

Weekly Brief

Strategy and Quantitative research

WHAT WE LEARNED LAST WEEK

Markets: European markets are extending their strong start to the year, supported by value stocks.

- The Euro Stoxx index advanced by 1.7% to 6162 points (YtD: +6.4%) and the S&P 500 grew by 0.7% to 6909 points (YtD: +0.9%). Implied volatility softened in the US with the VIX at 18.6 as well as in Europe with the V2X Index at 18.9.
- Brent price declined by 1.3% to \$70.8.
- The German Bund yield moved down by 4.7 bps to 2.698% and the US 10Y yield was down by 6.3 bps to 4.012%.
- The French spread compressed by 1.7 bps to 56 bps. The Italian spread remained flat at 61 bps, while the Spanish spread tightened by 1.7 bps to 41 bps.

World: US-Israeli airstrikes against Iran kill Iran's supreme leader and trigger regional escalation.

- **Geopolitics:** As negotiations over Iran's nuclear program appeared to stall last week, the United States and Israel launched airstrikes in Iran on Saturday, targeting dozens of sites in Tehran and several other cities. Ayatollah Ali Khamenei and multiple senior officials were killed. Iran immediately retaliated by striking Israel as well as military bases across several Gulf countries, including Bahrain, Qatar, and the United Arab Emirates. For now, uncertainty prevails as missile exchanges continue and the succession of the Ayatollah remains unclear. At the same time, oil prices are expected to surge sharply, with traffic through the Strait of Hormuz, a corridor that carries nearly 20% of global oil shipments, coming to a near standstill. In anticipation of further disruptions, OPEC+ announced on Sunday that it would increase oil production.

Europe: The economic rebound is gathering pace in Germany.

- **Activity:** In Germany, the IFO Business Climate Index rose to 88.6, slightly above market expectations (88.4) and up from 87.6 in January, indicating a modest improvement in business sentiment after several weak months. Although the index remains relatively subdued, the sub-components point to a better assessment of current conditions and more optimistic expectations. This reading adds to the recent positive German macro indicators (PMIs, manufacturing orders, etc.), which partly reflect the materialization of government spending under the stimulus plan announced more than a year ago.

U.S.: Inflationary pressures persist in the United States.

- **Activity:** The domestic inflation outlook remains mixed following the release of the January Producer Price Index (PPI), which rose 0.5% month-over-month, exceeding expectations. The acceleration was primarily driven by an 0.8% jump in services, offsetting a 0.3% decline in goods prices led by falling energy costs. While headline inflation on a 12-month basis sits at 2.9%, the persistence of upstream service-level pricing suggests that inflationary pressures have not yet fully abated.
- **Trump State of the union:** In his State of the Union address, Trump remained very discreet about his upcoming economic measures. He mainly highlighted the decline in inflation and the solid performance of the job market, while praising his migration policy.

Asia: The PBoC remains on hold despite persistently subdued domestic demand.

- **China:** The PBoC maintained its benchmark lending rates in February, leaving the one-year Loan Prime Rate (LPR) at 3.0% and the five-year LPR at 3.5%. The decision to hold rates for a ninth consecutive month suggests that Beijing is prioritizing currency stability and managing financial risks over broad monetary easing, despite ongoing pressure on domestic demand. This follows more targeted, sector-specific rate cuts implemented in late January to support the economy without triggering excessive yuan depreciation.
- **Japan :** Tokyo's February core CPI inflation slowed to 1.8% YoY from 2.0% in January, driven by a decline in energy and food prices. At the same time, Takaichi appears to be promoting a reflationary policy and considers that inflation should primarily be managed through fiscal policy rather than monetary policy. According to a Japanese media outlet, she has made it clear to Ueda, the BoJ Governor, that she does not want the central bank to continue its rate hikes. In parallel, the PM has appointed two academics regarded as highly dovish to the BoJ board.

WHAT TO WATCH THIS WEEK

- **Europe:** CPI in February, Unemployment rate and retail sales in January
- **US:** Jobs report and ISM in February.
- **China:** PMIs in February

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Limited company with Executive and Supervisory Board capital of 4,324,048 Euros registered with the RCS Paris under number 410 204 390,
Head office: 119-121 boulevard Haussmann, 75008 Paris, France,
Approved by the AMF, dated 20/09/1999,
as a portfolio management company under registration number GP99-27