US Market Wrap - 27th February 2025

Trump tariffs shake markets as NVDA sparks Tech selloff

- **SNAPSHOT**: Equities down, Treasuries down, Crude up, Dollar up.
- **REAR VIEW**: US President Trump reignites tariff threats, Canada/Mexico tariffs effective March 4th, with additional 10% tariff on China; NVDA slumps despite earnings beat; Trump meets with UK PM Starmer & going to get trade deal done rather quickly; Durable goods beat; Prelim GDP Deflator & Core PCE Prices revised higher, with GDP left unchanged; Initial jobless claims surpass expectations; US pending home sales fall more than forecasted; Schmid cautious about lack of inflation progress; Hammack believes they may be close to neutral right now; OPEC+ hesitant to go ahead with planned April oil output hike.
- **COMING UP**: **Data:** German Retail Sales, CPI, Unemployment, French/Italian CPI, US PCE, Canadian GDP (Q4), US Dallas Fed PCE. **Events:** ECB SCE. **Speakers:** BoE's Ramsden. **Supply:** Australia. **Earnings:** Fubo, Holcim, BASF, Allianz, Rightmove. **Credit Reviews:** Germany, France.

MARKET WRAP

US indices closed notably in the red, with Nasdaq 100 (-2.8%) the clear laggard, as well as the Technology sector, amid significant Nvidia (-8.6%) weakness in wake of earnings, and the latest Trump tariff remarks which had cross-asset impacts. On this, US President Trump clarified that there will be a 10+10 tariff on China, so 20%, and the proposed tariffs (on Canada/Mexico) are scheduled to go into effect on March 4th. In the wake of this, the Dollar saw strength, to the detriment of global FX peers, especially the CAD, MXN, and CNH. Treasuries were lower across the curve, paring some of the recent strength, as the tariff threat returned. The crude complex was firmer on Thursday, settling at highs amid a couple of bullish factors, the aforementioned Trump tariffs, and OPEC+. On the latter, Reuters sources reported that OPEC+ is hesitant to go ahead with the planned April oil output hike due to uncertainty over sanctions and tariffs. Sources add Russia and UAE would like to proceed with the April oil output hike and other members, including Saudi Arabia favour a delay. Elsewhere, US data was mixed - Durable goods and initial jobless claims both smashed through expectations, albeit with different caveats (more details below), while Q4 GDP 2nd estimate was unrevised, while deflator and core PCE was revised slightly higher, ahead of January PCE tomorrow. Fed wise, Schmid (2025 voter) is more cautious about inflation given the lack of progress and concern growing also about the recent increase in inflation expectations, while Hammack (2026 voter) continued to Hawk noting Fed rate policy may be close to neutral right now.

US

DURABLE GOODS: Durable Goods for January jumped 3.1% from December's -1.8%, against the expected rise of 2.0%. Non-defense cap ex-air rose 0.8% (exp. 0.3%, prev. 0.2%), while ex-defense lifted 3.5% from -1.8%. The rise in the headline was due to the volatile transport component, whereby it was driven by a 94% M/M surge in commercial aircraft orders thanks to unseasonably strong demand for Boeing aircraft. Note, motor vehicle and parts orders fell by 2.5% M/M, which was not enough to prevent a 9.8% M/M jump in transportation orders. Ex-transport, things were a bit weaker, with core orders unchanged. Although Capital Economics says there were some bright spots, with computers and electronic product orders rising by 7.1% M/M, that was offset by a 1.2% M/M decline in orders in the largely weighted fabricated metals sector. CapEco adds, that although underlying capital goods shipments fell, business investment should bounce back this quarter, as commercial aircraft shipments continue to recover from the Boeing strike.PENDING HOME SALES: Pending home sales for January fell 4.6% (exp. -1.3%, prev. -4.1%), with the report noting that Midwest, South, and West experienced month-over-month losses in transactions, with the most significant drop in the South, while the NE saw a modest gain. Y/Y contract signings fell in all four US regions. The report adds that it is unclear if the coldest January in 25 years contributed to fewer buyers in the market, and if so, expect greater sales activity in upcoming months. However, it's evident that elevated home prices and higher mortgage rates strained affordability.

JOBLESS CLAIMS: Initial jobless claims (w/e 22nd Feb) jumped to 242k from 220k, and above the expected 221k, with desks noting possible weather factors in play. The seasonal factors had expected a decrease of 22,464 (or -10%) W/W. On the headline, Pantheon Macroeconomics notes snowfall was much higher than usual across most of the Midwest and East, with the biggest Y/Y increases in unadjusted claims seen in states like Michigan, Pennsylvania and Illinois, which experienced some of the heaviest snowfalls. In addition, Pantheon adds that DOGE's efforts to shrink the federal workforce also probably boosted claims last week, but by no more than 5k. Continued claims printed 1.862mln (exp. 1.872mln, prev. 1.867mln), while 4wk average lifted to 224k from 215.5k.

GDP (2ND EST): Q4 GDP 2nd estimates was unrevised at 2.3% (exp. 2.3%), while the deflator was revised up to 2.4% from the expected and prior figure of 2.2%. The report adds that the move higher in real GDP largely reflected increases in consumer and government spending that outweighed a decrease in investment. Headline PCE Prices Prelim rose 2.4% (prev. 2.3%) and the Core saw an upward revision, now at 2.7% (exp. 2.5%, prev. 2.5%), adding to growing concerns over accelerating inflation. Friday's focus remains on inflation with January's core PCE report due, with monthly change expected to rise to 0.3% (prev. 0.2%) with yearly seen printing 2.6% (prev. 2.8%). Elsewhere within the report, sales and spending remained at 3.2% and 4.2%, respectively.

FED

Schmid (2025 voter) said he is more cautious about inflation given the lack of progress and concern growing also about the recent increase in inflation expectations. Schmid added expectations surveys are imperfect, but the recent sharp climb means the Fed cannot let down its guard, and also uncertainty might also weigh on growth. Schmid added the Fed may need to rethink the concept of core inflation given that once-volatile food prices now behave more like other goods.

Hammack (2026 voter) struck her usual hawk tone when she gave remarks, noting the Fed is likely to hold rates steady 'for some time' and seeks evidence of inflation moving to 2% inflation before supporting more cuts, while noting the Fed rate policy may be close to neutral right now. As a reminder, in the December meeting (where Hammack dissented in favour of a hold) the median SEP FFR was 3%, with the most hawkish being 3.875%. We get updated SEP's on March 19th. The known hawk added monetary policy has the 'luxury of being patient' right now, and that will also allow the Fed to monitor the jobs market. Hammack noted Fed policy does not appear 'meaningfully restrictive', and broad financial conditions are accommodative right now. On inflation, good reasons to expect inflation to come down further and further easing in inflation far from certain, upside risks 'abound'. Moreover, Hammack said equity market valuations are high right now, and over the longer run, the economy can adapt to higher interest rates.

Harker (2026 voter) said the policy rate remains restrictive enough to continue putting downward pressure on inflation. On the inflation target, Harker said progress has slowed and should let monetary policy continue to work. Adding, the policy rate is not negatively impacting the economy. Despite the challenge of getting inflation back to target, his economic outlook remains optimistic. In addition, Harker reiterated the Fed view that they should not move to act on policy in either direction based on the report covering one month of data.

FIXED INCOME

T-NOTES (M5) SETTLED 8 TICKS LOWER AT 110-20+

T-Notes recent win streak ends as US tariff threat returns. At settlement, 2s -0.3bps at 4.070%, 3s +0.4bps at 4.048%, 5s +1.5bps at 4.092%, 7s +2.4bps at 4.189%, 10s +3.0bps at 4.279%, 20s +3.5bps at 4.586%, 30s +4.5bps at 4.552%.

INFLATION BREAKEVENS: 5yr BEI +2.3bps at 2.525%, 10yr BEI +0.6bps at 2.370%, 30yr BEI -0.4bps at 2.257%.

THE DAY: T-Notes edged lower overnight as Nvidia's earnings report on Wednesday was positive, topping expectations, with share price action that followed a lot less than options had implied. Upon the latest set of US data, in which Durable Goods, Prelim GDP Deflator and Core PCE Prices (Q4) all came in above expectations, a very modest hawkish reaction was seen. T-Note selling resumed across the curve, but failed to set fresh session lows. Possibly limiting the downside were initial jobless claims surging to 242k (exp. 221k), the biggest jump in over two months as weather factors contributed. However, continued claims unexpectedly fell for the week, and GDP 2nd Est was unrevised at 2.3%. Thereafter, Treasuries were choppy for the remainder of the day with the focus returning to US tariffs. Namely, US President Trump on Truth Social, noted the proposed Canada/Mexico tariffs are scheduled to go into effect on March 4th (said April 2nd on Wednesday), and China "will likewise be charged an additional 10% tariff on that date". Trump later clarified that the tariff on China will be added onto the recently added 10% tariff, such that it will be 20%. Ultimately, T-Notes finished the day slightly lower, with the long end lagging at session lows while the 2yr managed was ultimately flat. Higher crude prices likely also weighed on T-Note's performance given the extension of upside they saw on the Trump tariff announcement. The day saw remarks from several Fed members, most notably Hammack (2026 voter) who kept to her Hawk stance, noting Fed rate policy may be close to neutral right now. For reference, the EFFR is currently 4.375% (Fed Dec median - 3.0%). Separately, Schmid (2025 voter) said the Fed's holdings of MBS are influencing the 10-year yield by 50-80bps. Core PCE is the next main event for the fixed space where the monthly print is seen rising to 0.3% (prev. 0.2%) while the yearly metric is expected at 2.6% (prev. 2.8%).

SUPPLY

- US sold USD 80bln of 4-week bills at high rate 4.235%, covered 3.10x; sold USD 75bln of 8-week bills at high rate 4.235%, covered 2.98x

US Treasury to sell:

- USD 76bln of 13-week bills, USD 68bln of 26-week bills on March 3rd
- USD 70bln of 6-week bills and USD 40bln of 12-day CMBs on March 4th; all to settle March 6th.

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: March 1bps (prev. 1bps), May 8bps (prev. 7bps), June 22bps (prev. 21bps), Dec 60bps (prev. 57bps).**
- NY Fed RRP op demand at USD 182bln (prev. 126bln) across 41 counterparties (prev. 37)
- SOFR at 4.33% (prev. 4.33%), volumes at USD 2.487tln (prev. 2.467tln).
- EFFR at 4.33% (prev. 4.33%), volumes at USD 108bln (prev. 108bln).

CRUDE

WTI (J5) SETTLED USD 1.73 HIGHER AT 70.35/BBL; BRENT (K5) SETTLED USD 1.50 HIGHER AT 73.57/BBL

The crude complex was firmer on Thursday, settling at highs amid a couple of bullish factors, being Trump tariffs and OPEC, despite the firmer Dollar. WTI and Brent ground higher throughout the European and US session, and saw a further boost on US President Trump's post on Truth, whereby he said proposed tariffs (on Canada/Mexico) are scheduled to go into effect on March 4th, and "China will likewise be charged an additional 10% Tariff on that date". Trump later confirmed there will be an additional 10% tariff on China, clarifying that there will be a 10+10 tariff on China, so 20%. Thereafter, benchmarks got another intraday boost to peaks of USD 70.54/bbl and 73.75/bbl, respectively, on Reuters sources reporting that OPEC+ is hesitant on going ahead with planned April oil output hike due to uncertainty over sanctions and tariffs. Sources add Russia and UAE would like to proceed with the April oil output hike and other members, including Saudi Arabia favour a delay. On the geopolitical footing, Al Jazeera said negotiations for the passage of the second phase will take place next week in Cairo or Doha. Meanwhile, Trump said had very good talks with Russia and Ukraine, and Russia has been acting very well and are well advanced on a peace deal.

EQUITIES

CLOSES: SPX -1.59% at 5,862, NDX -2.75% at 20,551, DJI -0.45% at 43,240, RUT -1.59% at 2,140

SECTORS: Technology -3.79%, Utilities -2.23%, Communication Services -1.83%, Consumer Discretionary -1.78%, Materials -0.69%, Health -0.41%, Industrials -0.37%, Consumer Staples +0.02%, Real Estate +0.39%, Energy +0.48%, Financials +0.57%.

EUROPEAN CLOSES: DAX: -1.19% at 22,524, FTSE 100: +0.28% at 8,756, CAC 40: -0.51% at 8,103, Euro Stoxx 50: -1.07% at 5,471, AEX: -0.66% at 926, IBEX 35: -0.61% at 13,251, FTSE MIB: -1.53% at 38,623, SMI: -0.55% at 12,968, PSI: -2.07% at 6,844.

STOCK SPECIFICS:

- **Nvidia (NVDA):** Beat on EPS & revenue as Data Centre revenue surged, driven by AI chip demand; Q1 sales guidance topped with GMs seen easing in Q1. Check out the headline feed, to see market reactions to the earnings report.
- **Salesforce (CRM):** Revenue missed with subscription & support revenue underperforming. Issued lower-than-expected guidance; Note, EPS beat.
- **Snowflake (SNOW):** EPS and revenue topped
- **Synopsys (SNPS):** Top and bottom line beat
- **Nutanix (NTNX):** EPS and revenue topped with strong FY revenue guidance
- **Paramount (PARA):** Surprise loss per shr. and revenue missed
- **eBay (EBAY):** Q1 top line light. Note, EPS, revenue and GMV beat
- **Mercedes (MGBYY):** To cut 15% of its China workforce
- **Walgreens Boots Alliance (WBA):** The buyout of Walgreens would set the stage for a three-way split of the Co, according to the FT sources; talks could still fall apart in the coming weeks. Initially be taken private as a whole, then split into three units.
- **Freeport-McMoran (FCX):** Upgraded to 'Buy' from 'Hold' at Jefferie citing recent updates regarding Indonesia as well as the potential significant benefit to the company from tariffs on US copper imports.
- **Meta (META):** In talks with Apollo for USD 35bln data-center financing, according to Bloomberg.
- **Tesla (TSLA):** Seeks approval for ride-hailing business in California, according to Bloomberg.

FX

The Dollar was firmer against all major peers, erasing some losses seen from the last week as the threat of US tariffs continues to be felt by markets. US President Trump on Truth Social said the proposed Canada/Mexico tariffs are scheduled to be effective on March 4th, and China "will likewise be charged an additional 10% tariff on that date". The scheduled date given by Trump returns to what had been the expected deadline for tariffs on Mexico/Canada, until Trump on Wednesday confused some by saying April 2nd. Optimism over a deal being reached by next Tuesday between the US and Canada/Mexico worsened over the day, as Trump said he's not seeing progress on drugs coming into the country and Canada should be apprehending much more fentanyl. Canadian PM Trudeau later hit the wires, reiterating the immediate and strong response they would have if the US were to initiate tariffs. DXY heads into overnight trade near session highs of 107.28 after seeing earlier lows of 106.46 with attention on updates regarding the fentanyl-related tariffs. Separate updates were seen from Fed members, where Hammack said pausing approach until inflation sees more progress and believes the Fed rate may be close to neutral right now. The latter remark would make Hammack one of the most hawkish Fed members given the Fed's median EFFR projection at the December meeting was 3.0%, notably lower from the current EFFR (4.375%) than Hammack believes. On Friday, the highlight is January's PCE report, where M/M is expected to rise to 0.3% (prev. 0.2%) and Y/Y is seen dropping to 2.6% (prev. 2.8%)

As mentioned, **G10FX** had a tough time against the Buck as tariff rhetoric resumed, with the most immediate Canada/Mexico tariffs (and now an additional 10% China) were brought back to the original date of March 4th, after markets gained optimism over the April 2nd date issued by Trump on Wednesday. Performance was grim, with Antipodeans and Scandis losing the most ground, with the backdrop of risk-off trade in the equities market also weighing. Relative outperformers included the Havens and the Pound which to an extent could be considered a haven in today's environment where tariffs is the macro driver since the UK has less exposure to US tariffs than peers. Today, UK PM Starmer met with Trump, where little new was learnt. When asked if there will be UK sanctions, Trump said he will have to take a look. Cable ended the US session around the session low of 1.2606. Regarding Japan, BoJ's Ueda said they decide on monetary policy after scrutinising the impact of US policies on the global economy, markets, and Japan's economy and prices. On long-term interest rates, Ueda said he will not comment on recent moves; USD/JPY nears APAC trade ~149.80.

EUR/USD incurred its second consecutive day of losses as sentiment over tariffs soured. On the EU, Trump criticized the VAT taxes and said they don't like the way the EU is treating their companies and is going to have reciprocal tariffs. On EZ specifics, February sentiment was mixed; services unexpectedly deteriorated, and Economic and Industrial topped expectations. Ahead, unemployment data will be watched out from Germany as well as state and nationwide inflation.

EMFX: A sea of red was seen in EMs as trade tensions weighed. The biggest losers included the PLN, HUF, CLP, and CZK. While, relative outperformance was seen in the TRY, INR, and ZAR. Updates centred around the Yuan, which saw heavy selling as Trump announced plans to an additional 10% tariff on China to the recently added 10%, claiming no progress has been made on drugs coming into the country. USD/CNH climbed for the fifth straight day to ~7.293.