



CIO Daily Outlook

31 January 2025

At the end of January, market performance reflects high employment, economic and corporate earnings growth, no tariffs at scale (yet), rates behaving and continued belief in US exceptionalism (even if Deep Seek shook tech stocks for a day). Global equities are +3.7%, month to date with Developed Markets following last year's trend and leading, Europe at the top +6.8%, US S&P 500 +3%. In emerging markets UAE and KSA lead with gains of 3-5%, mainland China indices are negative YTD while the MSCI China (more big China tech) is up a percent. India down almost 2%. We have seen in January 42 executive orders on day 1 from Pres. Trump, the S&P 500 hit a new all-time high, a strong USD rallying on inauguration. We also have strong earnings, a stable rates market, retail, and mega cap Tech strength. Ai and Ai capex in focus. Increased questions around Ai capex and the scale of tariffs. The market tail risk of Nvidia losing \$560bn of mkt cap in a day to recover partially the next day. The full spectrum of ai plays coming under scrutiny. Gold at almost \$2800 as we write, Brent crude at \$ 77/ barrel and the 10-year US Treasury yield at 4.53%.

UAE corporate results have been good specially the banks so far, with stock gains of 10 to 15% YTD. We continue with our overweight recommendation for US and UAE banks. Public Services in the headlights after a great 2024 performance. Salik implements its dynamic pricing model today (31 January) on all 10 toll gates in Dubai – the first time since Salik tolls were introduced in 2007.

On Thursday, US markets reacted to one of the quarter's busiest earnings days following mixed mega cap results late Wednesday. The S&P 500 closed +0.5%, Nasdaq +0.25% and the MAG7 stocks were flat. Europe and UK's FTSE100 a gained almost a percent with Japan, India, and the UAE small gains. India's budget and next week's rate decision catalysts for a stock market that's been bearish recently.

Tech results: IBM the standout +13% yesterday, on strong software and AI rollout growth. Microsoft and Meta results exceeded consensus, but Tesla fell short. Microsoft's Azure and other cloud revenue rose 31% last quarter, slightly below guidance, shares fell 6% yesterday. Tesla's earnings and revenue below consensus but shares rose 3%. Meta stuck to its heavy capital spending plans \$60 bn and a weak Q1 revenue forecast did not hurt, and shares rose, a 18% YTD gain so far. Positive for chip stocks amid concerns about cheaper Chinese AI competition. YTD MAG7 stocks are +2.3% in line with broader US performance. Apple reported post close revenue forecast for the current quarter expected to grow in the low- to mid-single digits, though last quarter revenue from China lower and iPhone sales less than an 1% drop to \$69.1 bn, but renewing concerns about China and iPhone sales. Apple's services division a record of \$26.3 bn and strong guidance. Shares +3% post close.

The ECB delivered a 25-bps rate, in line with analysts' expectations as inflation eased. The Fed left rates unchanged Wednesday at a target range of 4.25% to 4.5% - the economy is doing well, inflation isn't moving lower rapidly, and the labor market is strong, driving the Fed's current views." The CME Fed Watch tool puts odds of a March trim at 18%, down from 30% a day ago, after Fed Chairman Jerome Powell said the Fed "is in no hurry" to make more adjustments. On the macro front US government estimate is a 2.3% y/y Q4 GDP growth, below the 2.6% consensus. Strength below the surface, personal consumption increased by 4.2%.

Markets this morning:

Today, Asian markets mainland China and Hong Kong closed for the Lunar New Year holiday. Japan trading up slightly.

Upcoming Key events/data:

The Fed's preferred inflation indicator, the December PCE is due today following what Fed Chair Powell said were "good" recent inflation reports. Consensus is for 0.3% monthly headline and 0.2% monthly core PCE growth. Core y/y PCE Index is seen up 2.8%. December's producer and consumer inflation data offered a mixed picture for PCE. Today we get UK January Nationwide House Prices, France and Germany January CPI and Fed and ECB speakers.

Best regards

CIO Office

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