

TAX

Weekly Market Report For 27 – 31 January 2025

Overview



- ❖ Markets were under pressure due to concerns about Trump tariffs.
- ❖ Fed put policy rates on hold with no signal on next rates move.
- ❖ The ECB lowered its policy rates as expected amid weak economy.
- ❖ Concerns about DeepSeek weighed on semiconductor stocks.
- ❖ US registered companies reported better-than-expected earnings.

Market Brief



 **The key issue last week was concerns about Trump’s tax policy, which has been a major factor putting pressure on the market recently.**

- o A 25% tariff on imports from Mexico and Canada has been imposed (except energy imports from Canada will be lower with a 10% duty) and 10% tariff on imports from China. Canada responded by announcing a 25% tariff on \$107 billion worth of imports from the US. Meanwhile, Mexico and China prepare countermeasures, but there are still no clear details.
- o After Trump’s tariff announcement, Asian markets fell more than 2%, US stock futures pointed to sharp losses while USD rose.

 **Fed meeting results**

- o Fed kept its policy rate at 4.25 - 4.5% as expected. The Fed statement remains hawkish as Jerome Powell said that the central bank will not rush to cut rates because the economy is still strong, unemployment rate is low, and inflation remains high.
- o The Fed has not signaled a clear timeline for the next interest rate cut, emphasizing that they need to see clear evidence of slowing inflation or a weakening labor market.
- o Moreover, the Fed wants to see the impact of Trump’s policies, such as immigration measures and import tariffs, which could affect the overall economy.

 **The ECB meeting**

- o ECB cut its benchmark rates by 0.25% to 2.75% as expected to support the economy. ECB President Christine Lagarde stated that the economy may be sluggish in the short term, while inflation is likely to decrease and may return to the 2% target this year. The market expects that the ECB may cut interest rates three more times, down to 2% by the end of the year.

 **DeepSeek**

- o DeepSeek, a Chinese startup that owns an open-source AI platform, has launched the R1 model, which is highly efficient and comparable to leading US AI but at a much lower cost. This has caused market concerns about the future of technology companies, especially in the semiconductor sector, as reflected by a sharp decline in stock prices.
- o The negative impact may be limited because tech companies developing platforms and software could benefit from reduced AI costs, which would help increasing long-term profits. Additionally, the AI trend continues to grow well, with competition possibly shifting from developing the most advanced chips to reducing costs and improving AI efficiency.

 **US companies’ earnings**

- o Overall, 77% of companies reported earnings exceeded expectations, and the EPS growth of the US market in 4Q24 is expected to grow by 13%.
- o Meta reported revenue and earnings that beat expectations, boosted by ads revenue.
- o Apple reported revenue and earnings top estimates, though iPhone sell fell short as iPhone sales in China decline 10%. However, the company gave a positive outlook on growth. The company gross margin hit a record high of 47%.
- o Tesla’s revenue and earnings missed as the company is facing headwinds from price war. The company expects to return to sales growth once again and it will expand its AI software business. It also mentioned about its plan to rollout robotaxi.
- o Microsoft posted revenue and profits exceeded Wall Street expectations, although cloud revenue slightly missed forecasts due to capacity constrained.

 **US economic data**


- o GDP grew at 2.3% annualized, below the 2.6% consensus, mainly dragged by a massive slowdown in inventory. The major driver of growth was household consumption, which increased by 4.2%, well above market estimates of 3.2%.
- o Core PCE rose 2.8% YoY and 0.2% MoM as expected.

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