

Weekly Brief

Strategy and Quantitative research

WHAT WE LEARNED LAST WEEK

Markets: The price of Brent crude oil rise amid concerns about a U.S. intervention in Iran.

- The Euro Stoxx index remained stable at 5948 points (YtD: +2.7%) and the S&P 500 advanced by 0.3% to 6939 points (YtD: +1.4%). Implied volatility rose in the US with the VIX at 17.4 as well as in Europe with the V2X Index at 20.0.
- Brent price advanced by 7.3% to \$70.7.
- The German Bund yield moved down by 5.9 bps to 2.844% and the US 10Y yield was up by 2.6 bps to 4.259%.
- The French spread showed no change at 58 bps. The Italian spread stretched by 1.2 bps to 62 bps, while the Spanish spread remained flat at 37 bps.

Europe: EU and India sign the so-called “Mother of all deals”

- **Activity:** Eurozone GDP in Q4 grew more than expected, by 0.03% QoQ. German, Spanish and Italian growth all surpassed expectations. France GDP was in line with consensus. Growth in Germany was driven by consumption and government expenditure. Separately, the German Ifo business climate index remained relatively stable in December, with the expectations component slightly declining.
- **Trade:** The EU and India signed a landmark free-trade agreement last week, aimed at deepening economic and strategic ties. The deal will sharply reduce Indian tariffs on most European exports. In return, the EU will liberalize access for the majority of Indian goods while protecting sensitive agricultural sectors. Beyond merchandise trade, the agreement expands cooperation in services, skilled-worker mobility, and defense and security. Although signed, the agreement still requires ratification by EU member states, the European Parliament and India's domestic procedures before entering into force.

U.S.: Trump picks Kevin Warsh as new Fed Chair

- **Central Banking:** The Fed kept policy on hold with 2 voting members dissenting: Miran, who voted for a 25 bps cut after a 50 bps cut vote the previous meeting, alongside Waller. Fed Chair Powell indicated there was broad consensus around keeping rates unchanged at the FOMC, and highlighted the resilient consumption to justify the wait-and-see approach the Fed is sticking to. Powell refused to comment on the DOJ issue and the question as to whether he will remain as a board member after his term expires in May. Rate cut bets remained unchanged, with 2 cuts priced-in for the year 2026, the first fully priced in July. Later in the week, Trump announced his pick for Powell's successor: Kevin Warsh, a former Federal Reserve governor serving from 2006 to 2011, known for a previously hawkish stance but now aligns with Trump's view regarding preference for lower rates. His nomination will require Senate confirmation, which may be contentious as some senators have signaled opposition until the matter over criminal indictment on Powell is resolved.
- **Politics:** Senate Democrats threatened to block the Departure of Homeland Security (DHS) funding bill in response to public outrage over fatal shootings by federal immigration agents in Minneapolis. This raised the risk of a partial US government shutdown, though leaders worked on a temporary DHS funding deal to buy more time for talks.
- **Earnings:** 4 of the Mag 7 reported quarterly earnings. Meta and Microsoft posted strong results, driven by advertising and cloud demand, while Tesla's revenue dipped modestly. Apple delivered better than expected revenue and profit, lifted by iPhone and services strength.

Asia: Japan may have stepped in to support the Yen.

- **Japan:** Japanese authorities may have intervened early in the week to reinforce the Yen which has tumbled since mid-last year, as there have been rate checks by the New York Fed that traders interpreted as a possible precursor to intervention. There has been not confirmed joint currency intervention, with Bessent indicating the US wanted a stronger dollar.
- **China :** Industrial profits showed a modest but meaningful rebound in 2025, marking the first annual increase in four years with overall profits rising by 0.6% YoY.

WHAT TO WATCH THIS WEEK

- **Europe:** ECB and BoE interest rate decision.
- **US:** Payrolls report in January. ISM in January.
- **China:** Ratings Dog PMIs in January.

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