WEEKLY BULLETIN

January 2025: Issue #1

Quote of the Week.

"The benefits of a tariff are visible. Union workers can see they are 'protected'. The harm which a tariff does is invisible. It's spread widely. There are people that don't have a jobs because of tariffs but they don't know it" – Milton Friedman

The Federal Reserve has stepped into the spotlight in early January, signalling a pause in its rate-cutting cycle for 2024. This move comes amidst speculation from Wall Street that the incoming Trump administration's policies could heighten inflationary risks in the U.S. and globally. Economists have expressed concern over the administration's spending risks and potential heavy tariffs on trade partners, which could disrupt supply chains and increase costs.

The Fed's pause also coincides with S&P 500 and Nasdaq trading at elevated valuations, which may provide the market with a rationale for price corrections.

However, market pullbacks have so far remained within minor ranges, leaving the broader bull trend intact. Investors are now looking ahead to corporate earnings reports, starting on January 15, with major banks leading the way and offering clues about future market directions.

Asia-Pacific markets have come under pressure, exacerbated by the Fed's pause signal and regional headwinds. China's slowdown remains a key concern, with recent stimulus measures falling short of expectations. Ongoing geopolitical tensions, including U.S. blacklisting of Chinese firms and restrictions on technology exports, have further dampened sentiment.

Japan is grappling with the impact of a Bank of Japan rate hike, while South Korea's markets face volatility due to political uncertainties. As China appears to hold back on significant stimulus, likely awaiting clarity on U.S. trade policies, the region remains in a cautious stance. A potential shift in global trade dynamics under the Trump administration could provide much-needed direction for these markets.

Last Week 's Notable Events.

US Economy/Politics

- US may unveil new rules limiting China access to AI chips before Biden goes – 3rd Jan
- Trump refuses to rule out using military to take Panama Canal and Greenland – 7th Jan
- US adds Tencent, CATL, CNOOC to blacklist of companies working with China's military – 7th Jan
- Fed officials are worried about inflation impacts from Trump's policies, minutes show – 8th Jan
- Allstate Corp, Chubb and Travelers Co are likely to be affected by LA fire, says JP Morgan – 9th Jan
- Nonfarm Payrolls increases by 256,000 in December vs 160,000 expected – 10th Jan

Europe Economy/Politics

- 'We must stand together': European leaders warn Trump over Greenland threat – 8th Jan
- European nations and India push for faster FTA launch ahead of Trump's return – 9th Jan

Asia Pacific Economy/Equity

- Bank of Thailand warns of increased currency volatility in 2025 – 6th Jan
- Asia faces economic headwind from Trump and a sluggish China – 7th Jan
- 15,200 Chinese millionaires were expected to relocate in 2024, according to Henley & Partners – 8th Jan
- Copper price nears one-month high on optimism over China's economy – 9th Jan
- BOJ sees widening wages hikes, signals chance of near-term rate hike – 9th Jan
- China Consumer Price Index rose 0.1% on the year in December – 9th Jan

Weekly Data Monitor

Weekly chart:

- Oil prices surge on supply concerns as Biden plans to impose sanctions on Iran ahead of Trump taking office.
- Gold testing high amid escalating geopolitical risk..
- Global stocks correct as Fed pause risk heighten.

Note: The chart shows normalised weekly highs and lows for the Indicator, BLUE being the LATEST.

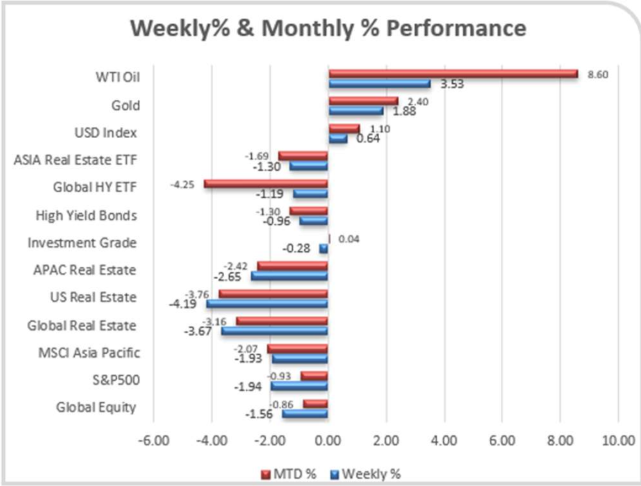
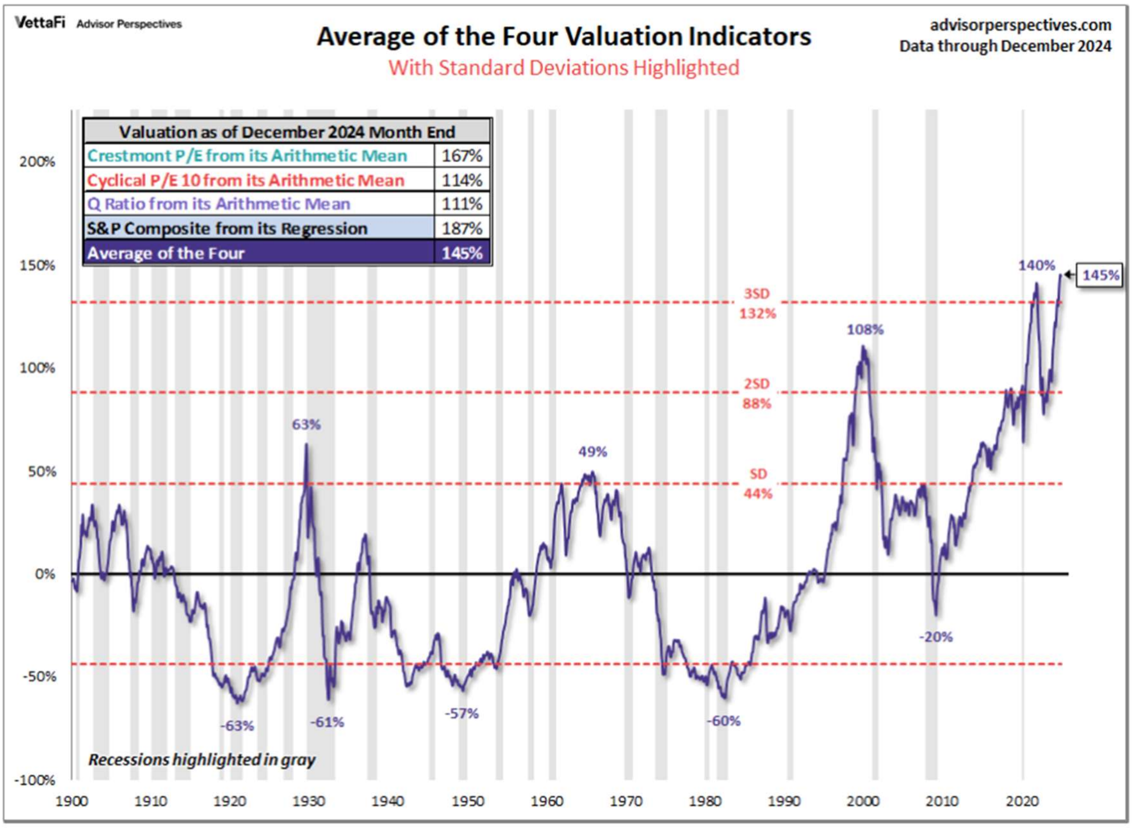


Chart of the Week.

As of December 2024, various valuation metrics indicate that the S&P 500 is trading at historically elevated levels. The following chart shows the results of 4 key valuation methods.



The average of these methods is 145% of the historical mean, suggesting the index is significantly overvalued compared to historical standards. More notably, the distance from the mean is currently approaching the 3 standard deviation threshold (132%), which historically signals extreme overvaluation.

While elevated valuations do not necessarily predict imminent market corrections, they do increase risk exposure, particularly if future earnings or economic growth falter. Investors should consider the potential for increased volatility and the possibility of lower future returns from current levels. A diversified approach with a focus on risk management could help mitigate potential downside risks while awaiting clearer signals from the market.

In summary, while the S&P 500 has shown strong performance, its valuation metrics suggest caution. Investors may want to reconsider their equity exposure or at least adjust their risk tolerance given the high probability of market mean reversion.