Week in review
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In this week's update, Kevin Quinn discusses:

- German debt plan approval
- Latest US interest rate decision
- US economic data
- Chinese data and interest rate decision
- Oil prices
- Bank of England, Bank of Japan interest rate decisions

Latest update from markets (to 21.03.25)

	Past week	YTD
Global shares	+1.3%	-3.9%
US shares	+1.1%	-7.6%
European shares	+0.6%	+8.8%
European government bonds	+0.7%	-1.5%
Global commodities	+0.9%	+2.0%
The Magnificent 7*	-0.1%	-17.4%

Source: Bloomberg, 24.03.25. All returns expressed in euros
*Equally weighted benchmark of Apple, Alphabet, Amazon, Meta, Microsoft, NVIDIA

The long and short

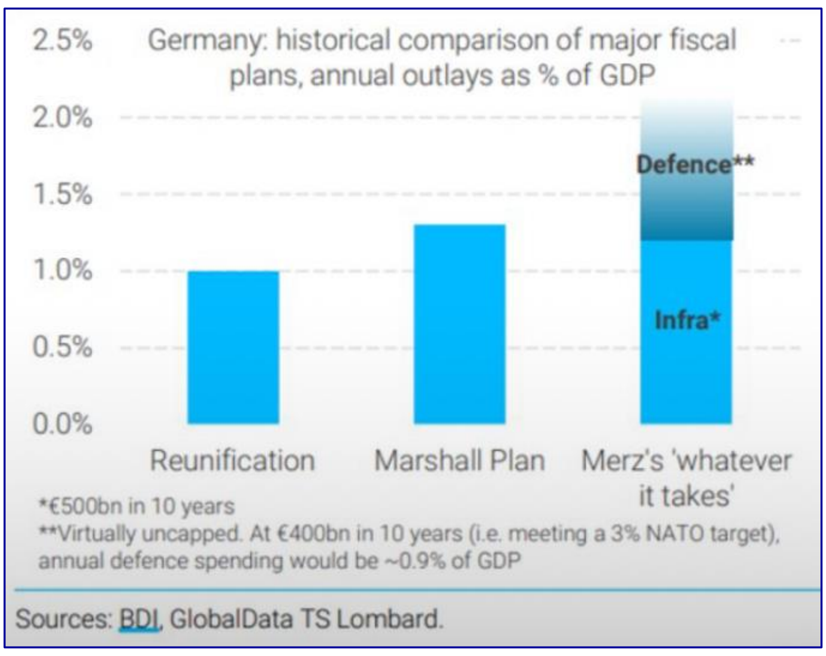
Investing requires a long-term focus but shorter term events can take most of our attention. In this series of updates, we place current events into a longer term perspective.

The long…

Germany green lights rearmament plans

Last week saw the German Bundestag vote to approve the substantial spending stimulus plans that withdraws the constitutional debt brake that existed on the level of debt the government could borrow . This has now given the green light to approximately €900billion of new expenditure on infrastructure and defence. Putting this in a historic context, this is an extraordinary moment and according to some analysis[1] it is bigger than the spending booms that followed the Second World War and German re-unification in the 1990's (see Figure 1).

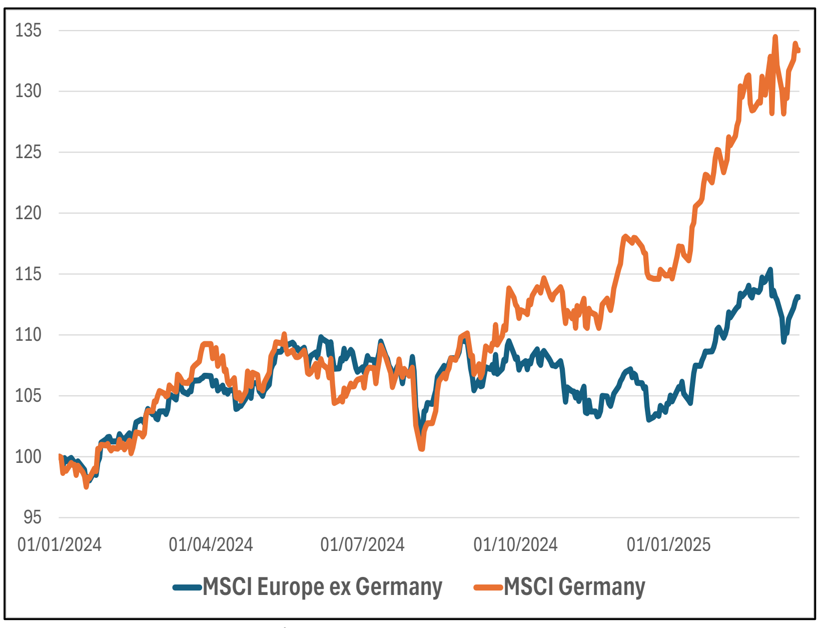
Figure 1: Proposed German government spending plans in historic context (as % of economic growth*)



Bond market reaction - The news was met with a one-day jump in German 10 year bund yields** as prices fell – the largest move since German re-unification. This spilled over into other European government bonds also The consequence has been a fall in value of this part of the bond market by about 1.1%.[2]

We have seen European bond funds and their investors have been most impacted by this development.

Figure 2: Performance of German market v Rest of Europe since 01.01.24 to 20.03.25



Source: Investment Markets/Bloomberg 20.03.25

Equity markets - Both European equities and more specifically German equities (see Figure 2) has also reacted to this news, with German equities powering ahead. It is the German defence sector that has benefitted most, suggesting that the market now believes Europe as a whole will increase spending on its own defence industry, a shift from its historically heavy dependence on the US for armament imports.

It is interesting to note that the stronger performance in the equity market, reflecting a stronger performance in German equities, has occurred roughly since the election of President Trump in the US (05.11.24).

*Economic growth is measured by Gross Domestic Product (GDP)
** Bond yield is the return an investor expects to receive over the term to maturity

1. Sources TS Lombard cited by Bloomberg 20.03.25
2. Bloomberg 20.03.25

The short…

Market news

US Federal Reserve (Fed) last week decided to hold interest rates steady as they downgraded their expectations for economic growth in the US to 1.7% for 2025, as well as increasing their inflation forecast to 2.7%. As Chairman Powell was seen to downplay the mounting economic concerns from the trade war, markets have formed the view that the Fed will step up to the plate, if required, to avoid a recession. For now the Fed appears to be viewing the threat from tariffs as a one off jump in prices President Trump criticised the Fed saying that the Fed should have cut interest rates before tariffs start to "transition their way into the economy", a strong signal that he intends to proceed with tariffs on 02.04.25 as threatened.

US retail sales data were a mixed bag with the headline coming in at +0.2% month on month, below the expected 0.6%. Furthermore, January 2025's weak reading was revised lower to -1.2%. However, the core measure, which excludes cars and fuel, was in line with estimates.

US consumer sentiment, as measured by the University of Michigan's consumer sentiment index, fell below expectations in February both for current conditions and expectations. The report reflected both weakening consumer spending and increasing inflation expectations.

US housing data came in strong for February, with housing starts rising by 11.2% (after a 9.8% drop in January due to bad weather). However building permits declined at a faster pace than in January suggesting the bounce is temporary.

Chinese data was reasonably positive for the first two months of 2025 with both retail sales and industrial production slightly stronger than expected. However, the jobless rate increased to 5.4% and property investment is now down 9.8% year to date in 2025. The People's Bank of China also kept lending rates unchanged for the fifth consecutive month.

Oil prices rose last week in response to strikes on Houthi rebels by the US and the Israeli resumption of attacks in Gaza. However, the rise proved short-lived as considerations about longer term fundamentals weighed heavier – including increasing supply from OPEC+ (Organization of the Petroleum Exporting Countries+) and expectations of a weakening in demand. By the end of last week, the oil price was hovering around the $70 a barrel level.

The Bank of England voted to hold interest rates, leaving the policy rate at 4.5%, a more aggressive stance than many had expected. Inflation concerns stemming from stronger wage growth and firms being prepared to pass on costs to consumers appears to be behind the decision. Unemployment remained at 4.4% for the 3 months ending January 2025.

The Bank of Japan (BOJ) kept interest rates unchanged at 0.5% at the March 2025 meeting. They indicated "Japan's economy has recovered moderately" although "high uncertainties" persist amongst Japan's economic activity and pricing. They also acknowledged the need to monitor changes in US tariff policies. The BOJ remains aggressive however, which is in contrast to the other major central banks and makes for a tailwind for the Yen

The German parliament voted to amend the debt brake legislation on 20.03.25, allowing an increase in defence and infrastructure spending including a €500 billion infrastructure fund. See 'The long' for more.

Sources: Bloomberg, BCA Research, PIMCO 10-17.03.25

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Table 1: 5 year historic performances

	2020	2021	2022	2023	2024
Global equities	6.7%	27.5%	-13.0%	18.1%	25.3%
US equities (S&P 500)	8.7%	38.2%	-13.0%	22.2%	33.6%
European equities (Stoxx 600)	-1.4%	25.8%	-9.9%	16.6%	9.6%
Emerging market equities	9.1%	4.9%	-14.9%	6.6%	15.4%
Global bonds	4.9%	-2.6%	-15.1%	4.5%	0.9%
US government bonds	8.3%	-2.0%	-12.5%	5.8%	0.3%
European government bonds	4.3%	-3.7%	-18.4%	7.2%	1.9%
Emerging market debt	-3.4%	6.4%	-9.8%	5.4%	15.1%
Broad commodities	-13.1%	37.0%	20.7%	-10.9%	7.0%
US corporate bonds	7.8%	-1.9%	-17.1%	5.8%	2.1%
European corporate bonds	2.4%	-1.2%	-14.0%	8.4%	4.6%
German government bond aggregate	3.0%	-2.7%	-17.8%	5.6%	0.6%
Magnificent 7	102.2%	62.7%	-41.9%	100.4%	78.9%

Source: Bloomberg 21.03.25. All returns expressed in euros.

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