



R&R Weekly Column
By Brunello Rosa



Key Takeaways From The World Economic Forum In Davos: Cautiously Ride The Tiger!

Last week, the world's political, economic, and business leaders gathered in Davos for the World Economic Forum. [The title of this year's edition was "Collaboration for the Intelligent Age."](#) In this column, I will discuss what I believe were the key takeaways of the week spent in Switzerland, on the back of the meetings held and the impressions gathered among the participants.

First, the sentiment of economic operators was largely optimistic. This may have been the result of the inauguration of the US President Trump, which has promised a new ["golden age" for the American economy](#). Given the size and the relevance of the US on the global economy, a boost to its economic activity would likely be felt around the globe. But this may not necessarily occur: the plan that Trump has in mind is largely protectionist and based on "America First," which effectively means that the US may suck economic activity from other countries in order to boost its own.

In any case, most economic, political, and business leaders believe they can navigate the fragmentation that will derive from Trump's policies. These may include new and increasing tariffs, but also include a massive investment in new technologies such as artificial intelligence, [with the Stargate Project](#), for which a USD 500bn investment was pledged ([even if Elon Musk says it's unfunded](#)). Trump will also provide a massive boost to the digital assets segment of the economy, including its crypto-asset sub-component, even though he failed to mention the word "bitcoin" in its inaugural speech, [thus disappointing the crypto crowd](#).

Second, geopolitical concerns were muted, compared to previous editions. This was probably the result of the ceasefire signed by Israel and Hamas just before the Forum started, and the hope that Trump can eventually resolve the Russia-Ukraine war. Also, following Trump's ["drill baby drill" approach](#), the expected massive increase in oil and gas production from the US may reduce energy prices, hence headline inflation, in coming months. But these muted concerns may also be misplaced. On the one hand, immediately after signing the ceasefire agreement, [Israel has started new "security operations" in the West Bank](#), to the point that someone may even question what "ceasefire" actually means. On the other hand, Trump said he would resolve the Russia-Ukraine conflict in 24 hours, but Keith Kellogg (his special envoy in Ukraine) said they hope to [resolve the conflict in the first 100 days](#).

Third, there wasn't much talking about central bank policies. Long gone are the days when central bankers were at the epicentre of public debate, with monetary policy being ["the only game in town"](#). Now, industrial policies and new forms of protectionism are taking centre stage, and central bankers need to adapt and conform their policies to the impact of the decisions made by governments. The Fed is likely to keep its rates unchanged this week, as had been clearly signalled in December. The ECB instead is likely to continue cutting its policy rates to support the Eurozone's anaemic economic growth. Politicians may ignore what central banks will do, but the market won't: interest rates are still a key determinant of market dynamics.

Fourth, markets are euphoric, possibly close to "irrational exuberance." It is obvious that markets are celebrating the beginning of an era with high expected growth, reduced geopolitical concerns, and increasingly accommodative central banks, on the back of falling energy prices and headline inflation. They are riding this dangerous tiger, as one has to do in these circumstances. But they also need to be cautious, since tigers are unpredictable, and can easily turn against those who try to tame them. This is because the policies and circumstances described above may be inconsistent one another, as is well reflected in the rise of long-term yields, in the US and elsewhere, and in the strengthening of the US dollar. Both conditions may lead to a correction in US and global equity prices at some point, which would leave investors very disappointed.

Our Recent Publications

❁ [Preview: ECB To Cut Rates in January, And Signal Further Cuts in Months Ahead](#), by Brunello Rosa and Nato Balavadze, 24 January 2025

❁ [The New Great Game in the Arctic: Resources and Routes at Stake](#), by Nato Balavadze, 23 January 2025

❁ [End of the Ukraine-Russia Gas Deal: Europe's Energy Crisis and Fallout](#), by Nato Balavadze, 22 January 2025

❁ [Post-Trudeau Canada: Next Steps and Challenges Ahead](#), by Shane Gravel, 21 January 2025

Looking Ahead

The Week Ahead: ECB To Cut Rates; Fed To Hold Rates, QoQ GDP To Rise In US & Italy, To Contract In Germany And Stall in France

In the US, in Q4, GDP growth rate is seen rising by 2.7% q-o-q (p : 3.1%).

In the EZ, in Q4, the economy is likely to decelerate to 0.1% q-o-q (p : 0.4%) and advance by 1.0% y-o-y (p : 0.9%). In Q4, the GDP growth rate is expected to: *i*) stall q-o-q (p : 0.4%) in France; *ii*) shrink by -0.1% q-o-q (p : 0.1%) and stall y-o-y (p : -0.3%) in Germany; and *iii*) advance marginally 0.1% q-o-q (p : 0.0%) in Italy. In December, unemployment rate is seen remaining unchanged at 6.3%. In January, economic sentiment is likely to fall to 93.3 (p : 93.7).

CBs are expected to be mixed. In the US, the Fed is expected to hold steady its target Fed funds range at 4.25% - 4.50%. In the EZ, the ECB is likely to cut its main policy rates by 25 bps, i.e *i*) interest rate on the 'main refinancing operations' to 2.90%; *ii*) interest rate on the 'marginal lending facility' to 3.15%; and *iii*) 'deposit facility' to 2.75%.

The Quarter Ahead: Trump's Executive Orders; North Korea Fires Strategic Cruise Missiles

Donald Trump, on his return to the presidency, signed sweeping executive orders targeting key campaign promises. The State Department immediately froze nearly all foreign aid for 90 days. Other actions include declaring drug cartels as "foreign terrorist organizations," withdrawing from the Paris Climate Accord and WHO, renaming the Gulf of Mexico to the "Gulf of America," and officially recognizing only two sexes, male and female.

North Korea conducted a strategic cruise missile test, overseen by Kim Jong Un, with missiles traveling 1,500 km. The foreign ministry blamed U.S.-South Korea drills for rising tensions, vowing "tough counteraction." Kim pledged to strengthen military capabilities for lasting peace. South Korea confirmed multiple missile launches on Saturday. Earlier, Kim oversaw a hypersonic missile test.

Last Week's Review

Real Economy: UK Unemployment Rose; Economic Sentiment Increased In EZ; Composite PMI Fell In US, And Rose In EZ And UK

In the US, in January, Michigan Consumer Sentiment fell to 71.1 (c : 73.2; p : 74.). In January, S&P Global Manufacturing increased to 50.1 (c : 49.7; p : 49.4), whereas Services PMI edged down to 52.8 (c : 56.5; p : 56.8). Composite PMI fell to 52.4 (p : 55.4).

In the EZ, in January, ZEW Economic Sentiment Index rose to 18.0 (c : 16.9; p : 17.0). In January, HCOB Manufacturing PMI increased to 46.1 (c : 45.3; p : 45.1), while Services PMI decreased to 51.4 (c : 51.5; p : 51.6). Composite PMI edged up to 50.2 (c : 49.7; p : 49.6).

In the UK, in November, unemployment rate increased to 4.4% (c : 4.3%; p : 4.3%). In January, Gfk Consumer Confidence deteriorated to -22 (c : -18; p : -17). In January, S&P Global Manufacturing and Services PMIs rose to 48.2 (c : 47.0; p : 47.0) and 51.2 (c : 50.9; p : 51.1). Composite PMI increased to 50.9 (c : 50; p : 50.4)

Financial Markets: Stock Prices Increased; Short-Term UST Yields Fell; Dollar And Gold Prices Rose, Whereas Oil Prices Fell

Market Drivers: US stocks approached record highs, driven by optimism over softer tariffs and AI enthusiasm. Trump announced "Stargate," a joint venture by Softbank, OpenAI, Oracle, and MGX, committing up to \$500 billion to AI infrastructure in the U.S. Stocks linked to AI surged on expectations of increased spending. Meanwhile, in Europe, shares rose as Trump refrained from new tariffs, and expectations grew for further ECB rate cuts.

Global Equities: Increased w-o-w (MSCI ACWI, +2.1%, to 872.91). The US S&P 500 index rose (+1.7% w-o-w, to 6,101.24). In the EZ, share prices increased (Eurostoxx 50, +1.4% w-o-w, to 5,219.25). In EMs, equity edged up (MSCI EMs, +1.9%, to 1,090.02). Volatility virtually unchanged at 17.30 (VIX S&P 500, 52w avg.: 15.6; 10y avg.: 18.8).

Fixed Income: w-o-w, the 10-year US Treasury yields are virtually unchanged around 4.62%. The 2-year US Treasury yields decreased (-2 bps to 4.26%). The German 10-year bund yields edged up (+4 bp to 2.54%).

FX: w-o-w, the US Dollar Index decreased (DXY, -1.7%, to 107.44; EUR/USD +2.2%, to 1.05). In EMs, currencies increased (MSCI EM Currency Index, +1.2% w-o-w, to 1,748.51).

Commodities: w-o-w, oil prices decreased (Brent, -2.8% to 78.50 USD/b). Gold prices increased w-o-w (+1.1% to 2,778.90 USD/Oz).



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Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year