ICORD CAPITAL
INVEST - IMPACT

United States of America

Rates & FX Research

2024 Q4/
2025 Q1

Authors:
Joseph Wong, Analyst
Qianya Geng, Analyst
Mia Lim, Analyst
Maria Belousova, Analyst
Kelvin Ng, Analyst
Wenhao Jiang, Analyst
Christy Chan, Analyst

Advisors:
Ryan Nguyen, Head of Rates & FX
Linda Wu, Head of ESG

Table of Contents

Executive Summary

This report provides an in-depth analysis of macroeconomic developments in the U.S. over Q4 2024 and Q1 2025, focusing on key areas such as interest rate decisions, foreign exchange trends, and the broader economic landscape. The U.S. economy is currently in a transitional phase as the Trump administration begins implementing its economic policies, which largely centre around stimulating domestic growth and strengthening the U.S. dollar through loose fiscal policy and aggressive tariffs on imports.

Interest Rate Policy

Following the Federal Reserve's rate cut in December 2024, the subsequent decision to hold rates steady in January 2025, along with the hawkish tone of the Federal Open Market Committee (FOMC), signals that the path to balancing inflation and economic growth remains uncertain. As of now, the federal funds rate stands at 4.25% to 4.5%, and market expectations suggest fewer than two additional quarter-point cuts in 2025. The Fed's cautious stance is driven by concerns over inflationary pressures from fiscal expansion and trade disruptions caused by newly imposed tariffs.

Currency Movements

The U.S. dollar has experienced significant appreciation, with the DXY index rising 9.56% since its September 2024 low. Investor sentiment has been largely shaped by the Trump administration's economic policies, including protectionist measures that have increased demand for the USD. Higher treasury yields, a resilient labour market, and a more measured approach to rate cuts compared to other major economies have further bolstered dollar strength. Meanwhile, key currencies within the DXY basket, such as the euro and British pound, are facing headwinds due to weaker economic growth and expectations of deeper rate cuts by the ECB and BoE

External Risks

Despite its strong economic performance, the U.S. faces several external risks that could impact financial markets. Ongoing inflationary pressures remain a challenge, particularly as tariffs on imports from Mexico, Canada, and China have led to retaliatory measures against U.S. exports. These trade tensions, coupled with continued wage growth, could sustain demand-pull inflation, complicating the Fed's policy decisions. Additionally, geopolitical uncertainties and shifting global trade dynamics may introduce further volatility, requiring investors to remain cautious in the months ahead.

To conclude, considering these factors, the U.S. economy remains at a critical juncture, navigating the complexities of steady growth, persistent inflationary pressures, and evolving monetary policy. With the Federal Reserve maintaining a cautious stance on rate cuts amid strong labour market conditions, closely monitoring how well the U.S. manages these economic risks will be essential for investors and portfolios worldwide.

Macroeconomic Overview

Economic Outlook

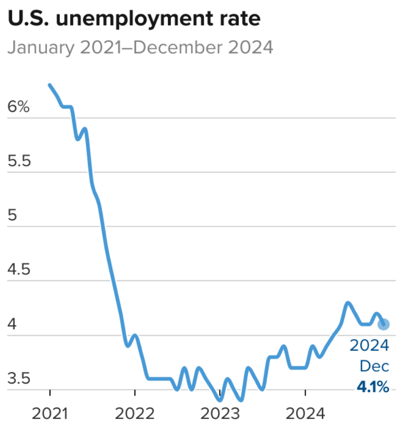
The macroeconomic outlook for 2025 remains resilient, yet increasingly complex, shaped by evolving policies, shifting geopolitical dynamics, and ongoing structural adjustments. Global inflation continues its downward trajectory as central banks gradually normalise monetary policy, fostering a more stable financial environment. The International Monetary Fund (IMF) projects solid global growth of 3.3% for both 2025 and 2026, with notable regional variations. The United States is expected to be the primary driver of economic expansion, while the euro area struggles with trade uncertainties, structural inefficiencies, and sluggish demand. Meanwhile, China faces mounting challenges, including a slowing economy and a depreciating yuan, despite continued monetary stimulus from the People's Bank of China (PBOC), underscoring the divergent economic paths of major global players.

In the latter half of 2024, market attention has increasingly focused on the U.S. presidential election, as policy uncertainties loom over economic decision-making. Potential shifts in trade tariffs, restrictive immigration policies, and proposed tax cuts have introduced heightened volatility, raising concerns about their impact on monetary policy, business investment, and consumer sentiment. These developments pose critical questions regarding the sustainability of economic expansion, the resilience of the labour market, and the Federal Reserve's ability to maintain price stability within its target range. As policymakers navigate these uncertainties, global markets remain sensitive to both domestic and international economic signals, making 2025 a pivotal year for macroeconomic stability and growth.

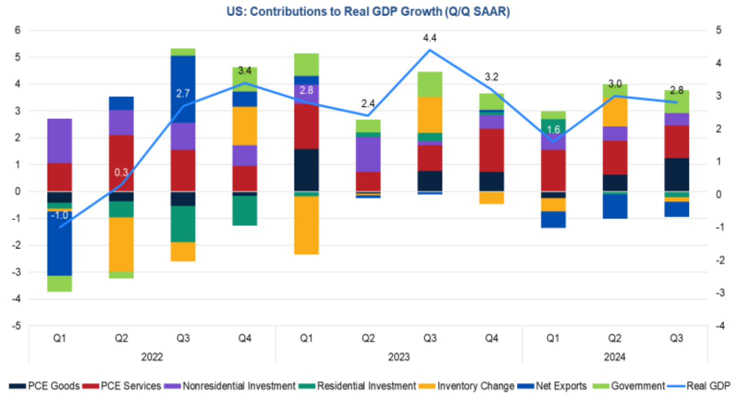
Economic growth

The U.S. economy maintained steady expansion throughout 2024, achieving robust growth despite emerging risks and signs of moderation. GDP growth accelerated from 1.6% in Q1 to 3.1% in Q3, driven by resilient consumer spending and sustained business investment. However, the annualised real GDP growth rate edged down to 2.8%, reflecting a 0.1% decline from 2023, signalling a gradual slowdown.

The labour market also exhibited signs of cooling in the latter half of the year, with the unemployment rate rising to 4.25% in November before easing to 4.1% in December. Despite concerns over a potential recession, the decline in unemployment and a stronger-than-expected Non-Farm Payrolls report, which recorded a 256,000-job increase, provided much-needed reassurance to both markets and policymakers.



(Source: U.S. Bureau of Labor Statistics)



(Source: Bureau of Economic Analysis and The Conference Board)

Rates and Inflation

U.S. Consumer Price Index (CPI) rose to 2.9% in December, while core inflation rate eased slightly to 3.2% (ex-food and energy), declining by 0.1% after remaining frozen in the past three months, which is on path to the 2% target. With housing rent continuing its disinflation at 4.8%, which contributes to core CPI as the largest component, inflation is expected to moderate in 2025, providing additional room for potential rate cuts in the coming year. FOMC began the interest rate cut cycle in September 2024, with a total reduction of 100 basis points in three consecutive meetings. However, Trump's administration is anticipated to slow the rate cut pathway, Chair Jerome Powell presented a "hawkish rate cut" decision last month, which downwardly revised the forecasted cut to twice this year.

The U.S. Consumer Price Index (CPI) rose to 2.9% in December, while core inflation excluding food and energy - eased slightly to 3.2%, marking a 0.1% decline after remaining unchanged for the past three months. This gradual cooling trend aligns with the Federal Reserve's 2% target. Housing rents, the largest component of core CPI, continued to decelerate at 4.8%, reinforcing expectations that inflation will moderate further in 2025. This decline could provide additional flexibility for the potential interest rate cuts in the coming year.

The Federal Open Market Committee (FOMC) initiated a rate-cut cycle in September 2024, delivering a cumulative 100-basis point reduction over three consecutive meetings. However, with the anticipated policies of the Trump administration, the pace of rate cuts is expected to slow or become postponed till 2026. Last month, Fed Chair Jerome Powell signalled a more cautious approach, presenting a much more hawkish stance for the remainder of 2025, with the January meeting seeing rates being held at 4.5%.

(Source: Bureau of Labor Statistics)

Bond Ratings

Rating Agency	Current Rating	Changes
S&P	AA+ (Jun 2013)	Unchanged
Moody's	AAA (Nov 2023)	Unchanged
Fitch	AA+ (Aug 2024)	Downgraded
DBRS	AAA (Jul 2023)	Unchanged

The bond ratings of the US remained consistently strong over the years, with the highest grades assigned by most credit rating agencies, reflecting an exceptionally low credit risk. However, it is noticed that Fitch downgraded their rating due to the nation's ballooning debt and political gridlock as potential threats to the economy, which was a move not seen in a decade. Yet, the change was believed to be minimal as US Treasuries will likely remain one of the safest and most reliable investments globally, given the economic strength and the dollar's status as the world's reserve currency.

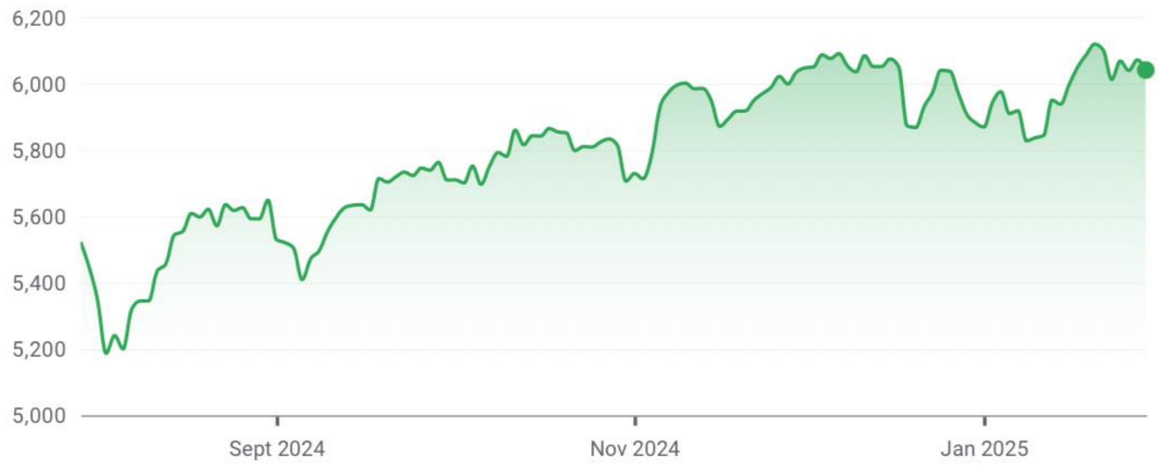
Post-Election

Stock Market Rally and Dollar Strengthening

Following Donald Trump's victory in November, the U.S. stock market rallied, with major indices like the S&P 599 reaching new highs. Gains were led by financials, oil and has, and industrials, driven by investor optimism over Trump's promised tax cuts, deregulation, and increased infrastructure spending.

Financial stocks surged on expectations of lighter regulations, while energy companies benefited from prospects of reduced environmental restrictions, Industrial stocks also gained momentum, buoyed by Trump's focus on domestic manufacturing and fiscal expansion.

Despite the initial surge, market analysts remain cautious about potential risks, including trade uncertainties and fiscal sustainability, as investors await concrete policy actions.

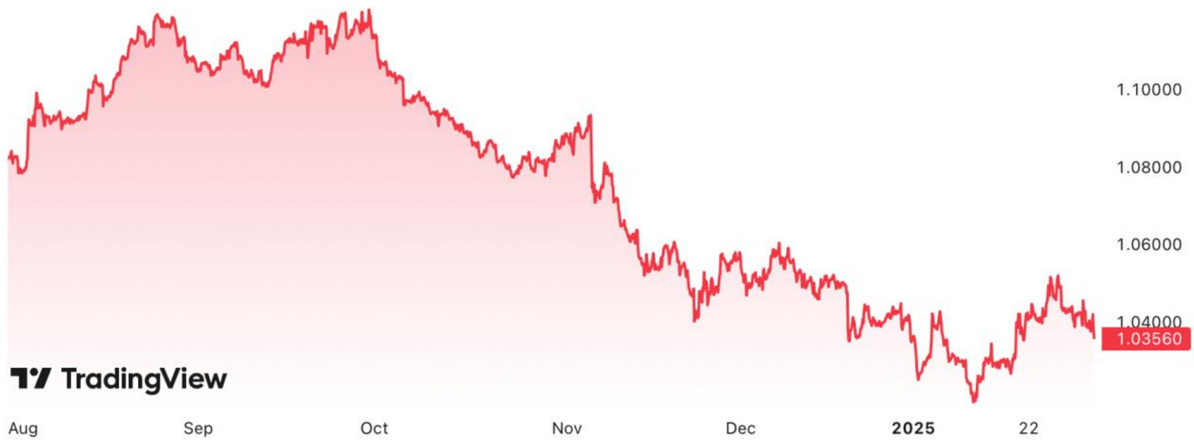


(Source: Google Finance)

Dollar Strengthening

USD also strengthened against major key global currencies, including the Japanese yen and the euro, following the election. Similarly, this surge reflected growing investor confidence in the U.S. economy, driven by expectations of pro-business policies, tax cuts, and fiscal expansion under the new administration.

The dollar's gains were further supported by rising Treasury yields, as markets anticipated higher government spending and potential interest rate adjustments by the Federal Reserve. Investors viewed the U.S. as an increasingly attractive destination for capital, fuelling additional demand for the greenback. However, analysts cautioned that trade policy shifts and geopolitical uncertainties could introduce volatility in the currency markets moving forward.



(Source: Trading View)

Trump and Tariffs

Washington Post Report

On January 6th, a report from the Washington Post indicated that Trump was considering implementing “across-the-board tariffs” at the start of his next administration. The USD weakened following this report, as markets interpreted the potential tariffs as being sector-specific, making only certain imports more expensive. This interpretation dampened expectations of a significant positive effect on the U.S. trade balance.

However, a small portion of the market anticipated that these tariffs could be imposed as early as Trump’s first day in office, potentially using emergency measures to expedite the process. Overall, the main content of the report was denied by Trump, but he did hint that the tariffs might be smaller in scope than previously planned.

Tariffs on Canada and Mexico

On February 1st, , we saw the Trump administration sign executive orders to impose a 25% tariffs on all goods imported from Canada and Mexico, citing concerns over illegal immigration and drug trafficking. Notably, Canadian energy exports, including oil and natural gas, were subjected to a reduced tariff rate of 10%. These tariffs were scheduled to take effect on February 4th.

Then on February 3rd, following negotiations, the administration announced a one-month pause on the tariffs after Canada and Mexico agreed to enhance border security measures to curb the flow of illegal drugs into the United States.

Tariffs on China

On February 1st: The administration imposed an additional 10% tariff on Chinese goods, supplementing existing tariffs of up to 25% on various Chinese products. This action was justified by concerns over the influx of fentanyl from China into the U.S.

Tariffs on Steel and Aluminium

February 9th: President Trump announced a 25% tariff on all steel and aluminium imports to the U.S., expanding his aggressive trade strategy. He also indicated plans to impose reciprocal tariffs on countries that retaliate against U.S. protectionist measures.

Market Reactions

The announcement of new tariffs led to significant market volatility. For instance, the Australian stock market experienced a $15 billion loss in just one hour following the news of the U.S. imposing a 25% tariff on steel and aluminium imports.

Overall, these measures reflect the administration’s commitment to placing their domestic interests first - protecting domestic industries and addressing concerns over national security and illegal activities. However, they have also led to heightened tensions with key allies and trading partners, as well as increased uncertainty in global markets.

ICORD US Outlook for 2025

In early December, market expectation pointed toward potential interest rate cuts in 2025, largely driven by slower economic growth and declining inflationary pressures. Investors had priced in a more dovish stance from the Federal Reserve, anticipating that a cooling economy would necessitate a shift toward monetary easing.

However, ICORD's forecast was more hawkish than the market consensus, as we remained sceptical about the likelihood of rate cuts. Our view was grounded in several key factors: the resilience of economic growth, persistent inflationary pressures exacerbated by tariffs, and the potential for an environment of sustained elevated inflation. While markets largely dismissed these risks, we maintained that a combination of strong demand, supply-side constraints, and geopolitical tensions could keep inflation stubbornly high, limiting the Fed's ability to ease policy.

Now, this out-of-consensus view seems to be materialising. Economic growth has surprised to the upside, defying expectations of a slowdown, while Trump has followed through on his promise of large-scale tariffs, further amplifying inflationary risks. Meanwhile, the FOMC has executed a sharp hawkish pivot, signalling a more restrictive approach than what markets had previously anticipated.

This dramatic shift raises a critical question: were last year's rate cuts by the Federal Reserve a mistake? The decision to ease policy in 2024 may have been premature, given the persistent inflationary forces now at play. As the Fed navigates the coming months, it faces a delicate balancing act - managing the risk of hiking interest rates further versus maintaining price stability in an inflation-rich environment. The path forward remains uncertain, and the Fed's ability to respond effectively to evolving economic conditions will be a key determinant of market stability in 2025.

Interest Rate Analysis

Central Bank Decisions

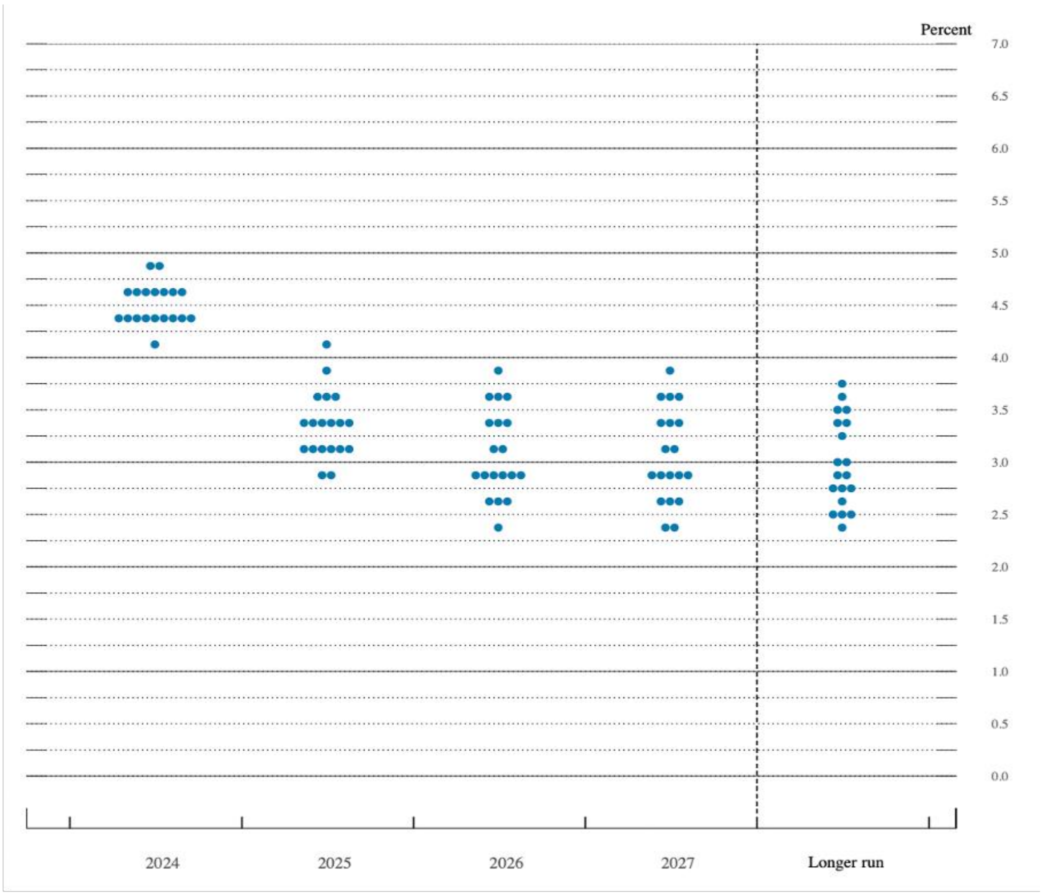
In 2024, the Federal Reserve cut interest rates for the first time in over four years, marking a shift from its aggressive post-pandemic rate hikes. After holding rates at a peak of 5.25% to 5.50% since July 2023, the Fed pivoted toward a soft landing - aiming to reduce inflation without triggering a recession - as price pressures eased. This policy adjustment resulted in three rate cuts in September, November, and December, bringing the federal funds rate down to 4.25% to 4.5% by year-end and into January of the new year.

Looking ahead, investors anticipate a slower pace of rate cuts. Key factors shaping this outlook include President Donald Trump's proposed policies - such as tax cuts, stricter immigration measures, and the expanded tariffs - which are expected to have inflationary effects. Stronger-than-expected January job data further reinforce this view, highlighting a resilient labour market and persistent inflationary pressures. Federal Reserve officials have emphasised the need for a "careful approach" to future rate cuts. Market forecasts currently project two 25-basis point rate cuts in 2025, contingent on inflation trends and policy decisions from the new administration.

Alternatively, there is a scenario in which the Fed raises rates in 2025 if the U.S. economy proves stronger than expected and inflation rises. Given the Fed's dual mandate of price stability and maximum employment, such a move would require confidence that the labour market remains strong, and unemployment does not increase. However, with annual core consumer price inflation easing from 3.3% to 3.2% in December 2024, this scenario appears less likely.

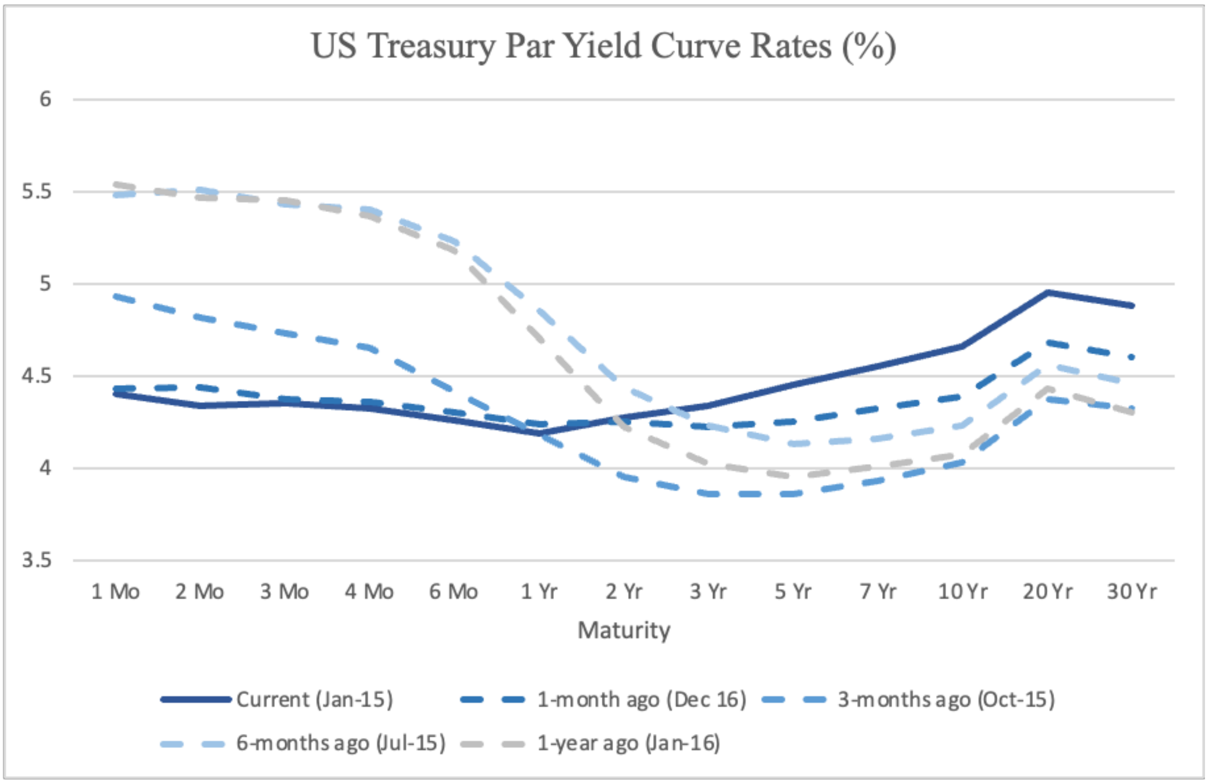
Overall, the consensus seems to be gradual cuts in the next couple of years, and some analysts have estimated that the neutral rate will be 3% or even higher.

FOMC's Dot Plot for Project Target Rate



(Source: FOMC)

Yield Curve Analysis



(Data from U.S. Department of the Treasury)

At the start of 2024, the U.S. yield curve remained inverted, with short-term yields exceeding long-term yields due to the substantial supply of short-term debt. This inversion persisted until around September but gradually reversed, leading to a relatively flat curve by year-end, as shown in the figure above. The U.S. presidential election in November triggered a selloff in long-term bonds amid renewed inflation concerns. On the supply side, proposed tariffs have intensified inflation concerns, while on the demand side, anticipated tax cuts - particularly the extension of individual tax provisions from the 2017 Tax Cuts and Jobs Act - are expected to add further price pressures. This potential extension is projected to cost approximately $5.5 trillion over the next decade. One of the most discussed tax proposals is a reduction in the corporate tax rate from 21% to 15% for domestic production, aimed at boosting U.S. business competitiveness and driving economic growth.

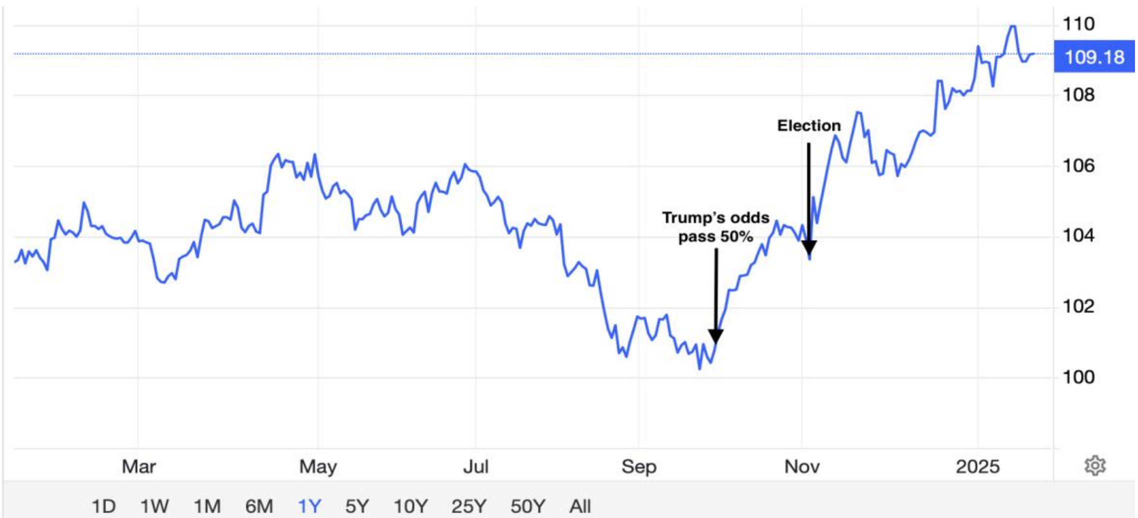
More recently, stronger-than-expected January non-farm payroll data pushed U.S. government bond yields higher across the curve. The benchmark 10-year yield rose by 0.08 percentage points, while the two-year yield increased by 0.12 percentage points. This bond selloff was further fuelled by fading expectations of multiple Fed rate cuts in 2025. As a result, the yield curve is likely to continue steepening toward a more traditional upward-sloping shape.

FX Analysis

Prevailing Trends

The DXY, which measures the U.S. dollar against six major currencies, has surged 9.56% since its low in September 2024. The initial decline was driven by market expectations of Federal Reserve rate cuts in response to rising unemployment and easing inflation, with a 50-basis-point jumbo cut on September 18 further weighing on the dollar. However, the index rebounded after hitting a low of 100.24 on September 24, largely fuelled by market anticipation of former President Trump's potential return. The rally gained momentum post-election, pushing the DXY to a 365-day high of 109.96 on January 12, 2025.

DXY



(Source: Trading Economics)

The USD has shown signs of weakness against the JPY in recent trading. As of January 17, 2025, the USD/JPY exchange rate stands at 155.37, down from its January 7 high of 158.16, reflecting renewed yen strength. This shift is largely driven by market anticipation of Bank of Japan (BoJ) rate hike aimed at stabilising the yen. However, it is widely viewed as a short-term reaction. The broader uptrend of the USD against the JPY, sustained over the past six months, is expected to continue as the pace of U.S. rate cuts slows and market confidence strengthens with Trump's return.

JPYUSD

(Source: Trading Economics)

The euro has experienced steady depreciation against the U.S. dollar over the past six months. The EUR/USD pair has fallen from a high of 1.12 on August 23, 2024, to a low of 1.02 on January 10, 2025, marking a 9.52% decline. This weakness is primarily driven by sluggish demand linked to China's economic slowdown and a dovish European Central Bank (ECB), which has been cutting rates in response to easing inflation.

EURUSD

(Source: Trading Economics)

The GBP/USD and USD/CNY pairs have experienced notable fluctuations in recent months, with both currencies facing significant headwinds against the U.S. dollar. The GBP/USD pair has declined from a six-month high of 1.3427 to a low of 1.2187, driven by weaker-than-expected UK economic data, including slowing wage growth and concerns over fiscal tightening. Similarly, the USD/CNY pair has seen sustained depreciation, rising from a six-month low of 6.9792 to a high of 7.3634, with the exchange rate currently at 7.3393. The yuan's weakness reflects ongoing challenges in China's economic recovery, including declining foreign investment and subdued domestic consumption, despite efforts by the People's Bank of China to stabilise the currency. Additionally, renewed protectionist policies under the Trump administration, particularly a hawkish stance on Chinese imports, have further pressured the yuan as China seeks to mitigate the impact on its export-driven economy.

GBPUSD

(Source: Trading Economics)

USDCNY

(Source: Trading Economics)

Factors Impacting Movements

Fed Reserve Policy

The recent strength of the U.S. dollar is largely driven by the resilience of 10-year U.S. treasury yields, which have surged 17.1% over the past six months. Despite the start of a rate-cutting cycle, bond yields have rebounded sharply after each cut, rising from a low of 3.623% on September 16, 2024, to a new peak of 4.793% on January 14, 2025. This reflects the Federal Reserve's cautious stance, with Chair Jerome Powell maintaining a slower, less dovish approach compared to 2024.

The return of protectionist policies under President Trump, along with the U.S. economy's continued strength, has reinforced the Fed's commitment to controlling inflation. With Trump's policies expected to add inflationary pressures, Powell has signalled the potential need to keep rates elevated for an extended period. Wall Street remains divided on the 2025 outlook: hawkish institutions like Bank of America project no rate cuts and even suggest a possible hike, while dovish players like Goldman Sachs forecast two cuts, targeting a terminal rate of 3.5% to 3.75%.

Despite differing projections, the market broadly anticipates fewer and slower rate reductions. This outlook has strengthened demand for the U.S. fixed-income investments, attracting global capital seeking stable returns and arbitrage opportunities, ultimately boosting the competitiveness of the U.S. dollar against G7 currencies.

US 10 Year Treasury Bond Note Yield

(Source: Trading Economics)

Macro Data

The U.S. economy remains a global standout. In December 2024, the annual inflation rate rose for the third consecutive month to 2.9% (up from 2.7% in November), in line with market expectations but reinforcing the Federal Reserve's cautious approach to rate cuts. Inflationary pressures from potential tariffs and tax cuts in 2025 add further uncertainty to the monetary policy outlook.

The labour market continues to be a key strength, with unemployment edging down 0.1% to 4.1% as 256,000 jobs were added in December - nearly double market forecasts. Meanwhile, economic activity remains resilient, as reflected in the S&P Global U.S. Composite PMI, which climbed to 55.4 in December from 54.9 in November, marking the fastest growth since April 2022. This expansion was driven by a strong services sector (PMI at 56.8), which offset continued weakness in manufacturing (PMI at 49.4). Given that non-manufacturing industries account for a significant share of the U.S. GDP, these figures signal sustained economic growth.

The combination of solid expansion and the potential for demand-pull inflation has attracted foreign capital, as investors seek high returns across various U.S. asset classes, further strengthening the dollar.

Impact of election on dollar

The outcome of the 2024 election, which saw Donald Trump return to the presidency, has been a major driver of market movements. Even before his official inauguration on January 20, 2025, anticipation of Trump's policies had already begun shaping market sentiment. His renewed focus on tariffs has heightened concerns over cost-push inflation, reinforcing expectations of a slower and more prolonged Federal Reserve rate-cutting cycle in 2025.

At the same time, Trump's proposals for deregulation and tax cuts are expected to stimulate business growth, retail spending, and overall economic activity - potentially fuelling demand-pull inflation. Market optimism has also been bolstered by the presence of entrepreneur-friendly allies, such as Elon Musk, who are expected to support policies promoting AI innovation and cryptocurrency adoption, attracting increased global investment into U.S. asset classes.

On February 1, 2025, Trump implemented tariffs of up to 25% on imports from Mexico and Canada, along with 10% tariffs on Chinese goods. He also directed his administration to investigate global trade practices and assess China's compliance with prior agreements. These moves reaffirm his aggressive stance on trade, with potential inflationary implications.

The combination of inflation concerns, pro-growth policies, and a resilient economic outlook is expected to further enhance the appeal of U.S. fixed income and equity markets, attracting capital inflows. This multifaceted environment positions the U.S. dollar for continued strength in global markets, reinforcing its dominance in the current economic landscape.

Summary

The U.S. dollar has demonstrated resilience in the forex market, with the DXY appreciating by 9.56% since September 2024. This rally has been driven by the Federal Reserve's cautious approach to rate cuts, rising 10-year Treasury yields, and strong macroeconomic indicators. While initial expectations of rate reductions were fuelled by easing inflation, the Fed's commitment to inflation control and market optimism surrounding Donald Trump's return to the presidency have sustained the dollar's strength.

Despite periodic fluctuations, the USD remains the dominant currency in global transaction and a preferred safe-haven asset. Meanwhile, other major currencies have faced significant headwinds. The JPY has shown modest strengthening against the USD on expectations of a Bank of Japan rate hike, though this trend is unlikely to be sustained given the dollar's strong fundamentals. The EUR, GBP, and CNY have experienced notable declines due to weakening economic conditions in their respective regions.

Persistent inflation concerns and robust U.S. economic growth have made U.S. fixed income and equity markets increasingly attractive to global investors, further bolstering dollar demand. As geopolitical factors and policy shifts - including Trump's emphasis on tariffs, tax cuts, and deregulation - continue to shape market sentiment, the USD is well-positioned to remain a dominant and competitive currency in global markets.

Risk Factors

Economic Risks

Inflationary Pressures from Wage Growth

Recent Non-Farm Payroll (NFP) data highlights strong job growth, with 256,000 jobs added in December 2024 - well above market expectations. This robust labour market performance has driven wage growth, a key factor in potential inflationary pressures. If wage increases outpace productivity gains, they can contribute to demand-pull inflation, pushing prices higher across various sectors. This dynamic aligns with the Federal Reserve's cautious stance on interest rate cuts, as inflation remains above its 2% target.

Fiscal Policy Uncertainty

The Trump administration's fiscal strategies, including proposed permanent tax cuts and potential import tariffs are designed to stimulate domestic growth but come with considerable risks. Permanent tax cuts could significantly widen the federal deficit, which the Congressional Budget Office projects will reach $1.9 trillion in 2025. Meanwhile, tariffs on goods from Canada, Mexico, and China may disrupt supply chains, drive up consumer prices, and trigger retaliatory trade measures, adding to economic uncertainty and volatility.

Geopolitical Risks

Trade and Diplomatic Tensions

President Donald Trump has announced a 25% tariff on imports from Canada and Mexico, set to take effect on February 1, 2025. While intended to address concerns over illegal immigration and drug trafficking, the move threatens the $773 billion trade relationship between the U.S. and Canada. Key industries, including energy and automotive, face potential supply chain disruptions and higher costs for consumers. In response, Canada has signalled possible retaliatory measures, raising the risk of escalating trade tensions and economic instability.

The administration has proposed a 10% tariff on Chinese imports, with discussions of escalating tariffs up to 100% over the next five years. This strategy is intended to counter China's trade practices and reduce the U.S. trade deficit. However, it carries significant risks, including supply chain disruptions, higher production costs, and potential retaliatory measures from China, which could impact global markets and slow economic growth.

Inflationary Pressures Linked to Policy Changes

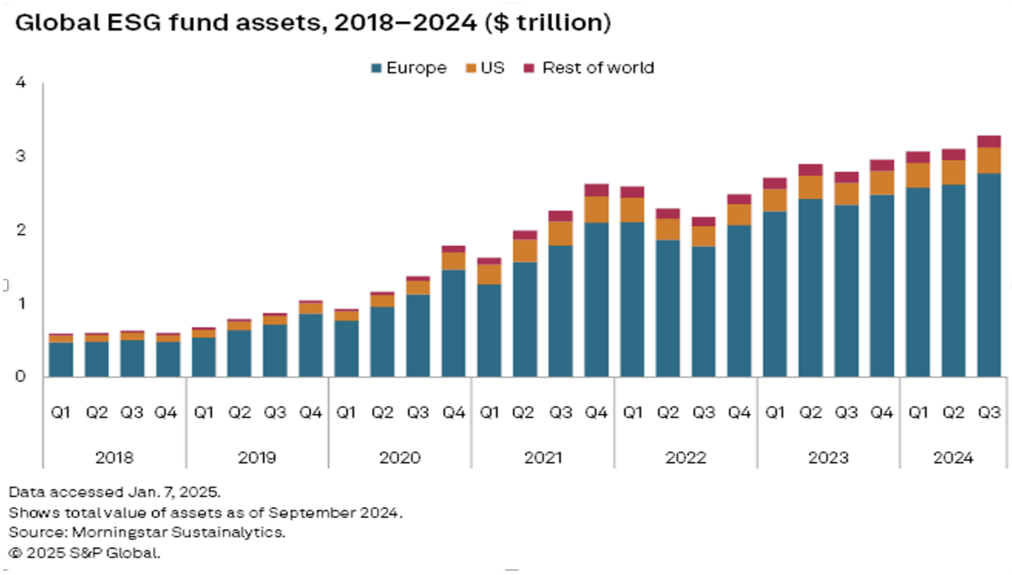
The combined effects of cost-push inflation from tariffs and fiscal expansion, along with wage-driven demand-pull inflation, raise the risk of prolonged price increases. To counter these pressures, the Federal Reserve may be forced to maintain a tighter monetary policy stance, potentially slowing economic growth, and increasing market volatility.

ESG Assessments

Trump has long positioned himself as a pro-business, pro-fossil fuel, and anti-regulation candidate, emphasising "unleashing economic prosperity". As a result, a long-term slowdown in sustainable development is unsurprising, with increased investment and market entry from oil and gas firms. However, despite concerns over the administration's energy policies, analysts and financial firms predict that their impact on the sustainable investment market in 2025 will be limited. Investors seeking to capitalise on the energy transition while hedging climate-related risks continue to navigate market uncertainty in the U.S.

"Companies committed to sustainability will stay at the course because it makes business sense," said Tim Mohin, global sustainability leader at consulting firm BCG. Hortense Bioy, head of sustainable investing research at Morningstar, echoed this sentiment, stating, "Renewables are now cheaper than fossil fuels, and the money is going to flow where it makes sense to invest and where you can make money". While businesses continue to prioritise energy and operational efficiency, green investment remains resilient, despite initial concerns following Trump's election.

Conversely, the number of ESG funds has declined, with slower value growth, dropping from 647 in Q1 2024 to 595 in Q4. This downturn may be driven by backlash from Republican lawmakers, who have enacted new regulations and pursued litigation against financial firms perceived as opposing fossil fuel industries and conservative social values. Additionally, rising concerns over greenwashing have likely dampened investor confidence in ESG-related funds, reducing demand and trading activity.



As extreme weather and risks have exacerbated in the US by the warming climate, companies have already been exposed to climate risks such as wildfire disasters that struck Xcel Energy Inc. and Hawaiian Electric Industries Inc. in recent years. Given the demonstrable, and not just a hypothetical impact on the value of their firms, it offers the urgency yet opportunity for investors to manage such risks.

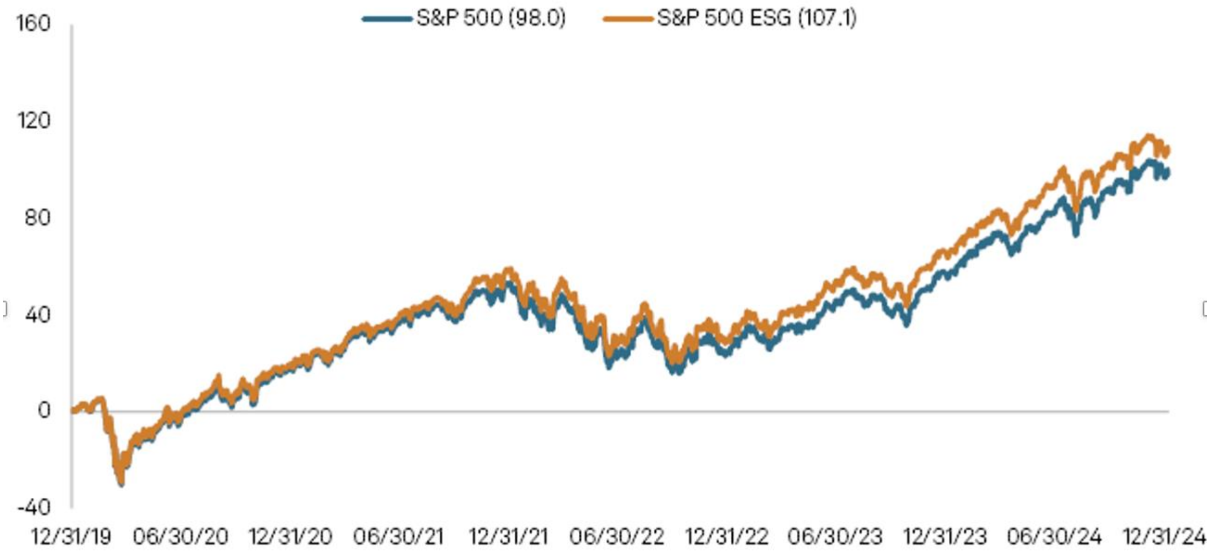
Despite the "more subdued" market enthusiasm possibly due to political pushback, the market for ESG-focused investments is maturing with higher investment standards in replacement. This is due to increasing legal regulations to hedge against *greenwashing* and other deceptive or misleading marketing practices by US investment funds. as better data becomes available, and practices evolve. For example, the changes to the two-decade-old SEC *Name Rule* require that 80% of a fund's portfolio matches the assets advertised by its name. The regulation targets a boom in funds that have tried to exploit investor interest in ESG investing, with names that do not accurately reflect the fund's investments or strategies. In response to this, organizations down to the portfolio management level are beginning to think about what benchmarks they're using to showcase performances of their ESG strategies and how they communicate such investments.

On the other hand, when a new SEC take on more of an anti-ESG sentiment, it presents threats of green hushing, with experts suggesting there could be more investigations into funds that seek to downplay their ESG-related investments.

On a positive note, the focus on ESG and sustainability has not affected stock performance. The S&P 500 ESG index continues to slightly outperform the parent index. The ESG index was launched in 2019 to measure the performance of securities meeting certain sustainability criteria while maintaining similar overall industry group weights as the S&P 500. Recent analysis from S&P Dow Jones Indices found that companies excelling in areas such as human capital development and talent attraction and retention contributed to the outperformance of the ESG index over the last five years.

S&P 500, S&P 500 ESG Index 5-year performance

Total return (%)



Data compiled Jan. 8, 2025.
Total return is calculated from Dec. 31, 2019, to Jan. 7, 2025.
Performance based on total price return, which includes additional income such as dividends.
Source: S&P Global Market Intelligence.

In short, although ESG will remain as a polarising topic in the United States, its development and performance will continue growing in the long run due to the pressing climate needs and incoming market investment opportunities.

Trade Idea

Longing OTM call options on USD (6-month maturity)

As Trump returns to the white house as the first non-consecutively re-elected US president since Grover Cleveland's era, the entire macro environment is destined to be choppy and full of uncertainty as the president is not afraid of moving the market with his radical speeches. Hence, we are tabling possible trading ideas that are more conservative.

The first trade would be longing OTM call options on the US Dollar. With President Trump taking a very strong stance against China, the billionaire has imposed tariffs on China's exports right on February 1, 2025. And despite this, the president gave 75 days for ByteDance to find a buyer for TikTok (from January 20, 2025), showing quite a different attitude towards the world's second-largest economy. While it is still unclear whether the implementation of the tariff is just a matter of time or a mere political leverage for the Trump administration, it is always safer to get prepared for that.

The recent imposition of U.S. tariffs on Chinese imports has driven a sharp decline in the CNY while strengthening the USD. With the U.S. now enforcing a 10% tariff on all Chinese goods and discussions of further increases in the coming years, market sentiment has turned bearish on the yuan. These tariffs have exacerbated concerns over China's economic outlook, leading to capital outflows and further weakening the CNY. Meanwhile, the USD has gained momentum as investors seek safer assets amid heightened trade tensions. The combination of rising U.S. treasury yields, a resilient labour market, and expectations of prolonged Federal Reserve "hawkishness" has further bolstered dollar strength, reinforcing its dominance in global markets.

Given these factors, maintaining exposure to the U.S. dollar is a strategic hedge against unpredictable risks. Utilising low-premium call options on the dollar presents a cost-effective approach to safeguarding our portfolio and heightened trade tensions and currency volatility.

Longing DXY (Target price: 113)

Beyond the protective strategy, we also recommend going long on the DXY, given the relative strength of the U.S. economy compared to other major economic zones.

In 2024, the U.S. achieved a soft landing, with YoY GDP growth reaching 3.1% in Q3. Inflation is also gradually aligning with the Federal Reserve's 2% target. The most recent CPI data showed a 0.2% MoM increase, following four consecutive months of 0.3% MoM growth, signalling a healthy and milder-than-expected inflation trend.

Additionally, last month's nonfarm payroll report exceeded expectations, with 256,000 jobs added in December 2024 - well above market forecast of 160,000. The strength of the labour market allows the Federal Reserve to take a wait-and-see approach before making further policy decisions, even as inflation continues to ease. Currently, market expectations price in fewer than two quarter-point rate cuts for the year, reinforcing the case for sustained dollar strength.

	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES					
MEETING DATE	300-325	325-350	350-375	375-400	400-425	425-450
29/01/2025	0.0%	0.0%	0.0%	0.0%	0.5%	99.5%
19/03/2025	0.0%	0.0%	0.0%	0.1%	26.3%	73.6%
07/05/2025	0.0%	0.0%	0.0%	6.3%	37.5%	56.2%
18/06/2025	0.0%	0.0%	2.3%	17.5%	44.2%	36.1%
30/07/2025	0.0%	0.4%	4.8%	21.9%	42.8%	30.1%
17/09/2025	0.1%	1.3%	8.4%	26.3%	40.1%	23.8%
29/10/2025	0.3%	2.4%	11.1%	28.4%	37.7%	20.2%
10/12/2025	0.6%	3.7%	13.6%	29.7%	35.1%	17.2%

On the other hand, the Eurozone - the primary component of the DXY basket - is expected to implement more than twice the number of rate cuts as the U.S.

Although inflation has fallen below 2.5%, the Eurozone now faces sluggish economic growth. The ECB projects GDP growth to hover around just 1%. Given the weak economic outlook, the ECB is anticipated to implement 4 - 5 additional rate cuts, potentially reducing the deposit rate by 1.75-2% by year-end to stimulate growth.

Similarly, another key component of the DXY basket - the British pound (GBP) - faces a comparable outlook. Reports from Morgan Stanley, Goldman Sachs, and Morningstar forecast that the Bank of England (BoE) will cut rates at least four times in 2025 due to mounting stagflation risks in the UK.

Given these expected policy shifts across major economies, taking a long position in the DXY remains a viable trade opportunity.

Conclusion

As the U.S. economy navigates a shifting macroeconomics landscape, key factors such as monetary policy, trade dynamics, and fiscal initiatives under the Trump administration continue to shape market conditions. With the Federal Reserve maintaining a cautious approach to rate cuts amid persistent inflationary pressures a resilient labour market, investors must remain vigilant in assessing economic risks and opportunities. The administration's focus on protectionist policies, including tariffs on major trading partners adds further complexity to global trade flows, fuelling both market volatility and currency fluctuations.

Trade Ideas

Given these economic dynamics, positioning for continued U.S. dollar strength remains a compelling strategy. The dollar's resilience, supported by higher Treasury yields, robust macroeconomic performance, and anticipated rate cuts in other major economies, makes a long DXY trade an attractive opportunity. With the Eurozone and UK expecting deeper rate cuts compared to the U.S., the euro and pound are likely to face continued pressure, reinforcing the case for long USD positions against these currencies. Meanwhile, the low-premium call options on the USD provide a cost-effective hedge against potential economic uncertainties, particularly as inflation risks and trade tensions remain elevated.

U.S. Outlook for 2025

Looking ahead, the U.S. economy is expected to experience steady, albeit uneven, growth. While inflation is gradually aligning with the Fed's 2% target, fiscal expansion and trade policies could keep price pressures elevated. The labour market remains a cornerstone of economic stability, allowing the Fed to take a measured approach in its policy decisions. However, external risks – such as retaliatory tariffs, geopolitical tensions, and shifting global investment flows – may introduce volatility throughout the year. As a result, market participants should stay flexible and responsive to macroeconomic shifts, particularly as the balance between inflation control and economic expansion continues to evolve.

Appendix

USD Spot Rate (February 12)

CURRENCY	VALUE	CHANGE	NET CHANGE	TIME (EST)
EUR-USD	1.0431	0.0048	+0.46%	12:20 PM
USD-JPY	153.0800	-1.3400	-0.87%	12:20 PM
GBP-USD	1.2530	0.0084	+0.67%	12:20 PM
AUD-USD	0.6294	0.0014	+0.22%	12:20 PM
USD-CAD	1.4234	-0.0072	-0.50%	12:20 PM
USD-CHF	0.9042	-0.0094	-1.03%	12:20 PM
EUR-JPY	159.6800	-0.6500	-0.41%	12:20 PM
EUR-GBP	0.8324	-0.0019	-0.23%	12:20 PM
USD-HKD	7.7887	-0.0013	-0.02%	12:19 PM
EUR-CHF	0.9432	-0.0054	-0.57%	12:20 PM
USD-KRW	1,447.6300	-6.2200	-0.43%	11:59 AM

(Bloomberg Finance)

U.S. Treasury Yields

NAME	COUPON	PRICE	YIELD	1 MONTH	1 YEAR	TIME (EST)
GB3:GOV **3 Month**	0.00	4.22	4.32%	0	-107	12:18 PM
GB6:GOV **6 Month**	0.00	4.20	4.35%	+4	-99	12:19 PM
GB12:GOV **12 Month**	0.00	4.08	4.26%	+5	-75	12:18 PM
GT2:GOV **2 Year**	4.13	99.66	4.31%	-7	-35	12:18 PM
GT5:GOV **5 Year**	4.25	99.36	4.39%	-20	+8	12:18 PM
GT10:GOV **10 Year**	4.63	100.72	4.53%	-24	+22	12:18 PM
GT30:GOV **30 Year**	4.50	96.14	4.74%	-22	+28	12:18 PM

(Bloomberg Finance)

Disclaimer

No Investment Advice

This report is intended solely for informational and academic purposes. It is important to note that the information and materials provided should not be interpreted as investment, financial, legal, tax, or any other form of advice. The content of this report should not be considered a solicitation, recommendation, or endorsement by the authors to buy or sell any securities or financial instruments, whether within the jurisdiction mentioned or any other jurisdiction where such actions would violate applicable securities laws. The information contained herein is general and does not take into account the specific circumstances of any individual or entity. It does not constitute professional or financial advice, and the information provided does not present a comprehensive or exhaustive analysis of the subjects discussed or the applicable laws. The authors do not assume fiduciary responsibility due to anyone's use of or access to this report. It is your sole responsibility to thoroughly evaluate the advantages and risks associated with utilising any information presented in this report before making any decisions. By accessing this report, you agree that neither the authors nor ICORD CAPITAL shall be held liable for any damages resulting from decisions made based on the information provided in this report.

Investment Risks

Investing in securities carries inherent risks. Stocks, bonds, exchange-traded funds (ETFs), mutual funds, money market funds, and other financial products all involve the risk of potential loss, and it is possible to lose the principal amount invested. Certain high-risk investments may employ leverage, which can amplify both gains and losses. Foreign investment entails particular risks, including increased volatility as well as political, economic, and currency risks and disparities in accounting practices. The past investment performance of a security or a firm does not guarantee or predict future investment performance.

Analysts' Certification

ICORD CAPITAL's analysts hereby certify that they have not received and will not receive direct or indirect compensation in exchange for expressing views in this report.