FOUNDED IN	EMPLOYEES	LOCATED IN	ASSETS DIRECTLY UNDER MANAGEMENT	ASSETS INDIRECTLY UNDER MANAGEMENT
1988	**80+**	**10+** COUNTRIES	**US$1.1** BILLION	**US$9.7** BILLION

ICM Monthly Outlook

FEBRUARY 2025

Market Review

Financial markets have enjoyed a decent start to 2025. Year to date, in rank order, the Euro Stoxx 50 is up 10.0%, the Dow Jones is up c.4.8%. the S&P 500 is up c.3.2%, and the NASDAQ is up c.1.7%. The oil price is up 2.6% year to date. The gold price has increased 10.2%, in a straight line, whereas US equities have been a roller coaster for investors this year so far. We can confidently say that volatility will likely continue for the foreseeable, given President Trump's predictably unpredictable behaviour. President Trump is doling out populist executive orders faster than Elon can tweet. No day goes by when the world is not left wondering what comes next from the leader of the free world. By way of example, consider the 6th of February; but you can take your pick of any day since the 20th of January. On the morning of the 6th, the US President negotiated a peace deal between, ahem, the PGA Golf Tour and LIV Golf, and in the afternoon, he announced that he would “take over” Gaza. That is one hell of a day’s work by anyone’s standards! I fear complacency for whimsical decisions will have long-lasting consequences.

Back in the real world, let us use the rally in the gold price to illustrate the market’s expectations for volatility. Gold has hit successive record highs since President Trump’s return. Gold hit its latest record high after President Trump announced his intention to increase the tariffs on steel and aluminium imports by 25%. Year to date, gold has increased nearly 11%. Gold serves as an inflation hedge and a safe-haven asset. Investors are looking for a store of value in uncertain times. Sooner or later, some of President Trump’s executive orders will impact financial markets, for better or worse, we think for better. Here’s hoping that President Trump will deliver his promise of making America great again.

The election had investors guessing. President Trump’s victory has investors still guessing. One minute he has imposed tariffs; the next minute he has paused tariffs. President Trump’s flip-flop approach is sabre-rattling, for the most part, just adding to uncertainty. So far, President Trump has paused tariffs for Mexico and Canada, and has continued with 10% tariffs on Chinese imports - not especially aggressive. Except for the 10% tariff on Chinese goods, we have yet to see the full extent of his mettle with countries that could significantly alter the US fiscal situation. We feel that a 10% tariff is a token to placate his voters after making sweeping promises during his campaign trail. A previously muted 60% tariff could theoretically have prohibited Chinese goods from entering the US market. Walmart’s shelves would have been empty. Predictably, China showed its counterpoise by applying tariffs to US products and investigating Google. President Trump is using the threat of tariffs to quoin his foreign policy negotiations. To be continued…

DeepSeek was the next biggest news story in January after President Trump’s unending executive orders. DeepSeek is a Chinese artificial intelligence startup that unveiled an A.I. model with all the promise of the leading American A.I. models but at a fraction of the price. According to DeepSeek, they have achieved breakthroughs in efficiency at training advanced models cheaper than traditional A.I. firms, which require massive computing resources. DeepSeek believes its cost-effective A.I. solutions could disrupt the competitive landscape, potentially diminishing the dominance of established tech giants. DeepSeek’s arrival on the scene caused a significant selloff in tech stocks, with

Nvidia experiencing a record one-day market capitalisation loss of c.USD 593 billion. (Nvidia doesn't half-do big numbers! Over many years in the market, we've observed how human nature shrugs off bigger and bigger price shocks as less and less shocking events. Is that more complacency?) The old-guard tech giants have recovered substantially since this big reveal as DeepSeek's rapid growth renewed optimism about A.I.'s potential. Away from the commercial benefit of DeepSeek, this new platform raises concerns about potential censorship and geopolitical implications. The last word on A.I. in this month's letter goes to Palantir's CEO, Alex Karp, who said he sees "untamed organic growth in demand for A.I. software." Palantir is best known for national security work and extensive work with the US military and their allies. It is easy to understand Palantir's bullishness, given the rise of the strong man and rising security anxiety globally. Palantir executives envision a world where national defence (and offence, presumably) will be led by software and cybersecurity companies instead of defence companies. Cyberwarfare has been building for years and looks set to continue indefinitely.[1] In Q4 2024, the US government was one of Palantir's most significant revenue sources.

Market Outlook

Let's revert to the statistics rather than the X feed. Our overarching view remains bullish, with no immediate cause for concern, but with close attention on the potential threats to a continued global economic upswing. The US remains resilient—the same as it ever was. January's non-farm payroll report was President Biden's last. In fairness to President Biden, we believe the US economy is in better condition than President Trump et al. would have you believe. GDP growth is healthy, which we expect to continue. The labour market is in fine fettle, which we expect to continue, and inflation is gradually returning to the target level. Arguably, President Trump has inherited a solid economy despite his assertions to the contrary. Let's diarise five years hence to see how President Trump leaves things.

Employment, Average Hourly Earnings, Consumer Sentiment, Manufacturing PMIs

The overall complexion of the US labour market remains unblemished. January's non-farm payroll report showed the unemployment rate fell to 4%, compared to 4.1% expected. November and December's job creation numbers were revised upwards by +100k,[2] mitigating the disappointment of only 143k jobs created in January compared to the 175k expected.[3] Average hourly earnings increased in January by 0.5%, compared to 0.3% expected. Average hourly earnings are worth mentioning because they are a potential vector straight into inflation.

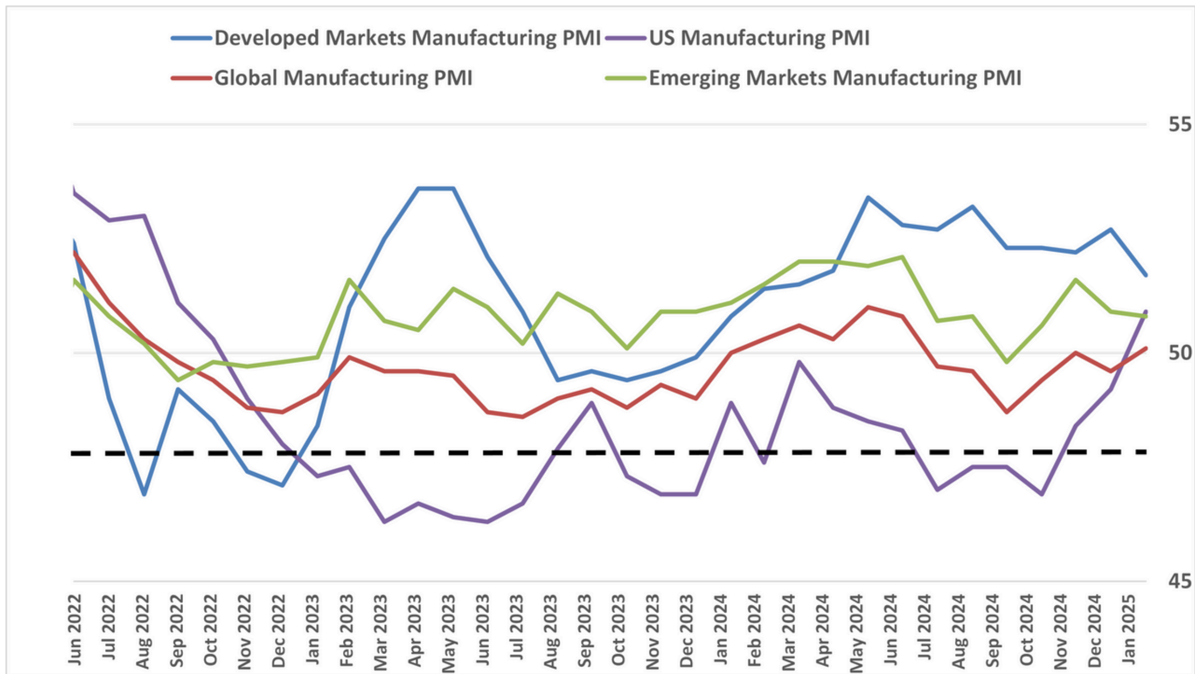
In addition to the increase in average hourly earnings, the latest consumer sentiment index will have caught the attention of the US Federal Reserve Bank. Consumers' year-ahead inflation expectations increased to 4.3%, compared to 3.3% last month.[4] A 1% increase is a considerable increase, and while it is only a sentiment number, it shows consumers are expecting higher prices in the coming months. For comparison, in the two years before the pandemic, consumers' year-ahead inflation expectations were 2.3% - 3%.

We believe it is too early to worry about these numbers. Still, we expect the US Federal Reserve Bank to refocus more on inflation going forward, having been preoccupied with unemployment for the past year.

On the other hand, the University of Michigan Consumer Sentiment index was weaker than expected in January, reporting its lowest sentiment reading since July 2024. A decline in consumer sentiment and an increase in inflation expectations is hardly surprising, considering US consumers are bombarded by commentary about the potential impact of President Trump's fiscal, immigration, and trade policies. Even though tangible tariff implementation is still in the early stages, consumers seem to incorporate them into their views about future price effects. We have seen this before. You will remember in our May 2024 letter that we wrote that US consumer sentiment fell due to heightened anxiety for sticky inflation and higher for longer interest rates. Ultimately, these concerns dissipated as real disposable personal income remained strong. We expect the same to happen again.

We can counter consumers' nervousness with the latest US Manufacturing PMI survey. In January, for the first time since September 2022 (26 months), the US Institute of Supply Management's Manufacturing Purchasing Managers index crossed 50, the number that indicates economic expansion.[5] New orders increased significantly to 55.1, compared to 52.1 in December. Manufacturing employment increased to 50.3, compared to 45.4 previously, and production increased to 52.5, compared to 49.9 previously. The manufacturing PMI's return to expansion indicates increased demand for US manufactured goods and increased domestic manufacturing. We believe the increased activity is linked to the expectations that President Trump's policies will result in a busier manufacturing sector.

Manufacturing PMI



Source: Bloomberg

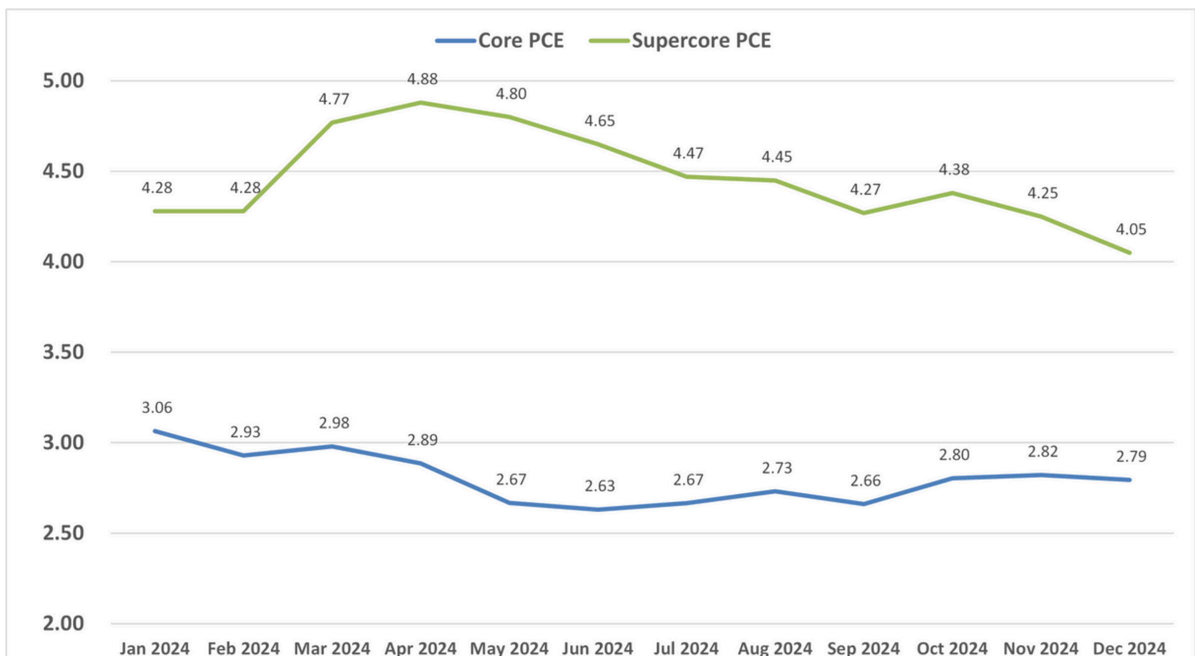
All told, we expect consumer confidence to rebound when Trump 2.0 takes shape. The current rally in asset prices will help. So far, President Trump's tariffs and deportation policies have taken centre stage.

The President has yet to play his trump card to help expand the economy: tax cuts.

Inflation

Remember, the US Federal Reserve Bank says that inflation is well-anchored. Reassuringly, inflation came in below expectation in December, with US Personal Consumption Expenditure inflation (PCE) increasing only 0.16%, and the downtrend continues slowly. Again, we expect volatility in PCE. Don’t be surprised if PCE accelerates in January. It is just part and parcel of life in Trump 2.0.

US Personal Consumption Expenditure Inflation



Source: Bloomberg

It is worth repeating that we believe inflation is the most likely bête noire of President Trump's reign, given it has immediate consequences on monetary policy, mortgage rates, and interest expense generally. President Trump cannot let the inflation tide rise. The current Goldilocks environment (good growth, low employment, falling inflation) has given the Federal Reserve Bank more time and space. Trump's proposed expansionary fiscal policies (tax cuts and government savings) could constrain the Federal Reserve Bank's ability to maintain its dovish lilt. We are not suggesting the Federal Reserve Bank will adopt a more hawkish tone anytime soon; there is no need to hike, but we are more cautious about the speed and magnitude of rate cuts than at any time in the past two years. Bloomberg's World Interest Rate Probability Model is pricing in one 25-basis point cut in September 2025. Not long ago, the market expected two 25-basis point cuts. As always, cuts will be data dependent. We expect Chairman Powell to use his semi-annual testimony to the US Senate to reiterate that the Federal Reserve Bank is in no hurry to ease policy further. We are grateful the Federal Reserve Bank remains the responsible adult in the room, well-placed to manage the economy if unemployment rises or the economy slows down. The Powell-put is at the ready.

Central Bank policy outside the US

Away from the US, central bank easing remains a key feature of investors' rumination. The UK and Europe have recently cut rates against slowing growth and disinflation. Tariff anxiety is undoubtedly weighing on European business sentiment. It is also unhelpful for Europe that the upcoming German federal election on the 23rd of February is less clear-cut than at any time in recent history. German politics appears to be at its most fractious at a time when Europe most needs its steady hand on the tiller.

European natural gas prices surging to a two-year high due to a cold snap will likely add a temporary blip to the Eurozone disinflation trends, which we believe the European Central Bank will look through.

Market Implications

Commodities

Medium-term geopolitical and commodity downside risks are increasing. President Trump's policy framework is designed to exert medium-term pressure on commodity prices. For instance, President Trump's tariffs on China could impact demand globally, and it will show up in commodity prices first, especially copper, oil, and iron ore. This would negatively impact countries that export significant quantities of commodities to China, including Chile (copper), Russia (oil), and Australia (iron ore), to name a few. We have also highlighted a few times that President Trump's policy to increase oil production in the US to drive down pump prices and stimulate economic activity will impact the oil price. There is also the possibility of OPEC+ reversing production cuts, which would heap more pressure on the oil price. We expect the oil price to trend lower toward $60 as we progress through the year. Many emerging markets are oil-driven economies, and they will feel the implications of a lower oil price the most. Just like everywhere else, emerging market investments will endure higher volatility from US policy decisions. We believe such volatility will throw up interesting investment opportunities at cheap entry points. The timing will be crucial to balance the risks of a more fragile market environment and rising geopolitical risks over the longer-term value. In the medium term, emerging markets could suffer from lower commodity prices if tariff-related geopolitical decisions knock demand from China. That said, the current macro set-up should foster continuing good performance in emerging market economies.

We remain constructive for credit for the year ahead. Corporate catalysts are more likely to generate excess returns than market forces in the short term. In the long term, we expect interest rates to fall, boosting returns and giving momentum to most risks. Brief bouts of risk-off will be buying opportunities, which we intend to exploit. For instance, mid-January was an excellent time to add longer maturity bonds to increase duration when the 10-year reached 4.75%, compared to 4.55% today. While the 10-year could retrace higher, our central case is for it to fall gradually during the year.

Have a good month.

Kind regards,

Conor Spencer
12 February, 2025

Source Data: ICM, Bloomberg as of 12 February, 2025.

[1] Nicole Perlroth, 2021, This Is How They Tell Me the World Ends: The Cyberweapons Arms Race, Bloomsbury.
[2] December NFP was first reported at 256k, revised up to 307k, and November was 212k revised up to 261k.
https://www.bls.gov/news.release/empsit.nr0.htm
[3] https://www.bls.gov/
[4]http://www.sca.isr.umich.edu/
[5] https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/january/

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