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TIMES

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US inflation rises in December; consumer spending robust

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# Qatar debt dynamics to remain ‘favourable’ in medium term: CI

By Santhosh V Perumal  
Business Reporter

Qatar's debt dynamics is slated to remain “favourable” in the medium term with government debt-GDP (gross domestic product) ratio expected to fall to 43.4% by 2026, according to Capital Intelligence (CI), an international credit rating agency.

According to the rating agency's estimates, gross central government debt (including short-term treasury bills and bank overdrafts) is expected to have declined to 46.2% of GDP in 2024, from 48.3% in 2023, reflecting nominal GDP growth and a large primary budget surplus.

As a share of revenues, govern-

ment debt increased to 162.5% in 2024, from 147.3% in 2023, reflecting the decline in both hydrocarbon and non-hydrocarbon revenues.

While the reliance on hydrocarbon revenues remains a rating constraint, the government has ample leeway to respond to severe fluctuations in hydrocarbon prices given the size of fiscal buffers and the degree of expenditure flexibility, according to CI.

Earlier another credit rating agency Standard and Poor's had said Qatar's average debt-servicing costs are expected to be below 5% of general government revenues by 2027, aided by debt reduction strategies and higher expected earnings related to the North Field Expansion or NFE.

Highlighting that in the recent years, Qatar's authorities have aimed to reduce the level of external debt; S&P had said “we expect this to remain the case, with only partial refinancing of foreign debt coming due.

In 2023, the government repaid about QR27bn (about 3.4% of GDP or gross domestic product) of its debt. In 2024, it expects further debt reduction of about 2% of GDP, partially offset by new debt issuance equivalent of \$2.5bn (1.2% of GDP) in May 2024.

In its latest report, the Institute of International Finance, an US-based economic think-tank, had said the aggregate government debt in the Gulf Co-operation Council is expected to be 25.1% of GDP this year compared to 23.1%

the previous year. Highlighting that the government's contingent liabilities as moderate; CI said the largest implicit contingent liability for the (Qatar) government was the banking sector.

Total banking sector assets as a share of GDP were “reasonably” high at 252% in 2024.

Although the sector's asset quality is currently good and capital buffers remain strong, banks are exposed to significant lending concentrations (in real estate). Furthermore, banks' reliance on foreign funding (particularly non-resident deposits) is still considered a potential source of risk – with non-resident deposits amounting to 24.6% of GDP in November 2024, compared to a peak of 42.9% in 2021.

Opec+ is unlikely to alter existing plans to raise output gradually when it meets on Monday, delegates from the producer group told Reuters, despite US President Donald Trump urging Opec and its de facto leader Saudi Arabia to bring down prices.

The meeting of top ministers from the Organisation of the Petroleum Exporting Countries (Opec) and allies led by Russia, or Opec+, is scheduled for 1300 GMT on Monday, days after Trump called on Opec and Saudi Arabia to pump more oil.

Four Opec+ sources said Monday's meeting of the Joint Ministerial Monitoring Committee was unlikely to recommend that Opec+ increase output more than already planned. Two others said it was too early to say. All sources declined to be identified by name.

The Saudi government communications office and Opec did not respond to e-mailed requests for comment.

Kazakhstan, an Opec+ member, said on Wednesday the group will discuss Trump's efforts to raise US oil production and take a joint stance on the matter.

Earlier this week Saudi Arabia's energy minister Prince Abdulaziz bin Salman and several of his Opec+ counterparts held talks. One source said these took place on the sidelines of the Arab Energy Fund's 50th anniversary celebration in Riyadh, and were not a planned Opec meeting.

Oil prices have risen this year, with Brent crude reaching almost \$83 a barrel on January 15 and settling at its highest since August, supported by concern about the supply impact of US sanctions on Russia announced in January.

Prices had fallen to below \$77 yesterday, with analysts citing the potential negative economic impact of Trump's threatened tariffs against Canada and Mexico from Saturday.

Opec+ members are currently holding back 5.85mn barrels per day of output, equivalent to about 5.7% of global supply, in a series of steps agreed since 2022 to support the market.

In December Opec+ extended its latest layer of output cuts through the first quarter of 2025, pushing back a plan to begin raising output to April. The extension was the latest in several delays because of weak demand and rising supply outside the group.

Based on that plan, the unwinding of 2.2mn barrels per day of cuts – the most recent layer – and the start of an increase for the United Arab Emirates will begin in April with a monthly increase of 138,000 bpd, according to Reuters calculations. The hikes will last until September 2026.

One Opec+ delegate and some analysts said that keeping the plan to start increasing output in April – rather than another delay – would be a suitable way to answer Trump's call.

“The group probably needs only to rubber stamp an intention to keep with the programme of bringing back shuttered barrels in April to keep favour,” said John Evans of oil broker PVM.

Based on Opec+'s previous practice, a final decision to go ahead with the April hike is expected around early March.

Qatar's debt dynamics is slated to remain “favourable” in the medium term with government debt-GDP ratio expected to fall to 43.4% by 2026, according to Capital Intelligence, an international credit rating agency

## QSE edges up marginally amidst concerns on US tariff policy

By Santhosh V Perumal  
Business Reporter

The US' tariff policy had an overarching effect on global bourses, including the Qatar Stock Exchange (QSE), which saw its key index settle marginally higher this week that otherwise saw the Qatar Central Bank maintain status quo on its benchmark rates.

The domestic funds' weakened net selling had its influence as the 20-stock Qatar Index was up mere 0.06% this week which saw Nakilat report net profit of QR1.64bn in 2024.

The industrials, banking, telecom, insurance and consumer goods sectors saw higher than average demand in main market this week which saw QIIB's 2024 net profit at QR1.26bn.

As much as 52% of the traded constituents extended gains to investors in the main market this week which saw Mesaleed Petrochemical Holding (MPHC) report net profit of QR718.75mn in 2024.

The foreign retail investors were increasingly net profit takers in the main bourse this week which saw Qamco register net profit of QR614.68mn in 2024.

The Gulf individuals turned bearish in the main bourse this week which saw a total of 0.06mn AlRayan Bank-sponsored exchange-traded fund QATR worth QR0.14mn trade across 25 deals. The

foreign institutions' weakened net buying had its influence in the main market this week which saw as many as 0.01mn Doha Bank-sponsored exchange-traded fund QETF valued at QR0.15mn change hands across 15 transactions.

The Gulf funds were seen increasingly net sellers in the main bourse this week which saw Vodafone Qatar ring in net profit of QR600.66mn in 2024.

The Islamic index was seen gaining slower than the other indices in the main market this week, which saw Qatar National Cement report net profit of QR159.83mn in 2024.

Market capitalisation was up QR0.27bn or 0.04% to QR623.71bn on the back of microcap segments this week which saw the QSE decide to increase the frequency of index review to four times a year against the present practice of two semi-annual reviews.

Trade turnover and volumes were on the decline in both the main and junior markets this week which saw no trading of treasury bills.

The foreign institutions continued to be net buyers but with lesser intensity this week which saw no trading of sovereign bonds.

The Total Return Index was up 0.06%,

the All Share Index by 0.08% and the All Islamic Index by 0.03% this week which saw banks and realty sectors together constitute about 50% of the total trade volumes.

The industrials sector index gained 0.63%, banks and financial services (0.3%), telecom (0.24%), insurance (0.2%) and consumer goods and services (0.17%); whereas transport declined 2.89% and real estate (0.12%) this week which saw a Kamco Invest report that found Qatar witness an almost eight-fold jump year-on-year in contracts in the oil sector, leading the total value of contracts awarded in the country reach about \$19bn in 2024.

Major gainers in the main market included Qatar Oman Investment, Widam Food, Beema, Vodafone Qatar, Dukhan Bank, Commercial Bank, Dlala, Baladna, Industries Qatar, Gulf International Services, Qatari Investors Group and Qamco.

In the junior bourse, Techno Q saw its shares appreciate in value this week.

Nevertheless, Qatar National Cement, Masraf Al Rayan, Nakilat, Al Faleh Educational Holding, Ezdan, Leshia Bank, Mekdam Holding, Aamal Company, MPHC, Mazaya Qatar and Milaha were among

the losers in the main bourse. In the venture market, Techno Q saw its shares appreciate in value this week.

The Qatari individuals' net selling fell substantially to QR75.16mn compared to QR196.61mn the week ended January 23.

The Arab retail investors' net selling shrank significantly to QR6.89mn against QR19.24mn the previous week.

However, the Gulf institutions' net profit booking expanded drastically to QR26.86mn compared to QR5.2mn a week ago.

The foreign individual investors' net selling grew markedly to QR20.21mn against QR7.41mn the week January 23.

The Gulf individuals were net sellers to the tune of QR7.55mn compared with net buyers of QR0.01mn the previous week.

The foreign institutions' net buying weakened considerably to QR68.15mn against QR147.41mn a week ago.

The domestic funds' net buying decreased noticeably to QR68.54mn compared to QR81.05mn the week ended January 23.

The Arab funds had no major net exposure for the second consecutive week.

The main market saw a 17% contraction in trade volumes to 0.85bn shares, 25% in value to QR1.85bn and 19% in deals to 67,845 this week.

In the venture market, trade volumes tanked 83% to 0.84mn equities, value by 83% to QR2.15mn and transactions by 64% to 143.

### WEEKLY REVIEW

The domestic funds' weakened net selling had its influence as the 20-stock Qatar Index was up mere 0.06% this week



# Wall Street’s levered ETF boom is near-\$1bn money spinner

**Bloomberg**  
New York

A popular ETF trade beloved by market speculators is fast turning into a billion-dollar revenue generator for nimble-footed financial firms.

Traders have been diving into leveraged exchange-traded funds, a subset of a derivatives-enhanced products, offering to amp up the daily moves of the world’s most popular stocks and indexes. That’s enriched the firms behind the majority of these ETFs. They netted around \$940mn in revenue in 2024, according to Bloomberg Intelligence, which used napkin math to multiply their assets by their fees. That’s a record 37% jump, beating last year’s all-time high.

The six firms that dominate the arena are: Direxion, ProShares, Tidal Investments, GraniteShares, Tuttle Capital Management and AXS Investments.

Leveraged ETFs were in the spotlight on Monday when China’s answer to ChatGPT, DeepSeek, sparked a selloff in technology stocks. Stock market heavy-weight Nvidia Corp saw nearly \$600bn of its market cap

wiped out in a single day. As a result, momentum-chasing day traders who pounced on a trio of Nvidia-focused funds collectively saw about \$2bn in value shaved off during the trading session, BI-compiled data show, while the leveraged ETF complex erased around \$10bn as a whole.

It could have been a bitter lesson for day traders that embraced the category. Instead, traders ploughed another \$1bn into the GraniteShares 2x Long NVDA Daily ETF (ticker NVDL) — its biggest one-day inflow on record — after eight straight days of outflows. That’s as the ETF tumbled a record 34% on Monday.

The influx “speaks to investors willingness to react and buy the dip even on the most volatile of days,” said Will Rhind, the chief executive officer of GraniteShares.

Industry critics have long worried that many investors might not read the fine print and risk losing money in the process. Such products are often meant for active traders who want to bet on and against an asset’s performance for no more than a single day, as these funds typically veer off course when tracking shares over a longer period.

Technical risks like volatility drag — when big valuation swings diminish returns — and

the erosion of net-asset value are not talked about enough when it comes to promoting these products, according Jane Edmondson, head of index product strategy at TMX VettaFi. “A lot of retail investors do not understand the decay effect tied to daily rebalancing which causes return erosion over time,” she said. “This side-effect of leverage can cause quite a lot of dispersion relative to the underlying index.”

But issuers defend their popularity. As one of the more long-standing firms, Direxion noted it has a dedicated education section on its website, while Tuttle Capital head Matthew Tuttle said such offerings help clients “manage risks and generate returns.”

The data suggest that the majority of the issuers derived 80% or more of their revenue from the complex ETFs, with Direxion as the most reliant. Calculations by BI show that the firm generated \$396mn in ETF revenue last year, with a whopping 98.3% coming from its suite of leveraged and inverse ETFs.

The high-octane offerings surged in popularity over the past few years, helped by the relentless bull market. The floodgates can be traced back to 2019 when US regulators eased constraints for launching

new funds, followed by 2020 when they no longer considered some leveraged ETFs to be “complex.”

“There are dangers to any products you own. You just have to be aware of what you are holding,” said Mohit Bajaj, director of ETFs at WallachBeth Capital. But “the leverage ETF issuers have done a great job of fulfilling a demand in the marketplace.”

The transition of leveraged ETFs from niche product to the mainstream is clearly a boon for issuers, according to BI analysts Eric Balchunas and Andre Yapp.

“Leveraged ETFs are arguably a good business to be in because there are products for both up and down markets and the big, low-cost issuers don’t compete in the category,” they said. It’s also a plus that “the products are agnostic to bull or bear market conditions.”

Whether or not these funds are good for risk-seeking investors remains up for debate.

Matt Markiewicz of Tradr ETFs acknowledges there’s a learning curve with any new product, but “as investors’ palates become more sophisticated and they learn how and why these strategies could be useful, we expect appetite to rapidly grow.”

## Czech central bank to consider holding bitcoin as reserve asset

**Reuters**  
Prague

The Czech National Bank will consider holding billions of dollars worth of bitcoin in its reserves, Governor Ales Michl said yesterday, potentially the first shift into the cryptocurrency by a western central bank if it went ahead.

Michl said the idea was still under analysis and no immediate decision was forthcoming.

Central banks traditionally park reserves in more conservative assets and some have warned about the risks of using cryptocurrencies in public coffers.

Since taking the helm of the Czech central bank in 2022, Michl has led a drive to diversify the bank’s hefty reserves through the gradual gold purchases and shifting a bigger share of the portfolio into equities to create sustained profits.

He plans to present the consideration of including bitcoin to the bank’s seven-strong board on Thursday, he told the *Financial Times* in an interview.

If approved, the bank could eventually hold as much as 5% of its 140bn euro (\$146bn) reserves in bitcoin, he said.

In a later post on X, Michl added more analysis and discussion was still needed before any decision.

“No decision is imminent,” he said. “Bitcoin has significant volatility, which makes it harder to take advantage of its current low correlation with other assets.

“That’s why I will ask our team on Thursday to further assess Bitcoin’s potential role in our reserves. Nothing more, nothing less.” Separately Michl told the *FT* it was “very likely” the bank would cut interest rates by 25 basis points next week, resuming an easing drive paused in December.

In the *FT* story, former investment fund manager Michl said investment in bitcoin could prove to be worthless or it could have an “absolutely fantastic value”. He said bitcoin would trend higher even without the backing of US President Donald Trump since it is an alternative investment for many people.

Bitcoin hit a record high earlier this month when Trump, who has pledged to be a “crypto president”, was sworn in.

Trump last week ordered the creation of a cryptocurrency working group to draft new regulations and explore the possibility of creating a national crypto stockpile. Bitcoin has more than doubled in value in 2024. Michl, too, highlighted wider investor interest in bitcoin since BlackRock and other firms last year launched bitcoin exchange traded funds, according to the *FT*.

Swiss cryptocurrency advocates recently launched an initiative to make the Swiss National Bank hold bitcoin and gold in its reserves. The SNB has expressed scepticism about holding bitcoin as a reserve.

European Central Bank policymakers, too, have been adamant they don’t see bitcoin as a possible reserve asset and occasionally compare it to tulip bulbs during a 17th-century trading mania in the Netherlands.

In an opinion piece published this month, two ECB advisers said Bitcoin was too opaque, risky and concentrated for the public coffers and that it was a “speculative bubble that will burst”.

South Africa’s central bank governor also criticised the idea of a bitcoin stockpile on a Davos panel last week, saying that crypto industry lobbyists should not influence which assets governments hold.



From left: Christian Sewing, Deutsche Bank chief executive officer; Georges Elhedery, HSBC Holdings chief executive officer; and Sergio Ermotti, UBS chief executive officer.

# Europe’s banks kick off sweeping job cuts in ‘year of reckoning’

**Bloomberg**  
London

The start of the year is normally a time when Europe’s bankers wait nervously for a word on their bonuses. But weeks into 2025, some are starting to wonder if they will even have a job.

On Thursday, Deutsche Bank AG Chief Executive Officer Christian Sewing put his staff on notice, saying he’s looking to cut headcount including managers.

HSBC Holdings Plc CEO Georges Elhedery earlier this week said it’s shuttering large parts of its investment bank in Europe and the US.

Even Swiss private banking isn’t immune to the turmoil: UBS Group AG is shedding hundreds of jobs in its home market, while Julius Baer Group Ltd is set to announce a wave of redundancies over the next two years.

Sewing told reporters that 2025 will be “the year of reckoning,” adding “nothing is off limits.”

Behind all these disparate moves is a push to improve lag-

ging profits, a concern that’s only likely to get more acute as the new Trump administration’s pro-business approach to deregulation in the US puts Europe’s lenders potentially at a disadvantage over their Wall Street rivals. In addition, stagnant growth in the European Union is further threatening to weigh on the outlook for the region’s lenders.

The contrast between Europe’s and US banks is already quite stark. At JPMorgan Chase & Co, which this month announced the largest profit in its history, Chief Financial Officer Jeremy Barnum said one of the biggest issues he faced was the “high-class” dilemma of what to do with all the excess capital the bank was generating. The message from Goldman Sachs Group Inc CEO David Solomon was all about confidence as he talked about positioning the firm for a resurgence in dealmaking.

“It’s a reflection of how European banks have struggled to compete with their US peers” since the global financial crisis, said John Cronin, a Dublin-based financial industry analyst and

founder of SeaPoint Insights. “If anything, given the new pro-growth Trump administration, the top five US banks will become relatively stronger over the coming years.”

Deutsche Bank’s Sewing on Thursday pointed to the potential for a cull of management ranks and even entire business lines in the coming years.

This followed a 14% increase in expenses in the fourth quarter from a year earlier, overshadowing a better-than-expected performance in the investment bank, where fixed-income traders notched their best fourth quarter on record.

Earlier this week, Bloomberg News reported that UBS had kicked off a wave of job cuts in Switzerland, with hundreds of employees receiving notice in recent weeks. The push is part of the ongoing integration with Credit Suisse, a former rival it bought in an emergency rescue two years ago.

UBS CEO Sergio Ermotti told Bloomberg this month that he would keep cutting headcount in the wake of the historic acquisition. The Swiss lender seeks to

shed another \$5.5bn in costs in addition to the \$7.5bn already achieved since the deal.

The reduction at Julius Baer will be across divisions and the bank’s 15-person executive board will also be significantly shrunk, Bloomberg News reported separately this week.

Under CEO Stefan Bollinger, the Zurich-based wealth manager is looking at wrapping up a turnaround launched in the aftermath of losses linked to the defunct Signa real estate empire. The bank had about 7,400 workers at the end of 2023.

Julius Baer is set to report fourth-quarter results on Feb. 3 and UBS the following day.

To be sure, it isn’t all doom and gloom for Europe’s lenders. Some of them are planning to raise payouts this year. Deutsche Bank is looking at a 10% increase in bonus for its investment bankers, Bloomberg News reported this month, while BNP Paribas SA is eyeing 5%. Barclays Plc is set to raise the number by as much as 20% after an improved year for traders and advisory teams.

But the changes at HSBC, the

most dramatic yet, are likely to unfold through June. Since taking charge five months ago, CEO Elhedery has been a man on a mission to give the British lender a complete makeover, with his latest move set to abandon all dreams of rivalling Wall Street peers.

“Going forward we will focus on areas where we can best serve our corporate and institutional clients,” said Elhedery’s lieutenant Michael Roberts, who heads the corporate and institutional banking division.

Still, the bank will have a strong footprint in Asia, especially China and Hong Kong, and the Middle East.

“I don’t think this is about having to make a difficult choice between serving China versus serving the West - it’s about cold hard commercial facts,” said Alex Marshall, managing partner at CIL, a consultancy firm. It is “a realistic and pragmatic doubling-down of their bet on Asia and Mena capital flows” and it’s not that they are really abandoning a position of great strength in Europe and the US, he said.

# ESG funds hit by worst-ever redemptions as backlash deepens

**Bloomberg**  
Brussels

ESG fund managers are facing one of the toughest moments in the strategy’s history, as investment clients pull record amounts of money.

Funds complying with the European Union’s strictest ESG standards suffered record outflows last quarter, according to fresh data from Morningstar Inc.

That follows an analysis by the market researcher showing ESG fund managers in the US just had their worst year ever. At the same time, a record number of funds has now scrapped ESG and related terms from their names, Morningstar data show.

“The story for equity funds in ESG hasn’t been great,” Hortense Bioy, head of sustainable investing research at Morningstar Sustainability, said in a phone interview on Wednesday. A lot of ESG funds offering “clean energy, cleantech and climate solutions haven’t done well in the context of high interest rates.”

It’s the latest piece of bad news for proponents of ESG (environmental, social and governance), as investors turn away from a strategy that’s been plagued by lacklustre returns, regulatory fatigue and political backlash. The development is being used as an opportunity by some businesses and lawmakers in Europe to call time on ESG rulemaking, especially

in light of US President Donald Trump’s embrace of deregulation in the world’s largest economy.

In the US, ESG fund managers suffered almost \$20bn of withdrawals last year, a Morningstar report published earlier this month showed.

Europe, which accounts for more than 80% of the world’s ESG fund assets, has already acknowledged it needs to recalibrate a whole range of ESG regulations as the complexities of introducing such an ambitious framework within a relatively short period of time become clear.

Rules for ESG fund disclosures in Europe are currently being overhauled, after investors and even national regulators criticised the existing framework, known as the Sustainable Finance Disclosure Regulation. Meanwhile, Germany and France are pressuring the European Commission to scale back planned ESG reporting requirements for companies across all industries.

In an interview this week, the EU’s new commissioner for financial services, Maria Luis Albuquerque, said the bloc remains committed to its landmark Green Deal. However, the details of the regulatory and legislative rollout probably need to be tweaked, she said.

“We may need to adjust the pace and especially eliminate some overlaps and inconsistencies, which happened because we were putting forward a lot of legislation



in a short period of time,” she said. “We understand the concerns, we understand the burden or — as I’ve heard it — the fatigue, and we need to address that.”

Albuquerque cautioned against anticipating deregulation from the EU. Instead, “it’s adjusting the pace” while “maintaining the anchor,” she said.

“Because I do believe, and I think that most people also believe that sustainability is a medium to long-term competitiveness advantage.”

Investors who focused on the greenest of assets in recent years have yet to see those bets pay off. Since the beginning of 2022, as pandemic-era emergency

measures including interest rates at crisis lows started to fade, the S&P Global Clean Energy Index has lost roughly half its value. In the same period, the S&P 500 Index rose almost 30%.

Jenn-Hui Tan, chief sustainability officer at Fidelity International, says despite the headwinds, a lot of asset managers are still working hard to implement the existing EU’s existing ESG regulations.

“What we and everyone else is doing is getting on with the business of complying with these regulations, making sure that our businesses are future-fit, and if there are changes, then we have to be able to adapt to these changes,” he said. “And we, like many others, are preparing for a range of different outcomes on how those changes might land or might not land.”

Tan also said it’s important to keep in mind how monumental the current regulatory shift is.

“I don’t think we should underestimate how quickly this space has evolved, how much we’ve achieved in the last three, four years,” he said.

Morningstar’s latest analysis shows that redemptions from European funds registered as Article 9 — the name given to the EU’s strictest ESG category — hit €7.3bn (\$7.6bn) in the final three months of 2024. That’s more than double the level of outflows seen in the third quarter and marks the fifth straight quarter of withdrawals.

Equity funds in Europe registered as Article 9 were the hardest hit, with withdrawals of €6.4bn, Morningstar said. A separate category known as Article 8, which has been criticized for being too broad an ESG designation to be meaningful, saw inflows of €52bn mostly due to rising demand for fixed-income funds, Morningstar said.

Funds registered as Article 6, a non-ESG category, saw €85.4bn of inflows. Flows into both Article 8 and Article 6 funds have risen in recent quarters.

And even though record numbers of funds just dropped ESG terms from their names, it’s likely that trend will pick up in coming months, as asset managers try to adapt to stricter rules due to be enforced by the European Securities and Markets Authority in May.

“Overall, we anticipate that between 30% and 50% of in-scope funds will change names, representing between 1,200 and 2,200 funds,” Morningstar said.

Investors also need to brace for a world in which SFDR fund disclosure categories may be replaced — or supplemented — by new labels intended to give retail clients a better sense of what they’re buying.

Investors should be able to choose between strategies that broadly target sustainability, the net zero transition or an ESG category defined by its exclusion of a number of harmful activities, the Platform on Sustainable Finance, which advises the EU’s executive arm, said in December.



# Japan's economy faces fallout from Trump's China tariff threats

**Bloomberg**  
Tokyo

Japan's economy risks taking another hit if US President Donald Trump slaps fresh tariffs on China, sparking a renewed US-China trade war, according to the government's chief economist.

"If a US-China trade war leads to higher tariffs, it's likely to negatively affect Japan's economy, based on past experience," Tomoko Hayashi, chief economist at the Cabinet Office, said in an interview with Bloomberg.

Still, Japanese companies may be a little better prepared to deal with the fallout from Trump's policies this time than they were during his first administration, given a widening of supply chains and more familiarity with the president's tactics, Hayashi said.

Hayashi was one of the main government analysts assessing the economic impact of Trump's policies during his first term.

The comments come as policymakers, investors and economists keep a close eye on Trump's trade policy amid fears that his threatened use of tariffs could batter global commerce and confidence in the growth outlook.

Trump announced on Thursday plans to impose a 25% tariff on goods from Mexico and Canada from Saturday, along with a pos-



The Maersk Eindhoven container ship sits moored next to gantry cranes at a shipping terminal in Yokohama. Japan's economy risks taking another hit if US President Donald Trump slaps fresh tariffs on China, sparking a renewed US-China trade war, according to the government's chief economist.

sible 10% tariff on Chinese imports. Further use of tariffs is expected as the president uses levies on trade as one of the key negotiating instruments for pursuing his America First agenda.

Hayashi's team points to a 7.1% slide in Japan's exports between the second quarter of 2018, just before Trump's first tariff salvo, and the first quarter of 2020 as evidence of the fallout from the US-China trade war at the time. Most of the impact was indirect, affecting exported components from Japan used in products assembled in China and shipped to the US.

Annual figures show Japan's exports to China fell 7.6% in 2019 in the first full year of Trump's tariffs. That was the worst drop since bilateral ties between the two Asian nations were strained in 2012 during a spat over islands in the East China Sea controlled by Tokyo but claimed by Beijing.

Hayashi said Japan could face a similar fate from US tariffs on China, second time around, though companies may be better prepared for disruption.

"Having learned from past experience, some Japanese firms have already put countermeasures in place,

such as adjusting supply chains and stockpiling inventory," Hayashi said.

The economist suggested that China is also more prepared for Trump now than it was in 2017, having diversified its export markets and established factories elsewhere in Asia to reduce its reliance on direct shipments to the US.

Hayashi said she's also closely watching Trump's proposed tax cuts, immigration reforms and energy policies, factors that may impact the overall performance of the US economy. While some policies such as higher tariffs are likely

to have a negative effect on Japan and the global economy, others might bring benefits, she said.

"Tax cuts and deregulation typically boost the US economy, which accounts for 26% of global gross domestic product," Hayashi said. "If US growth increases, Japan's economy will naturally benefit."

Touching on domestic monetary policy, Hayashi expressed confidence in the Bank of Japan (BoJ)'s decision making, following its third interest rate hike in less than a year.

"I fully trust the BoJ, as its officials are carefully analysing the situation on a daily basis and making decisions to achieve its price stability goal," she said.

Hayashi sees steady progress toward ending deflation, a long-standing government objective. In particular, she pointed to growing price expectations among businesses and households, after nearly three decades of stagnation.

The economist emphasised the need for further confirmation of trends in the economy before declaring a complete exit from the risk of deflation, citing the importance of sustaining a virtuous cycle between prices, wages and consumption. Ongoing wage negotiations will be crucial for determining whether momentum can be maintained, she added.

## Asia markets mostly rise but worries over tariffs, AI linger

**AFP**  
Hong Kong

Most Asian markets edged up yesterday at the end of a week beset by volatility after China's DeepSeek unveiled a groundbreaking chatbot, while sentiment was dampened by US President Donald Trump confirming hefty tariffs on Canada and Mexico.

Traders were rattled by news that the Chinese startup had created a programme that apparently matched the capacity of US artificial intelligence pacesetters for a fraction of the investments made by American companies.

The development raised questions about the vast sums of cash invested in the sector by the world's leading companies and has fuelled fears of a retreat from some of the world's leading firms – Nvidia tanked almost 17% Monday and has struggled to fully recover since.

A mixed bag of results from tech giants including Microsoft and Meta in recent days have been unable to instil much excitement, though there was some cheer from Apple's announcement on Thursday of a \$124.3bn fourth-quarter profit.

Several industry leaders have welcomed DeepSeek's arrival and the injection of competition, while analysts have flagged the benefits of the shake-up.

"This is the same path the PC revolution followed, with computing power becoming cheap enough that millions of individuals could use it at an affordable cost," said Morningstar's Eric Compton.

"We believe a future where AI was both prohibitively expensive and also 'taking over the world' was not likely. As

such, we view the advancements made by DeepSeek as promising and healthy for the overall ecosystem."

Still, after this week's sell-off in Japanese chipmakers that had benefitted from the AI-rally in recent years, South Korean firms took a hit as Seoul fell on the day it reopened after a holiday.

SK hynix tumbled nearly 12% at one point before finished only slightly better, while Samsung shed more than 2% – with the latter also reporting a drop in operating profits in October-December as it struggled to meet demand for chips used in AI servers.

However, there were gains in Tokyo, Sydney, Singapore, Wellington, Mumbai, and Jakarta. Manila and Bangkok fell.

Shanghai, Hong Kong, and Taipei remained closed for the Lunar New Year break.

Spot gold held just shy of the record high \$2,799.65 touched Thursday owing to uncertainty about the economic outlook and Trump's trade policies.

The dollar rose, with the Mexican peso and Canadian dollar taking a lot of the heat after the president said he would go ahead with the threatened 25% tariffs on the countries pencilled in for Saturday.

Trump has accused the two key trading partners of failing to tackle illegal immigration and drug trafficking.

However, it was not clear whether oil would be included or not. The countries supplied more than 71% of US crude oil imports in 2023, according to a congressional report.

China is another possible target, though Trump's tone on the economic powerhouse has been less forceful than during his election campaign, when he promised levies as high as 60%.

## Thai EV output set to jump, sparking price war in bruised market

**Reuters**  
Bangkok

Thailand is bracing for an extended EV price war triggered by a surge in local production from Chinese car makers, a move likely to deal a further blow to a domestic auto industry already struggling with tumbling sales, industry experts said.

Electric vehicle sales in Thailand, Southeast Asia's largest EV market, are forecast to jump 40% this year, exceeding 100,000 units and reversing a 8% drop in sales last year, Suroj Sangsnit, president of Electric Vehicle Association of Thailand (EVAT), told Reuters.

The expected surge in sales is largely because of a national incentive programme that requires local production of 1.5 vehicles for each imported vehicle between 2022 and 2023 for companies

to qualify for tax breaks – and to avoid paying hefty penalties.

The programme, which also includes price subsidies of up to 150,000 baht (\$4,400), helped Southeast Asia's second-largest economy become the region's biggest EV market, which registered 70,000 new EVs last year. It imported about 84,000 EVs between 2022 and 2023. But it now threatens to intensify bruising price competition in a weak market where auto sales are slumping because of tight credit conditions and ballooning household debt, analysts said.

Great Wall Motor for January, dropped the price of its Ora Good Cat as much as 270,000 baht, while GAC AION lopped 166,000 baht off the price tag of its AION Y Plus. Both are Chinese companies.

"Price wars will be prolonged, aggressive, and more widespread," said Siam Commercial Bank (SCB) Economic

Intelligence Unit senior analyst Tita Phekanonth, adding that there also could be discounts for internal combustion engine vehicles.

Thailand, a major auto production hub in Asia, exports about three-fifths of locally manufactured vehicles.

The Board of Investment (BoI), which anchored the incentive programme, changed some of the rules in December – extending a battery production timeline and offering incentives for hybrids – to ease concerns of oversupply and a price war.

BoI chief Narit Therdsteeasakdi told Reuters that EV companies would start exporting this year as well, potentially easing oversupply.

"They are not restricted to right or left-hand drive either," he said, pointing out that Chinese carmakers were producing both EV variants in Thailand. "Other

markets like Indonesia have also seen investment from (China's) BYD and Neta," said Hathaiwal Tungkatrakul, a senior researcher at Kasikornbank, and those companies' EV exports compete with Thailand's.

Thai auto production dropped for the 17th consecutive month in December because of weak demand at home and abroad.

Vehicle exports fell 8.8% in 2024, while domestic sales plunged 26%, the lowest in 15 years.

Drawn by subsidies and tax incentives aimed at converting 30% of its annual auto production to EVs by 2030, Thailand, whose auto sector had long been dominated by Japanese firms, has seen a flurry of Chinese EV investment in recent years. China's BYD, Great Wall Motor and others have poured more than 102.7bn baht (\$3bn) into the country, according to EVAT.

BYD, Great Wall Motor, Changan and GAC AION, which launched their facilities in Thailand last year, did not respond to a Reuters request for comment on their strategies ahead of potential EV price cuts.

Carmakers failing to meet the local production requirements could face up to 400,000 baht (\$11,806) per car in penalties and fees, said EVAT's Suroj, who is also the executive vice president of SAIC Motor-CP, a joint venture of China's SAIC Motor and Thailand's CP Group.

"It will be competitive," said Suroj, adding that locally produced vehicles will only qualify for subsidies if they are sold this year, after which government support will cease. BYD has already come under government scrutiny for deep discounts of up to 340,000 baht per EV.

The biggest EV seller in the country was cleared of wrongdoing by a consumer watchdog last year.

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# Apple gains on forecast following mixed quarterly report

**Bloomberg**  
New York

Apple Inc gave a reassuring revenue forecast for the current quarter, helping boost shares of the world's most valuable company after its holiday results showed jarring declines for China and the iPhone.

Sales will grow by a percentage in the low- to mid-single digits, the company said during a conference call Thursday. Though that's in line with the roughly 5% that analysts have been predicting, it was enough to soothe the nerves of investors following a mixed quarterly report.

The shares rose as much as 4% after markets opened in New York yesterday. They had fallen 5.1% this year through Thursday as part of a broader tech stock decline.

Revenue from China plunged 11% to \$18.5bn in the fiscal first quarter, which ended December 28, Apple said earlier. Analysts had anticipated a gain to \$21.6bn. Sales of the iPhone, meanwhile, dropped less than 1% to \$69.1bn. Wall Street pro-

jected \$71bn. The results renewed concerns about China, one of Apple's biggest markets, where it's struggled to fend off competition from local brands. Chief Executive Officer Tim Cook said that more than half of the decline in China stemmed from inventory issues.

"Our channel inventory reduced from the beginning of the quarter to the end of the quarter," he said during the conference call. "Our sales were a bit higher than we forecasted them to be toward the end of the quarter. And so we ended a little leaner than we had expected to."

The poor performance for overall iPhone sales suggested that the company didn't get much of a lift from the rollout of a new AI platform, Apple Intelligence. Still, the new iPhone 16 performed better in countries where the AI features were available, Cook said.

Apple is playing catch-up with its biggest tech peers in AI. A staggered rollout of Apple Intelligence also has meant that consumers have had to wait for many features. And competitors have jumped out ahead in other areas, such as smart glasses. Apple's wearables business declined over

the holidays as well. "Apple needs to accelerate its Apple Intelligence deployment and be a bit more aggressive in emerging areas like smart glasses development to maintain an innovative edge," Emarketer analyst Jacob Bourne said in a note. "The next few quarters will test whether it can balance its cautious approach with the market's hunger for AI innovation."

The report also marks a changing of the guard for Apple. It's the first to be announced under new Chief Financial Officer Kevan Parekh, who replaced long-time CFO Luca Maestri at the beginning of this year. Total revenue rose 4% to \$124.3bn in the period, helped by growth in services revenue. Analysts had projected \$124.1bn on average. Profit rose to \$2.40 a share, beating the average estimate of \$2.35. Like the revenue figure, that number was a record high.

The latest iPhones aren't markedly different than the prior models — a factor that may have led some consumers to hold off on upgrades.

Though the company has touted the Apple Intelligence platform as a reason to buy the device, its earlier iPhone 15 Pro

models can also run the software. Apple is planning a larger iPhone refresh this year, including a replacement for its low-end SE model in the coming months and a thinner iPhone in the fall.

The services division, which includes the App Store and Apple Music, was a bright spot, bringing in an all-time record of \$26.3bn and growing 14%. Wall Street had been looking for \$26.1bn. Services revenue in the second quarter will climb in the low-single digits, Apple said during the call.

The Mac and iPad lineups also performed better than expected. The Mac generated sales of \$8.99bn in the quarter, beating estimates of \$7.94bn.

Apple updated several models with AI-focused M4 chips last year, and it plans to roll out a new MacBook Air soon. It's also expected to unveil desktop computers later in the year.

Revenue from the iPad grew 15% to \$8.09bn, compared with an estimate of \$7.35bn. After taking a break in 2023 from launching new models, the company revamped the iPad Pro and iPad Air last May and refreshed the iPad mini in the

fall. Cook said the new Air and lower-end models were mainly responsible for the revenue increase. The company is planning to update the low-end and Air models in the coming months.

The company's wearables, home and accessories category, which has struggled in recent quarters, posted revenue of about \$11.8bn. That was down slightly from a year earlier and below the projection of nearly \$12bn.

The company released a redesigned Apple Watch Series 10 and rolled out two new AirPods models last year, but its latest product category — the Vision Pro headset — hasn't been a sales driver. Parekh said the lack of a new Ultra watch in 2024 created a tough comparison for that segment.

More broadly, Cupertino, California-based Apple still faces plenty of challenges at home and internationally.

Its struggles in China have stemmed in part from not being able to offer Apple Intelligence in the country. That's made it harder to compete with local brands like Huawei Technologies Co. Apple is working to find an AI partner that will let it launch the AI platform in China.

# US inflation increases in December; consumer spending robust

**Reuters**  
Washington

US inflation increased by the most in eight months in December amid robust consumer spending on goods and services, suggesting the Federal Reserve would probably be in no hurry to resume cutting interest rates soon.

While the report from the Commerce Department yesterday showed a modest gain in prices excluding the volatile food and energy components on a monthly basis, the annual increase in the so-called core inflation has not slowed since October. The disinflation progress stalled in the fourth quarter.

The US central bank kept rates unchanged on Wednesday for the first time since launching its policy easing cycle in September. The policy statement accompanying the decision did not include the reference to inflation having "made progress" toward the Fed's 2% target. The inflation outlook has been clouded by uncertainty about the economic impact of President Donald Trump's fiscal, trade and immigration policies.

"The Fed's prognosis is for a slower pace of monetary easing moving forward, as the economy is doing well and prices are only slowly returning to target in an environment of great uncertainty," said Carl



Shoppers at a grocery store in Scottsdale, Arizona. US inflation increased by the most in eight months in December amid robust consumer spending on goods and services, suggesting the Federal Reserve would probably be in no hurry to resume cutting interest rates soon.

Weinberg, chief economist at High Frequency Economics. "These data support that strategy."

The Personal Consumption Expenditures (PCE) Price Index rose 0.3% last month, the largest increase since last April, after an unrevised 0.1% gain in November, the Commerce Department's Bureau of Economic Analysis said.

The increase was in line with economists' expectations. Goods prices rose 0.2%, the first gain in five months, lifted by higher costs for motor vehicles and parts as well as gasoline and other energy goods, which jumped 4.2%.

Prices of furnishings and durable household equipment plunged as they did for recreational goods and vehicles. The cost of services increased 0.3% amid gains in transportation, recreation, and housing and utilities.

In the 12 months through December, PCE inflation advanced 2.6%. That was the biggest gain in seven months and followed a 2.4% rise in November.

The data was included in the advance gross domestic product report for the fourth quarter published on Thursday. The Fed tracks the PCE price measures for monetary policy. It has reduced its

benchmark overnight interest rate by 100 basis points to the 4.25-4.50% range since September.

The central bank has forecast only two rate cuts this year, down from the four it had projected in September amid caution over the new Trump administration's plans for tax cuts, broad tariffs on imports and an immigration crackdown, which economists view as inflationary.

No rate cut is expected before June. Stripping out the volatile food and energy components, the PCE price index rose 0.2% last month after an unrevised 0.1% increase in November. In

the 12 months through December, the core inflation advanced 2.8%, rising by the same margin for three straight months.

Some economists highlighted the slight monthly gain in core inflation and a separate report from the Labor Department's Bureau of Labor Statistics showing a marginal rise in labour costs on the fourth quarter as signs that the disinflationary trend remained intact. Core inflation rose at a 2.2% annualised rate in the three months to December.

"That will be welcome news at the Fed, though as conveyed in recent Fed speak the committee will be patient in considering further interest rate cuts, and we still see them on hold until mid-year," said Abiel Reinhart, an economist at JPMorgan.

Fed Chair Jerome Powell this week indicated policymakers were watching the 12-month inflation "because that takes out the seasonality issues that may exist." Stocks on Wall Street were higher. The dollar advanced against a basket of currencies. US Treasury yields rose.

The employment cost index (ECI), the broadest measure of labour costs, gained 0.9% in the fourth quarter after rising 0.8% in the third quarter. Labour costs climbed 3.8% in the 12 months through December, the slowest since the third quarter of 2021, after increasing 3.9% in the year through September.

# German inflation holds steady at 2.8% in January

**Reuters**  
Berlin

Germany's annual inflation rate held steady in January but core inflation eased markedly, keeping intact expectations of further interest rate cuts from the European Central Bank (ECB).

German inflation remained at 2.8% this month, in line with forecasts, preliminary data showed yesterday. Core inflation, which excludes volatile food and energy prices, eased to 2.9% in January from 3.3% in December.

Germany will hold a snap national election on February 23 following the collapse of Chancellor Olaf Scholz's three-way coalition.

"The persistently weak economy appears to be having an increasingly disinflationary effect," said Sebastian Becker, economist at Deutsche Bank Research, adding that he expects the core rate will fall further during the year.

Increasing competition from abroad, high energy costs, still elevated interest rates and uncertain economic prospects have taken a heavy toll on Germany's economy, which contracted in 2024 for the second year in a row.

The weakness of Europe's biggest economy took its toll on the labour market, with the unemployment rate rising to 6.2% — the highest in more than four years.

Andrew Kenningham, chief Europe economist at Capital Economics, said regional and national data published so far suggested euro zone inflation — due on Monday — may come in a bit lower than anticipated. "This would support those on the European Central Bank Governing Council arguing for significantly more policy

easing in the coming months," Kenningham said. French consumer prices increased slightly less than anticipated in January, preliminary data showed yesterday, with the harmonised rate at 1.8%.

Economists polled by Reuters expect data on Monday to show eurozone inflation held at 2.4% in January, unchanged from the previous month.

The ECB cut interest rates on Thursday and kept the door open for a further reduction in March as concerns over lacklustre economic growth trump worries about inflation. Markets are pricing in three further rate cuts in the eurozone this year.

However, separate surveys yesterday showed euro zone consumers and economists' inflation expectations for this year had increased, raising some doubts about the ECB's assertion that price growth is firmly under control.

In Germany, a survey from the Ifo institute yesterday indicated fewer manufacturers plan to raise their prices, but more consumer-related service providers want to raise theirs.

"The inflation rate is therefore also expected to be at around 2.5% in the coming months, hence above the ECB's target," said Timo Wollmershaeuser, head of forecasts at Ifo. The stickiness of inflation at slightly too high a level still looks set to continue as favourable energy base effects continue to peter out, Carsten Brzeski, global head of macro at ING said.

"We might not agree with the entire macro assessment the ECB gave yesterday but, at least for Germany, a scenario of inflation settling down in the range of 2-2.5% over the course of the year seems realistic," said Carsten Brzeski, global head of macro at ING.

# BlackRock's once-mighty inflation-hedge ETF is losing its crown

**Bloomberg**  
New York

A once-dominant BlackRock Inc bond ETF is at risk of losing its crown as the biggest inflation-hedging product of its kind, after schooling investors about the dangers of safety trades laden with interest-rate risk. The iShares TIPS Bond ETF, benchmarked to a broad index of Treasury inflation-protected securities with an average maturity of about seven years, incurred losses in 2022 as Federal Reserve interest-rate increases pushed bond yields higher. Its income payments — despite being tied to the inflation the Fed was fighting — were fully offset by the resulting drop in the value of its holdings. BlackRock subsequently decided that its LifePath target-date retirement funds would no longer invest in the fund, known by its ticker TIP. Instead, the LifePath funds would hold shares of iShares 0-5 Year TIPS Bond ETF, or STIP, which is less vulnerable

when yields rise. As BlackRock implemented the changes over the past three months, TIP — which had nearly \$40bn in assets at its peak in December 2021 — shrank by about 27% to less than \$14bn. Meanwhile STIP has increased by 40% to nearly \$11bn. The case for shifting into shorter-maturity market hedges, with a more limited dose of interest-rate risk, was potentially strengthened this week when the Fed said it was in no rush to ease monetary policy again. "More and more investors understand that TIPS — especially long-end TIPS — are real rate products" that suffer when the Fed raises rates, said Gang Hu, managing partner at Winshore Capital Partners, which specialises in inflation-linked investments. "The best market participants can do is to invest in a fund with the same inflation exposure but less rates exposure." The shift in assets away from longer-maturity products has implications not only for the market, but also for the US



Treasury Department as it considers whether to further increase the amount of TIPS it sells. Advisers to the department have recommended that it consider adding a three-year TIPS to its existing lineup of 5-, 10- and 30-year securities, and the department sought feedback from

dealers on the topic in October. Inflation-protected Treasuries pay interest at fixed rates on a principal amount that's tied to growth in the US consumer price index, insulating holders from increases in the broad price level. As CPI inflation topped 6% in 2021 en route to a peak of 9.1% in

June 2022 — a consequence of pandemic-related supply-chain disruptions and government response measures — investors flocked to TIP, and it doubled in size. The Fed responded to inflation with 11 rate increases over 16 months totalling more than five percentage points. As bond yields climbed, the longest-maturity ones suffered the steepest price declines. TIP — which only once had suffered an annual loss of more than 1.8% — lost a record 12.2% in 2022. STIP lost 3%. "Perhaps the lesson learned from the pandemic was that if you want inflation protection, not a lot of duration exposure, then you want a 0-5 year TIPS fund, not a 1-30 year TIPS fund," said Michael Pond, head of global inflation-linked market strategy at Barclays Capital. In November 2024, BlackRock's LifePath funds — which aim to limit market risk as investors approach a target retirement date — decided to rotate out of the longer-maturity ETF into the shorter-dated product. The LifePath funds have combined

assets of about \$538bn, including \$12bn in inflation-protected bonds. STIP is an equally effective inflation hedge with "far less sensitivity" to interest rates, Nick Nefouse, head of BlackRock's target-date fund unit, said in a report prior to the decision. BlackRock's implementation of the shift helped drive outperformance for short-maturity TIPS relative to long maturities, Winshore's Hu said. Yields for 30-year TIPS reached levels more than 60 basis points higher than for five-year TIPS this month, the biggest margin since 2022. In making the change, BlackRock is more than 10 years behind rival Vanguard Group, whose retirement funds switched to a shorter-dated benchmark for inflation-protected bonds in 2013. Launched in 2003, TIP was the first US inflation-linked bond ETF and is still the largest. At its peak it was the largest Treasury debt ETF of any kind. Now, it's just \$1bn bigger than its closest rival — Vanguard Short-Term Inflation-Protected Securities Index Fund (VTIP).