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## Key takeaways



### Tariff news

US tariffs against Canadian and Mexican goods were postponed for a month, but new US tariffs against Chinese goods went into effect last week.

### Tech earnings

Tech companies were punished for minor infractions such as not beating earnings expectations by a wide enough margin.

### Inflation concerns

The new jobs report and consumer inflation expectations raised the specter of a resurgence in inflation in the US.

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This might be the Year of the Snake, but the exhausting influx of market news makes me feel like I'm aging in dog years. Last week was no exception as markets absorbed tariff announcements, earnings reports from tech companies, news from the new US Treasury Secretary, disappointing US inflation-related reports, and more.

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### New US tariffs on China take effect

Last week, the stock market tried its best to stay buoyant and did an admirable job in the face of multiple tariff announcements from the Trump administration. Two of these tariff actions — against Canadian and Mexican goods — were postponed for a month, but new US tariffs against Chinese goods went into effect during the week. That certainly didn't help stocks. And on Monday, US President Donald Trump reinstated 25% tariffs on steel and aluminum imports, cancelling exemptions and duty-free quotas that were previously in place.

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### Markets scrutinize tech company earnings

We also got a slew of earnings reports last week. Tech earnings illustrated the danger of high valuations — when you are priced to perfection, investors hold you to much higher standards. One of the "Magnificent 7" companies shared on its earnings call that it would increase its capex spending, largely around artificial intelligence, and its stock was punished even though the company beat earnings expectations for the quarter. Another "Mag 7" company's stock was similarly punished despite handily beating earnings expectations due to higher capex. Other tech companies were similarly punished for minor infractions such as not beating earnings expectations by a wide enough margin.

I suspect this will be a shorter-term phenomenon; markets just go through periods where they're far more demanding of companies with high price-to-earnings ratios. As Icarus learned, flying close to the sun can have its downside, and some high-valuation companies will no doubt see their wings get singed in the current environment. I don't think this is alarming — just a reminder of the importance of diversification in all its forms, which includes exposure to both higher-valuation and lower-valuation equities.

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### Trump administration discusses its strategy for Treasury yields

US Treasury Secretary Scott Bessent was interviewed by several news outlets last week and shared that the Trump administration won't try to get the Federal Reserve to lower rates, but instead will be focused on bringing down the yield on the 10-year US Treasury bond. That's a commendable strategy, in my view, since the 10-year yield has an important impact on the economy and markets — after all, it's closely correlated with mortgage rates.

However, that strategy is easier said than done. Bessent said he believed the administration could lower the 10-year US Treasury yield through reduced fiscal deficits and lower inflation and inflation expectations. As if on cue, the preliminary University of Michigan Survey of Consumers for

February was subsequently released, showing a big jump in inflation expectations and reminding us that where markets are concerned, so much is beyond anyone's control.

Bessent also said his department is conducting outreach to major holders of Treasury bonds to get their thoughts on the federal debt limit, presumably to help build their confidence in the administration's ability to control spending and reduce fiscal deficits — hence bringing down the 10-year US Treasury yield. But I can't help but wonder if foreign holders of Treasuries were asked to share their thoughts, the conversation might turn to the US government's tariff policy. After all, if the US government wants bondholders to maintain and potentially add to their holdings of US Treasuries, foreign bondholders could use that leverage to advocate against tariffs on their exports. Perhaps that's why the US-Japan meeting on Friday ended without any tariffs levied against Japanese goods. It may just be a coincidence, but Japan is the largest foreign owner of US Treasuries.

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### **Japanese government bond yields rise on tightening expectations**

Speaking of 10-year yields and Japan, the yield on the 10-year Japanese Government Bond (JGB) rose above 1.3% on Monday — which is its highest level since April 2011.<sup>1</sup> This has been largely driven by expectations that the Bank of Japan (BOJ) will continue to tighten this year, albeit modestly. While many central banks are easing, the BOJ is one of the rare banks in hiking mode, and that will have implications for the Japanese yen and JGB yields. In fact, it's one of the reasons, along with nascent tariff wars, that currency trading is becoming more interesting this year.

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### **Inflation concerns ramp up in the US**

Friday was a disappointing day because it raised the specter of a resurgence in US inflation. The new jobs report showed average hourly earnings growth increased in January — and was revised upward in December.

We also got consumer inflation expectations from the University of Michigan on Friday, which I mentioned above. The increase was very significant. Inflation expectations for one year ahead rose from 3.3% to 4.3%, while expectations for the five-year ahead period rose from 3.2% to 3.3%.<sup>2</sup> It's worth noting that the University of Michigan survey gave us a double whammy on Friday, also indicating a reduction in consumer sentiment, likely due to concerns around tariffs.

In my view, these inflation expectations readings will matter for the Federal Open Market Committee (FOMC). In the June 2022 FOMC press conference, Fed Chair Jay Powell was asked why the Fed hiked rates by a whopping 75 basis points when it had signaled it would be making a 50-basis-point hike; he shared that two data points prompted the bigger hike: a Consumer Price Index print and a University of Michigan consumer inflation expectations reading.<sup>3</sup>

The reality is that consumer inflation expectations are part of the data that the Fed depends on to make its decisions on rates. All this suggests to me that the Fed will be more reluctant to ease — and that the earliest we could see a cut is later in the second quarter.

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### **Gold prices hit an all-time high**

All the uncertainty, surprise, and concern (especially about the US federal

deficit) thus far in 2025 seem to be influencing the popularity of gold, with gold prices hitting an all-time high.<sup>4</sup> Gold seems to be a popular geopolitical risk hedge, although it faded in the weeks after the US presidential election as fears of a contested election and political turmoil dissipated. At the same time, bitcoin experienced a strong rally.

All that has changed in recent weeks; we have seen bitcoin lose some of its ground at the same time gold has forged ahead. I suspect there's room for both of these alternative assets to move higher in the future as there are some possible positive catalysts ahead for bitcoin, such as the potential for the US to build a bitcoin reserve.

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### **How do recent events align with our 2025 outlook?**

I think it makes sense to revisit our 2025 outlook, albeit briefly. In terms of stocks, our base case favored developed non-US equities, which was a head scratcher to some clients who were focused on American exceptionalism and its ability to propel US stocks higher.

We certainly didn't think US stocks would have a bad year, but we thought developed market equities outside the US had greater potential. As I've said before, stocks don't need a strong economy to perform well. Positive surprises — such as exceeding expectations — can often be enough to propel stocks higher. And the potential for monetary policy easing in that market can be an important catalyst. It also helps to have low relative valuations and high relative dividends.

It's far too early to do a victory lap, but so far in 2025, we've seen strong returns from European stocks.<sup>5</sup> This could be caused by expectations of greater easing from the European Central Bank relative to other major central banks, as well as recent improvement in some economic data. Also, European company earnings have improved this quarter, albeit very modestly.

UK equities have also performed well as they have been driven by many of the same factors. Within the US, we anticipated better performance from cyclicals and smaller-cap stocks, and we have seen a broadening of earnings growth to these parts of the market. The year has hardly begun but opportunities abound despite — or perhaps because of — uncertainty and tumult.

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### **Looking ahead**

This week, we'll be getting the US Consumer Price Index as well as Humphrey-Hawkins testimony from Fed Chair Powell. This will be helpful in setting expectations for the path of monetary policy in the near term. We'll also get gross domestic product growth from the UK and eurozone. We'll also have some US Treasury auctions, which are especially important given the Trump administration's focus on the 10-year yield. Of course, earnings season continues — and this has been a strong earnings season with double-digit earnings growth globally — which should hopefully help support stocks.

## Dates to watch

| Date    | Report                                                  | What it tells us                                                                           |
|---------|---------------------------------------------------------|--------------------------------------------------------------------------------------------|
| Feb. 10 | New York Fed Consumer Inflation Expectations            | Tracks consumer expectations for US inflation.                                             |
|         | Australia NAB Business Confidence                       | Rates the current level of business conditions in Australia.                               |
| Feb. 11 | Fed Chair Jay Powell Joint Economic Committee Testimony | Gives further insight into the central bank's decision-making process.                     |
| Feb. 12 | US Consumer Price Index                                 | Tracks the path of inflation.                                                              |
|         | Fed Chair Jay Powell Joint Economic Committee Testimony | Gives further insight into the central bank's decision-making process.                     |
|         | Bank of Canada Summary of Deliberations                 | Gives further insight into the central bank's decision-making process.                     |
| Feb. 13 | UK Gross Domestic Product                               | Measures a region's economic activity.                                                     |
|         | UK Industrial Production                                | Indicates the economic health of the industrial sector.                                    |
|         | Germany Consumer Price Index                            | Tracks the path of inflation.                                                              |
|         | EU Economic Forecasts                                   | Tracks key economic data for the European Union.                                           |
|         | Eurozone Industrial Production                          | Indicates the economic health of the industrial sector.                                    |
|         | US Producer Price Index                                 | Measures the change in prices paid to producers of goods and services.                     |
| Feb. 14 | Eurozone Gross Domestic Product                         | Measures a region's economic activity.                                                     |
|         | Eurozone Employment                                     | Indicates the health of the job market.                                                    |
|         | US Retail Sales                                         | Indicates the health of the retail sector.                                                 |
|         | US Industrial Production                                | Indicates the economic health of the industrial sector.                                    |
|         | Bank of Canada Senior Loan Officer Survey               | Collects information on the business-lending practices of Canadian financial institutions. |

## Notes

<sup>1</sup>Source: Bloomberg, as of Feb. 10, 2025

<sup>2</sup>Source: University of Michigan Survey of Consumers February 2025 (preliminary), Feb. 7, 2025

<sup>3</sup>Source: FOMC June 2022 press conference transcript

<sup>4</sup>Source: Bloomberg, as of Feb. 7, 2025

<sup>5</sup>Source: MSCI, based on the MSCI Europe ex-UK Index and MSCI UK Index as of Feb. 7, 2025

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### 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.

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

Stocks of small- and mid-sized companies tend to be more vulnerable to adverse developments, may be more volatile, and may be illiquid or restricted as to resale.

Bitcoins are considered a highly speculative investment due to their lack of guaranteed value and limited track record. Because of their digital nature, they pose risks from hackers, malware, fraud, and operational glitches. Bitcoins aren't legal tender and are operated by a decentralized authority, unlike government-issued currencies. Bitcoin exchanges and bitcoin accounts aren't backed or insured by any type of federal or government program or bank.

Bitcoin is a digital currency (also called cryptocurrency) that is not backed by any country's central bank or government. Bitcoins can be traded for goods or services with vendors who accept bitcoins as payment.

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.

Fluctuations in the price of gold and precious metals may affect the profitability of companies in the gold and precious metals sector. Changes in the political or economic conditions of countries where companies in the gold and precious metals sector are located may have a direct effect on the price of gold and precious metals.

Investments in companies located or operating in Greater China are subject to the following risks: nationalization, expropriation, or confiscation of property, difficulty in obtaining and/or enforcing judgments, alteration or discontinuation of economic reforms, military conflicts, and China's dependency on the economies of other Asian countries, many of which are developing countries.

The Consumer Price Index (CPI) measures the change in consumer prices and is a commonly cited measure of inflation.

Diversification does not guarantee a profit or eliminate the risk of loss.

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

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.

Gross domestic product (GDP) is a broad indicator of a region's economic activity, measuring the monetary value of all the finished goods and services produced in that region over a specified period of time.

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

Leverage measures a company's total debt relative to the company's book value.

The Magnificent 7 stocks refer to Amazon, Apple, Alphabet, Meta, Microsoft, Nvidia, and Tesla.

The MSCI Europe ex UK Index is a market-cap-weighted index used to measure the performance of non-UK European equities.

The MSCI United Kingdom Index is designed to measure the performance of the large- and mid-cap segments of the UK market.

The price-to-earnings (P/E) ratio measures a stock's valuation by dividing its share price by its earnings per share.

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

Many products and services offered in technology-related industries are subject to rapid obsolescence, which may lower the value of the issuers.

Tightening monetary policy includes actions by a central bank to curb inflation.

A basis point is one-hundredth of a percentage point.

Capital expenditures (or capex) is the use of company funds to acquire or upgrade physical assets such as property, industrial buildings, or equipment.

The opinions referenced above are those of the author as of **Feb. 10, 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.