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Wealth & Asset Management

WEEKLY BULLETIN

# Hey big spender: Germany loosens the purse strings

## Key takeaways

Germany held the spotlight last week, with news that the European powerhouse would loosen its purse strings to support defence and infrastructure spending and encourage peace in the region.

### New Chancellor-in-waiting pushes for defence spending

Germany's new Chancellor-in-waiting, Friedrich Merz, has announced plans to raise hundreds of billions of euros in extra spending on defence and infrastructure. Merz's plans mark big changes for Germany's traditionally low debt levels and previously shaky economic growth prospects. Markets have taken note: German government bond yields (which move in the opposite direction to bond prices) have risen sharply, as investors expect more bonds to be issued, while share prices in the European defence sector have continued to rise in anticipation of new spending. Most economists have also upgraded their predictions for German economic growth over the coming years.

### China commits to economic growth plans

Lost in the media noise centred on Europe, Chinese leaders have set an economic growth target of 5%, and raised the nation's budget deficit to around 4% of GDP to fund this growth. The deficit has been held at around 3% of GDP since 2010, but Chinese leaders are now committed to stimulating growth for this embattled economic giant. It's worth noting that – while some technology-related names in the US have stumbled – share prices in China's tech sector have been strong so far in 2025.

### Interest rate cuts in Europe

Also rather lost in the wake of defence spending news, the European Central Bank (ECB) cut its benchmark interest rate to 2.5% (from 2.75%). ECB President Christine Lagarde stated that she would not commit to a particular course for further interest rates. Besides the news on German spending, the EU has also announced a new defence package worth €150bn. Against this fast-moving backdrop, economic growth and inflation could be pushed higher in Europe, meaning that the ECB's future interest rate plans may need to roll with the punches.

### US economic data continues to unnerve

A range of economic data was also released in the US last week, including the latest private sector survey data for the US manufacturing sector (the Purchasing Manager's Index). The results of this 'forward-looking' survey included hints at weakening prospects for new manufacturing orders and for employment. Official employment statistics last week also showed a disappointing number of new jobs added to the US economy, and an increase in the US unemployment rate.

## Market moves

German government bond yields saw their biggest moves (higher) since the fall of the Berlin Wall, while share prices in European defence companies surged upwards.

Meanwhile, US stock markets faltered, and sterling strength further weakened returns for UK investors from overseas investments. between Russia and Ukraine.

Gold – a traditional 'safe haven' for investors – continued to perform well amid turbulent geopolitics. The oil price dropped sharply as investors questioned future demand for energy amid unsettled US growth prospects.

## What to look out for this week

Economic data due for release this week includes inflation data and small business sentiment news in the US, as well as an update on economic activity in the UK and Europe.

In the changeable world of Trump's second US presidency, watch out for further updates to tariffs on US trading partners.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

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