



CIO OFFICE MORNING MARKET WRAP

6 January 2025

Equities capped off another strong year though they finished a holiday-shortened week mixed, disappointing expectations for a much-awaited Santa Claus rally. The S&P 500 closed lower to limit losses to 0.5%, lifted on Friday by Big Tech stocks. Some single-stock headlines weighed on broader sentiment, from Tesla's underwhelming fourth-quarter deliveries to Apple's declining shipments to China. On the last trading day of the week Nvidia, jumping 4.5%, was the strongest force behind the market. Small caps bucked overall weakness to gain 1.1% for the week, while the overseas markets started the year on the back foot, with both DM-ex US and EM equities losing 0.9%. Few catalysts were offered by macroeconomic data, from the Chicago PMI released on Monday that fell short of consensus to stay in contraction territory, to the ISM manufacturing that on Friday surpassed estimates and showed an advance in new orders. The Atlanta Fed revised down its fourth-quarter GDP forecast from 3.1% to 2.6%, while initial jobless claims recorded their lowest level in eight months. Business confidence data in China showed signs of stabilization in economic activity driven by the services sector. Yet, mainland equities lost more than 5%, and the Hong Kong's Hang Seng gave up 1.6%. Treasuries gained across maturities and the yield curve bear-flattened, with the yield on the two-year note shedding almost 3bps and the 10-year almost five, amidst thin liquidity and mixed macro news flow. The US dollar (+0.9%) closed at the highest levels since late 2022, gaining most against the euro and the sterling following a strong jobless claims release. The main commodities closed in positive territory. Crude advanced by 3.2%, while copper rebounded, spurred by expectations of further China stimulus as President Xi pledged more proactive policies for 2025 to boost growth. Gold gained 0.7%, though it was met by some profit taking on Friday.

Last year was a stellar one for investors with 20% back-to-back US equity gains. The solid bull market for stocks was supported by continued economic growth, falling inflation, and a global easing cycle led by the Fed. Mega-cap tech stocks led once more the way, though market participation became broader across sizes and sectors. Treasuries experienced another volatile year, with longer-dated yields rising despite Fed rate cuts, and US cash yet again outperforming IG bonds. US exceptionalism dominated market performance as underwhelming Chinese stimulus failed to impact growth and activity in the euro area remained anemic. Gold's +27% topped asset class returns, amidst widespread geopolitical tensions and unrelenting central bank purchases. Market participants are now looking to 2025 with some trepidation, as historically very strong years have been followed by a rise in volatility and less ebullient gains. Some questions remain key to next year's outlook. Will both stimulus and less demanding valuations in China and Europe trigger outperformance of non-US markets? Could US growth start to show some cracks? How will Trump's policies impact the outlook? Will the disinflation process continue? Will manufacturing activity expand again following a contraction phase throughout most of the last two years? Our take on this and more will be provided in our outlook publication for 2025 to be released shortly.

Markets this morning:

In the morning session Asian currencies hit a two-decade low against the US dollar, while equities traded mixed. Hong Kong and South Korea advanced, helped by semiconductor and other technology stocks, following Microsoft Corp.'s plan to spend \$80bn in data centers. Taiwan-listed Hon Hai Precision Industry, the assembly partner to Nvidia and Apple also known as Foxconn, rallied as it reported better-than-expected revenue. Japan's Topix was led lower by Nippon Steel, after President Joe Biden blocked its planned \$14.1bn takeover of United States Steel. The outlook for the Asian area remains blurred, with the prospect for more China stimulus counterbalanced by trade tariffs threatened by Donald Trump. The yen led declines among G10 currencies against the dollar, while the Canadian dollar got a lift by a press report that premier Trudeau is likely to announce his resignation as leader of the liberal party. A gauge of China services' activity rose at the fastest pace since May, in a sign stimulus measures are feeding through to the economy. Elsewhere, President Joe Biden is set to sign a sweeping ban on oil and gas activity on US coastal territory. US futures were little changed, while Treasury yields rose for a second session. WTI crude rose for a sixth day, while gold advanced as well.

Upcoming Key events/data:

This week the jobs report and the ISM Services release will take center stage and provide important cues about the US economy. Payrolls numbers could surprise to the upside as a continued reversal from October's hurricane-affected print. The FOMC minutes will shed light on what prompted the Committee to cut rates at the December meeting. Inflation prints in Europe, China, and India will be closely watched to gauge the direction of price pressures.

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