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Week in review and ahead (vol.09)

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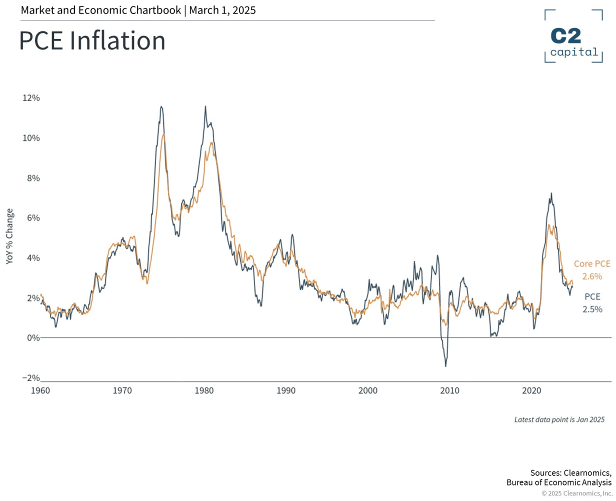
Risk-off continued in equity markets in the US as inflation risks, growth concerns and tariff risks weighing on investor sentiment. Despite the continuation of generally better than expected earnings, including from the largest chipmaker, NVDIA, which offered strong guidance, too, and is broadly viewed as a gauge for the tech an AI trade at large, did not seem to lift sentiment to reverse meaningful the sell off in tech names and momentum stocks. Crypto joined the sell-off (in tech and momentum) with the price for Bitcoin and Ethereum falling 10.7% and 18.1%, respectively, for the week. The drop is synonymous with current (risk-off) sentiment in tech and momentum as news of the Securities and Exchange Commission (SEC) dropping its lawsuit outright against crypto exchange Coinbase, signaling the administration’s favorable stance towards crypto, did little to avert this week’s sell-off.

The S&P500 declined 1% for the week (recovering late on Friday after being down nearly 3% for the week by 2pm EST) while the Nasdaq declined 3.5% (having been down nearly 5.5% by 2pm EST on Friday). Core PCE for January, as reported Friday, came in as expected, which seemed to lead to a rebound in Friday's late trade, helping the Dow closing higher by 1% for the week. Headline figures for the core PCE were 2.6% year-over-year (“YoY”), down from 2.9% in December, and 0.3% month-over-month (“MoM”), slightly up from 0.2% in December. Markets however remain wary of possible tariffs going into effect next week which, if imposed, will add to selling pressure(s) and risk off sentiment.

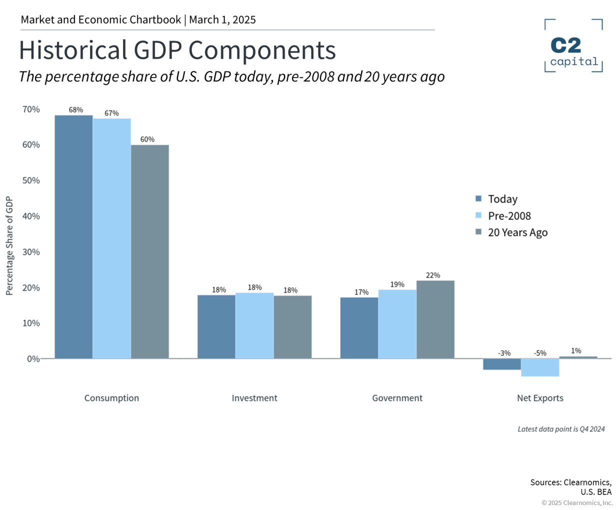
Globally, all major world indices declined for the week with the exception of Germany, which was up 1.2%, on the heels of elections last week and indications of increased defense spending which may have lifted London (UK), too, up 1.7%, in addition to the prospect of a US-UK free trade agreement.



While headline core PCE figures came in line with expectations, data on personal income and spending for January did surprise materially fueling inflation fears and growth concerns. Personal income for January rose 0.9% MoM, higher than the expected and previous read of 0.4% MoM (adding to inflationary fears) while personal spending declined 0.2%MoM, compared to expectations of a moderate increase of 0.1%MoM, but well below last month's 0.7%MoM (adding to fears that economic growth is slowing). Personal savings increased to 4.6% further fueling fears that consumption (which makes up 65-68% of GDP) in the US may be slowing. Further, reports of the US trade balance deficit of -153.3B for January, the highest ever on record, far exceeded expectations and last month’s reported deficit, likely influenced by accelerating imports to avoid possible, announced tariffs.

Absent any meaningful (corresponding) increase in private US inventories (part of the investment component), the trade deficit will lower GDP for the US significantly, with markets now bracing for GDP for Q1'25 being well below the 2%-points, and this after the second reading of Q4'24 GDP had confirmed the first reading of 2.3% earlier in the week.

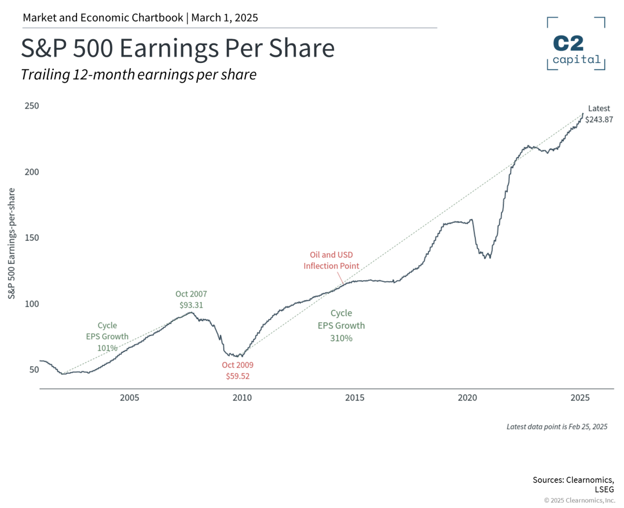
With risks of higher inflation re-emerging, possibly fueled by tariffs (even if only one-time), slowing economic growth have some already concerned of possible stagflation and the eventual impact on the labor market that has stayed somewhat resilient thus far. Last week’s initial jobless claims were 242K for the week, above last week's 220K and expectations of 225K, lifting the four-week moving average to higher levels than the previous week (by 3.94%) and a year ago (by 5.54%). While one should not overreact to a single data point, the increased level of uncertainties due to tariff risks in specific, and headline risks, in general, may weigh on sentiment and to deferment of investment decisions.



Next week's focus will squarely fall on the prospect of tariffs being imposed on Canada, Mexico and China. While news of negotiations among and between the US and Mexico to avert these have been reported late last week, not much has been reported on similar discussions with Canada or China. In fact, China has communicated that it would reciprocate on any new tariff measures that are slated to go in effect just one day before Chinese top officials meet for the annual National People's Congress (NPC). Besides focusing on any implications, the setting of the political agenda may have for the Chinese economy and markets (and beyond), many will monitor the NPC meetings for any countermeasure announcements that may escalate the trade war.

On the macroeconomic front, markets will focus on the final ISM manufacturing reads, confirming previous reads above 50, due out on Monday, followed by the read for services on Wednesday. Labor market will take center stage towards the end of the week with the closely monitored weekly initial jobless claims due on Thursday and non-farm payrolls for February on Friday, including updates to hourly wages YoY projected to remain at the prior 4.1% and unemployment rate in the US projected to remain at 4%. The week will conclude with various Fed governors speaking Friday after the February labor market reports and markets will key in on Fed Chair Powell's speech scheduled for 12.30pm EST to assert any changed nuances to US monetary policy (from his congressional testimony) with the next FOMC meeting scheduled for March 18-19th.

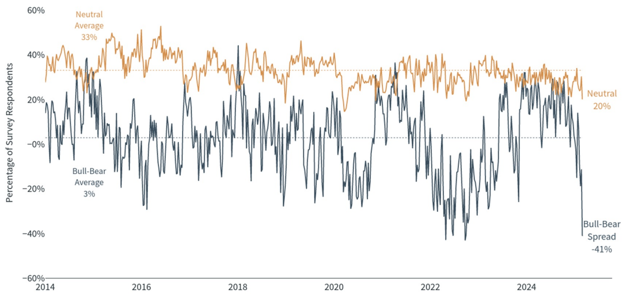
The earnings season will continue next week with nearly 450 companies reporting their quarterly results that may influence the sentiment of the tech and momentum trade. In addition, given recent fears of an economic slowdown in the US, markets will focus on a number of retailers to gain insights on the state of the consumer in the US. Volatility continues to elevate with the CBOE VIX ending the week below 20 (at 19.63) after peaking just above 22 at 1pm EST on Friday. Volatility peaked following news that a meeting of POTUS Trump with Ukrainian President Zelenskyy to discuss an end to the Russia-Ukrainian war and sign a US-Ukrainian minerals deal broke down (unprecedentedly in the public eye).



The month of February concluded as it usually does, traditionally weak for markets. Conversely, the month of March is typically positive with major US indices advancing 64% of the time. This certainly would be welcome news as the hypothesis of American Exceptionalism continues to be tested with markets navigating significant headline risks that threaten to spill into the real economy (by depressing growth and investor sentiment further).

Investor Sentiment

AAII Investor Sentiment Survey



Latest data point is Feb 27, 2025

Sources: Clearnomics, AAII

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