Macro Month Ahead February 2025

Image source: iStock/aprott

Brace for a high-stake election in Germany while US tariffs are deployed

Here comes February, a month that started with Groundhog Day **(2/02)**, is home to the US Superbowl **(9/02)** and of Valentine's Day **(14/02)**, and will also see the start of the Ramadan **(28/02)**. February will also be a crucial month for Europe, as the French government will try to pass the 2025 budget without having a majority in Parliament, and elections in Germany **(23/02)** will shape the economic cure to be applied for what is still a severely ailing economy. In parallel, Europe and the rest of the world anxiously monitor the deployment of President Donald Trump's trade policy and tariffs. With China back from the Chinese New Year holidays, local markets will reopen **(5/02)**. The news flow on US trade tariffs and the intensification in tensions around technology after the Deep Seek's burst on the AI scene will likely continue to move markets and sentiment. Finally, the Q4 earning season will continue this month, culminating with the release of Nvidia results that will be watched even more closely in the context of Deep Seek announcements and additional US restrictions to chips' exports to China. Political uncertainty, a looming global trade war, and escalating tech war between China and the US make for another busy and interesting month ahead!

Adrien Pichoud,

Chief Economist

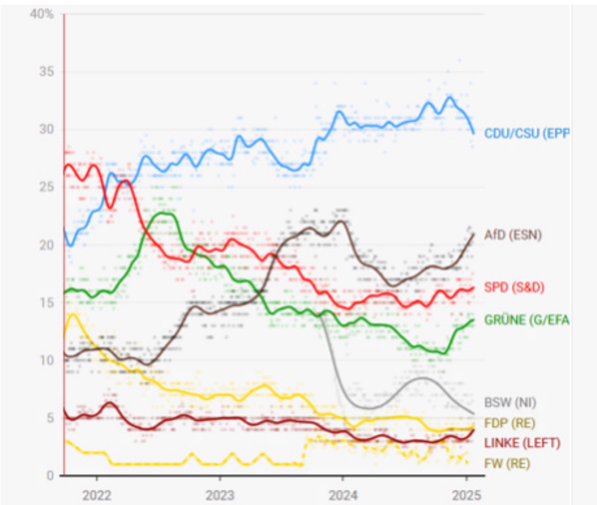
PRIVATE BANKING

Eurozone – a decisive election for the future of Germany and for the European economy

The Eurozone has been hit by a succession of shocks in the past three years that have severely hampered economic growth: rising energy prices following Russia's invasion of Ukraine, declining Chinese demand for industrial goods, pressures on the automotive sector from the EV transition and irruption of Chinese carmakers, or higher interest rates have all weighed heavily on activity, especially in Germany where the GDP has been contracting in the past two years. Adding to this already bitter cocktail, political instability has returned and is clouding the outlook for Europe's two largest economies. France has been in a political crisis since the snap elections held at the start of summer 2024 and has yet to approve a budget for 2025. With the current composition of Parliament, the situation appears inextricable until new elections are held. In Germany, the ruling coalition broke apart in November and the upcoming elections on February 23 will be crucial for the future of of Europe's largest economy, and for the Eurozone as a whole. From an economic standpoint, this election will define the fiscal policies that will be implemented to try to revive its severely ailing economy.

There are three major issues at stake with the February 23 vote. Firstly, will Germany loosen its self-imposed straitjacket of balanced federal budget? The Schuldenbremse introduced in 2009 was a very effective tool to contain the rise in Germany's public debt that now stands just above 60% of GDP when it exceeds 100% for other major economies of the monetary union. However, with the German economy is stuck in a recession since the end of 2022, the constitutional debt brake has prevented fiscal policy to support the economy and offset the impact of the external shocks hitting the private sector. Hopes are that some flexibility in public finances will be re-introduced after the elections in order to revive positive economic dynamics. But a two-third majority in Parliament is required to amend the constitutional debt-brake rule, and the rise of fringe parties in the polls, all opposed to such change, threatens to prevent the loosening of fiscal policy in Germany. Should the AfD, BSW and Die Linke parties clear the 5% threshold for having seats in Parliament and get a combined 34% of the votes in the Bundestag, they will be in a position to block a constitutional reform and prevent fiscal policy support from being implemented by the new government. Based on the latest dynamics in polls, this scenario cannot be ruled out and would pour cold water on much-needed prospects of fiscal stimulus for the years ahead.

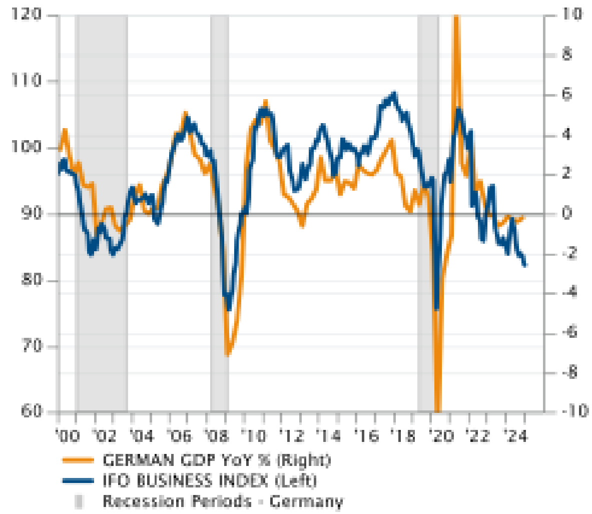
The rise of the AfD in polls has been significant in the recent months and could prevent the implementation of supportive fiscal policies by the next government



Source: Europe Elects

Secondly, while the conservative-right party CDU/CSU and its leader Friedrich Merz can be expected to be the main political force in the next Parliament, it will have to agree with one or two other parties to form a coalition able to govern. Elections results will therefore heavily influence the shape of economic policies going forward, depending on the partners that Mr Merz will have to coalition with. Thirdly, the outcome of the German elections will be decisive for Europe as a whole. At a time when Europe is faced with US protectionism and China mercantilism, it requires leadership to take bold decisions to defend and improve economic growth prospects. The Franco-German tandem is essential in driving Europe forward and, with French politics in limbo, a solid German government and leadership is more than ever needed to lead Europe on the path of reforms and in responding to external challenges. As such, the stakes of the coming German elections are very high for Germany itself and for Europe, and February 23 will be a decisive date for the Old Continent.

GDP has been contracting in Germany for the past two years and business sentiment continues to plunge ahead of the elections

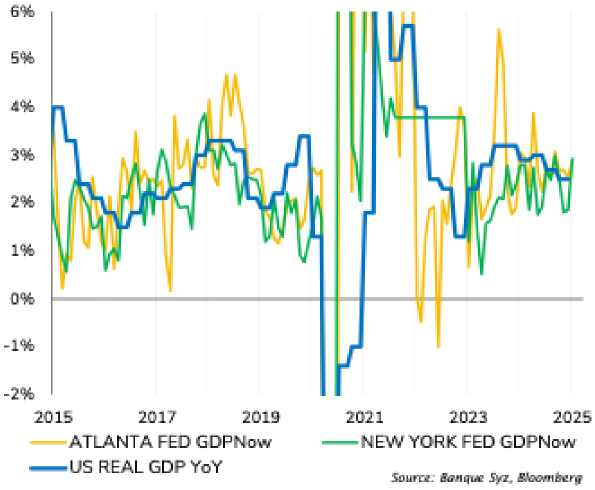


In the context of an escalating global trade war and political uncertainty, European economic data will likely take the backseat in February. Employment data for Q4 **(14/02)**, the first estimate of PMI activity indices for February **(21/02)** and the latest updates on economic sentiment **(27/02)** will still be worth watching for assessing whether economic dynamics stabilise at their depressed level or continue to deteriorate at the start of 2025.

United States – checking the economy's resilience before Trumponomics have their impact

With President Trump back in the Oval Office and determined to push forward his heavy economic agenda, the main focus of investors will remain on the President's announcements in the coming weeks. And plenty of them are expected, on a broad range of topics, from trade policies to the revamping of US international relations, the reform of US administrations or a budget resolution to prepare the vote of a comprehensive tax bill later in the year. In that context, regular economic data expected in February will be mostly watched to gauge the resilience of economic activity before Trumponomics are effectively implemented. The US economy has been expanding above its long-term potential since the end of the pandemic and most recent indicators pointed to a robust start to 2025. The release of business activity indices will allow to assess whether the encouraging trend witnessed since the election of Prseident Trump is confirmed (NFIB Small Business Optimism **11/02**, Empire Manufacturing **18/02**, Philadelphia Fed **20/02**, Flash PMI **21/02** + industrial production data **14/02**). Latest labour market developments will also be closely watched (January Employment Report **7/02**, JOLTS **4/02**), as well as households' consumption data (retail sales **14/02**). Inflation data for January will reveal whether the reassuring December data were a one-off or if inflationary pressures were still resilient even before the imposition of tariffs on US imports /(CPI inflation **12/02**, PPI inflation **13/02**, PCE deflator **28/02**). Labour market and inflation data are key for the Fed, whose minutes of the last FOMC meeting will provide more details around the Fed's view when it decided to leave rates unchanged at the end of January **(19/02)**.

US real GDP growth has been robust and above potential in the past two years, and recent indicators point to resilience at the beginning of 2025



Source: Banque Syz, Bloomberg

The global rate cut cycle continues

While Europe is undermined by political uncertainty and the US are embracing a dramatic policy shift, the global interest rate cycle initiated last year will most likely continue over the course of February. Faced with weak economic growth and despite persisting upward pressures on wages, the Bank of England should stick to its quarterly pace and cut rates for a third time since the August and November 25bp cuts **(6/02)**. Reassuring inflation data for Q4 in Australia have paved the way for the Reserve Bank of Australia to start its own rate cut cycle this month **(18/02)**. The Reserve Bank of New Zealand, for its part, has already lowered its key rate by 125bp in the second half of 2024, but it is expected to extend its rate cut cycle this month **(19/02)**. The Reserve Bank of India may also relax its monetary policy stance in February **(7/02)**. And the People's Bank of China will decide on its benchmark rate on **25/02**, in a context of trade tensions with the US and limited visibility after the Chinese New Year holiday period.

The Q4 earnings season continues, with Nvidia results as the highlight of the show

The release of Q4 earnings will continue in February, with several big tech companies providing much awaited updates on their businesses' dynamics. Alphabet **(4/02)**, along with AMD, Merck, Pfizer and PepsiCo the same day, will launch the month, followed by Amazon **(6/02)**. Novo Nordisk **(5/02)**, Coca Cola **(11/02)** or Deere & Co **(13/02)** will also be closely watched. But the big event on that front will be the Nvidia release **(26/02)**, especially after the volatility and questions raised by the irruption of DeepSeek into the AI landscape.

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Banque Syz SA
Quai des Bergues 1
CH-1201 Geneva
T. +41 58 799 10 00
syzgroup.com

Adrien Pichoud
Chief Economist
adrien.pichoud@syzgroup.com