

# Market Weekly Insights

15th February 2025

## Global Outlook

### *China to Impose Tariffs on U.S. Energy Imports*

China's Finance Ministry announced on Tuesday it would retaliate against the U.S. for the newly imposed 10% tariffs by enacting its own 15% tariffs targeting coal and liquefied natural gas imports from the U.S. alongside 10% higher duties on crude oil, agricultural machinery, and certain vehicles. Additionally, Chinese commerce officials introduced export controls on a range of items and technologies related to certain critical minerals, including tungsten, tellurium, ruthenium and more.

Economists at Oxford estimate the additional duties could raise the effective tariff rate on U.S. imports into China by nearly 2 percentage points raising concerns for a potential second trade war. China has also initiated investigations into Google for violating anti-monopoly laws, despite the company pulling its search engine from the country in 2010. However, Google still operates some advertising services for Chinese businesses.

### *Eurozone Inflation Surges to 2.5% in January*

Eurostat reported that overall inflation exceeded expectations in the Eurozone in January, rising to 2.5%, driven by an increase in energy costs. Economists at Reuters predicted a steady 2.4% inflation rate from the previous month. Core inflation, which exempts volatile prices such as food and energy, remained unchanged from 2.7% since September last year. Meanwhile, service inflation went down from 4% in December to 3.9% in January.

The main concern regarding the inflation report stems from energy costs increasing to 1.8% in a year, 0.1% up from last month, which increased the overall inflation from a low of 1.7% in September to 2.5%. In response, last Thursday, the European Central Bank (ECB) cut down on interest rates by 25 basis points to 2.75%; however, concerns regarding potential tariffs have led the bank to adopt a cautious approach to further adjustments.

S&P 500

\$6,066.44  
+0.67%

DJIA

\$44,470.41  
+0.38%

NASDAQ

\$19,714.27  
+0.97%

Russell 2000

\$2,287.94  
+0.37%

FTSE 100

\$8,767.80  
+0.77%

Nikkei 225

\$38,801.17  
+0.04%

WTI Crude

\$73.82  
+1.75%

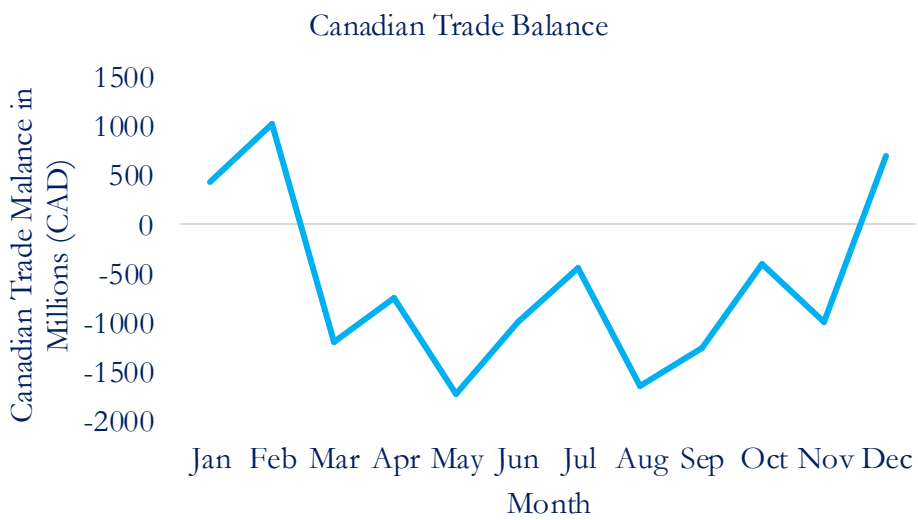
10-yr Treasury

4.525%

### Canada Achieves C\$708 Million Goods-Trade Surplus in December

In December 2024, Canada reported a goods-trade surplus of C\$708 million (\$494.3 million), marking its first surplus since September. This was a result of a significant increase in energy exports to the United States and a further weakening of the Canadian dollar. The surge in energy exports played a crucial role in bolstering the country's trade balance.

The depreciation of the Canadian dollar made Canadian goods more competitive in international markets, further contributing to the trade surplus. This trade surplus offers a positive outlook for the new year, providing a buffer as the country braces for potential economic challenges. However, economists believe Canadian trade figures are likely to be volatile until there is more certainty on the potential 25% tariff implementation by the United States.



### Birmingham Councilors Approve Pay Increase Amid Significant Budget Cuts

Birmingham City Council has approved a 5.7% increase in councilor allowances, effective from April 2025, despite implementing severe budget cuts totaling £300 million over two years. These cuts have led to the closure of libraries, the sale of public land, and a 17.5% rise in council tax.

The approved budget reductions include £41 million in the children and families sector, £43 million in adult social care, and £39 million in housing and city operations, which includes services like road maintenance and street cleaning. Fees for various council services, including sports facility rentals, waste collection, and parking, are set to increase.

Public reaction has been critical, with residents expressing dissatisfaction over the reduced services coupled with increased costs. The council's financial challenges have been attributed to historical equal pay claims, a failed IT project, and substantial pension contributions. Despite these issues, council leaders assert that the pay raise is essential to ensure that individuals from diverse backgrounds can afford to take on councilor roles and effectively represent the community.

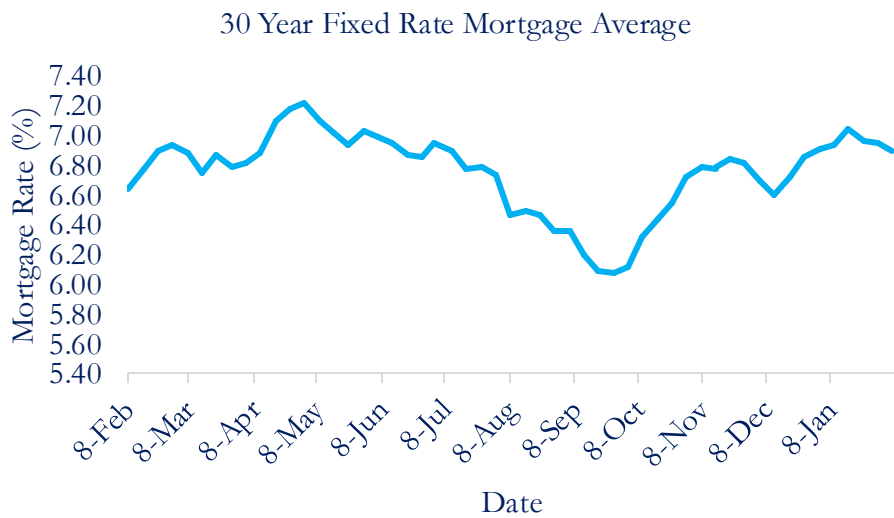
Sources: Reuters

# America This Week

## Homebuyer Demand Falls Despite Increased Listings

Mortgage applications from homebuyers fell 4% last week, compared to the previous week. Additionally, the average contract interest rate for 30-year fixed-income mortgages with conforming loan balances (\$766,550 or less) decreased from 6.97% to 7.02%. These two data points lead towards an all-important indication that homebuyers are seeing little incentive to get a jump on the housing market despite increased home listings for sale. Alongside this trend, mortgage rates haven’t fluctuated over the last month, but home prices continue to rise, a strong potential reason for decreased homebuyer incentives.

Since February 2019, mortgage applications to buy a home have decreased by approximately 39% with overall home sales running at an almost 30-year low. The core issue the current U.S. spring housing market faces is that while the supply of home for sale have increased by 25% from last year, the price of housing has still constantly risen, a strong indication that homebuyers have yielded more towards price rather than supply.

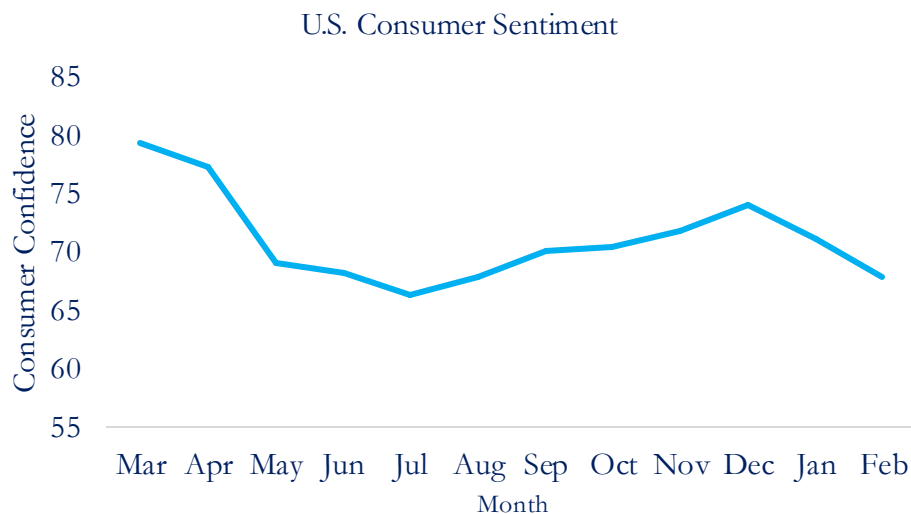


## American Consumer Sentiment Down in January

In the University of Michigan’s preliminary February survey of consumers, consumer sentiment fell by approximately 5%, the survey’s lowest reading since July 2024. At the same time, inflation expectations for 2025 increased from 3.3% in January to 4.3% in February, the second month in a row of significant increases in expectations and the largest expected inflation since November 2023. Joanne Hsu, Director of the University of Michigan’s survey and Professor at the University of Michigan commented on the unusual percentage jump, expressing that “it’s very rare to see a full percentage point jump in inflation expectations.”

The stark increase in expectations for inflation in the year ahead coupled with a decrease in consumer sentiment could be a broader indication of the chaos unfolding in the market, ranging from tariffs to geopolitical tensions. According to a survey conditioned by numerous university professors, American consumers believe they would have to cover almost half the cost of a hypothetical 20% tariff, alluding to a direction correlation to decreased consumer sentiment as reflected by the University of Michigan’s survey.

Sources: Reuters, Financial Times



*The Once Prominent EV-Truck Maker Nikola Approaching Bankruptcy*

The Arizona-based EV-truck maker Nikola is nearing a filing for bankruptcy after a WSJ report on Thursday cited the event from people familiar with the matter. Their stock price dropped by 20% in after-hours trading to \$0.60/share. Not only was the manufacturer struggling to raise funds, but they were losing hundreds of thousands of dollars per unit sold, gradually destroying the company’s cash balance.

Reportedly, Nikola has considered options to help prevent the company from reaching bankruptcy, such as selling parts of the company or selling it entirety as well. Although the EV-truck maker has not explicitly commented on bankruptcy filings, the company’s cash and cash equivalents fell to \$198.3 million compared with \$464.7 million at the end of 2023. Nikola has lost 99% of its value since its IPO in 2020.

The company’s collapse ultimately culminated as a byproduct of operational issues and a series of scandals. Though the company was once a prominent EV player that briefly surpassed Ford’s market cap, frequent CEO changes, funding struggles, and product failures ultimately put Nikola in a painful position in a highly competitive automotive industry.

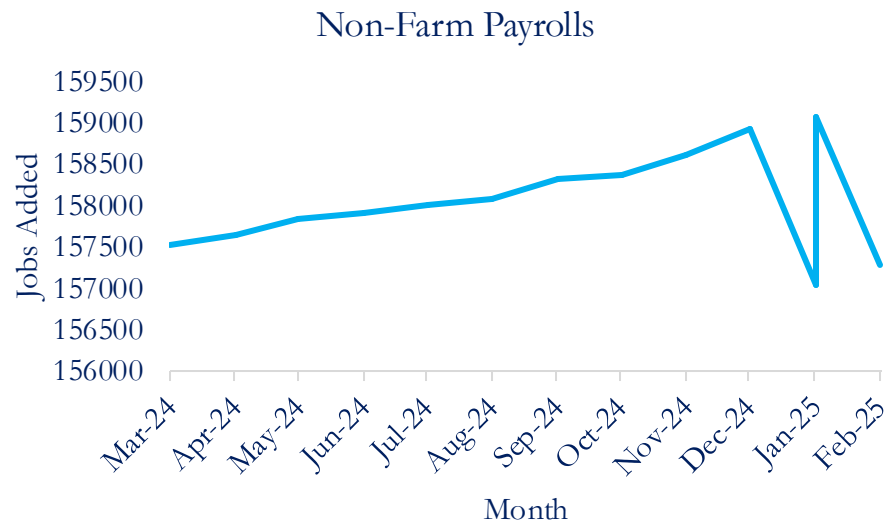
Macro Highlights

*U.S. Job Growth Misses Estimates, Unemployment Steady*

The non-farm payrolls and unemployment rate report that released last Friday showed signs of an underwhelming job market while remaining steady between its 4-6% unemployment benchmark. U.S job creations last month topped 143,000, a significant drop from 307,000 in December and lower than the Dow Jones estimation of 169,000. The unemployment rate fell to 4% in January.

The distribution of jobs for January mainly focused on healthcare (44,000), retail (34,000), and government (32,000). Adjusted revision to November and December count saw a boost in 100,000 jobs created. Meanwhile, the unemployment rate nudged lower due to a bolstered labor force movement, increasing to 62.6%, up by 0.1 percentage point in comparison to December. The measure of discouraged workers and those holding part-time jobs remain steady at 7.5%. Additionally, wages exceeded expectations as average hourly earnings increased 0.5% in the month and 4.1% YoY, surpassing estimates of 0.3% and 3.7%, respectively.

Sources: Financial Times, Reuters



### *Job Openings Drop Significantly in December*

The job openings and labor turnover survey for December released last week came a few days after the central bank decided to keep borrowing costs at 4.25% - 4.5% range. Even though the report came after other job-related data, it showed signs of a slow labor market, characterized by fewer job openings and a decline in voluntary departures.

Available jobs in December topped 7.6 million, below the Dow Jones estimate for 8 million. Within the number of job openings, professional and business services decreased 225,000, health care and social assistance lowered by 180,000, and finance and insurance reduced by 136,000. Hires and separations remain steady at 5.5 million and 5.3 million, respectively. Within separations, the number of quits totaled 3.2 million, highlighting a 7% YoY decrease. Adding on, layoffs and discharges were reported at 1.77 million.

## Industry News

### *Nissan and Honda end merger talks worth \$58bn*

Nissan and Honda have been in merger talks since December 2024 but have failed to put together a deal structure due to disputes over the equity ratio, valuation, and management. The deal eventually fell through because Nissan board members rejected Honda's proposal to make Nissan a subsidiary, as Honda's shareholders pressured the board to take full control of Nissan and restructure the struggling car manufacturer.

The merger talks initially emerged after Foxconn approached Renault, which holds 36 percent stake in Nissan, intending to acquire part of its stake in the carmaker. Renault has been reducing their stake in Nissan since 2023 after signs of the company's financial performance decline. Despite the ownership offload, Renault stated their desire to maintain a control premium for Nissan shareholders, rather than giving in on a complete management overhaul and takeover from Honda. In a press conference in December, Honda chief Toshihiro Mibe asserted his vision of leading Nissan, while preserving the integrity of both brands. However, Honda's requirement for the deal to go through is for Nissan to slowly implement a turnaround plan that would result in cutting production capacity by 20 percent.

Last Wednesday, both car manufacturers said the original plan to execute this merger was in January but has now been pushed back several times and is unlikely that the deal would go through.

*UBS Exceeds Profit Expectations; Announces Conditional \$3 Billion Share Buyback*

In the fourth quarter of 2024, UBS Group reported a net profit attributable to shareholders of \$770 million, significantly surpassing the anticipated \$483 million. This performance was due to the lower than expected costs, high revenue streams, and a strong showing from its investment banking division. Following the acquisition of Credit Suisse in 2023, UBS has made notable progress in integration efforts, though it has increased its forecast for related expenses to \$14 billion by the end of 2026.

The bank revealed their plans to have a share repurchase program, intending to buy back \$1 billion worth of shares in the first half of 2025 and up to an additional \$2 billion in the second half. However, these plans are contingent upon the stability of Swiss capital regulations. UBS has expressed concerns that potential increases in capital requirements could negatively affect its competitiveness and shareholder returns.

Despite the positive earnings report, UBS shares declined by 5.5% as investors reacted to the conditional nature of the buyback plan and uncertainties surrounding future regulatory changes. The bank continues to focus on achieving cost savings and completing the integration of Credit Suisse by the end of 2026.

*Google Releases Advanced AI Model Gemini 2.0*

This past Wednesday, Google released Gemini 2.0, its most capable A.I model suite yet. The suite includes 2.0 Flash, a high-performance model designed for large-scale, high-frequency tasks; 2.0 Pro Experimental, which specializes in coding; and 2.0 Flash-Lite, which the company calls its “most cost-efficient model yet.”

These releases from Google, as CEO Sundar Pichai expresses, are indicative of their broader strategy to advance “agentic” AI models that are capable of anticipating user needs and autonomously performing complex and multistep tasks. This initiative places Google in competition with tech giants such as Meta, Amazon, Microsoft, and OpenAI, all of which are investing heavily in AI agents.

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