



PKB's Market Espresso

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Trump pauses US military aid to Ukraine

President Trump announced on Monday a **“pause”** in assistance to Ukraine as he seeks to **force** Ukrainian President **Zelensky** to engage in negotiations to end the war with Russia

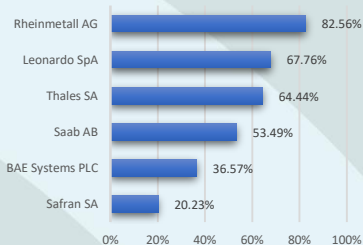
- The order will remain in effect **until Ukraine** has demonstrated a **commitment to peace** negotiations with Russia, which **appear still distant**
- The move comes just days after a **disastrous Oval Office meeting**
- Trump administration and Ukrainian officials had been expected to sign off on a deal that would **give the United States access to Ukraine’s critical minerals** in exchange for the aid that it has sent Kiev since the start of the war
- **Vance further criticized Europe**, citing disservice done to Ukraine by not pressuring Zelensky

EU defense stocks surge, interest rates rise

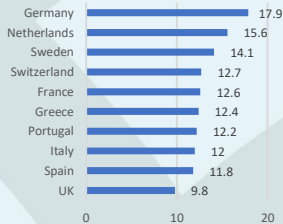
European defense stocks have risen sharply as investors expect higher **military expenditures**

The European Commission has announced the **ReArm Europe Plan**, emphasizing the urgency of strengthening **Europe's defence capabilities**. Germany will amend its constitution to exempt defense and security outlays from fiscal spending limits, causing an immediate spike in government interest rates

Performance YTD as of 04.03.2025



Change in 10y Yield, in bps, as of 05.03.25



US GDP Forecast drops, inflation in line

The **Atlanta FED GDP** has shifted from a 3.9% increase to a **2.8% decline** for the first quarter of 2025, raising concerns in financial markets

- Economic uncertainty, driven by **trade policy chaos** and **public sector job cuts**, is negatively impacting business investments and consumer confidence
- Some temporary factors, such as a **surge** in imports to avoid tariffs and unusually **cold weather**, may have exaggerated the slowdown
- Meanwhile, the core PCE deflator **rose by 0.3%** in January, bringing inflation down to 2.6%, the lowest since March 2021, with a further **decrease** expected in February
- Despite potential tariffs, core PCE inflation is expected to stay **between 2.5% and 2.7%** for 2025, and most FOMC members are likely to continue predicting **two 25bp rate cuts** for the year

ECB: Eyes set on a new cut on Thursday

The **European Central Bank** is **expected** to **lower rates** this week by **25bp** – this would be the sixth cut since June 2024

- Market is pricing a **99.3% chance** of this happening with **analysts predicting back-to-back** cuts until deposit rate reaches 2.00% (currently at 2.75%) – some **investors** are starting to **think** that a **pause** in **April** could be possible
- Nevertheless **views** within the **Governing Council** are beginning to **diverge** as some members advocate a more cautious approach
- In the meanwhile, **Eurozone inflation eased** to **2.4%** in February (from 2.5% in January) , boosting confidence in ECB that 2% target is approaching
- **Service inflation** also **dipped** to **3.7%** marking first major move down from 4.0% since April 2024

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