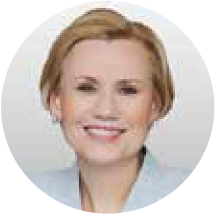
US uncertainty, German elections top global market news

Weekly Market Compass | February 25, 2025



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Last week brought a range of developments for investors to watch, including acknowledgements of uncertainty during corporate earnings calls, questions about US government cost-cutting, pessimistic US consumer survey results, and German election results that could be a positive catalyst for European equities.

Key takeaways

FOMC

Minutes from the Federal Open Market Committee (FOMC) illustrate concerns with the possible effects of US trade and immigration policies.

US consumers

We got the worst of both worlds with the latest University of Michigan Survey of Consumers: falling consumer sentiment and rising inflation expectations.

German election

Last weekend's German election results were probably the most market-friendly result investors could have hoped for.

Meeting minutes illustrate Federal Reserve concerns about inflation

As expected, the minutes from January's Federal Open Market Committee (FOMC) meeting showed that officials were ready to hold interest rates steady until further improvement on inflation. This is the "wait and see" message that Chair Jay Powell shared during the press conference in January:

"Participants indicated that, provided the economy remained near maximum employment, they would want to see further progress on inflation before making additional adjustments to the target range for the federal funds rate."[1]

It's clear from the minutes that a resurgence in inflation is considered a not insignificant risk because of Trump administration policies: "Participants generally pointed to upside risks to the inflation outlook. In particular, participants cited the possible effects of potential changes in trade and immigration policy."[2]

The key takeaways from the minutes were echoed by various FOMC members last week:

- Fed Governor Michelle Bowman said she'd like to see more data showing progress on inflation before cutting rates further: "There is still more work to be done to bring inflation closer to our 2 percent goal. I would like to gain greater confidence that progress in lowering inflation will continue as we consider making further adjustments to the target range."[3]
- Fed Governor Christopher Waller shared, "If this wintertime lull in progress is temporary, as it was last year, then further policy easing will be appropriate. But until that is clear, I favor holding the policy rate steady."[4]

Walmart earnings report highlights economic and consumer uncertainties

Walmart released its earnings for the fourth quarter, and while the company handily exceeded earnings expectations, investors were disappointed by its outlook.

While Walmart was not pessimistic, it was realistic. Walmart's chief financial officer acknowledged that there is a lot of uncertainty this year in terms of policy (primarily tariffs) and that consumers' wallets remain stretched: "We have to acknowledge that we are in an uncertain time. And we don't want to get out over our skis here. There's a lot of the year to play out."[5]

Walmart made it clear that its outlook "assumes a relatively stable macroeconomic environment" but acknowledges "that there are still uncertainties related to consumer behavior and global economic and geopolitical conditions."[6] This was enough to worry already-jittery markets and contribute to a sell off (from Feb. 20 through Feb. 24, the S&P 500

Index was down 2.62% and the NASDAQ Composite Index was down 3.84%, according to Bloomberg).

US survey shows falling consumer sentiment and rising inflation expectations

We got the worst of both worlds with the latest University of Michigan Survey of Consumers, which showed that US consumer sentiment is down and consumer inflation expectations are up:

- One-year ahead consumer inflation expectations were 4.3% in February, which is up dramatically from 3.3% in January.
- Five-year ahead expectations also rose — but more modestly — to 3.5%, up from a preliminary 3.3% and surpassing January's reading of 3.2%. However, it is worth noting that five-year ahead expectations are at their highest level since 1995.[7]
- Consumers expressed concern about multiple economic factors for the year ahead:
- More than 50% of those surveyed expect unemployment to rise in the coming year, which is the highest percentage since the pandemic recession.
- Consumers' outlook for their personal finances broadly declined in February. More than 50% of consumers expect their incomes to rise, but only 16% expect their income gains to outpace inflation.[8]

These results increase the possibility of a stagflationary environment ahead, although I believe that remains a low probability scenario.

DOGE's approach to cost-cutting sparks concerns about economic impacts

I had the opportunity to speak at a conference last week; afterwards, I was able to talk with a number of individual investors in the US. I thought there would be more positivity around the Department of Government Efficiency (DOGE) and its efforts to reduce federal government spending. While there were certainly some who were thrilled with the amount of progress that the DOGE team seems to have made, I was surprised to hear significant concerns. Those concerns are twofold:

- Will such a big drop in government spending, including firing federal employees, negatively impact the US economy?
- Will we actually see a big reduction in the fiscal deficit?

In terms of the first question, it seems likely that these firings, given the speed and scale at which they seem to be occurring, could trigger the Sahm rule — a recession indicator that states the US is in the early months of a recession when the three-month moving average of the US unemployment rate is at least 0.5 percentage points above its 12-month low.

Recall that Powell said at his last FOMC press conference that the hiring rate is low, so a significant increase in layoffs would cause unemployment to go up quickly. There was real concern that layoffs plus a large drop in government spending could create serious economic headwinds that could even result in recession.

With regard to the second question, I admit it is concerning from a deficit perspective to hear that the administration is considering giving 20% of

DOGE's savings as a payout to Americans — which could total as much as $5,000 a person assuming that DOGE achieves its goal of $2 trillion in savings. To have the biggest impact on the deficit, those DOGE savings need to pay for anticipated tax cuts — and help bring the federal budget into better balance.

I also got questions about the Internal Revenue Service (IRS): If the government is firing so many IRS agents, how are they collecting the revenue that's needed to balance the budget? And then there were jitters about the firings and re-hirings of nuclear scientists and health officials working on the avian flu, as well as adequate staffing of air traffic controllers.

It seems that while many believe the federal government is bloated and cost savings could easily be found, some don't seem to like the instability that is coming with the current approach. I suspect this concern could at least be partially contributing to the market jitters we have witnessed in recent days.

German election results could be a positive catalyst for European equities

Last weekend's German election was a critical one for Europe, especially in light of the US's seeming abandonment of its alliance with Europe. This is probably the most market-friendly result we could have hoped for: a clear win for Friederich Merz, of the center-right CDU/CSU party.

CDU/CSU is not a fringe party, and Merz will not be a fringe leader. He is widely respected, is likely to be business-friendly, and is expected to take a commonsense approach to some of his country's biggest problems — he's hopefully just what the doctor ordered for Germany.

The far-right AfD party got the second-largest number of votes but fell short of what many pundits feared in terms of votes. This clears the way for a grand coalition of "center left" and "center right" — which would serve to hold the political firewall against fringe parties.

Merz seems to have the gravitas to lead Germany and help lead Europe as it charts a new course away from the United States. I've written before about the attractiveness of European equities — this election could be another important positive catalyst for European equities this year.

Financial terms to watch

In a previous column, I introduced some new financial terms for a new year. It's time to add another new term to the lexicon and refresh some old ones.

Mar-a-Lago Accord

This is an unofficial proposal that has just emerged in recent days which could substantially help the US's fiscal position. You may recall that the Plaza Accord of 1985 was essentially an agreement to devalue the US dollar to help the US's trade position (in essence, putting a thumb on the scale of the free market). In the spirit of the Plaza Accord, the new Mar-a-Lago Accord could also help achieve the US's goals — this time dramatically altering America's debt composition by forcing some of the US's foreign creditors to swap their Treasury holdings into ultra long-term bonds (reported to be 100-year, non-tradeable zero-coupon bonds) to ease the US's debt service burden. This is an interesting idea that deserves contemplation, although I suspect foreign investors would be very unhappy with such a debt trade. There are other components to the plan, such as quietly weakening the US dollar to narrow the trade deficit, but this is the most unique and consequential.

Stagflation

This term has long been used to characterize a period of high inflation, low or no growth and high unemployment. We're a long way from a stagflationary environment, but the term should get renewed attention in light of the newest University of Michigan Survey of Consumers. That survey, along with other recent data, indicates that the risk of stagflation is not zero as consumers worry about a resurgence in inflation and a slowdown in the economy.

Sovereign wealth fund

Again, this is an old term that's getting new life. A sovereign wealth fund is a state-owned investment fund that serves as an "endowment" for a country. Many countries with significant natural resources have created sovereign wealth funds in which to place the wealth derived from these resources as they deplete them; it is considered a way to replace their natural endowment with a financial endowment. The Trump administration has announced plans to create a sovereign wealth fund for the US (the biggest question is where the money would come from to fund it — both tariff revenue and money received from the sale of public lands have been suggested as possible sources). While this is certainly a non-mainstream idea for America, I like the out-of-the-box thinking and hope it could result in more out-of-the-box thinking — like investing a portion of Social Security retirement funds in equities, which could arguably help them last longer and may offer a better retirement income for Americans.

Looking ahead

This week we will see a lot of important data releases, but none seems more important than the US Personal Consumption Expenditures (PCE) print on Friday. Core PCE is the Fed's preferred inflation gauge, so it will be keenly watched by a Fed that is taking a cautious approach and wants to see further progress on disinflation before it acts.

Dates to watch

Date	Report	What it tells us
Feb. 24	Germany Business Expectations	Measures the expectations of businesses in Germany for the next six months.
	Eurozone Consumer Price Index	Tracks the path of inflation.
	Bank of Korea Monetary Policy Decision	Reveals the latest decision on the path of interest rates.
Feb. 25	Germany Gross Domestic Product	Measures a region's economic activity
	S&P/Case Shiller US Home Price Index	Indicates the health of the housing market.
	Conference Board US Consumer Confidence	Details consumer attitudes and expectations for inflation, stock prices, and interest rates.

Dates to watch

Date	Report	What it tells us
Feb. 26	Bank of Japan Consumer Price In	Tracks the path of inflation.
	Japan Leading Economic Indicators Index	Provides insight into the future direction of the Japanese economy.
	US New Home Sales	Indicates the health of the housing market.
	Australia Private New Capital Expenditure	Tracks the total inflation-adjusted value of new capital expenditures made by private businesses.
Feb. 27	Germany Unemployment Rate	Indicates the health of the job market.
	Eurozone Business and Consumer Survey	Allow for comparisons among different countries' business cycles.
	Eurozone Consumer Confidence	Tracks sentiment among eurozone consumers.
	Eurozone Consumer Inflation Expectation	Tracks expectations for inflation among eurozone consumers.
	Mexico Unemployment Rate	Indicates the health of the job market.
	Brazil Unemployment Rate	Indicates the health of the job market.
	European Central Bank Account of Monetary Policy Meeting	Gives further insight into the central bank's decision-making process.
	US Durable Goods Orders	Measures current industrial activity.
	US Gross Domestic Product	Measures a region's economic activity
	Japan Industrial Production	Indicates the economic health of the industrial sector.
Feb. 28	UK Nationwide Home Price Index	Indicates the health of the housing market.
	Germany Retail Sales	Indicates the health of the retail sector.
	France Consumer Spending	Tracks the value of goods and services purchased by French consumers.
	Germany Unemployment Rate	Indicates the health of the job market.
	India Gross Domestic Product	Measures a region's economic activity
	Germany Consumer Price Index	Tracks the path of inflation.
	US Personal Consumption Expenditures Price Index	Tracks the path of inflation.
	US Personal Income	Measures income from all sources, including wages and salaries, as well as government social benefits.

Dates to watch

Date	Report	What it tells us
Feb. 28	US Personal Spending	Tracks personal spending in the US.
	Canada Gross Domestic Product	Measures a region's economic activity
	China Manufacturing and Services Purchasing Managers' Indexes	Indicates the economic health of the manufacturing and services sectors.

Notes

[1]Source: January FOMC Meeting Minutes, Feb. 19, 2025

[2]Source: January FOMC Meeting Minutes, Feb. 19, 2025

[3]Source: Federal Reserve, speech by Fed Governor Michelle Bowman, February 17, 2025

[4]Source: Federal Reserve, speech by Fed Governor Christopher Waller, Feb. 17, 2025

[5]Source: Walmart earnings call, Feb. 19, 2025

[6]Source: Walmart earnings call, Feb. 19, 2025

[7]Source: University of Michigan Survey of Consumers, Feb. 21, 2025

[8]Source: University of Michigan Survey of Consumers, Feb. 21, 2025

Important information

All investing involves risk, including the risk of loss.

Past performance does not guarantee future results.

Investments cannot be made directly in an index.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Fixed income investments are subject to credit risk of the issuer and the effects of changing interest rates. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

A coupon is the annual interest rate paid on a bond, expressed as a percentage of the face value.

Disinflation, a slowing in the rate of price inflation, describes instances when the inflation rate has reduced marginally over the short term.

Monetary easing refers to the lowering of interest rates and deposit ratios by central banks.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

The federal funds rate is the rate at which banks lend balances to each other overnight.

The Federal Open Market Committee (FOMC) is a committee of the Federal Reserve Board that meets regularly to set monetary policy, including the interest rates that are charged to banks.

Inflation is the rate at which the general price level for goods and services is increasing.

Personal consumption expenditures (PCE), or the PCE Index, measures price changes in consumer goods and services. Expenditures included in the index are actual US household expenditures. Core PCE excludes food and energy prices.

The S&P 500® Index is an unmanaged index considered representative of the US stock market.

The NASDAQ Composite Index is the market-capitalization-weighted index of approximately 3,000 common equities listed on the Nasdaq stock exchange.

A policy rate is the rate used by central banks to implement or signal their monetary policy stance.

Stagflation is an economic condition marked by a combination of slow economic growth and rising prices.

The Survey of Consumers is a monthly telephone survey conducted by the University of Michigan that provides indexes of consumer sentiment and inflation expectations.

A trade deficit is an economic measure of international trade in which a country's imports exceed its exports. Therefore, a trade deficit represents an outflow of domestic currency to foreign markets.

The opinions referenced above are those of the author as of **Feb. 24, 2025**. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations.