ICEBERG FINANCIAL

WEEKLY NEWSLETTER

Chip Wars: US and China Battle for Semiconductor Dominance

Discover The Unknown Depth of Financial Markets

Context

ICEBERG ANALYTICA

- The Global Semiconductor Battle: US vs. China
- AI's Impact on Financial Services: A Comprehensive View
- GPT-4.5 Released: OpenAI Boosts AI Accuracy and Reasoning
- Next-Generation AI: Tencent Launches Hunyuan Turbo S

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- Trump's Policies Cast Doubt on ECB Rate Cut Projections
- Federal Job Cuts: A Looming Threat to Economic Stability
- Chinese Manufacturers Scramble as Trump's Tariff
- China's Economic Slowdown: Fears of Stagnation Grow
- Trump's Energy Strategy

ICELAB

- Blockchain and Federated Learning: A Solution to AI's Privacy Concerns
- Government Interest in Bitcoin Reserves Intensifies
- CBDCs: Realizing Economic Potential Amid Public Scrutiny
- The Resurgence of Macro Investing: Driven by Market Turmoil

CHARTS

- US growth surprises
- Country risks
- Equity rally broadens amid rotation to cyclical sectors

Insights From Past Weeks Analytics Revivew

USD vs. Major Currencies

USD vs. Major Currencies

Name	Symbol	Rate	Change	Change %	5 Days	1 Month	YTD	1 Year	3 Years	Day Range	52 Week Range
Australian Dollar	USD:AUD	1.61082	0.0072	0.45%	2.89%	0.45%	-0.30%	4.60%	16.98%	1.60154 – 1.61486	1.44074 – 1.64222
British Pound	USD:GBP	0.79505	0.0014	0.18%	0.84%	-1.06%	-0.47%	0.66%	6.69%	0.79227 – 0.79621	0.74443 – 0.82233
Canadian Dollar	USD:CAD	1.44555	0.0017	0.12%	1.86%	0.41%	0.54%	6.52%	14.10%	1.44 – 1.44725	1.3417 – 1.47935
Chinese Renminbi ("Yuan")	USD:CNY	7.294	-0.0072	-0.10%	0.85%	0.44%	-0.59%	1.15%	15.55%	7.28425 – 7.30205	6.97349 – 7.39915
Euro	USD:EUR	0.96379	0.0021	0.21%	1.41%	0.56%	-0.18%	4.45%	8.13%	0.95969 – 0.96525	0.89181 – 0.97934
Japanese Yen	USD:JPY	150.575	0.76	0.51%	0.92%	-3.04%	-4.31%	0.50%	30.95%	149.1015 – 150.9895	140.049 – 161.679
Swiss Franc	USD:CHF	0.90305	0.0033	0.37%	0.80%	-0.05%	-0.48%	2.79%	-1.57%	0.8983 – 0.9036	0.83739 – 0.92044

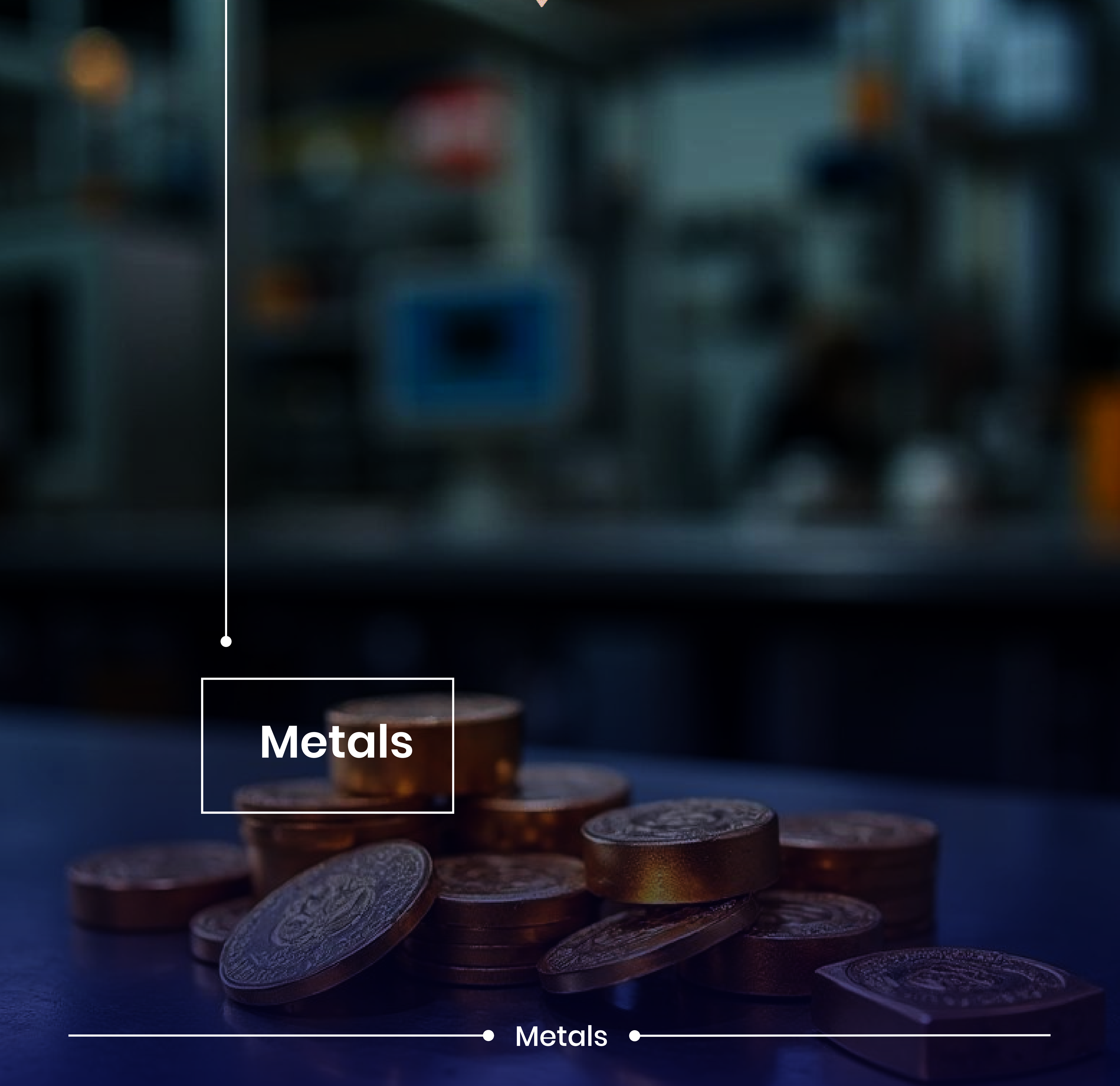
- The EURUSD pair dropped to a two-week low of 1.0379 before stabilizing around 1.0400, pressured by a strong US dollar amid cautious market sentiment. Weak US economic data, including declining consumer confidence and rising jobless claims, increased speculation of Federal Reserve rate cuts, pushing Treasury yields lower. Meanwhile, US trade tariffs set for March added uncertainty, potentially disrupting trade with Canada, Mexico, China, and the EU. In the US, mixed economic signals emerged, with weak housing data contrasting a durable goods rebound, while the Fed's preferred inflation measure, the PCE Price Index, eased as expected. In the EU, economic struggles persisted with Germany's IFO Business Climate Index stagnating and Q4 GDP contracting 0.2%, though retail sales slightly improved. Higher-than-expected inflation remained a concern, and Germany's CDU won the federal election but must form a coalition. Key upcoming events include EU inflation data, US employment reports, and the ECB's expected 25-basis-point rate cut.

Energy

Energy

Name	Symbol	Today	5 Days	1 Month	YTD	1 Year	3 Years	Day Range	52 Week Range
Oil	USO	-0.08%	-0.17%	-4.62%	-0.44%	2.17%	11.47%	74.25 – 75.47	66.02 – 84.58
Brent Oil	BNO	-0.33%	-0.89%	-3.77%	0.70%	1.17%	11.05%	29.84 – 30.23	26.77 – 33.91
Natural Gas	UNG	-2.49%	-7.92%	24.86%	21.00%	21.58%	-67.11%	20.31 – 20.77	12.35 – 22.84
Gasoline	UGA	-0.31%	-1.42%	-2.67%	-0.77%	-5.02%	20.86%	61.80 – 62.51	55.37 – 74.57

- Oil prices declined on Friday, marking their first monthly loss since November as geopolitical tensions, trade policy shifts, and supply developments pressured the market. Brent settled at $73.18, while WTI closed at $69.76, both posting their first monthly drop in three months. A tense Oval Office exchange between Trump and Zelenskiy over a Russia-Ukraine ceasefire raised concerns that Russia could increase oil exports. Meanwhile, Trump's tariffs on Mexican, Canadian, and Chinese goods fueled fears of weaker global demand. Iraq's plans to resume Kurdistan oil exports added to supply concerns, though unresolved agreements delayed shipments. Markets now await OPEC+ decisions on April output, with potential supply increases weighing on prices, though seasonal demand factors could offer support.



Metals

Metals

Precious Metals

Name	Symbol	Today	5 Days	1 Month	YTD	1 Year	3 Years	Day Range	52 Week Range
Palladium	PALL	0.46%	-4.72%	-3.28%	1.17%	-0.92%	-63.81%	83.10 – 84.83	77.52 – 113.92
Gold	GLD	-0.63%	-2.76%	3.17%	8.73%	39.78%	47.59%	261.25 – 263.40	193.88 – 272.32
Platinum	PPLT	-0.45%	-2.59%	0.23%	4.02%	6.64%	-11.12%	85.51 – 86.47	81.03 – 100.00
Silver	SLV	-0.32%	-4.33%	2.46%	7.52%	37.76%	25.15%	28.04 – 28.40	21.39 – 31.80

- Gold prices retreated after reaching a record high above $2,950, breaking an eight-week winning streak due to renewed US trade concerns. Donald Trump's confirmation of tariffs on Canada, Mexico, and China, along with a decline in China's gold imports via Hong Kong, pushed XAU/USD below $2,900. A temporary rebound followed as Treasury yields fell, but risk sentiment kept gains in check. The decline accelerated when Trump reaffirmed the tariff timeline and announced an additional 10% duty on Chinese goods, triggering technical selling that drove Gold below $2,850. With US inflation data in line with expectations, Gold struggled to attract buyers. Looking ahead, US trade policy and labor market data will be key drivers, with potential for volatility depending on Trump's tariff stance and upcoming employment reports.

Analytica

- **Chip Wars: US and China Battle for Semiconductor Dominance**

- As computer chips become increasingly critical to the digital economy and national security, intense competition between the US and China is escalating over control of chip manufacturing and technology.

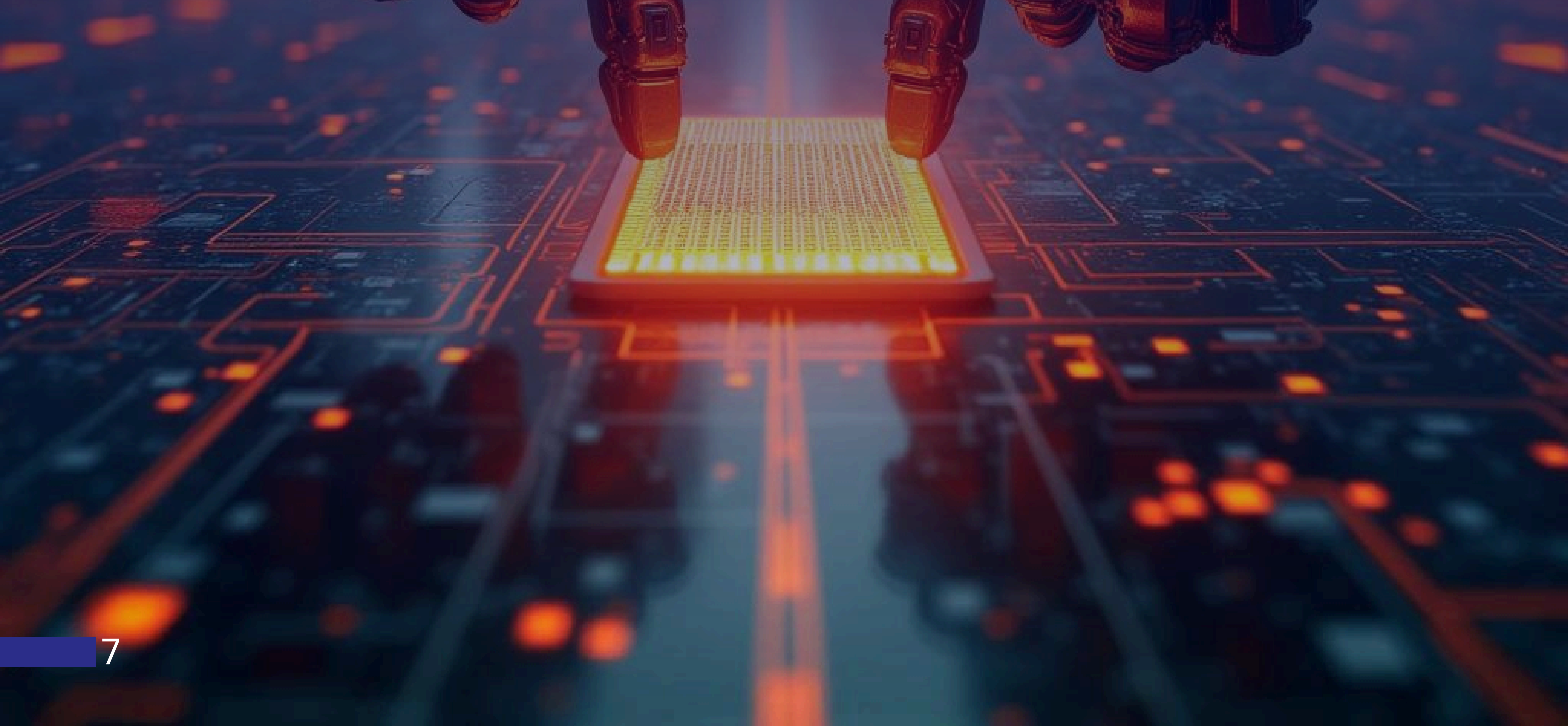
- Computer chips are essential to the digital economy, enabling the processing of vast amounts of data that power technologies like artificial intelligence (AI). Chips, made from silicon and categorized into memory and logic types, are critical for everything from smartphones to supercomputers. As AI development accelerates, semiconductors have become intertwined with national security concerns, as access to advanced chips like Nvidia's AI accelerators is key to the success of tech giants like Google and Microsoft. This growing importance has fueled intense competition, particularly between the US and China, over who controls chip manufacturing and technology.

- Semiconductors play a pivotal role in the global economy, but their supply chain was severely disrupted during the COVID-19 pandemic, highlighting their critical nature. While the US leads in semiconductor technology, Taiwan and South Korea dominate chip manufacturing, with China striving to increase its own chip production. The US has implemented export controls and tariffs to curb China's semiconductor ambitions, citing national security risks and unfair trade practices. These efforts also aim to reduce dependence on East Asia for chip manufacturing, with other nations like Spain, India, and Japan looking to establish or expand their own semiconductor industries.

- The chip industry is increasingly concentrated, with only a few companies, such as Taiwan Semiconductor Manufacturing Co. (TSMC), Samsung, and Intel, dominating the advanced manufacturing space. Building new semiconductor plants is expensive and time-consuming, with costs exceeding $20 billion. While TSMC and Samsung lead in chip manufacturing, China is focusing on the analog chip sector, which is less advanced but crucial for devices like smartphones. Despite US restrictions, China has made significant strides in AI, with companies like DeepSeek developing competitive models, although they still rely on foreign technologies for cutting-edge chips.

- The US's export controls on advanced chips, especially those used in AI and supercomputing, have hindered China's progress, particularly in developing the most sophisticated semiconductors. However, Chinese companies like Huawei are still attempting to circumvent these restrictions by building domestic semiconductor networks. Despite these efforts, China's chipmakers have struggled to match the US's advanced capabilities, particularly in producing the most cutting-edge chips needed for AI development. Meanwhile, the US is intensifying its chip curbs, with officials exploring further restrictions on the types and quantities of Nvidia chips that can be exported to China.

- Other nations are also investing heavily in semiconductor production to secure their place in the global market. The European Union is pushing for a $46 billion expansion of local manufacturing, aiming to increase its share of global chip production to 20% by 2030. Japan, South Korea, and India are making significant investments in their chip industries, with Japan focusing on manufacturing equipment and South Korea leading in memory chips. India has approved $15 billion for semiconductor plants, and Saudi Arabia is exploring chip investments as part of its economic diversification efforts. The biggest risk to global chip production, however, remains the potential for conflict over Taiwan, where TSMC's dominance in semiconductor manufacturing makes it a key player in the global supply chain.



• AI's Growing Role in Finance: From Stock-Picking to Customer Service

- Financial firms are rapidly integrating artificial intelligence (AI) into various aspects of their operations, aiming to enhance investment returns and improve efficiency across the board.
- Financial firms are rapidly integrating artificial intelligence (AI) into various aspects of their operations, with the goal of improving investment returns. AI is being utilized for tasks like customer service, enhancing trade execution, and assisting in stock-picking. JPMorgan Chase, for instance, identifies over 300 potential use cases for AI across its operations. Machine learning, a subfield of AI, is particularly important in the financial industry, where it is used to analyze vast amounts of data and make predictions. This approach builds on traditional quantitative (quant) investing, where computers crunch numbers to create formulas for selecting securities.
- AI, especially generative and predictive models, can potentially revolutionize stock-picking. Generative AI mimics the human brain's cognitive functions and can be trained on large datasets to produce new, useful content like investment reports or summaries. Predictive AI, on the other hand, analyzes historical data to forecast future events, such as the movement of bond prices. The goal is to use predictive AI to process massive amounts of financial data to identify patterns and make more accurate predictions about future market trends, offering a potential edge in investing.

- Various financial professionals are already adopting AI to enhance their strategies. For example, Jason Hsu of Rayliant Global Advisors, a traditional quant, has shifted from using six stock-picking criteria to an AI model that tracks over 200 signals. This advanced AI system is designed to analyze factors like the price-to-book ratio and understand the specific market conditions in which it works best. While many money managers are still blending AI with traditional methods, the hope is that AI will improve efficiency and effectiveness in stock selection.

- AI's potential to improve results stems from its ability to capture complex patterns in data that traditional quant models, based on linear relationships, cannot detect. For instance, recent AI models can handle a large number of variables and identify how they interact, which offers a more accurate understanding of market dynamics. Moreover, AI's advances in natural language processing allow it to analyze earnings statements, corporate news, and even central bank jargon ("Fedspeak"), helping financial professionals detect trading signals and investment risks with more precision than older models.

- Despite its promising potential, AI has not yet delivered significant advantages in investment performance. For example, a Eurekahedge index of AI-based funds has underperformed its broader hedge fund index by about 14 percentage points over the past five years. Additionally, only 45% of AI-powered boutique funds outperform their benchmarks. While AI-enhanced mutual funds have shown to beat their human-managed counterparts, they still have not outpaced the overall market. Challenges such as market noise, a lack of sufficient data, and AI's lack of transparency (making it difficult to understand how conclusions are reached) continue to hinder its widespread success in the financial sector.

• OpenAI Launches GPT-4.5: Enhanced Accuracy and Reasoning for Select Users

- OpenAI has released an early version of GPT-4.5, boasting improved accuracy and reasoning capabilities, to a limited group of developers and paid users for feedback and refinement.

- OpenAI has launched an early version of its new AI model, GPT-4.5, to a select group of developers and paid users. This update builds upon GPT-4 with improved abilities to understand and respond to subtle user cues, excelling in areas like chatting, writing, and coding. The model is designed to make fewer mistakes compared to its predecessor, providing more accurate and reliable responses.

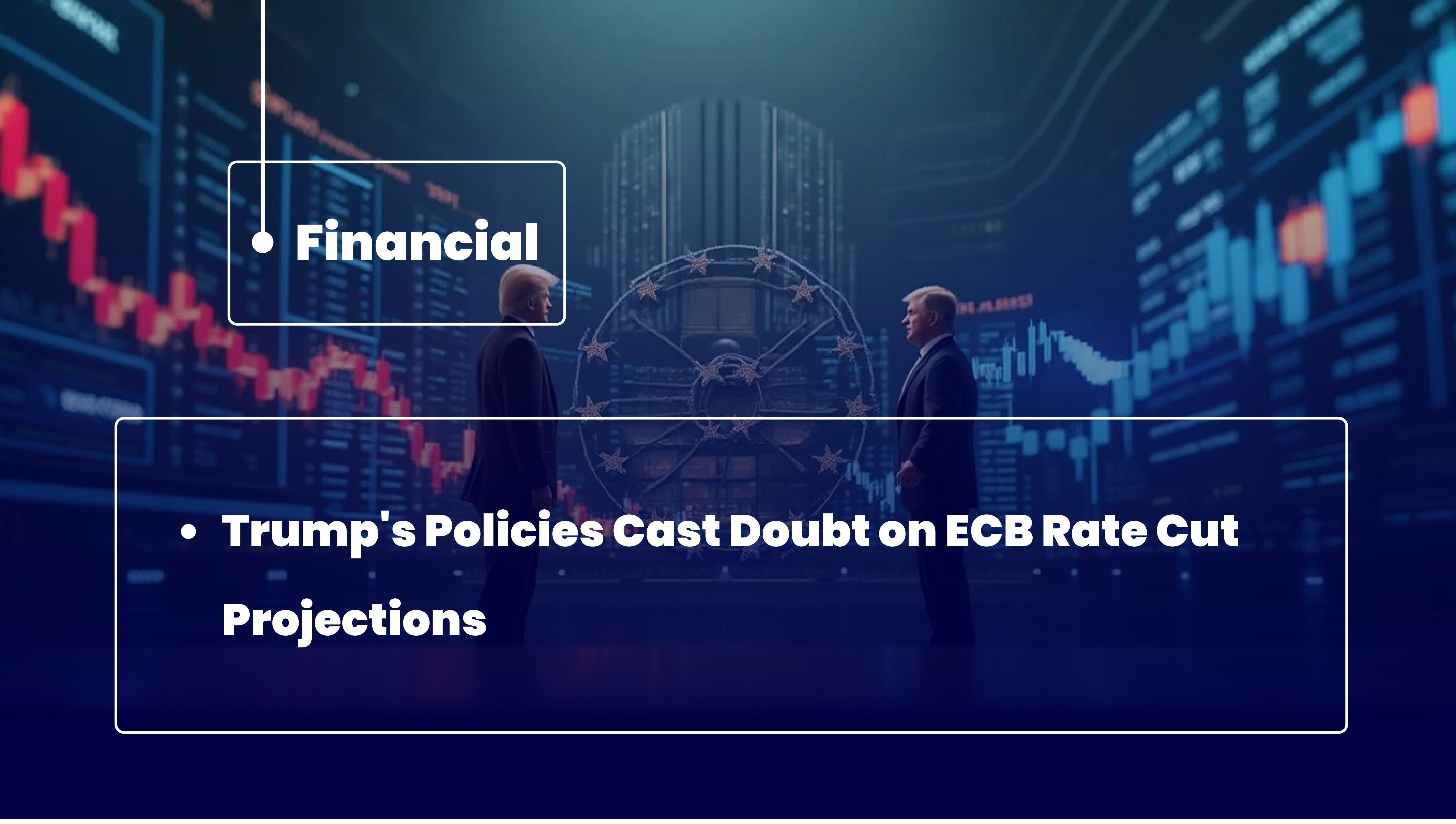
- Initially, GPT-4.5 is being offered as a research preview to a limited number of users, specifically those who pay for the ChatGPT Pro subscription. OpenAI intends to gather feedback from these users to refine the model before a broader release. This marks the latest step in OpenAI's journey, which began with the launch of ChatGPT in late 2022 powered by GPT-3.5, and has since evolved through multiple models, keeping pace with rising competition from companies like DeepSeek, xAI, and Anthropic.

- While GPT-4.5 represents a significant advancement, its development faced challenges. The model, known as Orion internally, initially struggled to meet OpenAI's performance targets, especially in areas like answering coding questions. To address this, OpenAI relied on a process called post-training, where human feedback was used to improve responses, as well as new training techniques derived from the existing GPT-4 model's data.

- The release of GPT-4.5 also signals a shift in OpenAI's approach. CEO Sam Altman announced that this would be the last model without additional computing power to reason over queries before responding. Future models will integrate the o-series, which allows AI systems to determine how long to consider a query before delivering an answer, aiming to streamline the user experience and reduce complexity.

• Tencent Launches Hunyuan Turbo S to Challenge DeepSeek's AI Dominance

- Tencent Holdings has introduced its new AI model, Hunyuan Turbo S, aiming to compete with DeepSeek, a rising force in the US-China tech race, highlighting the intensifying competition in the AI sector.
- Tencent Holdings has introduced its new AI model, Hunyuan Turbo S, aiming to compete with DeepSeek, a rising force in the US-China tech race. Unlike DeepSeek's chatbot, which relies on deep reasoning, the Turbo S is designed for immediate responses, making it distinct in its approach. Tencent has also significantly reduced deployment costs for the model, marking a shift in the competitive landscape for AI technologies.
- This rollout follows a series of rapid AI introductions from major players, including OpenAI, Alibaba, and Baidu, reflecting the accelerated pace of AI development. DeepSeek's recent success in challenging Silicon Valley's AI dominance, particularly with its model's ability to match top US systems, has driven significant changes in the tech industry. This has led to a surge of new models from companies across China, eager to replicate DeepSeek's success.
- DeepSeek's impact has been profound, especially in China, where it has sparked both a technological renaissance and a shift in AI development strategies. The startup, founded by hedge fund manager Liang Wenfeng, has revolutionized the economics and technical methods behind AI, prompting fierce competition from established players. Its success has even led to a rare stock loss for Nvidia and has gained it government recognition, with President Xi Jinping inviting Liang to join a prominent tech leaders' forum.
- Tencent's new model, available to developers and enterprise users, comes as part of a broader effort by Chinese tech giants to challenge DeepSeek's dominance. Other companies like Alibaba and Baidu have also rolled out competitive models. In response to DeepSeek's overwhelming popularity, the company has adjusted its pricing structure and promised to release more core technologies to the public, further pushing its open-source approach and expanding its influence in the AI market.



Financial

Trump's Policies Cast Doubt on ECB Rate Cut Projections

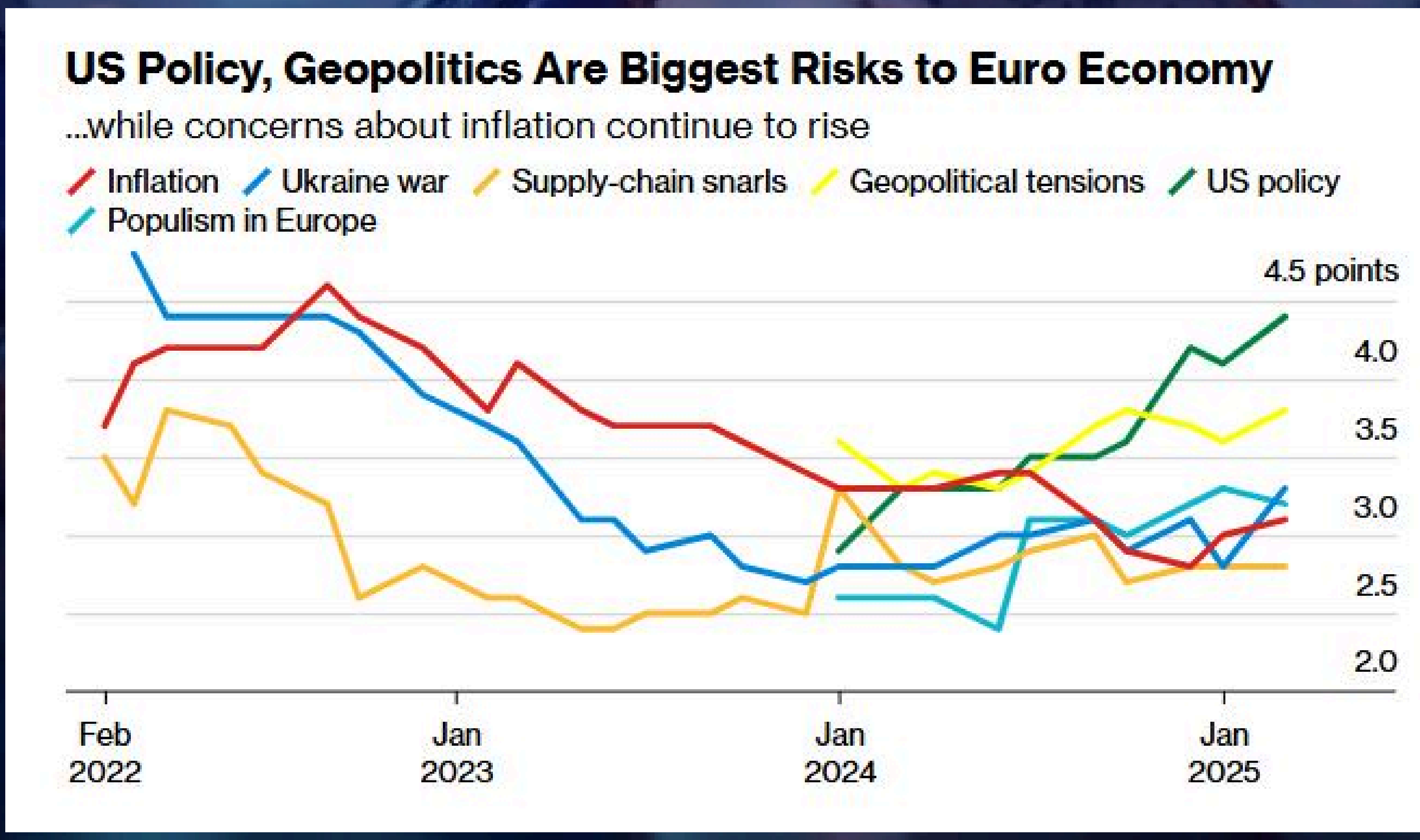
- Economists warn that unpredictable factors, especially U.S. political decisions, could derail the ECB's projected interest rate cuts, introducing significant uncertainty into the euro-area's economic outlook.
- Economists have cautioned that their projections regarding the European Central Bank (ECB) cutting interest rates three more times could be upended by unpredictable factors, especially U.S. political decisions. The behavior of U.S. President Donald Trump, particularly in relation to trade and domestic politics, has introduced significant uncertainty into economic forecasts. While many analysts still anticipate that the euro-area economy will recover, they expect that inflation will approach the ECB's target, allowing for a rate reduction to 2% by June, down from the current 2.75%. However, any unexpected developments could dramatically alter this outlook.
- Some economists foresee more aggressive U.S. tariff policies, particularly under the new administration, which could complicate the ECB's path. For example, Bill Diviney from ABN Amro predicts that tariffs could have a more significant impact than currently assumed, which may lead to a different trajectory for interest rates. Additionally, he suggests that government spending in the euro zone, particularly on defense, might provide another wildcard. Diviney expects the ECB deposit rate could fall to 1% by 2026, in contrast to other analysts, like Sylvain Broyer, who believe the rate reductions may end after the anticipated cut next week.
- There are growing concerns within the ECB about whether inflation will remain in check, with some members expressing doubts about the ability to keep inflation at the 2% target in the medium term. A divergence of views within the ECB's Governing Council has emerged, with doves like Piero Cipollone advocating for further rate cuts to counterbalance past monetary tightening, while hawks like Isabel Schnabel caution against too much activism. Economists like Dennis Shen have suggested that a more cautious approach would be prudent, particularly as core inflation remains stubbornly high and the risks of Trump's trade wars and de-globalization could push inflation higher.

- The recent escalation of trade tensions, including a potential 25% tariff on European Union imports such as cars, has increased the risks for the euro zone's economic outlook. Analysts are concerned that such tariffs could exacerbate already weak growth in the region, and most anticipate retaliatory measures from the EU. These developments have made U.S. policy the most significant risk factor for Europe, with a majority of economists fearing that these geopolitical and trade disruptions could hinder the euro-area's economic expansion, despite not expecting major revisions to the ECB's GDP and inflation forecasts for the next quarter.

- The economic situation in Germany and France, the two largest economies in the euro zone, has worsened, as both countries experienced contractions at the end of 2024. Germany's slowdown was driven by falling exports and weak domestic spending, while France saw reduced investments. The ECB has consistently warned of downside risks to growth, influenced by geopolitical issues, fiscal concerns, and trade tensions. With inflationary pressures easing, the ECB has reiterated its intention to lower rates further towards neutral levels, which they define as between 1.75% and 2.25%. Despite this, economists predict that the ECB will avoid explicitly labeling its policies as "neutral" to prevent speculation about the potential end of rate cuts. The challenge for ECB President Christine Lagarde will be to manage differing opinions within the Council while maintaining a flexible, data-dependent approach.

Euro-Zone Outlook Seen Largely Confirmed

December projections are seen	revised up	...down	kept unchanged
Growth in 2025 (1.1%)	3%	73%	24%
...in 2026 (1.4%)	3	39	58
...in 2027 (1.3%)	9	0	91
Inflation in 2024 (2.1%)	42	3	55
...in 2026 (1.9%)	24	9	67
...2027 (2.1%)	0	28	72
Inflation ex-energy/food in 2025 (2.3%)	20	13	67
...in 2026 (1.9%)	13	10	77
...in 2027 (1.9%)	3	10	87



Economic Drag: Federal Job Cuts Threaten Local Economies and Beyond

- While the overall impact of federal workforce cuts may seem small, the economic ripple effects, particularly in regions heavily reliant on government employment, could be significant.

- The U.S. federal government, the largest employer in the country, is significantly reducing its workforce, raising concerns about the broader impact on the job market. As of January, there were 2.4 million federal civilian employees, representing a small fraction of the overall labor force. While economists estimate fewer than 30,000 layoffs so far, the situation could worsen due to a hiring freeze and a “deferred resignation” program, potentially leading to the loss of hundreds of thousands of jobs. This is particularly concerning given that federal workers typically earn above-average wages, which could result in a noticeable economic drag.

- The timeline for these cuts is complex, as many federal workers have accepted deferred resignation offers but will still be counted as employed until September. The government also plans to fire probationary workers, and normal attrition will continue. While the total number of cuts could reach 475,000 jobs—about 20% of the federal workforce—much of this is speculative. The actual impact could be mitigated by political pushback or legal challenges, and some areas, such as border security, might see an increase in hiring.

- Even if the federal government cuts 475,000 jobs, the overall impact on the U.S. labor market may seem small, accounting for just 0.3% of total nonfarm jobs. However, the economic ripple effects could be significant, especially in regions heavily reliant on government employment. Washington, D.C., for example, has around 10% of its civilian workforce employed by the federal government, and many other states also have areas where federal workers make up a significant portion of the local labor force.

- The economic consequences extend beyond government workers themselves. Federal contractors are also losing work, and many workers in industries dependent on government services may face disruptions. Cuts to agencies like the Education Department, for example, could affect funding to states and other recipients. While some economists argue that a 20% reduction in federal workforce might not be problematic if the remaining employees can handle the workload, others caution that it could disrupt essential services and payments.

- In addition to government cuts, several factors are putting pressure on the labor market, such as tariffs, immigration restrictions, and uncertainty in research funding. These challenges are contributing to growing anxiety among Americans, with more than half of respondents in a recent University of Michigan survey expecting unemployment to rise. According to economist Jesse Rothstein, these multiple factors, while individually not catastrophic, are collectively creating a significant strain on the labor market and economic stability.

Chinese Manufacturers Scramble as Trump's Tariff Hike Prompts Shift in Production Strategies

- Chinese manufacturers are scrambling to shift production to Southeast Asia as Trump's proposed 10% tariff on all Chinese imports intensifies trade uncertainty and raises costs.

- In response to President Trump's latest tariff proposal, which would impose an additional 10% duty on all Chinese imports, Chinese manufacturers are experiencing increased panic and urgency. Many had initially believed they could absorb the first round of tariff increases, but the prospect of further escalations has prompted more companies to accelerate their plans to shift production outside of China, particularly to Southeast Asia. Manufacturers are scrambling for solutions, with some looking to relocate operations to countries like Malaysia and Thailand to avoid the higher U.S. duties on Chinese goods.

- The proposed tariff hike represents a significant burden on Chinese manufacturers, especially those already operating on thin profit margins. While many had planned to cut prices to ease the initial tariff impact, the potential for even higher tariffs has forced them to rethink their strategies. This new pressure reinforces the "China plus one" approach, where companies diversify their production by moving some operations to alternative countries like Vietnam, which has seen a notable increase in U.S. imports in recent years.

- However, the uncertainty surrounding Trump's trade policies, which extend beyond China to include potential duties on Canada, Mexico, and other countries, complicates the decision-making process for manufacturers. For example, some companies, like Shanghai Jefa Machinery, are reconsidering their plans to shift production to the U.S. due to the unpredictability of future tariff increases. These companies are balancing the risks of higher tariffs with the need to remain competitive, as some products from China remain significantly cheaper than American-made alternatives.

- Smaller Chinese manufacturers are particularly vulnerable, as they lack the resources to invest in new production facilities abroad. These businesses, located in factory hubs like Foshan, are facing uncertainty and confusion about how to respond to the latest tariff announcement. With no clear picture of what the U.S. government's next move will be, many are concerned about the future of their operations and the broader impact of ongoing tariff escalations.

- Chinese officials have voiced opposition to the new tariffs, accusing the U.S. of using the issue of fentanyl trafficking as a pretext for economic pressure. While the Chinese government calls for dialogue to resolve the trade tensions, U.S. businesses, including footwear companies like Steve Madden, are already responding by shifting production away from China to minimize the effects of the tariffs. In light of these developments, legal experts, such as Cui, are advising clients to diversify their customer bases and relocate production to avoid the risks of future tariff increases.

Echoes of Japan's "Lost Decades": China Faces Stagnation Fears

- Economists are raising concerns that China may be heading into a prolonged period of economic stagnation, drawing parallels with Japan's "lost decades" of the 1990s and 2000s.

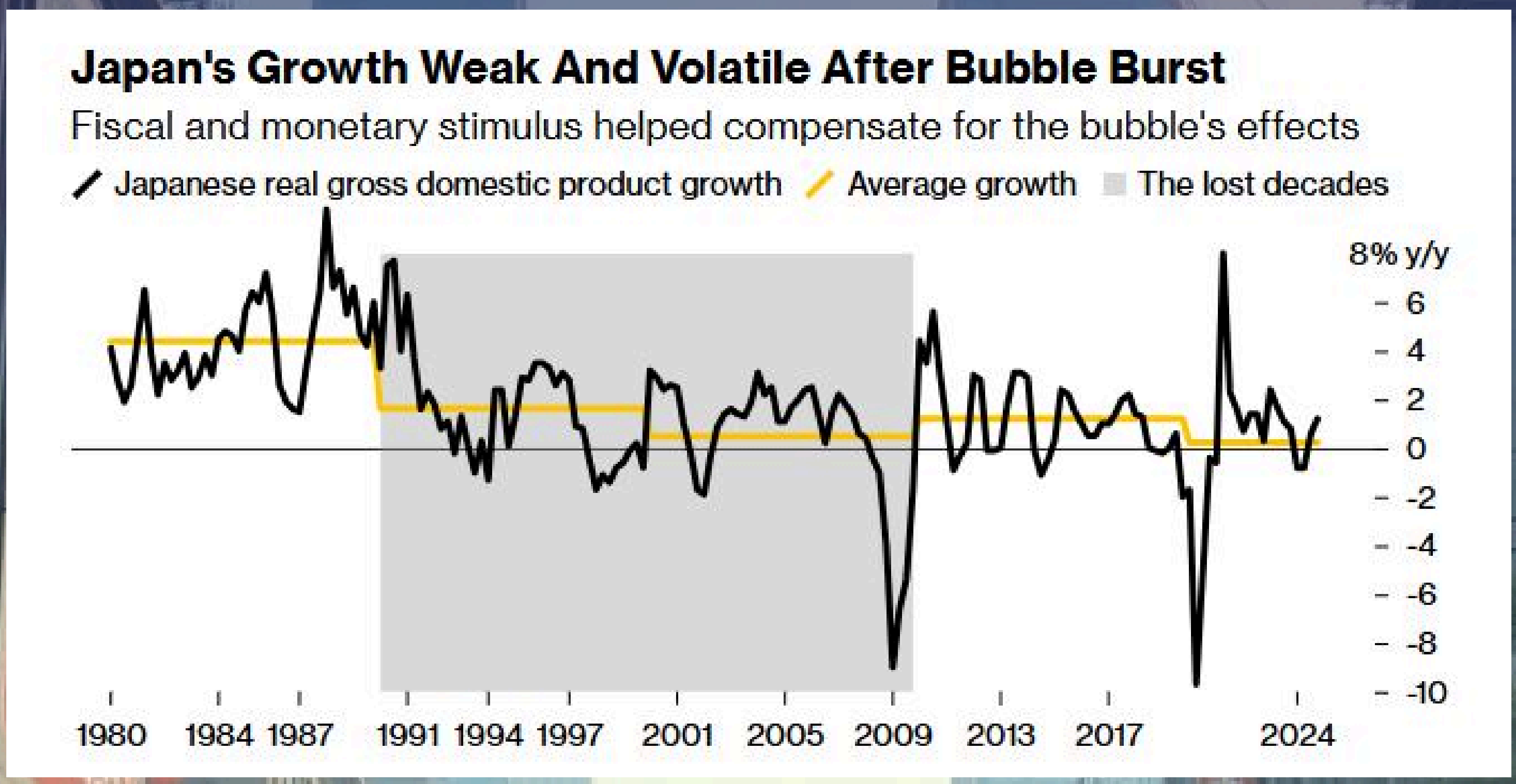
- Economists are concerned that China may be heading into a long period of economic stagnation similar to Japan’s “lost decades” from the 1990s and 2000s. Both countries share similarities, such as struggling to recover from asset bubbles, declining populations, and deflationary pressures. China’s slowdown is marked by falling property prices, weak demand, and declining bond yields, much like Japan's experience post-bubble. However, China’s global economic impact would be much larger due to its significant role in global trade and production.

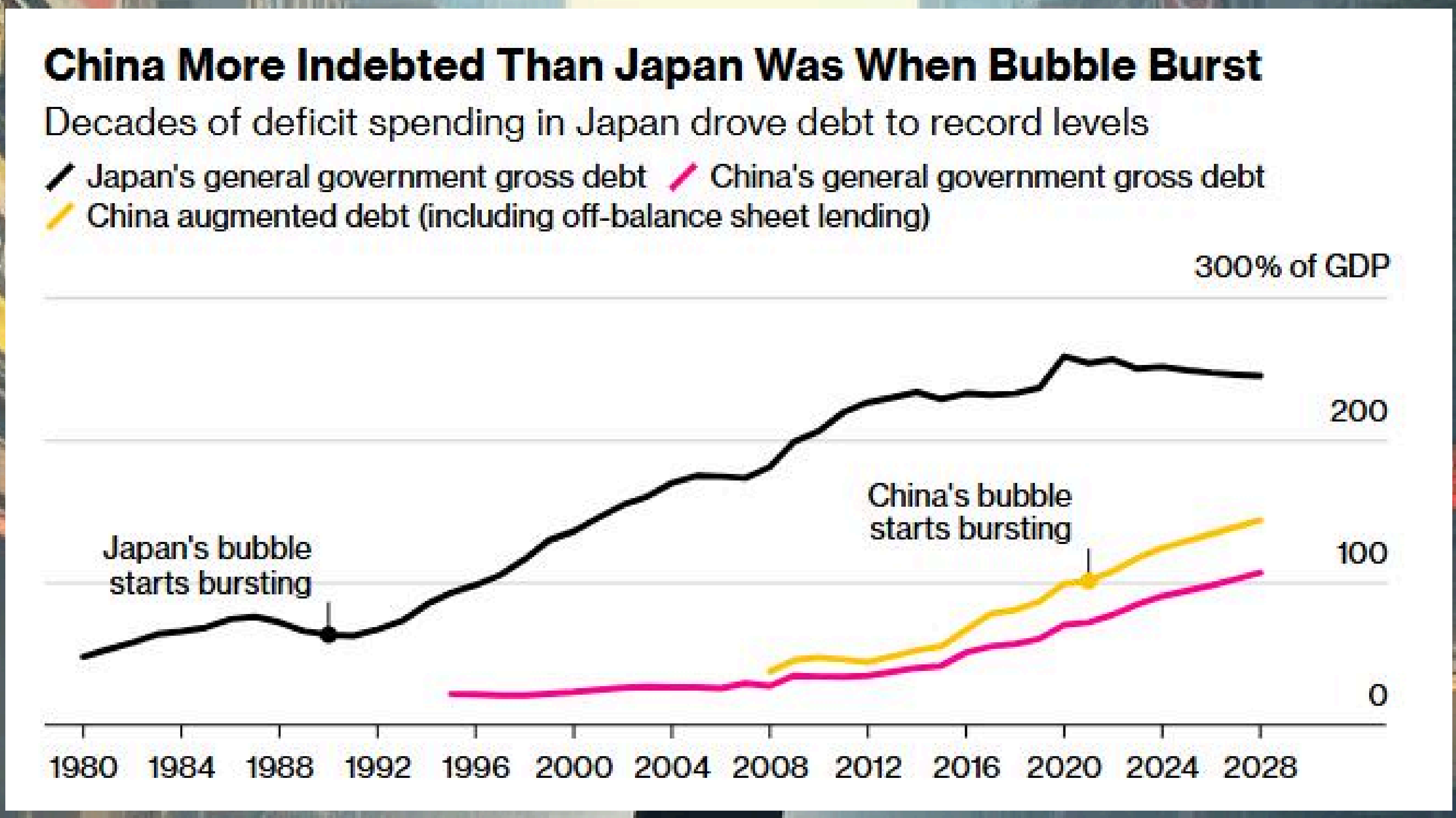
- Japan’s downturn began after its economic bubble burst in the late 1980s, leading to a banking crisis and deflation. Despite efforts to stimulate growth, Japan’s recovery was slow, and deflation became entrenched, making it difficult to reverse. Similarly, China is facing a “balance sheet recession,” with weak demand in the housing sector affecting broader industries. Although China’s manufacturing and tech sectors still show promise, the economic slowdown remains a concern.

- The key lesson from Japan's experience is that prematurely tightening fiscal policies can deepen economic stagnation. Japan's government mistakenly cut spending and raised taxes in the 1990s when the economy was still fragile, exacerbating the deflationary cycle. China is currently facing a deflationary period, with weak domestic demand and declining prices, and policymakers have yet to implement sufficient stimulus measures.

- China's demographic challenges also mirror Japan's, as its population began to decline in 2022. While Japan managed to offset some of its labor shortages by extending retirement ages, China faces similar issues with a shrinking workforce. Social unrest in China is another concern, as workers in precarious jobs are less protected compared to Japan's more stable labor market.

- Policymakers in China need to avoid repeating Japan's mistakes by ensuring that fiscal stimulus continues for an extended period. Japan's recovery eventually came through sustained government intervention, but China's fiscal position is weaker, and its stimulus efforts have been insufficient so far. To avoid a prolonged slump, China will need to maintain large-scale stimulus measures for several years, mirroring Japan's coordinated efforts.





• Trump's Energy Strategy: LNG Exports, Venezuela Oil and BP's Shift in Focus

- President Donald Trump's recent decision to revoke Chevron's special license to operate in Venezuela could significantly harm the country's oil industry, particularly its ability to produce heavy crude. Chevron was a critical supplier of diluent, a substance necessary for refining the crude, and its removal could severely disrupt production. Meanwhile, BP's shift away from renewable energy targets and plans to increase oil and gas investments indicate the company's response to pressure from activist investors, like Elliott Management, which now holds a significant stake in BP.
- In the US, Trump has used liquefied natural gas (LNG) exports as a political tool, warning the EU of tariffs unless it commits to purchasing large volumes of US oil and gas. However, despite the administration's support for LNG exports, the expansion of the US LNG industry faces obstacles, including financial difficulties, legal challenges, and infrastructure limitations. Although the Department of Energy recently approved the Commonwealth LNG project in Louisiana, developers continue to struggle with securing funding and contracts. Analysts caution that an oversupply of LNG could lead to lower prices, which could deter future investments and hinder the industry's growth.
- Despite these challenges, global demand for LNG is expected to increase, especially in Asia. However, the US faces significant "deliverability" issues, including inadequate pipeline and storage infrastructure. Although the country is the world's largest LNG producer, expanding its infrastructure to meet demand could be hindered by legal and public opposition. Additionally, Trump's tariff threats are seen as counterproductive, as they create uncertainty in the market and complicate long-term contract negotiations, which are essential for financing new LNG terminals.
- While the US has ample natural gas supply, analysts argue that the real challenge lies in its ability to deliver LNG efficiently. Legal obstacles, environmental challenges, and the need for more pipeline capacity could slow the pace of LNG expansion. Despite these difficulties, the US remains a key player in the global LNG market, but its future role will depend on overcoming these infrastructure and regulatory hurdles.

ICELAB

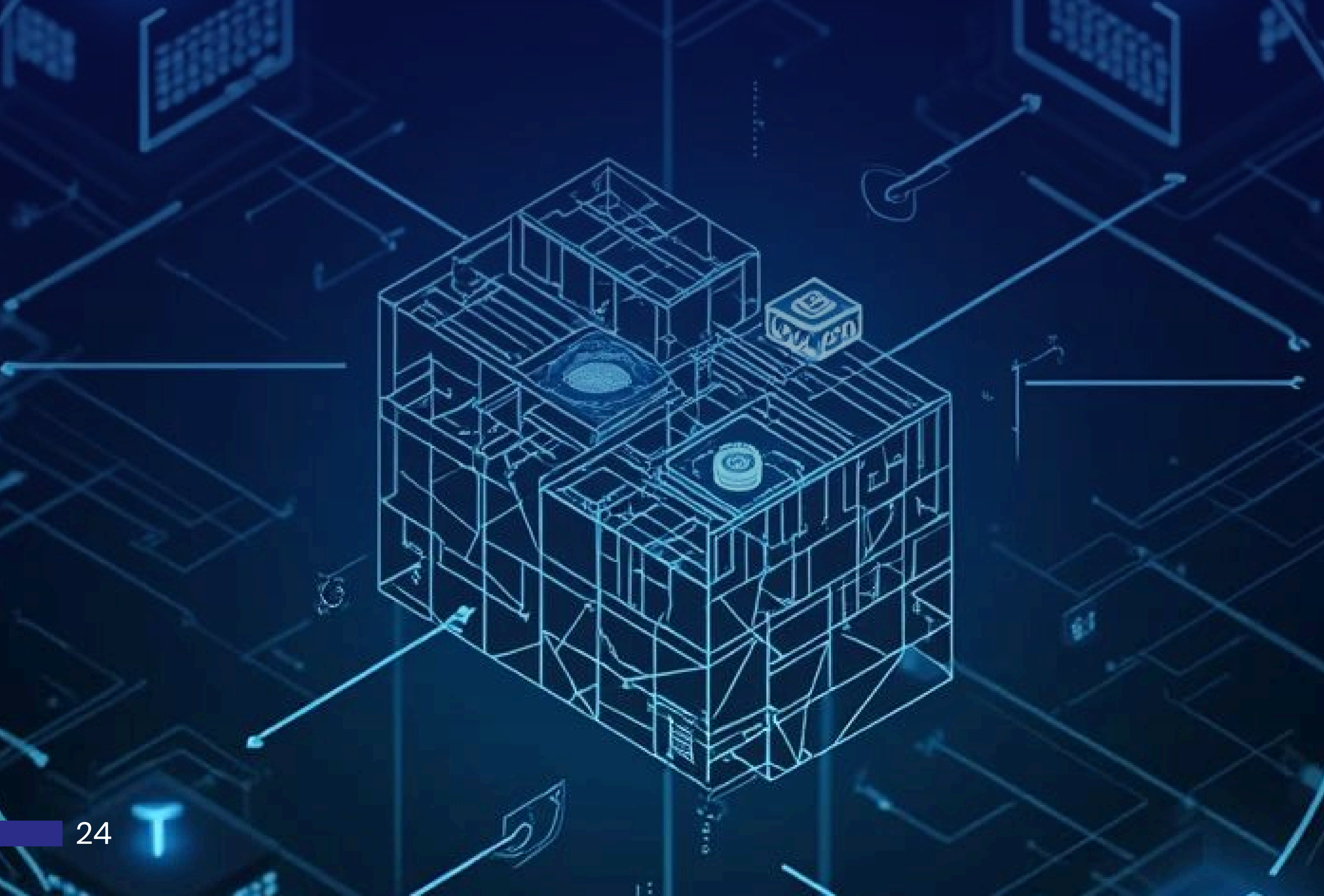
• Solving AI's Privacy Problem: Blockchain-Based Federated Learning Emerges

- Modelex.ai's federated AI system, utilizing blockchain and advanced cryptographic techniques, addresses critical data privacy concerns in AI development, enabling secure collaboration on sensitive datasets.
- Blockchain technology, once a dominant topic, has been overshadowed by AI in recent years. While AI has deep historical roots dating back to mythology and early computational theories, blockchain emerged from the need for decentralized trust, building on distributed computing principles established by Leslie Lamport. Effective decentralization requires not just distributed computing and storage but also independent governance. However, even Bitcoin struggles with true decentralization, as mining power is concentrated among a few major players, and institutional control over exchanges further limits its distributed nature.
- AI faces several challenges, including data privacy concerns, high energy consumption, and the risk of models degrading due to repeated training on AI-generated data. Many AI systems have been trained using vast amounts of publicly available content, often without consent from the original creators. However, the availability of high-quality private data presents an opportunity for more accurate models. The article introduces Modelex.ai, a startup focusing on federated AI, which proposes a decentralized approach to AI development while maintaining privacy through blockchain-based verification and reward mechanisms.

- Open-source AI models like DeepSeek are challenging the traditional approach of relying on massive datasets and expensive computational power. While these models may require more processing time for inference, they demonstrate that powerful AI can be developed without enormous centralized resources. However, the debate over what constitutes an "open model" remains contentious, as some argue that transparency should extend beyond model weights to include training data. Modelex.ai's approach bridges this gap by enabling collaborative training on private datasets while ensuring data security.

- Modelex.ai introduces a federated learning system where multiple institutions, such as hospitals, can refine a shared AI model without exposing their private data. Each hospital trains the model on its own dataset before passing it along to the next institution in a controlled sequence. Blockchain technology ensures that improvements are recorded transparently, and contributors are compensated with tokens. This approach allows industries like healthcare to benefit from collective AI advancements while complying with strict privacy regulations such as HIPAA.

- To further ensure data security, Modelex.ai employs cryptographic techniques like Fully Homomorphic Encryption and Zero-Knowledge Proofs to prevent unauthorized data extraction. Additionally, an AI-based verification mechanism continuously evaluates models to maintain their integrity. The European Union's AI Act, which seeks to regulate AI transparency and security, incorporates some of these principles. The integration of blockchain with AI in this manner represents a promising solution to the challenges of data privacy, model reliability, and decentralized innovation.



• State and Federal Push for Bitcoin Reserves Gains Momentum

- Texas is among several states exploring bitcoin reserves, and the concept is gaining traction at the national level, with discussions about a federal bitcoin reserve and increased scrutiny over traditional and digital assets.

- The Texas Senate Banking Committee has unanimously advanced Senate Bill 21 (SB-21), which aims to establish a Texas Strategic Bitcoin Reserve. This reserve would be managed by the Texas Comptroller, who would have the authority to invest in bitcoin and other digital assets. By structuring the reserve as a special fund outside the state treasury, the bill allows for greater flexibility in investment decisions. To ensure a focus on established digital assets, cryptocurrencies included in the reserve must have maintained an average market capitalization of at least $500 billion over the previous year. Funding sources for the reserve include legislative appropriations, dedicated revenues, investment earnings, and donations.

- The bill grants the Texas Comptroller the ability to acquire, sell, and manage assets within the reserve, with oversight from an advisory committee composed of experts in cryptocurrency investment. Additionally, independent audits by certified public accountants would be required to ensure transparency and accountability. The initiative comes at a time when bitcoin has experienced significant market volatility, recently declining over 20% from its January peak. Factors contributing to this downturn include outflows from spot bitcoin ETFs, macroeconomic uncertainty, and a major security breach involving the ByBit exchange. Despite these fluctuations, supporters argue that a bitcoin reserve could serve as a hedge against inflation and financial instability.

- While proponents see SB-21 as a strategic move that could enhance Texas's financial resilience, critics raise concerns about the risks involved. The volatility of bitcoin prices could pose challenges for managing public funds, potentially affecting government resources and services. Additionally, security risks associated with digital assets, as highlighted by recent high-profile exchange hacks, contribute to skepticism. However, Texas is not alone in exploring such initiatives—states like Oklahoma, Arizona, and Utah have proposed similar bills, indicating a broader trend of state-level interest in digital asset reserves.

- The push for bitcoin reserves is also gaining traction at the national level. Investment manager VanEck estimates that if multiple state-level proposals are enacted, U.S. states could collectively purchase around $23 billion worth of bitcoin. This movement has prompted discussions about a federal bitcoin reserve, with President Donald Trump signaling support for the idea. Senator Cynthia Lummis has proposed legislation advocating for the federal government to acquire one million bitcoins over five years as part of a strategy to address national debt. Additionally, Trump has floated the possibility of an audit of the gold reserves at Fort Knox, suggesting greater scrutiny over both traditional and digital assets.

- As SB-21 moves forward in the Texas legislature, the upcoming debates will be crucial in shaping the state's approach to digital asset integration. The outcome of this bill could set a precedent for other states and influence national policy discussions on cryptocurrency adoption. The broader conversation surrounding SB-21 highlights the challenges of balancing financial innovation with fiscal responsibility, underscoring the complexities of incorporating digital assets into government reserves. Whether Texas ultimately moves forward with its bitcoin reserve, its efforts contribute to a growing dialogue about the role of digital currencies in the future of financial governance.

CBDCs: Balancing Economic Potential with Public Skepticism

- While economists argue that CBDCs could offer significant economic benefits, public skepticism remains high, driven by fears of government overreach and privacy violations.

- There is significant opposition to Central Bank Digital Currencies (CBDCs), especially concerning privacy and government control. Critics highlight the potential for authoritarian misuse, citing remarks from Fan Yifei, a former deputy governor of the People's Bank of China, who stated that the digital renminbi would allow the central bank access to full transaction data for monitoring illegal and terrorist activities. This raises fears that CBDCs could be used as tools for government surveillance and control. In contrast, digital currency plans in the UK and Eurozone include safeguards to prevent government overreach, but skepticism remains high among Western publics.

- In the UK, a recent consultation on CBDCs drew over 50,000 responses, with a significant petition opposing programmable features in CBDCs, even though such features aren't planned. Public figures like Robert Kennedy Jr. and Donald Trump have voiced strong concerns, with Kennedy describing CBDCs as paving the way for "financial slavery and political tyranny," while Trump took steps to prevent the creation of a US CBDC during his presidency. Meanwhile, countries like Brazil and India have found success with fast payment systems like Pix and the Unified Payment Interface, which offer many of the same benefits as CBDCs without creating a new form of currency.

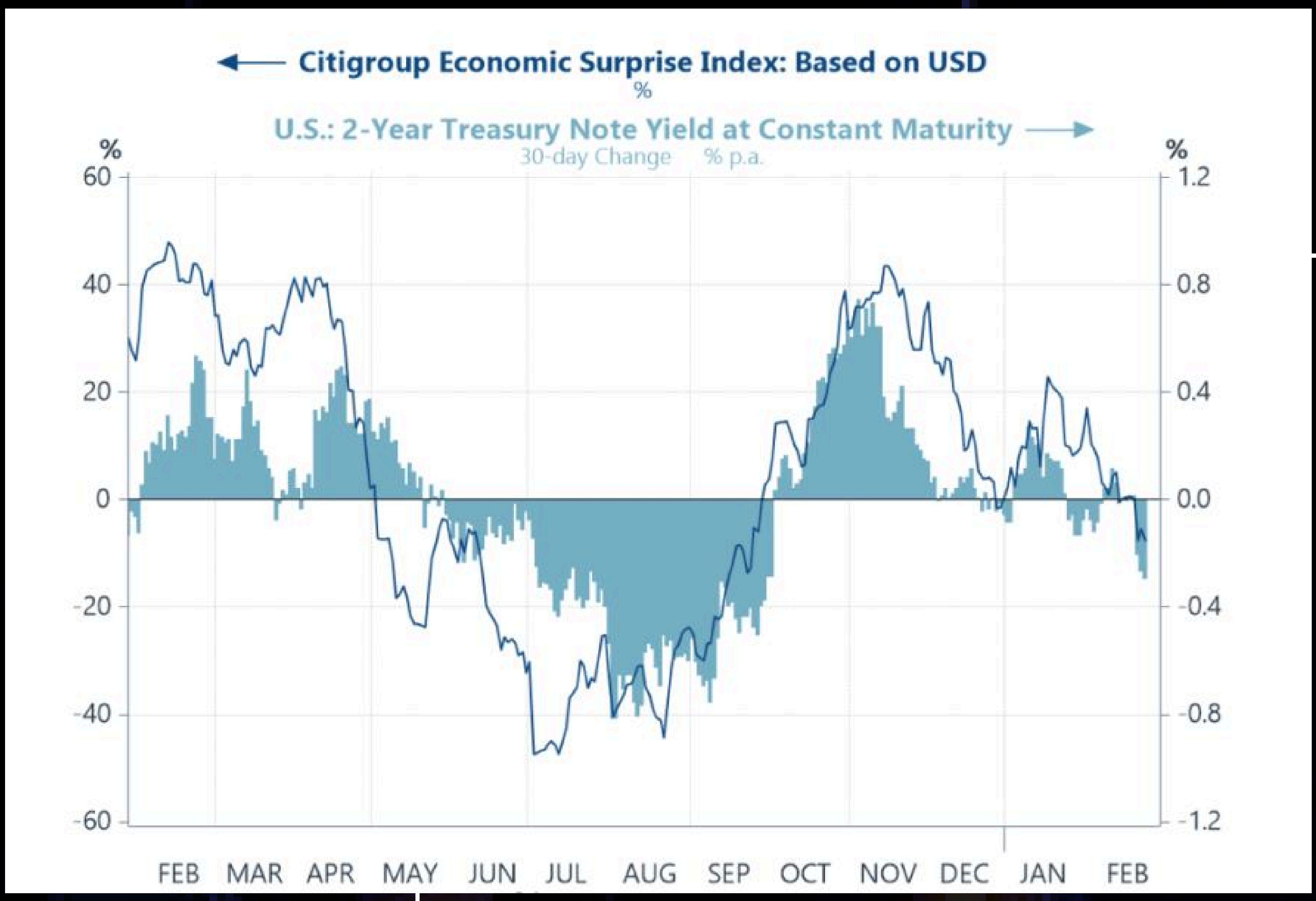
- Despite the concerns, some economists argue that CBDCs could offer significant economic benefits. A study by John Barrdear and Michael Kumhof, senior economists at the Bank of England, suggests that a digital currency equivalent to 30% of GDP could increase economic output by about 3%. This would be achieved by reducing government debt burdens, cutting taxes, and lowering transaction costs. This economic boost is compared to the long-term costs of events like Brexit and the Covid-19 pandemic. CBDCs could also help reinstate the role of public money as physical cash use continues to decline globally.

- The decline of physical cash and the rise of private digital payment systems like Visa and Mastercard, which dominate transaction processing and charge increasing fees, further supports the case for CBDCs. These systems have been criticized for their lack of competition and rising costs, which CBDCs could potentially alleviate. Additionally, there is a national security argument for CBDCs, as countries may view digital payment infrastructures as strategic assets, particularly amid growing geopolitical tensions. Although the implementation of CBDCs presents challenges, their potential economic benefits and role in securing digital payment systems make them an important consideration for the future.

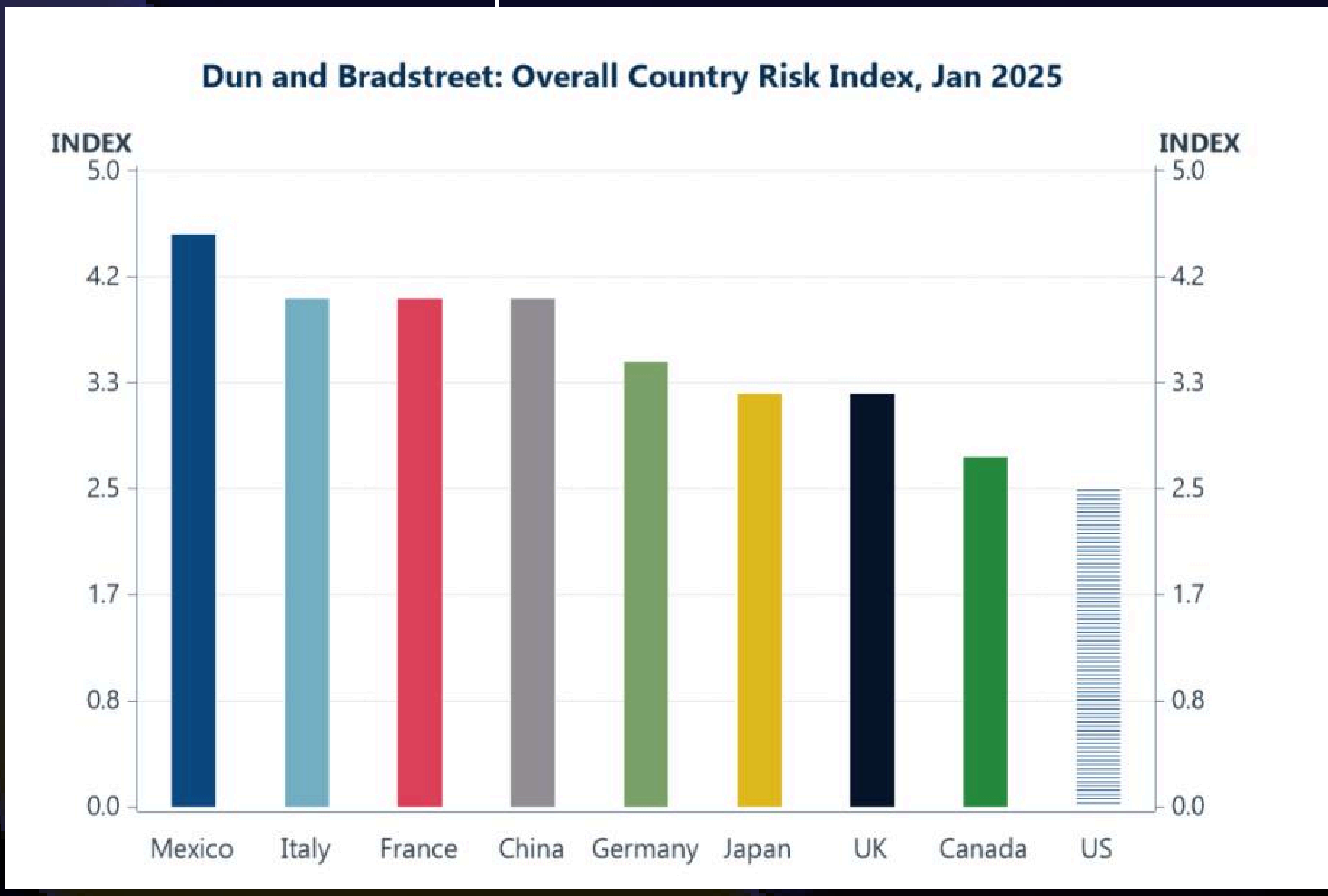
Macro Investing's Revival: Volatility and Uncertainty Fuel a Comeback

- The resurgence of interest in macro investing, reminiscent of the 1980s, is driven by the current volatile market environment and the potential for significant returns uncorrelated with broader market trends.
- The resurgence of interest in macro investing can be traced back to its roots in the 1980s, when legendary discretionary macro traders like Paul Tudor Jones and Stan Druckenmiller dominated the hedge fund industry. These traders achieved remarkable returns that had low correlation with the overall market, a characteristic that defined the hedge fund industry at the time. Over the years, the industry diversified, and by the late 1990s, "long-short" equity funds took center stage, often reflecting market trends due to their net long exposure. In the two decades that followed, the hedge fund industry became increasingly complex, with multi-strategy funds gaining popularity for their consistent performance and diversification.
- Heading into 2025, there is renewed interest in macro strategies, particularly due to the highly dynamic trading environment. The decade between 2010 and 2021 was characterized by cheap money and low volatility, which primarily benefited equities. In contrast, macro strategies thrive in volatile environments, and recent years have seen a significant increase in global monetary policy actions. From 2010 to 2019, major central banks only made a handful of rate hikes, while between 2021 and 2023, they made dozens of rate hikes and cuts. This shift has created a wealth of opportunities for fixed income traders, as well as for those involved in currencies, commodities, and equities.
- The policies of the Trump administration, particularly his pro-business stance, deregulation, tax cuts, and tariff impositions, are expected to disrupt the economic status quo and contribute to higher market volatility. This policy divergence, along with geopolitical uncertainties and economic divergence across regions, will likely continue to fuel volatility. These factors are seen as catalysts for macro trading opportunities, as investors navigate an increasingly unpredictable global landscape.
- Despite the opportunities, the current market presents significant risks. The growing US debt burden, coupled with cyclically-adjusted equity valuations near dotcom bubble levels and unprecedented concentration risks in the S&P 500, are cause for concern. The top 10 stocks in the index represent 30-35% of its market capitalization, with much of this concentration tied to AI-related stocks. In the bond market, concerns persist about the US budget deficit and the lack of term premium for holding longer-term debt, which is compounded by the potential inflationary impact of tariffs.
- As institutional investors seek ways to manage downside risk, macro strategies, historically less correlated to overall market movements (beta), are gaining traction. The current market environment presents an ideal opportunity for macro traders, as the volatility and uncertainty driving markets are likely to persist. While there are no guarantees, the evolving landscape makes it clear that the macro investing world is ripe with potential and unlikely to become monotonous anytime soon.

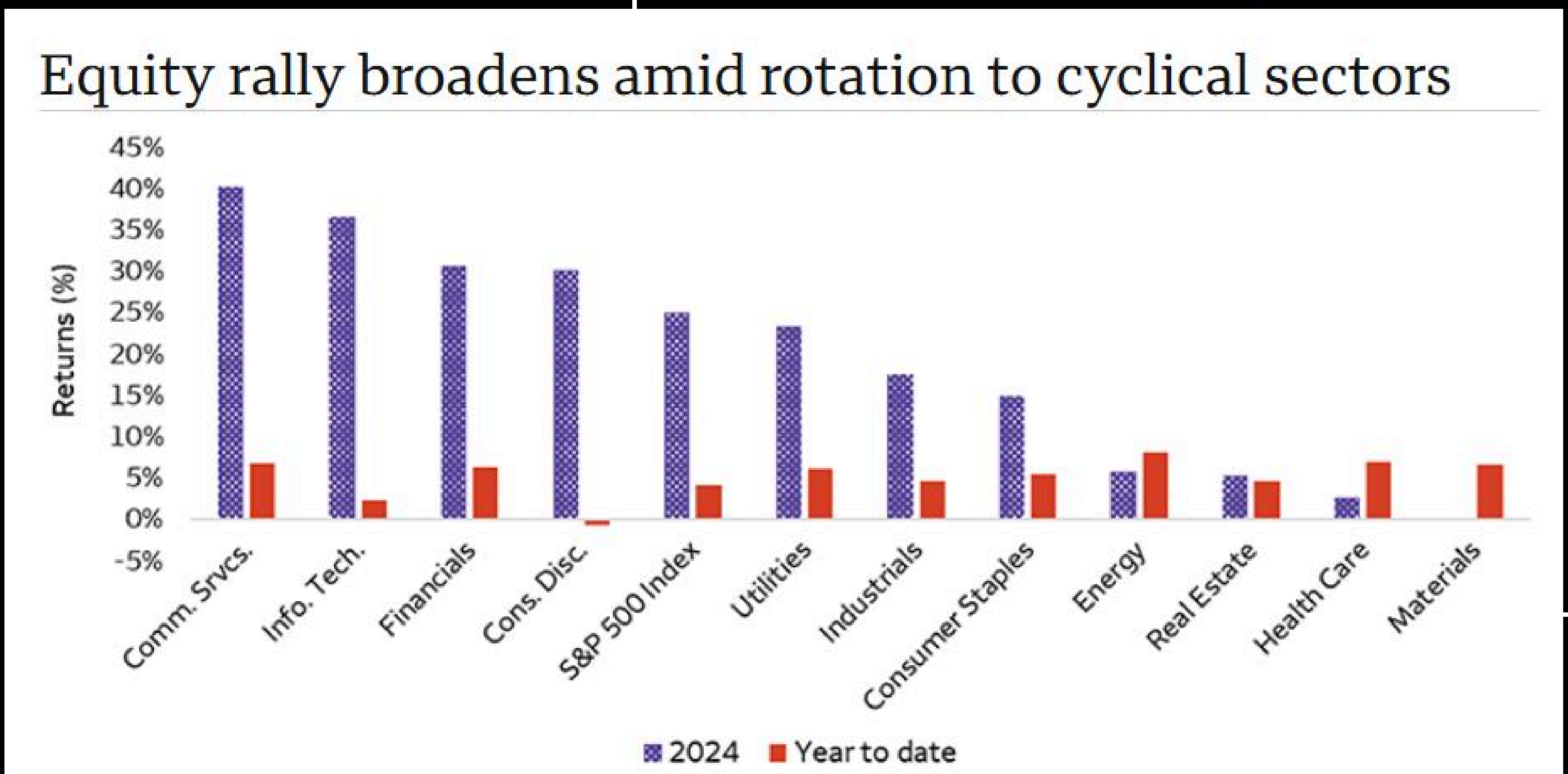
CHARTS



- The chart shows how, in recent months, economic shocks have closely followed the 2-year Treasury yield, a crucial indicator of market expectations for Fed policy. Yields have typically increased when data exceeds expectations, whereas reductions have been correlated with reports that are worse than anticipated. Recent underwhelming US economic data has caused the surprise index to drop into negative territory and to its lowest level since late September. This decline in rates has taken place in spite of a noticeable increase in inflation forecasts in a number of polls, underscoring the widening gap between inflation worries and overall growth pace.



- In order to rate country risk according to a variety of political and economic criteria, this graphic makes use of the Dun and Bradstreet metrics that are currently kept on Haver's platform. Among the aforementioned nations, Mexico seems to be at the biggest overall danger right now, most likely as a result of its significant exposure to US trade policies and internal political issues. In contrast, the US and Canada have among of the lowest risk ratings, indicating rather stable economies. They should be actively monitored in the upcoming months for the increasing threats associated with trade protectionism and changing geopolitical alliances, even though their lower scores show resilience.



- Year-to-date gains in 10 of 11 equity sectors a welcome sign of broadening in earnings and returns
- In 2025, equity markets have been volatile but steady as investors weigh the numerous policy announcements. However, as the graphic illustrates, 10 out of 11 sectors have responded with year-over-year gains, and overall, fourth-quarter 2024 revenue and profitability growth has above Bloomberg consensus projections for the S&P 500 Index.
- More precisely, the graph indicates that while some leaders (Information Technology and Consumer Discretionary) have underperformed in 2025, a number of 2024 laggards (Energy, Health Care, and Materials) have outperformed. Although information technology is a major component of the index, this expansion of earnings and returns is encouraging and demonstrates that other industries may contribute to strong performance.
- What it may mean for investors
- Our sector forecast leans toward growth-oriented and cyclical industries, which we feel should be effective in an economic recovery where long-term interest rates have been high and consumers have been resilient, given our estimate that earnings will continue to broaden in 2025. Energy, Financials, Industrials, and Communication Services are our top picks. We are against utilities and consumer staples.

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