Weekly Market Directions

"Diversification and a balanced approach are now more important than ever, as the news on tariffs, negotiations, and retaliations will keep markets volatile."*

Monica Defend
Head of Amundi Investment Institute

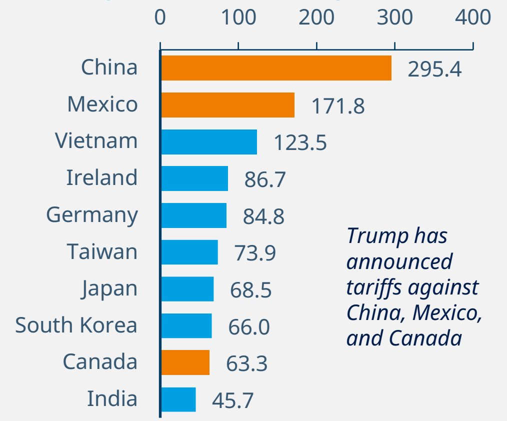
Tariffs take centre stage

Trump has started to impose tariffs. His approach is transactional and subject to continuous negotiations.

We expect tariffs to be negative for growth and add inflationary pressure starting from the second half of 2025.

We believe this will call for further diversification*, expanding the investment universe both in equities and bonds.

Largest US trade deficits in goods, 2024



Source: Amundi Investment Institute, on BEA data. Data as of 5 February 2025. Balance of trade in goods, bn USD

Trump's tariff announcements have taken centre stage, with markets focusing on their impact on growth and inflation. Tariffs are primarily directed at countries with high trade deficits with the United States, starting with Mexico, Canada (currently delayed), and China. Our simulations indicate that tariffs may negatively affect economic growth and increase inflation in both the country imposing them and those affected. The size, timing, and sequence of these measures will be crucial for understanding their final impact on macro fundamentals and monetary policy responses. For this reason, we expect all players to negotiate and strive to avoid a full-blown trade war. China can implement fiscal support measures, allowing it to reallocate production chains, while Europe has less flexibility, but could accelerate reforms and investments. The situation remains fluid, with volatility dominating the markets.

Actionable ideas

Seek diversification* with a multi-asset approach
We believe rising inflation risks stemming from tariffs calls for further diversification* across different asset classes.

Diversify* in equities with a focus on dividends
In our view dividend stocks offer attractive valuations and a valid source of diversification* to the US equity market, thanks to their different sector mix.

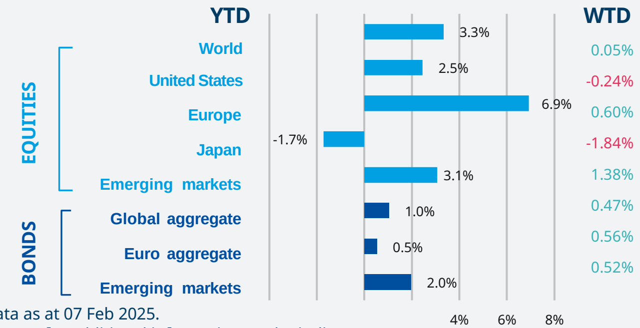
*Diversification does not guarantee a profit or protect against losses.
Discover more on how Trump 2.0 will impact economy and markets in our latest Cross Asset publication

This week at a glance

Global equity markets were little changed over the week, except in China, where the tech sector gained from enthusiasm around the AI company DeepSeek. Gold remained in high demand, reaching new highs, while oil fell for the third consecutive week amid concerns about demand.

Equity and bond markets

Asset class performances, year to date and week to date



Source: Bloomberg , data as at 07 Feb 2025.
Please refer to the last page for additional information on the indices.

Government bond yields

2 and 10-year government bond yields, and 1 week change

	2YR		10YR	
US	4.29	▲	4.50	▼
Germany	2.04	▼	2.37	▼
France	2.20	▼	3.09	▼
Italy	2.34	▼	3.47	▼
UK	4.16	▼	4.48	▼
Japan	0.80	▲	1.30	▲

Source: Bloomberg , data as at 07 Feb 2025.
Please refer to the last page for additional information on the indices.
Trend represented refer to 1 week changes. Please refer to the last page for additional information.

Commodities, FX and short term rates

Gold	Crude Oil	EUR/	USD/	GBP/	USD/	Euribor	T-Bill
USD/oz	USD/barrel	USD	JPY	USD	RMB	3M	3M
2861.07	71.00	1.03	151.41	1.24	7.29	2.53	4.33
+2.2%	-2.1%	-0.3%	-2.4%	+0.1%	+0.7%		

Source: Bloomberg , data as at 07 Feb 2025.
Please refer to the last page for additional information on the indices.

Amundi Investment Institute Macro Focus

Americas

US ISM surveys move into opposite directions

The January ISM manufacturing index increased to 50.9 from 49.2, back into the expansionary area for the first time in over two years. However, the new administration's tariff policy may cloud the outlook for the sector if the main US partners retaliate. The ISM services index fell to 52.8 from 54.0, due to lower readings for the new orders and business activity components. The index remains consistent with solid service-sector growth, which appears untouched by tariff-related uncertainty for now.

Europe

BoE cut rates amid stagflationary scenario

The BoE cut rates by 25bp as expected. In line with our recent downward revisions to the UK growth forecast, the BoE also acknowledged the weaker momentum for the UK economy and cut its 2025 growth projections from 1.50% to 0.75%. On the inflation front, stickiness remains. Markets are now pricing in three additional rate cuts to end-2025, with rates at 3.75% by year-end, in line with our initial estimates.

Asia

India budget points to fiscal consolidation

The fiscal deficit for FY26 projects the budget deficit to shrink to 4.4% of GDP from 4.9% currently. The income tax structure has been revised to enhance disposable income for the middle class. Food subsidies are set to increase. Enhanced rural schemes are anticipated to improve economic conditions in rural areas. After the announcement, the RBI cut its benchmark interest rate by 25bp to 6.25% to support economic growth.

Key dates

12 Feb	US CPI and core CPI, Fed Powell's testimony, IND CPI
13 Feb	UK GDP, US PPI and core PPI
14 Feb	EZ GDP, US retail sales and industrial production

NOTES

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Equity and bond markets (chart)

Source: Bloomberg. Markets are represented by the following indices: World Equities = MSCI AC World Index (USD) United States = S&P 500 (USD), Europe = Europe Stoxx 600 (EUR), Japan = TOPIX (YEN), Emerging Markets = MSCI Emerging (USD), Global Aggregate = Bloomberg Global Aggregate USD Euro Aggregate = Bloomberg Euro Aggregate (EUR), Emerging = JPM EMBI Global Diversified (USD)

All indices are calculated on spot prices and are gross of fees and taxation.

Government bond yields (table), Commodities, FX and short-term rates.

Source: Bloomberg, data as of **7 February 2025**. The chart shows the US trade balance in goods against selected countries.

*Diversification does not guarantee a profit or protect against a loss.

GLOSSARY

BOE: Bank of England

CPI: Consumer Price Index is an inflation indicator

IND CPI: A metric used for measuring inflation in India

PPI: Measures the average change over time in the selling prices received by domestic producers for their output

EZ: Eurozone

Fed: Federal Reserve, the central banking system of the United States

FY26: Fiscal year 2026

ISM: Institute for Supply Management

RBI: Reserve Bank of India

USD: US dollar

IMPORTANT INFORMATION

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