Global	USD	2.7%	1.9%	1.9%	22.8%
Emerging Markets Equities					
Emerging Europe	USD	2.3%	4.4%	4.4%	12.0%
Emerging Asia	USD	1.0%	-1.2%	-1.2%	19.1%
Emerging Latin America	USD	3.2%	3.8%	3.8%	-18.8%
BRICs	USD	1.6%	-2.7%	-2.7%	13.6%
China	USD	3.3%	-3.1%	-3.1%	28.4%
MENA countries	USD	0.8%	1.8%	1.8%	2.4%
South Africa	USD	3.8%	2.5%	2.5%	24.0%
India	USD	-1.4%	-2.9%	-2.9%	4.6%
Global emerging markets	USD	1.3%	-0.4%	-0.4%	14.4%
Bonds					
US Treasuries	USD	0.9%	0.0%	0.0%	1.6%
US Treasuries (inflation protected)	USD	0.9%	0.4%	0.4%	2.9%
US Corporate (investment grade)	USD	1.0%	0.0%	0.0%	3.7%
US High Yield	USD	0.9%	0.9%	0.9%	10.0%
UK Gilts	GBP	1.6%	-0.2%	-0.2%	0.0%
UK Corporate (investment grade)	GBP	1.4%	0.0%	0.0%	4.9%
Euro Government Bonds	EUR	0.7%	-0.8%	-0.8%	2.6%
Euro Corporate (investment grade)	EUR	0.4%	-0.3%	-0.3%	5.6%
Euro High Yield	EUR	0.3%	-0.1%	-0.1%	8.6%
Global Government Bonds	USD	0.8%	-0.4%	-0.4%	-0.8%
Global Bonds	USD	1.0%	-0.5%	-0.5%	0.3%
Global Convertible Bonds	USD	1.6%	0.9%	0.9%	10.3%
Emerging Market Bonds	USD	0.8%	0.1%	0.1%	7.8%

Asset Class / Region	Currency	Week ending 17 January	Month to date	YTD 2025	12 months
		Cumulative returns			
Property					
US Property Securities	USD	3.7%	-0.1%	-0.1%	10.6%
Australian Property Securities	AUD	1.7%	4.6%	4.6%	23.3%
Asia Property Securities	USD	1.3%	-1.7%	-1.7%	-4.3%
Global Property Securities	USD	3.0%	-0.4%	-0.4%	7.8%
Currencies					
Euro	USD	0.4%	-0.7%	-0.7%	-5.4%
UK Pound Sterling	USD	-0.4%	-2.8%	-2.8%	-4.0%
Japanese Yen	USD	0.9%	0.7%	0.7%	-5.1%
Australian Dollar	USD	0.8%	0.3%	0.3%	-5.1%
South African Rand	USD	2.0%	0.9%	0.9%	1.8%
Swiss Franc	USD	0.2%	-0.8%	-0.8%	-5.4%
Chinese Yuan	USD	0.1%	-0.4%	-0.4%	-1.8%
Commodities & Alternatives					
Commodities	USD	1.3%	5.2%	5.2%	13.2%
Agricultural Commodities	USD	0.7%	1.4%	1.4%	6.8%
Oil	USD	1.3%	8.2%	8.2%	3.7%
Gold	USD	0.5%	3.0%	3.0%	34.7%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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