

January 12, 2025

Shifting Gears

"Life is like a ten-speed bicycle. Most of us have gears we never use." - Charles Schulz.

"You should always know when you are shifting gears in life. You should leave your era; it should never leave you." – Leontyne Price

- US and UK CPI, 4Q Earnings season start and China GDP will dominate the economic news in the week ahead – all will test ongoing US exceptionalism
- IFlow shows neutral factors now in equities and FX while bonds are back to being uncorrelated to equity flows making asset allocation a key focus for risk.
- The reaction function of investors to actual Trump Policy on January 20th now expected to set the tone for rest of year rather than any monetary policy shifts

Summary:

Markets are shifting gears from chasing trends to waiting for bigger policy changes. The key test for the week ahead will be in how the US dollar rally continues and what happens to US bonds and equities given the shift down in rate cut expectations in the US after stronger US jobs reports and mostly better economic data. The green shoots in the rest of the world remain tender and mixed with inflation concerns. The UK leads the “stagflation” worry list for 2025 and UK CPI in the week ahead will set the tone for the BOE. In the US, the CPI release along with more Fed speakers and the start of 4Q earnings will be driving price action in stocks and bonds. The drop in financial conditions due to weaker equities and higher rates will be watched closely for what that means to FOMC views on growth outlooks ahead. Many investors are waiting not on the Fed or other central bankers to drive policy but rather the actual Trump policy shifts on trade, taxes and immigration. The business cycle for the US

apart from such uncertainty has surprised to the upside leaving mid-cycle investing the baseline for modeling the 2025 asset allocation plan. Whether this all falls apart into the week after next will pivot on the actual first actions of the new US administration. Given all that, the January 16 hearing for US Treasury nominee Scott Bessent in the Senate, in the week ahead, may prove to be the most powerful movers for risk taking as it sets the tone for fiscal and other policy ahead.

Themes:

- **Asset Allocation.** The \$18trn US stock market gains are facing rebalancing risks from 5% US bond yields. The worst down draft in stocks since December 18th happened on Friday after the US jobs drove down expectations for FOMC easing. The markets are now watching to see if there is a larger asset allocation pressure from US to off-shore – with clear indications from iFlow that Europe saw value buying in equities but with some EUR hedging.
- **Stagflation.** The term for high inflation and low growth stems from the 1970s experience where energy shocks hit the G10. Markets have returned to worries about inflation impeding growth but without the same energy shock, rather this concern about GDP stems from fiscal limitations and service inflation. The UK and other nations are being labeled with this worry, which likely adds to risks for asset outflows and weaker confidence.
- **Mergers and the late economic cycle.** Expectations for mergers and IPOs are both higher in 2025. The Trump administration is expected to be less focused on regulation and with the offset to tariff pain being a push to invest more in the US opening both vertical and horizontal mergers for global companies. The inflation fears wrapped around the tariff expectations add to the push as the late cycle pressure on earnings drives companies to buy out their competition. The 4Q earnings ahead will be watched closely for the 1Q and beyond guidance and planning for growth in the US.

What does iFlow Show?

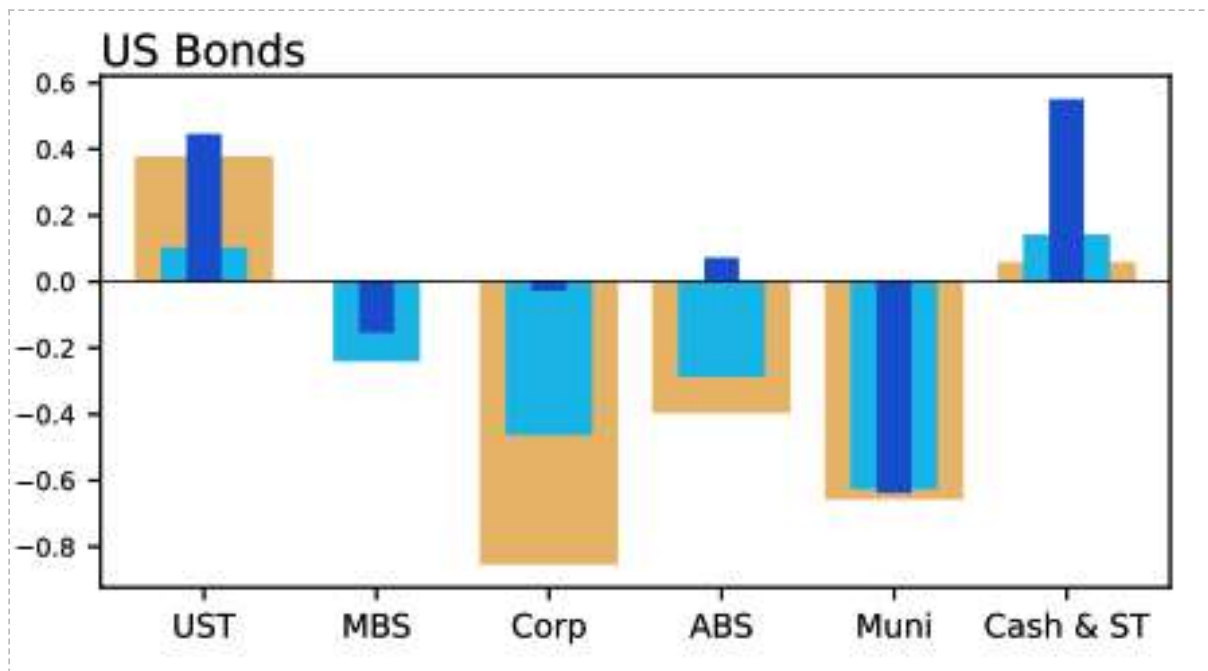
Fixed Income: US price action was negative, but our flows were positive. Last week shifted US rates higher, with yields in 2-year rising 10bps to 4.38% while 10-year yields rose 8bps to 4.76% - Factors driving rates:

- **More IG Supply with last week \$65.3bn from 41 issuers**, adding to \$16.3bn in first week with supply double the rate of 2024 so far. Yet spreads hold 80bps
- **US Employment** – with the stronger than expected NFP 256k jobs and 4.1% unemployment rate dropping Fed rate cut expectations. 30Y yields rose over 5% - first

time in a year – while 10Y rose to 2023 October levels at 4.79%.

- **US Treasury supply and fiscal worries.** The 3Y \$58bn 4.332% sale came with 1.2bps tail and 10Y \$39bn note sale tailed 0.2% at 4.68%, while the 30Y \$22bn bond sale saw good demand at 0.7bps thru at 4.913% but the supply watch isn't over – with the week ahead continues the focus on front-end rates with \$84bn in 3M, \$72bn in 6M, \$85bn in 42-day bills, then another \$150bn or more in 1M, 2M and 4M bills. All this matters given the US debt ceiling will have an X-date by June without Congressional action.
- **Cross border demand.** The higher UK rates mattered along with EU and APAC moves in bonds lifts home bias. This leaves less cross border flows into the US as other parts of the world catch up in roles and flows.
- **What is interesting is that US bond flows were still positive in iFlow – albeit from on-shore not cross border.** Our data shows a relative value buying of US debt in US treasuries ongoing for week, month and quarter but also a modest reversal in ABS flows and notable surge in cash – suggesting some risk aversion or preparation for trading into January 20th and the expected Trump policy shifts.

Exhibit #1: Is Cash going to be put to work?



Source: iFlow, BNY

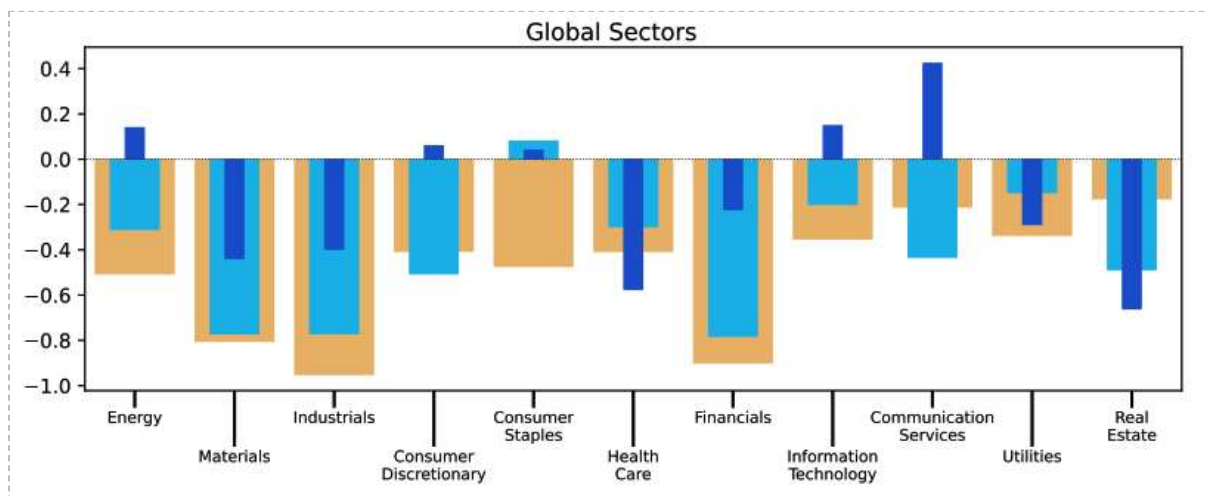
Equities: The last week saw US shares have the worst selling since December 18. For the week, DJIA fell 1.07% S&P500 fell 0.71% and NASDAQ fell 0.62%.

- The best performing bourses were in Europe with France CAC 40 up 2.04%, Italy MIB up 2.82% and the EuroStoxx 50 up 2.17%. The worst performance was in APAC with

China CSI 300 off 1.13% while the Hong Kong Hang Seng fell 3.52% and the Japan Nikkei fell 1.77%.

- The sectors globally were mixed – iFlow saw inflows into energy and that matched most of the world while communication rose as well but was off in the US. Our data matched global selling in real estate sectors but not in health care where we saw notable selling.
- EM markets in iFlow saw negative flows across all sectors in APAC except in communications while our flows were positive in EMEA except in Utilities and Industrials. LatAm was up excluding communication services.

Exhibit #2: Do global cycles match sector buying?



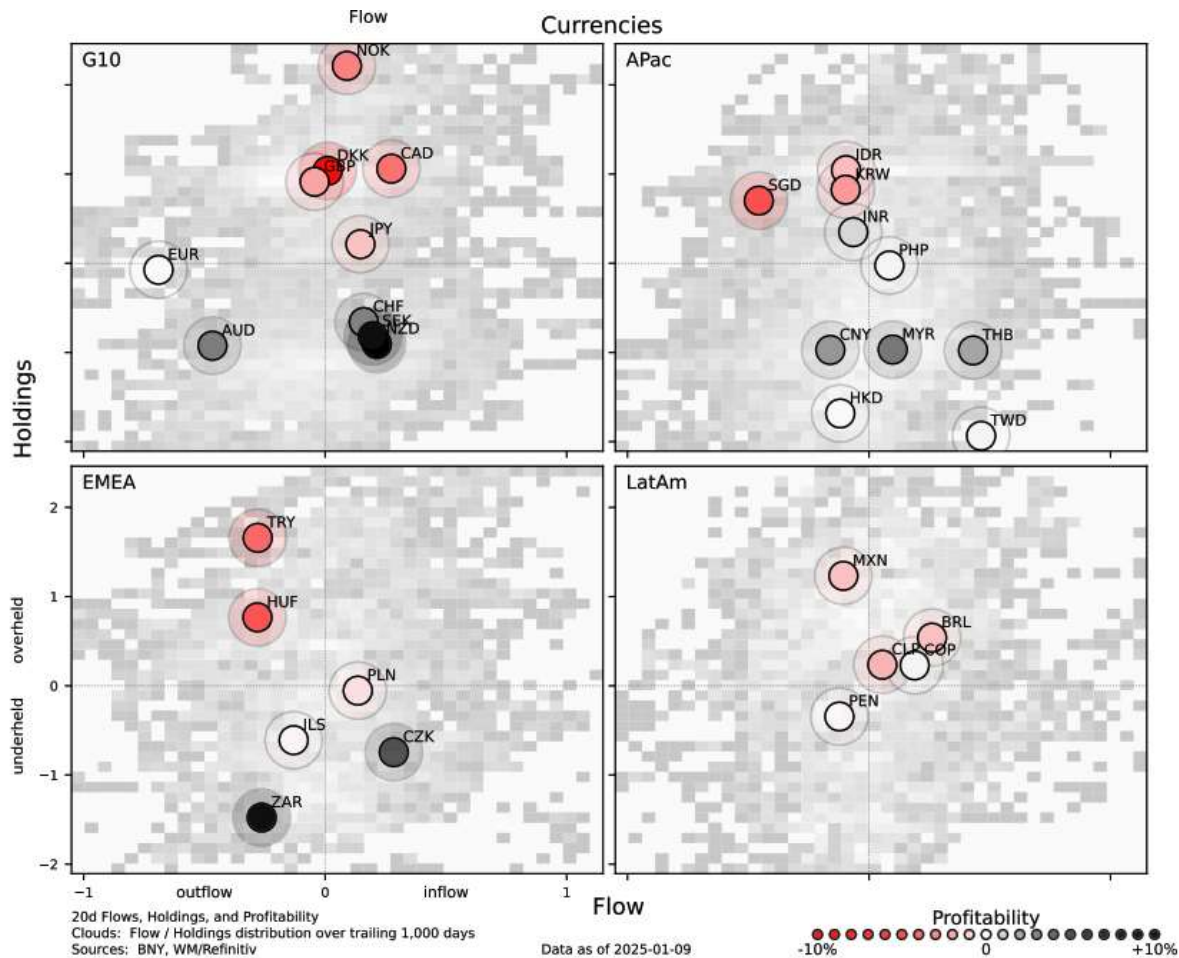
Source: iFlow, BNY

Foreign Exchange: The USD rose 0.65% to 109.65 on the index for the week with a rally on Friday post US jobs driving the move.

- **The EUR fell 1.45% to 1.0240 for the week** remaining short in iFlow and seeing ongoing selling.
- **The JPY was off 0.1% to 157.75 on the week** while in our data, flows were positive and remain overhyped albeit unprofitable.
- **The CAD fell 0.6% to 1.4425** on the week with the PM Trudeau stepping down headlines the only support while rate moves in the US dominated. iFlow saw positive CAD flows and long positioning.
- **GBP fell the most in the G10 off 2.55% to 1.22** on the week with 1.2193 lows on US Jobs. The Gilt move down didn't support the currency. iFlow showed GBP outflows but still long positioning with the biggest negative returns.

- **AUD fell 1.5% to .6150 on the week** – with iFlow matching the price action remaining underheld and with ongoing negative flows. The currency is the most shorted of the G10 on our books.

Exhibit #3: Can the USD turn?



Source: iFlow, BNY

News agenda – US 4Q Earnings, US CPI and PPI; China GDP and retail sales, industrial production; UK CPI, retail sales, monthly GDP; ECB minutes, BI, BOK and NBP rate decisions

Next week, the US earnings season kicks into gear, with major banks including JPMorgan Chase, Wells Fargo, Goldman Sachs, Citigroup set to report their quarterly results. Traders will also closely monitor key inflation data, including the CPI and PPI reports, for insights into price trends and the Federal Reserve's policy direction. Globally, China is set to release a suite of economic indicators, including Q4 GDP growth figures, as well as data on exports, imports, industrial production, and retail sales. In the UK, key reports on inflation, monthly GDP, and retail sales will shed light on the country's economic performance. Meanwhile, in

the Euro Area, the European Central Bank will publish the minutes from its most recent monetary policy meeting, while final inflation figures for the bloc are also due. In EM markets focus will be on Bank Indonesia, Bank of Korea and National Bank of Poland rate decisions and the balance of FX to monetary policy against uncertainty on US trade policy.

1. US CPI will this add to FOMC pause pricing? The Friday jobs report sparked a return of “Good News is Bad” thinking into US shares. The higher non-farm payrolls but lower hourly wages put the focus on monetary policy away from labor and back to inflation. This makes the Wednesday, January 15 release of US CPI key for the week ahead. At its December meeting, the Fed projected only two rate cuts this year, as it braced for higher inflation than it previously estimated. Market expectations are baking in about 30 basis points of easing in 2025 with one full cut only coming in September.

Exhibit #4: US rates to pivot on CPI?

CPI INFLATION - CHANGE FROM PREVIOUS MONTH



Source: Reuters, BNY

2. UK CPI will this confirm BOE easing plans? The UK has suffered the most of the G10 in 2025. The mixture of slowing growth, higher inflation and less fiscal room colliding in driving up Gilt yields to 20-year highs and in driving down the GBP below 1.22. The next week – January 15, Wednesday delivers the UK CPI with great focus on the data and on the BOE expectations. The current market prices in 2 cuts to 4.25% this year but between the risk of sticky CPI and higher taxes the BOE may pause. The UK data may set off one theme for others in 2025 – “new stagflation” where fiscal and monetary policy aggravate growth leaving inflation stuck and lower than hoped GDP.

Exhibit #5: BOE and CPI key for GBP?

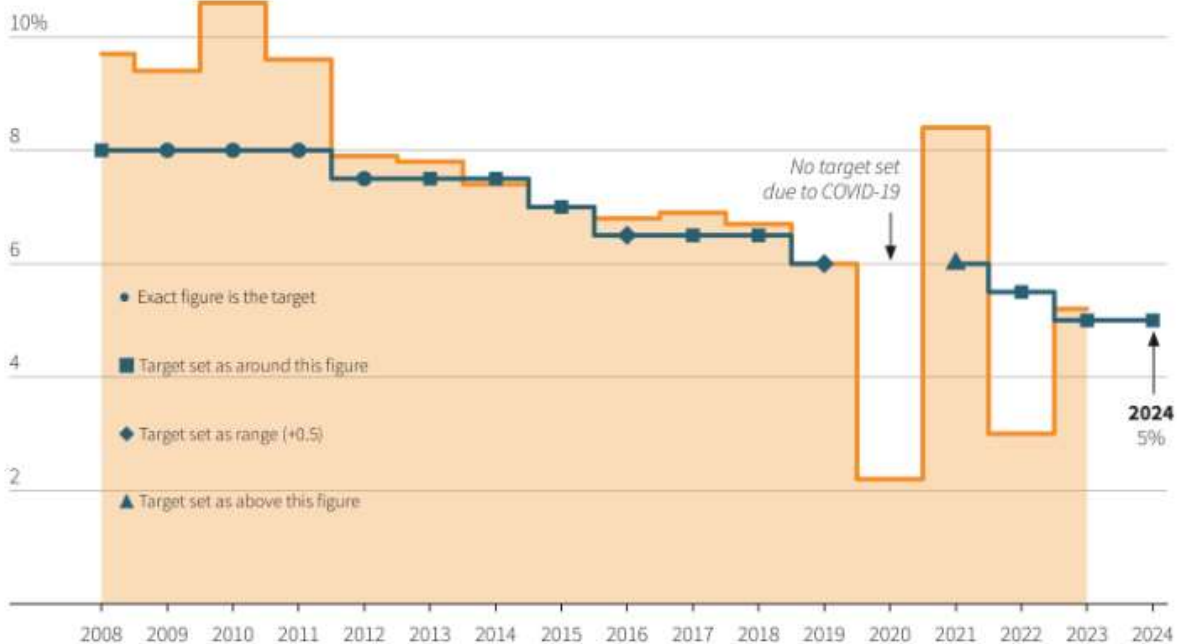


Source: Reuters, BNY

3. Will Chinese GDP confirm more stimulus in 2025? Focus on China and its growth remains central to trading risk in 2025 with markets watching lower yields, weaker CNY and stagnant equities. January 17, Friday data will confirm the 2024 actions worked to support targets for 5% GDP but many will be looking at how that number was achieved with an eye to the price deflator and to government spending. The reaction of China to potential US trade tariffs will continue to intensify into the January 20th Trump inauguration. The PBOC announced the sale of an unprecedented CNY60 billion (\$8.18 billion) worth of six-month yuan bills in Hong Kong. That will drain liquidity to protect the currency just ahead of Trump's inauguration, and likely slow currency depreciation from extending beyond the 16-month lows at 7.35 against the USD.

Exhibit #6: GDP in 2024 sets up 2025?

Annual GDP growth target vs. actual GDP growth

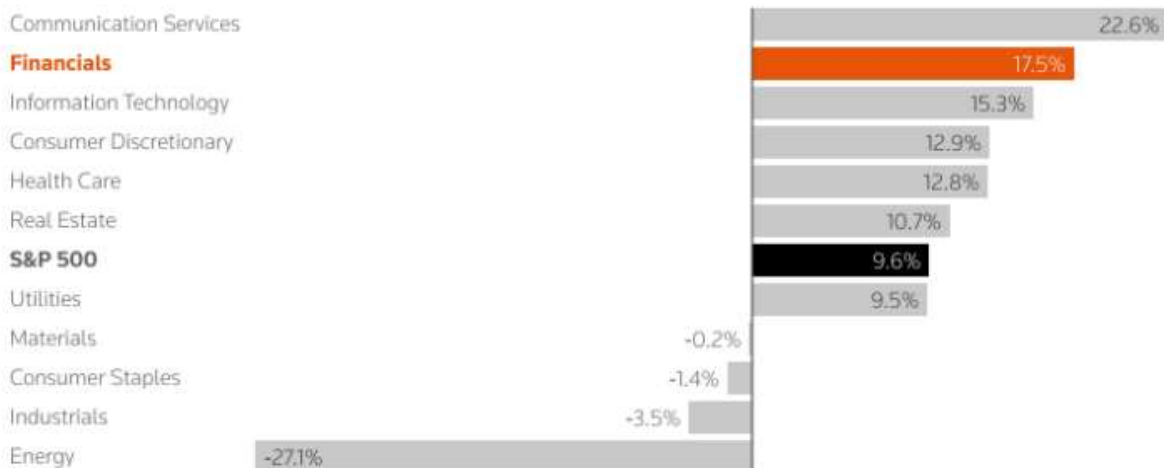


Source: China NBS, Reuters, BNY

4. Start of 4Q Earnings to support US exceptionalism? The next week starting Wednesday, January 15 brings the large US bank earnings and the start of of 4Q reports for the S&P500. Expectations are high given robust investment banking fees, strong trading income and easing pressure to boost deposit rates. Higher deal volumes and strong underwriting of bonds have helped lift revenue from investment banking fees in 4Q by 26% year-on-year, Dealogic data shows. Trading revenues hit record volumes of \$224.6 billion last year according to Greenwich Coalition data. JPM, WFC, C, GS and BK all report Wednesday while MS, BAC and others report Thursday.

Exhibit #7: Will 4Q Earnings keep equities bid?

Estimated year-on-year earnings growth in Q4 2024



Calendar of economic releases from January 12-17

Central bank decisions

- **Indonesia BI (January 15, Wednesday)** – We expect Bank Indonesia to keep the BI-rate unchanged at 6% and reiterate its triple intervention strategy. We will be focusing on any shift away from its dovish stance. BI has left the option open at last meeting that “there is still room for rate cuts”. Data has been benign since the last meeting but the market will continue to focus on asset price volatility.
 - **Korea BoK (January 16, Thursday)** – We expect the BoK to deliver its third straight rate cut at January meeting to 2.745% and maintain a dovish bias. Notwithstanding domestic political issues, macro data in the country has deteriorated since the previous meeting, with consumer confidence, BSI sentiment for manufacturing and non-manufacturing all plunging sharply. Data should be revised lower at their next macro forecast round in January.
 - **Poland NBP (January 16, Thursday)** – No change is expected in Poland as much of CEE is currently in a holding pattern with respect to rates. Inflation is broadly manageable but fiscal impulse is proving difficult to counter, and crucially wage growth is main hindrance to a more assertive easing path. Given that even Western European central banks believe that the bulk of the easing has been done and global inflation risk is on the rise again, we expect the NBP to hold firm for now, with limited scope for easing this year. Domestic demand has also been posting strong figures which requires ongoing restraint.
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Key data/releases

Date	GMT	EST	Country	Event	Period	Cons.	Prior
10/01/2025			CH	Money Supply M2 YoY	Dec	7.30%	7.10%
13/01/2025	07:00	02:00	TU	Current Account Balance	Nov	-3.30b	1.88b
13/01/2025	08:00	03:00	CZ	CPI MoM	Dec	0.10%	0.10%
13/01/2025	08:00	03:00	CZ	CPI YoY	Dec	3.30%	2.80%
13/01/2025	23:50	18:50	JN	BoP Current Account Balance	Nov	¥2654.0b	¥2456.9b
14/01/2025	07:30	02:30	HU	CPI YoY	Dec	4.40%	3.70%
14/01/2025	13:30	08:30	US	PPI Final Demand MoM	Dec	0.30%	0.40%
15/01/2025	07:00	02:00	SW	CPI MoM	Dec F	0.00%	0.00%
15/01/2025	07:00	02:00	SW	CPI YoY	Dec F	0.80%	0.80%
15/01/2025	07:00	02:00	SW	CPI Level	Dec	--	416.75
15/01/2025	07:00	02:00	UK	CPI MoM	Dec	0.40%	0.10%
15/01/2025	07:00	02:00	UK	CPI YoY	Dec	2.60%	2.60%
15/01/2025	07:00	02:00	UK	CPI Core YoY	Dec	3.40%	3.50%
15/01/2025	07:20	02:20	ID	BI-Rate	Jan-15	6.00%	6.00%
15/01/2025	09:00	04:00	PD	CPI YoY	Dec F	--	4.80%
15/01/2025	12:00	07:00	US	MBA Mortgage Applications	Jan-10	--	-3.70%
15/01/2025	13:30	08:30	US	CPI MoM	Dec	0.30%	0.30%
15/01/2025	13:30	08:30	US	CPI YoY	Dec	2.90%	2.70%
15/01/2025	21:45	16:45	NZ	Food Prices MoM	Dec	--	-0.10%
15/01/2025	23:50	18:50	JN	PPI YoY	Dec	3.80%	3.70%
16/01/2025	00:30	*19:30	AU	Employment Change	Dec	15.0k	35.6k
16/01/2025	00:30	*19:30	AU	Unemployment Rate	Dec	4.00%	3.90%
16/01/2025			SK	BOK Base Rate	Jan-16	2.75%	3.00%
16/01/2025	07:00	02:00	GE	CPI YoY	Dec F	2.60%	2.60%
16/01/2025	07:00	02:00	GE	CPI MoM	Dec F	0.40%	0.40%
16/01/2025	07:00	02:00	UK	Industrial Production MoM	Nov	0.10%	-0.60%
16/01/2025	07:00	02:00	UK	Manufacturing Production MoM	Nov	-0.20%	-0.60%
16/01/2025			PD	Poland Base Rate Announcement	Jan-16	5.75%	5.75%
16/01/2025	13:30	08:30	US	Retail Sales Advance MoM	Dec	0.50%	0.70%
16/01/2025	13:30	08:30	US	Initial Jobless Claims	Jan-11	--	201k
16/01/2025	21:30	16:30	NZ	BusinessNZ Manufacturing PMI	Dec	--	45.5

17/01/2025	02:00	*21:00	CH	GDP YoY	4Q	5.00%	4.60%
17/01/2025	02:00	*21:00	CH	Industrial Production YoY	Dec	5.40%	5.40%
17/01/2025	02:00	*21:00	CH	Retail Sales YoY	Dec	3.50%	3.00%
17/01/2025	10:00	05:00	EC	CPI YoY	Dec F	2.40%	2.40%
17/01/2025	10:00	05:00	EC	CPI MoM	Dec F	0.40%	0.40%
17/01/2025	13:30	08:30	US	Housing Starts	Dec	1315k	1289k
17/01/2025	14:15	09:15	US	Industrial Production MoM	Dec	0.30%	-0.10%

Key speeches/events

Date	GMT	EST	Country	Event
01/13/25	03:15	22:15	EC	ECB's Lane & Rehn Speak at AFF in Hong Kong
01/13/25	09:00	04:00	CZ	CNB's Zamrazilova to Speak
01/14/25	01:30	20:30	JN	BOJ Deputy Governor Himino Speech in Kanagawa
01/14/25	01:35	20:35	FI	ECB's Rehn Keynote Speech at Hong Kong Conference
01/14/25	07:00	02:00	SW	Riksbank Deputy Governor Aino Bunge Speak on Panel
01/14/25	07:35	02:35	EC	ECB's Lane Gives Speech in Hong Kong
01/14/25	08:00	03:00	EC	ECB's Holzmann Speaks
01/14/25	08:30	03:30	UK	BOE's Breeden Speaks
01/14/25	15:00	10:00	US	Fed's Schmid Gives Remarks in Kansas City
01/14/25	20:05	15:05	US	Fed's Williams Gives Opening Remarks
01/15/25	03:15	*22:15	EC	ECB's Lane Gives Fireside Chat in Hong Kong
01/15/25	08:00	03:00	EC	ECB's Guindos Gives Speech in Madrid
01/15/25	08:10	03:10	SW	Riksbank's Aino Bunge Speaks on the economy, stability
01/15/25	08:30	03:30	EC	ECB's Villeroy speaks in Paris
01/15/25	08:35	03:35	EC	ECB's Vujcic, Hungary's Matolcsy Speak in Vienna
01/15/25	14:20	09:20	US	Fed's Barkin Speaks in Annapolis
01/15/25	14:30	09:30	SW	Riksbank's Thedeen on economic situation, monetary policy
01/15/25	15:00	10:00	US	Fed's Kashkari Participates in Q&A
01/15/25	16:00	11:00	US	Fed's Williams Gives Keynote Remarks
01/15/25	16:30	11:30	UK	BOE's Taylor Speaks
01/15/25	17:00	12:00	US	Fed's Goolsbee Speaks at Midwest Economic Forecast Forum
01/16/25	12:30	07:30	EC	ECB Releases Account of Dec. 11-12 Meeting
01/17/25	08:30	03:30	EC	ECB's Escriva Speaks in Madrid

Source: Bloomberg, BNY

Conclusions: The shift from public to private might turn in 2025?

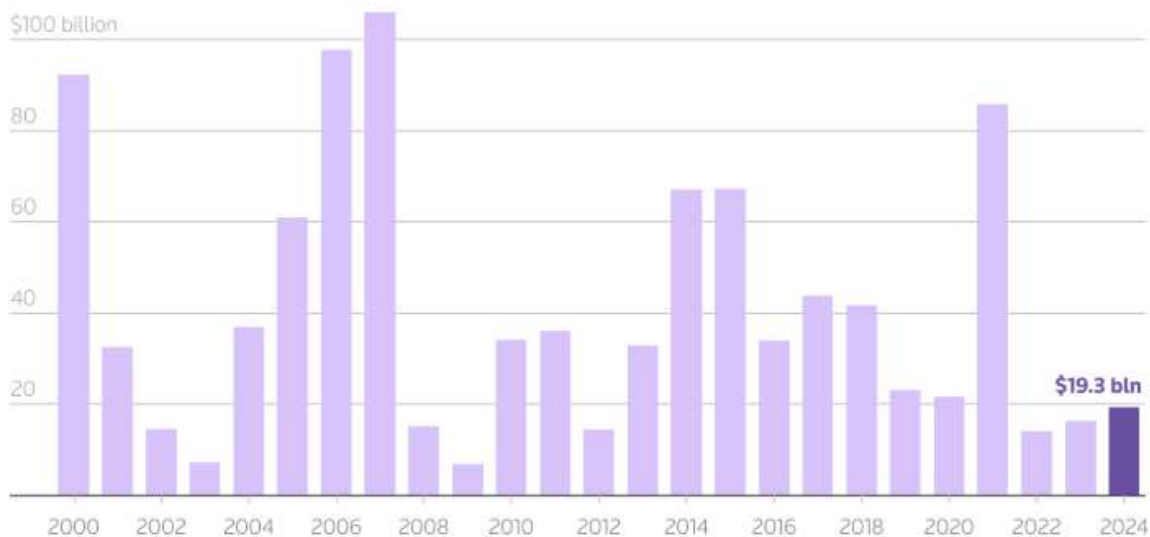
The gear shifting exercise for investors isn't just about leverage. There is also a level of uncertainty about the future that appears to be larger than any economic model on monetary policy. The fiscal concerns that reflect the political divisions in democracies everywhere show up in rates. The level of asset inflation over the last 2 years in the US leave financial conditions and their importance to consumer confidence as a key focus for equities. The correlation of the USD to both bonds and stocks looks set to change given the level of US holdings everywhere.

One way that the markets will shift in 2025 starts with how private companies cash out with IPOs and the use of that liquidity for growth. The markets in 2025 already are expecting a bounce back in new equity supply. The US isn't alone in this, Europe is also expecting more IPOs. Spanish travel technology group HBX Group, whose brands include Hotelbeds, which

is eyeing a 1 billion euro (\$1.03 billion) offering in the coming week. German drug manufacturer [Stada](#) - potentially valued at 10 billion euros - and fast fashion retailer [Shein](#) are among those expected to follow suit in the first half of the year. Prospects for European issuers have turned fairer as Deutsche Bank and Citigroup analysts turn bullish on European stocks for 2025. Last year was a mixed bag: 101 European company IPOs raised \$19.3 billion - 18% more than in 2023. But that is seven fewer transactions than in the previous year, LSEG data shows.

Bottom Line: The key question for the week ahead will be about how 4Q earnings meet expectations of new supply and demand from investors. Risk in equities drives confidence which keeps the financial conditions and Fed reaction function in play to the level of stocks to bonds. The USD becomes the barometer in this gear shifting exercise. With the dollar already stretched to levels where central bankers are inclined to raise rates rather than devalue further. This will become a key test as well with how pre-tariffs moves matter in FX markets.

Exhibit #8: EU IPOs bouncing back in 2025?



Source: Reuters, BNY

Please direct questions or comments to: iFlow@bny.com

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