



CIO OFFICE MORNING MARKET WRAP

27 January 2025

Last week marked the beginning of Donald Trump's second presidency, and markets responded with optimism and resilience. The S&P 500 recorded its best start to a presidential term since 1985, rising 1.7%, while global equities overall gained 2.1% driven by both developed and emerging markets. U.S. market capitalization as a share of global market cap reached to a new record, reflecting the continued dominance of U.S. equities, thanks to a strong start to the earnings season and enthusiasm for Trump's AI-focused policies. China was the clear standout of the week, with the MSCI China Index rising 3.1%, supported by Trump's unexpectedly conciliatory tone on trade. Whether this tone will hold in the coming weeks remains uncertain. January's composite flash PMI came in softer than expected (52.4 vs 55.4 in Dec), dragged down by services, though manufacturing performed better, beating expectations, and remaining above the expansionary level of 50. The ISM index continued its steady improvement. Without any conclusive negative indications from the data, yields have slightly dipped. Attention now turns to this week's January FOMC meeting, with Powell's remarks to be closely watched as to whether the Fed will remain steadfast in its independence from the President.

The U.S. retained its leadership in global equity markets as early earnings results outperformed expectations, with 16% of S&P 500 companies reporting so far. Netflix climbed 15% after reporting record subscriber growth, while Meta Platforms announced plans to invest \$65 billion in AI, aligning with Trump's \$100 billion Project Stargate initiative. These developments added to optimism about long-term growth in tech, though it wasn't universal—Texas Instruments dropped over 7% after issuing a weaker-than-expected outlook for chip demand, signaling challenges within semiconductors.

In Europe, the MSCI Europe Index rose 1.2%. Novo Nordisk jumped 14% on positive trial results for its weight-loss drug, while Siemens Energy reached new highs as demand for AI-related infrastructure continued to grow.

In Asia, China's equity markets surged on Trump's softened rhetoric, climbing 3.1% for the week. TOPIX rose 2.7%, for the week though closed flat even as the BOJ raised rates to the highest level since 2008, signaling growing confidence in inflation recovery. India faced mounting challenges, as stretched valuations, and increased competition weighed on markets. The MSCI India Index declined 1.4% for the week.

Within commodities, Brent oil posted its first weekly decline of the year down to -2.7% lower to \$78.5bbl, as Trump's push for lower energy prices. Gold gained 0.6% to close at \$2,77 an ounce and the dollar weakened significantly, seeing its largest weekly drop since November 2023, while the euro and pound strengthened. Treasury yields edged lower, with the 10-year yield falling two basis points to 4.62%.

Markets this morning:

This morning, Asian markets saw solid gains, with Chinese tech stocks leading the way as excitement around DeepSeek, a Chinese AI startup, sparked fresh interest with its low-cost AI models, lifting sentiment across the region. However, the enthusiasm was tempered by concerns over how this could challenge U.S. tech companies, putting some pressure on Nasdaq futures. Adding to the mix, Trump's announcement of new tariffs on Colombia added a cautious tone to the broader market.

Upcoming Key events/data:

Looking ahead, markets are bracing for heightened volatility on a crucial week as four of the magnificent seven companies are set to report including Apple, Microsoft, Tesla, and Meta. The focus will also turn to the Fed's January policy meeting that concludes on Wednesday. Powell's comments, corporate earnings alongside President Trump's actions in the second week in office will determine if this positive market momentum can extend further.

Have a great week ahead!

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