



Market Watch. Arion Capital.

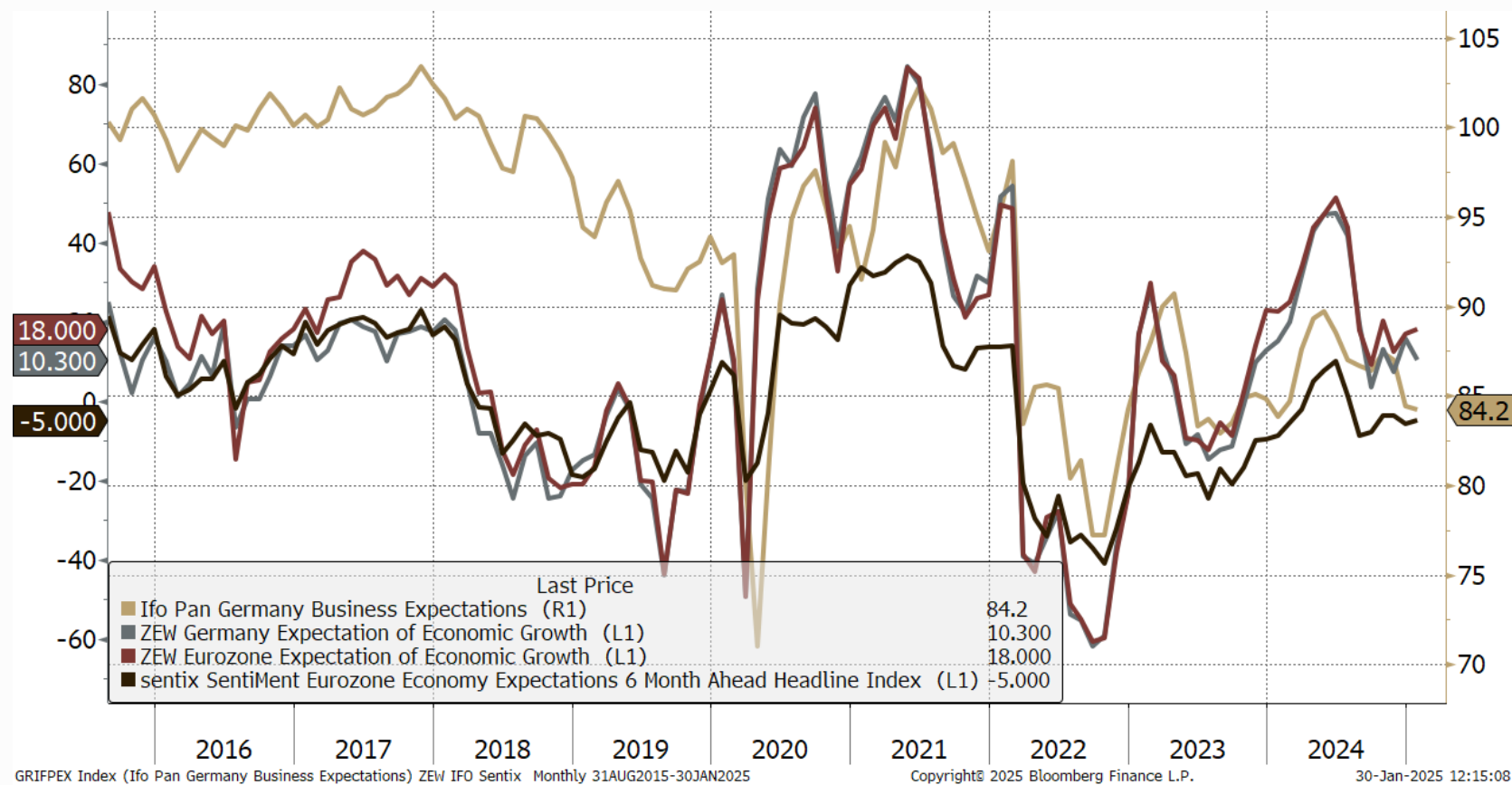
February 2025

Sluggish Eurozone and Healthy Growth in the US

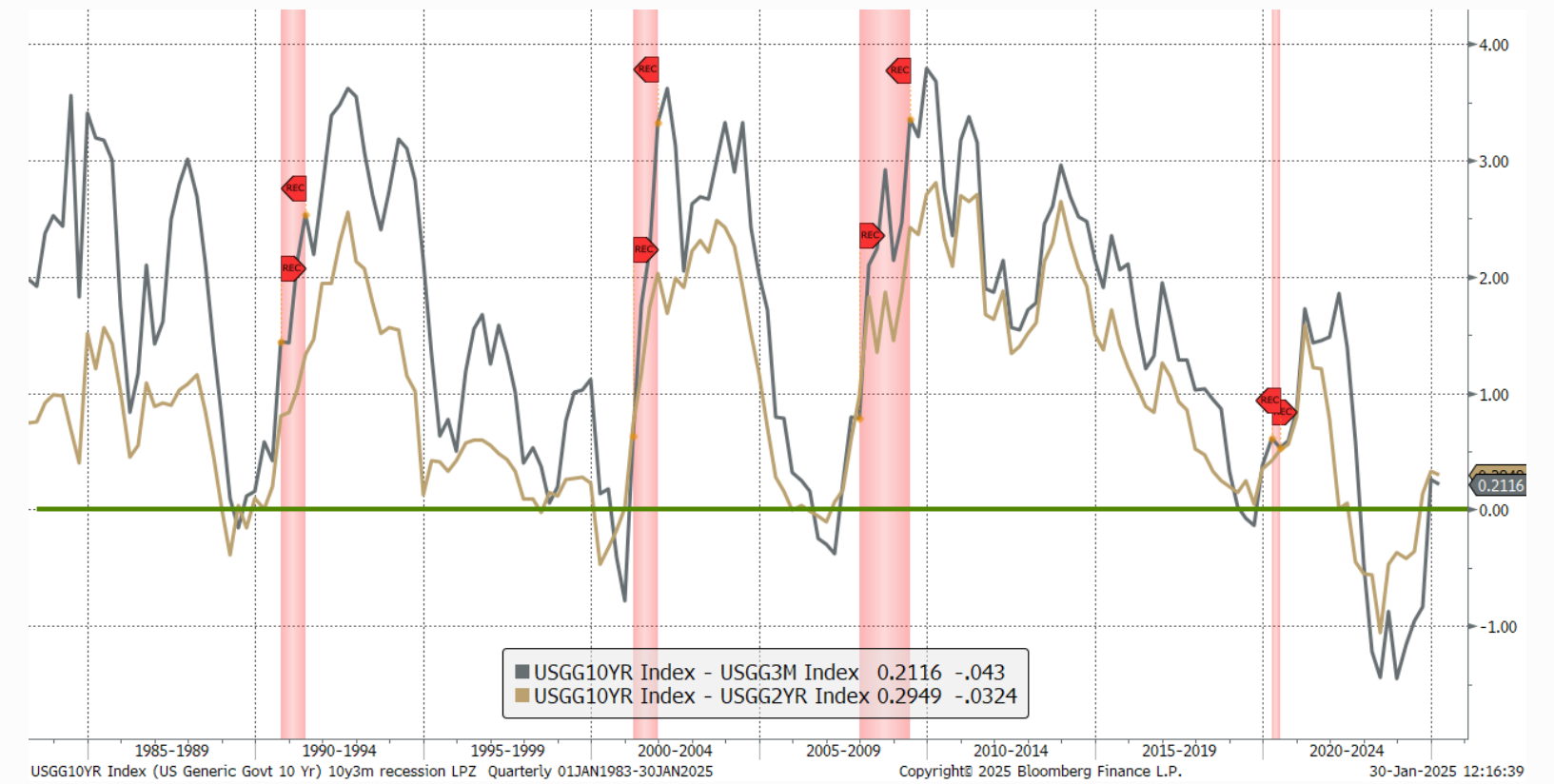


- ✦ The US economy is expanding at a healthy pace. The job market is less restricted, but wage pressure remains. Also, PCE, the Fed's preferred inflation measure, remains above 2%. Therefore, the Fed's decision not to cut its policy rate in January came with little surprise.
- ✦ In the Eurozone, the situation is completely different. Although the German economy is shrinking for the 5th consecutive quarter and France is on the brink of a recession, inflation pressure remains. However, the ECB decided to cut its policy rate for the 4th consecutive time, by 25 basis points.
- ✦ The rate path for both central banks could not be more different. A maximum of two cuts in the US, but they will probably pause until May, while the ECB might cut at least two more times in the next two meetings. This has consequences for the Swiss National Bank, which is expected to cut to 0.25% in March

Economic Deceleration in the Eurozone



Bear Steepening of the US Yield Curve

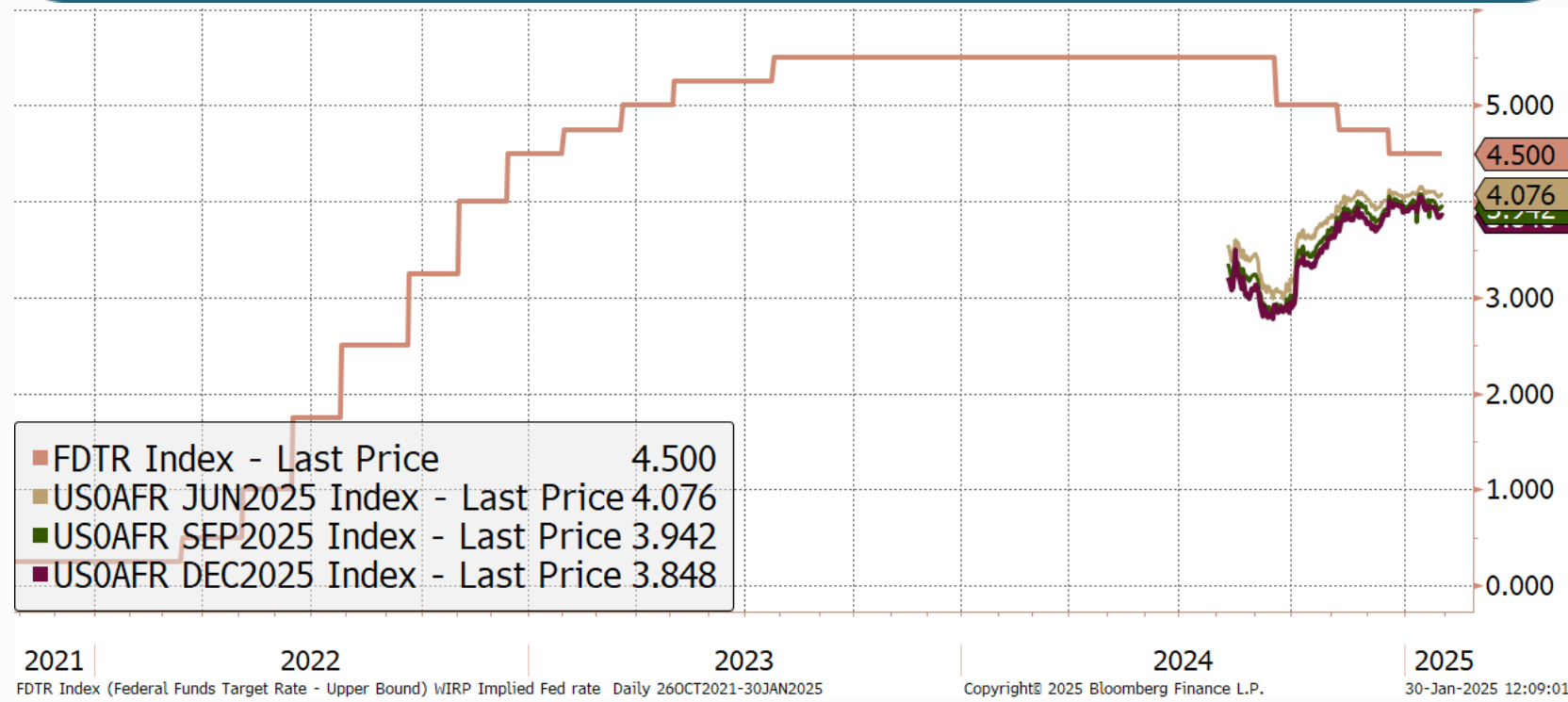


- ✦ The US yield curve has steepened in a rather rare way. That is, the 10-year yield has risen faster than the 2-year or 3-month rate has fallen. This so-called bear steepening indicates that the US economy is expected to accelerate over the coming months. At the same time, due to this, EPS growth is picking up, and US equities might follow suit.
- ✦ In Europe, the ZEW indicator continues to weaken, with Germany leading the pack. Both heavyweight countries (France and Germany) currently have non-functional governments. This is not supportive for growth in general and particularly for consumer sentiment.
- ✦ The latest KOF business climate indicator is back in the growth area. Additionally, EPS estimates have picked up. More than 10% EPS growth for Swiss large caps is anticipated for both 2025 and 2026. This is quite supportive not only for the economy but also for the stock market.

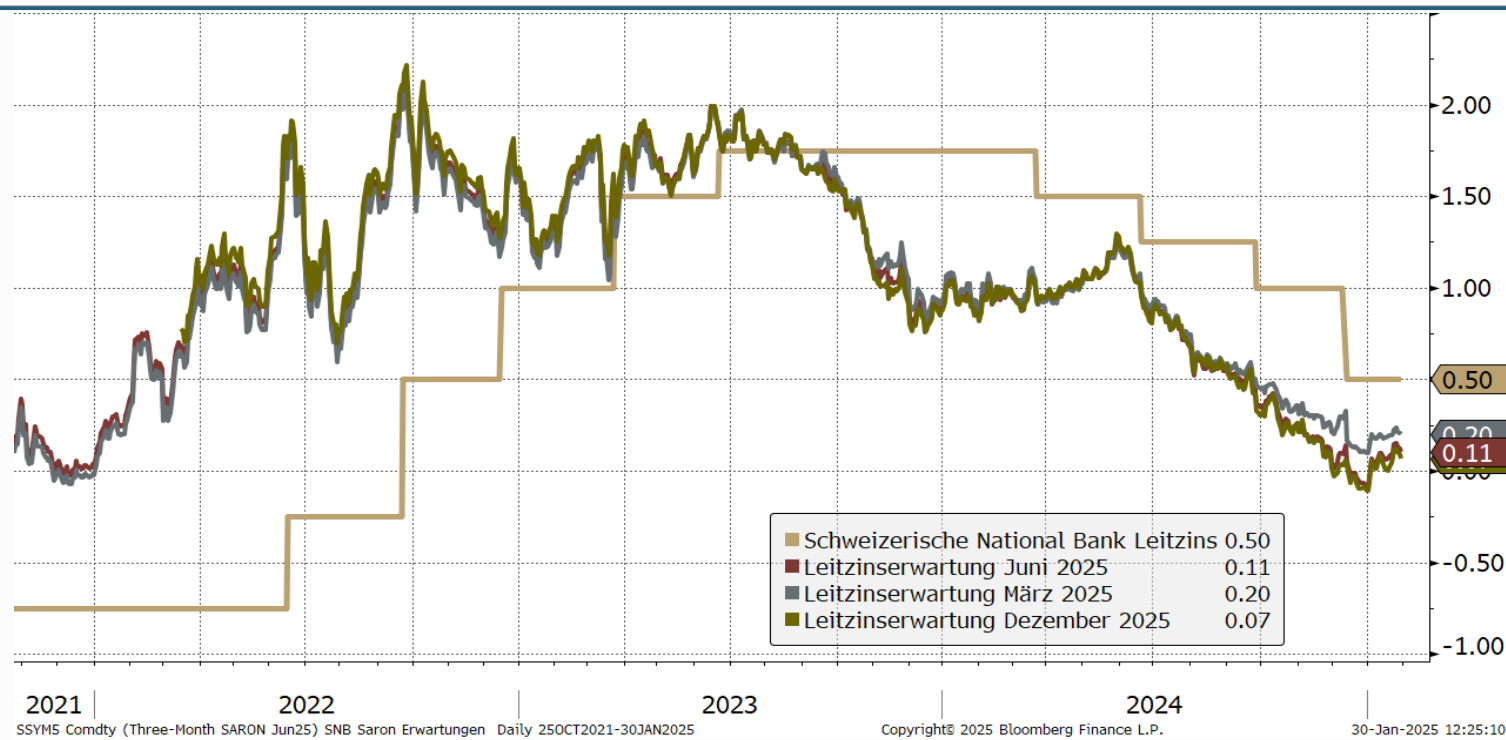
Markets in 2025: Currencies, Commodities, Equity & Bond Indices



Max 2 rate cut by the Fed until year end



SNB : The Market expects policy rate to stay above zero



Bonds	Jan.2025	YTD 2025
Bloomberg Barclays Global-Aggregate TR	0,7%	0,7%
Bloomberg Barclays Euro Aggregate Corporate TR	0,1%	0,1%
Bloomberg Barclays Pan-European High Yield TR	0,4%	0,4%
Bloomberg Barclays US Corporate High Yield TR	1,4%	1,4%
Bloomberg Barclays Asia USD High Yield TR	0,1%	0,1%
Bloomberg Barclays Global High Yield TR	0,4%	0,4%
JPM Emerging Market Global Bond	1,3%	1,3%

Equities	Jan.2025	YTD 2025
Nasdaq-100 Index	1,5%	1,5%
S&P 500 INDEX	2,9%	2,9%
MSCI World Index	3,7%	3,7%
MSCI Emerging Markets Index	1,7%	1,7%
EURO STOXX 50 Price EUR	9,0%	9,0%
SMI	9,0%	9,0%
DAX	9,4%	9,4%
FTSE 100	6,9%	6,9%
Hang Seng Index	1,3%	1,3%
Shanghai Shenzhen CSI 300 A-Shares	-4,3%	-4,3%
Nikkei 225	-0,8%	-0,8%

Commodities	Jan.2025	YTD 2025
Gold	7,7%	7,7%
Copper	5,2%	5,2%
WTI	2,5%	2,5%
BRENT	3,3%	3,3%
Bloomberg Comodity Index	3,8%	3,8%

Currencies	Jan.2025	YTD 2025
CHFEUR	0,2%	0,2%
CHFUSD	-0,6%	-0,6%
CHFGDP	0,5%	0,5%
EURUSD	-0,1%	-0,1%
EURGBP	0,9%	0,9%
GBPUSD	-1,1%	-1,1%
XBTUSD	11,8%	11,8%

S&P 500: A new record was followed by a sell-off in the semiconductor sector.



Liquidity

The Swiss franc has further depreciated against the USD while remaining a touch weaker in a narrower trading range against the Euro.

The Euro loses against the dollar but gains slightly against the CHF.

The DXY dollar index continues to rise. The main reason for this is that markets are pricing in only two rate cuts by the Fed, but more cuts from the ECB and SNB. The Swiss policy rate is expected to reach zero percent by June this year.

Equities

Global equities had a good start to 2025. Swiss equities had even the best start in 20 years and are among the best-performing European equity markets. After the DeepSeek sell-off, US markets are in a digestion phase. Good earnings are currently not sufficient to push the markets significantly higher.

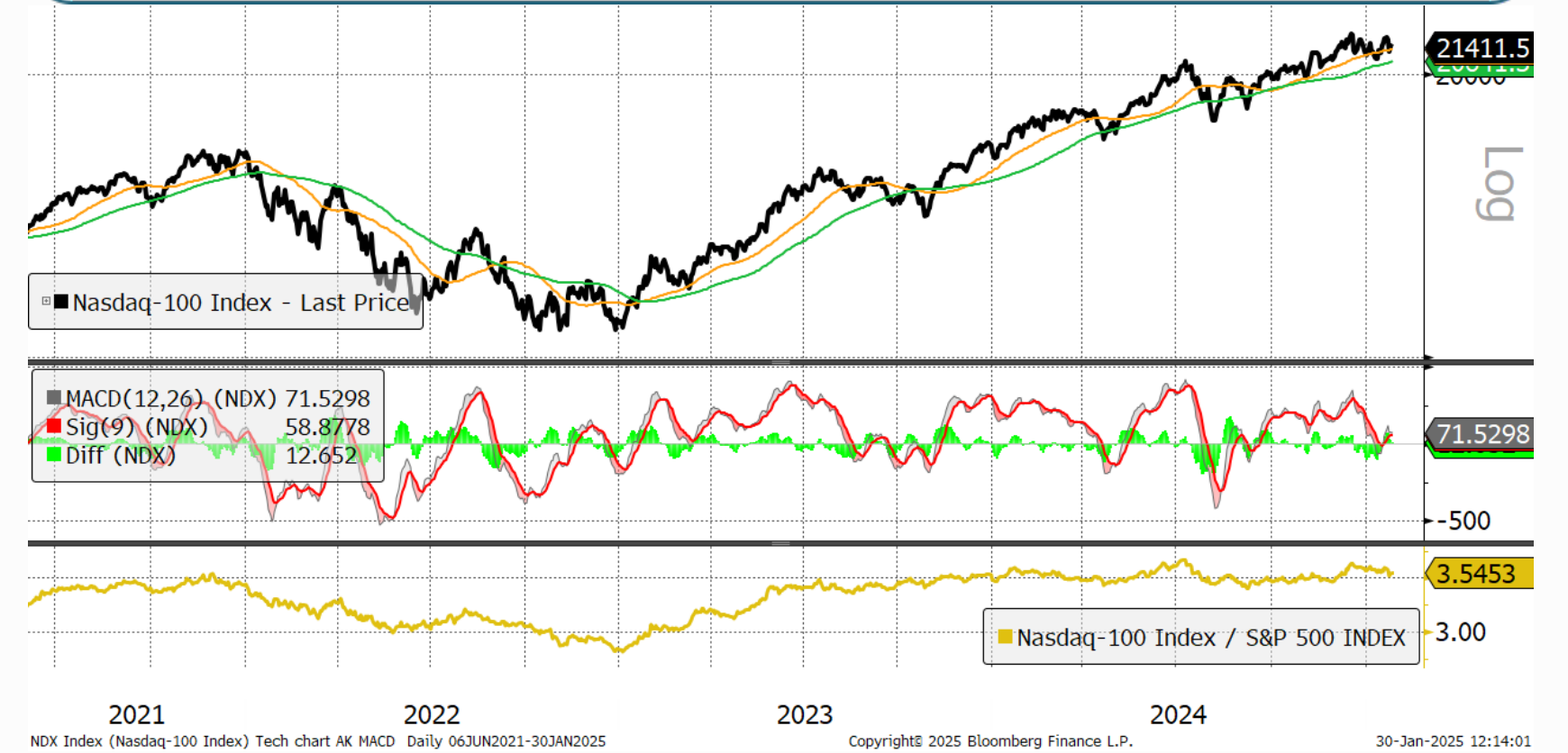
The Nasdaq is underperforming large caps. The Russell 2000 is keeping up with large-cap equities, as there is hope that Trump's tax cuts, deregulation, and tariffs will give them a temporary advantage. We are also seeing large international corporations planning to open new plants in the US to avoid new tariffs.

Fixed Income

The US 10-year government bond yields are on a roller coaster. But so far, a trading range around 4.6% seems to have been established. We expected that the 5% mark would not be sustainably broken, but it might be tested over the coming weeks.

Spreads on USD corporate bonds remain at very tight levels. However, the corporate sector continues to face no significant stress or recession risk in the near future.

Nasdaq lags the S&P 500 but its bull trend is intact



Alternative Investments

Gold is trading, as of this writing, just above USD 2800 per ounce. A weaker US dollar and slightly lower US yields are the main drivers. Gold may continue to edge higher.

Bitcoin is trading sideways, but most of the time above USD 100,000. Assets in US spot ETFs have reached new record levels, which are supportive. More inflows are expected, and therefore, higher prices are in the cards.

Oil prices declined since President Trump's Davos speech. The recent development concerning tariffs has added further pressure on the oil market as people start thinking about the possible negative impact on growth and the reduction in demand.



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