

Market Weekly Insights

19th February 2025

Global Outlook

Russia's Defense Spending Surpasses All of Europe

Russia's overall defense spending in 2024 spiked by 42%, an indication of Moscow's doubled-down strategy to conquer the geopolitical conflict occurring in Ukraine right now. According to the International Institute for Strategic Studies (IISS), an international think tank focused on defense and national security implications, European defense budgets totaled \$457 billion, slightly less than Russia's spending in 2024. The IISS has forecasted Russian defense spending to reach 7.5% of its GDP and 40% of its total federal expenditures. By contrast, the study showed that if Europe increased its defense spending to 5% of GDP, its overall defense budget would be twice the size of Russia.

European defense companies such as Dassault Systemes, France's leading defense aviation company, have played a crucial role in supplying fighter jets to aid Ukraine in its grunting stand against Moscow's regime. Germany, another main European Union power, has sent Leopard 2 tanks manufactured by KNDS Deutschland, Germany's premier arms industry company. The growing trend of EU and European countries alike increasing defense spending as a percentage of GDP reflects a broader defense and national security stance, alluding to the threat Moscow places in geopolitics, but also the calling from Western powers to prioritize defense and national security in the foreseeable future.

RBI Cuts Repo Rate, Making Loans Cheaper

The Reserve Bank of India (RBI) has reduced the policy repo rate by 25 basis points to 6.25%, marking the first cut in five years. This decision is expected to lower interest rates on home, auto, and MSME loans, making borrowing more affordable.

With banks likely to pass on the benefits, loan EMIs could decrease, boosting consumer spending and investment. The move aligns with recent tax relief measures introduced in the budget, aiming to drive economic growth.

The RBI stated that the rate cut, combined with tax reliefs, will support productivity without significantly impacting inflation, given the current industrial capacity utilization levels. Experts anticipate that this reduction in borrowing costs could provide a boost to key sectors such as housing, automobiles, and small businesses, which can help strengthen economic activity.

Sources: Newsweek, Yahoo Finance, Reuters

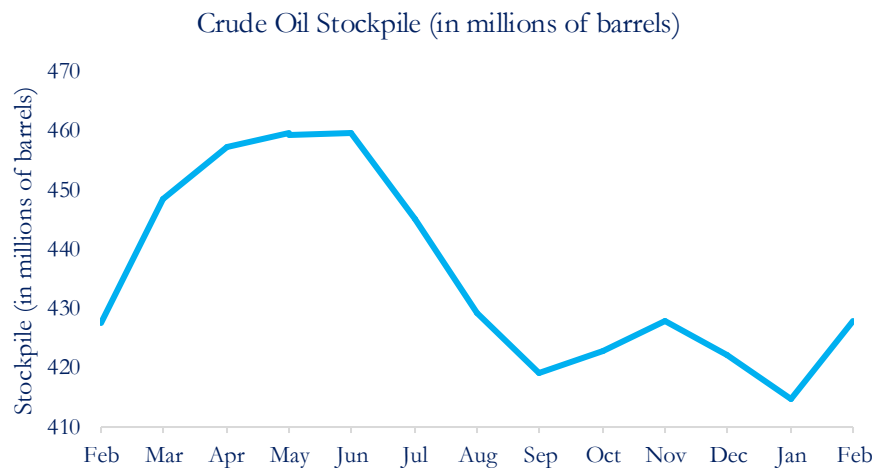
S&P 500	\$6,129.58 +0.2%
DJIA	\$44,556.34 +0.02%
NASDAQ	\$20,041.26 +0.07%
Russell 2000	\$2,290.35 +0.45%
FTSE 100	\$8,766.73 -0.01%
Nikkei 225	\$39,194.99 -0.18%
WTI Crude	\$72.03 +0.25%
10-yr Treasury	4.478%

U.S. Crude Oil Inventories Rise for Third Week in a Row

For the third consecutive week, U.S. Crude Oil Inventories increased while gasoline stocks fell for the first time in three months. According to data provided by the U.S. Energy Information Administration, commercial crude oil stocks rose by 4.1 million barrels to 427.9 million barrels, still 4% below the five-year average for February specifically. Additionally, the EIA forecasted U.S. Crude Oil production at 13.5 million barrels a day. Although the EIA has forecasted a substantial increase in Crude Oil production for its 2025 outlook, imports fell by 606,000 barrels a day over the last week, and exports dropped by 422,000 barrels a day.

This week, the EIA also stated that gasoline inventories fell for the first time in 13 weeks, decreasing by 3 million barrels and 1% below the five-year average. On the other hand, refinery capacity rose by 0.5% to 85%, reflecting the U.S. government’s broader push to increase production and refining capacity.

The recent increases in U.S. crude oil inventories and increased projected production growth suggest higher domestic production but weaker export demand. While concern remains over historically low production levels, a resilient market combined with the Trump administration’s indicated desire to increase inventories could lead to the government’s goal of pushing down barrel prices.



Rising Auto Insurance Costs Force Drivers to Cut Coverage and Spending

Following Wednesday’s Consumer Price Index report, motor vehicle insurance prices increased by 2.2% in January, marking an 11.8% increase from the previous year. Since the pandemic, insurance prices have more than doubled in the last 5 years, largely due to supply chain disruptions, rising repair costs, and increased vehicle damage from natural disasters. Recent surveys from car insurance comparison apps have shown that eight in 10 American drivers have felt insurance prices have become unaffordable for the average person.

Over a fourth of drivers have bought less coverage to combat the increase in insurance costs, with about one in 10 drivers even dropping their car insurance for at least part of the year due to affordability. Furthermore, the increases have led to spending cuts elsewhere, with over a fourth of drivers cutting spending on groceries, 30% on clothing, and 32% on family vacations. Despite this, as insurers aim to implement additional policies with competitive rates, analysts believe the price increases will slow down in the upcoming year, predicting a slower increase of 2-3%.

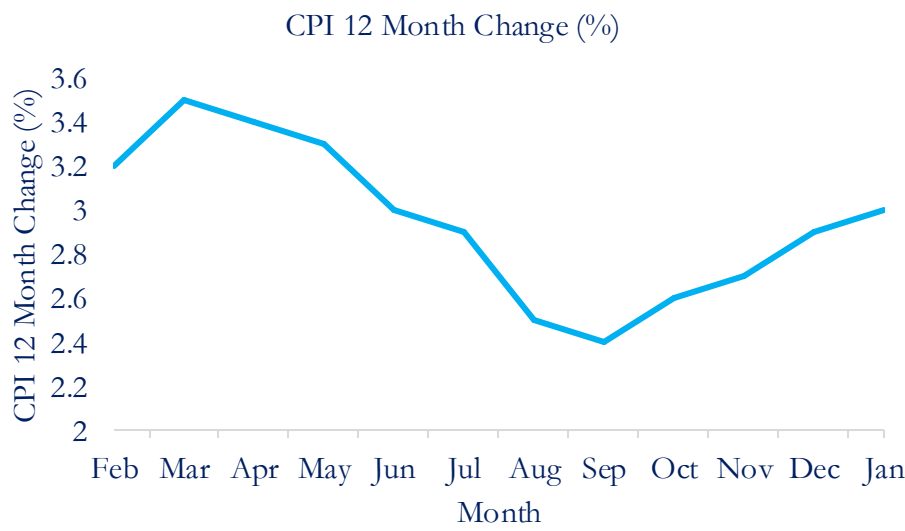
Sources: Reuters, Financial Times

Macro Highlights

January CPI Report Signals Inflation Pressures Amid Upcoming Tariffs

With recent Trump’s administration myriads of import tariffs, last month’s CPI report signals heighten food and energy costs concerns as inflation marks its fourth consecutive month of rebound. Overall, consumer prices rose to 3%, up by 0.1% from the previous month and most since June of 2024. For the month, shelter increased 0.4 %, accounting for 30% of this month’s increase. Energy price index increased 1.1% as the gasoline index increased 1.8 %. Additionally, food prices rose 0.4% as the index for food at home and food away from home increased 0.5% and 0.2% respectively.

In January, the index for all items excluding food and energy went up by 0.4%. Notable increases were seen in the indexes for motor vehicle insurance, recreation, used cars and trucks, medical care, communication, and airline fares. Conversely, the indexes for apparel, personal care, and household furnishings and operations were among the few major categories that saw declines during the month.

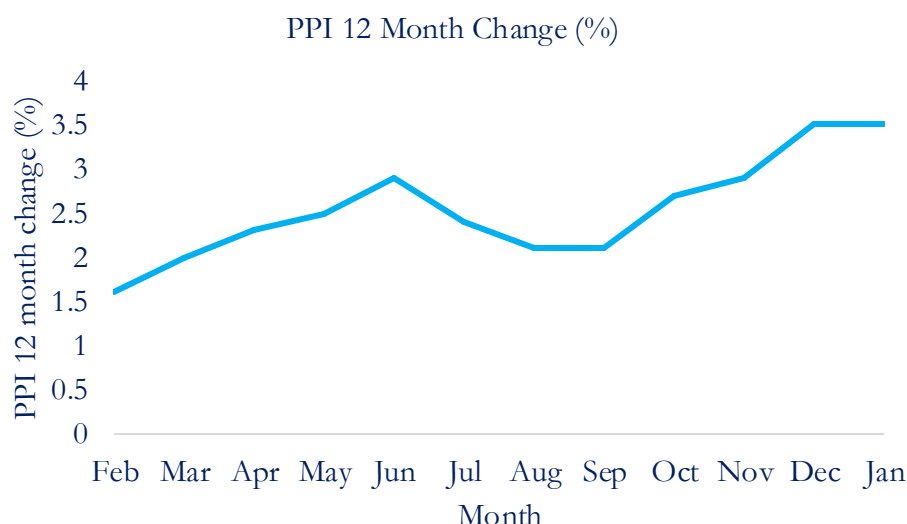


January Production Costs Rise, Fueling Inflation Concerns

Following the CPI report last Wednesday, the PPI report illustrated minimal efforts to slow inflation as the market price in the effects of economic sanctions and fiscal policy. In January, the producer price index for final demand rose 0.4% from the previous month. Additionally, the PPI report reflected a 1.1% increase in food prices, backed by a 44% surge in egg prices due to the ongoing outbreak among US poultry flocks. Energy prices also rose to 1.7%. Excluding food and energy costs, the PPI surged by 0.3% and 3.6% higher YoY.

Goods prices overall rose by 0.6%, marking the third consecutive month of significant increases. Excluding food and energy, goods prices saw a more modest rise of 0.1% for the second month in a row. More broadly, commodity prices have been climbing this year, with the Bloomberg Commodity Index nearing its highest point since May, partly due to increased prices for metals, corn, and coffee. The PPI report also indicated a 0.3% rise in services prices. According to the BLS, about a third of this increase was driven by a sharp rise in the cost of traveler accommodation services. Additionally, the cost of portfolio management services, which contributes to the PCE index and generally follows stock market trends, increased for the second month in a row.

Sources: Financial Times, Wall Street Journal



Powell Emphasizes Modest Approach on Rate Cuts

In a heated two days of Congressional testimony this week, Federal Reserve Chair Jerome Powell faced numerous heated exchanges from lawmakers in the capitol. Questions ranged from the state of the U.S. economy, intersection with political agendas (given it was a testimony), but most importantly for markets, the monetary outlook for the rest of 2025. Powell's message to lawmakers on Tuesday was simple and clear: The U.S. economy is in good shape. Hence, the Fed will take its time to assess whether rate cuts are necessary.

Powell's statement comes after the Fed cut interest rates in its last three meetings by a full percentage point after keeping rates at a two-decade high. At the time, Powell defended these cuts as a needed adjustment of the Fed's policy stance to take into consideration the improvement in inflation as well as cooler labor market conditions.

As of recent information this week, the labor market appears to have stabilized after slow job growth last summer. The unemployment rate trickled down to 4.0% last month after reaching 4.2% in July of 2024.

Industry News

Hyatt Strengthens Resort Presence with \$2.6B Playa Hotels Deal

Hyatt Hotels has agreed to acquire Playa Hotels & Resorts for about \$2.6 billion, including \$900 million in debt. On Monday, the company announced that the decision supported its strategy for its all-inclusive resort portfolio, with Playa Hotels primarily in the Mexican, Dominican Republic, and Jamaican markets.

Regarding the deal, Hyatt already owns 9.4% of outstanding shares through the agreement. Hyatt would acquire the remaining 90.6% at \$13.50 per share, which makes up \$2.6 billion, and the additional \$900 million in debt. To fund the acquisition, Hyatt plans to implement new debt financing and find third-party buyers for Playa Hotel's properties. They aim to profit \$2 billion from the sale of these assets by 2027.

Since entering the all-inclusive market in 2013, Hyatt has expanded through acquisitions, including Apple Leisure Group in 2021 and a joint venture with Spanish tourism company Grupo Piñero. The purchase of Playa Hotels is a further step for the company to strengthen and diversify its portfolio. The deal is expected to close later this year, pending regulatory and shareholder approval.

Chevron Embraces Tech, Cuts 20% of Workforce

Since November of last year, Chevron has unveiled plans to offload 2 billion to 3 billion dollars in cost savings from sales of assets and recently announced to cut a fifth of its global workforce by the end of 2026. Despite new statements from Trump’s administration to increase America’s oil production, the move by Chevron’s board of directors looks to optimize the group’s vast portfolio worth 280 billion dollars and utilize technology to increase production efficiency.

The workforce cut-off news followed a disappointing fourth-quarter earnings report last month, with weak margins dragging down the business. The company reported a price-to-earnings of 2.06 dollars a share, which is below Wall Street’s initial 2.11-dollar-a-share estimate. According to industry experts, the oil industry is adjusting after experiencing high profits in 2022 and 2023, driven by a surge in prices following Russia's full-scale invasion of Ukraine. Prices are now stabilizing, with Brent crude expected to average \$74 per barrel in 2025 and \$66 per barrel in 2026, compared to \$81 per barrel last year, as projected by the US Energy Information Administration.

Elon Musk’s OpenAI Bid Sparks Investor Concerns for Tesla

Elon Musk’s bid to acquire OpenAI for \$97.4 billion, backed by his AI company xAI and venture-capital partners, has raised concerns among Tesla investors. Given Musk’s history of juggling multiple ventures, analysts worry that this latest move could divert his attention from Tesla at a critical time.

Tesla’s stock dropped 6.3% following the news, reflecting investor uncertainty. The company is already facing challenges, including its first-ever decline in annual automotive revenue. Analysts suggest that Musk’s focus on other business ventures, such as his previous acquisition of Twitter, has historically led to market instability for Tesla.

Although Tesla still holds a dominant position in the auto industry, its latest filings note that Musk’s involvement in multiple businesses might impact his ability to lead effectively. Investors are now weighing whether Musk can balance his growing list of ventures (SpaceX, xAI, and Neuralink) without hurting Tesla’s performance.

Market Insights Team



Alex Szewczyk

Director



Manika
Sakulsureeyadej

Associate



Hoang Tran

Analyst



Ahmad Shaikh

Analyst



Riya Pallamreddy

Analyst



Varun Kolluri

Analyst



Northeastern
University



Northeastern
University



Northeastern
University



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University