



CIO OFFICE MORNING MARKET WRAP

16 January 2025

A relief on US core inflation, a strong start to the corporate earnings season and a peace agreement in Gaza, what's not to like? Bonds rallied yesterday with a double-digit drop in US long dated treasury yields. The 2,5 and 10-year fell to respectively 4.26%, 4.45% and 4.65%. US stocks rallied almost +2%, lifting the MSCI World to a +1.7% gain. Stocks from emerging regions rose by a more modest +0.3% as Asian markets were obviously closed before the good news. Both the GCC and Dubai DFM were slightly positive as well. The trade-weighted dollar gave back -0.2%, supporting gold, up +0.7% to just below \$2,700, while the price of Brent crude oil increased \$2 to \$82. Bitcoin also rallied, briefly regaining 6 digits. 2025 has finally begun...

Let's start with economic data. US headline CPI rose +0.4% in December, now at +2.9% over a year, in line with expectations but the core CPI, more important for the Fed, was softer than forecast at +0.2% in December. On a year-on-year basis, it dropped for the first time since July (and its quickly forgotten recession fear) to +3.2%. A few hours earlier, the same gauge in the UK had a similar outcome, with both headline and core measures decelerating more than expected to respectively +2.5% and +3.2% year on year. The Empire manufacturing index also came out much lower than expected, suggesting no pickup in manufacturing activity, another reason for markets to moderate their fears of a hawkish Fed. Implied expectations from Fed funds futures now price in 1.5 cuts or ~40bps of easing in 2025, starting in early H2. Now, it's important to keep in mind that this is just one single datapoint. The future state of the US economy is certainly not a given, the new administration will take office next week, and the Fed will be data dependent.

In other significant news, the corporate earnings season started with an unanimously impressive set of results from financial giants: JP Morgan and Goldman Sachs were boosted by a record trading activity in Q4, Citi was solid, and Blackrock also exceeded expectations with record inflows and strong results. Finally, but importantly, Israel and Hamas agreed to a peace agreement last night, which includes several phases, to start with a ceasefire this Sunday. Let's hope it works, and holds.

Markets this morning:

There is no euphoria in Asian markets as we write this morning, but an overall modestly positive orientation. Stocks are up 1% in Hong-Kong and Korea but only +0.5% in Japan and +0.1% in Shanghai/Shenzhen. US Treasury yields are stable in Tokyo trading, and so is the trade-weighted dollar, with the only significant mover being the yen, up 0.4% to 155.8 for a dollar. The Bank of Japan may decide a rate hike next week, and the just released December PPI remains firmly positive. Oil prices continue to be steady with the Brent at \$82.4.

Upcoming Key events/data:

US retail sales for December will probably be the most important data of the day at 5.30PM, expected to have risen +0.6% over the month. Anything stronger could reignite inflation concerns. We will also have a look at US weekly jobless claims. The earnings season will continue, including Bank of America and United Health in particular. Tomorrow will provide insight on China's current activity, with monthly retail sales, industrial production and the first estimate of Q4 GDP, all of them at 6AM just in time for our daily. Have a great day.

Have a great day.

Chief Investment Office
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