Microsoft Rout Sparks Tech Selloff as Fed Pause, Trade Deficit Shock, and Geopolitical Risks Shape a Volatile Global Session

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The **U.S. and European stock markets closed mostly lower** on Thursday, after investors digested Microsoft's earnings and assessed the Federal Reserve's latest policy stance.

The **S&P 500 declined 0.13%**, while the **Nasdaq Composite fell a sharper 172.32 points** amid heavy pressure on large-cap growth stocks, and the **Dow Jones Industrial Average rose 55.96 points**. **Microsoft** was the clear drag on the broader marke**t, with shares sliding 9.99% and erasing $357 billion in market capitalization**, marking the stock's steepest one-day decline since March 2020. The selloff followed the company's quarterly earnings report, which revealed a **slowdown in cloud revenue growth** during its fiscal second quarter. Adding to investor concern, management issued **weaker-than-expected guidance for fiscal third-quarter operating margin**s, reinforcing market sensitivity around elevated AI-related capital spending and near-term profitability.

The magnitude of Microsoft's decline weighed disproportionately on the major indexes, underscoring how concentrated market leadership has become within megacap technology. More broadly, the session reflected a shift in investor focus away from top-line growth alone toward earnings quality, margins, and capital discipline, particularly as monetary policy remains restrictive.

Wall Street traded little changed, oscillating between modest gains and losses as investors reacted to mixed results in the technology sector and heightened geopolitical uncertainty in the Middle East. After the market closed here members of the "Magnificent Seven" reported results. Meta Platforms stood out, with shares rising sharply after the company raised its revenue outlook while reaffirming aggressive AI-related investment plans. The market interpreted Meta's results as evidence that heavy AI spending is translating into tangible revenue momentum.

By contrast, Tesla delivered a more strategic update, emphasizing its long-term pivot toward autonomous driving and robotics, though near-term financial impact remains limited. Apple is scheduled to report after closing, keeping volatility elevated across the broader tech complex. Commodities reacted forcefully to geopolitical headlines. WTI crude oil surged above the mid-$60s per barrel after warnings from Washington raised concerns over potential supply disruptions in the Middle East. Safe-haven demand also intensified, lifting gold to new record territory above $5,500 per ounce, while silver posted outsized gains, reflecting both geopolitical hedging and renewed investor interest in precious metals.

Trade Deficit: Sharp Reversal Signals External Strain

Adding to the cautious macro backdrop, data released by the U.S. Census Bureau showed **the U.S. trade deficit nearly doubled in November, reversing a brief period of improvement.**
After reaching its lowest level since early 2009 in October, the trade gap widened to $56.8 billion, representing a 94.6% month-over-month increase. Roughly one-third of that deterioration came from trade with the European Union, where the goods deficit expanded by $8.2 billion. By contrast, the goods deficit with China narrowed modestly by about $1 billion to $13.9 billion.

On a year-over-year basis, the cumulative trade deficit through November reached $839.5 billion, approximately 4% higher than the same period in 2024. The data suggest that, despite tariff measures implemented under Donald Trump, import demand remains resilient and external imbalances persist as policy effects continue to filter through the economy.

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AI Spending: From Hype to Accountability

The first wave of mega-cap earnings reinforced a key market dynamic: **AI remains a powerful catalyst, but monetization now matters**. Companies demonstrating a clear pathway from AI investment to revenue growth are being rewarded, while those with rising costs and less visible payback face increased scrutiny. At the index level, technology earnings growth remains solid, but the pace is slowing relative to earlier quarters, supporting a broader rotation toward non-tech sectors as market leadership continues to widen.

Federal Reserve Pause May Be Longer Than Expected

As we discussed yesterday, the Federal Reserve left its policy rate unchanged at 3.50%–3.75%. In our view, this may be an **extended pause**, though an easing bias remains intact. Before the rate-cut cycle culminated in late 2025, the Federal Reserve was largely on hold for most of 2025, keeping rates steady within the target range until it began cutting in September. As tariff-related inflation pressures fade later in the year, one or two additional rate cuts remain our base case. For markets, the decision was largely neutral, with equities continuing to benefit from solid earnings and stable financial conditions.

European Markets

European equities broadly advanced, supported by strength in cyclicals and financials, but gains were partially offset by a steep selloff in Germany following a sharp earnings-driven decline in **SAP**. Shares of the German software giant fell roughly 14%—their largest single-day drop since 2020—after fourth-quarter results showed cloud revenue below consensus expectations. Management also cautioned that cloud backlog growth is likely to **moderate slightly in 2026**, a signal that weighed heavily on sentiment toward large-cap German technology and pushed the DAX lower on the day.

Sector performance reflected a more constructive underlying tone. Basic resources led European sectors, gaining about 3.2%, while bank stocks rose roughly 0.6% and financial services advanced around 1.4%, underscoring investor appetite for earnings visibility and balance-sheet strength amid ongoing macroeconomic uncertainty.

In single-name highlights, **ABB** surged approximately 10% after reporting a 36% year-over-year jump in fourth-quarter orders to $10.32 billion, marking a quarterly record for the Zurich-based industrial group and reinforcing confidence in its end-market demand outlook.

In financials, **Deutsche Bank** exceeded expectations across several key metrics, posting net profit attributable to shareholders of €1.3 billion, well above consensus estimates of €1.12 billion. The earnings beat helped lift shares despite heightened scrutiny following recent regulatory actions in Germany. The stock finished the session modestly higher.

Similarly, **ING Group** reported a net profit of approximately €1.4 billion, surpassing market expectations and supporting a mild share price advance. In the Nordic banking space, **Swedbank** gained about 1.5%, while **SEB** declined sharply after missing fourth-quarter net profit targets.

GDPNow Update:

- The **GDPNow** for the fourth quarter was updated on January 29, falling to **4.20**% from 5.40%, a 22.22% decrease.

Economic Update:

- **U.S. Initial Claims for Unemployment Insurance:** fell to 209,000, down from 210,000 last week, a change of -0.48%.
- **U.S. 4-Week Moving Average of Initial Claims for Unemployment Insurance:** rose to 206,250, up from 204,000 last week, a change of 1.10%.
- **U.S. Productivity:** rose to 4.90%, compared to 4.10% last quarter.
- **U.S. Trade Balance on Goods:** fell to -86.90B, down from -58.98B last month.
- **U.S. Wholesale Inventories MoM:** fell to 0.16%, compared to 0.21% last month.
- **30-Year Mortgage Rate:** rose to 6.10%, compared to 6.09% last week.
- **Eurozone Consumer Confidence Indicator:** is at -12.40, up from -13.20 last month.
- **Eurozone Economic Sentiment Indicator:** rose to 99.40, up from 97.20 last month.

Eurozone Summary:

- **Stoxx 600:** closed at 607.14, down 1.37 points or 0.23%.
- **FTSE 100:** closed at 10,171.76, up 17.33 or 0.17%.
- **DAX Index:** closed at 24,309.46, down 513.33 or 2.07%.

Wall Street Summary:

- **Dow Jones Industrial Average:** closed at 49,071.56, up 55.96 points or 0.11%.
- **S&P 500:** closed at 6,969.01, down 9.02 points or 0.13%.
- **Nasdaq Composite:** closed at 23,685.12, down 172.32 points or 0.72%.
- **Birling Capital Puerto Rico Stock Index:** closed at 3,985.17, down 16.06 points, or 0.40%.
- **Birling Capital U.S. Bank Index:** closed at 8,994.17, down 17.09 points or 0.19%.
- **U.S. Treasury 10-year note:** closed at 4.24%.
- **U.S. Treasury 2-year note:** closed at 3.53%.

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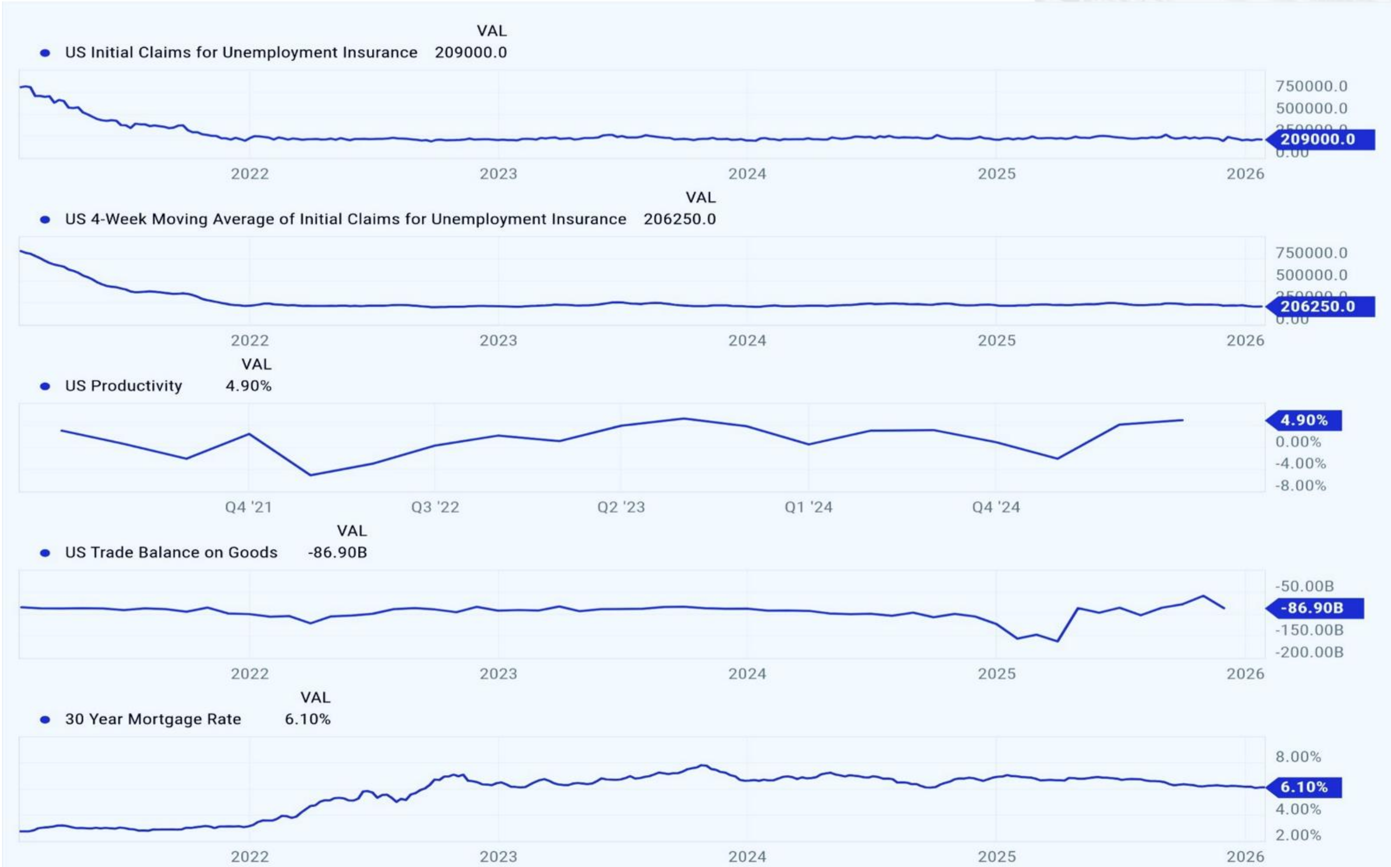
GDPNow

Fourth Quarter 2025

Date	GDPNow 4Q25	Change
12/23/2025	3.00%	Initial Forecast
1/5/2026	2.70%	-10.00%
1/8/2026	5.40%	100.00%
1/9/2026	5.10%	-5.56%
1/14/2026	5.30%	3.92%
1/21/2026	5.40%	1.89%
1/22/2026	5.40%	0.00%
1/26/2026	5.40%	0.00%
1/29/2026	4.20%	-22.22%

US Initial Claims for Unemployment Insurance; US 4-Week Moving Average of Initial Claims for Unemployment Insurance; US Productivity; US Trade Balance on Goods & 30 Year Mortgage Rate



Eurozone Consumer Confidence Indicator & Eurozone Economic Sentiment Indicator