MASHREQ GLOBAL DIGEST US

December 29 – January 04

This issue of Market Digest explores key U.S. macroeconomic indicators, recent economic trends, and provides insights into financial and technological developments.

Macroeconomic News

The U.S. Economy Shows Signs of Optimism

The U.S. economy in 2025 is expected to show strong performance, driven by low unemployment, a booming stock market, and declining inflation. President Trump's focus on deregulation and low taxes is set to foster growth, despite challenges such as high government debt. While concerns remain over issues like a weaker rule of law and the higher costs associated with increased protectionism, the U.S. is poised to outpace many Western countries, making it a favorable option for investment and economic opportunity in the year ahead. Bank of America forecasts U.S. economic growth of 2.3% in 2025, attributing it to declining inflation and rising labor productivity. Meanwhile, Goldman Sachs predicts 2.5% growth, driven by lower inflation, a steady labor market, and favorable government policies.

Reference: Forbes, Yahoo Finance, finimize

A Potential Inflation Risk for the U.S. Economy

Federal Reserve officials, including Tom Barkin and Adriana Kugler, have expressed caution about the U.S. economy's inflation outlook, particularly with the potential impact of Donald Trump's policies upon his return to power. While the economy shows solid growth and a resilient labor market, there are concerns about inflation risks due to Trump's plans to raise tariffs, cut taxes, and reduce regulations. Barkin pointed out that rising wages and product costs could further strain prices, while Kugler highlighted the uncertainty of how Trump's policies could affect inflation and the broader economy. With recent interest rate cuts and projections for only moderate reductions in 2025, the Fed remains prepared to respond to any economic shifts.

Reference: Bloomberg, Financial Times

Jobless Claims Hit 8-Month Low

The U.S. labor market showed remarkable resilience as weekly jobless claims dropped by 9,000 to 211,000, marking the lowest level since April. Continuing claims, a measure of people receiving benefits after an initial week, decreased by 52,000 to 1.844 million. Despite this, the job market remains underpinned by low layoffs, though employers are hesitant to add workers. Labor market strength has tempered expectations for aggressive interest rate cuts, reinforcing the Federal Reserve's cautious approach amid persistent inflationary pressures.

Reference: Reuters

Debt Ceiling Returns Under Pressure

The U.S. debt ceiling was reinstated on January 2, 2025, with a limit of over $36 trillion. While Congress has a few months before a potential default, Treasury Secretary Janet Yellen projects the limit will be reached between January 14 and 23, prompting the use of extraordinary measures to avoid default. However, Republicans, under pressure from Trump, face challenges in raising the debt ceiling without Democratic support. A proposed $1.5 trillion increase, coupled with $2.5 trillion in spending cuts, may delay the issue, but these measures would only push the problem down the line, possibly leading to another crisis by mid-2026.

Reference: CNN

Fed Reserves Dip Below $3 Trillion, Lowest Since 2020

The Federal Reserve's reserves dropped below $3 trillion, the lowest since October 2020, falling by $326 billion in the week leading up to January 1. This drop follows year-end adjustments and the Fed's ongoing quantitative tightening program, which aims to reduce excess cash in the financial system. The drop has raised concerns about potential reserve scarcity, sparking fears of a repeat of the 2019 crisis. Analysts expect the tightening to conclude by mid-2025, with the reinstatement of the debt ceiling influencing this timeline.

Reference: Yahoo Finance

U.S. Manufacturing PMI Hits Nine-Month High, Yet Challenges Persist

In December 2024, U.S. manufacturing showed signs of recovery, with the ISM Purchasing Managers Index (PMI) rising to 49.3, its highest in nine months. This marked a rebound in production and an increase in new orders, though the PMI still indicated contraction (below 50). Seven industries, including primary metals and electrical equipment, reported growth, but sectors like textile mills and machinery faced slowdowns. Despite the positive momentum, concerns remain over higher tariffs and rising raw material costs, as well as the impact of inflation pressures. Manufacturers are stockpiling inventory in anticipation of potential tariffs, while factory employment continued to contract.

Reference: Reuters

Financial News

US Credit Card Defaults Soar to a 14-Year High

US credit card defaults have hit their highest level since 2010, with $46 billion in delinquent loans written off in the first nine months of 2024, marking a 50% increase from the previous year. While higher-income households remain financially stable, many lower-income consumers are struggling, with savings rates near zero. The rise in defaults follows a surge in credit card balances, partly due to pandemic-era spending, and higher borrowing costs from the Federal Reserve.

Reference: Financial Times

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Mortgage Demand Plummets 22% Amid Rising Rates

Mortgage demand dropped 22% in the two weeks ending December 27, 2024, as mortgage rates rose to 6.97%. Both refinance applications (-36%) and purchase applications (-13%) declined. The drop was further exacerbated by the typical seasonal slowdown in December, when the housing market sees less activity. Although more homes were available compared to the previous year, high prices and rising interest rates caused many properties to remain on the market longer.

Reference: CNBC

ETFs Break Records with $10 Trillion Milestone

U.S. exchange-traded funds (ETFs) surpassed $10 trillion in assets for the first time in November 2024. Key trends included record flows in S&P 500 ETFs, driven by the "Magnificent Seven" tech stocks, and a 93% growth in alternative ETFs, particularly in digital assets and leveraged equity. Crypto ETFs, including bitcoin-focused funds, saw significant adoption, indicating growing institutional and advisor interest. Experts highlight the continued appeal of low-cost S&P 500 ETFs, though their growth pace may slow, and crypto ETFs are becoming an integral part of investment portfolios.

Reference: CNBC

Biden Blocks $14.9 Billion U.S.-Japan Steel Deal Citing National Security Concerns

President Biden blocked Nippon Steel's $14.9 billion acquisition of U.S. Steel, citing national security concerns about the foreign control of a major U.S. producer. Both companies criticized the move, calling it a political decision, and threatened legal action. Biden's stance aligned with bipartisan opposition, emphasizing the need for a strong domestic steel industry. The decision was influenced by concerns over job stability and the potential destabilization of U.S. trade systems.

Reference: France24

Tech News

Microsoft to Invest $80 Billion in AI Data Centers for 2025

Microsoft plans to invest $80 billion in fiscal 2025 to build data centers capable of handling AI workloads. Over half of this spending will occur in the U.S. Microsoft has already spent more than $13 billion on OpenAI and incorporated its models into products like Windows and Teams. As AI companies race to develop generative AI capabilities, Microsoft’s spending is part of a broader push to strengthen U.S. AI infrastructure amid competition from China.

Reference: CNBC

Treasury Sanctions Chinese Cyber Firm Over Hacking Claims

The U.S. Treasury Department imposed sanctions on Beijing-based Integrity Technology Group, accusing the company of aiding the Chinese hacking group Flax Typhoon in infiltrating global communications systems between 2022 and 2023. The group had targeted foreign networks, including U.S. systems, for surveillance. The sanctions prohibit financial transactions with Integrity Technology Group and freeze its U.S. assets.

Reference: New York Times

Markets

Market Dashboard

- U.S. stocks ended higher on Friday, driven by tech stocks like Tesla and Nvidia, though major indexes experienced modest weekly declines. The S&P 500 recorded its third loss in four weeks, influenced by mixed economic data. Wall Street expects slower gains for the S&P 500 in 2025 after two strong years, with volatility due to factors like inflation, economic growth, and political uncertainty. While earnings remain strong, tech stocks may see less outperformance.
- U.S. Bitcoin ETFs saw $908 million in net inflows on Friday, with Fidelity and BlackRock leading the way. Bitcoin's price surpassed $98,000, fueled by institutional interest and a pro-crypto Congress.
- Gold prices saw a slight gain of 0.7% this week, despite a retreat on Friday. The dollar's strength, driven by expectations of economic shifts under President-elect Trump, put pressure on metals, making them more expensive for foreign buyers. However, the seasonal demand for gold continues to provide some support.
- Oil prices rose this week, with Brent crude gaining 3.3% and WTI increasing 5%. Colder weather in Europe and the U.S. boosted demand, while China's economic stimulus measures supported market sentiment. However, concerns over Chinese demand and a stronger dollar tempered gains.
- The euro dropped to its lowest level in over two years against the US dollar, driven by concerns about the Eurozone's economic outlook, political instability, and differences in monetary policies between the European Central Bank (ECB) and the Federal Reserve (Fed). The euro has fallen 9% since its 2024 peak, with the US dollar strengthened by Trump's presidency and a hawkish Fed. Analysts predict the euro-dollar pair may reach parity in 2025, amid weak economic data and geopolitical tensions.

Indicators	27-Dec-24	3-Jan-25	% Change
S&P 500	5,970.84	5,942.47	-0.48%
Bitcoin	94,164.86	98,107.43	4.19%
Gold	2,620.00	2,639.12	0.73%
Crude Oil	74.17	76.59	3.26%
EUR/USD	1.0423	1.0268	-1.49%