Weekly Market Summary

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Top Market Themes
Fadi Nasser - Deputy Chief Investment & Treasury Officer

Several themes have been driving markets in past days. The crucial – though worrying - development for last week seems to be the **US imposing harsh steel and aluminum tariffs on foreign imports,** as president Trump delivers on his campaign promises to protect national security (and industries) – a major escalation of his hawkish trade agenda that could soon trigger unforeseen global retaliations . Markets have also had time to focus on and digest **Fed Powell's upbeat testimonies to the House and Senate Banking Committees**, for more clues as to the near-term outlook for US monetary policy, even though the new Federal Reserve Chairman did push back against the notion that the US economy is close to overheating whilst reinforcing his commitment to a gradual pace of policy tightening.

Other important themes that will be closely tracked by fund managers and traders:

- ***A Crucial Parliamentary Election in Italy:*** Italians are voting today after a campaign that featured the surprise comeback of media magnate and former premier Silvio Berlusconi (center-right Forza Italia FI) and a challenge to mainstream parties (the Partito Democratic PD led my Matteo Renzi, a former prime minister) by the populist Five Star Movement (M5S led by Luigi Di Maio). The most likely outcome is a hung parliament, which would trigger an extended period of bargaining among the parties and decide whether Italy will succumb to the populist, Euro skeptic and far-right sentiment that has swept through Europe in past years. "*Basically it is very likely that, at the end of the day, none of these three groups will have an absolute majority and they will be forced to start talking to each other and see how to put together a coalition government*," said Franco Pavoncello, dean of the John Cabot University in Rome. Last year French President Emmanuel Macron and Dutch Prime Minister Mark Rutte held off the challenge of Euro skeptic populists in national elections and Chancellor Angela Merkel's party remained the biggest force in the German parliament despite the rise of the anti-immigrant AfD. Italy's establishment parties will be struggling to match that performance following years of uninspiring growth and widespread concern about immigration.

- ***A German Grand Coalition to End Political Impasse (Just Agreed!):*** Germany's Social Democrats voted in past 24 hours to join Chancellor Angela Merkel's next government, clearing the last hurdle to her fourth term and restoring a sense of political stability in Europe's biggest economy. The SPD approved a coalition pact with Merkel's Christian Democrat-led bloc -- with 66% in favor and 34% against -- in a member ballot unsealed this morning that effectively ends more than five months of political stalemate. The German chancellor can now expect to be re-inaugurated by mid-March, allowing her to move ahead with priorities such as working with Emmanuel Macron to strengthen the Eurozone and coordinate on a united European front against external challenges. Whilst the impasse in Berlin has not dented Germany's economic boom, it has held back policy making since Merkel won a national election in September with her bloc's worst result since 1949 (reducing her role to acting chancellor for more than 5 months).

- ***A Much Awaited European Central Bank (ECB) Meeting on March 8th:*** Market participants - expecting major surprises at the upcoming ECB meeting next Thursday - could be set for a big disappointment! According to the latest poll of economists, the majority no longer predicts that the European Central Bank will change its guidance on future policy at its upcoming Governing Council's meeting. Instead, surveyed analysts forecast policy makers to pare back their pledge on asset purchases by June, and to set an end date for the stimulus program by July. Tweaks to the guidance on interest rates, which currently foresees no change until "*well past*" the end of bond buying, are only expected by September. The more cautious outlook anticipated from President Mario Draghi reflects his insistence that the ECB must be patient and persistent in supporting the 19-nation economy or risk jeopardizing the long-awaited pickup in inflation. The euro-area economy is undergoing its broadest expansion in a decade, though inflation pressures remain feeble, with the headline rate falling last month to the lowest since 2016 (February Eurozone CPI +1.2% YoY) and producer-price growth slowing more than forecast in January, and recent PMI surveys suggesting the economy may be about to shift down a gear.

- ***A Really … Really Crucial US Job Report on March 9th:*** The US monthly jobs report is among the most important and closely watched data releases. Economists routinely highlight new reasons for an upcoming reading to be the most crucial in recent memory ☺! With the February jobs report, they may be onto something. Given the recent increased market focus on whether the Fed is at risk of falling behind the curve in terms of policy normalization, the jobs report -- and more specifically, the February unemployment rate and the pace of gains in average hourly earnings -- will have material market-moving potential. This is particularly true if these factors appear to confirm the narrative regarding the need for Fed Chairman Jerome Powell to take on a more hawkish trajectory (the current Bloomberg consensus is for February payrolls to rise by a strong 205,000 – following January's 200k increase. The unemployment rate is expected to inch 0.1% lower, to 4.0% (an 18-year low!), whilst average hourly earnings are projected to grow 2.8% YoY, following a +2.9% annual increase in January). While the jobs report is the focal point of the week for market participants, the non-manufacturing ISM and trade data could also help evaluate economic activity in the current quarter, with the latter attracting extra scrutiny in light of Trump's latest toughening stance on trade policy.

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