

February 17, 2025

# Weekly Investment Insights



Stocks on both sides of the Atlantic finished higher last week. Stateside, the S&P 500 Index and Nasdaq Composite both closed the week within 1% of all-time highs, showing the most momentum on Thursday after Trump shunned global tariffs in favour of a more targeted, country-by-country approach based on reciprocity. The Commerce Secretary and his team will now work on a plan, which is expected to be delivered on April 1st. Traders appeared to welcome this delay which could allow for negotiations between the US and its trading partners.

Here on the continent, European equities hit a new high last week on optimism that US-Russia dialogue might bring about the end of the Ukraine war. Some robust earnings reports also helped.

According to FactSet, 77% of companies on the S&P 500 have now reported their results, delivering EPS growth of 16.9% on aggregate (a positive surprise of 7.3%). The results were met with upwards revisions to expected earnings growth. Worth noting, is that for Q1 2025, S&P 500 companies with more international revenue exposure are projected to report lower earnings

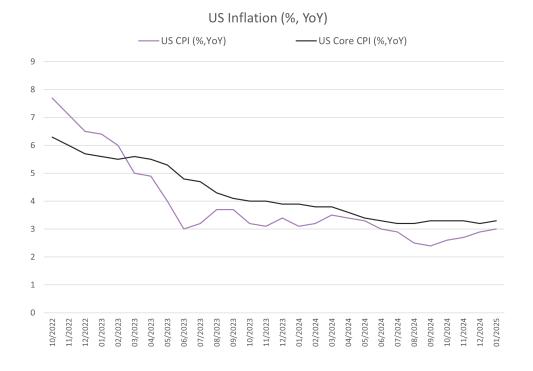
than equivalents with more domestic revenue exposure. The estimated earnings growth rate for the S&P 500 for Q1 2025 is 8.1%. For companies that generate over 50% of sales within the US, estimated EPS growth is 9.1%. For companies that generate over 50% of sales outside the US, the estimated EPS growth rate is 6.6%.

In Europe, less than half of companies have reported Aggregate EPS growth stands at around 2%, with an aggregate positive surprise of 4%.

# WEEKLY HIGHLIGHTS

#### US headline inflation rises for a fourth month

US headline inflation rose for a fourth consecutive month in January, reaching 3.0% year-onyear, slightly above the anticipated 2.9%. Core inflation, which strips out volatile categories, also unexpectedly rose to 3.3%, while forecasters had predicted a decline to 3.1%.



Source: Bloomberg, BIL

| Metric       | Actual | Estimate |
|--------------|--------|----------|
| CPI MoM      | +0.5%  | +0.3%    |
| Core CPI MoM | +0.4%  | +0.3%    |
| CPI YoY      | +3.0%  | +2.9%    |
| Core CPI YoY | +3.3%  | +3.1%    |

Digging into the details, energy costs experienced a 1% YoY rise, primarily due to gasoline (-0.2% vs -3.4% prior), fuel oil (-5.3% vs -13.1%), and natural gas (4.9% vs 4.9%).

Additionally, prices increased for used cars and trucks (1% vs -3.3%), transportation (8% vs 7.3%), and hotel stays.

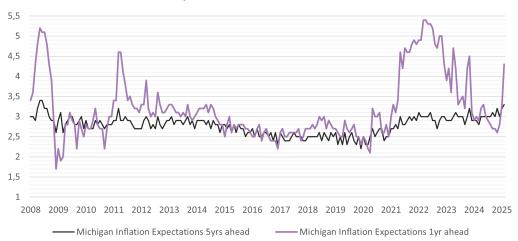
Conversely, inflation for food remained stable at 2.5% (vs 2.5% prior), while it slowed for shelter (4.4% vs 4.6%). Albeit, the latter still accounted for 30% of the overall monthly increase.

Some Fed officials have observed that inflation can heat up early in the year, as businesses implement outsized price increases. Evidence suggests some have even tried to front-run potential tariffs in their pricing strategies.

Overall, the print provides further evidence that the progress made in curbing inflation could be at risk of coming undone. Coupled with the fact that the labour market is cooling only very gradually, the case is there for the Federal Reserve to exercise caution in its approach to interest rate cuts in the months to come.

Fed policymakers also await more concrete facts on the new Administration's trade policies in order to calibrate policy accordingly. The threat of tariffs is already exerting significant upward pressure on consumer inflation expectations, as can be seen in the below chart.

# Michigan Consumer Sentiment: Short-term inflation expectations continue to rise



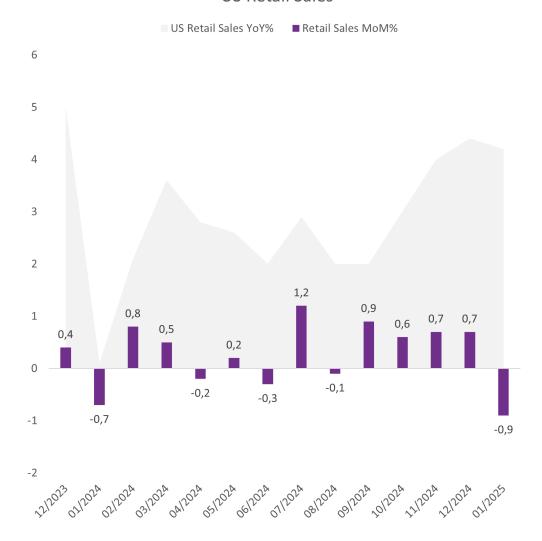
Source: Bloomberg, BIL

According to the University of Michigan Consumer Sentiment Survey, 1-year inflation expectations recently spiked to their highest level since November 2023, while long-run inflation expectations have reached 3.3% - the highest level since June 2008!

#### **US Retail Sales**

After a holiday spending spree, US consumers tightened their belts at the onset of 2025, with monthly retail sales dropping by the most in two years. The declines were broad-based, with 9 out of 13 categories falling. It is thought that wildfires in LA (the second largest metropolitan area in the US) and severe winter weather might have curtailed spending at brick-and-mortar stores, however, stubborn inflation and high borrowing costs are also taking a toll more broadly speaking. Until now, consumers have been the driving force behind US exceptionalism. The key question now is whether a potential spending slowdown could be partially compensated by an uptick in corporate activity amid Trump's business-friendly agenda.

## **US Retail Sales**



Source: Bloomberg, BIL

## EU explores energy price cap

Reports last week suggested that the European Commission is contemplating a cap on gas prices. After a cold winter and a lack of wind for renewables, gas prices recently rose to levels unseen in over two years. A similar cap was already on the table back in 2022, at the height of the energy crisis, but it was never activated because prices remained below the €180 per megawatt-hour knock-in level.

Energy groups fear a gas price cap would "harm the trust" in Europe's benchmark, while others opine that price fixing is just a temporary band-aid and Europe must instead direct efforts towards bolster supply.

After hitting the highest level since February 2023, European gas prices tumbled towards the end of the week. One driver was the hope that US-Russia talks would lead to the end of the war in Ukraine, but the key catalyst was a request by Germany for exemptions from the EU's storage filling target this year. Policymakers in Berlin are concerned that the requirements are driving market speculation and pushing up prices as traders know that EU member states will have to intervene to make sure the targets are met.



Source: Bloomberg, BIL

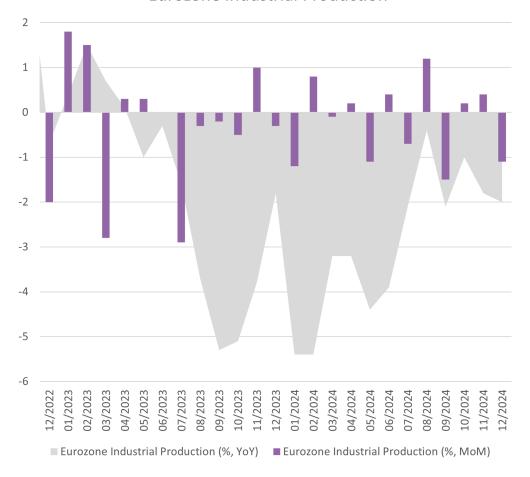
#### Eurozone Industrial Production declines in December

The energy crisis took a heavy toll on European industry, especially energy-intensive sectors, and a recovery is still not forthcoming. Eurozone industrial production fell by 1.1% MoM in December, while the market expected a more modest decline of 0.6%. The number was driven by reduced output in capital goods (-2.6%), intermediate goods (-1.9%), and durable consumer goods (-0.7%), while production increased for non-durable consumer goods (5.1%) and energy (0.5%).

On a country-by-country basis, industrial activity contracted in Germany (-2.9%), Italy (-3.1%), the Netherlands (-1.0%), and France (-0.4%), whereas Spain recorded a 1.4% increase

While manufacturing PMIs appear to be bottoming out, it is difficult to expect a quick turnaround amid weak global demand, volatile energy prices and looming trade tariff uncertainty.

# **Eurozone Industrial Production**



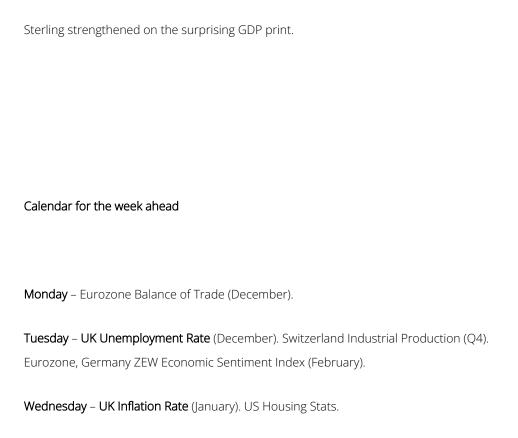
Source: Bloomberg, BIL

#### UK economy surprises with 0.1% growth in Q4

Defying expectations of a contraction, the UK economy grew by 0.1% in the final quarter of 2024, bringing total growth for 2024 to 0.9%. Despite the growth surprise on the upside, there are still growing concerns about the outlook of the UK economy, with consumption and business investment coming in weaker than expected at the end of last year.

Growth is being driven by the services sector, with wholesalers, film distributors, pubs, machinery manufacturers and pharmaceutical companies performing well. However, business investment fell by 3.2%.

At its monetary policy meeting earlier in February, the Bank of England halved its growth forecast for 2025 to 0.75%. Businesses are facing higher costs as a result of the Autumn Budget, weak demand from Europe, higher energy costs and the potential impact of US President Donald Trump's trade tariffs, meaning that 2025 will likely be a challenging year for the economy.



**Thursday** – Switzerland Balance of Trade (January). Eurozone Consumer Confidence (Flash, February). US Jobless Claims.

Friday – UK Gfk Consumer Confidence (February), Retail Sales (January). **Germany, France, Eurozone Manufacturing, Services & Composite PMIs** (Flash, February). **UK, US S&P Global Manufacturing, Services & Composite PMIs** (Flash, February). US Michigan Consumer Sentiment (Final, February).

Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeless of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent,- subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of- date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch I L-2953 Luxembourg I RCS Luxembourg B-6307 I Tel. +352 4590 6699 I www.bil.com.

