



## In this week's update, Kevin Quinn discusses:

- What's driving European equities?
- US inflation data and US labour market
- US Federal Reserve (Fed) commentary
- Gold
- UK Gross Domestic Product (GDP)
- Ukraine peace talks
- Chinese inflation

## Latest update from markets (to 14.02.25)

	Past week	YTD
Global shares	+0.2%	+3.7%
US shares	-0.3%	+2.5%
European shares	+1.8%	+9.0%
European government bonds	-0.2%	+0.2%
Global commodities	-0.2%	+5.6%
The Magnificent 7*	+0.3%	+0.2%

Source: Bloomberg, 17.02.25. All returns expressed in euros.  
\*Equally weighted benchmark of Apple, Alphabet, Amazon, Meta, Microsoft, NVIDIA and Tesla.

## 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...

## Make Europe Great again (MEGA!)

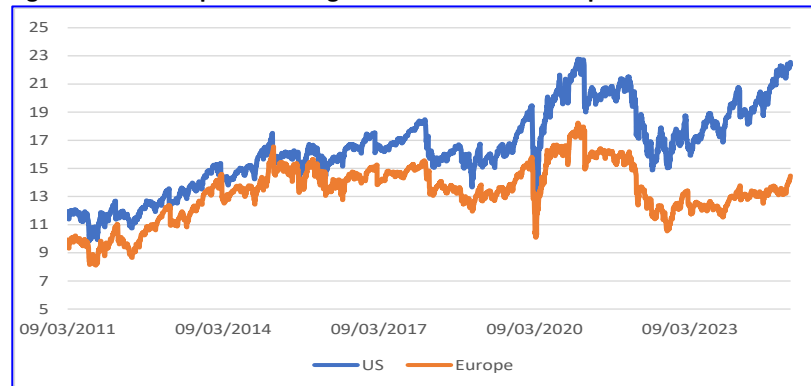
Investors in European equities have had a strong start to 2025. By 13.02.25, the STOXX 600 had delivered an impressive 9.1% gain to investors, in contrast to the 3.3% gains from the US S&P 500 (in euro terms) and 0.5% from the Magnificent 7.

Europe's January performances have come out on top less frequently this century, with the US ahead of it in 16 out of the past 25 years. Why then have we seen such strong performance at the start of 2025? Why has the Eurostoxx 50 finally surpassed its 2000 high? Here's five possible drivers that have coincided:

### 1) Europe is much cheaper

Valuations are notoriously weak as a catalyst for short term performance but eventually they count. The premium on US equities compared to Europe is at a historically high level.

Figure 1: Forward price-earnings ratios\* in US and Europe 2011 - 2025

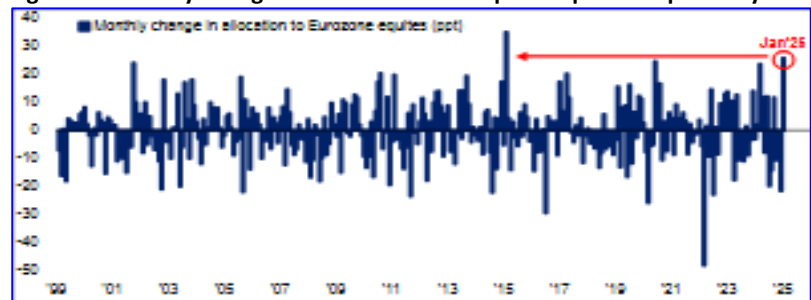


Source: BOI Investment Markets/Bloomberg 13.02.25

### 2) Fund managers have turned attention to Europe

The Bank of America Global Fund Manager Survey pointed to a surge in interest amongst fund managers in investing in Europe, with the second largest rotation into Europe in the past 25 years.

Figure 2: Monthly change in allocation to European equities in past 25 years



Source: Bank of America Global Fund Manager survey

### 3) The US equity story has some headwinds

At least for now, the market is digesting the impact that DeepSeek has on the Magnificent 7, while their earnings stories are a little less dramatic. While the US equity story may be broadening, the exceptional leadership of this group may be fading somewhat.

### 4) The European Central Bank (ECB) is expected to cut faster than the Fed

The new US administration's tariff policies creates a greater uncertainty around inflation and may lead the Fed to reduce interest rates at a slower pace. At present, the market believes this to be a maximum of 1-2 further cuts. The ECB meanwhile is intent on reducing interest rates, at a measured pace, with market expectation of at least a further 3 cuts likely.

### 5) European earnings have some catch up to do

US earnings in Q4 2024 are estimated to have grown by 15.2%, 75% ahead of expectations. European earnings over the same period are estimated to have grown by 3.2% (or 9.4% ex energy) just 59% ahead of expectations. However, when you look out further to Q3 2025, estimates for the US are for growth of 12.6% compared to Europe at 12.5%.

Additionally, European balance sheets are improving, energy supply is improving and there are potential policy shifts underway including an easing in German fiscal austerity, regulatory easing, and a capex boom\*\* globally that may favour Europe's leadership in green technology.

That's not to argue that Europe's economy is about to leapfrog the US, but having a much cheaper starting point may give it more of an advantage for investors.

\* The price-to-earnings (P/E) ratio measures a company's current share price relative to its per-share earnings.

\*\*Increased capital expenditure leading to long-term growth, creating jobs, boosting demand and spurring further investment.

### The short...

## Market news

**US Consumer Price Index (CPI)** for January rose by 0.5% in the month, bringing year-on-year inflation to 3%, the highest level since August 2023. It was well ahead of expectation of 0.3% for the month. Core CPI, which excludes energy and food, was 3.3% in January, also higher than expectations.

**US Purchasing Price Index (PPI)** showed a rise of 0.4% in January, or 3.5% compared with 2024, adding to the evidence that progress on inflation has stalled. This was down slightly on the upwardly revised 0.5% for December but was still higher than expectations. Some of the components of this measure that feed into the Fed's preferred inflation PCE (Personal Consumption Expenditure) such as healthcare and airfares registered declines in January so there was some good news in this. Both equities and bonds responded positively.

**US Retail sales** declined in January by 0.9%, a bigger drop than expected and the largest decline in nearly two years, after a 0.7% gain in December.

**US rate cut expectations** fell back in response to the inflation data, with rate cut expectations falling to close to a single cut with a much reduced probability of a second cut. The retail sales data reversed that somewhat as well as leading bond yields down.

**Federal Reserve** Chairman Jerome Powell in his half-yearly address to Congress noted that the US economy is "in a good place" and that "substantial progress" was made towards the inflation target although he reaffirmed there is no "rush" in further interest rate cuts.

**Tariff talk** continues with President Trump ordering his top economic officials to calculate new US tariffs based on the total tariffs, tax, regulatory and currency barriers that US exports face in other countries. This new "Reciprocal" arrangement is to be calculated country by country and could target countries and regions where the US has its largest deficits.

**US unemployment** fell to 4.0% in January, the lowest level since May 2023. Nonfarm payrolls grew by 143,000 in January (which was below the 170,000 expected) and significantly down from 307,000 in December.

**Gold's rise** has continued as it trades near all-time highs and less than \$100 off the milestone \$3,000 mark. In the near term much of this is being driven by the shortage of physical gold available to meet delivery fulfilments of Comex Gold futures. A longer term cause is the process of "de-dollarisation" as some emerging market economies seek to rely less on dollar reserves.

**UK GDP** was better than expected at +0.1% quarter-on-quarter, after a flat reading in Q3 2024. This was due to an expansion in the construction and services sectors, while manufacturing continues to contract. The UK's trade deficit also narrowed to its lowest level in 3 months, due to a fall in imports and a growth in exports. UK retail sales increased by 2.5% which was stronger than the 0.2% expected.

**Ukraine peace talks** – US President Donald Trump and Russian President Vladimir Putin have reached an agreement to begin peace talks immediately on the conflict in Ukraine. President Zelensky has indicated he will talk to Russia. President Trump also indicated that he wishes to have talks with both Russia and China to enable a reduction in defence spending.

**Chinese inflation** was up by 0.7% for January, an increase on the flat reading for December. Year-on-year the inflation rate stands at 0.5%, which is 0.1% higher than expected, making this the highest level since August 2024. The main drivers are seasonal increases and the impact of the monetary policy stimulus.

**Chinese tech stocks** rallied last week amid growing optimism that China is demonstrating a leadership position in AI. A meeting believed to be happening this week between leading Chinese AI entrepreneurs bolstered the belief that the Beijing government is minded to adopt a more supportive stance to the sector. The Hang Seng Tech index closed on Friday at its highest level in almost three years.

Sources: Bloomberg, BCA Research, PIMCO. 10-14.02.25

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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%
Gold	25.1%	-3.6%	0.6%	11.9%	27.5%
Magnificent 7	102.2%	62.7%	-41.9%	100.4%	78.9%

Source: Bloomberg 14.02.25. All returns expressed in euros.

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